A small group of Anti-Brexit protesters are seen in central London on Friday following the UK's decision to leave the EU, which may lead to unexpected challenges for Asian economies.

PHOTO: AFP

Brexit implications for Asia's economies

BLOOMBERG

THE UK's vote to leave the European Union may lead to unexpected challenges for Asian economies, with Japan likely to bear the brunt of pressure, mainly because of a stronger yen, analysts say.

CHINA

With growth in the world's second-largest economy stabilizing and debt concerns mounting, Brexit may lead to more bumps along the way.

UBS AG: The People's Bank of China will likely cut its reserve requirement ratio to ease domestic liquidity as part of a coordinated global monetary easing. The yuan may depreciate further against the US dollar, but the export industry faces possible woes as internal divisions in the EU curtails demand, and the value of shipments falls. "There is some potential for a gap to open up between the volume of exports to the EU and nominal US dollar exports if the Euro weakens against the US dollar," it said.

Australia and New Zealand Banking Group: China is likely to use conventional and unconventional monetary policy tools. It can also exhibit its status as a global citizen and signal its willingness to lift market sentiment due to Brexit. "This morning we have seen a significant increase in market volatility globally and we would not overlook any PBOC action this weekend," it said.

JAPAN

Already facing subdued economic growth and inflation, the Bank of Japan was projected to ease monetary policy further in coming weeks.

Morgan Stanley: Japan is a key victim of Brexit, with Tokyo's Topix index expected to be more volatile than most in Asia. A stronger yen could be a persistent headache going forward, and the effect can be significant: for every move of one yen against the dollar, earnings forecasts for companies on the Topix can fall by 65 basis points.

UBS: Delays to US interest-rate increases because of global uncertainty may be an additional driver of the yen. But a 16 percent fall in local-currency terms for Topix, to 1,100 points, would leave valuations close to lows in the pre-Abenomics era, which presents a buying opportunity. "Much depends on any move in monetary policy from the BoJ or intervention from the MOF to stem the yen's likely rise," it said.

SOUTH KOREA

The Bank of Korea made a pre-emptive cut in interest rates earlier this month as it prepared for the possible negative effect of corporate restructuring on economic activities and sentiment. Finance Minister Yoo Il Ho said on Friday the government has sufficient policy measures to respond to financial market volatility.

Scotiabank: Markets typically sell off at times of risk aversion, and the won was the worst-performing currency in Asia on Friday. The bottom for the won may be at 1,200 per dollar, but policy reaction should be muted, according to Scotiabank. "Out-of-schedule monetary easing not likely in Asia as rates in most of the region already very low," it said.

SINGAPORE

The city-state is heavily dependent on global trade and authorities are struggling to get economic growth going after the economy expanded a little above zero in the first quarter.

Nomura Holdings Inc: Demand for highly-rated Singapore bonds may surge, as the country is widely seen as a triple-A safe haven. Falling yields in developed-market securities should drive Singapore's in the same direction. Also, "a weaker currency will help push front-end rates higher," it said.

MALAYSIA

The economy remains on a solid footing despite weak commodity prices and the currency has recovered strongly this year after sliding in 2015. The central bank extended trading hours for the ringgit on Friday and said there was ample liquidity in domestic markets.

Central banks move to reassure markets after Brexit

AFP, London

THE world's major central banks rushed Friday to deal with financial markets chaos arising from Britain's shock referendum decision to quit the European Union.

Britain has voted to leave the EU by 52 percent to 48 percent, sparking markets turmoil and the resignation of Prime Minister David Cameron -- who had backed the failed "Remain" campaign.

The news sparked a raft of announcements from the Bank of England, the Bank of Japan, the European Central Bank, the Swiss National Bank and the US Federal Reserve, as they clambered to curb dizzying global stock market losses.

The announcements stemmed losses on major European and US markets, with London falling just 3.2 percent, although Frankfurt fell 6.2 percent and Paris 8.0 percent.

But Madrid and Milan closed down more than ten percent down on jitters ahead of weekend Spanish elections.

Wall Street was down around 3 percent in afternoon trading.

"The liquidity support promised by the Bank of England -- and subsequently the ECB and Federal Reserve -- appears to have been the main catalyst for the turnaround," said Spreadex analyst Connor Campbell. In reaction to chaotic trade, the BoE swiftly announced that it was ready to pump £250 billion ($370 billion, 326 billion euros) to aid the smooth running of markets, declaring it will take "all necessary steps to meet its responsibilities for monetary and financial stability".

"As a backstop, and to support the functioning of markets, the Bank of England stands ready to provide more than £250 billion of additional funds through its normal facilities," BoE governor Mark Carney said in a televised statement following the Brexit vote.

"The BoE is also able to provide substantial liquidity in foreign currency, if required."

The British central bank added that it had already "undertaken extensive contingency planning" and was working closely with Britain's Treasury as well as with other domestic authorities and key central banks.

The European Central Bank separately said that it was on stand-by to open the liquidity floodgates if needed.

"Following the outcome of the UK referendum, the ECB is closely monitoring financial markets and is in close contact with other central banks, it said in a separate statement.

"The ECB stands ready to provide additional liquidity, if needed, in euro and foreign currencies."

The Bank of Japan said it stood ready to work with other major central banks to inject ample liquidity to counter wild volatility in markets.

And the Federal Reserve added it was "prepared to provide dollar liquidity through its existing swap lines with central banks... to address pressures in global funding markets, which could have adverse implications for the US economy".

Britain's decision to leave the EU -- following a bitterly-contested referendum -- has rocked global stock markets and sent the pound crashing to its lowest level in more than three decades.

Brexit could also force the BoE to act urgently to prop up the British pound with intervention in the foreign exchange market.

The central bank governors of the G7 nations -- comprising the United States, Canada and Japan as well as Britain, France, Germany and Italy -- said in a joint statement that they "stand ready" to provide needed liquidity.

"We recognise that excessive volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability.

"G7 central banks have taken steps to ensure adequate liquidity and to support the functioning of markets. We stand ready to use the established liquidity instruments to that end," they added.

The statement followed a conference call among officials from the Group of Seven leading economies to discuss Friday's historic vote results.

Switzerland's central bank added that it had "intervened" in the foreign exchange market to stabilise the Swiss franc, considered a safe haven currency, following the Brexit verdict.

Leaders of major central banks will have the chance to discuss how to handle volatility surrounding Brexit at a three-day conference hosted by the ECB that opens in Sintra, Portugal on Monday.

ECB chief Mario Draghi, Janet Yellen of the US Federal Reserve and the Bank of England's Mark Carney will be at conference.

Crude oil prices slammed after Britain votes to leave EU

AFP, New York

Britain's surprise vote to leave the European Union drove a sharp oil selloff Friday, with crude prices sinking around five percent on worries that global growth could slow further.

Analysts said that crude investors also headed for safer assets after the Brexit vote spurred huge volatility across markets.

New York's main contract, West Texas Intermediate for August delivery, lost $2.47 at $47.64 a barrel. In London, Brent North Sea crude for August fell $2.50 to $48.41 a barrel.

The Brexit vote drove a new level of uncertainty into the markets, with economists forecasting that the split will hit Britain's economy significantly, possibly driving it into recession next year, and dragging down European growth overall.

"Recessions cause low oil prices and the UK break with the EU raises concern of a recession in Europe," said James Williams of WTRG Economics.

In addition, he said, the process of arranging the separation will be lengthy and difficult.

"Every major headline on the negotiations for the next two years has the potential to move the oil market," he said.

Tim Evans of Citi Futures cautioned that Friday's oil market moves are just an initial reaction and not the full price adjustment to Britain's decision.

"We think confidence has been shaken and that the lack of physical tightness exposed by the initial decline will be highlighted, leading to a further wave of selling," Evans said.

Despite the losses -- which came after traders bid up oil in expectation of a "Remain" vote -- crude prices were still close to high levels for the year, helped by more signs of tightening.

Brexit a possible boon for China, say analysts

AFP, Beijing

BRITAIN'S decision to quit the world's largest single market presents China with a golden opportunity to seek better business terms with a more isolated UK, analysts said Friday, pointing out that London has not had its own trade negotiators for 40 years.

"Now that the referendum has happened, I would imagine that China will be quick to seize the opportunities," Guy de Jonquieres, senior fellow at the European Centre for International Political Economy, told AFP.

If a departing Britain fails to secure good trade terms with the European Union or other potential partners, he said, it would be "very vulnerable" negotiating with China.

London and Beijing have both proclaimed a new "golden era" of relations between the former imperial power -- whose forces repeatedly invaded China in the 19th century -- and the rising Asian giant, now the world's second-largest economy.

Last year two-way trade between them reached $78.54 billion according to Chinese Customs -- almost 14 percent of China's total business with the EU -- with the Asian country enjoying a surplus of more than $40 billion.

A falling pound will of itself make Chinese exports more expensive in Britain.

But since entering the European Union in the 1970s Britain has had no trade negotiators, said de Jonquieres, noting that London's eagerness to court China would give it "no leverage" with Beijing.

"The British government has acted in a way that suggests it is prepared to a large extent to woo China hard if not indeed to dance to China's tune," he added.

"The idea that Britain on its own could negotiate a deal that gives it better access to China's market is

BLOOMBERG

China's struggling economy may take a hit from the chaos in the EU, its second-largest trading partner.

implausible."

Geo-strategically, he said, it was "an extraordinary opportunity to peel off a very close US ally, in fact the closest US ally in Europe".

Many foreign firms setting up in Britain in recent decades have done so partly to gain access to European markets, a benefit which could come under threat following Brexit, with clouds of uncertainty hanging over their future relationship.

"It will be hard for (China), as an investor, to consider and make strategies for the EU and Britain as a whole in future like how it did before," Cui Hongjian, director of department for European Studies at China Institute of International Studies, told AFP.

But Chinese investors are very "acquisition oriented" and will be looking out for bargains, said Christopher Balding, professor of political economics at Peking University HSBC Business School.

British finance minister George Osborne -- a prominent Remain campaigner whose political future is now in doubt -- has long sought to promote London as a hub for international trading of China's yuan currency.

Britain was the first Western country to issue yuan-denominated sovereign debt and China's central bank issued its first offshore yuan denominated note in London in 2015.

But ahead of the vote John Goodrich, an editor for Chinese state broadcaster CCTV, wrote on its website: "An exit from the EU would likely jeopardise that status."

London had the largest pool of yuan deposits in Europe, he said, "but the strength of the city as a financial hub outside the European Union is uncertain".

Beijing respects the referendum result and was looking to the "strategic long-term perspective" in its relationship with Britain and the EU, foreign ministry spokeswoman Hua Chunying said Friday, adding: "A prosperous and united Europe serves the interests of all."

But hours after the vote a commentary on the website of the state-run China Daily newspaper estimated it would take 500 British officials 10 years to negotiate a new trade deal with China.

While the two countries have knitted closer economic ties there have been bumps in the relationship, and last month Queen Elizabeth II was caught on camera saying some Chinese officials were "very rude" during a state visit last year by President Xi Jinping that drummed up billions in Chinese investment.

Britain's departure from the EU should prompt "more cooperation" with China, Liang Haiming, chief economist of a Chinese investment company, wrote in the state-run Global Times days before the vote.

Moody's cuts British credit outlook

AFP, Washington

Moody's cut Britain's credit rating outlook to "negative" Friday, saying the vote to pull out of the European Union could hurt its economic prospects.

While retaining the country's overall rating at a high "Aa1", Moody's said after the Brexit vote that it expects the country's growth to slow, economic policy-making to suffer and the country's finances to weaken while it struggles through the details of the breakup.

"During the several years in which the UK will have to renegotiate its trade relations with the EU, Moody's expects heightened uncertainty, diminished confidence and lower spending and investment to result in weaker growth," it said.

"Over the longer term, should the UK not be able to secure a favorable alternative trade arrangement with the EU and other countries, the UK's growth prospects would be materially weaker than currently expected."

During the talks with the European Union on how to structure future political, economic and trade relations, Moody's believes that many investment and spending decisions in the country will be put on hold.

Much depends on the future trade relationship between Britain and the EU. Currently trade is completely open between the two.

Moody's also said that the change in government that will come with the resignation of Prime Minister David Cameron will create uncertainty over the country's financial discipline.

It said that Britain's savings from not having to contribute to the EU budget will not compensate for the negative effects of lower growth.