Mizuho Dealer's Eye

December 2020

Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – December 2020

Expected Ranges **Against the yen: JPY102.00–106.50**

1. Review of the Previous Month

In November, the dollar/yen pair jostled up and down around the mid-104 yen mark while monitoring the results of the US presidential election that took place early in the month. The pair rose to the mid-105 yen level for a time as risk aversion eased on hopes for the progress in a Covid-19 vaccine development. However, the number of Covid-19 cases then surged again in the US and Europe, while US interest rates fell. With concerns also smoldering about who Joe Biden would appoint to his cabinet when he became president, the pair moved with a heavy topside, with its downside edging lower over the latter half of the month.

Dollar selling prevailed and the pair fell to the mid-104 yen mark on November 3 as investors adjusted their positions ahead of the US presidential election. However, the greenback was bought after polls opened the following day when it was reported that President Trump was in the lead. This news ran contrary to market expectations, with the pair subsequently climbing to 105.35 yen while activating stop losses. Dollar buying then eased on news that Joe Biden was winning. Furthermore, though the FOMC kept policy unchanged as expected when it met over November 4–5, it did voice concerns about a resurgence of Covid-19, so the dollar was sold on risk aversion, with the pair sliding to temporarily hit a monthly low of 103.18 yen on November 6. However, the pair then bounced back to the 103.70 yen level on the better-than-expected results of the October US employment data. A Biden victory also seemed more likely in the presidential election, while news also emerged that a Covid-19 vaccine had performed extremely well in clinical trials. As risk appetite swept the markets, US stocks rocketed and the dollar/yen pair also strengthened to 105.64 yen.

With Japanese investors then selling the dollar on real demand, the pair dropped to the 104.80 yen level during Tokyo trading time on November 10, but with US and European stocks moving firmly and US interest rates rising on November 11, the pair rallied to a weekly high of 105.68 yen. Dollar selling prevailed over November 12–13 amid a dearth of any noteworthy factors, so the pair fell to the mid-104 yen level.

The pair then bounced back to 105.13 yen on November 16 on new positive headlines about the development of a Covid-19 vaccine, though it then dropped back on the release of some bearish US economic indicators. As investors focused again on the Covid-19 outbreak, risk aversion intensified and the pair tumbled to the upper-103 yen mark on November 18. The pair floated around the upper-103 yen mark over November 19–20 amid a mood of risk aversion.

The US released some better-than-expected November PMIs on November 23, so the pair strengthened to the upper-104 yen mark. However, a wait-and-see mode then prevailed as investors focused on who would fill the top posts in the new Biden administration, so dollar buying was short-lived and the pair weakened to the mid-104 yen level. The September Case-Shiller Home Price Index significantly beat market expectations on its release on November 24, with the pair subsequently climbing to 104.76 yen, though it then moved with a heavy topside to weaken to the lower-$1.04 yen mark. The pair edged down from the mid- to the lower-104 yen level around

November 25–27 amid a lack of momentum ahead of the US Thanksgiving holiday.

With Japanese real-demand investors converting funds into yen at the end of the month, the pair weakened to the upper-103 yen mark on November 30.

2. Outlook for This Month

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

There are positive factors related to the progress in a Covid-19 vaccine development, but the economy is slowing and this situation is unlikely to change in the near future. Covid-19 cases are also surging again in the US, Europe and elsewhere, so there remain concerns about an economic downturn due to the pandemic. These negative factors will probably act to weigh down the pair's topside. Though US stocks surged for a time last month, it seems the pair's topside was weighed down by the fact that US interest rates only had limited room to climb. With the number of Covid-19 cases surging, new lockdowns were introduced alongside tougher restrictions on travelling outside, so consumer sentiments remained in the doldrums. As investors focus on the discrepancy between the performance of the real economy and financial markets, there are concerns that market expectations might deteriorate going forward. The dollar/yen pair might also be weighed down by dollar selling on concerns about the excess supply of dollars (due to Covid-19 countermeasures) and the huge US fiscal deficit.

As for indicators, the Dollar Index has dropped close to its level from September 1, which in turn marked its lowest level since April 2018, with dollar selling intensifying. Major events this month include the December 10 ECB meeting and the December 15–16 FOMC meeting, with major central bank monetary policy meetings for the last time this year. The FOMC will probably stick to its pledge of keeping interest rates at zero until the end of 2023. There has also been some speculation recently that the FOMC will increase its purchases of US treasuries. If the FOMC does introduce some new easing measures or if it issues a dovish forward guidance, for example, US interest rates will probably face downward pressure, with the dollar subsequently sold. However, ECB president Christine Lagarde has also dropped hints about further ECB easing at recent speeches and so on, so although the euro has been moving firmly of late, it is also likely to move heavily this month. As such, market investors should be on guard against an unwinding of the recent trend of euro buying and dollar selling.

In the US, the administrative transition to the new Biden administration has begun. Investors are watching closely to see who fills the top posts. The greenback had moved bearishly on rumors that FRB board member Lael Brainard would be appointed treasury secretary, but most recently it seems more likely that former FRB chief Janet Yellen will be tapped for the job, so excessive concerns are easing off. With Covid-19 cases surging again, though, it seems fiscal expansion will be the order of the day whoever takes the job, with the currency pair's topside likely to remain heavy. The pair looks set to gradually edge lower towards the year's end as investors focus on the aforementioned risk-off factors and the possibility of a flash crash around the turn of the year, for example.

Dealers' Market Forecast

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

Bullish on the dollar	8 bulls	106.00 – 103.00	Bearish on the dollar	13 bears	105.50 – 102.00

* Ranges are central values

Tanaka	Bear	106.00 – 102.00	With speculation brewing about the distribution of a vaccine, concerns about the Covid-19 outbreak will only have a limited impact on the dollar/yen pair. Amid a dearth of new factors, the pair will probably continue trading with a heavy topside whilst swinging between dollar selling and yen selling. Investors are watching to see if the FOMC strengthens its guidance on asset purchases. This is a further reason why dollar selling looks set to continue.
Takeuchi	Bear	105.50 – 102.50	Hopes and uncertainty about the US presidential election and a Covid-19 vaccine are gradually waning, though there is a strong sense of a dollar glut in the wake of moves to provide liquidity. The dollar/yen pair's topside will also be held down by hearty selling appetite among Japanese exporters and institutional investors, for example.
Tsutsui	Bull	106.00 – 103.00	Attention is focused on the appointment of Janet Yellen as the next treasury secretary. The markets are pricing in her key stance of dollar strength. There are also limits to how much more fiscal mobilization and liquidity provision will be on the table, so the money supply will probably level off. These factors suggest the dollar will probably start moving bullishly again.
Kato	Bull	106.50 – 103.00	It seems Janet Yellen will be the new US treasury secretary. Covid-19 vaccines will also be rolled out going forward, while it seems speculators have over-extended their yen long positions. Furthermore, the authorities will not want to see the dollar/yen pair heading toward the 100 yen mark. Based on the above, it seems the yen will move bearishly against the greenback this month.
Yamagishi	Bear	105.50 – 102.00	The dollar and yen will both be prone to trading in the same direction, so the dollar/yen pair will probably move with a lack of direction. There are concerns about the economic impact of the Covid-19 resurgence in the US. The FRB will probably remain in easing mode for now as it seeks to head off the risk of interest rates rising on the back of fiscal expansion. The currency pair will continue to move bearishly.
Ushijima	Bull	106.00 – 103.00	Investors have built up dollar short positions this year on excess dollar liquidity, but the greenback will probably be bought back toward the year's end. Amid concerns that the authorities will intervene when the dollar/yen pair hits the lower-103 yen mark, the yen's room on the upside will probably be capped.
Tasaka	Bear	106.00 – 102.00	As the FRB remains in easing mode, it seems stocks will continue to rise and the dollar will continue to be sold. With the US and Europe entering Christmas holiday season, liquidity will probably fall further, so investors should be on guard against erratic trading.
Omi	Bull	105.70 – 103.20	The dollar will be bought back at a gentle pace. The backdrop to this will be firm US stock movements and expectations for prolonged low interest rates and new fiscal policies. Pre-Christmas trading will mainly take place until around mid-December, with the dollar likely to strengthen against the yen.
Ueno	Bear	105.00 – 101.00	Funds have continued to flow into stock markets on the back of the fiscal mobilization and liquidity provision introduced during the Covid-19 crisis. There is a sense of excess dollar liquidity in the foreign exchange markets, so the greenback is facing selling pressure. There is a dearth of events that could change things, with the dollar/yen pair likely to continue trading with a heavy topside.
Yamaguchi	Bear	105.50 – 102.00	The markets are likely to remain in risk-off mode on the rise of Covid-19 cases and hospitalizations across the world. The sluggishness of the labor market recovery in the US is also becoming more apparent, while the FRB is expected to strengthen its forward guidance. As a result, the dollar/yen pair looks set to continue trending lower.
Kai	Bear	105.00 – 102.00	The pace of the Covid-19 outbreak in the US is slowing and there have been several reports about the roll-out of a vaccine. However, the FOMC will probably remain in easing mode considering how long it will take to actually roll out the vaccine, so US interest rates are unlikely to rise. As investors focus on real-demand moves to convert funds into yen, the dollar/yen pair looks set to continue trading with a heavy topside.
Onozaki	Bull	105.00 – 102.00	Given the resurgence of Covid-19, shrinking Japanese/US interest-rate differentials, and ongoing FRB easing, investors will find it hard to actively but the dollar. However, yen shorts have accumulated to high levels, so there will probably be some short-term unwinding toward the year's end, with the dollar/yen pair's downside also capped by hopes about a Covid-19 vaccine.

Tamai	Bear	105.50 – 102.50	The FOMC may discuss extending the duration of its asset purchases and so on at its next meeting, with the FRB likely to continue easing for now. Given this, it seems the dollar will remain bearish for the time being. However, the dollar and yen will both be susceptible to selling on hopes for a Covid-19 vaccine, so the dollar/yen pair's movements will be capped.
Harada	Bear	105.50 – 102.50	The Covid-19 resurgence will be a factor of concern this month. The pandemic continues to rage across the US and Europe, with any economic recovery likely to be delayed. As such, the dollar is likely to remain bearish as long as the FRB continues to pursue easing.
Oba	Bull	105.50 – 103.50	There remains speculation about whether the dollar/yen pair will remain at the psychologically-important 104 yen mark. Exporters also seem in no rush to sell the pair when it drops below 104 yen, so it seems investors are waiting for the pair to recover to the 105 yen range. With interest-rate differentials having shrunk, there are growing concerns about yen bullishness, but the dollar will also be supported, so the pair's room on the downside will probably be capped.
Katoono	Bear	106.50 – 102.00	Despite smoldering expectations for the development of a vaccine, there are also lingering concerns about an economic slowdown on the current Covid-19 resurgence, with this likely to prove a risk-off factor. The US is also likely to remain in strong easing mode when it comes to financial and fiscal policy, so the dollar/yen pair's downside looks set to edge lower this month.
Kobayashi	Bear	105.50 – 102.00	With Covid-19 continuing to rage across the world, investors will probably remain in risk-off mode. There seem to be no signs of an employment or consumption recovery in the US in particular, so market participants will find it hard to buy the dollar, with the dollar/yen pair set to move bearishly.
Henmi	Bear	105.50 – 102.00	There is an excess supply of dollars, so until this situation changes substantially, the greenback will continue to face strong downward pressure, with the dollar/yen pair likely to move bearishly. The low-interest-rate environment looks set to continue, so investors should be wary of the pair dropping below 103 yen.
Otani	Bear	105.50 – 102.50	There remain deep-rooted concerns about stalling economic activity in the US on the Covid-19 resurgence, with the FRB likely to remain cautious about the outlook from here on. Under these circumstances, US interest rates are unlikely to rise, with the dollar/yen pair likely to remain bearish.
Suzuki	Bull	106.00 – 103.20	The dollar/yen pair will be supported when it drops below 104 yen, so investors will find it hard to test the low that the pair hit directly after the presidential election. Dollar short positions have built up on a sense of excess liquidity, but there will probably be some buy-backs, so the pair looks set to rise.
Okuma	Bull	106.00 – 103.00	US stocks are moving bullishly at record highs. These stocks will also be boosted by fiscal expansion by the upcoming Biden administration. As such, the dollar will probably be sold on risk appetite, with the dollar/yen pair set to trade with a heavy topside.

Yasunori Ooba, Global FI Team, Global Markets Trading Department

Euro – December 2020

Expected Ranges	**Against the US$: US$1.1875–1.2050**
	Against the yen: JPY123.00–126.50

1. Review of the Previous Month

The dollar was sold and the euro bought after the presidential election last month, with the euro/dollar pair renewing recent highs at the end of the month to rise to the mid-$1.19 mark.

After opening the month trading at the lower-$1.16 level on November 2, the pair rose to the upper-$1.16 mark after Europe released some bullish PMIs and stock markets rose as investors adjusted their positions in the run up the US presidential election. The greenback was also sold on November 3, with the pair edging up to the lower-$1.17 mark. It then climbed to the upper-$1.17 level on November 4 on expectations that Joe Biden would score a big victory. However, the election gradually turned out to be tighter than expected, so the dollar was bought back and the pair plummeted to $1.1602, though it then rallied to the $1.17 range on firm stock movements. It temporarily hit $1.1860 on November 5. After soaring, though, US stocks now saw their gains pared back, with the currency pair also dipping down to the upper-$1.17 level. However, the greenback was sold again and the pair strengthened to the lower-$1.18 mark after FRB chair Jerome Powell gave a dovish press conference after the FOMC meeting. As it seemed more likely that Joe Biden would win the presidential election, US political uncertainty receded and the dollar was sold, with the currency pair temporarily hitting $1.1891 for the first time since September 15.

The pair rose to $1.1920 on November 9 on hopes for vaccine development, but the dollar then saw some option-related buying, so the pair dropped back below $1.18. The pair moved in a range around the lower-$1.18 level on November 10. It then fell to $1.1745 on November 11 after ECB president Christine Lagarde dropped hints about further easing. Amid a dearth of new factors, though, the pair continued moving at the lower-$1.18 level.

The pair opened November 16 trading at the mid-$1.18 mark. Japan, China, South Korea and 12 other East Asian nations then put their names to the Regional Comprehensive Economic Partnership Agreement. This led to risk-on dollar selling, with the euro/dollar pair moving firmly as a result. The greenback was then bought and the pair fell to $1.1815 as US interest rates rose on news about the progress in vaccine development. On November 17, this risk appetite saw the dollar being sold against the RMB (a high-interest currency). With the pound and other European currencies also moving strongly, the euro/dollar pair rose to just below $1.19. US interest rates rose again and the pair fell to the mid-$1.18 mark on November 18 on reports about an effective vaccine. The euro moved with a heavy topside on November 19 on concerns about a Covid-19 resurgence, with the currency pair tumbling to the lower-$1.18 level. The pair then climbed to the upper-$1.18 mark on reports that the EU and UK might be announcing a trade deal on November 23.

With Tokyo on holiday on November 23, the pair fell to $1.1800 for a time as the dollar was bought back on some bullish US economic indicators, though it then moved firmly to rally to the mid-$1.18 mark. Germany's final 3Q GDP figure was released on November 24 and it beat expectations, with the pair subsequently rising to just below $1.19. It strengthened to $1.1930 on November 25 and then traded around $1.1920 in advance of the following day's Thanksgiving holiday. Market expectations for further quantitative easing at the December 16 FOMC meeting then intensified on the release of the FOMC minutes on November 26, with the pair then rising to

$1.1941 on euro buying. The pair topped previous-day highs to hit $1.1962 at the weekend. It then closed the month trading at this level.

2. Outlook for This Month

The ECB is expected to ease when it meets in December, so attention will focus on the contents of the ECB Governing Council meeting. The ECB has not managed to restrain the recent trend of euro bullishness. In fact, with the minutes to the recent FOMC meeting suggesting that the FRB will continue to pursue easing for a prolonged period, it seems the euro/dollar pair could continue moving firmly from here on. The pair recently hit the $1.19 range for the first time since May 2018, but it will probably take some new factors to push the pair over the psychologically-important $1.20 mark. After testing the pair's topside on several occasions, investors will probably push the pair up to around the mid-$1.20 level. After a round of buying, the pair is then likely to return to the mid-$1.19 mark on year-end position adjustments.

The ECB Governing Council will probably stick with its accommodative stance when it meets on December 10. ECB president Christine Lagarde and ECB chief economist and board member Philip R. Lane have dropped several hints about strengthening the Pandemic Emergency Purchase Programme (PEPP) or the third targeted long-term refinancing operation (TLTRO3). With the minutes to the Governing Council meeting also containing no surprises, the euro/dollar is moving firmly in the $1.19 range. Out of the ECB, FRB and Bank of Japan (BOJ), though, the ECB is the only body expected to introduce further easing when it meets in December, so the ECB meeting will mark the last noteworthy monetary policy event this year. Some observers suggest Mr. Lane holds the reins when it comes to policy administration. When questioned by this writer about the criteria for suspending the PEPP, Mr. Lane replied that the PEPP would not be brought to an end until certain conditions were met. As to what 'certain conditions' are, Mr. Lane stated that the first condition is that the pandemic is not interrupting economic activity. He also added that the ECB needed to set criteria for assessing the economic recovery and inflation trends. He added that it was "still too early" to discuss the latter. As for how the next Governing Council might pan out, Mr. Lane explained that the ECB was planning to continue to the PEPP until the end of June 2021, though it maintained that it would keep the program in place until the crisis had passed. This suggests the end-of-June deadline might be extended until at least the end of December. With dollar trends clearly shaping the euro/dollar pair's movements, any easing moves by the ECB will only have a marginal impact on keeping euro bullishness in check. With the ECB already signaling its intentions to ease, it is likely the markets have thoroughly priced in such a move. If the December 10 ECB Governing Council meeting does not clearly exceed market expectations, there are concerns this could invite euro buying.

EU heads of state are also scheduled to meet over December 10–11. Attention will also focus on the Brexit negotiations that restarted last weekend. It seems the UK will not be ready to fully withdraw from the EU by January 1, 2021, so there will probably be a 3-to-6-month extension to the interim period on the pretext that this would merely be a temporary postponement or a preparatory period. Reports suggest that negotiations remain fraught, but past movements suggest this process of gradually inching forward will lead to euro buying.

The theme this month will probably be whether the pair can test the psychologically-important $1.20 mark.

Dealers' Market Forecast

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

Bullish on the euro	12 bulls	1.2100 – 1.1800	Bearish on the euro	9 bears	1.2050 – 1.1650

* Ranges are central values

Tanaka	Bear	1.2100 – 1.1700	Europe faces many negative factors, such as the Covid-19 outbreak, EU budget talks and stormy Brexit negotiations, but the euro/dollar pair is being impacted more by dollar selling and supply and demand conditions. Though dollar selling looks set to continue, the pair's topside will be capped by a sense the pair is now at a good level, for example, or by concerns that the ECB will intervene to restrain euro bullishness.
Takeuchi	Bull	1.2200 – 1.1700	Given the Covid-19 situation in Europe and the ECB's monetary policies, there seems a dearth of factors that would prompt active buying at the euro/dollar pair's higher price. However, the dollar is becoming less attractive owing to a sense of over-abundance, so the euro may move strongly by comparison.
Tsutsui	Bear	1.2100 – 1.1600	The ECB (board member Philip R. Lane) has pledged to stop yield curves from steepening. With the risk of an economic slump also smoldering away, market participants are pricing in concerns about sovereign risk and a deterioration of fundraising conditions (both factors that could prevent fiscal expansion).
Kato	Bear	1.2050 – 1.1600	Though not fully effective, a Covid-19 vaccine will soon be rolled out across the US. This will support the dollar. It also seems likely that the authorities will intervene to stop the euro growing any stronger.
Yamagishi	Bull	1.2100 – 1.1800	With the dollar moving bearishly, the euro will probably prove attractive from a supply and demand perspective. The euro/dollar pair's upwards trajectory will continue from here on, with investors testing its recent high of $1.20. The markets have priced in further ECB easing. There are also concerns about moves by officials to staunch the euro's rise for example, with Brexit negotiations also likely to act as a destabilizing factor.
Ushijima	Bear	1.2000 – 1.1600	The euro/dollar pair will trade with a heavy topside as Covid-19 continues to sweep Europe. The dollar could also be bought on news about the development of a Covid-19 vaccine in the US. Accumulated euro long positions will face some adjustment before the year's end, with the euro likely to be sold as a result.
Tasaka	Bull	1.2100 – 1.1800	The European economic recovery will probably stall as the number of Covid-19 cases rises across Europe, so investors will find it hard to actively buy the euro. However, the euro/dollar pair will be supported by dollar bearishness. As such, it looks set to continue climbing this month.
Omi	Bear	1.2000 – 1.1700	The euro/dollar pair will continue to move heavily. The pair's topside will probably be held down by expectations for further ECB easing.
Ueno	Bull	1.2200 – 1.1700	When it comes to Brexit, the UK and the EU will both be wanting to alleviate the economic damage of Covid-19, so a No-deal Brexit seems unlikely. The trend of dollar bearishness is unlikely to change, with the euro set to move strongly by comparison.
Yamaguchi	Bear	1.2050 – 1.1650	The euro/dollar pair has risen on dollar selling. Covid-19 is spreading across Europe, though. With the ECB also expected to ease further, there could be some correction to the trend of euro bullishness.
Kai	Bull	1.2100 – 1.1900	Covid-19 had continued to sweep Europe, but lockdowns are gradually starting to bear fruit, so the euro will move relatively bullishly during the phase of dollar weakness. The euro/dollar pair will probably top the key $1.20 mark.
Onozaki	Bear	1.2050 – 1.1600	The ECB is expected to ease further. The scene is also set for some stormy EU budget talks related to the role of the MFF from 2021 onwards. All this will act to weigh down the euro/dollar pair's topside. Accumulated dollar short positions will also see some unwinding towards the year's end, so the pair's topside will grow heavy just below the key $1.20 mark.
Tamai	Bull	1.2100 – 1.1750	The ECB will probably ease further at its next meeting. The markets have already priced this in, though, so if the contents of the meeting do not meet prior expectations, this will probably push the euro higher. Investors should be on guard again moves by ECB officials to restrain euro bullishness, though the phase of dollar bearishness looks set to continue from here on.
Harada	Bull	1.2100 – 1.1750	Covid-19 continues to spread throughout Europe, but the trend of dollar bearishness persists, so the euro will probably be bought on a lack of alternatives. The markets have also finished pricing in further ECB easing, so the euro/dollar pair looks set to continue tending upwards.

Oba	Bull	1.2050 – 1.1875	The ECB is expected to ease when it meets in December, so attention will focus on the contents of the ECB Governing Council meeting. The ECB has not managed to restrain the recent trend of euro bullishness. In fact, with the minutes to the recent FOMC meeting suggesting the FRB will continue to pursue easing for a prolonged period, it seems the euro/dollar pair could continue moving firmly from here on. The theme this month will probably be whether the pair can test the psychologically-important $1.20 mark.
Katoono	Bear	1.2100 – 1.1800	The euro/dollar pair is moving strongly on dollar bearishness. However, there are concerns about an economic slowdown in Europe on the back of moves to restrict outdoor travel and so on following a resurgence in Covid-19 cases. As such, the pair will probably move with a heavy topside overall. Attention should also be paid to speculation about further ECB easing this month.
Kobayashi	Bull	1.2100 – 1.1750	The markets have already priced in further easing by the ECB when it meets in December, so the euro looks set to move comparatively strongly during phases of dollar selling. The Covid-19 outbreak shows no signs of abating, though, so investors will find it hard to actively but the euro. As such, the euro/dollar pair's room on the topside will be capped.
Henmi	Bull	1.2200 – 1.1800	There remain several uncertainties related to EU/UK trade negotiations or the resurgence of Covid-19. There still seems to be an over-abundance of dollars, though, so the euro will probably be bought on a lack of alternatives.
Otani	Bull	1.2100 – 1.1800	As dollar selling continues, the euro will continue to be bought as an alternative. The markets have also factored in further easing by the ECB in December to a certain extent, so the euro/dollar pair looks set to continue moving firmly.
Suzuki	Bear	1.2000 – 1.1700	There remain deep concerns about the spread of Covid-19 cases across Europe. Dollar short positions increased after the presidential election, but there will be some buy-backs as investors adjust their positions towards the year's end, so the euro/dollar pair is unlikely to rise.
Okuma	Bull	1.2100 – 1.1750	Despite concerns about the resurgence of Covid-19, there are ongoing hopes about the roll-out of a vaccine. The markets have also reacted well to signs that the ECB will ramp up its easing measures when it meets in December. As such, investors will probably test the euro/dollar pair's topside this month.

Fumihiko Kanda, Europe Treasury Department

British Pound – December 2020

Expected Ranges	**Against the US$: US$1.2800–1.3600**
	Against the yen: JPY130.00–145.00

1. Review of the Previous Month

The GBP/USD pair rose in November. This was mainly due to global dollar bearishness.

The pair hit a monthly low of $1.2854 on November 2 ahead of the US presidential election results. Amid reports that Joe Biden was winning, though, the greenback was sold across the globe, with the GBP/USD pair soon bouncing back to the $1.30 range on November 3. The Bank of England (BOE) expanded its quantitative easing program by GBP150 billion on November 5, though it reached a unanimous decision to keep policy rates fixed, so the pound was bought thereafter. Risk assets were bought and the dollar sold the following week on positive headlines related to the development of a Covid-19 vaccine, so the pair strengthened to the upper-$1.32 mark. After hitting the $1.33 range on November 11, the pair was then pushed down by selling. This may have been related to the resignation of two of the UK prime minister's closest advisors, but some observers saw these resignations as signs the UK government was preparing to compromise on a trade deal, so the pair rallied after bottoming out around $1.31. In the week beginning November 16, the greenback was sold on headlines about the development of a Covid-19 vaccine (by a different company from the one in the headlines the previous week), with sterling also bought in reaction. Hopes that an agreement would be reached at the November 19 EU heads-of-state meeting were read less as a pound-buying factor than as a factor not impeding pound buying. In the end, the negotiations were called off after some of the negotiators contracted Covid-19. Hopes for a trade deal lingered in the week beginning November 23, so the GBP/USD pair continued to trade in the $1.33 range. With the markets in risk-on mode on November 23 in the wake of headlines about a new Covid-19 vaccine, investors unwound their dollar short positions after the US released a better-than-expected Manufacturing PMI for November, with the pair subsequently dipping to the mid-$1.32 mark. After hovering at this level, though, the pair then hit a monthly high of $1.3399 on November 26. From November 28, the UK and EU sides made some cautious noises in advance of EU's chief negotiator Michel Barnier trip to UK to resume negotiations, with the currency pair moving in the $1.33 range at the month's end.

2. Outlook for This Month

The main themes this month will remain Brexit and dollar demand in the face of the Covid-19 outbreak.

Global dollar demand fell last month and the pound was bought in reaction following the release of a series of reports about the successful development of Covid-19 vaccines. However, it is still unclear what impact this news will have on the recovery of the real economy, with trends in the foreign exchange markets also yet to shift.

When it comes to Brexit, the end of the transitional period is looming at the end of December. Hopes are rising that a trade deal can be reached by this time, but it is probably still too premature for investors to actively build up pound long positions. The GBP/USD pair has already recovered to its level around the time of the first Covid-19 wave and it is hard to see the pair rising further from here on. If some deal is reached with the EU, this will probably

lead to pound buying at first, but the currency pair's rise will probably by short-lived considering the impact of Brexit on the UK economy going forward. Investors should probably be more on guard again the possibility of the pound sliding if negotiations break off.

The UK lockdown is set to end on December 2, with a tier system then reintroduced for each region. In contrast to the first lockdown in spring, manufacturing was not impacted much by factory closures this time around, though this might not be the case in the event of a third lockdown. Though the direct impact of this on sterling's movements may be negligible, it could make its influence felt though its impact on BOE policy.

The UK treasury estimates that UK growth in 2020 will shrink by 11.3%, the sharpest contraction in 300 years, with the deficit also rising to 19% of GDP. The BOE increased the scale of its quantitative easing program in November, though many observers think the scale should be increased again to keep in lockstep with the fiscal situation. When the BOE's Monetary Policy Committee (MPC) meets on December 17, some members are expected to call for such an expansion, though the policy rate is unlikely to be lowered from its current 0.1% level. The pound may be impacted by how the vote is split between the MPC's nine members.

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

Australian Dollar – December 2020

Expected Ranges	**Against the US$: US$0.7140–0.7460**
	Against the yen: JPY73.70–78.00

1. Review of the Previous Month

The AUD/USD pair rose throughout November while fluctuating up and down. It then rose to just under $0.74 toward the end of the month.

With Australia/China relations worsening in the first week, the pair dropped below $0.70 on reports that China would also be adding copper and sugar to the list of Australian exports subject to sanctions. The Reserve Bank of Australia (RBA) lowered the cash rate and the target for the benchmark yield on 3-year Australia government bonds to 0.1% on November 3. It also decided to purchase AUD100 billion of 5-to-10-year government bonds over the next six months. This was comparatively large in terms of scale and fast in terms of pace. The markets moved erratically on November 4 on the US presidential election, with the AUD/USD pair tumbling from the mid-$0.71 mark to the mid-$0.70 level. However, it seemed the Republican Party would keep its majority in the US Senate, so stock prices climbed on speculation that there would be no large-scale tax hikes or regulatory changes. The currency pair subsequently climbed to $0.7280 on bullish stocks and a bearish greenback.

Risk assets rose at the start of the second week on news about Joe Biden's victory speech at the weekend and the successful trial of a Covid-19 vaccine. The pair temporarily rose to $0.7340 as a result. The Reserve Bank of New Zealand (RBNZ) kept its policy rate fixed at 0.25% on November 11. The New Zealand dollar climbed and the Australian dollar was also pulled higher to trade just below $0.7320 against its US counterpart. Amid growing caution about a second Covid-19 wave, the pair fell to around $0.7220, though it rallied to $0.7270 in the latter half of the week after the S&P500 hit record highs.

China released a strong industrial production figure for October at the start of the third week, while the RBA governor also stated that negative interest rates were unlikely to be introduced. With good news about successful vaccine trials also emerging, the AUD/USD pair moved firmly around $0.7320. The pair then rallied to the $0.73 range on November 19 after Australia released some better-than-expected employment data for October. Discussions about a new US economic package recommenced in the latter half of the week. With applications also going ahead for emergency vaccine licenses, the pair strengthened to around $0.7320.

The New Zealand dollar soared at the start of the fourth week on the release of some bullish NZ 3Q retail sales data. The Australian dollar was also pulled higher, with the AUD/USD pair also pushed up to the mid-$0.73 mark by good news about a Covid-19 vaccine. However, the greenback was then bought sharply on the firm result of a US Markit PMI, so the pair tumbled to around $0.7265. Furthermore, there had been concerns that the choice of the next treasury secretary could place further downward pressure on the US dollar, but Lael Brainard (an advocate of keeping dollar strength in check) was then removed from the final list of candidates. Many investors then predicted that former FRB chair Janet Yellen would be picked for the post. All this news supported the greenback to a certain extent. On November 24, the General Services Administration (an independent government body charged with managing federal assets) informed Joe Biden by letter that he could formally begin transition proceedings. It had

seemed that the formulation of an economic recovery support plan would be sharply delayed by turmoil related to the presidential election, but risk tolerance levels now improved on expectations that talks over a package would restart soon. The AUD/USD pair hit the $0.73 range again as a result. Risk appetite intensified when the US Dow Jones topped $30,000 and crude oil prices climbed, with the currency pair also climbing from $0.7320 to around $0.7370.

With the US on holiday on November 26, market participants were thin on the ground. With end-of-month adjustments also taking place, the pair moved within a narrow range. After the US Thanksgiving holiday, US stock futures rose slightly and the Australian dollar was also pulled higher, with the AUD/USD pair hitting $0.7399 as investors tested the $0.74 mark.

2. Outlook for This Month

After failing to push the AUD/USD pair to the $0.74 range at the end of November, investors will probably try again several times in December.

The trend of bullish stocks and dollar selling looks set to continue, albeit with some correction along the way. In December, the pair will probably move with one eye on the upcoming year while undergoing some adjustments on the end-of-year flow. Major economic indicator announcements and events at the start of the month include China's November Manufacturing PMI, the results of the RBA board meeting, and Australia's 3Q current account balance (Tuesday, December 1); Australia's 3Q GDP data and RBA governor Philip Lowe's testimony to parliament (Wednesday, December 2); Australia's trade balance for October (Thursday, December 3); Australia's October retail sales result and the US November employment data (Friday, December 4).

When the RBA meets to set monetary policy, it will probably keep interest rates fixed while refraining from dropping any particular hints about further easing. As such, it is hard to imagine the Australian dollar being sold. However, the Australian government is planning to file an appeal with the WTO with regards to Chinese tariff sanctions. This could lead to headline risks, so caution will be needed. Furthermore, a US pharmaceutical company might start rolling out a Covid-19 vaccine as early as December 7 in the UK. Investors are also focused on further trials being carried out by a UK pharmaceutical company as it seeks to prove the efficacy of its vaccine.

The Australian state of Victoria has recorded no new Covid-19 cases or deaths in 28 days, thus hitting the benchmark for being declared free of the virus, with a positive mood now prevailing there. In contrast, new Covid-19 cases topped 8,000 in the state of New York for the first time since April. From here on, investors will be waiting for good tidings with regards to when exactly the two aforementioned companies will begin supplying vaccines to the markets, with risk appetite likely to grow even stronger this month.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – December 2020

Expected Ranges	**Against the US$: C$1.2800–1.3500**
	Against the yen: JPY76.00–83.00

1. Review of the Previous Month

The USD/CAD pair opened November trading at C$1.3316. It hit a monthly low of C$1.2929 on November 9 and a monthly high of C$1.3370 on November 2. Though Covid-19 continued to surge across the world, risk appetite prevailed overall on the results of the US presidential election and the development of a vaccine. Crude oil prices (WTI) went from $34/barrel at the start of the month to over $45/barrel on November 24. The USD/CAD pair fluctuated slightly over the first half of November on turmoil related to the US presidential election. From November 16, though, the pair moved in a range from the upper-C$1.29 mark to the lower-C$1.31 level.

The US dollar was sold and the pair dropped to around C$1.31 on November 3 when it seemed Joe Biden would win the US presidential election. However, early results on the evening of November 3 suggested a close rate, so the greenback was bought back and the currency pair hit C$1.330 overnight. As expected, the FOMC kept policy rates fixed when it met over November 4–5 and it decided to maintain the current pace of its QE program. The US and Canadian October employment results were released on November 6 and they outperformed prior expectations. The number of people in work in Canada rose by a better-than-expected 83,600, with the unemployment rate also improving slightly from 9.0% in October to 8.9%. The US nonfarm payrolls data also beat expectations with an upswing of 638,000 on the previous month, with October's data also revised upwards. At 6.9%, the unemployment rate improved by over one point on October.

Reports at the weekend suggested Joe Biden was on course to win the presidential election. A US pharmaceutical company also announced that a Covid-19 vaccine had performed very well in clinical trials. As a result, risk appetite prevailed on November 9, with US and Canadian stocks rising sharply. Crude oil prices also soared and long-term interest rates shot up, with the USD/CAD pair temporarily dipping to C$1.2929. However, with Covid-19 surging across the globe, WTI had its gains pared back in the latter half of the week and the greenback was bought back, with the currency pair returning to C$1.3173 on November 13.

During the morning of November 16, Moderna announced it had developed a Covid-19 vaccine with an efficacy of 94.5%. This news led to risk appetite, with US and Canadian stocks rallying. The Canadian dollar was also bought and the USD/CAD pair fell to C$1.3066. Canada's October CPI data was released on November 18. The figure was up +0.7% on the same month last year due to rising food prices. This was higher than market expectations for a +0.4% rise. The Canadian dollar rose as a result, with the currency pair temporarily hitting C$1.3034. However, with Covid-19 surging across various regions, risk aversion flared on the afternoon of the same day on news about the closure of NY schools, so stocks fell and the greenback was bought back.

On November 23, President Trump said transitional work to a new administration could begin. With a UK pharmaceutical company also announcing the development of a successful vaccine, risk appetite increased again. November 24 saw headlines that a vaccine might be rolled out across the US from as early as December. The NY Dow Jones topped $30,000 for the first time and WTI topped $45/barrel, with the USD/CAD pair closing the day

at C$1.2998. The pair continued to trade around C$1.30 as of November 27.

2. Outlook for This Month

The USD/CAD pair is expected to move between C$1.29–C$1.34 overall in December. The Bank of Canada (BOC) will meet to set policy rates on December 9, with the FOMC also meeting over December 15–16. Both bodies will probably keep basic policy (including policy rates) unchanged, though asset purchasing programs might be tweaked or strengthened to support the economy. If a vaccine is rolled out soon, the risk-on mood will intensify and the Canadian dollar might be bought to the lower-C$1.29 mark against its US counterpart. However, the roll-out might take some time and there is also the issue of how to set up a system to distribute any approved vaccine to each country.

Covid-19 cases surged in Canada entering November. New cases topped 4,000 on several days before rising above 7,000 on November 23. As a result, Toronto and some other areas have instituted a one-month lockdown from November 23. With economic activity curtailed sharply, any economic recovery in October–December is likely to be subdued compared to the sharp recovery seen over July–September. BOC deputy governor Toni Gravelle said during a speech that the bank was keeping an eye on household debt and he added the financial system could face further difficulties if the economy stalls again. With orders and consumer activity capped and the employment situation murky, the Canadian dollar could weaken and the pair could rise to the C$1.33 range if Canada's economic indicators slow.

WTI prices will probably swing between $35–50/barrel on short-term risk aversion and risk appetite. OPEC has downgraded its crude oil demand forecast for 2021. The IEA also estimates that even if the Covid-19 crisis winds down in 2021, demand will not recover to pre-pandemic levels until 2023. In the long term, the currency pair might dip below C$1.28 on Canadian-dollar buying if a vaccine is rolled out, economic activity resumes, and crude oil demand increases. In the short term, though, the pair will probably move between C$1.29–1.34.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – December 2020

Expected Ranges	**Against the US$: KRW1,080–1,120**
	Against the yen: JPY9.009–9.524 (KRW100)
	(KRW10.500–11.100)

1. Review of the Previous Month

The USD/KRW pair fell on November.

With South Korea on holiday due to the Mid-Autumn Festival, risk sentiments deteriorated slightly as investors closed out positions ahead of the US presidential election, with the currency pair kicking off the month trading at KRW1137.0 on November 2. With President Trump performing better than expected in the November 4 presidential election, the currency pair surged to a monthly high of KRW1148.0. However, as postal votes began to be counted, President Trump's lead evaporated in several key states. The RMB subsequently climbed on expectations for an easing of US/China trade tensions, with the Korean won also pulled higher. There was also considerable KOSPI buying by overseas investors, so the USD/KRW pair tumbled.

Joe Biden announced his victory on November 9. Risk sentiments also improved sharply on the bullish results of the US employment data for October, with nonfarm payrolls rising by 638,000 (forecast: +580,000) and the unemployment rate falling to 6.9% (forecast: 7.6%). Exporters also sold the dollar intermittently on concerns that the won would appreciate. As a result, the currency pair fell toward KRW1109.2 toward November 11 and it then moved in the KRW1110 range toward November 13.

On November 16, the authorities said that the foreign exchange markets had fluctuated too much recently, adding that they would respond aggressively to moves to artificially drive the won higher. There also seemed to be some market intervention, with the pair bouncing back sharply to KRW1110. The greenback moved bearishly on November 18, with the USD/RMB pair sliding, for example. The USD/KRW pair also weakened to KRW1103.8, but there was sporadic real-demand dollar buying just below the key KRW1100 mark. With investors also on alert against interventions by the authorities, the pair's downside did not shift lower. As the pair's downside grew firmer, speculators unwound their USD/KRW pair short positions on November 19, so the pair rallied to KRW1116.3, though it rose no further.

During overseas trading time on November 23, news emerged that Joe Biden would be appointing former FRB chair Janet Yellen as treasury secretary. The greenback was sold again as a result, with the currency pair tumbling. On November 26, the Bank of Korea (BOK) governor said he was keeping a close eye on excessive won appreciation, though the impact on the markets was limited.

The pair fought an offensive and defensive battle around KRW1100 toward the month's end before falling to KRW1103.0 and finally closing at KRW1106.5.

2. Outlook for This Month

The USD/KRW pair looks set to continue trading with a heavy topside in December.

China and South Korea have recovered comparatively swiftly from Covid-19, so the RMB and won will remain susceptible to buying against the dollar. As such, the won will probably continue moving bullishly. At the Monetary Policy Board on November 26, BOK upgraded its GDP forecast for 2021 from 2.8% to 3.0%. Export volumes have also recovered to pre-pandemic levels. There will be some considerable real-demand won buying from here on, with the Korean unit also likely to be supported when overseas investors buy South Korean stocks. South Korea is also facing a third wave of Covid-19 infections and it has toughened social distancing levels, but this has had a negligible impact on won buying (a trend driven by external demand). The won may swing lower for a time on the outbreak, but any movements will be muted in nature. There will be a considerable amount of real-demand dollar buying just below the key KRW1100 mark on a sense the USD/KRW pair is now at a good level, so it will take time before the pair slides further. In the end, though, the pair will probably break below KRW1100 as investors test its downside. However, some observers suggest the pair's recent slide is partly due to interventions by the authorities. The CNY and KRW have already risen by over 10% against the dollar, meanwhile, so the pace of the pair's slide will be quite sluggish.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – December 2020

Expected Ranges	**Against the US$: NT$28.40–28.85**
	Against the yen: JPY3.60–3.70

1. Review of the Previous Month

In November, the USD/TWD pair renewed recent lows after breaking through TWD28.500 for the first time in nine and a half years.

The pair opened the month trading at TWD28.930. Exporters continued to sell the US dollar at the start of the month, but with the US presidential election looming, a wait-and-see mood prevailed and the pair traded around TWD28.600. As presidential election votes began to be counted on November 4, it became clear that President Trump had performed better than prior opinion polls had suggested he would. Asian currencies moved bearishly as a result, with the USD/TWD pair climbing to around TWD28.650. However, a Biden victory gradually seemed more nailed on, so risk appetite swept the markets. On November 6, the currency pair broke below the key TWD28.5 mark for the first time in around nine and a half years before temporarily dipping to TWD28.492. It dropped below TWD28.500 on November 9 too, though it then recovered to just over TWD28.500 during trading time, with the pair moving in an extremely narrow range. From mid-November, the Taiwan Capitalization Weighted Stock Index hit record highs on several days on news related to the development of a Covid-19 vaccine, for example, with the index even surging toward 14,000 points on November 24. Despite this, the USD/TWD pair did not drop back below TWD28.500.

2. Outlook for This Month

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

A look back over the year shows the Taiwan dollar appreciating in June and September, both times when exporters sold the US dollar at the end of the quarter. A glance at the trade data shows October's export amount rising by +11.2% year-on-year and the leading export orders indicator by +9.1% year-on-year, with both indicators renewing monthly records and continuing to move bullishly. There will probably be some substantial US-dollar selling by exporters in December too.

It seems certain that Joe Biden will become the next US president. However, US/China frictions are unlikely to ease soon, so the situation will continue to act as a positive factor for Taiwanese exports. These exports have also been boosted by the rise in teleworking during the Covid-19 crisis, but positive news about vaccines suggest the pandemic will be winding down soon. Nonetheless, the outlook still appears bright for Taiwan's exporters given the ongoing development of IT and telecommunications technologies (like 5G). As such, it seems the only worrisome factor is the Taiwan's dollar's high value. The Taiwan dollar has recently broken through the key TWD28.500 mark against the greenback to hit its highest levels since the Asian currency crisis, with industry voices now starting to complain about the unit's strength. After dropping through TWD28.500 in November, the pair crawled back above TWD28.500 and is now moving firmly at this level. However, exporters are facing pressure to sell the US dollar, so investors should monitor the response of the authorities when the Taiwan dollar climbs even higher.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – December 2020

Expected Ranges	**Against the US$: HK$ 7.7500–7.7600**
	Against the yen: JPY 13.20–13.60

1. Review of the Previous Month

The Hong Kong dollar spot exchange market in November

In November, the U.S. dollar/Hong Kong dollar spot exchange rate moved away from HKD 7.75, which is the upper end of the fluctuation band, and fluctuated within a narrow range mainly between HKD 7.7520 and HKD 7.7550. In the Hong Kong dollar exchange market, capital flow related to IPOs remains a key factor.

The U.S. dollar/Hong Kong dollar exchange rate approached the HKD 7.75 level, the upper end of the fluctuation band again, as a result of capital inflow in preparation for an IPO valued at USD 35 billion—a new world record. However, for a reason related to changes in regulations, the IPO of the Chinese fintech company involved was suddenly postponed on November 3, just before the listing of the company.

Due to the postponement of the IPO, capital inflow into the Hong Kong market decreased, leading the Hong Kong dollar to depreciate against the U.S. dollar to HKD 7.7574. During the U.S. presidential election, the U.S. dollar/Hong Kong dollar exchange rate was fluctuating along with the volatility in the market. However, the progress of Covid-19 vaccine development did not impact the market.

The economic growth outlook of Hong Kong for the fourth-quarter period declined due to the second wave of Covid-19 cases. However, this impacted the Hong Kong dollar exchange market only to a limited extent. Thanks to the high liquidity level of the Hong Kong dollar market, the Hong Kong dollar forward rate declined to negative figures throughout the forward curve.

The Hong Kong dollar interest rate market in November

The November, the Hong Kong Monetary Authority (HKMA) discontinued its operation to supply funds in Hong Kong dollars that had been continued for the past several months so as to balance capital inflow based on IPOs. The aggregate balance of the HKMA has already reached USD 457.5 billion—the highest ever seen—keeping the Hong Kong dollar interest rates low. The one-month Hong Kong dollar HIBOR and the three-month Hong Kong dollar HIBOR both fell to their lowest levels in approximately 10 years. The interest rate differential between the one-month Hong Kong dollar HIBOR and the one-month U.S. dollar LIBOR has turned negative for the first time since November last year, while the interest rate differential between the three-month HIBOR and three-month LIBOR has dropped to around 10 basis points. As a result of a slowdown in capital inflow based on IPOs, the HKMA stopped its market intervention based on Hong Kong dollar-selling for the first time since May this year.

2. Outlook for This Month

The Hong Kong dollar spot exchange market in December

In December, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.75 and

HKD 7.76. As market sentiment has worsened due to the postponement of a large-scale IPO as mentioned, the Hong Kong dollar is likely to weaken. Foreign investors now have a declining investment appetite for the IPOs of Chinese companies in the Hong Kong market, as the Chinese government has been strengthening regulations. Furthermore, there are also persistent risks related to sanctions that may be imposed by the U.S. Based on the *Hong Kong Autonomy Act*, the United States Department of the Treasury plans to release a list of sanctions against financial institutions that have transactions with authorities in China and Hong Kong that are to be sanctioned. It would be difficult for the financial institutions included in the list to procure U.S. dollars, and this could raise the cost of procure U.S. dollars in the Hong Kong market. In the U.S., Covid-19 cases continue to increase, and the Federal Reserve Board (FRB) is expected to maintain the U.S. policy interest rate at the existing low level at its meeting in December, while adding some adjustments to the asset purchase program. As the interest rate differentials between the Hong Kong dollar and the U.S. dollar have been widening, a limited number of market participants might engage in a carry trade.

The Hong Kong dollar interest rate market in December

In December, the Hong Kong dollar interest rates are forecast to remain low, as the liquidity level in the Hong Kong dollar market remains high. While downward risks are growing in the Hong Kong market due to a second wave of Covid-19 cases, the HKMA did not issue Exchange Fund Bills and Notes (EFBNs) to absorb Hong Kong dollar liquidity despite strong demand in the market. The declining demand for IPOs in the Hong Kong market means a declining demand for Hong Kong dollar funds related to stock purchases. It is possible that demand for the procurement of Hong Kong dollars could increase toward the end of the year, temporarily raising volatility in the Hong Kong dollar market. However, such a trend is likely to last only for a limited length of time.

Toshifumi Fujiyama, Treasury Department, MHBK (China)

Chinese Yuan – December 2020

Expected Ranges	**Against the US$: CNY 6.5000–6.8500**
	Against the yen: JPY 14.60–16.06
	Against 100 yen: CNY 6.2300–6.8500

1. Review of the Previous Month

In November, the Chinese yuan appreciated significantly against the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate once reached the CNY 6.54 level.

At the beginning of the month, the U.S. dollar/Chinese yuan exchange market opened trading at around CNY 6.69, waiting for the presidential election in the U.S.

On November 3, ballot counting started for the presidential election in the U.S., at the beginning of which the result was unforeseeable. However, the media gradually started to report on Joe Biden of the Democratic Party taking the lead, and this led the Chinese yuan to appreciate against the U.S. dollar in an accelerated manner. Market participants have already been ready for the situation in which the U.S. House of Representatives and the U.S. Senate are led by two different parties (i.e., Joe Biden wins, while the Republican Party holds its majority in the Senate), making it less likely for a large-scale fiscal stimulus measure to be taken. As a result, the U.S. interest rates declined, leading the U.S. dollar to depreciate based on risk-taking sentiment in the market. Following this trend, the Chinese yuan also appreciated against the U.S. dollar, leading the U.S. dollar/Chinese yuan exchange rate to fall and approach the CNY 6.60 level.

On November 9, a large pharmaceutical company announced that they had confirmed the efficacy of over 90% of their vaccine against Covid-19, and this increased risk-taking sentiment in the market, leading U.S. stock prices to rise, resulting in the appreciation of the U.S. dollar. On November 12, U.S. President Donald Trump signed a presidential decree to ban stock transactions with Chinese companies that are considered to have military ties. As a consequence, related Chinese stock prices fell, leading the Chinese yuan to depreciate temporarily. However, the depreciation was only to a limited extent.

On November 16, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.6 level. On November 18, U.S. interest rates fell, as market participants anticipated measures to control the spread of Covid-19 infections in Europe and the U.S. Following this trend, the U.S. dollar also depreciated, and the Chinese yuan appreciated to temporarily reach the CNY 6.54 level.

During the nighttime of November 24, the U.S. dollar appreciated rapidly, temporarily reaching the CNY 6.59 level, as U.S. economic indices had been released with strong figures in the morning of the same day, local time. Thereafter, the Dow Jones Industrial Average exceeded the USD 30,000 mark during trading hours in the U.S. As a result, market participants were encouraged to sell the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate fell as well. Market participants continue to sell the U.S. dollar with a risk-taking attitude, as there are expectations for the development of vaccines against Covid-19 and progress in the change of government in the U.S., with a list of major officials already being made for the Joe Biden administration. Thus, the U.S. dollar/Chinese yuan pair has been trading at the upper-CNY 6.57 level toward the end of the month.

2. Outlook for This Month

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

Covid-19 infections have been spreading, with the total number of cases exceeding 60 million worldwide, slowing down economic activity. Market participants should thus be aware of risk-averse activities in the market.

In the U.S. presidential election, a victory by former Vice President Joe Biden from the Democratic Party is becoming more and more certain. A list of major administration officials has been released, nominating former Federal Reserve Board (FRB) Chair Janet Yellen as Treasury Secretary, and the change of government is expected to progress in December. Furthermore, there are other positive factors to strengthen risk-taking sentiment in the market, such as in the development of vaccines against Covid-19 that continues steadily. However, U.S. dollar interest rates have not risen significantly thus far. The media has already reported that the Federal Open Market Committee planned to discuss additional measures of quantitative easing such as an additional purchase of U.S. governmental bonds at its next meeting scheduled for December. It is thus unlikely for U.S. interest rates to rise significantly in the times ahead, and the upward pressure on the U.S. dollar is likely to remain weak from the medium- to long-term perspective.

At the beginning of November, the Chinese monetary authorities referred to "exit strategies," and according to the monetary policy execution report for the third-quarter period released by the People's Bank of China, China will maintain its regular monetary policy for as long as is possible. Furthermore, the Chinese monetary authorities are decreasing support for corporations, as a result of which a number of state-owned companies defaulted on their corporate bonds. Thus, it is unlikely for the Chinese monetary authorities to use public aid to avoid corporate bond defaults in the times ahead, and this is likely to lead the Chinese yuan to appreciate against the U.S. dollar.

Under current circumstances, there is no factor to change the trend toward a strong Chinese yuan. The U.S. dollar/Chinese yuan exchange rate is thus forecast to remain low in December.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – December 2020

Expected Ranges	**Against the US$: SG$ 1.3000–1.3700**
	Against the yen: JPY 76.00–78.50

1. Review of the Previous Month

In November 2020, the Singapore dollar continued appreciating against the U.S. dollar.

At the beginning of the month, the Singapore dollar weakened slightly. On November 4 during trading hours in Asia, the media reported the preliminary result of vote counting for the U.S. presidential election, revealing the dominance of current U.S. President Donald Trump in swing states such as Florida. As a result, market participants bought the U.S. dollar, weakening the Singapore dollar. The Singapore dollar thus weakened against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate temporarily reached the lower-SGD 1.37 level.

However, thereafter, the trend was inversed, and the Singapore dollar started to appreciate against the U.S. dollar. Risk-taking sentiment grew in the market, as the media reported that Joe Biden was likely to win the presidential election, while the October employment statistics of the U.S. were released with strong figures. Furthermore, on November 9, a major pharmaceutical company in the U.S. announced remarkable progress on the development of a vaccine against Covid-19, which led the currencies of emerging countries to appreciate. Following this trend, the Singapore dollar strengthened, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.34 level.

Thereafter, toward the middle of the month, concerns grew over a further increase in Covid-19 cases in Europe and the U.S., which momentarily slowed down the appreciation of the currencies of emerging countries. However, following the media report on the above-mentioned pharmaceutical company in the U.S., the media also reported that a biopharmaceutical company in the U.S. had confirmed a high efficacy for its vaccine against Covid-19. As a result, the Singapore dollar started to appreciate again. Toward November 19, the Singapore dollar continued appreciating and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.34 level.

Thereafter, the U.S. dollar continued weakening toward the end of the month, and the currencies of emerging countries generally remained robust. On November 24, the media reported that U.S. President Donald Trump had approved the shift to the next government, while a major stock price index in the U.S. renewed its all-time high, which strengthened risk-taking sentiment in the market. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate fell below the SGD 1.34 level, falling to the upper-SGD 1.33 level. On November 30, the manufacturing PMI of China was announced, and the result turned out to be stronger than expected. As a result, the Singapore dollar strengthened further, and the U.S. dollar/Singapore dollar exchange rate has been fluctuating at the upper-SGD 1.33 level, as of this writing.

2. Outlook for This Month

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

In November, the Singapore dollar appreciated against the U.S. dollar significantly throughout the month. At

the beginning, the U.S. dollar/Singapore dollar exchange rate was at the SGD 1.37 level, while as of November 30, local time, the U.S. dollar/Singapore dollar pair has been trading at the upper-SGD 1.33 level.

Thus, the U.S. dollar/Singapore dollar exchange rate has been at its highest level observed since June 2018, and the Singapore dollar is forecast to appreciate against the U.S. dollar even further toward the end of the year.

The U.S. dollar/Singapore dollar exchange rate has been falling (the Singapore dollar has been appreciating), not only because the currencies of emerging countries are appreciating, thanks to risk-taking sentiment in the market growing as a result of the recent global appreciation of stock prices as well as expectations for the development of vaccines against Covid-19. The fall in the cost in Singapore dollar procurement (the flattening forward curve of the Singapore dollar) is also considered to be a factor that led the Singapore dollar to appreciate. At the current moment, the U.S. dollar/Singapore dollar forward point has been close to zero up to the three-month period, making it almost cost-free to hold long positions in the Singapore dollar. With regard to future actions by the U.S. monetary authorities, an increasing number of market participants expect the Federal Reserve Board (FRB) to announce expanded quantitative easing as early as in December. The Monetary Authority of Singapore (MAS) is also likely to maintain its policy of monetary easing in Singapore for the foreseeable future. Interest rates are therefore likely to remain low for a while.

Even though the economic indices of Singapore are mixed with strong and weak figures, Singapore stock prices have been rising more significantly than stock prices indices in other emerging countries. Thus, unless there is a strong negative surprise to lead various indices to fall significantly, the Singapore dollar is likely to remain robust toward the end of the year.

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

Thai Baht – December 2020

Expected Ranges	**Against the US$: THB 29.50–32.00**
	Against the yen: JPY 3.30–3.50

1. Review of the Previous Month

On November 2, the U.S. dollar/Thai baht exchange market opened trading at around THB 31.17. Market participants continued buying the Thai baht, as the tension of the protests started to subside, leading the U.S. dollar/Thai baht exchange rate to fall below the THB 31.10 level for the first time in three weeks, reaching the THB 31.05 level toward November 3. In the morning of November 4, the media reported that current U.S. President Donald Trump was likely to win the U.S. presidential election, and this encouraged market participants to buy the U.S. dollar, as a result of which the U.S. dollar/Thai baht exchange rate rose to the THB 31.15 level. Then, on November 5, the October CPI of Thailand was announced, and the result turned out to be +0.50% year-on-year. However, the reaction to this news in the market was limited. In the U.S., the so-called "blue wave" scenario became less likely, leading U.S. interest rates to fall. Consequently, the U.S. dollar/Thai baht exchange rate fell below the THB 31.00 level, approaching the THB 30.80 level. On November 6, it seemed that it was becoming likely for Joe Biden to win the presidential election in the U.S., which led Asian currencies to strengthen against the U.S. dollar. Following this trend, the U.S. dollar/Thai baht exchange rate fell further to the mid-THB 30 level. As a victory by Joe Biden in the U.S. presidential election became more clear over the weekend, on November 9 (after the weekend), Asian currencies were led to strengthen further against the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate once fell below the THB 30.40 level. However, there was a positive media report on the development of a vaccine against Covid-19 by a U.S. pharmaceutical company, and this inverted the trend in the market and market participants started to rapidly buy the U.S. dollar. U.S. dollar interest rates rose sharply, and the U.S. dollar/Thai baht exchange rate rose to approach THB 30.70. However, the trend did not last for a long time, and the U.S. dollar/Thai baht exchange rate fell to approach THB 30.30, as there was pressure to buy the Thai baht due to a large amount of capital inflow observed in the Thai stock market from foreign investors for the first time since 2010. Thereafter, the Thai baht continued appreciating slowly against the U.S. dollar toward the weekend. However, the appreciation of the Thai baht was slow due to the media report on the second wave of Covid-19 cases, as well as due to the possibility of a second lockdown in various places. The U.S. dollar/Thai baht exchange rate thus continued fluctuating at the upper-THB 30.10.

After the weekend, the Office of the National Economic and Social Development Council (NESDC) announced the GDP for the July–September quarter on November 16, and the result turned out to be –6.4% year-on-year. Even though the outlook for the annual GDP was revised upward from –7.5% to –6.0%, the reaction in the market was limited. On November 17, the Federation of Thai Industries announced the October amount of automobile production, and there was positive year-on-year growth of approximately 19% in the production for the domestic market. However, as a Monetary Policy Committee (MPC) meeting was scheduled by the central bank of Thailand for the following day, the U.S. dollar/Thai baht exchange rate continued fluctuating in both directions. At the MPC meeting, the policy interest rate was maintained at 0.50%, as had been anticipated in the market. Also, the Thai

government announced its decision to extend the declaration of the national emergency until January next year, while postponing the discussion on shortening the length of quarantine against Covid-19 until next year. As a result, expectation for the return of foreign visitors subsided, leading the U.S. dollar/Thai baht exchange rate to rise to approach the THB 30.35 level.

On November 19, market participants sold the Thai baht with a cautious feeling about the meeting to be held at the central bank of Thailand on the following day for the purpose of controlling the appreciation of the Thai baht. As a consequence, the U.S. dollar/Thai baht exchange rate once exceeded the THB 30.40 level. On November 20, the central bank of Thailand announced its decision to deregulate foreign currency deposits and foreign security investment. However, as many expected the effect to be limited, the reaction in the market was minimal. The weekly trading closed at around the THB 30.30 level. After the weekend, the U.S. dollar/Thai baht exchange market opened trading at around the THB 30.25 level on November 23. The Ministry of Commerce announced the October trade statistics, and exports recorded a negative figure for the sixth consecutive month, at –6.7% year-on-year. However, the reaction in the market was limited. Thereafter, upward pressure on the U.S. dollar strengthened, thanks to expectation for economic recovery in the U.S., while the protests against the government in Thailand persisted. As a consequence, the U.S. dollar/Thai baht exchange rate slowly fell toward the mid-THB 30.20 level.

2. Outlook for This Month

In December, the upward pressure on the Thai baht is likely to persist in the U.S. dollar/Thai baht exchange market. However, the exchange rate is not likely to fall significantly, as the domestic political condition remains uncertain, while Covid-19 cases continue to increase overseas.

In response to the progress on the development of Covid-19 vaccines, the U.S. dollar/Thai baht exchange rate fell below the THB 31 level for the first time in a while, after which the exchange rate continued falling rapidly to approach the THB 30 level. Because the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range between THB 31 and THB 32 after the exchange rate fell below the THB 31 level in June, the movement of the exchange rate after the first move was an unexpected one. On the other hand, there were violent fluctuations in the market with growing expectation for the development of Covid-19 vaccines. However, it would take time before the effect of a vaccination becomes visible, while it is not certain if the vaccines will really be used. Thus, it seems that the Thai baht has been bought only based on expectations that grew out of media reports. For the Thai baht to appreciate against the U.S. dollar further, it would be necessary for tangible data to be visible. On the contrary, the current situation is far from optimistic. Thus, the U.S. dollar/Thai baht exchange rate is forecast to remain stable in the times ahead, as market participants have been oscillating between uncertainty under the current situation and expectations for the future.

With regard to domestic factors, political uncertainty is likely to grow again, and this is another key factor for the coming month. The protests against the government intensified in September, resulting in tangible impact such as disturbances of public transportation. However, the situation had become more controlled thereafter, and the government made a compromise for a peaceful resolution. Yet, there was no expected outcome, and the protests have been intensifying again as of this writing, against which it appears that the government has also been strengthening its attitude. Market participants should thus remain attentive of the evolution of the anti-government protests in the times ahead.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – December 2020

Expected Ranges	**Against the US$: MYR 4.0400–4.1300**
	Against the yen: JPY 25.2500–25.9000
	Against 100 yen: MYR 3.8600–3.9600

1. Review of the Previous Month

In November, the U.S. dollar/Malaysian ringgit exchange rate fell from the MYR 4.17 level to the MYR 4.06 level, as the U.S. dollar depreciated due to it becoming more and more clear that the Democratic Party could very well be winning the presidential election in the U.S. Meanwhile, exports recovered in Malaysia mainly toward China, and the crude oil price rallied.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.16 level. On November 3, the central bank of Malaysia held a monetary policy meeting and decided to maintain the policy interest rate (OPR) at 1.75%, pointing to the rapid economic recovery in the third-quarter period. However, the central bank also mentioned about increasing Covid-19 cases in the past several months and predicted a slowdown in the GDP growth rate in the fourth-quarter period. The GDP growth outlook for 2020 was maintained at the level announced in August (–5.5 to –3.5% year-on-year). In the evening of the same day, current U.S. President Donald Trump turned out to be unexpectedly competitive at the beginning of vote counting for the U.S. presidential election, which caused the so-called "red mirage," leading the U.S. dollar/Malaysian ringgit exchange rate to rise to the MYR 4.17 level, which turned out to be the monthly high. Thereafter, the Democratic Party's "blue wave" became dominant when postal votes were counted and the trend was inverted, leading the U.S. dollar/Malaysian ringgit exchange rate to fall to the MYR 4.12 level on November 6, on which the Malaysia 2021 federal budget was released. On November 9, the U.S. dollar/Malaysian ringgit exchange rate continued falling to the MYR 4.10 level, as the media reported that a major pharmaceutical company in the U.S. confirmed the efficacy of a new Covid-19 vaccine at over 90% as a result of clinical trials.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate rallied to the MYR 4.13 level as a result of profit-taking buybacks before the announcement of the GDP for the third-quarter period scheduled for November 13. The third quarter GDP turned out to be –2.7%, stronger than expected, and this led the U.S. dollar/Malaysian ringgit exchange rate to reach the MYR 4.12 level immediately. Subsequently, Moderna announced the result of its clinical trials for a Covid-19 vaccine that demonstrated efficacy of 94.5% in preventing Covid-19 infection. Furthermore, the media reported that the Moderna vaccine could be preserved at a freezer-level temperature, unlike the vaccine developed by the above-mentioned pharmaceutical company in the U.S. that would need to be preserved at –70 degrees Celsius. As a result, a sense of hope for the availability of the vaccine grew in the market, and the U.S. dollar/Malaysian ringgit exchange rate fell to MYR 4.10 again on November 17. On November 18, the following day, the exchange rate continued falling to MYR 4.08 for the first time since February, with an increased export flow along with a rise of the crude oil price and a weak U.S. dollar index. Thereafter, the number of Covid-19 cases increased in Europe and the U.S., leading the U.S. dollar/Malaysian ringgit exchange rate to rally to the MYR 4.10 level. However, this was only a temporary trend, and the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.09 level again on November 20, as stock prices rallied

in the U.S. when the media reported that the Republican Party resumed discussion on additional Covid-19 economic aid at the U.S. Senate.

At the end of the month, the Malaysia budget bill, which attracted substantial attention, was adopted in an extremely enforced manner on November 26. As the risk of a general election in Malaysia was averted, stock prices rose. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate also fell to the MYR 4.06 level. Monthly trading closed at this level, close to the yearly low.

2. Outlook for This Month

In December, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate between MYR 4.03 and MYR 4.13. After the U.S. presidential election, there has clearly been a downtrend for the U.S. dollar, and expectation for the development of vaccines against Covid-19 has been growing. Furthermore, Malaysia's exports have been steadily recovering, and the immediate risk of downgrading subsided after the announcement of the U.S. governmental budget bill for FY2021. All these factors are supporting the Malaysian ringgit. On the other hand, there is no visible end to the third wave of Covid-19 cases in Malaysia, while the sense of uncertainty persists regarding political conditions. It is thus difficult to expect the Malaysian ringgit to appreciate substantially in December.

The final result of the U.S. presidential election is expected to be out on December 14 based on votes by the Electoral College. It is unlikely for the result to change in such a way that would allow current U.S. President Donald Trump to retain the presidency. Market participants have thus start to envisage a scenario in which the U.S. dollar depreciates with an expansionary fiscal policy, extremely low interest rates, and continued high-level liquidity supply.

In Malaysia, there has been an extraordinary situation in which even the ruling collation has submitted a no-confidence motion against the Prime Minister. Under such circumstances, the Malaysia 2021 budget bill was discussed on November 6. As a medium-term policy, the current government will follow the medium-term vision of "Shared Prosperity Vision 2030" as set out at the time of the government under Mahathir bin Mohamad, although the main focus was shifted to current measures against the Covid-19 crisis. The fiscal deficit outlook for this fiscal year is –6.0% of GDP, and the plan for FY2021 is –5.4% of GDP. Because the figure was at the lower –3% level until FY2019, the current figures show as if the country were at war. However, the three major ratings companies, including S&P and Fitch, which have already downgraded the sovereign rating of Malaysia to "Negative," have not released any remarks to imply an immediate downgrading, and this has been reassuring market participants.

On November 26, the Malaysia 2021 budget bill was adopted orally, which had never happened before, and the Prime Minister decided that positive votes were the majority. The government under Muhyiddin Yassin has thus managed to avert the risk of a dissolution of government and a general election, which would have been difficult under the persisting third wave of Covid-19 cases. However, the details of the budget bill are yet to be discussed by the committee within the government by December 17. If the situation remains uncertain, it would be a negative factor for the Malaysian ringgit.

However, in terms of demand & supply, the correlation has been reinforced between the Chinese yuan and the Malaysian ringgit thanks to remarkable growth in exports from Malaysia to China. Furthermore, there has been capital inflow from foreign investors. Therefore, the Malaysian ringgit is forecast to appreciate gradually against the U.S. dollar in the times ahead.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – December 2020

Expected Ranges	**Against the US$: IDR 13,800–14,400**
	Against 100 rupiah: JPY 0.71–0.75
	Against the yen: IDR 133.33–140.85

1. Review of the Previous Month

In December, the Indonesian rupiah appreciated and then remained robust against the U.S. dollar.

In November, the U.S. dollar/Indonesian rupiah exchange rate remained at the IDR 14,700 level on November 2, as the U.S. presidential election was approaching and as market participants maintained a wait-and-see attitude. The October inflation rate of Indonesia was announced, and the result turned out to be +1.44% year-on-year—lower than the target set out by the central bank of Indonesia that was between 2% and 4%. On November 3, the following day, risk-taking sentiment gradually grew in the market, as the presidential election in the U.S. was to start on the same day, local time. As a result, the Jakarta Stock Exchange Composite Index started to rise, leading the Indonesian rupiah to appreciate. Even though, at the beginning, the outcome of the U.S. presidential election was uncertain, it soon became apparent that presidential candidate Joe Biden started taking the lead thereafter, and this mitigated the sense of uncertainty in the market. Under such circumstances, investor sentiment continued to improve, and the Indonesian rupiah remained robust as a result. On November 5, the third-quarter period GDP of Indonesia was announced, and the result turned out to be –3.49% year-on-year, recording negative growth for the second consecutive quarter period, due to a decline in consumption and corporate activities as a result of the spreading Covid-19 crisis. As a result, the Indonesian economy entered a phase of recession for the first time in approximately 20 years. However, the Indonesian rupiah remained robust. At the end of the week, the Jakarta Stock Exchange Composite Index rose, and the Indonesian rupiah appreciated rapidly against the U.S. dollar to the IDR 14,200 level on November 6. On November 9, the media reported that a major pharmaceutical company in the U.S. and a biopharmaceutical company in Germany both confirmed that their respective vaccines against Covid-19 were more than 90% effective as a result of clinical trials. On November 10, the following day, Russia announced that its vaccine was confirmed to be 92% effective based on a series of trials. As a consequence, risk-taking sentiment among investors grew even further, leading the Indonesian rupiah to appreciate against the U.S. dollar, and the exchange rate once approached the IDR 14,000 level—recording the monthly high. Toward the end of the week, the trend was inverted once, as the appreciation of the Indonesian rupiah was so sudden, and the U.S. dollar/Indonesian rupiah exchange rate returned to the IDR 14,200 level on November 13, toward the end of the week.

In the second half of the month, the media reported progress in the development of vaccines again, and this strengthened the Indonesian rupiah against the U.S. dollar to the IDR 14,000 level on November 17. On November 19, the central bank of Indonesia held a monetary policy meeting, which was attracting substantial attention in the market. As a result, the seven-day reverse repo rate (the policy interest rate of Indonesia) was cut by 0.25% to 3.75%, while more market participants expected the existing monetary policy to be maintained, although there were mixed expectations. In reaction to this decision, the Indonesian rupiah weakened against the U.S. dollar to the IDR 14,200 level again toward November 20, the following day. Furthermore, the central bank announced the

international balance of payments for the third-quarter period in 2020 on the same day, revealing a current account surplus of USD 964 million, 0.36% of the GDP, recording a surplus for the first time since 2011. Thereafter, the Indonesian rupiah remained strong toward the end of the month. Demand for the U.S. dollar toward the end of the month was absorbed by the capital inflow from foreign investors, and the Indonesian rupiah continued appreciating slowly. The U.S. dollar/Indonesian rupiah pair is currently trading at the IDR 14,100 level (as of this writing on November 27).

2. Outlook for This Month

In December, the Indonesian rupiah is forecast to remain robust against the U.S. dollar.

With regard to the Covid-19 crisis, the number of cases has been increasing in Indonesia, while the situation is getting even more serious in Europe and in the U.S. However, it has become more likely for vaccines to be available soon based on various media reports, including that of the plan to start vaccination in the U.S. in December, and has been fueling expectation in the market. Furthermore, various central banks are taking measures of monetary easing. As a result, in the monetary market, risk-taking sentiment has been growing among investors, despite the fact that the number of Covid-19 cases is still increasing. Therefore, it is likely that capital inflow into Indonesia from foreign investors will continue, which is a supporting factor for the Indonesian rupiah.

As was discussed above, the situation with the Covid-19 crisis has been severe in Indonesia, resulting in a decline in imports. As a consequence, there has been a large amount of trade surplus, even though it is not necessarily a positive outcome. The October trade surplus exceeded USD 3.6 billion. As the trade surplus grew significantly, the current account balance for the third-quarter period in 2020 turned positive for the first time since 2011. Given that the Indonesian rupiah was weak mainly due to the persistent current account deficit, the change in the situation is a contributing factor for the recent strength of the Indonesian rupiah. From a long-term perspective, it is likely for the current account balance to be negative again as the Indonesian economy recovers further. However, from a short-term perspective, the current account surplus is likely to support the Indonesian rupiah.

If the Indonesian rupiah remains stable, it is possible for the interest rate to be cut again. For the above reasons, the Indonesian rupiah is expected to remain strong, as was the case with last month in which the interest rate was cut.

However, it should also be pointed out that there are persistent concerns regarding the independence of the market, as is seen with the case of the direct purchase of government bonds by the central bank. If these issues gather attention in the market, the trend may be inverted, weakening the Indonesian rupiah, which has so far been stable. Market participants should thus keep an eye out for headlines related to these topics.

For the above reasons, the Indonesian rupiah is forecast to remain robust against the U.S. dollar in December.

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

Philippine Peso – December 2020

Expected Ranges	**Against the US$: PHP 47.25–48.60**
	Against the yen: JPY 2.150–2.190

1. Review of the Previous Month

In November, the U.S. dollar/Philippine peso exchange market opened trading at PHP 48.38.

As a result of the presidential election in the U.S., a victory by Joe Biden became likely, along with major divisions in the political spectrum. As a consequence, risk-taking sentiment grew in the market, encouraging market participants to buy the Philippine peso. Thus, the U.S. dollar/Philippine peso exchange rate reached MYR 48.11 on November 9, recording the highest rate for the Philippine peso since the beginning of the year.

Thereafter, the media reported positive news about the development of vaccines against Covid-19, and this led the U.S. dollar interest rate to rise, encouraging market participants to buy the U.S. dollar globally. Following this trend, market participants bought back the U.S. dollar also in the U.S. dollar/Philippine peso exchange market.

On November 10, the third-quarter period GDP was announced, and the result turned out to be –11.5%, without reaching –9.6%—the market estimate. The result for the previous quarter period was also revised downward from –16.5% to –16.9%, and this encouraged market participants to sell the Philippine peso.

On November 12, the Manila monetary market was closed due to a typhoon. As a sense of uncertainty persisted in the market regarding additional economic aid in the U.S., fueling risk-averse sentiment in the market. Under such circumstances, the Philippine peso weakened against the U.S. dollar, and the exchange rate reached PHP 48.46 on November 13. However, after a phase of pessimistic peso-selling, the market calmed again.

On November 16, the September amount of Overseas Filipino Workers remittances was announced, and the result turned out to be +9.3% year-on-year, significantly higher than the market estimate, which was –4.3% year-on-year, and this led market participants to expect the Philippine peso to renew its highest rate since the beginning of the year. However, the appreciation of the Philippine peso was slow. On November 17 and after, there was no deciding factor in the market, even though there were some factors such as media reports on the development of vaccines against Covid-19, the second wave of Covid-19 cases in Europe and the U.S., and re-opening of the discussion on additional economic aid in the U.S. As a result, the U.S. dollar/Philippine peso exchange rate fluctuated between PHP 48.20 and PHP 48.40 without moving in any direction.

Toward the end of the month, the Dow Jones Industrial Average renewed its all-time high in the U.S., and this fueled risk-taking sentiment in the market. Under such circumstances, the U.S. dollar/Philippine peso pair was traded once at PHP 48.055 on the last trading day of the month (November 27). The monthly trading closed at PHP 48.06 to the U.S. dollar (the highest rate for the Philippine peso on a closing-rate basis since September 23, 2016).

2. Outlook for This Month

As was mentioned above, the central bank of the Philippines cut the policy interest rate for the Philippine peso

by 0.25 percentage points. This means that the policy interest rate was cut by a total of 2 percentage points since the beginning of the year, lowering the Philippine peso policy interest rate to 2%—the all-time low.

The central bank of the Philippines decided to cut the interest rate in order to support economic recovery, given the weak GDP and the serious impact of several typhoons that hit the nation as it was resuming its economic activities. The inflation outlook was announced to be 2.4% for this year, 2.7% for 2021, and 2.9% for 2022.

Even though the inflation rate is thus likely to be within the inflation target set out by the central bank of the Philippines (2–4%), it is unlikely for the Philippine monetary authorities to take any further measures of monetary easing before the end of the year.

The governor of the central bank of the Philippines, Benjamin Diokno, made a remark on the limits of the monetary policy as well as on the necessity of fiscal stimulus measures. However, it is difficult to expect the Philippine peso interest rates to appreciate sharply as a result of fiscal stimulus measures. Thus, pressure to sell the Philippine peso is likely to be limited.

In November, the Philippine stock price index once recovered to the 7,200-point level, returning to the level recorded in February this year, thanks to the interest rate cut as well as the strength in the U.S. stock market. Even though the index fell below the 7,000-point level when the monthly trading closed, as market participants sold stocks for the purpose of profit-taking at the end of the month, there has been strong momentum.

Positive media reports on the development of vaccines against Covid-19 led to a rise of U.S. interest rates, resulting in the appreciation of the U.S. dollar against the Philippine peso. However, the Philippine peso is likely to appreciate further toward the end of the year, as risk-taking sentiment would be stronger with expectations for the "new normal."

In the last week of November, the U.S. dollar/Philippine peso exchange rate approached the PHP 48 level. However, it seems that there was no decisive factor to lead the exchange rate to fall below the PHP 48 level. In December, the Philippine peso is likely to appreciate for a seasonal factor (Overseas Filipino Workers remittances). Unless there is another factor to change the trend, the Philippine peso is expected to approach its high early in December.

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

Indian Rupee – December 2020

Expected Ranges	**Against the US$: INR 71.50–75.50**
	Against the yen: JPY 1.36–1.43

1. Review of the Previous Month

In November, the U.S. dollar/Indian rupee exchange rate remained low.

In November, the second lockdown of European countries fueled risk-averse sentiment in the market, attracting funds to the U.S. dollar market. As a result, the U.S. dollar index rose to its highest level in a month. In Mumbai, after three consecutive holidays, the U.S. dollar/Indian rupee exchange market opened trading at INR 74.47 on November 2 with a significantly weaker Indian rupee against the U.S. dollar, compared to the previous trading day. On the other side of the globe, vote counting for the U.S. presidential election started, and some pointed to the possibility of election fraud. Under such circumstances, risk-averse sentiment grew in the market, and the U.S. dollar/Indian rupee exchange rate reached INR 75.00, the monthly high, on November 4. However, risk-taking sentiment grew thereafter, as the media reported a likely victory by Joe Biden, while expectations grew for monetary easing, as a large-scale fiscal stimulus became unlikely in the case of a divided government. As a consequence, funds flew into emerging countries. The overall Asian currencies appreciated against the U.S. dollar, among which the Chinese yuan recorded its highest rate against the U.S. dollar in 28 months. Following this trend, the U.S. dollar/Indian rupee exchange rate reached INR 73.825—the monthly low.

Thereafter, market participants actively bought risk assets worldwide in reaction to headlines related to the trials of a vaccine against Covid-19 carried out by a pharmaceutical company in the U.S. However, in the U.S. dollar/Indian rupee exchange market, there was a large-scale market intervention to buy the U.S. dollar and sell the Indian rupee, and this led the Indian rupee to depreciate. The U.S. dollar/Indian rupee exchange rate continued rising and reached INR 74.705 on November 13.

On November 17 and after, the U.S. dollar continued to depreciate, and the U.S. dollar index reached its lowest level in two years. However, the Indian rupee did not appreciate significantly, as market participants were mainly concerned with market interventions by the Indian monetary authorities. However, in the meantime, the Indian stock price index renewed its all-time high, attracting a large amount of investment funds from abroad, recording the highest capital inflow on a single-month basis. There were thus market participants selling the U.S. dollar and buying the Indian rupee, which led the U.S. dollar/Indian rupee exchange rate to slowly fall and approach the INR 74.00 level. Even though the exchange rate did not immediately fall below the INR 74 level, there were some positive factors toward the end of the month, such as desirable reports on the clinical trial outcomes of Covid-19 vaccines by three pharmaceutical companies as well as the headline that the former Federal Reserve Board (FRB) Chair Janet Yellen, who supports the use of fiscal stimulus, was nominated to be Secretary of the Treasury in the U.S. for an incoming Biden administration, and this eventually led the U.S. dollar/Indian rupee exchange rate to reach the INR 73 level. As of November 27, when this article was being written, the U.S. dollar/Indian rupee exchange rate has been fluctuating at the INR 73.82 level.

2. Outlook for This Month

In December, the U.S. dollar/Indian rupee exchange rate is not forecast to move in any direction.

As was mentioned above, the trend was inverted, and a large amount of investment capital flew into emerging countries in the first week of November, as the presidential election in the U.S. ended and as there were headlines related to the development of vaccines against Covid-19. As a result, the U.S. dollar index reached the lowest level in two years, while overall Asian currencies appreciated against the U.S. dollar. In the meantime, the Indian stock price index renewed its all-time high, and net capital inflow from foreign investors reached USD 8 billion, the all-time high on a single-month basis, by November 23, and this made it likely for the Indian rupee to be actively bought. However, despite the worldwide risk-taking sentiment and the large amount of Indian rupees bought by foreign investors, the U.S. dollar/Indian rupee exchange rate did not fall.

The main reason why the Indian rupee did not appreciate was the market intervention by the Indian monetary authorities. The central bank of India, which had foreign currency reserves of more than USD 15 billion in October, increased its foreign currency reserves further by USD 12 billion by November 13. It seems that the central bank sold Indian rupees worth more than JPY 2.8 trillion against foreign currencies in six weeks. Unless the central bank stops market intervention, it is not possible for the Indian rupee to start appreciating. The remaining question is to what extent the Indian monetary authorities would accept the U.S. dollar/Indian rupee exchange rate to fall (at which level the Indian monetary authorities would start actively intervening in the market). Many market participants expect interventions at INR 73.85, the level observed on November 9, or at INR 73.50, a level that the exchange rate has not reached since October 23. However, in reality, it is difficult to know the intentions of the Indian monetary authorities. The U.S. dollar/Indian rupee exchange rate has thus been at the level intended by the Indian monetary authorities without following market mechanisms. Market participants thus need to remain attentive of actions taken by Indian monetary authorities without being able to analyze the fundamentals, such as prices, interest rates, and economic indices.