Mizuho Dealer's Eye

November 2021

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Mizuho Bank, Ltd.

Global Markets Sales Department

Takayuki Kai, Forex Sales, Global Markets Sales Department

U.S. Dollar – November 2021

Expected Ranges **Against the yen: JPY112.00–115.00**

1. Review of the Previous Month

The dollar/yen pair rose sharply from mid-October to approach its highest level since November 2017.

After opening the month trading around 111 yen, the pair fell temporarily to a monthly low of 110.82 yen on October 4 as US stocks moved bearishly and investors grew concerned about the US debt ceiling problem. It then climbed to the mid-111 yen mark on October 5 as markets reacted warmly to the release of a bullish US Non-manufacturing ISM Report on Business for September. The US September employment data was released on October 8 and it revealed that the nonfarm payrolls figure had dropped sharply below expectations. However, the previous month's figure was upgraded, while the unemployment rate unexpectedly improved. As US interest rates climbed toward 1.6%, the currency pair broke above its 2020 high of 112.23 yen to hit 112.26 yen. With the US markets on holiday on October 11, the pair topped 113 yen to soar to the mid-113 yen level for the first time since December 2018. The pair's topside then extended to 113.80 yen on October 13 on the better-than-expected result of the US September CPI data. The US September retail sales data was then released on October 15. Observers were expecting a minus figure, but the figure actually rose, so US stocks climbed and the dollar/yen pair temporarily hit 114.47 yen for the first time in roughly three years.

Asian stocks and so on saw selling for profit taking on October 18 after the previous week's climb. With China's 3Q GDP figure and September industrial production data also dropping below expectations, concerns about the Chinese economy grew, with the dollar/yen pair trading with a heavy topside. It hit 113.88 yen for a time on October 19, though it then rallied to the mid-114 yen level as US interest rates rose again. On October 20, the pair strengthened in the run up to the Tokyo Fix to hit 114.69 yen for the first time since December 2018. However, the pair's momentum stalled after it failed to top its November 2017 high of 114.73 yen, with the pair then dropping to around 114 yen on falling US long-term interest rates. The yen was bought on October 21 on risk aversion in relation to the default concerns of a Chinese property developer, so the pair fell below 114 yen before plummeting temporarily to 113.65 yen on the weak result of the October Philadelphia FRB Manufacturing Index. FRB chair Jerome Powell ruled out an early rate hike during a press conference on October 22, so US long-term interest rates fell sharply and the currency pair tumbled to 113.42 yen.

It then rose to 114.31 yen for a time on October 26 on the release of the US October Consumer Confidence Index. On October 28, the pair temporarily weakened to 113.25 yen after the US 3Q GDP data fell sharply below market expectations. It then rallied to the mid-113 yen mark on rising US interest rates. The pair was moving at the mid-113 yen mark as of October 29.

2. Outlook for This Month

The dollar/yen pair looks set to move bullishly in November on a tapering decision by the FRB and the growing hawkishness of several other nations.

The FOMC will be meeting over November 2–3. As hinted at during the previous meeting, it will probably reach a decision to begin tapering in November. However, the market focus is shifting to the timing and pace of rate hikes, so member comments will be attracting a lot of attention. In a recent press conference, FRB chair Jerome Powell ruled out early rate hikes. He also hinted that tapering could be pushed back to December while also making dovish comments about the timing of rate hikes, for example. As such, the currency pair underwent some adjustment and this trend could continue going forward. If the FOMC decides to commence tapering and Mr. Powell or some other FRB officials make some hawkish comments, the pair could rise close to 115 yen again.

Employment will play a key role in any FRB policy decision, with the US October nonfarm payrolls figure set for release on November 5. The September figure dropped below expectations for the second straight month, but the August result was revised upwards and the US September unemployment rate unexpectedly improved too, so there are signs of a jobs recovery. If the situation improves further, the currency pair might be pushed higher by growing expectations for earlier and faster rate hikes.

As for prices, the US October CPI figure will be released on November 10. The October figure unexpectedly rose. The figure had been pulled higher by a temporary surge in the price of used cars. Though these prices have now stalled, the costs of items like food, energy, rent, new cars, furniture and household appliances have continued to rise. Amid ongoing supply constraints, there are concerns that prices will continue to rise on tight supply and demand conditions. The US 3Q GDP data was released on October 28 and it revealed that consumption had slowed as car sales fell on inventory shortages, with supply and demand set to remain tight going forward. Furthermore, though bullish crude oil prices had finally showed signs of slowing, they rose at the end of October and they are likely to remain a factor pushing inflation higher. The ECB has also stopped claiming that rising prices are a transitory phenomena, with inflationary concerns set to linger as the upward trend for prices drags on for longer than expected.

In Japan attention will be focused on the results of the general election held at the end of October. If the LDP coalition retains its majority, anticipation about the new administration's policies could grow as prices begin rising, so the situation will require monitoring. Furthermore, the BOC hinted last month that it might lift interest rates at a faster pace. With the Australian CPI data also beating market expectations, there are also growing expectations that the RBA will adopt a hawkish stance when it meets on November 2. As such, the dollar/yen pair is likely to continue trading on the divergent monetary policy stances of each central bank. The pair is now undergoing some adjustment, but the yen will probably weaken again when this trend finishes.

Dealers' Market Forecast

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

Bullish on the dollar	16 bulls	112.50 – 115.50	Bearish on the dollar	4 bears	112.25 – 114.75

* Ranges are central values

Tanaka	Bull	115.00 – 112.00	The dollar/yen pair looks set to remain firm on the divergence of US/Japanese monetary policy and rising Japanese imports in the face of rising energy costs. However, the FRB is still not moving in the direction of rate hikes, so although the pair will be supported by supply and demand conditions, the pace of its rise will be muted as investors wait for new factors to emerge. The Japanese election is unlikely to make any waves.
Yano	Bull	115.50 – 113.00	The dollar/yen pair has risen at a breakneck pace, but it will probably face some adjustment as its topside is held down by a sense of overshooting. It might even drop below 113 yen, though its stay below this level will be short-lived. It will probably edge higher thereafter as investors focus again on Japanese/US interest-rate differentials.
Tsutsui	Bull	118.50 – 112.50	The dollar/yen pair's range will probably rise higher after the Lower House election in Japan. In his press conference after the BOJ policy meeting, the BOJ governor hinted that the authorities were prepared to tolerate yen bearishness. With US interest rates also trending upwards, the pair will probably rise at a fast clip toward the year's end.
Kato	Bear	114.50 – 110.50	The dollar/yen pair will continue to face adjustment on the back of an accumulation of speculative positions. The authorities are worried about import inflation on the back of rising energy prices. If the Kishida cabinet announces a new growth strategy, the pair's topside will grow steadily heavier.
Yamagishi	Bull	115.50 – 112.00	The dollar/yen pair will continue to move firmly on expectations for early FRB rate hikes. A sense of achievement will probably emerge if the pair tops the key 115 yen mark. Furthermore, if it seems Japanese domestic prices might rise on bullish commodity prices and supply constraints, this could lead to growing concerns about 'negative yen depreciation.' As such, the currency pair looks set to rise at a gentle pace.
Ushijima	Bull	117.00 – 113.00	The FRB looks set to commence tapering in November. Though expectations for rate hikes are growing in Canada, Australia and the UK, there are still no signs that Japan is moving away from easing, so the yen will probably move bearishly against the other major currencies. Investors could test the key 115 yen level once again.
Omi	Bull	115.50 – 112.50	The market has switched from dollar selling to dollar buying on expectations that the FRB will start tapering. If the FOMC decides to start tapering when it meets early November, the greenback will probably be bought at a faster pace.
Ueno	Bear	115.00 – 112.00	Commodity currencies climbed against the yen as commodity prices rose last month. However, excessive concerns are now receding in commodity markets. The dollar/yen pair's rise will probably slow after the pair fails to top 115 yen. Though there are no clear factors capable of pushing the pair lower, it will probably face some adjustment for a time.
Yamaguchi	Bear	115.50 – 112.00	The FRB shifted in a hawkish direction in September, though the Bank of Japan announced it would continue to ease vigorously in October. The yen will continue to weaken on the divergent monetary policies of the US and Japan. However, with other countries also starting to adopt hawkish stances, the pace of the pair's rise will slow.
Kai	Bull	115.00 – 112.00	After undergoing a sustained rise, crude oil prices and US interest rates underwent some adjustment, though this trend will draw to an end. With the FOMC also likely to begin tapering when it meets this month, the yen is likely to slide again. The yen will continue to be sold as investors focus on the hawkish stances of the RBA and other central banks.
Onozaki	Bear	114.50 – 110.50	The dollar/yen pair rose in October on yen selling. The pair's topside will probably hit new highs if the pair is also boosted by dollar buying, though it is too early for investors to price in rate hikes as the next dollar-buying factor. In this scenario, there may well be some unwinding of yen shorts.

Tamai	Bull	115.50 – 112.00	Investors have finished pricing in a tapering announcement at the FOMC meeting, but when tapering actually begins, the yen will probably weaken as investors focus once more on the divergent monetary policies of the US and Japan. However, FRB chair Jerome Powell has adopted a cautious stance when it comes to rate hikes, so the pair's topside will probably be capped.
Harada	Bull	115.50 – 113.00	Expectations that inflation will be a transitory phenomena will start to fade in the face of rising commodity prices, with US interest rates set to edge higher. The dollar/yen pair will also break above 114 yen at times, with the pair set to move bullishly as it continues to face more upward momentum.
Oba	Bull	115.50 – 112.50	The dollar/yen pair moved at the mid-113 yen range at the end of October on a sense of achievement after hitting a 3-year high, but the yen is unlikely to strengthen given the divergent monetary policies of the US and Japan. BOJ governor Haruhiko Kuroda has also kept quiet with regards to the yen's recent bearishness, so the currency pair looks set to continue rising.
Katoono	Bull	115.50 – 112.00	US interest rates look set to remain high as the US pursues an exit strategy. Furthermore, the yen will continue to be sold on rising commodity prices and the bullish movements of other currencies as central banks move in a hawkish direction. As such, the ceiling of the dollar/yen pair's range looks set to edge higher.
Kobayashi	Bear	115.00 – 112.00	The FOMC will be meeting over November 2–3. However, the FOMC already decided to taper within the year when it met in September, while FRB chair Jerome Powell also said last month that it was too early to hike rates. Amid a dearth of new factors, the dollar/yen pair's room on the topside will be limited.
Henmi	Bull	115.00 – 113.00	The markets are already expecting the FRB to begin tapering, but Japan still seems some way from an exit, so there will be a clear difference in the monetary policies of the two countries. With uncertainty lingering when it comes to a Japanese economic recovery, the yen will continue to move bearishly.
Otani	Bull	115.50 – 112.00	Though the FOMC is expected to begin tapering when it meets in November, Japan still remains some way from monetary policy normalization. Amid a dearth of reasons to buy the yen, the dollar/yen pair looks set to move firmly, though yen shorts have already piled up to a considerable extent, so the pair's room on the topside will be limited.
Suzuki	Bull	116.00 – 112.50	The dollar will continue to rise on the start of tapering and concerns about inflation. Japan remains some distant from an exit compared to other countries. This will support yen selling, with the dollar/yen pair set to move firmly.
Okuma	Bull	115.00 – 112.00	The markets have essentially priced in a commencement of tapering in November. Though it is hard to imagine the FRB moving even further in a hawkish direction, speculation about an early rate hike will probably rise in inflation concerns linger, so the dollar/yen pair looks set to move firmly.

Tomoko Yamaguchi, Forex Sales, Global Markets Sales Department

Euro – November 2021

Expected Ranges **Against the US$: US$1.1400–1.1750**
Against the yen: JPY130.00–134.00

1. Review of the Previous Month

The euro/dollar pair rose toward the end of October. After opening the month trading at the upper-$1.15 mark, the pair climbed to $1.1640 on October 4 as European stocks moved firmly and uncertainty about the political situation in Germany eased. However, it then fell to the upper-$1.15 level on October 5 when the dollar was bought on rising US long-term interest rates. The price of natural gas then soared on October 6. With European stocks falling on the weak results of the August German Manufacturing Orders data, the pair plunged temporarily to $1.1529. The euro/yen pair also hit a monthly low of 128.36 yen. After a round of selling, the euro/dollar pair was pulled up by a bullish euro/yen pair to return to the mid-$1.15 level, though it then traded with a heavy topside on a dearth of new factors.

After opening the following week at the mid-$1.15 level on October 11, the pair rose to the upper-$1.15 range after the greenback was sold on risk appetite. After a round of selling, the made moved flatly with a lack of direction during a US holiday. European stocks moved bearishly on October 12, while Germany released a lackluster ZEW Indicator of Economic Sentiment for October. This saw the pair tumbling to $1.1522 to hit a low for the year. The currency pair rallied on October 13 as the dollar was sold on position adjustments. It then weakened as investors focused on the result of the US September CPI data. However, the euro was bought on falling US interest rates and position adjustments, so the pair bounced back to the upper-$1.15 mark. As US long-term interest rates continued falling and European stocks moved firmly, the pair returned to the $1.16 range the following day.

Risk aversion intensified on October 18 on the weak results of a Chinese economic indicator. With US interest rates also rising, the euro/dollar pair dropped back to $1.15. The US then released some worse-than-expected industrial production data for September, so the pair rallied to the lower-$1.16 mark. The dollar was sold on falling US interest rates on October 19. With stock markets also moving firmly, the pair climbed to $1.1670. At +3.4%, the European September CPI data (released October 20) posted the largest uptick since September 2008. The euro was bought and the euro/yen pair hit a monthly high of 113.48 yen.

Germany released a worse-than-expected October IFO Business Climate Index on October 25, with the euro/dollar pair subsequently sliding to $1.1585 on October 27. When the ECB met to set policy on October 28, it decided to maintain its huge package of monetary easing. In her press conference, ECB president Christine Lagarde voiced the dovish opinion that inflationary factors would ease off in 2022. However, this was not enough to douse market expectations for rate hikes, so the euro/dollar pair bounced back to a monthly high of $1.1692. The euro was sold toward the month’s end, though, so the pair dropped back to $1.1535 on October 29 to close the month trading in the upper-$1.15 range.

2. Outlook for This Month

In November the euro will move bearishly on political risk, an economic slowdown, and the divergent monetary policies of the US and Europe.

As expected, the ECB Governing Council kept monetary policy fixed when it met on October 28, with the Pandemic Emergency Purchase Programme (PEPP) and major policy rates (deposit facility rates, etc.) left untouched. In her subsequent press conference, ECB president Christine Lagarde said inflationary trends were a major issue and she mentioned that the uptick in the inflation rate could last longer than originally envisaged, though she maintained that inflation would slow in 2022. She adopted a dovish stance, saying that "our analysis certainly does not support that the conditions of our forward guidance are satisfied at the time of lift-off, as expected by markets, nor any time soon thereafter," for example, but the press conference was still read as more hawkish than expected, so market participants are continuing to price in a rate hike in the latter half of 2022. However, no members have voiced support for rate hikes, so the euro could move bearishly if premature expectations for such a move wane.

On the other hand, there is a consensus that the FOMC will commence tapering from mid-November or mid-December. The debate is now shifting to whether the FOMC will start hiking rates next year as the economy continues to recover. The FOMC is unlikely to announce a path forward when it meets in November, but the greenback looks set to continue trending upwards on expectations for rate hikes next year.

Furthermore, Covid-19 cases are growing again in the UK, Russia and other states close to the eurozone, so there is a growing risk that Europe might see a surge in cases going forward. The eurozone released a series of worse-than-expected indicators in October and the European economic recovery could slow further from here on. As for coalition talks in Germany, the Social Democrats (SPD) have reached a basic agreement with the Greens and the Free Democrat party (FDP), with formal negotiations set to take place next. Political risk could rise again if these talks make no progress. With a presidential election also looming in France next year, the euro will probably move bearishly as investors focus on political risk.

Dealers' Market Forecast

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

Bullish on the euro	7 bulls	1.1550 – 1.1800	Bearish on the euro	13 bears	1.1400 – 1.1800

* Ranges are central values

Name	View	Range	Comment
Tanaka	Bear	1.1800 – 1.1500	The FRB is moving to normalize policy faster than the ECB. Europe is also sensitive to rising energy costs, with the euro likely to be sold on this factor too. However, the pair's room on the downside could be capped by supply and demand conditions and dollar weakness against commodity currencies.
Yano	Bear	1.1800 – 1.1400	There are growing concerns about an economic slowdown in Europe on rising energy costs, but the euro is moving firmly on rising expectations for a rate hike at the end of 2022, for example. However, there is still a lot of uncertainty, so the pair will move with a heavy topside as investors focus on the different monetary policies of Europe and the US.
Tsutsui	Bear	1.1800 – 1.1200	October's trends will continue into November. The euro/dollar pair's room on the downside will probably grow on rising US interest rates and the impact of slowing economic activity, particularly in China.
Kato	Bull	1.1800 – 1.1500	With winter approaching, investors will need to monitor how the Covid-19 surge in the UK impacts continental Europe. However, the eurozone still has the largest trade surplus in the world, so the euro will continue to be bought back on adjustive movements.
Yamagishi	Bear	1.1850 – 1.1500	Though CPI has topped 3%, ECB president Christine Lagarde has tried to keep a lid on expectations for a rate hike by claiming that inflation will slow next year. Expectations for rate hikes are growing in the US and UK, but Europe is moving at slow pace in comparison, so the euro/dollar pair's topside will be weighed down. With the PEPP set to expire in March, the December ECB Governing Council meeting will discuss what scheme to pursue next, so the meeting will attract considerable attention.
Ushijima	Bull	1.1850 – 1.1550	The prospect of rate hikes has loomed into view in Canada, Australia and the UK, but the ECB has ruled out rate hikes, so the euro looks set to continue trading with a heavy topside. However, if investors focus on decarbonization moves at the COP26 meeting, the euro could be bought at times on green-related issues.
Omi	Bear	1.1800 – 1.1400	The FRB will probably reach a decision about tapering this month, so the dollar will be bought. As a result, the euro/dollar pair will probably move bearishly.
Ueno	Bull	1.1800 – 1.1500	Though commodity currencies have seen strong buying, we are gradually moving toward a phase of adjustment as commodity market concerns wane. The euro has been an unattractive currency recently, but it could be bought back at times on this adjustment.
Yamaguchi	Bear	1.1750 – 1.1400	The ECB has adopted a dovish stance, with market expectations for rate hikes waning, so the euro will probably be sold. With Covid-19 cases also rising in nearby countries, there are concerns the European economic recovery might slow going forward.
Kai	Bull	1.1750 – 1.1550	Though the ECB remained in dovish mode when it met on October 28, it is now saying that inflation is not merely a transitory phenomena but will continue from here on, so the euro has strengthened. Though the markets have factored in some hawkish moves, there is a growing gap between these expectations and the ECB's stance, so investors should be wary of some unwinding.
Onozaki	Bull	1.1900 – 1.1550	If there is to be some adjustment to the trend of dollar buying and euro selling, this will probably take place when the euro/dollar pair dips below $1.16. The pair will probably be bought on its downside too, so it is unlikely to drop back this month.
Tamai	Bear	1.1750 – 1.1400	There are growing market expectations for early rate hikes, but ECB president Christine Lagarde remains in dovish mode, so any euro bullishness after the ECB meeting will be short-lived. With investors also concerned about the resurgence of Covid-19, the euro/dollar pair looks set to move bearishly.

Harada	Bear	1.1700 – 1.1400	Investors are starting to focus on the timing of US rate hikes. The eurozone has also been hit by soaring commodity prices, so the euro will be a hard currency to buy. Under these circumstances, the euro/dollar pair looks set to move bearishly as the markets focus on the divergent monetary policies of the US and Europe.
Oba	Bull	1.1800 – 1.1600	Though the ECB has adopted a cautious stance when it comes to rate hikes, market expectations for rate hikes have risen on soaring inflation and so on, so the euro/dollar pair looks set to move firmly. With ECB president Christine Lagarde also saying that high inflation could drag on longer than expected, these expectations are unlikely to die down.
Katoono	Bear	1.1800 – 1.1400	ECB president Christine Lagarde's press conference after the October meeting was slightly more hawkish than the markets had expected. Nonetheless, inflation is showing signs of slowing after previously rising on high commodity prices and a sharp post-pandemic demand recovery, so the ECB will continue to adopt a cautious stance when it comes to an exit strategy. The euro is expected to continue trading with a heavy topside.
Kobayashi	Bull	1.1800 – 1.1500	The euro/dollar pair bounced back after ECB president Christine Lagarde's press conference after the October 28 ECB meeting was not as dovish as the markets had expected. A dearth of factors also means the greenback will only have limited room to rise, with the euro/dollar pair likely to undergo some relative adjustment.
Henmi	Bear	1.1800 – 1.1400	The ECB Governing Council said high inflation would be short-lived when it met in October, with the ECB remaining in cautious mode when it comes to an exit strategy. With the FRB moving steadily toward tapering, the euro/dollar pair will move bearishly on these divergent monetary policy stances.
Otani	Bear	1.1750 – 1.1500	The ECB remains in cautious mode when it comes to tapering. With several other countries moving in a hawkish direction, the euro will be a hard currency to buy. With the eurozone economic recovery also slowing, the euro/dollar pair is likely to move with a heavy topside.
Suzuki	Bear	1.1750 – 1.1450	Though numerous central banks are adopting hawkish stances as they move towards tapering, the ECB remains in cautious mode. Investors are unlikely to test the dollar/yen pair's topside given the divergent policy stances of the FRB and ECB. The pair's topside might also be held down by the recent surge in commodity prices.
Okuma	Bear	1.1750 – 1.1450	The ECB Governing Council has also indicated that quantitative easing is coming to an end. Unlike the FRB, though, the ECB is still some way off discussing rate hikes. With energy prices also set to rise as winter approaches, the euro/dollar pair will probably trade with a heavy topside.

Fumihiko Kanda, Europe Treasury Department

British Pound – November 2021

Expected Ranges **Against the US$: US$1.3500–1.4000**
Against the yen: JPY150.00–160.00

1. Review of the Previous Month

The GBP/USD pair rose in October and it pared back its September losses.

After plummeting toward the end of September, the pair was steadily bought back after hitting a monthly low of $1.3434 on October 1. Sterling's slide at the end of September seemed to be due to negative factors such as domestic fuel shortages and concerns about a shortage of goods, but the real reason remained unclear and the pound was simply bought back thereafter.

The pair floated around $1.36, with the pound/yen pair also hitting 157 yen on October 15 for the first time since the 2016 Brexit referendum as the yen moved bearishly across the board (the pound/yen pair then hit 158 yen the following week). The GBP/USD pair was also bolstered and it broke above its range on the topside to hit $1.37. During this time, the Bank of England (BOE) governor Andrew Bailey made some comments that seemed to lay the ground for early BOE rate hikes. Stirling continued to rise in the week beginning October 18. It moved in the $1.38 range and touched a monthly high of $1.3834 on several occasions before sliding slightly to the $1.37 range toward the weekend.

The pair then returned to the $1.38 range on October 26 after sterling hit a 20-month high against the euro. It was then sold back to the $1.37 range on October 27 in the run up to the budget announcement. This came as a report by a foreign bank expressed doubts that the BOE would hike rates in November. The pound's movements grew more erratic throughout the day and it continued trading without a sense of direction. The euro was bought back on October 28 on the ECB's policy announcement and ECB president Christine Lagarde's subsequent press conference, with the GBP/USD pair also pulled higher to rally toward $1.38 toward the month's end.

2. Outlook for This Month

On the whole, the GBP/USD pair's movements will continue to be driven by US long-term interest rates and the dollar's movements, though it could be swayed by UK rate hikes in the short term. After moving firmly at the start of the month, the pair will probably face downward pressure.

The only factor supporting the pound will be speculation about an early BOE rate hike. The BOE's Monetary Policy Committee (MPC) will be meeting on November 4. According to Colin Asher, senior economist at Mizuho Bank's London Branch, recent messages by the central bank suggest it may introduce a 25bp rate hike in November. The overnight index swap (OIS) market has priced in a rate hike of around 15bp on the current 0.10% in November, with a hike of around 30bp expected in December. If these expectations are not met, the pound might weaken, so caution will be needed. However, sterling's spot price against the dollar has not risen that high, with bets on pound downside risk prevailing in the options markets. Nonetheless, volatility has risen across the board and there is also a sense that sterling will fluctuate to a considerable extent.

One factor that could pour cold water on these rate hike expectations is the Covid-19 situation. Though the number of serious cases in the UK remains under control thanks to the spread of vaccines, the number of new cases has topped 50,000 on occasions. Health secretary Sajid Javid and other figures have voiced strong concerns and there have been discussions about a 'Plan B' that could place renewed restrictions on mobility as winter approaches. There are also worries about inflation in the face of soaring fuel costs and rising labor costs due to staff shortages, but the BOE's main concern will be the economic recovery.

Another factor to consider will be the post-Brexit talks between the UK and EU. The debate about customs procedures in Northern Ireland remains a sore point. Brexit was pushed through without a clear resolution to this issue, with the two sides instead extending a provisional measure aimed at avoiding the imposition of any physical barriers. The EU has repeatedly pressurized the UK to scrap the trade agreement, but this has not had any particular impact on the currency markets. However, this could keep a lid on pound buying, so caution will be needed.

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

Australian Dollar – November 2021

Expected Ranges **Against the US$: US$0.7400–0.7700**
Against the yen: JPY80.00–88.00

1. Review of the Previous Month

The AUD/USD pair rose from $0.72 to $0.73 early October. The pair moved at the upper-$0.72 level on risk aversion following news that the shares of a major Chinese property developer had been suspended in Hong Kong markets. When the board of the RBA met on October 5, it reiterated that the conditions for a rate hike would not be met before 2024. With the US Senate expected to lift the debt ceiling until December 3, yields on US treasuries rose and the currency pair's topside was held down. The pair then rose to $0.7338 when the US September Non-Farm Payrolls figure fell substantially below expectations. The previous month's figure was revised upwards, though, while the unemployment rate and the average hourly wages data also improved. As such, the data supported predictions that tapering would start in November, so the greenback was bought back and the currency pair dropped to $0.7310.

The pair then rose from the upper-$0.72 range to the upper-$0.74 level mid-October. The US released some stronger-than-expected September CPI data on October 12, but the pair nonetheless strengthened to around $0.7380 on falling US treasury yields. The Australian September employment data was then released. The unemployment rate had not deteriorated as much as feared owing to a drop in the labor participation rate. With the number of full-time jobs also increasing, the currency pair moved firmly at the upper-$0.73 mark. It then climbed to the lower-$0.74 mark as US stocks rose on strong US corporate settlement results. The Australian dollar was then pulled higher when the NZ dollar rose after New Zealand's 3Q CPI data saw the strongest growth in around 11 years, so the AUD/USD pair strengthened to around $0.7440. It then fell slightly on the lackluster result of the Chinese 3Q GDP data, but with Australian 3-year government bond futures falling while activating stop losses, Australian short-term interest rates rose and the pair rallied to the lower-$0.74 mark. Australian short-term interest rates rose at a slower pace after the minutes to the RBA board meeting revealed that rate hikes were not envisaged until 2024, but the Australian dollar was still bought on bullish stocks, so the currency pair hit $0.7485.

The pair then rose from the mid-$0.74 range to the mid-$0.75 level late October. It continued moving firmly on robust stock movements, with Australian short-term interest rates also moving at highs. News then emerged that a deal to sell a large stake in a unit of a major Chinese property developer had fallen through. With crude oil prices also falling on forecasts for a warm winter in the US, the AUD/USD pair weakened to around $0.7470. On October 22, the RBA conducted a bond buying operation to keep the benchmark yield on Australian 3-year government bonds around 0.1%, with the currency pair sliding to the mid-$0.74 level as Australian short-term interest rates fell, though the pair was then bought back to $0.75 on firm stock movements. On October 25, WTI crude oil futures temporarily breached $85/barrel for the first time since 2014, with the Australian dollar also bolstered as the currency of an energy-exporting nation. The Australian 3Q CPI data was released on October 27. At 2.1% year-on-year, the core CPI figure was within the RBA's target range of 2–3%, so expectations for earlier rate hikes grew and the currency pair climbed to around $0.7535. However, the RBA did not announce any operations to defend yield targets,

so the bond markets were thrown into turmoil and the benchmark yield on Australian 3-year government bonds leaped to 0.81% toward the month's end. Nonetheless, the currency pair moved in a range from $0.7500 to the mid-$0.75 level, with the bond markets having minimal impact on the pair.

2. Outlook for This Month

In November, the AUD/USD pair is expected to target $0.76. Lockdown conditions in NSW were gradually eased in October, with the economy set to recover going forward. Australia posted a 3Q core CPI figure of 2.1% on October 27. With core CPI moving within the RBA's target range of 2–3%, the benchmark yield on Australian 3-year government bonds diverged sharply from the 0.1% target, but with the RBA not announcing any buying operations to defend this target, expectations for an early rate hike grew stronger, with the benchmark yield leaping to 0.81%. When a central bank shifts its outlook, it usually tries to transmit some messages to the markets in order to avoid any surprises, but this month RBA ended with no such dialogue taking place. However this silence itself can be seen as a message to the markets.

It seems highly likely that the RBA will announce a revision to its inflation outlook or its forward guidance, either at the November 2 board meeting or when it releases its monetary policy report on November 5. However, the Australian economy continues to be impacted by rising inflation on the back of supply constraints, so even if the target for the benchmark yield on Australian 3-year government bonds is scrapped at the next RBA board meeting, the RBA will probably refrain from making any clear statement about the timing of rate hikes. The RBA has outlined three conditions for a rate hike: (1) inflation moving stably in the 2–3% range, (2) a tightening of employment conditions, and (3) rising wages. Yet even if it seems condition (1) will be met going forward, condition (2) will need to wait for the labor participation rate to recover, while (3) wages are still rising at a sluggish pace. As such, the conditions are not in place, so the RBA is in no hurry to lift rates.

Either way, if RBA starts off by upgrading its inflation outlook, expectations for early rate hikes will continue to linger and the AUD/USD pair will move firmly. The charts shows the pair being held down at around $0.7560 (its Fibonacci half-way point and 200-day moving average), so investors will try pushing it through this level. The next target would by the July 6 high of $0.7599, with the $0.76 range in sight. If rising commodity prices also lend a hand, the pair could well hit the $0.76 range. The AUD/JPY pair will probably renew its 2021 high of 86.255 yen, a target last reached on October 21. Events to watch out for this month include the RBA board meeting (November 2); the release of the NZ financial stability report, NZ employment data and US October ADP National Employment Report (November 3); the FOMC meeting and the release of the Australian September trade balance (November 4); and the release of the RBA monetary policy report and the US October employment data (November 5). There is ample reason to expect the pair to fluctuate in a wider range this month.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – November 2021

Expected Ranges **Against the US$: C$1.2000–1.2500**
Against the yen: JPY90.00–94.00

1. Review of the Previous Month

The USD/CAD pair opened October trading at C$1.2664. Despite forecasts for a post-summer slowdown, commodity prices kept rising on fuel demand. The Bank of Canada (BOC) had said on three occasions that rising inflation would be 'transitory,' but doubts about this prognosis now grew as supply chain turmoil dragged on. Long-term interest rates climbed on growing anticipation for an early rate hike. The Canadian dollar strengthened throughout the month on bullish Canadian economic indicators and rising risk appetite on the back of a stock market recovery.

The US September employment data was released on October 8. The unemployment rate had improved to 4.8%, but the nonfarm payrolls figure was down sharply on market forecasts. In contrast, the September Canadian employment data revealed that the jobs figure had significantly outperformed expectations to grow for the fourth straight month. With the unemployment rate also improving to 6.9%, it seemed Canada had more-or-less recovered the jobs lost due to Covid-19.

Crude oil prices continued rising after the closely-watched OPEC+ meeting decided to maintain the pace at which it expanded supply. Prices broke through $80/barrel on October 11. The Canadian dollar was bought on firm Canadian economic indicators and rising crude oil prices, with the USD/CAD pair dropping back to the mid-C$1.24 mark. It then moved in a narrow range. The Canadian manufacturing shipments data rose for the first time in two months on its release on October 14. As such, the Canadian dollar moved bullishly and the pair hit the mid-C$1.23 level. The Canadian September CPI data was released on October 20 and it posted a month-on-month rise for the ninth month in a row. With transportation and food costs rising substantially, the data was also up by 4.4% on the previous year, the highest y-o-y growth since February 2003. With crude oil prices also rising, the currency pair hit C$1.2288 during overnight trading. Europe then posted a sharp surge in Covid-19 cases, while Moscow implemented a lockdown after the discovery of a new variant even more contagious than the delta variant in Russia. As risk evasion grew slightly, the currency pair climbed to C$1.2390.

Crude oil prices then dipped temporarily to $80.79/barrel on concerns of a demand crunch. On October 22, FRB chair Jerome Powell hinted that tapering might begin soon, though he also adopted a cautious stance regarding an early rate hike, so US long-term interest rates fell. As the US dollar was sold, on October 25 crude oil prices hit $85.41/barrel for the first time since October 2014, so the USD/CAD pair fell back to the mid-C$1.23 mark. As expected, the BOC Monetary Policy Committee (MPC) kept policy rates fixed when it met on October 27. It said it was minded to reinvest the funds when its bond buying program ended on November 1 and it also hinted that the timing of the first rate hike could be brought forward from the latter half to the second quarter of 2022. The Canadian dollar was bought and the currency pair fell to C$1.2301 on the BOC's hawkish stance. Crude oil prices then fell to $82/barrel on reports that crude oil inventories had risen by more than expected, though the impact on the Canadian dollar was muted. The USD/CAD pair continued trading at the mid-C$1.23 mark.

2. Outlook for This Month

As a result of public hygiene measures being relaxed too much in some regions, Covid-19 cases rose again in Canada and hospitals faced pressure, though the situation has now eased. Restrictions on border travel between the US and Canada were imposed from March 2020, but these will be lifted in November, with expectations growing for an economic recovery. However, more regions across the world are falling into a vicious circle whereby restrictions are eased or scrapped after a fall in Covid-19 cases, with cases then increasing and new variants emerging as a result. If Canada does not keep countermeasures in place in the run up to winter, it would well face a fifth wave. Each state is taking measures such as rolling out booster vaccines, but there is a sense that Canada would be letting its guard down if it scrapped restrictions on unnecessary overseas travel at this moment. Under these circumstances, it seems more time will be needed for supply chains to recover, with concerns about inflation rising.

Households in particular are being hit hard by soaring energy costs. In Canada, gasoline prices have risen to a record C$1.45/liter. With gasoline tax rates also rising, prices are now higher than in 2008 and 2014, when gasoline hit C$1.40/liter after crude oil prices broke through $100/barrel. As it seeks to reduce greenhouse gas emissions to essentially zero, Canada has adopted a negative stance with regards to an expansion of oil/natural gas extraction and other related industries, so it will take time before the supply and demand gap is eliminated. With crude oil prices expected to rise further as winter approaches, there are calls for oil-producing nations to ramp up production, so attention will be focused on the OPEC+ meeting early November. Given how demand could slow again on a surge in Covid-19 cases, OPEC+ will be wary of expanding supply. However, at this last meeting OPEC reportedly said it was not seeking prices of $100/barrel, so it will probably tweak output to a certain extent as it aims for market stability.

Most observers believe the FOMC will commence tapering when it meets on November 3. If the FOMC alters its dovish stance, this could push the US dollar higher, so caution will be needed. The BOC's quarterly report on monetary policy said high inflation would last longer than originally envisaged. The inflation rate forecast was upgraded too, though the report also said inflation would slow towards the target range in the latter half of 2022. It also indicated that the Canadian economy would undergo a strong recovery. For now, the BOC's hawkish stance will spur on market moves to price in rate hikes. In November, investors should continue to monitor rising Covid-19 cases, crude oil prices, US/China relations, and Chinese real-estate risk. The USD/CAD pair will probably move between C$1.20–1.25 on bullish Canadian economic indicators and rising crude oil prices.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – November 2021

Expected Ranges **Against the US$: KRW 1,150–1,200**
Against the yen: JPY 9.434–9.901 (KRW100)
(KRW 10.100–10.600)

1. Review of the Previous Month

The USD/KRW pair fell in October.

After opening at KRW1185.0 on October 1, the pair moved firmly as the dollar was bought as US long-term interest rates rose and concerns grew about inflation due to rising commodity prices. There were also concerns about won-buying interventions by the authorities, but there were no clear opportunities for won buying, so the pair continued rising. Risk sentiments improved from October 7 as progress was made in the debate about raising the US federal debt ceiling, with Russia also announcing that it would be boosting production to stabilize soaring commodity prices. Nonetheless, the pair strengthened to a monthly high of KRW1200.4.

The Bank of Korea (BOK) Monetary Policy Board kept the base rate fixed at 0.75% when it met on October 12. In his press conference, though, the BOK governor hinted at a November rate hike and ongoing financial normalization. Dollar buying ceased after the minutes to the FOMC meeting were released on October 14. The USD/KRW pair hit the key KRW1200 mark, while the South Korean authorities also intervened to buy the won, so the pair then began falling. Asian stocks then fell across the board after China released some worse-than-expected 3Q GDP data, so the currency pair climbed to a weekly high of KRW1188.0 on October 18. However, default concerns involving a Chinese property developer eased on October 19 after the company managed to make interest payments, so the won was bought on RMB bullishness, with the USD/KRW pair subsequently dropping below the key KRW1180 level.

This trend continued on October 20, with the pair sliding to KRW1172.3. On October 25, news emerged that a South Korean shipbuilder had received a huge order. This led to real-demand won buying, with the pair tumbling to KRW1164.0 while apparently activating long-position loss-cut orders. The pair's topside was held down by real-demand won buying toward the month's end, with the pair finally closing at KRW1168.6, down 15.4 won on the end of September.

2. Outlook for This Month

The USD/KRW pair looks set to move firmly again in November after the phase of adjustment comes to an end. The pair regained the KRW1200 mark at the start of October, though it then fell on concerns about interventions by the South Korean authorities together with the hawkish result of the BOK meeting, with the pair steadily entering a phase of adjustment thereafter.

The pair will be swayed by two main factors in November: (1) FRB policy discussions (about the timing of rate hikes) and (2) BOK financial normalization.

As for (1), the minutes to the FOMC meeting (released October 14) suggested tapering would commence within

the year and finish by mid-2022. From late October, meanwhile, several FRB officials have voiced concerns that high inflation might last longer than expected. When it meets on November 4, the FOMC may attempt to keep a lid on inflation by dropping some sign about earlier rate hikes in order to encourage dollar buying. If this does happen, this will push the USD/KRW pair higher.

With regards to (2), although the BOK kept policy rates fixed when it met on October 12, it did hint about a rate hike in November and ongoing financial normalization. As a result, long-term interest rates have soared as investors price in a rate hike in November and around two hikes in 2022. The BOK is concerned about soaring long-term interest rates, so it will probably refrain from making further hawkish comments when it meets on November 25, with the meeting set to have limited impact on the currency pair's movements.

The pace of the pair's rise has undergone some adjustment, with the pair also falling on a sense of achievement after hitting the key KRW1200 mark, but the medium- to long-term trend will probably remain one of dollar buying on US financial normalization. Under these circumstances, the pair will probably bottom out and bounce back in November.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – November 2021

Expected Ranges	Against the US$: NT$27.60–28.20
	Against the yen: JPY4.00–4.14

1. Review of the Previous Month

In October, the USD/TWD pair was bought on rising US long-term interest rates, though it dropped back thereafter.

The pair opened the month trading at TWD27.820. The Taiwan dollar was then sold as Taiwanese stocks moved bearishly, but the pair's topside was held down as exporters sold the greenback. However, more overseas investors withdrew funds from Taiwan on concerns about inflationary pressure, so the pair hit the TWD27.90 mark. Fears about the valuation of growth stocks then grew on rising US long-term interest rates, with hi-tech stocks and other Taiwanese equities sold off, so the currency pair rose to just above TWD28.

Taiwanese stocks fell mid-October on inflation concerns and bearish US stock markets. With more overseas investors also buying the greenback, the pair temporarily hit TWD28.165 on October 13. The US dollar was bought thereafter as major Taiwanese corporations made dividend payments, so the pair moved in the TWD28 range. However, US stocks and other risk assets were then bought back as economic indicators improved and US firms in the financial sector and so on posted strong results. The Taiwan dollar was also bought, so the pair dropped back to the TWD27 range.

Late October saw the greenback sold by exporters and bought by importers and domestic investors, with the pair moving in a range close to TWD27.90. Importers then bought the greenback toward the month's end, though, while the Taiwan Capitalization Weighted Stock Index recovered to 17,000 points. With overseas investors also buying the Taiwan dollar, the pair fell to TWD27.785 for a time. With the FOMC meeting looming, exporters paused their selling of the US dollar as they slipped into wait-and-see mode, with the pair then trading close to TWD27.82.

2. Outlook for This Month

The USD/TWD pair is expected to continue trading in a range in November.

US long-term interest rates rose in October and the pair was dragged up to TWD28, but it soon dropped back to move in a range.

Exports remain bullish, with the import amount also increasing. The export amount has hit a standalone monthly high for three straight months now, with imports also hitting a record high in August, with the second highest level then posted in September. Imports are increasing on the back of robust manufacturing, but the costs of imports of minerals and crude oil, etc. are also rising at a fast year-on-year pace on soaring commodity prices. If this places pressure on Taiwan's trade surplus, the Taiwan dollar will face less appreciatory pressure. At 3.80% y-o-y, GDP growth in 3Q 2021 was slower than the 9.27% and 7.43% figures posted in 1Q and 2Q respectively. GDP has grown on rising exports, but with imports also seeing fast y-o-y growth in the third quarter, net exports have not made a contribution. However, investors were expecting GDP to grow at a modest pace in 3Q 2021 given how exports had soared from 3Q 2020.

On the other hand, the Taiwan dollar is being sold on the investment flow, with overseas investors withdrawing funds on rising US interest rates, for example, while Taiwanese investors are buying more foreign bonds on rising yields. Though the Taiwan dollar has moved bullishly on the trade surplus, it has also been reined in by the investment flow, with this trend set to continue in November too.

Investors should watch out for phases where US long-term interest rates rise further on growing expectations for early US rate hikes. If the Taiwan dollar is sold at a faster pace, the pair might break out of its range. As such, FRB trends will require monitoring, as will global price trends for the impact they may have on rising import amounts or expectations for rate hikes.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – November 2021

Expected Ranges	**Against the US$: HK$ 7.7700–7.7900**
	Against the yen: JPY 14.30–14.80

1. Review of the Previous Month

Hong Kong dollar spot exchange market in October

USD/HKD was trapped in the range of 7.77/7.79 level since September. Despite the pricing of 2x 25bps Fed's rate hike by 2022-end, front-end HKD – USD rate spread remained narrow and the HKD spot held steady. Meanwhile, there was de-escalation in China risks as top Chinese financial/economic officials spoke to calm the market. Chinese Vice Premier Liu He said overall risks in the property market are manageable, and reasonable financing demand from developers is being satisfied. Stock Connect inflow to HK market picked up gradually. IPO sentiment stabilized as Hang Seng Index found its footing. Macro outlook for HK economy continued to improve as virus spread remained under control. Retail sales figures received a boost from the government consumption voucher, while jobless rate dropped further.

Hong Kong dollar interest rate market in October

HKD liquidity condition remained flush despite extra Exchange Fund Bills (EFBs) issuances, which reduced HKMA aggregate balance to HKD 417.5bn from its record high of HKD 457.5bn. On 20 Oct, the HKMA announced another round of EFBs extra issuance of HKD 40bn in coming 8 weeks, but the market impact was limited. With subdued IPO demand, 1-month HKD HIBOR was stuck at its record lows below 0.07%, while 3-month HKD HIBOR ticked up to 0.15%. 1-month and 3-month HKD HIBOR – USD LIBOR spread remained narrow at -2bps and +2bps, respectively. In light of Fed's hawkish and re-pricing of mounting inflation risk, HKD IRS curve tracked higher on USD IRS curve under the USD-HKD peg, with 3Y HKD IRS jumping towards 1%. Against the backdrop of flooding HKD liquidity and Fed's more aggressive rate hike cycle, the negative HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) widened to near -80bps from -50bps.

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2. Outlook for This Month

Hong Kong dollar spot exchange market in November

USD/HKD spot is expected to range between 7.77 and 7.79 in the coming month. The return of capital inflow to HK market on the relief of China regulation risk and property sector rout should help support the HKD. The steady RMB exchange rate will also anchor HKD expectation. Yet, increasing expectation for sooner Fed's rate hike cycle will start to drive front-end USD rates higher and the falling HKD-USD rate spread will eventually contribute to the HKD weakness. We look for the sooner return of carry trade of long USD/HKD spot compared to the previous Fed's rate hike cycle, as the Fed is likely to signal a faster pace of policy normalization under the inflation threat. We do not look for substantial HKD weakness during the Fed's tapering as both USD and HKD

liquidity condition is expected to remain ample before Fed's monetary policy tightening kicking in.

Hong Kong dollar interest rate market in November

HKD liquidity condition will likely stay flush despite HKMA's liquidity drainage via the extra EFBs issuance. Despite the extra EFBs issuance of HKD 40bn, HKMA aggregate balance is expected to hold up at HKD 377.5bn at year-end and the surplus of HKD fund supply should keep front-end HKD rates at bottom lows. As HK stock market sentiment remains vulnerable in Q4, we do not foresee the increase in IPO projects and IPO capital demand should remain limited. However, the re-pricing of more aggressive Fed's rate hike cycle had lifted USD and HKD IRS curve notably. After all, capital outflow pressure related to political uncertainties and US sanctions are largely contained as China and US leaders resumed the dialogue. HK top officials also said that there is no timetable to incorporate China's anti-sanction law into the local legislation.

Kei Yano, Treasury Department, MHBK (China)

Chinese Yuan – November 2021

Expected Ranges	**Against the US$: CNY 6.3500–6.6000**
	Against the yen: JPY 16.97–18.27
	Against 100 yen: CNY 5.4700–5.8900

1. Review of the Previous Month

The Chinese yuan appreciated against the U.S. dollar in October.

During China's National Day holidays, the Chinese yuan occasionally depreciated against the U.S. dollar in the offshore market. However, on October 6, the media reported that an online summit dialogue between the U.S. and China would be held before the end of the year. In reaction, Hong Kong stock prices rallied on October 7, strengthening the Chinese yuan in the offshore market. On October 8, after consecutive holidays, the U.S. dollar/Chinese yuan pair started trading in the onshore market at the upper-CNY 6.44 level, which was at the same level as the closing rate before the consecutive holidays. On the same day local time, U.S. employment statistics were released, and the results turned out to be weaker than the market estimate, which encouraged market participants to sell the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate fell to the lower-CNY 6.44 level.

In the following week, the U.S. dollar/Chinse yuan exchange rate remained flat. Market participants continued buying the Chinese yuan not only against the U.S. dollar but also against other major currencies (also, the China Foreign Exchange Trade System [CFETS] China RMB Index reached its highest level since February 2016). Under such circumstances, the U.S. dollar/Chinese yuan exchange rate fell to the upper-CNY 6.43 level. Thereafter, many market participants expected the normalization of the monetary policy of the U.S. and bought the U.S. dollar, and this led the U.S. dollar/Chinese yuan exchange rate to rally. Then, on October 13, the exchange rate approached CNY 6.46 to the U.S. dollar. Thereafter, the rise of U.S. interest rates slowed, and market participants bought back the Chinese yuan, leading the U.S. dollar/Chinese yuan exchange rate to fall to temporarily reach the upper-CNY 6.42 level. Subsequently, the exchange rate rallied slightly, and the U.S. dollar/Chinese yuan pair traded at the CNY 6.43 level. On October 13, the trade balance was announced, and both imports and exports renewed their all-time highs, while the PPI reached its highest level in 26 years as a result of the rise of commodities prices. However, the impact of this on the Chinese yuan exchange market was limited.

In the morning of October 18, the third-quarter GDP of China was announced, and the result was lower than expected, which led the Chinese yuan to depreciate temporarily. However, the U.S. dollar/Chinese yuan exchange rate continued fluctuating at the CNY 6.43 level. On October 19, U.S. interest rates fell slightly during trading hours in Asia. Under such circumstances, the U.S. dollar depreciated against other major currencies. Following this trend, the U.S. dollar/Chinese yuan exchange rate also fell below the CNY 6.40 level. On October 20, the U.S. dollar/Chinese yuan exchange rate did not fall any further, after falling significantly on the previous day, and continued fluctuating without moving in any direction at around the CNY 6.39 level. On October 21, Asian stock prices declined, and the U.S. dollar/Chinese yuan exchange rate once recovered to the CNY 6.40 level. Toward the end of the week, the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around the CNY 6.40 level.

On October 27, market participants started to actively buy the U.S. dollar during trading hours in Europe, with

some large-scale transactions. As a result, the U.S. dollar/Chinese yuan exchange rate rose rapidly to the mid-CNY 6.39 level. On October 28, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.40 level at market opening. However, during the day, the U.S. dollar/Chinese yuan exchange rate did not rise. Also, at the European Central Bank (ECB) monetary committee meeting, the existing monetary policy was maintained. However, ECB president Christine Lagarde did not make any strong remark to discourage market participants from expecting an interest rate hike. In reaction, market participants bought the euro and sold the U.S. dollar further. As a result, the U.S. dollar/Chinese yuan exchange rate fell in the offshore market during the nighttime. Following this trend, the U.S. dollar remained weak, and the Chinese yuan remained strong in the U.S. dollar/Chinese yuan exchange market during the day of October 29. However, during overseas trading hours, some market participants bought back the U.S. dollar, leading the U.S. dollar/Chinese yuan exchange rate to return to the mid-CNY 6.40 level. Monthly trading closed at this level.

2. Outlook for This Month

The Chinese yuan is forecast to depreciate slowly against the U.S. dollar in November.

In October, the concern over the liquidity issue of the Evergrande Group remained a key factor in the market. At the end of October, the Evergrande Group made an interest payment for its offshore bonds. However, there will be a large-scale payment scheduled for November for its maturing bonds, and thus the cautious sentiment is likely to persist in the market.

In terms of the Chinese economy, the economic recovery seen after the Covid-19 crisis has peaked out, and the growth rate declined during the third-quarter GDP. In particular, personal consumption and retail sales have weakened significantly. There has been a shortage of electricity, as resource prices continue rising, while the operation rate of thermal power plants was lowered in order to achieve the policy target to reduce carbon emissions, which is also slowing down the Chinese economy.

While the Chinese economy declines, there have been growing expectations for an additional measure of monetary easing to be taken by the People's Bank of China (PBOC). While the most-likely measure to be taken is a deposit reserve requirement ratio cut, it is possible for the PBOC to cut the interest rate depending on the pace of the decline of the Chinese economy. On the other hand, in the U.S., the market consensus is that the Federal Open Market Committee (FOMC) will decide to start tapering asset purchases at its meeting held at the beginning of November. If the U.S. continues normalizing its monetary policy, the gap between the interest rates in the U.S. and those in China would narrow further.

With regard to capital inflow into China, Chinese stock prices are falling, especially in the sectors related to education and high technology, due to the tightened restrictions, fueling concerns over a slowdown in securities investment in China. However, so far, there has been constant investment capital inflow in Mainland China. Even though restrictions have been tightened, governmental funds maintain active investment activities even for unlisted companies in the venture capital and real estate sectors. Thus, the investment appetite of foreign investors remains vigorous, and the risk of a decline in capital inflow is limited.

For the above reasons, the Chinese yuan is forecast to weaken against the U.S. dollar. However, its depreciation is likely to be moderate, as there has so far been no decline in capital inflow and as the Chinese monetary authorities are likely to prioritize stability in the market.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Singapore Dollar – November 2021

Expected Ranges **Against the US$: SG$ 1.3300–1.3600**
Against the yen: JPY 83.00–86.00

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the mid-SGD 1.35 level. As market participants were actively buying the U.S. dollar, the U.S. dollar/Singapore dollar exchange rate continued rising and reached its monthly high at the lower-SGD 1.36 level on October 6. However, on October 8 local time, the September employment statistics of the U.S. were released, and the figures turned out to be weak, leading the U.S. dollar/Singapore dollar exchange rate to fall.

At the end of the week, the media reported that the Singapore government would expand its list of countries exempted from compulsory isolation at the time of entry to Singapore. However, as it was a holiday in the U.S. dollar market on October 11 after the weekend, the reaction in the market was limited. As a result, the U.S. dollar/Singapore dollar exchange rate continued fluctuating at around the mid-SGD 1.35 level.

On October 14, the outcome of a semi-annual monetary policy meeting held by the Monetary Authority of Singapore (MAS) was announced, and the policy interest rate band was raised. As the majority of market participants expected the policy interest rate band to be maintained at the same level, this decision came as a surprise in the market. As a result, the Singapore dollar strengthened against the U.S. dollar. Thereafter, the preliminary result of the GDP for the third-quarter period turned out to be slightly lower than the market estimate. However, the previous result was revised upward, and the MAS released an optimistic future outlook. Thus, this did not impact the exchange market significantly, and the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.34 level.

On October 18, U.S. interest rates rose, which encouraged market participants to buy the U.S. dollar and sell Asian currencies. Following this trend, the Singapore dollar also weakened temporarily, and the U.S. dollar/Singapore dollar exchange rate once reached the lower-SGD 1.35 level, offsetting the fall seen in the previous week. However, such a trend did not last for long, and the exchange rate started to fall again. The U.S. dollar/Singapore dollar exchange rate fell below the lowest level seen in the previous week and continued falling. In the end, the U.S. dollar/Singapore dollar reached its monthly low at the lower-SGD 1.34 level. However, some market participants bought back the Singapore dollar toward the second half of the week. Thus, the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.34 level, and weekly trading closed at this level.

After the weekend, there were no influential factors in the market in the week commencing on October 25, and the U.S. dollar/Singapore dollar exchange rate fluctuated in both directions at the upper-SGD 1.34 level. However, toward the end of the month, market participants started to actively sell the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell again to approach its lowest level. Then, monthly trading closed.

2. Outlook for This Month

The Singapore dollar is forecast to appreciate slowly against the U.S. dollar in October 2021.

At the MAS meeting held in October, the S$NEER slope was increased slightly, which is a sign that the MAS is gearing toward the normalization of its monetary policy. Even though this decision came as a surprise in the market, it is understandable that the MAS made a decision at this timing, as it would be too long to wait until the next meeting scheduled for April next year.

With regard to the GDP of Singapore, the preliminary result of the third-quarter GDP was slightly slower than the market estimate. However, the previous result was revised upward. Furthermore, the construction sector, which had been slow in recovery, started to show signs of recovery, and the MAS has expressed an optimistic outlook for the Singapore economy in the times ahead.

The Federal Open Market Committee (FOMC) is expected to start tapering in the U.S. at its next meeting, and this has been attracting substantial attention in the market. However, this decision has already been reflected in the market. Even though it is possible for market participants to buy the U.S. dollar for a short while, the Singapore dollar is generally forecast to strengthen against the U.S. dollar.

On the other hand, there has recently been an increasing number of Covid-19 cases in Singapore, regarding which market participants should remain careful. As of October 28, there have been more than 5,000 daily new Covid-19 cases. In reaction to this, the Singapore government has already decided to extend the "Stabilisation Phase," by limiting the number of people visiting restaurants and meetings until November 21.

The Singapore government seems to have taken measures to maintain economic activities, by not banning restaurants and meetings all together. However, if such a measure is maintained for a long period, it would naturally affect the economic recovery in the times ahead. Market participants should thus remain careful about possible trends involving Singapore dollar-selling.

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

Thai Baht – November 2021

Expected Ranges **Against the US$: THB 32.50–33.50**
Against the yen: JPY 3.37–3.46

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Thai baht exchange rate approached (but it did not reach) the THB 34 level. Thereafter, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 33 level as a result of position adjustment during the weekend. On October 4, market participants maintained a wait-and-see attitude, as the National Day holidays in China were ongoing at that time, while October 4 was also a holiday in the Australian dollar market. The rise of crude oil prices led market participants to expect the deterioration of the current account balance in Thailand. As a result, the U.S. dollar/Thai baht exchange rate once approached THB 34.00 in the middle of the week. However, resource prices were adjusted, and the rise of U.S. interest rates slowed down, leading the U.S. dollar/Thai baht exchange rate to return to approach the THB 33.85 level. On October 8, expectations grew for the start of tapering in November as a result of anticipated growth in the September employment statistics of the U.S. Then, U.S. interest rates rose, and the U.S. dollar/Thai baht exchange rate approached the THB 34 level again. During the nighttime, the September employment statistics of the U.S. were released, and the results were not so pessimistic, even though the number of non-agricultural employees turned out to be weaker than the market estimate. As a result, the U.S. dollar/Thai baht exchange rate remained high. On October 11, in the middle of the month, Prime Minister of Thailand Prayut Chan-o-cha announced his decision to permit the entry of vaccinated foreign nationals without quarantine, from November. As a result, market participants bought back the Thai baht, and the U.S. dollar/Thai baht exchange rate fell to approach the THB 33.70 level. On the following day, expectations continued growing for the acceptance of foreign tourists, and this encouraged market participants to carry out short sales. As the appreciation of the U.S. dollar slowed, the U.S. dollar/Thai baht exchange rate fell while fluctuating. On October 15, the September retail sales of the U.S. turned out to be stronger than the estimate, and this fueled expectations for inflation in the U.S. As a result, U.S. interest rates rose, and the U.S. dollar/Thai baht exchange rate remained robust. On October 18, concerns grew over the default of a major Chinese real estate development company, Evergrande Group, led the U.S. dollar/Thai baht exchange rate to rise gradually. The exchange rate rose to approach THB 33.50 to the U.S. dollar. However, after crude oil prices peaked, the U.S. dollar/Singapore dollar exchange rate fell sharply. Furthermore, U.S. economic indices turned out to be weak, and this kept the U.S. dollar/Thai baht exchange rate low. In the end, daily trading closed at around the THB 33.50 level. On both October 19 and 20, the U.S. dollar/Thai baht exchange market closed at the THB 33.30 level after fluctuating during the day.

At the end of the month, the U.S. dollar/Thai baht exchange market opened trading at the lower-THB 33 level on October 21. Thereafter, the exchange rate did not move in any direction, as a three-day consecutive holiday was to start on the following day. Thus, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range during the day. Thereafter, U.S. interest rates started to rise, and this stabilized the U.S. dollar/Thai baht exchange rate at around the THB 33.40 level. On October 22, there was little liquidity in the Thai market, as that

day was a national holiday. Under such circumstances, there were some transactions to sell the U.S. dollar, and this led the U.S. dollar/Thai baht exchange rate to fall to the lower-THB 33 level. However, during overseas trading hours, the U.S. economic indices tuned out to be stronger than expected, and Federal Reserve Board (FRB) Chair Jerome Powell made a remark to insist that the tapering should be started soon. As a result, the U.S. dollar/Thai baht exchange rate rallied during New York trading hours. On October 25, a major Chinese real estate company, Evergrande Group, managed to avoid defaulting, positively reacting to which the U.S. dollar/Thai baht exchange rate became stable at around the THB 33 level after falling toward its lowest level. After seeing the appreciation of the Thai baht for the first time in a month, market participants were encouraged to buy the U.S. dollar, as U.S. interest rates were on a rise with expectations for inflation in the U.S. as a result of the rise of crude oil prices. As a consequence, the U.S. dollar/Thai baht exchange rate continued rising slightly on both October 26 and 27. The U.S. dollar/Thai baht exchange rate fluctuated at around the THB 33.30 level.

2. Outlook for This Month

Several times in October, the U.S. dollar/Thai baht exchange rate approached the THB 34 mark—a level that had not been attained for approximately four years. However, in the end, the U.S. dollar/Thai baht exchange rate did not reach the THB 34 level. Furthermore, Prime Minister of Thailand Prayut Chan-o-cha announced the opening of the country's borders, to which market participants reacted positively. As a result, the U.S. dollar/Thai baht exchange rate started falling. Thereafter, the fall of the exchange rate slowed down at the lower-THB 33 level. However, the exchange rate has not been rising further since the middle of the month.

In November, Thai baht-buying would depend on acceleration in the recovery of the tourism sector after the re-opening of the country to tourists. There has been a current account deficit in Thailand since the fourth quarter in 2020, in which the current account balance turned into a deficit for the first time in approximately six years. This is probably due to a decline in trade profit and a deficit in Thailand's services balance, which used to maintain a significant profit level thanks to the number of tourists that Thailand commonly hosts—at a level that is one of the highest in the world. In terms of trading, restrictions persist on the supply side. Thus, exports could struggle due to rising prices for raw materials and intermediate goods. However, if the movement of people becomes more active, it is possible for the services balance to turn to profit, and this would improve the market sentiment with expectations for an early recovery of the tourism industry, which is an important pillar of the Thai economy. The U.S. dollar/Thai baht exchange rate is therefore likely to fall in the times ahead.

In terms of external factors, it is almost certain that tapering will start in the U.S. before the end of the year. However, many FRB officials are cautious about interest rate hikes, and this could make it less likely for the market to fall into confusion after the start of tapering. Therefore, it is a positive factor for the currencies of emerging countries. At the time of writing, growing expectations for inflation are supporting the U.S. dollar. However, this is not likely to be influential enough to change the view of FRB Chair Jerome Powell. On the other hand, raw materials prices are rising due to the rise in resource prices, and this is a negative factor for resource-importing countries. Furthermore, as the restrictions on movement based on the Covid-19 pandemic are gradually being relaxed, anti-governmental protests are more likely to be active, which would encourage market participants to sell the Thai baht, and market participants should keep this in mind.

However, in general, the U.S. dollar/Thai baht exchange rate is forecast to gradually fall in the times ahead, occasionally approaching its low, thanks to the improved market sentiment.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – November 2021

Expected Ranges	**Against the US$: MYR 4.10–4.20**
	Against the yen: JPY 27.40–28.17
	Against 100 yen: MYR 3.55–3.65

1. Review of the Previous Month

In October, the recovery of the Malaysian economy accelerated, thanks to the improvement of the domestic situation related to the Covid-19 pandemic. In terms of the external environment, crude oil prices reached their highest level in approximately three years, while palm oil prices renewed their all-time high, and this encouraged market participants to buy the Malaysian ringgit, leading to the appreciation of the Malaysian ringgit against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market remained relatively quiet. While there were no important events, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at around MYR 4.18. On October 8 local time in New York, the September employment statistics of the U.S. were released. The total number of additional jobs turned out to be 194,000, falling below the market estimate, which was 500,000. However, the August figure was revised upward, the unemployment ratio fell, and the average hourly wage recorded positive growth of +0.6%, which is the largest growth in half a year. Thus, market participants bought back the U.S. dollar. After the weekend, on October 11, a debt ceiling for the U.S. was agreed on. Positively reacting to this news, U.S. stock prices rose while bond prices fell with risk-taking sentiment in the market. Under such circumstances, market participants continued buying the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.17 level.

In the middle of the month, thanks to the improvement of the domestic situation related to the Covid-19 pandemic, there were some measures aiding the recovery of the Malaysian economy, such as the relaxation of restrictions on movement across state borders. As a consequence, the Malaysian ringgit appreciated further against the U.S. dollar. The U.S. dollar/Malaysian ringgit exchange rate continued falling to approach the MYR 4.15 level for the first time in approximately one month. Furthermore, in terms of crude oil prices, Saudi Arabia refused a request for OPEC Plus countries to increase oil production, and this led the North Sea Brent crude oil price to temporarily exceed the USD 85 level. This was another positive factor for the Malaysian ringgit. Thereafter, corporate performance in the U.S. turned out to be stronger than the market estimate, leading U.S. stock prices to rise, which further ameliorated risk sentiment. Even though inflation is still a source of concern, many market participants expect corporate performance to be robust, as inflation has been steadily passed through to prices. Under such circumstances, it is only the Japanese yen that has not been strengthened by the normalization of monetary policy. Thus, the Japanese yen/Malaysian ringgit exchange rate fell to the mid-MYR 3.63 level for the first time since March 2019.

Toward the end of the month, in addition to the continued rise of crude oil prices, other commodities prices rose as well, such as for palm oil, which reached a high at MYR 5,400, leading the Malaysian ringgit to appreciate. Then, on October 22, the September CPI of Malaysia was announced, and the result was +2.2%, which was slightly above the market estimate. This is mainly due to the rise of crude oil and food prices. The core CPI was +0.6%,

remaining stable—as was the case in the previous month. After the announcement of the CPI, the Malaysian ringgit remained robust. Then, on October 28, the September trade statistics were released, and both imports and exports turned out to be significantly stronger than the market estimate. The announcement attracted substantial attention in the market, as August trade statistics recorded a slowdown. Having seen the positive result, market participants continued buying the Malaysian ringgit.

2. Outlook for This Month

In November, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain at the same level without moving in any direction, reacting to various domestic and overseas factors. Depending on those factors, there could be some violent fluctuations in the market.

The first important event is the Federal Open Market Committee (FOMC) meeting scheduled for November 4, attracting significant attention in the market. While it is almost a market consensus that tapering will start before the end of the year, market participants are waiting to know the timing of interest rate hikes based on inflation and recovery in employment. Federal Reserve Board (FRB) Chair Jerome Powell commented that it was not the time for interest rate hikes yet, although he was ready to take appropriate measures in the case of inflation. It is now possible for the rise of commodities prices such as those of crude oil to cause inflation, and this should be taken into account. Any reflection in the market of earlier interest rate hikes in the U.S. would be a negative factor for the Malaysian ringgit. Furthermore, market participants should also continue observing the Malaysian ringgit long-term interest rates after the start of tapering in the U.S. The 10-year government bond yield has already risen by 100 basis points since the beginning of the year. If the yield level rises further to 4%—the level seen before the outbreak of the Covid-19 pandemic—foreign investors would buy the Malaysian ringgit in order to invest in Malaysian government bonds, and this would support the Malaysian ringgit.

In terms of domestic factors, the government took rapid measures to reopen the Malaysian economy, and this led the ratings agency, Fitch, to revise Malaysia's growth rate outlook upward on October 25. There have thus been positive factors in the domestic economy, and this can encourage market participants to buy the Malaysian ringgit further. On the other hand, Minister of Health Khairy Jamaluddin announced his estimate that the relaxation of movement restrictions would cause an increase of the number of daily Covid-19 cases to approximately 7,500. It is unknown how the rapid loosening of restrictions will impact the country, and thus market participants should remain careful. It should also be mentioned that there will be a state legislative election for the state of Melaka on November 20. Furthermore, the election for the state of Sarawak, currently scheduled for February next year, could be moved forward. If these elections cause an increase in Covid-19 cases, as was the case at the time of the legislative election for the state of Sabah, it will certainly provoke criticism both domestically and internationally. The government will ban political meetings to stop the spread of Covid-19 cases. The effectiveness of such measures would give important insight toward preparing for the 15th general election scheduled next year.

For these reasons, the U.S. dollar/Malaysian ringgit exchange market is forecast to be volatile, with the exchange rate fluctuating in both directions. If the domestic situation related to the Covid-19 pandemic remains stable, the reopening of the economy is likely to support the appreciation of the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate could fall below the MYR 4.10 level.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – November 2021

Expected Ranges **Against the US$: IDR 14,000–14,400**
Against 100 rupiah: JPY 0.79–0.82
Against the yen: IDR 121.95–126.58

1. Review of the Previous Month

In October, the Indonesian rupiah remained strong against the U.S. dollar toward the middle of the month. However, the appreciation of the Indonesian rupiah slowed down toward the end of the month.

On October 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 14,300 level. On the same day, the September Consumer Price Index of Indonesia was announced, and the result was +1.60%. On October 4, in the following week, the U.S. dollar/Indonesian rupiah exchange market opened at the lower-IDR 14,300 level again, after which the Indonesian rupiah continued appreciating, even though U.S. interest rates were on the rise. This is a result of the fact that resource prices were rising, which was a positive factor for the Indonesian rupiah. As Indonesia's exports are supported by commodities prices such as for coal and palm oil, the Indonesian rupiah continued appreciating, and the U.S. dollar/Indonesian rupiah exchange rate rose gradually to approach the IDR 14,200 level toward October 8—the end of the week. On October 11, in the following week, the U.S. dollar/Indonesian rupiah exchange market opened at the lower-IDR 14,200 level, after which the exchange rate remained at the same level, as there were few influential factors. On October 14, however, international direct flights were permitted to the island of Bali, and this was seen positively in the market. Then, the Indonesian rupiah appreciated against the U.S. dollar to the IDR 14,100 level. On October 15, the Indonesian rupiah reached its strongest exchange rate against the U.S. dollar in approximately eight months at the upper-IDR 14,000. On the same day, the September trade balance of Indonesia was announced, and, as was the case in August, there was a large trade surplus of USD 4.37 billion with a total export value of USD 20.6 billion, thanks to the rise of coal and palm oil prices. As a consequence, the Indonesian rupiah remained strong until the end of the week. On October 18 in the following week, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,000 level. However, the third-quarter GDP of China turned out to be weaker than the market estimate, and this led the overall Asian currencies to depreciate. Following this trend, the Indonesian rupiah also weakened, and the U.S. dollar/Indonesian rupiah exchange rate returned to the IDR 14,100 level. On October 19, the central bank of Indonesia decided to maintain its seven-day reverse repo rate—the policy interest rate of Indonesia—at 3.50%, as had been anticipated in the market. Under such circumstances, the Indonesian rupiah remained stable, trading at the upper-IDR 14,000 level against the U.S. dollar. Then, on October 21, after consecutive holidays, China issued measures (raising transaction fees and setting a limit on the number of transactions) to commodities exchanges to stop coal price appreciation based on speculation. In reaction to this, the Indonesian rupiah depreciated, and the U.S. dollar/Indonesian rupiah exchange rate returned to the IDR 14,100 level. Then, on October 22, the Indonesian rupiah continued depreciating, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 14,100 level. Toward the end of the month, demand to buy the U.S. dollar grew, which further weakened the Indonesian rupiah. On October 28, the Indonesian rupiah depreciated against the U.S. dollar to the lower-IDR 14,200 level (as of October 28).

2. Outlook for This Month

In November, the Indonesian rupiah is forecast to remain robust against the U.S. dollar.

The trade balance of Indonesia enjoys a large amount of surplus as a result of the price rise of resources such as coal and palm oil. As a result, the Indonesian rupiah continued appreciating against the U.S. dollar even when U.S. interest rates were on the rise, and this had never happened previously. As the Indonesian rupiah is a currency that consistently suffers from a current account deficit, its fragility was seen at the time of the interest rate hikes in the U.S. in 2018. At the moment, Indonesia's trade surplus is high enough to offset the current account deficit, keeping the Indonesian rupiah extremely stable. With regard to commodities prices, it is unlikely for prices to rise further, as there are some sources of concern, such as possible intervention by China in the coal market. However, it would take some time for the supply & demand balance to develop, and thus commodities prices could remain high for a while. The high commodities prices are likely to support the Indonesian rupiah in the times ahead.

The U.S. interest rates will certainly remain an important factor in the Indonesian rupiah market. As time goes by, U.S. interest rate hikes will approach. U.S. interest rates are only expected to rise and are not likely to fall, except for some temporary phrases of adjustment. Under such circumstances, it is difficult for the Indonesian rupiah to continue one-sidedly appreciating, even with high trade surplus. On the other hand, from the medium- to long-term perspective, if the trade surplus remains high, the Indonesian rupiah is not likely to depreciate. Therefore, it is unlikely for the Indonesian rupiah to depreciate sharply as was seen in 2018 at the time of previous U.S. interest rate hikes.

The situation in Indonesia related to the Covid-19 pandemic has been under control, allowing economic activities to resume properly, which is another positive factor for the Indonesian rupiah. Therefore, the Indonesian rupiah is forecast to remain robust in November.

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

Philippine Peso – November 2021

Expected Ranges **Against the US$: PHP 50.00–51.50**
Against the yen: PHP 2.200–2.300

1. Review of the Previous Month

In October, concern over inflation grew as a result of the rise of energy prices. On the other hand, the economic outlook improved, thanks to the further relaxation of movement restrictions in metropolitan Manila, and this supported the Philippine peso. Therefore, there were both positive and negative factors for the Philippine peso, and the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range between PHP 50.50 and PHP 51.00.

Energy prices have been rising, including the WTI crude oil future price, which rose to its highest level in approximately seven years, which kept the Philippine peso from appreciating. However, on October 5, the September Consumer Price Index of the Philippines was announced, and the result turned out to be 4.8%, falling below the market estimate, which was 5.1%, as well as falling below the previous month's result, which was 4.9%. As a result, the Philippine peso strengthened against the U.S. dollar. Thereafter, the Philippine stock price index exceeded the 7,000 point mark for the first time since February, and this supported the Philippine peso. Thus, the Philippine peso remained robust toward the beginning of October, after falling sharply to PHP 51.0 to the U.S. dollar at the end of September.

Also, the September employment statistics of the U.S. turned out to be weaker than expected. However, an increasing number of market participants expect the announcement of tapering in November without any change, leading U.S. interest rates to rise and strengthening the U.S. dollar against other currencies. Furthermore, the August trade balance of the Philippines turned out to be a deficit of USD 3.58 billion, recording an increase in the deficit from the previous month with a deficit of USD 3.29 billion. Negatively reacting to this result, the Philippine peso weakened against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate once reached PHP 50.90. However, economic outlook improved both domestically and internationally thereafter, thanks to the relaxation of movement restrictions, which led the Philippine peso to rally. Thus, there were both positive and negative factors in the market, and the U.S. dollar/Philippine peso exchange rate continued fluctuating without moving in any direction.

The Philippine peso was supported by capital inflow from foreign investors, as Philippine stock prices reached their highest level in the year, thanks to the improved economic outlook after the relaxation of movement restrictions in metropolitan Manila. On the other hand, the central bank of the Philippines remains cautious about measures of monetary tightening and announced its stance to maintain measures of monetary easing. Furthermore, energy prices remain high. These factors added downward pressure on the Philippine peso. Thus, from the middle of the month, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range between PHP 50.50 and PHP 50.90 without moving in any direction.

2. Outlook for This Month

From October 16, the movement restrictions in metropolitan Manila have been relaxed from level four out of five to level three out of five, and this led Philippine stock prices to rise to approach their highest level in the year, fueling expectation for a recovery of economic activities. The vaccination rate still lags in the Philippines, and there is a risk for the number of Covid-19 cases to increase again, which could result in the tightening of restrictions. However, the number of new Covid-19 cases has currently been on a decline, and the improving business confidence is a positive factor for the Philippine peso.

As the majority of market participants expect an announcement of tapering in November, the market is ready for the normalization of its monetary policy to some extent. In the liquidity-driven market, risk assets could temporarily weaken. However, it remains unlikely for the Philippine peso to depreciate sharply based on risk-averse sentiment growing in panic. On the other hand, market participants should keep in mind that the Philippine peso could potentially depreciate sharply with excessive expectation for early interest rate hikes.

The central bank of the Philippines has released an outlook stating that inflation pressure will start weakening next year and that the inflation rate will fall to the middle of the target range, which is between 2% and 4%. The central bank has thus confirmed once more that it will maintain measures of monetary easing for a while in order to prioritize economic recovery. While energy and food prices are rising, short-term concern over inflation is inevitable, strengthening downward pressure on the Philippine peso. The Philippine peso thus remains likely to depreciate against the U.S. dollar due to the difference in monetary policy between the U.S. gearing toward the normalization of its monetary policy and the Philippines maintaining measures of monetary easing. However, the Philippine peso will be supported by a recovery in economic activities as well as by stable demand for overseas remittances. For these reasons, the Philippine peso is forecast to continue depreciating slowly against the U.S. dollar in the coming month.

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

Indian Rupee – November 2021

Expected Ranges **Against the US$: INR 74.00–77.00**
Against the yen: JPY 1.48–1.55

1. Review of the Previous Month

In October, the U.S. dollar/Indian rupee exchange rate exceeded the INR 75 mark.

On September 28, the U.S. dollar/Indian rupee exchange rate exceeded the INR 74.00 level. In October, the U.S. dollar/Indian rupee exchange market opened trading at INR 74.32. Thereafter, the U.S. dollar/Indian rupee exchange rate reached INR 74.11 on October 1, and this turned out to be the monthly low. Due to concerns over rising resource prices and a lack of electricity in China affecting the supply chain, risk sentiment deteriorated in the market. After the problem of a major Chinese real estate company (Evergrande Group) and the OPEC meeting, the Brent crude oil price exceeded USD 81. In reaction, the U.S. dollar/Indian rupee exchange market opened at a level significantly higher than the INR 74.50 mark on October 5. Crude oil prices, U.S. treasury yields, and the U.S. dollar index were all on the rise. Under such circumstances, the U.S. dollar/Indian rupee exchange rate rose to INR 74.99 on October 6. Then, on October 8, the RBI (Reserve Bank of India, the central bank of India) held a monetary policy meeting and announced its decision to increase the value of variable-rate reverse repo auctions and to discontinue its government bond purchasing program. However, the reaction to this announcement was limited in the market. The U.S. dollar/Philippine peso exchange market reacted instead to the rise of crude oil prices, and the exchange rate exceeded the INR 75 level on the same day.

In the week commencing on October 11, expectations grew for inflation, as the employment statistics of the U.S. were released at the end of the previous week, revealing an increase in the average wage. As a result, U.S. treasury yields started to rise, leading the U.S. dollar/Indian rupee exchange rate to rise as well. Furthermore, a major conglomerate, Reliance Industries Limited, acquired a solar panel manufacturer in Norway for USD 771 million. Along with this deal, there was a large flow of Indian rupee-selling and U.S. dollar-buying. As a result, the U.S. dollar/Indian rupee exchange rate exceeded the INR 75.50 mark on October 12 and continued rising to reach INR 75.64—the highest rate for the U.S. dollar and the lowest rate for the Indian rupee in 15 months.

However, the consumer price index in the U.S. turned to be lower than expected, which led U.S. treasury yields and the U.S. dollar index to fall from their highest levels. As a consequence, the U.S. dollar/Indian rupee exchange rate fell below the INR 75.00 level and returned to the INR 74 level on October 20. Thereafter, crude oil prices fell from their highest levels in three years, while a major beauty retailer procured USD 710 million for its IPO. Furthermore, a major domestic bank is scheduled to sell its own stock, worth USD 160 million, leading market participants to anticipate an inflow of foreign investment funds. As a result, the U.S. dollar/Indian rupee exchange rate continued fluctuating at around the INR 75 level. At the end of the month, the U.S. dollar/Philippine peso exchange rate did not move in any direction and remained at the same level.

2. Outlook for This Month

The U.S. dollar/Indian rupee exchange rate is forecast to remain stable in November.

U.S. interest rates and the U.S. dollar index are generally expected to rise, following the shift of monetary policy in the U.S. As a result, the current depreciation of the Indian rupee is also expected to continue in the times ahead. Furthermore, 85% of crude oil demand in India is imported from abroad, and the current account deficit of India is said to rise by USD 8.5 billion each time crude oil prices increase by USD 10 per barrel. Under such circumstances, the recent sharp rise of crude oil prices strengthened downward pressure on the Indian rupee. Thus, the Indian rupee is more likely to weaken compared to other Asian currencies.

On the contrary, there are also some positive factors for the Indian rupee. Market participants are expected to buy the Indian rupee, expecting capital inflow from foreign investors along with the IPOs of domestic companies. However, this will not be enough to change the trend. Furthermore, foreign currency reserves in India were on a decline in October, and this means that the Indian monetary authorities were carrying out market interventions by selling the U.S. dollar and buying the Indian rupee. Yet, given the foreign exchange interventions carried out during the first and second waves of the Covid-19 pandemic, it is not likely for the interventions to last for a long period. It seems that the Indian monetary authorities are not intervening in the market in order to keep the exchange rate at a certain level but to mitigate violent fluctuations in the market. Thus, market participants should not wait too long for rupee-buying interventions.

As is the case in the U.S. and other major countries, India has started to plan the discontinuation of measures of monetary easing that are currently in place. More precisely, the first step would be to raise the reverse repo rate, which is the interest rate used by commercial banks when lending money to the central bank. However, there will be no monetary policy meeting scheduled in November, and thus there is no key event related to monetary policy until the beginning of the next month.

As a result, it is reasonable to expect the Indian rupee to depreciate based on the rise of crude oil prices while expecting the U.S. dollar to appreciate based on expectations for tapering in the U.S. and interest rate hikes.

This report was prepared based on economic data as of October 31, 2021.
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