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The Slippery Slope

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The British Pound (GBP) suffered a bad week at the hand of the markets; with renewed fears surrounding Brexit, the future of PM May, and the potential implications of a landslide win for The Brexit Party at the upcoming European elections.

Elsewhere, US/China relations continued to be strained, with it flowing over into the corporate space too. The Swiss Franc (CHF) and Japanese Yen (JPY) continue to outperform as a result.

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GBP

One of the most popular questions we had coming into the desk last week was 'why is GBP getting sold off so hard?'. Taking the two main GBP trading pairs; GBP/EUR and GBP/USD. From May 3rd, GBP/USD has lost circa 3.8%, and GBP/EUR has lost 3.3%¹. We see this resulting from a variety of factors. Firstly, the US/China trade tensions have seen fast money move into safe havens, and out of more risky opportunities. With its current problems, GBP is seen as a higher risk currency at the moment, and thus logically take a hit.

Aside from this, Brexit headlines have not been seen as market positive. Boris Johnson has commented that he would be interested in the PM's job, Jeremy Corbyn says he won't support new attempt at the Brexit deal, and The Brexit Party appears in the polls to be making large gains ahead of the European Elections². Particularly of note is the last point, as it gives wider implications on the sentiment of the voting public here in the UK. If the two major parties lose significant ground, it could show ominous signs for a future General Election result. Note too that if the Brexit Party gather a large amount of votes, this too implies the public do want to leave the European Union.

From a technical perspective, GBP crosses in the short term are flashing as over sold. Into the mid-longer term, our analysts continue to hold to the view that GBP/EUR and GBP/USD will be higher than current spot levels.

USD

Post implementation of tariffs on China last week, FX markets steadied themselves in terms of flow into and out of risk assets. The US Dollar remained firm throughout the week. Retail Sales on Wednesday saw a miss month on month, coming in at -0.2% vs 0.2% expected³, but this was netted out by an ok initial jobless claims figure the following day. Plenty for the Federal Reserve to think about ahead of their June meeting, as well as continuing to tread an independent course despite President Trump's pressure to do otherwise.

EUR

We noted last week that the EUR played second fiddle to the USD and other majors, and this trend has continued. Despite a heavy data calendar with figures on growth, inflation and employment being released, the EUR struggled to make a material move higher. This can often be the case when market players are busy focusing on other areas, and so we would not be too alarmed with this being the case at the moment. If/when the sentiment on topics such as US/China and Brexit simmers down, the market should note the improvement in Eurozone data.

GBP/EUR (white) + GBP/USD (yellow)



Source: Bloomberg L.P

Past performance is no guarantee of future results, real results may vary.

Sources:

1. [Reuters GBP= and EURGBP=](#)
2. <https://www.telegraph.co.uk/politics/2019/05/21/european-elections-brex-it-party-polls-latest/><https://yougov.co.uk/topics/politics/articles-reports/2019/05/13/european-parliament-voting-intention-brex-34-lab-1>
3. <https://www.census.gov/retail/index.html>

MARKET ANALYSIS – PAGE 2



Citi Analysts FX Forecasts

		Market data*			Forecasts		
		spot	3m Fwd	12m Fwd	0-3 mos	6-12 mos	long-term
G10							
Euro	EURUSD	1.12	1.13	1.15	1.12	1.16	1.30
Japanese yen	USDJPY	109	109	106	108	104	93
British Pound	GBPUSD	1.29	1.30	1.31	1.29	1.35	1.53
Swiss Franc	USDCHF	1.01	1.00	0.97	1.01	1.00	0.92
Australian Dollar	AUDUSD	0.69	0.69	0.70	0.69	0.71	0.77
New Zealand Dollar	NZDUSD	0.66	0.66	0.66	0.66	0.67	0.68
Canadian Dollar	USDCAD	1.35	1.34	1.34	1.33	1.30	1.20
Dollar Index**	DXY	97.50	96.83	95.03	97.26	93.92	83.79
G10 Crosses							
Japanese yen	EURJPY	123	123	123	121	121	120
Swiss Franc	EURCHF	1.13	1.13	1.12	1.13	1.16	1.20
British Pound	EURGBP	0.87	0.87	0.88	0.87	0.86	0.85
Swedish Krona	EURSEK	10.78	10.79	10.82	10.70	10.65	10.00
Norwegian Krone	EURNOK	9.81	9.86	10.02	9.65	9.35	9.00
Norwegian Krone	NOKSEK	1.10	1.09	1.08	1.11	1.14	1.11
Australian Dollar	AUDNZD	1.05	1.05	1.06	1.05	1.06	1.13
Australian Dollar	AUDJPY	76	75	74	75	74	71
Asia							
Chinese Renminbi	USDCNY	6.87	6.91	6.95	7.00	6.80	6.30
Hong Kong Dollar	USDHKD	7.85	7.84	7.81	7.85	7.83	7.80
Indonesian Rupiah	USDIDR	14450	14764	15393	14600	14200	14900
Indian Rupee	USDINR	70.3	71.3	73.6	70.5	68.0	72.0
Korean Won	USDKRW	1189	1186	1172	1210	1180	1120
Malaysian Ringgit	USDMYR	4.17	4.18	4.19	4.18	4.14	3.80
Philippine Peso	USDPHP	52.4	52.9	53.9	52.2	52.6	52.5
Singapore Dollar	USDSGD	1.37	1.37	1.36	1.37	1.35	1.30
Thai Baht	USDTHB	31.6	31.5	31.4	31.8	31.6	32.0
Taiwan Dollar	USDUSD	31.1	31.1	30.6	31.5	30.9	30.2
EMEA							
Czech Koruna	EURCZK	25.7	25.9	26.3	25.8	25.5	24.7
Hungarian Forint	EURHUF	325	325	327	325	323	320
Polish Zloty	EURPLN	4.31	4.33	4.40	4.32	4.28	4.25
Israeli Shekel	USDILS	3.57	3.55	3.49	3.57	3.54	3.50
Russian Ruble	USDRUB	64.9	65.8	68.1	65.9	66.2	70.0
Russian Ruble Basket		68.4	69.6	72.9	69.5	71.0	79.5
Turkish Lira	USDTRY	6.07	6.44	7.74	6.30	7.10	7.00
South African Rand	USDZAR	14.27	14.45	14.96	14.35	14.05	14.00
LATAM							
Brazilian Real	USDBRL	3.98	4.01	4.10	3.98	3.85	3.75
Chilean Peso	USDCLP	691	692	692	700	685	660.00
Mexican Peso	USDMXN	19.2	19.5	20.3	19.32	19.70	20.0
Colombian Peso	USDCOP	3291	3308	3362	3250	3100	3050

* market data including spot as of 8:54 AM London time on 15-May-2019

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

*The new update of the above Citi FX forecast is expected to be published around **12th June 2019**. **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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