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# Citibank Wealth Management



**Jan 14, 2019**  
with data as of Jan 11, 2019

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: GBP



## GBP news

- UK parliament passed the amendment that the government would not be able to raise certain taxes arising from a no deal - unless Parliament had explicitly authorized, which supported the pound.
- Fed Chairman Powell said Fed has the ability to watch and be patient. But he also mentioned balance sheet will be "substantially smaller than what it is now", which narrowed USD losses.
- FOMC Minutes reinforced "patience" and data dependency on rate hikes. A dovish stance suppressed USD and supported GBP.

## GBP outlook

- GBP is also relatively cheap in REER terms given the huge Brexit uncertainties. A resolution of the latter could eventually release GBP value in the context of faster BoE normalization of interest rates.

0-3M forecast: 1.27

6-12M forecast: 1.33

LT forecast: 1.48

## GBP/USD – Daily Chart



Source: Bloomberg L.P., as of Jan 11, 2019

- As GBP/USD's RSI continued to rise, the pair may range trade between 1.2439-1.2898, with next resistance at 1.3114.

## Strategy for GBP holders - Diversify into USD

- If Brexit bill failed to pass parliament vote and a "No Deal" Brexit becomes the next talking point, uncertainties may suppress GBP in short term.
- Although the market is pricing in no rate hike this year and even rate cut next year by the Fed, we still expect hikes in June and September.



| Strategy       | Reference Level | Target Level |
|----------------|-----------------|--------------|
| Bearish on GBP | USD 1.2898      | 1.2439       |
| Bearish on GBP | HKD 10.11       | 9.75         |

## Strategy for USD holders - Buy GBP upon retracement

- The growing anti 'no-deal' majority suggests that Parliament could pull all the stops to prevent a chaotic exit from the EU, which may benefit the pound.
- We hold our view that extension/ revocation of A50 could see a short-term relief rally given short positioning and 'cheapness' in REER.



| Strategy       | Reference Level | Target Level |
|----------------|-----------------|--------------|
| Bullish on GBP | USD 1.2439      | 1.2898       |
| Bullish on GBP | HKD 9.75        | 10.11        |

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8394 exchange rate for reference



# Weekly FX Strategy: AUD

## AUD news

- Fed's dovish policy stance and positive progress on US-China trade negotiation improved market sentiment, which supported high yield currencies such as AUD.
- FOMC Minutes reinforced "patience" and data dependency on rate hikes. A dovish stance suppressed USD and supported AUD.
- Australia retail trade grew by 0.4% in Nov 2018, topped market estimates. However, building permits plunged 9.1%, which narrowed AUD's gain.

## AUD outlook

- AUD may remain neutral and will likely benefit from a weaker \$. However, market volatility rises and the RBA may hike rates in early H2 2020, which may restrain the AUD.

0-3M forecast: 0.72

6-12M forecast: 0.70

LT forecast: 0.77

## AUD/USD – Daily Chart



Source: Bloomberg L.P., as of Jan 11, 2019

- AUD/USD's RSI rebounded from oversold territory, reflecting upside momentum. The pair range trade between 0.7021-0.7348 in short term.

## Strategy for AUD holders - Diversify into USD

- We expect the RBA to hike rate by H2 2020. A late rate hike may restrain the AUD.
- We expect Australia's property price to further slide this year. AUD may be undermined if property prices in Sydney and Melbourne drop 15-20% from tops.



| Strategy       | Reference Level | Target Level |
|----------------|-----------------|--------------|
| Bearish on AUD | USD 0.7438      | 0.7021       |
| Bearish on AUD | HKD 5.83        | 5.50         |

## Strategy for USD holders - Buy AUD upon retracement

- The average surplus in 2018 was \$AU1.68bn, so at almost \$AU2bn November's data showed solid external demand for Australian exports at a time of ongoing heightened global trade tensions.
- Australian economy may grow 2.7% this year, still at the trend level. Firm economic growth may support AUD.



| Strategy       | Reference Level | Target Level |
|----------------|-----------------|--------------|
| Bullish on AUD | USD 0.7021      | 0.7438       |
| Bullish on AUD | HKD 5.50        | 5.83         |

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8394 exchange rate for reference

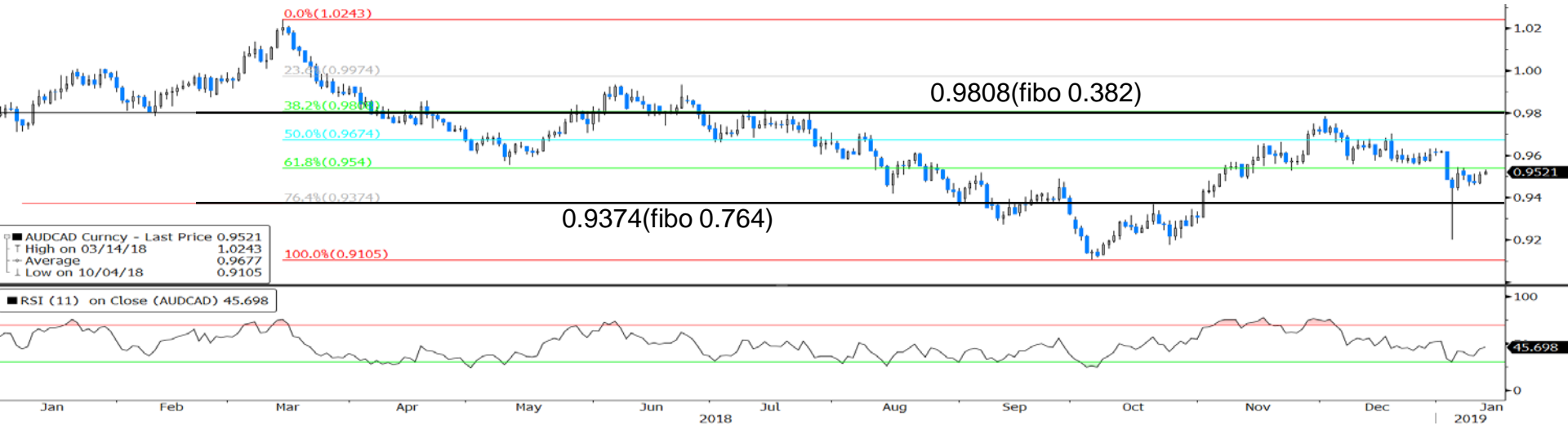


# EUR/GBP

0.9307(Aug 2017 top)



# AUD/CAD



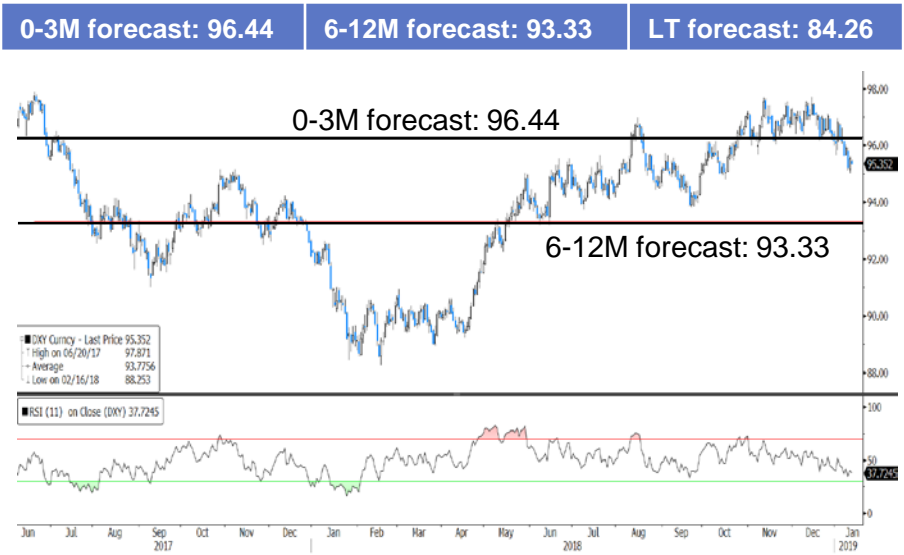


# Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8394 exchange rate for reference

## USD outlook:

- USD may more than reverse this year's rally over the medium term. We expect over two years \$ trend to reverse with approximately 8% downside vs G10 FX, and around 2-3% weaker over 6-12m.
- 1) A flatter (especially inverted) yield curve may be a precursor of weaker economic growth, which may undermine the USD.
- 2) The Fed may end the rate hike cycle next year, while other major central banks may tighten the policy gradually.
- 3) US growth slowing, dovish Fed, skepticism about global recession may point to USD weakness, according to past experience.



Source: Bloomberg L.P., as of Jan 11, 2019

# USD/CNH

## RMB outlook:

- Given the temporary tariff truce, the RMB depreciation expectation will likely be contained further and it is less likely for the RMB to break 7 within the 90 days. Since the US and China may not be able to reach an agreement in 90 days, the depreciation pressure will likely resume afterwards, and we see USDCNY at 7 in 6-12 month. That said, as 7 is still an important psychological level, we believe the PBoC may not allow the RMB to depreciate beyond 7.

| Strategy       | Reference Level | Target Level |        |
|----------------|-----------------|--------------|--------|
| Bearish on CNH | USD             | 6.6961       | 6.9805 |
| Bearish on CNH | HKD             | 1.1707       | 1.1230 |
| Bullish on CNH | USD             | 6.9805       | 6.6961 |
| Bullish on CNH | HKD             | 1.1230       | 1.1707 |



Source: Bloomberg L.P., as of Jan 11, 2019

# NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8394 exchange rate for reference



## NZD outlook:

- The November RBNZ meeting seemed more upbeat than the past few months with risks now 'balanced' amid firmer quarterly inflation data coupled with strong labor market data. NZD looks slightly cheap to dairy prices in the short term, so a short term move higher is plausible. Cooling housing sector and business confidence downtrend signs may undermine NZD in the long term. Meanwhile, trade war risks continue to rumble on and with ADXY continuing to fall, this also leaves NZD looking vulnerable.

| Strategy             | Reference Level | Target Level |
|----------------------|-----------------|--------------|
| Bearish on NZD (USD) | 0.6970          | 0.6425       |
| Bearish on NZD (HKD) | 5.46            | 5.03         |
| Bullish on NZD (USD) | 0.6425          | 0.6970       |
| Bullish on NZD (HKD) | 5.03            | 5.46         |

0-3M forecast: 0.69    6-12M forecast: 0.68    LT forecast: 0.67



Source: Bloomberg L.P., as of Jan 11, 2019

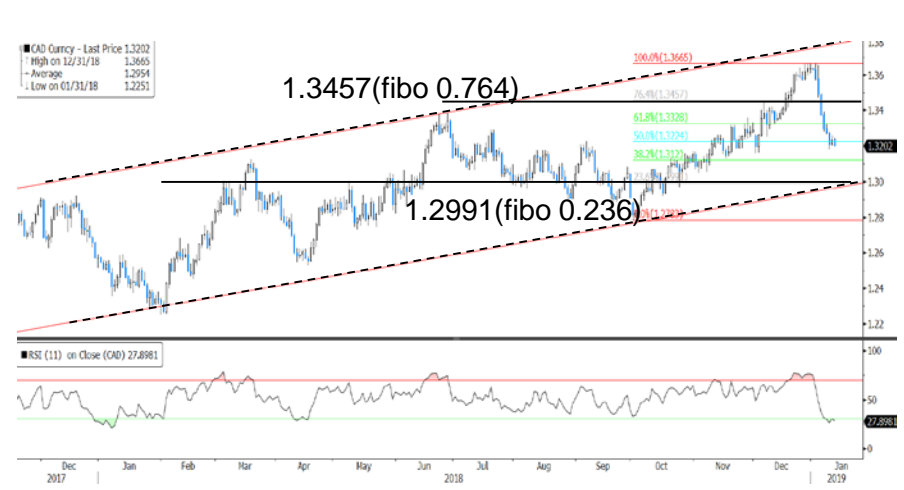
# USD/CAD

## CAD outlook:

- The BoC estimates the neutral rate to be in the range of 2.5%-3.5%. We continue to expect three more rate hikes in 2019, which would take the policy rate to 2.5% and underpin the CAD. However, recent oil weakness may restrain CAD.

| Strategy             | Reference Level | Target Level |
|----------------------|-----------------|--------------|
| Bearish on CAD (USD) | 1.2991          | 1.3457       |
| Bearish on CAD (HKD) | 6.03            | 5.83         |
| Bullish on CAD (USD) | 1.3457          | 1.2991       |
| Bullish on CAD (HKD) | 5.83            | 6.03         |

0-3M forecast: 1.32    6-12M Forecast: 1.30    LT Forecast: 1.20



Source: Bloomberg L.P., as of Jan 11, 2019

# EUR/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8394 exchange rate for reference



## EUR outlook:

- The ECB announced to end the bond purchasing program by end-2018. We expect the bank to start the policy normalization in 2019. With bond supply rising to positive value, less EU bond outflow may support the EUR. Besides, loosening monetary policy by the PBoC may spur EU's export to China, which may underpin the EUR.

| Strategy       | Reference Level | Target Level |
|----------------|-----------------|--------------|
| Bearish on EUR | USD 1.1621      | 1.1216       |
| Bearish on EUR | HKD 9.11        | 8.79         |
| Bullish on EUR | USD 1.1216      | 1.1621       |
| Bullish on EUR | HKD 8.79        | 9.11         |

0-3M forecast: 1.14    6-12M forecast: 1.18    LT forecast: 1.30



Source: Bloomberg L.P., as of Jan 11, 2019

# USD/JPY

## JPY outlook:

- JPY could still be a major winner on USD reversal. We does not expect modification of the 10y JGB yield target before the sales tax is raised in October 2019 but after this time, JPY gains may accelerate.

| Strategy       | Reference Level | Target Level |
|----------------|-----------------|--------------|
| Bearish on JPY | USD 106.92      | 109.56       |
| Bearish on JPY | HKD 7.33        | 7.15         |
| Bullish on JPY | USD 109.56      | 106.92       |
| Bullish on JPY | HKD 7.15        | 7.33         |

0-3M forecast: 111    6-12M forecast: 108    LT forecast: 95



Source: Bloomberg L.P., as of Jan 11, 2019

# USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8394 exchange rate for reference



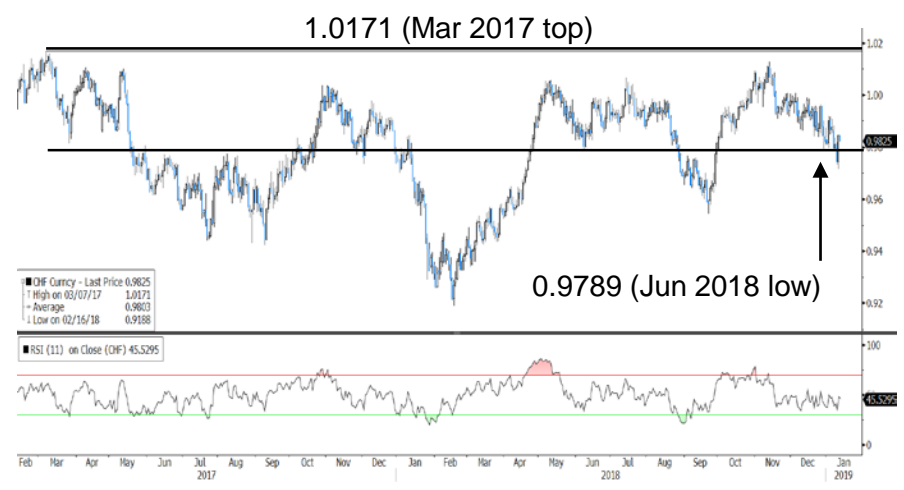
## CHF outlook:

- Swiss inflation appears to be waning again. A SNB Governing Board Member also affirmed our view that the SNB is also in no rush to tighten policy as inflationary pressures remained low.
- With the currency still “highly valued, the SNB may want to see CHF weaken in the medium term.
- In the short term, rising periphery spreads may contribute to CHF appreciation. Thus, there may come a time where the SNB intervenes

## Technical Analysis:

- Since the RSI stayed at neutral territory, USD/CHF may range trade between 0.9789-1.0171.

0-3M forecast: 1.00      6-12M forecast: 0.98      LT forecast: 0.92

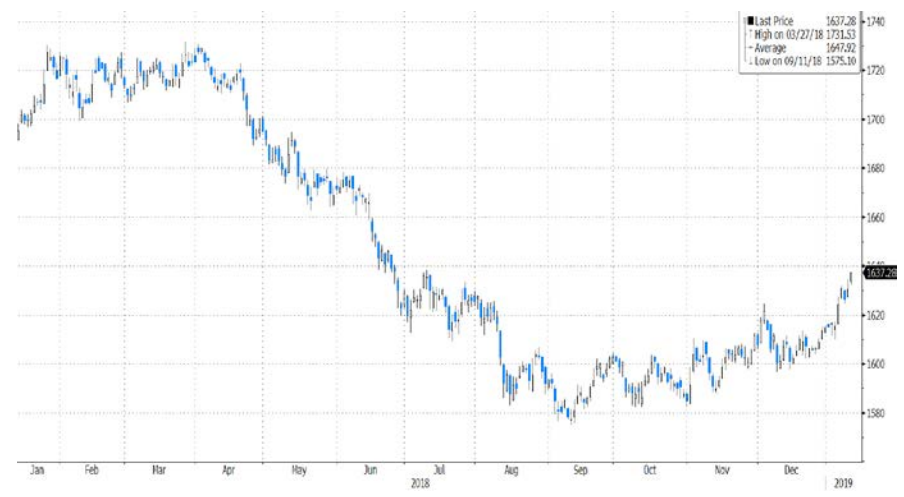


Source: Bloomberg L.P., as of Jan 11, 2019

# EM Currencies

## EM Currencies outlook:

- Against EM overall, USD is more or less flat at both 0-3 months and 6-12 months. At the long term point in our forecasts, we see G10 FX gains of around 11-13% vs. USD and USD may be 5-8% lower on a spot basis vs FX overall including EM.



Source: Bloomberg L.P., as of Jan 11, 2019



## 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 | Long-term | 1/11/2019 | 1Q '19 | 2Q '19 | 3Q '19 |
|--------------|-----------|------------|-----------|-----------|--------|--------|--------|
| Dollar Index | 96.44     | 93.33      | 84.26     | 2.50      | 2.50   | 2.75   | 3.00   |
| EUR/USD      | 1.14      | 1.18       | 1.30      | 0.00      | 0.00   | 0.00   | 0.00   |
| GBP/USD      | 1.27      | 1.33       | 1.48      | 0.75      | 0.75   | 1.00   | 1.00   |
| USD/JPY      | 111       | 108        | 95        | -0.10     | -0.10  | -0.10  | -0.10  |
| USD/CHF      | 1.00      | 0.98       | 0.92      | -0.75     | -0.75  | -0.75  | -0.75  |
| AUD/USD      | 0.72      | 0.70       | 0.77      | 1.50      | 1.50   | 1.50   | 1.50   |
| NZD/USD      | 0.69      | 0.68       | 0.67      | 1.75      | 1.75   | 1.75   | 1.75   |
| USD/CAD      | 1.32      | 1.30       | 1.20      | 1.75      | 1.75   | 2.00   | 2.25   |
| USD/CNY      | 6.85      | 7.00       | 6.60      | 3.40      | 3.40   | 3.40   | 3.40   |

Source: Citi, forecast as of Dec 11, 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     | 95.67           | -0.5%         | 97.44        | 95.22       | 97.54        | 95.02       | 97.71        | 88.25       | -0.5%               |
| EUR/USD | 1.1469          | 0.6%          | 1.1543       | 1.1306      | 1.1593       | 1.1218      | 1.2555       | 1.1216      | 0.0%                |
| USD/JPY | 108.48          | 0.0%          | 113.63       | 107.68      | 114.07       | 107.68      | 114.55       | 104.56      | -1.1%               |
| GBP/USD | 1.2844          | 1.0%          | 1.2844       | 1.2487      | 1.3230       | 1.2487      | 1.4377       | 1.2441      | 0.8%                |
| USD/CAD | 1.3267          | -0.8%         | 1.3638       | 1.3209      | 1.3638       | 1.2934      | 1.3665       | 1.2251      | -2.8%               |
| AUD/USD | 0.7215          | 1.4%          | 0.7227       | 0.6985      | 0.7358       | 0.6985      | 0.8136       | 0.6741      | 2.2%                |
| NZD/USD | 0.6832          | 1.5%          | 0.6877       | 0.6655      | 0.6930       | 0.6507      | 0.7438       | 0.6425      | 1.6%                |
| USD/CHF | 0.9835          | -0.4%         | 0.9980       | 0.9744      | 1.0109       | 0.9744      | 1.0128       | 0.9188      | 0.2%                |
| USD/CNY | 6.7630          | -1.5%         | 6.9076       | 6.7630      | 6.9757       | 6.7630      | 6.9799       | 6.2431      | -1.7%               |
| USD/CNH | 6.7601          | -1.5%         | 6.9239       | 6.7601      | 6.9752       | 6.7601      | 6.9805       | 6.2361      | -1.6%               |
| GOLD    | 1290.25         | 0.3%          | 1294.28      | 1239.02     | 1294.28      | 1200.37     | 1366.15      | 1160.39     | 0.4%                |

Source: Bloomberg L.P., as of Jan 11, 2019

## Appendix 2: Last week's Economic Figures

| Time             |    | Importance | Event                             | Period | Actual   | Survey   | Prior    |
|------------------|----|------------|-----------------------------------|--------|----------|----------|----------|
| <b>Monday</b>    |    |            |                                   |        |          |          |          |
| 01/07/19 23:00   | CA | !          | Ivey Purchasing Managers Index SA | Dec    | 59.7     | --       | 57.2     |
| 01/07/19 23:00   | US | !!         | ISM Non-Manufacturing Index       | Dec    | 57.6     | 58.5     | 60.7     |
| <b>Tuesday</b>   |    |            |                                   |        |          |          |          |
| 01/08/19 08:30   | AU | !!         | Trade Balance                     | Nov    | A\$1925m | A\$2175m | A\$2013m |
| 01/08/19 21:30   | CA | !!         | Int'l Merchandise Trade           | Nov    | -2.06b   | -2.15b   | -0.85b   |
| <b>Wednesday</b> |    |            |                                   |        |          |          |          |
| 01/09/19 21:15   | CA | !          | Housing Starts                    | Dec    | 213.4k   | 205.5k   | 224.3k   |
| 01/09/19 23:00   | CA | !!!        | Bank of Canada Rate Decision      | Jan    | 1.75%    | 1.75%    | 1.75%    |
| <b>Thursday</b>  |    |            |                                   |        |          |          |          |
| 01/10/19 03:00   | US | !!!        | FOMC Meeting Minutes              | Dec    | --       | --       | --       |
| 01/10/19 09:30   | CH | !!         | CPI YoY                           | Dec    | 1.90%    | 2.10%    | 2.20%    |
| 01/10/19 21:30   | US | !          | Initial Jobless Claims            | Jan    | 216k     | 226k     | 233k     |
| <b>Friday</b>    |    |            |                                   |        |          |          |          |
| 01/11/19 05:45   | NZ | !          | Building Permits MoM              | Nov    | -2.00%   | --       | 1.40%    |
| 01/11/19 08:30   | AU | !!         | Retail Sales MoM                  | Nov    | 0.40%    | 0.30%    | 0.30%    |
| 01/11/19 17:30   | UK | !!         | Trade Balance                     | Nov    | -£2904m  | -£2800m  | -£3037m  |
| 01/11/19 17:30   | UK | !!         | Industrial Production YoY         | Nov    | -1.50%   | -0.70%   | -0.90%   |
| 01/11/19 17:30   | UK | !!         | Manufacturing Production YoY      | Nov    | -1.10%   | -0.70%   | -0.70%   |
| 01/11/19 17:30   | UK | !!         | GDP (MoM)                         | Nov    | 0.20%    | 0.10%    | 0.10%    |
| 01/11/19 21:30   | US | !!!        | CPI YoY                           | Dec    | 1.90%    | 1.90%    | 2.20%    |
| 01/11/19 21:30   | US | !!!        | CPI Ex Food and Energy YoY        | Dec    | 2.20%    | 2.20%    | 2.20%    |

## Appendix 3: Upcoming Economic Figures (Jan 14, 2019 – Jan 18, 2019)

| Time             |    | Importance | Event                                    | Period | Actual | Survey | Prior    |
|------------------|----|------------|--|--------|--------|--------|----------|
| <b>Monday</b>    |    |            |  |        |        |        |          |
| 01/14/19         | CH | !!         | Exports YoY                              | Dec    | --     | --     | 5.40%    |
| 01/14/19         | CH | !!         | Imports YoY                              | Dec    | --     | --     | 3.00%    |
| 01/14/19         | CH | !!         | Trade Balance                            | Dec    | --     | --     | \$44.74b |
| <b>Tuesday</b>   |    |            |  |        |        |        |          |
| 01/15/19 22:00   | CA | !          | Existing Home Sales MoM                  | Dec    | --     | --     | -2.30%   |
| <b>Wednesday</b> |    |            |  |        |        |        |          |
| 01/16/19 17:30   | UK | !!         | CPI YoY                                  | Dec    | --     | --     | 2.30%    |
| 01/16/19 21:30   | US | !!!        | Retail Sales Advance MoM                 | Dec    | --     | 0.20%  | 0.20%    |
| 01/16/19 21:30   | US | !!!        | Retail Sales Ex Auto MoM                 | Dec    | --     | 0.20%  | 0.20%    |
| <b>Thursday</b>  |    |            |  |        |        |        |          |
| 01/17/19 03:00   | US | !!         | U.S. Federal Reserve Releases Beige Book | Jan    |        |        |          |
| 01/17/19 05:00   | US | !          | Total Net TIC Flows                      | Nov    | --     | --     | \$42.0b  |
| 01/17/19 08:01   | UK | !!         | RICS House Price Balance                 | Dec    | --     | --     | -11%     |
| 01/17/19 08:30   | AU | !          | Home Loans MoM                           | Nov    | --     | --     | 2.20%    |
| 01/17/19 18:00   | EC | !!         | CPI YoY                                  | Dec    | --     | --     | 1.90%    |
| 01/17/19 21:30   | US | !!         | Housing Starts MoM                       | Dec    | --     | 0.00%  | 3.20%    |
| 01/17/19 21:30   | US | !!         | Building Permits MoM                     | Dec    | --     | -2.10% | 5.00%    |
| 01/17/19 21:30   | US | !          | Initial Jobless Claims                   | Jan    | --     | --     | --       |
| <b>Friday</b>    |    |            |  |        |        |        |          |
| 01/18/19 07:30   | JN | !!         | Natl CPI Ex Fresh Food YoY               | Dec    | --     | --     | 0.90%    |
| 01/18/19 17:30   | UK | !!         | Retail Sales Ex Auto Fuel YoY            | Dec    | --     | --     | 3.80%    |
| 01/18/19 17:30   | UK | !!         | Retail Sales Inc Auto Fuel YoY           | Dec    | --     | --     | 3.60%    |
| 01/18/19 21:30   | CA | !          | Int'l Securities Transactions            | Nov    | --     | --     | 3.98b    |
| 01/18/19 21:30   | CA | !!         | CPI YoY                                  | Dec    | --     | --     | 1.70%    |
| 01/18/19 21:30   | CA | !!         | CPI Core- Common YoY%                    | Dec    | --     | --     | 1.90%    |
| 01/18/19 23:00   | US | !!         | U. of Mich. Sentiment                    | Jan    | --     | --     | 98.3     |

## Appendix 4: Upcoming Economic Figures (Jan 21, 2019 – Jan 25, 2019)

| Time             |    | Importance | Event                             | Period | Actual | Survey | Prior    |
|------------------|----|------------|-----------------------------------|--------|--------|--------|----------|
| <b>Monday</b>    |    |            |                                   |        |        |        |          |
| 01/21/19 10:00   | CH | !!         | Retail Sales YoY                  | Dec    | --     | 8.20%  | 8.10%    |
| 01/21/19 10:00   | CH | !!         | Industrial Production YoY         | Dec    | --     | 5.30%  | 5.40%    |
| 01/21/19 10:00   | CH | !!!        | GDP YoY                           | 4Q     | --     | 6.40%  | 6.50%    |
| <b>Tuesday</b>   |    |            |                                   |        |        |        |          |
| 01/22/19 17:30   | UK | !!         | Average Weekly Earnings 3M/YoY    | Nov    | --     | --     | 3.30%    |
| 01/22/19 17:30   | UK | !!         | ILO Unemployment Rate 3Mths       | Nov    | --     | --     | 4.10%    |
| 01/22/19 23:00   | US | !!         | Existing Home Sales MoM           | Dec    | --     | -1.50% | 1.90%    |
| <b>Wednesday</b> |    |            |                                   |        |        |        |          |
| 01/23/19 05:45   | NZ | !!         | CPI YoY                           | 4Q     | --     | --     | 1.90%    |
| 01/23/19 07:30   | AU | !          | Westpac Leading Index MoM         | Dec    | --     | --     | -0.09%   |
| 01/23/19 07:50   | JN | !          | Trade Balance Adjusted            | Dec    | --     | --     | -¥492.2b |
| 01/23/19 21:30   | CA | !!         | Retail Sales MoM                  | Nov    | --     | --     | 0.30%    |
| 01/23/19 21:30   | CA | !!         | Retail Sales Ex Auto MoM          | Nov    | --     | --     | 0.00%    |
| 01/23/19         | JN | !!!        | BOJ Policy Balance Rate           | Jan    | --     | --     | -0.10%   |
| <b>Thursday</b>  |    |            |                                   |        |        |        |          |
| 01/24/19 08:30   | AU | !!         | Employment Change                 | Dec    | --     | --     | 37.0k    |
| 01/24/19 08:30   | AU | !!         | Unemployment Rate                 | Dec    | --     | --     | 5.10%    |
| 01/24/19 17:00   | EC | !!         | Markit Eurozone Manufacturing PMI | Jan    | --     | --     | 51.4     |
| 01/24/19 17:00   | EC | !!         | Markit Eurozone Services PMI      | Jan    | --     | --     | 51.2     |
| 01/24/19 20:45   | EC | !!!        | ECB Main Refinancing Rate         | Jan    | --     | --     | 0.00%    |
| 01/24/19 21:30   | US | !          | Initial Jobless Claims            | Jan    | --     | --     | --       |
| 01/24/19 23:00   | US | !          | Leading Index                     | Dec    | --     | --     | 0.20%    |
| <b>Friday</b>    |    |            |                                   |        |        |        |          |
| 01/25/19 17:00   | GE | !!         | IFO Business Climate              | Jan    | --     | --     | 101      |
| 01/25/19 21:30   | US | !!         | Durable Goods Orders              | Dec    | --     | --     | --       |
| 01/25/19 21:30   | US | !!         | Durables Ex Transportation        | Dec    | --     | --     | --       |
| 01/25/19 23:00   | US | !!         | New Home Sales MoM                | Dec    | --     | --     | --       |

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Unrated or non investment grade Debt Securities typically offer a higher yield than investment grade Debt Securities, but also present greater risks with respect to liquidity, volatility, and non-payment of principal and interest. As a result of being classified as non investment grade Debt Securities, these Debt Securities present a greater degree of credit risk relative to many other fixed income Debt Securities.

**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.

**Higher Liquidity and Secondary Market Risk** – The markets in which unrated or non investment grade Debt Securities are traded are generally more limited than those in which investment grade Debt Securities are traded. This lack of liquidity may make it more difficult to resell these Debt Securities and obtain market quotations.

**Downgrade Risk** – Downgrades in the credit rating of unrated or non investment grade Debt Securities by rating agencies are generally accompanied by declines in the market value of these Debt Securities. In some circumstances, investors in the unrated or non investment grade Debt Securities market may anticipate such downgrades as a result of these credits being placed on "credit watch" by rating agencies, causing volatility and speculation of further credit deterioration.

**Higher Vulnerability to economic cycles** - During economic downturns, unrated or non investment grade Debt Securities are typically more susceptible to price volatility and fall more in value than investment grade Debt Securities as i) investors may reevaluate holdings in lower-quality bonds in favor of investment-grade corporate Debt Securities; ii) investors become more risk averse; and iii) default risk rises. This is often referred to a "flight to quality".

**Event Risk** – This includes any of a variety of events that can adversely affect the issuer of unrated or non investment grade Debt Securities, and therefore the issuer's ability to meet debt service obligations to repay principal and interest to Debt Securities holders. Event risk may pertain to the issuer specifically, the industry or business sector of the issuer, or generally upon the overall economy. It could have a direct or indirect impact on the issuer and their outstanding debts.

**Risk relating to RMB** – If you choose RMB as the base currency or the alternate currency, you should also note the following:

RMB is currently not freely convertible through banks in Hong Kong. Due to exchange controls and/or restrictions imposed on the convertibility, utilisation or transferability of RMB (if any) which in turn is affected by, amongst other things, the PRC government's control, there is no guarantee that disruption in the transferability, convertibility or liquidity of RMB will not occur. There is thus a likelihood that you may not be able to convert RMB received into other freely convertible currencies.

CNH exchange rates and CNY exchange rates are currently quoted in different markets with different exchange rates, whereby their exchange rate movements may not be in the same direction or magnitude. Therefore, the CNH exchange rate may be different from the CNY exchange rate.