

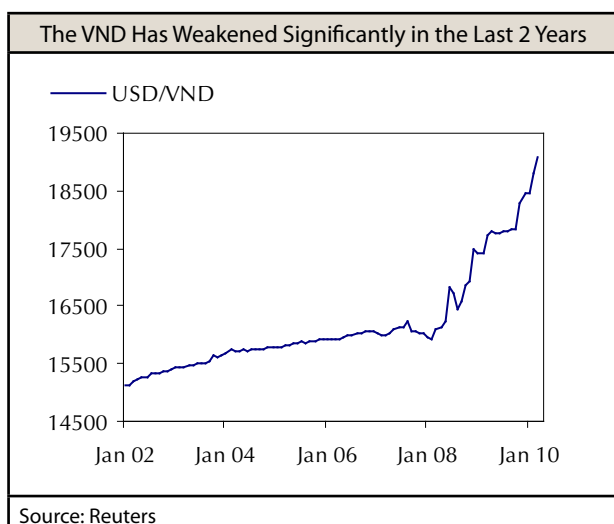
Vietnam

UOB Economics Projections	2008	2009	2010F	2011F
GDP	6.2	5.3	6.0	7.0
CPI (average, y/y)	23.1	6.9	13.8	9.7
Current account (% of GDP)	-10.3	-7.6	-7.8	-7.0

- *Bowing to ongoing market forces for the currency to depreciate, the central bank finally slashed the dong by another 3.4% in Feb in an attempt to curb inflation and to narrow Vietnam's trade deficit.*
- *We see further devaluation possibility this year and expect the currency to weaken to 19,400 by year-end.*
- *Total exports fell 1.1% y/y to USD13.9bn during the first quarter of this year while imports jumped 39.6% y/y to USD17.5bn. We believe the country will remain in a trade deficit for the rest of the year but this is unlikely to be as enormous as in 2008.*
- *While inflation was once at an 8-year low of 2.0% y/y in Aug-2009, it has scaled up to 8.5% y/y in Feb. The spike in inflation this year is due mainly to rising food prices during the Lunar New Year (Tet) period as well as higher fuel prices.*
- *We believe it's a matter of time before Vietnam will run into double-digit inflation woes again. We expect headline inflation to rebound to an average of 13.8% this year, which is nearly double the government's forecast of 7%. This could pressure the SBV to hike the base rate to 11.00% by end of the year.*
- *Having recorded its slowest growth rate in 10 years, Vietnam still performed well among the Asian countries and registered a decent growth of 5.3% y/y in 2009. We are expecting the economy to grow by 6.0% y/y in 2010 while the official forecast is a higher 6.5%.*

Another Devaluation Again

In its first policy move this year, the State Bank of Vietnam allowed the Vietnamese dong to undertake another round of devaluation in Feb and this was just barely 3-months from the last policy shift in late Nov-2009, when the SBV devalued the dong by 5.4% and narrowed the USD/VND



trading band to +/-3% from +/-5%.

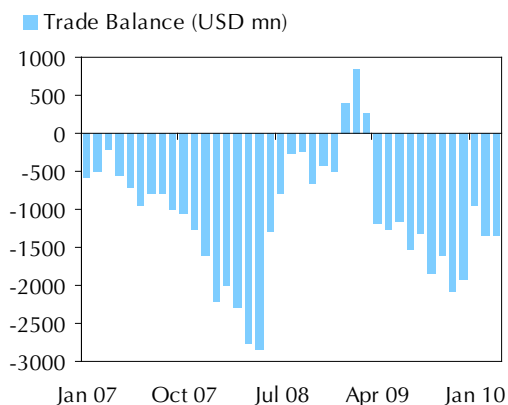
Bowing to ongoing market forces for the currency to depreciate, the central bank finally slashed the dong by another 3.4% in Feb in an attempt to curb inflation and to narrow Vietnam's trade deficit. The mid-point reference rate was set at 18,544/USD. While the policy move was meant to take off some of this pressure, we believe this can only provide short-term relief. The lack of confidence in the currency also led to hoarding of USD as there were fears of continuous decline in the dong's value, not forgetting that some purchases of big ticket items in Vietnam are still quoted in USD as well as gold. Against 18,474/USD in Feb, VND was trading around 19,070/USD on 31 Mar, which was at the bottom of the daily trading band of +/-3% against the greenback. In the black-market, the currency is hovering around 19,240/USD on 31 Mar. We see further devaluation possibility this year and expect the currency to weaken to 19,400 by year-end.

Policy Move Provides Little Help to Trade Balance

Trade deficit in Vietnam widened slightly to USD1.35bn in Mar from a revised USD1.33bn in Feb and USD0.95bn in

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Vietnam Will Remain in a Trade Deficit for the Rest of 2010
But Will Not be as Enormous as in 2008



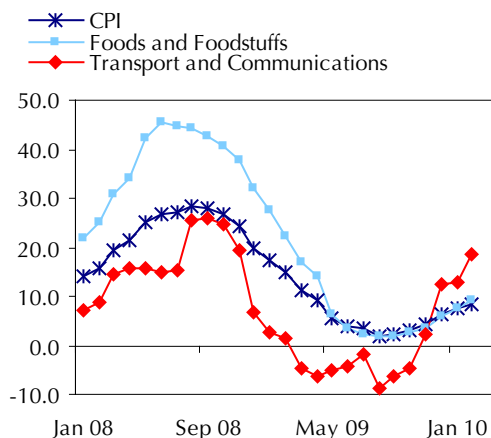
Source: CEIC, Reuters

Jan. The latest data suggests that the weaker currency as a result of the policy move in Feb has done little to boost exports. Total exports fell 1.1% y/y to USD13.9bn during the first quarter of this year while imports jumped 39.6% y/y to USD17.5bn. We believe the country will remain in a trade deficit for the rest of the year but this is unlikely to be as enormous as in 2008 (USD16.3bn). Against Vietnam's trade deficit of USD12.4bn in 2009, we expect a slightly higher full-year deficit of USD13.9bn this year while the government has projected a flat USD12.1bn.

Concern of Weak VND Pushing Up Inflation

Vietnam enjoyed a benign inflationary environment in 2009 with the consumer price index trending down from its peak in Aug-2008 due to low food prices and energy costs. Indeed, Vietnam's inflation for the whole of 2009 was

Inflation Higher Due to Rising Food and Fuel Prices

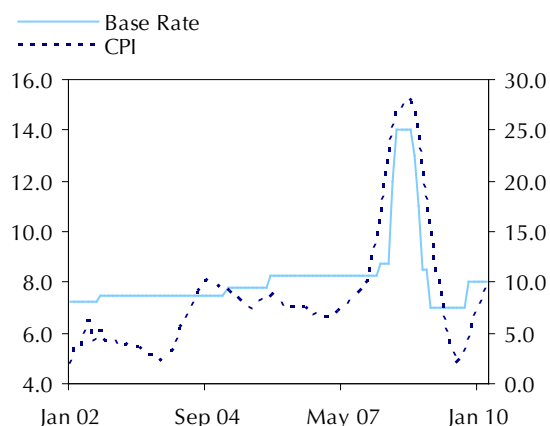


Source: CEIC, Reuters

at a meek 7.0% for the full year as compared to 23.1% in 2008. However, we may be beginning to see a re-play of the 2008 episode as the country is faced with inflationary pressure once more in just less than a year.

While inflation was once at an 8-year low of 2.0% y/y in Aug-2009, it has scaled up to 8.5% y/y in Feb. The spike in inflation this year is due mainly to rising food prices during the Lunar New Year (Tet) period as well as higher fuel prices. As a result, transportation costs surged 18.8% y/y in Feb. In a bid to curb rising fuel prices, the government announced lately the increase in interval in which fuel companies are allowed to hike prices to between 20-30 days from 10 days.

The SBV is Maintaining Loose Monetary Policy at the Expense of High Inflation



Source: CEIC, Reuters

While the devaluation in Feb this year was meant to narrow the trade deficit, it has proved inflationary otherwise. The central bank's decision to keep interest rate on hold in Apr did not help. We believe it's a matter of time before Vietnam will run into double-digit inflation woes again. We expect headline inflation to rebound to an average of 13.8% this year, which is nearly double the government's forecast of 7%. This could pressure the SBV to hike the base rate to 11.00% by end of the year.

Growth Moderation But Reasonable Still

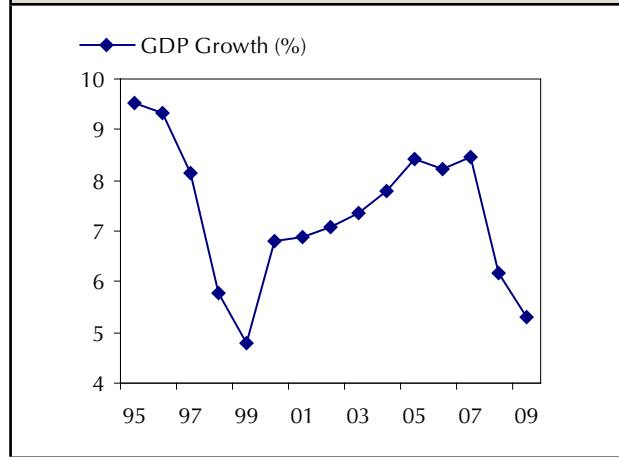
Having recorded its slowest growth rate in 10 years, Vietnam still performed well among the Asian countries and registered a decent growth of 5.3% y/y in 2009. 4Q09 GDP rose to 7.7% y/y from 5.2% in 3Q09. This is primarily due to the large indigenous consumption and supported by the low interest rate environment. By and large, there were improvements in all segments of the economy since the beginning of 2009. Construction alone surged 11.4%

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y/y boosted by lower prices in raw materials, leading the industry and construction sector to expand 5.5% y/y in 4Q09. The services sector also gained 6.6% y/y with the hotels and restaurants segment growth rebounding to 2.3% y/y from 0.8% y/y in 3Q09 as foreign arrivals improved towards end-2009.

The government's stimulus package last year which includes the interest rate subsidy program, tax exemptions and deferrals as well as credit guarantee scheme for the SMEs, have also contributed to the overall well being of the Vietnam's economy in 2009. Going forward, we expect the pace of growth to remain steady especially with the government's preference of strong growth over inflation concerns that is driving the monetary policy. We are expecting the economy to grow by 6.0% y/y in 2010 while the official forecast is a higher 6.5%.

Having Recorded its Slowest Growth Rate in 10 years, Vietnam Still Performed Well Among the Asian Countries



Source: CEIC