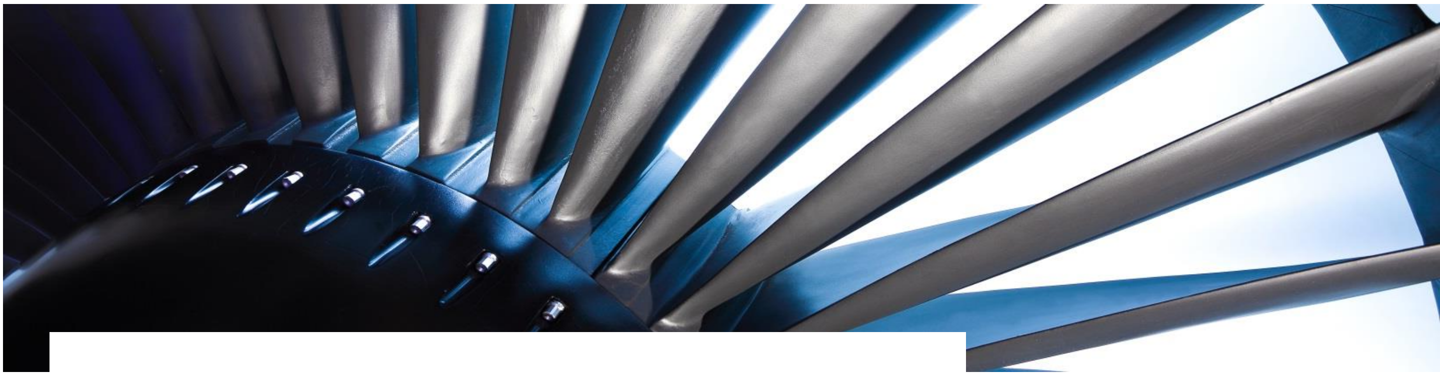

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The “Brexit Saga” Continues

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Global markets face greater uncertainty with the looming US election and no clarity as to its outcome. Furthermore, there is a risk of rising COVID-19 infection rates as winter approaches, with many areas already experiencing second waves. Some of the larger economies have been preparing for some restrictions to stop the spread of the virus. For now, FX market participants seem to be concentrating around the 3 major risk events: Brexit Negotiations, US Presidential Elections and the COVID-19 Risks.

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US Dollar (USD)

The upcoming US elections on 3rd November (next week) is expected be a major source of higher market volatility. Markets are straddling the possibility of a change in government – and the implications of future taxation and regulatory differences in the event of a Biden win – while weighing the impacts of a second Trump administration. The biggest differences between Trump and Biden’s policies that drive FX are pertaining to policies on trade, taxes and the environment.

Citi analysts highlight that 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 US Federal Reserve’s uber-loose policy of QE, lower for longer rates and average inflation targeting is indicative of a lower USD over time.[1] Hence, a higher volatility around the US elections, could create opportunities for investors to diversify away from the USD.

British Pound Sterling (GBP)

UK September retail sales published on Friday beat expectations, with the ex-auto results coming in at 1.6% MoM vs 0.5% expected (0.6% prior). On a YoY basis, this equates to 6.4% YoY (5% expected, 4.3% prior). In a bigger picture though, data will continue to play a secondary role for GBP, with Brexit instead more closely watched by market participants. The uncertainty around Brexit remains high, however, Citi analysts hold the view of an 80% probability of a deal achieved by the end of year. During the last week, GBP/USD retreated from the highs around 1.3177 after the UK reiterated the possibility of leaving the EU without a deal. Last Friday, the liquidity density in the pair was 60% below the 30d average at levels similar to peak of the March 2020 volatility.[2] Negotiations are set to continue, hence markets are waiting for more news from both sides.

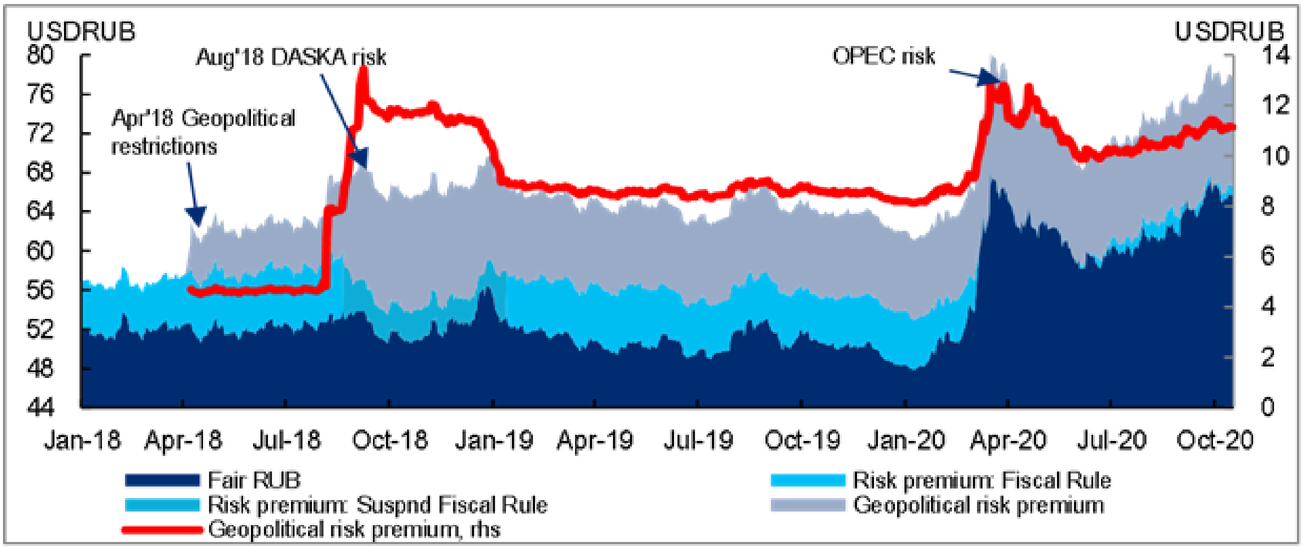
Australian Dollar (AUD)

The Reserve Bank of Australia (RBA) minutes were published last week and provided little in the way of new information for AUD following the dovish comments from RBA Governor Lowe from the week before. As a reminder, he surprised markets by stating that the RBA was actively discussing expanding its asset purchase program to include longer tenor bonds in the 5-10y segment. This saw a sharp rally in bonds (up to 9bps on the day to 0.75%), as well as marked underperformance in AUD. Rising prospects of an easing RBA could weigh on AUD in the short-term (at least through the announcement if it comes), though we believe that broader factors such as commodity prices, global risk assets and the USD will ultimately be the main drivers in the medium to long-term (and these factors remain bullish AUD). [3] Thus, buying AUD on dips could potentially enhance currency diversification of a portfolio.

Russian Ruble (RUB)

The broader macroeconomic and geopolitical backdrop has not made Central Bank Russia's (CBR) life easier, with mixed signals with regard to the needed direction of monetary policy. Yet, as it was expected by Citi analysts, CBR left the key rate unchanged at 4.25%.[4] Gross Domestic Product (GDP) growth has fared better than expected as the inherent structure of Russia's economy, with relatively smaller shares of services and small businesses, has provided a natural hedge to the COVID-19 shock. PMI indexes, which fell to all-time lows in April 2020, actually rose above pre-crisis levels, even if they have also lost some momentum recently. Consumer spending also recovered fast, although real retail sales are still below last year's levels.[5]

In Citi analysts' view, geopolitical risks remain uncomfortably elevated, even if they have stabilized in October. The evolution of geopolitical risk premium has re-emerged since the summer months. Even if it may have stabilized recently, it does remain at levels that may be too high for the CBR to cut the rate, and in particular so close to the US elections (*please refer to the below chart*).[5]



Source: Citi Research, Russia Economics Flash, 19 October 2020
Past Performance is no guarantee of future results. Real results may vary.

Sources:

1. Citi Research – Foreign Exchange Forecasts, October 2020
2. CitiFX Wire Market Commentary – 23 October 2020
3. Reserve Bank of Australia – https://www.rba.gov.au/monetary-policy/rba-board-minutes/2020/2020-10-06.html
4. Central Bank of Russia - https://www.cbr.ru/eng/press/pr/?file=23102020_133000key_e.htm
5. Citi Research, Russia Economics Flash, 19 October 2020

Citi Analysts FX Forecasts

		Market data*			Forecasts		
		spot	3m Fwd	12m Fwd	0-3 mos	6-12 mos	long-term
G10							
Euro	EURUSD	1.18	1.18	1.19	1.17	1.22	1.25
Japanese yen	USDJPY	106	106	106	107	107	105
British Pound	GBPUSD	1.29	1.29	1.29	1.27	1.33	1.42
Swiss Franc	USDCHF	0.92	0.92	0.91	0.93	0.90	0.93
Australian Dollar	AUDUSD	0.71	0.71	0.71	0.73	0.74	0.75
New Zealand Dollar	NZDUSD	0.66	0.66	0.66	0.66	0.66	0.66
Canadian Dollar	USDCAD	1.33	1.33	1.33	1.30	1.27	1.20
Dollar Index**	DXY	93.73	93.62	93.19	94.13	90.91	88.13
G10 Crosses							
Japanese yen	EURJPY	125	125	125	125	131	131
Swiss Franc	EURCHF	1.08	1.08	1.08	1.09	1.10	1.16
British Pound	EURGBP	0.92	0.91	0.92	0.92	0.92	0.88
Swedish Krona	EURSEK	10.50	10.53	10.56	10.45	10.30	10.00
Norwegian Krone	EURNOK	10.96	11.00	11.07	10.80	10.30	9.80
Norwegian Krone	NOKSEK	0.96	0.96	0.95	0.97	1.00	1.02
Australian Dollar	AUDNZD	1.08	1.08	1.08	1.11	1.12	1.14
Australian Dollar	AUDJPY	76	75	75	78	79	79
Asia							
Chinese Renminbi	USDCNY	6.79	6.78	6.90	6.75	6.60	6.20
Hong Kong Dollar	USDHKD	7.75	7.75	7.76	7.75	7.76	7.76
Indonesian Rupiah	USDIDR	14710	14858	15449	15000	14200	14800
Indian Rupee	USDINR	73.3	74.1	76.5	73.0	72.5	74.0
Korean Won	USDKRW	1159	1158	1157	1150	1130	1120
Malaysian Ringgit	USDMYR	4.16	4.17	4.19	4.16	4.15	4.08
Philippine Peso	USDPHP	48.4	48.7	49.4	48.2	48.7	50.0
Singapore Dollar	USDSGD	1.36	1.36	1.36	1.38	1.37	1.35
Thai Baht	USDTHB	31.2	31.3	31.4	31.4	31.0	31.0
Taiwan Dollar	USDTWD	28.8	28.3	27.5	28.6	28.3	27.5
EMEA							
Czech Koruna	EURCZK	27.1	27.0	27.2	27.2	26.3	25.7
Hungarian Forint	EURHUF	360	361	366	362	365	370
Polish Zloty	EURPLN	4.49	4.50	4.52	4.52	4.40	4.30
Israeli Shekel	USDILS	3.40	3.40	3.39	3.40	3.37	3.34
Russian Ruble	USDRUB	78.4	79.1	81.5	75.0	70.0	72.0
Russian Ruble Basket		84.6	85.4	88.2	80.7	76.9	80.1
Turkish Lira	USDTRY	7.87	8.08	9.01	7.85	8.25	8.50
South African Rand	USDZAR	16.67	16.82	17.26	16.60	16.50	16.25
LATAM							
Brazilian Real	USDBRL	5.59	5.61	5.71	5.50	5.45	5.40
Chilean Peso	USDCLP	798	798	797	795.00	775.00	750
Mexican Peso	USDMXN	21.5	21.8	22.5	21.85	21.85	22.23
Colombian Peso	USDCOP	3832	3853	3919	3770	3680	3500

* market data including spot as of 12:12 PM London time on 07-Oct-2020

** The DXY forecasts are implied from the forecasts of the constituent crosses.

Source: CIRA October 2020 Forecasts

*The new update of the above Citi FX forecast is expected to be published around **11th November 2020. Past performance is no guarantee of future results.** Real results may vary. All forecasts are expressions of opinion, are not a guarantee of future results, are subject to change without notice and may not meet our expectations due to a variety of economic, market and other factors

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