YSX Faces Growing Pains One-year After Inception

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Almost one year since trading began on Myanmar's Yangon Stock Exchange (YSX), the exchange has made marginal progress and faces headwinds. The exchange began with one trading stock, an investment holding company named First Myanmar Investment Co. (FMI), and his since grown to trade four stocks, two of which are banks and two of which are holding companies.

- The YSX opened for trading on 25 March 2016 at a value of 1,000 points and a market capitalization of 727.88 billion Myanmar Kyat (MMK), or approximately USD 527 million. Despite adding three companies to the exchange, its value declined 44% to 559 points and its market capitalization declined 8.5% to 665.76 MMK, or USD 482 million, as of 10 February.

- The YSX's monthly turnover ratio—a common metric used to evaluate a market's activity and defined as the total value of traded shares during a period divided by the average market capitalization for that period—during nine full trading months is, on average, 0.002%. For comparison, the average monthly turnover ratio during the first full nine months of trading on the Lao Securities Exchange (LSX), which opened in 2011, was 2.76%.[1]

- Another frequent approach to evaluate an exchange is to compare its market capitalization with the country's gross domestic product (GDP); using the ten months of trading activity of the YSX in 2016, the YSX had a market capitalization to GDP ratio of 0.9%.[2] The LSX during its first year of trading had a market capitalization to GDP ratio of 7%.

The reasons for the YSX's poor start almost certainly are multitudinous, and probably range from restrictive legislation to possibly-slowing economic growth to a lack of confidence in institutions.

- Foreigners, who comprise the bulk of Institutional investors—the people who typically move markets—are unable to invest in the YSX, leaving local retail investors as the primary market participants.

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[1] *The Lao Securities Exchange is used as a comparison for three reasons. First, it is one of the most recent securities exchanges to have opened in Southeast Asia. Secondly, Laos and Myanmar had similar GDP per capita at the start of their respective exchanges: USD 1,297 for Laos in 2011 and an estimated USD 1,227 for Myanmar in 2016, based on data from the World Bank. Finally, the LSX started with two stocks and has grown to five, while the YSX started with one and has grown to four.*

[2] *This assumes Myanmar's GDP grew 6.6% in 2016.*

- Myanmar's GDP growth rate reached over 8% in 2013, and has since declined, according to the World Bank. Furthermore, a Yangon-based economic consultant averred that a growth rate below the World Bank's forecast of about 7% was more probable, according to the Nikkei Asian Review.

- According to Frontier Myanmar, there is a lack of public trust in Myanmar's banking industry, and according to the 2016 annual report from FMI—the first company to list on the YSX—corruption plagues people's confidence and reduces investment.

Despite the YSX's disappointing start, the exchange currently is not at risk of closing. Furthermore, upcoming legislative changes should increase liquidity on the exchange and demand for its companies, although any improvement probably will be modest at first.

- The Central Bank of Myanmar, the Japan Exchange Group, which operates the Tokyo and Osaka securities exchanges, and the Daiwa Institute of Research, a Japanese think tank focused on finance, are joint partners in the creation of the YSX. Backing from these stakeholders should ensure the exchange's continuation and, hopefully, progression.

- In January, Myanmar's government updated the New Companies Act and submitted this legislation to Parliament for final approval, according to the Myanmar Times. This law will allow foreign individuals and institutions to invest in the YSX, which should increase market liquidity and demand for the shares of listed companies.

- Also, in April, Naypyidaw is expected to implement a new investment law passed in October 2016 that should foster domestic and foreign investment, as well as open more sectors to private investment, according to the World Bank.