

FX Insight

GBP: Twin Surplus and a Willingness to Do More

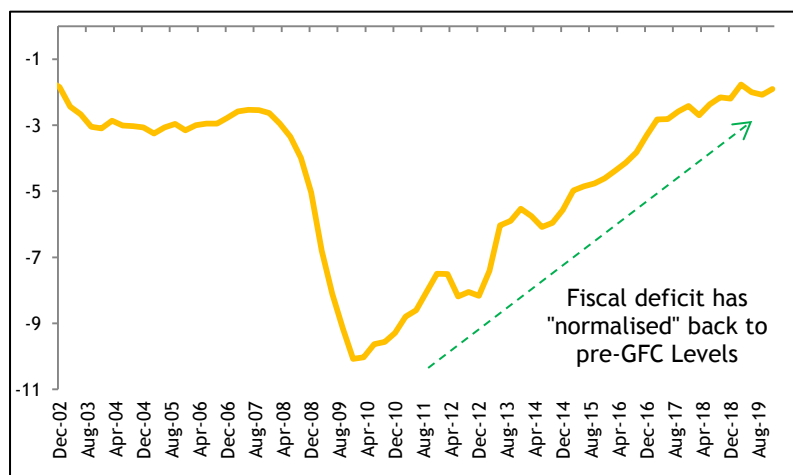
50bps Cut and Massive GBP30bn Stimulus

BoE cut policy rate by 50bps, to bring base rate to 0.25% in an unscheduled meeting (11 Mar). This was in coordination with government's fiscal stimulus response announced in Budget 2020 and was intended for maximum effect. We believe the twin stimulus could anchor medium term support for the economy and provide a buffer against a deeper economic fall-out but COVID-19 outbreak spread in UK and broad negative sentiment in markets (as seen from sharp declines in global equities, oil prices, etc.) could negate twin stimulus positivity for the time being. As such GBP is expected to take cues more from external drivers and face downward pressure. We also revised our GBP forecasts lower accordingly.

Budget 2020: COVID-19 Response and Infrastructure Spending

In response to the temporary disruption due to COVID-19 outbreak, Chancellor Sunak unveiled a GBP30bn stimulus package, intended to "support British people, British jobs and British Businesses". This includes a "temporary, timely and targeted" package of fiscal measures worth around GBP12bn, with at least GBP5bn earmarked for National Health Service (NHS) and GBP7bn for business and workers across UK. The government also pledged to spend GBP600bn over the next 5 years on infrastructure, including investments into rail, road, broadband, affordable housing, etc. To fund this, the government plans avoid large tax increases but to rely on borrowing program (especially given the large drop in borrowing costs). This means that the current government is making a shift from a decade of austerity (budget deficit improved from -10% of GDP in 2009 to -2% of GDP in 2019) to potentially a decade of fiscal loosening as the Treasury looks set to issue record amount of debt (about GBP156bn) since 2012 and 14% more than last year.

UK Has the Fiscal Space After A Decade of Austerity Measures



Source: Bloomberg, Maybank FX Research & Strategy

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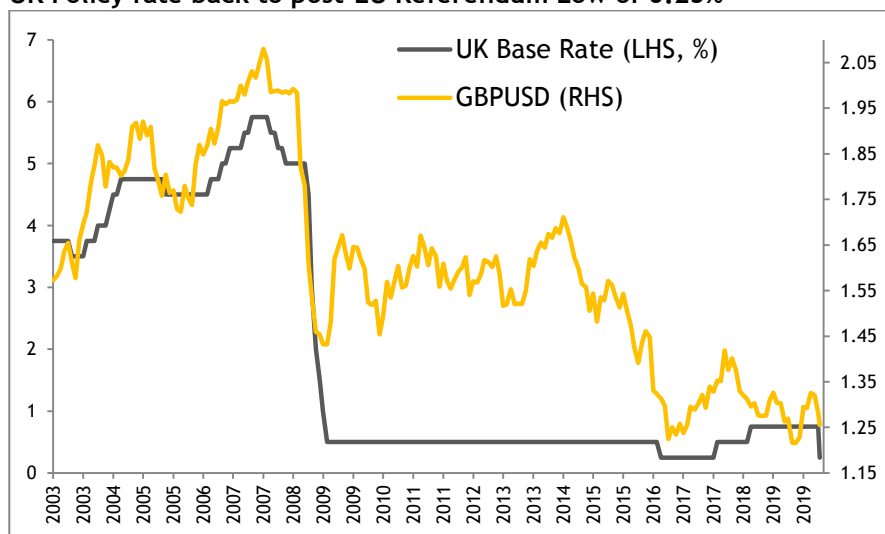
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BoE: Rate Cut and Targeted Measures

On monetary response, BoE voted unanimously to cut rate by 50bps to 0.25%; introduced a new program - Term Funding Scheme for small and medium-sized enterprises (TFSME) to provide easy and cheap credit and reduced the countercyclical capital buffer rate to 0%, to give banks more room to lend. Measures should also reduce the risk of funding squeeze. Incoming BoE Governor Andrew Bailey made clear that the BoE has monetary space to do more if there is a need to. Outgoing BoE Governor Carney said that these measures will help firms in business and people in jobs and will prevent a temporary economic disruption from causing long term damage to the economy.

UK Policy rate back to post-EU Referendum Low of 0.25%



Source: Bloomberg, Maybank FX Research & Strategy

GBP Forecast Revision Lower

We revised our GBP forecasts lower in light of monetary easing, severity and contagion spread of COVID-19 outbreak in UK, and potentially temporary damage to its economic growth momentum. We front-loaded GBP weakness to account for the temporary damage in the near term but maintain the upward trajectory over the forecast horizon. We do not rule out a sharp rebound when COVID-19 fades away and when we get more signs of progress on EU-UK post-brexite trade talks. Last week, Environment Secretary George Eustice said he is optimistic Britain and EU will reach an agreement on fishing rights by 1 Jul, removing a very key obstacle in the EU-UK post Brexit trade talks.

GBP Forecast

	1Q 2020	2Q 2020	3Q 2020	4Q 2020
GBPUSD	1.2400 (1.3000)	1.2800 (1.3200)	1.3100 (1.3400)	1.3400 (--)

GBP: Bearish Pressure Dominates For Now

GBP saw choppy moves following BoE and Budget 2020 announcement yesterday but ended on a softer footing. Pair was last seen at 1.2540 levels. Daily momentum turned mild bearish while RSI is falling and is nearing oversold conditions. Near term risks skewed to the downside. Immediate support at 1.25 levels. An extension of the move lower towards 1.2330 (76.4% fibo retracement of 2019 low to high) is not ruled out. Resistance at 1.2710/40 levels (200 DMA, 50% fibo), 1.2920/30 levels (38.2% fibo, 21 DMA), 1.2998 (100, 200 DMAs).

GBP (Daily): A Move Towards 1.2320 Levels Not Ruled Out



Source: Bloomberg, Maybank FX Research & Strategy

GBPSGD: Bearish Divergence

GBPSGD has drifted lower this week. Last seen at 1.7710 levels. Bullish momentum on weekly chart is waning while RSI is falling. A potential bearish divergence is developing on both MACD and RSI charts. Immediate support at 1.77 (50% fibo retracement of 2018 high to 2019 low), 1.7620 (100 WMA). Break below these levels could usher in deeper decline towards 1.7450 levels (38.2% fibo), 1.7120 (23.6% fibo). Resistance at 1.7845 (50 DMA), 1.7670 (21 DMA, 61.8% fibo)

GBPSGD (Weekly): 1.7450 Next if 1.77 Breaks



Source: Bloomberg, Maybank FX Research & Strategy

GBPMYR (Daily): Risks Skewed to the Downside for Now



Source: Bloomberg, Maybank FX Research & Strategy

GBPMYR traded lower this week amid GBP underperformance. Cross was last seen at 5.3770 levels. Daily momentum turned mild bearish while RSI is falling. Interim risks skewed to the downside. Support at 5.3050 (50% fibo retracement of 2019 low to high), 5.28 levels (200 DMA). Resistance at 5.4250 (21 DMA), 5.4650 (23.6% fibo).

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