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Mizuho Dealer’s Eye

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Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – September 2020

Expected Ranges **Against the yen: JPY103.50–107.50**

1. Review of the Previous Month

The dollar/yen pair temporarily hit the 107 yen range in August, though its stay here was short-lived and it dropped down to the 105 yen range toward the end of the month.

The pair opened the month trading at the upper-105 yen mark on August 3. Amid reports of a major acquisition by a Japanese company, the pair rose to a weekly high of 106.47 yen during overseas trading time. It then dipped to a weekly low of 105.31 yen on August 6 on growing uncertainty about the direction of congressional talks in the US regarding a new economic policy. The US posted some generally strong employment data for July on August 7. With news also emerging that Washington was imposing sanctions on top figures in the Hong Kong government, the greenback was bought on risk aversion, with the currency pair hitting the 106 yen range before closing the week trading at 105.92 yen.

Concerns about deteriorating US/China relations grew on August 10 on reports that Beijing would be slapping sanctions on several US lawmakers in response to the Trump US administration's sanctions on Hong Kong government officials. The US dollar was bought on risk aversion and the currency pair climbed to the lower-106 yen level, though it then dropped to a weekly low of 105.72 yen for a time on falling US interest rates. After hitting the 107 yen range on August 12 on the results of the US CPI data for July, the pair temporarily hit its monthly high of 107.05 yen on August 13. It hit the 107 yen range again on August 14, though it then fell back to the mid-106 yen mark on the worse-than-expected results of the US July retail sales data.

With the Republicans and Democrats at loggerheads when it came to a new economic stimulus package, the pair fell to the upper-105 yen level on August 17 after the August NY FRB Manufacturing Index posted a sharp decline. On the morning of August 19, the pair hit a monthly low of 105.10 yen. However, with expectations for further easing receding on the release of the minutes to the July FOMC meeting, US interest rates began rising, so the pair returned to the lower-106 level.

After opening during Tokyo trading time on August 24, the dollar was sold toward the Tokyo Fix, with the pair sliding to 105.69 yen. Amid a dearth of new factors, the pair then moved with a lack of direction. The US Housing Starts data for July sharply beat expectations on its release on August 25, so the greenback was bought for a time and the pair topped its short-term resistance level of 106.50 yen. In his speech at the Jackson Hole symposium on August 27, FRB chair Jerome Powell discussed changes to the FRB's long-term targets when he said "we will seek to achieve inflation that averages 2 percent

over time." The dollar was sold on expectations that interest rates would be stay at zero for a prolonged period, so the pair weakened to 105.60 yen. The markets had already factored in the fact that the FRB was prepared to tolerate some temporary overshoots when it came to its inflation targets, though. This perhaps explains why the yield on 10-year US treasuries began rising, with the dollar bought back and US stocks moving firmly toward the month's end. The yen was sold during this time, with the pair rising to the upper-106 yen mark before hitting a weekly high of 106.94 yen on August 28. However, the markets reacted badly when the Nikkei Average plummeted on news about the resignation of Japanese prime minister Shinzo Abe, so the pair dropped to 105.20 yen.
The pair rose to 105.80 yen on short covering on August 31. After a round of buying, it then dipped slightly to float around the mid-105 yen mark.

2. Outlook for This Month

Investors should be wary of a fall in the value of the dollar/yen pair in September. In his speech at the Jackson Hole symposium last month, FRB chair Jerome Powell discussed changes to the FRB's inflation targets, thus hinting that zero interest rates and quantitative easing could be maintained for longer than originally expected, so the pair's topside will probably be held down by interest rate trends. Japanese prime minister Shinzo Abe also announced his resignation on August 28. The Nikkei Average plummeted on this unexpected turn of events, with the currency pair's movements marked by yen appreciation. Attention this month will focus on the appointment of Mr. Abe's successor and news about a potential general election. Overseas investors in particular have viewed large-scale financial easing and the stability of the Abe administration as major reasons behind the bullishness of Japanese stocks. The Bank of Japan (BOJ) signaled there would be no change of policy in the wake of Mr. Abe's resignation, so it seems the BOJ will continue to pursue large-scale easing until BOJ governor Haruhiko Kuroda steps down in April 2023. With Mr. Abe resigning before the end of his term, though, the dollar could be sold and the yen bought on an unwinding of Abenomics (Japanese stock buying and yen selling).

Furthermore, current Japanese stock prices seem to be the result of speculative buying. In the past, it seemed stock prices would be supported on the downside during bearish phases by BOJ ETF-buying, but with the economy moving sluggishly on the Covid-19 outbreak, some investors have voiced concerns that stock prices are diverging from the real economy. Market participants should remain on guard against the possibility of falling stock prices pushing the yen higher. US stocks might also come under some adjustment like their Japanese counterparts, so caution will be needed here too. Though the markets seem awash with money, there is still lingering uncertainty about US/China tensions and the US presidential election, so investors should watch out for some corrections or yen selling. At the same time, the FRB may be prepared to tolerate inflation of over 2%, so if US long-term interest rates rise and US stocks continue to move firmly on rising inflationary expectations, this could lead to growing hopes for an early US economic recovery, with the dollar pushed up as a result. In any case, it will be hard to draw a sharp dividing line between the US and Japan when it comes to politics, the economic situation or monetary policy, for example. Though the pair looks set to slide overall, it will probably remain deadlocked, with market participants targeting a topside of 107.05 yen (the level it hit on August 13) and a downside of 105.10 yen (its level from August 19).

Dealers' Market Forecast

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

Bullish on the dollar	10 bulls	108.00 – 104.25	Bearish on the dollar	11 bears	107.00 – 104.00

* Ranges are central values

Tanaka	Bear	107.00 – 104.00	The FRB continues to ease, though attention is focused on its forward guidance. The US presidential election and the Covid-19 situation continue to prompt dollar selling, but their novelty factor has worn off. Market turmoil will be avoided as the Japanese authorities stick to the same policies, so the dollar/yen pair looks set to move flatly this month..
Takeuchi	Bear	108.00 – 104.00	A series of events related to US monetary policy have passed, with attention now shifting to the US presidential election. The Dollar Index also remains at lows, with the yen likely to be chosen as an alternative when the dollar weakens. Japan will probably stick to its current policies in the wake of Shinzo Abe's resignation, so the impact on the dollar/yen pair will be muted.
Tsutsui	Bull	109.00 – 104.00	In August, the FRB announced a shift to policies aimed at improving the employment situation, with the FOMC likely to announce measures to boost stock markets when it meets in September. As such, the dollar/yen pair will strengthen as stocks climb and US mid-term and long-term interest rates rise.
Kato	Bull	110.00 – 105.00	Amid the ongoing Covid-19 outbreak, Japan's next prime minster will face a choice between continuing Abenomics or taking a different path. Either way, the government will probably stick to policies that push the yen lower, like a temporary consumption tax cut.
Yamagishi	Bear	107.00 – 104.00	On August 27, the FRB announced a new policy whereby it would tolerate inflation rising temporarily above 2%. The dollar looks set to remain bearish as US real interest rates slide on prolonged monetary easing in the US. With uncertainty rising when it comes to Japanese and US politics and policies, investors should be on guard against risk-evasive yen buying.
Ushijima	Bull	107.00 – 104.00	US stocks have risen and the dollar has weakened on expectations, but it seems this trend could shift soon. There will be some gradual unwinding of accumulated dollar long positions. With the authorities taking steps when the dollar/yen pair dipped below 105 yen during the phase of yen appreciation at the end of July, it seems the pair's room on the downside will be capped.
Tasaka	Bull	107.00 – 104.00	With FRB chair Jerome Powell announced a new FRB forward guidance at the Jackson Hole symposium, stocks have remained bullish and the dollar bearish, so the dollar/yen pair will probably undergo a gentle slide this month. However, the pair could plummet if stocks fall sharply on speculation about the US presidential election, so caution will be needed.
Omi	Bull	108.00 – 104.00	The dollar/yen pair will probably rally after the recent dollar bearishness. This will be due to firm US stock movements and expectations for prolonged low interest rates and new fiscal policies. There is a risk the greenback could be sold on falling US interest rates. Investors will try pushing the pair below 105 yen at the start of the month.
Ueno	Bear	107.00 – 103.00	The markets have gotten used to Covid-19, with headlines about the outbreak having less of an effect. The focus will fall on economic trends (particularly in the US) and the direction of monetary and fiscal policy. If investors start to price in a Joe Biden victory in the US presidential election, there could be some stock-led moves to test the dollar/yen pair's downside.
Yamaguchi	Bear	107.00 – 104.00	FRB chair Jerome Powell has said the FRB is prepared to accept inflation above 2% as it continues with its policy of ultra-low interest rates, so the dollar looks set to remain bearish. There are many risk factors, including US/China frictions, the Covid-19 outbreak, and the US

			presidential election, so the greenback will be a hard currency to buy, with the dollar/yen pair set to trade with a heavy topside.
Kai	Bull	108.00 – 104.50	With the US releasing better-than-expected economic indicators and the markets factoring in the FRB's new forward guidance, the dollar will probably grow stronger again. The yen will probably weaken as US stocks and long-term interest rates rise on easing.
Onozaki	Bull	107.00 – 104.00	There are concerns about a change at the top in Japan, but the new administration will probably refrain from any excessive policy shifts, so the impact on the dollar/yen pair will be muted. Though the pair's downside seems firm around 105 yen, it is unlikely to have its topside tested given the FRB's policy of maintaining low interest rates, for example. As such, the pair will probably move in a range.
Tamai	Bear	107.00 – 104.00	The FRB introduced an average target for inflation last month, so it seems easing policies will be maintained for a prolonged period in the US. The dollar/yen pair will be supported at times by the firm movements of US stocks, but dollar buy-backs will be capped by low interest rates.
Harada	Bull	107.50 – 105.00	The FRB hinted it was prepared to let inflation temporarily overshoot its target. This suggests current policy will be maintained going forward. The dollar/yen pair will probably strengthen on rising US interest rates and bullish stocks. However, volatility will remain high until the post-Abe situation in Japan becomes clearer.
Oba	Bull	108.00 – 104.50	The yen has risen on political uncertainty in the wake of Shinzo Abe's resignation. However, the new administration's mandate will expire in September next year and a new general election will be called, so it will only represent a short-term stepping stone until the next administration. There is unlikely to be any major policy changes, so the dollar/yen pair will probably be bought back.
Katoono	Bear	107.50 – 103.50	In his speech at the Jackson Hole symposium, FRB chair Jerome Powell reconfirmed that monetary easing would be maintained for the time being, so the dollar/yen pair will probably move with a heavy topside this month. However, the US presidential election season has kicked off in earnest, so the pair will jostle up and down on related headlines.
Kobayashi	Bull	108.00 – 105.00	The Nikkei Average fell sharply in the wake of Shinzo Abe's resignation. Though the yen rose, the dollar/yen pair showed firmness around 105 yen. It is hard to see the next Japanese administration making any major policy shifts. With US stocks also rising on FRB monetary easing policy, the pair looks set to trend higher.
Matsumoto	Bear	107.50 – 103.50	The FRB hinted it would keep interest rates at zero and continue to pursue quantitative monetary easing for longer than originally envisaged, so the dollar/yen pair's topside will probably be held down by interest rates. It is also hard to imagine the pair rising given the political uncertainty in both the US and Japan.
Henmi	Bear	107.00 – 104.00	With the US set to pursue easing economic policies for a prolonged period, dollar interest rates will move heavily on the topside, with the dollar likely to trend lower. However, uncertainty is growing on the resignation of Shinzo Abe and the run up to the US presidential election. As such, the pair will probably be swayed by these themes.
Otani	Bear	107.00 – 104.00	In his speech at the Jackson Hole symposium, FRB chair Jerome Powell said the FRB was prepared to accept inflation above 2%, so with US easing policies set to remain in place for now, the dollar/yen pair will continue to move heavily on the topside. However, the dollar and yen are locked in a power struggle, so the pair's room on the downside will probably be capped.
Okuma	Bear	107.00 – 104.00	The US political situation is up in the air, with US/China relations deteriorating and the issue of police assaults on black people, etc. There is also growing uncertainty about the political situation in Japan in the wake of Shinzo Abe's resignation. Given this instability in both the US and Japan, it seems the yen will be bought on risk aversion.

Marie Tasaka, Forex Sales, Derivatives & Forex Department

Euro – September 2020

Expected Ranges **Against the US$: US$1.1700–1.2200**
Against the yen: JPY122.00–130.00

1. Review of the Previous Month

The euro/dollar pair had soared in July on the agreement to establish a European recovery fund, with investors continuing to test the pair's topside in August. Though the pair did not hit the $1.20 range, it did rise to $1.1966 for the first time since May 2018, with the pair moving firmly overall throughout the month.

After starting the month trading at the upper-$1.17 level, the pair moved strongly as the greenback was sold on falling US interest rates. Germany released a better-than-expected June Manufacturing Orders index on August 6, with the pair breaking through its July high of $1.1909 to hit $1.1916. It dropped back to the lower-$1.18 mark for a time on selling to lock in profits, though it returned to around $1.19 after a round of selling. However, the dollar was bought on risk aversion on August 7 after President Trump signed a presidential decree banning transactions with a Chinese firm providing an SNS app. With the pair also seeing some position adjustments, it fell further to reach the mid-$1.17 range.

Germany released a bullish August ZEW Indicator of Economic Sentiment on August 11, so the pair rallied to the mid-$1.18 mark for a time, though it tumbled to a monthly low of $1.1711 on August 12 when the greenback was bought on rising US interest rates. However, hopes for tax cuts in the US then faded on comments by US treasury secretary Steven Mnuchin, so the dollar was sold and the pair bounced back to the lower-$1.18 level.

The greenback weakened across the board toward August 18 on some weak US economic indicators and concerns about US/China frictions, so the euro/dollar pair strengthened to hit a monthly high of $1.1966, its highest level since May 14, 2018. It failed to top $1.20, though. The minutes to the FOMC meeting were released on August 19 and they revealed that several members had voiced opposition to the introduction of yield curve controls. As speculation about further US easing waned, the dollar was bought and the pair fell to the lower-$1.18 mark. The euro was then sold on August 21 on the release of a worse-than-expected French and eurozone PMI for August. Uncertainty about the direction of Brexit negotiations then grew on comments by the EU's chief negotiator Michel Barnier, so the pair weakened to the mid-$1.17 level.

The pair then traded with a lack of direction in a range around the lower-$1.18 mark. In a speech at the Jackson Hole symposium on August 28, FRB chair Jerome Powell said the FRB would revise its monetary policy framework in order to "achieve inflation that averages 2 percent over time." This led to a growing sense that interest rates would be kept at zero for a prolonged period, so the greenback moved bearishly across the board. As a result, the euro/dollar pair soared to $1.1920 and then moved firmly in the lower-$1.19 range.

2. Outlook for This Month

The euro/dollar pair is expected to move firmly in September too on European/US interest-rate differentials and the performance of European fundamentals (compared to those in the US). The pair may even top $1.20 for the first time since May 2018. However, with euro long positions having accumulated to record highs, the pair could plummet on position adjustments, so caution will be needed.

The pair's trend was clearly altered by the agreement to establish a European recovery fund, but a glimpse at the market reveals a number of other bullish factors for the euro.

First up are shrinking European/US interest-rate differentials, a factor that helps to push the pair higher. With FRB chair Jerome Powell announcing a new FRB monetary policy framework in his speech at the Jackson Hole economic symposium in Wyoming last month, it seems US interest rates will remain subdued going forward. The new framework has two key tenets: (1) the prioritization of jobs over inflation as part of efforts to maximize employment, and (2) the introduction of an average inflation target. There is a growing risk that employment and prices will be pushed lower by the Covid-19 crisis, so US short-term and medium-term interest rates will probably be held down, with long-term interest rates kept in check too. Under these circumstances, it is hard to imagine European/US interest-rate differentials widening (and thus pushing down the euro/dollar pair), so even if the euro is not pushed higher, the pair looks set to move firmly.

Another factor pushing the currency pair higher could be European fundamentals. Economic indicators released in August pointed to stagnation more than a V-shaped recovery, but a comparison with US indicators confirmed that the US economy was still lagging behind the European economy, so it seems the euro will continue to be bought on a lack of alternatives.

However, one worry is the direction of accumulated euro long positions. A glance at the IMM currency futures data released on August 28 by the Chicago Mercantile Exchange shows euro long positions swelling further to hit a record high, as they had the previous week too. This could limit the room for the euro to rise further and there could be some substantial position adjustments on a sense of achievement if the euro/dollar pair tops the key $1.20 mark for the first time since May 2018, so caution will be needed. Considering the two bullish factors mentioned above, though, it seems the pair will rise again after a round of selling on position adjustments.

Dealers' Market Forecast

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

Bullish on the euro	14 bulls	1.2075 – 1.1700	Bearish on the euro	7 bears	1.2000 – 1.1600

* Ranges are central values

Tanaka	Bull	1.2100 – 1.1700	The US presidential election, uncertain US/China relations and low US real interest rates will continue to act as dollar-selling factors. Covid-19 and investor positions will remain a concern in Europe, but the euro/dollar pair looks set to continue floating at highs amid short-term adjustments.
Takeuchi	Bull	1.2100 – 1.1600	The euro/dollar pair could be weighed down by concerns of a second wave of Covid-19 infections in Europe, but Germany and other countries have started to post better-than-expected economic indicators. Stock markets also seem to be lagging behind, so the pair could rally as the euro is chosen as an alternative when the dollar weakens.
Tsutsui	Bear	1.2000 – 1.1700	The FRB will probably ramp up its weak-dollar policy, but the markets have already factored this in, with investors sticking to their positions. The euro/dollar pair will continue to trade in a range as in August. It is unlikely to be swayed by ECB or FRB monetary policy.
Kato	Bear	1.2000 – 1.1500	The euro has remained attractive to investors, but there is a sense this trend is peaking out. In particular, short-term speculative positions have accumulated to record levels, so the euro/dollar pair is unlikely to have its topside tested from here on.
Yamagishi	Bull	1.2100 – 1.1700	US real interest rates will probably fall on the prolongation of monetary easing in the US, with the euro likely to remain attractive as an alternative when the dollar is sold. There will be concern about high prices when the euro/dollar pair approaches the key $1.20 mark, but the pair will continue to be pushed up by euro buying on the European recovery fund and the discrepancy between economic sentiments in the US and Europe.
Ushijima	Bear	1.2000 – 1.1600	Euro/dollar pair long positions have already built up too much, with the pair set to be gradually sold going forward. The euro has seen the most buying during the trend of bullish US stocks and a bearish dollar, so the pair will probably be adjusted first when this trend comes to an end. The pair will trade with a heavy topside at the upper-$1.19 mark and it is unlikely to break above this level.
Tasaka	Bull	1.2200 – 1.1700	The euro/dollar pair will move firmly as the greenback moves bearishly on the FRB's new policy framework. However, euro long positions have accumulated to record highs, so when the pair tops $1.20, these positions could be unwound on a sense of achievement, with caution thus needed.
Omi	Bear	1.2000 – 1.1500	The euro has moved bullishly on the recovery fund agreement, but this trend will ease off in September. The greenback will rise and the euro will fall on expectations for new US fiscal policies and strong US stock movements on the prolongation of low interest rates.
Ueno	Bear	1.2000 – 1.1500	The euro has risen by around 10% against the dollar since May, but there are no factors capable of explaining the euro's huge popularity. Euro long positions have accumulated to record levels, with the pair likely to float at the upper-$1.19 level. Investors will be watching to see whether these positions are unwound.
Yamaguchi	Bear	1.2000 – 1.1600	The euro has been bought on the agreement about a European recovery fund, but this phase is winding down, with the euro/dollar pair moving heavily on the topside at the upper-$1.19 mark. If the trend of dollar selling comes to an end, the currency pair will probably fall.
Kai	Bull	1.2100	The euro/dollar pair will remain bullish until the Covid-19 outbreak winds down and the debate

		– 1.1800	about revising easing policies begins. However, investors are shifting their opinions of the greenback and they are starting to focus on the currency pair's topside, so the pair will gradually renew highs with an eye on $1.21.
Onozaki	Bear	1.2100 – 1.1600	The euro/dollar pair has many buying factors, such as the market response to the relief fund and the fact that Europe has fewer Covid-19 cases than the US. Euro long positions have accumulated to record levels in the IMM currency futures market, though, while there will probably be a sense of achievement when the pair tops $1.20, so September will probably be a month of adjustment.
Tamai	Bull	1.2000 – 1.1700	The dollar will continue to be sold as the FRB pursues large-scale easing. There are concerns about a second wave of Covid-19 cases in Europe, though, so the euro/dollar pair will probably trade with a heavy topside just before the key $1.20 mark.
Harada	Bull	1.2000 – 1.1750	The US looks set to continue pursuing easing in the wake of the FRB's revised monetary policy framework, so the euro will probably be bought and the dollar sold. The euro/dollar pair will also be supported as European economic indicators gradually recover.
Oba	Bull	1.2050 – 1.1800	In the wake of FRB chair Jerome Powell's speech at the Jackson Hole symposium the other day it seems US interest rates will be kept at low levels for a prolonged period. The resignation of Shinzo Abe has led to growing uncertainty about whether good US/Japan relations can be maintained from here on. As such, the dollar will probably be sold against the euro.
Katoono	Bull	1.2000 – 1.1800	At his speech at the Jackson Hole symposium, FRB chair Jerome Powell reconfirmed that the FRB would continue to pursue easing for the time being. As a result, the euro will remain a comparatively easy currency to buy. Attention should also be paid to the effects of the second Covid-19 wave and the impact of the various economic measures announced recently.
Kobayashi	Bull	1.2000 – 1.1700	European economic indicators are improving, while the FRB looks set to pursue easing for a prolonged period. With US/China relations also deteriorating, the euro/dollar pair will continue to be bought. However, investors will focus on the pair's topside when it rises to around $1.20.
Matsumoto	Bull	1.2000 – 1.1700	It seems the US will continue to pursue easing into the long term, with the greenback sliding as a result. Under these circumstances, the euro will remain attractive to investors. However, the euro/dollar pair's upwards momentum could slow on a sense of overheating when it approaches $1.20.
Henmi	Bull	1.2000 – 1.1700	The dollar will probably trend lower as easing economic policies are pursued for a prolonged period in the US. However, the greenback is unlikely to suffer a one-sided slide, with the euro/dollar pair set to move with a heavy topside around the key $1.20 mark.
Otani	Bull	1.2100 – 1.1700	In his speech at the Jackson Hole symposium, FRB chair Jerome Powell said the FRB would tolerate inflation above 2%, so the euro will probably continue to be bought as the dollar is sold. However, investors will grow cautious about high prices when the euro/dollar pair tops $1.20, so the pair's room on the topside will be capped.
Okuma	Bull	1.2100 – 1.1700	With the US set to keep interest rates at zero for a prolonged period, the euro/dollar pair looks set to remain firm, with the pair also supported by political uncertainty in the US and Japan. There are concerns about a second wave of Covid-19 infections, but the pair will also move firmly on hopes for the development of a vaccine.

Joseph McElhill, Europe Treasury Department

British Pound – September 2020

Expected Ranges	**Against the US$:**	**US$1.3100–1.3500**
	Against the yen:	**JPY139.00–145.00**

1. Review of the Previous Month

The pound moved with a lack of incentives in the first week of August. The only noteworthy factor was the better-than-expected improvement of the July US Manufacturing ISM Report on Business, released on August 4. As a result, the GBP/USD pair dipped below $1.30 to hit $1.2982, though it then rallied on hopes regarding the results of the Bank of England (BOE)'s Monetary Policy Committee (MPC) meeting, set for release on August 6. As expected, the MPC ended up voting 9 to 0 to keep the base rate and the ceiling of the asset purchasing program unchanged. However, the pair strengthened when BOE governor Andrew Bailey ruled out the introduction of negative interest rates (at least for the time being), with its topside hitting $1.3185, much the same as its level from the end of July. The pair then weakened toward the end of the week. This was because the greenback was bought when the US July employment data (released August 7) turned out to be more bullish than expected, with nonfarm payrolls growth beating market expectations, for example.

Sterling edged up against the yen in the second and third weeks to eventually top 140 yen for the first time in five-and-a-half months. It jostled up and down against the dollar and the euro, though in hindsight it seemed it moved more-or-less flatly against these two currencies. During this time, the yen clearly weakened against the other major currencies to undergo a comprehensive slide.

The pound was pushed down toward August 17. Factors on the UK side included the release of several UK indicators during the early morning, London time. The preliminary 2Q UK GDP data slumped by 20.4% on the previous quarter. Though a shocking result, it was still within the bounds of market expectations. The UK also released some mixed manufacturing and industrial production data for June. It did post a strong June trade balance, but the reaction of the markets was muted.

Sterling moved erratically at times in the fourth week. Looking back, though, it seems the unit moved with a lack of direction and was instead swayed by the movements of the euro and dollar. The GBP/USD pair hit $1.3266 on August 19, its highest level since the turn of the year. It seems the pound was pulled up by the euro, which hit a 27-month high against the dollar on the same day. Sterling then tumbled from this high to just below $1.30 the following day. This was apparently due to dollar bullishness following the release of the minutes to the FOMC meeting at 7pm on August 19, London time. The dollar was bought back when FOMC members opposed the introduction of yield curve controls (YCC), with the euro/dollar pair also weakening as a result.

2. Outlook for This Month

The GBP/USD pair is expected to top $1.33 in September. It was deadlocked between the upper-$1.31 mark and $1.32 last month, but there was no sense that the pair might drop below $1.31. The pair then topped $1.3250 on August 28 (there had been attempts on this level on August 19 and 21, but the pair had eventually dropped back to $1.31 on both occasions) and it then climbed to around $1.33. Sterling also rose to the mid-141 yen mark to hit its highest level against the Japanese unit since the end of March. It seems ancient history since the last time the GDP/USD pair dropped below $1.31 (August 24) and $1.30 (August 4). The GBP/JPY pair has been strongly supported at 140 yen and its firm movements since August 27 suggests it has become entrenched at this level.

The pound was pulled higher in the latter half of August when the dollar fell and the euro rose. If this trend continues into September, investors could push the GBP/USD pair though $1.3331 (its high from mid-December 2019) to test the $1.34 range. With Shinzo Abe stepping down at the end of August, the yen will probably jostle up and down in the medium term. Of course, this means it will grow harder to predict the movements of the GBP/JPY pair (the yen was pushed up directly after the resignation announcement, but if it takes a while to choose a successor, it seems quite possible that the dollar/yen pair will start moving bullishly again, with the yen sliding), but if the GBP/USD pair manages to stay above $1.3250 this month, then the GBP/JPY pair will probably remain at 140 yen, provided the yen is not bought to the mid-105 yen mark against the dollar.

The UK lockdown has essentially been lifted since July 4. Important UK economic indicators this month will include the August manufacturing/industrial production data and the August trade balance (released Friday, September 11), the UK employment data (the August new applications for unemployment insurance data and the May–July ILO standard unemployment rate, etc.; Tuesday, September 15), and the final 2Q GDP data (September 30). The focus will be on how well the UK economy has recovered after the lifting of lockdown conditions, with investors also examining how fast the economy is recovering compared to continental Europe (particularly Germany and France). The situation is still up in air, though. The currency markets will probably not be interested in the latest Covid-19 related trends in any one single country or economy, so unless there is any major differences in economic performance, the influence on the currency markets will be muted.

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

Australian Dollar – September 2020

Expected Ranges	**Against the US$:**	**US$0.7100–0.7400**
	Against the yen:	**JPY75.60–78.60**

1. Review of the Previous Month

The AUD/USD pair moved from $0.7077 to the upper-$0.73 mark in August.

It moved between the upper-$0.70 mark and the lower-$0.72 level at the start of the month. The greenback was bought and the pair fell to around $0.7080 on the better-than-expected result of the July US Manufacturing ISM Report on Business, though the pair then rose to the $0.72 range on bullish US stocks. The board of the Reserve Bank of Australia (RBA) kept the cash rate fixed at the monetary policy meeting. It also predicted that the unemployment rate would rise to 10% in 2020 before staying at around 7% thereafter, with inflation set to move below target (2–3%) over the next two years. New Zealand released some strong employment data on August 5, so the AUD/NZD pair was sold and the AUD/USD pair moved at the mid-$0.71 level, though it then rose higher as the greenback moved bearishly. In a press conference on August 6, Australian prime minister Scott Morrison predicted that Australia's GDP would fall by 2.5% in the third quarter, with the unemployment rate rising to 10% in 2020. The Australian dollar edged lower as a result, with the AUD/USD pair tumbling to $0.7175. The RBA's Quarterly Report served to remind investors of the deteriorating economic situation, with the currency pair then breaking below $0.72. It then fell to the mid-$0.71 level on the better-than-expected US employment data for July.

With Melbourne undergoing a stage 4 lockdown, the federal government announced an extra AUD15 billion (around 1.136 trillion yen) to expand the coverage of JobKeeper, the scheme set up to provide payments to furloughed workers. However, it also announced that the payments would be lowered in November and then again at the start of 2021. The AUD/USD pair moved flatly overall mid-August, though it returned to the $0.72 range over the latter half of the month. The Australian July employment data moved firmly, with the unemployment rate and the number of people in work both beating expectations, but the pair's topside was held down and the pair moved from the mid- to the upper-$0.71 mark. The state of Victoria than announced that its state of emergency would be extended until mid-September, so the pair fell slightly, though buying on the dip saw the pair edging up to top $0.72.

The minutes to the July FOMC meeting (released August 19) revealed member opposition to the idea of yield curve controls. As expectations for tougher US monetary easing measures wore off, the currency pair dipped to the $0.71 range. The greenback continued to rise on August 20, following the previous day's release of the minutes to the FOMC meeting, with selling prevailing toward Asian trading time.

The flight to the greenback then intensified after the US posted an unexpected increase in new applications for unemployment insurance, so the currency pair fell to $0.7130, though it was then bought back to $0.7190 on bullish stocks. The pair's downside steadily edged higher late August, with the pair climbing from $0.7150 to the upper-$0.73 mark. The greenback then weakened on FRB chair Jerome Powell's speech at the Jackson Hole symposium, so investors tested the pair's topside.

2. Outlook for This Month

The AUD/USD pair is expected to move firmly in September.

Expectations for further RBA easing have waned on the better-than-expected results of Australia's July employment data. In his speech to parliament on August 14, RBA governor Philip Lowe predicted that the Australian dollar would weaken, though he added that the unit's level was not excessive and the RBA would not be intervening to push it lower, so it seems the AUD/USD pair will continue to be supported on the downside. With the state of Victoria in stage 4 lockdown, Australia's 2Q GDP data and other indicators released in September will probably slow further, but the number of new Covid-19 cases is quite low and it seems Australia is on the road to recovery. Australia has emerged relatively unscathed compared to other countries, with the Australian dollar moving comparatively bullishly owning to a lack of alternatives, so if the greenback continues to be sold, the currency pair could hit the $0.74 range.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – September 2020

Expected Ranges **Against the US$: C$1.2800–1.3300**
Against the yen: JPY78.00–82.00

1. Review of the Previous Month

The USD/CAD pair began August trading at C$1.3440. Demand for the US dollar as a safe asset declined as funds were pumped into economic measures aimed at tackling the Covid-19 outbreak. The greenback's slide accelerated on US/China frictions and falling US interest rates. As a result, the pair fell to the C$1.31 range for the first time since January. With crude oil prices moving firmly at the lower-$40 mark, the Canadian dollar remained bullish on the whole throughout August.

The Canadian July employment data was released on August 7. The number of people in work had risen by a better-than-expected 418,500, though this was down on the 952,900 jobs added in June. At 11%, the unemployment rate had improved slightly on June's 12.3%. At +1.763 million m-o-m, meanwhile, the US July employment data saw the third successive month of jobs gains. The unemployment rate also fell to 10.2%. With the US also posting bullish economic indicators and US interest rates rising, the greenback was bought and the currency pair strengthened to C$1.3399. The US then slapped sanctions on 11 top government officials in Hong Kong, while the US Senate approved a bill banning the use of a Chinese video-sharing app on any government devices issued to federal employees. As US/China tensions rose, the US dollar was bought on risk aversion, so the pair continued to float around the upper-C$1.33 level.

News emerged on August 11 that Russia had approved the world's first Covid-19 vaccine, so the greenback was sold on risk appetite. The Canadian dollar was also bought back to C$1.3271 against its US counterpart. Crude oil prices (WTI) also rallied to $42.94 and they continued to move firmly thereafter. As a result, the USD/CAD pair dipped below C$1.31. Canada released a better-than-expected June Manufacturing Sales indicator on August 14. At +20.7% m-o-m, the indicator also posted record growth, though the reaction of the markets was muted.

Canada's finance minister Bill Morneau announced his resignation on August 17, with the USD/CAD pair temporarily hitting C$1.3232, but the US Department of Energy's weekly crude oil inventories data showed crude oil inventories sliding, so crude oil prices rose and the currency pair dropped back to C$1.3133.

In a speech on August 27, FRB chair Jerome Powell talked about rising downside risks for employment and inflation. He also said inflation would be maintained at an average 2% as the US tried to achieve full employment once more. Mr. Powell also indicated the FRB was willing to allow the inflation rate to temporarily top 2%. As the greenback fell further, the currency pair tumbled to C$1.3107.

2. Outlook for This Month

With the number of Covid-19 cases rising in some US regions, the US, Canada and Mexico agreed a 30-day extension to the border closures introduced in March. President Trump also said the US would place a further 10% tariff on some aluminum imports from Canada. As a retaliatory measure, Canada announced it would impose a C$3.6 billion ($2.7 billion) tariff on aluminum imports from the US, effective from September 16. With Canada's trade deficit swelling in June, there are concerns about US/Canada trade frictions. Canada's finance minister Bill Morneau announced his resignation. His successor is Chrystia Freeland, who will remain as deputy prime minister while serving as finance minister. With Canada's deficit for this fiscal year rising to C$343.2 billion ($253.4 billion) as a result of measures to tackle Covid-19, there are high hopes about the competence of the new finance minister.

Canadian prime minister Justin Trudeau will announce some new measures during his Throne Speech on September 23. Mr. Trudeau has talked about the necessity of a long-term plan for economic recovery and for measures to tackle the deficit caused by Covid-19. Attention will also focus on comments about strengthening job protections and steering the Canadian economy away from its strong reliance on fossil fuels. The new finance minister Chrystia Freeland has also talked about the need to shift to a more environmentally-friendly model when Canada's economy restarts, so the government will probably announce some new measures targeting an energy shift and Canada's oil sands industry. Tax hikes are likely to be off the table, with expenditure and debt set to rise ever further. In future, this will probably see the Canadian dollar moving bearishly against the greenback and the other G10 currencies.

There are hopes that the housing market will bounce back on falling interest rates, with some economic indicators showing signs of strength. Before Covid-19 hit, it was said immigrant demand would be needed for a Canadian economic recovery, but with immigrant movements reined in by the Covid-19 crisis, investors will need to keep a close-eye on indicators related to housing demand. There are hopes that crude oil demand will recover in China and across Asia, with crude oil prices also likely to be kept from falling too far by sliding US crude oil inventories and coordinated production cuts by major oil-producing nations. Market participants will need to continue monitoring trends related to the Covid-19 outbreak, US/China trade frictions, and US/China trade negotiations. The Bank of Canada will be meeting to set policy rates on September 9. The markets are expecting rates to be left unchanged. The Canadian dollar looks set to remain bullish in September on the back of the greenback's long-term downwards trend.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – September 2020

Expected Ranges	**Against the US$:**	**KRW1,160–1,210**
	Against the yen:	**JPY8.696–9.174 (KRW100)** **(KRW10.900–11.500)**

1. Review of the Previous Month

The USD/KRW pair moved with a heavy topside in a range between KRW1180–1196 in August.

The greenback had been sold in July, but this trend unwound in the last weekend of July, so the currency pair appreciated. It kicked off August trading at KRW1194.2 on August 3 before soon rising to a monthly high of KRW1196.1. However, concerns about the US economy then grew after no decision was reached on a new US economic stimulus package. The dollar was sold again and Asian currencies were all bought against the greenback on August 5, with the USD/KRW pair clearly dropping below the KRW1190 resistance line.

News emerged during overseas trading time on August 5 that a major US pharmaceutical firm has reached an agreement to provide the US government with 100 million doses of a potential vaccine. With hopes also growing for progress in talks over a new US economic stimulus package, the currency pair tumbled to KRW1183.0 as risk appetite swept the globe. Concerns about US/China frictions intensified on August 7 after Washington imposed sanctions on the Hong Kong government, but with Chinese stocks moving firmly on the relatively-firm movements of Chinese indicators, for example, the pair hovered around the lower-KRW1180 mark over the week.

In the third week of August, investors gradually turned their attention to the spread of Covid-19 in South Korea, with the USD/KRW pair subsequently growing firmer on the downside. With the number of new Covid-19 cases topping 200 on August 18, the pair climbed to KRW1186.3. However, the S&P500 then renewed a record high during overseas trading time, so the greenback was sold on risk appetite, with the pair falling to a monthly low of KRW1180.5 on August 19. The KRW1180 level saw a considerable amount of real-demand dollar buying, though, so the pair did not drop below KRW1180. The minutes to the FOMC meeting revealed that several members had talked down the benefits of yield curve controls, so expectations for further easing waned and investors unwound their dollar short positions. The weekend's dollar-buying trend continued on August 21, with the pair rising to KRW1192.7 for a time, though it then moved with a heavy topside toward the month's end on real-demand won buying.

After a speech by FRB chair Jerome Powell on August 28, there was a sense that most major factors were now out of the way, so the greenback was bought on global moves to lock in profits. However, the

USD/KRW pair continued to trade with a heavy topside on the real-demand flow. The KOSPI saw substantial selling by overseas investors on August 31, though, so the pair bounced back. In the end, the pair finished the month trading at KRW1187.8.

2. Outlook for This Month

The USD/KRW pair is expected to move with a slightly heavy topside in September.

The markets will continue to be driven by concerns about a second wave of Covid-19 infections and hopes for the development of a vaccine. South Korea is being swept by a second wave, so the currency pair could rise for a time on concerns that social distancing rules could be tightened. However, with FRB chair Jerome Powell suggesting that easing will be maintained in the US for a prolonged period, the greenback will continue to be sold across the globe, with the USD/KRW pair set to trade with a heavy topside. In the US, the Democrats have pledged to raise corporation tax and introduce tougher environmental protections, so if Joe Biden looks set to win the presidential election, bullish US stocks might undergo some correction. Given the extremely accommodative monetary environment in the US, though, it is hard to imagine stocks falling sharply like they did in March. In fact, this could prompt some buying on the dip. Under these circumstances, South Korean stocks could also see some buying by overseas investors.

Demand is returning to the semiconductor sector after shrinking last year, with sentiments improving on expected mid- to long-term demand in relation to 5G and the IoT. This will probably act as a buying factor for the won too. When it comes to monetary policy, the US and South Korea will probably remain in wait-and-see mode for the time being. The FRB has suggested it will continue to ease until it hits average inflation of 2%, but FOMC members expressed skepticism about yield curve controls, so for now the FRB will probably pursue easing by tweaking the buying conditions of the asset purchasing program it introduced to tackle Covid-19.

When the Bank of Korea (BOK) cut rates on May 28, the BOK governor said policy rates were nearing the effective lower bound. When the BOK met on August 27, it lowered its 2020 growth forecast from -0.5% to -1.3%, but it continued to adopt a cautious stance with regards to further easing, so the USD/KRW pair is unlikely to fluctuate significantly on factors related to monetary easing. As such, the pair is expected to edge lower. However, investors regard KRW1180 as close to the lower edge of the pair's range, so when the pair approaches this level, it could see a considerable amount of real-demand dollar buying, so it will take some time before the pair edges lower. The next target on the downside will be KRW1160, but it is hard to imagine the pair dipping below this level unless any major new factors emerge.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – September 2020

Expected Ranges	**Against the US$:**	**NT$29.20–29.55**
	Against the yen:	**JPY3.55–3.65**

1. Review of the Previous Month

The USD/TWD pair moved in a range in August, despite the Taiwan Capitalization Weighted Stock Index moving at highs.

The pair opened the month trading at TWD29.510. At the start of the month, a number of people leaving Taiwan tested positive for Covid-19. Amid concerns about a domestic outbreak, Taiwanese stocks fell. After trading around TWD29.330, the currency pair now rallied to around TWD29.400. Hi-tech stocks and other equities were then bought back, with the Taiwan Capitalization Weighted Stock Index approaching 13,000 points on August 6, so the Taiwan dollar was bought and the pair temporarily dipped to TWD29.301.

With Taiwanese stocks moving bearishly mid-August, the Taiwanese unit was sold by exporters when the pair topped TWD29.400, so the pair continued moving in a narrow range around TWD29.400.

Taiwanese stocks fell sharply late August on concerns that sales by Taiwanese firms to their Chinese counterparts would fall after the US imposed sanctions on China. Overseas investors sold the Taiwan dollar at a faster pace, but the greenback was sold by exporters when the pair hit TWD29.400, with the pair trading heavily on the topside. Exporters bought the Taiwan dollar as the month's end approached, so the pair's range dipped and it moved around TWD29.350.

2. Outlook for This Month

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

Though Taiwan's 2Q GDP figure was revised upwards, it still remained negative at -0.58%, with Taiwan's Directorate-General of Budget, Accounting and Statistics now expecting real GDP to hit +1.56% in 2020, down 0.11 points from its forecast in May. This is mainly due to the long-term impact of a fall in foreign tourists due to the Covid-19 outbreak.

However, Taiwanese economic indicators are starting to show signs of improvement. At +0.4% m-o-m, Taiwan's July export data returned to positive territories on a y-o-y basis for the first time in five months, with retailing also returning to y-o-y growth, thanks in part to government policies. Furthermore, the July export orders amount was up 12.4% y-o-y to renew a record high for July. Despite the Covid-

19 outbreak, manufacturers of electronic parts are still performing well on a rise in people working remotely.

The Taiwan Capitalization Weighted Stock Index hit record highs in July. The index also closed at record highs in August, but with investors selling to lock in profits, growth will stall and stock movements are unlikely to prompt the kind of substantial Taiwan-dollar buying seen last month. However, even when the Taiwan dollar moved bearishly as Taiwanese stocks were sold, investors moved to buy the unit, so the USD/TWD pair's topside grew heavy.

September marks the end of the quarter, so investors should be wary of moves to sell the greenback toward the month's end. Exporters sold the US dollar briskly at the end of June, with the Taiwan dollar rising sharply. In September, market participants should focus on real-demand movements as well as US/China relations and Covid-19 trends.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – September 2020

Expected Ranges	**Against the US$:**	**HK$ 7.7500–7.7600**
	Against the yen:	**JPY 13.40–13.95**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in August

In August, the U.S. dollar/Hong Kong dollar exchange rate continued fluctuating at around HKD 7.7500—the upper end of the fluctuation band for the Hong Kong dollar—thanks to high capital demand for IPOs among investors as well as capital inflow into the stocks of Chinese high-tech companies that have been performing well. The Hong Kong Monetary Authority (HKMA) intervened in the market by selling the Hong Kong dollar and buying the U.S. dollar, but the scale of this was smaller than that in July.

Under the *Hong Kong Autonomy Act*, U.S. President Donald Trump imposed sanctions against 11 key officials in Hong Kong, including Chief Executive of Hong Kong Carrie Lam, by freezing their assets in the U.S. While the media reported that some banks in Hong Kong tried to temporarily freeze the accounts of those that were on the sanctions list, the China Banking and Insurance Regulatory Commission (CBIRC) announced its decision to support financial institutions that operate in Hong Kong, complying with the regulations and providing service for residents and companies. U.S. President Donald Trump also announced the discontinuation of the income tax exemption for Hong Kong in cases related to extradition and international freight as a means to suspend preferential treatment to Hong Kong.

Hong Kong interest rate market in August

In August, the Hong Kong dollar interest rates remained stable until the middle of the month, after which interest rates, mainly those for short terms, started to rise toward the end of the month, as the amount of liquidity provided by the HKMA decreased significantly and as capital demand related to IPOs increased. The one-month Hong Kong dollar HIBOR continued fluctuating at around the 0.25% level and rose sharply to exceed the 0.35% level at the end of the month, as market interventions by the HKMA slowed down. Even though interventions by the HKMA were scaled down in the foreign exchange market, the aggregate balance rose slowly from the HKD 183 billion recorded at the end of July to approximately HKD 193 billion. The three-month Hong Kong dollar HIBOR continued fluctuating within a narrow range, at around the 0.45% level. It should also be mentioned that Hong Kong dollar interest rate swap rates also rose, following a rise in U.S. dollar interest rate swap rates.

This is a result of the stance of the Federal Reserve Board (FRB), being less dovish than that anticipated in the market, along with being due to the sluggish outcome of the United States Department of the Treasury bill auction and due to the speech by FRB Chair Jerome Powell at Jackson Hole Economic Symposium.

2. Outlook for This Month

Hong Kong dollar spot exchange market in September

In September, the U.S. dollar/Hong Kong dollar exchange rate is forecast to remain stable, fluctuating within the range between HKD 7.7500 and HKD 7.7600, thanks to demand related to IPOs as well as continued capital inflow into the Hong Kong stock market. With concerns over the possible deterioration of the relationship between the U.S. and China, Chinese companies listed on U.S. exchanges are hurrying to be listed also in Hong Kong in order to hedge the risk of being unlisted. Thus, capital flows related to IPOs are likely to continue until the end of the year. Thus far, market participants have been steadily buying Hong Kong stocks based on the Stock Connect scheme (the scheme for mutual market access between the Mainland China and Hong Kong), thanks to the healthy performance of high-tech companies in China. On the other hand, the interest rate differentials between the Hong Kong dollar and the U.S. dollar have been narrowing, and investment appetite for carry trades has been weakening.

It should also be pointed out that the Hong Kong dollar will maintain the U.S. dollar peg in the times ahead. Despite the suspension of preferential treatment to Hong Kong as well as sanctions against Hong Kong high officials as announced by U.S. President Donald Trump, negative impact on financial and banking operations in Hong Kong has so far been limited. It is unlikely for the Trump administration to limit free exchange of the Hong Kong dollar with the U.S. dollar or to undermine the Hong Kong dollar's peg to the U.S. dollar, as such financial sanctions could harm the status of banks in the U.S. as well as that of the U.S. dollar as a reserve currency. Market participants should understand that President Trump has been using the threat of possible sanctions in order to underline his strict attitude toward China in preparation for the presidential election scheduled for November.

Hong Kong dollar interest rate market in September

In September, Hong Kong dollar interest rates are forecast to rise slightly. Interest rates are likely to rise as a result of the large-scale IPO of a subsidiary of a major Chinese electronic trading company as well as capital flows for the end of the quarter period. However, the aggregate balance has been at its highest level since February 2018, making it likely for the liquidity level to remain high. Thus, the rise of interest rates is expected to be limited.

From a medium- to long-term perspective as well, Hong Kong dollar interest rates are likely to continue rising, following the rise of the U.S. dollar interest rate under the U.S. dollar peg. At Jackson Hole Economic Symposium, the FRB introduced its "average inflation target," as a result of which the U.S. dollar interest rates started rising, as of this writing. Market participants should also remain attentive for the outcome of the Federal Open Market Committee (FOMC) meeting in September. In the times ahead, it is possible for U.S. dollar interest rates, mainly those for long and very-long terms, to continue rising. If that happens, Hong Kong dollar interest rates are also expected to follow the trend and continue rising.

Kei Yano, Treasury Department, MHBK (China)

Chinese Yuan – September 2020

Expected Ranges	**Against the US$:**	**CNY 6.8000–7.0500**
	Against the yen:	**JPY 14.47–15.62**
	Against 100 yen:	**CNY 6.4000–6.9100**

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Chinese yuan exchange market opened trading at around CNY 6.98. Thereafter, the Chinese yuan continued appreciating against the U.S. dollar to the CNY 6.93 level, as a result of the media report that the U.S. and China would hold high-level trade talks in the middle of August. However, the U.S. hardened its attitude against Chinese companies in the U.S., and this led the U.S. dollar/Chinese yuan exchange rate to return to the CNY 6.96 level.

Toward the middle of the month, the U.S. dollar depreciated, and the Chinese yuan appreciated, as expectations were growing for the scheduled trade talks between the U.S. and China, while market participants expected that the Federal Reserve Board (FRB) would maintain its measures of monetary easing in the U.S. for a long period. Thereafter, the trade talks that had been scheduled for the middle of the month were temporarily postponed, and the minutes of the Federal Open Market Committee (FOMC) meeting (held in July) were released with content that was less dovish than that expected in the market. As a result, the U.S. dollar/Chinese yuan exchange rate rallied slightly. However, the U.S. dollar/Chinese yuan exchange rate remained low and once fell below the CNY 6.90 level on August 21.

Toward the end of the month, the high-level trade talks between the U.S. and China, which had been temporarily postponed, were held and revealed the commitment of both countries to reach a trade agreement. Furthermore, the media reported on August 27 that China was expected to purchase in 2020 soya beans produced in the U.S. at the highest amount ever recorded. Positively reacting to this news, the Chinese yuan appreciated. Also, FRB Chair Jerome Powell gave a speech at Jackson Hole Economic Symposium, suggesting that monetary easing would continue for a long period, and this was also an element to weaken the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.84 level.

2. Outlook for This Month

In September, the U.S. dollar/Chinese yuan exchange rate is forecast to remain low.

The U.S. suggested that measures of monetary easing would be maintained for a long period. On the other hand, the Chinese monetary authorities have been actively providing funds in the market while avoiding excessive liquidity by limiting targets via the setting of interest rates based on corporate scale (i.e., a medium-term lending facility), along with lowering the reserve requirement ratio (RRR) based on the scale of the banking sector. It should also be mentioned that the LRP (loan prime rate), which is announced every month as the basis for lending interest rates, has been flat for four consecutive months. Chinese yuan interest rates have already been returning to the level before the spread of Covid-19, as expectations for monetary easing, which were growing under the Covid-19 crisis, are now fading.

China is ahead of other countries in shifting from measures to deal with the Covid-19 crisis to measures to normalize the economy. Thus, market participants are looking at differences between the U.S. and China regarding monetary measures and fundamentals, and this is a positive factor for the Chinese yuan in relative terms. The Chinese yuan is therefore forecast to strengthen against the U.S. dollar in the medium-to-long term.

It should be pointed out that, although the U.S. and China revealed their commitment to reach a trade agreement with each other, the opposition between the U.S. and China is becoming fiercer regarding issues related to Hong Kong, the South China Sea, and Chinese companies in the U.S. Thus, risk factors include the possible depreciation of the Chinese yuan based on the deterioration of the relationship between the U.S. and China.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – September 2020

Expected Ranges	**Against the US$:**	**SG$ 1.3400–1.3900**
	Against the yen:	**JPY 76.00–79.00**

1. Review of the Previous Month

In August 2020, the Singapore dollar appreciated against the U.S. dollar.

In July, the Singapore dollar appreciated significantly against the U.S. dollar. Maintaining this trend, the Singapore dollar remained strong since the beginning of the month. As the U.S. dollar weakened due to the fall of U.S. dollar interest rates and the price of gold, not only the Singapore dollar but also the overall currencies of emerging countries appreciated against the U.S. dollar.

Thereafter, on August 6, U.S. President Donald Trump signed an executive order that banned transactions with two Chinese IT companies, as a result of which the currencies of emerging countries weakened due to concerns over the tensions between the U.S. and China. The U.S. dollar temporarily weakened thereafter, as there was no domestic agreement on additional economic measures to respond to the spread of Covid-19 in the U.S. However, this factor was not strong enough to change the trend in the market. As a result, the U.S. dollar/Singapore dollar exchange rate continued fluctuating at the lower-SGD 1.37 level toward the middle of the month.

Subsequently, the U.S. government announced its decision to strengthen restrictions on semiconductor exports by major Chinese telecommunication companies. Thus, the U.S. dollar depreciated significantly toward August 19, as concerns started to grow again over the opposition between the U.S. and China. Following this trend, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.36 level.

However, the minutes of the Federal Open Market Committee (FOMC) meeting were released later on August 19, unexpectedly making additional monetary easing less likely, as a result of which the U.S. dollar rallied. Market participants thus sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.37 level. Furthermore, on August 21, the U.S. economic indices were released with strong figures, and this led the U.S. dollar/Singapore dollar to temporarily rise to the upper-USD 1.37 level.

Thereafter, the currencies of emerging countries started to rally, as U.S. dollar interest rates started to fall and as there was some progress in the trade talks between the U.S. and China. Following this trend, the Singapore dollar also appreciated against the U.S. dollar. The U.S. dollar/Singapore dollar exchange rate was then seen fluctuating at around SGD 1.36 (as of this writing on August 28).

2. Outlook for This Month

In September 2020, the Singapore dollar is forecast to appreciate against the U.S. dollar.

The Singapore dollar has been appreciating since the change in the monetary policy made at the previous Monetary Authority of Singapore (MAS) meeting. Market participants are now waiting for the next MAS meeting scheduled for October to see whether there will be further changes to monetary policy.

At the previous semi-annual meeting, the MAS eased its monetary policy, and it is now carefully observing the core inflation rate in order to secure price stability in the medium term. At the moment, the MAS and the Ministry of Trade and Industry (MTI) both maintain their outlook for annual inflation rate at the range between –1% and 0% for both headline inflation and core inflation. Under such circumstances, the latest inflation rate, excluding accommodation and private transport, and the core inflation rate have been at –0.4%, falling within the estimated range.

These inflation rates are expected to bottom out during this quarter. Furthermore, toward the second half of the year, the tourism industry in Singapore is expected to recover, making it likely that figures would improve based on deflation because the limitation of entry to Singapore eased for tourists from Brunei, New Zealand, Malaysia, and Mainland China.

In terms of GDP, the MTI pointed out the weakness in external demand at the time of the GDP announcement this month. As the exchange rate is an important factor for external demand, a change in the foreign exchange policy could be an appropriate means to improve external demand. However, for Singapore, which has a monetary policy based on foreign exchange, unlike other countries, it is difficult to shift monetary policy. Thus, it is more likely for the existing support measures based on fiscal policy to be maintained in the times ahead, unless there is another negative factor such as a fall of the aforementioned core inflation rate that would be more significant than expected by the Singapore monetary authorities.

Even though domestic factors only have limited impact on the Singapore dollar exchange market, the fact that additional monetary easing is now unlikely is a positive factor for the Singapore dollar. While the most-influential factor remains the situation in the U.S. and China, the Singapore dollar is likely to remain strong in September, as was the case in August, unless there is a negative shift in the situation.

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

Thai Baht – September 2020

Expected Ranges	**Against the US$:**	**THB 30.70–31.80**
	Against the yen:	**JPY 3.32–3.48**

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 31.20 on August 3. Following the bearish trend observed from the end of the previous month, the exchange rate continued falling even further on August 4 and fell to approach THB 31.00 toward August 5. On August 5, the Monetary Policy Committee (MPC) of the central bank of Thailand held a meeting and decided unanimously to maintain the policy interest rate at 0.50%, as had been anticipated in the market. The MPC announced that it was ready to take necessary actions by carefully observing the situation, with concern over the possibility that the appreciation of the Thai baht could negatively impact economic recovery. As a result, the U.S. dollar/Thai baht exchange rate remained high. On August 6, the following day, market participants bought back the U.S. dollar with expectation for the approval of the additional economic measures, while the July CPI of Thailand turned out to be –0.98%, recording a year-on-year decline for the fifth consecutive month. As a result, the U.S. dollar/Thai baht exchange rate rose to approach THB 31.10. Then, on August 7, the July employment statistics of the U.S. were released, and the outcome was stronger than the market estimate, with a lower unemployment ratio. Thus, the U.S. dollar/Thai baht exchange rate rose further to approach THB 31.20.

In the following week, risk-taking sentiment grew in the market on August 10 during overseas trading hours, as the stock market strengthened, led by healthy corporate performance and growing expectations for additional economic measures. As a consequence, the U.S. dollar/Thai baht exchange rate fell again to approach THB 31.10. Toward August 14, the end of the week, the U.S. dollar/Thai baht exchange rate continued falling to approach THB 31.00. However, the exchange rate stabilized again at around THB 31.00. Then, on August 14, the U.S. dollar/Thai baht exchange rate rose slightly, as market participants adjusted their positions, waiting for the outcome of the trade talks between the U.S. and China scheduled for the weekend, along with waiting for the second-quarter GDP of Thailand, released after the weekend. At the end of the week, there was a protest against the current government, and the scale of such was the largest seen since the coup d'état in 2014, fueling political risk. Then, on August 17, the second-quarter GDP of Thailand was announced in the morning, and the result was –12.2% year-on-year, recording the largest decline in 22 years since the 1997 Asian financial crisis. Even though the figure was narrowly above the all-time record, the Office of the National Economic and Social Development Council further revised its Thai annual GDP outlook downward. As a result, market participants actively sold the Thai baht, leading the U.S. dollar/Thai baht exchange rate to rise to approach THB 31.20. On August 19, the media reported that the state of emergency in Thailand due to Covid-19 would be extended until the end of September, increasing political risk even further, along with added tension due to the protests of the previous weekend and in addition to media reports about the arrest of a human rights lawyer. The depreciation of the Thai baht accelerated, and the U.S. dollar/Thai baht exchange rate rose to approach THB 31.30. The exchange rate continued rising with political risk and once approached THB 31.60 toward August 21. On August 21, local time, the economic indices of the euro zone recorded weak figures, while U.S. economic indices turned out to be stronger than expected, and this encouraged market participants to buy back the U.S. dollar. As a consequence, the U.S. dollar/Thai baht pair continued trading at the mid-THB 31.50 level without rising further. In the following week, the U.S. dollar/Thai baht exchange market opened trading at around THB 31.55 on August 24. As was the case in the previous week, the exchange rate continued rising, renewing the monthly high in August in the morning, temporarily approaching THB 31.65. However, the exchange rate fell thereafter, as market participants started to actively sell the U.S. dollar since the exchange rate had reached a certain level. Thereafter, the U.S. dollar/Thai baht exchange rate continued falling intermittently, falling below the THB 31.10 level.

2. Outlook for This Month

In September, the U.S. dollar/Thai baht exchange rate is forecast to remain stable. In August, the exchange rate rose once but in the end returned to the level observed at the beginning of the month. It turned out that the Thai economy recorded its largest decline since the 1997 Asian financial crisis, while there were also political risks, leading the Thai baht to depreciate. However, compared to the currencies of neighboring countries, the Thai baht remains a currency favored by investors, given the situation of Covid-19 being better in Thailand than in surrounding counties, along with a second-quarter GDP that recorded only a relatively small decline. It is seen that the U.S. dollar/Thai baht exchange rate is not likely to fall below the THB 31.00 mark, which is a level never reached at the time of the fall of the exchange rate observed in June and August. For the exchange rate to fall below the THB 31.00 level, there needs to be more-powerful factors. However, there is currently no particular factor that can further strengthen the Thai baht. In the past two months, market participants have been actively selling the U.S. dollar. If the reason for the appreciation of the Thai baht is based on this trend, the exchange rate is likely to remain at the current level in the times ahead. On the other hand, the state of emergency due to Covid-19 was extended for another month, and the domestic situation seems to deteriorate more every month. Due to political confusion within the ruling party, student protests became active, following the example of the protests in Hong Kong. As a result, it seems that movement for democratization has been gaining strength. Under such circumstances, another turning point would be the timing of the decision on the state of emergency being extended until the end of September.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – September 2020

Expected Ranges	**Against the US$:**	**MYR 4.1200–4.2200**
	Against the yen:	**JPY 25.00–25.65**
	Against 100 yen:	**MYR 3.9000–4.0000**

1. Review of the Previous Month

In August, the U.S. dollar/Malaysian ringgit exchange market opened at the MYR 4.24 level. Thereafter, the exchange rate started to fall due to the depreciation of the U.S. dollar as well as the appreciation of the crude oil price. Toward the end of the month, the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.17 level.

The U.S. dollar continued depreciating due to measures to fight the spread of Covid-19, along with a large amount of fiscal expenditures in the U.S. At the beginning of the month, the price of gold reached USD 2,000 for the first time ever. While concerns over terrorism were rising after the explosion in Beirut, the price of North Sea Brent crude oil increased and exceeded USD 46 per barrel. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate fell below MYR 4.2 on August 6 for the first time since March 10, before Malaysia's Restriction of Movement Order. Then, because the June industrial production index also turned out to be significantly stronger than the estimate, the U.S. dollar/Malaysian ringgit exchange rate fell further to the MYR 4.18 level.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate rallied slightly to the MYR 4.20 level on August 10, as a result of strong figures in the employment statistics of the U.S., released on August 7, increasing risks due to the ban on transaction with two major Chinese IT companies and sanctions on Chinese high officials, along with other retaliatory actions by China. Thereafter, market participants took a wait-and-see attitude, waiting for the announcement of the second-quarter GDP, which was expected to be at an all-time low, scheduled for August 14. The GDP growth rate turned out to be significantly weaker than expected, worse than the result of the fourth quarter of 1998 at the time of the Asian financial crisis (–11.2%), recording the largest decline ever recorded. The result was significantly lower than the previous quarter period (+0.7%). However, market participants had already been somewhat prepared for a weak figure, and the impact on the U.S. dollar/Malaysian ringgit exchange market was limited. The exchange rate remained at the MYR 4.20 level. The central bank of Malaysia made a remark that the economy had bottomed out in the second quarter and that recovery was expected in the second half of the year and in 2021, as economic activities were resuming, while revising the GDP growth rate outlook for FY2020 downward from –2.0% to +0.5% to from –5.5% to –3.5%.

After the announcement of the GDP, the U.S. dollar index continued falling and risk factors increased as the U.S. strengthened pressure against China in the high-tech industry, while the cautious sentiment grew concerning the review on the first-phase trade deal. The July CPI turned out to be generally at the same level as expected, recording negative growth for the fifth consecutive month. The decline is mainly a result of the fall of fuel prices. However, the negative figure (–10.3%) was smaller than the result of the previous month. Then, on August 19, the U.S. dollar/Malaysian ringgit exchange rate fell again to the MYR 4.17 level for the first time in five months.

In the last week of the month, demand to buy the Malaysian ringgit recovered, and the U.S. dollar/Malaysian ringgit exchange rate renewed its low at the MYR 4.16 level on August 25. While July exports unexpectedly recorded positive year-on-year growth, the current account surplus also recorded its all-time high for the second consecutive month. Under such circumstances, the Malaysian ringgit remained strong, and monthly trading closed at the MYR 4.17 level.

2. Outlook for This Month

In September, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate between MYR 4.12 and MYR 4.22. While major countries are experiencing a second wave of the Covid-19 crisis, the U.S. dollar has been weakening before the U.S. presidential election. On the other hand, the crude oil price remains stable, and in Malaysia, exports have been recovering and transactions have been increasing since economic activities resumed. The Malaysian ringgit is thus expected to remain strong in September.

In April, the trade statistics of Malaysia recorded a current account deficit on a single-month basis for the first time in 22 years, after which the current account surplus recorded its all-time high in two consecutive months in June and July. This could be the result of backorders that had been suspended due to the order to restrict activities. However, there have also been signs of recovery, such as in the June industrial production index. Malaysia is increasingly dependent on China as a trade partner, and external demand has been the first to recover.

The second-quarter GDP turned out to be the worst ever recorded, and in terms of the monthly result, the GDP of Malaysia recorded a decline of approximately 30% year-on-year in April and approximately 20% year-on-year in May. However, in June, the decline was only around 3%—much less significant than the preceding months. As was mentioned above, the central bank of Malaysia revised its GDP growth rate outlook downward for FY2020 on the same day as releasing the report. However, the central bank also expected recovery in the second half of the year, as well as in FY2021 (+5.5% to +8.0%). The U.S. dollar remains weak due to the tensions between the U.S. and China—the focus of which returned to intellectual property rights as well as the forthcoming presidential election. Under such circumstances, most local exporting companies are to carry out settlement within three months, and this is likely to encourage Malaysian ringgit-buying based on actual demand.

The July CPI turned out to be negative for the fifth consecutive month. The core inflation index also recorded a slight decline from the previous month, at +1.1%. It is still possible for the overnight policy interest rate to be cut additionally from 1.75% from the point of view of both the growth rate and the inflation rate, which the central bank has been observing. At the end of July, the Malaysian government announced its decision to extend the loan moratorium targeting individuals as well as small and medium-sized enterprises. This time, however, individual application to financial institutions was made part of the condition, possibly in order to reduce burden on such institutions.

On the other hand, there has been positive net flow from foreign investors to the Malaysian government bond market in the last three months based on expectation for the central bank's gradual interest rate cuts. It is likely for the interest rate to be cut by 0.25% at the next policy interest rate meeting scheduled for September 10, in order to reduce burden on individuals that take out housing loans. Thus, the additional interest rate cut is likely to be reflected in the domestic bond market yields as well as in the fall of the short-term KLIBOR base rate, supporting the Malaysian ringgit in terms of supply & demand.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – September 2020

Expected Ranges	**Against the US$:**	**IDR 14,400–15,000**
	Against 100 rupiah:	**JPY 0.71–0.75**
	Against the yen:	**IDR 133.33–140.85**

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,600 level on August 3. On the same day, the July CPI of Indonesia was also announced, and the result turned out to be 1.54%, falling below 2%—as was also the case in June. Even though this result was significantly lower than the target range set out by the central bank, the impact on the foreign exchange market was limited. Toward August 5, the U.S. dollar weakened, and the Indonesian rupiah remained strong. On the same day, the second-quarter GDP of Indonesia was announced, and the result turned out to be weak, at –5.32%. However, this also did not significantly impact the foreign exchange market. On August 6, the following day, the U.S. dollar/Indonesian rupiah exchange rate once fell below IDR 14,500, and the Indonesian rupiah appreciated against the U.S. dollar to the upper-IDR 14,400 level, which turned out to be the monthly high. Then, on August 7, the following day, the tensions between the U.S. and China heightened, weakening the overall Asian currencies. Following this trend, the U.S. dollar/Indonesian rupiah exchange rate was pushed back to the upper-IDR 14,600 level. Thereafter, the Indonesian rupiah weakened further, as the central bank of Indonesia directly bought Malaysian government bonds worth IDR 82 trillion for the first time after the agreement between the central bank and the government to jointly take responsibility for measures against the spread of Covid-19. In the following week, the Indonesian rupiah remained weak on August 10 and thereafter. It seems that there was a dividend payment made to foreign stockholders, and this strengthened pressure to sell the Indonesian rupiah. The result was that the Indonesian rupiah depreciated against the U.S. dollar. As a result, at the end of the week, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,900 level on August 14. It should also be mentioned that the Indonesian government also announced the budget bill for 2021 on the same day, setting out the fiscal deficit target at 5.5% of GDP and announcing that the central bank would cooperate to finance the financial deficit in 2021. Thus, concerns grew over fiscal financing.

In the second half of the month, the July trade balance of Indonesia was announced on August 18, and imports continued declining further. Even though the trade surplus turned out to be significantly high, recording approximately USD 3.2 billion, the Indonesian rupiah remained weak. On August 19, the following day, the central bank of Indonesia held its monetary policy meeting and decided to maintain the seven-day reverse repo rate—the policy interest rate of Indonesia—at the existing level. The central bank made a remark to underline that the current monetary policy is appropriate given that the inflation rate is expected to remain low. The central bank also revealed its plan to discuss a government bond purchase for next year. Then, on August 24, after consecutive holidays, the central bank of Indonesia announced its decision to introduce a new restriction to make it obligatory for major companies exporting natural resources to exchange part of their income in foreign currencies into Indonesian rupiah. In reaction, the Indonesian rupiah appreciated in the offshore NDF market. Under such circumstances, the Indonesian rupiah recovered, and the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,600 level on August 26. Thereafter, the U.S. dollar/Indonesian rupiah pair continued trading mainly at the IDR 14,600–14,700 level based on demand to buy the U.S. dollar at the end of the month (as of market closing on August 28).

2. Outlook for This Month

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

In Indonesia, the spread of Covid-19 remains a serious issue, slowing down the domestic economy. However, as has been mentioned several times in this article, central banks have been providing large amounts of liquidity to the market while repeatedly cutting interest rates. Central banks are thus supporting risk assets such as stocks. The Indonesian bond and stock markets have also been supported by such measures, contributing to the stability of the Indonesian rupiah market. In August, Federal Reserve Board (FRB) Chair Jerome Powell set out a new target for average inflation of 2% in the U.S., suggesting the possibility to allow the inflation rate to temporarily overshoot the target. The monetary easing thus continues further, supporting the Indonesian rupiah market.

Indonesia's imports continue to decrease significantly, and the trade balance recorded a large amount of surplus again in July. It can be said that there is less rupiah-selling based on actual demand, weakening downward pressure on the Indonesian rupiah. Furthermore, as was discussed above, there is a new regulation to make it obligatory for major companies exporting natural resources to exchange part of their income in foreign currencies into the Indonesian rupiah in order to keep the Indonesian rupiah from depreciating. It seems that the central bank of Indonesia has been taking active measures to stabilize the Indonesian rupiah market so as to create more room for further interest rate cuts in order to tackle the weakness in inflation and in the domestic economy. However, it would be difficult for the central bank to cut the interest rate further from the current level.

On the other hand, there are persistent concerns that could lead to the depreciation of the Indonesian rupiah. In July, the direct purchase of Indonesian government bonds by the central bank and by the Ministry of Finance of Indonesia was reported sporadically, which is a negative factor for the Indonesian rupiah. Possibly because of this, the purchase of Indonesian government bonds by foreign investors has been temporarily suspended. Market participants should continue to look out for new media reports regarding any direct purchase of government bonds.

For the above reasons, there are mixed factors in the market, and the U.S. dollar/Indonesian rupiah exchange rate is likely to fluctuate in both directions in September, without moving into any particular direction, as was the case in August.

Yoichi Hinoue, Manila Treasury Office, Asia & Oceania Treasury Department

Philippine Peso – September 2020

Expected Ranges	**Against the US$:**	**PHP 47.80–49.15**
	Against the yen:	**JPY 2.15–2.21**

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Philippine peso exchange market opened trading at PHP 49.15 to the U.S. dollar—the same level as the closing rate of the previous week.

Metropolitan Manila was again in lockdown, and May Overseas Filipino Workers (OFW) remittances recorded their largest year-on-year decline since January 2001, at –19.3%, and both encouraged market participants to sell the Philippine peso. However, the U.S. dollar/Philippine peso exchange rate only rose to PHP 49.185—the monthly high in August for the U.S. dollar.

On August 5, the July Consumer Price Index of the Philippines was announced, and the result was +2.7% year-on-year, recording the highest figure in six months and exceeding 2.5%—the result of the previous month and the market estimate. Furthermore, the June trade deficit of the Philippines turned out to be USD 1.33 billion, falling below the market estimate (a deficit of USD 1.6 billion). The trade deficit of the previous month was revised downward from USD 1.87 billion to USD 1.32 billion.

As a consequence, the Philippine peso strengthened. However, on August 6, the second-quarter GDP of the Philippines was announced, and the result was –16.5% year-on-year—recording the largest decline since 1981 and recording a decline for the second consecutive quarter. This led to the worst economic decline in 29 years. Thus, the U.S. dollar/Indonesian rupiah exchange rate did not fall below the PHP 49 level.

After the announcement of the July employment statistics of the U.S., the U.S. dollar/Philippine peso exchange market opened trading at PHP 49.05 on August 10. Thereafter, Asian currencies strengthened against the U.S. dollar thanks to the strength of the U.S. stock market. Following this trend, the U.S. dollar/Philippine peso exchange rate fell below the PHP 49 level on August 11.

The Philippine peso remained strong in the middle of the month. On August 19, the lockdown in Metropolitan Manila was eased, and the June OFW remittances turned out to be USD 2.47 billion, with positive growth of 7.7% year-on-year, recording positive growth for the first time in three months, and this was seen positively in the market.

After the release of the minutes of the Federal Open Market Committee (FOMC) meeting in the U.S., the U.S. dollar/Philippine peso exchange rate temporarily stabilized. However, the governor of the central bank of the Philippines, Benjamin Diokno, made a remark to underline that the current bank deposit reserve ratio is at an appropriate level and that the Philippine peso liquidity level is too high, while admitting that further fiscal measures are necessary. Furthermore, he expressed his attitude to leave the foreign exchange rate to the market, which led the Philippine peso to continue appreciating for 11 consecutive months. The Philippine peso reached PHP 48.485 to the U.S. dollar—the highest rate for the Philippine peso since November 4, 2016. The monthly onshore trading in August closed at this level.

2. Outlook for This Month

The Philippine stock index once recovered to the 6,000-point level in August. However, the index fell below the 6,000-point level again and reached 5,884.18 points at the end of the month. There was also a net sell by foreign investors in the last two weeks of August.

The July foreign security investment announced by the central bank of the Philippines revealed an outflow of USD 450 million—recording an outflow for the fifth consecutive month.

The speech by Federal Reserve Board (FRB) Chair Jerome Powell was generally in line with the expected content. Therefore, in terms of long-term interest rates in the U.S., the U.S. 10-year government bond yield rose to reach the 0.76% level for the first time in 2.5 months, offsetting the effect of expectations for monetary easing.

Given the above factors and depending on the July trade balance of the Philippines, as well as the July OFW remittances, it is possible for the Philippine peso to depreciate against the U.S. dollar or for the appreciation of the Philippine peso to slow down. However, as long as the stock market in the U.S. remains strong, the Philippine peso is generally forecast to remain robust.

Then, on August 20, the central bank of the Philippines decided to maintain its policy interest rate at the existing level, as had been anticipated in the market. It is now time to evaluate the effect of the interest rate cuts carried out since the beginning of the year, leaving room for further interest rate cuts for the second half of the year. Interest rates have stopped falling for now, and this is also likely to support the Philippine peso market.

As of this writing, in the past two weeks, the U.S. dollar index has not been moving into any direction. However, the U.S. dollar is likely to weaken again after the speech by FRB Chair Jerome Powell.

The Asian currency index has also returned to the level observed at the beginning of the year, clearly exceeding the level before the Covid-19 crisis—recording positive growth for the sixth consecutive week.

As was mentioned above, the governor of the central bank of the Philippines, Benjamin Diokno, made a remark that he would leave the U.S. dollar/Philippine peso exchange rate to the market (although it is difficult to expect market intervention to raise the level of the exchange rate). However, it is possible for the central bank to maintain the exchange rate at a certain level as part of smoothing operation.

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

Indian Rupee – September 2020

Expected Ranges	**Against the US$:**	**INR 72.00–76.00**
	Against the yen:	**JPY 1.38–1.48**

1. Review of the Previous Month

In August, the U.S. dollar/Indian rupee exchange rate fell to the lowest level in five months.

In August, the U.S. dollar/Indian rupee exchange market opened trading at INR 74.91. The exchange rate exceeded the INR 75 level since the beginning of the month, reaching the monthly high at INR 75.18 on August 4. On the other hand, there were also positive factors, such as the U.S. manufacturing index, which reached its highest level in 18 months, as well as the seven-day average number of new Covid-19 cases, which fell below 50,000 in the U.S. As a consequence, the U.S. dollar/Indian rupee exchange rate recovered to the INR 74 level, after which the interest rate continued fluctuating in both ways. On August 6, a monetary policy meeting was held in India, and the policy interest rate was maintained at the existing level. Before this announcement, the market estimate was divided between a cut of the interest rate and maintaining the interest rate at the existing level. However, the impact of this decision was limited in the foreign exchange market, and the U.S. dollar/Indian rupee exchange rate remained flat.

In the second week of the month, the media reported that U.S. President Donald Trump had signed an executive order to restrict transactions with two major Chinese social media networks, which lead the U.S. dollar/Indian rupee exchange rate to reach the INR 75 level again. However, the exchange rate did not move further. Thereafter, local banks in India announced dividends for existing stockholders as well as the issuance of new stocks, attracting market attention to possible investment capital inflow from abroad (i.e., selling the U.S. dollar and buying the Indian rupee). As a consequence, the U.S. dollar/Indian rupee exchange rate fell from the INR 75 level. The Consumer Price Index of India was also announced, the result of which exceeded the estimate. Thus, expectation for an interest rate cut by the central bank faded in the market, encouraging market participants to buy the Indian rupee. The U.S. dollar/Indian rupee exchange rate thus temporarily fell below INR 74.75, which was considered to be the psychological turning point. However, the central bank of India intervened in the market immediately in order to control the appreciation of the Indian rupee.

During the first half of the third week of the month, the U.S. dollar/Indian rupee exchange rate continued hovering at around the upper-INR 74.80 level. However, upward pressure on the Indian rupee strengthened thereafter based on factors related to the weak U.S. dollar, such as the value of accumulated U.S. dollar short positions, which reached their highest level in nine years in the currency futures market. As a result, the U.S. dollar/Indian rupee exchange rate fell to INR 74.69 at the market opening of August

19. However, the central bank of India intervened in the market again, squeezing short positions. On August 20, the following day, the minutes of the Federal Open Market Committee (FOMC) meeting were released in the U.S., and the contents of such turned out to not be as dovish as expected, encouraging market participants to buy the U.S. dollar. Thus, the U.S. dollar/Indian rupee exchange rate recovered to the USD 75 level. However, there was also some pressure to sell the U.S. dollar at this level, and the exchange rate did not stay at this level for a long time, returning to the INR 74 level thereafter.

In the fourth week of the month, the trend changed, and foreign banks started buying the Indian rupee, having seen the Indian stock prices reach their highest level in five months. Under such circumstances, the U.S. dollar/Indian rupee exchange rate fell below INR 74.75 and then below INR 74.50. The central bank of India, which for a long time intervened in the market to defend this level, did not intervene in the market this time. As a result, the interest rate fell further to INR 74.28. On the following day and the day after, the state-run bank bought the U.S. dollar, based on market intervention, in the morning when the RBI fixing rate was calculated, raising the exchange rate to some extent. However, this did not change the trend in the market. On August 27, the U.S. dollar/Indian rupee exchange rate started to fall rapidly in the afternoon. In less than two minutes, the exchange rate fell below INR 74.00 from INR 74.20. With some transactions to minimize losses by those that had U.S. dollar long positions, the U.S. dollar/Indian rupee exchange rate reached INR 73.81. On August 28, the following day, the exchange rate did not stop falling and finally reached its monthly low at INR 73.28. The exchange rate returned to INR 73.40 at 2:00 p.m. of August 28. As was the case with the stock market, the U.S. dollar/Indian rupee exchange rate also recovered to the level before the lockdown in India.

2. Outlook for This Month

In September, the U.S. dollar/Indian rupee exchange rate is forecast to remain low, fluctuating in both directions.

As was discussed in the last month, the Indian rupee has appreciated based on the weak U.S. dollar. As a domestic factor in India, the country's central bank decided to maintain the policy interest rate at the existing level. However, as was mentioned above, the impact of this on the foreign exchange market was limited. On the other hand, steady capital inflow from foreign investors continued, thanks to local companies with a need to procure funds, as well as due to the rise of stock prices. Market participants had always expected the Indian monetary authorities to intervene in the market, in order to balance Indian rupee-buying. However, in August, despite some market interventions, the U.S. dollar/Indian rupee exchange rate continued falling below the INR 74.50 mark, i.e., the INR 74.25 mark and then the INR 74.00 mark, betraying the expectations in the market.

With regard to market interventions, it is difficult to predict decisions by the Indian monetary authorities. However, there are two things that are clear: (1) the central bank of India decides whether or not to intervene in the market not based on the particular level of the U.S. dollar/Indian rupee exchange rate but in order to avoid any violent fluctuation in the market, and (2) the governor of the central bank of India often refers to the real effective exchange rate in his speeches, and the Indian rupee real effective exchange rate is currently at a neutral level, neither too low nor too high, from a long-term perspective.

It can therefore be said that the Indian rupee is unlikely to appreciate to immediately reach the INR 72 level based on the above (1), although the central bank of India does not have any intention to keep the U.S. dollar/Indian rupee at the INR 75 level given (2). Thus, market participants should be attentive of the aforementioned capital inflow from abroad, the crude oil price, and India's imports.

Thus, the U.S. dollar/Indian rupee exchange rate is forecast to mainly remain low at the existing level, although market participants need to continue observing the trends in the U.S. dollar market, as has been the case so far.

This report was prepared based on economic data as of September 1, 2020.