

# BVF MARKET REPORT

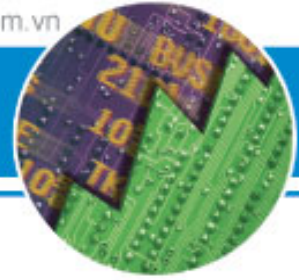
baovietfund.com.vn

No.07-2008



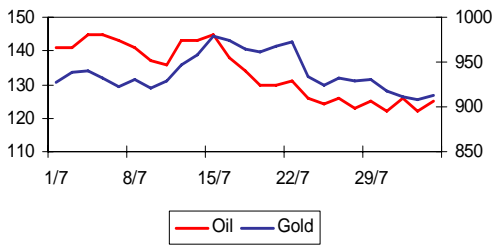
Baoviet Fund Management - BVF

# BVF MARKET REPORT



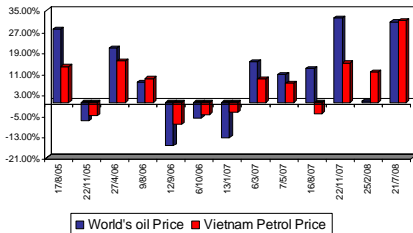
## World economy in July 2008

Oil- Gold price fluctuation in July



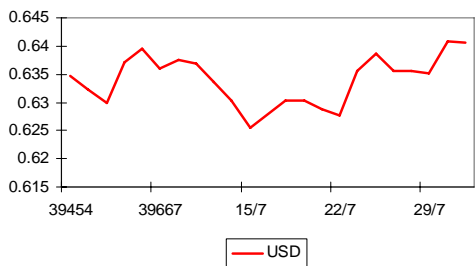
▪ The most noticeable fact in July was the sharp decrease in oil price after a record increasing period. After soaring to USD150/barrel in late June, the oil price in July was on the strongly downward trend (oil price in 31 July reduced by 10.6% compared to the early same month). As a result, after a highly increasing period in the first half of July, gold price also went down gradually and the USD appreciated against other key currencies (gold price in July dropped by 1.6%, from USD928/ounce in the early July to USD913/ounce at the end of month).

Comparison between world oil price and vietnam petrol price



▪ Federal Reserve System (FED) decided to maintain the USD prime interest rate at 2% but also expressed worry about the inflation and the slow growth rate that US economy can face this year. It is July when the US financial market experienced a shock that IndyMac Bank Corporation was temporarily closed due to its insolvency. The credit and real estate crisis has still badly affected this economy.

USD v.s Euro in July

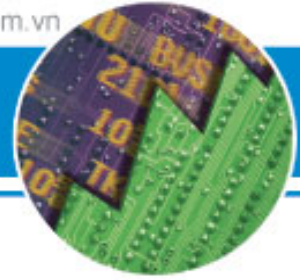


▪ The world stock indexes which are considered to be sensitive with market developments have showed the sign of rally since middle of July/2008 (coincided with the time of oil price slump). This is also the time of world stock rebound after the drop of DowJones, Nasdaq, FTSE indexes during June and the first half of July.

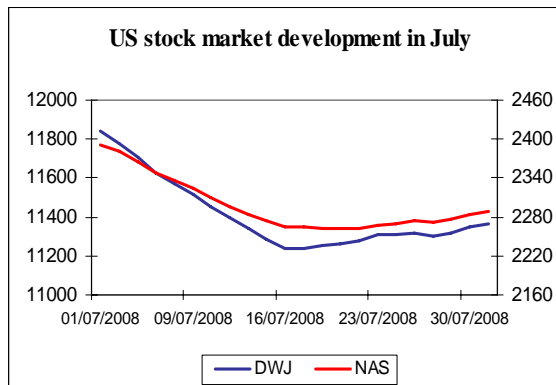
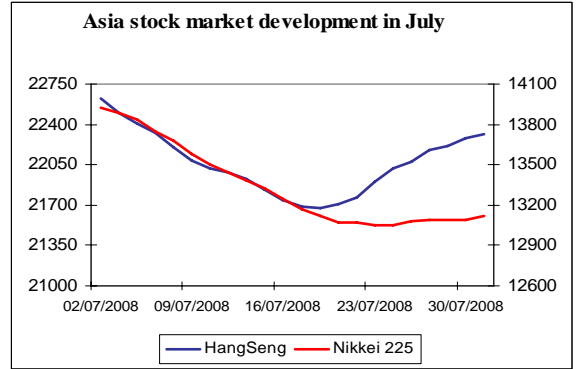
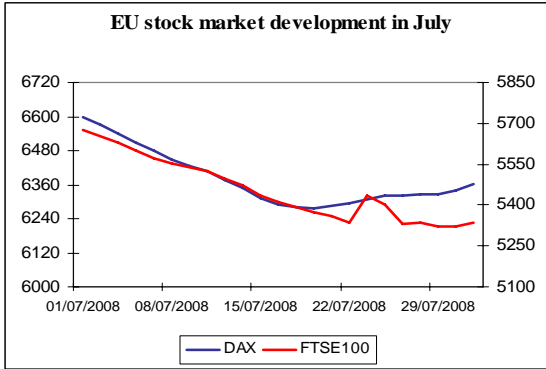
▪ European Union continued to face high inflation as the regional inflation index rose by 4.1% in July y-o-y.

▪ During the past time, world economy has experienced periods of recession. Though hold by the IMF Managing Director as “the most difficult time of world economic crisis has passed”, its consequences will still spread in coming time, resulting in slower economic growth in some countries. Nevertheless, world economy is expected to slightly recover thanks to a number of positive market developments.

Source: Reuters - BVF

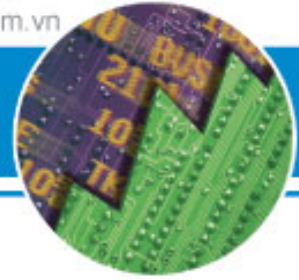


# BVF MARKET REPORT

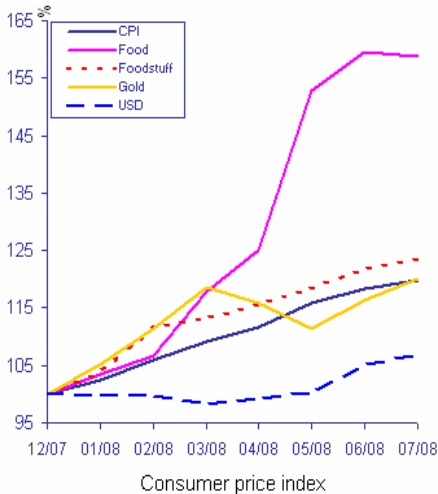


Source: Reuters - BVF

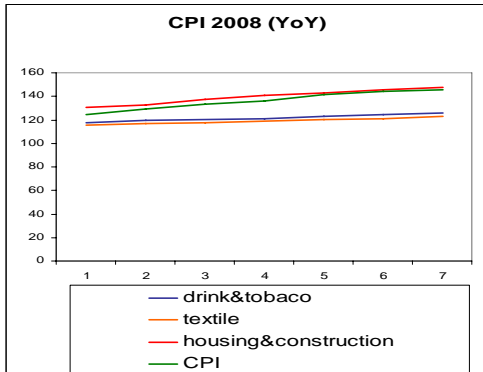
# BVF MARKET REPORT



## Vietnam economy in 7/2008



Source: General Statistics Office



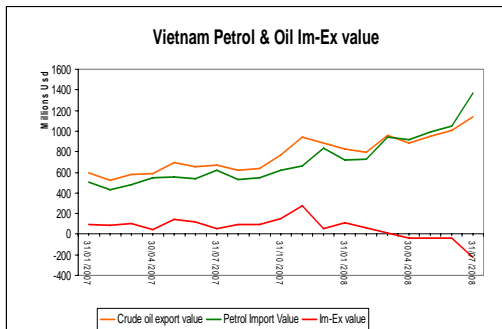
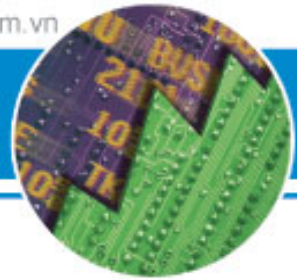
Source: Reuters - BVF

▪ According to General Statistics Office, CPI in July declined sharply, just rose by 1.13% over June 2008. This is the lowest increasing rate since early this year. Thus, CPI over the first 7 months of the year soared by 19.78%; meanwhile this index was amounted to 21.28% y-o-y. In term of sector, food and restaurant service increased by 0.99% (much lower than the rate of 3.29% in June 2008), other commodities and services by 1.14%; textile, footwear and headwear by 1.4%; construction material and housing by 1.67%; household commodities and equipment by 1.53%; pharmaceuticals and medical services by 2%.

▪ As to our studies, although CPI in July has showed signals of slow down, finding measures to curb inflation till the end of 2008 will still be the challenge of the Government when petrol price increased to VND19,000/liter lately. The decision to raise oil and petrol price on 07/21/2008 not only has direct effect on CPI in the next months through the fuel price increase but also indirectly poses impact on other commodities' prices on the market. It is likely that inflation would hover near 30% this year.

▪ Following the General Statistics Office, national export turnover in July 2008 reached USD6.25 billion (going up by 0.8% compared to June 2008) while import turnover amounted to USD7.05 billion (increasing by 1.8% over the last month). The month import surplus was estimated to USD800 million, higher by 10% over the last month and lower by 28.3% y-o-y. Export turnover in the first 7 months of 2008 amounted to USD36.8 billion (increasing by 37.7% y-o-y) in which crude oil raised by 60.8%; rice by 64.3%; textile and garment by 22.2%; footwear by 25.7%; seafood by 25.7%. Import turnover of the first 7 months reached USD51.9 billion (higher by 56.8% y-o-y). Cars alone increased by 265.1% in term of value and 290.1% in term of quantity, however, the quantity tended to gradually decrease in the recent months, import cars

# BVF MARKET REPORT



Nguồn: Reuters – BVF

in May was 7,800 units, in June was 3,900 and in July was 3000. In 7 months of 2008 in general, import surplus was estimated to USD15.01 billion, an increased of 13.7% over the same period last year and accounting for 40.7% of export turnover. Thus, by boosting import restriction measures such as increasing import tax on car, car components, and gold; and controlling over foreign currencies used in import, import was on the trend to calm down.

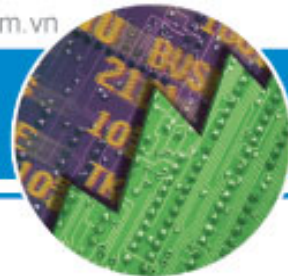
- As per the report released by Foreign Investment Agency (Ministry of Planning and Investment), 167 investment projects were licensed in July 2008 with total registered capital of USD13,551 million (*in which 30 projects increased capital of USD127 million*). The number of newly registered projects in 7 months of 2008 were 654 projects with total registered capital of USD44.9 billion (equal to 76.8% of the number of projects and 546% of registered capital y-o-y).

- However, implemented FDI in 7 months of 2008 only amounted to USD6 billion (*increasing by 43% y-o-y*), which is a modest rate in comparison with total registered FDI of this period. In term of invested areas, 60% registered FDI was capitalized in real estate, such as new urban centers, entertainment centers, which showed the unbalance in invested fields. Moreover, in spite of large amount of the registered fund, limited capacity to absorb the capital is one of the cause of the low FDI realization pace.

## BVF's Evaluation

CPI in August and September could be impacted directly by the petrol price increase in late July and likely to highly increase. Therefore, the government's target to maintain price of essential commodities has deviated and gradually was adjusted to the market mechanism. The petrol price jump affects not only production and transportation costs of enterprises and people but also creates the domino effects that results in higher prices of other commodities and services.

## BVF MARKET REPORT



The government policies to regulate macro economy could be the key factor affecting FDI inflow. FDI attraction in Vietnam has not been so pressing as it was earlier, it is how to use this source of capital and its influence on Vietnam economy.

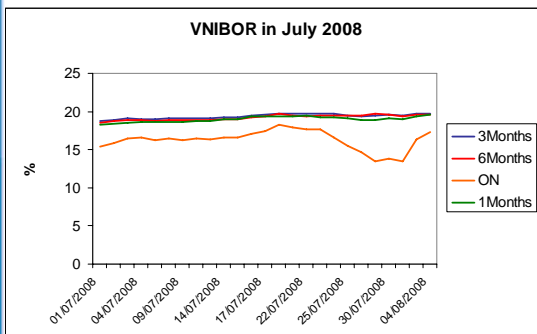
The Government measures to restrict import started to take effect when trade balance in the month was improved comparing to the last months. It is predicted that Government will continue to boost measures to restrict and control import.

# BVF MARKET REPORT



## Analysis of financial market in July 2008

During July 2008, the Central Bank daily supplied more cash via open market operations (OMOs) with the weekly volume from VND28,000 to 48,000 billion at 7-day term with the successful auction rate of 15% per year. These auctions were held in order to support the liquidity of the banking system and stabilize financial market.



Source: Reuters-BVF

At the beginning of July 2008, the Governor of the Central Bank issued the regulation to control the borrowing interest rates in VND of the lending institutions. According to this regulation, those having the average borrowing interest rates from 17.5% per year have to submit their business plan eligible to the high mobilization rates. Along with this regulation, the limit on lending rates, and the pressure of maintaining business efficiency, in the context of bettering liquidity, resulted in lower borrowing interest rates of commercial banks from the very high level of 18 to 20% per year.

Also in July, the Central Bank strictly kept its view in maintaining the basic interest rate as in its earlier commitment and according to the most recent announcement, the VND basic interest rate would be kept at the same level in August. More stable policies resulted in stability in inter-bank's interest rate which stayed the same and just fluctuated slightly around 21% per year for short-term loans (O/N up to 3 months).

With the move of the Central Bank's continually pumping money via OMOs, the temporary surplus of available capital in 4 state-owned commercial banks, and enough reserve set by other commercial banks in July; the interest rates in these times decreased slightly compared with those of last month. The outstanding point was that the lending interest rates of 5 state-owned commercial banks including BIDV, Agribank, VCB, ICB, MHB and another commercial bank-Eximbank felt down by 0.5 to 1% compared with the current lending interest



rate ceiling of 21% per year while the borrowing rates still stayed the same. This showed that the Central Bank's governing the policies via OMOs had positive impacts on those banks and helped them have temporary surplus in available capital, thus, when reducing the lending interest rates, they would still be able to ensure the efficiency of the loans.

### *Financial market forecast*

The above-mentioned stability in macro economic situation produced a better picture of financial market which was believed to stabilize at the current level in the coming time.

Thanks to the fact that the basic interest rates in August will be kept at 14%, it is likely that the average borrowing interest rate of the financial market will also be maintained at the current rate (17 to 18% per year in the state-owned banks and 18 to 19% per year in the joint stock ones).

Up till now, almost all commercial banks have a surplus in their available capital although this surplus is not equally distributed and concentrates in some certain banks, which leads to the dependence of small-sized banks on the capital sources and the interest rates of the lending banks. It is foreseen that the inter-bank's interest rate in the coming time will fluctuate accordingly to the banks' demand and supply capacity. The gap between the average short-term and long-term interest rates is still not remarkable, the short-term remains at high rates and has little difference from the long-term.



## BVF MARKET REPORT

### *Bond market in July 2008*

The yields in the bond market in July increased slightly at the beginning of the month and then decreased in the following weeks as a result of fluctuations of the financial market as well as the world crude oil and gold market.

At the beginning of July 2008, the prices of crude oil and gold soared significantly, the borrowing interest rate on the market tended to rise, resulting in the slight increase in the yields of bonds which have time-to-maturity from 1 to 3 years (at 21 to 22% per year).

However, when the Central Bank issued the regulation on controlling the borrowing interest rates of commercial banks, the rates tended to go down slightly. The USD/VND rate step by step became more stable. Moreover, the unstable political situation in Malaysia and Thailand had direct impacts on foreign investors' actions in bond transactions in Vietnam (they had been the market leaders during the recent times). There was a slight decline in the borrowing and lending interest rates of some banks which discouraged foreign investors from selling their bonds. The bond supply declined while the demand of investors rose (due to the lower deposit interest rates on the financial market) made the yields decrease by 1.5 to 2.5 % compared with that at the beginning of this month.

The total volume of bonds matched in this month was at an average of VND550 to 750 billion per session. The demand for government bonds from insurance companies, commercial banks and some enterprises rose continually when those invested in bonds instead of bank deposits due to lower borrowing interest rates in the market.

Therefore, the foreign investors no longer tried to sell bonds at large volumes at any price as we could see in the last two months. The Central Bank's tightened management of foreign



## BVF MARKET REPORT

investors' capital along with the more positive macro economic situation of Vietnam and the decline in USD/VND rate led to sharp decrease in foreign investors' bond selling orders.

There were times at the end of July that the bond yields-to-maturity temporarily rose to 20% per year (for bonds having time-to-maturity from 1 to 3 years) when petrol price reached VND19,000/liter because the rise in petrol price had direct impacts on the USD/VND rate and made it fluctuate in several days.

According to some analysis, the remained volume of bonds with time-to-maturity less than 1.5 year on the market is not large and those are all sold or partly owned by foreign investors. Most of the bonds sold in recent time had longer time-to-maturity (from 1.5 to 3 years). The bids and underwritings for short-timed bonds held by the State Treasury and Bank for Development of Vietnam (VDB) were unsuccessful due to the big difference between the set ceiling interest rate and the market rate. Besides, there had been almost no transaction of VDB or corporate bonds in this month.

### *Bond interest rate trend forecast*

In the future, the upward trend in the prices of essential commodities besides oil will be definite because the government will not be able to curb prices while they continually rise on the world market. This means that CPI in August will likely be higher, badly affecting the foreign exchange rate, macro economic targets, and being the main reason for foreign investors' hesitation in continuing to sell bonds.

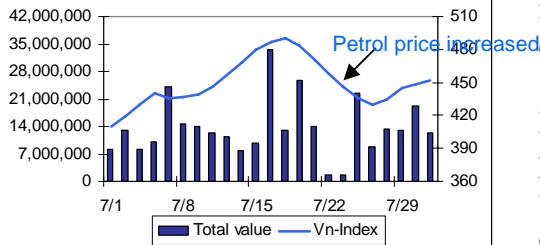
According to some analysis on the financial market, that the stable basic interest rate will make the yields on the bond market hard to rise dramatically as it used to. It may just fluctuate slightly. However, foreign investors tend to sell bigger volumes of bonds with longer term to maturity. The fluctuation of bond yields on the domestic market will still be affected by foreign investors' actions and rather complicated in the coming time.



# BVF MARKET REPORT

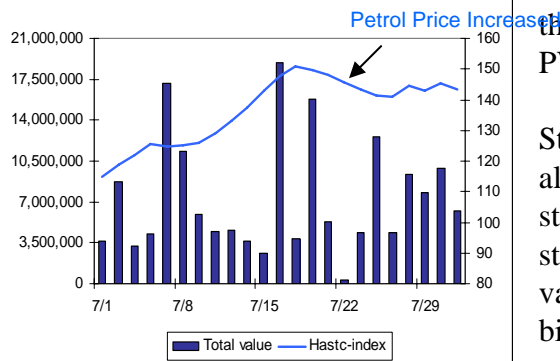
## Stock market in July, 2008

**Vn-index in July, 2008**



Source: Reuters - BVF

**Hastc-index in July, 2008**



## Transactions in July, 2008

July witnessed a number of fluctuations of the stock market. Unlike the first months with the continuously downward trend, in July, the two market indexes have fluctuated following the changes of the macro economy.

In the first two weeks, VN Index and HASTC Index gained points continuously. However, from the beginning of the third week, the 30% increase of petrol price (07/21/2008) produced direct effects on concern of domestic investors as well as caused many difficulties for enterprises, especially the ones operating in production and transportation fields. Hence, the market indexes declined following the decreasing momentum of stock price.

In July, many listed companies released their reports on the second quarter's business performance, in which there are many enterprises who run profitably, achieved rather satisfactory results and showed high possibility to complete their plans, for examples: Hoa Phat Corporation, Vinamilk, PVD, NTP, DPM.

Stocks with satisfactory business results in the second quarter also attracted investors, and the fact that demand for these stocks always exceeds supply has led to the increases in these stocks' prices and trading values. In July, the average trading values on HOSE and HASTC were 535 billion Dong and 226 billion Dong, respectively.

## Foreign investors' transactions

In July, foreign investors pushed up the purchasing volume rather than the selling volume. The excess volume of purchasing over selling at HOSE and HASTC are roughly 1,525 billion Dong and 158 billion Dong, respectively. At HOSE, foreign investors' purchasing and selling transactions accounted for 25% and 13% of the purchasing and selling transactions of the whole stock exchange, respectively; for

# BVF MARKET REPORT



|       | Foreign investors' transactions (in million Dong) |           |            |
|-------|---|-----------|------------|
|       | Purchasing  | Selling   | Difference |
| HOSE  | 3,269,644   | 1,743,871 | 1,525,773  |
| HASTC | 259,107   | 100,571   | 158,535    |

Source: BVF

## Top purchases by foreign investors

| Stocks | Purchasing volume | Purchasing value |
|--------|-------------------|------------------|
| DPM    | 9.347.470         | 513.275.680      |
| SSI    | 9.341.660         | 431.437.559      |
| PPC    | 3.304.620         | 97.462.705       |
| PVD    | 3.037.990         | 288.424.820      |
| HPG    | 2.690.360         | 143.222.196      |
| VNM    | 1.999.800         | 222.874.675      |
| PVI    | 1.157.600         | 32.868.690       |
| PVS    | 1.789.000         | 81.867.140       |

Source: BVF

HASTC, these percentages stand at 5% and 2.5%, respectively, much lower than those of HOSE.

Apart from the stocks with large market capitalization value, stocks that have the highest purchasing volume in July are those of companies achieving good performance in the first half of the year such as HPG (reported net income of 848 billion Dong), VNM (70 billion Dong), DPM (1,000 billion Dong).

In terms of selling, foreign investors tended to sell stocks of companies which either have undesirable business performance due to over-investment in finance (e.g. SAM) or have unfavorable earnings forecasts (e.g. AFG).

As such, it can be concluded that foreign investors are directing their attention to companies with largest market capitalization values and companies with good performance and positive net income in the second quarter of the year.

## OTC market

In July, the liquidity of OTC market did improve with high trading volume. Stocks of banks such as VCB, MB, Eximbank, etc. are the most heavily traded. In particular, July witnessed MB stock's price volatility within just a couple of trading days of 40-50%. It is believed that the listed market and the demand- pushing factors of OTC brokers played a crucial role in the increase of OTC trading volumes in July. Besides, investors have also shown interests in stocks of companies in industries whose operations are not much affected by inflation.

At the end of July, a number of investors tried their best to sell out their rights to shares in Hong Viet Bank in OTC market upon the news that the bank's founding shareholder-PetroVietnam-had proposed to withdraw its funds out of the bank. This is quite a new situation to Vietnamese investors.

## BVF MARKET REPORT



For these unofficial transactions, investors have to bear high risks. It is notable that Vietnam's OTC market urgently needs transparent regulations that can help to protect investors' interests.

### *BVF's Evaluation*

The decline of CPI in July, the sharp increase in FDI (USD45 billion in the first 7 months of the year) and the improvement of the trade balance are positive signals for Vietnam's economy. These would help to re-gain the confidence of investors after a dull period of the stock market. Empirical evidence shows strong demand in July with average trading value of 535 billion Dong on HOSE and 226 billion Dong on HASTC. In particular, at some trading points, the market witnessed MB stocks traded at the value of nearly 20% of its chartered capital.

Furthermore, interest rate has been stabilized and some prestigious banks have decrease their deposit rates while the gold market and USD market have cooled down. In this context, it is believed that the government's commitments and interventions in the monetary market which actively prevent speculation would help to channel capital flows to the stock market.

Operation results in the first half of the year of most companies were affected by inflation, but to different extents. Among the most heavily affected companies are the importers and exporters of textile and seafood products, etc. Besides, companies operating in the real estate market has been facing a difficult time as this market was frozen due to credit restraints and bank interest rate hikes. However, most of the leading blue-chips were not materially affected except for those of the businesses having large amounts of short-term investments in stocks. Also, stocks of companies producing construction materials, fertilizers, steel, etc. have drawn investors' attention for their significant increase in operating results thanks to positive impacts of inflation. These stocks,



together with leading blue-chips have helped to regained investors' confidence to invest when the market values of the stocks are believed to be much lower than their intrinsic values.

Following the sharp increases in petrol prices (31% for gasoline and 15% for diesel), stock indexes declined for four consecutive trading days. However, the stock prices increased for a whole week after that.

From the empirical evidence of the markets in the region such as China, Thailand, India and Indonesia, it can be seen that petrol price increases did not have materially adverse impacts on inflation and stock market indexes. Hence, it can be referred that investors have been well prepared for the increase in petrol price so Vietnam's stock market was not hit as hard as it could be.

### Forecasts

Vietnam's stock market had a number of changes in July, with the recovery of trading values and market liquidity after a long dull period. Blue-chips with good operating results and stocks of companies that have high profits thanks to increases in goods prices were top purchasing selections of investors.

Besides the high cost of debts, the 30% increase in petrol price at the end of July would have certain impacts on manufacturing enterprises. However, companies which actively look for its suppliers and customers will still be able to deliver desirable revenues and profits. Empirical evidence shows that both domestic and foreign investors have had keen interests in companies with efficient operations.

It is predicted that stocks will be more actively traded in August with the clear classification of stocks. The operating results in the first half of the year reflected strengths and weaknesses of each company. These results should help investors forecast the operations and earnings of companies as well as make right investment decisions.



Institutional investors are expected to participate more in the transactions. Domestic and foreign institutions have been provided with companies' operating results in the first half of the year, so it is the time for them to make decisions on their portfolio structures and to purchase or sell stocks in accordance with their plans for the later half of the year.

It is also believed that individual investors' demand will be quite stable for the next period as other investment alternatives such as real estate, gold and foreign currencies have a lot of potential risks and the liquidity of these markets have been significantly decreasing due to government's anti-speculation measures.

In August, the market might be relatively volatile. Vn-Index might move between 400 and 450 before the figures on CPI of August and other goods' prices as well as information on macro- economic factors are released.

**Prepared by Market Research Group – Bao Viet Fund Management Company**

1. Pham Phuong Thuy – Market Analysis Executive
2. Nguyen Tuan Phong – Fixed Income Analyst
3. Tran Viet Hung – Equity Analyst
4. Doan Thu Trang – Equity Analyst

*Disclaimer: This document is prepared and issued by Bao Viet Fund Management Company. Information presented in this document are based upon our market research group's analysis. Bao Viet Fund Management Company bears no responsibility or whatsoever for the accuracy of the information in this report.*