

# Citibank Wealth Management Daily FX & Market Commentary



Oct 14, 2014

Published from Tuesday to Friday

## Market Recap

- US Stocks retreated:** The S&P 500 fell 1.6%, breaking below the 1900-level as well as the 200-day moving average, as energy shares led the fall, down 2.9% for the sector.
- European stocks closed flat:** The Stoxx 600 was largely unchanged, taking a break from a three-week slide, as airline stocks took gains on cheaper oil price that lower their operating costs.
- Hong Kong stocks rose:** The Hang Seng index closed slightly up at 0.2% with utilities and Hong Kong property stocks showing resilience while selective China property stocks fell as major property developer, Shimao, reported slower property sales in the first 3Q.

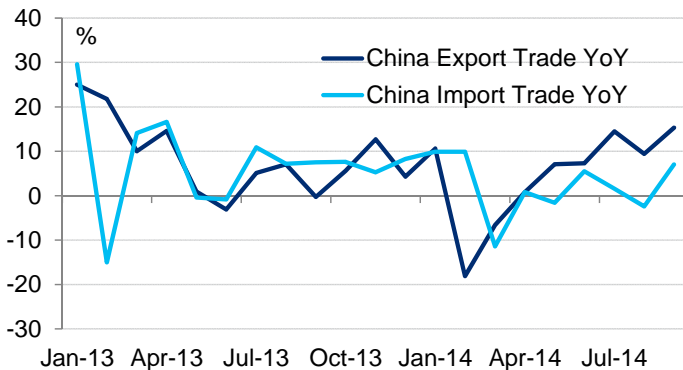
**Table: Daily Market Movement (Oct 13, 2014)**

Equity Market Indices				Commodity Futures		
	Close	Change	%		Close	%
<b>U.S.</b>						
S&P 500 Index	1,874.74	-31.4	-1.6%	WTI Crude Oil (USD/bbl)	85.74	-0.1%
Dow Jones Industrial Average	16,321.07	-223.0	-1.3%	Brent Crude (USD/bbl)	88.89	-1.5%
NASDAQ Composite Index	4,213.66	-62.6	-1.5%	Natural Gas (USD/MMBtu)	3.92	+1.5%
<b>Europe</b>						
Stoxx Europe 600 Index	321.56	-0.1	0.0%	COMEX Gold (USD/oz)	1,230.0	+0.7%
DAX Index	8,812.43	+23.6	+0.3%	LME Copper (USD/MT)	6,710.0	+1.0%
<b>Japan</b>						
TOPIX Index	1,243.09	0.0	0.0%	<b>Bond Yields &amp; CNY</b>		
Nikkei 225 Stock Average	15,300.55	0.0	0.0%	<b>U.S. Treasuries - Yields</b>		
<b>China / Hong Kong</b>				3-Month - Yield (%)		
Hang Seng Index	23,143.38	+54.8	+0.2%	5-Year - Yield (%)		
Hang Seng China Enterprises	10,284.90	-16.6	-0.2%	10-Year - Yield (%)		
Shanghai SE Composite	2,366.01	-8.5	-0.4%	30-Year - Yield (%)		
				<b>USD/CNY</b>		
				Close		
				Change		
				China Renminbi Spot		
				6.13		
				-0.1%		

Data Source: Bloomberg L.P.

## Hot News: Catalysts may drive Chinese stocks amid lower valuations

**Chart: China Export and Import Growth (Year-on-year)**



Source: Bloomberg L.P., as of September 2014

### Hong Kong/ China stocks fell 9% from year's peak

- Hang Seng Index and MSCI China had corrected around 9% from year-high in early Sep., in line with the fall in global equities amid worries on global economic growth outlook
- Meanwhile, Hong Kong turnover has remained largely stable, average around HK\$71 billion daily in Oct., in line with year-to-date average of HK\$65.2 per day.
- Citi analysts believe Chinese equities will recover going forward based on China's stable growth outlook, attractive equities valuations and upcoming catalysts.

### Citi analysts expect China stocks to recover:

- Yesterday China released export numbers showing an impressive 15.3% growth in Sep., the highest monthly gain since Feb 2013 (Chart).
- As a whole, third-quarter export growth shows strength at 12.9%, accelerating from 4.9% and -3.5% growth in the 2<sup>nd</sup> and 1<sup>st</sup> quarter respectively.
- Improving export growth in China, benefitting especially from solid recovery in the U.S., may continue to contribute to China's growth.
- Citi analysts expect more accommodative policies to help support the economy as the government recently signaled its intention with its stronger-than-expected loosening in the property sector.
- Good news that may come from the 4<sup>th</sup> plenary meeting next week may also help market sentiments as well as confirm China's longer-term structural reform roadmap.
- Valuations are attractive after the correction with Hang Seng Index estimated price-to-earnings ratio now at 10.7x, below its long-term average of 12.7x.
- Citi analysts forecast MSCI China to reach 72 by mid 2015, a 16% upside from current levels.

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## FX & Commodity Technical Corner

CCY	YESTERDAY PERFORMANCE			FX TREND	TECHNICAL		Citi Foreign Exchange Forecast:	
	Close Price	Day High	Day Low		Support	Resistance	0-3 Months	6-12 Months
USD	85.53	85.82	85.07	Neutral	82.67	87.59	87.59	92.65
EUR/USD	1.2752	1.2761	1.2620	Bearish	1.2501	1.3018	1.23	1.15
USD/JPY	106.86	107.62	106.78	Neutral	105.44	110.09	109.00	115.00
GBP/USD	1.6085	1.6127	1.6051	Neutral	1.5944	1.6421	1.60	1.58
USD/CAD	1.1199	1.1220	1.1170	Neutral	1.0992	1.1279	1.12	1.15
AUD/USD	0.8772	0.8787	0.8652	Neutral	0.8579	0.8899	0.88	0.83
NZD/USD	0.7893	0.7898	0.7795	Neutral	0.7709	0.8052	0.78	0.70
USD/CHF	0.9480	0.9576	0.9471	Neutral	0.9156	0.9839	0.98	1.05
USD/SGD	1.2721	1.2766	1.2704	Neutral	1.2590	1.2860	1.27	1.27
GOLD	1235.87	1237.82	1213.55	Neutral	\$1,182	\$1,240	1200	1240

FX Rate Source: Bloomberg L.P. (cut off time is NY Time 5:00pm)

- **USD fell:** Investors continued to reduce bets for an early rate hike by the Fed yesterday.
- **JPY advanced:** Global equities retreated and market risk elevated, triggering the USD/JPY sell-off yesterday.
- **High yield currencies rebounded:** China Export and Import grew by 15.3% and 7.0% respectively in Sep, topped market estimates.

## Daily FX Focus

### AUD/USD may fall toward 0.8316-0.8579



Source: Bloomberg L.P., data as of Oct 14, 2014

#### AUD Outlook:

- Although China Import grew strongly by 7% (YoY) in Sep, the strong rebound may be temporary.
- On a quarterly basis, import growth for iron and ore imports (in volume) fell from around 19% (YoY) in 1H to about 12% (YoY) in 3Q, while growth for copper plummeted from roughly 26% (YoY) in 1H to -15% (YoY) in 3Q,
- Imports from Australia plunged 5.7% (YoY) in Sep. Combine with the reducing China demand of Australia's main export commodities, such as iron ore and copper, this will likely weaken Australia's export income and undermine the AUD.
- RBA Assistant Governor DeBelle said AUD is still overvalued. The dovish comment may also restrain the AUD in the short term.

#### Technical Analysis:

- A close below the 0.8660 level would be an important sign that lower levels are likely to be seen. The pair will likely test lower to 0.8316-0.8579, with resistance at 0.8899.

#### Data to be released for the next 24 hours:

- No important economic data will be released.

NOTE: The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.75 exchange rate for reference, and 1,000 yen per unit for JPY/HKD.  
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## GBP/USD may stabilize at 1.5855-1.5944:



Source: Bloomberg L.P., data as of Oct 14, 2014

### Technical Analysis:

- GBP/USD's RSI has returned to neutral level, indicating a limited downside. The pair will probably stabilize at around 1.5855-1.5944 and may rebound to 1.6421 upon consolidation.

### Data to be released for the next 24 hours:

- No important economic data will be released.

### GBP Outlook:

- The BOE Governor Carney says Eurozone weakness does not dictate monetary policy of BOE.
- Evidence this week - retail sales and labour data - that domestic demand remains resilient could support the pound.
- We anticipate the U.K. unemployment rate to fall to 6.1% in Aug. This will likely be GBP-positive.

## GBP/AUD may climb to 1.8685:



Source: Bloomberg L.P., data as of Oct 14, 2014

### Technical Analysis:

- GBP/AUD's RSI is still in a healthy level, indicating the pair to have further upside. The pair will likely climb to 1.8685, with support at 1.8201.

### Data to be released for the next 24 hours:

- No important economic data will be released.

### GBP/AUD Outlook:

- We anticipate the RBA to hike rates in Q2 2015 while the BOE may start raising rates earlier in Q1 2015.
- U.K. economy remains strong while Australia's economy may slow further amid reducing China demand.
- Thus, we expect the GBP to outperform the AUD in the medium term.

NOTE: The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.75 exchange rate for reference, and 1,000 yen per unit for JPY/HKD.

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## Important Economic Data (Oct 13, 2014 – Oct 17, 2014)

Time		Importance	Event	Period	Actual	Survey	Prior
<b>Monday</b>							
10/13/2014	CH	!!	Trade Balance	Sep	\$30.9B	\$41.10B	\$49.84B
10/13/2014	CH	!!	Exports YoY	Sep	15.30%	12.30%	9.40%
10/13/2014	CH	!!	Imports YoY	Sep	7.00%	-2.00%	-2.40%
<b>Tuesday</b>							
10/14/2014 08:30	AU	!	NAB Business Confidence	Sep	--	--	8
10/14/2014 16:30	UK	!!!	CPI YoY	Sep	--	1.40%	1.50%
10/14/2014 17:00	GE	!!	ZEW Survey Expectations	Oct	--	0	6.9
<b>Wednesday</b>							
10/15/2014 07:30	AU	!	Westpac Consumer Conf SA MoM	Oct	--	--	-4.60%
10/15/2014 09:30	CH	!!	CPI YoY	Sep	--	1.70%	2.00%
10/15/2014 16:30	UK	!!	Jobless Claims Change	Sep	--	-33.5K	-37.2K
10/15/2014 16:30	UK	!!!	ILO Unemployment Rate 3Mths	Aug	--	6.10%	6.20%
10/15/2014 20:30	US	!!!	Retail Sales Advance MoM	Sep	--	-0.20%	0.60%
10/15/2014 20:30	US	!!!	Retail Sales Ex Auto MoM	Sep	--	0.20%	0.30%
<b>Thursday</b>							
10/16/2014 02:00	US	!!	U.S. Federal Reserve Releases Beige Book	Oct			
10/16/2014 08:00	NZ	!	ANZ Consumer Confidence MoM	Oct	--	--	1.80%
10/16/2014 17:00	EC	!!!	CPI YoY	Sep	--	0.30%	--
10/16/2014 20:30	CA	!	Int'l Securities Transactions	Aug	--	--	5.30B
10/16/2014 20:30	US	!!	Initial Jobless Claims	Oct	--	--	287K
10/16/2014 21:15	US	!	Industrial Production MoM	Sep	--	0.40%	-0.10%
<b>Friday</b>							
10/17/2014 20:30	CA	!!	CPI YoY	Sep	--	2.00%	2.10%
10/17/2014 20:30	CA	!!	CPI Core YoY	Sep	--	2.00%	2.10%
10/17/2014 20:30	US	!!	Housing Starts MoM	Sep	--	4.80%	-14.40%
10/17/2014 20:30	US	!!	Building Permits MoM	Sep	--	3.20%	-5.60%
10/17/2014 21:55	US	!!	Univ. of Michigan Confidence	Oct	--	84.2	84.6

Source: Source: Bloomberg L.P.  
(K = Thousand, M = Million, B = Billion)

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