Mizuho Dealer's Eye

October 2021

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – October 2021

Expected Ranges **Against the yen: JPY110.00–113.50**

1. Review of the Previous Month

The dollar/yen pair rose toward the end of September on the results of the FOMC meeting.

After opening the month trading around 110 yen, the pair climbed to 110.42 yen on September 1 on real-demand dollar buying at the start of the month and the firm movements of the Nikkei Average. However, it then dropped back to the upper-109 yen mark on the worse-than-expected result of the US August ADP National Employment Report. The US August employment data was released on September 3. At +235,000, the nonfarm payrolls figure was sharply down on expectations for a rise in the region of +750,000, so the currency pair weakened to 109.59 yen.

The pair moved without a sense of direction in a range around the upper-109 yen mark and the lower-110 yen level from September 6 as investors focused on the movements of US long-term interest rates. The US released a worse-than-expected August CPI result on September 14, so the greenback was sold as US stocks moved bearishly. The dollar was also sold on September 15, with the pair hitting a September low of 109.11 yen. However, it subsequently rallied on the firm results of the NY FRB Manufacturing Index (released September 15) and the September Philadelphia FRB Manufacturing Index (released September 16). The dollar was bought and the currency pair temporarily recovered to 110 yen on September 17.

Risk aversion intensified the following week on concerns about the finances of a major Chinese real-estate firm, with the pair tumbling to 109.12 yen on September 20. The FOMC met on the same day. Its statement hinted at early tapering, while the federal funds rate projection of FOMC members (the dot chart) suggested that the median rate would stand at 0.3% at the end of 2022, up from the previous projection of around zero. FRB chair Jerome Powell's press conference also seemed more hawkish than ever, so the greenback was bought at a faster pace and the dollar/yen pair soared to the upper-109 yen level. The dollar continued to be bought on the FOMC result on September 23. With US stocks moving firmly, the pair edged back to the 110 yen range. Default fears concerning the major Chinese real-estate firm also receded, while FRB governors continued to make hawkish noises, so investors continued buying the dollar, with the currency pair rising to 110.79 yen on September 24.

The post-FOMC dollar buying continued at the month's end. As the markets focused on tapering and the early commencement of rate hikes, the pair broke through the key 111 yen mark on September 27. In his statement to Congress on September 28, FRB chair Jerome Powell said "bottlenecks, hiring difficulties, and other constraints could again prove to be greater and more enduring than anticipated, posing upside risks to inflation." The benchmark yield on US 10-year treasuries also rose to 1.56% for the first time in three and a half months as investors focused on rising inflationary pressures due to high crude oil prices. The currency pair also climbed in tandem with US interest rates. The pair then broke above its 2021 high of 111.66 yen (last reached in July) before hitting 112.05 yen for the first time since February 2020, 19 months ago. The pair continued to trade at highs around the upper-111 mark as of September 30.

2. Outlook for This Month

In October, the dollar/yen pair is expected to move firmly on expectations for monetary policy normalization by the FRB.

When it met in September, the FOMC hinted that it would begin tapering within year. Most observers believe tapering will commence from November at the earliest or December at the latest, with the greenback likely to be bought on expectations for US monetary policy normalization. With the pair moving at 2021 highs, investors are focusing on 112.23 yen, a high last hit in February 2020. If it tops 112.23 yen, this will be the first time the pair has topped its previous year's high since 2015, with the pair likely to move bullishly thereafter for technical reasons.

Employment will play a key role in any policy decisions made by the FRB. The nonfarm payrolls data fell sharply below expectation on its release on September 3, but with the number of new COVID-19 cases peaking out in the US, it seems the dip in the employment recovery will only be short-lived. The markets will be monitoring the release of the September employment data on October 8 to see if the US is close to hitting its targets for the jobs recovery, as FRB chair Jerome Powell mentioned in his press conference after the September FOMC meeting. If the situation recovers steadily, this will support moves to commence tapering.

Expectations are also growing that rates will be lifted soon after tapering ends. With regards to inflation, energy prices have risen and wages have climbed on labor shortages. There are also supply restrictions, while soaring house prices have pushed rents up. All this suggests rising inflation might not be just a transitory phenomena. The markets have priced in just over one rate hike, but if inflation does drag on, there could be two rate hikes in 2022. Stocks remain at highs despite rising US interest rates, with financial markets moving stably on the economic recovery, so there could be growing speculation about early tapering followed by rate hikes.

In Japan, meanwhile, new Covid-19 cases are falling on the roll-out of vaccines, with hopes growing that economic activity will get back to normal after the state of emergency is lifted. Fumio Kishida was chosen to be the next leader of Japan's Liberal Democratic Party. If hopes grow regarding the policies of the new administration and laggardly Japanese stocks finally start rising, the cross yen will probably strengthen on rising risk tolerance levels, with the dollar/yen pair supported as a result. On the monetary policy front, Japan's core CPI data has undergone year-on-year falls for 12 straight months until July, so the Bank of Japan has its hands tied when it comes to normalization. On the other hand, expectations are growing for rate hikes in the US and other developed nations like Norway, New Zealand and the UK as governments also focus on the harmful impact of soaring asset prices as a result of unprecedented monetary easing. As such, the yen will probably be sold across the board on this divergence in monetary policies.

Any yen bullishness will be temporary in nature. However, stocks could face some correction on fears about the finances of a major Chinese real-estate firm, concerns about the US debt ceiling, or rising US interest rates, for example. If this happens, the yen might rise on risk aversion, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the dollar	17 bulls	113.50 – 110.00	Bearish on the dollar	4 bears	113.00 – 109.00

* Ranges are central values

Tanaka	Bull	114.00 – 110.50	US interest rates are being pushed up by inflationary concerns on rising energy prices, with the dollar/yen pair moving firmly on supply and demand shifts too. However, there could be some sharp corrections, while the economy might be hit by inflationary concerns due to tight supply conditions. All this could lead to risk aversion, so caution will be needed.
Yano	Bull	113.50 – 110.50	Since the Jackson Hole symposium, the market theme has switched from 'tapering' to 'the timing of rate hikes.' If anticipation grows for rising interest rates and if the US economy seems to be recovering from its pandemic slump, the dollar/yen pair could move firmly, with investors testing its 2021 highs.
Tsutsui	Bull	113.50 – 110.50	The yen look set to fall as US interest rates rise on concerns about inflation in the US. With seasonal factors also playing a role, many market participants will focus on the prevailing ranges of interest rates and exchange rates. This will probably support moves to test the dollar/yen pair's topside.
Kato	Bear	113.00 – 110.00	Factors are becoming clearer, with short-term market uncertainties likely to run their course. October will probably be a month of adjustment. However, the cross yen has been a driver of stock corrections, so if the cross yen is sold, this could provide a valuable buying opportunity.
Ito	Bull	113.00 – 110.00	The greenback will climb as US interest rates rise on the clear shift toward monetary policy normalization in the US. The divergence in policy stances of the US and Japan will lead directly to dollar buying. However, the dollar/yen pair will move with a heavy topside on risk aversion as investors react badly to the end of easing.
Yamagishi	Bull	113.50 – 110.00	The dollar/yen pair will move firmly on FRB monetary policy normalization. Employment is recovering steadily, while commodity prices are high, supply is tight, house prices are soaring and there is a labor shortage. All these factors suggest rising inflation might not be a transitory phenomena. If this is the case, there could be two rate hikes in 2022.
Ushijima	Bear	121.50 – 109.00	The dollar/yen pair will move bullishly in the medium term. As with the end of March and the end of June, though, the yen could undergo a short-term rise after the end of this quarter too. Though the greenback is being pulled higher by rising US interest rates, if stock prices tumble, the yen will probably face appreciatory pressure against the cross yen.
Omi	Bull	113.00 – 110.00	The FRB has hinted it may be appropriate to finish tapering by the middle of 2022, so investors are focusing on the possibility that monetary tightening might take place earlier than expected. As such, dollar interest rates look set to climb, with the situation shifting from dollar selling to dollar buying.
Ueno	Bull	114.00 – 110.00	The September FOMC meeting hinted at an exit strategy and it is hard to imagine policy shifting (in a dovish direction) in the short term. The dollar/yen pair is relatively unmoved by concerns about a default by a major Chinese property company. As such, it seems likely that the pair will trend higher for a time.
Yamaguchi	Bear	113.50 – 109.00	The FRB shifted in a hawkish direction in September, but with price targets still not met, there are high hurdles in the way of the FRB actually hiking rates. Discussions about the Biden administration's economic package are likely to prove stormy in Congress, while US vaccination rates are also hitting a ceiling. As such, there could be some adjustment to dollar buying, so caution will be needed.
Kai	Bull	113.00 – 111.00	With hawkish attitudes growing across the world, US interest rates are likely to continue rising. US stocks are moving heavily on the topside on rising rates, but prices are unlikely to fall sharply, with risk aversion also capped, so even if stocks do fall, they will probably be bought back.
Onozaki	Bear	113.00 – 109.00	The dollar/yen pair rose toward the end of September on expectations for the commencement of tapering within 2021 and the start of rate hikes in 2022, but it is now coming under some adjustment after hitting highs for the year. The pair's downside will move at the prevailing support line of 109 yen.

Tamai	Bull	113.50 – 110.00	The greenback will continue to be bought on the FRB's hawkish stance. However, the FRB remains cautious when it comes to rate hikes, with the dollar/yen pair's topside likely to be capped as investors shift their focus to the likelihood of rate hikes.
Harada	Bull	114.00 – 110.00	Expectations for US rate hikes have risen on rising inflation and the resumption of economic activity, with US interest rates also edging upwards. The dollar/yen pair also broke above 112 yen for a time at the end of September. The pair is facing more upward momentum and it looks set to move bullishly in October too.
Oba	Bull	113.50 – 110.50	Since the September FOMC meeting, the focus of the markets has shifted to rate hikes. The dollar/yen pair has finally started to move in tandem with rising US interest rates. There will probably be some adjustment to sharp dollar appreciation, but the pair is likely to stick firmly to the 112 yen range on the divergence in the monetary policies of Japan and the US.
Katoono	Bull	114.00 – 110.50	There is a risk that the economic recovery might be thrown off track by financial uncertainty emanating from China. The US is expected to move steadily in the direction of tapering on the whole, though, so the dollar/yen pair will probably break out of its range on the topside.
Kobayashi	Bull	113.00 – 110.00	The US plans to move toward financial and economic normalization as it begins tapering in earnest within the year. However, Japan and Europe have yet to announce any clear exit strategy. As such, the trend of dollar buying looks set to continue.
Henmi	Bull	114.00 – 110.00	The FOMC shifted in a hawkish direction in September. The US economy always remains one step ahead and there are hopes for a recovery as the economy bounces back from the pandemic. The greenback will also be supported by rising US interest rates, with the dollar/yen pair set to move firmly.
Otani	Bull	113.50 – 110.00	The FOMC outlined a clear path for monetary policy when it met in September. However, Japan and Europe remain in dovish mode, so US interest rates will continue climbing and the greenback will remain bullish on these divergent monetary policy stances.
Suzuki	Bull	113.50 – 111.00	The dollar continues to rise on expectations for tapering and for rate hikes in 2022. The dollar/yen pair will also be supported as the yen is sold on the sluggishness of the Japanese economic recovery compared to other countries, with the pair's room on the downside likely to be capped.
Okuma	Bull	113.00 – 110.00	Anticipation for rising US rate hikes has grown on swelling concerns about inflation. With the FRB also hinting at tapering within the year, investors will probably focus on the divergent monetary policies of Japan and the US. As such, dollar buying looks set to continue going forward.

Mikiko Tamai, Forex Sales, Global Markets Sales Department

Euro – October 2021

Expected Ranges **Against the US$: US$1.1400–1.1750**
Against the yen: JPY128.00–131.00

1. Review of the Previous Month

The euro moved bearishly in September. After opening the month at the lower-$1.18 mark on September 1, the euro/dollar pair then climbed to the mid-$1.18 level on weak US economic indicators and comments by the Bundesbank governor about inflationary concerns. With stock markets moving firmly, the pair moved firmly on September 2 in tandem with a bullish cross yen. On September 3, Japanese Prime Minister Yoshihide Suga announced he would not be standing in the general election. The Nikkei Average rose sharply as a result, with the euro/yen pair also hitting a monthly high of 130.74 yen. The US released some weak August employment data during overseas trading time, so the greenback was sold and the euro/dollar pair hit a monthly high of $1.1909.

Trading was thin on the ground the following week with the US markets on holiday on September 6. Germany released a worse-than-expected September ZEW Indicator of Economic Sentiment on September 7. The dollar was also sold against the pound when the UK prime minister signaled his intention to raise taxes, with the euro/dollar pair also sliding. This bearishness continued on September 8, with the pair temporarily hitting $1.1802. On September 9, the ECB Governing Council announced it would be slowing the pace of its PEPP purchases slightly, but this was as expected, so the impact was negligible. Though euro selling accelerated on dovish comments by ECB president Christine Lagarde, the pair remained in the $1.18 range. The euro was bought back on October 10 on news that the US and Chinese heads of state had spoken by telephone, but with US interest rates rising, the pair's gains were pared back and it edged lower.

In the following week, the pair fell to the upper-$1.17 level on September 13 on risk aversion, though the pair then recovered to the $1.18 range on falling US interest rates. It then climbed to the mid-$1.18 level on September 14 when the dollar was sold on the worse-than-expected result of the US August CPI data. However, the pair's topside was held down as the cross yen was sold on bearish stock movements. The pair rose to the mid-$1.18 mark on September 15 on the firm results of the eurozone July industrial production data, though it then dropped back to around $1.18 on rising US interest rates and so on. With the dollar being bought on rising US interest rates, the pair dropped to the mid-$1.17 level on September 16 on the better-than-expected result of the US August retail sales data. Risk tolerance grew on September 17 on rising Chinese stocks, with the pair rallying to the upper-$1.17 level, though it then tumbled to the lower-$1.17 mark as US stocks dropped back.

The next week saw risk aversion intensifying on September 20 on concerns about the creditworthiness of a major Chinese real-estate firm. The euro/dollar pair's downside fell lower, though it then bounced back as the dollar faced selling pressure due to falling US long-term interest rates. The pair floated around the lower-$1.17 level on September 21 as risk sentiments remained in the doldrums. The greenback was bought on September 22 after the FOMC hinted at tapering in the near future, with the euro/dollar pair temporarily plummeting to the upper-$1.16 level. As risk aversion waned on September 23, though, the pair bounced back to the mid-$1.17 level on rising German interest rates. The pair moved with a heavy topside on September 24 as risk aversion flared up again when China cracked down on cryptocurrencies.

The next week saw a German general election on September 27. The Social Democrats scored a narrow victory, but the impact on the pair was minimal. As US interest rates continued rising, the pair then edged lower. The greenback was bought on September 28 on rising US interest rates and dollar bullishness against the pound. The dollar was bought across the board on September 29, with the euro/dollar pair plummeting down below $1.16 while activating stop losses. It then moved with a heavy topside on September 30 and traded at lows at the month's end after dropping to a 2021 low of $1.1563.

2. Outlook for This Month

The euro/dollar pair is expected to move bearishly in October on the divergent monetary policies of the US and Europe.

When it met in September, the FOMC said tapering would be justified in the near future and it hinted again that tapering could start within the year. The FOMC's dot chart also revealed that half of all FOMC participants expected rates to be hiked in 2022, with the FOMC meeting read as hawkish on the whole.

The ECB Governing Council also decided to slow the pace of its PEPP purchases when it met in September, but this marked at return to the status quo after the pace of purchases had temporarily accelerated for two quarters following the March meeting, so the impact of the announcement was negligible. In her press conference after the meeting, ECB president Christine Lagarde struck a dovish tone when she said the move did not signal the start of tapering, with policy set to be tweaked during regular quarterly reviews going forward. Tapering was originally set to begin when the pandemic was over, but in her press conference the ECB president now said the PEPP would run until March 2022 or even later if necessary. With winter approaching, the situation remains up in the air when it comes to new Covid-19 variants and so on, so the ECB is likely to remain in dovish mode. The ECB Governing Council is also set to discuss how the PEPP is run when it meets in December, so it will probably opt to keep policy unchanged when it meets in November. Given this clear difference between the FRB and ECB when it comes to tapering, it seems likely the euro/dollar pair will move with a heavy topside.

There are also concerns about credit risk involving a major Chinese real-estate company. News emerged in September that some of the company's investors had not received interest payments on dollar-denominated corporate debt. Dollar-denominated debt only makes up a small proportion of the firm's interest-bearing liabilities, so the impact on the international finance markets has been limited, with concerns easing slightly, though this remains a risk factor. China will be embarking on a long holiday at the start of October to commemorate the founding of the PRC, with the real-estate company set to make interest payments when the holiday comes to an end. Furthermore, a one-month grace period applies to any payments missed in September, so risk aversion looks set to rise again as this deadline looms, with the euro moving heavily as a result.

However, the euro/dollar pair has already fallen sharply, so there will probably be some correction this month. The eurozone is doing a better job than the US when it comes to keeping a lid on Covid-19, so if European economic indicators show some signs of improvement, the pair will probably bounce back for a time.

Dealers' Market Forecast

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

Bullish on the euro	3 bulls	1.1800 – 1.1500	Bearish on the euro	18 bears	1.1750 – 1.1450

* Ranges are central values

Tanaka	Bear	1.1750 – 1.1200	While the FRB is examining the timing of the next rate hike, the ECB remains in easing mode. The euro/dollar pair will continue sliding on this monetary policy divergence. The pair will also be hit by the negative economic impact of rising energy prices in Europe.
Yano	Bear	1.1750 – 1.1450	The economic recovery is moving firmly on the roll out of vaccines, but the greenback will continue to move strongly on anticipation for early rate hikes in the US. As such, there will be a shortage of factors conducive to active euro buying. The euro/dollar pair will have its downside tested this month.
Tsutsui	Bear	1.1750 – 1.1200	The euro/dollar pair's room on the downside will widen on the movement of US interest rates, with the euro also impacted sharply by the slowdown in economic activity on concerns about Chinese power supplies.
Kato	Bull	1.1800 – 1.1500	The euro looks set to remain bearish, but short positions have accumulated to high levels, so in the short term investors may focus on the eurozone's underlying trade surplus. There will probably be some slight adjustment in October.
Ito	Bear	1.1800 – 1.1450	The ECB announced it would slow the pace of its PEPP purchases slightly, but the ECB is clearly lagging behind the FRB when it comes to the pace of tapering, so the euro will probably move bearishly against the dollar. The euro/dollar pair's topside could also be weighed down by coalition talks following the German general election. The pair's topside will also move heavily on risk aversion on rising interest rates.
Yamagishi	Bear	1.1750 – 1.1450	In September, the German ZEW Indicator of Economic Sentiment, the eurozone Manufacturing PMI, and the German IFO Business Climate Index all deteriorated on the previous month on supply constraints and the spread of the delta variant. With the PEPP set to expire in March next year, the ECB will be discussing which monetary policy framework to adopt thereafter. However, the ECB remains cautious when it comes to tapering, with the euro set to move bearishly going forward.
Ushijima	Bull	1.1800 – 1.1500	The dollar was bought toward the end of September on end-of-quarter trends, but there will be room for some short-term dollar sell-backs at the start of October. IMM currency futures are also more-or-less neutral when it comes to the euro, so it seems euro selling has run its course for now.
Omi	Bear	1.1800 – 1.1500	With the FRB likely to begin tapering in the near future, the dollar will be bought. As a result, the euro/dollar pair will probably move bearishly.
Ueno	Bear	1.1800 – 1.1400	While the FRB is searching for an exit from easing, the ECB is sticking to the status quo. This is naturally making the dollar a more attractive currency than the euro. German coalition talks looks set to drag on for months, with investors likely to focus on the political deadlock going forward.
Yamaguchi	Bear	1.1800 – 1.1450	There are growing concerns that the economic recovery in Europe will stall on the renewed spread of Covid-19. Coalition talks are also underway in Germany, while France is scheduled to hold a presidential election in 2022, so the euro look set to move bearishly as investors focus on political risk.
Kai	Bear	1.1700 – 1.1500	With hawkish attitudes spreading worldwide, US interest rates are likely to continue rising. The dollar will continue to rise on the divergent stances of each central bank. However, the euro will be supported by Europe's trade surplus, so the euro/dollar pair's slide will be muted.
Onozaki	Bull	1.1900 – 1.1500	If there is to be some correction to the trend of dollar buying and euro selling, this will probably come when the euro/dollar pair dips below $1.16. With the pair also likely to be bought on its downside, it will probably bounce back this month.

Tamai	Bear	1.1750 – 1.1400	The FRB has hinted that it will begin tapering within the year. The ECB has slowed the pace of its PEPP purchases, but ECB president Christine Lagarde insisted this move does not count as tapering. The euro/dollar pair will probably move bearishly on these divergent monetary policies.
Harada	Bear	1.1700 – 1.1200	With investors focusing on the timing of rate hikes in the US, the dollar looks set to move firmly. Under these circumstances, the euro/dollar pair is likely to move bearishly as the markets focus on the divergent monetary policies of the US and Europe.
Oba	Bear	1.1650 – 1.1500	The ECB looks set to remain in cautious mode. On the other hand, the theme of US monetary policy has shifted to rate hikes and moves towards normalization, so the dollar will probably be bought against the euro. With eurozone economic indicators also undergoing month-on-month slides, the euro/dollar pair's topside will be weighed down in October.
Katoono	Bear	1.1800 – 1.10	Though the ECB has indicated it will move towards tapering, this will depend of the state of the eurozone economy, with Europe likely to lag behind the US when it comes to the commencement and the pace of tapering, As such, the euro/dollar pair will continue to trade with a heavy topside.
Kobayashi	Bear	1.1850 – 1.1350	Though the FRB has outlined a plan for financial and economic normalization, several ECB officials have made dovish comments recently, with the ECB yet to announce a clear exit strategy. Under these circumstances, the euro/dollar pair is likely to continue moving bearishly this month.
Henmi	Bear	1.1700 – 1.1400	Though the ECB has embarked upon an exit strategy, it is clearly lagging behind the FRB. The eurozone has also released several lackluster economic indicators. With a dearth of reasons to buy the euro, the euro/dollar pair looks set to move bearishly this month.
Otani	Bear	1.1800 – 1.1500	With investors focusing on the timing of the next US rate hike, the euro/dollar pair will continue moving with a heavy topside. However, the Covid-19 situation is calming down in the eurozone's major nations. With inflation concerns also rising, the pair's room on the downside will probably be capped.
Suzuki	Bear	1.1800 – 1.1500	There is a clear divergence in the tapering stances of the FRB and ECB, with the euro also likely to be sold on the state of the economic recovery. The euro/dollar pair could rally at times given how far it fell last month, but its topside will be weighed down.
Okuma	Bear	1.1750 – 1.1450	The ECB remains cautious when it comes to monetary policy normalization, but the FRB has already started to focus on rate hikes. The euro/dollar pair will move bearishly on these divergent positions, with the pair also weighed down by uncertainty about the political situation in Germany.

Joseph McElhill, Europe Treasury Department

British Pound – October 2021

Expected Ranges **Against the US$: US$1.3200–1.3800**
Against the yen: JPY148.00–155.00

1. Review of the Previous Month

In September the pound/dollar pair swung up and down on risk sentiments.

These fluctuations were quite sharp in the first half of the month, though sterling moved flatly overall during this time. The pair hit a monthly high of $1.3913 on September 14, but this was a transitory uptick than occurred when the dollar weakened on a slight dip in the US August CPI data.

The pair traded in a comparatively narrow range in the latter half of the month. The pound moved without a sense of direction against the other major currencies until the results of the FOMC meeting were released on September 22. The FOMC meeting was read as being somewhat hawkish. The FRB said it would make an announcement on scaling back its asset purchases (tapering) in November, with tapering set to begin with in the year and be finished by the middle of 2022. This was as the markets had expected, but the FOMC also hinted that the first rate hike could take place at the end of 2022 or the start of 2023. This hint of a potential rate hike at the end of 2022 probably surprised market participants, with things proceeding faster than they had expected.

When the Bank of England (BOE) met on September 23, it announced that the grounds for tightening were becoming firmer. It also announced that it expected inflation to top 4%. This saw the pound/dollar pair swinging upwards for a time to top $1.37 for the first time since September 3. Investors brought forward their expectations for a rate hike to February 2022, with some economists suggesting rates might even be raised within the year.

Sterling made minor fluctuations toward the month's end to weaken on the whole. The pound/dollar pair plummeted from the $1.37 range to just before $1.35, while the euro/pound pair hit GBP0.86 for the first time in around two months. The markets posited the domestic petrol shortage as the reason for sterling's slide. However, though this shortage was big news on TV, it did not really seem to concern people living in London.

The pound plunged by over 2% against the dollar over September 28–30. The terminals of many financial information providers pointed to factors such as the petrol shortage, dovish comments by the BOE's Catherine Mann, and the same-day sharp fall in the value of domestic bonds, but global stocks continued to move in lockstep with the pound, so it actually seems more the case that the pound continued to react directly to the movement of risk sentiments on interest rate trends and so on.

The pound/dollar pair closed the month trading around $1.34 on September 30.

2. Outlook for This Month

The pound/dollar pair looks set to trend lower until the middle of October.

Investors will be focusing on UK inflation and the movement of long-term interest rates this month. The situation will be broadly unchanged from September. With interest-rate markets fluctuating sharply, though, the major financial information providers are releasing a lot of news about rate hikes. This will probably impact spot markets to a certain extent, so caution will be needed. However, market participants should primarily monitor risk sentiments until the September employment data is released on October 12. This is because sterling moved in tandem with global stock movements in September, including when it fell sharply on September 28. Furthermore, it seems that rising or falling speculation about rate hikes will only have minimal impact on the pair's movements from a relatively short-term monthly perspective.

A glance at the movements of the interest rate futures market in September is revealing. As of September 1, investors believed the BOE would implement a rate hike in August 2022, but by September 28 investors had brought forward their expectations for a rate hike by six months to February 2022. Nonetheless, the pound did not swing higher and it continued moving bearishly.

The pound may be swayed temporarily by different factors depending on the results of the employment data released on October 12. The BOE is focused on the unemployment rate, so if the employment data is far better than market forecasts, this could lead to growing expectations for a rate hike within the year, with sterling swinging higher as a result. However, the UK will move faster than any other major nation if it does implement a rate hike within the year, so the pound will probably swing lower on concerns about whether this is the right move.

The economic recovery remains firm, though. The unemployment rate has moved somewhat weakly compared to other economic indicators, but if this also shows signs of improvement, the pound will be susceptible to upswings. The biggest hint will be provided by the Manufacturing PMI released on October 1. If this beats expectations and sterling subsequently rises, it is also likely that the pound will move bullishly on October 12 too.

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

Australian Dollar – October 2021

Expected Ranges **Against the US$: US$0.7000–0.7470**
Against the yen: JPY78.00–82.00

1. Review of the Previous Month

The AUD/USD pair rose sharply from the lower-$0.73 level to the upper-$0.74 handle during the first three days of September, though it fell to the $0.71 handle in the latter half of the month.

On September 1, Australia's 2Q GDP data beat market expectations, while the US ADP National Employment Report fell below market expectations for the second straight month on staffing problems. The pair subsequently strengthened to around $0.7385. Australia's July trade balance was released on September 2 and it was up on expectations and on the previous month. With the greenback also being sold when the S&P500 hit record high, the pair rose from the upper-$0.73 handle to the $0.74 range. The US August employment data fell sharply below expectations on its release on September 3. With concerns also growing that the economic recovery might slow on the spread of the delta variant, dollar selling continued moving bearishly. The currency pair strengthened to $0.7478 as a result.

The pair then trended downward from the second week until the end of the month. Though the pair climbed to around $0.7470 after the RBA board meeting, it failed to hit $0.75. With short-term investors and so on also closing out their Australian dollar long positions, the pair edged down to the upper-$0.73 level. As expected, the RBA board decided to lower the amount of its bond purchases from September. With uncertainty rising on the spread of the delta variant, though, the RBA pushed back the timing of its next review of the asset purchase amount from November to mid-February 2022. This dovish stance saw the pair's bullish momentum waning.

The pair then fell from the mid-$0.73 handle to the $0.72 range in the third week. The Australian dollar was sold and the pair fell to around $0.7330 on September 14 on dovish comments by RBA governor Philip Lowe. The pair rose to $0.7369 after the US August CPI data dropped below market expectations, though it then dropped back to $0.7320. The Australian unit was sold on September 15 on the release of some bearish Chinese economic indicators. The Australian August employment data was released on September 16, with the jobs figure falling by more than expected. The unemployment rate had improved by 0.1pt, but this was because the labor participation rate had fallen, with the employment situation deteriorating on the whole. The currency pair subsequently fell to around $0.7320. The US then released an unexpectedly-firm August retail sales figure and September Philadelphia FRB Manufacturing Index. As US interest rates rose, the pair fell further to hit $0.7274. Stocks fell on September 17 after the University of Michigan's US consumer sentiment index dipped below forecasts. US treasury yields rose and the greenback was bought, with the currency pair temporarily tumbling to $0.7262.

Market tested the pair's downside several times in the fourth week, but the pair moved firmly at $0.7220 and it couldn't be pushed below this level. It temporarily fell to $0.7220 on September 20 on default concerns regarding a major Chinese real-estate company. A sense of calm swept the markets on September 22 when the aforementioned company said it would be making bond interest payments, so the Australian dollar was bought slightly, though the pair's topside was capped ahead of the FOMC meeting. The FOMC struck a hawkish tone when it said tapering could begin as early as November, with stocks moving firmly and the pair temporarily rising to just below $0.73, though it failed to break out of its range. As Chinese credit concerns eased on September 23, the pair broke below $0.73. With US long-term interest rates continuing to rise on September 24, the greenback was bought across the board and the AUD/USD pair fell to the mid-$0.72 level.

US interest rates continued rising in the final week, with the pair sliding to the upper-$0.71 level.

2. Outlook for This Month

The September FOMC meeting was hawkish overall. The outlook for the economy and inflation from 2022 onwards were revised upwards, while the dot chart also saw more members predicting a rate hike in 2022 or 2023. Many market participants had expected tapering to take place over around a year, but the FOMC sprung a surprise when it suggested tapering could be done and dusted by mid-2022. Furthermore, a government shutdown was avoided for now when a decision was made to temporarily suspend the debt ceiling. The greenback is still being bought on rising US interest rates. With markets focusing on interest rates, the currency pair will trade with a heavy topside in the first half of October, even if US stocks rise slightly.

In Australia, the states of Victoria, ACT and NSW remain in lockdown, but the Covid-19 disaster payment and other government subsidies for individuals and businesses will be lowered when double vaccination rates hit 70% in each state, with the subsidies totally phased out when rates hit 80%. Until now, people have had the option of staying off work and receiving government support, but if these subsidies are wound down, many people who had not looked for work will be forced to leave the house and find a job when lockdowns are lifted. In NSW, 70% of people will have received two vaccinations by October 6, with lockdown restrictions set to be eased from October 11, so the pace of the economic recovery will probably pick up in October. However, it will take time for the pace of the economic recovery to filter through into economic indicators, so the AUD/USD is unlikely to break out of its range just now.

As for external risk factors, there is a global energy supply and demand crunch, while supply chains also face problems. Investors should also monitor how sentiments behave on the back of crackdowns by the Chinese authorities, for instance.

First, market would like to watch closely to see what the RBA board meeting on October 5 would reveal about the direction of the Australian exit strategy going forward.

Reiko Kanemoto, Canada Office, Americas Treasury Department

Canadian Dollar – October 2021

Expected Ranges **Against the US$: C$1.2400–1.3000**
Against the yen: JPY84.00–90.00

1. Review of the Previous Month

The USD/CAD pair opened September trading at C$1.2616. It hit a low of C$1.2494 on September 3 and a high of C$1.2896 on September 20.

The US August nonfarm payrolls figure was released on September 3. At +235,000 m-o-m, the result was far below the market forecast of +733,000. This led investors to believe the FOMC was unlikely to announce tapering when it met at the month's end, so the greenback was sold and the pair temporarily hit C$1.2494.

After the long weekend, risk aversion intensified on September 7 on concerns that the economic recovery would slow on the spread of the delta variant, so US and Canadian stocks fell and the currency pair rose to C$1.2656. As expected, the Bank of Canada (BOC) Monetary Policy Committee (MPC) kept its policy rate fixed at 0.25% when it met on September 8. It also decided to keep the pace of its government bond purchases at C$2 billion a week. Canada's August employment data was released on September 10. At +90,000, the number of people in work was up on the previous month for the third month in a row, with the unemployment rate also improving from 7.5% to 7.1%. However, stocks then fell on concerns the economic recovery would stall on the spread of the delta variant, with the currency pair also rising to C$1.2726.

From September 13, there were growing expectations for a recovery in crude oil demand on the global spread of vaccinations. With US crude oil inventories also falling, crude oil prices (WTI) rose and the pair continued trading in the C$1.26 range. The US Energy Information Administration (EIA) released its inventory data on September 15. This revealed that crude oil inventories had fallen sharply, with WTI rising close to $73/barrel. Risk aversion prevailed and the pair climbed to C$1.2773 on September 17 on headlines about default risk involving a large Chinese property developer. These concerns continued into the following week, with Hong Kong stock markets falling sharply and risk evasive moves increasing. As a result, the USD/CAD pair temporarily hit a monthly high of C$1.2896.

Lower house elections were held in Canada on September 20, with Canada once again ending up with a minority government. However, the Liberals remained the largest party, so expectations grew for economic stimulus measures and Canadian stocks rose on September 21, though the impact on the currency markets was minimal. Excessive concerns eased on September 22 when the troubled Chinese property developer said it would be making interest payments on its debt, so the pair weakened from C$1.28 to C$1.27. WTI prices also rose as investors focused on tight supplies due to improved demand. The FOMC met in the afternoon of September 22. It hinted that tapering might start in November if the economy continued to improve as expected. With members also revising their projection for the first rate hike from 2023 to 2022, the meeting was read as slightly hawkish. Given these results and the waning risk of a slowdown to the global economic recovery, WTI prices continued rising from September 23 due to ongoing concerns about tight crude oil supplies. WTI topped $75/barrel, with the USD/CAD pair continuing to move in the C$1.26 range as of September 27.

2. Outlook for This Month

The USD/CAD pair is expected to move between C$1.24–C$1.30 in October. The Bank of Canada (BOC) will meet to set policy rates on October 27. The number of Covid-19 cases has risen compared to the end of May (when Canada was still under lockdown), but restrictions on economic activity have been lifted in stages from June onwards, with daily life essentially back to normal apart from rules on mask wearing and social distancing. As of September 24, 79.63% of people aged 12 and over had received two jabs, so although there are concerns about the delta variant, we are unlikely to see reimposition of strict restrictions on venturing outdoors.

Some of the major Canadian economic indicators released in September dropped below market expectations, with the economic recovery losing steam. In a speech on September 9, BOC governor Tiff Macklem said the time was drawing nearer when quantitative easing would no longer be needed, though he said the economy still had room to improve, with the timing of tapering depending on the performance of the economy going forward. Despite these concerns about the robustness of the economic recovery, market participants are expecting the BOC to scale back its government bond purchases from C$2 billion/week to C$1 billion/week before the end of the year, with the first rate hike also expected in the latter half of 2022.

Crude oil prices are likely to swing up and down on hopes for a global economic recovery and concerns about a slowdown. Norway's central bank implemented a rate hike in September, though, with the Bank of England also saying the conditions for a rate hike were growing stronger, so hopes for an economic recovery are likely to prevail on the whole, with WTI set to continue moving at $65–75/barrel.

There is still risk related to the business deterioration of the large Chinese property developer and there remain concerns about the increase of Covid-19 cases on the spread of the delta variant, so the greenback will be bought on risk aversion on negative headlines and the currency pair could climb to C$1.28–1.30. The Canadian dollar will also be pushed down at times by the recovery outlook and the movement of crude oil prices, but with tapering and rate hikes looming into view, the Canadian unit is unlikely to be sold off sharply, with the currency pair set to move between C$1.24–1.30.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – October 2021

Expected Ranges **Against the US$: KRW 1,160–1,210**
Against the yen: JPY 9.009–9.524 (KRW100)
(KRW 10.500–11.100)

1. Review of the Previous Month

The USD/KRW pair rose in September.

After opening the month trading at KRW1159.0 on September 1, the pair moved around KRW1160 amid a dearth of noteworthy factors in the first week.

Apart from the ECB Governing Council meeting, there was a shortage of factors in the second week too, with the pair trading with a general lack of incentive until September 7. The US had introduced an unemployment insurance subsidy to tackle Covid-19, but this subsidy was set to end during overseas trading time on September 7. With European long-term interest rates also rising on concerns that the ECB would taper its PEPP purchases, the greenback was bought on risk aversion and the currency pair rose. Overseas investors then sold South Korean stocks on September after South Korea's parliament discussed moves to crack down on the monopolistic behavior of a major South Korean platform company on September 8, with the USD/KRW pair subsequently climbing to KRW1173.9 on September 10.

The pair opened the third week trading at KRW1170.6 on September 13. There was a dearth of factors this week too, though the pair topped KRW1175 on bearish market risk sentiments. Stocks in a major South Korean IT platform company had fallen sharply the previous week, but they were bought on the dip over September 14–15 and this led to demand for the won, with the currency pair dipping to KRW1166.0. However, Asian stocks were sold across the board on risk aversion on September 16 due to default concerns involving a Chinese real-estate firm, so the currency pair strengthened at the weekend.

The FOMC meeting then took place while South Korean markets were closed due to the Chuseok holiday. Though the FOMC pushed back the start of tapering, a majority of participants predicted that the first rate hike would take place in 2022. This was earlier than the markets had expected, so US long-term interest rates rose and the dollar was bought. The pair strengthened further toward the weekend on default concerns involving the Chinese real-estate firm and problems regarding the US federal debt ceiling. It seems the authorities intervened to buy the won on several occasions, but this did not alter the USD/KRW pair's trajectory. In the end, the pair closed the month at KRW1184.0, up 24.5 won on the end of August.

2. Outlook for This Month

The USD/KRW paid is expected to rise gently in October.

In September, FOMC participants gave a forecast for the first rate hike that was earlier than the markets had expected, so US interest rates rose and the currency pair moved firmly. There have also been a lot of dollar-buying factors, including rising inflation in the US, default concerns involving a Chinese real-estate firm, and problems regarding the US federal debt ceiling, so the pair has continued to rise despite won-buying interventions by the authorities.

There are three factors to watch out for this month:

(1) The thinking regarding the timing of the FRB's first rate hike, (2) the possibility of a rate hike or interventions by the Bank of Korea (BOK), and (3) concerns about the Chinese and global economy.

With regards to (1), more FOMC participants are now expecting the first rate hike to take place in 2022, as mentioned above, with US long-term interest rates rising and investors buying the greenback. FRB officials are expecting inflation to remain high for the time being, with this also laying the ground for an early rate hike. Concerns about a rate hike are already starting to hit stock prices. Unless FRB chair Jerome Powell and other FRB officials explicitly rule out an early rate hike, this will continue to act as a dollar-buying factor for now.

As for (2), the BOK has hinted about a further rate hike before the year's end, so its Monetary Policy Board might lift the policy rate from 0.75% to 1.00% when it meets in October. The won will probably be bought if this happens. The authorities have also been intervening to buy the won in the face of the USD/KRW pair's sharp rise. They will probably try to pull the pair lower through interventions again, particular while real-demand transactions are thin on the ground from the start to the middle of the month. However, the pair will be impacted heavily by dollar buying during overseas trading time, so overall it seems unlikely that the currency pair will weaken.

With regards to (3), risk aversion is likely to flare up on uncertainty about the Chinese economy, as epitomized by the default concerns involving a Chinese real-estate firm. This will probably act a won-selling factor.

Based on the above, it seems there are many reasons to buy the dollar, so the USD/KRW pair looks set to rise this month. However, there could be some sharp correction given how high the pair climbed in September. There will also be concerns about interventions in the currency markets, so the pair will probably rise at a gentle pace.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – October 2021

Expected Ranges **Against the US$: NT$27.60–28.10**
Against the yen: JPY3.94–4.06

1. Review of the Previous Month

The Taiwan dollar hit its highest level against the greenback in around three months in September, though it then dropped back on rising US long-term interest rates.

After opening the month trading at TWD27.760 on September 1, the USD/TWD pair dropped to around TWD27.66 as the Taiwan dollar appreciated on rising Taiwanese stocks. The September US employment data revealed that the nonfarm payrolls figure was down sharply on market expectations, so the greenback was sold on September 6, with the currency pair temporarily hitting TWD27.569, its lowest point for around three months. However, the US dollar was then bought on rising US interest rates. The Taiwan dollar was also sold as Taiwanese stocks fell after a cluster of the Covid-19 delta variant was found in Taiwan, so the pair strengthened to around TWD27.74.

News emerged mid-September that President Biden and Chinese premier Xi Jinping had held a telephone discussion, so Asian currencies rose across the board. The Taiwan dollar was also bought, with the USD/TWD pair sliding to around TWD27.64. However, the pair then moved in a range as exporters sold the greenback and overseas investors adjusted their positions ahead of Taiwan's Mid-Autumn Festival holiday.

Credit concerns rose in Chinese markets while the Taiwanese markets closed during the Mid-Autumn Festival holiday, so the Taiwan Capitalization Weighted Stock Index plunged below 17,000 points when the markets re-opened, with the Taiwan dollar also sold and the currency pair rising temporarily to TWD27.815. However, the greenback was sold by exporters when the pair topped TWD27.8, so the pair's topside was held down. As default concerns involving a major Chinese real-estate firm eased off, Taiwan stocks rallied and the Taiwan dollar was bought. With exporters also selling the US dollar at the month's end, the pair dropped to around TWD27.67. US long-term interest rates then surged toward the end of the month, though, so the greenback was bought and the pair rose to TWD27.872 before moving around TWD27.86.

2. Outlook for This Month

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

The pair approached the key TWD27.500 mark at times in September, but with US long-term interest rates rising in the latter half of the month, funds flowed out of foreign bond investments, with the currency pair climbing toward the end of the month.

If US long-term interest rates remain at their current levels throughout October, the greenback will continue to move firmly. When US interest rates rose in March, the benchmark yield on US 10-year treasuries climbed to 1.7%, with the USD/TWD pair rallying from TWD28.1 to TWD28.5. However, the current rise in US long-term interest rates is not as pronounced as the rise in March, so the pair is unlikely to return to TWD28.5. Exports remain brisk. At 17.6%, export orders continued to enjoy double-digit y-o-y growth in August. This suggests there will be robust demand for the Taiwan dollar going forward. Taiwan has also managed to keep a lid on domestic Covid-19 outbreaks, with the pandemic having minimal impact on semiconductor production. As such, the pair will move in a range as the US dollar is sold by exporters and bought on rising US interest rates.

However, investors should keep an eye on credit concerns emanating from China. The travails of a major Chinese real-estate firm shook the markets for a time, though things calmed down given that this only involved one company. However, if these problems spread further, this will lead to concerns about the impact on the Chinese and global economy. This would also hit Taiwan's economy sharply and it could shift the global tapering momentum, so these trends will require monitoring.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – October 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 September

HKD spot softened to near 7.785 level on the Fed's hawkish shift and deepening Chinese property sector rout. In September, the Fed signaled to announce the tapering as soon as in November and the rate projection revealed the first rate hike in 2022. The widening negative HKD-USD rate spread is set to drag on the HKD spot in the medium term. In the HK market, the Stock Connect outflow pressure eased but equities sell-offs remained unsettling, with Hang Seng Index hitting its one-year low amid the Chinese property sector rout. With souring sentiment in HK equities, IPO activities remained rather subdued and the related IPO inflow provided little support to the HKD. The HKD spot was largely muted with the launch of southbound Bond Connect as the flow size was trivial (first-dated transaction amounted RMB 4bn) to drive the HKD exchange rate.

Hong Kong dollar interest rate market in September

Despite the increasing Exchange Fund Bills (EFBs) issuance and Fed's hawkish shift, 1-month HKD HIBOR edged down further to its 11-year low of 0.0616%. As the HKMA began to drain HKD liquidity via extra EFBs issuances, the HKD liquidity gauge, HKMA aggregate balance, dropped for the first time to HKD442.5bn from its record high of HKD457.5bn, but HKD liquidity condition remained flush given the subdued HKD demand. As the Fed brought forward its lift-off timing, 1-month HKD HIBOR – USD LIBOR spread dropped further to -2bps while the 3-month tenor returned to near par. The quarter-end HKD liquidity season pattern was insignificant given ample HKD liquidity condition. On the IRS curve, the sooner Fed's rate hike cycle lifted HKD IRS curve under the USD-HKD peg and the negative HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) widened to near -50bps from -40bps.

2. Outlook for This Month

Hong Kong dollar spot exchange market in October

USD/HKD spot is expected to range between 7.77 and 7.80 in the coming month. Under the USD-HKD peg, the USD/HKD is set to come under upward pressure when the Fed signaled the sooner tapering and rate hike cycle. Looking back, the HKD spot weakened to above 7.80 level when the Fed delivered 4 times of 25bps rate hike to 1% in mid-2017 and hence we reckon that the HKD spot will remain capped below 7.8 handle during the tapering from the perspective of USD/HKD rate spread. Looking at the capital flow factor, the IPO activities should remain subdued given the mounting regulation risk and souring sentiment in HK stock market. In the medium term, the launch of southbound Bond Connect will help consolidate HK's status of international financial hub and offshore RMB centre, which will retain capital inflow to the city.

Hong Kong dollar interest rate market in October

HKD liquidity condition remained flush despite HKMA's liquidity drainage via the extra EFBs issuance. It appears that front-end HKD rates would remain at bottom lows before the HKMA signaled the extension or expansion of HKD liquidity withdrawal. Considering subdued IPO activities, the IPO flow driven liquidity squeeze is unlikely to take place in the near term. While front-end HKD rates remained well anchored, the HKD IRS curve will come under upward pressure on Fed's sooner rate hike schedule. So far, fears of capital outflow related to the emigration trend and US sanctions on Chinese investment were largely contained.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – October 2021

Expected Ranges **Against the US$: CNY 6.4000–6.6000**
Against the yen: JPY 16.80–17.70
Against 100 yen: CNY 5.6500–5.9500

1. Review of the Previous Month

In September, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range.

On September 1, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 6.46 level. On September 3, the August employment statistics of the U.S. were released with figures weaker than expected, which led the U.S. dollar/Chinese yuan exchange rate to fall. However, there was persistent speculation about the Federal Reserve starting tapering before the end of the year, and this resulted in the U.S. dollar/Chinese yuan exchange rate rallying shortly thereafter. On September 7, the U.S. dollar/Chinese yuan exchange rate continued rising to the mid-CNY 6.46 level, after which market participants actively sold the U.S. dollar as the European Central Bank (ECB) committee meeting ended without any surprising outcome. Meanwhile, an auction for 30-year U.S. government bonds also ended without any problem. Then, on September 10, the media reported that Chinese President Xi Jinping and U.S. President Joe Biden held telephone dialogue, and this led the U.S. dollar/Chinese yuan exchange rate to fall, temporarily reaching the lower-CNY 6.44 level.

The telephone dialogue between the U.S. and China turned out to be only a temporary factor, however, and on September 13, the U.S. dollar/Chinese yuan exchange rate recovered to the CNY 6.45 level. Thereafter, the CPI of the U.S. was announced in the evening of September 14, and this made market participants believe that the ongoing inflation would be a temporary phenomenon. As a result, the U.S. dollar/Chinese yuan exchange rate started to fall again. On September 16, immediately after market opening, the U.S. dollar/Chinese yuan exchange rate approached the CNY 6.43 level for the first time in approximately three months (the monthly low in September). However, the trend was inverted thereafter, and market participants bought the U.S. dollar, partially because of the retail sales number of the U.S. that was announced in the evening of September 16 with a figure significantly stronger than expected. Thus, the depreciation of the U.S. dollar from the first half of the week was offset.

During the holidays of the mid-autumn festival, the onshore Chinese market was closed. In the meantime, concerns grew over the debt issues of a major Chinese real estate company, fueling global risk-averse sentiment. Under such circumstances, the Chinese yuan continued depreciating against the U.S. dollar in the offshore market to the CNY 6.48 level. On September 22, before onshore market opening, the media reported that interest payments on bonds denominated in Chinese yuan would be settled on September 23. Furthermore, the September Federal Open Market Committee (FOMC) meeting was held without any issue, and this somewhat mitigated risk sentiment in the market, encouraging market participants to buy currencies of resource-rich countries (such as the Australian dollar and Canadian dollar). Following this trend, the Chinese yuan also appreciated against the U.S. dollar, and the exchange rate returned to the CNY 6.45 level. Thereafter, the U.S. dollar/Chinese yuan exchange rate did not move in any direction.

2. Outlook for This Month

In October, market participants should remain careful about a rise in the U.S. dollar/Chinese yuan exchange rate.

In September, the liquidity issue of a major Chinese real estate company gathered substantial attention in the market. The details of this issue will be omitted in this article, but the market consensus is that there is little concern over growing systemic risks.

On the other hand, it is important to discuss how much a slowdown in the real estate sector will impact the domestic economy of China, which would also impact the Chinese yuan exchange market. It is possible for a slowdown in the real estate sector to impact related services and the labor market, as well as personal consumption. It is understandable for the Chinese monetary authorities, which had been trying to deleverage, to accept the default of an individual company. However, as Chinese monetary authorities have been expanding domestic circulation by promoting the current "dual circulation" plan, it should be imperative for them to avoid an extreme decline in domestic demand.

The People's Bank of China (PBOC) released a statement on September 27, confirming that the healthy development of the real estate market would be protected via the quarterly monetary policy committee meeting (scheduled on September 24). Furthermore, the PBOC made a remark concerning its monetary policy, referring to its plan to continue cutting real interest rates. Some market participants expect the PBOC to cut the deposit reserve requirement ratio in order to provide liquidity. Thus, in the market, an increasing number of market participants are expecting the Chinese monetary authorities to shift to a dovish stance.

The LPR (loan prime rate, an index for loan interest rates) has been maintained at the same level for 17 consecutive months. If market participants expect the LPR to be cut in the times ahead, it would strengthen the upward pressure on the U.S. dollar/Chinese yuan exchange rate based on the difference in monetary policy between China and other developed countries, including the U.S., as such other countries have started to normalize their monetary policy. Market participants should thus remain careful about changes in monetary policy by the Chinese monetary authorities.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – October 2021

Expected Ranges **Against the US$: SG$ 1.3100–1.3800**
Against the yen: JPY 81.00–83.00

1. Review of the Previous Month

In September 2021, the Singapore dollar continued depreciating against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange rate remained at the mid-SGD 1.34 level. As U.S. employment statistics were released at the beginning of the month with weak figures, less market participants expected the U.S. to start raising interest rates ahead of schedule, and this led U.S. stock prices to rise, keeping Asian currencies strong. Following this trend, the Singapore dollar strengthened against the U.S. dollar, and the exchange rate reached the SGD 1.34 level.

Toward September 9, the Singapore dollar weakened, as market sentiment worsened as a result of the fall of stock prices in Europe and the U.S. As a consequence, the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.34 level. However, the media reported thereafter that there was a telephone meeting between the U.S. and Chinese heads of state, with the trend positively reacting to this and becoming inverted, and the Singapore dollar strengthened. On September 11, the Singapore dollar strengthened further, and the U.S. dollar/Singapore dollar exchange rate temporarily fell below the SGD 1.34 level.

On September 17, the media reported on the fiscal issue of a major Chinese real estate development company, and this weakened overall Asian currencies. As the Chinese market was closed, the details of this media report could not be confirmed, keeping the Singapore exchange market unstable. Toward September 23, the Singapore dollar started weakening, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.35 level.

The Federal Open Market Committee (FOMC) meeting did not mark any factor to create a new trend in the market, as the implied tapering pace was more or less in accordance with the expectations in the market, while opinions among FOMC members were divided regarding an interest rate hike in 2022.

Toward the end of the month, the Singapore dollar continued weakening. As U.S. interest rates rose, market participants were encouraged to buy the U.S. dollar. Furthermore, additional restrictions (strengthened restrictions) against the propagation of Covid-19 were unexpectedly announced on September 24, and this accelerated the depreciation of the Singapore dollar. As a result, the U.S. dollar/Singapore dollar exchange rate rose to reach the SGD 1.36 level, and trading closed at this level.

2. Outlook for This Month

In October 2021, the Singapore dollar is forecast to strengthen slightly against the U.S. dollar.

Also, the next semi-annual meeting of Monetary Authority of Singapore (MAS) is scheduled for this month (October). However, it is likely for the current monetary policy to be maintained. The Singapore dollar exchange market is thus expected to continue following trends in the U.S. dollar exchange market as well as media reports related to China.

In Singapore, economic recovery has not been sufficient, while additional restrictions have just been introduced against the propagation of the Covid-19. Given such current conditions, it is unlikely for the MAS to change or normalize its monetary policy at the meeting scheduled for October.

According to the MAS, the Singapore dollar has already been significantly higher than the center of the NEER policy band (+130–140 basis points), and thus the possibility for a further rise is limited within the policy band (the upper end of +200 basis points). Even if the MAS implies tapering of monetary easing at the next meeting or even if the MAS makes changes to its policy and starts leading the Singapore dollar to appreciate, the appreciation of the Singapore dollar is expected to remain limited.

The Singapore dollar is expected to remain stable for the moment. However, there has been a gap in monetary policy between the U.S., which is starting to shift toward tapering and Asian countries that maintain measures of monetary easing, and this may allow the U.S. dollar to continue appreciating. Thus, if risks related to China deteriorate, the Singapore dollar is expected to weaken toward the second half of 2021.

Takeshi Hashi, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – October 2021

Expected Ranges **Against the US$: THB 33.00–34.50**
Against the yen: JPY 3.25–3.45

1. Review of the Previous Month

In September, the U.S. dollar/Thai baht exchange rate renewed the year's high, approaching the THB 34 level for the first time since 2017.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 32.20. The number of new Covid-19 cases in Thailand peaked at 20,000 at the beginning of August, and this led the U.S. dollar/Thai baht exchange rate to rise to the year's high at THB 33.50. However, the number of Covid-19 cases started to fall thereafter, which also led the U.S. dollar/Thai baht exchange rate to fall. Following this trend, the U.S. dollar/Thai baht exchange market opened trading at the lower-THB 32 level at the beginning of September. However, at the end of August, the Jackson Hole Economic Symposium ended without any problem, and expectations grew for Federal Reserve tapering to start before the end of the year, and this kept the U.S. dollar/Thai baht exchange rate from falling further. At the beginning of September, the U.S. dollar/Thai baht exchange rate started to rise gradually, after the release of U.S. economic indices. On September 13, Chinese monetary authorities announced a decision to strengthen pressure on tech companies, and this led Chinese stock prices to fall significantly. Under such circumstances, market sentiment worsened in other Asian countries. In Thailand, the media reported on the same day that compulsory quarantine for foreign tourists upon arrival in Thailand would be shortened as of October. However, there was little reaction to this news in the U.S. dollar/Thai baht exchange market, and the U.S. dollar/Thai baht exchange rate continued rising to approach the THB 32.85 level.

In the middle of the month, the media reported that a major Chinese real estate development company was facing a default risk, which fueled a sense of uncertainty in the market about the outlook of the Chinese economy. In reaction to this, the Thai baht also depreciated. The U.S. dollar/Thai baht exchange rate exceeded the THB 33.00 level and approached the THB 33.30 level—the latest high. Thereafter, the U.S. dollar/Thai baht exchange rate remained high, waiting for the Federal Open Market Committee (FOMC) meeting scheduled for the following week. On September 20, the monetary policy committee in Thailand decided to raise the upper end of public debt as a percentage of GDP from 60% to 70%. In August, the monetary policy committee supported the economy under the Covid-19 crisis by issuing bonds for FY2022 ahead of schedule. In September, the committee emphasized the importance of fiscal expenditures in order to restore the economy, and this also supported the rise of the U.S. dollar/Thai baht exchange rate.

On September 22, the FOMC meeting was held, attracting substantial attention in the market, and as was expected before the meeting, it became likely for the FOMC to announce the start of tapering at its November meeting. The number of Federal Reserve Board (FRB) members to support an interest rate hike in FY2022 also increased to nine out of 18. The U.S. dollar/Thai baht exchange rate rose slightly toward market closing, approaching the THB 33.45 level. Then, on September 24, the media reported that a major Chinese real estate development company had not settled interest payments for its corporate bonds, denominated in U.S. dollars.

However, this had already been reported previously and had little impact on the Thai baht exchange market.

On September 28, in the last week of the month, the number of new Covid-19 cases in Thailand fell below 10,000 for the first time in approximately two months. However, U.S. interest rates rose, strengthening the U.S. dollar, and the U.S. dollar/Thai baht exchange rate rose to the upper-THB 33 level. Before the end of the quarter period, market participants were once again highly attentive of FOMC decisions. As U.S. interest rates were on a sharp rise, market participants grew cautious about a "taper tantrum," adjusting the rise of stock prices mainly in the tech sector. While funds were returning to the U.S. dollar market, the U.S. dollar/Thai baht exchange rate also continued rising and renewed its high toward the end of the month. At the end of the month, the U.S. dollar/Thai baht exchange rate approached the THB 34 level on September 30.

2. Outlook for This Month

In October, the U.S. dollar/Thai baht exchange rate is forecast to continue renewing the recent high and to start falling toward the second half of the month.

In September, the U.S. dollar/Thai baht exchange rate rose more than expected, which made September a month of surprise. In particular, the U.S. dollar/Thai baht exchange rate rose significantly, while the number of new Covid-19 cases in Thailand was on a decline. This trend was entirely different from that of August, which seems to be partly a result of short-covering. While domestic sentiment improved, the U.S. dollar/Thai baht exchange market followed trends in the Chinese economy and the hawkish stance of the FOMC—the significant shift of which led the U.S. dollar/Thai baht exchange rate to continue rising.

In October, the same trend is likely to remain in the U.S. dollar/Thai baht exchange market. At the beginning of the month, the U.S. dollar/Thai baht exchange rate is thus likely to approach the recent high. However, U.S. interest rates are not likely to rise sharply as was seen in February and March. Under the current condition in which Covid-19 vaccination programs advance in many countries, market participants are expected to buy back the U.S. dollar as time goes by. Under the current condition, the U.S. dollar index is also going through an important turning point, while other currency exchange rates, such as the U.S. dollar/Japanese yen exchange rates and the euro/U.S. dollar exchange rate, are also seeing a turning point from the viewpoint of technical analysis. It can therefore be said that it is a crucial moment now. Once the exchange rate significantly exceeds the technical points to be noted, the fluctuation range may rise sharply. However, this trend is not likely to continue for a long period. In particular, the U.S. dollar/Thai baht exchange rate may fall significantly after approaching the recent high. In Thailand, the monetary policy committee held a meeting on September 29 and unanimously agreed to keep the policy interest rate at 0.50%, unlike at the meeting held in August. In the August meeting, two committee members supported an interest rate cut. Thus, it can be said that there is less expectation for monetary easing. Some expect the compulsory quarantine for foreign tourists to end in November. Under such circumstances, demand to buy the Thai baht is expected to increase toward the end of the month.

In October, it is most likely for market participants to sell on temporary recovery after confirming trends in the U.S. interest rates after the FOMC meeting.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – October 2021

Expected Ranges	**Against the US$: MYR 4.15–4.25**
	Against the yen: JPY 25.97–26.67
	Against 100 yen: MYR 3.75–3.85

1. Review of the Previous Month

In September, the Malaysian ringgit remained stable during the first half of the month, while market participants sold back the Malaysian ringgit toward the second half of the month as a result of the appreciation of the U.S. dollar.

In August 27, cabinet ministers of the new government under Ismail Sabri were announced. It turned out that there was no deputy prime minister, as was the case with the previous government, perhaps to avoid unnecessary friction between the UMNO and the PPBM. Even though this had been anticipated by many, the new prime minister leading the UMNO took a decision to pay respect to the PPBM, which is led by former prime minister Muhyiddin Yassin, and this fueled expectation for domestic political stability. As a result, the U.S. dollar/Malaysian ringgit exchange rate fell to temporarily reach the MYR 4.14 level. On September 9, the central bank of Malaysia announced its decision to maintain the policy interest rate at 1.75% for the seventh consecutive time. As this was not a surprise, there was little reaction in the market to this news. In the section on the economic outlook for 2021, the central bank's statement revealed expectation for economic recovery in 2022 based on the easing of movement restrictions and global recovery in demand in the times ahead, although it also referred to downside risks based on the propagation of delta variant of Covid-19.

In the middle of the month, the Malaysian ringgit started to weaken. While market participants were buying back the Malaysian ringgit after the appointment of the new prime minister, technical analysis had suggested in the previous week that the U.S. dollar/Malaysian ringgit was oversold. On September 16, local time, in New York, the August retail sales of the U.S. were announced with figures stronger than expected after the holiday of Malaysia Day, which led the U.S. dollar to appreciate. On September 17, the following day, the U.S. dollar/Malaysian ringgit exchange market opened trading with a gap in the exchange rate from the previous day's closing rate. The U.S. dollar/Malaysian ringgit exchange market closed low at the MYR 4.17 level. The Malaysian government thereafter announced its decision to ease standard operating procedures (SOPs) in the economic sector from September 17, allowing companies to operate at 100% under the condition that 80% or more of the employees are vaccinated against Covid-19. Furthermore, the number of new Covid-19 cases peaked out in multiple regions, including Kuala Lumpur, where Covid-19 vaccination was advancing fast. However, the improvement of the situation related to the Covid-19 pandemic did not encourage market participants to buy the Malaysian ringgit further.

At the end of the month, the U.S. dollar/Malaysian ringgit exchange rate remained low, fluctuating within a narrow range. Thereafter, risk-averse sentiment grew in the market having seen the default crisis of a major Chinese real estate development company. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate rose to temporarily reach the mid-MYR 4.19 level, but the exchange rate did not rise further. Then, on September 22, the Federal Open Market Committee (FOMC) meeting turned out to be more hawkish than expected in the market.

While U.S. interest rates rose, market participants bought the U.S. dollar and sold the Malaysian ringgit. However, the depreciation of the Malaysian ringgit was limited, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range. Then, on September 28, the August trade statistics were released, and exports turned out to be stronger than expected. As there was a sign of a slowdown in exports in the July statistics, this gave the market a sense of relief.

2. Outlook for This Month

In October, the U.S. dollar/Malaysian ringgit exchange rate is forecast to continue fluctuating within a narrow range at around the MYR 4.20 level, without moving in any direction.

Given the outcome of the FOMC meeting held in the U.S. on September 22, the key question would be whether the FOMC will decide to start tapering before the end of the year, at its November meeting. The Federal Reserve Board (FRB) has made a remark that it is not necessary to see very strong employment statistics to start tapering. Thus, tapering is likely to start before the end of the year, as is anticipated by many in the market, unless the employment statistics of the U.S. turn out to be significantly above the estimated level when they are announced on October 8. However, the start of tapering has already been reflected in the market, which makes it difficult to impact the U.S. dollar exchange market further. The U.S. dollar interest rates may rise further only based on the depreciation of bonds as a result of tough negotiations over the debt ceiling.

Furthermore, with regard to key events within the country, there will probably be many media reports concerning the budget plan to be released on October 29. On the other hand, the new prime minister Ismail Sabri managed to sign a memorandum to establish a cooperative structure with opposition parties immediately after his appointment. While this is partly based on the request by the king of Malaysia, domestic politics have been stabilizing, thanks to Ismail Sabri (who balanced the structure of the ministers). Under such circumstances, opposition parties are expected to remain cautious, as it will be difficult to gain the support of the Malaysian population if a domestic economic slowdown is caused by friction between the ruling parties and opposition parties, while the domestic economy has been moving toward recovery after the Covid-19 pandemic.

Other factors of possible confusion include the default risk of a major Chinese real estate development company. At the current moment, it is likely that the direct and major impact of its bankruptcy will be only on the real estate market in China. On the other hand, market participants are aware of concerns over credit contraction as a result of chain-reaction bankruptcy. Furthermore, it should be pointed out that exporting companies in Malaysia benefit greatly from strong exports toward China. Thus, if the Chinese economy declines rapidly as a result of this event, it would be a negative factor for the Malaysian economy as well, about which market participants should remain attentive.

Given the above reasons, market participants should be attentive of overseas markets, as there are few domestic factors to encourage market participants to sell or buy the Malaysian ringgit. However, unless there is the sudden emergence of a risk factor, it would be a time to wait and see.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – October 2021

Expected Ranges	**Against the US$: IDR 14,200–14,700**
	Against 100 rupiah: JPY 0.77–0.80
	Against the yen: IDR 125.00–129.87

1. Review of the Previous Month

In September, the Indonesian rupiah remained robust against the U.S. dollar.

On September 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,200 level. The August inflation rate was announced, and it turned out to be +1.59% year-on-year, below the target range set out by the central bank. However, as it had been anticipated in the market, it had little impact on the market. There were few market activities, as there were not many influential factors, and thus the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating mainly at the upper-IDR 14,200 level thereafter. On September 6, at the beginning of the following week, the U.S. dollar weakened due to weak figures in the August employment statistics of the U.S. The U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,200 level, after which the exchange rate once fell below the IDR 14,200 level toward September 7, the following day. The Indonesian rupiah continued appreciating against the U.S. dollar and the exchange rate reached the upper-IDR 14,100 level for the first time since June. However, there were many market participants that were encouraged to buy the U.S. dollar and sell Indonesian rupiah at this level. Thus, the U.S. dollar/Indonesian rupiah exchange rate returned to the IDR 14,200 level immediately. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate remained at the mid-IDR 14,200 level. However, on September 10, the media reported that the heads of state of the U.S. and China held telephone dialogue for the first time since February this year, and this fueled expectation for the mitigation of tensions between the U.S. and China. As a result, risk-taking sentiment grew in the market, and the Indonesian rupiah was strengthened, leading the U.S. dollar/Indonesian rupiah exchange rate to approach the IDR 14,200 level again. On September 15, the August trade balance of Indonesia was announced, and the export value recorded its all-time high at USD 21.42 billion, while the import value turned out to be USD 16.68 billion, leaving a surplus of USD 4.74 billion.

In the second half of the month, the central bank of Indonesia announced the outcome of its monetary policy meeting on September 21. As had been anticipated in the market, the seven-day reverse repo rate (the policy interest rate of Indonesia) was maintained at 3.50%. There was little reaction to this outcome, as the Federal Open Market Committee (FOMC) meeting was scheduled for September 22.

At the FOMC meeting in the U.S., the outcome was seen as hawkish, leading U.S. interest rates to rise. Since this meeting, the U.S. dollar/Indonesian rupiah exchange rate remained stable for a while at the IDR 14,200 level. However, the exchange rate finally reached the IDR 14,300 level on September 29, with demand to buy the U.S. dollar at the end of the month and with robustness in U.S. interest rates (as of market closing on September 29).

2. Outlook for This Month

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

The key factor to predict trends in the Indonesian rupiah exchange market is the trend in U.S. interest rates.

At the FOMC meeting held in September, the dot plot indicated one interest rate hike before the end of 2022 and three interest rate hikes before the end of 2023. Thus, the expected beginning of interest rate hikes was moved forward. Furthermore, at his press conference, Federal Reserve Board (FRB) Chair Jerome Powell made a remark that Federal Reserve tapering would start in November and end in the middle of 2022, which was more hawkish than expected. As a result, U.S. interest rates became robust again. Prior to this, after the monetary policy meeting, the governor of the central bank of Indonesia, Perry Warjiyo, had predicted in an online press conference that the FRB would start tapering in November and that interest rates would be raised during the third quarter of next year. Since the outlook had been moved forward, this can be seen as a sign of interest rate hikes by the central bank of Indonesia. Under such circumstances, the Indonesian rupiah has been depreciating gradually again. Because U.S. interest rates could rise even further, they might remain also high in October, keeping the Indonesian rupiah from appreciating.

It should also be pointed out that resource prices are increasing. In particular, market participants should pay attention to the significant appreciation of coal prices. Other commodities prices are also rising. Thus far, the sharp increase in the trade surplus in Indonesia has been made possible thanks to the rise in key commodities prices, such as that of palm oil, which Indonesia exports to other countries. The rising commodities prices mean that supplies are not catching up with demand. It is questionable if this situation can be improved any time soon. If the trade surplus in Indonesia remains as high as in August, it could solve the problem of the current account deficit, which Indonesia has been suffering from for a long time, strengthening the Indonesian rupiah. While U.S. interest rates continue rising, this can slow down the depreciation of the Indonesian rupiah, although it might not lead the Indonesian rupiah to appreciate either.

Risk factors include the debt issue of a major Chinese real estate development company. However, for the moment, many market participants expect that it will not cause serious confusion in the monetary market. Thus, it is only a tail risk.

For the above reasons, the Indonesian rupiah is forecast to remain weak in October.

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

Philippine Peso – October 2021

Expected Ranges **Against the US$: PHP 49.70–51.50**
Against the yen: PHP 2.160–2.260

1. Review of the Previous Month

Foreign exchange market in September

In September, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range at around the PHP 50.0 mark. However, at the end of the month, market sentiment worsened, having seen the debt issue of a major Chinese real estate development company. As the Federal Open Market Committee (FOMC) turned out to be hawkish while the central bank of the Philippines expected the Philippine peso to depreciate in the times ahead, the Philippine peso depreciated to the lowest level in approximately 1.5 years.

The August manufacturing PMI of the Philippines declined from 50.4 to 46.4, which turned out to be the weakest figure since May 2020. As a result, the Philippine peso recorded the highest depreciation ratio among the major Asian currencies, falling from the highest rate seen in approximately one month, falling below the PHP 50.0 mark at the beginning of the month. Furthermore, on September 7, the August CPI of the Philippines was announced, and the result turned out to be 4.9%, exceeding 4.4%, the market estimate, and recording an increase of 0.9% from 4.0%—the previous month's result. In addition, the July trade balance of the Philippines tuned out to be a deficit of USD 3.29 billion, exceeding the expected deficit of USD 2.95 billion, which encouraged market participants to sell the Philippine peso.

On the other hand, the Philippine stock market maintained an uptrend, which was also seen in August. Foreign currency reserves increased to USD 108.1 billion in August from the USD 107.2 billion recorded in July. Furthermore, there were other factors to support the Philippine peso, such as a partial easing of restrictions on public movement in metropolitan Manila and in overseas Filipino Workers' remittances, which recorded a year-on-year increase of 2.5% in July. There were thus both negative and positive factors for the Philippine peso, and the U.S. dollar/Philippine peso exchange rate did not move in any direction. Until the middle of the month, the U.S. dollar/Philippine peso exchange rate thus continued fluctuating within a narrow range at around PHP 50.0.

With regard to the default risk of a major Chinese real estate development company, some market participants remain optimistic. However, concerns over the debt crisis persist, putting weight on the Philippine peso. In addition, the Philippine peso weakened as a result of the appreciation of the U.S. dollar against other major currencies, due to the hawkish stance taken by the Federal Reserve Board (FRB). Market participants reacted negatively also to the upward revision of the inflation outlook up to 2023 by the central bank of the Philippines. As the central bank also predicted that the Philippine peso would remain weak for several months to come, the Philippine peso depreciated, reaching PHP 51.00 against the U.S. dollar on September 27 for the first time since April 2020. The Philippine peso thus depreciated sharply at the end of the month.

2. Outlook for This Month

As a result of the partial easing of restrictions on public movement in metropolitan Manila, economic activities are expected to recover. However, the daily number of new Covid-19 cases remains high, and it is possible for restrictions on public movement to strengthen again. Thus, the sense of uncertainty over the future economic outlook will be a potential factor toward keeping the Philippine peso weak.

Given the FOMC statement and the press conference of FRB Chair Jerome Powell, it is most likely for tapering to start in November in the U.S. However, an outlook for economic growth is a precondition, and the timing of the tapering can flexibly change, if necessary, which is seen favorably in the market. Furthermore, the market also seems ready for the normalization of monetary policy. Thus, it is extremely unlikely for the Philippine peso to depreciate sharply as a result of risk-averse activities in a panic, even though there is a persistent sense of uncertainty regarding the degree and scale of the impact of the debt issue of said major Chinese real estate development company.

As had been anticipated in the market, at the monetary policy meeting held on September 23, the central bank of the Philippines decided to maintain measures of monetary easing, prioritizing economic growth, and to maintain the policy interest rate for the seventh consecutive time. The latest Consumer Price Index rose to 4.9%, and the inflation outlook for 2021 was revised upward to 4.4% from the 4.1% expected previously, while the outlook for 2022 and 2023 was also revised upward to 3.3% and 3.23%, respectively, from the 3.1% expected previously for both years. However, it is also possible for the central bank to maintain the current measures of monetary easing in the times ahead, as the inflation pressure is expected to weaken next year, falling within 2–4%, the target range set out by the central bank. There has been a gap in monetary policy between the U.S., in which monetary policy will be normalized, and the Philippines, in which measures of monetary easing are likely to be maintained. Thus, the Philippine peso is expected to remain weak against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate is likely to continue fluctuating mainly within a range between PHP 49.70 and PHP 51.20.

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

Indian Rupee – October 2021

Expected Ranges **Against the US$: INR 72.30–74.80**
Against the yen: JPY 1.47–1.53

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate rose in September.

Since the end of August, the U.S. dollar/Indian rupee exchange rate started to fall sharply. In September, the U.S. dollar/Indian rupee exchange market opened trading at INR 73.05—the highest rate for the Indian rupee since May this year. The U.S. dollar/Indian rupee exchange rate reached INR 72.92 on September 1, and this turned out to be the monthly low. As the Indian rupee weakened so rapidly, the central bank would have been expected to intervene in the market by buying the U.S. dollar and selling the Indian rupee. However, this time around, market participants speculated that the central bank of India was accepting the appreciation of the Indian rupee in order to mitigate imported inflation. Thus, the U.S. dollar/Indian rupee exchange rate temporarily remained at the INR 72 level also on September 2.

However, the U.S. dollar/Indian rupee exchange rate did not fall further from the INR 72 level, and local importing companies began hedging by buying the U.S. dollar, as they did not expect the Indian rupee to appreciate further. As a result, the U.S. dollar/Indian rupee exchange rate started to rise sharply on September 7. On September 8, the U.S. dollar/Indian rupee rapidly approached the INR 73.70 level. On September 13, it was confirmed that the foreign currency reserves of India had increased by more than USD 25 billion in two weeks, revealing that the central bank of India had intervened in the foreign currency market. As the crude oil price was rising as well, the Indian rupee weakened, and the U.S. dollar/Indian rupee exchange rate remained at the upper-INR 73 level. On September 22, just before the Federal Open Market Committee (FOMC) meeting in the U.S., the U.S. dollar/Indian rupee exchange rate reached INR 73.935, the monthly high, as the exchange rate was adjusted. Thereafter, risk-averse sentiment grew in the market due to the report on the management crisis of a major Chinese real estate development company, and this weakened the Indian rupee further. The U.S. dollar/Indian rupee exchange rate fluctuated at the upper-INR 73 level.

Toward the end of the month, crude oil prices rose further. The Brent Crude price approached USD 80 for the first time in three years, and this discouraged market participants from buying the Indian rupee. On September 27, trading closed at INR 73.84 against the U.S. dollar.

2. Outlook for This Month

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

After attracting substantial attention in the market, the FOMC did not announce a detailed timeline for Federal Reserve tapering in the U.S. However, the market consensus is that tapering will start in November. According to the policy interest rate outlook by each FOMC member (dot plot), six members expect one interest rate hike next year (five members at the previous meeting), and three members expect two interest rate hikes next year (two members at the previous meeting). Thus, more FOMC members are now supporting interest rate hikes compared to those in June. However, as was the case with the U.S. dollar/Indian rupee exchange market, the impact on the currencies of emerging countries was not as significant as in June. This is a result of the fact that market participants had been more prepared for interest rates hikes while the Federal Reserve Board (FRB) made a downward revision to the real GDP for this year in its economic outlook, suggesting that the impact of the recurrent propagation of the Covid-19 pandemic was more persistent than expected.

Even though the reaction in the market in September was as discussed above, the tapering will start in the U.S. sooner or later. The same thing can be said about future interest rate hikes. It is clear that these are factors to strengthen the U.S. dollar.

Furthermore, crude oil prices remain high despite the fact that economic recovery has been slow. As a result, more market participants would be buying the U.S. dollar and selling the Indian rupee based on actual demand with increased importing value. In addition, as the trade deficit would be greater, some expect the current account deficit as a percentage of GDP to expand to 1.5–2.0%, which will also keep the Indian rupee weak.

On the other hand, foreign investors could buy the Indian rupee based on capital influx into India, and this would strengthen the Indian rupee. However, foreign currency reserves in India have been increasing even faster (rupee-selling by Indian monetary authorities). It should also be mentioned that Covid-19 vaccination has been accelerated in India, and, by the end of the year, 50% of the Indian population would have been vaccinated with the second dose. However, this is still low compared to the U.S. or Japan. As a third wave of the pandemic is anticipated, it is difficult for the advancement of vaccinations to lead to the appreciation of the Indian rupee.

The U.S. dollar/Indian rupee exchange rate is thus expected to remain high in October.

This report was prepared based on economic data as of September 30, 2021.
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