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EXECUTIVE SUMMARY

GDP grew sharply in Q1 at 6.03% yoy, mainly thanks to industry and construction area. The production conditions also improved during the past 19 months with PMI stood at 50.7 points in March. March CPI increased slightly thanks to high domestic demand after decreasing in four consecutive months. Higher trade deficit have partly pressured on the VND/USD exchange rate recently.

- Retail sales of goods in Q1 edged up to VND790.8 trillion, increasing by 9.2% M/M and higher than the same figure in Q1 last year at 5.1% Y/Y;
- The PMI is expected to improve in April because manufacturing become more active after festival season in Q1;
- Export value in the first 3 months of 2015 reached USD 35.7 billion, increasing 6.9% YoY. Meanwhile, demand for imports in Q1 was large, rising for machineries and input materials for manufacturing, reaching about USD 37.5 billion, 16.3% higher Y/Y;
- Registered FDI dropped as lacking big size projects while disbursed FDI surged in Q1 2015;
- The VND/USD exchange rate rose steeply since March. After the SBV's announcement about keeping the forex rate stable, the VND/USD still go up closely to the ceiling;
- The SBV continued to net withdrew money considerably via bills and repos in March;
- Bond market remained gloomy in March as bond demand declined considerably compared to the first two months this year. In Q1, about VND 55.9 trillion of VGBs were issued successfully, completing 80% of the plan in Q1.

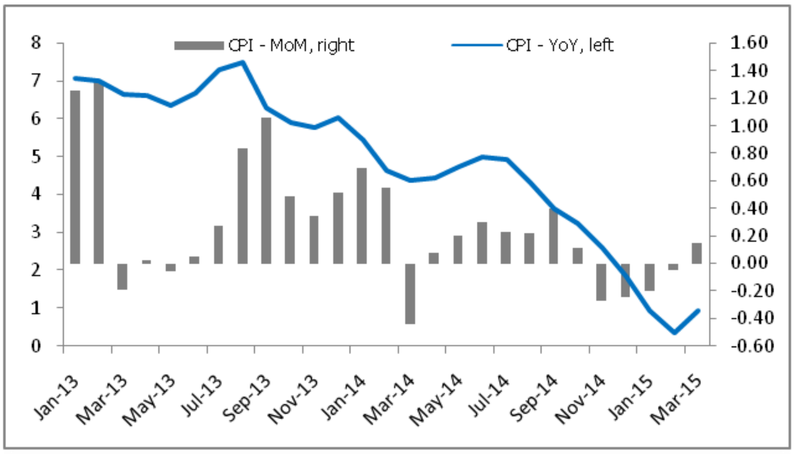
INFLATION

March CPI increased slightly thanks to high domestic demand after decreasing in four consecutive months. Retail sales of goods in Q1 edged up to VND790.8 trillion, increasing by 9.2% M/M and higher than the same figure in Q1 last year at 5.1% Y/Y.

March CPI showed soft increases of 0.15% M/M, and 0.93% Y/Y , as prices of food and foodstuffs rose. Besides, domestic gasoline price was up by 1600 VND/litre, slowing down the decrease in price of transportation which fell 0.31% in March instead of -4.41% in February. Higher CPI and retail sales of goods indicated that total demand improved, supporting strongly for the economic growth.

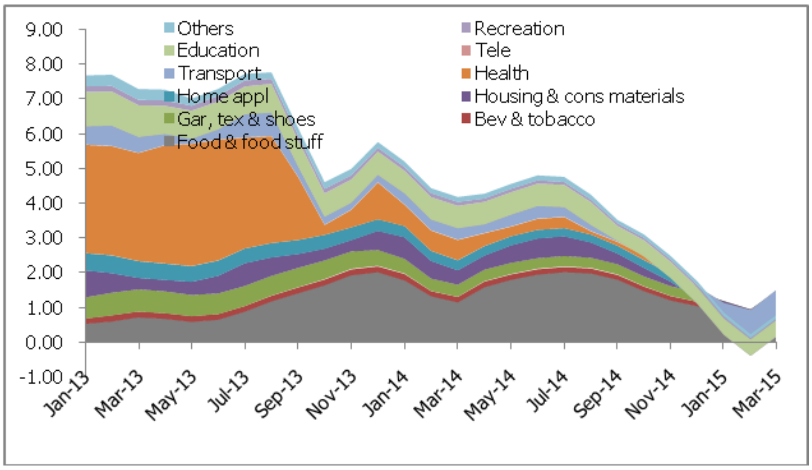
We believe the CPI will bounce in the coming time since domestic fuel prices might rise in lines with the global oil price rebound. Moreover, electricity prices which increased since 16th March also leads to higher growth of CPI. However, inflation for the year is still expected to vary about 4% thanks to stable global commodity prices, slower increase in prices of public goods, prudential monetary policy of the SBV.

Chart 1: Monthly CPI Inflation (%)



Source: GSO

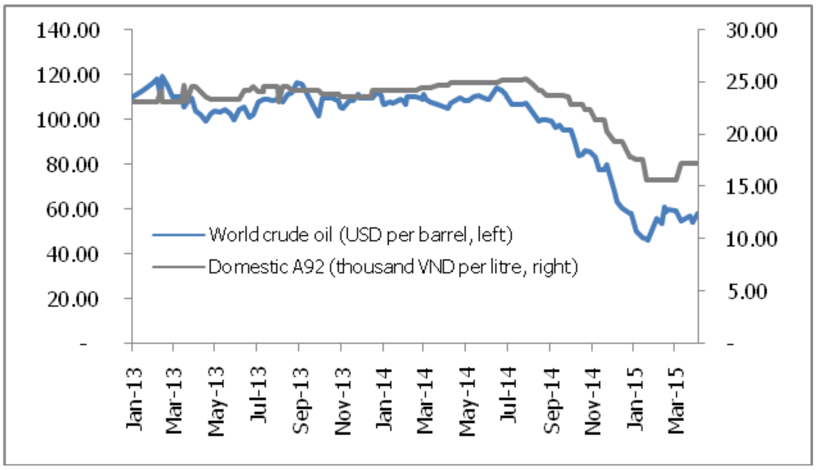
Chart 2: Contribution to CPI Inflation by Category (%, yoy)



Source: GSO

World crude oil prices drop slightly in March but then bounced back to 58$/barrel in April because global oil supply was less abundant. Saudi Arabia, a leading oil exporter, has raised prices for all types of oil sold to Asian markets in May, recording the second consecutive monthly increase. In addition, the dollar weakened after US announced disappointed jobs report in the end of March also supported oil prices. Besides, domestic gasoline price also went up by 1600 VND/litre in recent month. It is forecasted that domestic fuel prices might rise in the coming time in lines with the global oil price rebound and therefore this may lead to higher increases in CPI. At present, domestic price of Ron A92 stands at 17,280 VND/litre.

Chart 3: World crude oil (FOB) and domestic gasoline price (A92)



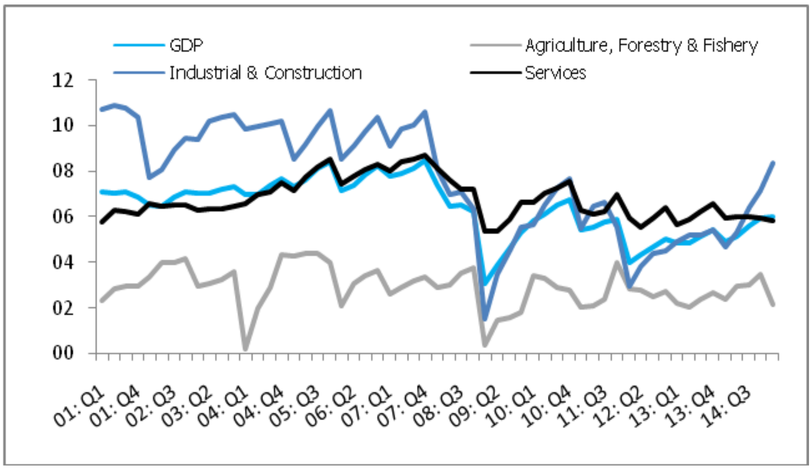
Source: EIA and MoF

OTHER ECONOMIC INDICATORS

GDP grew sharply in Q1 at 6.03% yoy, mainly thanks to industry and construction area. The production conditions also improved during the past 19 months with PMI stood at 50.7 points in March. PMI is expected to increase slightly in April because production activities can operate more positively in Q2.

GDP increased by 6.03% YoY in the first quarter, being the highest growth rate of the same periods in the last 5 years. In particular, the agriculture, forestry and fisheries area increased by 2.14%. YoY. Industrial areas rose by 8.35% and the services sector increased by 5.82% over the same period last year. Normally, GDP growth in Q1 usually stood low due to Lunar New Year holiday when manufacturing activities slowed down. With the significant increase in Q1 2015, the GDP target at 6.2% can be achieved this year. Loose monetary policy of the central bank has helped to reduce the cost of capital for businesses, promoting production and consumption, resulting in high economic growth. However, the economy is still in the process of recovery and stronger reforms must be continued to achieve sustainable growth in the long term.

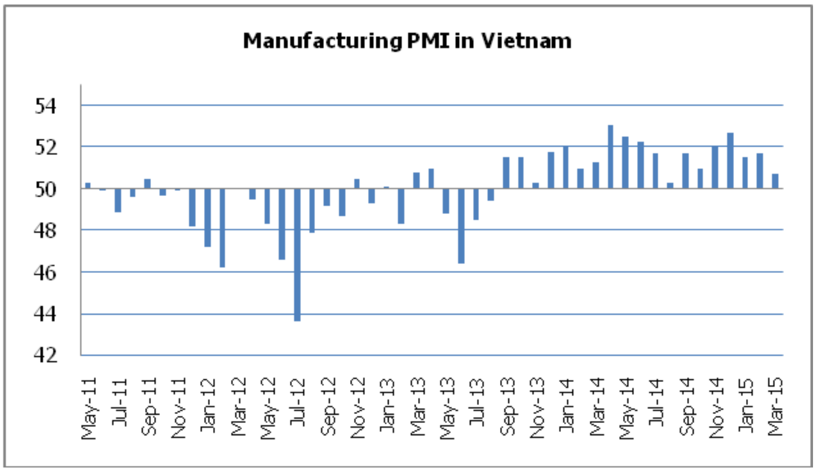
Chart 4: GDP growth (YoY, %)



Source: GSO

The manufacturing PMI reached 50.7 in March, a soft decrease from 51.7 in February. This marked the 19th month the index has been above 50, implying more expansions for the production. Both outputs and new orders continued to soar last month. However, employment declined slightly after increasing in six previous months. Global commodity prices kept falling, causing decreases in input prices and therefore firms decreased prices of goods for clients. The PMI is expected to improve in April because manufacturing become more active after festival season in Q1.

Chart 5: Monthly PMI 2011-2014

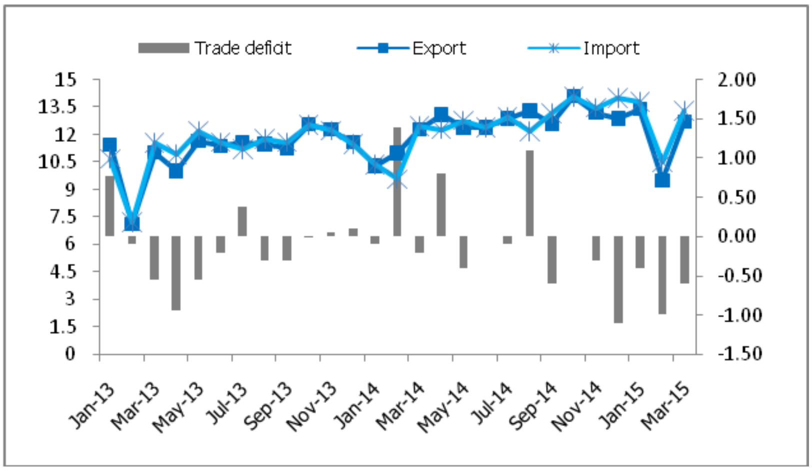


Source: Bloomberg

Lower prices on global commodities curbed export growth while demand for imported machineries and equipments rose to serve domestic production.

Export value in the first 3 months of 2015 reached USD 35.7 billion, increasing 6.9% YoY but this growth is still lower than the previous year's corresponding growth of 14.1%. Slow growth in exports in Q1 was resulted from further falls in global goods prices, including energy, metal and foods. Meanwhile, demand for imports in Q1 was moderately large, rising for machineries and input materials for manufacturing, reaching about USD 37.5 billion, 16.3% higher Y/Y. Accordingly, in Q1, trade deficit was USD 1.8 billion, while the previous Y/Y reading was USD1 billion surplus. If GDP continues to improve in coming time, imports will increase as Vietnam imports large amounts of machineries and materials for manufacturing. Moreover, a stronger USD and VND pegged on the USD will make Vietnamese goods' prices less competitive than other countries. Higher net imports have partly pressured on the VND/USD exchange rate recently.

Chart 6: International Trade ($ billion)

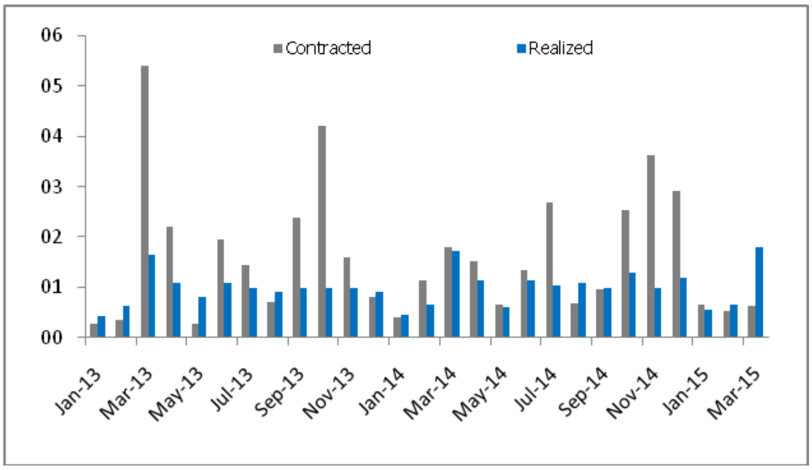


Source: GSO

Registered FDI dropped as lacking big size projects while disbursed FDI surged in Q1 2015

Total registered FDI in the first 3 months of the year reached USD1.83 billion, falling by 44.9% YoY. Disbursed FDI was estimated to be USD3.05 billion, rising by 7% YoY. Notably, manufacturing still received the main FDI inflows, accounting for 76.6.% of total registered investments. Real estate came second with 9.3%. At present, Korea is the country which financed the largest FDI source in Vietnam.

Chart 7: Monthly Foreign Direct Investment ($ billion)



Source: GSO

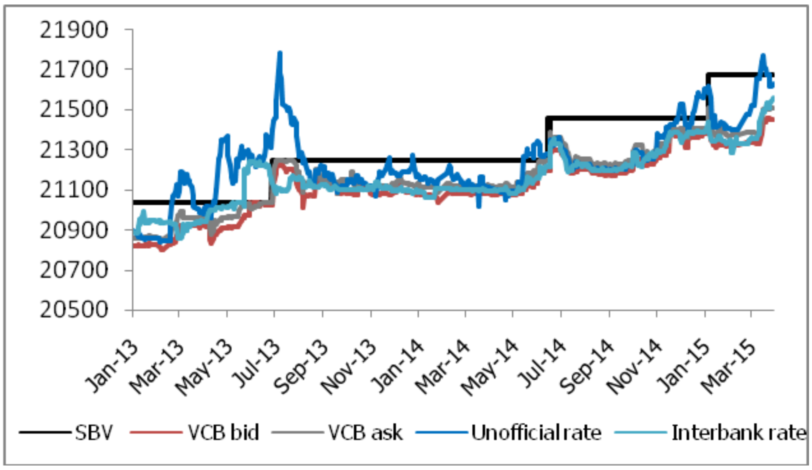
POLICY UPDATE

The VND/USD exchange rate rose steeply since March. Regarding the situation, the SBV confirmed that there would be no exchange rate adjustment at the moment and

promised to keep the rate stable within a 2% range in 2015. After that, the USD still appreciated closely to the ceiling, showing high demand of that foreign currency.

The interbank and free market VND/USD exchange rate soared since the middle of March, but the official rates are still below the ceiling allowed by the SBV. The reason could be a stronger USD in the global market, which created a tendency to hold the USD in expectation of a rate adjustment from the SBV. On the other hand, news that Vietnam net imported USD1.8 billion in Q1 also put pressure on the VND to fall. Moreover, the recently growing gap between domestic and global gold prices could lead to higher demand of USD to illegally import gold. Regarding this situation, the SBV confirmed that there would be no exchange rate adjustment and promised to keep the rate stable within a 2% range in 2015. However, after the SBV's announcement, the rate stayed in its uptrend, just 30 point below the ceiling of 21670 VND, suggesting that foreign currency demand is still high. Accordingly, it is expected that the SBV would sell USD to stabilize the market or adjusting the exchange rate soon to be suitable with the fluctuation. Currently, the interbank and free market VND/USD exchange rates are somewhere between 21,580-21,640 and 21,630-21,645, respectively.

Chart 8: Foreign Exchange Rate VND/USD

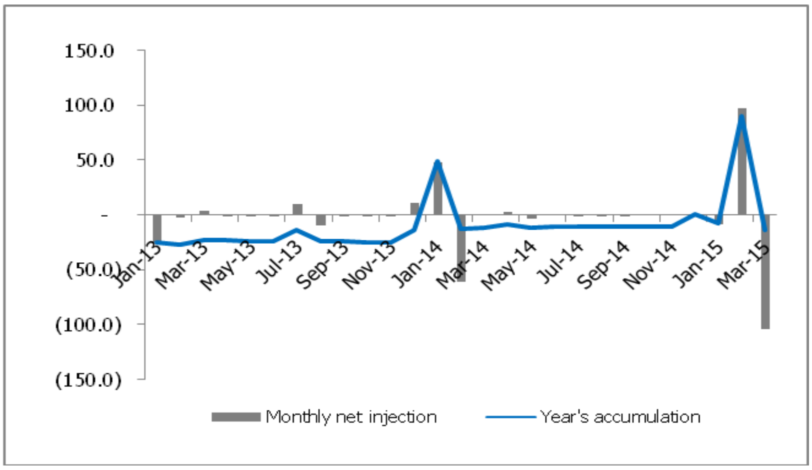


Source: SVB, VCB and others

The SBV continued to net withdrew money considerably via bills and repos in March.

There was VND 103 trillion was net withdrawn via repos in the OMO last month. Additionally, the number of issued bills stood about VND 70.6 trillion. Whereas, about VND 37.4 trillion of SBV bills matured. Therefore, the SBV net withdrew about VND 136.5 trillion via repos and bills in the March. Because the SBV net withdrew a large amount of money last month, we expect that the SBV will net injected money slightly via OMO and bills going forward to supply more capital for higher production in Quarter 2. Importantly, credit growth reached 1.25% YTD, quite different from last year when credit drop by 0.57% in Q1 and rose slowly in the first 6 months. Expansion in production and consumption this year will enhance credit growth. CPI and borrowing demand are expected to go up will retrain interest rates to fall further in the coming time.

Chart 9: Net Injection via OMO (VND, trillion)

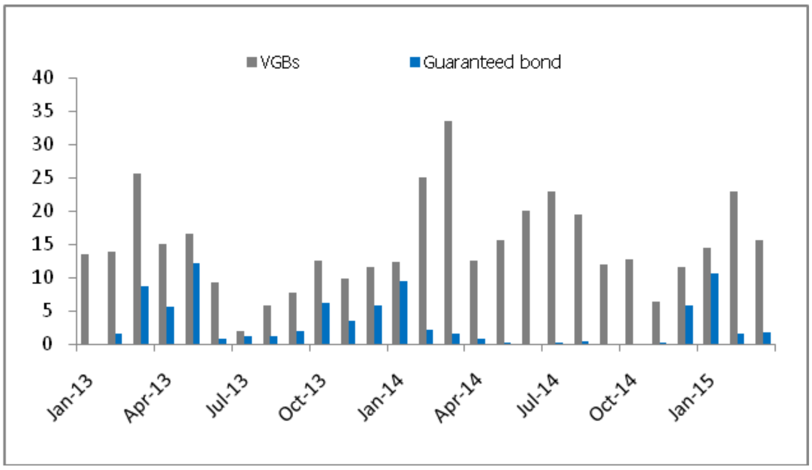


Source: Bloomberg and the author's calculation

Bond market remained gloomy in March as bond demand declined considerably compared to the first two months this year.

VGBs demand decreased in March with low successful ratio in auctions. About VND 15.6 trillion of VGBs were successfully issued with successful ratio of 51%. Most of them were 5 - 15 year bonds . Although bid to ask ratio reached about 1.4 times, the bond yields seemed to stand lower than investors' expectation and therefore bond demand fell. There was VND 1.74 trillion of guaranteed bonds issued in March. Bond interest rates tended to rise slightly. In Q1, about VND 55.9 trillion of VGBs were issued successfully, completing 80% of the plan in Q1. It is expected that bond market will be more active in the coming month because the number of matured VGBs in April and May stands high.

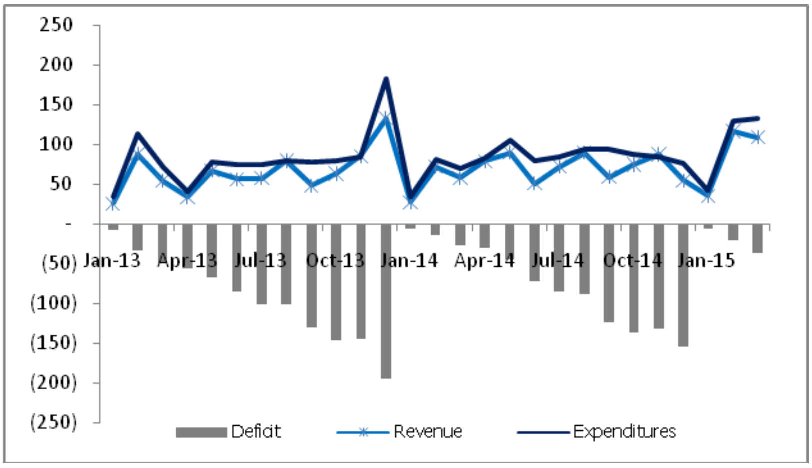
Chart 10: Vietnam's Government Bonds Issuance (VND/trillion)



Source: HNX and others

According to Ministry of Finance, State budget revenues in Q1 2015 were estimated at VND 226 trillion, accounting to 24.8% of the year plan. In which, revenues from domestic components reached VND 173.1 trillion, achieving 27% target. The economy recovery helped to increase State Revenues. Total expenditures in Q1 reached VND 263.3 trillion, accounting for 23% of the plan, rising by 12.3% YoY. Thus, Budget deficit stood about VND 37.3 trillion, accounting for 16.5% of the target this year.

Chart 11: Vietnam's State Budget (VND, trillion)



Source: GSO

DATA APPENDIX

	T4	T5	T6	T7	T8	T9	T10	T11	T12	T1	T2	T3
GDP (%, YoY, accumulated)			5.18			5.62			5.98			6.03
Industrial output (%, yoy)	6	5.9	6.1	7.5	6.7	6.5	7.9	11.1	9.6	17,5	12	9.1
Export ($ million)	13100	12400	12400	12400	13000	12600	14100	13200	12900	13400	9500	12700
Import ($ million)	12300	12800	12700	12700	12900	13200	14100	13500	14000	13800	10500	13300
Trade deficit ($ million)	400	400	200	300	100	600	0	300	(1100)	400	(1000)	(600)
Contracted FDI ($ million)	1520	650	1340	2680	700	950	2520	3630	2900	663	530	620
Realized FDI ($ million)	1150	600	1150	1050	1100	1000	1300	1000	1200	550	650	1800
Inflation (%, mom)	0.08	0.2	0.3	0.23	0.22	0.4	0.11	(0.27)	(0.24)	(0.2)	(0.05)	0.15
OMO rate (%)	5	5	5	5	5	5	5	5	5	5	5	5
VND/USD (VCB, e-o-p)	21,120	21,210	21,330	21,230	21,200	21,220	21,270	21,396	21,405	21,375	21,385	21,570

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