FX Tech Flash

GBP: Still Constructive Outlook but Full of Challenges Ahead

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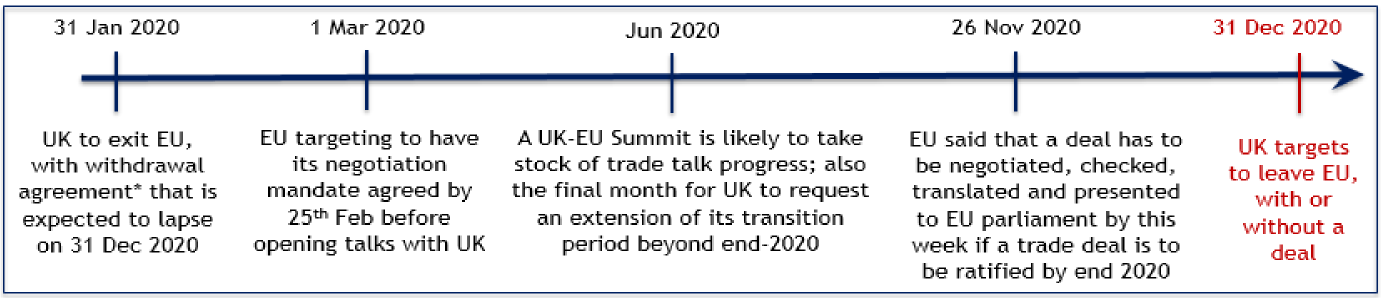
Data and Policy Bias to Regain Relevance in GBP Direction

Since our last GBP Tech Flash: Pricing in new (old) uncertainties on 17 Dec, GBP has largely traded softer from its high of 1.3514 (13 Dec). This is in line with our caution for downward retracement in GBP as markets priced in new developments such as no extension to transition phase, risk of Scottish Independence referendum, etc. We shared that the end of brexit uncertainty v1.0 brings about brexit uncertainty v2.0 as fear of no-deal brexit on 31 Jan 2020 gave way to risks of no trade deal post-Brexit on 31 Dec 2020. Looking ahead, apart from UK-EU future trade agreement, BoE policy bias (MPC meeting on 30 Jan) and UK data - preliminary PMIs (24 Jan), 4Q GDP, Dec IP (11 Feb), etc. will also assume a greater role in providing directional cues for GBP.

Ambitious Timeline to Hammer an EU-UK FTA This Year

The UK brexit bill, which was passed by parliament on Wed has received royal assent from the Queen yesterday. As expected, UK is on track to leave EU on 31st Jan 2020, pending formality approval from EU on 29th Jan. The UK and EU will then enter into a 11-month transition till 31 Dec 2020. Trading relationship between EU and UK will remain the same during this period but at the same time, both parties will attempt to iron out a new trade agreement, future relationship – movement of people, data-sharing, etc. post-31 Dec 2020.

We acknowledge that the self-imposed 11-month timeline is challenging to iron out a Free-trade agreement. If there is no agreement between EU and UK, the transitional deal will lapse and UK will leave EU on World Trade Organisation terms on 31 Dec 2020. Fears of no-deal post 31 Dec 2020 could return intermittently to keep bullish sentiment in check and that could prove choppy for GBP. That said, politics has its twists and turns as brexit history has shown – Ex-PM May's thrice defeated withdrawal deal was quickly accepted by PM BoJo's new government; once-unpopular BoJo surprised with a majority win at the last General Elections in Dec-2019. Our base case looks for an in-principle broad agreement of a Canada-EU equivalent FTA by end-2020.



Note: We refer BoJo as PM Boris Johnson; * withdrawal agreement is pending ratification from EU27 member governments but is expected to pass without difficulty; broad timeline is on best-effort basis (as of 1 Jan 2020) and is likely to change along the way
Source: Various sources including FT, BBC, Bloomberg, etc., Maybank FX Research & Strategy

Expect BoE to Keep Rate on Hold but Dovish-Leaning Rhetoric Possible

While brexit news was the main driver of GBP direction for the past 3-4 years, we expect data and BoE policy bias to regain relevance on GBP direction following closure to brexit v1.0.

Softer UK retail sales, industrial production and inflation deviating away from BoE's 2% target had markets looking to price in 1 cut as early as at the upcoming MPC meeting on 30 Jan but subsequent data – employment and business optimism (which surprised to the upside) saw aggressive bets unwind. Markets have shifted its expectations, now looking for a 25bps rate cut sometime at the Mar and May MPC.

We believe there is no need for BoE to rush into a rate cut at the upcoming MPC but to continue to watch-and-see upcoming data development. In particular preliminary PMIs (24 Jan), 4Q GDP, Dec IP (11 Feb) will be key for market expectations on rates to flip-flop. Better than expected data could shift further unwind market expectations for aggressive rate cut bets and this could provide support for GBP.

For the upcoming MPC, we expect policy rate to stay unchanged at 0.75% but dovish-leaning rhetoric could stay.

GBPUSD: Recovery Needs to Break Past 1.3150 Decisively

Source: Bloomberg, Maybank FX Research & Strategy

Our caution in our last GBP Tech Flash: Pricing in new (old) uncertainties on 17 Dec for GBP retracement play towards 1.2920 was met. Low traded 1.2905 (23 Dec). Pair was last seen at 1.3120 levels. Bearish momentum on daily chart is fading while stochastics is rising. Extension of rebound requires a decisive break above 1.3150 (23.6% fibo retracement of Sep low to Dec high). Next resistance at 1.3210, 1.33 levels. Failing which, pair could revert to trade 1.2990 – 1.3150 range. Support at 1.3050 (50 DMA), 1.3010 (rising trend-line support) and 1.2920 (38.2% fibo).

GBPMYR: Chance for Rebound

Source: Bloomberg, Maybank FX Research & Strategy

We noted the potential for a bearish MACD divergence in our last Tech Flash. The move played out over the past few weeks. We subsequently initiated a tactical call (on 17 Jan) for GBPMYR to trade higher towards 5.43 levels. GBPMYR was last seen at 5.3320 levels. Bearish momentum is waning while stochastics is rising from oversold conditions. Extension of rebound is not ruled out. Next resistance at 5.3550, 5.38 before 5.43 levels. Support at 5.32, 5.30. We retain our bullish GBPMYR call, initiated at 5.3075, looking for an objective of 5.43. SL at 5.27. Risk-reward ratio is 1:3.3.

GBPSGD: Consolidative; Bias to Buy Dips

For GBPSGD, our earlier call for temporary pullback more than met our support levels of 1.76. Cross traded towards 1.7460 (13 Jan) and was last seen at 1.7720 levels. Daily momentum turned bullish while stochastics is rising. Extension of rebound need to see a decisive break (on weekly close above 1.7710 (50% fibo retracement of 2018 high to 2019 low) to trade towards 1.7970 (61.8% fibo), 1.81 levels. Failing which, consolidative trade in range of 1.7450 – 1.7720 is possible. Support levels to watch include 1.75 (100 DMA), 1.74445 (38.2% fibo).

GBPSGD: Consolidative; Bias to Buy Dips

Source: Bloomberg, Maybank FX Research & Strategy

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(Incorporated in Malaysia)

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