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Citibank Wealth Management



Mar 8, 2021
with data as of Mar 5, 2021

Weekly FX Strategy

FX Analysis

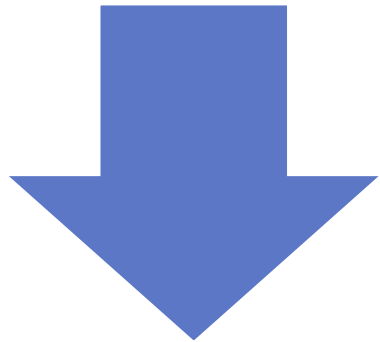
Data Forecasts

Weekly FX Insight

Please note and carefully read the
Important Disclosure on the last part

Latest USD view

USD depreciation



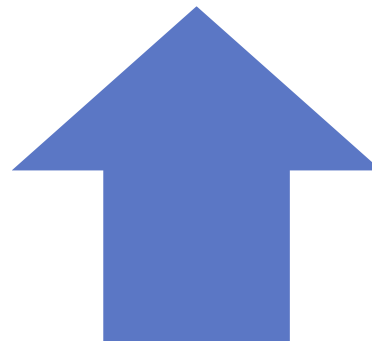
Previous forecast

US GDP growth: slower pace
Fed policy: dovish



Current forecast:

US GDP forecast: faster pace
Fed policy: may start to taper



USD appreciation

The Bottoming in DXY

- For much of last year, we argued that USD was vulnerable to depreciation given the erosion of USD fundamentals after the public health crisis. Specifically, a return to ZIRP alongside “unlimited” QE impulse from the Fed led USD real yields to move ever lower.
- However, US growth momentum turned stronger than RoW and the inflation expectation is rising. The market expect the Fed to taper in Q4 2021. This could cause higher US real yields and a stronger DXY.

	Monetary policy outlook
USD	Taper in Q4 and rate hike in the end of 2022
RMB	MLF 1-Yr rate reaches 2.95%. The large interest rate differentials is still significant.
CAD	Asset purchases may be tapered from April
NZD	No rate cut until 2023 Q1
AUD	No rate cut and may expand LSAP programme
GBP	BoE may not cut rate this year
EUR	May expand the asset purchase program in March
JPY	Remain negative rate until 2024
CHF	Remain negative rate until 2025

Dispersion may increase within G10 FX returns over next 6-12m

Euro Bloc currencies

EUR: A simple relative growth model, using Citi's data momentum differentials between Europe and the US has tended to lead the broad directionality of EUR/USD. Additionally, the momentum in 5y and 10y real yield differentials would be a strong signal for impending USD strength. The bearish EUR signals are increasing in our view.

GBP: GBP FX remains around 10-15% cheap. If the base-case for Q2-Q3 widespread COVID inoculation and an ease in lockdown restrictions holds, flows into the UK's value assets can keep GBP supported.

Commodity Bloc currencies

AUD: The recovery remains stronger than expected and Citi now believe that Australia could return to pre-COVID level of output by end of Q1'21. This may favor AUD.

NZD: Our expectations for a reflationary 2021 and sustained risk-on momentum implies NZD strength. But we are now forecasting a slightly lower path for NZDUSD.

CAD: We have upgraded both oil and copper forecasts. Given this we still see upside for CAD despite the bottoming process occurring in DXY.

Dispersion may
increase within G10
FX returns over the
next 6-12m

Safe havens

JPY: The Fed may taper in Q4 2021, which may lead the US real yields higher and favor USD This may weigh on JPY.

Gold: The Gold market bull cycle ends. We cut the 2021E average price forecast 5% from \$1,900/oz to \$1,800/oz, with 0-3m target at \$1800/oz and 6-12m target at \$1700/oz.

EMFX

RMB: We remain bullish CNY in 6-12m horizon. However, relative to last month, this is less so given the trajectory for DXY has moved higher.

We maintain our view that the RMB still faces significant appreciation pressures this year. The large interest rate differentials should continue to attract sizeable capital inflow.

Even though the PBoC will not tolerate continuous and oneway RMB appreciation, its ability to intervene in the FX markets could be constrained by its obligation to abide by the the Phase One Trade Agreement with the US.



Weekly FX Strategy: AUD

AUD news

- US non-farm payroll figures significantly outperformed expectations for February, as 379,000 jobs were added to the US economy. Unemployment is at 6.2%. This favor USD and weigh on AUD.
- RBA kept the policy rate unchanged but stayed dovish in the statement, which limited the AUD's performance.

AUD outlook

- In order to stem further currency appreciation and cap moves higher in rates, Citi expect another AUD 100bn to its LSAP programme in Oct'20. This may reduce some of the AUD upside. Domestically, the recovery remains stronger than expected and Citi now believe that Australia could return to pre-COVID level of output by end of Q1'21. This may favor AUD.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
0.7462	0.7589	0.7820	0.7950	0.78	0.79	0.77



Source: Bloomberg L.P., as of Mar 5, 2021

- AUDUSD's pivotal support may be found at 0.7538-0.7564 with resistance at 0.7820 and 0.8007.

Strategy for AUD holders - Diversify into USD

- In order to stem further currency appreciation and cap moves higher in rates, Citi expect another AUD 100bn to its LSAP programme in Oct'20. This may reduce some of the AUD upside.
- We are forecasting a slightly lower path for AUDUSD, given our expectations for DXY strength in the next 6-12m.



Strategy		Reference Level	Target Level
Bearish on AUD	USD	0.7820	0.7564
Bearish on AUD	HKD	6.07	5.87

Strategy for USD holders - Buy AUD upon retracement

- Domestically, the recovery remains stronger than expected and Citi now believe that Australia could return to pre-COVID level of output by end of Q1'21. This may favor AUD.
- The labour market continues to surprise to the upside, and Australia has seen its second strongest current account surplus recorded, thanks to strong net exports. This may also support AUD.



Strategy		Reference Level	Target Level
Bullish on AUD	USD	0.7564	0.7820
Bullish on AUD	HKD	5.87	6.07

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7632 exchange rate for reference

Weekly FX Strategy: RMB

RMB news

- US non-farm payroll figures significantly outperformed expectations for February, as 379,000 jobs were added to the US economy. Unemployment is at 6.2%. This favor USD and weigh on RMB.
- Potential slowing in demand for RMB with Lunar New Year holidays over, may also dampen the pace of RMB appreciation.

RMB outlook

- We remain bullish CNY in 6-12m horizon. However, relative to last month, this is less so given the trajectory for DXY has moved higher. We maintain our view that the RMB still faces significant appreciation pressures this year. The large interest rate differentials should continue to attract sizeable capital inflow. Even though the PBoC will not tolerate continuous and one way RMB appreciation, its ability to intervene in the FX markets could be constrained by its obligation to abide by the Currency Clause within the Phase One Trade Agreement with the US.



Source: Bloomberg L.P., as of Mar 5, 2021

- Given that the Jan 2021 high at 6.5151 is also a potential double bottom neckline that targets a move to 6.62, our bias is that a weekly close above the 6.5151 level would suggest a potential for strong gains towards the 200 day MA at 6.7323, with support at 6.4009-6.4118.

Strategy for RMB holders - Diversify into USD

- The mild but persistent weakening bias in USDCNY fixings and potential slowing in demand for RMB with Lunar New Year holidays over, may also dampen the pace of RMB appreciation.
- We feel Asia FX is vulnerable to the sharp rise in UST yields on expectations of a larger fiscal boost from the US together with an earlier than anticipated normalization by the Fed.



Strategy	Reference Level	Target Level
Bearish on RMB	USD	6.4009
Bearish on RMB	HKD	1.2128

Strategy for USD holders - Buy RMB upon retracement

- We maintain our view that the RMB still faces significant appreciation pressures this year. The large interest rate differentials should continue to attract sizeable capital inflow.
- Even though the PBoC will not tolerate continuous and oneway RMB appreciation, its ability to intervene in the FX markets could be constrained by its obligation to abide by the Currency Clause within the Phase One Trade Agreement with the US.



Strategy	Reference Level	Target Level
Bullish on RMB	USD	6.6704
Bullish on RMB	HKD	1.2128

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7632 exchange rate for reference

Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7632 exchange rate for reference

USD outlook:

- Now a year into the recovery, with health care solutions, it's too simplistic to assume that the USD will depreciate thanks to an upturn in synchronized global growth. Empirical evidence shows that higher US growth relative to RoW, in conjunction with higher US yields, sees USD appreciate.
- Citi's base case is for the Fed to taper in Q4 2021. This could cause higher US real yields and a stronger DXY.
- The market is pricing the Fed and satellite Central Banks to exit the ZLB in 2-3 years' time, but for the ECB and BoJ to remain in NIRP. Our forecast sensivage increased dispersion within G10 FX returns over the next6-12m.
- Meanwhile, given our Commodity strategists remain generally bullish for 2021, we expect the commodity exporters to remain supported, in both EM and DM, even in the face of a stronger DXY.
- The risk to a stronger USD view is of course more dovish impulse from the Fed. For example, if the FOMC were to engage in some sort of YCC or initiate operation twist, this would see the USD fall further.

Gold/USD

Gold outlook:

- We cut the 2021E average price forecast 5% from \$1,900/oz to \$1,800/oz, with 0-3m target at \$1800/oz and 6-12m target at \$1700/oz. The Gold market bull cycle ends. In the very short-term, spot bullion holding support at \$1,750-1,765 appears critical to avoid a sharper sell-off. For now, we hold our 2022E and 2023E outlook unchanged at \$1,700/oz and \$1,550/oz.

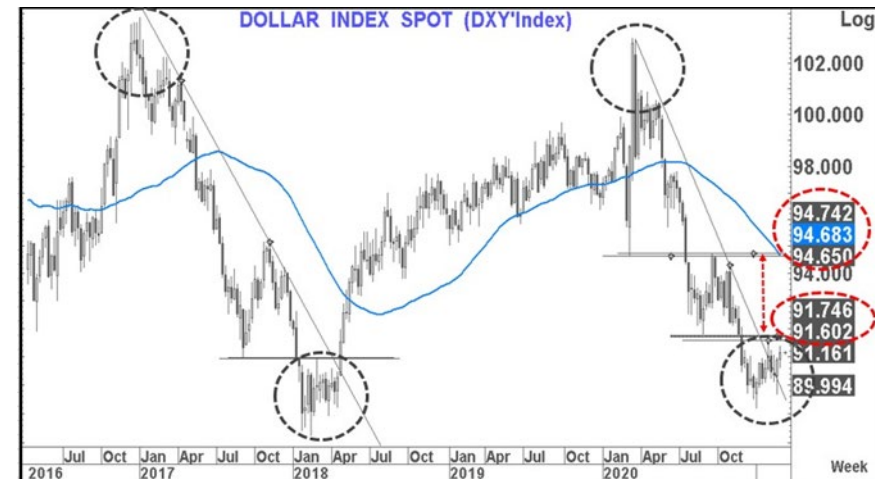


	Strategy	Reference Level	Target Level
	Bearish on Gold	USD	1830
	Bearish on Gold	HKD	14,207
	Bullish on Gold	USD	1696
	Bullish on Gold	HKD	13,166

0-3M forecast: 91.05

6-12M forecast: 92.33

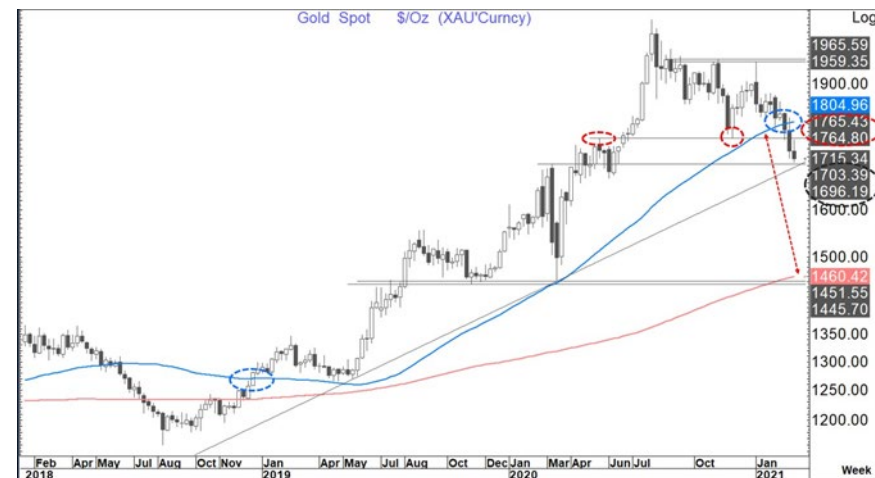
LT forecast: 94.01



Source: Bloomberg L.P., as of Mar 5, 2021

0-3M forecast: 1800

6-12M forecast: 1700



Source: Bloomberg L.P., as of Mar 5, 2021

NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7632 exchange rate for reference



NZD outlook:

- Our expectations for a reflationary 2021, sustained risk-on momentum and increased risk of RBNZ hawkish tilts implies NZD strength. We are now forecasting a slightly lower path for NZDUSD, given our expectations for DXY strength in the next 6-12m, with rising US yields.

Strategy	Reference Level	Target Level
Bearish on NZD	USD 0.7550	0.7096
Bearish on NZD	HKD 5.86	5.51
Bullish on NZD	USD 0.7096	0.7550
Bullish on NZD	HKD 5.51	5.86

0-3M forecast: 0.73

6-12M forecast: 0.73

LT forecast: 0.72



Source: Bloomberg L.P., as of Mar 5, 2021

GBP/USD

GBP outlook:

- Since our last FX Forecasts, GBP has been one of the best performing G10 currencies vs. USD. Perhaps one of the reasons for this is that UK data momentum (and surprises) has been stronger since the turn of the year relative to its peers. Additionally, the public health situation is improving rapidly in the UK. The UK has inoculated almost a third of the population, ahead of its peers in the US, Europe and Japan. This is suggestive that they will not cut the Bank rate this year. In a historical context GBP FX remains around 10-15% cheap. If the base-case for Q2-Q3 widespread COVID inoculation and an ease in lockdown restrictions holds, flows into the UK's value assets can keep GBP supported.

Strategy	Reference Level	Target Level
Bearish on GBP	USD 1.4237	1.3712
Bearish on GBP	HKD 11.05	10.64
Bullish on GBP	USD 1.3712	1.4237
Bullish on GBP	HKD 10.64	11.05

0-3M forecast: 1.40

6-12M forecast: 1.39

LT forecast: 1.40



Source: Bloomberg L.P., as of Mar 5, 2021

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7632 exchange rate for reference



CHF outlook:

- In addition to base effects from energy prices, higher EUR/CHF should start to feed into higher Swiss inflation surprises in Q2-Q3 this year, which will be welcomed by the SNB, who have set a high bar for another rate cut. Overall, Switzerland's flexible labour market, diverse economy and deep integration with global export markets put it in a good position to recover swiftly from the pandemic hit. Given that CHF is a safe-haven, in periods of strong recovery (globally), CHF tends to be a laggard relative to it's G10 peers.

Strategy	Reference Level	Target Level
Bearish on CHF	USD 0.8758	0.9319
Bearish on CHF	HKD 8.86	8.33
Bullish on CHF	USD 0.9319	0.8758
Bullish on CHF	HKD 8.33	8.86

USD/CAD

CAD outlook:

- We have upgraded both oil and copper forecasts. Given this we still see upside for CAD despite the bottoming process occurring in DXY. Recent comments from the BoC indicate that asset purchases may be tapered from April. We believe the divergence between CAD rates and US, Europe and Japanese rates can continue, which can support CAD

Strategy	Reference Level	Target Level
Bearish on CAD	USD 1.2461	1.2881
Bearish on CAD	HKD 6.23	6.03
Bullish on CAD	USD 1.2881	1.2461
Bullish on CAD	HKD 6.03	6.23

0-3M forecast: 0.92

6-12M forecast: 0.96

LT forecast: 1.01

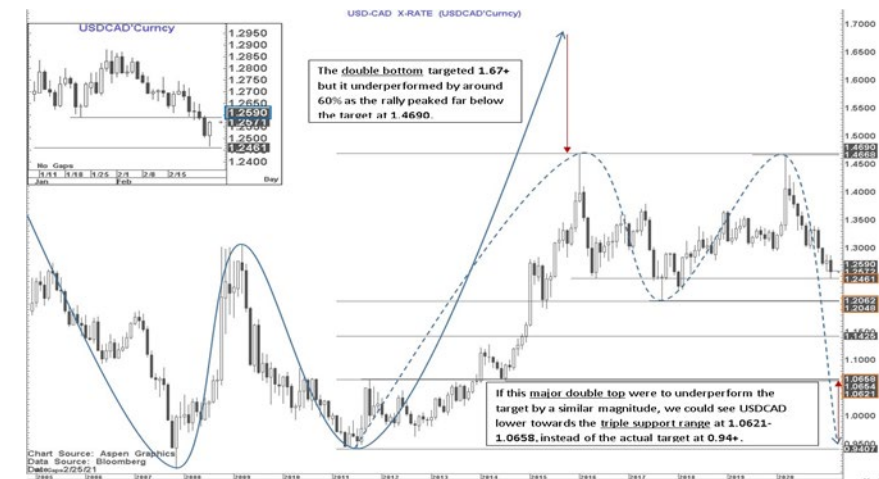


Source: Bloomberg L.P., as of Mar 5, 2021

0-3M forecast: 1.26

6-12M forecast: 1.25

LT forecast: 1.25



Source: Bloomberg L.P., as of Mar 5, 2021

EUR/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7632 exchange rate for reference

EUR outlook:

- A simple relative growth model, using Citi's data momentum differentials between Europe and the US has tended to lead the broad directionality of EUR/USD. Additionally, we are watching closely the momentum in 5y and 10y real yield differentials would be a strong signal for impending USD strength. The bearish EUR signals are increasing in our view. Should EUR/USD break support at 1.20, given current long positioning, we see scope for a fall towards its 200dma at 1.18.



Strategy		Reference Level	Target Level
Bearish on EUR	USD	1.2349	1.1603
Bearish on EUR	HKD	9.59	9.01
Bullish on EUR	USD	1.1603	1.2349
Bullish on EUR	HKD	9.01	9.59

USD/JPY

JPY outlook:

- Since the Georgia Senate run off, Citi has increased their UST supply outlook to multi decade highs given a base case for a renewed \$1.5trn fiscal stimulus. This has implications for JPY, via sensitivity to \$ real rate developments, particular if the Fed tapers later this year. In our view, relative rate differential deltas will likely continue to drive USD/JPY higher.

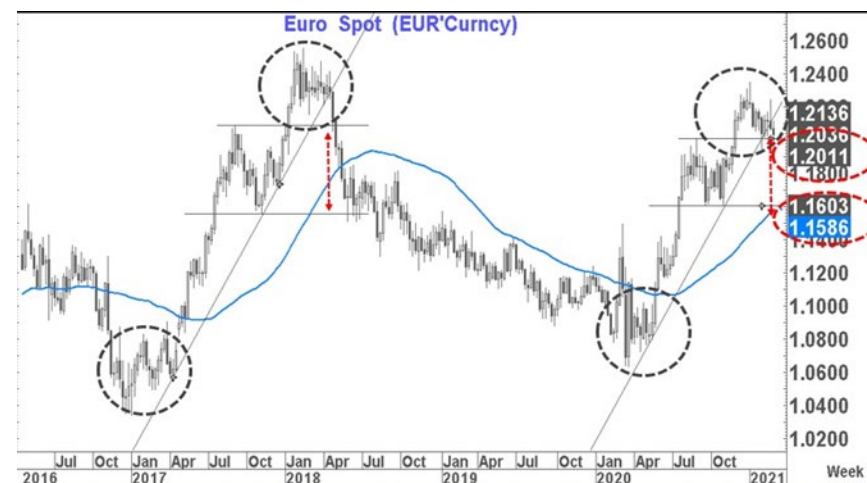


Strategy		Reference Level	Target Level
Bearish on JPY	USD	104.40	109.85
Bearish on JPY	HKD	7.44	7.07
Bullish on JPY	USD	109.85	104.40
Bullish on JPY	HKD	7.07	7.44

0-3M forecast: 1.20

6-12M forecast: 1.18

LT forecast: 1.15



Source: Bloomberg L.P., as of Mar 5, 2021

0-3M forecast: 106

6-12M forecast 108

LT forecast: 110



Source: Bloomberg L.P., as of Mar 5, 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	3/5/2021	1Q '21	2Q '21	3Q '21	4Q '21
Dollar Index	91.05	92.33	94.01	*0.00	0.00	0.00	0.00	0.00
EUR/USD	1.20	1.18	1.15	-0.50	-0.50	-0.50	-0.50	-0.50
GBP/USD	1.40	1.39	1.40	0.10	0.10	0.10	0.10	0.10
USD/JPY	106	108	110	-0.10	-0.10	-0.10	-0.10	-0.10
USD/CHF	0.92	0.96	1.01	-0.75	-0.75	-0.75	-0.75	-0.75
AUD/USD	0.78	0.79	0.77	0.10	0.10	0.10	0.10	0.10
NZD/USD	0.73	0.73	0.72	0.25	0.25	0.25	0.25	0.25
USD/CAD	1.26	1.25	1.25	0.25	0.25	0.25	0.25	0.25
USD/CNY	6.40	6.30	5.60	2.95	2.95	2.95	2.95	2.95

Source: Citi (as of Mar 4, 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	91.98	1.2%	91.98	90.01	1.0%	91.98	89.44	1.4%	102.99	89.21	2.2%
EUR/USD	1.1915	-1.3%	1.2175	1.1915	-1.1%	1.2327	1.1915	-1.7%	1.2349	1.0636	-2.4%
USD/JPY	108.31	1.6%	108.31	104.59	2.8%	108.31	102.72	4.0%	111.71	101.19	4.8%
GBP/USD	1.3841	-0.7%	1.4141	1.3735	0.8%	1.4141	1.3224	3.0%	1.4237	1.1412	1.3%
USD/CAD	1.2659	-0.6%	1.2756	1.2513	-0.8%	1.2908	1.2513	-1.0%	1.4668	1.2468	-0.7%
AUD/USD	0.7686	-0.3%	0.7968	0.7678	0.1%	0.7968	0.7411	3.5%	0.8007	0.5510	0.2%
NZD/USD	0.7167	-0.9%	0.7436	0.7167	-0.4%	0.7436	0.7021	1.7%	0.7465	0.5470	0.0%
USD/CHF	0.9292	2.3%	0.9292	0.8901	3.4%	0.9292	0.8784	4.1%	0.9902	0.8758	4.9%
USD/CNY	6.4970	0.4%	6.4970	6.4352	0.5%	6.5500	6.4283	-0.5%	7.1777	6.4236	-0.5%
USD/CNH	6.5163	0.5%	6.5163	6.4060	0.9%	6.5401	6.4060	0.0%	7.1965	6.4009	0.1%
GOLD	1700.64	-1.9%	1842.89	1697.52	-6.3%	1950.01	1697.52	-7.5%	2075.47	1451.55	-10.1%

Source: Bloomberg L.P., as of Mar 5, 2021

Appendix 2: Last week's Economic Figures

Time		Event	Period	Actual	Survey	Prior
Monday						
03/01/21 17:00	EC	Markit Eurozone Manufacturing PMI	Feb	57.9	57.7	57.7
03/01/21 17:30	UK	Markit UK PMI Manufacturing SA	Feb	55.1	54.9	54.9
03/01/21 21:30	CA	Current Account Balance	4Q	-\$7.26b	-\$8.00b	-\$7.53b
03/01/21 23:00	US	ISM Manufacturing	Feb	60.8	58.9	58.7
Tuesday						
03/02/21 11:30	AU	RBA Cash Rate Target	Mar	0.10%	0.10%	0.10%
03/02/21 18:00	EC	CPI Estimate YoY	Feb	0.90%	0.90%	0.90%
03/02/21 21:30	CA	Quarterly GDP Annualized	4Q	9.60%	7.30%	40.50%
Wednesday						
03/03/21 08:30	AU	GDP YoY	4Q	-1.10%	-1.90%	-3.80%
03/03/21 17:00	EC	Markit Eurozone Services PMI	Feb	45.7	44.7	44.7
03/03/21 17:30	UK	Markit/CIPS UK Services PMI	Feb	49.5	49.7	49.7
03/03/21 21:30	CA	Building Permits MoM	Jan	8.20%	2.50%	-4.10%
03/03/21 23:00	US	ISM Services Index	Feb	55.3	58.7	58.7
Thursday						
03/04/21 03:00	US	U.S. Federal Reserve Releases Beige Book	Mar			
03/04/21 08:30	AU	Retail Sales MoM	Jan	0.50%	0.60%	0.60%
03/04/21 08:30	AU	Trade Balance	Jan	A\$10142m	A\$7500m	A\$7133m
03/04/21 21:30	US	Initial Jobless Claims	Feb	745k	750k	736k
03/04/21 23:00	US	Durable Goods Orders	Jan	3.4%	3.4%	3.4%
Friday						
03/05/21 21:30	CA	Int'l Merchandise Trade	Jan	1.41b	-1.40b	-1.98b
03/05/21 21:30	US	Average Hourly Earnings YoY	Feb	5.30%	5.30%	5.30%
03/05/21 21:30	US	Change in Nonfarm Payrolls	Feb	379k	200k	166k
03/05/21 21:30	US	Unemployment Rate	Feb	6.20%	6.30%	6.30%
03/05/21 21:30	US	Trade Balance	Jan	-\$68.2b	-\$67.5b	-\$67.0b
03/05/21 23:00	CA	Ivey Purchasing Managers Index SA	Feb	60.0	--	48.4

Appendix 3: Upcoming Economic Figures (Mar 8, 2020 – Mar 12, 2020)

Time		Event	Period	Actual	Survey	Prior
Tuesday						
03/09/21 07:50	JN	GDP Annualized SA QoQ	4Q	--	12.60%	12.70%
03/09/21 08:00	NZ	ANZ Business Confidence	Mar	--	--	7
03/09/21 08:30	AU	NAB Business Confidence	Feb	--	--	10
03/09/21 18:00	EC	GDP SA YoY	4Q	--	--	-5.00%
Wednesday						
03/10/21 09:30	CH	CPI YoY	Feb	--	-0.30%	-0.30%
03/10/21 21:30	US	CPI YoY	Feb	--	1.70%	1.40%
03/10/21 21:30	US	CPI Ex Food and Energy YoY	Feb	--	1.30%	1.40%
03/10/21 23:00	CA	Bank of Canada Rate Decision	Mar	--	0.25%	0.25%
Thursday						
03/11/21 03:00	US	Monthly Budget Statement	Feb	--	--	-\$162.8b
03/11/21 08:01	UK	RICS House Price Balance	Feb	--	--	50%
03/11/21 20:45	EC	ECB Main Refinancing Rate	Mar	--	--	0.00%
03/11/21 21:30	US	Initial Jobless Claims	Mar	--	--	--
Friday						
03/12/21 05:30	NZ	BusinessNZ Manufacturing PMI	Feb	--	--	57.5
03/12/21 15:00	UK	Industrial Production YoY	Jan	--	--	-3.30%
03/12/21 15:00	UK	Manufacturing Production YoY	Jan	--	--	-2.50%
03/12/21 15:00	UK	Monthly GDP (MoM)	Jan	--	--	1.20%
03/12/21 21:30	CA	Net Change in Employment	Feb	--	--	-212.8k
03/12/21 21:30	CA	Unemployment Rate	Feb	--	--	9.40%
03/12/21 23:00	US	U. of Mich. Sentiment	Mar	--	77.2	76.8

Important Disclosure



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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.

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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.

Important Disclosure

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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.