Sep 11, 2019

Maybank

FX Tech Flash

GBP: Entering a Rare Period of Relative Calm?

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Taking Stock - From Hard Brexit Back to Soft Brexit

GBP saw some choppy, two-way moves in the recent two weeks, driven largely by the fluid nature of brexit risks as parliament was only opened for less than 1 week in between the 2 long recesses.

To recap, GBP sell-off into 3 Sep came amid rising fears of hard Brexit after the Queen's approval for PM BoJo to suspend parliament (announced 18th Aug) and subsequently on BoJo's threat of calling for snap elections (on 3 Sep).

But fears of hard brexit soon receded after BoJo lost a handful of key votes last week: (1) lost authority in the Lower House as MPs voted 328 – 301 to take control; (2) failed to stop MPs for delaying Brexit as MPs votes 327 - 299 in favor of Brexit delay from 31st Oct 2019 by 3 months out to 31st Jan 2020 if he cannot get a deal agreed (by 19th Oct) or managed to persuade MPs to leave the EU without a deal; (3) failed in his attempts to call for early General Elections on 15th Oct on 2 separate occasions by 298—56 and 293-46.

Nonetheless BoJo's humiliating defeats translated into gains for GBP as fears of hard brexit receded. Consensus' base case scenario is now consistent with our previously more-optimistic view of soft brexit either by leaving the EU with a modified deal or extension.

We had earlier shared (here and here) that *stretched GBP shorts positioning (near 30-month high) may suggest that further downside could be sticky. This is especially so when bad news on hard brexit are already in the price and if signs of positive progress were to gather traction, stale GBP shorts could well be squeezed, resulting in corrective and sharp rebound for GBP.*

Brexit Fluidity to Continue Even as Parliament is Prorogued?

*Not our base case
Source: Bloomberg, Maybank FX Research & Strategy

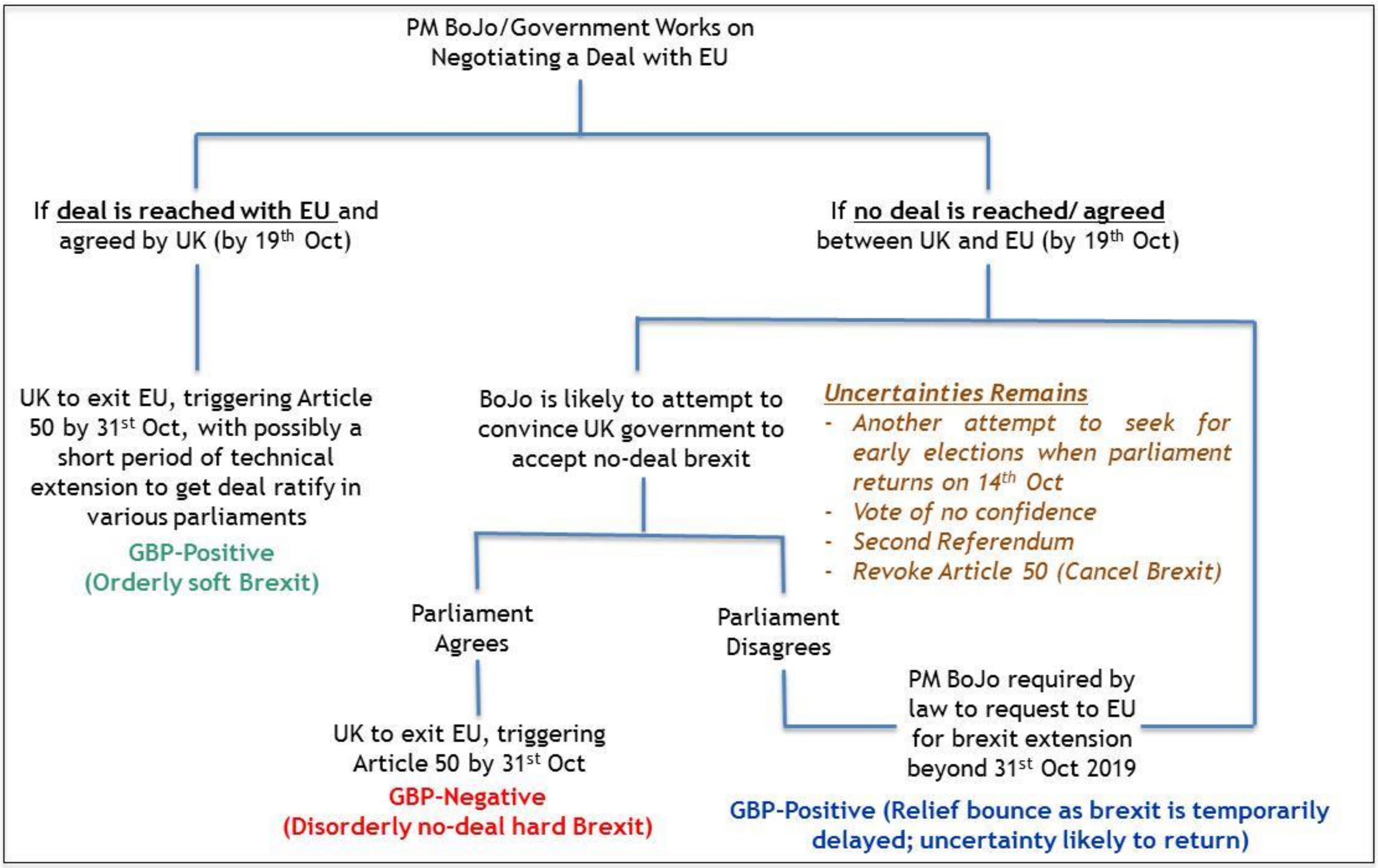
Focus on BoJo's Negotiation with EU and Economic Data Prints

The bill ruling out no-deal brexit on 31st Oct is now law. **PM BoJo is required by law to either get an amended brexit deal** with EU and agreed by UK lawmakers by 19th Oct **or seek a Brexit delay** past 31st Oct 2019.

Parliament is now shut for 5 weeks or so till 14th Oct. Brexit-headlines could still surface on newswires but they could be less frequent. A **slightly more contained volatility could lend support to GBP.** But UK is still not out of the Brexit woods, hence choppy 2 way trades are expected to dominate. We are **biased for more upside play, especially when fears of hard brexit have receded but GBP net shorts remain large. With pessimism more priced in than optimism, we see asymmetric upside squeeze in the event of positive news or data**.

On the data front, it is worth highlighting that there was some glimmer of hopes in recent data prints with **industrial production, monthly GDP, construction output, wage growth surprising to the upside.** Looking ahead, inflation (18 Sep), retail sales, BoE MPC meeting (19 Sep) and 2Q final GDP (30 Sep) are in focus. The absence of brexit-headlines but positive data print could further support GBP.

Some Clarity on Brexit Route but Still Plenty of Uncertainties



Source: Maybank FX Research & Strategy

GBP: Overbought Near Term; But Bullish Divergence Intact

Our call in the last GBP Tech flash, 29th Aug cautioning for *corrective move lower in the near term but to accumulate on dips* panned out well. Taking stock, GBP traded low of 1.1960 (3 Sep) before the >3% recovery since then to 1.2380s.

Pair was last seen at 1.2350 levels. We reiterate that the bullish divergence on the weekly MACD (characterised by prices falling to new lows but oscillator indicators fail to reach new low over 2018 - 19 period on the weekly chart) remains intact. But daily stochastics has risen into overbought conditions. Price pressure to the upside may face some near term resistance at 1.2440 (76.4% fibo retracement of 2016 low to 2017//18 double-top), 1.2530 levels but biased for upside play. A stretched move towards 1.2810 (61.8% fibo) on positive development out of Brexit should not be ruled out. Bias remains to accumulate on dips. Support at 1.2290 (50 DMA), 1.2190 (21 DMA).

GBP (Weekly): Accumulate on Dips; Is 1.28 Possible?

Source: Bloomberg, Maybank FX Research & Strategy

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Maybank

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(Incorporated in Malaysia)

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