MFC Global Investment Management

MARKET COMMENTARY

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ASIA INTELLIGENCE

MFC Global Investment Management's regular roundup of market views from our investment teams on-the-ground in ten markets across Asia.

Round up of the region's equity indices – as at August 19,2009

Index	% increase / decrease year to date[1]
Ho Chi Minh Index (Vietnam)	62%
Jakarta Composite (Indonesia)	59%
CSI 300 (China)	55%
Taiex Index (Taiwan)	44%
PSEi (Philippines)	40%
Stock Exchange of Thailand	33%
Straits Times Index (Singapore)	32%
Hang Seng Index (Hong Kong)	28%
FTSE Bursa Malaysia	25%
Nikkei 225 (Japan)	12%

[1] Year to date is defined as period 06/01/09-19/08/09. (Source: Bloomberg)

Asia Equity Markets Viewpoint

By Colin Ng, Hong Kong

Markets across the region resumed their upward trajectory during July 2009, after having taken a breather and moving sideways during June. Strong gains were posted across most markets, and the regional index rose 12.9% during the month.

Liquidity remains abundant as the region continues to record net inflows. Economic indicators continued to be favourable, with several data-points surprising the market positively.

Valuations across the region are close to fair value, after the dramatic rise in markets witnessed the last few months. However, consensus earnings expectations are improving and numerous companies have reported better than expected earnings in the current reporting season.

Stock markets in the ASEAN region staged a strong rally in July. Indonesia was the darling of the market, with the MSCI Indonesia recording a gain of 23.04% during the month. Strength in the index was mainly driven by foreign investors anticipating a continuation of political and economic reforms in the country following the confirmation of the victory of the incumbent President, Susilo Bambang Yudhoyono, in the recent election.

Asia Fixed Income Markets Viewpoint

By Victoria Ip-Cheung, Hong Kong

Asia's bond markets have all risen significantly in recent months. We expect this to be followed by a somewhat calmer period. During a period of relative stabilization and differentiation in the performance of the region's markets, careful analysis will be better rewarded when sourcing for investment opportunities.

Market commentators are currently focusing on three areas – the possible return to inflation, the suggestion that Asia is decoupling from the Western markets and the expectation of a continued V shape recovery.

We are somewhat skeptical of all three views. We think it is premature to be concerned about inflationary issues; although inflation might become an issue in a couple of countries, we don't believe this to be the start of a region-wide trend and we don't expect to see inflation making a return to the Asia market agenda for quite some time. Similarly, expectations of a V-shaped recovery have yet to be underpinned by solid and consistent economic data.

Whilst many commentators are talking up the decoupling story, the reality remains that many Asian economies are still heavily reliant on trade with Western markets to grow strongly.

Therefore, medium and longer term, we are positive on Asian currencies. However, shorter term, some patience might be rewarded. We are slowly adding to our Asian currency exposure. The catalyst is that external demand will need to improve before the region's countries allow their currencies to strengthen.

We see this as clear signs that countries want to ensure their relative competitiveness remains in place until a meaningful recovery materializes. This is already evidenced by the fact that the JP Morgan Asian Dollar Bond index and the regions currencies have remained largely unchanged year-to-date. The exception being Indonesia, whose currency has risen strongly this year, but this is partly because Indonesia relies less on external demand, and its currency is still making up for the battering it took last year.

Meanwhile, the market is pricing in early rate increases in Australia. We expect to see some medium term appreciation in Australian bonds since interest rates hikes are likely to be less aggressive than the market expects.

We are also keeping close tabs on Korea for similar reasons and because we believe the Korean Won offers good medium term value relative to other currencies such as the Japanese Yen and Taiwanese dollar.

In credits, we continue to focus on investment grade credit because of concerns that economic fundamentals may not yet be strong enough to sustain growth-dependent high yield credits.

Hong Kong Markets Viewpoint

Equity market - by Matthew Lee, Hong Kong

Abundant liquidity, coupled with increased confidence in a sustainable economic recovery in China, drove the Hong Kong market higher in July.

The market was buoyed by a prevailing view that economic recovery in China appears to be on a sustainable path. China's gross domestic product increased 7.9% in line with expectations in the second quarter and crude steel product rose to a record 266.6 million metric tons in the first half of 2009 on the back of the government's stimulus package.

Meanwhile, China's urban home prices rose for the first time since November 2008, a trend mirrored in Hong Kong where activities in the residential property market have also picked up markedly. New mortgage loans approved in Hong Kong jumped to a record HK$38.4 billion in June 2009, as low borrowing costs and rising home prices fuelled demand.

We believe that equity markets look fairly valued following the rebound in recent months. However, upward earnings revision will need to come through if markets are to sustain the up-trend from current levels.

We are overweight in the top-tier Chinese banks and property stocks, and selective materials stocks, as we think they will see upward revision compared with the rest of the market.

We are also adding exposure to export-related stocks in anticipation of a pick-up in activities in the external economy. We also like the Hong Kong developers as medium-term supply/demand and affordability is favourable and the interest rate is expected to remain low, generating abundant liquidity in the system.

Bond Market – by Victoria Ip, Hong Kong

In the Hong Kong dollar market, credit spreads continue to tighten on improvement in economic conditions and HKD interest rates also trading lower.

The key market focus continues to be at the long end of the curve. HK China Gas issued a landmark 30-year deal for HKD 550 million which was the first of its kind in such long tenor in Hong Kong (The HK government note currently only goes up to 15-years).

Investor appetite, especially for insurance funds, is very keen and this is enticing more issuers to potentially come out and issue new bonds beyond 15 years.

This is a very positive development for the HKD bond market in general. There have been many new issues in the 3 year sector as financial institutions look for papers which will give them good interest returns.

The market continues to wait for more details on the launch of the new Hong Kong SAR Government bond program in Sept 2009. The HK SAR Government will issue new bonds of HKD 10-20 billion in the first 12 months, but details of which tenor and amount from the launch are still under discussion. Market expectation is that the first launch will likely be a short term launch like a 2 year before eventually moving out further into 10 year later in the year.

Our outlook is that most value is currently in the long end part of the curve (tenors beyond 7 year). The curve is at exceptionally steep levels and combined with reasonable spreads paid by stable good quality local HK corporations; this could bring good opportunities with returns coming from pickup in interest income and capital gains going forward.

Finally we believe the next opportunity is likely to come from the flattening of the yield curve between 2 year to 10 year which history suggests goes very much in line with steady economic recovery.

Japanese Markets Viewpoint

Equity Market - by Hidehiro Tomioka, Toyko

The Japanese stock market continued its rally in July with TOPIX rising 2.2% and the Nikkei 225 advancing 5.4%. However, intra-month, trading was mixed with the market declining earlier in the month as poor US employment data, declining commodity prices and a surging Yen lead the market lower.

However, towards the end of the month, the market regained its strength, supported by better than expected Q1 earnings.

Although the global economy remains weak, companies have been aggressively cost cutting to cope with weak demand and this has filtered through to Q1 earnings.

While we think it is still too early to judge whether corporate earnings and the macro economy are yet out of the woods, this recent cost cutting – especially on the fixed cost side – will likely result in a sharp recovery in profits if top line sales recover.

We expect a stable market in the mid-term as we feel that it will not be easy for the market to continue its rally at the current pace with valuations already looking demanding after the recent sharp rally.

Bond Market by Keisuke Tsumoto, Toyko

10-year JGB yields remained within a tight range of between 1.3% and 1.4% in July. Japanese credit spreads have tightened slightly this month, but at a slower pace than previous months.

Recovery in production in Q2 was stronger than market expectation, although there remains uncertainty about its future sustainability.

Our view on Japanese bond market continues to be that yields will remain low and range bound due to the output gap remains while prices decline. Credit spreads will continue moderate tightening as corporate profits recover.

We remain overweight in corporate bonds and slightly longer duration than benchmark.

Singapore Markets Viewpoint

Equity market - by Amy Low, Singapore

July 2009 saw some positive data flowing out of Singapore – positive GDP data (as my colleague Akira Okada highlights), an upside surprise in non-oil domestic exports which fell at a more moderate pace than expected, and surging homes sales all helped to signal a cautiously optimistic start to the 3rd quarter of 2009.

The second quarter earnings season also saw better than expected results. Hence, consensus expectations continue to be revised upwards with earnings expected to rise by 15% in 2010.

Nevertheless, we expect some profit-taking in the market after a strong performance in the last 4 months and stocks reverting to mean valuations.

We have reduced our overweight in the banks, bringing the sector to a neutral position. We remain overweight the property sector as valuations remain undemanding.

We are also overweight the resources sector as we expect prices to be supported by favourable supply and demand dynamics and valuations remain reasonable.

Bond market – by Akira Okada, Singapore

The Singapore economy rebounded very sharply in Q2, with an annualized 20.7% quarter over quarter real GDP growth, after four consecutive contractions.

The Singapore economy is a very open economy and a bellwether of global economy, so the Q2 GDP implies that the global economy may be on the road to recovery.

However, despite signs that this rebound was supported by financial services and construction, much of it may also have been due to electronics manufactures' restocking and the volatile pharmaceutical sector's rebound, so the Singapore government is still cautious on the country's economy going forward. Forecasts for 2009 GDP year over year growth are between -4% and -6%.

Exports to China continue to fall and exports to the EU started to lose recovery momentum in June and we believe this implies a slower growth in Q3.

Singapore's bond market has been range bound recently, with 10 year benchmark government bond trading between 2.41% and 2.59% from the beginning of July to date. We have seen net foreign capital inflows for the past 3 months. This pushed the Singapore dollar towards the strong side of the Monetary Authority of Singapore (MAS)'s policy band.

In the credit markets, while we saw some new primary issues, the secondary market has continued to be quiet. Singapore swap spreads are at historic widths at the moment, and new issues' spreads have given investors attractive yield pick-up over government bonds, so they have been well received in the market and their credit spreads have tightened after issuance.

We expect to see more primary issues going forward which will continue to be well received and we believe the credit spreads will continue to show a tightening bias.

Indonesia Markets Viewpoint

Equity market - **by Raymond Gin, Jakarta**

Indonesian equities rose for the 5th consecutive month in July with the JCI reaching a 52-week high of 2,323, more than doubling from its October 2008 low. We believe the main drivers for the strong performance were better than expected corporate earnings, lower interest rates and generally firm commodity prices. In addition, the western world such as the US also saw better than expected corporate earnings especially from the banking sector, which helped to lift overall investor sentiment.

We continue to maintain our positive stance on equities. Resilient corporate earnings supported by lower interest rates, coupled with improving global investor sentiment will likely maintain the current rally in the JCI. Indonesian companies will likely post a high double digit earnings growth in 2010, while interest rates should remain in the low range of 6-7% in the next 12-months.

Global funds on the sidelines should be supportive once risk appetite increases further and countries such as Indonesia, supported by strong economic fundamentals, likely to be the main beneficiary of these inflows.

Bond market – **by Raymond Gin, Jakarta**

July 2009's headline inflation figures came out slightly higher than market expectation. Monthly inflation is expected to rise in coming months although annual inflation rates could remain subdued due to the low base effect. The strengthening Indonesian Rupiah (IDR) is helping to dampen inflation. This, combined with a pro-growth bias, has allowed the Bank of Indonesia to ease monetary policy thus far.

The yield curve has flattened because of investors' increased interest in long end maturities as low volatility encouraged market participants to seek more risk by extending portfolio duration.

We believe that although there is room for further flattening in the short run, gains might be capped by the upcoming supply through auctions and debt switches as the government tries to shift bond issuance towards the long end.

The Rupiah has been the best performing currency in Asia on a year-to-date basis because of economic growth performance, improvement in external balance and more stable political situation. The stronger IDR outlook is also one of the major drivers of fund inflows into local bond market. While in the short run, this position will still be supported by abundant global liquidity condition, the IDR remains very sensitive to the global risk appetite.

China Markets Viewpoint

Equity market - by David Chen, Shanghai

China's July 2009 economic data was below market expectation but was broadly stable. Along with the government's supportive fiscal policies, fixed assets investment and retail sales' year-on-year growth held steady at 32.9% and 15.2% respectively.

Both CPI and PPI continued to stay in a negative range, weaker than the expected year-on-year growth at -1.8% and -8.2% as at July 2009 respectively. On the monetary front, supplied new loans of RMB0.36 trillion in July were far below that of RMB1.53 trillion in June.

After a strong rally in July, the CSI300 index has slumped since the beginning of August – falling more than 10% by August 14. The correction was mainly triggered by heavy profit-taking across almost all sectors after the market surged 70% from the beginning of 2009. We still expect the market to pick up once this correction has run its course.

Based on the recent released macro data, our view is that China economy is still in the initial stage of recovery. Although the central bank and other regulatory authorities have expressed the need to slightly tighten the monetary policy, we believe the central government will not change its moderately loose policy stance as its focus is likely to remain on sustaining growth in 2009.

Bond market - by David Chen, Shanghai

The bond market has remained stable of late as the inter-bank government bond yields along the curve have been largely unchanged since the end of July. As of August 14 2009, the 1-year and 10-year yields closed at 1.6% and 3.52% respectively and the yield spread between 10 and 1-year bonds was 192bps and 186bps as of the end of July.

In the primary market, a new 5-year government bond was priced at 2.97%, slightly lower than the yield on the secondary market. The yield was well-received by the commercial banks, a further indication of significant liquidity in the banking sector. We believe the banks will buy more in the coming months because of shrinking lending activity.

We expect the movement of the yield curve to be impacted by A-share market fluctuations. We anticipate that the yield curve will adopt an upward flattening bias given the rising short-end yields, mainly driven by short-end money market rates, backed by enhanced open market operations.

Our view remains that there will be less upward movement in the long-end yields in the near term due to concerns about the sustainability of economic performance as well as negative CPI figures. Nevertheless, it is likely that yields will move up in the long run given the expectation of economic recovery in next year.

Taiwan Markets Viewpoint

Taiwan Equity Market – by Yili Liu, Taipei

The Taiwan equity index increased by 10% in July 2009 and regained the loss in June, performing largely in line with the MSCI Asia ex-Japan index. The strength was led by global cyclical sectors, such as technology, steel and automobile.

2Q 2009 results of major big-cap names also met or beat expectations, and 3Q guidance has been largely in line with or better than expectations. As a result, earnings estimates were upgraded in July for 2009 and 2010 by 17% and 7%, respectively. This also contributed to the positive index performance.

On fund flows, foreigners have been net buyers of the market for five consecutive months.

We are also seeing improvement in the macro outlook, including Taiwan's export orders which dropped less than expected and improved month on month; automobile sales have also rebounded strongly and consumer confidence has risen. However, the unemployment rate and loan growth have not yet shown improvement, but these two indicators are historically lagging.

Looking ahead, 2Q results and 3Q guidance will continue to play an important role for the market. China's monetary policy is something we are monitoring closely as the correlation between China and Taiwan stock markets has been increasing thanks to better Cross Strait relationships.

So far, positive 2Q result and 3Q guidance has largely been priced in. The market has been chasing many second-tier technology names, which have historically marked a short-term peak in the index. As visibility into 4Q09 and 2010 remains limited, we expect the index to consolidate in a range of 6600~7200.

We believe that downside is limited by three key factors; continued improvement in the global macro environment, the narrowing o US GDP contraction and the continued abundance of liquidity. So we are still positive for the mid to long term.

In an environment of range bounding for the index in the short term, we believe that investment strategy should focus on stock picking. We are concentrating on stocks with improving earnings outlook in the second half of 2009 and that have the potential for earnings upgrades, while valuations are still trading at below mid cycle valuation.

Taiwan Bond Market – by Andrew Wang, Taipei

Government bonds yield fell in early July 2009 and we expect low interest rates will persist for a while.

We recently saw a Taiwan NT$40 billion auction of 5-year treasury bond at 0.994%, lower than market expectations at between 1.01% and 1.05%. This was indicative of market expectations that the short-term rate will remain low for quite some time.

Taiwan's Power Company (Taipower), Taiwan's largest issuer of corporate bonds held a NT$13 Billion issuance, more than originally planned due to strong demand from banks. Taipower's 3-year bond sold at a yield of 0.97%, a record low in Taiwan's domestic corporate bond market and below market expectations of between 1.0% and 1.02%, demonstrated the extent of Taiwan's banks' available liquidity.

We expect that the Central Bank of China (Taiwan) will maintain the moderately easing monetary policy for several quarters. Excess liquidity has supported the Taiwan government bond market which remains bullish as the 5-year benchmark yield dipped down to a three-month low.

Although the stock market continues its bullish trend, we expect the 5-year bond yield to move lower and possibly go down to 0.90% due to limited issues and excess liquidity in the short run.

We forecast that the interest spread between 5-year and 10-year bonds will keep widening and that Taiwan's yield curve will be expected to steepen at the back-end.

Malaysia Markets Viewpoint

Equity market – by Yeow Kok Kien, Kuala Lumpur

The market continued its upward momentum along with other regional markets in July 2009. The new FTSE Bursa Malaysia index (FBM KLCI), which came into effect on 6 July 2009, gained 99.66 points from the previous month end to close the month at 1174.90 points.

The bullish sentiment was sustained as more signs of the economy bottoming out from the recession began to emerge. 2Q09 earnings results from companies to date have also been encouraging and there have been no major disappointments.

Given the sharp rally, the market may enter a consolidation phase after having advanced by 34.7% over the past four months to the end of July.

The market is looking to Q2 09 corporate earnings as a leading indicator. Positive earnings surprises are likely to lend credence to the view that the economy is bottoming out and lead to a further re-rating of the market.

August 2009 is also seeing some major changes to the Bursa Malaysia as the Main Board and Second Board will be merged and known as the Main Market, while the MESDAQ bourse will be revamped and rebranded as the ACE market.

Bond market – by Yeow Kok Kien, Kuala Lumpur

Government bond prices closed the month higher in July 2009 on better buying interests. This was due to the dearth of new primary issues amidst ample liquidity in the market and a demand for safe assets.

Although economic indicators suggest that the economy has bottomed out, there are concerns still on the sustainability of recovery.

Malaysia's exports and Industrial Production Index has continued to decline but at a slower pace. Malaysia has also recently reported its first year-on-year negative inflation figure in more than 22 years. Bond prices were also boosted by dovish comments by the central bank prior to the monetary policy committee meeting that it would not rule out the possibility of reducing the interest rate as the external environment was still uncertain. However, the central bank left the policy rate unchanged, in line with our expectations.

With lingering concerns about the sustainability of the recovery, government bonds should retain their safe haven appeal in the near term. Corporate bonds will see a pick up in demand when risk appetite returns but we expect credit spreads to tighten on a gradual basis.

Philippines Markets Viewpoint

Equity market – by Aira Gaspar, Manila

The PSEI pierced the near term resistance levels of 2,600 and 2,700 in July 2009 closing the month at 2,798, underpinned by a string of positive news, which encouraged both local and foreign investors to make meaningful positions in the market.

Overseas Filipino Workers (OFW) remittances continued to surprise on the upside, raising the possibility that domestic consumption could fill the void of weak external demand.

Expectations of better second quarter corporate earnings and Moody's upgrade of the country's credit rating from B1 to Ba3 in July lifted the sentiment of investors seeking fundamental grounds for the rapid ascent of the market.

The improved confidence in the market triggered a more broad-based rebound of liquidity for local stocks despite concerns on the country's ballooning budget deficit.

Investors are exhibiting signs of a higher degree of risk tolerance as recent downswings were taken by investors as an opportunity to accumulate, paving the way for quick rebounds. Barring any retreat in global risk appetite, we expect the market's general direction to head higher, if upward earnings revisions materialize, to provide much needed valuation relief.

Key risks to our outlook include severe deterioration of government's fiscal health and the possibility that global economic slack would finally take a toll on remittances, a key pillar of support for domestic demand.

Bond market – by Aira Gaspar, Manila

Positive news about buoyant OFW remittances and receding headline and core inflation has triggered renewed interest in Philippine government bonds, which led to decline in bond yields.

The anticipated deterioration of the government's fiscal position as a result of the combination of lackluster revenues and accelerated fiscal spending is expected to remain as the focal point of the local bond market.

The short end of the yield curve is expected to benefit from flush market liquidity while the long end of the yield curve is likely to remain under pressure from less favorable fiscal dynamics and the associated risk of higher debt supply.

A steep yield curve environment will likely linger until clearer indications emerge that the government is on track to head back to a path of fiscal consolidation. We shall take advantage of potential undue widening of spreads to take positions in bonds that offer attractive relative values.

Thailand Markets Viewpoint

Equity market – by Panukorn Chantaraprapab, Bangkok

The Thai equity market has continued to focus on 2Q09 earnings which mostly came out better than expected largely due to improving sales numbers plus better cost controls.

For example, Charoen Pokphand Foods Public Company Limited reported its historical high earnings, +224 percent year-on-year. Siam Cement, one of the largest conglomerates in Thailand, reported earnings for Q2 of 30 percent above consensus with stronger EBITDA margins across its businesses. Therefore, it makes sense to assume that more earnings upgrades are in the pipeline after this reporting season has ended.

Economic conditions have started to show some signs of stabilization but recovery still depends mostly on external factors and sentiment. The Bank of Thailand (BOT) seems to believe that the economic outlook is more positive displaying signs of a confirmed V-shaped recovery. It appears that they believe that the worst is behind us.

Indeed, the Bank of Thailand has revised up the GDP growth forecast to 3-5 percent in 2010, up from 1.5-3.5 percent previously. We expect the policy rates to remain at 1.25 percent for the rest of 2009 since the BOT sees no benefit from cutting rates further.

Against this backdrop of a better outlook and high cash levels, we reiterate our bullish view and expect the market to reach new high for this year in the coming quarter. We continue to believe that the earnings have already passed the bottom.

We foresee an upside risk from our EPS growth forecast of 10 percent this year. Currently, market is pricing in solid GDP growth by 4Q and looking for an expected EPS growth of 15-20 percent in 2009.

Bond market - by Sukkawat Prasurtying, Bangkok

The government bond curve flattened at the belly and long-end of the curve, after the Public Debt Management Office announced less-than-market expected bond supply coming in the third quarter. Hence market activities were driven by demands of institutional investors for 2-to-5-year paper. The auction of a 19-year bond was well received with the bid coverage ratio of 3.12 times, which implied potential demands from insurance players.

However, the bullish mode was capped by global asset allocation flow towards more risky assets after several economic figures pointed out a synchronized recovery in major economies.

Thai economic figures signal a gradual recovery led by a turnaround in manufacturing especially in the export-oriented sectors. The manufacturing production index posted its fifth straight monthly growth in June of 3% month on month, while the capital utilization rate remained at 60.4%. Private consumption increased by 2.6% month on month and private investment was up 1.1% month on month over the same period. Thai fiscal position also improved following the recoveries in key economic areas.

Bond demand and supply conditions have improved after the government reallocated more of their funding activities to retail investors and commercial banks. However, we expect bond markets to remain volatile with more upward bias in the medium term, as a result of a paradigm shift in the economy and financial markets from recession towards recovery mode.

We are more cautious on the recent spike in commodity prices, which have created some concerns over cost-put inflation and the potential speeding-up of monetary tightening next year. As the high base effect in inflation is expected to only last until the third quarter, we expect the market to turn bearish in the last quarter.

Vietnam Markets Viewpoint

Equity market - by Mark Canizares, Ho Chi Minh City

Our outlook remains positive on Vietnam equities this year. Although still off its year high of 525 points, the recovery following the June 2009 correction is encouraging.

In stark contrast to previous corrections which were accompanied by declines in turnover, market liquidity has not weakened.

Since May, the market managed to maintain a daily average share turnover above US$75 million. We started the year with daily averages of only US$10 million/day.

With most of the companies already finished with their second quarter earnings announcements, we note that negative surprises, if any, have been limited.

Earnings across sectors were in line with, or slightly better than, expectations. The listed banks had a good first half overall, with pre-tax profits growing by at least 15% year on year.

The majority of the consumer stocks reported earnings in line with expectations and seem on track to meet their earlier 2009 earnings guidance figures. Pharmaceutical names and telecommunications are also on track to meet targets, though income growth for the latter is expected to be tepid compared with pharmaceutical stocks.

For the remainder of the year, we continue to expect to see strong earnings coming from domestic consumption, on account of tempered raw material and production costs vis-à-vis resilient domestic demand.

We also expect industry-related sectors to do well, as infrastructure-related spending increases as the monsoon season finishes in the third quarter, allowing construction activity to ramp up.

Bond market – by Putu Yudhana, Ho Chi Minh City

The Vietnam bond market has been influenced by concerns over inflation risk. By the end of July 2009, short-term bond yields were higher by 20-30 bps compared to the previous month. The actual inflation number itself has been stable at 3.3% year-on-year and 0.5% month-on-month, compared to June figures at 3.9% year-on-year and 0.6% month-on-month.

The central bank has so far maintained the base interest rate at 7% since its last cut in January 2009. Short term yields were around 9.5% at the end of July, and a further 20-30 bps increase is possible in the next quarter.

Demands from the banking sector are also expected to slow down, as banks are now being less aggressive in obtaining funding from the market.

The government previously ordered banks to restrict overall credit growth for 2009 to less than 30%. Some local commercial banks are reported to have met more than half of their annual target, thus we expect credit and funding growth to slow down in the second half of 2009.

Meanwhile, long-term bonds are relatively stable due to steady demand especially from insurance companies, thus resulting in a flatter yield curve.

The primary bond market remains quiet. In July, the government offered VND 5.5 trillion (USD 310 million) of government bonds, but none of the auctions were successful. There are still gaps between market expectations and the yield caps set by the government.

We still expect that there would eventually be successful auctions due to funding needs of the state budget, possibly in the fourth quarter of 2009.

On the corporate side, Vietnam Expressway Corporation (VEC) issued bonds in July - guaranteed by the government with a spread of 70 bps over sovereign debt at time of issuance.

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