Mizuho Dealer's Eye

August 2021

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – August 2021

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

1. Review of the Previous Month

The dollar/yen pair fell in July.

The pair opened the month trading at the lower-111 yen level. The dollar was bought at the end of June and this trend spilled over into July, with major US stock indices and crude oil prices also moving firmly. As risk appetite increased, the pair strengthened to around the mid-111 yen mark. The greenback was bought on July 2 too, with the pair hitting 111.66 yen (a monthly high) for the first time since the start of 2021. It then fell to around 111 yen on the mixed results of the June US employment data.

The pair moved heavily and it dipped to around the mid-110 yen level between July 5–7 on some lackluster US and European economic indicators. The minutes to the FOMC meeting were released on July 7. They revealed optimism about the economy, though there had been no discussion about early tapering, so the greenback was sold. Risk aversion also flared up, with major European stocks falling on concerns about outbreaks of new Covid-19 variants, for example, so the currency pair dropped below the key 110 yen mark to hit the mid-109 yen level. On July 9, the pair rallied to 110 yen as US stocks bounced back and the dollar was bought on trends related to the 5th and the 10th of the month.

Three major US indices renewed record highs over July 12–14. With US interest rates also rising on renewed expectations for tapering, the pair climbed to around 110.70 yen. However, FRB chair Jerome Powell then struck a dovish tone in his testimony to Congress, so US interest rates fell and the dollar/yen pair also began sliding to drop below 110 yen again.

The yen was bought on risk aversion on July 19 as uncertainty about the global economy grew on the resurgence of Covid-19. With US interest rates also sliding, the pair dropped to a monthly low of 109.07 yen. The pair moved in a narrow range amid a dearth of new factors on July 20. However, US stock markets then pared back previous-day losses during overseas trading time, while US long-term interest rates began rising, so the currency pair rallied to around 110 yen. Things gradually drew to a standstill on July 21 ahead of a four-day Japanese holiday. During this time, the pair moved firmly at the lower-110 yen level as the yen was sold on the strong movements of US and European stocks. As risk aversion waned, US interest rates rose and the pair moved firmly at the mid-110 yen level on July 23.

As Japan came back from vacation on July 26, the markets saw real-demand selling. With US interest rates also falling, the pair was pushed back to the lower-110 yen level. The pair moved flatly at 110 yen on July 27 as Chinese stocks fell sharply after the Chinese authorities introduced new rules governing education and technology. However, the dollar was then sold before the FOMC meeting, so the pair weakened to the mid-109 yen level. In its closely-watched statement, released on July 28, the FOMC said the economy had made progress toward the goals of maximum employment and price stability. With the commencement of tapering seemingly moving closer, the greenback was bought and the currency pair rebounded to 110 yen. However, it then dropped back after FRB chair Jerome Powell struck a dovish tone in his subsequent press conference. The US released some worse-than-expected

2Q GDP data and new applications for unemployment insurance data on July 29, so the pair dropped to around the mid-109 yen mark. It continued to move around this level on July 30 with an eye on bearish stock movements.

2. Outlook for This Month

The dollar/yen pair look set to move firmly in August.

With the Delta variant spreading across the world, there is deep uncertainty about the direction of economic normalization. However, Japan continues to lag behind the US and Europe when it comes to its Covid-19 response, with the number of cases in Japan hitting record highs on successive days, so there is a lack of reasons to buy the yen. Risk assets were sold sharply last month on a surge in Covid-19 cases. As such, risk aversion prevailed at times, with US interest rates dropping below 1.2%, for instance. However, the currency pair is likely to remain within its trading range, though market participants should not expect any risk-evasive yen buying either.

As for monetary policy, the FOMC's statement was revised upwards on the whole in July, with comments added that seemed to lay the ground for tapering. With several major US stock indices hitting record highs, expectations are growing for economic normalization, with US interest rates likely to face upwards pressure as a result. US rates rose to just below 1.8% around March, but they have since dropped back to around 1.2%, so they probably have room to climb higher. In his press conference, FRB chair Jerome Powell remained in cautious mode. He spoke about the slow employment recovery and he said it was too early to talk about rate hikes, for example. However, he could relax his dovish stance when he speaks at the Jackson Hole symposium over August 26–28. Interest rates will probably rise on market expectations ahead of this event, with the dollar/yen pair likely to be pulled higher too.

Dealers' Market Forecast

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

Bullish on the dollar	15 bulls	111.50 – 108.50	Bearish on the dollar	5 bears	111.00 – 108.00

* Ranges are central values

Tanaka	Bull	112.00 – 109.00	The FRB will continue to discuss when to taper while monitoring the spread of Covid-19 variants and the results of economic indicators related to inflation and so on. The dollar/yen pair will probably move firmly on risk appetite, the differing Covid-19 situations in the US and Japan, and the divergent directions of US and Japanese monetary policy.
Yano	Bull	111.50 – 109.00	The dollar/yen pair is moving with a heavy topside on growing concerns about Covid-19, but with vaccination programs proceeding steadily, uncertainty will probably evaporate in time. There is anticipation for rising interest rates in the US, while workers are returning to the office in droves, so the currency pair will probably be supported by expectations for a resumption of economic activity.
Tsutsui	Bear	111.00 – 107.50	After peaking at 111.5 yen early July, the dollar/yen pair has moved with a heavy topside and its downside will probably edge lower going forward. US real interest rates are noticeably falling, with the market also likely to be swayed by concerns that house sales could peak out on soaring prices or that consumer spending could wane as subsidies come to an end.
Kato	Bull	112.00 – 108.50	The US authorities are unlikely to drop any hints about tapering given the employment situation (the labor participation rate, etc.) and the negative economic impact of the Delta variant, but inflation is proceeding steadily and tapering still seems to most likely next move for the US.
Yamagishi	Bull	111.50 – 108.00	The tapering discussion made some progress during the July FOMC meeting. Economic activity is normalizing, while soaring asset prices and so on have caused substantial damage, so if the US moves steadily down the path of tapering, the dollar/yen pair will probably move firmly. Investors should keep an eye on the Delta variant and the anomalous trend of yen bullishness in August.
Ushijima	Bull	111.50 – 108.00	A mood of gentle risk appetite will prevail until FRB chair Jerome Powell discusses tapering at the Jackson Hole symposium late August. US stocks will probably rise and the dollar is likely to be sold, but the dollar/yen pair's movements will probably be supported by the cross yen and investors will test its topside.
Omi	Bear	111.00 – 108.00	The trend of dollar selling is likely to continue. This comes on 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 temporarily on risk aversion related to rising US long-term interest rates and falling stocks, for example.
Ueno	Bull	112.00 – 108.00	The dollar has been sold since the July FOMC meeting. However, policy shifts or other such events seem unlikely, so the trend of dollar selling is unlikely to continue.
Yamaguchi	Bull	111.50 – 108.00	Soaring inflation rates were only a short-lived phenomena, while some time will be needed before employment recovers further. As such, it is probably too early to price in fully-fledged rate hikes by the FRB. On the other hand, Japan is experiencing a surge of Covid-19 cases and the state of emergency has been extended. With the US seeming closer to an exit, the dollar will probably be preferred to the yen.
Kai	Bear	110.50 – 108.00	As it continues to examine ways to tackle Covid-19, FRB discussions about an exit are unlikely to make progress this month. Tapering expectations have faded and the summer dry season is upon us, so the trend of yen bullishness looks set to continue.
Onozaki	Bear	111.00 – 107.50	Though the FRB is clearly moving towards tapering, progress in this direction has not picked up pace. FRB chair Jerome Powell also struck a dovish tone at the July FOMC meeting. There are hopes that Powell will discuss tapering at the Jackson Hole symposium, but with tapering discussions moving sluggishly and US interest rates falling, the dollar will not rise as high as expected.

Tamai	Bull	111.50 – 108.50	Though FRB chair Jerome Powell remains in dovish mode, discussions about tapering moved forward at the FOMC meeting the other day, so US interest rates and the dollar will probably rise ahead of the Jackson Hole meeting in August.
Harada	Bull	111.50 – 108.50	There are concerns about an economic slowdown on the spread of the Delta variant, but inflation rates are rising. With economic indicators also steadily improving, the dollar/yen pair looks set to move firmly. However, liquidity will be thin on the ground during the summer dry season in August, so investors should be on guard against rising volatility.
Oba	Bull	110.75 – 108.75	The dollar/yen pair will move within a fixed range during the Tokyo Olympics and Paralympics. With the US labor market seeing some automization, there are concerns that employment might not recover to pre-pandemic levels, so the pair will move with a heavy topside, though it will probably continue trending upwards on expectations for tapering.
Katoono	Bull	112.00 – 108.00	Concerns about a slowdown have flared up again on the spread of Covid-19 variants, so the dollar/yen pair will probably move with a heavy topside until mid-August. However, FRB chair Jerome Powell will probably outline a path toward monetary policy normalization at the Jackson Hole summit late August. The pair will probably bounce back on the movements of US interest rates.
Kobayashi	Bull	111.50 – 108.50	If the US posts some strong employment data at the start of August, the markets may hear some hints about tapering ahead of the Jackson Hole meeting late August. If this happens, the dollar will probably strengthen on rising US interest rates.
Henmi	Bull	112.00 – 108.50	Though Covid-19 trends cannot be ignored, US interest rates still have room to rise. Under these circumstances, expectations for tapering will probably rise ahead of FRB chair Jerome Powell's speech at the Jackson Hole symposium in August. The dollar/yen pair looks set to move firmly this month.
Otani	Bull	111.50 – 108.50	Tapering remains the most likely next move by the FRB, so the current fall in 10-year treasury yields seems somewhat excessive. The greenback will probably be bought back on comments about tapering made at the Jackson Hole meet-up.
Suzuki	Bull	111.50 – 108.05	The inflation rate continues to rise, so dollar buying will also continue. The Jackson Hole summit will take place at the end of August, but it unlikely to reveal any clear direction for US monetary policy. However, there is no reason to buy the yen or other currencies, so the dollar/yen pair will move with a firm downside.
Okuma	Bear	111.00 – 108.00	Though the US is making preparations for tapering, US long-term interest rates are sliding, with indicators also suggesting that the US economic recovery has peaked out. As inflation accelerates, concerns about the direction of the US economy will grow, with the dollar/yen pair likely to move with a heavy topside.

Yuuka Omi, Forex Sales, Global Markets Sales Department

Euro – August 2021

Expected Ranges **Against the US$: US$1.1700–1.2100**
Against the yen: JPY129.00–132.00

1. Review of the Previous Month

The euro/dollar pair fell to the lower-$1.18 mark on July 1, though it then bounced back to the upper-$1.18 level. It traded around the mid-$1.18 mark on July 2.

With the US on holiday on July 5, the pair moved with a lack of direction at the upper-$1.18 mark. Some healthy economic indicators were released on July 5, so the pair temporarily hit a monthly high of $1.1895 on July 6. Germany then released a worse-than-expected July ZEW Indicator of Economic Sentiment, though. With the euro/yen pair also falling, the euro/dollar pair was dragged down to around $1.18. The greenback was bought back sharply on July 7, so the pair dropped to the upper-$1.17 level for a time, but the dollar was then sold on the release of the FOMC minutes, so the pair temporarily recovered to the $1.18 range. The pair weakened to the upper-$1.17 range during overseas trading time on July 8, but as dollar selling intensified, the pair then rallied to the mid-$1.18 level. It continued to trade around the mid-$1.18 mark on July 9.

On July 12, reports said ECB vice-president Luis de Guindos had adopted a cautious stance regarding the prospect of QE tapering, so euro selling accelerated and the currency pair dropped to the lower-$1.18 mark. It fluctuated gently at the mid-$1.18 level on July 13, though it then fell below $1.18 again during overseas trading time as the dollar was bought on the results of the US June CPI data. The pair moved in the upper-$1.17 range on July 14. However, FRB chair Jerome Powell then gave a dovish testimony to Congress. With the greenback also being sold on the bearish movements of US long-term interest rates, the pair rallied to the lower-$1.18 level. It then traded at the mid-$1.18 mark on dollar bearishness on July 15, though it temporarily fell below $1.18 as the greenback was bought in the afternoon. This trend spilled over into July 16, with the pair moving at the lower-$1.18 level.

On July 19, risk aversion flared up on the global resurgence of Covid-19 cases and falling crude oil prices, with the pair pushed down to the mid-$1.17 range by dollar buying. The pair subsequently bounced back to the lower-$1.18 mark as the greenback was sold on falling US long-term interest rates. The euro/yen pair weakened on July 20, with the euro/dollar pair also pulled down to the mid-$1.17 level. This trend continued on July 21, with the pair temporarily hitting a monthly low of $1.1752. The ECB Governing Council revised its forward guidance when it met on July 22. It also said it would not raise interest rates until inflation reached 2% "well ahead of the end of its projection horizon." The euro was subsequently sold for a time, but the euro/dollar pair's movements were capped. The pair traded at the upper-$1.17 level on July 23.

The German IFO Business Climate Index for July dropped below expectations on its release on July 26, so the pair fell for a time, though it then bounced back to the lower-$1.18 range. Stock markets moved bearishly on July 27, with the euro/dollar pair also pushed down as the yen was bought on risk aversion. However, the greenback was then sold at a faster pace as US long-term interest rates fell sharply, so the pair rallied to the mid-$1.18 level. The dollar was sold further on July 28 on dovish comments by FRB chair Jerome Powell, so the pair strengthened to the mid-$1.18 mark. The US released some worse-than-expected 2Q GDP data on July 29, with the pair temporarily climbing to $1.1893 as a result. The pair renewed its July 29 high the following day too, with the pair trading around $1.19 on July 30.

2. Outlook for This Month

The euro look set to move firmly against the dollar and the yen in August. Specifically, the euro/dollar pair will probably move in a range between $1.17–$1.21 and the euro/yen pair in a range between 129-132 yen, with the single currency expected to move firmly at its current levels.

The euro/dollar pair will continue to be pushed higher by dollar bearishness on the back on prolonged monetary easing in the US. With the ECB actively committed to easing, the euro will be sold on monetary policy too, but it is unlikely to weaken given the ongoing trend of dollar selling. The euro might be sold if the greenback is bought on some clear signals about the commencement of tapering in the US, with the euro/dollar pair highly likely to move bearishly in this scenario. When it met last month, the FOMC said rate hikes were not needed at the moment, so when it comes to US tapering, attention is now focusing on what FRB chair Jerome Powell will say during his speech at the Jackson Hole symposium over August 26–28. This will be a meeting of monetary policy makers from all over the world. If the US uses it to announce a tightening of policy, the dollar will probably be bought and the euro sold, so caution will be needed.

Investors should also monitor whether the economic recovery is stalled by the spread of the Delta variant, for example, or whether more vaccinations will be needed before restrictions on mobility are lifted. Moves to get people double vaccinated have swept the globe since June and there were hopes that restrictions could be totally lifted from summer, with the economy then recovering at a faster pace, but in July some voices said more vaccinations might be needed to cope with the spread of the Delta variant, with concerns then growing that the economic recovery might be stalled. As such, if it seems US tapering will take place at a later date, the greenback will continue moving bearishly, with the euro moving firmly as a result.

Market participants should keep an eye on inflationary indicators, such as the CPI and PPI data, and indicators that reveal the strength of the economic recovery, such as the GDP data and the retail sales data. The ECB has said that rising inflation is a transitory phenomena, so even if the inflation rate rises sharply, this will probably not lead to any immediate monetary policy shifts. Inflation has risen across the globe in the wake of the Covid-19 crisis, but many observers have cast doubt on the idea that this is just a short-term phenomena, so attention will be focused on inflation-related indicators going forward. Furthermore, if indicators confirm that economy activity is recovering, this will justify euro bullishness and will also support the firmness of the single currency, so these indicators will be attracting attention too.

Dealers' Market Forecast

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

Bullish on the euro	5 bulls	1.2100 – 1.1750	Bearish on the euro	15 bears	1.1950 – 1.1750

* Ranges are central values

Tanaka	Bear	1.2000 – 1.1700	The economic recovery in Europe is relatively slow. The ECB's new forward guidance is even more dovish, so with the FRB discussing when to start tapering, there is a clear divergence in the stances of the FRB and ECB. As such, the euro/dollar pair will probably move with a heavy topside.
Yano	Bear	1.1950 – 1.1750	Though the ECB Governing Council revised its forward guidance at its last meeting, there remain deep-rooted concerns about the spread of Covid-19, with the European economic recovery also sluggish compared to the US, so the euro/dollar pair looks set to move with a heavy topside.
Tsutsui	Bull	1.2100 – 1.1750	As with July, many observers are expecting the euro/dollar pair to move bearishly on news about US tapering, for example, with euro shorts piled up quite high. As a result, the euro will probably strengthen in August. This scenario is also supported by the pick-up of economic activity in China.
Kato	Bear	1.1980 – 1.1750	There remains a clear divergence in the policy stances of the FRB and ECB. At the moment it seems more likely that the US will make the next move, so the euro/dollar pair will probably trade with a heavy topside.
Yamagishi	Bear	1.2000 – 1.1750	The ECB has upgraded its inflation forecast. When it met in July, the ECB Governing Council also reiterated that it would keep interest rates at very low levels for a prolonged period. As such, the euro/dollar pair will continue to move with a heavy topside on monetary policy. However, the pair has undergone some adjustment from its recent high in May, while there is a sense that rising US interest rates are cooling off, so the pair's room on the downside will also be capped.
Ushijima	Bull	1.2000 – 1.1800	Amid a gentle mood of risk appetite, the dollar will remain prone to selling against the other major currencies. Though the ECB is even more prudent than the US when it comes to easing, the euro/dollar pair will probably move firmly this month.
Omi	Bull	1.2100 – 1.1700	The euro/dollar pair will continue to move firmly this month. This will be due to ongoing dollar selling. The risk lies in a tapering of the PEPP or a cut to policy rates. Several government officials have said there is still room for rate cuts, but this is unlikely right now.
Ueno	Bear	1.2000 – 1.1750	The euro/dollar pair moved bullishly late July, though this was mainly due to dollar selling. The US is unlikely to shift course drastically when it comes to tapering, so the pair's movements will probably be marked by some adjustment.
Yamaguchi	Bear	1.1950 – 1.1700	The ECB is prepared to tolerate some temporary inflation and it remains far from an exit compared to the FRB. The euro/dollar pair will move with a heavy topside on these divergent monetary policy stances. Investors should also be on guard against some risk-off dollar buying.
Kai	Bull	1.2100 – 1.1800	As it continues to examine ways to tackle Covid-19, FRB discussions about an exit are unlikely to make progress this month. The greenback will continue to be sold as expectations for US tapering wane.
Onozaki	Bear	1.2000 – 1.1500	The FRB will probably begin to discuss tapering, but the ECB remains in cautious mode. The dollar will probably be bought on these divergent stances.
Tamai	Bear	1.1950 – 1.1750	The ECB adjusted its inflation target last month and it indicated it would stay in easing mode for a longer period, with the ECB's stance remaining more accommodative that the FRB's. As such, the euro/dollar pair will probably trade with a heavy topside.
Harada	Bear	1.1950 – 1.1750	Economic activity look set to resume in Europe, but the ECB remains in dovish mode. The US is likely to begin tapering and it also faces rising inflation, so the euro/dollar pair will move with a heavy topside on the divergent policies of the ECB and FRB.

Oba	Bear	1.1980 – 1.1750	The dollar/yen pair is expected to move with a heavy topside in August. With the FRB likely to take the lead when it comes to monetary tightening, the dollar will probably be bought. Economic indicators also suggest that the European economic recovery is stalling compared to the US. With the Covid-19 situation also remaining fraught, it seems the ECB will wait until December before it makes any decisions about tapering.
Katoono	Bear	1.1950 – 1.1750	The US is moving towards monetary policy normalization. In contrast, the ECB has recently strengthened its dovish stance. The euro/dollar pair will continue to be weighed down by this divergence. With the Delta variant also surging again, it seems the post-pandemic recovery will be more sluggish than expected.
Kobayashi	Bear	1.1950 – 1.1700	Expectations for tapering are rising in the US, but the ECB has said it will continue to ease for now, so the euro/dollar pair looks set to move bearishly.
Henmi	Bear	1.1950 – 1.1700	Expectations for tapering will probably flare up in the US, but the ECB remains committed to easing. The euro/dollar pair will probably move with a heavy topside on these divergent monetary policies.
Otani	Bear	1.1950 – 1.1700	The ECB revised its forward guidance when it met in July, with expectations for early tapering dropping off sharply. On the other hand, there remain strong expectations for tapering in the US, so the euro/dollar pair looks set to move with a heavy topside on these divergent monetary policy stances.
Suzuki	Bear	1.1950 – 1.1700	The ECB remains in dovish mode, but the FRB is moving steadily closer to tapering, so the greenback will probably be bought, with the euro/dollar pair continuing to move with a heavy topside. The pair is also likely to move bearishly on concerns about an economic slowdown on the spread of the Delta variant.
Okuma	Bull	1.2100 – 1.1750	The euro will probably rise on risk appetite on the firm movements of US and European stocks. Shadows have also been cast over the economic recovery in the US. As such, the euro will be a comparatively easy currency to buy, with the euro/dollar pair set to move firmly.

Fumihiko Kanda, Europe Treasury Department

British Pound – August 2021

Expected Ranges **Against the US$: US$1.3600–1.4200**
Against the yen: JPY147.00–155.00

1. Review of the Previous Month

In July, the pound/dollar pair rose slightly compared to the end of June.

On July 1, Bank of England (BOE) governor Andrew Bailey commented that it was "important not to over-react to temporarily strong inflation," so even though had been no shift in direction from the June BOE meeting, expectations for rate hikes now waned, with the currency pair's trajectory subsequently determined by the BOE's stance compared to the FRB's. The pair continued moving around $1.38. The UK released some worse-than-expected May GDP data on July 9, but sterling's fall was halted and the currency pair bounced back to the $1.39 range. It then dropped below $1.39 on July 12 to move with a heavy topside. The pound was then bought on July 14 after the UK June CPI date rose at its fastest pace since 2018. Sterling was then bought after FRB chair Jerome Powell gave a slightly dovish speech to Congress, though the pair failed to reach $1.39. The pound also moved heavily at $1.39 on July 15 too after a BOE official said the bank would discuss cutting its asset purchases over the next month or two in the face of rising inflation.

The UK ended lockdowns on July 19, as scheduled, but with domestic Covid-19 cases hitting 50,000, there was no cause for optimism. In fact, the dollar/yen pair then plummeted to the mid-$1.36 level as risk aversion intensified on strong concerns about the spread of the Delta variant in the UK and across the world. The pair hit a monthly low of $1.3573 on July 20 and it remained at this level on July 21.

The pair was then bought back to the $1.38 range as the dollar oscillated between bullishness and bearishness. As markets participants waited for the results of the FOMC meeting, the dollar was bought on July 28 on expectations for hawkishness on the recent rise of US stock prices. In the end the FOMC decided to maintain the status quo. It did say there had been some progress when it came to the US economic situation. When it came to tapering, though, it only said it would "continue to assess the economy's progress," so the dollar dropped back and the currency pair rallied to the $1.39 range. It then renewed its monthly high of $1.3982 on July 29 before closing the month.

2. Outlook for This Month

The dollar/pound pair bottomed out at the end of July and this trend will probably continue into August.

Firstly, the pair will probably price in/adjust to divergent central bank outlooks (with this divergence particularly marked between the FRB and ECB). In July, BOE governor Andrew Bailey reined in moves towards policy normalization, but the FRB's subsequent tone could hardly be described as hawkish either. Furthermore, some financial institutions have downgraded their forecasts for the US economy in 2021, for instance, while there has been some correction to expectations for declining UK interest rates. Some observers think the BOE might shift in a hawkish direction when it meets on August 5. This is because some BOE officials have said the economy might be recovering at a faster pace compared to the BOE's projection in May. However, several BOE figures have dropped comments about ongoing easing, including governor Andrew Bailey, so the BOE is unlikely to shift policy when it meets this month, though investors will be watching to see how opinion divides when it comes to QE.

Next, it seems the surge in UK Delta variant cases has peaked out. New cases rose to around 50,000 on July 19, but they had fallen to around 20,000 by the end of the month. Furthermore, most UK 20- and 30-year-olds are expected to receive their second jabs from August to September, so it seems unlikely that the UK government will introduce lockdowns again (the government had not ruled out such a re-introduction when it ended lockdowns on July 19). However, the Covid-19 situation cannot be gauged from UK figures only, with the pair likely to fall during phases of risk aversion.

On the whole, market participants are not expecting any major shifts during the summer dry season. However, although US stocks have risen to record highs, volatility could rise if US investor sentiments are hit by turmoil in Chinese or Hong Kong markets, for example, so caution will be needed. If this happens, sterling will probably be sold on risk aversion.

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

Australian Dollar – August 2021

Expected Ranges **Against the US$: US$0.7200–0.7600**
Against the yen: JPY79.20–85.20

1. Review of the Previous Month

With Australian lockdowns proving a negative factor in July, the AUD/USD pair renewed this year's low of $0.7290.

In the first week, the pair weakened to $0.7445 as the greenback was bought on the release some strong US employment data for June.

In the second week, the RBA decided to retain the April 2024 bond as the bond for its yield curve controls (YCC). It also decided to taper the bond purchase from the current pace of AUD 5 billion a week to AUD 4 billion a week after the completion of the current bond purchase program in September until at least mid-November. After rising to just below $0.7600, the pair was sold back to the upper-$0.74 mark. In a speech, RBA governor Philip Lowe said "it is likely that the unemployment rate will need to be sustained in the lower-4%s for the Australian economy to be considered to be operating at full employment" and he added that he was not dropping hints about rate hikes in 2023. Crude oil prices moved erratically on July 7 after an OPEC+ meeting was abandoned, but with observers believing this rupture would serve to increase rather than decrease supplies, crude oil futures fell by over one dollar. All this saw the currency pair dipping from the lower-$0.75 level to the mid-$0.74 mark. Furthermore, NSW went to a lockdown at the end of June and this has been extended, with the Australian dollar moving heavily as a result. The FOMC minutes predicted that there would be ongoing progress toward the commencement of tapering, though they also said there remained a lot of uncertainty. US stocks rallied as a result, so the AUD/USD climbed from around $0.7480 to hit the $0.75 range again, though it then fell to $0.7417 on risk aversion. In a speech, RBA governor Philip Lowe reiterated that "the condition for an increase in the cash rate depends upon the data, not the date; it is based on inflation outcomes, not the calendar," adding that "we also expect that it will take until 2024 for inflation to be sustainably within the 2 to 3% target range."

The currency pair moved with a heavy topside in the third week. On July 13, the pair climbed to around $0.7500 after China released a better-than-expected trade balance for June, but with the US June CPI data significantly outperforming expectations, the greenback was bought and the pair weakened to around $0.7430. July 14 saw the release of a strong Australian Consumer Confidence Index for July. When the RBNZ met to set policy, meanwhile, it announced it would halt additional asset purchases under its Large Scale Asset Purchase (LSAP) program by July 23, with the New Zealand dollar then rising on expectations for an early rate hike. The Australian dollar was also pulled higher.

In the fourth week, Sydney tightened Covid-19 restrictions, while the state of Victoria also extended its lockdown, so the AUD/USD pair moved bearishly. On July 21, the pair temporarily fell to $0.7290 after the Australian June retail sales figure fell below expectations. The pair dropped to around $0.7340 on July 22 after NSW recorded its highest number of daily Covid-19 cases in 2021, though it then rallied on rising Australian interest rates. As risk sentiments steadily improved, the pair climbed to around $0.7380. The pair rose to around $0.7375 on July 28 after Australia's Q2 CPI data beat expectations, but it then dropped back after Sydney extended its lockdown.

2. Outlook for This Month

The AUS/USD pair looks set to continue moving with a heavy topside in August.

NSW has extended the lockdown that began on June 26, with strict restrictions on mobility set to remain in place until August 28. Partial lockdowns were also instituted in Victoria and South Australia in July, with the impact of all this set to emerge in the monthly economic indicators released this month. With the lockdown in the Greater Sydney area continuing for one month, estimates suggest Australian GDP will take a one-month AUD 7 billion hit. There are concerns that the Australian economic recovery will stall on these lockdowns, with this likely to impact the RBA's policy stance too. The RBA announced some tapering from September to November when it met last month, but this might be scrapped when it meets again on August 3, with some observers also predicting that the RBA will ramp up its asset purchases from AUD 5 billion a week to AUD 6 billion. When it meets on August 3, if the RBA does scrap the asset purchase cuts planned from September or if it temporarily increases the amount of its purchases, the Australian dollar will probably fall sharply. On the other hand, while continuing to monitor the progress of the economy, the FOMC has reiterated that rising inflation is due to transitory factors, with the AUD/USD pair's downside likely to be supported by dovish comments by FRB officials in August too.

If interest rate futures are anything to go by, market expectations for RBA rate hikes have been pushed back. Market participants were pricing in around 1.5 rate hikes by the end of 2022 directly after the July RBA meeting, but this has since dropped back to around one rate hike. If surging Covid-19 cases ease off and lockdowns are removed, Australia's economy will probably recover at a fast pace once more, but if lockdowns are extended, the economy might stall, so it is very hard to gauge how the currency pair will move from here on. Risk sentiments deteriorated across all financial markets mid-July as the Delta variant swept the globe, but pessimism seems to have eased off slightly. However, several economists are now warning about a global economic slowdown, so there are doubts about whether stock prices will continue to have their topsides tested.

With external factors also playing a role, the AUD/USD pair is likely to move with a heavy topside until it seems lockdowns will be lifted in Sydney.

Reiko Kanemoto, Canada Office, Americas Treasury Department

Canadian Dollar – August 2021

Expected Ranges	**Against the US$: C$1.2200–1.2800**
	Against the yen: JPY84.00–90.00

1. Review of the Previous Month

The USD/CAD pair opened July trading at C$1.2437. It hit a monthly low of C$1.2303 on July 6 and monthly high of C$1.2807 on July 19.

Crude oil prices had continued to rise until the start of July, but they then fell on the OPEC+ meeting and concerns about a global economic slowdown on the spread of the Delta variant. The USD/CAD pair also rose from C$1.23 to hit C$1.28 for a time. As crude oil prices stabilized mid-July, the currency pair continued to trade around C$1.25.

The pair climbed from C$1.23 to C$1.2486 on July 6. The OPEC+ meeting then broke down over the issue of whether to extend production cuts. Amid growing concerns that some oil-producing nations might ramp up supply, crude oil prices (WTI) dropped to $73/barrel after having previously risen to $77/barrel. With observers predicting that the failure of OPEC+ talks would lead to an increased supply, WTI fell to $71/barrel on July 7. The minutes to the June FOMC meeting were released during the afternoon, though they contained no specific mention of tapering, so the impact on the currency pair was minimal. WTI continued to fall, though, so the pair rose to C$1.2590 on July 8. The Canadian June employment data was released on July 9. At +230,700 m-o-m, the jobs figure was up on forecasts for a +175,000 rise. This first increase in three months was driven by jobs growth in the services sector on a lifting of Covid-19 restrictions. The unemployment rate also fell from 8.2% to 7.8%. The Canada dollar saw some buying, with the USD/CAD pair closing at C$1.2447.

As expected, the Bank of Canada (BOC) kept the policy rate fixed at 0.25% when it met on July 14. It also decided to scale back its asset purchases from C$3 billion/week to C$2 billion/week. Around the same time, news emerged that the United Arab Emirates (UAE) had reached a deal with Saudi Arabia to scale back coordinated production cuts. WTI now dropped again after previously having returned to $75/barrel. The USD/CAD pair continued rising to top C$1.26 on July 15. OPEC+ held a cabinet-level meeting on July 18. With the UAE and Saudi Arabia dropping their opposition, an agreement was made to reduce coordinated production cuts from August. As a result, WTO plummeted to $65.70/barrel on July 19. The Canadian dollar was also sold at a faster pace on growing concerns about a global economic slowdown on the spread of new Covid-19 variants. The USD/CAD pair rocketed from C$1.26 to C$1.28. WTI recovered to $70/barrel and then moved stably from July 21, so the Canadian dollar was bought back, with the currency pair returning to C$1.25. The pair's movements were muted up until July 27 in advance of the FOMC meeting and the release of several major economic indicators, with the pair trading between C$1.25–1.26. However, the greenback was sold on July 28 after the FOMC hinted that tapering could be pushed back, so the pair fell. The US dollar was sold on July 29 too. With WTI continuing to bounce back on sliding US crude oil inventories, the USD/CAD weakened to close at C$1.2448.

2. Outlook for This Month

The USD/CAD pair is expected to move in a range between C$1.22–1.28 in August. Restrictions on economic activity have been lifted in stages from June, with this trend set to continue steadily in July as vaccinations are rolled out. As of July 23, 79.66% of all people aged 12 or over had received the first vaccination, with 57.45% receiving both jabs. The vaccination rate is approaching 70%, a level at which some say herd immunity is achieved, so it is unlikely that Canada will re-introduce the kind of strict restrictions on outdoor travel seen before now.

According to the BOC's 2Q Business Outlook Survey (released July 5), business confidence continues to improve among Canada's domestic firms. With most companies expecting sales to improve on the same period last year, the Survey predicted that investment and employment would expand going forward. Improvements were also seen in the June Canadian employment data, with economic activity normalizing. Under these circumstances, employment looks set to return to pre-pandemic levels in the third quarter. Despite restrictions on outdoor travel, Canada's May retail sales data fell by less than the markets had been expecting, with the data expected to begin growing again from June. If the Covid-19 situation calms down and the labor market continues to recover firmly, the BOC could scale back its asset purchases in October too and it may well bring the program to an end within the year. It seems likely the BOC will move towards rate hikes in 2022, with a Bloomberg survey revealing that many observers expected rates to be lifted in the latter half of 2022.

Crude oil prices could continue to undergo temporary rises and falls on trends related to OPEC+ oil-producing nations, but as the global economy recovers, WTI will probably move between $65–75/barrel overall.

The US and other nations are seeing a rise in Covid-19 cases on the spread of new variants, so the Canadian dollar will be sold at times on risk aversion, with the USD/CAD pair likely to rise to around C$1.28 at times. However, the Canadian economy is recovering at a steady pace, even compared to other developed nations. With expectations for rate hikes also growing, the Canadian dollar looks set to move firmly, with the currency pair expected to move between C$1.22–1.28 in August.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – August 2021

Expected Ranges **Against the US$: KRW 1,130–1,170**
Against the yen: JPY 9.434–9.804 (KRW100)
(KRW 10.200–10.600)

1. Review of the Previous Month

The USD/KRW pair rose in July.

The pair had closed at KRW1126.0 on June 30, but with the Covid-19 Delta variant rampant, the pair opened the month trading at KRW1132.0. The US released some healthy June nonfarm payrolls data during overseas trading time on July 2, so risk appetite saw the pair opening July 5 at KRW1131.8. Risk aversion then swept the markets during overseas trading time on July 6. The UK was hit by a surge in the Delta variant, for example, while crude oil prices also moved erratically after OPEC+ talks on coordinated production cuts broke down. The FOMC minutes were then released during overseas trading time on July 7. They revealed that members believed that "substantial further progress" had not been made when it came to employment, though they indicated that progress would continue going forward. All this was in line with the FRB's previous comments, so the impact on the markets was muted. Market participants continued to focus on the spread of the Delta variant toward July 9.

South Korean government then announced that they would raise the Covid-19 alert in the Greater Seoul area to its highest tier from July 12. All this saw the USD/KRW pair rising to KRW1150.0. The US released some extremely strong June CPI data (+0.9% m-o-m against a forecast of +0.5% m-o-m) during overseas trading time on July 13. This led to growing concerns about early tapering ahead of a speech by FRB chair Jerome Powell , so the currency pair hit KRW1151.9 on July 14. However, there was real-demand won buying when the pair topped KRW1150, so the pair's topside grew steadily heavier. The greenback was then sold during overseas trading time on July 14 when a speech by FRB chair Jerome Powell turned out to be more dovish than the markets had expected, so the currency pair tumbled. Furthermore, though the Bank of Korea (BOK) kept the base rate fixed when it met on July 15, it emerged that one member had called for a rate hike. With the BOK also maintaining its forecast for 4.0% national growth in 2021, yields on South Korean government bonds soared and the currency pair weakened to KRW1138.6. The pair then climbed on July 19 on the spread of the Delta variant.

The market mood then deteriorated on plummeting WTI prices and so on, so the pair climbed to KRW1153.8 on July 21. Stock markets fell sharply on July 28 after the Chinese authorities introduced tougher restrictions, so the USD/KRW pair rose to a monthly high of KRW1157.3. However, the contents of the FOMC meeting on July 29 turned out to be quite dovish. With the won also being bought on end-of-month real-demand, the pair then tumbled to KRW1143.7. As overseas investors continued to sell South Korean stocks, though, real-demand won buying eased and the pair rose again. In the end, the pair closed at KRW1150.3, up 24.2 won on the end of June.

2. Outlook for This Month

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

The Covid-19 Delta variant swept the globe in July, with Europe and other areas placing restrictions on mobility. This led to risk aversion, with the currency pair rising as a result. When it met in July, the BOK hinted that rates could be hiked within the year (i.e. 'normalization') given the South Korean economic recovery and the scope for further moves on the monetary policy front, though it kept is stance essentially unchanged on June. Meanwhile, the FRB continues to maintain that domestic employment and economic conditions are still some way off the levels that would justify tapering, so it seems the FRB's stance has also had a limited impact on the markets.

There are three factors to watch out for this month:

(1) A potential shift in FRB monetary policy at the August Jackson Hole meeting, (2) the impact of the Delta variant of Covid-19, and (3) hints by the BOK about the timing of rate hikes.

As for (1), in June the FOMC indicated that employment and economic conditions are still some way off the levels that would justify tapering, so the commencement of tapering will probably have to wait for now. The Delta variant then swept the globe, while the recovery in US economic indicators started to stall, so it seems unlikely that FRB chair Jerome Powell will suggest that tapering is at hand when he speaks at the Jackson Hole symposium in August. However, he could drop some specific hints about when he expects targets (related to inflation and employment) to be met, so investors will need to keep a close eye on this event.

Turning to (2), and the spread of the Delta variant of Covid-19 proved a risk-off factor in July, though it has not curbed US economic activity to any real extent. There have already been some considerable position adjustments on the spread of the Delta variant, so it is unlikely to prove a risk-off factor going forward.

As for (3), it is noteworthy that one member called for a rate hike when the BOK met in July. It seems even more members will call for rate hikes when the BOK meets in August, with the meeting likely to lead to won buying.

Under these circumstances, the USD/KRW pair will probably stop rising for a time in August. Though (1) and (2) represent strong dollar-buying factors, the US economy is currently slowing, so there seems to be a shortage of factors that could prompt the FRB to take an even stronger stance. Investors have also priced in spread of the Delta variant to a large extent, so the dollar selling that we saw in June and July could well take a breather this month.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – August 2021

Expected Ranges	**Against the US$: NT$27.80–28.25**
	Against the yen: JPY3.90–4.00

1. Review of the Previous Month

In July, the USD/TWD pair fluttered up and down on the movements of overseas investors.

The pair opened the month trading at TWD27.900. With overseas investors selling Taiwanese stocks on balance and the greenback moving bullishly ahead of the release of the employment data, the pair temporarily hit TWD28. However, Taiwanese stocks were then pulled up as US stocks rose on the results of the US employment data, so the Taiwan dollar was bought and the currency pair fell to TWD27.854 on July 5. As Taiwanese stocks continued to climb, the Taiwan Capitalization Weighted Stock Index hit 18,000 points for the first time, though its sojourn here was short-lived and the Taiwan dollar was sold by overseas investors, perhaps to lock in profits, so the USD/TWD pair edged up. Risk aversion intensified on a resurgence of Covid-19 cases, with the currency pair hitting TWD28 on July 8 before rising to around TWD28.08 on July 9.

Risk aversion eased off mid-July, so Taiwanese stocks were bought back and the pair weakened to around TWD27.99. As the Taiwan Capitalization Weighted Stock Index hit a record high on July 15, overseas funds flooded into Taiwan at a faster pace, with the currency pair temporarily tumbling to around TWD27.87. However, US hi-tech stocks were then sold and Taiwanese stocks also fell, with the pair returning to TWD28.

Risk aversion flared up again late July on the resurgence of Covid-19 cases, so Taiwanese stocks and the Taiwan dollar were sold and the currency pair hit TWD28.106 for a time on July 20, though exporters sold the greenback when the pair reached TWD28, so the pair's topside was held down. Taiwanese stocks were then bought for a time thereafter, with the pair temporarily dropping below TWD28, but Taiwanese stocks began moving bearishly, so the pair continued moving at the TWD28 mark. Taiwanese stocks continued falling from July 26 after stocks in Shanghai fell on the announcement of stricter rules in China, but with exporters selling the US dollar at the month's end, the USD/TWD pair's topside was held down, with the pair moving at TWD27.95 as Taiwanese stocks regained composure when Chinese stocks stopped falling.

2. Outlook for This Month

The USD/TWD pair is expected to trade in a range in August.

The pair is still being swayed by the movements of overseas investors. It is being pulled up by bullish US stocks at times, then buffeted by Covid-19 and risk aversion related to China at other times. However, Taiwan's 2Q GDP figure hit a preliminary 7.47%, so although Covid-19 is spreading within Taiwan, the Taiwanese economy continues to grow at a fast pace. The figures have been pushed up by buoyant exports, though, with consumer spending moving into negative territories on the lifting on the Covid-19 alert level.

Domestic cases have cool off and the alert level has been lowered, though. Vaccinations are also being rolled out steadily in Taiwan. As such, risk aversion in Taiwan looks set to ease off in August. However, as Covid-19 cases surge across the globe and stocks move erratically, the USD/TWD pair is expected to jostle up and down this month.

Exports remain buoyant at present, but the pair will still be swayed by the movements of overseas investors.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – August 2021

Expected Ranges **Against the US$: HK$ 7.7700–7.8000**
Against the yen: JPY 13.80–14.40

1. Review of the Previous Month

Hong Kong dollar spot exchange market in July

HKD spot weakened to mid-7.78 level given deteriorating risk sentiment and capital outflow pressure due to mounting regulation risks for Chinese private companies. On top of that, the more infectious Delta variant dilutes the effectiveness of vaccinations and may reverse the global reopening plan, casting a shadow over the global growth outlook. With heavy sell-offs in HK equities, IPO sentiment soured and receding IPO flow failed to support the HKD. Capital outflow pressure were mounting as foreign/onshore investors offloaded equities for Chinese tech giant listed on HK exchanges, with Stock Connect inflow to HK equities shrinking by to around HKD 420bn in late-July. Other HK equities also came under pressure as stock market sentiment turned extremely fragile. Following the Fed's hawkish shift, the falling HKD-USD rate spread (turned more negative) also kept the HKD spot under pressure. HK macro outlook continued to improve as virus spread remained under control, with unemployment rate for June sliding to 5.5% from 6.0%.

Hong Kong dollar interest rate market in July

HKD liquidity condition remained flush, with HKMA aggregate balance hovering at its record high of HKD 457.5bn. 1-month and 3-month HKD HIBOR fell to their 11-year lows of 0.07% and 0.149%, respectively. With the Delta variant spread, market participants pushed back Fed's rate hike expectation and Hong Kong banks' rate hike cycle will likely materialize later under the USD-HKD peg, leading to HKD IRS retracement to below 0.4% from 0.5% at June-end. As the Fed continued to inject USD liquidity into the market, USD demand remained soft against the HKD, keeping 5Y HKD basis swap at near par.

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2. Outlook for This Month

Hong Kong dollar spot exchange market in August

USD/HKD spot is expected to range between 7.77 and 7.80 in the coming month. The mounting capital outflow pressure related to Chinese investment offloading after the re-pricing of China regulation risk will likely drive the HKD lower in the near term. Foreign investors will tend to reduce their holdings on Chinese tech giants listed on HK exchanges. Despite the Delta variant spread, the Fed may still reveal its tapering plan at Jackson Hole symposium at late-August as US CPI inflation escalated to uncomfortably high level. The negative HKD-USD rate spread will likely keep the HKD on the back foot. While the dividend flow from Chinese companies is set to run its course in August, the IPO flow amid the bearish HK equities is unlikely to offer sufficient support to the HKD.

Hong Kong dollar interest rate market in August

Front-end HKD rates are set to remain at bottom low given the flooding HKD liquidity. The HKMA is unlikely to drain excessive HKD liquidity via extra Exchange Fund Bills and Notes (EFBNs) issuance in order to support the recovery. The repricing of China regulation risk and foreign investors' adjustment on Chinese investors could fuel outflow pressure and is unlikely to send the HKD to hit its weak-side convertibility undertaking of 7.85 in the near term. As the Fed may push back its tapering action and rate hike cycle due to the Delta variant spread, the HKD IRS should remain subdued as well. HK CPI inflation is expected to remain subdued given the falling food prices in mainland China.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – August 2021

Expected Ranges **Against the US$: CNY 6.4000–6.7000**
Against the yen: JPY 16.20–17.90
Against 100 yen: CNY 5.5600–6.1500

1. Review of the Previous Month

In July, the U.S. dollar/Chinese yuan exchange rate fluctuated violently at the end of the month.

On July 1, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 6.46 level. On July 2, the U.S. dollar/Chinese yuan exchange rate rose to the mid-CNY 6.48 level as a result of the fall of Chinese stock prices, after which market participants started selling the U.S. dollar in reaction to the release of U.S. employment statistics in the evening.

On July 5, the U.S. dollar/Chinese yuan exchange market opened trading at around CNY 6.47. Market participants continued selling the U.S. dollar against other major currencies. However, the exchange rate did not fall below the CNY 6.46 level. In the evening of July 6, major economic indices in the U.S. and Europe turned out to be weaker than expected, which encouraged market participants to buy the U.S. dollar in order to avert risk, and the U.S. dollar/Chinese yuan exchange rate reached the upper-CNY 6.47 level. During the daytime of July 7, market participants actively bought the Chinese yuan, offsetting the earlier rise of the exchange rate. However, in the evening of the same day, the State Council of the People's Republic of China suggested the possibility of an additional measure of monetary easing at its meeting, and this encouraged market participants to buy the U.S. dollar and sell the Chinese yuan once again. As a result, the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.49 level in the evening of July 8. In the evening of July 9, the People's Bank of China (PBOC) announced its decision to cut the deposit reserve requirement ratio. As market participants had already been expecting monetary easing, the U.S. dollar/Chinese yuan exchange rate fell from the CNY 6.49 level to the CNY 6.48 level after the announcement.

On July 12, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.47 level, after which the exchange rate remained at the same level without violent fluctuations. On July 13, trade statistics turned out to be stronger than estimated, positively reacting to which the Chinese yuan appreciated, and the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.46 level. However, the CPI of the U.S. was announced in the evening of the same day, and the result turned out to be stronger than expected, which encouraged market participants to buy the U.S. dollar, leading the U.S. dollar/Chinese yuan exchange rate to rise to the mid-CNY 6.47 level. Then, on July 14, the congressional testimony given by Federal Reserve Board (FRB) Chair Jerome Powell was seen as dovish in the market, and this weakened the U.S. dollar and caused the U.S. dollar/Chinese yuan exchange rate to fall to temporarily reach the upper-CNY 6.44 level. The exchange rate returned to approach the CNY 6.47 level thereafter during the nighttime. However, on July 15, major Chinese economic indices including the country's GDP turned out to be strong, and the Chinese yuan appreciated again. Then, in the evening of July 16, the retail sales of the U.S. turned out to be robust, which encouraged market participants to buy the U.S. dollar.

On July 19, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.47 level. Market participants continued buying the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate rose to the CNY

6.49 level. On July 20, the lending prime rate in China, attracting substantial attention in the market, was maintained at the existing level. As a result, less market participants expected additional measures of monetary easing, leading the Chinese yuan to appreciate. During the daytime, the U.S. dollar/Chinese yuan exchange rate fell to approach the CNY 6.48 level on July 20, and the exchange rate continued falling to the mid-CNY 6.46 level on July 22. However, the trend was inversed thereafter.

On July 26, the U.S. dollar/Chinese yuan exchange market opened at the CNY 6.48 level. On July 27, the media reported that restrictions would be tightened on education and technology industries, and this led Shanghai stock prices to fall. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate also rose sharply to reach the lower-CNY 6.51 level for the first time in approximately three months. Then, on July 28, the U.S. dollar/Chinese yuan pair continued trading at the CNY 6.50 level during the daytime. However, the pressure to sell the Chinese yuan against the U.S. dollar weakened, as the fall of stock prices stopped, leading the U.S. dollar/Chinese yuan exchange rate to gradually fall. Also, in the evening of July 28, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and the FOMC announced a view that the U.S. economy had been smoothly recovering while also revealing a discussion on the tapering of the asset purchasing program. On the other hand, the contents of a speech by FRB Chair Jerome Powell were dovish. After the FOMC meeting, market participants thus continued selling the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.45 level on July 29.

2. Outlook for This Month

In August, the U.S. dollar/Chinese yuan exchange rate is forecast to continue fluctuating within a narrow range, while upward pressure is likely to strengthen.

The PBOC decided to cut its deposit reserve requirement ratio, clearly showing its attitude to take measures of monetary easing if necessary. Furthermore, when the Chinese yuan depreciated at the end of the month, foreign investors' funds flew out of China due to risks of restrictions domestically. As a result, capital inflow decreased from foreign investors, and this was the main reason for the outlook of the appreciation of the Chinese yuan. It is also worth mentioning that the tensions between the U.S. and China have been intensifying, which is another factor to lead the Chinese yuan to depreciate.

In terms of economic indices, the major economic indices, including the GDP, which was recently announced, turned out to be relatively strong. However, many market participants expect the economic outlook for the second half of the year to be weaker than the first half of the year, as can also be confirmed by the attitude of the PBOC such that it is ready to take measures of monetary easing.

On the other hand, in the U.S., the FOMC at its meeting in July announced its view that the U.S. economy had been steadily recovering, while discussions continue on the subject of the tapering of monetary policy. However, at the press conference, FRB Chair Jerome Powell maintained a cautious attitude about the normalization of monetary policy. In the foreign exchange market, there has not been a turning point for the U.S. dollar to start appreciating.

As there are factors to weaken both the U.S. dollar and the Chinese yuan, the U.S. dollar/Chinese yuan exchange rate is most likely to continue fluctuating within a narrow range, as has been the case since the second half of June. However, market participants should also be careful about strengthening upward pressure. There are nevertheless long-term factors to strengthen the Chinese yuan, such as the current account surplus in China, as well as the capital inflow, which is likely to continue based on the fact that Chinese government bonds were incorporated into a global index—this would encourage market participants to buy the Chinese yuan.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – August 2021

Expected Ranges **Against the US$: SG$ 1.3200–1.3800**
Against the yen: JPY 79.00–83.00

1. Review of the Previous Month

In July 2021, the Singapore dollar depreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened at the mid-SGD 1.34 level. As was the case at the end of the previous month, the Singapore dollar weakened gradually at the beginning of the month. Toward July 2, the Singapore dollar weakened against the U.S. dollar to the lower-SGD 1.35 level. Having witnessed mixed figures in the employment statistics of the U.S., market participants became less cautious about the tapering of quantitative monetary easing, leading U.S. interest rates to fall. Under such circumstances, the Singapore dollar started to rally. On July 6, the Singapore dollar continued appreciating, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.34 level.

Toward the middle of the month, the Singapore dollar weakened. The June CPI of the U.S. turned out to be significantly stronger than the market estimate, and this led to a fall of U.S. stock prices and the rise of interest rates. Under such circumstances, the Singapore dollar started to depreciate slowly. The Singapore dollar continued weakening due to the recovery of the worldwide stock market as well as due to the rise of U.S. interest rates and the increase of Covid-19 cases in Asia. As a result, the U.S. dollar/Singapore dollar exchange rate, which was once fluctuating at the lower-SGD 1.34 level, reached the upper-SGD 1.36 level toward July 21.

On July 28, Asian currency exchange rates continued fluctuating within a narrow range, waiting for the Federal Open Market Committee (FOMC) meeting in the U.S. that was gathering substantial attention in the market. As the Chinese yuan rallied slightly, the Singapore dollar strengthened as well. Thereafter, at the press conference after the FOMC meeting that market participants were waiting for, Federal Reserve Board (FRB) Chair Jerome Powell commented regarding the tapering of quantitative monetary easing such that economic conditions would be assessed at several meetings in the future. He thus confirmed once again his dovish attitude. Under such circumstances, the majority of Asian currencies continued appreciating on July 29 and beyond. In the U.S. dollar/Singapore dollar exchange market, the Singapore dollar continued gradually appreciating, and the U.S. dollar/Singapore dollar market has been sitting at the mid-SGD 1.35 level (as of July 29).

2. Outlook for This Month

In August 2021, the Singapore dollar is expected to weaken against the U.S. dollar.

In the previous month's article, it was forecast that the Singapore dollar would remain robust until the end of the month, mainly thanks to economic recovery in neighboring countries, even though the Singapore dollar might temporarily depreciate due to expectations for the tapering of monetary easing in the U.S. However, in July, factors of uncertainty increased in the Singapore dollar exchange market.

First of all, China strengthened financial restrictions. Our bank estimates that, in the currency basket for the

Singapore dollar, the Chinese yuan accounts for a high proportion (approximately 20%). As a result of strengthened financial restrictions in China, the financial market could see confusion, which would increase pressure to sell the Singapore dollar following the depreciation of the Chinese yuan.

Secondly, in Singapore and neighboring countries, the number of Covid-19 cases has not been controlled as was expected. The increase of Covid-19 cases is out of control in India, Indonesia, and Thailand. In Singapore as well, there has been an increasingly wide gap between the planned economic recovery based on the advancement of Covid-19 vaccination and the reality, for which Phase 2 Heightened Alert (HA) measures were reintroduced again after first introduction in July.

Furthermore, there are some events that could reveal important insights regarding the tapering of monetary easing in the U.S., such as the Jackson Hole Economic Symposium scheduled for August as well as an FOMC meeting scheduled for September. If expectations grow for the tapering of monetary easing in the U.S. at one of those events, the Singapore dollar would depreciate against the U.S. dollar, also due to the slowness of economic recovery in Asia.

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

Thai Baht – August 2021

Expected Ranges **Against the US$: THB 32.70–33.50**
Against the yen: JPY 3.30–3.35

1. Review of the Previous Month

In July, the U.S. dollar/Thai baht exchange rate rose significantly, as the spread of Covid-19 cases in Thailand was significant. At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 32. As economic indices turned out to be strong before the announcement of the June employment statistics in the U.S., the U.S. dollar strengthened with growing expectations. However, the June employment statistics of the U.S. turned out to be weak, and this slowed down the appreciation of the U.S. dollar. In the second week of the month, the U.S. dollar strengthened again, and the Thai baht weakened due to the growing number of Covid-19 cases in Thailand. While stock prices were falling worldwide, the market sentiment worsened rapidly, leading the U.S. dollar/Thai baht exchange rate to reach the THB 32.50 level.

In the middle of the month, lockdown measures were introduced again in provinces in which Covid-19 cases have been increasing particularly rapidly, including the capital city of Bangkok. Furthermore, there was a media report that a large-scale petroleum oil refining company in Thailand would acquire a European company at around EUR 4 billion, and this encouraged market participants to sell the Thai baht. Then, on July 13, the June CPI of the U.S. was announced with the largest increase from the previous month in approximately 13 years. However, Federal Reserve Board (FRB) Chair Jerome Powell gave an impression to market participants that he remains as dovish as before, emphasizing at a congressional testimony that inflation was temporary and that market conditions would be carefully assessed in the times ahead. As a result, the rise of the U.S. dollar/Thai baht exchange rate halted for a moment. However, the number of new Covid-19 cases in Thailand continued renewing the all-time high, while the June retail sales of the U.S. turned out to be strong. As a consequence, market participants bought the U.S. dollar and sold the Thai baht in an accelerated manner. Weekly trading closed at around the THB 32.80 level. Then, on July 19, the Thai government announced its decision to strengthen lockdown measures. Concerns were growing about the spread of the more-contagious Covid-19 Delta variant, and downward pressure occasionally strengthened based on the fall of U.S. interest rates. However, on July 19 and 20, the U.S dollar/Thai baht exchange rate remained stable.

At the end of the month, some U.S. companies demonstrated strong accounting results on July 21, and concerns over the spread of the Covid-19 Delta variant were somewhat mitigated. However, the positive impact of such headlines did not last long. Thereafter, the U.S. dollar/Thai baht exchange rate continued rising gradually, although the Tokyo market was closed and a national holiday in Thailand that occurs in the last week of the month was approaching. On July 26, Chinese stock prices fell rapidly, in particular in the education technology sector, and this led the U.S. dollar/Thai baht exchange rate to rise and approach the THB 33 level. Toward the market closing, the rise slowed down. On July 27, the market was open between two national holidays in Thailand. However, the number of new Covid-19 cases in Thailand increased and reached 15,000 per day, and the U.S. dollar/Thai baht exchange rate continued fluctuating at around the THB 32.90 level. The Federal Open Market Committee (FOMC) in the U.S. implied that the tapering of monetary easing would be later than the market estimate. As a result, the U.S. dollar/Thai baht exchange rate fell slightly and continued fluctuating at around the THB 32.80 level on July 29.

2. Outlook for This Month

Many people used to think that the world economy would be normalized mainly in developed countries thanks to the advancement of Covid-19 vaccination. However, there is now a problem of an increase of a more-contagious variant. Thanks to the efficacy of the Covid-19 vaccine, the ratio of severe Covid-19 cases has decreased, and FRB Chair Jerome Powell confirmed that this situation would not worsen the economic outlook of the U.S. However, there has been a growing sense of uncertainty in the world economy. Indeed, in Australia, as soon as the central bank decided to start normalizing monetary policy with expectations for economic recovery, the situation changed and made it necessary to consider revising the plan. The recent increase of Covid-19 cases has been particularly severe in Asia, and this has been stifling the economy of each country. In Thailand, the number of new Covid-19 cases continued to increase every day and reached 10,000 per day in the middle of July. At the end of July, the number reached 15,000 per day, recording an increase of 5,000 per day, which is an increase of 50% within a week or so. Furthermore, household debt increased due to a decrease in household revenue based on restrictions, which have been strengthened since spring this year. According to the announcement of the central bank of Thailand, debt in the household sector as a percentage of GDP reached 90.5% in the first quarter of 2021. As economic activities in the household sector have been slow, it would take longer for domestic demand in Thailand to recover.

An expected delay in the Thai economic recovery makes it easy to encourage market participants to sell the Thai baht. Growing concerns over the Covid-19 Delta variant are also encouraging market participants to avert risks by buying the U.S. dollar. Therefore, the U.S. dollar/Thai baht exchange rate is most likely to continue approaching and renewing the year's all-time high in August. On the other hand, in July the FOMC did not give any clear indications about its monetary policy, and thus market participants are likely to take a wait-and-see attitude until the Jackson Hole Economic Symposium, scheduled this month. It is therefore difficult to expect the U.S. dollar to continue one-sidedly appreciating. However, it is not likely for the Covid-19 situation in Thailand to start improving before the end of August. Under such circumstances, it is more likely for the U.S. dollar/Thai baht exchange rate to continue rising to reach the highest rate in approximately three years since July 2018 at the mid-THB 33 level.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – August 2021

Expected Ranges	**Against the US$: MYR 4.20–4.30**
	Against the yen: JPY 25.64–26.32
	Against 100 yen: MYR 3.800–3.900

1. Review of the Previous Month

In July, the Malaysian ringgit further weakened against the U.S. dollar from June. At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.15 level. At the end of the month, the U.S. dollar/Malaysian ringgit exchange rate rose to MYR 4.24 for the first time in one year since July last year. Thus, market participants continued selling the Malaysian ringgit throughout the month.

At the beginning of the month on July 1, an enhanced movement control order (EMCO) was introduced in the state of Selangor and part of the Kuala Lumpur region, where the increase of Covid-19 cases has been particularly severe. There have been concerns over the delay in the progress of the national recovery plan announced by Prime Minister of Malaysia Muhyiddin Yassin, and this strengthened downward pressure on the Malaysian ringgit. Furthermore, on July 8, the central bank of Malaysia announced its decision to maintain the policy interest rate at 1.75% for the sixth connective time, as had been anticipated in the market. In the statement, the central bank emphasized concerns over substantial risks of a worsening growth outlook as a result of the delay in control measures for Covid-19 and the world economic recovery. After the announcement of the EMCO, the number of new Covid-19 cases continued to increase, and market participants continued selling the Malaysian ringgit. The U.S. dollar/Malaysian ringgit exchange rate thus reached the MYR 4.19 level on July 9.

Toward the middle of the month, market participants continued selling the Malaysian ringgit. The U.S. dollar/Malaysian ringgit exchange rate rapidly exceeded the MYR 4.20 mark. On July 13, the June CPI of the U.S. was announced, and both the headline CPI and the core CPI turned out to be significantly stronger than the market estimate. As a consequence, the U.S. dollar rallied. On the following day, the U.S. dollar/Malaysian ringgit exchange market opened at a higher exchange rate than the previous day's closing rate, exceeding the MYR 4.20 mark. On July 14, the media reported that Saudi Arabia and the United Arab Emirates had reached an agreement on a production cut at the OPEC Plus meeting. As a result, market participants were aware of the end of the opposition between the two countries and anticipated a coordinated cut in oil production, which led the crude oil price to fall rapidly. It was a negative factor for the Malaysian ringgit market. Furthermore, the number of new Covid-19 cases continued increasing, recording 10,000 every day. While concerns were growing over a lack of hospital beds for Covid-19 patients, market participants were encouraged to sell the Malaysian ringgit. On July 21, after Eid al-Adha on July 20 (on which the local market was closed), the Malaysian ringgit depreciated against the U.S. dollar to the level just below the MYR 4.25 level.

At the end of the month, the June CPI was announced on July 23, and the June trade statistics were released on July 26. The CPI turned out to be high, as had been the case so far, at +3.4% year-on-year. However, the result was slightly below the market estimate. Thus, the reaction to this result in the market was limited. Furthermore, the June trade statistics revealed strong exports, as was the case with the May statistics. On the other hand, the special parliament sitting started on July 26 causing great confusion from the first day. Prime Minister of Malaysia

Muhyiddin Yassin left the parliament in the middle of the session, while the opposition party feverishly criticized the withdrawal of the ordinance on July 21 after its introduction under a state of emergency. In the end, King of Malaysia Abdullah Shah expressed his disappointment about the withdrawal of the ordinance on July 29. It was thus a difficult parliamentary session for Prime Minister Muhyiddin Yassin.

2. Outlook for This Month

In August, the Malaysian ringgit exchange market is likely to fluctuate following headlines related to domestic political conditions, along with the number of new Covid-19 cases and the progress of Covid-19 vaccination.

With regard to domestic political conditions, the state of emergency announced in January this year is to end on August 1, which will virtually make parliamentary election possible. Market participants are paying attention to the by-election to fill the two vacancies in the lower house of the federal parliament. Market participants are also paying attention to the parliamentary election in the eastern state of Sarawak, the term of which is to end in September, as the election has been postponed due to the state of emergency. These elections gather substantial attention in the market, especially because they will be held while the spread of Covid-19 cases has not been controlled. Furthermore, the administration under Muhyiddin Yassin was severely criticized at the special parliamentary session that was held from July 26, and this suggests further political confusion in the times ahead. There is no political party that can win a majority of votes on its own, including the Parti Pribumi Bersatu Malaysia (PPBM), led by Prime Minister Muhyiddin Yassin. Under such circumstances, it is inevitable for political parties to fight over parliament seats as the election period approaches. If the election takes place while there are many Covid-19 cases resulting in a further spread of cases, it would be inevitable to see negative impact on the Malaysian ringgit market.

With regard to the external market, there was an agreement on a reduced cut in oil production at the OPEC Plus meeting held last month, resulting in a cut in oil production by 400,000 barrels per day either in August or later, which is likely to improve the supply & demand balance. Market participants should be careful about the change to the upward trend observed since November last year. It is also worth mentioning that both U.S. dollar interest rates and foreign exchange rates were kept from rising further based on the outcome of the Federal Open Market Committee (FOMC) meeting held on July 28. This is most likely because of the fact that Federal Reserve Board (FRB) Chair Jerome Powell explained that it was too early to decide on the timing of asset purchasing even though he confirmed progress in economic recovery toward the target level. It is thus important for market participants to remain careful about the FOMC meetings scheduled this year in September, November, and December, while there is also the Jackson Hole Economic Symposium scheduled for August 26 through August 28.

With regard to the Covid-19 pandemic, the number of cases in Malaysia continues to renew all-time highs every day. Given the number of deaths caused by Covid-19 and the tightened supply of hospital beds for Covid-19 patients, one cannot remain optimistic especially regarding the capital city and its surrounding areas. The government has been actively promoting Covid-19 vaccination. Thus, market participants should carefully observe the number of deaths and hospital beds for Covid-19 patients in the times ahead. If those figures are improved, it would be a positive factor for the Malaysian ringgit. However, it is likely to take more time for the figures to start improving.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – August 2021

Expected Ranges	**Against the US$: IDR 14,300–14,800**
	Against 100 rupiah: JPY 0.74–0.78
	Against the yen: IDR 128.21–135.14

1. Review of the Previous Month

In July, the U.S. dollar/Indonesian rupiah exchange rate remained flat.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 14,500 level. While the situation of the Covid-19 pandemic in Indonesia continued to worsen, President of Indonesia Joko Widodo announced a decision to impose restrictions on movement in Java and Bali on July 1. The June Consumer Price Index (CPI) of Indonesia was also announced on the same day, and the result turned out to be weaker than the market estimate, at +1.33% year-on-year. Under such circumstances, the Indonesian rupiah weakened, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 14,500 level toward July 2, the following day. Thereafter, the June employment statistics of the U.S. were announced, and the outcome was weaker than expected, leading the U.S. dollar to depreciate. As a result, the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,500 level on July 5 after the weekend. However, the number of Covid-19 cases in Indonesia continued to increase, which kept the Indonesian rupiah from appreciating. Thus, the Indonesian rupiah depreciated slowly. In the second half of the week, the Indonesian rupiah weakened again to reach the upper-IDR 14,500 level to the U.S. dollar on July 8. In the following week, the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,500 level again on July 12. However, the media reported thereafter that governor of the central bank of Indonesia Perry Warjiyo had announced his decision to revise the economic growth outlook for 2021 downward from 4.6% to 3.8%, given the restrictions on movement imposed to control the spread of Covid-19 cases. Furthermore, on July 14, the local media reported that the emergency restrictions on movement were likely to be extended by four to six weeks in Indonesia, where the spread of the Covid-19 Delta variant has been serious. As a consequence, the Indonesian rupiah depreciated gradually, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,500 level toward the end of the week and through to July 19.

In the following week, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at the IDR 14,500 level on July 19 and thereafter, as market participants were waiting for the monetary policy meeting at the central bank of Indonesia, scheduled for July 22. On July 22, the Indonesian rupiah strengthened slightly against the U.S. dollar at around the IDR 14,500 level from the previous day's rate. Under such circumstances, the existing monetary policy was maintained, as had been anticipated in the market. Thus, the seven-day reverse repo rate, which is the major policy interest rate of Indonesia, was maintained at the all-time low at 3.50%. As this had been anticipated in the market, the impact on the Indonesian exchange market was limited. In the last week of the month, there were some market participants buying the U.S. dollar based on actual demand, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the IDR 14,500 level until the closing of monthly trading (as of market closing on July 29).

2. Outlook for This Month

In August, the Indonesian rupiah is forecast to remain weak against the U.S. dollar.

Since June, the Indonesian rupiah has been weak due to the fact that market participants are aware of the possibility of the early tapering of quantitative monetary easing and an interest rate hike in the U.S. monetary policy ahead of schedule. While Covid-19 vaccinations advance in the U.S. and as the economy continues to recover, the situation in Indonesia has been contrary to that in the U.S., with extreme difficulties. In July, both the number of new Covid-19 cases and new deaths caused by Covid-19 per day continued substantially renewing the all-time high. The situation remains far from the end of the pandemic. As was discussed above, the central bank of Indonesia was obliged to revise the economic outlook downward. Under such circumstances, the approaching tapering of quantitative monetary easing and an interest rate hike in the U.S. would be a threat to the Indonesian rupiah exchange market. From a medium- to long-term perspective, it is possible for the Indonesian rupiah to depreciate further than at the time of the U.S. interest rate hikes in 2018.

Currently, long-term interest rates in the U.S. have been kept from rising further. However, market participants should remain cautious about the possibility for the U.S. long-term interest rates to start rising in the times ahead. In July, foreign investor holdings of 10-year Indonesian government bonds amounted to IDR 966 trillion, with a decrease of IDR 11 trillion from the end of June. Such trend has been keeping the Indonesian rupiah from appreciating. However, it is important to note that the Indonesian rupiah can be sold much further in the times ahead.

On the other hand, the trade balance of Indonesia, which has been a supporting factor for the Indonesian rupiah exchange market, recorded a surplus again in June. However, the amount of the surplus recorded a decrease from the previous month, even though imports continued recovering. In July, the Covid-19 pandemic in Indonesia was at its worse, and thus market participants should carefully observe to which point imports will be maintained. In any case, from a medium- to long-term perspective, the trade surplus of Indonesia is expected to decrease. This would mean that there will be fewer supporting factors for the Indonesian rupiah, and market participants should remain cautious about this as well.

In August, the Indonesian rupiah is forecast to weaken against the U.S. dollar, as market participants would remain cautious about the spreading Covid-19 cases and interest rate hikes in the U.S.

Yuichiro Sakaki, Manila Treasury Office, Asia & Oceania Treasury Department

Philippine Peso – August 2021

Expected Ranges **Against the US$: PHP 49.50–50.00**
Against the yen: PHP 2.165–2.210

1. Review of the Previous Month

In July, the Philippine peso depreciated to its lowest level in approximately a year, as the Philippine peso started depreciating against the U.S. dollar since the Federal Open Market Committee (FOMC) meeting held in June.

In addition to concerns over economic recovery in the Philippines, there was a sense of uncertainty over the coordinated cut in oil production by OPEC Plus countries, and this led the crude oil price to rise significantly. Furthermore, the June Consumer Price Index of the Philippines turned out to be 4.1%, exceeding 4% for the fifth consecutive month—this was the upper end of the target range set out by the central bank of the Philippines. Negatively reacting to these headlines, the Philippine peso continued depreciating since the FOMC meeting held in the U.S. in June. In addition, the governor of the central bank of the Philippines made a remark on July 8 such that the foreign exchange rate would be determined by the supply & demand balance and that the central bank would not intervene in the market except for to minimize exchange rate fluctuations. In reaction, the Philippine peso depreciated further. Thereafter, there was capital outflow from the Asian region due to the spread of the Covid-19 Delta variant, and the May trade balance of the Philippines recorded deterioration. Thus, the Philippine peso depreciated more significantly compared to other major Asian currencies, and the U.S. dollar/Philippine peso exchange rate exceeded the PHP 50 mark for the first time since June last year.

In the middle of the month, the Philippine peso continued depreciating, as a ratings agency, Fitch, revised its rating for the Philippines downward, while the governor of the central bank of the Philippines insisted once again that there was no concern about the depreciation of the Philippine peso, maintaining measures of monetary easing to achieve economic recovery as the top priority. As Federal Reserve Board (FRB) Chair Jerome Powell made a dovish remark, the major Asian currencies rallied. However, the June Consumer Price Index of the U.S. turned out to be strong, leading some market participants to anticipate an early tapering of monetary easing. As a result, the Philippine stock market remained weak and the Philippine peso depreciated against the U.S. dollar more than other major Asian currencies. On the other hand, Chinese economic indices showed signs of stable economic recovery, which improved the risk sentiment. Thus, the Philippine peso occasionally strengthened, appreciating for the first time in 10 business days, even though the U.S. dollar/Philippine peso exchange rate did not fall below the IDR 50 mark on July 13.

It is also worth noting that the crude oil price fell by more than USD 5, having witnessed an agreement on a coordinated cut in oil production by OPEC Plus countries. In addition, the recent economic growth in the U.S. and the strong accounting results of U.S. companies have been positively evaluated, leading U.S. stock prices to rally substantially. Thus, risk-taking sentiment grew again in the market, temporarily leading the Philippine peso to appreciate. However, infections of the Covid-19 Delta variant were confirmed thereafter in the Philippines, fueling cautious sentiment about enhanced restrictions of movement. As a result, both the Philippine stock market and the Philippine peso continued weakening. The Philippine peso weakened, leading the U.S. dollar/Philippine peso exchange rate to reach PHP 50.410 to the U.S. dollar for the first time in approximately a year. Thus, on a weekly basis, the Philippine peso depreciated for the sixth consecutive week.

2. Outlook for This Month

While market participants should remain cautious about the rapid depreciation of the Philippine peso, downward pressure on the Philippine peso is likely to strengthen in the times ahead.

The tapering of monetary easing in the U.S. would depend on U.S. economic indices in the times ahead. Therefore, participants in the Philippine peso market are likely to continue carefully observing the monetary policy outlook in the U.S., including U.S. economic indices, such as those related to employment and price growth.

It is also worth noting that the central bank of the Philippines has announced that it would maintain measures of monetary easing for economic recovery as the top priority, even though the recent inflation rate has been above the 2–4% range—the target range set out by the central bank. Furthermore, the governor of the central bank of the Philippines made a remark such that there was no concern over the depreciation of the Philippine peso and that the central bank would not intervene in the market expect to minimize exchange rate fluctuations. This remark was seen as an acceptance of the depreciation of the Philippine peso in the market. As a result, market participants are more likely to continue selling the Philippine peso more actively compared to other Asian currencies.

There have been factors of uncertainty related to the economic outlook in the Philippines, such as the spread of the Covid-19 Delta variant and its concomitant extension of restrictions of movement. As a result, the GDP outlook of the Philippines was also revised downward. The crude oil price temporarily fell, based on the agreement for a reduced cut in oil production by OPEC Plus countries, along with concerns over a decrease in demand as a result of the spread of the Covid-19 Delta variant. However, many market participants think that a lack of oil supply will continue even after the reduced cut in oil production, based on the outlook for the recovery in demand worldwide. As a result, the crude oil price has currently been rallying with an optimistic outlook, which would also be a factor to encourage market participants to sell the Philippine peso in the times ahead.

Under such circumstances both within and outside the Philippines, it is unlikely for market participants to actively buy the Philippine peso, although the Philippine peso could strengthen slightly in reaction to its recent rapid depreciation. The Philippine peso is therefore forecast to remain weak, and the U.S. dollar/Philippine peso exchange rate is likely to fluctuate mainly within the range of PHP 50.00 to PHP 50.50.

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

Indian Rupee – August 2021

Expected Ranges **Against the US$: INR 73.00–75.50**
Against the yen: JPY 1.45–1.53

1. Review of the Previous Month

In July, the U.S. dollar/Indian rupee exchange rate renewed the latest high.

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at INR 74.38. As U.S. economic indices turned out to be strong, the U.S. dollar remained robust, and the U.S. dollar index reached its highest level in three months. Following this trend, the U.S. dollar/Indian rupee exchange rate rose to INR 74.875 on July 2. However, U.S. employment statistics were released local time on Friday, July 2, after market closing. While the number of non-agricultural employees recorded positive growth, both the unemployment rate and the average hourly wage turned out to be weaker than the market estimate. As a result, the U.S. dollar started to offset the appreciation. Following this trend, the U.S. dollar/Indian rupee exchange rate also started falling on Monday in the following week. The U.S. dollar/Indian rupee exchange rate reached INR 74.28 on July 7, and this turned out to be the monthly low. However, as the OPEC Plus countries did not reach an agreement and as crude oil prices rose further, market participants were encouraged to sell the Indian rupee, leading the U.S. dollar/Indian rupee exchange rate to recover and approach INR 74.75 immediately. While some expected the exchange rate to continue rising further, foreign investors bought the Indian rupee thereafter, as an IPO for a domestic food delivery company worth USD 1.3 billion is to occur, along with several e-commerce companies scheduled to issue stock. The U.S. dollar/Indian rupee exchange rate did not rise further.

In the week of July 12, the above IPO for the food delivery company mentioned above continued attracting substantial attention in the market, while Federal Reserve Board (FRB) Chair Jerome Powell made a remark at biannual congressional testimony emphasizing that there will be no urgent change in the monetary easing policy. As a result, U.S. interest rates fell and the U.S. dollar weakened, which were supporting factors for the Indian rupee exchange market. However, when the U.S. dollar weakened, the central bank of India intervened in the market by buying the U.S. dollar and selling the Indian rupee. Furthermore, the Covid-19 Delta variant, which was previously known as the "Indian variant," has been spreading all over the world. Market participants are therefore aware of uncertainty regarding economic recovery. As a result, stock prices fell and risk-averse sentiment grew in the market. Thus, the overall currencies of emerging countries remained weak.

In the fourth week of the month, various countries in Asia revised their GDP outlook for this year downward. In addition, in the foreign exchange market as well, the Thai baht, the Indonesian rupiah, and the Malaysian ringgit all reached their lowest rate in the year against the U.S. dollar. Following this trend, the U.S. dollar/Indian rupee exchange rate also reached INR 74.96 on July 20—the highest rate of the month. However, the U.S. dollar weakened rapidly thereafter, as there was a rumor that the U.S. dollar was being sold, while a domestic e-commerce company had procured USD 3.6 billion from multiple investors, including from its headquarters in the U.S. On July 22, the U.S. dollar/Indian rupee exchange rate fell below INR 74.40 after a national holiday.

In the fifth week of the month, the U.S. dollar/Indian rupee exchange rate remained at the same level, fluctuating within a narrow range between INR 74.40 and INR 74.50. On July 28, trading closed at INR 74.38 to the U.S. dollar.

2. Outlook for This Month

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

The International Monetary Fund released its latest world economic outlook on July 28. The GDP outlook was revised upward for the U.S. and the eurozone, while the outlook was revised downward for overall emerging countries from 6.7% to 6.3% (the outlook for India was revised downward from 12.5% to 9.5%). While the outlook for the U.S. and Europe has been revised upward, that for emerging countries was revised downward, which was explained as related to the advancement of Covid-19 vaccination.

In Japan as well, the media reports daily that the third wave of the Covid-19 pandemic has been severe in countries such as Indonesia, Thailand, and Vietnam. Indeed, the number of new Covid-19 cases per day in the overall Asia Pacific region nearly doubled in five weeks, reaching 171,344 on July 27, after recording a decrease to 91,593 on June 22. In terms of the number of deaths, it was 1,804 on July 3, and the figure doubled to 3,747 on July 27. In particular, the increase in the number of deaths makes the situation in India different from that in the U.S. and Europe. For these reasons, market participants are likely to sell Asian currencies. As a result, the Thai baht weakened against the U.S. dollar by 5.5%, the Philippine peso by 5.2%, the Korean won by 4.2%, and the Malaysian ringgit by 2.6%, compared to the beginning of June. While the Covid-19 situation has currently been somewhat controlled in India, there has been a general trend to sell Asian currencies, which is strengthening downward pressure on the Indian rupee as well. In addition, a local newspaper in India warned that the third wave of the pandemic would come in September. Under such circumstances, traders seem to be reluctant to actively increase long positions on the Indian rupee.

There are some factors to encourage market participants to buy the Indian rupee, such as foreign investors selling the U.S. dollar and buying the Indian rupee due to IPOs or for investment in Indian companies. However, as was seen in July, the central bank of India is likely to intervene in the market by buying the U.S. dollar and selling the Indian rupee in order to minimize the impact of investment capital inflow on the foreign exchange market when the Indian rupee starts appreciating. Indeed, during the past month, foreign currency reserves in India have increased by USD 8.8 billion. This is a large figure, even when compared to the USD 3.6 billion procured by a domestic e-commerce company as per further above or the USD 600–800 million used by a foreign investor at the time of the IPO of a food delivery company, also mentioned further above.

Other key factors include the rise of crude oil prices (likely to weaken the Indian rupee) and the beginning of the expected tapering of monetary easing (likely to strengthen the U.S. dollar). Market participants should particularly be cautious about the former even though the OPEC Plus countries have reached an agreement, as Saudi Arabia made some concessions. In terms of the latter, important announcements are not likely before the Jackson Hole Economic Symposium, scheduled for the end of August, as the Federal Open Market Committee meeting held at the end of July turned out to be ambiguous.