

Today's

Topic

**Brexit Referendum**

## EU Referendum chose "Brexit"

### Point 1

#### EU Referendum chose "Brexit"

- In the afternoon at 14:10 on 24<sup>th</sup> June, 2016, Japan Time, EU Referendum chose "Brexit", as "Leave" (51.8%) surpassed "Remain" (48.2%) by 3.6 points. Turnout was 72.2% and vote counted was 97.8%.

### Point 2

#### Market needs to go through significant consolidation

- Market is going through significant consolidation. Currently, Sterling Pound fell -9.98% from the previous day against USD which is lowest since year 1985. Meanwhile, USD/JPY rate is JPY101.28. The rate fell below JPY100 briefly first time since November 2013. Nikkei 225 index declined JPY1,345.70 from previous day closing price to JPY14,892.65.

#### Stock Market and Currency Market Movement

Items	Change from previous day	14:00 24th June 2016	Unit
Nikkei 225	-8.29%	14,892.65	JPY
USD/JPY	-4.60%	101.28	JPY
GBP/USD	-9.98%	1.34	USD

(Note) For USD/JPY, positive change means JPY depreciation and negative change means JPY appreciation.

For GBP/USD, positive change means Sterling Pound appreciation and negative change means Sterling Pound depreciation.

(Source) SMAM, based on Bloomberg L.P. data.

### Future Outlook

- We expect UK economy will be seriously affected by the result of this referendum in various areas such as trade, foreign direct investment and finance. There is also a concern over negative influence on trade of EU economy. Uncertainties of EU may continue for sometime, with a possibility of countries other than UK to leave EU.
- Meanwhile, influence to the US economy seems limited as it is moderately growing, supported by personal consumption. Also, impact on Japanese economy could be absorbed, as the government is prepared to implement economic measures.
- As to USD/JPY rate, USD depreciated against JPY to JPY100 level. Although it briefly touched JPY100, double digit yen against US dollars seems to be overdone considering robust US economy and foreseeable Japanese monetary policies.
- It could take while for European equity markets to make recovery affected by possible negative impact on the economy. On the contrary, US equity market is expected to make recovery after the initial negative impact, given improving profitability and earnings growth towards the second half of year 2016.
- Nikkei 225 index might possibly fall to around JPY14,500. However, it is expected to gradually confirm its bottom and recover going forward as; i) there is a possibility of currency intervention if JPY sharply appreciates, ii) expectation on BOJ's monetary easing and iii) possibility of front-loaded implementation of fiscal measures.

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