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Citibank Wealth Management



Jul 16, 2018
with data as of Jul 13, 2018

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: EUR

EUR news

- USTR announced to be about to release \$200b China tariff list with additional 10% tariff, triggering market volatility.
- USD pared gains as US CPI rose 0.1% and core figure rose 0.2% in June, both matched with consensus.
- ECB minutes showed concerns on trade war.

EUR outlook

- With the ECB now pre-committed on hold almost regardless of incoming data from here until “at least through the summer”, and with RMB depreciation and China’s economic slowdown, EUR may continue to consolidate in the short term. US twin deficits and ECB tapering are likely to reduce inflows into the US. Thus, we are still bullish on EUR in the medium term. EUR/USD 0-3M forecast: 1.18; 6-12M forecast: 1.19.

EUR/USD – Daily Chart



Source: Bloomberg L.P., as of Jul 13, 2018

- Since the RSI has dropped to oversold territory, EUR/USD downside may be limited at 1.1448-1.1510. The pair may range trade between 1.1510-1.2032 in the short term.

Strategy for EUR holders - Diversify into USD

- Euro area shows signs of economic slowdown. We cut Euro area economic growth forecast from 2.2% to 2.1%, which may restrain EUR.
- If the US imposes tariffs on imported cars, it may have a larger impact on European exports, which may undermine EUR.



Strategy	Reference Level	Target Level
Bearish on EUR	USD	1.2032
Bearish on EUR	HKD	9.44

Strategy for USD holders - Buy EUR upon retracement

- US core PCE may rise 0.13% only, the softest level in recent months. The Fed may not accelerate rate hikes, which may undermine USD.
- The ECB will start a three-month taper from Oct to Dec-18 and may hike the deposit rate by 15bps in Jun 2019, which may underpin EUR.

Strategy	Reference Level	Target Level
Bullish on EUR	USD	1.1448
Bullish on EUR	HKD	8.99

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8486 exchange rate for reference



Weekly FX Strategy: AUD

AUD news

- High-yield AUD adjusted as rising US-China trade tensions triggered market volatility.
- Australia's household debt growth rose from -0.9% to +1.1%, which may underpin AUD

AUD outlook

- Domestic data has recently been surprising to the upside. We expect economic growth to pick up close to trend. The RBA may start to hike rates around mid 2019. Markets may not have fully priced in possible RBA rate hikes. If expectations resume, AUD may find support. AUD/USD 0-3M forecast: 0.75; 6-12M forecast: 0.77.

AUD/USD – Daily Chart



Source: Bloomberg L.P., as of Jul 13, 2018

- As AUD/USD is still in the downtrend channel, the pair may consolidate between 0.7311-0.7484, with next support at 0.7160.

Strategy for AUD holders - Diversify into USD

- Escalating trade tensions may increase market volatility, which may restrain high-yield AUD.
- We defer the RBA's rate hike timing forecast from 1Q19 to 2Q19, which may undermine AUD.



Strategy	Reference Level	Target Level
Bearish on AUD	USD 0.7484	0.7311
Bearish on AUD	HKD 5.87	5.74

Strategy for USD holders - Buy AUD upon retracement

- Australia will announce job data this Thu. We expect employment to grow 15K in Jun, seeing growth for the fourth consecutive month, which may underpin AUD sentiment.
- Australia is not in the eye of the trade war storm. Australia is also exempt from steel and aluminum tariffs. Together with decent Australia's data, AUD may be supported.



Strategy	Reference Level	Target Level
Bullish on AUD	USD 0.7311	0.7484
Bullish on AUD	HKD 5.74	5.87

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8486 exchange rate for reference



EUR/GBP



0-3M forecast: 0.89
6-12M forecast: 0.89

AUD/CAD



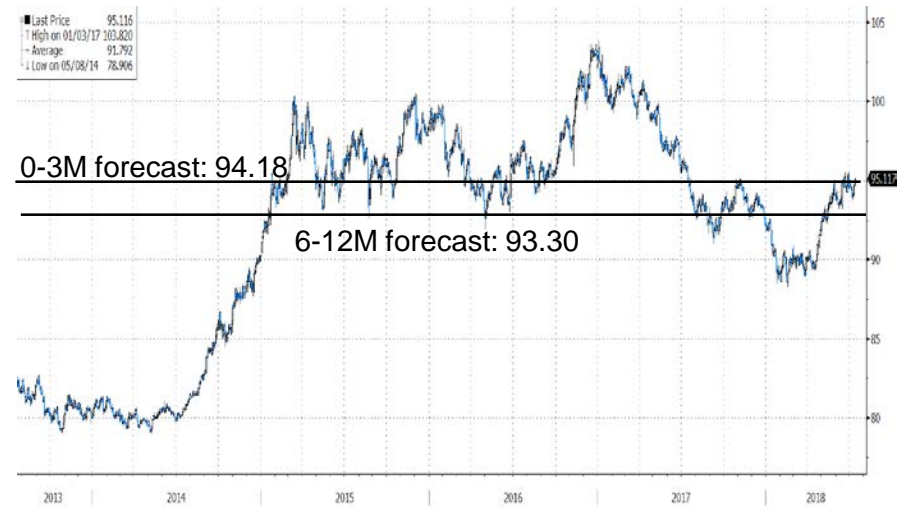


Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8486 exchange rate for reference

USD outlook:

- In the short term, EUR/USD remains pivotal to the general dollar direction. Current Chinese economic weakness and FX weakness are EUR negatives, which may underpin USD.
- In the medium term, USD downtrend may resume
- 1) USD positioning is much cleaner than at the start of the year suggesting that the rally in the \$ may begin to abate.
- 2) With increased US bond supply upcoming, yields likely rise further as tapered LSAPs in the EA and Japan mean less funding is likely to be forthcoming for larger US fiscal deficits.
- 3) Overall, our \$ G10 forecasts show around 2% \$ downside over 6-12m and 13% downside in the long run.
- Dollar Index 0-3M forecast: 94.18; 6-12M forecast: 93.30



Source: Bloomberg L.P., as of Jul 13, 2018

USD/CNH

RMB outlook:

- Global trade tension escalated. The RRR cut earlier may suppress RMB in short term. We expect the USDRMB to average at 6.6 in 2H and interventions will return to stave off one-way depreciation expectations if the exchange rate moves too fast. Meanwhile, we don't think the RMB policy can be relied upon.



Source: Bloomberg L.P., as of Jul 13, 2018

Strategy	Reference Level	Target Level
Bearish on RMB	USD 6.6128	6.7592
Bearish on RMB	HKD 1.1869	1.1612
Bullish on RMB	USD 6.7592	6.6128
Bullish on RMB	HKD 1.1612	1.1869

USD/CAD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8486 exchange rate for reference



CAD outlook:

- The BoC may hike the interest rate by 0.25% again in Oct. Currently, the market is not fully pricing in and there may be room for more to be priced. Oil price gains and potential USD mid-term weakness may support CAD. A significant risk to CAD remains NAFTA negotiations and trade tensions. 0-3M forecast: 1.30; 6-12M forecast: 1.25.

Strategy	Reference Level	Target Level
Bearish on CAD	USD 1.3074	1.3262
Bearish on CAD	HKD 6.00	5.92
Bullish on CAD	USD 1.3262	1.3074
Bullish on CAD	HKD 5.92	6.00



Source: Bloomberg L.P., as of Jul 13, 2018

GBP/USD

GBP outlook:

- Macro data in the UK has stabilized somewhat recently, with Citi's UK ESI now back in positive territory. This leaves the Citi base case for an August MPC hike intact, which may support GBP. The apparent shift in Brexit negotiations towards soft Brexit may also support GBP. But it has raised the probability of PM May being challenged/ the UK government changing with new Elections, which may undermine GBP. 0-3M forecast: 1.32; 6-12M forecast: 1.34.

Strategy	Reference Level	Target Level
Bearish on GBP	USD 1.3511	1.3050
Bearish on GBP	HKD 10.60	10.24
Bullish on GBP	USD 1.3050	1.3511
Bullish on GBP	HKD 10.24	10.60



Source: Bloomberg L.P., as of Jul 13, 2018

USD/JPY

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8486 exchange rate for reference



JPY outlook:

- The BoJ kept its monetary easing while the Fed and ECB started policy normalization, which may be bearish for JPY relative to both USD and EUR. Rising Japan's equity market the attractiveness of the UST market for yield hungry Japanese investors may also suppress JPY. 0-3m forecast: 114; 6-12m forecast: 115.

Strategy	Reference Level	Target Level
Bearish on JPY	USD 110.84	113.75
Bearish on JPY	HKD 7.08	6.90
Bullish on JPY	USD 113.75	110.84
Bullish on JPY	HKD 6.90	7.08



Source: Bloomberg L.P., as of Jul 13, 2018

NZD/USD

NZD outlook:

- NZD underperformed on rising trade tensions and milk prices falling to levels last seen in Jan. With NZD non-commercial short positions already rising to a record high, NZD downside may be limited. We push out the RBNZ's first hike to 3Q19, which may undermine NZD. In the medium term, as USD weakens, NZD may be underpinned. 0-3M forecast: 0.68; 6-12M forecast: 0.70.

Strategy	Reference Level	Target Level
Bearish on NZD	USD 0.7013	0.6675
Bearish on NZD	HKD 5.50	5.24
Bullish on NZD	USD 0.6675	0.7013
Bullish on NZD	HKD 5.24	5.50



Source: Bloomberg L.P., as of Jul 13, 2018

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8486 exchange rate for reference



CHF outlook:

- Whilst the ECB have announced their taper to zero by the end of this year, the moderating EMU growth backdrop and political uncertainty will keep the SNB cautious.
- We expect the SNB to move some time after the ECB normalizes its monetary policy
- FX intervention willingness and negative interest rates are “essential”, particularly as the currency remains “highly valued”.
- 0-3 month forecast: 1.00 6-12 month forecast: 1.01

Technical Analysis:

- Since the RSI has risen close to overbought territory, USD/CHF short-term upside may be limited and the pair may range trade between 0.9766-1.0071.

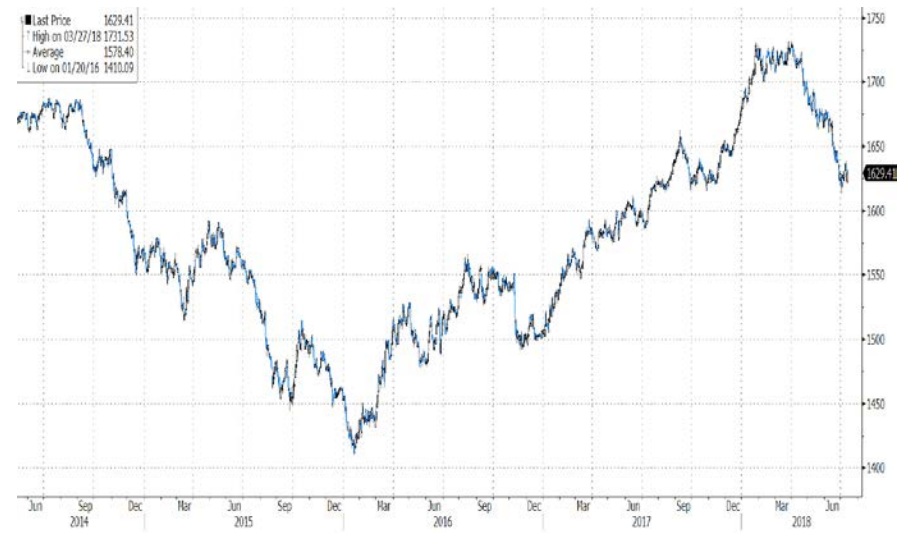


Source: Bloomberg L.P., as of Jul 13, 2018

EM Currencies

EM Currencies outlook:

- Over the past month, we saw EM FX sell-off another 1.5% vs the dollar, with the EUR slightly weaker in this period.
- We see EM FX roughly 1.4% stronger. This is largely based on a stronger EUR forecast in 12m, higher equities, and broadly stable oil prices that Citi predicts.
- We note however that we remain cautious EMFX in the near term.



Source: Bloomberg L.P., as of Jul 13, 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	7/13/2018	3Q '18	4Q '18	1Q '19
Dollar Index	94.18	93.30	2.00	2.25	2.25	2.50
EUR/USD	1.18	1.19	0.00	0.00	0.00	0.00
GBP/USD	1.32	1.34	0.50	0.75	0.75	0.75
USD/JPY	114	115	-0.10	-0.10	-0.10	-0.10
USD/CHF	1.00	1.01	-0.75	-0.75	-0.75	-0.75
AUD/USD	0.75	0.77	1.50	1.50	1.50	1.50
NZD/USD	0.68	0.70	1.75	1.75	1.75	1.75
USD/CAD	1.30	1.25	1.50	1.50	1.75	2.00
USD/CNY	6.65	6.60	3.40	3.60	3.60	3.60

Source: Citi, forecast as of Jul 13, 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	94.68	0.7%	95.31	93.54	95.31	89.43	95.53	88.25	2.8%
EUR/USD	1.1685	-0.6%	1.1791	1.1554	1.2380	1.1540	1.2555	1.1435	-2.7%
USD/JPY	112.38	1.4%	112.55	109.77	112.55	107.00	114.73	104.56	-0.3%
GBP/USD	1.3222	-0.2%	1.3376	1.3078	1.4339	1.3078	1.4377	1.2774	-2.1%
USD/CAD	1.3160	0.4%	1.3342	1.2987	1.3342	1.2551	1.3386	1.2062	4.5%
AUD/USD	0.7424	-0.6%	0.7578	0.7340	0.7784	0.7340	0.8136	0.7311	-5.0%
NZD/USD	0.6753	-1.1%	0.7024	0.6716	0.7365	0.6716	0.7558	0.6688	-4.7%
USD/CHF	1.0017	1.1%	1.0024	0.9855	1.0050	0.9600	1.0068	0.9188	2.8%
USD/CNY	6.6916	0.7%	6.6916	6.3979	6.6916	6.2744	6.7757	6.2431	2.8%
USD/CNH	6.7113	1.2%	6.7234	6.3889	6.7234	6.2665	6.7725	6.2361	2.9%
GOLD	1244.32	-1.3%	1302.25	1241.96	1349.41	1241.96	1366.15	1228.36	-4.7%

Source: Bloomberg L.P., as of Jul 13, 2018

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
07/09/18 07:50	JN	!	BoP Current Account Adjusted	May	¥1850b	¥1184.8b	¥1885.5b
Tuesday							
07/10/18 09:30	AU	!	NAB Business Confidence	Jun	6	--	6
07/10/18 09:30	CH	!!	CPI YoY	Jun	1.90%	1.90%	1.80%
07/10/18 16:30	UK	!!	Trade Balance	May	-£2790	-£3400	-£3087
07/10/18 16:30	UK	!!	Industrial Production MoM	May	-0.40%	0.50%	-0.80%
07/10/18 16:30	UK	!!	Manufacturing Production MoM	May	0.40%	0.70%	-1.40%
07/10/18 17:00	EC	!	ZEW Survey Expectations	Jul	-18.7	--	-12.6
07/10/18 20:30	CA	!	Building Permits MoM	May	4.70%	0.00%	-4.70%
Wednesday							
07/11/18 08:30	AU	!	Westpac Consumer Conf SA MoM	Jul	3.90%	--	0.30%
07/11/18 22:00	CA	!!!	Bank of Canada Rate Decision	Jul	1.50%	1.50%	1.25%
Thursday							
07/12/18 07:01	UK	!!	RICS House Price Balance	Jun	2%	-4%	-2%
07/12/18 20:30	US	!!	Initial Jobless Claims	Jul	214k	225k	232k
07/12/18 20:30	US	!!!	CPI MoM	Jun	0.10%	0.20%	0.20%
07/12/18 20:30	US	!!!	CPI Ex Food and Energy MoM	Jun	0.20%	0.20%	0.20%
Friday							
07/13/18 02:00	US	!	Monthly Budget Statement	Jun	-\$74.9b	-\$80.0b	-\$146.8b
07/13/18 22:00	US	!!	U. of Mich. Sentiment	Jul	97.1	98	98.2
07/13/18	CH	!!	Trade Balance	Jun	\$41.61b	\$27.72b	\$24.92b
07/13/18	CH	!!	Exports YoY	Jun	11.30%	9.50%	12.60%
07/13/18	CH	!!	Imports YoY	Jun	14.10%	21.30%	26.00%

Appendix 3: Upcoming Economic Figures (Jul 9, 2018 – Jul 13, 2018)

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
07/16/18 10:00	CH	!!	GDP YoY	2Q	--	6.70%	6.80%
07/16/18 10:00	CH	!!	Retail Sales YoY	Jun	--	9.00%	8.50%
07/16/18 10:00	CH	!!	Industrial Production YoY	Jun	--	6.50%	6.80%
07/16/18 20:30	US	!!!	Retail Sales Advance MoM	Jun	--	--	0.80%
07/16/18 20:30	US	!!!	Retail Sales Ex Auto MoM	Jun	--	--	0.90%
Tuesday							
07/17/18 06:45	NZ	!!	CPI YoY	2Q	--	--	1.10%
07/17/18 09:30	AU	!!	RBA July Meeting Minutes	Jul			
07/17/18 16:30	UK	!!	Average Weekly Earnings 3M/YoY	May	--	--	2.50%
07/17/18 16:30	UK	!!	ILO Unemployment Rate 3Mths	May	--	--	4.20%
07/17/18 21:15	US	!!	Industrial Production MoM	Jun	--	--	-0.10%
Wednesday							
07/18/18 16:30	UK	!!	CPI YoY	Jun	--	--	2.40%
07/18/18 17:00	EC	!!	CPI YoY	Jun	--	--	1.90%
07/18/18 20:30	US	!	Housing Starts MoM	Jun	--	-2.20%	5.00%
07/18/18 20:30	US	!	Building Permits MoM	Jun	--	--	-4.60%
Thursday							
07/19/18 09:30	AU	!!	Employment Change	Jun	--	--	12.0k
07/19/18 09:30	AU	!!	Unemployment Rate	Jun	--	--	5.40%
07/19/18 16:30	UK	!!	Retail Sales Ex Auto Fuel YoY	Jun	--	--	4.40%
07/19/18 16:30	UK	!!	Retail Sales Inc Auto Fuel YoY	Jun	--	--	3.90%
07/19/18 20:30	US	!	Initial Jobless Claims	Jul	--	--	--
Friday							
07/20/18 07:30	JN	!	Natl CPI Ex Fresh Food YoY	Jun	--	--	0.70%
07/20/18 20:30	CA	!!	Retail Sales MoM	May	--	--	-1.20%
07/20/18 20:30	CA	!!	Retail Sales Ex Auto MoM	May	--	--	-0.10%
07/20/18 20:30	CA	!!	CPI YoY	Jun	--	--	2.20%
07/20/18 20:30	CA	!!	CPI Core- Common YoY%	Jun	--	--	1.90%

Appendix 4: Upcoming Economic Figures (Jul 16, 2018 – Jul 20, 2018)

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
07/23/18 22:00	US	!!	Existing Home Sales MoM	Jun	--	-0.20%	-0.40%
Tuesday							
07/24/18 16:00	EC	!!	Markit Eurozone Manufacturing PMI	Jul	--	--	54.9
07/24/18 16:00	EC	!!	Markit Eurozone Services PMI	Jul	--	--	55.2
Wednesday							
07/25/18 06:45	NZ	!!	Trade Balance NZD	Jun	--	--	294m
07/25/18 06:45	NZ	!!	Exports NZD	Jun	--	--	5.42b
07/25/18 06:45	NZ	!!	Imports NZD	Jun	--	--	5.12b
07/25/18 09:30	AU	!!	CPI YoY	2Q	--	--	1.90%
07/25/18 16:00	GE	!!	Ifo Business Climate	Jul	--	--	101.8
07/25/18 22:00	US	!!	New Home Sales MoM	Jun	--	-3.10%	6.70%
Thursday							
07/26/18 19:45	EC	!!!	ECB Main Refinancing Rate	Jul	--	--	0.00%
07/26/18 20:30	US	!!	Advance Goods Trade Balance	Jun	--	--	-\$64.8b
07/26/18 20:30	US	!	Initial Jobless Claims	Jul	--	--	--
07/26/18 20:30	US	!!	Durable Goods Orders	Jun	--	0.50%	-0.40%
07/26/18 20:30	US	!!	Durables Ex Transportation	Jun	--	--	0.00%
Friday							
07/27/18 06:00	NZ	!	ANZ Consumer Confidence MoM	Jul	--	--	-0.80%
07/27/18 20:30	US	!!!	GDP Annualized QoQ	2Q	--	3.80%	2.00%
07/27/18 22:00	US	!!	U. of Mich. Sentiment	Jul	--	--	--

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