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Citibank Wealth Management



Fed 1, 2021
with data as of Jan 29, 2021

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: RMB

RMB news

- the PBoC has cumulatively drained CNY328bn of short term liquidity since Tuesday. China short rates squeezing up, resulting in a higher carry for CNH and therefore capping rallies in USDCNH as it gets progressively more expensive to fund CNH shorts.
- Fed Chair Powell repeats that is “premature” to discuss or speculate on the timing on removal of accommodation, endorsing the status-quo dovish stance, which support RMB.

RMB outlook

We see a strong RMB appreciation bias to continue in 2021E. As the PBoC’s policy exit is way ahead of other industrial economies, the already large interest-rate differential will likely remain. This could continue to increase next year, which helps attract large and persistent capital inflows and support continuous RMB appreciation.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
6.4118	6.4430	6.5198	6.5234	6.35	6.15	5.60



Source: Bloomberg L.P., as of Jan 29, 2021

- USDCNH will likely be capped around the short term 76.4% Fibonacci level area at 6.5198-6.5234 with support at 6.4430 and 6.4118.

Strategy for RMB holders - Diversify into USD

- The PBoC’s liquidity drain is seen as a more longer term ploy to contain property and stock bubbles. This may limit the performance of RMB.
- In short term, as short term leveraged players continue to reduce their near stretched USD shorts and extended lockdown risks especially in Europe and concerns from central banks about the deflationary impact from the rapid currency strengthening, the bid tone in DXY likely continues for now.



Strategy	Reference Level	Target Level
Bearish on RMB	USD 6.4118	6.5198
Bearish on RMB	HKD 1.2092	1.1892

Strategy for USD holders - Buy RMB upon retracement

- China short rates squeezing up, resulting in a higher carry for CNH and therefore capping rallies in USDCNH as it gets progressively more expensive to fund CNH shorts.
- Our bottom line is that DXY can potentially drop a further 4 – 5% in 2021 to the 85.50 – 86.50 level but the bulk of this decline is likely to take place over 6 months from end Q1 – end Q3, which may support RMB.



Strategy	Reference Level	Target Level
Bullish on RMB	USD 6.5198	6.4118
Bullish on RMB	HKD 1.1892	1.2092

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7534 exchange rate for reference

Weekly FX Strategy: AUD

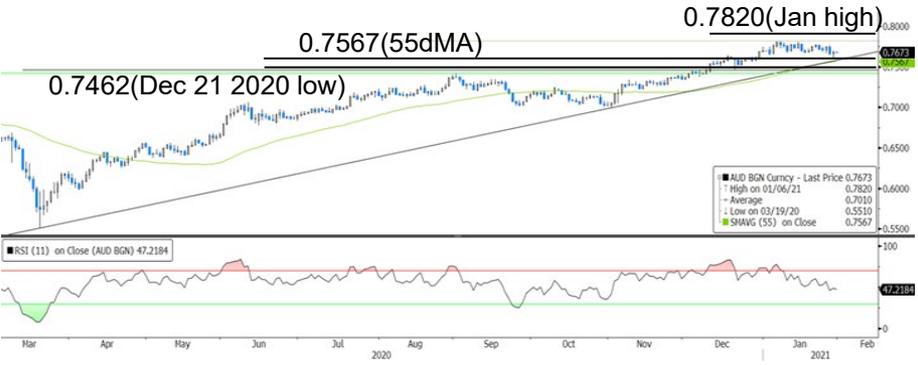
AUD news

- Australia CPI rose 0.9% qoq in Q4, better than expectation and support AUD.
- However, the global equities volatility increased last week. The market sentiment turned negative and weighed on commodity currencies.

AUD outlook

Through 2021, AUD should continue to trade high beta to risk-on/global growth developments. The expected wide scale rollout of a vaccine, our expectations for a reflationary 2021 and associated weaker dollar, therefore implies AUD appreciation. Aussie should be additionally supported by the continued strong economic recovery in China, given the two countries trade links.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
0.7567	0.7640	0.7820	0.7950	0.78	0.81	0.80



Source: Bloomberg L.P., as of Jan 29, 2021

- AUDUSD may find the pivotal support at 0.764. If broken, the pair may point to the next support at 0.7567(55d MA) with resistance at 0.7820.

Strategy for AUD holders - Diversify into USD

- Valuation metrics such as the AUD TWI back at pre-Covid highs and the prospect of a much slower pace of gains in RMB remain as headwinds to a further significant rally.
- Iron ore and copper prices are particularly vulnerable during the initial decline in China's credit impulse amid the prospect of lessening commodity imports, which may limit the AUD's performance.

Strategy	Reference Level	Target Level
Bearish on AUD	USD	0.7820
Bearish on AUD	HKD	6.06

Strategy for USD holders - Buy AUD upon retracement

- USD can drop further as the global search for value assets gathers pace out of the more expensive US to European stocks and as US real yields fall even further.
- Our bottom line is that DXY can potentially drop a further 4 – 5% in 2021 to the 85.50 – 86.50 level but the bulk of this decline is likely to take place over 6 months from end Q1 – end Q3, which may support AUD.

Strategy	Reference Level	Target Level
Bullish on AUD	USD	0.7567
Bullish on AUD	HKD	5.87

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7534 exchange rate for reference



Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7534 exchange rate for reference

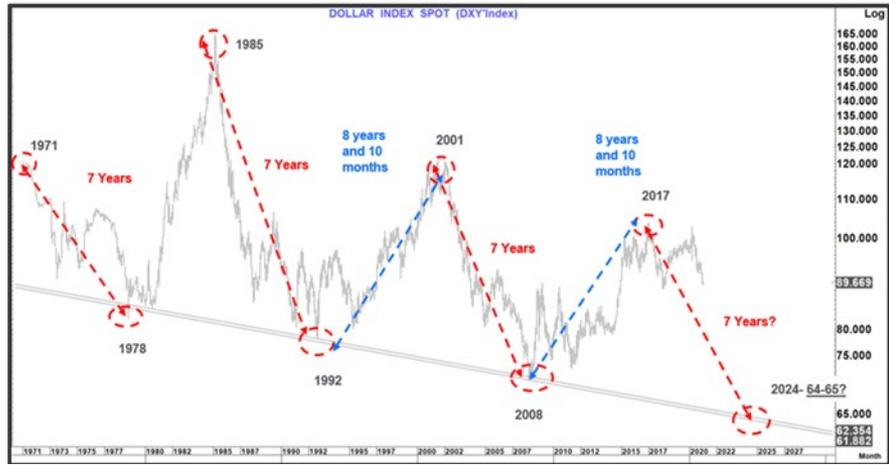
USD outlook:

- USD weakness in Q4 '20 accelerated. We expect RoW FX momentum to continue, as we envisage very loose global monetary conditions to persist at least until the summer of 2021.
- A Dem led senate can add legs to the greenback's underperformance via increased lockdowns and accelerating looser fiscal policy in conjunction to loose monetary.
- USD weakness can persist as i) Fed liquidity impulses remain positive ii) global trade volumes recover and iii) the PBoC does not intervene with the RMB.
- A scenario where US growth > RoW and the Fed is exiting its uber loose policy is one where the USD can rally. But for now, this isn't yet the case.

0-3M forecast: 88.66

6-12M forecast: 86.51

LT forecast: 85.56



Source: Bloomberg L.P., as of Jan 29, 2021

Gold/USD

Gold outlook:

- We expect the gold market bull cycle could slow be but not end, so long as the Fed's monetary policy stays accommodative at the zero lower bound - commits to dovish forward guidance and continuing with its QE program. We look for gold prices to move toward US\$2,100/oz over the next 6-9 months, before moderating in 2022. Overall, gold prices could average US\$1,900/oz in 2021.

0-3M forecast: 1850

6-12M forecast: 2100



Source: Bloomberg L.P., as of Jan 29, 2021

Strategy	Reference Level	Target Level
Bearish on Gold	USD 1966	1811
Bearish on Gold	HKD 15,243	14,041
Bullish on Gold	USD 1811	1966
Bullish on Gold	HKD 14,041	15,243

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7534 exchange rate for reference

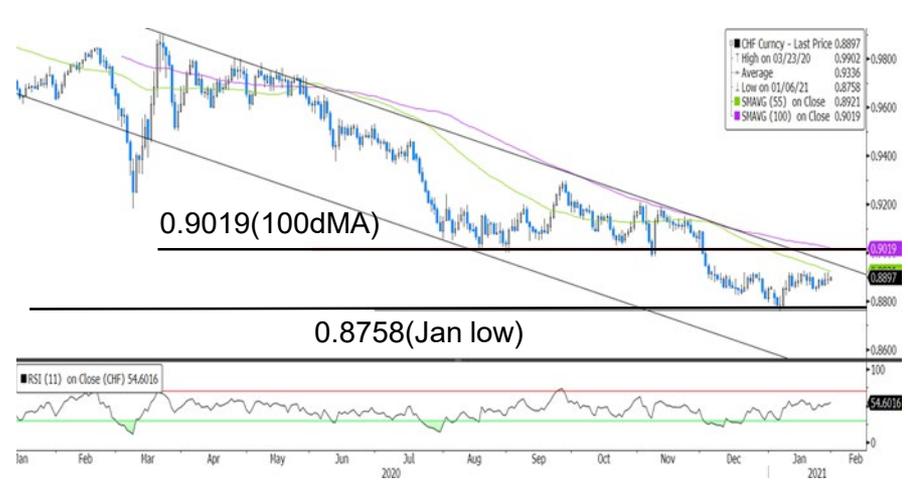


CHF outlook:

- More medium term, the exchange rate will remain a concern for the SNB, as franc appreciation could drive the country deeper into deflation. Therefore the threat of SNB FX interventions should keep rallies in the Swiss franc limited. A risk to our view remains aggressive inflows into CHF as a “flight to safety” could be exacerbated due to factors like potential delays in vaccine dissemination.

Strategy	Reference Level	Target Level
Bearish on CHF	USD 0.8758	0.9019
Bearish on CHF	HKD 8.85	8.60
Bullish on CHF	USD 0.9019	0.8758
Bullish on CHF	HKD 8.60	8.85

0-3M forecast: 0.88 6-12M forecast: 0.89 LT forecast: 0.91



Source: Bloomberg L.P., as of Jan 29, 2021

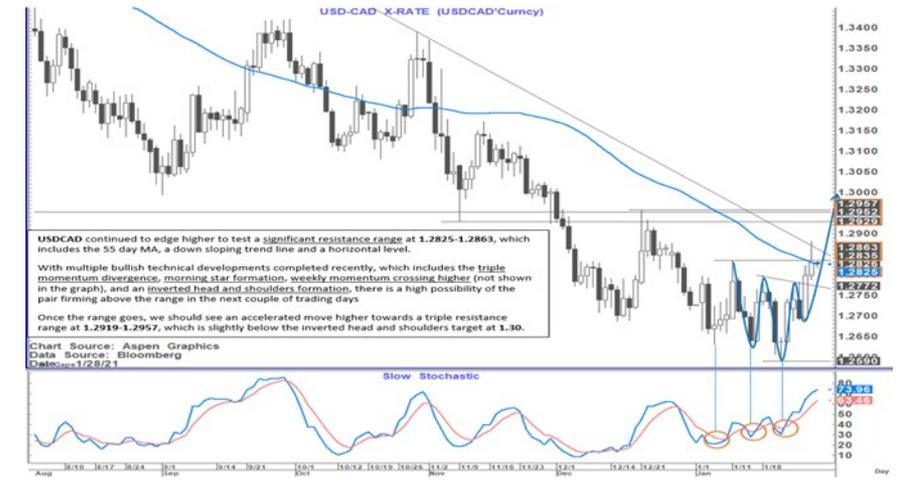
USD/CAD

CAD outlook:

- A rapidly strengthening labour markets means that 80% of pre-COVID jobs were regained through November, compared to about 65% for the comparable metric in the US. Citi Economics believes “that stronger growth projections will allow for a removal of accommodation at the April 2021 meeting.” We’d also note here that the BoC has already paused some of their easing measures. Typically a mix of loose fiscal and tight MoPo indicates currency appreciation.

Strategy	Reference Level	Target Level
Bearish on CAD	USD 1.2590	1.2957
Bearish on CAD	HKD 6.16	5.98
Bullish on CAD	USD 1.2957	1.2590
Bullish on CAD	HKD 5.98	6.16

0-3M forecast: 1.25 6-12M forecast: 1.22 LT forecast: 1.20



Source: Bloomberg L.P., as of Jan 29, 2021

NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7534 exchange rate for reference



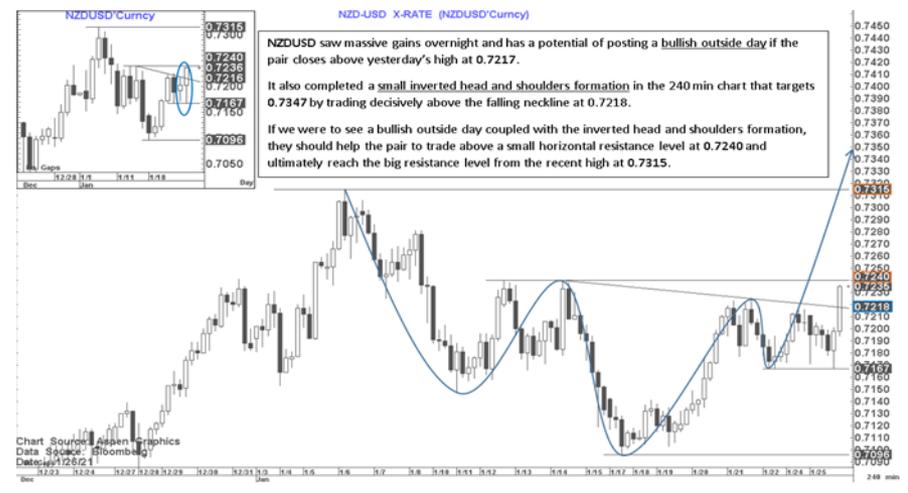
NZD outlook:

- Similar to Aussie, Kiwi should be supported by the continued strong economic recovery in China, given the two countries trade links. The biggest "hitch" is that FX strength is negative for exports and inflation. The RBNZ have proven in the past that they are willing to ease to depreciate the currency. The result is our NZD/USD upside forecast is somewhat limited relative to other high beta currencies.



Strategy		Reference Level	Target Level
Bearish on NZD	USD	0.7315	0.7003
Bearish on NZD	HKD	5.67	5.43
Bullish on NZD	USD	0.7003	0.7315
Bullish on NZD	HKD	5.43	5.67

0-3M forecast: 0.73 6-12M forecast: 0.75 LT forecast: 0.74



Source: Bloomberg L.P., as of Jan 29, 2021

USD/JPY

JPY outlook:

- Whilst we envisage USD/JPY falling towards 100 as USD fundamentals are eroded. Citi's expectation is that the BoJ is very unlikely to move to raise rates before the Fed (unchanged at the current -0.1% until 2024). Higher \$ real rates on Fed tapering could drag USD/JPY higher again.



Strategy		Reference Level	Target Level
Bearish on JPY	USD	102.59	105.68
Bearish on JPY	HKD	7.56	7.34
Bullish on JPY	USD	105.68	102.02
Bullish on JPY	HKD	7.34	7.56

0-3M forecast: 102 6-12M forecast: 99 LT forecast: 95



Source: Bloomberg L.P., as of Jan 29, 2021

EUR/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7534 exchange rate for reference



EUR outlook:

- Stronger FDI and reserve manager buying in the EA than anticipated could push EUR higher. Recent IMF data suggest that reserve managers continue to diversify away from USD holdings. If the US recovery is hampered by rising cases and renewed local lockdowns, this could be USD negative and EUR positive.

Shopping Cart Icon	Strategy	Reference Level	Target Level
	Bearish on EUR	USD 1.2555	1.2060
	Bearish on EUR	HKD 9.73	9.35
	Bullish on EUR	USD 1.2060	1.2555
	Bullish on EUR	HKD 9.35	9.73

0-3M forecast: 1.24 6-12M forecast: 1.27 LT forecast: 1.27



Source: Bloomberg L.P., as of Jan 29, 2021

GBP/USD

GBP outlook:

- A global economic recovery and broad USD depreciation can see the demand for cheap/value-type assets remain robust in 2021. On this metric, UK equities and GBP both screen well. GBP FX remains around 10-15% cheap based on traditional PPP. That said, the MPC will remain dovish, leaving the door open for negative policy rates and increased QE, with the risk of the former in particular weighing on the currency.

Shopping Cart Icon	Strategy	Reference Level	Target Level
	Bearish on GBP	USD 1.3836	1.3657
	Bearish on GBP	HKD 10.73	10.59
	Bullish on GBP	USD 1.3657	1.3836
	Bullish on GBP	HKD 10.59	10.73

0-3M forecast: 1.38 6-12M forecast 1.40 LT forecast: 1.45



Source: Bloomberg L.P., as of Jan 29, 2021

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	1/29/2021	1Q '21	2Q '21	3Q '21	4Q '21
Dollar Index	88.66	86.51	85.56	*0.00	0.00	0.00	0.00	0.00
EUR/USD	1.24	1.27	1.27	-0.50	-0.50	-0.50	-0.50	-0.50
GBP/USD	1.38	1.40	1.45	0.10	0.10	0.10	-0.10	-0.10
USD/JPY	102	99	95	-0.10	-0.10	-0.10	-0.10	-0.10
USD/CHF	0.88	0.89	0.91	-0.75	-0.75	-0.75	-0.75	-0.75
AUD/USD	0.78	0.81	0.80	0.10	0.10	0.10	0.10	0.10
NZD/USD	0.73	0.75	0.74	0.25	0.25	0.25	0.25	0.25
USD/CAD	1.25	1.22	1.20	0.25	0.25	0.25	0.25	0.25
USD/CNY	6.35	6.15	5.60	2.95	2.95	2.95	2.95	2.95

Source: Citi (as of Jan 6, 2021) *lower bound

 Rate cut expectations
  Rate hike expectations

Major Currencies Weekly Performance

CCY	Last week close	Weekly Change	1 month high	1 month low	1 month change	3 month high	3 month low	3 month change	52 week high	52 week low	Year-To-Date Change
USD	90.58	0.4%	90.77	89.44	0.5%	94.13	89.44	-3.7%	102.99	89.21	0.9%
EUR/USD	1.2136	-0.3%	1.2327	1.2077	-1.0%	1.2327	1.1641	3.8%	1.2349	1.0636	-1.0%
USD/JPY	104.68	0.9%	104.68	102.72	0.6%	105.43	102.72	-0.4%	112.23	101.19	1.2%
GBP/USD	1.3708	0.2%	1.3736	1.3503	1.6%	1.3736	1.2917	6.1%	1.3759	1.1412	0.2%
USD/CAD	1.2777	0.3%	1.2830	1.2636	0.1%	1.3325	1.2636	-3.7%	1.4668	1.2590	1.1%
AUD/USD	0.7644	-0.9%	0.7802	0.7606	1.0%	0.7802	0.7028	9.3%	0.7820	0.5510	-0.7%
NZD/USD	0.7193	0.1%	0.7294	0.7110	0.3%	0.7294	0.6615	8.2%	0.7315	0.5470	-0.4%
USD/CHF	0.8903	0.5%	0.8910	0.8784	0.5%	0.9190	0.8784	-2.9%	0.9902	0.8758	0.5%
USD/CNY	6.4283	-0.8%	6.5308	6.4283	-1.2%	6.7149	6.4283	-4.0%	7.1777	6.4303	-1.0%
USD/CNH	6.4522	-0.7%	6.5180	6.4370	-0.7%	6.7089	6.4370	-3.5%	7.1965	6.4118	-0.4%
GOLD	1847.65	-0.4%	1950.01	1828.45	-1.9%	1951.35	1776.95	-1.3%	2075.47	1451.55	-2.8%

Source: Bloomberg L.P., as of Jan 29, 2021

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
01/25/21 17:00	GE	!!	IFO Business Climate	Jan	90.1	91.4	92.2
Tuesday							
01/26/21 15:00	UK	!!	Average Weekly Earnings 3M/YoY	Nov	3.6%	2.9%	2.80%
01/26/21 15:00	UK	!!	ILO Unemployment Rate 3Mths	Nov	5.0%	5.1%	4.90%
01/26/21 23:00	US	!!	Conf. Board Expectations	Jan	92.5	--	87
Wednesday							
01/27/21 08:30	AU	!!	CPI YoY	4Q	0.90%	0.70%	0.70%
01/27/21 15:00	GE	!	GfK Consumer Confidence	Feb	-15.6	-7.9	-7.5
01/27/21 21:30	US	!!	Durable Goods Orders	Dec	0.20%	1.00%	1.20%
01/27/21 21:30	US	!!	Durables Ex Transportation	Dec	0.70%	0.50%	0.80%
Thursday							
01/28/21 03:00	US	!!!	FOMC Rate Decision (Lower Bound)	Jan	0.00%	0.00%	0.00%
01/28/21 05:45	NZ	!!	Exports NZD	Dec	5.35b	5.65b	5.21b
01/28/21 05:45	NZ	!!	Imports NZD	Dec	5.33b	4.85b	4.92b
01/28/21 05:45	NZ	!!	Trade Balance NZD	Dec	17m	800m	290m
01/28/21 21:30	CA	!	Building Permits MoM	Dec	-4.10%	-5.00%	12.90%
01/28/21 21:30	US	!!!	GDP Annualized QoQ	4Q	4.00%	4.20%	33.40%
01/28/21 21:30	US	!	Initial Jobless Claims	Jan	847k	875k	914k
01/28/21 23:00	US	!	Leading Index	Dec	0.30%	0.30%	0.70%
01/28/21 23:00	US	!	New Home Sales MoM	Dec	1.60%	3.50%	-12.60%
Friday							
01/29/21 21:30	CA	!!	GDP YoY	Nov	-2.80%	-3.20%	-3.50%
01/29/21 21:30	US	!!	Personal Income	Dec	0.60%	0.10%	-1.30%
01/29/21 21:30	US	!!	Personal Spending	Dec	-0.20%	-0.40%	-0.70%
01/29/21 23:00	US	!	Pending Home Sales MoM	Dec	-0.30%	-0.50%	-2.50%
01/29/21 23:00	US	!!	U. of Mich. Sentiment	Jan	79.0	79.4	79.2

Appendix 3: Upcoming Economic Figures (Feb 1, 2020 – Feb 5, 2020)

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
02/01/21 17:00	EC	!!	Markit Eurozone Manufacturing PMI	Jan	--	--	54.7
02/01/21 17:30	UK	!!	Markit UK PMI Manufacturing SA	Jan	--	--	52.9
02/01/21 23:00	US	!!	ISM Manufacturing	Jan	--	60	60.7
Tuesday							
02/02/21 11:30	AU	!!!	RBA Cash Rate Target	Feb	--	--	0.10%
02/02/21 18:00	EC	!!	GDP SA YoY	4Q	--	--	-4.30%
Wednesday							
02/03/21 05:45	NZ	!!	Unemployment Rate	4Q	--	--	5.30%
02/03/21 05:45	NZ	!!	Employment Change YoY	4Q	--	--	0.20%
02/03/21 17:00	EC	!!	Markit Eurozone Services PMI	Jan	--	--	45
02/03/21 17:30	UK	!!	Markit/CIPS UK Services PMI	Jan	--	--	38.8
02/03/21 18:00	EC	!!	CPI Estimate YoY	Jan	--	--	-0.30%
02/03/21 23:00	US	!!	ISM Services Index	Jan	--	56.8	57.2
Thursday							
02/04/21 08:30	AU	!!	Trade Balance	Dec	--	--	A\$5022m
02/04/21 08:30	AU	!!	Exports MoM	Dec	--	--	3%
02/04/21 08:30	AU	!!	Imports MoM	Dec	--	--	10%
02/04/21 20:00	UK	!!!	Bank of England Bank Rate	Feb	--	--	0.10%
02/04/21 21:30	US	!	Initial Jobless Claims	Jan	--	--	--
02/04/21 23:00	US	!!	Durable Goods Orders	Dec	--	--	0.20%
Friday							
02/05/21 08:30	AU	!!	RBA Statement on Monetary Policy	Feb			
02/05/21 21:30	CA	!!	Unemployment Rate	Jan	--	--	8.60%
02/05/21 21:30	CA	!!	Net Change in Employment	Jan	--	--	-62.6k
02/05/21 21:30	CA	!!	Int'l Merchandise Trade	Dec	--	--	-3.34b
02/05/21 21:30	US	!!!	Change in Nonfarm Payrolls	Jan	--	75k	-140k
02/05/21 21:30	US	!!!	Unemployment Rate	Jan	--	6.70%	6.70%
02/05/21 21:30	US	!!	Trade Balance	Dec	--	-\$66.4b	-\$68.1b

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Important Disclosure

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.