VIETNAM BUSINESS REVIEW

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BREXIT - UNITED KINGDOM WITHDRAWAL FROM THE EUROPEAN UNION

How Brexit affects Asean economies?

by [R&C Dept]

The shock waves triggered by Britain's decision to quit Europe continue to reverberate around the world, including here in Asia.

It should prompt some soul-searching among the key players: politicians, pollsters, pundits, as well as voters. For unless the right lessons are drawn and acted on, the road the world is now speeding down should be marked with signs that say: Warning, watch out for Brexits ahead.

A minister said the British vote to leave the European Union (EU) would not have immediate impacts on Vietnam, but long-term impacts must be taken into account.

Vietnam's public debt may be higher due to the stronger Japanese Yen emerging from the Brexit crisis, according to Saigon Securities Inc. (SSI).

In this business review, we hope not only to introduce to you the impacts of Brexit but also bring up updated on how to overcome this global phenomenon.

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Vietnam experts mull impacts of Brexit

by VNS

A minister said the British vote to leave the European Union (EU) would not have immediate impacts on VN, but long-term impacts must be taken into account.

The UK and the EU are currently not very big partners in terms of trade and investment with VN. However, the Brexit will affect currency developments in many countries, including trade partners of VN, and thus affect the country in indirect ways.

VN's trade revenues with the UK accounted for 3-4% of VN's total foreign trade values.

The value of Vietnamese exports to the UK represented about 2.3% of VN's gross domestic product.

Here are expert answers to some major questions discussed during the online round table:

How will Brexit affect VN's finance and its foreign investment influx?

Vo Tri Thanh, the former deputy director of the Central Institute for Economic Management (CIEM), said VN might face disadvantages in the trade balance because of possible depreciations in the currencies of a number of its trade partners.

But appreciations in some other currencies, such as the Japanese yen, would help improve the competitiveness of Vietnamese exports.

UK direct investments in VN are not too great, but capital flows pouring into VN via the UK are significant. These inflows may slow in the short term due to the UK and EU's struggling situation.

Capital flows will also seek 'safe havens'. If VN can prove a more stable economy and a better business environment, investors may be more interested in its market. This will depend on macro-policy responses and reforms of VN.

Last week that the domestic stock market lost $1.1b since Brexit vote was quite a heavy loss. Because foreign investors play an important role in the local stock market, the loss is "understandable". After "overshooting" investors' reactions, the market is likely to reach a new balancing point that is based on global economic developments and reforms.

What should Vietnamese policymakers do now?

Macro policies must be more flexible, although it is not always easy to choose between policy flexibility and economic stability. The co-ordination of monetary and fiscal policies needs special attention, and assuring discipline in State budget operations is necessary for effective monetary policies.

The market is interested in the European Union – VN Free Trade Agreement (EVFTA), whose progress is likely to slow.

The top priority of the EU and the UK now is to deal with Brexit consequences, so VN will have more time for legal reviews with the EVFTA. VN may also negotiate an FTA with the UK.

In the meantime, the banking and finance sector should intensify risk management.

Banking expert Nguyen Tri Hieu said the State Bank of VN should closely observe fluctuations of the Chinese yuan for timely adjustments of the VND, since China is the largest import market of VN.

What is the future for the ASEAN Economic Community (AEC), which was established just late last year?

Huynh The Du, Director of the Fulbright Economic Training Programme, said there are big gaps between Southeast Asian nations in their economic development levels. "It will take a very long time for the AEC to become lively," he said.

Nguyen Mai, Chairman of the VN Association of Foreign Invested Enterprises, reportedly told the dialogue on investment policies that members of the ASEAN community will have to work to reach a consensus on economic policies, especially those related to the law, taxes and administrative mechanism.

"This is needed for the region to avoid a 'Brexit ASEAN,'" he said.

Nguyen Bich Lam, the head of the General Statistics Office, reportedly told a press conference yesterday that it would review UK investment projects in VN.

This agency would assess possible changes in investment policies when the UK exits the EU, and scrutinise taxes applied for relevant import and export goods, he said.

Brexit indirectly increases public debt

by [VNE]

Vietnam's public debt may be higher due to the stronger Japanese Yen emerging from the Brexit crisis, according to Saigon Securities Inc. (SSI).

"Since Vietnam's foreign debt, especially for ODA loans, is mostly in Japanese Yen, which is estimated at 40% of the total, it will pay more in the future," said Mr. Nguyen Duc Hung Linh, Director of Retail Research & Investment Advisory at SSI.

The Japanese Yen, he said, has been strengthening over the past few days due to Brexit, pushing up Vietnam's foreign loans in Japanese Yen.

40% of Vietnam's public debt is in Yen, 25% in US dollar, and 20% in Euro.

It has some $45b in public debt in Japanese Yen and the currency has increased 3.8% since last Friday's vote in the UK and 17.6% since the beginning of the year.

Among listed companies, the Phalai Thermal Power Joint Stock Company (PPC) had total debts of VND4.3 trillion ($192.68m) in Japanese Yen as at the end of 2015, Mr. Linh said.

In the first six months of this year Vietnam recorded total budget revenue of VND425 trillion ($19.04b), or 42% of estimates. Revenue from domestic business activities was VND342.8 trillion ($15.36b), VND17.7 trillion ($793.13m) from crude oil, and VND63 trillion ($2.82 billion) from import and export activities, according to the General Statistics Office (GSO).

Budget expenditure totaled VND508.5 trillion ($22.78b) in the first six months, of which VND74.5 trillion ($3.33b) went to investment and development, or 29.2% of estimates, socioeconomic spending and spending on national defense, State administration, and the Party and related units was some VND363.4 trillion ($16.28b), and VND68 trillion ($3.04b) was spent on debt repayments, according to the GSO.

The government recently approved a plan to borrow VND452 trillion ($20.25b) to cover the budget deficit, issue VND60 trillion ($2.68b) in government bonds, and use VND43 trillion ($1.92b) of ODA for re-lending.

One indirect impact of Brexit on Vietnam is the devaluation of the Renminbi, which increased the trade deficit between Vietnam and China, putting pressure on the Vietnam dong and causing uncertainty in currency markets, according to economic expert Nguyen Tri Hieu. Mr. Can Van Luc, Senior Advisor to the Chairman and Senior Executive Vice President of BIDV, said that the increasing Renminbi also puts pressure on the US Federal Reserve to increase interest rates, which may also put the Vietnam dong under further pressure.

Vietnam exports face hurdles after "Brexit" vote

by [VnExpress]

The E.U. has become Vietnam's second largest export market after the U.S. This growth, coupled with the free trade pact between Vietnam and the E.U., known as the EVFTA, is expected to fuel trade relations in the years to come.

Vietnam accounted for 19.1% of the 201.4 billion euros (nearly $230b) in total trade between the EU and members of the Association of Southeast Asian Nations (ASEAN) last year. That figure is up from 15.8% in 2014, global news provider Bloomberg cited data from the E.U. delegation in Singapore as saying.

Experts said that VN exports may be harmed due to Brexit's direct hit on currency moves, battering the British pound and making Vietnamese exports less competitive.

Vietnam's exports to the U.K. alone are currently estimated at roughly 2.9% of the Southeast Asian country's total export value, reaching $4.6b last year. Experts forecast that a 10% decline in Vietnam's exports to the U.K. could translate into a $460m loss.

A domino effect as a plunging pound would affect the yuan.

Vietnam relies quite heavily on neighboring China. If the yuan is going to devaluate, the Vietnamese dong will hardly hold up. If things come to that, market regulators will have to calculate the depreciation of the dong as a move to keep Vietnamese exports competitive.

Vietcombank said in a report about Brexit's impact on Vietnam's economy that the central bank might not have many resources left to keep the dong from succumbing to the pressure.

Vietnam grabs market share from Asian peers in Eurepean trade

by [Bloomberg]

Vietnam took market share of European Union trade away from other Southeast Asian nations last year, a trend that may continue after it concluded a free trade agreement with the regional bloc.

The country accounted for 19.1 percent of the 201.4 billion euros ($227 billion) in total trade between the EU and members of the Association of Southeast Asian Nations, or Asean, in 2015. That figure is up from 15.8 percent in 2014, according to data from the EU delegation in Singapore.

"Vietnam is one of the growing markets and we've seen a very positive development with our trade relationship with that country," Michael Pulch, EU ambassador to Singapore, said in an interview on Wednesday. That growth coupled with the finalization of the free trade pact "points to a dynamic trade relationship in the future," he said.

Signs of Vietnam's trade prominence are growing: in 2014, the country overtook its Asean neighbors to become the biggest exporter to the U.S., powering ahead of traditional manufacturing hubs like Thailand and Malaysia. Vietnam has capitalized on shifting production patterns in Asia as labor costs in China rise, attracting investment from companies such as Samsung Electronics Co., which assembles and exports smartphones from the country.

While EU trade with Singapore, which is still the bloc's biggest partner in Southeast Asia, increased last year, its market share of total trade fell to 24.1 percent from 25.1 percent. Malaysia, Thailand and Indonesia also lost market share to Vietnam.

Growing population

Vietnam is the second country in Asean after Singapore that the EU has concluded a free trade pact with. Exports from Vietnam to the EU are dominated by phones, electronic products, footwear, clothing and coffee.

Sluggish economic prospects in advanced countries have pushed investors to search for opportunities in markets that are benefiting from faster growth and younger populations,

Vietnam manufacturing "big winner" in Brexit?

by [Steve Toloken]

The political chaos of Brexit will give Vietnam a key advantage as an Asia manufacturing location, since it already has a free trade agreement signed and awaiting implementation with the European Union.

Most of the other nations of emerging Asia, by contrast, have made little progress in their ongoing trade talks with the EU. And the current Eurozone turmoil means that won't change.

Vietnam is likely to be the big winner in the face of Brexit Lagging EU trade negotiations with other member states [in the ASEAN bloc] will make the communist nation one of the most exciting opportunities for low cost investment from a European perspective.

Given its unique position in low cost manufacturing, Vietnam will likely be more competitive than ever among European consumers," Dezan said. "The longer that negotiations are drawn out in other ASEAN states, the more solidified Vietnam's advantage will become."

China, India and the rest of Association of Southeast Asian Nations have not moved ahead with their free trade negotiation talks with Europe.

The EU has become too focused on territorial expansion into the former Soviet bloc, at the expense of other priorities.

Dezan headlines his piece: "Brexit Shows UK Has Turned its Trade Face Towards China, India & the East.

It seems safe to say no one really knows what the impact of Brexit will be.

Considering the growth of manufacturing markets in Asia, a point well known to the plastics industry, his points are an interesting counter to the gloomier analyses of Brexit's impact

Brexit to impact local garment industry: experts

by VNS

Brexit could directly impact VN's garment and textile industry in the last quarter of this year, according to experts.

In 2015, VN's export value for textile and garment products to the European Union accounted for some 19-20% of the national revenue from textile and garment exports, with the UK contributing nearly 4%.

Representatives of the VN Textile and Apparel Association and some local garment firms speak to Vietnam News Agency reporters about the issue.

Vu Duc Giang, Chairman of the VN Textile and Apparel Association

Brexit will definitely have an impact on garment and textile exporters due to the devaluation of the pound and the euro, which influences prices.
The political change will affect the purchasing power of customers in the EU and the UK.

These issues will have a direct impact on textile and garment enterprises in VN. For instance, material prices will have to be re-negotiated due to changes in the exchange rate, which will have a direct influence on the input prices of products from the fourth quarter of this year. That situation will affect the long-term export orders for enterprises from 2017.

The change will relate to the structure of export markets in the EU and the structure of export products to the EU and the UK. Before Brexit occurred, local garment exports had entered the EU, which included the UK, but now that the latter is leaving the bloc, the Vietnam-EU Free Trade Agreement is likely to be reconsidered. Therefore, the influence of Brexit on VN is still unclear.

For the short term, Brexit will have an immediate impact on the sector's production and business as well as the jobs of Vietnamese workers, eventually influencing the export growth rate to the European Union this year.
To limit the impact of Brexit, enterprises exporting to the UK and EU markets need to focus on traditional markets such as the United States, the Republic of Korea and Japan as well as expand their share in new markets such as Russia and Eastern Europe with new product lines. The enterprises also need to build supply chains to take full advantage of the signed free trade agreements and must diversify their products in both traditional and new markets.

In addition, they should be careful when negotiating with importers in other countries in the European Union to minimise the impact from Brexit.

Meanwhile, the government needs to accelerate the process of signing trade agreements with the remaining member countries of the European Union. The government also needs to hold talks with the United Kingdom on differences between the Vietnam-UK FTA and the Vietnam-EU FTA and must promptly inform the enterprises of the results.

Phan The Vinh, Director of Agriculture Garment JSC

Brexit will affect countries exporting goods to the United Kingdom, including VN, because each change will create both positive and negative impacts. The Agriculture Garment Joint Stock Company (JSC) has mainly exported its products to Germany, Italy and Poland but has not shipped anything to the UK.

However, Brexit presents an opportunity for small- and medium-sized enterprises because these companies can consider the United Kingdom a niche market for their products, including the Agriculture Garment JSC.

Exporters in VN should view the change as a good opportunity to promote exports from VN in the United Kingdom, including textile and garment products.

Do Huy Trung, Director of the Tri Duc Limited Company

The UK's decision to leave the EU will initially have little impact on VN's garment exports because domestic textile and garment enterprises have mainly exported their products to Germany, Poland and Spain and have made few exports to the UK.

For now, there is no feedback from customers related to Brexit.

Tri Duc has so far not received any export orders from the United Kingdom.

However, Brexit will affect exporters to the country, including domestic garment enterprises, due to the impact of the changes to the pound versus the US dollar on their business.

When the United Kingdom leaves the EU, VN and the UK will have to renegotiate provisions for financial and banking services.

Who wins from Brexit? China

by [Michael Schuman, Bloomberg]

The United Kingdom's exit from the European Union is creating a lot of losers: London's finance industry. British Prime Minister David Cameron. The pound. The grand cause of European integration. But out of all of the market turmoil and uncertainty will emerge at least one big winner: China.

In the short term, of course, China's struggling economy may take a hit from the chaos in the EU, its second-largest trading partner. A smaller, less-stable European market and more cash-strapped consumers aren't good news for Chinese exporters. Over the longer term, though, Brexit is almost certainly in China's economic and political interests.

Even a fully united Europe -- burdened as it is by debt woes, high costs, overbearing bureaucracy and, in some cases, dubious competitiveness -- has had a tough time competing and contending with China. Now fractured, the EU can't help but pose less of a counterweight to China's rise on the world stage.

Remember why the European Union was formed in the first place. Proponents like to stress the EU's mission to promote peace and democracy. More practically, a key goal of unification was to enhance the region's clout in the global economy. The varied nations of Europe understood that they'd be much stronger if they forged a common market with shared institutions and even a regional currency, the euro, than if they tried to compete as independent units. Europe hoped to evolve from a collection of rich but contentious states into a giant economic bloc on par with the U.S. and more recently, China.

In reality, Europe has struggled to fulfill that ideal and has suffered for it. Persistent nationalism has repeatedly limited its ability to forge a common front on both trade and geopolitical issues.

Nowhere has this failure been more obvious than in Europe's relations with China. As a whole, the EU should in theory wield significant power in pressing Beijing to open its markets and play fair on trade. Instead, European nations have routinely squandered that advantage by competing with each other for Chinese investment and favors. Shortly after the U.K.'s Cameron fawned over visiting Chinese President Xi Jinping last year, German Chancellor Angela Merkel showed up in Beijing, seeking her own business deals. The opportunities for China to divide and conquer -- both to strike better bargains and to undercut complaints about its own market-distorting behavior -- will only increase now that Europe's second-largest economy has gone its own way.

European businesses would certainly have been better served if the EU could have cobbled together a common policy towards China.While Chinese companies have gone on a major shopping spree in Europe -- even buying stakes in beloved football clubs -- Merkel, on a recent visit to Beijing, was left griping that foreign firms deserved to "enjoy the same rights and privileges as domestic companies" in China. If she and Cameron and Europe's other leaders had locked arms and fought for those rights together, they'd have had a much greater chance of success.

Now instead, a truncated common market in Europe will undercut the global competitiveness of its companies. European firms -- frombig banks to tech start-ups -- would be much better positioned to take on rising Chinese champions if they were able to capitalize on a full-fledged Europe-wide market.

Politically, too, Brexit can only widen China's scope for action. As China challenges the West's cherished institutions and ideals, fromnavigation rights to human rights, the importance of defending those rules and values is rising steadily. A united EU could have presented a serious check to Beijing's growing assertiveness.

Brexit threatens TPP and Vietnam trade with US

VOV - The move will require Vietnam to renegotiate the recently agreed upon Vietnam-EU free trade agreement for which the Southeast Asian nation was to have received preferential market access as early as 2018.

Under that agreement Vietnam was to have received favourable market access in the form of reduced import tariffs and the removal of other trade barriers to the economies of all 28 member nations of the EU.

At a minimum the exit of the UK will require Vietnam's trade agreements with both the UK and 27 other members of the EU to be renegotiated. However, it is not possible at this time to know to what extent, if any, that will have on the 2018 timetable.

Though economic experts predict it will take about two years for Britain to negotiate the terms of its exit from the EU, dubbed 'Brexit,' the ultimate effect on Vietnam is simply indeterminable.

However, it appears reasonable to conclude that it is likely the 2018 timeframe will at least be pushed back as it will take longer to reach new trade accords, many economists have said.

That does not mean commercial activity between Vietnam and the UK or any of the EU member countries will stop by any measure. It just means that they will continue to be governed – as is the case currently – under World Trade Organization (WTO) rules.

Just as importantly, Brexit has jeopardized the Transatlantic Trade and Investment Partnership (TTIP), a trade deal between the EU and the US, and could negatively impact the Trans Pacific Partnership (TPP).

The TPP is a 12-member nation free trade agreement involving both the US and Vietnam as well as the 10 other countries of – Japan, Malaysia, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru.

To the extent that both the TTIP and TPP are principally US driven free trade agreements modelled after the EU model—and to the extent that Brexit represents the failure of that model—the implications are potentially devastating for the TPP.

Already Donald Trump, the presumptive US Republican presidential nominee has called for a total rejection of the TPP and said he would prefer to pursue a return to bilateral trade agreements with Vietnam.

Post-Brexit, Japan redefines idea of safe havens

by [William Pesek, Japan Times]

With its deflation, aging population, gargantuan debt load, extreme seismic activity and sub-zero interest rates essentially forever, Japan sure makes for a bizarre "safe haven" in times of trouble. Yet last week, as all hell broke loose in Europe, investors couldn't buy yen fast enough.

They fled the Nikkei in droves on Friday (it plunged nearly 1,300 points) as "Brexit" became reality, but the yen surged and Japanese bond prices soared, never mind the negative yields. The idea that an economy staggering from recession to recession for 25 years, borrowing with increasing abandon and run by change-averse bureaucrats thinking it's still 1986 speaks to the upside-down state of the world. Really, which previously rock-solid financial correlation in bond, equity, commodity or money markets still makes sense in 2016?

But the same is true of Japanese politics. Some Tokyo wags figure the Brexit chaos may give Prime Minster Shinzo Abe a fresh boost ahead of the July 10 elections. This speculation features its own down-the-rabbit-hole dynamic. After all, if Abe had done anything substantial these last 1,280 days to restructure an uncompetitive economy, Japan wouldn't be the main casualty of European contagion. And in a more robust democracy, Abe's Liberal Democratic Party might be sent packing 13 days from now.

Hardly, given the mess the main opposition Democratic Party has made of its electoral chances. Its hapless leader, Katsuya Okada, has been a gift to Abe's party, failing at every turn to capitalize on dreadful economic news — or Tokyo's deer-in-the-headlights reaction to Brexit. As the yen skyrocketed Friday, and with it the odds of another recession, visibly-shaken Finance Minister Taro Aso looked as if he were searching for a desk to hide under.

Yet the LDP's election odds are getting a Brexit bounce, in ways that bode ill for Japan's outlook. Yes, yes, I know. Abe will redouble efforts to deregulate the economy come July 11, the day after winning a new mandate. Trouble is, this is at least the third time he's seeking support for reforms that don't need it. The vast majority of Japan's 127 million people are firmly behind faster economic growth, looser labor markets, increased innovation and fresh thinking. Abe's election fetish is a waste of time, money and energy better spent addressing the frailties he's been pledging to fix since December 2012.

The odds of Abe suddenly attacking economic dysfunction aren't great. His fans point to three successes: aggressive monetary easing, joining the U.S.-led Trans-Pacific Partnership and tighter corporate governance. Yet each requires a huge asterisk. The Bank of Japan's epic gambit hasn't ended deflation and the yen's rally puts Gov. Haruhiko Kuroda back to square one. TPP, even if it survives the November U.S. election, is more a geopolitical poke at China than Japanese job creator. And ask the $1.3 trillion Government Pension Investment Fund how impressed it is by Abe's modest steps to raise the management bar. It's suing Toshiba for losses over an accounting scandal. Takata's chief executive still has a job as its airbags kill and maim motorists, while Mitsubishi's fuel-economy scandal widens.

Abe's real focus is national pride and security. For nationalists of his ilk, the economy is a prop for diverting attention from their passion to rewrite the postwar pacifist Constitution. To historians, it's really about Kishi family restoration. Abe believes the generation of his beloved grandfather, former Prime Minister Nobusuke Kishi, is unfairly maligned by history. John Dower, author of the Pulitzer-Prize-winning "Embracing Defeat," argues Kishi is a "war criminal" from his exploits in Manchuria. Michael Schaller titled his book on the man "America's Favorite War Criminal."

Unshackling Japan from its U.S.-authored Constitution was Abe's goal the first time he was prime minister from 2006 to 2007. It's been his driving force since 2012, too, distracting the electorate with talk of epochal economic change while working behind the scenes to avenge his grandfather's honor. This effort is about to intensify at the economy's expense. So far, Abe managed to "reinterpret" Article 9 of the Constitution. Now comes the all-out war to amend it formally, and it'll leave little time for a structural Big Bang.

It's telling, for example, that virtually 100 percent of the post-Brexit discussion is about how the BOJ will respond. Nowhere is there serious talk of Abe accelerating supply-side growth efforts. Nor does the political opposition have a clear plan to get Abenomics back on track, or an alternative with better odds of ending Japan's malaise. In his haste to rewrite history, Abe forgets that nothing would boost Japan's global clout today like 5 percent growth on a sustained basis.

Granted, there are valid reasons why Japan might seem a haven amid today's chaos. They include nearly $15 trillion of household savings, an enviable current-account balance and battle-tested policy makers with decades of damage-control experience. After a quarter century of stagnation, social stability never unraveled. Crime hasn't exploded, mass homelessness averted and huge bankruptcies generally avoided. Japan's strength, it turns out, is the socialism embedded in its political system. Companies have long carried excess employees because the alternative — U.S.-style jobs layoffs — is seen as bad for national harmony.

That strength is now weakness, as China and other upstarts alter Asia's competitiveness balance. The promise of Abenomics was to raise Japan's innovative game to create new wealth and enable it to maintain its high living standards. Instead, Abe resorted to an old-school yen devaluation of the kind that might've worked 30 years ago. That's why a giant economy 10,000 km away is on the very front lines of Brexit turmoil. It's also why those betting that Abe will use his new, new, new mandate to address these vulnerabilities may want to consider a safer haven.

Goldman Sachs: post Brexit, yen rise won't stop despite Japanese intervention talk

by [CNBC]

Japan's policymakers can't do much to yank the yen off the Everest-style peaks it's scaled since the U.K. voted to exit the European Union (EU), Goldman Sachs' chief Japan strategist cautioned.

Kathy Matsui's comments came as Japanese Prime Minister Shinzo Abe said the government was continuing to watch movements in the equities and forex markets, adding that the Brexit's impact on Japan's economy may not be visible until the medium to long-term.

Also on Tuesday, Bank of Japan Governor Haruhiko Kuroda said the central bank was ready to take steps to ensure financial markets continued to function normally, Reuters reported, while Finance Minister Taro Aso reiterated that he was closely watching the foreign-exchange market and would respond if necessary.

Matsui said, however, that government intervention to weaken the yen was unlikely.

She noted that at the Group of Seven (G7) meeting held in Sendai, Japan, in May, global policymakers agreed that stimulating economic growth shouldn't depend solely on monetary stimulus.

"The idea or thought that Japan and other major economies could do some kind of coordinated intervention on the currency side would seem to go against the grain or the philosophy of what they've just decided," she said, calling potential Japanese intervention a "pretty low probability option."

The yen has surged in the wake of the Brexit referendum results on Friday, with the dollar fetching just 101.62 yen at 9:15 a.m. SIN/HK. That was down from the dollar/yen currency pair's 106.81 yen level early in Friday's session, when the remain camp appeared to be headed for a win.

Tuesday's dollar level, did, however, mark a recovery from Friday's session low of 99.08 yen, its lowest since 2013. But it was still well below levels above 121 yen touched just before the Bank of Japan (BOJ) surprised markets on January 29 by introducing a negative interest rate policy.

Matsui noted that any attempt at intervention might not do much for the currency.

"When the rest of the world experiences a major dislocation of the size that we've seen over the past weekend, clearly the safe-haven currencies like the Swiss franc and like the Japanese yen are going to be bought up," she said. "Whether [intervention] actually works when there is still so much uncertainty in the world is a very big question."

She added, "It does not come without any costs and there is not guarantee that it is going to stick. It may work for a day or two."

Expectations the yen would continue to flex its muscles have driven Goldman's stock recommendations for the Japan market.

"Obviously, the stronger the yen rises, the more negative the hit to earnings," Matsui said, adding that every 10-yen move in the currency was estimated to shave operating profit growth by around 4-5 percentage points.

Exporters' earnings forecasts were already cut and Matsui expected further reductions into the next quarter. She advised avoiding global-exposed sectors and cyclicals and staying closer to home.

"Really stick with domestic demand areas of the market that have much more stable earnings and are not going to be whipsawed by macro gyrations outside of Japan," she said, tipping internet-related and biotech plays, as well as the food and beverage sector.

In another potential fillip to domestic-focused stocks, Matsui also expected that in the autumn, Japan's parliament would introduce a fiscal stimulus package that could be as large as 2 percent of gross domestic product (GDP), or more than 10 trillion yen, aimed at boosting domestic consumption.

Japan's chief government spokesperson, Yoshihide Suga, said on Tuesday that the size of the economic stimulus package hadn't yet been decided, Reuters reported.

Matsui also liked beneficiaries of negative interest rates, which included profitable companies in sectors that carried a lot of leverage, such as real-estate investment trusts (REITs), property, construction and domestically focused transportation plays.

But she advised avoiding electrical and precision machinery stocks as they had the highest exposure to Europe and the automobile sectors, which were exposed to the stronger dollar.

Japan's policymakers would likely need to look to the Bank of Japan (BOJ) meeting in late July for another round of easing that might weaken the currency, she said.

Matsui expected the BOJ would opt for some combination of cutting interest rates deeper into negative territory, offering banks the ability to borrow from the central bank at negative rates and augmenting its existing exchange traded fund (ETF) purchase program. Potentially, the BOJ could do all three, she noted.

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Website	www.seiko-ideas.com

Person in charge	**Nguyen Thi Quynh Tram (Ms.)**
Mobile	+84-91-4994-830
Email	tram.nguyen@seiko-ideas.com

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