January CPI up 1.74% m/m and looks to have peaked

- *January CPI rose 1.74% m/m and 12.17% y/y. This mark a mild deceleration of the m/m trend in December.*
- *The main drivers were education; food & foodstuffs; garment & footwear and tobacco and beverage.*
- *Of the subsegments, 4 accelerated m/m while 5 decelerated m/m.*
- *Importantly the m/m growth in the Food & foodstuffs index slowed a little since last month.*
- *With the Tet effect already largely reflected in the January number we believe that the February number should see a more pronounced slowdown.*
- *However bond yields and interest rates may take some time to respond.*

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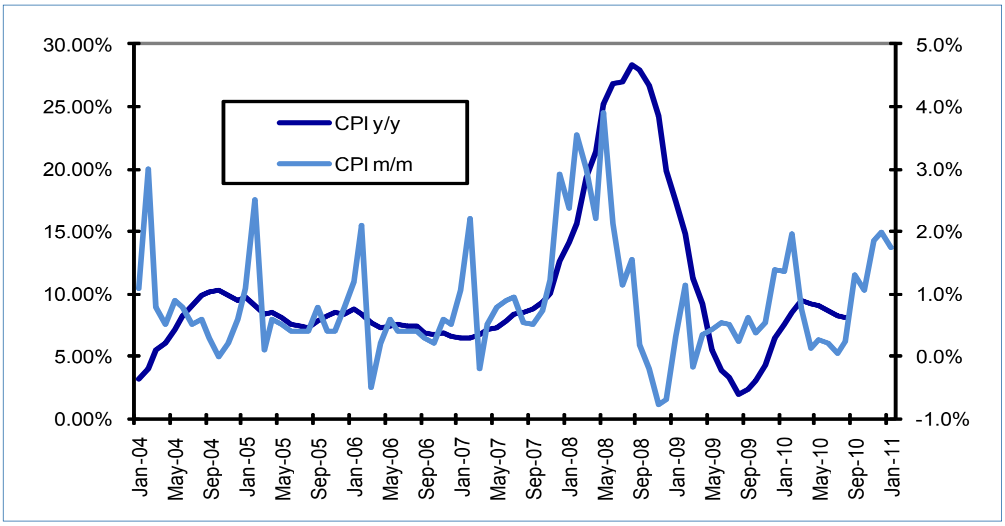
CPI - m/m and y/y trend



Source: GSO and HSC forecasts

January CPI first glance - still high at 1.74% m/m but the m/m trend looks to have peaked

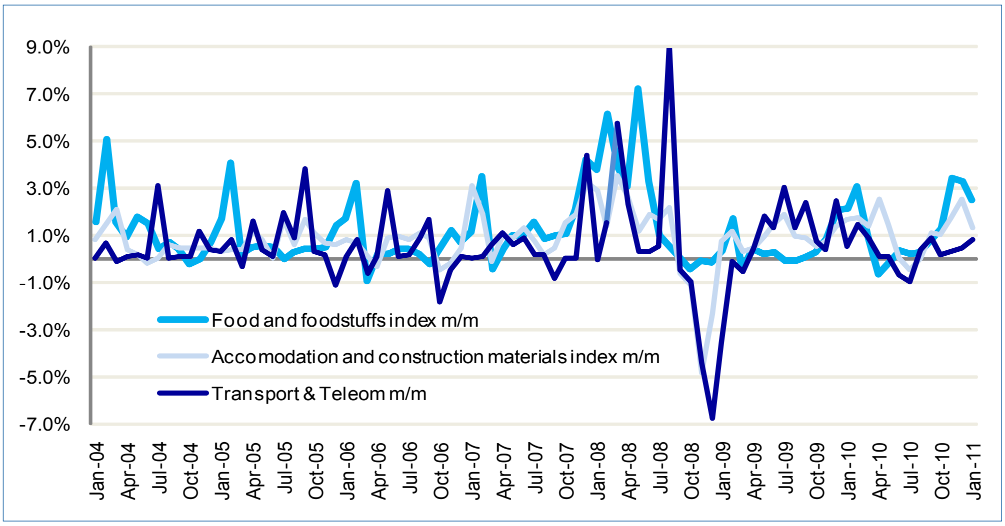
- The newly released January CPI for Vietnam rose 1.74% m/m and 12.17% y/y. This comes within our forecasted range of 1.5-1.8% and is lower than the 1.98% m/m increase posted in December. And as we expected, even though January CPI in HCMC was up just 1.01% m/m thanks to the active use of their price stabilization fund, the nationwide CPI number was a lot closer to the Hanoi number of 1.68% m/m. Apparently price stabilisation is not widely practiced outside HCMC.

- The pre-Tet price effects have been almost fully captured in the January CPI because the Tet holiday falls early this year at the very beginning of February 2011. The sectors with highest increases in prices this month were education items, food & foodstuff, garment & footwear, beverage & tobacco whose m/m price indices are 2.89%, 2.47%, 1.81%, and 1.67% respectively. The price increases in the later 3 sectors were much higher in the Northern Central & Coastal Central regions due to severe cold weather which began to affect them in late December 2010 and may last until after Tet holiday. Therefore we can now add cold weather to the other causal factors such as the currency; loose monetary policy and soft commodity price rises.

- The surge of 2.89% m/m seen in educational items needs a little further explanation. These increases were observed in two areas only, the Mekong delta and Northwestern areas, and this is not because of any seasonal effect but actually a one-off increase due to Government Decree 49/2010/ND-CP dated May 14, 2010 which officially applied increases in school fees in public schools in certain provinces such as Dien Bien, Quang Ngai, Ben Tre, and Tien Giang. This decree took effect on January 1st, 2011. The increases in other areas if you remember was felt in Q3 and early Q4 last year. We understand that this is the last of this for the time being anyway.

- Out of the 11 CPI sub-segments 10 were higher and only one; telecommunication was lower. We also note that 4 sub-segments showed an acceleration on the previous month while 5 showed a deceleration in the m/m trend. Most importantly perhaps the food and foodstuff index saw a slow-down in the trend on the previous month. Going forward, we expect m/m CPI numbers for February and March will be lower than that for January as prices are always marked down again post-Tet. February should therefore be the month that captures most of the drop.

Key CPI category trends – m/m



Source: GSO

- Whether or not this lower price expectations can translate into lower market interest rates and bond yields quickly remains a trickier question to answer. We believe that interest rates cannot be lowered as quickly in Q1 this year as in the past because the cost of funding for most banks are far higher to the effects of C13. Therefore we may have to wait until fairly late in Q1 before we see a meaningful decline in bond yields and market lending rates. Even so we have already seen some minor drops in bond yields albeit rather uneven and this clearly points to a peak in the current interest rate cycle. However, we do not expect to see a major reduction in bond yields as inflationary pressure itself will remain fairly steady this year according to our house view.

Accelerations	December 2010	January 2011
Beverage& Tobacco	1.3	1.67
Transport & Telecoms	0.45	0.81
Educational Items	0.07	2.89
Cultural and Recreation items	0.51	0.58
Decelerations		
Food & Foodstuff	3.31	2.47
Accommodation & construction materials	2.53	1.33
Household appliances	0.86	0.77
Healthcare. pharmaceutical items	0.41	0.36
Other goods & services	1.06	1.04
Neutral		
Garment. hats. footwear	1.81	1.81

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