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Vietnam June CPI and trade data: Inflationary pressures persisted and the trade deficit narrowed

Exhibit 1: Headline and food inflation

	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct
CPI - Headline									
% yoy	**26.8**	25.2	21.4	19.4	15.7	14.1	12.6	10.0	9.3
% mom (sa)	**2.1**	3.9	2.5	3.8	1.8	1.8	2.5	1.3	1.2
CPI - Food									
% yoy	**74.3**	67.8	38.2	30.1	17.7	17.2	15.4	14.7	16.0
% mom (sa)	**3.3**	24.2	6.1	11.3	1.5	2.3	1.8	1.4	1.7

Source: GSO, Goldman Sachs Economics Research.

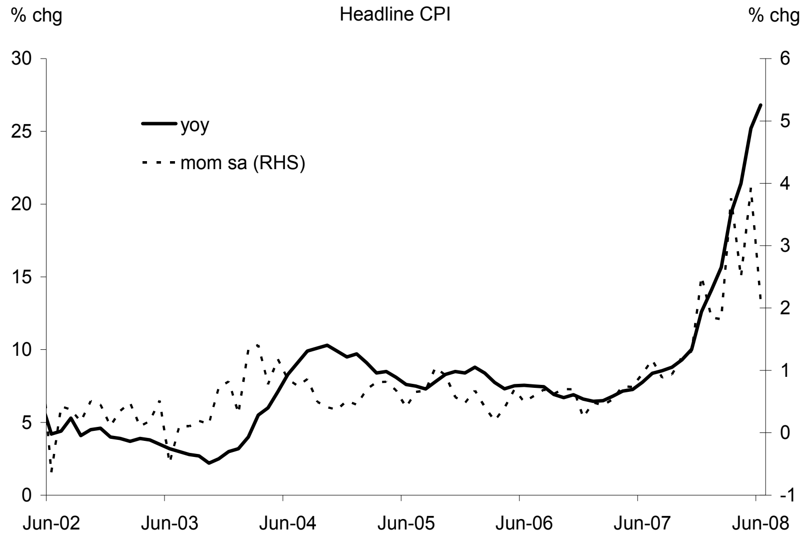
June CPI inflation came in at 26.8% yoy, slightly higher than 25.2% yoy in May. However, in sequential terms, CPI inflation eased to 2.1% mom on a seasonally-adjusted basis in June, down from 3.9% mom in May. Food prices are estimated to have increased by 74.3% yoy and were probably driven by higher rice prices. Although rice prices have come down from its peak levels in May, they are still much higher compared to their levels a year ago. Given the price pressures in the international rice market, we believe a significant decline by another 30%-40% from current price levels is unlikely in the near term. Therefore, we maintain our view that headline CPI inflation will stay at elevated levels in year-on-year terms in the coming months.

Exports growth remained strong at 31.4% yoy in June, compared to 31.8% yoy in January–May. Imports growth decelerated to 35.7% yoy, down from 69.8% yoy in January–May. Meanwhile, the trade deficit narrowed to US$1.3 billion in June, down from US$2.85 billion in May. We believe the slowdown in imports growth reflected the impact of the credit controls and the cutting of investment projects that the Vietnamese government has undertaken in the past months, whereas the total trade imbalance of US$14.8 billion in 1H2008 (compared to US$5.2 billion in 1H2007) still highlights the risks to Vietnam's external account stability.

The State Bank of Vietnam also announced an expansion of the daily USD/VND trading band from +/-1% to +/-2% around an official mid-rate announced by the central bank, effective on June 27. In addition, the monetary authority also banned USD/VND trading through a third currency. In our view, these moves did not deliver any surprises to the market, given the central bank had previously telegraphed its intention to increase the daily trading band before the end of this year as well as to gradually eliminate the gap between official and black-market rates. We do not expect significant downward pressures on the VND from this move, since the official USD/VND rate will still be controlled within the band and the offshore market will likely take into account the slightly more favorable June data.

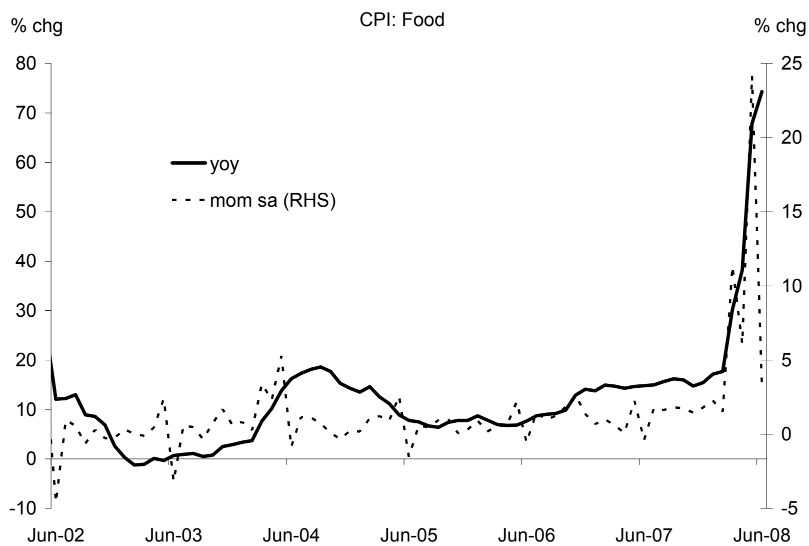
In our view, the set of macro data in June carried encouraging signs of easing inflationary pressures (in sequential terms) and decelerating imports growth, but it is still too early to dismiss the warning on macro instability risks. We believe the Vietnamese government will have to watch for any further accumulation of inflationary pressures (especially on food) vigilantly and use monetary and fiscal measures to ensure a soft landing of the economy and control inflation.

Exhibit 2: Inflationary pressures persisted despite easing sequential momentum



Source: GSO, Goldman Sachs Economics Research.

Exhibit 3: Food price surges continue to push up headline inflation



Source: GSO, Goldman Sachs Economics Research.