ECONOMICS & GLOBAL MARKETS RESEARCH
VIETNAM MONTHLY CHARTBOOK

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CONTRIBUTOR

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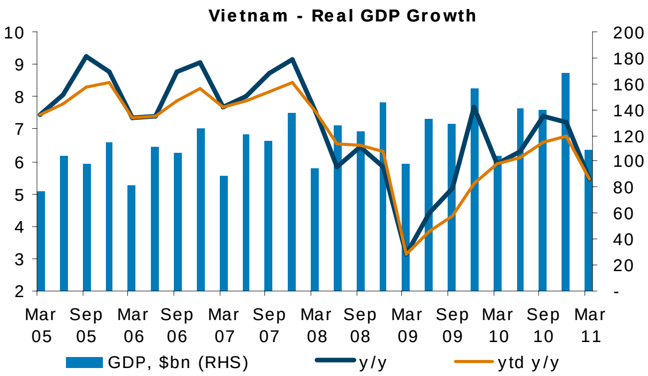
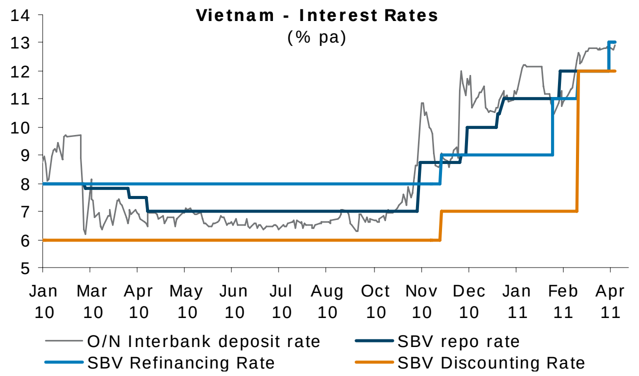
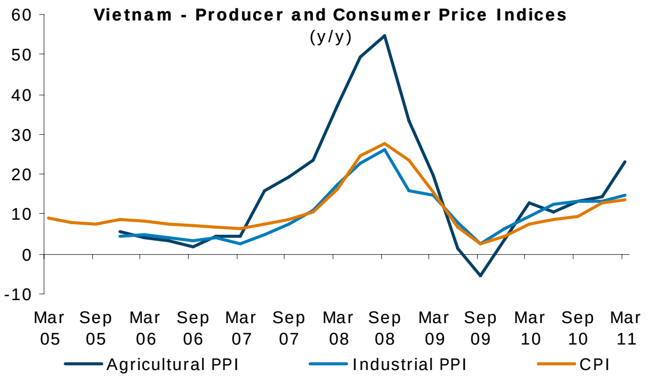
MORE TIGHTENING DONE, BUT INFLATION STILL RISING

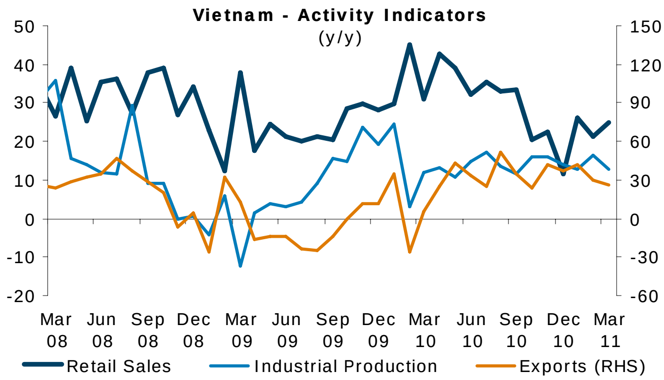
- March CPI inflation accelerated to 13.9% y/y from 12.3% in February. Q1 producer price inflation was even higher. With increased electricity and fuel prices, and a wage hike scheduled for May, CPI inflation is set to rise further.
- The State Bank of Vietnam (SBV) continued to raise its key interest rates in March and April to fight inflation. The SBV's refinancing rate and repo rate are now at 13.00%, 100bps higher than a month ago.
- Industrial production eased but retail sales stayed strong in March. Meanwhile, the trade deficit widened again.
- Q1 GDP climbed 5.4% y/y, down from 7.2% in Q4 2010. The slowdown was due to high inflation and nominal interest rates, which both started late in 2010, and seasonality.

FEATURED CHARTS OF THE MONTH



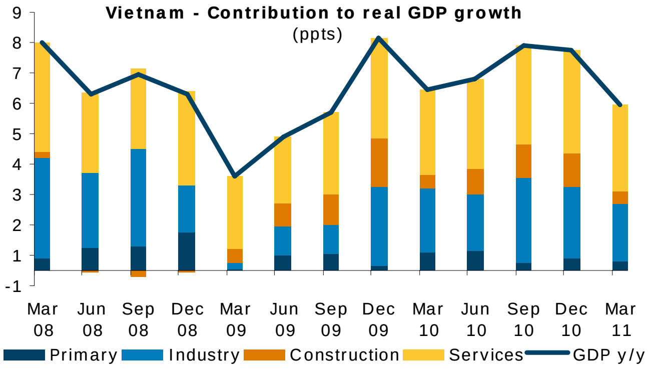


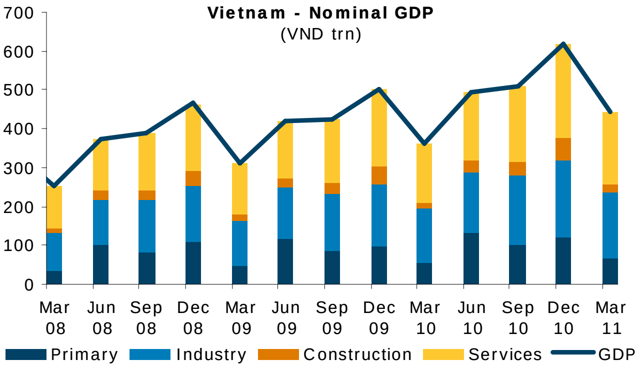


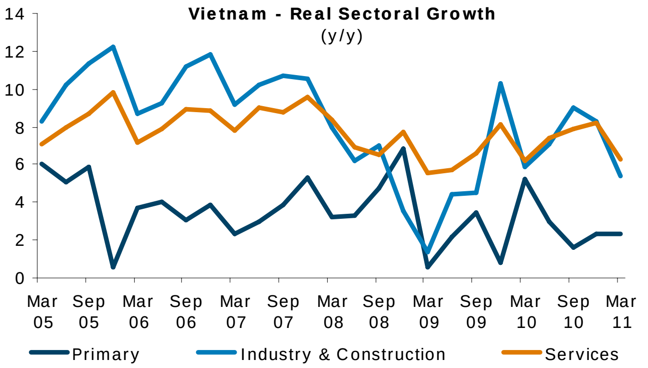


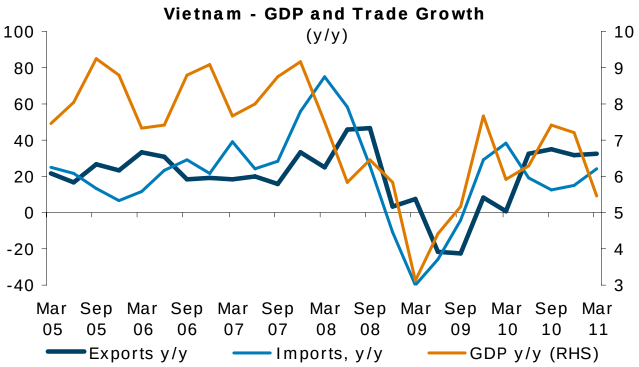
REAL ACTIVITY: Q1 GDP SLOWED AS EXPECTED

- GDP rose 5.4% y/y in Q1, down from 7.2% in Q4 2010 and 0.5ppt lower than in Q1 2010.
- Growth in all sectors slowed. Construction and services contributed most to the slowdown with their contribution to growth falling to 0.4 and 2.8ppts, respectively, from 1.1 and 3.4ppts in Q4 2010.
- **ANZ Assessment**: The dip in GDP growth is not surprising given Q1's seasonality, the unfavourable weather conditions hitting primary activities, and the effects of high inflation and nominal interest rates that began late in 2010. We expect y/y growth will rise in the coming quarters, albeit at a decreasing rate due to tightening measures. Assuming that the authorities continue to tighten policies and succeed in keeping real interest rates and inflation expectations under control, we now expect 2011 growth will arrive at 6.4%, lower than our previous forecast of 6.7%.





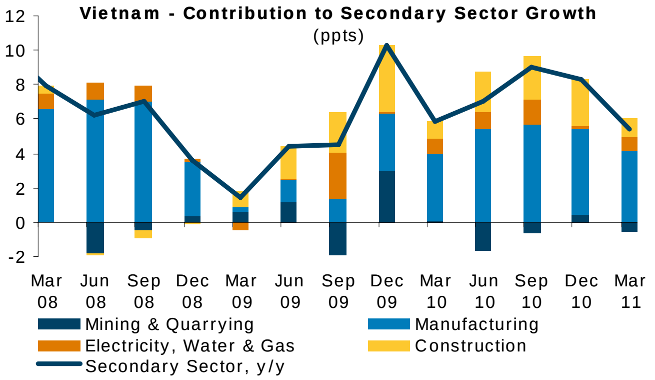


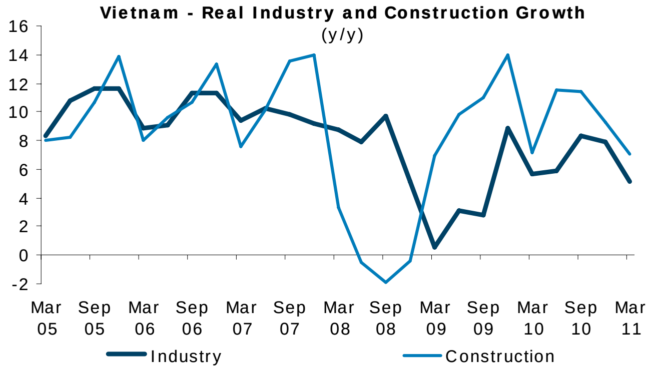


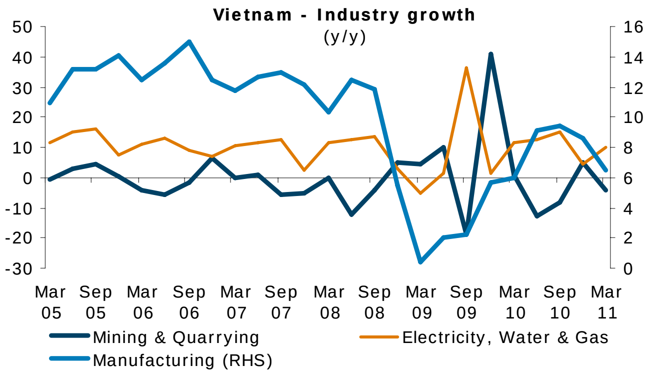
Source: CEIC, ANZ Economics

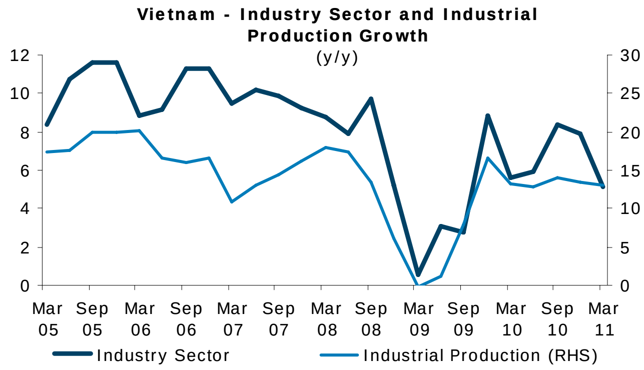
SECONDARY INDUSTRY: MINING AND QUARRYING CONTRACTED

- Secondary sector growth fell to 5.4% y/y in Q1 from an 8.3% gain in the previous quarter, and was 0.4ppts lower than the result in Q1 2010. The secondary sector contributed 2.3% to overall Q1 GDP growth.
- Industrial growth declined to 5.2% from 7.0% in Q4 2010. Growth in electricity, gas and water production accelerated to 10.1% from 4.2% in the previous quarter, but the mining and quarrying sector contracted by 4.4%. Manufacturing grew 6.5%, down from 8.4% in Q4 2010, and contributed 4.2ppts to secondary sector growth.
- Q1 construction growth fell to 7.0% from 9.3% in Q4 2010 and was 0.14ppt lower than Q1 2010's growth.





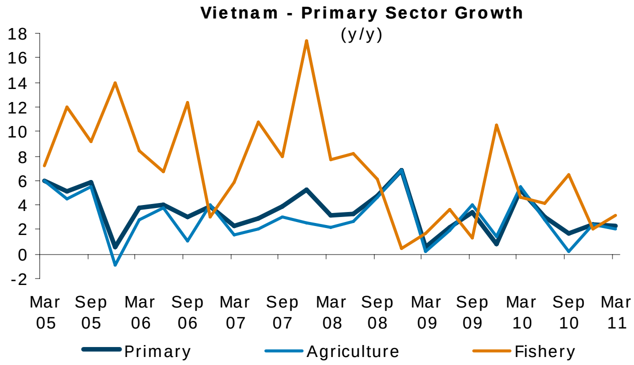


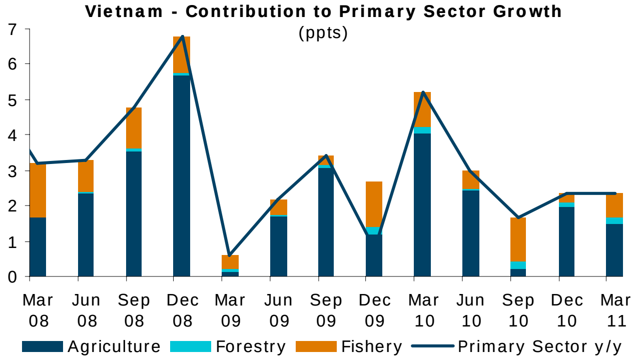


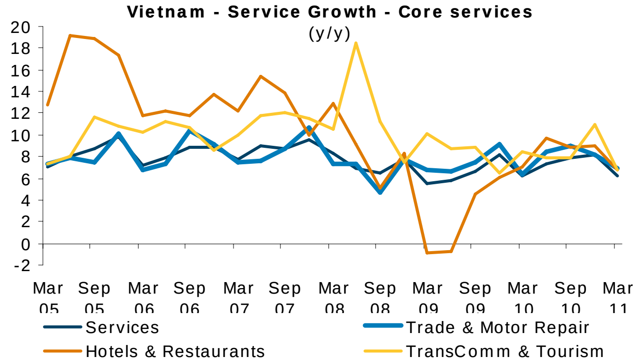
Source: CEIC, ANZ Economics

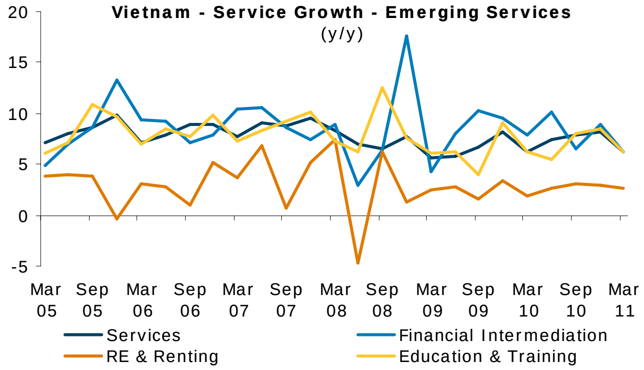
PRIMARY AND SERVICES SECTORS: HARSH WEATHER AFFECTED AGRICULTURAL PRODUCTION

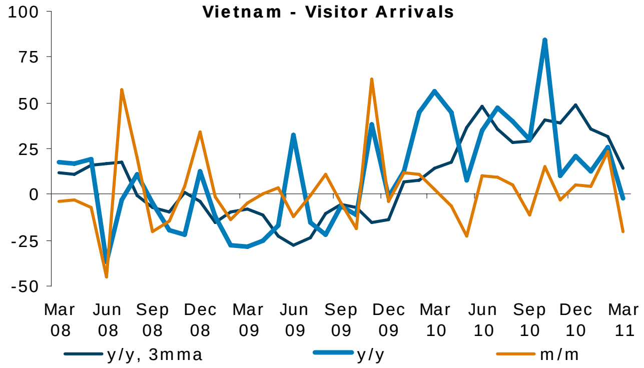
- Q1 primary sector growth eased to 2.3% y/y from 2.4% in Q4 2010 and contributed 0.3ppt to total Q1 GDP growth. Harsh winter in northern Vietnam impacted agricultural production and animal farming. Forestry and fishery sectors growth increased slightly.
- Meanwhile, the services sector grew 6.3%, down from 8.2% in Q4 2010 but slightly up from 6.2% in Q1 2010. Core services activity continued to lead growth.
- Tourism services growth slowed in Q1. Inbound visitor arrivals only increased by 11.9% y/y, compared with a 36.2% gain in Q1 2010. Total visitor arrivals in Q1 stood at 1.5m.

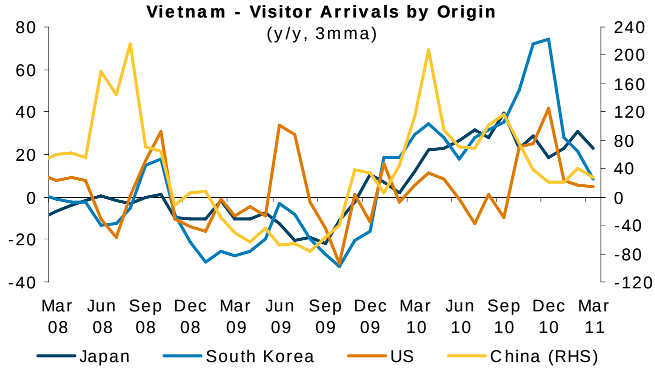








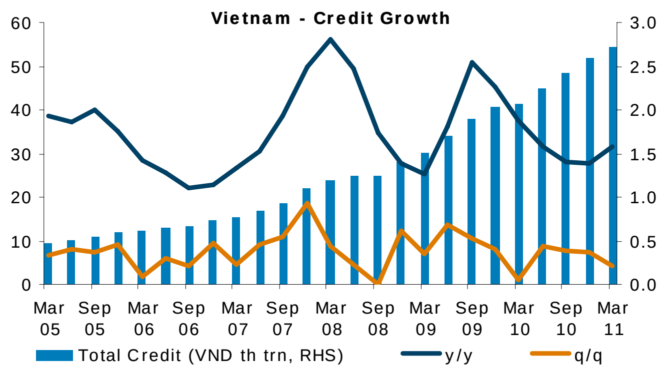


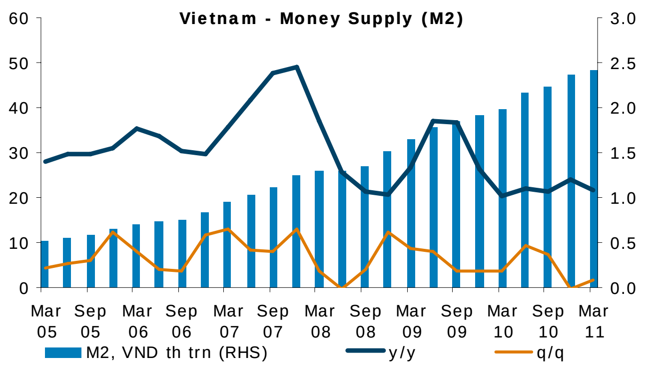


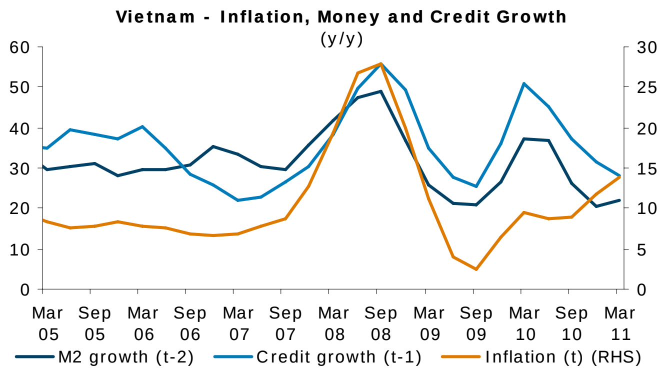
Source: CEIC, ANZ Economics

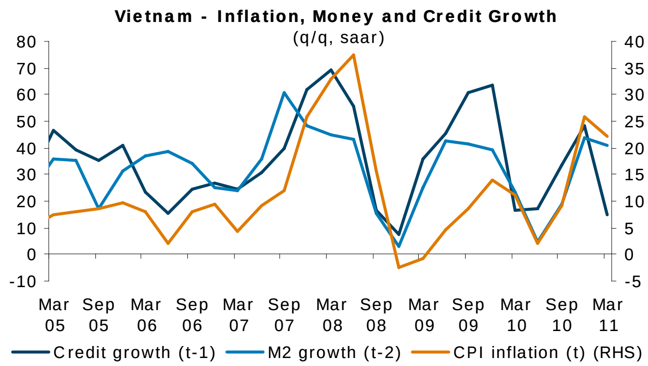
MONEY AND CREDIT: US DOLLAR CREDIT GREW RAPIDLY

- Credit growth rose to 30.9% y/y in Q1 from a 27.7% gain in Q4 2010. However, on a quarterly basis, credit growth fell to 3.7% from 7.5% in the previous quarter. Foreign currency credit, mainly in USD, grew 4.8% and continued to stay above the VND credit growth rate of 1.4% (not shown).
- Meanwhile, total deposits grew by a modest 1.6%. Recent anecdotal evidence suggests that many banks have unofficially increased their effective deposit rates above the 14% cap to attract more deposits.
- Total money supply (M2) growth eased to 2.07% q/q in Q1 from 2.13% in the previous quarter.





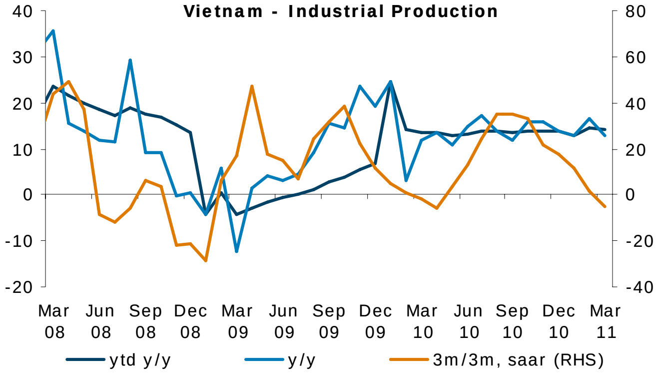


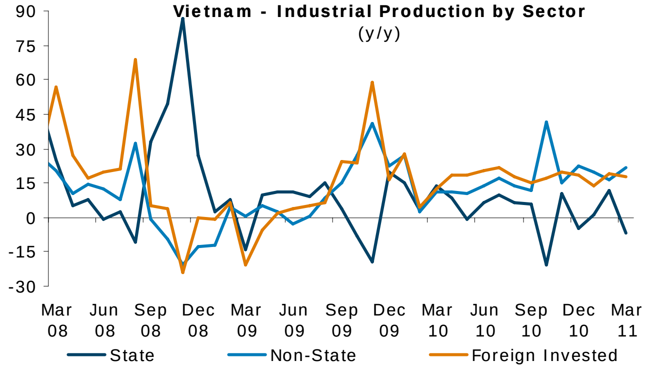


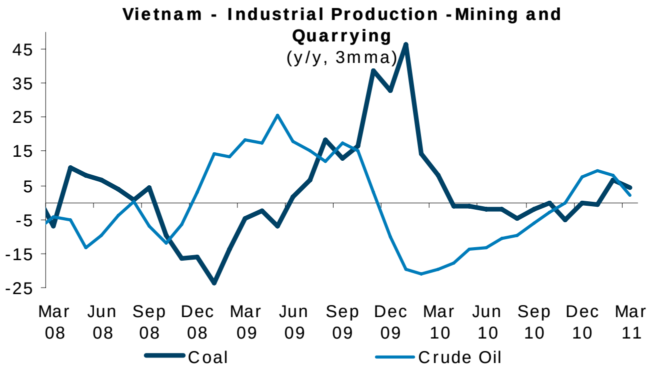
Source: Bloomberg, ANZ Economics

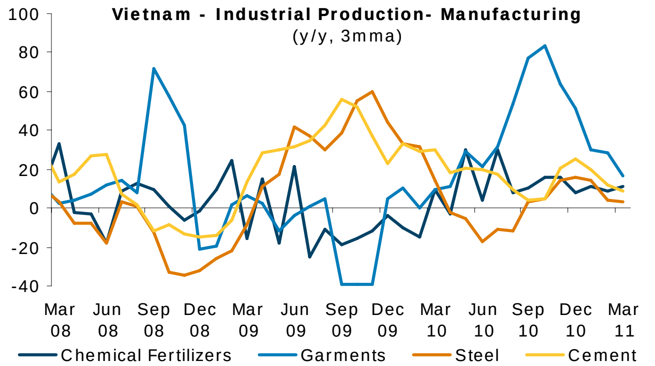
INDUSTRIAL PRODUCTION: OVERALL STEADY DECLINE WITH THE STATE SECTOR CONTRACTING

- March industrial production (IP) growth declined to 14.2% y/y from 17.7% in February. The slowdown was led by a contraction of 6.6% in the state sector, while growth in the non-state domestic and foreign invested sectors stayed strong.
- However, on a monthly basis, IP climbed 15.9% from a contraction of 17.2% in February. Meanwhile, IP momentum fell 5.1% 3m/3m saar compared with a 1.9% rise in February.
- Production in all major sub-industries, bar chemical fertilizer, slowed in Q1. Steel production climbed in March y/y, but the total Q1 steel production growth declined to 3.3% from 15.9% in Q4 2010.



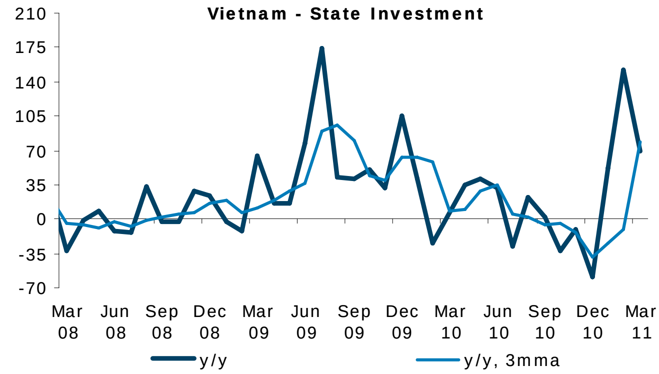


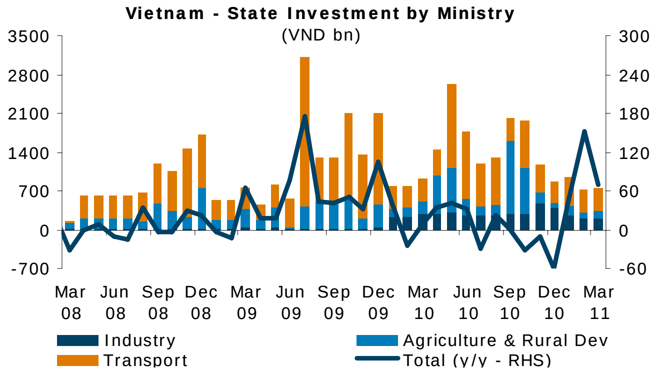




STATE INVESTMENT: Q1 INVESTMENT GREW DESPITE PLANS TO CUT THE BUDGET

- State investment grew 19.6% y/y in Q1, and totalled VND38.9trn or 21.2% of 2011's planned total state investment. The government aims to cut the 2011 budget deficit to below 5.0% of GDP, and among the fiscal measures mentioned is a 10% cut in state credit investment.

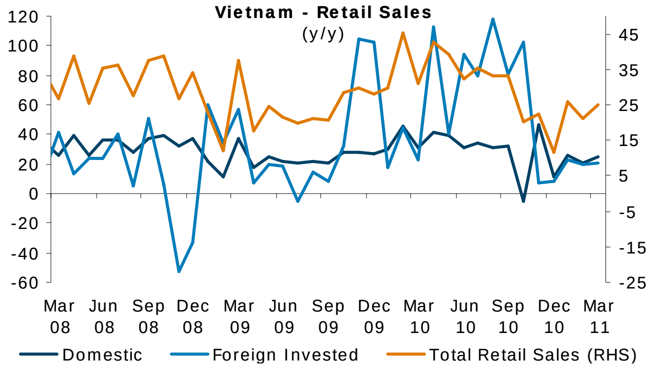


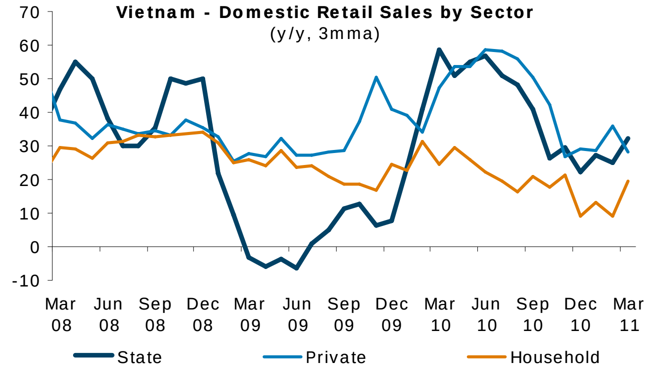


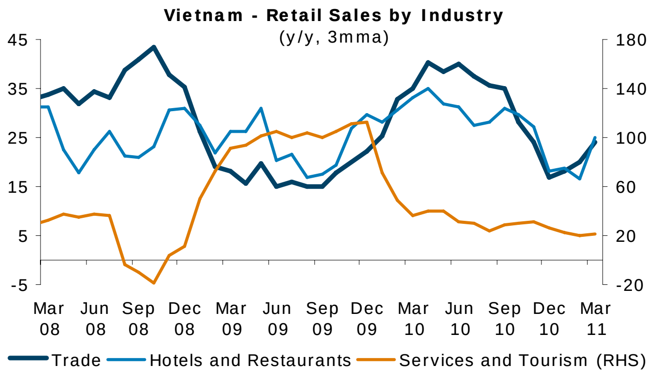
Source: CEIC, ANZ Economics

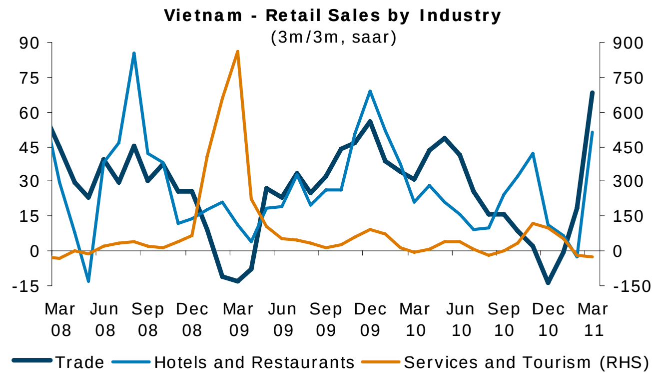
CONSUMPTION: Q1 SALES STAYED STRONG

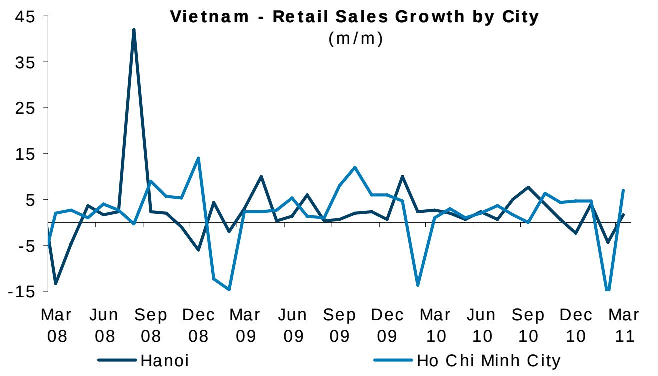
- Retail sales growth climbed 24.0% y/y in Q1, up from 18.0% in Q4 2010, as growth in both the domestic and foreign invested sectors rose. March retail sales grew 24.9% y/y, up from a 21.1% gain in February.
- On a momentum basis, sales growth surged to 50.5% 3m/3m saar in March compared with 11.4% in February. Sales growth momentum of trade and hotels and restaurants accelerated, while that of services and tourism eased.
- Retail sales growth in both Hanoi and Ho Chi Minh City eased in Q1, but March sales in both cities bounced back on a monthly basis.
- Vehicle sales data for March are not yet available, but automobile imports bounced back after a slowdown in February, signalling an increase in car sales.

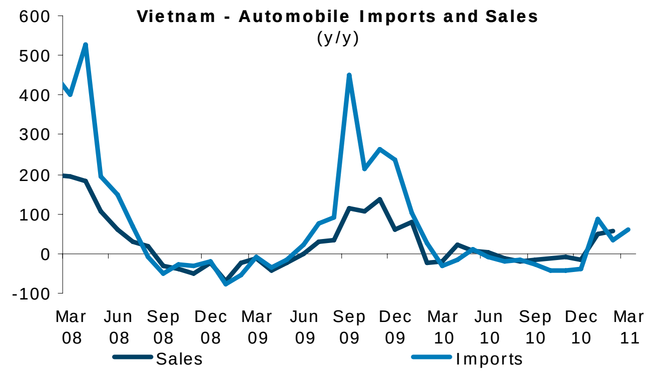








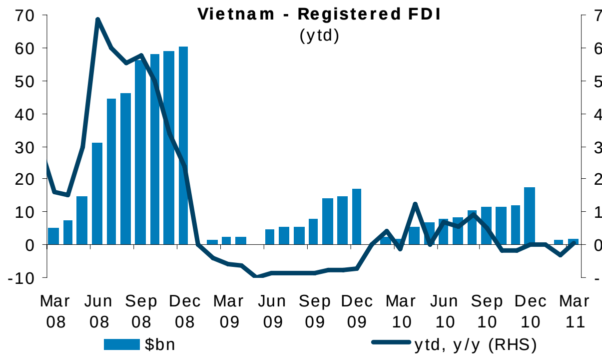


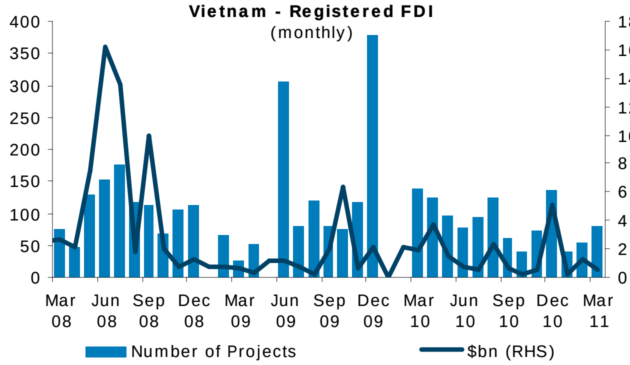


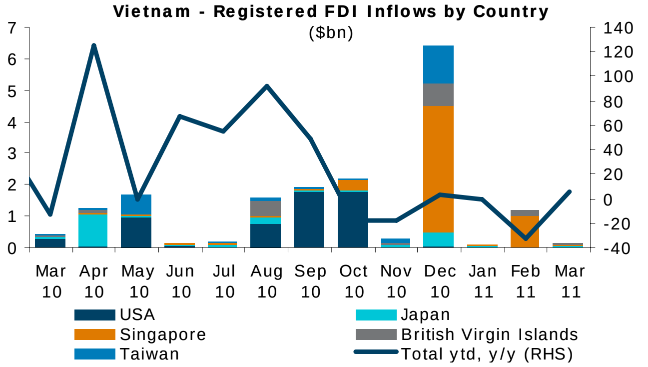
Source: CEIC, ANZ Economics

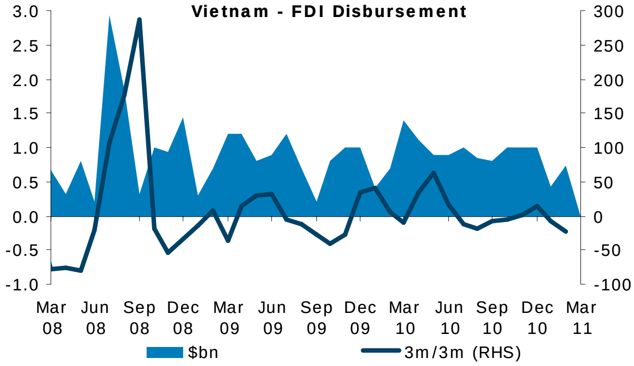
INVESTMENT: SINGAPORE NOW THE LARGEST FOREIGN INVESTOR

- Registered FDI inflows totalled $2.0bn in Q1, compared with inflows of $5.8bn in the previous quarter and $4.1bn in Q1 2010. Disbursed FDI totalled $2.5bn in Q1, down from $3.0bn in Q4 2010, and virtually matched Q1 2010's result.
- Singapore become Vietnam's largest foreign investor in Q1 2011, with total registered capital of $23bn to date, overtaking Taiwan. Singaporean enterprises are increasing their investment in Vietnam's real estate sector, highlighted by the $4bn investment in a resort in Hoi An in Dec 2010. In Q1 2011, Singapore's First Solar Production committed $1.0bn in a photovoltaic manufacturing project in Ho Chi Minh City.
- Meanwhile, foreign equity inflows totalled a modest $3.5m in March, while the VN Index continued to fall, reaching its lowest level in four months.

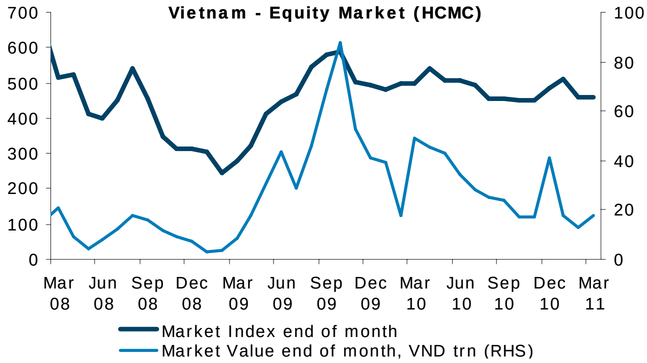


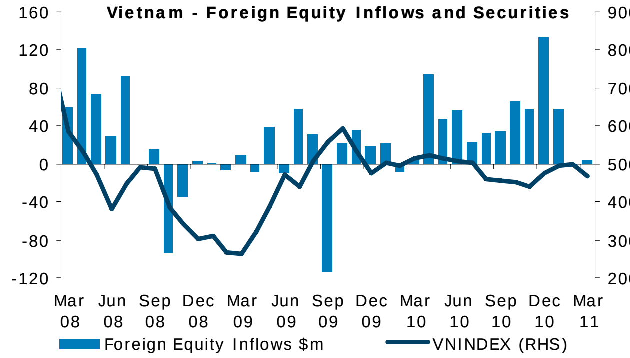






Source: Foreign Investment Agency (MPI), CEIC, ANZ Economics



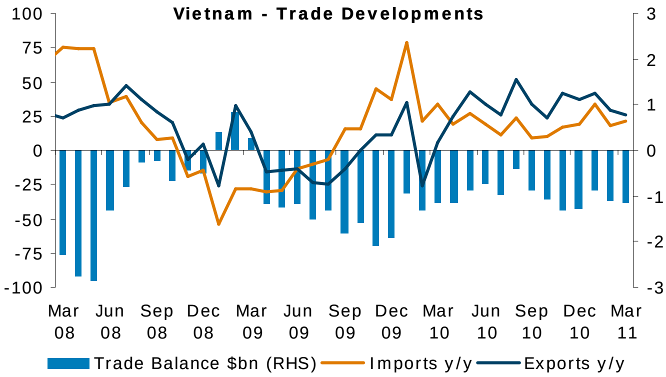


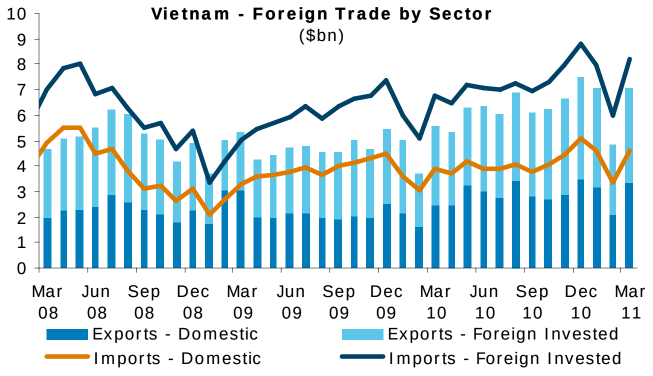
Source: CEIC

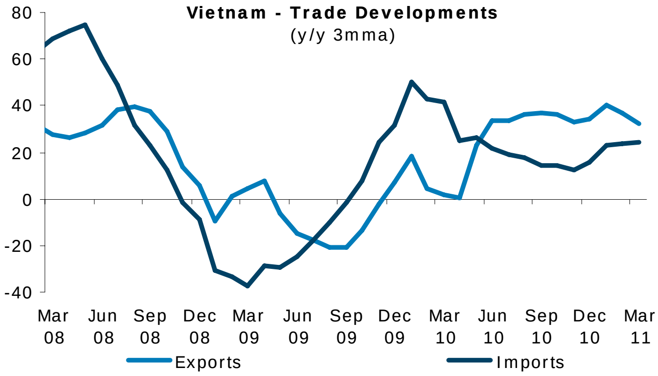
Source: Bloomberg

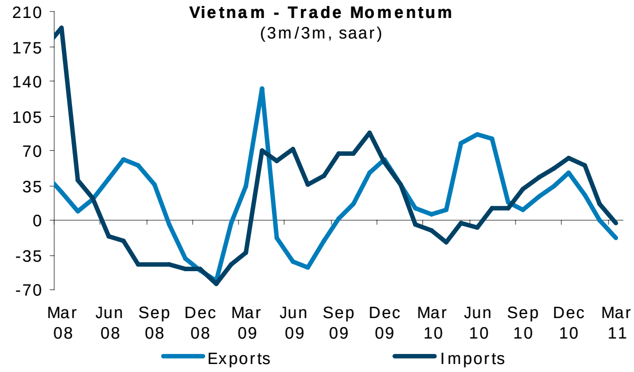
FOREIGN TRADE: IMPORT GROWTH PICKED UP IN Q1

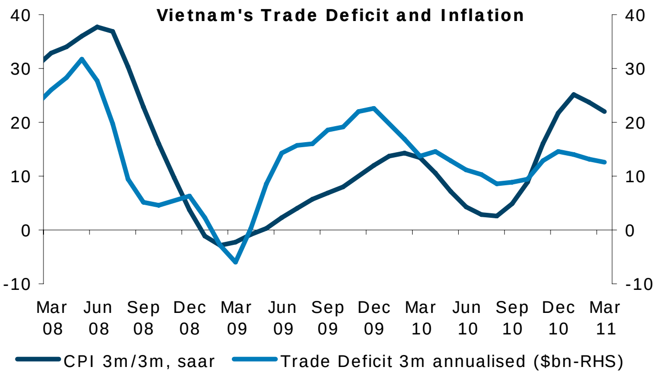
- March export growth declined to 26.1% y/y from a revised 29.6% in Feb, while imports grew 21.5%, up from 17.5% in February. Overall, Q1 exports grew by 32.4% y/y, down from 34.2% in Q4 2010. Meanwhile, Q1 import growth rose to 24.5% from 15.6% in Q4.
- Both export and import growth momentum fell in March, suggesting slower trade growth going forward.
- The trade deficit widened to an estimated $1.15bn in March from a revised $1.11bn in February. The Q1 trade deficit totalled $3.14bn, compared with $3.67bn in Q4. The domestic sector ran a deficit of nearly $4.0bn in Q1, while the FDI sector delivered a surplus of $1.0bn.
- Increasing global commodity prices contributed significantly to deterioration in Q1's terms of trade.

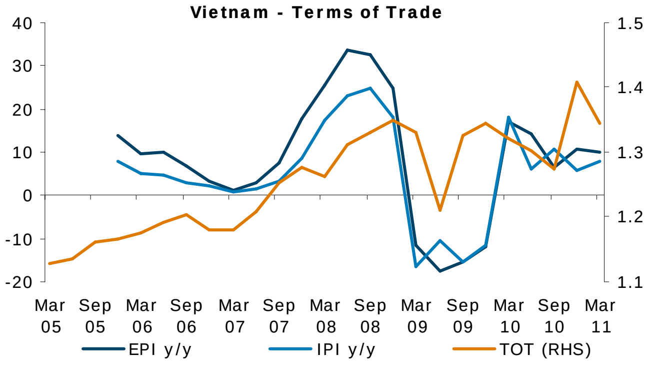








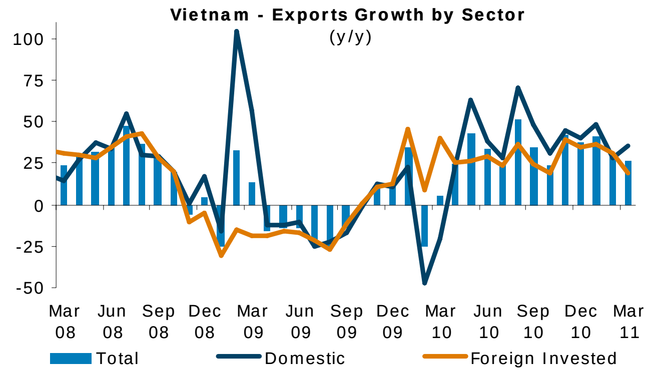


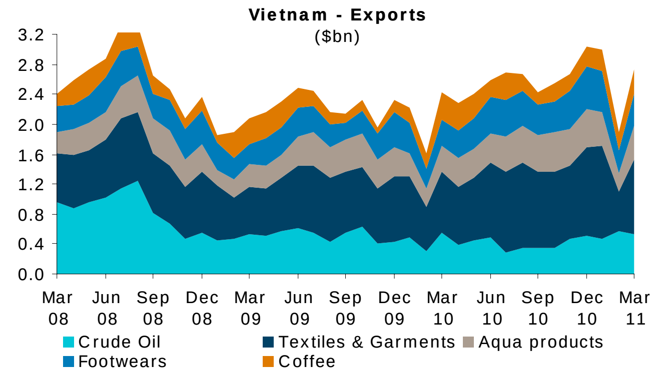


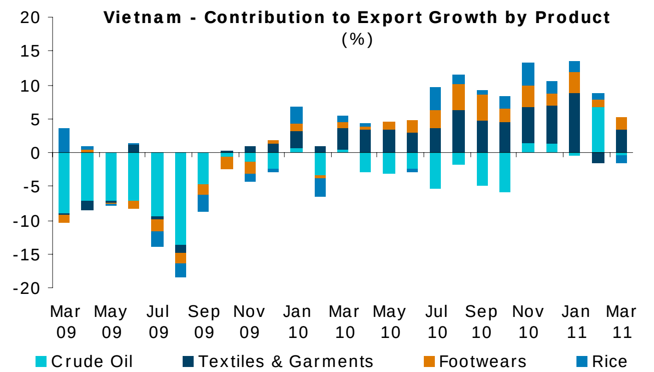
Source: CEIC, ANZ Economics

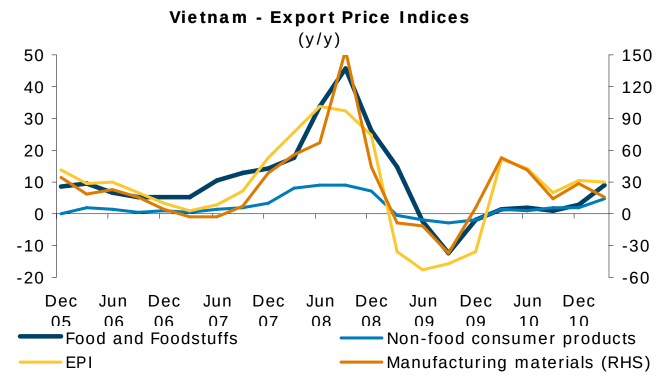
EXPORTS: CRUDE OIL EXPORTS FELL IN MARCH

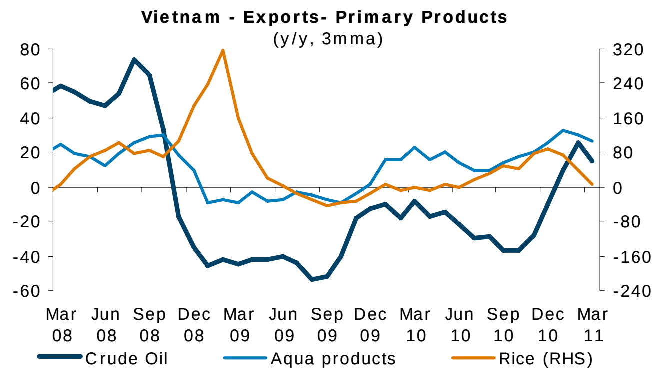
- Export growth slowed to 26.1% y/y in March as oil exports in the foreign invested sector fell. On a monthly basis, March exports bounced back from a seasonal contraction in Feb.
- Increasing world commodity prices contributed considerably to Q1 export growth. With the exception of rice, export prices of all 11 products used to record quantity export data increased in Q1. Prices contributed 7.1% to total export value in Q1. The export price index grew 9.9% y/y in Q1, down from 10.7% in Q4 2010.
- In terms of products, garment exports bounced back in March and contributed 3.4ppts to total export growth y/y. However, the remaining major manufactured products and all primary product exports fell. Crude oil exports, in particular, fell 5.3% y/y from an 81.2% increase in February.

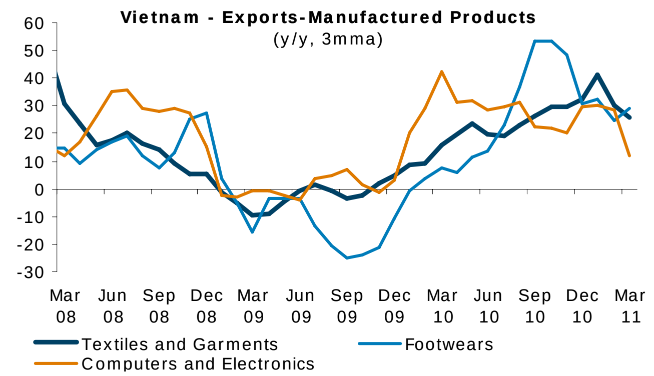








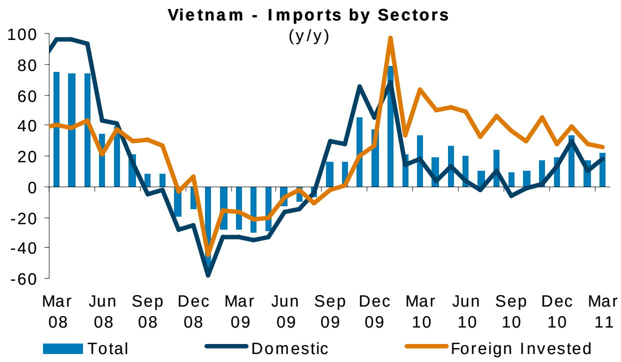


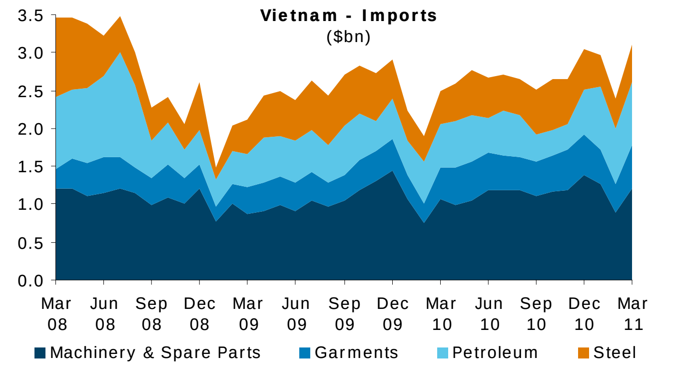


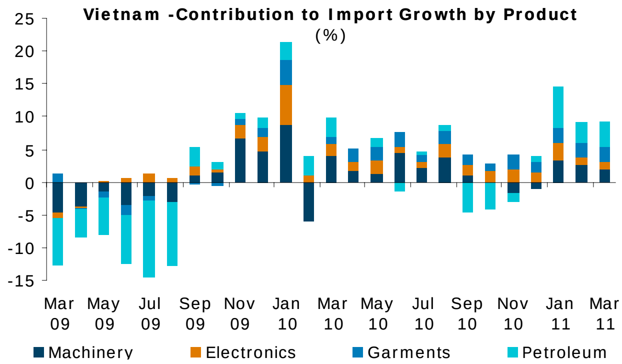
Source: CEIC, GSO, ANZ Economics

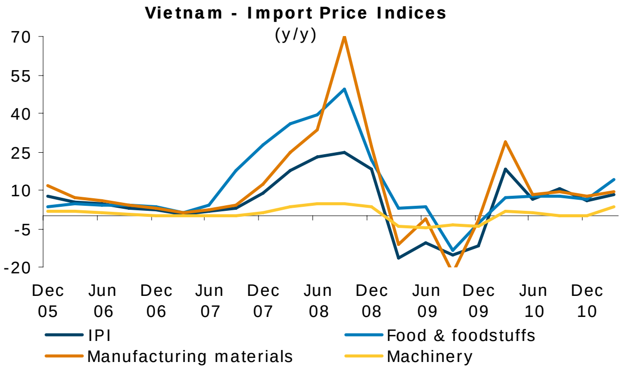
IMPORTS: RISING WORLD OIL PRICES PUSHED Q1 PETROLEUM IMPORTS UP

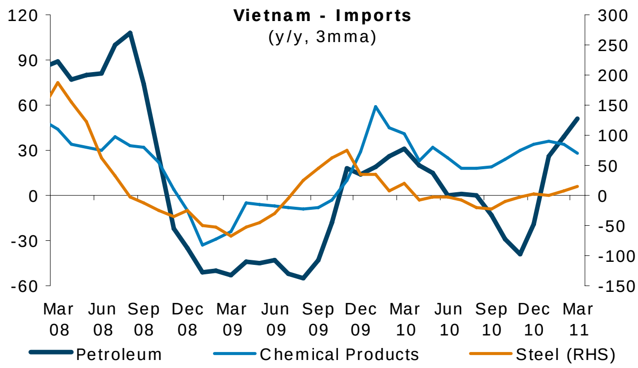
- Imports rose to 21.5% y/y in March from a 17.5% gain in February. Growth in the domestic sector increased while that in the FDI sector eased. On a month-on-month basis, March imports bounced back from a seasonal contraction in February.
- As with exports, rising prices contributed largely to import growth in Q1. Total imports increased by 7.2% in Q1 and with the exception of motor vehicles, prices of all imported products increased. The import price index climbed 8.0% y/y in Q1, up from 5.6% in Q4 2010.
- In particular, the value of petroleum imports surged the most by 50.7% y/y in Q1, compared with a decrease of 18.8% in Q4, while the quantity imported increased by only 9.9%.

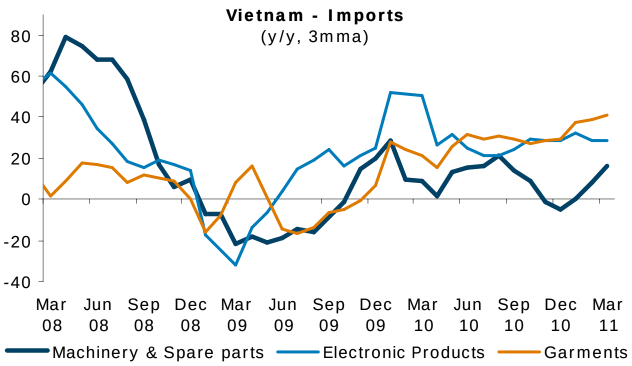








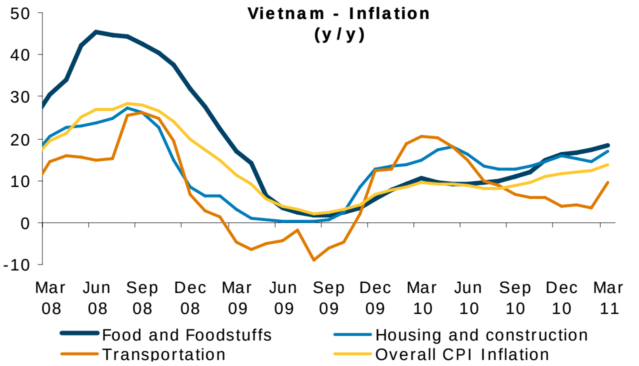


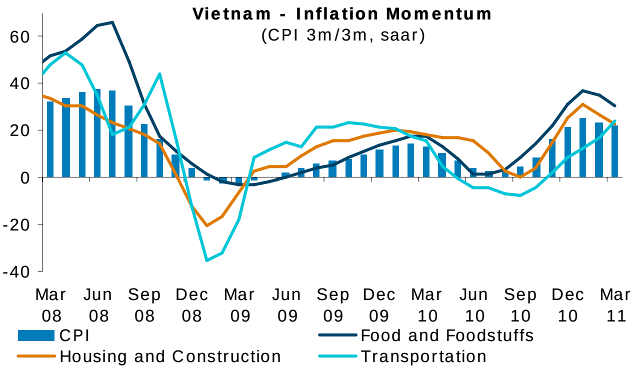


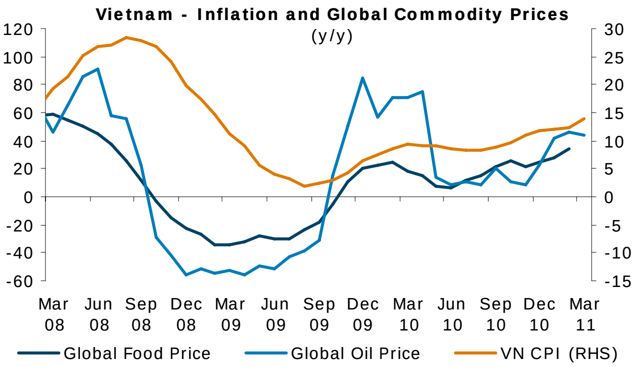
Source: CEIC, ANZ Economics

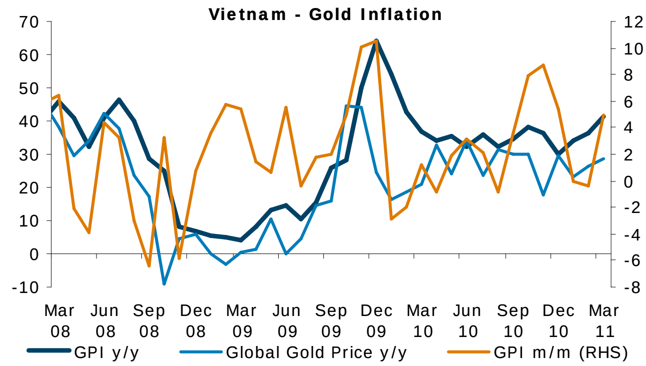
PRICES: BOTH CONSUMER AND PRODUCER INFLATION HIT NEW HIGHS

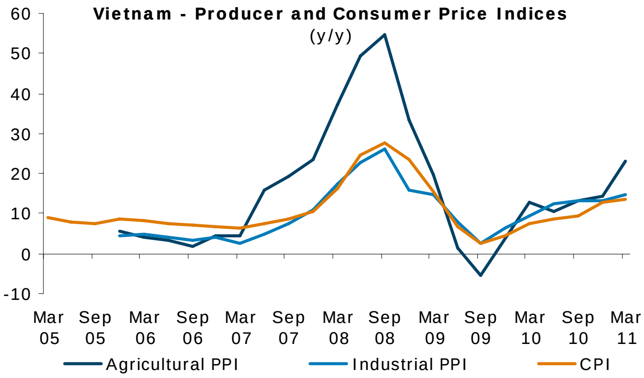
- CPI inflation rose to 13.9% y/y in March, the highest level in 25 months, from 12.3% in February. On a monthly basis, inflation climbed 2.2%, compared with 2.1% in February, driving Q1 CPI up 6.1% q/q.
- Food and foodstuffs prices rose 18.2% y/y or 2.0% on a monthly basis and contributed 7.3ppts to total CPI inflation. Transportation prices climbed 6.7% m/m, as fuel prices increased by around 20%. The government raised fuel prices by another 10% at the end of March and scheduled a 14.0% minimum wage hike in May, with both likely to fuel higher inflation in the coming months.
- Noticeably, producer price inflation rose by more than consumer price inflation in Q1, both on a year-on-year and momentum bases. Agricultural and industrial producer price indices climbed 23.1% and 14.9% y/y, respectively, in Q1 compared with 14.3% and 13.1% in Q4 2010.
- **ANZ Assessment**: Year-on-year headline CPI inflation is set to increase further in the next two quarters on the back of rising global commodity prices, domestic production input prices, and still strong domestic demand. We expect inflation to peak in Q3 at around 16-17%, before falling in the final quarter as tighter monetary policies take effect.

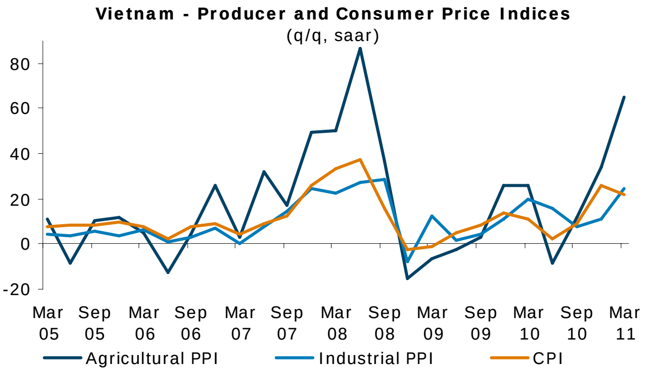








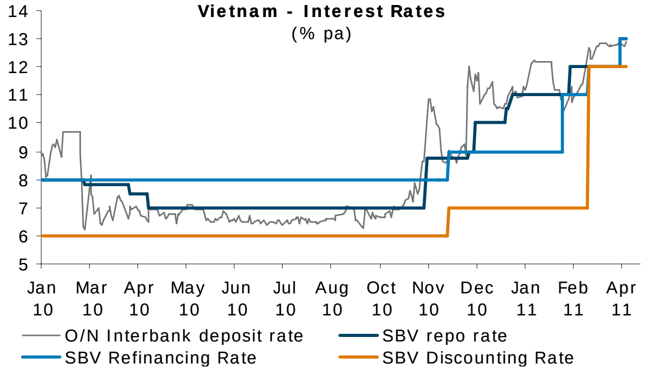


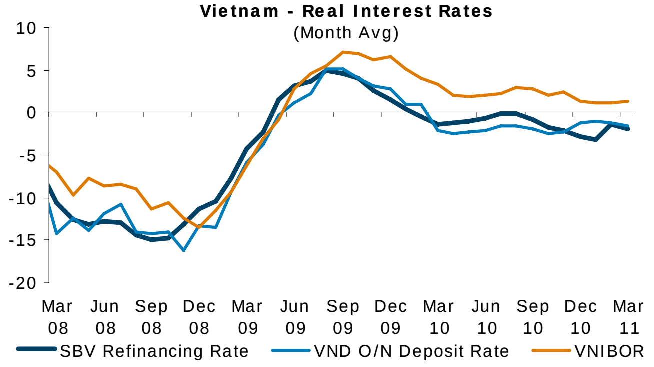


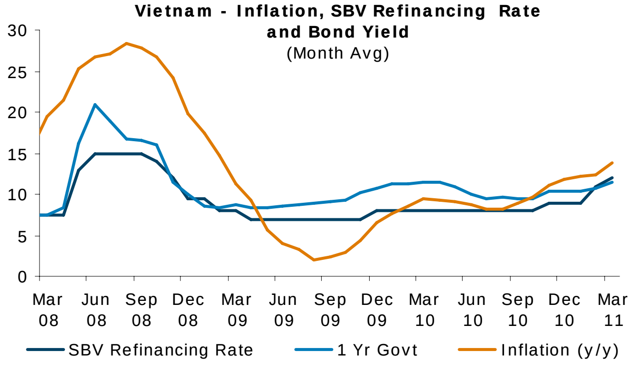
Source: CEIC, Bloomberg, ANZ Economics

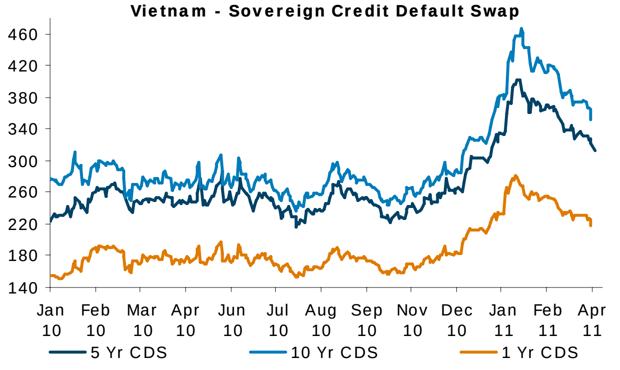
RATES AND FOREIGN EXCHANGE: MORE TIGHTENING

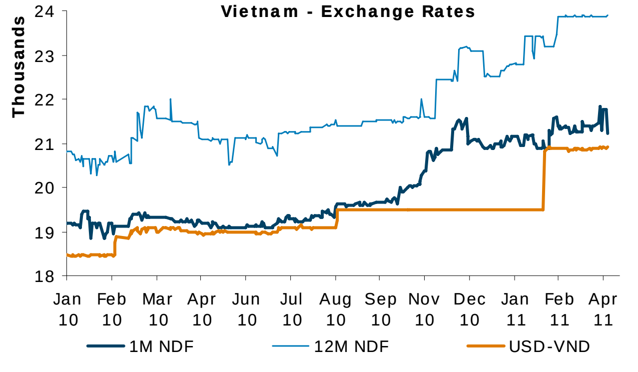
- **Rates:** The SBV raised its refinancing and repo rate by 100bps to 13.0% on 1 April as the fight against inflation continued. Access to the central bank's liquidity via open market operations has also been tighter. The market has reacted: the five-year CDS spread fell by more than 27% from its end-January peak.
- **Foreign exchange**: The USDVND rate moved around 20,800-20,900 in March, and markets continued to expect the dong to depreciate by 13-14% in the next 12 months, as priced on the NDF curves.
- **Yields on government bonds** increased to around 12.0% in March from 11.8-11.9% in February.
- **ANZ Assessment:** The continued tightening moves were in line with our expectations and will help offset the inflationary impact of the dong's depreciation and rein in inflation expectations. However, real interest rates continue to be negative and we expect another 100bp hike of key interest rates will be needed in the first half of Q2.

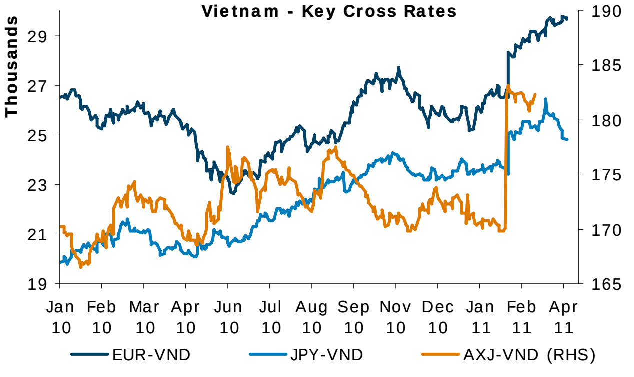












Source: Bloomberg

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