The “soft” Buck stops here

Tom Fitzpatrick
1-212-723-1344
thomas.fitzpatrick@citi.com

Shyam Devani
65-6657-2964
shyam.devani@citi.com

Dan Tobon
1-212-723-1576
daniel.tobon@citi.com

Beimnet Abebe
1-212-723-7057
beimnet.abebe@citi.com

For recent commentary or to access archived publications, visit the CitiFX Technicals website

- There appears to be an increasingly broad based platform for USD strength to reemerge in both G10 and local currency markets (Asia in particular).
- The picture on the Citi US Economic Surprise Index and on US yields (short term in particular) also seems to support this thought process
- The mix of higher yields, a stronger USD, a resilient equity market (thought we do have some short-term concerns) and an improving economy is the worst possible setup for the Gold price. We continue to expect this to move back to the 2015 lows.

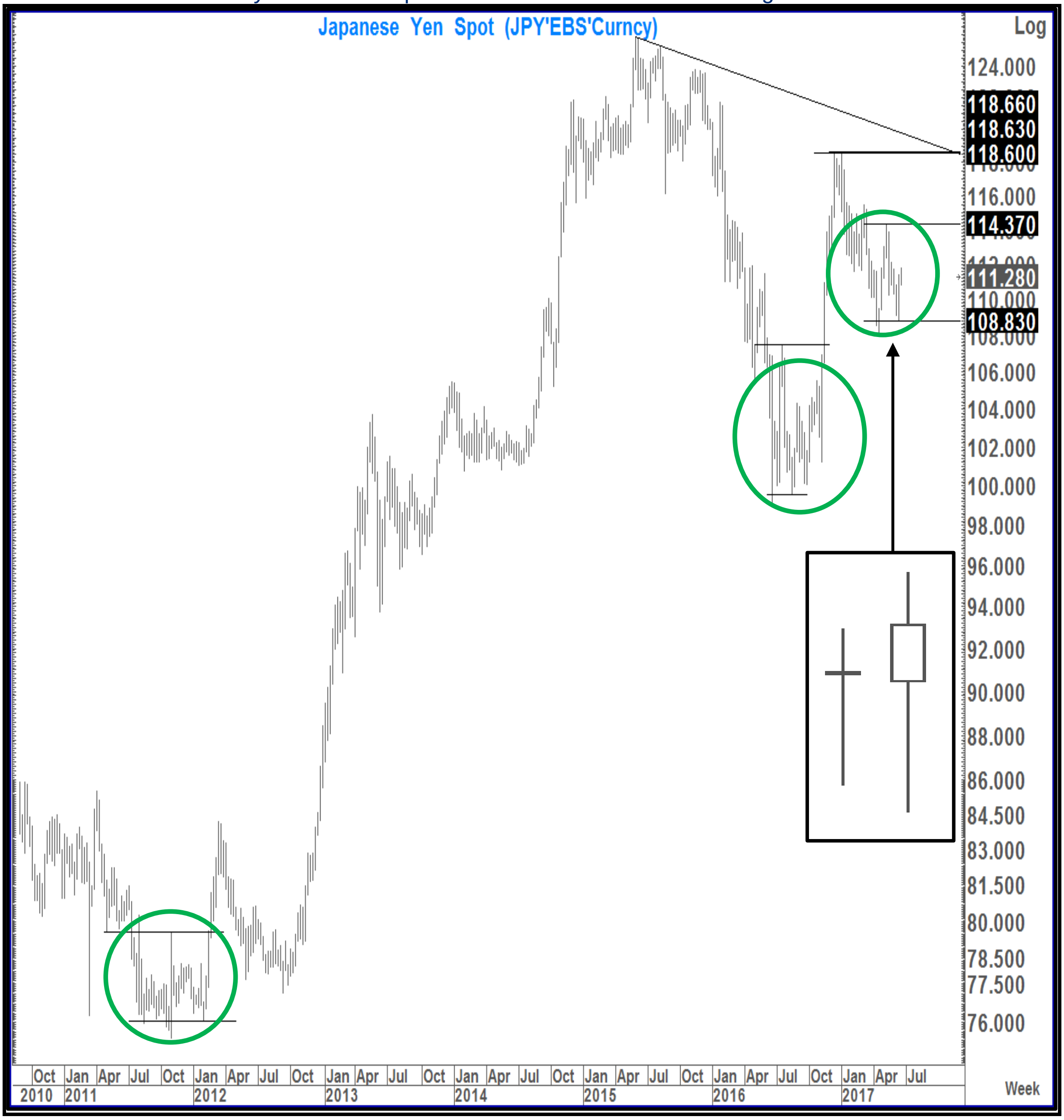
G10FX: USD index/USDJPY/EURUSD/GBPUSD all look USD supportive now

USD-Index: 1999 remains our most compelling reference point

Source: Aspen graphics/Bloomberg; June 21, 2017

- The 3rd rate rise in the renewed raising cycle in 1999 coincided with a period of renewed broad based USD strength over the next year and an ultimate high for the USD index in the trend in July 2001.

USDJPY – Bullish weekly reversal completed. Double bottom in the making



Source: Aspen graphics/Bloomberg; June 21, 2017

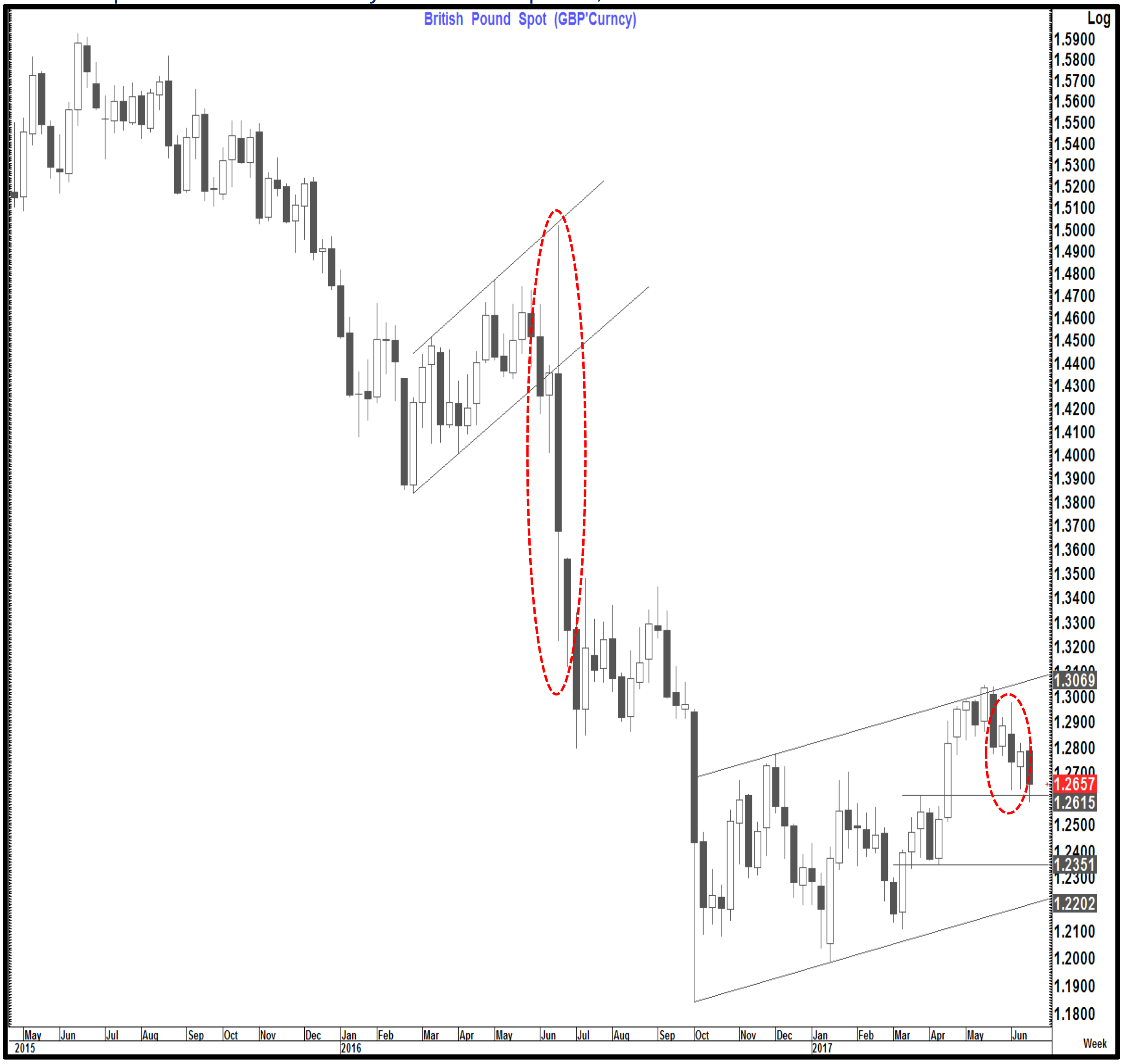
- USDJPY posted a bullish outside week last week indicating higher levels ahead
- This is likely to be supported by rising US yields
- The setup forming looks to be a double bottom which has previously given signs of a decent rally – in both early 2012 and again last year
- The key level to watch is **114.37**. A weekly close above there would confirm the setup and indicate a rally to almost **120**
- However good resistance is around **118.60-66** (the highs seen in December 2015 and at the start of this year)

EURUSD weekly chart: Looking like a turn?

Source: Aspen graphics/Bloomberg; June 21, 2017

- The peak in EURUSD so far in this rally has been **1.1296**, very similar to the turning point of **1.1300** in November last year.
- Then, the turn came with a bearish weekly reversal off the 1.1300 high. This time it was a less impulsive doji week (indecision at the high) but was accompanied by <u>weekly momentum turning lower from the highest level in nearly 4 years.</u>
- Initial supports to watch below come in at **1.0839-1.0906** and then **1.0495 to 1.0570**
- <u>Ultimately we still expect that the downtrend will be renewed and take EURUSD below parity.</u>
- In 1999, when EURUSD turned lower in October it was from a peak of 1.0912 after a rally of just under 8% post the first rate rise in the cycle in June. This time around the peak so far has been 1.1296 after a rally of just over 9% post the first rate rise of the cycle in December 2016.

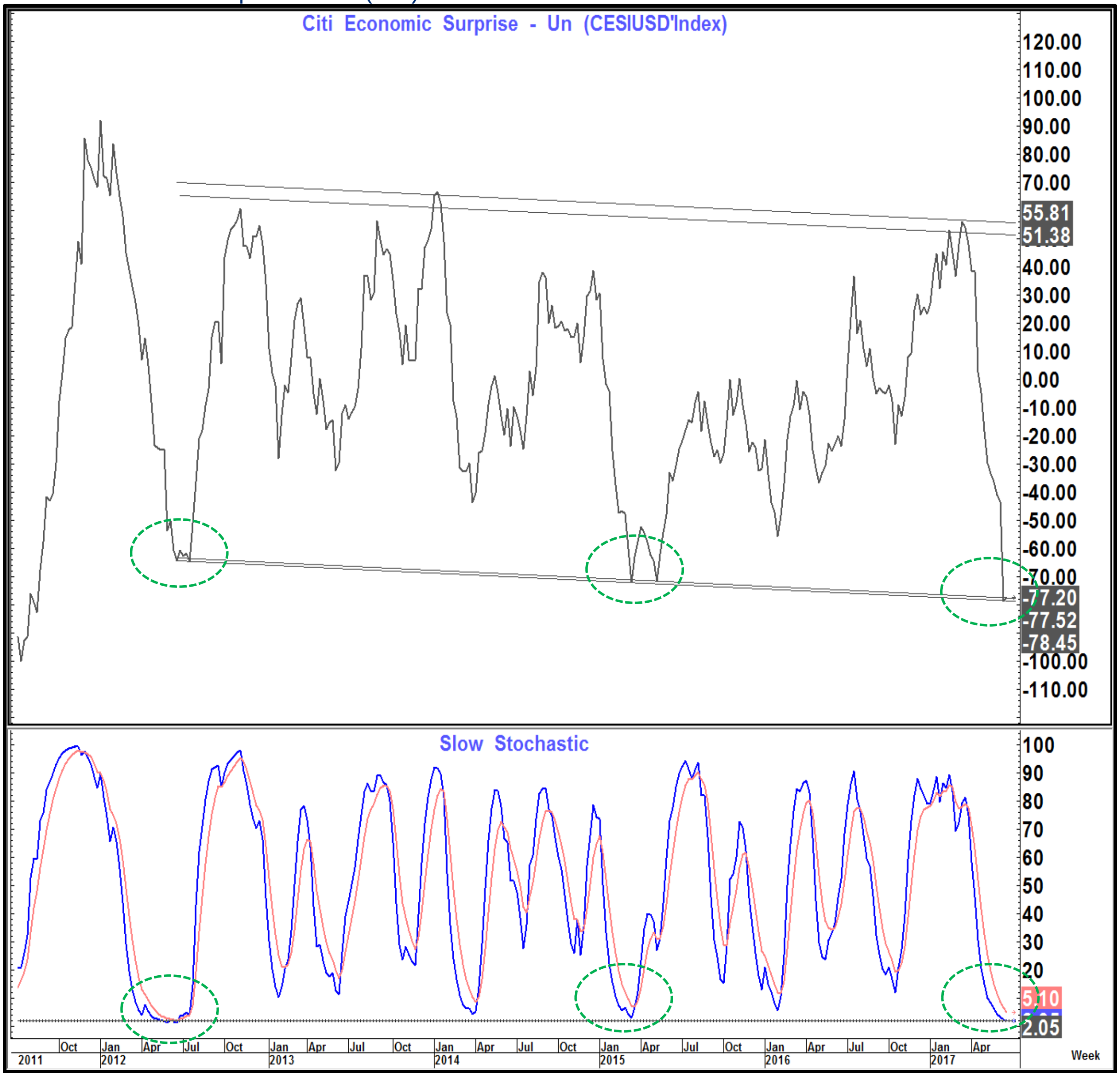
GBPUSD price action looks clearly like another pause, not a reversal



Source: Aspen graphics/Bloomberg; June 21, 2017

- The price action in GBPUSD since last October into the channel peak in May (leading into the snap UK election) reminds us of what we saw between Feb and June 2016 into the Brexit vote
- The week of the Brexit vote we saw a massive bearish weekly reversal and the recent week of the snap election saw a less aggressive weekly reversal, but a reversal all the same. Though the magnitude of the June 2017 result is far less than that of the Brexit, June 2016 vote, the reactive function is similar
- While we did enter into a period of consolidation we ultimately saw the Pound at much lower levels by October 2016- 4 months later
- Good support is met at **1.2615, 1.2350** and **1.22** (base of the channel)
- We would expect all of these levels to be tested and in fact broken enroute to at least a test of the trend lows at **1.1841** and likely even lower still

Citi US Economic Surprise index (ESI): Time for a turn?



Source: Aspen graphics/Bloomberg; June 21, 2017

- The chart above shows the US ESI since the surge higher in early 2012
- The present fall has now hit the trend line support off the major lows posted in 2012 and again in 2015
- In addition, the weekly momentum indicator is at levels consistent with those prior 2 periods before we saw this indicator turn higher again (ESI is a mean reversion indicator)
- A turn now, if seen, would likely add fuel to the emerging USD strength we are starting to see again and potentially support the potential for higher US yields also.
- <u>If this index were to turn from here that could well be the start of a change in mind by the market about the validity of the recent more hawkish action/rhetoric from the Fed.</u>

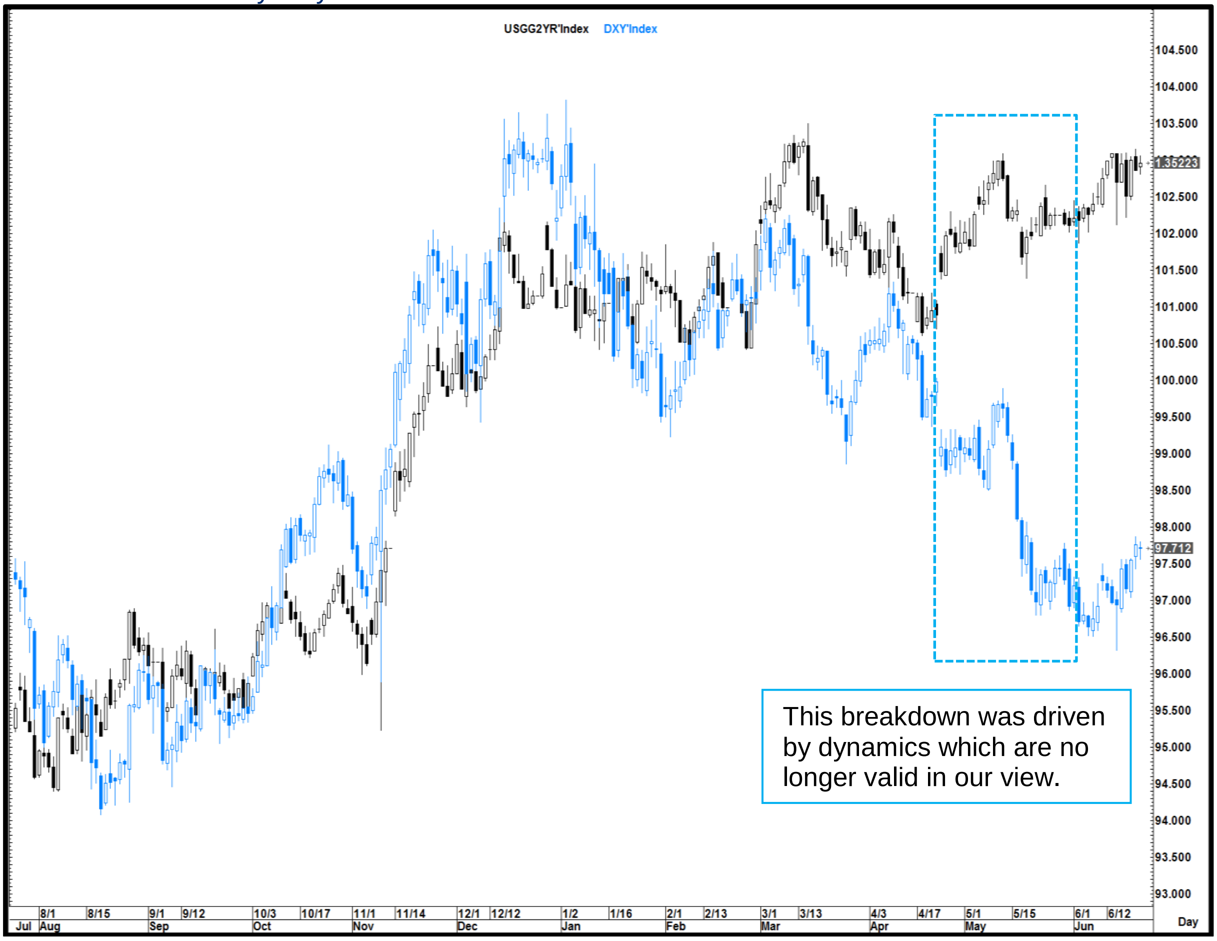
US 2 year yield uptrend intact

Source: Aspen graphics/Bloomberg; June 21, 2017

- The US 2 year yield remains in a clear uptrend though at the moment it is approaching resistance around 1.40-1.43%. These are the current trend high (see insert) and also pivotal levels in 2003, 2004 and 2009 (circles).
- If we were to see a break above those levels it would open the way towards the channel top which is currently around 1.80%
- If we are going to begin to see a turn in the ESI as is our bias, it would further support a break through those resistance levels as stronger data continue to support continue Fed hiking
- It is important to note that at this point, only two more hikes are priced in through the end of 2019. This in our view seems relatively low given:
  - the continued strength of the US economic recovery and in particular labor and housing
  - that current policy (and additional hikes short of the terminal rate) is a removal of accommodation rather than a tightening as the Fed normalizes monetary policy
  - the Fed is starting to publicly recognize low inflation may have more to do with technological changes than the economic cycle
  - the potential for regulatory/fiscal/tax changes to stimulate growth despite this now being price out by the market
  - and of course, given the potential move higher in ESI, the potential for data to start surprising to the upside in the second half of the year

- The market's skepticism is understandable as the constant shifting of goal posts by the Fed has frequently been a source of frustration for investors. However, should these factors continue to support a more normal hiking cycle by the Fed, the market may need to start pricing more in.
- This could further support a move higher in front-end yields which should have a positive feedback loop into the USD…

DXY Index and US 2 year yield

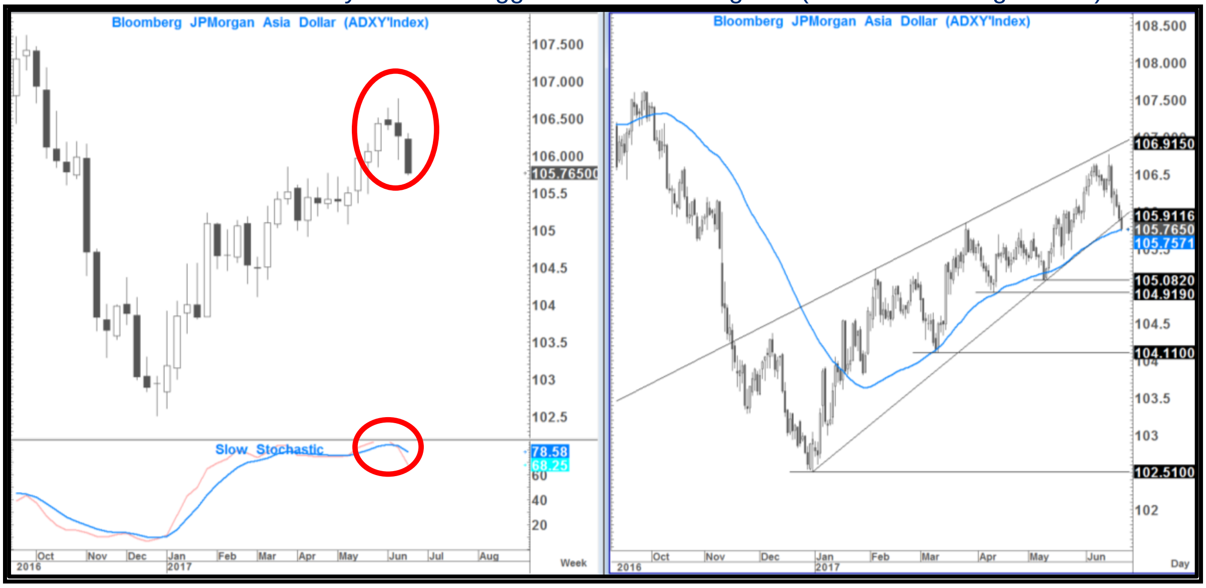


Source: Aspen graphics/Bloomberg; June 21, 2017

- The USD and US yields have had a close relationship though this has recently started to break down. Above we have the US 2 year yield with the DXY Index, though the relationship is similar further out the curve as well though 2s have certainly held up better than the back end (potentially as a function of the recent Oil move and the negative feedback loop into inflation expectations).
- However, we started to see a very clear breakdown that accelerated in April. The catalyst then, in our view, was the combination of positive French election results and a surprise jump in European Core CPI. This all set up hawkish expectations from the ECB in June, driving EURUSD higher regardless of what was happening with US yields and Fed policy (recall EUR accounts for 57.6% of the DXY Index).
- However, over the last week we have seen an ECB that has continued its dovish stance especially as European inflation has reversed some of the bounce seen earlier in the year. At the same time, the Fed has shifted to a more hawkish stance relative to market expectations. From our perspective, the driver of the discrepancy is therefore no longer valid and we should see a resumption of the relationship between yields and the USD, further supporting a higher USD.

USD versus Asian currencies (ex Japan) is also starting to look constructive

ADXY Index – Bearish weekly reversal suggests further USD gains (Down is a stronger USD)



Source: Aspen graphics/Bloomberg; June 21, 2017

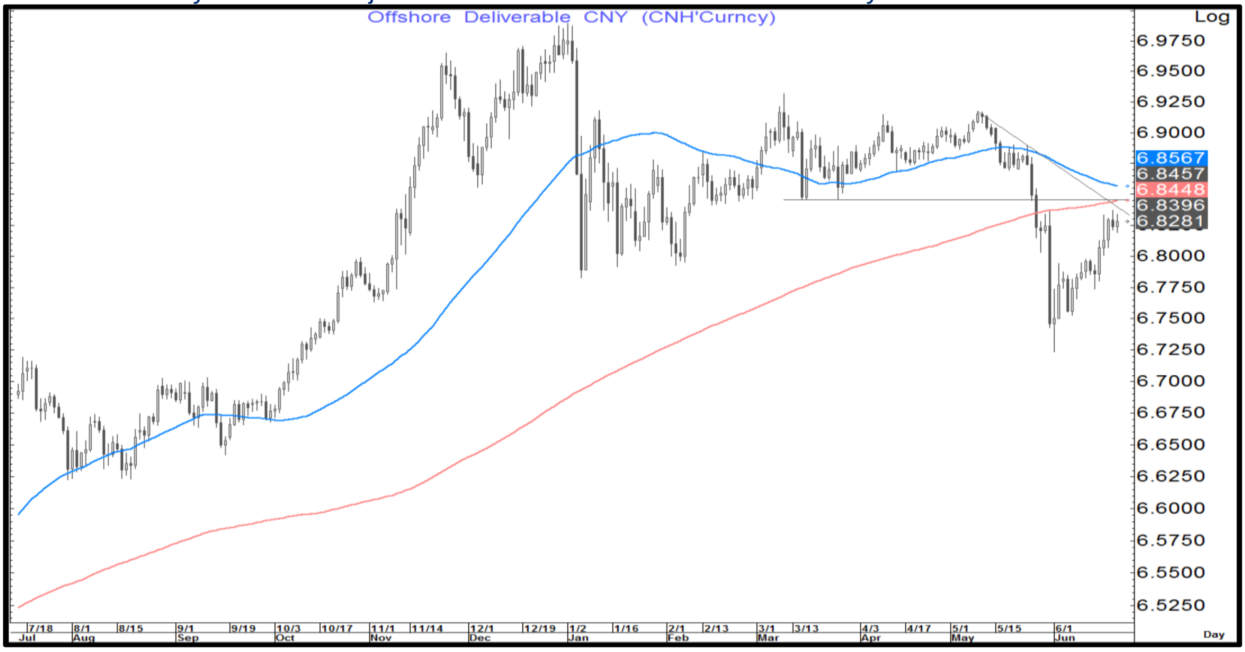
- Weekly chart: Bearish weekly reversal posted at the highs of the move last week
  - In addition we have weekly momentum crossing down from stretched levels
- Daily chart: Shows the base of a wedge like pattern and the 55 day moving average being threatened at **105.75-76.**
- A close below opens the way for **104.91** in the short term then **104.11**
- A more aggressive target would be the trend low again at **102.51**

USDCNH – Held the base of the longer term channel (CNY is 41.8% of the index)

Source: Aspen graphics/Bloomberg; June 21, 2017

- The sharp fall in USDCNH a few weeks ago held the base of the channel and horizontal support at 6.71.
- Since then we have rallied back into the old range suggesting that this may have been just another correction within the uptrend
- Trendline resistance is at **6.8939** and resistance above there is at **6.9319**
- A rally through there would open the way for the trend high just below **7.00**

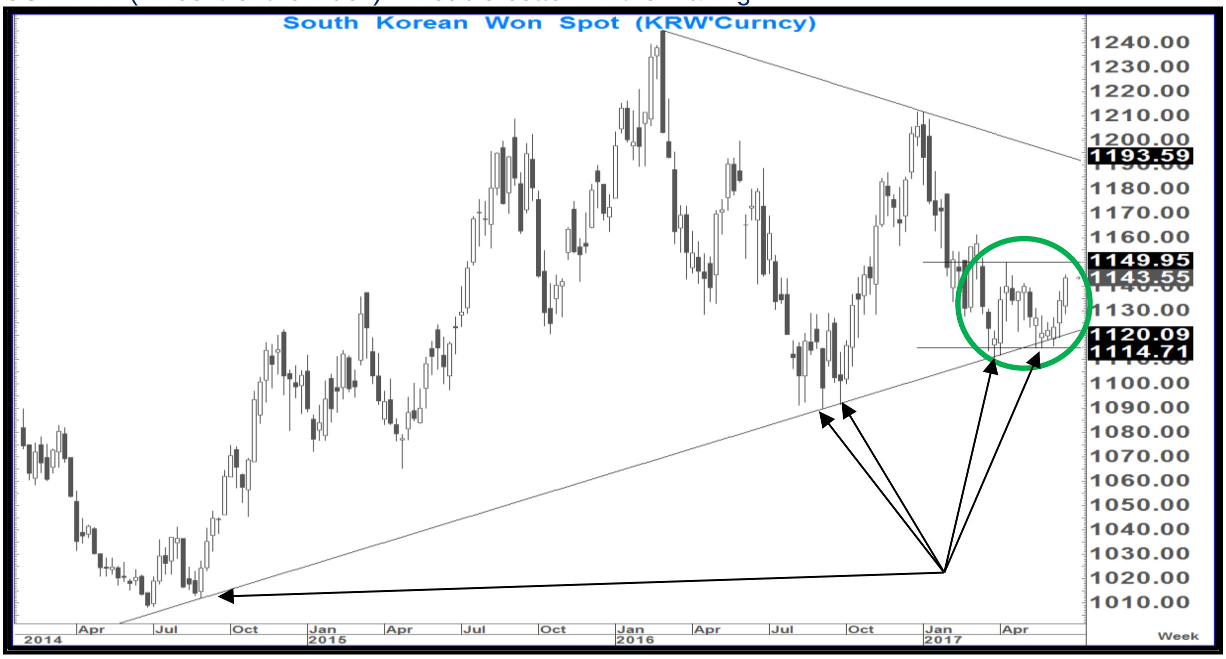
USDCNH – Daily resistance is just above and should be watched carefully



Source: Aspen graphics/Bloomberg; June 21, 2017

- There is still some very good daily resistance just above between **6.8280 and 6.8567** (trend lines and 55/200 day moving averages). A close above here, if seen, would further support the argument that the recent move lower has run its course.

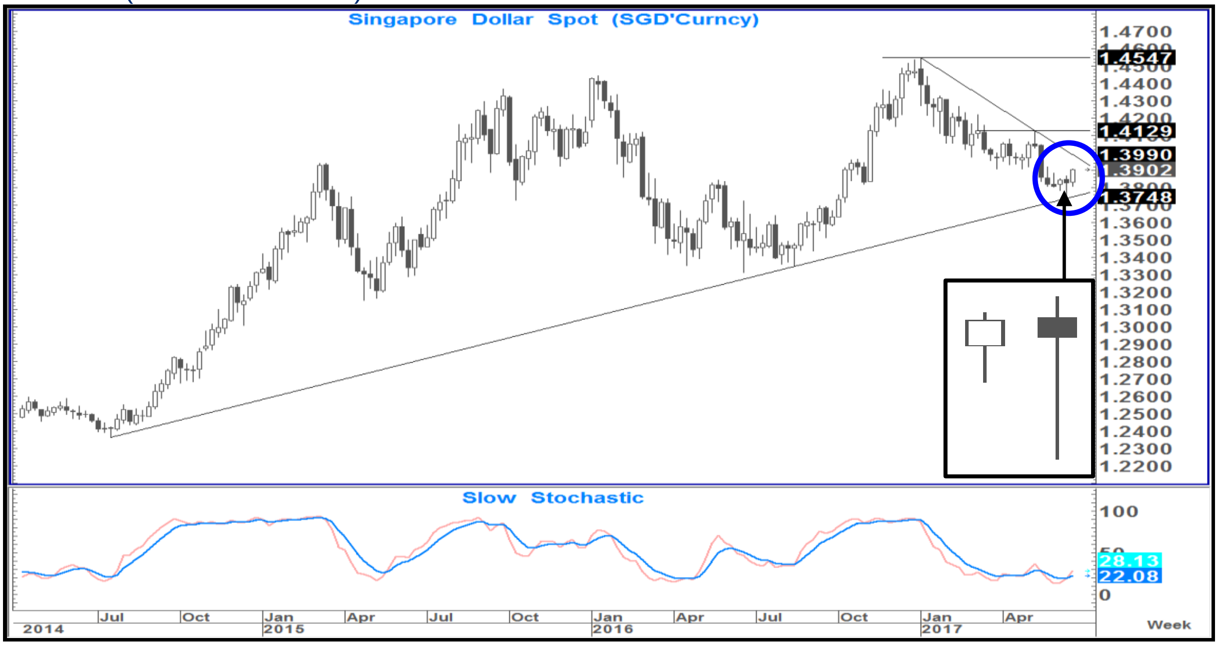
USDKRW (12.05% of the index) – Double bottom in the making



Source: Aspen graphics/Bloomberg; June 21, 2017

- Having held the trend line support we have bounced and look to be forming a double bottom
- The important level is **1,150** which is the neckline.
- A weekly close above there would indicate a rally to **1,186**. Just above there is the trend line resistance at **1,193.**

USDSGD (6.02% of the index) – Hammer at the lows



Source: Aspen graphics/Bloomberg; June 21, 2017

- USDSGD also held a medium to long term trendline support and posted a clear weekly **hammer pattern** last week
- Momentum is crossing back up from stretched levels
- Trendline resistance is at **1.3990** and resistance (potential target) above there is at **1.4129**
- Longer term resistance is at **1.4547**

USDINR (7.35% of the index) – Target met. Is the low in?

Source: Aspen graphics/Bloomberg; June 21, 2017

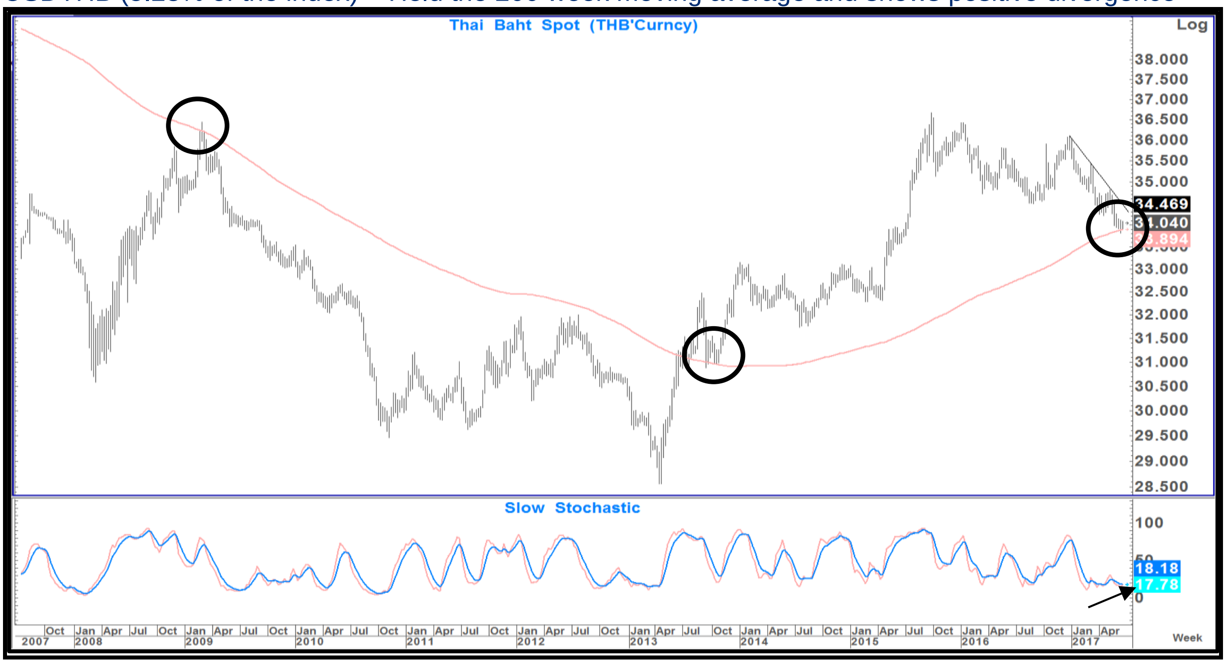
- USDINR has come close to the double top target (63.35 versus low of 63.93) and more importantly has hit and held (so far) the 200 week moving average. This, combined with the daily chart below suggests that there is a good chance that the low is in.

USDINR daily chart: Looks to be breaking higher

Source: Aspen graphics/Bloomberg; June 21, 2017

- USDINR has broken out of the down channel and also back above the 55 day moving average. There is a wide gap to the 200 day moving average, presently at **66.42.**
- In addition there are a variety of resistance levels (including the area through which USDINR gapped lower) between 66.25 and 66.55 which look to be likely targets in an up move.

USDTHB (5.28% of the index) – Held the 200 week moving average and shows positive divergence



Source: Aspen graphics/Bloomberg; June 21, 2017

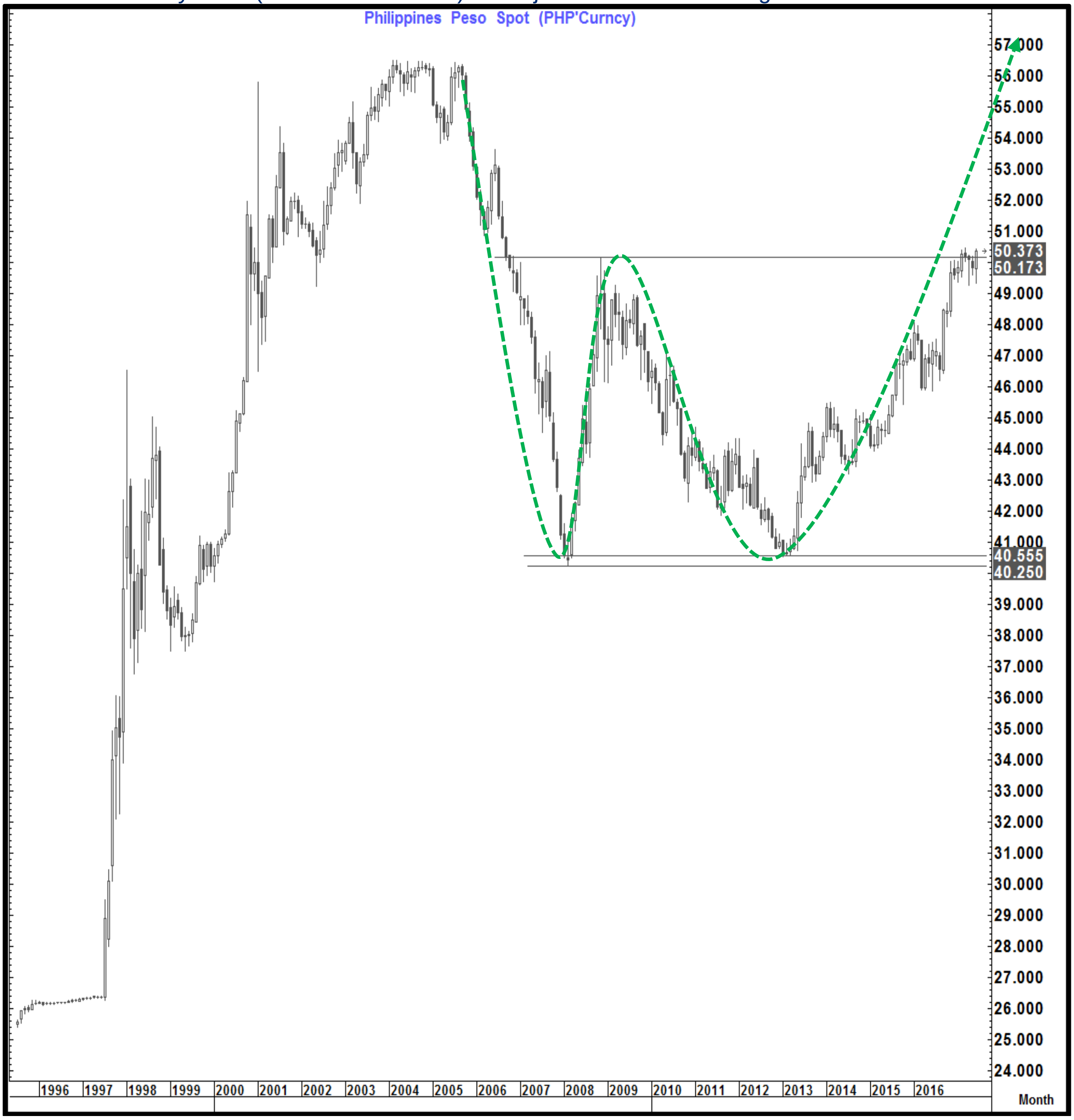
- Retested the 200 week moving average and shows positive divergence on the weekly chart
- The 200 week moving average has previously provided good support / resistance in the past
- The momentum divergence reflects weakness in the recent move down and as a minimum argues for a consolidation if not a bounce back up.

USDIDR weekly chart (4.86% of the index): Pattern looks increasingly like a consolidation

Source: Aspen graphics/Bloomberg; June 21, 2017

- The price action seen on USDIDR over the last 9-10 months looks increasing like a consolidation above the 13,000 area before it eventually heads higher again.
- The top of this triangle consolidation is met around **13,373** and the range has been narrowing dramatically.
- A move above here would suggest a test of the November high at **13,873** and then the trend high at **14,828.**
- Ultimately, if this is the consolidation that we think it is, a move back towards the all-time highs around **17,000** would look possible

USDPHP monthly chart (1.83% of the index): A major break in the making?



Source: Aspen graphics/Bloomberg; June 21, 2017

- USDPHP is once again above the neckline of what looks like a major double bottom at **50.17**
- It previously moved above this level in Feb-mar this year before falling back
- In addition, a close this month above **50.22**, if seen, would be a bullish outside month to add to a monthly close above this neckline.
- The target of this major double bottom would be potentially new all-time highs close to 60. The all-time high in this pair was posted in February 2004 at **56.50**

What does this mean for gold?

Gold setting up for a turn?

Source: Aspen graphics/Bloomberg; June 21, 2017

- In our view, the current landscape in markets is one that should continue to weigh on Gold.
  - The USD looks poised to rally (from good levels) and US yields, especially the front end, are also likely to head higher as we now have a Fed that seems firmly committed to a hiking cycle.
  - Although we have had our concerns about equity markets, major supports on US equity markets are still holding and we remain constructive over the medium term even if a temporary correction is seen in the coming weeks.
- To go along with that, we have confirmed triple momentum divergence on gold and as a reminder this is one of our favorite indicators to suggest that a trend is running out of steam.
- Initial support comes in at the trend line from the lows that is presently at $1,240. A weekly close below would open the way for a move down to the May low of 1,214 which also happens to be the neckline of a potential double top that targets a move to **$1,132**. A weekly close below the neckline would confirm the pattern.
- Additional supports can be found at the 2016 low of **$1,123** and the 2015 low of **$1,046.** Ultimately, we do expect this to revisit the 2015 lows.

Portfolio update:

Position, Instrument and date	Comment	Entry price, stop	Target	Exit date and price	Profit/ Loss	% of Capital used
Short EURUSD 03/28/2017 04/05/2017	• Resistance at 1.1300 has continued to hold. • The Fed now seems firmly committed to removing accommodative measures • Price action is remarkably similar to November of 1999 where we saw one final squeeze higher to 1.0912 (after what turned out to be a failed head and shoulders) before turning lower	1.0862 (15%) 1.0680 (10%) S/L 1.1375	Minimum 1.0341 and ultimately sub-parity	---	---	25%
Short GBPUSD 06/12/2017	• We confirmed a bearish break through supports. In addition we confirmed a bearish outside week and that pattern has typically been met with good downside follow thrtough.	1.2671 S/L 1.2875	1.2350 Initially 1.18-1.19	---	---	20%
Total Capital Used						**45%**

Source: CitiFX Velocity/Bloomberg June 22, 2017

YTD performance through June 22, 2017: (1.58%)

Fees, transaction costs, and other expenses reduce returns.

The total impact of the spreads and fees may be significant and may make it more difficult for you to realize a profit from trading if replicating “Short Term Conviction views”, “Long Term Conviction views”, “CitiFX Technicals Portfolio”, “Strategic Portfolio”, and “Tactical Portfolio” trades. Over the Counter (“OTC”) trades in the CitiFX® Technicals Portfolio are established at market prices from independent trading desks in the sales and trading department of Citigroup Global Markets Inc. or one of its affiliates (collectively, “Citi”). Contract market positions in the CitiFX® Technicals Portfolio are established on the listing exchange. OTC Positions are priced to market using bid/offer prices from independent Citi sources at time of publication. Contract market positions are priced at end of day settlement or current disseminated prices on the listing exchange at the time of publication. When OTC market prices are not readily available, positions are priced to fair market value, using techniques such as model or matrix pricing at time of publication. Examples of products that are priced to fair market value include certain contractual commitments (e.g. interest rate swaps, options, NDFs).

Contacts

CitiFX Strategy

Technicals

Tom Fitzpatrick	Chief Technicals Strategist	1-212-723-1344	thomas.fitzpatrick@citi.com
Shyam Devani	Senior Technicals Strategist	65-6657-2964	shyam.devani@citi.com
Dan Tobon	Technicals Strategist	1-212-723-1576	daniel.tobon@citi.com
Beimnet Abebe	Analyst	1-212-723-7057	beimnet.abebe@citi.com

G10 Macro

Todd Elmer	G10 Strategist	65-6657-2932	todd.elmer@citi.com
Josh O'Byrne	G10 Strategist	44-20-7986-3837	josh.obyrne@citi.com
Osamu Takashima	G10 Strategist	81-3-6270-9127	osamu.takashima@citi.com
Ran Ren	Analyst	1-212-723-6265	ran.ren@citi.com

Quant

Kristjan Kasikov	Head of CitiFX Quant	44-20-7986-3032	kristjan.kasikov@citi.com
Sukrita Chatterji	CitiFX Quant	44-20-7986-3453	sukrita.chatterji@citi.com
Scott Dingman	CitiFX Quant	1-212-723-3094	scott.dingman@citi.com
Ed Gill	CitiFX Quant	44-20-7986-1903	edward1.gill@citi.com

Published by: CitiFX Wire
22 June 2017

Contact: CitiFXTechnicals@citi.com

Disclaimer

In any instance where distribution of this communication is subject to the rules of the US Commodity Futures Trading Commission ("CFTC"), this communication constitutes an invitation to consider entering into a derivatives transaction under U.S. CFTC Regulations §§ 1.71 and 23.605, where applicable, but is not a binding offer to buy/sell any financial instrument.

This communication is prepared by a member of the Sales and Trading Department of Citi which distributes this communication by or through its locally authorised affiliates (collectively, "Citi"). Sales and Trading Department personnel are not research analysts, and the information in this communication ("Communication") is not intended to constitute "research" as that term is defined by applicable regulations. Unless otherwise indicated, any reference to a research report or research recommendation is not intended to represent the whole report and is not in itself considered a recommendation or research report. All views, opinions and estimates expressed in this Communication (i) may change without notice and (ii) may differ from those views, opinions and estimates held or expressed by Citi or other Citi personnel.

This Communication is provided for information and discussion purposes only. Unless otherwise indicated, (i) it does not constitute an offer or recommendation to purchase or sell any financial instruments or other products , (ii) it does not constitute a solicitation if it is not subject to the rules of the CFTC (but see discussion above regarding communication subject to CFTC rules) and (iii) it is not intended as an official confirmation of any transaction. Unless otherwise expressly indicated, this Communication does not take into account the investment objectives or financial situation of any particular person. Recipients of this Communication should obtain advice based on their own individual circumstances from their own tax, financial, legal and other advisors before making an investment decision, and only make such decisions on the basis of the investor's own objectives, experience and resources. The information contained in this Communication is based on generally available information and, although obtained from sources believed by Citi to be reliable, its accuracy and completeness cannot be assured, and such information may be incomplete or condensed.

Citi often acts as an issuer of financial instruments and other products, acts as a market maker and trades as principal in many different financial instruments and other products, and can be expected to perform or seek to perform investment banking and other services for the issuer of such financial instruments or other products.

The author of this Communication may have discussed the information contained therein with others within or outside Citi and the author and/or such other Citi personnel may have already acted on the basis of this information (including by trading for Citi's proprietary accounts or communicating the information contained herein to other customers of Citi). Citi, Citi's personnel (including those with whom the author may have consulted in the preparation of this communication), and other customers of Citi may be long or short the financial instruments or other products referred to in this Communication, may have acquired such positions at prices and market conditions that are no longer available, and may have interests different from or adverse to your interests.

Investments in financial instruments or other products carry significant risk, including the possible loss of the principal amount invested. Financial instruments or other products denominated in a foreign currency are subject to exchange rate fluctuations, which may have an adverse effect on the price or value of an investment in such products. No liability is accepted by Citi for any loss (whether direct, indirect or consequential) that may arise from any use of the information contained in or derived from this Communication. Past performance is not a guarantee or indication of future results. Any prices provided in this Communication (other than those that are identified as being historical) are indicative only and do not represent firm quotes as to either price or size. You should contact your local representative directly if you are interested in buying or selling any financial instrument or other product or pursuing any trading strategy that may be mentioned in this Communication.

Although Citibank, N.A. (together with its subsidiaries and branches worldwide, "Citibank") is an affiliate of Citi, you should be aware that none of the financial instruments or other products mentioned in this Communication (unless expressly stated otherwise) are (i) insured by the Federal Deposit Insurance Corporation or any other governmental authority, or (ii) deposits or other obligations of, or guaranteed by, Citibank or any other insured depository institution.

IRS Circular 230 Disclosure: Citi and its employees are not in the business of providing, and do not provide, tax or legal advice to any taxpayer outside of Citi. Any statements in this Communication to tax matters were not intended or written to be used, and cannot be used or relied upon, by any taxpayer for the purpose of avoiding tax penalties. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Citi specifically prohibits the redistribution of this Communication in whole or in part without the written permission of Citi and Citi accepts no liability whatsoever for the actions of third parties in this respect.

The information in this communication, including any trade or strategy ideas, is provided by individual sales and/or trading personnel of Citi and not by Citi's research department and therefore the directives on the independence of research do not apply.

https://icg.citi.com/icg/data/documents/ST_ExternalDiscl.pdf
https://icg.citi.com/icg/data/documents/MarketCommentaryDisclaimer_emea.pdf