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Citibank Wealth Management



Oct 16, 2017
with data as of Oct 13, 2017

Weekly FX Strategy

FX Analysis

Data Forecasts

Weekly FX Insight

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



Weekly FX Strategy: CAD

CAD news

- US core inflation rose 0.1% only in Sep, lower than expectation of 0.2%. CAD was supported as USD was pressured.
- US President Trump says if talks to reform NAFTA fail, he could envisage a US-Canada trade pact, excluding Mexico.
- Canada's New Housing Price Index rose 0.1%, better than last time (-0.4%)

CAD outlook

- We expect the BOC to hike rates again. Moreover, markets may have priced in a Dec rate hike by the Fed, which may underpin CAD. 0-3 month forecast: 1.23; 6-12 month forecast: 1.20.

USD/CAD – Daily Chart



Source: Bloomberg L.P., as of Oct 13, 2017

- Since the RSI fell from overbought territory, with increasing downside risk, USD/CAD may range trade between 1.2062-1.2663.

Strategy for CAD holders - Diversify into USD

- The US, Canada and Mexico still have not reached any agreements on the NAFTA. Uncertainty may restrain CAD.
- Canada mainly exports oil products. Currently, oil prices remain range trading, which may have limit support for CAD.



	Strategy	Reference Level	Target Level
	Bearish on CAD	USD	1.2663
	Bearish on CAD	HKD	6.17

Strategy for USD holders - Buy CAD upon retracement

- Markets may have priced in a Dec rate hike by the Fed. A potential rate hike may have limited support for USD.
- The BOC hiked the interest rate by 25bps unexpectedly. We expect the BOC may hike rates again this month, which may support CAD.



	Strategy	Reference Level	Target Level
	Bullish on CAD	USD	1.2062
	Bullish on CAD	HKD	6.17

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8070 exchange rate for reference



Weekly FX Strategy: GBP

GBP news

- German newspaper Handelsblatt says Barnier may offer the UK a 2-year transition stay in the EU market.
- The Office of National Statistics has confirmed that the UK unit labor costs have been revised up from 1.6% to 2.4% YoY.
- UK manufacturing production rose 2.8% yoy in Aug and industrial production rose 1.6%, both better than expected.

GBP outlook

- Although political uncertainty may restrain GBP, the BOE may hike rates in Nov and two more hikes may be seen in 2018, which may underpin GBP. 0-3 month forecast: 1.35; 6-12 month: 1.38.

GBP/USD – Daily Chart



Source: Bloomberg L.P., as of Oct 13, 2017

- Since the RSI rebounded, GBP/USD may find support at 1.2963, fibo 0.618, with increasing upside risk, while resistance may be seen at 1.3657, Sep top.

Strategy for GBP holders - Diversify into USD

- Expectations for a breakthrough at the October EU summit may be small but, without any results at the December summit, May's Brexit strategy may be called into question.
- We cannot rule out that she steps down. Our base case has been elections within a year. Political uncertainty may restrain GBP



Strategy	Reference Level	Target Level
Bearish on GBP	USD 1.3657	1.2963
Bearish on GBP	HKD 10.66	10.12

Strategy for USD holders - Buy GBP upon retracement

- Citi expects inflation to exceed 3% YoY later this year. This may reinforce the trend towards hawkish statements from the BOE. GBP may still have upside.
- We expect the BOE to hike rates in Nov and two more hikes may be seen in 2018, which may support GBP.



Strategy	Reference Level	Target Level
Bullish on GBP	USD 1.2963	1.3657
Bullish on GBP	HKD 10.12	10.66

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8070 exchange rate for reference

AUD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8070 exchange rate for reference



AUD outlook:

- Australian economic downside risks increase as the housing market looks to be plateauing. A weakening retail sales trend added to a high debt load is starting to affect households. The RBA's growth targets may not be met. In China, there are signs of further tightening of monetary conditions, which are generally associated with lower base metal and bulk commodity prices, both of which will damage Australian terms of trade, which AUD closely tracks. 0-3 month forecast: 0.78; 6-12 month forecast: 0.79.



Strategy		Reference Level	Target Level
Bearish on AUD	USD	0.8125	0.7756
Bearish on AUD	HKD	6.34	6.06
Bullish on AUD	USD	0.7756	0.8125
Bullish on AUD	HKD	6.06	6.34



Source: Bloomberg L.P., as of Oct 13, 2017

NZD/USD

NZD outlook:

- NZD underperformance of late has been primarily due to the election and associated uncertainties. As uncertainties fade, NZD downside risk may recede. The RBNZ ma hike rates in 3Q18 amid improved inflation and strong NZ economy, which may support NZD. In China, there are signs of further tightening of monetary conditions, which may undermine NZD. 0-3 month forecast: 0.70; 6-12 month forecast: 0.71.



Strategy		Reference Level	Target Level
Bearish on NZD	USD	0.7433	0.7051
Bearish on NZD	HKD	5.80	5.50
Bullish on NZD	USD	0.7051	0.7433
Bullish on NZD	HKD	5.50	5.80



Source: Bloomberg L.P., as of Oct 13, 2017

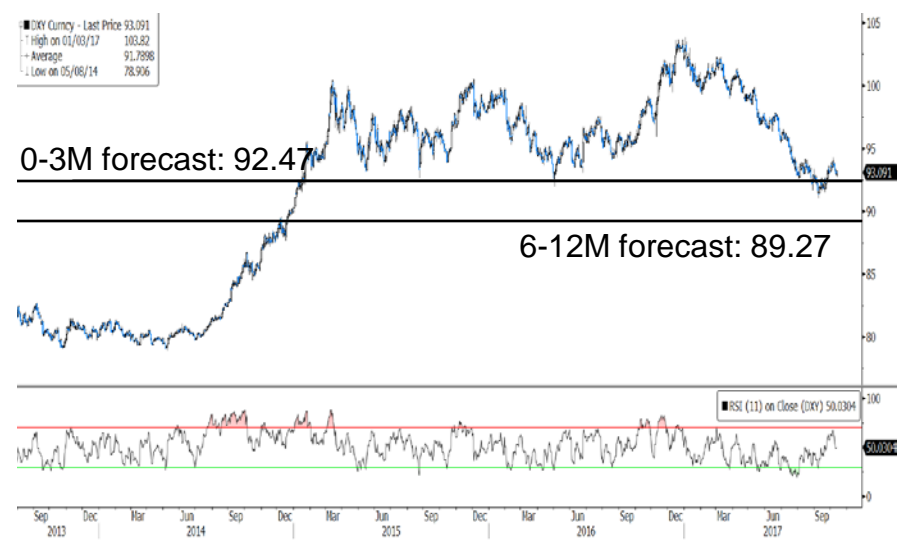
Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8070 exchange rate for reference



USD outlook:

- Over the past few weeks, USD strengthened again amid a more hawkish stance of the Fed, improved US data and rising political risk in Europe.
- However, US upbeat job data could not support USD much. It is a sign that our base case of a \$ bear market medium term may be correct.
- Since 1975, USD bull cycles have lasted 5-6 years on average while bear cycles have lasted around 10 years. The latest USD bull cycle started in 2011. According to past experience, this bull cycle may have ended and may start a bear cycle.
- 0-3 month forecast: 92.47; 6-12 month forecast: 89.27.



Source: Bloomberg L.P., as of Oct 13, 2017

USD/CNH

CNY outlook:

- The PBOC is not willing to see one-way CNY moves.
- We expect the CNY to show two-way fluctuations in the remainder of the year (3m forecast 6.65).
- Seasonally higher demand in 4Q could pressure the CNY in the short-term.

Technical analysis:

- Due to the neutral RSI, USD/CNH may range trade between 6.5371-6.6521.



Source: Bloomberg L.P., as of Oct 13, 2017

USD/JPY

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8070 exchange rate for reference



JPY outlook:

- USD/JPY mainly range bound this year between 108-114 with US yields a critical driver. Tax cuts in the US, or a more hawkish Fed or higher wage inflation may drive US yields and USD/JPY higher. Geopolitical risks in North Korea may underpin safe haven JPY. 0-3 month forecast: 113; 6-12 month forecast: 110



Strategy	Reference Level	Target Level
Bearish on JPY	USD 110.00	114.33
Bearish on JPY	HKD 70.97	68.28
Bullish on JPY	USD 114.33	110.00
Bullish on JPY	HKD 68.28	70.97



Source: Bloomberg L.P., as of Oct 13, 2017

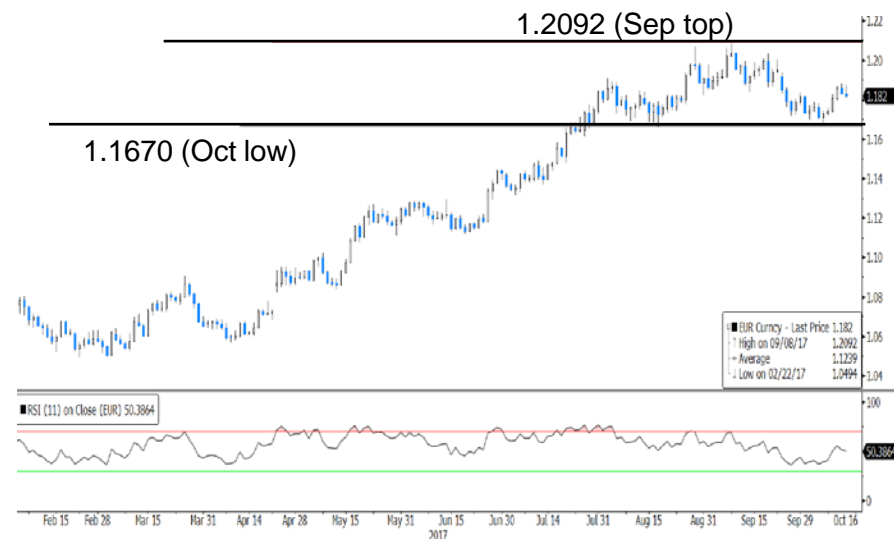
EUR/USD

EUR outlook:

- EUR supports include a low real effective exchange rate level, large current account surplus, equity market inflows, Euro Area cyclical recovery above expectations and a related turn less accommodative by the ECB. Medium term gains may rely on less ECB buying of bonds and a likely further narrowing in yield spreads. 0-3 month forecast: 1.19; 6-12 month forecast: 1.24.



Strategy	Reference Level	Target Level
Bearish on EUR	USD 1.2092	1.1616
Bearish on EUR	HKD 9.44	9.07
Bullish on EUR	USD 1.1616	1.2092
Bullish on EUR	HKD 9.07	9.44



Source: Bloomberg L.P., as of Oct 13, 2017

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8070 exchange rate for reference



CHF outlook:

- The SNB may not hike rates in 2017 and 2018 amid moderate inflation in Switzerland. Since CHF rates may remain low, CHF may continue to be a funding currency of carry trades.
- In our view, CHF is still overvalued. For the coming 0-3 months and 6-12 months, USD/CHF may remain at 0.97.

Technical Analysis:

- As RSI fell from overbought territory, USD/CHF may range trade between 0.9639-0.9883.

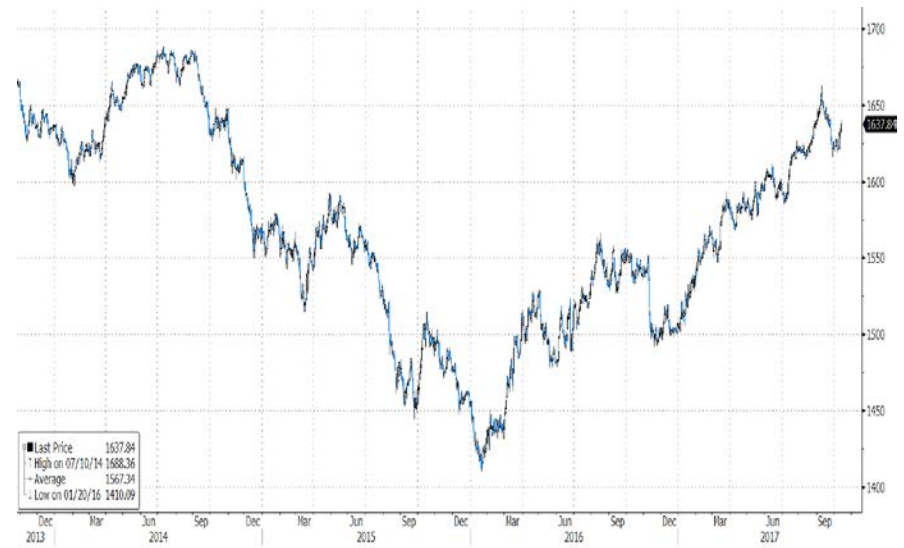


Source: Bloomberg L.P., as of Oct 13, 2017

EM Currencies

EM Currencies outlook:

- We expect a stronger EUR, equity market gains and flat oil prices may support EM currencies for the coming 6-12 months.
- In the short term, carry trades may underpin high-yield EM currencies.
- EMFX may appreciate by roughly 1.2% in spot terms in the 3 month timeframe and 1.4% in 12 months.



Source: Bloomberg L.P., as of Oct 13, 2017

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	10/13/17	4Q '17	1Q '18	2Q '18
Dollar Index	92.47	89.27	1.25	1.50	1.75	2.00
EUR/USD	1.19	1.24	0.00	0.00	0.00	0.00
GBP/USD	1.35	1.38	0.25	0.50	0.50	0.50
USD/JPY	113	110	-0.10	-0.10	-0.10	-0.10
USD/CHF	0.97	0.97	-0.75	-0.75	-0.75	-0.75
AUD/USD	0.78	0.79	1.50	1.50	1.50	1.50
NZD/USD	0.70	0.71	1.75	1.75	1.75	1.75
USD/CAD	1.23	1.20	1.00	1.25	1.25	1.25
USD/CNY	6.65	6.75	3.30	3.50	3.50	3.70

Source: Citi, forecast as of Oct 13, 2017

■ 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	93.09	-0.8%	93.96	91.79	95.73	91.35	103.82	91.01	-8.9%
EUR/USD	1.1820	0.8%	1.1994	1.1711	1.2036	1.1398	1.2092	1.0341	12.4%
USD/JPY	111.82	-0.7%	112.85	110.24	113.28	107.84	118.66	101.20	-4.6%
GBP/USD	1.3285	1.7%	1.3594	1.3066	1.3594	1.2800	1.3657	1.1986	7.7%
USD/CAD	1.2468	-0.5%	1.2565	1.2165	1.2757	1.2110	1.3793	1.2062	-7.8%
AUD/USD	0.7887	1.5%	0.8031	0.7753	0.8060	0.7731	0.8125	0.7160	9.4%
NZD/USD	0.7181	1.2%	0.7357	0.7064	0.7520	0.7064	0.7558	0.6818	3.6%
USD/CHF	0.9745	-0.5%	0.9798	0.9603	0.9798	0.9442	1.0344	0.9421	-4.6%
USD/CNY	6.5796	-1.1%	6.6608	6.5415	6.7835	6.4870	6.9649	6.4390	-5.6%
USD/CNH	6.5683	-1.3%	6.6729	6.5428	6.7819	6.4865	6.9895	6.4436	-6.2%
GOLD	1303.82	2.1%	1329.74	1268.22	1349.22	1217.58	1357.61	1122.89	13.6%

Source: Bloomberg L.P., as of Oct 13, 2017

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Tuesday							
10/10/17 07:50	JN	!	Trade Balance BoP Basis	Aug	¥318.7b	¥264.3b	¥566.6b
10/10/17 08:30	AU	!	NAB Business Confidence	Sep	7	--	5
10/10/17 16:30	UK	!!	Industrial Production YoY	Aug	1.60%	0.90%	1.10%
10/10/17 16:30	UK	!!	Manufacturing Production YoY	Aug	2.80%	1.90%	2.70%
10/10/17 16:30	UK	!!	Trade Balance	Aug	-£5626	-£2800	-£4236
10/10/17 20:15	CA	!	Housing Starts	Sep	217.1k	212.0k	225.9k
10/10/17 20:30	CA	!	Building Permits MoM	Aug	-5.50%	-1.00%	-2.80%
Wednesday							
10/11/17 07:30	AU	!	Westpac Consumer Conf SA MoM	Oct	3.60%	--	2.50%
Thursday							
10/12/17 02:00	US	!!!	FOMC Meeting Minutes	Sep	--	--	--
10/12/17 07:01	UK	!!	RICS House Price Balance	Sep	6%	4%	6%
10/12/17 08:00	NZ	!	ANZ Consumer Confidence MoM	Oct	-2.80%	--	2.90%
10/12/17 20:30	CA	!	New Housing Price Index YoY	Aug	3.80%	--	3.80%
10/12/17 20:30	US	!!	Initial Jobless Claims	Oct	243k	250k	258k
10/12/17-10/21/17	US	!	Monthly Budget Statement	Sep	--	--	-\$107.7b
Friday							
10/13/17 05:30	NZ	!	Business NZ Manufacturing PMI	Sep	57.5	--	57.9
10/13/17 20:30	US	!!	CPI YoY	Sep	2.20%	2.30%	1.90%
10/13/17 20:30	US	!!	CPI Ex Food and Energy YoY	Sep	1.70%	1.80%	1.70%
10/13/17 20:30	US	!!	Retail Sales Advance MoM	Sep	1.60%	1.70%	-0.10%
10/13/17 20:30	US	!!	Retail Sales Ex Auto MoM	Sep	1.00%	0.90%	0.25%
10/13/17 22:00	US	!!	U. of Mich. Sentiment	Oct	101.1	95.0	95.1
10/13/17	CH	!!	Exports YoY	Sep	8.10%	10.00%	5.60%
10/13/17	CH	!!	Imports YoY	Sep	18.70%	14.70%	13.50%
10/13/17	CH	!!	Trade Balance	Sep	\$28.47b	\$38.00b	\$41.92b

Appendix 3: Upcoming Economic Figures (Oct 16, 2017 – Oct 20, 2017)

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
10/16/17 09:30	CH	!!	CPI YoY	Sep	--	1.60%	1.80%
10/16/17 20:30	CA	!	Int'l Securities Transactions	Aug	--	--	23.95b
10/16/17 21:00	CA	!	Existing Home Sales MoM	Sep	--	--	1.30%
Tuesday							
10/17/17 05:45	NZ	!!	CPI YoY	3Q	--	--	1.70%
10/17/17 08:30	AU	!!	RBA Oct. Rate Meeting Minutes	Oct			
10/17/17 16:30	UK	!!	CPI YoY	Sep	--	--	2.90%
10/17/17 17:00	EC	!!	CPI YoY	Sep	--	--	1.50%
Wednesday							
10/18/17 16:30	UK	!!	Average Weekly Earnings 3M/YoY	Aug	--	--	2.10%
10/18/17 16:30	UK	!!	ILO Unemployment Rate 3Mths	Aug	--	--	4.30%
10/18/17 20:30	US	!	Housing Starts MoM	Sep	--	1.70%	-0.80%
10/18/17 20:30	US	!	Building Permits MoM	Sep	--	-0.90%	5.70%
Thursday							
10/19/17 02:00	US	!	U.S. Federal Reserve Releases Beige Book	Oct			
10/19/17 08:30	AU	!!	Employment Change	Sep	--	--	54.2k
10/19/17 08:30	AU	!!	Unemployment Rate	Sep	--	--	5.60%
10/19/17 10:00	CH	!!!	GDP YoY	3Q	--	6.80%	6.90%
10/19/17 10:00	CH	!!	Retail Sales YoY	Sep	--	10.10%	10.10%
10/19/17 10:00	CH	!!	Industrial Production YoY	Sep	--	6.70%	6.00%
10/19/17 16:30	UK	!!	Retail Sales Inc Auto Fuel YoY	Sep	--	--	2.40%
10/19/17 20:30	US	!!	Initial Jobless Claims	Oct	--	--	--
Friday							
10/19/17-10/20/17	EC	!!!	European Union Leaders Hold Summit in Brussels	Oct			
10/20/17 20:30	CA	!!	CPI YoY	Sep	--	--	1.40%
10/20/17 20:30	CA	!!	Retail Sales MoM	Aug	--	--	0.40%
10/20/17 22:00	US	!	Existing Home Sales MoM	Sep	--	0.20%	-1.70%

Appendix 4: Upcoming Economic Figures (Oct 23, 2017 – Oct 27, 2017)

Time		Importance	Event	Period	Actual	Survey	Prior
Tuesday							
10/24/17 16:00	EC	!!	Markit Eurozone Manufacturing PMI	Oct	--	--	58.1
Wednesday							
10/25/17 08:30	AU	!!	CPI YoY	3Q	--	--	1.90%
10/25/17 16:00	GE	!!	Ifo Business Climate	Oct	--	--	115.2
10/25/17 16:30	UK	!!	GDP YoY	3Q	--	--	1.50%
10/25/17 20:30	US	!!	Durable Goods Orders	Sep	--	0.30%	2.00%
10/25/17 20:30	US	!!	Durables Ex Transportation	Sep	--	--	0.50%
10/25/17 22:00	CA	!!!	Bank of Canada Rate Decision	Oct	--	1.00%	1.00%
10/25/17 22:00	US	!!	New Home Sales MoM	Sep	--	-1.80%	-3.40%
Thursday							
10/26/17 05:45	NZ	!!	Trade Balance NZD	Sep	--	--	-1235m
10/26/17 14:00	GE	!	GfK Consumer Confidence	Nov	--	--	10.8
10/26/17 19:45	EC	!!!	ECB Main Refinancing Rate	Oct	--	--	0.00%
10/26/17 20:30	US	!!	Initial Jobless Claims	Oct	--	--	--
10/26/17 20:30	US	!!	Advance Goods Trade Balance	Sep	--	-\$63.9b	-\$62.9b
10/26/17 22:00	US	!	Pending Home Sales NSA YoY	Sep	--	--	-3.10%
Friday							
10/27/17 07:30	JN	!!	Natl CPI Ex Fresh Food YoY	Sep	--	--	0.70%
10/27/17 20:30	US	!!	GDP Annualized QoQ	3Q	--	2.00%	3.10%
10/27/17 22:00	US	!!	U. of Mich. Sentiment	Oct	--	--	--

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Higher Credit Risk – Unrated or non investment grade Debt Securities generally have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. There is greater risk of non-payment of interest and loss of principal. Many issuers of these Debt Securities have experienced substantial difficulties in servicing their debt obligations, which has led to default and restructurings. The issuers of these Debt Securities generally have to pay a higher rate of interest than investment grade Debt Securities.

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