

# Citibank Wealth Management

## Weekly FX Insight



**Jul 7, 2014**  
with data as of Jul 4, 2014

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# Weekly FX Recap

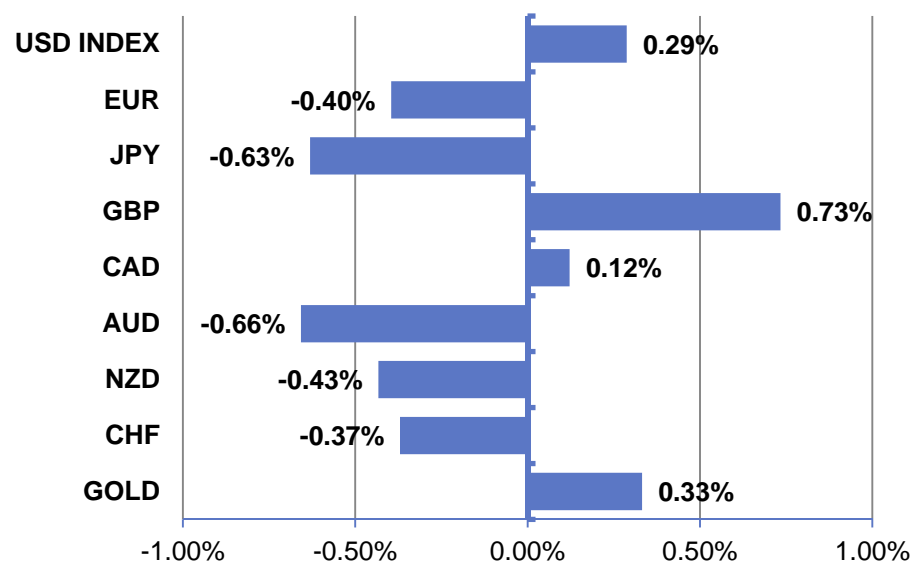


## Major Currencies Weekly Performance

| CCY     | LAST WEEK PERFORMANCE |          |         | 52 week high | 52 week low | 1 year % change |
|---------|-----------------------|----------|---------|--------------|-------------|-----------------|
|         | Close Price           | Day High | Day Low |              |             |                 |
| USD     | 80.27                 | 80.32    | 79.74   | 84.75        | 78.91       | -3.56%          |
| EUR/USD | 1.3595                | 1.3700   | 1.3586  | 1.3993       | 1.2755      | 5.27%           |
| USD/JPY | 102.06                | 102.27   | 101.24  | 105.44       | 95.81       | -1.98%          |
| GBP/USD | 1.7160                | 1.7180   | 1.7009  | 1.7180       | 1.4814      | 13.85%          |
| USD/CAD | 1.0653                | 1.0697   | 1.0621  | 1.1279       | 1.0182      | -1.30%          |
| AUD/USD | 0.9365                | 0.9505   | 0.9329  | 0.9758       | 0.8660      | 2.38%           |
| NZD/USD | 0.8739                | 0.8791   | 0.8718  | 0.8794       | 0.7692      | 11.58%          |
| USD/CHF | 0.8941                | 0.8951   | 0.8857  | 0.9751       | 0.8699      | 6.99%           |
| GOLD    | 1320.55               | 1334.06  | 1308.00 | 1433.83      | 1182.52     | 5.65%           |

Source: Bloomberg L.P., as of July 4, 2014

## Weekly changes versus US dollar



Source: Bloomberg L.P., as of July 4, 2014

**USD** → The USD gained as U.S. NFP rose 288K in June and unemployment rate dropped to 6.1%. Dollar index rose 0.3% to close at 80.27 last week. **USD outlook: Dollar index may consolidate between 79.00-81.02.**

**EUR** → The ECB kept rates unchanged and President Draghi said the scale of TLTRO could reach 1 trillion EUR. EUR/USD dropped 0.4% to close at 1.3595 last week. **EUR outlook: EUR/USD may test lower to 1.3477-1.3503.**

**GBP** → The GBP was underpinned as both U.K. manufacturing and construction PMI in June beat expectations, which fueled expectations of earlier rate hikes by the BoE. GBP/USD rose 0.7% to close at 1.7160, outperforming other major currencies. **GBP outlook: GBP/USD may test higher to 1.7355 gradually.**

**AUD** → The AUD retreated as the RBA said investors are under-estimating the likelihood of a significant fall in AUD. AUD/USD dropped 0.7% to close at 0.9365 last week. **AUD outlook: AUD/USD may find support at 0.9203-0.9249.**

# Upcoming Economic Figures and Events



## The AUD and NZD may be underpinned amid China's data

|                      |   |   |                      |              |           |            |
|----------------------|---|---|----------------------|--------------|-----------|------------|
| U.S.                 | <b>FOMC minutes</b><br>➤ While investor pessimism could be fading somewhat post-labor market data, the minutes seem less likely to be the catalyst for a leg higher in the USD.   | <b>Jul 9 (Wed):</b><br><br>FOMC minutes   |                      |              |           |            |
| U.K.                 | <b>May manufacturing and industrial production, BoE rate decision</b><br>➤ Potential positive surprises could strengthen the view that the recovery accelerated in Q2 from Q1 and add to bets on early stimulus removal. We remain constructive on the pound.                             | <b>Jul 8(Tue):</b><br>May manufacturing production (YoY)<br><table><tr><td><u>Citi forecast</u></td><td><u>Prior</u></td></tr><tr><td>5.60%</td><td>4.40%</td></tr></table>   | <u>Citi forecast</u> | <u>Prior</u> | 5.60%     | 4.40%      |
| <u>Citi forecast</u> | <u>Prior</u>  |   |                      |              |           |            |
| 5.60%                | 4.40%   |   |                      |              |           |            |
| Australia            | <b>June employment data</b><br>➤ The bigger shock with the coming reading is likely to be with a stronger than expected outcome. Since this would reinstate the stronger trend from earlier this year, This means there is significant scope for AUD-positive rises in rate expectations, | <b>Jul 10 (Thur):</b><br>June employment<br><table><tr><td><u>Citi forecast</u></td><td><u>Prior</u></td></tr><tr><td>+7500</td><td>-4800</td></tr></table>                   | <u>Citi forecast</u> | <u>Prior</u> | +7500     | -4800      |
| <u>Citi forecast</u> | <u>Prior</u>  |   |                      |              |           |            |
| +7500                | -4800   |   |                      |              |           |            |
| China                | <b>June trade balance</b><br>➤ We estimate that headline export growth accelerated from 7.0%YoY in May to 8.6%YoY in Jun, and import growth normalized to 5.6%YoY. Trade surplus may have remained sizable at \$33.9bn, supporting the currency.  | <b>Jul 10 (Thur):</b><br>China June trade balance<br><table><tr><td><u>Citi forecast</u></td><td><u>Prior</u></td></tr><tr><td>US\$33.9b</td><td>US\$35.92b</td></tr></table> | <u>Citi forecast</u> | <u>Prior</u> | US\$33.9b | US\$35.92b |
| <u>Citi forecast</u> | <u>Prior</u>  |   |                      |              |           |            |
| US\$33.9b            | US\$35.92b  |   |                      |              |           |            |
| New Zealand          | <b>China June trade balance</b><br>➤ Should the Chinese trade data beat expectations, particularly if imports are strong, denoting domestic demand, this could be supportive of regional sentiment and a modest boost to AUD and NZD.   | <b>Jul 10 (Thur):</b><br>China June trade balance<br><table><tr><td><u>Citi forecast</u></td><td><u>Prior</u></td></tr><tr><td>US\$33.9b</td><td>US\$35.92b</td></tr></table> | <u>Citi forecast</u> | <u>Prior</u> | US\$33.9b | US\$35.92b |
| <u>Citi forecast</u> | <u>Prior</u>  |   |                      |              |           |            |
| US\$33.9b            | US\$35.92b  |   |                      |              |           |            |

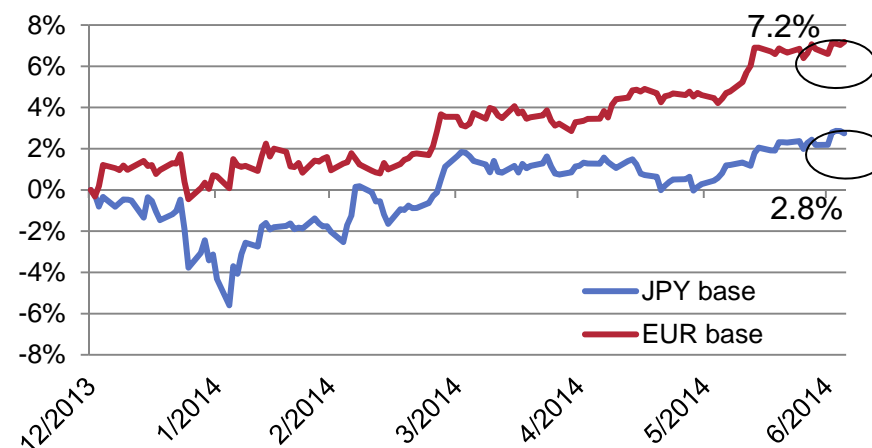
## Weekly FX Focus:

### The GBP may still have upside

- Carry trade is one of the major themes in FX market this year, amid the divergence of monetary policy stances among major countries. For example, the ECB cut rates and the BoJ tends to expand accommodative policy, while the BoE may hike rates earlier and the RBNZ has already started a rate hike cycle. Investors may borrow the low-rate EUR or JPY to buy high-yield currencies such as AUD and NZD or currencies with tendencies to rate hikes such as GBP.
- It is worth noting that **carry trade returns (borrowing JPY and EUR) are positive year-to-date (Chart 1)** with the former gaining 2.8% and the latter even achieving a 7.2% return. Citi analysts expect carry trades to keep active amid a low-rate environment in the U.S., Europe and Japan. **The EUR and JPY are expected to remain weak while the GBP, AUD and NZD may outperform.**
- The GBP may outperform in particular with its strong fundamentals such as manufacturing and construction PMI in June rising to 57.5 and 62.6 respectively, beating expectations. Citi analysts expect **the BoE to hike rates earlier in Q4 this year**, which may support the GBP.
- According to data from the futures market, GBP's non-commercial net long positions rose to 56412, a high since Dec 2007, reflecting **investors are buying more GBP.**
- Citi analysts expect **GBP/USD to test higher to 1.76 for the coming 0-3 months.**

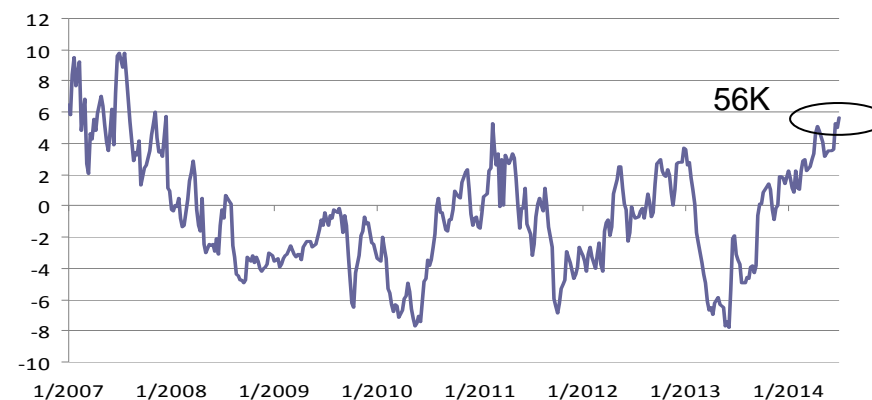


Chart 1: Year-to-date Performance of Carry Trades



Source: Bloomberg L.P., as of July 4, 2014

Chart 2: Non-commercial Net Long Positions in the GBP (10K)



Source: Citi, as of July 1, 2014

# GBP/USD

## GBP/USD may test higher to 1.7355 – 1.7600 (13.45-13.64)

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7518 exchange rate for reference

| Last Price        | Last wk High      | Last wk Low       | 2nd Support       | 1st Support       | 1st Resistance    | 2nd Resistance    | 0-3m Forecast   | 6-12m Forecast  | Upcoming Economic Data   |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------|-----------------|--|
| 1.7160<br>(13.30) | 1.7180<br>(13.31) | 1.7009<br>(13.18) | 1.6693<br>(12.94) | 1.7002<br>(13.18) | 1.7355<br>(13.45) | 1.7600<br>(13.64) | 1.76<br>(13.64) | 1.77<br>(13.72) | <b>Jul 8: Manufacturing production</b><br><br><b>Jul 10: BoE rate decision</b> |

### Market Recap:

- The GBP was supported last week. U.K. manufacturing and construction PMI in June rose to 57.5 and 62.6 respectively, beating expectations.

### GBP Outlook:

- Data showed that there is no sign that U.K. economy growth may slow down in 2H.
- Citi analysts expect the economy to grow 3.5% in 2014 and 2015. Besides, the BoE may hike rates earlier in Q4 2014. This will likely be GBP-positive.
- BoE governor Carney said the interest rate will rebound to above 2.5% in the long term. However, Citi analysts expect the interest rate may rise to 3%-4% within 3-5 years, much higher than expected.

### Technical Analysis:

- GBP/USD broke 2009 top of 1.7043 and the pair may test higher to 1.7355-1.7600 (13.45-13.64), with support at 1.7002 (13.18).



Source: Bloomberg L.P., as of July 4, 2014



# USD/JPY

| Last Price        | Last wk High      | Last wk Low       | 2nd Support       | 1st Support       | 1st Resistance    | 2nd Resistance    | 0-3m Forecast  | 6-12m Forecast |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|----------------|
| 102.06<br>(75.94) | 102.27<br>(75.78) | 101.24<br>(76.55) | 100.00<br>(77.51) | 100.76<br>(76.92) | 103.02<br>(75.23) | 104.13<br>(74.43) | 104<br>(74.52) | 108<br>(71.76) |

## The BoJ may expand QE in Oct, which may undermine the JPY

**Short-term factor:** U.S. unemployment rate dropped to 6.1% in June and NFP rose significantly by 288K, which may fuel optimism that the Fed may accelerate tightening. A rebound of U.S. treasury yields may support USD/JPY.

**Medium-term factor:** Japanese actual retail sales in May was much lower than the average between Jan and Feb, reflecting purchasing power has been seriously impacted by the sales tax. Export and manufacturing also did not improve significantly, which may lead to only 0.7% economic growth this fiscal year. The BoJ may expand QE in Oct and GPIF may increase holdings of foreign assets, which may undermine the JPY in the medium to long term.

**Technical analysis:** USD/JPY rebounded from 101.24 last week and the pair may range trade between 100.76-104.13 (76.92-74.43), with upside bias.

# GBP/JPY

| Last Price | Last wk High | Last wk Low | 2nd Support | 1st Support | 1st Resistance | 2nd Resistance |
|------------|--------------|-------------|-------------|-------------|----------------|----------------|
| 175.13     | 175.37       | 172.38      | 171.04      | 173.28      | 180.00         | 191.12         |

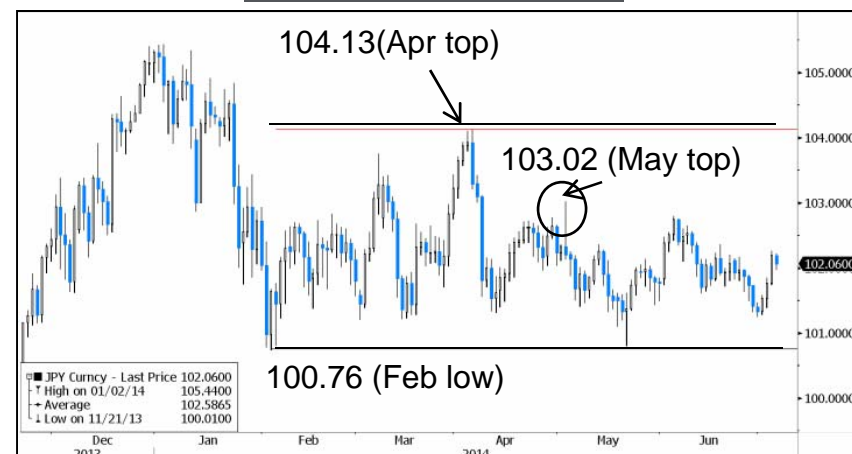
## GBP/JPY may keep rising due to carry trades with investors borrowing the JPY to buy the GBP

**GBP factor:** Due to strong U.K. economy with improving employment and housing market, Citi analysts expect the BoE to hike rates in Q4 this year. Rate hike expectations may attract more funds inflow to GBP for carry trades, which may support the GBP.

**JPY factor:** The BoJ may expand QE in Oct and GPIF may increase foreign assets holdings at the expense of Japanese bonds. Fund outflows may be intensified, which may suppress the JPY.

**Technical analysis:** GBP/JPY broke the top of triangular shape and Jan top of 174.85. The pair may further test higher to 180.00, with support at 20MA of 173.28.

## USD/JPY – Daily Chart



Source: Bloomberg L.P., as of July 4, 2014

## GBP/JPY – Daily Chart



Source: Bloomberg L.P., as of July 4, 2014

# AUD/USD

## AUD/USD may rebound after finding support at 0.9203-0.9249 (7.13-7.17)

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7513 exchange rate for reference

| Last Price       | Last wk High     | Last wk Low      | 2nd Support      | 1st Support      | 1st Resistance   | 2nd Resistance   | 0-3m Forecast  | 6-12m Forecast | Upcoming Economic Data                                 |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|--|
| 0.9365<br>(7.26) | 0.9505<br>(7.37) | 0.9329<br>(7.23) | 0.9081<br>(7.04) | 0.9203<br>(7.13) | 0.9505<br>(7.37) | 0.9758<br>(7.56) | 0.95<br>(7.36) | 0.96<br>(7.44) | Jul 10: Employment change<br>Jul 10: Unemployment rate |

### Market Recap:

- The AUD plunged last week as the RBA governor Stevens said investors are underestimating the likelihood of a significant fall in AUD.

### AUD Outlook:

- Citi analysts believe that Australia fundamentals are desirable with increasing housing and business investment. Australian export may also be underpinned amid stabilizing Chinese economy. Australian economy is expected to growth 3.4%, which may underpin the AUD.
- Local demand may be reduced due to cuts in government spending but consumption may rebound gradually amid a low-rate environment and rising house prices.
- Pay attention to Australian employment data on Thur. Strong data may underpin the AUD.

### Technical Analysis:

- AUD/USD may find support at 0.9203-0.9249 (7.13-7.17) and the pair may rebound to 0.9505 (7.37) after consolidation.



Source: Bloomberg L.P., as of July 4, 2014

# Appendix 1: Citi Interest Rate and FX Forecast for 2014



Citi FX **Outlook** Forecast

Citi FX **Interest Rate** Forecast

|              | 0-3 month | 6-12 month | 7/4/14 | 2Q '14 | 3Q '14 | 4Q '14 |
|--------------|-----------|------------|--------|--------|--------|--------|
| Dollar Index | 79.05     | 81.50      | 0.25   | 0.25   | 0.25   | 0.25   |
| EUR/USD      | 1.39      | 1.35       | 0.15   | 0.15   | 0.15   | 0.15   |
| GBP/USD      | 1.76      | 1.77       | 0.50   | 0.50   | 0.50   | 0.75   |
| USD/JPY      | 104       | 108        | 0.10   | 0.10   | 0.10   | 0.10   |
| USD/CHF      | 0.88      | 0.93       | 0.00   | 0.00   | 0.00   | 0.00   |
| AUD/USD      | 0.95      | 0.96       | 2.50   | 2.50   | 2.50   | 2.50   |
| NZD/USD      | 0.88      | 0.87       | 3.25   | 3.25   | 3.50   | 3.75   |
| USD/CAD      | 1.07      | 1.12       | 1.00   | 1.00   | 1.00   | 1.00   |
| USD/CNY      | 6.18      | 6.04       | 3.00   | 3.00   | 3.00   | 3.00   |

Source: Citi, forecast as of Jun 20, 2014

Forecast downgraded Forecast upgraded

Rate cut expectations

Rate hike expectations

**EUR...**

With the June ECB measures now priced in, underlying flows may send the EUR to 1.39 for the coming 0-3 months. **Since the ECB may implement QE by year-end, the EUR may fall to 1.35 for the coming 6-12 months.**

**GBP...**

Citi forecasts still also expect faster/ further tightening and markets have moved to price in earlier BoE tightening. Thus, **we revised up our 0-3 month forecast from 1.73 to 1.76 while 6-12 month forecast was revised from 1.70-1.77.**

**AUD...**

Since the RBA may hike rates in Q2 next year, earlier than the Fed, which may underpin the AUD. Thus, **we revised up 0-3 month forecast from 0.94 to 0.95 and 6-12 month forecast from 0.95-0.96.**

**NZD...**

Citi now expects a further RBNZ hike in July. By mid-2015, Citi expects 4% policy rates. With carry trades in vogue and rising rates, NZD is likely to stay robust. Thus, **we revised up 0-3 month forecast from 0.87 to 0.88 and 6-12 month forecast from 0.86-0.87.**

**JPY...**

We see upside in USD/JPY prompted by further policy initiatives in Japan, including both additional QE and asset allocation changes that may promote foreign asset and equity ownership at the expense of domestic bonds. Thus, **we revised up 0-3 month forecast from 100 to 104 and 6-12 month forecast from 105 to 108.**



## Appendix 2: Upcoming Economic Figures (Jul 7, 2014 – Jul 11, 2014)



| Time               |      | Importance | Event                             | Period | Actual | Survey   | Prior    |
|--------------------|------|------------|-----------------------------------|--------|--------|----------|----------|
| <b>U.S.</b>        |      |            |                                   |        |        |          |          |
| 07/10/2014 02:00   | Thur | !!!        | FOMC Minutes                      | Jul    |        |          |          |
| 07/10/2014 20:30   | Thur | !!         | Initial Jobless Claims            | Jul    | --     | 315K     | 315K     |
| <b>U.K.</b>        |      |            |                                   |        |        |          |          |
| 07/08/2014 16:30   | Tue  | !!!        | Industrial Production YoY         | May    | --     | 3.10%    | 3.00%    |
| 07/08/2014 16:30   | Tue  | !!!        | Manufacturing Production YoY      | May    | --     | 5.60%    | 4.40%    |
| 07/10/2014 07:01   | Thur | !!         | RICS House Price Balance          | Jun    | --     | 55%      | 57%      |
| 07/10/2014 16:30   | Thur | !          | Trade Balance                     | May    | --     | -£1725   | -£2543   |
| 07/10/2014 19:00   | Thur | !!!        | Bank of England Bank Rate         | Jul    | --     | 0.50%    | 0.50%    |
| <b>Japan</b>       |      |            |                                   |        |        |          |          |
| 07/08/2014 07:50   | Tue  | !!         | BoP Current Account Adjusted      | May    | --     | ¥158.1B  | ¥130.5B  |
| <b>Australia</b>   |      |            |                                   |        |        |          |          |
| 07/08/2014 09:30   | Tue  | !          | NAB Business Conditions           | Jun    | --     | --       | -1       |
| 07/09/2014 08:30   | Wed  | !          | Westpac Consumer Conf SA MoM      | Jul    | --     | --       | 0.20%    |
| 07/10/2014 09:30   | Thur | !!!        | Employment Change                 | Jun    | --     | 15.0K    | -4.8K    |
| 07/10/2014 09:30   | Thur | !!!        | Unemployment Rate                 | Jun    | --     | 5.90%    | 5.80%    |
| 07/11/2014 09:30   | Fri  | !          | Home Loans MoM                    | May    | --     | -0.50%   | 0.00%    |
| <b>New Zealand</b> |      |            |                                   |        |        |          |          |
| 07/10/2014 06:30   | Thur | !!         | BusinessNZ Manufacturing PMI      | Jun    | --     | --       | 52.7     |
| <b>Canada</b>      |      |            |                                   |        |        |          |          |
| 07/07/2014 20:30   | Mon  | !          | Building Permits MoM              | May    | --     | 3.00%    | 1.10%    |
| 07/07/2014 22:00   | Mon  | !!         | Ivey Purchasing Managers Index SA | Jun    | --     | --       | 48.2     |
| 07/11/2014 20:30   | Fri  | !!         | Unemployment Rate                 | Jun    | --     | 7.00%    | 7.00%    |
| 07/11/2014 20:30   | Fri  | !!         | Net Change in Employment          | Jun    | --     | 26.0K    | 25.8K    |
| <b>China</b>       |      |            |                                   |        |        |          |          |
| 07/09/2014 09:30   | Wed  | !!         | CPI YoY                           | Jun    | --     | 2.50%    | 2.50%    |
| 07/10/2014         | Thur | !!         | Trade Balance                     | Jun    | --     | \$36.95B | \$35.92B |
| 07/10/2014         | Thur | !!         | Exports YoY                       | Jun    | --     | 10.50%   | 7.00%    |
| 07/10/2014         | Thur | !!         | Imports YoY                       | Jun    | --     | 6.00%    | -1.60%   |

Source: Bloomberg L.P.