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Citibank Wealth Management



Jul 13, 2020

with data as of Jul 10, 2020

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

- German Chancellor Angela Merkel “hopes” for recovery fund deal this summer, which may favor EUR.
- The euro area retail trade volume rose 17.8% in May on a monthly basis, beating the expectations and supporting EUR.

EUR outlook

- EA ‘break-up’ risk premia has now markedly been reduced. The key inflection point for EA risk premia was the good news on the EU recovery fund. Euro denominated risk assets have traded much more robustly. Besides, the ECB also upsized and lengthened its PEPP to defend its mandate. It is synchronised monetary and fiscal support that have proven to yield the most “positive” results during the recovery, favoring EUR.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
1.1050	1.1168	1.1422	1.1495	1.14	1.17	1.20



Source: Bloomberg L.P., as of Jul 10, 2020

- EURUSD’ RSI stay at neutral level. The pair may trade between 1.1168-1.1422 in the short term, with next support and resistance at 1.1050 and 1.1495 respectively.

Strategy for EUR holders - Diversify into USD

- Renewed or increased political uncertainty from Italy, Brexit or elsewhere may put downside risks on EUR.
- Trade wars may blow up again leading to retaliatory CNH weakness. This may also one of the downside risks for EUR.



Strategy	Reference Level	Target Level
Bearish on EUR	USD	1.1422
Bearish on EUR	HKD	8.85

Strategy for USD holders - Buy EUR upon retracement

- Recent IMF data suggest that reserve managers continue to diversify away from USD holdings. It may favor EUR.
- EA ‘break-up’ risk premia has now markedly been reduced. The key inflection point for EA risk premia was the good news on the EU recovery fund, supporting EUR.



Strategy	Reference Level	Target Level
Bullish on EUR	USD	1.1168
Bullish on EUR	HKD	8.66

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7502 exchange rate for reference



Weekly FX Strategy: AUD

AUD news

- Second wave concern and escalating geopolitical risk limited the performance of AUD.
- However, the RBA's outlook for the economy is better than what was initially expected. The Statement reiterated that the downturn has been less severe than the forecasts. It may favor AUD.

AUD outlook

- Near term the outlook of AUD looks more positive as the combination of monetary and fiscal ease along with positive economic deltas has helped risk assets recover. Besides, we have revised up our 2020 year average GDP forecast to -3.2%. However, risks to AUD are fat tailed (second wave risks, health disappointment, US election), with particular worry placed on the evolution of US/China relations.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
0.6770	0.6858	0.7063	0.7082	0.72	0.73	0.75



Source: Bloomberg L.P., as of Jul 10, 2020

- For AUDUSD, the 0.6977 – 0.7040 area is proving difficult to break on the upside while a close below 0.6924 would likely complete a bearish outside day suggesting a possible extension towards the trend line at 0.6858 followed by 0.6770.

Strategy for AUD holders - Diversify into USD

- Risks to AUD are fat tailed (second wave risks, health disappointment, US election), with particular worry placed on the evolution of US/China relations.
- Largely range-bound in a tactical 2 -way trading environment for AUD in the short term as the 'good news' is largely discounted.



Strategy		Reference Level	Target Level
Bearish on AUD	USD	0.7082	0.6770
Bearish on AUD	HKD	5.49	5.25

Strategy for USD holders - Buy AUD upon retracement

- Now there is ample liquidity of USD globally and the Fed has made it abundantly clear that it will not tolerate USD shortages or disorderly Treasury markets, which may weigh on USD and favor AUD.
- Near term the outlook of AUD looks more positive as the combination of monetary and fiscal ease along with positive economic deltas has helped risk assets recover. .



Strategy		Reference Level	Target Level
Bullish on AUD	USD	0.6770	0.7082
Bullish on AUD	HKD	5.25	5.49

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7502 exchange rate for reference

Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7502 exchange rate for reference

USD outlook:

- As long as RoW EDI's remain on track to turn less negative over the summer at a time when the US reopening appears to have stalled, we expect the USD to remain offered.
- US economic momentum does continue to lag EA/ RoW throughout the recovery, then the USD can enter into its bear-market.
- This is further supported by our view that USD liquidity remains abundant with limited Fed tolerance for \$ shortages/ increased USD funding stress.

0-3M forecast: 96.01

6-12M forecast: 94.02

LT forecast: 90.84



Source: Bloomberg L.P., as of Jul 10, 2020

Gold/USD

Gold outlook:

- We think prices are more likely to make a slow grind higher but generally hold a \$1,600-1,700 handle, rather than quickly spike to the \$1,850-1,950 area. In turn, a global growth and EM recovery in 2021 could be what supports the next leg higher towards \$2,000/oz.

0-3M forecast: 1825

6-12M forecast: 2000

2021Q3: 2000



Source: Bloomberg L.P., as of Jul 10, 2020



Strategy		Reference Level	Target Level
Bearish on Gold	USD	1921	1765
Bearish on Gold	HKD	14,888	13,679
Bullish on Gold	USD	1765	1921
Bullish on Gold	HKD	13,679	14,888

NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7502 exchange rate for reference



NZD outlook:

- Amongst the wave of global liquidity, risk asset directionality will continue to be an important driver of NZD. Also, near term the combination of monetary and fiscal ease along with positive economic deltas has helped risk assets recover. However, headwinds to the global recovery will materially affect New Zealand. The massive budget announced in May could lead to further increased QE. This leaves NZD FX vulnerable to downside.

Strategy	Reference Level	Target Level
Bearish on NZD	USD	0.6601
Bearish on NZD	HKD	5.12
Bullish on NZD	USD	0.6265
Bullish on NZD	HKD	4.86

USD/CAD

CAD outlook:

- We expect risk sentiment to continue to be an important driver, but also think CAD has some catching up to do from a fundamental perspective such as oil prices. WTI have found a bottom and continue to steadily rise. This may continue to support CAD over our forecast horizon as our forecast WTI at 56\$/bbl in 12m. We think we are past the bottom in activity, which may support CAD.

Strategy	Reference Level	Target Level
Bearish on CAD	USD	1.3357
Bearish on CAD	HKD	5.80
Bullish on CAD	USD	1.3810
Bullish on CAD	HKD	5.61

0-3M forecast: 0.66

6-12M forecast: 0.65

LT forecast: 0.65



Source: Bloomberg L.P., as of Jul 10, 2020

0-3M forecast: 1.30

6-12M forecast: 1.27

LT forecast: 1.25



Source: Bloomberg L.P., as of Jul 10, 2020

USD/RMB

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7502 exchange rate for reference

RMB outlook:

- As China will be the first major economy to emerge from a severe economic contraction, we think its economic recovery, together with the large interest-rate differential between China and industrial economies, will continue to attract capital inflows into China, which helps support our gradual RMB appreciation view. However, the volatility could also increase subject to further and detailed US policy sanctions on Hong Kong as well as China's counter measures.

Strategy		Reference Level	Target Level
Bearish on RMB	USD	6.9537	7.0370
Bearish on RMB	HKD	1.1145	1.1014
Bullish on RMB	USD	7.0370	6.9537
Bullish on RMB	HKD	1.1014	1.1145

GBP/USD

GBP outlook:

- The UK's fiscal response to the COVID-19 outbreak is already by far the country's largest in modern peacetime history. Given the level of issuance on the horizon, in conjunction with the reluctance of the MPC to provide significant additional QE, the Gilt curve may come under persistent upward pressure over the medium term. Higher yields caused by increased fiscal risk will likely weigh on the Pound. We also expect the UK to lag behind many DM countries throughout 2020-2021.

Strategy		Reference Level	Target Level
Bearish on GBP	USD	1.2726	1.2438
Bearish on GBP	HKD	9.86	9.64
Bullish on GBP	USD	1.2438	1.2726
Bullish on GBP	HKD	9.64	9.86

0-3M forecast: 6.95

6-12M forecast: 6.90

LT forecast: 6.50



Source: Bloomberg L.P., as of Jul 10, 2020

0-3M forecast: 1.27

6-12M forecast: 1.29

LT forecast: 1.43



Source: Bloomberg L.P., as of Jul 10, 2020

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7502 exchange rate for reference

CHF outlook:

- Positive European developments and improving global risk sentiment will help CHF weaken. Tail risks that could lead to “flight to safety” inflows to Switzerland include material deterioration in Covid-19 cases, rising geopolitical tensions (e.g. Italy, Brexit) and USChina trade war escalations.



Strategy		Reference Level	Target Level
Bearish on CHF	USD	0.9183	0.9589
Bearish on CHF	HKD	8.44	8.08
Bullish on CHF	USD	0.9589	0.9183
Bullish on CHF	HKD	8.08	8.44

USD/JPY

JPY outlook:

- Near term, on the JPY, we think extended long positioning may become vulnerable as reflation trades gain momentum. More medium term, we project USD/JPY to remain more range bound. Adding to the headwinds facing the JPY is the prospect for sustained dovish policy from the Bank of Japan. We have pushed back our expected timing for the first rate hike from October 2021 to July 2023, which may limit JPY's performance.



Strategy		Reference Level	Target Level
Bearish on JPY	USD	105.99	108.10
Bearish on JPY	HKD	7.31	7.17
Bullish on JPY	USD	108.10	105.99
Bullish on JPY	HKD	7.17	7.31

0-3M forecast: 0.96

6-12M forecast: 0.94

LT forecast: 0.95

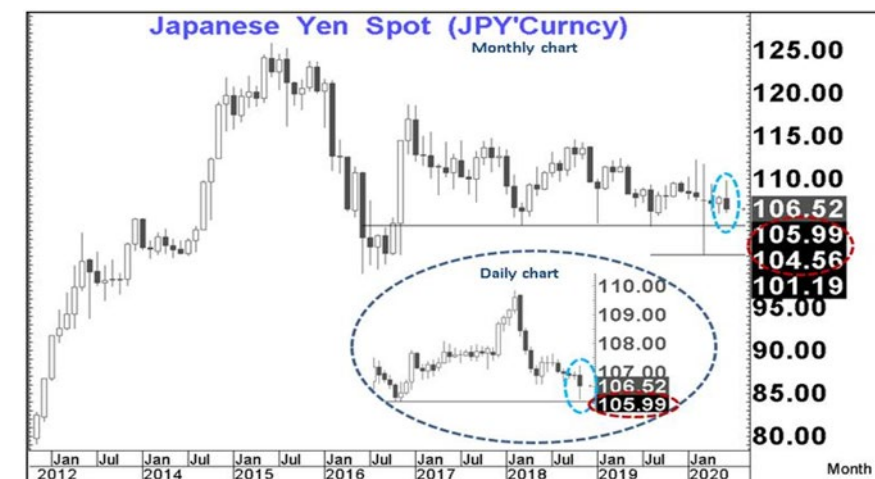


Source: Bloomberg L.P., as of Jul 10, 2020

0-3M forecast: 109

6-12M forecast: 109

LT forecast: 105



Source: Bloomberg L.P., as of Jul 10, 2020

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	7/10/2020	2Q '20	3Q '20	4Q '20	1Q '21
Dollar Index	96.01	94.02	90.84	*0.00	0.00	0.00	0.00	0.00
EUR/USD	1.14	1.17	1.20	-0.50	-0.50	-0.50	-0.50	-0.50
GBP/USD	1.27	1.29	1.43	0.10	0.10	0.10	0.00	0.00
USD/JPY	109	109	105	-0.10	-0.10	-0.10	-0.10	-0.10
USD/CHF	0.96	0.94	0.95	-0.75	-0.75	-0.75	-0.75	-0.75
AUD/USD	0.72	0.73	0.75	0.25	0.25	0.25	0.25	0.25
NZD/USD	0.66	0.65	0.65	0.25	0.25	0.25	0.25	0.25
USD/CAD	1.30	1.27	1.25	0.25	0.25	0.25	0.25	0.25
USD/CNY	6.95	6.90	6.50	2.95	2.95	2.75	2.75	2.75

Source: Citi (as of Jul 8, 2020) *lower bound

 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	96.65	-0.5%	97.62	95.96	100.47	95.96	102.99	94.65	0.2%
EUR/USD	1.1300	0.5%	1.1374	1.1178	1.1374	1.0777	1.1495	1.0636	0.9%
USD/JPY	106.93	-0.5%	107.93	106.52	109.59	106.12	112.23	101.19	-1.6%
GBP/USD	1.2622	1.1%	1.2747	1.2298	1.2747	1.2116	1.3514	1.1412	-4.7%
USD/CAD	1.3592	0.3%	1.3688	1.3412	1.4211	1.3382	1.4668	1.2952	4.5%
AUD/USD	0.6950	0.2%	0.6998	0.6835	0.7021	0.6280	0.7082	0.5510	-1.0%
NZD/USD	0.6574	0.7%	0.6575	0.6407	0.6575	0.5935	0.6791	0.5470	-2.5%
USD/CHF	0.9412	-0.5%	0.9524	0.9383	0.9760	0.9383	1.0028	0.9183	-2.8%
USD/CNY	6.9994	-0.9%	7.0902	6.9942	7.1671	6.9942	7.1876	6.8405	0.5%
USD/CNH	7.0107	-0.8%	7.0859	6.9976	7.1763	6.9976	7.1965	6.8457	0.7%
GOLD	1798.70	1.3%	1808.89	1722.93	1808.89	1682.82	1818.02	1400.14	18.7%

Source: Bloomberg L.P., as of Jul 10, 2020

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
07/06/20 16:30	UK	!!	Markit/CIPS UK Construction PMI	Jun	55.3	46.0	28.9
07/06/20 17:00	EC	!	Retail Sales YoY	May	17.80%	15.00%	-12.10%
07/06/20 22:00	US	!!!	ISM Non-Manufacturing Index	Jun	57.1	50.2	45.4
07/06/20 22:30	CA	!!	BoC Overall Business Outlook Survey	2Q	-7.0	--	-0.5
Tuesday							
07/07/20 12:30	AU	!!!	RBA Cash Rate Target	Jul	0.25%	0.25%	0.25%
07/07/20 22:00	CA	!!	Ivey Purchasing Managers Index SA	Jun	58.2	--	39.1
Wednesday							
07/08/20 01:00	NZ	!	QV House Prices YoY	Jun	7.40%	--	7.70%
07/08/20 07:50	JN	!	Trade Balance BoP Basis	May	-¥556.8	-¥639.0b	-¥966.5b
Thursday							
07/09/20 07:01	UK	!!	RICS House Price Balance	Jun	-15%	-25%	-32%
07/09/20 09:00	NZ	!	ANZ Business Confidence	Jul	-29.8	--	-34.4
07/09/20 09:30	CH	!!	CPI YoY	Jun	2.50%	2.50%	2.40%
07/09/20 20:15	CA	!!	Housing Starts	Jun	211.7k	195.0k	195.5k
07/09/20 20:30	US	!!	Initial Jobless Claims	Jul	1314k	1375k	1413k
Friday							
07/10/20 20:30	CA	!!	Net Change in Employment	Jun	952.9k	700.0k	289.6k
07/10/20 20:30	CA	!!	Unemployment Rate	Jun	12.30%	12.10%	13.70%

Appendix 3: Upcoming Economic Figures (Jul 13, 2020 – Jul 17, 2020)

Time		Importance	Event	Period	Actual	Survey	Prior
Tuesday							
07/14/20 14:00	UK	!!	Monthly GDP (MoM)	May	--	--	-20.40%
07/14/20 14:00	UK	!!	Industrial Production YoY	May	--	--	-24.40%
07/14/20 14:00	UK	!!	Manufacturing Production YoY	May	--	--	-28.50%
07/14/20 20:30	US	!!!	CPI YoY	Jun	--	0.60%	0.10%
07/14/20 20:30	US	!!!	CPI Ex Food and Energy YoY	Jun	--	1.10%	1.20%
07/14/20	CH	!!	Exports YoY	Jun	--	-2.00%	-3.30%
07/14/20	CH	!!	Imports YoY	Jun	--	-8.80%	-16.70%
07/14/20	CH	!!	Trade Balance	Jun	--	\$57.05b	\$62.93b
Wednesday							
07/15/20 14:00	UK	!!	CPI YoY	Jun	--	--	0.50%
07/15/20 22:00	CA	!!	Bank of Canada Rate Decision	Jul	--	0.25%	0.25%
07/15/20	JN	!!	BOJ Policy Balance Rate	Jul	--	--	-0.10%
Thursday							
07/16/20 06:45	NZ	!!	CPI YoY	2Q	--	--	2.50%
07/16/20 09:30	AU	!!	Unemployment Rate	Jun	--	--	7.10%
07/16/20 09:30	AU	!!	Employment Change	Jun	--	--	-227.7k
07/16/20 10:00	CH	!!	Industrial Production YoY	Jun	--	4.80%	4.40%
07/16/20 10:00	CH	!!!	GDP YoY	2Q	--	2.50%	-6.80%
07/16/20 10:00	CH	!!	Retail Sales YoY	Jun	--	0.00%	-2.80%
07/16/20 14:00	UK	!!	ILO Unemployment Rate 3Mths	May	--	--	3.90%
07/16/20 19:45	EC	!!!	ECB Main Refinancing Rate	Jul	--	--	0.00%
07/16/20 20:30	US	!!!	Retail Sales Advance MoM	Jun	--	5.60%	17.70%
07/16/20 20:30	US	!!!	Retail Sales Ex Auto MoM	Jun	--	5.50%	12.40%
07/16/20 20:30	US	!	Initial Jobless Claims	Jul	--	--	--
Friday							
07/17/20 17:00	EC	!!	CPI YoY	Jun	--	--	0.10%
07/17/20 22:00	US	!	U. of Mich. Sentiment	Jul	--	80	78.1

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