APRIL: ANOTHER TRANSITIONAL MONTH FOR THE EQUITY MARKET?

MARKET MARCH 2011 SUMMARY

March is another disappointing month for the equity market when the trend was slightly downside. VN-Index closed around the opening of the month, and nearby the bottom of February. HNX-Index also fell to a lower bottom in March, though the gap is insignificant.

Liquidity has been slowly increased, but the trading volume is still in the low range. On average, the volume for HOSE and HNX was 30 million and 29 million shares traded per day respectively.

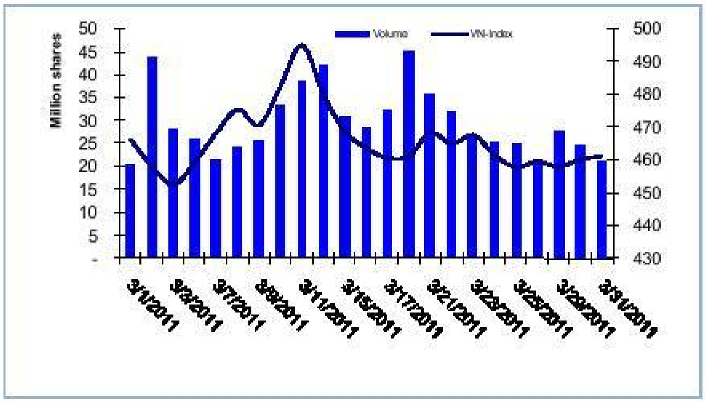
In March, foreign investors were both net seller and net buyer across trading sessions. However, they tend to buy more than sell by the close of the month with marginal volume. Probably, that aims at protecting the NAV since some institutions' financial year closes at 31 March. During the month, we observed strong portfolio restructuring efforts from foreigners, especially ETF. They purchased high volume of CTG, VCB, VCG, GMD, etc while sold out BVH, REE, etc. Beside, they also participated in short-trading for some stocks in the securities sector such as SSI, KLS and BVS to lower the average cost price.

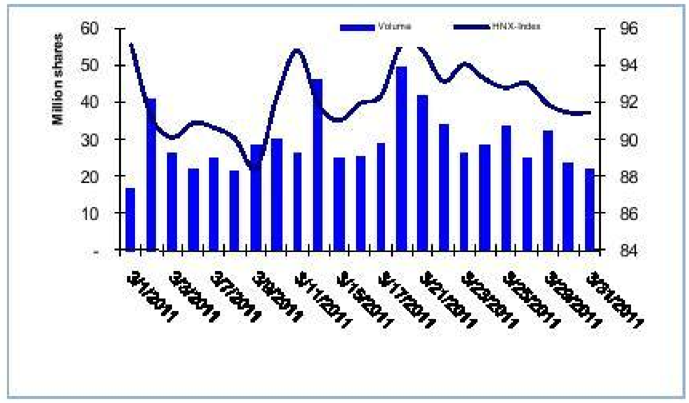
During the first 10 days, VN-Index was supported by the large caps such as CTG, VIC, BVH, VPL, etc while HNX was trading almost at par. In the following 10 days, the reserve was true for VN-Index due to the selling pressure from foreign investors and the cash flows from local investors aiming at mid and small caps on the HNX such as SHN, VND, HDO, NHA, TNG, and VCG. For the remaining time of the month, the market was fairly doomed with the slight drop on the both exchanges.

The top gainers were PVV, NHA, PVG, and HDO. PVG was the focus of the month after selling PGD to earn abnormal income. The rise of PVV, NHA and HDO followed very similar patterns when rising to the new height after every 2-3 adjusting sessions.

Also during March, mineral stocks outperformed significantly, especially with the performance of BMC since there was news that Titan could be exported again at lower tax scheme. However, the 'wave' was fairly short for the whole sector except for BMC.

The SBV issued many decisions and legal instructions to regulate the monetary market in March. As a result, the interest market was very hot with deposit rate effectively exceeded 14.0% p.a. On the other hand, the bond market was very quiet due to the narrowing margin. The semi-floating of petro and electricity price, though negatively affecting the equity market, could help the national economy in the medium and long run.





Market performance in March- Source: SMES

MARKET APRIL 2011 OUTLOOK

The equity market, by both performance and liquidity, was heavily impacted by the macroeconomic factors in Quarter I/2011. It seems that the macro outlook continues to be the key for the cash flows from both local and global investors. In 2010 and 2011, the adjustments of monetary policies all depended upon the Consumer Price Index (CPI) movements. Many investors expected that April would be brighter after listed firms release earnings and inflation gets stabilized from the peak 2.17% of March. However, after the surprising heat of the fresh food price from the middle of March and the further increase of the petro price by approximately 10% end of the month, the more positive prospect of the market is likely to be another 1-2 months delayed. In our view, unless inflation cools down to less than 0.6% per month for at least 2 consecutive months, the State Bank of Vietnam (SBV) would not be rush to take any loosening actions. Hence, if the macroeconomy remains the main concern of investors in the short run, the April equity market outlook will not have many opportunities to move from the base of March in both return and liquidity.

Our comments on April stock market are based on 3 different approaches: Fundamental, Behavioral, and Technical.

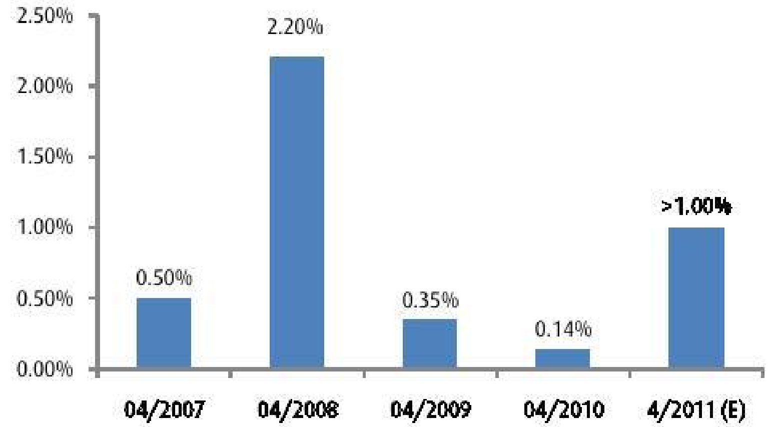
Fundamental Point of View:

The stock market in April is influenced by the following factors:

Little expectation over the surprising performance of the local economy in April compared to March

It is likely that most of the macroeconomic policy adjustments that can negatively impact the short-term equity market the most did happen in February and March. However, the financial market is influenced not only by the timing of the policies but also their outcome. To control inflation and the valuation of VND, recently the Government took strong actions such as increasing the base cash rate, tightening credit growth to below 20% - especially for the real estate and equity market, controlling the gold and FX market, raising the price of electricity and petrol to lower subsidies, etc. Although such policies turned out to be effective to some extent, the economy has been under huge pressure and it might need at least 1 or 2 months extra to prove the efficiency. After the new petro price adjustment by about 10% on 29 March, the most reasonable action of the SBV is to 'wait and see' under strict price supervision. We hence do not expect too much over the short-term performance of the local equity market though also agree that the probability of further crash is low.

- **Inflation**: This is the key for all the monetary policy adjustments over the past year, and a critical signal for any turnaround actions from the SBV in the coming months. During February and March, many investors looked forward to a positive scenario in April that inflation would cool down to the average of 0.6% from Quarter II, opening opportunities for the SBV to intervene to decrease the interest rates, solving problems for the difficulties in the operations of enterprises. However, the continued hike of the food price to almost 20% - 30% just within the last 2 weeks of March plus the new petrol price, it is too early to expect the CPI of April lower than 1%. It means that if the SBV wants to control 2011 inflation at 1-digit number, the CPI of the remaining 8 months must be lower than the total of the first 4 months. The plan will become much more challenging if the SBV eases the policies at this stage.



Inflation rates of Aprils 2007 – 2011(E)

- **Interest rates**: Due to the above reason, April's interest rates might continue to hold the closing of March since 'cheaper' funds yet abundant though small banks have attempted to attract deposits at the rate higher than effectively 14%. In order to cool down the interest market, the SBV needs to take actions. This seems too early since they need to wait at least until inflation becomes under control and there are more sustainable solutions for the FX and gold market.

- **Cash flows into the equity market**: Cash flows into the equity market do not need to purely depend upon the credit growth. In 2010, the funds mainly came from retail and foreign investors, which do not originate from the bank loans. It implies that the decision of the SBV to tighten the credit in 2011 is not as serious as it seems to be. The issue at this stage is that the cash flows from foreign investors rely on the macroeconomic stability and growth while such from local retail investors are highly psychological. Currently, both local and global economy staying not very favourable in line with low liquidity on the 2 exchanges are hindering the cash flows into equity in the short run. For active short traders from 2010, they are being trapped in the portfolios with the average loss of 20% - 30%, so the trend is to wait and sell down the position rather than further investments. For new investors, the market is still sensitive for non-experienced traders, so the optimal strategy is to wait. Therefore, in April, unless liquidity is significantly improved, the ups or downs of the Indices have less meanings.

When could we expect on the turnings of the macroeconomic outlook?

The answer for the question above implies the timing for the 'buy' signals. As analyzed above, the underlying reasons for all the current policies come from the occurrences of inflation and FX in 2010. Hence, the outlook could be brighter only when those factors are adequately solved.

- **Inflation could become better controlled from 5/2011**: while most of the adjustments from the petrol and electricity price increase in February and March was reflected into March's CPI, the story seems yet stopped. The complicated performance of the price of fresh foods in Hanoi and HCMC recently together with 10% increase of petrol price end of March might push up April inflation to the new height compared to the same period of previous years. If April's CPI is under 1.0%, it could be considered very successful. In our view, unless the global economy becomes worse, inflation will start to be stable from May when all goods and services are all adjusted to the new level. The purchasing power has dropped recently due to the high price, so it is expected that any further price hike is less likely to happen.

- **The FX market might be under strict control and remains stable until the end of the year**: In March, the unofficial FX market was vigorously controlled. As a result, the quotes went down close by the listed rates with extremely low liquidity. This is clearly not a sustainable long term approach. The SBV will need to consider new attempts to enhance the effectiveness of the FX market, both from regulating the demand – supply balance for the requirements of enterprises and individuals and the National FX Reserves.

- **Monetary policies might be gradually adjusted from 6/2011**: In general, the SBV needs to observe the performance of the CPI for at least 2 months before taking any new directions under complicated macroeconomic environment. If inflations cools down from May, the SBV might start intervening into the interest rate market from June to help firms approach funds for operations. Although the equity might not get as much loan as other sectors, it has strong psychological effects, which can dramatically enhance the liquidity of the market. Hence, a more proper timing for fund disbursement might be deferred additional 1 or 2 months.

The impacts of QI/2011 earnings release and the AGM's business plans on the equity market in April?

As we mentioned in the Monthly Investment Strategies – March publication, April continues the peak of the AGM. This is also the timing for QI/2011 earnings release. Quarterly earnings releases should always have stronger impacts than the business forecast news due to:

- The yearly business plan of local listed firms have proved to be not very accurate in recent years, so they have more referral meanings; investors are cautious in using those information for short run investment decisions.

- However, the QI earnings is a crucial fact to support the announced 2011 business plan feasibility of listed firms, also illustrates the impacts of the macroeconomy on the business performance.

- The performance of firms in QI is also very critical in identifying the sources of cash for dividend payment of 2010.

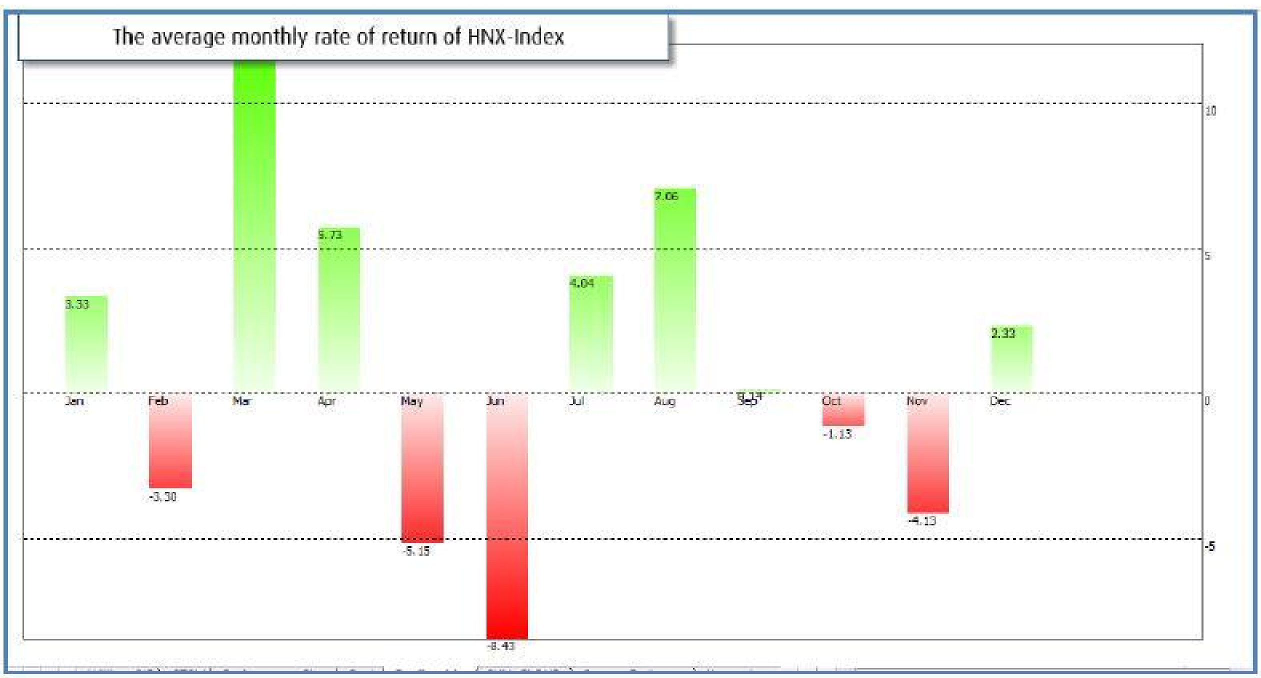
Under the environment of QI/2011, we forecast securities and fund management firms will be heavily impacted, most of whom will incur loss since market liquidity was low (low brokerage revenues) and the prop trading portfolios have decreased by almost 20% - 30% on average. Real estate sector might also have poor performance because QI is normally the most quiet period of the year and the market so far has been very doom. On the other hand, some sectors might still perform well including F&B (high consumption season), telecommunication & IT services, and natural resources (price has been up).

Overall, since April is forecasted to be under continued macroeconomic pressure same as in February and March, it is hard to expect any surprise in the share performance. Investors who have survived to this stage are not willing to sell down the portfolio after the loss of up to 50%. On the other hand, the high opportunity costs versus bank deposits together with the sensitivity and risks from the macroeconomic policies are hindering buyers to place aggressive orders. The conflicts between buyers and sellers will create liquidity issues for the market. In our view, this is not a proper time for short trading and financial leveraged investors, but might be under consideration of medium and long-term buyers searching for the gains in the second half of the year if the economy goes to the right direction.

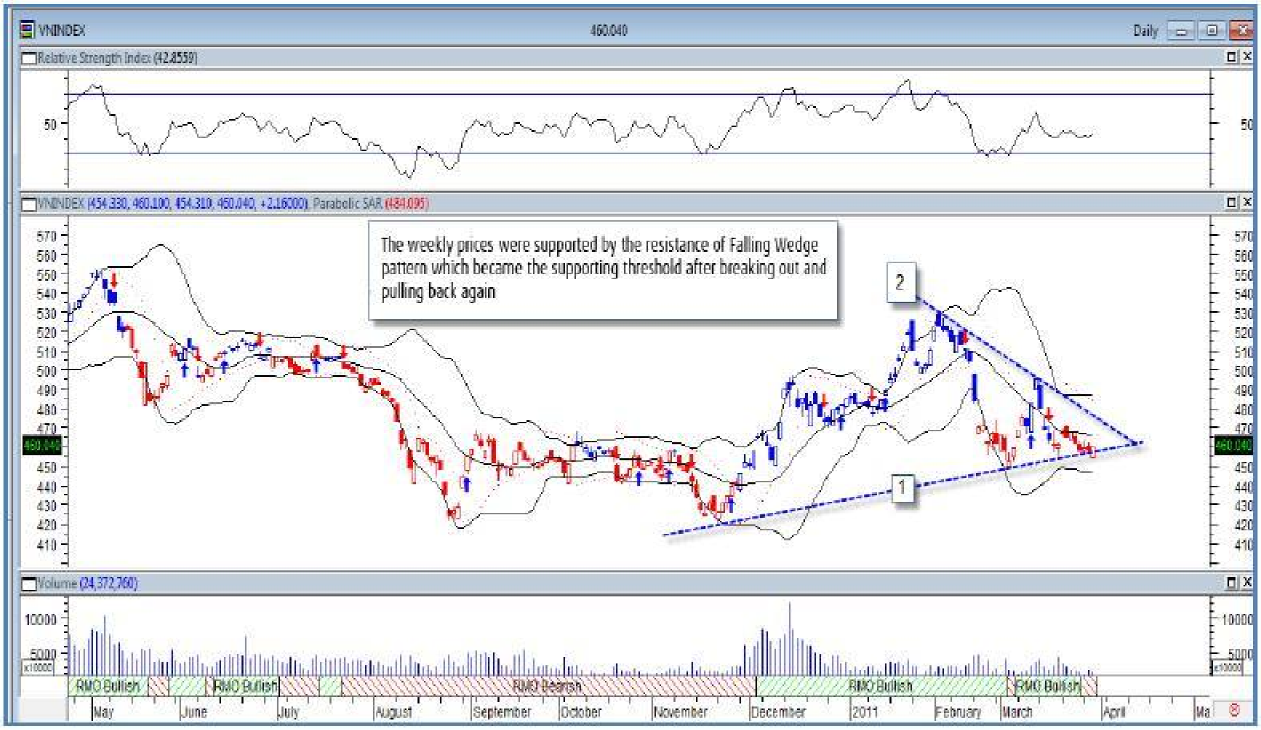
Technical Point of View:

The average monthly rate of return of VN-Index

The average monthly rate of return of HNX-Index



VN-Index daily chart



VN-Index weekly chart

HNX-Index daily chart

Although Vietnam's stock market in March closed at its lowest level and the market did not change significantly, the volatility in March is stronger than in February. The trading volume in March also increased compared to the first two months of the year 2011, therefore the cash flow shift has appeared (at least additional VND 2,000 billion in cash dividends of listed companies). Alternative investment channels such as the gold market and USD still keep silent. The real estate channel, only a number of areas in Hanoi such as Soc Son, Dong Anh and Gia Lam are creating waves with bubble prices, but in reality, the willing supply seems to be overwhelming in comparison with the demand. Condominium market in Hanoi continues to depreciate owing to the increase of suppliers, while the real estate market in Ho Chi Minh City is still frozen. Above, we have calculated the average monthly rate of return of VN-Index and HNX-Index, it can be seen that April is the month that has the highest rate of return for years. That historical statistic is a reference data for investors, though history might not always repeat. According to the technical analysis, the daily VN-Index chart follows the Flag/Pennant model and there is no signal of "Break Down" or "Break Out." Current fluctuation is also reaching the final tipping point; the market will exit the recent side-way trend and move across to the other fluctuating trend. The weekly prices were supported by the resistance of Falling Wedge pattern which became the supporting threshold after breaking out and pulling back again. If the VN-Index rises from the recent supporting threshold, that is a good technical buying signal. In HNX-Index, the weekly chart is showing the appearance of positive divergence with warning reversal, other indicators such as Stochastic, Williams% R is in the "over- sold" area and ready for a bullish reversal. Based on the speculative and liquidity signal in March, and the recent positive technical signals, we can expect the positive trend of the stock market in April. Even so, investors should note that the macroeconomic factors at the present are quite negative. The evolution of the stock market usually precedes the macroeconomic factors. Consequently, the investors should care about the liquidity of the speculative stocks. The improvement of the trading volume over the average liquidity of the speculative stocks is the identification of the return of market. The notable time of the current downtrend trend are 06/04; 15/04; 25/04.

Behavioural Point of View:

Investors' psychology is presently affected by the macroeconomy, so the outlook of April might continue to reflect what has happened in February and March. Buyers are cautious, not trying to buy at any price and sellers are optimistic about the long-term recoveries since price has dropped too deeply. The conflict in the behavior of buyers and sellers will insert pressure on the April liquidity. If the trading value remains under 2,000 billion VND/session, the ups and downs of the indices are simply instable.

Based on the behavior of investors, we recommend:

- Investors with small budget should only participate in the market once the overall psychology of investors recovers. The signal could be observed when the market can maintain liquidity of over 1,500 billion VND/session for 4 consecutive trading sessions, then increase to over 2,000 billion VND.
- Investors who want to search for the 'floor' or heading medium and longer term strategies should continue to buy when the liquidity dries. The exhaust of the liquidity means the mismatch between supply and demand – history has shown that the market always recovered very quickly once supported by the series of good news.

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