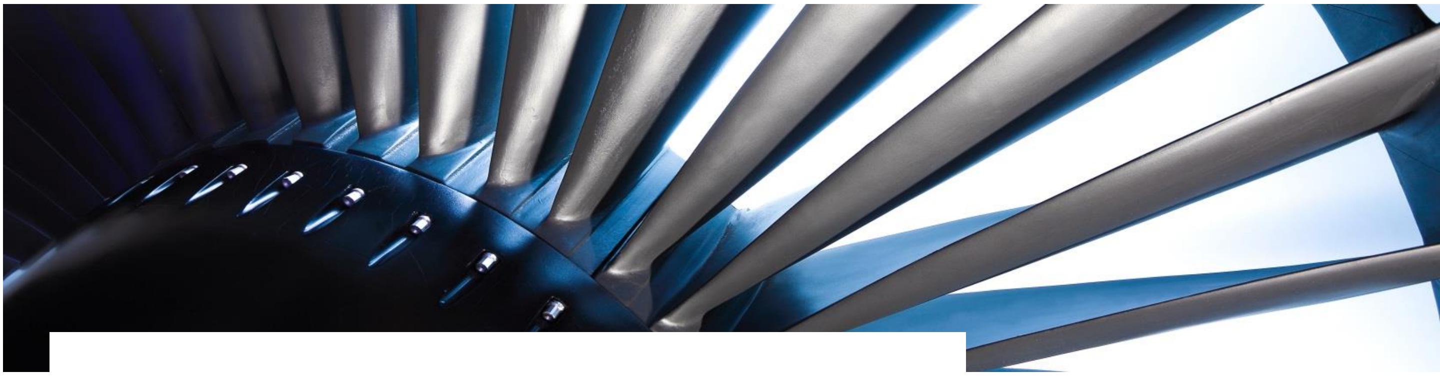

4th December 2018

# Keeping Our Eyes Peeled

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Last week highlighted the diversity of factors which move the currency markets, and provided an object lesson to observers of the importance of keeping a close eye on news flow.
Trade policy generated movement via the US/China meeting at the G20 summit, Central Bank monetary policy dominated Wednesday via Jay Powell and the Federal Reserve, and finally political rhetoric on Brexit gave the British Pound (GBP) crosses their usual weekly cocktail of volatility.

IN THIS ISSUE



**Read more on Page 2>**

## GBP

All in all, GBP had a relatively quiet week as market participants appear unwilling to take a large directional play ahead of the Parliamentary Vote on Tuesday 11th Dec. This means that whilst you can see and expect sizeable intraday moves, these are often reversed over the course of the following day or so.

Of definite note though was the Bank of England releasing their Brexit assessment on Wednesday. Of note were some headline figures of the effect of a 'disorderly' Brexit, which included a fall in the value of the pound by 25%, a fall in the housing market of 30%, with GDP losing circa 8% in a period after the event[1]. Now whilst these figures certainly should be acknowledged, discerning readers should note that these are worst case scenarios, and so should be treated accordingly when making decisions. Indeed, our house view is still for a deal to be done, and so GBP should be fairly resilient in this outcome.

Aside from the Brexit chatter, there isn't much else moving GBP. Economic data is steady if not impressive, with GDP growth being seen and inflation at a healthy 2.4%[2]. Most GBP crosses will post losses year to date as we are only a few weeks away from Dec 31st, and there will likely be some head scratching over the turkey feasts of 'what if's' for GBP if British politics had taken a different path this year.

## USD

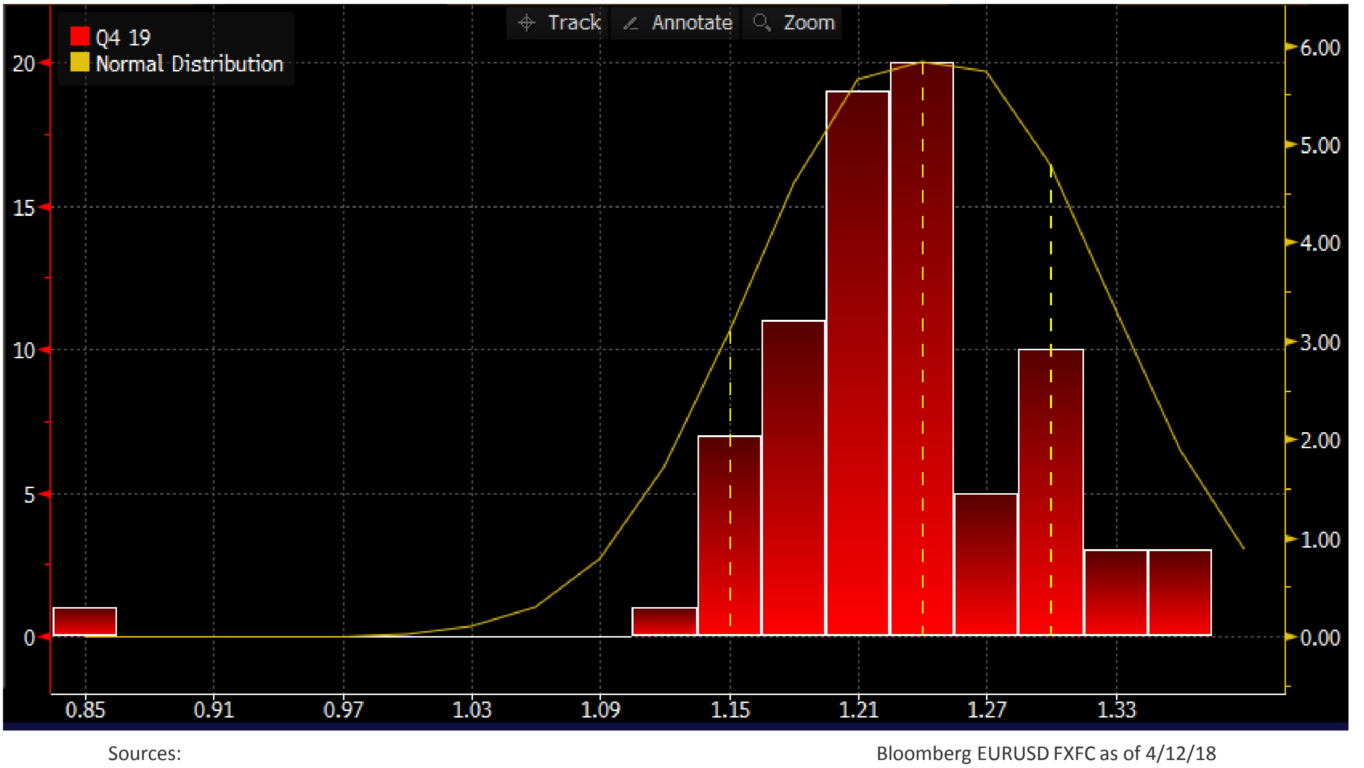
The US Dollar was back in focus last week via two large events. The first – rather unexpected – was Fed Chair Powell coming out with comments that they are 'just below' the neutral interest rate, and that future hikes would be data dependent[3]. This is a story which could get a lot more developed into early next year, as one of our key house views is for EUR/USD to move higher next year as the rate differential starts to shrink. Should this neutral rate be achieved earlier than expected then this could force EUR/USD higher from a fundamental view at a sharper pace.

Secondly, the Trump/Xi meeting at the G20 summit achieved a truce for 90 days, with the US holding off the next round of USD200bn worth of tariffs. As this occurred over the weekend, it was only on Monday where we saw a USD sell off on open, as investors were more comfortable selling safe havens and going into alternatives. Of note was AUD, which was up over 1% intraday on Monday morning against the USD[4].

## EUR

In light of the events mentioned above on the world scene, the EUR has been fairly timid as most flow has been dominated by other majors. The situation in Italy is still not resolved but has become slightly stale news. Whilst this does cap upside on EUR/USD in the short term, for more fundamental reasons previously mentioned Citi Analysts see upside on the EUR over the next 6-12 months. The ECB has not expressed any huge concerns about the region in November, and whilst the rate path remains flexible, still looks to potentially raise rates in summer/autumn 2019.

**Where is neutral? EUR/USD forecasts showing move higher**




Sources: Bloomberg EURUSD FXFC as of 4/12/18

1. https://www.fxstreet.com/news/bank-of-england-warned-of-25-sterling-depreciation-in-case-of-disorderly-brexit-201811281700
2. Bloomberg Data
3. https://www.nytimes.com/2018/11/28/business/federal-reserve-rate-jerome-powell.html
4. AUDUSD Reuters Spot

# Citi Analysts FX Forecasts

| | | Market data* | | | Forecasts | | |
|---|---|---|---|---|---|---|---|
| | | spot | 3m Fwd | 12m Fwd | 0-3 mos | 6-12 mos | long-term |
| **G10** | | | | | | | |
| Euro | EURUSD | 1.13 | 1.14 | 1.17 | 1.13 | 1.18 | 1.30 |
| Japanese yen | USDJPY | 113 | 112 | 110 | 115 | 113 | 100 |
| British Pound | GBPUSD | 1.28 | 1.28 | 1.30 | 1.26 | 1.30 | 1.48 |
| Swiss Franc | USDCHF | 1.01 | 1.00 | 0.97 | 1.00 | 0.98 | 0.92 |
| Australian Dollar | AUDUSD | 0.73 | 0.73 | 0.73 | 0.71 | 0.70 | 0.77 |
| New Zealand Dollar | NZDUSD | 0.68 | 0.68 | 0.68 | 0.68 | 0.66 | 0.67 |
| Canadian Dollar | USDCAD | 1.32 | 1.31 | 1.31 | 1.33 | 1.30 | 1.20 |
| Dollar Index** | DXY | 96.90 | 96.23 | 94.15 | 97.62 | 94.18 | 84.85 |
| **G10 Crosses** | | | | | | | |
| Japanese yen | EURJPY | 129 | 129 | 129 | 130 | 133 | 130 |
| Swiss Franc | EURCHF | 1.14 | 1.14 | 1.14 | 1.13 | 1.16 | 1.20 |
| British Pound | EURGBP | 0.89 | 0.89 | 0.90 | 0.90 | 0.91 | 0.88 |
| Swedish Krona | EURSEK | 10.27 | 10.27 | 10.29 | 10.20 | 10.15 | 9.50 |
| Norwegian Krone | EURNOK | 9.62 | 9.66 | 9.79 | 9.50 | 9.25 | 9.00 |
| Norwegian Krone | NOKSEK | 1.07 | 1.06 | 1.05 | 1.07 | 1.10 | 1.06 |
| Australian Dollar | AUDNZD | 1.07 | 1.07 | 1.07 | 1.04 | 1.06 | 1.14 |
| Australian Dollar | AUDJPY | 82 | 82 | 80 | 82 | 79 | 77 |
| **Asia** | | | | | | | |
| Chinese Renminbi | USDCNY | 6.95 | 6.97 | 7.01 | 7.00 | 6.95 | 6.50 |
| Hong Kong Dollar | USDHKD | 7.83 | 7.81 | 7.78 | 7.85 | 7.84 | 7.82 |
| Indonesian Rupiah | USDIDR | 14612 | 14802 | 15390 | 14800 | 14700 | 14900 |
| Indian Rupee | USDINR | 71.8 | 72.5 | 74.7 | 72.5 | 71.0 | 72.0 |
| Korean Won | USDKRW | 1129 | 1128 | 1112 | 1140 | 1120 | 1100 |
| Malaysian Ringgit | USDMYR | 4.19 | 4.20 | 4.20 | 4.17 | 4.10 | 3.80 |
| Philippine Peso | USDPHP | 52.7 | 53.1 | 54.1 | 53.5 | 53.0 | 52.5 |
| Singapore Dollar | USDSGD | 1.38 | 1.37 | 1.36 | 1.37 | 1.33 | 1.30 |
| Thai Baht | USDTHB | 33.0 | 32.9 | 32.6 | 32.7 | 32.3 | 32.0 |
| Taiwan Dollar | USDTWD | 30.9 | 30.6 | 29.9 | 30.8 | 30.5 | 29.8 |
| **EMEA** | | | | | | | |
| Czech Koruna | EURCZK | 26.0 | 26.0 | 26.4 | 26.1 | 25.6 | 24.5 |
| Hungarian Forint | EURHUF | 322 | 322 | 325 | 323 | 323 | 330 |
| Polish Zloty | EURPLN | 4.29 | 4.32 | 4.39 | 4.28 | 4.21 | 4.15 |
| Israeli Shekel | USDILS | 3.72 | 3.69 | 3.60 | 3.68 | 3.63 | 3.50 |
| Russian Ruble | USDRUB | 66.0 | 66.8 | 69.2 | 68.0 | 66.0 | 65.0 |
| Russian Ruble Basket | | 70.0 | 71.1 | 74.6 | 72.0 | 71.3 | 73.8 |
| Turkish Lira | USDTRY | 5.36 | 5.65 | 6.50 | 5.50 | 6.50 | 6.80 |
| South African Rand | USDZAR | 14.21 | 14.37 | 14.85 | 14.30 | 14.50 | 14.00 |
| **LATAM** | | | | | | | |
| Brazilian Real | USDBRL | 3.79 | 3.81 | 3.89 | 3.70 | 3.75 | 3.60 |
| Chilean Peso | USDCLP | 676 | 676 | 676 | 686 | 662 | 660 |
| Mexican Peso | USDMXN | 20.3 | 20.6 | 21.5 | 20.2 | 20.5 | 20.6 |
| Colombian Peso | USDCOP | 3190 | 3204 | 3245 | 3150 | 3050 | 2960 |

* market data including spot as of 9:37 AM London time on 16-Nov-2018

** The DXY forecasts are implied from the forecasts of the constituent crosses. *** Returns are relative to forwards

Source: Bloomberg and Citi Analysts **16th November 2018.**

*The new update of the above Citi FX forecast is expected to be published around **11th December 2018**. **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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