



Weekly FX Strategy: GBP



GBP news

- A communique from the European Council noting 'concern' on the lack of progress, which restrained the pound last week.
- Europe and UK announces lockdown restrictions as a result of the new Covid-19 spike, which suppressed the GBP.

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.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
1.2676	1.2841	1.3200	1.3350	1.27	1.33	1.42



Source: Bloomberg L.P., as of Oct 16, 2020

- The range in cable for now continues to be defined by resistance at the 55d MA at 1.3021 and support at the 100d MA at 1.2841 with 1.2900 and 1.2850 acting as interim supports. Next resistance may find at 1.3200.

Strategy for GBP holders - Diversify into USD

- UK announces a new round of lockdown restrictions, which may dampen GBP's investment sentiment in short term.
- We expect the BOE to cut rates to negative interest rate H2 2021, which may be negative to the GBP.



Strategy	Reference Level	Target Level
Bearish on GBP	USD 1.3200	1.2841
Bearish on GBP	HKD 10.23	9.95

Strategy for USD holders - Buy GBP upon retracement

- Even as PM Johnson threatens an "Australian style" deal that is essentially a "No Deal", with Moody's decision to downgrade the UK to Aa3, with a stable outlook, GBP reaction was muted. This may reflect that the UK threatens to walk away from the table, which is not the case as of yet and the lack of reaction from sterling suggests that markets agree.
- We expect that a Brexit deal is still more likely to happen. A big move once that uncertainty is cleared is likely.

Strategy	Reference Level	Target Level
Bullish on GBP	USD 1.2841	1.3200
Bullish on GBP	HKD 9.95	10.23

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

- Market volatility increased from Trump's hawkish comments on China and dovish ECB minutes, which supported the gold price.
- Gold ETF's physical holdings boosted to record high of 3454 tonnes, reflecting funds to flow into gold market.

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
\$1837	\$1,862	\$1,993	\$2,075	\$2,200	\$2,400



Source: Bloomberg L.P., as of Oct 16, 2020

- Gold is having yet to recover either of its 2 break down points (horizontal support at \$1,900-\$1,907 and the downward sloping trend line and 55d MA resistance at \$1,937-\$1,938). Above these, Gold would look constructive. Supports may find at 1837 and 1862, with resistance at 1993 and 2075.

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.

Strategy	Reference Level	Target Level
Bearish on Gold	USD 2075	1862
Bearish on Gold	HKD 16,081	14,431

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.
- Gold would likely be the safe haven of choice given its outperformance in 2019 during the height of US – China trade tensions.

Strategy	Reference Level	Target Level
Bullish on Gold	USD 1862	2075
Bullish on Gold	HKD 14,431	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 16, 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 16, 2020

Strategy	Reference Level	Target Level
Bearish on CAD USD	1.2994	1.3260
Bearish on CAD HKD	5.96	5.84
Bullish on CAD USD	1.3260	1.2994
Bullish on CAD HKD	5.84	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.



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 16, 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.



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 16, 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 16, 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 16, 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

0-3M forecast: 6.75

6-12M forecast: 6.60

LT forecast: 6.50



Source: Bloomberg L.P., as of Oct 16, 2020

EUR/USD

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.



Strategy		Reference Level	Target Level
Bearish on EUR	USD	1.2010	1.1612
Bearish on EUR	HKD	9.31	9.00
Bullish on EUR	USD	1.1612	1.2010
Bullish on EUR	HKD	9.00	9.31

0-3M forecast: 1.17

6-12M forecast: 1.22

LT forecast: 1.25



Source: Bloomberg L.P., as of Oct 16, 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	10/16/2020	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

 Rate hike expectations

 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	week low	Year-To-52 Date Change
USD	93.68	0.7%	94.64	92.93	0.5%	96.35	92.14	-2.8%	102.99	91.75	-2.8%
EUR/USD	1.1718	-0.9%	1.1848	1.1631	-0.8%	1.1936	1.1384	2.9%	1.2011	1.0636	4.5%
USD/JPY	105.40	-0.2%	106.03	104.57	0.4%	107.27	104.57	-1.7%	112.23	101.19	-3.0%

GBP/USD	1.2915	-0.9%	1.3064	1.2724	-0.4%	1.3384	1.2553	2.9%	1.3514	1.1412	-2.5%
USD/CAD	1.3189	0.5%	1.3388	1.3114	0.1%	1.3580	1.3045	-2.8%	1.4668	1.2952	1.4%
AUD/USD	0.7081	-2.2%	0.7313	0.7031	-3.1%	0.7376	0.6971	1.6%	0.7414	0.5510	1.0%
NZD/USD	0.6602	-1.0%	0.6759	0.6546	-1.9%	0.6772	0.6527	1.0%	0.6798	0.5470	-1.8%
USD/CHF	0.9149	0.5%	0.9283	0.9083	0.6%	0.9456	0.9037	-3.2%	1.0023	0.8999	-5.6%
USD/CNY	6.6976	0.0%	6.8287	6.6947	-0.8%	7.0184	6.6947	-4.2%	7.1777	6.6932	-4.0%
USD/CNH	6.6939	0.1%	6.8284	6.6878	-0.8%	7.0176	6.6878	-4.3%	7.1965	6.6787	-4.0%
GOLD	1899.29	-1.6%	1959.26	1861.58	-3.1%	2063.54	1797.16	5.7%	2075.47	1445.70	25.2%

Source: Bloomberg L.P., as of Oct 16, 2020

Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Tuesday							
10/13/20 14:00	UK	!!	Average Weekly Earnings 3M/YoY	Aug	0%	-0.6%	-1.00%
10/13/20 14:00	UK	!!	ILO Unemployment Rate 3Mths	Aug	4.5%	4.3%	4.10%
10/13/20 17:00	EC	!	ZEW Survey Expectations	Oct	52.3	--	73.9
10/13/20 20:30	US	!!!	CPI YoY	Sep	1.4%	1.40%	1.30%
10/13/20 20:30	US	!!!	CPI Ex Food and Energy YoY	Sep	1.7%	1.7%	1.70%
10/13/20	CH	!!	Exports YoY	Sep	9.9%	10%	9.50%
10/13/20	CH	!!	Imports YoY	Sep	13.2%	0.4%	-2.10%
10/13/20	CH	!!	Trade Balance	Sep	\$37b	\$60b	\$58.93b

10/13/20-10/17/20	US	!	Monthly Budget Statement	Sep	0%	-0.6%	-1.00%
Wednesday							
10/14/20 07:30	AU	!	Westpac Consumer Conf SA MoM	Oct	11.9%	--	18.00%
Thursday							
10/15/20 08:30	AU	!!	Employment Change	Sep	-29.5k	-40k	129.1k
10/15/20 08:30	AU	!!	Unemployment Rate	Sep	6.9%	7%	6.80%
10/15/20 09:30	CH	!!	CPI YoY	Sep	1.7%	1.9%	2.40%
10/15/20 20:30	US	!	Initial Jobless Claims	Oct	898k	825k	845k
10/15/20 21:00	CA	!	Existing Home Sales MoM	Sep	0.9%	--	6.20%
Friday							
10/16/20 05:30	NZ	!	BusinessNZ Manufacturing PMI	Sep	54	--	51
10/16/20 17:00	EC	!!	CPI YoY	Sep	-0.30%	-0.30%	-0.30%
10/16/20 20:30	CA	!	Int'l Securities Transactions	Aug	15.51b	--	-8.49b
10/16/20 20:30	US	!!!	Retail Sales Advance MoM	Sep	1.90%	0.80%	0.60%
10/16/20 20:30	US	!!!	Retail Sales Ex Auto MoM	Sep	1.50%	0.40%	0.50%
10/16/20 22:00	US	!!	U. of Mich. Sentiment	Oct	81.2	80.5	80.4

Source: Bloomberg L.P.

Appendix 3: Upcoming Economic Figures (Oct 19, 2020 – Oct 23, 2020)

Time	Importance	Event	Period	Actual	Survey	Prior
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Monday							
10/19/20 10:00	CH	!!	GDP YoY	3Q	--	5.50%	3.20%
10/19/20 10:00	CH	!!	Industrial Production YoY	Sep	--	5.80%	5.60%
10/19/20 10:00	CH	!!	Retail Sales YoY	Sep	--	1.90%	0.50%
Tuesday							
10/20/20 08:30	AU	!!	RBA Minutes of Oct. Policy Meeting	Oct			
10/20/20 20:30	US	!	Building Permits MoM	Sep	--	3.30%	-0.90%
10/20/20 20:30	US	!	Housing Starts MoM	Sep	--	2.40%	-5.10%
Wednesday							
10/21/20 14:00	UK	!!	CPI YoY	Sep	--	--	0.20%
10/21/20 20:30	CA	!!	Retail Sales MoM	Aug	--	--	0.60%
10/21/20 20:30	CA	!!	Retail Sales Ex Auto MoM	Aug	--	--	-0.40%
10/21/20 20:30	CA	!!	CPI YoY	Sep	--	--	0.10%
10/21/20 20:30	CA	!!	CPI Core- Common YoY%	Sep	--	--	1.50%
Thursday							
10/22/20 02:00	US	!	U.S. Federal Reserve Releases Beige Book	Oct			
10/22/20 08:30	AU	!	NAB Business Confidence	3Q	--	--	-15
10/22/20 20:30	US	!!	Initial Jobless Claims	Oct	--	--	--
10/22/20 22:00	US	!	Existing Home Sales MoM	Sep	--	2.90%	2.40%
Friday							
10/23/20 05:45	NZ	!!	CPI YoY	3Q	--	--	1.50%
10/23/20 07:30	JN	!!	Natl CPI Ex Fresh Food YoY	Sep	--	--	-0.40%
10/23/20 14:00	UK	!!	Retail Sales Ex Auto Fuel YoY	Sep	--	--	4.30%
10/23/20 14:00	UK	!!	Retail Sales Inc Auto Fuel YoY	Sep	--	--	2.80%

10/23/20 16:00	EC	!!	Markit Eurozone Manufacturing PMI	Oct	--	--	53.7
10/23/20 16:00	EC	!!	Markit Eurozone Services PMI	Oct	--	--	48
10/23/20 16:30	UK	!!	Markit UK PMI Manufacturing SA	Oct	--	--	54.1
10/23/20 16:30	UK	!!	Markit/CIPS UK Services PMI	Oct	--	--	56.1

Source: Bloomberg L.P.

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