Vietnamese investors are in a more favourable financial position. Since the Doi Moi market reforms, the country has opened its economy to the world through the gradual privatisation of state-owned enterprises and attracting foreign businesses. (Photo: Hoang Dinh Nam, AFP)

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Stock Market Fever in Vietnam

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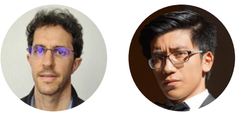

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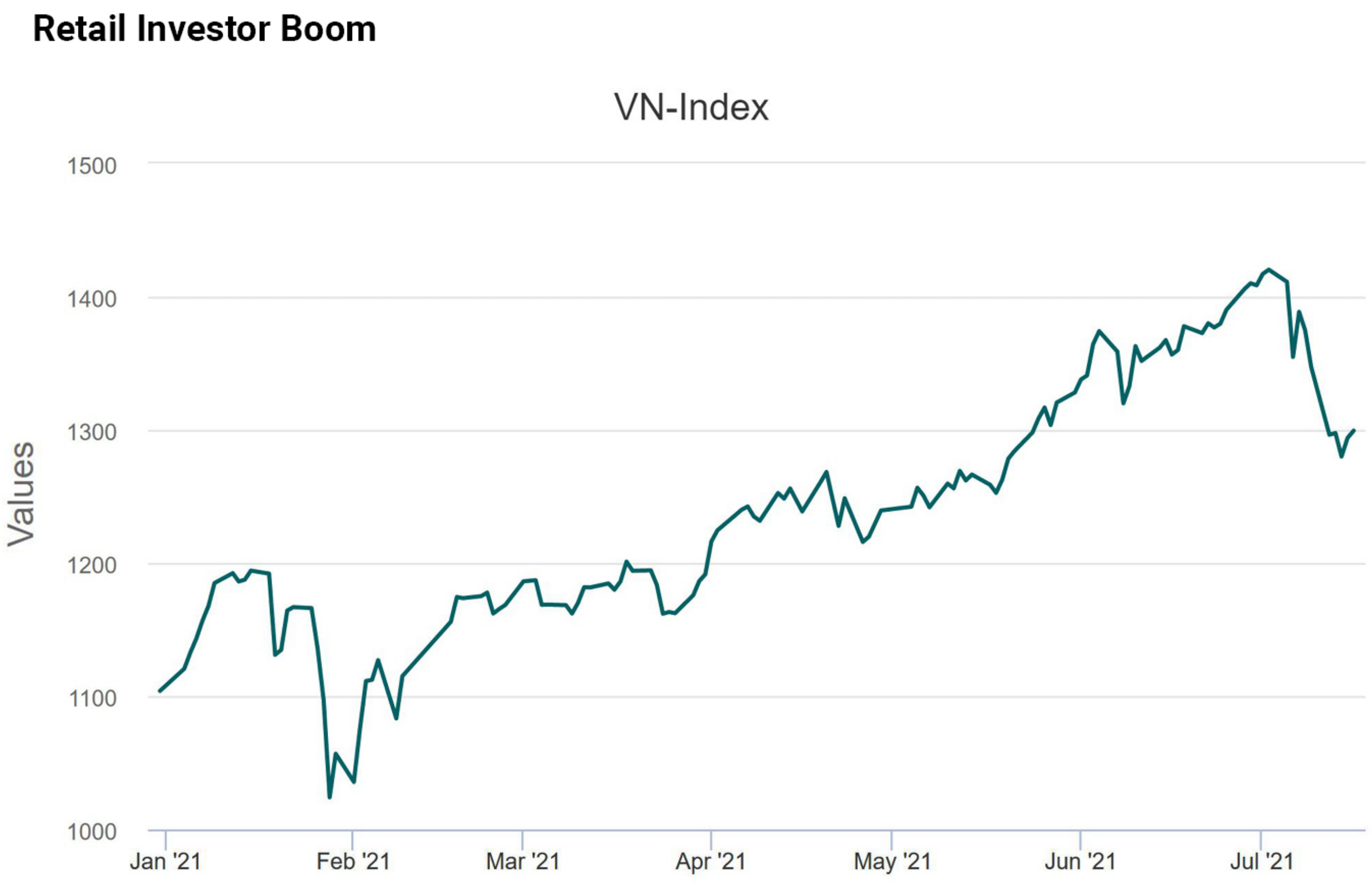
Covid-19 pandemic or not, Vietnam is seeing a buoyant stock market, thanks to a retail investor boom and an easy monetary policy.

While Vietnam battles a new wave of infections in the ongoing Covid-19 pandemic, the stock market is experiencing a wave of another nature: euphoria. In the first half of 2021, the country's benchmark VN-Index jumped **34 per cent**. The combined market capitalisation of the Ho Chi Minh (HOSE) and Hanoi Stock Exchange (HNX) —which is the smallest among the six largest ASEAN economies — have now grown faster than all major Asian benchmark indices. As of 2 June 2021, the VN-Index has risen to 1,374, an increase of more than 20 per cent compared to the 1,056 in January to 1,374. The index suffered a 2 per cent drop recently due to having closed its trading sessions earlier in the month. This remarkable development throughout the new Covid season begs the question: how did this happen, and why?

The Vietnamese stock market owes much of its growth to thousands of retail investors, many of whom have opened new trading accounts. The total number of retail investor accounts opened in the first five months totalled **500,000** — 10 per cent higher than the number of accounts opened in 2020. The number of new registrations total about 100,000 registrations a month, and has hit some 3.2 million accounts in total. The Vietnam Securities Depository reported that in May, the number of monthly new accounts amounted to 113,674 — a record. In the first five months of 2021, purchases by individual investors outstripped *corresponding trades* made by institutional investors, including foreign investors, securities firms and funds.



Source: vnexpress.net

The current surge in retail trading comes on the back of two similar instances in 2001 and 2007. Formerly known as "chickens" (*con gà*) ready for slaughter, these rookie investors are generally described as non-professional players with a superficial knowledge of finance, who therefore become prone to losses. This is evident given that foreign investors were responsible for the said significant gains in previous decades, during which most domestic retail investors simply adjusted their investment behaviour to follow suit. This time, however, most of the investments are now made seemingly by more domestic and individual speculators who overwhelmed the market. As a result, many foreign investors and securities companies withdrew from the market at the start of the year.

These enthusiastic yet aggressive greenhorn investors are now referred to fittingly by the moniker *F0*. The term is inspired by the country's Covid-19 contact-tracing designations (*F0* refers to an index case).

What motivated investors to be particularly interested in stock trades in the first place? One of the reasons could be the gradual easing of the monetary policy. To encourage business, consumer spending, and trade, the State Bank of Vietnam (SBV) seeks to keep interest rates at a minimum. In 2019, interest on bank deposits was over 8 per cent. In 2020, rates were cut three times. The SBV has recently asked the Vietnam Bank Association to slash interest rates further. They are expected to trend towards zero. Investors and consumers, therefore, will have little incentive to save, leading to low amounts of fund deposits.

> **Prior to the Covid-19 crisis which erupted in early 2020, mom-and-pop investors already saw great economic prospects. Vietnamese industries adapted to the new normal and weathered the externalities and disruptions caused by the pandemic.**

Vietnamese investors are also in a more favourable financial position. Since the Doi Moi market reforms in 1986, the country has opened its economy to the world through the gradual privatisation of state-owned enterprises and attracting foreign businesses. Many Vietnamese, having been fostered by decades of generational wealth, now have the opportunity to plough more of their earnings into equities. Additionally, the government's measures on social distancing may have led to a phenomenon where at-home Vietnamese citizens have found more time to fiddle with fintech apps such as LiveTrade and Finhay. With these platforms, curious and inexperienced investors can explore options to invest quickly and safely with a small initial sum of capital and enjoy high liquidity.

Prior to the Covid-19 crisis which erupted in early 2020, mom-and-pop investors already saw great economic prospects. Vietnamese industries adapted to the new normal and weathered the externalities and disruptions caused by the pandemic. In the first five months of 2021, Vietnam-based companies saw their exports to the United States and the European Union increase 50 per cent and 21 per cent respectively. In addition, there is optimism about Vietnam's capacity to sustain its export-oriented economy, which fuels the stock market. Analysts also predict that corporate earnings will grow by 30 per cent by the end of 2021, particularly for companies in the financial sectors.

Despite this promising development, there are a couple of risks. Domestic investors could contribute to an asset bubble. Amateur investors with little to no knowledge about equity finance may speculate in equity markets when returns are high. Conversely, their inexperience makes them susceptible to negative information and they might exit the market en masse when profits fall. The VN-Index regularly experiences corrections phases – a 6.67 per cent slide on 28 January and a 3.99 per cent fall on 6 July. Moreover, the problems in trading infrastructure remain to be addressed. The high volume of stock transactions combined with an inadequate infrastructure has led to outages and service disruptions at HOSE, creating some uncertainties. If anything, the advent of retail investors into the market underscores the need for financial education and the revamping of trading infrastructure in the (still bullish) bourse.

2021/184

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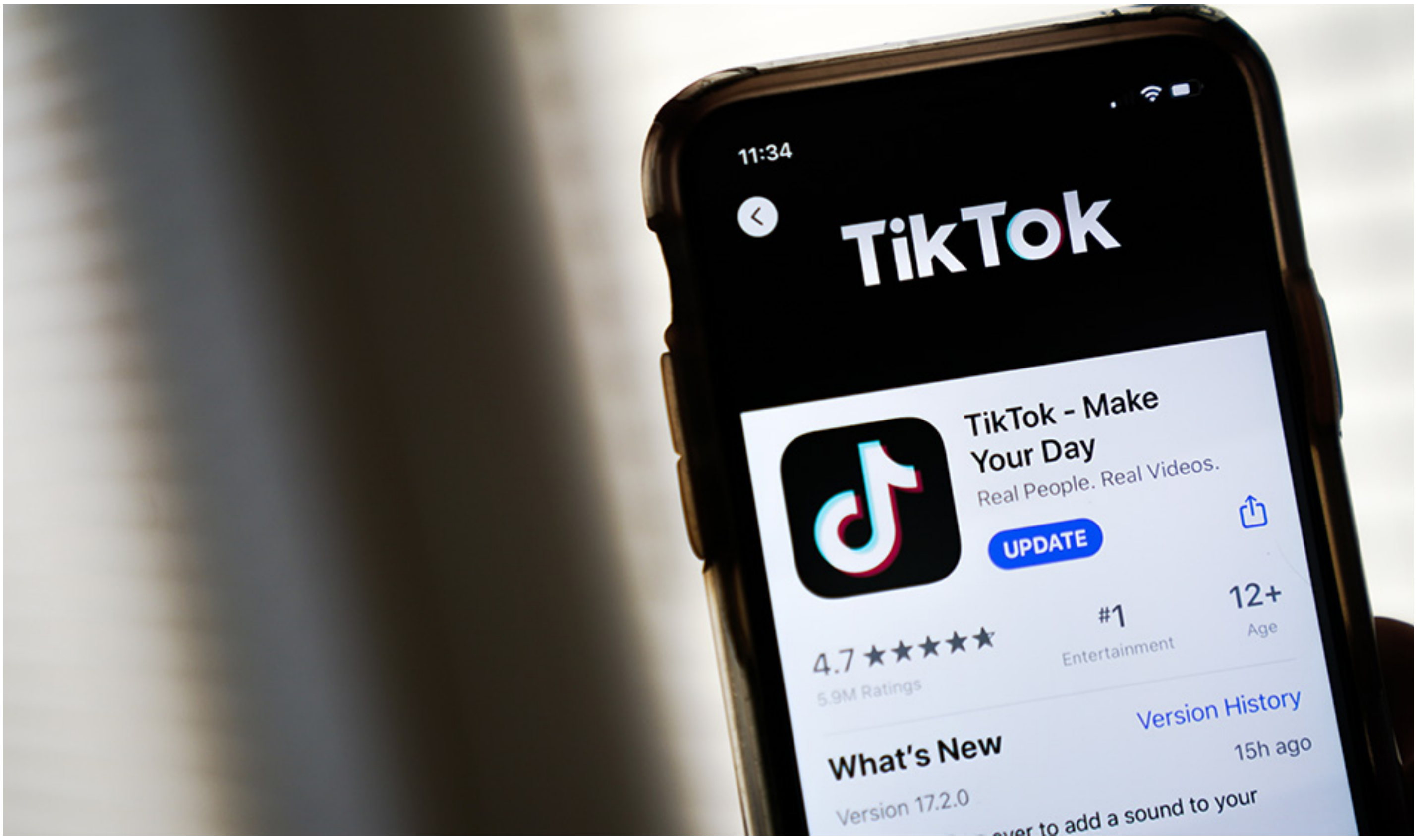

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