Mizuho Dealer's Eye

January 2021

Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – January 2021

Expected Ranges **Against the yen: JPY101.00–104.00**

1. Review of the Previous Month

On December 1, the dollar/yen pair was pulled higher by the cross yen, but the greenback was then sold against the euro, so the dollar/yen pair was pushed back to the lower-104 yen mark. It then hit a high of 104.75 yen on December 2 as the dollar was bought against the euro and pound. However, it dipped back to the lower-104 yen mark as the greenback was sold when talks about a US economic package resumed and US stocks pared back losses. The dollar was sold on December 3 too, though the pair rallied to around 104 yen after a round of selling. It climbed to the lower-104 yen mark on December 4.

The US November nonfarm payrolls data was then released, with growth deteriorating on the previous month. This seemed to add impetus to negotiations about a new economic package. The greenback was bought against the pound on December 7 when it seemed that EU/UK trade talks would end without an agreement. Nonetheless, the dollar was sold against European currencies, so the dollar/yen pair fell to around 104 yen. Amid ongoing uncertainty about US talks about a new economic package and EU trade negotiations, the pair fluctuated at the lower-104 yen mark on December 8. The pair moved firmly on December 9 as the greenback was bought against European and commodity currencies. The yen was sold against commodity currencies on December 10 as iron ore prices rose, so the dollar/yen pair rose to 104.58 yen for a time, but with the greenback then being sold against the euro and Australian dollar, the pair dipped to the lower-104 yen mark. It then moved with a heavy topside around 104 yen on December 11.

At the weekend, the EU and UK agreed to continue trade talks, so European currencies rose on December 14 and the dollar was sold, with the dollar/yen pair falling to the mid-103 yen level. The dollar was then bought at a faster pace, though, so the pair shot up to the 104 yen range. The dollar was sold against European currencies on December 15. With US economic indicators also weakening, the currency pair fell to the upper-103 yen level. The pair temporarily fell to 103.26 yen on December 16 as US stocks moved firmly and European currencies were bought, but the greenback was bought on an adjustment to long positions, so the pair bounced back to the upper-103 yen mark. The greenback was then sold and the pair dropped back to the lower-103 yen mark after FRB chair Jerome Powell made some dovish comments. After falling to a low of 102.88 yen for a time on December 17, the pair rallied to the lower-103 yen mark on December 18. The dollar was bought temporarily on risk aversion following the spread of a new variant of Covid-19, but stocks then bounced back and the dollar was sold on profit taking, so the pair was eventually pushed back to the lower-103 yen mark.

It then rose to the upper-103 yen mark on December 22 on risk-evasive dollar buying. The US released some mixed economic indicators on December 23, with the pair fluctuating gently at the mid-103 yen level. On December 24, it was announced that the EU and UK had reached a broad agreement on a trade deal, so the dollar/yen pair climbed to the upper-103 yen mark, though it then moved with a lack of incentives over the Christmas holidays. The pair floated from the mid- to the upper-103 yen mark on December 25.

The dollar was bought on December 28 when the euro was sold on the spread of Covid-19, so the pair rose gently to the upper-103 yen level. The pair then fell on December 29 as the euro was bought back and the dollar sold. Dollar selling continued on December 30, with the pair's downside dipping to 102.97 for a time. The pair rallied to the lower-103 yen level on December 31 before fluctuating gently thereafter.

2. Outlook for This Month

The dollar looks set to be sold further in January. As such, the dollar/yen pair's movements will be marked by more yen bullishness. However, the yen's rise will be quite mild compared to the strength of the euro and pound.

The greenback will be sold as the euro and pound are pushed higher after the EU and UK managed to reach a trade deal at the end of December. Congress will also formally appoint Joe Biden, a winner of the US presidential election as the next president this month, with the markets likely to focus on this as a factor pushing the dollar lower.

Congress will confirm the US presidential electoral votes on January 6. Mr. Biden won the election when the Electoral College gave him 306 votes to President Trump's 232 on December 14. Both houses of Congress will now recount and tabulate these votes, with Mr. Biden set to be formally announced as the next US president.

There are no reports that Mr. Biden wants to see a weaker dollar, but dollar selling has accelerated since it seemed more likely he would assume the presidency, so it seems the greenback will remain at lows during the term of the next administration.

However, the RMB and euro have soared recently, so if both countries start to view their bullish currencies as a hurdle to any economic recovery, they might work in tandem to place pressure on the weak dollar. At the end of 2020 it was reported that China and the EU had reached a broad agreement on an investment treaty. This rapprochement could also change the dollar's trajectory, so caution will be needed.

The FOMC is also scheduled to meet over Tuesday January 26-Wednesday January 27, so investors will be monitoring which financial policies are adopted to tackle Covid-19. Some observers think the pace of QE might be accelerated, though the FRB is unlikely to expand its easing policies. In particular, with US lawmakers approving a $900 billion stimulus package last month, there are doubts about what impact any further financial measures will have right now.

Even if the FOMC does hold back, the new Democratic administration will probably introduce more fiscal mobilization, so the markets will probably not be hit with any negative surprises, with the dollar likely to continue being sold.

If the Democrats win the Senate elections on January 5, this will leave the door open for a 'triple blue' administration (presidency, Senate and House of Representatives), with expectations for more fiscal mobilization likely to swell.

Dealers' Market Forecast

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

Bullish on the dollar	6 bulls	105.00 – 102.00	Bearish on the dollar	15 bears	104.50 – 102.00

* Ranges are central values

Tanaka	Bull	105.00 – 101.50	Attention will focus on the Senate elections in Georgia and the policies of the new US administration, but the FRB's easing policies are likely to remain unchanged until a vaccine is rolled out and uncertainty about Covid-19 and the direction of the economy eases off. The dollar will remain bearish, though the dollar/yen pair will hold steady close to 100 yen.
Takeuchi	Bear	105.00 – 102.00	There remains a structural surplus of dollars. Hedging needs related to company stock could also emerge toward the end of March. Overly-extended positions will probably be corrected at some point, but this is unlikely to lead to some fully-fledged dollar buying. There will be deep-rooted selling demand at the dollar/yen pair's upper price.
Tsutsui	Bull	106.00 – 103.00	A number of political events are lined up in the US. Georgia will be holding Senate elections again, for example, with investors also focusing on the Covid-19 measures of the new administration and its stances regarding a new relief package and the dollar. Unlike the Trump administration, the Biden administration might drop hints about dollar bullishness, so caution will be needed.
Kato	Bull	106.00 – 101.00	The dollar/yen pair was also affected by risk-on dollar selling. The influence of this will probably wane in 2021. Many market participants have excessive expectations regarding yen bullishness. In fact, it could be a body blow if the yen is actually sold against the cross yen.
Yamagishi	Bear	105.00 – 101.50	The dollar will remain bearish on large-scale FRB monetary easing and the huge US deficit, so investors will probably test the dollar/yen pair's downside. The pair will probably grow firmer if US interest rates rise slightly after a vaccine is rolled out and US economic activity returns to normal, but this is unlikely to occur until spring onwards.
Ushijima	Bull	105.00 – 102.00	Stocks surged at the end of 2020, so they will have some room for adjustment in January. The greenback will be bought back at times as the trend of bullish stocks/dollar selling swings back. However, the dollar is likely to remain the only loser in town, with the dollar/yen pair set to trade with a heavy topside.
Tasaka	Bear	104.00 – 101.50	Stocks will continue to rise and the dollar will remain bearish on the FRB's monetary easing stance. Even if the Democrats win the Senate elections in Georgia and the US government becomes 'triple blue,' with stocks then falling and the greenback rising, this will probably see the dollar/yen pair moving flatly or falling slightly. If the US ends up with a divided government, though, this could see the currency pair falling further.
Omi	Bear	104.00 – 101.00	Dollar selling looks set to accelerate. This will come on the back of prolonged low interest rates, expectations for further fiscal expansion under a 'triple blue' government, and policies introduced by the new Biden administration. In particular, if the 'triple blue' situation does come to pass, dollar selling will probably accelerate.
Ueno	Bull	105.00 – 102.00	The euro and yen have both risen to their highest levels in years on a surplus of dollars. However, each currency remains subject to the same policies. Dollar selling will probably ease off going forward. In fact, investors should be wary of the dollar/yen pair being pulled higher by the cross yen.
Yamaguchi	Bear	105.50 – 102.00	Markets are likely to remain in risk-off mode on the rise of Covid-19 cases and hospitalizations across the world. Investors are starting to take note of the laggardly jobs recovery in the US, with the greenback likely to continue moving bearishly. Comments by the new Biden administration should also be monitored.
Kai	Bear	104.00 – 102.00	The dollar/yen pair short positions that were closed before Christmas/New Year will probably be rebuilt in January. It will take time for the import flow to recover, with the yen likely to continue rising for now.
Onozaki	Bull	104.50 – 102.00	The greenback will not be bought in earnest amid a backdrop of surplus dollars, but US economic indicators had performed better than expected until last month, so the dollar/yen pair might move firmly on the downside on expectations for a normalization of economic activity depending on the results of indicators released this month. The pair will probably trade in a range without a sense of direction.
Tamai	Bear	104.50 –	With the FRB still in dovish mode, the dollar will continue to be sold on a further US relief package. Even if Covid-19 continues to spread and the dollar is bought back on risk aversion, the dollar/yen pair's reaction will probably

		102.00	be muted.
Harada	Bear	104.50 – 102.50	Though a vaccine is being rolled out, numbers are still limited, so the spread of Covid-19 will remain a factor of concern. The supply of liquidity in the US will also lead to dollar selling, with the dollar/yen pair set to remain bearish.
Oba	Bear	104.00 – 102.00	The dollar/yen pair will move with a heavy topside as Covid-19 continues to sweep metropolitan areas and so on. However, there were no major position build-ups around the turn of the year, so any prices movements in the new year will be limited. The movements will be shaped by the real economy, with the pair's room on the downside also capped.
Katoono	Bear	105.00 – 101.90	The dollar/yen pair will continue to be swept by positive and negative headlines related to the spread of Covid-19 and the roll-out of vaccines, for example, but the base scenario is of the pair's downside being tested as dollar selling continues on concerns about low interest rates and the US deficit.
Kobayashi	Bear	104.50 – 102.00	With Covid-19 continuing to rage across the world, investors are likely to remain in risk-off mode. In particular, an employment and consumption recovery seem unlikely in the US. With US interest rates remaining low, investors are not likely to actively buy the dollar, so the dollar/yen pair will probably move bearishly.
Henmi	Bear	104.50 – 102.50	The dollar will be supported by the agreement on a new relief package, but there remains a dollar surplus on the whole, so the greenback will face strong downward pressure. With interest rates set to remain low, the dollar/yen pair will probably edge lower.
Otani	Bear	104.50 – 102.00	The FRB will pursue a zero-interest-rate policy for a prolonged period, while there remains a sense of excess liquidity. As such, US long-term interest rates are unlikely to rise, with the dollar set to remain bearish. With Covid-19 cases continuing to rise in the US, economic indicators might turn bearish, so caution will be needed.
Suzuki	Bull	104.50 – 102.00	The dollar will continue to be sold against other currencies on excess liquidity, with the greenback set to remain bearish on the whole. The Democrats are in the ascendancy right now, but the future direction will depend significantly on the results on the January 5 Senate elections in Georgia.
Okuma	Bull	104.50 – 102.00	US stocks are moving bullishly, but the Dollar Index will continue to slide on stable low interest rates and the huge US deficit. The ongoing spread of Covid-19 will also weigh down the dollar/yen pair's topside.

Shinichi Tsutsui, Global FI Team, Global Markets Trading Department

Euro – January 2021

Expected Ranges	**Against the US$: US$1.1950–1.2500**
	Against the yen: JPY123.00–133.00

1. Review of the Previous Month

The trend of dollar bearishness and euro bullishness spilled over from November, with the euro/dollar pair rising to the upper-$1.22 mark mid-December. Its downside then grew firmer and it traded around $1.22 over the Christmas holidays.

In the first week (December 1–4), the pair opened at the lower-$1.19 level. With US and European stocks rising, the greenback was sold and the pair underwent an essentially one-sided rise to top the psychologically-important $1.20 mark before eventually hitting $1.2177. One bearish factor for the euro during this time were comments about stormy Brexit negotiations, but the reaction of the markets was extremely muted.

In the second week (December 7–11), the ECB Governing Council announced it was pumping more money into several programs, for example, but investors had basically priced this in, so the pair moved in a range between $1.205 (its high from the first week) and the $1.217 level. As broadly expected, the Governing Council decided to (1) extend the amount and duration of its Pandemic Emergency Purchase Programme (PEPP), (2) extend the term of its targeted long-term refinancing operation (TLTRO3), and (3) introduce a new Covid-19 emergency long-term refinancing operation. In the press conference after the meeting, ECB president Christine Lagarde announced the ECB would be monitoring the foreign exchange rate 'very carefully,' with the word 'very' added to her previous phrasing. The ECB president also clarified that policy changes (such as the increased amounts) would be implemented as necessary, thus voicing the ECB's commitment to stabilizing and pumping liquidity into each nation's bond markets. ECB staff projections predicted steady economic growth toward 2023, but they also said the inflation forecast for that year was a 'disappointingly low' +1.4% (annualized). This suggested the ECB was strongly committed to maintaining its current policies. The EU Commission announced on December 10 that each country had signed off on the EU budget and a Covid-19 recovery fund.

In the third week (December 14–18), the eurozone released some surprisingly strong economic indicators. With investors also focusing on US financial and fiscal policy, the pair rose from the lower-$1.21 mark to $1.2273 (a high for the week). It started the week trading at the $1.21 range, though it then climbed to the $1.22 range on the release of better-than-expected eurozone, German and French PMIs on December 16. The greenback was also pushed lower in the forex markets by dovish comments by FRB chair Jerome Powell regarding US interest rates, so the pair become entrenched in the $1.22 range. On December 17, comments by the Speaker of the US House of Representatives Nancy Pelosi suggested that an agreement on a new relief package might be reached within the term, so the dollar was sold and the pair hit a high of $1.2273.

In the fourth and final weeks, it was reported that a new strain of Covid-19 had been found in the UK. With several European nations also re-introducing or extending lockdowns, the markets switched into risk-off mode, with the pair temporarily hitting the lower-$1.21 level. However, the EU and UK then reached a broad agreement on a trade deal, so the euro was pulled higher by a bullish pound. The pair subsequently traded around $1.22.

2. Outlook for This Month

With the ECB and FRB recommitting in December to keeping interest rates low in the medium term, the risk of fluctuating European/US interest-rate differentials has fallen. These differentials are now less likely to sway the foreign exchange markets. As such, the euro will probably be swayed by interest rates from here on as investors focus on supply and demand factors related to Europe's current account and trade surplus. Based on this, it seems likely that the euro/dollar pair will target the $1.25 range in January as its downside grows firmer at the $1.20 range.

Inflation is trending low, a second wave of Covid-19 has hit, and new strains are emerging across Europe and Africa. Given this tough economic situation and environment, the ECB has committed to keeping interest rates low by expanding and extending its current programs. The FRB also committed itself again to a policy of low interest rates in December when the FOMC strengthened its forward guidance while deciding to continue purchasing assets at the current pace. As such, it seems very unlikely that interest-rate differentials will shift in January.

A glance at the Eurozone macroeconomic indicators released in December 2020 shows indicators moving broadly bullishly in October and November, before lockdowns were re-introduced. The services sector lost some momentum in December after the imposition of lockdowns, but manufacturing moved flatly on the whole. With Asia and the rest of the global economy clearly recovering, confidence-related data (eurozone PMIs and so on) reveal bullish outlooks when it comes to export orders. Investors will probably focus on the risk of an economic downswing on the recent lockdowns, but a reading of the economic indicators suggests the eurozone is undergoing a firm export-led recovery. Concerns about a new outbreak of Covid-19 and new strains have emerged from late December, but these new strains are likely to be covered by vaccines now under development, so they are unlikely to shift the current outlook.

A number of political events are lined up in the US from the start of the year. Market participants will be focusing on the Senate re-elections in Georgia, the Covid-19 policies of the new Biden administration, and the details and scale of a new relief package (set to be announced in January). The euro could undergo a volatile rise or indeed fall depending on the news that emerges.

However, with the ECB and FRB both committing to low interest rates, there will be no movements when it comes to interest-rate differentials, so trends will probably be shaped by supply and demand factors, with these factors currently pointing to euro bullishness. ECB officials and so on will probably make some verbal interventions to curb the euro's rise, but these will only prompt a temporary market response and are unlikely to change the supply and demand environment. A glance at the past suggests January will be a buying market for the euro/dollar pair, with investors testing the psychologically-important $1.25 mark.

Dealers' Market Forecast

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

Bullish on the euro	18 bulls	1.2425 – 1.2075	Bearish on the euro	3 bears	1.2400 – 1.2000

* Ranges are central values

Tanaka	Bull	1.2500 – 1.2000	Attention will focus on the policies of the new US administration, but the FRB will continue to ease on the Covid-19 situation and uncertainty about the future, so the dollar will remain bearish. The euro/dollar pair could face some adjustments on the results of the Georgia Senate re-elections and verbal interventions to curb the euro's rise, but the overall trend will remain unchanged.
Takeuchi	Bull	1.2500 – 1.2000	There is a dearth of factors conducive to active euro buying, but there remains a sense of surplus dollars across the globe. As the dollar weakens, the euro could be bought on a lack of alternatives.
Tsutsui	Bull	1.2500 – 1.1950	The ECB and FRB have both committed to low interest rates, so there will be no movements when it comes to interest-rate differentials, with trends likely to be shaped instead by supply and demand factors. These factors point to euro bullishness. ECB officials and so on will probably make some verbal interventions to curb the euro's rise, but these are unlikely to change the supply and demand environment.
Kato	Bull	1.2300 – 1.1900	End-of-year risk appetite is easing. In January, investors will focus on the extent of the negative impact of Covid-19. This impact is likely to be felt more in Europe than in Asia.
Yamagishi	Bull	1.2400 – 1.2000	The euro/dollar pair will remain bullish as the dollar continues to slide on US easing and the euro continues to rise on supply and demand factors. However, the pair is moving at its highest levels since negative interest rates were introduced in 2014. It is also approaching its consumer-price-based purchasing power parity (PPP) level of $1.23, so its rise will probably ease off going forward.
Ushijima	Bull	1.2500 – 1.2000	The dollar was sold from the end of the year and this trend looks set to continue into the new year. The euro will probably be bought by investors selling the greenback. However, the dollar might be bought back on the initial moves of the Biden administration, so caution will be needed.
Tasaka	Bull	1.2500 – 1.2000	The euro will remain a hard currency to actively buy given the worsening Covid-19 situation, but the euro/dollar pair will continue to be pushed higher by dollar bearishness. However, if a 'triple blue' government emerges after the Georgia Senate elections, the pair will probably come under some adjustment.
Omi	Bull	1.2500 – 1.2000	The euro/dollar pair will break through highs and continue to trend higher. This will mainly be due to dollar selling, but the euro will also be boosted by the trade deal with the UK and the roll-out of vaccines.
Ueno	Bear	1.2400 – 1.2000	The G3 currencies are of a similar nature and are surrounded by a similar policy environment. As such, dollar selling against the euro and yen will probably take a breather. Given the spread of Covid-19, it seems the economic situation in Europe will become less of a reason to buy the euro (against the dollar and yen). If the euro starts to slide, it could fall sharply.
Yamaguchi	Bear	1.2400 – 1.2000	The euro/dollar pair has continued to rise on risk appetite related to the roll-out of Covid-19 vaccines, for example. The virus continues to spread across Europe, though. With the ECB also expected to ease further, there could be some correction to the trend of euro bullishness.
Kai	Bull	1.2300 – 1.2100	The euro/dollar pair will continue to test the $1.23 range on dollar bearishness. Positive news about lockdowns and the effects of vaccines will start to emerge from mid-January, so the euro will probably be bought.
Onozaki	Bull	1.2500 – 1.2000	There are concerns about new Covid-19 strains, but as the pandemic continues to sweep the globe, the trend of euro bullishness is likely to remain in place. With UK/EU trade talks also out of the way now, the euro will continue to rise as it is bought by investors fleeing the dollar.
Tamai	Bull	1.2400 – 1.2100	The greenback will continue to be sold on FRB easing. There will be concerns about high prices, but the euro/dollar pair will continue to rise on the roll-out of Covid-19 vaccines in Europe and the Brexit agreement.
Harada	Bull	1.2500 –	The theme will be dollar buying, so the euro will continue to be bought on a lack of alternatives. The markets have also finishing pricing in further ECB easing, so the euro/dollar pair looks set to remain bullish.

		1.2100	
Oba	Bear	1.2300 – 1.2200	The EU and UK have signed a free trade agreement and there will be no resumption of tariffs on goods and services, though concerns remain about new Covid-19 variants. Preemptive moves made after Covid-19 hit last year could lead to uncertainty, with the euro sold as a result.
Katoono	Bull	1.2400 – 1.2050	One worrisome factor is out of the way now the UK and EU have signed a trade deal, with the euro/dollar pair set to rise on dollar bearishness. ECB and government officials might intervene to curb the euro's rise, while there are also concerns about the spread of Covid-19 cases, but the euro will be susceptible to buying on a lack of alternatives.
Kobayashi	Bull	1.2450 – 12100	A sense of relief has swept the markets now the UK and EU have agreed a trade deals, though there are concerns about the spread of Covid-19 on new variants. Rather than being actively bought, it seems the euro will continue to rise on dollar bearishness.
Henmi	Bull	1.2300 – 1.2000	The dollar faces strong downward pressure, while the UK and EU have reached a broad agreement on a trade deal, so the euro/dollar pair looks set to move firmly. However, new variants of Covid-19 are spreading through the UK, Europe and elsewhere, so the pair's topside will be held down by uncertainty.
Otani	Bull	1.2400 – 1.2100	The dollar will remain bearish, with the euro likely to continue trending higher as an alternative. The ECB Governing Council made no strong verbal interventions to curb the euro's rise when it met in December, so the euro/dollar pair is likely to remain at highs.
Suzuki	Bull	1.2400 – 1.2100	The greenback will continue to slide on a sense of excess dollar liquidity. Investors have also finished pricing in further easing. The euro/dollar pair will also be supported by positive factors such as the EU/UK trade deal, so it will continue to have its topside tested.
Okuma	Bull	1.2400 – 1.2150	European economic headwinds have eased now the UK and EU have signed an FTA. There are concerns about the spread of new Covid-19 variants, but the euro/dollar pair will remain bullish as the euro is bought on dollar bearishness.

Joseph McElhill, Europe Treasury Department

British Pound – January 2021

Expected Ranges	**Against the US$: US$1.3400–1.3700**
	Against the yen: JPY138.50–142.00

1. Review of the Previous Month

The pound pair swung to and fro in December. UK/EU trade talks were set to conclude on December 13. Sterling was bought when both sides agreed to continue talking, so the currency pair opened the month trading firmly. It dropped back on December 14, though there were no noteworthy factors. There were two main factors on the UK side, namely the deepening Covid-19 crisis (with London also placed under Tier 3) and pessimism about UK/EU trade talks after a lack of news was read as a sign that no progress had been made. The latter was confirmed when the pound then soared on the evening of December 14 after a political correspondent for the BBC tweeted that the UK was moving closer to doing a deal with the EU. The pound was bought again until after noon London time on Wednesday. During this time, it temporarily extended its topside to $1.3550 and 140.30 yen against its US and Japanese counterparts, for example.

During the evening of December 16, Michael Gove said that trade talks with the EU would continue for some days after December 25. Sterling was subsequently bought, with the pound/dollar pair rising to the $1.36 range again. On the weekend of December 19–20, London and Southeast England was placed under Tier 4 on the spread of a new variant of Covid-19. With several European nations also closing their borders, the pound opened December 21 trading at the upper-$1.34 level and the upper-138 yen mark against the dollar and yen. Sterling fell further from Asian trading time to London trading time. The pound/dollar pair plummeted from its closing price from the previous weekend to hit $1.3190. The pound moved bearishly across the board, with the pound/yen pair breaking below 137 yen and sterling also sold above GBP0.92 against the euro.

News emerged on December 23 that the EU was preparing to sign a provisional agreement with the UK about a new trade deal, starting from January 1, with the pound bought back as a result. Sterling then fluctuated on mixed headlines, though the pound/dollar pair hit a weekly high of $1.3620 before Boris Johnson's press conference on December 24 following reports that a deal was imminent. Sterling dropped through GBP0.90 against the euro to strengthen to GBP0.8954. It also topped 141 yen for a time. The UK and EU then formally announced a deal, with Brexit finally sealed at the end of the interim period. One sticking point was fishing rights, but both sides ended up compromising, with the EU agreeing to cut its fishing catch (in monetary terms) by 25% over five-and-a-half years. However, investors had already priced in a deal, so pound buying did not accelerate. With the Christmas 25 holiday looming in the US and Europe, the pound closed the week trading at the mid-$1.35 level and the mid-140 yen mark. Amid thin trading in the final week, the greenback remained bearish, so the pound/dollar pair closed 2020 trading at a monthly high of $1.3686.

2. Outlook for This Month

The pound is expected to trade with a heavy topside in January.

The UK and EU signed a trade deal in Brussels in December 25 and this will now need to be ratified by their respective parliaments. However, EU member nations have agreed unanimously to apply the deal provisionally from January 1. As such, there is no longer any danger of a No-deal Brexit occurring when the interim period terminates at the end of December. As was seen in the odds offered by bookmakers directly beforehand, though, the forex markets had already priced in a deal before it was signed, so in the end the pound/dollar could not even top its previous week's high of $1.3625. In fact, the day of the announcement saw some 'selling on the fact.'

From here on, investors will focus on the direction of the US economic measures, the impact of spread of Covid-19, and the post-Brexit recovery of the UK economy. Though the markets were delighted with the EU/UK agreement, the UK will face the full impact of Brexit over the upcoming year, with some observers expecting the pound to slide. However, others say sterling is unlikely to weaken in the medium term, provided inflation doesn't rise in a way that sends real interest rates plunging into negative territories. In fact, if the roll-out of vaccines gets fully underway by Easter (the end of March), as the UK government is planning, then some observers think the pound/dollar pair might target the $1.40 range depending on the recovery of the UK economy.

If we focus solely on January, though, it seems somewhat unlikely that the pound will rise further. This is because the UK is still in the middle of the Covid-19 crisis. Scotland and Northern Ireland went into lockdown from Boxing Day (December 26), for example, with England also tightening restrictions after it recorded its highest one-day rise in infections. Only 500,000 people had received a vaccine by December 24, with a fully-fledged roll-out yet to commence.

Under these circumstances, there seems to be a real shortage of factors capable of pushing the pound higher, with the unit set to peak out amid a dearth of factors.

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

Australian Dollar – January 2021

Expected Ranges	**Against the US$: US$0.7515–0.7820**
	Against the yen: JPY77.45–80.80

1. Review of the Previous Month

The AUD/USD pair opened December trading at the mid-$0.73 mark. It then soared to the mid-$0.77 level toward the end of the year.

Australia's 3Q GDP data was released on December 2. With household spending rising by +7.9%, for example, the data beat forecasts and the previous quarter's data on both a q-o-q and y-o-y basis. The Australian finance minister then voiced the positive opinion that the economy would steadily recover from the impact of Covid-19. The greenback was then sold and the pair rose to the $0.74 range on the bearish result of the US ADP National Employment Report for November. Speculation grew that the US Congress was more likely to pass a new relief package on this bearish employment data, so US stocks renewed highs and the currency pair climbed to the mid-$0.74 level on December 4.

The second week saw the pair strengthening to the mid-$0.74 mark on December 7 as US interest rates fell on the spread of Covid-19 in the US and a state-wide lockdown in California. The pair then rose to around $0.7530 on December 10 on rising iron ore prices and falling US interest rates.

The pair hit $0.7578 for a time on December 14 as the NY Dow Jones temporarily hit a record high on optimistic headlines about Brexit and the roll-out of new Covid-19 vaccine in the US. However, with the UK reporting over 1,000 cases of a new strain of Covid-19, London went into a higher lockdown tier. With New York's mayor also talking about a comprehensive lockdown, the currency pair fell to around $0.7530 on risk aversion. The RMB hit a two-week low on December 15. The Australian dollar was also pulled down to $0.7507 against the greenback, though the pair then rose to around $0.7570 as US stocks moved close to record highs. On December 16, the Australian government complained to the WTO about high Chinese tariffs on Australian barley. Australia released some better-than-expected employment data for November on December 17, though the currency pair remained deadlocked around $0.7580.

The pair then climbed to $0.7639 as stocks rose on optimism about UK/EU trade talks. Stocks and crude oil prices dipped on December 21 on news about the spread of a highly-contagious form of Covid-19 in the UK. Risk aversion saw the pair sliding to around $0.7460. After a round of risk-evasive greenback buying, US stocks climbed on a sense of hope after a basic agreement was reached on a new relief package in the US. With news also emerging that Europe had approved a Covid-19 vaccine produced by a US pharmaceuticals firm, risk appetite grew again. The pair subsequently rebounded to the around $0.76. On December 22, Australia released some better-than-expected retail sales data for November, but this was offset by news that a new Covid-19 cluster had been discovered on the outskirts of Sydney. On December 23, the pair moved at the lower-$0.75 level, though it then fell slightly as US stock futures plummeted after President Trump said he wanted to revise part of the new relief package passed by Congress. The pair then returned to around $0.7580 as stocks rallied. Amid thin trading on Christmas Eve

(December 24), the markets reacted well to a trade agreement between the EU and UK, with the currency pair moving at $0.76 toward the weekend.

Trading was thin on the ground in the final week. The Australian dollar was bought at a faster pace toward the end of the year, with the pair hitting a yearly high of $0.7742 on December 31.

2. Outlook for This Month

The markets will swing between concerns about the spread of Covid-19 and hopes regarding the post-pandemic situation in January too, with greenback selling set to continue during phases of risk appetite.

Georgia will be holding Senate elections on Tuesday January 5, with two seats up for grabs. Even if the Democrats win both seats, some conservative Democratic senators in other states might not necessarily vote for the large-scale tax hikes or the green policies espoused by the Democrats, while the Republicans may still engage in filibustering, so another 'blue wave' scenario is unlikely. As such, stocks will probably rise on a sense of relief about the continuance of a divided government. Under this scenario, the AUD/USD pair's topside might move higher to become entrenched in the $0.76 range. Furthermore, with the Australian retail sales data moving firmly and the Australian unemployment rate falling, expectations for more RBA easing in the short term are waning and this will also support the pair's downside. The minutes to the FOMC meeting will be released on January 6. If these remind the markets about prolonged low real interest rates, this will lead to greenback selling, with the AUD/USD pair probably supported as a result. The Australian December employment data will be released on January 8. If jobs growth slows, this will lead to some risk-evasive greenback buying. If this happens, the currency pair's topside could be weighed down for a time.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – January 2021

Expected Ranges	**Against the US$: C$1.2500–1.2900**
	Against the yen: JPY78.00–82.00

1. Review of the Previous Month

The USD/CAD pair opened December trading at C$1.2971. Expectations for an economic recovery swelled on news about vaccines and negotiations over a new relief package in the US, so the greenback was sold against other major currencies. However, risk aversion flared again on reports about the spread of a new strain of Covid-19. The US dollar was bought and sold toward the end of the month on progress and setbacks regarding a US stimulus package, though it then moved bearishly.

Canada's 3Q gross domestic product (GDP) data was released on December 1. It dropped below expectations, but it had still improved sharply by an annualized +40.5% compared to the previous quarter. The Canadian dollar was bought and the currency pair weakened to C$1.2928. Canada's November employment data was released on December 4. The number of people in work and the unemployment rate both improved thanks to manufacturing growth. After moving at the mid-C$1.28 level, the currency pair now dropped below C$1.28 to hit C$1.2773. The Bank of Canada (BOC) Monetary Policy Committee kept its policy rate fixed at 0.25% when it met on December 9. The markets reacted well to the continuance of easing, with the Canadian dollar then moving bullishly. Canada then approved Pfizer's Covid-19 vaccine. With hopes also growing with regards to a new US relief package, the pair hit C$1.2707 on December 10 for the first time since April 2018. The Canadian dollar was also boosted when crude oil prices climbed to $47.74/barrel. The number of Covid-19 cases continued to rise, though, with concerns flaring again about a slowdown in economic activity, so risk aversion swept the markets once more. The greenback did not rise much in reaction. With its topside also weighed down by hopes for a further US stimulus package, the pair's rise was halted at the upper-C$1.27 mark. On December 14, Canada followed the UK and US into rolling out a Covid-19 vaccine. With hopes also growing regarding EU/UK trade talks and a further US relief package, the greenback was sold on risk appetite, with the pair dropping back to C$1.2720. It then dipped to a monthly low of C$1.2688 on December 15.

BOC governor Tiff Macklem then commented that a strong Canadian dollar would be bad for exports, so the Canadian dollar weakened to the mid-C$1.27 mark against its US counterpart. The FOMC kept the target range for the federal funds rate (its policy rate) at 0–0.25% when it met on December 16. It had been expected to ease further, so this decision led to US-dollar buying, with the USD/CAD pair rising to C$1.2790. However, it dropped back as the greenback was sold again on expectations for prolonged low interest rates together with a sense of excess dollar liquidity as a result of quantitative easing. On December 21, both parties in the US agreed on a new relief package to the scale of $900 billion. Nonetheless, the currency pair soared to C$1.2957 on news that a new Covid-19 strain was spreading throughout the UK. After a prolonged rise, crude oil prices also dropped back to $46.16/barrel. The pair jostled up and down in a narrow range towards the month's end on progress and setbacks regarding a new stimulus package. The greenback then moved bearishly, though, so the pair dropped back to the mid-C$1.27 mark.

2. Outlook for This Month

Canada has started to roll-out a Covid-19 vaccine, but the number of cases continues to rise. The second wave has led to a particularly large number of infections in Ontario and Quebec, with these two states both deciding to implement lockdowns. As a response to the new variant of Covid-19, Canada quickly moved to suspend passenger flight from the UK and it has introduced other measures such as stricter reviews of self-isolation plans. Hopes for a vaccine are being offset by concerns about the spread of infections and the new Covid-19 strain, with economic activity now slowing again, so Canada's December employment data and other economic indicators look set to move bearishly.

The Bank of Canada (BOC) kept its policy rate fixed at 0.25% when it met in December. It also kept its forward guidance unchanged while sticking to its current policies, such as purchasing C$4 billion of government bonds a week, pursuing QE until the economy recovers, and keeping its policy rate fixed until 2023.

In a press conference a few days later, BOC deputy governor Paul Beaudry voiced concerns about the spread of Covid-19 and the troubled economic recovery. He said the BOC still has some weapons in its armory, such an expansion of QE or setting targets for yield curves. He also hinted that the policy rate might be lowered (though not into negative territories). Furthermore, BOC governor Tiff Macklem said an economic recovery would require stronger exports, productivity and corporate investment. He also warned that a strong Canadian dollar would be bad for exports. He expressed the opinion that negative interest rates would be unproductive, though he hinted that rate cuts were an option. BOC will meet to set policy rates on January 20.The markets are broadly expecting the policy rate to be kept at 0.25%, so investors should monitor BOC comments. There may be some optimism about a vaccine, but there are also concerns about the strength of the Canadian dollar, while economic activity looks set to slow again on lockdowns, so the market tone is becoming more dovish.

Market participants should continue to focus on crude oil markets, US/China frictions, and the spread of Covid-19 and its new variants. They should also watch to see how December's economic indicators were impacted by the new lockdowns. Other things to monitor include the Business Outlook Survey (released January 11) and the BOC's statement (released January 20). Crude oil prices have supported Canadian-dollar buying, but they could also swing lower on the spread of Covid-19 and its new variants, though prices will be bolstered on the downside by hopes about the swift global roll-out of vaccines.

The Canadian dollar is likely to remain bullish in January, with the USD/CAD pair swinging between C$1.26–1.29 on a sense of excess US-dollar liquidity as a result of prolonged easing.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – January 2021

Expected Ranges	**Against the US$: KRW 1,065–1,105**
	Against the yen: JPY 9.346–9.709 (KRW100)
	(KRW 10.300–10.700)

1. Review of the Previous Month

The USD/KRW pair fell in December.

Foreign investors had sold South Korean stocks at the end of November, so the pair opened December 1 trading at KRW1108.1. These foreign investors then started buying stocks from December 2, though. With the RMB also climbing, the USD/KRW pair weakened. It dropped below the KRW1100 mark on December 3 and continued falling as the dollar was sold on risk appetite during overseas trading time. South Korea released a bullish October current account balance on December 4. With foreign investors also continuing to buy stocks, the currency pair plummeted to a monthly low of KRW1081.1 The US announced some weak employment data for November during overseas trading time on December 4, so the dollar was bought and the pair opened the day trading at KRW1083.0 on December 7. Lockdowns and other restrictions were then introduced in the US and elsewhere during overseas trading time. With the US government also placing new sanctions on 14 Chinese officials, the greenback was bought on risk aversion.

The pair tumbled to KRW1081.2 on December 9, but there seemed to be an intervention by the authorities just before the key KRW1080 level, so the pair was bought on the dip and then rebounded. Foreign investors sold over KRW1 trillion of stocks on December 10, with the USD/KRW pair then rising to KRW1093.9 on sporadic short covering toward December 11.

During overseas trading time on December 11, UK prime minister Boris Johnson hinted at the possibility of a No-deal Brexit during free trade agreement talks with the EU. With the Speaker of the US House of Representatives Nancy Pelosi also suggesting that an agreement on a new relief package might have to wait until after Christmas, the USD/KRW pair began December 14 trading at KRW1091.5. It moved firmly thereafter as foreign investors sold South Korean stocks, but with Nancy Pelosi calling for a meeting of Democratic and Republican leaders to hammer out an agreement on a new stimulus package, the pair tumbled to KRW1089.5 at the start of trading on December 16. However, it then rose as stocks were sold by overseas investors.

The NDF market saw some short covering during overseas trading time on December 21. The pair then hit a monthly high of KRW1110.5 on December 23, but the markets then reacted well when President Trump called for an increase in the amount of money extended to individuals in the new US relief package. With the won also bought on real demand, the pair's topside grew gradually heavier. The EU and UK reached a broad agreement on a trade deal during overseas trading time on December 23, with market risk sentiments improving. The won was also bought on real demand on December 24, so the currency pair fell.

An agreement was made on a new US stimulus package on December 28. As political risk eased, the won was bought on real demand, so the pair weakened. It finally closed the month trading at KRW1086.3.

2. Outlook for This Month

The USD/KRW pair will move with a lack of incentives in January.

There are three main reasons why the pair has fallen since September 2020. (1) Amid excess dollar liquidity, the dollar was sold against the RMB and won as China and South Korea recovered relatively quickly from Covid-19; (2) South Korea's current account balance improved sharply as the semiconductor sector bounced back; and (3) overseas investors bought South Korean stocks. Factor (2) looks set to continue from here on, but the USD/KRW pair has traded with a lack of direction since December when it comes to factor (1), while (3) stock buying by overseas investors has also cooled off since December. Furthermore, December marked the end of the quarter, so real-demand won buying will be more muted in comparison in January, with this factor not likely to push the pair lower this month. Under these circumstances, the pair will grow steadily firmer on the downside. There are also concerns that an economic recovery in Europe, the US and elsewhere might be pushed back by the new strain of Covid-19 that has swept across the UK. There are plans to roll-out vaccines, but if these plans shift significantly, this could lead to risk-off dollar buying, with the currency pair pushed up as a result, so caution will be needed.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – January 2021

Expected Ranges	**Against the US$: NT$27.70–28.50**
	Against the yen: JPY3.64–3.72

1. Review of the Previous Month

The Taiwan dollar hit its highest level against the US dollar for around 23 years in December.

The USD/TWD pair opened the month trading at TWD28.840. Though exporters sold the greenback, the pair traded in an extremely narrow range at the start of the month and it did not break through TWD28.500. It moved in a narrow range during the morning of December 3 too, but with the Taiwan Capitalization Weighted Stock Index hitting 14,000 points for the first time, the pair broke through TWD28.500 in the afternoon to hit the lower-TWD28.4 mark, its lowest level for around 23 years. The Taiwan Capitalization Weighted Stock Index hit another record high on December 4, so the Taiwan dollar was bought at a faster pace and the pair temporarily dipped to TWD28.250. It broke below TWD28.250 on December 8 to hit TWD28.210. The lower edge of the pair's range continued to edge lower thereafter, with the pair sliding to TWD28.116 on December 17. The Monetary Policy Meeting held on the same day reached a unanimous decision to keep policy rates fixed. Though the accompanying statement said the Taiwan dollar's exchange rate was "in principle determined by market forces," the bank said it would "keep close watch of cross-border capital movements and act in accordance with its mandate to maintain an orderly foreign exchange market and safeguard financial market stability."

The pair moved in a range late December, though stocks fell and the pair temporarily hit TWD28.150 on December 22 as Taiwan recorded its first domestic case of Covid-19 for around eight months. However, as the month's end approached, exporters sold the greenback, so the lower price of the pair's range edged down and the pair fell to TWD28.095 for a time on December 29. It continued to trade in a very narrow range around this level until the end of the month.

2. Outlook for This Month

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

In December, the pair broke through the key TWD28.500 mark to hit its lowest level in around 23 years. It remains below TWD28.000, though it is closing in on this level. The main factor has been bullish exports. The value of Taiwan's exports stood $312.29 billion over January–November, during the Covid-19 crisis. If this pace continues, Taiwan's exports will hit a record annual amount. The leading export orders indicator also rose sharply by +29.7% y-o-y in November to hit a record monthly amount on the impact of new smartphone releases, for example. The trade surplus might also hit a record annual high, with demand for the Taiwan dollar set to remain strong.

When the US Treasury Department released its Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States in December, it added the Taiwan dollar to its 'Monitoring List.' The report mentioned Taiwan's trade surplus with the US and its large current account surplus as a proportion of GDP. In response, Chin-Long Yang, the governor of the Central Bank of the Republic of China (Taiwan) (CBC) said the

increase in Taiwanese exports to the US as a result of US/China trade frictions was the reason Taiwan had been placed on the list. The CBC maintained it was building a good relationship with the US Treasury Department and it pointed to factors on the US side, namely monetary easing, to explain why Taiwan had hit the criteria for being labelled a currency manipulator. It is not certain whether the impending US administration will use the Macroeconomic and Foreign Exchange Policies of Major Trading Partners report as a political tool, as President Trump has done, but the CBC seems unlikely to change its stance right now.

However, Taiwan's foreign currency reserves have continued to rise for over a year to hit record levels on several occasions. The money supply is also increasing as a result, with M2 growing by +7.6% y-o-y. With interest rates also low, real estate prices are also rising in tandem with stocks and bonds. Industry is calling for a response to the Taiwan dollar's rise, but there are also concerns about rising asset prices on increased liquidity, so investors will be watching the response of the authorities even more closely.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – January 2021

Expected Ranges	**Against the US$: HK$ 7.7500–7.7600**
	Against the yen: JPY 13.20–13.55

1. Review of the Previous Month

Hong Kong dollar spot exchange market in December

In December, the U.S. dollar/Hong Kong dollar exchange rate fluctuated mainly between HKD 7.7500 and HKD 7.7540. Despite the unexpected postponement of a large-scale IPO, the Hong Kong dollar remained strong. It is now important and is likely to remain so for Chinese companies to also be listed in the Hong Kong market in order to avert risks involving the intensification of the tensions between the U.S. and China, as well as the possible sanctions against Chinese companies by the U.S. government. As the liquidity level is high for both the Hong Kong dollar and the U.S. dollar, there has been almost no gap between the Hong Kong dollar interest rates and the U.S. dollar interest rates. Thus, the one-year Hong Kong dollar forward point has been around zero. On the other hand, the U.S. Department of the Treasury postponed its imposition of sanctions against major banks in Hong Kong, as no transaction was identified between a certain financial institution and a certain important government official in China or Hong Kong—a situation that could have resulted in a target for sanctions under the *Hong Kong Autonomy Act*. As a result, the sense of uncertainty in the market was mitigated. Under such circumstances, capital inflow into Hong Kong continues steadily through the Stock Connect scheme (i.e., the mutual stock exchange scheme between mainland China and Hong Kong).

Hong Kong dollar interest rate market in December

In December, the Hong Kong dollar interest rates rose gradually based on capital demand for IPOs as well as on demand for fund procurement at the end of the year. As a result, the one-month Hong Kong dollar HIBOR and three-month Hong Kong dollar HIBOR reached 0.25% and 0.35%, respectively. Thanks to the policy of monetary easing taken by the Federal Reserve Board (FRB), the U.S. dollar interest rates remained low for short terms, widening the interest rate differentials between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR by +10 basis points and +12 basis points for the one-month rates and the three-month rates, respectively. It should also be mentioned that the Hong Kong Monetary Authority (HKMA) did not intervene in the foreign exchange market, as the U.S. dollar/Hong Kong dollar exchange rate was far from HKD 7.75—the upper end of the fluctuation range in the Hong Kong exchange market. The aggregate balance of the HKMA did not change from the previous month, remaining at HKD 457.5 billion, the all-time high. Meanwhile, the three-year and five-year Hong Kong dollar swap rates both declined slightly, and the interest rate differential between the long-term rate and the short-term rate (three-month HIBOR – five-year swap rate) fell to approach –15 basis points.

2. Outlook for This Month

Hong Kong dollar spot exchange market in January

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

HKD 7.76. Due to the intensification of the tensions between the U.S. and China, capital inflow into the Hong Kong market for the purpose of IPOs is likely to continue in January, and the U.S. dollar/Hong Kong dollar exchange rate is expected to fluctuate at around the HKD 7.75 level at the beginning of 2021. However, since the postponement of a large-scale IPO that was originally scheduled for November, demand for the Hong Kong dollar has been declining. Therefore, the HKMA is not likely to intervene in the foreign exchange market, so as to maintain the exchange rate fluctuation band. Also, the U.S. Department of the Treasury has decided to postpone the imposition of sanctions against major banks in Hong Kong, and this will probably mitigate concerns related to the stability of the U.S. dollar peg and the monetary market in Hong Kong. The FRB has already decided to maintain the policy of monetary easing and its asset purchasing program for the long term. Therefore, the interest rate differentials between the Hong Kong dollar and the U.S. dollar are likely to remain near zero, discouraging carry trade operations.

Hong Kong dollar interest rate market in January

Thanks to the high liquidity level in the Hong Kong dollar market due to the wide variety of IPOs, the Hong Kong dollar interest rates are expected to remain low in January. The HKMA plans to maintain the high liquidity level in the Hong Kong dollar market in order to control the volatility of interest rates related to IPOs while also averting downside risks for the Hong Kong economy. The HKMA is thus reluctant to absorb liquidity in the Hong Kong dollar through the issuance of Exchange Fund Bills and Notes (EFBNs). Therefore, the aggregate balance of the HKMA is likely to remain at the all-time high of HKD 457.5 billion in January. As long as the FRB does not discontinue its policy of monetary easing, the Hong Kong dollar interest rates are expected to remain low following the trend of U.S. dollar interest rates under the U.S. dollar peg. Incoming U.S. President Joe Biden is likely to take moderate measures in dealing with the issues between the U.S. and China, making unexpected sanctions against China less likely. Possible pressure for capital outflow from Hong Kong is thus limited.

Toshifumi Fujiyama, Treasury Department, MHBK (China)

Chinese Yuan – January 2021

Expected Ranges	**Against the US$: CNY 6.4000–6.6000**
	Against the yen: JPY 14.85–16.41
	Against 100 yen: CNY 6.1000–6.7400

1. Review of the Previous Month

In December, the U.S. dollar/Chinese yuan exchange rate fluctuated within a range between CNY 6.52 and CNY 6.56 after a fall at the beginning of the month.

At the beginning of December, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.58 level. Due to the depreciation of the U.S. dollar and the rise of U.S. stock prices, the U.S. dollar/Chinese yuan exchange rate was on a downtrend, touching the CNY 6.51 level momentarily on December 9. Thereafter, market participants took risk-averse actions following headlines related to additional economic measures in the U.S. as well as Brexit. However, the U.S. dollar/Chinese yuan exchange rate did not move in any direction, fluctuating within a range between CNY 6.52 and CNY 6.56.

Toward the end of the month, market participants sold the U.S. dollar, as a new variant of Covid-19 that was first discovered in the U.K. was also found in various other countries in Europe, while the media reported that U.S. President Donald Trump requested U.S. Congress to revise the additional economic stimulus bill. However, the impact of this on the Chinese yuan exchange market was limited.

On December 25, there were few market participants due to the Christmas holidays, and the U.S. dollar/Chinese yuan exchange rate fluctuated significantly, reaching CNY 6.5192—the lowest in 2020 (as of December 30).

In terms of economic indices and other related issues, the November CPI of China turned out to be –0.5% year-on-year, recording negative growth for the first time since October 2009, due to a decline in the pork price.

On December 15, CNY 950 billion was provided through the MLF, which recorded an all-time high in terms of the amount provided on a one-year basis. As a result, market participants were relieved regarding capital liquidity before the end of the year and the Chinese New Year. Furthermore, other major indices were also released on the same day (industrial production, retail sales, and fixed-asset investment in urban areas), and the results demonstrated the steady recovery of the Chinese economy.

Also, the Central Economic Work Conference was held in China between December 16 and December 18, and its statement revealed the principle to maintain the "basic stability" of the Chinese yuan exchange market at a "reasonable" level.

However, these factors impacted the Chinese yuan exchange market only to a limited extent.

2. Outlook for This Month

In January, the U.S. dollar/Chinese yuan is forecast to fluctuate within a narrow range, without rising further.

While vaccination against Covid-19 has already started with some optimism for the future outlook, market participants remain cautious worldwide taking risk-averse actions due to the spread of a new variant of Covid-19 in the U.K. In the times ahead, it is likely that other countries will catch up with China in terms of economic

recovery via further economic stimulus measures and advancement in the development of vaccines. Therefore, market participants should remain cautious about possibility for upward pressure on the Chinese yuan to weaken in the coming month.

In 2020, China has taken measures of monetary easing by carrying out large-scale fund provision operations while also partially cutting the LPR (the base lending rate), in order to deal with the current spread of Covid-19. As a result, since the onset of the Covid-19 crisis, China has been achieving steady economic recovery more quickly than any other country. At the Central Economic Work Conference held in December, China revealed a plan to gradually normalize its monetary policy in the coming year, while there was no sudden change. Since March, the U.S. has held a zero-interest rate policy, and it is expected that this policy will be maintained until 2023. Thus, based on the difference in the monetary policy between the U.S. and China, the Chinese yuan is forecast to appreciate against the U.S. dollar from a medium- to long-term point of view.

As there is no major factor to change the current trend in the market, the U.S. dollar/Chinese yuan exchange rate is forecast to remain low in January, fluctuating within a narrow range.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – January 2021

Expected Ranges	**Against the US$: SG$ 1.3000–1.3400**
	Against the yen: JPY 77.50–79.00

1. Review of the Previous Month

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

At the beginning of the month, the Singapore dollar remained strong, while risk-taking sentiment was growing in the market thanks to expectations for vaccinations against Covid-19 starting in many countries as well as for economic stimulus measures in the U.S. Under such circumstances, the currencies of emerging countries appreciated. Following this trend, the Singapore dollar also appreciated against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell from the SGD 1.34 to the lower-SGD 1.33 level.

In the second half of the month, there were intermittent, positive media reports regarding vaccines against Covid-19, while there were difficulties in trade negotiations between the U.K. and the EU, as well as in the negotiations on additional economic stimulus measures in the U.S. Market participants thus maintained a wait-and-see attitude. Also, the Singapore dollar continued appreciating slowly against the U.S. dollar, albeit less rapidly than at the beginning of the month.

On December 14, risk-taking sentiment strengthened again in the market, thanks to agreement made in the trade negotiations between the U.K. and the EU, and this inversed the trend and led the U.S. dollar to start depreciating against the currencies of emerging countries. On December 16, market participants dominantly bought the U.S. dollar before the Federal Open Market Committee (FOMC) meeting. However, once the FOMC statement had been released, the trend became inversed, and the U.S. dollar depreciated again. Also, while a U.S. stock price index renewed its all-time high with expectations for additional economic stimulus measures in the U.S., risk-taking attitudes grew in the market and supported the currencies of emerging countries. As a consequence, the Singapore dollar appreciated, and the U.S. dollar/Singapore dollar exchange rate fell below the SGD 1.33 level to reach the lower-SGD 1.32 level, in the end.

Thereafter, the Singapore dollar weakened toward December 23 due to the fact that the U.S. dollar strengthened against other currencies based on concerns over the propagation of a new variant of Covid-19 as well as over the outcome of trade negotiations between the U.K. and the EU. The U.S. dollar/Singapore dollar exchange rate thus recovered to the SGD 1.34 level. However, the media reported thereafter that the U.K. and the EU had reached an overall agreement in trade negotiations, the official announcement of which was made on December 24. Furthermore, there was an agreement on additional economic stimulus measures in the U.S., and this strengthened the Singapore dollar toward the end of the year. As a result, the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.32 level, at which level monthly trading closed.

2. Outlook for This Month

In January 2021, the Singapore dollar is forecast to appreciate against the U.S. dollar.

Singapore has been particularly successful in containing the propagation of Covid-19 in the Asia-Oceania region. Furthermore, there were some positive media reports in the U.S. and Europe toward the end of the year. Under such circumstances, the Singapore dollar is forecast to remain stable in January.

The propagation of Covid-19 continues worldwide, and the situation remains critical. However, given the successful containment of community-acquired infection, Singapore moved from Phrase 2 into Phase 3 of the re-opening of economic activities (toward more economic activities) at the end of December 2020.

As a consequence, the group size for gatherings has been increased from five to eight persons, while tourism and public events have been re-opened partially, and this is fueling hope for the service sector.

Furthermore, the population of Singapore is relatively small, and it is easy to transport vaccines within the country thanks to its small national territory and its developed transportation infrastructure. It is thus expected that the distribution of vaccines will be completed easily before the end of 2021. Indeed, the government of Singapore released a statement that vaccines would be sufficiently distributed to the entire population of Singapore before the third quarter of 2021.

Under such circumstances, the economic outlook of Singapore is forecast to be positive, contrary to last year in which the Covid-19 pandemic severely impacted the economy of Singapore. Thus, the Singapore dollar is expected to remain strong against other major currencies in the coming month.

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

Thai Baht – January 2021

Expected Ranges	**Against the US$: THB 29.30–30.30**
	Against the yen: JPY 3.42–3.48

1. Review of the Previous Month

In December, the U.S. dollar/Thai baht exchange rate renewed its low.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 30.30. On December 1, the media reported that the central bank of Thailand was considering the introduction of additional measures against exchange rate fluctuation before the end of December. However, the impact of this on the exchange market was limited. On December 3, market participants sold the U.S. dollar with expectation for an agreement on additional economic stimulus measures, and this led the U.S. dollar/Thai baht exchange rate to fall to the upper-THB 30.10 level. After the weekend, there was negative news related to Brexit on December 7, leading the currencies of European countries to depreciate. As a result, market participants bought the U.S. dollar, leading the U.S. dollar/Thai baht exchange rate to temporarily approach the THB 30.25 level. On December 8, the U.S. dollar/Thai baht exchange market opened trading at the lower-THB 30 level. However, the media reported that the central bank of Thailand had cancelled the announcement of measures against the appreciation of the Thai baht that had been scheduled for the following day. As a result, the Thai baht appreciated against the U.S. dollar toward the end of trading hours in Bangkok, leading the U.S. dollar/Thai baht exchange rate to fall and approach the THB 30 level. From December 9 to December 16, there was no important factor in the market, and the U.S. dollar/Thai baht exchange rate continued fluctuating at the lower-THB 30 level. On December 17, the Federal Open Market Committee (FOMC) announced its plan to maintain its asset purchasing program and the low interest rate policy until remarkable progress has been confirmed in order to maximize employment and achieve the inflation target. In reaction, market participants bought the U.S. dollar even more actively, leading the U.S. dollar/Thai baht exchange rate to fall below the THB 30.00 level. Then, on December 18, the U.S. government added Thailand to its list of currency manipulators in a foreign exchange report, making it more difficult for Thailand to lead the Thai baht to depreciate. As a result, the U.S. dollar/Thai baht exchange rate reached THB 29.80—the lowest rate since the beginning of the year. However, some market participants expected the exchange rate to rally later, which stopped the exchange rate from falling further. In the second half of the month, the worldwide number of Covid-19 cases increased rapidly on December 21. Furthermore, the propagation of Covid-19 became serious in various countries such as the U.K. As a result, market participants dominantly bought the U.S. dollar. Then, the U.S. dollar/Thai baht exchange rate rallied from the fall observed in the previous week from around THB 29.80 to exceed THB 30.00. Toward December 22, the number of Covid-19 cases increased in Thailand, and market participants sold the Thai baht even more actively, leading the U.S. dollar/Thai baht exchange rate to climb to THB 30.20. On December 23, the central bank of Thailand held a monetary policy meeting, and the policy interest rate was maintained at 0.50%—the existing level. As this outcome had been expected in the market, it had limited impact on the foreign exchange market. Around the Christmas holidays, the liquidity level was low, and the U.S. dollar/Thai baht exchange rate did not move in any direction. However, toward the end of the year the U.S. dollar

started to weaken again, and the U.S. dollar/Thai baht exchange rate also started to fall gradually. On December 31, the last day of the year, the U.S. dollar/Thai baht exchange rate fell below the THB 30 level, and the year's trading closed at the THB 29 level.

2. Outlook for This Month

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

Looking back at 2020, the U.S. dollar/Thai baht exchange rate rose from January to March based on a trend of U.S. dollar-buying. However, the exchange rate started to fall gradually in April and renewed its low in December. In the end, the year's trading closed at the upper-THB 29 level—the same level as the rate observed at the end of 2019. The two major factors in 2020 were the Covid-19 pandemic and the presidential election in the U.S. With regard to the Covid-19 pandemic, which had long been causing a sense of uncertainty in the market, vaccination started in December. With regard to the U.S. presidential election as well, Joe Biden was deemed the winner in the end, albeit after periods of confusion. Thus, 2021 started with slightly less uncertainty compared to the previous year. Last year, the U.S. dollar/Thai baht exchange market was impacted more by the above two external factors rather than by domestic fundamentals. With regard to monetary policy, the Federal Reserve Board (FRB) chose a zero-interest rate policy in the U.S. and claimed that this would be maintained until the end of 2023. On the other hand, the central bank of Thailand maintained its policy interest rate at 0.50% at its latest meeting even though it did cut the interest rate previously.

In order to foresee the trend in the U.S. dollar/Thai baht exchange market in 2021, market participants have been carefully observing the global economy in terms of the Covid-19 crisis as well as the measures to be taken by new U.S. President Joe Biden. On the other hand, with regard to monetary policy, it is unlikely for the interest rates to be repetitively cut as was the case in 2020. Thus, it is important for market participants to pay attention to trends in the stock market after the introduction of additional economic stimulus measures in the U.S. as well as in the pace of the depreciation of the U.S. dollar.

When it comes to the domestic economy in Thailand, a sense of uncertainty has been rapidly growing due to the fast propagation of Covid-19 cases in Thailand as observed since December. It is thus likely for Thailand to introduce strict restrictions on economic activities in January. It is likely for economic activities in the first quarter to slow down compared to the previous quarter period. From this point of view, the factors that can weaken the Thai baht are also likely to support the U.S. dollar/Thai baht exchange rate. Yet, the U.S. dollar is expected to depreciate generally after the introduction of additional economic stimulus measures in the U.S. Thus, downward pressure is likely to remain on the U.S. dollar/Thai baht exchange rate despite the domestic economic conditions, as Thailand has a large current account surplus compared to its neighboring countries. There is a proverb in the financial world that, in the year of the Ox of the Chinese zodiac, there tends to be a "stumble." It is likely that there will be difficulties for the real economy to recover this year, fueling anxiety in the market.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – January 2021

Expected Ranges	**Against the US$: MYR 3.9300–4.0300**
	Against the yen: JPY 25.38–26.04
	Against 100 yen: MYR 3.8400–3.9400

1. Review of the Previous Month

In December, the U.S. dollar/Malaysian ringgit exchange rate fell from the MYR 4.09 level to the MYR 4.01 level for the first time in two years as a result of the depreciation of the U.S. dollar worldwide, risk-taking sentiment supported by hope for vaccines against Covid-19, and the rally of the crude oil price, even though there was an unexpected decision by a major ratings agency in the U.S. to downgrade the sovereign rating of Malaysia from A– to BBB+.

On December 1, the Malaysia October PPI data was released, recording a year-on-year decline of 3.6% due to a rapid slowdown in the mining sector. However, there was hope in the market for vaccines against Covid-19 as well as for additional economic stimulus measures in the U.S., and this led the U.S. dollar index to reach a new low for the first time in 31 months. Production in China started to recover, which led commodity prices to continue rising, while OPEC+ also reached an agreement to reduce production. The Brent crude oil price was approaching the USD 50 level for the first time since March, and the U.S. dollar/Malaysian ringgit exchange rate fell below MYR 4.06 on December 4.

However, in the evening of the same day, a major ratings agency in the U.S. announced the above-mentioned decision to downgrade the sovereign rating of Malaysia. As a result, in the following week, the U.S. dollar/Malaysian ringgit exchange rate rose sharply to the MYR 4.09 level immediately after the market opened on December 7, and this turned out to be the monthly high. As the media reported on the same day that the evaluation of the ratings agency was based on a particular evaluation and that it was not likely for other ratings agencies to follow suit, the exchange rate started to fell again and returned to the MYR 4.06 level—the level observed at the end of the previous week. Thereafter, OPEC+ decided to start increasing oil production gradually from January 2021. However, the crude oil price saw high hopes for vaccines against Covid-19 and the price of Brent crude oil exceeding USD 51. The export index of China also remained steady, following which the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.04 level on December 11, reaching a new low for the year for the first time since February.

The U.S. dollar remained weak worldwide in the middle of the month. On December 15, before the adoption of the revised budget proposal for the next fiscal year, former Malaysia Prime Minister Mahathir Mohamad and former Malaysia Finance Minister Ku Li held a joint press conference in order to announce a vote of non-confidence against the current government as well as disagreement with the budget proposal for FY2021. With growing concern over the resolution, the U.S. dollar/Malaysian ringgit exchange rate rose to the MYR 4.07 level. However, the budget proposal managed to gain approval in the end, with 111 votes for and 108 votes against the bill. Thus, political risk subsided, and the U.S. dollar/Malaysian ringgit exchange rate started to fall on December 16. Under such circumstances, the Federal Open Market Committee (FOMC) confirmed its intention to maintain

an extremely low interest rate policy and measures of monetary easing in the U.S., which led the U.S. dollar index to fall below USD 90. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate reached a new low on December 18 at the MYR 4.03 level.

However, at the end of the month, risk-averse sentiment grew in the market due to the identification of a highly contagious new variant of Covid-19 in the U.K., following which the U.S. dollar index returned by more than 1%. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate also rallied to the MYR 4.06 level. However, as the media reported on an agreement on additional economic stimulus measures in the U.S., the U.S. dollar started to depreciate again. With few market participants, the U.S. dollar/Malaysian ringgit exchange rate reached its lowest level in the year at MYR 4.0110 on December 31, and the year's trading closed at this level.

2. Outlook for This Month

In January, the Malaysian ringgit is forecast to appreciate against the U.S. dollar, fluctuating in a range between MYR 3.93 and MYR 4.03. With hope for vaccines against Covid-19 and concerns over the pandemic impacting the market, exports have been rapidly recovering in Malaysia, while concerns are growing in the U.S. over a possible shutdown of the government before the inauguration of the new president. Furthermore, the Malaysian domestic bond market has been stable even after downgrading by Fitch, fueling expectation for capital inflow from foreign investors.

In the market, risk-taking sentiment has been growing based on the rise of stock prices worldwide caused by the extremely low interest rate policy in the U.S. as well as on hope for vaccines against Covid-19. As a consequence, the North Sea Brent crude oil price is currently above USD 50 per barrel. In the governmental budget bill for 2021 released in November last year, the estimated price of Brent crude oil was USD 42 per barrel. As Malaysia is increasingly dependent on revenues related to petroleum oil, the current level of the crude oil price is a positive factor for the Malaysian ringgit.

Furthermore, exports have been steadily growing in Malaysia, thanks to growing demand for materials related to teleworking and medical equipment such as electric, electronic, optic, and rubber products. By destination country, exports to China, where economic recovery has been more advanced than other countries, increased remarkably by approximately 40% year-on-year, while the October exports to other major trade partners such as the U.S. and Singapore also exceeded the figure recorded in January, before the Covid-19 crisis. These factors have thus been supporting the Malaysian ringgit market.

On the other hand, the decision by a major ratings agency in the U.S. to downgrade the sovereign rating of Malaysia was a negative factor. The ratings agency suggested in its announcement that the decision was based on Malaysia's weakness in its governance structure. The ratings agency had pointed out to two major issues in March last year, and the governance structure was one of them, while the operations of the Malaysian government in dealing with its sovereign debt, the other issue, have been evaluated rather positively. However, other ratings agencies released comments after the release of the budget proposal of Malaysia such that there would not be any serious impact on their credit rating for the moment, while also confirming that the outlook would not be revised downward to "negative." Therefore, domestic think tanks see the influence of the decision to be limited. Indeed, the foreign exchange market, the stock market, and the government bond market have all been stable in Malaysia.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – January 2021

Expected Ranges	**Against the US$: IDR 14,000–14,600**
	Against 100 rupiah: JPY 0.71–0.75
	Against the yen: IDR 133.33–140.85

1. Review of the Previous Month

The U.S. dollar/Indonesian rupiah exchange market remained stable in December.

On December 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the IDR 14,100 level. The November inflation rate of Indonesia was announced, and the result turned out to be +1.59% year-on-year, demonstrating a recovery from the previous month, although remaining lower than 2–4%, the target range set out by the central bank. On December 6, the Indonesian government announced its decision to extend large-scale social distancing protocols in Jakarta, as the situation of the Covid-19 crisis remained pessimistic. However, in the financial market, risk-taking sentiment continued to grow, as some developed countries had started vaccination against Covid-19, keeping the U.S. dollar/Indonesian rupiah exchange rate at around IDR 14,100. On December 14, the Jakarta Stock Price Composite Index finally recovered to the IDR 6,000 level. As risk-taking sentiment continued dominating the market, the Indonesian rupiah remained robust. On December 15, the November trade balance of Indonesia was released, and exports recorded positive year-on-year growth, while imports remained weak due to a decline in the domestic economy. The overall trade balance was a surplus of USD 2.6 billion, recording a surplus for the seventh consecutive month.

In the second half of the month, the central bank of Indonesia announced the outcome of its regular meeting on December 17, and the seven-day reverse repo rate, the policy interest rate of Indonesia, was maintained at 3.75%. As this decision had been anticipated in the market, the U.S. dollar/Indonesian rupiah exchange market remained stable after the announcement. In the following week, demand to buy the U.S. dollar and sell the Indonesian rupiah strengthened before the Christmas holidays for month-end and year-end settlement. As a consequence, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 14,200 level on December 21. As the Covid-19 crisis continued to affect many countries, risk-averse sentiment grew in the market, and the Indonesian rupiah depreciated against the U.S. dollar, bringing the exchange rate close to the IDR 14,300 level on December 22, the following day, for the first time since the beginning of November. However, on December 23, the U.S. dollar/Indonesian rupiah exchange rate returned to approach the IDR 14,200 level. Thus, the Indonesian rupiah exchange market remained stable until the Christmas holidays (as of market closing on December 23).

2. Outlook for This Month

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

The situation concerning the Covid-19 crisis remains pessimistic in Indonesia, which has recorded the worst mortality rates in Southeast Asia, while large-scale distancing protocols in Jakarta remain in place. It is likely that the pandemic will continue impacting the domestic economy of Indonesia. Due to this situation, imports have been

recording negative year-on-year growth. On the other hand, the November exports turned out to be USD 2.6 billion, recording remarkably positive year-on-year growth. While the trade surplus remains high in Indonesia, it is understandable that the Indonesia rupiah remains robust. As was mentioned in the previous month's article, from a long-term perspective, Malaysia is likely to start suffering from a current account deficit again as its economy recovers. However, from a short-term perspective, a trade surplus that reduces or offsets the current account deficit is likely to be a factor toward supporting the Indonesian rupiah market.

If the Indonesian rupiah remains strong, it is possible for the interest rate to be cut again, given the slowdown of the domestic market, along with the inflation rate, which remains below the lower end of the target range set out by the central bank of Indonesia, although the rate has been rallying slightly.

Meanwhile, the Jakarta Stock Exchange Composite Index finally exceeded the 6,000 mark last month, and, as of December 21, capital inflow into 10-year Indonesian government bonds has amounted to IDR 7 trillion, recording positive growth from the end of the previous month. The positive sentiments of investors have been supporting the steadiness of the Indonesian rupiah market.

However, it should also be mentioned that there are persisting risks. If the central bank of Indonesia is obliged to maintain the policy of monetary easing for a long period, there would be concerns over the direct purchase of government bonds by the central bank again. Another factor of concern is that, even though an increasing number of countries are starting vaccination against Covid-19, it is unknown how effective that will be and how long it will take before things return to normal. Market participants should thus remain cautious about the possibility for the Indonesian rupiah, which is currently stable, to start weakening due to a deterioration of investor sentiment.

As a most-likely scenario, however, the Indonesian rupiah is forecast to remain strong against the U.S. dollar in January.

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

Philippine Peso – January 2021

Expected Ranges	**Against the US$: PHP 47.30–48.20**
	Against the yen: JPY 2.135–2.185

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Philippine peso exchange market opened trading at PHP 48.11.

There was progress in the negotiations on additional economic stimulus measures in the U.S., fueling risk-taking sentiment in the market, bringing down the U.S. dollar index (i.e., causing the depreciation of the U.S. dollar), and this indicates the strength of the U.S. dollar as traded in the foreign exchange market while raising the Asian currency index (i.e., causing the appreciation of Asian currencies against the U.S. dollar).

Following this trend, the Philippine peso appreciated against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate approached the PHP 48 level. On December 4, the U.S. dollar/Philippine peso once traded at PHP 48.02.

On the other hand, demand to buy the U.S. dollar was also strong, as the U.S. dollar/Philippine peso exchange rate was approaching the psychological turning point (PHP 48 to the U.S. dollar). Thus, the daily fluctuation range of the exchange rate (the gap between the highest rate and the lowest rate) was PHP 0.035 on December 2, PHP 0.029 on December 3, and PHP 0.025 on December 4, while the fluctuation range of the three days was also only PHP 0.04.

Given that the average daily fluctuation range was PHP 0.095 in October and PHP 0.085 in November, these figures show how the exchange rate was at a stalemate for these three consecutive days.

After the release of the employment statistics of the U.S., U.S. interest rates rose, and, as the European currencies weakened due to issues related to Brexit, the U.S. dollar also appreciated against the Philippine peso.

On December 9, the U.S. dollar/Philippine peso momentarily traded at PHP 48.125, which tuned out to be the highest rate for the U.S. dollar in December.

Thereafter, there were both positive and negative factors in the market, such as the outcome of the negotiations on additional economic stimulus measures in the U.S., Brexit, vaccine development against Covid-19, and a possible second lockdown in Europe and the U.S. Thus, the U.S. dollar/Philippine peso exchange rate did not move in any direction, even after the highly dovish remark made by Jerome Powell at the Federal Open Market Committee (FOMC) meeting.

Toward the end of the month, the U.S. dollar remained weak. On the other hand, there were market participants that continued buying the U.S. dollar, keeping the U.S. dollar/Philippine peso exchange rate from falling below the PHP 48 level.

In the end, the U.S. dollar/Philippine peso exchange rate reached the PHP 48.011 on December 29, the last trading day of the year in the onshore market, renewing the highest rate of the year for the Philippine peso. However, the U.S. dollar/Philippine peso exchange rate still did not fall below the PHP 48 level. Trading in 2020 closed at PHP 48.023.

2. Outlook for This Month

On December 4, the November Consumer Price Index of the Philippines was announced, and the result was 3.3%. Even though the result was significantly higher than 2.5%, the previous month's result, and 2.6%, the market estimate, the CPI remained within the inflation target range set out by the central bank of the Philippines (2–4%). Thus, the impact of the monthly figure on the Philippine peso market was limited.

On December 10, the October trade balance of the Philippines was announced, revealing a deficit of USD 1.78 billion, which was at the same level as in the previous month, while the deficit was slightly smaller than the market estimate (a deficit of USD 2 billion).

On December 15, the October amount of Overseas Filipino Workers (OFW) remittances was announced, recording year-on-year positive growth of 2.9%, exceeding the market estimate (an increase of 2.2%).

The total OFW remittances in 2020 reached USD 24.63 billion in October, and this would make it USD 29.56 billion for a year with a simple calculation of conversion.

Even though this figure is not as high as the USD 30.13 billion recorded in 2019, the figure has declined by only approximately 2%, exceeding the USD 28.05 billion recorded in 2017 and the USD 28.94 billion recorded in 2018 despite the Covid-19 crisis.

Also, the central bank of the Philippines decided to maintain its policy interest rate at the existing level at its monetary policy meeting held on December 17. The interest rates of the Philippine peso as traded in the market have been rising since the beginning of November. The central bank has a positive outlook for the coming months thanks to a stable price level and a supply of vaccines against Covid-19. It can thus be said that the central bank has put an end to its policy of monetary easing for now.

In 2020, market participants were highly conscious of excessive U.S. dollar liquidity toward the second half of the year, which weakened the U.S. dollar in the foreign exchange market.

The U.S. dollar/Philippine peso exchange rate is also approaching the PHP 47 level, which has not been seen for four years and three months.

Once the market starts to reflect the "new normal," U.S. interest rates would rise, encouraging market participants to buy the U.S. dollar in the foreign exchange market. It is also possible for the rise of the crude oil price to encourage market participants to sell the Philippine peso. However, as the U.S. monetary authorities have the intention to continue monetary easing for a while, the U.S. dollar is likely to remain weak, possibly putting an end to persistent U.S. dollar-buying in the market.

The U.S. dollar/Philippine peso exchange rate is likely to reach the PHP 47 level at the beginning of 2021.

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

Indian Rupee – January 2021

Expected Ranges	**Against the US$: INR 72.00–75.00**
	Against the yen: JPY 1.37–1.43

1. Review of the Previous Month

In December, the U.S. dollar/Indian rupee exchange rate remained at the upper-INR 73 level, without moving in any direction.

The U.S. dollar/Indian rupee exchange rate reached INR 74.75 on November 12, after which the exchange rate has been on a decline. Following the fall of the U.S. dollar index, the U.S. dollar/Indian rupee exchange rate fell below the INR 74.00 mark toward the end of November. After three consecutive holidays, the U.S. dollar/Indian rupee exchange market opened trading at INR 73.95 on December 1. As the media reported that there had been some custodians selling the U.S. dollar, the U.S. dollar/Indian rupee exchange rate continued falling and fell below INR 73.75. With stop-loss orders, the U.S. dollar/Indian rupee exchange rate continued falling rapidly and momentarily went below INR 73.50 for the first time since October. On the following day, the exchange rate temporarily reached INR 73.42 to the U.S. dollar, after which the central bank of India intervened in the foreign exchange market by buying the U.S. dollar and selling the Indian rupee. As a result, the U.S. dollar/Indian rupee exchange did not remain below the INR 73.50 level for long and soon returned to a level near INR 74.00.

In the second week of the month, however, the media reported that the U.K. had started to distribute vaccines against Covid-19, and this fueled risk-taking sentiment in the market. As a consequence, the U.S. dollar/Indian rupee exchange rate fell to approach the INR 73.50 level again. Even though the exchange rate did not fall below the INR 73.50 level for a while because of market interventions by the central bank of India, the U.S. dollar/Indian rupee exchange rate finally fell below the INR 73.50 level, as the vaccine developed by Moderna was confirmed to be efficacious, fueling expectation for the U.S. to approve the vaccine.

Thereafter, the central bank of India actively intervened in the foreign exchange market toward the third week of the month while a new variant of Covid-19 was found in the U.K. As a consequence, the U.S. dollar/Indian rupee exchange rate reached its monthly high at INR 73.955 on December 22. Subsequently, there was progress in the trade negotiations regarding Brexit, and U.S. President Donald Trump signed a fiscal stimulus, which strengthened risk-taking sentiment in the market. As the liquidity level in the market was low at the end of the year, the U.S. dollar/Indian rupee exchange rate reached its monthly low at INR 73.345. As of 3:30 p.m. on December 29 local time, the U.S. dollar/Indian rupee was INR 73.425.

2. Outlook for This Month

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

In December, the U.S. dollar/Indian rupee exchange rate fluctuated generally within a range of 50 paise between INR 73.50 and INR 74.00, repeating a rise and fall many times without moving in any particular direction.

At the moment, market participants are all selling the U.S. dollar and buying the Indian rupee in the foreign exchange market in terms of real money and risk money. In November, there was USD 9 billion of capital inflow

into the Indian stock market from foreign investors, which was an all-time high. In December, there has so far been USD 6.6 billion of inflow (inward security investment). In terms of inward direct investment as well, there has been USD 40 billion of inflow in the April–September period with the recent large-scale investment case. The media reported that a major fund in the U.S. had acquired a large group company in India on December 11 with a lump-sum payment of USD 850 million. Given these factors, it is easy to expect the Indian rupee to appreciate. However, so far, it has not happened.

As was mentioned above, the Indian monetary authorities have been intervening in the foreign exchange market by buying the U.S. dollar while foreign investors are selling the U.S. dollar. Foreign currency reserves in India increased by USD 18.7 billion in October and by USD 14.1 billion in November. In December, foreign currency reserves have already increased by USD 6.3 billion by the week ending on December 18. This suggests that the central bank of India has been very actively buying the U.S. dollar. With this regard, the governor of the central bank of India commented at a press conference after a monetary policy meeting in December that the central bank did not have any ideal exchange rate and that there was no particular target rate in carrying out market interventions. Thus, there has still been no clue provided for predicting market interventions in the times ahead.

As was discussed above, key factors in the market in January are likely to remain the same as those in December. Thus, the U.S. dollar/Indian rupee exchange rate is not forecast to move in any particular direction.