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Citibank Wealth Management



May 21, 2018
with data as of May 18, 2018

Weekly FX Strategy

FX Analysis

Data Forecasts

Weekly FX Insight

Please note and carefully read the Important Disclosure on the last part



AUD/NZD – Daily Chart



Source: Bloomberg L.P., as of May 18, 2018



Weekly FX Strategy: AUD

AUD news

- US 10-year Treasury yield rose to 3.11%, highest for the past 7 years, supporting USD and suppressing AUD.
- Employment increased by 22.6k in April, with by a 32.7k increase in fulltime employment, beating expectations and showing that Australia's employment data remained solid.

AUD outlook

- The short dollar squeeze may pose risk to AUD in the short term. In the medium term, as a downtrend in dollar may resume and strong commodity prices may support Australia's terms of trade, AUD may be underpinned. 0-3 month forecast: 0.76; 6-12 month forecast: 0.80.

AUD/USD – Daily Chart



Source: Bloomberg L.P., as of May 18, 2018

- Since the RSI dropped to oversold territory, AUD/USD downside may be limited at 0.7311-0.7390. The pair may range trade between 0.7390-0.7648 in the short term.

Strategy for AUD holders - Diversify into USD

- A further rise in US 10-year Treasury yield may strengthen USD yield advantage. Moreover, there are signs of cooling political risks, which may underpin USD in the short term.
- We expect the RBA to defer rate hikes to 1Q19 due to uncertainty driven by Australia's domestic economy and global development.

Shopping Cart Icon	Strategy	Reference Level	Target Level	
	Bearish on AUD	USD	0.7648	0.7390
	Bearish on AUD	HKD	6.00	5.80

Strategy for USD holders - Buy AUD upon retracement

- For the past 8 years, US data tends to miss estimates in 2Q, which may restrain USD and underpin AUD.
- We expect Australia's employment growth to remain solid. leading indicators point to a near-term pick-up in the yearly pace of employment creation, which may improve AUD's investment sentiment.

Shopping Cart Icon	Strategy	Reference Level	Target Level	
	Bullish on AUD	USD	0.7390	0.7648
	Bullish on AUD	HKD	5.80	6.00

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8499 exchange rate for reference



Weekly FX Strategy: NZD

NZD news

- The NZ government raised 2018-19 fiscal surplus forecast from NZ\$2.83bn to NZ\$3.74bn in its budget.
- NZD was underpinned as NZ's latest dairy product auction price rose 1.9%.

NZD outlook

- NZD/USD may continue to range trade between 0.68-0.74. First, NZD may rebound as USD downtrend may resume in the medium term. Second, although New RBNZ Governor Adrian Orr announced in his first OCR statement that “the direction of our next move is equally balanced, up or down”, we do not expect the RBNZ to cut the OCR with rising economic upside risk and the bank may even hike rates in 1Q19. 0-3M forecast : 0.69; 6-12M forecast: 0.73.

NZD/USD – Daily Chart



Source: Bloomberg L.P., as of May 18, 2018

- Since the RSI rose from overbought territory, NZD downside may be limited at 0.6781-0.6817, and may range trade between 0.6817-0.7169 in the short term

Strategy for NZD holders - Diversify into USD

- A further rise in US 10-year Treasury yield may strengthen USD yield advantage. Moreover, there are signs of cooling political risks, which may underpin USD in the short term.
- New RBNZ Governor Orr said the direction of our next move is equally balanced, up or down, triggering concerns over possible rate cuts, which may restrain NZD.



Strategy	Reference Level	Target Level
Bearish on NZD	USD 0.7169	0.6817
Bearish on NZD	HKD 5.63	5.28

Strategy for USD holders - Buy NZD upon retracement

- We do not expect the RBNZ to cut the OCR with an accelerating GDP forecast and when the balance of the risks to the economy is to the upside. The RBNZ may even hike rates in 1Q19.
- YTD, NZ dairy product auction price has risen 11%. Since NZ mainly exports dairy products, the rising milk price may underpin NZ export income.



Strategy	Reference Level	Target Level
Bullish on NZD	USD 0.6817	0.7169
Bullish on NZD	HKD 5.28	5.63

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8499 exchange rate for reference

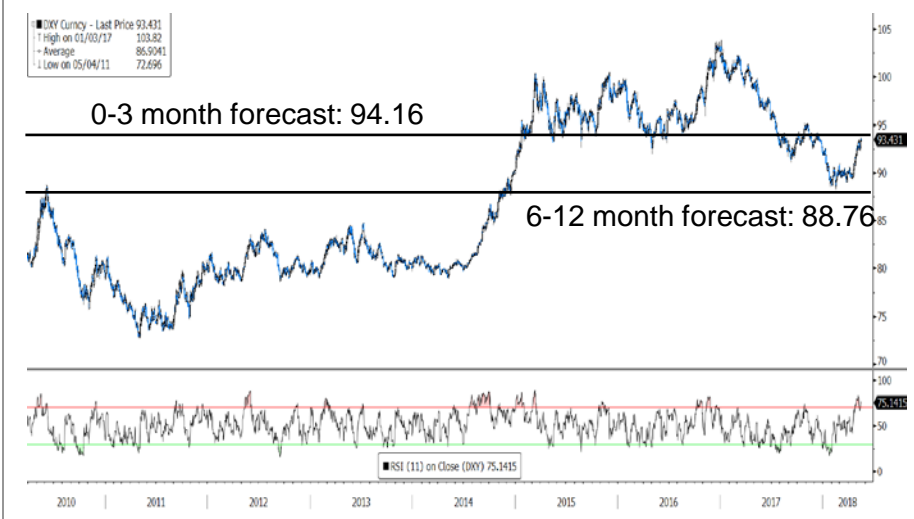
Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8499 exchange rate for reference



USD outlook:

- Most indicators suggest recent USD strength was fueled by a positioning squeeze rather than anything meaningful on the fundamental side. This may continue in the short term and USD may consolidate.
- In the medium term, USD downtrend may resume:
- 1) The fiscal boost may cause a further deterioration in twin deficits.
- 2) Tapered LSAPs in the EA and Japan mean less funding is likely to be forthcoming for larger US fiscal deficits.
- 0-3 month forecast: 94.16; 6-12 month forecast: 88.76. USD may have 4.5% downside over 6-12m and 10%+ in the long run.



Source: Bloomberg L.P., as of May 18, 2018

USD/CNH

RMB outlook:

- We maintain our view of two-way fluctuation of USDRMB and the pair may fluctuate within 6.2-6.6 this year. with the trade factor playing a larger role in its movements. Key risks include DXY strengthening, Fed rate hike view change and trade talk with the US. 0-3m forecast: 6.30; 6-12m forecast: 6.45; Long-term forecast: 6.10.



Source: Bloomberg L.P., as of May 18, 2018

Shopping Cart Icon	Strategy	Reference Level	Target Level	
	Bearish on RMB	USD	6.2453	6.3871
	Bearish on RMB	HKD	1.2569	1.2290
	Bullish on RMB	USD	6.3871	6.2453
	Bullish on RMB	HKD	1.2290	1.2569

GBP/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8499 exchange rate for reference



GBP outlook:

- GBP was undermined on recent USD strength, disagreements over a customs union and dovish May MPC meeting. GBP remains cheap with its REER close to all time lows. That said, there is no reason why it can't get cheaper. GBP/USD has confirmed a double top pattern, it may target the 1.31 area. But 1.35 seems to be acting as reasonable support. 0-3 month forecast: 1.31; 6-12 month: 1.39.

Shopping Cart	Strategy	Reference Level	Target Level
	Bearish on GBP	USD	1.3998
	Bearish on GBP	HKD	10.99
	Bullish on GBP	USD	1.3458
	Bullish on GBP	HKD	10.99



Source: Bloomberg L.P., as of May 18, 2018

EUR/USD

EUR outlook:

- EUR was most over positioned on the long side, but flows data show leveraged investors have unwound. The squeeze may continue in the short term. EUR may be supported and USD may be undermined as the need for financing twin deficits may increase US bond supply and FI investment flow from the EA (and Japan) may be reduced due to LSAP tapers. 0-3 month forecast: 1.17; 6-12 month forecast: 1.25.

Shopping Cart	Strategy	Reference Level	Target Level
	Bearish on EUR	USD	1.2055
	Bearish on EUR	HKD	9.46
	Bullish on EUR	USD	1.1718
	Bullish on EUR	HKD	9.46



Source: Bloomberg L.P., as of May 18, 2018

USD/CAD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8499 exchange rate for reference



CAD outlook:

- Canadian data has been fairly robust and oil prices rose above \$70, which supported CAD. Despite recent USD strength, CAD adjustment has been the smallest, compared with major currencies. USD/CAD remains significantly above the level implied by fundamental drivers. As the USD bear market kicks, USD/CAD may fall back to reasonable levels. 0-3 month forecast: 1.26; 6-12 month forecast: 1.24.



Strategy	Reference Level	Target Level
Bearish on CAD	USD 1.2528	1.2998
Bearish on CAD	HKD 6.27	6.04
Bullish on CAD	USD 1.2998	1.2528
Bullish on CAD	HKD 6.04	6.27

USD/JPY

JPY outlook:

- Japan's current account surplus has continued to grow, which may underpin JPY. JPY remains fundamentally undervalued, according to the REER. Moreover, the risk of BoJ YCC changes is still looming, which may underpin JPY in the medium and long term. 0-3m forecast: 111; 6-12m forecast: 105.



Strategy	Reference Level	Target Level
Bearish on JPY	USD 104.56	112.33
Bearish on JPY	HKD 7.51	6.99
Bullish on JPY	USD 112.33	104.56
Bullish on JPY	HKD 6.99	7.51



Source: Bloomberg L.P., as of May 18, 2018



Source: Bloomberg L.P., as of May 18, 2018

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8499 exchange rate for reference



CHF outlook:

- Despite the more upbeat growth backdrop in Switzerland over the past couple of quarters, the SNB may not turn more hawkish.
- We expect the SNB to move some time after the ECB normalizes its monetary policy
- A key risk to the Swiss economy in the form of global trade wars remains.
- 0-3 month forecast: 1.02; 6-12 month forecast: 0.97

Technical Analysis:

- Since the RSI has risen to overbought territory, upside may be limited, and USD/CHF may range trade between 0.9902-1.0071.

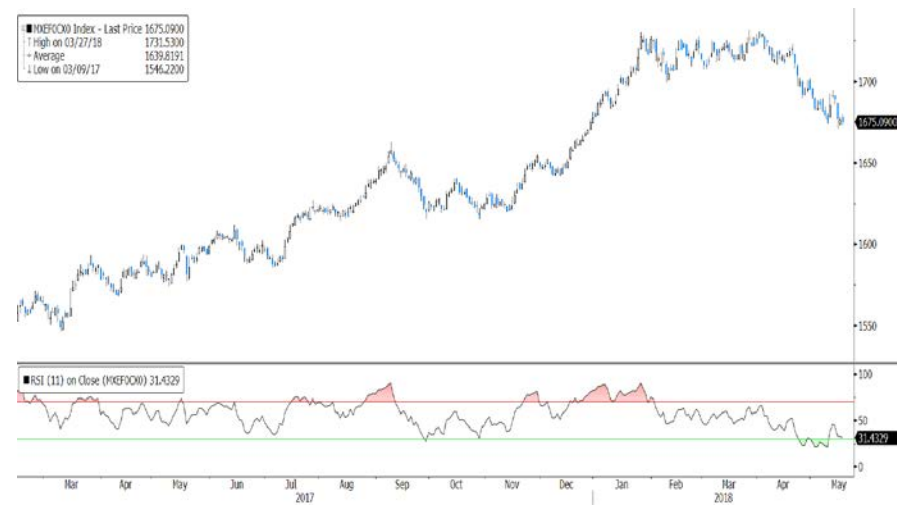


Source: Bloomberg L.P., as of May 18, 2018

EM Currencies

EM Currencies outlook:

- Over the past month, we saw EM FX sell-off roughly 4% vs the dollar, driven mainly by a stronger USD and higher US rates.
- We see EM FX 1.6% stronger in 3m time and 3.2% in 12m. This is largely based on a stronger EUR forecast, higher equities, and broadly stable oil prices that Citi predicts.
- However, we remain cautious EMFX until the EUR bottoms.



Source: Bloomberg L.P., as of May 18, 2018

Appendix 1: Last week performance, Citi interest rate and FX Forecasts

Citi FX Outlook Forecast

Citi FX interest rate Forecast

	0-3 month	6-12 month	5/18/2018	2Q '18	3Q '18	4Q '18
Dollar Index	94.16	88.76	1.75	2.00	2.25	2.25
EUR/USD	1.17	1.25	0.00	0.00	0.00	0.00
GBP/USD	1.31	1.39	0.50	0.50	0.75	0.75
USD/JPY	111	105	-0.10	-0.10	-0.10	-0.10
USD/CHF	1.02	0.97	-0.75	-0.75	-0.75	-0.75
AUD/USD	0.77	0.81	1.50	1.50	1.50	1.50
NZD/USD	0.69	0.73	1.75	1.75	1.75	1.75
USD/CAD	1.26	1.24	1.25	1.25	1.50	1.75
USD/CNY	6.30	6.45	3.35	3.55	3.75	3.75

Source: Citi, forecast as of May 18, 2018

 Rate cut expectations
  Rate hike expectations

Major Currencies Weekly Performance

CCY	Last week close	Weekly Change	1 month high	1 month low	3 month high	3 month low	52 week high	52 week low	Year-To-Date Change
USD	93.64	1.2%	93.64	89.62	93.64	89.03	97.87	88.25	1.7%
EUR/USD	1.1772	-1.3%	1.2374	1.1772	1.2444	1.1772	1.2555	1.1110	-2.0%
USD/JPY	110.78	1.1%	110.78	107.23	110.78	104.74	114.73	104.56	-1.7%
GBP/USD	1.3469	-0.6%	1.4203	1.3469	1.4339	1.3469	1.4377	1.2589	-0.3%
USD/CAD	1.2885	0.5%	1.2950	1.2630	1.3096	1.2551	1.3547	1.2062	2.4%
AUD/USD	0.7511	0.0%	0.7784	0.7455	0.7913	0.7455	0.8136	0.7373	-3.6%
NZD/USD	0.6907	0.0%	0.7319	0.6862	0.7376	0.6862	0.7558	0.6781	-2.6%
USD/CHF	0.9980	-0.3%	1.0050	0.9687	1.0050	0.9295	1.0057	0.9188	2.4%
USD/CNY	6.3800	0.7%	6.3800	6.2744	6.3800	6.2690	6.8946	6.2431	-2.0%
USD/CNH	6.3648	0.4%	6.3747	6.2710	6.3747	6.2540	6.8900	6.2361	-2.4%
GOLD	1293.04	-1.7%	1349.41	1290.53	1353.50	1290.53	1366.15	1204.90	-0.9%

Source: Bloomberg L.P., as of May 18, 2018

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Tuesday							
05/15/18 09:30	AU	!!	RBA May Meeting Minutes	May			
05/15/18 10:00	CH	!!	Retail Sales YoY	Apr	9.40%	10.00%	10.10%
05/15/18 10:00	CH	!!	Industrial Production YoY	Apr	7.00%	6.40%	6.00%
05/15/18 16:30	UK	!!	Average Weekly Earnings 3M/YoY	Mar	2.60%	2.60%	2.80%
05/15/18 16:30	UK	!!	ILO Unemployment Rate 3Mths	Mar	4.20%	4.20%	4.20%
05/15/18 17:00	EC	!!	GDP SA YoY	1Q	2.50%	2.50%	2.50%
05/15/18 20:30	US	!!!	Retail Sales Advance MoM	Apr	0.30%	0.30%	0.80%
05/15/18 20:30	US	!!!	Retail Sales Ex Auto MoM	Apr	0.30%	0.50%	0.40%
05/15/18 21:00	CA	!	Existing Home Sales MoM	Apr	-2.90%	0.40%	1.30%
Wednesday							
05/16/18 07:50	JN	!!	GDP Annualized SA QoQ	1Q	-0.60%	-0.10%	0.60%
05/16/18 09:30	AU	!!	Wage Price Index YoY	1Q	2.10%	2.10%	2.10%
05/16/18 17:00	EC	!!	CPI YoY	Apr	1.20%	1.20%	1.30%
05/16/18 20:30	US	!!	Housing Starts MoM	Apr	-3.70%	-0.70%	3.60%
05/16/18 20:30	US	!!	Building Permits MoM	Apr	-1.80%	-2.10%	4.10%
05/16/18 21:15	US	!	Industrial Production MoM	Apr	0.70%	0.60%	0.70%
Thursday							
05/17/18 09:30	AU	!!	Employment Change	Apr	22.6k	20.0k	-0.7k
05/17/18 09:30	AU	!!	Unemployment Rate	Apr	5.60%	5.60%	5.50%
05/17/18 20:30	CA	!	Int'l Securities Transactions	Mar	6.15b	--	4.32b
05/17/18 20:30	US	!!	Initial Jobless Claims	May	222k	215k	211k
Friday							
05/18/18 07:30	JN	!!	Natl CPI Ex Fresh Food YoY	Apr	0.70%	0.80%	0.90%
05/18/18 20:30	CA	!!	Retail Sales MoM	Mar	0.60%	0.30%	0.40%
05/18/18 20:30	CA	!!	CPI YoY	Apr	2.20%	2.30%	2.30%
05/18/18 20:30	CA	!!	CPI Core- Common YoY%	Apr	1.90%	1.90%	1.90%

Appendix 3: Upcoming Economic Figures (May 21, 2018 – May 25, 2018)

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
05/21/18 06:45	NZ	!!	Retail Sales Ex Inflation QoQ	1Q	--	--	1.70%
Wednesday							
05/23/18 08:30	AU	!	Westpac Leading Index MoM	Apr	--	--	-0.22%
05/23/18 16:00	EC	!!	Markit Eurozone Manufacturing PMI	May	--	--	56.2
05/23/18 16:30	UK	!!	CPI YoY	Apr	--	--	2.50%
05/23/18 22:00	US	!!	New Home Sales MoM	Apr	--	-3.50%	4.00%
Thursday							
05/24/18 02:00	US	!!!	FOMC Meeting Minutes	May	--	--	--
05/24/18 06:45	NZ	!!	Trade Balance NZD	Apr	--	--	-86m
05/24/18 06:45	NZ	!!	Exports NZD	Apr	--	--	4.85b
05/24/18 06:45	NZ	!!	Imports NZD	Apr	--	--	4.94b
05/24/18 16:30	UK	!!	Retail Sales Ex Auto Fuel YoY	Apr	--	--	1.10%
05/24/18 16:30	UK	!!	Retail Sales Inc Auto Fuel YoY	Apr	--	--	1.10%
05/24/18 20:30	US	!	Initial Jobless Claims	May	--	--	--
05/24/18 22:00	US	!	Existing Home Sales MoM	Apr	--	0.20%	1.10%
Friday							
05/25/18 16:30	UK	!!	GDP YoY	1Q	--	--	1.20%
05/25/18 20:30	US	!!	Durable Goods Orders	Apr	--	-2.00%	2.60%
05/25/18 20:30	US	!!	Durables Ex Transportation	Apr	--	--	0.10%

Appendix 4: Upcoming Economic Figures (May 28, 2018 – Jun 1, 2018)

Time		Importance	Event	Period	Actual	Survey	Prior
Tuesday							
05/29/18 07:30	JN	!	Jobless Rate	Apr	--	--	2.50%
05/29/18 22:00	US	!!	Conf. Board Consumer Confidence	May	--	--	128.7
Wednesday							
05/30/18 20:15	US	!!	ADP Employment Change	May	--	--	204k
05/30/18 20:30	CA	!	Current Account Balance	1Q	--	--	-\$16.35b
05/30/18 20:30	US	!!	GDP Annualized QoQ	1Q	--	--	2.30%
05/30/18 22:00	CA	!!	Bank of Canada Rate Decision	May	--	1.25%	1.25%
Thursday							
05/31/18 02:00	US	!!	U.S. Federal Reserve Releases Beige Book	May			
05/31/18 07:01	UK	!	GfK Consumer Confidence	May	--	--	-9
05/31/18 09:00	NZ	!	ANZ Business Confidence	May	--	--	-23.4
05/31/18 09:00	CH	!!	Non-manufacturing PMI	May	--	--	54.8
05/31/18 09:00	CH	!!	Manufacturing PMI	May	--	--	51.4
05/31/18 09:30	AU	!!	Private Capital Expenditure	1Q	--	--	-0.20%
05/31/18 17:00	EC	!!	CPI Estimate YoY	May	--	--	1.20%
05/31/18 20:30	US	!!	Personal Income	Apr	--	--	0.30%
05/31/18 20:30	US	!!	Personal Spending	Apr	--	--	0.40%
05/31/18 20:30	US	!	Initial Jobless Claims	May	--	--	--
05/31/18 20:30	CA	!!	GDP YoY	Mar	--	--	3.00%
Friday							
06/01/18 16:00	EC	!!	Markit Eurozone Manufacturing PMI	May	--	--	--
06/01/18 16:30	UK	!!	Markit UK PMI Manufacturing SA	May	--	--	53.9
06/01/18 20:30	US	!!!	Change in Nonfarm Payrolls	May	--	--	164k
06/01/18 20:30	US	!!!	Unemployment Rate	May	--	--	3.90%
06/01/18 21:30	CA	!!	Markit Canada Manufacturing PMI	May	--	--	55.5
06/01/18 22:00	US	!!	ISM Manufacturing	May	--	--	57.3

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