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Markets are rising on expectations of lower interest rates, and more macro stability

- **The SBV declared that its policy rates** (on refinancing, on deposit caps, on open market repos) would be lowered by 1% in the days to come (later specified to be Mar 13). This move follows previous declines in lending rates, interbank interest, and deposit returns already observed in the economy.
- **Even though such moves have been priced** in, bond and stock markets have responded strongly in expectations of more easing in monetary policy. The VN Index rose by 30% YTD by early March.
- **Inflation maintains an improving trend**, falling to 16.4% YOY and 2.4% YTD. This is in comparison to a peak of 23% YOY in Aug 2011 and 18% YOY at end of last year. With lower cost of funds for business, the CPI would continue a moderating trend.
- **The exchange rate VND/USD stays stable**, and even shows some improvement in favor of the VND when free market rates hovered about 20,820 and below the upper band ceiling of 21,036. The gap of free v. official USD prices has become negative.
- **A re-structuring of the banking system continues**, with a partition of banks into 4 groups with differential credit growth ceilings. This would have the effect of identifying weak banks for further remedial measures like mergers or acquisitions.
- **Many banks in Group 1 have shown their financial stability** by i) lowering lending rates to business borrowers , and ii) accepting deposit at less than the 14% cap permitted by the central bank.
- **A further group of 8 banks have been identified to be re-structured in Q2 going forward**. Liquidity remains an issue of concern but has been made less urgent by improvement (as can be seen in interbank rates moving down).
- **With a stronger VND, and adequate FX supply on open markets**, the SBV has moved in to purchase about 3 bln of USD to strengthen its official reserves. Such resources are necessary as active intervention is considered a policy tool to be deployed when appropriate.

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Equity market: Market moving up with help from lower interest rates.

- The market moved up by 20% in Feb and added a further 10% in early Mar. Financial stock do particularly well when the SBV announced a policy of reducing policy rates across the board.
- Market psychology received a boost when such monetary easing was announced, even though some of its effect has been priced in by investors.
- A reform plan for the stock markets and financial institutions was issued by the PM, further boosting investors confidence that market operations would get better.

Fixed income market: Bond markets moved higher with better bank liquidity.

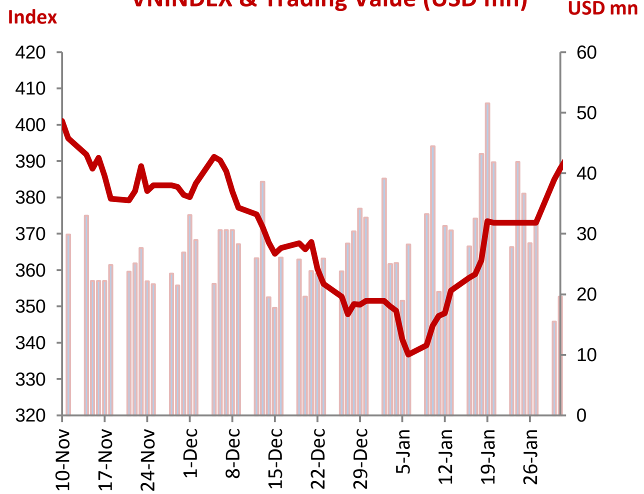
- Bond markets move up as liquidity among banks improves, which enables them to bid actively at bond auctions. Bond yields declined with the 5 year benchmark rate falling below 12%. Capital appreciation becomes an incentive to buy bonds when banks cannot make many loans due to business reluctant to borrow at high interest rates.
- The MOF was able to sell VGBs to finance government debt at lower yields. It was able to borrow 18 trn VND for 2 first months of the year.

FX market: VND appreciates against USD. SBV policy effective in calming market.

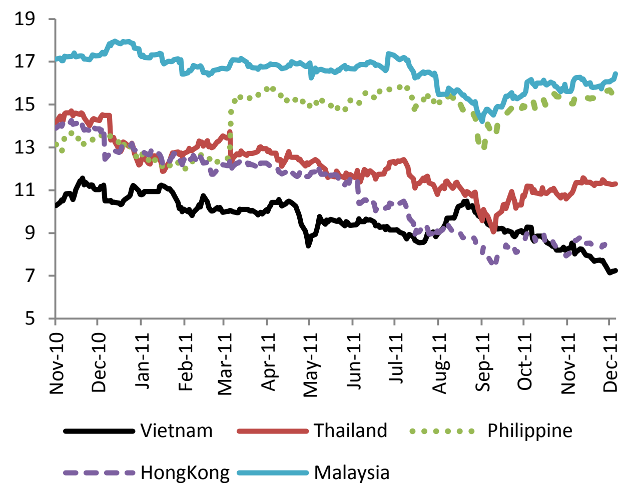
- The FX market in Feb was very stable with the VND appreciating slightly v. USD. The official rate was kept in place for many weeks running.
- After a brief surplus in Jan, the trade deficit re-appeared in Feb and showed a USD 0.7 bln shortfall for YTD 2012. This is still lower than historical average, and the BOP stays on course for another overall surplus in 2012.
- SBV's management of its FX policy continues to get good reviews and will keep the VND stable for the remainder of this year.

Monthly Update March 2012

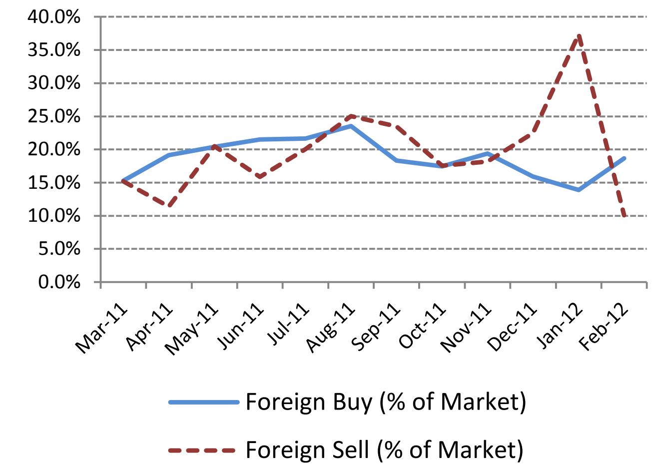
VNINDEX & Trading Value (USD mn)



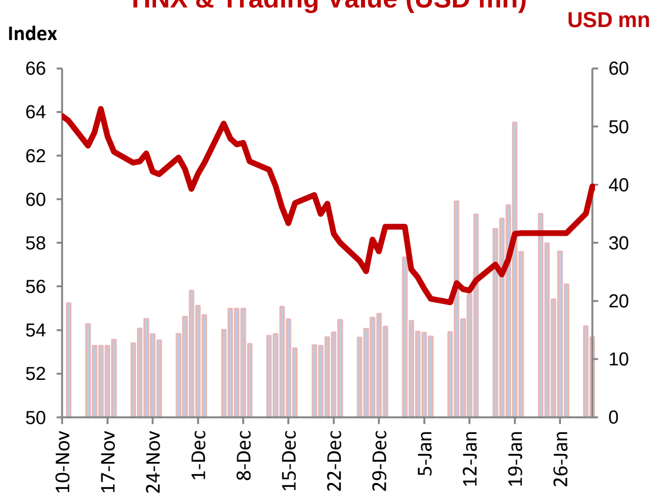
Market P/E



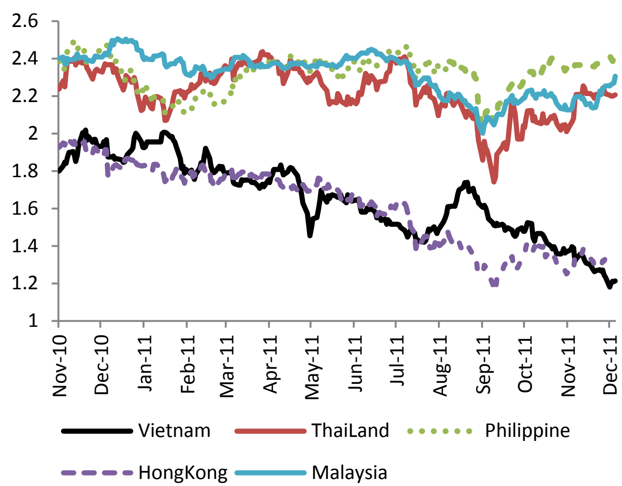
Foreign trading



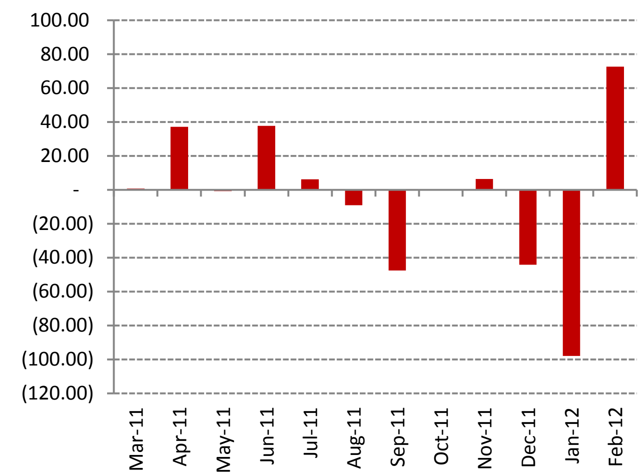
HNX & Trading Value (USD mn)

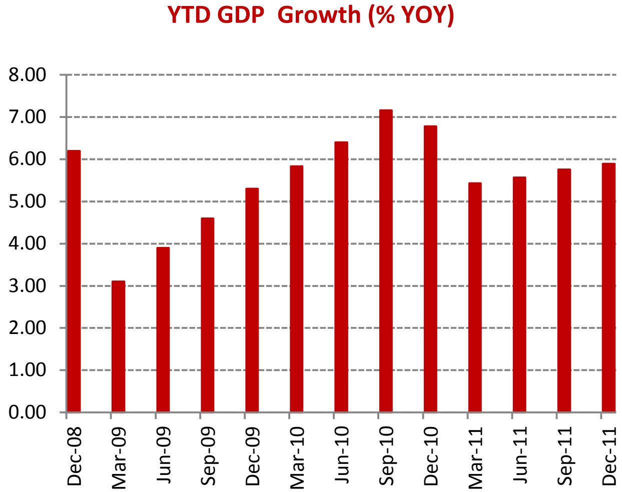


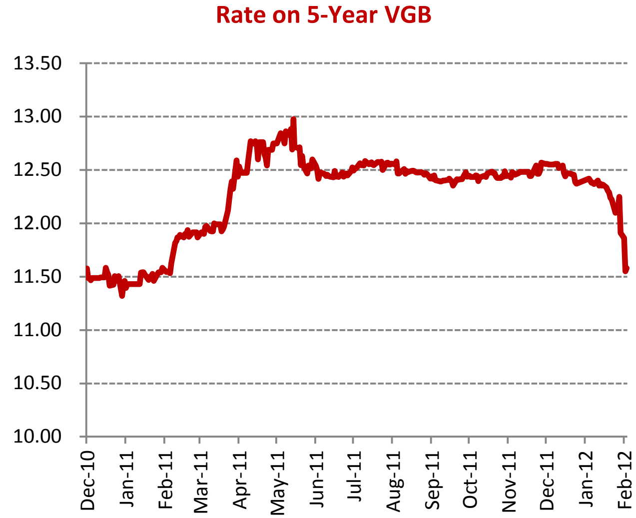
Market P/B

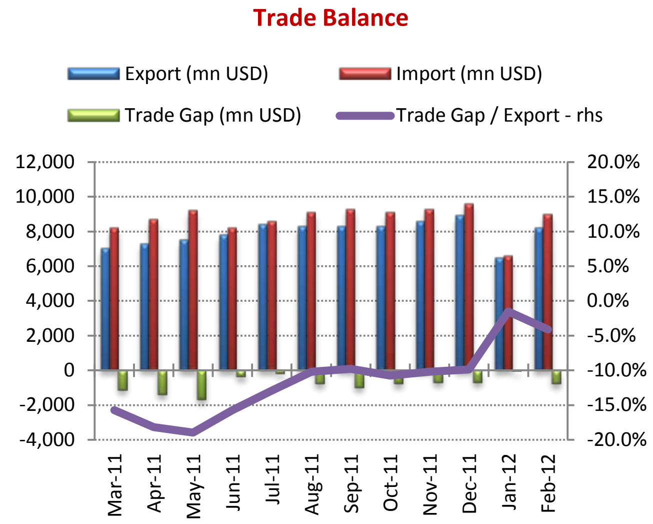


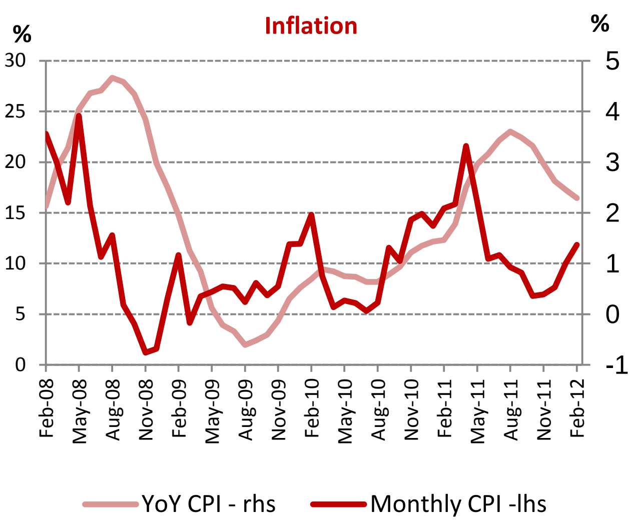
Foreign Net Trading (mil USD)

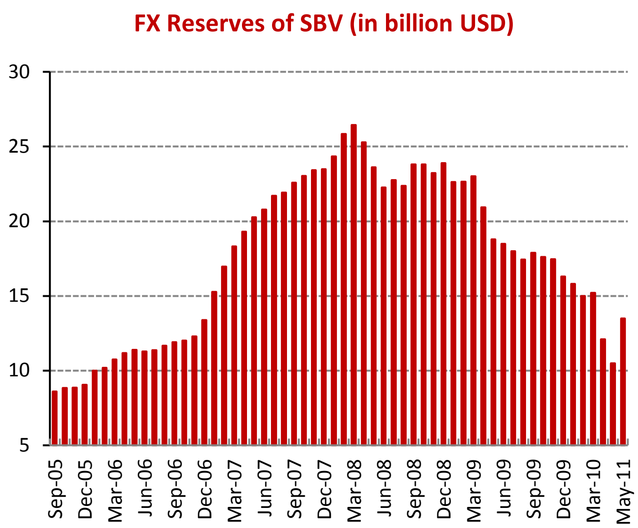


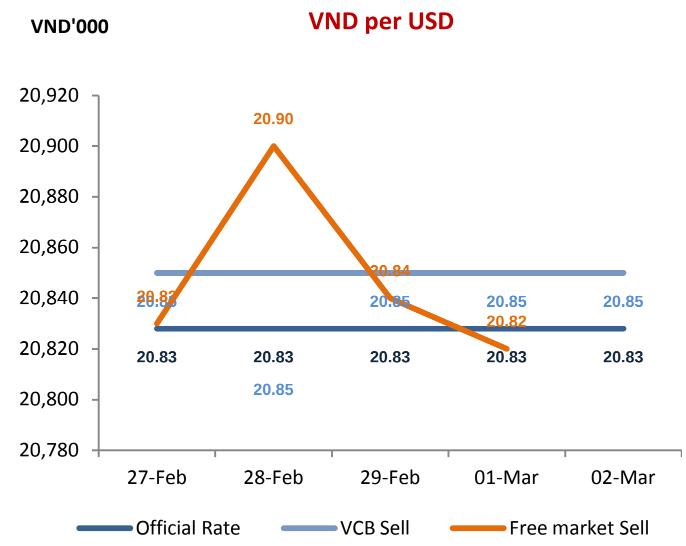

YTD GDP Growth (% YOY)
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Jun-11
Sep-11
Dec-11


Rate on 5-Year VGB
13.50
13.00
12.50
12.00
11.50
11.00
10.50
10.00
Dec-10
Jan-11
Feb-11
Mar-11
Apr-11
May-11
Jun-11
Jul-11
Aug-11
Sep-11
Oct-11
Nov-11
Dec-11
Jan-12
Feb-12


Trade Balance
Export (mn USD)
Import (mn USD)
Trade Gap (mn USD)
Trade Gap / Export - rhs
12,000
10,000
8,000
6,000
4,000
2,000
0
-2,000
-4,000
20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
-20.0%
Mar-11
Apr-11
May-11
Jun-11
Jul-11
Aug-11
Sep-11
Oct-11
Nov-11
Dec-11
Jan-12
Feb-12


Inflation
%
%
30
25
20
15
10
5
0
5
4
3
2
1
0
-1
Feb-08
May-08
Aug-08
Nov-08
Feb-09
May-09
Aug-09
Nov-09
Feb-10
May-10
Aug-10
Nov-10
Feb-11
May-11
Aug-11
Nov-11
Feb-12
YoY CPI - rhs
Monthly CPI -lhs


FX Reserves of SBV (in billion USD)
30
25
20
15
10
5
Sep-05
Dec-05
Mar-06
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
May-11


VND'000
VND per USD
20,920
20,900
20,880
20,860
20,840
20,820
20,800
20,780
20.90
20.84
20.83
20.85
20.85
20.82
20.85
20.85
20.83
20.83
20.83
20.83
20.83
20.85
27-Feb
28-Feb
29-Feb
01-Mar
02-Mar
Official Rate
VCB Sell
Free market Sell

Outlook for the economy

After the SBV move to begin lowering interest rates in general by cutting its policy rates, prospects for the economy have improved. If financial markets are considered as a leading indicator (foretelling the picture of things to come), then a current rise in both bonds and stocks must be counted a favorable sign.

All major areas of economic performance (GDP growth, inflation, exchange rates) are still heading in the right direction. We are reminded of this recently when HSBC released its list of 10 top growing economies for a time horizon stretching out to 2050. Vietnam is included in it with a projected long-term GDP growth of 5.5%. This rate may seem to be un-impressive (compared to 7.1% achieved during the decade of 2000-2010), but such a steady increase in national wealth, when compounded over a horizon of 30 years, can lead to a satisfactory record of performance. Another financial institution (Fitch), which has been critical of government policy in the past, has come out with a statement recognizing recent improvement in macro management by the state, and re-affirming VN's B+ sovereign rating with a stable outlook.

GDP would grow modestly at 6%, which is a sustainable rate that can be maintained without causing a build-up in inflation pressures, given the various constraints that this economy operates under.

Inflation stays on track to trend downwards, reaching 10% or lower by end year. As compared to a double digit level in 2011, this would represent a favorable tendency that can anchor inflation expectations at a 5-6% range in 2013 going forward. Once the expectations are formed at a low level, economic agents can spend more time on productive activities that boost GDP growth instead of spending time and resources just to protect themselves against a rising price level.

The one bright spot on Vietnam's economic landscape remains on course: the VND has held its own vis a vis the USD for the first part of this year, and has appreciated a little (by 1.15%). The reference rate has been held in place, indicating that the central bank feels no need to adjust downwards given market conditions. In a crawling-peg regime, such gradual changes in SBV's official rate over time is designed to avoid a build-up of depreciating pressures and thus avoid a devaluation. This policy has been in place for 2 years and have proved effective in stabilizing the VND.

Period	2009A	2010A	2Q-11A	3Q-11A	2011A	2012E
Real Growth (YoY)	5.3%	6.8%	5.57%	5.76%	5.89%	6.00%
Growth (YoY)	6.52%	11.75%	20.82%	22.42%	18.1%	10.0%
Refinancing Rate	8.0%	9.0%	14.0%	14.0%	15.0%	13.0%
VND/USD (Spot)	18,479	19,500	20,620	20,834	21,036	22,000

Basic Forecasts

GDP

After a weak performance at the start of 2012 due to extended holidays, GDP growth picked up in February, with industrial activities growing by 3.4% YOY, as compared to a decline in Jan.

Retail sales of consumer goods and services kept up a 22% increase (nominal terms), and proves to be a mainstay for the economy. Overall growth has been and will be constrained for some time by high cost of funds which keep businesses from borrowing to finance any expanded production. Consumers' purchasing power has been weakened by a high (though declining) inflation rate. All of these constraints can be relaxed a little as time goes on because an easing in monetary policy can lead to lower interest rates and stimulate investments. However, the main guide to economic policy is still Resolution 11 which puts emphasis on macro stability even at the price of some less GDP growth. Thus all indications point to a year of below-average economic performance. The government has set a goal of 6.0% to 6.5% for this year, as compared to an average rate of 7.1% during the previous decade. **We maintain a projection of 6.0% in 2012, slightly ahead of 5.9% achieved in 2011.**

CPI

CPI for February rose 1.4% MOM, equivalent to 16.4% YOY and 2.4% YTD. Inflation thus continues to decline from a peak of 23% YOY in Aug of 2011, and all indications are that this downward trend will keep up for the rest of this year. Food prices have moderated, removing a major cause of inflation pressure. The process of de-subsidization in utilities and fuels continues but the effect on prices is expected to be modest. A 10% increase in gasoline price is announced by the government. But a 5% import ax on gas and diesel is reduced to 0%, leading to some reduction in these prices. We expect inflation to keep a downward trend, barring some surge on world commodity markets or an increase in the speed of removing subsidies. The government goal of attaining a single-digit inflation in this year looks increasingly feasible**. VCG projects a 10% increase CPI at end 2012.**

FX

Prospects for a stable VND continued in February. In fact, over the first 2 months of 2102, the VND has appreciated slightly (by 1.15%) vis a vis the dollar. SBV's pledge (of keeping any loss in dong value to 3% for this year) appears increasingly possible, and even likely. The reference rate of 20,828 and a band of +/- 1% has been held in place for many weeks. Free market rates are now lower than bank rates, and the latter lower than the upper band ceiling. Any gap between free market and official rates (an usual measure of pressures on the VND) has disappeared or gone negative. With declining inflation, the interest differential between VND and USD deposits stays at 10% or higher. A trade deficit of 628 mln over Jan-Feb is much less than an average of 1 bln per month. The BOP is on course for an overall surplus of about 3 bln this year. The SBV waded into the FX market and bought up 3 bln worth of dollars to raise its reserves by 20% so far in 2012. **VCG projects an interbank rate of 22,000 at end 2012.**

Market Outlook

Equity

- **The stock market has experienced a fruitful month,** fuelled by numerous positive factors from a macro perspective. VNINDEX went through February at 423.64 pts, posting a moderate gain of 9.19% but very impressive liquidity. Average trading volume and value improve, and have significantly increased to 55.8 mn shares / session and VND845 bn / session, respectively, which were more than double of those in January. The new VN30 Index, which includes 30 largest market capitalization companies, have also increased around 8% in the month.
- **The root of this trading wave can be attributed to many factors**. Firstly, the message of the SBV to gradually decrease the interest rate background. It can be seen that the interest rate in interbank market and the VGB yield is trending down, signaling an ample liquidity status in the banking system. Next, the gold and FX market were rather calm as the sequence results of SBV's stabilizing efforts, making these traditional investment channels less attractive under investors' eyes. In addition, many international observers have appreciated the encouraging results of GVN in implementing an austerity policy.
- **Banking stocks gained the most market participants' attention**. The potential M&A transaction between two large commercial banks, Sacombank (STB) and Eximbank (EIB) was the spotlight in newspaper. Most of banking stock were able to post a gain, such as 19% gain in EIB, STB, MBB; ACB and SHB in HaNoi Stock Exchange increased 10% and 33%, respectively.
- **Foreign investors continued to be the active player in the month**, occupied around 18% of total market trading activities. They bought in USD157.8 million while sold out USD85.2 million value of stock, resulting a net purchasing of USD72.6 million.

Banking system

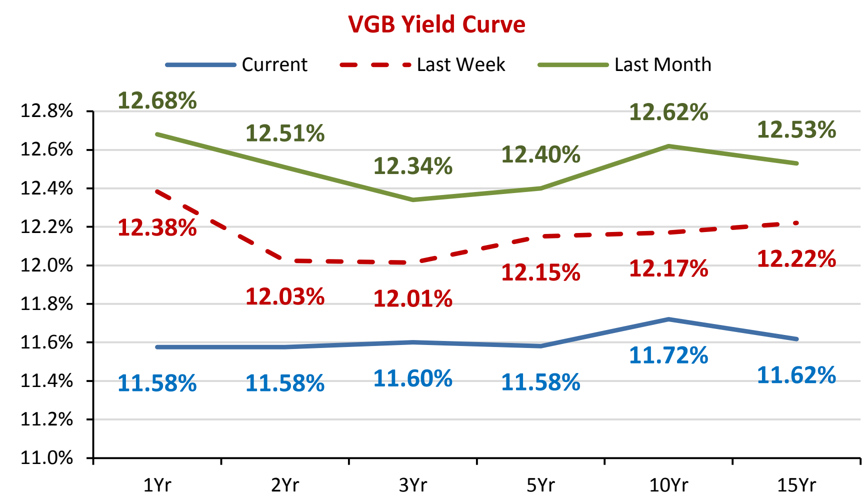
- **On March 1, 2012, the Prime Minister Nguyen Tan Dung has signed** Decision No. 254 to approve a plan on restructuring the entire Vietnam banking system towards a more advanced, international standard banking system with safe operations and stable performance over the period from 2011-2015.
- **According to the plan, the central bank encourages M&A activities** among local financial institutions under a voluntary basis in order to ensure the interests of depositors as well as economic rights and obligations of related parties. Also, during the restructuring process, the PM has asked for the joint effort from the SBV, the Ministry of Finance and other related government bodies to minimize all potential loss and to ensure the system safety and continuity of the whole industry. The project aims to have 1 to 2 regional banks who can compete on equal ground with other banks in the South-East Asia region by the end of 2015.
- **Even though it is indeed a difficult time for Vietnam banking system,** where many banks have to go through a painful restructuring process, the fact that many foreign investors, especially those from Australia, the U.S., Canada and Asia are seeking opportunities to buy stakes in Vietnam's unhealthy banks (according to Ernst & Young's Asia-Pacific Financial Service), proving the attraction of this sector in the long run.
- **Recently, the SBV has announced in early March** that it will lower its refinancing and reverse repo rate by 1% in coming days. This would let the financing at 14% and the reverse repo at 13%, and it marks the first time the SBV has eased its policy rate since inflation started to slow last September. In addition to lower policy rate, the State bank of Vietnam also will lower the maximum commercial saving accounts to 13% from 14%.

Market Outlook

Fixed income

- **In February , bond markets thrived due to lower** interest rates driving bond prices higher. The MOF is able to finance government debt by floating bonds at lower yields. The rate on 5 year benchmark VGB fell to 11.55%, below the 12% threshold.
- **Auctions of government bonds** were successful at a high ratio of near 100% even as the yield on offer declined. For Jan-Feb alone, 18 trn of VGB was sold, out of a full year plan of 45 trn.
- **Commercial banks have improved liquidity**, especially among the top tier groups. Such idle funds cannot be lent out due to weak demand from business, and can be put into bonds. The expectation is high that capital appreciation will make up for the fact that some of the funds was raised at a deposit rate of 14%. About VND 70 trn of bonds on the book also mature in 2012, and banks have strong incentive to roll them over.
- **The interbank market is no longer a place for big banks** to place their money at high rates. The overnight rates fell below 10% to 9.6%, and other maturities declined accordingly. Demand for such loans decreased as low tier banks cannot access the market, leaving only top tier ones to deal with each other.

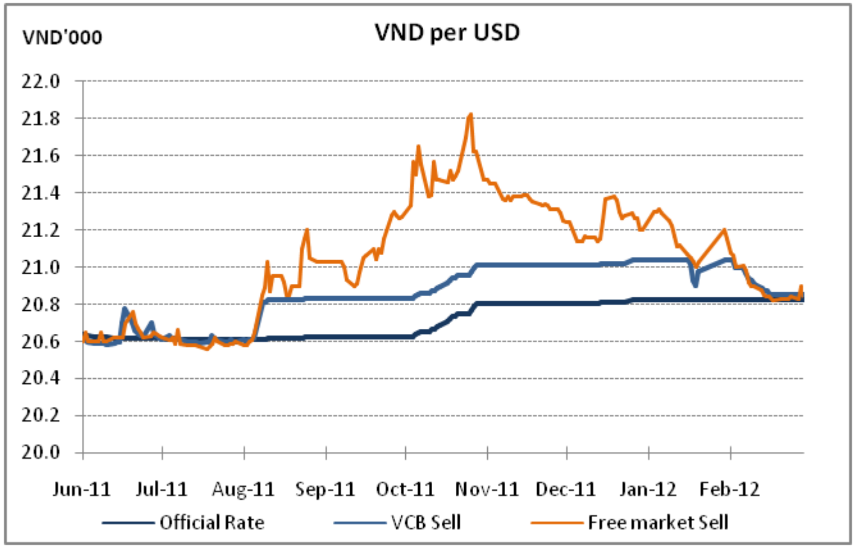
- **State owned commercial banks take the lead in lowering lending rates** on business loans. The reason is again due to weak demand from companies that are afraid of taking on expensive debt. HSBC even recommend that such companies refrain from borrowing at present. This practice of offering lower loan rates is taken up by top tier commercial banks.
- **The improvement in liquidity can be seen in some banks starting to reduce their deposit rates** to below the cap of 14%. It seems to suggest that any interest war is over. But such practice is confined to big banks with available funding. Small and medium size banks continue to offer rates higher than the cap to hold on to depositors.
- **The VAFI (Vietnam Association of Financial Investors) suggested** that deposit rates for institutional accounts should be lowered to 11%. Deposits by companies make up 55% of the total amount. Such differential treatment would be unwelcome news to many businesses, who tend to place their idle funds with banks for a profitable return.



Market Outlook

Foreign exchange

- **The FX market was very stable in February**. SBV maintained a same reference rate of 20,828 for many weeks in a row. Most banks trade dollars at about 20,850 which is below the upper band ceiling of 21,031. Free market rates are at 20,820 and below bank prices.
- **Taking advantage of a strong VND, the SBV has entered the market** to buy up dollars, adding to its holdings of official reserves. It is estimated that SBV purchased about usd 3 bln so far in 2012, raising its reserves by 20%. Unofficial sources put such reserves at 18.2 bln at the present time.
- **In order to further improve VND stability**, some quarters have suggested that deposit rates on USD and gold be reduced to 1%. With a comparable rate of 14% or higher on VND funds, the dollarization of VN economy can be reduced.
- **The USD has depreciated by 1.15% versus the VND over Jan-Feb of 2012.** SBV pledge (to keep any loss in VND value this year to 3%) is looking more feasible. SBV management of its FX policy continues to be a successful effort. No BOP crisis is expected and FX risk is at a low point.



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