

POTENTIAL IMPACT OF THE UKRAINE SITUATION ON VIETNAM MARKETS

I. Background

After months of demonstrations in the streets, opposition forces succeeded in taking over the Ukrainian government, **forcing President Yanukovich to flee the capital** and seek refuge in Russia. In response, Russian forces invaded the Crimea. The US and EU reacted vigorously by promising severe sanctions if Mr Putin were to take further measures against Ukraine.

II. Impact on global markets

All world markets are affected.

- **The Dow Jones and S&P indices** fell due to concerns that the US may be involved in a military conflict or potential economic sanctions that could hurt all economies. Mr. Obama may feel forced to take counter measures for fear of being perceived as a weak leader.
- **The EU markets** fell for economic and political uncertainty. European countries, particularly Germany, receive more than 20% of its gas supplies from the Russian conglomerate Gazprom. Major pipelines linking Russia and Europe go through Ukrainian territory.
- **Emerging markets in Asia** were affected by Ukraine situation but also by perceived weakness in China's economy when the PMI fell to a 5 month low.
- **On international markets** in general, clear winners include gold, German bonds, Japanese Yen. They are considered safe-haven assets to take refuge in during time of increasing uncertainty.

III. Impact on Vietnam

- **The Vietnam market was negatively affected** with the VN-Index losing 13 points as the week begins. However we think the Vietnam market will not be impacted in a major way.
- The VNI decline on Monday is **part of a long expected correction** that has been in the works before the Ukraine problem comes along. The VNI rose 22% in 2013 and a further 14% in Jan-Feb of this year. Such a climb is widely considered as unsustainable: as the VNI approaches 600, a correction of 10% plus is judged to be more and more likely to happen. The 600 level was initially projected by many analysts as a year-end target, not something to achieve in Q1 of 2014.
- The VNI is supported in its rise by a number of factors.
 - **An inflow of funds** from domestic investors. Many commercial banks have noticed some depositors pulling their money out to invest in stocks. The central bank's deposit cap is maintained at 7% but many depositors find more lucrative returns on the equity markets.
 - **Foreign investors maintain** a net buy position, already achieved in 2013 and carried into this year as well. The Vietnam ETF's (by Market Vectors and Van Eyck) will continue to buy Vietnam equity as more money flows into their portfolios.

- **The macro picture has improved** further in Q1:
 - Inflation in Feb has **dropped to 4.6%** YOY the lowest such level in 5 years.
 - The **good CPI performance** in Jan-Feb has prompted the government to revise downward its inflation objective for this year from 7 to 6%.
 - The **Feb PMI has fallen slightly** as compared to the previous month but stays above the neutral 50 position, indicating an expanding manufacturing sector. The decline is not serious because of its seasonality: most factories were closed for a long holiday.
 - The VND **has solidified its stability** as the SBV stated that it bought in \$ 4 bn over Jan-Feb to prevent the currency from appreciating. The PM subsequently declared that Vietnam's official reserves now amount to \$ 40 bn.
- All the above developments tend to strengthen the Vietnam equity market as among the best (if not **the best**) investment channels for this year and beyond.

IV. Bottom line:

- Ukraine may be of great concern, politically and economically, to the US and EU because events in that region would have a direct impact on their interest.
- **Asian emerging markets are not** in the direct line of fire and are more influenced by Asia specific events like the rising Yen or the falling China PMI.
- Similarly, **the Vietnam market is impacted more by country factors** such as moderate GDP growth, low inflation, and stable currency. And these elements make up a macro framework that has been, and will continue to be, investment friendly.
- While not pretending to be a geo-political analyst, we think that **Ukraine is unlikely to evolve into a full blown global crisis**. Nobody's interest is served by such an event. Mr. Obama, despite his tough talk about "consequences of Russian actions", knows full well that Ukraine is thousands and thousands of miles away and is not a vital American interest. And Mr. Putin, playing with a strong hand because Ukraine is in his back yard, can afford to remain calm and wait for the cards to crumble his way. As for the EU, it knows where its gas is coming from when looking forward to the many cold winters ahead.

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