

IMPACT OF BREXIT

Well, after being a member for 43 years, the United Kingdom Friday voted by 51.7% to 48.3% to leave the European Union.

The Brexit vote has clearly drained risk appetite from global markets as it introduces a lot of uncertainty. As expected, the pound took the brunt of the pressure, falling to below US\$1.35/£, the lowest level against the US dollar in more than 30 years. The safe-haven yen surged to ¥100 per US dollar, while the rand fell from R14.40 to as low as R15.40 against the US dollar. Equity markets in Asia closed sharply lower, while markets elsewhere opened deep in the red today.

For South Africa, the impact will largely come through the financial markets channel; if the rand weakens further, it could place upward pressure on interest rates and inflation. Our very important trade relationship with Europe is not in danger, but given that the UK will have to increasingly look outside Europe to do business, our trade relationship with the UK might even improve.

Market moves of 5% or more are scary but common. On a long-term investment horizon, however, they become small blips that were often good buying opportunities, and bad times to sell out. Markets typically overreact to such events and are likely to be volatile while the outcome and its implications are digested. Brexit is not an event that requires South Africans to change their financial plans.