Mizuho Dealer's Eye

May 2021

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – May 2021

Expected Ranges Against the yen: JPY107.00–111.00

1. Review of the Previous Month

The dollar/yen pair moved bearishly in April.

After opening the month trading at the upper-110 yen mark on April 1, the pair then hit a monthly high of 110.85 yen, though its topside was not tested thereafter. It then rose to the upper-110 level on April 2 (Easter) on the bullish results of the US employment data for March.

The pair's topside then moved heavily again at the upper-110 yen mark, with the pair sliding to the upper-109 yen level toward April 5 as US interest rates fell. There were no major movements over April 6–7. The US released a worse-than-expected new applications for unemployment insurance figure on April 8. With US interest rates also dipping, the pair hit 109 yen for a time. Concerns about accelerating inflation increased on April 9 when the US PPI data for March beat market expectations, so US interest rates climbed and the pair rose to the upper-109 yen mark. However, it lost momentum just before the key 110 level.

From April 12 onwards, the pair moved bearishly for around two weeks. It edged down to the lower-109 yen mark on April 12. It then weakened to around 109 yen on April 13 as risk aversion grew on news about the side effects of a US Covid-19 vaccine. The greenback was sold against European currencies and commodity currencies on April 14 too, with the currency pair moving with a heavy topside around 109 yen. The US released some better-than-expected indicators on April 15, including the March retail sales data, but the pair temporarily dipped to the mid-108 yen level as US interest rates fell sharply. On April 16, it was pushed close to 109 yen by Japanese real-demand buying for a time, but it lost momentum just before that key barrier.

Risk sentiments worsened on April 19 after a US/Japan heads-of-state meeting led to concerns about US/China frictions related to Taiwan. The greenback was sold and the pair tumbled to around 108 yen. Japanese importers bought the dollar on April 20. With the cross yen also climbing, the dollar/yen pair rallied to the mid-108 yen mark. However, the Nikkei Stock Average fell sharply on April 21 and the pair dropped below 108 yen on expectations that a state of emergency would be declared in some parts of Japan. With Covid-19 also sweeping through India and elsewhere, the yen was bought on risk evasion. US stocks plummeted on April 22 on reports that President Biden was planning to introduce a new capital gains tax aimed at the wealthy. The pair temporarily hit a monthly low of 107.48 yen on April 23, its lowest level since March 4. However, it then bounced back.

The pair recovered to the 108 yen range on April 26 on the better-than-expected result of the US March New Homes Sales indicator. The Bank of Japan meeting on April 27 passed smoothly, but the pair continued climbing to the upper-108 yen mark on rising US interest rates. The pair hit the 109 yen range for a time on April 28. The FOMC decided to keep policy fixed when it met. However, the pair weakened to the mid-108 yen mark after FRB chair Jerome Powell made some dovish comments at his press conference. With Tokyo on holiday on April 29, the previous day's trend of dollar selling continued for a time, though the greenback was steadily bought back thereafter as US interest rates rose. Dollar buying intensified on April 30, with the pair climbing to the lower-109 mark before ending the month at this level.

2. Outlook for This Month

The dollar/yen pair is expected to trade firmly in May.

As mentioned above in the report on April's movements, the financial markets continue to move comparatively sensitively to news abut Covid-19. Vaccine rollouts are proceeding at breakneck pace in the developed nations, with vaccinations also set to begin in earnest in Japan and other regions from here on. However, infections are spreading rapidly in India and Turkey, with lockdowns also being implemented. There is still so end on sight in Europe either, despite the region's vaccination programs. Other pessimistic factors include the community spread of new highly-infectious strains and the risk that even more new strains could emerge from here on. Either way, it seems unlikely that sentiments will sway sharply in one direction or the other at this moment in time.

The US economy is recovering at a breakneck pace, with 1Q GDP up 6.4% on the previous quarter. There is currently a gap between the markets and the FRB when it comes to the timing of tapering and rate hikes (the markets are expecting easing to be tapered earlier then the FRB has posited). However, on April 28 the FOMC indicated it would continue to pursue an accommodative monetary policy, while FRB chair Jerome Powell also spoke several times about how rising inflation was 'transitory' in his press conference. All this suggests the FRB thinks the sharp economic upswing is due in large part to monetary policy and fiscal mobilization, with the momentum of the real economy not as strong as the markets believe. The FOMC is not scheduled to meet in May, with policy unlikely to change. There are also unlikely to be any factors capable of closing this gap between how the FRB and the markets see things.

Based on trends related to Covid-19 and the US economy, it seems unlikely the dollar/yen pair will reach any key turning point in May, with the pair continuing to be swayed on the whole by US interest rates and stock markets. However, the US economy seems to be on firm ground, while vaccines programs are also proceeding apace, so if anything the pair could move somewhat firmly this month.

Dealers' Market Forecast

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

Bullish on the dollar	17 bulls	111.00 – 107.50	Bearish on the dollar	4 bears	110.00 – 107.00

* Ranges are central values

Tanaka	Bull	111.00 – 107.00	With vaccinations underway in the US, the US economy will continue to be supported by monetary and fiscal policy. The dollar/yen pair's movements will be shaped by US interest rates, but the yen will probably be sold on risk appetite.
Takeuchi	Bull	110.50 – 107.50	The markets saw a round of adjustment in April. Economic indicators are improving across the world, as revealed by the US GDP data. With expectations also rising, risk assets look set to move firmly across the board.
Tsutsui	Bull	112.00 – 107.50	The greenback will weaken at times on the US's expanding trade deficit, but FRB tapering will be a more important theme. The US Department of Defense will also have concluded its review of China policy late May. If the direction of US policy becomes clearer, the greenback will probably rise in interest-rate and foreign-exchange markets.
Kato	Bear	110.50 – 107.00	The phase of adjustment looks set to continue. The dollar/yen pair's downside will probably be tested on several occasions until Japanese/US interest-rate differentials clearly show that risk appetite has returned to the currency markets. However, if the 'Sell in May' trend is seen this year too, the pair's downside may grow steadily firmer.
Yamagishi	Bear	110.00 – 107.00	The FRB has indicated it will continue easing until the US approaches full employment. With tax rises also on the cards, US interest rates and the dollar/yen pair will only have limited room to rise. Some observers believe the vaccine rollout in the US will slow, with the US economy also close to peaking out, so the markets may stop pricing these things in as dollar-buying factors.
Ushijima	Bull	110.00 – 107.00	Many US economic indicators are moving strongly right now. New York has also announced it will resume economic activity in July, with vaccines also being rolled out faster in the US compared to other developed nations. After a round of adjustment in April, the markets will probably see a resumption of the trend of rising US interest rates and a bullish dollar.
Tasaka	Bull	110.50 – 107.50	The FOMC upgraded its economic outlook when it met in April and it also predicted the US economy will move firmly in the second quarter too. However, there were no signals that the debate about tapering had begun, so the dollar/yen pair looks set to move firmly in a range as stocks remain bullish until the FOMC next meets in June.
Omi	Bear	110.00 – 106.00	The trend of dollar selling looks set to continue. This will be due to ongoing low interest rates, fiscal expansion, and a global appetite for stable currencies. However, this trend will proceed at a gentle pace as the greenback is bought on risk aversion related to rising US long-term interest rates and falling stocks, for example.
Ueno	Bull	111.00 – 107.00	My forecast is written above. If the US continues to release some broadly bullish economic indicators and current monetary/fiscal policy remains unchanged, the dollar/yen pair will continue to move firmly.
Yamaguchi	Bull	111.00 – 107.00	Employment data and other US indicators point to a US economic recovery. The vaccination program is also proceeding faster than expected, so dollar buying looks set to continue. However, the FRB remains in easing mode, so any room on the upside will be capped.
Kai	Bear	110.00 – 107.00	The FOMC decided it was too early to talk about tapering when it met in April. Expectations will probably rise again around the time of the next FOMC meeting in June or at the Jackson Hole symposium in August. The phase of adjustment will continue in May as investors finish pricing in improved US economic indicators.
Onozaki	Bull	111.00 – 108.00	The dollar/yen pair fell in April. This represented an adjustment after US interest rates and the pair had soared from the start of the year. This adjustment seemed to ease off late April. In May, the greenback will probably move firmly again on the vaccine rollout and bullish economic indicators.
Tamai	Bull	110.50 – 107.50	The trend of dollar bullishness from the start of the year came under some adjustment in April. In the long term, though, US interest rates and the dollar look set to continue rising on the US economic recovery. However, the FRB remains in dovish mode, so the dollar/yen pair's room on the topside may be capped.

Harada	Bull	110.50 – 107.00	The US is implementing a huge fiscal package. Its vaccine program is also proceeding at a faster pace than in other countries. As such, the economy will continue to bounce back. With US stock markets also moving firmly, the dollar/yen pair is likely to be pulled higher this month.
Oba	Bull	111.00 – 107.50	The dollar/yen pair fell in April, though this trend has eased off. The pair will probably head towards the 110 range again, with its downside supported at the ceiling of the 'cloud' in the daily Ichimoku Kinkyo Hyo trading chart. The currency pair will also strengthen as US interest rates rise on expectations for a normalization of monetary policy as economic activity gets back to normal. Investors should keep an eye on articles related to the efficacy of vaccines.
Katoono	Bull	111.00 – 108.00	The US is outperforming other nations when it comes to vaccinations, with the US also likely to be the second major nation to stage a post-pandemic economic recovery, after China. As such, the greenback will probably be bought in the short term. The dollar/yen pair could also be supported by the firm movements of US interest rates as the markets price in early tapering by the FRB.
Kobayashi	Bull	111.50 – 107.00	The dollar/yen pair fell in April on sliding US interest rates and the deteriorating Covid-19 situation. However, New York is aiming to normalize economic activity in July on the back of the vaccine rollout, so the pair could move firmly going forward.
Henmi	Bull	110.50 – 107.50	With the vaccination program likely to make further strides, expectations for an economic recovery will remain in place. With the markets also likely to focus on early tapering by the FRB, the dollar/yen pair looks set to strengthen as US interest rates rise again.
Otani	Bull	111.00 – 107.50	US long-term interest rates stopped falling once they hit 1.53%, with the phase of adjustment now apparently over. With vaccines being rolled out in the US, the country continues to churn out impressive economic indicators, so the dollar/yen pair looks set to move firmly this month.
Suzuki	Bull	112.00 – 107.50	The dollar/yen pair came under some adjustment in April after previously strengthening from the start of the year, though this trend has now come to an end. With life returning to pre-pandemic normality on the rollout of vaccines, the economic recovery will pick up pace, with funds likely to flow into the dollar going forward.
Okuma	Bull	111.00 – 107.50	After a round of adjustive dollar selling, attention will probably focus again on the divergence between the US and Japan when it comes to the pace of vaccine rollouts and the growth outlook. Speculation is growing that the US will begin to discuss tapering in August, so the dollar/yen pair will probably move firmly on widening Japanese/US interest-rate differentials too.

Mio Otani, Forex Sales, Global Markets Sales Department

Euro – May 2021

Expected Ranges **Against the US$: US$1.1900–1.2400**
Against the yen: JPY130.00–134.00

1. Review of the Previous Month

The euro/dollar pair rose in April as the dollar was sold and the euro bought on falling US interest rates.

After opening the month trading at the lower-$1.17 mark, the pair then rose to the upper-$1.17 level on the firm movements of European and US stock markets. The US employment data for March was released on April 2, with the nonfarm payrolls figure sharply up on market expectations, so the pair tumbled to the mid-$1.17 mark for a time, though the impact on the market was negligible on the whole.

The pair then fell to the lower-$1.17 level on April 5 as market participants reacted badly to lockdowns and delayed vaccine rollouts in major eurozone countries. With US interest rates falling, though, the greenback was sold and the pair strengthened to the lower-$1.18 range. The pair was also supported by a bullish euro/pound pair and it then rose to the lower-$1.19 level on April 7. However, Klaas Knot, governor of the Dutch central bank, then made some cautious comments about inflationary trends within the eurozone. The greenback was also bought back when US interest rates rebounded. As such, the euro/dollar pair weakened to the upper-$1.18 mark for a time. With the euro/pound pair then rising, though, the euro/dollar pair also climbed higher to hit the lower-$1.19 level on April 8.

Germany released a worse-than-expected April ZEW Indicator of Economic Sentiment on April 13, but the impact on the markets was muted, with the pair continuing to move in the lower-$1.19 range. The US then released a better-than-expected CPI figure for March, but with speculation growing that the FRB would not revise its accommodative monetary policies, US interest rates fell and the greenback moved bearishly, with the euro/dollar pair rising to the mid-$1.19 level. As dollar selling intensified, the pair climbed to the upper-$1.19 mark.

The pair then rose to the lower-$1.20 level on April 19 on reports that the EU had procured a further 100 million vaccines. As expected, the ECB Governing Council kept policy fixed when it met on April 22, so the impact on the markets was negligible. In her press conference, though, ECB president Christine Lagarde said that Council "did not discuss any phasing out of PEPP." As such, the euro/dollar pair dipped to the upper-$1.19 level for a time. Markit released a bullish eurozone PMI on April 23. With US interest rates also falling, the pair strengthened to $1.2100.

As optimism grew about the European economy, the euro continued to be bought on April 26, with the pair climbing to the lower-$1.21 mark. However, it then dropped to the upper-$1.20 range toward April 27 as US interest rates rose. As expected, the FOMC left policy unchanged when it met on April 28. In his subsequent press conference, though, FRB chair Jerome Powell said it was still too early to talk about tapering. As US interest plummeted and the greenback was sold, the currency pair rose to the lower-$1.21 level. This trend spilled over into April 29, with the pair hitting a monthly high of $1.2150. It then moved in the lower-$1.21 range toward April 30.

2. Outlook for This Month

The euro rose by over 400 points against the dollar in April, with the euro/dollar pair undergoing a one-sided rise with no noteworthy corrections. Excessive expectations for FRB easing waned in April, with previously-bullish US interest rates coming under some adjustment. Amid no major market themes, the greenback was sold across the board on falling US interest rates. Under these circumstances, the euro moved bullishly. While the dollar/yen pair fell from the 110 yen range to the 107 yen range, for example, the euro/yen pair hovered around 130 yen before breaking out of its range to hit its highest mark since October 2018, with the euro/pound pair also moving firmly yet flatly. This suggests the euro was bought sharply alongside dollar selling. The only possible factor behind this euro bullishness was the market focus on 'potential room for growth' on the rollout of vaccines in the eurozone. The UK led the way when it came to developed-nation vaccine rollouts, while vaccinations are also proceeding steadily under the Biden administration, but the rollout in the eurozone has been quite slow by comparison, with Germany and France also introducing lockdowns again in April. However, the eurozone is preparing for a swift rollout going forward. Vaccine production looks set to double from here on, for example, with the EU also making a deal to buy up to 1.8 billion doses from a major US pharmaceutical company. As such, hopes are for growing for a recovery in the real economy. Recently-released PMIs have also pointed to a strong economic recovery, with the markets moving swiftly in the latter half of April to price in expectations for such a recovery. Under these circumstances, the euro will move somewhat firmly this month on these comparatively strong expectations for an economic recovery. There is also comparatively large 'room for growth' on the aforementioned vaccine rollout. The euro/dollar pair is likely to continue rising as the markets steadily price in this scenario.

The FOMC/ECB meetings and other monetary policy events passed more-or-less smoothly late April, with the authorities making it clear they remained committed to easing. However, attention is already focusing on the next round of meetings, with the currency pair set to be swayed by speculation about when tapering will begin in Europe and the US. The US has released a series of bullish economic indicators, but the FRB continues to strongly rule out any tapering, so expectations for such a move have waned. The ECB has also said it is too early to discuss any phasing out of the PEPP, but a variety of opinions about a tapering of the asset purchasing program will probably emerge in the run up to the June ECB Governing Council meeting, with expectations for eurozone taping relatively high. However, there remains the risk that the dollar could be bought as investors rapidly offload their risk assets if sentiments suddenly cool on speculation about tax hikes in the US, for example. With no major themes forming in the markets, the pair will probably move with minor fluctuations on the whole. Investors should also keep in mind the anomalous 'Sell in May' trend.

Dealers' Market Forecast

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

Bullish on the euro	10 bulls	1.2300 – 1.1900	Bearish on the euro	11 bears	1.2200 – 1.1800

* Ranges are central values

Tanaka	Bull	1.2300 – 1.1900	Europe is lagging behind the US when it comes to vaccine rollouts and economic performance, but it will steadily close this gap going forward. Both sides will keep monetary policy unchanged for the time being, but the dollar will probably be sold on reflationary trades. This will boost the euro/dollar pair, as will supply and demand conditions, with the pair set to continue moving firmly this month.
Takeuchi	Bull	1.2400 – 1.2000	Overall it seems the euro will continue to be bought on risk appetite, with the currency moving particularly firmly against the yen. The markets have finished pricing in negative factors related to Covid-19, with funds set to flow into Europe from here on as economic indicators improve.
Tsutsui	Bull	1.2500 – 1.1900	As with tapering in the US, the focus this month will be on expectations for the ECB's unwinding of the PEPP. The euro will probably strengthen on bullish risk assets and falling bonds (rising interest rates) as vaccines become more prevalent and economic stimulus measures start to bear fruit.
Kato	Bull	1.2300 – 1.1900	As pandemic conditions ease, the ECB will probably adjust the pace of its active bond-buying program. If this does happen, then the euro will move firmly in its capacity as the currency of a region with a trade surplus.
Yamagishi	Bull	1.2300 – 1.2000	The euro will continue moving firmly on vaccine rollouts and expectations for a recommencement of economic activity. Some central bank governors have dropped hints about financial normalization. Some observers also think the ECB will slow the pace of its PEPP-based bond purchases as the economy undergoes a gentle recovery. All this will act as a buying factor for the euro.
Ushijima	Bear	1.2200 – 1.1800	Interest-rate levels (monetary policy) and vaccine rollouts are having a big impact on the market right now. As such, the euro/dollar pair will probably revert to its bearish trend. The greenback will be bought back as US interest rates start rising again, so the pair will probably break below $1.20 again.
Tasaka	Bear	1.2250 – 1.1800	Europe and the US are unlikely to see any major monetary policy shifts until the FOMC and the ECB Governing Council meet in June. The euro/dollar pair will be bolstered by expectations for vaccine rollouts in Europe, though it will be weighed down by the sluggishness of the economic recovery in Europe compared to the US, so the pair looks set to trade in a range.
Omi	Bull	1.2300 – 1.1900	The euro will continue to move firmly this month. This will be due to ongoing dollar selling. One potential risk lies in a cut in policy rates. Several government figures have said there is still room for rate cuts, though this seems unlikely right now.
Ueno	Bull	1.2300 – 1.1900	Vaccinations are being rolled out at a fast pace in Europe. The region was slow off the mark to implement lockdowns and other measures to deal with the rampant spread of Covid-19 last winter, but the economic rebound is also set to be commensurately fast as more people get vaccinated.
Yamaguchi	Bear	1.2200 – 1.1700	The ECB Governing Council decided to maintain its large-scale QE program when it met last month. When it meets in June, the Council may discuss changing the pace of its PEPP purchases over the latter half of the year. However, several new Covid-19 strains have been detected in Europe, so the trend will gradually shift to one of euro selling.
Kai	Bull	1.2300 – 1.2000	With Europe catching up after a slow start to its vaccination program, euro buying looks set to continue this month. Euro buying will also be supported by the eurozone's trade surplus, with the euro/dollar pair set to move firmly. The euro could also be bought on some short-term dollar adjustments.
Onozaki	Bear	1.2200 – 1.1700	The euro/dollar pair rose in April as the dollar came under some adjustment. However, though the US economy looks set to continue improving on the vaccine rollout, there is still a lot of uncertainty about the economic recovery in Europe. With the trend of dollar adjustment also easing off, the euro/dollar pair will probably move bearishly again on the Covid-19 response and European/US interest-rate differentials, etc.
Tamai	Bear	1.2250 – 1.1800	Europe has lagged behind the US when it comes to the vaccine rollout, with some time probably needed before the economy recovers. US interest rates will face upwards pressure again, so the euro/dollar pair will probably move with a heavy topside.
Harada	Bear	1.2250 –	Though vaccines are being rolled out at a fast clip in the US, the situation in Europe is less impressive. As the US economy recovers, the relative attractiveness of the euro will wane. The trend of euro buying on a lack of

		1.1800	alternatives will also become less pronounced going forward.
Oba	Bull	1.2350 – 1.1950	The euro will continue to move firmly in May. The eurozone real economy will steadily recover as vaccines are rolled out and restrictions on activity lifted in stages, with the euro likely to be bought. With investors on alert for any mention of tapering, the euro/dollar pair will probably break through its February highs to undergo a steady rise.
Katoono	Bear	1.2200 – 1.1850	Europe has been slow off the mark to tackle the spread of new Covid-19 strains, with the euro/dollar pair also set to move with a heavy topside on the divergent monetary policy stances of the US and Europe. It is worth noting that the pair has rallied since its downside was tested at the end of March. Authority figures might also make interventions to curb the euro's rise, so caution will be needed.
Kobayashi	Bear	1.2200 – 1.1800	The euro/dollar pair rose in April as the greenback weakened. US interest rates have stopped sliding, though, while Europe is also lagging behind the US when it comes to vaccine rollouts. As such, the pair will probably trade with a heavy topside this month.
Henmi	Bear	1.2200 – 1.1800	The dollar went through a round of selling in April. The eurozone continues to lag behind the US when it comes to interest rates and vaccine rollouts, with the euro set to move bearishly against the greenback going forward. The euro/dollar pair's topside will also be weighed down by the divergent monetary policy stances of the US and Europe.
Otani	Bull	1.2400 – 1.1900	The euro will continue to be bought on expectations that the economy will recover on the rollout of vaccines. Furthermore, though the FRB has strongly ruled out tapering, the ECB is expected to scale back the PEPP in stages from here on. As such, the euro/dollar pair will probably remain firm this month.
Suzuki	Bear	1.2200 – 1.1750	Europe is lagging behind the US, etc. when it comes to vaccine rollouts, with Europe's economic recovery also lagging. Monetary easing also looks set to remain in place for now, with the greenback likely to be bought as the US economy recovers steadily. As such the euro/dollar pair will probably trade with a heavy topside this month.
Okuma	Bear	1.2200 – 1.1800	Though Europe is rolling out vaccines at a faster pace, it is still lagging behind the US. With the ECB also moving to keep interest rates in check, attention will focus on widening European/US interest-rate differentials. As such, the euro/dollar pair's rise will slow this month.

Fumihiko Kanda, Europe Treasury Department

British Pound – May 2021

Expected Ranges **Against the US$: US$1.3800–1.4200**
Against the yen: JPY148.00–155.00

1. Review of the Previous Month

In April, the pound moved more-or-less flatly against the yen, bearishly against the euro, and bullishly against the dollar, with sterling lacking self-driven direction.

The greenback weakened at the start of the month as investors focused on US long-term interest rates. The euro/pound pair had undergone a one-sided fall since the latter half of March, but euro selling pressure finally eased off when the pair dropped to around GBP0.85 on April 6. With the pair then rebounding, the pound began moving bearishly. There only seemed to be two reasons for this bearishness: technical factors related to the aforementioned movements of the euro/pound pair, and several days of rioting in Northern Ireland.

Looking back, one important event was the formal announcement by UK prime minister Boris Johnson that shops selling items other than daily essentials would be allowed to open from April 12, as would pubs and restaurants with outside seating areas. The vaccine rollout also continued to make steady progress, with economic activity in the UK set to resume without any hiccups. Furthermore, the UK also released a series of better-than-expected March PMIs on April 8 (with the Construction PMI hitting its highest level since surveys began). Given this, it seems a bit strange that the pound suddenly fell after previously moving firmly.

Sterling dropped from around 153 yen to the 149 yen range against its Japanese counterpart. It also plummeted from the $1.39 range to the $1.36 range against the greenback. It was bought back thereafter, though, and it started rising six days after beginning is fall. This was partly because the pound/dollar pair was supported at its 100-day line around $1.3680 on two successive trading days (April 9 and April 12). Also, the euro/pound pair had risen to GBP0.87, a level ripe for some buy-backs.

Sterling then strengthened from the $1.36 range to the $1.40 range against the dollar, the 149 yen range to the 150.1 yen range against the yen, and GBP0.87 to the GBP0.86 level against the euro, with the pound paring back its losses from the start of the month and its topside rising even higher. At the time, it was hard to find any factors behind this pound bullishness. Looking back, though, one key factor seems to have been the announcement that around 20% of the UK had received a second vaccination. This news came on April 12, just when regulations had started to ease. Sterling had previously been weighed down by concerns about a laggardly economic recovery, but this news may have wiped out these fears. The pound's movements then stabilized. Amid a dearth of noteworthy factors, the pound/dollar pair moved flatly around $1.39, with the pair climbing to around $1.3950 at the month's end.

2. Outlook for This Month

The pound is expected to move flatly in May. If forced to choose, it seems more likely that unit will swing lower.

The UK vaccine rollout program is proceeding as planned, but the eyes of the markets will probably shift to the movements of the economic recovery. The March Markit UK Construction PMI (released April 8) and the March UK retail sales figure both recorded sharp upticks, but this tellingly led to no pound buying. As such, it seems reasonable to assume sterling might not rise even if the vaccine rollout goes well and the UK economy seems to be improving faster than expected.

Furthermore, Japan will be embarking on a long holiday, with the UK also seeing three-days weekends over May 1–3 and May 29–31. As such, market momentum could fall this month. UK events that could impact the pound's movements include local elections on Thursday, May 6, though the unit is unlikely to be swayed significantly be these headlines in May.

Shiho Kawaguchi, Sydney Treasury Office, Asia & Oceania Treasury Department

Australian Dollar – May 2021

Expected Ranges	**Against the US$: US$0.7580–0.7900**
	Against the yen: JPY82.10–85.50

1. Review of the Previous Month

In April, the AUD/USD pair rose from the lower-$0.75 mark to the lower-$0.78 level.

Australia's March house price data was released on April 1, with prices growing at the fastest pace in 30 years. With Australia's February trade balance dipping below market forecasts, though, the pair edged down to $0.7533. It then moved in a range around the lower-$0.76 mark until April 13.

As expected, the RBA left the cash rate fixed when it met, with the RBA also reiterating it would keep interest rates at low levels until 2024. The bank also optimistically predicted that the Australian economy would recover at a faster pace than originally envisaged, though it also said it was keeping a close eye on rising house prices. Furthermore, it said it would hold discussions within the year about whether to make changes to the types of bonds targeted by its YCC (the program currently targets bonds due to be repaid in April 2024). In the wake of the RBA's statement, the currency pair pared back its pre-RBA losses and then rose to the mid-$0.76 level. During NY trading time, FRB chair Jerome Powell reiterated that rising inflation in the US was a transitory phenomenon. US stocks rose and this supported the AUD/USD pair.

New Zealand's central bank announced on April 14 that it would be leaving policy rates and its asset purchasing program unchanged. It also said it was prepared to lower policy rates as needed. This suggested that monetary stimulus would not be removed any time soon, so the New Zealand dollar rose. The AUD/USD pair was also pulled higher to hit the upper-$0.76 mark. The greenback then fell and the price of crude oil and other commodities rallied, so the pair hit a three-week high of $0.7738. It then moved around $0.77 from April 14 in the latter half of the month. The Australian March employment data was released on April 15. The unemployment rate had improved from 5.8% to 5.6%, though the number of full-time jobs had fallen. US 10-year treasuries then fell and crude oil prices rose, so the pair bounced back to the mid-$0.77 level. The minutes to the April 6 RBA policy meeting were released on April 20. They said that easing policies had contributed "to a lower exchange rate than otherwise." The RBA also said it would need to monitor mortgage borrowing trends on the back of rising house prices, adding that its easing policies had "continued to support the economy by keeping financing costs very low." As for the YCC program, the minutes revealed that "later in the year, members would need to consider whether to maintain the April 2024 bond as the target bond or shift the focus of the yield target to the November 2024 bond…in considering this issue, members would give close attention to the flow of economic data and the outlook for inflation and employment." With crude oil and iron ore prices also rising after the minutes were released, the currency pair hit $0.78 for the first time in a month before climbing to $0.7816. It then dropped back to the lower-$0.77 mark on profit taking and news about the resurgence of Covid-19.

The pair strengthened to $0.7763 on April 21 on the better-than-expected result of the Australian March retail sales data (up on the previous month and on the preliminary result), though it then fell to $0.77 as risk sentiments deteriorated on the resurgence of Covid-19. News emerged on April 22 that President Biden was considering almost doubling the capital gains tax paid by people earning over $1 million, from 20% to 39.6%. US stocks subsequently fell and the Australian dollar was sold, with the pair dipping to $0.7693. In the final week, US stocks moved firmly, with the S&P renewing record highs on the release of corporate results, for example. With iron ore prices also rising, the pair climbed to around $0.7820.

2. Outlook for This Month

In May, the AUD/USD pair will be swayed at times by the movements of US long-term interest rates and news about Covid-19, but it will be supported by rising iron ore prices and the firm recovery of Australian fundamentals, so it will probably expand its range slightly on the topside.

The pair moved with a lack of direction in April. It was supported by rising iron ore prices and bullish stocks and it hit the $0.78 mark on several occasions over the latter half of the month. It could not remain at this level for long, though. It was weighed down by the US economic recovery, for instance, and it was also hit by deteriorating sentiments as concerns grew that the global economic recovery would be stalled by a resurgence of Covid-19. However, the Australian economy has recovered swiftly and steadily from the impact of Covid-19, with some Australian economists starting to believe that Australia's budget will hit a surplus within four years. With Australia's fiscal situation also improving, some observers think the RBA might scrap its target for 3-year government bonds while lowering the amount of its government-bonds purchases. Iron ore prices are also moving at record highs at the moment, with Australia exports growing and firms in the iron ore industry hiring more people. It is estimated that these bullish prices will add AUD20 billion to federal government's coffers. So judging from the situation in Australia and the firmness of its economy, it seems there are several factors capable of bolstering the AUD/USD pair.

New factors this month will include the announcement of the budget for the new fiscal year (May 11). Australia's treasurer Josh Frydenberg said in a speech that there would be "no sharp pivots towards austerity." He also said the government's budget proposal remained "focused on driving unemployment even lower [than 5%]" and he added that there would be no moves towards fiscal reconstruction until this target had been achieved. As such, although the JobKeeper wage subsidy program and the JobSeeker special unemployment payment were wound down at the end of March, the government will probably cobble together some new programs to help industry cope with the impact of Covid-19. If this boosts the economic recovery, it will support the AUD/USD pair's downside. The April employment data will be released on May 20. This will be the first set of data since the Job Keeper and Job Seeker programs were brought to an end. Attention will focus on how the unemployment rate will be affected by the end of these programs. However, with the US also moving towards normalizing economic activity, expectations for tapering will probably rise in the markets. FRB chair Jerome Powell has said on several occasions that the recent rise in interest rates is just a transitory phenomenon, but if US economic indicators confirm that the economy is undergoing a recovery, then US long-term interest rates could move firmly and rise (after recently falling to around 1.52%). If this happens, the AUS/USD pair could move with a comparatively heavy topside, so investors could keep an eye on the timing of transactions.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – May 2021

Expected Ranges **Against the US$: C$1.2000–1.2650**
Against the yen: JPY87.50–90.82

1. Review of the Previous Month

The USD/CAD pair opened April trading at C$1.2596. The US had announced a massive infrastructure investment plan. With vaccine rollouts also going well and economic indicators performing strongly, hopes grew for an economic recovery. However, there was a growing discrepancy between the pace of vaccination programs in each country, for example, with Covid-19 also resurgent on a global level. The FRB stressed it would keep monetary policy unchanged, despite market speculation about early tethering. However, the Canadian dollar soared when the Bank of Canada (BOC) scaled back its easing program, so the pair moved with a heavy topside at C$1.2653. With the greenback also weakening on falling US interest rates, the Canadian dollar strengthened against its US counterpart towards the end of the month.

With US long-term interest rates falling, the USD/CAD pair dipped to the lower-C$1.25 mark at the start of the month. It gradually climbed back thereafter on the bullish results of the US March employment data and Non-manufacturing ISM Report on Business, for example. OPEC+ then decided to scale back its program of coordinated production cuts from May. The Canadian dollar was sold on falling crude oil prices, but the greenback was also sold as US interest rates fell and risk appetite grew on bullish stock movements, so the currency pair's room on the topside was capped. The weekly crude oil inventories data also revealed that US gasoline inventories had risen a lot higher than expected, so crude oil prices fell to $58.12/barrel, with the Canadian dollar also sold to C$1.2635 against its US counterpart. Amid growing expectations for tapering, the FRB indicated it would keep easing until prices stabilized and the US reached full employment. The pair then fell to the mid-$1.25 mark on the dovish contents of the FOMC minutes and a speech by FRB chair Jerome Powell. The Canadian March employment data was released on April 9. With the unemployment rate improving to 7.5%, the Canadian dollar was bought and the currency pair fell to C$1.2526. However, the US then suspended the use of a Johnson & Johnson vaccine on April 13 on concerns about side effects, so risk aversion increased and the pair climbed to C$1.2629. It then dropped to C$1.2527 in tandem with falling US interest rates. After floating in a narrow range for a time, the pair then moved between C$1.2471–C$1.2559 as the Canadian dollar was bought on rising crude oil prices. Covid-19 cases surged again on April 20 on the emergence of new strains in India and Europe, with the currency pair soaring to C$1.2624 on renewed risk aversion. However, the situation changed on April 21 after the BOC's Monetary Policy Committee (MPC) struck a hawkish tone. The pair fell sharply to C$1.2460. The greenback then plummeted on April 28 as expectations for FOMC tapering waned. The Canadian dollar continued rising towards the month's end, with the currency pair dipping to C$1.2266, its lowest mark since January 2018, before closing the month trading at C$1.2287.

2. Outlook for This Month

Covid-19 cases are surging in Canada on the surge of new variants, with lockdowns being re-introduced in several Canadian regions. The BOC's MPC left policy fixed at 0.25% at its closely-watched meeting. It also decided to scale back the weekly target for government-bond purchases from C$4 billion to C$3 billion. The BOC also upgraded its 2021 growth forecast from +4.0% to +6.5% and it predicted its inflation target of 2% would be reached by late 2022 as the supply and demand gap was eliminated. The date when rate hikes might occur was also rolled forward from 2023 to late 2022. Vaccines are being distributed across Canada at a faster pace, while bullish economic indicators point to improved consumer sentiments. This probably explains the BOC's shift in a hawkish direction.

The government has released a C$50 billion budget proposal for the new fiscal year in the 2021 Federal Budget. Government subsidies went mainly to businesses during the 2008 recession, but this time around they have been paid directly to consumers. Household saving rates have risen on this emergency government support and this looks set to contribute significantly to boosting consumption and employment going forward. However, there are growing concerns about overheating housing market conditions as a result of low interest rates. As house prices continued rising, March's housing starts data hit a record high. The government has said it will monitor the housing market, but the federal budget proposal only includes one measure to impose taxes on housing bought by foreigners for investment purposes. With a general election looming, it seems the government wants to avoid making any interventions in the housing market. Canada's Office of the Superintendent of Financial Institutions (OSFI) has proposed tougher stress tests for mortgage loans. This proposal will come into force from June and this will probably keep a lid on soaring house prices.

The slowdown of Canada's post-lockdown April economic indicators will probably remain within the bounds of expectations. Crude oil prices might swing lower on concerns about the spread of Covid-19, but they look set to continue climbing on expectations for a demand recovery. This will support the Canadian dollar's movements. However, if the FRB drops hints about tapering, the greenback could face appreciatory pressure on rising long-term interest rates and rising yields on long-term bonds. The US dollar will be bought further if stocks fall on the Biden administration's proposed capital gains tax increase.

In May, investors should continue to monitor the spread of Covid-19, vaccine rollout rates, and comments by key officials from the FRB and other countries. The USD/CAD pair will probably move between C$1.20–C$1.2650 with an eye on the movements of US long-term interest rates.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – May 2021

Expected Ranges | **Against the US$: KRW 1,080–1,130**
Against the yen: JPY 9.615–10.101 (KRW100)
(KRW 9.900–10.400)

1. Review of the Previous Month

The USD/KRW pair moved with a heavy topside in April.

The pair opened the month trading at KRW1128.0 on April 1. The RMB then fell on the worse-than-expected result of China's March Manufacturing PMI (result: 50.6, forecast: 51.3), with the USD/KRW pair subsequently pulled up to hit a monthly high of KRW1133.2.

The pair opened April 5 trading at KRW1128.0 on some bullish US employment data. With overseas investors then buying South Korean stocks and bonds, the pair weakened to KRW1120 towards April 6. During overseas trading time, the IMF upgraded its global growth forecast for 2021 from 5.5% to 6% (US: 5.1% to 6.4%, South Korea 3.1% to 3.6%). The markets also saw rising expectations that President Biden would be able to get his public infrastructure spending plan passed into law soon through the use of existing budget adjustment mechanisms. Despite all this good news, the market as a whole underwent some correction on over-inclined positions, so dollar selling continued. During overseas trading time on April 8, US long-term interest rates fell, with the currency pair then sliding to KRW1113.6 on April 9.

However, US long-term interest rates then rose during overseas trading time on April 9 after the US released some better-than-expected March PPI data (result: +1.0% m-o-m, forecast: +0.5% m-o-m), so the currency pair trended upwards from April 12. With major South Korean corporations also making dividend payments to overseas investors, the pair bounced back to KRW1127.9. The US March CPI result was broadly as expected (result: +0.6% m-o-m, forecast: +0.5%), though, so US long-term interest rates fell sharply and the pair moved with a heavy topside. Hope then grew about the business results of South Korean firms in the semiconductor industry and so on, with overseas investors also buying South Korean stocks. Risk appetite then swept the globe on some bullish Chinese economic indicators, so the pair tumbled to KRW1113.5 on April 16.

On April 19, overseas investors began selling on balance in South Korean stock markets after buying up until the previous week. The won was also sold after dividends were posted to overseas investors, so the pair strengthened to KRW1120.0. With the market then moving with a lack of direction, the pair moved in the KRW1110 range. On April 23, it was reported that the Biden administration would be hiking capital gains taxes on the wealthy from 20% to 39.6%, though the impact on the currency pair was limited. The pair then moved with a lack of direction with an eye on the FOMC meeting. The FOMC upgraded its economic outlook when it met on April 29, though it insisted it was too early to talk about tapering, so the dollar was sold slightly. With the won also being bought on real demand at the month's end, the pair dropped to KRW1105.7. The pair closed the month trading at KRW1112.3, down 15.7 won on the end of March.

2. Outlook for This Month

The USD/KRW pair will move with a lack of direction in May.

The FRB stressed its commitment to easing in April. With vaccinations also underway in Europe, the greenback was sold and the currency pair fell.

There are four factors to watch out for this month.

(1) Dividend payments by South Korean corporations to overseas investors (a won-selling factor), (2) dollar buying pressure on the movements of US interest rates, (3) trading in South Korean stocks and bonds by overseas investors, and (4) hearty real-demand won buying by South Korean companies.

With regards to (1), a major South Korean electronics firm has already finished making dividend payments, so won-selling pressure will be limited going forward. However, though (2) the US 10-year interest rate temporarily fell close to 1.50% in April, it is hard to imagine US long-term interest rates dropping at the same pace in May given the economic situation. The FRB remains committed to easing, though, so it seems unlikely the greenback will be bought at a faster pace either. As for (3), overseas funds continue to flow into South Korea, particularly into its bond markets. The USD/won pair's movements have slowed, so it seems investment momentum is dipping slightly. Nonetheless, South Korean interest rates are high compared to other developed nations, so fund inflows will probably act as a won-buying factor from here on too. Turning to (4), and South Korean firms in the semiconductor industry and so on have posted healthy results, with the current account surplus remaining at high levels. This is also likely to place upwards pressure on the won.

Under these circumstances, the USD/KRW pair's topside looks set to remain heavy due to won buying on factors (3) and (4). However, dollar selling pressure on (2) will probably wane compared to April (when US long-term interest rates fell), so the currency pair's decline will probably be a gentle one.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – May 2021

Expected Ranges **Against the US$: NT$27.50–28.00**
Against the yen: JPY3.85–3.93

1. Review of the Previous Month

In April, the Taiwan dollar closed at its highest level against the greenback in roughly 24 years.

The USD/TWD pair opened the month trading at TWD28.500. At the start of the month, Taiwanese stocks rose and the Taiwanese dollar were bought after a holiday, with the currency pair dropping to around TWD28.40. However, importers bought the greenback when the pair fell below TWD28.40, so the pair continued moving around TWD28.40.

Trading was thin on the ground and momentum was low mid-April, with the pair remaining around TWD28.40. The Taiwan Capitalization Weighted Stock Index closed above 17,000 points for the first time ever, though, so the Taiwan dollar was bought and the pair tumbled to around TWD28.32.

With the Taiwan Capitalization Weighted Stock Index hitting record highs, the Taiwan dollar rose at a faster pace in the latter half of the month. After breaking below TWD28.20, the pair weakened to around TWD28.00 as the US dollar was sold sharply by exporters. However, importers then bought the greenback. Though Taiwanese stocks fell slightly, meanwhile, there was still substantial selling-on-balance by overseas investors. As such, the pair bounced back to around TWD28.15. The Taiwan dollar then strengthened again as the Taiwan Capitalization Weighted Stock Index continued to hit record highs. After dropping below TWD28.00, the pair temporarily fell to TWD27.836 as the greenback was sold by exporters at the month's end, with the pair then moving below TWD28.00.

2. Outlook for This Month

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

Rising US interest rates cooled off in April. After adjusting their Taiwanese stock positions, meanwhile, investors bought back Taiwanese stocks last month. All this pushed the Taiwan dollar higher. The Taiwan Capitalization Weighted Stock Index had moved flatly in March, but it then hit 17,000 points for the first time ever in April. Taiwan-dollar bullishness was also supported by brisk exports.

The Taiwan dollar looks set to remain bullish in May. Stocks will continue to rise on the strong results of Taiwanese firms in the semiconductor sector and so on, with the Taiwan dollar also likely to be supported by rising exports.

However, if US long-term interest rates rise due to expectations for an economic recovery on the improved Covid-19 situation and rising vaccination rates, the markets could see some adjustment, just like in March. In this scenario, the Taiwan dollar's upwards momentum could wane, so caution will be needed

Last month's article discussed how the Central Bank of the Republic of China (Taiwan) had told Taiwan's parliament in March that the country now met the US's three main criteria for being declared a currency manipulator following increased interventions in the currency markets. When the Treasury Department released the semiannual Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States in April though, it decided not to label Taiwan a currency manipulator for now, even though it met the aforementioned three criteria. The Treasury Department said there was insufficient evidence to make such a finding given how Covid-19 had substantially impeded trade and capital flows, for example, and how each country had implemented fiscal and monetary policies to deal with the pandemic. However, it was revealed that the Central Bank of the Republic of China (Taiwan) had submitted an explanatory report to the Treasury Department before the release in April. These events provided a glimpse into the nature of US/Taiwan relations.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – May 2021

Expected Ranges	**Against the US$: HK$ 7.7550–7.7750**
	Against the yen: JPY 13.75–14.10

1. Review of the Previous Month

Hong Kong dollar spot exchange market in April

In April, the U.S. dollar/Hong Kong dollar exchange rate reached HKD 7.7865—the lowest rate for the Hong Kong dollar in a year—after which the Hong Kong dollar appreciated to the HKD 7.76 level as a result of the fall of U.S. interest rates and the depreciation of the U.S. dollar. Even though the U.S. economic indices for the second-quarter period are expected to be strong, the Federal Reserve Board (FRB) has not changed its measures of monetary easing, keeping the interest rate near zero—perhaps in fear of a repeat of the 2013 taper tantrum. The interest rate differentials between the Hong Kong dollar and the U.S. dollar have also been near zero, and thus capital inflow for the purpose of carry trades is likely to be limited. The one-year Hong Kong dollar forward point fell from near zero to –30 points. The Hong Kong dollar exchange market was supported by robust demand based on IPOs as well as capital returning to Hong Kong through the Stock Connect scheme (i.e., the mutual stock transaction scheme between Hong Kong and Mainland China). The economic outlook in Hong Kong has been improving, along with steady recovery in its exporting industry. Thanks to the controlled situation with the Covid-19 pandemic as well as the base effect, there has been a sign of recovery in retail sales, which had been on a decline over the past two years. In addition, the unemployment rate started recovering after peaking out at 7.2% in February, and the March unemployment rate fell to 6.8%. There has been a sense of optimism about economic recovery, raising the risk tolerance in the market.

Hong Kong dollar interest rate market in April

The aggregate balance of the Hong Kong Monetary Authority (HKMA) has remained at HKD 457.5 billion—the all-time high—demonstrating a high liquidity level in the Hong Kong dollar market. The investment appetite in the IPO market has been gradually declining, and the short-term Hong Kong dollar HIBOR remains low. It is expected that the liquidity level will remain high in the times ahead, and this has been reflected in the market, leading the Hong Kong dollar to fall even further. The one-month Hong Kong dollar HIBOR reached 0.086%, while the three-month Hong Kong dollar HIBOR reached 0.175%—both at their lowest level in 10 years. Compared to the U.S. dollar as well, there has been obvious monetary easing in the Hong Kong dollar market, and the interest rate differentials between the two currencies (the Hong Kong dollar HIBOR and the U.S. dollar LIBOR) has fallen below zero for both the one-month and three-month rates. The downward pressure on U.S. long-term interest rates has strengthened, with less expectation for the FRB to start tapering. Consequently, the interest rate differential between the U.S. long-term and short-term rates (the three-month LIBOR and the five-year swap rate) has fallen to –70 basis points. The interest rate differential between the Hong Kong dollar long-term and short-term interest rates has also fallen to –70 basis points, following that of the U.S. dollar.

2. Outlook for This Month

Hong Kong dollar spot exchange market in May

In May, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within a range between HKD 7.755 and HKD 7.775. It turned out that the planned IPO of a major Chinese internet application company will not happen in the second-quarter period. Thus, capital inflow related to IPOs is likely to be limited, weakening upward pressure on the Hong Kong dollar spot exchange market. Even though recovery in the stock market is expected to result in some capital inflow, the FRB is likely to continue its measures of monetary easing in the U.S., and thus there is little interest for market participants to execute carry trades in the Hong Kong dollar market. It should also be mentioned that there are other downside risks, such as the U.S. sanctions against local banks in Hong Kong and overall political uncertainty, which are likely to impact the market in the medium-term perspective. However, the U.S. dollar peg is likely to continue, as there is no effective alternative solution.

Hong Kong dollar interest rate market in May

As the aggregate balance remains at the all-time high, Hong Kong dollar short-term interest rates are expected to remain low. Given that the U.S. dollar/Hong Kong dollar exchange has not yet reached HKD 7.75—the upper end of the transaction band—and as the HKMA has not started absorbing the Hong Kong dollar through the issuance of Exchange Fund Bills and Notes (EFBNs), it is unlikely for the high liquidity level in the Hong Kong dollar to change in the near future. For these reasons, it is possible for interest rates to fall further. Thus far, the Hong Kong dollar interest rates rose based on IPOs. However, there have been few activities in the IPO market, and there is no particular factor present that can cause interest rates to rise.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – May 2021

Expected Ranges	**Against the US$: CNY 6.4000–6.7000**
	Against the yen: JPY 15.80–17.50
	Against 100 yen: CNY 5.7000–6.3000

1. Review of the Previous Month

In April, the U.S. dollar/Chinese yuan exchange market fell from CNY 6.57 to the CNY 6.46, as a result of a slowdown in the rise of U.S. dollar interest rates and strong Chinese economic indices.

The U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.55 level on April 1. There were block trades in the U.S. targeting Chinese companies, which encouraged market participants to sell the Chinese yuan. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate rose significantly to the upper-CNY 6.57 level on the same day. After reaching the monthly high for April, market participants started selling the U.S. dollar as a result of the fall of U.S. interest rates. Consequently, the U.S. dollar/Chinese yuan exchange rate also fell and reached the mid-CNY 6.53 level on April 7. Thereafter, there were few influential factors in the market, and the U.S. dollar/Chinese yuan exchange rate rallied to the CNY 6.56 level.

On April 12, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.55 level. After reaching the CNY 6.56 level, market participants started selling the U.S. dollar and buying the Chinese yuan, and this led the exchange rate to the upper-CNY 6.54 level. On April 13, the Chinese trade balance was announced, and the trade surplus turned out to be lower than the market estimate, which led the U.S. dollar/Chinese yuan exchange rate to rise to CNY 6.55. However, U.S. interest rates fell in the evening. Furthermore, the CPI of the U.S. was announced, and market participants felt that the result was not strong enough to change the existing monetary policy in the U.S., even though the figure turned out to be slightly higher than expected. As a result, U.S. dollar-selling dominated the market. Then, on April 16, major economic indices of China were released, including GDP, and all of them turned out to be strong, which encouraged market participants to sell the U.S. dollar and buy the Chinese yuan further. Thus, the U.S. dollar/Chinse yuan exchange rate fell to approach CNY 6.52 on April 16, at which level weekly trading closed.

In the nighttime of April 16, U.S. economic indices were released with strong figures, and this led to some U.S. dollar-buying. On April 19, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.53 level. As a result of a fall of U.S. interest rates and a speech by President of China Xi Jinping, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.50 mark on April 20 and reached the mid-CNY 6.49 level. Thereafter, the U.S. dollar/Chinese yuan exchange rate fluctuated slightly with some buybacks, although it did not exceed the CNY 6.50 level, encouraging market participants to sell the U.S. dollar again. On April 22, the U.S. dollar/Chinese yuan exchange rate fell to the lower-CNY 6.48 level. On April 23, the exchange rate rose again, even though again it did not reach the CNY 6.50 level.

On April 26, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.48 level. In the first half of the week, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range at the CNY 6.48 level, despite the rise of U.S. interest rates and the price of copper. However, in the evening of April 28, after the Federal Open Market Committee (FOMC) meeting in the U.S., the exchange rate fell to the CNY 6.46

level for the first time in approximately two months.

2. Outlook for This Month

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

There have been optimistic media reports on economic indices recovering from the Covid-19 pandemic, including the GDP of China, leading the Chinese yuan to appreciate. Furthermore, capital inflow into China is likely to continue supporting the Chinese yuan. On the other hand, the latest trade balance of China revealed a decline in surplus—but there is still a surplus. Market participants should remain attentive of future trends.

With regard to the attitude of the People's Bank of China (PBOC), there has been no particular update, and the monetary policy is expected to remain moderate.

In the U.S., on the other hand, the U.S. dollar has been depreciating, as the rise of interest rates has slowed. The U.S. dollar is expected to remain weak as long as the Federal Reserve Board (FRB) does not change its monetary policy. However, market participants should also pay attention to the possibility of the U.S. dollar/Chinese yuan exchange rate to rise in the times ahead, with major factors that could attract attention in the market again, such as the advancement of Covid-19 vaccination, expectation for economic recovery based on strengthening indices, and the attitude of U.S. monetary authorities to accept inflation.

In terms of market sentiment, after falling below CNY 6.48, the U.S. dollar/Chinese yuan exchange rate is expected to enter the range between CNY 6.45 and CNY 6.48—the range observed in January to February this year. Unless the trend is inverted and U.S. interest rates start to rise, the U.S. dollar/Chinese yuan exchange rate is forecast to remain low, approaching the lower-CNY 6.42 level—the lowest level for this year.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – May 2021

Expected Ranges	**Against the US$: SG$ 1.3150–1.3500**
	Against the yen: JPY 81.00–84.00

1. Review of the Previous Month

In April 2021, the Singapore dollar continued appreciating against the U.S. dollar.

From the beginning of the month, the Singapore dollar started appreciating gradually. The risk sentiment improved in the market, thanks to the fall of U.S. interest rates as well as the rise of U.S. stock prices. Based on the rise of Asian stock prices, the Singapore dollar remained strong. In addition to these factors, the International Monetary Fund (IMF) announced its decision to revise its world economic growth rate for 2021 upward on April 7, which also strengthened the currencies of emerging countries. As a consequence, the Singapore dollar continued appreciating, and the U.S. dollar/Chinese yuan exchange rate, which was at the SGD 1.34 level at the beginning of the month, reached the upper-SGD 1.33 level.

Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range toward the middle of the month. Then, on April 14, the semi-annual meeting of Monetary Authority of Singapore (MAS) was held, at which the existing monetary policy was maintained. At the same time, the GDP of Singapore for the first-quarter period was announced, with unexpected positive growth. The MAS also referred to the possibility that the annual economic growth rate could be higher than 4–6%—the estimated level. In reaction to this, the Singapore dollar appreciated, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.33 level.

Thereafter, the Singapore dollar remained strong toward the end of the month. Also, the media reported on Covid-19 vaccines being secured, while U.S. stock prices remained high, supporting the currencies of emerging countries. On April 20, the Singapore dollar appreciated against the U.S. dollar, and the exchange rate once fell below the SDG 1.33 level. On April 22, the media reported that the Biden administration was considering the possibility of a tax increase on the wealthy, and this led U.S. stock prices to fall. As a result, the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.33 level once again. However, the Singapore dollar strengthened again thereafter. In the end, monthly trading closed at the upper-SGD 1.32 level.

2. Outlook for This Month

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

After the MAS meeting held on April 14, the Singapore dollar appreciated significantly, and the U.S. dollar/Singapore dollar exchange rate shifted from the SGD 1.34 level to the SGD 1.32 level. As a result of the meeting held in April, the MAS deleted the expression "for a while" as used in the previous guidance, while it maintained its dovish attitude by stating "the monetary easing remains appropriate."

Even though the MAS is likely to start tightening its monetary policy as a next step, the MAS maintained its priorities for fiscal policy at the meeting in April. Thus, the MAS monetary policy is likely to remain unchanged for the rest of the year, and the next monetary policy change is expected to be in April next year or later.

The Singapore dollar tends to follow the trends in the U.S. dollar exchange market. However, it is necessary to look at the composition of the currency basket in order to evaluate the actual performance of the Singapore dollar. More precisely, the euro, the Chinese yuan, and the Malaysian ringgit account for a large share in the currency basket, and therefore the exchange rates between these currencies and the U.S. dollar are important elements for the outlook of the U.S. dollar/Singapore dollar exchange market.

The Singapore dollar is currently strong against the U.S. dollar, and the trend is likely to last in May. It is possible for the Singapore dollar to approach the SGD 1.31 level if the U.S. dollar continues to depreciate. However, it is also possible for the Singapore dollar to depreciate (following the depreciation of the Chinese yuan) toward the second half of the year based on the growing U.S. dollar-buying demand as the result of the expectations for possible tapering from 2022 and the growing risks between the U.S. and China. Market participants should continue observing the situation in each country.

Kazuhiro Suzuki, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – May 2021

Expected Ranges	**Against the US$: THB 31.10–32.00**
	Against the yen: JPY 3.40–3.52

1. Review of the Previous Month

In April, the U.S. dollar/Thai baht exchange rate renewed its highest level for the year, as it did in March. The U.S. dollar/Thai baht exchange market opened trading at the THB 31.20 level, after which the U.S. dollar appreciated to the THB 31.30 level, thanks to strong figures in the March employment statistics of the U.S., while there were few transactions in the market, with Easter holidays and national holidays in Thailand overlapping at the beginning of the month. Furthermore, the U.S. dollar/Thai baht exchange rate temporarily reached the THB 31.50 level on April 9, due to growing caution against the third wave of the Covid-19 pandemic in Thailand. Officials from the Thai monetary authorities, including the governor of the central bank of Thailand, mentioned the downward risks for the Thai economy, and this kept the U.S. dollar/Thai baht exchange rate high.

In the middle of the month, the number of Covid-19 cases continued rising in Thailand before the Songkran holidays in the same week. Under such circumstances, the U.S. dollar/Thai baht exchange rate approached its high again on April 12. However, Thai baht-selling did not last this time. On April 13, the U.S. bond yields, which were on a decline, temporarily rallied, lowering the liquidity level. As a result, the U.S. dollar/Thai baht exchange rate rose to approach the THB 31.60 level. Thereafter, the U.S. bond yields started to fall again after rallying for a while, and this led the U.S. dollar/Thai baht exchange rate to fall rapidly. Then, on April 15, the U.S. dollar/Thai baht exchange rate reached the THB 31.10 level—the highest rate against the U.S. dollar for the Thai baht—for the first time in approximately two weeks. After the Songkran holidays, stock prices fell in many countries due to the GDP of China for the first-quarter period showing a weaker-than-expected result, in tandem with concerns over increased cases of Covid-19. As market sentiment deteriorated, the U.S. dollar/Thai baht exchange rate recovered to the THB 31.30 level.

At the end of the month, the Thai baht remained weak against the U.S. dollar. Under such circumstances, the April trade statistics of Thailand were released by the Ministry of Commerce, revealing the all-time highest growth in exports. Even though market participants temporarily bought the Thai baht, the baht started to weaken again once the daily number of new Covid-19 cases reached an all-time high, at over 2,000. At the beginning of the last week of the month, the U.S. dollar/Thai baht exchange rate did not move significantly either upward or downward, as there were some important events scheduled, including central bank meetings both in the U.S. and Japan, as well as a speech by U.S. President Joe Biden. Then, on April 28, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and there was no change in monetary policy. However, Federal Reserve Board (FRB) Chair Jerome Powell insisted that any incoming inflation will be temporary, and this led U.S. interest rates to fall. Following this trend, the U.S. dollar depreciated. Consequently, on April 29, the U.S. dollar/Thai baht exchange rate fell in the morning. Also, the speech by U.S. President Joe Biden ended without any surprise, and the U.S. dollar/Thai baht exchange rate continued fluctuating at the THB 31.20 level during the day.

2. Outlook for This Month

The rise of U.S. interest rates, which had been leading the rise in the U.S. dollar/Thai baht exchange rate, has slowed down, as FRB Chair Jerome Powell and other FRB officials made dovish remarks. However, the U.S. dollar has been strengthening, thanks to strong figures in the U.S. economic indices and the advancement of Covid-19 vaccinations. On the other hand, a third wave of Covid-19 cases hit Thailand amid little advancement in Covid-19 vaccination, which encouraged market participants to sell the Thai baht. As a result, the Thai baht has been at its lowest rate against the U.S. dollar since October last year.

In May, the Thai baht is most likely to continue depreciating against the U.S. dollar, as has been the case so far. U.S. monetary authority officials have been making remarks over and over again that the existing monetary policy will remain unchanged. However, when it comes to commodity prices, a wide range of commodity prices have been on the rise, including non-ferrous metal such as copper, iron ore, and wood (wood is now leading to a rise in housing prices). Therefore, market participants have become conscious of the timing of FRB's exit strategy. Even though FRB Chair Jerome Powell insisted that the rise of U.S. interest rates is temporary, if reflation trading becomes active and if U.S. bond yields start to rise again, the U.S. dollar/Thai baht exchange rate would also rise. In terms of domestic factors in Thailand, there has been no sign of an end to the third wave of the Covid-19 pandemic, and economic activities are slagging. The economic growth outlook for 2021 has been revised downward, which is a negative factor for the Thai baht. It should, however, be mentioned that it is unlikely for the Thai baht to weaken to the extent that the U.S. dollar/Thai baht exchange exceeds the THB 32 mark, which is the psychological turning point, as the U.S. dollar is likely to appreciate only to a limited degree as long as the FRB maintains its dovish attitude. Based on past data, the U.S. dollar/Thai baht exchange rate is not likely to remain at the upper-THB 31 level. Furthermore, market participants tend to sell stocks in May, as is indicated in the expression "Sell in May and Go Away." Thus, the U.S. dollar/Thai baht exchange rate is expected to fluctuate unstably in May. However, as a principle, the Thai baht is forecast to depreciate, while the U.S. dollar is expected to appreciate.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – May 2021

Expected Ranges	**Against the US$: MYR 4.0500–4.1500**
	Against the yen: JPY 26.32–27.03
	Against 100 yen: MYR 3.7000–3.8000

1. Review of the Previous Month

In April, the Malaysian ringgit remained strong. The U.S. dollar/Malaysian ringgit exchange rate rose gradually from MYR 4.15—the lowest level in approximately five months—to MYR 4.09. As the rise of U.S. long-term interest rates slowed down, the U.S. dollar weakened, while the crude oil market remained strong—both of which supported the Malaysian ringgit exchange market. Furthermore, at the end of March, the central bank of Malaysia announced its revision to its financial exchange policy. As a result of deregulation, the status of Malaysia in the global supply chain improved, and market participants expected an increase in foreign direct investment, which was also a positive factor for the Malaysian ringgit. As a result, the Malaysian ringgit strengthened from MYR 4.15 to MYR 4.10 to the U.S. dollar in one month.

At the beginning of the month, the March employment statistics of the U.S. were released on April 2, with figures significantly stronger than expected, and this led U.S. interest rates to rise. The 10-year U.S. bond yield once reached 1.73%. Thereafter, the rise of U.S. interest rates slowed down. On the following day, the March non-manufacturing ISM of the U.S. was announced, revealing its highest figure since 1997 when the recording of statistics started. This confirmed recovery in the services sector—the second most-affected sector in terms of the Covid-19 pandemic after the manufacturing sector—along with a rally in new orders. This fueled risk-taking sentiment in the market, leading the stock market to strengthen. However, U.S. interest rates fell, encouraging market participants to sell the U.S. dollar. Following this trend, the U.S. dollar/Japanese yen exchange rate fell below the JPY 110 mark. Market participants also bought back the Malaysian ringgit.

In the middle of the month, the Malaysian ringgit strengthened further, thanks to a robust crude oil market. Then, on April 14, the International Energy Agency (IEA) released its monthly report to announce a decision to make an upward revision to the worldwide demand outlook for 2021. As a result, the North Sea Brent price recovered to USD 65 for the first time since March 18. Also, the financial exchange policy revised by the central bank became effective on April 15, but there was no significant change in the liquidity level that would affect the market.

Toward the end of the month, the Malaysian ringgit appreciated further, and the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.10 mark. On April 26, Finance Minister Tengku Zafrul announced that the expenses related to Covid-19 vaccination would be paid out of the National Trust Fund, while also explaining that government finances were in a difficult situation, approaching the limit. This news could have encouraged market participants to sell the Malaysian ringgit. However, market participants continued buying the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.10 mark again. Furthermore, on April 28, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and FRB Chair Jerome Powell insisted that tapering would not start for a while, which led U.S. interest rates to fall, encouraging market participants to buy the Malaysian ringgit and sell the U.S. dollar further.

2. Outlook for This Month

In May, the Malaysia ringgit exchange market is forecast to continue following external factors. U.S. long-term interest rates started falling gradually, after the 10-year yield reached 1.73% when the U.S. employment statistics were released at the beginning of April. Following this trend, the Malaysian ringgit continued appreciating gradually. The number of Covid-19 cases continued to increase in Malaysia, and the situation worsened rapidly in India, fueling concerns over the supply of Covid-19 vaccines. Under such circumstances, the Malaysian ringgit still demonstrated its robustness, which can be a positive factor in predicting the market in the coming month.

In May, market participants should remain attentive of the trend in U.S. long-term interest rates. In April, U.S. interest rates continued falling, and the 10-year yield fell by more than 0.10% from the beginning of the month, reaching a level below 1.6%. However, it is unlikely for interest rates to fall further, as that would weaken upward pressure on the Malaysian ringgit.

Important domestic factors include the announcement of the policy interest rate by the central bank of Malaysia scheduled for May 6. It is expected that the existing interest rate would be maintained at 1.75%, as was the case with the previous announcement made on March 4. However, market participants should pay attention to the central bank statement to be released at the same time as that announcement. The latest CPI announced on March 23 recorded positive growth for the second consecutive month, and there was positive year-on-year growth of 1.7% in March. This is only slightly higher than the market estimate, which was +1.6% and below the inflation outlook, +2.5% to +4.5%, announced by the central bank of Malaysia in its annual report at the end of March. However, it is important to keep an eye out for how the rapid recovery in the first-quarter period is described in the statement.

In terms of domestic politics, parliamentary sessions have been virtually cancelled until August 1, as the country is under a state of emergency. However, various political parties have made propositions in preparation for the electoral campaign, such as that of the United Malays National Organization—the first ruling party of Malaysia—to suggest a resumption of parliamentary sessions under the state of emergency. The general election scheduled for the beginning of August could thus be moved up, which would fuel concern over Malaysian ringgit-selling based on domestic factors. However, given the current Covid-19 situation in Malaysia with an increasing number of cases, it is unlikely for the government to hold important events before summer.

For the above reasons, market participants are expected to buy the Malaysian ringgit and sell the U.S. dollar at a moderate rate in May, and therefore the U.S. dollar/Malaysian ringgit exchange market is likely to remain quiet for a short while, as the FOMC meeting ended peacefully on April 28 without any surprise.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – May 2021

Expected Ranges	**Against the US$: IDR 14,200–14,600**
	Against 100 rupiah: JPY 0.74–0.78
	Against the yen: IDR 128.21–135.14

1. Review of the Previous Month

In April, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating without moving in any direction.

On April 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,500 level. As was the case in the previous month, the Indonesian rupiah continued weakening, and the U.S. dollar/Indonesian rupiah exchange rate once reached the IDR 14,600 level. In the following week, the Indonesian rupiah remained weak at around the IDR 14,500 level on April 5 and beyond. Under such circumstances, the deputy governor of the central bank of Indonesia, Dody Budi Waluyo, made a remark to give warning against the depreciation of the Indonesian rupiah such that the rupiah was too weak against the U.S. dollar, without reflecting the fundamentals. In reaction, the Indonesian rupiah rallied while U.S. interest rates continued falling. As a result, the U.S. dollar/Indonesian rupiah exchange rate once fell below the IDR 14,500 level on April 7. However, the Indonesian rupiah started depreciating thereafter. On April 8 and 9, the Indonesian rupiah continued depreciating, and the U.S. dollar/Indonesian rupiah exchange rate almost reached the IDR 14,600 level again. The governor of the central bank of Indonesia, Perry Warjiyo, made a remark to insist that the exchange rate was stable, even though the Indonesian rupiah had depreciated following the rise of U.S. interest rates, confirming the cautious feeling in the market regarding the depreciation of the Indonesian rupiah. On April 12, the following day, the Indonesian rupiah continued depreciating gradually, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the lower-IDR 14,600 level. On April 15, the March trade balance of Indonesia was announced, revealing a remarkable surplus that exceeds USD 150 million. The trade surplus grew this much while both imports and exports recorded significant positive year-on-year growth at 25.73% and 30.47%, respectively. However, the Indonesian rupiah continued depreciating, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the mid-IDR 14,600 level—the lowest range in April. Yet, the deprecation of the Indonesian rupiah slowed down thereafter, as U.S. interest rates stayed in a correction phase. Toward April 16 at the end of the week, the Indonesian rupiah rallied against the U.S. dollar to the IDR 14,500 level. Then, on April 20 of the following week, the central bank of Indonesia held a monetary policy meeting to announce its decision to maintain the seven-day reverse repo rate—the major policy interest rate of the country—at 3.50%. As this outcome had been anticipated in the market, the impact on the exchange market was limited. There were few decisive factors in the market thereafter, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at the IDR 14,500 level. Toward the end of the month, demand to buy the U.S. dollar started increasing on April 26 in the following week, but the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at around the IDR 14,500 level. On April 28, however, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and its outcome led U.S. interest rates to fall, weakening the U.S. dollar. Consequently, the Indonesian rupiah strengthened against the U.S. dollar on April 29 (the following day), and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,400 level (as of the daytime of April 30).

2. Outlook for This Month

In May, the Indonesian rupiah is forecast to remain strong against the U.S. dollar.

In April, U.S. interest rates were in a correction phase, and the depreciation of the Indonesian rupiah, which had continued from the middle of February, slowed down for a while. Based on the outcome of the FOMC meeting held in the U.S. in April, U.S. interest rates are not likely to start rising again any time soon. Funds were flowing out from 10-year Indonesian government bonds. However, given the current situation with U.S. interest rates, security investment in Indonesia is likely to return. It can therefore be said that the Indonesian rupiah is not likely to depreciate further for a while.

It should also be mentioned that the trade balance of Indonesia revealed a significant trade surplus again in March. Imports recorded positive year-on-year growth in March, as was the case in February. This growth has become more significant in March than in February. At the same time, exports recovered significantly, which led to a trade surplus even with the recovery in imports. Thus, the trade surplus continues to reduce the current account deficit. The situation in Indonesia with the Covid-19 pandemic and Covid-19 vaccinations has not been seen as optimistic from a global perspective. The Indonesian rupiah is thus expected to continue strengthening based on the trade surplus with increasing exports resulting from the economic recovery of trade partners.

However, there are some sources of concerns as well. The recovery from the Covid-19 pandemic has been slower in emerging countries compared to developed countries. In particular, the current situation in India has been extremely severe, as has been reported in the media. As a result, the Indian rupee has been weakening. Indonesia could fall into the same situation in the times ahead, and such risks are relatively high. Market participants should thus continue carefully observing the headlines on the domestic situation as related to the Covid-19 pandemic. On the other hand, if the Covid-19 situation does not deteriorate any further, the trade surplus could be gradually reduced. It should be reminded that this means that a supporting factor for the Indonesian rupiah could start to weaken in the long run.

For the above reasons, the Indonesian rupiah is forecast to remain strong against the U.S. dollar in May.

Yoichi Hinoue, Manila Treasury Office, Asia & Oceania Treasury Department

Philippine Peso – May 2021

Expected Ranges	**Against the US$: PHP 47.50–48.85**
	Against the yen: JPY 2.23–2.30

1. Review of the Previous Month

After the Easter holiday, the U.S. dollar/Philippine peso exchange market opened trading on April 5 at PHP 48.55 at the same level as the closing rate in March.

Even though there was no negative reaction to the strengthened restrictions on movement in the Manila metropolitan area and four surrounding provinces, the U.S. dollar strengthened after the release of the U.S. employment statistics. As a result, the U.S. dollar/Philippine peso exchange rate once reached PHP 48.66 on April 8. This ended up being the monthly high.

Asian currencies occasionally weakened against the U.S. dollar, as concerns were growing over the Covid-19 situation in Asia. However, U.S. interest rates started to fall again while both the S&P 500 and Dow Jones Industrial Average renewed their all-time high, which fueled risk-taking sentiment in the market, also strengthening the Philippine peso.

Furthermore, there were some large-scale transactions to buy the Philippine peso based on actual demand, which led the U.S. dollar/Philippine peso pair to trade at PHP 48.27 on April 20.

Thereafter, the U.S. dollar/Philippine peso exchange rate continued fluctuating mainly within the range between PHP 48.35 and PHP 48.45 toward the end of the month. However, after the Federal Open Market Committee (FOMC) meeting and the press conference of FRB Chair Jerome Powell, the Philippine peso started appreciating against the U.S. dollar at the end of the month, as market participants expected the current policy of monetary easing in the U.S. to continue for a long time.

As of 10:00 a.m. on April 30, the U.S. dollar/Philippine peso pair was trading at the PHP 48.15 level—the highest rate for the Philippine peso since February 16.

2. Outlook for This Month

Major economic indices announced in April include the February overseas Filipino workers (OFWs) remittances, which reached USD 2.48 billion, recording positive year-on-year growth of 5.1%. However, there was a decline from the previous month, in which such remittances mounted to USD 2.6 billion.

The crude oil price (WTI) reached USD 65 level per barrel—the highest price in approximately 1.5 months.

The decline in OFW remittances weakens pressure in the market to sell the U.S. dollar, while the rise of the crude oil price encourages market participants to sell the Philippine peso, as this would increase imports.

The February trade balance revealed a deficit of USD 2.29 billion, larger than 2.17 billion, the estimated figure, although smaller than USD 2.87 billion—the previous month's result. Furthermore, the March Consumer Price Index turned out to be 4.5% year-on-year, revealing a slight slowdown both from 4.7%, the previous month's result, and from 4.9%, the market estimate.

This result encourages market participants to buy the Philippine peso, all by structurally weakening the pressure to buy the U.S. dollar while mitigating concerns over excessive inflation.

While U.S. stock prices are at an all-time high, the Philippine stock exchange index (PSEi) has been declining since the beginning of the year. On April 23, the PSEi renewed its lowest level for the year on a closing-rate basis for the first time in one month. Trading closed at 6,378.07 points, recording a decline of over 14% from 7,432.40 points—the highest level recorded at the beginning of the year.

In terms of the exchange rates between the U.S. dollar and the currencies of Southeast Asian countries, the Philippine peso weakened against the U.S. dollar by 0.8% since the beginning of the year.

Given that the Thai baht depreciated against the U.S. dollar by over 4%, the Indonesia rupiah by over 3%, and the Indian rupee and the Malaysian ringgit by over 2%, the Philippine peso is likely to remain weak in the times ahead.

On the other hand, the Asian currency index, which shows the strength of Asian currencies in the foreign exchange market in relation to the U.S. dollar, has declined by around 0.8% since the beginning of the year. This is around the same level as the decline of the Philippine peso. Thus, it cannot be said that the Philippine peso has been appreciating.

U.S. dollar interest rates used to be the key factor in the Philippine peso exchange market. However, market participants should start paying attention to the U.S. stock market in the times ahead. Based on the current trends, U.S. stock prices are likely to continue renewing their all-time highs, which would fuel risk-taking sentiment in the market, leading to the appreciation of the Philippine peso. However, the risk sentiment is not sufficient to encourage market participants to buy the Philippine peso, and there is no other decisive factor. If the trends in the U.S. stock market change, the Philippine peso could depreciate significantly, as it had not been sold much so far.

Junya Tagawa, India Treasury Office, Asia & Oceania Treasury Department

Indian Rupee – May 2021

Expected Ranges **Against the US$: INR 72.50–76.50**
Against the yen: JPY 1.43–1.51

1. Review of the Previous Month

In April, the U.S. dollar/Indian rupee exchange rate rose before a correction phase.

At the end of March, the U.S. dollar/Indian rupee exchange rate exceeded the INR 73 level following the rise of the 10-year U.S. bond yield. After holidays in India, from April 1 to 4, the U.S. dollar/Indian rupee exchange market opened trading at INR 73.36 on April 5. On Tuesday, the exchange rate reached INR 73.205, which ended up being the monthly low in April. As the number of Covid-19 cases started to increase, restrictive measures, such as curfew and a severe weekend lockdown, were introduced in the Indian state of Maharashtra, which is the location of the financial center of Mumbai, and this weakened the Indian rupee. Furthermore, foreign investors started to move their funds from Indian stocks, and this also led market participants to anticipate Indian rupee-selling. Thereafter, the central bank of India held a monetary policy meeting and announced a new bond purchasing program (G-SAP), which encouraged market participants to sell the Indian rupee.

In the second week of the month, the number of new Covid-19 cases and deaths increased even further. The U.S. dollar/Indian rupee exchange rate thus rapidly exceeded the INR 75 mark. On April 15, the exchange rate rose to the monthly high at INR 75.34 to the U.S. dollar. However, market participants saw market interventions (by selling the U.S. dollar and buying the Indian rupee) by the central bank at this level, which pushed the exchange rate temporarily back to the lower-INR 74 level. It should also be mentioned that two states, Maharashtra and Rajasthan, introduced a lockdown in the second week of the month.

In the third week of the month, Delhi also introduced a lockdown in the morning of Monday, as the number of Covid-19 cases continued increasing. At the same time, the U.S. dollar/Indian rupee exchange rate reached the INR 75 level again. Thereafter, the U.S. dollar index approached its lowest level in seven weeks, strengthening the overall Asian currencies. However, the Indian rupee underperformed. Even though the media reported that Covid-19 vaccination would be possible for everyone over 18 years of age in May, as market participants were aware of the lack of vaccines, there was little impact both on the foreign exchange market and the stock market. In the same week, the number of daily new Covid-19 cases reached 300,000. Also, the one-month offshore non-deliverable forward (NDF) approached INR 76, leading the U.S. dollar/Indian rupee exchange rate to approach the highest level observed on April 15. However, the exchange rate was pushed back down as a result of market interventions.

In the fourth week of the month, the media continued reporting on a lack of medical oxygen supply and on the collapse of the medical system in India. On the other hand, U.S. investment fund Blackstone announced its decision to acquire 26% of the stocks, worth USD 1.1 billion, of an Indian software company. Furthermore, the media reported that a major Indian food delivery company had submitted a draft proposal to regulatory authorities for an initial public offering at the maximum of INR 82.5 billion (USD 1.11 billion). Both cases encouraged market participants to buy the Indian rupee in anticipation of capital inflow from abroad. Trading closed at INR 74.36 against the U.S. dollar on April 29.

2. Outlook for This Month

The U.S. dollar/Indian rupee exchange rate is forecast to remain high in May.

As was discussed above, the second wave of the Covid-19 pandemic in India turned out to be so much worse than last year, causing a lockdown in two major cities: Delhi and Mumbai. Oxygen cylinders are traded at high prices on the black market, while the medical system has collapsed with a lack of hospital beds, and dead bodies are cremated in parks without having enough crematories. Major U.S. banks and major local banks all revised their GDP outlook downward for this fiscal year. Major ratings companies Fitch and S&P also expressed concern over the decline in the growth rate outlook, even though they have not downgraded the rating for India just yet. These are factors that strongly encourage market participants to sell the Indian rupee.

However, there are also some factors that encourage market participants to buy the Indian rupee. The first one is the central bank's market interventions. The central bank of India does not tolerate violent fluctuations in the foreign exchange market and carries out market interventions by selling the U.S. dollar and buying the Indian rupee (this type of market intervention is contrary to last year), in order to control market volatility. The central bank started intervening in the market when the U.S. dollar/Indian rupee exchange rate exceeded the INR 75 level and started actively selling the U.S. dollar at the INR 75.30 level in April. Having witnessed such market interventions, market participants have not so far been actively buying—they have only been buying the dips (buying only when the price is down)—without raising the exchange rate even further. The second factor is the capital flow related to the stock market. While concerns over an economic slowdown caused by the pandemic led to capital outflow, there have been rigorous IPOs and investment activities, and each time the media reports on these events, funds flow into India, encouraging market participants to sell the U.S. dollar and buy the Indian rupee.

In terms of external factors, it should be mentioned that the U.S. dollar index peaked out at the end of March and that the index has currently been dropping—which market participants should be aware of. As the U.S. dollar depreciates, the Asian currency index has started to rally, reaching the level observed at the end of February this year.

The U.S. dollar/Indian rupee exchange rate is forecast to rise in May. However, given the above factors, it is more likely for the exchange rate to remain high, rather than continue rising in May.

There are some risks in the Indian rupee/Japanese yen exchange market. As the U.S. dollar depreciates, the Japanese yen has been appreciating against the U.S. dollar. However, the Indian rupee has been depreciating against the U.S. dollar due to the situation of the Covid-19 pandemic. The combination of these two scenarios could lead to the substantial appreciation of the Japanese yen against the Indian rupee. For example, if the U.S. dollar/Japanese yen exchange rate is JPY 107.50 while the U.S. dollar/Indian rupee exchange rate is INR 75.00, the Indian rupee/Japanese yen exchange rate would be JPY 1.43. Given that the Indian rupee/Japanese yen exchange rate was JPY 1.516 at the end of March, market participants should remain careful about any extreme appreciation of the Japanese yen against the Indian rupee.