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Benefits of Brexit fallout

Our students, importers and property buyers in Britain gain from weaker pound

by Ng Wai Mun

BLOOMBERG

The pound dropped to its lowest level in more than 30 years

WITH dust settling after the shock of Britain exiting (Brexit) from the European Union (EU), market experts and economists have formed a consensus that the worst is yet to come.

They agree that Brexit has opened a Pandora's box, but it is nevertheless tough to fully quantify the impact of the British vote to leave, and the consequences. What market experts do know is that Brexit will benefit non-European countries, including Malaysia, albeit in the long-term.

Much has been written about the negative impact on Malaysia and the rest of the world. However, the country should be sufficiently fluid to capitalise on some positives from the Brexit fallout.

Sunway group corporate adviser and economist Tan Sri Ramon Navaratnam says Malaysia will definitely gain from the weaker pound which will lower the cost of imports and substantially help those studying in Britain. The British currency has fallen about 10% since Brexit.

The benefits of a weaker pound sterling also extend to property buyers in Britain, where the lower value of the pound vis-a-vis the ringgit means it will be cheaper to acquire property in that country.

Meantime, the fallout from Brexit has not affected developer Eco World International Bhd's (EWI) plans to list later this year. Its CEO Teow Leong Seng sees positives despite the Brexit turmoil.

"Our international buyers have immediately gotten a 10% reduction in whatever they bought in London," he says, adding that the immediate gain for the company is that the pound's weakness "will give us 10% more firepower when we go to London".

Some 40% of purchasers of privately-owned EWI's London property projects are from outside Britain.

IHS Global Insight's Asia-Pacific chief economist Rajiv Biswas says the country can take some positive policy steps to negotiate a new bilateral free trade agreement with Britain over the next two years.

This, he says, will create a strong framework for bilateral trade and investment with that country after it leaves the EU.

Britain is the second largest economy in Europe and offers export market opportunities for goods and services,

Pressure on interest rates

One common concern raised by investors during the weekend was whether a Brexit tsunami will affect their savings and fixed deposit rates.

Biswas says, "The British and EU economies are expected to suffer significant slowdowns in gross domestic product (GDP) growth next year as a result of Brexit.

"This is expected to reduce world GDP growth as well, and push global bond yields further down at a time when around US$10 tril (RM40 tril) of global sovereign bonds already have negative yields.

"The impact of Brexit is therefore expected to delay any further US Fed rate hike. This can result in further monetary policy easing by the Bank of England, the European Central Bank and the Bank of Japan."

He says as an effect of this, downward pressure will continue to be put on global savings and fixed deposit interest rates in the dollar, pound sterling, euro and yen.

Meanwhile, Nomura Securities Co Ltd says the country could cut interest rates to prop up economic expansion as Brexit wipes 0.4% off GDP growth.

The company says Bank Negara Malaysia could cut the Overnight Policy Rate (OPR) by 25 basis points as soon as next month.

Japan's largest brokerage joins Malayan Banking Bhd in forecasting a cut in OPR amid a second year of moderate growth. In Q1 2016, the economy grew at its most sluggish pace in seven years.

Affin Hwang's Ng believes Brexit is not an isolated event and will cause short-term turmoil in global financial markets.

In its Brexit report, RHB Research believes Britain's exit will affect Asean including electronics and electrical equipment, rubber products and medical equipment, which are among our leading exports there.

Some 60% of the country's trade with Britain is machinery and equipment while another 20% comprises manufactured goods, motor vehicle bodies and parts, and machine tools.

Affin Hwang Asset Management Bhd's CIO David Ng says the fundamental impact on most of Asia's stocks is low. The technical impact due to Brexit will provide investors with opportunities to acquire stocks at a lower cost.

However, Biswas warns, "Both the ringgit and equities are likely to be weaker in the near-term as global investors reduce exposure to emerging market equities and currencies, and seek shelter in safe-haven assets such as the US dollar and Japanese yen."

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In its Brexit report, RHB Research believes Britain's exit will affect Asean economies through two main channels - the financial and currency markets, and trade and investment, not just from that country but Europe as a whole.

However, the research house warns that it remains to be seen how long the global financial and currency markets' volatility will persist.

It highlighted that during the 2008/2009 US subprime credit crisis, Singapore, Malaysia and Thailand entered a recession with economic growth suffering contractions of 0.6%, 1.5% and 2.3% respectively in 2009.

A research manager tells ***FocusM*** that there is no such thing as "pure British goods". "Continental cars make a good example [as parts are sourced from throughout Europe].

"Brexit affects all of Europe. Even if local companies don't deal with Britain but with EU countries, they will also be

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– Biswas

affected ... the question is by how much?"

As the effects of Brexit will slowly spread to the rest of Europe, the research manager says the world could face a second financial tsunami.

Navaratnam foresees changes to EU rules which Britain had to adhere to, even now. He says, "The EU will learn from Brexit and [put in place] reforms, especially on the issue of immigration."

EU leaders have insisted Britain expedite its exit from the EU on fears that delays during the transition period may cause further damage to their economies.

But from the legal viewpoint, there are concerns that Britain may reverse its decision to leave.

Article 50 of The Lisbon Treaty provides the legal framework for a member to withdraw from the EU. It spells out the procedures in which an EU member might voluntarily want to leave the bloc.

However, the wording is reportedly vague and thus very subjective as it had not occurred to the leaders that any member would consider leaving.

Article 50 also gives the exiting country two years to finalise all the necessary procedures and arrangements prior to leaving the EU.

This two years starts when the British prime minister officially notifies the EU of its intention, but Article 50 does not set a timeframe for the prime minister to do this. FocusM