Tran Thi Thanh Thao
Research Analyst
T: +84 (4) 3726 2600
Thao.tranthithanh@mbs.com.vn

Tran Buu Quoc
Institutional Client Services (ICS)
Quoc.TranBuu@mbs.com.vn

MBS Vietnam Research
Website: www.mbs.com.vn
Bloomberg: MBSV<GO>

Please turn last page for Disclaimer

EXECUTIVE SUMMARY

Even with the inclusion of the holiday break, February saw a CPI falling by 0.05% M/M and inching up only 0.34% Y/Y, owing to the fuel price cuts. However, CPI is expected to go up in the coming months due to increases in global oil prices and domestic electricity prices in March. Manufacturing kept improving as the PMI rose from 51.5 in January to 51.7 in February. Foreign exchange market remained stable.

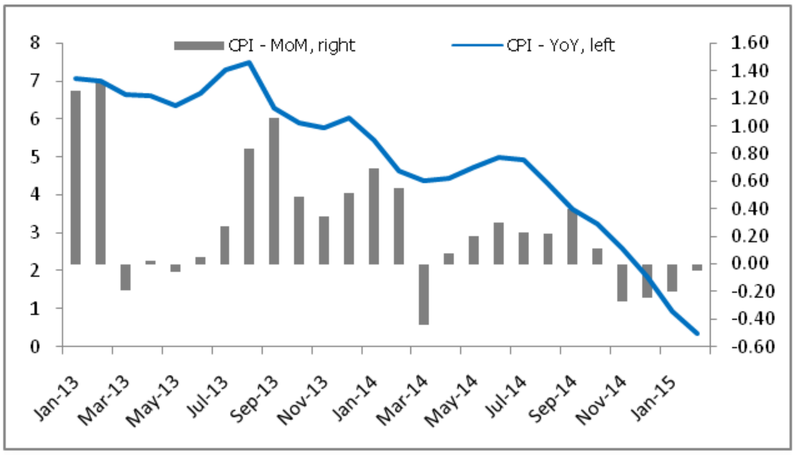
- *Manufacturing improved over the last 18 months. The PMI inched up marginally from 51.5 in January to 51.7 in February. The PMI is expected to stay above 50 in 2015, though it might fall in March, under the influence of the Tet holidays;*
- *February's import values dropped more sharply than exports, bringing a trade surplus of USD300 million;*
- *Total registered FDI in the first 2 months of the year reached USD1.19 billion, falling by 22.5% Y/Y. Disbursed FDI was estimated to be USD1.2 billion, rising by 7.1% Y/Y;*
- *The forex market remained stable. The VND/USD tended to go up slightly after Tet because of higher USD demand;*
- *The SBV kept net injecting money strongly via SBV bills and OMO in February to support banking liquidity, especially before Tet;*
- *Bond market remained active in February thanks to high amount of matured VGBs. Bond interest rates declined slightly compared to last month.*

INFLATION

Even with the inclusion of the holiday break, February saw a CPI falling by 0.05% M/M and inching up only 0.34% Y/Y, owing to the fuel price cuts. Demand for spending prior to Tet still increased, as retail sales of goods in February edged up to VND210.9 trillion, increasing by 4.2% M/M and 12.6% Y/Y.

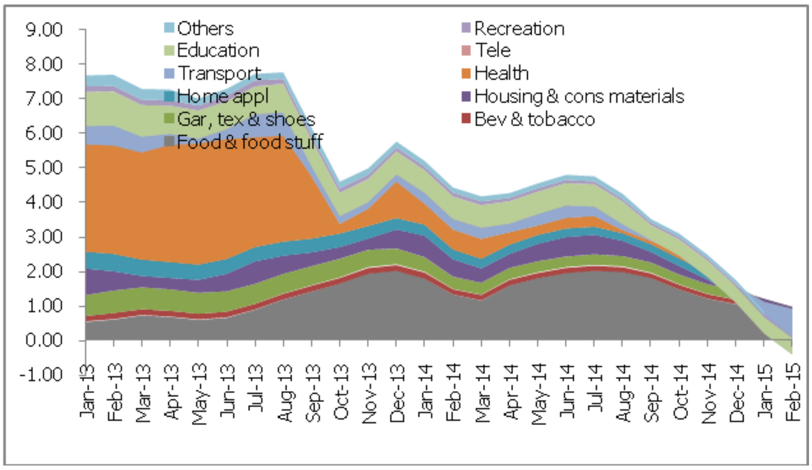
February's CPI showed soft increases of 0.05% M/M, and 0.34% Y/Y of, as energy prices had further drops in January. Transportations showed another steep drop of 4.41% and building materials slipped by 1.5% on an M/M basis. However, as consumption demand surged prior to Tet as usual, prices moved up for food and foodstuffs, and textiles by 0.53% and 0.96% M/M, respectively. Higher demand before Tet was illustrated by the retail sales rising to VND210.9 trillion, a 4.2% M/M and a 12.6% Y/Y advance. We believe the CPI will bounce in the coming time since the holidays are still spanning and domestic fuel prices might rise in March in lines with the global oil price rebound. Moreover, electricity prices which will be increased since 16th March also leads to higher growth of CPI. Inflation for the year is expected to fair 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

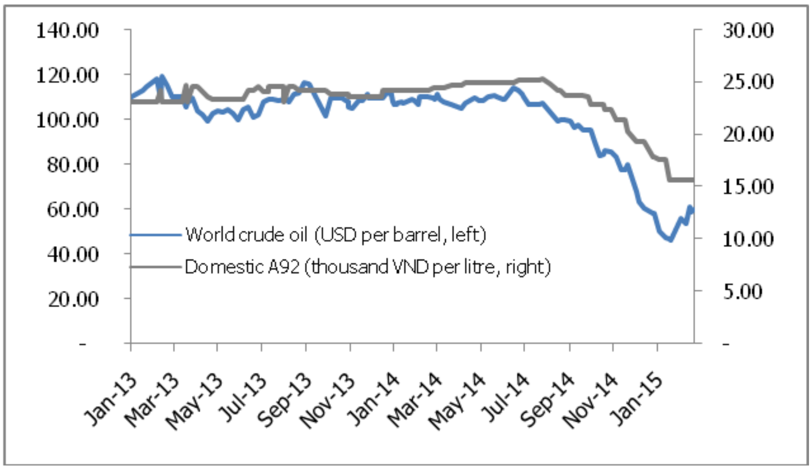
Chart 2: Contribution to CPI Inflation by Category (%, yoy)



Source: GSO

World crude oil prices bounced back from 46$/barrel in Jan to about 60$/barrel in the end of Feb due to expectation that oil demand improved and supply was less abundant. Besides, domestic gasoline price also fell in 15 consecutive times in recent months. However, 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.

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



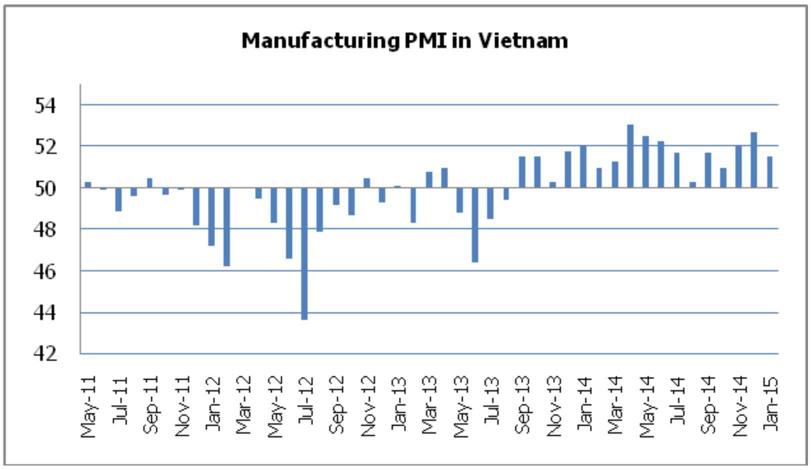
Source: EIA and MoF

OTHER ECONOMIC INDICATORS

Manufacturing improved over the last 18 months. The PMI inched up marginally from 51.5 in January to 51.7 in February. The PMI is expected to stay above 50 in 2015, though it might fall in March, under the influence of the Tet holidays.

The manufacturing PMI reached 51.7 in Feb, 2015, a soft increase from 51.5 in January. This marked the 18th month the index has been above 50, implying more expansions for the sector. Both outputs and new orders continued to soar in February. Yet, new export orders decreased, ending a five-month sequence of growth. Greater production requirements led to rises in employment and purchasing activity. Accordingly, staffing levels increased for the sixth successive month and the latest expansion in input buying extended the current sequence of growth to 18 months. Reductions in fuel costs were the main factor leading to another drop in input prices at Vietnamese manufacturing firms. The PMI is expected to improve in 2015, though there might be a small fall in March due to the Lunar New Year.

Chart 4: Monthly PMI 2011-2014

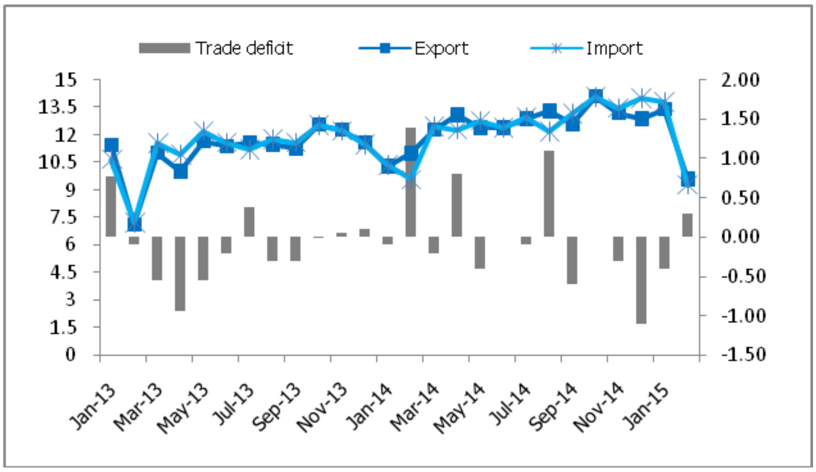


Source: Bloomberg

February's import values dropped more sharply than exports, bringing a trade surplus of USD300 million

In February, export values reached USD9.6 billion, 28.4% lower M/M, while import values were USD9.3 million, 32.4% lower M/M. Accordingly, Vietnam scored a trade surplus of USD300 million in February. The net export was driven mainly by the foreign sector with USD950 million of trade surplus. Since the Tet break was in February, most firms had completed their export contracts early, leading export values higher than import values. For the first 2 months of 2015, Vietnam net imported USD61 million, while 2014's same period saw a net export value of USD1.35 billion.

Chart 5: International Trade ($ billion)

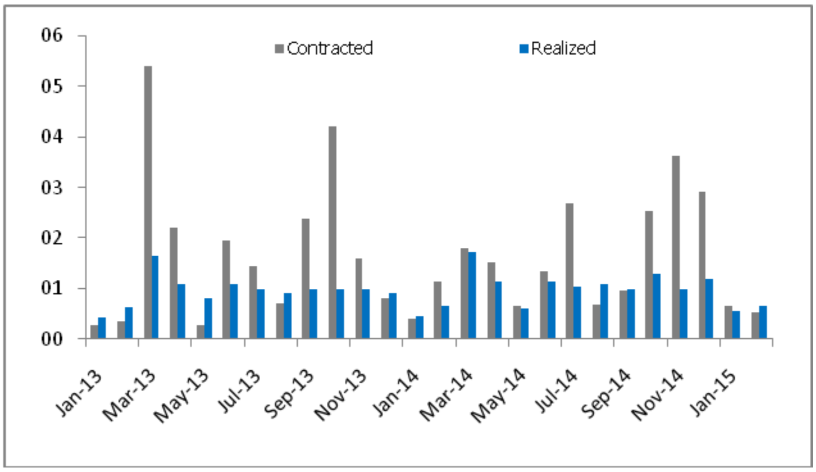


Source: GSO

Registered FDI dropped while disbursed FDI surged in the first 2 months of 2015

Total registered FDI in the first 2 months of the year reached USD1.19 billion, falling by 22.5% Y/Y. Disbursed FDI was estimated to be USD1.2 billion, rising by 7.1% Y/Y. In February alone, registered FDI totaled USD530 million, which is 46% of last year's result. Meanwhile, disbursed FDI came to USD650 million, unchanged Y/Y. Notably, manufacturing still received the main FDI inflows, accounting for 79.8% of total registered investments. Real estate came second with 9.3%. The first months of a year usually see low FDI due to the holiday break. However, Vietnam will sign various free trade agreements with important partners such as Korea, the Custom Union of Russia-Belarus-Kazakhstan, the EU, etc. Hence, Vietnam will be provided with many opportunities to attract more FDI in the coming time.

Chart 6: Monthly Foreign Direct Investment ($ billion)



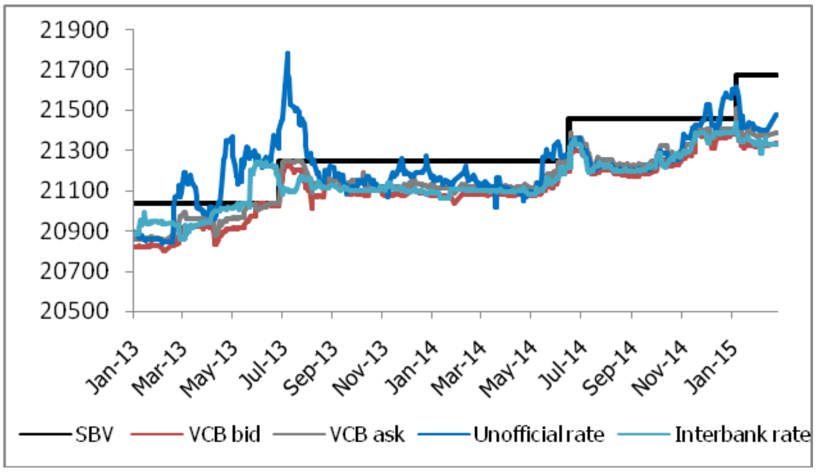
Source: GSO

POLICY UPDATE

The forex market remained stable. The VND/USD tended to go up after Tet because of higher USD demand.

USD demand tended to rise after Tet holiday, leading to slight increases in the VND/USD rates both in interbank and unofficial market. The interbank VND/USD rates varied around 21,320-21,390. Unofficial rates stood around 21,445-21,505. The VND/USD rates are expected to remain steady this year thanks to high foreign reserves, increasing FDI, stable trade balance. As announced by the SBV, the VND/USD will not exceed a margin of 2% in 2015.

Chart 7: Foreign Exchange Rate VND/USD

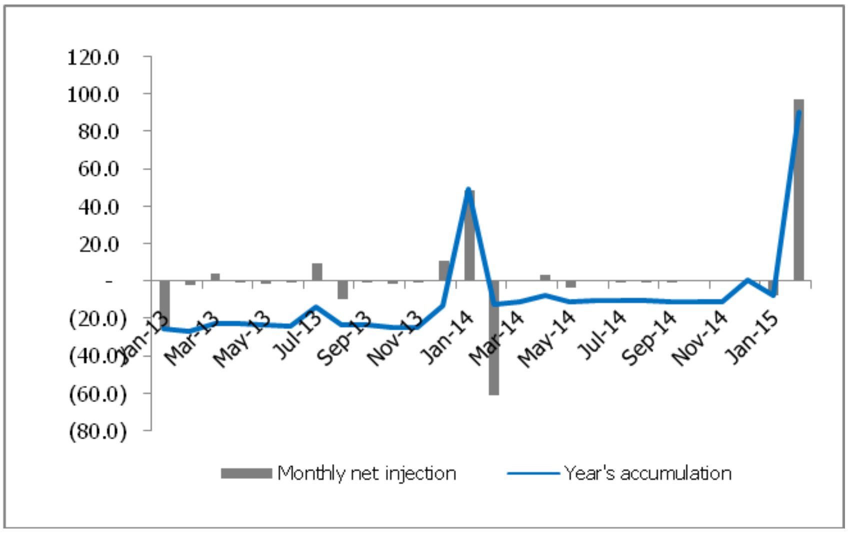


Source: SVB, VCB and others

The SBV kept net injecting money strongly via SBV bills and OMO in February to support banking liquidity, especially before Tet.

The SBV net injected money via repos and SBV bills last month to support banking liquidity as consumption demand went up considerably before Tet. About VND 97.6 trillion was net injected via repo in the OMO. Besides, the SBV issued VND 39 trillion of bills to withdraw money out of the system. Whereas, about VND 39.3 trillion of SBV bills matured. Therefore, the SBV net injected about VND 97.9 trillion via repos and bills last month. Because payment demand often decline after Lunar New Year, we expect that the SBV will net withdraw money via OMO and bills in the coming time.

Chart 8: Net Injection via OMO (VND, trillion)

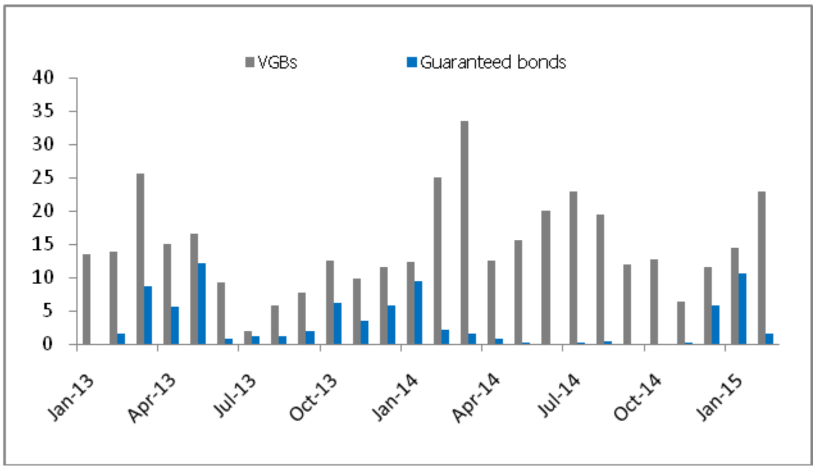


Source: Bloomberg and the author's calculation

Bond market remained active in February thanks to high amount of matured bond. Bond interest rates declined slightly compared to last month.

Bond auctions achieved high successful rates with the offering of State Treasury, VBSP and VDB because the amount of matured VGBs stood high at VND 25 trillion in February. About VND 22.97 trillion of VGBs were successfully issued with successful ratio of 92%. Most of them were 5 - 15 year bonds and bid to ask ratio reached about 1.9 times. Besides, demand for guaranteed bond also stood high. About VND 1.6 trillion of VDB and VBSP bonds were issued with high successful ratio of 53%. Bond interest rates went down slightly owing to high bond demand. In Q1, credit growth is often stood low and the number of matured VGBs stands high, therefore banks demanded large number of bonds.

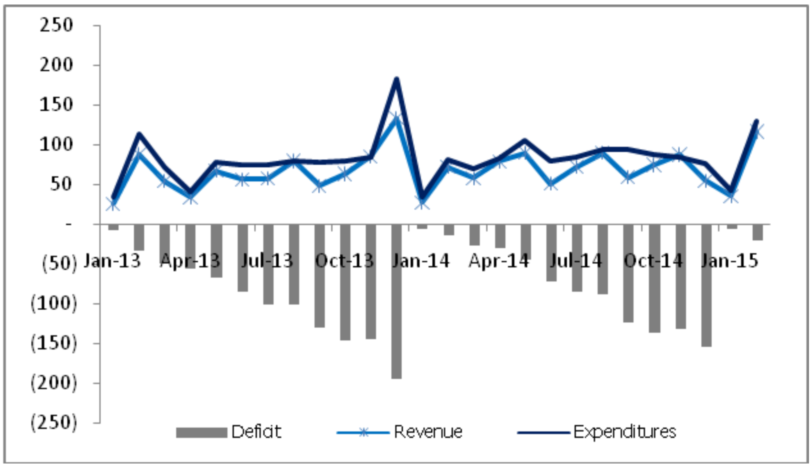
Chart 9: Vietnam's Government Bonds Issuance (VND/trillion)



Source: HNX and others

State budget revenues in Feb 2015 were estimated at VND 59.3 trillion. Two month revenues achieved VND 151.87 trillion, up by 17.3 Y/Y and being equal to 16.7% of the projection. Total expenditures reached VND 77.6 trillion in Feb and VND 172.2 so far this year, accounting for 15% of the plan, rising by 11.3% Y/Y. Thus, the budget deficit stood about VND 20.3 trillion in the first two months. The improvement of macro economy helped to improve State Revenue in the recent two months.

Chart 10: Vietnam's State Budget (VND, trillion)



Source: GSO

DATA APPENDIX

	T3	T4	T5	T6	T7	T8	T9	T10	T11	T12	T1	T2
GDP (%, YoY, accumulated)	4.96			5.18			5.62			5.98		
Industrial output (%, yoy)	4.7	6	5.9	6.1	7.5	6.7	6.5	7.9	11.1	9.6	17,5	12
Export ($ million)	12300	13100	12400	12400	12400	13000	12600	14100	13200	12900	13400	9600
Import ($ million)	12500	12300	12800	12700	12700	12900	13200	14100	13500	14000	13800	9300
Trade deficit ($ million)	300	400	400	200	300	100	600	0	300	(1100)	400	(300)
Contracted FDI ($ million)	1800	1520	650	1340	2680	700	950	2520	3630	2900	663	530
Realized FDI ($ million)	1730	1150	600	1150	1050	1100	1000	1300	1000	1200	550	650
Inflation (%, mom)	-0.44	0.08	0.2	0.3	0.23	0.22	0.4	0.11	(0.27)	(0.24)	(0.2)	(0.05)
OMO rate (%)	5	5	5	5	5	5	5	5	5	5	5	5
VND/USD (VCB, e-o-p)	21,120	21,120	21,210	21,330	21,230	21,200	21,220	21,270	21,396	21,405	21,375	21,390

PRODUCT

This product covers the latest information about Vietnam macroeconomics. Reports focus on important issues such as inflation, economic growth, trade balance, exchange rate and macro policies. The product also forecasts figures which have impacts on stock market.

MBS RESEARCH CENTER

We offer economic and equity research. The Economic Research Team offers periodic reports on macroeconomics, monetary policies and fixed income markets. The Equity Research Team offers reports on listed firms, private equities and sector reviews. MBS Research Center also offers regular market commentaries - The Investor Daily.

MB SECURITIES (MBS)

Established since May 2000, MBS was one of the first 5 securities firms operating in Vietnam. After years of continuous development, MBS has become one of the leading securities company in Vietnam, providing a full range of services including: brokerage, research and investment advisory, investment banking and capital markets underwriting. MBS's network of branches and transaction offices has been expanded and operated effectively in many major cities such as Hanoi, Ho Chi Minh City, Hai Phong and other strategic areas. MBS's clients include individual investors and institutions, financial institutions and enterprises. As a member of the MB Group, including MB Bank, MB Land, MB Asset Management, MB Capital and Viet R.E.M.A.X (Viet REM), MBS is able to leverage substantial human, financial and technological resources to provide its clients with tailored products and services that few securities firms in Vietnam can match.

MBS is proud to be recognized as:

- A leading brokerage firm – ranked No.1 in terms of brokerage market share since 2009;
- A renowned research firm with a team of experienced analysts that provides market-leading research products and commentaries on equity markets and the economy; and
- A trusted provider of investment banking services for corporate clients.

MBS HEAD OFFICE

MB Building, 3 Lieu Giai, Ba Dinh, Ha Noi

Tel: +84 4 3726 2600 – Fax: +84 4 3726 2600

Website: www.mbs.com.vn.

DISCLAIMER