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## Back To School

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As we head into September, normal service was resumed after the 'summer lull', with the US Dollar (USD) gaining versus most peers across the board.

A bilateral agreement in principle over NAFTA with Mexico, safe haven flows from China Trade Tariff implementation, and a 'risk off' month end were all contributing factors to this.

**Read more on Page 2>**

### GBP/USD

With a wry smile, I can afford to write that the British Pound (GBP) actually was performing well into early/mid week trading. It appeared we had put a bottom in around the mid 1.26's, and that sentiment at least wasn't as aggressively bearish as most of August had suggested. Optimism was boosted by a surprise Reuters headline on Wednesday that; "EU'S BARNIER SAYS WE ARE PREPARED TO OFFER A PARTNERSHIP WITH BRITAIN SUCH AS HAS NEVER BEEN WITH ANY OTHER THIRD COUNTRY"<sup>1</sup>. GBPUSD rallied above 1.3000 and was up over 1% intraday, highlighting the elasticity of GBP crosses to upside moves on Brexit highlights.<sup>2</sup>

On a more longer term basis, it became evident that any GBP rallies would be sold off, particularly against the USD, which rallied into Thursday and Friday sessions. The main driver behind this was that President Trump favors proceeding with the USD200bn of Tariffs against China, which could go live as soon as this week.

We also saw an agreement 'in principle' with Mexico on a bilateral NAFTA 2.0 agreement – good for the US, but with the major loser being Canada in the short term. USDCAD moved above the 1.3200 handle, and again the USD continued its run higher against other key pairs, with GBP/USD down circa 1.4% from it's post Barnier comment highs<sup>3</sup>.

#### Source

1. Reuters Major News Function
- 2/3. Bloomberg GBPUSD Crncy Quote

MARKET ANALYSIS – PAGE 1

#### IN THIS ISSUE

**Page 1 – 2**

*FX Update*

**Page 3**

*FX Forecasts – August '18*

## EUR/USD

Whilst the USD theme permeates into EUR/USD strongly, the Eurozone itself has put out several interesting headlines of note over the last week or so. Fitch Ratings came out at revised Italy's outlook from stable to negative, reigniting market fears about Italy's 2019 budget. It remains to be seen whether Italy will indeed aggressively expand their fiscal spending (and ignore Brussels guidelines) which would be seen as a rude gesture towards the Eurozone, or if the market risk to EUR will abate. The key date to watch for this will be on Sept 27<sup>th</sup>.

Amidst this, Eurozone data has been firm though not spectacular, but in line with a broad USD rally, Citi Analysts see scope for a break below 1.1000 over the next 6-12 months.

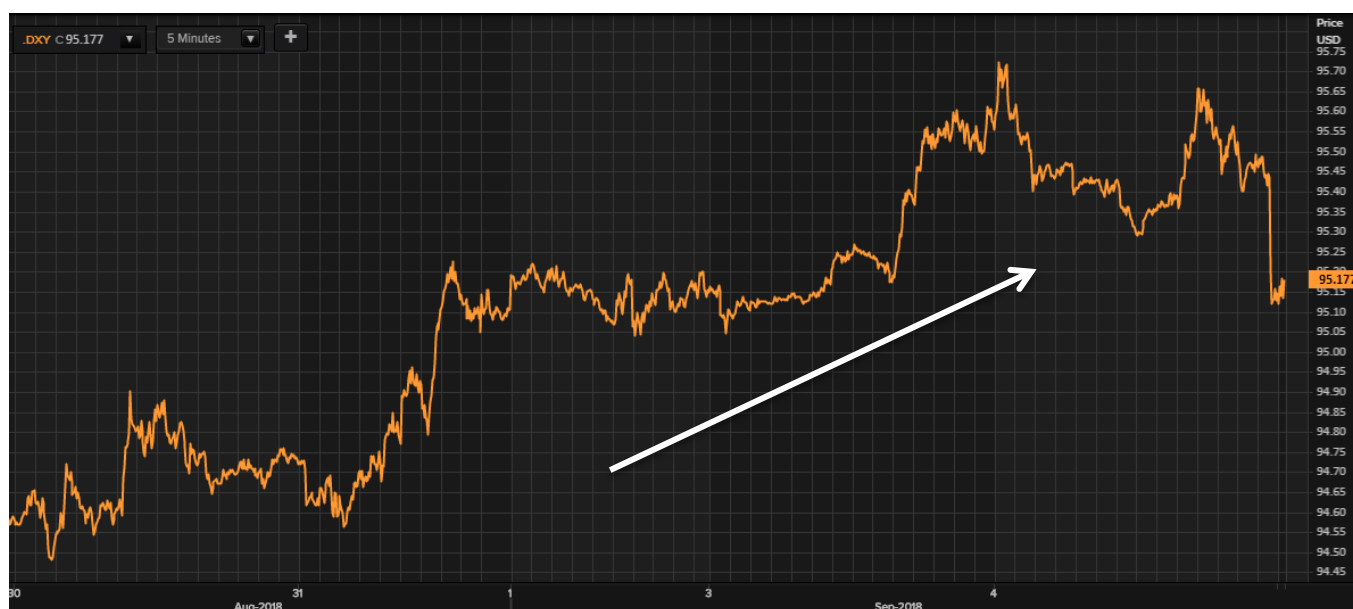
## Commodity Bloc

- We saw **AUD/USD** hit 28 month lows, as both political and economic turmoil's continued to weigh on the Aussie Dollar. Our house view sees further room for it to run lower.
- Based on a lowered outlook for milk prices, **NZD** lost ground last week with business confidence at a ten year low.
- As mentioned briefly earlier, **CAD** suffered late last week with the provisional NAFTA deadline being missed, meaning a lack of a trilateral agreement with the US and Mexico, net Canada negative.

## Emerging Markets

- Over the past week the Turkish Lira (**TRY**) has seen consolidation, trading in a more rational (although still elevated) volatility environment against peers, with no fresh news out from Erdogan.
- With market participants looking at where the next emerging market risk could come from, **USD/ZAR** hit ten year lows, exacerbated by a -0.7% GDP print, meaning South Africa is technically in a recession.

### Long Live the Dollar – Dollar Index Gains



Source; Reuters .DXY 5/9/18  
MARKET ANALYSIS – PAGE 2

## Citi Analysts FX Forecasts

		Market data*			Forecasts		
		spot	3m Fwd	12m Fwd	0-3 mos	6-12 mos	long-term
<b>G10</b>							
Euro	EURUSD	1.14	1.15	1.17	1.13	1.08	1.30
Japanese yen	USDJPY	110	110	107	112	114	100
British Pound	GBPUSD	1.27	1.28	1.29	1.23	1.21	1.48
Swiss Franc	USDCHF	1.00	0.99	0.96	1.01	1.06	0.92
Australian Dollar	AUDUSD	0.73	0.73	0.73	0.72	0.70	0.78
New Zealand Dollar	NZDUSD	0.66	0.66	0.66	0.63	0.61	0.65
Canadian Dollar	USDCAD	1.32	1.31	1.31	1.31	1.32	1.20
Dollar Index**	DXY	96.47	95.87	93.89	97.46	100.79	84.85
<b>G10 Crosses</b>							
Japanese yen	EURJPY	126	126	126	127	123	130
Swiss Franc	EURCHF	1.13	1.13	1.13	1.14	1.15	1.20
British Pound	EURGBP	0.90	0.90	0.91	0.92	0.89	0.88
Swedish Krona	EURSEK	10.49	10.49	10.50	10.30	10.10	9.50
Norwegian Krone	EURNOK	9.68	9.71	9.84	9.20	9.10	9.00
Norwegian Krone	NOKSEK	1.08	1.08	1.07	1.12	1.11	1.06
Australian Dollar	AUDNZD	1.10	1.10	1.10	1.14	1.15	1.20
Australian Dollar	AUDJPY	80	80	78	81	80	78
<b>Asia</b>							
Chinese Renminbi	USDCNY	6.88	6.89	6.94	7.00	6.85	6.10
Hong Kong Dollar	USDHKD	7.85	7.84	7.81	7.85	7.84	7.82
Indonesian Rupiah	USIDR	14593	14855	15486	14700	14900	15100
Indian Rupee	USDINR	70.2	71.2	73.5	72.0	70.0	72.0
Korean Won	USDKRW	1125	1124	1110	1120	1140	1070
Malaysian Ringgit	USDMYR	4.11	4.12	4.12	4.12	4.11	3.80
Philippine Peso	USDPHP	53.3	53.8	54.8	53.3	53.7	52.5
Singapore Dollar	USDSGD	1.37	1.37	1.36	1.38	1.38	1.30
Thai Baht	USDTHB	33.2	33.2	33.0	33.3	33.7	31.0
Taiwan Dollar	USDTWD	30.8	30.6	29.9	30.9	30.5	29.8
<b>EMEA</b>							
Czech Koruna	EURCZK	25.7	25.8	26.1	25.7	25.6	24.5
Hungarian Forint	EURHUF	324	325	328	322	325	322
Polish Zloty	EURPLN	4.31	4.34	4.41	4.29	4.32	4.15
Israeli Shekel	USDILS	3.67	3.65	3.57	3.70	3.73	3.45
Russian Ruble	USDRUB	67.6	68.3	70.4	65.7	68.4	67.6
Russian Ruble Basket		71.8	72.8	76.0	69.5	70.9	76.7
Turkish Lira	USDTRY	6.18	6.63	7.92	6.30	6.60	6.50
South African Rand	USDZAR	14.91	15.10	15.67	13.95	14.25	13.25
<b>LATAM</b>							
Brazilian Real	USDBRL	3.95	3.98	4.10	3.85	3.60	3.40
Chilean Peso	USDCLP	671	672	672	660	678	610
Mexican Peso	USDMXN	19.1	19.4	20.2	19.0	19.8	19.2
Colombian Peso	USDCOP	3023	3040	3089	2950	3000	2900

\* market data including spot as of 1:13 PM London time on 17-Aug-2018

\*\* The DXI forecasts are implied from the forecasts of the constituent crosses. \*\*\* Returns are relative to

Source: Bloomberg and Citi Analysts 17<sup>th</sup> August '18

\*The new update of the above Citi FX forecast is expected to be published around 14<sup>th</sup> September 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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