

Monday July 23, 2012

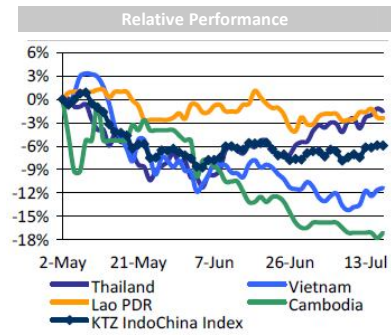
The Market

VN Index Turned into Red After Hanoi CPI; LSX Bounced Above 1,000; CSX Stayed

VN Index pared earlier gains in the most of the session on Friday to close at 424.47, down 0.91% on deflation worries. The government reported that its capital city's price index turned negative on a monthly basis for the second month. Vietcombank (VCB) and Petrovietnam Gas (GAS), the two largest contributors to the index declined 2.38% and 1.35% respectively. The HCM market turnover remained high worth VND 1.06 trillion (USD 50.8 million), 16% less than the Thursday's figure. Foreign investors turned into net sellers worth VND 35.4 billion (USD 1.7 million). This week, foreign investors had accumulated the stocks worth VND 61.4 billion (USD 2.9 million) net.

LSX Index recovered, up 0.9% to close at LAK 1,005.60, after 1.33% losses during the last three days. The gain led by EdL Gen which rallied 1.08% to close at LAK 4,700. BCEL was unchanged at LAK 7,100, after reaching its 7-month high of LAK 7,300 on Monday. The market turnover was LAK 593 million (USD 74,000), down 8.9% from a day earlier. Meanwhile, the CSX Index was flat for the second day at 677.42. The market turnover was thin at KHR 143 million (USD 35,100), up 34.3% from Thursday's figure.

Some investors have begun to worry on deflation in Vietnam that could negatively hit the economy if it extends into the following months. The country level inflation, which should be released this week, is expected to give a clearer picture. We believe that it is too early to overly concern on this technical deflation. Vietnam policy makers are implementing accommodating policy and the domestic interest rates are still at high levels, particularly the lending rate at 15%-20%. We, however, believe the road to recovery is still bumpy due to the rising NPLs in the banking system.



	Last	Chg	(%)
FTSE ASEAN	567	-2	-0.3
Singapore	3,016	-13	-0.4
Thailand	1,209	-4	-0.4
Malaysia	1,643	-2	-0.1
Indonesia	4,081	-15	-0.4
Philippines	5,211	+22	+0.4
Vietnam	424	-4	-0.9
Lao PDR	1,006	+9	+0.9
Cambodia	677	0	0

Source: Bloomberg as of July 20

Per USD	Last	Chg	(%)
Baht	31.67	+0.03	+0.09
Dong	20,845	+5	+0.02
Kip	8,018.00	+2	+0.02
Riel	4,100.50	+26.55	+0.65
Kyat	877.72	+5.22	+0.6

Per Baht	Last	Chg	(%)
Dong	658.61	+0.39	+0.06
Kip	253.27	-0.08	-0.03
Riel	129	+0.5	+0.39
Kyat	27.73	+0.15	+0.54

Source: Bloomberg as of July 20

The News

- **Vietnam** - Ho Chi Minh July CPI Continued to Fall 0.57%: GSO
- **Lao PDR** - Construction Forges Ahead at Xayaburi Dam Project
- **Myanmar** - Myanmar President Visits Thailand Over Stalled Deep-Sea Port
- **Thailand** - Asean Link Capital Gain Tax to Be Waived

Upcoming Market Holiday:

Thailand

- Aug 2: Asarnha Bucha Day
- Aug 13: Substitution for H.M. The Queen's Birthday

Thanawat Patchimkul
Global Strategist
Email: thanawatp@ktzmico.com
Tel: + 66 2 695 5451
Assisted by
Denruthai Krishnamra

Vietnam - Ho Chi Minh July CPI Continued to Fall 0.57%: GSO

Ho Chi Minh City's consumer price index (CPI) in July 2012 is estimated to have declined by 0.57% from May, the municipal General Statistics Office (GSO) said. This is the second straight month that the city saw negative on-month CPI figure as business activities slowed down, high inventory and low credit growth. Ho Chi Minh City's July CPI dragged the figure to +1.47% from December 2011 and 4.3% from July 2011. Five out of the total 11 groups of goods comprising the index saw their prices fall in the month. *The Hanoi Statistics Office also reported last week that its CPI in July fell 0.29% against the previous month, but increased by 4.64% year-on-year. This was the biggest fall in CPI since the beginning of this year. The cost of food and services fell by 0.21%, housing, electricity, water, fuel and building materials were down 1.2%, and transport dropped 2.9%. The country level CPI, which should be released sometime this week, should follow the same route. The market has begun to concern on the deflationary problems. We, however, believe it is probably too early to be overly concerned. The domestic interest rates remain high, particularly lending rate at over 15%. Rooms for further cut is there and could help stimulating domestic demand. However, we believe road to recovery for Vietnam is bumpy. Numbers of banks are flooding with rising non-performing loans, which, we believe is around 9-10% currently. The interest rates cut so far has failed to boost loans as banks are cautious in new lending.*

Lao PDR - Construction Forges Ahead at Xayaburi Dam Project

Construction work is still under way at the controversial Xayaburi Dam site _ including a dyke straddling the Mekong River _ despite claims by the Lao government that the work is only preliminary and promises that the project will proceed only with the approval of regional neighbours. The Bangkok Post Sunday sent a team to visit the site earlier this month at the same time US Secretary of State Hillary Clinton made her historic visit to Laos, and urged the government to put the project on hold until further studies are conducted into the dam's impact on lower Mekong communities. On Monday and Tuesday last week the Lao government invited an international group of ambassadors, advocates and donors to attend a meeting and inspect select parts of the Xayaburi site. Ch Karnchang, the Thai developer of the \$US3.8 billion (120 billion baht) project, last week shrugged off the Lao government's announcement that it had postponed the project, with company chairman Aswin Kongsiri saying they were waiting for the official word. He said they had scheduled time for possible delays and expected to finish on target in 2020. Mr Aswin also said Ch Karnchang had not begun construction of the dam but rather has only built an access road to the site, adding the roadwork would continue. *To halt construction of the dam is not easy as it involves many parties ranging from the Lao government, the construction contractors, the financial lenders, the electricity buyers under the Power Purchase Agreement, and etc. We believe everyone is concern on the possible liabilities that might incur after suspending the project or fail to meet the deadline.*

Myanmar - Myanmar President Visits Thailand Over Stalled Deep-Sea Port

Myanmar President Thein Sein meets Thai Prime Minister Yingluck Shinawatra in Bangkok today to assess options for a planned \$8.6 billion port and industrial zone that has struggled to attract private sector financing. Thein Sein arrived yesterday for a three-day trip and visited Laem Chabang port, near Thailand's biggest industrial zone that companies such as Ford Motor Co. and Samsung Electronics Co. use as a production base. The two leaders will discuss developing a similar zone in Myanmar's Indian Ocean coastal town of Dawei, according to Thailand's foreign ministry. Developer Italian-Thai Development Pcl (ITD) has found it difficult to secure funds to develop the area, which sits about 350 kilometers (219 miles) west of Bangkok. The company is courting Japan to secure \$12.5 billion in loan agreements this year to build the port, roads, power plants and a railway, Chairman Premchai Karnasuta said on Dec. 26. Ko Ko Hlaing, the top political adviser to Thein Sein, questioned Italian-Thai's ability to oversee the Dawei project during a May 2 interview in Yangon. Executives at Thailand's biggest construction company "haven't much experience in developing such a very big special economic zone," he said. "We need other big investors." *We believe the fate of the Dawei project under Italian Thai is gloomy, particularly the financial support to the massive project and the experience. Japan and South Korea are at advantages over the Thai firm due to their extensive experiences, technology, and financial supports.*

Thailand - Asean Link Capital Gain Tax to Be Waived

Thailand's Revenue Department has agreed to waive intra-regional stock transactions from capital gain tax, to draw investment to Asean stock exchanges which are being integrated under the Asean Link. At present, investors in the Stock Exchange of Thailand are waived from such tax. The Securities and Exchange Commission and the SET yesterday hailed the Revenue Department's decision, saying that that would put investment tax base in the Thai exchange and those in the Asean Link on par. "The Finance Ministry has issued a ministerial regulation on capital gain tax waiver. This will erase tax discrepancy and inspire individual investors to invest in Asean-listed stocks," said SEC Secretary General Vorapol Socratyanurak. For dividend paid out by overseas-incorporated companies listed on the Stock Exchange of Thailand, Thai individual investors will be exempted from including the dividend into their annual taxable income. Such dividend remains subjected to 10% withholding tax, though. "The SEC, the SET and the Revenue Department have been discussing on tax hurdles to strengthen the regional linkage and attractiveness," he said. *We believe the Asean Link is a major step forward for Thailand and regional countries. Stock exchanges of Singapore, Malaysia, and Thailand will be linked this year. Indonesia, Philippines, and Vietnam will join in a latter dates. We expect the link will open more choices to domestic investors, particularly individual retail investors.*