

Quick report

The impacts of oil & gas increase on inflation & Vietnam securities market would not be serious

- *The increasing of petroleum price may still have impacts on inflation, but when total demand in the economy narrows, the impacts by petroleum price will be somehow limited. According to our forecast, there is much possibility that inflation will begin decreasing since April after reaching the top in March; expectation on inflation is tending to decrease, too, and accordingly, it reduces the impacts in 2nd round of increasing petroleum price as well as the price of electricity and other inputs.*
- *The impact by this fact, in short- term, on Stock market is hardly any positive because the increase of petroleum price will continue making pressure on inflation and therefore reduces the expectation of decrease in interest rate in the coming time. However, we suppose that the impact will not be serious.*

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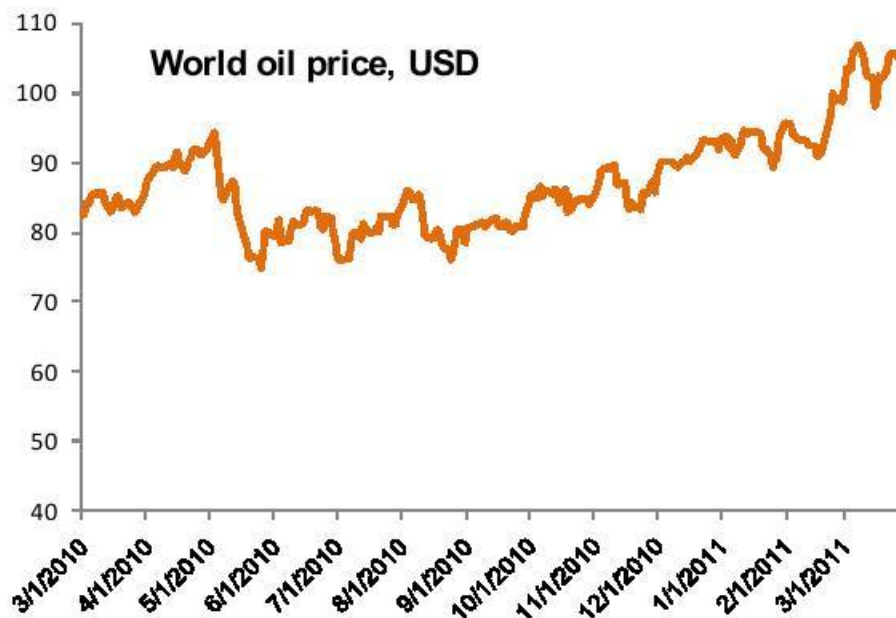
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Since 10:00pm of March 29th, 2011, petroleum price has increased by 2,000 VND per litter (RON 92 petroleum increased from 19,300 VND to 21,300 VND/ litter, diezel increased by 0.05 USD from 18,300 VND/litter to 21,100 VND/litter); burning oil increased by 2,600 VND/ litter from 18,200 VND to 20,800 VND/ litter; black oil increased by 2,000 VND/ litter from 14,800 VND/ litter to 16,800 VND/ litter.

In our opinion, there are some reasons as below:

- ✓ *The adjustment of petroleum price during the past month is indispensable to the trend of increasing in goods and petroleum price in the world. At the moment, the world oil price increases to 105 USD/barrel and continues increasing rapidly amid the unstable changes of the world. Due to the impacts by the increase in the cost of world petroleum import, and the adjustment in foreign exchange of USD/VND, which increased by 9.3% since February 11th, 2011, according to the calculation of Petrolimex, basic price of petroleum in Vietnam is 21,383 for petroleum A92 while selling price is 19,300 VND/ litter. This means that for each litter of petroleum sold, the current level of subsidy is 2,083 VND. After the adjustment of increasing petroleum price by 2,000 VND/litter, in comparison with the neighbour countries, such as Laos, China, Cambodia, petroleum price in our country is still lower by about 3,000 VND/ litter – 4,000 VND/ litter.*
- ✓ *The weakness of stabilizing resource:* In the condition of unstable oil price in the world, the enterprises may establish a funds for petroleum price stabilization. However, given the fact that world prices increase unceasingly for a long time, exchange rates increase, this ability is being limited. Thus, the pressure on adjustment will be more and more loaded and, this time, the adjustment of petroleum price may somehow departs from this pressure.
- ✓ *Eliminate smuggling:* The target of stabilizing the prices of petroleum of Vietnam copes with various difficulties when the smugglers take advantage of the difference between the selling price in Vietnam and that in the neighbour countries, which is about 5,000 – 6,000 VND/litter of petroleum, to earn benefits. If selling price of petroleum continues staying at the current level, smuggling will continue and become an evil, causing damages to the suppliers and the State.



Nguồn: Bloomberg

Assessment on the impact on inflation: In our opinion, the impact on inflation by this session of increase will not be serious.

- The price of petroleum depends on many changes in world oil price. World oil price in the past time increased rapidly and continuously for a quite long time due to economic and politic fluctuations. However, maybe an important part in the trend of increase in world oil price departs from the factor of speculation, thus, when oil price reaches top, there is usually phenomenon of reversion and decrease. The increase of oil price in recent time, in our opinion, is a timely action by the Government basing on the actual developments in the market and even taking into account the case of reducing the price when world oil price decreases and restoring import tax at a reasonable rate.
- As an important input goods in the productions, the increase in petroleum price may have certain impacts on the increase in the costs at enterprises and in the economy. However, in the past time, the Government has continuously had comprehensive and focused solutions, which is to tighten monetary to reduce total demand. Thus, the increasing of petroleum price may still have impacts on inflation, but when total demand in the economy narrows, the impacts by petroleum price will be somehow limited. According to our forecast, there is much possibility that inflation will begin decreasing since April after reaching the top in March; expectation on inflation is tending to decrease, too, and accordingly, it reduces the impacts in 2nd round of increasing petroleum price as well as the price of electricity and other inputs.

Impacts on Stock Market: Theoretically, the increase of petroleum price will continue making pressure on inflation and therefore reduces the expectation of decrease in interest rate in the coming time. Thus, the impact by this fact, in short- term, on Stock market is hardly any positive. However, we suppose that the impact will not be serious.

First, macro risks have been reflected much in a long time before. This event is assessed to have serious impacts when the market price of stocks stays at low level.

Second, in the past time, the thinking of investors is rather negative, while expected inflation in short term still stays at high level. Thus, regarding the impact by the investors's thinking, the impact by the increase of petroleum price is not so serious.

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