# Mizuho Dealer's Eye

**April 2022**




Mizuho Bank, Ltd.

Global Markets Sales Department

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# U.S. Dollar – April 2022

**Expected Ranges** **Against the yen: JPY118.00–125.00**

## 1. Review of the Previous Month

The dollar/yen pair moved with a heavy topside on the Russia/Ukraine situation in the first half of March. However, with the markets focusing on central bank monetary tightening around the time of the FOMC meeting on March 15–16, the currency pair subsequently soared to its highest level since 2015.

After opening the month right around 115 yen on March 1, the pair fell to around 114.80 yen as risk aversion grew after the US made noises about economic sanctions on the deteriorating Russia/Ukraine situation. However, the dollar was bought alongside the yen on risk aversion, so the pair floated at the upper-114 yen mark. The pair rallied to the upper-115 yen level on March 2 as the greenback was bought on rising US interest rates. The pair then weakened to the lower-115 yen level on March 3 on the lackluster result of the February US Non-manufacturing ISM Report on Business. The US released some healthy February employment data on March 4, but the pair still fell to the upper-114 yen mark as risk aversion flared up again on news that Russian forces had taken over a Ukraine nuclear power plant.

The dollar and yen were bought as refuge currencies on March 7 too. However, euro selling eased off and the charts suggesting the euro/yen pair had bottomed out, with the dollar/yen pair also bouncing back to the 115 yen range as the yen was sold against the euro. The dollar/yen pair then edged up to 116 yen on March 10 as Asian stocks rose. The pair's topside was held down for a time after the ECB Governing Council announced it would taper its asset purchasing program at an earlier date , but the pair then rose to 117 yen as investors factored in rate hikes at a faster pace on the results on the US February CPI data.

The pair strengthened to 118 yen on March 14 on hopes for progress in ceasefire talks between Russia and Ukraine. Risk aversion intensified for a time on March 15, so the pair fell to the upper-117 yen mark, though its downside was capped as US interest rates continued to rise. The FOMC implemented a 25bp rate hike when it met on March 17 and it also said it would hike rates seven times in 2022. US interest rates soared as a result, with the currency pair rising to 119 yen.

Bank of Japan (BOJ) governor Haruhiko Kuroda then struck a dovish tone in his press conference after the BOJ Monetary Policy Meeting on March 18, while on March 21 FRB chair Jerome Powell said the FRB could hike rates sharply to tackle inflation, so the pair rose to the mid-119 yen mark on the clear difference in the stances of the FRB and BOJ. Governor Haruhiko maintained his dovish stance in comments made on March 22. On March 23, meanwhile, Cleveland FRB president Loretta J. Mester and several other FRB officials made some hawkish comments. Then, on March 24, the dovish Chicago FRB President Charles Evans voiced support for a 50bp rate hike. The currency pair rose to around 122.40 yen during this time. Yen selling accelerated on March 24 when BOJ announced it had conducted a yield control operation. The pair hit 125.10 yen during overseas trading time, its highest level since August 2015.

The BOJ conducted another yield control operation on March 29, but there was a sense of satisfaction now the pair had hit 125 yen. With crude oil prices also sliding, the pair temporarily dropped to around 122 yen. On March

30–31, the pair was swayed by real demand flows at the end of the Japanese fiscal year, though eventually all the pair's gains on March 28 were pared back.

## 2. Outlook for This Month

The dollar/yen pair will continue to trade erratically in April after soaring in the latter half of March, but it will move heavily on the topside with 125 yen as its resistance line.

The Russia/Ukraine situation remains up in the air, but the currency pair's room on the downside was capped even when risk aversion saw the yen bought as a refuge currency after military confrontations first took place from the end of February to the start of March. This suggests the divergence in monetary policy will remain the key factor for the pair in April. The pair soared in the latter half of March on the clear difference between Japanese and US monetary policy. FRB officials have not toned down their comments and this is prompting investors to price in a faster pace of rate hikes, so the situation will require monitoring from here on too. After rising continuously, though, US interest rates finally inverted on March 29 when 2-year rates topped 10-year rates, with market participants also growing more concerned that this might point to an economic slowdown. If these concerns push stocks lower, the dollar/yen pair will also slide.

Japan is also starting to feel the impact of rising prices, with Japan's trade deficit also widening on soaring crude oil prices. Furthermore, though Omicron cases surged across Japan from February and regional governments introduced a quasi-state of emergency and other measures, these measures were lifted on March 21, so the economic contraction will ease off going forward. As such, it would not be surprising if Japan moves towards an exit strategy on the financial and fiscal front.

On the technical side, investors are focusing on the chart point of 125.86 yen, the pair's 2015 high. When the pair rose last month, there were several failed attempts to push the pair up to 125 yen. These attempts failed because speculators are cautious about accumulating dollar/yen pair long positions. New factors (such as further moves to price in rate hikes) will probably be needed to test this level again.

All this suggests the pair will search for a comfortable level while aiming for a topside price of 125 yen, with the pair likely to form a new range. However, the pair is moving above 120 yen for the first time since 2015 and liquidity is also growing thin on the ground now accumulated orders have been processed, so the pair will continue to move erratically for now. Investors should also be on guard against any sudden market movements on headlines.

## Dealers' Market Forecast

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

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| Bullish on the dollar | 13 bulls | 125.00 – 119.00 | Bearish on the dollar | 7 bears | 124.00 – 118.00 |

* Ranges are central values

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| Tanaka | Bull | 125.00 – 120.00 | The dollar/yen pair will undergo some adjustment on a sense of achievement after hitting 125 on ongoing YCC moves by the BOJ. The firmness of the pair's downside will probably be confirmed amid erratic trading, though there will be some correction at times on real-demand flows and the divergent monetary policies of Japan and the US. |
| Yano | Bull | 125.00 – 120.00 | Events related to US monetary policy and BOJ yield curve controls saw the dollar/yen pair testing the so-called 'Kuroda ceiling' from June 2015, though the pair has been over-bought in the short term. The pair will undergo some adjustment in the near future, though it will test highs again thereafter. |
| Tsutsui | Bear | 127.00 – 119.00 | The dollar/yen pair will be swayed by US interest rate movements, particularly the scale of FRB rate hikes. The pair will hit highs at times on expectations for a 50bp hike, but overall investors will probably test the bottom of the pair's range on falling US interest rates and an economic slowdown. |
| Kato | Bear | 125.00 – 118.50 | The dollar/yen pair also faced pressure from the private sector too when it topped 125 yen. The scale of the subsequent correction also pointed to the existence of more speculative positions than expected. The pair's topside will be tested again on monetary policy, but with the US tacitly tolerating dollar bullishness, Japan should indicate that it is not prepared to tolerate yen bearishness. |
| Ito | Bull | 125.00 – 119.00 | The yen will continue to be sold on supply and demand conditions and the monetary policy stances of the US and Japan. However, the markets have already priced in the pace of US tightening, but the speed of the dollar/yen pair's rise will probably slow on waning expectations for dollar buying on rising US interest rates. Investors should also pay attention to moves by the government and the BOJ. |
| Yamagishi | Bull | 126.00 – 119.00 | The dollar/yen pair will continue rising on the divergent monetary policies of the US and Japan. The BOJ will continue to ease until it can confirm that circular inflation is starting to impact wages. The US economy and labor supply and demand are also moving strongly, so the FRB will continue to tighten on inflationary concerns. |
| Ushijima | Bear | 125.00 – 119.00 | The markets have essentially priced in a 50bp rate hike in May, so there will be a limit to how much further the yen will fall on rising interest rates. The Ukraine situation was deadlocked late-March, but the situation will still require monitoring. The trend of yen bearishness will ease in the short term now the dollar/yen pair has hit 125 yen. |
| Omi | Bull | 126.00 – 119.00 | The dollar will remain bullish and the yen bearish on widening Japanese/US interest-rate differentials as the BOJ continues to ease and the FRB continues to tighten. However, some Japanese officials have voiced concerns about the yen's sharp slide, so the yen will probably rise sharply at times. |
| Ueno | Bear | 124.00 – 118.00 | The dollar/yen pair rose in March on the divergent monetary policies of Japan and the US. The situation remains unchanged, but there is a growing sense of achievement now the pair has touched 125 yen. With Japanese officials also dropping comments about foreign exchange stability, investors should keep an eye on downside risk. |
| Yamaguchi | Bull | 125.50 – 119.00 | The yen will continue to weaken on the divergent monetary policies of the US and Japan. With Japanese firms also buying the dollar on stubbornly-high commodity prices, the dollar/yen pair will probably test highs again. |
| Kai | Bull | 125.00 – 120.00 | The BOJ has reconfirmed its easing stance. With US long-term interest rates also rising on healthy US economic indicators and the improved Ukraine situation, the yen will remain bearish and the dollar bullish. The yen will probably slide again ahead of the May FOMC meeting. |

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| Onozaki | Bear | 123.00 – 116.00 | As the FRB hikes rates, there are concerns that stocks will be hit as interest rates rise and officials discuss QT. A number of dollar-selling factors are lined up too. There will be some unwinding to amassed yen short positions, for example, while exporters will also make new moves now the new Japanese fiscal year has started. As such, the dollar/yen pair’s March gains will probably be pared back this month. |
| Harada | Bear | 123.50 – 116.00 | The dollar/yen pair rose temporarily to the 125 yen range on the divergent monetary policies of the US and Japan. BOJ governor Haruhiko Kuroda warned about an intervention the last time the pair hit this level. Though the yen has been sold more than any other major currency, it seems its slide stopped after the currency pair hit this key level. The pair will probably fall for a time going forward. |
| Oba | Bull | 124.00 – 119.00 | The dollar/yen pair is floating at highs. It soared by around 10 yen in March. With the BOJ remaining in easing mode, there are few reasons to buy the yen given the divergent monetary policies of the US and Japan. However, the pair’s topside will be held down by speculation that the Japanese government and the BOJ might move in tandem to curb the yen’s slide. |
| Katoono | Bull | 125.50 – 119.50 | There are expectations the FOMC will institute a large rate-hike while accelerating QT when it meets in May. In contrast, the BOJ remains in easing mode, so the yen will continue to be sold. The dollar/yen pair will be swayed by the Ukraine situation, though it is expected to move firmly overall. |
| Kobayashi | Bull | 125.50 – 118.00 | Investors will continue to test the dollar/yen pair’s topside on the divergent monetary policy stances of the US and Japan. However, there could be selling to lock-in profits when the pair tops 125 yen, while the BOJ might also intervene to curb the yen’s slide, so investors should be on guard against downside risk. |
| Henmi | Bear | 124.00 – 118.00 | There has been excessive emergency dollar buying on geopolitical risk and the divergent monetary policy stances of the US and Japan. After rising so sharply, the dollar/yen pair will probably face some adjustment this month. |
| Otani | Bull | 125.00 – 120.00 | Pressure for adjustment will grow at times now the dollar/yen pair has hit the key 125 yen mark. However, yen-buying pressure will remain muted given the differing monetary policy stances of the US and Japan, so the currency pair looks set to move firmly. |
| Suzuki | Bull | 125.50 – 120.00 | Though the FOMC is expected hike rates at a faster pace, the BOJ remains committed to easing, with the divergent stances of the two central banks becoming even clearer last month. The yen will remain susceptible to buying, so the dollar/yen pair will move firmly. |
| Okuma | Bull | 124.00 – 119.00 | The dollar will continue to be sold on the divergent monetary policies of the US and Japan, so the dollar/yen pair looks set to move firmly. However, the pair failed to gain a foothold at 125 yen during its bullish phase. With an election also looming in three months, the Japanese government is also likely to intervene verbally to curb the yen’s slide. As such, the pair’s room on the topside will be capped. |

Takayuki Kai, Forex Sales, Global Markets Sales Department

# Euro – April 2022

**Expected Ranges** **Against the US$: US$1.0950–1.1350**
**Against the yen: JPY133.00–139.00**

## 1. Review of the Previous Month

The euro/dollar pair fell sharply in the first half of March on the Russia/Ukraine situation and uncertainty about the direction of the European economy. However, its losses were then pared back by ECB APP tapering, rising market expectations for rate hikes, and hopes for progress in peace talks.

After opening the month trading around $1.1220, the pair plunged to the upper-$1.10 mark on uncertainty about the direction of the European economy in the wake of the Russia/Ukraine situation. The euro was also sold on the soaring prices of crude oil and natural gas, with the pair sliding to $1.1035 on March 3. The euro was sold further and the pair plummeted to $1.0886 on April 4 on news that the Russian army had shelled a Ukrainian nuclear power plant.

This trend continued on March 7, with the pair hitting a 2022 low of $1.0806. The pair rallied at the start of March 8 on news of a limited ceasefire to establish a humanitarian corridor, with the pair also buoyed by reports the EU was considering joint bond issuances. The pair then rocketed to right around $1.11 on March 9. On March 10, the ECB said it expected to taper its regular purchase programme (APP) in 2Q before bringing it to a close in 3Q. This news saw the pair soaring to $1.1121 for a time. However, the pair then dropped back sharply to hit the upper-$1.09 mark on concerns about the worst-case scenario of stagflation.

The pair temporarily dipped to $1.0900 on March 14, though it rallied again on hopes for peace talks between Russia and Ukraine. The pair climbed to the lower-$1.10 level on March 15. The FOMC implemented a 25bp rate hike on March 16, with its hawkish statement also hinting at 50bp hikes from the next meeting onward. The currency pair fell to the mid-$1.09 mark for a time, though it soon rallied and its losses were pared back. The pair rocketed to a weekly high of $1.1137 on March 17 as the greenback was sold on falling US interest rates and position adjustments. The pair dropped back to $1.1004 on March 18 when an FRB official made a hawkish comment about tolerating a 50bp rate hike.

In the week beginning March 21, the pair moved in a narrow range around $1.10 as the Ukraine situation remained deadlocked. European stocks rallied on March 28 as crude oil prices fell on a lockdown in Shanghai, with the euro also rebounding. Hopes for ceasefire talks grew on March 29 when Russia said it would drastically reduce military operations around the capital Kyiv, so the euro was bought and the pair rose to $1.1137. The pair temporarily hit $1.1185 on March 30, though it slipped back slightly to trade at $1.116.

## 2. Outlook for This Month

The euro/dollar pair will continue to fluctuate unstably on the Ukraine situation in April.

The pair's losses from the start of March were pared back on news that Russia was reducing its military operations around the Ukrainian capital Kyiv, for example. Russia also faces several problems, such as soaring military costs and a shortage of foreign currency due to the SWIFT sanctions, so there are hopes for a swift resolution.

However, some observers believe Russia has just redeployed its troops to eastern Ukraine, so Russian military maneuvers will require attention from here on. If ceasefire talks make headway, the euro will see more buying. However, Russia continued its invasion during the last ceasefire talks, so reports might be met with skepticism, with risk aversion flaring up again. Even if talks do make progress, it will take time before energy prices fall back. However, crude oil prices have dipped recently on a lockdown in Shanghai (a heavy user of crude oil), so stagflation concerns have eased somewhat, will the euro growing more susceptible to buying as a result.

There is unlikely to be any major changes at the April ECB Governing Council meeting, but investors should pay attention to comments by ECB president Christine Lagarde and so on. When it met in March, the Council decided to wind down its expanded Asset Purchase Programme (APP) in Q3. This suggests the ECB is prioritizing the fight against high inflation. The APP's special purchases will be scaled back over 2Q (tapering). If the data then supports the expectation that the medium-term inflation outlook will not weaken even after the end of the APP, the Council will conclude the APP in the third quarter. However, if financing conditions become inconsistent with further progress towards the 2% target, the Council might revise the size or duration of its net asset purchases. As this shows, the end of the ECB's asset purchases is not written in stone. In her press conference, ECB president Christine Lagarde commented that "what we are not seeing so far and we are very, very much scrutinizing the numbers, is wage pressure." This suggests the end of the APP and the start of rate hikes will depend on whether wages rise. Wage growth will push up the price of the HCIP (and services in particular), with underlying inflation driven up as a result. As such, though the eurozone's March HCIP data is likely to be up on the previous month, this will not be due solely to rising energy prices, with the rising costs of services also requiring attention. If it does seem that wages are rising, the ECB will probably end the APP in 3Q before moving to normalize interest rates thereafter, with the euro likely to rise further as a result.

## Dealers' Market Forecast

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

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| Bullish on the euro | 14 bulls | 1.1400 – 1.0900 | Bearish on the euro | 6 bears | 1.1300 – 1.0850 |

* Ranges are central values

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| Tanaka | Bear | 1.1300 – 1.0800 | The Ukraine situation is still up in the air, with Russian economic sanctions likely to remain in place. This will continue to hit Europe, which relies heavily on Russian energy. The euro/dollar pair is staging a comeback on hawkish comments by ECB officials, but the pair will continue to face downside risk on deep-rooted stagflation concerns. |
| Yano | Bear | 1.1300 – 1.0900 | ECB monetary policy is gradually growing more hawkish and this will support the euro/dollar pair, though the euro will be a hard currency to buy given the Russia-Ukraine issue. Even if a ceasefire is reached, there is no guarantee that the economy will recover in the short term, so the pair will probably move with a heavy topside. |
| Tsutsui | Bear | 1.1300 – 1.0700 | The euro will remain bearish. Europe will probably be hit with a slide in crude oil supplies, so investors will be focusing on the risk of an economic slowdown, delayed rate hikes, or fiscal mobilization. This will work to push the euro lower. |
| Kato | Bull | 1.1350 – 1.0900 | A lot will depend on the Ukraine issue this month too. Fighting is unlikely to intensify unless Russia uses chemical weapons or tactical nuclear weapons. Funds have flooded into the dollar on so-called 'emergency dollar buying,' but if the Ukraine situation does not worsen, these funds will gradually flow back again from here on. |
| Ito | Bull | 1.1400 – 1.0900 | Prices continue to rise in Europe and the ECB is moving in a hawkish direction. Investors should monitor geopolitical risk, but the euro looks set to move firmly on moves to normalize monetary policy. As dollar selling intensifies on improved risk sentiments, the euro/dollar pair could rise sharply. |
| Yamagishi | Bull | 1.1500 – 1.0900 | The euro/dollar pair looks set to move firmly on expectations for earlier ECB monetary policy normalization. Germany's March CPI soared on the previous month to hit 7.3% m-o-m. Several ECB officials have mentioned rate hikes within 2022, with the ECB growing more hawkish on inflationary concerns. The pair will also be supported by a ceasefire in Ukraine. |
| Ushijima | Bear | 1.1300 – 1.0900 | A lot will depend on the Ukraine situation. With fighting at a standstill, European and US stocks rallied sharply late March. However, investors might flee from European currencies whenever optimism recedes again. |
| Omi | Bull | 1.1400 – 1.0800 | The euro weakened after Russia invaded Ukraine, though the single currency might be bought back now the Russian government has announced a reduction in military activities. |
| Ueno | Bull | 1.1400 – 1.0900 | The euro/dollar pair will rise and fall on the Russia/Ukraine situation. There is ample risk that the situation might worsen, but talks between the two sides remain ongoing, with Russia continuing to export natural gas to Europe. The euro will be bought back if concerns ease off. |
| Yamaguchi | Bull | 1.1300 – 1.0800 | The Russia/Ukraine situation remains up in the air. However, CPI data released across Europe in March suggests inflation is accelerating, so the ECB will probably grow more hawkish. |
| Kai | Bull | 1.1350 – 1.0950 | The euro/dollar pair will move unstably on the Ukraine situation. Though the Russian army's movements will require monitoring, the euro will probably be bought on ceasefire talks. However, reports should be taken with a pinch of salt and investors should be on guard against a revival of risk aversion. |
| Onozaki | Bull | 1.1500 – 1.1000 | The market focus is shifting away from the Ukraine situation. The euro was sold on the Ukraine situation, but it will probably be bought back on the growing hawkishness of the ECB. |

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| Harada | Bear | 1.1350 – 1.0850 | The Ukraine situation has had a major impact on the eurozone, with the euro/dollar pair likely to continue trading with a heavy topside. With energy prices remaining high, though, the euro will be supported by ECB moves to tackle inflation risk. The pair will move heavily on the topside without a sense of direction. |
| Oba | Bull | 1.1300 – 1.1100 | The euro will trade with an eye on the Ukraine situation. Russia will not be wanting international relations to deteriorate further, so geopolitical risk will probably fall from here on. Ceasefire talks seem to be going well, but the euro will continue to move skittishly until a military withdrawal or some other resolution is agreed. |
| Katoono | Bear | 1.1250 – 1.0850 | Inflation remains high on the fractious Ukraine situation. Huge numbers of refugees are also flowing into Europe and there is a risk that the economy might slow on worsening consumer sentiments and so on. The ECB will probably prioritize economic support (including monetary policies) as it seeks to head off stagflation concerns. As such, the euro looks set to move bearishly in April. |
| Kobayashi | Bull | 1.1350 – 1.0850 | If the Ukraine situation cools down again, the euro will move firmly on expectations for rate hikes to tackle record-high inflation. If the Ukraine situation worsens, the euro might fall, so caution will be needed. |
| Henmi | Bull | 1.1500 – 1.1100 | The euro will move firmly as Ukraine tensions ease. Investors have also priced in US rate hikes to a considerable extent. With the ECB also moving in a more hawkish direction in the face of high inflation, the euro/dollar pair looks set to rise this month. |
| Otani | Bull | 1.1400 – 1.1100 | A lot will depend on the Ukraine situation, but hopes for a ceasefire are growing, so the euro will probably be bought back. The euro will also be supported by growing expectations for an ECB rate hike within the year, with the euro/dollar pair set to move firmly in April. |
| Suzuki | Bull | 1.1400 – 1.0900 | The euro was hit hardest by deteriorating economic risk, but with the Ukraine situation slowly improving, the euro will probably be bought back. Though ECB president Christine Lagarde has stubbornly ruled it out, expectations are growing for a rate hike within the year, so the euro/dollar pair could rally slightly this month. |
| Okuma | Bull | 1.1400 – 1.0900 | The ECB has decided to wind down easing at a faster pace on rising inflation, with rate hikes also looming into view. With the Ukraine situation also easing, the euro looks set to move firmly this month. |

Fumihiko Kanda, Europe Treasury Department

# British Pound – April 2022

**Expected Ranges** **Against the US$: US$1.2800–1.3600**
**Against the yen: JPY153.00–164.00**

## 1. Review of the Previous Month

The GBP/USD pair fell in March as the markets reacted badly to geopolitical risk.

The pair hit a monthly high of $1.3437 on March 1, but it then underwent a one-sided fall in the first half of the month on emergency dollar buying in the wake of deteriorating geopolitical risk. The pair hit a monthly low of $1.3000 on March 15. Sterling was then bought back. The pair rallied to the psychologically-important $1.3000 mark, perhaps due to rising hopes for ceasefire talks between Ukraine and Russia. The pound and the euro were bought on March 16 ahead of an FRB policy shift. The greenback strengthened directly after the FOMC meeting, but the GBP/USD pair then began rising again and it was bought back to $1.3150. This trend continued on March 17, with the pair returning to the $1.32 level. The BOE announced a 0.25% rate hike at noon, but it emerged that one member had voted against the move, so the announcement was read as dovish, with the pair subsequently dropping below $1.31. There were concerns that Russia might default on its government debt repayments, but these concerns now eased, so sterling moved firmly again and the pair rallied to the mid-$1.31 level. The pair then moved firmly and it was bought back to just below $1.33 on March 23, though it moved with a heavy topside thereafter. It ended the month hovering between $1.31–1.32.

On the other hand, the GBD/JPY pair soared in March on conspicuous yen bearishness. There was a dearth of factors on the pound's side, so the market was driven by the movements of the USD/JPY pair. On March 28, the GBP/JPY pair hit 164 yen for the first time since the Brexit referendum in 2016.

## 2. Outlook for This Month

Sterling will continue to be swayed by geopolitical risk in April.

There are no FRB or BOE meetings lined up this month, so the focus will fall on geopolitical risk. Events in March suggest the pound will be sold (on emergency dollar buying) when geopolitical risk deteriorates further, with investors focusing more on the impact of geopolitical risk and concerns of an economic slowdown than inflationary concerns and expectations for rate hikes. However, one month has now passed since the start of the Ukraine conflict. There has been no substantial improvement (or deterioration) in the situation, so the foreign exchange markets (and the cross yen in particular) are now being moved by the hawkish stances of each central bank in the face of inflation risk. The BOE has also struck a hawkish tone, though it is lagging slightly behind the FRB, so the GBP/USD pair's room on the topside will be capped. UK stocks have rallied sharply after falling sharply early March, but there are still lingering risks related to rising inflation or an economic slowdown, so investors should remain on guard. The pound will fall during times of risk aversion, so market participants should pay attention to downside risks.

Russian debt repayments will also require monitoring as a potential risk factor. Settlement concerns in March led to fears that Russia would default on its dollar-denominated government debt repayments. A default was avoided in the end after special measures were introduced to facilitate dollar settlements. The same measures will be applied until May, so April is unlikely to see much settlement risk involving government bond repayments. However, there are concerns about the impact on the financial markets of some Russian companies failing to make dollar-denominated (non-rouble) debt repayments.

Covid-19 cases are surging in the UK and they topped 100,000 a day late March. Some people are already receiving their second booster (fourth vaccination). There is no talk about introducing restrictions, but the pound might still fall if the situation deteriorates or if some new strains emerge.

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

# Australian Dollar – April 2022

**Expected Ranges** **Against the US$: US$0.7150–0.7600**
**Against the yen: JPY87.80–95.00**

## 1. Review of the Previous Month

After opening March trading at the mid-$0.72 handle, the AUD/USD pair weakened to the upper-$0.71 level for a time, though it then hit a 2022 high and headed to the $0.75 range toward the end of the month.

The pair rose from March 1 to March 11 on rising Australian interest rates and bullish commodity prices. Sentiments then worsened on the Ukraine situation. With expectations also growing for US rate hikes, the pair swung between the mid-$0.72 handle and the $0.74 level. The pair rose from the mid-$0.72 handle to the $0.73 level on some firm Australian GDP data. It then climbed to the mid-$0.73 level while triggering stop losses when it approached its 200-day moving average around $0.7325. The Australian dollar then moved bearishly for a time on the US February employment data and comments by FRB chair Jerome Powell supportive of rate hikes, but the pair then strengthened to the upper-$0.73 handle on firm commodity prices.

News emerged on March 7 that the US and its allies were holding talks about potentially banning imports of Russian petroleum. This saw the pair rising to $0.7440 for the first time since November last year. However, it then dropped back to the lower-$0.73 level when the third round of Russia/Ukraine ceasefire talks came to naught. The Australian dollar was sold against the euro on March 8, so the AUD/USD pair fell back to $0.7245. On March 9, the Australian dollar rose in tandem with bullish US and European stock movements as hopes grew regarding ceasefire talks, so the pair moved around $0.73 toward the weekend.

The pair soared from the mid-$0.71 handle to the $0.74 level from March 14 to March 18. Shenzhen in China introduced a city lockdown. With the benchmark yield on 2-year US treasuries also topping 1.86% for the first time since July 2019, the currency pair dipped to around $0.7190. However, the pair then climbed to around $0.7275 after the UK's Financial Times reported that considerable progress was being made in Russia/Ukraine talks. As expected, the FOMC announced a +25bp rate hike when it met, with the FF rate set at 0.25%–0.50%. Its dot chart also projected the median rate would stand at 1.75%–2.00% by the year's end. The currency pair dropped to right around $0.72 directly after the announcement. However, stocks then moved bullishly when FRB chair Jerome Powell voiced optimism about the economic growth forecast, so the pair strengthened to right around $0.73. Australia's February employment data was released on March 17. The jobs figure substantially beat expectations, while the unemployment rate fell to a 14-year low of 4.0%. The labor participation rate was also up +0.2ppt on the previous result, with the data pointing to a strong labor market recovery. With stocks also climbing, the currency pair rose to the upper-$0.73 level. The pair closed the week trading around $0.7420.

With commodity prices moving firmly from March 21 to March 31, the Australian dollar was bought and the currency pair rose from the lower-$0.74 handle to the lower-$0.75 handle. The Australian dollar was bolstered when US interest rates stopped rising, with the pair hitting $0.7540 for the first time in five months. The Bank of Japan (BOJ) then offered to buy unlimited amounts of government bonds with certain maturities on consecutive days as part of efforts to keep long-term interest rates from rising. The USD/JPY pair rose sharply on this clear policy divide between the BOJ and other major central banks. The AUD/JPY pair temporarily soared to around 94.30 yen as a result. The AUD/USD pair then moved right around $0.75 toward the end of the month.

## 2. Outlook for This Month

The AUD/USD pair will remain firm in April, though investors should be on guard against rising volatility. Developments in the Ukraine situation will still require monitoring, but the Australian dollar will be supported by the following three factors. Firstly, commodity prices are rising on concerns about tight energy market conditions. Secondly, expectations are growing for earlier RBA rate hikes, with the nuance of RBA governor Philip Lowe’s comments gradually shifting toward backing rate hikes in the latter half of the year. Thirdly, as outlined at the March National People’s Congress, China will be ramping up investment in infrastructure and construction in order to stabilize the macroeconomy. A renewed construction boom within China will lead to a recovery in demand for steel materials (Australian iron ore). With energy prices soaring too, commodity prices will be pushed up across the board. This is likely to boost the Australian dollar further.

The FOMC began hiking US policy rates in March. The dot chart also projected that the median rate of the target range for the FF rate would stand at 1.75%–2.00% by the year’s end. Thereafter, several FRB officials dropped comments about aggressive rate hikes. Nonetheless, the AUD/USD pair has continued to move firmly. Chinese cities like Shenzhen and Shanghai have introduced lockdowns to cope with surging Covid-19 cases, but this has not really impacted the Australian dollar either.

Australia’s 1Q CPI data will be released on April 27 and this might confirm that inflation is rising. Australia’s 1Q wages data will also be released on May 18 and this could point to stronger-than-expected wage growth. In this scenario, expectations for earlier RBA rate hikes will rise further, with the Australian dollar likely to continue moving firmly until rate hikes are announced. Incidentally, the implied overnight rate (as of March 31) suggests the first rate hike will take place in June.

Comments by BOJ officials and the BOJ’s YCC operations suggest the differentials between Japanese rates and the rates of other major nations will widen further from here on, so the yen could face more downward pressure, with the AUD/JPY pair set to move firmly too.

Reiko Kanemoto, Canada Office, Americas Treasury Department

# Canadian Dollar – April 2022

**Expected Ranges** **Against the US$: C$1.2400–1.3000**
**Against the yen: JPY94.00–102.00**

## 1. Review of the Previous Month

The USD/CAD pair opened March trading at C$1.2675. It hit a monthly low of C$1.2466 (March 25) and a monthly high of C$1.2901 (March 8).

Crude oil prices (WTI) topped $100/barrel on March 1 on concerns about global supply trouble owing to the Russia/Ukraine situation. As expected, the Bank of Canada (BOC) lifted its policy rate from 0.25% to 0.50% on March 2. The bank also hinted it might need to raise rates again in future. The currency pair rose slightly thereafter, though it soon dropped back to resume trading at C$1.26.

The Ukraine invasion intensified from March 4. With no signs of a ceasefire agreement, WTI prices rose sharply, with crude oil topping $120/bbl when the following week opened on March 7. On March 8, the US and UK announced they would ban and phase out Russian crude oil imports. This news saw WTI temporarily hitting $128.9/bbl. As risk aversion grew, the greenback was bought and the USD/CAD pair rose to around C$1.29. Risk aversion eased slightly from March 9 on news about a ceasefire agreement and expectations that OPEC would ramp up output. As a result, WTI fell to $100/bbl. Canadian February employment data was released on March 11. The number of jobs was up 33,700 on the previous month thanks to a recovery in the service sector, for example. The unemployment rate also fell from 6.5% to 5.5%, its level from January 2020, before the pandemic.

WTI then fell further on hopes for ceasefire negotiations and concerns that demand would slide on the spread of Covid-19 cases in China. Crude oil prices hit $94/bbl on March 15, with the currency pair also climbing to C$1.2867. Canadian February CPI data was released on March 16. At 5.7% y-o-y, the figure hit its highest level since August 1991. Core CPI also hit 3.5% y-o-y, up 0.2% on the previous month. The FOMC met during the afternoon of the same day. It lifted its policy rate by 0.25% and it hinted it might hike rates at each of the six remaining meetings in 2022 in order to tackle high inflation. From March 17, concerns about tight crude oil supplies intensified on Russian sanctions, while WTI also rose again on growing uncertainty about a ceasefire agreement.

The markets were swayed from several headlines from the week beginning March 21. Saudi Arabian petroleum facilities were attacked, for example, while US crude oil inventories fell and Kazakhstan crude oil exports were temporarily cut off. All this saw WTI moving around $110–115/bbl until March 25. The USD/CAD pair fell as a result and it hit C$1.2466 on March 25 amid Canadian-dollar buying. WTI fell to $103.32/bbl on March as Shanghai announced a lockdown and concerns grew about falling crude oil demand, so the currency pair temporarily surged from C$1.24 to around C$1.26. However, it then traded around C$1.25 until March 29.

## 2. Outlook for This Month

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

The Bank of Canada (BOC) will be holding its Monetary Policy Committee (MPC) on April 13. Canadian

Covid-19 restrictions were eased substantially in March as the number of new cases fell, with economic activity essentially returning to normal. As Canadian February employment data suggests, employment is bouncing back from its omicron slide, with the unemployment rate also returning to pre-pandemic levels. In a speech on March 25, BOC deputy governor Sharon Kozicki said "the Bank has been clear that higher interest rates are needed to bring inflation sustainably back to the 2% target" and she added that "I expect the pace and magnitude of interest rate increases and the start of QT to be active parts of our deliberations at our next decision in April." Given this, the markets are now expecting a further rate hike at the April meeting, one to the tune of 0.50% rather than 0.25%. Opinions are divided about the pace of rate hikes thereafter. Some observers believe there will be 0.50% rate hikes in June and July too, with the policy rate lifted to 2.5–2.75% by the end of the year.

WTI prices could fluctuate wildly on the Russia/Ukraine situation, the spread of Covid-19 in China, and OPEC's production plans. High crude oil prices usually support the Canadian dollar, but if risk aversion prevails, the greenback will be bought and the Canadian dollar sold, so there will be times crude oil prices rise and the Canadian dollar remains subdued. However, there are signs of progress in Russia/Ukraine peace talks, so market concerns should ease off compared to March. The US and Europe are moving to increase crude oil imports from non-Russian sources. Europe is particularly dependent on Russian crude and natural gas. Crude oil prices look set to remain high, with WTI trading between $90–115/bbl.

The BOC and other central banks in the US and America have implemented rate hikes as they move to tighten policy. However, the BOJ remains in easing mode, so the CAD/JPY pair rose throughout March to top 100 yen on March 28 for the first time since 2015. The yield on Canadian 2-year bonds rose from 1.33% to 2.40% in March, with the yen likely to remain bearish on widening interest-rate differentials. The CAD/JPY pair will probably move between 94–102 yen.

Ryosuke Kunimasa, Seoul Treasury Office, East Asia Treasury Department

# Korean Won – April 2022

**Expected Ranges** **Against the US$: KRW 1,190–1,240**
**Against the yen: JPY 9.804–10.309 (KRW100)**

## 1. Review of the Previous Month

In March, the USD/KRW pair moved with an eye on the Ukraine situation and the FOMC meeting, with the pair trading throughout the month in a comparatively wide range from the lower-KRW1200 mark to the mid-KRW1240 level.

After a South Korean holiday, the pair opened the month trading at KRW1204.0 on March 2. The pair swung to and fro around KRW1205 on concerns about the unpredictable Ukraine situation and improved risk sentiments on expectations for a ceasefire agreement between Russia and Ukraine. At the weekend, though, news emerged that Russian President Vladimir Putin had adopted a hardline stance during talks with French President Emmanuel Macron. Risk aversion also soared on reports that the Russian army had shelled a Ukrainian nuclear power plant. All this saw the pair's topside rising to KRW1214.

Risk aversion continued in the week beginning March 7 and the pair chased KRW1230 on soaring crude oil prices and concerns the Ukraine situation would drag on. Commodity prices soared during overseas trading time on March 8 on reports that US was considering banning imports of Russian crude oil. US stocks fell sharply and risk sentiments deteriorated, with the USD/KRW pair also rising to KRW1238.7. When the markets opened on March 10 after a holiday, the pair fell to the mid-KRW1220 mark as investor sentiments improved when crude oil prices fell sharply on expectations for increased production by OPEC. No progress was seen in the Ukraine situation though. With the FOMC also looming the following week, the greenback was bought toward the weekend, so the pair moved firmly at the lower-KRW1230 level.

The pair rose to KRW1244.4 at the start of the week beginning March 14 as the dollar was bought on the Ukraine situation and the impending FOMC meeting. The FOMC struck a hawkish tone by implementing a rate hike and shrinking its balance sheet, despite everything that was happening in Ukraine. However, US stocks rose sharply when FRB chair Jerome Powell spoke optimistically about the outlook for the US economy. Investors had rapidly built up dollar longs, but as risk aversion receded, they now adjusted these positions on a sense of relief now a major event was out of the way, with the currency pair temporarily plunging to KRW1206.5 as a result.

The G7 heads-of-state meeting came up with no measures enact a ceasefire or end the war, so towards the month's end the dollar was bought on the Ukraine situation amid a dearth of other factors. However, the currency pair was bought as yields on US treasuries soared on the FRB's active stance towards rate hikes, so the pair's range edged higher. In the end, the pair closed at KRW1212.1, up 9.6 won on the end of February.

## 2. Outlook for This Month

The dollar/won pair is expected to move firmly in April. The pair was swayed by the Ukraine situation and the FOMC meeting in March. It became entrenched at KRW1200 and moved firmly on the FRB's hawkish stance and risk aversion related to the Ukraine situation. Under these circumstances, the pair will be swayed by two main factors this month: (1) the pace of FRB rate hikes and the BOK's stance under its new governor, and (2) geopolitical risk related to the Russia/Ukraine situation.

As for (1), several FRB figures have made hawkish comments recently, with US interest rates rising sharply as investors price in a faster pace of rate hikes. With inflation rising on the soaring cost of crude oil and other commodities, the FRB is unlikely to change its stance in the medium term, so the pair's room on the downside will be capped by rising yields on US treasuries.

In South Korea, meanwhile, the term of the BOK's governor finished at the end of March. With a new government set to take power in May, investors are focusing on who the next BOK governor will be and what stance they will adopt. The current opposition (and the next ruling party) has voiced opposition to the idea of lifting rates to rein in property prices, with the next president likely to place more emphasis on supporting economic growth than tackling inflation. If the BOK reflects these priorities under its new governor, then even if it does continue to lift rates, there will probably be some adjustment to the hawkish stance the BOK has taken under its current governor (the BOK has hiked rates three times since last August). Investors are now trying to gauge the timing of the next rate hike. If the BOK does adjust its hawkish stance, the currency pair will probably be supported by dollar buying on anticipation for rising US interest rates.

With regards to (2), the dollar will be bought on geopolitical risk related to the Russia/Ukraine situation and this will continue to support the pair's downside. The markets are growing less responsive to news about heads-of-state talks and it seems investors are growing tired of the subject. If some significant progress is made, though, there could be some position adjustments, so caution will be needed.

As such, the pair looks set to move firmly at KRW1200 in April on the two aforementioned factors as investors focus on the stance of the next BOK governor and ongoing tightening by the FRB.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

# New Taiwan Dollar – April 2021

**Expected Ranges** **Against the US$: NT$28.20–29.00**
**Against the yen: JPY4.07–4.40**

## 1. Review of the Previous Month

The Taiwan dollar fell sharply against the US dollar in March as overseas investors sold the Taiwan unit on the Russian invasion of Ukraine.

The USD/TWD pair opened the month trading at TWD28.020 on March 1. Amid a mood of risk aversion, the pair's topside was held down by expectations for ceasefire talks between Russia and Ukraine and US-dollar selling by exporters. Risk aversion then intensified on March 4 on news that the Russian army had shelled a Ukrainian nuclear power plant. As overseas investors sold the Taiwan dollar, the currency pair hit TWD28.1. Risk aversion lingered as the situation in Ukraine deteriorated, with more overseas investors selling Taiwanese stocks and the Taiwan dollar. The pair then climbed to around TWD28.45 as importers bought the greenback on rising crude oil prices.

Taiwanese stocks bounced back mid-March as crude oil prices fell on growing hopes for OPEC crude oil production increases. With Taiwan-dollar selling by overseas investors also cooling, the currency pair returned to TWD28.3. However, concerns about the Ukraine situation then intensified. Speculation also grew that China would shut down some production zones on rising domestic Covid-19 cases. The Taiwan dollar was sold again and the pair rose to TWD28.6. As expected, the FOMC implemented a rate hike on March 16. With uncertainty waning as the direction of US monetary policy became clearer, stocks rose across the globe and Taiwanese stocks also rose sharply on March 17. Overseas investors began buying the Taiwan dollar, so the currency pair dropped back to TWD28.4. On March 17, the Central Bank of the Republic of China (Taiwan) unexpectedly instituted a 0.25% rate hike. The Taiwan dollar was bought at a faster pace the following day, with the USD/TWD pair falling temporarily to TWD28.2.

US interest rates rose late March as FRB chair Jerome Powell hinted that the FOMC might hike rates by 50bp to combat inflation. As investors focused on Taiwan and US interest-rate differentials, investment funds flooded out of Taiwan, with importers also buying the greenback. As the Taiwan dollar weakened, exporters remained in wait-and-see mode toward the month's end, with the currency pair edging higher. The pair hit TWD28.790 for a time on March 29. However, hopes for a ceasefire agreement then grew after Russia announced it would reduce its military operations around the Ukrainian capital Kyiv. As risk aversion receded, the currency pair returned to around TWD28.5.

## 2. Outlook for This Month

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

The Taiwan market moved erratically in March. One factor was the Ukraine situation. For overseas investors, the Russia/Ukraine situation is reminiscent of the China/Taiwan situation. As such, these investors have significantly sold Taiwanese stocks on balance on emergency risk evasion, with the Taiwan Capitalization Weighted Stock Index dropping below 18,000 points to temporarily hit 16,000 points. This writer believes the risk of a Chinese invasion of Taiwan is quite low, though market participants did not think Russia would invade Ukraine either. With overseas investors unwinding their Taiwanese positions on concerns about unforeseen emergencies, the USD/TWD pair rose by nearly 3% on the end of February, despite efforts by the authorities to control the market.

Another factor was the surprise rate hike by the Central Bank of the Republic of China (Taiwan). The markets had expected the Central Bank of the Republic of China (Taiwan) to keep rates fixed, but the bank unexpectedly implemented a 0.25% rate hike, with its policy rate returning to the level from March 2020, before the Central Bank of the Republic of China (Taiwan) began cutting rates. The Central Bank of the Republic of China (Taiwan) said the rate hike was due to: (1) persistently high domestic inflation on rising import costs; (2) an industrial recovery from the Covid-19 shock, with the labor market returning to pre-pandemic levels; and (3) rates hikes by the US, UK and other major nations. As for prices, the CPI figure is moving in the 2% range. Covid-19 has also been reined in, while the key semiconductor industry is moving firmly. All this laid the ground for rate hikes. Short- to mid-term interest rates have soared on this unexpected rate hike, with yields inverting. The Central Bank of the Republic of China (Taiwan) will next meet to set policy in June. In the meantime, the bank will be monitoring the pace of rate hikes in other major countries as it determines whether to implement another rate hike at the next meeting.

Overseas investors have stopped selling the Taiwan dollar and there are also signs that a ceasefire will be reached between Russia and Ukraine, so the USD/TWD pair is unlikely to rise sharply again in April. Domestic investors might buy the greenback when US interest rates rise, so caution will be needed, but exports remain brisk, so the pair will probably move in a range.

Ken Cheung, East Asia Treasury Department

# Hong Kong Dollar – April 2022

**Expected Ranges** **Against the US$: HK$ 7.7800–7.8400**
**Against the yen: JPY 15.65–16.15**

## 1. Review of the Previous Month

**Hong Kong dollar spot exchange market in March**

HKD spot touched its 28-month low of 7.83, as the HKD-USD rate spread dropped notably after Fed's further hawkish shift. After the Fed kicked off its rate hike cycle and signaled more aggressive hikes at the upcoming meetings, the carry trade flow of long USD/HKD is set to return to weigh on HKD spot. Capital flow was not supportive to the HKD as well. The US SEC's warning on delisting Chinese firms from US exchanges sparked the fire-sale of Chinese investment. Despite equities buying flow from mainland China, Hang Seng Index tumbled to its 10-year low of 18,235 level before settling at 22,000 on Chinese leaders' strong pledge to stabilize financial markets. The 5th wave of Covid spread in HK appears to peak out but the HK economy is not out of the woods yet. HK Financial Secretary Paul Chan predicted further rise in unemployment rate and a contraction in GDP in Q1.

**Hong Kong dollar interest rate market in March**

The Fed entered into its aggressive rate hike cycle, and the USD interest rates curve climbed across tenors. Under the Linked Exchange Rate System, HKD rates tracked on higher USD rates but were lagging behind given ample HKD liquidity condition. Indeed, HKMA aggregate balance remained unchanged at HKD 337.5bn as the HKMA halted the extra Exchange Fund and Bills (EFBs) issuances. There was not liquidity drainage from HKMA's FX intervention as the HKD stayed away from its weak-side convertibility undertaking of 7.85 level. Subsequently, 1-month and 3-month HKD HIBOR – USD LIBOR spread dropped to -15bps and -30bps, respectively. In the longer tenors, HKD IRS curve jumped in tandem with USD IRS.

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## 2.Outlook for This Month

**Hong Kong dollar spot exchange market in April**

USD/HKD spot is expected to range between 7.80 and 7.84 in the coming month. We look for HKD spot weakening further towards 7.85 level in H2-22 on the back of HKD-USD negative rate spread widening. Under the Linked Exchange Rate System, the HKD spot will fall to 7.85 level during Fed's rate hike cycle and the HKMA will intervene in the FX market to defend the USD-HKD peg, leading to HKD liquidity drainage and higher HKD rates. The increasing capital outflow from HK equities amid the heavy sell-offs of Chinese investment could add downward pressure on HKD spot. Bearish sentiment in HK stock market suggested that the IPO market inflow should remain subdued, despite growing interest of overseas listing on HK exchanges from Chinese corporate amid rising China-US decoupling risk.

**Hong Kong dollar interest rate market in April**

Under the USD-HKD peg, HKD interest rates will track on higher USD rates amid the Fed's rate hike cycle. Currently interest rate market is pricing in more than 8 Fed's rate hikes in the rest of this year and HKD interest rates are set to remain under upward pressure. We expect HKD spot to weaken to 7.85 level in H2-22 and the HKD liquidity drainage via HKMA's FX intervention will take time to narrow HKD-USD rate spread. In the previous Fed's rate hike cycle, the pace of HKD HIBOR rise accelerated when HKMA aggregate balance fell to around HKD 150bn. The Fed's balance sheet reduction due later this year will also contribute to tighter USD liquidity compared to HKD liquidity condition. Meanwhile, HK banks may raise its prime rate in late 2022 or early 2023. Previously HK banks raised its prime rate modestly by 12.5bps in Q3-2018 when 1-month HKD HIBOR hit 2.2%. While 1-month HKD HIBOR still stays low at 0.31% currently, we cannot rule out a jump in the HKD rate to 2% at year-end amid Fed's aggressive rate hike cycle.

Sae Sueyoshi, Treasury Department, MHBK (China)

# Chinese Yuan – April 2022

**Expected Ranges** **Against the US$: CNY 6.3000–6.5000**
**Against the yen: JPY 18.00–19.52**

## 1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate rose after seeing the highest rate for the Chinese yuan in approximately four years.

On March 1, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.30 level. At the end of the previous month, the media reported that major banks in Russia had been excluded from SWIFT, and this led the Chinese yuan to depreciate. On the other hand, some market participants were buying Chinese yuan based on actual demand. As a result, the U.S. dollar/Chinese yuan exchange rate continued fluctuating mainly at the CNY 6.31 level. On March 2, interest rates rose in the U.S., and this led the U.S. dollar/Chinese yuan exchange rate to rise and reach the CNY 6.32 level, after which the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around the CNY 6.32 level.

On March 5, the National People's Congress of the People's Republic of China kicked off its annual session, and it did not significantly affect the U.S. dollar/Chinese yuan exchange market. Under such circumstances, the U.S. dollar/Chinese yuan exchange market opened trading in the week at the lower-6.32 level. Market participants were taking risk-averse actions during a limited period, and this led the U.S. dollar/Chinese yuan exchange rate to fall to the lower-CNY 6.31 level. However, the exchange rate continued rising moderately thereafter and reached the CNY 6.32 level again. Resource prices continued rising while stock prices continued falling due to the situation in Russia and Ukraine. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate continued fluctuating in a narrow range between CNY 6.31 and CNY 6.32. On March 11, during nighttime trading hours, the U.S. dollar appreciated against other major currencies. Following this trend, the U.S. dollar/Chinese yuan exchange rate also rose to reach CNY 6.34.

On March 14, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 6.35 level. As the number of Covid-19 cases was growing in China, risk-averse sentiment grew in the market and Hong Kong stock prices fell substantially. The pressure to sell the Chinese yuan strengthened, and on March 15, the U.S. dollar/Chinese yuan exchange rate rose to reach the upper-CNY 6.38 level for the first time in two months. In the afternoon of March 16, the Financial Stability and Development Committee of the National Council announced its principle to promote the stabilization of the monetary market and economic growth, and this led Chinese stock prices to rally. As a result, the depreciation of the Chinese yuan also slowed down, and the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.34 level. Thereafter, the U.S. dollar/Chinese yuan exchange rate remained at the CNY 6.35 level toward the end of the week.

On March 21, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.35 level. On the same day during local trading hours, Federal Reserve Board (FRB) Chair Jerome Powell mentioned the possibility of an interest rate hike of 50 basis points, slated for the meeting in May. There were other similar hawkish remarks made by higher-ups at the FRB after the Federal Open Market Committee (FOMC) meeting in March. As a result, market participants expected an interest rate hike, and this was reflected in the market, with an increase in interest rates in the U.S. Following this trend, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 6.37 level on March 23. Toward the end of the week, demand to buy the Chinese yuan strengthened, and the U.S. dollar/Chinese yuan exchange rate fell to a level around the CNY 6.36 level.

In the evening of March 27, Shanghai decided to introduce a lockdown by dividing the city into a western half and an eastern half. As market participants were concerned about an economic slowdown, the U.S. dollar/Chinese yuan exchange market opened at the upper-CNY 6.37 level on March 28 with a gap from the closing rate of the previous business day. Thereafter, the U.S. dollar/Chinese yuan exchange rate rose above the CNY 6.38 level. However, Shanghai stock prices fell only to a limited degree, and the Chinese yuan rallied thereafter. As interest rates in the U.S. also fell, the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.34 level.

## 2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is expected to rise moderately in April.

In the U.S., the FRB started to raise the policy interest rate. With the high inflation rate, there are several interest rate hikes anticipated in the times ahead. The FRB is also expected to announce detailed plans for balance sheet reduction. On the other hand, China has been taking measures of monetary easing in relative terms. Some market participants even expect the deposit reserve requirement ratio or the interest rate to be cut further in the times ahead. The differences in monetary policy between the U.S. and China can narrow the interest rate differentials between the two countries, resulting in the appreciation of the U.S. dollar and the depreciation of the Chinese yuan, from a long-term perspective. In March as well, the U.S. dollar/Chinese yuan exchange rate rose partly because of the rise of U.S. interest rates.

Currently, a lockdown order has been in place in first-tier cities in China, such as Shanghai, and this has been fueling concerns over an economic slowdown. There has already been security investment outflow from China, and this is one of the reasons for the ongoing depreciation of the Chinese yuan. It is likely that China will maintain its zero Covid policy until the Chinese Communist Party's next meeting in October. If the lockdown measures remain in place for the long term, market participants are likely to continue selling the Chinese yuan.

On the other hand, in terms of trade, figures remain robust, and thus there has been vigorous demand to buy the Chinese yuan. From the viewpoint of international balance of payments, upward pressure on the Chinese yuan is likely to strengthen. This has led to the fact that the Chinese yuan remained stable even while the tensions between Russia and Ukraine were intensifying. This has also explained from the fact that the rise of the U.S. dollar/Chinese yuan exchange rate is limited in spite of the increasing number of Covid-19 cases.

In terms of politics, the National People's Congress of the People's Republic of China held a session on March 5, and the GDP growth target rate was set for around 5.5%. This is relatively low compared to the higher target of over 6% as was previously set for 2021 and the actual 2021 result of 8.1%. On the other hand, since it is above 4.8%, which was the growth rate estimated by the International Monetary Fund (IMF), many consider 5.5% to be an ambitious target for the growth target. Furthermore, a moderate monetary policy was announced, with economic support based on fiscal expenditures targeting certain sectors and company types, as was the case in the previous year. As was mentioned above, there will be a growing difference in monetary policy between the U.S. and China, which would lead the Chinese yuan to depreciate against the U.S. dollar. However, with expectations for economic stimulus measures, it is also possible for Chinese stock prices to rise and for the Chinese yuan to appreciate. Market participants should therefore remain attentive.

At the moment, there are even-more factors to lead the Chinese yuan to depreciate. Thus, the U.S. dollar/Chinese yuan exchange rate is expected to rise. However, there is steady demand to buy the Chinese yuan, and this would keep the U.S. dollar/Chinese yuan exchange rate from rising further. Yet, market participants should remain cautious of the rise of volatility, as there are many unpredictable factors at play, such as the situation related to the Covid-19 pandemic and the situation in Ukraine.

Hayaki Narita, Asia & Oceania Treasury Department

# Singapore Dollar – April 2022

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|---|---|
| **Expected Ranges** | **Against the US$: SG$ 1.3100–1.3700** |
| | **Against the yen: JPY 86.00–93.00** |

## 1. Review of the Previous Month

In March 2022, the Singapore dollar appreciated slightly against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange rate remained at the upper-SGD 1.35 level. While attention in the market was focused on the tensions between Russia and Ukraine, the media reported the possibility for the two countries to resume peace talks. In reaction, the risk-averse sentiment in the market was mitigated to some extent. As a result, the currencies of Asian countries appreciated. Following this trend, the Singapore dollar also appreciated against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.35 level.

However, shortly after the release of media reports on the progress in negotiations between Russia and Ukraine, there were headlines toward March 4 that reported that Russian troops were attacking nuclear power plants in Ukraine, and this deteriorated the risk sentiment in the market again. As a result, the Singapore dollar weakened against the U.S. dollar toward March 9. The U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.36 level.

Thereafter, President of Ukraine Volodymyr Zelenskyy made a remark that it was possible to negotiate for the establishment of the neutrality demanded by Russia under the condition of guaranteed security, and this led the currencies of Asian currencies to start rallying. However, Foreign Minister of Ukraine Dmytro Kuleba made a remark that there was no progress in peace talks with Russia. Furthermore, the number of Covid-19 cases increased in China, leading to lockdown measures. Negatively reacting to this news, overall Asian currencies weakened. The Singapore dollar depreciated against the U.S. dollar toward March 16, and the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.37 level—renewing the monthly high.

Thereafter, on March 16, the Chinese monetary authorities announced an initiative to stabilize the Chinese economy, and this led Chinese stock prices to rise. Along with the appreciation of the Chinese yuan, the trend changed in the U.S. dollar/Singapore dollar exchange market as well, and the Singapore dollar started to strengthen also. The Singapore dollar continued appreciating against the U.S. dollar toward March 17, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.35 level.

There were no influential factors in the U.S. dollar/Singapore dollar exchange market thereafter, and there were few signs of movement in the market. As peace talks between Russia and Ukraine continued without progress, the Singapore dollar depreciated slightly against the U.S. dollar. However, the U.S. dollar/Singapore dollar exchange rate has been fluctuating within a narrow range at the upper-SGD 1.35 level (as of March 30).

## 2. Outlook for This Month

In April 2022, the Singapore dollar is expected to appreciate against the U.S. dollar.

In January 2022, the Monetary Authority of Singapore (MAS) held an extraordinary meeting, while ordinary meetings were scheduled for April and October. At this extraordinary meeting, the inclination of the NEER was tilted toward the SGD. This is considered to be a measure to keep the Singapore dollar from depreciating excessively, while the inflation rate in Singapore has been on the rise, and it is clear that the U.S. is taking a hawkish attitude.

As mentioned, the next MAS meeting is scheduled for April. It is likely for the MAS to announce further measures of monetary tightening at the next meeting. Currently, the Singapore economy has been recovering strength in employment, and the GDP growth rate has been healthy. As was mentioned above, the inflation rate has remained positive as well.

It is also worth mentioning that there is the category of "transport" in the breakdown of the inflation index of Singapore. This category reflects the expected fluctuation of gasoline prices. As tensions between Russia and Ukraine have intensified, resource prices have been rising, causing concerns about "cost-push" inflation.

Under such circumstances, as is the case with the U.S., Singapore has little reason to maintain measures of monetary easing, and the MAS is likely to announce an even-more hawkish monetary policy at its meeting in April.

The next possible measures include not only a change in the NEER slope, as was done in January 2022, but also an adjustment (raise) in the midpoint. Currently, the Singapore dollar exchange rate has been above the midpoint in the NEER band by approximately +140 basis points (the upper end of the fluctuation is +200 basis points). Thus, even if the slope is adjusted slightly toward a stronger SGD, this would have limited effect in leading the Singapore dollar to appreciate.

In order to make it possible to adjust the exchange rate within the NEER band, it is possible for the MAS to change the central rate of the NEER rate, as this would have direct impact on the exchange market. If such a decision is actually made, the Singapore dollar is likely to start appreciating slowly against various currencies in the times ahead.

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

# Thai Baht – April 2022

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| **Expected Ranges** | **Against the US$: THB 32.00–33.50** |
| | **Against the yen: JPY 3.55–3.70** |

## 1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate rose in March.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the mid-THB 32 level on March 1. According to the regular monthly economic report released by the central bank of Thailand, the domestic economy of Thailand improved in February. However, due to the intensification of the situation in Ukraine, the risk sentiment in the market deteriorated and the Thai baht weakened while the U.S. dollar strengthened. On March 2, various sanctions against Russia were announced. However, as Federal Reserve Board (FRB) Chair Jerome Powell made a remark to express his support for an interest rate hike of 25 basis points at the Federal Open Market Committee (FOMC) meeting scheduled for March 15 and 16, the U.S. dollar/Thai baht exchange rate fell slightly. After the weekend, crude oil prices rose sharply on March 7, as it became possible for the U.S. to ban the import of crude oil from Russia. The Brent crude oil price reached the USD 120 level. With concern over inflation growing worldwide, the U.S. dollar/Thai baht exchange rate rose to approach the THB 33.20 level on March 8. Even though there was no significant change in the situation in Ukraine between March 10 and 14, the estimated inflation rate of the U.S. exceeded 3.0%, while the U.S. dollar remained strong. Under such circumstances, the U.S. dollar/Thai baht exchange rate rose to approach the THB 33.40 level.

In the middle of the month, the FOMC meeting was held on March 15 and 16. The policy interest rate was raised by 0.25% as had been anticipated, and FRB Chair Jerome Powell expressed his confidence in the strength of the U.S. economy, supporting a further rise in short-term interest rates. On the other hand, the dot plot was revised downward for the long-term neutral rate of interest as shown by the FRB members. As a result, downward pressure strengthened on the interest rates of long-term and very-long-term bonds. Also, in China, the number of Covid-19 cases was increasing sharply, and lockdown measures were announced in major cities, which led crude oil prices to fall significantly. As crude oil prices fell below the USD 100 level on March 16, the U.S. dollar/Thai baht exchange rate also fell slightly. After the weekend, on March 21 and thereafter, FRB officials made remarks to support an interest rate hike of 50 basis points in May and June, and this led interest rates in the U.S. to rise again. Crude oil prices also started to rise again, making it likely for inflation to continue. As a consequence, the U.S. dollar/Thai baht exchange rate remained robust. Then, on March 29, the U.S. dollar/Thai baht exchange rate rose to approach the THB 33.80 level. However, in the U.S., the two-year and 10-year interest rates saw a yield curve inversion, fueling concerns over the economic outlook. As a result, long-term interest rates fell significantly in the U.S. on March 30. The depreciation of the U.S. dollar thus accelerated worldwide. Thereafter, the Monetary Policy Committee (MPC) of Thailand announced that the policy interest rate would be maintained at 0.50% for the 15th consecutive time. After this announcement by the MPC, the U.S. dollar remained weak and the U.S. dollar/Thai baht exchange rate was at the lower-THB 33 level at the end of the month.

## 2. Outlook for This Month

The U.S. dollar/U.S. dollar exchange rate is forecast to fall in April.

In March, the U.S. dollar/Thai baht exchange rate fluctuated significantly because of the situation in Ukraine and the outcome of the FOMC meeting, which turned out to be hawkish. As inflation was expected to accelerate based on the sharp rise of energy prices, short-term interest rates rose significantly in the U.S., accelerating the appreciation of the U.S. dollar. While the problem in Ukraine is not likely to be resolved in a short time, concerns are growing over stagflation in Thailand. Therefore, as is the case with the Japanese yen, the Thai baht continued weakening. The U.S. dollar/Thai baht exchange rate thus rose more than expected in February, reaching the upper-THB 33 level.

Under such circumstances, the inflation seen in February and March is likely to be visible in economic indices in April, with persistent concern over said inflation. However, in February and March last year, there was strong concern over inflation in the U.S. Thus, based on year-on-year figures, there might not be a significant surprise, leading to an expectation for inflation to peak out.

Thailand has announced a plan to lift restrictions on economic activities from April toward the end of the Covid-19 pandemic. The Thai economy is therefore expected to move forward unless the number of serious Covid-19 cases increases. In 2021, the Thai baht depreciated significantly, and the high inflation rate was reflected on prices to a great extent in various markets. Given the situation, the possibility is limited for the Thai baht to further depreciate against the U.S. dollar. Thus, the U.S. dollar/Thai baht exchange rate could start falling again in April while attention in the market is on the rewinding of inflation trade, along with the normalization of U.S. monetary policy.

Of course, if the tensions between Russia and Ukraine intensify further, it is possible for risk-averse transactions to increase. However, given that negotiations are likely to continue, thereby ameliorating the risk sentiment in the market, the Thai baht is more likely to appreciate in April.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

# Malaysian Ringgit – April 2022

**Expected Ranges** **Against the US$: MYR 4.18–4.28**
**Against the yen: JPY 28.57–29.41**

## 1. Review of the Previous Month

In March, market participants expected interest rates in the U.S. to rise, as the military conflict in Ukraine seems to be likely to last for a long term. As a result, market participants bought the U.S. dollar and sold the Malaysian ringgit toward the second half of the month.

At the beginning of the month, the Malaysian ringgit remained stable despite the intensification of the military conflict in Ukraine. Western countries strengthened sanctions against Russia, while the Russian attack on Ukraine became intensified. Under such circumstances, the media reported Russia's attack on nuclear power plants in Ukraine on March 4, and this fueled risk-averse sentiment in the market worldwide. In the commodities market, crude oil prices reached USD 120 for the first time in approximately 10 years, while wheat prices also reached their highest levels in approximately 14 years. In the foreign exchange market as well, the U.S. dollar appreciated sharply against other major currencies. While market participants sold the currencies of emerging countries without resources, the Malaysian ringgit appreciated along with the appreciation of resource prices. As a result, the U.S. dollar/Malaysian ringgit exchange rate fell to temporarily reach MYR 4.17. Then, the central bank of Malaysia announced its policy interest rate on March 3. The policy interest rate was maintained at 1.75% for the 10th consecutive time. The central bank predicted an economic recovery, as the Covid-19 situation was shifting from pandemic to endemic, while also warning about the possible impact of the Russia-Ukraine military conflict on the world economy. As there was a rapid unwinding in the interest rate market based on the military conflict in Ukraine, the possibility of an interest rate was maintained with the expected economic recovery.

After the appreciation of the Malaysian ringgit, toward the middle of the month, the market started to reflect an interest rate hike of 50 basis points, as per what has been scheduled for the next Federal Open Market Committee (FOMC) meeting set for May, based on the adjustment of crude oil prices as well as on the inflation index in the U.S. Then, on March 10, the February CPI of the U.S. was announced with its highest growth rate in approximately 40 years. Even though it was for February, which was before the military conflict in Ukraine started, there was significant growth in a wide range of sectors, mainly in energy and food-related industries. Furthermore, on the same day, the European Central Bank (ECB) announced a hawkish decision to start cutting measures of monetary easing earlier than originally scheduled, and this had not been anticipated in the market. As a consequence, the appreciation of the Malaysian ringgit observed at the beginning of the month was offset, and the U.S. dollar/Malaysian ringgit exchange rate rose to reach the MYR 4.21 level. In the early morning of March 17, the FOMC announced a hawkish outlook, with the center of the dot plot for the number of interest rate hikes before the end of the year set at 6.5. However, as this did not come as a surprise in the market, market participants sold the U.S. dollar thereafter. On the other hand, government officials made remarks to raise expectations for peace in Ukraine, and this led crude oil prices to fall. The North Sea Brent crude oil price fell below the USD 100 level. As a result, the U.S. dollar weakened. However, the Malaysian ringgit did not appreciate substantially.

Toward the end of the month, the Malaysian ringgit depreciated further. Federal Reserve Board (FRB) Chair Jerome Powell made a remark to approve an interest rate hike of 50 basis points, and this led the U.S. dollar to appreciate further. Market participants continued selling the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate once reached the upper-MYR 4.23 level for the first time since December last year. Furthermore, as major countries were preparing for interest rate hikes, the Bank of Japan cut its interest rate through an unlimited bond-buying operation at a fixed rate. This led the depreciation of the Japanese yen to accelerate even further. The Malaysian ringgit/Japanese yen exchange rate rose to the upper-JPY 29 level. Then, on March 25, the February CPI of Malaysia was announced, and even though the headline inflation rate turned out to be below the January figure, at 2.2%, the core inflation rate rose to 1.8%. This result confirmed that the rise of resource prices led other prices to rise as well.

## 2. Outlook for This Month

In April, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain unstable, fluctuating with the trend of interest rate hikes in the U.S., while there was no influential domestic factor. Furthermore, as the Bank of Japan carried out unlimited bond-buying operations at a fixed rate at the end of last month, it is clear that the Bank of Japan has a principle to keep the Japanese yen interest rates low. Market participants should thus carefully observe the Malaysian ringgit/Japanese yen exchange rate. In the past 10 years, the Malaysian ringgit/Japanese yen exchange rate remained at the JPY30 level for an unexpectedly short time. Thus, if the Japanese yen weakens further while at the same time the U.S. dollar strengthens based on the interest rate hike in the U.S., market participants should keep in mind that it is possible for the Malaysian ringgit/Japanese yen exchange rate to rise further to fluctuate mainly at the JPY 32 level, for the first time since 2015.

In Malaysia, the rise of commodities prices, including crude oil prices, based on the military conflict in Ukraine, is one of the supporting factors that is leading the Malaysian ringgit to appreciate. It is clear that the exports of Malaysia continued growing even during the Covid-19 pandemic, thanks to the leading power of the manufacturing industry especially as related to electric, electronic, and petroleum oil-related products. As primary products, such as natural gas, crude oil, and palm oil, account for approximately 10% of Malaysia's exports, trade is likely to be a stronger leading force for the Malaysian economy in the times ahead. In other words, there has been a steady foundation for market participants to buy the Malaysian ringgit.

In the U.S., the timing of interest rate hikes and the number of interest rate hikes are repeatedly revised forward. Under such circumstances, the market has so far reflected 8.5 interest rate hikes this year, including a rate hike worth 50 basis points in May, which is equivalent to two hikes of the usual rate hike. On the other hand, in Malaysia, the market consensus is that there will be one or two interest rate hikes toward the second half of the year. This is only an estimate by market participants, and it highly depends on future price indices. It is therefore uncertain if the central banks of the two countries will raise the policy interest rate as estimated in by market consensus. However, if the two countries raise their respective policy interest rate as estimated, the relation of the policy interest rates of the two countries would be inverted for the first time since 2005. In 2005, the U.S. dollar/Malaysian ringgit exchange rate was fixed to be MYR 3.8, and thus the influence of the interest rate on the exchange rate cannot be evaluated historically. Thus, if it happens, it would be the first time for the U.S. dollar/Malaysian ringgit exchange market to have inverted interest rates. Under such a condition, market participants should carefully observe decisions made by the central bank of Malaysia at its meetings scheduled for May and beyond.

Yu Tasai, Asia & Oceania Treasury Department

# Indonesian Rupiah – April 2022

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| **Expected Ranges** | **Against the US$: IDR 14,100–14,500** |
| | **Against the yen: JPY 0.84–0.89 (IDR100)** |

## 1. Review of the Previous Month

In March, the U.S. dollar/Indonesian rupiah exchange rate did not move in any direction.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,300 level on March 1. While the situation in Ukraine gathered attention in the market, the Indonesian rupiah remained low against the U.S. dollar. In the early morning of March 4, the media reported Russian military attacks against nuclear power plants in Ukraine, and this significantly deteriorated the risk sentiment in the market. As the result, the U.S. dollar/Indonesian rupiah exchange rate temporarily reached the lower-IDR 14,400 level, reaching the monthly low for the Indonesian rupiah, toward March 7 in the following week. However, thereafter, crude oil prices, which had been rising sharply, started to fall, while coal prices remained high. Under such circumstances, the Indonesian rupiah strengthened, and the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,300 level on March 10. While overall Asian currencies were weakening, the Indonesian rupiah thus remained robust, as Indonesia is a resource-exporting country. Then, on March 15, the February trade balance of Indonesia was announced with a surplus of USD 3.8 billion—significantly larger than the market estimate—which confirmed the strength of the Indonesian rupiah once more. On March 16, the following day, the Federal Open Market Committee (FOMC) decided to raise the policy interest rate by 0.25%, as had been anticipated in the market. There was no particular statement regarding monetary tightening. Furthermore, on March 17, the central bank of Indonesia also held a monetary policy meeting, and the interest rate was kept at the existing level—as had been anticipated in the market. Under such environment, the Indonesian rupiah remained strong, and the U.S. dollar/Indonesian rupiah exchange rate remained below the IDR 14,300 level. On March 21, in the following week, interest rates in the U.S. started rising, while crude oil prices started to rise again. In reaction, the Indonesian rupiah depreciated slightly as well and traded against the U.S. dollar at the IDR 14,300 level. However, the Indonesian rupiah did not depreciate further. While there was no factor particular to the Indonesian rupiah, the U.S. dollar/Indonesian rupiah exchange rate did not move in any direction, trading at the IDR 14,300 level (as of March 30).

## 2. Outlook for This Month

The Indonesian rupiah is expected to remain strong against the U.S. dollar in April.

In March, both the five-year and 10-year U.S. interest rates exceeded 2.5%. However, the Indonesian rupiah did not depreciate. While interest rates rise in the U.S., foreign investor capital outflow from Indonesian government bonds has been accelerating. While there was a balance of IDR 897 trillion at the end of February, as of March 29, the balance was IDR 855 trillion, demonstrating the rapid pace at which foreign investors sold Indonesian government bonds. However, on the other hand, medium- and long-term interest rates have been kept from rising, which shows the declining importance of foreign investors. This is probably due to the fact that the ratio of foreign investors in the holding of Indonesian government bonds decreased significantly, as the central bank of Indonesia and domestic investors were the main buyers of the Indonesian government bonds additionally issued during the Covid-19 pandemic. This trend is expected to continue, as it is unlikely for the holding ratio of foreign investors to increase again immediately.

The situation of Ukraine remains to be a source of concern. As was discussed before, however, the influence of such on the Indonesian rupiah exchange market is not significant, even if foreign investors take risk-averse actions. On the contrary, resource prices are rising as a result of Russia's military attack on Ukraine. As long as this trend continues, the current situation is a supporting factor for the Indonesian rupiah. As was discussed above, the February trade balance of Indonesia was announced on March 15, revealing a significant surplus thanks to coal prices, which remain high.

Furthermore, it can be said that the central bank can wait before raising the interest rate, as the Indonesian rupiah exchange rate has been stable. For the central bank, to have the option to raise the interest rate means to have a solution for the depreciation of the Indonesian rupiah. From this point of view as well, the Indonesian rupiah is unlikely to depreciate.

While interest rates remain high in the U.S., it is difficult to expect capital inflow based on securities investment. However, thanks to the rise of resource prices, the Indonesian rupiah is likely to remain robust for a while in the times ahead.

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

# Philippine Peso – April 2022

**Expected Ranges** **Against the US$: PHP 51.50–53.00**
**Against the yen: PHP 2.25–2.40**

## 1. Review of the Previous Month

In March, risk-averse sentiment grew in the market due to the intensifying situation in Ukraine, while Federal Reserve Board (FRB) Chair Jerome Powell made a hawkish statement in the U.S. On the other hand, the February manufacturing PMI of the Philippines recorded its highest figure since December 2018, while the Consumer Price Index reached 3.0%. As a result, the U.S. dollar/Philippine peso exchange rate remained stable at the PHP 51.500 level. However, the media reported on March 4 that Russian forces had attacked Zaporizhzhia Nuclear Power Plant in Ukraine, and this fueled risk-averse sentiment significantly in the market, leading the Philippine peso to depreciate sharply. Furthermore, on March 7, the media reported that the U.S. was considering banning the import of crude oil from Russia, and this led the WTI crude oil price to exceed USD 130. In reaction, the Philippine peso continued depreciating even further, and the U.S. dollar/Philippine peso exchange rate exceeded the PHP 52.000. Thereafter, stock prices fell significantly, recording their lowest figures in the year. As a consequence, in the first part of the month, the U.S. dollar/Philippine peso exchange rate approached the PHP 52.350 level.

The January trade balance of the Philippines recorded a deficit of USD 4.7 billion. While the export growth rate turned out to be below the estimated level and as there was no progress in peace talks between Russia and Ukraine, stock prices in the Philippines reached their lowest levels in September last year. As a result, on March 14, the Philippine peso reached its lowest rate in approximately 2.5 years at PHP 52.475 to the U.S. dollar. Thereafter, the U.S. dollar/Philippine peso exchange rate continued fluctuating following headlines related to the situation in Ukraine as well as due to the trends in the crude oil market. While the Philippine peso remained weak for a while, the government released its outlook that the Philippine economy had been on a healthy recovery toward achieving an economic growth outlook of 7–9% for 2022. As a result, the Philippine peso strengthened and the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range at the lower-PHP 52.000 level during the middle of the month.

In reaction to the hawkish remarks made by FRB Chair Jerome Powell and various other FRB officials, the market quickly started to reflect the acceleration of monetary tightening. As a result, interest rates started to rise in the U.S. mainly for medium and long terms, leading upward pressure on the U.S. dollar to continue strengthening. On March 24, the central bank of the Philippines decided to maintain its policy interest rate at the existing level for the 11th consecutive time, as had been anticipated in the market. The inflation outlook was revised upward, and the outlook for this year was set at a higher level than the target rate. In reaction, the Philippine peso started to weaken. However, thereafter, the Philippine peso strengthened based on expectations for the normalization of monetary policy in the second half of the year, as well as based on the fall of crude oil prices and expectations for a peace agreement between Russia and Ukraine. Toward the end of the month, therefore, the Philippine peso appreciated against the U.S. dollar, and the exchange rate approached the PHP 52.000 level.

## 2. Outlook for This Month

Commodities prices, including crude oil prices, have been rising due to growing geopolitical risks based on the tensions between Russia and Ukraine. In the U.S., the market started to reflect interest rate hikes in an accelerated manner, as FRB members have been making hawkish remarks. On the other hand, the Philippine government made an observation that the Philippine economy had been steadily recovering toward achieving an economic growth rate of 7–9%, and this has stabilized the Philippine peso.

There has been no progress in peace talks between Russia and Ukraine, making it likely for the current situation to last for a long period. Under such circumstances, problems continue growing in supply chains, especially with energy and agricultural products. Thus, inflation pressure is likely to strengthen in the times ahead, while concerns over a slowdown of the world economy have also been worsening the risk sentiment in the market. The uncertainty over the unpredictable situation in Ukraine therefore remains a possible factor toward weakening the Philippine peso for the times ahead.

As inflation continues, the priority in the U.S. has shifted to the control of inflation, which can be seen in the hawkish remarks made by the FRB officials. Thus, the principle of monetary tightening remains unchanged, while concerns persist over an economic slowdown. The central bank of the Philippines revised its inflation outlook upward, releasing a view that energy and food prices remain a risk factor toward strengthening inflation pressure in the times ahead. However, the central bank maintained the view that an interest rate hike was unlikely until the second half of the year, as the most-important priority was to ensure economic recovery, having seen growing uncertainty such as in global concerns over an economic slowdown. There has been a difference in the principles of monetary policy between the U.S., which has been normalizing its monetary policy, and the Philippines, which has been maintaining current measures of monetary easing for a while. Thus, from a medium-term point of view, the U.S. dollar is likely to continue strengthening and the Philippine peso is likely to continue weakening in the times ahead.

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

# Indian Rupee – April 2022

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| **Expected Ranges** | **Against the US$: INR 74.50–78.50** |
| | **Against the yen: JPY 1.54–1.63** |

## 1. Review of the Previous Month

**In March, the U.S. dollar/Indian rupee exchange rate renewed its all-time high.**

As a result of the sanctions on Russian banks, crude oil trade settlement was interrupted, leading crude oil prices to reach their highest levels since July 2014. Under such circumstances, the U.S. dollar/Indian rupee exchange market opened trading in March at INR 75.82. At the beginning of the month, the exchange rate reached INR 75.565, which turned out to be the monthly low. Crude oil prices continued rising significantly. Furthermore, on March 4, the media reported that a nuclear power plant in Ukraine (and which is one of the largest in Europe) had been attacked by Russian forces, causing a fire. In reaction, risk-averse sentiment grew further in the market, and the U.S. dollar/Indian rupee exchange rate exceeded the INR 76 mark.

In the second week of the month, the media reported the possibility for the U.S. and European countries to ban imports of crude oil from Russia, and this led crude oil prices to reach their highest levels since July 2008. The Brent crude oil price once exceeded the USD 139 level. The increase rate from the beginning of the year approached 65%. Also, market participants rapidly sold the Indian rupee, and the U.S. dollar/Indian rupee exchange rate reached INR 76.98, renewing its all-time high as observed during the first wave of the Covid-19 pandemic. However, the media reported that the central bank of India tended to avoid violent fluctuations of the exchange rate and thus intervened in the market by selling the U.S. dollar in order to keep the Indian rupee from depreciating further. Thus, the U.S. dollar/Indian rupee exchange rate did not reach the INR 77 level. Thereafter, the exchange rate remained high, fluctuating at the upper-INR 76 level. However, on March 9, the media reported that President of Ukraine Volodymyr Zelenskyy no longer hoped to join NATO. As a consequence, some market participants sold the U.S. dollar so as to take profit, and the U.S. dollar/Indian rupee exchange rate fell to the lower-INR 76 level.

In the third week of the month, the U.S. dollar/Indian rupee exchange rate fluctuated at around the mid-INR 76 level. The rise of crude oil prices slowed down momentarily based on expectations for progress in peace talks between Russia and Ukraine, as well as due to a possible decrease in demand as a result of a sharp increase in the number of Covid-19 cases in China. After the Federal Open Market Committee (FOMC) meeting in the U.S., attracting substantial attention in the market, risk assets started to appreciate again, despite the attitude of the FOMC, seen as hawkish. Under such circumstances, the U.S. dollar/Indian rupee exchange rate almost returned to the INR 75 level. Thereafter, the Mumbai markets were closed for three consecutive days for Holi.

In the fourth week, crude oil prices, which had been on a decline, started to rally. Furthermore, a state-owned resources company bought a large amount of U.S. dollars as a hedge for when the U.S. dollar/Indian rupee exchange rate was below the INR 76 level. This attracted attention in the market, and the U.S. dollar/Indian rupee exchange rate recovered to the INR 76 level. In the evening of March 21, Federal Reserve Board (FRB) chair Jerome Powell expressed his will for active interest rate hikes as a measure to control inflation, and this led U.S. government bond yields to rise significantly. Thereafter, the governor of the Reserve Bank of India (RBI) (and which is the central bank of India), Shaktikanta Das, gave warning against the depreciation of the Indian rupee. However, the Indian rupee continued depreciating against the U.S. dollar, and the U.S. dollar/Indian rupee exchange rate reached the INR 76.47 level. The exchange rate remained at the same level thereafter, as market participants were cautious about possible market interventions.

Toward the end of the month, the situation in Ukraine was intensified, and 5,000 people were killed due to Russian military attacks in cities in the southeastern part of the country. In addition, concerns were growing over a decline in demand for crude oil as resulted from lockdown measures in Shanghai (introduced again). Thus, there were various headlines with various effects in the exchange market. As a result, the U.S. dollar/Indian rupee exchange rate continued fluctuating at the lower-INR 76 level. On March 30, the U.S. dollar/Indian rupee exchange market closed trading at INR 75.91.

## 2. Outlook for This Month

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

Since the end of February, the Indian rupee reached its all-time low against the U.S. dollar due to three intertwined factors: (1) market participant preference for the U.S. dollar as a safe asset, resulting from geographical risks in eastern Europe, (2) Indian rupee-selling based on a growing trade deficit resulting from the rise of crude oil prices, and (3) Indian rupee-selling based on foreign investor capital outflow from India.

In the times ahead, the first factor would only depend on the evolution of the situation in Ukraine. However, even though there is no progress in peace talks, the market would be less sensitive to the situation, apart from the situation in neighboring countries. Thus, there is likely to be less fluctuation based on war-related headlines in the U.S. dollar/Japanese yen exchange market, the stock market, and the bond market. There would therefore soon be less market participants buying the U.S. dollar and selling the currencies of emerging countries based on risk-averse sentiment. However, the crude oil market is likely to remain sensitive to the situation in the war. Thus, the second factor is likely to remain in the market into April and beyond for a while. Indeed, it has been estimated that, when crude oil price rises by USD 1, the import bill for India increases by approximately USD 1.5 billion, leading to additional U.S. dollar-buying and Indian rupee-selling. Furthermore, even if risk-averse sentiment based on the situation in eastern Europe does not affect the market significantly, the growing trade deficit would necessarily lead to an increase of the current account deficit, driving foreign investors away from the Indian rupee market. Even with interest rate hikes in the U.S. as an important factor, domestic security investment in India is likely to record negative growth.

In March, the Indian monetary authorities carried out market interventions by selling the U.S. dollar and buying the Indian rupee whenever the U.S. dollar/Indian rupee exchange rate approached the INR 77 level. Based on this, some market participants are uncertain about the rise of the U.S. dollar/Indian rupee exchange rate. However, the overall Asian currencies are recently depreciating against the U.S. dollar. As the depreciation of the domestic currency is not a problem unique to India, some market participants see it unlikely for the RBI to take any action to control the situation.

Therefore, the U.S. dollar/Indian rupee exchange rate is forecast to remain high as long as the crude oil remains high.