Mizuho Dealer's Eye

April 2021

Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – April 2021

Expected Ranges **Against the yen: JPY109.00–112.00**

1. Review of the Previous Month

The dollar/yen pair hit its highest level for around a year in March as US long-term interest rates rose.

After opening the month trading at the mid-106 yen level on March 1, the pair temporarily fell to a monthly low of 106.37 yen toward the Tokyo Fix. The US then released a bullish Manufacturing ISM Report on Business for February, though. US interest rates also rose after Richmond FRB president Tom Barkin said the FRB would tolerate rising interest rates. As a result, the pair strengthened to the 107 yen range. On March 4, FRB chair Jerome Powell also hinted that the FRB would allow interest rates to rise. Mid- to long-term rates subsequently soared, with the pair rising to the 108 yen range. The dollar was bought further on rising US rates toward March 9, with the pair climbing to 109.23 yen.

US rates stopped climbing for a time, though, so the pair fell to the upper-108 yen mark on a dearth of noteworthy factors. The US then released a worse-than-expected February CPI figure on March 10, so the pair was pushed back to the lower-108 yen level. On March 11, the ECB Governing Council decided to accelerate the pace of purchases under its Pandemic Emergency Purchase Programme (PEPP), so the euro was sold and the dollar/yen pair rallied to the 109 yen range toward March 12. The US February retail sales data fell sharply below market expectations on its release on March 16. With the US February industrial production data also moving bearishly, the pair tumbled to the upper-108 yen mark. As expected, the Federal Open Market Committee (FOMC) kept policy rates fixed when it met over March 16–17. However, its interest rate outlook was more dovish than the markets had expected, so US interest rates fell. Rates fell further when FRB chair Jerome Powell also struck a dovish tone, with the dollar/yen pair sliding to the upper-108 yen mark. The Bank of Japan (BOJ) decided to expand the fluctuation band of long-term interest rates when it held its Monetary Policy Meeting over March 17–18, so the currency pair weakened.

The Turkish lira plummeted on March 22 after Turkish prime minister Tayyip Erdogan sacked Naci Agbal, head of Turkey’s central bank and a proponent of monetary tightening. The yen was subsequently bought on risk aversion, with the dollar/yen pair dropping to the mid-108 yen level. The greenback was bought after a round of selling, though, so the pair bounced back to the upper-108 yen level. The pair moved bearishly at the upper-108 yen mark on March 24 after the US released a worse-than-expected durable goods orders indicator for February. However, it then rose to around 109 yen as US interest rates climbed on selling in bond markets. US interest rates rallied on March 25, with the currency pair also moving firmly as Japanese firms bought the greenback toward the end of the fiscal year. As the US pushed forward with its Covid-19 vaccination program, the greenback was supported as US long-term interest rates rose on hopes regarding a large economic stimulus package by the Biden administration toward the end of the month. With the dollar bought at the month’s end, the pair rose to 110.97 yen on March 31 to close the month trading at highs.

2. Outlook for This Month

The dollar/yen pair will continue moving firmly in April.

President Joe Biden put together a new $1.9 trillion economic relief package on March 12, with people earning under a certain amount receiving $1,400 each. As a result, consumer spending looks set to recover going forward. Some US economic indicators released last month had fallen below expectations a cold snap and so on, but these are also expected to recover going forward. First up will be the release of the March US employment data on April 2. Data released on March 25 revealed that new applications for unemployment insurance had dipped to a one-year low of 684,000. If the March employment data beats market expectations, this could rouse expectations for a rate hike, with the currency pair then rising at a faster pace. The federal funds rate projection of FOMC members (the dot chart) was released after the March FOMC meeting, with the median estimate suggesting rates will be kept at zero until the end of 2023. In his press conference, FRB chair Jerome Powell also adopted a dovish stance again when he said the US was undergoing an uneven recovery, with a full recovery still some way off. However, the Biden administration is also expected to implement a huge infrastructure investment plan at some point, so investor concerns about inflation are unlikely to disappear, with US long-term interest rates likely to continue moving at highs.

On the other hand, the Bank of Japan (BOJ) announced a series of measures at its Monetary Policy Meeting. It clarified the range of fluctuations in long-term interest rates, for example. It also made its ETF purchases more flexible and it clarified that there was room for interest rates to move further into negative territories. In his press conference, BOJ governor Haruhiko Kuroda said the BOJ was not planning to lift yield curves. As a result, yen interest rates have remained at lows as bonds are bought back on a growing sense of ease among participants in Japanese bond markets. With Japanese/US interest-rate differentials unlikely to shrink, the dollar/yen pair looks set to continue moving firmly.

However, investors should remain on guard against news related to Covid-19. Though the US is rolling out vaccines, some states are seeing a renewed surge in infections. Furthermore, though Europe remains in lockdown, it could still be hit by a third wave. If expectations for an economic recovery wane, the currency pair could come under some adjustment after soaring in March, 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	15 bulls	113.00 – 109.00	Bearish on the dollar	4 bears	111.25 – 107.50

* Ranges are central values

Tanaka	Bull	113.00 – 108.00	A vaccination program is underway in the US. With the government also implementing a huge economic package and the FRB sticking to the easing path, the dollar/yen pair will continue to be supported by fiscal and monetary policy. The pair will remain firm as US interest rates rise.
Takeuchi	Bull	113.00 – 109.00	The US is rolling out a vaccination program. There are also high hopes for a revitalization of economic activity on the huge economic relief package. All this will support the dollar/yen pair. The pair looks set to move firmly while undergoing several short-term adjustments.
Tsutsui	Bull	114.00 – 108.50	The Democrats will announce an infrastructure investment package in April. If this looks set to pass, stock markets could rise further. US interest rates will probably rise as fiscal spending outweighs tax increases. As such, the dollar/yen pair look set to move in a range between 110–114 yen.
Kato	Bear	111.00 – 106.00	As revealed with the Archegos problem, there are not many investment options out there, so money might congregate around stocks and other specific areas. Stock markets have diverged wildly from the real economy on speculation, so some adjustment is likely.
Yamagishi	Bear	112.00 – 108.00	There are hopes regarding vaccination programs and an economic recovery in the US. After some time, these trends will spread across to other countries, so dollar-buying will probably be a transitory phenomenon. In March the FOMC said it would continue to ease until the US approached full employment, so US interest rates will not have much room to rise. The yen will also rise on risk aversion as stock prices move unstably on monetary easing.
Ushijima	Bull	113.00 – 109.00	Stocks remain bullish and bonds bearish on hopes for strategic investment by the Biden administration, so the dollar continues to be bought back. With the US likely to post firm indicators from April too, the dollar/yen pair's topside still has room to rise.
Tasaka	Bull	113.00 – 109.00	Hopes are rising from economic normalization in the US on the rollout of Covid-19 vaccines and the Biden administration's huge stimulus package, with US long-term interest rates also moving toward 2%. Investors will probably test the dollar/yen pair's topside on widening Japanese/US interest-rate differentials.
Omi	Bear	111.00 – 107.00	The trend of dollar selling looks set to continue. This will be down to ongoing low interest rates and hopes regarding fiscal policy expansion and the Biden administration's foreign policy, for example. However, this trend looks set to proceed at a gentle pace as the greenback is bought on risk aversion related to rising US long-term interest rates and falling stocks.
Ueno	Bull	113.00 – 109.00	A glance at US policy management suggests there is a dearth of factors capable of pushing US bond yields lower. As optimism grows on the rollout of vaccines, a risk-on mood looks set to continue, so investors could test the dollar/yen pair's topside. One risk involves the direction of the Archegos problem.
Yamaguchi	Bull	112.00 – 109.00	With the FRB and BOJ remaining in easing mode, the dollar looks set to continue moving bullishly on the rollout of vaccines in the US and hopes that the Biden administration will implement an infrastructure investment package.
Kai	Bull	113.00 – 109.00	As the vaccination program continues and the US posts healthy economic indicators in April too, the greenback will probably strengthen on rising US interest rates. Given these rising interest rates, it seems the yen might also fall further, with exporters also unlikely to make any moves.
Onozaki	Bear	111.50 – 108.50	There are a number of dollar-buying factors, such as the rollout of vaccines and infrastructure investment by the Biden administration. Nonetheless, the dollar/yen pair's rise since the turn of the year has mainly be down to rising US interest rates. US rates have risen at an excessive pace, so it is hard to see these rates and the dollar/yen pair rising further.
Tamai	Bull	112.50 – 108.00	The US is rolling out a Covid-19 vaccination program, with dollar buying also set to continue on hopes for a US economic recovery. Stock markets might crash if interest rates soar, so caution will be needed, but the dollar will remain firm as long as the FRB continues to tolerate rising rates.
Harada	Bull	114.00 – 108.00	US interest rates might face bear steepening on hopes for an economic recovery on the rollout of vaccines and the huge fiscal policy. US interest rates will continue to rise, with the dollar/yen pair also pulled higher.
Oba	Bull	112.50	Many investors thought the dollar/yen pair would rise toward the end of the fiscal year, but they probably

		– 109.00	miscalculated the pace of this rise. Buying demand is likely to remain healthy. The pair will probably rise as US interest rates continue to climb on the vaccine rollout and forecasts for an economic recovery.
Katoono	Bull	113.00 – 109.00	The dollar/yen pair will move firmly as US interest rates rise on anticipation about US economic policies and a sense that the FRB will relax its easing policies in the long term. Risk aversion could rise on the spread of new Covid-19 strains or deteriorating US/China relations, so caution will be needed.
Kobayashi	Bull	112.00 – 108.00	A vaccination program is underway in the US. There is also anticipation about a huge infrastructure investment package by the Biden administration. Furthermore, though US interest rates have risen sharply, no FRB officials have made verbal interventions. As such, dollar buying looks set to continue.
Henmi	Bull	112.00 – 109.00	US interest rates will continue to rise on growing expectations for a US economic recovery. Risk sentiments are also improving across the globe on the rollout of vaccines, so the yen will be susceptible to selling. Under these circumstances, the dollar/yen pair looks set to move firmly.
Otani	Bull	112.00 – 108.50	Risk appetite will remain in place as hopes swell on the rollout of vaccines and the Biden administration's huge relief package, so the dollar/yen pair will move firmly. The FRB seems ready to tolerate rising long-term interest rates. This will also support dollar bullishness.
Suzuki	Bull	113.00 – 109.00	US interest rates remain at highs on expectations regarding the Biden administration's policies, so the dollar/yen pair looks set to remain bullish for now. Though the US economy is heading toward recovery, Europe has seen a renewed Covid-19 surge, so the dollar/yen pair will also be supported as European currencies are sold against the greenback.
Okuma	Bull	113.00 – 109.00	The vaccination program is proceeding smoothly in the US. Hopes are also swelling with regards to the Biden administration's economic policies. As such, the dollar will remain bullish for the time being. The dollar/yen pair looks set to move firmly on rising US long-term interest rates.

Yuya Tenkumo, Forex Sales, Derivatives & Forex Department

Euro – April 2021

Expected Ranges **Against the US$: US$1.1630–1.1830**
Against the yen: JPY128.50–130.50

1. Review of the Previous Month

In March, the euro/dollar pair edged lower on the movements of US interest rates.

After opening the month trading at $1.2091, the pair then fell back to $1.2028 after Bank of France governor François Villeroy de Galhau hinted that rates would be cut further. The euro was sold and the pair then dropped to $1.1992 on March 2 after ECB vice-president Luis de Guindos said the ECB would "have to see whether the increase in nominal yields will have a negative impact on financing conditions." However, the greenback was then sold as US interest rates fell, so the euro/dollar pair rose to a monthly high of $1.2113 while activating stop losses. US interest rates rose and the dollar was bought on March 4 after FRB chair Jerome Powell said the FRB would let US rates rise. As a result, the pair dropped below its March 2 low of $1.1992 to fall to around $1.1960. US long-term interest rates rose to 1.62% on March 5. With the US employment data also performing a lot better than expected, the greenback was bought and the currency pair slipped to $1.1893. It rallied slightly as US interest rates dropped back and it then moved with a heavy topside at the lower-$1.19 mark.

The second week saw the pair swaying between the upper-$1.18 level to the lower-$1.19 mark on the movements of US interest rates. The pair fell for a time on March 11 after ECB president Christine Lagarde commented after the ECB Governing Council meeting that the pace of Pandemic Emergency Purchase Programme (PEPP) purchases would be accelerated, but it then rose to around $1.1980 as the euro was bought after Lagarde ruled out yield curve controls. However, the euro was then sold to lock in profits. With the dollar also being bought on rising US interest rates, the pair weakened to around $1.1910, though it then recovered slightly to move at the mid-$1.19 level.

In the third week, it was reported that a vaccine developed by a UK pharmaceuticals company had side effects including thrombosis, with over ten European nations subsequently suspending usage of the vaccine. This saw the currency pair moving with a heavy topside at the lower-$1.19 mark. When the FOMC met on March 17, more members forecast that rates would be raised in 2023. However, the FOMC remained cautious when it came to the issue of rate hikes, so expectations for early tapering eased off, with the greenback then sold and the euro/dollar pair soaring to around $1.1980. The pair then edged down to the lower-$1.19 mark on concerns about the spread of Covid-19 and a resurgence of US interest rates. It subsequently dipped to $1.1874 as US interest rates rose after the FRB announced it would not be extending the SLR.

The ECB had made bond purchases equivalent to 21.05 billion euros under its PEPP in the week from March 10–17. This represented a sharp increase on the previous week, with the news pushing the currency pair up to around $1.1940 in the final week. The pair edged lower on March 23 as energy prices plummeted and stock markets moved bearishly. As US interest rates continued to rise, the dollar was bought and the pair dipped temporarily to $1.1762 on March 25. It rallied to around $1.1800 on March 26 after Germany released a better-than-expected IFO Business Climate Index result for March, but the pair then moved with a heavy topside around the lower-$1.17 level.

2. Outlook for This Month

The dollar will be bought in April on widening European/US interest-rate differentials. With Europe also facing the threat of a new Covid-19 wave, the euro/dollar pair looks set to move bearishly this month.

A glance back at March shows how the pair was swayed a lot by US interest rates. In particular, there was a clear divergence in the stances of the ECB and FRB regarding interest rates. When it met on March 11, the ECB Governing Council announced it would accelerate the pace of its PEPP purchases. In its accompanying statement, the Council said it would work to prevent any unintentional tightening of financing conditions. This suggested the ECB will keep interest rates in check to ensure they do not impair price stability. There were also several comments about keeping euro bullishness in check. Under these circumstances, it seems unlikely the ECB Governing Council will shift its stance clearly when it meets on April 22. The FOMC decided to keep policy fixed when it met over March 16–17, but the dot chart revealed that more members are expecting a rate hike before the end of 2023, with FRB chair Jerome Powell also indicating his tolerance for rising interest rates. This divergence in the stances of the central banks suggests European/US interest-rate differentials will remain unchanged or may even widen going forward, thus placing more downward pressure on the euro/dollar pair.

The rollout of Covid-19 vaccines will also require monitoring. When it comes to the G7, the US is second only to the UK when it comes to the number of people vaccinated, with President Biden aiming for normalization by the time Independence Day rolls around on July 4. Some reports say 90% of the adult US population will have received a vaccine by April 19. US interest rates have risen on a sense that the vaccine rollout will lead to a normalization of economic activity and thus to a normalization of monetary policy. Provided no factors emerge to overturn this hypothesis, US nominal interest rates will probably end up moving above current levels. In Europe, though, Germany and Holland have extended their lockdowns, while France is lagging when it comes to vaccinations, so the risk of an economic downswing on Covid-19 remains a possibility. The clearly different situations in the US and Europe will make the euro comparatively easy to sell.

Based on the above, it seems likely the euro/dollar pair will move bearishly this month. Interest-rate differentials and the Covid-19 vaccination situation have replaced supply and demand conditions as the main factors shaping trends, so the euro will face more downside risk. Around $1.1700 may form a support line for a time, but if the pair breaks below this level, it may test its November low of $1.1603, 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 euro	6 bulls	1.2000 – 1.1600	Bearish on the euro	15 bears	1.1900 – 1.1500

* Ranges are central values

Tanaka	Bear	1.1900 – 1.1500	The US continues to go full throttle when it comes to fiscal and monetary policy, with the dollar being supported by rising US interest rates. The euro/dollar pair will also move with a heavy topside on the divergent pace of the Covid-19 vaccine rollouts in the US and Europe.
Takeuchi	Bear	1.1900 – 1.1500	The dollar has been pushed up by hopes for an economic recovery on the global rollout of vaccination programs and so on. However, hopes for a normalization of economic activity are more subdued in Europe compared to the US, so the euro/dollar pair will move with a comparatively heavy topside.
Tsutsui	Bull	1.2000 – 1.1700	Lockdowns have been reintroduced across Europe, but as vaccines are rolled out swiftly and economic indicators start to perform even better, the euro/dollar pair might start rising on supply and demand factors.
Kato	Bull	1.2100 – 1.1600	Restraining actions by the authorities are inviting position adjustments. However, real demand for euro buying has been kept in check by excessive concerns about Covid-19 variants, so there will probably be some adjustive euro buying from here on.
Yamagishi	Bull	1.2000 – 1.1600	There are concerns about the spread of Covid-19 variants, but the markets have priced in negative factors like the European lockdowns, so as vaccines are rolled out, the euro/dollar pair's downside will grow firmer. The economy and prices remain fragile, but with the ECB signaling in March that it intends to keep interest rates in check through accelerated asset purchases, it seems the pair's topside will also be held down.
Ushijima	Bear	1.1800 – 1.1500	While the ECB is moving to restrain interest rates, the FRB is watching on calmly. Though Europe is lagging behind when it comes to vaccinations, the US is speeding up its vaccination program. These divergences will shape the euro/dollar pair's movements, with the pair likely to remain bearish.
Tasaka	Bear	1.1900 – 1.1500	Covid-19 cases have surged again in Germany and France, while political unrest is in the air in Germany, so the euro/dollar pair looks set to move bearishly on the stronger performance of the US (dollar).
Omi	Bull	1.2000 – 1.1600	The euro will continue to move firmly this month. This comes amid ongoing dollar selling. One risk lies in a potential cut in policy rates. Several government figures have mentioned there is still room for rate cuts, but this seems unlikely right now.
Ueno	Bull	1.2100 – 1.1600	The euro/dollar pair has moved bearishly on the comparative strength of the greenback, but the European economy has more room to recover compared to the US economy. Considering the spread of vaccines and the euro's strength on the supply and demand front, it seems the pair will steadily grow firmer from here on.
Yamaguchi	Bear	1.1900 – 1.1500	Though a vaccination program is well underway in the US, Europe is facing growing concerns of a third wave. The impact of extended lockdowns and so on will also emerge from here on, so the dollar will continue to be more attractive than the euro.
Kai	Bear	1.1900 – 1.1500	As the vaccination program continues and the US posts healthy economic indicators in April too, the greenback will probably strengthen on rising US interest rates. Given these rising interest rates, it seems the euro will weaken further.
Onozaki	Bear	1.1900 – 1.1500	There are hopes for an economic recovery in the US on the rollout of vaccines, but the recovery situation in Europe remains unclear. Though yen long positions have been unwound, there are still some euro long positions out there. As such, it seems there will be ample euro downside risk in April.
Tamai	Bear	1.1850 – 1.1500	Unlike the FRB, the ECB is moving to keep interest rates in check. Europe is also lagging behind the US when it comes to vaccine rollouts. With Europe also facing extended lockdowns on the spread of new Covid-19 variants, the euro/dollar pair will probably move with a heavy topside.
Harada	Bear	1.1800 – 1.1500	With US interest rates rising, the euro is becoming comparatively less attractive. Though Europe's economy will gradually recover as vaccines are rolled out, the trend of euro buying on a lack of alternatives will become less pronounced than before.
Oba	Bull	1.2000 –	While US interest rates continue to rise, the European authorities have moved to keep interest rates in check, so the euro/dollar pair will probably fall on widening European/US interest-rate differentials. Lockdowns are currently in

		1.1600	place in Europe, but the pair will move firmly as the economy recovers on the rollout of vaccines.
Katoono	Bear	1.2000 – 1.1650	The euro/dollar pair will move with a heavy topside on concerns about the economic impact of the spread of new variants of Covid-19. There is also a growing divergence between the monetary policies of the US and Europe, so caution will be needed.
Kobayashi	Bear	1.1900 – 1.1600	Some countries in Europe have started to pause vaccine rollouts on concerns about side effects. Germany and other countries are also implementing restrictions on mobility to tackle the spread of Covid-19. With concerns about an economic slowdown also rising again, the euro will be a hard currency to actively buy, so the euro/dollar pair will probably move with a heavy topside.
Henmi	Bear	1.1800 – 1.1500	Europe is lagging behind the US when it comes to vaccine rollouts, expectations for an economic recovery, and interest rate trends, with the euro/dollar pair set to move bearishly as a result. The euro will also be weighed down by the resurgence of Covid-19 cases.
Otani	Bear	1.1800 – 1.1500	There are concerns that the eurozone economic recovery will slow on the delayed vaccine rollout and the rising number of Covid-19 cases. The US has also implemented policies such as a huge economic stimulus package, so the euro will remain comparatively prone to selling.
Suzuki	Bear	1.1900 – 1.1500	The forecast for a European economic recovery remains cloudy given the extended lockdowns and the temporary ban on the use of some vaccines. With the greenback also moving bullishly on rising US interest rates, the euro/dollar pair will move with a heavy topside this month.
Okuma	Bull	1.1800 – 1.1500	The delayed vaccine rollout in Europe is leading to a Covid-19 resurgence, with the economic recovery in Europe clearly starting to lag behind that in the US. The euro will also be prone to selling against the dollar on widening European/US interest-rate differentials, so the euro/dollar pair looks set to move bearishly this month.

Fumihiko Kanda, Europe Treasury Department

British Pound – April 2021

Expected Ranges **Against the US$: US$1.3300–1.4390**
Against the yen: JPY145.00–152.00

1. Review of the Previous Month

The pound/dollar pair moved bearishly in March.

After dropping below $1.40 at the end of February, the pair opened March trading with a slightly heavy topside. This came as the dollar was bought on rising US long-term interest rates. The closely-watched UK budget proposal was released on March 3. It was broadly in line with expectations, so the impact on sterling was muted. During a speech on March 4, FRB chair Jerome Powell adopted a relaxed stance when it came to rising long-term interest rates, so the dollar was bought and the currency pair fell to the upper $1.37 level on March 5. The pound was bought back slightly the following week as the markets focused on US long-term interest rates, but the pair moved with a heavy topside after hitting a monthly high of $1.4005 on March 12. From that weekend, more countries suspended the use of a Covid-19 vaccine made by a UK company, so the pound was sold and the pair fell on March 15. The greenback was sold on March 17 on the dovish contents of the FOMC meeting, with the pair rallying to $1.40 for a time on March 18, but with US long-term interest rates rising again, the dollar was bought and the pound was soon sold back. The Monetary Policy Committee (MPC) of the Bank of England (BOE) kept policy fixed when it met on the same day, so the impact on the currency pair was negligible. The following week saw FRB chair Jerome Powell give a slightly bullish economic forecast in his testimony to Congress over March 23–24, so the dollar moved strongly and the pair hit a monthly low of $1.3671 on March 25. The pair was bought back at a gentle pace thereafter and it returned to the mid-$1.38 mark on March 29 on news that the UK had recorded zero Covid-19 fatalities on March 28. With President Biden set to release an infrastructure investment plan the following day, US long-term interest rates rose and the dollar climbed across the board on March 30, with the pound/dollar pair dipping to $1.37 toward the month's end.

2. Outlook for This Month

The pound/dollar pair will continue moving with a heavy topside in April. After rising until February, the pair has since undergone some adjustment while being swayed by dollar trends.

The markets have been impressed by the high pace of Covid-19 vaccinations in the UK, but this seems to be growing less potent as a factor impacting trading. Of course, it will only be natural if this factor fades away as other countries also implement vaccination programs (with the Biden administration's plans to increase vaccination rates also likely to have an impact).

UK/EU headlines should also be monitored, though it is uncertain how much these will impact the pair's movements. The first thing to watch will be headlines related to Covid-19 vaccines. Some countries suspended the use of a UK company's vaccine last month, though this suspension was lifted after the vaccine was shown not to cause blood clots. At the same time, though, the market focus was drawn to a spat between the UK and EU about vaccination imports. Firstly, on March 3 the UK government unilaterally extended a grace period for checks on Northern Ireland food imports after Brexit from April to October. The EU said that this violated the terms of the withdrawal deal and on March 15 it announced some retaliatory measures (it will take time to reach a formal resolution on the issue, but the UK and EU likely to hold talks at first). On March 26, meanwhile, news emerged that a deal had been reached about UK access to the EU financial sector after Brexit, but UK banks will not automatically receive access to the single market, with the details set to be ironed out in subsequent talks. In February, Amsterdam overtook London when it came to the volume of share trading, with the pound likely to be weighed down by concerns about the financial sector, a key pillar of UK industry.

After being slightly overshadowed by other central banks recently, the BOE's MPC will not be meeting in April. The pair will probably be swayed by comments by MPC members, but these are unlikely to shift the pair's trend.

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

Australian Dollar – April 2021

Expected Ranges **Against the US$: US$0.7500–0.7850**
Against the yen: JPY81.80–85.50

1. Review of the Previous Month

The AUD/USD pair traded around $0.7700 in March before moving heavily toward the end of the month.

Australia released some firm 4Q GDP data in the first week, with the pair then moving at the lower-$0.78 level. However, the US then released a bearish February ADP National Employment Report and February Non-manufacturing ISM Report on Business, so stocks fell and the currency pair also weakened to the mid-$0.77 level. After this, the pair bounced back to the lower-$0.78 mark as Australian interest rates climbed on rising US interest rates. FRB chair Jerome Powell then said in a speech that the FRB's current monetary policy stance was appropriate. He also said the FRB was not minded to intervene, despite describing the recent sharp rise in interest rates as 'disorderly.' As yields on 10-year treasuries topped 1.55%, stocks fell and the greenback rose, with the currency pair weakening to the lower-$0.77 level. The pair then hit $0.7624 on the better-than-expected results of the February US employment data, with the Australian dollar also dropping to 82.78 yen against its Japanese counterpart.

US long-term interest rates rose in the second week ahead of an auction of 10-year treasuries. The AUD/USD pair then dropped to the lower-$0.76 level on the dovish contents of a speech by RBA governor Philip Lowe. The auction of 10-year treasuries passed smoothly, with the pair then climbing to around $0.7740 on a sense of relief. US stocks then renewed highs on the formulation of a new $1.9 trillion economic package. The Australian dollar strengthened to $0.7800 and 84.70 yen against its US and Japanese counterparts.

News emerged in the third week that the Biden administration was considering raising taxes on the rich and gasoline to pay for its economic policies. Crude oil prices subsequently moved heavily and the Australian dollar was also impacted in its capacity of a commodity currency. Europe then suspended the use of the AstraZeneca vaccine on reports that it had caused blood clots, so the AUD/USD pair fell to around $0.7700. In his press conference after the FOMC meeting, FRB chair Jerome Powell ruled out any early rate hikes, so US stocks renewed record highs. The currency pair climbed to around $0.7810, with the Australian dollar also hitting a yearly high of 85 yen against the yen. The AUD/USD pair then rose to $0.7836 on the improved February Australian employment data, with the unemployment rate moving firmly at 5.8% (forecast: 6.3%), for example. With iron ore prices and US stock futures rising, the currency pair climbed to the mid-$0.78 level. However, FRB chair Jerome Powell made no mention of long-term interest rates in his speech after the FOMC meeting, so this led to a sense that long-term interest rates still had room to rise. As yields on US treasuries rose to 1.75%, the currency pair returned to the mid-$0.77 mark.

In the fourth week, the greenback was bought on risk aversion after Turkish prime minister Tayyip Erdogan sacked the head of Turkey's central bank, with the AUS/USD pair then sliding to $0.76. On March 23, the New Zealand government announced it was scrapping tax breaks to prevent soaring house prices (thus rendering negative gearing impractical). As such, pressure for rate hikes eased, with the New Zealand dollar sold on a growing sense that rates would remain low for a prolonged period. The AUS/USD pair was also dragged down to around $0.7620. Covid-19 cases then surged again in Europe. With the UK and Europe also locking horns when it came to the supply of the AstraZeneca vaccine, stocks moved bearishly across the world, with the VIX rising and the currency pair falling to $0.7563. The pair then hovered around $0.76 toward the end of the month.

2. Outlook for This Month

Though April will see confirmation that Australia's fundamentals are recovering firmly, the AUD/USD pair's downside will probably edge lower with an eye on rising US long-term interest rates and the spread of Covid-19, for example.

At the end of March, Australia's special JobSeeker unemployment payment came to an end and the regular 'dole' unemployment payment kicked in again, with unemployment payments falling by A$100 a fortnight and the JobKeeper wage subsidy program also being wound down. Australia's treasurer Josh Frydenberg is expecting the number of unemployed people to rise by 100,000–150,000 when the program comes to an end. However the economic impact of this will be assuaged in part by the following ancillary programs, with the impact on the unemployment rate likely to be muted.

(1) Special government lending: The government will provide special loans to small- and medium-sized companies, with repayments suspended until a company's economic situation returns to normal。

(2) The JobMaker employment promotion program might be applied until October 6, 2021. The program offers incentives to firms who employ jobseekers aged 16–35 years in the period from October 7, 2020 to October 6, 2021, with firms receiving A$200/week for every new employee aged 16–29 and A$100 for every new employee aged 30–35.

The actual impact of these changes will not appear until the release of the April employment data in mid-May, but market participants should keep a close eye on the unemployment rate and changes to the number of people in work. Furthermore, a second A$100 billion bond buying program will be launching mid-April. The RBA holds over 60% of all 3-year Australian government bonds (the target for purchases under the yield curve control program). It has managed to keep the 3-year government bond yield around its goal of 0.1% by pushing borrowing costs 100bps below the regular rate of 25bps. However, with Australia recovering swiftly from the Covid-19 slump, expectations for tapering are increasing and there is growing anticipation for rate hikes. As such, the Australian dollar will remain bullish from the middle to the end of the year. However, the pair hit the $0.80 range at a very fast pace in February. Furthermore, US interest rates have risen and this has roiled stock prices, while Europe is struggling with a new Covid-19 wave and the slow rollout of vaccines, so the greenback will probably continue to undergo a comprehensive rise, with the AUD/USD pair likely to remain in adjustive mode in April. The Biden administration has also announced details of an infrastructure plan costing more than $2 trillion and taking place over eight years. If US bond yields subsequently rise, the US dollar will be bought over a prolonged period, with this also weighing down the AUD/USD pair's movements.

Reiko Kanemoto, Canada Office, Americas Treasury Department

Canadian Dollar – April 2021

Expected Ranges **Against the US$: C$1.2300–1.2800**
Against the yen: JPY83.00–90.00

1. Review of the Previous Month

The USD/CAD pair opened March trading at C$1.2724. It hit a monthly low of C$1.2365 on March 18 and a monthly high of C$1.2738 on March 1. The pair continued to trade between C$1.26–1.27 at the start of the month as US long-term interest rates stopped rising. US long-term interest rates began rising again toward the middle of the month. With Canada also releasing some bullish economic indicators and crude oil (WTI) prices climbing, the pair dropped below C$1.25 before temporarily dipping under C$1.24 after the FOMC meeting. The pair rallied to around C$1.26 in the latter half of the month on falling WTI prices and concerns about a resurgence of Covid-19 in Europe.

Canada's 4Q GDP data was released on March 2. With housing investment and exports increasing, the data hit +9.6%, significantly up on the +7.3 forecast. At +0.1%, Canada's December GDP figure remained slightly in positive territories for the eighth straight month. On March 4, OPEC+ agreed to extend the program of coordinated production cuts until April. This was a surprise to the markets, so WTI surged from the $61/barrel level to $64.79/barrel, with the pair also hitting C$1.2586 for a time. However, US long-term interest rates then rose after FRB chair Jerome Powell said in an interview that the FRB had no specific plans to tackle rising long-term rates. The greenback rose against the other major currencies and the USD/CAD pair also rallied to the upper-C$1.26 level. US long-term interest rates rose further on March 5 on the bullish results of the US February employment data. The greenback saw some momentary buying, but the pair then moved in the C$1.26 range.

As expected, the board of the Bank of Canada (BOC) kept policy rates and its easing stance unchanged when it met on March 10. Though the economic recovery was proceeding faster than expected, the board indicated that unprecedented monetary easing was vital to ensure a sustainable recovery. The Canadian dollar fell slightly on this slightly dovish announcement, but the currency pair did not swing substantially away from the C$1.26 range. Canada released some better-than-expected February employment data on March 12. The number of people in work had risen by 259,000 (forecast: +75,000), while the unemployment rate fell sharply from 9.4% in January to 8.2%. There were also high hopes for a new economic package and a swift vaccine rollout in the US, so the currency pair plunged temporarily to C$1.2465.

On March 17, the FOMC reached a unanimous decision to keep policy rates fixed and continue easing. Its long-term forecast for interest rates was also unchanged, so expectations for an early rate hike faded, US interest rates fell, and the greenback was sold, with the currency pair sliding to C$1.2408. However, FOMC members had also predicted that interest rates would be kept at zero until the end of 2023, so US long-term interest rates topped 1.73% overnight on expectations for an accelerated economic recovery and inflation. The greenback was bought back and the pair temporarily hit the C$1.23 range before opening March 18 at C$1.2410. WTI prices then plunged on selling as the US dollar climbed and concerns grew about the spread of Covid-19 in Europe. Amid headlines about vaccine side effects and renewed lockdowns in several countries, WTI moved between $58–62/barrel from March 19.

The pair continued trading around C$1.26 until March 30.

2. Outlook for This Month

The USD/CAD pair is broadly expected to move in a range from C$1.23–1.27 in April. The Bank of Canada (BOC) will be meeting to set policy on April 21, with the FOMC then meeting on April 28.

Canada's second Covid-19 wave peaked out in January, with economic activity reopening at a steady pace until March. Fears of a third wave have flared up on renewed lockdowns in Europe and the emergence of new Covid-19 variants, so investors remain cautious, but the resumption of economic activity is becoming more entrenched. As such, the second quarter of 2021 will probably see a recovery when it comes to services, retail and lodging, all sectors hit hard by slumping consumer spending and lockdowns. The employment situation is also likely to improve sharply. The Canadian government is expecting vaccines to lead to herd immunity in Canada sometime around September, with the economy expected to recover to pre-pandemic levels as Covid-19 is controlled and vaccines are rolled out.

On March 23, the BOC announced it would be scaling back the emergency measures it introduced in April 2020 to bolster liquidity. With the financial markets recovering, the BOC announced it would stop providing funds through its Term Repo operations on May 10. It also indicated its programs for purchasing commercial paper, local bonds and corporate bonds would finish at the end of their current terms and would not be extended. The BOC has long maintained that if the economy performs in line with or above expectations, it could taper its quantitative easing program, so the moves did not cause any major ripples, though the markets are also expecting some talk about shrinking the scale of government bond purchases in April. As for interest rate trends going forward, the BOC said it would keep rates fixed until the inflation rate sustainably hit 2%, with rates likely to be hiked from 2023. However, many market participants believe the conditions for a rate hike will be in place by the end of 2022.

The Organisation for Economic Co-operation and Development (OECD) released its outlook for global economic growth on March 9, with its growth forecast revised upwards from 4.2% to 5.6%. It predicted the global economy would return to pre-pandemic levels by the middle of 2021. It also raised its outlook for US growth to 6.5%, more than double its previous prediction, with this also likely to have a positive impact on the Canadian economy. Investors have essentially priced in a recovery in crude oil demand on the global economic recovery, with WTI expected to move in a range between $55–65/barrel going forward. WTI could fall at times on headlines related to Covid-19, crude oil inventories, and crude oil supply structures, with the USD/CAD pair topping $1.27, but the Canadian dollar will also remain bullish on robust Canadian economic indicators and QE tapering, so the pair will probably trade in a range from C$1.23–1.27. The CAD/JPY yen pair looks set to basically trade in a range between 86–89 yen. The Canadian unit is also likely to be pushed higher as Canadian long-term interest rates continue rising and the differential with Japanese long-term interest rates widens.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – April 2021

Expected Ranges **Against the US$: KRW 1,120–1,160**
Against the yen: JPY 9.434–9.804 (KRW100)
(KRW 10.200–10.600)

1. Review of the Previous Month

The USD/KRW pair moved somewhat firmly in March.

Dollar buying eased off over a three-day weekend, with the pair opening the month trading at KRW1117.0 on March 2. With South Korea then releasing a healthy Manufacturing PMI for February, the pair fell to a monthly low of KRW1116.4. However, with US stock futures and Asian stock markets all tumbling, the pair then rose to KRW1125.9. The US released a bearish February ADP National Employment Report (forecast: 205,000/result: 117,000) and February Services ISM Report on Business (forecast: 58.7/result: 55.3). There were also concerns that US interest rates might start rising again, so the greenback was bought on risk aversion. US interest did indeed rise when FRB chair Jerome Powell said current US monetary policy was appropriate and there were no measures in place to keep interest rates in check, with the currency pair then rising to KRW1133.0 as a result. During overseas trading time on March 8, the US Senate approved a $1.9 trillion economic relief package. With yields on 3-year and 5-year US treasuries also climbing, the dollar was bought.

On March 9, overseas investors sold South Korean stocks, while pension funds apparently bought the dollar, so the pair climbed to a monthly high of KRW1145.2 on March 10. However, the won was now bought on real demand on a sense it was at a good price. US interest rates also stopped climbing as the core US CPI data for February (forecast: +0.2% m-o-m/result: +0.1% m-o-m) pointed to subdued inflation, with the won bought back sharply on position adjustments. Interest rates then fell across the world after the ECB increased its purchases of government bonds, so the USD/KRW pair fell to KRW1127.5 on March 12. On March 15, Chinese stock markets fell sharply on concerns about tightening by the authorities. As risk sentiments worsened, the currency pair bounced back to KRW1138.3. However, during overseas trading time on March 17, the FOMC predicted that interest rates would be kept at zero until the end of 2023. In his press conference after the FOMC meeting, meanwhile, FRB chair Jerome Powell adopted a strongly dovish stance when he said there were no plans for tapering any time soon. US interest rates subsequently fell and the S&P500 hit a record high. The currency pair then slid to KRW1121.3 directly after opening on March 18. However, investors gradually started to focus on how the FOMC had upgraded its economic outlook, so the USD/KRW pair grew steadily firmer. US interest rates then surged during overseas trading time on March 18, so the pair returned to KRW1130. In the last week, the won continued to be bought on real demand on a dearth of any noteworthy factors, so the pair moved with a heavy topside. The pair eventually closed the month trading at KRW1131.8, up 8.3 won compared to the end of February.

2. Outlook for This Month

The USD/KRW pair is expected to move somewhat firmly in April. The pair has traded with a lack of direction recently, but there will be three factors to consider this month:(1) dividend flows from South Korean companies to overseas investors (won-selling demand); (2) dollar buying on rising US interest rates; and (3) trading in South Korean stock markets by overseas investors.

As for (1) in particular, companies who release their business results in December will be releasing dividends in March and April. This will lead to dollar-buying demand among overseas investors. In regular years, the current account balance shrinks during this time, which is another reason why the currency pair will probably rise. As for (2), though, yields on US long-term bonds have essentially recovered to pre-pandemic levels, so there will be limits to how much dollar-buying pressure emerges from here on. As for (3), meanwhile, rising US interest rates have cooled off, with selling in South Korean stock markets by overseas investors also calming down, so the impact of (3) on the currency pair will probably be muted.

Vaccines are being rolled out across the world and there are high hopes regarding $4 trillion worth of new economic policies in the US, so risk appetite looks set to continue. However, emerging-market currencies (particularly those of countries with current account deficits) will be prone to selling on concerns about rising interest rates on repayments denominated in foreign currencies, so there appears to be a shortage of factors conducive to active won buying.

Under these circumstances, the pair’s downside is expected to move firmly at KRW1120. However, if the distribution of vaccines takes far longer than currently planned or if the vaccines are not as effective as expected, the greenback might be sold again as US interest rates fall once more, so caution will be needed.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – April 2021

Expected Ranges **Against the US$: NT$28.00–28.80**
Against the yen: JPY3.80–3.93

1. Review of the Previous Month

Though the Taiwan dollar hit its highest level in around 23-and-a-half years against the US dollar in March, it fell sharply thereafter.

The pair opened the month trading at TWD28.130. Exporters sold the greenback at the start of the month. With overseas bond and ETF repayments also flowing into Taiwan, the pair temporarily hit a monthly low of TWD27.760. However, US stock markets fell on concerns about rising US interest rates, so Taiwanese stocks were also pulled lower and the currency pair edged higher. The pair rallied to the TWD28.00 range on March 8 and it then climbed to around TWD28.37 on March 9 as overseas investors continued to sell the Taiwan dollar.

Exporters sold the greenback mid-March, so the currency pair's topside was held down. The pair then fell to around TWD28.10 as Taiwanese stocks were bought back, but the greenback then strengthened across the board on rising US long-term interest rates. With investment flows from Taiwan to overseas also increasing, the Taiwan dollar was sold. As such, the pair edged higher to return to around TWD28.30.

The Taiwan dollar continued to be sold in the latter half of the month as overseas investors sold Taiwanese stocks, but exporters then sold the greenback around TWD28.50, so the pair's topside was held down. However, overseas investors then sold Taiwanese stocks at a faster pace. With exporters also waiting for an opportune time to sell the US dollar, the pair climbed to TWD28.696 for a time. Taiwanese stocks were bought back thereafter. As the end of March approached, exporters also sold the greenback at a faster pace on end-of-quarter movements, so the pair moved around TWD28.50.

2. Outlook for This Month

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

The Taiwan dollar was sold on several occasions in March as overseas investors adjusted their positions in Taiwanese stock markets. Investments from Taiwan to overseas also increased in tandem with rising US interest rates, so although exporters sold the greenback for end-of-quarter reasons, the Taiwan dollar weakened against its US counterpart.

Taiwan's exporters have performed bullishly entering 2021. Seasonal factors make it difficult to make a simple comparison, but the export amount was up on the previous year in both January and February (+36.8% and +9.7%, respectively). Export orders over the same months were also up sharply on the previous year (+49.3% and +48.5%, respectively), with exports likely to move briskly going forward due to a shortfall in the supply of semiconductors. As such, Taiwanese exporters will continue to sell the US dollar. However, investors will need to monitor US interest rate trends and so on to gauge whether overseas investors will continue to adjust their Taiwanese stock positions or whether there will be growing overseas investment needs in April too.

When the Treasury Department released it's the semiannual Report on Macroeconomic and Foreign Exchange

Policies of Major Trading Partners of the United States in December 2020, it added Taiwan to its Monitoring List. In March, the Central Bank of the Republic of China (Taiwan) told Taiwan's parliament that the country now met the US's three main criteria for being declared a currency manipulator following increased interventions in the currency markets. The Central Bank of the Republic of China (Taiwan) said it was not expecting sanctions to be applied soon, but it said Taiwan's stance regarding inventions in the currency markets will be one factor of concern going forward.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – April 2021

Expected Ranges **Against the US$: HK$ 7.6000–7.7800**
Against the yen: JPY 13.75–14.20

1. Review of the Previous Month

Hong Kong dollar spot exchange market in March

In March, the U.S. dollar/Hong Kong dollar exchange rate reached the mid-HKD 7.77 level, as the Hong Kong dollar weakened due to the sharp rise of U.S. dollar interest rates and as the appreciation of the U.S. dollar resulted from concerns over a possible comeback of the so-called "taper tantrum." At the National People's Congress (NPC) of the People's Republic of China, a bill to change the electoral system in Hong Kong was approved, and this fueled uncertainty over the political climate in Hong Kong. However, there has so far been no significant capital outflow. Even though the IPO market in Hong Kong was extremely active in March, market sentiment was perhaps a little less positive compared to the previous month. The stock market in Hong Kong also weakened following the fall of stock prices in Mainland China. Investors in Mainland China have been reducing their holdings of Hong Kong stocks. As a result, the total capital inflow from Mainland China to the Hong Kong stock market has so far been less than HKD 400 billion, based on transactions executed through the Stock Connect scheme (the mutual stock exchange scheme between Hong Kong and Mainland China) since the beginning of the year. Also, the one-year Hong Kong dollar forward point remained at around zero.

Hong Kong dollar interest rate market in March

The aggregate balance of the Hong Kong Monetary Authority (HKMA) has remained at its all-time high, at HKD 457.5 billion, confirming the high liquidity level in Hong Kong. In the U.S., as well, the Federal Reserve Board (FRB) repeatedly emphasized that the current policy of monetary easing would be maintained without an interest rate hike until the end of 2023. As a consequence, short-term interest rates in the U.S. have been relatively low compared to long-term interest rates, which have been rapidly rising. Based on the U.S. dollar peg, Hong Kong dollar short-term interest rates have also been low. Also, the one-month Hong Kong dollar HIBOR rose slightly from 0.12% to 0.15%, thanks to capital demand related to IPOs. However, the three-month Hong Kong dollar HIBOR barely moved from around 0.23%. The interest rate differentials between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR have been minor for both the one-month and three-month rates. Market participants expect the FRB to raise the interest rate at an early stage, which has already been gradually reflected in the market. As a consequence, the difference between short-term and the interest rates in the U.S. (i.e., three-month U.S. dollar LIBOR and the five-year swap rate) has fallen to –70 basis points. Following this trend, the difference in short-term and long-term interest rates in Hong Kong dollar has also fallen to –70 basis points.

2. Outlook for This Month

Hong Kong dollar spot exchange market in April

In April, the U.S. dollar/Hong Kong dollar interest rate is forecast to fluctuate within the range between HKD

7.76 and HKD 7.78. The Hong Kong dollar is likely to weaken due to the rally of the U.S. dollar and the rise of U.S. interest rates due to concerns over a comeback of the "taper tantrum." Given that the funding cost of the U.S. dollar continues to rise, it is likely for foreign investors to continue further reducing Hong Kong dollar positions. Also, as a result of the inactive IPO market and the pessimistic attitude of investors in Mainland China, capital inflow into the Hong Kong market is expected to decrease in the times ahead. If investors reduce their holdings of expensive high tech-related stocks, capital inflow into Hong Kong is particularly likely to decrease, regarding which market participants should remain careful. There have been risks of possible monetary sanctions imposed by the U.S., while the U.S. dollar peg could also be modified in the future, which is also expected to increase downward pressure on the Hong Kong dollar exchange market from the medium- to long-term perspective. Capital outflow is also likely to increase once travel restrictions are lifted and residents of Hong Kong start emigrating.

Hong Kong dollar interest rate market in April

Short-term interest rates in Hong Kong are forecast to remain low, as market participants expect the FRB to maintain their policy interest rate at around zero until the end of 2023. This means that the Hong Kong dollar market is unlikely to see capital inflow for the purpose of executing carry trades until the end of the year. As long as the HKMA maintains the aggregate balance at its all-time high, the Hong Kong dollar liquidity level is likely to remain high, keeping the Hong Kong dollar interest rates low as well. The volatility of the Hong Kong dollar interest rates related to IPOs is not likely to rise significantly with the high liquidity level. However, it should also be pointed out that the FRB is likely to start discussing tapering in the near future if the growth rate and the inflation rate start rising as expected. If U.S. dollar interest rates start rising further, the Hong Kong dollar swap interest rate is expected to rise, following the rise of the U.S. dollar swap interest rate.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – April 2021

Expected Ranges **Against the US$: CNY 6.5000–6.7000**
Against the yen: JPY 16.40–18.00
Against 100 yen: CNY 5.6000–6.1000

1. Review of the Previous Month

In March, the U.S. dollar/Chinese yuan exchange rate rose from CNY 6.46 to CNY 6.56 as a result of U.S. dollar-buying after the rise of U.S. dollar interest rates.

On March 1, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.46 level. On March 3, market participants actively sold the U.S. dollar during trading hours in Europe. As a result, the U.S. dollar/Chinese yuan exchange rate once fell to the CNY 6.45 level. Then, on March 4, Federal Reserve Board (FRB) Chair Jerome Powell did not express serious concern about the rise of U.S. interest rates, and this led the U.S. dollar to appreciate against all other currencies during trading hours in New York. As a result, the U.S. dollar/Chinese yuan exchange rate rose to CNY 6.49 toward the end of the week.

On March 8, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.50 level. U.S. dollar interest rates rose with growing expectations for approval of the bill on an additional economic bailout program in the U.S. On March 9, the U.S. dollar/Chinese yuan exchange rate rose to the mid-CNY 6.54 level—the highest level recorded since December last year. Thereafter, the rise of U.S. interest rates slowed, and market participants started gradually selling the U.S. dollar. As a consequence, the U.S. dollar/Chinese yuan exchange rate returned to the CNY 6.48 level on March 11. On March 12, however, U.S. dollar interest rates rose again, leading the U.S. dollar/Chinese yuan exchange rate to recover to the CNY 6.50 level.

On March 15, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.50 level. In waiting for the Federal Open Market Committee (FOMC) meeting in the U.S., the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range between the upper-CNY 6.49 level and the mid-CNY 6.50 level. In the nighttime of March 17, the FOMC expected that there would be no interest rate rise for the foreseeable future in the U.S., which led the U.S. dollar/Chinese yuan exchange rate to fall to the CNY 6.49 level immediately after market opening on March 18. Thereafter, market participants expected U.S. monetary authorities to accept inflation, and this led long-term U.S. interest rates to rise. As a result, market participants bought the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate rose.

On March 22, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.51 level. The exchange rate continued fluctuating within a narrow range thereafter. However, on March 23 and thereafter, market participants started buying the U.S. dollar, as risk-averse sentiment strengthened in the market due to the fall of stock prices. As a consequence, the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.52 level on March 24. On March 25, the exchange rate rose further to momentarily reach the upper-CNY 6.54 level, renewing this year's high.

On March 29, market participants actively sold individual stocks of Chinese companies as a result of block trades of Chinese stocks in the U.S. As a result, market participants actively sold the Chinese yuan in the foreign exchange market, leading the U.S. dollar/Chinese yuan exchange rate to rapidly rise to the mid-CNY 6.56 level.

2. Outlook for This Month

In April, the U.S. dollar/Chinese yuan exchange rate is forecast to rise slowly.

The National People's Congress (NPC) of the People's Republic of China was held on March 5, and the target GDP growth rate for 2021 was set at 6%. As the International Monetary Fund (IMF) estimates the growth rate to be 8.1%, this target rate relayed a conservative impression. In addition, the government activity report defined its monetary policy to be “moderate” without changing the existing plan.

With regard to the fundamentals, there were some headlines that gave signs of recovery from the Covid-19 crisis, such as the February exports and February industrial production, which both recorded significant year-on-year growth. However, the February PMI recorded a decline for the third consecutive month, suggesting the possibility that economic recovery in China has been slowing down, keeping the Chinese yuan from appreciating further.

On the other hand, there have been an increasing number of positive factors for the U.S. dollar, such as the advancement of the Covid-19 vaccination program in the U.S., expectations for economic recovery based on the additional economic bailout program, and the acceptance of inflation by U.S. monetary authorities. On March 18, there was a diplomatic meeting between the U.S. and China only to confirm differences in opinion between the two countries, and this remains a factor that could weaken the Chinese yuan.

The appreciation of the Chinese yuan against the U.S. dollar had been continuing since June last year. However, this trend has been weakening since the beginning of this year, and from a short-term perspective, the Chinese yuan is forecast to depreciate against the U.S. dollar, with various factors in the U.S. However, the Chinese economy has been recovering, which is a factor that could strengthen the Chinese yuan, and this is likely to keep the U.S. dollar from appreciating too rapidly.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – April 2021

Expected Ranges **Against the US$: SG$ 1.3200–1.3600**
Against the yen: JPY 80.00–84.00

1. Review of the Previous Month

In March 2021, the Singapore dollar depreciated against the U.S. dollar.

At the beginning of the month, the currencies of emerging countries appreciated. However, Chinese stock prices fell thereafter due to a remark made by a Chinese monetary authority official that gave warning about a bubble economy in China. As a result, risk-averse sentiment grew in the market, and the U.S. dollar/Singapore dollar exchange rate fluctuated within a narrow range around the SGD 1.33 level.

On March 5, the majority of the currencies of emerging counties depreciated. The rise of U.S. interest rates and the appreciation of the U.S. dollar accelerated with the strong figures in the U.S. employment statistics. Furthermore, the United States Senate approved the bill for an additional economic bailout program in the U.S., and Chinese stock prices fell. As a consequence, the Singapore dollar depreciated significantly against the U.S. dollar, and the exchange rate reached the mid-CNY 1.35 level.

However, the February CPI of the U.S. was announced thereafter on March 10, and this mitigated concerns over inflation, leading U.S. interest rates to fall. As a result, market participants were encouraged to sell the U.S. dollar. Under such circumstances, the currencies of emerging countries started to rally. Following this trend, the U.S. dollar/Singapore dollar exchange rate fell below the SGD 1.35 level and reached the upper-SGD 1.34 level. Then, on March 11, at the European Central Bank (ECB) monetary policy meeting, the details of the acceleration of the bond purchasing program were clearly laid out, contrasting with what the market had assumed, leading the euro to appreciate. As a result, the U.S. dollar depreciated, strengthening the overall currencies of emerging countries.

In the middle of the month, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range. On March 17, the Singapore dollar weakened slightly as a result of a fall in stock prices. However, the exchange rate remained almost unchanged, as market participants were waiting for the Federal Open Market Committee (FOMC) meeting in the U.S. Then, the Federal Reserve Board (FRB) confirmed its plan to maintain the current monetary policy until the end of 2023, while pointing out that it was too early to discuss tapering. As a result, risk-taking sentiment strengthened in the market, leading the Singapore dollar to appreciate slightly against the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate fell below the SGD 1.34 level.

However, the trend did not continue for a long duration, and the Singapore dollar started weakening again toward the end of the month. Risk-averse sentiment grew in the market due to concerns over the worsening relationship between the West and China, fueling risk-averse sentiment in the market. Furthermore, the currencies of emerging countries weakened because of the increase of Covid-19 cases mainly seen again in Europe, as this would lead to the re-introduction of or an extension of lockdowns. As of March 30, when this article was being written, the U.S. dollar/Singapore dollar pair was trading at the upper-SGD 1.34 level.

2. Outlook for This Month

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

In April, the Monetary Authority of Singapore (MAS) is scheduled to hold a meeting. However, the MAS is not expected to change its monetary policy at this point.

At the previous month's meeting, the MAS took a decision to maintain the existing monetary policy, by stating that the annual rate of increase for the policy interest rate band would be 0%. Furthermore, the MAS expected the policy of monetary easing to remain appropriate for a while, as the core inflation rate (which is the index used by the MAS to determine monetary policy) remained low.

On the contrary, the economic indices announced in March revealed a positive figure for the core inflation rate for the first time in a year as a result of an increase in the prices of food items and services. Some market participants see this as a reason for the MAS to change its monetary policy.

However, even with a slight rise, the inflation rate remains relatively low compared to the level before the Covid-19 crisis. Furthermore, it should be pointed out that the rise in the core inflation rate seen this time was caused mainly by short-term factors, such as the: rise of commodity prices such as the crude oil price; the re-introduction of lockdowns; and the rise in transportation costs that resulted from a global lack of transportation containers. Therefore, it is unlikely for the MAS to change its monetary policy in April.

At the April meeting, even if the inflation outlook is revised upward, the MAS is expected to maintain a wait-and-see attitude until a steady economic recovery has been confirmed.

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

Thai Baht – April 2021

Expected Ranges **Against the US$: THB 31.00–32.30**
Against the yen: JPY 3.45–3.55

1. Review of the Previous Month

In March, the U.S. dollar/Thai baht exchange rate renewed its yearly high and remained stable thereafter.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 30.40. Following the trend from the previous month, the U.S. dollar/Thai baht exchange rate remained robust. On March 3, three economic institutes in Thailand announced their GDP outlook for 2021, maintaining the estimate for positive year-on-year growth of 1.50–3.5%. On March 4, Federal Reserve Board (FRB) Chair Jerome Powell held a press interview attracting substantial attention in the market and insisted that the rise of long-term interest rates in the U.S. should not be a source of concern and that the existing monetary policy is appropriate. This led long-term interest rates in the U.S. to rise, and the U.S. dollar/Thai baht exchange rate rose further. On March 8, market participants bought the U.S. dollar before the auction for U.S. Treasury bonds, while the FRB was in its blackout period. As a consequence, the U.S. dollar/Thai baht exchange rate continued rising further to approach THB 30.85. On March 10, market participants maintained a wait-and-see attitude before the U.S. Treasury bond auction. On March 11, the U.S. dollar/Thai baht exchange rate fell to approach THB 30.55. After the weekend, U.S. interest rates remained high, and the U.S. dollar/Thai baht exchange rate rose to approach THB 30.80 on March 15. In Bangkok, there was a cluster Covid-19 infections in Bang Khae district. However, the impact of this on the market was limited. On March 16 and 17, there was little movement in the market, as market participants were waiting for the Federal Open Market Committee (FOMC) meeting in the U.S. However, in the end, FRB members revealed their intention to maintain the policy of monetary easing, while FRB Chair Jerome Powell also expressed a dovish attitude. This slowed down U.S. dollar-buying, which was previously active. As a result, the U.S. dollar/Thai baht exchange rate fell to approach THB 30.70. Then, on March 18, market participants started selling the U.S. dollar early in the morning, leading the U.S. dollar/Thai baht exchange rate to follow the trend by falling. However, on March 17, U.S. economic indices were released with strong figures, and this led the U.S. 10-year government bond yield to rise and exceed 1.70%. Following this trend, the U.S. dollar/Thai baht exchange rate rose further and approached THB 30.90. On March 19, the FRB announced its decision to allow its temporary changes to the supplementary leverage ratio, which is a type of net capital requirement, to expire. However, the impact of this on the U.S. dollar/Thai baht exchange market was limited.

On March 22, the cautious sentiment in the market was mitigated, as a series of central bank events had ended in the previous week. However, market sentiment deteriorated thereafter when the media reported that President of Turkey Recep Tayyip Erdogan suddenly fired the governor of Turkey's central bank. On March 23, European countries introduced sanctions against China due to the issue of the violation of human rights against Uyghur minorities, causing a negative reaction in the market. As a result, the U.S. dollar/Thai baht exchange rate rose to approach the THB 31 level. Then, on March 24, the U.S. dollar/Thai baht exchange rate renewed its high before the Monetary Policy Committee (MPC) meeting at the central bank of Thailand, temporarily approaching the THB

31.05 level. However, the MPC announced thereafter a decision to maintain the policy interest rate at 0.5%, as had been anticipated in the market. Thus, there was little market reaction. On March 29, after the weekend, the U.S. was scheduled to announce an infrastructure investment plan worth as much as USD 3 trillion. As market participants expected this to create substantial expenditures together with the economic bailout program of USD 1.9 trillion to cope with Covid-19, U.S. long-term interest rates rose significantly. The trend of U.S. dollar-buying accelerated, which led the U.S. dollar/Thai baht exchange rate to renew its high. On March 30, the U.S. dollar/Thai baht exchange rate reached the THB 31.30 level—the yearly high. Monthly trading closed at that level.

2. Outlook for This Month

In April, the U.S. dollar/Thai baht exchange rate is forecast to continue approaching its high.

In March, the U.S. dollar/Thai baht exchange rate continued rising throughout the month, as a result of the appreciation of the U.S. dollar based on the rise of U.S. interest rates. The Covid-19 vaccination program started, targeting the entire population of the U.S., and it advanced faster than expected. Under such circumstances, reflation trade has become more active since February, with rising commodity prices. While some market participants expected the FRB to end the policy of monetary easing earlier than planned, U.S. interest rates rose significantly. Following this, interest rates rose in Thailand as well. However, market participants bought the U.S. dollar, as the U.S. dollar index and the euro/U.S. dollar exchange rate were supported by CTA flows. As a result, the depreciation of the U.S. dollar that had been observed since the inauguration of U.S. President Joe Biden in November last year was entirely offset. The U.S. dollar/Thai baht exchange rate also reached the THB 31 mark.

In forecasting the U.S. dollar/Thai baht exchange market in April and beyond, the most-important question to ask is whether the appreciation of the U.S. dollar will slow down in the times ahead. For now, the U.S. dollar is expected to continue appreciating. If U.S. interest rates continue rising further, making it likely for U.S. monetary authorities to normalize monetary policy and weakening the stock market, capital inflow would accelerate further from emerging countries to the U.S. Thus, the current trend of U.S. dollar appreciation is forecast to continue in the coming month.

A possible factor that could change this trend would be a significant decrease in the number of Covid-19 cases or a sudden acceleration of Covid-19 vaccinations in Europe. However, even such were to occur, it would only slow down the appreciation of the U.S. dollar and would not likely reverse the trend entirely. In terms of domestic factors in Thailand, some Covid headlines have been positive, such that people entering the country in April and beyond will only need to undergo a 10-day quarantine instead of 14 days, while vaccinated foreign nationals will be exempt from any quarantine in some regions. However, real money transactions will only be reflected in the Thai baht exchange market in the summer. Thai baht-buying is therefore likely to be limited in April.

It should also be mentioned that the U.S. dollar/Thai baht exchange market is currently more correlated to the Chinese yuan market rather than domestic factors in Thailand. Thus, market participants should carefully observe trends in the Chinese yuan market as well. In the U.S. dollar/Chinese yuan exchange market, capital inflow into the U.S. is likely to accelerate from China, where the number of Covid-19 cases has been low, as it is seen that the U.S. is about to recover from the Covid-19 crisis. The U.S. dollar/Chinese yuan exchange rate could therefore rise in the times ahead. Under such circumstances, the U.S. dollar/Thai baht exchange rate is likely to be on an uptrend. In April, the U.S. dollar/Thai baht exchange rate could reach THB 31.75—the monthly high in September last year—toward approaching the THB 32 level, which is a psychological turning point.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – April 2021

Expected Ranges **Against the US$: MYR 4.1000–4.2000**
Against the yen: JPY 25.97–26.67
Against 100 yen: MYR 3.7500–3.8500

1. Review of the Previous Month

In March, the Malaysian ringgit remained weak, and the U.S. dollar/Malaysian ringgit exchange rate rapidly exceeded the MYR 4.10 mark and reached the MYR 4.15 level for the first time in approximately five months. The appreciation of the North Sea Brent crude oil price, which had been rising since October last year, started to slow, while U.S. long-term interest rates once reached 1.75% and Covid-19 cases started to increase again in Europe. Under such circumstances, risk-averse sentiment grew in the market, making it difficult for the Malaysian ringgit market.

At the beginning of the month, Federal Reserve Board (FRB) Chair Jerome Powell did not make any specific remark on March 4 related to the recent rise of U.S. interest rates, and this lowered expectations for market interventions by the FRB. Also, the 10-year U.S. government bond yield rose to 1.55%. Furthermore, the central bank of Malaysia decided to maintain its policy interest rate at 1.75%, as had been anticipated in the market. There was thus no surprising factor, with little impact on the market. Then, on March 5, the February employment statistics were released in the U.S. Even though the headline figure turned out to be strong, the unemployment ratio for African Americans stared to rise again, while the number of long-term unemployment workers remained high, revealing a situation far from the full employment aimed at by FRB Chair Jerome Powell. Also, the 10-year U.S. government bond yield remained high at the 1.6% level. Then, on March 9, the U.S. dollar/Japanese yen exchange rate reached the JPY 109 level for the first time in approximately nine months, and this led the U.S. dollar/Malaysian ringgit exchange rate to momentarily reach the MYR 4.14 level.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate reached a stalemate. The North Sea Brent crude oil price rose to approach the USD 70 level thereafter, leading the Malaysian ringgit to rally slightly. However, on March 10, the House of Representatives of the U.S. approved a bill for an additional economic bailout program worth USD 1.9 trillion, signed by the President a day earlier. Such factors continued to encourage market participants to buy the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating at the MYR 4.11 level. On March 17, the Federal Open Market Committee (FOMC) held a meeting, and FRB Chair Jerome Powell insisted once more that there would be no interest rate hike until the end of 2023. Also, the growth rate outlook for 2021 was revised significantly upward (from +4.2% to +6.5%). The inflation outlook for 2021 was also announced at +2.4%, with a sharp rise. On the other hand, the FRB indicated its attitude to accept the recent rise of interest rates, which was unexpected in the market. With this slightly surprising outcome, U.S. interest rates rose further, and the 10-year U.S. government bond yield once reached 1.75%. In the morning of the following day, the Malaysian ringgit depreciated against the U.S. dollar, and the exchange rate reached MYR 4.13. Furthermore, the North Sea Brent crude oil price temporarily fell sharply by 7%. Thus, the external environment for the Malaysian ringgit market was not favorable. However, the Malaysian ringgit depreciated only to a limited extent.

At the end of the month, market participants actively bought the U.S. dollar, as Germany announced an extension of its lockdown due to increasing Covid-19 variant cases, while the North Sea Brent crude oil price fell sharply to the USD 60 level and the U.S. dollar/Malaysian ringgit exchange rate also reached the MYR 4.13 level. On March 25, the auction for seven-year U.S. government bonds ended without a favorable result. However, it did not accelerate bond-selling, keeping the U.S. dollar stable. On the other hand, there was persistent concern over Covid-19 cases, which were increasing again worldwide, and this weakened the Malaysian ringgit further. The U.S. dollar/Malaysian ringgit exchange rate thus temporarily reached the MYR 4.15 level.

2. Outlook for This Month

In April, the U.S. dollar/Malaysian ringgit exchange rate might not move in any direction. Given the auction for seven-year U.S. government bonds carried out on March 25, the U.S. government bond market has been calming, and it is unlikely for the 10-year U.S. government bond yield to rise further in the times ahead. Therefore, market participants are not expected to sell the Malaysian ringgit based on rising interest rates in the U.S. Furthermore, the crude oil price seems to have stopped falling. Thus, positive factors for the Malaysian ringgit are also limited.

The most-important factor in April would be Covid-19 cases, which are increasing again. The number of Covid-19 cases is increasing again in Europe, while a double-mutant Covid-19 variant was confirmed in India. For this, market participants should remain cautious. In India, the number of Covid-19 cases has been increasing sharply, and the government announced its decision to discontinue the export of AstraZeneca vaccines in order to prioritize domestic supply. As India is an important site for vaccine production, the discontinuation of exports would lead to a worldwide delay in vaccine supply. As the market had just started to reflect expectations for global economic recovery as a result of the advancement of vaccination, further increases of Covid-19 cases and delays in vaccine supply would encourage market participants to buy the U.S. dollar in order to avert risks, which would be a negative factor for the Malaysia ringgit market.

It should, however, also be mentioned that governments have become more efficient in reacting to the situation, as a year has passed since the outbreak of the Covid-19 crisis at the beginning of 2020. Market participants are also reacting differently to the situation compared to a year ago. Governments are devising policies by balancing measures to contain the propagation of the virus and measures to maintain economic activities. It is therefore unlikely for any country to have serious economic confusion as a result of an explosive rise of Covid-19 cases, as governments are temporarily accepting some increase of Covid-19 cases while making sure to support vaccination programs.

With regard to domestic political factors in Malaysia, the country's state of emergency is expected to last until August 1. Under such circumstances, there is not likely to be any important political event that can significantly impact the foreign exchange market, even though the ruling and opposition parties are expected to discreetly fight for electoral votes. As was pointed out at the beginning of this article, it is unlikely for the Malaysian ringgit exchange market to move dramatically in relation to crude oil prices and U.S. interest rates. The U.S. dollar/Malaysian ringgit exchange rate is thus forecast to continue fluctuating within a range between MYR 4.10 and MYR 4.20.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – April 2021

Expected Ranges	**Against the US$: IDR 14,200–14,700**
	Against 100 rupiah: JPY 0.74–0.78
	Against the yen: IDR 128.21–135.14

1. Review of the Previous Month

In March, the Indonesian rupiah depreciated against the U.S. dollar in the first half of the month, after which the exchange rate remained at the same level.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,200 level on March 1. On the same day, the February Consumer Price Index (CPI) of Indonesia was announced with a result that turned out to be 1.38%—as had been anticipated in the market. Therefore, this impacted the Indonesian rupiah exchange market only to a limited extent. On March 3, the governor of the central bank of Indonesia, Perry Warjiyo, made a remark at an investment forum about the Indonesian rupiah market, confirming that the Indonesian rupiah exchange market can be kept stable. Thereafter, long-term U.S. interest rates rose to 1.5%, which led the Indonesian rupiah to depreciate further. On March 5, a spokesperson for the central bank of Indonesia made a remark that the central bank was ready to intervene in the market if necessary so as to maintain stability in the Indonesian rupiah market. As a result, the Indonesian rupiah depreciated against the U.S. dollar to the upper-IDR 14,300 level, despite a warning against the depreciation of the Indonesian rupiah. Then, in the following week, on March 8, the Indonesian rupiah continued further depreciating against the U.S. dollar and the exchange rate reached the IDR 14,400 level, as the February employment statistics of the U.S. announced at the end of the week before revealed steady recovery, which led U.S. interest rates to rise. On March 9, the following day, the Indonesian rupiah continued to depreciate, and the U.S. dollar/Indonesian rupiah exchange rate fell to the upper-IDR 14,400 level. However, the rise of long-term U.S. interest rates started to slow down thereafter, and the Indonesian rupiah rallied as a result. At the end of the week, on March 12, the Indonesian rupiah appreciated against the U.S. dollar to the IDR 14,300 level. On March 15, in the following week, market participants started selling U.S. government bonds again, as a result of the approval of the bill for an additional economic bailout program proposed at the end of the previous week by the Biden administration in the U.S., as well as due to his speech to promise promotion of the Covid-19 vaccination program. As a consequence, U.S. interest rates started to rise again. In reaction to this, the trend was reversed in the U.S. dollar/Indonesian rupiah exchange market, and the Indonesian rupiah depreciated to the IDR 14,400 level. On the same day, the February trade balance of Indonesia was released, revealing a substantial trade surplus over USD 2 billion once again. The central bank of Indonesia was scheduled to hold a monetary policy meeting on March 18, and thus the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating without moving in any direction thereafter, at the IDR 14,400 level. In the end, the monetary policy meeting did not cause any surprise in the market, maintaining the seven-day reverse repo interest rate at 3.5%—as had been anticipated in the market. On the same day during local trading hours, the Federal Reserve Board (FRB) announced its decision to allow the conditional temporary change to the supplementary leverage ratio (SLR) to expire as scheduled. As a result, U.S. interest rates rose further and momentarily approached 1.75%, which led the Indonesian rupiah to depreciate to the monthly low just below the IDR 14,500 level on March 19. In the following week, on March 22 and thereafter, the rise of U.S. interest rates slowed down, and the Indonesian rupiah remained weak at around the IDR 14,400 level. As of March 30, when this article was being written, without any influential factor, the Indonesian rupiah remains weak at the IDR 14,400 level, as some market participants have been buying the U.S. dollar in preparation for the end of the month and the end of the quarter period.

2. Outlook for This Month

In April, the Indonesian rupiah is forecast to remain weak against the U.S. dollar.

In March, U.S. interest rates rose, which caused a difficult situation for the currencies of emerging countries, especially for the Indonesian rupiah, which is supported by foreign investors. Indeed, as of the end of February, the holding balance of 10-year Indonesian government bonds by foreign investors was IDR 971 trillion, whereas, as of March 24, the total balance has decreased to IDR 952 trillion. Such a situation has increased pressure to sell the Indonesian rupiah. Also, there has been growing expectations in the U.S. for the advancement of the Covid-19 vaccination program, as well as for economic recovery, and this makes it likely to keep U.S. interest rates high. It is therefore unlikely for the Indonesian rupiah to appreciate in the times ahead. On the contrary, market participants should keep in mind that it is possible for U.S. interest rates to rise even further, which could make the situation even more difficult for the Indonesian rupiah.

On the other hand, there was significant surplus in the trade balance, as had been the case so far. In February, imports recorded remarkable year-on-year positive growth. Exports have also been recovering, which contributed to a large amount of trade surplus. It can be said that the U.S. dollar/Indonesian rupiah exchange rate did not easily exceed the IDR 14,500 level even with the rise of U.S. interest rates, thanks to transactions based on actual demand confirmed in the trade balance. If the trade surplus continues to increase, it would be a positive factor for the Indonesian rupiah.

It should also be mentioned that the central bank of Indonesia could intervene in the market if downward pressure strengthens on the Indonesian rupiah. There has been some positive news for the Indonesian rupiah, however, such as the introduction of Indonesia's *Omnibus Law on Job Creation*, which attracted attention for improvement to the investment environment and tax amnesty in Indonesia. Under such circumstances, the Indonesian rupiah is not likely to depreciate so sharply as well.

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

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

Philippine Peso – April 2021

Expected Ranges | **Against the US$: PHP 47.90–49.00**
Against the yen: JPY 2.240–2.330

1. Review of the Previous Month

In March, the U.S. dollar/Philippine peso exchange rate continued fluctuating at the mid-PHP 48 level without moving in any direction.

The U.S. dollar/Philippine peso exchange market opened trading at PHP 48.60—the same level as the closing rate of the previous month (PHP 48.59 to the U.S. dollar).

Pressure for U.S. dollar short-covering, which strengthened at the end of February, weakened at the beginning of the month, as the rise of the 10-year U.S. government bond yield had slowed down and as the one- to three-month Philippine peso implied interest rates had returned to the level observed at the beginning of the year.

After the release of the February employment statistics of the U.S., the U.S. dollar index rose, strengthening the U.S. dollar against the Philippine peso. However, risk-taking sentiment grew in the market thereafter, with growing expectations for the additional economic bailout program worth USD 1.9 trillion proposed by the Biden administration in the U.S. As a consequence, the Philippine peso strengthened against the U.S. dollar, and the exchange rate reached PHP 48.38 on March 12. This turned out to be the monthly high for the Philippine peso.

Thereafter, Philippine peso-buying based on risk-taking sentiment did not last, as a sense of uncertainty persisted concerning U.S. stock prices, which had been seen as justified because of low interest rates in the U.S.

As the bill for the additional economic bailout program had been approved in the U.S., the U.S. dollar index started to rise, following the rise of U.S. dollar interest rates. As a result, the U.S. dollar/Philippine peso pair once traded at PHP 48.74—the monthly low for the Philippine peso—on March 17.

At the Federal Open Market Committee (FOMC) meeting held in the U.S., the cautious feeling toward the rise of U.S. dollar interest rates was mitigated. Furthermore, toward the end of the month, some market participants sold the U.S. dollar based on actual demand. As a consequence, the appreciation of the U.S. dollar started to slow. On March 29, the Philippine peso appreciated against the U.S. dollar, and the exchange rate reached PHP 48.415, approaching the monthly high for the Philippine peso. However, the latest U.S. economic indices turned out to be strong, while U.S. dollar interest rates continue to rise and the U.S. dollar index reached its highest level in 4.5 months, which kept the U.S. dollar/Philippine peso from falling further.

In the end, the U.S. dollar/Philippine peso exchange rate did not move significantly throughout the month. As of 4:00 p.m. on March 30, when this article was being written, the U.S. dollar/Philippine peso pair was trading at the PHP 48.54–48.56 level.

2. Outlook for This Month

The February Consumer Price Index of the Philippines turned out to be 4.7% year-on-year, as had been estimated in the market. However, there was an acceleration from 4.2%—the result from the previous month. The figure exceeded 2–4%, which is the inflation target range set out by the central bank of the Philippines.

On March 25, the central bank of the Philippines held a monetary policy meeting, and the policy interest rate was maintained at the existing level, as had been anticipated in the market. The central bank also decided to maintain the overnight lending interest rate at 2.5%, the repo rate at 2%, and the overnight deposit interest rate at 1.5% for the third consecutive time. The interest rate level remained at the all-time low.

The inflation outlook was revised upward to 4.2% for 2021 (the previous outlook was 4%) and to 2.8% for 2022 (the previous outlook was 2.7%). The central bank prioritizes economic aid and recovery under the Covid-19 crisis, while paying attention to inflation.

After the announcement of monetary policy, the U.S. dollar/Philippine peso exchange rate did not move significantly. However, it is possible for the Philippine peso to weaken in the times ahead due to concerns over inflation, as it is currently difficult to expect an interest rate hike as a solution. Meanwhile, the figures in recent economic indices do not encourage market participants to buy Philippine peso, and the deficit of the January trade balance of the Philippines increased from last month's deficit of USD 2.15 billion to USD 2.42 billion, which also exceeded the market estimate (i.e., a deficit of USD 2.28 billion).

Also, the January Overseas Filipino Workers (OFW) remittances recorded negative growth rate of 1.7%. Even though the decrease was smaller than the market estimate (2%), if market participants see a decline in foreign currency remittances as per the current trend, it would be a powerful factor to weaken the Philippine peso.

On March 27, the Philippines announced a decision to heighten travel restrictions in the Manila metropolitan area and in surrounding provinces due to an increase of Covid-19 cases. Even though the impact of this on the market was minimal, it is likely to keep the Philippine peso from appreciating.

In the end, the U.S. dollar/Philippine peso exchange rate is expected to depend on the external environment in April, such as U.S. dollar interest rates, the U.S. stock market, and the U.S. dollar index.

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

Indian Rupee – April 2021

Expected Ranges **Against the US$: INR 71.50–74.50**
Against the yen: JPY 1.40–1.53

1. Review of the Previous Month

In March, the U.S. dollar/Indian rupee exchange rate fell once and returned to the level seen at the beginning of the month.

A number of negative factors for the Indian rupee have been in play, such as the weaker-than-expected GDP that was announced on the last business day of February, a global rise of crude oil prices, a sharp increase in Covid-19 cases in Maharashtra State, and the speculation that it would take a long time for vaccinations to cover a large sector of the Indian population even though a Covid-19 vaccination program has long been underway in India. As market participants were aware of such factors, the U.S. dollar/Indian rupee exchange market opened trading at INR 73.62 on March 1, and then the exchange rate reached its monthly high of INR 73.73. Thereafter, the exchange rate continued fluctuating at the lower-INR 73 level. However, on March 3, the U.S. dollar/Indian rupee exchange rate fell below the INR 73 mark, as market participants anticipated U.S. dollar-selling and Indian rupee-buying as a result of capital inflow into the Indian stock market from foreign investors, as the BSE SENSEX index had been rising from the beginning of the month. On the following day, there was a rumor that major domestic telecommunications companies were exchanging foreign assets into Indian rupees in order to pay large amounts of fees to the Indian government for the use rights of mobile phone networks. Thus, market participants anticipated Indian rupee-buying, leading the U.S. dollar/Indian rupee exchange rate to fall to the mid-INR 72 level. However, U.S. interest rates rose to approach 1.5%, while crude oil was also rising, and this kept the Indian rupee from appreciating.

In the second week of the month, the media reported that a petroleum oil facility in Saudi Arabia had been attacked, which led crude oil prices to appreciate further. In reaction to this, the U.S. dollar/Indian rupee exchange rate retuned to the INR 73 level. Thereafter, the U.S. dollar/Indian rupee exchange rate continued fluctuating at around INR 73. However, the U.S. dollar/Indian rupee exchange rate reached the INR 72 level again toward the end of the week, as risk-taking sentiment grew in the market with an optimistic view regarding the economic bailout program in the U.S., along with the strong results for the number of unemployment benefits claims in the U.S.

In the third week of the month, a domestic company had an initial public offering at the beginning of the week, and this led to U.S. dollar-selling and Indian rupee-buying. As a consequence, the Indian rupee appreciated against the U.S. dollar, and the exchange rate fell below the INR 72.50 level. However, at the INR 72.50 level, the monetary authorities of India intervened in the market, keeping the exchange rate from falling further.

In the fourth week of the month, the FTSE index was rebalanced, which led to capital inflow of approximately USD 1 billion into the Indian stock market. As market participants anticipated Indian rupee-buying, the U.S. dollar/Indian rupee exchange rate fell to INR 72.27 on March 23—the monthly low in March. However, thereafter, risk sentiment worsened worldwide because of concerns over economic recovery due to pandemic-related headlines such as the extension of the lockdown in Germany as well as the re-introduction of partial closure in

Paris. As a result, the Indian rupee and other currencies of emerging countries generally depreciated against the U.S. dollar. Toward the end of the month, the 10-year U.S. government bond yield approached 1.75%, while there was also a report that some market participants were buying the U.S. dollar based on actual demand for import settlements at the end of the accounting period. As of March 30, when this article was being written, the U.S. dollar/Indian rupee pair was trading at the INR 73.35 level.

2. Outlook for This Month

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

The main driver for the emerging currency exchange market involves long-term interest rates in the U.S., which have risen to their highest level in 14 months. After reaching an all-time low at 0.5% in August last year, U.S. long-term interest rates are now approaching 1.75%—the level before the Covid-19 crisis. Under such circumstances, it is more interesting for foreign investors to buy U.S. government bonds, selling the high-risk bonds of emerging countries (which encourages Indian rupee-selling and U.S. dollar-buying). Looking at the exchange rates between Asian currencies against the U.S. dollar in March, the Thai baht and Malaysian ringgit depreciated against the U.S. dollar by more than 3% and more than 2%, respectively, while the Chinese yuan, Indonesian rupiah, Singapore dollar, and New Taiwan dollar depreciated by around 1.5%. Under such a condition, the Indian rupee has been the strongest of all the Asian currencies, appreciating by 0.2% against the U.S. dollar, even though the Indian rupee weakened significantly against the U.S. dollar on March 30.

The Indian rupee seems to be outperforming itself, thanks to capital inflow from foreign investors, as an Indian state-owned resource company issued corporate bonds denominated in foreign currencies in the second half of February, while foreign currency-selling and IPOs by major telecommunications companies have been in play in March, as was mentioned above. And since the second half of March, the trend of the overall stock price index was on the decline. However, from a short-term perspective, there are some IPOs already scheduled, and capital inflow into India is expected to continue in April, even though market participants should remain careful about a fall in stock prices.

It should also be mentioned that there are external risk factors, such as the further rise of U.S. interest rates as well as domestic risk factors such as the propagation of Covid-19 cases. In terms of the latter, in particular, the nationwide daily number of new Covid-19 cases has increased to more than six times as compared to mid-February this year. The daily number of new Covid-19 cases in Mumbai, a financial hub, has increased to more than twice as many compared to the peak time of last year, clearly marking a second wave in the pandemic. In reaction to this, the Indian government re-introduced a lockdown in some cities, and there has also been a curfew in Mumbai. Even though the government is cautious about introducing severe lockdowns again from the viewpoint of economic recovery, hospitals have been overwhelmed in Mumbai, making it possible for the government to introduce a lockdown again in the city. If such occurs, stock prices could fall significantly, leading to capital outflow from India.

With regard to the U.S. dollar/Japanese yen exchange market, the majority of market participants expected the Japanese yen to appreciate at the beginning of the year when the exchange rate was at the JPY 104 level. At the moment, the U.S. dollar/Japanese yen exchange rate has been fluctuating at around the JPY 110 level, and the majority of market participants expect the Japanese yen to depreciate against the U.S. dollar. The details about can be found in the article regarding the U.S. dollar/Japanese yen exchange market, and market participants should remain cautious about the risk of the depreciation of the Japanese yen against the Indian rupee, as the trend is shifting in the market.