Mizuho Dealer's Eye

September 2021

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – September 2021

Expected Ranges **Against the yen: JPY108.50–111.50**

1. Review of the Previous Month

After opening the month at the upper-109 yen mark, the dollar/yen pair fell to the lower-109 yen mark on the worse-than-expected results of the US July Manufacturing ISM Report on Business. Dollar selling continued the following day and the pair dipped below a July low of 109.07 yen to break under 109 yen. After a round of selling, the pair then rallied to around 109 yen on firm US stock movements and the some better-than-expected manufacturing orders and durable goods orders data. However, the US July ADP National Employment Report was down by more than 50% on expectations, so pessimism about the US economy then grew and the currency pair hit 108.73 yen for a time. The pair then soared to around 109.70 yen after FRB Vice Chair Richard Clarida made a hawkish comment about how "the necessary conditions for raising the target range for the federal funds rate will have been met by year-end 2022," with Mr Clarida adding that he supported tapering asset purchases towards the end of the year. The US July employment data was then released and the nonfarm payrolls data, unemployment rate and average hourly wages figure all topped expectations, so the greenback was bought and the dollar/yen pair bounced back to the 110 yen range.

With Tokyo on holiday the following week on September 9, risk aversion grew on the global spread of the Covid-19 delta variant, but risk appetite increased during overseas trading time as US stocks and crude oil prices began rising. With the US Senate also approving a draft infrastructure investment bill, the currency pair temporarily hit a high of 110.80 yen. Expectations for a slowing inflation rate increased as the closely-watched US July CPI data moved broadly in line with expectations, so the pair dropped back to the lower-110 yen mark. The greenback was then sold at a faster pace after the University of Michigan's US consumer sentiment index for August fell sharply below forecasts, so the pair weakened to 109.55 yen.

Dollar selling continued and the pair edged lower the following week too. The August NY FRB Manufacturing Index was down sharply on expectations, while China also posted some bearish economic indicators. With risk aversion also rising on the situation in Afghanistan, the yen was bought and the pair fell to 109.12 yen. However, yen buying was short-lived and the dollar was then bought on rising US interest rates. With the greenback also being bought against European currencies, the dollar/yen pair climbed to the mid-109 yen level. The pair dropped back to the upper-109 yen mark on the release of some dovish minutes to the July FOMC meeting. Amid a dearth of any noteworthy factors, the pair then traded around the mid-109 yen level.

The markets remained in wait-and-see mode ahead of the Jackson Hole symposium in the week beginning August 23. The pair initially recovered to the 110 yen range, but it was then pushed back to the mid-109 yen mark on growing expectations that the commencement of tapering would be pushed back. The pair then floated around the upper-109 yen mark. During his speech as the closely-watched Jackson Hole economic symposium, FRB chair Jerome Powell hinted that tapering could start within the year, though he also indicated that rates would be lifted at a gentle pace thereafter. This slightly dovish speech was met with dollar selling. In the end, the currency pair broke below 110 yen. The pair traded at the upper-109 yen mark toward the month's end on a dearth of new factors.

2. Outlook for This Month

The dollar/yen pair is expected to move in a range in September.

In his speech at the Kansas City FRB's annual Economic Policy Symposium (commonly known as the Jackson Hole meeting), FRB chair Jerome Powell said "it could be appropriate to start reducing the pace of asset purchases this year," though he added that "the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff." This speech was more dovish than expected, so the dollar/yen pair fell slightly afterwards. The market focus is gradually shifting from 'the Covid-19 recovery' to 'central bank movements,' with the markets growing more sensitive to tapering trends. The Jackson Hole speech and the minutes to the July FOMC meeting suggest the authorities will start tapering within the year at the earliest. The environment is not conducive to any active yen buying, so the pair's room on the downside will be capped, though there seems to be a lack of factors capable of pushing the pair above its recent high of 110.80 yen or its 2021 high of 111.66 yen.

A glance back at the last time tapering occurred shows 'hints' about tapering emerging in May 2013. Many investors will still have strong memories of the 'Bernanke Shock' that followed. The FOMC eventually waited until December before making the actual 'decision,' with tapering then taking place over ten months from January 2014. FRB chair Jerome Powell and FRB board member Lael Brainard have both said they would like to see how economic indicators perform going forward. There are also concerns about the impact of the delta variant of Covid-19. As such, the FOMC is unlikely to make a decision about tapering in September. Given this, it seems the dollar/yen pair's room on the topside will be limited.

However, though the yen was bought mid-August on the weak results of some Chinese economic indicators and headlines related to Afghanistan, the pair's downside was capped at 109.12 yen. Yen-buying pressure will also be reined in by the clear divergence in Japanese and US monetary policy. It is hard to see investors actively buying the yen going forward, so the dollar/yen pair's room on the downside will be capped in September too.

Dealers' Market Forecast

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

Bullish on the dollar	18 bulls	111.50 – 108.63	Bearish on the dollar	3 bears	111.00 – 108.00

* Ranges are central values

Tanaka	Bull	111.50 – 108.50	Though the FRB looks set to start tapering within the year, rate hikes still seem some way off. The dollar will lack a clear direction as investors focus on the spread of the delta variant and the performance of employment and other economic indicators. The dollar/yen pair will continue to float on risk appetite while moving skittishly at times.
Yano	Bull	111.50 – 109.00	The markets have already priced in US tapering within the year, with the focus now shifting to the timing of the first rate hike. Market sentiments have been hit by the spread of the delta variant, but this will be a transitory phenomena, with the dollar/yen pair's downside likely to rise as time passes.
Tsutsui	Bear	110.50 – 108.00	The dollar/yen pair's topside will be capped at 111.5 yen, with the pair's downside likely to edge lower. The pair will be swayed by US real interest rates and US consumer spending. Homes sales are moving briskly, but the stock of existing homes has started to rise, with the markets probably digesting the impact of the winding down of the foreclosure moratorium at the end of July.
Kato	Bull	112.50 – 109.00	There are no clear risks to global financial markets apart from the delta variant, with the yen's attractiveness as a deflationary currency starting to wane. Given this, it seems the currency markets will be swayed by the timing of the start of tapering in each country.
Ito	Bear	111.00 – 108.00	Tapering within the year seems nailed on, though it is too early to talk about rate hikes. The dollar will probably rise slightly at first on geopolitical risk and the spread of the delta variant. There is a sense that indicators are peaking out and the pair's downside could be tested on dollar selling, so caution will be needed.
Yamagishi	Bull	111.50 – 108.50	In his speech at the Jackson Hole speech, FRB chair Jerome Powell indicated that tapering will start within the year, with the dollar set to move firmly on monetary normalization. Market focus is now shifting to rate hikes. If the delta variant eases off and the US posts some strong employment and inflation data on the back of a strong economy, this will probably lead to anticipation for rate hikes. Investors will focus on the FOMC's policy rate forecast.
Ushijima	Bull	111.50 – 108.50	Tapering looks likely within the year, but US stocks have not tumbled and are actually moving at highs. Given the current climate of risk appetite, the yen will probably be sold, with the dollar/yen pair set to test the 111 yen range.
Omi	Bear	111.00 – 108.00	The trend of dollar selling is likely to continue. This comes on the back of ongoing low interest rates, fiscal expansion, and global appetite for stable currencies. However, the speed of this fall will ease as the greenback is bolstered by bullish US economic indicators and expectations for tapering.
Ueno	Bull	112.00 – 108.00	With anticipation rising for US tapering within the year, investors will probably buy the greenback. Nonetheless, there are a large number of uncertainties, with risk sentiments subdued on the spread of the delta variant, for example, so the dollar/yen pair is unlikely to break sharply above its current range.
Yamaguchi	Bull	111.50 – 108.50	The market focus is shifting from tapering within the year to the timing of rate hikes. Under these circumstances, there will probably be a strong reaction to economic indicators released from here on. The dollar will probably be bought when expectations for a rate hike rise.
Kai	Bull	111.50 – 109.00	The market focus has moved from the commencement of tapering to the start and timing of rate hikes. FRB officials continue to make hawkish comments, so the dot chart will probably be revised upwards when the FOMC meets in September. The greenback will probably rise this month too.
Onozaki	Bull	111.50 – 108.50	The FRB is moving closer to a decision on when to start tapering. As with before, though, the FOMC is not likely to make any great strides when it meets in September. There are also concerns about the delta variant, so the dollar/yen pair is unlikely to hit its highs from around the turn of the year. However, there is not much yen-buying pressure, so the pair's room on the downside will also be capped.

Tamai	Bull	111.50 – 108.50	The Jackson Hole meeting was read as dovish, but it seems the FRB is laying the ground for the start of tapering within the year. The delta variant poses a risk, but this is unlikely to restrict economic activity, with the dollar/yen pair set to move firmly on rising US interest rates.
Harada	Bull	111.00 – 109.00	The US economy is re-opening, with preparation also underway for trials of a third round of vaccine shots. There also remains a clear lack of direction when it comes to tapering. US rates have moved stably at lows, but they will probably rise given the current circumstances, with the dollar/yen pair also likely to move firmly as a result.
Oba	Bull	111.00 – 108.75	FRB chair Jerome Powell managed to speak competently to the markets during his speech at the Jackson Hole symposium. US interests fell and the dollar/yen pair was sold directly after the speech, but the pair remained firm around 110 yen, so it looks set to continue moving firmly on speculation about monetary policy normalization.
Katoono	Bull	112.00 – 109.00	The dollar is being swayed by speculation about the start of tapering, but the US look set to move in this direction faster than other countries. The dollar remains quite strong compared to other currencies. There are concerns about the delta variant and the situation in the Middle East, but investors will probably test the ceiling of the dollar/yen pair's range in the run up to the FOMC meeting late September.
Kobayashi	Bull	111.00 – 108.50	Tapering looks set to commence within the year. If the US releases some firm economic indicators going forward, this will probably stoke anticipation for rate hikes. The US is moving towards tapering faster than other countries, so the dollar will probably be bought against other currencies.
Henmi	Bull	112.00 – 109.00	The theme will be how US monetary policy develops on the Covid-19 infection situation. The FRB is moving closer to a decision on tapering, with the dollar/yen pair set to move firmly in tandem with rising US interest rates.
Otani	Bull	111.00 – 109.00	As investors focus on the start of tapering within the year, the dollar/yen pair looks set to move firmly. The number of Covid-19 cases is rising in the US, but preparations are also underway for vaccine boosters and this will support the pair's movements.
Suzuki	Bull	111.50 – 109.00	The dollar will continue to be bought as investors focus on the commencement of tapering within the year. The pair will also be supported as the yen is sold on the ongoing firmness of stock and commodity markets.
Okuma	Bear	111.50 – 108.50	The US economic recovery is stalling, but the economy still remains in good shape compared to Europe and Japan, so US interest rates will have room to rise as the US heads towards monetary normalization. The dollar will also be susceptible to buying on geopolitical risk related to the situation in Afghanistan.

Kazutada Harada, Forex Sales, Global Markets Sales Department

Euro – September 2021

Expected Ranges **Against the US$: US$1.1600–1.1950**
Against the yen: JPY129.50–132.50

1. Review of the Previous Month

The euro/dollar pair edged lower in August. It opened the month trading at $1.1865 on August 2. It fluctuated gently for a time, but it then rose to a monthly high of $1.1899 when the dollar was sold on the worse-than-expected result of the US July ADP National Employment Report (released August 4). However, FRB vice chair Richard Clarida then made some hawkish comments. With the US also releasing a bullish July Non-manufacturing ISM Report on Business, the greenback was bought and the currency pair dropped back. The US July employment data was released on August 6. The nonfarm payrolls data, unemployment rate and average hourly wages figure all topped expectations, so the greenback was bought across the board and the euro/dollar pair's room on the downside widened.

The pair opened the following week trading at $1.1750 on August 9. Dollar buying continued on rising US interest rates. The German August ZEW Indicator of Economic Sentiment fell sharply below expectations on August 10, so the euro was sold at a faster pace. With the greenback also being bought on rising US interest rates, the pair continued moving bearishly to edge down to the lower-$1.17 mark on August 11. Dollar selling then picked up pace on the results of the US July CPI data, so the pair rallied to the mid-$1.17 level. It then climbed to $1.176 on August 13 after the eurozone August trade balance data substantially beat market expectations. The University of Michigan's US consumer sentiment index for August fell then fell sharply below forecasts, so the pair rallied to $1.18 for the first time in a week before closing the week at $1.1794.

The pair opened the following week trading at $1.1795 on August 16. It then traded with a heavy topside at the upper-$1.17 level on risk aversion related to geopolitical risk in Afghanistan, for example. The greenback was then bought on the release of the minutes to the FOMC meeting, with the pair dropping below $1.17 for the first time since November 2020. It was then pushed down to $1.1666 on August 19 as the dollar was bought on risk aversion related to bearish US stock movements. The trend continued into August 20, with the pair hitting an August low of $1.1664 for a time, but it then rose to around $1.17 to close the week trading at $1.1699.

In the following week, the pair hit $1.1694 soon after trading opened on August 23. It then regained composure and bounced back to the mid-$1.17 mark. It moved stably at the $1.17 mark over August 24–25. A wait-and-see mode prevailed on August 26 ahead of the release of the minutes to the ECB Governing Council meeting and the following day's Jackson Hole economic symposium, so the pair continued to make small movements. During his speech at the Jackson Hole economic symposium on August 27, FRB chair Jerome Powell hinted that tapering could start within the year, though he also said rates would be lifted at a gentle pace thereafter. The dollar was sold as a result, with the pair ended the week trading at $1.1798.

Momentum was thin on the ground from August 30 in the run up to the weekend release of the employment data. The pair continued to float around $1.18.

2. Outlook for This Month

The euro/dollar pair is expected to move bearishly in September. Restrictions on movements are being lifted within the eurozone, with the economy unexpectedly recording positive growth over April–June. Covid-19 cases are on the rise again in countries like the UK, France and Spain on the spread of the more infectious delta variant, but other countries like Germany and Italy have successfully kept a lid on things, with Europe dealing well with the pandemic on the whole. Governments have pursued a dual policy of controls and vaccinations, with different mobility restrictions applied to the vaccinated and unvaccinated, for example. The outlook is bright, with the US and Europe both preparing the begin trials of a third round of jabs.

Under these circumstances, in addition to Covid-19, market attention will probably focus on the monetary policies of the US and Europe. In his speech at the Kansas City FRB's annual Economic Policy Symposium (commonly known as the Jackson Hole meeting), FRB chair Jerome Powell hinted at tapering within the year, though he added this would not "carry a direct signal regarding the timing of interest rate liftoff." The speech was not as hawkish as some had expected, to it did not become a major factor. The timing of any rate hikes will probably depend on the economic data.

Meanwhile, the ECB Governing Council will be meeting on September 9. The markets are expecting the Council to keep things as they are. The Pandemic Emergency Purchase Programme (PEPP) has played a pivotal role in the ECB's easing policy. If the pace of PEPP is maintained at the current 19 billion euros/week, it will have reached its target amount by March next year. The spread of the delta variant is leading to growing uncertainty about the economic recovery, so the Council is unlikely to reduce the pace of purchases this month. However, the PEPP only has limited time left to run, so market participants should also be awake to the risk that the outlook for the pace of asset purchases might change.

As the US moves toward tapering while Europe still sits on its hands, investors will start to focus on the divergent directions of US and European monetary policy. Some concerned voices have emerged when it comes to US interest rates, but if US rates do rise, the euro/dollar pair will move even more bearishly going forward.

Dealers' Market Forecast

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

Bullish on the euro	4 bulls	1.2000 – 1.1700	Bearish on the euro	17 bears	1.1900 – 1.1600

* Ranges are central values

Tanaka	Bear	1.1900 – 1.1600	Though the FRB will probably begin tethering within the year, the ECB continues to ease, with the euro set to continue trading with a heavy topside on these divergent monetary policies. Furthermore, the SPD looks set to do well in the German federal elections late September, so the euro will also be weighed down by political instability.
Yano	Bear	1.1900 – 1.1650	Expectations are growing for tapering in the US, but this prospect still seems some way off for the EU. The euro will be a hard currency to actively buy given this huge divergence in monetary policy stances. The euro/dollar pair's 2021 low might be tested depending on the results of the September FOMC meeting.
Tsutsui	Bull	1.2000 – 1.1700	The markets seem to have built up euro shorts late August on expectations for US tapering. It will need some new factors to push the euro lower. In fact, investors should be on guard against some unexpected euro bullishness. The economic situation in China will also require monitoring.
Kato	Bear	1.1900 – 1.1600	There is an overwhelming demand for currencies to meet real demand and this could push the euro higher. However, the euro seems too strong given the large size of the EU's balance sheet compared to that of the US. As such, with German chancellor Angela Merkel about to step down, the euro might be adjusted downward.
Ito	Bull	1.2000 – 1.1650	The euro will be a hard currency to actively buy given the huge divergence in the monetary policy stances of the US and Europe, so the euro/dollar pair will be swayed by the movements of the greenback. However, ECB hawks are exerting more pressure, to the pair might rise on the ECB Governing Council meeting. The risk lies on the upside.
Yamagishi	Bear	1.1900 – 1.1650	Further easing at the September ECB Governing Council meeting seems less likely in the wake of comments be several ECB officials. However, there is a risk that a political vacuum might ensure after German chancellor Angela Merkel steps down after 16 long years in power. Europe will also face political risk in relation to the situation in Afghanistan. Given all this, the euro/dollar pair is expected to move with a heavy topside.
Ushijima	Bull	1.2000 – 1.1700	The euro/dollar pair's topside will continue to be weighed down by the divergent monetary policy stances of the US and Europe. However, a glance at the IMM currency futures data reveals that euro net long positions have contracted sharply, so it is hard to see some factors emerging that could push the euro lower.
Omi	Bull	1.2100 – 1.1700	The euro/dollar pair will continue to move firmly this month. This will come on the back of ongoing dollar selling. There is a risk of the ECB lowering its policy rates, but this seems unlikely.
Ueno	Bear	1.1900 – 1.1600	The US is heading toward tapering, but Europe seems some way from an exit, so euro bullishness seems unlikely. The euro/dollar pair will be swayed by US economic indicators, but on the whole it will probably trade with a heavy topside.
Yamaguchi	Bear	1.1850 – 1.1600	With the ECB pursuing easing for a prolonged period, the euro/dollar pair looks set to trade with a heavy topside. Germany will be holding a federal election at the end of September. This will probably result in a broad coalition of three of more parties from the right and left, with stormy coalition talks like to take place going forward. This will weigh down the euro's movements.
Kai	Bear	1.1850 – 1.1600	Expectations are growing for US tapering and rate hikes, though it will take time before the ECB starts to discuss an exit strategy. The euro/dollar pair will continue trending lower on this clear divergence in monetary policy.
Onozaki	Bear	1.2000 – 1.1500	The FRB will probably begin to discuss tapering, but the ECB remains in cautious mode. The dollar is likely to be bought on these divergent stances.

Tamai	Bear	1.1900 – 1.1650	The FRB is laying the ground for tapering within the year, though the ECB remains in dovish mode. Germany will also be holding a general election, so investors will be on guard. As a result, the euro/dollar pair will probably trade with a heavy topside.
Harada	Bear	1.1950 – 1.1600	The markets are expecting the ECB Governing Council to keep policy fixed when it meets on September 9. Though the US is moving toward tapering, Europe is still some way from an exit, so investors will probably focus on the divergent directions of US and European monetary policy. If US interest rates also rise, the euro/dollar pair is likely to move bearishly.
Oba	Bear	1.1850 – 1.1650	With the Covid-19 situation still up in the air, the ECB Governing Council will probably keep the pace of its PEPP purchases unchanged when it meets in September, with Europe still some way from normalizing monetary policy. Under these circumstances, the euro/dollar pair's topside could be held down if FRB officials voice hawkish opinions again.
Katoono	Bear	1.1850 – 1.1650	Expectations for early US tapering/rate hikes will grow in the run up to the FOMC meeting late September. However, the ECB looks set to remain in cautious mode for the time being, with the euro/dollar pair's topside likely to be weighed down again by these divergent monetary policy stances. There will also be concerns about the German federal elections late September.
Kobayashi	Bear	1.1950 – 1.1600	At the Jackson Hole symposium, FRB chair Jerome Powell hinted the US will start tapering within the year. However, the ECB Governing Council is expected to maintain the status quo with it meets this month. The euro/dollar pair will move bearishly on these divergent policy stances.
Henmi	Bear	1.1900 – 1.1600	The theme will be how US monetary policy develops in the wake of the Covid-19 infection situation. The FRB is moving closer to a decision on tapering, with the dollar set to move firmly in tandem with rising US interest rates. The euro/dollar pair's topside will probably be held down as a result.
Otani	Bear	1.1850 – 1.1650	Amid growing expectations for US tapering, the euro/dollar pair will continue moving with a heavy topside. However, ECB officials have recently talked about a eurozone economic recovery, so the pair's room on the downside will be capped.
Suzuki	Bear	1.1900 – 1.1600	Though the FRB is likely to start tapering within the year, the ECB's policy remains essentially unchanged. The euro/dollar pair will probably move bearishly on these divergent stances.
Okuma	Bull	1.1900 – 1.1650	Though the FRB is heading towards tapering, the ECB remains cautious when it comes to tightening. The euro will probably be sold on this clear divergence in monetary policy administration. There is also uncertainty about the German general election, so the euro/dollar pair looks set to move bearishly.

Hidetoshi Honda, Europe Treasury Department

British Pound – September 2021

Expected Ranges **Against the US$: US$1.3450–1.3900**
Against the yen: JPY148.00–153.50

1. Review of the Previous Month

The pound/dollar pair moved flatly with a slight bearishness and a heavy topside at the start of August. It then fell sharply, though it hit bottom and bounced back toward the end of the month. However, sterling's movements against the yen and euro were slightly different. After rising against these two currencies at the start of the month, it hit a ceiling and dropped back, though it then bottomed out and rallied. In other words, it was second only to the dollar in terms of firmness at the start of the month, though it then moved bearishly across the board mid-August before finally undergoing a comprehensive recovery toward the end of the month.

The greenback moved bullishly across the board at the start of August on growing expectations for early tapering (=monetary tightening) by the FRB. On August 4, FRB vice chair Richard Clarida hinted that rate hikes might begin in 2023. The dollar then soared after the US July employment data (released August 6) clearly beat market forecasts. The minutes to the August Bank of England Monetary Policy Committee (MPC) meeting were released on August 5. They revealed that a full-blooded debate had taken place about when to switch to monetary tightening, with sterling then moving bullishly behind the dollar on a sense that "sterling's movements mirror the dollar's, so it seems the start of tapering is also looming close when it comes to sterling too."

On August 10, the pound hit monthly highs of JPY 153.32 yen and GBP 0.8450 against the yen and euro respectively, though it then moved bearishly across the board. However, there were no clear reasons for the pound's weakness at this time. As mentioned above, there were expectations for early tapering in the US, with the minutes to the July FOMC meeting (released August 18) revealing that "most participants…judged that it could be appropriate to start reducing the pace of asset purchases this year." In China, meanwhile, the government tightened regulations, while Chinese economic indicators also moved bearishly. Furthermore, there was uncertainty about the situation in Afghanistan. These factors prompted 'emergency dollar buying' and 'risk-evasive yen bearishness,' though they cannot explain why the pound weakened across the board. There were certainly some pound selling factors. The UK July CPI figure (released August 18) swung lower, for example, while speculation grew about the resignation of the UK's foreign secretary Dominic Raab (August 19 onwards) and the UK July retail sales data (released August 20) fell sharply lower. However, none of these were the ultimate reasons behind sterling's comprehensive fall.

This bearishness continued until August 20, though after the weekend the pound began moving bullishly across the board from August 23. Unfortunately, the reasons behind this bullishness are also unclear. The market focus shifted to FRB chair Jerome Powell's speech on August 27. In the run up to this speech, there may have been some offsetting against previous transactions (in other words, some dollar and yen sell-backs).The dollar moved bearishly across the board after Mr Powell's closely-watched speech. The FRB chair hinted about early monetary tapering. He said "it could be appropriate to start reducing the pace of asset purchases this year" and this seemed to chime with market expectations. However, he added that "the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff." This surprising comment led to growing speculation that 'the FRB is not actively moving (is in no rush) to commence rate hikes.'

2. Outlook for This Month

The pound will move with a lack of direction at the start of September, though it will probably fall on UK political and economic trends from mid-September onwards.

Sterling fluctuated substantially in August, though this was mainly due to the movements of the dollar and yen, with UK factors thin on the ground. It is hard to see this situation changing any time soon. Now FRB chair Jerome Powell's speech is out of the way, the focus of the financial markets will probably shift initially to the release of the US August employment data on September 3. Sterling's movements have been predominately shaped by US monetary policy, with this trend likely to continue for a time.

However, the UK House of Commons will be returning from summer recess on September 6, so market attention could shift to the UK's own political and economic trends going forward, with the pound swayed by UK factors. The UK media was full of news about Afghanistan late August, but the prevailing view was that the tumultuous withdrawal was due to an error on President Biden's behalf, with the UK's political parties avoiding any sharp criticism. However, there are already several other issues that could attract attention and cause political turmoil.

There is the Covid-19 situation and the shortage of EU workers as a result of Brexit, for example. There is also the 'pingdemic,' with people having to self-isolate if they been in contact with someone who contracted Covid-19. These factors led to a labor shortage and logistical chaos in the UK this summer. With the harvest season looming, there are growing local concerns about a shortage of agricultural workers. There is still a chronic shortage of long-distance truck drivers and so on. More UK producers are now calling for EU citizens to be granted temporary visas to ensure the UK has enough workers. However, the UK government has just said companies should hire more British workers, so it does not seem like they are trying to ease the impact of Brexit. Furthermore, the furlough scheme (whereby the state pays of portion of wages in order to keep people in work) is set to wind down at the end of September. Life is returning to normal on the roll-out of vaccines, but there remain strong concerns about Covid-19 on the spread of the delta variant. The furlough scheme has already been extended four times and there will be some voices calling for a fifth extension. This is not a problem for the UK alone, but there are concerns about the rapid spread of Covid-19 among young people. This is apparently due to the slow pace of vaccinations among young people, but there are concerns that schools could become a hotbed for infections when lessons resume. There are fears that all these factors could have a direct impact on the UK economy. They could also lead to political strife is the government responds badly. Prime Minister Boris Johnson's political base is shaky in the wake of the resignation of the health secretary Matt Hancock and the attacks by former special advisor Dominic Cummings, for example. This could potentially become an unstable factor for the pound.

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

Australian Dollar – September 2021

Expected Ranges **Against the US$: US$0.7150–0.7430**
Against the yen: JPY78.00–81.60

1. Review of the Previous Month

The AUD/USD pair rose to the upper-$0.73 mark on August 2 as US interest rates fell on sliding crude oil prices, with the US also releasing a bearish July Manufacturing ISM Report on Business. As expected, the RBA board announced they would begin tapering from September when they met on August 3, and the currency pair climbed to $0.74. The Australian dollar was also pulled higher when New Zealand's unemployment rate improved to 4.0%, so the pair hit $0.74 again. AUD/USD pair was also supported with a better-than-expected China July PMI and the bearish results of the US July ADP National Employment Report. In his testimony to parliament on August 6, RBA governor Philip Lowe said the RBA had discussed pushing back tapering when they met in August, the pair fell to around $0.7380. It then dropped to the mid-$0.73 level on the firm US July employment data.

The second week saw the pair hovering with a lack of direction in the $0.73 range. The pair then plummeted to the $0.71 range in the third week. With NSW tightening a statewide lockdown and China releasing some weak retail sales and industrial production data for July, the currency pair temporarily fell to the lower-$0.73 mark on August 16. The minutes to the August RBA board meeting were released on August 17. They revealed that the RBA was prepared to take measures if the economic slump worsening on lockdowns, with the board also hinting that the tapering process might be reviewed. Yields of Australian government bonds subsequently fell, with the AUD/USD pair breaking below its 2021 low of $0.7290. With tumbling US equities on bearish US July retail sales data, the pair temporarily hit $0.7243 for the first time since November 2020. The minutes of the FOMC meeting released on August 18 confirmed that most members thought tapering should begin within the year, and then stocks fell. The currency pair moved heavily on the topside and was pulled down to around $0.7230. The Australian July employment data was released on August 19, with the unemployment rate improving to 4.6%. The pair rose slightly as a result, though it soon dropped back. As the number of new Covid-19 cases in NSW hit record highs for two straight days, iron ore prices tumbled, so the currency pair's downside was tested and it hit $0.7143, its lowest point in ten months. These bearish movements continued on August 20 on reports that the NSW lockdown would be extended until the end of September, so the pair fell to a 10-month low of $0.7107.

In the fourth week, the pair rose to the $0.73 range as the greenback weakened. The Australian dollar was bolstered on August 23 after Australian Prime Minister Scott Morrison said lockdown restriction would need to be eased if vaccination rates increased. The US dollar also fell on growing speculation that US tapering would be pushed back on the spread of the delta variant. The currency pair rose to around $0.7260 on August 24 as the greenback was sold further before the Jackson Hole symposium. The NZ dollar then rose sharply after RBNZ assistant governor Christian Hawkesby revealed policymakers had discussed a 50bp rate hike. Stocks fell sharply on August 26 on news of an explosion near Kabul airport, with the currency pair falling further to drop to around $0.7240. In his speech at the Jackson Hole symposium on August 27, FRB chair Jerome Powell hinted at tapering within the year, though he stressed this would not point the way to rate hikes. The greenback was sold on these dovish comments, with the AUD/USD pair rising to $0.73.

2. Outlook for This Month

In September, the AUD/USD pair is likely to move bearishly on factors related to the spread of Covid-19 in Australia, but it may be supported by the US-dollar selling that has occurred in the wake of the Jackson Hole symposium, with the pair expected to trade in a range around $0.73.

As risk sentiments worsened last month in the back of the ongoing lockdowns in Sydney and Melbourne, the currency pair plunged to the $0.71 range to hit its lowest mark since November last year on: concerns about an economic slowdown in China (with China's July mining and retail sales data dropping below forecasts); the announcement of the dovish minutes to the RBA board meeting; a national lockdown in New Zealand; and falling iron ore prices. The greenback also moved bullishly as early US tapering seem more likely in the wake of comments by FRB members and the release of the FOMC minutes. This also pushed the currency pair lower. However, the US dollar was sold after dovish comments by FRB chair Jerome Powell at the Jackson Hole symposium that suggested tapering might be pushed back. This helped to bolster the currency pair during its ongoing slide.

The number of new Covid-19 cases in Australia topped 1,000/day on successive days at the end of August and they remain at high levels. However, Australian prime minister Scott Morrison has said the government's target has shifted from 'a zero-case strategy' to 'lowering the hospitalization rate,' with a roadmap to the end of lockdowns now on the horizon. The plan is to ease lockdowns as vaccinations rise. The Australian dollar will be supported when this plan comes into effect. The unit will also be bolstered as iron ore prices rise on firm Chinese demand and supply problems in Brazil.

However, in NSW as the epicenter of the delta variant spread in Australia, the use of intensive care units (ICU) is expected to peak in October, so even if vaccines are rolled out, caution will be necessary with regards to the progress of the delta spread situation which could lead to a potential extension of lockdowns. From here on, the Australian economy will be swayed by the period of lockdowns and the resumption timing of economic activity. The conditions for ending this lockdown are seen to clarify and to be released towards the end of September but the currency pair is likely to trade with a heavy topside until the authorities announce a clear roadmap to the end of lockdowns.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – September 2021

Expected Ranges **Against the US$: C$1.2450–1.2950**
Against the yen: JPY85.00–89.00

1. Review of the Previous Month

The USD/CAD pair opened August trading at C$1.2466. Covid-19 variants raged across the globe amid vaccine roll-outs. This cast shadows over the economic recovery once again. Expectations for early US tapering steadily increased on strong US economic indicators and a series of hawkish comments by FRB governors. There were also growing concerns related to the spread of the delta variant and the worsening situation in the Middle East. As a result, the currency pair rose to C$1.2949. The US dollar faced selling pressure again late August after FRB chair Jerome Powell voiced a dovish economic outlook, so the pair fell to the lower-C$1.26 level, with the greenback continuing to slide thereafter.

Crude oil prices fell and the Canadian dollar was sold on August 3 on risk aversion related to the spread of the delta variant, so the USD/CAD pair rose to C$1.2576. Risk aversion eased slightly on August 5 after the US released some better-than-expected new applications for unemployment insurance data. The currency pair temporarily hit C$1.2475. The US July employment data was released on August 6, with the nonfarm payrolls figure continuing to rise. However, Canada's July employment data revealed that the number of people in work had risen far slower than expected. The currency pair then rocketed to C$1.2581 in tandem with rising US long-term interest rates.

The US July CPI data was released on August 11, with price growth slowing. This backed up comments by FRB officials about the 'transitory' nature of inflation, so expectations for early tapering waned. Crude oil prices then rose after the US Energy Information Administration (EIA) upgraded its forecast for crude oil demand, but with Canada releasing some mixed economic indicators, the currency pair moved steadily after hitting C$1.2490. The pair floated in a narrow range thereafter, but the greenback was then bought on deteriorating Chinese economic indicators and concerns about the situation in Afghanistan, with the currency pair rising to the upper-C$1.25 level on August 16. The pair then broke above C$1.28 when the minutes to the July FOMC meeting revealed that a majority of members had voiced support for early tapering. The greenback was bought at a faster pace on August 20 due to concerns about the spread of the delta variant and the continued decline in crude oil prices, so the currency pair strengthened to C$1.2949.

Crude oil prices recovered sharply on August 23 on expectations for a Chinese economic recovery after reports said the number of new Covid-19 cases in China had hit zero for the first time since July. The US then released some bearish economic indicators, with the August composite PMI falling for the third straight month, for example. With concerns about tapering also easing on dovish comments by the Dallas FRB governor, the USD/CAD pair dropped back to the upper-C$1.25 mark. The pair bounced back to C$1.2708 on August 26 on reports about an explosion at Kabul airport and some hawkish comments by FRB governors. At his closely-watched speech at the Jackson Hole symposium on August 27, FRB chair Jerome Powell hinted at tapering within the year, though he did not spell out a concrete timetable and he indicated that the FRB's stance would continue to depend on the data, so the currency pair hit C$1.2606. It then moved from the upper-C$1.25 mark to the lower-C$1.26 level at the month's end in tandem with rising crude oil prices.

2. Outlook for This Month

Just when it seemed Canada could start to ease the restrictions introduced to tackle the third wave of Covid-19 infections, a fourth wave began with the spread of the delta variant. Canada has a high vaccination rate, with new infections centered around the unvaccinated young and Canada moving toward a 'with-Covid' world. Moderna has reached an agreement with the Canadian government to start manufacturing their vaccine in Canada, with vaccination rates set to rise further going forward. Many firms are starting to require employees to be vaccinated, with some states like Quebec and Vancouver also introducing vaccine passports for people wishing to travel abroad or attend public events, for example.

Under these circumstances, Canadian prime minister Justin Trudeau announced that parliament would be dissolved and a general election held on September 20. Trudeau's Liberal Party are currently running a minority administration that needs the support of opposition parties. The public and opposition parties have criticized the government for calling an election just as the fourth wave has hit. There are also grumblings about the government's response to the situation in Afghanistan, with the Conservative Party opening up a slight lead over the Liberals in the polls. The USD/CAD pair is unlikely to be impacted by the election.

The Bank of Canada (BOC) will be meeting to set policy rates on September 8. At +3.7% y-o-y, the July CPI data hit its highest level in more than ten years. The BOC had expected consumer prices to rise by +3.9% in the third quarter, though, so the data was not particularly surprising. However, Canada's July employment data revealed that the number of people in work had grown at a slower pace. There are also concerns about the spread of the delta variant and pressure on supply chains, for example, so investors will be watching to see whether the BOC shifts its stance. The FOMC will be meeting on September 22. FRB chair Jerome Powell has said the FRB will be monitoring the data, so particular attention will be paid to the September 3 release of the US employment data. The currency pair will also be swayed by comments from FRB governors and other key figures.

There are growing concerns about further terrorist attacks after President Biden launched retaliatory strikes against the extremist group IS in the wake of a suicide bombing in Afghanistan. Even though the US has pulled out of Afghanistan, it is still offering support to civilians, so the turmoil looks set to continue for a while. As such, the greenback could see more buying on risk aversion. The US has undertaken military action in Afghanistan several times in the past, but this has rarely had any effect on crude oil prices. However, prices could shift sharply if other Middle Eastern countries have an impact on international petroleum markets, so caution will be needed.

There is a strong risk that crude oil prices might swing downwards, but the Canadian dollar will move somewhat firmly on the US dollar's weakness and expectations for a Chinese economic recovery. QE looks set to continue for a time, with the greenback expected to slide in September, but several factors will still require monitoring, such as the spread of the delta variant, the tense situation in Afghanistan, the economic indicator data, and the movement of US long-term interest rates, with the currency pair set to move in range between C$1.2450–1.2950.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – September 2021

Expected Ranges **Against the US$: KRW 1,140–1,190**
Against the yen: JPY 9.174–9.704 (KRW100)
(KRW 10.300–10.900)

1. Review of the Previous Month

The USD/KRW pair rose in August. It opened the month trading at KRW1152.0 on August 2. With the US Philadelphia Semiconductor Index topping the key 3,400pt mark, overseas investors bought semiconductor stocks and other South Korean equities on August 3. With China also releasing a bullish July Services PMI (54.9 against a forecast for 50.5), the currency pair fell. It hit a monthly low of KRW1140.2 on August 6. Investors then tried pushing it below KRW1140, but the pair saw dollar buying at this level, so it subsequently rallied. The US released some healthy July nonfarm payrolls data (+943,000 against a forecast for +870,000) during overseas trading time on August 6, so the greenback was bought. South Korea then saw new Covid-19 cases rising to record highs. With concerns also growing in the run up to the release of a US inflation indicator, the currency pair's downside grew firmer.

A report on August 12 then suggested the semiconductor industry would peak out on the falling unit cost of D-RAM and slowing demand, so South Korean stocks were sold sharply by overseas investors, with the USD/KRW pair soaring. Stock selling by overseas investors topped a record weekly high of KRW 7 trillion, so the currency pair climbed to KRW1169.5 on August 13 amid loss-cut transactions. The Bank of Korea (BOK) seemed to sell the dollar on the same day in attempts to ease sharp price movements, but investors continued to sell the won.

The pair opened the trading at KRW1166.0 on August 17 after three consecutive holidays. Overseas investors also sold off South Korean equities during the day, so the currency pair rose to KRW1179.0. The minutes to the FOMC meeting were released during overseas trading time on the same day. Most participants predicted that tapering would begin within the year if the economy performed as expected, though participants also said that there was still room for "substantial further progress" when it came to employment, with the market focus shifting back to the possibility of tapering before the year was out. As a result, overseas investors began to sell South Korean stocks again from August 19, with the USD/KRW pair also hitting a monthly high of KRW1181.1. The greenback was sold during overseas trading time on August 20 after an FRB official hinted that tapering might be pushed back, with the currency pair also sliding. The won was also bought on real demand related to the end of the month. With FRB chair Jerome Powell also giving a dovish speech at the Jackson Hole symposium, the pair fell to KRW1162.7 on August 30. It fell further on August 31 as overseas investors bought South Korean stocks, with the pair finally closing at KRW1159.5, up 9.2 won on the end of July.

2. Outlook for This Month

The USD/KRW pair is expected to strengthen slightly in September.

The pair was swayed by speculation about FRB easing in August. It also rose when overseas investors sold South Korean stocks on concerns about the outlook for the semiconductor industry. The BOK's Monetary Policy Board hiked the policy rate when it met on August 26, but investors have already prices this in, with the currency pair now moving firmly.

There are three factors to watch out for this month:

(1) The likelihood that the FRB will start tapering, (2) suggestions that the BOK might hike rates again, (3) and the impact of the Covid-19 delta variant.

As for (1), FRB chair Jerome Powell hinted at tapering within the year in his speech at the Jackson Hole symposium, but the current rise in inflation seems to be a transitory phenomena, while it will take time for the US to hit full employment. Mr Powell also said the timing and pace of tapering "will not be intended to carry a direct signal regarding the timing of interest rate liftoff." The FOMC might decide to start tapering in September. The dollar will probably be bought to a certain extent as the US moves steadily towards an exit.

As for (2), the BOK's Monetary Policy Board hiked the policy rate from 0.50% to 0.75% when it met in August. The BOK governor also made some comments about financial normalization. This suggests the BOK might implement one more rate hike before the year is out. The USD/KRW pair's rise could be held down as investors price in this rate hike.

With regards to (3), the situation regarding the delta variant remains up in the air, but there are high hopes regarding vaccinations, so this factor is unlikely to prompt much risk aversion. Unlike regular market themes, though, this situation could deteriorate sharply, so investors should be vigilant.

Though (2) will be a won-buying factor, past movements suggest the currency pair will continue rising as the dollar is bought on headlines related to (1). The pair will remain bullish in September if the FRB continues to move towards monetary policy normalization.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – September 2021

Expected Ranges **Against the US$: NT$27.50–28.10**
Against the yen: JPY3.90–4.00

1. Review of the Previous Month

In August, the USD/TWD pair jostled up and down as Taiwanese stocks fell and rose.

The pair opened the month trading at TWD27.980. Exporters did not sell the greenback much at the start of the month, but overseas investors bought the Taiwan dollar as Taiwanese stocks rose, so the pair fell to around TWD27.90. It then moved with a lack of direction, but the Taiwan dollar strengthened again as Taiwanese stocks rose, with the currency pair dropping to around TWD27.73 on August 5 as overseas funds continued to flow into Taiwan, though the pair eventually bounced back to around TWD27.80.

The pair weakened to around TWD27.77 on August 12 as the greenback moved bearishly on the results of the US July CPI data, but Taiwanese stocks then edged lower, with the pair rising to around TWD27.86 when the Taiwan Capitalization Weighted Stock Index dipped below 17,000 points on August 13. The University of Michigan's US consumer sentiment index for August (released August 16) then fell sharply below forecasts, so the greenback was sold across the board and the currency pair temporarily hit TWD27.81, but with Taiwanese stocks being sharply sold on balance by overseas investors, the Taiwan dollar was sold. The currency pair's topside was held down as exporters sold the US dollar. However, risk aversion then intensified on a Chinese economic slowdown, the situation in Afghanistan, and the spread of the delta variant of Covid-19, so Taiwanese stocks continued sliding and the greenback saw more buying, with the USD/TWD pair rising for a time to TWD28.014 on August 20.

Risk aversion eased late August, so Taiwanese stocks rallied and the currency pair edged down to around TWD27.92. The Taiwan Capitalization Weighted Stock Index returned to 17,000 points on August 25. With the US dollar also being sold by exporters at the month's end, the pair fell to around TWD27.90. The markets slipped into wait-and-see mode ahead of FRB chair Jerome Powell's speech at the Jackson Hole economic symposium, with the pair moving around TWD27.92, but Mr Powell's speech turned out to be quite dovish, so US long-term interest rates fell and Asian currencies rose against the greenback, with the Taiwan dollar also being bought. The US dollar was also sold by exporters at the month's end, with the pair temporarily falling to TWD27.710.

2. Outlook for This Month

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

The pair will continue to be swayed by the movements of overseas investors. Risk aversion intensified in August on a Chinese economic slowdown, the situation in Afghanistan, and the Covid-19 infection situation. The Taiwan Capitalization Weighted Stock Index dropped below 17,000 points to hit its lowest level in around three months, with the currency pair also rising to the TWD28 range for a time. However, risk aversion then eased and risk appetite grew after FRB chair Jerome Powell's speech at the Jackson Hole economic symposium, with the Taiwan dollar also pushed up at the month's end when exporters sold the greenback.

Expectations for US tapering have eased in the wake of Mr Powell's speech at the Jackson Hole economic symposium, with US long-term interest rates falling, so the Taiwan dollar will probably appreciate in September. Exports also remain brisk, with export orders growing by an impressive +21.4% m-o-m in July. This factor will continue to support the Taiwan dollar in September too.

Domestic Covid-19 cases had risen in Taiwan from May, but daily infections returned to single digits in August thanks to bans on eating out and other restrictions, with the alert level lowered one notch. Factories in the semiconductor industry and so on had ground to a standstill on the Covid-19 outbreak, so there were concerns about the impact on exports, but with the pandemic now being controlled, a sharp contraction in exports seems unlikely.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – September 2021

Expected Ranges **Against the US$: HK$ 7.7700–7.8100**
Against the yen: JPY 13.90–14.30

1. Review of the Previous Month

Hong Kong dollar spot exchange market in August

HKD spot weakened beyond 7.79 handle, printing its 18-month fresh low of 7.7946, in the midst of expectation for Fed's sooner tapering this year and China/HK equities rout. Taking account into escalating regulation risk for China private sector, foreign investors continued to offload Chinese investment, with year-to-date Stock Connect inflow struggling below HKD 400bn. The IPO market on HK exchanges was subdued given deteriorating sentiment. As the Fed signaled to begin its tapering operation this year, the falling HKD-USD rate spread put the HKD spot under pressure. On the bright side, the legislation of anti-sanction law was delayed at the National People Congress (NPC) Standing Committee. This helped ease concern that HK firms may be faced with conflicts between assisting foreign countries' sanctions and violating the local anti-sanction low. Investors took a respite and capital outflow pressure moderated. Along with the HKMA's liquidity withdrawal via Exchange Fund Bills (EFBs) extra issuance, the HKD pared back its loss to near 7.79 level.

Hong Kong dollar interest rate market in August

1-month HKD HIBOR dropped further to its 11-year low of 0.0627% as HKMA aggregate balance remained at its record high of HKD 457.5bn. As the front-end USD rates curve was broadly stable, 1-month and 3-month HKD HIBOR – USD LIBOR spread fell. In late August, the HKMA said that it plans to increase extra Exchange Fund Bills (EFBs) issuance by HKD 40bn in coming months to drain excessive HKD liquidity for the first time since August 2017. On the USD IRS curve, the Fed signaled to begin the tapering this year and hence market participants pushed forward Fed's rate hike cycle timing, lifting 5Y USD IRS curve higher. Under the USD-HKD peg, the HKD IRS curve upward movement resembled the USD IRS curve. Together with very soft HKD front-end rates, the negative HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) widened to near -40bps from -27bps at July-end, highlighting the firmer hedging interest on HKD interest rates upside.

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2. Outlook for This Month

Hong Kong dollar spot exchange market in September

USD/HKD spot is expected to range between 7.78 and 7.81 in the coming month. Taking account into the Fed's sooner tapering and mounting China regulation risk, we look for further HKD weakening to test 7.80 handle. However, the past experience of 2013 tapering tantrum suggested no outright weakening in HKD spot side at the tapering stage ad we do not look for HKD depreciation towards its weak-side convertibility undertaking of 7.85.

Yet, investors have been losing confidence on investment for Chinese private sector and the lingering selling pressure for Chinese investment will likely keep the HKD under pressure. We believe that the HKMA's liquidity withdrawal will smooth out the progress of HKD-USD rate spread widening and the HKD depreciation pace, but not reverse the HKD weakening trend. In the meantime, investors should take a respite from China-US tensions after the postponing the inclusion of anti-sanction law into the HK basic law. However, the legislation of anti-sanction law highlighted the increasing risks of doing business in HK amid elevated China-US tensions, which is not encouraging to foreign investment and capital inflow.

Hong Kong dollar interest rate market in September

Despite HKMA's plan to increase EFBs issuance, front-end HKD rates will remain at its bottom low as the HKMA aggregate balance will likely stay above HKD 400bn after the liquidity drainage (-HKD 40bn). Meanwhile, IPO demand should remain subdued given the recent HK equities rout and tumbling interest on Chinese investment. The IPO driven fluctuations in HKD rates look unlikely. As the Fed is set to start the tapering this year, the sooner rate hike cycle should pose upward pressure on the HKD IRS curve under the USD-HKD peg. Seasonal pattern of HKD front-end rates spike at quarter-end should prove to be modest given ample HKD liquidity condition.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – September 2021

Expected Ranges **Against the US$: CNY 6.4000–6.6000**
Against the yen: JPY 16.50–17.70
Against 100 yen: CNY 5.6000–6.1000

1. Review of the Previous Month

In August, the U.S. dollar/Chinese yuan exchange rate returned to the level of the market opening at the end of the month.

On August 2, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.46 level. In the evening of August 3, risk-averse sentiment grew in the market and market participants bought the U.S. dollar, which led the U.S. dollar/Chinese yuan exchange rate to rise to the CNY 6.47 level. In the evening of August 4, the ADP National Employment Report was released in the U.S. with weak figures, as a result of which the U.S. dollar/Chinese yuan exchange rate fell to the upper-CNY 6.45 level. However, immediately after this event, Vice Chair of the Federal Reserve Board (FRB) Richard Clarida made a remark such that necessary conditions for rising interest rates would be met by the end of 2022. In reaction, the U.S. dollar/Chinese yuan exchange rate rallied, offsetting the fall observed earlier on the day. Then, on August 6, the U.S. employment statistics were released with strong figures, which led the U.S. dollar/Chinese yuan exchange rate to rise to the upper-CNY 6.48 level.

On August 9, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 6.48 level. Immediately after market opening, the exchange rate fell slightly in reaction to the rise observed on August 6. However, the U.S. dollar/Chinese yuan exchange rate remained stable at the upper-CNY 6.48 level thereafter, as U.S. interest rates continued rising while Covid-19 cases increased in China. Then, on August 11, the July CPI of the U.S. was announced, revealing signs that inflation pressure had peaked out, leading U.S. interest rates to fall. As a result, the U.S. dollar/Chinese yuan exchange rate fell temporarily to the mid-CNY 6.47 level.

On August 16, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 6.47 level. The major economic statistics of China recorded weak figures, which led the Chinese yuan to depreciate slightly. In the afternoon of August 17, Chinese stock prices fell, encouraging market participants to sell the Chinese yuan. The U.S. dollar/Chinese yuan exchange rate fluctuated at the CNY 6.48 level. In the evening of August 18, the minutes of the Federal Open Market Committee (FOMC) meeting were released, revealing that it was possible for the slowdown of the bond purchasing program (tapering) to start by the end of this year. On the other hand, however, the minutes also revealed that there had been no consensus regarding the time and pace of the tapering. Thus, this news did not impact the U.S. dollar/Chinese yuan exchange rate. On August 19, Chinese stock prices fell again, leading the U.S. dollar/Chinese yuan exchange rate to rise to the upper-CNY 6.49 level. On August 20, the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.50 level.

On August 23, the U.S. dollar/Chinese yuan exchange market open trading at the lower-CNY 6.49 level. Chinese stock prices, which had been falling, started to rally, while U.S. interest rates remained low. As a result, market participants started buying the Chinese yuan against the U.S. dollar. As a result, in the evening of August 24, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.47 level. Thereafter, the Shanghai Stock

Exchange Composite Index started to fall after rising for three business days, and this led the Chinese yuan to depreciate against the U.S. dollar as well. On August 26, the U.S. dollar/Chinese yuan exchange rate reached the lower-CNY 6.48 level. In the evening of August 27, at the Jackson Hole Economic Symposium, FRB Chair Jerome Powell did not give any concrete information about the timing of early tapering in his speech, and this encouraged market participants to sell the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate reached the upper-CNY 6.46 level on August 30, the following day.

2. Outlook for This Month

In September, upward pressure is forecast to strengthen on the U.S. dollar/Chinese yuan exchange rate.

In the U.S., it turned out that, through the minutes of the FOMC meeting in July and the speech of FRB Chair Jerome Powell at the Jackson Hole Economic Symposium, many participants support tapering before the end of this year. Even though FRB Chair Jerome Powell is maintaining a dovish attitude, many FRB members support early tapering, and therefore it is possible for the FRB to take a decision to start tapering at the meeting in September. In addition, the dot plot is also scheduled to be published. If more members expect an interest rate hike in 2022 while employment indices continue to recover, the U.S. dollar is likely to appreciate sharply.

On the other hand, in China, market participants are still conscious of risks of market regulations, limiting security investment flow by foreign investors. Furthermore, since the deposit reserve requirement ratio cut in July, the People's Bank of China (PBOC) continues measures of monetary easing. These factors both weakened the Chinese yuan.

The Chinese economy has been advancing and retreating repeatedly. Based on the measures of monetary easing taken by the PBOC, many expect the economic outlook for the second half of the year to be slower than the first half of the year.

Since the second half of June, the U.S. dollar/Chinese yuan exchange rate continues fluctuating within a range between CNY 6.45 and CNY 6.50. However, market participants are conscious of more factors for selling the Chinese yuan, and this is strengthening upward pressure on the U.S. dollar/Chinese yuan exchange rate. Thus far, the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 6.50 level only for a short while, and for the most part, the exchange rate tended to fluctuate within a narrow range. In the times ahead, we should remain attentive, as the U.S. dollar/Chinese yuan exchange rate could exceed this range if market participants continue buying the U.S. dollar in anticipation of the normalization of U.S. monetary policy.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – September 2021

Expected Ranges **Against the US$: SG$ 1.3300–1.3700**
Against the yen: JPY 81.00–83.00

1. Review of the Previous Month

In August 2021, the Singapore dollar strengthened slightly against the U.S. dollar.

At the beginning of the year, the U.S. dollar/Singapore dollar fluctuated at the mid-SGD 1.35 level. U.S. interest rates fell, and the U.S. dollar depreciated, as U.S. economic indices were released at the beginning of the month with weak figures. As a result, the Singapore dollar strengthened gradually against the U.S. dollar and reached the upper-SGD 1.34 level toward August 6.

Thereafter, the trend became inverted in the U.S. dollar/Singapore dollar market. U.S. employment statistics were released with strong figures after attracting substantial attention in the market. In reaction, U.S. interest rates rose temporarily. Following the trend, market participants bought the U.S. dollar, and the Singapore dollar depreciated against the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.36 level toward the second week of the month. However, the University of Michigan Consumer Sentiment Index worsened significantly in the U.S. in August, and this led U.S. interest rates to start falling again. The U.S. dollar thus weakened, and in the middle of the month, the U.S. dollar/Singapore dollar exchange rate fell slightly and continued fluctuating within a narrow range at the upper-SGD 1.35 level.

Toward August 20, the Singapore dollar continued depreciating against the U.S. dollar. The U.S. dollar remained robust even after the release of the minutes of the Federal Open Market Committee (FOMC) meeting. With the possibility for the Federal Reserve Board (FRB) to start tapering before the end of the year and with growing concerns over an economic slowdown in China, the Singapore dollar weakened. Toward August 20, the U.S. dollar continued strengthening, and the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.36 level, renewing the monthly high in August.

On August 23, the Singapore dollar started rallying toward the end of the month. In the market, risk-taking sentiment grew, having witnessed official FDA approval for the Pfizer Covid-19 vaccine in the U.S., as well as the rise of U.S. stock prices. Under such circumstances, Asian currencies strengthened. It was also a positive factor for Asian currencies that the number of new Covid-19 cases in Thailand was on a decrease. Thereafter, market participants maintained a wait & see attitude, waiting for the Jackson Hole Economic Symposium scheduled for August 27, temporarily slowing down the appreciation of Asian currencies. At the Jackson Hole Economic Symposium, FRB Chair Jerome Powell made a remark that it is not necessarily appropriate to start tapering before the end of the year, which was understood as a dovish comment in the market. As a consequence, U.S. interest rates fell, and the U.S. dollar depreciated. Thus, the Singapore dollar strengthened against the U.S. dollar toward the end of the month. The U.S. dollar/Singapore dollar exchange rate has been fluctuating at the mid-SGD 1.34 level (as of August 30).

2. Outlook for This Month

In September 2021, the Singapore dollar is forecast to depreciate against the U.S. dollar.

At the moment, the Singapore dollar exchange market is still dependent on factors related to the U.S. dollar and the Chinese yuan. As long as expectation for tapering remains in media reports from the U.S., both U.S. interest rates and the U.S. dollar exchange rate are likely to continue rising. Therefore, the Singapore dollar is forecast to depreciate against the U.S. dollar in September.

In August, the Bank of Korea (BOK) decided to raise its interest rates, which was unexpected in the market. The decision turned out to be a surprise, as the number of Covid-19 cases was on a rise, but the central bank explained that the interest rate would be raised to control inflation. Based on such reasoning, it can be said that Singapore has already been successful in controlling the number of new Covid-19 cases via a rapid Covid-19 vaccination program. Economic indices of Singapore have also been strong, with economic conditions that are clearly stronger than those of Korea. Therefore, some expect the Monetary Authority of Singapore (MAS) to change its monetary policy (toward monetary tightening), as was the case with the BOK at the next meeting in October. In such a case, the Singapore dollar could strengthen in the times ahead.

However, the central bank of Singapore uses the foreign exchange market rather than interest rates for its monetary policy. Even if the MAS decides to take a measure of monetary tightening at its meeting in October, it would only be a slight change in the policy band (toward a slightly stronger Singapore dollar) in the currency basket, as an excessive change would impact the real exchange rate too much. From this point of view, the Singapore dollar exchange rate has already been fluctuating near the upper end of the NEER policy band, and there is little room for appreciation. (According to our model, the upper end of the NEER policy band is 200 basis points, and the Singapore dollar exchange rate has already been at a level 100 to 120 basis points higher than the mid-point of the policy band, limiting the possibility for further appreciation.) It is thus unlikely for monetary tightening to be a strong factor for strengthening the Singapore dollar, even if the MAS decides to change its monetary policy, as did the BOK.

For these reasons, the Singapore dollar exchange market is expected to follow interest rate hikes in the U.S., which are becoming an increasing probability, along with the tightening of regulations in China, rather than domestic factors in Singapore. While market participants should remain careful about the tightening of regulations in China, they should first observe the situation in the U.S., as it is unknown how the regulations would be tightened and how much impact such would cause in the real economy.

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

Thai Baht – September 2021

Expected Ranges	**Against the US$: THB 32.00–33.00**
	Against the yen: JPY 3.30–3.45

1. Review of the Previous Month

In August, the U.S. dollar/Thai baht exchange market opened trading at around the THB 32.95 level. In Thailand, lockdown measures were taken since the second half of July, but the number of Covid-19 cases continued to increase. Under such circumstances, the government decided to expand the lockdown measures to 29 provinces. However, the situation with the pandemic did not improve, and the Thai baht continued to depreciate. On August 3, many economists were waiting for a policy interest rate cut at the central bank meeting scheduled for August 4, the following day. Furthermore, the number of new Covid-19 cases was expected to soon exceed 20,000. As a result, market participants sold the Thai baht in an accelerated manner, and the U.S. dollar/Thai baht exchange rate exceeded the THB 33 level for the first time since April 2020. On August 4, the following day, the Monetary Policy Committee decided to maintain its existing monetary policy for the 10th consecutive time at its meeting held at the central bank of Thailand. However, this was not a unanimous decision as was at the previous meetings, with two committee members out of seven (with one member absent) voting for an interest rate cut of 0.25%. Thus, this encouraged market participants to sell the Thai baht, and the U.S. dollar/Thai baht exchange rate rose to the THB 33.40 level toward August 6.

After the weekend, the U.S. dollar/Thai baht exchange market opened trading at around THB 33.40 on August 9. Toward August 10, the exchange rate did not rise easily before reaching the THB 33.50 level, while the number of new Covid-19 cases remained at around 20,000. On August 11, the U.S. dollar/Thai baht exchange rate did not exceed the THB 33.50 level, and this encouraged some market participants to take profit, leading the U.S. dollar/Thai baht exchange rate to fall temporarily. On the same day, local time, the July CPI of the U.S. turned out to be as had been expected, and less market participants expected the Federal Reserve Board (FRB) to take measures of monetary tightening, leading the exchange rate to fall further. On August 12, the following day, the liquidity level was low, as it was a national holiday in Thailand. Under such circumstances, the U.S. dollar/Thai baht exchange rate temporarily fell below the THB 33.00 level. However, on the following day, the exchange rate started to rise from market opening. Commodity-related indices were released in the U.S. on August 12, and U.S. interest rates rose, which led the U.S. dollar/Thai baht exchange rate to recover to the THB 33.30 level toward market closing in Thailand. On August 16, the governor of the central bank of Thailand, Sethaput Suthiwartnarueput, emphasized that an additional fiscal expenditure of THB 1 trillion from the government would be necessary and that the economic impact of the Covid-19 crisis would be severer than that of the Asian financial crisis in 1997. Furthermore, the government of Thailand announced its decision to extend lockdown measures until the end of August. With these factors, the Thai baht depreciated, and the U.S. dollar/Thai baht exchange rate exceeded the THB 33.40 again. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating at the upper-THB 33.30 level until August 22, with various factors such as increasing Covid-19 cases in Thailand, the growing threat of the Covid Delta variant in developed countries including the U.S., and the heightening geopolitical risks related to the situation in Afghanistan. However, on August 23, the number of new Covid-19 cases in Thailand started to fall below 20,000, which improved market sentiment. In reaction, market participants sold the U.S. dollar against other major currencies during trading hours abroad. Following this trend, market participants actively sold the U.S. dollar also against the Thai baht, and the U.S. dollar/Thai baht exchange rate fell to approach the THB 33.25 level. On August 24, the following day, and on August 25, the number of new Covid-19 cases remained below 20,000 while the number of recovered patients exceeded the number of new cases, which has been attracting attention in the market, raising expectations for partial relaxation of lockdown measures from September. As a consequence, the U.S. dollar/Thai baht exchange rate fell significantly. On August 25, the exchange rate fell sharply to temporarily approach the THB 32.70 level. Furthermore, toward the end of the month, FRB Chair Jerome Powell expressed his dovish attitude regarding interest rate hikes in the U.S., and this encouraged market participants to sell the U.S. dollar. Thus, the U.S. dollar/Thai baht exchange rate fell further to the THB 32.50 level.

2. Outlook for This Month

In September, the appreciation of the Thai baht is forecast to slow down, and the U.S. dollar/Thai baht exchange rate is likely to fluctuate within a narrow range at the THB 32–33 level. Even though the U.S. dollar/Thai baht exchange rate fell sharply at the end of August, the exchange rate rallied rapidly to the level seen at the beginning of July. Currently, the number of daily new Covid-19 cases in Thailand has been below the 20,000 mark, and the effect of lockdown measures has become visible to some extent. Furthermore, the situation of the medical crisis has also been improving, as the number of new cases has been below the number of recovered patients, for now. It should also be mentioned that it has already been announced that lockdown measures would be partially relaxed from September 1, allowing some businesses to resume operations. However, the situation has not improved enough to return to the level before the lockdown was introduced in July, and the further improvement of the situation depends on the recovery level after the relaxation of lockdown measures. Discussions have already started as to how to carry out such relaxation, although some insist that it could be potentially impossible to relax lockdown measures. Thus, it is unknown how the relaxation process can be achieved until it actually starts. However, this decision is expected to accelerate Covid-19 vaccinations, which is also an important factor to keep in mind. On the other hand, given recent economic indices in the U.S., tapering and interest rates hikes in the U.S. have become slightly less likely to start at an early point, which is one of the major factors that could accelerate the fall of the U.S. dollar/Thai baht exchange rate. U.S. employment statistics for September can act as an important index, and market participants should remain attentive in observing the economic indices of the U.S. and the actions taken by the Federal Open Market Committee (FOMC).

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – September 2021

Expected Ranges	**Against the US$: MYR 4.13–4.23**
	Against the yen: JPY 25.97–26.66
	Against 100 yen: MYR 3.750–3.850

1. Review of the Previous Month

In August, there were few signs of movement in the U.S. dollar/Malaysian ringgit exchange market until the middle of the month. However, after the inauguration of the new prime minister on August 21, the Malaysian ringgit started to rally toward the end of the month. Monthly trading closed with a slightly stronger Malaysian ringgit than the previous month.

At the beginning of the month, U.S. interest rates fell, and the 10-year U.S. government bond yield reached the 1.12 level on August 4. Thus, there were favorable external factors for the Malaysian ringgit. However, the Malaysian ringgit did not appreciate due to domestic political uncertainty. On August 2, the last day of the special parliament session was postponed indefinitely due to the Covid-19 pandemic. While criticism was growing from opposition parties, Prime Minister Muhyiddin Yassin changed his attitude and approved the incompletion of the procedure to annul emergency ordinances on August 3. Then, the president of major opposition party United Malays National Organization (UMNO), Ahmad Zahid Hamidi, expressed disapproval of Prime Minister Muhyiddin Yassin from 11 party members, submitting to the King of Malaysia Sultan Abdullah Ri'ayatuddin in writing that support for Prime Minister Muhyiddin Yassin had failed to reach a majority. Prime Minister Muhyiddin Yassin thus faced a difficult situation. Furthermore, on August 6, the July employment statistics of the U.S. were released with figures stronger than the market estimate, and this was considered to be a big step forward to the beginning of tapering. As a result, U.S. interest rates started to rally, and the 10-year U.S. government bond yield reached 1.37%, which placed weight on the Malaysian ringgit.

Toward the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range near the monthly low at around MYR 4.24. On August 13, the second-quarter GDP of Malaysia was announced, and the result turned out to be +16.1% year-on-year, exceeding the market estimate. However, the result recorded negative growth of –2.0% from the previous quarter, which was not an optimistic figure, confirming the serious impact of the full lockdown measures on the domestic economy. It should also be mentioned that the central bank of Malaysia revised its GDP outlook for 2021significantly downward (from +6.0–7.5% to +3.0–4.0%). Even though the downward revision had been anticipated in the market, it also added some weight on the Malaysian ringgit. On August 16, Prime Minister Muhyiddin Yassin, in a difficult situation, announced his decision to resign. However, there was little reaction to this news in the market, and attention in the market was more focused on the selection of the next prime minister and members of the Cabinet.

Toward the end of the month, market participants bought back the Malaysian ringgit. On August 26, the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.20 mark and continued falling to temporarily reach MYR 4.19. The Malaysian ringgit thus retrieved its strength for the first time in a while. Then, on August 21, Ismail Sabri Yaakob took the post of prime minister with the support of 114 members of the Lower House. After the inauguration of the new prime minister, Ismail Sabri Yaakob gave a speech on TV, calling for participation in discussions across parties. On August 25, he held dialogue with opposition party officials and obtained agreement on support from opposition parties for measures against the Covid-19 pandemic. This agreement had been requested by the King of Malaysia Sultan Abdullah Ri'ayatuddin to the representatives of opposition parties via invitation to the royal palace on August 17. Thus, the agreement itself did not come as a surprise. However, market participants bought the Malaysian ringgit with expectations for political stability under the new prime minister.

2. Outlook for This Month

In September, key factors include the political skills of new Prime Minister Ismail Sabri Yaakob, inaugurated on August 21, as well as market conditions in the U.S.

The most-important factor in September would be the August employment statistics of the U.S., to be released on September 3. The majority of market participants agree that the improvement of the employment environment, which was the last remaining condition to start tapering, has gradually been achieved via the employment statistics of the previous month. With the September 3 release of August statistics, the beginning of tapering will become even more realistic. On the other hand, market participants should remain attentive to market conditions after the beginning of tapering. In the past, during tapering that started in January 2014, U.S. interest rates rose suddenly and sharply immediately after then-Federal Reserve Board (FRB) Chair Ben Bernanke made a surprise announcement on the start of tapering in May 2013, eight months before the start of tapering, and this led to the appreciation of the U.S. dollar. However, in terms of the actual tapering period, U.S. interest rates peaked out in January 2014 and continued falling until October in the same year. Following this trend, the U.S. dollar also weakened during this period. Even though past examples cannot be directly applied to the current case, it can be a point of reference. From this perspective, the appreciation of the U.S. dollar might be already at its end.

Furthermore, new Prime Minister of Malaysia Ismail Sabri Yaakob, who took his office in August, was the vice prime minister supported by major opposition party UMNO. Therefore, his government has an unstable support base, as was the case with the previous government. The prime minister has been strongly requested by the King of Malaysia Sultan Abdullah Ri'ayatuddin to obtain a confidence vote at the ordinary session of Parliament scheduled to start on August 6. While it is unlikely for the prime minister to have a no-confidence vote, former Prime Minister Muhyiddin Yassin has already been challenging some members of the Cabinet, suggesting the difficulties that the new government would face in the times ahead. Under such circumstances, the budget bill for 2022 is to be out at the end of October, and the political skills of the Prime Minister of Malaysia Ismail Sabri Yaakob would be tested, attempting to overcome difficulty by uniting the nation as expected by the King of Malaysia Sultan Abdullah Ri'ayatuddin. The political skills of the new prime minister after inauguration on August 21 were positively seen in the market, and the trend in the U.S. dollar/Malaysian ringgit exchange market seems to have changed, with market participants buying back the Malaysian ringgit. However, this was only to celebrate the situation, and therefore, market participants should remain cautious for a while.

Based on the trends in the U.S. dollar/Malaysian ringgit exchange market, with the domestic political conditions and trends in the U.S. dollar market as discussed above, it is not deniable that the depreciation of the Malaysian ringgit could be replaced by a new trend in the times ahead, although it is not the most-likely scenario.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – September 2021

Expected Ranges	**Against the US$: IDR 14,200–14,600**
	Against 100 rupiah: JPY 0.75–0.78
	Against the yen: IDR 128.21–133.33

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,400 level on August 2. On the same day, the Consumer Price Index of Indonesia was announced, and the result turned out to be 1.52% year-on-year, exceeding the market estimate and the outcome of the previous month, which supported the Indonesian rupiah. Furthermore, some consider that the Covid-19 pandemic in Indonesia has passed its worst phase, and this led the Indonesian rupiah to appreciate, while the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 14,300 level toward August 4. On August 5, the second-quarter GDP growth rate of Indonesia was announced, revealing a year-on-year increase of 7.07%, exceeding the market estimate. However, market participants were waiting for the release of the July employment statistics of the U.S., which were to be out at the weekend on August 6, and therefore, the impact on the Indonesian rupiah exchange market was limited. Thereafter, the July employment statistics of the U.S. turned out to be strong, leading long-term U.S. interest rates to rise. Under such circumstances, the Indonesian rupiah depreciated on August 10 in the following week, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,400 level. There were no more important factors in the market thereafter, and the U.S. dollar/Indonesian rupiah exchange rate remained flat, fluctuating within a narrow range at around the IDR 14,400 level.

In the second half of the month, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the IDR 14,400 level. However, on August 18, the minutes of the Federal Open Market Committee (FOMC) meeting were released, fueling expectations for the tapering of quantitative monetary easing. As a result, on August 19, the following day, the U.S. dollar/Indonesian rupiah exchange rate rose gradually (as the Indonesian rupiah depreciated). On the same day, the central bank of Indonesia held a monetary policy meeting and took a decision to maintain the seven-day reverse repo rate at 3.50%, as had been anticipated in the market, which thus impacted the foreign exchange market only to a limited degree. On August 20, the following day, concerns over the increase of Covid-19 cases grew worldwide, fueling risk-averse sentiment in the market. Under such circumstances, the second-quarter current account deficit of Indonesia expanded significantly from the previous quarter from USD 1.1 billion to USD 2.2 billion. As this increase was more significant than expected in the market, the Indonesian rupiah continued depreciating. The U.S. dollar/Indonesian rupiah approached the IDR 14,500 level. On August 23 in the following week, the central bank of Indonesia announced its decision to accept government bonds up to IDR 439 trillion (USD 30.46 billion) this year and next year under a new agreement with the Ministry of Finance. However, the plan for this agreement had been announced last year, and the amount of government bonds sold was about the same as that announced last year. Thus, the impact of this on the Indonesian rupiah exchange market was limited. Then, on August 24, the Indonesian government decided to relax some restrictions caused by the spread of Covid-19 cases, and this led the Indonesian rupiah to strengthen, leading the U.S. dollar/Indonesian rupiah exchange rate to temporarily fall below the IDR 14,400 level. On August 27, the Jackson Hole Economic Symposium was held, attracting substantial attention in the market, but the speech by Federal Reserve Board (FRB) Chair Jerome Powell did not contain anything new, leading U.S. interest rates to fall and the U.S. dollar to depreciate. As a result, on August 30, in the following week, the Indonesian rupiah strengthened against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate temporarily reached the mid-IDR 14,300 level (as of market closing of August 30).

2. Outlook for This Month

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

With regard to monetary policy in the U.S., there had been weight on the Indonesian rupiah since June, as market participants were conscious of an early tapering of quantitative monetary easing as well as an early start to interest rate hikes. However, after the speech by FRB Chair Jerome Powell at the Jackson Hole Economic Symposium, some lost expectations for an early start to interest rate hikes, and this is likely to stabilize the Indonesian rupiah from a short-term perspective. From a long-term perspective, however, interest rate hikes in the U.S. are certainly approaching in any case, which is a negative factor for the Indonesian rupiah.

It should also be mentioned that the Covid-19 pandemic in Indonesia has passed its worst phase, which is a positive factor for the Indonesian rupiah. On the other hand, the governor of the central bank of Indonesia, Perry Warjiyo, shared his view on August 2 that inflation pressure would not be confirmed until the end of 2022, and that, unless inflation pressure is confirmed, it would not be possible to raise the policy interest rate. As it is impossible to foresee the situation with the Covid-19 pandemic, there is certainly a sense of uncertainty regarding price inflation as well. However, it is evident that the central bank of Indonesia will face difficulties operating monetary policy, as the economic recovery of Indonesia will be slower than that of the U.S.

The trade balance of Indonesia, which has been a supporting factor for the Indonesian rupiah, recorded a larger surplus in July than in June. Due to the spread of Covid-19 cases, both imports and exports have been declining since the previous month. In particular, imports declined more significantly, leading to an increase in trade surplus. Trade surplus had recently been decreasing as a result of the recovery in imports, but this trend was temporarily reversed due to the spread of Covid-19 cases. However, from a medium- to long-term perspective, it is possible for the trade surplus of Indonesia to decrease, and a growing current account deficit is one of the concerns in the Indonesian rupiah market.

Even though there are some factors of uncertainty from a long-term perspective, the depreciation of the Indonesian rupiah against the U.S. dollar is likely to start a little later, as U.S. interest rates have currently been low.

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

Philippine Peso – September 2021

Expected Ranges **Against the US$: PHP 49.50–51.00**
Against the yen: PHP 2.155–2.220

1. Review of the Previous Month

In August, the Philippine peso depreciated against the U.S. dollar due to strengthened measures to restrict movement and outside activities in response to the spread of the Covid-19 Delta variant in the Philippines. However, the Philippine peso appreciated thereafter as a result of the easing of restrictions, as well as due to the rise of stock prices. At the end of the month, the U.S. dollar/Philippine peso exchange rate returned to the level observed at the beginning of the month.

The Philippine government announced its decision to tighten restrictions on movement and outside activities in the metropolitan Manila area from the third strictest level to the strictest level, as of August 6. In response, market participants anticipated a decline in demand to buy the U.S. dollar as a result of a decrease in imports based on reduced economic activity, and this led the Philippine peso to appreciate against the U.S. dollar, with the exchange rate temporarily reaching PHP 49.590 to the U.S. dollar for the first time in approximately one month. However, Federal Reserve Board (FRB) Vice Chair Richard Clarida made a hawkish remark, which weakened Asian currencies, while market participants expected a deposit reserve requirement ratio cut before the restrictions on movement and outside activities were to be tightened to the strictest level. As a consequence, the Philippine peso depreciated sharply against the U.S. dollar, and on August 6, the Philippine peso recorded its most-significant daily depreciation since June 2013. The appreciation of the Philippine peso observed from the end of July to the beginning of August was thus offset at this point.

In the middle of the month, an FRB official made a series of hawkish remarks. However, the governor of the central bank of the Philippines made a remark such that a deposit reserve requirement ratio cut was not on the agenda for the monetary policy meeting scheduled for August 12. Furthermore, the second-quarter GDP of the Philippines turned out to be higher than the market estimate, and this supported the Philippine peso. As there were thus both supporting and non-supporting factors, the U.S. dollar/Philippine peso exchange rate fluctuated within a relatively narrow range. Then, on August 12, the central bank of the Philippines held its monetary policy meeting and decided to maintain the policy interest rate at the existing level for the sixth consecutive time, as had been anticipated in the market.

The risk sentiment in the market deteriorated due to the negative economic impact of an increase in Covid-19 cases and the lockdown measures in the Philippines. As a result, the Philippine peso depreciated, and the U.S. dollar/Philippine peso exchange rate exceeded the PHP 50.50, which had been the support line, and reached PHP 50.645 for the first time since May 2020. However, the Philippine peso rallied significantly thereafter, as the minutes of the July Federal Open Market Committee (FOMC) meeting turned out to be not as hawkish as expected, while the Philippine government announced an easing of restrictions on movement and outside activities by one grade on August 20. The Philippine stock market also saw capital inflow.

2. Outlook for This Month

The strengthened restrictions on movement and outside activities in response to the spread of the Covid-19 Delta variant in the metropolitan Manila area have partially been eased. However, the number of daily new Covid-19 cases has still been high, and a sense of uncertainty about the future economic outlook is growing. As has been the case with other Asian currencies, it is likely for downward pressure to strengthen on the Philippine peso.

Furthermore, it is increasingly likely for the FRB to start tapering before the end of the year, as FRB officials made various hawkish remarks. Thus, the FOMC meeting in September will be an important event in the near future. Yet, the possibility of excessive risk-averse activities is extremely low, as market participants have been somewhat ready to see the normalization of monetary policy at an early point based on the strong employment statistics of the U.S., as well as based on the hawkish statement made by FRB Vice Chair Richard Clarida.

At the monetary policy meeting held on August 12, the central bank of the Philippines maintained its policy interest rate at the existing level for the sixth consecutive time, with an unchanged attitude to support measures of monetary easing in order to prioritize economic recovery, and this had been anticipated in the market. The latest Consumer Price Index fell to 4%, falling within the target range set out by the central bank, which was 2–4%. As inflation concerns have been mitigated, the central bank could maintain the current measures of monetary easing until economic growth and the labor market have recovered to approach the level before the pandemic. There has been a gap between the U.S. (because of monetary policy being normalized soon) and the Philippines (because measures of monetary easing are likely to be maintained). Therefore, the Philippine peso is forecast to continue weakening against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate is likely to fluctuate mainly within a range between PHP 49.50–51.00.

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

Indian Rupee – September 2021

Expected Ranges **Against the US$: INR 72.50–75.00**
Against the yen: JPY 1.45–1.53

1. Review of the Previous Month

In August, the U.S. dollar/Indian rupee exchange rate fell to the lowest level in 2.5 months after fluctuating within a narrow range.

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at INR 74.385. As the IPO of a local company was scheduled for the beginning of the month, market participants were expecting investment capital inflow from abroad, which led them to buy the Indian rupee. On August 4, the U.S. dollar/Indian rupee exchange rate fell to INR 74.085, and the exchange rate almost fell a further four times on the same day, although in the end the exchange rate did not fall any further. Thereafter, the central bank of India intervened in the market by buying the U.S. dollar, and this led the U.S. dollar/Indian rupee exchange rate to return to the INR 74.20 level. Then, on August 6, the central bank of India announced the outcome of its monetary policy meeting, and the interest rate was maintained at the existing level—as had been anticipated in the market. This decision thus only had limited impact on the market.

In the second week of the month, market participants expected the bond purchasing program of the Federal Reserve Board (FRB) to be tapered, as the employment statistics of the U.S. had been announced over the weekend with strong figures. As a result, overall Asian currencies weakened. However, in India, two more local companies announced an IPO, which led market participants to buy the Indian rupee again, offsetting the U.S. dollar-buying trend based on expectations for tapering in the U.S. Thereafter, the governors of the Federal Reserve Bank of Atlanta and Federal Reserve Bank of Boston both implied an early start of tapering, which encouraged market participants to buy the U.S. dollar, and the U.S. dollar index reached its highest level in four months. Following this trend, the U.S. dollar/Indian rupee exchange rate also rose slowly, hitting the monthly high at INR 74.475 on August 11. However, the U.S. Consumer Price Index turned out to be lower than anticipated in the market, which made early tapering slightly less likely. As a consequence, the U.S. dollar/Indian rupee exchange rate also returned to the INR 74.20–74.30 level.

In the third week of the month, the consumer confidence index and retail sales were announced in the U.S., and both turned out to be weak, discouraging market participants from buying the U.S. dollar. However, in the middle of the week, the minutes of the Federal Open Market Committee (FOMC) meeting were released, and the contents turned out to be more hawkish than expected. As a result, the U.S. dollar/Indian rupee exchange rate rose to its monthly high again at INR 74.475, although this trend did not last for long either. On August 27, at the end of the month, a major domestic energy company announced its decision to issue corporate bonds worth USD 750 million, denominated in U.S. dollars. In reaction, the U.S. dollar/Indian rupee exchange rate started falling, as market participants expected exchange between the U.S. dollar and the Indian rupee. The exchange rate fell below INR 74.10, the chart point, and fluctuated at around the INR 74.00 mark for a while. Thereafter, it turned out that the central bank of India would not intervene in the foreign exchange market by buying the U.S. dollar, as expected by some market participants. As a result, the U.S. dollar/Indian rupee exchange rate rapidly fell further to reach INR 73.69, with some market participants with U.S. dollar long positions selling the U.S. dollar to stop losses.

In the fourth week of the month, FRB Chair Jerome Powell made a speech at the Jackson Hole Economic Symposium in the U.S. He did not present any concrete timeline regarding the tapering plan, while pointing out the risk of spreading Covid-19 cases. Market participants were disappointed by this speech, and the U.S. dollar index fell by 0.4% while the 10-year U.S. government bond yield fell to 1.31%. As a result, the overall Asian currencies started to strengthen. Following this trend, the U.S. dollar/Indian rupee exchange rate also fell to INR 73.205—the highest rate for the Indian rupee since the middle of June this year. Trading closed on August 30 at INR 73.27.

2. Outlook for This Month

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

With regard to tapering in the U.S., various U.S. officials had implied an early start, fueling expectations in the market, and this disappointed market participants even further, as FRB Chair Jerome Powell did not mention any detailed plan at the Jackson Hole Economic Symposium. However, it should also be pointed out that FRB Chair Jerome Powell explained the tapering and interest rates separately, by emphasizing that the tapering of monetary easing would not automatically mean a shift to interest rate hikes, while also giving warning to the spread of the Covid Indian variant. This may mean (even though he did not mention any detailed plan) that the tapering had already been planned. In the U.S., the number of daily new Covid cases remained below 10,000 for many days since May, while at the beginning of the year it was about 300,000. However, the number has recently increased significantly to reach 300,000 again, although the number of deaths has been lower than at the end of last year or at the beginning of this year. This seems to be thanks to the high Covid-19 vaccination ratio in the U.S., which is above 60%. Tapering will start in the U.S. sooner or later, and there will surely be capital outflow from emerging countries in Asia to the U.S. as a result.

At the end of August, the depreciation of the U.S. dollar continued, but the central bank did not intervene in the market by buying the U.S. dollar and selling the Indian rupee, as had been anticipated in the market. Market participants with U.S. dollar long positions, who had been waiting for market intervention by the central bank of India, had to sell their positions, which accelerated the appreciation of the Indian rupee. However, the governor of the central bank of India explained in an interview for local press on August 25 that the central bank would intervene in the market to stabilize exchange rates, while pointing out that foreign currency deposits would be necessary in India, as there has been significant capital inflow from abroad, and that India should prepare to protect the Indian rupee when foreign capital flows out of India. Under the current conditions, the U.S. dollar/Indian rupee exchange rate fluctuated by more than 1.3% in two business days, and investment capital inflow from abroad has been robust, as mentioned above. For these reasons, the central bank of India can continue intervening in the foreign exchange market by buying the U.S. dollar in the times ahead.

It is also worrying that crude oil prices, which corrected around August 20, have been on the rise again.

Under such circumstances, the fall of the U.S. dollar/Indian rupee exchange rate is expected to be a temporary one, and thus it may now be a good opportunity for importing companies in India to buy the U.S. dollar.