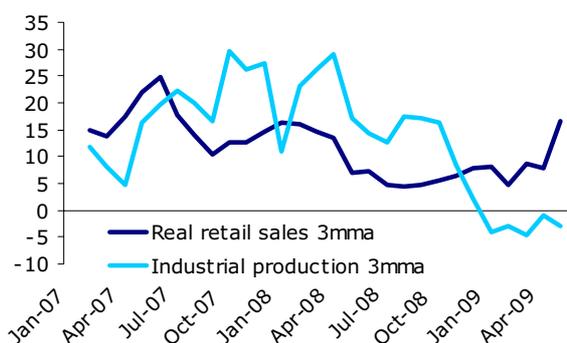
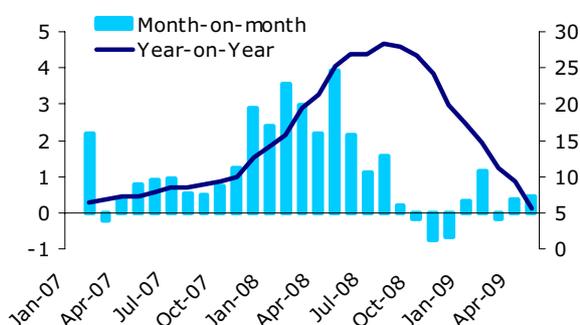


## Country Update: Vietnam

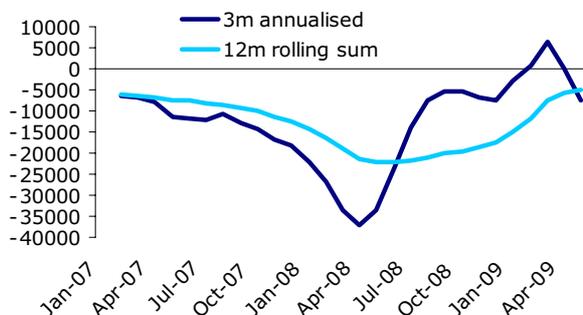
Vietnam - Domestic Demand Indicators



Vietnam - Inflation



Vietnam - Trade Balance (USD mn)



**The stimulus plan seems to be gaining traction. Industrial output growth is recovering and lending to construction has picked up. Inflation continues to fall. The external environment remains weak and a sizeable monthly trade deficit has re-emerged. Growth should rise going forward, but will remain well below trend.**

- Domestic demand momentum looks increasingly solid. Real retail sales growth picked up to 18% (y/y) in May with across the board strength. Industrial output rose by 6.8%, up 1½% over Apr, led by the non-state sector.
- Exports declined substantially in May, with growth falling to -26.0% (y/y) from -2.2% in Apr. Oil exports remain weak and precious metal shipments levelled off. Import growth was broadly unchanged at -24.9%. A sizeable trade deficit has reappeared in the past two months of around \$1.5bn.
- Inflation continues to fall as the spikes in the data from one year ago drop out of the calculations. May's CPI rose 5.6% (y/y), down from 9.2% in Apr; consumer prices rose 0.44% in the month.
- Foreign direct investment data remain soft. Pledges through May were down 76% from a year earlier. The US accounts for over half of the total, and the hotel and restaurant sector receives two-thirds of all FDI inflows. Actual disbursements were down 29% ytd.
- The State Bank of Vietnam announced that it will hold the policy rate steady at 7% during June. Separately, the central bank warned lenders to ensure credit quality as loans for property and stock investments have surged. SBV Governor Nguyen said lending should focus on production and SMEs.
- The government unveiled details of its \$8bn stimulus plan. Measures include a delay in corporate and personal tax payments, subsidized loans to companies, infrastructure projects, and guarantees to SMEs. DPM Nguyen said the fiscal deficit will be kept below 8% of GDP this year.
- While a recovery seems to be building, the official 2009 growth target of 6.5% looks nearly impossible to achieve. The worst is likely past, but we are forecasting growth of 4½% for Vietnam this year.

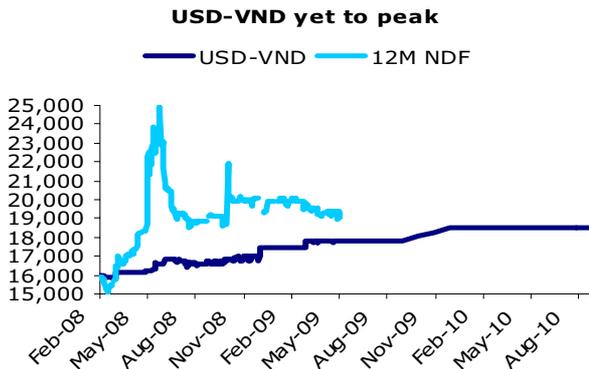
Paul Gruenwald

### Economic Data – Vietnam

Monthly data	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-
Industrial Production, % y/y	9.2	-0.3	0.5	-4.2	5.8	-12.2	1.4	N/A
Retail Sales ytd, % y/y	34.0	33.2	33.3	29.7	17.7	23.7	22.1	N/A
Consumer Price Index, % y/y	26.7	24.2	19.9	17.5	14.8	11.2	9.2	5.6
Exports ytd, % y/y	37.3	32.8	29.5	-24.3	5.4	7.4	2.1	N/A
Imports ytd, % y/y	45.0	37.6	32.7	-53.8	-43.8	-41.3	-40.2	N/A
Trade Balance, USD bn	-0.8	-0.6	-1.0	0.4	0.9	0.3	-0.7	N/A
Quarterly data	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Real GDP, % y/y	7.8	8.2	8.5	7.5	6.5	6.5	6.2	3.1
-Agricultural, forestry, fishery	2.8	3.1	3.7	3.2	3.3	3.8	3.8	0.6
-Industry and construction	9.7	10.1	10.6	8.0	7.0	7.0	6.3	1.4
-Services	8.5	8.6	8.7	8.3	7.6	7.2	7.2	5.6
Nominal GDP, VND tn	282.6	293.8	356.8	254.1	371.7	390.8	462.2	311.1
Foreign Exchange Reserves, USD bn	20.8	22.6	23.5	26.4	22.3	23.8	0.0	0.0

Sources: CEIC

## Vietnam: FX and Rates Strategy



**While we expect the authorities to sanction further weakening in the dong, the recent rally in risk and corresponding weakening in the USD suggests a move later, rather than sooner. Vietnam's growth outlook remains weak and inflation has plummeted, paving the way for further monetary easing to offset upward pressure in yields.**

### FX

A sustained rally in risk trades has taken some of the pressure off of the dong. In addition, addressing an imbalance in the supply and demand for onshore USD, the authorities have expanded currency swap arrangements with commercial banks and are considering other measures to reduce the preference of exporters to maintain their bank deposits in USD.

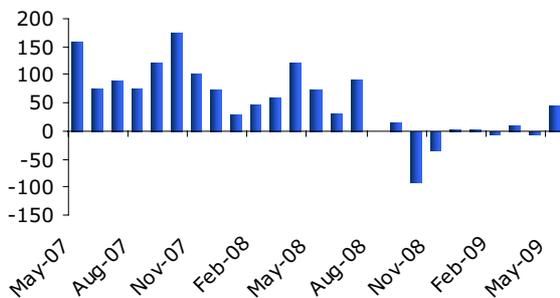
Meanwhile, press reports validate our expectation for a further 4% weakening in the dong this year. The SBV's Deputy Governor reportedly said that the dong is expected to fall up to 6% against the USD this year. Year-to-date, the dong has weakened nearly 2% so far.

### Rates

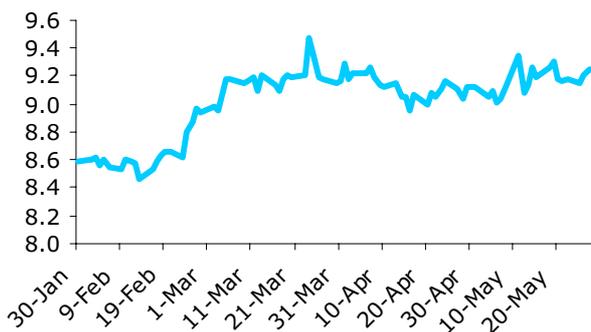
Upward pressure on bond yields continues to build, while a sharp drop in inflation provides scope for further monetary easing. Once again, the State Treasury failed to sell any of its VND 2trn offer in May as bidders at the auction demanded a higher yield than the government was willing to pay on the debt. The differential for the 2-year tenor has narrowed to a range of 30-160bps, with the government setting the cut-off at 8.4% in May versus 7.6% in April. At the same time, the government has announced plans to issue an additional VND 20trn in bonds this year.

The government's interest rate subsidy program (introduced in February and expanded in April) is also putting pressure on local rates, with banks having to raise dong deposit rates in order to raise more funds to meet increased loan demand. As of 10 April, banks had lent roughly half of the government's target of VND 420trln for 2009.

**Foreign equity flows recovered in May (\$ mln)**



**5Y VND GOV: Trapped in a range**



Tamara Henderson

### Market Forecasts - Vietnam

FX	Current	Ytd (%)	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
USD-VND	17,793	1.8%	17,800	18,500	18,500	18,500	18,500	18,500
AUD-VND	13,842	12.7%	12,800	12,600	12,200	12,000	12,000	12,200
NZD-VND	11,011	8.7%	9,600	9,400	8,900	8,600	8,700	8,900
JPY-VND	184	-4.4%	170	171	168	159	159	157
EUR-VND	24,601	0.7%	22,800	22,600	22,200	21,800	21,500	21,800
Rates	Current	Ytd (bps)	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
SBV's base lending rate	7.00	-150	7.00	6.50	6.50	6.50	6.50	6.50
Overnight VNIBOR	6.12	54	6.3	5.8	5.8	5.8	5.9	6.0
1year IRS (versus 3M VNIBOR)	8.00	-248	8.1	7.6	7.6	7.7	7.8	7.9
5-year IRS	9.14	-153	9.3	9.0	9.0	9.1	9.1	9.3

Sources: Bloomberg, ANZ

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