

Economic Update

13 Feb 2023

ECONOMIC UPDATE
Easing pressure on monetary market

- CPI increased by 4.9% yoy in Jan 23, the highest level since Mar 20.
- Yields on Vietnam's 5-year and 10-year government bonds fell sharply by 42 and 38 basis points, respectively, in Jan 2023.
- According to our estimates, the SBV bought about US\$3.6bn in foreign exchange reserves since the beginning of 2023.

Domestic demand is still positive so far but expected to weaken

Service sector kicked off the new year positively with gross retail sales of consumer goods and services grew 5.2% mom and 20% yoy, higher than that of 17.5% yoy increase seen in Dec 22. However, we believe the early arrival of Tet Holiday this year (in Jan) attributed to the strong yoy growth of domestic demand. Thus we expect service, including retail, will weaken in the coming months as shrinking manufacturing sector and gloomy property market.

Vietnam's CPI climbed to the highest level in nearly 3 years

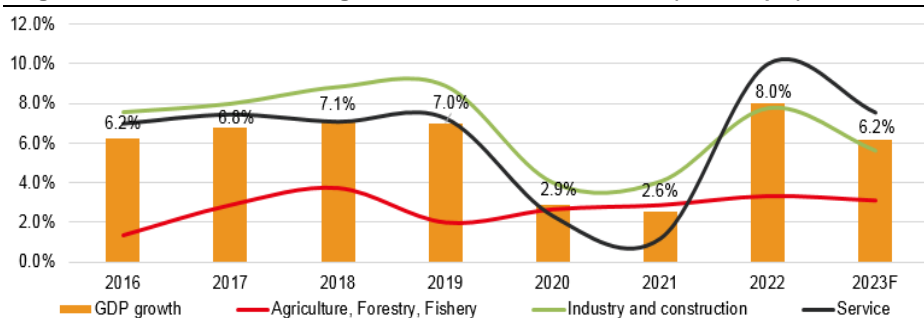
On mom basis, CPI rose strongly by 0.5%, mainly due to the increase of food and beverage prices. Specifically, Food & Foodstuff CPI increased 0.8% mom while Beverage & Tobacco CPI rose by 1.1% mom as consumer demand picked up during Tet Holiday. In addition, transport CPI increased by 1.4% mom due to the recovery of domestic gasoline prices in Jan 2023. On a yoy basis, CPI increased by 4.9% yoy in Jan 2023, the highest level since Mar 2020.

SBV lifted the foreign exchange reserves amid easing FX pressure

The decrease of the US\$ in the international market has contributed to reducing pressure on the VND exchange rate in Jan 2023. Specifically, as of 31 Jan 2023, the US\$/VND exchange rate on the interbank market fell to 23,450 from 23,633 on 31 Dec 2022. According to our estimates, the SBV bought about US\$3.6bn in foreign exchange reserves since the beginning of 2023. The increase in foreign exchange reserves helps strengthen the VND as well as support liquidity for the economy.

The uptrend of interest rates will approach the pivot point in 1Q23

We expect the deposit rate to peak out in 1Q23 and then cool down since 2Q23, basing on the following arguments: (1) FED's policy rates will peak out in 2Q23, which will ease the pressure on Vietnam's exchange rate and interest rates, (2) SBV will be more proactive in supporting market liquidity through open market channel or buying foreign exchange reserves, (3) weak lending demand due to economic slowdown and murky residential property market. We lower our forecast that the average 12-month deposit rate will drop to 7.5%/year by the end of 2023, lower than the previous forecast of 8.0-8.5%/year.

Figure 1: We maintain our GDP growth forecast for 2023 at 6.2% (+/- 0.3% pts)


Source: GSO, VNDIRECT RESEARCH

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EASING PRESSURE ON MONEYTARY MARKET

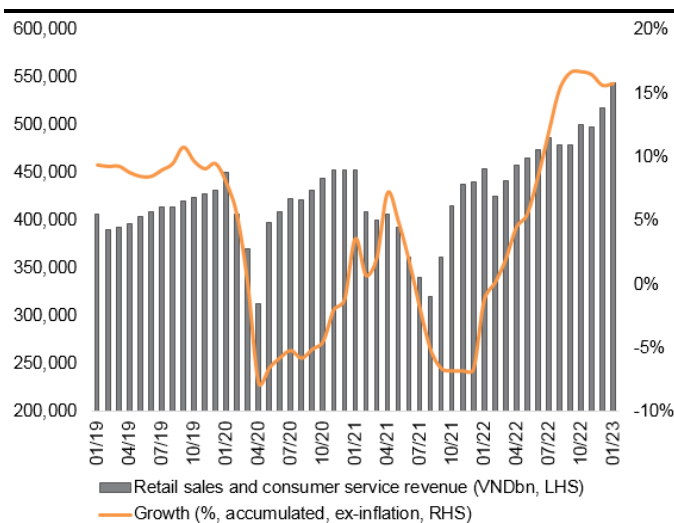
Domestic demand is so far so good but expected to weaken

Vietnam's service sector kicked off the new year positively with gross retail sales of consumer goods and services in Jan 2023 grew 5.2% mom and 20% yoy, higher than that of 17.5% yoy increase seen in Dec 22. If excluding the price factor, this item rose 15.8% yoy (equivalent to that of Dec 22).

The strong yoy growth of the service industry in Jan 2023 was importantly attributed to the early arrival of Tet Holiday in 2023. 2023 Tet Holiday begun from 20 Jan 2023 while it begun from 29 Jan 2022. Macro data is usually taken on the 23rd of every month which the high demand effect of Tet Holiday will favor for Jan domestic data performance. We expect service, including retail, will weaken in the coming months as shrinking manufacturing sector and gloomy property market.

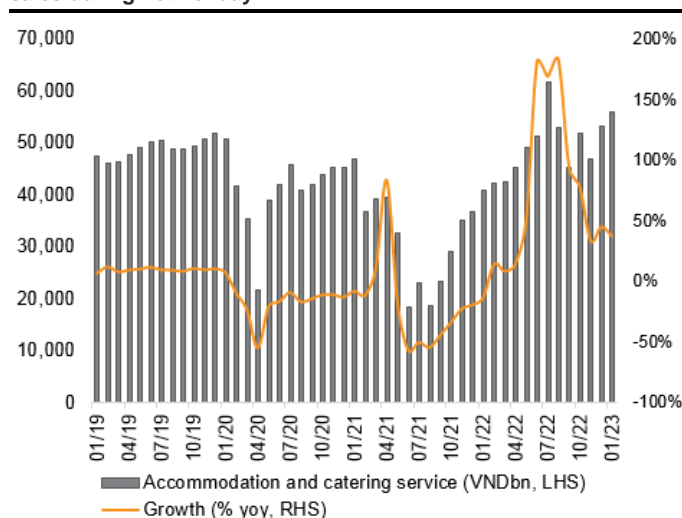
Tourism has a good start in 2023 and continues to be the most highlighted of the service sector. According to the Vietnam National Administration of Tourism, In Jan 23, the number of domestic tourists was about 13 million (+60% yoy). Meanwhile, international tourists were 871,200 (+44x yoy; 23.2% mom), recovering about 58% of pre-pandemic level. In 2023, Vietnam's tourism aims to welcome 110m tourists (+4.8% yoy), including 8m international visitors (+118.6% yoy) and 102m domestic visitors (+0.7% yoy). Total tourism revenue in 2023 is estimated at VND650,000bn (+31.3% yoy).

Figure 2: Domestic demand showed resilience during Tet Holiday



Source: GSO, VNDIRECT RESEARCH

Figure 3: Accommodation and catering service recorded positive sales during Tet holiday



Source: GSO, VNDIRECT RESEARCH

Manufacturing weakened on yoy basis due to early arrival of Tet holiday and lower order

According to GSO, Vietnam's Index of Industrial Production (IIP) dropped sharply 14.6% mom and 8.0% yoy in Jan 23 due to lower manufacturing orders and early arrival of Tet holiday (explained above).

Meanwhile, Purchasing Managers' Index (PMI) climbed to 47.4pts in Jan 23 from 46.4pts in Dec 22 but still below the 50-pt reference level for the past three months in a row. The data suggests that the worsen outlook of manufacturing in the next few months

Top industrial products in term of positive growth in Jan 2023 are: beer (+15.5% yoy), powdered milk (+10.8% yoy), crude iron and steel (+4.3% yoy), textile fabric from polyester or artificial yarn (+3.7% yoy), petroleum (+3.1% yoy).

Top industrial products saw negative growth are: liquidized gas (-33.3% yoy), motorbike (-32.1% yoy), autos (-31.7% yoy), steel bars and corners (-26.2% yoy), refined sugar (-25.7% yoy) and laminated steel (-25.6% yoy).

Figure 4: PMI stood at 47.4pts in Jan 2023, marking the third consecutive month PMI stayed below the 50-pt threshold

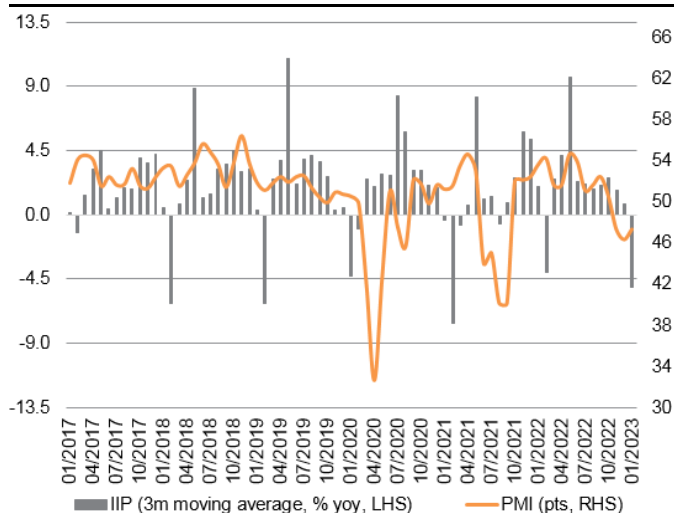
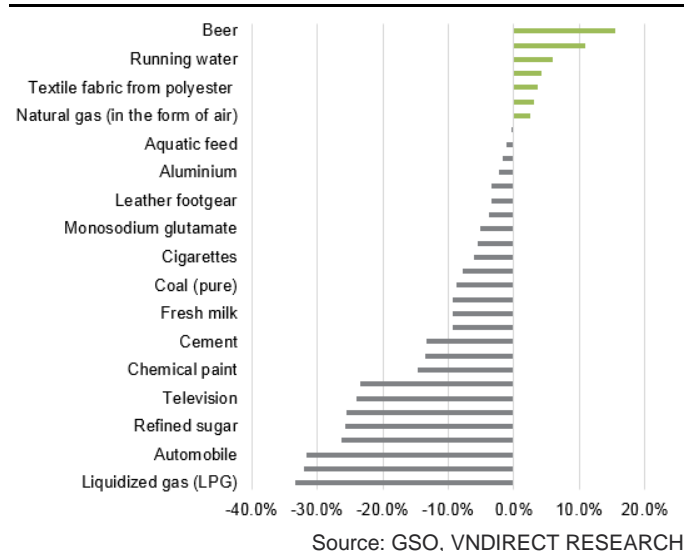


Figure 5: Output growth of some key industrial products in 2023



Export slumped due to the Tet holiday and low external demand

Export value declined deeply 21.3% yoy to US\$25.1bn in Jan 23, due to a sharp drop in orders and as a consequence of global demand compression and factory closure during Tet holiday. If compared to Feb 22 (Tet Holiday month), Jan 23 export value still increased by 7.7%.

Figure 6: Exports has declined since Nov 2022 due to weakening global demand

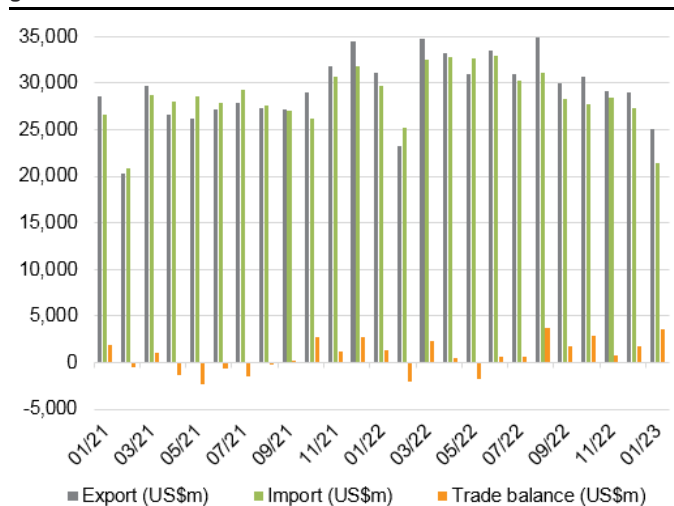
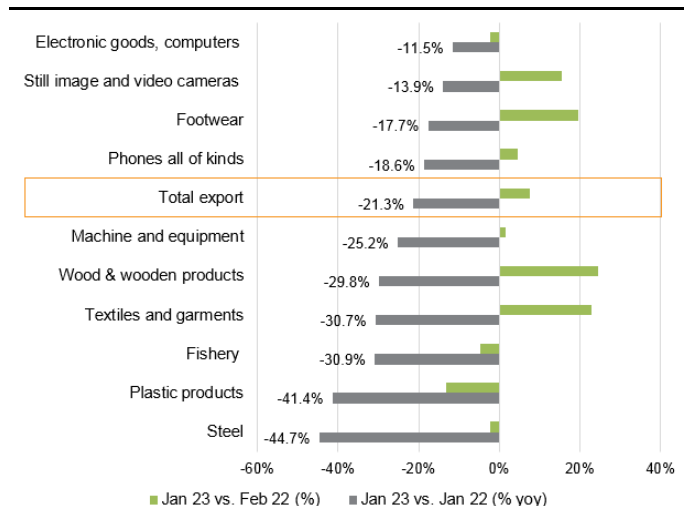
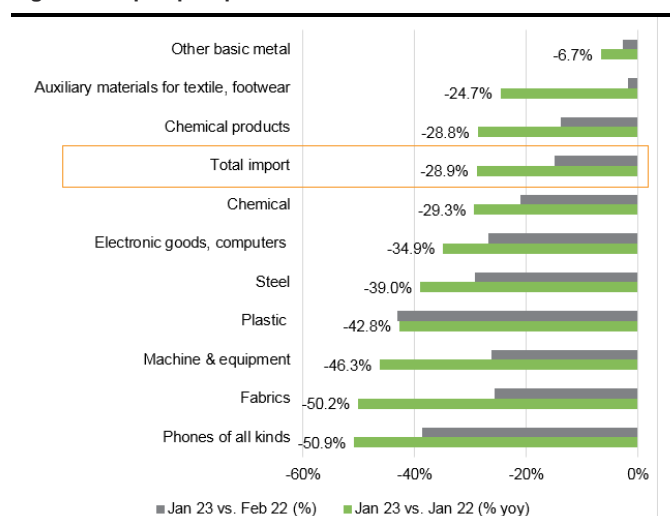


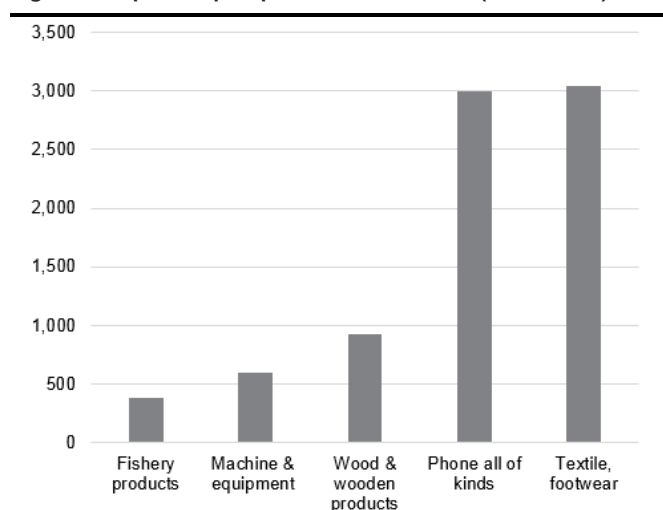
Figure 7: Top export products in term of value



On the other side, imports value dropped to US\$21.5bn in Jan 23, the lowest level in the past 2 years. This strong decline in imports has indicated the weak demand for imported raw materials, capital goods and intermediate products amid a decline in new orders for manufacturing. Regarding to trade balance, Vietnam's recorded a trade surplus of US\$3.6bn (+160% yoy) in Jan 2023.

Figure 8: Top import products in term of value


Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 9: Top net export products in Jan 2023 (Unit: US\$m)


Source: Vietnam Customs, VNDIRECT RESEARCH

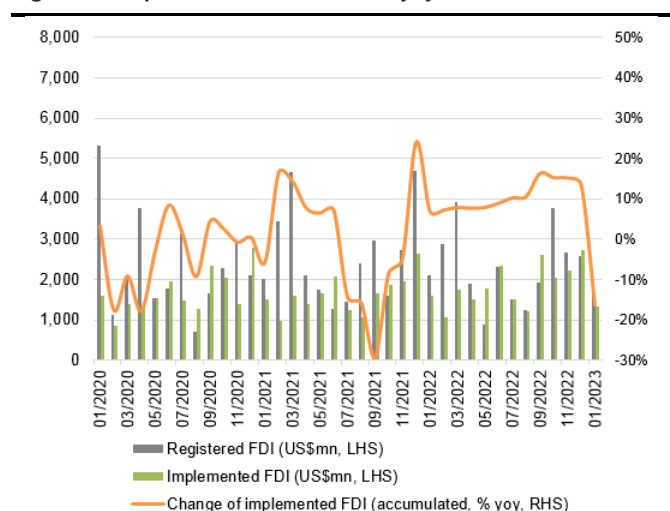
Basing on the global shrinking demand, weak PMI and declining import value, we expect Vietnam's export to grow 5% yoy in 2023, lower than the average of 15% yoy of the period FY21-22.

The export growth in 2H23 might be higher following the low base 2H22 and the full effect from strong recovery China demand after the economy reopens.

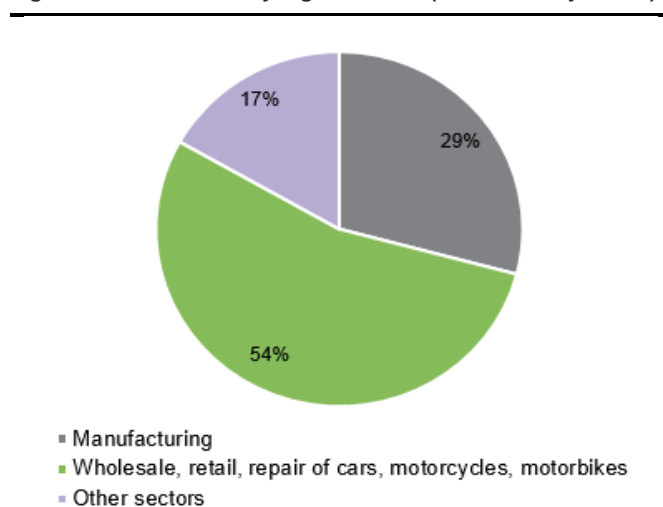
Soft foreign direct investment (FDI) inflow in Jan 23

Implemented FDI declined by 16.3% yoy to US\$1.4bn, meanwhile, registered FDI dropped by 19.8% yoy to US\$1.7bn, according to GSO.

To be more specific, 153 newly licensed projects (+48.5% yoy) with a registered capital of US\$1.2bn (3.1 times higher than the same period in 2022); 89 projects licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US\$0.3bn (-75.9% yoy); 204 turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US\$0.2bn (-60.7% yoy).

Figure 10: Implemented FDI fell 16.3% yoy in Jan 2023


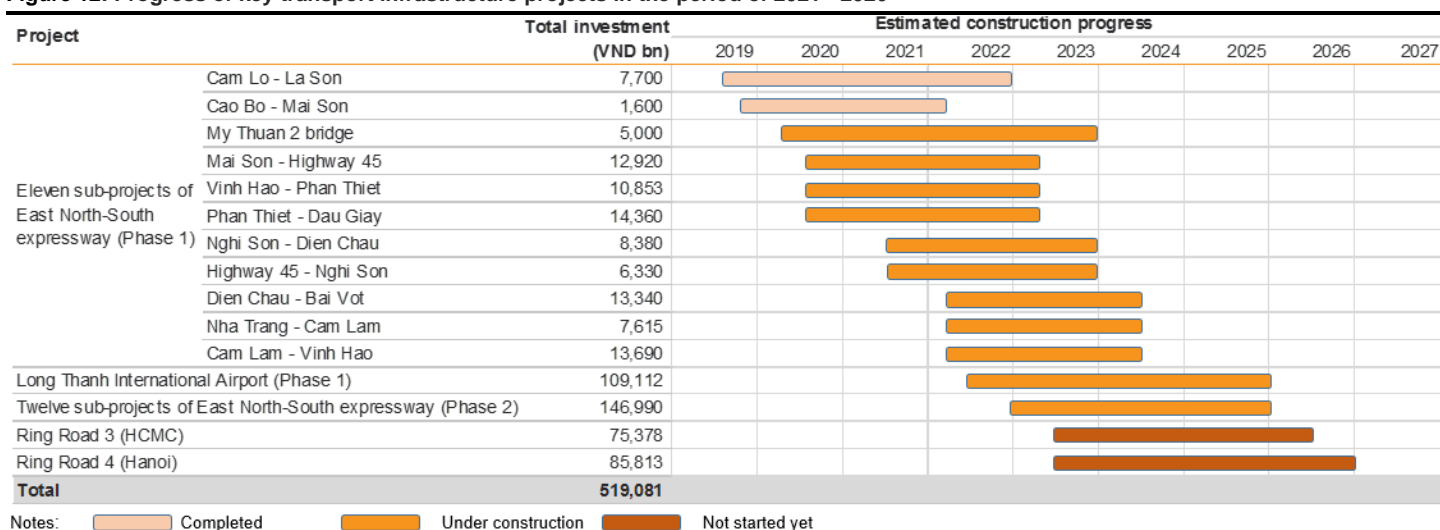
Source: GSO, MPI, VNDIRECT RESEARCH

Figure 11: Jan 2023 newly registered FDI (breakdown by sector)


Source: GSO, MPI, VNDIRECT RESEARCH

State investment has a strong kick-off

Figure 12: Progress of key transport infrastructure projects in the period of 2021 - 2026



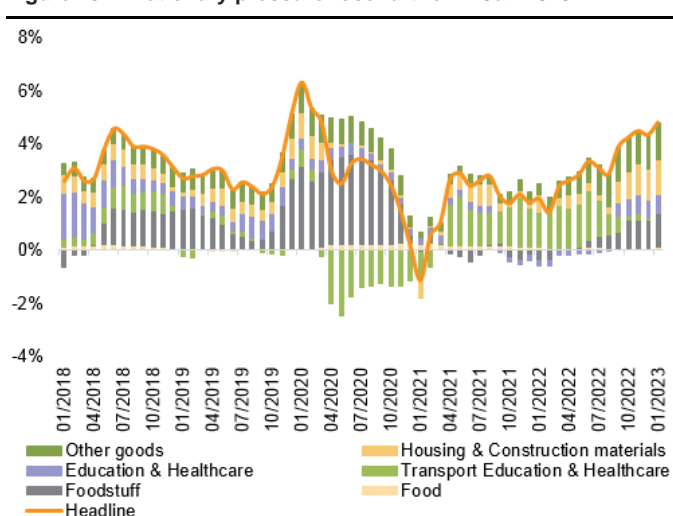
Source: VNDIRECT RESEARCH

On Jan 1, 2023, 12/25 component projects of the North-South Expressway Project phase 2 were started construction, on schedule previously announced by the Ministry of Transport. The remaining 13 component projects have completed the contractor selection and are expected to start construction in the first quarter of 2023. The commencement of the North-South Expressway Project phase 2 project right in 1Q23 will create a positive impetus to fulfill the ambitious goal of disbursing more than VND726,000bn of public investment in 2023 (+22% vs. previous year plan).

According to GSO, the implemented state capital (public investment) in Jan 23 rose 3.2% yoy to VND27.0tr. This is a relatively positive result because this year's Lunar New Year took place entirely in January 2023 (last year took place in early February).

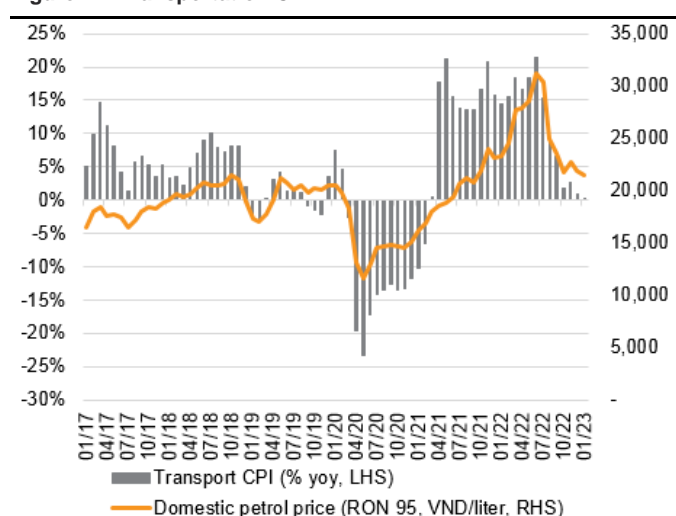
Inflationary pressure is rising as we expected

Figure 13: Inflationary pressure rose further in Jan 2023



Source: GSO, VNDIRECT RESEARCH

Figure 14: Transportation CPI



Source: GSO, VNDIRECT RESEARCH

CPI rose strongly by 0.5% mom, mainly due to the increase of food and beverage prices. Food & Foodstuff CPI increased 0.8% mom while Beverage & Tobacco CPI rose by 1.1% mom as consumer demand picked up during Tet Holiday. Transport CPI increased by 1.4% mom due to the recovery of domestic gasoline prices in Jan 2023. On a yoy basis, Vietnam's CPI increased by 4.9% yoy in Jan 2023, the highest level since Mar 2020

We expect inflation pressure to remain high in 1H23 as following reasons:

On demand side:

- We expect retail sales of consumer goods and services to increase 8.5-9.0% yoy in 2023F, lower than that of 19.9% yoy in 2022.
- The National Assembly has decided to increase the base salary to VND1.8m/month, equivalent to an increase of 20.8%, effective since 01/07/2023. In addition, an increase in pensions, social insurance allowances, and job allowances for a number of people such as pensioners from the state budget, grassroots medical staff... was approved. Once the base salary increased, inflation also tended to increase due to the psychology of increasing wages associated with the increase in the price of consumer goods of a part of grocery and retail businesses.

From supply side:

- Though global commodities have peaked out, the effect of strengthening US\$ on imported material still linger till 3Q23F.
- The yoy higher cost of debt will be fully pass-through the retail prices for end-users.
- It is high likely that the government will raise the prices of some public essential services, ie: electricity, health care, and school fees this year. To be more specific, the retail electricity price will be under upward adjustment pressure in 2023 due to the increase in production costs (increased exchange rate, increased input material prices including coal, gas...). Accordingly, the government has just promulgated a new average retail electricity price bracket, with the minimum (excluding VAT) being VND1,826.22/kWh, the maximum being VND2,444.09/kWh. Compared to the old price bracket, the minimum price increased by VND220.03/kWh (equivalent to 13.7%); maximum price increased by VND537.67/kWh (equivalent to 28.2%). In fact, the average retail electricity price bracket is the floor and ceiling level for the government to regulate the official retail price of electricity. The change in the average retail electricity price bracket has not immediately changed the official retail electricity price for daily life and business activities. Currently, the official average retail price of electricity is VND1,864.44/Kwh, still within the new retail electricity price bracket.

We forecast Vietnam's CPI to average at 4.2-4.6% yoy in 1Q23F. We keep unchanged our forecast of the 2023F average headline inflation increase of 3.8% yoy (+/- 0.2 percentage points), below the government's guidance of 4.5%. Downside catalyst for 2023F CPI could be: lower-than-expected demand in developed markets amid economic slowdown. Upside risk could be the stronger-than-expected demand recovery of China might boost the global inflation up.

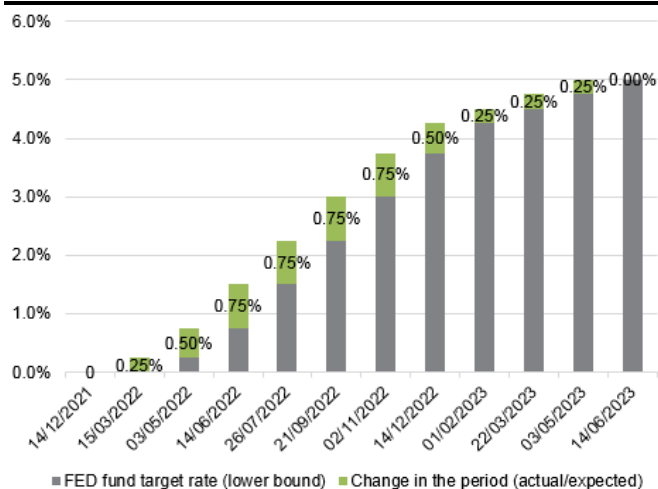
The pressure on VND eased, SBV began to buy USD

More dovish messages in the latest FED 's statement

Fed scaled back to a quarter-percentage-point rate increase in the last policy meeting (Feb 1, 2023) after a year of larger hikes. This move was expected by the market before when inflation data in recent months showed that inflation in

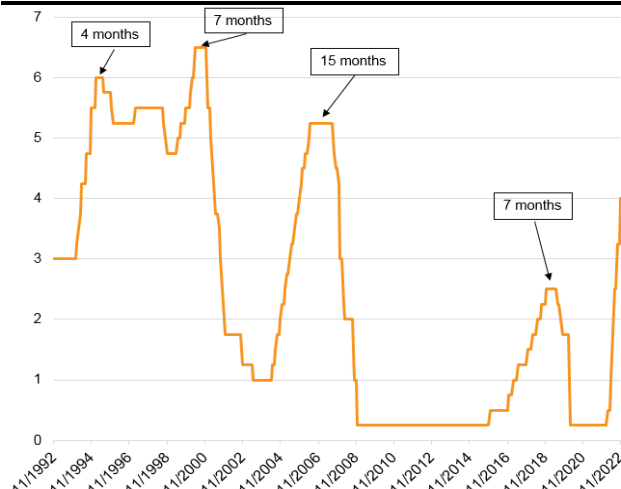
the US tended to decrease markedly. Unexpectedly, Fed Chairman Jerome Powell had delivered some dovish messages on monetary policy. Specifically, Fed chairman said that "We can now say for the first time that the disinflationary process has started, this is a good thing" and he also said "If we feel like we've gone too far, and inflation is coming down faster than we expect, then we have tools that would work on that". Although the Fed chairman said there was still a lot of work to be done to hit the inflation target and there could be some rate hikes to come, the market believes that "the end of the monetary tightening cycle is near." Markets are now betting that the Fed will raise the benchmark interest rate by 25 basis points at its next meeting in mid-Mar and another 25 basis points at its May meeting, and then stop raising rates after that. Thus, the market forecast the top of the Fed's rate hike cycle at 5.25%, unchanged from previous expectations.

Figure 15: Markets bet that Fed might raise the benchmark interest rate by 25 basis points at its next meeting in mid-Mar



Source: IMF, VNDIRECT RESEARCH

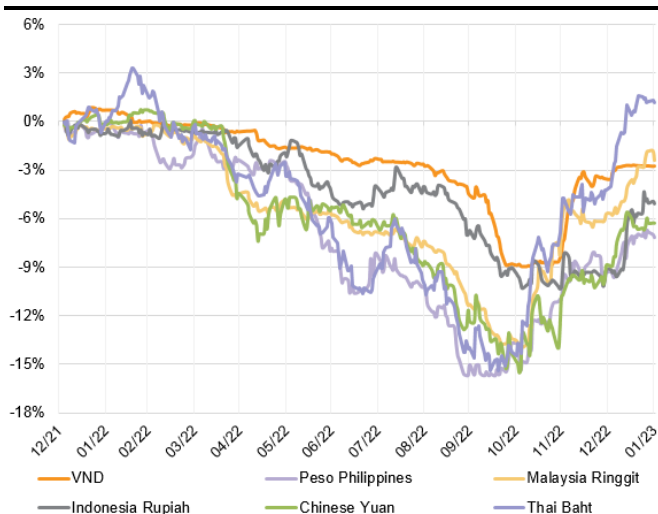
Figure 16: The first Fed cut in the median hiking cycle has often come roughly 7 months after the last hike



Source: BLOOMBERG, VNDIRECT RESEARCH

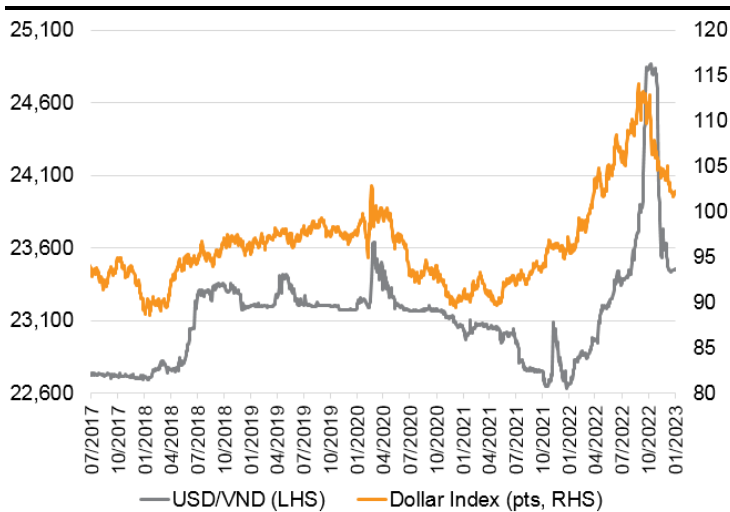
State Bank of Vietnam started buying US\$ as the pressure on VND eased

Figure 17: Regional currencies appreciated against US\$ (% ytd)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 18: The US\$/VND exchange rate movements (Jul 2017- Jan 2023)



Source: SBV, VNDIRECT RESEARCH

Before Fed's rate hike, the US dollar lost its appeal against other major currencies, dragging the DXY index down further 1.4% in Jan 2023 (-10.5% vs.

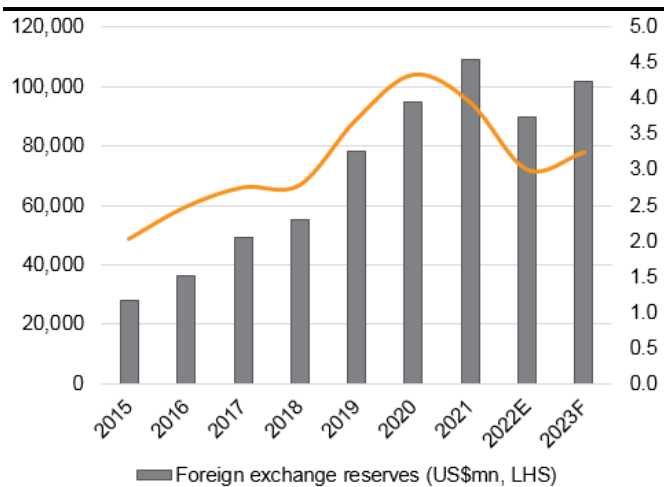
its peak at 114 points in late Sep 22). After Fed's latest meeting, the DXY fluctuated between 101-103, slightly lower than the level at end-Jan 23.

At as end-Jan 23, the softer DXY has brought the US\$/VND down 0.8% ytd to 23,450. The USD also depreciated against regional currencies, including, Chinese Yuan (-2.5% ytd), Malaysian Ringgit (-3.1% ytd), Philippine Peso (-3.7% ytd), Indonesian Rupiah (-4.4% ytd) and Thai Baht (-4.8% ytd).

Additionally, cooling exchange rates have allowed SBV to shifting its priority to stabilizing interest rates to support businesses and the economy. According to our estimates, SBV bought about US\$3.6bn since the beginning of 2023.

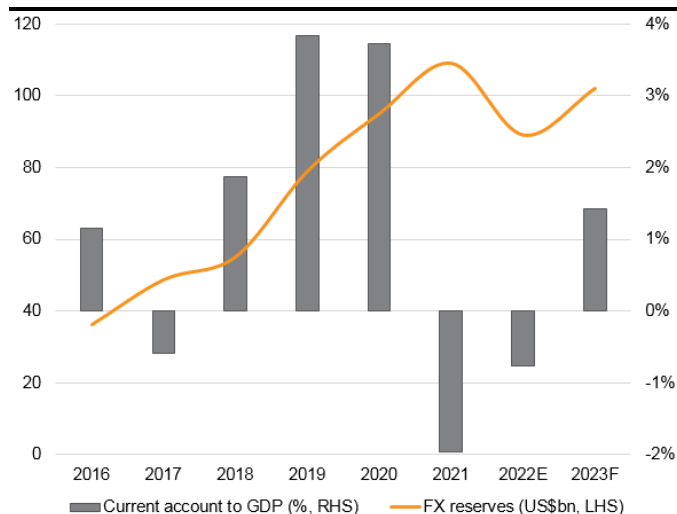
Vietnam's FX reserve is expected to reach US\$102bn by the end of 2023, ~ 3.3 months of import. We expect US\$/VND exchange rate to fluctuate in the range between 23.400 and 23.800 within 2023.

Figure 19: Vietnam's import coverage (month) and FX reserves



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 20: Vietnam's current account and FX reserves

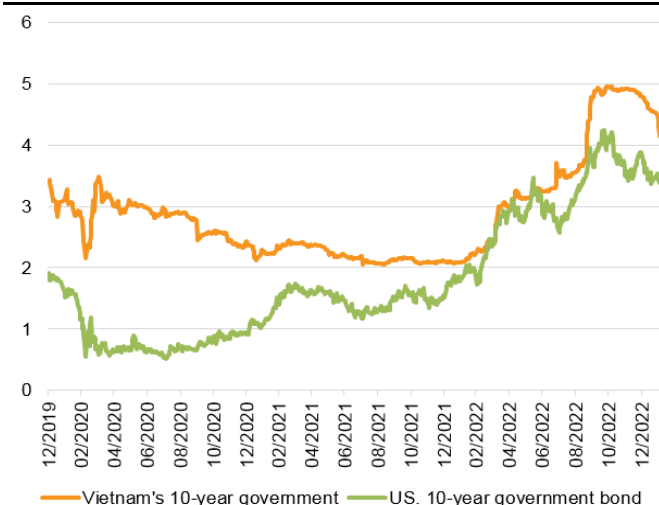


Source: SBV, VNDIRECT RESEARCH

The uptrend of interest rates will approach the pivot point in 1Q23

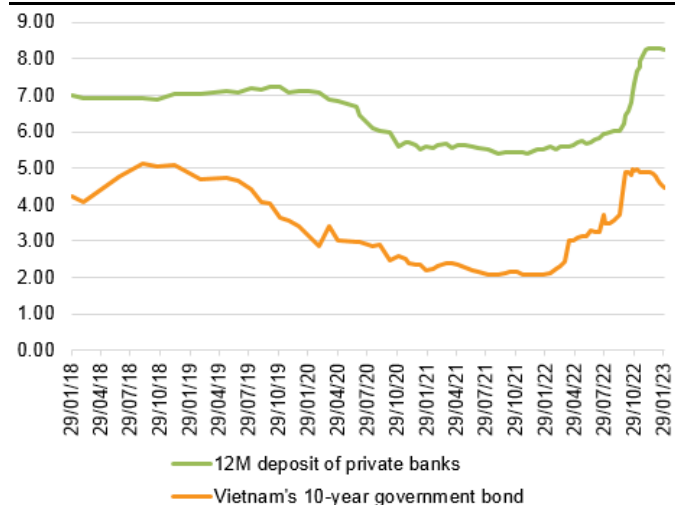
Government bond yields are declining across all tenures

Figure 21: Vietnam's 10-year government bond yield declined significantly in Jan 2023 (Unit: %)



Source: VBMA, BLOOMBERG, VNDIRECT RESEARCH

Figure 22: The reversal trend of government bond yields usually precedes the reversal trend of deposit rates (Unit: %)



Source: VBMA, BLOOMBERG, VNDIRECT RESEARCH

As of end-Jan 23, on secondary market, Vietnam's 5-year and 10-year G-bonds yields decreased 42 and 38 basis pts ytd, to 3.8% and 4.1%, respectively. On primary market, 10-year and 15-year G-bond yields dropped 45 and 40 basis pts ytd, respectively. Basing on our perspective, the reversal trend of G-bond yields often heralds the turning point for of deposit rates.

We expect the deposit interest rate to peak out 1Q23 and then decrease since 2Q23

Deposit interest rates stayed flat across all tenures in Jan 2023. As of end-Jan 23, the average 12-month term deposit rates of private banks and state owed banks were 7.4% and 8.2%, respectively.

Figure 23: The interbank overnight interest rate rose by 75 basis points in Jan 2023 (Unit: %)

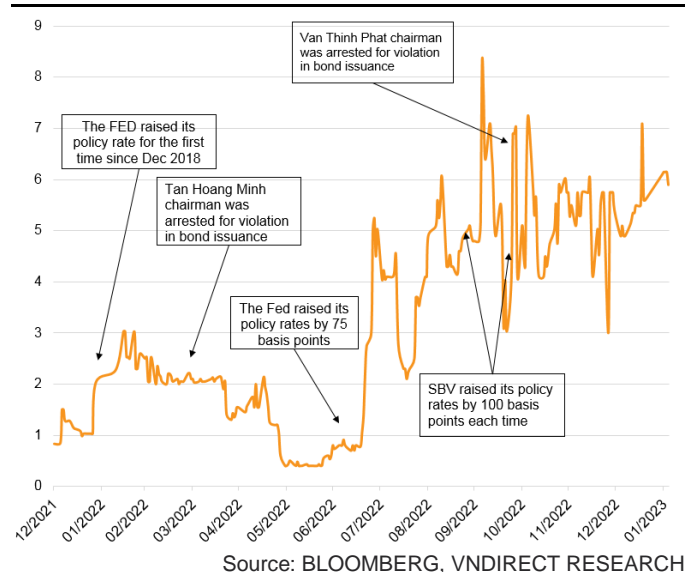


Figure 24: The deposit interest rates stayed flat in Jan 2023 (Unit: %)

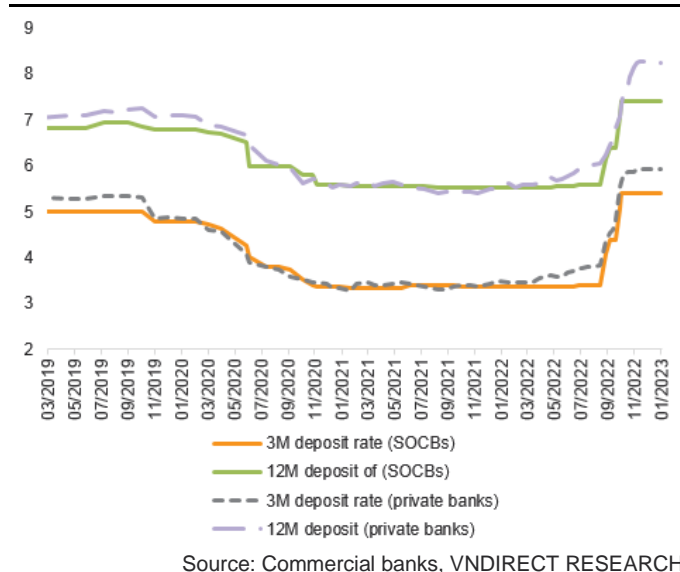


Figure 25: We expect SBV's policy rate to keep unchanged in 2023F

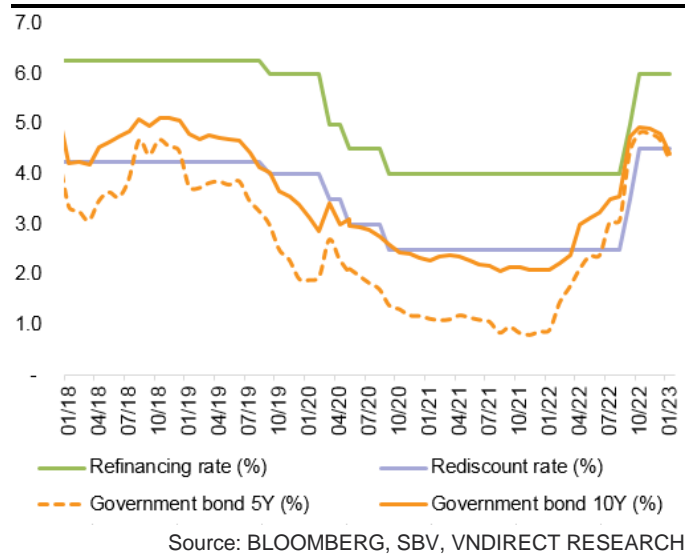
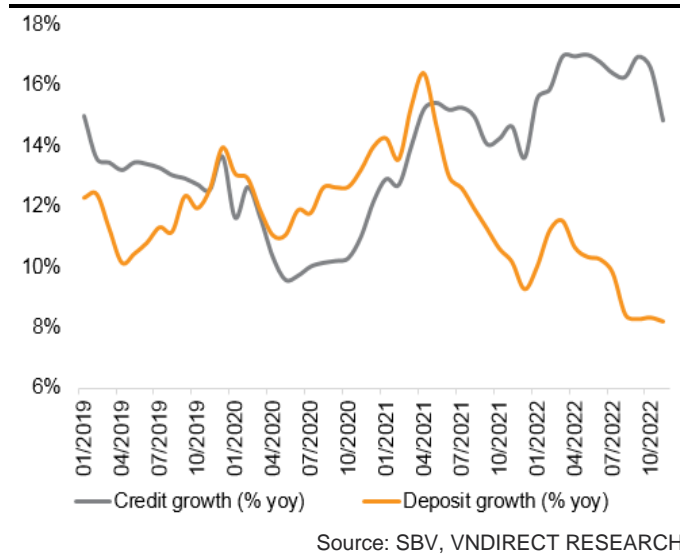


Figure 26: Credit growth vs. deposit growth



We expect the deposit interest rate to peak out 1Q23 and then decrease since 2Q23, basing on following arguments:

- Market pricing of Fed 's terminal rate is now 5.25% with two 25bps hikes at the Mar and May meeting largely priced in which is weakening the DXY and gradually easing the pressure on VND.
- We maintain our view that the SBV will keep policy rates unchanged in 2023 and proactively support market liquidity through the open market channel, purchasing foreign exchange reserves, etc.
- Weak lending demand as corporates slow down the business expansion related to concerns over sluggish consumption. Additionally, the murky residential property market will weigh on credit growth.

We expect that the average 6-month and 12-month deposit rates to gradually slide to 6.7% and 7.5% toward year-end.

SBV 's effort to lower lending interest rates in order to support the economy growth

The SBV said banks with lower lending interest rates will be granted higher credit quotas than others. Therefore, we believe that there are banks that will actively reduce a part of net interest margin (NIM) to have an advantage in receiving higher credit allocation limit in the future. Currently, the average NIM of Vietnam's commercial banks is around 3.2%-3.4%, relatively high compared to commercial banks in other countries in the region such as Thailand (average NIM is from 2.7%-3%); Malaysia (2-2.3%); China (~2%); Singapore (~1.6%).

We keep our GDP growth forecast for Vietnam's economy unchanged at 6.2% in 2023F.

Figure 27: Key macro forecasts in 2022-2023F

Indicator	Unit	2018	2019	2020	2021	2022	2023F	1Q23F	2Q23F	3Q23F	4Q23F
Real GDP growth	% yoy	7.5	7.4	2.9	2.6	8.0	6.2				
Export growth	% yoy	13.3	8.4	6.9	18.9	10.5	5.0				
Import growth	% yoy	11.8	6.9	3.7	26.7	7.8	4.9				
Trade balance	USD bn	6.9	10.9	18.9	3.3	12.4	13.4				
Current account balance	USD bn	5.8	12.8	12.7	-7.2	-3.0	6.2				
Current account to GDP	% of GDP	1.9	3.8	3.7	-2.0	-0.8	1.4				
FX reserves	USD bn	55	78	95	109	90	102				
FX to GDP	% of GDP	17.8	23.4	27.4	29.9	22.6	23.5				
Import coverage	months	2.8	3.7	4.3	3.9	3.0	3.3				
CPI (period average)	% yoy	3.5	2.8	3.2	1.8	3.2	3.8	4.4	3.6	3.5	3.9
Credit growth	% ytd	13.9	13.7	12.1	13.6	14.0	11.5				
Credit to GDP	% of GDP	102.9	106.3	114.2	123.1	126.5	130.4				
M2 growth	% ytd	12.4	14.8	14.7	10.7	8.0	10.2				
Refinancing rate	%	6.3	6.0	4.0	4.0	6.0	6.0	6.0	6.0	6.0	6.0
12M deposit interest rate (year-end)	%	6.9	7.0	5.6	5.6	7.8	7.5	7.8	7.8	7.7	7.5
Government bond 10Y (year-end)	%	5.1	3.4	2.4	2.1	5.0	4.0	4.2	4.3	4.2	4.0
Exchange rate (USD/VND)	% yoy	22,853	23,173	23,103	22,826	23,633	23,800	23,600	23,700	23,800	23,800
Fiscal balance	% of GDP	2.2	2.9	2.9	3.4	4.0	3.9				
Public debt	% of GDP	46	43	44	43	42	43				

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

Downside risks to our implication:

- (1) **Higher than expected inflation:** China's reopening is a variable for global inflation in 2023. Stronger than expected demand recovery of China might boost the global inflation higher-than-expected.
- (2) **Stronger than expected DXY could put more pressure on Vietnam's exchange rate:** Markets are betting on a scenario where the Fed only raises its policy rate by 50 basis points. However, if for some reason, such as higher-than-expected inflation or higher-than-expected wage growth, it is possibility that the Fed could raise its policy rate more than the current market scenario. This could make DXY stronger and put more pressure on the VND exchange rate.
- (3) **Slower-than-expected economic growth of Vietnam's major trading partners hit Vietnam's exports harder:** Our export growth scenario is based on the assumption that the U.S. economy can avoid a recession in 2023. In case that the U.S. economy falls into a recession, it will have a worse impact on Vietnam's export and GDP growth in 2023.

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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