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# Citibank Wealth Management



**Nov 9, 2020**

with data as of Nov 6, 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: FX View on US Election 2020

<p><b>Biden wins the presidency with Republicans hold the Senate and Democrats the House</b></p>	<p>A tactically USD negative outlook across the board (especially CNH and proxies such as EUR and Commodity Bloc – CAD) but with a less linear downward path than under a Blue wave sweep with other Safe Havens likely to outperform (JPY, CHF and Gold) USD over time.</p>
<p><b>Trump winning the presidency, Republicans holding the Senate and Democrats the House</b></p>	<p>Risk on but tactically USD positive - long USDJPY and USDCNH (together with CNH proxies – EUR, SGD, AUD).</p>
<p><b>A contested election</b></p>	<p>Risk off and a tactical USD positive as risk assets trade drop sharply, so tactically selling risk currencies in G10 (AUD, NZD) versus USD, CHF and JPY are the favored expression.</p>

**Tactical USD weakness** targeting 1.2000 in EURUSD, 1.33-34 in cable (with the help of a Brexit deal), 6.50 in USCNH, 0.7350 in AUDUSD and 102.80 – 103.00 in USDJPY

**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: GBP

## GBP news

- The MPC today (unanimously) announced a large new QE package but more importantly also a change in approach. The headline £150bn gilts package is larger than expected, but over 12 months until end-2021.
- Chair Powell continued to focus on downside risks to the outlook for growth and inflation, which weighed on USD and supported 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 mid-2021.



Source: Bloomberg L.P., as of Nov 6, 2020

- GBPUSD broke the resistance at 1.3150, which may open the way to test higher at 1.3284 and 1.3482, with support at 1.2910 (100dMA).

## Strategy for GBP holders - Diversify into USD

- There was no material new step towards negative rates, but the summary states that MPC would use “any action necessary” to achieve its inflation target, which does not rule out our base case of negative Bank Rate in mid-2021.
- A contested election may lead to risk off and a tactical USD positive as risk assets trade drop sharply.



Strategy		Reference Level	Target Level
Bearish on GBP	USD	1.3482	1.2910
Bearish on GBP	HKD	10.45	10.01

## Strategy for USD holders - Buy GBP upon retracement

- A Brexit deal -- should have one by mid November. The potential for UK to enter into multiple FTAs next year (including with the US ) is yet to be priced.
- If Biden wins the presidency with split congress, a tactically USD negative outlook across the board (especially CNH and proxies such as EUR and Commodity Bloc).



Strategy		Reference Level	Target Level
Bullish on GBP	USD	1.2910	1.3482
Bullish on GBP	HKD	10.01	10.45

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7536 exchange rate for reference



# Weekly FX Strategy: AUD

## AUD news

- RBA cut the official interest rate to 0.10% with dovish statement, which once limited the AUD's performance.
- However, the market looked forward to Biden's victory in the election. The market sentiment improved, leaving USD down and supporting AUD.

## 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.

S2	S1	R1	R2	0-3m forecast	6-12m forecast	LT forecast
0.6799	0.7006	0.7350	0.7414	0.73	0.74	0.75



Source: Bloomberg L.P., as of Nov 6, 2020

- AUDUSD looks to be forming a clear double bottom within a triangle (top of the triangle has already broken) with a neckline at .7243. and a target close to .7500.

## Strategy for AUD holders - Diversify into USD

- A contested election may lead to risk off and a tactical USD positive as risk assets trade drop sharply.
- RBA cut the official interest rate to 0.10% with dovish statement, which once limited the AUD's performance.



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

## Strategy for USD holders - Buy AUD upon retracement

- If Biden wins the presidency with split congress, a tactically USD negative outlook across the board (especially CNH and proxies such as EUR and Commodity Bloc).
- 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.



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

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7536 exchange rate for reference



# Dollar Index

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7536 exchange rate for reference



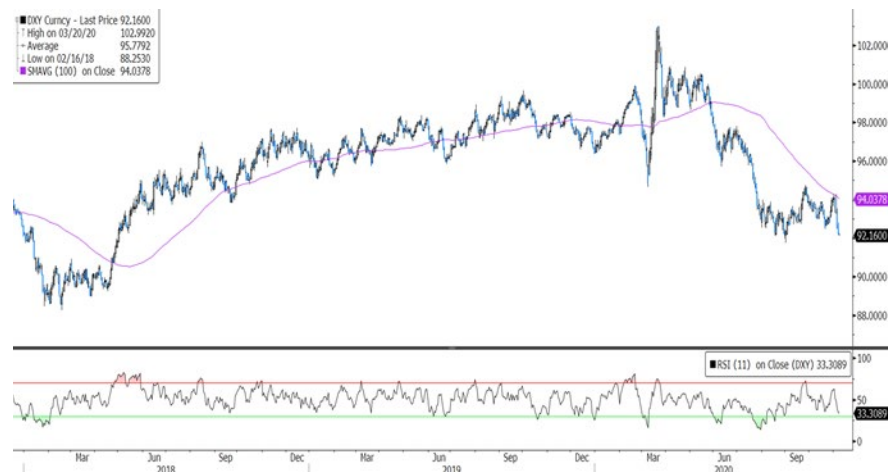
## USD outlook:

- 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 Nov 6, 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.



Strategy		Reference Level	Target Level
Bearish on CAD	USD	1.2994	1.3421
Bearish on CAD	HKD	5.97	5.78
Bullish on CAD	USD	1.3421	1.2994
Bullish on CAD	HKD	5.78	5.97

0-3M forecast: 1.30

6-12M forecast: 1.27

LT forecast: 1.20



Source: Bloomberg L.P., as of Nov 6, 2020



# USD/RMB

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7536 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	6.5000	6.6278
Bearish on RMB	HKD	1.1929	1.1699
Bullish on RMB	USD	6.6278	6.5000
Bullish on RMB	HKD	1.1699	1.1929

# 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	1.1880	1.1603
Bearish on EUR	HKD	9.21	9.00
Bullish on EUR	USD	1.1603	1.1880
Bullish on EUR	HKD	9.00	9.21

0-3M forecast: 6.75

6-12M forecast: 6.60

LT forecast: 6.50

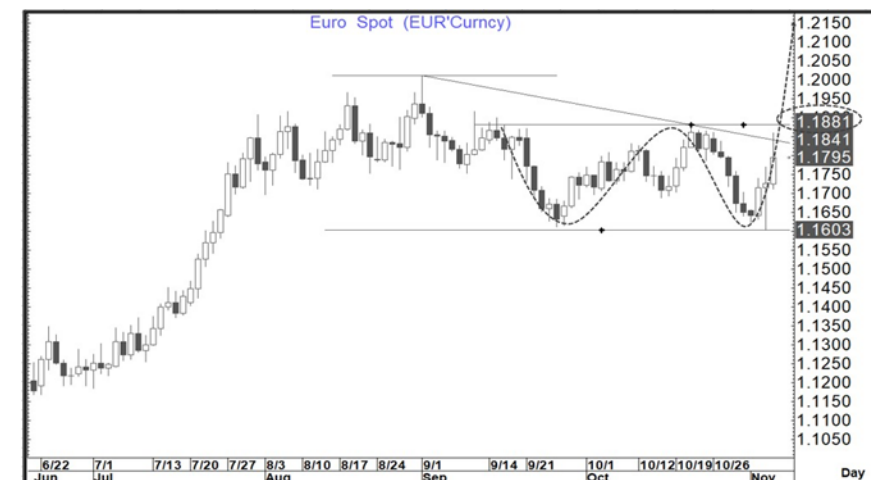


Source: Bloomberg L.P., as of Nov 6, 2020

0-3M forecast: 1.17

6-12M forecast: 1.22

LT forecast: 1.25



Source: Bloomberg L.P., as of Nov 6, 2020



# USD/CHF

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7536 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	0.8870	0.9193
Bearish on CHF	HKD	8.74	8.43
Bullish on CHF	USD	0.9193	0.8870
Bullish on CHF	HKD	8.43	8.74

0-3M forecast: 0.93

6-12M forecast: 0.90

LT forecast: 0.93



Source: Bloomberg L.P., as of Nov 6, 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	102.02	105.87
Bearish on JPY	HKD	7.60	7.32
Bullish on JPY	USD	105.87	102.02
Bullish on JPY	HKD	7.32	7.60

0-3M forecast: 107

6-12M forecast: 107

LT forecast: 105



Source: Bloomberg L.P., as of Nov 6, 2020



# NZD/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7536 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 0.6939	0.6472
Bearish on NZD	HKD 5.38	5.02
Bullish on NZD	USD 0.6472	0.6939
Bullish on NZD	HKD 5.02	5.38

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



Source: Bloomberg L.P., as of Nov 6, 2020

# Gold/USD

## 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.

Strategy	Reference Level	Target Level
Bearish on Gold	USD 2075	1860
Bearish on Gold	HKD 16,089	14,422
Bullish on Gold	USD 1860	2075
Bullish on Gold	HKD 14,422	16,089

0-3M forecast: 2200    6-12M forecast: 2400



Source: Bloomberg L.P., as of Nov 6, 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	11/6/2020	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	92.23	-1.9%	94.13	92.23	-1.6%	94.64	92.14	-0.6%	102.99	91.75	-4.4%
EUR/USD	1.1874	1.9%	1.1874	1.1641	1.2%	1.1936	1.1631	0.0%	1.2011	1.0636	6.0%
USD/JPY	103.35	-1.3%	106.03	103.35	-2.2%	106.93	103.35	-2.1%	112.23	101.19	-5.2%
GBP/USD	1.3156	1.6%	1.3156	1.2881	2.1%	1.3384	1.2724	0.1%	1.3514	1.1412	-0.6%
USD/CAD	1.3050	-2.0%	1.3325	1.3045	-2.0%	1.3388	1.3045	-1.9%	1.4668	1.2952	0.3%
AUD/USD	0.7258	3.3%	0.7283	0.7028	2.2%	0.7376	0.7028	0.3%	0.7414	0.5510	3.8%
NZD/USD	0.6774	2.4%	0.6774	0.6577	2.8%	0.6774	0.6527	1.3%	0.6802	0.5470	0.9%
USD/CHF	0.8995	-1.9%	0.9190	0.8995	-2.0%	0.9283	0.8995	-1.1%	1.0023	0.8983	-7.5%
USD/CNY	6.6125	-1.2%	6.7464	6.6065	-2.6%	6.9680	6.6065	-4.9%	7.1777	6.6035	-5.3%
USD/CNH	6.5915	-1.6%	6.7475	6.5915	-2.3%	6.9695	6.5915	-5.1%	7.1965	6.5767	-5.8%
GOLD	1951.35	3.9%	1951.35	1867.59	3.9%	2063.54	1861.58	-5.4%	2075.47	1445.70	29.0%

Source: Bloomberg L.P., as of Nov 6, 2020



## Appendix 2: Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
<b>Monday</b>							
11/02/20 09:45	CH	!!	Caixin China PMI Mfg	Oct	53.6	52.8	53
11/02/20 17:30	UK	!!	Markit UK PMI Manufacturing SA	Oct	53.7	53.3	53.3
11/02/20 23:00	US	!!	ISM Manufacturing	Oct	59.3	56.0	55.4
<b>Tuesday</b>							
11/03/20 11:30	AU	!!!	RBA Cash Rate Target	Nov	0.10%	0.10%	0.25%
11/03/20 23:00	US	!!	Durable Goods Orders	Sep	1.90%	1.90%	1.90%
<b>Wednesday</b>							
11/04/20 05:45	NZ	!!	Unemployment Rate	3Q	5.30%	5.30%	4.00%
11/04/20 11:30	AU	!!	Retail Sales MoM	Sep	-1.1%	-1.50%	-4.00%
11/04/20 21:15	US	!!	ADP Employment Change	Oct	365k	643k	749k
11/04/20 21:30	CA	!	Int'l Merchandise Trade	Sep	-3.25b	-2.35b	-2.45b
11/04/20 21:30	US	!!	Trade Balance	Sep	-\$63.9b	-\$63.9b	-\$67.1b
<b>Thursday</b>							
11/05/20 08:00	NZ	!	ANZ Business Confidence	Nov	-15.6	--	-15.7
11/05/20 08:30	AU	!	Trade Balance	Sep	A\$5630m	A\$3700m	A\$2643m
11/05/20 17:30	UK	!	Markit/CIPS UK Construction PMI	Oct	53.1	55	56.8
11/05/20 20:00	UK	!!!	Bank of England Bank Rate	Nov	0.10%	0.10%	0.10%
<b>Friday</b>							
11/06/20 03:00	US	!!!	FOMC Rate Decision	Nov	0.00%	0.00%	0.00%
11/06/20 21:30	US	!!	Change in Nonfarm Payrolls	Oct	638k	580k	672k
11/06/20 21:30	US	!!!	Unemployment Rate	Oct	6.90%	7.60%	7.90%
11/06/20 21:30	CA	!!	Unemployment Rate	Oct	8.90%	9.00%	9.00%



## Appendix 3: Upcoming Economic Figures (Nov 9, 2020 – Nov 13, 2020)

Time		Importance	Event	Period	Actual	Survey	Prior
<b>Tuesday</b>							
11/10/20 08:30	AU	!	NAB Business Conditions	Oct	--	--	0
11/10/20 09:30	CH	!!	CPI YoY	Oct	0.80%	--	1.70%
11/10/20 15:00	UK	!!	Average Weekly Earnings 3M/YoY	Sep	--	--	0.00%
11/10/20 15:00	UK	!!	ILO Unemployment Rate 3Mths	Sep	--	--	4.50%
11/10/20 18:00	GE	!	ZEW Survey Expectations	Nov	--	--	56.1
<b>Wednesday</b>							
11/11/20 07:30	AU	!	Westpac Consumer Conf SA MoM	Nov	--	--	11.90%
11/11/20 09:00	NZ	!!!	RBNZ Official Cash Rate	Nov	--	--	0.25%
<b>Thursday</b>							
11/12/20 08:01	UK	!!	RICS House Price Balance	Oct	--	--	61%
11/12/20 15:00	UK	!!	Industrial Production YoY	Sep	--	--	-6.40%
11/12/20 15:00	UK	!!	Manufacturing Production YoY	Sep	--	--	-8.40%
11/12/20 15:00	UK	!!	GDP YoY	3Q	--	--	-21.50%
11/12/20 21:30	US	!	Initial Jobless Claims	Nov	--	--	--
11/12/20 21:30	US	!!!	CPI YoY	Oct	1.30%	--	1.40%
11/12/20 21:30	US	!!!	CPI Ex Food and Energy YoY	Oct	1.70%	--	1.70%
<b>Friday</b>							
11/13/20 03:00	US	!	Monthly Budget Statement	Oct	--	--	-\$124.6b
11/13/20 18:00	EC	!!	GDP SA YoY	3Q	--	--	-4.30%
11/13/20 23:00	US	!!	U. of Mich. Sentiment	Nov	82	--	81.8



# Important Disclosure



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**Higher Credit Risk** – Unrated or non investment grade Debt Securities generally have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. There is greater risk of non-payment of interest and loss of principal. Many issuers of these Debt Securities have experienced substantial difficulties in servicing their debt obligations, which has led to default and restructurings. The issuers of these Debt Securities generally have to pay a higher rate of interest than investment grade Debt Securities.

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**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.

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# Important Disclosure

**Risk relating to RMB** – If you choose RMB as the base currency or the alternate currency, you should also note the following:

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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.