Mizuho Dealer's Eye

March 2022

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Mizuho Bank, Ltd.

Global Markets Sales Department

Mio Otani, Forex Sales, Global Markets Sales Department

U.S. Dollar – March 2022

Expected Ranges **Against the yen: JPY114.00–116.50**

1. Review of the Previous Month

The dollar/yen pair rose in February after the CPI grew at its fastest pace for around 40 years, though it moved bearishly in the latter half of the month as the situation in Ukraine deteriorated.

The pair opened the month trading at 115.10 yen on February 1. With major Asian markets closed due to the Lunar New Year holidays, the pair edged down to the mid-114 yen mark on falling US long-term interest rates. It then hit a monthly low of 114.16 yen on February 2 after the US January ADP National Employment Report unexpectedly weakened. However, the greenback was bought on rising US interest rates, so the pair climbed to just below 115 yen on February 3. Its topside then hit 115.40 yen on February 4 after the US January employment data substantially beat market expectations.

In the following week, the pair fell to 114.90 yen on position adjustments on February 7. With US long-term interest rates moving firmly, though, the pair's room on the downside was capped and the pair rallied to 115.60 yen again on February 9. On February 10, the Bank of Japan (BOJ) announced it would carry out a yield control operation on February 14, so the pair's topside extended to the upper-115 yen level. The US January CPI data was then released during overseas trading time and it posted the fastest growth for around 40 years. US long-term interest rates subsequently rose to the 2% range for the first time since August 2019, with the dollar/yen pair also hitting a monthly high of 116.34 yen. However, the pair then crashed to 115.30 yen during overseas trading time on February 11 as geopolitical risk flared up on reports that Russian President Putin had decided to invade Ukraine.

As concerns about the Ukraine situation continued to grow, the pair fell to right around 115 yen on February 14. With several FRB officials voicing support for monetary policy normalization, though, the pair bounced back to the upper-115 yen level. The pair rose to 115.80 yen on February 15 on news of a partial withdrawal of Russian troops from the Ukraine border during European trading time. However, the yen was bought on risk aversion related to rising Ukrainian tensions, so the pair weakened to 114.80 yen on February 17. Risk aversion waned on February 18 on news that US secretary of state Antony Blinken would be meeting the Russian foreign minister Sergei Lavrov in Europe the following week. The pair temporarily rallied to 115.30 yen, though its room on the topside was capped.

As tensions grew in Ukraine the following week, the pair's downside fell to around the mid-114 yen mark during the morning of February 22. The US released a better-than-expected February composite PMI during overseas trading time, so the currency pair bounced back to the lower-115 yen for a time, but reports about a Russian invasion continued to swirl on February 24, so the yen was bought on risk aversion and the pair plummeted to 114.40 yen. There was also some emergency dollar buying, though, while the US and Europe only imposed limited sanctions on Russia, so the dollar/yen pair rallied to 115.60 yen and it continued to trade at the mid-115 yen mark as of February 28.

2. Outlook for This Month

The dollar/yen pair is expected to trade firmly in March.

The pair was swayed by headlines related to the Ukraine situation in the latter half of February. By the end of the month, though, the pair had returned to the mid-115 yen range, essentially the same level as it started the month.

Russia invaded Ukraine on February 24 and it seems only a matter of time before the capital Kyiv falls. Western nations had imposes sanctions gradually in response, but they took a tougher stance on February 26 with the agreement to ban major Russian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT), an international payments system. There have also been reports about Russia/Ukraine talks near the border of Belarus, with the situation remaining unpredictable. The dollar/yen pair plunged to around the mid-114 yen mark directly after news of the Russian invasion, but it bottomed out close to the lower edge of the Ichimoku Kinko Hyo trading chart before rallying, thus confirming the firmness of its downside. The Ukraine turmoil will probably continue in March, but the dollar and yen will both be bought during phases of risk aversion. With the two currencies equally balanced, the dollar/yen pair's downside will probably be capped.

As for monetary policy, the likelihood of rapid FRB tightening has waned on growing uncertainty about the Ukraine situation, with bets on a 50bp rate hike in March falling to around 20% at present. A 50bp hike at the March FOMC meeting does indeed seem unlikely, but the US January CPI data posted the fastest growth for around 40 years, for example, while crude oil prices are soaring on the Ukraine situation, so the FRB will probably need to hike rates at a gradual pace from March onwards. On February 25, FRB governor Christopher Waller said rates should be lifted by a full percentage point by mid-2022. As this suggests, the March FOMC federal funds rate projection will probably point to rates being lifted at a gradual pace on rising inflation. The markets have already priced in around six rate hikes this year, so the dollar is unlikely to rise sharply, though the greenback will be supported by FRB tightening. On February 14, meanwhile, the BOJ conducted fixed-rate purchase operations when it pledged to buy an unlimited amount of 10-year Japanese government bonds at 0.25%, thus reiterating its commitment to easing. The dollar/yen pair will continue to be swayed by the Ukraine situation for now, but market attention will shift back to monetary policy when other factors are thin on the ground. When this happens, the pair is likely to edge higher on the divergent monetary policy stances of Japan and the US.

Dealers' Market Forecast

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

Bullish on the dollar	16 bulls	117.00 – 114.00	Bearish on the dollar	4 bears	116.50 – 113.00

* Ranges are central values

Tanaka	Bull	117.00 – 114.00	Uncertainty is growing in relation to the Russian invasion of Ukraine and Western sanctions. Concerns about inflation and the negative impact on the economy will grow as energy prices climb, with the dollar/yen pair also set to move unstably on FRB rate hikes. However, emergency dollar buying will probably take precedence over risk-off yen buying.
Yano	Bull	117.50 – 114.50	Demand for the dollar will probably grow as investors flee to quality on concerns about sanctions on Russia (and settlement risk in particular) due to the situation in Russia and Ukraine. The dollar/yen pair will continue to be supported by expectations for US rate hikes, but the pair could be pushed lower if these excessive expectations drop off, so caution will be needed.
Tsutsui	Bull	116.50 – 114.50	The markets have priced in Russia's expulsion from the SWIFT system, with attention now shifting back to inflation. With the FOMC expected to implement a 25bp at each meeting, volatility will probably decline, with the dollar/yen pair moving in a narrow range.
Kato	Bear	116.00 – 112.50	There was only limited risk-off yen buying due to the Ukraine issue, but dollar fundraising costs are gradually growing steeper and Japanese investors might also move to shrink their exposure. If this happens, there could be more adjustive yen buying going forward.
Ito	Bull	117.00 – 113.00	FRB monetary policy will remain hawkish on the buoyant US labor market. The movements of commodity prices on worsening geopolitical risk will also support normalization. The dollar/yen pair will move firmly on the downside as dollar buying takes precedent, though the market environment could deteriorate suddenly, so caution will be needed.
Yamagishi	Bull	117.00 – 114.00	The dollar/yen pair will move firmly on expectations for US rate hikes. Several factors are at play, including supply strictures, large-scale monetary easing and fiscal mobilization, and a normalization of economic activity. There are deep-rooted concerns about a cyclical rise in prices as inflationary expectations push wages higher. The number of rate hikes could also swing higher.
Ushijima	Bull	117.00 – 114.00	With the FOMC set to hike rates at the next meeting and with the dollar in demand as a settlement currency as sanctions on Russia bite, the dollar/yen pair looks set to move firmly. However, if funds flow out of risk assets on the Russian sanctions, the yen could be bought at times on risk aversion.
Omi	Bear	117.00 – 113.00	The dollar/yen pair will move with a heavy topside on the Russian invasion of Ukraine. However, the FRB is expected to announce a rate hike this month. If the war between Russia and Ukraine cools off, the dollar will probably be bought on expectations for US rate hikes.
Ueno	Bull	118.00 – 114.00	The dollar/yen pair will continue to be swayed by US monetary policy. The markets have priced in rate hikes to a large extent, but with Russia facing sanctions, for example, the risk of rising inflation will attract a lot of attention. Investors should be wary of upward shifts on the whole.
Yamaguchi	Bull	117.00 – 113.00	The dollar/yen pair will be swayed by the Ukraine situation, but Japanese/US interest-rate differentials are unlikely to shrink sharply given the divergent monetary policies of the US and Japan. With the US economy also moving firmly and inflation remaining high, the currency pair looks set to move firmly this month.
Kai	Bull	116.00 – 114.00	With Russian banks being expelled from the SWIFT system, the dollar will continue to be bought as investors seek a refuge from settlement risk. Risk aversion is growing, but this is unlikely to lead to yen buying. Even if geopolitical risk eases in March, the greenback will continue to be bought on the looming March FOMC meeting.

Onozaki	Bear	116.50 – 113.50	FRB movements and the Ukraine situation will attract attention, but the markets have priced in rate hikes and military clashes, so the pair's movements will probably match those from late February. The dollar has risen recently, but this trend could reverse if the FOMC only hikes rates by the expected 25bp or if the economy slumps on economic sanctions.
Harada	Bull	116.50 – 114.00	Though the Ukraine situation is deteriorating, the US labor market continues to grow tighter. With the CPI data also continuing to rise on the previous year, plans for rate hikes are unlikely to change for the time being. As such, the dollar/yen pair looks set to continue moving firmly.
Oba	Bull	117.00 – 114.50	The dollar/yen pair will probably edge higher. The yen and dollar will both be bought on risk aversion related to the Ukraine situation, but the pair has moved firmly around 114 yen, while there are expectations for US monetary policy normalization, so dollar buying will probably prevail.
Katoono	Bear	116.50 – 113.00	Energy prices have soared on the Ukraine situation. There are concerns that the post-pandemic economic recovery might stall, with stagflation taking hold. Under these circumstances, the US and other major nations may move toward an exit at a slower pace than the markets had originally envisaged.
Kobayashi	Bull	117.00 – 114.00	The Ukraine situation is growing more tense and risk appetite seems unlikely. With the FOMC set to hike rates when it meets in March, though, the dollar/yen pair will probably trend higher on the US/Japanese monetary policy gap.
Henmi	Bull	117.00 – 114.80	The Ukraine situation remains up in the air and there will probably be growing demand for the dollar as a refuge currency, just like there was at the start of the pandemic. With the FRB lifting interest rates, the dollar/yen pair will also be supported by the divergent monetary policies of the US and Japan.
Otani	Bull	116.50 – 114.00	Concerns about the Ukraine situation will linger on, but the dollar and yen will both be bought during phases of risk aversion, so the dollar/yen pair's room on the downside will be capped. With an FOMC meeting also looming in March, the pair will probably edge higher on US monetary policy normalization.
Suzuki	Bull	117.00 – 114.00	The greenback will probably be bought this month as the FRB implements a rate hike. There is also more emergency dollar buying than yen buying on the deteriorating Ukraine situation. The dollar/yen pair will move firmly and its room on the downside will be capped.
Okuma	Bull	117.00 – 114.00	There will be a tug of war between risk-evasive yen buying and emergency dollar buying, but there are deep-rooted expectations for a March FOMC rate hike on rising inflationary concerns, so the dollar/yen pair will probably move firmly on rising US interest rates.

Hiroaki Yamagishi, Forex Sales, Global Markets Sales Department

Euro – March 2022

Expected Ranges **Against the US$: US$1.1000–1.1400**
Against the yen: JPY127.00–132.00

1. Review of the Previous Month

The euro/dollar pair rose at the start of February on expectations for earlier monetary policy normalization by the ECB, though it then fell on the Ukraine situation.

After opening the month around $1.1230, the pair rallied to the $1.13 range as the euro was bought on February 2 after the eurozone January CPI data continued the previous month’s trend by hitting another record high. In her press conference after the ECB Governing Council meeting on February 3, ECB president Christine Lagarde voiced concerns about strong inflation and she struck a hawkish tone when she refused to rule out rate hikes within 2022. European bond yields rose on a series of comments, with the currency pair soaring temporarily to a high of $1.1451.

The euro was bought the following week too, with the pair hitting a monthly high of $1.1495 on February 10. In an interview with German media on February 11, though, ECB president Christine Lagarde adopted a cautious stance towards monetary policy normalization. With a US presidential advisor also saying a Russian invasion of Ukraine was a very real possibility, the currency pair dropped back to the lower-$1.13 level.

The pair swung to and fro on the Ukraine situation in the week beginning February 14. It temporarily fell to a low of $1.1280 on February 14 on increased tensions, but it rallied to around $1.14 for a time midweek as tensions eased and US interest rates fell. The euro was also supported against the dollar when the minutes to the January FOMC meeting (released February 16) contained no new information hinting at a hawkish shift. The pair moved with a heavy topside late in the week on news about clashes between Russian and Ukrainian forces.

The pair fell sharply in the latter half of the week beginning February 21. Geopolitical risk eased on February 21 on news about a US/Russia heads-of-state agreement, with the euro/dollar pair temporarily hitting a weekly high of $1.1391, though it then plummeted to the lower-$1.13 level as geopolitical risk flared again after President Putin moved to recognise the independence of two pro-Russian Ukrainian provinces. The pair bounced back to the mid-$1.13 mark for a time on February 22 on the firm results of the German IFO Business Climate Index for February. When Russia invaded Ukraine on February 24, the pair plunged to $1.1106, its lowest level since June 2020. The pair rose to $1.1274 on February 25 on hopes for the commencement of ceasefire talks between Russia and Ukraine.

On February 28, the US and Europe decided to hit Russia with sanctions by banning major Russian banks from an international payments system. Concerns grew that Europe would also be hit given its deep economic ties to Russia, so the euro was sold again and the pair moved at the mid-$1.11 level.

2. Outlook for This Month

The euro/dollar pair will fluctuate unstably on the Ukraine situation in March. If things calm down in the short term, the pair could move firmly on expectations for earlier ECB monetary policy normalization due to inflationary concerns.

The eurozone January CPI data (released February 2) hit +5.1% year-on-year, thus renewing a record high for

the second straight month. There are strong concerns about high inflation as the prices of energy and other goods and services rise. There is uncertainty about whether supply constraints can be eased in other sectors in addition to energy. Prices may also undergo a cyclical rise as wages are pushed up by inflationary expectations. The German ZEW Indicator of Economic Sentiment, IFO Business Climate Index and several other indicators released in February saw improvements on the previous month. If inflation remains stubbornly high on the post-pandemic economic recovery and the impact of unprecedented monetary easing, the ECB might adopt a more hawkish stance, with expectations then growing for early financial normalization.

Specifically, attention will focus on the ECB's next move when it meets on March 10. The Pandemic Emergency Purchase Programme (PEPP) is set to wind down in March and the ECB may decide to taper at a faster pace than expected thereafter due to inflationary concerns. Northern Europe has adopted a negative stance toward ongoing easing and several ECB officials from this region have hinted at rate hikes within the year, so investors should keep an eye out for comments related to rate hikes in March too. The European labor market remains quite weak compared to the US (where full employment is drawing near) and the UK (where the employment situation has been impacted by restrictions on immigration). However, with the FRB, BOE and other major central banks moving to tighten policy, the ECB may follow suit by adopting a more hawkish stance. The Bank of Japan (BOJ) announced the conduct of fixed-rate purchase operations last month and it remains in easing mode. The euro will be particularly susceptible to buying against the yen on these divergent monetary policies.

The Ukraine situation will require monitoring for the time being. Europe lies close to Russia and the euro is being sold on speculation that the European economy will face headwinds. In a press conference on February 25, ECB president Christine Lagarde said more time would be needed to assess the impact of the Russian invasion of Ukraine, but she said prolonged uncertainty could place pressure on investment and consumption, with the inflation rate likely to climb on rising energy prices. ECB monetary policy normalization will also be impacted heavily by the Ukraine situation. However, investors should make a cool assessment of the impact on the European economy considering the fact that euro did not weaken after Russia invaded Crimea in 2014. The fighting could drag on, but Russia and Ukraine will both be wanting to minimize any damage, so a ceasefire could be called soon if Ukraine agrees to abandon plans to join NATO, for example, If this happens, the euro/dollar pair's room on the downside could be capped.

Dealers' Market Forecast

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

Bullish on the euro	3 bulls	1.1350 – 1.1000	Bearish on the euro	17 bears	1.1350 – 1.0950

* Ranges are central values

Name	View	Range	Comment
Tanaka	Bear	1.1400 – 1.0900	Europe will be hit hard by geopolitical risk and rising energy prices on the deteriorating situation in Russia and Ukraine. The fighting will also slow ECB monetary policy normalization, so although the euro/dollar pair's moves will be marked by flow-driven uncertainty, the pair will face growing downside risk.
Yano	Bear	1.1300 – 1.1000	The euro/dollar pair will move with a heavy topside as risk aversion increases on the tense situation in Russia and Ukraine. However, the pair will be supported by expectations for monetary policy tightening on runaway inflation. The pair will move heavily on the topside without a sense of direction.
Tsutsui	Bear	1.1300 – 1.1000	The decision to exclude Russia from SWIFT will have a major impact on the German and Italian economies in particular and could lead to stagflation. The US has already begun hiking rates, but Europe is still unable to make such a move, so the euro could well fall sharply.
Kato	Bull	1.1350 – 1.1000	A lot will depend on the Ukraine issue. However, the risk of fighting was envisaged from the start, with investors now at the stage of trying to gauge the impact on the global economy. A resolution seems some way off, but the currency markets will gradually grow less prone to sudden sharp swings.
Ito	Bear	1.1400 – 1.0900	The euro/dollar pair will trade with a with a heavy topside on the deteriorating Ukraine situation. Rising geopolitical risk will push inflation even higher. The European economy could be hit hard by the decision to exclude Russia from SWIFT and this could slow the process of ECB normalization.
Yamagishi	Bull	1.1400 – 1.1000	The euro/dollar pair looks set to move firmly on expectations for early ECB monetary policy normalization. The euro did not fall when Russia invaded Crimea in 2014, so if a ceasefire is called soon on an agreement that Ukraine will not join NATO, for example, the pair's room on the downside will probably be capped.
Ushijima	Bear	1.1400 – 1.0900	The euro/dollar pair will continue to move erratically on the Russian movements. If fighting drags on, this will be negative factor for the euro, with the pair likely to drop below $1.10. The pair will also be weighed down by the FRB's planned rate hikes.
Omi	Bear	1.1400 – 1.1000	If fighting between Russia and Ukraine intensifies, the euro might be sold further. However, this could be countered by euro buying on expectations for ECB tightening as rising energy prices prompt inflationary concerns.
Ueno	Bear	1.1400 – 1.0950	From a geographical standpoint, Europe will be easily impacted by the Ukraine situation. Investors are also likely to focus on the negative economic impact of the decision to exclude Russia from SWIFT. The euro could move bearishly against the dollar and yen for a time.
Yamaguchi	Bear	1.1400 – 1.0900	If tensions in Ukraine drag on, investors will focus on the impact on the European real economy. A number of major-country political events are also lined up, including a French presidential election, so the euro will probably move bearishly on political risk.
Kai	Bear	1.1300 – 1.0900	There are concerns that the decision to exclude Russia from SWIFT will hit the European economy too (and Germany in particular). Inflation is rising temporarily on soaring gas prices, for example, but ECB president Christine Lagarde has said monetary policy is powerless against inflation at the moment, so the ECB will probably continue to adopt a more dovish stance than the markets are expecting.
Onozaki	Bull	1.1350 – 1.1000	Investors should focus on the risk of military clashes, but market attention is shifting to the possibility of an economic slump on the impact of sanctions. For geographical reasons, fighting will lead to euro selling, but if the tensions hit the global economy, the euro will no longer undergo a one-sided slide and there could be buying opportunities at lows.

Harada	Bear	1.1350 – 1.1100	The risk of a European economic slowdown is growing on the deteriorating Ukraine situation. Economic sentiments have yet to fully recovery, so the ECB should shift in a dovish direction. The euro will be a hard currency to buy for geopolitical reasons too, so the euro/dollar pair looks set to move bearishly.
Oba	Bear	1.1300 – 1.1000	The euro/dollar pair may trade with a heavy topside. The Ukraine situation could calm and ceasefire negotiations take place, but it will take time to reach a resolution. The euro will probably be sold as the impact of tougher Russian sanctions grows more apparent.
Katoono	Bear	1.1350 – 1.0900	The euro/dollar pair will move back and forth on the tense Ukraine situation. The pair's topside will be weighed down overall by dollar buying on geopolitical and economic risk. Rising refugee numbers is also creating uncertainty about the economy. The ECB had grown more hawkish since the turn of the year, but it could be forced in a dovish direction again.
Kobayashi	Bear	1.1400 – 1.0900	If the Ukraine situation drags on, this could lead to concerns about eurozone monetary policy normalization. With the FRB moving steadily down the path of rate hikes, the euro/dollar pair looks set to move bearishly again this month.
Henmi	Bear	1.1300 – 1.1000	The Ukraine situation is extremely fraught. The euro/dollar pair will probably trade with a heavy topside as tensions rise higher and the economy is impacted by tougher Russian sanctions. The euro will also be pushed down as European/US interest-rate differentials widen on FRB rate hikes.
Otani	Bear	1.1300 – 1.1000	The euro has a strong economic link with Russia and it is also prone to falling during phases of risk aversion. As such, with the Ukraine situation deteriorating, the euro will be a hard currency to buy. The euro/dollar pair's topside will also be weighed down by hawkish comments by ECB officials.
Suzuki	Bear	1.1300 – 1.0950	The euro/dollar pair will continue moving bearishly on the deteriorating Ukraine situation. Furthermore, while several nations are moving toward tapering, the ECB remains some way from an exit, with the pair's topside set to be weighed down by this divergence.
Okuma	Bear	1.1300 – 1.0900	Energy prices have risen on the tense Ukraine situation. Europe relies on Russia for its energy supply, so concerns about an economic slowdown look set to grow on inflationary pressures. The euro will also face strong selling pressure as expectations for ECB monetary policy normalization wane.

Hidetoshi Honda, Europe Treasury Department

British Pound – March 2022

Expected Ranges **Against the US$: US$1.3050–1.3500**
Against the yen: JPY151.00–158.00

1. Review of the Previous Month

The pound rose against the dollar and yen at the start of February. It then moved flatly yet firmly against the greenback and flatly but bearishly against the yen. Sterling fell sharply against the euro at the start of the month before moving firmly thereafter. The pound had more-or-less pared back its losses at one point, though it then weakened against all the major currencies toward the end of the month.

Sterling's rise at the start of the month came as investors focused on the Bank of England (BOE) Monetary Policy Committee (MPC) meeting on February 3. The MPC lifted rates as expected, with the pound moving firmly around the announcement. The 25bp rate hike (bringing the policy rate to 0.50%) was in line with market expectations. What was surprising was the closeness of the vote (5 to 4), with four members actually voting for a 50bp rate hike. This probably explains why the pound subsequently moved firmly against the dollar and continued rising against the yen (though it peaked out on February 10 and moved bearishly thereafter). Sterling's sharp fall against the euro came after ECB president Christine Lagarde shifted her stance during the press conference after the ECB Governing Council meeting on February 3. Whereas previously she had ruled out a rate hike in 2022, now she said such a move would depend on the data.

Speculation about US monetary policy was then roused by the release of the US January employment data (February 4), comments by FRB officials, and the release of the UK January CPI figure (February 10), for example, though the market continued moving without a clear sense of direction. What did change things significantly was the risk aversion prompted by rising Ukraine tensions, with the yen moving particularly firmly after February 10 as stock prices fell across the board.

On February 21, Russia recognised the independence of two eastern Ukrainian states effectively controlled by anti-government (pro-Russian) factions. Russian then announced it was dispatching peacekeeping forces to the two aforementioned states after the failure of moves to avoid a conflict by reaching a diplomatic resolution based on the Minsk II ceasefire agreement. Russia then declared war on Ukraine on February 24. The yen subsequently rose on risk aversion and this was topped by emergency dollar buying, with sterling falling sharply against the yen and dollar. It seemed strange that the pound also weakened against the euro around this time, but as mentioned below, this may have been prompted by a focus on monetary policy trends.

2. Outlook for This Month

The pound is expected to fall further in March. There is a technical reason for thinking so. After bottoming out at GBP0.83 three times since the turn of the year, the pound/euro pair moved bearishly toward the end of February. The UK and the eurozone are in the same boat regarding the uncertainty and rising fuel (gas) prices driven by the Ukraine situation. However, the eurozone is closer to Ukraine and is far more likely to face refugee inflows, for

example. The fact the pound nonetheless moved bearishly against the euro at the end of February was probably due to the comparatively different pace of monetary policy movements. The UK and US are definitely in the lead when it comes to the pace of monetary tightening, with the eurozone moving sluggishly and falling even further behind. However, the markets have been focusing on the comparative pace, namely the gap between what the markets have already priced in and the latest situation. In this sense, though the markets have already finished pricing in UK rate hikes, they only started pricing in a 2022 eurozone rate hike last month, which probably explains the recent euro buying.

Perhaps surprisingly to Russian president Vladmir Putin, at the time of writing (February 26), (Ukrainian reports suggest) the Ukrainian army has offered fiercer resistance than expected and it is growing less likely that a resolution (a ceasefire agreement, etc.) will be reached in the short term. If the fighting drags on, the Ukraine situation will remain the main focus for the financial markets. When it comes to the potential damage of the conflict on national and regional economies, Japan and the US are somewhat distanced from events and they will take less of a hit compared to the eurozone and the UK.

To summarize, if the markets focus on the Ukraine situation, sterling will be susceptible to selling against the yen and dollar, but if the markets focus on the (comparative pace of) monetary tightening, sterling will be susceptible to selling against the euro. This situation probably explains why the pound was sold across the board toward the end of February. If so, the pound will probably shift to a defensive position, at least over the next few weeks.

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

Australian Dollar – March 2022

Expected Ranges **Against the US$: US$0.7000–0.7350**
Against the yen: JPY82.00–84.00

1. Review of the Previous Month

The AUD/USD pair's downside edged higher in February, with the pair rising from the mid-$0.70 handle to the upper-$0.72 level.

From February 1 to February 10, the pair fell to the mid-$0.70 level for a time, though it then strengthened to the mid -$0.72 level. On February 1, the RBA announced it would discontinue its bond purchase program, though it stressed the elimination of QE did not "imply a near-term increase in interest rates." The markets had priced in rate hikes, so the Australian dollar was now sold as these expectations waned, with the currency pair tumbling to around $0.7035. However, it then hit the $0.71 range after the RBA upgraded its economic outlook. The RBA also upgraded its outlook for employment and inflation. It predicted that the unemployment rate would drop below 4% within the year before dropping to around 3.75% at the end of 2023. It also forecast that core inflation would rise to 3.25% in the next quarter. The US January employment data was released on February 4. The nonfarm payrolls data was up on expectations and the previous set of results, so the greenback was bought and the AUD/USD pair fell to the mid-$0.70 handle. It then recovered steadily to the $0.71 range. The pair dipped to the lower-$0.71 level for a time on February 10 after the greenback was bought on some stronger-than-expected US CPI data. The pair rocketed to the mid-$0.72 level thereafter when US interest rates stopped rising and investors adjusted their positions now that several major events had passed.

The pair climbed from the lower-$0.71 handle to the lower-$0.72 handle between February 11–20. The pair weakened on February 14 as geopolitical risk rose on the Ukraine situation. Risk aversion accelerated and the pair temporarily dipped to $0.7087 after the Ukrainian president said he had information that Russia was planning to invade Ukraine on February 16. On February 15, the Russian Ministry of Defense announced it had withdrawn some of its forces from the Ukrainian border. Stocks subsequently rose on risk appetite, with the currency pair rising to just below $0.7160 for a time. The FOMC minutes were released on February 16. They were not as hawkish as some had expected, so the greenback was sold. As such, the AUD/USD pair temporarily hit the $0.72 range. Stocks fell as risk aversion shot up on February 17 on reports that the Ukrainian army had shelled some pro-Russian factions. The currency pair subsequently fell to around $0.7150 for a time.

The pair then fluctuated sharply on the Ukraine situation from February 21–28. On February 24, the US Department of Defense warned that it was highly likely Russia would launch a full-scale invasion of Ukraine before dawn. As risk aversion intensified, the Australian dollar was sold. The currency pair then rose from the upper-$0.71 level to the lower-$0.72 handle on February 25 as the greenback weakened after expectations for faster US rate hikes waned on increased tensions in Ukraine. The pair weakened to around $0.7155 on February 28 as Russia was hit by global sanctions, though it then rose sharply after Russia and Ukraine began ceasefire talks, with the pair climbing to around $0.7270 at the close of NY trading.

2. Outlook for This Month

The AUD/USD pair looks set to continue trading in a range from the mid-$0.69 mark to the mid-$0.73 level in March.

Given the situation in Ukraine, central banks will be keeping a close eye on inflationary pressures and other dangers that could arise from geopolitical risk. As such, it is hard to imagine monetary policy shifting sharply in either the US or Australia right now. However, the Dollar Index has continued to hit highs since May last year and there remains strong expectations for US rate hikes, so the currency pair's topside will be held down. The pair's room on the topside will also be capped as risk sentiments deteriorate on headlines related to the Ukraine situation. However, the Australian dollar will be supported at times by rising hopes regarding the Russia/Ukraine ceasefire talks. Nonetheless, the pair could be sold sharply it talks break off, so caution will be needed.

The first thing to watch out for will be the impact of the Ukraine situation on central banks or on the growth outlook for each country. Furthermore, though there could be some selling if the FRB implements a rate hike in March, the pair could gradually be adjusted higher thereafter on a sense that a major event is out of the way.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – March 2022

Expected Ranges **Against the US$: C$1.2600–1.3100**
Against the yen: JPY88.00–94.00

1. Review of the Previous Month

The USD/CAD pair opened February trading at C$1.2701. As inflation continued to rise, it seemed certain Canada and the US would lift rates in March. Investors turned their attention to the potential size of the FOMC rate hike and there were overheated moves to price in rate hikes. The greenback was also bought on risk aversion on the tense Ukraine situation. Crude oil prices soared on the Russian invasion to top $100/barrel for the first time since 2014. The USD/CAD pair subsequently breached it topside resistance line of $1.280. The Canadian January employment data was released on February 4, with the number of people in work falling for the first time in eight months on the tougher restrictions introduced to tackle the Omicron variant. The unemployment rate also deteriorated from 6.0% in December to 6.5%. However, the US January employment data saw the nonfarm payrolls figure substantially beating market expectations, while the unemployment rate also remained low at 4.0%. With US interest rates also rising, the greenback was bought and the pair climbed to C$1.2788. However, OPEC+ then decided to stick with its plan to boost production. With US crude oil inventories also shrinking, crude oil prices dropped below $90/barrel, with the currency pair also falling back to the mid-C$1.26 mark.

The Canada's December trade balance unexpectedly deteriorated on its release on February 8. With exports sliding, the balance shifted into the red for the first time in seven months. Crude oil prices dropped the to the mid-$80/barrel level as investors continued to monitor progress in the Iran nuclear agreement. The Canadian unit was sold and the pair bounced back to C$1.2721, but it then dropped to C$1.2636 as US long-term interest rates ahead of the release of some US economic indicators. The closely-watched US January CPI data was released on February 10, with inflation accelerating to 7.5% on the same month last year.US long-term interest rates then rose on growing expectations for rate hikes, with the USD/CAD pair subsequently rallying to C$1.2728. The greenback was bought on risk aversion again on rising tensions in Ukraine, so the currency pair climbed to C$1.2754, though its rise was halted at C$1.2784 by high crude oil prices. Amid a flurry of news about the Ukraine situation, the pair fluctuated wildly with C$1.270 as its downside. The Canadian January CPI data was released on February 16. At 5.1% y-o-y, the figure topped 5% for the first time in over 30 years. The Canadian dollar was bought on growing expectations for rate hikes. The minutes to the FOMC meeting were then released and they surprised the markets by containing no hints about large-scale rate hikes. As overheated expectations for rate hikes cooled, the USD/CAD pair edged down to C$1.2664. Share prices fell and the greenback was bought in risk aversion after Russia invaded Ukraine on February 24, with the currency pair soaring to the mid-C$1.28 mark, though it moved with a heavy topside thereafter.

2. Outlook for This Month

The number of Covid-19 cases has fallen in Canada thanks to restrictions introduced to combat the Omicron variant. Restrictions are now being eased gradually in each province. There are plans to scrap vaccine passports, end the

obligation to wear masks, and relax other restrictions in provinces where the recovery is particularly pronounced, such as Alberta and Saskatchewan, with some voices saying restrictions are being eased too fast. There were demonstrations in Ontario last month against mandatory vaccination requirements. This has prompted anti-government demonstrations in other provinces by people tired of pandemic restrictions. Under these circumstances, the government will tread extremely carefully when it comes to easing restrictions from here on.

The Bank of Canada (BOC) will be meeting to set policy rates on March 2. There are growing concerns about inflation on supply chain disruption and rising crude oil prices. The BOC is expecting the inflation rate in 2022 to cool to 3% by the year's end, but Covid-19 remains rampant and it will take time before supply bottlenecks are eliminated. The BOC will also need to implement a rate hike to ensure inflation returns to the 2% target. The US and Canadian economies are strongly interlinked and past data suggests the US always moves first to lift rates, with Canada then following in its footsteps. If the BOC lifts rates this month and the FOMC then hikes rates by 0.25% or more when it meets on March 16, the traditional pattern will come into view, with Canada likely to lift rates again thereafter.

The spread of Covid-19 remains a concerning factor, but the markets are now being swayed sharply by the Ukraine situation. The situation remains volatile, with the greenback being bought on risk aversion when tensions rise and sold when tensions ease. The fighting is also having a major impact on the crude oil market and other energy sectors. Crude oil prices have already topped $100/barrel and they look set to rise further going forward. OPEC+ has indicated it will not ramp up production to keep soaring prices in check. Expectations are thin on the ground given the mixed results of moves to scale back production cuts. A US/Iran nuclear deal could push crude oil prices lower, so this will attract attention.

In March, the markets will continue moving skittishly on the spread of Covid-19 and the crude oil market trends. They will also be swayed by the scale of FOMC rate hikes, so investors will be paying close attention to comments by the financial authorities and officials. The most concerning factor at the moment is the Ukraine situation, so investors should be on guard against violent fluctuations. Amid growing risk aversion, the USD/CAD pair will probably move between C$1.26–1.31.

Ryosuke Kunimasa, Seoul Treasury Office, East Asia Treasury Department

Korean Won – March 2022

Expected Ranges	**Against the US$: KRW 1,180–1,230**
	Against the yen: JPY 9.346–9.804 (KRW100)

1. Review of the Previous Month

In February, the USD/KRW pair fluctuated wildly at times on the Ukraine situation, but on the whole it moved within a narrow range around KRW1190–1205.

The pair opened the month trading at KRW1202.0 on February 3. South Korea's January trade balance was released during the holidays and it posted a higher-than expected deficit, so the pair climbed to KRW1206.9. South Korea then embarked on a long holiday from February 4. Overseas stock markets underwent some adjustment during this time and South Korean stocks were also bought back by overseas investors, so the pair weakened.

The pair continued trading with a heavy topside from February 7. US long-term interest rates rose for a time on the buoyant results of the US January employment data, but the markets as a whole had already built up dollar long positions, while FRB and ECB officials made a series of verbal interventions to curb excessive concerns about rate hikes. However, the market mood shifted on February 10 after the US released some stronger-than-expected January CPI data. As investors priced in a 50bp hike in the US federal funds rate in March, the currency pair rallied to KRW1201.

During overseas trading time on February 11, the US government warned about an imminent Russian invasion of Ukraine, with a mood of risk aversion sweeping the markets when the following week opened on February 14. Though the USD/KRW pair rose compared to the previous weekend, its room on the topside was capped by substantial real-demand won buying above KRW1200. The minutes to the FOMC meeting were released on February 16. There was surprisingly no concrete mention of a 50bp rate hike in March, so the greenback was sold and the currency pair weakened to KRW1194 on February 17. However, the pair's slide was halted by news that Ukraine had shelled regions controlled by pro-Russian factions.

Risk aversion prevailed in the week beginning February 21 on deep-rooted concerns about the Ukraine situation. South Korean stocks fell and the USD/KRW pair temporarily strengthened to KRW1199. However, the pair then plummeted to KRW1191 on news that US president Joe Biden and Russian president Vladmir Putin had reached an agreement in principle at a heads-of-state meeting, with the pair continuing to swing to and fro on headlines about the Ukraine situation. The governor of the Bank of Korea (BOK) made some slightly dovish comments when the bank met on February 24, though the reaction of the markets was muted. However, the pair then topped KRW1200 the same day on news that Russia had launched a full-scale invasion of Ukraine. The pair's downside moved firmly on risk-evasive dollar buying towards the end of the month, but its topside was also capped by real-demand won buying, so the pair floated around the lower-KRW1200 mark. In the end the pair closed at KRW1202.5, down 3.4 won on the end of January.

2. Outlook for This Month

The USD/KRW pair is expected to move firmly in March. In February, the pair's topside was capped by real-demand won buying around the key KW1200 mark, but its downside also moved firmly on deep-rooted geopolitical risk related to Ukraine. In the end, the pair climbed to the KRW1200 range again on the Ukraine situation.

The question now is whether the pair can become entrenched at this level. There will be two main factors to watch this month: (1) FRB and BOK monetary policy (the pace of rate hikes) and (2) geopolitical risk related to Russia and Ukraine.

As for (1), the US January CPI data topped expectations amid soaring inflation. Investors will be watching to see how far the FOMC lifts rates this month. Amid concerns about the Ukraine situation and with stocks falling sharply, attention will also focus on comments about the pace of rate hikes going forward. With prices rising, though, the FRB is unlikely to shift its medium-term stance. In South Korea, meanwhile, the current BOK governor's term ends this month and a presidential election is also looming, so with the BOK examining the timing of the next rate hike, the USD/KRW pair will be continue to be supported by dollar buying on expectations for rising US interest rates.

With regards to (2), the currency pair will be bought on this geopolitical risk related to Russia and Ukraine, so the pair will continue to be supported on the downside by strong concerns about the tense Ukraine situation. However, if excessive risk aversion drags on and stocks markets continue falling, this will impact rate hike policies and US interest rates will face downward pressure, with the pair's topside capped as a result. As such, investors should monitor stock market movements and the duration of risk aversion.

Based on the two factors mentioned above, the pair is unlikely to rise sharply this month, with the South Korean authorities also likely to buy the won when the pair rises substantially above KRW1200. However, the pair will probably move firmly as the trend from the end of February continues into March.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – March 2021

Expected Ranges **Against the US$: NT$27.80–28.20**
Against the yen: JPY4.04–4.16

1. Review of the Previous Month

The USD/TWD pair rose on risk aversion in February.

The Spring Festival occurred at the start of the month, so after the holidays the pair opened the month trading at TWD27.810 on February 7. Though Taiwan stocks moved firmly, more Taiwanese investors sought to buy the greenback on rising US long-term interest rates. With crude oil prices also rising and more exporters buying the US dollar, the currency pair moved firmly in a range around TWD27.83.

Taiwanese stocks fell for a time mid-February on concerns about the Ukraine situation, with the pair temporarily hitting TWD27.9. However, it moved with a heavy topside around TWD27.90 as exporters sold the greenback, so the pair continued to trade in a range around TWD27.88.

Taiwanese stocks jostled up and down on the Ukraine situation late February, but the currency pair remained in a range. However, risk aversion intensified on February 24 as Russian president Vladmir Putin authorized military action in Ukraine, with Russia then invading its neighbor. As major stock markets suffered sharp losses, Taiwanese stocks plummeted. More overseas investors sold the Taiwan dollar too, so the currency pair hit the TWD28 range. This trend continued on February 25, with the pair hitting TWD28.074 for a time, but stock markets rallied after the previous day's wipeout, so the pair closed the month trading at TWD28.021.

2. Outlook for This Month

The USD/TWD pair is expected to strengthen in March.

The Taiwan dollar was sold and the pair climbed to TWD28 in February as risk aversion increased on the Ukraine situation. It is hard to gauge how geopolitical risk will develop from here on, but Russia has already invaded Ukraine and the situation is unlikely to cool off any time soon. If things get worse, the currency pair could rise higher, so caution will be needed. Some observers have voiced concerns about a Chinese invasion of Taiwan following Russia's invasion of Ukraine, but Taiwan lies someway off the Chinese mainland, so it is hard to imagine China following in Russia's footsteps right now. Taiwan will also be keeping a close eye on the response of the US. The US response in Ukraine will reveal a lot about the potential US response if an emergency situation occurs in Taiwan, so observers should also pay close attention to the conditions for a US military intervention.

The FOMC is expected to lift rates in March. The markets are pricing in such a move, but US interest rates have fallen at times on the recent risk aversion. Given this risk aversion, rate hikes have not sufficiently been priced into US long-term interest rates, so if the FOMC implements a 50bp hike, the US dollar will probably be bought and the Taiwan dollar sold on rising US interest rates. There are also concerns about inflation as crude oil prices soar on geopolitical risk, so investors should also monitor the pace of rate hikes in 2022.

The Central Bank of the Republic of China (Taiwan) will be meeting to set policy a day after the March FOMC meeting. The Central Bank of the Republic of China (Taiwan) also looks set to lift rates as it monitors US

movements, though most observers believe it will maintain the status quo in March. Taiwan's economy is in good shape too. Prices are rising, but at 2.84%, Taiwan's January CPI figure was not that high compared to the figure in the US, so the Central Bank of the Republic of China (Taiwan) can take its time when making any decision. Furthermore, Taiwan's trade surplus hit a record high of about $116.1 billion in 2021. The Taiwan dollar will face strong buying pressure and this will probably offset any selling on rising US interest rates. In this sense, Taiwan is in a very different position from other emerging economies who are worried about the impact of rising US interest rates on their currencies.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – March 2022

Expected Ranges **Against the US$: HK$ 7.7800–7.8300**
Against the yen: JPY 14.50–14.90

1. Review of the Previous Month

Hong Kong dollar spot exchange market in February

HKD spot fell back into the weak half of its trading band above 7.80 handle in February as the souring risk appetite due to Russia-Ukraine political tensions and the upcoming Fed's tightening cycle dampened HKD demand. The widening negative HKD-USD rate spread started to weigh on the HKD spot as the Fed's rate hike cycle is around the corner. The year-to-date Stock Connect inflow to HK equities was diminishing to near HKD 40bn from its high of HKD 49bn in February, following the HK equities sell-off driven by the refreshing concern over the regulations crackdown on China tech giants and mounting geopolitical tensions. The Omicron spread in HK deteriorated sharply, with daily infected cases surging to 20,000. Alongside the social distancing restrictions tightening, HK growth outlook was exacerbating quickly and the government launched the sixth round of HKD 27bn anti-epidemic fund subsidy to support the economy.

Hong Kong dollar interest rate market in February

As the Fed is set to kick off its rate hike cycle in March, the USD rates climbed robustly. Meanwhile, front-end HKD rates were fluctuating alongside the seasonality and HKD-USD rate spread dropped, with both 1-month and 3-month HKD HIBOR – USD LIBOR spread turning negative. With the HKMA's extra Exchange Fund Bills (EFBs) issuance, HKMA aggregate balance declined to below HKD 340bn but HKD liquidity condition stayed ample at such level, in comparison to below HKD 100bn in 2018. HKD IRS curve tracked on higher USD IRS curve as Fed's rate hike cycle is around the corner. Yet, the IRS curve may retreat if market participants trimmed expectation for Fed's rate hike cycle on uncertainties over conflicts between Russia and Western allies. With still ample HKD liquidity condition, the negative HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) dropped to near -150bps.

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2. Outlook for This Month

Hong Kong dollar spot exchange market in March

USD/HKD spot is expected to range between 7.78 and 7.83 in the coming month. Risks are skewed towards upside for USD/HKD as an aggressive 50bps rate hike in March is on the table to curb elevated US CPI inflation. The previous experience in 2018 suggested that the HKD could weaken to its weak-side convertibility undertaking at 7.85 when Fed lifted its policy rate at 1.5%. We reckon that the HKD weakening to 7.85 level could be sooner as the Fed's rate hike cycle is likely to be faster in tandem with quicker balance sheet reduction. With lingering concern over the Chinese regulation crackdown on tech giant, the Stock Connect inflow to HK equities will remain

rather limited. IPO flow will be supported by Chinese firms amid China-US tensions this year but bearish sentiment in HK stock market will undermine the positive impact of IPO flow on HKD.

Hong Kong dollar interest rate market in March

As the HKMA has halted the extra EFBs issuance in late February, the HKMA will only passively drain HKD liquidity in case of HKD weakens to 7.85 level. Having skipped the extra EFBs issuance, the HKD-USD negative rate spread will likely widen and the timing of HKD weakening to 7.85 level will come sooner. Under the USD-HKD peg, this will trigger HKMA's FX intervention to defend the HKD and subsequently withdraw HKD liquidity. This action will push HKD rates higher and narrow the HKD-USD negative rate spread, and in turn moderate HKD depreciation pressure. HKD IRS curve will continue to climb amid Fed's rate hike cycle, but the curve could be flattening on increasing recession risk.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – March 2022

Expected Ranges **Against the US$: CNY 6.2500–6.4000**
Against the yen: JPY 17.70–18.90

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate fell in February.

After the Chinese New Year holidays, the U.S. dollar/Chinese yuan exchange market opened at the upper-CNY 6.35 level on February 7. Because the exchange rate did not fluctuate violently during the Chinese New Year holidays, the U.S. dollar/Chinese yuan exchange market remained stable after the holidays as well. Thereafter, the media reported that Russia ordered some troops to return to their bases after a military training program, and this fueled expectation for the amelioration of the geopolitical situation in Ukraine, encouraging market participants to sell the U.S. dollar. As a consequence, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.32 level. Then, on February 21, China's LPR was announced to be maintained at the existing level, as had been anticipated in the market. Under such circumstances, market participants started actively buying the U.S. dollar with concerns over the situation in Ukraine. On February 22, the U.S. dollar/Chinese yuan exchange rate rose temporarily to the CNY6.34 level. However, thereafter, the trend was inverted, and the U.S. dollar/Chinese yuan exchange rate fell in the offshore market. After reaching its latest low, the U.S. dollar/Chinese yuan fell to the lower-CNY 6.31 level. On February 24, Russia started to invade Ukraine, which led market participants to sell risk assets worldwide. Under such a condition, the U.S. dollar appreciated, and the U.S. dollar/Chinese yuan exchange rate occasionally returned to a level around CNY 6.33. However, on the first day of the invasion, the U.S. stock prices recorded a net increase. Thus, after a moment of risk-averse activities, pressure to buy the Chinese yuan strengthened again, and the U.S. dollar/Chinese yuan exchange rate fell again to the CNY 6.31 level on February 25.

The Japanese yen/Chinese yuan exchange rate fell in February.

In February, the Japanese yen/Chinese yuan exchange market opened trading at around the CNY 5.51 level. While the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range, the U.S. dollar/Japanese yen exchange rate remained high during the Chinese New Year holidays. Under such circumstances, the U.S. dollar/Japanese yen exchange rate reached the JPY 116 level on February 10, based on the strong January Consumer Price Index of the U.S., as well as on the hawkish remarks made by Federal Reserve Board (FRB) officials. In reaction, the Japanese yen/Chinese yuan exchange rate fell to CNY 5.47. Thereafter, after the closing of the onshore market on February 11, the media reported that Russia might start military operations in Ukraine even before the end of the Winter Olympic Games, and this encouraged market participants to actively buy the Japanese yen to avert risks. As a result, on February 14, the Japanese yen/Chinese yuan exchange market opened at the upper-CNY 5.51 level with a weaker Chinese yuan than the closing rate of the previous business day. The U.S. dollar/Japanese yen exchange rate continued sensitively fluctuating according to headlines related to the situation in Ukraine. Under such circumstances, the Japanese yen/Chinese yuan exchange market also continued fluctuating with news reports related to Ukraine, falling to the lower-CNY 5.47 level and returning to the CNY 5.51 level thereafter. Downward pressure strengthened on the U.S. dollar/Japanese yen

exchange rate with the intensifying situation in Ukraine. As a consequence, the Japanese yen/Chinese yuan exchange rate rose to the upper-CNY 5.53 level on February 22. On February 24, the U.S. dollar/Japanese yen exchange rate fell further in response to the headline that Russia had started invading Ukraine. However, thereafter, the U.S. dollar/Japanese yen exchange rate rallied to the upper-JPY 115 level, when the fall of U.S. interest rates slowed down. Thus, the trend in the Japanese yen/Chinese yuan exchange rate also changed, and the exchange rate fell to the CNY 5.47 level.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is expected to remain low in March.

The interest rate hikes in the U.S., which have already been anticipated in the market, are starting soon. The market has already been reflecting several interest rate hikes with inflation in the U.S. On the other hand, in China, there has been the impression that monetary policy is being relatively eased. However, the U.S. dollar/Chinese yuan exchange rate has not been rising based on the gap in monetary policy between the U.S. and China. Also, the CFETS RMB Index started to rise in an accelerated manner since the second half of 2021. On January 28, the index reached 103.43. In 2022, the index stopped rising. However, it has remained high, at around 103. This suggests that demand to buy the Chinese yuan is more significant than the demand to buy the U.S. dollar based on expectations for interest rate hikes, as a result of which the strength of the Chinese yuan has been maintained.

The demand & supply balance based on the international balance of payment has been strengthening upward pressure on the Chinese yuan, supported by robust external demand that can be confirmed by the trade surplus of China, which hit an all-time high at USD 676.4 billion in 2021. Furthermore, foreign investors' security investment flow (north-bound investment) into China has continued both in the stock and bond markets despite concerns over domestic demand seen in a slowdown of the real estate sector. At the moment, there has been confusion over the situation in Ukraine, and this emergency situation encouraged some market participants to buy the U.S. dollar. However, the fluctuation band of the Chinese yuan has been limited to a certain degree. An official from China's Ministry of Foreign Affairs expressed at a press interview held on February 24 that the activities of the Russian troops were not an "invasion" as expressed by foreign media. Thus, China has shown an attitude to support Russia while still carefully observing the situation. China is one of the world's largest creditors after Japan and Germany, with a large amount of net external assets. Thus, it can be said that the Chinese yuan has the advantage of acting as s safe refuge when there is an event outside of China that fuels risk-averse sentiment.

Even though it is difficult to estimate the outcome of the geopolitical risks, given the fundamentals and the trends in the Chinese yuan market at the time of growing concerns over Ukraine, the Chinese yuan is forecast to remain strong, and the U.S. dollar/Chinese yuan exchange rate is unlikely to rise in the month ahead.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – March 2022

Expected Ranges **Against the US$: SG$ 1.3500–1.3700**
Against the yen: JPY 84.00–86.00

1. Review of the Previous Month

In February 2022, the Singapore dollar appreciated against the U.S. dollar toward the middle of the month, after which the Singapore dollar weakened toward the end of the month.

At the beginning of the month, the Singapore dollar appreciated. Many markets were closed because of the Chinese New Year holidays. Under such a condition, multiple regional Federal Reserve Bank presidents made a remark that was cautious about the pace of interest rate hikes. In addition, the stock market remained strong in Europe and the U.S. As a result, market participants actively bought Asian currencies. Following this trend, the Singapore dollar also appreciated. The U.S. dollar/Singapore dollar exchange rate, which was fluctuating at the mid-SGD 1.35 level at the beginning of the month, fell to the lower-SGD 1.34 level toward February 4, as the Singapore dollar continued appreciating.

Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range between the mid-SGD 1.34 level and the upper-SGD 1.34 level. Even though U.S. employment statistics were released without any surprise, there was no strong factor to change the market trend, and the U.S. dollar/Singapore dollar exchange rate continued fluctuating without moving in any direction. On February 9, the stock market strengthened worldwide, and the Singapore dollar strengthened slightly. The Singapore dollar appreciated against the U.S. dollar, and the exchange rate reached a level around SGD 1.34, which was the monthly low.

However, thereafter, the Singapore dollar started weakening. On February 11, the January Consumer Price Index of the U.S. was announced, and U.S. interest rates rose while U.S. stock prices fell. Furthermore, a U.S. high official made a remark to warn that Russia could start invading Ukraine, and this led overall Asian currencies to depreciate. Following this trend, the U.S. dollar/Singapore dollar rose to the SGD 1.35 level.

While market participants were waiting for subsequent media reports related to Russia and Ukraine, the Singapore dollar strengthened slightly again on February 17 and 18. This is based on the fact that Russian President Vladimir Putin had expressed his wish to solve the problem with Ukraine through diplomacy, while the Asian stock market strengthened following the rise of U.S. stock prices. As a result, the Singapore dollar appreciated against the U.S. dollar, and the exchange rate reached the lower-SGD 1.34 level.

Thereafter, the Singapore dollar weakened toward the end of the month. When the situation between Russia and Ukraine intensified, the Singapore dollar depreciated significantly. The U.S. dollar/Singapore dollar exchange rate, which was fluctuating at the lower-SGD 1.34 level, once reached the lower-SGD 1.36 level, as the Singapore dollar depreciated further. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range, as market participants continued observing sanctions announced by U.S. and European countries as well as the evolution of the situation. In the end, the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.35 level, and monthly trading closed.

2. Outlook for This Month

In March 2022, the Singapore dollar is forecast to continue depreciating against the U.S. dollar.

Due to growing geopolitical risks, the Singapore dollar weakened toward the end of February. The geopolitical issue has not yet been resolved, while inflation pressure has been strengthening due to rising resource prices. This situation has been preventing not only Singapore but also the overall Asian economy from ending and recovering from the COVID-19 pandemic.

In January, the Monetary Authority of Singapore (MAS) held an emergency meeting and changed its policy to control the Singapore dollar exchange rate (the slope of the NEER band was changed so that the Singapore dollar can strengthen further). If nothing else happens, the next MAS meeting is scheduled for April. The market is now waiting to hear about the economic growth rate as well as price inflation in Singapore, which are important factors toward foreseeing the next measures to be taken by the MAS.

What is characteristic about the price measurement in Singapore is that mobility-related indices include gasoline prices as a component. The rise of crude oil based on geopolitical risks is an unignorable factor, as it can lead to an increase in cost, causing inflation. If the inflation index of Singapore remains high as it is now, it is possible for the MAS to not only change the slope of the NEER band but also to lead the Singapore dollar to appreciate by rising the central rate, while also introducing measures to control inflation.

In general, these actions lead the Singapore dollar to appreciate. However, as was discussed above, the next MAS meeting is not scheduled until April. Therefore, the Singapore dollar is likely to continue fluctuating, according to the situation in Russia and Ukraine as well as actions taken by the U.S. monetary authorities.

Under the current circumstances, market participants are averting risks by taking refuge in safe assets—the U.S. dollar in particular—due to geopolitical risks growing due to Russia's invasion in Ukraine. No matter how strong the Singapore dollar remains against the NEER currencies, the Singapore dollar is forecast to remain weak against the U.S. dollar.

Shinya Maegawa, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – March 2022

Expected Ranges **Against the US$: THB 31.50–33.50**
Against the yen: JPY 3.40–3.70

1. Review of the Previous Month

In the first week of the month, many markets in Asia, including those in China, were closed because of the Chinese New Year holidays. Under such circumstances, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at the lower-THB 33 level. Thereafter, the European Central Bank (ECB) held a meeting, attracting substantial attention in the market. As a result, the policy interest rate was maintained at the existing level, even though President of the ECB Christine Lagarde did not make any remark to deny an interest rate hike to control inflation before the end of the year—which was understood as a shift in her attitude toward a hawkish stance in the market. Also, the Bank of England (BOE) decided to raise its interest rates, as it did in December. The BOE thus maintained its hawkish attitude, and it is likely for the BOE to continue raising interest rates in the times ahead. As a result, market participants sold both the U.S. dollar against the euro and the British pound, in an accelerated manner. However, there has been almost no movement in the U.S. dollar/Thai baht exchange market, and the exchange rate continued fluctuating at the lower-THB 33 level. Thereafter, the January employment statistics of the U.S. were released with figures stronger than expected, which encouraged market participants to buy the U.S. dollar temporarily. However, weekly trading closed at around the THB 33 level. The January Consumer Price Index of Thailand was announced thereafter, and the result turned out to be 3.2%, exceeding the range of 1–3%—the target range set out by the central bank of Thailand. Thus, concerns grew over inflation.

In the second week of the month, the media reported that the Thai government was considering creating a travel bubble with Malaysia, and this encouraged market participants to buy the Thai baht. As a result, the Thai baht appreciated against the U.S. dollar to approach the THB 32.85 level. On February 9, the Monetary Policy Committee (MPC) of Thailand held a meeting and decided to maintain the policy interest rate at 0.5% while also maintaining measures of monetary easing in order to support economic recovery. The inflation rate is likely to remain high during the first half of the year, but the annual rate is expected to remain within the target range. Thus, it was confirmed that, for the MPC, economic recovery is more important than control over inflation. On February 11, the January Consumer Price Index of the U.S. was announced, which turned out to be stronger than the market estimate. In reaction, market participants sold the Thai baht. Thereafter, a U.S. government official made a remark to point to the intensification of the situation in Ukraine. However, the U.S. dollar/Thai baht exchange market did not dramatically react to this headline, and monthly trading closed at around the THB 32.70 level.

In the third week of the month, the U.S. dollar/Thai baht exchange rate fell. Due to the deterioration of the situation in Ukraine, market participants were hesitant to buy European currencies. Under such circumstances, the U.S. stock market weakened, and funds did not return to the U.S. dollar. On the other hand, market participants preferred investing in the Thai baht, as it was stable from a geopolitical point of view, as well as from the point of view of monetary policy. As a result, the U.S. dollar/Thai baht exchange rate continued falling, led by the capital inflow into Thailand. In the end, the U.S. dollar/Thai baht exchange rate continued falling slowly to finally reach

the lower-THB 32 level.

In the fourth week of the month, Russia approved the status of a republic for two eastern states in Ukraine, of which the new pro-Russian militarized group had claimed independence. As a result, market participants anticipated difficulties in the peace talks, and geopolitical risks heightened again. Because of short covering, the U.S. dollar/Thai baht exchange rate rose to approach the THB 32.30 level.

Thereafter, risk-averse sentiment persisted in the market, as approval was postponed for the Nord Stream 2 Pipeline, which would be a route to transport natural gas from Russia to Germany, while various countries announced sanctions against Russia. The U.S. dollar/Thai baht exchange rate, which had continued falling previously, rallied to approach the THB 32.50 level.

2. Outlook for This Month

In March, the U.S. dollar/Thai baht exchange rate is forecast to fluctuate within a narrow range. In response to the media report on the military action by Russia in the east of Ukraine, risk-averse sentiment strengthened further in the market. The VIX index (also known as the "fear index"), which shows investor sentiment, rose to the 30 level. In general, when the index reaches 30 it requires attention, thus the level has been exceeded (at normal times, the index sits around 10–20). Therefore, foreign exchange markets and stock markets have already reflected the risk aversion to a great extent. The situation in Ukraine continues to be the most-important factor in the market, and some observers point to the risk for the capital city of Kiev to be taken by Russia, while there are media reports on Russia's preparation for new attacks by launching airborne troops. There has also been some short covering for the U.S. dollar/Thai baht exchange rate, which had been on a decline, causing violent fluctuation in the market. Market participants should remain attentive of new headlines with growing geopolitical risks, and the U.S. dollar/Thai baht exchange rate is likely to fluctuate according to risk aversion and short covering.

On the other hand, the Thai economy itself has been strong. The GDP of Thailand for the fourth-quarter period in 2021, announced on February 21, turned out to be +1.90% year-on-year, whereas the market estimate was +0.8% year-on-year. The GDP grew from -6.2% in 2020 to 1.6% in 2021, confirming recovery from negative growth. The growth was led by sectors such as agriculture and manufacturing, except for tourism-related sectors, which continue to suffer from the impact of the COVID-19 pandemic. At an MPC meeting held on February 9, the policy interest rate was maintained at 0.5% so as to show that the priority is on economic recovery rather than controlling inflation. To confirm this attitude, the Thai government has announced various measures to attract tourists (by resuming the test & go scheme without quarantine, creating travel bubbles with China and Malaysia, reducing the minimum health insurance coverage required to enter the country from USD 50,000 to 20,000, and modifying the compulsory PCR test on the fifth day after entry to Thailand to involve the use of a rapid test kit). These factors support the appreciation of the Thai baht. At the moment, the sense of uncertainty has been growing due to the invasion of Ukraine. However, once geopolitical risks are mitigated, upward pressure on the Thai baht could strengthen again.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – March 2022

Expected Ranges **Against the US$: MYR 4.15–4.25**
Against the yen: JPY 27.17–27.93

1. Review of the Previous Month

In February, the U.S. dollar appreciated rapidly against the Malaysian ringgit toward the second half of the month, due to risk-averse sentiment in the market based on the appreciation of the U.S. dollar after the announcement of the U.S. inflation index, as well as due to the intensification of the situation in Ukraine as seen from the middle of the month. As a consequence, the Malaysian ringgit weakened, and the U.S. dollar/Malaysian ringgit exchange rate once rose to the upper-MYR 4.20 level.

At the beginning of the month, in Europe, the Bank of England (BOE) raised the policy interest rate by 0.25% on February 3, after the Chinese New Year holidays on February 1 and 2. Out of nine committee members, four members were suggesting an interest rate hike of 0.50%. In addition, President of the European Central Bank (ECB) Christine Lagarde did not deny an interest rate hike before the end of the year, in order to control inflation. As a result, market participants bought European currencies. While the U.S. dollar continued depreciating, the U.S. dollar/Malaysian ringgit exchange rate fell to reach the monthly low at MYR 4.176. On February 8, the December industrial production turned out to be +5.8% year-on-year, recording a slight slowdown. However, by sector, the manufacturing industry recorded steady growth of +8.4%. On February 10, local time, the January Consumer Price Index of the U.S. was announced, recording its highest growth in 40 years. Furthermore, the president of the Federal Reserve Bank of St. Louis James Bullard made a hawkish remark, which led U.S. interest rates to rise sharply. Also, the two-year U.S. government bond yield recorded a significant rise of 24 basis points from the previous day. On February 11, Malaysia's GDP was announced, and the GDP for the fourth-quarter period recorded positive growth of 3.6%, while the annual GDP for 2021 recorded positive growth of 3.1%. Because the governor of the central bank of Malaysia, Nor Shamsiah, was confident in achieving the goal of +3.0–4.0%, the results, which turned out to be close to the lower end of the target range, were slightly disappointing.

Toward the middle of the month, there was a concern over emerging currency selling, based on the situation in Ukraine and the inflation rate in the U.S. However, the Malaysian ringgit remained strong and did not depreciate further. On February 15, the January Producer Price Index of the U.S. was announced, and the result exceeded the market estimate, as was the case with the Consumer Price Index in the previous week. This again confirmed inflation in the U.S. Then, on February 16, the following day, the January amount of retail sales in the U.S. was announced, and the result turned out to be strong, with positive growth in eight out of 13 categories despite the spread of the omicron variant of COVID-19. Furthermore, as a result of the intensification of the situation in Ukraine, market participants bought the Japanese yen to avert geopolitical risks. As a consequence, the Malaysian ringgit/Japanese yen exchange rate once fell below the JPY 27.5 level. However, the exchange rate did not fall much further. Thus, the Malaysian ringgit remained robust even against the Japanese yen.

At the end of the month, the media reported Russia's attack on Ukraine on February 24, in reaction to which market participants started averting risk. As a result, the U.S. dollar appreciated sharply. On the same day, the

January Consumer Price Index was announced. Even though the headline was below the market estimate, the core inflation rate recorded a significant increase, as was the case in the previous month. This result made an interest rate hike likely. However, as the center of the attention in the market was the situation in Ukraine, there was only limited reaction in the market.

2. Outlook for This Month

In March, the U.S. dollar/Malaysian ringgit exchange rate is expected to move in a sensitive manner, carefully observing the outcome of the Federal Open Market Committee (FOMC) meeting scheduled for March 17, as well as the intensifying situation in Ukraine.

In February, after the announcement of the Consumer Price Index and the Producer Price Index in the U.S., the market once reflected seven interest rate hikes before the end of the year, including two interest rate hikes in March. However, the depreciation of the Malaysian ringgit was limited, demonstrating the robustness of the Malaysian ringgit. Since the FOMC meeting held in June last year, the U.S. dollar has been appreciating led by expectations for interest rate hikes. Now, it is time to see if such a trend will change. As a result of the intensification of the situation in Ukraine, geopolitical risks are heightening, leading crude oil and gold prices to rise sharply. According to the general tendency, it is time for market participants to buy the U.S. dollar. However, looking at the actual trend in the foreign exchange market, the appreciation of the U.S. dollar has been limited. It is unknown how much the market will be impacted by Russia's invasion of Ukraine from a medium- to long-term perspective. However, if the difficult situation remains, causing possible economic decline in the U.S. and Europe, it is possible for market participants to buy the Malaysian ringgit by selling the U.S. dollar, of which interest rates would fall based on the fact that the impact on the U.S. dollar would be relatively small.

When it comes to the domestic situation, the core inflation rate of the January Consumer Price Index recorded a further increase, as was mentioned above. Apart from food prices, there has been an impact in the overall service industry, including hotels, tourism, and entertainment services. Market participants should thus remain attentive. On the other hand, in the middle of February, the governor of the central bank of Malaysia, Nor Shamsiah, insisted that Malaysia's domestic inflation was different from that in the U.S. As he expressed a negative view on an early interest rate hike, which could cause a slowdown in the economy recovery, two interest rate hikes are anticipated before the end of the year. However, it is not likely for the central bank to raise the policy interest rate at the meeting in March or May. The appreciation of the Malaysian ringgit based on expectations for interest rate hikes is more likely to be in the second half of the year.

For the above reasons, the U.S. dollar/Malaysian ringgit exchange rate could fluctuate violently in March because of the situation in Ukraine during the first half of the month and because of the outcome of the FOMC meeting scheduled for March 17 in the second half of the month. Market participants should therefore remain attentive.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – March 2022

Expected Ranges **Against the US$: IDR 14,200–14,600**
Against 100 rupiah: JPY 0.79–0.82

1. Review of the Previous Month

In February, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating without moving in any direction. After the holidays, the U.S. dollar/Indonesian rupiah exchange market opened trading on February 2, with a strong Indonesian rupiah at the IDR 14,300 level as a result of the fact that the rise of U.S. interest rates had slowed down after Federal Reserve Board (FRB) officials made negative remarks about an interest rate hike of 0.50% in March. Also, on February 4, the January employment statistics of the U.S. were released, confirming once again the steady economic recovery of the U.S. In reaction, the U.S. dollar/Indonesian rupiah exchange market opened trading at around the IDR 14,400 level on February 7 in the following week. While the U.S. dollar was on an uptrend, the Indonesian rupiah weakened to temporarily reach the lower-IDR 14,400 level—the monthly low for the Indonesian rupiah. However, there was no influential factor in the market thereafter, and the U.S. dollar/Indonesian rupiah pair continued trading at around the upper-IDR 14,300 level without moving in any direction. Then, on February 10, the outcome of a meeting at the central bank of Indonesia was released. However, the policy interest rate was maintained at the existing level, as had been anticipated in the market. Thus, the impact on the exchange market was limited. On the same day, the January Consumer Price Index of the U.S. was announced, recording +7.5% year-on-year for the first time in 40 years. The core inflation index recorded +6.0% year-on-year. As a result, FRB officials mentioned the possibility of interest rate hikes and the end of quantitative easing at an emergency meeting before waiting for the next Federal Open Market Committee (FOMC) meeting. As a consequence, U.S. interest rates rose sharply. However, the Indonesian rupiah remained robust at the upper-IDR 14,300 level. On February 14, in the following week, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,300 level. While the situation in Ukraine continued deteriorating, U.S. interest rates remained low. The Indonesian rupiah continued appreciating toward February 16 in the middle of the week, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,200 level. However, the situation in Ukraine intensified further, and risk-averse sentiment grew in the market, leading the Indonesian rupiah to depreciate. Then, on February 18 at the end of the week, the Indonesian rupiah depreciated to reach the mid-IDR 14,300 level to the U.S. dollar. On February 21, after the weekend, the situation in Ukraine remained tense, while market participants bought the U.S. dollar at the end of the month. As a result, the Indonesian rupiah depreciated further, and the U.S. dollar/Indonesian rupiah exchange rate once approached the IDR 14,400 level. However, the Indonesian rupiah did not depreciate further from the mid-IDR 14,300 to upper-IDR 14,300 level. Monthly trading in February closed at the mid-IDR 14,300 level.

2. Outlook for This Month

In March, the U.S. dollar/Indonesian rupiah exchange rate is forecast to continue fluctuating without moving in any direction.

In February, there were many factors to lead the Indonesian rupiah to depreciate, such as the rise of U.S. interest rates as well as the sudden intensification of the situation in Ukraine. However, in the end, the Indonesian rupiah remained stable throughout the month.

In order to forecast trends in the U.S. dollar/Indonesian rupiah exchange market, it is important to review the movement of U.S. interest rates. In February, the inflation rate remained extremely high in the U.S., making it more probable for the FRB to raise their policy interest rate at a fast rate. The 10-year interest rate once exceeded 2% in February. However, as the situation in Ukraine intensified rapidly, investors have not been taking risks, which stopped interest rates in the U.S. from rising further. Having seen this movement in U.S. interest rates, foreign investors bought more Indonesian government bonds. As of February 24, foreign investor holdings had increased by IDR 10 trillion compared to the end of January. There was a net buy on the basis of the end of the previous month for the first time since August last year, and the Indonesian rupiah remained strong partially because of such capital inflow. However, looking back the phase of interest rate hikes in the U.S. in 2018, the 10-year U.S. government bond yield was above 3%. Thus, long-term interest rates in the U.S. can still rise, which could lead to capital inflow from Indonesia. It is certain that officials in the U.S. will raise the policy interest rate this month. It is therefore still possible for the Indonesian rupiah to depreciate when long-term interest rates in the U.S. rise further.

The situation in Ukraine remains a source of concern. Russia has started a military invasion of Ukraine, which fueled risk-averse sentiment in the market. However, the Indonesian rupiah has not started to depreciate sharply. The situation is variable, and it is possible for the situation to deteriorate further. Market participants should remain cautious.

On the other hand, on February 15, the January trade balance of Indonesia was announced, recording a surplus of nearly USD 1 billion, despite concerns over the ban on coal exports. Commodities prices, including the coal price, remained high in February, and this remains a positive factor for the Indonesian rupiah.

There are both supporting factors and factors of concern for the Indonesian rupiah. The U.S. dollar/Indonesian rupiah exchange market is therefore not likely to move into any direction in March.

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

Philippine Peso – March 2022

Expected Ranges **Against the US$: PHP 50.90–52.00**
Against the yen: PHP 2.20–2.30

1. Review of the Previous Month

The January manufacturing PMI of the Philippines turned out to be the lowest since August last year. On the other hand, the Philippine peso remained strong, as there were speculations about a relaxation of movement restrictions, while the January Consumer Price Index of the Philippines suggested a decline in inflation pressure. However, the Philippine peso did not easily exceed the PHP 51.000 mark. Thereafter, the January employment statistics of the U.S. turned out to be extremely strong, and this made it likely for monetary tightening to accelerate more than expected, while geopolitical risks continued growing related to Ukraine. As a result, the Philippine peso depreciated significantly. However, the U.S. dollar/Philippine peso exchange rate did not fall below the PHP 51.500 level. During the first part of the month, the U.S. dollar/Philippine peso exchange rate weakened from the PHP 51.000 level to the PHP 51.500 level.

The January Consumer Price Index of the U.S. recorded more-significant growth than the market estimate, and the market started to reflect interest rate hikes further. As a result, Philippine stock prices fell sharply from their highest level in two years. However, there were some positive factors, such as the fact that the WTI crude oil futures prices fell below the USD 90 level. Thus, the depreciation of the Philippine peso was limited. Thereafter, the U.S. dollar/Philippine peso exchange rate continued fluctuating following headlines related to the situation in Ukraine. Yet, toward the middle of the month, the Philippine peso stabilized, as the December amount of overseas Filipino workers remittances turned out to be USD 2.99 billion, recording positive growth from the USD 2.5 billion recorded in the previous month. Also, on February 17, the central bank of the Philippines decided to maintain its policy interest rate at the existing level for the 10th consecutive time, as had been anticipated in the market, and this had little impact in the market.

Also, the January international balance of payments of the Philippines recorded a deficit. Furthermore, Russia approved two eastern states in Ukraine as independent nations, which led the U.S. to introduce sanctions against Russia. As a result, geopolitical risks grew, leading the crude oil price to increase, weakening the Philippine peso. However, the Philippine peso did not deprecate against the U.S. dollar further than the PHP 51.500 level, and it appreciated to approach the PHP 51.000 due to expectations for a relaxation of movement restrictions in metropolitan Manila. Yet, when the media reported that Russia started attacking military establishments in Ukraine, risk-averse sentiment grew in the market, and the Philippine peso depreciated sharply. As was the case in January, the U.S. dollar/Philippine peso exchange rate continued fluctuating generally within a narrow range between PHP 51.000 and PHP 51.500.

2. Outlook for This Month

In the Philippines, the number of new COVID-19 cases renewed the all-time high in January, and the government introduced severer movement restrictions. However, in February, the number of new cases decreased sharply, which led the government to loosen the restrictions. Moreover, the restrictions are expected to be loosened further in March, making it likely for the economic situation and business confidence to be ameliorated in the times ahead, which is a positive factor for the Philippine peso. However, there are persistent risks for COVID-19 cases to start increasing again. If the restrictions are made severer, it would be a negative factor for the Philippine peso.

Given the remarks made by Federal Reserve Board (FRB) officials, it is obvious that the FRB is shifting toward a more-hawkish attitude. While the inflation rate continues rising, the U.S. is likely to maintain measures of monetary tightening from a medium-term perspective, in order to prioritize the dealing of inflation risks. The central bank of the Philippines revealed its outlook that the GDP would return to the level seen before the COVID-19 pandemic by the third-quarter period. Furthermore, the central bank of the Philippines announced that an interest rate hike would be unlikely during the first half of this year, as it is difficult to decide the precise moment at which to end the current measures of monetary easing, which would depend on continued economic recovery and on inflation. There is thus a difference in momentary policy between the U.S., in which monetary policy is being normalized, and the Philippines, in which measures of monetary easing are likely to continue for a while. Therefore, from a medium- to long-term perspective, the U.S. dollar is likely to appreciate, while the Philippine peso is likely to depreciate in the times ahead.

Furthermore, the situation in Ukraine is likely to remain tense. As the market has already been reflecting interest rate hikes in the U.S., risk assets such as U.S. stocks have been relatively stable. At the Federal Open Market Committee (FOMC) meetings in March and beyond, it is still possible to see a surprisingly hawkish stance. Thus, market participants should keep in mind that there is potential risk for the Philippine peso to depreciate sharply as a result of the sharp depreciation of risk assets that had been appreciating, thanks to excess liquidity.

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

Indian Rupee – March 2022

Expected Ranges **Against the US$: INR 73.80–77.50**
Against the yen: JPY 1.48–1.57

1. Review of the Previous Month

In February, the U.S. dollar/Indian rupee exchange rate rose after fluctuating in both directions.

The U.S. dollar/Indian rupee exchange market opened trading in February at INR 74.475, as there was a trend of U.S. dollar-selling and Indian rupee-buying for investment in an Indian company by a major U.S. telecommunications company. The federal budget of India was announced thereafter, postponing the capital gains tax cut for foreign investors that had been anticipated. As a result, expectations receded for the appreciation of the Indian rupee based on capital inflow from foreign investors. Furthermore, the target fiscal deficit was set out high, which encouraged market participants to sell the Indian rupee. As a consequence, the U.S. dollar/Indian rupee exchange rate rose to approach the INR 75 level.

In the second week of the month, there was capital inflow from abroad, following the increase in share capital for a major oils and fats company in India, causing market participants to expect Indian rupee-buying. However, the Indian rupee did not appreciate easily, as the crude oil price remained high due to the intense situation in Eastern Europe. On February 10, the central bank of India held a meeting, and the plan to raise the reverse repo rate was postponed unexpectedly, in reaction to which the U.S. dollar/Indian rupee exchange rate rose, exceeding the IDR 75 mark. Furthermore, the Consumer Price Index of the U.S. was announced on the same day, local time, and the result turned out to be significantly stronger than the market estimate. As a result, market participants expected the Federal Reserve Board (FRB) to raise its policy interest rate by 50 basis points in March, leading U.S. bond yields to rise sharply. As there was a clear difference in monetary policy between the U.S. and the Reserve Bank of India (RBI) that was seen dovish, the U.S. dollar/Indian rupee exchange rate rose further.

In the third week of the month, concerns grew further about Russia's invasion of Ukraine, deteriorating the risk sentiment in the market. Furthermore, crude oil prices continued rising, encouraging market participants to sell the Indian rupee. As a result, the U.S. dollar/Indian rupee exchange rate reached INR 75.72—the monthly high—on February 15. However, it was announced that Russia ordered some troops to return to bases after military training, which slowed down the depreciation of the Indian rupee. Also, the minutes of a Federal Open Market Committee (FOMC) meeting turned out to be not as hawkish as expected, making it less likely for their policy interest rate to be raised by 50 basis points in March. As a result, short-term interest rates in the U.S. started to fall, following which the U.S. dollar/Indian rupee exchange rate also fell. When the U.S. dollar/Indian rupee exchange rate fell below the INR 75 level, there were some market participants that let go of their U.S. dollar long positions. The depreciation of the U.S. dollar and the appreciation of the Indian rupee thus accelerated.

In the fourth week of the month, the media reported that there was a basic agreement between U.S. President Joe Biden and Russian President Vladimir Putin to hold a summit dialogue regarding the situation in Ukraine, and this fueled risk-taking sentiment in the market. As a result, the U.S. dollar/Indian rupee exchange rate fell to reach INR 74.35—the monthly low. However, Russian President Vladimir Putin approved thereafter the independence

of an eastern region of Ukraine and sent military troops there, which intensified the situation again, encouraging market participants to buy the U.S. dollar and sell the Indian rupee. When the Brent crude oil price exceeded the USD 100 level, the U.S. dollar/Indian rupee exchange rate also rose to the INR 75 level. While the war continued intensifying, the U.S. dollar/Indian rupee exchange rate continued rising and once reached the INR 75.65. On February 25, trading closed at INR 75.30 to the U.S. dollar.

2. Outlook for This Month

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

The issue between Russia and Ukraine itself did not significantly impact the Indian rupee exchange market, as it was geographically far away. However, the rise of crude oil prices led the Indian rupee to depreciate. At the beginning, the sanctions against Russia introduced by the U.S. and Europe were evaluated to be too insignificant. However, on February 27, the U.S., Canada, and the EU announced their decision to block Russian banks from SWIFT, which is likely to deteriorate risk sentiment in the market again. It has been said that when the crude oil price rises by USD 1, the import cost for India rises by approximately USD 1.5 billion. Market participants would therefore be encouraged to sell the Indian rupee.

Furthermore, the rise of resource prices accelerates inflation in the U.S., and this would also accelerate interest rate hikes. The situation between Russia and Ukraine and the situation between Russia and the U.S. and Europe are difficult to foresee, as can be seen in the fact that U.S. President Joe Biden announced the SWIFT ban against Russia two days after making a remark to confirm that the sanction would not include a SWIFT ban. If the diplomatic situation intensifies, it will naturally lead the Indian rupee to depreciate. On the contrary, some expect the war to end after a short period. However, even if the geopolitical risks are mitigated that way, the next important factor would the appreciation of the U.S. dollar based on interest rate hikes in the U.S. Thus, there is still a risk for the Indian rupee to depreciate in the times ahead.

There are however two reasons why the U.S. dollar might not appreciate against the Indian rupee. First of all, foreign investors are buying the Indian rupee for the IPO of a domestic life insurance company that is seen to be worth USD 10 billion. Secondly, the central bank of India is expected to intervene in the foreign exchange market by selling the U.S. dollar when the Indian rupee depreciates rapidly, as was seen on the day when Russia started its military actions. However, in either case, the impact on the exchange rate is likely to be a temporary one. The Indian rupee is therefore likely to depreciate in the end.

Importing companies are therefore advised to hedge risks by buying the U.S. dollar when the U.S. dollar/Indian rupee exchange rate temporarily falls.

This report was prepared based on economic data as of February 28, 2022.
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