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EXECUTIVE SUMMARY

Macro economy's indicators seemed to be positive in October. Low inflation provided the SBV a chance to decrease ceiling depositing interest rates by 0.5 percentage point for short tenors from 1-6 months. PMI stood at 51 in October, indicating a persistent improvement in manufacturing although the growth seemed to be slow. October contracted FDI rose dramatically, reaching \$2.52 billion thanks to large projects of Samsung in HCM City. Trade balance still had a surplus of \$1.9 billion so far this year. In November, the government announced main targets for the macro economy in 2015 with 6.2% of GDP growth and 5% of YoY inflation.

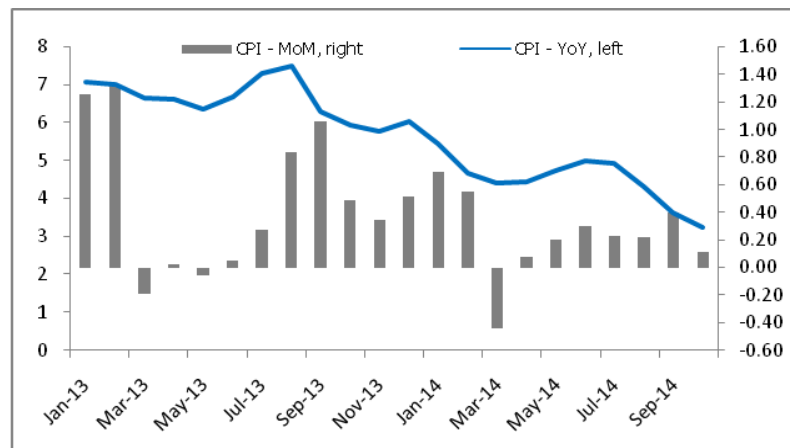
- October CPI went up slightly by 0.11% MoM and 3.23% YoY thanks to strong decrease in prices of global crude oil and domestic gasoline. Although CPI may rise more rapidly in the coming months owing to high season of production and consumption, it is expected to go up by around 4% YoY in the end of this year.
- The Purchasing Managers Index (PMI) in Vietnam went down slightly from 51.7 in September to 51 in October, indicating a persistent expansion in manufacturing although the growth seemed to be slow. PMI is forecasted to enhance in the coming time thanks to higher production for domestic demand and exports;
- Trade deficit went up in recent months due to slower increase in exports while imports rose rapidly in the end of the year. Trade deficit stood at \$600 billion in September and \$400 billion in October. However, trade balance still had a surplus of \$1.9 billion so far this year because FDI areas achieved a surplus of \$13.8 billion.
- October contracted FDI rose dramatically, reaching \$2.52 billion thanks to large projects of Samsung in HCM City Hi-tech Park which was about \$1.4 billion. In the beginning of November, Samsung received the license to invest another mobile phone plant of \$3 billion in Thai Nguyen, becoming the largest foreign investor in Vietnam with total amount of \$11.2 billion;
- The VND/USD continued to rise slightly in October owing to higher import demand for production and consumption. The forex market remained active;
- The SBV injected money strongly via SBV bills in October to support banking liquidity after interbank interest rates went up dramatically;
- Bond demand still remained high in the second half of October, especially for 5, 10 and 15 year tenors. Bond interest rates tended to increase slightly in October.

INFLATION

October CPI went up slightly by 0.11% MoM and 3.23% YoY thanks to strong decrease in prices of global crude oil and domestic gasoline.

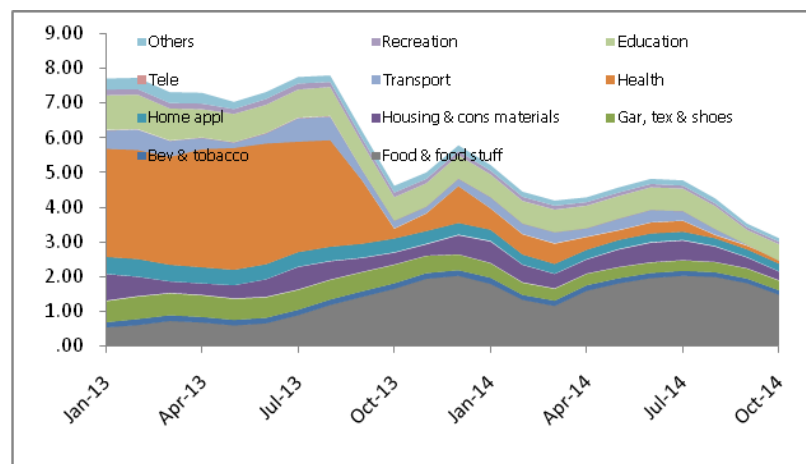
The CPI only climbed by 0.11% MoM, being the lowest of the same periods within the last 6 years. Moreover, CPI only increased by 2.36% YTD and 3.32% YoY. Regardless of the rising in prices of educational items in October (1.31% MoM) owing to increase in tuition fees in different cities, inflation still remained low thanks to falling in gasoline prices. The decrease in fuel price led to the decline in prices of transportation (-1.02%), price of housing & construction materials (-0.08%) and prices of telecommunication (-0.03%). We expect that CPI will rise more rapidly in the coming months owing to high season of production and consumption. However, CPI is forecasted to go up by around 4% YoY in the end of this year.

Chart 1: Monthly CPI Inflation (%)



Source: GSO

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



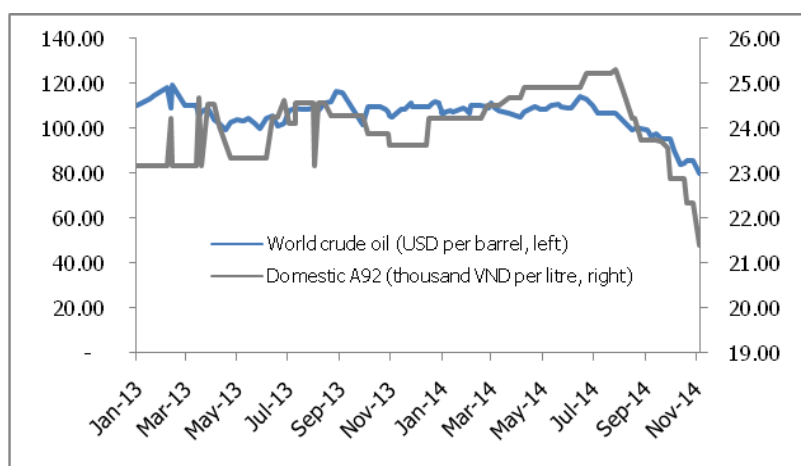
Source: GSO

The increase in prices of food and foodstuffs accounted for nearly 46% of the 3.23% increase in the CPI. It was followed by the educational items with a contribution of 15% of the total CPI increase because of increase in tuition fees. Also notably, the increase in prices of housing & construction materials made up 8% in the CPI increase, declining slightly in comparison to the

same figures at 10% in August thanks to sharp decrease in domestic gasoline prices which helped to decrease input costs of firms. Prices of health services accounted for 4% of the CPI.

World crude oil prices fell considerably from \$112/barrel in June 2014 to \$80/barrel in the end of October, dropping by around 28%. Thus, price of domestic A92 gasoline also dropped sharply by 15% from 25,230 VND/litre in July to 21,390 VND/litre in November. Because the domestic gasoline price fell more slowly than the global oil price, the Ministry of Finance still has chance to decline domestic gasoline prices further. Falling gasoline prices helped to slow down inflation in October and in the coming months.

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



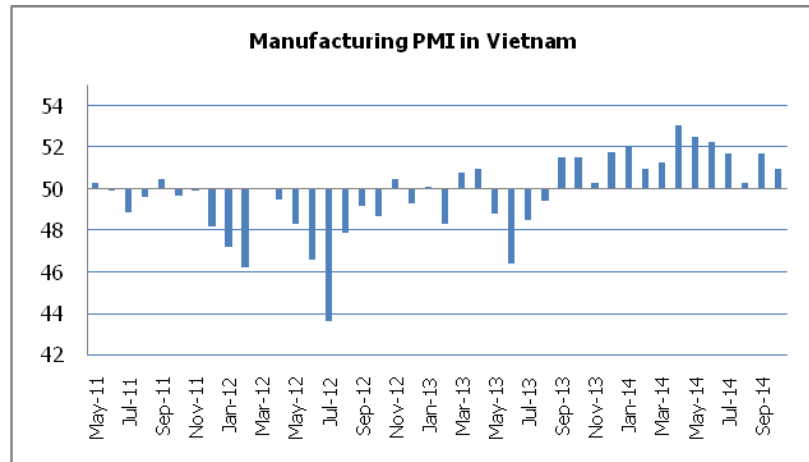
Source: EIA and MoF

OTHER ECONOMIC INDICATORS

The Purchasing Managers Index (PMI) in Vietnam went down slightly from 51.7 in September to 51 in October, indicating a persistent expansion in manufacturing although the growth seemed to be slow.

PMI of manufacturing in Vietnam stood at 51 in October thanks to a rebound in new orders, especially for exports. Higher demand resulted in a rise in production and employment. Higher new business also caused a decrease in input stocks and increase in finished goods stocks as items were held prior to delivery to clients. Although input prices continued to rise in October, the rate of inflation slowed for the third consecutive month and was the weakest since June 2013. We believe that PMI would continue to go up slightly in the coming time thanks to higher goods demand in the end of the year both inside and outside of the country.

Chart 4: Monthly PMI 2011-2014

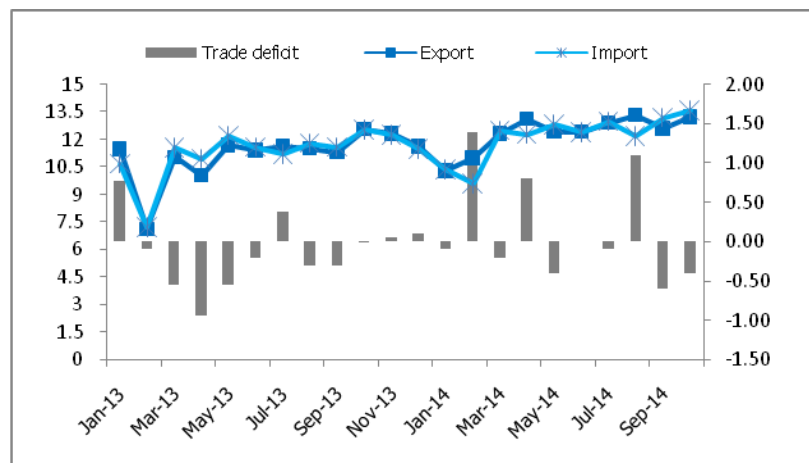


Source: Bloomberg

Trade deficit went up in recent months due to slower increase in exports while imports rose rapidly in the end of the year. Trade deficit stood at \$600 billion in September and \$400 billion in October.

Ten month exports reached about \$123.1 billion, rising by 13.4% YoY. Imports stood at \$121.2 billion, growing by 11.2% YoY. Imports went up strongly in recent months owing to higher production and consumption demand in the end of the year. Therefore, trade deficit came back in September and October. However, trade balance still had a surplus of \$1.9 billion so far this year because FDI areas achieved a surplus of \$13.8 billion.

Chart 5: International Trade (\$ billion)



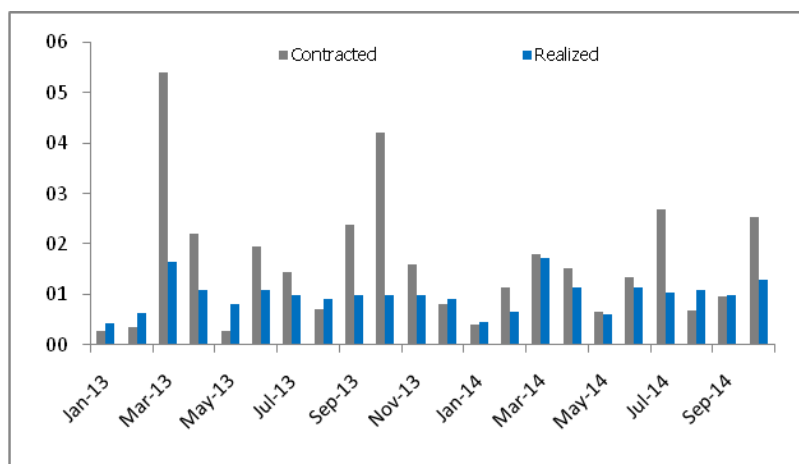
Source: GSO

October contracted FDI rose dramatically, reaching \$2.52 billion thanks to large projects of Samsung in HCM City Hi-tech Park which valued about \$1.4 billion.

In the first ten months, contracted FDI reached \$13.7 billion, declining by 28 % YoY. Disbursed FDI so far this year achieved about \$8.9 billion, climbing by 3.2% YoY. October contracted FDI rose dramatically, reaching \$2.52 billion thanks to large projects of Samsung in HCM City Hi-tech Park. In the beginning of November, Samsung received the license to invest another mobile phone plant of \$3 billion in Thai nguyen. From that, Samsung became the largest foreign

investor in Vietnam with total amount of \$11.2 billion. Manufacturing industry continued to top contracted FDI, accounting for 70.8% of the total. Real estate only accounted for 8.9% of contracted FDI. Contracted FDI is expected to rise sharply in the rest of this year thanks to some large projects announced in the end of the year.

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



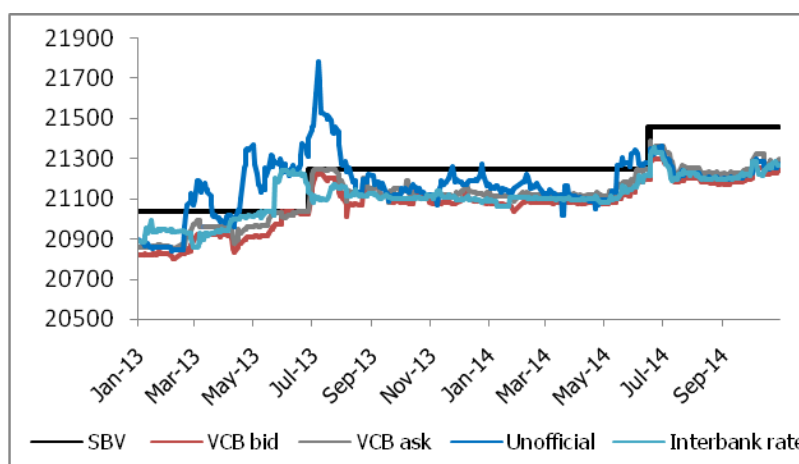
Source: GSO

POLICY UPDATE

The VND/USD continued to rise slightly in October owing to higher import demand for production and consumption. The forex market remained active.

The VND/USD went up slightly in October and rose more strongly in the beginning of November. The forex market was active and had high liquidity. In the first week of November, the interbank VND/USD rates varied around 21,295-21,299. Benchmark interbank rate of the SBV stood at 21,246. Unofficial rates remained about 21,355-21,370, rising by 70 basis points in comparison to the end of last month. The forex rates rose rapidly owing to higher imports and payment demand in the end of the year. Moreover, high gap between domestic and offshore gold prices of around VND 5.7 million per tael also caused an appreciation in USD against VND. The USD/VND is expected to increase slightly in the coming time.

Chart 7: Foreign Exchange Rate VND/USD



Source: SVB, VCB and others

Interbank interest rates increased sharply in the middle of October due to higher demand for short term money in banks. However, the rates became more stable and declined in the end of the month. Credit growth reached 8.63% in the end of October and it is expected to achieve 11-12% in the end of this year.

Interbank interest rates rose strongly in the final half of October, sometimes reaching 3.7% for the ON because of higher demand for short term money in the system which was affected by the arrest of Ocean Bank's chairman. However, the interest rates dropped gradually in the end of October. Currently, the interest rates reached 1.8% for the ON, 2% for the one week and 2.6% for the one month.

Low inflation helped the SBV to reduce ceiling depositing interest rates by 0.5 percentage point for 1 to 6 month tenors. However, this decision did not have great impacts on the economy because the interest rates in many banks dropped before the decision. CPI is expected to increase more strongly in the rest of the year due to high season of consumption and therefore interest rates would not decline further in the coming time.

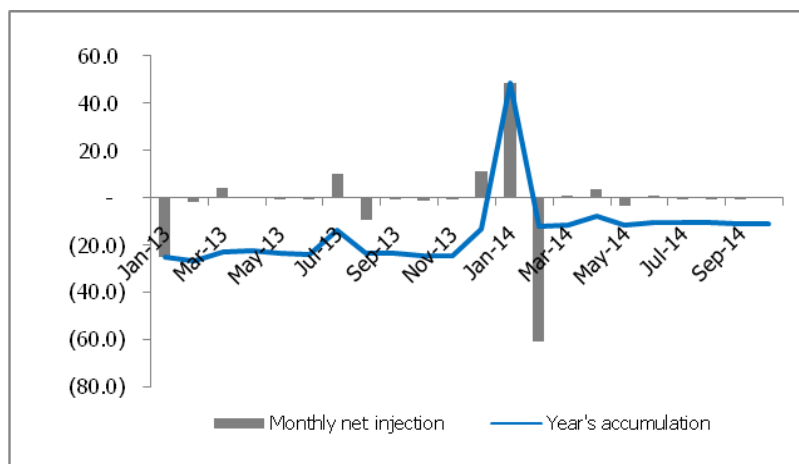
Credit growth reached 8.63% in the end of October and it is expected to achieve 11-12% in the end of this year because firms often increase borrowing in the end of the year for production. However, the low credit growth so far this year indicated that banking system still face with difficulties as bad debts were not solved effectively.

In November, the government announced main targets for the macro economy in 2015 with growth of GDP will reach 6.2%, total imports and exports increase by 10% YoY, CPI rises by 5% YoY and total investment for social development will be around 30-32% of GDP. The government will continue to stabilize macro economy, supporting firms, restructuring financial system, etc. to achieve higher GDP growth next year.

The SBV net injected money strongly via SBV bills in October to support banking liquidity after interbank interest rates went up dramatically.

The amount of money injected or withdrawn via repos in the OMO was balanced. However, the the SBV net injected money strongly via SBV bills in October to support banking liquidity. Number of issued and matured bills remained high. The SBV issued VND 61.9 trillion of bills to withdraw money out of the system. Whereas, about VND 93.7 trillion of SBV bills matured. Therefore, the SBV net injected about VND 31.7 trillion via repos and bills last month. Because credit growth often increases more rapidly in the end of the year, we expect that the SBV will net inject money via OMO and bills in the coming time.

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

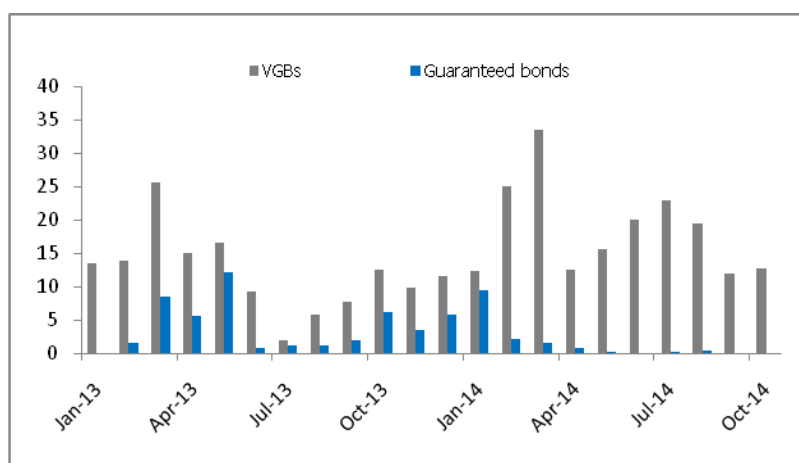


Source: Bloomberg and the author's calculation

Bond demand still remained high in October, especially for 5, 10 and 15 year tenors. Bond interest rates tended to increase slightly in October.

Demand for 5 year VGBs stood high in October. Bid to offer ratio of this tenor stood around 2 times. Whereas, demand for 10 and 15 year bonds were weaker. From that, about VND 12.7 trillion of VGBs were successfully issued last month. None of government guaranteed bonds were issued. VGBs interest rates went up slightly in comparison to last month. Specifically, the rates varied around 5.04% for 5 year tenor and 6.34-7.05% for 10-15 year bonds. Bond interest rates are expected to be stable in the coming time because VGBs demand often drops when banking liquidity is less abundant in the end of the year. So far this year, the State Treasury issued about 198.5 trillion of VGBs and bills, accounting for 86% of the target. The bond interest rates are expected to be stable or increase slightly in the end of the year due to lower banking liquidity.

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

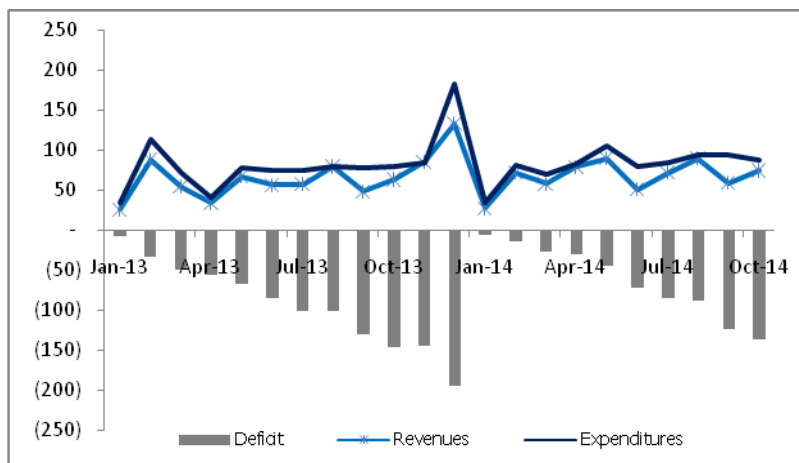


Source: HNX and others

According to the Ministry of Finance, 10 month revenues reached VND 672,3 trillion, being equivalent to 85.9% of the year's projection. Meanwhile, total State expenditures stood at VND 809 trillion, accounting for 80.4% of the plan. Thus, budget deficit so far this year remained at

VND 137 trillion, accounting for 80.4% of the planned trade deficit in 2014. Thus, ten month revenues and expenditures of the State budgets were suitable with the plan of this year.

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



Source: GSO

DATA APPENDIX AND FORECAST

	T11	T12	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
<i>GDP (% , YoY, accumulated)</i>		5.42			4.96			5.18			5.62	
<i>Industrial output (% , yoy)</i>	5.7	7	3	15,2	4.7	6	5.9	6.1	7.5	6.7	6.5	7.9
<i>Export (\$ million)</i>	12300	11600	10300	11000	12300	13100	12400	12400	12400	13000	12600	13200
<i>Import (\$ million)</i>	12250	11500	10400	9600	12500	12300	12800	12700	12700	12900	13200	13600
<i>Trade deficit (\$ million)</i>	(50)	(100)	100	1200	300	400	400	200	300	100	600	400
<i>Contracted FDI (\$ million)</i>	1600	800	397	1140	1800	1520	650	1340	2680	700	950	2520
<i>Realized FDI (\$ million)</i>	1000	900	465	660	1730	1150	600	1150	1050	1100	1000	1300
<i>Inflation (% , mom)</i>	0.34	0.51	0.69	0.55	-0.44	0.08	0.2	0.3	0.23	0.22	0.4	0.11
<i>OMO rate (%)</i>	5.5	5.5	5.5	5.5	5	5	5	5	5	5	5	5
<i>VND/USD (VCB, e-o-p)</i>	21,100	21,120	21,130	21,130	21,120	21,120	21,210	21,330	21,230	21,200	21,220	21,270

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