



## Japanese Equity Report Tokio Marine Asset Management (London) Limited

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### Market Comment in Response to Brexit Its impact on the Macro Economy and Exchange Rates

#### Macro Economy

Markets worldwide have been rattled in the wake of the “leave” outcome of the UK’s EU referendum, as expectations were for a “remain” majority. However, the actual separation of the UK from the EU will take at least two years to complete, and so any immediate changes to the British and global economies are unlikely.

Nonetheless, there is a real risk of a downturn in the global economy due to uncertainty over the procedures for leaving the EU and the possibility that Brexit may mark the end of the Union if other countries follow suit. Brexit proves that growing nationalistic tendencies worldwide can no longer go ignored, and there could be dire consequences if the US follows this trend in its upcoming presidential elections.

Policymakers of major economies are well aware of the above risks, and the focus will now be on how they manage the threat to the financial markets. We can likely expect the US FRB to abandon their plans to raise interest rates, as well as a coordinated intervention by authorities worldwide to buy up the pound and provide liquidity support. Over the medium to long-term, the onus will be on whether EU countries can cooperate to implement fiscal policies designed to alleviate the anti-EU rhetoric that is spreading through the populaces. If policymakers can collectively and successfully introduce an economic stimulus in these tumultuous times, then this may work to stabilise the macro-economy over the longer term.

As for the Japanese economy, we expect the sudden buy-up of the yen as a safe-haven currency to gravely affect the financial market. We will therefore be paying attention to what measures the Ministry of Finance and the Bank of Japan will take in response to this volatility.



## Exchange Rates

The opinion polls immediately prior to Britain's referendum were predicting a majority "remain" vote and, based on this market confidence, the Japanese yen depreciated while the pound and dollar strengthened (160 yen/pound, 106 yen/dollar). Thus the shock of the "leave" outcome sent the pound and dollar crashing while the yen shot up. Immediately following the Brexit verdict, investors scrambled to the safe haven of the yen, resulting in highs of 133 yen/pound and 99 yen/dollar.

Though there is a risk of a continued buy-up of the yen due to market uncertainty, the risk-off effect is likely to be less than during the Global Financial Crisis based on reports that central banks worldwide will provide an emergency injection of dollars into financial markets. Furthermore, a previous statement by the Ministry of Finance to avoid excessive volatility may well see currency intervention and quantitative easing, which should act to impede the appreciation of the yen.

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