

ASIA PACIFIC ECONOMICS VIETNAM MONTHLY CHARTBOOK

8 JUNE 2011

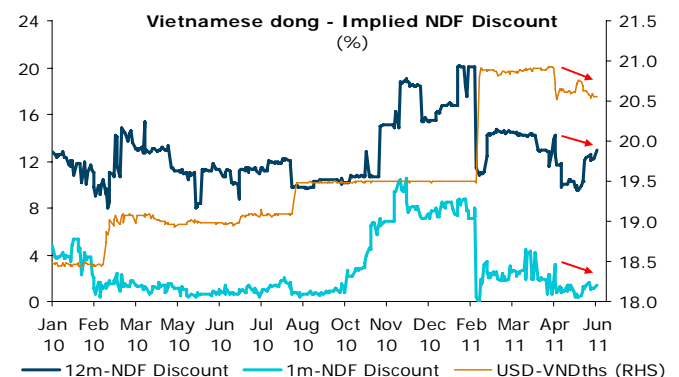
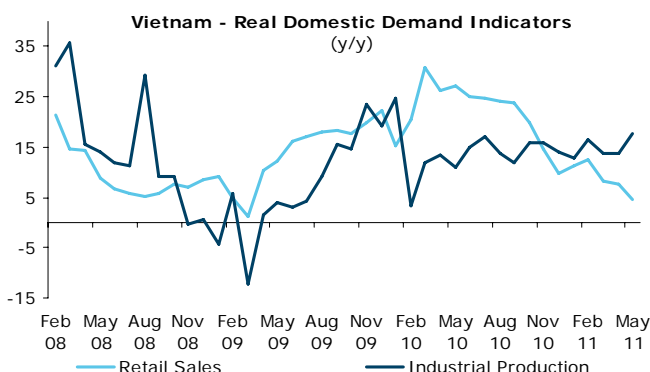
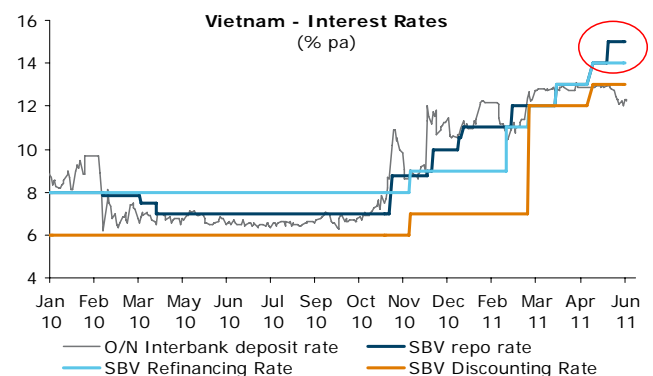
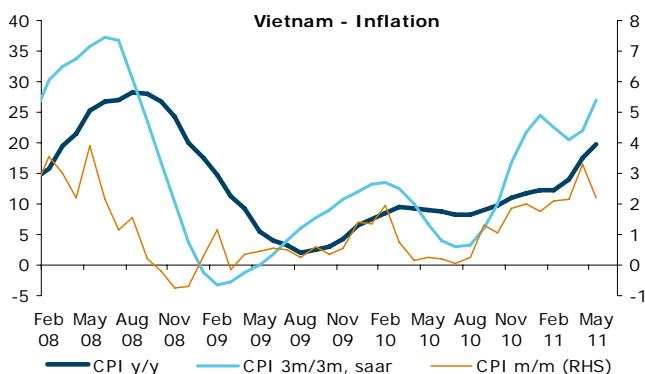
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INFLATION HAS YET TO PEAK BUT REAL ACTIVITY SLOWED; MORE TIGHTENING DONE

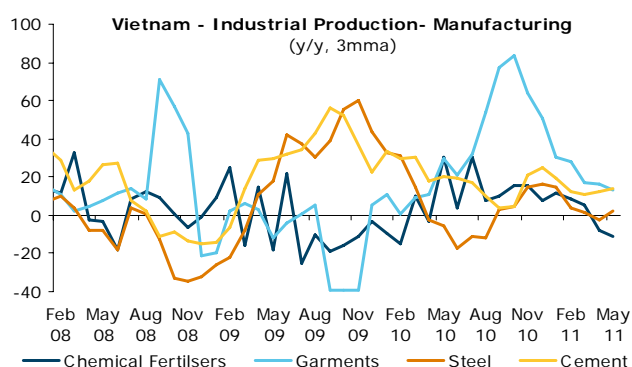
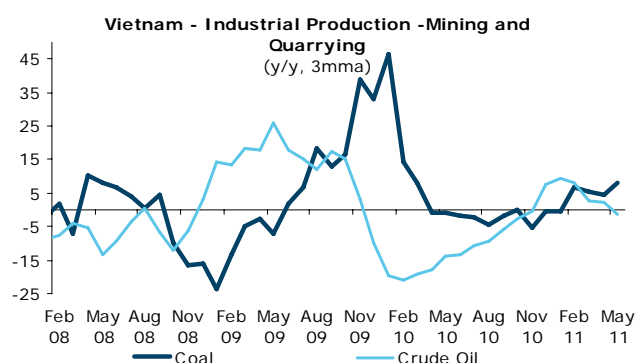
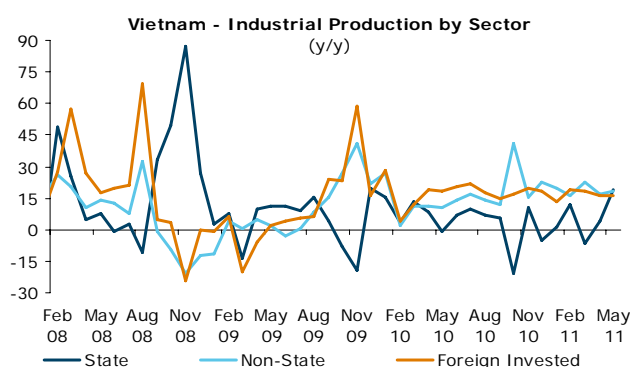
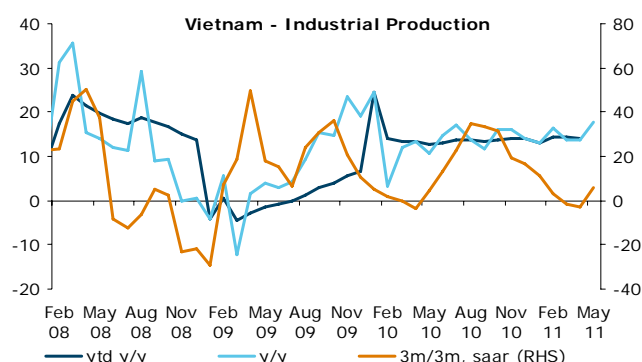
- May CPI inflation surged to 19.8% y/y from 17.5% in April. Inflation momentum also increased further, suggesting that headline inflation has not yet peaked.
- Real activity continued to be on a moderate growth path. Meanwhile, import growth outpaced export growth for the first time in 13 months and the monthly trade deficit widened further to \$1.7bn.
- The State Bank of Vietnam (SBV) raised its repo rate in May, again by 100bps to 15.0%, but kept its refinancing and repo rates unchanged. The government now targets 2011 inflation at 15%, and GDP growth at 6.0%; this is much more realistic than the previous targets of 11.8% and 6.5%, respectively.
- The USDVND rate appreciated slightly in May. Noticeably, the implied NDF yield curves inverted in May, and the 1-month NDF market is not pricing in a devaluation. Meanwhile, the SBV raised the reserve requirement ratio on USD deposits and reduced the rate caps on USD deposit, again.

FEATURED CHARTS OF THE MONTH



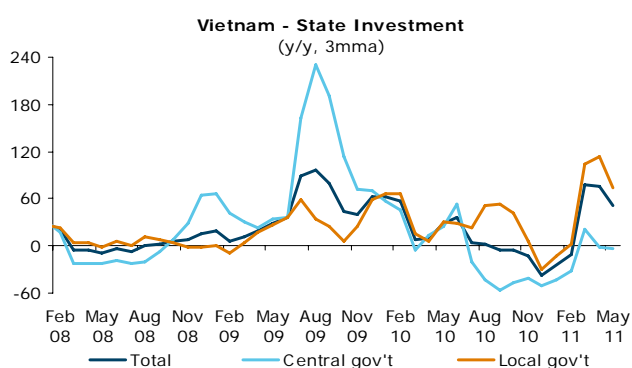
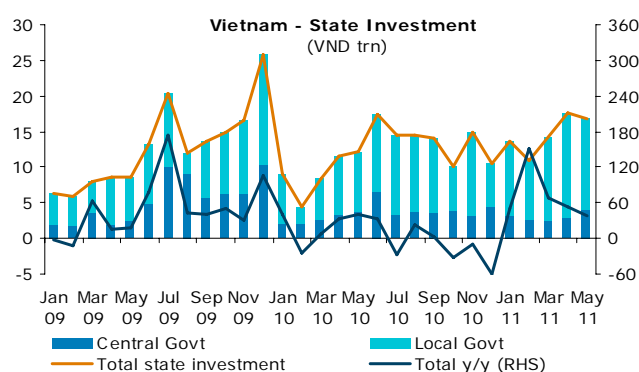
INDUSTRIAL PRODUCTION: MANUFACTURING IP GROWTH SLOWED

- Industrial production (IP) growth surged to 17.6% y/y in May from 13.7% in April as growth in the state sector jumped. On a momentum measure, IP growth rebounded from a seven-month decline. However, on a monthly basis, IP climbed 3.4%, down from a 4.5% gain in April. Growth in the dominant non-state and foreign invested (FDI) sectors stayed somewhat flat.
- Growth in manufacturing industries slowed, led by chemical fertiliser production. Meanwhile, coal production growth surged to 8.1% y/y, 3mma, whereas crude oil production contracted for the second straight month.



STATE INVESTMENT: PUBLIC INVESTMENT REMAINED ELEVATED

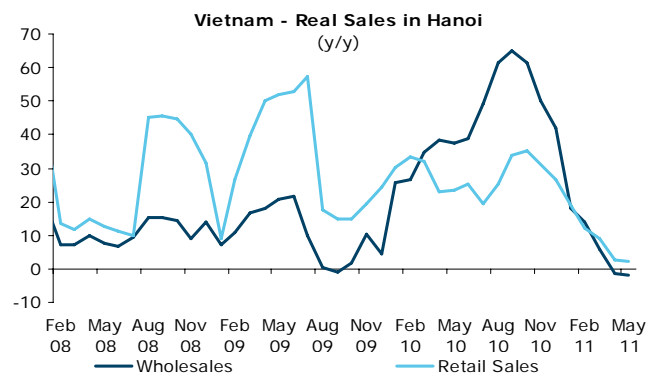
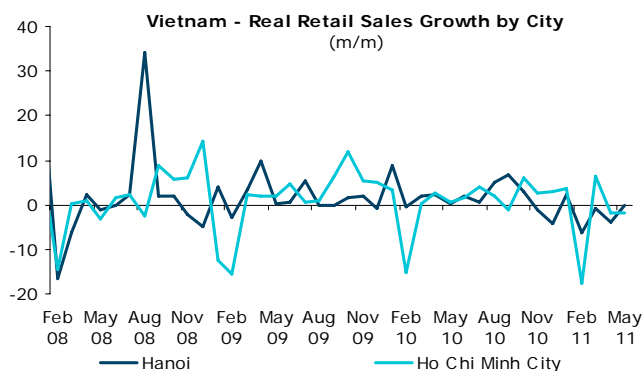
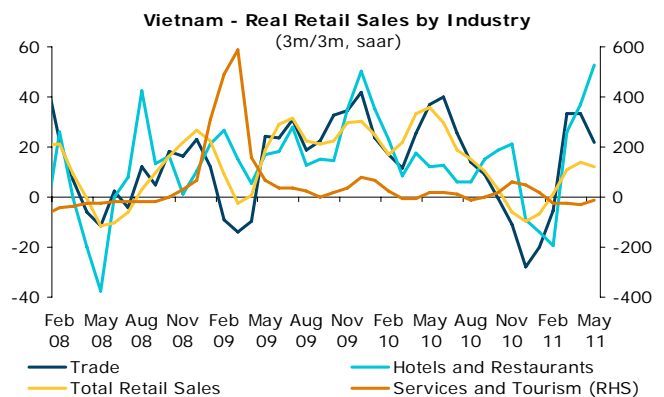
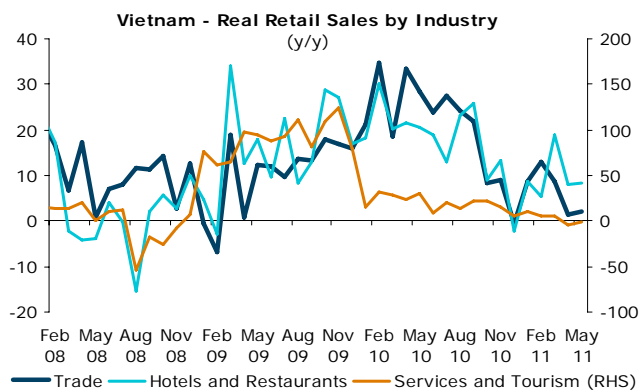
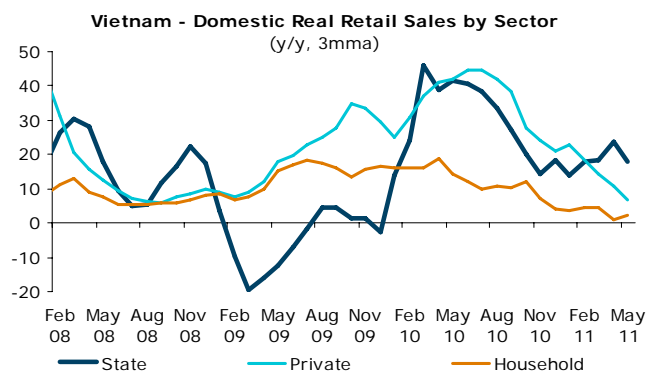
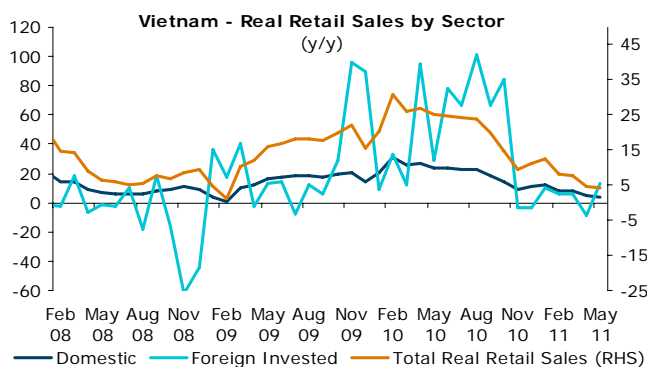
- Vietnam's fiscal setting does not appear to be aligned with its tightened monetary setting. State investment growth in May fell on a y/y basis, but total investment for the first five months of the year surged 60.8% ytd, y/y, from a 21.9% gain for the same period last year. Local government investment increased at ten times the rate of central government investment growth.
- The government aims to cut its investment spending by 9-10% this year.



Source: CEIC, ANZ Research

CONSUMPTION: REAL RETAIL SALES FELL AGAIN

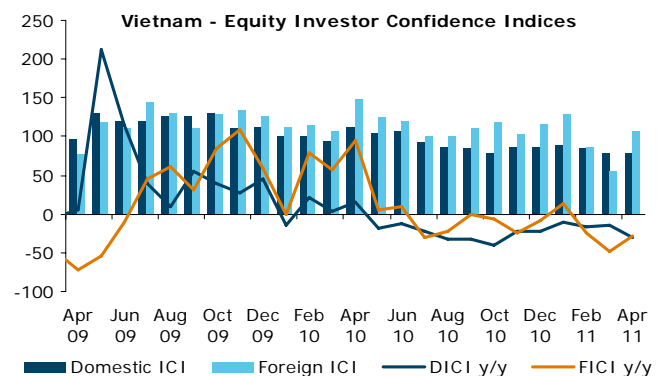
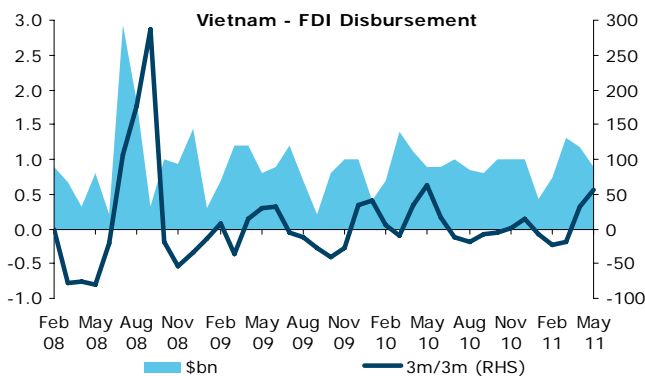
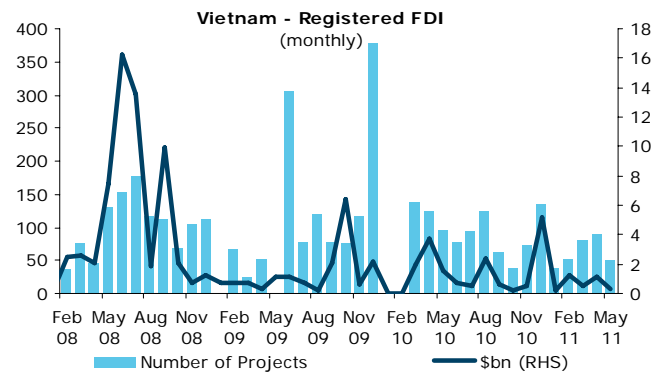
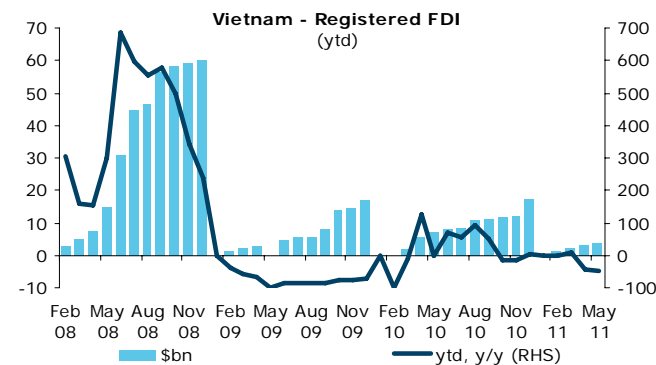
- Real retail sales growth (CPI adjusted) fell for the fourth straight month to 4.0% y/y in May from 4.6% in April, even though growth surged in nominal terms. Growth in the dominant domestic sector eased to 4.3%, while that in the FDI sector rebounded to 12.8% from an 8.8% fall in April.
- On a momentum basis, real sales growth eased 1.4ppts to 13.6%, 3m/3m saar, in May. Sales growth momentum of trade and services and tourism fell, while that of hotels and restaurants accelerated.
- Real retail sales in both Hanoi and Ho Chi Minh City fell on a monthly basis. Both real wholesale and retail sales are on a clear downward trend in Hanoi.



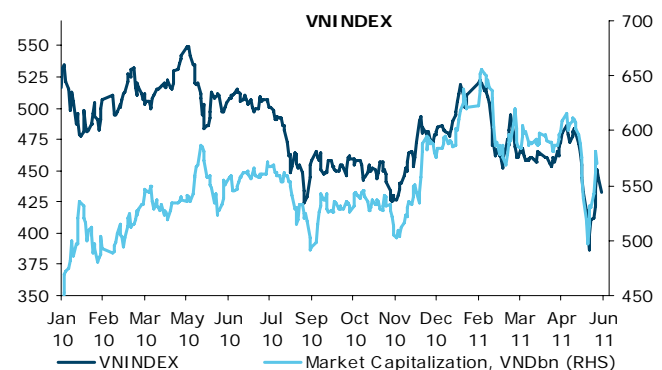
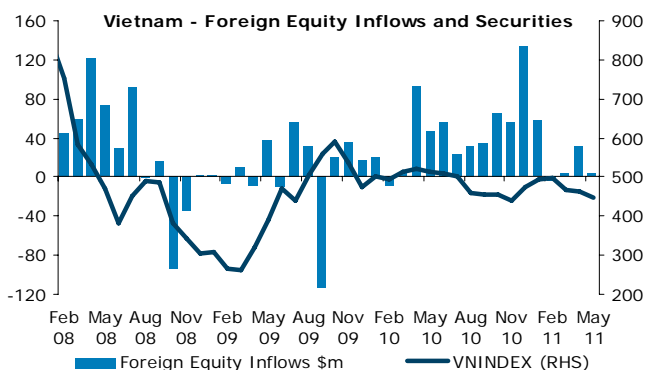
Source: CEIC, ANZ Research

INVESTMENT: REGISTERED FOREIGN INVESTMENT IS TRENDING DOWNWARD

- May registered FDI inflows dropped to \$321m from \$1.2bn in April. Disbursed FDI also decreased to \$900m from \$1.2bn in the previous month. Total registered FDI inflows fell by 50.6% ytd, y/y, while FDI disbursement increased by 0.4%.
- In the equity market, negative sentiment continued among domestic investors and the VN Index slumped to the lowest level in six months. Foreign equity inflows also dropped to \$5.4m in May from \$32.2m in April.
- The Ministry of Finance announced in June that investors will be able to buy and sell the same stock within the same trading day rather than selling three days after purchase, effective 1 August. This is expected to help improve liquidity on the stock market.



Sources: General Statistics Office, Bloomberg, ANZ Research

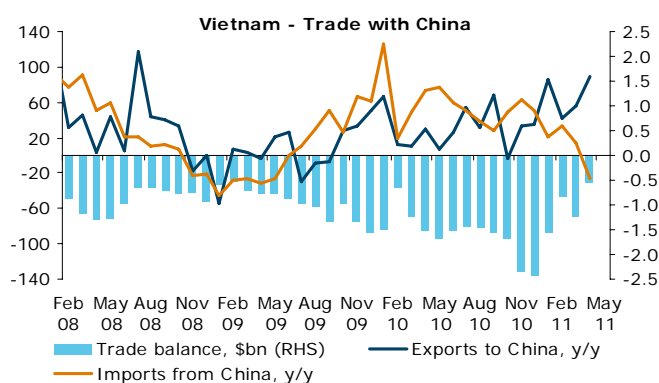
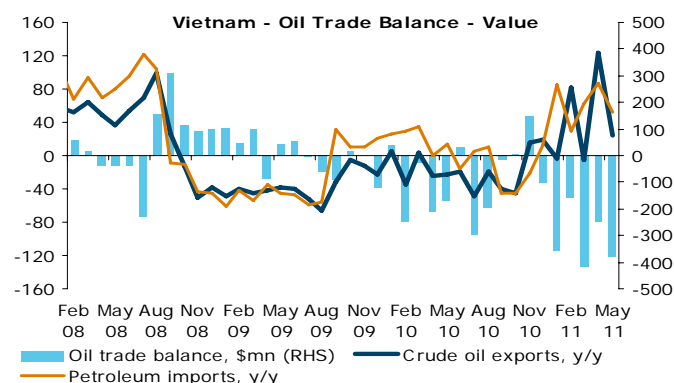
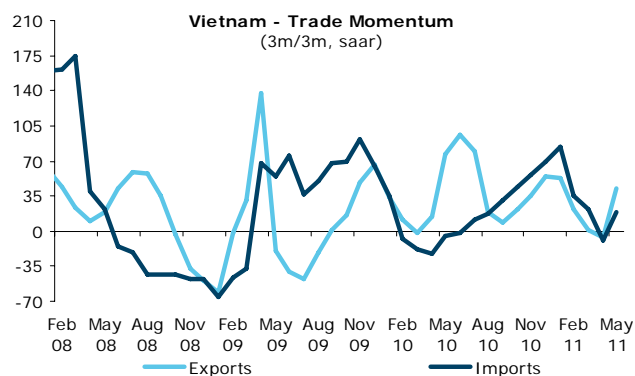
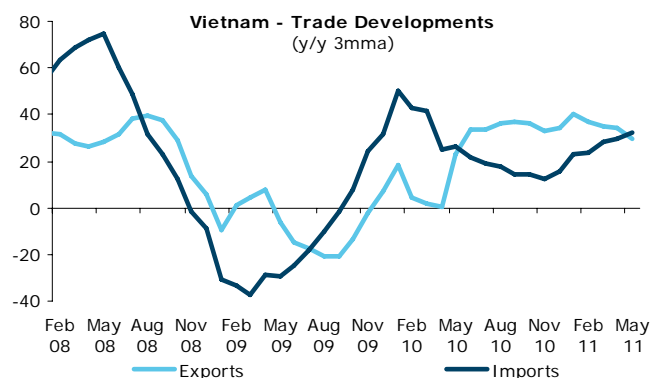
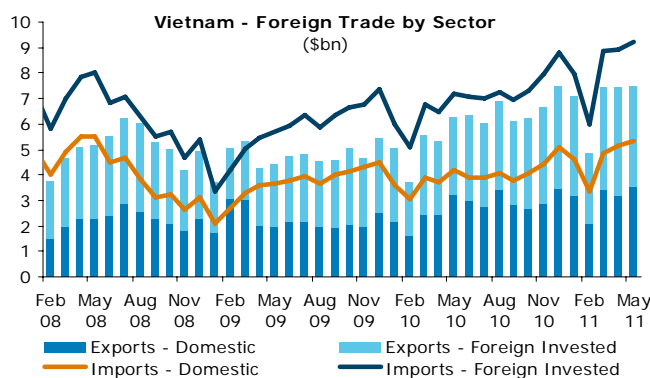
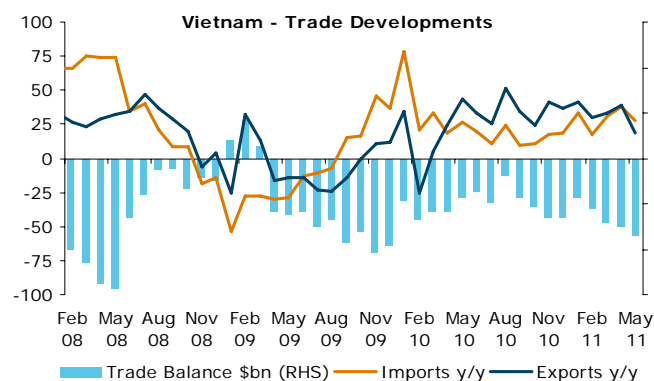


Source: CEIC

Source: Bloomberg

FOREIGN TRADE: IMPORTS OUTPACED EXPORTS FOR THE FIRST TIME IN 13 MONTHS

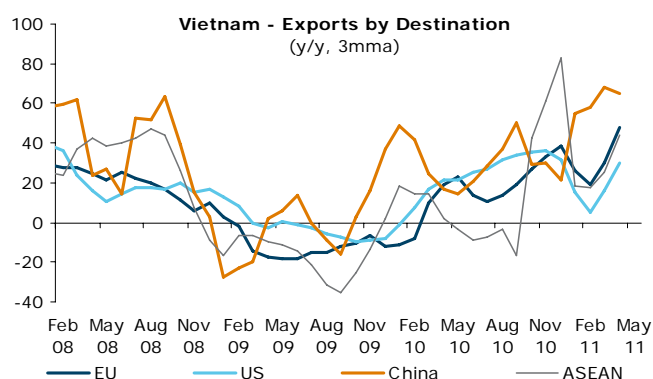
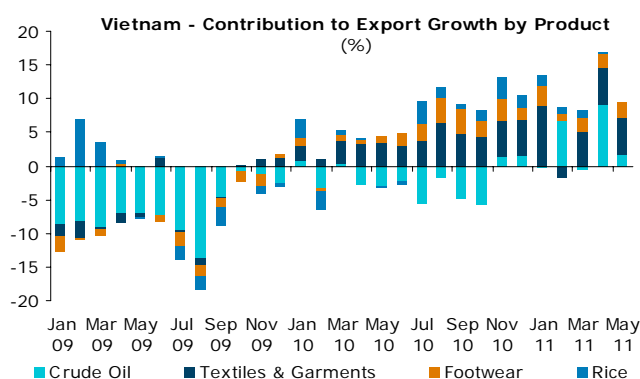
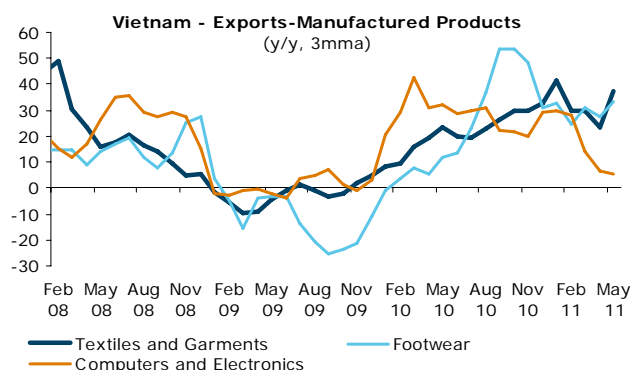
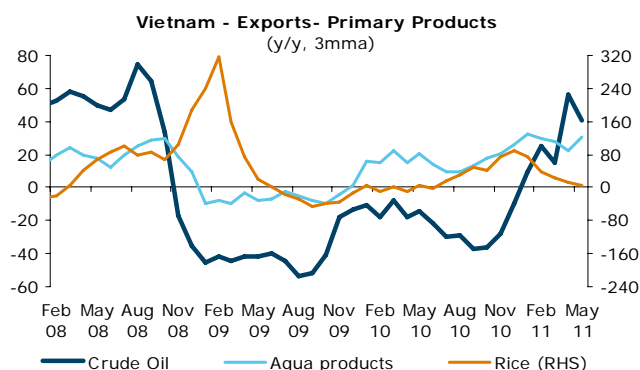
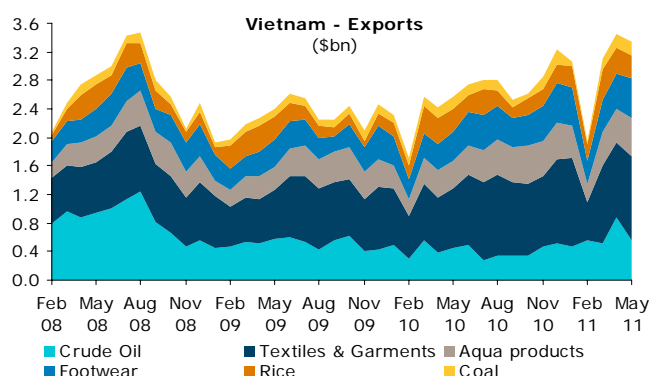
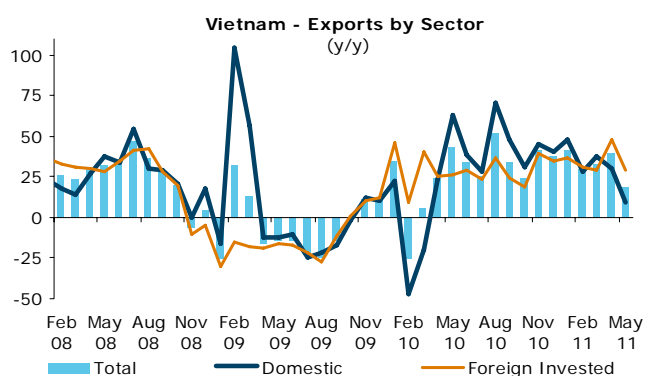
- May export growth dropped to 18.8% y/y from a revised 39.5% gain in April, while imports grew 28.1%, also down from 37.5% in April. This is the first time in 13 months that imports outpaced exports. As a result, the trade deficit widened to a 17-month high of \$1.7bn.
- The domestic sector's trade deficit eased \$200m to \$1.7bn in May. Meanwhile, the FDI sector's trade surplus fell to \$84m from \$489m in April as oil exports fell.
- However, both export and import growth momentum rebounded from three straight months of decline.
- Rising global commodity prices contributed significantly to the widening trade deficit. In particular, the oil trade deficit contributed 23.7% to the total trade deficit in the first five months of 2011.
- The trade deficit with China decreased in the first four months of this year, but still contributed 85.0% to the total figure.



Sources: CEIC, ANZ Research

EXPORTS: GROWTH FELL SHARPLY

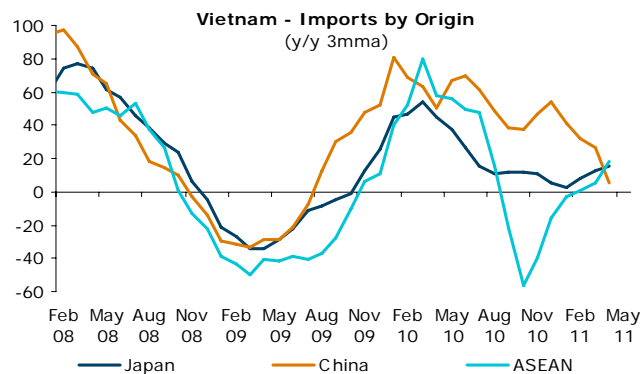
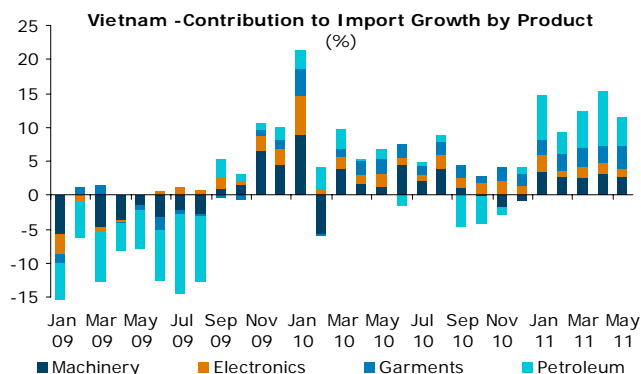
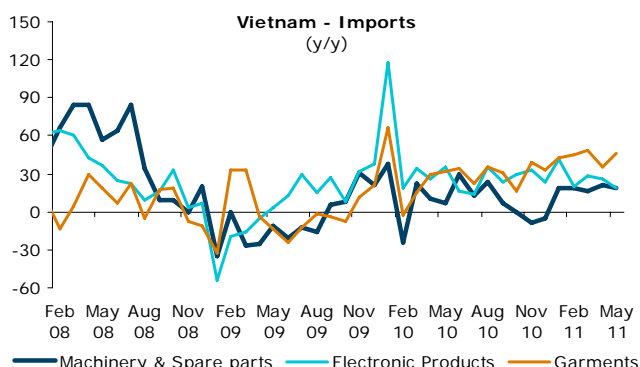
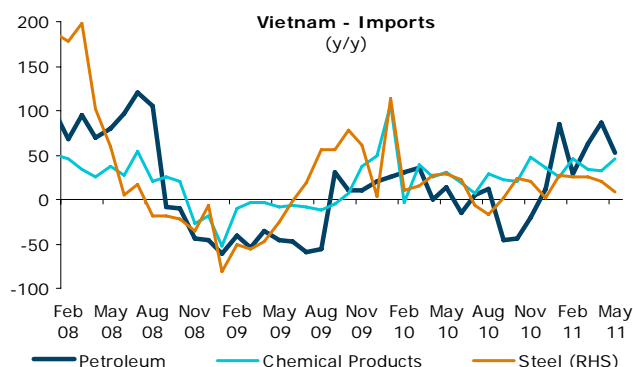
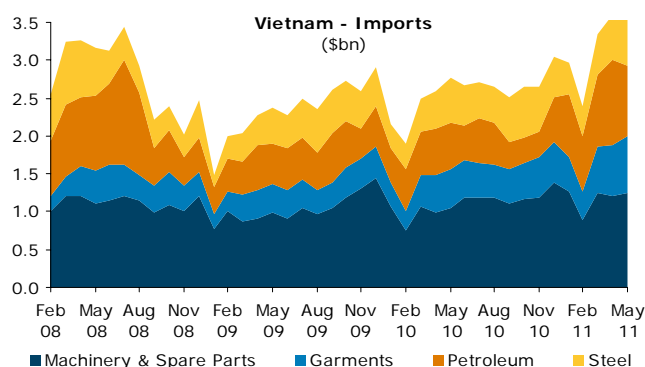
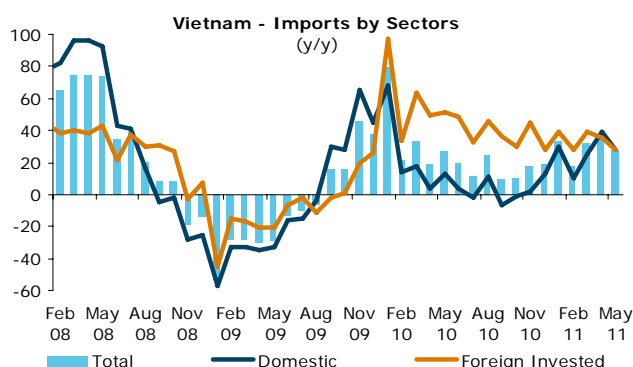
- Export growth fell to 18.8% y/y in May from a revised 39.5% in April as growth in both the domestic and FDI sectors eased. However, on a monthly basis, exports climbed 0.8% from a 0.1% decline in April.
- The decline in growth was led by crude oil and rice exports. May oil exports fell 3.9% y/y, 3mma in volume and thus its value growth eased to 40.9% from 56.6% in April. Meanwhile, rice export growth fell for the fifth straight month to 5.6% from 11.5% in the previous month.
- Among major manufactured products, textiles, garments and footwear export growth remained strong, but computer and electronics exports fell for the fourth consecutive month on a y/y, 3mma basis.
- In terms of destination, exports to the EU and the U.S. remained strong, with each accounting for 17.6% of total exports in the January to April period. Meanwhile, exports to China increased sharply to about 64.0% y/y, 3mma in April.



Sources: CEIC, GSO, ANZ Research

IMPORTS: PETROLEUM IMPORTS DROPPED

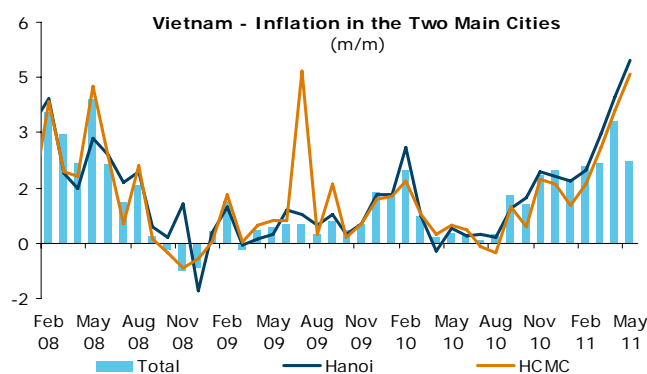
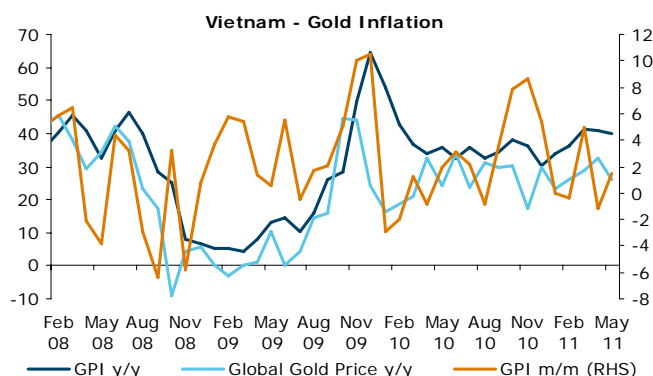
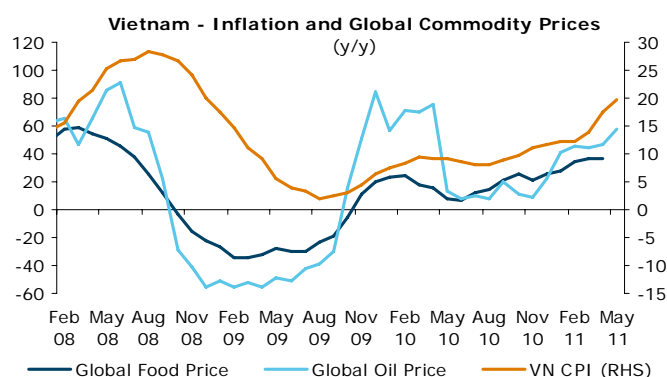
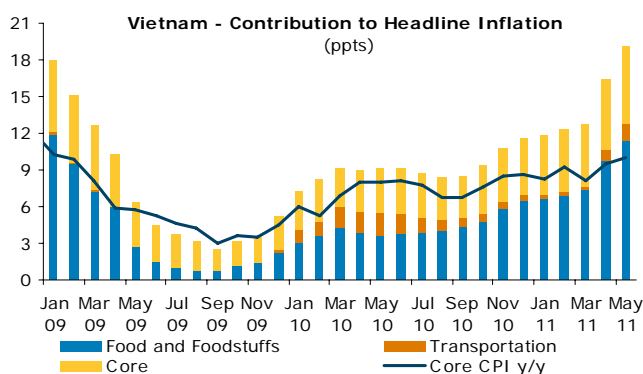
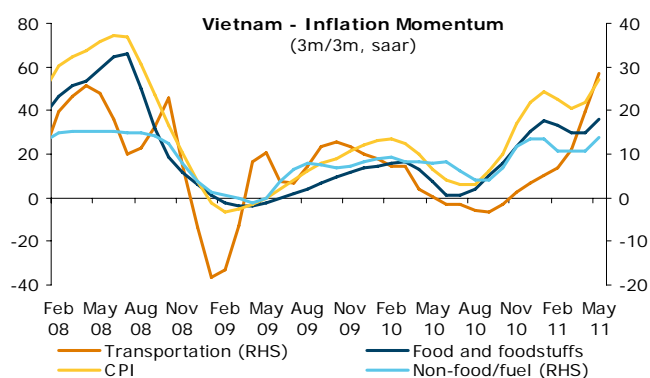
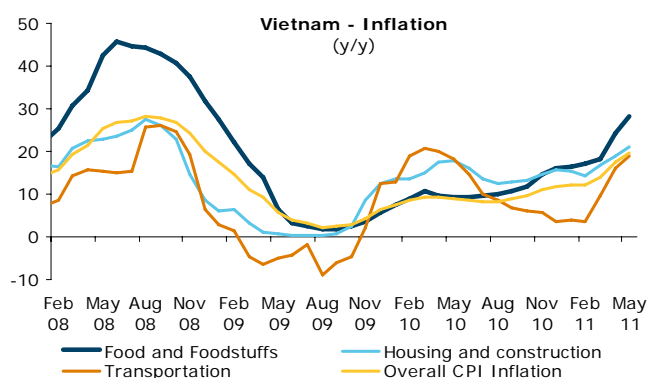
- Import growth eased 8.6ppts to 28.1% y/y in May as growth in both the domestic and foreign invested sectors fell. However, on a month-on-month basis, May imports climbed 3.0%, up from 0.8% in April.
- Petroleum imports continued to account for the largest share of total import growth, but growth eased to 52.2% y/y in May from 86.7% in April. Growth of other major imports remained strong.
- In terms of origin, imports from ASEAN grew the quickest by 40.0% ytd, y/y in April. Chinese imports are slowing with growth declining to 28.0%.
- Separately, gold imports increased 28.0% y/y to \$878m in Q1, according to the World Gold Council (WGC). The WGC also said that Vietnam's y/y demand for gold jewelry and gold bullions for investment increased by 7ppts to 5.5 tons and 1ppts to 14.2 tons, respectively in Q1. Gold import data are not published in Vietnam.
- In an effort to curb the trade deficit, the Ministry of Industry and Trade will tighten procedures for auto imports, effective 26 June. It has also restricted imports of mobile phones, alcohol and cosmetics at three major seaports, effective 1 June.



Sources: CEIC, ANZ Research

PRICES: CPI INFLATION SURGED AGAIN. MORE REALISTIC TARGET SET

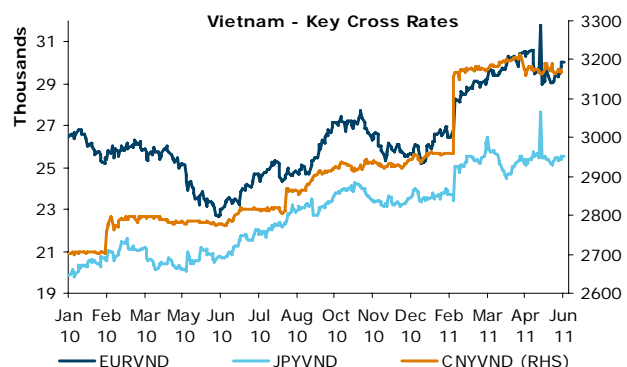
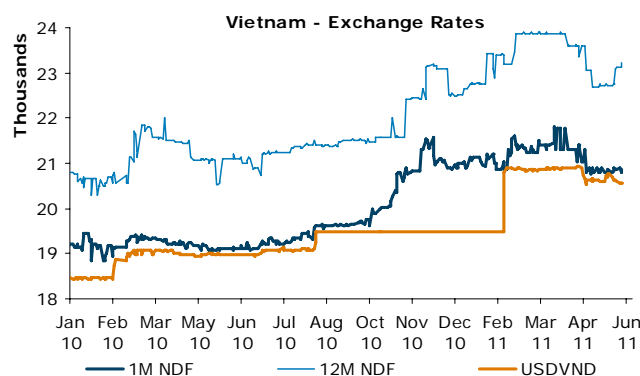
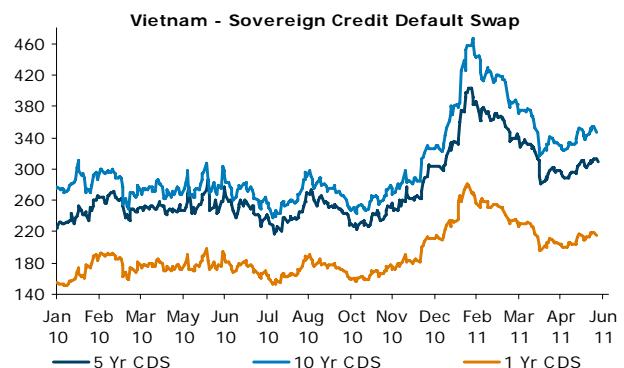
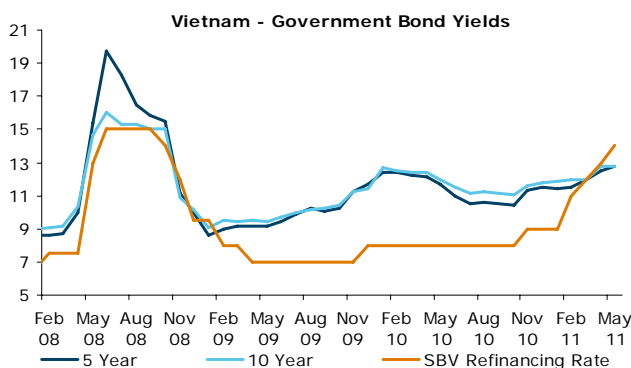
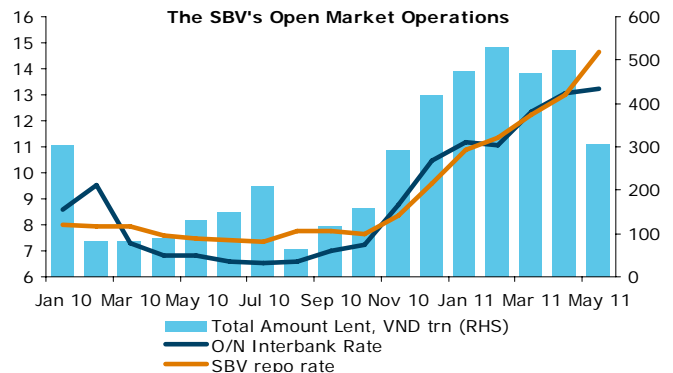
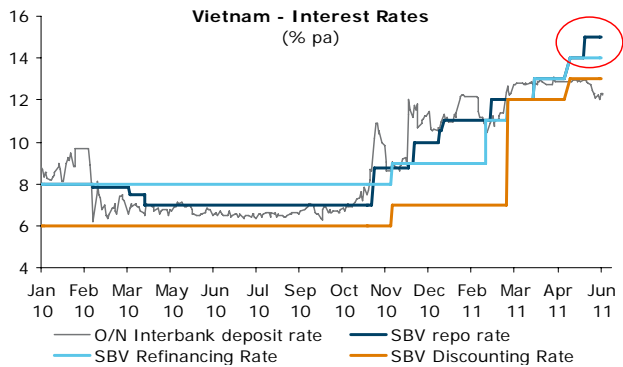
- CPI inflation surged to 19.8% y/y in May from 17.5% in April. On a monthly basis, inflation climbed 2.2%, down from 3.3% in April.
- Prices in all sub-categories rose on a monthly basis, bar post and telecommunications. Food and foodstuff prices rose 28.3% y/y, up from 24.4% in April, and contributed 11.3ppts to total CPI inflation. Non-food, non-fuel inflation climbed 10.4% y/y in May, compared with 10.0% in April.
- Our measure of CPI inflation momentum surged to 27.0% 3m/3m, saar in May, suggesting that headline inflation has not yet peaked. We expect inflation to peak in Q3 at above 22.0%.
- The government revised up its 2011 inflation target to 15.0% y/y, from 11.8% previously, and revised down its 2011 real GDP growth target to 6.0% from 6.5%. ANZ views these as much more realistic, though still difficult targets, and will require more tightening measures to be achieved.



Sources: CEIC, Bloomberg, ANZ Research

RATES AND FOREIGN EXCHANGE: THE DONG REMAINED STABLE IN MAY, NEW FX RULES IN PLACE

- **Rates:** The SBV raised its repo rate by 100bps to 15.0% in May, but kept its refinancing and rediscounting rates unchanged at 14.0% and 13.0%, respectively. Overnight interbank interest rates moved up to 13.2% in May from 13.0% in April (on average).
- **Foreign exchange:** The VND appreciated 0.4% against the USD from the end of April. Noticeably, the implied NDF yield curves inverted in May: the dong's implied one-month NDF discount fell to 1.0% from 2.1% in April; while its implied 12-month NDF discount fell to 10.9% from 13.3%.
- The SBV lowered the interest rate caps on USD deposits to 2.0% for retail investors and 0.5% for institutions, from 3.0% and 1.0%, respectively; and raised the required reserve ratios for USD deposits by 1ppt and requires state-owned firms to sell their foreign currency holdings to banks, starting in July.
- **Government bond yields** increased to 12.6-12.8% from 12.0-12.5% in April, as inflation quickened.
- **ANZ Assessment:** The lowered remuneration in USD holdings will support the dong in the near term, reduce dollarisation in the economy and so help control inflation, albeit modestly. We maintain our expectation for another 100bp key interest rate hike to effectively rein in inflation.



Source: Bloomberg

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