Vietnam Update: Further Signs of Confidence Returning

20 August 2008

Markets Asia Team:

EconsAndResearchAsia@anz.com

Author:

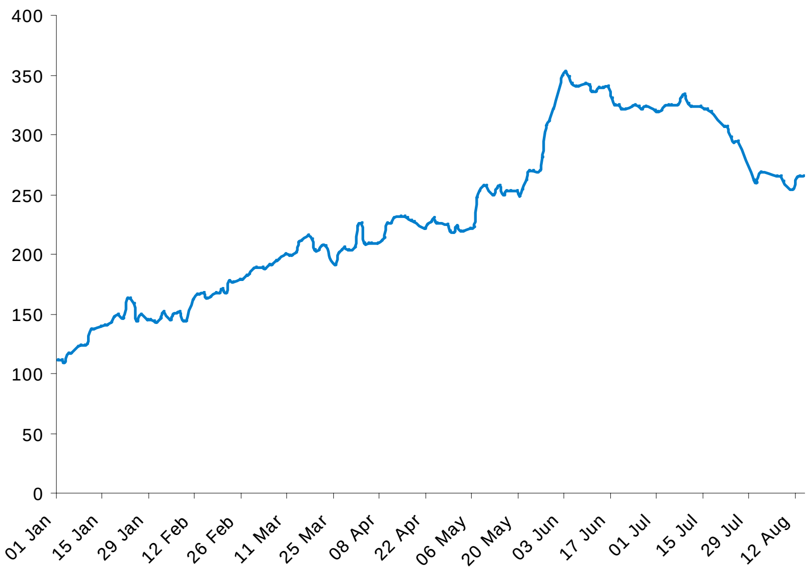
Ivy Tan
Associate Director, Credit Research
+65 6419 7914
Ivy.Tan@anz.com

Recent data out of Vietnam continue to suggest that the government's measures to stabilize the economy and restore investor confidence are paying off.

Bond Market Warming Up

Vietnam's State Treasury had another successful bond underwriting session yesterday, raising around VND1.5 trillion (US$90 million). The Treasury sold VND835 billion worth of 2-year bonds and VND695 billion worth of 3-year bonds, both with a coupon of 16.5%. This was 100 basis points below the last underwriting session on 8 August. Offshore accounts played a strong part in the session and took up the majority of the issuance, but onshore accounts were also seen participating. The yield on the benchmark 5-year government bonds has now fallen to 16.6%, and the 5-year sovereign CDS spread has narrowed by 75 basis points since its mid-June high, although it still remains well above levels seen in late 2007.

Vietnam - Sovereign CDS Spread (5 yr)



Vietnamese Dong Implied NDF Discount Declining

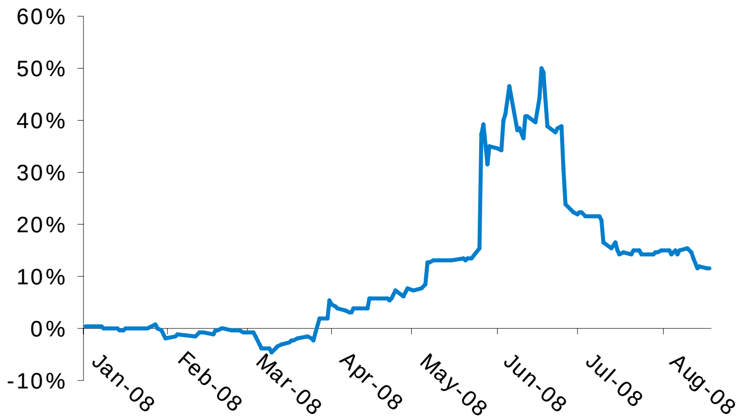
The implied NDF discount (computed as the difference between the VND 12M forward rate against the VND/USD spot rate, in percent) has continued its downward decline that began in mid-June. The discount has narrowed

Our Vision:

For Economics & Markets Research to be the most respected, sought-after and commercially valued source of economics and markets research and information on Australia, New Zealand, the Pacific and Asia.

significantly from a high of 49% on 19 June 2008 to 11.5% on 19 August.

Vietnamese Dong - Implied NDF Discount



Source: Bloomberg

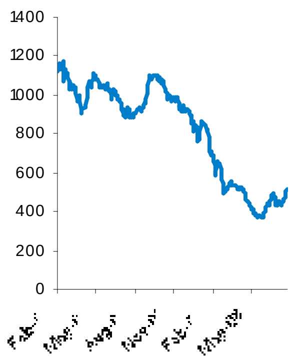
This measure, which we interpret mainly as a gauge of foreign investor sentiment on the probability of a large devaluation, suggests that fears of such an event have faded significantly, but not disappeared entirely.

Stock Indices Beginning to Recover

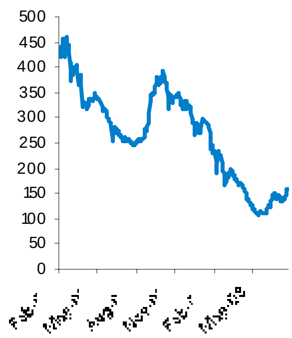
On the equity front, both the Ho Chi Minh and Hanoi stock markets have rallied sharply since mid-June, with significant net buying from foreign investors, which has been positive in every week since May, except one. The Ho Chi Minh stock index is up by 39% from its low in June, while the Hanoi stock index is up by 47%. That being said, both indices remain well below their highs of late 2007.

Trading activities in the equity market will be further boosted by the government's announcement on 14 August to widen the trading limits for share movements on its two domestic stock exchanges. The limits for the Ho Chi Minh City Stock Exchange and Hanoi Securities Trading Centre have been widened to 5% (from 3%) and 7% (from 4%), respectively.

Ho Chi Minh Stock Index



Hanoi Exchange Stock Index



Source: Bloomberg

Conclusion

These positive signs indicate that investor confidence is slowly returning to Vietnam, and suggest that the stabilization measures implemented in June are beginning to bear fruit. We would also note that inflation, which we will be examining in greater detail in an upcoming paper, is also easing owing in part to favourable (exogenous) developments in food and commodity prices.

However, in our view it is too early to declare victory. As we noted in “The Confidence Game” (17 June 2008), growth needs to slow in order to restore macroeconomic and financial balance. This means that interest rates need to remain at levels that (i) make it attractive for domestic savers to hold dong-denominated deposits and (ii) result in credit growth commensurate with a more moderate pace of GDP and import growth. In addition, the apparent normalization in the currency market needs to reflect genuine responses to market prices rather than the outcome of administrative or other stop-gap measures.

The key risk at this juncture is that the authorities may relax policies too soon, resulting in a renewed surge in imports and renewed downward pressure on the dong. That would be a pity as it would nullify the gains achieved to date.

Contacts

ANZ Economics & Markets Research

Saul Eslake
Chief Economist
+61 3 9273 6251
Saul.Eslake@anz.com

Fiona Allen
Business Manager
+61 3 9273 6224
Fiona.Allen@anz.com

Tony Pearson
Deputy Chief Economist, Industry and Strategic Research
+61 3 9273 5083
Tony.Pearson@anz.com

Mark Rodrigues
Senior Economist, Industry and Strategic Research
+61 3 9273 6286
Mark.Rodrigues@anz.com

Julie Toth
Senior Economist, Industry and Strategic Research
+61 3 9273 6252
Julie.Toth@anz.com

Warren Hogan
Co-Head of Australian Economics and Interest Rates Research
+61 2 9227 1562
Warren.Hogan@anz.com

Sally Auld
Co-Head of Australian Economics and Interest Rates Research
+61 2 9227 1809
Sally.Auld@anz.com

Katie Dean
Senior Economist, Australian Economics and Interest Rates Research
+61 3 9273 1381
Katie.Dean@anz.com

Riki Polygenis
Economist, Australian Economics and Interest Rates Research
+61 3 9273 4060
Riki.Polygenis@anz.com

Dr. Alex Joiner
Economist, Australian Economics and Interest Rates Research
+61 3 9273 6123
Alex.Joiner@anz.com

David Croy
Strategist, Australian Economics and Interest Rates Research (London)
+44 20 7378 2070
David.Croy@anz.com

Patricia Gacis
Strategist, Australian Economics and Interest Rates Research
+61 2 9227 1272
Patricia.Gacis@anz.com

Jason Hill
Credit Analyst
Jason.Hill@anz.com

Amy Auster
Head of Foreign Exchange and International Economics Research
+61 3 9273 5417
Amy.Auster@anz.com

Tony Morriss
Senior Currency Strategist, Foreign Exchange and International Economics Research
+61 2 9226 6757
Tony.Morriss@anz.com

Jasmine Robinson
Senior Economist, Foreign Exchange and International Economics Research
+61 3 9273 6289
Jasmine.Robinson@anz.com

Amber Rabinov
Economist, Foreign Exchange and International Economics Research
+61 3 9273 4853
Amber.Rabinov@anz.com

Mark Pervan
Head of Commodities Research
+61 3 9273 3716
Mark.Pervan@anz.com

Amber Rabinov
Economist, Commodities Research
+61 3 9273 4853
Amber.Rabinov@anz.com

Paul Braddick
Head of Property and Financial System Research
+61 3 9273 5987
Paul.Braddick@anz.com

Ange Montalti
Senior Economist, Property and Financial System Research
+61 3 9273 6288
Ange.Montalti@anz.com

Dr. Alex Joiner
Economist, Property and Financial System Research
+61 3 9273 6123
Alex.Joiner@anz.com

Stephanie Wayne
Research Analyst, Property and Financial System Research
+61 3 9273 4075
Stephanie.Wayne@anz.com

Paul Gruenwald
Head of Economics and Research, Markets Asia
+65 6419 7902
Paul.Gruenwald@anz.com

Tamara Henderson
Director of Currency and Rates Strategy, Markets Asia
+65 6419 7930
Tamara.Henderson@anz.com

Ivy Tan
Associate Director, Credit Research, Markets Asia
+65 6419 7914
Ivy.Tan@anz.com

Chang Wei Liang
Analyst, Markets Asia
+65 6216 1838
Weiliang.Chang@anz.com

Research & Information Services

Mary Yaxley
Head of Research & Information Services
+61 3 9273 6265
Mary.Yaxley@anz.com

Marilla Rough
Senior Information Officer, R&IS
+61 3 9273 6263
Marilla.Rough@anz.com

Manesha Jayasuriya
Information Officer, R&IS
+61 3 9273 4121
Manesha.Jayasuriya@anz.com

ANZ New Zealand Research

Cameron Bagrie
Chief Economist
+64 4 802 2212
Cameron.Bagrie@anz.com

Khoon Goh
Senior Economist
+64 4 802 2357
Khoon.Goh@anznational.co.nz

Philip Borkin
Economist
+64 4 802 2199
Philip.Borkin@anznational.co.nz

Steve Edwards
Economist
+64 4 802 2217
steve.edwards@anznational.co.nz

Kevin Wilson
Rural Economist
+64 4 802 2361
Kevin.Wilson@nbnz.co.nz

Important Notices

Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522
10th Floor 100 Queen Street, Melbourne, Victoria, 3000, Australia
Telephone: +61 3 9273 6224   Fax: +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom
Telephone: +44 20 3229 2121   Fax: +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of FINRA and SIPC)
6th Floor 1177 Avenue of the Americas
New York, NY 10036, United States of America
Tel: +1 212 801 9160   Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited
Level 7, 1-9 Victoria Street, Wellington, New Zealand
Telephone: +64 4 802 2000