

The Anh Pham, PhD
Chief Economist
Email: anhpt@thanglongsc.com.vn



Head Office: 6th Floor, Toserco Building,
273 Kim Ma, Ba Dinh, Hanoi
T: +84 (043) 726 2600
F: +84 (043) 726 2601

Ho Chi Minh Branch:
2nd Floor, 1-5 Le Duan, 1 District,
Ho Chi Minh City
T: +84 (083) 910 6411
F: +84 (083) 910 6412

Ly Nam De Trading Centre:
14C Ly Nam De, Hoan Kiem, Hanoi
T: +84 (043) 733 7671
F: +84 (043) 733 7670

Hoang Quoc Viet Trading Centre
126 Hoang Quoc Viet, Cay Giay, Hanoi
T: +84 (043) 755 7668
F: +84 (043) 755 7658

Ton Duc Thang Trading Centre:
02 Ton Duc Thang, 1 District,
TP Hồ Chí Minh
T: +84 (083) 910 2215
F: +84 (083) 910 2216

www.thanglongsc.com.vn

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Executive Summary

Inflation was reported to increase by 4.49% since the beginning the year. The year-on-year inflation has been on a slight upward trend since August.

Food and food stuff prices started rising while non-food prices fell significantly in October.

This month industrial production was estimated to grow at about 11.9% as compared to the same period last year. The figure implied a strong recovery of the industrial and construction sector.

Domestic demand was relatively high with retailed sales of consumption goods and services growing by 18% in the first ten months. State budget investment accelerated.

Export improved slightly over time. October export was estimated at about \$4.75 billion.

Contracted FDI rose significantly recently. The total volume so far this year was about \$18.9 billion while the realized amount also increased to \$8.5 billion.

Credit rose by over 31% since the beginning of the year which is higher than the whole year target set by the SBV.

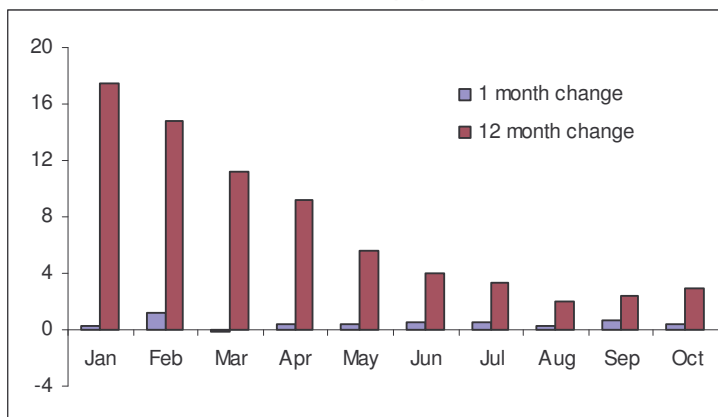
The second stimulus package which will focus on the interest rate subsidy in 2010 was approved by the government.

Our two models predict a moderate rate of next month inflation of about 0.59-0.74%.

Inflation

In October, the 1-month change in the CPI was reported at 0.37%. Meanwhile, the year-on-year inflation shows its slight upward trend since August. In particular, this month it rose to 2.99% from 2.42% in September and 1.97% in August. Since the beginning of the year, the CPI has grown by 4.49% which is very positive as compared to what people expected before the government carried out the economic stimulus package. Inflation is still under control and we expect no tightening action from the SBV in the coming time.

Chart 1: The Consumer Price Index in 2009 (%)

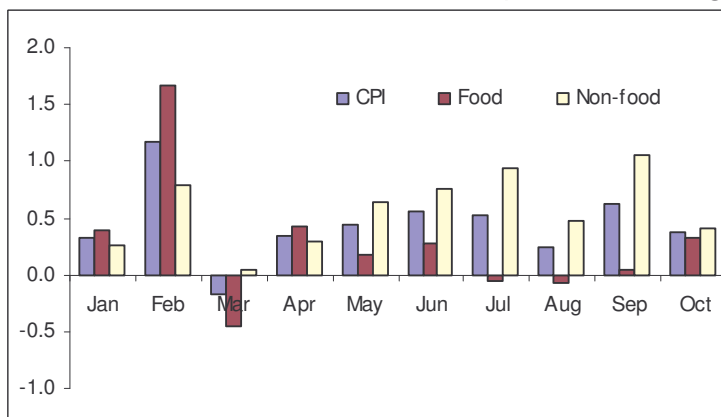


Source: GSO

After remaining low and stable in quarter 3, food and food stuff prices went up to 0.32% in October. Meanwhile non-food prices fell remarkably to 0.41%. Since food & food stuff account for nearly 43% of the CPI basket then the fluctuations in their prices would cause most fluctuations in the overall price level. Due to seasonal pattern, food & food stuff prices and hence overall inflation, are expected to accelerate for the rest of the year.

Items that contributed remarkably to the rise in the none-food prices in the last three months include transport & communication (rose by more than 1.48% each month on average due to the recent increase in petroleum prices) and education (rocketed by 4.33% in September and 0.73% in October due to the rising demand in the event of new school year opening. The price inflation of housing & construction materials tends to slow down however it remains relatively high at about 0.55% in October. Garment and home appliances are also other items that had a considerable increase in prices recently.

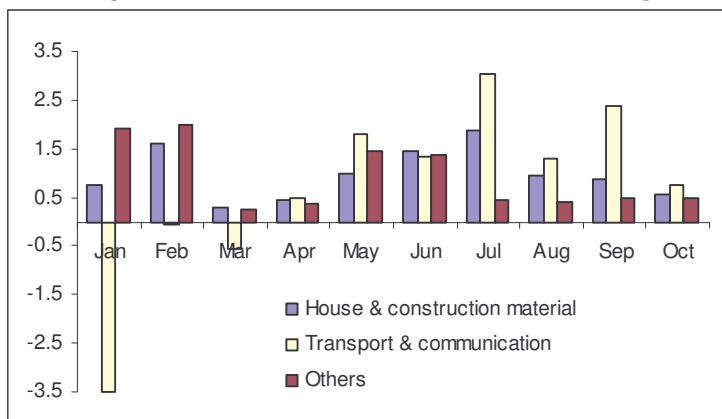
Chart 2: The Food and Non-food Price Index in 2009 (% , 1 month change)



Source: GSO

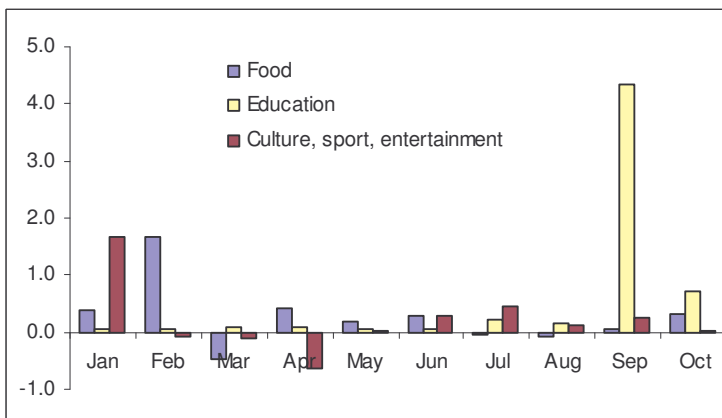
In addition, an increase in petroleum prices and a slight but consistent depreciation of VND against USD over time have put added upward pressure on CPI inflation. The USD price index and the home gasoline price have gone up approximately 5.74% and 41% respectively since the beginning of the year. Moreover, money supply (M2) and credit growth are reported to be around over 23% and 31% respectively pushing up inflation pressure for coming time.

Chart 3: Price Change in Some Selected Items (% , 1 month change)



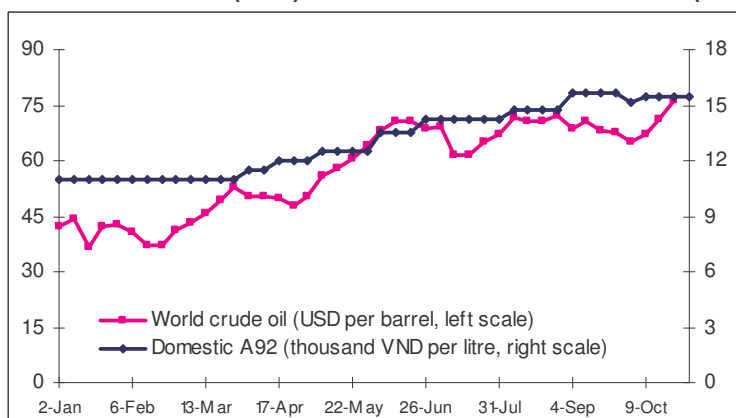
Source: GSO

Chart 4: Price Change in Some Selected Items (% , 1 month change)



Source: GSO

Chart 5: The World Crude Oil (FOB) and Domestic Petroleum Prices (A92)

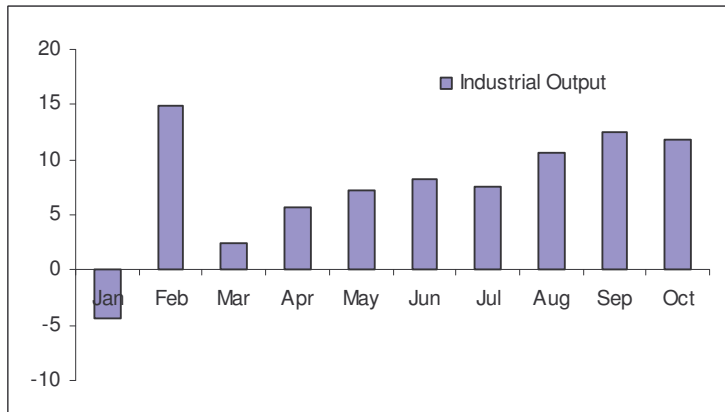


Source: EIA and MoF

Other Economic Indicators

Industrial production shows that the economy is being in a recovery trend. October real industrial output was estimated to grow by about 11.9%, making the first 10-month industrial output growth of around 7% as compared to the same period last year. The figures are expected to be even higher at the end of the year.

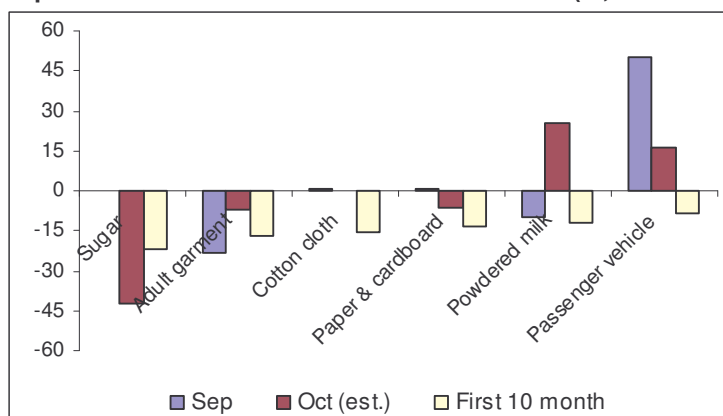
Chart 6: Industrial Output Growth in 2009 (% , 12 month change)



Source: GSO

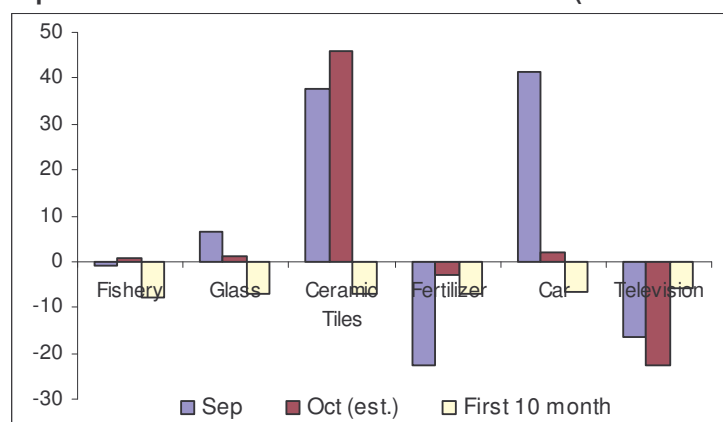
October witnessed a remarkable increase in production of some sub-industries including powdered milk, ceramic tiles, and cement. For the first ten months, fridges and freezers, detergent, cement, steel rod, and synthetic leather are those with high growth rate in real output, ranging from 16-30% as compared to the same period in the previous year. Meanwhile, sugar, adult garment, and cotton cloth are those with a sharp fall in output resulted from decreased exports in these sub-industries. Their production has fallen by about over 15% each. The production of some selected sub-industries is illustrated in Figure 7a-d.

Chart 7a: Output Growth in Some Selected Sub-Industries (% , 12 month change)



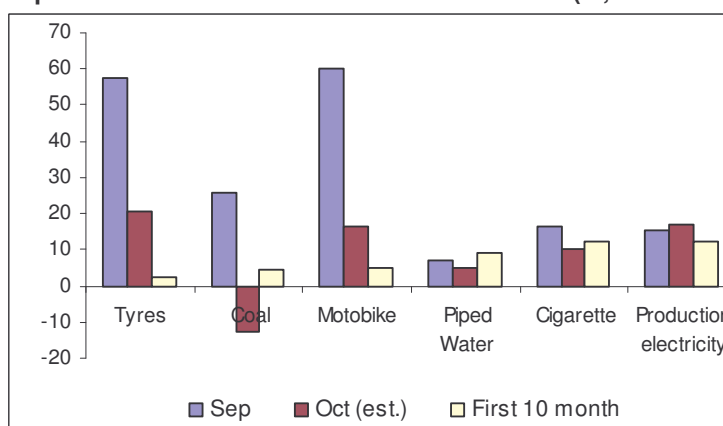
Source: GSO

Chart 7b: Output Growth in Some Selected Sub-Industries (12 month change)



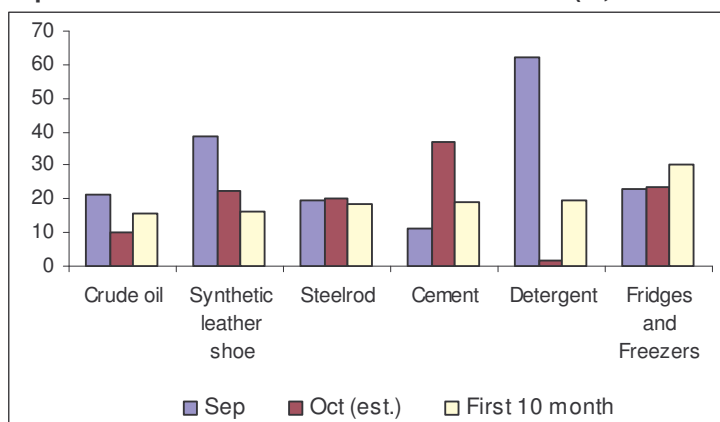
Source: GSO

Chart 7c: Output Growth in Some Selected Sub-Industries (% , 12 month change)



Source: GSO

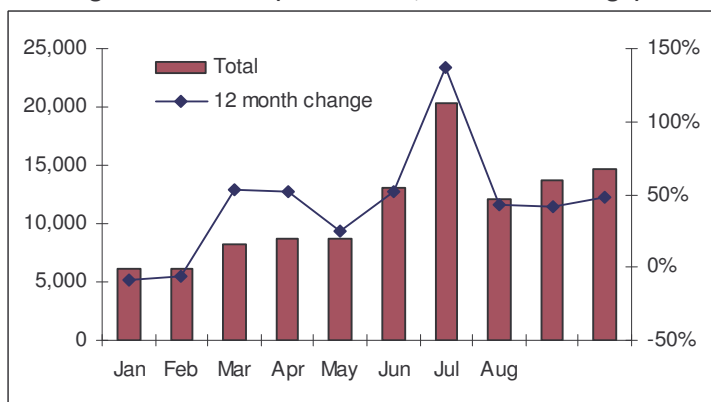
Chart 7d: Output Growth in Some Selected Sub-Industries (% , 12 month change)



Source: GSO

Domestic demand was relatively high with the first 10 month retail sales of consumption goods and services growing by over 18% as compared to the same period last year. Meanwhile, the corresponding figure of state budget investment was nearly 50%. So far this year, about VND111,338 billion, which accounts for 74% of the total planned, of state budget investment has been disbursed. As expected, the expenditure has been accelerating for the last three months.

Chart 8: State Budget Investment (VND billion, 12 month change)

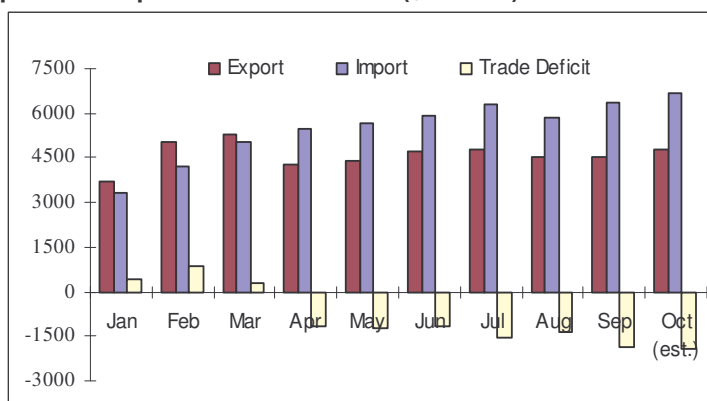


Source: GSO

Both export and import increased slightly in the last few months. However, the first 10-month export and import fell significantly by 13.8% and 21.7% respectively as compared to the same period in 2008. The fall in export was mainly due to the decline in prices. And the fall in import occurred in almost all items. Total trade deficit so far this year was about \$8.7 billion and it tended to increase recently.

Export of natural minerals and agricultural products were more heavily affected by the international economic crisis. In particular, crude oil and coal fell by more than 43% and 19% respectively for the first ten months as compared to the same period last year. Meanwhile, rubber and coffee declined by over 41% and 17% respectively. Some other products such as electronic cable, porcelain & pottery, and bamboo & rattan also decreased by over 20%. In contrast, pepper, fruit & vegetable, tea were among very few products which had positive growth in export.

Chart 9: Export and Import of Goods in 2009 (\$ million)

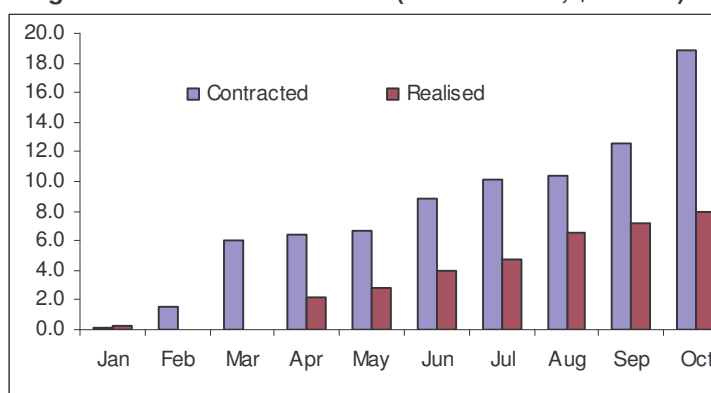


Source: GSO

The 10 month volume of contracted FDI was estimated at about \$18.9 billion decreasing significantly by 72.9% as compared to the same period last year. A large proportion of which was committed into food & beverage, hotel & tourism services, manufacturing, and real estate. In terms of origin countries, the US, the Samoa Islands, Taiwan, South Korea, the Virgin Islands, and Hong Kong are among other top investors with investment ranging from \$1-4 billion each.

Meanwhile, the volume of realized FDI continued to rise steadily. In October, it rose by about \$0.8 billion. The total realized FDI so far this year has been about \$8 billion, which fell by over 12%. The figure is really impressive under the context of the global economic downturn and shows that Vietnam is still a relatively attractive environment to foreign investors. The Ministry of Planning and Investment expected that Vietnam this year would receive \$20 billion in contracted FDI, nearly one third of the record amount achieved last year. However, the realised FDI is expected to end up around last year's figure of \$11 billion.

Chart 10: Foreign Direct Investment in 2009 (Accumulated, \$ million)



Source: GSO

Monetary Policy

At the end of October, the second economic stimulus package in 2010 has been approved by the government. The package will fully focus on the interest subsidy scheme. However, the size of interest rate subsidy will be reduced to 2%. Moreover, only medium and long-term loans that are used for purchasing equipment can get the support until the end of 2010. Short-term loans for working capital will be supported by the end of

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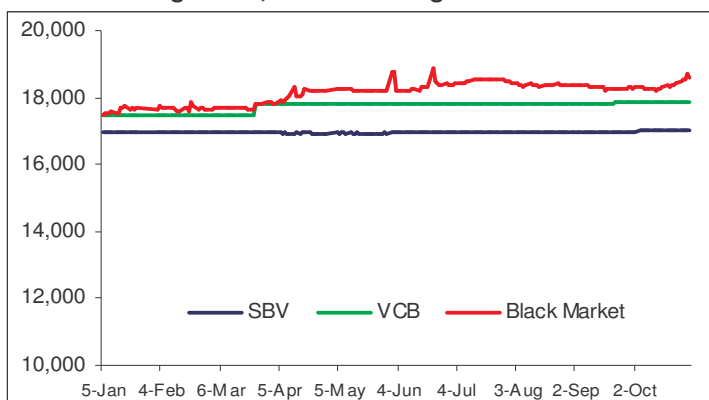
March next year only. No tax exemption was considered this time. The second stimulus program will certainly promote economic growth but also put the stabilization target at risk next year.

In October, the SBV continued to keep their base rate and discount rate unchanged at 7% and 5%, respectively. A ceiling lending interest rate of 150% above the base rate is maintained to help enterprises have access to low-cost loans. The rates are expectedly maintained for the rest of the year. In recent week, there has been an upward pressure on deposit rates at commercial banks. The rates increased by around from 0.2 to 0.4 percentage points.

After slowing down since June, both broad money and credit growth rose significantly in the last two months. Since the beginning of the year, money and credit growth was estimated at above 23% and 31% respectively. Credit growth has gone beyond the target level of 30% by the SBV, adding up inflation pressure and asset price bubble for the time to come.

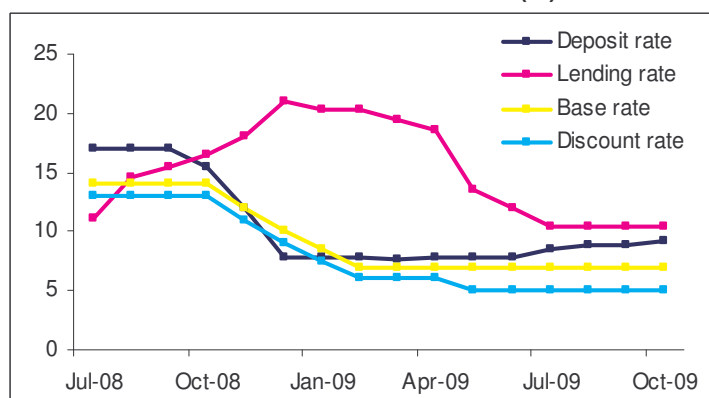
October also witnessed a slight but steady depreciation of VND against USD. The exchange rate set by the SBV and the VCB rose by about 0.11%. The rate in black market showed more fluctuations. Evidence from realized FDI, ODA, and remittance suggests that the trade deficit can be well covered in 2009. We expected that from now to the end of the year the SBV will continue to keep exchange rates stable and does not extend trading bands.

Chart 11: VND/USD Selling Rates, 1 Jan - 31 August 2009



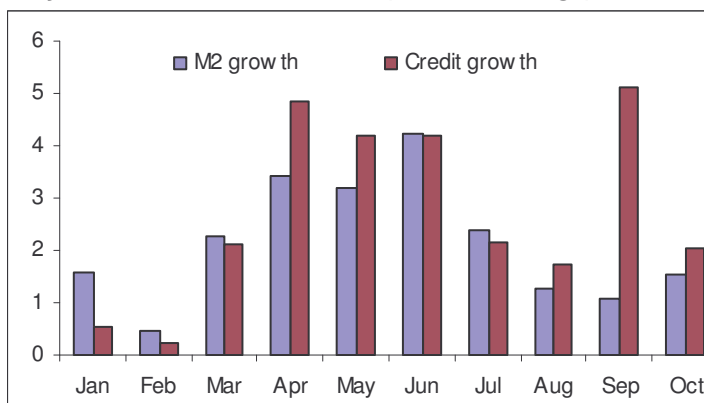
Source: SVB, VCB and others

Chart 12: Interest Rates from Jan 2008 – October 2009 (%)



Source: SBV

Chart 13: Money and Credit Growth in 2009 (1 month change)



Source: SBV

Forecast

In this section we build up some econometric models and do forecast for inflation. With a bear in mind that reality cannot be captured by any single model we attempt use different time series models. The analysis is done to produce projection for the next month. The projection for the month after that will be carried out based on update information coming in the next month.

In particular, we use the following types of models. The model 1 is Autoregressive Integrated Moving Average (ARIMA). The model uses historical variations in a time series to provide projection. The second model is based on statistical relationships between inflation and its possible determinants including past inflation, interest rates, oil prices, retail sales, export and others. Our two models predict a moderate rate of next month inflation of about 0.59-0.74%.

Table 1: Inflation Forecast (1 month change, %)

Model 1	June	July	August	Sep	Oct	Nov	Dec
Projected	0.47	0.49	0.72	0.56	0.60	0.59	--
Actual	0.55	0.52	0.24	0.62	0.37	--	--
Model 2							
Projected	0.60	0.82	0.76	0.40	0.49	0.74	--
Actual	0.55	0.52	0.24	0.62	0.37	--	--

This product

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