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## EXECUTIVE SUMMARY

*CPI continued to inch up in April as expected due to the domestic fuel and electricity price hikes. Manufacturing conditions improved significantly in April with a PMI of 53.5, the highest since 2011. PMI has stayed above 50 in 20 straight months. During April and the first week of May, the VND/USD exchange rate surged. In response, the SBV had raised the interbank rate by 1% from May 7th. Following the move, the exchange rate inched up and fluctuated at a new level.*

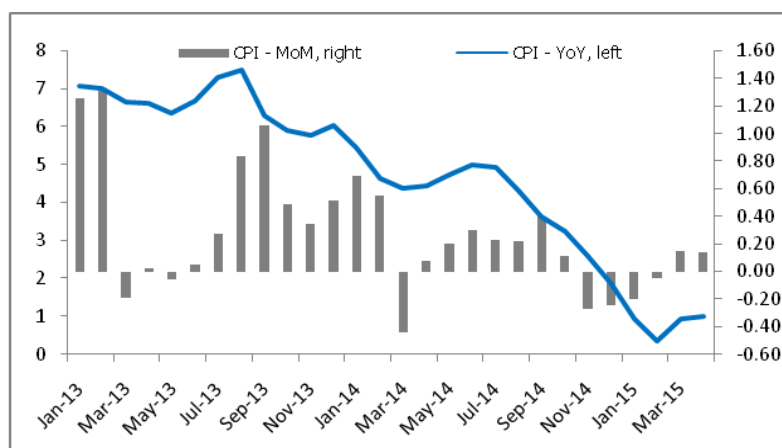
- April's CPI rose by 0.14% mom and 0.99% y/y, mainly attributable to sharp increases in transportation, housing and building materials costs;
- The Manufacturing PMI surged from 50.7 in Mar to 53.5 in April. The PMI is expected to improve further in May, as manufacturing activities usually take up some pace in Quarter 2;
- Imports outgrew exports in the first 4 months of the year, resulting in a trade deficit of about USD3 billion. This is considered one of the factors that recently created pressures on the VND/USD exchange rate to go up;
- Registered FDI dropped by 23.3% YoY as lacking big size projects while disbursed FDI surged stably in the first four months in 2015;
- During April and the first week of May, the VND/USD exchange rate surged. In response, the SBV had raised the interbank rate by 1% from May 7<sup>th</sup>;
- The SBV net injected money slightly via bills and repos in April to support banking liquidity;
- Bond market remained gloomy in April. Bond demand stood low and bond interest rates rose slightly compared to the end of March.

## INFLATION

**CPI continued to inch up in April as expected due to the domestic fuel and electricity price hikes. Total retail sales of consumer goods and services in April saw moderate growth though the space has declined from the beginning of the year, expanding 7.1% y/y.**

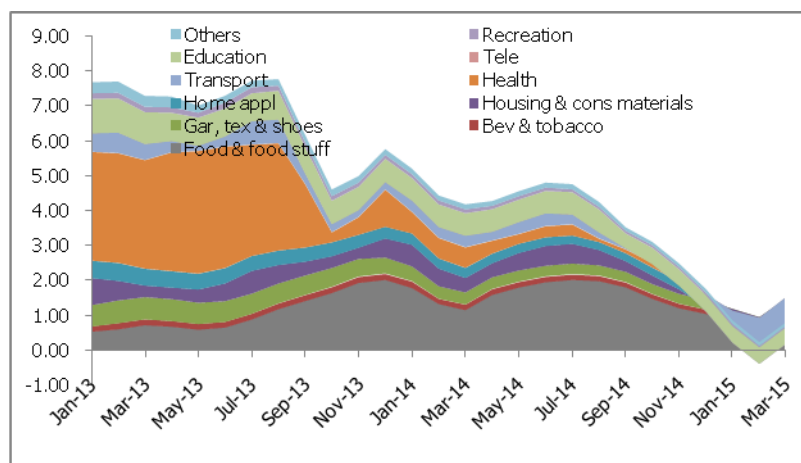
Inflation has been edging up since the global oil prices have recovered and domestic demand has improved in the first 4 months of the year. April's CPI rose by 0.14% mom and 0.99% y/y, mainly attributable to sharp increases in transportation, housing and building materials costs, driven by the upturns of 10% in fuel prices and 7.5% in power prices in the previous month. Besides, food was 0.42% cheaper in April with potentials to go up in May which includes the April 30th holiday. Other groups of consumption saw minor m-o-m gains. We believe that the CPI will go higher in coming time, as the domestic fuel prices could be adjusted further upward while global oil price is rebounding. Moreover, long holidays in May and the summer weather could boost demand for food, consumption and transportation. The electricity price adjustments, effective since Mar 16, will continue to be reflected in the CPI in coming months, since power is an important input factor of manufacturing.

**Chart 1: Monthly CPI Inflation (%)**



Source: GSO

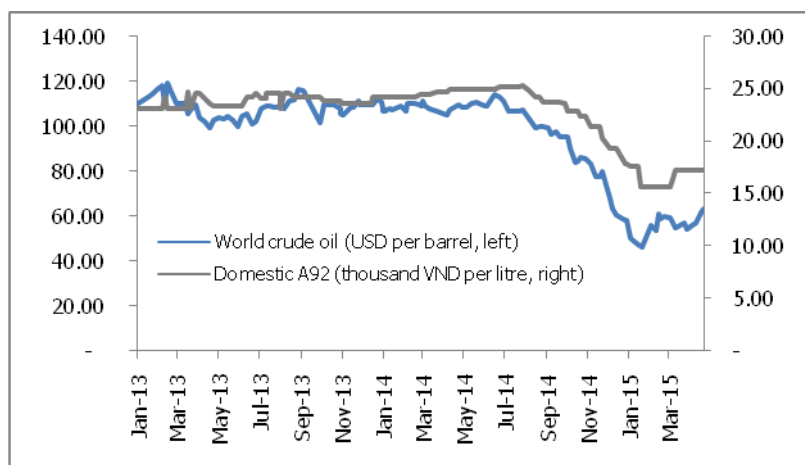
**Chart 2: Contribution to CPI Inflation by Category (% , yoy)**



Source: GSO

Global oil price bottomed in Jan, 2015, climbing up constantly in the first 4 months of the year. The recent increases are explainable by Libya’s temporary ceased oil imports due to protests, and Saudi Arabia raising oil selling prices to clients from Asia due to higher demands. The current Brent oil prices is around USD 64/barrel, a 39% lift from USD 46/barrel in January. Hence, fuel prices were bumped by nearly VND 2000/litre at the beginning of May. As global oil prices tend to move up again, domestic fuel prices could be raised in coming time, pushing CPI up. The price for RON92 is now VND 19,230/litre.

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



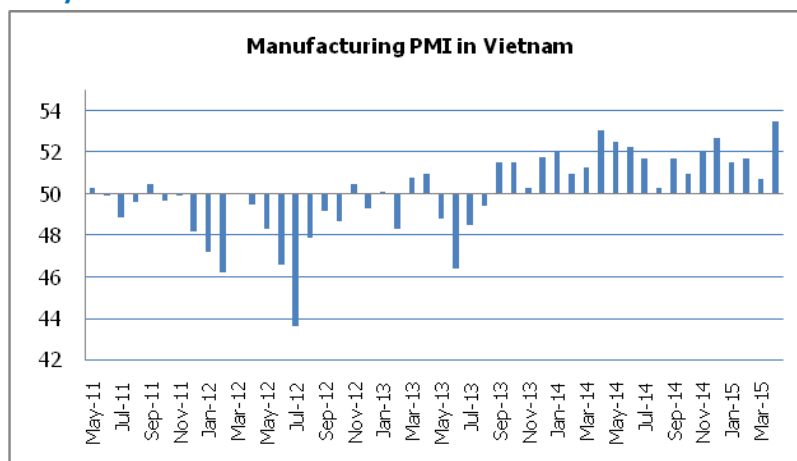
Source: EIA and MoF

**OTHER ECONOMIC INDICATORS**

**Manufacturing conditions improved significantly in Apr with a PMI of 53.5, the highest since Apr, 2011. PMI has stayed above 50 in 20 straight months.**

The Manufacturing PMI surged from 50.7 in Mar to 53.5 in Apr, the sharpest increase since the survey was first recorded in Apr, 2011. Higher demands have led to record high growths in production and number of new orders in domestic market as well as for exports. Jobs also rose slightly in April, following March’s fall. Input costs dropped, helping manufacturers to reduce selling prices to clients. The PMI is expected to improve further in May, as manufacturing activities usually take up some pace in Quarter 2.

**Chart 4: Monthly PMI 2011-2014**

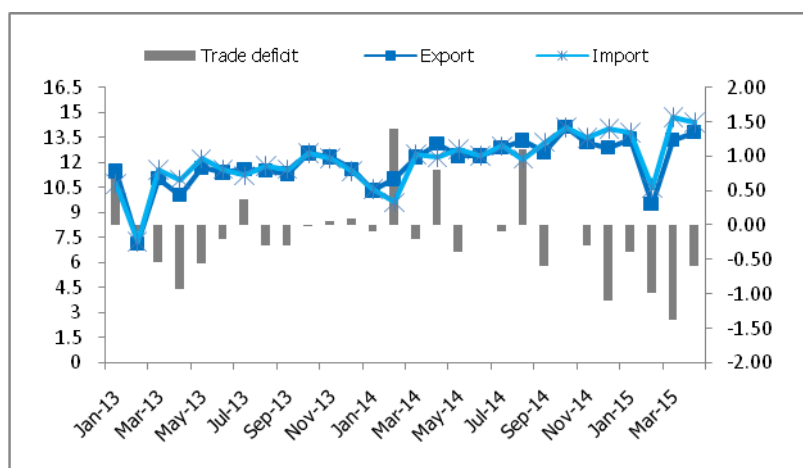


Source: Bloomberg

**Imports outgrew exports in the first 4 months of the year, resulting in a trade deficit of about USD3 billion. This is considered one of the factors that recently created pressures on the VND/USD exchange rate to go up.**

Both export and import values in the first 4 months of the year had moderate y/y growths. The period's export value reached USD50.1 billion, increasing by 8.2% y/y, mostly from the FDI sector. Domestic firms' exporting activities were 1% lower y/y, with most declines in agriculture products since goods prices in the global markets have been trending down. In addition, import demand in the first 4 months of the year is quite high, especially for machinery and materials for manufacturing, which amounted to about USD53.1 billion, a 19.9% y/y advance. The data is in lines with the improvements in manufacturing conditions in the first months of the year. Year to date, Vietnam net imported roughly USD2 billion. Fast growth in net import has spurred pressures on the VND/USD exchange rate in the recent few months.

**Chart 5: International Trade (\$ billion)**

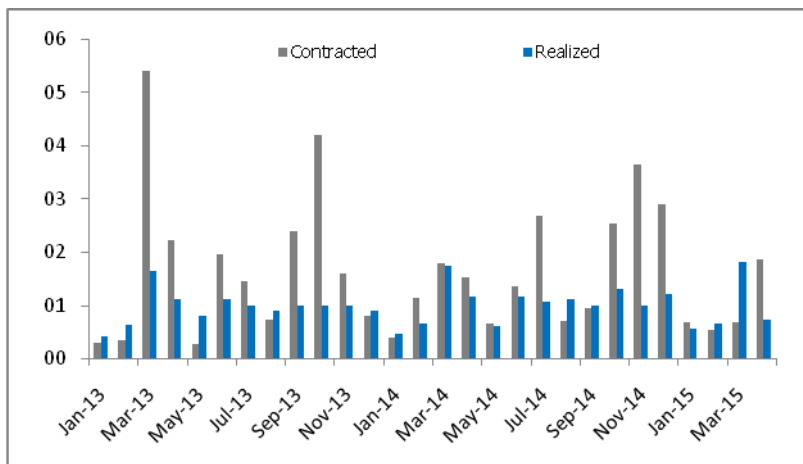


Source: GSO

**Registered FDI dropped by 23.3% YoY as lacking big size projects while disbursed FDI surged stably in the first four months in 2015**

Total registered FDI in the first 4 months of the year reached USD3.72 billion, falling by 23.3% YoY. Total number of projects still increased by 14.9% YoY. However, lack of large projects led to low registered FDI so far this year. Disbursed FDI was estimated to be USD4.2 billion, rising by 5% YoY. Notably, manufacturing still received the main FDI inflows, accounting for 76% of total registered investments. Real estate came second with 8.8%. At present, Korea is the country which financed the largest FDI source in Vietnam.

Chart 6: Monthly Foreign Direct Investment (\$ billion)



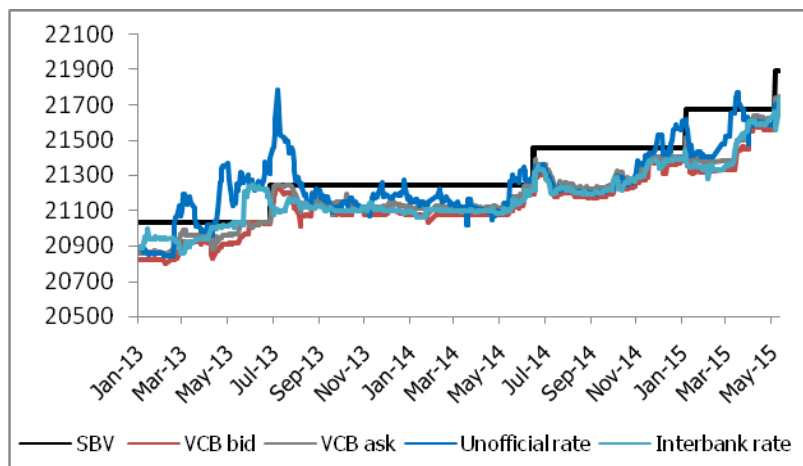
Source: GSO

**POLICY UPDATE**

***During April and the first week of May, the VND/USD exchange rate surged. In response, the SBV had raised the interbank rate by 1% from May 7th. Following the move, the exchange rate inched up and fluctuated at a new level.***

The VND/USD exchange rate in the interbank and free market both went up sharply since the beginning of April to date, reaching the SBV’s ceiling rate of 21,673 in the beginning of May. The SBV thus bumped the reference rate up by 1% from May 7th, allowing commercial banks to trade dollars for VND at a rate between 21,456 and 21,890. Year to date, the SBV’s strategy has been to monitor the rate to rise by 2% or less this year. Hence, there’s now no room left for the rate to move up for the rest of the year as commitment. However, pressures still remain high on the VND/USD rate this year as Fed plans to raise interest rates, pushing the USD to appreciate constantly. Moreover, significant economic improvements since the beginning of the year has led to a net import for Vietnam, which was USD3 billion in the first 4 months of the year, further pressuring on the exchange rate. Currently, the official and free-market VND/USD rate is between 21,760-21,810 and 21,730-21,770, respectively.

Chart 7: Foreign Exchange Rate VND/USD

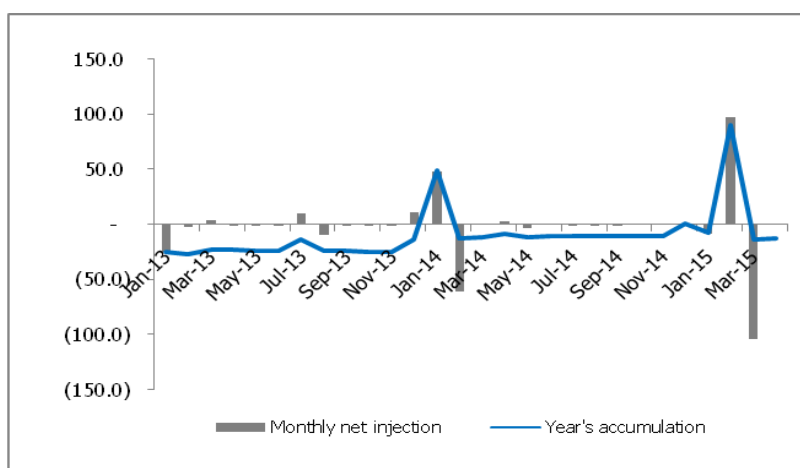


Source: SVB, VCB and others

***The SBV net injected money slightly via bills and repos in April to support banking liquidity.***

Banking liquidity seemed to decline, indicating by higher overnight interbank interest rates around 4% in April. Thus, the SBV net injected VND 4.3 trillion via repos in the OMO last month. Additionally, the number of issued bills stood about VND 34.9 trillion. Whereas, about VND 32 trillion of SBV bills matured. Therefore, the SBV net injected about VND 1.44 trillion via repos and bills in April. as updated on 8<sup>th</sup> May 2015, Vietnam banking system’s credit growth reached at 3.69%, reported by SBV. Last year, credit growth arrived at 1.31% on 23/5/2014 and only gained at 3.6% by the end of July, 2014. From that, the SBV would continue to net injected money via OMO and bills due to expansion in credit growth in the coming time.

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

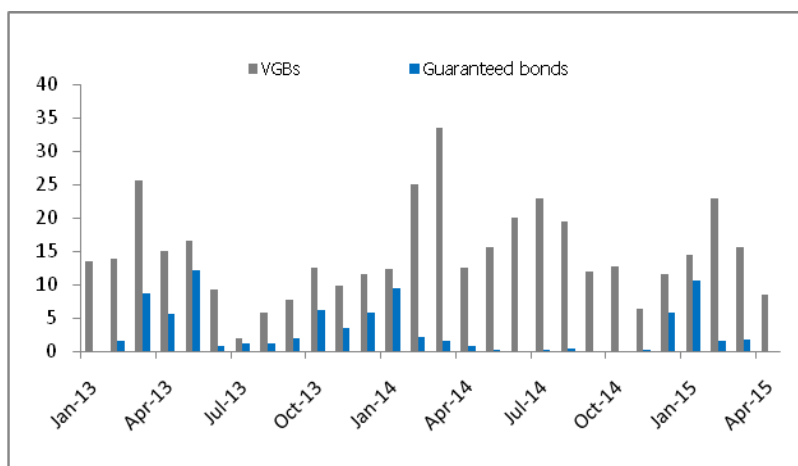


Source: Bloomberg and the author's calculation

***Bond market remained gloomy in April. Bond demand stood low and bond interest rates rose slightly compared to the end of March.***

VGBs demand kept decreasing in April with low successful ratio in auctions. About VND 8.5 trillion of VGBs were successfully issued with successful ratio of 46%, the lowest so far this year. Most of them were 5 - 15 year bonds. The investors seemed to expect that bond yields will go up and therefore demand for long term bonds fell. Besides, credit growth went up sharply in the first four months also resulted in lower bond demand. Bond interest rates tended to rise slightly by 0.2 percentage point compared to March.

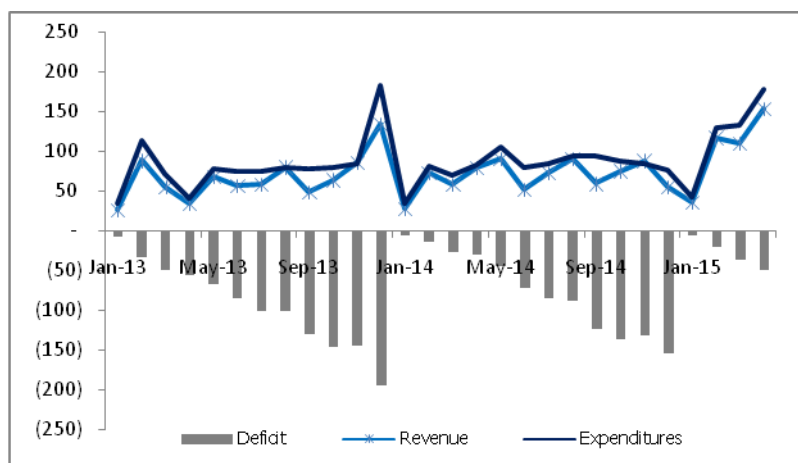
**Chart 9: Vietnam's Government Bonds Issuance (VND/trillion)**



Source: HNX and others

According to the Ministry of Finance, State Budget Revenues in April, 2015 was estimated at VND79.35 trillion, increasing by VND9 trillion M/M and ahead of the projected schedule (which is VND76 trillion). The first 4 months of the year's accumulated State Budget Revenue reached VND314.1 trillion, accounting for 34.5% of projection and expanding by 9.4% Y/Y. Budget deficit was roughly VND15.4 trillion in April and VND48.55 trillion in the first 4 months of the year, taking up 21.5% of the whole year's target. Thus, year to date, budget deficit was VND48.55 trillion, reaching 21.5% of the year's target.

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



Source: GSO

DATA APPENDIX

	T5	T6	T7	T8	T9	T10	T11	T12	T1	T2	T3	T4
GDP (% YoY, accumulated)		5.18			5.62			5.98			6.03	
Industrial output (% yoy)	5.9	6.1	7.5	6.7	6.5	7.9	11.1	9.6	17,5	12	9.1	9,5
Export (\$ million)	12400	12400	12400	13000	12600	14100	13200	12900	13400	9500	13340	13800
Import (\$ million)	12800	12700	12700	12900	13200	14100	13500	14000	13800	10500	14730	14400
Trade deficit (\$ million)	400	200	300	100	600	0	300	(1100)	400	(1000)	1390	600
Contracted FDI (\$ million)	650	1340	2680	700	950	2520	3630	2900	663	530	620	1850
Realized FDI (\$ million)	600	1150	1050	1100	1000	1300	1000	1200	550	650	1800	720
Inflation (% mom)	0.2	0.3	0.23	0.22	0.4	0.11	(0.27)	(0.24)	(0.2)	(0.05)	0.15	0,14
OMO rate (%)	5	5	5	5	5	5	5	5	5	5	5	5
VND/USD (VCB, e-o-p)	21,210	21,330	21,230	21,200	21,220	21,270	21,396	21,405	21,375	21,385	21,570	21,670

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