

Economics Update

Reviving the economy

- The service and industrial sectors saw a rebound in May after Vietnam’s government relaxed social distancing rules from 23 Apr onwards.
- Headline inflation eased to 2.4% yoy in May.
- The overnight rate in late May was 0.3%, the lowest level since Oct 2016.

Service sector showed signs of recovery in May

The service sector turned the corner in May after the government began easing social distancing rules on 23 Apr. According to the General Statistical Office (GSO), the total value of retail sales and services rose 26.9% mom in May to VND384,817bn, but declined 4.8% yoy. Among sub-sectors, retail increased 17.3% mom and 1.6% yoy while the sales of food and catering services surged 95.8% mom, but were still 33.8% lower yoy. Tourism, the hardest-hit sector by Covid-19 pandemic, soared 782.4% mom as the government reopened tourism to domestic travellers.

Industrial sector makes modest recovery

According to GSO, Vietnam’s May Index of Industrial Production (IIP) rose 11.2% mom but slipped 3.1% yoy. Also, Vietnam’s May IHS Markit Purchasing Managers’ Index (PMI) climbed to 42.7pts from the record low of 32.7pts in Apr 20 (note that PMI below 50 indicates a decline in the manufacturing sector). The relatively slow recovery of the industrial sector was due to low external demand for industrial products as major economies still maintained social restrictions in May to contain the pandemic.

Headline inflation eases further in May

Vietnam’s May headline inflation slowed to 2.4% yoy (vs. 2.9% yoy in Apr), the lowest rate since Oct 2019. On a month-on-month basis, the headline CPI stayed flat as a fall in transportation price index (-2.2% mom) was offset by price increases in food and foodstuff (+0.34% mom), beverage and tobacco (+0.25% mom), as well as accommodation and construction materials (+0.25% mom).

Overnight rate hit the lowest level since Oct 2016

The State Bank of Vietnam (SBV) has injected nearly VND120,000bn into the banking system via open market operation (OMO) in May. Meanwhile, credit demand remained weak, as SBV data showed that credit growth turned negative in the first half of May, resulting in excess supply in the interbank system. As a result, the overnight rate in late May hit 0.3%, the lowest level since Oct 2016. We expect SBV to further loosen monetary policy to support the country’s economic growth.

We reiterate our GDP growth forecast of 4.5% in 2020F

We expect Vietnam’s GDP growth to bottom out in 2Q20F, and then strongly bounce back in 2H20F as the reopening of major economies such as the US and the EU post-Covid-19 could lift external demand for Vietnam’s products. The Vietnamese government could accelerate public investment to support the economy too.

Economist(s)

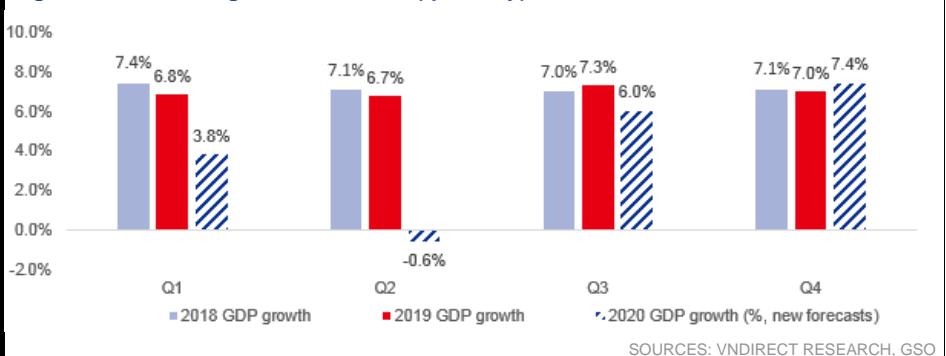


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Figure 1: 2020 GDP growth forecasts (quarterly)

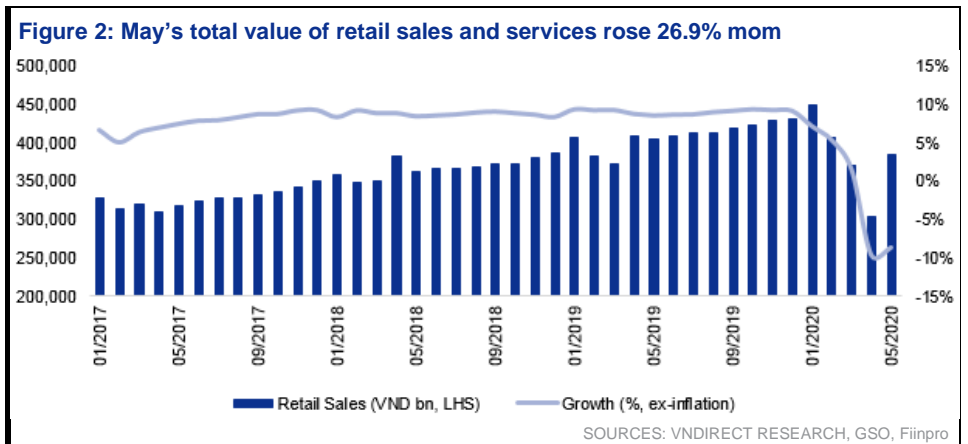


Reviving the economy

Vietnam's economy begins to recover

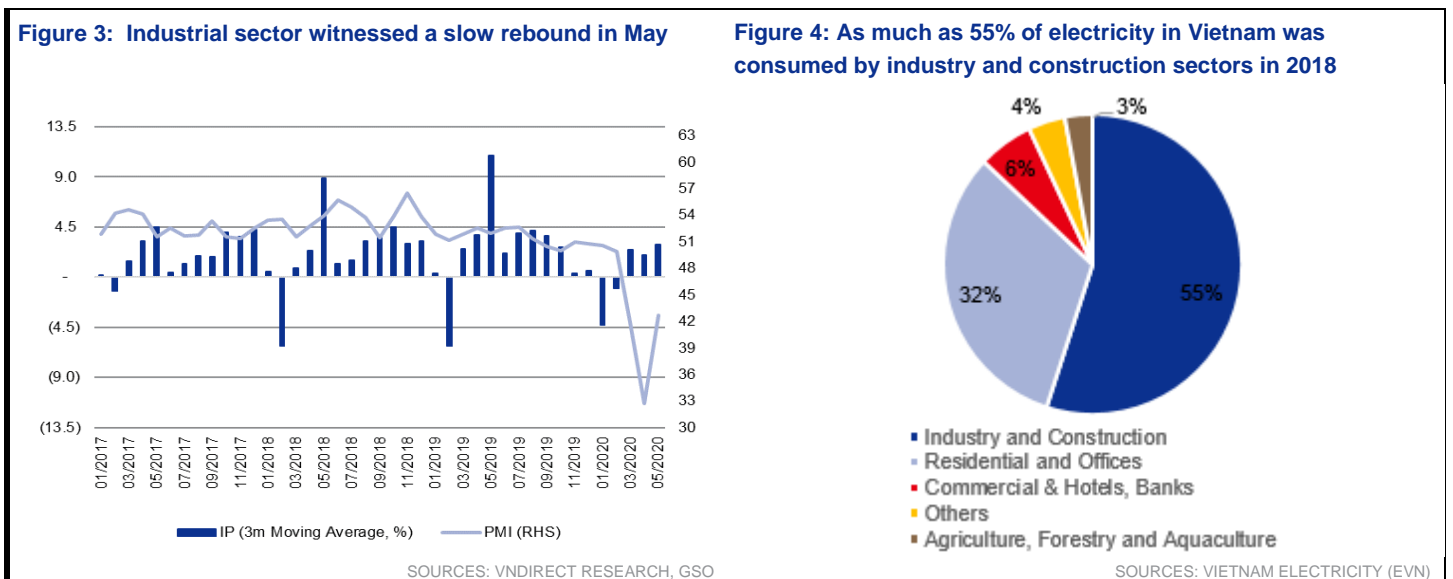
Service sector shows signs of recovery >

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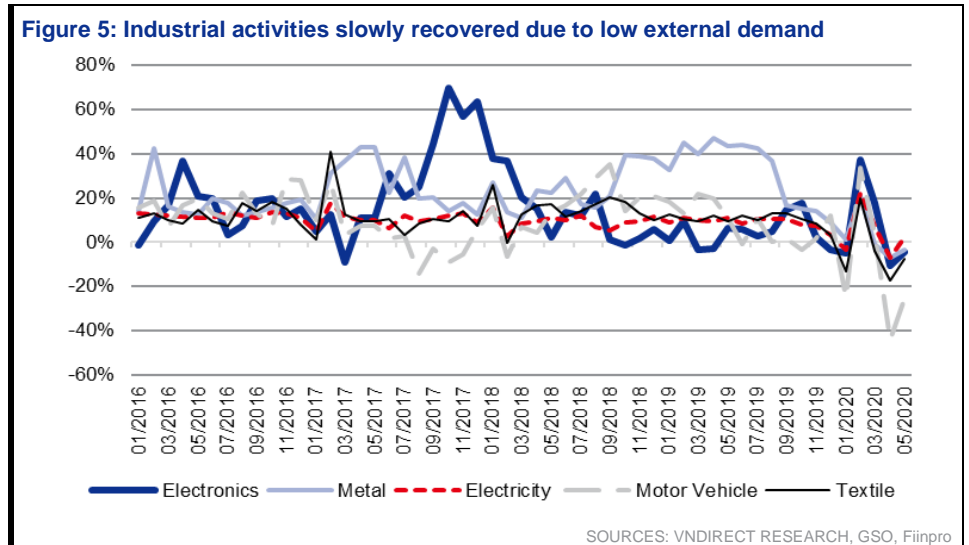


Industrial activity makes modest recovery >

According to GSO, Vietnam's May IIP rose 11.2% mom, but still slid 3.1% yoy. Also, Vietnam's May IHS Markit PMI climbed to 42.7pts, from the record low of 32.7pts in Apr 20 (noted that PMI below 50 indicates a decline in the manufacturing sector). Industrial activity's relatively slow recovery was due to low external demand as most major economies still maintained social restrictions in May to contain the Covid-19 pandemic.



The electricity sector recorded a 2% yoy increase in May. This suggests that industrial activity is recovering. Note that the industrial and construction sectors consumed as much as 55% of electricity in Vietnam in 2018.



On a year-on-year basis, the sectors that recorded positive growth in 5M20 were pharmaceuticals (+24.3% yoy), chemicals (+8.4% yoy), paper (+7.2% yoy), tobacco (+5.7% yoy), coal (+3.3%) and food production (+3.0%). Auto production (-25.6% yoy), crude oil and natural gas exploitation (-16.3% yoy), leather (-10.6% yoy), furniture products (-9.2% yoy) and textile (-7.3% yoy) contracted in 5M20.

Headline inflation eases further in May

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Figure 6: On a year-on-year basis, headline CPI eased further in May as transportation price index declined

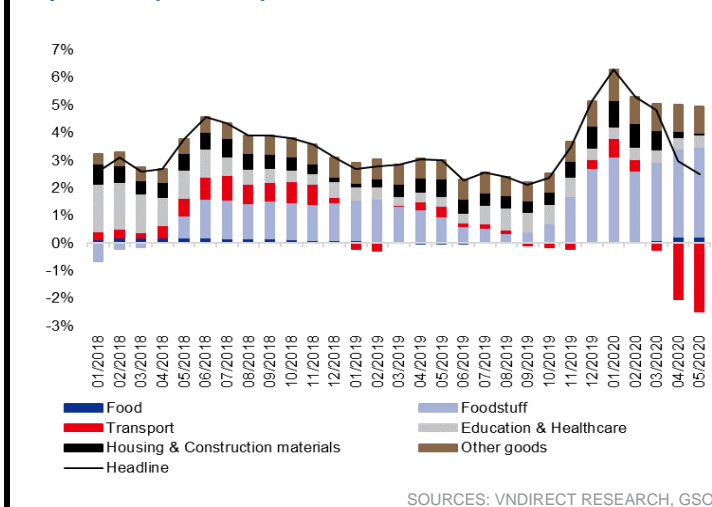
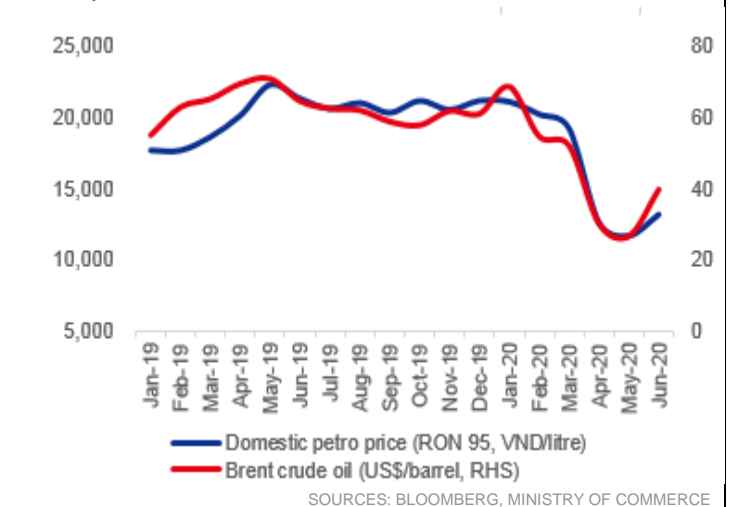


Figure 7: Brent crude oil and domestic petrol price (2019-current)



Vietnam’s currency appreciated in May

Although the central bank’s exchange rate was held largely stable throughout May, the market rate showed that the dong had strengthened. Specifically, the exchange rate offered by Vietcombank (VCB VN, Add, TP: VND86,200), Vietnam’s largest commercial bank, slipped 0.6% in May to VND23,160-23,370/US\$, while the dong appreciated 0.7-

0.8% against the US dollar in the black market in May. Since the beginning of 2020, the central bank's exchange rate has edged up 0.4%, VCB's exchange rate has climbed 0.2-0.6% and the black market rate has increased 0.5-0.6%. This shows that the gap between the central bank's exchange rate and the market rate has narrowed. In our view, this should reduce speculation in the foreign exchange market and allow SBV to raise foreign reserves in the upcoming months.

Figure 8: The movement of central bank's exchange rate and VCB's exchange rate

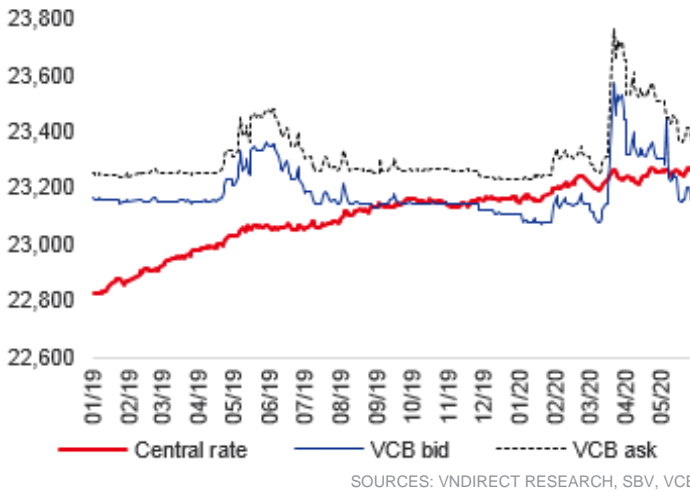
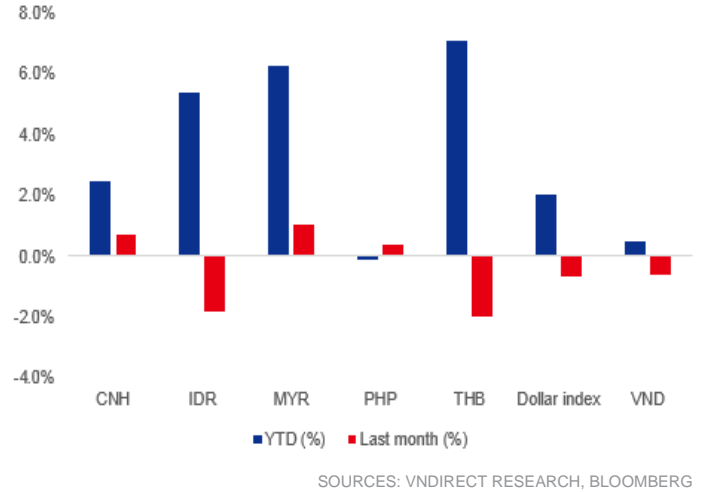


Figure 9: Vietnamese currency is more stable than most regional peers



As we can see in Figure 9, the Vietnamese dong is more stable than most of its regional peers, a factor that might hurt Vietnam's export competitiveness. However, we believe a sharp devaluation will not be the government's priority in the context of depressed trade and investment activities. In our view, the government would want to control inflation to allow more room for an accommodative monetary policy. Therefore, we expect that the dong may move within a relatively narrow range vs. US\$ in 2H20F. We estimate the dong to only depreciate 1-2% vs. the dollar in 2020F.

Overnight rate hit the lowest level since Oct 2016 ➤

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Figure 10: The overnight rate hit the lowest level since Oct 2016

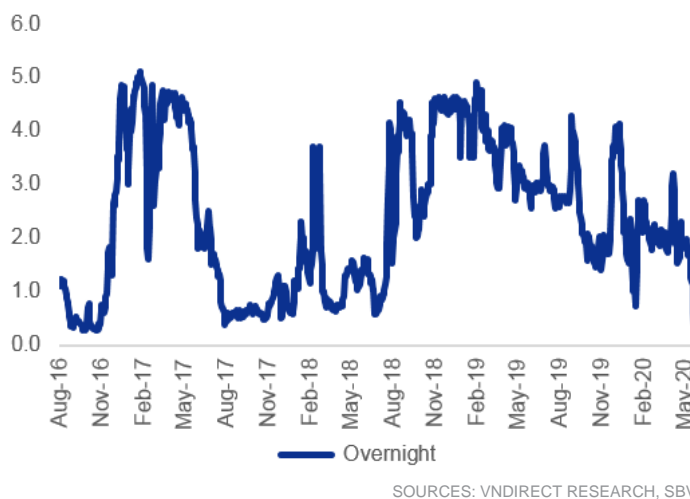
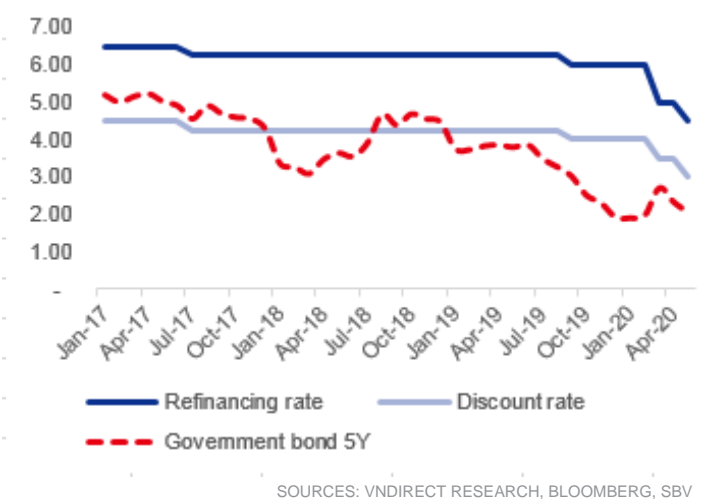


Figure 11: Key policy rates



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- (d) MAS Notice on Recommendation on Investment Products [Notice No. FAA-N16];
- (e) Section 36 (obligation on disclosure of interest in securities), and
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Corporate Governance Report:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2020		
811 companies under coverage for quarter ended on 31 March 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.8%	0.1%
Hold	27.6%	0.0%
Reduce	11.6%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

[1 CG Score 2019 from Thai Institute of Directors Association \(IOD\)](#)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

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.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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