Vietnam
Brexit impacts: Unlikely as big as talked

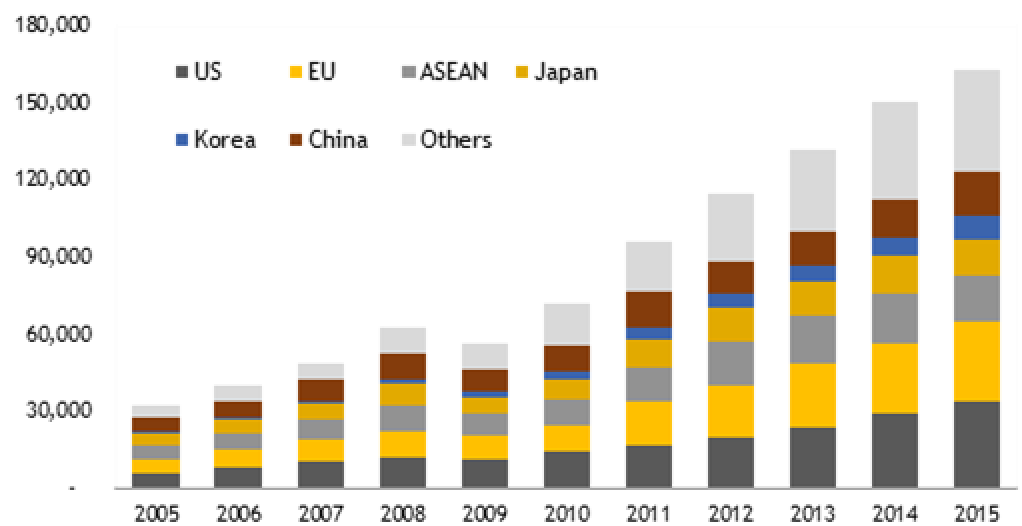
As the UK will vote to leave or stay with the EU in the upcoming In-Out EU referendum on 23 Jun, the impacts, if it so decides to leave the EU, on Vietnam's overall economy and equities market would be relatively muted in our view. Rather they [Vietnamese economy & equities market] will be more driven by internal factors including credit growth, GDP growth, fiscal balance, corporate earnings and other domestic events. Most importantly, 2Q16 macro numbers will be released mid next week and the first meeting of the newly voted 5-year Parliament will kick off on 20 Jul.

For regional perspective of Brexit impacts, please refer to our linked reports at Who owes Europe What?; Who owes Europe What?

For the case of Vietnam specifically, some have talked about potentially more negative impacts of Brexit on Vietnam being No.2 in the region in terms of exports/GDP to the UK including Capital Economics. We however share a quite opposite opinion. In short it is mostly due to the fact that "we [Britain] are not that of significant in the Vietnamese scheme of things", as quoted by Andrew Rawnsley. And this is correct from both economic and political point of view. Details are following:

(1) Vietnam has been able to increase its exports to the UK at nearly 17% CAGR in 2008-15, reaching a record high of USD4.645b in FY15, contributing about 15% of Vietnam's export to the EU last year. This should be viewed positively, not negatively, as EU is among those more demanding export destinations for Vietnam's exporters. Such achievements are indeed very applaudable attempts and improvements of Vietnam's governments and enterprises.

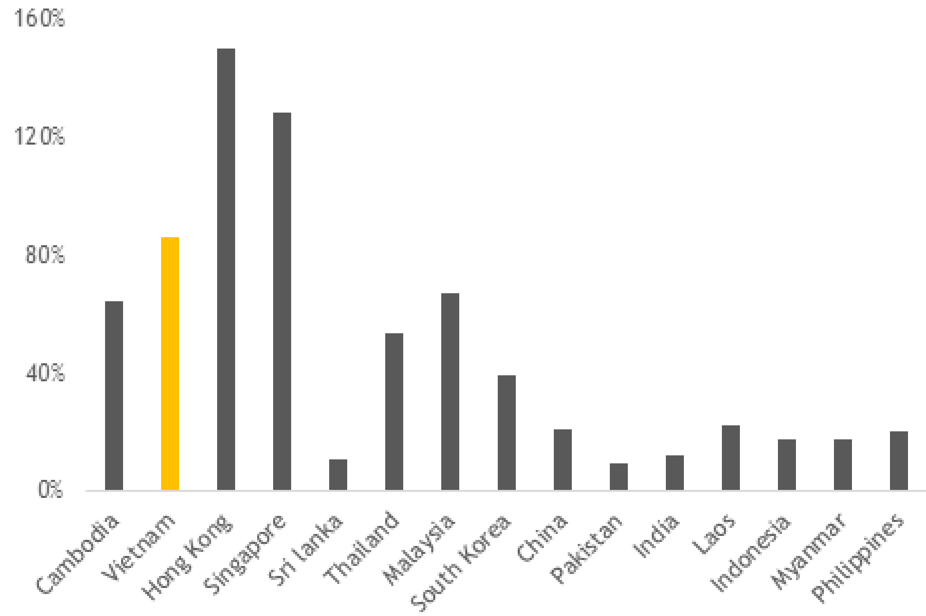
Figure 1: Vietnam's export by key destinations (*USDm*)



Source: GSO (EU data incl. the UK)

(2) Vietnam's relatively strong trade tie with the UK, indicated by export to the UK/total GDP, as cited by some studies/media, has been driven by Vietnam's larger economy openness compared to most other economies in the region. This, in turn, was supported by the country's unrivalled export expansion which has growing over 5 folds in the last decade.

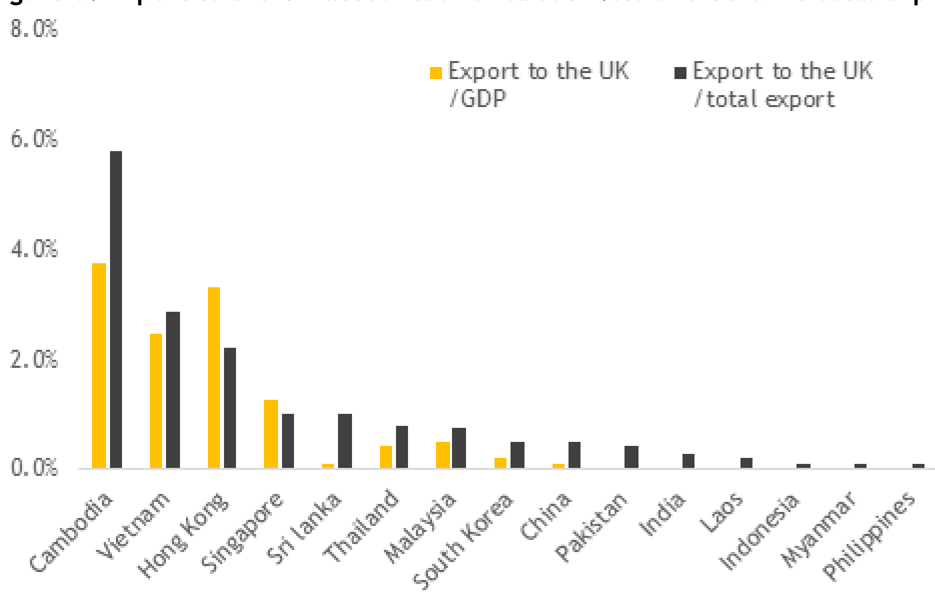
Figure 2: Vietnam's export/GDP is only after Hong Kong & Singapore in the region



Source: CEIC, WB, ADB, GSO

As the total export base enlarged and diversified, export to the UK accounted for about 2.5% of Vietnam's total exports by the country in 2015 only, despite its strong growth in the recent years.

Figure 3: Export to the UK accounted for about 2.5% of Vietnam's total export last year



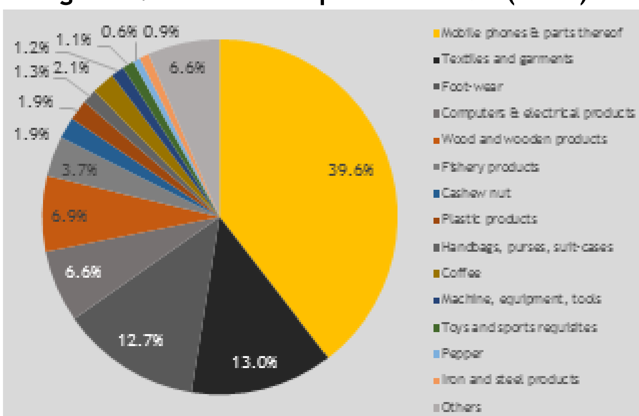
Source: CEIC, WB, ADB, GSO

(3) Less dependent (on Brexit) export (to the UK) and import (from the UK) structure:

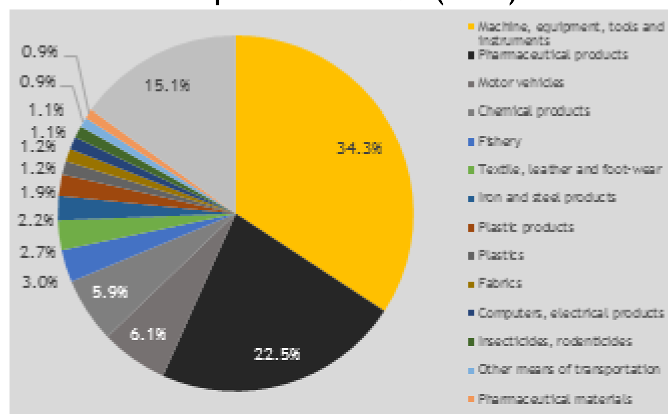
To begin with Vietnam has maintained trade surplus with the UK of USD3.9b in FY15 and USD1.7b in year-to-May 2016. As figure 4 below shows nearly 47% of Vietnam's exports to the UK was telephones, computers, other electrical products & parts thereof. These product categories are more driven by specific performance (new models) of multi-national manufacturers such as Samsung, Sony, Toshiba, Foxconn rather than Vietnam's relevant trade deal(s) with the UK as part of the EU or on stand-alone basis. The next largest export items namely textile & garments, foot-wear and wooden products would be more resilient by nature.

On the import side import from the UK accounts for slightly over 4% of total import into Vietnam only. Most of the items could be replaced with relative ease should anything occur to the supplies.

Figure 4: Vietnam's export to the UK (FY15)



Vietnam's import from the UK (FY15)



All in all we think impacts from Brexit, if it happens, on overall trade for Vietnam would be therefore likely insignificant from trade with the UK point of view. Note also that we had previously highlighted Vietnam's export performance is more driven by product categories such as handphones, computers & other electronic products, agriculture, textile etc. rather than country specific where the UK is not an exception.

That said biggest implication for Vienam if the UK leaves the EU would be relating to the outlook of the EU-Vietnam FTA. The deal, among the most sophisticated and advanced trade agreements, was concluded December last year with the text being available to the public in early Jan 2016. However as it has not been ratified by the European Parliament, negotiation may have to start again separately by Vietnam & the UK and Vietnam & the EU [without the UK]. In either case this will be likely timing difference for administrative process rather than negotiations being undertaken all over again.

The second largest implication may be on the FX front, at least in terms of short-term volatility. Maybank Kim Eng regional FX research team estimates that SGD, IDR and VND are among the least affected by Brexit. More details could be found at FX Asia Weekly - Awaiting the outcome of the UK referendum.

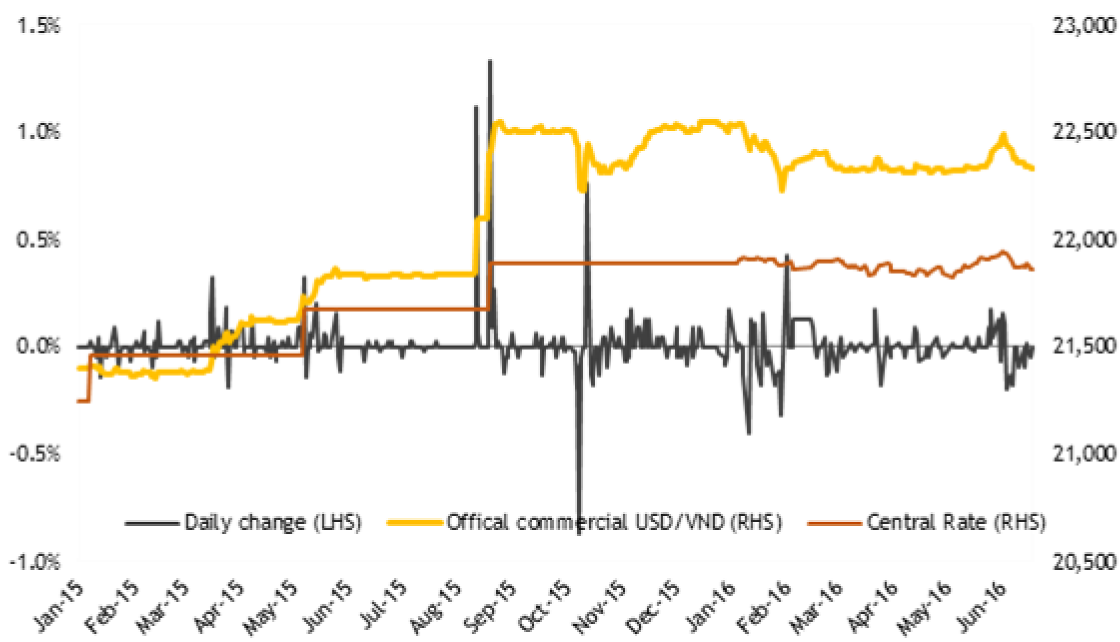
Figure 5: Brexit or Bremain - Most regional currencies are susceptible (% - "+" appreciation / "-" depreciation)

Currencies	Brexit (1)	Bremain	
		Slim (2)	Large (3)
GBPUSD	-12.0%	4.0%	6.0%
IDRUSD	-1.4%	0.5%	0.7%
MYRUSD	-2.9%	1.0%	1.8%
PHPUSD	-3.1%	1.1%	1.7%
SGDUSD	-0.3%	0.1%	0.3%
THBUSD	-1.8%	0.6%	1.0%
INRUSD	-5.7%	2.0%	3.1%
CNHUSD	-5.2%	1.8%	2.8%
KRWUSD	-4.3%	1.5%	2.4%
VNDUSD	-1.4%	0.5%	0.8%
JPYUSD	11.7%	-4.1%	-6.0%

Source: Bloomberg, Maybank FX research

Indeed we would like to highlight again our view that VND/USD will be more driven by trade balance, which has been in a surplus of USD1.6b in the first 05 months this year and people sentiment, which has been more internal event-led such as new government's policies and transparency towards both economic growth, attracting FDI, environmental issues etc. In particular the SBV's more accommodative stance in 2H16 to support growth and wider than previously estimated fiscal deficit may create pressure on Vietnam dong in the coming months. Year-to-date VND has appreciated 0.9% against the US dollar.

Figure: VND has appreciated 0.94% against the USD year-to-date



Source: SBV, Vietcombank, MKE collects

Similarly the equities market will likely also less impacted. In terms of capital flows from the UK and from the EU (x France), Vietnam and Thailand, as indicated in our report Who owes Europe What?, would have the smallest exposure. Rather it will be driven by domestic factors namely GDP growths, of which 2Q16 number will be released next week, credit growth, new government (and Parliament)'s initial policy makings and corporate earnings. In other words the VN-Index may have a higher chance of moving higher in 2H16. This is unchanged from our recent commentaries on credit growth and fiscal balances.

Should you have any queries please don't hesitate to contact us.