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Citibank Wealth Management



Mar 15, 2021
with data as of Mar 12, 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: GBP

GBP news

- The market sentiment was improved as US passed the \$1.9 trillion stimulus last week, which weighed on USD and supported GBP.
- The recently UK budget featuring additional fiscal loosening and labor market support that rules out further BoE rate cuts, which support GBP.

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.



Source: Bloomberg L.P., as of Mar 12, 2021

- GBPUSD quickly regained the February 2016 low and a rising channel base at 1.3834-36. Back in 2018, there was a sharp rebound that pushed GBPUSD above the previous trend high following a short lived correction. Similar price action now may push GBPUSD above the previous trend high at 1.4237 to test a crucial resistance range at 1.4281-1.4377. Meanwhile, support lies around the pivotal 1.3657-1.3759 area.

Strategy for GBP holders - Diversify into USD

- Political risks for cable may start to become more visible in the next two months as UK goes to local elections and Scotland elects its Parliament, which may limit GBP's performance.
- Citi's base case is for the Fed to taper in Q4 2021. This could cause higher US real yields and a stronger DXY. This may also weigh on GBP.



Strategy		Reference Level	Target Level
Bearish on GBP	USD	1.4237	1.3759
Bearish on GBP	HKD	11.05	10.68

Strategy for USD holders - Buy GBP upon retracement

- The long extension of the furlough scheme in the budget makes an August rate cut unlikely. Besides, a relatively hawkish BoE just show little concern for higher yields.
- Investors still underweight UK asset allocation. 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
Bullish on GBP	USD	1.3759	1.4237
Bullish on GBP	HKD	10.68	11.05

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7629 exchange rate for reference

Weekly FX Strategy: CAD

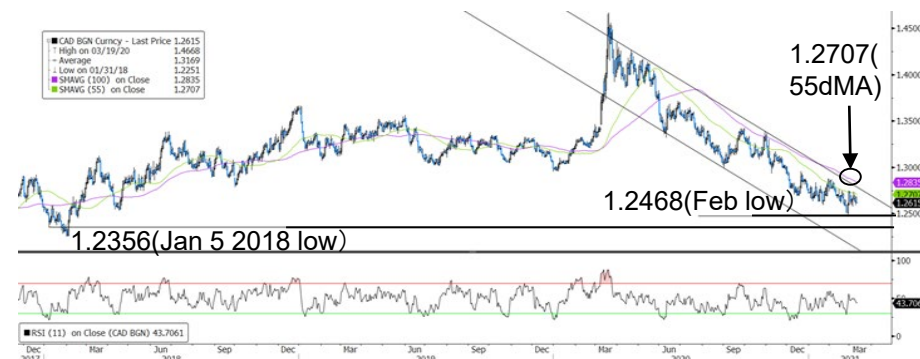
CAD news

- BoC leaves policy rates unchanged and maintains the current pace of asset purchases. A mildly bullish bias on CAD from the BoC statement with an ever-so-slightly hawkish shift.
- Canadian employment is up a whopping 259.2k jobs in February, stronger than consensus. USDCAD marked a three-year low after a strong beat in Canadian February employment data.

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 FX.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
1.2356	1.2468	1.2707	1.2835	1.26	1.25	1.25



Source: Bloomberg L.P., as of Mar 12, 2021

- USDCAD is still trading between 55dMA at 1.2665-1.2712 and Jan2021 low at 1.2590. As a strong resistance lies around the downtrend line converging 55dMA, there is opportunity for the pair to move lower and may target to the support at 1.2356 and 1.2468.

Strategy for CAD holders - Diversify into USD

- Virus related restrictions, slower than expected vaccine rollout, dovish risks to the core CPI outlook and a strengthening CAD are headwinds that may delay the BoC's recovery timeline.
- Near term rising risks for a dovish BoC taper combined with a potential delay in the domestic recovery could see CAD underperforming its peers (NZD in particular).



Strategy		Reference Level	Target Level
Bearish on CAD	USD	1.2356	1.2707
Bearish on CAD	HKD	6.28	6.11

Strategy for USD holders - Buy CAD upon retracement

- We continue to expect purchases will be reduced to C\$3 billion per week in April.
- Rising oil prices and the prospect of BoC tapering to commence in April make CAD relatively more resilient to USD than its commodity peers.



Strategy		Reference Level	Target Level
Bullish on CAD	USD	1.2707	1.2356
Bullish on CAD	HKD	6.11	6.28

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7629 exchange rate for reference

Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7629 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.

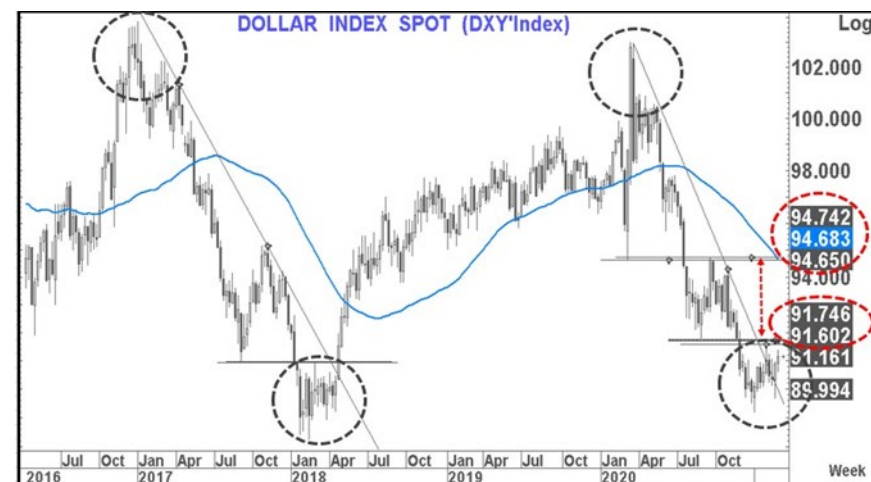


	Strategy	Reference Level	Target Level
	Bearish on Gold	USD	1816
	Bearish on Gold	HKD	14,097
	Bullish on Gold	USD	1660
	Bullish on Gold	HKD	12,886

0-3M forecast: 91.05

6-12M forecast: 92.33

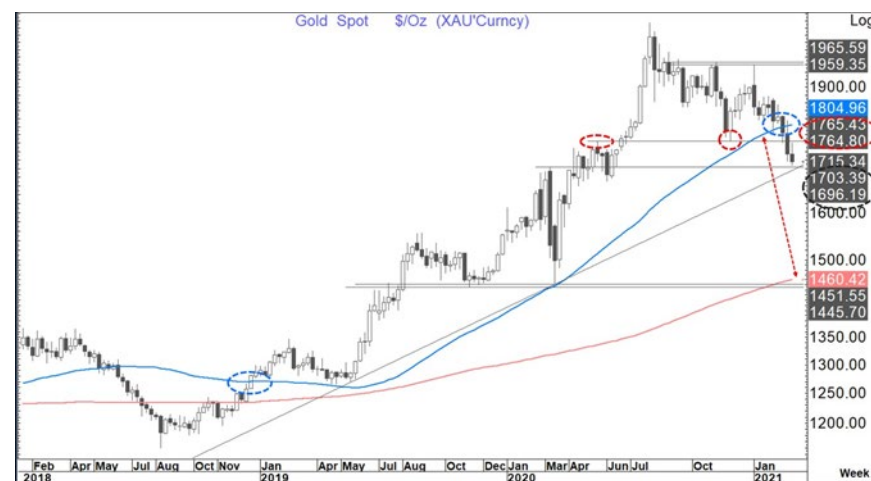
LT forecast: 94.01



Source: Bloomberg L.P., as of Mar 12, 2021

0-3M forecast: 1800

6-12M forecast: 1700



Source: Bloomberg L.P., as of Mar 12, 2021

NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7629 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 0.7465	0.7106
Bearish on NZD	HKD 5.80	5.52
Bullish on NZD	USD 0.7106	0.7465
Bullish on NZD	HKD 5.52	5.80

0-3M forecast: 0.73 6-12M forecast: 0.73 LT forecast: 0.72



Source: Bloomberg L.P., as of Mar 12, 2021

AUD/USD

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.

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

0-3M forecast: 0.78 6-12M forecast: 0.79 LT forecast: 0.77



Source: Bloomberg L.P., as of Mar 12, 2021

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7629 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	0.9421
Bearish on CHF	HKD 8.86	8.24
Bullish on CHF	USD 0.9421	0.8758
Bullish on CHF	HKD 8.24	8.86

0-3M forecast: 0.92 6-12M forecast: 0.96 LT forecast: 1.01



Source: Bloomberg L.P., as of Mar 12, 2021

USD/RMB

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.

Strategy	Reference Level	Target Level
Bearish on RMB	USD 6.4430	6.5531
Bearish on RMB	HKD 1.2049	1.1846
Bullish on RMB	USD 6.5531	6.4430
Bullish on RMB	HKD 1.1846	1.2049

0-3M forecast: 6.40 6-12M forecast: 6.30 LT forecast: 5.60



Source: Bloomberg L.P., as of Mar 12, 2021

EUR/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7629 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	1.1836
Bearish on EUR	HKD	9.59	9.20
Bullish on EUR	USD	1.1836	1.2349
Bullish on EUR	HKD	9.20	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	106.95	109.85
Bearish on JPY	HKD	7.26	7.07
Bullish on JPY	USD	109.85	106.95
Bullish on JPY	HKD	7.07	7.26

0-3M forecast: 1.20

6-12M forecast: 1.18

LT forecast: 1.15



Source: Bloomberg L.P., as of Mar 12, 2021

0-3M forecast: 106

6-12M forecast: 108

LT forecast: 110



Source: Bloomberg L.P., as of Mar 12, 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	3/12/2021	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	91.68	-0.3%	92.31	90.01	1.3%	92.31	89.44	0.8%	102.99	89.21	2.0%
EUR/USD	1.1953	0.3%	1.2175	1.1847	-1.4%	1.2327	1.1847	-1.3%	1.2349	1.0636	-2.2%
USD/JPY	109.03	0.7%	109.03	104.94	3.9%	109.03	102.72	4.8%	111.71	102.59	5.4%
GBP/USD	1.3924	0.6%	1.4141	1.3824	0.5%	1.4141	1.3324	5.3%	1.4237	1.1412	1.9%
USD/CAD	1.2475	-1.5%	1.2738	1.2475	-1.7%	1.2908	1.2475	-2.3%	1.4668	1.2462	-2.0%
AUD/USD	0.7764	1.0%	0.7968	0.7650	0.0%	0.7968	0.7523	3.1%	0.8007	0.5510	0.9%
NZD/USD	0.7176	0.1%	0.7436	0.7129	-0.7%	0.7436	0.7040	1.3%	0.7465	0.5470	0.0%
USD/CHF	0.9302	0.1%	0.9362	0.8903	4.3%	0.9362	0.8784	4.5%	0.9902	0.8758	4.8%
USD/CNY	6.5084	0.2%	6.5261	6.4550	0.8%	6.5500	6.4283	-0.6%	7.1777	6.4236	-0.3%
USD/CNH	6.4962	-0.3%	6.5515	6.4060	1.2%	6.5515	6.4060	-0.7%	7.1965	6.4009	-0.1%
GOLD	1727.11	1.6%	1824.23	1683.54	-5.3%	1950.01	1683.54	-6.1%	2075.47	1451.55	-9.1%

Source: Bloomberg L.P., as of Mar 12, 2021

Appendix 2: Last week's Economic Figures

Time		Event	Period	Actual	Survey	Prior
Tuesday						
03/09/21 07:50	JN	GDP Annualized SA QoQ	4Q	11.70%	12.60%	12.70%
03/09/21 08:00	NZ	ANZ Business Confidence	Mar	0.0	--	7
03/09/21 08:30	AU	NAB Business Confidence	Feb	16	--	12
03/09/21 18:00	EC	GDP SA YoY	4Q	-4.90%	-5.00%	-5.00%
Wednesday						
03/10/21 09:30	CH	CPI YoY	Feb	-0.20%	-0.30%	-0.30%
03/10/21 21:30	US	CPI YoY	Feb	1.70%	1.70%	1.40%
03/10/21 21:30	US	CPI Ex Food and Energy YoY	Feb	1.30%	1.40%	1.40%
03/10/21 23:00	CA	Bank of Canada Rate Decision	Mar	0.25%	0.25%	0.25%
Thursday						
03/11/21 03:00	US	Monthly Budget Statement	Feb	-\$310.9b	-\$305.0b	-\$235.3b
03/11/21 08:01	UK	RICS House Price Balance	Feb	52%	45%	49%
03/11/21 20:45	EC	ECB Main Refinancing Rate	Mar	0.00%	0.00%	0.00%
03/11/21 21:30	US	Initial Jobless Claims	Mar	712k	725k	754k
Friday						
03/12/21 05:30	NZ	BusinessNZ Manufacturing PMI	Feb	53.4	--	58.0
03/12/21 15:00	UK	Industrial Production YoY	Jan	-4.90%	-4.40%	-3.30%
03/12/21 15:00	UK	Manufacturing Production YoY	Jan	-5.20%	-3.70%	-2.50%
03/12/21 15:00	UK	Monthly GDP (MoM)	Jan	-2.90%	-4.90%	1.20%
03/12/21 21:30	CA	Net Change in Employment	Feb	259.2k	75.0k	-212.8k
03/12/21 21:30	CA	Unemployment Rate	Feb	8.20%	9.20%	9.40%
03/12/21 23:00	US	U. of Mich. Sentiment	Mar	83	78.5	76.8

Appendix 3: Upcoming Economic Figures (Mar 15, 2020 – Mar 19, 2020)

Time		Event	Period	Actual	Survey	Prior
Monday						
03/15/21 10:00	CH	Industrial Production YTD YoY	Feb	--	31.60%	--
03/15/21 10:00	CH	Retail Sales YTD YoY	Feb	--	32.00%	--
Tuesday						
03/16/21 08:30	AU	RBA Minutes of March Policy Meeting	Mar			
03/16/21 20:30	US	Retail Sales Advance MoM	Feb	--	-0.20%	5.30%
03/16/21 20:30	US	Retail Sales Ex Auto MoM	Feb	--	0.50%	5.90%
03/16/21	EC	EU Finance Ministers Meet	Mar			
Wednesday						
03/17/21 05:45	NZ	BoP Current Account Balance NZD	4Q	--	--	-3.521b
03/17/21 18:00	EC	CPI YoY	Feb	--	--	0.90%
03/17/21 20:30	US	Building Permits MoM	Feb	--	-8.50%	10.40%
03/17/21 20:30	CA	CPI YoY	Feb	--	--	1.00%
03/17/21 20:30	CA	CPI Core- Common YoY%	Feb	--	--	1.30%
Thursday						
03/18/21 02:00	US	FOMC Rate Decision (Lower Bound)	Mar	--	0.00%	0.00%
03/18/21 05:45	NZ	GDP YoY	4Q	--	--	0.40%
03/18/21 08:30	AU	Employment Change	Feb	--	--	29.1k
03/18/21 08:30	AU	Unemployment Rate	Feb	--	--	6.40%
03/18/21 20:00	UK	Bank of England Bank Rate	Mar	--	--	0.10%
03/18/21 20:30	US	Initial Jobless Claims	Mar	--	--	--
Friday						
03/19/21 07:30	JN	Natl CPI Ex Fresh Food YoY	Feb	--	--	-0.60%
03/19/21 08:01	UK	GfK Consumer Confidence	Mar	--	--	-23
03/19/21 08:30	AU	Retail Sales MoM	Feb	--	--	0.50%
03/19/21 20:30	CA	Retail Sales MoM	Jan	--	--	-3.40%
03/19/21 20:30	CA	Retail Sales Ex Auto MoM	Jan	--	--	-4.10%
03/19/21	JN	BOJ Policy Balance Rate	Mar	--	--	-0.10%

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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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Important Disclosure

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