

SEP 2016 MACRO UPDATE - CONTINUING TO HAVE MORE ACTIONS FOR QUANTITATIVE EASING?

Sep 28, 2016

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Concerns about negative impact of FED's raising interest rate on Vietnam exchange rate are mitigated after FED's action in September meeting. FED decided to maintain the major interest rates. Also, they will set the base rate at 0.6% (slight up by 0.1% compared to the current rate) at the end of 2016. Prior to that, FED's estimated figure for this rate was 0.9%. In 2017, FED expects to raise the base rate to 1.1%, lower than the projected figure of 1.6% in Jun 2016.

Domestic outlook

There is a high probability that CPI will be controlled under 5% as targeted by the Government earlier this year: Consumer price index (CPI) for Sep 2016 increased by 3.34% YoY.

Stable exchange rate (as stated in our report dated Jan 04, 2016) was due to various factors such as: (i) trade surplus (ii) low inflation, (iii) appropriate policy in exchange rate monitoring. For the rest of 2016, these factors will be maintained and together with the favorable movements on the world (FED postpones the interest rate raising) will make it less likely for the exchange rate to fluctuate beyond Central Bank control.

Pressure to raise interest rate from the issuance of government bond is resolved as the government has finished the issuance in 2016. In the remaining months of the year, management of the interest rate will be easier for the Central Bank.

Policy message

In our "**Policy message and investment opportunity**" report on May 19 2016, we forecasted the expansionary policy from the Government.

Regarding the economic outlook mentioned above, **we assume that the Government will continue to make more moves via expansionary policy to boost growth, and these solutions are likely to be published in the early October.**

Our report also gave assessment on tools that the Government could use, and up til now, market movements align with our analyses. Recent events such as **decreasing of interest rate from several major state-owned commercial banks and Petrovietnam (PVN) to increase 2016 crude oil exploitation target**, continue to support our judgment. We would like to update some summaries as follow:

- **Crude oil exploitation:** PVN is assigned by the Government to increase crude oil exploitation by an additional of 1mn ton compared to the planned figure. To our estimation, this additional 1mn ton would help to increase GDP by 0.3%
- **Fiscal policy:** Government did not have much room as stated in our previous reports.

- **Monetary Policy:** State bank of Vietnam (SBV) issued Circular 06 in the direction of reducing the requirements for the safety indicators, compared to the amendment draft of Circular 36. In particular, according to Circular 06, the risk ratio for real estate loans is raised from 150% to 200%, instead of 250% in the draft. In addition, the implementation deadline was put off till Jan 01, 2017. Short-term capital expenditure to med/–long-term loans ratio are still remained at 60% until Dec 31, 2016, then decreased to 50% from Jan 01, 2017 and down to 40% from Jan 01, 2018. In comparison to the original draft, SBV has extended the time of the roadmap for policy implementation over 2 years. In addition, SBV also extended the duration of the special bonds from 5 years to 10 years. Besides, interbank interest rate is remained at a record low (the overnight interest rate under 1% at many certain times).

Investment Opportunities

Besides sectors highly appraised in our report "Message policy and investment opportunities" including (1) Banking, (2) Real estate and Construction materials, we add positive evaluation for "Oil & Gas" sector thanks to the Government permission to increase crude oil production.

Accordingly, thanks to increasing oil production includes the development of oil rigs and exploitation of new oil fields, oil & gas companies will benefit, including notably PetroVietnam Drilling & Well Services JSC (PVD VN) (leasing 2 more rigs in 3Q2016), PetroVietnam Technical Services Corp (PVS VN) and Petrovietnam Transportation Corp (PVT VN) (benefiting from the increased exploitation of PVN).

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