

Lower volatility and curve flattening ahead

17 May 2007

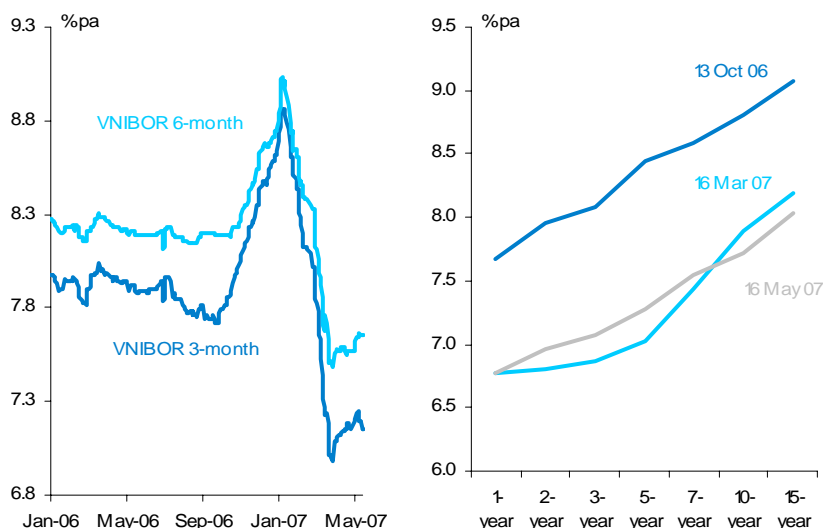
Authors:

Katie DeanSenior Economist, International
+61 3 9273 3181
Katie.Dean@anz.com

Volatility has risen significantly in Vietnam's interbank interest rates since late 2006. After spending most of 2006 trapped in a tight range between 8.05-7.80%, the 3-month interbank interest rate started to move up sharply last October to peak at 8.86% in January 2007. Following the Lunar New Year holiday in mid-January, the 3-month interbank rate then began to fall sharply, touching as low as 6.98% at the end of March 2007. Since then a sense of 'normalcy' appears to have returned to the market with the 3-month rate rising slightly to 7.15%. A similar pattern can be observed for the 6-month interbank rate (see charts below).

In conjunction with recent moves, the yield curve has flattened as rates have moved higher at the short end of the curve. Although liquidity conditions are normalising, we believe there is still room for more flattening at the short end, as slightly higher inflation should prompt the SBV to encourage further rises in short-term rates.

Vietnam Interbank Rates and Yield Curve



Source: Reuters, Bloomberg

It's all about liquidity

The recent volatility in the VNIBOR rates appears to be a liquidity story. The sharp rise in VNIBOR in late 2006 reflected a slowdown in local liquidity growth. A number of factors drained funds from the local banking system at that time, including increased borrowing in domestic markets and end-of-year tax payments by financial institutions.

Concerned about the impact, the State Bank of Vietnam (SBV) moved to address the sharp rise in interbank rates by injecting funds into the system around the time of the Lunar New Year in mid-January. At the same time, liquidity has been stoked by rising international investment inflows into the Vietnamese equity and fixed income markets in response to the strong economy, increased numbers of IPOs and a shift in Moody's outlook for Vietnam's foreign currency bonds from stable to positive. Remittances, which reached a new record of US\$5 billion in 2006, are also likely to have experienced a sharp seasonal rise around the time of the Lunar New Year.

Our Vision:

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

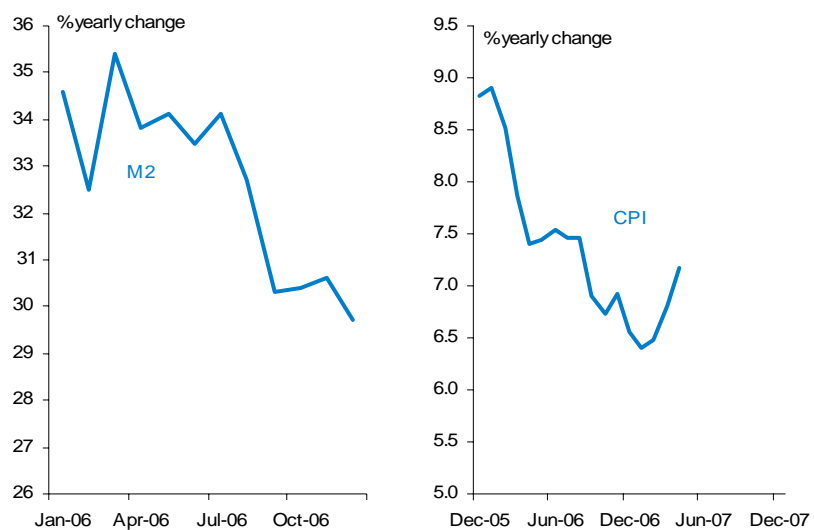
As well as pushing down interest rates, higher fund flows into Vietnam also have put pressure on the Vietnamese dong to appreciate in recent months, most notably in February this year.

Liquidity has stabilised, but inflation is ticking up

While no data is yet available, local sources suggest that liquidity growth in Vietnam has stabilised since March and that this has capped movements in interbank rates in recent weeks.

Nonetheless, the surge in liquidity experienced over the past six months has supported high credit growth. Inflation is beginning to respond, accelerating to a six-month high of 7.2% in April. This highlights the tensions of Vietnam's current policy regime in that liquidity growth, and thus inflation, is difficult to control when the exchange rate is tightly managed but the capital account is open. This loss of control over monetary policy remains an ongoing macroeconomic issue for Vietnam.

Liquidity growth slowed sharply last year, easing pressure on inflation - now these factors are turning around



Source: Datastream, CEIC

Curve to flatten

Going forward, we expect liquidity growth will slow slightly. Continued strong international investor inflows are likely to be sterilised by the SBV as the central bank works to prevent dong appreciation. Signs of rising domestic inflation pressures will also see the SBV tighten the reigns on money supply. These factors are likely to see short-end rates move a little higher from current levels and the curve slightly flatten. With liquidity conditions stabilising, the recent sharp movements in interbank rates should not be repeated.

Vietnam: macroeconomic and currency forecasts

	2005	2006	2007f	2008f
Real GDP growth (% ch)	8.4	8.2	8.1	8.1
Inflation (% , yr avg)	8.2	7.5	6.9	6.7
Fiscal Bal (% GDP)	-2.1	-1.8	-1.9	-1.8
Current acc. (% GDP)	0.9	1.5	1.7	1.9
FX reserves (US\$ bn)	7.0	8.9	12.9	16.5
Currency Forecasts (end-period)	Mar-07	Jun-07	Dec-07	Dec-08
USD/VND	16,020	16,059	16,123	16,244

Source: Datastream, Economics@ANZ

ANZ Research

Economics@ANZ

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

Head of Australian
Economics
+61 3 9273 5083
Tony.Pearson@anz.com

Mark Rodrigues

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

Wain Yuen

Economist, Industry
Australia
+61 3 9273 6295
Wain.Yuen@anz.com

Riki Polygenis

Acting Senior Economist,
Australia
+61 3 9273 4060
Riki.Polygenis@anz.com

Amber Rabinov

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

Amy Auster

Head of International
Economics
+61 3 9273 5417
Amy.Auster@anz.com

Katie Dean

Senior Economist,
International
+61 3 9273 5466
Katie.Dean@anz.com

Jasmine Robinson

Senior Economist,
International
+61 3 9273 6289
Jasmine.Robinson@anz.com

Dr. Alex Joiner

Economist,
International
+61 3 9273 6123
Alex.Joiner@anz.com

Paul Braddick

Head of Financial
System Analysis
+61 3 9273 5987
Paul.Braddick@anz.com

Ange Montalti

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

Warren Hogan

Head of Markets
Research
+61 2 9227 1562
Warren.Hogan@anz.com

Cherelle Murphy

Economist, Markets
+61 3 9273 1995
Cherelle.Murphy@anz.com

ANZ Investment Bank

Warren Hogan

Head of Markets
Research
+61 2 9227 1562
Warren.Hogan@anz.com

Sally Auld

Senior Interest Rate
Strategist
+61 2 9227 1809
Sally.Auld@anz.com

Tony Morriss

Senior Currency Strategist
+61 2 9226 6757
Anthony.Morriss@anz.com

David Croy

Strategist
+44 20 7378 2070
croyd@anz.com

Cherelle Murphy

Economist, Markets
+61 3 9273 1995
Cherelle.Murphy@anz.com

Patricia Gacis

Fixed Income Analyst
+61 2 9227 1272
Patricia.Gacis@anz.com

Sarah Percy-Dove

Head of Credit Research
+61 2 9227 1142
Sarah.Percy-Dove@anz.com

John Manning

Senior Credit Analyst
+61 2 9227 1493
John.Manning@anz.com

Bradley Bugg

Senior Credit Analyst
+61 2 9227 1693
Bradley.Bugg@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
+61 3 9273 6263
Marilla.Rough@anz.com

Manesha Jayasuriya

Information Officer
+61 3 9273 4121
Manesha.Jayasuriya@anz.com

ANZ New Zealand

Cameron Bagrie

Chief Economist
+64 4 802 2212
bagriec@anz.com

Khoon Goh

Senior Economist
+64 4 802 2357
gohk@anz.com

Philip Borkin

Economist
+64 4 802 2199
borkinp@anz.com

Sean Comber

Economist
+64 4 802 2286
combers@anz.com

Steve Edwards

Economist
+64 4 802 2217
edwards1@anz.com

Kevin Wilson

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

Important Notice

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 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
Minerva House, PO Box 7, Montague Close, London, SE1 9DH, United Kingdom
Telephone +44 20 7378 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD 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

In Australia and the UK, ANZ Investment Bank is a business name of Australia and New Zealand Banking Group Limited, ABN 11 005 357 522 ("ANZBGL") which is incorporated with limited liability in Australia. ANZBGL holds an Australian Financial Services licence no. 234527 and is authorised in the UK by the Financial Services Authority ("FSA"). In New Zealand, ANZ Investment Bank is a business name of ANZ National Bank Limited WN / 035976 ("ANZ NZ").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZBGL), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This document is being distributed in the United Kingdom by ANZBGL for the information of its market counterparties and intermediate customers only. It is not intended for and must not be distributed to private customers. In the UK, ANZBGL is regulated by the FSA. Nothing here excludes or restricts any duty or liability to a customer which ANZBGL may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBGL, ANZ NZ, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZBGL, ANZ NZ, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. ANZBGL, ANZ NZ, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.