VinaCapital

Market Comment
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Vietnam's Stock Markets: Open For Business

Overall Summary:

- The **Philippines closed equity, currency, and bond markets** on Tuesday, with Sri Lanka following suit, which raised the question of whether other markets, including Vietnam's, could do the same. For Vietnam, we believe the likelihood of financial markets closing is low.

- With the Philippines market closure announcement, a US listed ETF (EPHE US) tracking the Philippines fell as much as 19.5% intraday on the back of the news. The prospect that similar corrections would arise for any market that restricts liquidity creating a situation of 'stranded money' (constrained flow of funds, unsettled trades) will not be taken favourably by investors. Furthermore, any market closure will negatively affect an exchange's international reputation and may lead to greater market volatility.

An Unlikely Closure

A closure of Vietnam's stock exchanges seems unlikely for the following reasons:

- We believe the government is more **cognizant of the reputational hit** that the country would incur from a closure. Exchanges in the US, Indonesia, and Korea have recently issued statements conveying their commitment to keep their capital markets open.

- The way the Philippines enacted its enhanced quarantine was sudden. A Monday announcement of its "enhanced quarantine" measures with a Tuesday midnight implementation meant many companies and individuals were caught ill prepared. Political commentators may say this is more reflective of President Duterte's **leadership style, which has been described as "less measured"** in stark contrast to Vietnam's leaders.

- In our view, Vietnam has **sufficient built-in measures** (such as trading limits on individual stocks (+/-7% on HOSE, +/-10% on HNX, & +/-15% on UPCOM)) to prevent the need to close its exchanges. The justification to close exchanges due to unprecedented volatility or information overload requiring a momentary pause may create a perception of inefficiencies and non-market forces at play – traits that we think the government is not looking to foster.

- Finally, it was suggested that the closure was meant to mitigate the Philippines' underperformance in the region – a notion that we do not subscribe to, as this move may in fact only exacerbate the PCOMP's laggard standing arising from the loss of investor confidence. Regardless, **Vietnam has held up better than its regional peers,** which makes this argument moot. For us, Vietnam's performance may be a function of liquidity; investors may be holding the market in higher regard given its better economic outlook, stronger operational prospects, and cheaper valuations, and thus not looking to trim positions that may have taken time to build.

Philippine backdrop: Enhanced quarantine

- The government placed the mainland island of Luzon under a month-long **"enhanced quarantine"** from Tuesday (March 17, 2020) midnight in an attempt to contain the spread of COVID-19. This means a strict home quarantine (outside of the need to access basic necessities), and a work-from-home arrangement (except for skeletal staffing at business process outsourcing (BPO) and export-oriented businesses), as well as a suspension of public transport. Only establishments in Luzon providing basic goods and services such as grocers, convenience stores, pharmacies, hospitals, food preparation & delivery, and banks would be open. In connection with this lockdown, the Philippine Stock Exchange (PSE) suspended trading operations. Since then, the government has decided to exempt the financial markets from the strict quarantine measure, with equities trading resuming today, Thursday, March 19, 2020. As alluded to earlier regarding the negative reaction investors would have on such closure, the PCOMP plunged 24% upon reopening.

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