Brexit: Impact On Australian Market

On June 23rd, 2016, organized a referendum about the topic of whether should remain in the EU. On that day, the whole world was shocked to hear that decided to leave the EU with the vote result 52% against 48% (Somai & Biedermann, 2016). Ever since the news was released, world has not stop discussing what could be the potential impact once Brexit happen. Considering the history between Australia and, it is certain that Brexit will have impact on Australian financial market, this essay is to discuss the short-term, medium-to-long term potential impact and responses from government and regulatory authorities.

Brexit is the abbreviation refers to the action that leave the European Union including EU's single market and customs union. No deal situation is when government cannot manage to get an agreement with the EU during the two years negotiation period and have to leave the EU overnight with no transition period. Because of the no deal scenario, would have to adopt the standard international trading rules and do not have any further special trading benefits with EU countries. laws and legal system would be separated from EU ones, broader checks happen again between UK and the rest of EU which might including Northern Ireland and Ireland (BBC, 2019).

The ultimate causes of Brexit can be traced back to 1975 when finally joined the EU. The cause can be break down into two perspectives which are economic issue and social issue. Due to currency difference between UK and the rest of the EU, monetary policy, economic rules and budgetary rules established by the EU does not quite fit and work in UK. Also, there is the social issue about immigrant and free-move citizens from other member countries (Somai & Biedermann, 2016). It goes without saying that Brexit is definitely a shock to the EU, once left the EU, it will stop its £9bn per year budget contribution to the EU. Tariffs between EU countries and will re-appear (BBC, 2019).

The short-term impact of Brexit on the Australian financial market is considered restricted due to Treasurer Scott Morrison, he claimed that Australian financial market can well self-adjusted to the shock caused by Brexit, Australian market has limited exposure to Brexit and Australian government should not have additional response to Brexit vote in short-term (Keany, 2016). Despite what Morrison said, potential short-term impacts stills exist, because of historical reasons, and Australia have a very close bond. As a result, when major shock happens in market, the Australian market will definitely be affected. Due to the perceived increasing uncertainty in both markets, it is expected that Australia stock market (share price) would decrease along with the value decrease of the Australian dollar (Smales, 2016). This situation might happen because investors tend to be more conservative and more risk-averse when uncertainty in the market is higher (Nakamura, 1999). In the foreign investment market, foreign investors would invest less in the Australian market due to increased uncertainty, the demand of AUD decrease, in turn, lead to a decrease in AUD's value (Goldberg & Kolstad, 1995).

The report from Australia's Council of Financial regulators (CFR) revealed some actions different Australian regulatory have been taken since the announcement of Brexit vote. In general, all related agencies have been trying to enhance their connection with foreign major agencies during this period. For instance, RBA has taken many opportunities in important

conferences and meetings and arrange bilateral consultations; APAR has been applying for bank liquidity projections on regular basis and get in touch with major banks to talk about various risk exposure, exposure to and performance in foreign funding market (CFR, 2016). According to a report from ASIC, they have been well-prepared to manage potential shock caused by no-deal Brexit. ASIC claimed that they are currently pursuing a closer relationship with financial regulatory after Brexit. ASIC has been reviewing 298 corporations in Australia about their current license and exemptions, this process is expected to be done before Brexit actually takes place. Meanwhile, ASIC is operating with RBA and BoE to confirm business continuity for Australian companies in the UK (ASIC, 2019).

Both Australian regulatory and government have the same goal when response to Brexit impact, they are all trying to minimize the uncertainty might cause by Brexit; they both want to ensure Australia will not be very much affected by this event and hopefully through enough preparation can even seek some benefits. in order to achieves these goals, one thing they both did is to strengthen Australian market's connection with foreign market to mitigate foreseen risk. One of the potential differences might be government's response and evaluation of potential impacts are more comprehensive, they are not only focusing on financial market, the government is also studying about historical issue that caused Australia's cultural bond with the UK, and considering impact on citizen's life in area such as medical technologies and pharmaceuticals (APH, 2019). This difference might be caused by different responsibilities weigh on different authorities.