

Mizuho Dealer's Eye

March 2021

MIZUHO

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|--------------------------------|----|--------------------------------|----|
| U.S. Dollar | 2 | Chinese Yuan | 21 |
| Euro | 6 | Singapore Dollar | 23 |
| British Pound | 10 | Thai Baht | 25 |
| Australian Dollar | 12 | Malaysian Ringgit | 27 |
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| New Taiwan Dollar | 18 | Indian Rupee | 33 |
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Mizuho Bank, Ltd.

Derivatives & Forex Department

U.S. Dollar – March 2021

Expected Ranges

Against the yen: JPY104.50–107.50

1. Review of the Previous Month

The dollar/yen pair moved firmly last month.

After opening at the upper-104 yen mark on February 1, the pair then rose to the lower-105 yen level as US interest rates rose and US stocks moved strongly on hopes regarding a new US stimulus package. The pair fell temporarily to the upper-104 yen mark on February 3 as the greenback was sold on real demand. However, the US released some bullish economic indicators, including the ADP National Employment Report for January and the Manufacturing Orders figure for December. With the euro also sliding while activating stop losses, the pair rose to the mid-105 yen level toward February 4. US equities climbed on February 5 on reports that the US Senate had approved a budget proposal, so the pair strengthened to 105.76 yen. However, the dollar was then sold when the US employment data for January dipped below market expectations.

The greenback was bought on February 8 as the yield on US 10-year treasuries approached 1.2%. Interest rate rises were pared back thereafter, though, so the dollar was sold and the pair dipped below 105 yen on February 9 before tumbling to a monthly low of 104.41 yen on February 10. However, the yen was then sold and the pair bounced back to the upper-104 yen mark on reports that the Bank of Japan believed there was room to push interest rates deeper into negative territories. With Japan and China on holiday on February 11, the pair moved with a lack of incentives. The pair rose to the lower-105 yen level on February 12 on rising US interest rates, though it then moved with a heavy topside as commodity currencies were bought on rising crude oil prices.

The yen was sold on risk appetite on February 15 as the Nikkei Average hit the 30,000 yen mark for the first time in 30 years. On February 16, meanwhile, the NY FRB released a bullish Manufacturing Index for February. With US interest rates also climbing, the pair strengthened to the lower-106 yen mark. The pair hit 106.22 yen on February 17, though it then weakened to the upper-105 yen level as the greenback was sold and Asian stocks moved bearishly. The pair then approached a weekly high again on the bullish result of a US indicator, though it then fell to the upper-105 yen mark as US interest rates fell back. The pair moved with a heavy topside on February 18 as US interest rates stopped climbing. The pair fell on February 19 as the greenback was sold against European currencies on the strong results of some European economic indicators. The pair's downside extended to the lower-105 yen level while activating stop losses.

The pair climbed to the upper-105 yen mark on February 22 amid dollar buying, but the pound and euro were then bought back and US long-term interest rates also fell, so the pair dropped to 104.92 yen on February 23. The pair then rallied to around the mid-105 yen level as the cross yen strengthened, but with FRB chair Jerome Powell striking a dovish tone in his testimony to Congress, the pair fell back to the lower-105 yen level. The cross yen (and the pound/yen pair in particular) then rose and US interest rates climbed, so the pair temporarily hit the lower-106 yen mark. The US released a bullish January durable goods orders indicator and new applications for unemployment insurance figure on February 25. With US 10-year treasury yields also hitting 1.6% for a time, the greenback was bought and the pair hit a monthly high of 106.40 yen. However, it then weakened to around 106 yen as US stocks

fell.

2. Outlook for This Month

The dollar/yen pair is expected to move firmly this month.

US interest rates rose to their highest level in a year last month, with the pair hitting the 106 yen range for a time. With the number of new Covid-19 cases falling and vaccines being rolled out, it seems optimism grew about an economic recovery. Hopes for a recovery have also grown on expectations that the Biden administration will introduce a massive \$1.9 trillion economic package. It seems the market focus has shifted from uncertainty on the back of Covid-19 to hopes for a post-pandemic economic recovery. If vaccination rates continue climbing from here on and Congress passes a new stimulus package, the currency pair will probably climb on increased risk appetite.

However, there are also concerns about the inflationary impact of a massive economic package. There are growing fears that excessive inflation could lead to a recession. In his testimony to Congress last month, though, FRB chair Jerome Powell continued to strike a dovish tone as he tried to assuage inflationary concerns. He said the rise in inflationary expectations was temporary, for example, and he added that it could take more than three years to hit the 2% inflation target. Some high-ranking FRB officials had discussed when to start tapering, but market concerns have eased off recently on the insistence that easing will continue for the time being. FRB easing probably explains why US stock prices have not fallen despite US interest rates rising to a one-year high. There is a risk that stock prices might not be able to withstand rising interest rates going forward. If this happens, though, the FRB will probably reiterate its dovish stance, with US rates then sliding and a sense of ease sweeping the markets, so any stock market bearishness will be temporary in nature.

The dollar/yen pair is expected to move firmly as US interest rates climb on risk appetite, but the greenback is also likely to face selling pressure against other currencies. As such, the dollar/yen pair looks set to continue jostling to and fro while undergoing a gentle rise.

Dealers' Market Forecast

(Note: These opinions do not necessarily agree with the other contents of this report.)

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| Bullish on the dollar | 12 bulls | 108.00 – 105.00 | Bearish on the dollar | 9 bears | 107.00 – 104.00 |
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* Ranges are central values

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| Tanaka | Bull | 108.00 – 105.00 | Vaccines are being rolled out across the US and the Biden administration looks set to implement a large stimulus package. Given this, reflationary trades look set to continue as the FRB remains committed to easing without worrying too much about rising long-term interest rates. Though yen selling with continue, the dollar/yen pair could also see some adjustive selling if the cross yen moves erratically on rising US long-term interest rates, so caution will be needed. |
| Takeuchi | Bull | 108.00 – 105.00 | The dollar/yen pair has already approached a turning point after the turn of the year. It will probably grow firmer from here on as it converges on a range from 105–110 yen. There remains a structural surplus of dollars, but the greenback looks set to move strongly on hopes regarding fiscal policies and an economic recovery. The pair will also be supported by rising US bond yields. |
| Tsutsui | Bull | 109.50 – 105.00 | Dollar interest rates rose at a faster pace in the latter half of February, though there is still room for further climbs. Market conditions will probably return to pre-pandemic levels. One target will be the level from December 2019. If volatility rises, the dollar/yen pair could climb into the 109 yen range. |
| Kato | Bear | 107.50 – 104.50 | Investors will test the dollar/yen pair's topside at the start of March, but it will probably moves flatly thereafter as composure gradually returns to the markets. Of course, a lot will depend on how far US yields rise. |
| Yamagishi | Bear | 107.50 – 104.00 | The dollar/yen pair will move heavily on the topside on ongoing easing. It is hard to imagine US interest rates rising further as real interest rates being climbing. It also seems unlikely that the FRB will drop hints about tapering in the near future. After 2013's Bermanke Shock too, the yen initially surged, with the pair then trading in a range for around six months thereafter. The yen might also appreciate if the Bank of Japan tweaks it policies, so caution will be needed. |
| Ushijima | Bull | 108.00 – 105.00 | Nominal and real US interest rates look set to climb on expectations for economic normalization on the roll-out of vaccines. The greenback will be prone to buy-backs against the other major currencies. The yen in particular will be susceptible to selling against the dollar after having previously outperformed as a deflationary currency. |
| Tasaka | Bear | 107.00 – 104.50 | US interest rates have risen on expectations for a US economic recovery on the Biden administration's huge stimulus package, with the FRB currently remaining tight-lipped about this rise. It is hard to imagine US interest rates rising further without any new factors, with the dollar/yen pair's movements also likely to grow more sluggish going forward. |
| Omi | Bear | 107.00 – 103.00 | The trend of dollar selling looks set to continue. This comes on the back of ongoing low interest rates and hopes regarding fiscal expansion and the Biden administration's foreign policy, for example. However, this trend will probably proceed at a gentle pace as the greenback is bought on risk aversion in relation to rising US long-term interest rates and falling stocks. |
| Ueno | Bull | 108.00 – 105.00 | The Biden administration's policies have pushed US bond yields higher, with no structural shifts occurring. The Covid-19 situation should also ease on the roll-out of vaccines and the changing seasons. The dollar/yen pair will move bullishly as optimism grows. |
| Yamaguchi | Bear | 107.00 – 104.00 | US interest rates (particularly long-term interest rates) rose in February, but with the benchmark 10-year treasury yield topping 1.5%, some adjustment looks likely going forward. The dollar/yen pair will move with an eye on the contents of any new US stimulus package, but it will probably trade with a heavy topside unless some new factors emerge. |
| Kai | Bull | 107.00 – 105.00 | Rising US interest rates are being tolerated as a positive factor, with rates set to continue rising and the yen sliding. Concerns are starting to emerge about stocks and other risk assets, but if volatility sweeps the markets, the FRB might take a strong stance. |
| Onozaki | Bear | 107.00 – 104.00 | The dollar's recent strength is down to rising US interest rates. Though FRB chair Jerome Powell and others have remained tight-lipped so far, there could be some verbal interventions if interest rates rise further. If this happens, the dollar/yen pair is likely to stop rising. |

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| Tamai | Bull | 107.50 – 104.50 | If the US Congress approves a new stimulus package, risk appetite will increase, with the dollar/yen pair set to move firmly. Stocks will slide at times when interest rates rise too high, but these phases will only be transitory. However, the pair will only rise at a gentle pace. |
| Harada | Bull | 107.00 – 105.00 | Hopes are growing about the \$1.9 trillion economic package that the Biden administration plans to push through in March, with interest rates rising as investors factor in a recovery in economic activity and a subsequent inflationary overshoot. The dollar/yen pair will steadily be bought. |
| Oba | Bull | 107.75 – 105.25 | The yen will remain bearish toward the end of the fiscal year. The dollar/yen pair will probably move within the bounds of its upwards trend channel (around 1.5 yen wide) since January 6 this year. However, investors should be vigilant when the pair rises sharply. There could be some selling when the pair rises above $+2\sigma$ of its daily Bollinger Band, so caution will be needed. |
| Katoono | Bear | 107.00 – 103.50 | Interest rates are rising, but the US monetary policy stance is likely to remain unchanged, with rates only having limited space for further rises. Another worry is the huge fiscal deficit accumulated on the back of economic policies. Furthermore, the euro and pound might strengthen against the dollar as the number of European Covid-19 cases falls and lockdown conditions are eased. |
| Kobayashi | Bear | 107.50 – 104.50 | The dollar rose toward the end of February, mainly as a result of rising US interest rates, but the FRB has stressed that it will remain in accommodative mode for now, so the dollar/yen pair is unlikely to rise further unless some new dollar-buying factors emerge. |
| Henmi | Bull | 108.00 – 105.00 | The dollar will face buying pressure on rising US interest rates. At the same time, though, the yen will be bought on risk aversion on a sense that interest rates have risen too high. Nonetheless, there are deep-rooted hopes with regards to US economic policy, so the dollar/yen pair looks set to edge higher. |
| Otani | Bull | 108.00 – 105.00 | US long-term interest rates are rising, but FRB chair Jerome Powell and other officials have remained tight-lipped, so there is still probably room for rates to rise further. With hopes also growing about fiscal policy, the dollar/yen pair looks set to move firmly. |
| Suzuki | Bull | 108.00 – 105.00 | There are high hopes that the economy will recover on President Biden's fiscal policies and the roll-out of vaccines, so US long-term interest rates look set to continue rising. The dollar/yen pair is likely to move firmly. |
| Okuma | Bear | 107.00 – 104.00 | The dollar/yen pair is moving firmly on rising US long-term interest rates, but the FRB has stressed its ongoing commitment to easing. Amid concerns about the spread of new Covid-19 strains in the US, there will be some adjustment to the trend of rising interest rates and stocks, so the dollar/yen pair's room on the topside will be capped. |

Euro – March 2021

Expected Ranges

Against the US\$: US\$1.1900–1.2400

Against the yen: JPY127.00–132.00

1. Review of the Previous Month

The euro/dollar pair renewed annual lows at the start of February, though it then rallied and edged higher over the latter half of the month as the greenback was sold on risk appetite.

The pair opened the month at the lower-\$1.21 mark. US interest rates continued rising into February, so the euro was sold and the pair then fell to the \$1.20 range. The eurozone released a better-than-expected January CPI result on February 3, but the euro remained bearish on a number of worrisome factors, including ongoing lockdowns and the slow roll-out of vaccines. The pair then dipped below \$1.2 to hit \$1.1955 on February 4 on the release of some better-than-expected US economic indicators, though it rallied to the \$1.2 range on February 5 on the release of some worse-than-expected US employment data for January.

In the second week, US interest rates moved heavily on the topside around January highs. The dollar was also sold on risk appetite as US stock markets returned to positive territories. All this saw the pair climbing to the lower-\$1.21 level. As US interest rates edged lower, the pair continued to move in the \$1.21 range. US stock markets stopped rising, though. With no particularly noteworthy new indicators emerging either, the pair's topside was not tested and it moved within a narrow range.

The eurozone 4Q GDP data and German ZEW Indicator of Economic Sentiment were released on February 16, after a US holiday. They both beat expectations, so the pair temporarily rose to a monthly high of \$1.2169. However, the dollar was then bought and the pair fell back as US interest rates rose again and the US 10-year treasury yield hit 1.3%. Dollar selling continued and the pair tumbled to the lower-\$1.20 mark on the better-than-expected result of a US indicator released on February 17. The minutes to the ECB Governing Council meeting were released on February 18, though the reaction of the markets was muted. However, the pound then soared as expectations for negative interest rates faded after BOE deputy governor Dave Ramsden commented that there was only limited room for further cuts to the policy rate. The euro/dollar pair was also pulled higher to hit the upper-\$1.20 mark. The pair then bounced back to the lower-\$1.21 level on the bullish result of the eurozone Markit Manufacturing PMI, released February 19.

US interest rates remained high in the fourth week and this weighed down the euro/dollar pair's topside, with the pair kicking off the week floating around the lower-\$1.21 mark. The euro was then bought as sterling continued rising on hopes for the roll-out of vaccines and the end of lockdowns in the UK, so the euro/dollar pair's downside edged higher. However, US interest rates rose steadily throughout the week, so the dollar was bought and the pair moved around \$1.21.

2. Outlook for This Month

The euro/dollar pair looks set to continue trending upwards in March as the euro is bought on expectations for a recommencement of economic activity following the roll-out of vaccines, though investors should be on guard

against a crash due to position adjustments.

In the first half of February, investors tested the pair's downside. A major trend in 2020 had been the accumulation of long positions in the euro and other currencies as the dollar was sold on risk appetite, but these positions came under some adjustment from January, in part due to rising US interest rates. In particular, indicators released at the start of February confirmed that an economic recovery was underway in the US, where the roll-out of vaccines was proceeding at a faster pace compared to Europe, with this clearly setting the currency pair on a downward trajectory. However, this return of funds to the dollar eased off mid-February. During this time, the dollar/yen pair rose, though, and this helped to push the euro/yen pair to levels higher than anything seen last year. This euro firmness is probably because hopes for an economic recovery on the start of Covid-19 vaccination are spreading from the US to Europe too.

However, the euro is currently moving with a slightly heavy topside compared to the pound, a currency that has a strong correlation with the euro for geographical reasons. This is mainly due to interest rate reasons, with concerns about negative interest rates in the UK fading after the BOE deputy governor ruled out rate cuts in the near future, for example. Interest rates climbed steadily in January on rising US rates. Investors had been on guard against verbal interventions by officials at central banks aimed at keeping interest rates low, but no officials spoke out about recent interest rate levels, so expectations for tapering grew and this pushed rates even higher. With US rates in the lead, interest rates have climbed across the world. However, the eurozone has introduced negative interest rates and these will probably only have limited room to rise, with the euro lagging behind when it comes to currencies with high interest rates.

Under these circumstances, market participants might test last year's highs around \$1.235 as the greenback is sold on risk appetite on hopes for a resumption of economic activity following the roll-out of vaccines. However, investors will need to continue monitoring interest-rate fluctuations. The March 11 ECB Governing Council meeting and the March 17 FOMC meeting will be particularly important when it comes to gauging the direction of rates going forward. There could also be some position adjustments on uncertainty about the future, so caution will be needed.

Dealers' Market Forecast

(Note: These opinions do not necessarily agree with the other contents of this report.)

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|---------------------|----------|-----------------------|---------------------|---------|-----------------------|
| Bullish on the euro | 18 bulls | 1.2400 – 1.2000 | Bearish on the euro | 3 bears | 1.2250 – 1.1950 |
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* Ranges are central values

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| Tanaka | Bull | 1.2400 – 1.2000 | The US has gone full throttle when it comes to fiscal and monetary policy. The dollar will continue to be sold on ongoing reflationary trades. The euro will be supported by supply and demand trends and the improved Covid-19 situation in Europe. However, rising long-term interest rates in the US and elsewhere could lead to volatility and position adjustments, so caution will be needed. |
| Takeuchi | Bull | 1.2400 – 1.2000 | The euro will continue to rise on supply and demand trends. There is also an ongoing structural dollar surplus, with bearish euro factors thin on ground. As the Northern Hemisphere warms towards spring, the impact of Covid-19 will wane and the euro/dollar pair will probably move firmly. |
| Tsutsui | Bull | 1.2400 – 1.2050 | The euro will essentially rise in March on supply and demand trends, with the charts also suggesting the single currency will rise against the pound and Swiss franc. However, speculators have built up euro long positions since February with an eye on supply and demand conditions, so the euro will also be subject to sell-backs at times. |
| Kato | Bear | 1.2250 – 1.1950 | Rather than being bought on the fundamentals, euro long positions have built up as speculators have parked funds in the euro after selling the greenback against other currencies (apart from the yen), but March will probably be a month of selling on position adjustments. |
| Yamagishi | Bull | 1.2400 – 1.2000 | Recent business confidence indicators have moved bullishly, with the euro set to move firmly on expectations for a European economic recovery on a phased lifting of lockdowns. Other positive factors include expectations that the Draghi administration in Italy will calm things down and restore good relations with the EU, for example, and hopes that recovery funds will be used effectively. |
| Ushijima | Bear | 1.2250 – 1.2000 | The eurozone has released some bullish economic indicators, but the euro continues to lack behind compared to other major currencies. Accumulated euro longs are starting to weigh heavily, with investors also focusing on rising US interest rates, so the euro/dollar pair looks set to move bearishly. |
| Tasaka | Bull | 1.2400 – 1.2050 | Since the turn of the year, the euro has been weighed down by the European economic impact of the worsening Covid-19 situation, but there are now signs of recovery. The euro will probably be bought from here on as the economy bounces back. However, investors should be on guard against verbal interventions by the ECB to curb the euro's strength. |
| Omi | Bull | 1.2400 – 1.2100 | The euro will continue to move firmly this month. This comes amid ongoing dollar selling. One risk is a potential cut in policy rates. The governor of the Dutch central bank has talked about room for rate cuts, but the likelihood of this is low. |
| Ueno | Bull | 1.2400 – 1.2000 | The Covid-19 crisis will ease off in Europe on the changing seasons and the roll-out of vaccines. Optimism about the future is growing, with the euro/dollar pair also likely to rise on supply and demand trends. There is a risk the authorities will intervene to curb the euro's rise. |
| Yamaguchi | Bull | 1.2400 – 1.2000 | Italian political uncertainty has eased and economic indicators have also trended upwards, so euro selling has waned and the euro/dollar pair has begun rising. There are growing hopes for an economic recovery in the US and elsewhere, so stocks will continue to move firmly and the euro will continue to be bought. |
| Kai | Bull | 1.2300 – 1.2000 | The markets will continue to hear good news related to Covid-19, with the euro set to remain bullish. However, the euro/dollar pair probably lacks the momentum to push it above its level from the start of the year. |
| Onozaki | Bull | 1.2500 – 1.2000 | Euro bullishness eased off as the dollar was bought on rising interest rates, but if US rates rise higher, FRB officials make some verbal interventions. If this happens, dollar buying will ease for a time and the euro will be bought again. |
| Tamai | Bull | 1.2400 – 1.2000 | Eurozone indicators will move firmly and hopes will grow for an economic recovery on the roll-out of Covid-19 vaccines. However, the euro's attractiveness will wane on rising US interest rates, with the euro/dollar pair's upside also curbed by ECB interventions to keep euro bullishness and interest rates in check. |
| Harada | Bull | 1.2400 – 1.2000 | With US interest rates rising, the euro is becoming comparatively less attractive. The European economy will gradually recover as lockdowns are eased in the UK and so on. The trend of euro buying on a lack of alternatives will probably wane, but the euro will probably remain bullish. |

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| Oba | Bull | 1.2400 – 1.2000 | The euro will continue to move firmly in March. On the trade front, the German economy is showing signs of renewed health on the Chinese economic recovery. The euro/dollar pair moved firmly after bottoming out early February, with this trend set to continue in March. The pair may float around \$1.2350, but it will probably rise as economic activity resumes towards spring. |
| Katoono | Bull | 1.2400 – 1.2000 | With the dollar moving bullishly on rising US interest rates, the euro/dollar pair is moving with a heavy topside, but the pair looks set to edge higher as investors factor in hopes for an economic recovery from Covid-19 as vaccines are rolled out. |
| Kobayashi | Bull | 1.2350 – 1.2000 | The euro's recent slide comes as the dollar is bought on rising US interest rates, but with the FRB set to remain in easing mode, the euro will probably be bought again once the greenback stops climbing. The euro will also be bought as economic activity in the eurozone normalizes on the impact of vaccines. |
| Henmi | Bear | 1.2300 – 1.1950 | The euro/dollar pair will move bearishly on rising US interest rates and hopes for a US economic recovery. The euro continued to trend higher up until last month, but amid signs of rising US real interest rates, the dollar/yen pair will probably come under some adjustment, with this trend also supported by stable low interest rates in the eurozone. |
| Otani | Bull | 1.2400 – 1.2000 | Europe has been under some tough lockdowns, but it seems the economic impact has been limited. The euro also remains prone to buying on the supply and demand front, with the euro/dollar pair set to move firmly. However, investors should be wary of verbal interventions by ECB officials aimed at curbing euro bullishness. |
| Suzuki | Bull | 1.2400 – 1.2000 | There could be some ECB comments voicing concern about the euro's strength, but lockdowns are being lifted in phases across Europe. Given how strict the lockdowns were, it seems the economic recovery will also be impressive going forward. The euro/dollar pair will continue to trend higher in March. |
| Okuma | Bull | 1.2400 – 1.2000 | Though Europe has been subject to some tough lockdowns, the German economy is bouncing back on the economic recovery in China. ECB officials are worried about the euro's rise, but with the FRB adopting a noticeably dovish stance, the euro/dollar pair looks set to remain firm. |

British Pound – March 2021

Expected Ranges

Against the US\$: US\$1.3550–1.4050

Against the yen: JPY143.50–149.50

1. Review of the Previous Month

The pound strengthened in February.

It moved flatly with a bearish tone at the start of the month. On February 4, it hit monthly lows of \$1.3566, JPY142.81 and GBP0.88395 against the euro, Japanese and eurozone counterparts. However, it essentially underwent a one-sided rise thereafter. As of February 24, sterling had hit \$1.4240, JPY150.08 and GBP0.8540, which represented its highest levels against the other three currencies since April 2018, May 2018, and February 2020, respectively. This 33-month high against the dollar did not seem that unusual given the greenback's substantial slide since April last year, but there was something slightly unusual about its 32-month high against the yen. With this in mind, a glance back at the yen's nominal effective exchange rate (Bank of Japan) shows the rate peaking out in May last year before falling by over 4% up until January this year. While this decline was not as sharp as the dollar's, it seems the yen also weakened in tandem with dollar bearishness.

There were two main reasons behind the pound's one-sided rise. Sterling gave the impression of being swayed on a daily basis by speculation about whether the Bank of England (BOE) would introduce negative interest rates, but with the majority of market participants (and perhaps the BOE itself) not expecting such a move, it seems this impression was something added at a later date to explain the pound's movements in February. In fact, the first main reason for sterling's firmness can be found in rising UK long-term interest rates rather than the direction of policy rates (short-term rates) and so on. The yield of 10-year gilts (UK government bonds) shot up by over 40bp from 0.325% at the end of January to 0.727% on February 24 (source: Bloomberg). With US long-term interest rates soaring from mid-February, the dollar rose and there was talk about 'reflationary trades' and so on. However, the yield on US 10-year treasuries rose by 31.1bp during this time (same as above), so on this point alone, it seems natural that the pound was bought more than the dollar.

Another key factor pushing the pound higher was perhaps the surprisingly limited impact of the UK leaving the EU (after the transitional period). A free trade agreement was hurriedly signed with the EU at the end of 2020. Though the imposition of tariffs was avoided, the deal still necessitated new customs procedures. There were concerns that logistical flows over the English Channel and between Britain and Northern Ireland would face disruptions and delays, with this leading to such sights as long queues of trucks and empty shop shelves. On the whole, though, this disruption did not become a major issue. This was mainly because the movement of goods was already in the doldrums due to the spread of Covid-19. When trading activity does return to normal, the disruption caused by Brexit will probably become more apparent. The fact the pound has nonetheless risen suggests investors had accumulated a lot of pound short positions, with sterling bought back commensurately.

2. Outlook for This Month

The pound is expected to move bearishly on adjustive movements in March.

When it comes to gauging the pound's movements from here on, two factors from February remain very relevant, namely (1) UK long-term interest rate movements (compared to those of other developed nations and economies) and (2) the disruption to trade as a result of Brexit. Other factors requiring attention include (3) the roll-out of vaccines and an easing of restrictions in the UK, and (4) the ebbs and flows of the UK financial market's presence (trading share).

As for (2), the key question is whether restrictions on movement will be eased substantially within Europe, with trade picking up in earnest thereafter. It seems that this will not happen until early summer at the earliest.

With regards to (3), the UK has been the quickest nation to roll-out vaccines after Israel, with economic activity set to recommence soon (a relative advantage). This will undoubtedly be a factor pushing the pound higher, but it might push prices up at a faster pace, so caution will be needed. Even if restrictions in the UK are lifted and consumer spending picks up again, with other trading partners keeping their borders closed, prices might be pushed up by the negative combination of a demand recovery and supply bottlenecks.

This would probably be read as a factor (1) pushing UK long-term interest rates higher and thus bolstering the pound, but it could also lead to financial instability. As with in the US, the UK government has introduced a series of bold fiscal measures to tackle the Covid-19 crisis. These were paid for through gilt issuances supplemented by BOE asset purchases, with the UK gilt market not as deep as the US treasury market. Rising government bond yields will not cause a problem while investors are factoring in future inflation risk, but if (it seems) these investors are starting to demand a risk premium as they price in default risk, it would be extremely remiss to regard this simply as a factor that will continue to push sterling higher.

The aforementioned factors are something to consider over the next few quarters, but the main factor that could push sterling lower right now is (4) the declining presence of the London financial market ('the City'). In February too, market attention was temporarily drawn to comments by BOE governor Andrew Bailey about the EU's 'unrealistic' demands, for example. At that time, the data showed many stock trades and interest-rate swap transactions had shifted away from the City in January, though this only represented the data for one single month. However, the data for February will also be clear by mid-March. This will also coincide with the commencement of UK/EU talks about financial regulations. Mr. Bailey described the EU's demands as 'unrealistic,' but for eurozone nations like Germany, France and Holland, it would only be natural to try reclaiming some of the jobs and tax revenues that the UK had enjoyed from its domination of the financial market since the launch of the euro. The UK is unlikely to lose its position as Europe's premier financial market, but stalled negotiations could prove an unstable factor for the UK economy and the pound.

Australian Dollar – March 2021

Expected Ranges

Against the US\$: US\$0.7600–0.8050

Against the yen: JPY81.80–85.50

1. Review of the Previous Month

The AUD/USD pair hit the \$0.80 mark in February on an acceleration of reflationary trading.

The pair rose to around \$0.7660 on February 2 in the run up to the RBA board meeting. The RBA then surprised the markets with an announcement that QE would be maintained at current levels from April onwards, so the pair was sold back to a 2021 low of \$0.7564. The Australian dollar was then boosted by rising yields on Australian government bonds on February 3 after RBA governor Philip Lowe ruled out the introduction of YCC for 10-year bonds. The pair then weakened to around \$0.7580 on expectations for the release of some better-than-expected US employment data for January. In the end, though, nonfarm payrolls growth dipped below forecasts and the greenback fell. The pair then climbed to around \$0.7680 as risk appetite grew when the US House of Representatives approved a budget proposal.

The pair shifted to the key \$0.77 range in the second week. As US interest rate rises were pared back, the currency pair topped \$0.7700. The pair then climbed to the mid-\$0.77 level on February 9 in the wake of a better-than-expected Australian business confidence indicator for January.

Stock markets moved firmly and risk appetite prevailed in the third week, with the Nikkei Average hitting the JPY30,000 mark for the first time in 30 years on February 15, for example. The markets were then swept by positive news. Former ECB president Mario Draghi became Italy's prime minister, for example, while the UK hit its initial vaccine target and Australia announced it would begin its vaccine program on February 22. All this saw the currency pair climbing to around \$0.7790, with the Australian dollar also climbing to the 82 yen range against its Japanese counterpart. The greenback was bought and the Australian dollar sold on February 17 on high US interest rates, so the AUD/USD pair temporarily fell to around \$0.7720. The Australian January employment data was released on February 18. The growth in full-time jobs was up on the previous month. As 6.4%, meanwhile, the unemployment rate also marked an improvement on expectations and the previous result. The currency pair strengthened to the upper-\$0.77 mark as a result. After this climb, though, the pair was hit by selling to lock in profits and it returned to the mid-\$0.77 level. There had been hopes that excess crude oil inventories would be wiped out by cold weather, but crude oil prices now fell on speculation that OPEC+ would ramp up production from April. This saw the currency pair dipping to the lower-\$0.77 level. On February 19, with vaccines being rolled out in several countries, the pair then climbed to the upper-\$0.78 level on expectations for an economic recovery and rising crude oil/iron ore prices.

In the fourth week, the pair hit the \$0.80 range for the first time in three years market anticipation that YCC would be scrapped in the near future. The yield on Australian 10-year government bonds rose on February 22 on rising US interest rates, with the pair hitting the \$0.79 range despite a buying operation by the RBA. The pair renewed a 2021 high on February 23 before climbing to \$0.7935 for the first time in three years. On February 25, the pair hit the upper-\$0.79 level on rising iron ore prices and growing expectations for an Australian economic

recovery. With interest rates rising, the RBA intervened to buy AUD3 billion of 3-year Australian government bonds, but rates kept rising and the AUD/USD pair rose to the \$0.80 range. There was some selling to lock in profits at this level, so the pair fell back to the lower-\$0.79 mark comparatively swiftly. The yield on US 10-year treasuries then hit 1.6% on an unsuccessful auction of US 7-year treasuries, so the greenback was bought and the currency pair then fell to the upper-\$0.78 level. During this time, the Australian dollar fell from just below 85 yen to the mid-83 yen mark against its Japanese counterpart. The 3-year Australian government bond yield hit 0.154% at the start of trading on February 26, but it was then pulled down to 0.105% by a special bond-buying operation, so the AUD/USD pair fell from the upper-\$0.78 mark to \$0.77 throughout the day.

2. Outlook for This Month

The market overheated in February on anticipation for an early exit from easing policies. The RBA's asset purchasing program was set to end mid-April, but the February RBA board meeting extended this program beyond April (with an extra AUD100 billion in purchases). This announcement kept Australian government bond yields in check. However, the RBA will need make a decision about the 3-year Australian government bond yield target before the second asset purchasing program ends in October. As such, in the latter half of February some regional Australian banks expressed the opinion that the RBA would probably scrap YCC as early as August this year as the Australian unemployment rate embarks on a downwards trajectory, with interest rates rising again toward the month's end on speculation about when the RBA would exit from its easing policies. The RBA bought AUD1 billion of 3-year Australian government bonds on February 22 and AUD3 billion on February 25, but these operations failed to keep interest rates in check, so the RBA bought another \$3 billion on February 26, with the 3-year government bond yield then finally falling from 0.154% to around 0.11%. Under these circumstances, if the RBA fails to defend the 0.1% target for 3-year Australian government bonds and is unable to keep interest rates from rising, this will damage confidence and the RBA will lose one more future policy option. Therefore, the RBA will need to work even harder in March to convince the markets that its YCC program is functioning well. As such, it will probably continue buying 3-year Australian government bonds in March too. The RBA might also expand its purchases of long-end bonds as it tries to keep interest rates in check. As a result, the Australian dollar will probably move with a heavy topside.

However, Australia's domestic economic indicators are showing signs of improvement. With Australia also commencing its Covid-19 vaccine program on February 22, there are growing hopes for an economic recovery. Turning overseas, it seems the US could introduce a new \$1.9 trillion stimulus package in March. In addition to hopes for an economic recovery, inflationary expectations are also swelling in some section of the markets, so the Australian dollar could head upwards again depending on price movements. The first event this month will be the RBA board meeting on March 2. The market has overheated recently on expectations for an exit from easing policies. Investors will be monitoring how the RBA views this trend and what it has to say about its current forward guidance policy.

Canadian Dollar – March 2021

Expected Ranges

Against the US\$: C\$1.2300–1.2700

Against the yen: JPY82.00–86.00

1. Review of the Previous Month

The USD/CAD pair opened February trading at C\$1.2813. The number of Covid-19 cases fell across several regions as a result of lockdowns. Hopes for an economic recovery also grew on reports about the roll-out of vaccines and the implementation of a new stimulus package in the US. Though the greenback trended upwards on rising US long-term interest rates, it then began sliding toward the latter half of the month on risk appetite. The Canadian dollar was also supported when crude oil prices continued rising on anticipation for demand.

The IHS Markit Canada Manufacturing Purchasing Managers Index (PMI) for January was released on February 1. The data was above the key 50 mark, though it was down on the previous month. With the Canadian dollar moving bearishly, the USD/CAD pair rose to the mid-C\$1.28 level as long-term interest rates and stock prices continued rising. The pair then hit C\$1.2870 for a time, but the greenback was then sold as risk appetite grew on news about progress in talks about a new US economic package. Crude oil prices also rose on anticipation for demand, with the markets also reacting well to news that Canadian prime minister Justin Trudeau had signed a deal to produce Covid-19 vaccines within Canada. The Canadian dollar was subsequently bought, with the currency pair dropping back to the upper-C\$1.27 mark.

The pair temporarily climbed to C\$1.2845 as the greenback was bought on rising US interest rates, though it then dropped back to the upper-C\$1.27 level. The Canadian January employment data was released on February 5. The unemployment rate hit its highest level since August last year, with the number of jobs shrinking by 212,800, far worse than the expected slump of 40,000. The currency pair hit C\$1.2828 as a result. At -\$1.67 billion, though, the Canadian trade deficit for December was not as bad as the forecast for -\$3 billion, so the pair then returned to C\$1.2774. The greenback was sold on February 9 on dovish comments by FRB officials and on falling US interest rates, so the pair tumbled to the mid-C\$1.27 level. Risk appetite then grew on expectations that the US would implement a new \$1.9 trillion economic package, so the US dollar was sold and the USD/CAD pair broke below C\$1.27 to hit C\$1.2692. The pair continued to move in a narrow range, but crude oil prices then fell on news that OPEC+ would be scaling back its production cut targets from April, so the Canadian dollar was sold and the currency pair climbed to the mid-\$1.27 level. The Canadian December retail sales data was released on February 19. At -2.6%, the figure was below the expected -3.4%, though the reaction of the markets was muted. Long-term interest rates then fell when the minutes to the FOMC meeting revealed concerns about potential corporate bankruptcies. When the G7 heads of state held a telephone conference on the same day, they agreed to push forward with the construction of a fair multilateral trade system. As risk appetite increased, the currency pair dipped below C\$1.26 to hit C\$1.2595. FRB chair Jerome Powell's testimony to Congress on February 23 contained no surprises, so the greenback remained bearish on expectations for a continuance of easing.

2. Outlook for This Month

Lockdowns are being lifted gradually in each region of Canada. Canada was third in line behind the UK and US when it came to procuring vaccines, but the roll-out has been slow and the Canadian people are growing more frustrated. Canadian prime minister Justin Trudeau had also signed a deal to produce Covid-19 vaccines within Canada, but reports say factories and other facilities will not be up and running until around September, with the government now facing more pressure. When the G7 heads of state held a telephone conference last month, they agreed to push forward with the construction of a fair multilateral trade system, thus marking a substantial shift from the days of the Trump administration. This will probably provide a boost to the Canadian export industry. There were concerns about US/Canadian frictions after President Biden reversed a decision to approve the construction of a crude oil pipeline, but when the US and Canadian leaders met online on February 23, they agreed to work together on the environment and China.

The Bank of Canada (BOC)'s Monetary Policy Committee will meet on March 10. At last month's meeting, BOC governor Tiff Macklem said the domestic economy would recover strongly in 2021 on the roll-out of vaccines, though Canada would need to wait until 2023 for a full recovery. With inflationary expectations rising across the world, investors should watch out for comments related to tapering. However, the Canadian government has been slow to distribute vaccines and it has just announced it will extend the term of its Covid-19 support program, with Canadians also calling for the program to be continued until the end of 2021. Under these circumstances, the markets are expecting the BOC to continue easing, with interest rates left unchanged.

Crude oil prices continue to rise on expectations for a demand recovery on the roll-out of vaccines and the fall in Covid-19 cases, with prices also supported as oil-producing nations continue to cut production. If the prognosis for 2021 remains optimistic, crude oil prices will rise further and the Canadian dollar will be bought as a result. OPEC+ will be meeting on March 4. Some reports suggest Saudi Arabia and Russia might scale back production cuts, so oil-producing nations might tweak their production volumes this month. Investors should also keep a close eye on the situation in the Middle East. The focus in March will continue to fall on the Covid-19 situation, the roll-out/inoculation rate of vaccines, US/China frictions, and the situation in Iran. Some market participants are predicting that the FOMC will shift policy in the wake of rising inflationary expectations, so the March 17 FOMC statement will require attention. The greenback will be bought in March on rising US long-term interest rates, though it will also be sold on expectations for a new US rescue package and an economic recovery, so the USD/CAD pair will swing between C\$1.23 and C\$1.27.

Korean Won – March 2021

Expected Ranges

Against the US\$: KRW 1,110–1,140

Against the yen: JPY 9.259–9.615 (KRW100)
(KRW 10.400–10.800)

1. Review of the Previous Month

The USD/KRW pair moved with a lack of direction in February.

The pair opened the month trading at KRW1119.5 on February 1. Overseas investors then bought South Korean stocks after South Korea released some bullish export data for January (+11.4%; forecast: +9.8%), for example, so the won was bought. However, the greenback was also bought on rising US interest rates and so on, so the currency pair continued to trade with a lack of direction. The pair then rose on February 4 as overseas investors and speculators sold South Korean stocks. Reports also emerged during overseas trading time that the US financial authorities were looking into excessive stock trades by retail investors, so composure returned to US stock markets and the greenback was bought. February 5 saw some short covering, with the currency pair rising to a monthly high of KRW1127.8. The US then released some lackluster employment data on February 5, though. The won was also bought on real demand on a sense the pair was at a good level at KRW1120. As such, the pair began sliding from February 8.

The pair then fell to KRW1106.6 on February 10, just before a holiday, as investors unwound their long positions. In the end, the pair closed the week at KRW1107.0, down 11.8 won on the end of the previous week. The dollar weakened during the Korean New Year holiday, with the pair opening at KRW1105.0 when trading recommenced. The KOSPI then rose by over 1% on stock buying by overseas investors. With the RMB and other Asian currencies also being bought, the USD/KRW pair tumbled to KRW1101.4. As a risk-on mode swept the globe, the pair then fell to a weekly low of KRW1097.3 on February 16. However, the dollar was bought by on real demand on a sense it was now at an appropriate level. With news also emerging that China was thinking about placing limits on exports of rare earth elements to the US, the KRW hit KRW1100 once again. The greenback was then bought and the pair rose during overseas trading time as the 10-year US treasury yield climbed to 1.30%.

Overseas investors sold South Korean stocks from February 17. The RMB was also sold when President Biden criticised China's human rights record. However, the won was also saw real-demand buying around KRW1110 on a sense it was at a good level, so the USD/KRW moved without a sense of direction. On February 24, FRB chair Jerome Powell stressed that the FRB would keep monetary policy loose. US interest rates kept rising overall, though, so the pair moved firmly despite real-demand won buying at the end of the month. The pair strengthened further during overseas trading time on February 25 as US interest rates soared. In the end, the pair closed at KRW1123.5, up 4.7 won on the end of January.

2. Outlook for This Month

The USD/KRW pair is expected to move somewhat firmly in March. The pair has traded with a lack of direction recently, but there are three factors to consider this month: (1) End-of-quarter real-demand won buying, (2) dividend

flows from South Korean companies to overseas investors (won-selling demand), and (3) dollar buying on rising US interest rates.

The won will face some buying demand in March on factor (1). As for (2), in regular years the current account balance shrinks in advance of the March/April dividend payments of companies who release their business results in December. As such, the USD/KRW pair will probably rise. As for (3), there is likely to be some intermittent dollar buying and this will also push the currency pair higher.

In particular, the USD/RMB pair is moving firmly on (3) after falling in the latter half of 2020. Furthermore, emerging-market bond markets (including South Korea) saw buying in 2020 as investors chased yields, but funds are now flowing out of these markets on (3). These are further reasons why the currency pair will probably rise. In light of the FRB's interest rate forecast, investors have focused on a 10-year US bond yield of around 1.60% as a target for rising interest rates.

Furthermore, one reason for the USD/KRW pair's fall in the latter half of 2020 was trading in South Korean stock markets by overseas investors, but these investors sold on balance entering 2021 as South Korean equities climbed. As stocks with high valuations face adjustment across the globe, overseas investors may move once again to buy South Korean stocks (especially given the high ratio of hi-tech stocks).

Under these circumstances, the USD/KRW pair's downside is expected to move firmly at KRW1100. However, if the distribution of vaccines takes far longer than currently planned or if the vaccines are not as effective as expected, the greenback might be sold again as US interest rates fall, so caution will be needed.

New Taiwan Dollar – March 2021

Expected Ranges

Against the US\$: NT\$27.50–28.40

Against the yen: JPY3.75–3.90

1. Review of the Previous Month

In February, the Taiwan dollar hit its highest level against the US dollar for around 23-and-a-half years.

The USD/TWD pair opened the month trading at TWD28.240. With Taiwanese stock markets rising at the start of the month, the Taiwan dollar was bought. With exporters also selling the greenback, the USD/TWD pair edged down to around TWD27.940. With the Chinese New Year holidays looming, though, the Central Bank of the Republic of China (Taiwan) fined a foreign bank for infringing foreign exchange regulations and it also called on exporters to stop selling the greenback in order to keep a lid on the Taiwan dollar's strength, so the pair moved around TWD28.000.

After the Chinese New Year holidays, Taiwanese stock markets rose again. Furthermore, after restraining themselves during the holidays, exporters now sold the US dollar again. All this saw the pair sliding to around TWD27.900. The greenback faced even more selling pressure from exporters toward the end of the month, so the pair edged lower. It broke through TWD27.800 to temporarily hit TWD27.772, with the Taiwan dollar hitting its highest level against the US dollar for around 23-and-a-half years. However, stocks fell globally at the end of the month as US interest rates surged. Taiwan stocks also fell sharply and the Taiwan dollar weakened, with the pair trading at TWD27.8.

2. Outlook for This Month

In March, the USD/TWD pair's movements will be marked by Taiwan-dollar bullishness.

In February, the Central Bank of the Republic of China (Taiwan) fined a foreign bank for infringing foreign exchange regulations and it also called on exporters to stop selling the greenback, so the Taiwan dollar stopped rising for a time. After holding back during the Chinese New Year holidays, though, exporters subsequently sold the greenback, so the Taiwan dollar rose against its US counterpart after the holidays until the end of the month.

Taiwan's export amount hit a record high in 2020 and this momentum has continued into 2021, so there is still strong demand for Taiwan-dollar buying. Exports of semiconductors, electronic parts and optical instruments continued to move firmly in January, with exports and export orders both hitting record highs for a January.

Stocks have also risen globally on risk appetite, with the Taiwan dollar also pushed up as the Taiwan Capitalization Weighted Stock Index continued to hit new highs from last year onwards.

At +3.11%, Taiwan's revised GDP figure for 2020 was one of the highest in the world, with Taiwan's economy moving firmly during the Covid-19 crisis. Taiwan's Directorate-General of Budget, Accounting and Statistics expects GDP to hit +4.64% in 2021, with growth pushed up further by bullish exports, large-scale investment in semiconductors, and the development of offshore wind power, for example.

These factors look set to continue pushing the Taiwan dollar higher.

Hong Kong Dollar – March 2021

Expected Ranges **Against the US\$: HK\$ 7.7500–7.7600**
Against the yen: JPY 13.45–13.80

1. Review of the Previous Month

Hong Kong dollar spot exchange market in February

In February, the U.S. dollar/Hong Kong dollar spot exchange rate continued fluctuating within a narrow range between HKD 7.7510 and HKD 7.7550, despite the great reflation trade observed globally based on anticipation for economic recovery. Also, the 10-year U.S. government bond yield rose sharply, as expectations for inflation grew in the U.S. However, the Federal Reserve Board (FRB) has been maintaining a dovish attitude, and it is unlikely to mention an interest rate increase for a while. The liquidity level is high in both the U.S. dollar and Hong Kong dollar markets, limiting carry trade activities based on the interest rate differentials between the U.S. dollar and Hong Kong dollar. IPOs in Hong Kong remain active, with the listing of large companies, such as a large-scale Chinese video-sharing application company and a healthcare company. The risk sentiment in the Hong Kong stock market remains positive, and the benchmark Hang Seng index reached 31,183 points for the first time in 2.5 years. After the Chinese New Year holidays, capital inflow into the Hong Kong stock market through the Stock Connect scheme (a stock exchange scheme between Mainland China and Hong Kong) continues, as investors in Mainland China have been buying Hong Kong stocks at a historical rate.

Hong Kong dollar interest rate market in February

The aggregate balance of the Hong Kong Monetary Authority (HKMA) has been at its all-time high, at HKD 457.5 billion, confirming that the Hong Kong dollar liquidity level remains high. Short-term Hong Kong dollar interest rates tend not to be impacted by an increase in capital demand related to IPOs. The interest rate differentials between the three-month Hong Kong dollar HIBOR and the U.S. dollar LIBOR has expanded from +4 basis points to +6 basis points from the end of January, while the interest rate differentials between the one-month HIBOR and LIBOR have narrowed from +4 basis points to +1 basis point. The active reflation trade seen globally fueled expectation for the normalization of the monetary policy by the FRB, leading the gap between the short-term and long-term U.S. dollar interest rates (three-month LIBOR – five-year swap rate) to narrow to –50 basis points. Under the U.S. dollar peg, the gap between the short-term and long-term Hong Kong dollar interest rates also narrowed to the same level, following that of the U.S. dollar. The interest rates of the Exchange Fund Bills and Notes (EFBNs) for one month and three months have remained just above zero.

2. Outlook for This Month

Hong Kong dollar spot exchange market in March

In March, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within the range between HKD 7.75 and HKD 7.76. The Hong Kong dollar is likely to remain strong, thanks to rigorous demand based on IPOs as well as steady capital inflow into Hong Kong through the Stock Connect scheme. The Hong Kong

Monetary Authority (HKMA) has been reluctant about absorbing Hong Kong dollar liquidity. Thus, it is likely for the Hong Kong dollar liquidity level to remain high. The interest rate differentials between the Hong Kong dollar and the U.S. dollar are likely to remain near zero for the short term, limiting incentives for market participants to engage in carry trade activities. In the U.S., the government under new U.S. President Joe Biden has been taking a tough attitude against China. However, it is unlikely for the U.S. to raise customs duties or impose additional sanctions against China before the end of the Covid-19 pandemic. As long as travel restrictions are in place, residents of Hong Kong are not emigrating, keeping pressure for capital outflow minimal. Thus, there is no concern regarding the U.S. dollar peg.

Hong Kong dollar interest rate market in March

As it is unlikely for the FRB to raise the policy interest rate before the end of the year, the Hong Kong dollar interest rates are expected to remain low and stable. In addition to conditions related to U.S. interest rates, there have also been persistent downward risks for the Hong Kong economy. Under such circumstances, the HKMA seems to be reluctant about absorbing Hong Kong dollar liquidity. The liquidity level of the Hong Kong dollar remains high, and capital flow related to IPOs is impacting the Hong Kong dollar interest rates only to a limited degree. If residents of Hong Kong start emigrating, leading to capital outflow from Hong Kong, the volatility of the Hong Kong dollar interest rate would be higher. However, our estimate is that such capital outflow will be offset by capital inflow from Mainland China, with its open-market policy, as long as Hong Kong remains an international financial center under the U.S. dollar peg.

Chinese Yuan – March 2021

| | |
|------------------------|--|
| Expected Ranges | Against the US\$: CNY 6.4000–6.6000 |
| | Against the yen: JPY 15.15–16.41 |
| | Against 100 yen: CNY 6.1000–6.6000 |

1. Review of the Previous Month

In February, the U.S. dollar/Chinese yuan exchange rate did not move in any direction, remaining at around CNY 6.46.

On February 1, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.43 level. Thereafter, the January manufacturing PMI of China turned out to be lower than the estimate, and this led the U.S. dollar/Chinese yuan exchange rate to rise to the CNY 6.46 level. Subsequently, the exchange rate continued fluctuating within a narrow range at around the CNY 6.46 level. On February 4, during European trading hours, the U.S. dollar started to appreciate, leading the U.S. dollar/Chinese yuan exchange rate to rise. Toward February 5, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.48 level. During the nighttime of February 5, the January employment statistics of the U.S. were released with figures weaker than expected. As a result, the U.S. dollar depreciated, and the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.46 level.

After the weekend, risk-taking sentiment grew in the market with expectation for additional economic measures in the U.S., and market participants started to actively sell the U.S. dollar on February 8. As a consequence, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.43 level on February 10. During nighttime trading hours, the U.S. dollar/Chinese yuan exchange rate rose slightly, and the market closed for the Chinese New Year holidays at the CNY 6.45 level. After the holidays, market participants intermittently sold the Chinese yuan on February 18, leading the U.S. dollar/Chinese yuan to rise sharply and temporarily reach the upper-CNY 6.48 level. However, on February 19, the rise of U.S. long-term interest rates slowed down, and the U.S. dollar depreciated. Following this trend, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.45 level, and weekly trading closed.

On February 22, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.45 level. While U.S. long-term interest rates rose to the upper-1.3% level, the U.S. dollar/Chinese yuan exchange rate also rose slightly to the upper-CNY 6.46 level. During the nighttime, the U.S. dollar weakened, waiting for the semi-annual testimony of FRB Chair Jerome Powell to Congress. As a result, the U.S. dollar/Chinese yuan exchange rate fell in the offshore market (CNH), leading the U.S. dollar/Chinese yuan exchange rate to also fall in the onshore market (CNY) from market opening on February 23. During the day, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range at around the CNY 6.46 level. On February 24, the U.S. dollar/Chinese yuan exchange rate fell to the upper-CNY 6.44 level during European trading hours. However, during the nighttime, the U.S. long-term interest rate rose to the 1.43%, which encouraged market participants to buy the U.S. dollar, leading the U.S. dollar/Chinese yuan to return to the CNY 6.46 level again. Since February 25, the U.S. dollar/Chinese yuan exchange rate has been fluctuating at around the CNY 6.45 level.

2. Outlook for This Month

In March, the U.S. dollar/Chinese yuan exchange rate is forecast to remain stable.

The National People's Congress is scheduled to open on March 5 to review the 14th five-year plan from 2021 to 2025 and the long-term goals for 2035 as adopted at the fifth plenum held in October 2020. The five-year plan includes a "dual circulation" strategy combining efforts to expand domestic demand while working with the world economy. At the National People's Congress, more detailed plans will be announced and approved, attracting substantial attention in the market.

At the beginning of February, the January PMI of China was announced, recording a decline from the previous month. However, the Chinese economy continues to recover, and upward pressure on the Chinese yuan is likely to persist based on the expansion of the domestic market supported by domestic demand as well as difference in the monetary measures taken in the U.S. and China. On the other hand, expectation for economic recovery is growing in the U.S. based on the advancement of Covid-19 vaccination as well as additional fiscal measures. The U.S. interest rates are currently on the rise, and the depreciation of the U.S. dollar, which was remarkable in 2020, has been slowing down.

Since June last year, there had been a clear trend of Chinese yuan appreciation in the U.S. dollar/Chinese yuan exchange market. However, since January this year, the U.S. dollar/Chinese yuan exchange rate has remained at the same level, without moving in any direction. From the point of view of the fundamentals, the upward pressure on the Chinese yuan is likely to persist. However, as the depreciation of the U.S. dollar has been slowing down, the U.S. dollar/Chinese yuan exchange rate is forecast to remain stable.

Singapore Dollar – March 2021

Expected Ranges **Against the US\$: SG\$ 1.3000–1.3450**
Against the yen: JPY 78.50–81.50

1. Review of the Previous Month

In February 2021, the Singapore dollar appreciated against the U.S. dollar.

The Singapore dollar weakened at the beginning of the month. As the U.S. interest rates and U.S. stock prices rose, the U.S. dollar appreciated, leading the Singapore dollar to weaken gradually. As a result, the Singapore dollar weakened against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell to momentarily reach the upper-SGD 1.33 level from the upper-SGD 1.32 level seen at the beginning of the month.

However, the trend was inversed thereafter. On February 5, the January employment statistics of the U.S. were released with weak figures, which fueled expectation for additional economic measures in the U.S. As a result, risk-taking sentiment grew in the market, leading stock prices to rise and the U.S. dollar to depreciate. Under such circumstances, the currencies of emerging countries strengthened. Thereafter, market participants maintained a wait-and-see stance, waiting for a speech by FRB Chair Jerome Powell scheduled for February 10. However, the FRB maintained a cautious attitude—as had been anticipated in the market. Thus, there was limited impact on the currencies of emerging countries. The U.S. dollar/Singapore dollar exchange rate, which had once reached the upper-SGD 1.33 level, appreciated and reached the lower-SGD 1.32 level toward February 10.

In the middle of the month, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range. The exchange rate did not move in any direction, as the market was closed for the Chinese New Year holidays and as stock prices were adjusting. On February 17, the U.S. stock market lost its momentum, and the U.S. dollar started to appreciate again. As a consequence, the overall currencies of emerging countries weakened. As a result, the Singapore dollar depreciated, and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.33 level again.

Thereafter, the Singapore dollar appreciated again toward the end of the month. The U.S. interest rates started to rise again, and the Chinese yuan and other Asian currencies weakened. However, the Singapore dollar did not follow this trend. This is probably thanks to the fact that Finance Minister of Singapore Heng Swee Keat had announced, at a budget speech held in the middle of February, additional economic aid to counter the Covid-19 pandemic, while various economic indices of Singapore, such as the GDP, had been steady. Toward the last week of the month, the Singapore dollar continued appreciating gradually. The U.S. dollar/Singapore dollar exchange rate is currently fluctuating at the upper-SGD 1.31 level (as of February 25).

2. Outlook for This Month

In March 2021, the Singapore dollar is forecast to appreciate against the U.S. dollar.

In February, U.S. long-term interest rates remained on an uptrend, and stock prices started to rally. As a result,

the Singapore dollar appreciated against the U.S. dollar toward the end of the month, while the U.S. dollar weakened against various other currencies. At the testimony to Congress, FRB Chair Jerome Powell confirmed that he was not concerned with the recent rise of long-term interest rates in the U.S. Therefore, the current trend in the U.S. dollar exchange market is likely to persist for a while against various other currencies.

It should also be mentioned that Singapore has been particularly successful in controlling the propagation of Covid-19 cases compared to other countries in the Asia and Oceania region. Furthermore, the government has announced new fiscal aid measures, while economic indices remain stronger than estimated. Thus, the Singapore dollar has been at its highest rate against the U.S. dollar since 2018.

The Singapore government has also announced a detailed plan for Covid-19 vaccinations, and, as of now, vaccinations have been keeping up with the schedule. To be more precise, the government has announced its goal to obtain herd immunity by the third quarter of 2021, and this would further contribute to recovery in transport and service sectors in the times ahead.

Under such circumstances, the economic outlook for Singapore is very different this year, unlike last year in which the economy was severely impacted by the Covid-19 pandemic. The Singapore dollar is expected to be strong against various other currencies in the coming month.

Thai Baht – March 2021

Expected Ranges

Against the US\$: THB 29.60–30.60

Against the yen: JPY 3.48–3.60

1. Review of the Previous Month

In February, the U.S. dollar/Thai baht exchange rate started rising at the beginning of the month after the coup by the Myanmar military. The U.S. dollar/Thai baht exchange market opened trading at around THB 29.90 and rose rapidly to THB 30. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating at around the THB 30 level, as vaccination continued smoothly in the U.S., while U.S. stock prices remained high. Market participants maintained a wait-and-see stance, waiting for a Monetary Policy Committee (MPC) meeting. On February 3, the central bank of Thailand held an MPC meeting and decided to maintain the existing policy interest rate at 0.5%, as had been anticipated in the market. As the statement released thereafter did not include any surprising factor, there was little impact on the exchange market. On February 4, the following day, market participants started buying back the U.S. dollar, expecting U.S. interest rates to rise. As a result, the Thai baht depreciated gradually against the U.S. dollar. As U.S. indices related to employment were released with strong figures, the U.S. dollar/Thai baht exchange rate approached the THB 30.10 level during U.S. trading hours. However, on February 5, U.S. employment statistics were released, and the figures turned out to be weaker than expected. Furthermore, the previous figures were also revised downward, which slowed down the appreciation of the U.S. dollar observed previously. As the U.S. dollar started to weaken, the U.S. dollar/Thai baht exchange rate also returned to a level near the THB 30.05 level. After the weekend, market participants continued selling the U.S. dollar on February 8 and thereafter. As a consequence, the U.S. dollar/Thai baht exchange rate continued falling toward February 11. In the end, the exchange rate reached the mid-THB 29.80 level. On February 11, FRB Chair Jerome Powell mentioned once again his intention to maintain a low interest rate policy, attracting substantial attention in the market. However, the U.S. dollar/Thai baht exchange rate did not fall further, fluctuating within a narrow range at the upper-THB 29.80 level. As it was a national holiday in Thailand on February 12, the exchange rate remained at the same level until February 15. On February 15, the fourth-quarter GDP and the annual GDP of Thailand for 2020 were announced, and the results turned out to be strong. However, the impact on the exchange market was minimal.

On February 16 during local trading hours, there were factors to fuel risk-taking sentiment in the market, such as the Dow Jones Industrial Average, which reached its all-time high, as well as the Bitcoin price, which reached the USD 50,000 level. As a result, the 10-year U.S. government bond yield recovered to the upper-1.2% level for the first time in approximately a year, leading the U.S. dollar to appreciate against other major currencies. Under such circumstances, the U.S. dollar/Thai baht exchange rate recovered to the THB 30 level again toward February 17. On February 18, the same trend continued, and the 10-year interest rate in the U.S. renewed its latest high and continued rising, while stock prices continued renewing the all-time high. Market participants started to anticipate tapering and started to buy back the U.S. dollar. Thus, the U.S. dollar/Thai baht exchange rate remained stable at the THB 30 level. On February 19, European economic indices, such as the February manufacturing PMI, were

released with strong figures, which encouraged market participants to buy the euro and sell the U.S. dollar, leading the U.S. dollar/Thai baht exchange rate to occasionally fall below the THB 30 level. However, there was also pressure to buy the U.S. dollar based on the rise of U.S. interest rates, and the U.S. dollar/Thai baht exchange rate recovered to the THB 30 level again on February 22. On February 23, the Thai government announced its decision to loosen restrictions on economic activities in multiple regions, including Bangkok, however the impact of this on the exchange market was limited. On the contrary, pressure to buy the U.S. dollar persisted in the market, and the U.S. dollar/Thai baht exchange rate continued rising slowly and reached the mid-THB 30.00 level on February 25.

2. Outlook for This Month

On February 24, a foreign-made Covid-19 vaccine arrived in Thailand, and vaccination is to start after a quality check. While many countries in the world are starting the vaccination process, led by Israel, the U.S., and the U.K., some effect of vaccination has already become visible. Thus, it seems that many people are expecting the end of the pandemic after a year since its outbreak, and the market has been gradually shifting to reflect the post-Covid-19 environment. In particular, the recent rise of U.S. interest rates can be one of the important factors in the post-Covid-19 world. The downward pressure on the U.S. dollar/Thai baht exchange rate has been offset by the pressure to buy the U.S. dollar based on the rise of U.S. dollar interest rates, and the U.S. dollar/Thai baht exchange rate is reaching a stalemate at around the THB 30 level. As Thailand is an exporting country, the appreciation of the U.S. dollar and the depreciation of the Thai baht have been desirable conditions. However, the rise of U.S. dollar interest rates has led interest rates in other countries to rise as well, and long-term Thai baht interest rates have started rising. In other words, market participants should be aware of the fact that the rise of Thai baht interest rates can lead to pressure to buy the Thai baht. In March, the U.S. dollar/Thai baht exchange rate is forecast to continue fluctuating at around the THB 30 level, as the market has been stable for the moment. On the other hand, market participants should remain cautious, as once economic activities resume after the Covid-19 pandemic, anti-government protests may become active.

Malaysian Ringgit – March 2021

| | |
|------------------------|--|
| Expected Ranges | Against the US\$: MYR 3.9800–4.0800 |
| | Against the yen: JPY 25.97–26.60 |
| | Against 100 yen: MYR 3.7600–3.8500 |

1. Review of the Previous Month

In February, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a range between MYR 4.02 and MYR 4.07. Having seen the rise of U.S. stock prices as well as U.S. dollar long-term interest rates, market participants bought the U.S. dollar. On the other hand, there were many negative headlines domestically, such as the extension of the movement control order (MCO) due to the persistent increase in new Covid-19 cases, which kept the Malaysian ringgit from appreciating. However, the Malaysian ringgit did not depreciate against the U.S. dollar further after reaching the MYR 4.07 level, and market participants bought the Malaysian ringgit thereafter. As a result, the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.02 level.

In February, a series of annual indices for 2020 were released, such as the GDP and the international balance of payments, used to measure the economic conditions of Malaysia. The figures confirmed once again the significant impact of the Covid-19 crisis, while exports and the manufacturing industry recovered rapidly from the pandemic, demonstrating the strength of the economic base in Malaysia. It should also be mentioned that the North Sea Brent crude oil price rose by approximately USD 10 in one month, reaching the USD 65 level, while the 10-year U.S. government bond yield rose by approximately 20 basis points to reach 1.3%. Thus, there were some mixed signs in February. Under such circumstances, the Malaysian ringgit exchange market was impacted by various external factors.

At the beginning of the month, the MCO, which was scheduled to end on February 4, was extended, negatively impacting the Malaysian ringgit. Thus, the Malaysian ringgit depreciated against the U.S. dollar, and the exchange rate reached the MYR 4.07 level. While this caused significant economic damage, some anticipated a shift to a conditional movement control order (CMCO). However, the number of new Covid-19 cases continued increasing, and the MCO was not loosened. The government did not have a choice but to extend the MCO until February 18 (thereafter, the order was extended again until March 4 in Kuala Lumpur and in three states). On February 8, the December industrial production figure of Malaysia was announced, recording positive year-on-year growth of +1.7%. In particular, the growth of manufacturing for transportation equipment, etc., turned out to be +8.4%, in part thanks to the exemption of SST on the purchase of new vehicles. December sales in the manufacturing industry also recorded positive year-on-year growth of +4.5%. Having witnessed the strength of the manufacturing industry in the context of the pandemic, market participants bought back the Malaysian ringgit.

From the middle to the end of the month, the Malaysian ringgit continued appreciating slowly, although there were few activities in the market because of the Chinese New Year holidays. On February 16, the Malaysian ringgit rose to reach MYR 4.025 against the U.S. dollar for the first time in approximately 1.5 months. During the nighttime of the same day, the Empire State Manufacturing Survey result was announced by the Federal Reserve Bank of New York, revealing the highest figure in five months, which led the U.S. dollar/Japanese yen exchange

rate to reach the JPY 106 level for the first time since October. The 10-year U.S. government bond yield also exceeded 1.3%, encouraging market participants to buy the U.S. dollar. On the following day, the U.S. dollar/Malaysian ringgit exchange market opened trading at MYR 4.04, a higher level than the closing rate of the previous day. Thereafter, the exchange rate continued hovering at around the MYR 4.04 level. However, on February 25, U.S. interest rates rose sharply in the New York market, and this fueled risk-averse sentiment in the market, encouraging market participants to buy the U.S. dollar. As a result, the U.S. dollar/Malaysian ringgit exchange rate once reached the MYR 4.06 level.

2. Outlook for This Month

In March, the Malaysian ringgit is forecast to appreciate slightly against the U.S. dollar. The central bank of Malaysia was scheduled to announce its monetary policy on March 4. At the previous meeting held in January, the government reintroduced the MCO just after New Year's Day and declared a state of emergency for the first time in approximately 52 years. Market participants thus expected an interest rate cut. However, the central bank announced its decision to maintain the policy interest rate at 1.75%. In the statement, the central bank hinted at the possibility of an interest rate cut at the next meeting scheduled for March 4, explaining that, facing the uncertainty of the pandemic, the future monetary policy would be determined based on various figures that are to be announced in the times ahead. On the other hand, the economic indices that were announced thereafter confirmed the strength in exports in the trade statistics, as well as in the recovery of the manufacturing industry despite the persistent pandemic. Furthermore, the number of new Covid-19 cases seems to have peaked out thanks to the MCO. Under such circumstances, market participants should look out for a decision by the central bank regarding an interest rate cut.

Market participants should also carefully observe the long-term interest rates in the U.S. for a while. The 10-year U.S. bond yield rose significantly in the past two months since the beginning of the month. Further appreciation of the U.S. long-term interest rates is likely to encourage market participants to buy the U.S. dollar. On the other hand, following the rise of U.S. interest rates, the 10-year Malaysian bond yield has also been rising recently. Thus, the 10-year bond yield spread has been rallying slightly since the middle of January when the spread bottomed out at 150 basis points. In the times ahead, market participants should also carefully observe the long-term interest rate spread between the U.S. and Malaysia. If the interest rate spread is maintained at the same level, the Malaysian ringgit may remain robust even with a rise of U.S. interest rates.

In terms of the crude oil market, the OPEC Plus meeting is scheduled for March 4, which is an important factor in the market. Currently, the crude oil price has been recovering rapidly, and some anticipate production to be reduced in April. Saudi Arabia has additionally been cutting its oil production by a million barrels a day. If Saudi Arabia slows down this self-imposed reduction in its oil production, Russia would also slow down the reduction in its oil production. After the OPEC Plus meeting on March 4, market participants will know the dominant factor: the recovery in crude oil demand based on economic activities supported by the effect of Covid-19 vaccination or a crude oil supply that is higher than demand due to the slowdown in the reduction in oil production.

As discussed above, there are various factors that could impact the Malaysian ringgit exchange market. Based on the trend observed during the second half of February, the Malaysian ringgit is forecast to remain stable in March.

Indonesian Rupiah – March 2021

Expected Ranges

Against the US\$: IDR 13,900–14,400

Against 100 rupiah: JPY 0.73–0.77

Against the yen: IDR 129.87–136.99

1. Review of the Previous Month

In February, the Indonesian rupiah remained steady for most of the month but weakened toward the end of the month.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,000 level on February 1. On the same day, the January CPI of Indonesia was announced, and the result turned out to be 1.55%, lower than expected, confirming once again slow inflation. However, the impact of this on the Indonesian exchange market was limited. Thereafter, there were few activities in the market, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at the IDR 14,000 level. On February 5, Statistics Indonesia announced the fourth-quarter GDP in 2020, revealing negative year-on-year growth of 2.19%. The annual GDP also recorded negative year-on-year growth of 2.07% for the first time since 1998. Nevertheless, the Indonesian rupiah remained stable. The strength of the Indonesian rupiah was supported by risk-taking sentiment in the market with expectation for the advancement of Covid-19 vaccination as well as for global economic recovery. In the following week, Chinese New Year holidays started on February 8 in various Asian countries, limiting the number of market participants. Yet, the Indonesian rupiah remained stable. On February 9, the governor of the central bank of Indonesia, Perry Warjiyo, pointed out that domestic economic recovery had been slow in Indonesia, also mentioning possible additional interest rate cuts for the purpose of supporting the economy, but this did not impact the Indonesian rupiah exchange market either. Thus, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the IDR 14,000 level. In the following week, the January trade balance of Indonesia was announced on February 15, revealing a constantly high trade surplus. In reaction to this, the U.S. dollar/Indonesian rupiah exchange rate fell temporarily below the IDR 13,900 level on February 16, the following day, and the Indonesian rupiah strengthened against the U.S. dollar to the upper-IDR 13,800 level. However, the U.S. interest rates, the long-term interest rates in particular, continued rising, and many market participants anticipated an interest rate cut by the central bank of Indonesia at the monetary policy meeting scheduled for February 18. As a consequence, the trend was inverted, and the Indonesia rupiah started to depreciate against the U.S. dollar. On February 18, the monetary policy meeting was held, and the seven-day reverse repo rate—the policy interest rate of Indonesia—was cut by 25 basis points to 3.50%. Even though this decision had been expected in the market, the Indonesian rupiah continued depreciating against the U.S. dollar after the meeting, as this Indonesian interest rate was cut while U.S. interest rates were rising. Toward February 22, the Indonesian rupiah depreciated against the U.S. dollar to the IDR 14,100 level. Thereafter, the Indonesian rupiah stabilized even with demand for U.S. dollar, as typically seen at the end of the month. However, on February 25, U.S. interest rates rose sharply, which led the Indonesian rupiah to depreciate significantly in the offshore NDF market. Following this trend, the Indonesian rupiah depreciated significantly against the U.S. dollar at the end of the month on February 26. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate reached the upper-

IDR 14,200 level (as of the daytime of February 26).

2. Outlook for This Month

In March, the U.S. dollar/Indonesian rupiah exchange rate is forecast to remain flat.

In February, the central bank of Indonesia decided to cut interest rates further for the first time since November last year. Even though many market participants had anticipated interest rate cuts, this decision led the Indonesian rupiah to depreciate slightly against the U.S. dollar, as long-term U.S. interest rates were rising gradually at the same time. Interest rates were cut at a bad timing, which could have caused further depreciation of the Indonesian rupiah. However, the Indonesian rupiah recovered its stability even after the interest rate cuts. This is mainly because of the fact that the significant trade surplus can either turn the constant current account deficit into a surplus or significantly reduce the current account deficit. In terms of the trade balance, January imports confirmed the significant decline, recording negative year-on-year growth of more than 6%. The Covid-19 pandemic remains a serious problem in Indonesia, and recovery in imports is likely to be slow. On the other hand, coal prices have been on the rise, while exports to China increased. As a result, exports recorded large, positive year-on-year growth. Trade surplus is expected to continue increasing in the times ahead, which is a supporting factor for the Indonesian rupiah.

It should, however, be pointed out that there has been a change in the interest rate market. It is, for the moment, unlikely for the central bank of Indonesia to cut interest rates further. It is possible for the central bank to cut interest rates if the Indonesian rupiah continues to appreciate one-sidedly. However, it is unlikely for such a situation to occur under the current conditions. U.S. interest rates, the long-term rates in particular, have been on the rise, reducing the relative attractiveness of the Indonesian rupiah. In February, FRB Chair Jerome Powell pointed out that it would still take some time for employment and the economy to recover, implying that monetary easing would continue in the times ahead. Even though the rise of U.S. interest rates is not likely to last for a long time, they are unlikely to fall either. Thus, it has become less likely for the Indonesian rupiah to appreciate compared to past months.

Market participants should remain careful regarding risks for investor sentiment to worsen rapidly depending on the situation related to the Covid-19 pandemic, the advancement of Covid-19 vaccinations, and doubts about vaccine effectiveness. However, in general, the U.S. dollar/Indonesian rupiah exchange rate is forecast to remain flat.

Philippine Peso – March 2021

Expected Ranges

Against the US\$: PHP 47.90–49.00

Against the yen: JPY 2.160–2.200

1. Review of the Previous Month

In February, the U.S. dollar/Philippine peso exchange market opened trading at PHP 48.06.

The fall of U.S. stock prices slowed down, and optimism spread again in the market, while the three major stock price indices in the U.S. were approaching their all-time highs.

Risk-averse sentiment in the market was replaced by risk-taking sentiment, and the U.S. dollar/Philippine peso pair traded at PHP 48.016 on February 3, approaching the year's high for the Philippine peso (PHP 48.015 to the U.S. dollar recorded on January 4).

However, the U.S. dollar/Philippine peso did not fall below the USD 48 level, as was the case previously. Toward the end of the week, market participants bought back the U.S. dollar, waiting for the announcement of the January employment statistics of the U.S. Thus, the U.S. dollar/Philippine peso exchange rate reached PHP 48.11. Thereafter, weekly trading closed at PHP 48.07 before the announcement of the employment statistics of the U.S.

After the announcement of said employment statistics, the U.S. dollar/Philippine peso exchange market opened trading at PHP 48.055 on February 8. The figures in the January employment statistics of the U.S. turned out to be weak, encouraging market participants to sell the U.S. dollar.

In the U.S. dollar/Philippine peso exchange market as well, the Philippine peso first strengthened against the U.S. dollar. However, the Philippine peso did not strengthen enough to lead the exchange rate to fall below the PHP 48 level, as has been the case many times since December last year.

Market participants bought the U.S. dollar thereafter as a result of the rise of U.S. long-term interest rates. On February 9, the U.S. dollar/Philippine peso exchange rate once reached PHP 48.10.

However, the U.S. dollar did not appreciate further, as risk-taking sentiment was growing in the market. In the end, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range between PHP 48.016 and PHP 48.11 until the second week of February. Thus, the exchange rate was at a stalemate for more than 2.5 months.

After the weekend, the exchange rate started to move on February 15. As risk-taking sentiment grew worldwide, the U.S. dollar/Philippine peso exchange market opened at PHP 48.04, after which the exchange rate reached the PHP 47 level for the first time since September 2016.

Once the U.S. dollar/Philippine peso exchange rate fell below the PHP 48 level, market participants bought the U.S. dollar in large volume at PHP 47.90. As a consequence, the U.S. dollar appreciated sharply against the Indonesian rupiah with U.S. dollar short-covering. The U.S. dollar/Philippine peso exchange rate reached PHP 48.76 on February 23—the lowest rate for the Philippine peso since August last year. As of this writing on February 24, the U.S. dollar/Philippine peso pair has been trading at the PHP 48.60 level.

2. Outlook for This Month

Market participants were encouraged to buy back the U.S. dollar for the following reasons.

(1) Thanks to the advancement of Covid-19 vaccinations, energy demand was expected to recover, while supply had been reduced due to the cold wave that hit Texas in the U.S. As a result, the crude oil (WTI) price rose to the USD 60 level for the first time in more than a year. In the Philippines, the trade deficit increased due to concerns over inflation as well as due to an increase in imports, which strengthened pressure to sell the Philippine peso.

(2) The media reported that the Chinese government might limit the export of rare earth minerals, fueling concerns over the deterioration of the relationship between the U.S. and China. As a result, market participants chose the U.S. dollar as a safe asset.

(3) With growing expectations for economic recovery, U.S. interest rates rose. The 10-year bond yield reached the 1.3% level for the first time since February last year, which made the U.S. dollar an attractive currency to invest in.

(4) As a result of the rise of U.S. dollar interest rates, the outlook of the U.S. stock market, which has been at its all-time high, became uncertain (which made market participants to choose the U.S. dollar as a safe asset).

In addition to the above reasons, the flow of market participants' investment played an important role. The U.S. dollar/Philippine peso exchange rate fell below the PHP 48 level, which had been the support line for a long time, and this led many market participants to expect the Philippine peso to continue appreciating. However, as described above, the U.S. dollar/Philippine peso exchange rate did not fall further from the PHP 47.90 level. As a consequence, market participants started to buy back the U.S. dollar, leading the U.S. dollar/Philippine peso exchange rate to rise.

On February 11, the central bank of the Philippines decided to maintain the policy interest rate at the existing level. While the January inflation rate turned out to be 4.2%, which attracted substantial attention in the market, the inflation outlook for 2021 was announced to be 2.2–4.0%, within the target range set out by the central bank. The governor of the central bank of the Philippines, Benjamin Estoista Diokno, explained that there was no risk for asset prices to rise and that it was still too early to discuss monetary tightening.

On February 15, the December OFW (Overseas Filipino Workers) remittances amounted to USD 2.89 billion. Even though there was a slight increase from USD 2.38 billion—the figure of the previous month—the figure recorded negative year-on-year growth.

From a macroeconomic point of view, there are not many factors to lead the Philippine peso to appreciate. However, market participants should be careful about the view regarding a possible slowdown of the global depreciation of the U.S. dollar and the possible slowdown in the rise of stock prices due to the rise of U.S. dollar interest rates.

The U.S. dollar/Philippine peso exchange rate, which rallied after a significant fall, is expected to fall again. The Philippine peso is therefore forecast to start appreciating slowly again in the times ahead.

Indian Rupee – March 2021

Expected Ranges

Against the US\$: INR 71.00–73.50

Against the yen: JPY 1.41–1.47

1. Review of the Previous Month

In February, the U.S. dollar/Indian rupee exchange rate reached its lowest level in one year.

Before the release of the federal budget for the next fiscal year, the U.S. dollar/Indian rupee exchange market opened trading at INR 72.905. The budget of India, which attracted substantial attention in the market, turned out to be USD 477 billion. The fiscal deficit for the next fiscal year turned out to be 6.8% as a percentage of GDP, exceeding 5.3%, the market consensus. As a result, market participants were concerned about the downgrading of the sovereign rating of India, which was a negative factor for the Indian rupee as well. As a result, the U.S. dollar/Indian rupee exchange rate reached the monthly high at IDR 73.15 on February 1. After the announcement of the federal budget, market participants sold the Indian rupee at the beginning, as described above. However, on February 2, the following day, Indian stock prices started to rise rapidly with expectations for an increase in public investment. Market participants expected foreign investors' capital inflow into India and started buying the Indian rupee. Indeed, there was capital inflow of USD 850 million into the Indian stock market from foreign investors on the following day of the announcement of the budget. Then, on February 5, the central bank of India held a monetary policy meeting and decided to maintain the policy interest rate at the existing level. However, the impact of this on the Indian rupee market was minimal.

In the second week of the month, the U.S. dollar depreciated in the overall foreign exchange market, due to fiscal stimulus in the U.S. and as the employment statistics of the U.S. turned out to be weaker than expected. Following this trend, Asian currencies appreciated. However, the Indian rupee was kept from appreciating due to steady market interventions (via selling the Indian rupee and buying the U.S. dollar). By February 11, capital inflow from foreign investors exceeded outflow by USD 3 billion. On the other hand, the foreign currency reserves of India exceeded USD 590 billion as a result of vigorous foreign exchange market interventions. As a consequence, there were both selling and buying in the U.S. dollar/Indian rupee exchange market, leading the exchange rate to remain flat at around the INR 72.90 level.

In the third week of the month, in the U.S., expectations grew for the Congressional approval of fiscal stimulus. Furthermore, an optimistic feeling was in the air regarding Covid-19 vaccinations. As a result, the overall Asian currencies strengthened. Following this trend, the U.S. dollar/Indian rupee exchange rate fell to the INR 72.50 level for the first time since March last year.

In the fourth week of the month, the media reported that three state-owned energy companies had procured funds through loans and corporate bonds denominated in U.S. dollars, and this encouraged market participants to convert the U.S. dollar into the Indian rupee in the foreign exchange market, leading the Indian rupee to appreciate. The U.S. dollar/Indian rupee exchange rate thus fell below the INR 72.50 level, which was considered to be the psychological turning point. The exchange rate continued falling rapidly and reached INR 72.28, with stop-loss orders. Thereafter, the exchange rate continued fluctuating at the lower-INR 72 level. On February 24, the

exchange rate fell further and reached INR 72.265—the monthly low. The closing rate of February 25, when this article was being written, was INR 72.425 to the U.S. dollar.

2. Outlook for This Month

In March, the U.S. dollar/Indian rupee exchange rate is forecast to remain low.

In March, the same factors exist as in February, and the U.S. dollar/Indian rupee exchange market is likely to be led by the two main drivers: Indian rupee-buying based on capital inflow from foreign investors and foreign exchange market interventions by the Indian government. As was discussed before, there was capital inflow of USD 18 billion in November and December 2020. Even though capital inflow decreased slightly in January this year, Indian stock prices reached all-time highs in February when the federal budget plan revealed a large amount of fiscal stimulus, accelerating capital inflow from foreign investors again.

In terms of foreign exchange market interventions, there were quite a few interventions during the first half of February, keeping the U.S. dollar/Indian rupee exchange rate at around INR 72.90. However, on February 15, the exchange rate fell significantly below INR 72.70, which had been seen as a support line. Thereafter, the exchange rate continued fluctuating at the lower-INR 72 level toward the end of the month. Regarding the timing of the foreign exchange currency interventions, the governor of the central bank explained on February 24 that interventions are carried out to control the volatility of the Indian rupee exchange rate and that there was no specific target for the exchange rate. Thus, as had been the case previously, there was no indication regarding the level of the exchange rate at which the central bank carries out market interventions. However, it can be said that the exchange rate is unlikely to fall below the current level from a short-term perspective, as volatility would be controlled. It should also be mentioned that the Indian rupee appreciated against the U.S. dollar to the lower-INR 72 level in February and that this was considered partly because of concerns over inflation as a result of the rise of crude oil prices. It is understandable that the Indian rupee was strengthened slightly in order to control import inflation. Therefore, the crude oil price is another factor that will impact the Indian rupee exchange market in the times ahead.

As has been pointed out several times in the past, the main factor in the U.S. dollar/Indian rupee exchange market in March involves market interventions by the Indian government.

This report was prepared based on economic data as of March 1, 2021.

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