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Citibank Wealth Management



Jan 25, 2021
with data as of Jan 22, 2021

Weekly FX Strategy

FX Analysis

Data Forecasts

Weekly FX Insight

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

Safe havens usually perform better amidst risk aversion

	2/19/20- 3/27/20	9/24/18- 12/24/18	6/23/16- 7/7/16	11/2/15- 2/10/16	7/20/15- 8/25/15	4/29/11- 8/10/11
	Public health crisis	Escalation in Trade war	Brexit referendum	A shares triggering circuit breaker	RMB exchange rate reform	European debt crisis
S&P500	-25.0%	-19.9%	-0.73%	-13.3%	-12.4%	-17.8%
JPY	3.2%	2.1%	5.4%	6.5%	4.6%	5.6%
CHF	3.4%	-2.2%	-2.1%	1.4%	2.7%	19.1%
Gold	1.0%	5.9%	8.2%	5.6%	4.0%	14.7%

Weekly FX Strategy: Gold

Gold news

- The market reacted positively following the inauguration of Joe Biden as US President, which limited the performance of safe havens.
- However, the market is still concerned about the US-China relation remaining in tense. Money flowed into gold market and supported gold prices.

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.

S2	S1	R1	R2	0-3m forecast	6-12m forecast
\$1,782	\$1,811	\$1,959	\$1,966	1850	2100



Source: Bloomberg L.P., as of Jan 22, 2021

- Strong supports have so far held, in particular the 76.4% pullback level. While these continue to hold we can be reasonably confident that this can provide a platform for renewed gains and may add momentum to re-test the double highs at \$1,959-\$1,966. Support may find at \$1811(fibo 0.764) and \$1782(55dMA).

Strategy for Gold holders - Diversify into USD

- Additional fiscal spending and expectation on the Fed starting tapering at Sep FOMC meeting may push US nominal (and real) yields move higher, leading to USD strength. So we need to pay close attention to the dollar trend in the Q4 of this year.
- Central banks such as ECB and BoC may have concern over the strength of currencies to have impact on inflation outlook, possibly deflation. This may support USD and weigh on Gold.



Strategy		Reference Level	Target Level
Bearish on Gold	USD	1966	1811
Bearish on Gold	HKD	15,241	14,039

Strategy for USD holders - Buy Gold upon retracement

- The medium term fundamental bullish view also remains intact in gold, supported by the prospect for even lower US real yields later in Q2-Q3'21.
- 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 Gold prices.



Strategy		Reference Level	Target Level
Bullish on Gold	USD	1811	1966
Bullish on Gold	HKD	14,039	15,241

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7521 exchange rate for reference



Weekly FX Strategy: JPY

JPY news

- The market reacted positively following the inauguration of Joe Biden as US President, which limited the performance of safe havens.
- BoJ leaves policy rates unchanged at its board meeting and also retains its unlimited purchases for JGBs. USDJPY stayed within a trading range.

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.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
101.89	102.59	104.50	105.00	102	99	95



Source: Bloomberg L.P., as of Jan 22, 2021

- USDJPY is still in the downward channel, while pointing to good horizontal support at 102.59 in the near term, following next support at 102.02 and at a channel base at 101.89 on the downside. The resistance may find at 104.50 and 105.00.

Strategy for JPY holders - Diversify into USD

- 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.
- Central banks such as ECB and BoC may have concern over the strength of currencies to have impact on inflation outlook, possibly deflation. This may support USD and weigh on JPY.



Strategy		Reference Level	Target Level
Bearish on JPY	USD	102.59	104.50
Bearish on JPY	HKD	7.56	7.42

Strategy for USD holders - Buy JPY upon retracement

- Whilst we envisage USD/JPY falling towards 100 as USD fundamentals are eroded.
- The 103 level is seen as a key level for maintaining profitability by non-manufacturers, according to a Cabinet Office report. The 100.20 level is seen by big exporters as the overall turning point between profits and losses, according to the report.



Strategy		Reference Level	Target Level
Bullish on JPY	USD	104.50	102.02
Bullish on JPY	HKD	7.42	7.56

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7521 exchange rate for reference

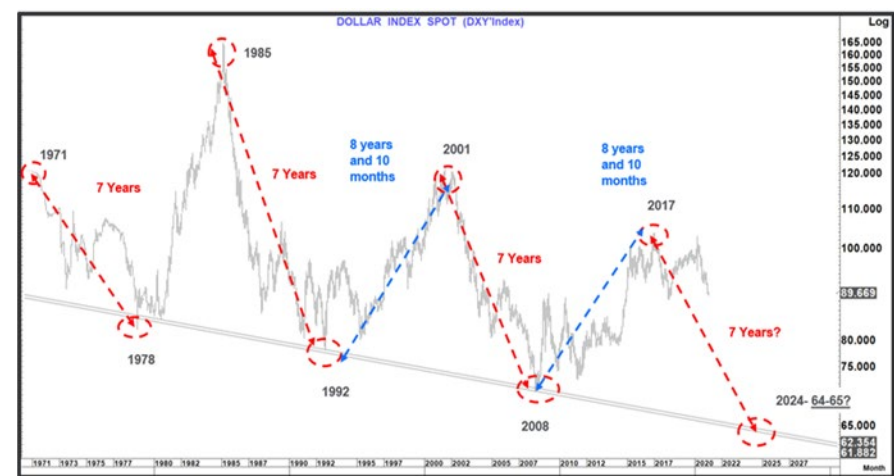
Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7521 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
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Source: Bloomberg L.P., as of Jan 22, 2021

USD/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.

	Strategy		Reference Level	Target Level
	Bearish on RMB	USD	6.4118	6.4972
	Bearish on RMB	HKD	1.2090	1.1931
	Bullish on RMB	USD	6.4972	6.4118
	Bullish on RMB	HKD	1.1931	1.2090

0-3M forecast: 6.35	6-12M forecast: 6.15	LT forecast: 5.60
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Source: Bloomberg L.P., as of Jan 22, 2021

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7521 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	0.8525	0.9042
Bearish on CHF	HKD	9.09	8.57
Bullish on CHF	USD	0.9042	0.8525
Bullish on CHF	HKD	8.57	9.09

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	1.2528	1.2858
Bearish on CAD	HKD	6.19	6.03
Bullish on CAD	USD	1.2858	1.2528
Bullish on CAD	HKD	6.03	6.19

0-3M forecast: 0.88

6-12M forecast: 0.89

LT forecast: 0.91

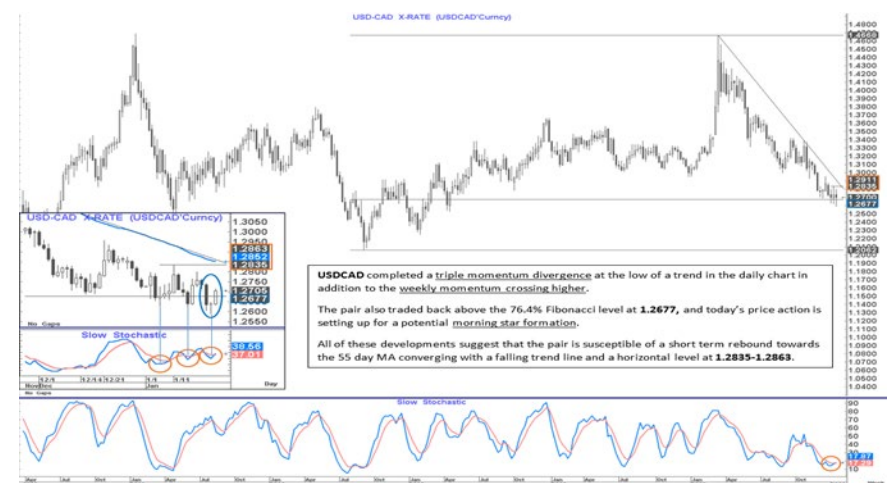


Source: Bloomberg L.P., as of Jan 22, 2021

0-3M forecast: 1.25

6-12M forecast: 1.22

LT forecast: 1.20



Source: Bloomberg L.P., as of Jan 22, 2021

NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7521 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

AUD/USD

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.



Strategy	Reference Level	Target Level
Bearish on AUD	USD 0.7950	0.7666
Bearish on AUD	HKD 6.16	5.94
Bullish on AUD	USD 0.7666	0.7950
Bullish on AUD	HKD 5.94	6.16

0-3M forecast: 0.73

6-12M forecast: 0.75

LT forecast: 0.74

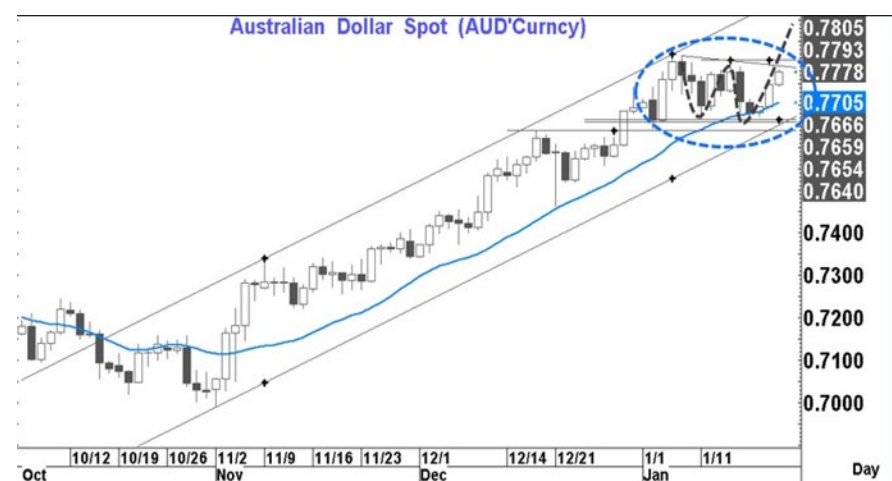


Source: Bloomberg L.P., as of Jan 22, 2021

0-3M forecast: 0.78

6-12M forecast: 0.81

LT forecast: 0.80



Source: Bloomberg L.P., as of Jan 22, 2021

EUR/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7521 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.



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

0-3M forecast: 1.24

6-12M forecast: 1.27

LT forecast: 1.27



Source: Bloomberg L.P., as of Jan 22, 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.



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

0-3M forecast: 1.38

6-12M forecast: 1.40

LT forecast: 1.45



Source: Bloomberg L.P., as of Jan 22, 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	1/22/2021	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	90.24	-0.6%	90.77	89.44	-0.6%	94.13	89.44	-3.0%	102.99	89.21	0.3%
EUR/USD	1.2171	0.7%	1.2327	1.2077	0.0%	1.2327	1.1641	2.9%	1.2349	1.0636	-0.4%
USD/JPY	103.78	-0.1%	104.26	102.72	-0.1%	105.43	102.72	-1.3%	112.23	101.19	0.5%
GBP/USD	1.3686	0.7%	1.3733	1.3361	2.8%	1.3733	1.2917	5.0%	1.3746	1.1412	0.1%
USD/CAD	1.2733	0.0%	1.2908	1.2636	-2.1%	1.3325	1.2636	-3.8%	1.4668	1.2590	0.0%
AUD/USD	0.7715	0.2%	0.7802	0.7523	3.2%	0.7802	0.7028	9.1%	0.7820	0.5510	0.3%
NZD/USD	0.7189	0.8%	0.7294	0.7040	2.5%	0.7294	0.6615	8.1%	0.7315	0.5470	0.0%
USD/CHF	0.8856	-0.6%	0.8911	0.8784	-0.5%	0.9190	0.8784	-2.4%	0.9902	0.8758	0.0%
USD/CNY	6.4819	0.0%	6.5429	6.4562	-1.2%	6.7290	6.4562	-3.3%	7.1777	6.4303	-0.7%
USD/CNH	6.4970	0.2%	6.5401	6.4370	-1.1%	6.7285	6.4370	-3.1%	7.1965	6.4118	-0.1%
GOLD	1855.61	1.5%	1950.01	1828.45	0.5%	1951.35	1776.95	-1.8%	2075.47	1451.55	-2.2%

Source: Bloomberg L.P., as of Jan 22, 2021

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
01/18/21 10:00	CH	!!!	GDP YoY	4Q	6.50%	6.20%	4.90%
01/18/21 10:00	CH	!!	Industrial Production YoY	Dec	7.30%	6.90%	7.00%
01/18/21 10:00	CH	!!	Retail Sales YoY	Dec	4.60%	5.50%	5.00%
01/18/21 21:30	CA	!	Int'l Securities Transactions	Nov	11.78b	--	6.92b
Tuesday							
01/19/21	EC	!!	EU Finance Ministers Meet	Jan			
Wednesday							
01/20/21 15:00	UK	!!	CPI YoY	Dec	0.60%	0.50%	0.30%
01/20/21 18:00	EC	!!	CPI YoY	Dec	-0.30%	-0.30%	-0.30%
01/20/21 21:30	CA	!!	CPI YoY	Dec	0.70%	1.00%	1.00%
01/20/21 23:00	CA	!!!	Bank of Canada Rate Decision	Jan	0.25%	0.25%	0.25%
Thursday							
01/21/21 08:30	AU	!!	Employment Change	Dec	50.0k	50.0k	90.0k
01/21/21 08:30	AU	!!	Unemployment Rate	Dec	6.60%	6.70%	6.80%
01/21/21 20:45	EC	!!!	ECB Main Refinancing Rate	Jan	0.00%	0.00%	0.00%
01/21/21 21:30	US	!	Building Permits MoM	Dec	4.50%	-1.70%	6.20%
01/21/21 21:30	US	!	Initial Jobless Claims	Jan	900k	935k	926k
01/21/21 21:30	US	!	Housing Starts MoM	Dec	5.80%	0.80%	3.10%
01/21/21	JN	!!!	BOJ Policy Balance Rate	Jan	-0.10%	-0.10%	-0.10%
Friday							
01/22/21 05:45	NZ	!!	CPI YoY	4Q	1.40%	1.10%	1.40%
01/22/21 07:30	JN	!!	Natl CPI Ex Fresh Food YoY	Dec	-1.00%	-1.10%	-0.90%
01/22/21 08:30	AU	!!	Retail Sales MoM	Dec	-4.20%	-1.50%	7.10%
01/22/21 15:00	UK	!!	Retail Sales Inc Auto Fuel YoY	Dec	2.90%	4.00%	2.10%
01/22/21 17:00	EC	!!	Markit Eurozone Manufacturing PMI	Jan	54.7	54.4	55.2
01/22/21 17:30	UK	!!	Markit UK PMI Manufacturing SA	Jan	52.9	53.6	57.5
01/22/21 21:30	CA	!!	Retail Sales MoM	Nov	1.30%	0.00%	0.10%

Appendix 3: Upcoming Economic Figures (Jan 25, 2020 – Jan 30, 2020)

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
01/25/21 17:00	GE	!!	IFO Business Climate	Jan	--	--	92.1
Tuesday							
01/26/21 15:00	UK	!!	Average Weekly Earnings 3M/YoY	Nov	--	--	2.70%
01/26/21 15:00	UK	!!	ILO Unemployment Rate 3Mths	Nov	--	--	4.90%
01/26/21 23:00	US	!!	Conf. Board Expectations	Jan	--	--	87.5
Wednesday							
01/27/21 08:30	AU	!!	CPI YoY	4Q	--	--	0.70%
01/27/21 15:00	GE	!	GfK Consumer Confidence	Feb	--	--	-7.3
01/27/21 21:30	US	!!	Durable Goods Orders	Dec	--	1.00%	1.00%
01/27/21 21:30	US	!!	Durables Ex Transportation	Dec	--	0.40%	0.40%
Thursday							
01/28/21 03:00	US	!!!	FOMC Rate Decision (Lower Bound)	Jan	--	0.00%	0.00%
01/28/21 05:45	NZ	!!	Exports NZD	Dec	--	--	5.20b
01/28/21 05:45	NZ	!!	Imports NZD	Dec	--	--	4.95b
01/28/21 05:45	NZ	!!	Trade Balance NZD	Dec	--	--	252m
01/28/21 21:30	CA	!	Building Permits MoM	Dec	--	--	12.90%
01/28/21 21:30	US	!!!	GDP Annualized QoQ	4Q	--	4.70%	33.40%
01/28/21 21:30	US	!	Initial Jobless Claims	Jan	--	--	--
01/28/21 23:00	US	!	Leading Index	Dec	--	0.20%	0.60%
01/28/21 23:00	US	!	New Home Sales MoM	Dec	--	1.30%	-11.00%
Friday							
01/29/21 21:30	CA	!!	GDP YoY	Nov	--	--	-3.50%
01/29/21 21:30	US	!!	Personal Income	Dec	--	0.10%	-1.10%
01/29/21 21:30	US	!!	Personal Spending	Dec	--	-0.50%	-0.40%
01/29/21 23:00	US	!	Pending Home Sales MoM	Dec	--	-1.00%	-2.60%
01/29/21 23:00	US	!!	U. of Mich. Sentiment	Jan	--	79.2	79.2

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Downgrade Risk – Downgrades in the credit rating of unrated or non investment grade Debt Securities by rating agencies are generally accompanied by declines in the market value of these Debt Securities. In some circumstances, investors in the unrated or non investment grade Debt Securities market may anticipate such downgrades as a result of these credits being placed on "credit watch" by rating agencies, causing volatility and speculation of further credit deterioration.

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

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.