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Citibank Wealth Management



Nov 2, 2020
with data as of Oct 30, 2020

Weekly FX Strategy

FX Analysis

Data Forecasts

Weekly FX Insight

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



Weekly FX Special Theme: 2020 U.S. presidential election



	Policies			FX Impact
	Trade	Taxes	Environment	
Trump	<ul style="list-style-type: none"> Take much more hawkish way Hurting RoW growth May impose tariffs on trading partners such as Europe 	<ul style="list-style-type: none"> Tax cuts Boost consumption growth in the US 	<ul style="list-style-type: none"> Pursue an energy policy that aims to unleash the US's oil and gas energy productive capacity No significant change to the oil outlook 	<ul style="list-style-type: none"> Potential to derail the recovery in global trade and would likely be detrimental to the Euro Euro down may lead USD up
Biden	<ul style="list-style-type: none"> Take a moderate route policy Infer lower volatility to the global trade structure 	<ul style="list-style-type: none"> Tax hikes on the wealthy and corporations Worsen the US economic outlook 	<ul style="list-style-type: none"> No significant change to the oil outlook Could take \$10 off the oil prices 	<ul style="list-style-type: none"> Supportive for currencies that are strategic allies such as Europe, Japan and EM Lower USD Risk to oil exporting currencies like CAD

There is a **risk of a USD rally in the days around the election**, particularly in the event of a **contested result**. This tail risk could lead to significant political and societal unrest, and cause a negative shock to risk assets and a USD rally.

Regardless of who wins the November election, fundamental supports for the USD have been eroded since the onset of the COVID-crisis and are unlikely to reverse over the medium term. The Fed's uber-loose policy of QE and lower for longer rates and average inflation targeting is indicative of a lower USD over time. Meanwhile, US federal deficits are rapidly expanding at a time, which may also unfavor USD.



Weekly FX Strategy: EUR

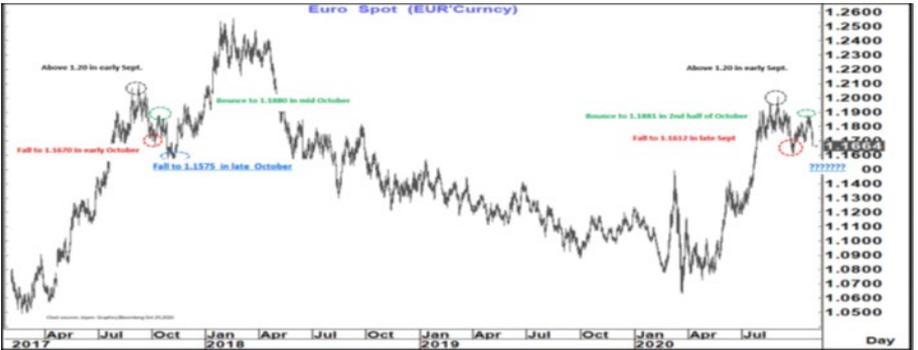
EUR news

- Some countries in Europe announces lockdown restrictions as a result of the new Covid-19 spike, which suppressed the EUR.
- ECB President Lagarde signals a clear dovish tilt at the ECB meeting, including clearly points to new measures in December, which led Euro down.

EUR outlook

- We expect the ECB to deliver additional accommodation. EUR strength may be capped near term but we think that the implications for the EUR are limited. In medium term EUR may outperform. First, increased fiscal/ current account deficits may eventually generate portfolio balance pressure on \$ assets generally over time. Second, Stronger FDI and reserve manager buying in the EA than anticipated.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
1.1575	1.1615	1.1870	1.2010	1.17	1.22	1.25



Source: Bloomberg L.P., as of Oct 30, 2020

- EURUSD breaks below horizontal support at 1.1689-94 after having broken through the 55d MA at 1.1798 and 1.1740. If it follows the 2017 Sept-Oct playbook which would suggest the possibility of a near term move as low as 1.1615 support. While this holds one final leg lower in the days ahead, possibly towards 1.1550-1.1575 would be a danger.

Strategy for EUR holders - Diversify into USD

- Euro assets had been relatively resilient to the Covid-19 negative news flow. But there is scope for further EUR negative news flow in the very short term.
- ECB President Lagarde signals a clear dovish tilt at the ECB meeting, including clearly points to new measures in December and the availability of instruments it has in its toolkit, and highlights flexibility to respond using current instruments in the interim, if and as needed, particularly regarding PEPP.



Strategy	Reference Level	Target Level
Bearish on EUR	USD	1.1870
Bearish on EUR	HKD	9.20

Strategy for USD holders - Buy EUR upon retracement

- While it may probably be too early to call a bottom at this point, the medium to longer term outlook for EURUSD remains bullish on expectations for sufficient stimulus for the global recovery to continue or resume in early 2021.
- Ultimately what drives euro fundamentally weaker are possible changes to the ECB deposit rates (rate cuts). However, these remains highly unlikely even as President Lagarde mentions that all instruments in the ECB's toolkit are under review.

Strategy	Reference Level	Target Level
Bullish on EUR	USD	1.1575
Bullish on EUR	HKD	8.97

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7500 exchange rate for reference

Weekly FX Strategy: Gold

Gold news

- The retreat in Gold is likely a function of elevated volatility in equity markets and raised deposit margins which may be leading to some liquidation of their Gold positions to fund those equity margins.
- DXY finds a broad bid amid the election uncertainty. Euro dropped while ECB clearly pointed to new measures in December, which taking USD higher.

Gold outlook

- We are bullish gold tactically in the short-term and structurally over the medium-term. We maintain our 0-3m point-price target at \$2,200/oz and a 6-12m target at \$2,400/oz. We lift the 2021E base case gold price forecast by ~\$300/oz, versus our early July update, to a record \$2,275/oz.

S2	S1	R1	R2	0-3m forecast	6-12m forecast
\$1768	\$1,832	\$1,993	\$2,075	\$2,200	\$2,400



Source: Bloomberg L.P., as of Oct 30, 2020

- Gold is failed to break back over the 55-day MA and has completed a double top (Neck line at \$1,882) that would suggest a move to at least \$1,832. That would take it below the trend low at \$1,849 and open up the possibility of extended losses towards the 200-day MA at \$1,768.

Strategy for Gold holders - Diversify into USD

- Occasional liquidation squeezes, drawdowns, and profit-taking activity for gold seem likely in a high volatility market environment. But investors will probably buy that dip on the back of an accommodative central bank reaction function.
- Record weak gold jewelry consumption and tepid official sector gold demand may limit the performance of gold.

Shopping Cart	Strategy	Reference Level	Target Level	
	Bearish on Gold	USD	2075	1832
	Bearish on Gold	HKD	16,081	14,198

Strategy for USD holders - Buy Gold upon retracement

- The record pace of inflows and overall growth in bullion ETF holdings reflects strong investor appetite for gold. Greater inclusion of gold by portfolio asset allocators, especially non-traditional players (e.g., pensions, insurance, family offices), is a further tailwind for the bullish gold thesis in the medium-term.
- This tail risk of a contested result could lead to significant political and societal unrest, and cause a negative shock to risk assets, which may favor Gold.

Shopping Cart	Strategy	Reference Level	Target Level	
	Bullish on Gold	USD	1832	2075
	Bullish on Gold	HKD	14,198	16,081

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7500 exchange rate for reference



Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7500 exchange rate for reference

USD outlook:

- Regardless of who wins the Nov election, fundamental supports for the USD have been eroded.
- The Fed's uber-loose policy of QE, lower for longer rates and average inflation targeting is indicative of a lower USD over time.
- Meanwhile, US federal deficits are rapidly expanding at a time when domestic savings are insufficient to fund these deficits. The US may require capital inflows from foreign savers, but given deficits are expanding globally, foreign investors may require a discount for US assets in the form of higher yields, lower USD or both.
- At the moment, UST yields remain close to all-time lows, so the only escape valve for worsening US fundamentals is via a lower USD.

0-3M forecast: 94.13 6-12M forecast: 90.91 LT forecast: 88.13



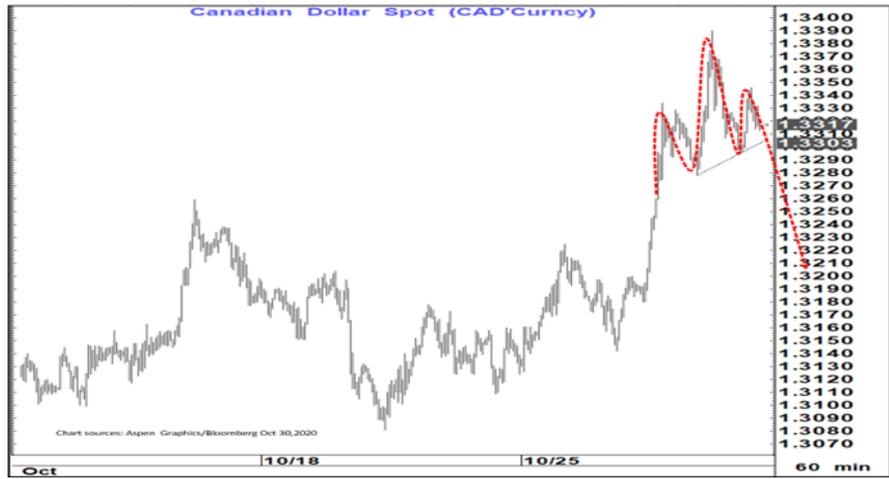
Source: Bloomberg L.P., as of Oct 30, 2020

USD/CAD

CAD outlook:

- We expect risk sentiment to be an important driver, but also think CAD has fundamental supports. Canada is the only G10 country with positive economic surprises and data momentum. Citi forecasts an extended rebound in oil from here with WTI at 56\$/bbl in 12m. This should be supportive for the Loonie.

0-3M forecast: 1.30 6-12M forecast: 1.27 LT forecast: 1.20



Source: Bloomberg L.P., as of Oct 30, 2020



	Strategy	Reference Level	Target Level
	Bearish on CAD	USD 1.2994	1.3421
	Bearish on CAD	HKD 5.96	5.77
	Bullish on CAD	USD 1.3421	1.2994
	Bullish on CAD	HKD 5.77	5.96

USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7500 exchange rate for reference

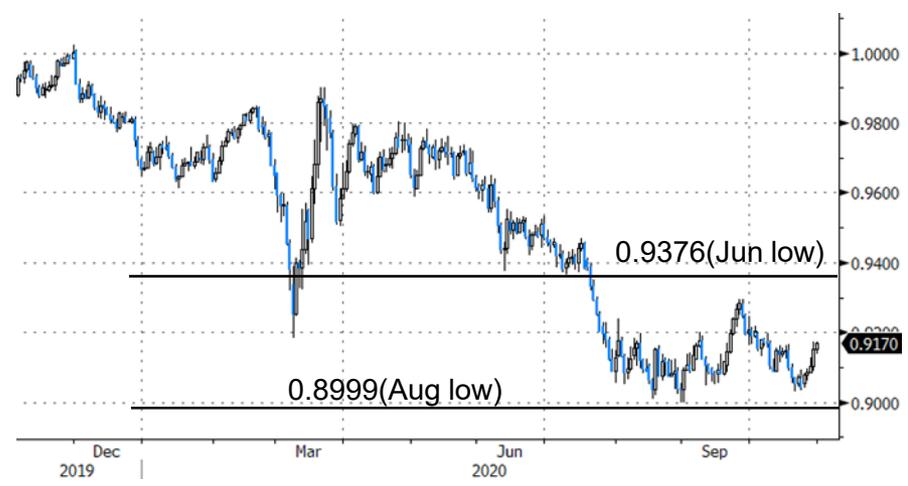


CHF outlook:

- Moderate CHF weakening is expected. Events like Brexit or the US election have the potential to trigger FX volatility, in which case the SNB can aggressively ramp up purchases of foreign shares and bonds.

Shopping Cart	Strategy		Reference Level	Target Level
	Bearish on CHF	USD	0.8999	0.9376
	Bearish on CHF	HKD	8.61	8.27
	Bullish on CHF	USD	0.9376	0.8999
	Bullish on CHF	HKD	8.27	8.61

0-3M forecast: 0.93 6-12M forecast: 0.90 LT forecast: 0.93



Source: Bloomberg L.P., as of Oct 30, 2020

USD/JPY

JPY outlook:

- PM Suga is unlikely to call a snap election and we expect another major fiscal package by year end including. PM Suga has also stated that there would be no further consumption tax hikes in the next decade. The new political environment is likely to be more conducive to JPY appreciation. However, the likely timing of the BoJ's first rate hike may delay to April 2025, which may restrain the JPY.

Shopping Cart	Strategy		Reference Level	Target Level
	Bearish on JPY	USD	103.93	106.79
	Bearish on JPY	HKD	7.46	7.26
	Bullish on JPY	USD	106.79	103.93
	Bullish on JPY	HKD	7.26	7.46

0-3M forecast: 107 6-12M forecast: 107 LT forecast: 105



Source: Bloomberg L.P., as of Oct 30, 2020

NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7500 exchange rate for reference



NZD outlook:

- The RBNZ may prevent any material NZD strength. Noted instruments at September's meeting include a "Funding for Lending programme (FLP), a negative OCR and purchases of foreign assets". This will likely cap Kiwi appreciation.



Strategy		Reference Level	Target Level
Bearish on NZD	USD	0.6798	0.6489
Bearish on NZD	HKD	5.27	5.03
Bullish on NZD	USD	0.6489	0.6798
Bullish on NZD	HKD	5.03	5.27

0-3M forecast: 0.66 6-12M forecast: 0.66 LT forecast: 0.66



Source: Bloomberg L.P., as of Oct 30, 2020

AUD/USD

AUD outlook:

- China's continued strong economic recovery is a positive sign for closely linked Australia. Besides, the RBA remain in wait and see mode and negative rates pretty much ruled out. We don't see a large negative for the currency here.



Strategy		Reference Level	Target Level
Bearish on AUD	USD	0.7414	0.7006
Bearish on AUD	HKD	5.75	5.43
Bullish on AUD	USD	0.7006	0.7414
Bullish on AUD	HKD	5.43	5.75

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



Source: Bloomberg L.P., as of Oct 30, 2020

USD/RMB

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7500 exchange rate for reference



RMB outlook:

- We see USDCNY is still under an appreciation bias. Should persistent and large capital inflows continue, the RMB would be pushed to a one-way appreciation path. We thus think there is a need for the PBoC to lower the policy rate to manage the expectation of the rates and FX market.

Strategy	Reference Level	Target Level
Bearish on RMB	USD 6.6704	6.8168
Bearish on RMB	HKD 1.1618	1.1369
Bullish on RMB	USD 6.8168	6.6704
Bullish on RMB	HKD 1.1369	1.1618

GBP/USD

GBP outlook:

- GBP is cheap, which sits around 15% below its long term average. Despite that the UK has lagged the G10 complex in terms of economic momentum, the currency has been reasonably supported by its cheap valuation. However, it is the policy response to the poor economic momentum that will likely cap significant gains for GBP in the medium term. Citi forecasts the MPC to cut into negative territory in 2H 2021.

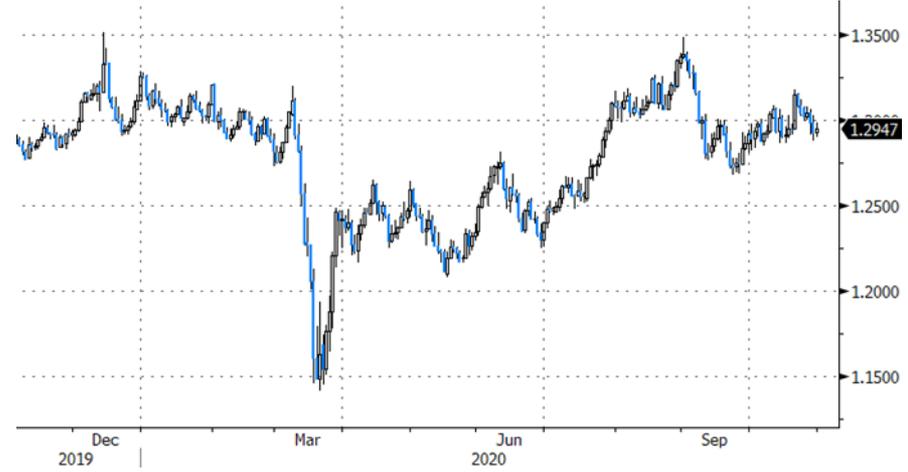
Strategy	Reference Level	Target Level
Bearish on GBP	USD 1.3200	1.2856
Bearish on GBP	HKD 10.23	9.96
Bullish on GBP	USD 1.2856	1.3200
Bullish on GBP	HKD 9.96	10.23

0-3M forecast: 6.75 6-12M forecast: 6.60 LT forecast: 6.50



Source: Bloomberg L.P., as of Oct 30, 2020

0-3M forecast: 1.27 6-12M forecast: 1.33 LT forecast: 1.42



Source: Bloomberg L.P., as of Oct 30, 2020

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	10/30/2020	4Q '20	1Q '21	2Q '21	3Q '21
Dollar Index	94.13	90.91	88.13	*0.00	0.00	0.00	0.00	0.00
EUR/USD	1.17	1.22	1.25	-0.50	-0.50	-0.50	-0.50	-0.50
GBP/USD	1.27	1.33	1.42	0.10	0.10	0.00	0.00	-0.10
USD/JPY	107	107	105	-0.10	-0.10	-0.10	-0.10	-0.10
USD/CHF	0.93	0.90	0.93	-0.75	-0.75	-0.75	-0.75	-0.75
AUD/USD	0.73	0.74	0.75	0.25	0.25	0.25	0.25	0.25
NZD/USD	0.66	0.66	0.66	0.25	0.25	0.25	0.25	0.25
USD/CAD	1.30	1.27	1.20	0.25	0.25	0.25	0.25	0.25
USD/CNY	6.75	6.60	6.50	2.95	2.75	2.75	2.75	2.75

Source: Citi (as of Oct 7, 2020) *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	94.04	1.4%	94.04	92.61	0.2%	94.64	92.14	1.1%	102.99	91.75	-2.4%
EUR/USD	1.1647	-1.8%	1.1861	1.1647	-0.6%	1.1936	1.1631	-1.7%	1.2011	1.0636	3.8%
USD/JPY	104.66	0.0%	106.03	104.32	-0.8%	106.93	104.32	-0.1%	112.23	101.19	-3.8%
GBP/USD	1.2947	-0.7%	1.3149	1.2881	0.2%	1.3384	1.2724	-1.1%	1.3514	1.1412	-2.5%
USD/CAD	1.3321	1.5%	1.3325	1.3114	0.0%	1.3423	1.3045	-0.8%	1.4668	1.2952	2.8%
AUD/USD	0.7028	-1.6%	0.7240	0.7028	-1.9%	0.7376	0.7028	-2.3%	0.7414	0.5510	-0.2%
NZD/USD	0.6615	-1.1%	0.6710	0.6577	0.0%	0.6772	0.6527	-1.3%	0.6798	0.5470	-2.1%
USD/CHF	0.9170	1.4%	0.9209	0.9044	-0.4%	0.9283	0.9037	0.9%	1.0023	0.8999	-5.4%
USD/CNY	6.6915	0.1%	6.7910	6.6510	-1.5%	7.0088	6.6510	-4.5%	7.1777	6.6413	-4.1%
USD/CNH	6.6964	0.4%	6.7838	6.6441	-1.3%	7.0032	6.6441	-4.4%	7.1965	6.6278	-4.0%
GOLD	1878.81	-1.2%	1930.40	1867.59	-0.4%	2063.54	1861.58	-4.0%	2075.47	1445.70	23.7%

Source: Bloomberg L.P., as of Oct 30, 2020

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
10/26/20 17:00	GE	!!	IFO Business Climate	Oct	92.7	93	93.2
10/26/20 22:00	US	!!	New Home Sales MoM	Sep	-3.50%	1.40%	3.00%
Tuesday							
10/27/20 05:45	NZ	!!	Exports NZD	Sep	4.01b	4.00b	4.41b
10/27/20 05:45	NZ	!!	Imports NZD	Sep	5.02b	5.02b	4.69b
10/27/20 05:45	NZ	!!	Trade Balance NZD	Sep	-1017m	-1013m	-282m
10/27/20 20:30	US	!!	Durable Goods Orders	Sep	1.90%	0.50%	0.40%
10/27/20 20:30	US	!!	Durables Ex Transportation	Sep	0.8%	0.4%	1.0%
10/27/20 22:00	US	!!	Conf. Board Consumer Confidence	Oct	100.9	102.0	101.3
Wednesday							
10/28/20 08:30	AU	!!	CPI YoY	3Q	0.70%	0.60%	-0.30%
10/28/20 20:30	US	!!	Advance Goods Trade Balance	Sep	-\$79.4b	-\$84.5b	-\$82.9b
10/28/20 22:00	CA	!!!	Bank of Canada Rate Decision	Oct	0.25%	0.25%	0.25%
Thursday							
10/29/20 08:00	NZ	!	ANZ Business Confidence	Oct	-15.7	--	-14.5
10/29/20 08:30	AU	!	NAB Business Confidence	3Q	-10	--	-15
10/29/20 20:30	US	!	Initial Jobless Claims	Oct	751k	770k	791k
10/29/20 20:30	US	!!!	GDP Annualized QoQ	3Q	33.1%	32.0%	-31.4%
10/29/20 20:45	EC	!!!	ECB Main Refinancing Rate	Oct	0.00%	0.00%	0.00%
10/29/20	JN	!!!	BOJ Policy Balance Rate	Oct	-0.10%	-0.10%	-0.10%
Friday							
10/30/20 18:00	EC	!!	GDP SA YoY	3Q	-4.3%	-7.0%	-14.8%
10/30/20 18:00	EC	!!	CPI Estimate YoY	Oct	-0.30%	-0.30%	-0.30%
10/30/20 20:30	CA	!!	GDP YoY	Aug	-3.80%	-4.20%	-5.00%
10/30/20 20:30	US	!!	Personal Income	Sep	0.90%	0.40%	-2.50%
10/30/20 20:30	US	!!	Personal Spending	Sep	1.40%	1.00%	1.00%
10/30/20 22:00	US	!!	U. of Mich. Sentiment	Oct	81.8	81.2	81.2

Appendix 3: Upcoming Economic Figures (Nov 2, 2020 – Nov 6, 2020)

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
11/02/20 09:45	CH	!!	Caixin China PMI Mfg	Oct	--	52.8	53
11/02/20 17:30	UK	!!	Markit UK PMI Manufacturing SA	Oct	--	53.3	53.3
11/02/20 23:00	US	!!	ISM Manufacturing	Oct	--	55.6	55.4
Tuesday							
11/03/20 11:30	AU	!!!	RBA Cash Rate Target	Nov	--	0.10%	0.25%
11/03/20 23:00	US	!!	Durable Goods Orders	Sep	--	--	1.90%
Wednesday							
11/04/20 05:45	NZ	!!	Unemployment Rate	3Q	--	5.50%	4.00%
11/04/20 11:30	AU	!!	Retail Sales MoM	Sep	--	-1.50%	-4.00%
11/04/20 21:15	US	!!	ADP Employment Change	Oct	--	738k	749k
11/04/20 21:30	CA	!	Int'l Merchandise Trade	Sep	--	--	-2.45b
11/04/20 21:30	US	!!	Trade Balance	Sep	--	-\$64.3b	-\$67.1b
Thursday							
11/05/20 08:00	NZ	!	ANZ Business Confidence	Nov	--	--	-15.7
11/05/20 08:30	AU	!	Trade Balance	Sep	--	A\$3700m	A\$2643m
11/05/20 17:30	UK	!	Markit/CIPS UK Construction PMI	Oct	--	--	56.8
11/05/20 20:00	UK	!!!	Bank of England Bank Rate	Nov	--	0.10%	0.10%
Friday							
11/06/20 03:00	US	!!!	FOMC Rate Decision	Nov	--	0.00%	0.00%
11/06/20 21:30	US	!!	Change in Nonfarm Payrolls	Oct	--	610k	661k
11/06/20 21:30	US	!!!	Unemployment Rate	Oct	--	7.70%	7.90%
11/06/20 21:30	CA	!!	Unemployment Rate	Oct	--	--	9.00%

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Higher Liquidity and Secondary Market Risk – The markets in which unrated or non investment grade Debt Securities are traded are generally more limited than those in which investment grade Debt Securities are traded. This lack of liquidity may make it more difficult to resell these Debt Securities and obtain market quotations.

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.