BREXIT AND VIETNAM MARKET

The Vietnamese market experienced high volatility last Friday amidst global market turmoil triggered by Brexit. The main southern bourse (HOSE) plunged more than 5% in the early afternoon trading right after the results were officially released on Bloomberg. Liquidity during the few trading hours jumped much higher than recent average with investors dumping all stocks in a panic selling. However, investors seemed to quickly realize that they had overreacted and turned buying, which helped the market gain some ground lost and close the day with 1.8% drop, in line with neighboring markets (the Philippines index down 1.3%, Jakarta down 0.8% and Bangkok down 1.7%). After initial panic widely diminished over the weekend on more news about post- Brexit stability measures/policies announced by leaders across the globe, the Vietnamese market seemingly regained its normal trading course today and HOSE closed almost flat, even slightly up 0.08% with liquidity back to the average range.

On a bigger picture, Brexit will not have a significant impact on Vietnam's overall trade activities in the immediate term given Vietnam's total exports to the UK only accounts for 2.9%, while imports from the UK stands modestly at about 0.4%. In terms of FDI inflows into Vietnam, the UK has been a minor player too with insignificant investment amount. Having said that, Brexit would weaken the EU economy and the Euro in the coming time. And this will have an impact on Vietnam's economy as the EU is an important trade partner for Vietnam. Trade activities between the EU and Vietnam have significantly increased since 2010 and currently, Vietnam's total exports to the EU accounts for about 20% and imports 7.3%. A slowdown in the EU economy will reduce demand for imports in general. Also, weakened Euro against Vietnamese dong (VND) will make Vietnamese goods and services less competitive in the EU markets. However, with Vietnam's major exports to the EU being basic products, we expect they will not be affected much then.

Another concern of ours is on currency. We have seen high fluctuation among many hard currencies in the last few days after the event. We think VND cannot escape from this turbulence, especially when currency of Vietnam's important trade partners such as China, the EU, the US, ASEAN countries, etc. have strong moves in the market. Comforting news is central banks (BoE, BoJ, etc.) have assured the market they are well prepared for this situation and will take appropriate measures if needed. For Vietnam itself, the State Bank may have more room and tools to tackle this matter thanks to the increased foreign reserves of around USD40B at the moment (exclusive gold) coupled with a trade surplus YTD, continued FDI influx and a more flexible FX mechanism. In addition, the US Fed is now unlikely to have further interest rate hike in the remaining of 2016, which will reduce pressure on VND at least for this year. But this matter surely needs to be watched very closely.

In short, even though Brexit will not have a significant direct impact on Vietnam's overall trade in near term, it has implications on Vietnam's economy in a longer run. Real impact at the macroeconomic level needs more time to assess when things unfold. As for the stock market, Brexit-triggered panic seems largely behind us now. But with uncertainty around global markets at the moment, we will keep monitoring the situation very closely in the coming time and take prompt action if needed.