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GBP: Pricing in New (Old) Uncertainties

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GBP Objectives Met; Retracement Risks Ahead

We take stock of our bullish view on GBP after the impressive run up (>10% vs. USD) from sub-1.20 handle (3 Sep) to a high of 1.3514 (13 Dec). Move came amid receding fears of hard brexit and subsequently on optimism of Conservative-majority victory at the General Elections (12 Dec).

Post elections outcome, GBP has eased off recent highs. This is consistent with our earlier caution (see here for FX Weekly, 13 Dec) that retracement could be on the cards.

End of Brexit Uncertainty v1.0 Brings About Brexit v2.0

While a soft brexit (with BoJo's transitional deal) on 31st Jan 2020 looks certain to put a closure to Brexit uncertainty v1.0, this also paves the way for UK to negotiate for future trade agreements with EU and other nations - which we expect will form the **basis for brexit uncertainty v2.0**. In particular PM BoJo announced earlier this morning (Asia time) that he **seeks to change the law to guarantee that Brexit transition phase will not be extended beyond end-2020**. This is a change from the current one which can be extended by one-off mutual agreement for up to 2 years (under article 132 of the withdrawal bill). The potential change, pending parliament's vote means that the transition deal will lapse and UK will leave EU on World Trade Organisation terms on 31 Dec 2020 if no new deal is forged between UK and EU. The **self-imposed tight timeline (about 11 months from 1 Feb to 31 Jan 2020) somewhat brought back bad memories of no-deal brexit** as trade negotiations typically take a while to negotiate. The Canada-European (CETA) FTA took about 8 years from launch of negotiations to provisional application. We do not expect such a lengthy duration to negotiate for a UK-EU FTA given that there is a working template (UK pursuing a CETA-style FTA) to start with but we do acknowledge the challenges on working with a 11-month time frame. As such the path ahead for GBP is choppy. In fact, as soon as this week, we could start to see 2-way price action again:

- 19th Dec 2019 marks the state opening of parliament. MPs will begin debating after the Queen's speech.
- 20th Dec will see the introduction of the withdrawal agreement bill to parliament and will likely to have its first vote. Progressing to a second reading and a vote will require the backing of House Speaker Lindsay Hoyle.

Risk of Scottish Independence Referendum

Meanwhile GE results in Scotland where Nicola Sturgeon's SNP party made big gains (won 47 out of 59 seats – 12 more than the 35 seats it won in 2017) may be another risk factor for GBP. Sturgeon said that the country had sent a 'clear message' on a second independence referendum – a reminder of EU referendum which gave birth to brexit mess.

Hence we think some of the GBP gains may unwind earlier than expected to price in future challenges of trade negotiations (with EU and multiple trading partners) and fears of second Scottish independence referendum.

GBP View: Medium Term Positive; Near Term Retracement

Many positives (Conservative majority, soft brexit, etc.) have been priced into GBP for now while new developments (no extension to transition phase, risk of Scottish Independence referendum) may pose temporary downside risks for GBP. Looking ahead, progress on UK-EU future trade agreement, UK data and BoE policy bias will be key for GBP's directional bias. We maintain our medium term view to accumulate GBP on dips on the basis of orderly brexit and a timely trade agreement with EU.

GBP: Retracement Puts 1.3150, 1.3050 as Next Support Levels

Source: Bloomberg, Maybank FX Research & Strategy

GBP was last seen at 1.3220 levels. Bullish momentum on daily chart is waning while stochastics is falling from overbought conditions. Our immediate topside objectives at 1.3250, 1.3450 have been met. We look for retracement play in the near term. Support at 1.3150 (23.6% fibo retracement of 2019 low to high) before 1.3050 (21 DMA) and 1.2920 (50DMA, 38.2% fibo). Resistance at 1.3350, 1.3510 levels.

GBPMYR: Bearish MACD Divergence in Play

Source: Bloomberg, Maybank FX Research & Strategy

GBPMYR hit a 20-month high of 5.6075 (13 Dec) and has since traded lower. Last seen at 5.47 levels. Bullish momentum is fading while stochastics is falling. A bearish divergence appears to have formed on daily MACD. Next support at 5.4650 (23.6% fibo), 5.4350 (21 DMA) before 5.3760/70 levels (50 DMA, 38.2% fibo retracement of 2019 low to high). Resistance at 5.50 and 5.55 levels.

GBPSGD: Temporary Risk of Pullback

GBPSGD was last seen at 1.7920 levels. Bullish momentum on daily chart is fading while stochastics is falling. Continued pullback not ruled out. Support at 1.7760 (21 DMA) before 1.76 (50 DMA). Resistance at 1.80, 1.83 levels.

GBPSGD: A Temporary Setback to Rally

Source: Bloomberg, Maybank FX Research & Strategy

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