SAIGON- HANOI FUND MANAGEMENT COMPANY

MARCO NOTE

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SHF

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The economy:

Sluggished growth:

According to data from the General Statistics Office (GSO), the economy passed another month of slow growth. Industrial growth is 4.6% y-o-y while November 2011 recorded 6.9% y-o-y growth. Both industrial growth and inventory growth stayed not much different from last month while industrial consumption growth is even lower at 3.3% (last month at 5.7%) as demand for goods is lower than production. The growth was led by ship building, electronics, and telephones, the last two can be attributed to the FDI sector (Samsung and Nokia factories).

On the bright side, Vietnam PMI rose above 50 for the first time since September 2011 led by new orders and output rise as well as by export order. The retail growth is not much brighter at 6.4%, 40 points lower than last month but much higher than 4.1% growth last November 2011.

We think that although the economy growth is still sluggish, it seems that the M2 growth and credit growth has put an effect on the economy and things seem to get better gradually. This may mean the slowest growth has been left behind (maybe in July 2012) but we need to see further improvement to confirm this opinion.

Strong M2 growth and credit growth but inflation is still benign

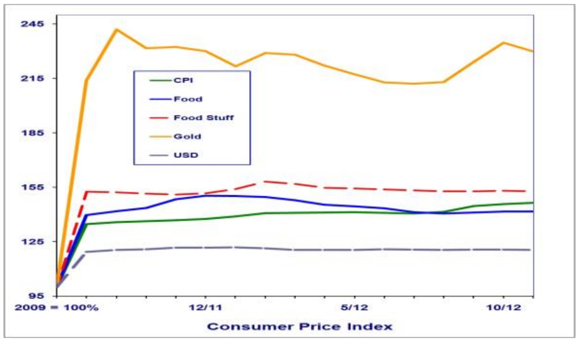
M2 growth is 15.33% and credit growth 4.15% relative to the end of 2011. Overall, 478 trillion has been supplied in the last 11 months and 233 trillion since September. Credit supply since early September is as much as the last 8 months but overall registering just 118 trillion or ¼ of total M2 increase in absolute value.

However, CPI is relatively mild at 0.47% for November and 6.5% for 11 months, and that included 2 per cent contributed by education and healthcare hike.

This benign inflation suggests that higher M2 does not support the economy but held back at the commercial banks and some at the state bank (total short term bill 30 trillions) and some to pay for government deficit (government bond issuance is 132 trillion for 11 months, already exceeding target of 120 trillion). A raw calculation show that the money held back at bank is about 199 trillion.

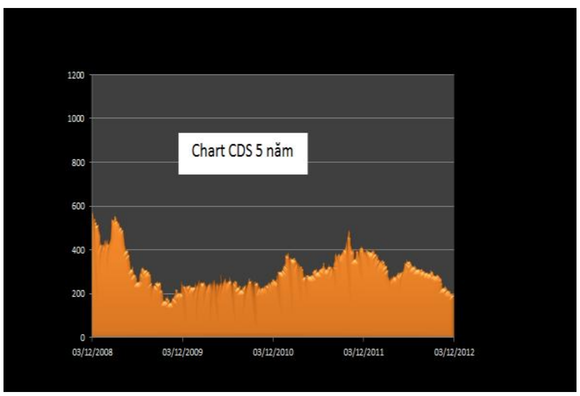
We think that, first, some of the M2 growth is thanks to the conversion from dollar and gold to VND because of higher dong rate, and some is just kept lying in commercial banks to maintain liquidity. This situation is somewhat similar to what happens to the US in the depth of the 2009 recession and even now when the money pumped by FED was just kept by commercial banks by sending it back to FED to earn a negligible rate of 0.25% (which is still attractive as the real interest rate of the economy is below 0%).

However, despite this slack, inflation is forecast to be more of an issue in 2013 as the lagged effect of loosening policy (especially of the government is successful in lowering lending rate by commercial banks) and continuing hike in utilities.



Source: Vietnam GSO

Lowest CDS in months



Vietnam CDS falling from 400 pts to 200 pts in a year. Source: Vfpress.vn, Reuters.com

Vietnam CDS has fallen by 200 pts over the last year, which means foreign investors are considering Vietnam as less risky and Vietnam information ratio (measured as return/risk) is improved accordingly. This is a clear sign for better stock performance for 2013 but for now, the government needs to lift up some of the restrictions to attract foreign capital. We have seen some improvements in various aspects. For the stock market, the process to register foreigners' investment is shorter and simpler. There's some promising progress on easing the cap for foreign holdings through issuing non voting shares. Although it may take a little while for this thing to happen, we expect cap to be eased in 2013 to lead a return to strong performance of the stock index.

2013 economic forecast:

With the leading economy (US) to overcome the " muddle through" period as forecast by Goldman Sachs[1] and Europe to recover even better than US relatively (Societe Generale)[2] as well as a return to high growth of China (HSBC)[3], we expect foreigner's demand, especially from Europe and China will help to continue lift up Vietnam exports and GDP through lifting up business confidence and fixed investment.

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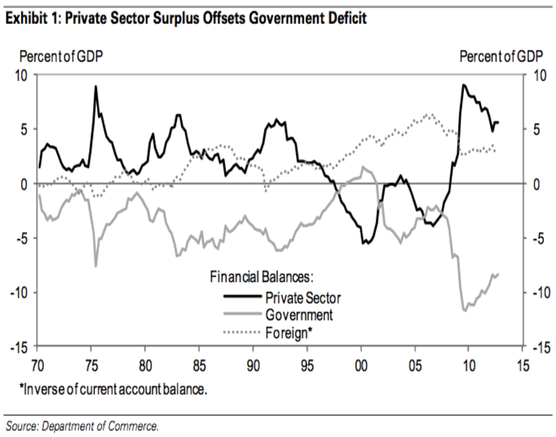
[1] http://www.businessinsider.com/goldman-calls-the-end-of-the-gold-bull-market-2012-12

[2] http://www.businessinsider.com/societe-generale-2013-global-investment-outlook-2012-11

[3] HSBC Vietnam PMI 12.2012



Source: GS

In 2011- 2012, GDP was slow mainly because of much slower private consumption growth (contributing around 4% for GDP growth versus 6-8% earlier) and cutting fixed investment (contributing from -2% to 2% to growth recently relative to as high as 14% in 2007) *(Source: CEIC, JPMorgan)*[4] as the economy moved to recession, but was much helped by a much narrower trade deficit which dragged down GDP by a negligible -0.1% in 2012.

For 2013, as forecast by international organization, trade deficit will be larger but still controlled to drag down GDP but private consumption growth should better to offset it. The main source of growth will be coming from the returning fixed investment which has been below trend for 4 years. The higher the fixed investment, the better the economic growth. We have seen signs that the deleveraging has been done for the whole economy (while some sectors such as real estate are not). The main sign is the investment ratio has fallen from 40% to the much sustainable 30% for 2012 and an upward fixed investment in 2012 relative to 2011(*source: JP Morgan*)

Up to now, the business still quite skeptical about 2013 prospect in recent surveys by Eurocham and VCCI. But we have seen some hope from a growing PMIs as well as the strong performing foreigner-led exports. With better world economic scenario, we expect the economy to call the bottom in 2012 and returning to growth (though slowly) in 2013.

[4] JP Morgan Vietnam Vista Dec. 2012.

Overweigh the stock market

It seems like the stock market has had enough bad news and does not react too negatively to a new piece of bad news. And good news, such as improving PMIs, has been gradually absorbed.

With the economy to call the bottom in July 2012, we expect the stock market to return to growth in 2013 and that may happen as soon as in the first half of 2013 as the stock market often precedes the economy by 3 to 6 months.

According to business cycle, we expect financials, non-essential goods to outperform other sectors in 2013, especially in the latter half of the year.

Considering this, we suggest clients adding back stocks to your portfolios especially stocks in banks and leading brokerage companies. With more money to be spent on infrastructure and utilities price to be increased further in 2013, we also suggest investing in selected companies in utilities, infrastructure developers and basic materials, many of which currently are traded at historical low P/Es and P/Bs and attractive dividend yields.

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