

# Mizuho Dealer's Eye

January 2022

MIZUHO

<b>U.S. Dollar</b> .....	2	<b>Chinese Yuan</b> .....	22
<b>Euro</b> .....	6	<b>Singapore Dollar</b> .....	24
<b>British Pound</b> .....	10	<b>Thai Baht</b> .....	26
<b>Australian Dollar</b> .....	12	<b>Malaysian Ringgit</b> .....	28
<b>Canadian Dollar</b> .....	14	<b>Indonesian Rupiah</b> .....	30
<b>Korean Won</b> .....	16	<b>Philippine Peso</b> .....	32
<b>New Taiwan Dollar</b> .....	18	<b>Indian Rupee</b> .....	34
<b>Hong Kong Dollar</b> .....	20		

Mizuho Bank, Ltd.

Global Markets Sales Department

# U.S. Dollar – January 2022

**Expected Ranges**

**Against the yen: JPY113.50–117.00**

## 1. Review of the Previous Month

In December, the dollar/yen pair strengthened to the 115 yen range on an FOMC decision to speed up tapering and expectations for earlier rate hikes.

FRB chair Jerome Powell spoke about faster tapering on November 30, so the dollar was bought on December 1. The pair moved firmly at the mid-113 yen mark, though it then fell to the upper-112 yen level on concerns about the Omicron variant. It then climbed to the mid-113 yen range on December 2 on rising US long-term interest rates. The US employment data for November was released on December 3. At +210,000 m-o-m, the nonfarm payrolls result was down on the forecast for a +550,000 rise, with average hourly wages also growing by +0.3% m-o-m, down on expectations for a +0.4% rise. This saw the pair weakening to 112.56 yen.

The pair recovered to the mid-113 yen mark on December 6 as concerns about the Omicron variant waned. Risk appetite spilled over into December 7, with the pair climbing to the upper-113 yen mark. The pair rocketed to 113.95 yen during overseas trading time on December 8 after a US pharmaceuticals company released trial results that suggested vaccine booster shots were effective against the Omicron variant. The pair then weakened to the lower-113 yen range on December 9 as stock markets moved bearishly and US long-term interest rates fell. It then bounced back to the mid-113 yen mark when the US new applications for unemployment insurance figure fell below market expectations. The US November CPI result hit its highest level in around 40 years on its release on December 10, but this was as expected, so the pair was pushed back to the lower-113 yen mark by close of trading.

Investors remained in wait-and-see mode in the week beginning December 13 ahead of the FOMC and other central bank meetings. The pair subsequently moved in a narrow range around the mid-113 yen mark. The FOMC decided to accelerate tapering when it met on December 15. With FOMC members also expecting rates to be lifted at a faster pace, the pair shot up to 114.28 yen. The greenback was sold against the pound on December 16 when the Bank of England implemented a rate hike. With US interest rates also sliding, the dollar/yen pair plunged to the mid-113 yen range. On December 17, FRB governor Chris Waller voiced support for early rate hikes, so the pair was bought back to close the week at 113.71 yen.

Amid a dearth of new factors, the pair floated at the mid-113 yen level on December 20. It traded firmly at the upper-113 yen mark over December 21–22 as stock markets moved strongly. It then soared to the lower-114 yen mark during overseas trading time as the greenback was bought on rising US long-term interest rates. With trading thin ahead of the Christmas holidays, the pair edged higher on December 23 on the firm movements of stock markets and US long-term interest rates. This trend continued on December 24, with the pair remaining firm to close the week at 114.30 yen.

With few market participants due to an overseas holiday, the dollar moved heavily just below the key 115 yen level as US long-term interest rates fell on December 27. The pair's topside remained heavy at 115 yen on December 28 too, with the pair floating around 114.80 yen. As market participants returned from the Christmas holidays, the yen was sold on December 29, with the currency pair rallying to 115 yen for the first time since November 26. With

the US releasing some better-than-expected indicators towards the year's end, the pair closed the month floating around 115.10 yen. This firmness continued on January 3, with the pair rising to around 115.30 yen.

## 2. Outlook for This Month

The dollar/yen pair is expected to move firmly this month.

The main theme of 2022 will be monetary policy normalization by the world's central banks. In November, the FRB decided to reduce its asset purchases by \$15 billion a month, with the figure doubled to \$30 billion in December. Such a swift revision to a recent monetary policy decision is extraordinary. Inflation remains rampant, with the word 'transitory' now absent from both FRB chair Jerome Powell's press conference and the FOMC's statement. With wages also rising at a faster pace, there are strong concerns that prices might continue to be pushed up by supply and demand factors, even if this does not damage the real economy.

The end of tapering has been brought forward to around March 2022. This may be because the FRB is itching to play the rate-hike card. The markets are expecting rate hikes to commence in the first half of 2022, with 3-4 hikes expected thereafter. However, if the FRB lifts short-term rates, investors fear bank profits might be squeezed as the gap between long-term and short-term rates shrinks, with this potentially leading to another financial crisis. Market participants are focusing on how many rate hikes the FRB will implement after bringing tapering to an end, but short term rate hikes will not be the only issue on the table. In 2022, the FRB will probably also discuss the upward pressure placed on long-term rates as investors reduce their holdings of long-term treasuries.

Meanwhile, there is no sign of the Bank of Japan moving toward tightening. With the dollar/yen pair hitting 115 yen again around the turn of the year, some observers have started to talk about 'negative yen depreciation' and there is speculation that the authorities will want to slam the brakes on any dollar appreciation/yen depreciation that is no longer beneficial for the Japanese economy. Officials could make comments aimed at curbing the yen's fall should the pair approach 120 yen. This is unlikely to happen this month, though it does just seem a matter of time.

A glance at technical factors reveals that the ceiling of the 'cloud' in the daily Ichimoku Kinko Hyo trading chart edged up at the end of 2021. This has helped to push the currency pair higher, with 114 yen marking the cloud's ceiling in January 2022 too. The cloud could grow thinner and there could be some shifts toward the end of the month, so caution will be needed, but if the cloud's ceiling stays at the upper-113 yen mark, then the pair will probably move firmly provided it doesn't plummet on a sudden change in the currency markets due to a surge in Covid-19 cases or some other reason. It is somewhat concerning that the pair touched the band above its Bollinger Band ( $2\sigma$ ) around Christmas last year, with the pair likely to stop rising for a time in January. After selling the dollar recently, though, many real-demand investors will be looking for a chance to buy the greenback, with the pair likely to be supported by buying at the upper-113 yen mark.

## Dealers' Market Forecast

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

Bullish on the dollar	20 bulls	117.00 – 113.90	Bearish on the dollar	1 bear	116.00 – 112.50
-----------------------	----------	-----------------------	-----------------------	--------	-----------------------

### \* Ranges are central values

Tanaka	Bull	118.00 – 114.00	Though highly contagious, the Omicron variant does not seem that severe, so investors are expecting it to only have a limited impact. However, inflationary concerns are likely to grow on supply constraints, with the greenback set to move firmly on expectations for early and multiple FRB rate hikes.
Yano	Bull	117.50 – 114.50	The dollar/yen pair looks set to move firmly given how (1) the US looks set to hike rates three times in 2022, (2) US fundamentals are likely to move firmly, and (3) US inflationary concerns will probably recede as supply constraints ease. The Omicron variant will only prove a transitory risk factor.
Tsutsui	Bull	116.00 – 113.50	The forex markets will be monitoring US rate hikes and the timing of QT. However, economic indicators will probably move to and fro in January on a dearth of decisive factors, so the dollar/yen pair will move slightly bullish in a range. The key lies in the movement of US 5-year treasuries. These bond movements are becoming highly correlated with movements in the forex markets.
Kato	Bear	116.00 – 112.50	The yen will continue to face downward pressure from the relative gap between US and Japanese monetary policy. However, the yen's real effective exchange rate has dropped close to the edge of the Kuroda Ceiling. With elections also looming in July, the authorities may move to curb the yen's weakness.
Ito	Bull	116.50 – 113.00	The most important issue at the moment is the response to rising inflation, with investors focusing on the next monetary policy moves in the US. Though the markets are already factoring in a rate hike, the dollar/yen pair looks set to move firmly on hawkish FRB movements. The pair will probably hit highs if US long-term interest rates rise.
Yamagishi	Bull	117.00 – 114.50	The dollar/yen pair will float at highs. The greenback will be bought as the FRB moves toward monetary policy normalization. However, the interest rate futures market has already priced in three interest rates this year, so the pair will could move with a heavy topside until the emergence of some new factors like balance sheet tightening (QT).
Ushijima	Bull	117.00 – 114.00	With a rate hike expected as early as March, the dollar/yen pair looks set to move firmly on the divergent monetary policies of the US and Japan. If risk assets continue to be bought back from 2022, the pair will probably be supported by a bullish cross yen too.
Omi	Bull	117.00 – 113.00	The greenback will continue to be bought on expectations that the FRB will start to lift rates in 2022. As such, there are concerns about the firmness of stock markets. The dollar/yen pair could renew highs, but it will probably drop back from highs too.
Ueno	Bull	118.00 – 114.00	US monetary policy continues to shift stages. As a result, the markets are growing less responsive to the Omicron variant. The dollar/yen pair will move bullish overall, though investors will be watching to see whether it breaks clearly above its November 2021 high of 115.52 yen.
Yamaguchi	Bull	117.00 – 113.50	The dollar/yen pair will continue to move firmly on the different monetary policies of Japan and the US. The markets are concerned about soaring inflation, so the US might start hiking rates from March this year. If these expectations rise on the release of economic indicators, the dollar/yen pair might renew its 2021 highs.
Kai	Bull	116.00 – 114.00	The Omicron variant continues to spread, but the risk of serious illness is minimal, so a gentle mood of risk appetite looks set to continue. The yen will probably weaken as investors focus on the prospects of earlier US rate hikes in 2022.
Onozaki	Bull	117.00 – 113.50	If anything, the yen will probably weaken this month. The dollar/yen pair could top 2021 highs on the divergent monetary policies of the US and Japan. However, market participants have also factored in the scenario of 'rate hikes = yen bearishness' to a considerable extent. As such, the pair's topside will also be capped.
Tamai	Bull	117.00 – 113.50	The greenback will remain bullish on early US rate hikes. Though the FOMC struck a hawkish tone in December, US interest rates did not rise much thereafter. There is a sense that US rates are lagging behind, so the greenback will probably move higher as this situation is rectified.
Harada	Bull	117.00 – 113.50	There are concerns about the spread of Omicron, with several countries rushing to implement countermeasures. Nonetheless, end-of-year holiday movements in the US suggest economic activity is recovering. With US inflation also rising, the yen will continue to be sold this month.

Oba	Bull	117.00 – 113.50	The FRB looks set to wind down tapering around March this year. It is also expected to be lifting rates in the first half of 2022 at the earliest, with around three rate hikes predicted for 2022. This suggests the dollar/yen pair will continue to move bullishly on widening Japanese/US interest-rate differentials. Investors should be wary of comments aimed at curbing yen bearishness when the pair approaches the 120 yen range.
Katoono	Bull	116.00 – 112.50	As expected, the FOMC struck a balanced approach when it met in December, so although this did not prompt faster dollar buying, it did support the dollar/yen pair. The yen is also being sold comparatively sharply as the Omicron situation and the Ukraine problem ease off, so investors will probably test the pair's topside this month.
Kobayashi	Bull	118.00 – 114.00	If US bond yields rise higher on expectations for early FRB rate hikes, the yen could fall at a faster pace against the dollar. There are concerns about Covid-19 and other risk-adverse factors, but the greenback will probably be bought on the firm movements of stocks and US bond yields.
Henmi	Bull	117.00 – 113.80	Expectations for a Japanese economic recovery are unlikely to rise, so the yen looks set to move bearishly. With early US rate hikes also looming into view, the dollar/yen pair is likely to move firmly as investors focus on widening Japanese/US interest-rate differentials.
Otani	Bull	117.00 – 114.00	The FRB decided to taper at a faster pace in December, with US rate hikes also expected to commence in the first half of the year. The Bank of Japan remains in easing mode, though, so the dollar/yen pair will continue to move firmly on the divergent monetary policy stances of Japan and the US.
Suzuki	Bull	117.00 – 114.00	The dollar/yen pair will continue to trade firmly, with its movements also supported at the cross yen is sold on bullish stock markets and so on. Expectations for an early US rate hike have also risen on the hawkish stance of the FRB, so investors will continue to buy the dollar and the pair may have its topside tested.
Okuma	Bull	117.00 – 114.00	The US economy is moving firmly. US interest rates are rising on expectations for an early rate hike, for example, while US stocks continue to hit record highs. The Bank of Japan is even further than the ECB when it comes to financial normalization, so there is a dearth of yen buying factors too. As such, the dollar/yen pair looks set to move firmly this month.

## Euro – January 2022

**Expected Ranges**                      **Against the US\$: US\$1.1000–1.1500**  
**Against the yen: JPY128.00–132.00**

### 1. Review of the Previous Month

The euro/dollar pair floated around \$1.13 in December.

The pair began the month trading around \$1.1330. Amid a dearth of new factors, it moved with a lack of incentives at the lower-\$1.13 mark. FRB officials made some hawkish comments on December 2, while Europe was hit by concerns about the spread of the Omicron variant, so the dollar was bought, the euro was sold and the pair weakened to the upper-\$1.12 level. The pair fluctuated wildly on December 3 as the greenback moved erratically on the release of the US employment data for November, though it then rallied to \$1.13 as the dollar was sold on falling US interest rates.

Reports emerged on December 6 that Omicron only led to mild illness. With China also lowering its deposit reserve requirement ratio, as expected, excessive risk aversion waned. The dollar was bought, with the pair tumbling to the mid-\$1.12 mark. The pair then fell to around \$1.1228 on December 7 while activating short-term stop losses. Risk appetite grew on December 8 when a US pharmaceuticals company said a third vaccine shot was effective against the Omicron variant. The greenback was sold as risk-off dollar buying was unwound, with the currency pair bouncing back to the mid-\$1.13 level. The pair fell below \$1.13 again on December 9 on the bullish results of a US economic indicator. It then recovered to \$1.13 on December 10 as US interest rates fell on the results of the US CPI data for November.

On December 13, the pair edged down to the mid-\$1.12 range. On December 14, it emerged that the ECB was expecting inflation to remain below the 2% target in 2023 and 2024, but this news did not lead to the formation of a new trend. The pair dropped to a monthly low of \$1.1221 on December 15 on the hawkish contents of the FOMC meeting. It then returned to the upper-\$1.12 mark, perhaps due to a sense of the relief that the results of the FOMC meeting had fallen within the bounds of expectations. The pair was then dragged up to the mid-\$1.13 level by a bullish pound after the BOE implemented a rate hike on December 16. The pair's topside temporarily hit a monthly high of \$1.1360 after the ECB announced it would wind down the PEPP at the end of March 2022. However, the pair was then pushed back to the lower-\$1.13 mark following dovish comments by ECB president Christine Lagarde. On December 17, an FRB official said there might be a rate hike in March 2022, so the greenback was bought and the pair slipped to the mid-\$1.12 range.

Amid a dearth of factors, the pair floated around \$1.1280 over December 20–21 with an eye on position adjustments and US interest rates. The pair then strengthened to around \$1.1340 on December 22 as risk appetite grew on firm European stock movements. It dropped back to the upper-\$1.12 level for a time on December 23 on rising US long-term interest rates and the strong results of a US economic indicator, though it then rallied to \$1.13 on firm stock market movements and position adjustments ahead of Christmas holidays. With the US and Europe on holiday on December 24, the pair moved with a lack of direction at the lower-\$1.13 mark. With market participants thin on the ground and new factors scarce around the turn of the year, the pair moved in a range around

---

\$1.13 from December 27 onwards.

## 2. Outlook for This Month

The euro/dollar pair is expected to move bearishly in January.

After trading at the lower-\$1.20 mark in January 2021, the pair then weakened until it dropped below \$1.12 in November. A sense of achievement grew after the pair had hit its lowest point for around 17 months, with the pair then bouncing back slightly to trade with a heavy topside around \$1.130 in December. 2021 was a year of euro bearishness, with the single currency falling against the dollar, Canadian dollar, pound and basically all the G10 currencies. Psychologically speaking, it is hard to imagine the euro weakening further from here on, though the single currency will probably remain bearish in 2022 given the divergent monetary policies of the US and Europe and the fact that the euro had previously risen throughout 2020.

As expected, the ECB began moving steadily toward financial normalization last month when it decided to wind down the PEPP at the end of March. However, the ECB said it could reactivate this program at any time if needed and it also decided to increase purchases through the APP as a sudden-change alleviation measure. Rate hikes remain some way off and there are still concerns about the spread of Omicron, so it seems the ECB's hawkish shift was limited. When it met last month, the FOMC decided wind down tapering at an earlier date (March) and it also upgraded its interest rate forecast. A rate hike as early as March cannot be completely discounted, so the euro/dollar pair will probably trade with a with a heavy topside as investors focus on widening European/US interest-rate differentials.

As for the spread of Omicron, it seems the variant is leading to fewer serious illnesses and deaths compared to Delta at a similar stage, so although some regions have seen record numbers of infections, the stock and forex markets have not shifted substantially. There are concerns about another surge in cases following the Christmas and New Year holidays. If it seems the authorities are wavering in their determination to put economic activity first, the euro might be sold as investors flee the eurozone, so caution will be needed.

## Dealers' Market Forecast

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

Bullish on the euro	3 bulls	1.1500 – 1.1200	Bearish on the euro	18 bears	1.1415 – 1.1150
---------------------	---------	-----------------------	---------------------	----------	-----------------------

### \* Ranges are central values

Tanaka	Bull	1.1450 – 1.1200	Europe faces more negative factors than the US given the spread of Omicron, for example, but this will have minimal impact on the euro/dollar pair. Though it lags behind the FRB, the ECB is also moving toward normalization, so with decisive factors thin on the ground, the pair is likely to continue trading in a range in January on supply and demand trends.
Yano	Bear	1.1400 – 1.1150	With the Covid-19 situation growing more serious, the ECB seems to be lagging behind the FRB when it comes to tapering and rate hikes. Investors are expecting the US to hike rates, but similar expectations about Europe are unlikely to emerge this month, with the euro set to continue trading with a heavy topside against the dollar.
Tsutsui	Bear	1.1400 – 1.1150	Since the year 2000, the euro has tended to trend higher in tandem with US rate hikes. However, at the earliest the FRB might implement a rate hike in March when tapering ends, so the euro will be sold on interest rate differentials.
Kato	Bull	1.1600 – 1.1200	If the Ukraine crisis intensifies and commodity currencies face some adjustment, the euro will be an attractive refuge currency. With the eurozone also holding the world's highest trade surplus, the euro/dollar pair will probably see some corrective buy-backs.
Ito	Bear	1.1450 – 1.1100	The greenback will remain susceptible to buying on the divergent monetary policy stances of the US and Europe. If the euro/dollar pair drops clearly below its \$1.12 support, it will probably weaken further thereafter.
Yamagishi	Bear	1.1400 – 1.1150	The euro/dollar pair's topside will be weighed down by the divergent monetary policies of the US and Europe. There are concerns that inflation might peak out, so investors should monitor indicators related to European prices. The ECB announced it would start QE tapering in December, so a sense of bottoming out will probably emerge when a 2023 rate hike becomes a more realistic prospect.
Ushijima	Bear	1.1400 – 1.1000	When it met last month, the ECB decided to wind down the PEPP, with the central bank edging toward an exit from QE. It still lags behind the FRB, though, so the euro/dollar pair looks set to trade with a heavy topside. One negative factor will be the ongoing resurgence of Covid-19.
Omi	Bull	1.1500 – 1.1200	The euro stopped sliding when the ECB decided to wind down the PEPP. The central bank also announced it would lower the APP amount in stages. With the ECB now shifting in a tightening direction, it seems the euro/dollar pair could bottom out.
Ueno	Bear	1.1400 – 1.1000	The US is shifting to a different stage of monetary policy and it remains some way ahead of Europe. There seems to be a lack of decisive factors, but with the greenback prone to buying, the dollar/yen pair will probably edge lower.
Yamaguchi	Bear	1.1430 – 1.1180	There are concerns the economic recovery might slow on the resurgence of Covid-19. With the US and Europe also moving in different directions when it comes to monetary policy, the euro/dollar pair looks set to continue falling. However, the pair will be bought back steadily as the economy continues to recover after the PEPP ends.
Kai	Bear	1.1300 – 1.1150	The Omicron variant continues to spread, but the risk of serious illness is minimal, so a gentle mood of risk appetite looks set to continue. With investors focusing on the prospects of earlier US rate hikes in 2022, the greenback will probably be bought on the divergent stances of the ECB and FRB.
Onozaki	Bear	1.1500 – 1.1000	The euro/dollar pair will move heavily on the divergent monetary policies of the US and Europe. However, there will likely be some buying at just below \$1.10, so the pair's downside will probably be capped at \$1.10.
Tamai	Bear	1.1450 – 1.1150	With investors likely to focus again on early US rate hikes, the euro/dollar pair will move heavily on the topside on the divergent monetary policies of the US and Europe. However, inflation is rising in Europe and there are growing expectations for tapering, so the pair's room on the downside will be capped.
Harada	Bear	1.1450 – 1.1150	Omicron is surging across Europe and there are concerns infections might increase now the holiday season is over. There are also fears about stagflation on high energy costs, so any euro buying will be muted.
Oba	Bear	1.1400	The euro/dollar pair looks set to move bearishly. After breaking below \$1.12 in November, the pair bounced back,



		– 1.1150	though it failed to reach \$1.13 and then moved with a heavy topside in December. With the US also expected to begin hiking rates as early as the first half of 2022, the pair will move weakly on the monetary policy gap.
Katoono	Bear	1.1400 – 1.1200	Omicron does not seem too deadly and there are high hopes for vaccines. Cases are soaring within the eurozone, though, so even if there are no new restrictions on mobility, consumer sentiments will probably be hit. There will also be concerns about Russia at the start of year, so the euro/dollar pair looks set to continue trading with a heavy topside.
Kobayashi	Bear	1.1450 – 1.1100	There are growing expectations for early FRB rate hikes. This contrasts with several dovish comments by ECB officials, with the euro/dollar pair set to move bearishly on these divergent monetary policies.
Henmi	Bear	1.1500 – 1.1000	Any ECB hawkishness will be muted given the uncertainty about the spread of Omicron. With an early rate hike also looming in the US, the euro/dollar pair will move bearishly on the divergent monetary policies.
Otani	Bear	1.1400 – 1.1150	With Covid-19 cases remaining high in Europe, there are concerns that the economic recovery might slow. The ECB has adopted a negative stance towards rate hikes in 2022, so the euro/dollar pair is likely to continue trading with a heavy topside.
Suzuki	Bear	1.1450 – 1.1150	Concerns of an economic slowdown have risen again as European countries introduce lockdowns and other measures to cope with surging Covid-19 cases. The euro/dollar pair's topside will also move heavily on the divergent stances of the FRB and ECB when it comes to QE tapering.
Okuma	Bear	1.1500 – 1.1200	The Covid-19 situation is worsening, but the Omicron variant does not seem that dangerous, so risk appetite will probably increase. However, the ECB is lagging behind the FRB when it comes to financial normalization, so the euro/dollar pair will probably move firmly but with a heavy topside.

# British Pound – January 2022

## Expected Ranges

Against the US\$: US\$1.3100–1.3900

Against the yen: JPY150.00–159.00

## 1. Review of the Previous Month

The pound moved sluggishly early December before rallying toward the end of the month.

Sterling moved bearishly at the start of the December. The GBP/USD pair kicked off the month trading around \$1.33. It then fell to the lower-\$1.32 level as the greenback moved firmly on the US employment data (released December 3). It continued moving in a narrow range around \$1.32 thereafter before hitting a monthly low of \$1.3162 on December 8. Concerns about Omicron may have dampened expectations for a Bank of England (BOE) rate hike, while trust in the UK government also fell on a scandal involving the prime minister's team (a Christmas party was held at Downing Street last year, right in the middle of a lockdown). The pound did not fall further, though, with the pair moving flatly at a 12-month low. It is possible the pair was also bolstered by the fact its monthly 50-day line stood at \$1.32.

The unexpected BOE rate hike on December 16 was perhaps one factor behind sterling's rally over the latter half of the month. Several central banks held policy meetings that week, but the BOE seemed to regard Omicron as not such a big deal when lifted its policy rate by 15 basis points to 0.25%. The currency pair climbed to the upper-\$1.33 level, but this momentum was short-lived and the pair temporarily dropped below \$1.32 again on December 20. However, sterling bounced back again to undergo an essentially one-sided comeback until the end of the month. On December 22, UK new Covid-19 cases topped 100,000 a day for the first time, but the UK government ruled out any lockdown, with investors instead focusing moves in the interest-rate markets to price in UK rate hikes in 2022. The pair hit a monthly high of \$1.3550 on December 31 and it closed the month trading at highs.

## 2. Outlook for This Month

In January, the GBP/USD pair will trade with a lack of direction with an eye on expectations for rate hikes.

Firstly, sterling will be supported by the fact the BOE has adopted a more hawkish stance than other major central banks, but the markets have already factored in this hawkishness to a considerable extent, so the pair's room on the topside will be capped. As of the end of December, investors in the overnight interest-rate swap (OIS) market were already expected the BOE to hike its policy rate by another 15 basis points when it met on February 3 (the BOE's Monetary Policy Committee (MPC) will not be meeting in January). These expectations are sufficient to push sterling higher.

The biggest uncertainty will be Covid-19. Omicron has already become the dominant strain in the UK, with cases topping over 180,000/day in the last week of December. The Johnson cabinet has ruled out new restrictions on movement, but Scotland, Wales and Northern Ireland have reintroduced restrictions, with England the only holdout. The UK government has been rolling out booster shots (third dose). At present, most observers believe boosters will work, with Omicron unlikely to lead to many serious cases, but the BOE's scenario could shift

depending on how things develop.

Another uncertain factor in the UK is the approval rating of prime minister Boris Johnson. Some voices say the government has not introduced restrictions because the prime minister is not in control of his own party (one UK bookmaker has put the odds of Mr. Johnson stepping down in 2022 at around 55%). Political instability will naturally push sterling lower.

Finally, the one-month implied volatility in the forex options market is likely to fluctuate by around  $\pm 1.5\%$ . When it comes to risk reversals, put options are still moving with more volatility than call options. This suggests option trader positions on the pound have not shifted in a particularly bullish direction. Sterling's gains after the rate hike last month were soon pared back and there is some skepticism about the pound's room on the upside.

# Australian Dollar – January 2022

## Expected Ranges

**Against the US\$: US\$0.7100–0.7400**

**Against the yen: JPY81.80–85.30**

## 1. Review of the Previous Month

The AUD/USD pair's downside was supported on December 1 when Australia's Q3 GDP data did not deteriorate as much as expected. However, the pair then dropped back to around \$0.71 as US stocks continued falling in hawkish comments that FRB chair Jerome Powell had made the previous day. The US November employment data was released on December 3. Though jobs growth was down on expectations, the unemployment rate and labor participation rate both improved, so the currency pair fell to \$0.6933, its lowest level since last November. On December 6, director of the National Institute of Allergy and Infectious Diseases Dr. Anthony Fauci made positive comments about the seriousness of the Omicron variant, so risk aversion dropped off slightly. The pair was also bolstered to the mid-\$0.70 mark after the People's Bank of China announced it was lowering the bank deposit reserve requirement ratio. The RBA's statement was released on December 7 and it mentioned that Omicron was unlikely to lead to an economic downswing. It also forecast that the economy would recover to pre-Delta levels in the first half of 2022. This was read as slightly hawkish and the Australian dollar was bought as a result. Stock prices then had their topsides tested on positive news that existing vaccines were effective against Omicron, with the AUD/USD pair also climbing to the lower-\$0.71 mark.

The greenback was sold on December 10 when the US November CPI result turned out to be not as strong as feared, so the currency pair rose to the upper-\$0.71 level. When it met on December 15, the FOMC decided to accelerate the pace of tapering, with the dot chart also forecasting three rate hikes in 2022. With the FOMC also expressing optimism about the outlook for the US economic recovery, stocks rose sharply. Though the currency pair moved bearishly at the start of the week, it hit the upper-\$0.71 mark again before the day's end. The pair rose slightly on December 16 on the better-than-expected result of the Australian employment data for November. The pound rose sharply when the BOE announced an unexpected rate hike. With the greenback also sliding, the AUD/USD pair temporarily climbed to the lower-\$0.72 mark.

With some countries tightening restrictions on the spread of Covid-19, risk sentiments worsened on December 20 and the pair dropped below \$0.71 for a time. Stocks fell and the pair moved heavily after Democratic senator Joe Manchin clearly stated he would not support and tax and spending bill that President Biden was trying to push through. On December 22, Mr. Biden said he could still reach an agreement with senator Manchin. With optimistic news also emerging about the severity of Omicron, risk appetite prevailed. The pair subsequently rose to the mid-\$0.71 level. The US Q3 GDP figure was revised upwards on December 23. With the US Conference Board's consumer sentiment index for December also beating expectations, stocks rose higher and the greenback fell. The pair rose to the lower-\$0.72 level as a result. As US stocks bounced back, the pair moved firmly to close the month at the mid-\$0.72 mark.

## 2. Outlook for This Month

The AUD/USD pair will move firmly in January.

In December, the RBA expressed the opinion that Omicron would not impede the economic recovery, with the RBA striking a hawkish pose as leading indicators pointed to a strong labor market recovery. In a speech mid-December, RBA governor Philip Lowe said there were three options when it came to tapering: (1) finishing in May, (2) reviewing the pace of tapering in May, or (3) finishing in February. He added that option (1) seemed the most likely at present. The RBA will not be meeting in January, with its next meeting planned for February. As such, the result of Australia's 4Q CPI data (released January 25, 2022) is likely to have a significant impact on the RBA's tapering decision. If the data swings up more than expected, this will increase the likelihood of option (3), with the currency pair's topside tested as a result. However, the situation is not the same as the US, where the FRB looks set to lift rates as soon as tapering is brought to a close. The RBA is not expected to hike rates until some time later in 2022, so it is hard to see the Australian dollar being bought sharply. In any case, inflation holds the key to policy moves in both the US and Australia, with inflation set to be a major theme for the Australian dollar in 2022. With positive news emerging about the severity of Omicron and the effectiveness of vaccines, risk appetite is recovering, but Australia has posted a record rise in new cases, so investors should continue to monitor this situation too.

## Canadian Dollar – January 2022

### 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 December trading at C\$1.2751. Risk aversion prevailed at the start of the month on growing concerns about the Omicron variant, though composure gradually returned to the markets on news that Omicron was not so severe. The Canadian dollar moved bullishly on rallying crude oil prices and robust economic indicators. However, the greenback was then buoyed by the hawkish stance of the FOMC. With Covid-19 cases also surging in the US, Europe and elsewhere, the currency pair climbed to the mid-C\$1.29 mark. The pair hit a monthly high of C\$1.2964 on December 20 and a monthly low of C\$1.2608 on December 8.

On December 2, the US announced a plan to release oil from the Strategic Petroleum Reserve. With OPEC+ also reaching an agreement to maintain production increases, crude oil prices temporarily fell to \$62.43/barrel. The Canadian dollar was sold and the pair hit C\$1.2830.

The US employment data was released on December 3, with the US dollar sold after the nonfarm payrolls figure fell sharply below expectations. However, the Canadian November employment data saw the unemployment rate for November dipping to 6%, with the number of jobs rising for the sixth straight months. With crude oil also recovering to \$69.22/barrel, the Canadian dollar was bought and the currency pair dipped to C\$1.2744. With the number of Omicron cases rising sharply, though, risk aversion prevailed again, so the pair topped C\$1.28 to rise to the mid-C\$1.28 level.

Concerns about Omicron started to fade toward December 7, with crude oil rising to \$73.03/barrel. The Canadian October trade data also revealed that imports and exports had increased for the second successive month. The Canadian dollar was bought and the USD/CAD pair dropped below C\$1.27 to hit C\$1.2635. The Canadian dollar then strengthened to C\$1.2608 for a time on December 8 on expectations that the Bank of Canada (BOC) Monetary Policy Committee (MPC) would implement an early rate hike. The BOC kept rates fixed in the end, though, so after trading somewhat erratically, the pair regained composure at the mid-C\$1.26 level. Amid news about an increase in Omicron cases, the pair rose to C\$1.28 ahead of the FOMC meeting. When it met on December 15, the FOMC decided to accelerate the pace of QE tapering, with participants also expecting three rate hikes to take place in 2022. As uncertainty about rate hikes cleared, the pair rose higher to hit C\$1.2937. US interest rates then fell, while the US released some bearish economic indicators (including the new applications for unemployment insurance data), so the pair weakened to C\$1.276. Stock selling orders swelled on December 20 on news that more countries were tightening restrictions in the face of rising Omicron cases, with crude oil prices also dropping back to \$66.04. The USD/CAD pair hit a monthly high of C\$1.2964. Market concerns about Omicron eased at the month's end. Amid thin trading at the end of the year, the greenback was sold and the pair dropped below C\$1.27 to close at C\$1.2648.

## 2. Outlook for This Month

Canada saw the number of Omicron cases surging toward the end of the year. With the number of new cases hitting record highs, concerns grew even more pronounced over the holiday season. Canada has started to roll out booster shots to tackle the crisis, with each state also toughening restrictions. With infections particularly high in Quebec, people have been asked to work from home and restrictions have been places on the number of customers in restaurants and bars. However, reports suggest the symptoms of Omicron are mild, while the number of cases have already peaked out in South Africa, for example, with some observers suggesting Omicron will have minimal impact on the economic recovery. The Bank of Canada (BOC) has voiced optimism. It admits that the supply chain recovery will be slowed by Omicron, with economic growth hit as a result, but it says the Canadian economy will continue to recover, with employment recovering the pre-pandemic levels and wage growth also accelerating. Inflation is also picking up pace and the BOC predicted that this trend would continue until the first half of 2022, with inflation subsequently cooling to 2.1% at the year's end. The BOC Monetary Policy Committee (MPC) will be meeting on January 26. The MPC hinted at an April rate hike in its forward guidance and it will probably maintain its hawkish stance. However, some market participants are expecting five rate hikes in 2022, so expectations for a January hike are rising. The currency pair will probably fluctuate wildly around the time of the meeting, so caution will be needed.

When it met in December, the FOMC announced it would wind down tapering in March 2022 and it hinted at a rate hike in the second quarter, or as early as May. At the moment it seems likely the BOC will hike rates before the FRB, with the Canadian dollar set to rise in the short term. Some FRB members have hinted at a March rate hike, though, so the pair could be weighed down by the timing of rate hikes. There are also concerns that crude oil demand might fall on the spread of Omicron, with prices set to swing lower, but oil-producing nations continue to act in tandem, so crude oil's lower price will probably be capped by adjustments to output. OPEC+ will be meeting on January 4, so attention will focus on whether it will continue to increase production by 400,000 barrels a day. If regions introduce tougher restrictions and cities implement lockdowns on the spread of Omicron entering 2022, this will probably lead to risk aversion, but market fears about Omicron are waning, so the currency pair looks set to trade with a heavy topside. In January, the pair is expected to move between C\$1.23–1.29 with an eye on the spread of Covid-19, the crude oil markets, and US/China relations, for example.

# Korean Won – January 2022

## Expected Ranges

Against the US\$: KRW 1,170–1,220

Against the yen: JPY 9.434–9.901 (KRW100)  
(KRW 10.100–10.600)

## 1. Review of the Previous Month

The USD/KRW pair moved with a lack of direction in December.

The greenback was sold during overseas trading time on November 30 as concerns eased about the highly-infective Omicron variant, so the pair opened December 1 trading at KRW1184.4. The dollar then rose across the board over December 1–2, but with South Korean stocks being bought by overseas investors, the currency pair fell to KRW1175.1. However, the pair was bought on the dip at this level. It opened December 3 trading at KRW1177.5 after several FRB officials voiced hawkish comments about an early rate hike, with the pair moving relatively firmly thereafter on real-demand dollar buying. However, a strong sense of direction failed to emerge ahead of the release of the US employment data, so the pair just fluctuated gently around KRW1180.

The pair opened the following week trading at KRW1184.0 on December 6. The previous week's trend of South Korean stocks being bought by overseas investors spilled over into the first half of the week and the Korea Composite Stock Price Index (KOSPI) rose every day, so the pair moved with a heavy topside. During overseas trading time on December 8, news emerged that Omicron might not be so severe. As risk assets were bought back, the currency pair fell to a monthly low of KRW1172.8 on December 9. However it was bought on the dip at this level and soon bounced back. The greenback was bought on December 10 ahead of the release of the US CPI data for November, so the pair topped KRW1180.

The pair opened the following week trading at KRW1180.1 on December 13. With the FOMC meeting looming, the pair was swayed by dollar buying toward December 15. The FOMC turned out as expected, with the pair opening December 16 at KRW1183.9, essentially unchanged on the previous day's close. With new factors thin on the ground, the pair then fell slightly. Amid a dearth of any particularly noteworthy events, the pair moved with a lack of direction toward the weekend.

The pair opened the following week trading at KRW1189.0 on December 20 as the greenback was bought on risk aversion after US stocks fell on a surge in Omicron cases. Speculative flows by institutional investors tapered off towards the year's end. The currency pair continued to trade with a lack of incentives as the won was bought on real demand and the dollar was bought across the board. This trend spilled over into the last day of trading on December 30, with the pair finally closing at KRW1188.9, up 0.9 won on the end of November.

## 2. Outlook for This Month

The USD/KRW pair is expected to move firmly in January. Though the pair failed to hit the key KRW1200 mark in December, it was noticeable how the pair remained firm, despite December being a month of considerable end-of-quarter won buying. This reconfirmed the existence of some latent pressure pushing the pair upwards.



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

As for (1), with inflation rising in the US, the FOMC decided to accelerate the pace of tapering when it met in December. FRB chair Jerome Powell also stated that it seemed rising inflation would prove a transitory factor, though he added that the FRB would “use our tools to make sure that higher inflation doesn’t get entrenched.” The median projections of FOMC members also projected three rate hikes in 2022. However, the policy rate prediction of market participants is lower than the FRB’s forecast, which suggests there is some skepticism about the FRB’s outlook for rate hikes, though inflation (the grounds for an early rate hike) remains high. Under these circumstances, the greenback will probably rise across the board in January as market participants move closer to the FRB’s forecast, with a dollar neutral situation likely to occur as the FRB moves closer to the forecast of market participants. The absence of factors promoting short-term dollar bearishness will also be a factor pushing the pair higher.

As for (2), the BOK implemented a 25bp rate hike in November, with the BOK governor commenting that any future rate hikes will depend on the Covid-19 situation. Unfortunately, Covid-19 cases then increased in South Korea, with the authorities reintroducing restrictions on movements. As such, won buying on South Korean monetary policy is likely to drop off.

As mentioned, the currency pair moved with a lack of direction in December. The markets are unlikely to focus on won factors in January either, with this situation set to continue. However, with the greenback likely to be bought across the board, the pair looks set to move firmly, even if it doesn’t rise. The authorities could intervene if the pair tops the key KRW1200 mark, so the pair is unlikely to undergo a one-sided rise, though investors should be careful of upswings.

# New Taiwan Dollar – January 2022

## Expected Ranges

**Against the US\$: NT\$27.60–27.85**

**Against the yen: JPY4.07–4.20**

## 1. Review of the Previous Month

The USD/TWD pair moved fell in a range in December.

After opening the month trading at TWD27.800 on December 1, the pair moved around TWD27.73 as Taiwan stocks edged higher, but with overseas investors also selling Taiwanese stocks on balance, the pair climbed to TWD27.78. However, Taiwanese stocks continued rising as concerns about the Omicron variant waned. With exporters also selling the greenback, the pair dropped to around TWD27.67.

With the FOMC meeting looming mid-December, Taiwanese stocks fell on risk aversion after an Omicron fatality was recorded in the UK. The Taiwan dollar was also sold, with the currency pair rising to around TWD27.84. It continued moving in the TWD27.8 range thereafter before rising to TWD27.860 for a time.

Risk appetite grew late December on growing expectations that Omicron would not impact economic activity much as it did not appear so severe. Taiwanese stocks rocketed while exporters sold the greenback toward the year's end, so the currency pair fell. On December 24, the Taiwan Capitalization Weighted Stock Index hit 18,000 points for the first time in around five months. It recorded a new high on December 27, with the currency pair subsequently breaching TWD27.70. The Taiwan dollar was bought thereafter as the Taiwan Capitalization Weighted Stock Index continued to hit record highs, with the pair dipping to TWD27.631 for a time. There was some correction at the year's end, with the pair closing 2021 around TWD27.69.

## 2. Outlook for This Month

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

Taiwanese stocks rose and the Taiwan dollar strengthened in December on risk appetite as excessive concerns about the Omicron variant dropped off. Looking back over 2021, it seemed the Taiwan dollar rose in the first half of the year, with the pair moving in a range thereafter. As with 2020, exports moved briskly in 2021, with the export amount hitting a record monthly high several times from July. As such, Taiwan's trade surplus grew in 2021, but with imports also expanding and commodity prices rising, this growth probably slowed as of December 2021. The Taiwan dollar had risen to historical highs in 2020, with the unit facing even more upward pressure in 2021. Nonetheless, the currency pair moved in a range over the latter half of 2021. It seemed this pressure was offset by rising US interest rates on expectations for US financial normalization, with expanded Taiwanese overseas investment also playing a major role.

The semiconductor industry is one of Taiwan's most important industries and global demand for semiconductors is likely to remain high in 2022, so Taiwan will continue to post a trade surplus. Nonetheless, Taiwanese investors are likely to continue investing in securities as they monitor how US long-term interest rates move on US financial normalization. With supply and demand also likely to balance out (just like in the latter half of 2021), the USD/TWD pair looks set to continue trading in a range. Still, although concerns about the Omicron variant have eased, risk

aversion could flare up again if new variants emerge or urban lockdowns are introduced on surging cases, for example, so the Taiwan dollar will probably be sold at times. However, if travel restrictions, lockdowns and curtailments on economic activity drag on, the Taiwan dollar will probably strengthen. If expectations for US rate hikes slide and US interest rates fall, Taiwanese overseas investments (a factor offsetting Taiwan-dollar bullishness) will drop off. Furthermore, if mobility restrictions are introduced and fuel demand declines, the Taiwan dollar will be pushed up as soaring crude oil prices fall and the cost of Taiwan's imports decreases. Taiwan has succeeded in keeping a lid on Covid-19, but if domestic cases increase and this impacts semiconductor production, the aforementioned scenario will no longer obtain, so caution will be needed.

The USD/TWD pair will probably move in a range in January 2022. The Taiwan Capitalization Weighted Stock Index continued to hit records highs on risk appetite at the end of 2021, but there will probably be a dearth of factors capable of pushing stocks higher. As expected, the FOMC confirmed it would continue to taper when it met in December, but US long-term interest rates have not risen, so Taiwanese overseas investments will probably not increase sharply either.

# Hong Kong Dollar – January 2022

**Expected Ranges**                      **Against the US\$: HK\$ 7.7800–7.8200**  
**Against the yen: JPY 14.40–14.90**

## 1. Review of the Previous Month

### Hong Kong dollar spot exchange market in December

USD/HKD spot climbed as much as to its 2-year fresh high of 7.8047, as the Fed confirmed its hawkish shift in December. The Fed doubled the pace of tapering and projected 3 times of 25bps rate hike both in 2022 and 2023. Under the USD-HKD peg, the sooner Fed's rate hike cycle pointed to USD-HKD rate spread widening and drove USD/HKD spot higher. Moreover, there was no relief in funding pressure on Chinese developers with more bonds defaults taking place. Some of the indebted Chinese developers sold their HK property assets to repay USD bond interest payment, contributing the USD buying/HKD selling flow. While HK equities continued to drop on Chinese government's crackdown on tech sector and US's sanction risk, the year-to-date Stock Connect inflow to HK recovered to near HKD 450bn at year-end. The IPO flow in December also provide some support to the HKD, and HKD spot returned to below 7.80 handle in late December. Back-end USD/HKD forward curve fell as HKD-USD interest rate differentials are expected to widen next year.

### Hong Kong dollar interest rate market in December

1-month and 3-month HKD HIBOR continued to climb on year-end funding pressure and Fed's hawkish shift. Meanwhile, the HKMA extended the liquidity drainage via the increasing Exchange Fund Bills (EFBs) issuance. As a result, HKMA aggregate balance declined to HKD 377.5bn but the liquidity condition should remain ample. Subsequently, 1-month and 3-month HKD HIBOR rose to 0.2% and 0.25%, respectively. With the year-end funding demand in play, 1-month HKD HIBOR – USD LIBOR spread widened to 9bps from par, while 3-month rate spread narrowed. 3Y and 5Y HKD IRS curve was settling at 1.1% and 1.3%, respectively, as market participants front-loaded expectation for Fed's rate hike cycle. With still ample HKD liquidity condition, the negative HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) was hovering at -90bps.

## 2. Outlook for This Month

### Hong Kong dollar spot exchange market in January

USD/HKD spot is expected to range between 7.78 and 7.82 in the coming month. We expect USD/HKD spot to gyrate at 7.80 handle before the return of carry trade flow after Fed's lift off. In comparison to the Fed's tightening cycle in 2015, the pace of rate hike cycle should prove to be much faster amid mounting inflationary pressure in the US. Unless the HKMA accelerates its liquidity withdrawal, HK banks are unlikely to raise interest rates soon and the USD-HKD rate spread should leave HKD spot under pressure. Equity inflow to HK is expected to remain subdued in 2022 before HK equities reversed their downtrend. The IPO projects from the

Chinese companies delisted from US exchanges may help slow the pace of HKD depreciation but is unlikely to reverse the HKD depreciation trend towards 7.85 level in the medium term.

### **Hong Kong dollar interest rate market in January**

Given extra HKMA's extra EFBs issuance, HKMA aggregate balance is expected to fall to HKD 337.5bn in February 2022. At that level, HKD liquidity condition should remain ample and front-end HKD rates will likely retreat after the year-end. Looking back, HK banks refrained from raising their benchmark interest rates in the beginning of rate hike cycle in 2015 and we believe that HK banks will stay put in the upcoming rate hike cycle given flush HKD liquidity condition. While the interest rate hedging flow have lifted the HKD IRS curve notably, HKD IRS will probably consolidate at current level before Fed turns even more aggressive in rate hike cycle or discusses quantitative tightening plan. As the Fed is set to enter its rate hike cycle in 2022, we expect HKD rate curve to climb across the tenors under the USD-HKD peg.

# Chinese Yuan – January 2022

## Expected Ranges

**Against the US\$: CNY 6.3500–6.5000**

**Against the yen: JPY 17.38–18.58**

## 1. Review of the Previous Month

In December, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.35 level, after which the foreign currency reserve requirement ratio was raised, and the U.S. dollar/Chinese yuan exchange rate started to fluctuate within a narrow range again.

At the end of November, risk-averse sentiment grew in the market as the omicron variant of Covid-19 was identified. As a result, U.S. interest rates fell, and the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.37 level at the beginning of December. Shortly after market opening, the U.S. dollar/Chinese yuan exchange rate momentarily reached the CNY 6.35 level for the first time since the end of May. Toward the second half of the week, the fall of U.S. interest rates slowed down. As Federal Reserve Board (FRB) officials made remarks to show their willingness for an early start of tapering, the U.S. dollar/Chinese yuan exchange rate offset the fall observed earlier. On December 3, the U.S. dollar/Chinese yuan exchange market closed trading at the upper-CNY 6.37 level.

On December 6, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 6.37 level. The People's Bank of China (PBOC) announced its decision to cut its deposit reserve requirement ratio by 0.5%, which led the U.S. dollar/Chinese yuan exchange rate to rise slightly to the upper-CNY 6.37 level. On December 7, the relending rate was cut by 0.25%. As the PBOC hastily took these measures to support the economy, market participants actively bought the Chinese yuan thereafter. On December 8, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.36 level, falling below the lower end of the recent fluctuating range, and this accelerated Chinese yuan-buying even further. As a result, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.34 level for the first time since May 2018. In the evening of December 9, the PBOC announced its decision to cut the foreign reserve requirement ratio by 2%, which was the second time for the rate to be cut this year. In reaction, the U.S. dollar/Chinese yuan exchange rate started to rise sharply from the CNY 6.34 level to the CNY 6.37 level, putting a brake on the appreciation of the Chinese yuan. In the morning of December 10, the U.S. dollar/Chinese yuan reached the CNY 6.39 level. Toward the end of the week, the U.S. dollar/Chinese yuan pair continued trading at around the CNY 6.37 level, offsetting the fall seen in the week of December 6.

On December 13, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.36 level with a slightly stronger yuan compared to the closing rate of December 10. There were few signs of movement in the overall foreign exchange market, as a Federal Open Market Committee (FOMC) meeting was approaching. Following this trend, the U.S. dollar/Chinese yuan exchange rate also continued fluctuating within a narrow range around the CNY 6.36 level. On December 15, the PBOC cut its deposit reserve requirement ratio, as had been announced in advance. On the same day, the November major economic indices for China were announced, and the results were generally weaker than the market estimates. However, this did not impact the market significantly. In the second half of the week, as the major central banks, including the FOMC, held their meetings without any surprising outcome, the reaction in the market was limited. The U.S. dollar/Chinese yuan exchange rate started

rising in the evening of December 17 and reached the lower-CNY 6.38.

In the morning of December 20, the one-year Loan Prime Rate (LPR) was announced to be 3.8%, with a fall of 5 basis points. In reaction to this announcement, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.38 level after the weekend with a weaker yuan than the closing rate of the previous trading day. However, the exchange rate immediately fell to the mid-CNY 6.37 level, close to the closing rate of the previous week. Thereafter, there were few influential factors, while market activities were decreasing toward the end of the year. As a consequence, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range. Toward the end of the month, the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around the CNY 6.37 level.

## 2. Outlook for This Month

The Chinese yuan is forecast to depreciate gradually against the U.S. dollar in January.

The gap in monetary policy widened between the U.S. and China. In the U.S., three interest rate hikes are anticipated in 2022. With price inflation, there has been a steady plan for monetary policy to be normalized. On the other hand, in China, at the Central Economic Work Conference, the main goal for 2022 was identified as economic stability, which suggests that the PBOC will continue taking measures of monetary easing in the times ahead. The difference in monetary policy between the U.S. and China is most likely to lead the Chinese yuan to depreciate against the U.S. dollar.

Trade: On the other hand, the trade surplus of China is a factor to lead the Chinese yuan to appreciate. The corporate foreign currency deposits have been high, keeping the flow of Chinese yuan-buying, which is likely to continue supporting the Chinese yuan. However, if the production bases of the manufacturing industry return to where they were before the Covid-19 pandemic in 2022, the supply chain would move to Southeast Asia, and this is likely to result in a decline in the trade balance and in the relative depreciation of the Chinese yuan.

In addition to the above, there are other factors that can cause fluctuations in the U.S. dollar/Chinese yuan exchange market, including the situation of the Covid-19 pandemic, the U.S. customs duties imposed on China, the CPI and PPI of China remaining high, headlines related to China's real estate industry, and the strengthened control over domestic sectors in China based on the idea of common prosperity. Market participants should thus remain attentive in the times ahead.

# Singapore Dollar – January 2022

## Expected Ranges

Against the US\$: SG\$ 1.3400–1.3750

Against the yen: JPY 83.00–87.00

## 1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Singapore dollar exchange rate continued fluctuating at the SGD 1.37 level. At the end of November, the omicron variant of Covid-19 started spreading, and stock prices fell amid cautious sentiment. Under such circumstances, the Singapore dollar also weakened. However, stock prices rallied thereafter as a result of reaction buying. Following the trend, the Singapore dollar strengthened as well. Toward December 3, the Singapore dollar appreciated against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.36 level. However, the media reported thereafter that there were only limited risks of severe cases with the omicron variant, and this led U.S. dollar interest rates to start rising. In reaction, the Singapore dollar weakened once. Toward December 7, the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.37 level, reaching a monthly high.

Thereafter, the U.S. dollar/Singapore dollar exchange rate remained on a downtrend (with the Singapore dollar on an uptrend) toward the end of the month. In reaction to the announcement of additional measures of monetary easing in China, the Chinese yuan started to strengthen, following which the Singapore dollar also strengthened. In addition, U.S. stock prices rose significantly, and as a result, the Singapore dollar appreciated to the lower-SGD 1.36 level. Toward December 10, the Singapore dollar continued appreciating, although thereafter the trend changed again and the Singapore dollar started weakening. The market sentiment worsened, as the first case of death due to the omicron variant was confirmed in the U.K. As a result, the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.37 level.

On December 22, stock prices rose in the U.S. and Europe, and this improved the risk sentiment in the market. The overall Asian currencies strengthened as a result. This is thanks to the media report on Turkey's plan to protect deposits, as well as further information about the omicron variant. The National Institute for Communicable Diseases (NICD) in South Africa released a report that there was a possibility that the omicron variant had less risk of serious cases. Furthermore, China had decided to cut its prime lending rate in December. For these reasons, the Singapore dollar appreciated significantly, particularly toward the end of the month. In the end, the U.S. dollar/Singapore dollar exchange market closed trading at the lower-SGD 1.35 level.

## 2. Outlook for This Month

In January 2022, the Singapore dollar is forecast to weaken against the U.S. dollar.

In October last year, the Monetary Authority of Singapore (MAS) changed its monetary policy (toward the appreciation of the Singapore dollar)—this was contrary to market expectations. However, the central issues in the market remained headlines related to the U.S. dollar. In particular, market participants have been interested in the



future measures to be taken by the Federal Reserve Board (FRB), which remains hawkish despite news about the omicron variant. The more news stories are released about the expected end of tapering and the timing of interest rates hikes, the more it is likely for the U.S. dollar to appreciate, resulting in the depreciation of the Singapore dollar.

In December, the Singapore dollar depreciated toward the middle of the month. In October, the MAS changed its monetary policy—this turned out to be a surprise in the market, after which the Singapore dollar continued depreciating (the Singapore dollar depreciated by approximately 1.2% since the MAS meeting in October). This is due to the fact that the U.S. dollar continued appreciating against a wide range of foreign currencies in tandem with monetary normalization in the U.S., supported by U.S. economic indices, which remained strong even after news reports on the omicron variant (especially regarding price indices), along with strong corporate performance. Currently, there has been no downside risk for the Singapore economy, and there has been no contradiction between the current economic situation in Singapore and the change in monetary policy announced by the MAS.

Indeed, the Singapore dollar appreciated toward the end of December, thanks to the strong economic indices of Singapore as well as the dovish attitude of the People's Bank of China (PBOC), resulting in the appreciation of the Chinese yuan. As a result, the Singapore dollar strengthened throughout the month.

However, the appreciation of the Singapore dollar is not expected to last for the long term.

In 2021, the MAS took the first step toward the normalization of its monetary policy. However, this is only to prevent the Singapore dollar from excessively depreciating, while the U.S. dollar is appreciating with more-radical monetary normalization. Thus, for the first half of 2022, the Singapore dollar is forecast to depreciate gradually against the U.S. dollar.

The next MAS meeting is scheduled for April 2022. It is a time at which the U.S. is expected to end the tapering process and indicate its plans for actual interest rate hikes. The MAS is therefore likely to change its monetary policy once more. However, the upward pressure on the U.S. dollar remains stronger.

## Thai Baht – January 2022

**Expected Ranges**                      **Against the US\$: THB 33.00–34.00**  
**Against the yen: JPY 3.35–3.50**

### 1. Review of the Previous Month

In December, the U.S. dollar/Thai baht exchange rate remained flat.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 33 level on December 1. Concerns about the spread of the omicron variant of Covid-19 started to grow, leading to a possible slowdown of economic recovery in Thailand. Under such circumstances, market participants sold the Thai baht. On December 3, Finance Minister of Thailand Arkhom Termpittayapaisith made a remark that an additional fiscal stimulus would be possible if the omicron variant spreads further. In reaction, the U.S. dollar/Thai baht exchange rate approached its monthly high at THB 34.00. However, the trend was inverted thereafter, and the U.S. dollar/Thai baht exchange rate started to fall. On December 7, China decided to cut its deposit reserve requirement ratio, fueling expectation for economic stimulus. As a consequence, the U.S. dollar/Thai baht exchange rate fell to approach the THB 33.50 level. On December 8 and 9, there were few actions in the market, as there were consecutive national holidays in Thailand, and the U.S. dollar/Thai baht exchange rate continued fluctuating at the mid-THB 33 level. From December 10 toward December 14, market participants maintained a wait-and-see attitude ahead of the Federal Open Market Committee (FOMC) meeting in December. The U.S. dollar/Thai baht exchange rate therefore continued fluctuating within a narrow range.

On December 15, an FOMC meeting was held, attracting substantial attention in the market, and the tapering process was accelerated while the outlook for interest rate hikes in 2022 was moved forward. However, as Federal Reserve Board (FRB) Chair Jerome Powell had made a hawkish remark before the FOMC meeting to suggest such decisions, the reaction in the market to the outcome of the FOMC meeting was minimal. On December 16, after the FOMC meeting, the Bank of England decided to raise its policy interest rate by 0.15%, which turned out to be a surprise in the market. However, market participants did not sell the U.S. dollar so actively, and the U.S. dollar/Thai baht exchange rate remained flat. There were no influential headlines during the week, and the liquidity level in the market declined before the Christmas holidays. Under such circumstances, however, the omicron variant of Covid-19 was detected also in Thailand, leading the U.S. dollar/Thai baht exchange rate to rise.

On December 21, Thailand announced its decision to stop admitting foreign tourists without quarantine (the Test and Go scheme had been put on halt until January 4). As a result, the U.S. dollar/Thai baht exchange rate rose to approach the THB 33.80 level toward December 22. However, the Thai government did not announce any strict measures to control activities during the year-end and New Year holidays, slowing down the rise of the exchange rate. Therefore, around the Christmas holidays, the U.S. dollar/Thai baht exchange rate started to fluctuate within a narrow range after returning to the THB 33.50 level. Then, on December 29, market participants in Europe returned from Christmas holidays and started buying back the Thai baht for the end of the year. As a result, on December 30, the last trading day in Thailand, the U.S. dollar/Thai baht exchange rate fell to approach the THB 33.30 level—the monthly low. Thereafter, the exchange rate rallied toward the end of the day. In the end, the U.S.

---

dollar/Thai baht exchange market closed trading for 2021 at the mid-THB 33 level.

## 2. Outlook for This Month

In January, the U.S. dollar/Thai baht exchange rate is forecast to remain low.

In December, market participants in the U.S. dollar/Thai baht exchange market maintained a wait-and-see attitude ahead of the FOMC meeting. Thus, the U.S. dollar/Thai baht exchange rate continued fluctuating within a relatively narrow monthly range of 70 basis points. At the December FOMC meeting, the tapering process was accelerated, while three interest rate hikes were expected in 2022. Even though the outcome of the FOMC meeting thus turned out to be hawkish, it gave the impression that the FRB was in a hurry to catch up, with inflation remaining high. With his monetary measures, FRB Chair Jerome Powell thus seems skillfully controlling expectations in the market.

With regard to the monetary policy of the central bank of Thailand, the Thai economy has not seen a recovery yet, and thus the policy interest rate has been maintained at 0.50%. Since inflation pressure in Thailand has not been as high as in the U.S. and in countries in Europe, the existing monetary policy is likely to be maintained at the next Monetary Policy Committee (MPC) meeting.

In 2021, the U.S. dollar/Thai baht exchange rate rose more than 10% for the year. The exchange rate remained at its highest level since 2017, confirming the significant depreciation of the Thai baht against the U.S. dollar. The depreciation of the Thai baht can be explained mainly by the fact that the Thai government failed in containing the Covid-19 pandemic, and this prevented the country from receiving foreign tourists. Furthermore, it is also important to note that Thailand was not able to achieve steady economic recovery, as did the U.S.

In 2022, funds are likely to return to the U.S. dollar market, as the U.S. prepares itself for interest rate hikes. However, until the end of the tapering process, the U.S. dollar is expected to remain stable. When the U.S. went through the phase of interest rate hikes last time, it was already difficult to raise the interest rate once, and thus it was extremely difficult to raise the interest rate in a consecutive manner. However, it is unlikely for exceptions for interest rate hikes to diminish in January. The U.S. dollar/Thai baht exchange rate is therefore forecast to remain high in the coming month. However, it is not likely for the U.S. dollar to continue appreciating further, and thus the U.S. dollar/Thai baht exchange rate is expected to start falling when there is downward pressure.

# Malaysian Ringgit – January 2022

## Expected Ranges

**Against the US\$: MYR 4.12–4.22**

**Against the yen: JPY 27.02–27.77**

## 1. Review of the Previous Month

In December, the U.S. dollar/Malaysian ringgit exchange rate did not move in any particular direction, fluctuating with overseas factors, as there was no influential factor in Malaysia, while market participants were waiting for a Federal Open Market Committee (FOMC) meeting in the U.S., the outcome of which was to be out on December 16. The U.S. dollar/Malaysian ringgit exchange rate thus continued fluctuating at around the MYR 4.20 level.

At the beginning of the month, various media outlets reported on the omicron variant of Covid-19, which fueled risk-averse sentiment in the market. As a result, market participants sold the currencies of emerging countries. Following this trend, the Malaysian ringgit was mostly sold. On the other hand, as time went by, it turned out that the omicron variant did not cause as much confusion as initially estimated in the market, with a joint announcement by Pfizer in the U.S. and BioNTech in Germany that an additional dose of the existing vaccines would be efficacious to the new variant. However, risk-taking sentiment did not grow in the market, and there were few actions in the market while market participants maintained a wait-and-see attitude, anticipating for the outcome of the FOMC meeting in the U.S.—to be out on December 16.

Toward the middle of the month, the media reported the first case of death due to the omicron variant in the U.K. while the November PPI of the U.S. indicated inflation on December 14, although it was within the range estimated in the market. As a consequence, Malaysian ringgit-selling accelerated temporarily, and the U.S. dollar/Malaysian ringgit exchange rate once reached the upper-MYR 4.23 level. The FOMC statement that gathered substantial attention in the market turned out to be more hawkish than the estimate, with three interest rate hikes expected before the end of 2022. After the release of the statement, market participants momentarily bought the U.S. dollar. However, the market had already reflected the acceleration of the tapering process by doubling the pace. Thus, risk-taking sentiment grew gradually with a sense of relief after the important event, encouraging market participants to buy back the Malaysian ringgit.

Toward the end of the month, risk sentiment improved globally, leading the Malaysian ringgit to strengthen. At the beginning of the week, the U.S. dollar/Malaysian ringgit exchange market opened trading at around MYR 4.23. Thereafter, there were few market activities, as the Christmas holidays were approaching. Under such circumstances, there were some positive media reports related to the Covid-19 pandemic, such as the approval of an oral medicine in the U.S., and this led stock prices to rise globally. As the currencies of emerging countries started to appreciate, market participants bought the Malaysian ringgit also thanks to the rise of crude oil prices. Then, on December 22, the November CPI of Malaysia was announced, and the result turned out to be +3.3% year-on-year, exceeding the market estimate and recording an increased growth rate for the third consecutive month. Inflation was passed on to not only to food prices but also to the service industry, including the restaurant and hotel sectors. However, there was little reaction in the market, as the inflation was not as rapid as in other countries. Thereafter, the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.20 level, and there

were few transactions in the market toward the end of the year. Thus, the Malaysian ringgit continued appreciating against the U.S. dollar, and annual trading closed at around the MYR 4.17 level.

## 2. Outlook for This Month

In January, the Malaysian ringgit is forecast to remain stable. In the second half of last year, an increasing number of market participants expected interest rate hikes in the U.S. to start earlier than previously planned. Under such circumstances, the U.S. dollar was bought while the currencies of emerging countries were sold. Meanwhile, risk-averse sentiment grew globally due to the rapid spread of the omicron variant of Covid-19 in the U.S. and Europe, and these in summation were negative factors for the Malaysian ringgit. On the other hand, the depreciation of the Malaysian ringgit was limited, even when market participants were buying the U.S. dollar at an increased rate toward the second half of the year, confirming the stability of the Malaysian ringgit.

Market participants are cautious about inflation mainly in the U.S. and in major European countries. Under such a condition, domestic inflation in Malaysia has been relatively stable, and this is considered to be one of the reasons for the strength of the Malaysian ringgit. The November CPI that was announced on December 22 (and the headline CPI) was +3.3% year-on-year, while the core CPI recorded growth of +0.9% year-on-year. As this has been passed through to the service industry, it is not entirely a desirable situation. However, as of now, market participants see it as a manageable and tolerable level compared to the inflation rate of major countries.

The policy interest rate of the central bank is scheduled to be announced on January 20. As inflation has not accelerated enough to require an interest rate hike, the policy interest rate is likely to be maintained at 1.75% for the ninth consecutive time. Thus, Malaysia will have the choice to raise the interest rate at the next meeting in March or later when it is necessary to support domestic economic recovery. This is thanks to the fact that the inflation rate in Malaysia is relatively moderate, with little concern over the depreciation of the currency based on accelerated inflation.

It should also be mentioned that the Sarawak state election was carried out on December 18, attracting substantial attention as a prelude to the Malaysia's 15th general election, and the ruling party saw an overwhelming victory. As the ruling party also won the Malacca state election held in November, the political situation of the country has stabilized further. Many expect the 15th general election to be held ahead of schedule in July this year, instead of May 2023, which is the end of the official term. Expectations are growing for further political stabilization under the UMNO coalition led by Prime Minister Ismail Sabri Yaakob. If the omicron variant of Covid-19 spreads further in Malaysia in the times ahead, it would be a test for the government under Prime Minister Yaakob. Based on the result of state elections in Malacca and Sarawak, there seems to be substantial expectations for political stabilization. Given his performance as the new Prime Minister since August, the Malaysian ringgit is likely to remain stable in the times ahead, even though there are some risks of depreciation of the Malaysian ringgit based on political factors.

# Indonesian Rupiah – January 2022

## Expected Ranges

**Against the US\$: IDR 14,100–14,500**

**Against 100 rupiah: JPY 0.79–0.82**

## 1. Review of the Previous Month

In December, the Indonesian rupiah appreciated after depreciating against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,300 level. Thereafter, risk-averse sentiment grew among investors as the omicron variant of Covid-19 was spreading. Under such circumstances, the Indonesian rupiah weakened. On December 3, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,400 level. While the cautious sentiment against the omicron variant persisted in the market, the Indonesian rupiah continued depreciating, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,400 level on December 6, in the following week, for the first time since August 2020. However, on the same day, the media reported a view that the symptoms of the omicron variant would be mild, as a result of which the risk-averse sentiment in the market diminished. Thus, on December 7, the following day, the Indonesian rupiah started to rally. Furthermore, on December 8, the media reported again that three doses of Covid-19 vaccines would offer protection against the omicron variant. As a consequence, on December 9, the Indonesian rupiah recovered, and the U.S. dollar/Indonesian rupiah exchange rate once reached the lower-IDR 14,300 level. However, on December 10, the U.S. dollar appreciated amid expectations ahead of the announcement of the U.S. November Consumer Price Index (CPI). As a result, a wide range of Asian currencies depreciated. Following this trend, the trend in the U.S. dollar/Indonesian rupiah exchange market was also inverted, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,400 level. The November CPI of the U.S., attracting substantial expectations in the market, turned out to be at the same level as the market estimate. Thus, market participants sold the U.S. dollar in the end. In reaction, on December 13, in the following week, the Indonesian rupiah rallied, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,300 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate did not move into any particular direction at the IDR 14,300 level, as market participants were waiting for a Federal Open Market Committee (FOMC) meeting in the U.S. as well as for the monetary policy meeting at the central bank of Indonesia.

On December 15, an FOMC meeting was held in the U.S., and this attracted substantial attention in the market. As a result, the FOMC announced its decision to end the tapering process in March 2022. Furthermore, the FOMC also announced that three interest rate hikes were expected before the end of 2022, based on a dot plot to show the median projections of FOMC members. The FOMC has thus indicated its plan to accelerate the normalization of monetary policy. However, this had already been anticipated by many, and its impact on the U.S. dollar/Indonesian rupiah exchange market was limited. Then, on December 16, the central bank of Indonesia held a monetary policy meeting and decided to maintain the seven-day reverse repo rate at 3.50%—as had been anticipated in the market. Thereafter, the Ministry of Health of Indonesia announced that Indonesia's first case of the omicron variant of Covid-19 had been identified. However, as cases of the omicron variant had already been detected in many countries, the impact of this on the U.S. dollar/Indonesian rupiah was limited. On December 20, in the following week, the cautious sentiment against the omicron variant started to weaken, fueling risk-taking sentiment in the

market. As a result, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,200 level on December 22. While the coal price remained robust, the Indonesian rupiah continued appreciating against the U.S. dollar, and on December 24, the Indonesian rupiah reached its monthly high. Meanwhile, the U.S. dollar/Indonesian rupiah exchange rate momentarily fell below the IDR 14,200 level. Thereafter, there were few market participants, due to the Christmas and New Year holidays. The U.S. dollar/Indonesian rupiah exchange rate thus continued fluctuating at around the IDR 14,200 level without moving into any particular direction. In the end, trading for 2021 closed at the mid-IDR 14,200 level (as of market closing of December 31).

## 2. Outlook for This Month

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

In December 2021, foreign investor net holdings of 10-year Indonesian government bonds fell below the IDR 900 trillion mark and continued decreasing to reach IDR 894 trillion as of December 29. The decrease is based on the end of measures of monetary easing in the U.S. as well as on interest rate hikes in the U.S., which are expected to start soon, while risk-averse sentiment has been growing in the market due to concerns over the spread of the omicron variant of Covid-19. Net holding has been decreasing since September 2021, with a decline of around IDR 100 trillion. With such a significant capital outflow, it would have been normal for the Indonesian rupiah to weaken significantly. However, the Indonesian rupiah remained stable, as Indonesian rupiah-selling was offset by another factor.

The strong demand to buy the Indonesian rupiah can be confirmed by a significant trade surplus as well as its concomitant current account surplus. The trade surplus was USD 3.5 billion in November with a decline in surplus compared to October. However, there has still been a significant amount of trade surplus. Exports have been supported by mineral fuels—as has always been the case. As the coal price remains high, the trade surplus of Indonesia is likely to also remain high.

There are currently reasons to both sell and buy the Indonesian rupiah, and the situation is expected to remain unchanged in January. As the Indonesian rupiah has been relatively stable, the central bank of Indonesia can maintain measures of monetary easing in order to support the domestic economy. Therefore, no violent fluctuation is expected in the U.S. dollar/Indonesian rupiah market in January.

This year, the U.S. is expected to start interest rate hikes, and therefore the Indonesian rupiah is likely to weaken against the U.S. dollar from a long-term perspective, for which market participants should remain cautious. January will hopefully be a short break before depreciation.

# Philippine Peso – January 2022

## Expected Ranges

**Against the US\$: PHP 50.00–51.50**

**Against the yen: PHP 2.20–2.30**

## 1. Review of the Previous Month

In December, the Philippine peso remained robust against the U.S. dollar as the outcome of the Federal Open Market Committee (FOMC) meeting turned out not to be as hawkish as anticipated, while business confidence improved in the Philippines. After reaching its highest rate in approximately one month, the Philippine peso depreciated substantially due to a decrease in demand for remittances after the Christmas holidays.

Market sentiment worsened due to caution against the Federal Reserve Board (FRB) turning more hawkish, as well as with concerns over the spread of the omicron variant of Covid-19. On the other hand, the existing movement restrictions in metropolitan Manila were maintained, which was a supporting factor for the Philippine peso. Thus, the U.S. dollar/Philippine peso exchange rate did not move into any particular direction in December. Furthermore, the November Consumer Price Index of the Philippines turned out to be 4.2%—exceeding the market estimate, which was 4.0%. The rise of the Consumer Price Index led market participants to expect monetary tightening, and this temporarily strengthened the Philippine peso. However, the October trade deficit turned out to be USD 4.017 billion, with an increase from the USD 3.995 billion recorded in the previous month, which was a negative factor for the Philippine peso. There were thus both positive and negative factors for the Philippine peso in the market, and market participants maintained a wait-and-see attitude, anticipating the FOMC meeting in the U.S. and the monetary policy meeting at the central bank of the Philippines. Under such circumstances, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a relatively narrow range at around the PHP 50.300 level during the first half of December.

In the middle of the month, the Philippine government revised its growth rate outlook for 2021 upward, while the number of Covid-19 cases in the Philippines decreased. The government decided to extend the current movement restrictions until the end of December, which was seen positively in the market. Furthermore, the outcome of the FOMC meeting in the U.S. turned out to be generally within the expected range, which led to a sense of relief in the market. As some market participants also carried out transactions to offset the position adjustment before the FOMC meeting, the Philippine peso started to appreciate against the U.S. dollar, and the exchange rate fell below the PHP 50 mark. The Philippine peso reached the highest rate in approximately one month. Thereafter, the central bank of the Philippines decided to maintain its policy interest rate at the existing level for the ninth consecutive time—as had been anticipated in the market. This confirmed the steadiness of economic recovery in the Philippines and the optimistic market sentiment regarding economic outlook. Furthermore, there was growing demand for inward remittances for the Christmas holidays. For these reasons, the Philippine peso remained robust. However, the Philippine peso depreciated sharply to the lowest level in approximately three months thereafter due to the impact on the economy of a typhoon as well as the end of seasonal factors after the Christmas holidays.



## 2. Outlook for This Month

There have been concerns over the omicron variant of Covid-19, and the first case in the Philippines has been confirmed. On the other hand, thanks to an increase in the vaccination rate as well as a decrease in the number of new Covid-19 cases, the current movement restrictions in metropolitan Manila were extended, fueling expectation for the further recovery of economic activities. The improvement of business confidence is a positive factor for the Philippine peso. However, it is still possible for Covid-19 cases to spread again, as the omicron variant is said to be more contagious although with fewer risks of severe cases, while movement restrictions remain loose. Such risks that could result in the reintroduction of severer restrictions remain as a negative factor for the Philippine peso. Furthermore, the worsening sentiment based on the increase of Covid-19 worldwide is also a negative factor for the Philippine peso.

Risk assets and Asian currencies had been weak, as market participants expected early interest rate hikes in the U.S., with the FRB turning more hawkish. However, the FRB did not turn as hawkish as expected. With a sense of relief after the FOMC meeting, market participants bought back the Philippine peso, stabilizing the market. However, there has been a difference in monetary policy between the U.S., which is normalizing its monetary policy, and the Philippines, which is maintaining measures of monetary easing for a while in order to prioritize stable economic recovery—although market participants are conscious of inflation. Based on this difference in monetary policy, the Philippine peso is likely to weaken against the U.S. dollar from a long-term perspective. Furthermore, as interest rate hikes in the U.S. are almost certain after the completion of the tapering process, market participants should be attentive of risk-averse sentiment as a factor for the depreciation of the Philippine peso, based on the sharp depreciation of risk assets that had been appreciating thanks to excessive liquidity.

On the other hand, recovering economic activities based on the relaxation of movement restrictions is a positive factor for the Philippine peso. Furthermore, it is unlikely for interest rate hikes in the U.S. to start earlier than currently expected, even if U.S. economic indices turn out to be strong, as currently the market has already reflected approximately three interest rates hikes in 2022. Therefore, the U.S. dollar is likely to appreciate only to a limited degree. For this reason, the Philippine peso is forecast to depreciate moderately against the U.S. dollar in January.

## Indian Rupee – January 2022

### Expected Ranges

Against the US\$: INR 73.00–77.00

Against the yen: JPY 1.48–1.57

### 1. Review of the Previous Month

**In December, the U.S. dollar/Indian rupee exchange rate rose once before returning to the level observed at the beginning of the month, in the end.**

At the end of November, the U.S. dollar/Indian rupee exchange rate started to rise as a result of the identification of the omicron variant of Covid-19. In December, the U.S. dollar/Indian rupee exchange market opened trading at INR 74.96. At the beginning of the month, the 10-year U.S. government bond yield fell to the lowest level in two months. The crude oil price also fell to the lowest level since August. However, risk-averse sentiment grew in the market due to the spread of the omicron variant, strengthening downward pressure on the currencies of emerging countries. On December 3, the first case of omicron-variant infection in India was detected in Karnataka state. Meanwhile, even though U.S. employment statistics were released at the end of the week with mixed figures, market participants confirmed that there would be no change in the tapering plan, buying the U.S. dollar against many other currencies.

In the second week of the month, the U.S. dollar/Indian rupee exchange rate approached the INR 75.50 level on Monday. However, there were speculations that the central bank of India had been actively intervening in the market by selling the U.S. dollar. Thus, the U.S. dollar/Indian rupee exchange rate did not easily reach the INR 75.50 level. On December 8, on which the monetary policy meeting was held, the U.S. dollar/Indian rupee exchange rate once reached the INR 75.57 level. However, the exchange rate fell soon after. On December 10, speculation was spreading in the market that the Federal Reserve Board (FRB) would prioritize concern over inflation over measures against Covid-19 infections. Under such circumstances, the U.S. dollar became attractive in the market, leading the U.S. dollar/Indian rupee exchange rate to steadily exceed the INR 75.50 level.

In the third week of the month, the World Health Organization pointed out that the spread of the omicron variant of Covid-19 was an “extremely high” risk. Similarly, the University of Oxford also pointed out that two doses of vaccination with either the Pfizer or AstraZeneca vaccine would not be highly efficacious against the omicron variant, in reaction to which risk-averse sentiment grew further in the market. Following this trend, the U.S. dollar/Indian rupee exchange rate also fell. On the other hand, many market participants expected the tapering process in the U.S. to accelerate, strengthening the U.S. dollar. As a result, the U.S. dollar/Indian rupee exchange rate reached the INR 76 mark. On the day following a Federal Open Market Committee (FOMC) meeting in the U.S., the U.S. dollar/Indian rupee exchange rate reached INR 76.315 for the first time in 18 months. This was the monthly high in December. However, thereafter, following the concept of “sell the fact,” market participants with long positions sold the U.S. dollar so as to take profit. Local exporting companies also sold the U.S. dollar, which inverted the trend in the U.S. dollar/Indian rupee exchange market.

In the fourth week of the month, the media reported that there was a lesser risk of severe cases with the omicron variant of Covid-19, while an oral medicine from Pfizer was approved by the U.S. authorities, as a result of which risk sentiment improved in the market. As market participants expected funds to return to the Indian rupee market,

exporting companies, including those in the software industry, started to hedge by selling the U.S. dollar further. As the liquidity level was also declining toward the end of the year, there was a violent fluctuation in the exchange rate. As a result, the U.S. dollar/Indian rupee exchange rate was pushed back to the lower-INR 75 level.

In the last week of the month, the trade volume in the market decreased even further. Under such circumstances, the U.S. dollar/Indian rupee exchange rate fell to the INR 74 level on December 27. On December 31, the exchange rate reached its monthly low at INR 74.095. Trading for 2021 closed at INR 74.34.

## 2. Outlook for This Month

### **In January, the U.S. dollar/Indian rupee exchange rate is likely to rise.**

At the end of 2021, the U.S. dollar/Indian rupee exchange rate fell sharply by more than 2.5%, from INR 76 to INR 74. Concerns over the omicron variant of Covid-19 were mitigated, which is certainly one of the reasons why the exchange rate fell. However, the fall of the exchange rate was observed when there were few market transactions, and therefore it can also be considered to be an accidental fall. Thus, in general, the trading level is likely to return.

Factors in the U.S. support the appreciation of the U.S. dollar and the depreciation of the Indian rupee, as the tapering process has been accelerated and as the median projection of the number of interest rate hikes in 2022 by the FRB members increased to three, with all members expecting at least one interest rate hike. However, these factors have been largely already reflected in the market. Thus, it is difficult for the Indian rupee to depreciate further without additional factors.

In terms of domestic factors, the trade deficit of India announced in December turned out to be USD 23 billion, which is a record high. This is a result of the fact that crude oil prices rose while gold imports increased. Market participants should be aware of the activities of companies that import these commodities, as they are likely to buy the U.S. dollar and sell the Indian rupee based on actual demand. Furthermore, market participants should be reminded that foreign investors tend to sell the Indian rupee when the current account deficit increases based on a deteriorating trade balance. Finally, the number of Covid-19 cases has been hitting a record high in multiple countries in Europe due to the spread of the omicron variant, which is fueling concerns over increasing Covid-19 infections in India.

On the other hand, there are some factors that would lead to the appreciation of the Indian rupee. For example, major companies are planning initial public offerings, including a state-run life insurance company in India, as well as a major online shopping company. Thus, foreign investors are likely to sell the U.S. dollar and buy the Indian rupee in order to acquire these stocks, as was seen in autumn last year. There are also some market participants that expect foreign investors to buy Indian government bonds, as such bonds were included in a global bond index.

Thus, there are both positive and negative factors for the Indian rupee. As was pointed out at the beginning of this article, the U.S. dollar/Indian rupee exchange rate is forecast to return to the INR 75 level once again. If the number of Covid-19 cases increases sharply, the Indian rupee could depreciate temporarily. However, if the situation in India does not follow that in Europe, the U.S. dollar/Indian rupee exchange rate is likely not to move into any particular direction until additional factors exist.

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

These materials and the content of any related presentation are confidential and proprietary and may not be passed on to any third party and are provided for informational purposes only. Assumptions have been made in the preparation of these materials and any such presentation and Mizuho Bank, Ltd. ("Mizuho") does not guarantee completeness or accuracy of, and no reliance should be placed on, the contents of these materials or such presentation. Nothing in these materials or any related presentation constitutes an offer to buy or sell or trade and the terms of any transaction which may be finally agreed will be contained in the legal documentation for any such transaction, with such transaction being priced at market rates at the relevant time (the rates herein or in any related presentation being purely illustrative). (As a general rule you will not have a right to terminate early any transaction entered into – if you wish to do so, losses may be incurred by you.) These materials and any related presentation should not be considered an assertion by Mizuho of suitability for you of any transaction, scheme or product herein or therein. Mizuho has no duty to advise you on such suitability, nor to update these materials or contents of any related presentation. You must determine in your own judgment the potential risks involved in the transactions outlined herein or in any related presentation (taking professional financial, legal and tax and other advice) and whether or not you will enter into any transaction that may arise from these materials or related presentation. Nothing herein or in any related presentation should be construed as providing any projection, prediction or guarantee of performance or any financial, legal, tax, accounting or other advice. Mizuho shall have no liability for any losses you may incur as a result of relying on the information herein or in any related presentation. MHBK provides this information for free. Please request for cancellation of subscription if you do not want to receive free-of-charge information from MHBK.

This document is an English language translation of the report "Dealer's eye" as of December 31, 2021 which was originally prepared in the Japanese language. While every effort has been made to ensure the accuracy or completeness of this translation, Mizuho Bank, Ltd. cannot guarantee this translation is accurate or complete as differences of interpretation may arise between the English and Japanese language. In the event of any inconsistency between the Japanese version and this English translation, the Japanese version shall prevail.