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FX Tech Flash

GBP: Third Time Lucky?

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Third Meaningful Vote This Wednesday

Taking stock of last week's Brexit votes, the House had voted to reject PM May's deal for second time; rejected leaving the EU without a deal and voted overwhelmingly to delay Brexit date beyond 29th Mar. This series of outcomes was well within our expectations and GBP has also traded modestly higher.

This week, a third meaningful vote could possibly be held on 20th Mar on PM May's withdrawal deal again ahead of EU Summit (21 - 22 Mar). The House could either:

(1) Support her deal and subsequently PM May will request to EU for a technical extension of brexit until 30th Jun; or

(2) Reject the deal for the 3rd time and risk extending brexit for much longer than 3 months, and possibly up to 2 years. This scenario could also mean that UK would have to participate in the EU parliament elections (23 - 26 May 2019).

In addition, PM May also promised lawmakers that if her deal is not approved at the third meaningful vote, she will give parliament the chance to take over on 25th Mar (next Monday). This could mean a softer, longer delay to brexit or even a case of no brexit at all. Labor party leader Jeremy Corbyn has even threatened to move a no-confidence motion against the government if PM May's deal is defeated for the third time.

We believe GBP faces downside risks in the outcome of a rejection of her deal for the third time as this option heightens political uncertainty while a clear support of PM May's deal represents a relatively orderly exit, with a withdrawal plan to cover the transitional phase from brexit date to end-2020 [Likely to be GBP positive].

That said, Chancellor Philip Hammond and Trade Secretary Liam Fox had said that the 3rd **meaningful vote may not go ahead if PM May's deal looks to be defeated again** (may pose downside risks to GBP). In order for the vote to take place, PM May needs to win the support of Northern Ireland's Democratic Unionist Party (DUP), whose 10-member MPs give PM May's government a parliamentary majority as well as the support from rebel Conservative MPs. Some local media reports suggest that some Tory MPs may reluctantly back PM May's deal for fear of no brexit.

We continue to argue that the distribution of risks shifting away from fears of a no-deal, hard brexit and towards a delayed and softer brexit reinforces our call to buy GBP on dips.

GBP Technical: Bias Remains to Buy Dips in 2 Way Trade

GBP was last seen at 1.3280 levels. A golden cross pattern has been formed, with 50DMA cutting 200 DMA to the upside. This is typically a bullish signal. Mild bullish momentum on daily chart remains intact. Bullish trend channel formed since end-2018 remains intact. Bias remains to buy dips. Immediate support at 1.3180 (38.2% fibo retracement of 2018-high to 2019-low) before 1.30 levels (50, 200 DMAs). Resistance at 1.3410 (50% fibo), 1.3480 levels.

GBP (Daily Chart): Buy Dips Preferred

Source: Bloomberg, Maybank FX Research & Strategy

GBPMYR: Pullback Risks Not Ruled Out but Bias Remains to Buy Dips

Our call in the last FX Tech Flash (sent 1 Mar) calling for a move lower in GBPMYR towards 5.30 and to buy dips for a move up towards 5.43 objective were well in play. GBPMYR traded low of 5.2990 (11 Mar) and subsequently traded a high of 5.4490 (14 Mar). Cross was last seen at 5.4150 levels. Mild bullish momentum remains intact. 50 DMA looks on track to cut 100 and 200 DMAs to the upside. This is typically associated with a bullish signal (golden cross pattern). We do not rule out short term pullback towards 5.34 levels bias remains for upside play towards 5.50 objective (Oct-2018 high).

GBPSGD: Need a Break above 1.8126 for Bulls to Pick Up Momentum

GBPSGD was last seen at 1.7960 levels. Bullish momentum on the weekly chart remains intact though stochastics is rising into near-overbought conditions. Key resistance at 1.8126 (61.8% fibo retracement of 2018 high to 2019 low). A decisive break above key resistance is needed for further upside pressure to build towards 1.8390 levels (76.4% fibo). Failing which the cross could ease to trade 1.77 (38.2% fibo) - 1.81 range.

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

Source: Bloomberg, Maybank FX Research & Strategy

GBPSGD (Weekly): Bulls Need to Break Above 61.8% Fibo

Source: Bloomberg, Maybank FX Research & Strategy

BOE MPC Meeting: Monetary Policy Status Quo for as Long as 6 Months

For BoE this week, we expect MPC to keep policy rate unchanged at 0.75% and the size of BoE balance sheet (GBP435bn) to stay unchanged at the upcoming meeting on 21st Mar (Thu).

Steady decline in headline CPI (1.8% y/y) and the rise in wage growth above 3% provides a sweet spot for BoE to keep monetary conditions accommodative, including rate to stay on hold to support growth and to allow for Brexit uncertainties to clear up.

We expect BoE MPC to keep policy stance status quo for as long as over the next 6 months or so as uncertainty over Brexit takes precedence over policy normalisation. We see some risks of 25bps rate hike towards final quarter of 2019 as brexit uncertainty fades and inflationary pressures regain pace. BoE's forward guidance shows another 2 hikes expected to end-2020 (this implies about 1 hike/year).

We remain watchful of inflationary pressures as tight labor market can further generate domestic price pressures while a case of no-deal brexit could result in sharp depreciation on GBP (brings about higher imported prices and this translates into higher CPI). Sustained rebound in CPI towards 3% again could renew market expectations for an earlier rate hike.

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