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Citibank Wealth Management



Oct 15, 2018
with data as of Oct 12, 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: GBP

GBP news

- USD was undermined as US President Trump said he was disappointed with the FOMC rate hikes and a powerful USD is not good for exports.
- UK industrial production and manufacturing production reached 1.3% yoy in Aug, better than expected.

GBP outlook

- Macro data in the UK has stabilized somewhat recently, with Citi's UK ESI now back in positive territory, vindicating somewhat the unanimous vote to hike the Bank Rate at the August MPC. But Citi now believe that the Bank could be on hold, possibly until August 2019. GBP TWI is ~5% from its all time low. But as enter into the climax of Brexit negotiations, GBP may further weaken. GBP/USD 0-3M forecast: 1.33; 6-12M forecast: 1.26.

GBP/USD – Daily Chart



Source: Bloomberg L.P., as of Oct 12, 2018

- GBP rebounded after falling to down channel bottom, reflecting a limited downside. The pair may range trade between 1.2922-1.3317 in the short term, with next resistance at 1.3472.

Strategy for GBP holders - Diversify into USD

- We expect the BoE to hike rates again in Aug 2019, later than the Fed, which may restrain GBP.
- UST yields continue to rise, widening yield spreads between USD and other major currencies, which may underpin USD in the short term and undermine GBP.



	Strategy	Reference Level	Target Level
	Bearish on GBP	USD	1.3317
	Bearish on GBP	HKD	10.43

Strategy for USD holders - Buy GBP upon retracement

- The EU summit will be held on 17-18 Oct. We expect the UK and EU may reach an agreement on Brexit, which may underpin GBP.
- US President Trump criticized the Fed and talked down USD again. Historically, USD may be undermined in the short term, which may support GBP.



	Strategy	Reference Level	Target Level
	Bullish on GBP	USD	1.2922
	Bullish on GBP	HKD	10.12

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8350 exchange rate for reference



Weekly FX Strategy: AUD

AUD news

- High yield AUD was once restrained as global equity markets adjusted amid rising US-China trade tensions.
- AUD was supported as iron ore price rose 3.8% last week. Australia mainly exports iron ore.
- Reports showed that US President Trump will meet with China in the G20 summit, which underpinned AUD sentiment.

AUD outlook

- The RBA remains patient, with wage growth the key input to when the hiking cycle starts. With inflation still disappointing and the inflection point for the USD moved out, we expect further AUD weakness. 0-3M forecast: 0.73; 6-12M forecast: 0.69.

AUD/USD – Daily Chart



Source: Bloomberg L.P., as of Oct 12, 2018

- As AUD/USD is still within down channel while the RSI dropped to oversold territory, AUD downside may be limited at 0.7041, with resistance at 0.7315.

Strategy for AUD holders - Diversify into USD

- The RBA may not change its neutral monetary policy stance for the time being. Rate hikes may not be seen until 2Q19, which may undermine AUD.
- UST yields continue to rise amid US-China tension. Volatility may remain high in the short term, which may undermine AUD.



Strategy		Reference Level	Target Level
Bearish on AUD	USD	0.7315	0.7041
Bearish on AUD	HKD	5.73	5.52

Strategy for USD holders - Buy AUD upon retracement

- If Democrats take control of the House, it may become more difficult to implement fiscal policy, which may undermine USD and underpin AUD.
- Australia will announce job data on Tuesday. Employment may grow 25K while unemployment rate may drop to 5.2%, which may support AUD.



Strategy		Reference Level	Target Level
Bullish on AUD	USD	0.7041	0.7315
Bullish on AUD	HKD	5.52	5.73

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8350 exchange rate for reference



AUD/CAD



GBP/JPY





Dollar Index

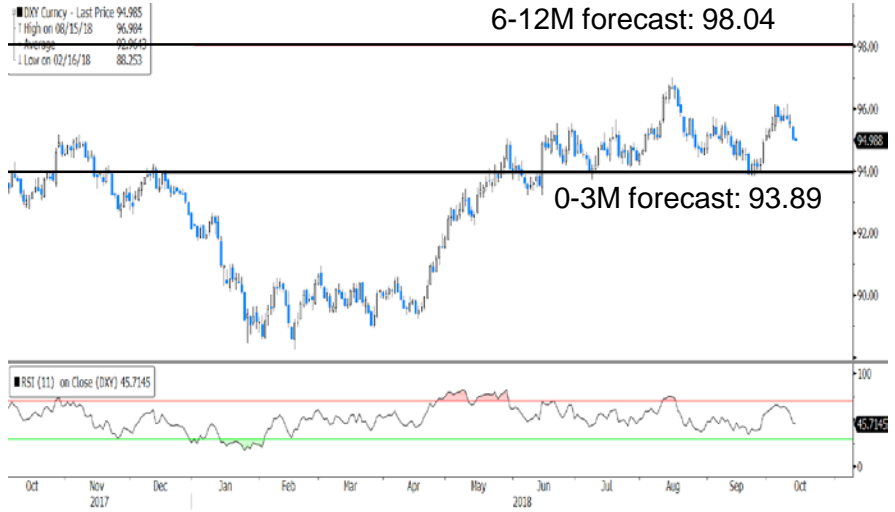
The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8350 exchange rate for reference

USD outlook:

Although US treasury yields continue to rise, the Fed may continue to tighten monetary policy next year. USD stabilized against major currencies recently.

In our view, it is driven by:

- positioning that has shifted to a bullish \$ stance from bearish \$ earlier this year. Generally, investors are bullish \$. This makes squeezes of long \$ more likely.
- uncertainty around the mid terms which may see power over the Lower House revert to the Democrats, possibly accelerating the turning point where US fiscal policy becomes less \$ supportive. This may be the catalyst that turns short to medium term \$ strength into weakness in the long term.
- Dollar Index 0-3M forecast: 93.89; 6-12M forecast: 98.04



Source: Bloomberg L.P., as of Oct 12, 2018

USD/CNH

RMB outlook:

- DXY strengthening, the US-China trade war further escalating and growth slowdown are key risks. We believe a stabilized RMB will help reduce capital outflow pressure, which in turn should help shore up confidence and facilitate the implementation of a proactive fiscal policy and accommodative monetary policy. USD/CNY 0-3M forecast: 6.85; 6-12M forecast: 6.80.



Source: Bloomberg L.P., as of Oct 12, 2018

Strategy	Reference Level	Target Level
Bearish on CNH	USD 6.7881	6.9586
Bearish on CNH	HKD 1.1542	1.1259
Bullish on CNH	USD 6.9586	6.7881
Bullish on CNH	HKD 1.1259	1.1542

USD/CAD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8350 exchange rate for reference



CAD outlook:

- NAFTA has become a market focus in the last month. Citi expect a trilateral agreement to be signed by end-November, but ratified in 2019. The BoC may hike rates again in Oct. With USD/CAD pretty in-line with policy expectations and relative rate differentials, we expect the pair to fluctuate in a range around 1.31 in the next 0-3 months. USD/CAD 0-3M forecast: 1.31; 6-12M forecast: 1.32.

Strategy	Reference Level	Target Level
Bearish on CAD	USD 1.2724	1.3074
Bearish on CAD	HKD 6.16	5.99
Bullish on CAD	USD 1.3074	1.2724
Bullish on CAD	HKD 5.99	6.16



Source: Bloomberg L.P., as of Oct 12, 2018

EUR/USD

EUR outlook:

- Although EUR rebounded 400bps from lows, EUR may still face downside risk for the coming weeks as US data momentum still looks relatively buoyant compared with Europe and the Fed is still hawkish than the ECB. Markets may be focusing on the mid terms in the US in November. If the Democrats take back the lower house, then US fiscal policy may be perceived to be likely to turn less \$ positive earlier than previously expected. 0-3M forecast: 1.18; 6-12M forecast: 1.12

Strategy	Reference Level	Target Level
Bearish on EUR	USD 1.1851	1.1301
Bearish on EUR	HKD 9.29	8.85
Bullish on EUR	USD 1.1301	1.1851
Bullish on EUR	HKD 8.85	9.29



Source: Bloomberg L.P., as of Oct 12, 2018

NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8350 exchange rate for reference



NZD outlook:

- ANZ's business survey fell to 50.3, the worst level seen since the GFC and indicating that 50% of respondents expected general conditions to deteriorate in the year ahead. We see no incentive for the RBNZ to change its dovish tune at the upcoming September meeting. With rates and the policy path the main drivers of NZD of late, we forecast NZD depreciation. 0-3M forecast: 0.66; 6-12M forecast: 0.63.

Strategy	Reference Level	Target Level
Bearish on NZD (USD)	0.6693	0.6425
Bearish on NZD (HKD)	5.24	5.03
Bullish on NZD (USD)	0.6425	0.6693
Bullish on NZD (HKD)	5.03	5.24



Source: Bloomberg L.P., as of Oct 12, 2018

USD/JPY

JPY outlook:

- We maintain our moderate strengthening path for USD/JPY to 112 and 114 as policy divergence and unhedged purchases of USTs. Event risks around the Italian budget, Brexit and Trade Wars could support safe-haven JPY. 0-3m forecast: 112; 6-12m forecast: 114.

Strategy	Reference Level	Target Level
Bearish on JPY (USD)	110.84	114.73
Bearish on JPY (HKD)	7.07	6.83
Bullish on JPY (USD)	114.73	110.84
Bullish on JPY (HKD)	6.83	7.07



Source: Bloomberg L.P., as of Oct 12, 2018

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.8350 exchange rate for reference



CHF outlook:

- With inflation a long way from target and the Swiss Franc well below the former minimum euro exchange rate of 1.20, the SNB is under no pressure to change its policy mix.
- We expect the SNB to move some time after the ECB normalizes its monetary policy.
- What's more the SNB will not be best pleased with the recent rapid depreciation in EUR/CHF. Thus, the possibility of SNB intervention is not ruled out.
- 0-3 month forecast: 0.97; 6-12 month forecast: 1.03

Technical Analysis:

- Since the RSI has risen to overbought territory, USD/CHF short-term upside may be limited and the pair may range trade between 0.9732-1.0068.

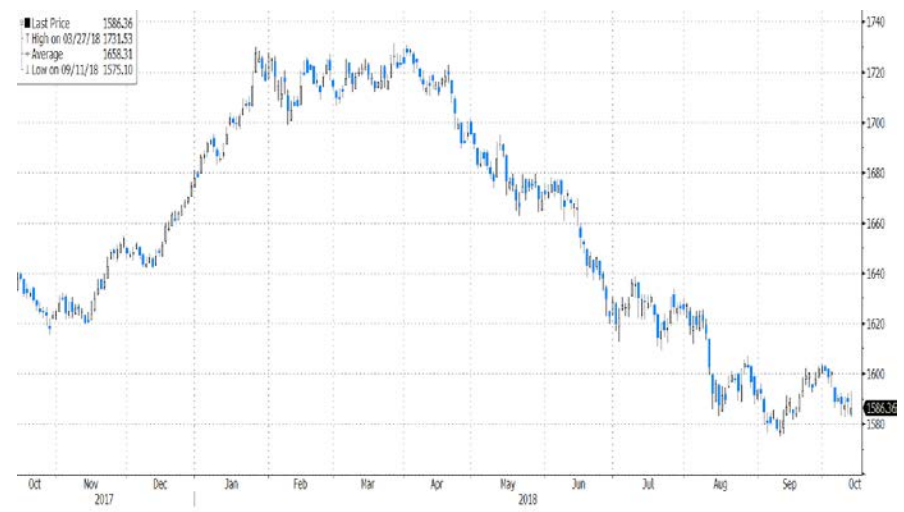


Source: Bloomberg L.P., as of Oct 12, 2018

EM Currencies

EM Currencies outlook:

- Over the past month, EM FX weakened slightly versus the dollar.
- EM FX may weaken further in 3 and 12 month's time: we see EM FX roughly 0.5% and 2% weaker, respectively.
- In Asia FX, we expect currencies to weaken by almost 1% in 12m, on average.
- We see LatAm FX roughly 1% stronger in 3m and flat in 12m.



Source: Bloomberg L.P., as of Oct 12, 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	10/12/2018	4Q '18	1Q '19	2Q '19
Dollar Index	93.89	98.04	2.25	2.50	2.75	3.00
EUR/USD	1.18	1.12	0.00	0.00	0.00	0.00
GBP/USD	1.33	1.26	0.75	0.75	0.75	0.75
USD/JPY	112	114	-0.10	-0.10	-0.10	-0.10
USD/CHF	0.97	1.03	-0.75	-0.75	-0.75	-0.75
AUD/USD	0.73	0.69	1.50	1.50	1.50	1.75
NZD/USD	0.66	0.63	1.75	1.75	1.75	1.75
USD/CAD	1.30	1.32	1.50	1.75	2.00	2.25
USD/CNY	6.85	6.80	3.40	3.40	3.40	3.40

Source: Citi, forecast as of Sep 14, 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	95.22	-0.4%	95.76	93.91	96.73	93.91	96.98	88.25	3.5%
EUR/USD	1.1560	0.3%	1.1777	1.1478	1.1777	1.1344	1.2555	1.1301	-3.8%
USD/JPY	112.21	-1.3%	114.53	111.26	114.53	110.07	114.73	104.56	-0.4%
GBP/USD	1.3153	0.3%	1.3265	1.2940	1.3265	1.2697	1.4377	1.2662	-3.0%
USD/CAD	1.3024	0.7%	1.3068	1.2814	1.3273	1.2814	1.3386	1.2251	3.5%
AUD/USD	0.7114	0.9%	0.7292	0.7052	0.7455	0.7052	0.8136	0.7041	-9.0%
NZD/USD	0.6507	1.0%	0.6687	0.6443	0.6837	0.6443	0.7438	0.6425	-8.4%
USD/CHF	0.9929	0.1%	0.9929	0.9587	1.0024	0.9587	1.0068	0.9188	1.7%
USD/CNY	6.9220	--	6.9307	6.8448	6.9348	6.6678	6.9376	6.2431	6.0%
USD/CNH	6.9183	0.3%	6.9243	6.8355	6.9471	6.6934	6.9586	6.2361	5.9%
GOLD	1217.05	1.1%	1224.09	1182.83	1247.39	1174.16	1366.15	1160.39	-6.4%

Source: Bloomberg L.P., as of Oct 12, 2018

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Tuesday							
10/09/18 07:50	JN	!	BoP Current Account Adjusted	Aug	¥1428.8	¥1516.0b	¥1484.7b
10/09/18 08:30	AU	!	NAB Business Conditions	Sep	15	--	14
10/09/18 20:15	CA	!	Housing Starts	Sep	188.7k	210.0k	198.8k
Wednesday							
10/10/18 07:30	AU	!	Westpac Consumer Conf SA MoM	Oct	1.00%	--	-3.00%
10/10/18 16:30	UK	!!	Trade Balance	Aug	-£1274	-£1200	-£111
10/10/18 16:30	UK	!!	Industrial Production YoY	Aug	1.30%	1.00%	1.00%
10/10/18 16:30	UK	!!	Manufacturing Production YoY	Aug	1.30%	1.10%	1.40%
10/10/18 16:30	UK	!!	GDP (MoM)	Aug	0.00%	0.10%	0.40%
10/10/18 20:30	CA	!	Building Permits MoM	Aug	0.40%	0.50%	-1.50%
Thursday							
10/11/18 07:01	UK	!!	RICS House Price Balance	Sep	-2%	1%	1%
10/11/18 20:30	US	!!!	CPI YoY	Sep	2.30%	2.40%	2.70%
10/11/18 20:30	US	!!!	CPI Ex Food and Energy YoY	Sep	2.20%	2.30%	2.20%
10/11/18 20:30	US	!	Initial Jobless Claims	Oct	214k	207k	207k
Friday							
10/12/18 08:30	AU	!	Investment Lending	Aug	-1.10%	--	-1.40%
10/12/18 22:00	US	!!	U. of Mich. Sentiment	Oct	99	100.5	100.1
10/12/18	CH	!!	Trade Balance	Sep	\$31.69b	\$19.20b	\$26.65b
10/12/18	CH	!!	Imports YoY	Sep	14.30%	15.30%	19.90%
10/12/18	CH	!!	Exports YoY	Sep	14.50%	8.20%	9.10%

Appendix 3: Upcoming Economic Figures (Oct 15, 2018 – Oct 19, 2018)

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
10/15/18 20:30	US	!!!	Retail Sales Advance MoM	Sep	--	0.50%	0.10%
10/15/18 20:30	US	!!!	Retail Sales Ex Auto MoM	Sep	--	0.50%	0.30%
Tuesday							
10/16/18 05:45	NZ	!!	CPI YoY	3Q	--	--	1.50%
10/16/18 08:30	AU	!	RBA Oct. Meeting Minutes	Oct			
10/16/18 09:30	CH	!!	CPI YoY	Sep	--	2.50%	2.30%
10/16/18 16:30	UK	!!	Average Weekly Earnings 3M/YoY	Aug	--	--	2.60%
10/16/18 16:30	UK	!!	ILO Unemployment Rate 3Mths	Aug	--	--	4.00%
10/16/18 21:15	US	!	Industrial Production MoM	Sep	--	-0.10%	0.40%
Wednesday							
10/17/18 16:30	UK	!!	CPI YoY	Sep	--	--	2.70%
10/17/18 17:00	EC	!!	CPI YoY	Sep	--	--	2.00%
10/17/18 20:30	US	!!	Housing Starts MoM	Sep	--	-4.50%	9.20%
Thursday							
10/18/18 02:00	US	!!!	FOMC Meeting Minutes	Sep	--	--	--
10/18/18 08:30	AU	!!	Employment Change	Sep	--	--	44.0k
10/18/18 08:30	AU	!!	Unemployment Rate	Sep	--	--	5.30%
10/18/18 16:30	UK	!!	Retail Sales Ex Auto Fuel YoY	Sep	--	--	3.50%
10/18/18 16:30	UK	!!	Retail Sales Inc Auto Fuel YoY	Sep	--	--	3.30%
10/18/18 20:30	US	!	Initial Jobless Claims	Oct	--	--	--
Friday							
10/19/18 07:30	JN	!!	Natl CPI Ex Fresh Food YoY	Sep	--	--	0.90%
10/19/18 10:00	CH	!!!	GDP YoY	3Q	--	--	6.70%
10/19/18 10:00	CH	!!	Retail Sales YoY	Sep	--	--	9.00%
10/19/18 10:00	CH	!!	Industrial Production YoY	Sep	--	--	6.10%
10/19/18 20:30	CA	!!	Retail Sales MoM	Aug	--	--	0.30%
10/19/18 20:30	CA	!!	Retail Sales Ex Auto MoM	Aug	--	--	0.90%
10/19/18 20:30	CA	!!	CPI YoY	Sep	--	--	2.80%
10/19/18 20:30	CA	!!	CPI Core- Common YoY%	Sep	--	--	2.00%

Appendix 4: Upcoming Economic Figures (Oct 22, 2018 – Oct 26, 2018)

Time		Importance	Event	Period	Actual	Survey	Prior
Wednesday							
10/24/18 16:00	EC	!!	Markit Eurozone Manufacturing PMI	Oct	--	--	53.2
10/24/18 16:00	EC	!!	Markit Eurozone Services PMI	Oct	--	--	54.7
10/24/18 21:45	US	!!	Markit US Manufacturing PMI	Oct	--	--	55.6
10/24/18 21:45	US	!!	Markit US Services PMI	Oct	--	--	53.5
10/24/18 22:00	CA	!!!	Bank of Canada Rate Decision	Oct	--	1.75%	1.50%
10/24/18 22:00	US	!!	New Home Sales MoM	Sep	--	0.30%	3.50%
Thursday							
10/25/18 05:45	NZ	!!	Trade Balance NZD	Sep	--	--	-1484m
10/25/18 05:45	NZ	!!	Exports NZD	Sep	--	--	4.05b
10/25/18 05:45	NZ	!!	Imports NZD	Sep	--	--	5.54b
10/25/18 16:00	GE	!!	IFO Business Climate	Oct	--	--	103.7
10/25/18 19:45	EC	!!!	ECB Main Refinancing Rate	Oct	--	--	0.00%
10/25/18 20:30	US	!!	Advance Goods Trade Balance	Sep	--	-\$73.5b	-\$75.8b
10/25/18 20:30	US	!!	Durable Goods Orders	Sep	--	--	4.40%
10/25/18 20:30	US	!!	Durables Ex Transportation	Sep	--	--	0.00%
10/25/18 20:30	US	!!	Initial Jobless Claims	Oct	--	--	--
10/25/18 22:00	US	!!	Pending Home Sales NSA YoY	Sep	--	--	-2.50%
Friday							
10/26/18 20:30	US	!!!	GDP Annualized QoQ	3Q	--	3.20%	4.20%
10/26/18 22:00	US	!!	U. of Mich. Sentiment	Oct	--	--	--

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