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FX Tech Flash

GBP: 2-Way Trade Ahead of Second Meaningful Vote

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Crunch Time on 12th Mar Vote: Deal, No-Deal or Extension?

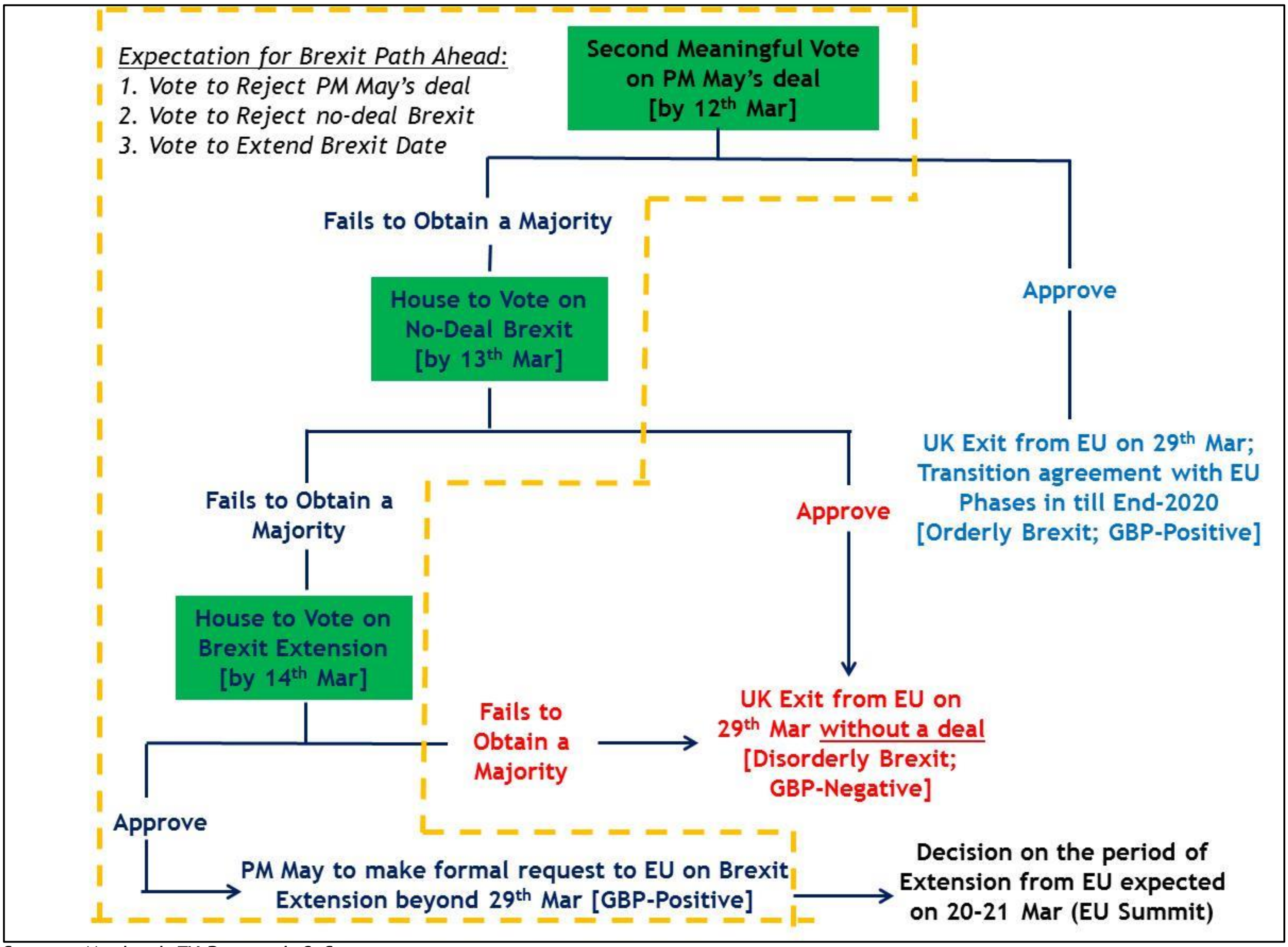
Receding fears of hard brexit and rising hopes of a delayed brexit has seen GBP move higher by 2% this week. Looking ahead we continue to call for 2-way trade in the GBP amid intensification of brexit development in the run-up to second Meaningful vote by 12th Mar before the deadline for Article 50 on 29th Mar.

In PM May's address to parliament (26th Feb), she said she will continue to re-negotiate for a withdrawal agreement with EU, which is expected to contain changes to the Irish backstop and has proposed the below timeline:

- She will allow for a **second meaningful vote on the re-negotiated withdrawal deal on 12th Mar.** If PM May is successful in securing a majority, the UK will leave the EU on 29th Mar as planned and the transitional phase with EU will kick in until Dec-2020. [Orderly Brexit; GBP-positive]
- However **if the deal fails to win an approval, a motion will be tabled for a vote by 13th Mar, asking if the House supports leaving the EU without a withdrawal agreement (i.e. no-deal Brexit).** If there is an explicit consent from the House in favor of exit without a deal, then UK will leave on 29th Mar. [Disorderly Brexit; GBP-negative]
- However if it fails to get the House consent, then the **Government will bring forward a motion on 14th Mar, on whether the House want to seek an extension to Article 50 (i.e. Brexit delay beyond 29th Mar)**. PM May is <u>not in favor of an extension</u> of Article 50 as an extension beyond Jun would mean UK will participate in European parliament elections in May. But she is willing to make concession for a short extension of up to 3 months while EU had previously said that they are willing to consider an extension of up to 21 months. An **approval from the House to extend brexit date [GBP-positive]** would see PM May making formal request to EU with a **decision from the EU expected at 20-21 Mar EU Summit**.
- But in the event there is no majority from the House consenting an extension, the UK will proceed to leave on 29th Mar as scheduled [Disorderly Brexit; GBP-negative].

Please see next page for an illustration of the potential scenarios.

Potential Scenarios on 12 – 14 Mar 2019



Source: Maybank FX Research & Strategy

GBP Technical: Bullish but Near Term Downside Risk

Taking stock, GBP more than reversed Feb's weakness below 1.28-handle (1.2773 low on 14th Feb) to trade as high as 1.3350 (27 Feb). Our call for technical bias skewed to the upside (Tech flash sent 19 Feb) has more than met objective at 1.32.

Pair was last seen at 1.3260 levels. 2 golden crosses seen – 21 DMA cuts 200 DMA and 50 DMA cuts 100 DMA to the upside – there are bullish signals. Bullish momentum on daily, weekly and monthly chart remains intact however near term risks skewed to the downside as stochastics on the daily chart shows signs of turning from overbought conditions. Retracement could re-visit 1.3180 (38.2% fibo retracement of 2018 high to 2019 low), 1.30 (21 DMA) and 1.29 levels (23.6% fibo). Resistance at 1.3360 before 1.3410 (50% fibo). Break above these levels could see further upside pressure gathering momentum towards 1.3640 (61.8% fibo).

We continue to call for 2-way trades in the range of 1.30 – 1.34, with risk of overshooting the upper bound should disorderly exit be averted. Distribution of risks has shifted away from fears of a no-deal brexit and towards a delayed and softer brexit. This should continue to support GBP gains.

GBP (Daily Chart): Near Term Downside Risks Not Ruled Out; Buy Dips

Source: Bloomberg, Maybank FX Research & Strategy

GBPMYR Pullback Risks in Near Term but Buy Dips Preferred

In the last FX Tech Flash and FX Weekly (sent 22 Feb), we shared that GBPMYR could see further upside play towards 5.38, 5.43 on clean break above 5.34-5.35 (then key resistance). The cross has subsequently traded higher and close to our final objective of 5.43. High was seen at 5.4247 (28 Feb); last seen at 5.3990 levels. Bullish momentum on daily chart shows tentative signs of fading while stochastics shows signs of turning from overbought conditions. We caution that the recent up-move could moderate and retrace towards 5.33 – 5.34 levels (100, 200 DMAs). A move towards 5.3030 (38.2% fibo retracement of Oct high to Jan low, 21 and 50 DMAs) is not ruled out. Resistance at 5.43 (76.4% fibo) before 5.5050 (Oct high). Buy dips preferred.

GBPSGD En-Route to 1.86?

Our call for GBPSGD to trade higher towards 1.7740 objective was met. Cross traded as high as 1.8005 (27 Feb) and was last seen at 1.7920 levels. In the near term, we do not rule out pullback risk. Support at 1.7730 (200 DMA), 1.7630 (21 DMA). Underlying bias remains bullish. We continue to favor accumulate-GBP-on-dips, looking for a move higher towards 1.8130 (61.8% fibo retracement of 2018 high to 2019 low), 1.8390 (76.4% fibo) and 1.8620 levels (2018 high).

GBPMYR (Daily): Near Term Pullback but Buy Dips Preferred

Source: Bloomberg, Maybank FX Research & Strategy

GBPSGD (Daily): A-Revisit of 2018 High?

Source: Bloomberg, Maybank FX Research & Strategy

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