



Quarterly Strategy Report

MACRO & STOCK MARKET

2015Q3 Outlook

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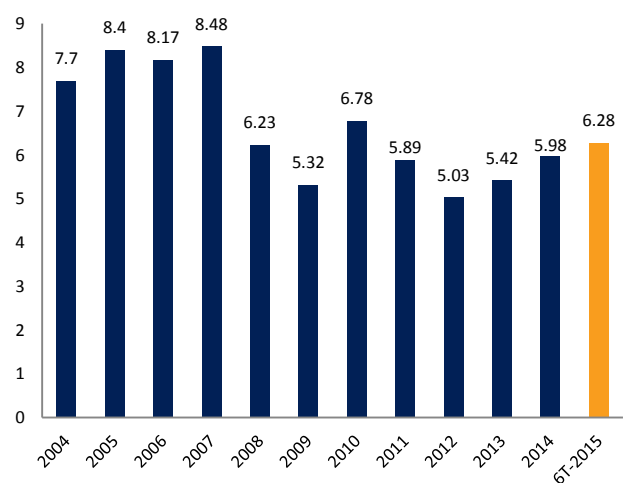
VIETNAM MACRO ECONOMY OVERVIEW IN 2015Q2

1. Economic growth

The Gross Domestic Product (GDP) in the first 6 months of 2015 rose by 6.28% over the same period last year, in which Q1 increased by 6.08%; Q2 by 6.44%. The agriculture, forestry and fisheries increased by 2.36%, contributing 0.42 percentage points; the industrial and construction increased by 9.09%, contributing 2.98 percentage points; the service increased by 5.90%, contributing 2.22 percentage points.

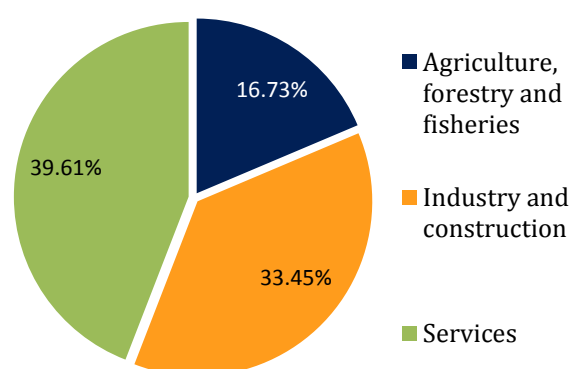
The GDP growth reached the highest rate since 2009. However, the economy has uneven growth rates among the 03 areas. Specifically, the industrial and construction area has had a breakthrough: the processing industry made a large increase of 9.95% and dominantly contributed to the overall growth rate (1.57 percentage points). The agriculture, forestry and fisheries area had a much slower growth of less than the 2.96% compared with the same period of 2014.

Chart 1: GDP growth (% yoy)



Source: GSO, BSC

Chart 2: Economy struture 2015H1



Source: GSO, BSC

The reason was that in the early months of the year, the demand for agricultural commodities was unstable from the main consumer markets. Meanwhile, the investment and supportive policies are inadequate to limit and overcome market shocks. In addition, bad weather created difficulties for the agricultural sector in 2015H1. The fisheries sector also has faced similar difficulties in the output consumer markets like the agriculture; particularly, the depreciation of the EUR makes exporting seafood more challenging. The forestry sector grows well ,however with less than 3% contribution in the value of all the

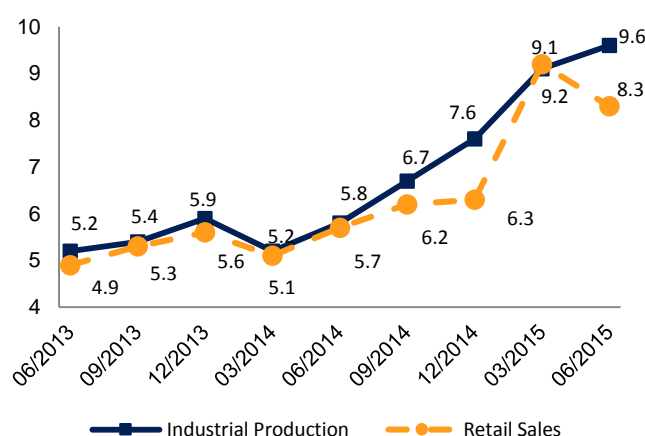
agriculture, forestry and fisheries, the sector could not improve much the growth of this area.

Areas	2015Q2	2014Q2
Agriculture, forestry and fisheries	2.36 %	2.96 %
Industrial and construction	9.09 %	5.33 %
Services	5.9 %	6.01 %

The other indices of production and consumption were promising, includes:

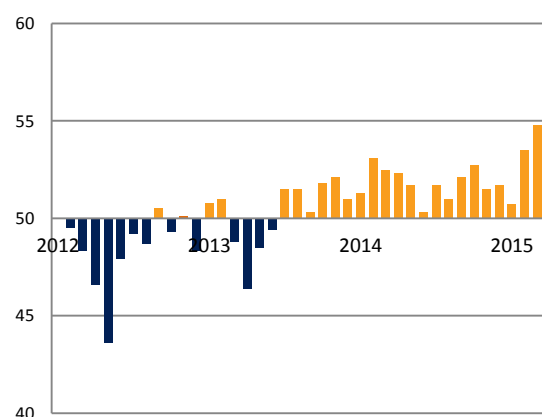
- PMI in 2015H1 remains at high levels, which reflects the prosperity of the domestic manufacturing sector. In particular, the PMI reached its highest record of 54.8 points in May/2015. In June, the PMI was at 52.2 points - marking 22 consecutive months of expansion (over 50 points) since August/2013.
- The index of industrial production (IIP) in 6 months increased by 9.6% yoy; IIP in Q1 increased by 9.3%; Q2 rose by 10.2% - a record high for Q4 growth in 4 years.
- Total retail sales of goods and services in 6 months is estimated at VND 1,572.1 trillion, up 9.8% yoy; the price-adjustment index rose 8.3%, higher than the same period of several years.

Chart 3: Industrial production & Retail Sales (%)



Source: GSO, BSC

Chart 4: Vietnam PMI



Source: Markit, HSBC, Nikkei

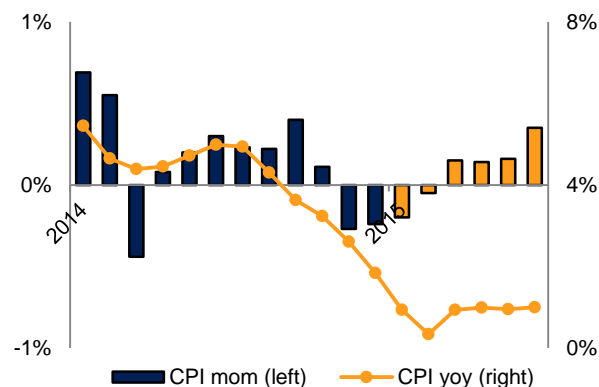
2. Inflation

In the first 6 months, the consumer price index (CPI) grew by 0.55% over the end of 2014 - equivalent to an increase of 1% yoy. This is the lowest inflation rate for 14 years.

The CPI in the first 6 months has followed closely the movement of world crude oil in general and the domestic gasoline prices in particular. The CPI in the first 02 months fell slightly as gasoline prices, domestic oil were at the lowest level (15,670 VND / liter for A92 gasoline). Then, CPI began to regain momentum during Mar – May with the average growth of 0.15% / month due to the recovery in domestic gasoline of more than VND4000/liter, which was caused by the global oil return to \$60/barral. CPI rose 0.35% in June, which mostly results from the increases of the petrol price with lagging effects. Therefore, the CPI rose by 0.1% each month by average - the lowest growth rate in many years.

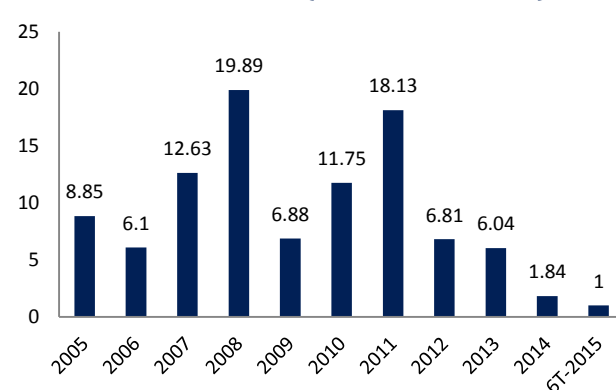
Another noteworthy point is that the low inflation this year wasn't caused by weak aggregate demand, since the GDP growth, production and consumption indices have increased strongly as indicated above. The reason for low inflation compared to the previous year mainly due to: (1) Gasoline prices fell: although there were 7 times of ups and downs in the first 6 months, the group of energy (oil+gasoline) prices still declined by 5% from the end of 2014; (2) the controllers & coordinators help meet the market demand and successfully stabilize prices even during the holidays such as Lunar New Year, Labour days, etc.

Chart 5: Monthly CPI (2014 – 2015Q2)



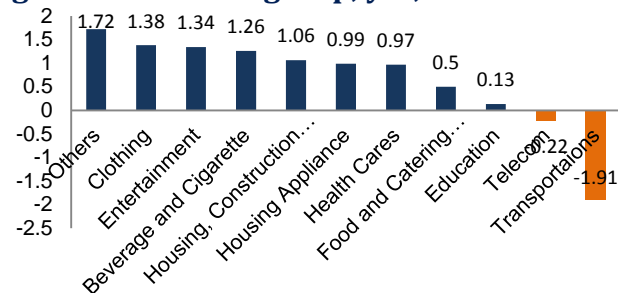
Source: GSO, BSC

Chart 6: Annual CPI (2005 – 2015Q2)



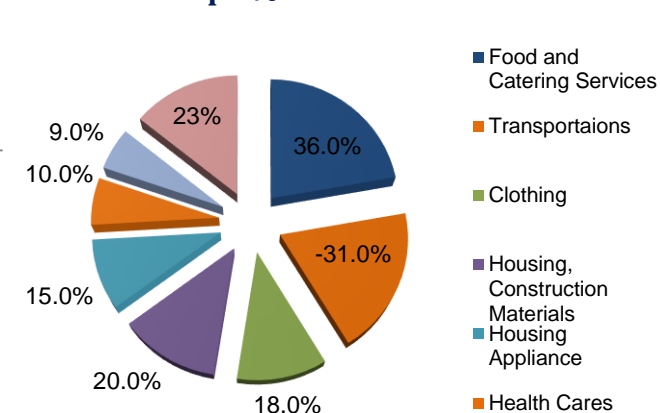
Source: GSO, BSC

Chart 7: Performance of sectors in goods & services group, ytd, 2015H1



Source: GSO, BSC

Chart 8: Groups % contribution 2015H1



Source: GSO, BSC

3. Foreign direct investment (FDI)

Overall, the status of attracting FDI in 2015H1 has the following highlights:

- No signs of major FDI projects in Q1, which significantly reduced the value amount of FDI registered, although the number of newly and additionally registered projects increased strongly by 200% compared with the same period in 2014. The total registered capital in Q1 was \$ 1.84 billion, down 45% compared to the same period last year.
- Although registered FDI in 2015Q2 showed significant improvement over the previous quarter, the growth of attracting new capital were more sluggish than last year. Specifically, in Q2 2015, Vietnam attracted \$3.65 billion, almost doubled the figure in Q1/2015 and slightly grew by 3.7% compared with Q2 2014. Cumulatively in the first 6 months, the amount of newly and additionally registered FDI capital has reached approximately \$ 5.5 billion, equivalent to over 80% of the same period of 2014.
- Ongoing FDI showed positive growth in Q2 2015. Specifically, FDI disbursements in 2015Q2 reached \$3.25 billion, up 6.6% over last quarter, and up more than 12% compared to Q2 2014. Cumulatively in the first 6 months, Vietnam received \$ 6.3 billion of direct investment capital disbursement, 9.6% more than the same period in 2014.
- 16 industries and sectors received foreign direct investment, which is 2 industries and sectors more compared with Q1/2015. Industrial, Processing, and Manufacturing sectors attracted the most investment, accounting for 76% of total registered capital. Real estate and Wholesale, Retail, and Repair respectively ranked the second and third with 8.5% and 5% of total investment capital.

Major projects licensed in the Q1 2015:

- Worldon Project, \$30M , British Virgin Islands, HCM, senior apparel;
- KMW Project, \$100M, Ha Quoc, Ha Nam, telecom equipment using radio, LED lighting devices;
- Regina Miracle International Project, \$90M additional capital, Hong Kong, Haiphong, producing female underwear;
- Vina Nam Phu Project, \$60.9M, Singapore, Ho Chi Minh, the real estate business

Major projects licensed in the quarter 2/2015:

- Project Hyosung Project, \$660M, Turkey, Dong Nai, production and processing yarns;
- Lu Thai colored fabric factory Project, \$160.8M, Hong Kong, Xining, producing yarn and colored cloth;
- Tra Vinh Wind Power Project 1, \$120M, South Korea, Tra Vinh, producing electricity from wind energy power, providing supply to the national electricity grid.

Newly registered FDI in the first half of 2015 fell to its lowest level in 4 years (The first half of the years from 2012 to 2014, Vietnam attracted respectively \$6.4 Bil, \$10.5 Bil, and \$6,8 Bil). Registered FDI halted right in the year Vietnam has made successful integration progress (TPP negotiations, signed a series of important FTAs, etc.) The reason was that foreign investors were waiting for the final changes of policies, the improvement of business and investment environment upon the successful integration process. In addition, Vietnam itself has some big macro developments (1) National Congress's 12th Communist Party of Vietnam in 2016 has important meanings for the economic outlook, the political and foreign policy in the future, and (2) A series of newly effected laws and decrees such as the Business Law and the Investment Law, etc will impact the investment environment.

The first half of 2015, Vietnam didn't have any largely capitalized projects. This is a fundamental difference in the movement of foreign investment between Q1 2015 and Q1 2014. Therefore, even the number of newly licensed and additional registered projects increased, the capital amount attracted is 20% lower than 2014H1. The figure \$5.5 billion of current FDI is significantly lower than the forecasted FDI of \$ 18 billion and the targeted FDI of \$ 23 billion, set by the Ministry of Planning and Investment.

Chart 9: FDI Capital (\$ Bil) (Q22014–2015Q2)

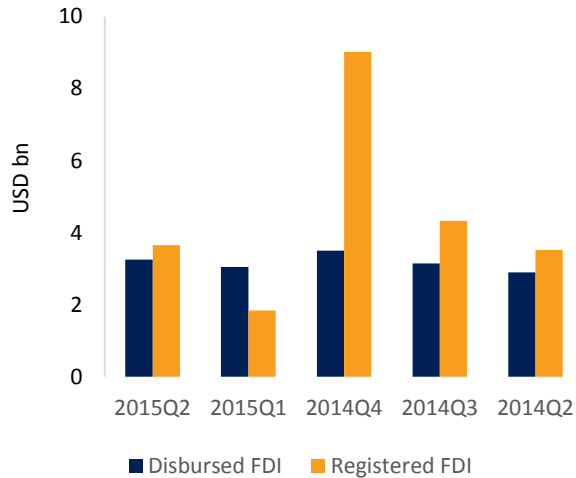
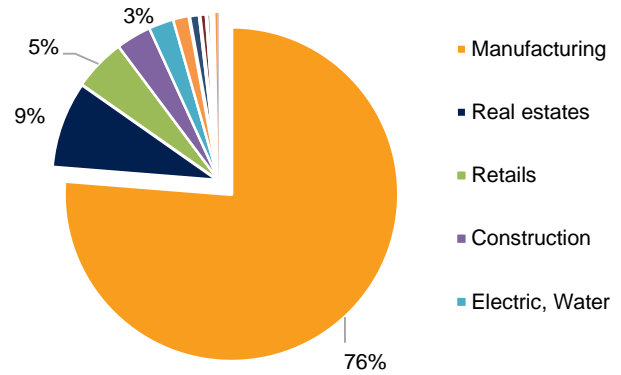


Chart 10: Structure of FDI investment (accumulated to March 20th 2015)



Source: GSO, BSC

Chart 11: FDI capital by partner accumulated until June 20th 2015 (\$ Bil)

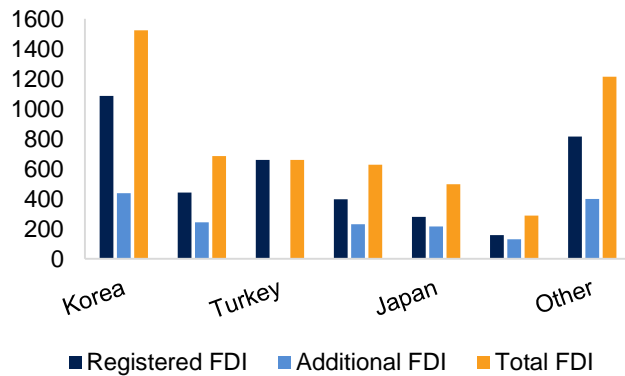
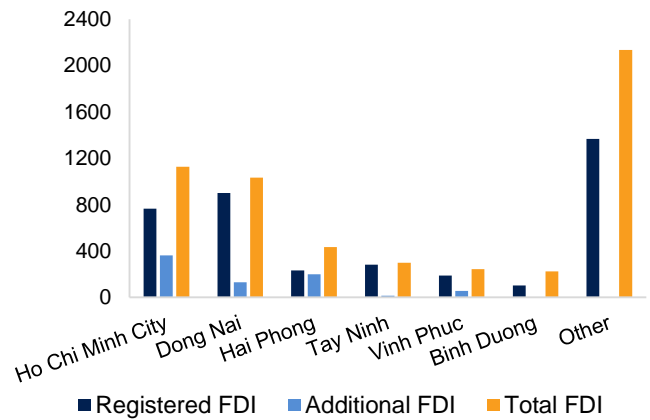


Chart 12: FDI Capital by geography accumulated until June 20th 2015 (\$ Bil)



Source: FIA, BSC

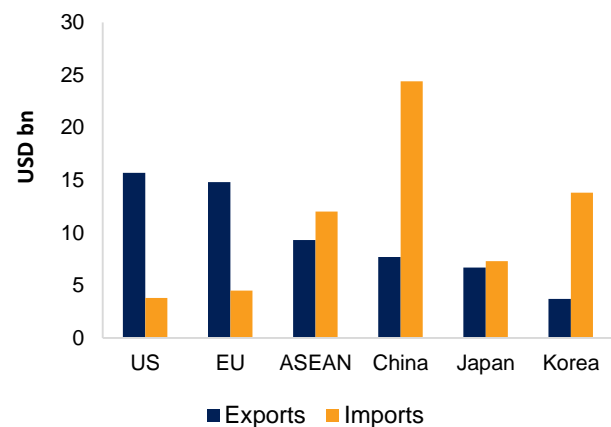
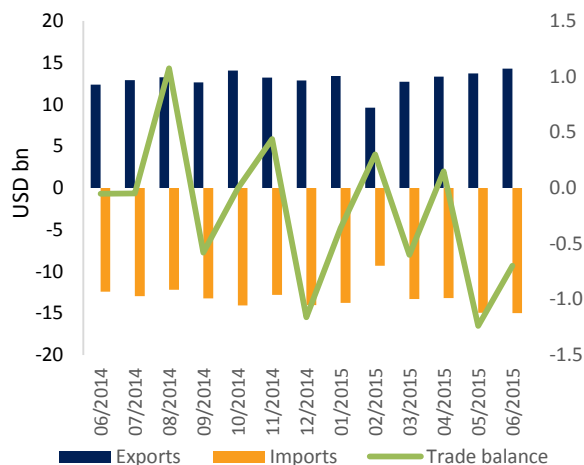
2015Q2, Vietnam attracted investments from 15 countries more, bringing the total number of countries investing in Vietnam to 48. Countries with the biggest investments are South Korea (\$1.5 billion), Virgin Islands (nearly \$0.7 billion), and Turkish (nearly \$0.7 Billion).

4. Trade balance

Export - import status in Q2 and 2015H1:

- **The trade deficit was \$1.95 Billion in Q2**, which is the 2nd consecutive quarter with trade deficit, and widens Vietnam's trade deficit to \$ 3.75 billion in the first 6 months 2015, equivalent of 4,8% of total export. The balance of trade is under heavy influence of the trade deficit value of domestic companies (estimated at \$ 9.8 billion deficit), which couldn't offset the \$ 3.9 billion trade surplus from FDI companies. Thus, the trade deficit increased compared to last quarter.
- **Exports reached \$42 Billion in 2015Q2, up 17.6% over the previous quarter.** In 6 months, total exports were \$77.7 Billion, up 9.3% from 2014H1. Nearly 68% of the total export value was contributed by FDI enterprises.
- **Imports reached \$44 Billion in Q2, up 17.3% compared to Q1/2015.** Accumulatively, in 6 months, Vietnam imported \$81.5 billion, up 17.7% over the same period of 2014. FDI companies imported a major portion worth \$48.8Bil, equivalent to nearly 60% of total imports.

Chart 13: Export & Import Trade balance (\$ Bil) (6M 2014 – 6M2015) **Chart 14: Export market (\$ Bil)**



Source: GSO, BSC

Source: GSO, BSC

FDI sector continues to be the driving force for export growth in 2015Q2as well as 2015H1. The Processing industry was a key group to the total exports value. Export products are mainly the processed food thanks to cheap labor; the number of items with high value is limited. Even though being the main sector in export, FDI companies mainly use raw material imported from their country or from the company's network, which leads to limited actual benefits to Vietnam from FDI sector. Meanwhile, local companies

substantially imported, while exports are not high due to exports of agricultural, forestry, aquaculture, commodity group fuels, mineral commodities fell sharply compared with same period of 2014. This weakness cannot be overcome in the context of Vietnam's industrial sectors are still weak, while the ancillary industries which have considerable potential to leverage the power of FDI are still lacking and underdeveloped.

Imports rise as demand for raw materials for production, processing and consumption increased sharply. Vietnam mainly imports machinery, raw materials for production and processing. In addition, consumer demand, especially in the automotive, vehicles, and computers surged in recent years and has a considerable impact on imports in Q2.

Exports and imports in Q2 increased compared with Q1 due to the second adjustment of exchange rate in May end. In addition, the production for exports has returned to normal rate after the holiday period in Q1.

In the structure of export commodities, exports of key items (phones, footwear, seafood, etc.) and agricultural commodities have strong performance in Q2. The proportion of heavy industry, mineral and light industry in Q2 quarter is slightly lower than Q1/2015, but still accounts for a major part of export exports (81.5% in Q2 compared to 86% Q1). Industrial commodities that have declined sharply Q1 are Rubber (-21%), Coal (-52%), Steel (-9%) and Cable (-13%). The proportion of agricultural, forestry and fishery improved significantly, especially rice, cashew nuts, and pepper.

Import structure showed high volatility: consumer goods increased in proportion. The proportion of capital goods, raw materials group fell to 47% and 41% respectively. By contrast, the share of consumer goods increased. However, capital goods production group still accounts for the majority of imports.

Chart 15: Top 10 export items 2015Q2 (\$ Bil)

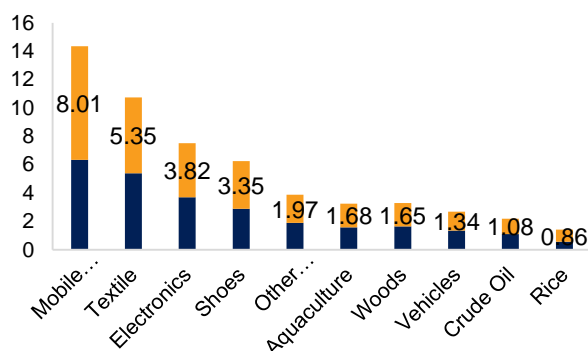
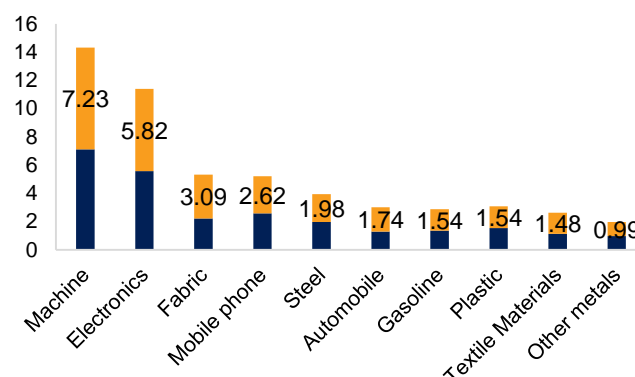


Chart 16: Top 10 import items 2015Q2 (\$ Bil)



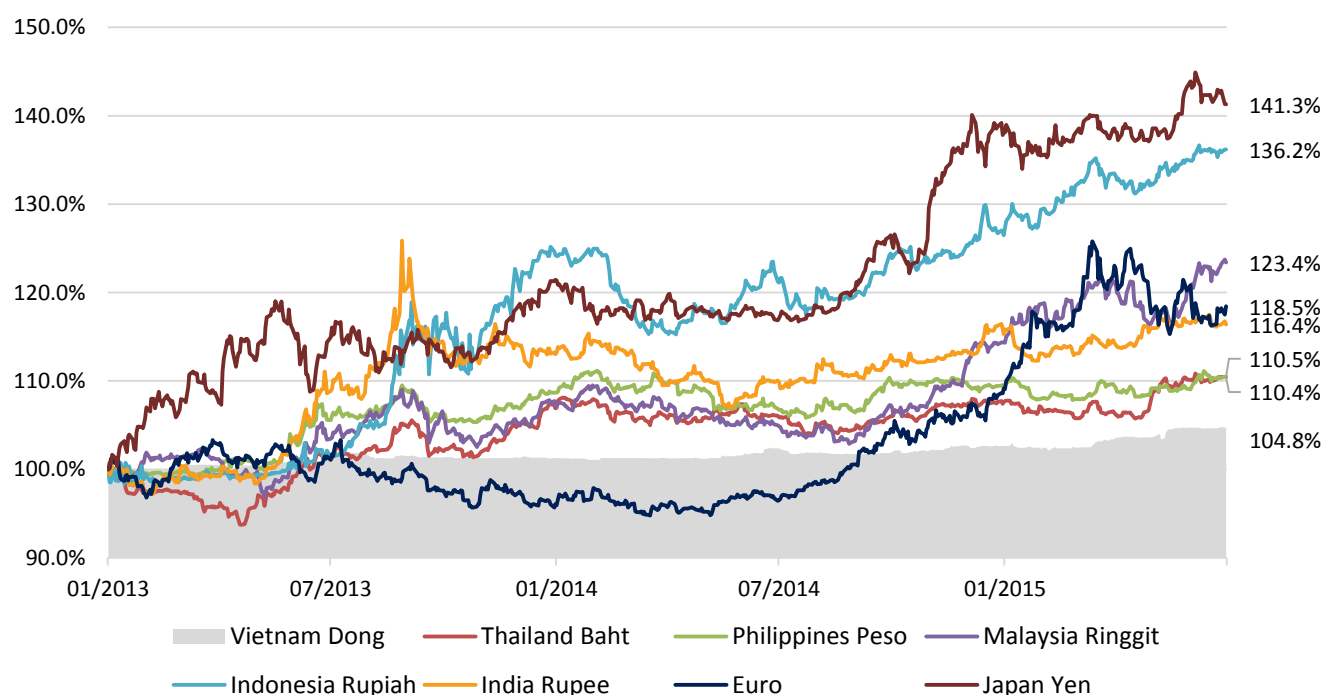
Source: GSO, BSC

In terms of export markets, though Vietnam have reduced its dependence on EU and the United States, these remain the two largest markets for Vietnam export, with the export amount reached nearly \$30.5 billion in the first 6 months, accounting for 39% of total export 2015H1. This, however, is a decline from the figure of 50% total exports in Q1 2015. China remained the largest market for Vietnam's imports with the amount of \$24.4 billion, equivalent to 30% of the total import amount in 2015H1.

Assessing the deficit situation:

Vietnam has returned to deficit trade, the first time after three years. From 2011 to 2014, Vietnam had trade surplus thanks to (i) the high rate of export growth in FDI sector, (ii) strong growth of export products such as electronics, agricultural and forest, and mineral fuels, and (iii) The slowdown in consumer import growth. With all of these reasons, Vietnam had 3 years of trade surplus, supporting to the foreign exchange reserves. However, in 2015, these factors are no longer strong due to the decline in VND's competitiveness compared to other export countries' currency, a consequence of high USD appreciation. Exports to the European market fell sharply due to the decline of EUR, which caused Vietnam-made goods became more expensive. In addition, imports of fuel, raw materials, machinery and capital goods increased to serve export production. Therefore, imports are affected first, resulting in a deficit in 2015H1.

Chart 17: Correlation of exchange rates (Q1 2013Q1 – Q2 2015)



Source: Bloomberg, BSC

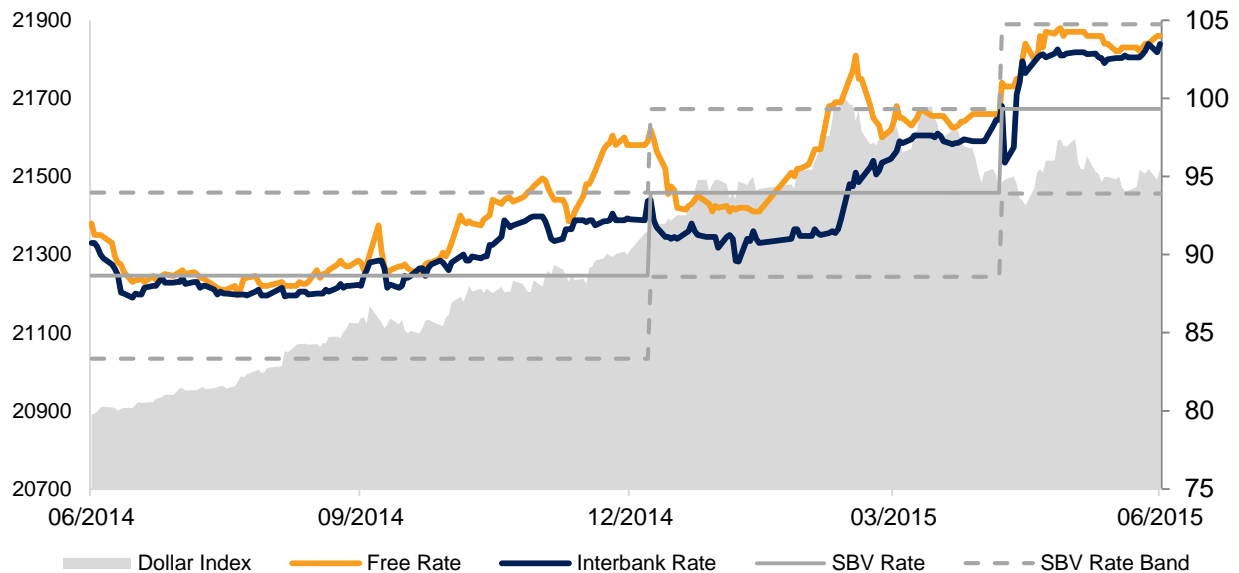
The current deficit is not too alarmed, compared to the period 2007-2010 with the 2-digit deficit. However, it requires our concern since the persistence of trade deficit at high level often negatively impacts the economy and the monetary policy management. ***First, the prolonged deficit at high level could destabilize the national payment balance***, creating pressure on the foreign currency supply and demand, which potentially results in an unstable exchange rate. ***Consequently, a second negative impact is the pressure of depletion of foreign exchange*** since state bank has to sell the foreign currency to meet market demand. **Third, the consequences from the deficit cause higher volatility in the expenditure of foreign currency in the banking system. Fourth, the deficit results in difficulties for the central bank in managing long-term monetary policy.** The target for inflation and growth become more difficult to control due to volatility. CPI is under strong influence from the price of imported goods. Interest rate, therefore, fluctuates at high level, detrimental to the economy's access to credit sources.

5. Foreign exchange markets, exchange rate

Notable developments in the exchange rate in 2015Q2:

- **April 2015, the exchange rate close to the ceiling.** Free rate and the average interbank rate were 21,650 VND / USD and 21,593 VND / USD respectively. Allowed amplitude of rate ceiling / floor at the time was about 21243-21673 VND / USD.
- **May 2015, exchange rate fluctuated and suddenly reached the ceiling on the 7th. That same day, the central bank devaluated the VND by 1%,** bringing the average exchange rate the interbank up to 21,673 from 21,458 VND/USD earlier. The new trading range for USD/VND was 21456-21890 VND/USD. USD/VND interbank exchange rate dropped dramatically, followed by a quick surge to the 21765-21825 VND/USD in the rest of May.
- **June/2015, the exchange rate remains stable, fluctuating in a narrow region near the ceiling rate.** Specifically, the average rate of interbank ranged between 21805-21840 VND / USD while the free exchange rate was traded in a range of 21820-21870 VND / USD.
- **In the second half of Q1, the exchange rate slightly increased because the USD on the international foreign exchange market rose sharply.** The cause lies in the plan to raise rates of the Federal Reserve USA (Fed) in the context of the US economy have showed positive changes signs since the termination of the quantitative easing package QE in Oct 2014. The possibility of the Fed to raise interest rates attracted capital inflows on the dollar, causing the currency to strengthen, thereby putting pressure on the VND/USD exchange rate. The free USD price has increased dramatically to 21,810 VND / USD in middle of March.

Chart 18: Exchange Rate movements (2014Q3–2015Q2)



Source: Bloomberg, SBV, BSC

If the USD price trend in the world dominated exchange rate fluctuations in Q1, the two new elements are: (i) higher prices of free USD/VND combined with (ii) concerns about 2015 trade deficit significantly impacts to the uptrend of the dollar in Q2. Despite the USD-index, which represents the power of the dollar on the foreign exchange market, has been down since the beginning of April, the domestic USD showed opposite movements. Concerns about declining foreign reserves since deficit has come back in 2015, the market expected the State Bank will soon adjust the exchange rate by the remaining 1%. Consequentially, the free dollar price increased, creating pressure on interbank rates.

6. Banking system & Interest rates

In 2015H1 the banking system has many noteworthy developments, including:

Credit growth in 6-month reached 6.28% ytd, which nearly doubles the growth rate last year (3.72%), reflecting the improvement in domestic business and production activities which lead to the increase in capital requirements. Another factor was the bond market (a competition channel with credit) was less attractive due to low bond yields and long-term maturity (5 years or more). Meanwhile, deposit growth increased by 4.58%, somewhat lower than the 5.26% of last year.

However, liquidity in the system has remained stable. The interbank interest rate fell slightly compared with the end of 2014, except for the 6-month term. Specifically, the average overnight rate in June decreased by 0.29% to 3.13%; the 1 week - 2 weeks terms decreased by 0.2% to 3.41% - 3.79%; 1- 3 month terms were almost unchanged, staying at 4.09% - 4.44%; 6 months - 1 year terms increased by 0.17% to 4.7% - 4.8%.

Interbank interest rate (2014 – 2015M6)

Terms	End of 2014	2015M6	Net
ON	3.42	3.13	-0.29
1 W – 2 W	3.63 – 3.83	3.41 - 3.79	-0.2
1 M – 3 M	4.1 – 4.37	4.09 - 4.44	-0.07
6 M – 12 M	4.47 – 4.63	4.7 – 4.8	-0.17

The total means of payment (money supply) rose 5.09% ytd, a little lower than the same period in 2014 (6.37%). Thus, the money supply growth in 2015 is expected to be close to the last year figure of about 18% - 20%.

Chart 19: M2 growth rate

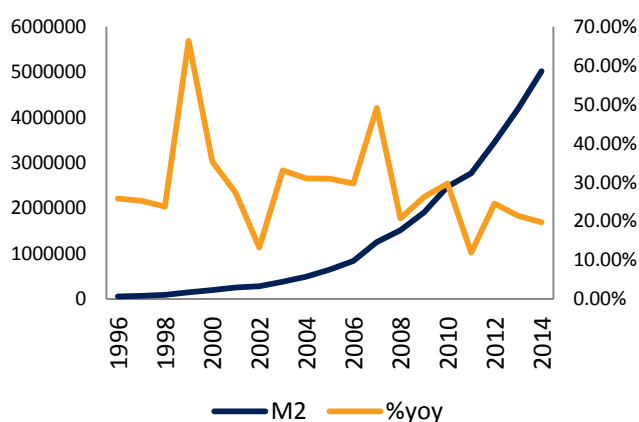
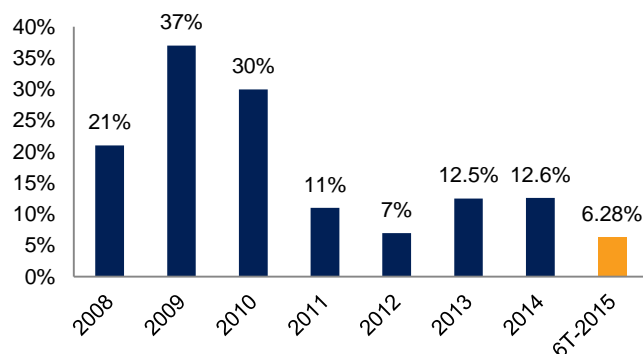


Chart 20: Credit growth rate



Source: SBV. GSO. BSC

The policy rates, cap for deposit interest rate in VND, USD, cap for short-term lending rate in VND for priority sectors remain stable.

Policy rates

Refinancing rate	6.5%
Discount rate	4.5%
Cap for deposit interest rate in VND 1M to < 6M	5.5%
Cap for deposit interest rate in VND demand term to < 1M	1%

The interest rate for the first 6 months continued to decline by 0.2-0.5% compared to last year, in which deposit rates fell by 0.3-0.5% depending on the terms. Lending rates fell slightly, by about 0.2-0.3%, and is currently around 6-9% for short-term and 9-11% for medium and long term.

Deposit rates (2014 – 2015M6)

Terms	End of 2014	2015M6	Net
VND demand and under 1M	0.8 – 1.0	0.8 – 1.0	0
1M – under 6 M	5 – 5.5	4.5 – 5.4	-0.5
6 M – under 12 M	5.7 – 6.8	5.4 – 6.5	-0.3
Above 12M	6.8 - 7.5	6.4 – 7.2	-0.4
USD for individual	0.75	0.75	0
USD for institution	0.25	0.25	0

Lending rates (2014 – 2015M6)

Terms	End of 2014	2015M6	Net
VND short term	7 - 9	7 - 9	0
VND mid & long term	9 - 11	9 – 11	0
USD short term	3 - 6	3 – 5.5	-0.5
USD mid & long term	5.5 - 7	5.5 – 6.7	-0.3

However, since the end May until now (June), the deposit rates have followed an upward trend to increase slightly by 0.1 - 0.5% in some terms. For example, in MB the deposit rate was up by 0.1 - 0.2%; ACB raised interest rates in the long term of 12, 24 and 36 months upto 6.2%, 6.5% and 6.7% respectively. DongABank. HD Bank increased interest rates higher by 0.2 - 0.5%. Some state-owned banks also increased deposit rates. At Agribank, rates for term of 18 and 24 months rose 0.3% - 0.5%. BIDV increased by 0.2 - 0.5% deposits of 1-3 months and 12 months. **The reason came from:** (1) Economic recovery creating more investment opportunities, forcing commercial banks to raise deposit rates to keep the depositors from transferring money other investment sectors; (2) After pushing up selling bad loans to the VAMC, banks have to raise capital to regain liquidity; (3) Some banks raised rates to catch up with others; (4) Partly due to a slight imbalance when deposit growth is lower than credit growth.

VAMC continues to buy bad loans from the banks. Accumulated since the beginning, the VAMC has bought VND143,800 billion of bad debt, which helped reduce banks' bad loans. Moreover, as Decree 34 amending some articles of Decree 53, the VAMC charter capital

increased 4 times, buy and sell debt in market value... The central bank's objective is to assure the whole system bad debt below 3% by the end of this year.

Promote restructuring the banking system through pushing M&A. In 6 months, a series of acquisitions and mergers are conducted especially in April/2015. Typical cases were the merger between Joint Stock Commercial Bank for Industry and Trade of Vietnam (VietinBank) and PGBank; and between Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV) and Joint Stock Commercial Bank for Mekong Delta Housing Development (MHB).

The central bank buys back weak banks. Construction Commercial Bank of Vietnam (VNCB), Ocean Bank (OCB), and the Commercial Bank Global Petroleum (GPBank) were bought back by the central bank to ensure the rights and interests of depositors. These banks had negative capital and couldn't get shareholders to add capital to meet VND 3,000 billion legal capital. With support from the management of the VietcomBank, VNCB was renamed to CBBank and operate again. OceanBank get support from VietinBank and also converted into Bank Limited owned 100% by the State.

7. Fiscal Policy

- **State Budget**

The total State budget revenue in 2015H1 was estimated at 446.12 trillion, equal to 49% of the annual target and up 6% compared to the 2014H1. Domestic revenue was estimated at 328.18 trillion, which was 51,4% of the annual target and increased 15.4% over the same period in 2014. The number reached a high record due to (1) the recovery of direct revenues from production and business activities (2) reduction in losses due to synchronous and effective solutions to improve the quality of revenue management. Revenue from export reached 125.5 trillion, an increase of 5.1% over the same period last year, and partly offsetted the reduction in revenues from crude oil of 34.5% compared to the same period in 2014.

State budget expenditure in 6 months was estimated at VND 554.18 trillion, 47.5% of the annual target, which increased 8.2% over 2014H1. Development & Investment expenditures reached VND86.6 trillion, 44.4% of the annual target; Aid, debt payment was 75.95 trillion, 50.6% of the annual target; Economic, social activities and national defense, security, administration was 378 trillion, 49.3% of the annual target.

6 month accumulated budget deficit was VND 99 trillion, 43.8% of the annual target. In 6 months, nearly VND100 trillion of government bonds have been issued, approximately 36.8% of the annual target, to offset the budget deficit and to serve investment and

development. The budget deficit is expected to be 5% of GDP in 2015, then gradually declines to 4% of GDP in 2020.

- **Strengthening the tax reform**

In June/2015, the Ministry of Finance issued Circular No. 96/2015 dated 06/22/2015 guiding the corporate income tax in Decree No. 12/2015. At the same time, the Finance Ministry has instructed the tax authorities at all levels expanded the deployment of focused tax management technology for the remaining 36 Tax Department as well as the wide application of electronic tax payment on a national scale. With solutions deployed from earlier this year. The Finance Ministry said will reduce the hours of tax-payment by 50 hours, thereby meeting and exceeding the goals that Resolution 19 of the Government has set about reducing the hours of tax returns for taxpayer down to 121.5 hours in 2015.

- **Public debt**

Target of public debt according to the Ministry of Finance will be 64% in 2015, 64.9% in 2016, 64% in 2017 and decreasing to 60.2% in 2020, all of which are still within safe level (65%). In terms of the debt payment, the percentage of government direct payment within total state budget revenues remained at a safe level, which is required to be no more than 25%. In 2015 the figure is expected to be 16.1%. In addition, the implementation of the public debt restructuring has yielded positive results. Implementing the resolutions of the National Assembly, the Government has instructed the Ministry of Finance to actively extend term bond, which helps gradually reduce short-term debt pressure and therefore decline debt swap. Specifically, the government aim to reduce and eventually stop issuing notes and short-term bonds, instead focusing mainly on 5 years to 15 years bonds. The implementation will initially restructure the portfolio of government bonds.

However, public debt still has some certain restrictions. (1) Public debt is increasing rapidly with unsustainable debt structure; (2) The public debt management remains fragmented and uncoordinated; (3) The mobilization and usage of loans are widespread, and not linked to the public debt limit; (4) The checks and inspections is not frequent, effectiveness of some projects remains low.

MACRO OUTLOOK FOR 2015 H2

1. GDP Growth

The economy in second half of 2015 is forecasted to continue its positive growth. Exports is likely to increase over 10% and strongly contribute to economic growth thanks to the free trade agreements. Production and consumption are expected to continue to improve thanks to the low levels of price and input costs.

The international organizations also have optimistic views on Vietnam's economy in 2015. The World Bank raised its forecast for GDP Vietnam in 2015 to 6% from 5.5%. The IMF also raised its forecast by 0.4% to 6%. ANZ is the most optimistic with the belief that Vietnam can exceed 6.5% growth in 2015.

Besides, in recent years, GDP growth has been always higher in the later quarter of the year. Therefore, on the basis of 6.28% GDP growth for first half of the year, the target of 6.2% GDP growth in 2015 set by the Government is feasible, may even be a little low.

2. Inflation

Inflation in the first 6 months 2015 was really low with CPI increase of only 0.55% from the end of 2014. In 2014, inflation reached 1.38% in the first 6 months and 1.84% for the whole year. Therefore, the inflation this year may remain at a low level and in case the global oil prices are slow to recover, the 2015 inflation in 2015 can stay at 2%.

By the end of Q2 2015, the WTI oil price stayed around \$60/barrel; the Brent oil price was at 64 USD/barrel, an increase of about 20% YTD. However this recovery trend has reversed and met strong resistance at around \$ 60/barrel. The reason was that at this price, gas and oil companies could increase the supply again. Moreover, the European debt crisis, especially the Grexit risk, is a factor hindering the global oil price. Additionally, the agreement on Iran's nuclear program may entail the Western countries to lift sanctions and allow Iran to increase oil exports to the global market.

According to the Bloomberg survey, the forecasted WTI oil price will be around \$ 60/barrel in Q3 2015 and increased slightly to \$63 USD/barrel in Q4 2015. With the oil price is expected to fluctuate around \$60/barrel, the domestic gasoline & oil prices can be stable, which keeps inflation for 2015H2 at low level.

According to BSC's quantitative forecasting model, the CPI growth in Q3 and 2015Q4 will be respectively at 0.84% and 1.7% yoy.

Inflation forecast in the coming quarters in 2015

2015	Q1	Q2	Q3 F	Q4 F
Inflation (%CPI yoy)	0,93%	1%	0,84%	1,7%

3. Foreign Direct Investment

The outlook of FDI in the next period remains positive. The stable growth trend of disbursed FDI was the obvious evidence for the FDI promising outlook. Simultaneously, the FDI in the last 6 months of the year will be supported by the following factors:

- **Vietnam's unceasing efforts to global intergration:** In Q2 2015, VKFTA (Vietnam - Korea) was officially signed, opening the door to trades and investments. Korea currently is the leading countries in providing FDI in Vietnam. The 13th round of negotiations for EVFTA (EU - Vietnam) obtained positive results with the route to finalize the negotiations. TPP certainly has some advantages to be finalized in 2015. In this context, Vietnam provides investment attractiveness compared to other countries in the region.
- **Investment and business environment improved significantly.** In July of 2015, many new laws have come into effect, including: Enterprise Law, Investment Law, Housing Law, Real Estate Trading Law... The new legislations are to ensure the principle of equal treatment and to protect the right and interest of investors. They also significantly cut administrative procedures and remove the business barriers. In addition, Vietnam is trying to set up the targets for the business environment to achieve and exceed the average level of ASEAN-6 countries in 2015, reaching the average level of ASEAN-4 countries in beginning of 2017.
- **Attractiveness by monetary stability:** Vietnam now is a country with a stable monetary policy in the context of widespread uncertainty in the EU, China ... or among countries executing easy monetary policy in the region.

4. Trade, export and import

Trade deficit trend will continue to increase in the coming quarters, as mentioned **Macro and Stock market Strategy Report 2015**. The trade balance deficit will be probably \$7-8 billion at the end of 2015. The activities of importing capital goods, raw materials, fuel for production of export goods will continue to grow. The changes in commodity prices may fall due to the volatility of global economy in 2015H2, thereby partly restraining the import growth as well as trade deficit.

Another remarkable factor is the problem of the Chinese economy in recent quarters, especially the credit easing method, the policy to devalue the yuan in order to boost the economy and restrain the collapse of China's stock market. The impact of the yuan devaluation is detrimental to Vietnam's export to this market. In addition, the weakening economy caused the plunge of China's domestic consumer demand, which fosters China exports to other markets, including Vietnam. In Vietnam, some industries that import raw materials from China, such as textiles, footwear will significantly benefit from the price decline. In contrast, the rest of Vietnam's economy will suffer competitive pressure. The tendency to increase trade deficit with China will definitely increase.

5. Foreign exchange market and exchange rate

Exchange rate in the next quarter will maintain its stability within 21.750 – 21.890 VND/USD. Even though State Bank's tools to control foreign exchange rate are limited, market sentiment that puts upward pressure on the dollar has subsided due to the unlikeliness of SBV to break the 2% exchange rate amplitude in 2015. The factors that affect the uptrend of USD in Vietnam will largely depend on Vietnam's trade balance movements and USD movements in the world.

Globally, USD has increased since the year beginning, which puts an upward pressure on USD/VND exchange rate in mid-term. In the context of the big fluctuations of the global financial market and economy, including the European debt crisis, the Grexit risks, the problems in Chinese economy, the slowdown U.S. growth, etc., the Fed could delay rate increase until Q4. These factors will constrain the USD's appreciation.

In Vietnam, the trade deficit has kept the dollar demand at a high level. However, the improvement in trade balance and SBV's objective to stabilize the exchange rate will ensure that the exchange rates will stay balanced in the next quarter.

6. Banking system & Interest rates

Some banks increased deposit rates primarily due to an imbalance between deposit and credit in short-term. In the long term, low inflation (expected to be around 2%) is still the foundation to support for low interest rates. In addition, we believe the credit growth plan will be regulated by the State Bank, a guarantee for the annual credit not to rise sharply and maintain at around 13% - 15%. However, not solving promptly the underlying causes can make the problem become serious, leading to a race among banks in the interest rates which will affect SBV's policy of lowering the lending interest rate. Recently, representatives of SBV, Deputy Governor Nguyen Thi Hong confirmed that in the coming period, the SBV will continue to regulate the amount of liquidity in the system and

coordinate with the Ministry of Finance to issue treasury bills and government bonds to ensure the initial objectives.

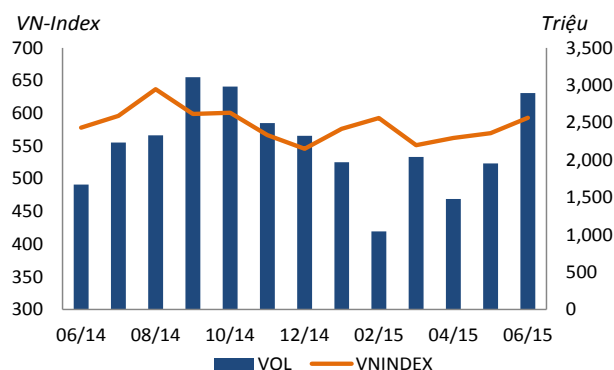
With respect to the banks' M&As in the coming quarters, Maritime Bank (MSB) is expected to complete the M&A with MDB in July/2015. The M&A between Sacombank and Southern Bank is to be approved by the central bank in Q3. The procedure after M&A such as arrangement branch network, arrangement of personnel management and administration, etc. will be implemented in Q4. Regarding personnel, Sacombank is expected to keep the same structure as its existing personnel, and will add more capable staffs and highly professional managers from Southern Bank. The swap ratio of shares will follow at 1: 0.75, ie 1 share of the Southern Bank will swap with 0.75 shares of Sacombank.

Besides, there is non-official information about the M&A between Eximbank with SouthAsianBank (NamA-Bank), EastAsianBank (DongA-Bank) with ABBank or SaigonBank with Vietcombank, etc.

STOCK MARKET MOVEMENTS in 2015Q2

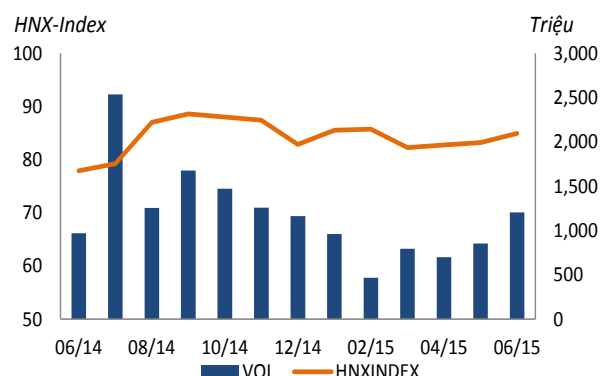
The market moved as the sinusoidal model in the first 6 months with the next peaks and troughs higher than the previous peaks and troughs. The two indices increased in the consecutive 3 months, though the rise did not reflect the level of the complexity in the volatility of the indices in Q2. The two indices have declined to its bottom at first half of May before strongly rebounding to approach the peak of 6 months. The decline in May was caused by the fear derived from negative news such as the COSLProspector rigs will operate in the South China Sea, the exchange rate and gasoline prices continued to increase. However, we did have some good news: (1) Open the room for FDI, (2) Congress authorized TPA for President to accelerate TPP and (3) The draft of amendments to Circular 74. The expectation from positive impacts from the news supported the bull market in June. In June 30th, the VN-Index closed at 593 points (up 7.6% in Q2), while the HNX-Index closed at 84, 9 points (up 3.1% in Q2). In 6 months, the VN-Index and the HNX-Index increased respectively by 8.6% and 2.2% YTD.

Chart 21: VN-Index Movement



Source: HNX, HSX, Bloomberg, BSC

Chart 22: HNX-Index Movement



Source: HNX, HSX, Bloomberg, BSC

The market movements in the first 6 months were fairly complex and divided into 3 notable periods of up and down:

- **The increase phase** (VN-Index increased by 10% from 01/01/2015 to 03/04/2015): After nearly 3 months of declines due to the downtrend of oil and gas stocks, the market rebounded by the buying of foreigners, with the lead from banking stocks. The uptrend was interrupted only in 4 sessions from 29/1 to 3/2 due to the psychological impact of Circular 36. The psychological factor has boosted up the sell-off activity, which caused banking stocks plunged to floor price and affected strongly the market trend. After that, the strong buying activity of foreign investors helped the market

to recover and reached the peak at 600 points. The liquidity declined by 18% compared to the same period of last year with only VND 2,200 billion per session as the domestic trading activity fell sharply.

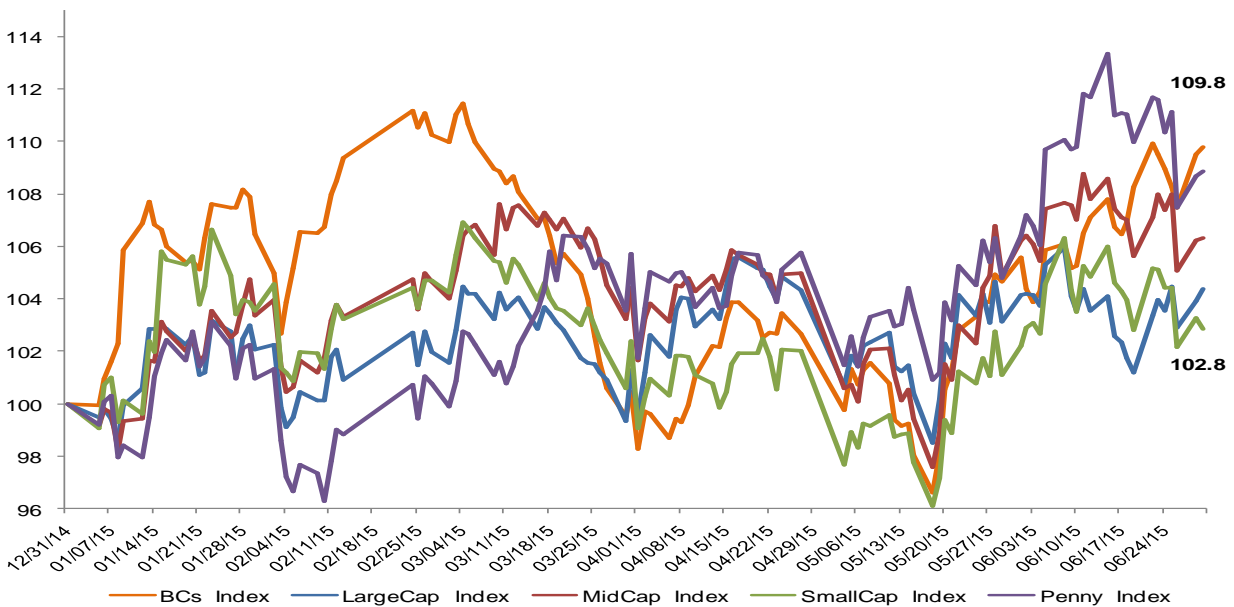
- **The decrease phase** (VN-Index dropped by 11.8% from 4/3 to 18/05/2015): At this stage, the market had a slight recover between 2 downtrends. In the first downtrend, foreigners boosted their sales in the Oil & Gas stocks; the ETFs withdrew capital, causing the market declined rapidly to its level at the beginning of the year. Liquidity declined along with the limited bottom fishing activities leads the market to a spiral of decline. The VN-Index fell from 600 points to 539 points and lost 14 points in 19 sessions. At the end of April, foreigners unexpectedly resumed their buying activities, which increased the index by 5.5% to 568 points with low liquidity. However, after a long holiday, the VN-Index suddenly turned bearish due to news concerning the COSLProspector rig that will operate in the South China Sea. The consecutive bad news about rising gas prices and increasing exchange rate by more than 1% plunged the market to its new bottom at 529 points. The liquidity of this period was only VND 2,080 billion per day, down 20% compared to the same period of last year.

- **The increase phase** (VN-Index increased by 12% from 05/18/2015 to 06/30/2015): The market rose sharply thanks to rumors about opening room and shortening transaction time. Domestic and foreign investors increased their buying activities. The banking stocks continued to be the market mainstay, while the cash flow continuously circulated through large stock groups such as oil and gas, real estate, steel, seafood, etc. All of these factors created momentum for the VN-index and liquidity surged by 35% compared to the same period of last year to VND 2,700 billion.

Despite the complex volatility of the indices in the first 6 months, the indices remains its uptrend in the medium-term and long-term from the 2012 thanks to Vietnam's macroeconomic stability and growth, as well as the improvements in business activities of listed enterprises.

In terms of sectors, the Blue-chips led market and had the highest growth in the first 6 months. After 3 months underperforming the market, in June, Blue-chips had a spectacular growth of 4.9%, outperformed the remaining sectors such as Penny stocks (3.9%), Small Cap (1.7%), Mid Cap (1.4%) and Large Cap (1.2%). In 6 months, Blue-chips led the market with an increase of 9.8%, followed by Penny stocks, MidCap, and SmallCap LargeCap with the growth respectively of 8.9%, 6.3%, 4.4% and 2.8%. These data shows that Blue-chips had the best performance in the first 6 months and strongly influenced the general market movements.

Chart 23: Evolution of the stocks in the first 6 months

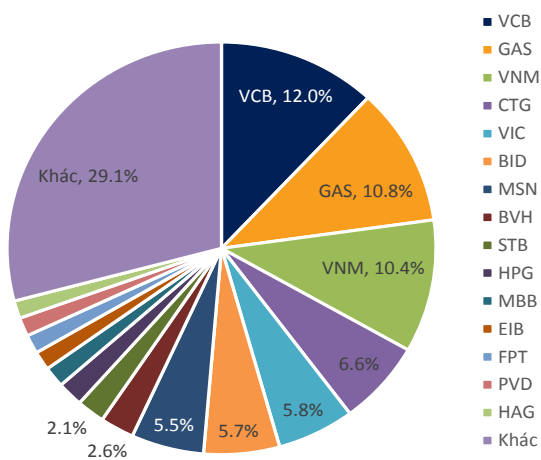


Source: Bloomberg, BSC Research

In terms of the proportion of capitalization, the banking stocks had the major influence on the index and also had the best growth. 15 stocks with the largest size accounts for 70.9% of the total market capitalization, and decided 70% of the market trend. 6 banking stocks represent 29.5% of market capitalization, including Vietcombank (12%), CTG (6.6%), BID (5.7%), STB (2.1%), MBB (1.6%) and BID (1.5%). The capitalization proportion of banking group increased sharply from 22% to 29.5% in Q2, which strongly affect the market trend.

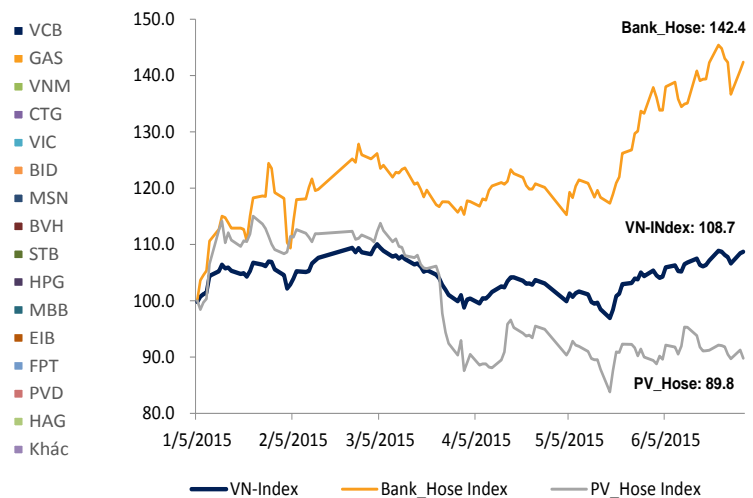
The banking stocks on HSX had the best growth of 42.4%, contributing 47.5 points for the VN-Index since the beginning of the year. With a strong increase, the banking stocks have outperformed the 8.6% growth of VN-Index and the 10.1% reduction of the oil and gas stocks. In terms of score, the banking stocks contributed 47.5 points to the market in the first 6 months (specically VCB +24.8 points, BID +14.4 points, CTG +7.1 points). Meanwhile, the oil and gas stocks reduced 10.5 points of the market (GAS -8.5 points, PVD -1.9 points). Furthermore, HPG, DHG, KDC and PPC respectively took 2.5 points, 1 point, 1 points and 0.9 points from the market.

Chart 24: Proportion of 15 largest stocks in the VN-Index



Source: HNX, HSX, Bloomberg, BSC

Chart 25: Evolution of the key sectors in the VN-Index



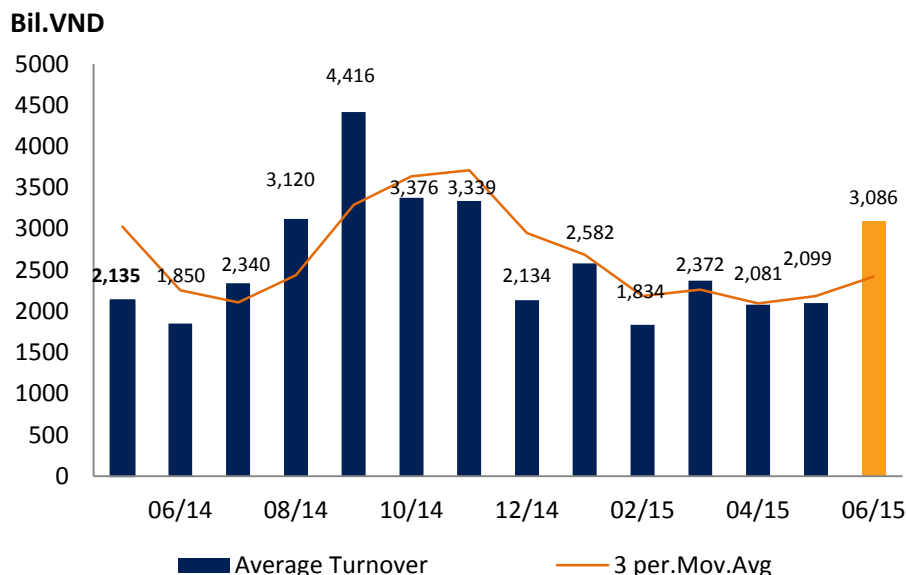
Source: HNX, HSX, Bloomberg, BSC

In terms of market capitalization, the market scale reached \$1.248 trillion or VND 57.1 billion, up 8.4% YTD. In 6 months, new listing activities amounted \$1.4 billion capitalization, including DCM \$320 million USD, NCT \$121 million USD, \$46 million USD CSV, etc. Activities to raise its capital, convertible bonds and dividend payout includes VIC \$88 million, KBC \$58 million, KDH \$53 million, QCG \$50 million, ITA \$37 million, FLC \$33 million. Excluding these above activities, the capitalization still increased by 5.6% YTD.

In terms of liquidity, the average liquidity in Q2 was VND 2.422 billion per session, an increase of 7% yoy but 6 month liquidity has decreased by 14% yoy and only reached VND 2,342 billion per session.

In recent years, the peaks of liquidity are normally in February or March since ETF trading activities are very dynamic, driving trading activities in the entire market in these months. This year, foreign investors and ETF continued strong buying, however, domestic capital declined, which decreased Q1 liquidity sharply by 19%. In Q2, the liquidity improved, especially in June, although could not offset the decline in Q1. Overall, liquidity in 6 months has decreased by 14% compared to the same period in 2014.

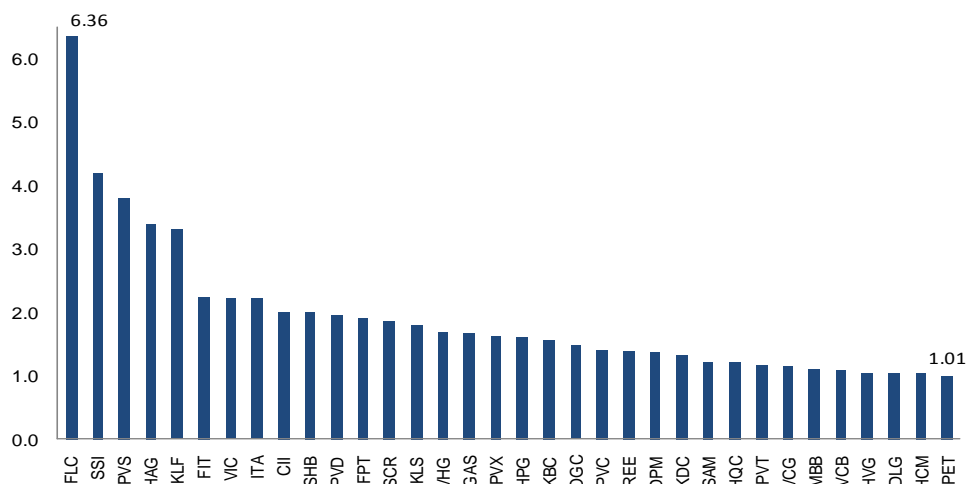
Chart 26: The monthly average trading value



Source: Bloomberg, BSC Research

In terms of stocks with over \$1 million liquidity: the market liquidity had a strong recovery in May and June, increasing the number of stocks in this group from 28 in Q1 to 35 Q2. Leading the list of the most liquid stocks in six months are FLC, SSI and PVS with liquid of \$6.3, \$4.2 and \$3.8 million per session. Except FLC keeping its No. 1 position, the 'super liquidity' stocks such as KLF, FIT, HAI could not retain its top positions. HAG with its high liquidity due to the surge of bottom fishing activity made its name to the top. Some stocks also improving its rank position, or first time appearing in the list include SCR, PVX, REE, DPM, SAM, HQC, HCM and PET.

Chart 27: Stocks with liquidity over 1 million on two floors



In terms of trading activities, foreign investors were net buyers 4/6 months of the year with the total 4.808 billion, down 32% compared to the same period last year. However, this is a positive picture compared with net withdrawals in most countries of the region.

Foreign investors were net buyers in the 3rd consecutive month with 1.521 billion net buying in June, bringing the total of net buying for 6 months to 4,808 billion, down 32% over the same period. However, looking at the trading activities of foreign investors in June, we could see the strong withdrawal tendency in many countries of the region, particularly China (46.6 billion net sale in June). Therefore, the Vietnam is a rare country that could attract foreign capital flow of USD 50 million on the HSX.

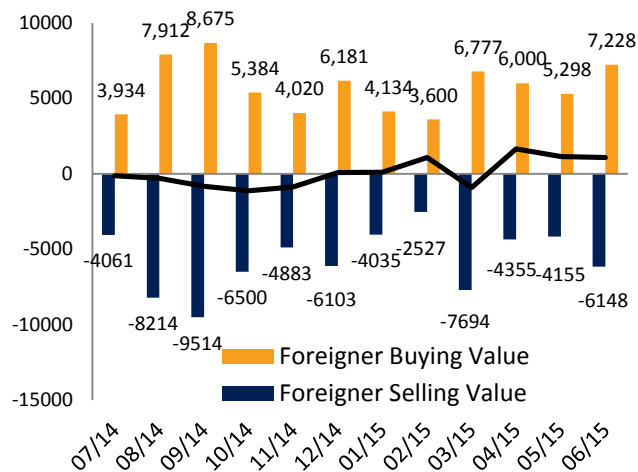
Table: Inflows of foreign capital traded in one of regional market

Country	June	Q2	2015H1
India	(833)	262	6,261
Indonesia	(307)	(123)	312
Japan	(3,385)	37,318	30,841
Phillipine	(258)	(663)	405
Korea	(18)	(18)	7,345
Sri Lanka	(20)	(8)	14
Taiwan	(311)	(2,619)	2,050
Thailand	(311)	(211)	(467)
China	(46,660)	(46,660)	(94,740)
Pakistan	17	67	(74)
Vietnam			
(HSX)	50	179	91

Source: Bloomberg, Unit: Mil. USD

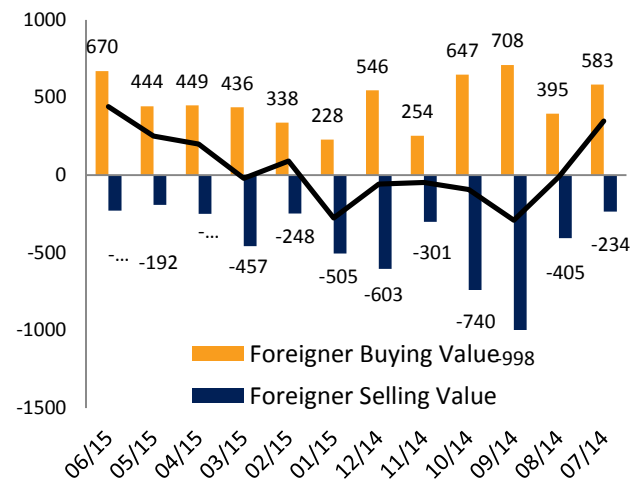
Foreign investors continued to have a big impact on market trends. The net buying activity continued strongly in the large stocks thanks to the news about opening room under Decree 60 issued in late June.

Chart 28: Movement of foreign investors' transactions on HSX



Source: Bloomberg, BSC Research

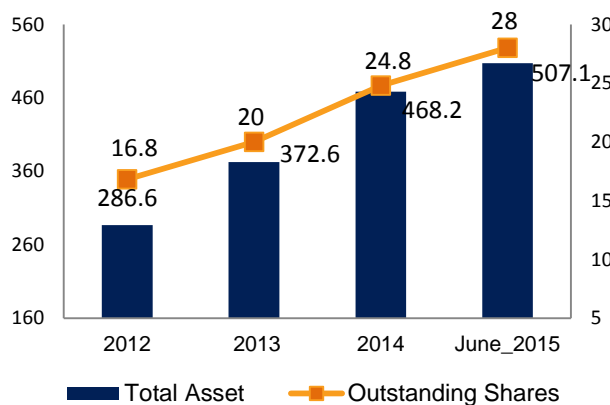
Chart 29: Movement of foreign investors' transactions on HNX



Source: Bloomberg, BSC Research

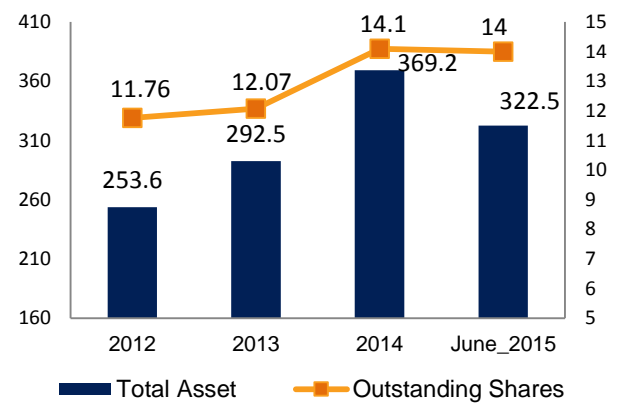
In structure, ETFs continued to contribute the largest proportion in foreign investor activities with net 970.4 billion in June, and 1,705 billion in the first 6 months. In the first 6 months, ETF VNM (Vietnam market vector) reissued 3.15 million certificates, equal to 1,026 billion and the fund also increased the proportion of holding Vietnam stocks from 70% to 77.5%, with 678 billion net buy. FTSE VN (FTSE Vietnam Index) decreased its scale in 5 months and rebounded in June. In 6 months, the fund downsized 60 thousand certificates equivalent net selling of 7.8 billion.

Chart 30: Total assets and fund certificates of VNM



Source: Bloomberg, BSC Research

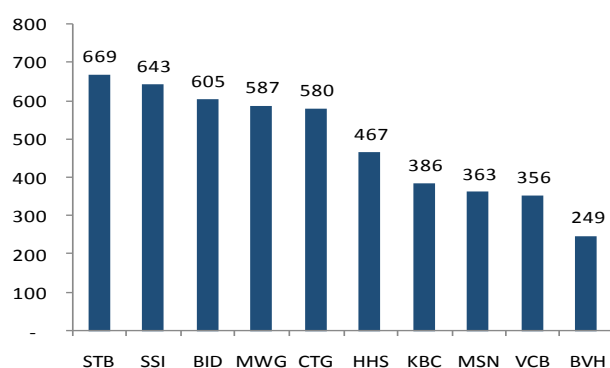
Chart 31: Total assets and fund certificates of FTSE VN



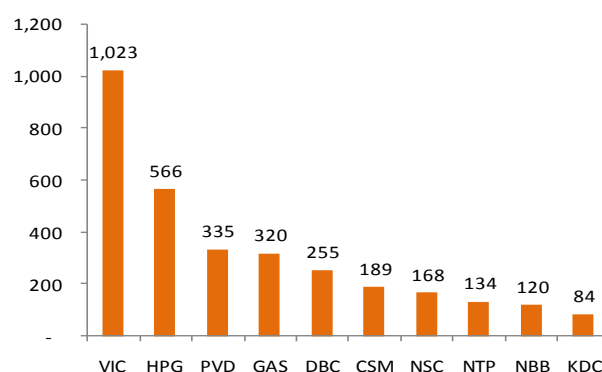
Source: Bloomberg, BSC Research

Foreign buying STB, BID, CTG and VCB while selling VIC, HPG, PVS, GAS. With active buying of ETF VNM at STB, investment flows in the banking stocks were strong in the first 6 months. 4/6 banking stocks are among the 10 stocks being bought the most with net worth of VND669 billion STB, VND605 billion BID, VND580 billion CTG and VND356 billion VCB. In addition, the foreign investors bought VND643 billion of SSI, VND587 billion of MWG and VND 467 billion of HHS. Meanwhile, they sold aggressively VND 1,023 billion of VIC mainly due to the capital divestment by converting the bonds into shares. The selling of foreign investors did not affect VIC since the stock increased by 15.3% in June. In addition, foreign investors also sold HPG, PVD and GAS with net worth respectively VND-566 billion, VND - 334 billion, and VND -320 billion.

Chart 32: 10 most net buy shares by foreigner in Q2 **Chart 33: 10 most net sold shares by foreigner in Q2**



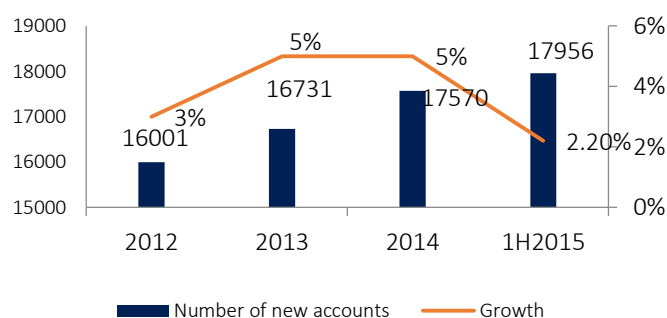
Source: BSC Research



Source: BSC Research

Number of new accounts opened abroad was 386 in 6 months, bringing the total to 17,956 accounts, up 2.2% compared to 2014. Foreign investors have opened 386 new accounts in the first 6 months, of which 286 are personal accounts and 100 are institutional accounts. Number of new accounts opened rose by 2.2% compared to the end of 2014, the growth rate is equivalent to the rate in the last 2 years.

Chart 34: Number of new foreign accounts



Source: BSC Research

ASSESSMENT FACTORS AFFECTING THE MARKET IN 2015Q3

1. Factors impacting the stock market

Macroeconomic

Macroeconomic stability and continued growth is a positive support factor for the market and attracting foreign capital flows. Government's Resolution No.06/2015/QĐ-ND assessed that macroeconomics and currency market were stable, consumer price index rose slightly, credit debt was higher last year, the overall balance of payments was surplus. Quarterly GDP growth was higher than the previous quarter and reached 6.28% - the highest level for 5 years, the services sector grew significantly, total retail sales of goods and services continued to soar. These signals are also recorded in the international organizations' report. Vietnam's PMI announced by Nikkei and Market reached 52.5 points, showing the continuous expansion in manufacturing activity. According to ANZ's Vietnam Consumer Confidence Report, consumer confidence index (CCI) reached a new record of 143.1 points and ANZ said: "We too find our confidence on the Vietnamese economic outlook rising. Vietnam continues to emerge as an ASEAN economic out-performer in 2015-16". Regarding commerce, the Oxford Economics' report assessed that Vietnam will be one of five countries which achieve the strongest commercial growth in the world with an average growth rate of 8% in the period from 2015 to 2030. The TPP and TTIP will promote commerce further. Regarding investment field, according to the Economist Intelligence Unit (EIU) survey, in the next 5 years, the Asian companies will focus on the markets in China, India, and Malaysia, but in the next 10 years, they will focus more on Vietnam, Myanmar and Thailand. However, the trade deficit problem, the significant decrease in domestic exports and foreign capital registration will continue to be pressures for macroeconomics, especially when foreign capital flows can reverse if Fed raises interest rates by year-end.

In summary, Vietnam's macroeconomics had obvious changes in the first 6 months and can fully overcome the macroeconomic indicators in 2015. This is a solid foundation for the stock market growth in the last 6 months.

Market information

The breakthrough regulations related to foreign investors' ownership and securities trading activities.

Decree 60/2015/NĐ-CP issued on June 26th, with the concentration on the regulation of the foreign investors ownership was an important turning point for not only the market in June but also all the trend of market in the last 6 months of the year. This decree has been

waited for 2 years by the investors, and considered as the great breakthrough in policy to attract foreign indirect investments. However, this decree will take effect on September 1st 2015 and will need from 1 to 3 additional months for the new foreign investors' ownership rate to be approved by shareholders general meeting. Besides, the expanding foreign investors' ownership rate is limited on some conditional businesses. However, the strong purchase of foreign investors after the announcement of this decree showed great expectation of foreign investors toward this decree. Full room stocks will get expanded for the foreign investors' ownership, which will be the hot spots of market in the last half of 2015. The foreign investment attracted from this regulation will help restructure capital market, debt market and promote M&A activities. In June, State Securities Committee also announce the draft for amending decree 74/2011/TT-BTC released on 01/06/2011 which instructed trading securities, The draft regulates that investors are entitled to execute their buy, sell: (buy first – sell later, or sell first – buy later) intraday with stocks in VN30 and HNX30. The new regulation will shorten the trading time from T+3 to T+2, support T0, T1 and T2 trading was also specified. If the decree 60 open the door for foreign investment, regulations in amended decree for Decree 74 will give investors more tools such as short selling in day, advancing stocks to execute in day T and day T+. The regulations will be a big step to help Vietnam market regulations closer to world practices, which MSCI supervisory organization will consider to bring Vietnam into the emerging markets group. Two decrees will also affect significantly the market and be the story attracting investors' attention in 2015.

Several issues including the increase of interest rate of FED, TPP agreement, Grexit risk and the fluctuation of crude oil price will have significant effects on the market.

In Federal Open Market Committee (FOMC) in June, FED officers believe that the improving growth of US economy might ensure for 1 or 2 times to increase the interest rate before the year ends. This is a clear message from FED about the rate increase in this year despite worries about labor market. Many analysts forecast that the first increase of interest rate will be in September and the two times rising rate will be in the range of 0.25%. FED increasing the interest rate will partly have influences on the financial capital flow due to capital inflow into US market. The foreign investors will sell strongly in emerging markets due to the depreciation of these countries' currencies, leading to chaos in these markets in short term. In another hand, the appreciation of USD will make the speculative carry trade cashflow to realize profit from rate differences, putting pressure on balance of payment, especially in the context of that Vietnam have had trade deficit for the first 6 months of the year.

Greece crisis continued to become more complicated when Greece was officially default after its unable to pay debt holders on time and execute a referendum about saying no to debt holders on Jul 5th. With more than 62% voters disagreeing to loan provisions, the

Greece crisis is coming into a new difficult period for Greece and Eurozone. Eurozone might execute new solutions to control the Greece Domino, including the bond buying project, leading to a depreciation of Euro. The negotiations between Greece and debt holders will be intense without an end. The decision to save Greece or let this country leave Eurozone will be difficult, and the consequence will have remarkable influences on Eurozone and the EUR. Greece used to cause a massive shock toward many stock markets around the world and these effects are still dull and lasting until the final decision. In contrast to the situation of stock markets around the world, the Greece crisis did not have any effect on Vietnam's stock market. These uncertainties in Europe made the capital flow go into the Vietnam market as a temporary destination. However, depreciated Euro made Vietnam's export goods into Europe becomes more expensive, which negatively affect earnings of many companies, thereby influencemarket in the last 6 months of 2015.

Group of oil and gas stocks were the group ranked the second in the influence on the market, below the banking group. The crude oil, after the plunge, has recovered and stabilized within the range of \$58 -62 per barrel. However, the crude oil plunged again when the supply increased and the major economy weakened. The decrease of crude oil price affects Vietnam's income from crude oil export, thereby influences all oil and gas stocks and the movement of market in the final 6 months of the year.

Trans-Pacific Partnership TPP had new developments when the Congress approved the quick negotiating authority for the President of America. TPP is expected to be completed at the beginning of 2016, which is beneficial for sectors such as textile, aquaculture, footwear, infrastructure ... The stocks of these groups will be attractive in the final 6 months of the year

China stock market plunged, the capital outflow of China will move into new markets

The uptrend lasting over a year of China stock market began to show the first signals of collapse when this market reversed to plunge from 15/06/2015 with the total decrease of up to 35%. The reason was derived from that the growth of stock market was not inherent in the growth of economy which was slowdown with the decreasing growth from 2010, GDP growth now has stayed at 7%. Besides, another reason was the herding behavior of almost individual investors. The plunge of stock market will have direct effects on the consumption of goods in China, leading the more difficulties with this economy. The decreasing growth of China's economy thereby might decrease more sharply and fall into a recession. With respect to other economies, the demand decreasing will have a negative effect on the import demand of China. With the 2nd position in largest economies of the world and the largest population, this effect will not be small, surely. However, in positive side, the problem of China market will be the opportunity of Vietnam stock market when the outflow of China market moves into new markets, especially, in the context that

Vietnam emerged with many attentions from foreign organization investors. The economy is recovering positively with many easing revolutions and improvements toward the outside, in particular: the policy of expanding the foreign investor's ownership in domestic companies, recently.

Foreign transaction

Foreign investors are holding USD 13.1 billion, accounting for 23% of total market value. Foreign investors is holding \$12.1 billion and \$1 billion on HSX and HNX respectively. Compared to the first quarter, foreign holding value increased by 19%, but the proportion is only equivalent to Q1, accounting for 23% total market value. Foreigners maintained a significant influence on the market in six months, buying activity helped the market rise and in contrast, market fell when they restructured their portfolios or the ETFs divested. Foreign investors' buying activity in 6 months decreased compared to the same period in 2014 but still quite positive compared with other regional countries. In June, foreign capital flows withdrew in most regional countries, Vietnam still attracted more capital. Buying trend has also appeared strongly since the issuance of Decree No. 60. Foreign investors' buying activity will continue from investment flows and hot capital flows of ETFs. In the context of stable macroeconomics and strong growth in the world, foreign investors are expected to continue to be net buyers in the last 6 months.

Investment flows from closed-end funds, open-end funds and foreign investors are \$12.2 billion, accounting for 93% of foreign value. These capital flows are stable and are likely to increase due to the fundamentals of the economy and listed firms. Capital raising activities of large funds recently has declined, but small and medium-scale funds have actively attracted more fund, which makes trading activity of foreign investors fairly active. Unlike the trading trend of ETFs, investment flows tend to buy when the market fall sharply and sell when markets rise. The stocks which ran out of room will attract a significant investment amount after loosening the room.

3 ETFs in Vietnam now hold 850 million, accounting for 7% of the foreign value. However, the ETFs have strong influence on the market due to quick buying – selling activity focusing on stocks with large-cap and high liquidity stocks. The potential growth of the ETFs is very large but restricted because many stocks, which meet the funds' criteria, ran out of room. When these stock's room are loosened, many more stocks will join the portfolio, which increase the proportion of domestic equities and Vietnam capital market will be more attractive to larger foreign capital flows. Unlike the tendency that ETF cash flows are usually strong in the first 3 months and return again after November, 2 ETFs have attracted strong foreign capital flows in June and July This effect is notable but will not last and can be reversed in August and September due to the Fed's ability to increase interest rates.

P/E and P/B of the market

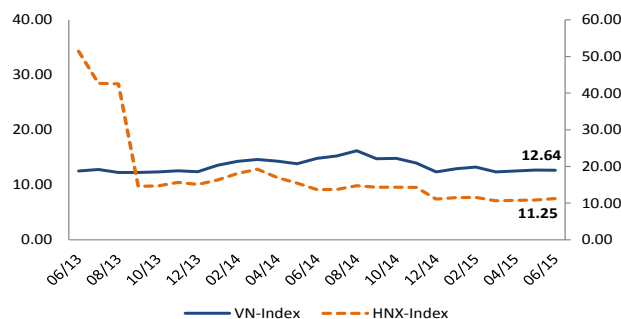
P/E of VN-Index and HNX-Index were 12.64 and 11.25, respectively, 25% and 33% lower than the average of other countries in the region. P/E of VN-Index still ranked 5th while HNX-Index ranked 4th, which increased by 1 rank versus 20 countries in the region in May 2015. Many companies will announce their Q2 earnings in July, hence P/E of market will likely continue to be maintained at current levels.

P/B of the VN-Index and HNX-Index were, respectively, 1.8 and 1.1, which equivalent to the average of 1.9 and 39% lower than the average of the 20 regional markets.

In terms of P/E and P/B, Vietnam shares still relatively cheaper than the average level of other countries in the region.

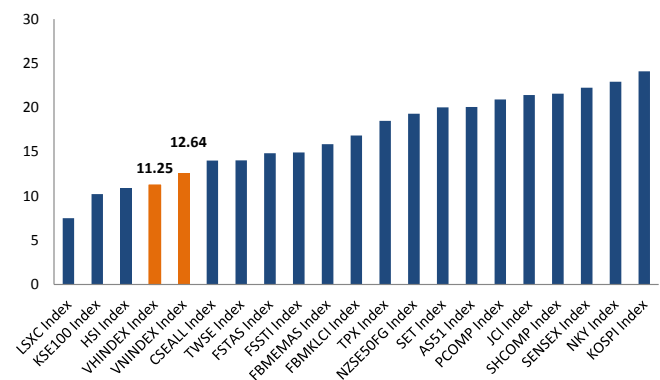
The attraction of Vietnam stock market is still growing with two aspects (1) the scale of market growth and (2) the ability to improve the percentage of shares freely traded (free-float). Average market capitalization / GDP ratios of 6 regional countries including Thailand, the Philippines, Pakistan, Indonesia, Malaysia, and Singapore are 0.97 times. This ratio of Vietnam is only about 0.3 times, which shows Vietnam's ability to increase the size of the market capitalization is quite large thanks to the accelerating equitisation process of large corporation. On the other hand, opening room for foreigners prescribed in Decree 60 will increase free-float in many listed companies. When decree 60 takes effect, Vietnam stock market has many opportunities to attract foreign capital flows in the world.

Chart 35: Movement of P/E of two indices



Source: Bloomberg, BSC

Chart 36: P/E of Vietnam versus other regional countries



Source: Bloomberg, BSC Research

2. Market 2015Q3 outlook

The stock market is forecasted to have strong growth the first half of July, correct in August and rise again in September.

Adage "Sell in May, go away" did not hold this year. Following the recovery in May, Vietnam market performed actively in June with high liquidity and more short-term buying opportunities.

Based on several positive factors as the stable macroeconomic, bilateral and multilateral agreements, opening room for foreigner and shorten the duration of the transaction, Vietnam market is expected to perform positively in July with large volatility. In Q3, the index is forecasted to achieve short-term peak in the first half in July, before falling and accumulate in the second half of July and August and returning to increase in September. The view is based on the market cycle, whereby VN-Index is expected to reach the previous peak from 635-640 pts with $\pm 3\%$ margin in the first 2 weeks of July. The rise of bank stocks and other key stocks along with buying activities of foreigners are main motivation of the market. Strong profit-taking pressure and the decline of market liquidity will make the market correct in the second half of July and after that accumulate during August. Market is expected to rebound in September when many important policies take effects and stocks have sufficient time to accumulate to enter a strong uptrend in Q4.

2015Q3 investment strategy and recommendations

Based on above analysis, it can be seen that Vietnam stock market is still an attractive market compared with regional countries. With the movement of the stock groups in the first 6 months, several investment ideas are outlined:

- Opening room for foreign investors will continually impact positively on the market in the last 6 months. This regulation will take effects on 1st Sep; however, stocks will be opened in many different ways. The Securities, Insurance, Textiles stocks will be first opened room foreigners because they are not restricted by other special laws.
- VN30 and HNX30 shares will benefit from a circular replacing Circular No.74 / 2011 / TT-BTC. According to the draft of this circular, investor is allowed to buy before – sell back or sell before – buy back intraday with the VN30 and HNX30 shares. This provision will affect liquidity and movements of these stocks which account for 70% market capitalization.
- Property stocks benefited from the law in business and real estate law with effect from 07.01.2015, which has many new features like expanding foreign object Vietnam homeowners, supplementing more regulations on real estate established in the future, investors must be guaranteed by a commercial bank qualified pre-sale, ... real estate market is an important component of the economy, the recovery of the property market not only brings opportunities for investors but also impacts should the macroeconomic, bad debts of the banking system. The new regulations are

partly dominated stock market transparency, on the other hand attract foreign investors to buy residential and investment real estate. Real estate stocks will be active in the last 6 months.

- Securities and Insurance stocks have also benefited from the recovery of business cycle and the stock market cycle, especially these two groups are also opened room for foreigner under Decree 60.
- The export companies, especially the textile, seafood, industrial parks, ports will benefit from TPP agreement as well as the bilateral and the multilateral agreements.

Forecasting VN-Index by using the Vector Autoregression (VAR)

Looking back our prediction in Macro Strategy and Stock market Report 2015, we predicted VN-Index in the first 6 months is more optimistic that VN-Index will reach to 625 points by the end of June. However, only during first 4 trading session in July, VN-Index unexpectedly climbed to 625.22 points.

	Actual VN-Index		VNI_F 2015M1 - 2015M6	
2014M12	545.63			
2015M01	576.07	5.58%	577.12	5.58%
2015M02	592.57	2.86%	575.93	-0.21%
2015M03	551.13	-6.99%	582.15	1.08%
2015M04	562.4	2.04%	621.11	6.69%
2015M05	569.56	1.27%	630.04	1.44%
2015M06	593.05	4.12%	625.00	-0.80%
Change		2.95%		8.30%

Source: BSC Research, (2015), **Macro and Stock market Strategy Report 2015**

Based on updated macro and market data, we continue to make forecasts on the VN-Index points for 2015Q3 and 2015Q4¹. **Specifically, in the second half of 2015, VN-Index will fluctuate in a range between 590-665 points. At the end of 2015, VN-Index is expected to close around 595 points (+9% y.o.y).**

	VN-Index	VNI_F 2015M7 - 2015M12	
2015M06	593.05		
2015M07		620.67	4.66%
2015M08		597.89	-3.67%
2015M09		595.62	-0.38%
2015M10		665.33	11.70%
2015M11		678.76	2.02%
2015M12		594.66	-10.62%
Change			0.27%

Source: BSC Research

¹ The forecast of VN - Index was based on multivariate regression model which takes into account the correlation between VN-Index and macroeconomic variables of Vietnam as well as other economies. The result can be viewed as a way to access and evaluate the volatility of the stock market. It is expected to be adjusted on a quarterly basis to ensure its validity.

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