

24 FEBRUARY 2017

Mixed Comments From Mnuchin Disappoint USD Bulls

USD: Treasury Secretary Mnuchin - Says “there are certain issues” with USD strength; adds Trump is aiming to pass tax reform by August but growth wouldn’t be impacted until year end and has concerns about certain aspects of border adjustment tax.

GBP: Inflation Expectations Rise – Sterling bulls cheer by the rise in Citi/ YouGov’s UK 5 – 10Yr inflation expectations in February to its highest since Jan’ 2014 which if sustained could potentially lead to second order effects and a more hawkish MPC.

GBP: Capping sterling however is a Reuters headline that the Scottish government is seriously considering a new independence referendum next year though polls are yet to show a majority in favor of independence.

USDCAD – Targeting 1.3015 Short Term



Source: Bloomberg, February 24, 2017

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USD & JPY

USD still stranded amid Trump/ Fed uncertainty; Overall still range bound but drifting lower

CCY	Spot	1-Month High	1-Month Low	Tactical Short Term Bias (Monthly)	Citi Long Term Bias (6-12Mths)	Support 2	Support 1	Resistance 1	Resistance 2
USD Index	101.05	101.76	99.23	Neutral - still trapped in a narrow range	Longer Term Bullish	95.30	97.00	102.00	103.25
USDJPY	112.73	115.63	111.60	114.50 - 115.0 key resistance seen holding	Bullish	112.20	112.55	113.30	113.70

Key Data/ Events: Highlights From Treasury Secretary Mnuchin's speech overnight: –

- There are certain issues with USD being strong but market to drive it in the short term
- New policies to have limited impact in 2017.
- Tax plan to be competitive for US business, has concerns about parts of border tax.
- No decision on Chinese Yuan to come before April FX report

Strategy: Still trapped in a narrow range over Trump and Fed rates uncertainty: -

- Fresh session lows in USD overnight on Mnuchin disappointment with USDJPY slipping back through the 113 handle and EURUSD closing in on 1.0600 though still pretty much in ranges amid a 30% fall in trading volumes. This leaves USDJPY still well capped around 114.50 – 115.00 resistance but well supported in the 112.00 – 50 area.

Euro Bloc

Scottish independence headlines unlikely to derail GBP sentiment for now but bear watching

CCY	Spot	1-Month High	1-Month Low	Tactical Short Term Bias (Monthly)	Citi Long Term Bias (6-12Mths)	Support 2	Support 1	Resistance 1	Resistance 2
EURUSD	1.0584	1.0829	1.0494	Well supported above 1.0505 but underperforming on crosses	Bearish	1.0490	1.0530	1.0595	1.0620
EURGBP	0.8428	0.8856	0.8402	Moderately bearish as key support breaks	Neutral	0.8370	0.8400	0.8470	0.8500
EURJPY	119.32	123.32	118.60	Moderately bearish	Moderately Bullish	118.60	119.00	119.90	120.35
GBPUSD	1.2557	1.2707	1.1987	Still well supported above 1.24	Bearish	1.2450	1.2500	1.2560	1.2590
USDCHF	1.0063	1.0159	0.9861	Neutral	CHF Moderately Bearish	1.0025	1.0050	1.0110	1.0140

Key Data/ Events:

- **GBP: UK's 5 – 10Yr inflation expectations** rise in February to 3.2% annually, according to Citigroup/YouGov's Inflation Tracker, highest since Jan' 2014 though unlikely to be a concern for BoE near term but expected to be watched more closely for 2nd round effects.
- **GBP: Reuters reports the Scottish government is seriously considering a new independence referendum next year.** Citi Research sees current polling as showing little appetite for Scottish independence, but could change if the economy cools.

Strategy: Still playing for sterling outperformance against euro into the French elections: –

- **EUR:** A strong rebound in EURUSD over the past 2 trading sessions after briefly hitting sub 1.0500 now leaves the 1.0520 level providing strong support while short term resistance comes in at 1.0615 ahead of the 55d MA is at 1.0593.
- **GBP:** While Scottish developments bear watching as a potentially negative development, for now support via EUR cross (French election play) amid more balanced positioning is likely to see GBPUSD supported around 1.2400 while targeting the low 0.80s in EURGBP.

Commodity Bloc

Commodity bloc capped versus USD; Better opportunities still lie on crosses

CCY	Spot	1-Month High	1-Month Low	Tactical Short Term Bias (Monthly)	Citi Long Term Bias (6-12Mths)	Support 2	Support 1	Resistance 1	Resistance 2
AUDUSD	0.7713	0.7743	0.7458	Approaching 0.7750 but still a tough hurdle to cross	Bearish	0.7650	0.7685	0.7740	0.7770
AUDJPY	86.95	88.32	85.00	Turning bearish	Bullish	86.69	86.82	87.15	87.40
NZDUSD	0.7230	0.7376	0.7076	Seen fading rallies to 0.7300	Moderately Bearish	0.7145	0.7190	0.7250	0.7280
USDCAD	1.3102	1.3393	1.2969	Outperforming AUD & NZD	Moderately Bearish CAD	1.3050	1.3080	1.3160	1.3210

Key Data/ Events:

- AUD:** Q4 capex points to larger than expected fall in mining investment - The 2.1% fall in Australia's Q4 capex is lower than both consensus and Citi forecast but largely led by a further fall in mining investment. Non-mining capex rebounds after a disappointing Q3 but the 5th estimate for FY17 is still 9% below the 5th estimate for FY16 and according to [Citi Research](#) implies capex will fall again by 10 – 15% this year, capping a disappointing outlook.
- AUD:** [RBA Governor Lowe's testimony to the Australian parliament; Key highlights](#) – Says would like AUD to be lower though finds it hard to say it is overvalued. On rates says a “on hold in 2017” seems a reasonable outlook.

Strategy: AUD rallies seen fading @ 0.7750; Look to crosses for more trading opportunities: -

- AUD:** 0.7700 – 50 continues to cap AUDUSD given the disappointing capex outlook ahead of Australia's Q4 GDP report next week (Q3 GDP contracted -0.5% QoQ). Better opportunities to play for a weaker AUD still lie on crosses - AUDJPY and AUDNZD with the former peaking around 87.40 and eyeing a break of 86.50 support while the latter looks heavy around 1.0700.

Asian EM

SGD – MAS easing odds reduced in April and currency seen trading closer to the mid band

CCY	Spot	1-Month High	1-Month Low	Tactical Short Term Bias (Monthly)	Citi Long Term Bias (6-12Mths)	Lower End Of Band	Mid-Band	Higher End Of Band
USDSGD	1.4078	1.4334	1.4051	Neutral For Now	Moderately Bearish SGD	1.3857	1.4134	1.4423
USDCNY	6.8672	6.9126	6.8278	Neutral For Now	Bearish CNY	6.7321	6.8695	7.0069

Key Data/ Events:

- SGD:** [Reduced April Easing Odds on Oil-led Rise in CPI](#) – Singapore's January headline CPI accelerates to 0.6%YoY (Dec: 0.2%) on energy and services, in line with consensus, but with core CPI also rising by 0.1%-ppt more than expected at 1.5%YoY (Dec: 1.2%).

Strategy Implications:

- SGD:** [Reduced urgency for MAS easing on lower odds of core undershooting MAS's forecasts](#) – With the pick-up in core momentum to historic averages, the upside surprise in CPI alongside expectations of firmer prices in 2017 reduces MAS April easing odds materially with also less justification to “steer the NEER” weaker versus the band.



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