alpha market view

29 June 2016

EVENT

The UK voted to leave the EU on 23 June

Significant political and economic implications for the UK and the EU

Economic growth in the UK is expected to slow down in the second half of the year and in the next few years as firms hold back on investments and hiring, and consumers curb spending while waiting for the new UK PM to be elected and to give the formal notification to the EU to exit (which could be delayed to next year) and negotiate on the terms of Brexit over a two-year period. London could lose its status as Europe's financial centre and lose the trade advantages it enjoys as part of the EU. The full economic impact in the long term will depend on the trade deals that the UK negotiates upon exit from the EU and how fast it can negotiate new trade deals with other regions and major nations. There could be further turmoil within the UK as Scotland has indicated that there could be a second referendum for Scottish independence.

Economic growth in the EU will also be affected due to potential weaker demand from the UK, particularly after Brexit actually takes place. More significant will be the political spill-over effects of Brexit; the result of the UK referendum could trigger an upsurge of eurosceptic sentiment in other EU member states, such as in France, Italy and the Netherlands. This threatens the future stability and viability of the entire EU which will be a much more major event compared to Brexit.

Asia real estate to benefit from capital inflows

Stock markets and currencies fell but we expect some recovery following the initial overreaction. Nevertheless, volatility will continue given global uncertainties. Global risk aversion could see the JPY, being a safe-haven currency, continuing to strengthen which would impact growth in Japan through slower export earnings. Tourist arrivals and spending growth could also slow. A stronger USD, another safe-haven currency, will affect other Asian currencies.

The direct impact of a Brexit and slower UK economic growth on Asia's economies is limited given the small trade flows. However, as the EU collectively is a major export destination for most Asian countries, there could be greater impact after Brexit actually takes place and if euroscepticism spreads.

The US Fed is likely to delay raising rates while other central banks, particularly the Bank of Japan, will continue with their easing bias. Liquidity will remain abundant and cap rates stay low. Asia could receive a disproportionate higher share of these capital flows given its higher growth potential heightened by the turmoil in the UK and EU and growing uncertainty over the outcome of the US presidential elections in November. This will benefit real estate investment flows in the region.

Outlook: Political and economic uncertainty in UK and EU for at least the next two years. Limited direct impact on Asia given small trade flows. If contagion spreads to rest of EU, impact will be more significant.

Negative: Brexit could trigger an upsurge of eurosceptic sentiment in other EU member states, which will threaten the future stability and viability of the entire EU. Impact will be much more major compared to Brexit.

Positive: Global liquidity to remain abundant, with most central banks continuing with monetary easing. Expect more capital inflows to Asia, which will also benefit real estate investment flows in this region.