A REPORT OF MACROECONOMICS

GLOBAL MACROECONOMIC AND CURRENCY ANALYSIS – 2015 REVIEW AND 2016 OUTLOOK

A FORECAST ON VND/USD WITH REGARD TO FUNDAMENTAL ANALYSIS

November 5, 2015

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Summary of main findings

2015 observes the recovery of developing economies which is offset by the slight slowing down of emerging economies. At the final quarter of the year, we gain almost needed information to have a conclusion on the main trends of global economy in 2015 and make forecast for 2016. Macroeconomic indicators show that The United State – Vietnam's biggest trading partner gains speed in its expansionary phase and is expected to lift up its interest rate by 25bps at least by the end of this year. On the other hand, inflation threat does not seem to play the most prioritized role in policymaking and thus, economic growth rate turns to be more concerned. An ease on interest rate should be the next action of State Bank of Vietnam. Applying fundamental analysis on currency forecast, we have signals that the USD remain its appreciation against VND in the last two months of 2015. Although this trend should not last in the first quarter of 2016, it is foreseen to dominate in the last three quarters of 2016. In addition to that, an overview on global economy and sound currencies is included in order to provide the readers with the big picture of the influencing trading partners of Vietnam.

Forecast of VND/USD up to 2016

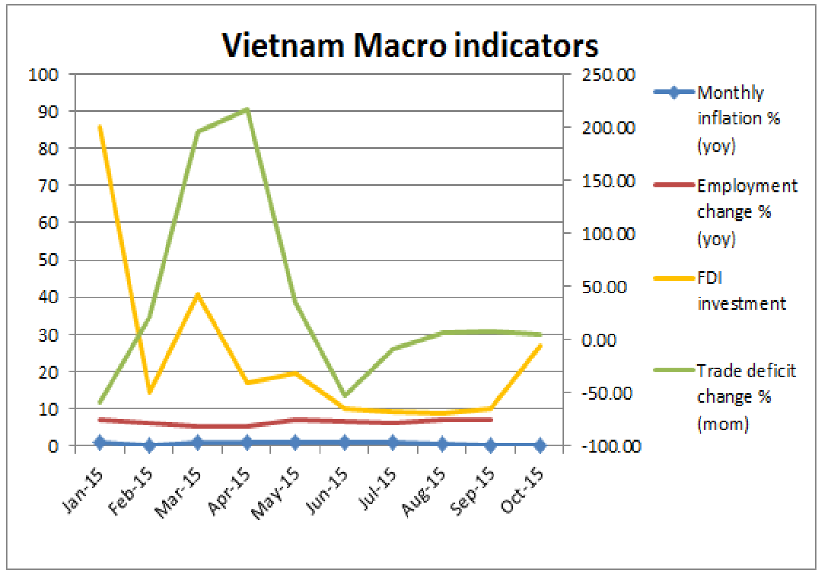
	Dec 2015f	Q1 2016f	Q2 2016f	Q3 2016f	Q4 2016f
VND/USD	22,305.89	22,294.74	22,495.39	22,517.89	22,630.48
Change %	0.50%	-0.05%	0.90%	0.10%	0.50%

Source: The forecast is based on research and calculation of the author.

Vietnam macroeconomic trends in 2015[1]

GDP growth rate slightly enhances

In the first ten months, main macroeconomic indicators of Vietnam differ in their performances. GDP growth rates are 6.12%, 6.47% and 6.81% for the first, second and third quarter, respectively. This averages 6.47% of GDP growth for the first ten months. Given Vietnamese Government's plan of 5-7% GDP growth, its economy is still on the right track. As we are reaching the last two months of 2015 when the market normally shows dramatic upwards in consumption, GDP growth rate of 2015 can be expected as 6.6% with this figure of the last quarter reaching 7%. To some extent, this level matches the forecast of The World Bank at roughly 6%.[2] Comparing to 5.98% of GDP growth rate in 2014, this is obviously a positive figure of Vietnamese economy recovery.



Source: Vietnamese Government Statistics Office website, 2015.

Employment rate steadily increases while inflation rate proves being under control

As shown in the figure, employment rate increases comparing to identical last-year period range in 6%-7%. This can be mainly explained by the sudden surge in FDI investment in the first quarter of this year which will be discussed the next section. Together with stable performance of employment, the picture of inflation rate which is always a featured issue of emerging economy like Vietnam shows the efficiency of fiscal policies from government. The accumulated inflation rate over the first ten months in 2015 reaches 2.12%. Although this would not satisfy the aim of reducing inflation rate at 2% since surging CPI should be expected for the last quarter of this year, it can be considered as great effort of the policymakers in controlling inflation comparing to previous years, e.g. 18.68% in 2011, 9.09% in 2012, 6.59% in 2013 and 4.09% in 2014.[3] We expect employment rate of 2015 stays at 8% increasing from 2014 while inflation rate of the whole year is approximately at 2.3%.

Investment capital and trade deficit suddenly surge in the first half and loosen later

In comparison with the same period of last year, investment capital from FDI section in 2015 shows huge demands of foreign investors to Vietnamese market. This figure records 85% highest

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[1] All analysis and forecast of this section belong to the author.
[2] Refer to later section for more information.
[3] See appendix 5.

in January and 8.7% lowest in August which implies a consensus belief of growth potential in Vietnam's economy for the upcoming years. On the other hand, trade deficit continues to be a significant issue of Vietnam's balance of payment. Its 50% downward from same period of January and Jun, 2014 cannot offset for the huge upward reaching over 200% record in March and April. Since The U.S. market is the most important trading partner of Vietnam, a significant trade deficit indicates our large demand for USD which will deteriorate the situation of VND depreciation discussed later.

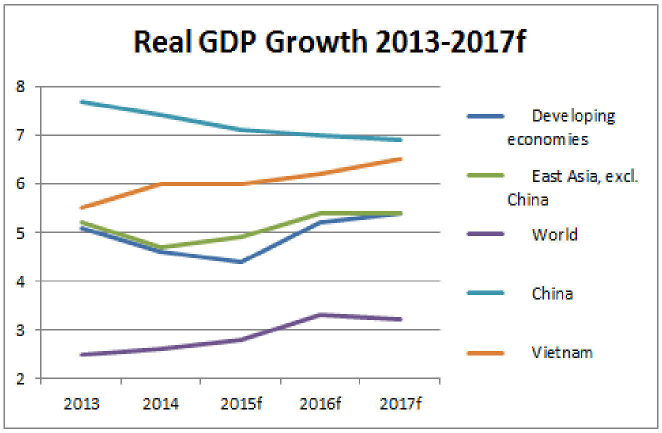
Monetary policy loosens as an effort to accelerate the economy's growth rate

After 2008, controlling inflation played the most important role in monetary policies of SBV.[4] As suggested by many schools of economic theories, there is always a trade-off between controlling inflation and growth rate. A success in reducing inflation will stress on pushing the growth rate and vice versa. In 2012, Prime Minister Nguyen Tan Dung emphasized that in the upcoming time the government will "actively implement the inflation targeting".[5] This has been the main policy applied by SBV over 3 years so far. According to researches during this period, the monetary policy applied was tighter and more volatile than expected.[6] Although it is not clear that the tight monetary policy left the economy into hard time, its loosening since 2014 via low interest rate has encouraged the recovery of various economic sections, e.g. real estate, retail consumptions, etc. as showed in previous sections. Since the inflation controlling plan proves to be on the right track, in the upcoming year, we expect less tight monetary policies which can imply low interest rates.[7] As a result, VND might face to a deeper depreciation since other big economies like the U.S and China have signals to pump their interest rates in order to struggle with inflation threat.

The Global Economy Outlook[8]

This year's global economy continues the post-crisis growth trend since 2009. However, most of the large economies fail to maintain its growing momentum as in 2013 and 2014. A slow-down growth rate is the identical pattern seen for the first ten months of 2015.[9] The market looks forward to slight appreciation for the year 2016. This is not a big surprise to the market since 2015 global economy's downturn is forecasted as shown in the following figure.

[4] Inflation rate of Vietnam in 2008 reached high record of over 23%.
[5] See Nguyen Van Giau, 2012, p.5.
[6] See Le Thanh Ha, 2015, p.18.
[7] Since controlling interest rate has been the most effective tool of the SBV to influence the economy. See Le Thanh Ha, 2015, p. 17-18.
[8] This section's content and forecast are collected and summarized with the most consensus views from reports of various Central Banks. For more detailed, see reference.
[9] See appendix 5.



Source: The World Bank, 2015a.

While the magnitude might differ from main trend raised in 2013, market consensus agrees on 2015's following mainstream of post-crisis recovery. That is, a slight but continuing rise in growth in most advanced economies is being offset by slower growth in many large emerging economies, such as: China and Brazil. In 2015, oil and gold shrink in prices which lead to the depressions of economies mainly depend on oil export like Russia. On the other hand, a price drop in oil, gold and commodities implies a soft burden on effort to control inflation for policymakers. The foreign exchange market observes the strong appreciation of USD due to its positive signals of economy recovery. In the meanwhile, The Euro depreciates significantly on purpose due to their effort in encouraging export.

The United States fundamental outlook

2015 observes the growing momentum in various aspects of the U.S. economy, e.g. employment, GDP, housing market, consumption, etc. Continued strong job growth, led by construction and services, has pushed the unemployment rate to a seven-year low of 5.1% and alternative measures of labour market underutilization continue to improve. Core inflation is holding steady at just under 2% y/y, with lower import costs and still restrained wage gains tempered by firmer services price trends. Headline US inflation appears to have bottomed, and is expected to drift back toward core inflation in 2016.Due to the positive performance of economy, the market expected a rise in interest rate in October this year, which has not occurred. The decision of rising interest rate is pending for other meetings of the FOMC in November and December. Market consensus estimates a rise of 25bps coming at the end of 2015 e.g. late November or December since the stock market bust spreads from Chinese stock market in October made it not an appropriate timing to accelerate interest.

Currency Outlook

Forecast of Global Exchange Rates

	Oct-15	2015Q4f	2016Q1f	2016Q2f	2016Q3f	2016Q4f
USD/CAD	1.32	1.34	1.35	1.36	1.37	1.38
EUR/USD	1.13	1.1	1.08	1.07	1.03	1
USD/JPY	119	121	122	126	128	130
AUD/USD	0.7	0.69	0.68	0.68	0.67	0.68
GBP/USD	1.52	1.51	1.5	1.5	1.48	1.47
USD/CNY	6.37	6.39	6.41	6.43	6.45	6.46

AUD/CAD	0.93	0.93	0.92	0.93	0.92	0.93

Source: Bank of Canada, 2015.

The USD will remain broadly well-supported in Q4 as the Fed prepares the market for a potential policy tightening. A stronger USD will impede any recovery in already weak commodity prices, weighing on the CAD and MXN and selected Latin American currencies.

The EUR will regain a weakening trend in the months ahead on the back of USD strength and unattractive interest rate differentials. Low inflation may prompt additional QE measures from the ECB later in the year, weighing on the EUR. Policy tightening by the Fed before year-end will bolster BoE policy makers' conviction that they can start their own normalization process in Q1; the GBP should out-perform in the near-term as a result.

We maintain a bearish view on the JPY. Weak inflationary pressures are intensifying pressure on the Bank of Japan to introduce more stimulus, potentially at the end of the month. The CNY has stabilized at a lower level but the August devaluation continues to reverberate around key emerging market currencies.

Foreign exchange rates against Vietnam Dong forecast[10]

Researches show that forecasting FX rates has to confront a serious problem which is random walk in FX movement.[11] FX rate itself is governed by different regimes in different countries, e.g. floating, absolute control and floating with control. FX regime in Vietnam is floating under SBV's control. As a result, using model to forecast FX rates against VND should not be a resolution. Another method to forecast FX rate is to look at derivatives market whether participants in market trade their demands in alignment with their expectation. At the end of the day, price in market is settled by expectations of the majority of market participants. Therefore, FX futures and forwards contracts should offer a benchmark for further forecast. A thorough search in the largest derivatives exchange – Chicago Mercantile Exchange (CME) results no contract relating to VND. This can be explained that VND has not joined the derivatives market until 2016 as planned by the Vietnamese Government. Since the FX in Vietnam is half-controlled by the government, it is reasonably to make forecast based on their target. In 2015, the USD fluctuates dramatically, e.g. it appreciates most of the time which leads VND to depreciate continuously. This unexpected volatility damages business of import and export firms for not being able to foresee the prices. In order to reassure firms and market, Vietnamese Government announced VND/USD fluctuation's bandwidth would not exceed 2%. This figure should work as a proxy for any change of VND/USD in the foreseeable future, e.g. until 2016.[12] Furthermore, as shown in previous sections, in the near future, the US Fed is expected to apply a tight monetary policy and increase their interest rate. In the meanwhile, success in inflation controlling and

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[10] Analysis and forecast in this section belong to the author.
[11] See Kilian, Lutz; Taylor, Mark P., 2001.
[12] The will of policymakers are used as an indicator to forecast price of many currency under half controlled regime, such as China.

slowing down of economy growth rate would urge the SBV decrease interest rate in 2016. Given fundamental analysis, we would expect the price of USD relative to VND to go up 1% at max since Vietnamese government wants to keep their currency cheap to support export. This conclusion can be interpreted using supply and demand theory. As the US Fed is expected to lift up interest rate, demand on USD deposit should increase and thus, accelerate price of USD. In the meanwhile, inflation threat should not be a prioritized issue for Vietnam economy in the upcoming time, the market expects an ease on interest rate, e.g. basic rate goes down. As a result, demand on VND deposit shrinks, which makes price of VND go down.

Historical VND/USD from 2006 to 2014 shows that this rate tends to stay low at the first quarter and gradually increase in the next quarters.[13] Real effective FX rate of the first ten months of 2015 observes the same pattern. This anomaly can be explained as the inflow of USD from Vietnamese people living overseas transferring back to Vietnam for their family at Tet holiday which is at the first quarter. In most of cases, USD appreciates much against VND at the last quarter of the year. Applying this identical pattern, together with analysis above, we conclude on the VND/USD forecast as follows:

Forecast of VND/USD up to 2016

	Dec 2015f	**Q1 2016f**	**Q2 2016f**	**Q3 2016f**	**Q4 2016f**
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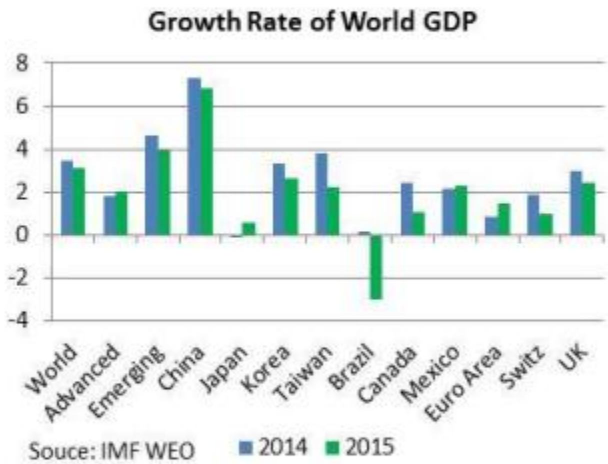
Change %	0.50%	-0.05%	0.90%	0.10%	0.50%

Source: The forecast is based on research and calculation of the author.

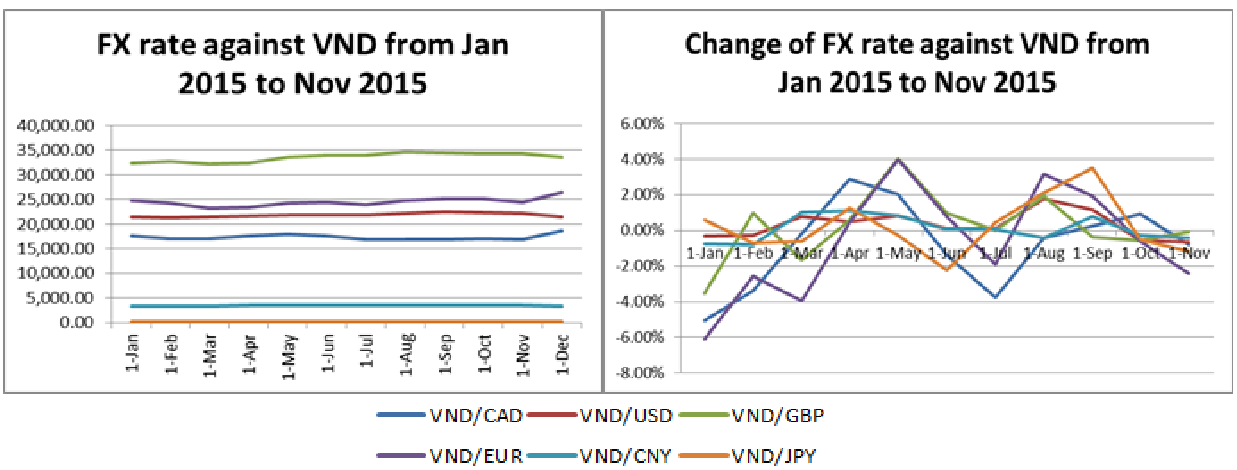
[13] See appendix 4.

Appendix

Appendix 1: Growth Rate of World GDP in 2014-2015

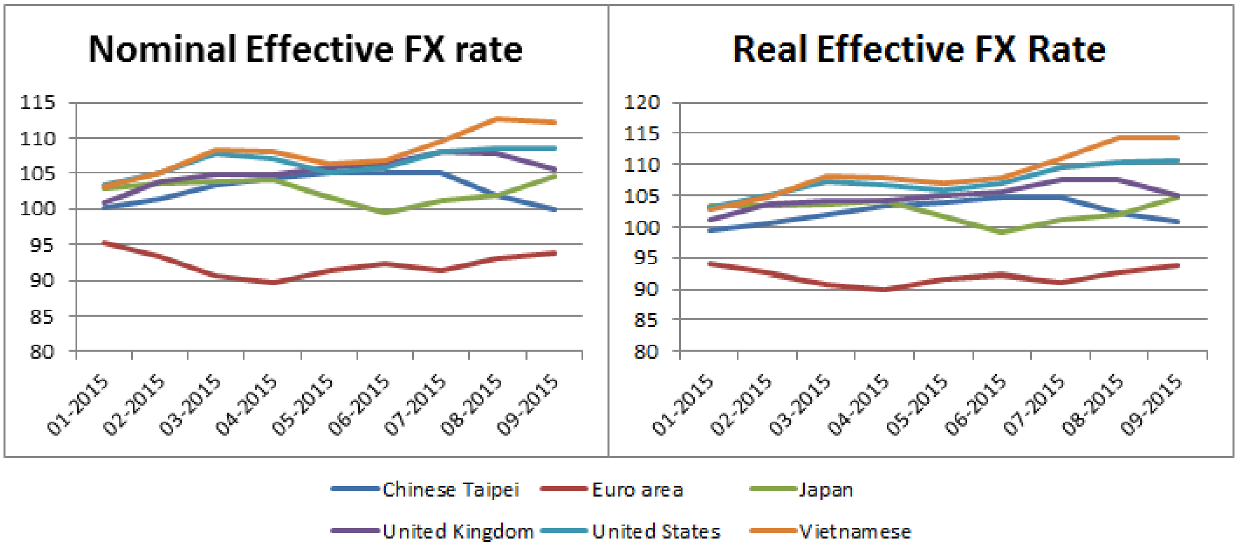


Appendix 2: Exchange rates against VND in 2015



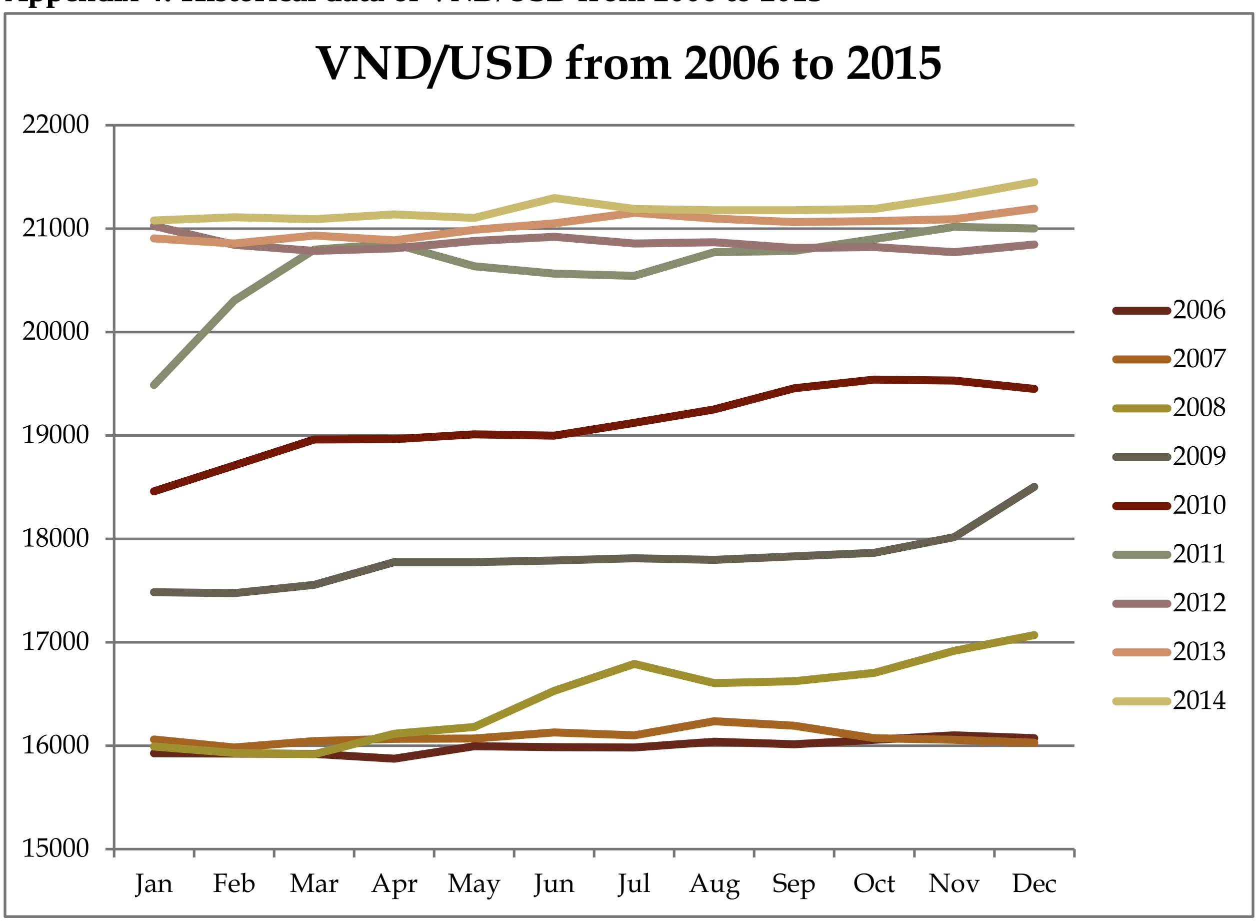
Source: Data collected from Bank of Canada and illustrated by the author.

Appendix 3: Nominal and real effective FX rate in 2015



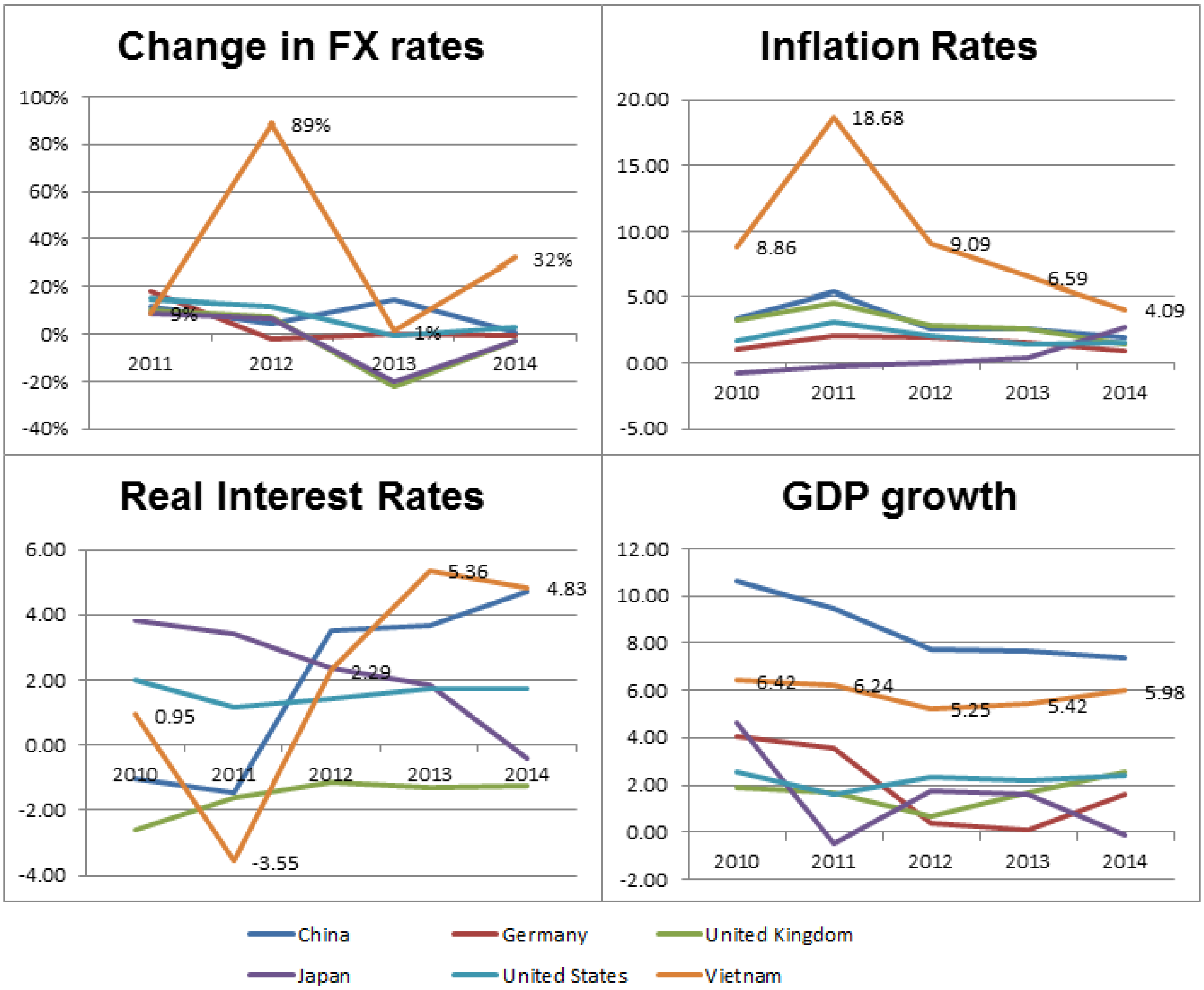
Source: The World Bank, 2015c.

Appendix 4: Historical data of VND/USD from 2006 to 2015



Source: Bank of Canada, 2015.

Appendix 5: Panel of selected macroeconomic indicators' movements from 2010 to 2014



Source: The World Bank, 2015b.

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