

ASIA PACIFIC ECONOMICS

VIETNAM MONTHLY CHARTBOOK

13 JULY 2011

CONTRIBUTOR

Hai Pham

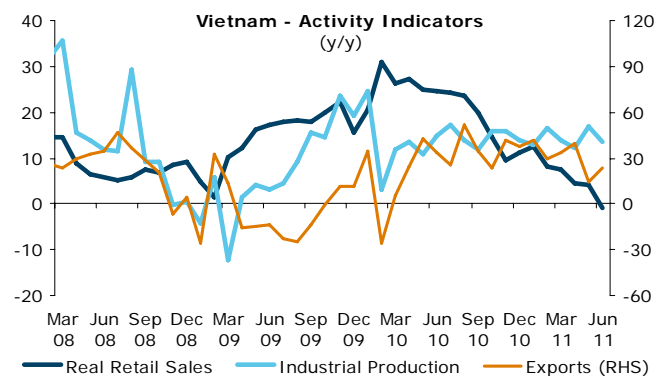
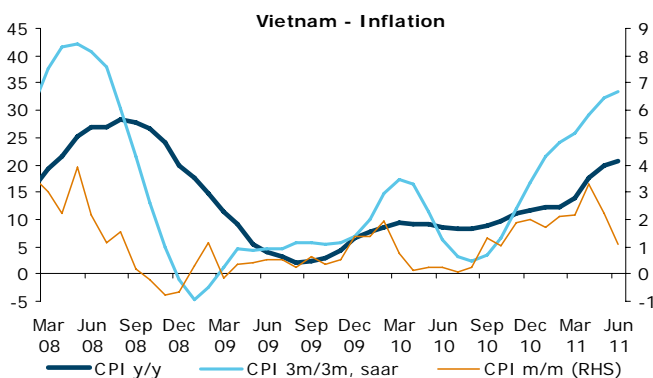
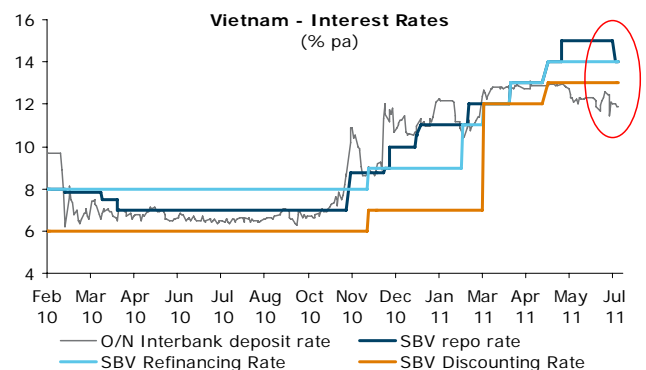
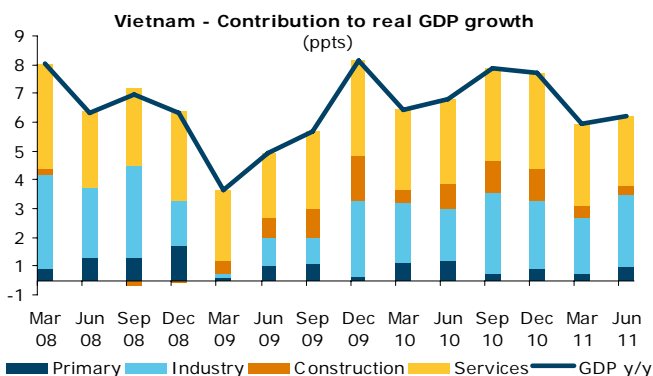
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Important notice 16

GDP EXPANDED MODESTLY. INFLATION SURGED FURTHER, BUT THE REPO RATE WAS CUT

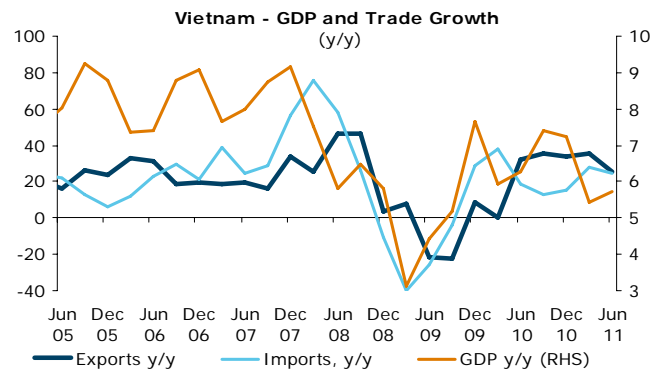
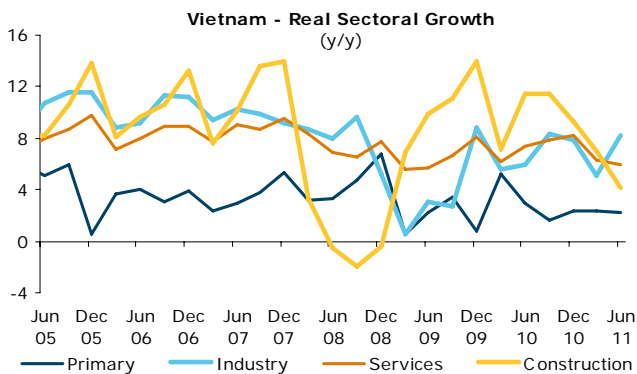
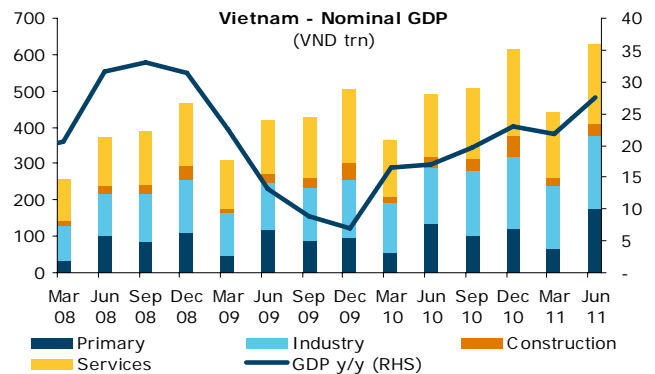
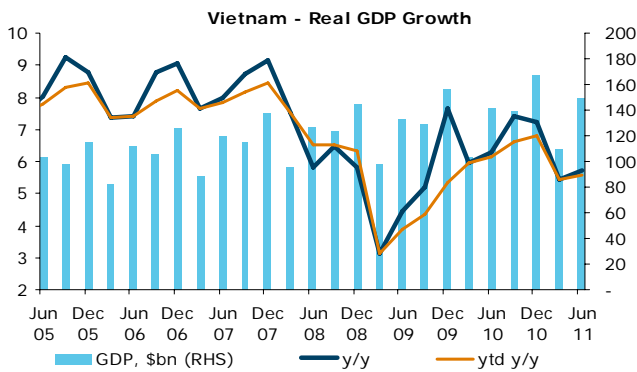
- CPI inflation rose to 20.8% y/y in June, again led by food and foodstuffs prices. Inflation momentum surged as well, but may have peaked in June, suggesting that headline inflation will soon follow.
- GDP in Q2 expanded at a modest 5.7% y/y, as construction growth eased.
- Real activities also eased in June. Meanwhile, the trade deficit narrowed sharply, largely due to a surge in gold exports.
- The State Bank of Vietnam cut its repo rate by 100bps to 14.0% in July. We think this loosening of monetary policy is premature, and may convey misleading signals to markets.

FEATURED CHARTS OF THE MONTH



REAL ACTIVITY: Q2 GDP GROWTH WAS MODERATE AS MONETARY SETTINGS TIGHTENED

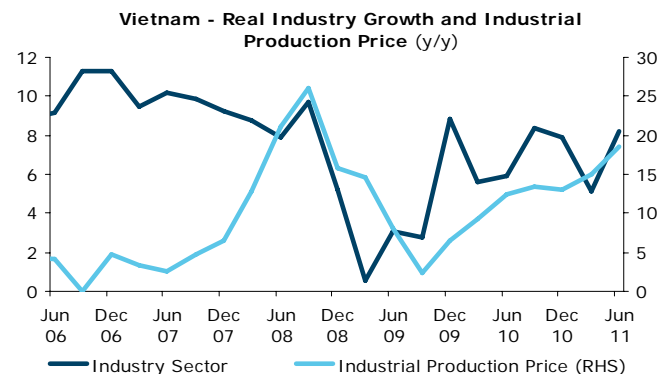
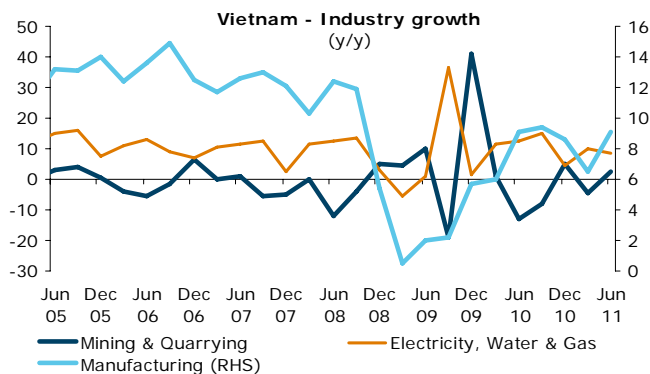
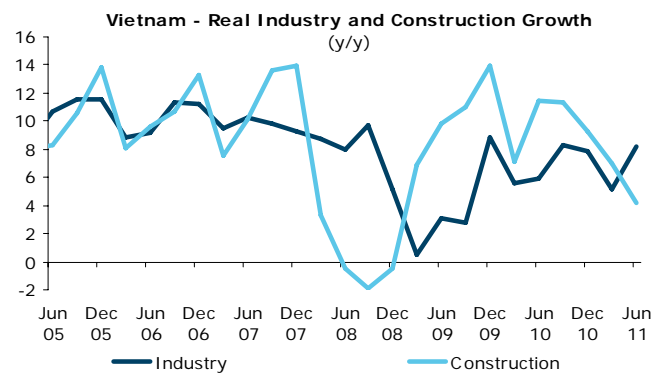
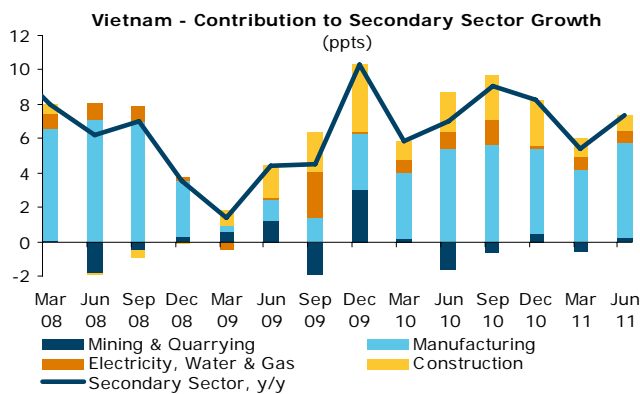
- Real GDP in Q2 climbed 5.7% y/y, up from Q1's 5.4%, but down from the gain in Q2 2010. For H1 as a whole, real GDP climbed 5.6%.
- Industrial output surged 6.8% in H1, but growth in other sectors decelerated. Construction growth eased to 5.2%, similarly services growth softened to 6.1%. Primary sector growth fell to 2.2%.
- In nominal terms: Q2 GDP growth climbed to 27.6% y/y; primary sector grew 32.2%; while the secondary and service sectors grew 26.9% and 24.8%, respectively.
- Primary, industry and services sectoral contribution to nominal GDP growth were roughly equal in Q2. However, in real terms, industry and services contributed the most to output growth, while primary and construction contributed around 0.4ppt each.
- **ANZ Assessment:** The moderate growth in output in Q2 reflects ongoing economic stabilisation. We now expect 2011 GDP growth will be 5.9%, down from 6.8% in 2010.



Sources: CEIC, ANZ Research

SECONDARY INDUSTRY: MANUFACTURING STAYED STRONG, CONSTRUCTION SLOWED

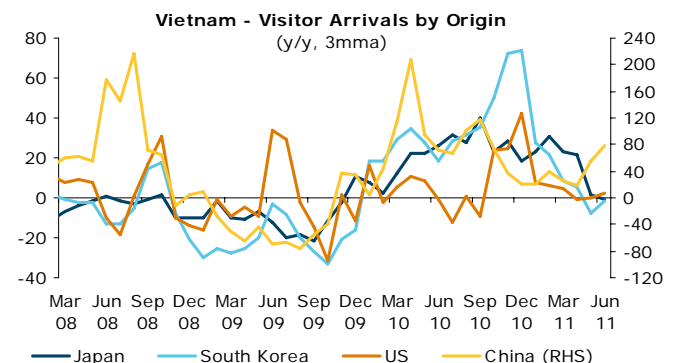
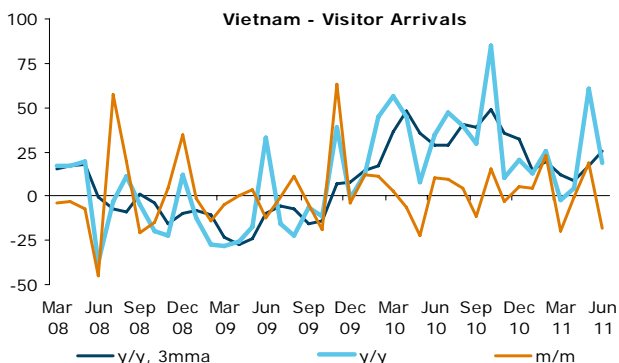
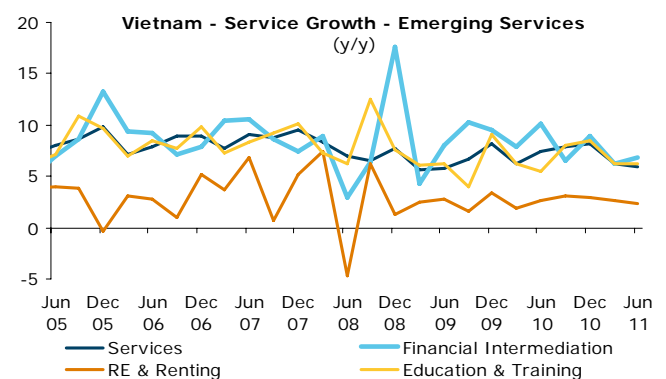
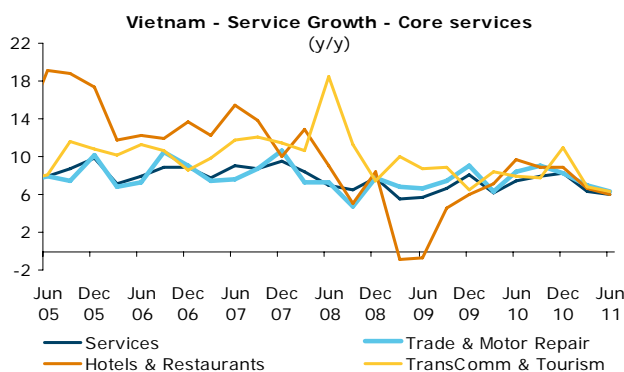
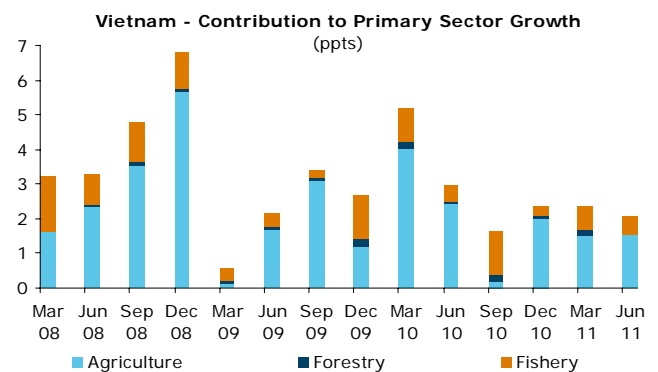
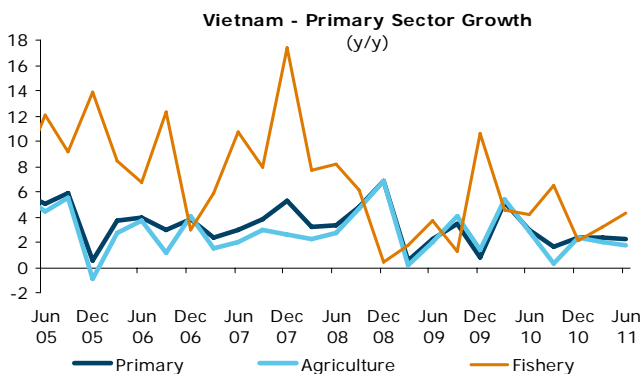
- Secondary sector growth surged to 7.4% y/y in Q2 from 5.4% in Q1, and was higher than the gain in Q2 2010. The secondary sector contributed 2.9ppts to overall Q2 GDP growth.
- The industrial sector grew 8.2% in Q2, on account of an acceleration of manufacturing activity to 9.1% from 6.5% in Q1.
- Growth in the mining and quarrying sector rebounded, y/y, to 2.5% from a 4.4% decline in Q1 whereas electricity, gas and water production growth softened.
- Meanwhile, construction growth slowed the most to 4.2% in Q2 from 7.0% in Q1, largely as real estate development credit tightened.



Sources: CEIC, ANZ Research

PRIMARY AND SERVICES SECTORS: SERVICES GROWTH EASED ACROSS THE BOARD

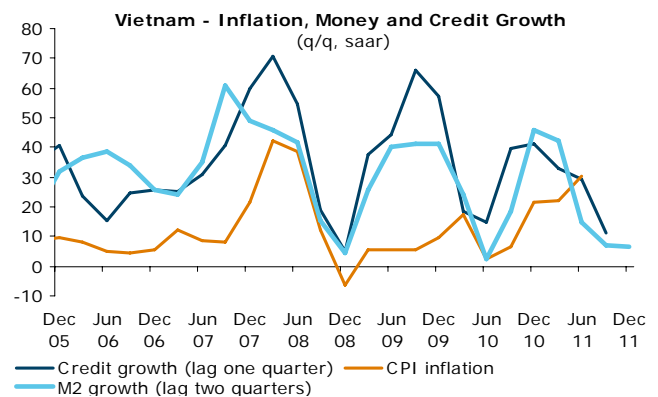
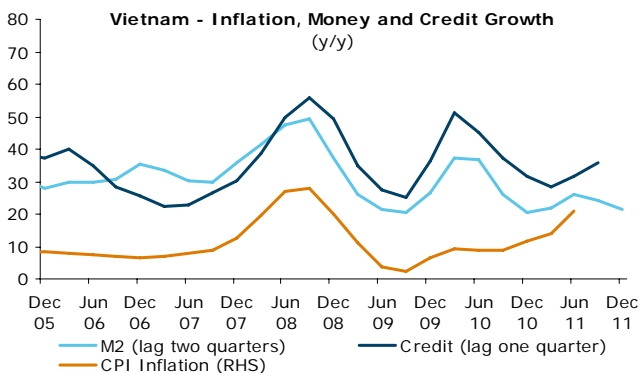
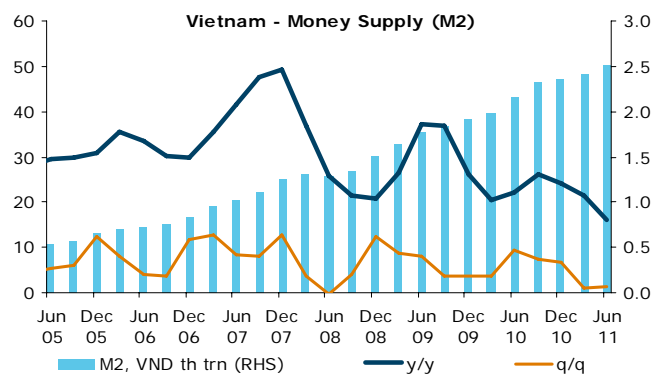
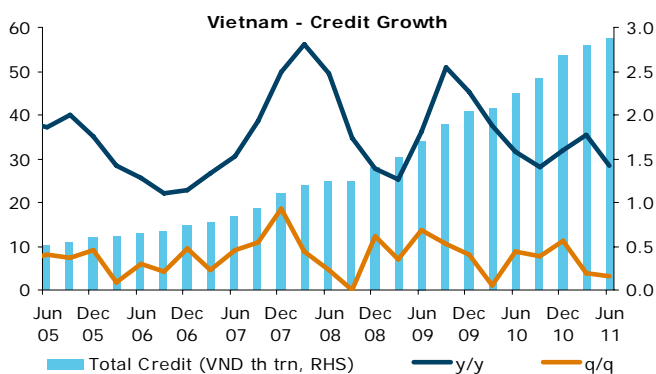
- Primary sector growth in Q2 edged down to 2.2% y/y and contributed 0.5ppt to total GDP growth. Forestry and fishery growth increased from Q1, but agricultural growth eased.
- Meanwhile, the services sector grew 6.0%. For H1 as a whole, services climbed 6.1% compared with 6.9% for the same period last year. The moderation in services growth was broad-based.
- Inbound visitor arrivals increased by 25.5% y/y in Q2, up from an 11.9% gain in Q1. Total visitor arrivals in Q2 stood at 1.5m. The number of Chinese visitors grew strongly, but arrivals from elsewhere were modest.



Sources: CEIC, ANZ Research

MONEY AND CREDIT GROWTH EASED, SUGGESTING LOWER INFLATION IN H2

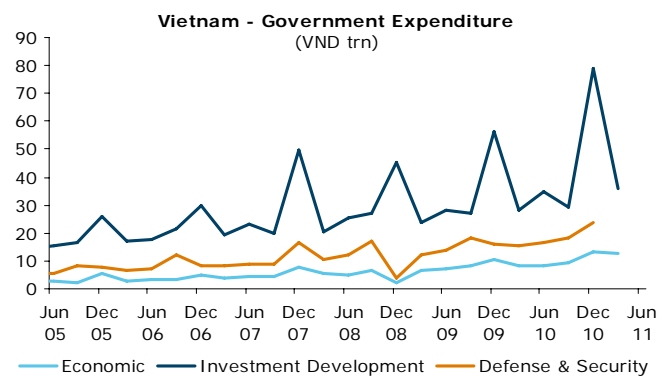
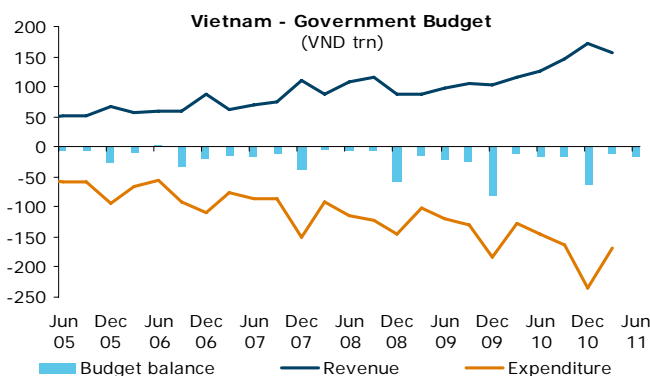
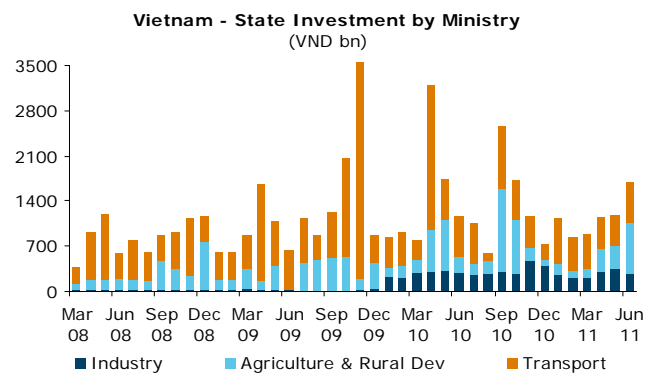
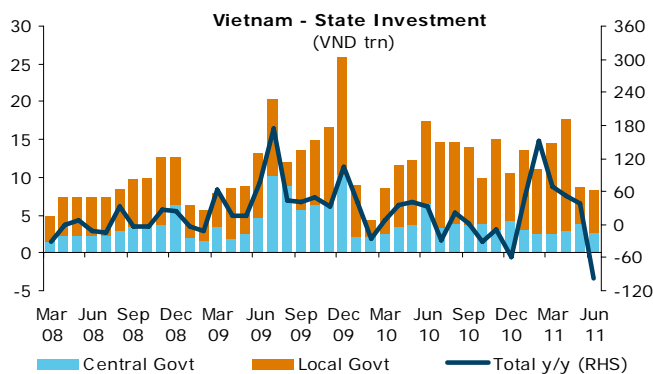
- Q2 credit growth fell to 28.3% y/y from 35.6% in Q1. Foreign currency credit, mainly in USD, grew 22.2% from last year and continued to stay well above the VND credit growth rate of 2.7% (not shown), due to the huge interest rate differential between VND loans and USD loans.
- Total money supply (M2) growth softened to 17.1% y/y in Q2 from 26.2% in Q1. The government's 2011 credit and broad money growth targets are below 20.0% and 16.0%, respectively.
- On a momentum basis, both credit and broad money growth fell well below the y/y figures, suggesting slower y/y growth going forward.



Sources: CEIC, State Bank of Vietnam (SBV), ANZ Research

STATE INVESTMENT AND BUDGET: BUDGET DEFICIT FELL IN H1

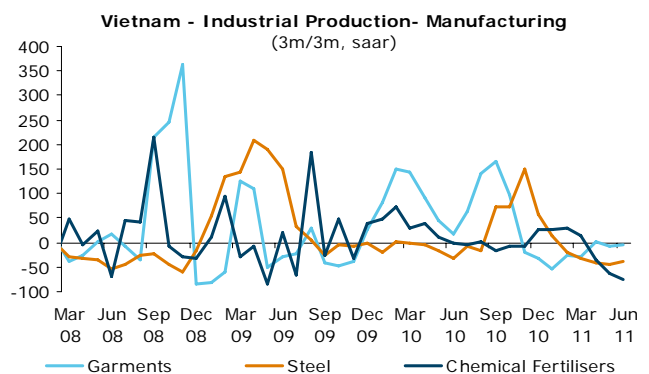
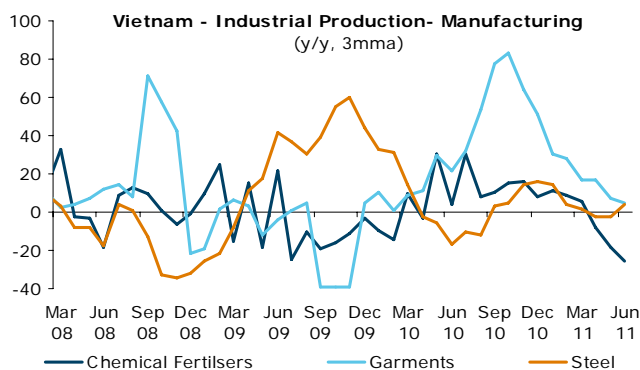
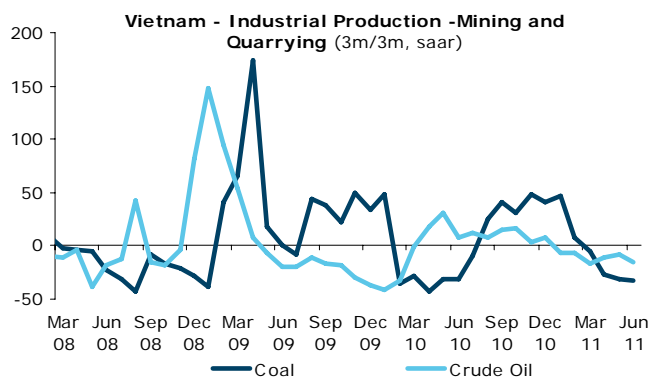
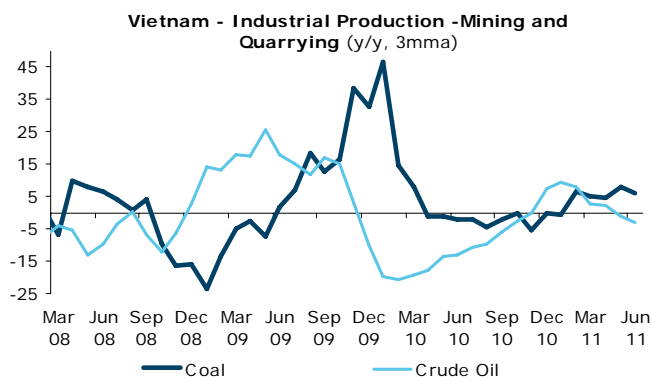
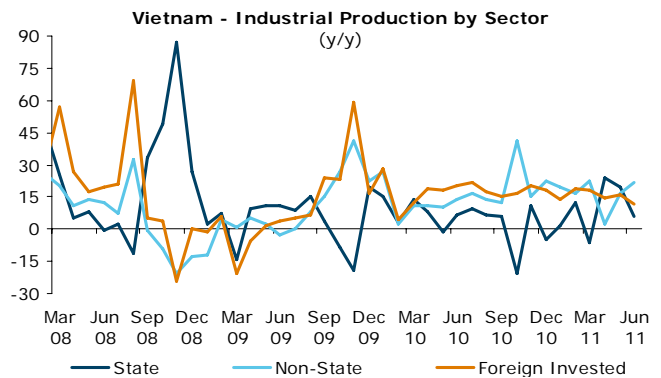
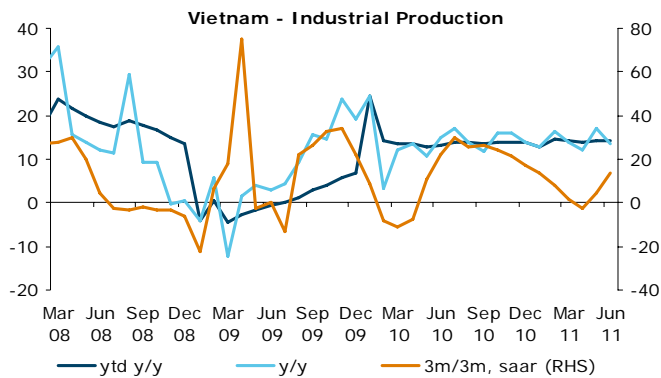
- State investment fell by 15.5% y/y in Q2, compared with a surge of 78.3% in Q1. Local government investment spending eased 8.0%, while that of the central government dropped 30.4%. H1 investment totalled VND73.7trn, or 38.8% of the total planned amount for 2011.
- Investment spending by the Ministry of Agriculture and Rural Development and Ministry of Industry and Trade continued to grow in June, while that of other ministries were scaled back.
- As a result of tightened fiscal policies, the government's budget deficit fell to 2.6% of GDP in H1 from 3.6% in H1 2010. Expenditure increased 30.0% y/y in Q1, while revenue surged 34.3%. The government is aiming to keep the 2011 budget deficit below 5.0% of GDP, from 5.6% in 2010.



Sources: CEIC, Bloomberg, ANZ Research

INDUSTRIAL PRODUCTION: GROWTH REMAINED STRONG BUT MOMENTUM IS SLOWING

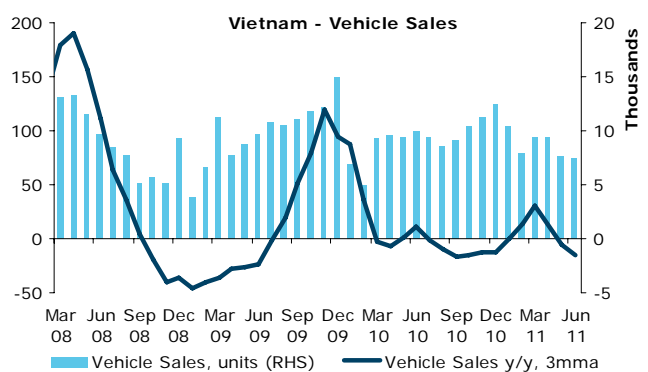
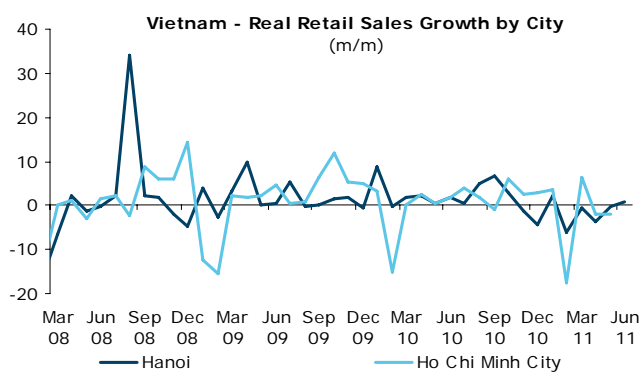
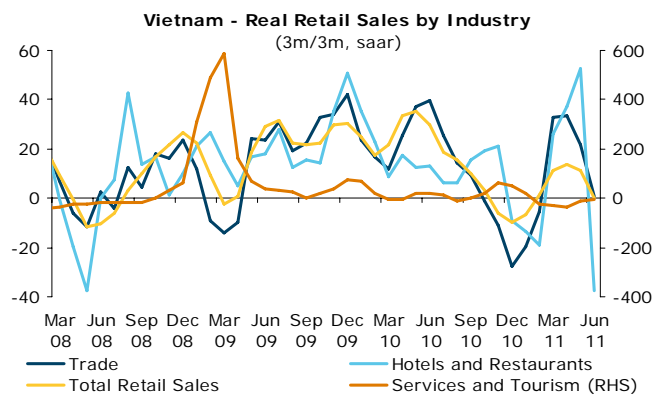
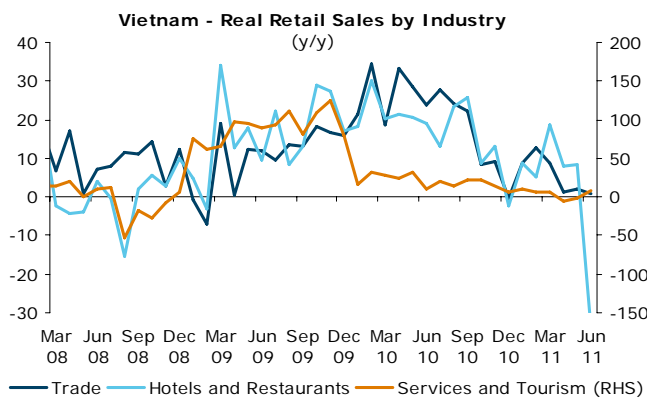
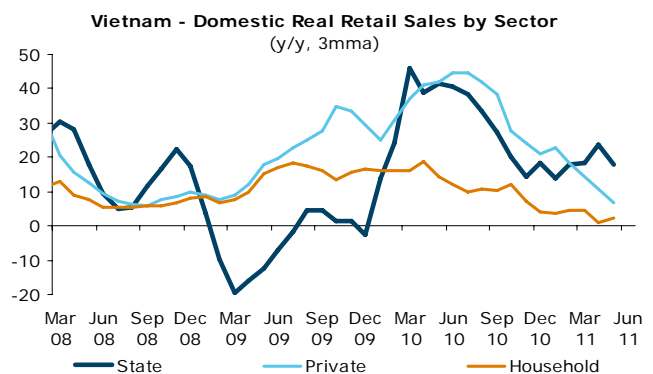
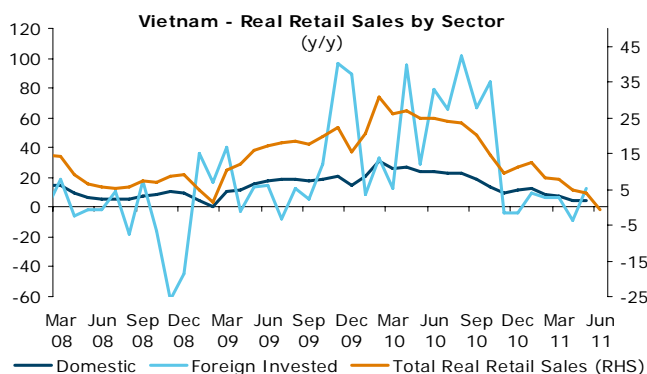
- Industrial production growth in Q2 was flat at 14.3% y/y.
- Real industrial production grew 13.1% in June, down from 16.1% in May. Output growth in the state and foreign invested (FDI) sectors decelerated, while that in the non-state domestic sector stayed strong.
- Among major sub-industries, growth in steel and coal production surged in Q2, while others fell.
- On a monthly basis, IP growth declined across sectors in June. IP growth momentum in the mining and quarrying sector and manufacturing slackened as well, suggesting slower y/y growth going forward.



Sources: CEIC, ANZ Research

CONSUMPTION: REAL CONSUMER DEMAND SOFTENED

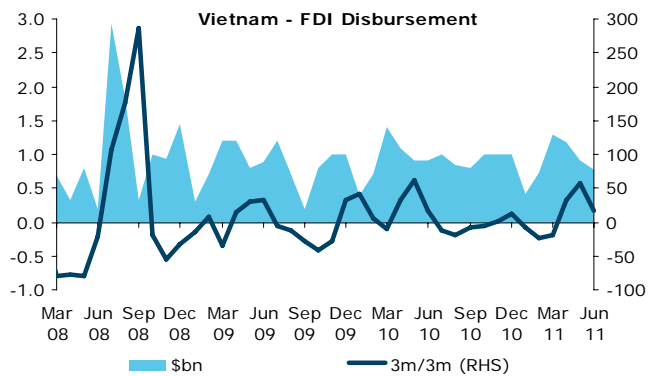
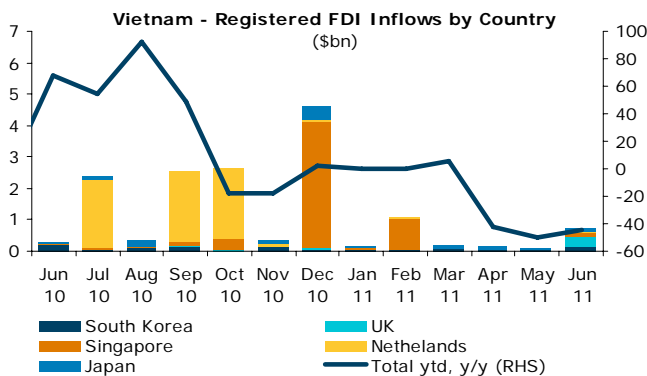
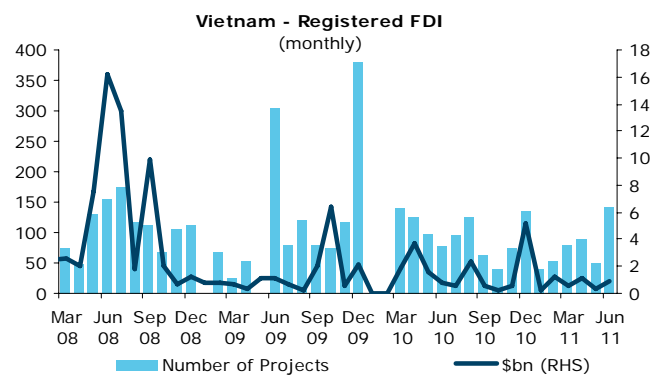
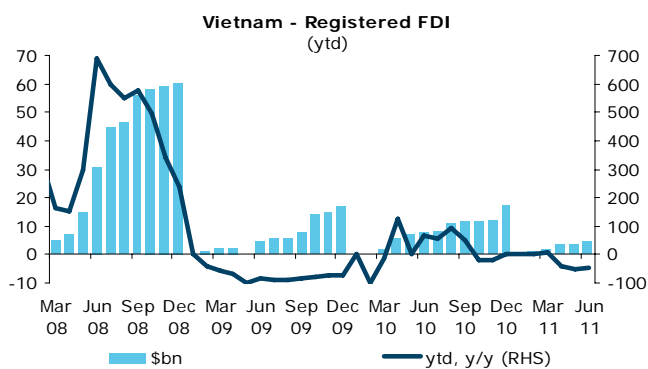
- Nominal retail sales growth climbed 20.1% y/y in Q2, down from 24.0% in Q1, as growth across sectors eased. June retail sales growth softened to 18.3%, as sales growth in the dominant domestic sector fell.
- In real (CPI adjusted) terms, retail sales growth fell to 2.6% in Q2 from 9.6% in Q1, while sales in hotels and restaurants declined the most.
- On a momentum basis, sales growth broadly fell for the third straight month in June.
- Vehicle sales declined by 15.4% y/y in Q2, compared with a 30.7% gain in Q1. Sales of Japanese cars fell as the supply chain was disrupted after Japan's quake.



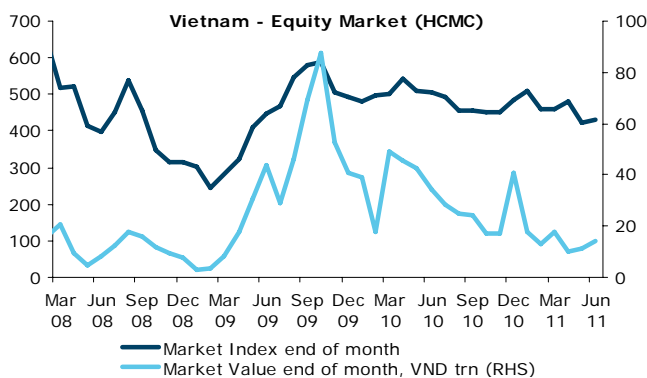
Sources: CEIC, Bloomberg, ANZ Research

INVESTMENT: BOTH REGISTERED AND DISBURSED FDI DECLINED

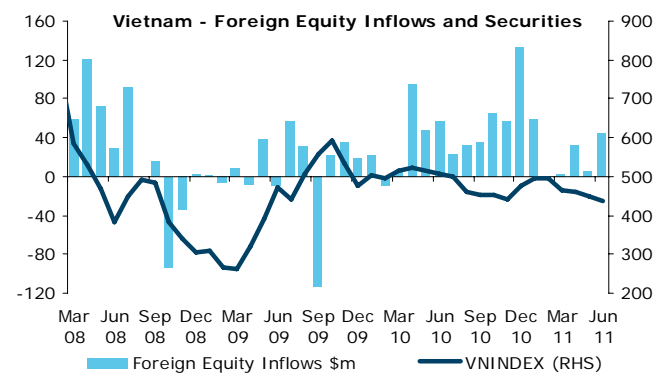
- Registered FDI inflows totalled \$2.4bn in Q2, up from \$2.0bn in Q1 but well below the \$6.0bn registered in Q2 2010. Disbursed FDI fell 1.7% y/y in Q2, and totalled \$2.9bn.
- Registered FDI fell by 44.4% y/y for H1 as a whole, while disbursed FDI fell 1.9%. Singapore was Vietnam's largest foreign investor in H1 with registered capital accounting for 28.1% of total inflows. Manufacturing continued to attract most of the inflows (58.8%), followed by construction (8.4%).
- Meanwhile, foreign equity inflows increased to \$44.4m in June from \$5.4m in May, despite the VN Index falling for four straight months.



Sources: General Statistics Office (GSO), CEIC, ANZ Research



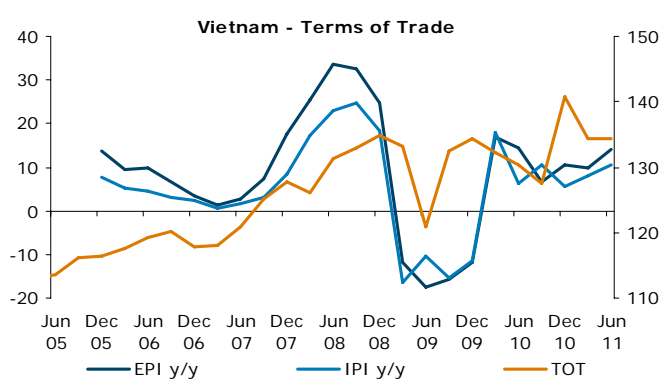
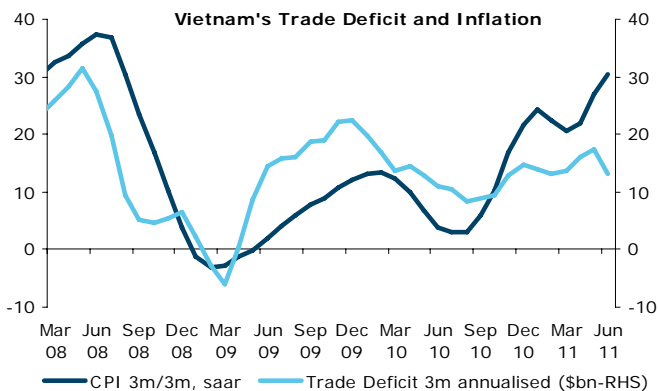
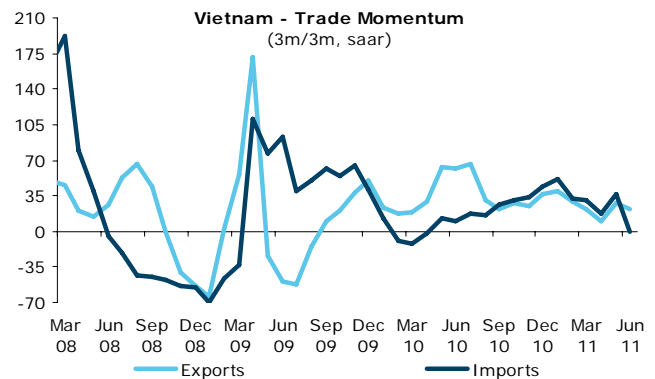
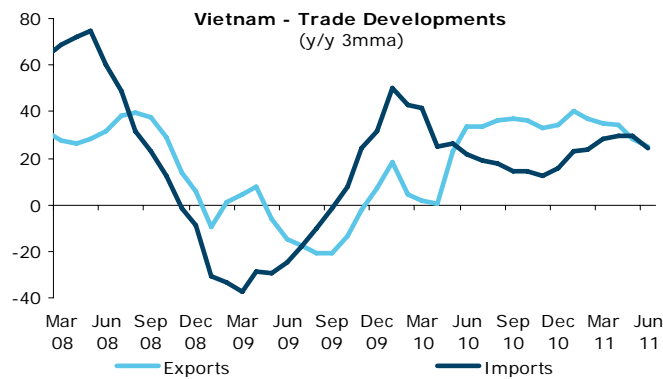
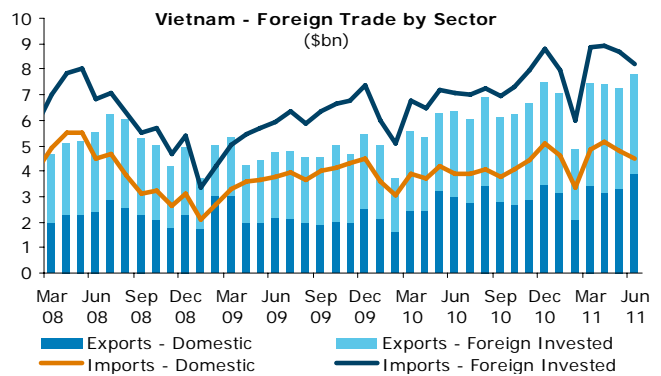
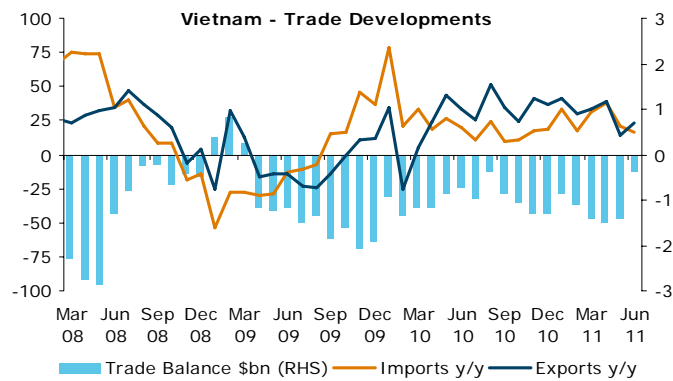
Source: CEIC



Source: Bloomberg

FOREIGN TRADE: GROWTH MOMENTUM FELL, THE TRADE DEFICIT NARROWED

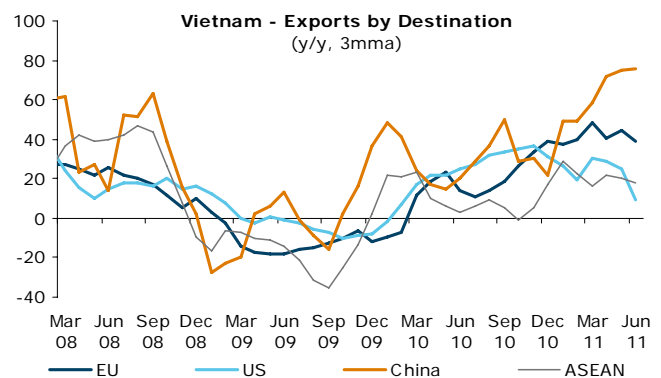
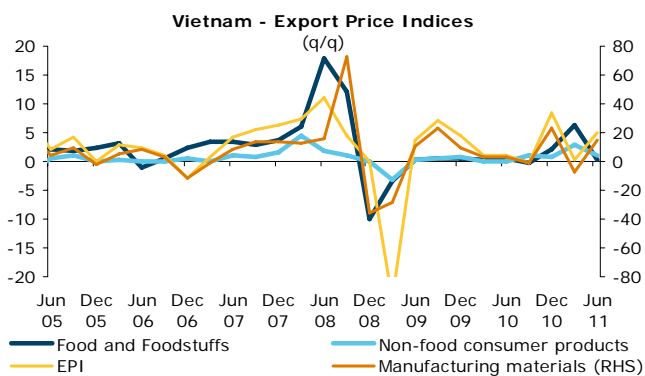
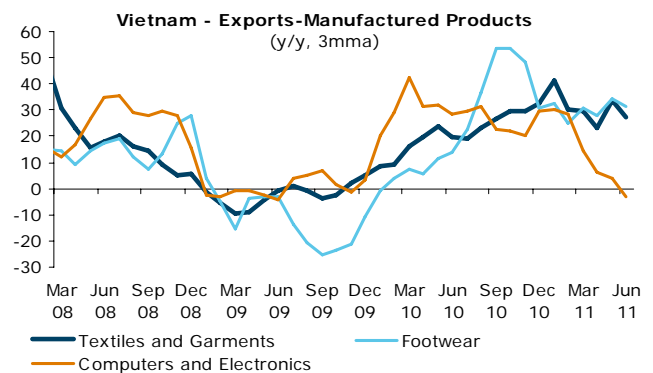
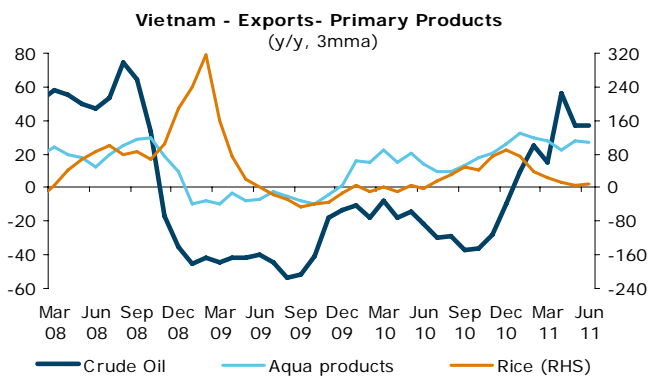
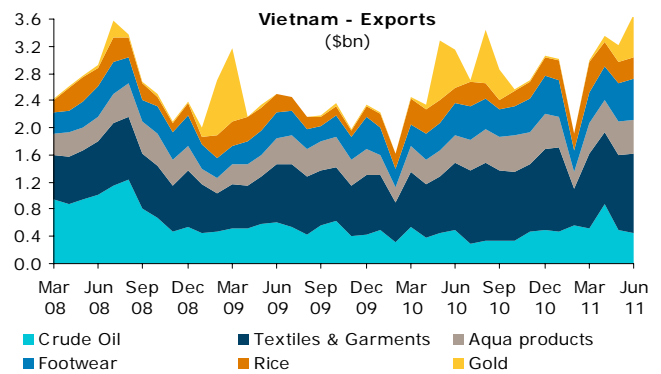
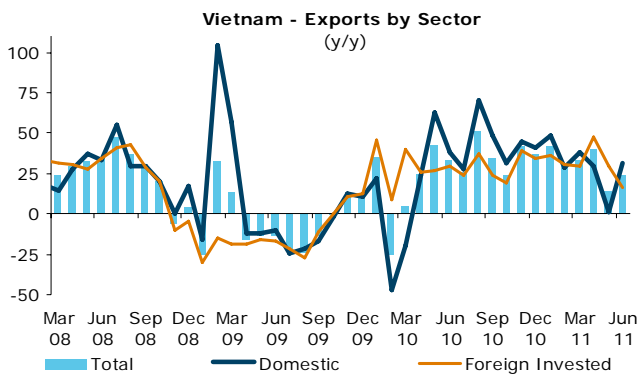
- Q2 exports grew by 25.1% y/y, down from 35.1%, while import growth eased to 24.3% from 28.2% in the previous quarter.
- The domestic sector's deficit stayed at \$4.1bn in Q2, while the foreign invested sector delivered a surplus of \$758m.
- The trade deficit narrowed significantly in June to \$406m from a revised \$1.4bn in May, due to a surge in gold exports (see chart in next page). Excluding gold exports, the trade deficit stayed above \$1.0bn.
- Terms of trade in Q2 stayed almost unchanged from the previous quarter, as both export and import price indices (EPI and IPI) increased.
- Both export and import growth momentum fell in June suggesting slower trade growth going forward.



Sources: CEIC, ANZ Research

EXPORTS TO CHINA SURGED IN Q2

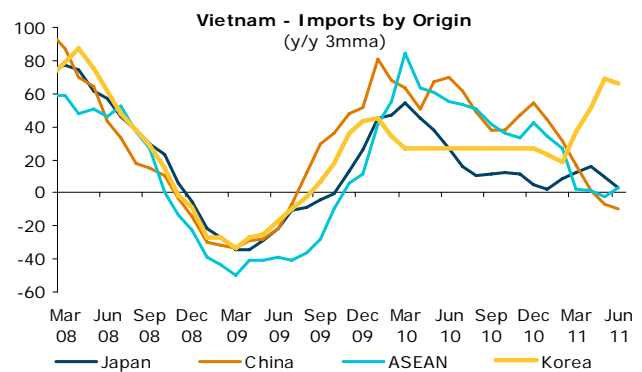
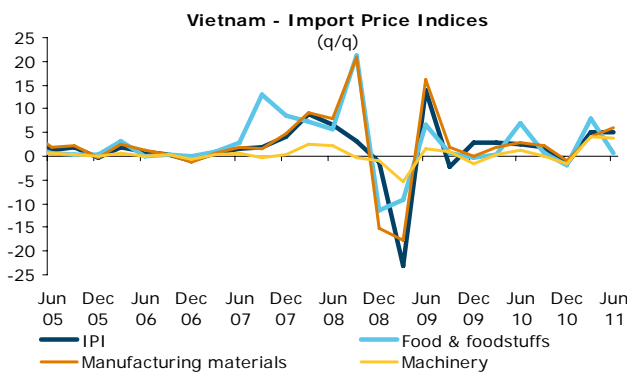
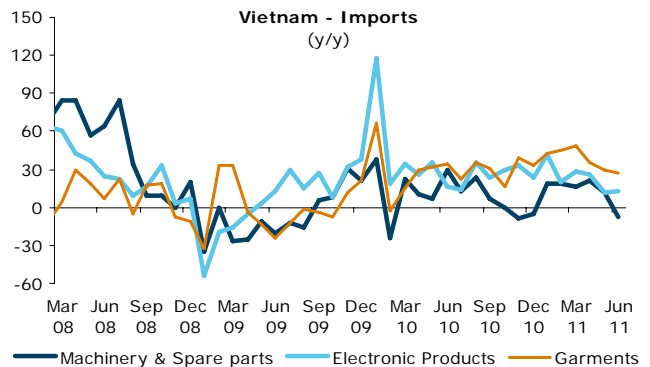
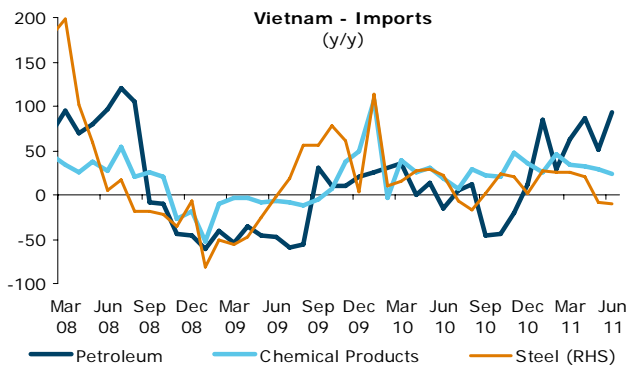
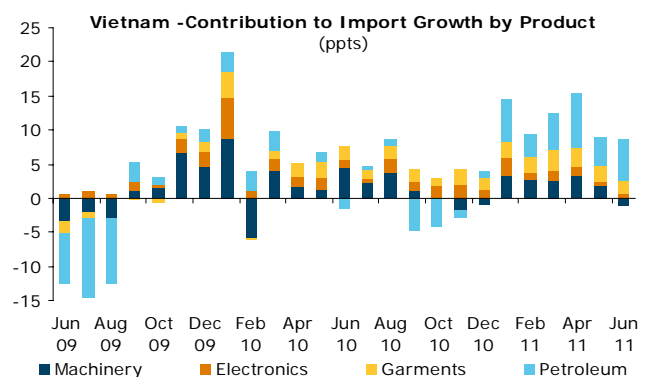
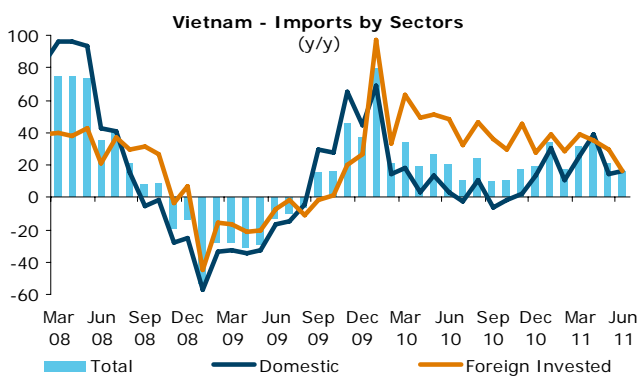
- Export growth fell to 25.1% in Q2 from 35.8% previously. Export growth varied across major products: crude oil, textiles and footwear stayed strong, while rice and electronics fell.
- Export growth surged to 23.5% y/y in June from 14.6% in May, as shipments from the domestic sector increased. Rice exports led growth, whereas crude oil exports fell both in quantity and value. Gold exports accelerated and contributed roughly 1.3ppts to June's total export growth.
- The manufacturing material EPI accelerated 12.8% in Q2 and drove up the overall EPI. Meanwhile, the food and consumer product EPI fell.
- In terms of destination, exports to China grew strongly in Q2 due to surges in shipments of food and mineral products, while growth in exports to other major markets was down.



Sources: CEIC, GSO, ANZ Research

IMPORTS: GROWTH FELL ACROSS MAJOR PRODUCTS, BAR PETROLEUM

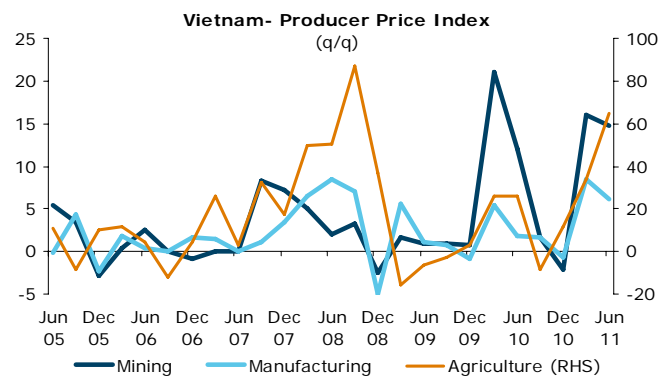
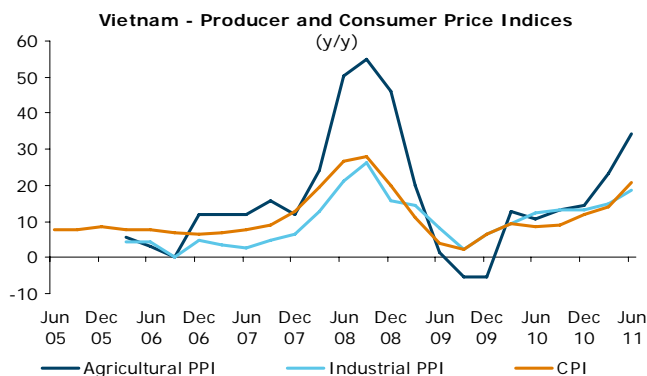
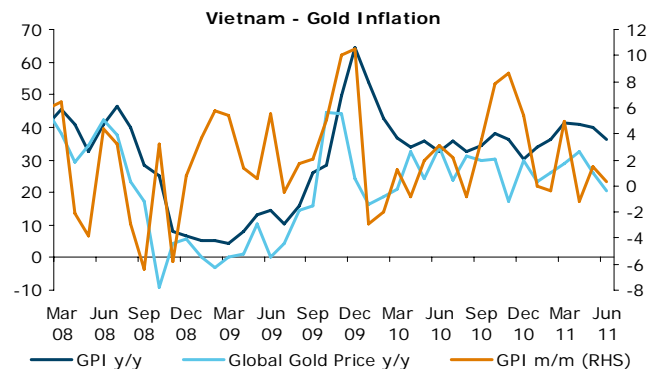
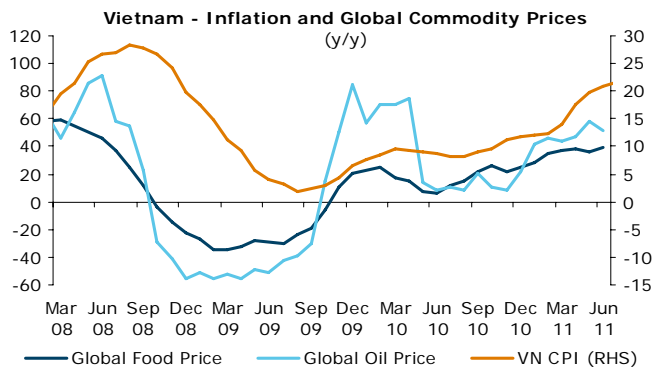
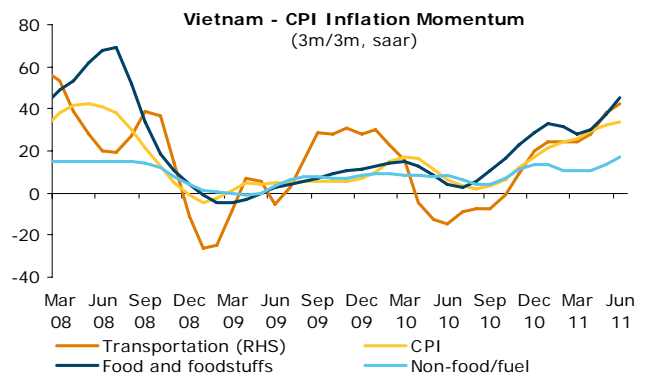
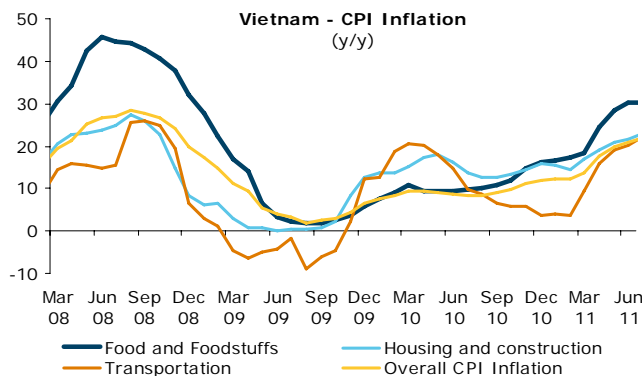
- Import growth eased to 16.2% y/y in June from 20.5% in May. Growth in the domestic sector edged up while that in the FDI sector fell. On a month-on-month basis, import value contracted for the second consecutive month.
- Growth fell across all major product imports in Q2, except petroleum. Petroleum imports surged 75.0% in terms of value, and by 18.3% in terms of quantity.
- Machinery import growth fell for the first time since December 2010. The 7.2% y/y fall implies a scale-down of production activities.
- In terms of origin, imports from Korea accelerated, but fell elsewhere in Q2.



Sources: CEIC, ANZ Research

PRICES: CPI INFLATION MOMENTUM PEAKED IN JUNE, Y/Y INFLATION WILL SOON FOLLOW

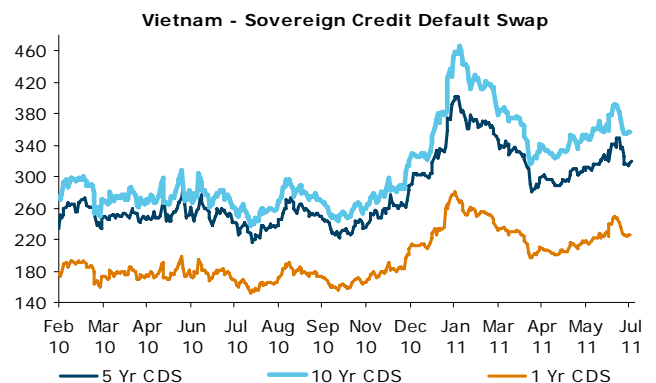
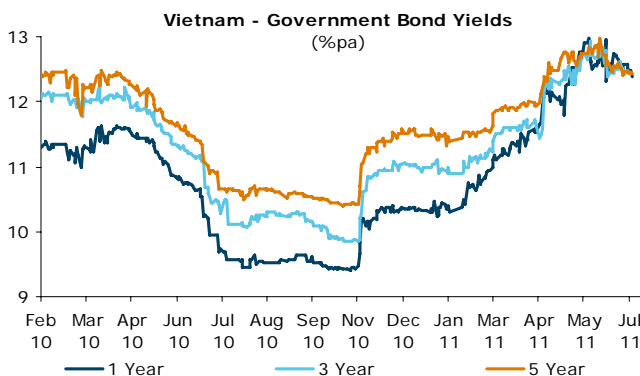
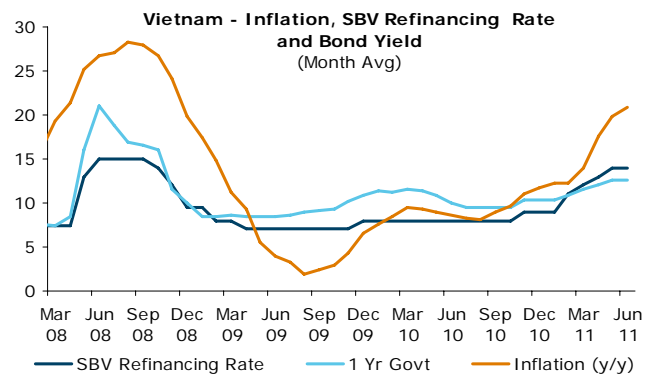
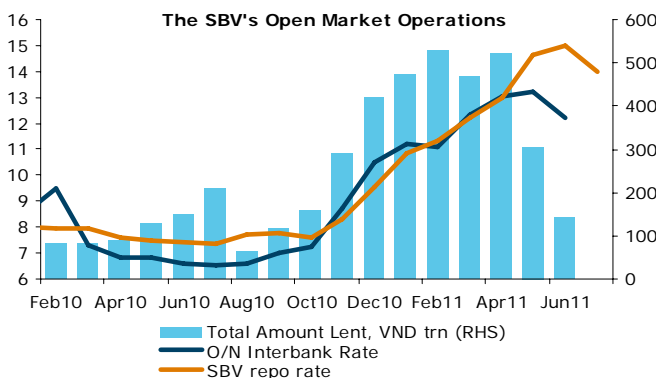
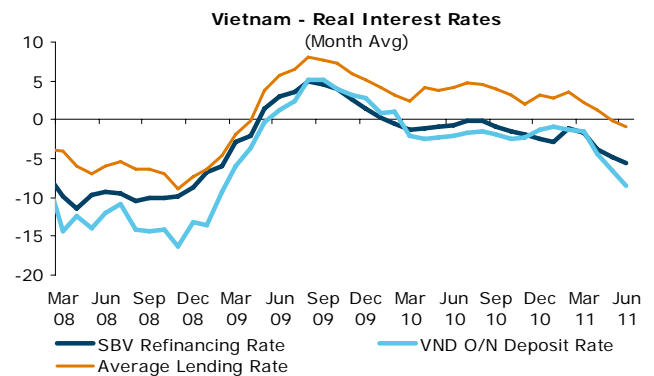
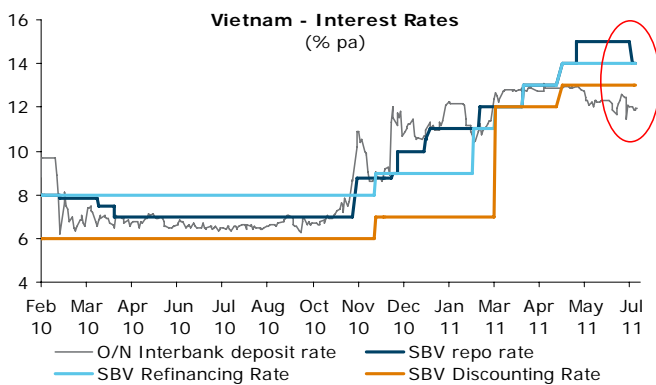
- CPI inflation rose to 20.8% y/y in June, the highest level since December 2008, from 19.8% in May. On a monthly basis, inflation climbed 1.1%, compared with 2.2% in May, driving Q2 CPI up 6.6% q/q.
- Food and foodstuff prices rose 30.2% y/y and contributed 12.0ppts to total CPI inflation. Transportation prices climbed 20.3%, while housing and construction material prices rose 21.7%. Core inflation continued to increase to 13.1% from 10.4% in May, suggesting that underlying inflation pressures persisted.
- On a momentum basis, CPI inflation must have peaked in June at 33.4% 3m/3m, saar, suggesting that headline inflation will soon follow. We therefore expect y/y CPI inflation will peak at above 22.0% in Q3.
- Agricultural and industrial producer price indices climbed 34.4% and 18.5% y/y, respectively, in Q2 compared with 23.2% and 14.9% in Q1. Producers' inflation momentum surged across all categories as well.



Sources: CEIC, Bloomberg, ANZ Research

RATES: THE CENTRAL BANK UNEXPECTEDLY CUT THE REPO RATE

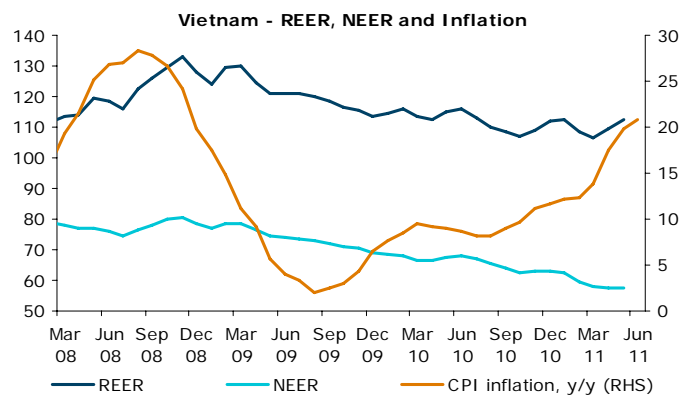
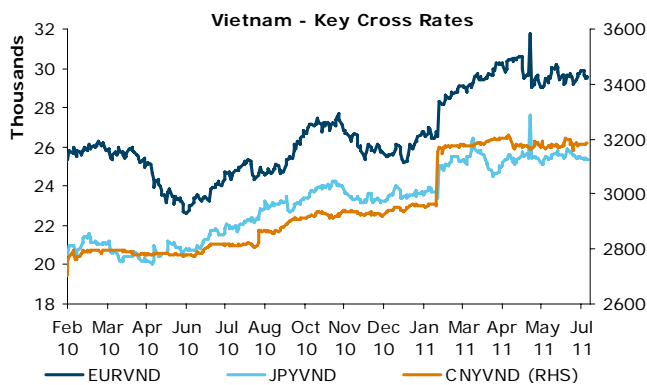
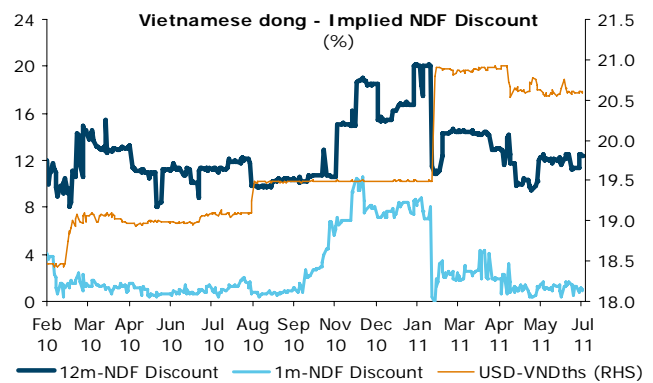
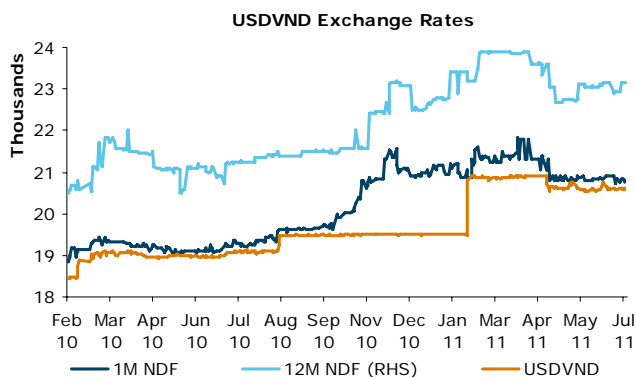
- The SBV cut the repo rate by 100bps to 14.0% on 4 July. Total money lent in the SBV daily open market operations fell for a second month in June.
- Interbank interest rates fell in June as bank liquidity improved. Meanwhile, deposit and lending interest rates on the primary market remained elevated.
- Government bond yields fell to around 12.5% in June from 12.6-12.8% in May. The yield spread between short and longer tenor bonds have closed in the last two months.
- The five-year sovereign CDS spread increased by more than 3.0% from end-May, after falling gradually from February to April.
- **ANZ Assessment:** As real interest rates remain largely negative, we think the repo rate cut was a premature loosening of monetary policy that will support credit and money growth in the next quarter and pose a risk for inflation momentum.



Sources: Bloomberg, ANZ Research

FOREIGN EXCHANGE: THE USDVND RATE REMAINS STABLE, FOR NOW

- The dong had another stable month in June with the USDVND rate around 20,600 levels.
- While the 1-month NDF discount is negligible, the implied yield on the 12-month NDF curve stabilised around 11.5-12.5%. This suggests that markets still expect the dong to depreciate in the next 12 months.
- Our calculation of the dong's real effective exchange rate (REER) appreciated by 3.1% m/m in May, while its nominal effective exchange rate (NEER) appreciated by a mere 0.7%, as the inflation differential between Vietnam and its major trading partners widened.
- With high inflation and an appreciating REER that will affect the fragile balance of payments position, we think stability of the dong cannot be sustained beyond 2011.



Sources: Bloomberg, ANZ Research

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