

Mizuho Dealer's Eye

February 2022

MIZUHO

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Mizuho Bank, Ltd.

Global Markets Sales Department

U.S. Dollar – February 2022

Expected Ranges

Against the yen: JPY113.00–116.50

1. Review of the Previous Month

The dollar/yen pair hit 116 yen at the start of January on surging US interest rates. It then fell mid-January as stocks underwent some adjustment, though it rallied again in the latter half of the month on the FOMC meeting.

The pair opened the trading at the lower-115 yen mark at the start of 2022. The dollar was then bought in the first week as US interest rates rose. The pair only climbed slightly on January 3, though it then strengthened to the 116 range on January 4 on bullish stock markets, with the pair then hitting a monthly high of 116.35 yen. It dipped to the upper-115 yen level on January 5 on position adjustments, though it bounced back to the 116 yen range as US interest rates leveled out after the release of some hawkish minutes to the FOMC meeting. However, it then tumbled to the 115 yen range on January 6 as the Nikkei Stock Average fell. The pair's topside moved heavily at 116 yen. The US employment data for December was released on January 7. With the nonfarm payrolls figure dropping below expectations, the pair weakened to the mid-115 yen mark.

In the second week, the pair hit 115.85 yen as investors tested its topside during a Tokyo holiday on January 10, though the pair then fell back to the lower-115 yen level. As the markets priced in rate hikes, speculation grew that there was only limited room for rates to rise higher. As such, though FRB chair Jerome Powell's press conference was less hawkish than expected, the pair fell and US interest rates moved bearishly. The US December CPI data hit a record high on its release on January 12, but the data was in the bounds of expectations, so the greenback was sold and the pair slipped to the lower-114 yen level. The pair then moved with a heavy topside. The yen was bought and the pair dropped to 113.48 yen on January 14 on reports that the Bank of Japan (BOJ) was examining the idea of a rate hike before inflation hit target. However, the pair then rallied to the lower-114 yen mark as US long-term interest rates bounced back.

In the third week, the yen was sold after the BOJ indicated that it remained in easing mode when it met to set policy on January 18, so the pair climbed to 115.06 yen. However, risk sentiments related to FRB tightening then deteriorated, so US stocks fell sharply and the currency pair fell back. The 10-year US treasury yield hit 1.9% on January 19, but the pair moved bearishly throughout the week on risk aversion before sliding to the upper-113 yen mark on January 21.

In the fourth week, the pair fell to a monthly low of 113.47 yen on January 24 on rising tensions in Ukraine. The pair continued to flutter at the upper-113 mark ahead of the FOMC meeting. In his press conference after the FOMC meeting on January 26, FRB chair Jerome Powell hinted that tapering might end and rate hikes commence in March. He also suggested the FRB would start shrinking its balance sheet in the near future. All this was more hawkish than expectedly so the dollar/yen pair climbed to the mid-114 yen level. Risk aversion then eased as US stock markets rallied during overseas trading time on January 27, so the greenback was bought and the pair edged up to the 115 yen range. With stock markets moving firmly, the pair fluttered around the mid-115 yen mark on January 28 and it continued to move at this level on January 31 amid end-of-month flows.

2. Outlook for This Month

The dollar/yen pair will probably have its topside tested at the start of February before moving bearishly thereafter.

Interest rates stopped rising mid-January after investors priced in four FRB rate hikes within 2022, but risk assets were sold and stock markets saw some adjustment as some observers predicted the FRB would tighten further by shrinking its balance sheet, for example. In his speech after the FOMC meeting, though, FRB chair Jerome Powell struck a hawkish tone when he hinted at a 50bps rate hike in March, with the markets still reeling from this news. However, it seems stock markets are starting to regain composure after several straight days of wild trading and it appears a recession will be avoided for the time being. FRB officials have yet to tone down their hawkish comments, so it seems US interest rates will continue trending higher for a while. A topside target could be the 116 yen mark recorded at the start of January, but with investors moving faster than expected to price in rate hikes, it would not be surprising if the pair tops this level.

However, investors should also be wary of downside risk. There are two major potential risks.

Firstly, stocks could come under some adjustment. The reaction to FRB tightening has already been mentioned above, but the situation in Ukraine will also require monitoring. The US government is set to speak to Congress ahead of formulating a bill that would prepare the ground for sanctions if news emerged of a Russian invasion, so there are concerns about worsening US/Russia relations, even if this does not lead to a military skirmish. Russia is one of the world's largest producers of oil and natural gas, so commodity prices could surge higher if supplies are shut off, with stagflation potentially ensuing. If investors focus on these concerns, stock markets could start sliding again.

The second risk involves a potential adjustment to the trend of dollar buying as a result of monetary tightening by other major central banks. The FOMC will not be meeting in February, but observers will be focusing on the meetings of the RBA, ECB, BOW and RBNZ. All these central banks have been shifting from easing toward an exit since late 2021. They look set to continue tightening in the FRB's footsteps, so the Dollar Index might fall if the greenback is sold against other currencies. Though there are no reasons to buy the yen, the dollar/yen pair's topside will probably be held down as the dollar is sold internationally.

Based on the above, it seems the pair's topside will be tested towards 116 yen if stock markets continue to rally. However, if the situation changes on the aforementioned risk factors, there could be some sharp position unwinding, with the pair subsequently crashing, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the dollar	19 bulls	117.00 – 113.50	Bearish on the dollar	2 bears	116.45 – 113.25
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* Ranges are central values

Tanaka	Bull	117.00 – 114.00	Investors are pricing in five rate hikes in 2022 on the FRB's clear bullish stance. Market participants are focusing on the divergent monetary policies of the US and Japan, but there are also concerns about the negative impact on the economy and risk assets, so the dollar/yen pair looks set to move firmly yet skittishly.
Yano	Bull	117.00 – 114.00	Amid whispers of US rate hikes, investors will be focusing on the number of rate hikes within 2022. The Omicron variant continues to cast a heavy shadow, but it seems the impact on the economy will be muted, with the dollar/yen pair's downside set to move firmly in February.
Tsutsui	Bull	118.50 – 114.00	The dollar/yen pair's downside is expected to edge higher. The pair will be swayed by official comments and indicators related to inflation and sentiments, though it will be bolstered by rising US interest rates. The pair's trend will probably switch to yen bullishness when the yield curve on US 2-year and 10-year treasuries approach zero.
Kato	Bull	116.00 – 112.50	The media are starting to talk about the highest inflation in 40 years, with energy prices particularly high, so the Japanese authorities might take measures ahead of the July elections. The renewed discussion about the post-Kuroda situation will probably lead to expectations for a shift in monetary policy.
Ito	Bull	117.00 – 113.00	The dollar will remain bullish, but the dollar/yen pair will probably move with a heavy topside. The markets have already priced in around five rate acts within 2022, so the pair's topside target will probably lie in the region of 117 yen, even if rate hikes are priced in further. However, the pair's room on the downside will be capped by rising crude oil prices and the BOJ's monetary policy stance.
Yamagishi	Bull	117.50 – 113.50	When it met in January, the FOMC did not rule out rate hikes at successive meetings. With the FRB clearly focused on reining in inflation, the greenback will probably be bought on expectations for rising US interest rates. The FOMC looks set to institute a 0.5% rate hike when it meets in March. The yen could strengthen on risk aversion in the face of instability, so caution will be needed.
Ushijima	Bull	116.50 – 113.50	An FOMC rate hike in March looks nailed on and the markets have finished pricing in such a move. US stocks were adjusted sharply at the start of January, with the dollar/yen pair and the cross yen pair set to move heavily on the topside on bearish stock movements. Though the dollar/yen pair is likely to trade firmly, it is unlikely to break out of its range.
Omi	Bull	117.00 – 113.00	The next FOMC meeting is in March, so the dollar will continue to be bought this month on expectations for a March rate hike. However, stock adjustments remain a factor of concern and there could be some localized risk-off yen buying.
Ueno	Bull	117.00 – 114.00	There was a sense of achievement when the dollar/yen pair hit 113 yen in January, but the pair's topside also seems to be moving heavily at 116 yen. The next FOMC and BOJ meetings are in March. In February, the pair will generally move with a lack of direction on geopolitical risk and the movements of interest rates and stocks.
Yamaguchi	Bull	116.80 – 113.80	The FOMC ramped up the hawkishness when it met in January. If economic indicators move firmly, stocks will only have limited room to fall, with the dollar/yen pair likely to continue moving firmly in tandem with rising US interest rates.
Kai	Bear	116.40 – 113.50	Stocks moved bearishly on rising US interest rates, with risk aversion also prompted by the Ukraine situation, though this phase seems to have run its course. Russia is unlikely to make any moves during the Beijing Olympics. However, concerns will rise again as the Olympics draw to a close. Risk aversion is also likely to flare again as stocks come under some adjustment ahead of the March 17 FOMC meeting.

Onozaki	Bear	116.50 – 113.00	There are expectations for rate hikes, but these have been priced in to a considerable extent, so the dollar/yen pair is unlikely to climb much on these expectations. With US interest rates rising, bearish US stocks are growing heavier on the topside, so we could see US stocks and the dollar both sliding, just like they did at the start of January.
Tamai	Bull	117.00 – 114.00	Investors will try to gauge the pace of rate hikes ahead of the March FOMC meeting, though there will probably be growing expectations for a 50bp hike in March followed by several more rate hikes within the year. The dollar/yen pair looks set to move firmly on expectations for faster rate hikes.
Harada	Bull	116.50 – 113.50	With investors focusing on the direction of US rate hikes and QT, the FRB has struck a hawkish tone again. Investors will probably focus again on Japanese/US interest-rate differentials as several FRB officials talk about taking a more active approach to tackle rising inflation. The dollar/yen pair is expected to move firmly this month.
Oba	Bull	117.00 – 114.00	Investors should be wary of reactive comments by Japanese government and BOJ officials on fears that the Japanese economy might be hit by yen bearishness, but the dollar will remain susceptible to buying on expectations that the US will begin to normalize monetary policy.
Katoono	Bull	117.00 – 113.50	The greenback will continue to climb ahead of the March FOMC meeting as US interest rates rise on expectations for faster US rate hikes and QT within 2022. The dollar/yen pair will edge higher while monitoring the negative impact on stock markets and geopolitical risk.
Kobayashi	Bull	117.00 – 113.00	The January FOMC meeting led to expectations for more rate hikes and an earlier commencement of QT, so the dollar will continue to be bought on the gap between the monetary policies of the US and other countries. However, the dollar could be pushed down for a time if stocks slide on geopolitical risk and rate hikes, so caution will be needed.
Henmi	Bull	117.00 – 114.00	The FRB looks set to implement a rate hike in March, with investors now focusing on the size and pace of rate hikes. On the other hand, Japan remains on the easing path. The dollar will face strong buying pressure on rising US interest rates, so the dollar/yen pair looks set to move firmly.
Otani	Bull	116.50 – 114.00	The FOMC refused to rule out rate hikes at every meeting or a 50bp rate hike when it met in January. With the FRB moving in a hawkish direction, the greenback is unlikely to be sold, with the dollar/yen pair set to trade with a heavy topside. However, the markets have already priced in rate hikes to a certain extent, so the pair's room on the topside could be capped.
Suzuki	Bull	116.50 – 112.50	The dollar seems to have run out of positive trading factors for now. However, there remain deep-rooted expectations for a March rate hike, while US interest rates remain at highs, so the dollar will continue to be bought.
Okuma	Bull	116.50 – 113.50	The dollar will continue to move firmly on expectations for rising US interest rates. The yen will be bought at times on falling stocks and risk aversion related to the situation in Ukraine, for example, but the dollar will remain stronger on the divergent monetary policies of the US and Japan, with the dollar/yen pair set to move firmly.

Euro – February 2022

Expected Ranges

Against the US\$: US\$1.1000–1.1500

Against the yen: JPY126.50–131.00

1. Review of the Previous Month

The euro was bought at the start of January, though the euro/dollar pair moved bearishly in the latter half of the month.

The pair opened the month trading around \$1.1375 on January 3. Its topside then rose, though the pair subsequently dipped to the upper-\$1.12 level as the dollar was bought on rising US interest rates. The pair fell further on January 4 as US interest rates climbed. However, the greenback was then sold on the release of some lackluster US employment data, so the pair rallied to the lower-\$1.13 mark. It dropped close to its January 4 low on the following day too, though it then climbed to the mid-\$1.13 level as the dollar was sold on position adjustments. The greenback was then bought and the pair dropped back to the lower-\$1.13 level on the strong result of the US December ADP National Employment Report and the hawkish contents of the FOMC minutes. The pair's topside was pushed up by dollar selling on January 6, but the pair subsequently fell back as the greenback was bought on rising US interest rates, with the pair basically floating around \$1.13 throughout the day.

The pair moved around \$1.13 thereafter before crashing to \$1.1285 on January 10 on rising US interest rates and the bearish movements of European stock markets. It fell to the lower-\$1.13 mark for a time on January 11. However, US interest rates then fell during overseas trading time on FRB chair Jerome Powell's testimony, so the dollar was sold and the pair bounced back to the upper-\$1.13 mark. The pair floated in a narrow range around the mid-\$1.13 mark on January 12, though it then soared to the mid-\$1.14 level on dollar selling after US long-term interest rates fell sharply after the release of the US December CPI data. The US released some weak economic data on January 13. With US long-term interest rates also sliding, the dollar was sold and the pair rose to \$1.1482 to remain at highs thereafter. The pair weakened on January 14 as US interest rates rose on the release of the University of Michigan's US Consumer Sentiment Index for January.

The pair's topside extended to \$1.1434 during European trading time on January 17, though it then traded with a dearth of new factors. The pair plummeted to the lower-\$1.13 level on January 18 on rising US interest rates and sluggish European stock markets. It fell further on January 19, though it then edged up to the mid-\$1.13 level as the greenback was sold on falling US long-term interest rates. The dollar was sold on falling US interest rates on January 20 too. With Germany also posting a strong producer price index for December, the pair strengthened to the upper-\$1.13 level. However, it then dropped to \$1.1303 on dollar buying after US long-term interest rates pared back their dips.

The pair fell to the upper-\$1.12 level on January 24 as risk aversion intensified on concerns about the situation in Ukraine. After a round of selling, the pair rallied to the lower-\$1.13 mark, though it then moved without a sense of direction. This trend spilled over into January 25, with the pair temporarily dipping to the mid-\$1.12 level. The pair's topside rose to the \$1.13 level on January 26, though the pair then dropped to the lower-\$1.12 range on dollar buying after US long-term interest rates rose sharply on the hawkish contents of the FOMC meeting. The impact of the FOMC meeting spilled over into January 27. With the US also releasing some bullish indicators during overseas

trading time, the pair plunged to \$1.1131. The pair was pushed down to \$1.1122 by dollar buying on January 28 too, though it rallied to \$1.1174 on some worse-than-expected US economic data.

2. Outlook for This Month

The euro/dollar pair is expected to move with a heavy topside in February.

After opening January trading around \$1.1375, the pair had fallen to the \$1.11 range at the month's end on euro selling. The selling was probably prompted by dollar buying on the divergent monetary policies of the US and Europe.

With regards to the US, there were three main focuses at the recent FOMC meeting: (1) the prospect of a March rate hike, (2) balance sheet reduction, and (3) the number of rate hikes in 2022.

As for (1) the prospect of a March rate hike, the FOMC's statement said "with inflation well above 2 percent and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate," thus hinting at a March rate hike. Though the statement did not discuss the size of any hike, the hike itself looks nailed on.

When it comes to (2) balance sheet reduction, the FOMC did not mention any clear timeframe, merely referring instead to a some time after rate hikes had commenced. In his press conference, though, FRB chair Jerome Powell said "Now, the balance sheet is substantially larger than it needs to be...so there's a substantial amount of shrinkage in the balance sheet to be done." He added that the FOMC would prepare a balance sheet roadmap when it met in March.

Regarding (3) the number of rate hikes in 2022, Mr. Powell did not rule out hiking rates at every other FOMC meeting going forward, thus suggesting there could be four or more rate hikes this year.

When it met in December, meanwhile, the ECB did not shift in a hawkish direction. Though it decided to wind down the PEPP at the end of March as it headed steadily toward financial normalization, it also said it might reactivate the PEPP if needed and it decided to increase purchases through the APP as a sudden change alleviation measure. It also made no mention of the timing of rate hikes.

However, market moves to price in these factors should also be taken into consideration when gauging the future direction. Though investors have already factored in a FRB rate hike, there is still room for them to price in hawkish policy moves by the ECB. There are worries related to the situation in Ukraine, for example, but most observers believe a military skirmish will be avoided. If this is correct, the euro will probably be bought on lingering expectations for monetary tightening. On the technical front, the pair has rallied from the key \$1.10 mark on several occasions, so it seems the pair could have its topside tested this month.

Dealers' Market Forecast

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

Bullish on the euro	2 bulls	1.1450 – 1.1000	Bearish on the euro	19 bears	1.1300 – 1.0950
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* Ranges are central values

Tanaka	Bear	1.1350 – 1.1000	Though the ECB is heading toward monetary policy normalization, it still lags behind the FRB. The smoldering Ukraine crisis also looks set to drag on, so it seems the euro/dollar pair will continue to trade with downside risk.
Yano	Bear	1.1300 – 1.1000	Concerns about the Omicron variant are peaking out at a faster pace in Europe compared to other regions. With the FRB set to implement successive rate hikes, though, the euro will probably move bearishly against the dollar.
Tsutsui	Bear	1.1300 – 1.0950	The euro/dollar pair will move bearishly as US interest rates remain at highs. Furthermore, the euro will be sold as long as the Ukraine crisis persists, with these funds likely to flow back to the dollar.
Kato	Bull	1.1400 – 1.1000	A lot depends on how the Ukraine situation develops, but current euro selling seems somewhat excessive, especially given how the eurozone continues to post a trade surplus, so the euro will probably be bought back on adjustive movements in February.
Ito	Bear	1.1400 – 1.0950	The FRB and other central banks are growing more hawkish in the face of rising inflation, but the ECB remains in dovish mode. The markets have already factored in a eurozone rate hike within the year, with this dovish stance likely to put selling pressure on the euro.
Yamagishi	Bear	1.1400 – 1.0900	The dollar will probably be sold on US monetary tightening, with the euro/dollar pair set to move bearishly. The situation in Ukraine is also fraught, while stocks and other assets are facing growing risk aversion. These factors will also lead to euro selling against the dollar and yen. The CPI data has hit record highs, so all eyes will be on whether the ECB voices some concerns about high inflation.
Ushijima	Bear	1.1300 – 1.0900	With US rate hikes just around the corner, the euro will remain a comparatively easy currency to sell. Instability in Ukraine will also be a bearish factor for the eurozone, so there will probably be attempts to push the euro/dollar pair below \$1.10.
Omi	Bear	1.1400 – 1.1000	Attention will fall on the ECB meeting at the start of the month. With the FRB tightening at a fast clip, the euro will be sold if it seems the ECB will keep monetary policy unchanged. With expectations for balance sheet reduction also smoldering away, the euro/dollar pair will be deadlocked in February.
Ueno	Bear	1.1400 – 1.1000	Factors this month will include the shenanigans involving Russia/Ukraine and the divergent monetary policies of the US and Europe. It is hard to envisage any factors that could prompt investors to build up euro positions. The euro will move bearishly against other currencies on the whole.
Yamaguchi	Bear	1.1400 – 1.0900	The eurozone real economy is still threatened by the spread of Covid-19 and the risk of renewed lockdowns, with ECB policy normalization still some way off. If economic indicators continue to deteriorate, the euro/dollar pair could slide further, so caution will be needed.
Kai	Bear	1.1200 – 1.1000	The dollar will continue to be sold on expectations for rising US interest rates. An ECB meeting is penciled in for February 3, but with inflationary concerns more subdued in Europe compared to the US, ECB president Christine Lagarde looks set to keep policy unchanged. Dollar buying and euro selling will continue on the divergent situations in the US and Europe.
Onozaki	Bull	1.1500 – 1.1000	The markets have already priced in FRB tightening, but there is still room to factor in expectations for ECB hawkishness, so the euro will probably be bought at times. On the technical front, the euro/dollar pair has rallied several times around \$1.10, so the pair is likely to have its topside tested this month.
Tamai	Bear	1.1350 – 1.0800	The FRB has clearly steered in a hawkish direction, while the BOE is expected to hike rates again. The ECB seems noticeably dovish in comparison, so the euro will be a relatively hard currency to buy. With Europe also relying on Russia for its gas supply, the euro/dollar pair will also be weighed down by the Ukraine situation.

Harada	Bear	1.1300 – 1.0900	The US might hike rates at a faster pace, while Ukraine tensions are rising and energy prices are soaring, so there will be minimal room for active euro buying. With investors also focusing on interest-rate differentials, the euro/dollar pair looks set to move bearishly this month.
Oba	Bear	1.1300 – 1.1000	There is speculation that the ECB normalization process may take over a year. With geopolitical risk also rising on heightened tensions in Ukraine, the euro/dollar pair is expected to continue trading with a heavy topside. However, some observers believe the euro has been oversold, so there euro could be bought back at times.
Katoono	Bear	1.1300 – 1.0900	Though expectations for tapering within the year are smoldering away, it seems the European economy is recovering at a slower pace than expected on the renewed spread of Covid-19 variants. The euro will also be weighed down by a sense that Europe is lagging behind when it comes to policy normalization. The euro/dollar pair's topside will continue to move heavily on Ukraine tensions too.
Kobayashi	Bear	1.1500 – 1.0800	The euro/dollar pair will continue to move bearishly on the divergent monetary policies of the ECB and the hawkish FRB together with concerns about the impact of Covid-19 and lockdowns on the eurozone real economy. However, the pair will be bought on the dip when it drops below \$1.10, so its room on the downside will probably be capped.
Henmi	Bear	1.1350 – 1.1000	Though the ECB is also inclining in a hawkish direction, the bank is lagging far behind the FRB when it comes to the normalization process, with the euro/dollar pair set to move bearishly on these divergent monetary policies. The euro will also be weighed down by tensions in Ukraine.
Otani	Bear	1.1300 – 1.1000	With the US moving toward rate hikes and QT, the euro/dollar pair will continue to move with a heavy topside on monetary policy differences. The pair's topside will also be weighed down by rising geopolitical risk related to Ukraine tensions.
Suzuki	Bear	1.1300 – 1.0900	The euro will continue to be sold against the dollar on the divergent tapering stances of the FRB and ECB. With tensions in Ukraine also bubbling away, the euro/dollar pair will continue to move bearishly.
Okuma	Bear	1.1300 – 1.0900	Stocks have fallen on anticipation for rising US rate hikes, with the European economy also weighed down by rising tensions in Ukraine. The euro/dollar pair will also move bearishly on the fact the ECB is lagging far behind the FRB and BOE when it comes to monetary policy normalization.

British Pound – February 2022

Expected Ranges

Against the US\$: US\$1.3200–1.3800

Against the yen: JPY149.50–158.00

1. Review of the Previous Month

The pound moved with a lack of incentives last month to trade more-or-less flatly against the other major currencies.

The only currency pair expected to trade with a sense of direction was the pound/dollar pair, which had continued to trend upwards since mid-December. The pair moved at its 200-day level of \$1.3470 over January 13–14 before hitting a high of \$1.3749. However, its sojourn above the 200-day line was short-lived and the pair fell toward the close of trading.

The euro/pound pair only made minor fluctuations. The pair fell to a 22-month low of GBP0.8306 on January 20 when ECB president Christine Lagarde said the ECB had “every reason not to act as rapidly and as brutally [to hike rates] that one can imagine the Fed would do” when it met the same day. A wait-and-see mode prevailed thereafter, though, with the pair only fluctuating by 110 pips, its smallest shift in a year (the pair had moved by 204 pips/month on average over the past year).

Sterling moved bearishly across the board toward the end of the month to fall from the \$1.37 range to the \$1.35 range against the dollar and the 156 yen range to the 154 yen range against its Japanese counterpart. Its rise against the euro also slowed, with the euro/pound pair moving flatly. UK political instability was believed to be behind this bearishness. It emerged that several high-ranking civil servants and so on had held frequent parties at the 10 Downing Street, etc. during the height of the Covid-19 pandemic, when the general population was under strict lockdowns, though this factor by itself was probably insufficient to push the pound lower. However, Sue Gray, second permanent secretary at the Department for Levelling Up, Housing and Communities, has conducted an independent investigation. She also provided information to the police, with the pound undergoing a comprehensive slide on political uncertainty when the Metropolitan Police announced it had begun its own investigation into the parties after being provided with information by Sue Gray.

2. Outlook for This Month

With the Metropolitan Police also launching an investigation into parties at Number 10, it seems the aforementioned Sue Gray report will be released early February. The report will be submitted to Prime Minister Boris Johnson, with Mr. Johnson then expected to make the contents public. The pound's movements will be swayed by what the report says about any rule infringements.

The key things to focus on will be whether the Tories trigger a leadership challenge (this will require 54 Conservative MPs (out of 360) to submit letters of no-confidence) and whether Mr. Johnson would subsequently be able to gain the support of at least 180 Tory MPs to see off such a challenge. A change at the top would lead to political uncertainty, with the pound sold as a result. Mr. Johnson has lost the support of the public, though, so even if he stays, this will not be good for political stability. Tory MPs could be in for a tough fight in the local elections

scheduled for May. Whatever happens, it is hard to imagine the pound rising on investor appetite.

Australian Dollar – February 2022

Expected Ranges

Against the US\$: US\$0.6900–0.7300

Against the yen: JPY78.80–84.30

1. Review of the Previous Month

The AUD/USD pair moved in a range between the lower-\$0.71 handle and the lower-\$0.73 level in the first three weeks of 2022. However, investors then priced in US rate hikes after the hawkish FOMC meeting on January 27 (Sydney trading time). With risk sentiments also deteriorating on the Ukraine situation, the Australian dollar moved heavily and the currency pair dropped below \$0.70 at the end of month.

Expectations for earlier US rate hikes rose at the start of 2022, while US bond yields continued rising on a flood of new corporate bond issuances. However, US stocks fell sharply on January 18 when US treasury yields rose further, with the currency pair also falling to around \$0.7170 for a time. This trend continued on January 19, with the US 10-year treasury yield rising to around 1.90%, its highest level since the start of the year. Australian interest rose in tandem, with the AUD/USD pair rallying to the \$0.72 range. Australia released some stronger-than-expected December employment data on January 20, with the pair temporarily rising to around \$0.7260. Its stay at this level was short-lived, though, and it soon fell back to the lower-\$0.72 mark on bearish US stock movements. Risk aversion prevailed on January 21 on the situation in Ukraine. Bonds were bought as stocks moved bearishly, with the yield on Australian government bonds falling sharply. The currency pair subsequently fell to around \$0.7180.

News emerged on January 24 that Russian forces were amassing close to the Ukrainian border to plan large-scale military action, with the US and UK then ordering embassy staff to withdraw from Ukraine. With geopolitical risk rising, risk sentiments were also weighed down when several countries released lackluster PMIs. The AUD/USD temporarily fell to the upper-\$0.70 mark as a result.

In his press conference after the FOMC meeting on January 27, FRB chair Jerome Powell said it would be appropriate to raise interest rates in the near future, thus suggesting that the zero-rate policy would be scrapped at the March FOMC meeting. Mr. Powell also indicated that QE would be wound down at the start of March and he said the FRB would start to shrink its balance sheet after the commencement of rate hikes. He also adopted a hawkish stance when it came to the speed and size of rate hikes, with US treasuries (particularly short-term treasuries) then rising sharply. The currency pair subsequently fell to around \$0.7080. The US then released its Q4 GDP figure. The data was up significantly on market expectations, with the economy growing at its fastest pace in around 40 years, so investors moved faster to price in US rate hikes. The greenback was bought and the currency pair fell to around \$0.7030 as investors tested the Australian dollar's downside. Market participants continued to price in US rate hikes on January 28. With the US Senate also close to reaching an agreement on Russian sanctions, the currency pair fell to \$0.69 on rising geopolitical risk related to the Ukraine situation.

2. Outlook for This Month

The AUD/USD pair is expected to move heavily in February. The markets have priced in a rise in Australia's base rate from 0.1% at present to 0.25% by June this year and 0.5% by August before finally hitting 1.0% at the year's end. The unemployment rate hit a record low around 4% in December 2021. In 4Q 2021, meanwhile, Australia's core CPI figure rose to the upper half of the RBA's inflation target range of 2–3%. Given this, it would not be surprising if the RBA announced a total end to QE when it next meets. With inflation rising, though, wage growth is moving sluggishly and there are concerns that real wages could fall. There are also concerns about the spread of the Omicron variant across Australia. As such, though the Australian dollar will probably rise temporarily if the authorities scrap QE and upgrade the inflation outlook in their forward guidance, it is still too early to state clearly that the first rate hike will take place within the year.

When it held its regular meeting over January 25–26, the FOMC stated it would be appropriate to start raising rates in the near future. It also hinted that it might shrink its balance sheet once rate hikes commenced. This indicated just how far the US was ahead of Australia when it came to the timing and momentum for tightening. The US provisional 4Q GDP data (released January 27) also revealed that consumer spending had helped to push growth up to 6.9%, its highest level in 37 years (market forecast: 5.5%). Personal Consumption Expenditure (PCE; an indicator closely watched by the FRB) also rose by 5.8% on its release on January 29 to record the highest growth in 39 years. As such, there are more than enough reasons for the FRB to move to keep inflation in check. US stocks will probably undergo some adjustment when the markets focus on FRB tightening.

Geopolitical risk is also rising on the Ukraine situation, while the US is close to reaching an agreement on Russian sanctions, so risk sentiments will probably remain in the doldrums for a prolonged period. Under these circumstances, the AUD/USD pair is expected to move heavily this month.

Canadian Dollar – February 2022

Expected Ranges

Against the US\$: C\$1.2400–1.3000

Against the yen: JPY87.00–93.00

1. Review of the Previous Month

US long-term interest rates rose from the start of the year on expectations for early US rate hikes, with the USD/CAD pair opening January trading at C\$1.2637. The pair hit a low of C\$1.2457 on January 20 and a high of C\$1.2809 on January 6.

The minutes to the December FOMC meeting were released on January 5. They revealed that members thought it was appropriate to hike rates earlier and commence with balance sheet reduction, which the market judged to be more hawkish than expected. US long-term interest rates rose after the release. US stocks fell and the greenback was bought, with the currency pair rising to the upper-\$1.27 mark. Crude oil prices (WTI) soared on January 6. There were concerns that crude oil demand would fall on the spread of the Omicron variant. However, OPEC+ decided not to ramp up production, with output increased at the same pace in February. With supply concerns also growing on the situation in the Middle East, crude oil moved at \$80/barrel. The US and Canadian employment data for December was released on January 7. At +199,000, the US December nonfarm payrolls figure was down sharply on market expectations for a rise in the region of +450,000. However, the unemployment rate had fallen from 4.2% in the previous month to 3.9%, with this dip better than the markets had forecast. At +55,000, the number of new jobs in Canada in December was more than double what the markets had expected, with the unemployment rate falling from 6.0% in the previous month to 5.9%. The Canadian dollar was bought and the currency pair fell from C\$1.27 to C\$1.26 once more.

On January 11, FRB chair Jerome Powell indicated that the FRB would swiftly normalize monetary policy in order to tackle inflation. He failed to give any details about rate hikes, though, so concerns about early rate hikes waned and the greenback was sold against other major currencies, with the currency pair sliding to the C\$1.25 range. WTI then rose from November 11 onwards on expectations for a US economic recovery and projections that the Omicron variant would not stall the recovery in crude oil demand. Crude oil hit \$83/barrel on January 13, with the currency pair also hitting C\$1.24 for a time. Demand for crude oil then grew and WTI prices continued rising on headlines about supply concerns to hit \$87/barrel on January 20. However, WTI then dropped back on January 20 when the US Energy Information Administration (EIA) announced that its crude oil stockpile had risen.

Risk aversion intensified in the week beginning January 24 on concerns about the Ukraine situation and early US rate hikes. US and Canadian stocks fell and WTI was also pulled lower, with the USD/CAD pair temporarily surging to C\$1.2702. There were strong expectations that the Bank of Canada (BOC) would implement a rate hike when it met to set policy on January 26, but in the end it kept the policy rate fixed at 0.25% on concerns about the economic impact of Omicron. The FOMC also met during the afternoon of the same day. It kept policy rates fixed and its statement was much as expected. However, FRB chair Jerome Powell struck a hawkish tone in his press conference, so the greenback was bought and the currency pair rose. The US dollar remained bullish thereafter, with the pair trading in the \$1.27 range until January 28.

2. Outlook for This Month

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

With Covid-19 cases surging on the Omicron variant, several provinces across Canada tightened restrictions from the start of the year. Some believe a serious health crisis will be avoided, with temporary turmoil soon brought to a close by the rollout of boosters, for example. Furthermore, the number of cases has fallen sharply from mid-January. Several Canadian economic indicators have yet to reflect the impact of Omicron, including the December employment data (released January 7) and the BOC's Q4 2021 Business Outlook Survey (released January 17), so investors will be focusing on the indicators released in February. Inflation remains high, so if the impact of Omicron does wane, the BOC will probably raise its policy rate to 0.50% in the March meeting, as expected. With FRB chair Jerome Powell also commenting at the end of January that it would be appropriate to lift policy rates in the near future, the FOMC looks set to hike rates in March and there are growing expectations for four rate hikes within the year. The US dollar will be bought if expectations for US rate hikes rise and some comments prompt speculation that rates will be lifted at faster pace. The greenback might also be supported by the results of economic indicators and the USD/CAD would well rise close to around C\$1.29 in February. WTI prices look set to continue climbing as supply falls on the deteriorating situation in Ukraine and political uncertainty in the Middle East. Even if geopolitical risk eases, OPEC Plus output adjustments will stop crude oil prices falling sharply, with prices set to move between the upper-\$70–upper-\$80/barrel range in February. The US dollar is likely to remain bullish on the whole this month, but the Canadian dollar will be supported by high crude oil prices, so the USD/CAD pair will probably move between C\$1.24–C\$1.30 this month.

Korean Won – February 2022

Expected Ranges

Against the US\$: KRW 1,180–1,230

Against the yen: JPY 9.346–9.804 (100 KRW)

1. Review of the Previous Month

The USD/KRW pair moved firmly over the latter half of January.

The pair opened the month trading at KRW1186.9 on January 3. US long-term interest rates then rose on the weekend's publication of the US employment data and concerns that the FOMC might announce an early rate hike when it met in January. The pair's topside grew lighter and the pair rallied to the key KRW1200 mark. Exporters bought the won on a sense that pair was at a good level after topping KRW1200. The minutes to the FOMC meeting were released on January 6 and they suggested that rates could be lifted earlier and faster than expected. With FRB officials also talking hawkishly about a potential March rate hike, the currency pair hit a monthly high of KRW1204.2 on January 7.

The pair opened the following week trading at KRW1198.8 after the US December nonfarm payrolls figure dipped below expectations. After starting the week at a standstill, the pair then shifted course toward the middle of the week. There has been fears that the FRB would start shrinking its balance sheet early in 2022, but FRB chair Jerome Powell then said such a move would probably begin in the latter half of the year, so US interest rates fell. The USD/KRW pair also edged lower. However, the pair's downside was supported below KRW1190 by real-demand dollar buying.

A wait-and-see mode then prevailed toward the weekend ahead of the BOK meeting. The BOK hiked its policy rate from 1.00% to 1.25% when it met on January 14. In his press conference, the BOK governor also hinted at further rates hikes due to strong inflationary pressures. The currency pair subsequently fell and in the following week it hit a weekly low of KRW1185.8 on January 18. This level saw real-demand dollar buying, though, so the pair bounced back on January 27 on speculative buying ahead of the FOMC meeting. The pair also moved firmly on geopolitical risk related to Russia and Ukraine.

The FOMC hinted at a March rate hike when it met on January 27. In his press conference, FRB chair Jerome Powell also refused to rule out rate hikes at every subsequent meeting. US long-term interest rates soared and the currency pair also climbed to KRW1207.4 at the month's end. In the end, the pair closed the month at KRW1205.5, up 16.7 won on the end of December.

2. Outlook for This Month

The USD/KRW pair is expected to move firmly in February. After the pair hit the key KRW1200 mark at the start of January, the won saw real-demand buying on a sense it was at a good level. There was also a sharp correction to won bearishness, with the currency pair's topside weighed down. However, the pair's downside also moved firmly on global stock market adjustments and rising geopolitical risk, so the pair ended the month entrenched at the KRW1200 level.

The pair will be swayed by three main factors in February:

(1) FRB policy discussions (about the speed of rate hikes), (2) BOK financial normalization, and (3) geopolitical risk related to Russia and Ukraine.

Turning to (1), and with inflation running high, the FOMC hinted at a March rate hike when it met in January. FRB chair Jerome Powell also hinted that rates could be lifted at a faster pace than the last time rates were hiked. The markets had been expecting four rate hikes and it now seemed rates could be lifted at an even faster pace. There are no signs of inflation slowing, so the FRB is unlikely to change its stance and this will probably push the currency pair higher for the time being.

As for (2), the BOK implemented a 25bp rate hike in the January meeting, with the BOK governor hinting at more rate hikes to come. This prompted won buying. However, the BOK is likely to lag behind the FRB when it comes to the pace of rate hikes. With a presidential election also looming in March and the BOK set to appoint a new governor, monetary policy is likely to remain unchanged for now. As such, it seems unlikely that BOK policy will prompt won buying.

Factor (3) will also prompt dollar buying as risk aversion grows on geopolitical risk related to Russia and Ukraine.

As a result, it seems the won will slide in February as market participants focus on factors (1) and (3). However, the authorities could intervene to buy the won when the pair jumps above KRW1200, so the pair's rise will be restrained.

New Taiwan Dollar – February 2022

Expected Ranges

Against the US\$: NT\$27.55–27.85

Against the yen: JPY4.07–4.20

1. Review of the Previous Month

The USD/TWD pair moved to and fro in a range in January.

It opened the month trading at TWD27.680 on January 3. Concerns about the Omicron variant faded and risk appetite swept the globe at the start of the year, with Taiwanese stocks also rising. The Taiwan Capitalization Weighted Stock Index renewed its 2021 high, with the currency pair temporarily sliding to TWD27.517 as a result, though it faced adjustment around the key TWD27.500 mark and it eventually returned to the TWD27.6 range. US interest rates then rose and US stocks fell on the release of the hawkish minutes to the December FOMC meeting. Risk aversion swept the globe as US interest rates rose on expectations for early US rate hikes and balance sheet shrinkage. Taiwan stocks fell and the Taiwan dollar was sold, with the currency pair climbing to around TWD27.70.

This trending continued mid-January, with markets remaining cautious about FRB tightening, though Taiwanese stocks moved firmly on the performance of major semiconductor makers. As more funds flowed in from overseas, exporters sold the greenback and bought the Taiwan dollar, with the currency pair sliding to around TWD27.55. However, yields on 10-year US treasuries rocketed to temporarily top 1.90%, so stocks fell in Taiwan and overseas, with the pair bouncing back to around TWD27.65.

Taiwanese stocks continued falling in the latter half of the month, with the Taiwan Capitalization Weighted Stock Index dipping below 18,000 points for a time. With overseas investors also selling the Taiwan dollar, the currency pair temporarily rose to around TWD27.75. However, as the end of the month and the Spring Festival approached, the greenback was sold by exporters, so the pair moved with a heavy topside. Tensions in Ukraine then intensified, while concerns about monetary tightening increased on FRB chair Jerome Powell's press conference after the FOMC meeting. With position adjustments also increasing ahead of the Spring Festival, the pair climbed to TWD27.830 for a time before closing the month trading at TWD27.828.

2. Outlook for This Month

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

Excessive concerns about the Omicron variant eased entering 2022, with risk appetite prevalent at the start of the year. The Taiwan Capitalization Weighted Stock Index renewed record highs, while the USD/TWD pair tested the key TWD27.500 mark. However, risk aversion then intensified on concerns about US tapering, with Taiwan stocks and the Taiwan dollar falling and the currency pair swinging back and forth.

The Taiwan economy is in good shape at the moment. The preliminary GDP figure for 2021 hit +6.28%. At +3.36%, GDP was still in positive territories in 2020, when the Covid-19 pandemic started, but the 2021 figure still represented impressive growth. Many observers are forecasting growth in the 4% range in 2022 too. The major driver is the recovery in consumer spending, but exports are expected to remain firm too. As such, though commodity prices are rising, Taiwan will continue to post a trade surplus, with the Taiwan dollar facing appreciatory

pressure as a result. The Taiwan dollar could be pushed lower by Taiwanese investments overseas. With US long-term interest rates rising on expectations for US financial normalization, the search for yield is likely to intensify.

Investors will be wary about rising geopolitical risk and the movements of US interest rates in February. The markets will be on holiday at the start of the month on the Spring Festival, so movements after the holidays will require monitoring. In particular, stocks are being pushed lower right now by rising US interest rates, so the Taiwan dollar will be susceptible to depreciation. However, exporters will probably be lining up to sell the greenback after the holidays, so overall the pair looks set to move in a range with a mixture of buying and selling.

Hong Kong Dollar – February 2022

Expected Ranges **Against the US\$: HK\$ 7.7800–7.8200**
Against the yen: JPY 14.50–14.90

1. Review of the Previous Month

Hong Kong dollar spot exchange market in January

USD/HKD spot was fluctuating below 7.80 handle in January while the back-end HKD forward curve collapsed on Fed's hawkish shift. As the Fed changed its course to tame escalating inflation and is set to start its rate hike cycle and balance sheet reduction this year, the expected USD-HKD rate spread widening this year put the back-end HKD forward curve under heavy pressure. Stock Connect recorded net inflow so far in January, while IPO flow as rather limited in the beginning of this year. On the macro front, the Omicron variant prompted the government to tighten social distancing measures and delayed the border re-opening to mainland China. Labour market continued to improve, with unemployment rate falling to below 4%.

Hong Kong dollar interest rate market in January

1-month HKD HIBOR came off as year-end effect faded, but picked up again on sooner and faster Fed's rate hike cycle. 3-month HKD HIBOR jumped to its 1-year high of 0.32% as the Fed is set to deliver the lift-off in March. The HKMA maintained the increase of Exchange Fund Bills (EFBs) issuance to drain HKD liquidity, sending HKMA aggregate balance to HKD 357.5bn. Both 1-month and 3-month HKD HIBOR – USD LIBOR spread go back to same level as Dec 2021. HKD IRS curve tracked on higher USD IRS curve as Fed's rate hike cycle approached. With still ample HKD liquidity condition, the negative HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) dropped to below -110bps.

2. Outlook for This Month

Hong Kong dollar spot exchange market in February

USD/HKD spot is expected to range between 7.78 and 7.82 in the coming month. The sooner Fed's rate hike cycle suggested the earlier return of the carry trade given looser HKD liquidity condition compared to the USD. Looking back into the prior Fed's rate hike cycle, HKD spot weakened to above its weak side of trading band above 7.80 when the Fed delivered 3 times of 25bps rate hike in 2017 and started its balance sheet reduction. Against the backdrop of mounting US inflation, we reckon that the current pace of Fed's tightening will be fast, pointing to HKD depreciation this year. So far this year, the Hang Seng Index has been outperforming its peers and the near-term capital inflow could turn supportive to HKD. IPO flow will be supported by Chinese firm amid tighter US regulations and Chinese restrictions on overseas listing.

Hong Kong dollar interest rate market in February

The increase in HKMA's EFBs issuance will drain HKD liquidity, and HKMA aggregate balance is expected to fall to HKD 337.5bn in February 2022. We reckon that HKD liquidity condition will remain flush and the HKD rate hike cycle will lag behind the Fed's one. With HKD-USD rate spread to fall, the HKD spot will decline to its weak-side convertibility undertaking at 7.85 and HKD liquidity shrank, sending HKD rates higher subsequently under the USD-HKD peg. As market participants look for Fed's more aggressive rate hike cycle. HKD IRS curve will continue to climb.

Chinese Yuan – February 2022

Expected Ranges

Against the US\$: CNY 6.30–6.50

Against the yen: JPY 17.38–18.58

1. Review of the Previous Month

In January, the U.S. dollar/Chinese yuan exchange rate reached the highest level for the Chinese yuan since 2018, after which the U.S. dollar rallied subsequent to the Federal Open Market Committee (FOMC) meeting held at the end of the month.

On January 4, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.37 level. On January 5, local time, the minutes of the December FOMC meeting were released, which turned out to be hawkish. As a result, expectations for interest rate hikes grew in the market, and this led interest rates in the U.S. to accelerate the appreciation of the U.S. dollar. Following this trend, the U.S. dollar/Chinese yuan also rose and reached the lower-CNY 6.38 level on January 6.

On January 10, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.37 level. During the first half of the week, there were few signs of movement, and the exchange rate remained at the CNY 6.37 level. Even though long-term interest rates in the U.S. temporarily rose to the 1.8% level with speculation over monetary policy in the U.S., on January 12, the Consumer Price Index (CPI) of the U.S. was released, and the result turned out to be within the estimated range. Thus, the trend was inverted, and U.S. interest rates started to fall. Toward the second half of the week, U.S. dollar-selling became dominant, and the U.S. dollar/Chinese yuan exchange rate fell slightly as well. Then, on January 13, the U.S. dollar/Chinese yuan exchange rate reached the mid-CNY 6.35 level for the first time in two weeks. On January 14, the exchange rate fell and temporarily reached the lower-CNY 6.34 level.

On January 17, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.35 level. On the same day, the People's Bank of China (PBOC) decided to cut its maturing MLF interest rate by 10 basis points while also rolling over a larger amount of loans. Thereafter, the fourth-quarter GDP and other major economic indices were released. However, the market remained stable, and the U.S. dollar/Chinese yuan exchange rate once fell to the upper-CNY 6.33 level. On January 20, the one-year and five-year LPR were cut. However, this announcement had already been reflected in the market, and there was little impact on the foreign exchange rate. During the night of January 21, the Chinese yuan appreciated further, and the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.33 level.

On January 24, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.33 level. During the first half the week, there were few transactions in the market, as the Chinese New Year was approaching. Under such a condition, the Chinese yuan continued appreciating, as had been the case since the beginning of the month. On January 26, the U.S. dollar/Chinese yuan exchange rate reached CNY 6.3200 for the first time since April 2018. On January 26, the FOMC meeting was held in the U.S. after market closing, and the result turned out to be hawkish. In reaction, U.S. interest rates rose, and market participants bought the U.S. dollar in an accelerated manner. Following this trend, the U.S. dollar/Chinese yuan exchange rate also rallied. On January 27, the exchange

rate rose to the upper-CNY 6.36 level for the first time in two weeks.

2. Outlook for This Month

In February, the Chinese yuan is forecast to depreciate slowly against the U.S. dollar.

The gap in monetary policy will grow between the U.S. and China. In the U.S., it is currently expected almost as a market consensus that interest rate hikes will start in March and that there will be four or more interest rate hikes in 2022. Along with inflation, there has been a steady plan for the normalization of monetary policy in the U.S., which is leading the U.S. dollar to appreciate. On the other hand, in China, the goal for 2022 at the Central Economic Work Conference was economic stability, and this suggests that the PBOC will continue monetary easing. The difference in monetary policy between the U.S. and China is therefore most likely to support the appreciation of the U.S. dollar and the depreciation of the Chinese yuan.

On the other hand, regarding trade, the trade surplus of China is a factor that will lead the Chinese yuan to appreciate. While exports are steadily growing, corporate foreign currency deposits remain high. The trend of Chinese yuan-buying is therefore a factor for the appreciation of the Chinese yuan. If the production hubs in the manufacturing sector return to the original sites used before the Covid-19 pandemic, the supply chain would move to Southeast Asia. This would reduce the trade surplus of China and would lead the Chinese yuan to depreciate in a relative term, even though this could take a little longer than initially expected as a result of the spread of the omicron variant of Covid-19.

Since the beginning of the year, the U.S. dollar remains strong supported by the rise of interest rates in the U.S. However, even under such a condition, the Chinese yuan has continued appreciating. There has been constant pressure to buy the Chinese yuan based on actual demand. Therefore, the depreciation of the Chinese yuan is expected to be slower than originally expected.

Singapore Dollar – February 2022

Expected Ranges **Against the US\$: SG\$ 1.3450–1.3650**
Against the yen: JPY 84.00–87.00

1. Review of the Previous Month

In January 2022, the Singapore dollar depreciated against the U.S. dollar.

In the first week of the month, the Singapore dollar remained weak. This was due to the rise of U.S. interest rates supported by anticipation of an early policy interest rate hike in the U.S. On January 5, the minutes of a Federal Open Market Committee (FOMC) meeting were released, implying the possibility of an early policy interest rate hike as well as the possibility for balance sheet reduction to start earlier than planned. As a result, interest rates continued rising. This kept Asian currencies from appreciating. Following this trend, the Singapore dollar continued depreciating as well. The U.S. dollar/Singapore dollar exchange rate, which was at the upper-SGD 1.34 level at the beginning of the month, reached the mid-SGD 1.36 level toward January 7.

However, the U.S. dollar weakened thereafter due to transactions to sell the U.S. dollar—these are likely to be position adjustment. As a consequence, the trend in the U.S. dollar/Singapore dollar exchange market was also inverted, and the Singapore dollar started appreciating. Also, the December Consumer Price Index (CPI) of the U.S. turned out to be within the range of the market estimate. As a result, U.S. interest rates fell. While U.S. stock prices continued rising and the U.S. dollar continued depreciating, the Singapore dollar continued appreciating, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.34 level.

The U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range thereafter. After the release of the minutes of the FOMC meeting and major economic indices in the U.S., there were few important factors in the market. Under such a circumstance, Asian currencies saw various different trends in the middle of the month. On January 25, the Monetary Authority of Singapore (MAS) held an extraordinary meeting and decided to adjust the NEER band toward a stronger Singapore dollar. This seems to be a decision based on the fact that the inflation rate remains high in Singapore. It was a surprise that the MAS took this decision at this timing, as the MAS holds regular meetings in April and October. In reaction, the Singapore dollar appreciated slightly, and the U.S. dollar/Singapore dollar exchange rate renewed its monthly low.

On January 26, the FOMC held its meeting, attracting substantial attention in the market. At the meeting, Federal Reserve Board (FRB) Chair Jerome Powell did not explicitly refer to the pace of the monetary policy normalization process, and this made market participants cautious of the hawkish attitude of the FRB. As a result, the U.S. dollar appreciated, which led the trend to invert, and the Singapore dollar started to weaken and depreciated toward the end of the month. As of this writing on January 28, the U.S. dollar/Singapore dollar exchange rate has been sitting at the mid-SGD 1.35 level.

2. Outlook for This Month

In February 2022, the Singapore dollar is forecast to depreciate against the U.S. dollar.

In January, the MAS took a measure of monetary tightening, which turned out to be a surprise in the market. However, market participants are still interested in actions taken by the FRB in the U.S. The FOMC meeting confirmed the persisting hawkish attitude of the FRB, and this led U.S. interest rates to rise toward the end of the month. Under such circumstances, the MAS shifted its monetary policy ahead of time to lead the Singapore dollar to strengthen. Nevertheless, the Singapore dollar remained weak until the end of the month.

Inflation remains high not only in the U.S. but also in Singapore. In particular, indices related to transport remain high. As Singapore's inflation indices are easily impacted by the rise of gasoline prices, the inflation rate is likely to remain high for a while. The next MAS meeting is scheduled for April, and the NEER policy is likely to be modified further (toward a stronger Singapore dollar).

The MAS modified the NEER policy by changing either (1) slope, (2) mid-point, or (3) width. However, in general, there is not much to change, apart from (1). Thus, the MAS tends to only change the slope of the NEER band. In particular, by changing (2) upward or downward, the MAS would be directly leading the Singapore dollar to appreciate or depreciate. Thus, it remains a last resort for the MAS. At the current moment, the inflation rate remains high, but the situation is not urgent enough to take emergency action. Therefore, it is unlikely for the MAS to use the last resort at the next meeting. The next meeting of the MAS is scheduled for April, and if monetary policy is to be modified then, it is likely to be an adjustment of the slope of the NEER band, as was the case in January.

If that is the case, market participants will be more interested in the decisions taken by the FRB regarding interest rate hikes in the U.S., as has already been the case since January. As long as policy interest rate hikes are anticipated in the U.S. and thus U.S. interest rates continue rising, the Singapore dollar is forecast to remain weak against the U.S. dollar in general.

It should also be mentioned that trends in the Chinese yuan market are also important for the Singapore dollar market, as the ratio of the Chinese yuan in the NEER band is the second highest after the U.S. dollar. The Chinese yuan is expected to remain stable, as China's current account balance remains steady, and the Chinese monetary authorities seem to be continuing measures of monetary easing. In the U.S. dollar/Singapore dollar exchange market, the Singapore dollar is forecast to continue depreciating. However, the Singapore dollar in terms of the NEER is likely to remain relatively stable.

Thai Baht – February 2022

Expected Ranges

Against the US\$: THB 32.90–33.70

Against the yen: JPY 3.41–3.48

1. Review of the Previous Month

At the beginning of the month, on January 4, the U.S. dollar/Thai baht exchange market opened trading in 2022 at around the THB 33.30 level. Other Asian currencies weakened due to the expectation for early policy interest rate hikes in the U.S., as well as for the rise of U.S. interest rates. However, unlike other Asian currencies, the Thai baht remained strong against the U.S. dollar. On January 5, the U.S. dollar/Thai baht exchange rate fell to the THB 33.10 level, waiting for the release of the minutes of the Federal Open Market Committee (FOMC) meeting. However, the minutes were released thereafter, mentioning early policy interest rate hikes and quantitative tightening, which both led the U.S. dollar to strengthen against the Thai baht. On January 6 and 7, market participants continued buying the U.S. dollar based on the contents of the minutes of the FOMC meeting. In addition, the number of new Covid-19 cases in Thailand increased rapidly due to the spread of the omicron variant, as a result of which the U.S. dollar/Thai baht exchange rate temporarily exceeded the THB 33.70 level. On January 10, after the weekend, the media reported that the Thai government was not planning a lockdown—this was a source of concern in the market. As a result, Thai baht-selling slowed down.

In the middle of the month, market participants actively sold the U.S. dollar, waiting for the second public hearing of Federal Reserve Board (FRB) Chair Jerome Powell. Along with some transactions to minimize losses, the U.S. dollar/Thai baht exchange rate continued falling. Once the public hearing ended without any surprise, the U.S. dollar/Thai baht exchange rate fell below the THB 33.30 level. Also, on January 12, market participants were cautious about the Consumer Price Index (CPI) in the U.S. In addition, the U.S. dollar/Thai baht exchange rate thus rallied to the THB 33.40 level, partially as a reaction to the rapid depreciation seen since the beginning of the week. However, the CPI of the U.S. turned out to be as estimated in the market. After this important event passed, the U.S. dollar/Thai baht exchange rate fell to approach the THB 33.30 level. On January 13 and 14, the U.S. dollar/Thai baht exchange rate did not move in any direction, fluctuating at around the THB 33.20 level, as important events had passed. On January 17, U.S. markets were closed, and the U.S. dollar/Thai baht exchange rate fell, after rising once, and approached the THB 33.10 level without any factor to impact the market. From January 18 to January 20, there was a blackout period, and there were no important economic indices announced. However, on January 20, the Thai government decided to start accepting foreigners without quarantine again, which led the U.S. dollar/Thai baht exchange rate to start falling. In the end, the U.S. dollar/Thai baht exchange market closed trading at the THB 32.90 level.

At the end of the month, the fall of the U.S. dollar/Thai baht exchange rate slowed down on January 21, as an FOMC meeting was scheduled for the following week, and there was a reaction to the appreciation of the Thai baht seen in the week before. After the weekend, the U.S. dollar/Thai baht exchange rate continued fluctuating at around the THB 33 level without moving into any direction on January 24, 25, and 26, before the FOMC meeting. At the press conference after the FOMC meeting, a policy interest rate hike in March was seen as almost decided.

Furthermore, it gave the impression that the policy interest rate would be raised not even every quarter but at every FOMC meeting. The possibility of a hike of more than 25 basis points was not denied either. Thus, the FOMC meeting turned out to be more hawkish than expected. In reaction, the currencies of emerging countries depreciated against the U.S. dollar. Following this trend, the Thai baht depreciated against the U.S. dollar, offsetting the appreciation seen previously. Toward the end of the month, the U.S. dollar/Thai baht exchange rate rose to reach the mid-THB 33 level.

2. Outlook for This Month

In February, the U.S. dollar/Thai baht exchange rate is forecast to remain high. In terms of domestic factors in Thailand, there are many factors to support the Thai baht, despite the fact that the U.S. dollar/Thai baht exchange rate is expected to remain high. The Test & Go scheme is to resume on February 1 to accept foreign tourists without quarantine, which had been on a halt for an unlimited period of time due to the spread of the omicron variant of Covid-19. In addition, the officially announced number of daily new Covid-19 cases has been significantly lower than initially estimated by the Ministry of Public Health of Thailand, which was more than 20,000–30,000 people per day at the peak time. Furthermore, the current account balance of Thailand, which had fell significantly after the spread of the delta variant of Covid-19, has been on a gradual recovery after hitting bottom in August last year. These factors are expected to support the Thai baht in the times ahead. Indeed, the U.S. dollar/Thai baht exchange rate fell temporarily below the THB 33 level in the middle of January, which is considered to be the result of these factors.

However, when it comes to external factors, the January FOMC meeting is likely to have strong impact on the market, and this can offset positive factors for the Thai baht, resulting in U.S. dollar-buying. Thus far, the policy interest rate hike had been expected to happen four times a year. However, some financial institutions now expect the policy interest rate in the U.S. to be raised six times, while others expect the interest rate to be raised by 50 basis points at the FOMC meeting in March this year. The estimate has thus been modified upward regarding interest rate hikes in the U.S. Meanwhile, specific stock prices (i.e., the three major stock price indices in the U.S.), which are considered to be inversely correlated to interest rates, have been falling. However, the indices do not seem to be falling sharply enough fuel the cautious feeling in the market given the reaction seen immediately after the FOMC meeting. Thus, even if interest rates continue rising or remain high, investors might continue buying the U.S. dollar as long as stock prices also remain high. Because U.S. interest rate hikes are likely to advance more steadily and faster than expected last year, the currencies of emerging countries are thus likely to suffer from downward pressure in February as a result of growing pressure for capital outflow.

Malaysian Ringgit – February 2022

Expected Ranges

Against the US\$: MYR 4.145–4.235

Against the yen: JPY 26.74–27.47

1. Review of the Previous Month

In January, market participants sold the Malaysian ringgit for a limited period of time as a result of the rise of interest rates in the U.S. seen at the beginning of the year, as well as due to the trend to sell the currencies of emerging countries due to the sharp rise of interest rates in the U.S. after the Federal Open Market Committee (FOMC) meeting in the U.S. on December 27. However, the depreciation of the Malaysian ringgit did not last long, and, from the viewpoint of the month as a whole, the depreciation of the Malaysian ringgit was limited without any decisive sign for the U.S. dollar/Malaysian ringgit exchange rate to move into one direction.

In 2022, the Malaysian ringgit remained weak at the beginning. The U.S. dollar/Malaysian ringgit exchange market opened trading at MYR 4.16, after which the exchange rate rose to the upper-MYR 4.21 level only in one week, showing violent fluctuation in the market. On January 6, the minutes of the December FOMC meeting were released, showing the positive attitude of the Federal Reserve Board (FRB) toward an early policy interest rate hike in March after the end of the tapering process. Furthermore, it turned out that the committee members had even discussed the possibility of monetary tightening, and this led interest rates in the U.S. to rise sharply. As a result, market participants started selling the currencies of emerging countries in an accelerated manner. Following this trend, the Malaysian ringgit depreciated further.

Toward the middle of the month, the U.S. dollar/Malaysian ringgit exchange market was impacted by external factors such as those in the U.S. market. Thereafter, the depreciation of the U.S. dollar accelerated, due to the remark made by FRB Chair Jerome Powell at the confirmation hearing held on January 11, as well as due to the Consumer Price Index (CPI) of the U.S. announced on January 12. FRB Chair Jerome Powell made a generally hawkish comment by pointing out that the balance sheet had been more inflated than necessary. Even though the CPI turned out to be +7.0% year-on-year—the highest level in approximately 40 years—it was within the expected range, which gave a sense of relief in the market. In terms of domestic factors, the November industrial production turned out to exceed the market estimate on January 10. Furthermore, the November unemployment rate was 4.3%—the same level as the previous month. However, the number of non-workers fell below 700,000 for the first time since April 2020, confirming the recovery of the domestic economy. Therefore, the Malaysian ringgit, which was actively sold at the beginning of the month, started to appreciate.

Toward the end of the month, market participants remained sensitive, as an FOMC meeting in the U.S. was scheduled for January 27. Due to global concerns over inflation, the two-year U.S. bond yield exceeded the 1% level for the first time since February 2020. Subsequently, in the stock market, high-tech stock prices fell substantially, which encouraged market participants to buy the U.S. dollar in order to avert risks. At the FOMC meeting, which attracted substantial attention in the market, market participants confirmed the hawkish attitude of the FRB because it did not deny the possibility of two interest rate hikes in March and May. As a result, interest rates in the U.S. rose sharply. Following this trend, market participants sold the Malaysian ringgit, and the U.S.

dollar/Malaysian ringgit exchange rate once exceeded the MYR 4.20 level. However, some market participants sold back the U.S. dollar when the exchange rate exceeded the MYR 4.20 level. In the end, the U.S. dollar/Malaysian ringgit exchange market closed at the mid-MYR 4.18 level.

2. Outlook for This Month

In February, a central bank monetary policy meeting is scheduled for March 3, while an FOMC meeting is scheduled for March 17. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate is likely to fluctuate following the global trend in interest rates.

On January 20, the central bank of Malaysia announced its decision to maintain its policy interest rate at 1.75% for the ninth consecutive time. At the same time, the central bank released a statement on the rise of the core inflation rate as a result of economic normalization, although there was no modification made to the inflation outlook in the headline. This confirmed that the central bank was steadily preparing an interest rate hike for future meetings. In the market, the central bank is expected to raise the policy interest rate twice before the end of the year. Market participants are thus interested in the timing of the interest rate hikes in Malaysia as well. On the other hand, since the FOMC meeting held last month, the U.S. market has already reflected five interest rate hikes, including an interest rate hike of 25 basis points in March. Depending on market conditions in February, the U.S. market could reflect an interest rate hike of 50 basis points in March or more than five interest rate hikes, which would encourage market participants to sell the currencies of emerging countries even further. Despite such a concern, the central bank of Malaysia is currently not in a hurry to raise the policy interest rate. However, there has been the example of Singapore, in which the central bank announced a sudden decision to take measures of monetary tightening. Market participants should therefore carefully observe the decision to be made by the central bank about the policy interest rate at the meeting on March 3.

In terms of domestic factors, the omicron variant of Covid-19, which is fueling concern, has not been rapidly spreading even though there has been a gradual increase in the number of new cases. At the current moment, the promotion led by the government for the booster shot of the Covid-19 vaccine has been evaluated as successful. Furthermore, on February 5, vaccination for children between five and 11 years of age is scheduled to start. Therefore, there are limited risks for Malaysian ringgit-selling resulting from the negative impact of the deteriorating situation on the economy, as long as Malaysia can avoid the rapid spread of Covid-19 cases during the Chinese New Year holidays, as such could overwhelm the national health care system.

In February, there are likely to be few market participants at the beginning of the month because of the Chinese New Year holidays. Subsequently, from the middle to the end of the month, the U.S. dollar/Malaysian ringgit exchange rate is likely to continue following external factors. However, given the above reasons, the U.S. dollar/Malaysian ringgit exchange rate is unlikely to move significantly, waiting for the announcement of the central bank's decision on the policy interest rate in March, as long as there is no significant movement in the market, while there are few market transactions.

Indonesian Rupiah – February 2022

Expected Ranges

Against the US\$: IDR 14,300–14,700

Against the yen: JPY 0.79–0.82 (100 IDR)

1. Review of the Previous Month

In January, the Indonesian rupiah remained weak against the U.S. dollar.

On January 3, the first trading day of the year, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,200 level. Thereafter, there was an increasing expectation for U.S. interest rate hikes to be accelerated. Under such a circumstance, the U.S. dollar strengthened, as a result of which the Indian rupiah depreciated. In particular, the minutes of the December Federal Open Market Committee (FOMC) meeting were released on January 5, with content that suggested that the policy interest rate in the U.S. would be raised early by pointing out that most committee members saw it possible to raise the interest rate early if the labor market is improved. As a consequence, the Indonesian rupiah depreciated against the U.S. dollar on January 6, and the U.S. dollar/Indonesian rupiah exchange rate temporarily reached the IDR 14,400 level. On January 7 and thereafter, the appreciation of the U.S. dollar slowed down, before and after the announcement of the December employment statistics of the U.S. Thereafter, there were few important factors in the market, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at around the IDR 14,300 level.

In the second half of the month, expectations for a policy interest rate hike in the U.S. started growing again on January 17, leading interest rates in the U.S. to rise. As a result, the Indonesian rupiah depreciated against the U.S. dollar again. Toward January 19, the Indonesian rupiah depreciated, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 14,400 level. Unlike the previous trend, interest rates in the U.S. also started falling, which stopped the Indonesian rupiah from depreciating. On January 20, the following day, the central bank of Indonesia held a monetary policy meeting and decided to maintain the seven-day reverse repo rate, which is the policy interest rate of the country, at 3.50%. However, the central bank also announced its decision to gradually raise the deposit reserve requirement ratio for commercial banks in the times ahead. Central bank governor of Indonesia Perry Warjiyo commented at the press conference after the meeting that the liquidity level had been very high, emphasizing that the liquidity level would remain sufficient even after the deposit reserve requirement ratio hikes. Furthermore, he discussed the details of monetary policy in the U.S. by sharing his outlook that the U.S. policy interest rate would be raised four times between March and the end of this year. It turned out that the central bank governor was very cautious about monetary policy changes in the U.S., and this could be for the purpose of preparing for interest rate hikes by the central bank of Indonesia. However, the main policy interest rate was maintained at the existing level this time, which had been anticipated in the market. Furthermore, an FOMC meeting was approaching in the following week. Thus, the impact of this situation on the Indonesian rupiah exchange market was limited. The U.S. dollar/Indonesian rupiah exchange rate thus continued fluctuating at around the IDR 14,300. Then, on January 26, the FOMC meeting was held and made it clear that the policy interest rate would be raised in March. The FOMC also revealed a plan to start balance sheet reduction at an early stage, maintaining a hawkish attitude. As a result, the U.S. dollar strengthened again. As a consequence, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR

14,400 level on January 27. As there were transactions to buy the U.S. dollar for the end of the month, the Indonesian rupiah continued depreciating against the U.S. dollar to its monthly low by temporarily reaching the lower-IDR 14,400 level on January 31 (as of daytime on January 31).

2. Outlook for This Month

In February, market participants should be cautious of the possibility for the Indonesian rupiah to depreciate against the U.S. dollar.

As has been discussed in the article from last month, there is strong demand to buy the Indonesian rupiah, and this can be confirmed by a large trade surplus, leading to a current account surplus. However, the trade surplus in December 2021 was USD 1 billion, falling far below USD 3.1 billion, which was the market estimate. As a result of the recovery of domestic demand, imports hit an all-time high, which led the trade surplus to decrease significantly. Commodities prices have been high, including coal prices. However, in January this year, the Indonesian government temporarily banned the export of coal. This was a measure to control the total export value. Thus, it is possible for the single-month trade balance to see an even-smaller amount of trade surplus or even a trade deficit. The measure to ban the export of coal has already been withdrawn, and thus its impact would not last long. However, it is possible for a similar measure to be taken again, which is a source of concern in the times ahead. Market participants should remain careful, as the trade balance that had been supporting the demand to buy the Indonesian rupiah could fall in the times ahead, also because crude oil prices have been rising.

Furthermore, the policy interest rate of the U.S. will be soon raised, which is another source of uncertainty in the Indonesian rupiah market. It is seen certain that the policy interest rate hike in the U.S. will start in March and that there will be at least four interest rate hikes before the end of the year. Under such circumstances, some see the possibility of five interest rate hikes before the end of the year or the possibility for the interest rate to be raised by 0.5%. Long-term interest rates in the U.S. could rise further. Thus, it is possible for capital flight by foreign investors to increase mainly with 10-year Indonesian government bonds. As of January 27, there has been a balance of IDR 889 trillion. Thus, there are still some funds to be sold. Market participants should remain cautious about the rise of interest rates in the U.S. toward the second half of the year.

Furthermore, on January 26, the International Monetary Fund (IMF) released a report to give warning to the direct purchase of government bonds by the central bank of Indonesia. Furthermore, the number of Covid-19 cases has been increasing again in Indonesia, and this was most likely caused by the spread of the omicron variant. These factors could keep the Indonesian rupiah from appreciating in the times ahead.

The U.S. dollar/Indonesian rupiah exchange rate has thus far been stable. However, there are now some sources of concern. It is possible for the exchange rate to reach the IDR 14,500 level. Market participants should thus remain cautious about the depreciation of the Indonesian rupiah.

Philippine Peso – February 2022

Expected Ranges

Against the US\$: PHP 50.90–52.00

Against the yen: PHP 2.20–2.30

1. Review of the Previous Month

The Philippine government introduced strict measures to limit movement in response to a sharp increase of Covid-19 cases, and this led the Philippine peso to depreciate. As a result, the Philippine peso continued depreciating, as has been the case since the end of last year. The U.S. dollar/Philippine peso exchange rate exceeded the PHP 51.000 mark. On January 5, the December Consumer Price Index (CPI) was announced, and the result turned out to be 3.6%—recording a decline from the result of the previous month, which was 4.2%. In reaction to this, the Philippine peso temporarily rallied significantly. However, the employment statistics of the U.S. made it probable for the U.S. to raise the policy interest rate in March. As a result, the U.S. dollar strengthened, and, because the daily new Covid-19 cases renewed their all-time high for several consecutive days, the Philippine peso weakened to its lowest rate in approximately two years in the first half of the month.

The governor of the central bank of the Philippines expressed his view that it is unlikely for the policy interest rate to be raised during the first half of this year. On the other hand, the central bank also made a remark that the high liquidity level was mitigating the impact of global monetary tightening to some extent. In reaction, the Philippine peso was strengthened toward the middle of the month. However, the Philippine peso did not appreciate further than to around PHP 51.000 to the U.S. dollar. Furthermore, market participants expected the measures of monetary tightening in the U.S. to accelerate more than expected. In addition, the WTI crude oil price rose to the highest level since October 2014 due to growing concerns over lack of supply. As a result, the Philippine peso started to depreciate against the U.S. dollar, renewing the recent low. On January 19, the Philippine peso weakened to PHP 51.500 to the U.S. dollar.

Thereafter, the number of new Covid-19 cases started to decrease in the Philippines, while the governor of the central bank of the Philippines made a remark that the stability of the Philippine peso was supported by direct investment. Thanks to such factors, the Philippine peso strengthened again. However, thereafter, Federal Reserve Board (FRB) Chair Jerome Powell made a remark after a Federal Open Market Committee (FOMC) meeting in the U.S., and the remark turned out to be more hawkish than expected. In reaction, the U.S. dollar strengthened in the overall foreign exchange market. As a result, the Philippine peso weakened against the U.S. dollar, and the exchange rate approached the PHP 51.500 level. Thus, the Philippine peso remained weak throughout the month.

2. Outlook for This Month

In January, the number of Covid-19 cases increased sharply in the Philippines. The number of daily new Covid-19 cases renewed its all-time high, and the limit on movement in the metropolitan Manila region was raised by one level. Thus, the declines in economic activities and business confidence have strengthened downward pressure

on the Philippine peso. Even though the number of Covid-19 cases has now been decreasing, there are persistent concerns for the situation to worsen again. The possibility for further restrictions remains a factor to lead the Philippine peso to weaken in the times ahead.

At the press conference held after the FOMC meeting in the U.S., FRB Chair Jerome Powell made a remark that four interest rate hikes were not the upper limit and that an interest rate hike of 50 basis points was possible. It was thus suggested that interest rate hikes in the U.S. could occur faster than the previous phase of interest rate hikes. As this remark was more hawkish than expected in the market, market participants expect the FRB not to change the medium-term general policy of monetary tightening. There is therefore a gap in monetary policy between the U.S. and the Philippines, as the U.S. is steadily normalizing its monetary policy, while the Philippines intend to maintain current measures of monetary easing for a while in order to prioritize stable economic recovery despite inflation risks. For this reason, from a medium- to long-term perspective, the Philippine peso is likely to weaken against the U.S. dollar.

It is also worth mentioning that U.S. stock prices fell after the FOMC meeting. However, although the press conference after the FOMC meeting turned out to be hawkish, the fall of stock prices was limited. Yet, it is possible for the FOMC meetings in March and after to turn out to be more hawkish than expected. Thus, market participants should remain cautious about the potential risk for the Philippine peso to depreciate sharply due to risk-averse sentiment in the market, resulting from a sharp depreciation of risk assets that had previously been appreciating thanks to excessive liquidity.

Indian Rupee – February 2022

Expected Ranges

Against the US\$: INR 73.50–77.00

Against the yen: JPY 1.49–1.59

1. Review of the Previous Month

In January, the U.S. dollar/Indian rupee exchange rate rose after falling once.

The U.S. dollar/Indian rupee exchange rate reached its high at INR 76.315 in the middle of December, after which the exchange rate fell to temporarily reach INR 74.095 at the end of the year and continued falling substantially even though for a limited period of two weeks. Under such circumstances, the U.S. dollar/Indian rupee exchange market opened trading at INR 74.34 at the beginning of the year. In India, the number of active Covid-19 cases exceeded 170,000, more than twice as many as the previous week. Furthermore, the crude oil price remained high, as OPEC decided to maintain daily oil production at 400,000 barrels by evaluating the impact of the spread of the omicron variant as “minimal.” In addition, the minutes of a Federal Open Market Committee (FOMC) meeting were released on the evening of January 5, suggesting three interest rate hikes in 2022 and leading the 10-year U.S. government bond yield to reach its highest level in nine months. Thus, there were factors to lead the Indian rupee to weaken while leading the U.S. dollar to strengthen. However, the U.S. dollar/Indian rupee exchange rate did not rise further than INR 74.50.

In the second week of the month, the trend was inverted, and there was downward pressure on the U.S. dollar/Indian rupee exchange rate. On January 11, there were media reports that custodians were selling the U.S. dollar, while a domestic automobile financial services company had issued corporate bonds worth USD 475 million abroad. As a result, the U.S. dollar/Indian rupee exchange rate fell below the INR 74 level and reached INR 73.825—the monthly low of January. Thereafter, the U.S. dollar/Indian rupee exchange rate continued fluctuating in both directions at around the INR 74.00 level until January 14. However, foreign banks started buying the U.S. dollar in order to take profits for their short positions, estimating that the U.S. dollar/Indian rupee exchange rate would not fall below INR 73.80. In addition, a state-owned petroleum oil retail company bought the U.S. dollar to hedge risks. As a result, the trend was inverted, and the U.S. dollar/Indian rupee exchange rate started to rise.

In the third week of the month, an increasing number of regional Federal Reserve Bank presidents in the U.S. started to suggest a policy interest rate hike in March. As a result, multiple U.S. banks modified their outlook upward to four interest rate hikes before the end of the year. Furthermore, the crude oil price rose gradually, and the U.S. dollar/Indian rupee exchange rate returned rapidly to INR 74.60. From this point on, an increasing number of market participants started to say that the recent appreciation of the Indian rupee was against the fundamentals. This changed the trend significantly. However, there were some headlines that could have led the Indian rupee to appreciate, such as that a major domestic railway financial agency returned USD 500 million procured through its corporate bonds to India, while a natural resources development company procured funds in foreign bonds. Therefore, the rise of the U.S. dollar/Indian rupee exchange rate slowed down for a while.

However, in the fourth week of the month, geopolitical risks heightened in Ukraine, and this discouraged market participants from buying the currencies of emerging countries. In addition, crude oil prices rose even further, which

was a factor to weaken the Indian rupee. Thereafter, an FOMC meeting was held after attracting substantial attention in the market, and market participants saw the outcome as hawkish. In reaction, on January 27, the U.S. dollar/Indian rupee exchange market opened trading with a large gap from the previous day's closing rate. The exchange rate returned rapidly to the INR 75 mark and reached INR 75.31 to the U.S. dollar, which is the monthly high. Trading closed on January 28 at INR 75.04 to the U.S. dollar.

2. Outlook for This Month

In February, the U.S. dollar/Indian rupee exchange rate is likely to rise.

The key factors in the U.S. dollar/Indian rupee exchange market remain the same as in the previous month, in general. With regard to factors related to the U.S., five policy interest rate hikes (a total of 1.25%) are expected before the end of the FOMC meeting in December this year. This estimate has been reflected both in the futures market and in the OIS market. It can therefore be said that expectations for interest rate hikes in the U.S. have grown further since last month in which four interest rate hikes were reflected in approximately 80% of the market. Some banks, even though not the majority, started to expect six or seven interest rate hikes as their official outlook. Furthermore, market participants are also expecting balance sheet reduction to start earlier than initially expected, even though the FOMC did not mention a precise timing. Under such circumstances, it would be difficult to expect the U.S. dollar to depreciate from a short-term perspective.

In addition, crude oil prices have been rising for one month. The Brent crude oil price has exceeded USD 90 and reached the highest price seen since 2014. Last month, the trade balance of India had already been at an all-time high, and the deficit is certainly expected to expand in the times ahead. Following this trend, the current account deficit is also expected to increase. Market participants, including both those that are trading based on actual demand and foreign investors, are expected to continue selling the Indian rupee.

On the other hand, as has been discussed above, Indian companies have been actively issuing corporate bonds in foreign bond markets. In addition, an Indian telecommunications agency announced its decision to procure funds of USD 695 million by issuing preferred stock for Google. As an Indian state-owned life insurance company also plans to hold an IPO, this is likely to create an inflow of foreign capital. These factors could increase downward pressure on the U.S. dollar/Indian rupee exchange rate temporarily. However, they are not expected to create a trend for the Indian rupee to appreciate against the U.S. dollar.

Important events ahead include the announcement of the Indian union budget and a meeting of India's central bank, scheduled for February 6. These events could impact Indian government bonds. However, the impact on the U.S. dollar/Indian rupee exchange market is not likely to be significant.

This report was prepared based on economic data as of January 31, 2022.

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