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Citibank Wealth Management



Feb 22, 2021
with data as of Feb 19, 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: CAD

CAD news

- Canada's annual inflation rate climbed to 1% in January, which was higher than the expectation and favored CAD.
- Crude oil prices rose to above \$60/ barrel level. CAD may continue to derive tailwinds from further oil strength given Canada as a mainly crude oil product exporter.

CAD outlook

- Despite continued lockdowns, data has been coming in strongly; GDP by industry rose 0.7% MoM in November. We expect the tapering of purchases to be announced in April. Typically a mix of loose fiscal and tight MoPo indicates currency appreciation.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
1.2451	1.2528	1.2881	1.2957	1.25	1.22	1.20



Source: Bloomberg L.P., as of Feb 19, 2021

- USDCAD is still in the downward channel with support at 1.2451-1.2528 and resistance at 1.2881.

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	1.2451	1.2881
Bearish on CAD	HKD	6.23	6.02

Strategy for USD holders - Buy CAD upon retracement

- CAD may continue to derive tailwinds from further oil strength given Canada as a mainly crude oil product exporter. Citi revised up the oil prices. Brent prices expected to hit \$70 and WTI to hit \$68 in 6-12 months.
- Our base case for a slowing of asset purchases may start in April and the first hike by the BoC in Q4-2022, which may favor CAD.



Strategy		Reference Level	Target Level
Bullish on CAD	USD	1.2881	1.2451
Bullish on CAD	HKD	6.02	6.23

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7531 exchange rate for reference

Weekly FX Strategy: JPY

JPY news

- Minutes from the January FOMC expectedly reflect an improving US economic outlook but a Fed still judging it will be “some time” before “substantial further progress”. The headline weighed on USD and favored JPY.
- However, retail sales rose 5.3% in Jan, which was better than expectation. Stronger data led the rise of UST 10Yrs hitting a near 1.32% high and limited the performance of JPY.

JPY outlook

- We remain JPY bulls as a main beneficiary of a loose Fed and higher export demand. Near term price action suggests positioning unwinds may be causing spot USD/JPY to decouple from its main drivers. However, the BOJ may be nervy about allowing USD/JPY too close to 100, the level seen by big exporters as the overall turning point between profits and losses.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
104.40	104.72	106.22	106.95	102	100	95



Source: Bloomberg L.P., as of Feb 19, 2021

- After being topped by the triple resistance range at 106.11-106.33(50% Fibonacci level of the fall from 110 to 103, Oct 2020 high, and a rising channel top), USDJPY continued drifting lower and is now very close to testing the 200 day MA at 105.5. A daily close below the level would suggest that the recent correction might get extended to a rising channel base converging with a small 76.4% retracement level at 104.72-104.84. Below here, we have a good support range at 104.40-104.41(10 Feb low).

Strategy for JPY holders - Diversify into USD

- Price action continues to see USD well bid, helped by a strong US data (retail sales, industrial production) that sees UST 10Yrs hitting a near 1.32% high.
- CFTC positioning still shows near stretched USD shorts, supporting the stronger rebound in USD for now.



Strategy	Reference Level	Target Level
Bearish on JPY	USD	104.40
Bearish on JPY	HKD	7.43

Strategy for USD holders - Buy JPY upon retracement

- A 10% pullback in US equities seems plausible. Our current caution reflects several factors, including ebullient sentiment readings, stretched valuation levels and slipping earnings revision momentum, though we recognize a 3,600-4,000 S&P 500 probable trading range. Our year-end target is 3,800. Such a move may inject a further safe haven bid into USD and JPY.
- JPY losses are likely to be capped by strong domestic Japanese inflows from lifers and pension funds looking to FX hedge their USD portfolios.



Strategy	Reference Level	Target Level
Bullish on JPY	USD	106.22
Bullish on JPY	HKD	7.30

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7531 exchange rate for reference

Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7531 exchange rate for reference

USD outlook:

- The recent USD bid may be more positioning related than a change in the outlook for USD fundamentals. Over the medium term, we still think the dollar will continue to move lower, with Q1 to Q3 this year likely to see the bulk of the weakness.
- An additional “aid” for the rates markets is the expectation for the Fed’s TGA balance to draw down (to \$600bn) by the summer, which will be a positive liquidity impulse for markets, keeping the momentum in medium term reflation trades in tact (higher equities, higher breakevens, weaker USD).
- Besides, the overriding message from Fed is that it is too “premature” to discuss exit from easy policy. So long as the Fed stays dovish, this means flows can continue into RoW value-type assets in 2021 and cyclically correlated/ high beta FX will enjoy the bulk of gains vs. USD.
- Over time, we believe the tightening of key easy macro policies remains the biggest potential risk to our medium term bearish USD view.

0-3M forecast: 88.40

6-12M forecast: 86.14

LT forecast: 85.33



Source: Bloomberg L.P., as of Feb 19, 2021

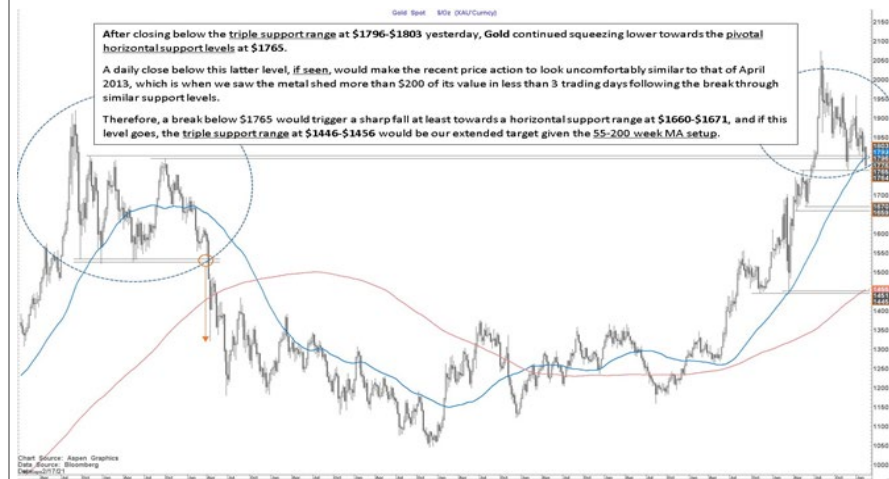
Gold/USD

Gold outlook:

- Spot gold markets should find support in the \$1,730-1,770/oz range. We still find it plausible that gold markets can rebound above \$2,000/oz in the next six months, but the durability of such a price rally is becoming increasingly questionable. More probable is that gold finds a home in a \$1,850s/\$1,900s level.

0-3M forecast: 1850

6-12M forecast: 2100



Source: Bloomberg L.P., as of Feb 19, 2021



Strategy		Reference Level	Target Level
Bearish on Gold	USD	1966	1765
Bearish on Gold	HKD	15,243	13,684
Bullish on Gold	USD	1765	1966
Bullish on Gold	HKD	13,684	15,243

NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7531 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. While the bar for easing is perhaps higher than we had originally assumed, we don't completely discount the possibility. The RBNZ do still have a number of easing tools. The result is our NZD/USD upside forecast is more modest than our AUD/USD upside forecast.

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
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Source: Bloomberg L.P., as of Feb 19, 2021

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 0.8116	0.7564
Bearish on AUD	HKD 6.29	5.86
Bullish on AUD	USD 0.7564	0.8116
Bullish on AUD	HKD 5.86	6.29

0-3M forecast: 0.78	6-12M forecast: 0.81	LT forecast: 0.80
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Source: Bloomberg L.P., as of Feb 19, 2021

EUR/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7531 exchange rate for reference



EUR outlook:

- Over the medium term, EUR/USD is likely to remain driven by global risk appetite and more so weaker broad USD dynamics during post COVID-19 reflation/ global trade volume recovery. Citi believes the bar to additional stimulus, including rates cuts, looks very high. The current lockdowns seem to be bringing down infection numbers successfully, which may allow the lifting of some restrictions earlier than they had expected. This may EUR positive.



Strategy		Reference Level	Target Level
Bearish on EUR	USD	1.2349	1.1919
Bearish on EUR	HKD	9.57	9.24
Bullish on EUR	USD	1.1916	1.2349
Bullish on EUR	HKD	9.24	9.57

USD/RMB

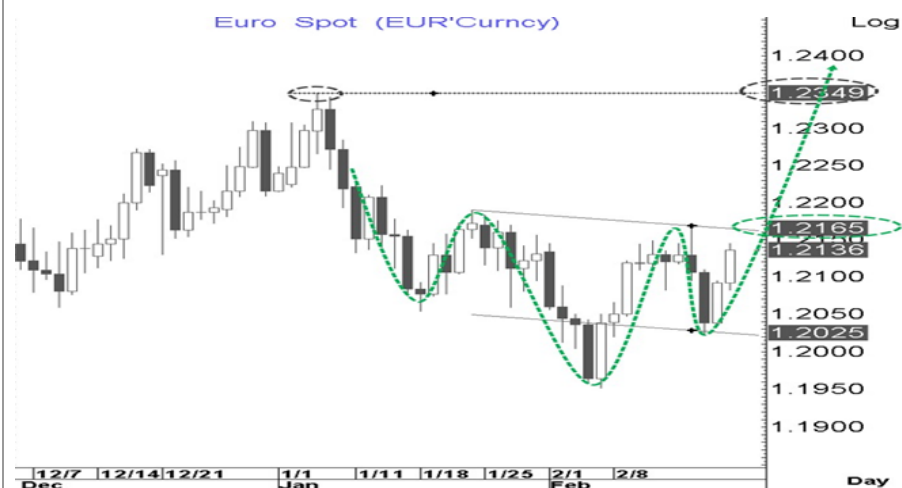
RMB outlook:

- 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, and could continue to enlarge next year, which helps attract large and persistent capital inflows and support continuous RMB appreciation.



Strategy		Reference Level	Target Level
Bearish on RMB	USD	6.4009	6.5151
Bearish on RMB	HKD	1.2113	1.1900
Bullish on RMB	USD	6.5151	6.4009
Bullish on RMB	HKD	1.1900	1.2113

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



Source: Bloomberg L.P., as of Feb 19, 2021

0-3M forecast: 6.35 6-12M forecast 6.15 LT forecast: 5.60



Source: Bloomberg L.P., as of Feb 19, 2021

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7531 exchange rate for reference

CHF outlook:

- The SNB still classifies CHF as “highly valued” and will intervene if needed to curb material CHF appreciation. Our view is that the threat of (as well as the actual implementation if need be) of SNB FX interventions should also keep rallies in the Swiss franc limited.



Strategy	Reference Level	Target Level
Bearish on CHF	USD 0.8758	0.9183
Bearish on CHF	HKD 8.85	8.44
Bullish on CHF	USD 0.9183	0.8758
Bullish on CHF	HKD 8.44	8.85

GBP/USD

GBP outlook:

- Since our last FX Forecasts, GBP has been the best performing G10 currency vs. USD. Perhaps one of the reasons for this, is that UK data momentum (and surprises) has been much stronger since the turn of the year relative to its peers. 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. However, it should be noted Citi's base case is for an August cut to -10bps. Negative policy rates would likely put an end to GBP TWI appreciation.



Strategy	Reference Level	Target Level
Bearish on GBP	USD 1.4231	1.3759
Bearish on GBP	HKD 11.03	10.67
Bullish on GBP	USD 1.3759	1.4231
Bullish on GBP	HKD 10.67	11.03

0-3M forecast: 0.88

6-12M forecast: 0.89

LT forecast: 0.91



Source: Bloomberg L.P., as of Feb 19, 2021

0-3M forecast: 1.42

6-12M forecast: 1.47

LT forecast: 1.48



Source: Bloomberg L.P., as of Feb 19, 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	2/19/2021	1Q '21	2Q '21	3Q '21	4Q '21
Dollar Index	88.40	86.14	85.33	*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	1.42	1.47	1.48	0.10	0.10	0.10	-0.10	-0.10
USD/JPY	102	100	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 Feb 3, 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	90.36	-0.1%	91.53	90.13	0.1%	92.51	89.44	-1.8%	102.99	89.21	0.7%
EUR/USD	1.2119	0.0%	1.2171	1.1964	-0.3%	1.2327	1.1841	1.8%	1.2349	1.0636	-1.0%
USD/JPY	105.45	0.5%	106.04	103.50	1.7%	106.04	102.72	1.9%	112.19	101.19	2.3%
GBP/USD	1.4016	1.2%	1.4016	1.3630	2.5%	1.4016	1.3224	5.4%	1.3986	1.1412	2.1%
USD/CAD	1.2615	-0.6%	1.2851	1.2615	-0.4%	1.3095	1.2615	-3.0%	1.4668	1.2590	-0.2%
AUD/USD	0.7869	1.4%	0.7869	0.7600	0.9%	0.7869	0.7286	6.6%	0.7820	0.5510	1.0%
NZD/USD	0.7299	1.1%	0.7299	0.7122	1.4%	0.7299	0.6915	4.4%	0.7315	0.5470	0.4%
USD/CHF	0.8963	0.5%	0.9042	0.8853	0.8%	0.9129	0.8784	-1.7%	0.9902	0.8758	1.3%
USD/CNY	6.4577	0.0%	6.4878	6.4283	0.1%	6.5915	6.4283	-1.5%	7.1777	6.4236	-0.9%
USD/CNH	6.4542	0.5%	6.4970	6.4060	-0.3%	6.5839	6.4060	-1.8%	7.1965	6.4009	-0.7%
GOLD	1784.25	-2.2%	1871.84	1775.67	-3.5%	1950.01	1775.67	-4.9%	2075.47	1451.55	-6.9%

Source: Bloomberg L.P., as of Feb 19, 2021

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
02/15/21 07:50	JN	!!	GDP Annualized SA QoQ	4Q	12.70%	10.10%	22.70%
Tuesday							
02/16/21 08:30	AU	!!	RBA Minutes of Feb. Policy Meeting	Feb	--		
02/16/21 18:00	EC	!!	GDP SA YoY	4Q	-5.00%	-5.10%	-5.10%
02/16/21	EC	!!	EU Finance Ministers Meet	Feb	--		
Wednesday							
02/17/21 15:00	UK	!!	CPI YoY	Jan	0.70%	0.60%	0.60%
02/17/21 21:30	CA	!!	CPI YoY	Jan	1.00%	0.90%	0.70%
02/17/21 21:30	CA	!!	CPI Core- Common YoY%	Jan	1.30%	1.40%	1.30%
02/17/21 21:30	US	!!!	Retail Sales Advance MoM	Jan	5.30%	1.10%	-1.00%
02/17/21 21:30	US	!!!	Retail Sales Ex Auto MoM	Jan	5.90%	1.00%	-1.80%
Thursday							
02/18/21 03:00	US	!!!	FOMC Meeting Minutes	Jan	--	--	--
02/18/21 08:30	AU	!!	Employment Change	Jan	29.1k	30.0k	50.0k
02/18/21 08:30	AU	!!	Unemployment Rate	Jan	6.40%	6.50%	6.60%
02/18/21 21:30	US	!!	Building Permits MoM	Jan	10.40%	-1.40%	4.50%
02/18/21 21:30	US	!!	Housing Starts MoM	Jan	-6.00%	-0.50%	8.20%
02/18/21 21:30	US	!	Initial Jobless Claims	Feb	861k	773k	848k
Friday							
02/19/21 07:30	JN	!	Natl CPI Ex Fresh Food YoY	Jan	-0.60%	-0.60%	-1.00%
02/19/21 08:30	AU	!!	Retail Sales MoM	Jan	0.60%	2.00%	-4.10%
02/19/21 15:00	UK	!!	Retail Sales Inc Auto Fuel YoY	Jan	-5.90%	-0.80%	3.10%
02/19/21 15:00	UK	!!	Retail Sales Ex Auto Fuel YoY	Jan	-3.80%	2.70%	6.70%
02/19/21 17:00	EC	!!	Markit Eurozone Manufacturing PMI	Feb	57.7	54.3	54.8
02/19/21 17:30	UK	!!	Markit UK PMI Manufacturing SA	Feb	54.9	53.1	54.1
02/19/21 21:30	CA	!!	Retail Sales MoM	Dec	-3.40%	-2.60%	1.80%
02/19/21 21:30	CA	!!	Retail Sales Ex Auto MoM	Dec	-4.10%	-2.40%	2.90%

Appendix 3: Upcoming Economic Figures (Feb 22, 2020 – Feb 26, 2020)

Time		Event	Period	Actual	Survey	Prior
Monday						
02/22/21 17:00	GE	IFO Business Climate	Feb	--	--	90.1
02/22/21 23:00	US	Leading Index	Jan	--	0.30%	0.30%
Tuesday						
02/23/21 05:45	NZ	Retail Sales Ex Inflation QoQ	4Q	--	--	28.00%
02/23/21 15:00	UK	Average Weekly Earnings 3M/YoY	Dec	--	--	3.60%
02/23/21 15:00	UK	ILO Unemployment Rate 3Mths	Dec	--	5.20%	5.00%
02/23/21 18:00	EC	CPI Core YoY	Jan	--	--	1.40%
02/23/21 23:00	US	Powell To Deliver Semi-Annual Monetary Policy Report	Feb			
02/23/21 23:00	US	Conf. Board Consumer Confidence	Feb	--	90	89.3
Wednesday						
02/24/21 08:30	AU	Wage Price Index YoY	4Q	--	--	1.40%
02/24/21 09:00	NZ	RBNZ Official Cash Rate	Feb	--	--	0.25%
02/24/21 23:00	US	New Home Sales MoM	Jan	--	2.70%	1.60%
Thursday						
02/25/21 08:30	AU	Private Capital Expenditure	4Q	--	--	-3.00%
02/25/21 21:30	US	Durable Goods Orders	Jan	--	1.40%	0.50%
02/25/21 21:30	US	Durables Ex Transportation	Jan	--	0.60%	1.10%
02/25/21 21:30	US	Initial Jobless Claims	Feb	--	--	--
02/25/21 21:30	US	GDP Annualized QoQ	4Q	--	4.30%	4.00%
02/25/21 23:00	US	Pending Home Sales NSA YoY	Jan	--	--	22.80%
Friday						
02/26/21 05:45	NZ	Exports NZD	Jan	--	--	5.35b
02/26/21 05:45	NZ	Imports NZD	Jan	--	--	5.33b
02/26/21 05:45	NZ	Trade Balance NZD	Jan	--	--	17m
02/26/21 21:30	US	Personal Income	Jan	--	9.40%	0.60%
02/26/21 21:30	US	Personal Spending	Jan	--	0.50%	-0.20%
02/26/21 23:00	US	U. of Mich. Sentiment	Feb	--	76.2	76.2

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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.