Mizuho Dealer's Eye

June 2021

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – June 2021

Expected Ranges **Against the yen: JPY108.00–112.00**

1. Review of the Previous Month

In May, the dollar/yen pair moved firmly in the first half of the month. It then moved with a heavy topside in the latter half of the month before rising sharply at the month's end.

April's trend of dollar buying spilled over into May, with the pair climbing to 109.69 yen on May 3, though it then fell to 108.90 yen on the weak result of the Manufacturing ISM Report on Business. With Japanese investors on vacation owing to the Golden Week holiday, the pair moved with a lack of direction around the lower-109 yen mark in the first week. As hopes grew ahead of the release of the US April employment data, the currency pair moved firmly, but when the data was announced on May 7, it revealed that nonfarm payrolls had only grown by 266,000, down sharply on expectations for a million new jobs. Market participants had thought the FOMC would begin discussions about tapering when it met in June, but this now seemed less likely, so US interest rates fell and the pair crashed to 108.34 yen.

The greenback was bought on real demand on May 10, a date when payments are often due so the pair rallied to 108.80 yen, though it moved with a heavy topside just before 109 yen. Amid growing concerns about US inflation, US and European stocks dipped and the cross yen fell, with the dollar/yen pair also weakening to 108.35 yen. The US April CPI data was released on May 12. At 0.8% m-o-m, the figure was up sharply on the 0.2% forecast. As US interest rates soared and US stocks were sold, the pair climbed to 109.70 yen. The US released some better-than-expected April PPI data on May 13, but as composure gradually returned to the markets, the currency pair edged down to the lower-109 yen level.

Amid a dearth of new factors in the third week, the pair moved with a lack of direction at the lower-109 yen level. On May 19, Bitcoin began sliding during Asian trading time and it then plummeted during US trading time. The yen was bought sharply as a result, so the dollar/yen pair plunged to 108.58 yen. The minutes to the FOMC meeting were then released and they revealed that some members had talked about beginning the discussion about tapering in the near future, so US interest rates rose and the greenback climbed across the board, with the dollar/yen pair also bouncing back to 109.20 yen.

The pair then moved with a lack of direction around 109 yen in the fourth week. It then rose to 109.20 yen at the month's end as investors unwound their dollar short positions. During US trading time on May 27, President Joe Biden announced plans to boost spending in the next fiscal year. US stocks and interest rates subsequently rose, with the currency pair strengthening to 109.92 yen. The greenback was then bought on the end-of-month flow, with the pair climbing to 110.20 yen on May 28.

2. Outlook for This Month

The dollar/yen pair will continue to move firmly in June.

In the mid- to long-term, the pair will be swayed by vaccination rates, but with the roll-out proceeding steadily under the Biden administration, economic activity is gradually starting to resume. The US is nearer to a normalization of economic activity than any other developed nation. In this sense, it is probably closer to an exit from monetary easing too. The US May employment data will be released on June 4. Last month's data was a lot weaker than expected, but the greenback then sold as expectations for tethering waned. However, if the data bounces back strongly this month, this will re-ignite speculation about the commencement of tapering discussions in the near future, with the dollar/yen pair then likely to be supported by rising US interest rates.

The FOMC will also be meeting on June 17. The debate about tapering is unlikely to begin this month, but if some hints do emerge, US interest rates will probably face upwards pressure from mid-June onwards.

However, the greenback will face considerable selling demand when the pair hits 110 yen. Transportation equipment manufacturers and so on are likely to place intermittent selling orders from this level onwards. Institutional speculations will also grow more interested in selling the greenback when the pair climbs above 110 yen. The pair looks set to move at a sluggish pace as these offers are processed, though the trend of yen bearishness looks set to continue. The near-term target will probably by 110.97 yen, the pair's recent high from March 31.

Dealers' Market Forecast

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

Bullish on the dollar	18 bulls	112.00 – 108.00	Bearish on the dollar	3 bears	110.50 – 107.50

* Ranges are central values

Tanaka	Bull	112.00 – 108.00	There are concerns about US inflation and speculation about the commencement of the tapering debate, but the FRB looks set to continue easing in order to help the economic recovery and beat deflation. The dollar/yen pair will probably remain firm on risk appetite and the difference in Covid-19 vaccine roll-out rates.
Takeuchi	Bull	111.50 – 108.00	The tapering debate might start at an earlier date given the bullishness of US indicators and rising inflationary expectations. The greenback will remain bearish on the whole, but it will move firmly against the yen on deep-rooted concerns about the economic impact of the extended state of emergency.
Tsutsui	Bull	112.00 – 108.50	Improvements in the Covid-19 situation are starting to appear in US economic indicators, so investors are watching to see if tapering begins earlier than expected. Unless the bifurcated employment situation improves, purchases are unlikely to be curtailed sharply, so the dollar/yen pair will probably move firmly as stocks rise slightly and bonds fall.
Kato	Bull	113.00 – 108.00	The round of adjustment has ended and money is starting to flow back into risk assets. With the dollar and yen both being sold, the dollar/yen pair is unlikely to make any sharp moves. However, the US is in the lead when it comes to preparing for the post-pandemic world.
Yamagishi	Bull	112.00 – 108.00	When the US monetary normalization eight years ago, rising interest rates saw the dollar/yen pair rising by around 10 yen from its low in June 2013 to the commencement of tapering in January 2014. The dollar will move firmly on swelling expectations, but policy will remain prudent given the laggardly US employment recovery, so the pair is unlikely to undergo a sharp rise.
Ushijima	Bull	112.00 – 108.00	The dollar will probably strengthen, though a lot will depend on the employment data released on June 4. Japan is lagging behind the US when it comes to vaccine roll-out rates, with the US also likely to take the lead from here on when it comes to normalizing economic activity and tapering easing policies, so the dollar/yen pair will rise.
Tasaka	Bull	112.00 – 108.50	The US is number one when it comes to vaccinations, but Japan is lagging sharply behind other developed nations and the rest of the world in general. This situation will make it hard for investors to buy the yen. The dollar/yen pair is unlikely to fall for any reason apart from position adjustments, so it will probably move firmly on the whole.
Omi	Bear	110.50 – 107.50	The trend of dollar selling looks set to continue. This is 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 against the yen on risk aversion related to rising US long-term interest rates and falling stocks, for example.
Ueno	Bear	110.50 – 107.00	There is a positive correlation between vaccination and the strength or weakness of individual currencies. It seems Japan will finally start its vaccination program in earnest, so the trend of dollar/yen pair bullishness will probably see some unwinding in June.
Yamaguchi	Bull	111.00 – 108.00	Speculation about FRB tapering is growing on bullish employment data, so the dollar looks set to continue climbing on rising US interest rates. Despite an ongoing pick-up in inflation, it will take time for the markets to factor in rate hikes, to the dollar/yen pair's room on the topside will be capped.
Kai	Bull	111.00 – 108.00	Though the dollar is moving bearishly, the situation will remain unconducive to yen bullishness. However, the greenback will only start rising again if expectations grow for an earlier commencement of tapering. It will take several months of improved indicators for this to happen, though, with expectations unlikely to swell sufficiently in June.
Onozaki	Bear	111.00 – 107.50	The dollar will move firmly on growing expectations for tapering ahead of the FOMC meeting mid-June. However, the greenback us unlikely to undergo a one-sided rise like in March, so its climb against the yen will be capped and the dollar/yen pair is not expected to renew highs for the year. If the FOMC adopts a cautious stance towards tapering, the pair might even fall if expectations for tapering wane.

Tamai	Bull	111.50 – 108.00	Speculation about tapering is growing on rising inflationary expectation in the US. More FRB officials have dropped hints about tapering, so the dollar/yen pair will probably undergo a gentle climb on rising US interest rates.
Harada	Bull	111.50 – 107.50	The US has introduced a huge fiscal package. Its vaccination program is also more advanced compared to other countries, while employment indicators are improving. With US stock markets also moving firmly and the economy recovering, the dollar/yen pair is likely to by pulled higher too.
Oba	Bull	112.00 – 108.50	The dollar/yen pair will be swayed by US economic indicators at the start of June. As vaccines are rolled out, economic trends are likely to remain bullish on the whole, so the pair looks set to move firmly. However, the pair will face considerable selling pressure from 110–111 yen, with momentum needed to push the pair beyond this level.
Katoono	Bull	112.00 – 108.00	Vaccinations are being rolled out across the US, while the government has announced large-scale spending on infrastructure investment and economic stimulus. As a result, the US economy is recovering at a faster pace than expected. Though a lot depends on how well the jobs market improves, the dollar/yen pair will probably be supported by expectations for a normalization of monetary policy.
Kobayashi	Bull	111.50 – 108.00	President Joe Biden has announced a spending plan of more than $6 trillion. Economic activity is also re-opening in the US on the roll-out of vaccines, while published economic indicators continue to move firmly. As this shows, there are many dollar-buying factors, so the dollar/yen pair looks set to continue moving firmly.
Henmi	Bull	112.00 – 108.50	The state of emergency has been extended in Japan. Yen-selling factors will ease as Japan begins its expansive vaccination program, but there are deep-rooted expectations for US economic normalization, so the dollar/yen pair looks set to move firmly.
Otani	Bull	111.50 – 108.00	The phase of risk-asset adjustment has concluded, with dollar and yen selling likely to continue from here on. The yen will face more selling pressure given the differing situations in the two countries when it comes to vaccinations and the resumption of economic activity, so the dollar/yen pair will move comparatively firmly.
Suzuki	Bull	112.00 – 108.50	The US economy is improving on the vaccination roll-out and economic stimulus. Economic activity in NY and elsewhere is gradually returning to pre-pandemic levels. If it seems the economy is going to recovery even further, funds are likely to continue flowing into the dollar.
Okuma	Bull	111.00 – 108.00	The FRB has indicated it will continue to ease, but there are deep-rooted concerns about inflation on the bullishness of the US economy, with expectations for tapering growing. Japan is facing an economic recession on the extended state of emergency, with the dollar/yen pair also set to move firmly on widening interest-rate differentials.

Motoko Kobayashi, Forex Sales, Global Markets Sales Department

Euro – June 2021

Expected Ranges **Against the US$: US$1.2000–1.2400**
Against the yen: JPY130.50–135.50

1. Review of the Previous Month

The euro/dollar pair moved firmly in May.

After opening the month trading at the mid-$1.20 mark on May 3, it then rose to $1.2076 for a time after the greenback was sold on some bearish US economic indicators. However, the dollar was bought back on May 4 after US treasury secretary Janet Yellen dropped hints about early taping, so the pair moved with a heavy topside. This dollar-buying trend spilled over into May 5, with the pair temporarily hitting a monthly low of $1.1986. On May 7, Latvia's central bank governor Martins Kazaks said the ECB might decide to slow the pace of its bond purchases when it met in June. As expectations for ECB tapering grew, US interest rates also fell and the dollar was sold on the bearish result of the US employment data, so the euro/dollar pair shot up to $1.2172.

The pair opened the week beginning May 10 at the mid-$1.21 level. Germany then released a better-than-expected May ZEW Indicator of Economic Sentiment on May 11. As hopes grew for a post-lockdown economic recovery, the pair temporarily hit a weekly high of $1.2181. US interest rates rose at a faster pace on May 12 on the firm results of some US indicators, so the pair weakened. This trend continued on May 13. With trading thin due to holidays in several European countries, the pair dipped to a weekly low of $1.2052. The greenback was sold on May 14 on the release of some bearish US economic indicators, so the euro/dollar pair moved firmly. It climbed to $1.2147 before closing the week at the mid-$1.21 level.

The pair opened the week beginning May 17 trading at the mid-$1.21 mark. As the dollar continued to be sold on falling US interest rates, the pair climbed to the $1.22 range on May 18. However, the greenback was bought back on the release of the minutes to the FOMC meeting, so the pair tumbled to the mid-$1.21 level. After a round of selling, the pair edged up to move firmly at highs. On May 21, though, the euro was sold and the pair plummeted to $1.2185 after ECB president Christine Lagarde said the ECB was "closely monitoring" rising bond yields. After a round of selling, the pair returned to $1.2210. However, the dollar was then bought on the strong results of some US economic indicators. With the markets also focusing on Christine Lagarde's comments again, the pair closed the week moving at the upper-$1.21 level.

The pair opened the week beginning May 24 trading around $1.2180. It then rallied to $1.22 as the greenback was sold on falling US interest rates. Germany released a better-than-expected May IFO Business Climate Index on May 25, so the currency pair temporarily hit a monthly high of $1.2266. The pair then moved flatly over May 26, though the dollar was bought toward the London Fix, so the pair broke below $1.22. It continued to move bearishly to dip below $1.2133 for a time on May 28. As end-of-month dollar buying eased, though, the pair bounced back to close the week at $1.2193. The pair was moving in the upper-$1.21 range as of May 31.

2. Outlook for This Month

In June, the euro/dollar pair looks set to move flatly on headlines related to early tapering by the ECB and FRB.

Speculation about early taping flared toward the end of May on expectations for economic normalization in Europe, with the euro also bought on falling US interest rates. With the euro moving bullishly against other currencies, the euro/dollar pair temporarily hit a high for the year. Investors will continue to monitor trends related to early tapering by the ECB and FRB in June too.

When it met in April, the ECB Governing Council kept policy rates fixed and it decided to extend its Pandemic Emergency Purchase Programme (PEPP) until the end of March 2022. ECB president Christine Lagarde said it was too early to discuss a phased scale-back of the PEPP, thus indicating that the matter had not been discussed. In a speech on May 18, Lagarde also said it was "essential that monetary and fiscal support are not withdrawn too soon," adding that the ECB would stick to its mission of supporting Europe's economy. However, normality is returning to the economy on the roll-out of Covid-19 vaccines. At 62.9, the eurozone's Manufacturing PMI for April hit a record high, for example, with the Services PMI topping 50 for the first time in eight months to hit 50.5 on brisk activity when it came to services aimed at businesses. The eurozone's Harmonised Index of Consumer Prices (HICP) also swung higher in April. Inflation was pushed up by the rising prices of crude oil, gas and other energy sources, but core inflation grew at a slower pace compared to the previous month. As such, it is hard to imagine the ECB tapering on the inflation situation right now. With the PEPP set to finish at the end of March 2022, the markets will probably hear a number of opinions related to the issue of scaling back bond purchases. The newest economic outlook will be released in June. If this leads to higher expectations for early ECB tapering, investors will probably react by buying the euro.

The US released a number of bullish economic indicators in May, so rumors are circulating about early FRB tapering. This will probably prompt euro selling and dollar buying. Furthermore, though Covid-19 vaccination programs are proceeding apace, restrictions might be tightened again if new Covid-19 variants emerge. If risk aversion rises, the euro will be sold, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the euro	11 bulls	1.2350 – 1.2050	Bearish on the euro	10 bears	1.2350 – 1.2000

* Ranges are central values

Tanaka	Bull	1.2400 – 1.2000	The FRB remains in easing mode as it seeks to boost the jobs recovery and fight deflation in the US. On the other hand, the ECB is reviewing the PEPP, despite the comparatively sluggish economic recovery in Europe. Investors will continue to sell the dollar while monitoring the movements of the RMB, so the euro/dollar pair looks set to move firmly.
Takeuchi	Bull	1.2350 – 1.2050	Though monetary policy and economic indicators are unlikely to shift substantially, dollar bearishness looks set to continue overall. The euro/dollar pair will also be pushed up by euro buying on supply and demand (such as firm European stock movements), with the euro moving particularly firmly against the yen on the comparative strengths and weaknesses of the two units.
Tsutsui	Bull	1.2500 – 1.2050	The markets have begun to excessively factor in tapering on a review of the PEPP. Interest rates will rise as bond market movements become even more influential, but stocks and other assets are moving firmly. Once existing supply and demand factors are also factored in, it seems the euro will probably be pushed higher by a bullish cross yen.
Kato	Bear	1.2350 – 1.1950	Speculative positions are inclined slightly in a euro-long direction. Under these circumstances, it is hard to imagine these positions being adjusted if tethering looms into view.
Yamagishi	Bear	1.2300 – 1.2000	The euro/dollar pair's downside will be supported by anticipation for a resumption of economic activity in Europe. However, though several FRB officials have dropped hints about tethering, ECB officials have poured water on such a move ahead of the ECB Governing Council meeting on June 10. This divergence between European and US monetary policy will probably lead to a lull in euro bullishness.
Ushijima	Bear	1.2300 – 1.1900	As stocks rise, the situation will remain conducive to a build-up of dollar shorts, but with FRB officials dropping comments about the commencement of tapering discussions, the dollar will be brought back steadily.
Tasaka	Bear	1.2300 – 1.2000	Though Europe is lagging behind the US when it comes to vaccinations, each European nation is now implementing vaccine programs in earnest. The euro will be supported by expectations for a European economic recovery, but there is an undeniable sense that Europe has fallen behind the US, so the euro/dollar pair's room on the topside will be capped.
Omi	Bull	1.2400 – 1.2000	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 officials have mentioned there is still room for rate cuts, though this seems unlikely right now.
Ueno	Bull	1.2400 – 1.2100	Europe has lagged behind the US, but vaccination rates are now rising across the continent. The euro will be comparatively easier to buy this month. With risk sentiments also growing relatively more composed, a tipping point seems unlikely. This situation will also support the euro´s movements.
Yamaguchi	Bull	1.2350 – 1.2050	The European economy will continue to recover on a resumption of economic activity in the eurozone. The euro will also be bought on real demand as exports from the eurozone increase on the global economic recovery. As such, the euro/dollar pair looks set to move firmly.
Kai	Bull	1.2300 – 1.2000	Hopes are steadily growing for a eurozone economic recovery. Expectations could continue to support the euro in tandem with factors like the PEPP review. It will take some time before dollar-buying momentum picks up, with the euro set to remain attractive for a little while longer yet.
Onozaki	Bull	1.2400 – 1.2000	Europe has lagged behind the US when it comes to its Covid-19 response, but vaccination programs are now underway, with expectations growing for a resumption of economic activity in the eurozone. If a debate begins about tapering the PEPP and other programs, the euro/dollar pair might rise higher.
Tamai	Bear	1.2300 – 1.2000	Vaccines are being rolled out across Europe, but FRB officials have also started to talk about tapering. If the ECB intervenes verbally to curb rising interest rates, the euro/dollar pair will probably trade with a heavy topside on the monetary policy divergence.

Harada	Bear	1.2350 – 1.2000	Though vaccines are being rolled out at a fast pace 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 alternatives will also wane going forward.
Oba	Bear	1.2350 – 1.2000	The euro/dollar pair has risen since April, but this trend will probably ease off in June when the pair hits 2020 highs. The US is ahead of Europe when it comes to a vaccine-led economic recovery, so the currency pair will probably dip back as investors unwind their positions.
Katoono	Bull	1.2350 – 1.2100	The eurozone is lagging slightly behind the US when it comes to the pace of the economic recovery. However, investors have yet to fully price in a European recovery, so if speculation about ECB tapering flares up again, the euro will probably have more room to rise than the dollar. The euro/dollar pair could hit $1.23 for the first time in around five months.
Kobayashi	Bear	1.2400 – 1.2000	The euro rose in May for the first time this year. This was due to speculation about early ECB tethering, for example. However, the actual situation is still too fraught for the ECB to begin scaling back its easing measures. With Europe also lagging behind the US when it comes to the pace of the economic recovery, it seems the euro/dollar pair will move bearishly this month.
Henmi	Bear	1.2350 – 1.2100	The euro/dollar pair has moved bullishly since April, but its topside will grow heavier when it hits 2021 highs (around the lower-$1.23 mark). Vaccines are being steadily rolled out, but Europe is still lagging behind the US, so the currency pair will probably lack the momentum to hit new highs.
Otani	Bull	1.2350 – 1.2100	With the phase of risk-asset adjustment easing off, dollar selling looks set to continue, so the euro/dollar pair will probably move firmly. However, ECB president Christine Lagarde and other ECB officials have expressed negative opinions about PEPP tapering, so the pair's topside will probably be capped.
Suzuki	Bear	1.2300 – 1.2000	Europe is lagging behind the US when it comes to an economic recovery. The minutes to last month's ECB Governing Council meeting revealed how several members were concerned about the euro's strength. The euro/dollar pair's topside will also be held down by dollar bullishness on renewed expectations for tapering.
Okuma	Bull	1.2350 – 1.2100	Vaccine roll-outs are proceeding steadily in Europe. Europe has lagged behind the US when it comes to an economic recovery, but the pace of the eurozone recovery looks set to pick up from here on. With yield differentials on US and German 10-year bonds also shrinking, the euro/dollar pair is likely to continue moving firmly in June.

Hidetoshi Honda, Europe Treasury Department

British Pound – June 2021

Expected Ranges	**Against the US$: US$1.4000–1.4550**
	Against the yen: JPY153.50–159.50

1. Review of the Previous Month

The pound strengthened in May. It moved firmly on the whole against the dollar and yen, with its level edging up intermittently against these two currencies. However, it only rose slightly against the euro. Though it climbed against the single currency at the start of the month, it then moved bearishly until May 27. These movements suggest sterling's movements up until May 27 were driven solely by dollar and yen bearishness rather than any factor's on the pound's side.

The Bank of England's (BOE) Monetary Policy Committee (MPC) left the base rate and the ceiling of its asset purchasing program unchanged when it met on May 6, though it did agree to phase down the pace of its purchases of gilts and other assets. The UK's monthly GDP data for March (released May 12) also significantly outperformed expectations. These were probably read as pound-buying factors, though sterling's reaction was muted.

The pound strengthened across the board on May 10, though there were no clear factors behind this move. However, it seemed sterling was pulled higher when the pound/yen pair renewed its recent high of 153.41 yen (last achieved on April 6). Looking back at these movements, it seems the pound's comprehensive bullishness may have been related to currency option trades or pound-buying orders for loss cutting.

Other potential factors behind the pound's movements include dollar bearishness and dollar bullishness on the US side. The US released some sluggish April employment data on May 7, with the nonfarm payrolls figure substantially down on expectations, for example, with the greenback then falling across the board. The US CPI data for April was then released on May 12, with CPI growth up on already-bullish forecasts, with the dollar than rallying across the board on this news. Sterling also rose and fell against the greenback during this time.

The pound's bullishness against the dollar around May 17 was also probably down to dollar bearishness after several FRB officials (including Cleveland FRB President Loretta J. Mester on May 14, Atlanta FRB President Raphael Bostic on May 17 and FRB Vice Chair Richard Clarida on May 17) said it was too early to shift the direction of FRB monetary policy (=winding down easing/tightening).

From May 27 to the month's end the pound suddenly rose across the board. The markets focused on comments by BOE MPC member Gertjan Vlieghe to the effect that if the labor market improved steadily, interest rates could be lifted early in 2022, provided certain conditions were met. However, it seems these movements were driven less by the pound's strength than by the yen's weakness. Indeed, though sterling also rose against the dollar and euro, it lacked the momentum to break out of its trading range against these two currencies. In contrast, the pound/yen pair broke sharply through its trading range to hit its highest level since February 2018.

2. Outlook for This Month

The pound will continue rising in June.

At the moment, it seems the currency markets are not paying much attention to anything apart from the monetary policy movements of each central bank. The UK's successful Covid-19 vaccine roll-out has probably contributed to sterling's firmness these past few months. However, investors were unfazed by concerns about the spread of an Indian variant across northern England mid-May. This suggests the currency markets are not actually focused much on the emergence from the pandemic. Furthermore, Dominic Cummings, former special advisor to Prime Minister Boris Johnson, made some explosive comments towards the month's end. He said the health secretary Matt Hancock had lied on several occasions and that Boris Johnson was not fit for office, for example. This became a huge talking point among the general public. However, these criticisms by a figure who once sat at the heart of Downing Street failed to damage the government or threaten the pound's stability.

If the currency markets are focused on monetary policy trends, then the recent movements of the Canadian dollar might provide some hints about the pound's future direction. On April 21, the Bank of Canada decided to scale back its monetary easing program and it also rolled forward its target for commencing rate hikes to 2022. As a result, the Canadian dollar rose against the greenback and so on for three straight weeks thereafter. In the same way, rather than ending soon, it seems more likely that the pound's firmness will continue for a few more weeks at least. The pound/yen pair has already hit a 39-month high, but with the pound/dollar pair also heading towards recent highs (February 24's $1.4240 or April 2018's $1.4377) as of May 28, it seems sterling could also be pushed up by attempts on these levels.

From another perspective, it is worth remembering that the pound's recent strength is due in large part to dollar and yen bearishness. Japan has been labelled a 'vaccine loser,' with the situation unlikely to improve whether Japan cancels or pushes ahead with the Olympics, so the yen is unlikely to stage a rally. However, given that the dollar suddenly moved in a bearish direction solely on the results of the US April employment data, it may suddenly shift in a bullish direction solely on the results of the US May employment data. In particular, the US weekly new applications for unemployment insurance hit its lowest levels since the Covid-19 pandemic began (in March 2020) for three straight weeks last month (four weeks if we count the last week in April). Some market participants might already be pricing in an uptick in the employment data. The pound is expected to continue rising overall, but there seem to be several factors that could easily see sterling adjusted lower. This could occur if a dollar rally prevents the pound/dollar pair from breaking above recent highs (the aforementioned $1.4377 level), for example. Other potential bearish factors include the spread of the Indian variant of Covid-19 (with the scrapping of restrictions on movement subsequently pushed back from June 21), uncertainty about the UK political situation, discord between the UK and France over fishing rights, and the possibility that the UK might be given the cold shoulder when the EU introduces its vaccine passport in the near future.

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

Australian Dollar – June 2021

Expected Ranges **Against the US$: US$0.7600–0.7900**
Against the yen: JPY82.30–86.00

1. Review of the Previous Month

AUD/USD pair rose from $0.77 to just below $0.79 in the second week of May. Apart from this, it essentially jostled up and down around $0.77 for most of the month.

In the first week, the RBA kept its cash rate unchanged at 0.1% on May 4. They also revised up its growth outlook and they decided not to extend its funding support for financial institutions. These supported the Australian dollar, though AUD buying ceased after the RBA confirmed it would keep its bond-purchasing program in place for a prolonged period. The pair then fell to $0.7675 on falling US stocks and rising US interest rates. It rose slightly on May 6 on the release of a strong Australian March business confidence indicator, though it subsequently dipped to $0.7701 on reports that China's National Development and Reform Commission had indefinitely suspended a strategic economic dialogue with Australia. With US interest rates moving heavily, though, the US dollar grew bearish and the currency pair rallied to around $0.7780. The greenback was sold and the pair temporarily rocketed to $0.7863 on May 7 after the US April employment data fell sharply below expectations.

The second week saw the release of the Australian government's budget proposal for fiscal 2021/22 on May 11. The budget contained large income tax cuts and various measures aimed at supporting employment in the areas of tourism and dining out, two sectors hit by labor shortages due to border closures. The Australian dollar moved heavily on May 12 after a regional Australian bank said a simple reading of the budget for the new fiscal year would suggest Australia was in danger of losing its AAA credit rating. The US then released some stronger-than-expected April CPI data, with the greenback subsequently bought on growing concerns about inflation. As a result, the currency pair dipped from $0.7809 to the lower-$0.77 level. FRB Vice Chair Richard Clarida then said the inflation pick-up was merely due to transitory factors, but the yield on 10-year US treasuries continued to move at 1.69%. The impact of the firm CPI data spilled over into May 13. With market participants speculating about whether the FRB would shift its cautious stance, US interest rates moved from 1.66% to 1.70% throughout the day. The Australian dollar moved heavily as the greenback was bought. The US released a bearish April retail sales figure and the University of Michigan Consumer Sentiment Index on May 14, so the greenback was sold and the AUD/USD pair rose. The AUD/JPY pair also hit the 85 yen range at this time.

The pair rose to just below $0.78 in the third week on speculation about tapering discussions in the run up to the release of the minutes to the RBA board meeting. However, the FOMC minutes were then released and they revealed that some members had talked about reducing the pace of asset purchases. This surprise saw the pair dipping to $0.7710. The pair climbed to the upper-$0.77 level toward the weekend on rising crude oil prices and the bullish results of Australia's employment data, though it then fell back to the lower-$0.77 level.

As expected, the Reserve Bank of New Zealand (RBNZ) kept its policy rate fixed at 0.25% and the scale of its asset purchases unchanged when it met in the fourth week. However, it did predict that rates would be hiked in the second half of 2022. The New Zealand dollar rose sharply on this surprise, with the Australian dollar also pulled up to just below \$0.78 against the greenback. The pair then fell on end-of-month adjustments and dollar short covering. It then tumbled further to hit \$0.7678 on a lockdown in the state of Victoria and a bullish US core PCE deflator.

2. Outlook for This Month

In June, the AUD/USD pair will be supported by improved Australian fundamentals and the RBNZ's monetary policy outlook. However, it will be swayed by temporary iron ore price movements and rising US long-term interest rates. As such, it will probably move around a range from the upper-\$0.76 mark to the lower-0.78 level. The pair's movements will also reflect market expectations in the run up to RBA's board meeting in July.

The number of people in work fell by 30,600 in Australia's April employment data, but this was due to part-time jobs dipping by -64,400, with full-time jobs actually moving firmly at +33,800. Furthermore, though the labor participation rate fell from 66.3% to 66.0%, the unemployment rate improved, even though the wage support program had been wound down in March. The Australian government and the RBA have both insisted that full employment is the number one priority for monetary policy, with the government supporting employment through fiscal measures as it seeks to bring the unemployment rate below 5%.

Furthermore, after it met last month, the RBNZ announced it expected rates to be hiked from the second half of 2022. Also, when the NZ federal budget (for the period from July 2021 to June 2022) was announced, NZ finance minister Grant Robertson said the labor market outlook had improved and economic activity was moving strongly, with the long-term impact of Covid-19 likely to be less severe than originally thought. If NZ's fundamentals remain strong, this will continue to support the Australian dollar's movements too.

However, the US has posted upswings in the CPI data and the PCE deflator, for instance, so market inflationary expectations will be prone to volatility. The minutes to the FOMC meeting (released last month) revealed that members believed the inflation upswing was transitory, with the FRB remaining cautious. Nonetheless, some FOMC members are predicting that subsequent meetings will start discussing moves to taper the pace of the FRB's asset purchases. If some indicators emerge that would indeed justify the commencement of these talks at the June meeting, this will push US interest rates higher, with the AUD/USD pair moving with a heavy topside as a result.

Furthermore, iron ore and other commodity futures have hit record highs in China, so commodity exchanges in Dalian and elsewhere are implementing trading restrictions while also raising margins requirements and introducing other measures to restrain soaring commodity prices. It seems China is creating its own inflationary concerns by restricting imports from Australia and so on, with Beijing facing a policy dilemma. Despite this, last month saw the Chinese authorities ordering at least two major state-run importers to avoid any new imports of Australian LNG. If Beijing announces further restrictions on Australian imports, the Australian dollar could lose momentum, so investors should continue to monitor Chinese comments related to controlling commodity prices.

When the RBA's board meets on July 6, it will discuss whether to extend its three-year yield target from April 2024 to November 2024. This decision will help to gauge when the RBA will start hiking rates again, so the markets will probably move skittishly towards the month's end.

Reiko Kanemoto, Canada Office, Americas Treasury Department

Canadian Dollar – June 2021

Expected Ranges **Against the US$: C$1.1900–1.2500**
Against the yen: JPY87.50–92.00

1. Review of the Previous Month

The USD/CAD pair opened May trading at C$1.2287. It hit a monthly low of C$1.2013 on May 18 and a monthly high of C$1.2351 on May 4. The pair fell from C$1.23 to C$1.21 at the start of the month as US long-term interest rates fell and crude oil (WTI) and other commodity prices rose. It then rallied to around C$1.22 in mid-May as US long-term interest rates temporarily hit 1.70% on the strong results of the US April CPI data. As composure returned to interest rates, the pair then tumbled to the lower-C$1.20 mark. Commodity prices rose again in the latter half of the month, so the Canadian dollar was bought and the pair moved in a range between C$1.20 and C$1.21.

The US and Canadian employment data was released on May 7, with both sets of data falling below expectations. In April, the number of people in work in Canada had dipped by 207,000 (forecast: -150,000) due to restrictions on going out on a third wave of Covid-19 infections, with the unemployment rate also worsening from 7.5% to 8.1%. The US April nonfarm payrolls data fell sharply below expectations, with the previous month's data also revised downwards, so US long-term interest rates fell to 1.53% on expectations that easing would be pursed for a prolonged period. The greenback was sold against the other major currencies, with the USD/CAD pair moving around C$1.21.

The US April CPI data jumped sharply above expectations on its release on May 12, so inflationary expectations grew and US long-term interest rates soared to around 1.70%. On May 13, Bank of Canada (BOC) governor Tiff Macklem said Canadian exports and the broader economy would be hit if the Canadian dollar appreciated further. He also hinted that this might influence future monetary policy decisions. As a result, the Canadian dollar was sold for a time, with the USD/CAD pair climbing to C$1.22. With US long-term interest rates falling and WTI rising, though, the pair edged down to C$1.20 from May 14.

During Asian trading time on May 19, investors focused on the possibility that Iran might start supplying crude oil to the markets again. This saw WTI prices plummeting to $62/barrel, with the USD/CAD pair subsequently rallying to C$1.21. Canada's April CPI data was also released on May 19. At +0.5% m-o-m and +3.4% y-o-y, the data beat expectations on a monthly and yearly basis. The minutes to the April FOMC meeting were also released in the afternoon of the same day. They revealed that members had discussed the necessity of tapering depending on the state of the economic recovery going forward. US long-term interest rates subsequently rose, with the greenback bought. The US released some bearish economic indicators from May 20, so US long-term interest rates fell. With crude oil demand also recovering and expectations for an early resumption of Iranian exports also fading, WTI prices rose again to hit $64–66/barrel. The USD/CAD pair was trading around C$1.20–C$1.21 as of May 26.

2. Outlook for This Month

The USD/CAD pair is expected to move in a range from C$1.19–1.25 in June. The Bank of Canada (BOC) will be meeting to set policy on June 9, with the FOMC also set to meet on June 16.

Restrictions on economic activity remained in place in Ontario and other Canadian regions in May, but with the vaccine roll-out proceeding steadily, restrictions will probably be lifted in stages from June onwards. The number of people receiving at least once vaccine shot had risen to 52.28% as of May 25. Canada's 2Q 2021 GDP data is expected to fall, but a sharp recovery is expected in the third quarter as mass vaccinations bring the Covid-19 situation under control. The number of people in employment and the unemployment rate will improve from June onwards on a resumption of economic activity.

When the BOC meets to set policy in June, it will probably keep policy rates fixed, with monetary policy also kept broadly unchanged. Canada's April CPI data (released in May) revealed that core CPI had hit +2.1%, above the BOC's inflation target of 2.0%, though this was probably due to transitory factors such as soaring gasoline prices. The inflation rate will probably move stably at 2% from 2022, when economic activity has resumed and the jobs situation has improved. The markets are still expecting quantitative easing (QE) to be wound down in the first half of 2022, with rate hikes commencing from the latter half of 2022.

Investors have more-or-less priced in a recovery in crude oil demand as the Covid-19 crisis is brought under control, so crude oil prices will probably move heavily on the topside. If Iran starts exporting crude oil again, crude oil prices may well fall. These prices will probably swing higher and lower on headlines related to Covid-19 or crude oil inventories and supply structures, with WTI moving between $55 to $65/barrel.

From here on, the foreign exchange markets will also be impacted substantially by expectations about the timing of tapering and rate hikes in Canada, the US and other major countries. Attention will focus on FRB comments about tapering in June. However, Canada has already begun a phased tapering of its QE program. With vaccines also being rolled out, the Canadian economy looks set to recover steadily from here on. As such, the USD/CAD pair could dip below C$1.20 in June, with the pair expected to move in a range between C$1.19–C$1.25.

The CAD/JPY yen pair will probably trade in a range between 87.5–92 yen. Canadian long-term interest rates have declined slightly from peak, but they remain higher than Japanese long-term rates, so the CAD/JPY pair looks set to remain bullish.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – June 2021

Expected Ranges	**Against the US$: KRW 1,090–1,130**
	Against the yen: JPY 9.709–10.101 (KRW100)
	(KRW 9.900–10.300)

1. Review of the Previous Month

The USD/KRW pair swung up and down in May.

The greenback was bought after the Dallas FRB governor said during overseas trading time on April 30 that the FRB should begin the discussion about tapering. As a result, the USD/KRW pair opened May trading at KRW1116.5 on May 3. Investors then focused on the removal of short-selling restrictions on major stocks in South Korea's stock markets. As overseas investors sold South Korean stocks, the currency pair climbed to KRW1124.0. US treasury secretary Janet Yellen then mentioned rate hikes during overseas trading time on May 4, so the greenback saw more buying. When the markets came back from a holiday on May 6, the pair climbed to KRW1126.7 for a time after China indefinitely suspended a strategic economic dialogue with Australia, but the greenback was then sold on May 10 on some bearish US employment data, so the pair fell to a monthly low of KRW1113.1. However, technology stocks and other Asian equities fell across the board on May 12. The much-anticipated April US CPI data also outperformed expectations on its release during overseas trading time, while FRB Vice Chair Richard Clarida said the FRB was prepared to act if inflationary pressure proved to be more than a transitory phenomenon. All this saw the USD/KRW pair rising to KRW1133.3 on May 13.

Semiconductor stocks were then sold across the world on May 17 on concerns about a Covid-19 outbreak in Taiwan. South Korean stocks were also sold by overseas investors, with the currency pair hitting a monthly high of KRW1137.5 soon after opening on May 18. However, the markets then reacted well to reports that Taiwan was in talks with the US about receiving vaccine support, with the USD/KRW pair also dipping back as emerging-market currencies were bought. The minutes to the FOMC meeting were released during overseas trading time on May 19 (during a South Korean holiday). The markets were surprised by comments about the commencement of tapering talks. Despite inflationary concerns also flaring up again, dollar buying was short lived and the greenback was then sold.

The US and South Korea held a heads-of-state meeting at the weekend, though the impact on the markets was muted. As concerns about the commencement of tapering talks eased off, the yield on 10-year US treasuries fell during overseas trading time on May 24. The greenback was subsequently sold across the board, with the USD/KRW pair trading with a heavy topside. South Korea's May Consumer Confidence Index was released on May 25, with the markets reacting well to the bullish result (105.2 against 102.2 the previous month). FRB Vice Chair Richard Clarida then commented that the discussion about tapering would begin if the economy continued growing, though the market reaction suggested investors were getting tired of hearing about the matter, with the benchmark 10-year treasury yield continuing to fall. Under these circumstances, the currency pair fell to KRW1115 on May 26 on end-of-month won buying. On May 27, the Bank of Korea (BOK) upgraded its FY2021 growth forecast from 3.0% to 4.0% and its inflation rate forecast from 1.4% to 1.8%, though the reaction of the currency markets was muted. In the end, the USD/KRW pair closed at KRW1110.9, down 1.4 won on the end of April.

2. Outlook for This Month

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

The greenback was sold across the board in May as the FRB remained in easing mode and vaccines were rolled out across Europe, though the currency pair also rose for a time as overseas investors substantially sold South Korean stocks.

There are following three factors to watch out for this month:

(1) Dollar-buying pressure on the movements of US interest rates, (2) the buying and selling of South Korean stocks and bonds by overseas investors, and (3) hearty real-demand won buying among South Korean companies.

As for (1), the benchmark 10-year treasury yield is deadlocked around 1.55–1.70%. The FRB has indicated that the tapering discussion might begin if the economic recovery continues, though it continues to take a cautious stance with regards to the jobs recovery and the inflation outlook, so more dollar buying seems unlikely.

Turning to (2), and overseas investors have sold off South Korean stocks in volume, with this acting as a won-selling factor. However, with selling on balance occurring in both April and May, some other factors will probably be needed for further selling on balance to occur in June. Furthermore, bonds have seen continuous buying, with past experience suggesting bonds are unlikely to be sold off sharply. This is another reason why there is unlikely to be any sharp selling on balance in June. As such, if anything securities trading by overseas investors will probably act as a won-buying factor in June.

With regards to (3), South Korean firms in the semiconductor industry and so on have posted strong results, with the current account surplus remaining at high levels. However, the soaring price of crude oil and other commodities is having a negative impact on the current account balance, so won-buying pressure will probably ease.

Under these circumstances, the USD/KRW pair will probably move up and down as dollar-buying pressure shifts due to factors on the US side, with the pair set to move with a lack of direction on the whole.

Nonetheless, concerns about tapering could flare up again on President Biden's huge spending plans, for example, so investors should keep an eye on the movements of US monetary policy.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – June 2021

Expected Ranges **Against the US$: NT$27.00–27.90**
Against the yen: JPY3.89–4.03

1. Review of the Previous Month

In May, the Taiwan dollar hit its highest level against the US dollar for around 24 years.

The USD/TWD pair opened the month trading at TWD27.970. Overseas investors sold the Taiwan dollar at the start of the month, but the pair's topside was held down as the greenback was sold by exporters, with the pair subsequently moving around TWD27.95. However, Taiwanese stocks climbed on May 7 and overseas investors began buying the Taiwan dollar, with the currency pair dropping to around TWD27.88.

Asian currencies strengthened across the board on May 10 on the release of the US employment data in the previous weekend, with the USD/TWD pair also sliding to TWD27.740. However, news then emerged on May 11 that a Covid-19 cluster of unknown origin had been found in Taiwan, so Taiwanese stocks were sold. This trend continued on May 12, with the currency pair temporarily bouncing back to the TWD28 range. Exporters then sold the greenback, though, so the pair subsequently floated right around TWD28.000. Though the number of Covid-19 infections increased on a daily basis, Taiwanese stocks rallied and the Taiwanese dollar strengthened on May 18. The currency pair fell to TWD27.84 for a time on May 19.

The pair temporarily returned to the TWD28 range in the latter half of the month, but it then edged lower as exporters sold the greenback toward the month's end. The pair dropped below TWD27.60 on May 31 to temporarily hit TWD27.583, its lowest level in around 24 years.

2. Outlook for This Month

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

Taiwan had managed to keep a lid on Covid-19, but new cases suddenly surged in May, with Taiwanese stocks plummeting for a time. However, the Taiwan dollar did not fall sharply against its US counterpart and it began strengthening again towards the month's end.

Though the current infection situation in the region has still not improved, citizens remain vigilant, so although there are no lockdowns, people are avoiding large gatherings and it seems only a matter of time before the situation cools down (though ultimately, the problem will need to be solved by getting the population vaccinated). As such, Taiwanese stocks will probably edge back up, with this becoming less of a factor prompting a correction to the trend of Taiwan-dollar bullishness. US long-term interest rates have regained composure now expectations for early tethering have waned, so this factor is unlikely to prompt Taiwan-dollar selling like it did in March.

Exports have been a factor behind the Taiwan dollar's strength and they remain bullish. April's export amount was up +38.7% year-on-year, for example, with the figure for January–April also up +28.0% on the same period last year. Export orders were also up +42.6% on the same period last year, so exports will remain brisk from here on. With June also marking the end of the quarter, the environment will be ripe for Taiwan-dollar bullishness. However, investors should be on guard against the kind of sharp US interest rate rises that we saw in March. As such, US interest rates will require monitoring.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – June 2021

Expected Ranges **Against the US$: HK$ 7.7550–7.7750**
Against the yen: JPY 13.80–14.20

1. Review of the Previous Month

Hong Kong dollar spot exchange market in May

HKD spot regained its footing at 7.77 level and strengthened towards 7.76 level amid the USD sell-off. With easing Fed's tapering risk and flooding liquidity offered by major central banks, capital flow appeared to re-enter HKD market after the upgrade on HK housing market outlook. Stock Connect flow regained its upside momentum as well, with year-to-date net inflow climbing to above HKD 450bn. Yet, the IPO market held largely steady in the absence of mega IPO projects. On the domestic side, HK Q1 GDP rebounded sharply by 7.9%YoY on the strong recovery in exports amid global reopening. Labour market recovery was on track, with unemployment rate dropping more than expected by 0.4ppt to 6.4% in April. Despite the resurgent infection in Asia, the pandemic situation remained under control, paving the way for the negotiation on the cross-border reopening between HK and mainland China.

Hong Kong dollar interest rate market in May

The sinking USD short-term rates to their record lows given flooding USD liquidity drove HKD rates lower, under the USD-HKD peg. As the Fed continued to pump abundant liquidity into the market via the QE, 1-month and 3-month USD LIBOR dropped further to their record lows of 0.09% and 0.15%, respectively. The HKD liquidity condition remained flush as the HKMA aggregate balance was little changed at its record high of HKD 457.5bn. 1-month and 3-month HKD HIBOR were falling towards their decade lows of 0.08% and 0.17%, respectively. The HKD-USD rate spread was at near par, leaving the carry-trade interest subdued. While the short-end HKD rates was very soft, 5Y HKD IRS stayed relatively high at 0.8% given increasing US inflation risk. The negative HKD IRS carry (customer pays fixed 5Y HKD IRS, receives floating 3-month HKD LIBOR) narrowed to near -60bps while HK corporates still tend to hedge the rising HKD interest rate given the imminent global inflation threat

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2. Outlook for This Month

Hong Kong dollar spot exchange market in June

USD/HKD spot is expected to range between 7.755 and 7.775 in the coming month. USD/HKD is subjected to the downside risk given the emerging dividend flow from Chinese corporate (sell CNH, buy HKD) and the pick-up of Stock Connect flow. The IPO flow should help propel the HKD but is unlikely to boost the HKD towards its strong-side convertibility of undertaking at 7.75 level. Otherwise the flooding USD liquidity should prove to be positive to capital inflow to HKD market following the upgrade on HK property market outlook and domestic recovery. While the border reopening between HK and mainland China will allow more cross-border inflow to HK, the migration trend in HK will pose uncertainties over capital flow.

Hong Kong dollar interest rate market in June

HKD rates continued to track lower USD rates and the record high of HKMA aggregate balance should warrant soft HKD rates in the near term. The quarter-end seasonal demand for HKD funding and IPO cash demand could cause volatility in HKD rates but are unlikely to boost HKD rates notably. In the medium term, the HKD IRS curve is subjected to upward pressure given the materializing US inflation risk. While the US economy is perhaps at its inflection point, any Fed's tapering signal after the US data surprises will cause jitters in the HKD rate market. We do not expect the HKMA to withdraw HKD liquidity via extra Exchange Fund Bills and Notes (EFBNs) issuance.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – June 2021

Expected Ranges	**Against the US$: CNY 6.3000–6.5500**
	Against the yen: JPY 16.10–17.80
	Against 100 yen: CNY 5.6000–6.2000

1. Review of the Previous Month

In May, the U.S. dollar/Chinese yuan exchange rate fell to its lowest level in approximately three years.

The U.S. dollar/Chinese yuan exchange market closed trading on April 30 at the mid-CNY 6.47 level, after which market participants bought the U.S. dollar against other major currencies based on demand at the end of the month, as well as due to a remark by U.S. Secretary of the Treasury Janet Yellen that implied an interest rate hike. Also, during Labor Day holidays from May 1 to May 5, the offshore U.S. dollar/Chinese yuan exchange rate rose to the CNH 6.49 level. In response, after the holidays, the U.S. dollar/Chinese yuan exchange market opened at the CNY 6.48 level on May 6, after which market participants actively sold the U.S. dollar while buying the Chinese yuan in the afternoon. As a result, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.46 level. Then, on May 7, the April employment statistics of the U.S. were released with figures significantly weaker than estimated. As a consequence, market participants sold the U.S. dollar actively, bringing the U.S. dollar/Chinese yuan exchange rate down to the CNY 6.43 level.

On May 10, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 6.43 level, after which market participants continued selling the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate fell below CNY 6.4245—the recent low recorded on January 29—approaching the CNY 6.41 level. Thereafter, the trend was inverted, and the exchange rate started rising. Furthermore, the April CPI of the U.S. was announced on May 12 with a strong figure, which also encouraged market participants to buy the U.S. dollar, leading the U.S. dollar/Chinese yuan exchange rate to reach the upper-CNY 6.45 level.

On May 17, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 6.44 level, after which major economic statistics of China were released in the morning of the same day, with many of the results being weaker than estimated. However, as the figures were not dramatically pessimistic, the Chinese yuan strengthened thereafter. The U.S. dollar/Chinese yuan exchange rate fell to the mid-CNY 6.43 level, after which the exchange rate stopped falling, returning to the lower-CNY 6.44 level. In the evening of the same day, market participants sold the U.S. dollar against other major currencies, as U.S. interest rates remained low. Following this trend, the U.S. dollar/Chinese yuan exchange rate also fell, temporarily falling below the CNY 6.42 level on May 18. Thereafter, U.S. interest rates started rising, while the minutes of a Federal Open Market Committee (FOMC) meeting revealed that some members saw it necessary to start discussing the asset purchasing program, and this led the U.S. dollar to strengthen. As a consequence, the U.S. dollar/Chinese yuan exchange rate also rose, recovering to the CNY 6.44 level again.

On May 24, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 6.43 level. On May 21, the media reported that an official of the People's Bank of China (PBOC) had commented that the appreciation of the Chinese yuan should be tolerated in order to offset the rise of commodity prices, and this led the Chinese yuan to appreciate. As a result, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.42 level.

Then, on May 25, the U.S. dollar/Chinese yuan exchange market opened at the lower-CNY6.41 level with a large gap from the previous day's closing rate. The exchange rate remained stable thereafter. However, in the afternoon of the same day, the media reported that Premier of China Li Keqiang had expressed once again his intention to stabilize commodity prices, and this led the U.S. dollar/Chinese yuan exchange rate to the lower-CNY 6.40 level. On May 26, the following day, the U.S. dollar/Chinese yuan exchange rate fell below CNY 6.40 and reached the CNY 6.37 level on May 27. Thereafter, the exchange rate occasionally rallied in reaction to remarks by monetary authority officials. However, on May 31, the U.S. dollar/Chinese yuan exchange rate reached CNY 6.3566. And in the evening of May 31, the foreign currency reserves requirement ratio was raised, which led the exchange rate to rally.

2. Outlook for This Month

In June, the U.S. dollar/Chinese yuan exchange rate is forecast to fall.

The appreciation of the Chinese yuan is expected to continue until the U.S. dollar/Chinese yuan exchange rate hits a low. The U.S. dollar/Chinese yuan exchange rate rapidly fell below the CNY 6.40 level, falling below the CNY 6.37 level—the support zone from the viewpoint of technical analysis. The next psychological turning points would be CNY 6.35 and CNY 6.30. The exchange rate is likely to move in accordance with remarks made by the PBOC and government officials. However, market participants should also carefully observe the market to see if the trend will be reversed by the decision to raise the foreign currency reserve deposit requirement ratio as announced in the evening of May 31. Once the exchange rate hits the low, the trend could become inverted, and the exchange rate could start rising, of which market participants should remain attentive. However, from a long-term perspective, the Chinese yuan is still forecast to appreciate against the U.S. dollar.

In other things, the appreciation of the Chinese yuan is mainly caused by capital inflow into China.

Also, the major economic statistics for April saw some figures below the estimated level. However, there were unchanged signs of economic recovery from the COVID-19 crisis, and this supported the strength of the Chinese yuan.

In addition, the PBOC had shared its view that the Chinese yuan exchange rate can move into either direction in the times ahead. Thus, the PBOC is likely to tolerate the moderate appreciation of the Chinese yuan.

On the other hand, the minutes of the FOMC meeting revealed that some members had mentioned the discussion of tapering to be started. However, the Federal Reserve Board (FRB) is likely to maintain its dovish attitude until economic recovery has become certain. Thus, the U.S. dollar is expected to remain weak. It should however be mentioned that there are some factors to lead to the rise of U.S. interest rates and the appreciation of the U.S. dollar, of which market participants should remain attentive, such as the advancement of COVID-19 vaccination, positive reaction to economic indices that turned out to be stronger than estimated, and positive reaction to the economic measures to be taken by U.S. President Joe Biden.

Furthermore, Chinese Vice Premier Liu He and U.S. Trade Representative Katherine Tai held trade talks on May 27. They agreed to continue trade negotiations, which also supported the appreciation of the Chinese yuan. Yet, market participants should remain attentive of future headlines related to trade negotiations between the U.S. and China.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – June 2021

Expected Ranges **Against the US$: SG$ 1.3100–1.3400**
Against the yen: JPY 82.50–84.00

1. Review of the Previous Month

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

At the beginning of the month, the Singapore dollar remained weak. The, a Federal Reserve Board (FRB) official made a hawkish remark regarding monetary policy in the U.S., and this led stock prices to fall, encouraging market participants to buy the U.S. dollar. As a result, the overall currencies of emerging countries weakened. After opening trading at the upper-SGD 1.32 level at the beginning of the month, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.34 level on May 5, as the Singapore dollar continued depreciating against the U.S. dollar.

However, thereafter, the trend was inverted, and the Singapore dollar started appreciating. On May 7, the U.S. employment statistics were released, and the figures were weaker than expected in the market, weakening expectation for the normalization of monetary policy. Under such circumstances, U.S. stock prices started rising, while the U.S. dollar depreciated sharply. As a consequence, the overall currencies of emerging countries strengthened. Following this trend, the trend in the U.S. dollar/Singapore dollar exchange market significantly changed, and the Singapore dollar appreciated against the U.S. dollar to reach the lower-SGD 1.32 level.

Thereafter, toward the middle of the month, the U.S. dollar/Singapore dollar exchange rate continued fluctuating without moving in any direction. However, on May 14, the Singapore government announced its decision to strengthen regulations to control the spread of COVID-19 cases, and this weakened the Singapore dollar. As a result, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.33 level.

On May 18, the majority of the currencies of emerging countries appreciated during trading hours in Asia, thanks to strength in the U.S. stock index futures market as well as in the Asian stock market. Then, on May 19, the minutes of a Federal Open Market Committee (FOMC) meeting were released, fueling concerns over tapering, as a result of which both U.S. interest rates and the U.S. dollar started to rally. Following this trend, the Singapore dollar weakened again. However, this did not lead the U.S. dollar/Singapore dollar exchange rate to renew the monthly low.

Thereafter, the Singapore dollar appreciated toward the end of the month. Both the U.S. dollar and the euro depreciated due to a remark by an FRB official to support existing measures of monetary easing, along with a dovish remark by a European Central Bank (ECB) official. On the other hand, the Chinese yuan continued gradually appreciating, renewing its highest rate for the first time since May 2018. Following this trend, the Singapore dollar also appreciated, and the U.S. dollar/Singapore dollar pair was trading at the lower-SGD 1.32 level (as of the time of writing on the morning of May 31).

2. Outlook for This Month

The Singapore dollar is forecast to continue appreciating against the U.S. dollar in June 2021.

At the moment, the Chinese yuan has been appreciating against the U.S. dollar. Thus, the Singapore dollar is likely to follow this trend and strengthen against the U.S. dollar. However, the appreciation of the Singapore dollar is expected only to a limited extent.

The Monetary Authority of Singapore (MAS) controls the slope, median, and width of the nominal effective exchange rate (NEER) band for the Singapore dollar, rather than the Singapore dollar interest rates. At the latest meeting in April, the MAS announced its decision to maintain the slope of the NEER band at the annual appreciation of 0% while also maintaining the variation width and the median. Trade transactions are key for the domestic economy in Singapore. Therefore, the MAS controls the value of the Singapore dollar by adjusting the slope and the median of the NEER band, as exchange rates have more impact than interest rates on the economy.

In the Asian region, many countries have announced new measures of monetary easing. There was a possibility for Singapore to also take measures to lead the Singapore dollar to depreciate at the meeting held in April. However, as the phrase of "prioritize fiscal policy over monetary policy" was repeated over and over again, the MAS ended up postponing the decision to change the monetary policy at the April meeting. The next MAS meeting is scheduled for October. As the domestic economy of Singapore has been stable, it is unlikely for the MAS to choose to change the monetary policy, which is one of few options left to take. The next possible change in monetary policy is expected before the end of 2022.

Under such circumstances, the Singapore dollar remains higher than the median of the NEER since the MAS meeting held in April, close to the upper end of the NEER band (the appreciation is calculated to be 120–150 basis points, while the upper end of the NEER band is 200 basis points), according to our calculation model. Even though the composition of the currency basket has not been made public, if our calculation is correct, the appreciation of the Singapore dollar is likely to be limited, even if the domestic economy of Singapore remains strong and the Singapore dollar continues appreciating to follow the appreciation of the Chinese yuan. Thus, the Singapore dollar is not expected to continue appreciating one-sidedly. The U.S. dollar/Singapore dollar exchange rate is thus expected to fall only to the SGD 1.31 mark.

Hiroyuki Yamazaki, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – June 2021

Expected Ranges	**Against the US$: THB 30.60–31.75**
	Against the yen: JPY 3.43–3.58

1. Review of the Previous Month

In May, the U.S. dollar/Thai baht exchange rate rose once and returned to the level at market opening.

At the end of April, the depreciation of the U.S. dollar accelerated, as market participants expected the Federal Open Market Committee (FOMC) not to take any measure of monetary tightening for a while. As a consequence, the U.S. dollar/Thai baht exchange market opened trading at around THB 31.20 in May. After holidays, the central bank of Thailand (BOT) held a monetary policy committee (MPC) meeting on May 5 and announced its decision to maintain the policy interest rate at 0.5% (for the eighth consecutive time). The outlook for the GDP growth rate in 2021 was set at the range between 1.1–4.7% year-on-year, expressing doubts about the transparency for the outlook stating that the growth rate would be 3%. Thereafter, market participants reacted to this event by buying the Thai baht, as a result of which the U.S. dollar/Thai baht exchange rate fell to approach THB 31.10. On May 6, the following day, the exchange rate rose in the morning, and the U.S. dollar/Thai baht exchange market opened trading at the mid-THB 31.10 level. The exchange rate continued rising slowly, partly because of the fact that the situation with the COVID-19 pandemic was not improving remarkably in Thailand. The U.S. dollar/Thai baht exchange rate once reached the upper-THB 31.20 level. However, on May 7, the following day, the Ministry of Finance of Thailand announced its intention to request the government to take an economic stimulus measure worth THB 85.5 billion before the end of this month, which led the U.S. dollar/Thai baht exchange rate to start falling. Furthermore, the April employment statistics of the U.S. turned out to be extremely weak. As a consequence, the U.S. dollar/Thai baht exchange rate fell below the THB 31.10 level for the first time since the end of March.

In the middle of the month, the April CPI of the U.S. was announced on May 12, attracting substantial attention in the market, and the result turned out to be significantly stronger than expected, fueling expectation for tapering. As a result, market participants bought the U.S. dollar in an accelerated manner. Following this trend, the U.S. dollar/Thai baht exchange rate rose to approach the THB 31.30 level. On May 13, the following day, the same trend continued, and the U.S. dollar/Thai baht exchange rate once reached the THB 31.40 level. Thereafter, the media reported a study that the rise of inflation in the U.S. was a temporary one, and this encouraged market participants to sell back the U.S. dollar. The U.S. dollar/Thai baht exchange rate then returned to the lower-THB 31.30 level.

After the weekend, overall Asian currencies weakened on May 17, due to the rapid increase of COVID-19 cases in Singapore and Taiwan. Under such circumstances, the number of new COVID-19 cases in Thailand reached 9,635—the highest number recorded. Furthermore, the Office of the National Economic and Social Development Council (NESDC) revised its GDP outlook for 2021 downward again to 1.5–2.5% year-on-year. As a result, the Thai baht remained weak against the U.S. dollar, leading the U.S. dollar/Thai baht exchange rate to rise and approach the THB 31. 50 level.

On May 18 and thereafter, the U.S. dollar/Thai baht exchange rate started to fall slowly, as U.S. interest rates remained steady. On May 20, the number of vehicles produced in April turned out to be 104,355—4.2 times more on a year-on-year basis—demonstrating that the growth is higher in the overseas market rather than the domestic market, and this also supported the appreciation of the Thai baht. Toward May 24, the U.S. dollar/Thai baht exchange rate fell below the THB 31.40 level. On May 24, the Thai media reported that reservations for COVID-19 vaccination for foreign nationals would start in the following month. Thus, expectations grew for larger-scale vaccinations, while some market participants bought the U.S. dollar toward the end of the month based on actual demand. The U.S. dollar/Thai baht exchange rate thus remained stable. On May 25, the U.S. dollar/Thai baht exchange rate remained stable as well, thanks to demand to buy the U.S. dollar typical for the fifth and the 10th days of the month. On May 26, the following day, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 31.20 level, approaching its low, in the offshore market, as it was a national holiday in Thailand. Thereafter, the U.S. dollar/Thai baht pair was trading at the lower-THB 31.20 level toward the end of the month (as of this writing).

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is expected to continue rising slowly.

In June, the U.S. dollar/Thai baht exchange rate is forecast to fall slightly. On May 12, the April CPI of the U.S. turned out to be significantly higher than expected. This fueled concerns over rapid inflation in the U.S. as well as speculation that this could accelerate the Federal Reserve Board (FRB) decision to end measures of monetary easing. As a result, interest rates rose in the U.S., leading the U.S. dollar to appreciate against the Thai baht. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating at around the THB 31.50 level. Thus, in May, the U.S. dollar/Thai baht exchange rate did not exceed the THB 31.50 level and once returned to the THB31.20 level. In the meantime, in China, the Chinese yuan has appreciated further due to concerns for inflation. This situation has strengthened overall Asian currencies, and the Thai baht has been appreciating against the U.S. dollar (and the U.S. dollar/Thai baht exchange rate has been falling). Given such circumstances, the U.S. dollar/Thai baht exchange rate is expected to continue fluctuating in both directions, while slowly moving downward. At the moment, the manufacturing industry has been performing well in Thailand. However, the impact of the COVID-19 pandemic as well as the already-seen interruption of supply chains will be visible in the next several months. On the other hand, despite the number of COVID-19 cases continuing to increase, the economy is gradually reopening, as can be seen in the pilot program to accept tourists in Phuket without obligating a quarantine, scheduled to start in July, as well as the plan to open some economic activities and public facilities in June. It seems that there are strong expectations for the vaccination program that is to accelerate in June. With the above plans in place, the Thai baht is expected to strengthen in the near future. On the other hand, there is also the risk that reopened economic activities will cause further COVID-19 cases, obliging the government to restrict economic activities again. This scenario is quite imaginable, and if that happens, the Thai baht is likely to depreciate. Market participants should pay attention to both possibilities. In general, the Thai baht is expected to appreciate slightly against the U.S. dollar in the coming month.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – June 2021

Expected Ranges	**Against the US$: MYR 4.08–4.18**
	Against the yen: JPY 26.06–26.75
	Against 100 yen: MYR 3.738–3.838

1. Review of the Previous Month

In May, the Malaysian ringgit remained weak. At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened at the MYR 4.10 level. Thereafter, having seen the number of COVID-19 cases hit an all-time high in Malaysia, market participants continued selling the Malaysian ringgit, leading the U.S. dollar/Malaysian ringgit exchange rate to rise with pessimistic sentiment in the market. Thus, the U.S. dollar/Malaysian ringgit exchange rate returned to the level observed at the beginning of April.

At the beginning of the month, U.S. Secretary of the Treasury Janet Yellen made a remark in a press interview held on May 4 that it was likely that the economic measures of the Biden administration would lead interest rates to rise. Shortly after, she explained that this statement was not to predict an interest rate hike. However, the U.S. dollar appreciated in the market. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate rose to the mid-MYT 4.12 level. On May 6, the central bank of Malaysia announced its decision to maintain its policy interest rate at 1.75%, as was the case in the previous decision. In the statement released after the meeting, the central bank of Malaysia explained that the constant recovery of economic activities can be confirmed in the economic indices, sharing the view that the economy has been affected only temporarily without developing a serious problem, due to the implementation of the Movement Control Order (MCO) in some regions including Kuala Lumpur (thereafter, the MCO was implemented for the entire national territory on May 12 and made stricter on May 25 due to the spreading of COVID-19 cases).

Toward the middle of the month, the U.S. dollar depreciated, as the April employment statistics of the U.S. had been released on May 7 in the previous week with figures significantly weaker than expected in the market. On May 10, the U.S. dollar/Malaysian ringgit exchange market opened trading with a stronger ringgit than the closing rate of the previous trading day. However, market participants did not continue buying the Malaysian ringgit and the number of COVID-19 cases increased rapidly in the country before the Eid al-Fitr holidays (an annual event after Ramadan). Under such circumstances, the MCO was made stricter, which encouraged market participants to sell back the Malaysian ringgit. Furthermore, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating following external factors. On May 12, the April CPI of the U.S. was announced, and both the headline CPI and the core CPI turned out to be significantly higher than expected in the market, leading the 10-year U.S. bond yield to rise rapidly. On May 17, in the following week, the U.S. dollar/Malaysian ringgit exchange market thus opened trading at the mid-MYR 4.13 level with a gap from the closing rate of the previous trading day. Furthermore, in the second half of the same week, the minutes of the Federal Open Market Committee (FOMC) meeting held on April 28 and 29 were released, revealing that some committee members discussed the timing of tapering. As a consequence, the Malaysian ringgit weakened further against the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.14 level for the first time in approximately a month.

At the end of the month, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range around the MYR 4.14 level—the lowest rate in approximately one month, recorded in the middle of the month. The increase of new COVID-19 cases did not slow down, and thus the MCO was made stricter as of May 25. Various media outlets reported that the government was considering the possibility of a full lockdown, as was the case with the first MCO. However, there was strong resistance from an economic point of view, and the government postponed a full lockdown in order to balance health and the economy. Thus, the Malaysian ringgit did not weaken further.

2. Outlook for This Month

In June, market participants should observe the situation of the COVID-19 pandemic and the decisions to be taken by governments, as the number of new COVID-19 cases has been renewing the all-time high. Given the increase of cases of new variants and the increasing cases of death and the squeezing of medical facilities, the government is likely to continue facing difficulty in balancing health and the economy in the times ahead. Furthermore, the COVID-19 economic bailout measures taken last year are expected for this year as well. However, given the current fiscal situation, it would be difficult for the government to pay out the same amount of aid as last year. The fiscal deficit as a percentage of GDP is approaching the legal ceiling. The government under Prime Minister Muhyiddin Yassin has a weak political base, and market participants should observe attentively if he can make a decision on such large-scale expenditures before the general election scheduled for summer.

Furthermore, as was the case in the previous month, market participants should continue observing external factors. Since March, the 10-year U.S. bond yield seems to have peaked out after reaching the lower areas of -1.7%. The conditions related to inflation and the COVID-19 pandemic in the U.S. are not comparable to those in Malaysia. On May 12, the U.S. CPI, including the core CPI, turned out to be higher than expected in the market, fueling concerns over inflation. On the other hand, the April CPI of Malaysia was announced on May 21, recording a significant year-on-year increase. However, the increase was within the range expected by the central bank of Malaysia, while the core CPI (which excludes food and energy prices) has recently been stable. In the U.S. further economic recovery is expected toward summer, and the yield curve is likely to be steeper. If, the yield curve for the Malaysian ringgit remains flat, there is the risk for the Malaysian ringgit to depreciate even further.

Another external factor is the trend in the U.S. dollar market. The U.S. dollar index shows the weakening of the U.S. dollar in May. Nevertheless, the Malaysian ringgit depreciated against the U.S. dollar at the same time. In other words, market participants sold more Malaysian ringgits than U.S. dollars, confirming the weakness of the Malaysian ringgit based on increasing cases of COVID-19. Depending on the situation related to the COVID-19 pandemic, it is not certain if the same trend will continue in the coming month. However, if the long-term U.S. dollar interest rates start rising under the current situation, it would be a negative factor for the Malaysian ringgit.

The political situation in the country has remained unchanged since last month. If it becomes likely that the general election scheduled for the beginning of August is brought forward, market participants should be prepared for ringgit-selling. However, under current circumstances, it is difficult to expect the government to bring the general election forward. Thus, market participants should consider ringgit-selling based on political factors as a tail risk.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – June 2021

Expected Ranges	**Against the US$: IDR 14,000–14,500** **Against 100 rupiah: JPY 0.75–0.79** **Against the yen: IDR 126.58–133.33**

1. Review of the Previous Month

In May, the Indonesian rupiah appreciated against the U.S. dollar, after which the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating without moving in any direction.

On May 3, the U.S. dollar/Indonesian rupiah exchange market opened at the mid-IDR 14,400 level. The exchange rate remained at the IDR 14,400 level until May 5, and the Indonesian rupiah remained stable. On May 5, the January–March quarter GDP for Indonesia was announced, and the result turned out to be -0.74% year-on-year, without a large gap from the market estimate, which was -0.65%. Thus, there was little reaction in the market after the announcement of this figure. However, on May 6, the following day, the Indonesian rupiah started to appreciate significantly. On the following day of the announcement of the GDP, market participants saw that it was now clear that the Indonesian rupiah was on a recovery, which led to capital inflow from foreign investors into Indonesia. As a consequence, the Indonesian rupiah appreciated significantly, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,300 level. At the end of the week, capital inflow continued on May 7, and the Indonesian rupiah continued appreciating against the U.S. dollar and reached the mid-IDR 14,200 level.

During the weekend, the April employment statistics of the U.S. were released with weak figures, which weakened the U.S. dollar. Thus, the Indonesian rupiah strengthened against the U.S. dollar to temporarily reach the mid-IDR 14,100 level, the monthly high for the Indonesian rupiah, on May 10 after the weekend. Thereafter, there were few activities in the market, as the Lebaran holidays were coming near. The U.S. dollar/Indonesian rupiah exchange rate continued fluctuating without moving in any direction at around the IDR 14,200 level.

After the Lebaran holidays, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 14,300 on May 17 with a weaker Indonesian rupiah than the closing rate before the holidays. This is because of the strong risk-averse sentiment in the market based on the cautious feeling about the increasing COVID-19 cases after the holidays, as well as the sluggish trend in the Jakarta stock price index. The Indonesian rupiah remained weak thereafter, trading at around the IDR 14,300 against the U.S. dollar for a while. However, on Wednesday, May 19, local time, the minutes of a Federal Open Market Committee (FOMC) meeting were released in the U.S., revealing that there was hawkish discussion. This led U.S. interest rates to rise, strengthening the U.S. dollar. As a result, the Indonesian rupiah weakened on May 20, the following day, and the U.S. dollar/Indonesian rupiah exchange rate temporarily reached the IDR 14,400 level. While U.S. interest rates continued rising, the Indonesian rupiah rallied slightly on Friday, May 21, and the U.S. dollar/Indonesian rupiah pair traded at the IDR 14,300 level. On May 25, the central bank of Indonesia held a monetary policy committee meeting and announced its decision to maintain the seven-day reverse repo, the policy interest rate of Indonesia, at the existing level. As the decision had been anticipated in the market, the impact of this decision on the market was minimal. Toward the end of the month, demand to buy the U.S. dollar strengthened, while capital inflow from foreign investors increased. As a consequence, the Indonesian rupiah appreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate appreciated to the IDR 14,200 level again, at which level the exchange rate was stable (as of this writing on May 28).

2. Outlook for This Month

In June, the U.S. dollar/Indonesian rupiah exchange rate is forecast to remain flat within a narrow range.

In May, U.S. interest rates fluctuated in both directions and did not move in any specific direction. The Indonesian rupiah strengthened when U.S. interest rates fell, and the Indonesian rupiah remained weak when U.S. interest rates rose, which was repeated throughout the month. Given the current level of U.S. interest rates, 10-year Indonesian government bonds would be an attractive asset for foreign investors, as they offer a high interest rate, supporting secure investment. Therefore, the Indonesian rupiah is unlikely to depreciate in the times ahead until U.S. interest rates start to rise again.

In April, the trade surplus of Indonesia remained high. Imports have also clearly been recovering, with a significant year-on-year increase, while exports have been growing even more significantly. The year-on-year increase in exports has recorded remarkable growth, which resulted in a trade surplus despite the recovery in imports. As was also discussed in the article for the previous month, it is undeniable that Indonesia has been behind other countries in terms of the domestic situation with the COVID-19 pandemic as well as in terms of COVID-19 vaccination. Thus, there is likely to be a trade surplus for a while, as a result of an increase in exports based on the economic recovery of other countries, and this is expected to remain a factor to support the Indonesian rupiah market.

The most-serious factor of concern is the spreading cases of COVID-19 in emerging countries. Thus far, the situation in India remained extremely severe. However, in Malaysia as well, the situation became extremely serious. While the number of cases continues to increase in Southeast Asia, it is possible for Indonesia to experience the same problem. Market participants should thus continue observing the domestic situation related to the COVID-19 pandemic. On the other hand, even if the Indonesian economy continues to recover steadily, the trade surplus could gradually decrease. Therefore, from a long-term perspective, market participants should remain ready to see the original state of the Indonesian rupiah with a current account deficit.

For the above reasons, the U.S. dollar/Indonesian rupiah exchange rate is most likely to remain flat in June, following the fluctuation of U.S. interest rates.

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

Philippine Peso – June 2021

Expected Ranges	**Against the US$: PHP 47.40–48.40**
	Against the yen: JPY 2.25–2.31

1. Review of the Previous Month

The U.S. dollar/Philippine peso onshore exchange market opened trading at PHP 48.10, at the highest rate for the Philippine peso in 2.5 months.

On April 29, the Federal Open Market Committee (FOMC) decided to maintain its policy interest rate for the U.S. dollar at the existing level, as had been anticipated in the market. At the press conference after the meeting, Federal Reserve Board (FRB) Chair Jerome Powell insisted that it was too early to discuss tapering and that the rising inflation rate would only be temporary. Thus, market participants expected the FRB to maintain measures of monetary easing for the long term, and this led the U.S. long-term interest rates to fall slightly. The U.S. dollar index, which is an indicator of the strength of the U.S. dollar in the foreign exchange market, fell as well.

From December last year to the middle of February this year, the Philippine peso did not appreciate against the U.S. dollar further than the PHP 48 level, of which market participants were highly aware. Under such circumstances, the U.S. dollar/Philippine peso exchange rate fell below the PHP 48 level and temporarily reached PHP 47.96 after market opening on May 5 for the first time since February 16.

Thereafter, some market participants bought back the U.S. dollar, as it did not seem to continue depreciating further, and the U.S. dollar/Philippine peso exchange rate reached PHP 48.13. However, on May 7, the U.S. employment statistics of the U.S. were released, and the result fueled a risk-taking sentiment in the market. As a result, the Philippine peso renewed its highest level in the year.

Even though market participants were very cautious about possible U.S. dollar interest rate hikes in the times ahead, the market sentiment did not worsen significantly. As a result, the U.S. dollar/Philippine peso exchange rate reached PHP 47.775 on May 14 and PHP 47.77 on May 19, as Vice Chair of the FRB Richard Clarida spoke about continuing measures of monetary easing, while the crude oil price was falling. Thus, the Philippine peso renewed its highest rate in the year for the second consecutive month.

On the other hand, market participants speculated about tapering in the U.S. at the end of the month, having seen the minutes of the FOMC meeting. As a result, U.S. dollar interest rates rose and the crude oil price, which was previously weakening, started to rally. Furthermore, toward the end of the month, there were some transactions based on actual demand. Thus, market participants bought back the U.S. dollar.

The U.S. dollar continued strengthening, and the U.S. dollar/Philippine peso once reached PHP 48.19 on May 27. However, after a round of transactions, the U.S. dollar weakened again, and the exchange rate fell to the PHP 48 level (as of this writing at 4:00 p.m. on May 27).

2. Outlook for This Month

The economic indices of the Philippines released in May revealed that the April consumer price index fell to 4.5% while the market estimate was 4.7%. Even though the index remained high, there was no increase from the previous result, which was also 4.5%. Thus, concerns over inflation (which would lead to the depreciation of the Philippine peso) are not likely.

On the other hand, the March trade balance turned out to be a deficit of USD 2.41 billion. Even though the deficit was smaller than USD 2.5 billion, which was the market estimate, there was an increase from the previous month. Thus, this could keep the Philippine peso from appreciating further in the times ahead.

The March overseas Filipino workers (OFWs) remittances mounted to USD 2.51 billion, weaker than USD 2.64 billion, which was the market estimate. A decrease in OFW remittances is considered a factor to encourage market participants to sell the Philippine peso. However, the impact on the market was minimal this time. In the times ahead, OFW remittances are likely to increase, as the world is likely to recover from the COVID-19 crisis thanks to the advancement of COVID-19 vaccination. The Philippine peso could strengthen for this reason.

In May, the central bank of the Philippines decided to maintain the Philippine peso policy interest rate at the exiting level, as had been anticipated in the market. The central bank shared its view that inflation would remain within 2–4%, the target rate set out by the central bank, for both 2021 and 2022. In the past several months, the inflation rate had been rising in the Philippines. However, if the view of the central bank is correct, the policy interest rate could be cut during the second half of this year.

In the second half of May, market participants bought back the U.S. dollar. However, at the beginning of the month, the U.S. dollar/Philippine peso exchange rate fell below the psychological turning point (PHP 48 to the U.S. dollar), rapidly renewing the highest rate in the year. Market participants are expected to continue buying the Philippine peso in the coming month.

There has been no sign of market distortion based on, for example, the implied interest rate for the Philippine peso. Thus, once the currently unstable U.S. stock market is stabilized, risk-taking sentiment is likely to strengthen in the market, leading the Philippine peso to rise to possibly renew its highest rate.

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

Indian Rupee – June 2021

Expected Ranges **Against the US$: INR 71.00–74.00**
Against the yen: JPY 1.45–1.54

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate fell in May.

At the end of April, the U.S. dollar/Indian rupee exchange rate once fell below the INR 74.00 level. However, in May, the U.S. dollar/Indian rupee exchange market opened trading at INR 74.26. The exchange rate reached INR 74.33 to the U.S. dollar on the same day, and this turned out to be the monthly high. Market participants bought the Indian rupee, thanks to transactions related to IPOs (USD 2.78 billion). However, in the same week, the number of COVID-19 cases in India recorded an all-time high every day, while the number of deaths reached 4,000 for the first time, which kept the Indian rupee from appreciating. Furthermore, the central bank of India carried out market interventions by buying the U.S. dollar and selling the Indian rupee. Therefore, the U.S. dollar/Indian rupee exchange rate fell only slowly.

In the second week of the month, the U.S. employment statistics were released, and the results turned out to be weaker than expected in the market. As a consequence, the U.S. dollar weakened, and the U.S. dollar/Indian rupee exchange rate fell below the INR 73.50 level. However, market participants were cautious of market interventions by the central bank, and the exchange rate remained at the same level thereafter.

In the third week of the month, the media reported the view that daily new COVID-19 cases in India had peaked out, which positively impacted the Indian rupee exchange market. Furthermore, the basket of the MSCI index was rebalanced, which resulted in capital inflow into the Indian stock market. Furthermore, a major Indian energy company issued a corporate bond worth USD 700 million denominated in U.S. dollars. Market participants expected such funds to be converted to Indian rupees, leading the U.S. dollar/Indian rupee exchange rate to temporarily fall below the INR 73.00 mark. Market participants also anticipated investment fund inflow from abroad, as a major Indian bank issued stock for investment-grade investors, while a major local mutual fund implied the possibility to sell its domestic bank stocks. These factors encouraged market participants to buy the Indian rupee, while market interventions by the central bank encouraged market participants to sell the Indian rupee. Thus, the Indian rupee was both bought and sold.

In the last week of the month, this trend remained unchanged. However, there was an additional factor—several FRB officials insisted that current inflation is only temporary, and this decreased expectation for tapering in the U.S. As a consequence, the U.S. dollar interest rates fell while the U.S. dollar weakened, and this was a positive factor for the Indian rupee. As of this writing on May 27, the U.S. dollar/Indian rupee pair was trading at the INR 72.60 level.

2. Outlook for This Month

In June, the U.S. dollar/Indian rupee exchange rate is forecast to rise after falling slightly at the beginning.

The number of daily COVID-19 cases in India seems to have peaked out on May 7, after which the number of cases was falling. On the other hand, however, the daily number of COVID-19 deaths reached an all-time high on May 19, exceeding 4,500, after which the figure remains at the 4,000 level. In response to this situation, many states have requested an extension to the lockdown measures. The government has been repeatedly explaining the difference between the strict lockdown taken last year and the lockdown of this year, in terms of delivery services to be authorized for restaurants as well as factory operations to be authorized. However, the negative impacts of the lockdown on the Indian economy are undeniable. Thus, many major ratings companies are revising the growth rate outlook for India downward. The market consensus is that the economy will certainly be weaker than the expected level. It should also be mentioned that the long-term interest rate in India for May fell below the 6.00% mark and remained low toward the second half of the month. Given the fundamentals of India, market participants are likely to sell the Indian rupee rather than buy it.

However, as was mentioned above, the U.S. dollar/Indian rupee exchange rate has been falling based on Indian rupee-buying as generated in special fund inflows. As long as this trend continues, the U.S. dollar/Indian rupee exchange rate is likely to fall in the near future. However, if market participants start to have interest in the fundamentals of India so as to better understand the trend, the trend would be inverted, encouraging market participants to selling the Indian rupee, which would reasonably lead the U.S. dollar/Indian rupee exchange rate to start rising.

In terms of external factors, market participants should be particularly attentive of U.S. interest rates and the U.S. dollar exchange market, which are related to speculation about tapering in the U.S. The first important event would be the release of employment statistics scheduled for June 4. Furthermore, market participants should remain careful that the crude oil price, which is considered a factor for the depreciation of the Indian rupee, has been rising to its highest level since October 2018.

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