

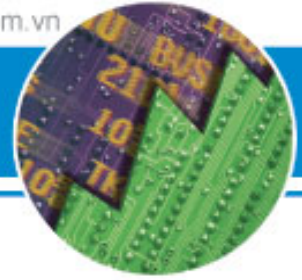
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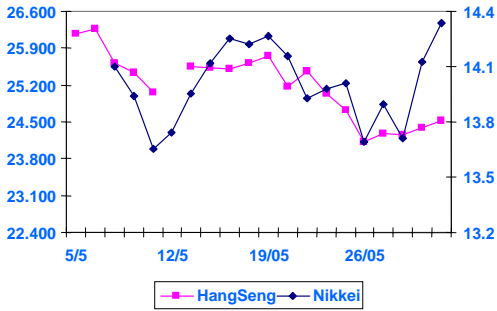


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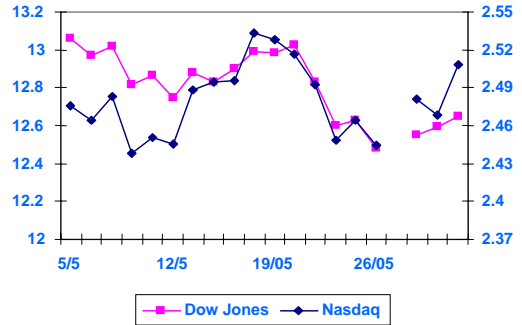


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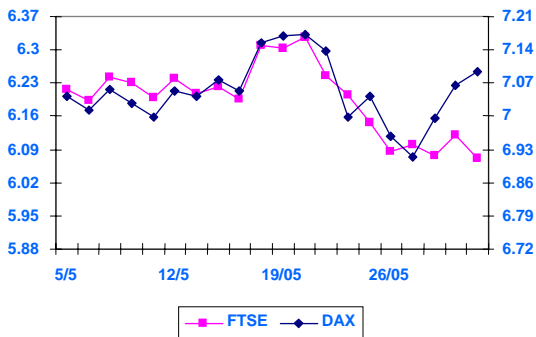
Asia stock market in May 2008



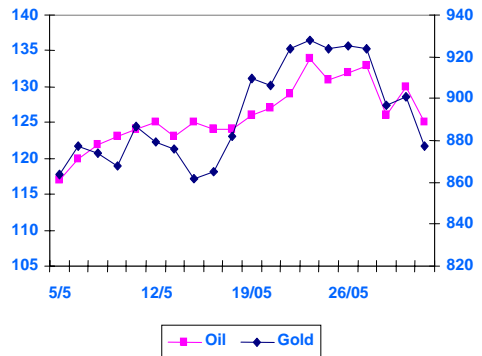
United States Stock market in May 2008



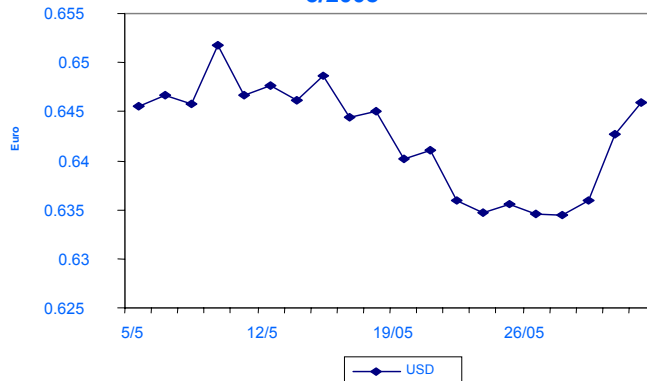
European stock market in May 2008



Oil and gold price developments in May 2008



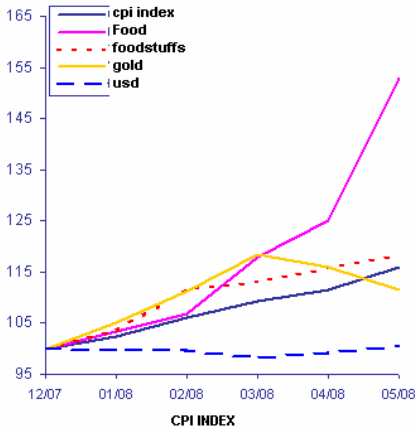
USD developments (compared with Euro) in 5/2008





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Vietnam economy overview in the first 5 months of 2008



Source: General Statistics Office

Foreign Direct Investment (FDI) in May reached US\$7.5 billions (the highest amount within one month ever witnessed)

Consumer Price Index (CPI) in May 2008 has increased by 3.91% compared to the April figure. Thus, the CPI in the first 5 months of 2008 rose by 15.96%, which is much higher than index of 4.32% in the same period of 2007. As a whole, the CPI over the first 5 months of 2008 soared 19.09% y-o-y and in May alone, CPI increased by 25.2% compared to the same month of 2007.

The increasingly high CPI in May is considered to be contributed by the high rising price of food, especially rice and housing and construction materials such as steel, cement... Restaurant services experienced the highest hike of 7.25%, followed by beverages and cigarettes at 1.88%; housing and construction materials at 1.2%; other commodities at below 1%.

According to evaluation of the foreign institutions, high inflation is posing serious impact on Vietnam economy, which leads to the tightening monetary policies, decrease in economic growth rate, and adverse developments on capital market.

As information from Foreign Investment Agency (FIA) under the Ministry of Planning and Investment (MPI), Foreign Direct Investment (FDI) in May reached US\$7.5 billions (the highest level within one month ever witnessed) with 130 new projects granted with investment licenses. Overall, in the first 5 months, 324 FDI projects have been kicked off with total registered investment up to US\$14.7 billions.

As much as 83% of FDI funds is invested in hotels and services areas. Construction and industrial manufacture projects account for only 16.2% of the total registered capital.



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The foreign trade turnover is estimated to reach US\$61.2 billions in the first 5 months of 2008. The import turnover was approximately US\$ 37.8 billions and export turnover was US\$ 23.4 billions

▪ According to the report released by MPI, the foreign trade turnover is estimated to reach US\$61.2 billions in the first 5 months of 2008. The import turnover was approximately US\$37.8 billions while export turnover only amounted US\$23.4 billions. This leads to a serious foreign trade deficit of US\$14.4 billions, equivalent to 61.6% export turnover. Compared y-o-y, imports of key commodities over the last 5 months have boomed in terms of quantity. Particularly, import of cars has increased by 6-fold, import of steel has doubled, computers and components by 43.1%, machine and equipment by 42.5%, fertilizer by 39.5%... In addition, a large amount of gold has been imported to serve the burning demands in domestic market.

The domestic economic sector is making the biggest contribution to the high foreign trade deficit of US\$11.9 billions, accounting for 82.4% total import turnover, while in foreign invested economic sector, this figure was only US\$2.5 billions, making up 17.6% of the turnover.

BVF's forecast:

It is likely that the inflation rate will remain at high level this year and keep on its upward trend if government plans to further increase prices of some necessities like oil, petrol, electricity come into effect. The increase in prices of these commodities will adversely affect not only production and transportation costs of enterprises and people's lives but also the social stability which easily leads to domino effect, triggering higher increase in price of other goods and services.

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Monetary market and its analysis in May, 2008

State Bank of Vietnam continued to pump money through open market operation

April 29th, Vietnam Banks Association members agreed to change ceiling interest rate of below 6 month term deposit to 11.5% a year and of more than 6 month term ones to 12% a year.

On May 17th, the SBV promulgated new changes in interest policy. That is, basic interest rate, refinancing interest rate, and discount interest rate were adjusted higher.

In May, the State Bank of Vietnam (SBV) has continually pumped money through open market operation, amounted from VND21,000 billions to 53,000 billions every week. The term of these valuable certificates was reduced to 7 days. The interest rate was raised from 10% in late April to 11.5% and 12% in May. Bids were held to stabilize the market and they have actually created a good effect leading to a decreasing short term interest rate.

In addition, the SBV also issued a series of instructions adjusting the ceiling interest rate in this month.

- On April 29th, Vietnam Banks Association announced the consensus among its members to adjust ceiling interest rate to 11.5% p.a. for deposit terms of 6-month and less and 12% p.a. for longer terms. Following this announcement, joint stock commercial banks and state owned commercial banks altogether promptly lifted borrowing interest rate, starting up an interest race with increasingly higher ceiling. This implied government agencies' view that "the liquidity of commercial banks and banking system security were assured" was no longer correct, but capital demands of commercial banks in the whole system have been highly imperative.
- On May 17th, the SBV promulgated new changes in interest policy. That is, basic interest rate, refinancing interest rate, and discount interest rate were adjusted higher; particularly, basic rate was raised from 8.75% to 12% p.a., refinancing rate was lifted from 9% to 13% p.a., and discount interest rate was up to 11%. The state bank would declare basic interest rate monthly and have timely adjustment when necessary. Borrowing and lending interest rates of financial institutions would not be allowed to exceed 18% p.a., effective from May 19th, 2008.

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SBV's strict control on the compliance of the commercial banks with the interest rate cap has help set up a similar range of borrowing interest rates

The strict control of the SBV on the compliance of the commercial banks with the interest rate cap has help set up a similar range of interest offered by all commercial banks, particularly, lending rates of short terms by State-owned Commercial Banks are 12.82% to 16.8% p.a., for medium and long term 13.8% to 18% p.a., rates offered by joint-stock commercial banks are set to hover around the cap of 18% p.a. The difference of 2.5% to 4% between common lending rate and the capped borrowing rate is proved to ensure a profitable margin for commercial banks.

All policies adopted by the SBV were aimed at curbing inflation and stabilizing monetary market. The effort of the SBV in fuelling large amount of 1-week term money through the open market operations has partially resolved the liquidity constraints of commercial banks.

Borrowing interest rate cap lifted sparked interest race among banks for deposits

Yet, the lift of the borrowing interest rate cap has sparked another interest race among banks for deposits in both VND and USD. The borrowing rate constantly increased, the lowest rate for under 6-month term deposit was already as high as 13.3% p.a. and the highest rate almost reached the ceiling rate of 18% p.a. This race has adversely affected and contributed to the non-stop plunge in VN Index and HASTC index this month.

On the other hand, the removal of old ceiling interest rate helped cool down the heat on the inter-bank market because thanks to the higher interest rates, banks can better mobilize funds from the residents and enterprises instead of struggling for funds on the inter-bank market.

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BVF's forecast of monetary market in the time to come

During the first 5 months of 2008, Consumer Price Index increased by 15.96%, much higher y-o-y (CPI of the same period last year rose by only 4.32%). Therefore, compared with the highest borrowing interest rate in the market (15.6% p.a.), depositors were actually earning negative interest. However, with the lending rate capped at 18% p.a., in order to ensure a profit margin for the commercial banks, the borrowing rate is forecasted to be maintained at the current level until new adjustments on interest rate policy announced.

In general, the banking sector is still in excess of working capitals yet it is not equally distributed among commercial banks, interest rates of short-term deposits are therefore higher than those of longer terms. Besides, there was a drop in long term interest due to lower inter-bank rates, yet, it could not be lower than the newly established borrowing interest rate of 14%-15% p.a. In addition, fluctuation in short term interest rate is often more frequent than in interest rate of long term savings.



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Bond market in May, 2008

According to S&P, Vietnam credit market is classified as BB (unstable)

Many financial institutions, including foreign banks such as HSBC, Deutsche Bank which invest a lot into bond market had to give up their holdings

S&P and Fitch published a notable report on Vietnam credit rating which classified Vietnam financial market as Negative-BB (Unstable). The negative evaluation on Vietnam financial market has caused immediate withdrawal from investors, especially foreign investors. They immediately sell bonds of all tenures in the market and at the same time review and restructure their portfolios. This development again worsened Vietnamese bond market which had previously been seen in bad condition and low liquidity.

Quite a few financial institutions including foreign banks such as HSBC, Deutsche Bank had to give up their bonds. Firstly, the majority of VGBs put on sales are those having short time-to-maturity (equal or less than 5 years) and being issued in recent years, then the government bonds of the same tenures are also offered to sell in bulk. In this backdrop, low demand for bonds pushed the yields-to-maturity of bonds up with the yields of some tenures increase by as many as 100 basic points a day.

Most of the VGBs offered for sales are those with short time to maturity, which add complication to the bond market because bonds with short time to maturity generate higher yields. Currently, there are no benchmarks for yields of bonds on sales and the realized yields are much higher than those quoted. The yields quoted by Bloomberg are just for reference and do not reflect the actual happenings. The yields-to-maturity of Treasury bills of less than 5 year tenure exceeded 20%, which was unprecedented.



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Although the yields have reached the peak, there is no significant improvement in market liquidity because the difference between bond and savings interest rate is still remarkable (short term savings interest rates are more than 20% p.a., 3 year interest rate reaches 17-18% p.a. or even higher).

The issuance of the VND500 billion treasury bills of 5-year term was not successful as the yield capped at 8.9% p.a. is way lower than the market yields. Corporate bonds have the lowest liquidity and high volatility.

BVF's view about bond market

Unpredictable VND/USD exchange rate fluctuation and month-to-month high inflation of 3.91% in May were considered the cause of the soaring yields. The yields are forecasted to be maintained at high level in months to come.

Bond yields would continue to be high in the time to come.

Previously, interest rates of inter-bank had served a cap for bond yield, blocking the yields from sharply increasing when bond supply was much higher than demand. However, when 2008 inflation is forecasted to exceed 20%, the inter-bank rate fails to serve this function. Investors all argued savings interest rate not exactly reflecting the intrinsic value of Vietnamese economy (*because depositors are enjoying negative real interest in the circumstance of increasing inflation*). Interest rate was still kept this low because the SBV set the caps for borrowing and lending interest rates. In the future, bond yields would probably go up as high as savings interest rate or even higher.



Some foreign investors intended to withdraw from Vietnam market at any price

Bond market is in the same condition with stock market at this moment, namely, supply is higher than demand (demand for bonds of short tenures mainly come from commercial banks and for long tenures from insurance companies). However, bonds' liquidity is very low because buyers generally think that the later they buy, the better price they get. In this situation, reports on escalating inflation, hiking consumer price in Vietnam and world economy as well as negative forecasts of economic condition serve as catalysts for higher bond yields.

According to BVF's assessment, bond yield will continue to rise and hardly stop because some foreign investors are showing intention of retreating from Vietnam market at any price. Sellers' anxiety along with buyers' wait-and-see attitude might worsen the market situation.



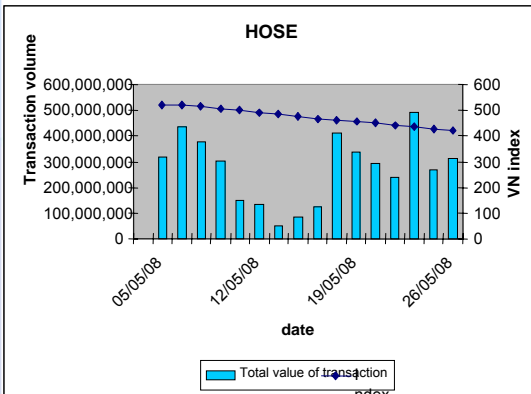
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Security market and its analysis in May, 2008

Macro-economic factors influencing Vietnam security market

In May, there continued to release unfavorable news about Vietnam macro economic situation.

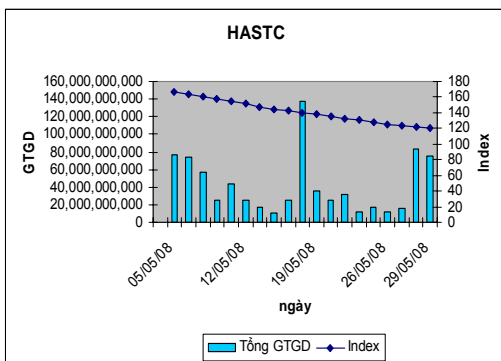
CPI increasing by 3.91% along with US\$14.4 billions import surplus in the first 5 months speeded up inflation, although the government had made a great effort to put inflation down. In the unfavorable macro-economic situation, investors successively offered a large amount of securities into the market against the very minor demand which kept lowering securities index in both stock exchanges.



Source: BVF

Monetary market fluctuated significantly during May when the SBV decided to remove the ceiling of borrowing interest rate of 14% p.a. and cap lending interest rate at 18% p.a. This once again push commercial banks into a race in raising borrowing interest rate which consequently had bad impact on the stock market. Investors tended to withdraw from stock market and lend this large amount of money to banks, which made securities market successively go down and there has not any signal of recovery been shown for the short term.

Developments in HOSE and HASTC



Source: BVF

In late May 2008, VN Index was only 420 points and HASTC Index was 120 points. That is, Vietnam securities indexes lose 50% in value compared to those at the end of 2007. Average daily transaction value fell sharply to VND270 billions in HOSE (equal to two thirds value of last month) and to VND42 billions in HASTC (much less than VND130 billions per day in April).

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From 27th to 29th May, HOSE closed down due to technical problem. Vietnam stock index falls straight all the days in the month. VN-Index falls seventeen days straight, and HASTC index twenty consecutive days and there's no sign of rebound. Both Exchanges saw the losses in the value of both blue chips and penny chips of every industries. This is supposed to be a crisis period for Vietnam stock market.

Foreign stock investors kept on buying

Foreign investors' trading

	Purchase (share)	Sell (share)	Purchase/share
HASTC	1,912,600	369,600	5.17 times
HOSE	22,744,470	4,578,430	4.96 times

In HOSE, foreign investors continued to place more buying orders than selling ones. Their buying volume was 4.4 as much as their selling ones, accounting for 50% of the whole market's trading volume. The most favored stocks by foreign investors are DPM (4.7 million shares – 3.6 times more than the number of selling orders), PVD (1.1 million shares- 5 times more than selling orders), SSI (1.1 million shares- 7.2 times more than selling orders). Besides, foreign investors also purchased 1.3 million shares and 1.2 million shares of HPG and PPC respectively while the selling volume was very low.

Purchase	Amount	Sell	Amount
DPM	4,711,180	DPM	1,325,350
HPG	1,382,850	VNM	363,970
PPC	1,249,790	ANV	323,630
SSI	1,099,020	KDC	241,480
PVD	1,033,480	ITA	201,630

In HASTC, foreign investors' buying volume was 5.7 as much as their selling ones and the most favored stocks were PVI, PVS, BVS. Their selling volume was small, mostly on BCC, NBC, VNR...

In the Asian Financial Investment Conference held in Ho Chi Minh city, there was one notable fact in the first 5 months. While many other Asian countries had difficulties in attracting foreign investment, about US\$600 millions foreign indirect investment has been poured into Vietnam's stock market. Although the investment value in the stock market in the first 5 months was small, just 6% compared to the amount invested in the year of 2006 and 2007 (approximately US\$10 billions), the fact that foreign investors still poured money in this stressful situation of the financial market showed their long-term commitment to Vietnam stock market.

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The OTC, Auction and IPO

Stock prices on OTC market for reference:

Company	25/04/08	29/05/08
Bình Chánh House (BCCI)	37-38	20-22
Hoàng Anh – Gia Lai	166-168	91-93
Vietcombank	51-53	31-32
Eximbank	35-37	22-23
MBbank	25-27	15-17
Vietnam Ocean Shipping (VOSCO)	22-23	16-17
Phước Hoà Rubber	41-43	30-31
Petro Vietnam Finance Company (PVFC)	30-31	17-18
BaoViet Finance – Insurance Group	36-38	22-24
Saigon Beverages (Sabeco)	52-54	37-39
Traphaco Pharmacy	100-102	64-66

(Source: Securities Investment Newspaper, FPTs, SSI...)

In May, there was no new auction and IPO and it is unlikely that any big state-owned enterprises except for Vietinbank (formerly known as Incombank) will go on auction in 2008. This bank submitted its IPO proposal to the government and plans to sell 25% of its charter capital in the coming IPO by the end of this year.

Vietnam stock market saw decline in all the trading sessions of the month in both Exchanges. Listed stocks were on their way back to their face value and there were even some stocks were traded below their face values. Manulife and Prudential investment fund units were traded at about VND5,000 a share, out of even the most pessimistic forecast. The OTC market suffered the same problem when stock prices and the market liquidation were extremely low.

The hardest hit was securities companies. While in the listed exchanges, SSI and BVS saw no single recovery session since mid-April, in OTC market, securities companies' stocks were offered for sale as low as around its face value such as the one of FPT Securities at VND11,000 per share, APEC Securities at VND13,000-14,000, PVSC at VND12,000 (with the face value of VND10,000 per share). Particularly, there were some stocks offered below their face values, such as stock of Dai Viet securities company (DVSC) at VND70,000 per share (the face value is VND100,000 per share).

All stocks in Vietnam stock market saw a decline by 3 to 4 times compared to the beginning of this year, among which stock of Securities Companies suffered the most from the prolonged downward trend in the market lately. Investors are losing their faith in the stock market, not to mention that all securities companies had to tighten their business plans compared to last year. Thus, investors made their choices to swift to less-risk and higher-profit industries. The price of securities companies' stock is said to be even lower in coming months.



In the last week of May, the market welcomed good news from the HASTC that it had almost finished the preparation works to start trading unlisted stocks on the bourse. HASTC will co-operate with securities companies and the Securities Depository to make this news well-known among investors. So, there is much likelihood that in the next month, the OTC market will saw more positive changes.

The adverse impacts from the international market and domestic negative factors are preventing Vietnam's stock market from attracting capital. The government's supporting policies as well as market elements haven't been as effective as expected to build up faith for investors.

BVF's view:

Vietnam's stock market is losing its attraction to investors as compared to the year 2007.

Investors' decisions will be heavily affected by macro-economic situation as well as the Government's strength in curbing inflation in the future.

The insecure factors in the money market such as the interest rate hike among banks, difficulties in foreign currency exchanges, and the unexpected fluctuation of exchange rate are challenging not only to banks but also to stock market, particularly to the capital flow between these two stock exchanges as well as to import and export enterprises whose stocks are listed on the market.

Lately, there have been a number of reports from international investment institutions on Vietnam economy with gloomy vision about the stock market. To serve their clients and from the international funds' point of view, those reports hold that in the high inflation context, it is unlikely the Vietnam stock market could generate profits for the investors in the short-term. Thus, it is understandable why there are so many pessimistic remarks about Vietnam's stock market recently. However, majority of foreign investors acknowledge the positive long – term prospect for Vietnam stock market.

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Investors' decisions will be heavily affected by macro-economic situation as well as the Government's strength in curbing inflation in the future.

It maybe true that in short term, there's little chance for Vietnam's stock market to rebound. Investors' decisions maybe deeply affected by the macro economic situation and the coming efforts of the government to curb inflation. It is expected that when the macroeconomic policies start to take effect in the next 6-9 months. i.e. by the end of this year, Vietnam's stock market will recover and back on its upward developments.

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