

**Tran Thi Thanh Thao**

Research Analyst

T: +84 (4) 3726 2600

[Thao.tranthithanh@mbs.com.vn](mailto:Thao.tranthithanh@mbs.com.vn)

**Tran Buu Quoc**

Institutional Client Services (ICS)

[Quoc.TranBuu@mbs.com.vn](mailto:Quoc.TranBuu@mbs.com.vn)

**MBS Vietnam Research**

Website: [www.mbs.com.vn](http://www.mbs.com.vn)

Bloomberg: MBSV<GO>

Please turn last page for

Disclaimer

## EXECUTIVE SUMMARY

*Consumption demand went up as domestic economic conditions improved and fuel and electricity prices were raised, pushing CPI higher for a 3rd consecutive month. The business environment in manufacturing in Vietnam has seen constant improvements in the last 21 months with the May PMI at 54.8. Domestic import demand for manufacturing and consumption saw strong acceleration, leading to a trade deficit of USD3 billion in the first 5 months. Credit saw rapid growth in the first 5 months of the year for the banking system. Deposit interest rates edged up slightly in a number of commercial banks.*

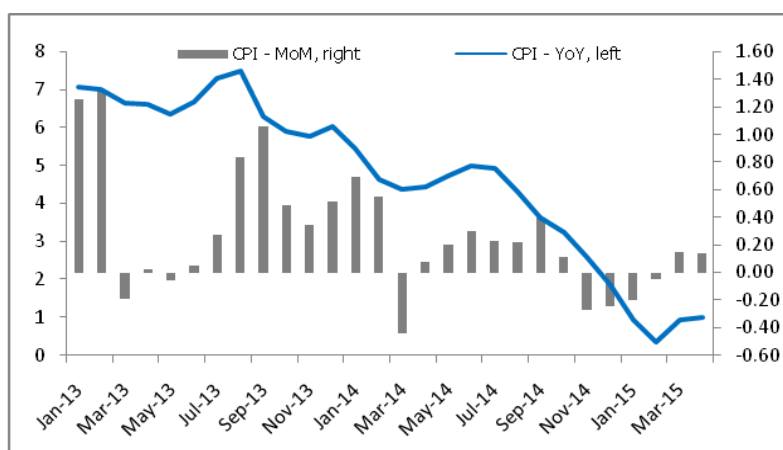
- Inflation is expected to continue rising in June since HCMC plans to adjust its healthcare service prices upward by 10% from June 1st, 2015;
- HSBC reported that Vietnam's PMI soared for a 2nd straight month from 53.5 in Apr, 2015 to 54.8 in May, 2015;
- Imports outgrew exports in the first 5 months of the year, resulting in a trade deficit of about USD3 billion. This created more pressures on the VND/USD exchange rate to go up;
- Registered FDI in the first 5 months of the year was only 78% of the previous Y/Y reading. Disbursed FDI growth was still steady;
- The VND/USD exchange rates surged during May but they dropped slightly in the beginning of June;
- The SBV net withdrew money via bills and repos in May thanks to high banking liquidity;
- Bond market remained gloomy in May. Bond demand stood low and bond interest rates rose slightly compared to the end of April.

**INFLATION**

**Consumption demand went up as domestic economic conditions improved and fuel and electricity prices were raised, pushing CPI higher for a 3rd consecutive month. Total sales of goods and services in May saw 9.3% added to the previous month's reading. Inflation is expected to continue rising in June since HCMC plans to adjust its healthcare service prices upward by 10% from June 1st, 2015.**

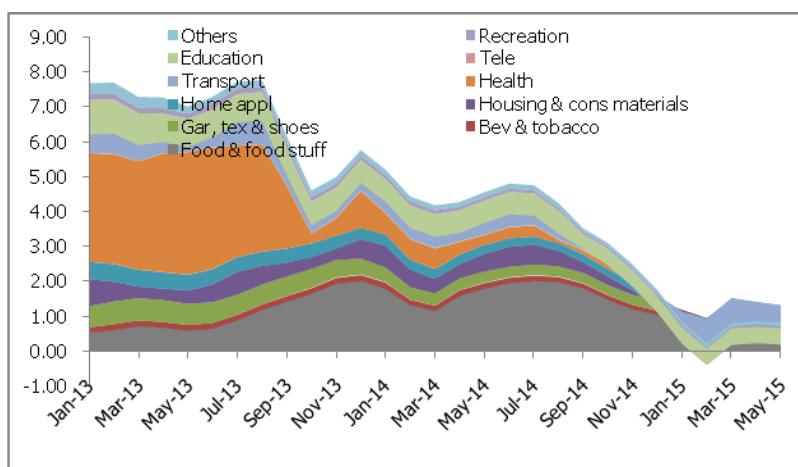
May CPI inched up by 0.16% M/M and 0.95% Y/Y, due to the indirect influences of the electricity price hike and recent fuel price increases. In particular, prices for transportation and building materials continued to surge M/M by 1.27% and 1.02%. Other groups of goods saw stable prices or only small increases from the previous month. Prices of foods and food services fell slightly by 0.22%. We believe that the CPI will climb higher in coming time since domestic gasoline prices have soared by 18% in May. Moreover, on June 1st, HCMC raised healthcare service prices by 10%, affecting this price category and the CPI going forward.

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



Source: GSO

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

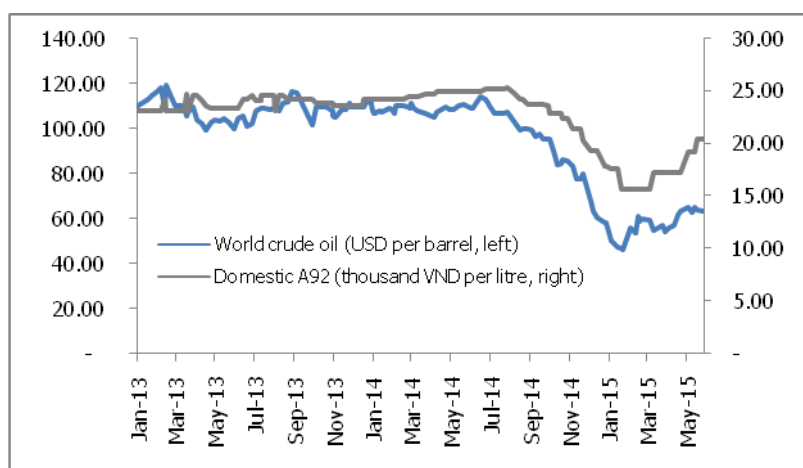


Source: GSO

Global crude oil prices saw little changes in May, fluctuating around USD64/barrel. Many analysts believe that oil prices might remain stable around USD60-70/barrel this year due to the ample

supply and limited demand. The US' shale oil output stayed high in the past several months, prolonging the oversupply situation in global markets. Moreover, in a meeting on June 5th, OPEC members decided to keep their output at the target of 30 million barrels/day (unchanged for more than 3 and a half years), despite the opinion of a number of members on the necessity to reduce output amid the oil price slumps since last June. Regarding demand, China's slower economic growth has created concerns over a plunge in oil demand, curbing this year's oil price increase momentum. In Vietnam, fuel prices were bumped up by more than VND3,000/litre in May, an 18% M/M jump. Currently, the domestic Ron A92 gas price is VND20,430/litre. Constant fuel price hikes since Mar are expected to push CPI higher in coming months.

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



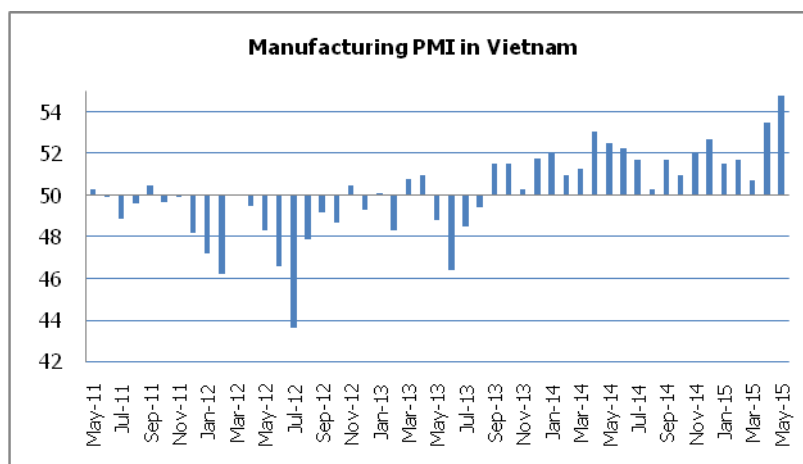
Source: EIA and MoF

### OTHER ECONOMIC INDICATORS

***The business environment in manufacturing in Vietnam has seen constant improvements in the last 21 months with the May PMI at 54.8, a record high since the surveys started.***

HSBC reported that Vietnam's PMI soared for a 2nd straight month from 53.5 in Apr, 2015 to 54.8 in May, 2015. This is the steepest growth since Apr, 2011. The number of new order for domestic consumption and export surged, supporting output growths in 20 consecutive months with record high paces. New recruits also expanded on a record high level since Jan, 2015. Overall, the PMI has always been above 50 during the last 21 months and peaked in May, 2015, suggesting that the improvements in production conditions were solid, and domestic as well as export demands were rising, leading to output expansion and more job creations. However, as fuel and electricity prices were raised recently, firms started to see their production costs affected and rising. Manufacturing is expected to continue to see steady growths in coming time.

Chart 4: Monthly PMI 2011-2014



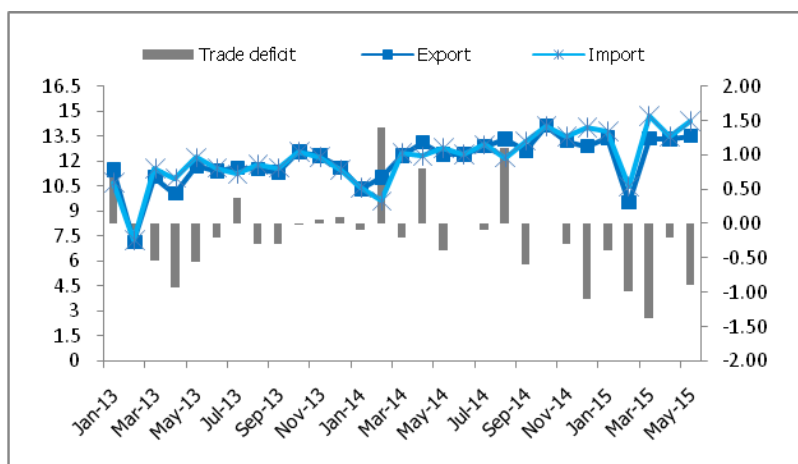
Source: Bloomberg

**Domestic import demand for manufacturing and consumption saw strong acceleration, leading to a trade deficit of USD3 billion in the first 5 months of the year. The net import situation continued to put more pressures on the VND/USD recently.**

In the first 5 months of the year, exported value was estimated to be USD63.2 billion, increasing by 7.3% Y/Y. The imported goods value in this period was estimated at USD66.2 billion, 15.8% higher Y/Y. Hence, the result was a net import of USD3 billion, with USD7.7 billion of net import from the domestic sector, and USD4.7 billion of net export from the foreign sector. Moderate growth of trade deficits in these 5 months was mainly attributable to domestic firms. The improvements in GDP growth so far this year have spurred strong increases in demand for imported machinery and materials for manufactures. Meanwhile, commodity prices in global markets tended to move lower, affecting Vietnam's exported value, especially of agricultural products, sea products, fuel and minerals. Accordingly, moderate increases of net imports have put pressures on the VND/USD exchange rate, causing the SBV to bump the rate up by 2% from the beginning of the year.

After more than 2 years of negotiations, Vietnam officially signed a free trade agreement (FTA) with the Eurasia Economic Union, which includes Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan, at the end of May. Estimates from the Ministry of Industry and Trade showed that the FTA could help Vietnam boost exporting activities for agri-products, sea products, textiles, and footwears... to these markets. Vietnam agreed to open its market to the Union according to a schedule for several farm products, and industrial products such as machineries and transportations. Once it becomes effective, two-way trade between Vietnam and the EAEU is expected to reach up to US\$12 billion in 2020, a surge from US\$4 billion in 2014. Vietnam's exports to the union are estimated to rise between 18-20% per year. Notably, the product structure of Vietnam and these countries supplement each other instead of competing with each other, substantially reducing the challenges of opening up Vietnam's market to partners in accordance with the FTA.

Chart 5: International Trade (\$ billion)

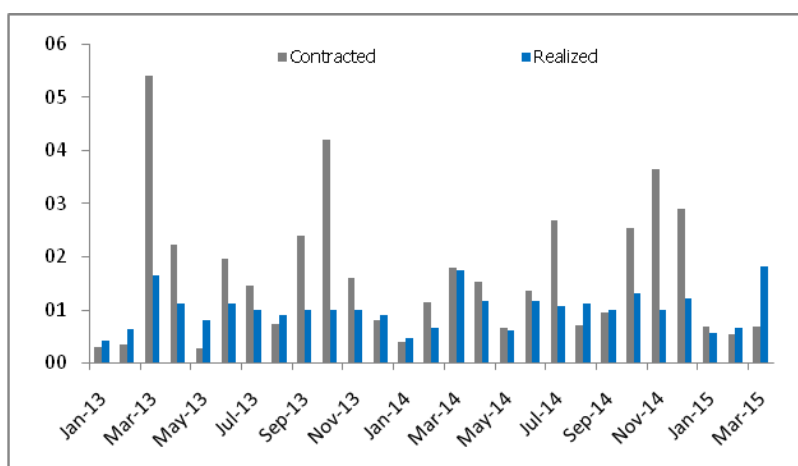


Source: GSO

**The disbursed and registered FDI rose moderately in May. However, the registered FDI in the first 5 months of the year was only 78% of the previous Y/Y reading. Disbursed FDI growth was still steady.**

Total registered FDI in the first 5 months of the year reached USD4.29 billion, down 22% Y/Y due to an absence of large scaled projects. However, disbursed FDI still had stable growth, estimated to be USD4.95 billion USD, up 7.6% Y/Y. The majority of FDI inflows were in manufacturing, which attracted 74% of total registered FDI. Came in second was real estates, accounting for 10.7% of total investment. Currently, Korea is the largest investor in Vietnam, with 25.2% in total registered investment.

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



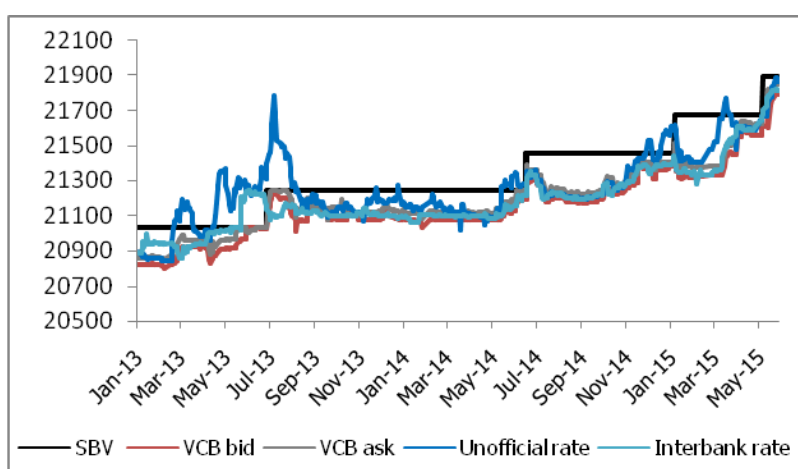
Source: GSO

**POLICY UPDATE**

**The VND/USD exchange rate surged in May. Net imports of USD3 billion in the first 5 months of the year have put some pressures on the exchange rate. The SBV reconfirmed its commitment to keep the rate from going up by more than 2% this year. The SBV sold foreign reserves in June to stabilize the forex market.**

The interbank and free-market VND/USD exchange rates increased rapidly in May due to high USD demand for importing activities, expressed in the YTD USD3-billion net import value. In response, on May 26th afternoon, the State Bank of Vietnam (SBV) Vice Governor Nguyen Thi Hong reconfirmed the SBV's commitment to keep the rate appreciation below 2% this year. After that, The SBV sold foreign reserves in June to stabilize the forex market. The SBV's efforts to maintain a stable exchange rate are necessary in order to curb public debt growth, which is close to the 65%-of-GDP ceiling. Moreover, a weaker VND could also lead to rising inflation. Inflation is currently low, but could spike up in the coming time due to the lagged influences of the expansionary monetary policy and fuel price bouncing back. Following the SBV's actions, the exchange rate in the interbank market subsided. At present, the interbank exchange rate was 21,765-21825. In the free-market, the rate was around 21,805-21,830.

**Chart 7: Foreign Exchange Rate VND/USD**



Source: SBV, VCB and others

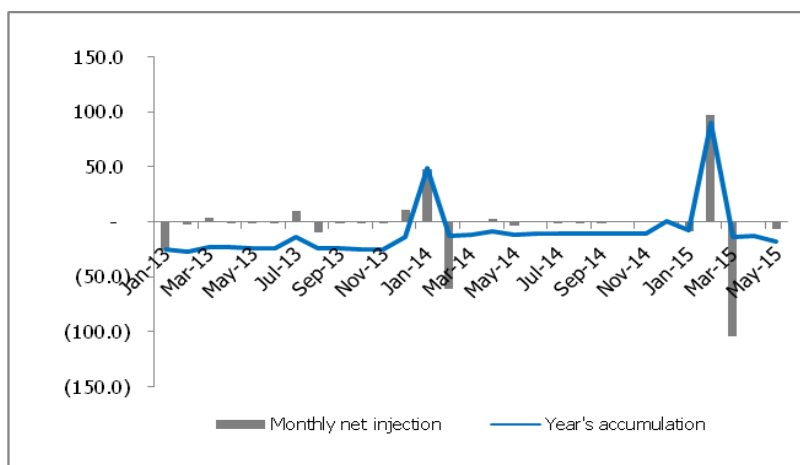
***Credit saw rapid growth in the first 5 months of the year for the banking system. Deposit interest rates edged up slightly in a number of commercial banks.***

The SBV stated that as of May 28th, credit growth in the banking system came to 4.8% YTD, much higher than the 1.31% reading in May, 2014. Stronger growth of credit in the first months of the year further confirmed Vietnam's economic recovery, creating substantial increases in demands for fund in order to finance businesses and consumptions. However, higher demand for capital also pressured on the deposit interest rates to go up slightly in certain banks since the end of May. Usually, when the economy enters an early upswing phase, inflation tends to rise, and tighter monetary policies often come along with an aim to curb inflation. Therefore, interest rates might inch up in coming time.

***The SBV pulled money out of the banking system via bills and OMOs in May due to good banking liquidity.***

Roughly VND6 trillion was pulled out by the SBV through OMO repo in May. Moreover, the SBV issued about VND71 trillion of bills to pull cash out of the banking system. Matured bills were around VND45.4 trillion. Hence, the SBV net withdrew VND31.6 trillion via repos and bills in May. As liquidity is high, as seen in the interbank interest rate plunge, the SBV might continue to withdraw more money from the banks to limit its influences on inflation.

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

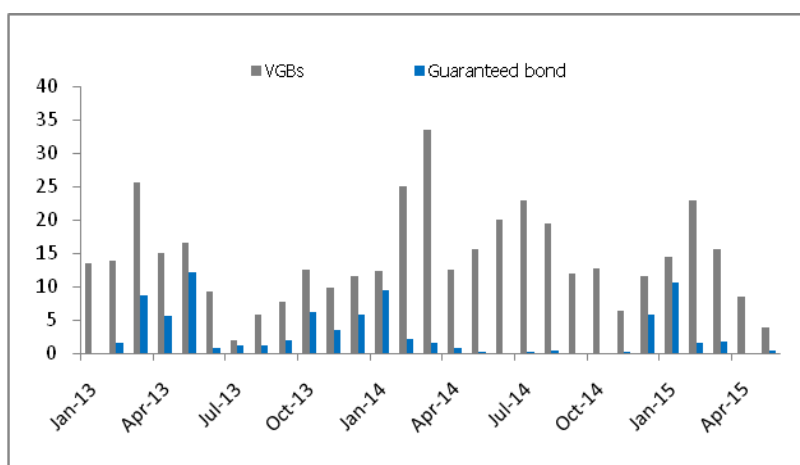


Source: Bloomberg and the author's calculation

**The Government bond market was stagnant in May. The ratio of wined bids dropped. Bond yield edged up slightly from the end of April.**

Demand for Government bonds stayed low in May with the ratio of wined bids plunging. In particular, the volume of successfully sold bonds were the lowest since the beginning of the year at VND3,818 trillion, with a ratio of wined bids of 15.1%. Besides, about 410 billion of Government guaranteed bond were issued. Investors seemed to expect the interest rate to go up in coming time, therefore limited investing in long-term bonds, hence the low ratio of wined bids in the last 2 weeks of May. Bond yield tends to increase slightly over April. In the first 5 months, only 82,102 trillion of bonds were issued successfully, accounting for only 32.8% of the State treasury's plan in 2015. The fact that VGBs supply stand high while demand remains low may required the State Treasury to raise bond interest rates in the coming time.

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

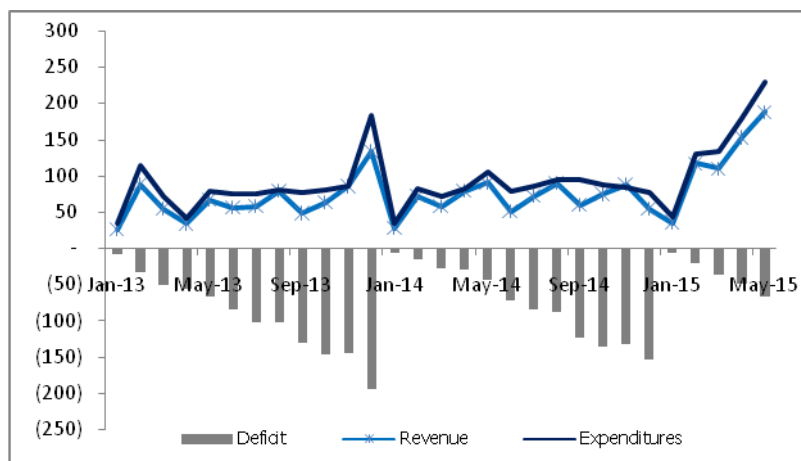


Source: HNX and others

In the first 5 months of the year, total state budget revenue was estimated to be VND380.76 trillion, which was 41.8% of the year's plan and up 7.9% Y/Y. The cumulative state budget expenses in the same period was roughly VND455.6 trillion, 39.7% of plan, and 8.9% higher Y/Y. The budget deficit at the end of May was around VND74.8 trillion, 33.1% of the year's plan.

Therefore, the State budget's activities have been in lines with the plan set out by the Government this year. However, sharp increases of the State deficits in these past few years, especially the deficit of 6.6% of GDP in 2013, have raised some concerns over how strict the State budget is regulated, as well as higher pressures on Vietnam to repay its debts in coming years.

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



Source: GSO

**DATA APPENDIX**

	T6	T7	T8	T9	T10	T11	T12	T1	T2	T3	T4	T5
GDP (% YoY, accumulated)	5.18			5.62			5.98			6.03		
Industrial output (% yoy)	6.1	7.5	6.7	6.5	7.9	11.1	9.6	17.5	12	9.1	9.5	7.5
Export (\$ million)	12400	12400	13000	12600	14100	13200	12900	13400	9500	13340	13300	13500
Import (\$ million)	12700	12700	12900	13200	14100	13500	14000	13800	10500	14730	13500	14400
Trade deficit (\$ million)	200	300	100	600	0	300	(1100)	400	(1000)	1390	200	900
Contracted FDI (\$ million)	1340	2680	700	950	2520	3630	2900	663	530	620	1850	2950
Realized FDI (\$ million)	1150	1050	1100	1000	1300	1000	1200	550	650	1800	720	1230
Inflation (% mom)	0.3	0.23	0.22	0.4	0.11	(0.27)	(0.24)	(0.2)	(0.05)	0.15	0.14	0.16
OMO rate (%)	5	5	5	5	5	5	5	5	5	5	5	5
VND/USD (VCB, e-o-p)	21,330	21,230	21,200	21,220	21,270	21,396	21,405	21,375	21,385	21,570	21,670	21,850



## 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](http://www.mbs.com.vn).

## DISCLAIMER

**Copyrights. MBS 2012, ALL RIGHTS RESERVED.** Authors have based this document on information from sources they believe to be reliable but which they have not independently verified. The views expressed in this report are those of the authors and not necessarily related, by any sense, to those of MBS. Neither any information nor comments were written for advertising purposes or recommendation to buy / sell any securities. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying recording, or otherwise, without the prior written permission of MBS.