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FX Tech Flash

GBP: BoJo's Art of Negotiation?

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Suspension of Parliament

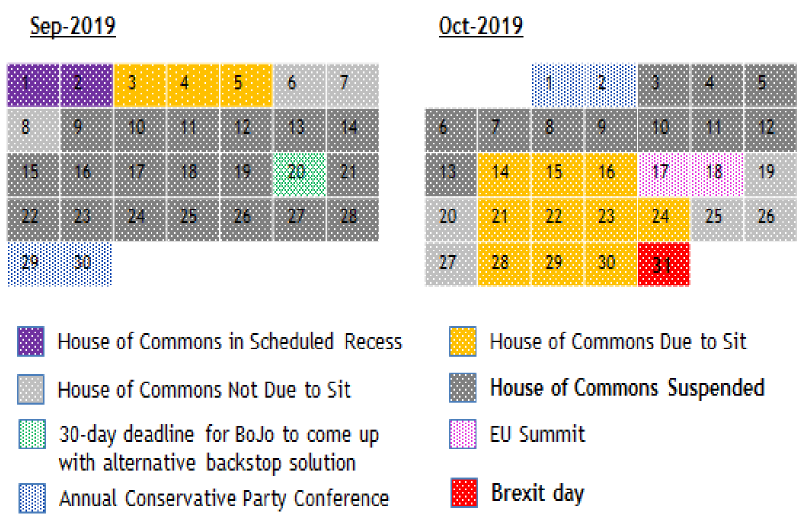
Month-to-date GBP gains from 1.2050 lows on 9 Aug were partially erased after the Queen approved (announced 28 Aug) PM Boris Johnson's (BoJo) plan to suspend parliament from no earlier than 9th Sep and no later than 12th Sep till 14th Oct when the Queen's speech will take place.

Shrewd Attempt to Limit Brexit "Noises"

What this means is there is less time for the Opposition to pass any law to stop no-deal brexit on 31st Oct and less time for the parliament to debate and chart the course of Brexit.

Parliament will return on 3 Sep and sit for less than a week before going into recess again till 14th Oct ahead of EU summit (17 – 18 Oct) and Brexit day (31 Oct). Doomsday kind of headlines-driven fears posing downward pressure on GBP is very likely.

Busy Schedule ahead of Brexit Day



Source: Maybank FX Research & Strategy

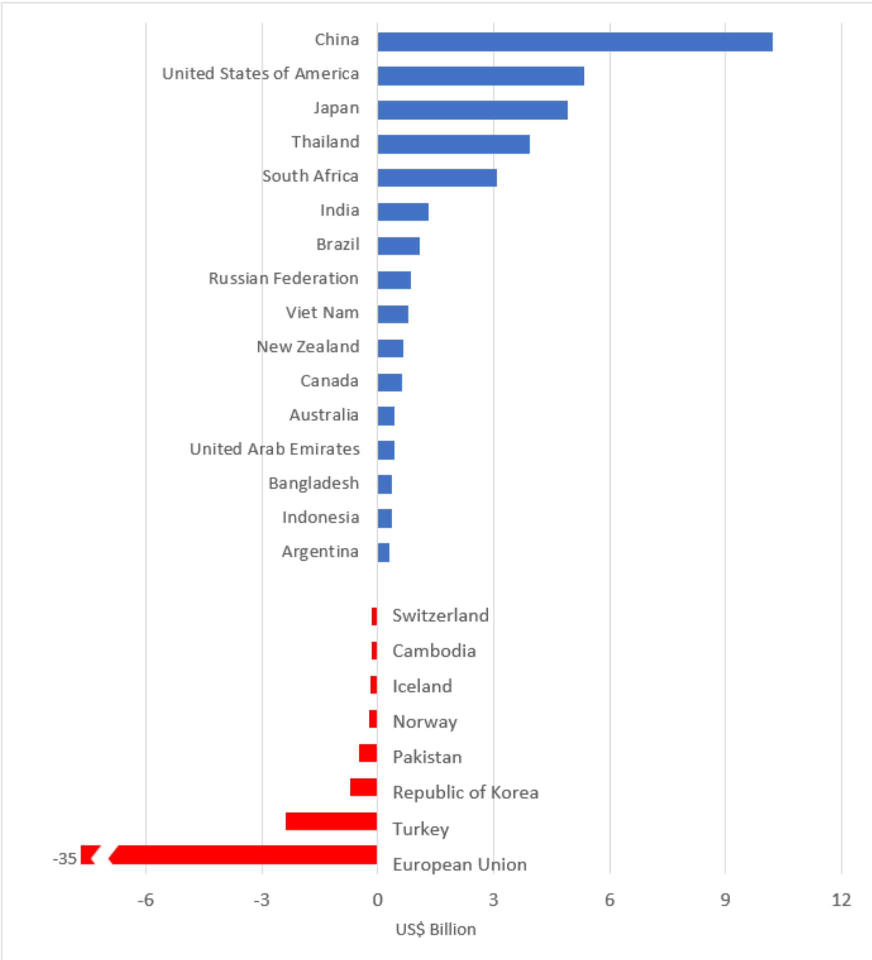
BoJo Attempting the Art of Negotiation

But we argue that a parliament suspension means there may be less political noises especially when there is a deep divide within the House of Commons on what they want out of Brexit. This also gives him the bargaining chips to show EU that UK is prepared for no-deal brexit and this could force the EU to come back to the negotiating as the EU may also not be prepared for no-deal brexit given that EU export more (in terms of goods) to UK than the other way round.

Disruption to trade can affect Europe, in particular German, Spanish and French businesses. Vice versa, we believe the UK is probably not prepared for no-deal brexit as well given that services exports to EU is about 7% of UK GDP (vs. 1% of EU GDP). Both parties will stand to lose in no-deal brexit.

A United Nations Trade and Development (UNTAD) report showed that EU stands to be the biggest loser, followed by Turkey once UK leaves the EU. On brexit, it will change the ability of non-EU countries to export to the UK market. As of 2018, more than 50% of UK imports came from EU. This gives an idea why EU could lose more from a trade perspective.

UNCTAD Report on Trade Winners and Losers in No-Deal Brexit



Source: United Nations Conference on Trade and Development, Apr 2019 report
https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2052

The optimal outcome will be for both parties to ultimately compromise towards a modified deal. In this scenario, hard brexit fears should fade and GBP could recover then

Tentative Hopes of Positive Development from EU Leaders So Far

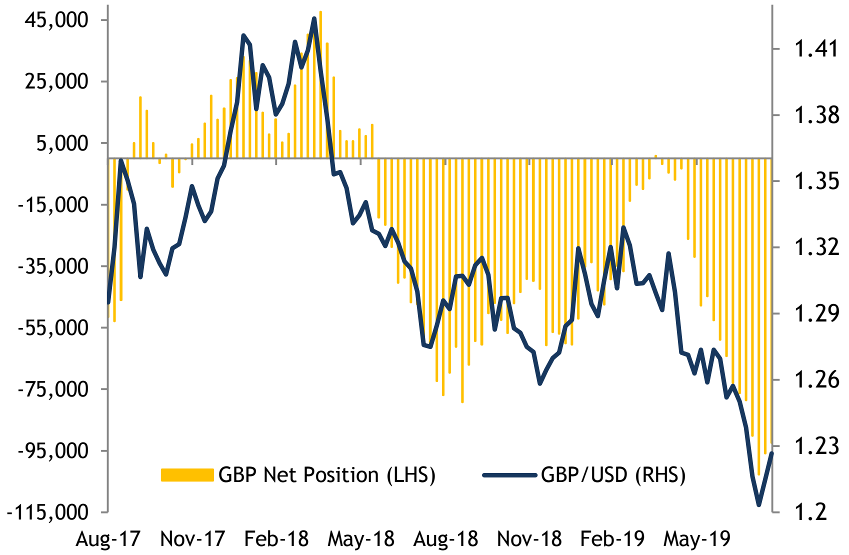
On 21 Aug, German Chancellor Merkel gave BoJo 30 days to come up with alternative backstop solution while French President Macron said "I am also, like Chancellor Merkel, confident that with our collective intelligence and will to build should allow us to find an intelligent solution within thirty days…" though he later said that they "will not find a new withdrawal agreement that deviates far from the original."

More recently (27 Aug), BoJo had phone calls European Commission President Juncker and separately with Dutch PM Rutte. A spokesman said that Juncker has repeated his "willingness to work constructively" with PM "and to look at any concrete proposals he may have" as long as they are compatible with what had been agreed. Dutch PM Rutte said that EU is open to any "concrete proposals" from the UK as long as they are consistent with those aims.

Hard Brexit is a Known Risk and a Base Case Scenario for Now

Though UK is not out of the woods, a no-deal brexit is probably the base case scenario for most unlike in previous periods when the base case was soft brexit. Bits of potential good progress (either a modified deal or even a delay) coming out of discussions with EU may well provide the much-needed catalyst for the move higher in GBP, especially when GBP short positions is stretched (nearly 30-month high).

Stretched GBP Shorts at Risk of Being Squeezed



Source: Bloomberg, Maybank FX Research & Strategy

Near Term Risk of Downward Pressure; Look to Accumulate on Dips

GBP was last seen at 1.2190 levels. Bullish momentum on daily chart remains intact but shows tentative signs of fading while stochastics is showing signs of turning from overbought conditions. Corrective move lower not ruled out in the near term.

On the weekly chart, we observed a potential 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). We are biased to accumulate GBP on dips on a longer term horizon. Support at 1.2150 (21 DMA), 1.2050 levels. Resistance at 1.2360 (50 DMA) needs to be broken for gains to gather traction possibly towards 1.2440 (76.4% fibo retracement of 2016 low to 2017//18 double-top). A move towards 1.2810 (61.8% fibo) should not be ruled out.

GBPUSD (Weekly Chart): Accumulate on Dips

Source: Bloomberg, Maybank FX Research & Strategy

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