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QUARTERLY REPORT Q1. 2017

by

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Highlights

Lowest economic growth in the last 3 years.

- Q1 2017 GDP rose 5.1% YoY, the lowest growth in the last 3 years. The manufacturing sector, which depended heavily on FDI activities and has been the main driver for economic growth, was beginning to show signs of slowing growth. In addition, the economy was held back by largely subjective factors such as performance of the mining industry and public investment activities. We think that the 2017 economic growth target of 6.7% is very difficult to achieve. Moreover, if the problems and bottlenecks that we mentioned above are not quickly solved, the slowdown of the economy may become worse. GDP growth in first half of 2017 is forecast at about 5.4% - 5.5%.
- Consumer price index (CPI) in March rose by 0.21% MoM and 4.65% YoY. April CPI is forecast to increase by 0.1% - 0.15% MoM, corresponding to an increase of 4.4% - 4.45% YoY. CPI is expected to rise 3.8% - 4% YoY by the end of 1H 2017.
- In Q1 2017, central reference rate showed a clear rising trend as SBV gradually increased the rate. Meanwhile, foreign exchange rates quoted by commercial banks were quite volatile as the rates fell quickly in January, rose back since mid-February and then gradually declined since the end of March. We maintain our forecast that foreign exchange rates in 2017 will be under higher pressure than in 2016, especially due to impacts from international markets. We expect the VND to depreciate about 2% - 4% in 2017.
- In Q1, the pressure to increase interest rates existed in certain small banks. Interest rates are forecast to stabilize in Q2 but the pressure to increase interest rates will gruadually return in the second half of 2017.
- Regarding the bond market, in Q1, the amount of bond mobilized in the primary market increased again. The secondary market saw high transaction volume, particularly in repo transactions. After falling sharply in the second half of January and February and approaching the trough recorded in October last year, bond yields have rebounded substantially in March. Investment opportunities for investors will appear in the beginning of Q2 and then will most likely fade away by the end of the quarter.
- Interbank interest rate stayed at a high level. Market liquidity is not as high as in the same period of 2016. The central bank injected a net VND 13,444 billion in Q1.

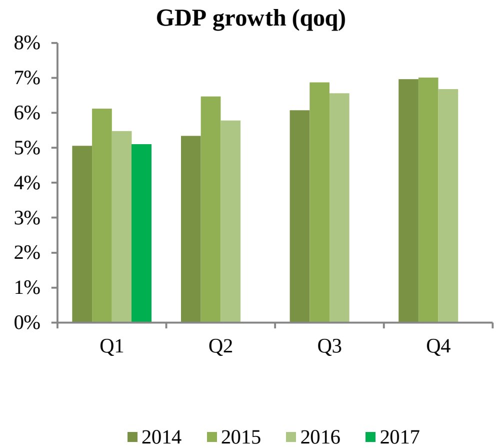
Macroeconomic indicators in Q1.2017

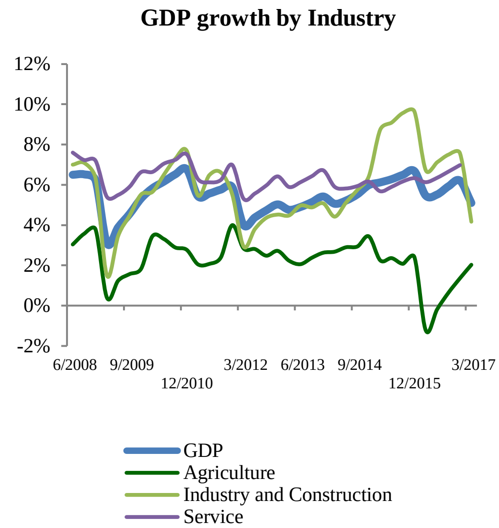
Inflation: + 0.21% MoM and + 4.65% YoY
Exports: USD 44.64 billion YTD (+ 15.1% yoy)
Imports: USD 46.57 billion YTD (+ 24.9% yoy)
Trade deficit: USD 1.94 billion YTD
FDI: Total registered capital in 3 months: USD 6.86 billion (+ 70.3% yoy), realized: USD 3.62 billion (+ 3.4% yoy)
Credit growth: 1.23% (ytd)

Deceleration of the growth momentum has not stopped

Q1 2017 GDP rose 5.1% YoY, the lowest growth in the last 3 years.

The economy continued to show signs of deceleration in Q1 2017. Q1 2017 GDP grew by only 5.1% compared with the same period last year, marking the lowest level in 3 years (Q1 2015 GDP rose 6.12% YoY; Q1 2016 GDP rose 5.48% YoY). Considering GDP growth in Q1 2017, the 2017 GDP growth target of 6.7% will continue to be a major challenge that is very difficult to achieve. Subjective issues are considered the main reasons making growth decelerate.





Source: CEIC, VCBS

Industrial and construction sector, which accounted for a large share and was a core component of total GDP, recorded low growth at 4.17% (while growth in the same period last year was 7.16%), contributing only 1.46 percentage points to the overall growth rate. Industrial sub-sector grew by only 3.85% over the same period last year, the lowest growth since 2011. The mining industry's production decreased by about 10% compared with the same period last year, deducting 0.76 percentage points from overall growth; processing and manufacturing industry grew by 8.30% (significantly lower than the 9.70% growth in Q1 2015 and 8.94% growth in Q1 2016), contributing 1.46 percentage points to overall growth. The construction sub-sector grew by 6.10% YoY, lower than the growth rate of 8.60% in the same period in 2016, contributing 0.30 percentage points to overall growth.

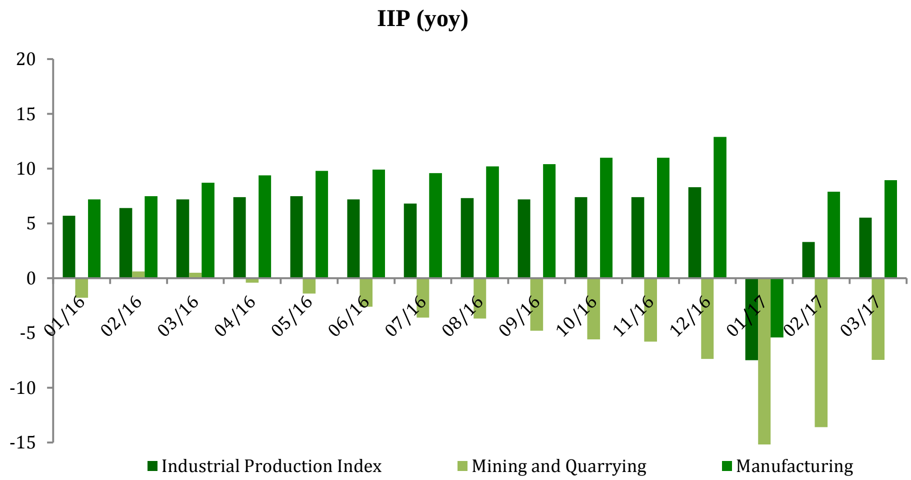
Accordingly, while the other sectors of the economy saw moderate recovery, their recoveries could not prevent the growth deceleration of the economy. Agriculture, forestry and fishery sector grew by 2.03% YoY, better than the 1.31% decline in the same period last year, contributing 0.24 percentage points to the overall growth rate. Service sector grew steadily by 6.52% YoY (Q1 2016 growth was 6.05%), contributing 2.65 percentage points to the overall growth.

Deceleration in industrial production growth is not a positive sign for the economy

The index of industrial production (IIP) in the first three months of 2017 increased by 4.1%, much lower than the increase of 6.3% in the same period last year, hitting its lowest growth level in 5 years:

The mining industry continued to shrink sharply, declining by more than 11% compared with the same period in 2016 (Q1 2016 producition only declined 1.2%

YoY), deducting 0.76 percentage points from the overall growth rate. This decline is the main reason for the weak performance of the industrial sub-sector. Crude oil and natural gas production both declined compared with Q1 2016, by 14.9% and 8.9% respectively (Q1.2016 production only declined by 3.7% YoY). It is noteworthy that while global crude oil prices saw some volatility, the general price level has risen by more than 30% compared with Q1.2016. Accordingly, low selling prices, which are dependent on global market, are no longer the main factor leading to the contraction in production and scale of the industry. Considering its significant role and contribution to Vietnam's economic growth, the mining industry will need to be more attentively and flexibly managed so that it can realize its true potential and contribute to the growth of the economy.



Source: CEIC, VCBS

Manufacturing industry, an important industry of which performance reflects the economy's health, also started to show signs of slowing growth. The IIP index of the manufacturing industry increased by 8.3% YoY, lower than the 8.94% YoY incrase in Q1 2016 and 9.7% YoY increase in Q1 2015. In addition, consumption growth also slowed down. Consumption index of the manufacturing industry increased by 7.9% YoY, a decrease from the 9.1% YoY increase in Q1 2016.

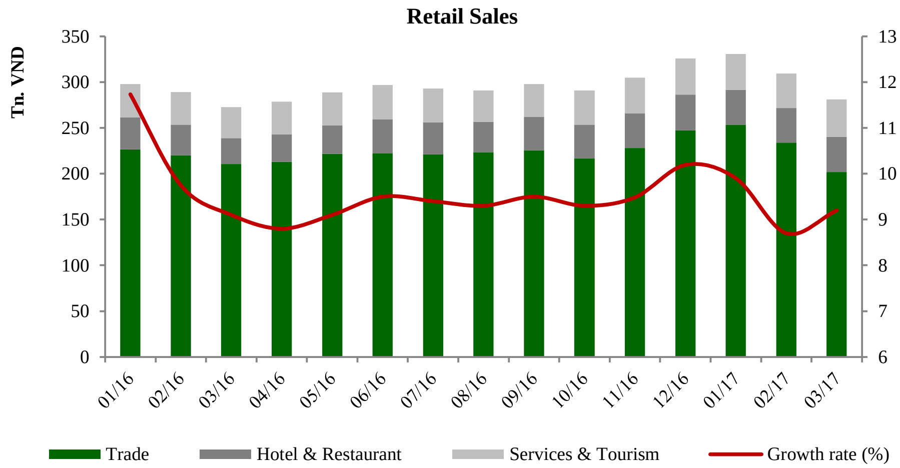
Notably, the electronic products, computer and optics manufacturing industry, one of the main contributors to Vienam's economic growth with many MNCs participating in, declined by 1%. A possible reason for this decline is the reduction in smartphone and tablet production of Samsung Bac Ninh. We believe that the current economy is too dependent on external forces (FDI), of which only a few large national corporations are the main players, leading to significant risks and unsustainability in the economy.

Investment and consumption demand both increased weakly. Meanwhile, investment spending was not boosted as robustly as expected. Public investment was not able to support and stimulate economic growth.

Total investment's YoY growth in Q1 2017 is lower than the YoY growth in the same period last year. Specifically, total investment in Q1 2017 is estimated to be VND 297.8 trillion based on current price level, increasing by 8.6% YoY - significantly lower than Q1 2016's YoY increase of 10,9%. State investment reached VND 99.9 trillion, accounting for 33.5% of total investment, increasing by 4.9% YoY - lower than Q1 2016's YoY increase of 5.9%; non-state investment reached VND 117.4 trillion, accounting for 39.4% of total investment, increasing by 13.8% YoY - lower than Q1.2016's YoY increase of 14.5%; foreign direct investment reached VND 80.5 trillion, accounting for 27.1% of total investment and increased by 6.2% YoY - lower than Q1 2016's YoY increase of 12.8%.

Notably, investment and development expenditures from the state budget were still in a state of slow disbursement, much lower than expenditures in the same period in 2016 as well as the forecasted expenditures for 2017. Specifically, by March 15, 2017, development spending was only VND 32.6 trillion, accounting for 9.1% of 2017 planned budget and declining by 18.7% compared with the VND 40 trillion spending in Q1 2016 (15.7% of 2016 planned budget). (Note: disbursement from the stage budget was already considered to be very slow in 2016).

Regarding foreign investment, **registered FDI grew substantially but mainly from projects that were already operating in Vietnam while new registrations showed signs of slowing down.** Specifically, in Q1 2017, total registered and expanded FDI reached USD 6.86 billion (excluding over USD 850 million in shares purchased), increased by 70.3% compared with Q1 2016. This improvement resulted from the expansion plan of some large multinational corporations in Vietnam, especially Samsung and Coca Cola. Meanwhile, newly registered FDI, which reflected Vietnam's ability to attract a diverse range of investment, reached only USD 2.92 billion - a slight YoY increase of 6.4%, much lower than Q1.2016's impressive YoY growh of 160%. Thus, it appears that after the global economical and political turmoils that happened in late 2016, Vietnam's ability to attract foreign investment was impacted by a certain degree. While this impact is not large at the moment, it still demands close attention as Vietnam's economic growth is highly dependent on FDI.



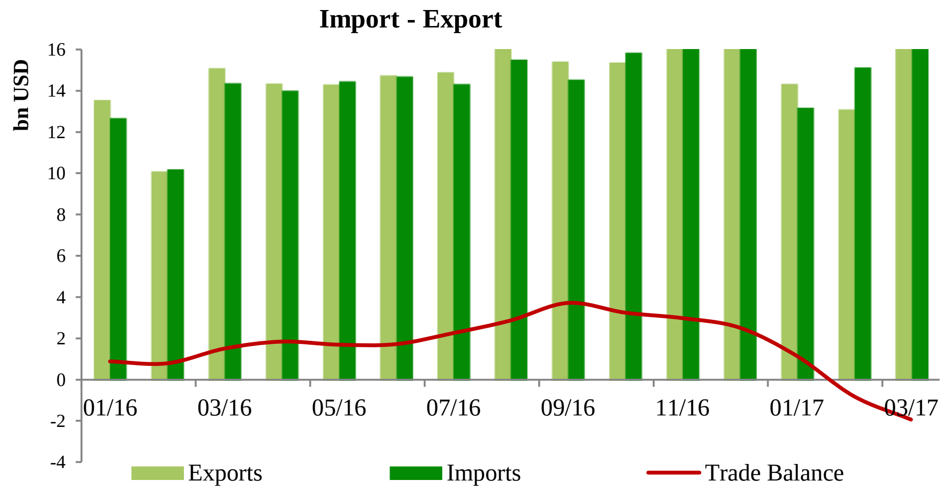
Source: CEIC, VCBS

Total retail sales of consumer goods and services in Q1 2017 were estimated to increase by 9.2% compared with the same period last year, or 6.2% if rising price factor was excluded (lower than 7.5% incease in Q1 2016). Accordingly, **growth in consumption demand did not make a breakthrough compared with the previous period and was not a strong contributor to the overall growth of the economy.** This expected performance was already predicted as consumer sentiment is still largely cautious as: (1) prices of some essential commodities tended to rise sharply in recent years, especially gasoline, education, healthcare; and (2) global economic and the political environment is still volatile.

In the first 3 months, net import was approximately USD 1.94 bn

Concerning export-import activities, trading turnover in Q1.2017 reached USD 91.21 bn, sharply increasing by 19.9% yoy. In detail, Q1 export turnover was approximately USD 44.64 bn, rising by 15.1% yoy which is higher than the same period in 2016 figure of +6.6% yoy. Meanwhile, the import turnover soared by 24.9%, to USD 45.6 bn (in 2016, the Q1 import turnover slightly decline by 4.4%). The trade deficit in Q1.2017 was estimated as USD 1.94 bn

Regarding export, despite the stable growth in total export turnover, there were some weakening signals in key products such as mobile and accessories (USD 7.77 bn, -6.1% yoy), rice (USD 565 mn, -17.3% yoy in value and -17.5% yoy in volume). The slight decrease in export value of mobile and accessories export was as appropriate as the deceleration in manufacturing sector due to the narrow in Samsung Bac Ninh's production as stated above.



Source: CEIC, VCBS

On the contrary, there were some positive signals in the import turnover growth. Import turnover of such products that serve the manufacturing activities sharply increased as compared to the same period last year. Machinery and accessories import value reached USD 7.6 bn (+28.3% yoy), electronic devices, computer and components value was USD 8.07 bn (+35.9% yoy); mobile and accessories soared by 22.6% up to USD 2.93 bn. These increases indicated the higher demand for manufacturing expansion. However, most of the growth in import was attributable to FDI group's activities. Therefore, we believe that this expansion was not equally distributed, majorly allocating in FDI companies, especially multi-national corporation who planned to expand existed project in Vietnam.

1H2017 GDP growth is projected to reach 5.4% - 5.5%.

Macroeconomic indicators in Q1.2017 showing that growth figure fell short of our expection, much lower than the target of 6.7% for this year. Manufacturing sector which heavily depended on FDI group's activities, playing the key role in economic growth, showed some signals of deceleration. In addition, the economic was constraining by subjective factors, especially Mining and Public investment.

As compared to the same period in 2016, although the movement in global commodities market, especially crude oil, was more favourable for the growth, Mining sector remained on the weakening momentum, failing to play its role and negatively affecting the growth rate. Moreover, both deceleration and jam in public investment have been constraining the growth.

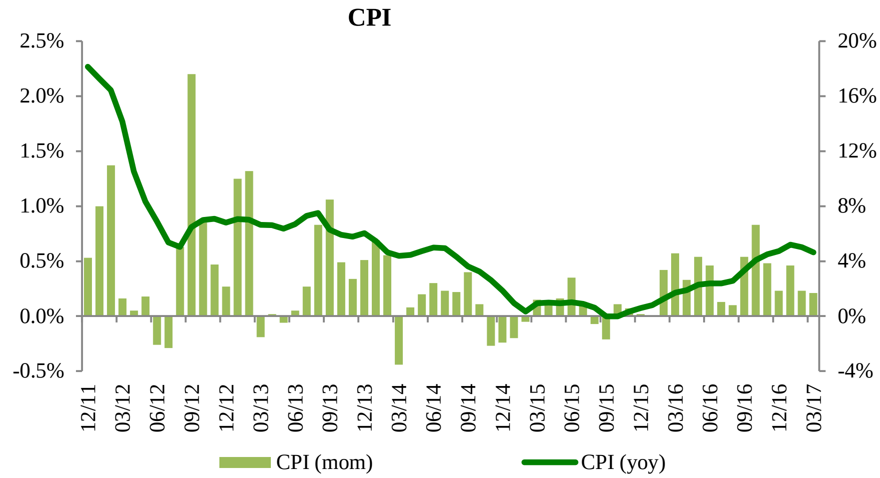
We believe that the 2017 target of 6.7% growth is hard to achieve. Moreover, unless such problems and bottle-necks are solved, the deceleration issue may be more significant. We project the 1H2017 GDP growth to reach 5.4% - 5.5%.

Stable and controllable CPI

Consumer price index (CPI) in March rose by 0.21% (mom) and 4.65% (yoy). We project 1H2017 CPI to rise by 3.8% - 4% (yoy).

Similar to market movement in recent years, Q1.2017 CPI remained significantly depending on both seasonal factors (on Tet holiday) and Government regulation on key goods and services price (including health care services and Oil&Gas). In detail, in January, CPI soared in accordance with higher consumption during Tet holiday which is seasonal factor. In the next 2 months, CPI was more stable because the goods and services prices were adjusted back after Tet holiday, slightly increasing, however due to the rise in Oil&Gas and Health Care services prices as government's plan.

March CPI slightly increased by 0.21% mom (4.65% yoy). The growth rate of CPI gradually decreased month on month, from 5.22% in Jan and 5.02% in Feb to 4.65% in Mar. The highest contribution was attributable to (1) 7.51% growth in Pharmaceutical and Health Care Services sector due to the price upward adjustment in 13 provinces and municipalities raised the CPI by 0.3%, (2) 0.75% growth in Education sector (Education services rose by 0.87%) because the tuition fee was risen in Thanh Hoa province, (3) 0.5% growth in Housing and Construction Material sector (construction material price increased by 0.53%, utility water price increased by 0.43%, electricity price increased by 0.26%) and (4) 0.39% growth in Traffic sector due to higher Oil&Gas price after the adjustment on Feb 18^{th} 201, contributing 0.04% increase in overall CPI.



Source: CEIC, VCBS

Remarkably, the average inflation rate in the first 3 months in 2017 was only 1.66%, which is lower than the Q1.2016 figure of 1.76%. This situation confirmed our above statement that demand recovered slightly. Under such circumstance, we hold our point of view that CPI movement significantly correlates to the government's plan to adjust some key goods and services price. In another context, inflation is under control and the authority is taking the initiative to achieve the targeted inflation rate.

In this April, although the sharp increase by the end of this month may create pressure on CPI. However, Oil&Gas price has been adjusted downward three times in a row by the end of Mar and beginning of Apr. Accordingly, as the increase in Oil&Gas month over month is not sharp, its impact on CPI is not significant. We project the Apr CPI to rise by 0.1% - 0.15% (mom), and 4.4% - 4.5% (yoy). In Q2.2017, we expect CPI to continue increase month over month as Health Care services charge rise. Other commodities is forecasted to move stably, especially domestic Oil&Gasoline price, as we expect the global crude oil price not to breakthrough the USD50 – 55/bbl. Therefore, Q2.2017 CPI is likely to increase slightly. There is low probability that CPI will soar as sharply as in Q1.2017. **We project the 1H2017 CPI to rise by 3.8% -4% (yoy).**

Pressure on exchange rate was on due to worldwide movement. Speculative sentiment exists.

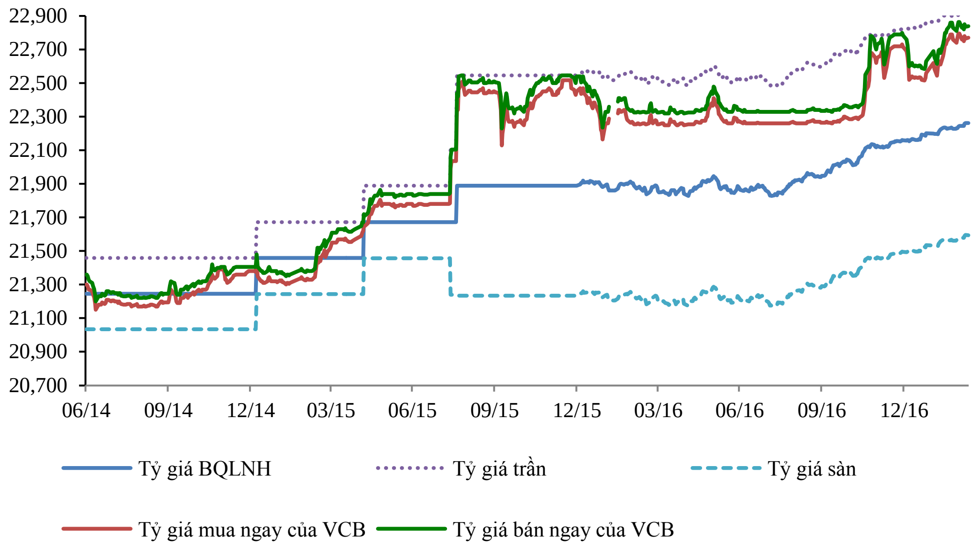
Exchange rate tended to heat up since the second half of February due to worldwide movement. We still expect that VND shall devaluate 2% to 4% this year.

In Q1.2017, reference rate was raised consecutively by SBV. Until Mar 31st, the reference rate was quoted as 22,276 VND per USD, increasing by 0.53% since the beginning of this year, and 1.92% yoy. The uptrend continued taking place in the first few weeks of Apr. Meanwhile, exchange rate quoted by commercial banks fluctuated sharply, felling in Jan, rising back in Feb and gradually decline by the end of Mar at a slower rate. Currently, the ask price quoted in commercial banks system is about 22,790 VND/USD, which is equivalent to the rate by the end of 2016.

The difference movement between reference rate and commercial bank quoting rate can be explained as below. Regarding the reference rate, this may be considered a regulatory tool of the authorities. The gradual increase of exchange rate indicates some signals so that financial market and economy may prepare to fight against upcoming pressure as the USD is expected appreciate against VND in accordance with the recovery of US economy and expected sharper raising interest rate plan.

Meanwhile, concerning commercial bank, the rate was more influenced by market sentiment, expectation and demand – supply of foreign currencies. In Jan and the first week of Feb, both net import and lower foreign currencies demand (as pressure in Dec 2016 has been relieved) was realized into the slightly fluctuation during this period. Since the second half of Feb, because (1) net import rose again as illustrated above, and (2) speculative sentiment occurred as USD was appreciating in accordance with the event that FED may raise the interest rate 3 months earlier, the commercial banks exchange rate sharply bounced. However, after the FOMC meeting result has been released, announcing the decision on raising interest as expected (which means the risk has been neutralized), domestic exchange rate gradually decreased as the USD depreciated in global market.

USD/VND exchange rate



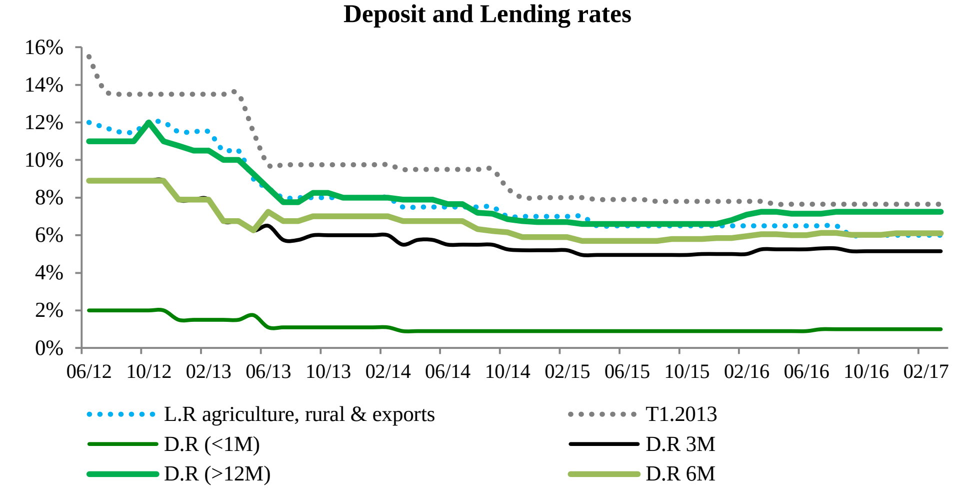
Source: CEIC, SBV, VCBS

As mentioned in our previous reports, we maintain our forecast that the exchange rate in 2017 will be under higher pressure than 2016. (1) The first notabe factor is the impact on the international market, especially the USD appreciation, which is supported by the FED's interest rate hike with a very high probability that the process will occur faster and more frequently (perhaps 2 or more hikes in the rest of the year). (2) Considering domestic demand and supply of foreign currencies, although we have not recognized any surge in real foreign exchange demand for business activities, in contrast, the **supply of foreign currencies is no longer abundant as in 2016** due to (i) trade deficit and (ii) the fact that remittances tend to fall sharply. (3) In addition, when the VND devaluation is predicted and correlates strongly with fluctuations in the worldwide market, speculative psychology will grow and become a factor significantly influencing exchange rates and the foreign exchange market. **We maintain our expectation that VND devaluation will be around 2% - 4% in 2017.**

Interest rate is expected to remain stable in Q2 but pressure will increase in the second half.

In the first quarter, interest rate hikes locally appeared in small banks. Interest rate is forecast to stabilize in the second quarter. However, the upward pressure is expected to widen in the second half of 2017..

In the first quarter, deposit rates recorded a slight increase of several dozen basis points at some tenors in medium and small banks. However, in general, the deposit rate has not changed much compared to the beginning of the year. Interest rates for less than 6 months tenors were commonly around 4.3% - 5.5%/year, for 6 months to less than 12 months in the range of 5.3% - 7% / year, from 12 months and above the rate was 6.5% - 8% per year. At the same time, lending rates were pretty stable, popular for priority sectors at 6% -7% per year for short term and 9% -10% for medium and long term tenors. Lending rates for normal business lines are at 6.8% -9% per year for short term; 9.3% -11% per year for medium and long term. For high credit rate customer groups, interest rates settled at 4% -5% per year.



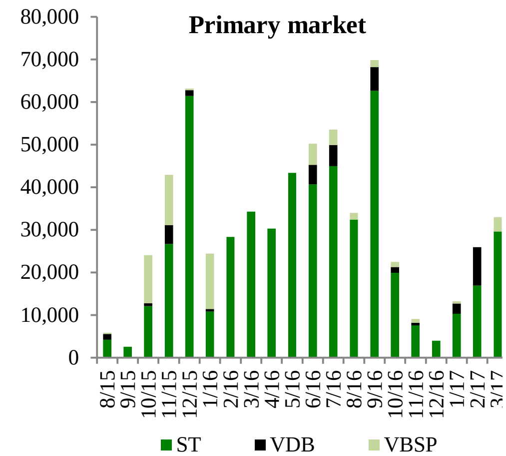
Source: CEIC, VCBS

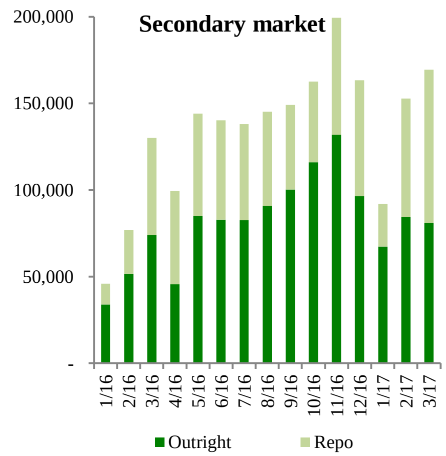
(1) Some banks continuously issued certificates of deposit in recent period with high interest rates, creating the competitive pressure on capital increase and meeting safety ratios. (2) In addition, for these banks, the pressure also came from the shortage of liquidity. Meanwhile, interbank interest rates remained high, causing the difficulities for banks to access capital in the interbank market. (3) The better credit growth compared to the same period last year (the figures calculated till 30th March settled at 1.23% ytd, which was considerably higher than 1.79% recorded in the same period last year) also was considered as a reason for mobilizing demand growth.

Considering that (1) the upward pressure on deposit rates is only locally appearing at some banks; (2) the shortage of liquidity are not occurring at large banks; and (3) SBV still has plenty of room to regulate the market and ensure the direction of maintaining low interest rates to support economic growth amid the foreign exchange market is gradually stabilizing after the FED's interest rate hike in March, **the interest rate level is expected to remain stable in the second quarter. However, in the second half of the year, the exchange rate risk is likely to heat up again and put pressure on interest rates will grow.**

Bond mobilized in Q1.2017 pressed higher compared to last quarter. Active trading in secondary market thank to repo activities.

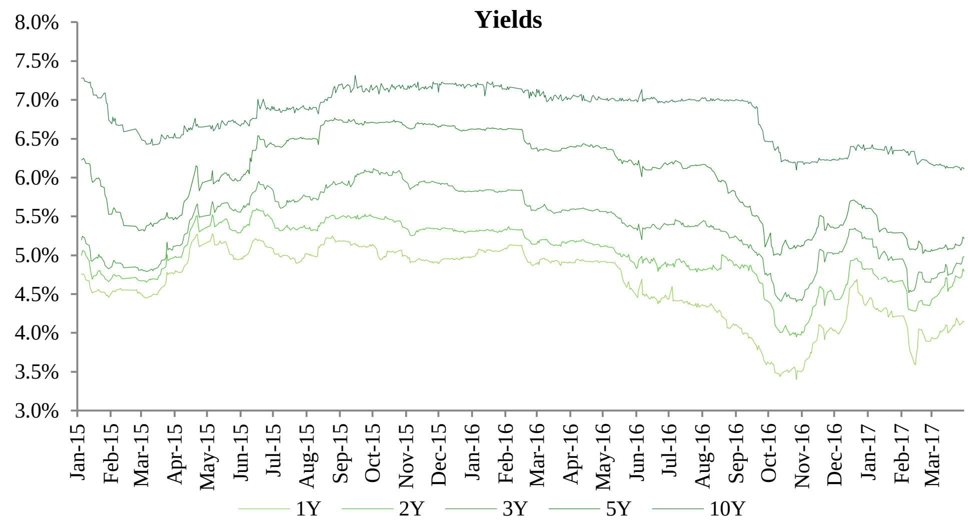
In March, VND 32,988 bn **(+27.23% mom)** worth of bond was mobilized. **VND169,405 bn (+10.8% mom, +29.95% yoy)** was traded on the secondary market. In Q1.2017, VND72,097 bn (+113.09% qoq, -32.38% yoy) worth of bond was mobilized from ST, VDB, VBSP. VND414**,**261 bn **(-21.61% qoq, +63.74% yoy) was traded on the secondary market** Both outright and repo activities boosted.





Source: HNX, VCBS

Yields pressed lower in Q1.2017. At the end of Q1, according to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y and 10Y bond yields posted at 4.14% (-21 bps qoq); 4,792% (-3,3 bps qoq); 4,982% (-23.1 bps qoq); 5,216% (-38.4 bps qoq); 5.56% (-25.3 bps qoq) and 6.11% (-26.5 bps qoq) respectively. After heading lower considerably in Jan and Feb, interest rate tended to approach its previous trough before bounced back in March.



Source: HNX, VCBS

We believe that in **April bond yields tend to tick down slightly** as upward pressure on bond yield was temporarily cooled down at least in the short term. The argument to support this idea is that: SBV still has room to flexibly manage and stabilize interest rate and there was no shortage in liquidity of top commercial banks. However, at the end of Q2, exchange rate risk may once again heat up especially prior to FOMC in May and remarkably in June because more US macroeconomics indexes will be available. Consequently, speculative sentiment may show up at that period and create pressure on banking liquidity. To sum up, we believe that investment opportunities may show up at the beginning of Q2.2017 and then gradually shrink at the of the quarter.

Interbank rates hovered at a high

Interbank rates was under strong upward pressure prior to Tet holiday, pressed lower in a

level. SBV net injected VND13,344 bn in Q1.2017. At the present We think that at the present SBV is quite consistent using OMO channel through reverse repo with a fixed interest rate of 5% with a view to completeting administrative target in either interest rate and exchange rate risk**.**

short period of time before rebounded and hovered a high level. Compared to the same to the period last year, the pressure on interbank rate came as no surprise. However, the fact that interbank hovered at a high level was not considered a good signal as it indicated that **liquidity in banking system was no longer abundant** In details, ON-3M rates posted at 4.633%; 4.75%; 4.8%; 4.731% and 4.714% according to Bloomberg data. In Q2, **VCBS anticipate that interbank rate shall cool down in the upcoming period** as the shortage in liquidity did not happen in Tier 1 banks and SBV still has policy room available to actively administrate the market and banking liquidity in the context of stable exchange rate. The stable exchange rate shall remain at least in the short-term as FED decided to lift up interest rate in March.

Nevertheless, in the second half of the year, we believe that the bond market may become dovish due to some worldwide risk. Therein, we are concern about the procedure of FED lifting up interest rate and chance that USD getting stronger because it may create negative impact on liquidity in banking system as well as the interbank rates level.

In March, SBV pumped VND 34,859 billion through OMO channel. In Q1, the SBV net withdrew VND13,444 bn. At the present, we think that at the present SBV is quite consistent using OMO channel through reverse repo with a fixed interest rate of 5%. Accordingly, assuming pressure on the exchange rate and interest rates not so hot in the second quarter, the SBV will not have much incentive to change operating policies.

Global economy

The United States

US economy maintained a positive improvement, although the pace slowed down in March.

US unemployment rate dropped to 4.5% in March 2017, fell from the 4.7% of the previous month. This is the lowest unemployment rate since May 2007, as the number of unemployed declined for 326,000, ended up with 7.2 million; while the labor force participation rate remained unchanged at an 11-month high of 63% .

Meanwhile, the manufacturing sector continued to expand positively, even though at a slower pace than that of recent months. According to Markit's data, the PMI dropped from 54.2 points in February to 53.3 points in March. This is the lowest level in six months as both new orders and volumes increase at a slower pace.

United States' Consumer price index (CPI) fell by 0.3% qoq, the first decline since 13 months. Compared to the same period of the previous year, CPI in March 2017 increased by only 2.4% yoy. This first-three-months lowest inflation rate is due to lower energy and service costs. Core inflation (excluding food and energy) fell to 2% yoy (last month rate was 2.2%). This is the lowest core inflation rate since November 2015.

In the first half of April, the United States consecutively carried out attacks on Syria and Afghanistan. Follows that was the parties' dispute on the issue of North Korea. As political tensions escalated, global market was also affected. Demand for large-scale haven kept gold prices rising. Meanwhile, the dollar slightly weakened against other major currencies.

Although certain indicators from the US economy showed mixed result, overall, the positive recovery trend maintained. This move continues to support Fed on tightening its monetary policy in 2017.

Europe

Europe economy shows positive signal of recovery while geopolitical instability is still a threat.

The manufacturing sector continues to be the fulcrum for the regional economy. Manufacturing PMI climbed to a new high of 56.2 in March, marking the sharpest improvement since 71 months. The average PMI in the first quarter reached 55.6 points, the highest level since 2011. The national PMI data showed that the growth was mostly seen in Germany, Netherland, and Austria. Industrial production in the Euro area rose by 1.2% yoy in February, after rising by only 0.2% in January.

The unemployment rate fell from 9.6% in January to 9.5% in February 2017, significantly lower than the rate of 10.3% in the same period last year. This was the lowest unemployment rate since May 2009. The number of unemployed in February 2017 fell by 140,000 compared to that in January (down to 15.439 million), and fell by 1.246 million compared to that in same period of 2015.

Consumer price index (CPI) rose by 1.5% over the same period, lower than the rise of 2% in the previous month. This was the lowest level in the first three months, resulting from the fall of transportation, oil, and vegetable prices and weekend days. Excluding energy, food, alcohol and cigarettes, the CPI rose by only 0.7% yoy, the lowest since April 2016. Even excluding for energy only, inflation still dropped to 0.9% yoy, compared to 1.2% in February

While the economy continues to show positive signs of recovery, geopolitical instability has escalated. After the British Prime Minister signed the official letter to launch the Brexit’s process, the focus shifted to election in France and the Netherlands. The fact that Prime Minister Mark Rutte's of People's Party for Freedom and Democracy won the Netherlands’s election has somewhat relieved concerns about the next rift within the European Union.

Asia

The pressure on the CNY and the trend of net capital withdrawing tend to cool down.

Chinese GDP growth was 6.9% in Q1, higher than previous forecasts of 6.8%. This has been the highest growth rate since the third quarter of 2015, with the main drivers from public and industrial sectors. However, given the high dependence of Chinese economy on stimulus programs, there could be the risk of deceleration in the rest of the year when some tightening policies are implemented to curb hot growth and stabilize the economy.

According to a report by Markit and Caixin, China’s PMI reached 51.2 points in March, lower than 51.7 in February. Production conditions have improved at a relatively fast pace. However, the growth rate of output and the number of new orders showed signs of slowdown compared to the previous month, while inventory levels declined. Generally, China's manufacturing activity continued to improve, but signs of weakness have been seen by the end of Q1.

With regard to trade, after a record of unexpected trade deficit of $ 9.15 billion in February, China officially announced a surplus of $ 23.9 billion in March, slightly lower than the figure of $ 25.2 billion in the same period last year. Specifically, exports increased by 16.4% yoy, indicating an improvement in global consumption demand given better economic growth. In addition, political tensions among major trading partners, including United States, have eased. Imports increased by 20.3% after a 38.1% increase last month due to the high demand for raw materials which were prepared for production after the Lunar New Year.

China's foreign exchange reserves continued to increase by $ 3.96 billion in March, reaching $ 3,009 billion. This is the second consecutive month of increase, indicating that the pressure on capital withdrawal has eased off recently. Additionally, the recovery of the dollar has temporarily slowed down, thus assisting Beijing efforts to curb capital inflows. **This move will spare the People's Bank of China (PBOC) from continuing to aggressively implement its foreign exchange intervention program in the incoming period.**

The pace of economic recovery in Japan remains modest while the JPY continues to gain power.

Consumer price index in Japan increased by 0.3% yoy in February, lower than the 0.4% increase in January. While the costs of transportation rose steadily, food prices and housing costs reduced. Core inflation, excluding fresh food, rose by 0.2% compared to the rate of 0.1% in the previous month. This month witnessed the second consecutive increase and the highest rate of increase since April 2015. Consumer prices dropped 0.1% mom after rising by 0.1% in January.

According to statistics from the Nikkei, Japan's PMI reached 52.4 in March 2017, compared to 53.3 in February. Although manufacturing activity continues to expand, the pace has slowed down compared to the previous two months while export orders and output both grew slowly. Meanwhile, domestic demand was considerably weaker than the same period last year.

Japan announced a trade surplus of ¥ 614.7 billion in March 2017, which was lower than the figure of ¥744.9 billion in the earlier year as exports increased less than imports. Given that the JPY is still a safe haven for investors, the currency kept strengthening in the first three months of the year, causing many obstacles in boosting exports.

Indicators have revealed that **the speed of economic recovery in Japan still remains modest.** We believe that the Bank of Japan will continue to face difficulties in achieving its goals, particularly in raising the inflation rate to 2%.

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