Mizuho Dealer's Eye

December 2021

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – December 2021

Expected Ranges Against the yen: JPY111.50–114.50

1. Review of the Previous Month

The dollar/yen pair moved firmly until late November on inflation concerns and the FOMC's hawkish stance, though it fell sharply towards the month's end on new Covid-19 fears.

The pair opened the month trading at the lower-114 yen mark on November 1. Yen buying was prompted by the movements of the Australian dollar on November 2 after the RBA board meeting turned out to be more dovish than expected, with the dollar/yen pair dropping below 114 yen. The FOMC formally announced the commencement of tapering when it met on November 3, but FRB chair Jerome Powell then made some dovish comments about rate hikes, so the pair moved without a clear sense of direction. There had been rising expectations for a BOE rate hike, but the BOE then struck an unexpectedly dovish tone, so European interest rates fell on November 4 and this also impacted US interest rates. The US then released some broadly strong employment data on November 5, but US interest rates continued sliding and there were also position adjustments ahead of the weekend, so the pair weakened to the lower-113 yen level.

The pair temporarily fell to a monthly low of 112.73 yen on November 9 as stock markets moved bearishly, but the US then released some stronger-than-expected October CPI data on November 10, so the pair began rising again to rally to the 114 yen range. However, the pair then dropped back to the 113 yen range on November 12 on the weak results of the University of Michigan's US consumer sentiment index for November.

The pair soon bounced back to the 114 yen range on November 15 on the better-than-expected result of the NY FRB Manufacturing Index for November. A US/China heads-of-state meeting passed smoothly on November 16. With the US also releasing some better-than-expected October retail sales data during US trading time, the dollar was bought against a number of other currencies. This trend spilled over into November 17, with the dollar/yen pair's topside extending to just below 115 yen, though its topside grew steadily heavier as it approached this psychologically-important level. With US interest rates and crude oil prices also falling, the pair dropped back to right around 114 yen. The yen was bought on November 19 on headlines related to lockdowns in Europe, with the currency pair dipping to the mid-113 yen mark.

US interest rates soared on November 22 after FRB chair Jerome Powell was renominated. The dollar/yen pair also rocketed to just below 115 yen. With Tokyo on holiday on November 23, the pair topped 115 yen as the previous day's trend continued. The pair floated around 115 yen for a time thereafter. The US then released several bullish economic indicators on November 24, including the October personal income data. With the FOMC minutes also striking a hawkish tone, the dollar/yen pair's topside rose higher, with the pair temporarily hitting a yearly high of 115.52 yen. With the US on holiday on November 25, the pair's movements were subdued, though risk aversion then intensified on November 26 on the discovery of a new Covid-19 variant in South Africa. The yen was bought against several currencies, with the dollar/yen pair falling to around 113 yen for a time. The pair continued trading in the 113 yen range on November 29. Amid a flurry of news about the new Covid-19 variant, the pair did not make any sharp movements and it continued to move in the 113 yen range as of November 30.

2. Outlook for This Month

The dollar/yen pair is expected to trade with a heavy topside in December.

For now the focus will fall on the economic impact of the new Covid-19 variant discovered in South Africa. The main themes of the markets these past few months have been inflation concerns and central bank monetary policy movements, with Covid-19 attracting less attention, but movements toward the end of November suggest investors are focusing once again on the impact of Covid-19 on the markets. There was some sharp yen buying at the end of November. Some observers say this was due to risk aversion, with the dollar also weighed down as many investors closed out their profitable cross-yen short positions around the time of the US Thanksgiving holiday towards the month's end, but this trend was also prompted by concerns about an economic slowdown as Japan and other countries moved swiftly to close their borders to foreigners. Buy-backs after the fall were also limited, with the pair's topside likely to be held down as the yen continues to be sought as a refuge currency.

Only a few days have passed since the new variant was discovered, so the data is unclear at present. From here on, though, the currency pair is likely to be swayed by headlines related to the variant's spread in each country, the impact of existing vaccines, and the development of new vaccines, for example. With liquidity set to steadily dry up toward the year's end, there could be some sharp movements, so investors should keep an eye on headlines.

The FRB's stance toward rate hikes should also be watched this month too. Infections continue to increase in Europe and elsewhere, with uncertainty about the economic direction growing on the back of concerns about the new variant. With inflation remaining at high levels in the US and several indicators pointing to the bullishness of the jobs situation, it seems the FRB might hike rates earlier than originally expected, but the authorities will find it hard to announce any bold policies or statements until the impact of the new variant becomes clearer. Investors should pay attention to this month's FOMC meeting and FRB chair Jerome Powell's subsequent press conference, but if it seems the FOMC will incline in a dovish direction on Covid-19 concerns, the prevailing trend of dollar bullishness might end.

Dealers' Market Forecast

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

Bullish on the dollar	12 bulls	115.50 – 112.00	Bearish on the dollar	8 bears	115.00 – 111.50

* Ranges are central values

Tanaka	Bear	115.00 – 111.50	The spread of the Omicron variant will hopefully be kept in check by the swift reaction of each country, though time will be needed. The variant will probably hit supply, with inflationary concerns also set to rise, so the dollar/yen pair will probably float unstably while facing downside risks from uncertainty about the future.
Yano	Bull	115.50 – 112.50	Though the dollar/yen pair will be pushed down by concerns about the spread of the Omicron variant, market apprehension should be reined in provided US fundamentals don't deteriorate sharply or expectations for rate hikes don't wane. The pair's topside will be weighed down in the short-term, but the trend of yen bearishness looks set to continue.
Tsutsui	Bull	118.00 – 112.50	It is hard to gauge the direction of the economy given the emergence of a new Covid-19 variant. Investors will probably shrink their existing positions toward the month's end, with the dollar likely to move bearishly at the start of the month. However, this excessive response will see the greenback rising after Christmas.
Ito	Bear	115.50 – 111.00	The dollar will probably move firmly as the US authorities steer towards US monetary policy normalization. However, there are concerns about the spread of a new Covid-19 variant and it is still too early to gauge the economic impact of this variant. If the situation gets worse, the dollar/yen pair might fall sharply.
Yamagishi	Bull	115.50 – 111.00	The dollar/yen pair will move firmly on monetary policy normalization by the FRB. If the impact of the Omicron variant is muted, the pair will probably rise again. However, the markets have already priced in more than two rate hikes in 2022, so the pair will only have limited room to rise beyond its recent high of 115 yen.
Ushijima	Bear	115.50 – 112.00	The dollar/yen pair moved in a 'Goldilocks phase' thanks to the provision of ample liquidity by central banks, with investors going long on risk assets (stocks, etc.) and short on the yen, but this trend will probably undergo some adjustment toward the year's end. The pair will probably move with a heavy topside in the short term.
Omi	Bear	115.50 – 112.50	The dollar has continued to move bullishly on expectations that the FRB will start tapering, but the dollar will probably see some adjustive selling this month. Amid concerns about Covid-19 and with the Christmas holidays looming, investors will refrain from buying the dollar further.
Ueno	Bull	115.00 – 112.50	There are concerns about the spread of Covid-19 and the new variant, but the impact on the financial markets has been limited so far. When excessive concerns wane, the dollar/yen pair will probably swing back from its sharp fall.
Yamaguchi	Bear	115.00 – 111.00	It seems more likely the FRB will remain in easing mode given the spread of the Omicron variant. Unless expectations for rate hikes rise around the turn of the year, the trend of dollar bullishness will continue to face adjustment.
Kai	Bear	114.50 – 111.50	The markets will remain in risk-off mode on headlines related to the Omicron variant. Though there are still expectations for an FOMC rate hike, the FOMC is unlikely to accelerate its timeframe given the lingering concerns about the spread of the Omicron variant and so on.
Onozaki	Bear	115.00 – 110.00	The dollar/yen pair has risen on expectations for rate hikes, but uncertainty has risen on the Omicron variant, with inflationary concerns set to wane on falling crude oil prices, so expectations for rate hikes in 2022 will not rise as high as originally envisaged. The pair's topside will be held down by speculation that rates will be hiked at a slower pace.
Tamai	Bull	116.00 – 112.00	Despite concerns about the Omicron variant, the impact will be short-lived provided the US does not introduce tough measures like lockdowns, with the greenback set to remain bullish on early US tapering.

Harada	Bull	116.00 – 112.00	There is growing uncertainty about inflation on the back of growing concerns about the new Omicron Covid-19 variant. However, economic activity remains bullish in the US, so the direction of monetary policy is unlikely to shift. As such, the dollar/yen pair will continue moving firmly this month.
Oba	Bull	115.00 – 112.75	Concerns about an economic slowdown grew on news about the Omicron variant, with the greenback sold at times, though the dollar/yen pair regained composure and rallied at the end of November on reports about mild symptoms. Expectations for rate hikes waned for a time, but as the big picture becomes clearer, expectations will probably rise again, with the dollar also strengthening.
Katoono	Bull	116.00 – 111.50	The dollar/yen pair will be swayed be headlines about new Covid-19 variants, though disruption will probably be short-lived if the experience of overcoming the delta variant is anything to go by. If the fundamentals rally and expectations for early rate hikes rise again in the run up to the FOMC meeting mid-December, the dollar/yen pair's topside will probably edge higher.
Kobayashi	Bull	116.00 – 112.00	The dollar/yen pair is undergoing some temporary bearishness on uncertainty related to the new Omicron variant of Covid-19, but the dollar will probably be bought on expectations for tapering on inflationary concerns and FRB chair Jerome Powell's renewed term.
Henmi	Bull	115.00 – 112.00	There is renewed uncertainty on the emergence of a new Covid-19 variant. There could be some risk-off yen buying in the short-term, but the US remains in the lead when it comes to an economic recovery and monetary policy normalization, so the dollar will gradually grow stronger.
Otani	Bull	115.50 – 112.00	The markets have switched into risk-off mode on the spread of the Omicron variant, but if the variant's transmission or fatality rate is kept in check, the pair will probably test 115 yen again. The US also looks set for a bumper Christmas shopping season, with the dollar/yen pair's downside also likely to be supported by expectations for accelerated tapering.
Suzuki	Bear	114.50 – 111.50	Uncertainty about the global economy has grown on the emergence of a new Covid-19 variant. The authorities will probably stick to their current tapering stance until the impact on the economy becomes clearer, with dollar bullishness set to ease off. There will also be considerable appetite for the yen as a refuge currency, so the dollar/yen pair will trade with a heavy topside.
Okuma	Bull	115.00 – 112.00	The Omicron variant has surged to prominence as a worrisome factor, but the US is still plagued by concerns about high inflation, so investors are still expecting rate hikes to be lifted at a faster pace. There will be some short-lived risk-off yen buying, but the dollar/yen pair looks set to move firmly overall.

Tomohisa Ueno, Forex Sales, Global Markets Sales Department

Euro – December 2021

Expected Ranges **Against the US$: US$1.1100–1.1500**
Against the yen: JPY126.00–130.00

1. Review of the Previous Month

In November, the euro/dollar pair temporarily hit its lowest level since July 2020.

After opening the month trading at the mid-$1.15 mark on November 1, the pair climbed to the lower-$1.16 level as the euro was bought on bullish European stocks and falling US interest rates. However, it then dipped to the upper-$1.15 level on November 2 on bearish European and US stock movements and the weak results of the eurozone Manufacturing PMI for October. FRB chair Jerome Powell struck a dovish tone after the FOMC meeting, while rising stock prices led to dollar selling on risk appetite, so the pair rallied to a monthly high of $1.1616 on November 3. The pair hit a $1.1616 again during early trading on November 4, though it failed to top this level. It then plunged to the lower-$1.15 mark on unwinding. The greenback was bought for a time on November 5 on the better-than-expected results of the US employment data, though the pair rallied slightly toward the close of trading. In the following week, the pair moved bearishly around the mid-$1.15 level on November 8, though it then climbed to the upper-$1.15 mark as US long-term interest rates fell and FRB vice chair Richard Clarida voiced caution about rate hikes. The pair hit the $1.16 range again on November 9 amid dollar selling, though its then weakened over the latter half of the week.

On November 10, the currency pair crashed to the upper-$1.14 level on the strong US October CPI data and rising US long-term interest rates. Amid a US holiday, the pair continued moving with a heavy topside at the mid-$1.14 level on November 11. The greenback was sold on some weak US indicators on November 12, so the currency pair bounced back slightly, though it eventually dropped back to the mid-$1.14 level. It then plummeted to the mid-$1.13 range on November 15 on the bullish result of the NY FRB Manufacturing Index for November, with the pair also weighed down by rising US long-term interest rates. The trend of dollar buying spilled over into November 16, with the pair's downside then sliding to the lower-$1.13 mark on the bullish results of several US economic indicators. The pair then rallied to the upper-$1.13 level over November 17–18 on position adjustments and a bullish euro/yen pair, though it then fell to the mid-$1.12 level on November 19 as the euro was sold on news about lockdowns following a surge of Covid-19 cases in Europe. On November 22, President Biden renominated FRB chair Jerome Powell .The greenback was bought as uncertainty about US monetary policy waned, so the euro/dollar pair was pushed down to the lower-$1.12 mark.

An ECB official voiced concerns about rising inflation on November 23. With Europe also releasing some healthy economic indicators, the pair climbed to the upper-$1.12 level. This momentum was short-lived, though. The greenback saw more buying after the US released a generally-strong indicator on November 24, so the currency pair dropped below $1.12 to hit a monthly low of $1.1186. With the US on holiday on November 25, the pair moved with a lack of momentum at the lower-$1.12 level. The dollar was then sold and the pair rallied to the lower-$1.13 level on November 26 on concerns about the spread of a new Covid-19 variant detected in the South Africa. The dollar was bought back on November 29, so the pair dropped back to the mid-$1.12 range for a time. Cases of the Omicron variant were then detected in Europe, though the pair's reaction was muted and it moved from the mid-

$1.12 level to around $1.13 on November 30.

2. Outlook for This Month

The euro/dollar pair will move with a lack of incentives overall in December, though investors should be on guard against downside risk.

The Covid-19 situation is the first thing to watch when trying to gauge the pair's movements. Winter is coming, with Covid-19 cases spreading across Europe. With infections hitting record highs in several European nations, Austria has instituted a nationwide lockdown, with other countries also examining new restrictions. The WHO named Omicron a variant of concern on November 26 and it said the variant showed signs of being highly transmissible.

News has recently emerged that Omicron might be less harmful than other variants, so new lockdowns seem unlikely. With Moderna also announcing it might be able to provide an effective vaccine for Omicron early next year, excessive pessimism and concerns are waning. Nonetheless, any quantitative analysis will require time, with further observation required to see how the situation develops. Europe sits alongside Africa as the center of the Omicron wave. If risks grow more apparent, funds might flow out of Europe (with the euro/dollar pair falling as a result).

The ECB Governing Council is set to meet on December 16. The Council hinted it might wind down the Pandemic Emergency Purchase Programme (PEPP) when it met last time. Though Covid-19 continues to sweep Europe, economic indicators and so on are moving relatively strongly. With uncertainty about the economic outlook growing on headlines about new variants, the Council might tweak the direction of monetary policy slightly, but such a move would be justified given the currency situation, so the impact of the markets would probably be muted.

Liquidity usually drops off in the currency markets in December, with this trend likely to grow more pronounced toward the year's end this month too. Markets will move with a lack of incentives for prolonged periods when liquidity falls (provided nothing else happens). In November, the dollar/yen pair broke below the key $1.12 mark around Thanksgiving, though it has bounced back slightly, in part due to a widespread sense of achievement in the markets. Providing there are no major surprises when it comes to the Covid-19 situation or ECB movements, the pair will move with a lack of incentives in December, with investors likely to refrain from any active buying overall amid falling liquidity.

Dealers' Market Forecast

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

Bullish on the euro	1 bull	1.1500 – 1.1200	Bearish on the euro	19 bears	1.1500 – 1.1050

* Ranges are central values

Tanaka	Bear	1.1500 – 1.1000	Europe has been hit by a surge in Covid-19 cases and the emergence of the Omicron variant. The euro/dollar pair will continue to move with a heavy topside as Europe’s economy is hit hard, with the pair also buffeted by the divergent monetary policies of the EU and Europe.
Yano	Bear	1.1400 – 1.0900	The euro/dollar pair will continue to move bearishly on growing concerns about an economic slowdown as lockdowns are extended on the spread of the Omicron variant. Attention will be focused on whether the ECB winds down the Pandemic Emergency Purchase Programme (PEPP) as planned in March 2022. If the program is extended, the pair will weaken on a round of disappointed selling.
Tsutsui	Bear	1.1400 – 1.1000	The euro/dollar pair’s downside will edge lower on the impact of new Covid-19 variants and the Chinese economic slowdown.
Ito	Bear	1.1500 – 1.1100	The pair is likely to continue trading with a heavy topside given the ECB’s dovish stance and the FRB’s hawkish inclinations. However, the euro is underperforming at present, so the pair could rise at times if the impact of the new Covid-19 variant grows.
Yamagishi	Bear	1.1500 – 1.1100	In December, the ECB is expected to outline a new framework for after the PEPP ends in March 2022. With Covid-19 cases hitting record highs and mobility restrictions being tightened in Europe, the ECB will probably adopt the dovish stance of tapering at a gentle pace, with the euro set to move bearishly as a result.
Ushijima	Bear	1.1450 – 1.1000	The ECB has adopted a more negative stance toward inflationary countermeasures compared to the FRB. With concerns about Covid-19 also rising again, the euro/dollar pair looks set to continue trading with a heavy topside.
Omi	Bull	1.1500 – 1.1200	Euro bearishness will ease off on some adjustive dollar selling. The euro will continue to trend lower overall, but the euro/dollar pair will probably be bought back on adjustive dollar selling this month ahead of the Christmas holidays, for example.
Ueno	Bear	1.1500 – 1.1100	The euro/dollar pair will move with a lack of incentives on the whole, though there could be some downside risk.
Yamaguchi	Bear	1.1500 – 1.1000	There are concerns that the European economic recovery might slow on a resurgence of Covid-19, so the ECB will probably stick to its easing stance. Coalition talks are also underway in Germany, while France is scheduled to hold a presidential election in 2022, so the euro look set to move bearishly as investors focus on political risk.
Kai	Bear	1.1400 – 1.1100	The number of Covid-19 cases continues to expand in Europe. There are also concerns about further infections due to the Omicron variant. As such, it seems certain the ECB will decided to extend the timeframe of the PEPP. The stances of the ECB and FRB are growing more divergent, so euro selling looks set to continue.
Onozaki	Bear	1.1500 – 1.1000	The euro/dollar pair will move with a heavy topside on concerns about the spread of Covid-19 in Europe. However, there will probably be some buying at just below $1.10, so the pair’s room on the downside will be capped.
Tamai	Bear	1.1500 – 1.1000	The spread of Covid-19 remains a concern in Europe, while the ECB’s monetary policy is quite dovish compared to the FRB, so the euro/dollar pair is expected to move bearishly.
Harada	Bear	1.1550 – 1.1050	The ECB is unanimous in its opinion that rising inflation is just a transitory factor. There are also growing concerns about the new Omicron variant. As such, ECB monetary policy looks set to remain accommodative. The euro will continue to move bearishly.

Oba	Bear	1.1400 – 1.1200	The euro/dollar pair is expected to move bearishly. Covid-19 cases are surging again in Europe. New variants have also been detected, with the European economic recovery likely to be delayed. The ECB will also lag behind the FRB when it comes to the normalization process, with the pair likely to face downside risk on these divergent policies.
Katoono	Bear	1.1500 – 1.1150	New Covid-19 variants are spreading throughout Europe and the economy will face headwinds as lockdowns are reintroduced. As such, its seem the ECB would be right to continue easing for now. The euro/dollar pair will continue to trade with a heavy topside on the divergence policy stances of the US and Europe.
Kobayashi	Bear	1.1500 – 1.0800	Covid-19 cases continue to surge in Europe, with the economy stalling on lockdowns and so on. The ECB also remains more dovish than the FRB when it comes to monetary policy, so the euro/dollar pair will continue to move bearishly this month.
Henmi	Bear	1.1500 – 1.1100	The euro/dollar pair will move bearishly on the divergent monetary policies of the US and Europe. The pair's topside will also grow heavier as major countries reintroduce lockdowns in the face of new Covid-19 variants.
Otani	Bear	1.1450 – 1.1050	The number of Covid-19 cases are surging across Europe's major nations, with the euro set to continue moving heavily on concerns about an economic slowdown as mobility restrictions are tightened. The ECB is likely to continue easing given the deteriorating Covid-19 situation, with the euro/dollar pair set to trade with a heavy topside.
Suzuki	Bear	1.1400 – 1.1100	The Covid-19 situation remains fraught and there are also concerns about a new variant. Lockdowns and other restrictive measures might be introduced by each country going forward. With the ECB also remaining in dovish mode, the euro/dollar pair is likely to continue trending lower.
Okuma	Bear	1.1550 – 1.1250	Europe has been hit by a surge in Covid-19 cases and the emergence of a new variant, with a number of areas introducing lockdowns. As such, investors are focusing on the possibility of a European economic slowdown. The euro will also be sold off during phases of risk aversion, with the euro/dollar pair set to move bearishly this month.

Hidetoshi Honda, Europe Treasury Department

British Pound – December 2021

Expected Ranges **Against the US$: US$1.3000–1.3500**
Against the yen: JPY148.50–154.50

1. Review of the Previous Month

In November the pound fell against the dollar and the yen.

The financial and foreign exchange markets were swayed by three major trends during this time: (1) speculation about the timing of the first FRB rate hike; (2) a resurgence of Covid 19 cases and lockdowns, turmoil on the discovery of a new variant, and the major impact of all this on the pound; and (3) speculation about rate hikes by the Bank of England (BOE).

As for (1), the US released a series of better-than-expected economic indicators in November, including the October employment data (released November 5), CPI data (November 10) and retail sales figure (November 16). This led to rising expectations for earlier rates hikes and this was read as a factor pushing the dollar higher. Furthermore, Jerome Powell was renominated to serve as FRB chair on November 22. This move was expected, but it was seen as a signal that rate hikes might be accelerated (compared to the scenario if a dove like FRB board member Lael Brainard had been selected), so this was also read as a factor pushing the greenback higher.

With regards to (2), Europe saw a resurgence of Covid-19 cases last month, with Austria announcing on November 19 that it would be implementing a nationwide lockdown effective from November 22. The yen subsequently rose on risk aversion. European stocks only saw mild selling on this risk aversion, with the yen's rise also capped and short-lived, but the situation then flipped when news emerged on November 24 that South Africa had discovered a new Covid-19 variant. European stocks fell sharply and global stocks also followed suit, with November 19's trend of yen bullishness and emerging-currency bearishness then returning with a vengeance.

As for (3), speculation about early BOE rate hikes (a factor on the pound's side) soared after BOE governor Andrew Bailey commented on October 10 that the BOE needed to take steps to prevent high inflation from taking permanent hold, with investors then split over whether the BOE would keep policy fixed or introduce a 15bp rate hike when it met to set policy on November 4. In the end, the BOE kept the base rate fixed at 0.10%. In contrast to the forecast of economists, though, the UK short-term futures market had essentially prices in a 15bp rate hike, so sterling subsequently plummeted on a sense of disappointment.

The pound's fall against the greenback from November 4 until the end of the month could be regarded as the flipside movement to the dollar's bullishness on (1) anticipation for accelerated FRB rate hikes. Also, the pound/yen pair's sharp falls on November 19 and November 26 was probably the result of risk-evasive yen bullishness.

Other factors include a comment by ECB president Christine Lagarde on November 15 about how it was very unlikely that rate hikes would commence in 2022. This comment saw the euro moving bearishly across the board. Sterling also strengthened against the euro, but it also moved strongly against the yen and even the dollar. This seemed proof that the pound stood side to side with the dollar as a currency susceptible to speculation about rate hikes in the near future.

2. Outlook for This Month

Sterling looks set to move bearishly in December, particularly against the dollar. This prognosis is based on four suppositions: (1) The BOE deciding not to hike rates in December, (2) the spread of new Covid-19 variants (Omicron), (3) no improvements when it comes to relations between the UK and France (and the rest of Europe), and (4) concerns growing that the pound will be weighed down further by rising uncertainty about the UK political situation.

As for (1), investors will need to pay attention to FRB moves regarding early rate hikes. However, the potential timing of rate hikes has already been accelerated from the end of 2022 to mid-2022 (or 2Q 2022 at the earliest), so it seems unlikely the timing will be accelerated further in the near future. The first quarter of 2020 is nearly upon us, so a 1Q rate hike will seem like a pipe dream unless several FRB officials express the opinion that the economy could be recovering even faster than expected. In the UK, meanwhile, some BOE officials had made some hawkish noises about rate hikes, so there was a slight sense of disappointed when the November BOE Monetary Policy Committee (MPC) meeting decided to keep rates fixed by a clear seven votes to two. The BOE has also indicated that a cautious stance will be required when it comes to (2) too.

With regards to (3), relations between London and Paris are very strained at present. The two sides are squabbling over fishing rights in UK seas (around Jersey and so on), for instance, while there are disagreements about how to handle immigrants trying to cross the Channel from France to the UK by boat. This is not a bilateral dispute either. Tensions between the UK and the EU in general might flare up if the UK decides to unilaterally shelve the Northern Ireland Protocol (governing trade between Northern Ireland and the UK mainland) by invoking Article 16. If this happens, it could leave the UK's trade deal with the EU in tatters.

Factor (4) is intimately connected to factors (2) and (3), with voices within the ruling Conservative Party starting to question UK prime minister Boris Johnson's leadership abilities. A key turning point came in the first half of November when an independent parliamentary committee suspended a Tory MP for breaching parliamentary standards that ban lobbying for money. In the event, the government tried to change the rules of the standards watchdog in order to protect the suspended MP (this attempt was eventually abandoned after the MP in question resigned). This was following by a series of scandals. It was also revealed that another Tory MP had been working as a lawyer while serving as an MP, for example, while Mr. Johnson was filmed sitting maskless next to the 95-year-old Sir David Attenborough at the COP26 meeting. On November 28, meanwhile, the government made mask wearing compulsory in public spaces and schools. As has been the case in Austria and Holland, for example, though this move was forced upon the UK government, the reintroduction of Covid-19 countermeasures has proved very unpopular with some voters. There are also a growing number of voices criticizing the Johnson administration's handling when it comes to (3) also. With the UK economy and the pound facing the aforementioned headwinds, it seems sterling will be a hard currency to buy in December.

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

Australian Dollar – December 2021

Expected Ranges **Against the US$: US$0.6900–0.7500**
Against the yen: JPY78.00–85.00

1. Review of the Previous Month

The AUD/USD pair fell from the lower-$0.75 handle to the upper-$0.70 level in November.

The RBA kept its policy rate fixed at 0.1% and it scrapped YCC when it met on November 2. However, it also said it would take time before the conditions for a rate hike were met, so market expectations for an early rate hike waned, with the pair falling to $0.7420. On November 3, the FOMC announced it would start tapering from November, though it insisted this did not mean a rate hike was around the corner. The greenback fell and US stocks renewed record highs. The pair subsequently rebounded to the mid-$0.74 level. Australia released a worse-than-expected October trade balance on November 4. With resource price also sliding, the pair weakened to the upper-$0.73 handle. On November 5, the RBA outlined a cautious stance toward rate hikes in its Quarterly Report. With the greenback also being bought on the strong results of the US employment data for October, the currency pair fell to around $0.7360.

The pair then tumbled from the $0.74 range to the $0.72 range during the second and third weeks. It slid to $0.7277 on the firm US October CPI result and the weak Australian October employment data, though it then rallied to $0.7370 on a bullish Chinese economic indicator. On November 16, RBA governor Philip Lowe commented that "the latest data and forecasts do not warrant an increase in the cash rate in 2022." The markets had priced in a 2022 rate hike, but Mr. Lowe indicated this was not likely. With the US October retail sales figure also significantly beating market expectations, the greenback was bought and the pair broke below $0.73. On November 19, risk aversion rose as lockdowns were introduced in some European cities, with the pair dropping to $0.7228 as a result.

The pair fell from the lower-$0.72 handle to the lower-$0.71 level in the fourth week on concerns about slowdown of economic recovery on the spread of Covid-19 in Europe. Crude oil was sold on November 22 after US President Biden signaled his intention to release oil from the Strategic Petroleum Reserve while calling on other nations to make similar moves. The Australian currency was weighed down in its capacity as a commodity currency, with the pair tumbling to the lower-$0.72 level. A release did take place on November 23, but this releasing volume was smaller than expected. With the fact that amount of oil released needs to be replaced at a future, crude oil prices rose. The Australian dollar's downside was also supported when an Australian PMI for November pointed to economic expansion. As expected, the RBNZ raised its policy rate by 0.25% to 0.75% on November 24. However, the markets had broadly priced in a 25bps rate hike, so the New Zealand dollar was subsequently sold, with the AUD/USD pair also pulled below $0.72. The pair then hit a low of $0.7180 amid thin trading during the US Thanksgiving holiday on November 25. Cases of the new Omicron variant were also detected in Asia on November 26, so Asian stocks moved heavily. US 10-year treasuries were then bought on concerns about an economic slowdown, with yields breaking below 1.47%. The currency pair subsequently fell to $0.7113. The Australian October retail sales data pointed to the strength of the economic recovery, but with concerns smoldering about the new Covid-19 variant, the reaction of the markets was muted.

In the fifth week, the pair dropped below $0.71 when Moderna said existing vaccines might not be so effective against the Omicron variant. Stocks then fell when FRB chair Jerome Powell said the FRB should examine tapering at a faster pace when it next met to set policy, with the currency pair also sliding to a year low of $0.7063.

2. Outlook for This Month

The Australian dollar looks set to move heavily in the first half of December.

Economic indicators have pointed to a robust Australian economic recovery after lockdowns were lifted in each state. As RBA governor Philip Lowe reiterated several times last month, though, the RBA believes more time will be needed before the conditions for a rate hike are met. However, it will require data from several quarterly consumer price reports before the authorities will be able to say with confidence that the CPI data is moving sustainably between 2–3%, with several sets of employment data also required. Even if some new indicators point to the strength of the economic recovery this month, it is hard to imagine the RBA suddenly shifting monetary policy in a hawkish direction. The Omicron variant swept the globe from the end of November and it will continue to pose a risk this month. Market attention will focus on mobility restrictions, the seriousness of symptoms, and the development and rollout of highly effective vaccines. Until things grow clearer, risk will remain and sentiments will worsen on uncertainty about the future, with the AUD/USD pair set to move heavily. There are also growing concerns that the economy recovery might stall. If several regions reintroduce lockdowns, this will throw supply chains into confusion with the number of labor participants likely to fall as the employment climate (a factor closely monitored by central banks) deteriorates.

When FRB chair Jerome Powell testified before the US Congress on November 30, he said it was probably a good time to retire the word 'transitory' when referring to high inflation. He also the FRB would also discuss accelerating tapering at its next meeting. Amid deep uncertainty related to the Omicron variant, these more-hawkish-than-expected comments served to spur on market expectations for an early rate hike. If the FOMC does decide to accelerate the pace of tapering when it meets this month, the greenback will be bought and stocks sold, with the AUD/USD pair likely to fall further. The US November employment data will be released at the end of the first week in December and it will probably confirm that the jobs climate is steadily improving. Risk aversion has led investors to seek refuge in the yen and Swiss franc, so it would not be surprising if the AUD/JPY pair fell below its October low of around 79.90 yen.

Reiko Kanemoto, Canada Office, Americas Treasury Department

Canadian Dollar – December 2021

Expected Ranges **Against the US$: C$1.2400–1.3000**
Against the yen: JPY86.00–92.00

1. Review of the Previous Month

The USD/CAD pair opened November trading at C$1.2385. It hit a monthly low of C$1.2352 on November 1 and a monthly high of C$1.2792 on November 26.

As expected, the FOMC kept policy rates fixed when it met over November 2–3, though it decided to begin tapering from November. The accompanying statement maintained that high inflation was transitory, with the FRB also stating it would not begin hiking rates until tapering came to an end. The currency pair fell slightly after the announcement, though the impact on the currency markets was limited. Crude oil prices (WTI) fell to $78/barrel on November 4 on news about rising Saudi Arabia oil output. Though the currency pair had dipped to C$1.23 after the FOMC meeting, it now climbed into the C$1.24 range. Canada's October employment data was released on November 5, with the number of people in work rising by +31,000. Though this was below forecasts, it still represented the fifth straight month of jobs growth, with the unemployment rate also falling from 6.9% to 6.7%. The US employment data was released on the same day. At +531,000, the nonfarm payrolls figure was up substantially on expectations. The previous month's figure was also revised upwards, while the unemployment rate fell from 4.8% to 4.6%. US long-term interest rates then soared when the US released some stronger-than-expected CPI data for October. The USD/CAD pair fell directly after the CPI announcement. However, amid growing expectations that the US government and the FRB would take moves to tackle rising prices, risk assets were sold off and crude oil futures also fell sharply, so the Canadian dollar was sold and the currency pair rose to C$1.25.

OPEC's monthly bulletin was released on November 11, with the petroleum demand forecast for 4Q 2021 downgraded. With concerns also growing about accelerated US rate hikes, WTI moved around $80/barrel until November 16, with the USD/CAD pair moving broadly around C$1.25–C$1.26. Canada's October CPI data was released on November 17. The data was up on the previous month, with overall CPI rising by +4.7% y-o-y and +0.7% m-o-m, though these results were broadly in line with expectations. Some observers has been expecting Canada to follow the US in posting strong inflation, so the Canadian dollar was sold at a faster pace after the announcement, with the currency pair also climbing to C$1.26. WTI dipped to $75/barrel on November 19 on a resurgence of Covid-19 cases in Europe, with WTI also hit by concerns that the US and other countries might release reserves to hold down oil prices. This trend spilled over into the next week, with the currency pair hitting C$1.27 on November 22. On November 23, the US announced it would be releasing oil reserves in coordination with Japan, China, South Korea and the UK. WTI fell slightly thereafter, but the release was not as large as expected, so oil prices then rose to $78/barrel. Risk aversion prevailed on November 26 after a new Covid-19 variant was discovered in South Africa. Stocks fell sharply across the globe and WTI dipped below $70/barrel, with the USD/CAD pair closing at C$1.2792.

2. Outlook for This Month

The USD/CAD pair is expected to move between C$1.24–C$1.30 in December.

The Bank of Canada (BOC) will be meeting to set policy on December 8, with the FOMC meeting on December 14–15. The BOC has said it will start hiking rates some time between April and September next year, with the markets expecting the first rise to take place in March. The FOMC began tapering in November and the focus will now be on whether it accelerates the pace of tapering. However, the global economy looks set to slump again on the spread of the new Covid-19 variant, so countries across the world might delay policies aimed at monetary policy normalization. The Covid-19 situation also seemed to have calmed in Canada, with jobs, the labor market and consumer spending recovering and the economy entering a growth phase, but the spread of the new variant will probably act as a negative factor for economic activity, which had been increasing as the economy recovered. With regards to inflation, though the CPI continued to rise, the average of the three measures for core inflation stood at an annualized +2.67% (same as the previous month) while common component CPI (the BOC's most closely-watched indicator) hit +1.8% y-o-y, with inflation remaining below the 2% target. When it meets in December, the BOC is unlikely to shift policy substantially compared to when it met in October. With global crude oil demand slowing and OPEC Plus and the US expected to ramp up production, bodies like OPEC and the US Energy Information Administration (EIA) are expecting there be an oversupply in the mid- to long-term, with crude oil prices likely to trend lower as a result. With the US also pursuing initiatives to keep petroleum prices in check and with a new Covid-19 variant sweeping the globe, it is hard to imagine crude oil prices rising sharply. As such, they will probably move around $70–80/barrel over December. The BOC is expected to lift rates before the FRB, but if expectations grow for an early US rate hike, the Canadian dollar will probably weaken against the greenback. WTI prices are also falling on the spread of the new Covid-19 variant. Risk aversion is also likely to linger on uncertainty about the impact on monetary policy and the economic forecast. As such, the US dollar is likely to continue trading with a slight bullishness going forward, with the USD/CAD pair set to trade between C$1.24–C$1.30 in December.

Ryosuke Kunimasa, Seoul Treasury Office, East Asia Treasury Department

Korean Won – December 2021

Expected Ranges **Against the US$: KRW 1,170–1,220**
Against the yen: JPY 9.346–9.804 (KRW100)
(KRW 10.200–10.700)

1. Review of the Previous Month

The USD/KRW pair rose in November.

It began the month trading at KRW1173.5 on November 1. Stocks were sold at the start of the month as overseas investors adjusted their positions. The greenback was also bought as interest rates fell in the US and major European nations after the Reserve Bank of Australia (RBA) and the Bank of England (BOE) kept policy rates fixed. The USD/KRW pair moved firmly to hit KRW1.187.6 for a time.

The dollar weakened the following week as US long-term interest rates fell on November 8. The greenback was then bought as overseas investors sold South Korean stocks. The dollar was bought further on November 11 after the US October CPI data posted strong growth, though its topside was capped by selling among exporters when the pair topped KRW1185, with the pair moving to and fro between KRW1175 and KRW1187 over the week.

The pair opened November 15 trading at KRW1181.0. It then jostled up and down as the dollar was bought on real demand and the won was bought on bullish stocks and improved fundamentals. Overseas investors then bought South Korean stocks on November 16, though. With the RMB also moving bullishly ahead of a US/China heads-of-state meeting, the USD/KRW pair temporarily weakened to KRW1175. However, it was bought on the dip at this level and its losses were pared back toward the close of trading, with the pair eventually hitting KRW1180 again. It then climbed to KRW1186 on November 17 after the US released a better-than-expected October retail sales figure and October industrial production result. Its gains were pared back for a time by selling among exporters. However, the US released some more bullish indicators (including the Manufacturing ISM Report on Business) toward the weekend. Amid speculation about early US rate hikes, the dollar strengthened and the currency pair closed at KRW1185.3, with the greenback moving firmly throughout the week.

The dollar then rose on risk aversion as Covid-19 swept the globe again, with the currency pair opening the month beginning November 22 trading at KRW1190.5. The pair edged lower thereafter on won buying as overseas investors bought South Korean stocks. However, US interest rates rose on November 22 after Jerome Powell was renominated to serve as FRB chair during US trading time, with the pair then climbing to KRW1190 again on November 23.The pair dipped slightly to KRW1185.7 on November 24 on adjustments ahead of the following day's meeting of the BOK's Monetary Policy Board. In the end, the BOK lifted its policy rate from 0.75% to 1.0%. The markets had already priced in this move, though, so the dollar moved firmly again thereafter. The pair rose on November 26 as the dollar was bought on risk aversion following news about the discovery of a highly-contagious new Covid-19 variant. It then regained composure as the won was bought on real demand toward the end of the month, with the pair eventually closing at KRW1187.9, up 14.4 won on the end of November. On the whole, the pair's range edged higher in November.

2. Outlook for This Month

With the November BOK meeting out of the way, the USD/KRW will continue trading firmly in December as investors search for new factors. In November, the pair moved firmly on expectations for accelerated tapering and early rate hikes in the US. Though the pair was held down as the greenback was sold by investors on real demand during phases of dollar bullishness, the pair's range edged steadily higher throughout the month.

The pair will be swayed by two main factors in December: (1) FRB monetary policy and (2) Covid-19 trends.

As for (1), the FOMC meeting passed smoothly last month, with US interest rates continuing to rise thereafter on bullish US indicators and growing expectations for early US rate hikes after Jerome Powell was renominated to serve as FRB chair. The minutes to the November FOMC meeting (released November 25) revealed that some members supported accelerating the pace of tapering, with the yield on 10-year treasuries then rising to 1.69% for a time as expectations for an early US rate hike grew. The currency pair will continue to be swayed by US interest rates and it will probably rise during phases like the one mentioned above. As already discussed, US interest rates fell at the end of November on concerns about Covid-19, with the pair also pushed higher by dollar buying during phases or risk aversion. The currency pair's topside is unlikely to be weighed down heavily by the December 15 FOMC meeting, provided the meeting does not produce dovish results that focus attention on the possibility of slower tapering or delayed rate hikes.

As for (2), risk aversion swept the globe at the end of November on reports about the discovery of a new Covid-19 variant, with dollar buying likely to be supported by these concerns for the time being. South Korea launched its 'With Covid-19' policy from November, with economic activity resuming as rules were relaxed on people dining out or attending events. This has focused investor attention on the possibility of a South Korean economic recovery, but daily Covid-19 cases are now starting to hit record levels. If cases continue to surge, this could lead to more risk aversion on speculation that the economic recovery might be delayed again.

Based on the above, it seems the USD/KRW pair will continue to trade firmly this month.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – December 2021

Expected Ranges	**Against the US$: NT$27.50–28.00**
	Against the yen: JPY4.00–4.16

1. Review of the Previous Month

The USD/TWD moved in a range in November.

After opening the month trading at TWD27.840 on November 1, the pair then fluctuated gently ahead of the FOMC meeting. As expected, the FOMC decided to commence taping while leaving policy rates unchanged. In his press conference, FRB chair Jerome Powell insisted once more that the FRB would pursue accommodative policies, so expectations for rate hikes waned, US stocks rose and Taiwan stocks were also pulled higher. The Taiwan dollar was also bought, with the pair dropping below TWD27.80 for a time. However, overseas investors then sold the Taiwan dollar as Taiwanese stocks began falling, so the pair rose to TWD27.927 on November 5. Though still early in the month, exporters sold the greenback at this level, so the pair's topside was capped.

The Taiwan dollar was bought mid-November as Taiwanese stocks edged higher. The currency pair temporarily fell to TWD27.718 on November 10, but the greenback was then bought on expectations for an early US rate hike after the US CPI figure hit its highest level for around 31 years, with the USD/TWD pair bought back to around TWD27.84. It then dropped below TWD27.80 for a time as exporters sold the US dollar, but with importers also buying the greenback, the pair's downside moved firmly. The pair then strengthened on the firm movements of the US retail sales data and other US indicators, though its topside was held down as exporters sold the greenback, with the pair moving in a range around TWD27.80.

The pair continued moving in a range around TWD27.80 late November, though it then climbed to around TWD27.85 on risk aversion after the discovery of a new Covid-19 variant. However, US interest rates fell on this risk aversion at the month's end. With exporters also selling the greenback, the pair slid to TWD27.74. There was also some adjustment at the end of the month, with the pair closing around TWD27.81.

2. Outlook for This Month

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

The pair moved in a narrow range in November, fluctuating by just TWD0.209. There was strong demand for the Taiwan dollar, but the greenback was also pulled higher as US interest rates rose on growing expectations for an early US rate hike.

The Taiwan dollar will probably rise this month at Taiwanese firms buy the unit ahead of the end-of-year settlement season. At +24.6% y-o-y, the export figure for October hit another record monthly high amount, with exports remaining strong. Taiwan's Directorate-General of Budget, Accounting and Statistics upgraded its GDP growth rate projection for 2021 to 6.09%. As with 2020, it seems Taiwan will post high growth this year despite the pandemic.

Risk aversion intensified at the end of November on the discovery of a new Covid-19 variant, with the Taiwan dollar sold for a time, but it will also be susceptible to buying when Covid-19 concerns sweep the globe. One factor offsetting the Taiwan dollar's recent bullishness has been Taiwanese investment in overseas bonds. If the spread of Covid-19 leads to travel restrictions, lockdowns and curtailed economic activity, it is likely that expectations for US rate hikes will recede and US interest rates will fall, with overseas investment also sliding. Mobility restrictions will also lead to reduced demand for fuel. If soaring crude oil prices fall, import costs will drop and this will also push the Taiwan dollar higher. Brisk exports are the main driver behind the Taiwan dollar's bullishness. As with last year, though, the Taiwan dollar is also likely to be pushed higher when demand for the greenback drops off. However, this scenario is premised on Taiwan keeping a lid on Covid-19. Taiwan has succeeded in doing so up until now, but if Covid-19 cases surge domestically and this impacts semiconductor production, the above scenario will no longer obtain, so caution will be needed.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – December 2021

Expected Ranges	**Against the US$: HK$ 7.7800–7.8200**
	Against the yen: JPY 14.30–14.70

1. Review of the Previous Month

Hong Kong dollar spot exchange market in November

USD/HKD spot broke above the upper end of recent trading range above 7.79 level, as the Fed is expected to speed up its rate hike cycle given the mounting US inflationary pressure. In addition to the USD strength, the indebted Chinese developers might sell their HK property projects for funding purpose and convert the HKD cash into USD to repay their USD bond coupons. Such USD/HKD buying flow might push the USD/HKD higher. Equity inflow condition was not supportive to HKD, with the year-to-date Stock Connect flow to HK diminishing to near HKD 400bn. Despite the softening Q3 growth figures, HK economy outlook continued to improve given increasing optimism on the border-reopening to mainland China. Retail sales figure was volatile due to the distribution of consumption voucher, while the unemployment rate declined further to 4.3%.

Hong Kong dollar interest rate market in November

HKD rates climbed on increasing expectation of sooner Fed's rate hike cycle and HKMA's operation to drain HKD liquidity. The Fed left the door opened for adjusting the pace of tapering and the rate hike cycle could come sooner than expected. Meanwhile, the HKMA's extra Exchange Fund Bills (EFBs) issuances were in course to withdraw HKD liquidity, sending HKMA aggregate balance to around HKD 400bn. Subsequently, 1-month and 3-month HKD HIBOR picked up to near 0.1% and 0.2% from 0.07% and 0.15% in October-end, respectively. 1-month and 3-month HKD HIBOR – USD LIBOR spread climbed to par and +5bps, respectively. As market was pricing in a sooner Fed's rate hike cycle, 3Y HKD IRS jumped to near 1.3% from 1% at October-end. Given ample HKD liquidity condition in contrast to sooner Fed's rate hike cycle, the negative HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) widened to near -100bps from -90bps.

.2. Outlook for This Month

Hong Kong dollar spot exchange market in December

USD/HKD spot is expected to range between 7.78 and 7.81 in the coming month. The USD strength and increasing expectation of Fed's sooner Fed's rate hike cycle are putting the HKD under pressure. The HKD rate spread and the carry trade flow (long USD/HKD) amid the Fed's rate hike cycle will be the key driver for the HKD spot. The experience of pervious Fed's rate hike cycle suggested that the 1-month HKD HIBOR stayed below USD LIBOR when the Fed raised its policy rate, and the negative HKD-USD rate spread should drive the HKD spot weakness. Yet, the HKMA moved faster to drain HKD liquidity earlier before Fed's tapering and the HKD-USD rate spread widening should prove to be modest. Hence, we look for HKD depreciation at a gradual pace, with USD/HKD to test 7.8 handle. The stalling Stock Connect inflow amid bearish HK stock market is unlikely to support the HKD spot.

Hong Kong dollar interest rate market in December

With the HKMA's extra EFBs issuance underway, HKMA aggregate balance is expected to fall to HKD 377.5bn at year-end. Considering that the amount is much higher than the low of HKD 54bn during 2019, HKD liquidity condition should remain ample and the upside for front-end HKD rates should prove to be limited. The HKD IRS curve could climb at a faster pace as the Fed remained hawkish, with the policy option to adjust its tapering pace at the FOMC meeting in December. Under the USD-HKD peg, the HKD IRS curve will track on the USD IRS curve and we are aware of the upside risk in HKD IRS curve. Impact from the year-end HKD funding seasonal demand and IPO factors should prove to be short-lived.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – December 2021

Expected Ranges	**Against the US$: CNY 6.3200–6.4800**
	Against the yen: JPY 17.20–18.30
	Against 100 yen: CNY 5.4600–5.8200

1. Review of the Previous Month

In November, the U.S. dollar/Chinese yuan exchange rate remained low.

On November 1, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.40 level. On the same day, the October Caixin manufacturing PMI was released, revealing its highest figure in four months, but the impact of this on the Chinese yuan exchange market was limited. In the evening of November 3, U.S. economic indices were released with strong figures, and this led the U.S. dollar to strengthen to the upper-CNY 6.40 level. In the U.S., the Federal Open Market Committee (FOMC) decided to start tapering quantitative monetary easing in November, but this had already been anticipated in the market. However, the FOMC expressed a negative view about early interest rate hikes, which kept the U.S. dollar from appreciating further. Then, in the evening of November 4, the Bank of England decided to maintain its monetary policy, and this was unexpected. As a result, expectations for interest rate hikes declined in the eurozone, Australia, the U.K., and worldwide. While there were few factors impacting the market, the U.S. dollar/Chinese yuan exchange rate continued fluctuating in both directions at the lower-CNY 6.40 level.

Thereafter, a series of Chinese economic indices were released, including October trade statistics (on November 7) and the Consumer Price Index (CPI) and Producer Price Index (PPI) (both on November 10). However, market participants did not react particularly to this news, and the U.S. dollar/Chinese yuan exchange rate continued fluctuating in both directions at the CNY 6.39 level. On November 10, local time, the October CPI of the U.S. was announced, revealing its most-significant rise in approximately 30 years, and this strengthened the U.S. dollar. Following this trend, the U.S. dollar/Chinse yuan exchange rate also rose to the CNY 6.41 level. However, risk sentiment was improved, as media outlets reported that restrictions in the Chinese real estate sector were relaxed. As a consequence, the Chinese yuan appreciated, and the U.S. dollar/Chinese yuan exchange rate fell to approach the CNY 6.39 level. From November 8 to 11, the Communist Party of China held its Sixth Plenary Session of the 19th CPC Central Committee. However, this did not particularly impact the Chinese yuan exchange market.

On November 16, the U.S. and China held an online summit, and this fueled expectations for an improvement in relations between these two countries, encouraging market participants to buy the Chinese yuan. As a result, the U.S. dollar/Chinese yuan exchange rate fell significantly from the mid-CNY 6.38 level and reached the CNY 6.36 level for the first time in approximately five months. Thereafter, market participants gradually bought back the U.S. dollar. Furthermore, on the same day during local trading hours, the October retail sales figures of the U.S. were announced, turning out to be stronger than expected, and this also strengthened the U.S. dollar. In the end, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 6.39 level.

On November 19, the People's Bank of China (PBOC) released its monetary policy implementation report for China, and it was seen as favorable for monetary easing. However, market participants actively bought the Chinese yuan in anticipation of monetary measures in the times ahead. Thus, the U.S. dollar/Chinese yuan exchange rate fell to once reach the mid-CNY 6.37 level. Yet, in the evening of the same day, the media reported that Federal Reserve Board (FRB) Chair Jerome Powell would be re-elected to his same position, and this strengthen the U.S. dollar. Following this trend, the U.S. dollar/Chinese yuan exchange rate also returned to the upper-CNY 6.38 level. Then, on November 24, the minutes of an FOMC meeting held in November were released with stronger caution against inflation, and this fueled expectation for the acceleration of tapering. As a result, the U.S. dollar continued appreciating. However, the U.S. dollar/Chinese yuan exchange rate did not rise further. Toward the end of the month, market participants started selling the U.S. dollar with concerns over the spread of the omicron variant of Covid-19. As of November 29, the day on which this article was written, the U.S. dollar/Chinese yuan exchange rate has been fluctuating at the lower-CNY 6.38 level.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to remain low in December.

While various central banks were starting to normalize their monetary policy to prepare for the post-Covid market, the omicron variant of Covid-19 was detected in South Africa, and this slowed down financial markets again. Even though herd immunity has almost been attained, thanks to the advancement of Covid vaccination, the market outlook might have to be modified if existing vaccines are not efficacious for the omicron variant. Thus, market participants are adjusting their positions for the moment. Although pharmaceutical companies have already been examining the efficacy of existing vaccines for the omicron variant while also starting to develop new vaccines, it would take at least several weeks before seeing the outcome of such efforts. Thus, expectations for interest rate hikes by the FRB decreased based on concern over the spread of the omicron variant, leading U.S. bond yields to fall as well. As of now, there has been no case of the omicron variant in the U.S., and its impact on the U.S. economy remains uncertain. Market participants will thus find it difficult to take risks for a while.

In China, Dr. Zhong Nanshan of the Chinese Academy of Engineering made a remark on November 28 such that it was important to remain careful, as it would take some time to judge the severity of the omicron variant, but that it is, for now, unnecessary to take special action. It is thus unlikely for the Chinese monetary authorities to take monetary measures against the current situation as of now. However, China, with its "zero Covid" policy, is different from other major developed countries that are attempting to coexist with the Covid-19 pandemic. Market participants should thus remain attentive of anti-Covid measures in China. In particular, restrictions on economic activities, including those on movement, could be strengthened before the 2022 Winter Olympic Games in Beijing, and this is likely to fuel concerns over a slowdown of the Chinese economy.

While the situation with the omicron variant of Covid-19 remains unclear, the normalization process in major developed countries is likely to be slower than the market estimate. Therefore, from a short-term perspective, there will be weaker upward pressure on the U.S. dollar/Chinese yuan exchange rate based on the difference in monetary policy between the U.S. and China. Furthermore, based on the current attitude of the Chinese monetary authorities, it is difficult to expect a rapid change in monetary policy in China. The U.S. dollar/Chinese yuan exchange rate is thus likely to remain low in the times ahead.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – December 2021

Expected Ranges **Against the US$: SG$ 1.3550–1.3800**
Against the yen: JPY 81.00–85.00

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Singapore dollar exchange rate fluctuated at the upper-SGD 1.34 level. Before a Federal Open Market Committee (FOMC) meeting in the U.S., the Singapore dollar gradually depreciated against the U.S. dollar. After the FOMC meeting, which attracted significant attention in the market, risk sentiment in the market improved, as the outcome was close to what had been anticipated in the market and as Federal Reserve Board (FRB) Chair Jerome Powell expressed his intention not to raise interest rates in haste. As overall Asian currencies started to rally, the Singapore dollar also strengthened slightly against the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate, which once reached the SGD 1.35 level, fell to the upper-SGD 1.34 level again.

On November 8, U.S. stock prices rose, as U.S. employment statistics (those released at the end of the previous week) turned out to be stronger than the market estimate. As a consequence, Asian currencies strengthened as well. Hence, toward the middle of the week, the Singapore dollar also strengthened, and the U.S. dollar/Singapore dollar exchange rate fluctuated at the mid-SGD 1.34 level.

Toward the middle of the month, however, the trend became inverted, and the Singapore dollar started to weaken. The summit between the U.S. and China did not positively impact the market, while U.S. stock prices and U.S. interest rates were falling. Market participants remained cautious toward risks and the Singapore dollar weakened against the U.S. dollar to the mid-SGD 1.35 level.

Thereafter, the Singapore dollar continued weakening due to the media report on the reintroduction of lockdown in Europe as well as hawkish remarks by the FRB officials. Furthermore, the re-election of the FRB Chair Jerome Powell led U.S. interest rates to rise, further strengthening the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate rose significantly and reached the lower-SGD 1.37 level toward November 26.

It was as if the appreciation of the U.S. dollar were to continue for a while. However, in reaction to media reports about the new variant of Covid-19 (i.e., the omicron variant), the market trends changed, and risk sentiment strengthened rapidly. While waiting for more-detailed information about the omicron variant, the market remained unstable. Market participants bought back the Singapore dollar to a small extent, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.36 level at the closing of monthly trading.

2. Outlook for This Month

The Singapore dollar is forecast to strengthen against the U.S. dollar in December 2021.

The U.S. dollar/Singapore dollar exchange market is likely to remain unstable in December following news headlines, as was the case at the end of November, as detailed information about the omicron variant of Covid-19 detected in South Africa has not yet become widely available.

During the second half of November, Singapore had just relaxed restrictions on movement as introduced under the Covid-19 pandemic. Expectations were growing for positive impact on the service industry. However, in reaction to media reports on the omicron variant, travel restrictions have been tightened again, and it is inevitable for the current situation to negatively impact the restrictions on domestic movement.

As of now, Prime Minister of Singapore Lee Hsien Loong only made a remark that he was vigilant regarding the new variant and that there has so far been no further announcement on specific measures by the central bank and other authorities. Given the fact that many other countries are taking proactive measures, and as some argue that the symptoms caused by the omicron variant have so far been relatively mild, the situation is not expected to cause significant risk-averse sentient in the market.

Thus, in terms of the U.S. dollar/Singapore dollar exchange market, the preconditions remain the same, as the situation is likely to follow trends in the overall U.S. dollar market; meanwhile, market participants should also be attentive to the Chinese yuan market, as the Chinese yuan is assumed to account for a high ratio among the components of the NEER. Before news broke on the omicron variant, the Singapore dollar was close to the upper end of the NEER, and there was little room for the Singapore dollar to appreciate. Under such a condition, the Monetary Authority of Singapore (MAS) announced its decision to change its monetary policy in October, and this turned out to be a surprise in the market, allowing the Singapore dollar to appreciate further by modifying the NEER upward.

Thereafter, the U.S. dollar appreciated significantly in November, as a result of the strong economy of the U.S. and after a series of hawkish remarks. It is thus possible for the Singapore dollar to rally in the times ahead. In December, the Singapore dollar is forecast to strengthen against the U.S. dollar so as to balance the appreciation of the U.S. dollar in November. However, from a medium- to long-term perspective, the Singapore dollar is likely to weaken gradually, as there has been limited room for the appreciation of the Singapore dollar within the NEER band, and the U.S. dollar is likely to appreciate with expected interest rate hikes in 2022.

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

Thai Baht – December 2021

Expected Ranges **Against the US$: THB 32.60–34.20**
Against the yen: JPY 3.25–3.55

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate returned to the level seen at the beginning of the month after falling significantly.

At the beginning of November, upward pressure on the U.S. dollar strengthened with expectations for the normalization of U.S. monetary policy as to be discussed at a Federal Open Market Committee (FOMC) meeting in the U.S. Under such a condition, expectations for economic recovery were growing in Thailand with the reopening of the country to international tourism. In addition, as U.S. interest rates were on the rise, the U.S. dollar/Thai baht exchange rate rose to approach the THB 33.50 level. On November 3, the FOMC meeting was held after attracting substantial attention in the market, and tapering was announced—as had been anticipated in the market. As this decision was not a surprise, the U.S. dollar/Thai baht exchange rate fell to approach the THB 33.30 level. Then, on November 5, the October Consumer Price Index (CPI) of Thailand was announced, and the result turned out to be 2.38%, exceeding the market estimate, which was 1.91%. However, the market did not react significantly to this result. Thereafter, the employment statistics of the U.S. were released with strong figures, encouraging market participants to buy the U.S. dollar, and the fall of the U.S. dollar/Thai baht exchange rate slowed down momentarily. However, after seeing the reaction to the U.S. employment statistics, the U.S. dollar/Thai baht exchange rate started falling gradually again and reached the THB 33.20 level. In the following week, the U.S. dollar/Thai baht exchange rate continued falling. As market participants understood that the inflation signaled by various central banks in the previous week would only be temporary, expectations for early interest rate hikes decreased, and overseas interest rates were falling. Under such circumstances, market participants continued buying the Thai baht, as Thai monetary policy remained unchanged. As a consequence, the U.S. dollar/Thai baht exchange rate fell below the THB 33.00 mark. Thereafter, the U.S. dollar/Thai baht continued falling intermittently toward November 10, approaching the THB 32.80 level. On November 10, the central bank of Thailand held a monetary policy committee (MPC) meeting, and the policy interest rate was maintained at 0.50%. While downward risks decreased in the economic outlook, the fragility in the economic recovery was confirmed. During overseas trading hours, the CPI of the U.S. was announced, and the result turned out to be a rise for the first time in 31 years, leading U.S. interest rates to rise sharply. As a result, the U.S. dollar/Thai baht exchange rate rose to approach the THB 32.85 level. Toward the end of the week, the U.S. dollar/Thai baht exchange rate continued fluctuating at the upper-THB 32 level. After the weekend, the third-quarter GDP of Thailand was announced on November 15, and the outcome turned out to be -0.3%, with a smaller decline than the market estimate, which was -1.3%. While the outlook of the Thai economy remains uncertain, this was a sign of future economic recovery for Thailand. This encouraged market participants to buy the Thai baht, and the U.S. dollar/Thai baht exchange rate once fell to below the THB 32.70 level. Thereafter, on November 16 and 17, the retail sales of the U.S. turned out to be strong, while the U.S. stock market remained robust. Thus, the U.S.

dollar/Thai baht exchange rate continued fluctuating at the upper-THB 32 level. At the end of the week, concerns grew over spreading Covid-19 cases in Europe, with Austria announcing its decision to re-introduce lockdown from November 22 due to the spread of Covid-19 cases. In reaction to this, the U.S. dollar/Thai baht exchange rate started to rally with risk-averse sentiment in the market. The Thai baht reached its weakest closing rate in approximately one week. Then, on November 22, during overseas trading hours, there was an announcement on the re-election of Federal Reserve Board (FRB) Chair Jerome Powell as well as the election of Lael Brainard to become FRB vice chair, and this fueled expectations for early interest rate hikes—and the U.S. dollar appreciated in the overall foreign exchange market. As a result, the U.S. dollar/Thai baht exchange rate recovered to the THB 33 level. Thereafter, the U.S. dollar/Thai baht exchange rate continued rising toward the end of the week and reached the mid-THB 33 level. At the end of the week, the media reported the detection of the omicron variant of Covid-19 in South Africa, on November 26, in reaction to which risk-averse sentiment grew in the market based on concerns over the spread of Covid-19 cases. The U.S. dollar/Thai baht exchange rate continued rising and once reached the upper-THB 33 level. However, in the following week, some observers pointed out that the symptoms were mild in omicron variant cases, and this calmed the market to some extent. The U.S. dollar/Thai baht exchange rate has thus been fluctuating at the upper-THB 33 level.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to fall slightly in December.

The details of the omicron variant of Covid-19, which was detected in South Africa, have not yet been made clear. Given this situation, the U.S. dollar/Thai baht exchange rate is likely to follow headlines on this new Covid variant in the times ahead. However, risk-averse sentiment is not expected to grow further, as many countries have reacted rapidly to the situation so as to calm the market, and some observers pointed out that the symptoms of the omicron variant cases have so far been rather mild, although news about the new variant did cause some confusion in the market at the beginning. Based on the trends of the past several years, the Thai baht tends to appreciate in December. Thus, it is highly possible for the Thai baht to recover in December, as the Thai baht depreciated at the time of the initial media reports on the omicron variant. Furthermore, had there been no issues related to Covid-19 issues, the currencies of developed countries would likely appreciate with measures of monetary tightening taken to control high inflation. Thus, before the outbreak of the Covid-19 pandemic, the U.S. dollar/Thai baht exchange rate had been on the rise. On the other hand, economic activities are to be deregulated further in Thailand from December 1 with an intention to accelerate the promotion of tourism during the long holiday season for the year-end and new-year period. Therefore, the less media reports on the Covid-19 pandemic there are, the more likely it becomes for the Thai baht to appreciate. If the Covid-19 pandemic faces an increasingly severe situation, the U.S. dollar/Thai baht exchange rate could rise even further. Otherwise, both the U.S. dollar and the Thai baht are likely to appreciate in the times ahead, with growing pressure to buy both currencies. The U.S. dollar/Thai baht exchange rate is thus expected to remain flat or fall slightly based on adjusted positions after the rapidly accelerated Thai baht-selling observed at the end of the previous month.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – December 2021

Expected Ranges	**Against the US$: MYR 4.20–4.28**
	Against the yen: JPY 26.45–27.17
	Against 100 yen: MYR 3.68–3.78

1. Review of the Previous Month

In November, market participants sold the Malaysian ringgit toward the second half of the month as the overall currencies of emerging countries depreciated when market participants bought the U.S. dollar in order to avert risk. This was based on various media reports on increased expectations for an early interest rate hike in the U.S. as well as on growing concerns over another wave of Covid-19 cases in Europe.

At the beginning of the month, on November 3, the central bank of Malaysia announced its decision to maintain its interest rate at 1.75% for the eighth consecutive time. While this did not cause any surprise in the market, the central bank released a statement at the same time, and there was a revision to modify the text on inflation in 2022 from "under control" to "moderate rise," although the inflation outlook for 2021 was kept unchanged both for headline inflation and core inflation. This was a negative factor for the Malaysian ringgit, as market participants became aware of possible domestic inflation in Malaysia once again. Thereafter, the U.S. dollar strengthened during trading hours in New York after the announcement of the outcome of the Federal Open Market Committee (FOMC) meeting in the U.S. In reaction, market participants sold the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate reached the upper-MYR 4.15 level on November 5. On that same day, local time, the October employment statistics of the U.S. were released with strong figures. However, U.S. dollar interest rates fell, due to short covering in the U.S. bond market. Following this, the U.S. dollar weakened in the foreign exchange market as well. Then, on November 7, the trade statistics of China were released, leading the Chinese yuan to strengthen. As a result, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at the lower-MYR 4.15 level.

The October Consumer Price Index (CPI) of the U.S. was announced on November 10, inverting the expectation for the observed inflation that was to be temporary. As a result, the U.S. dollar strengthened further. On November 12, the third-quarter GDP of Malaysia was announced, and the figure turned out to be lower than the market estimate. This was a result of the restrictions on movement caused by the response to the spread of the Covid-19 variant. However, the Malaysian government took a rapid decision to relax restrictions thereafter, and this fueled expectations for economic recovery in the fourth quarter and beyond. Thus, the reaction in the market was limited. In the afternoon of November 16, the media reported on the end of the summit between the U.S. and China, and this encouraged market participants to buy back the U.S. dollar. Thereafter, during trading hours in New York, the retail sales figures of the U.S. were announced, and the results were stronger than the market estimate, leading the U.S. dollar to strengthen further. Then, on November 17, the following day, market participants sold the Malaysian ringgit based on the overall depreciation of emerging currencies, and the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.18. On November 18, the media reported that U.S. President Joe Biden had requested various countries to release their petroleum oil reserves. In reaction, the North Sea crude oil price fell below USD 80 for the first time in approximately one month, and this encouraged market participants to sell the Malaysian ringgit.

Toward the end of the month, the U.S. dollar appreciated against the overall currencies of emerging countries, as Covid-19 cases increased again in Europe and as market participants expected early interest rate hikes in the U.S. based on the announcement of the re-election of Federal Reserve Board (FRB) Chair Jerome Powell—in addition to hawkish remarks made by U.S. government officials. Following this trend, the Malaysian ringgit depreciated significantly against the U.S. dollar.

2. Outlook for This Month

In December, the U.S. dollar/Malaysian ringgit exchange market is forecast to remain unstable, due to new sources of concern related to the Covid-19 pandemic with the spread of the omicron variant detected in South Africa, as well as due to headlines related to interest rate hikes in the U.S. Toward the second half of November, the currencies of emerging countries depreciated. Following this trend, the Malaysian ringgit depreciated, and then the U.S. dollar/Malaysian ringgit exchange rate exceeded the MYR 4.2 level. Market participants should therefore remain careful about risk-averse sentiment growing worldwide.

First of all, regarding the Covid-19 pandemic, the Malaysian government has started rapidly reopening the country's economy, and this fueled optimistic sentiment with expectations for economic recovery. However, at the same time, the number of Covid-19 cases bottomed out, and the hospital bed occupancy rate has been rising in some states. Furthermore, there has been growing risk-averse sentiment in the global market due to concerns about the new Covid-19 variant—despite encouragement for the Covid-19 booster vaccine program, led by the government. In Malaysia as well, there could be severe impact on the service sector, including the tourism industry, if the recovery is delayed further (although it is expected to recover next year).

It should also be mentioned that the October CPI of Malaysia was announced at the end of November, and the inflation was +2.9%, exceeding the market estimate, which is also likely to weaken the Malaysian ringgit in the times ahead. The Malaysian government released its inflation outlook for 2022 at the same time as the release of the budget plan for the next fiscal year, predicting that the temporary inflation such as that seen in the second-quarter period would calm soon. However, the inflation rate has clearly been on the rise again. As the central bank of Malaysia intends to continue taking measures of monetary easing in order to support economic recovery, the growing concern over inflation is a serious problem.

When it comes to domestic politics, the state election for Malacca was carried out on November 20 as a prelude to the 15th federal election of the lower house scheduled for the second half of next year, and the ruling coalition with the UMNO led by Ismail Sabri won an overwhelming victory. Domestic politics in Malaysia thus avoided confusion for the moment. On the other hand, some point out that the Malaysian public is losing interest in politics due to severe restrictions under the Covid-19 pandemic. Therefore, market participants should keep in mind that the political situation in Malaysia could deteriorate rapidly along with public sentiment if Covid-19 cases start to increase again domestically.

For these reasons, the Malaysian ringgit is forecast to remain weak in December, as long as global risk-averse sentiment persists in the market.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – December 2021

Expected Ranges	**Against the US$: IDR 14,200–14,500**
	Against 100 rupiah: JPY 0.78–0.81
	Against the yen: IDR 123.46–128.21

1. Review of the Previous Month

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

On November 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the IDR 14,200 level. Thereafter, the overall Asian currencies weakened, as market participants were anticipating an announcement on the start of so-called "tapering," i.e., a reduction of measures of monetary easing by the Federal Reserve Board (FRB). Following this trend, the Indonesian rupiah weakened as well. At the Federal Open Market Committee (FOMC) meeting in the U.S.—a meeting that attracted substantial attention in the market—the decision was made to start the tapering process in November. In reaction, the U.S. dollar/Indonesian rupiah exchange rate fell to the mid-IDR 14,300 level on November 4. Furthermore, at the end of the week, the third-quarter GDP of Indonesia was announced on November 5 with a year-on-year increase of 3.51%, revealing a slowdown from the second-quarter period. As this result was below the market estimate as well, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate once approached the IDR 14,400 level. In the following week, on November 8, the Indonesian rupiah rallied as a result of the fall of U.S. interest rates after the release of the October employment statistics of the U.S. in the previous week. On November 9, the Indonesian rupiah appreciated against the U.S. dollar to the lower-IDR 14,200 level. On November 10, market participants maintained a wait-and-see attitude, as the release of the October Consumer Price Index (CPI) of the U.S. was approaching, and the U.S. dollar/Indonesian rupiah exchange rate remained at the mid-IDR 14,200 level. Thereafter, the October CPI of the U.S. was announced, and the result turned out to be +6.2% year-on-year—the highest level since 1990—leading U.S. interest rates to rise in reaction. As a consequence, the trend was inverted, and the Indonesian rupiah weakened against the U.S. dollar to the lower-IDR 14,300 level on November 11, the following day. On November 15 in the following week, the October trade balance of Indonesia was announced, revealing a trade surplus of USD 5.7 billion. On November 18, 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, and this did not cause any surprise. Then, on November 19, the third-quarter current account balance of Indonesia was announced with a surplus of USD 4.47 billion. On November 22, in the following week, U.S. President Joe Biden announced the re-election of the FRB Chair Jerome Powell, whose term is to end in February next year. Thus, market participants expected monetary policy in the U.S. to be normalized soon, which led U.S. interest rates to rise and the U.S. dollar to strengthen. Following this trend, the Indonesian rupiah started to gradually weaken against the U.S. dollar. On November 24, the governor of the central bank of Indonesia, Perry Warjiyo, announced his plan to cut excessive liquidity from the banking system in 2022 while ensuring loans. He also made it clear that the low interest rate policy would be maintained until there are signs of inflation. At the same time, the central bank of Indonesia revised its growth outlook for 2021 downward while also revising the outlook for 2022 upward to 4.7–5.5%, by raising both the upper and lower end by 0.1%. As U.S. interest rates continued rising, the Indonesian rupiah remained weak. At the end of the week, the Indonesian rupiah depreciated significantly on November 26 due to the rapid growth of risk-averse sentiment in the market following headlines related to the omicron variant of Covid-19 detected in South Africa, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,300 level. While media continued reporting negative news related to the omicron variant, the Indonesia continued depreciating on November 29, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 14,400 level (as of November 29).

2. Outlook for This Month

In December, the Indonesian rupiah is likely to remain weak against the U.S. dollar.

There are still many uncertain elements regarding the omicron variant of Covid-19, and this is likely to keep the market unstable from a short-term perspective. It is expected that there will gradually be more information about how dangerous and contagious the omicron variant is, as well as how efficacious existing vaccines are against the new variant. However, there have already been omicron variant cases in many countries around the world, leading countries to strengthen their border control measures. Market participants should keep in mind that, if there are negative media reports about the omicron variant in the times ahead, the Indonesian rupiah could depreciate, as risk-averse sentiment is likely to grow among investors. On the other hand, if it turns out that there is no need to worry about the omicron variant, risk-taking sentiment could temporarily grow in the market, leading the Indonesian rupiah to appreciate. However, such a reaction would only be an initial reaction, and the Indonesian rupiah is expected to weaken in the end even in such a case, with a significant rally of U.S. interest rates. The omicron variant is only likely to lead the U.S. dollar/Indonesian rupiah exchange rate to fluctuate from a short-term perspective. From a medium- to long-term perspective, the Indonesian rupiah is likely to weaken, regardless of whether or not the variant will become a threat to daily life and the global economy.

It should however be mentioned that there has been a remarkable trade surplus supported by rising resource prices such as that of coal and palm oil, and this resulted in a significant current account surplus. As was pointed out above, the October trade surplus of Indonesia recorded its largest trade surplus on a single-month basis. If the situation remains the same, it would keep the Indonesian rupiah exchange rate from falling further. However, commodity prices could fall significantly, depending on the situation related to the omicron variant of Covid-19.

The global economy has recovering from the Covid-19 pandemic, but this progress was slowed by the detection of the omicron variant. Thus, the Indonesian rupiah is forecast to remain weak in December.

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

Philippine Peso – December 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 November, the Philippine peso appreciated against the U.S. dollar, thanks to the fall of crude oil prices, as well as due to improved business confidence, and the U.S. dollar/Philippine peso exchange rate fell below the PHP 50.00 mark for the first time in approximately two months. However, a Federal Reserve Board (FRB) official made hawkish remarks thereafter, leading market participants to expect early interest rate hikes, which strengthened the U.S. dollar in the overall foreign exchange market. Under such a condition, the trend became inverted, and the Philippine peso weakened. As a result, the U.S. dollar/Philippine peso exchange rate returned to the level observed at the beginning of the month.

On November 4, the Federal Open Market Committee (FOMC) meeting was held without any surprising outcome. Thereafter, FRB Chair Jerome Powell held a press conference, at which he made a slightly dovish remark, fueling risk-taking sentient in the market. As a result, Philippine stock prices renewed their highest level since the beginning of the year, even though the September unemployment rate deteriorated to 8.9%, deteriorating from the 8.1% recorded in the previous month. In addition, the October Consumer Price Index (CPI) of the Philippines turned out to be 4.6%, falling below 4.9%, the market estimate, as well as below 4.8%, the result of the previous month, and this further strengthened the Philippine peso.

On November 9, the third-quarter GDP of the Philippines was announced, and the result exceeded the market estimate significantly at 7.1%, even though it did not reach the 11.8% recorded in the previous quarter. As the figure recorded positive growth for the second consecutive month, the Philippine peso remained robust. The October CPI of the U.S. turned out to be strong thereafter. However, as crude oil prices weakened, the Philippine peso appreciated, and the U.S. dollar/Philippine peso exchange rate fell below the PHP 50 mark. On November 12, the U.S. dollar/Philippine peso exchange rate reached PHP 49.850 for the first time in approximately two months. However, there was strong demand to buy the U.S. dollar from importing companies, as the U.S. dollar was seen to be cheap at the PHP 50.00 level. Furthermore, there was capital outflow from the stock market. Consequently, the trend became inverted, and the Philippine peso depreciated significantly against the U.S. dollar, and then the U.S. dollar/Philippine peso exchange rate reached the mid-PHP 50.00 level.

The central bank of the Philippines decided to maintain its policy interest rate at the existing level for the eighth consecutive time at its monetary policy meeting held on November 18. Furthermore, the central bank also announced that it would maintain current measures of monetary easing for a while in order to support stable economic recovery. Moreover, an FRB official made hawkish remarks, fueling expectations for the acceleration of the tapering process, as well as for early interest rate hikes, and this strengthened the U.S. dollar, while risk-averse sentiment was growing in the market, having witnessed increasing Covid-19 cases in Europe. As a result, the Philippine peso remained weak, and the U.S. dollar/Philippine peso exchange rate continued fluctuating at the mid-PHP 50.00 level.

2. Outlook for This Month

There have been growing expectations for economic activities to recover further, as the restrictions on public movement in metropolitan Manila were relaxed from alert level 3 (out of five levels) to alert level 2. On the other hand, concerns are growing over the increase of Covid-19 cases in Europe, and this could lead to stricter restrictions on public movement. Thus, there are persisting concerns that restrictions on public movement could be made stricter again. However, improving business confidence is likely to be a factor that supports the Philippine peso based on the recent fall in the number of new Covid-19 cases.

Yet, there have been signs for the acceleration of the tapering process as well as early interest rate hikes in the U.S., with hawkish remarks by FOMC officials. Furthermore, as economic indices have also been on a rise, an increasing number of market participants are modifying their market outlook. Thus, currently, three interest rate hikes in 2022 have already been reflected in the market. It is also possible for risk assets to depreciate as a result of expectations for early interest rate hikes based on strong economic indices in the U.S., and this should be kept in mind as a potential factor that could lead the Philippine peso to depreciate sharply in the times ahead. There have also been concerns over the global spread of the new Covid-19 variant detected in South Africa, which is another potential factor to lead the Philippine peso to depreciate in the coming month.

The central bank of the Philippines mentioned concern over inflation next year. However, the central bank has not modified its outlook that the inflation rate would fall to the middle of the target range at 2–4% with confirmation that it will maintain measures of monetary easing in order to prioritize stable economic recovery. The Philippine peso is thus forecast to weaken in the times ahead, as there are persisting concerns over inflation due to the rise of energy and food prices, although this was recently adjusted to some extent. Thus, market participants are likely to be encouraged to buy the U.S. dollar and sell the Philippine peso based on the difference in respective monetary policy, as the U.S. is normalizing its monetary policy while the Philippines maintains measures of monetary easing. However, the U.S. dollar is forecast to appreciate against the Philippine peso only slowly, as the Philippine peso is supported by the recovery of economic activities based on the relaxation of restrictions on public movement as well as based on OFW remittances, which remain a strong supporting factor for the Philippine peso.

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

Indian Rupee – December 2021

Expected Ranges **Against the US$: INR 74.00–78.00**
Against the yen: JPY 1.47–1.54

1. Review of the Previous Month

In November, the U.S. dollar/Indian rupee exchange rate fell once before returning to the level observed at the beginning of the month.

The IPOs of multiple local companies that had been announced in the second half of October continued until the first week of November. Under such circumstances, market participants expected U.S. dollar-selling and Indian rupee-buying based on investment capital inflow, and the U.S. dollar/Indian rupee exchange market opened trading at INR 75.00. In addition to the above-mentioned companies, a domestic electronic settlement company announced an IPO of USD 2.44 billion, which is the all-time largest in India, and this accelerated the fall of the U.S. dollar/Indian rupee exchange rate.

After the Diwali holidays, the U.S. dollar/Indian rupee exchange market opened trading at INR 74.25 on November 8 with a gap from the closing rate of the previous business day. On the same day, the U.S. dollar/Indian rupee exchange rate fell below the INR 74.00 mark, and on November 9, the exchange rate reached INR 73.85 to the U.S. dollar, which is the monthly low. The U.S. dollar/Indian rupee exchange rate thus fell from the INR 75 level observed on November 1 to the INR 73 level. However, options volatility did not rise. Out of the above-mentioned IPOs, approximately USD 1 billion is considered to consist of purchasing by foreign investors. Once the IPOs ended on November 9, some market participants bought the U.S. dollar for the purpose of profit-taking, while local importing companies also bought the U.S. dollar. Furthermore, the Indian monetary authorities intervened in the foreign exchange market by selling the Indian rupee. Consequently, the downward pressure on the U.S. dollar/Indian rupee exchange rate was mitigated. Thereafter, the U.S. dollar/Indian rupee exchange rate rapidly recovered to the INR 74.50 level, thanks to a U.S. price index that turned out to be significantly above expectations, as well as due to rising crude oil prices.

In the third week of the month, the crude oil price fell to its lowest level in one month. In reaction, the U.S. dollar/Indian rupee exchange rate temporarily approached the INR 74 level as well. However, the exchange rate did not fall below the INR 74 level and started to rapidly rise again.

In the fourth week of the month, inflation accelerated in the U.S., fueling expectations for the acceleration of the tapering process. Furthermore, the number of Covid-19 cases started to increase again in Europe, and in some countries, there were protests against Covid restrictions such as lockdowns. In reaction, crude oil prices weakened. However, market participants did not actively buy the Indian rupee due to risk-averse sentiment in the market. Once the re-election of Federal Reserve Board (FRB) Chair Jerome Powell was announced, the U.S. dollar strengthened globally. Thereafter, the minutes of a Federal Open Market Committee (FOMC) meeting held in November were released, and this strengthened the U.S. dollar further with growing expectations for the acceleration of the tapering process.

Toward the end of the month, the media reported on the omicron variant of Covid-19 detected in South Africa, and this encouraged market participants to sell the currencies of overall emerging countries. Following this trend, the U.S. dollar/Indian rupee exchange rate exceeded the INR 75 level. After reaching INR 75.16 to the U.S. dollar, monthly trading closed on November 29 at the INR 75.09 level.

2. Outlook for This Month

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

In November, the number of daily new Covid-19 cases reached an all-time high in South Korea. In the U.S. as well, the number of Covid-19 cases increased in the northeastern and western parts of the country after Halloween, leading New York State to declare a state of emergency. Similarly, the number of Covid-19 cases reached an all-time high in Germany, and Austria introduced a new lockdown. Thus, toward winter, the Covid-19 situation deteriorated, and amid such circumstances, the omicron variant was detected. It has so far been unclear how dangerous or contagious this variant is, and it is said that analyzing the efficacy of existing vaccines would take several weeks. Whatever the answers to these questions are, it will be a negative factor for the currencies of emerging countries with deteriorating risk sentiment in the market. Furthermore, even if the omicron variant is found to be less dangerous in the times ahead, market participants should keep in mind that the number of Covid-19 cases has been increasing in North America and Europe.

Recently, the Indian rupee has been weakened due to the rise of crude oil prices. The worse the situation related to Covid-19 gets, the lower the crude oil price will fall. In such a case, the Indian rupee would also be sold as a means of risk aversion. Thus, there may be no correlation between crude oil prices and the Indian rupee exchange rate that has existed so far, and market participants should keep this in mind.

On December 8, the central bank of India is scheduled to hold a monetary policy meeting. While there is no more information to be had regarding the new Covid-19 variant, it is extremely unlikely for the central bank to raise major interest rates. Even if there was, it would consist of a reverse repo rate hike, and this would only have limited impact on the Indian rupee exchange market.

When it comes to factors specific to India, there has been no reason to buy the Indian rupee apart from the time of capital inflow from foreign investors. Therefore, the U.S. dollar/Indian rupee exchange rate is forecast to remain stable, fluctuating following headlines related to the Covid-19 pandemic.