Heading for a strong finish

- Manufacturing and export growth trajectories are still on track, though at a softer pace.
- After 2 months of stagnation, deposit rates appear to be on the rise again in Nov, and they are expected to inch up slightly by 20 bps toward the year-end.
- We expect the economy to expand by 7.0% - 7.1% yoy in 2024, despite a manufacturing speedbump.

Manufacturing sector stalled due to relatively weak exports amid subdued global demand

Exports in Nov expanded by 8.2% yoy, mainly driven by textile fibres (+68.7% yoy), pepper (+37.3% yoy), and furniture made of non-wood materials (+33.8% yoy), while imports surged by 9.8% yoy. For 11M24, exports and imports grew by 14.4% and 16.4%, respectively, resulting in a trade surplus of USD 24.31bn. Production activities linger positive growth with the Industrial Production Index (IIP) leaped by 8.9% yoy. Meanwhile, the growth of the manufacturing sector was somewhat halted by a softer rise in output and new export orders due to weak international demand, causing the PMI index to drop from 51.2 in Oct to 50.8 in Nov.

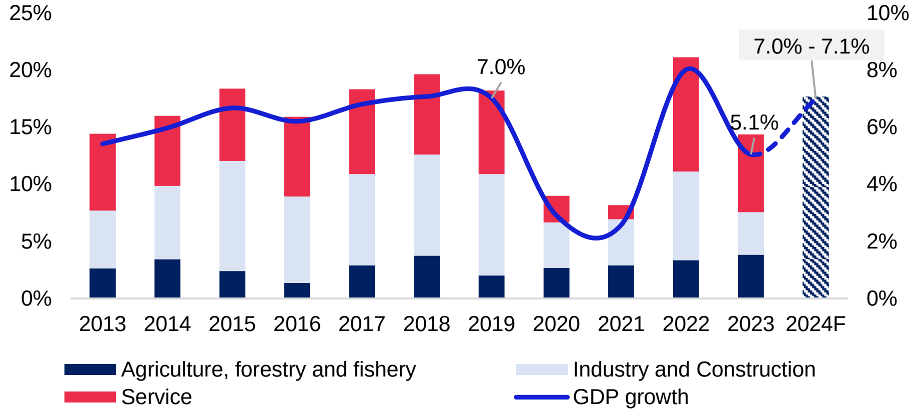
Inflation continued to ease, with the CPI reaching 3.7% in 11M24

CPI in Nov nudged up slightly by 0.13% mom and by 2.77% yoy. The main factor contributing to the rise in CPI was an 7.8% yoy increase in electricity prices following EVN's adjustment of the average retail electricity price in early October. However, inflationary pressures were partly offset by a decline in domestic gasoline and oil prices from last year's high base. Therefore, we expect the average CPI for 2024 to reach 3.9%, driven by lower fuel prices due to relatively slow demand recovery. However, some inflationary pressures persist, including an expected recovery in domestic construction steel prices and a potential rise in commodity prices as geopolitical conflicts could flare further and lead to supply chain disruptions.

We expect the 2024 GDP growth to reach 7.0% - 7.1%

Based on the accelerated economic growth in 2Q and 3Q, the Ministry of Planning and Investment has set a growth target of 7.6% to 8% for the fourth quarter, aiming to achieve or even exceed the Government's annual growth target of 7%. In line with this perspective, we expect the 2024 GDP growth to reach 7.0% - 7.1%, despite the recent manufacturing slowdown.

Figure 1: GDP growth in sectors (yoy%)



Source: GSO, MBS Research

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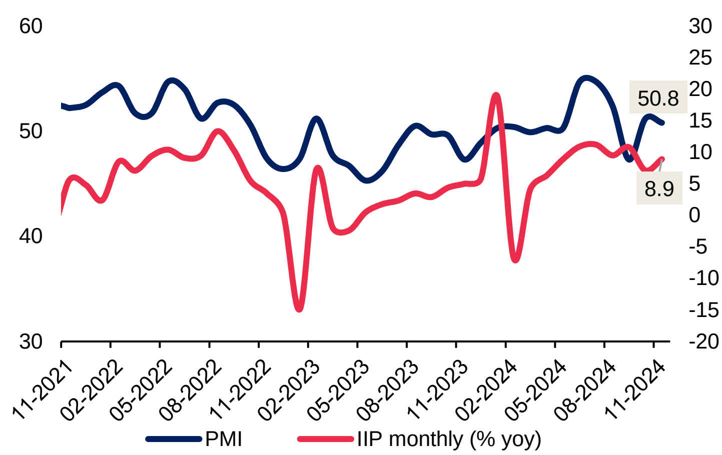
Heading for a strong finish

The manufacturing sector continued to expand moderately

Industrial production nudged up by 2.3% mom and 8.9% yoy in Nov, with the steady growth of the manufacturing sector contributing mostly to the overall gain. Industries that experienced strong production growth during the month include: manufacture of motor vehicles; trailers and semi-trailers (+36.2% yoy), manufacture of furniture (+24.3% yoy), manufacture of leather and related products (+18.5% yoy). For the first 11M24, industrial production grew by 8.4% yoy, with the extraction of crude petroleum and natural gas saw the largest decline, falling by 12.2% yoy.

The manufacturing sector continued its recovery in November, as the PMI remained above the 50 no-change threshold for the second consecutive month. However, the index dipped slightly to 50.8 from 51.2 in October, signalling only modest improvement in the sector's health. While total new orders rose, reflecting signs of stronger demand and access to new customers, overall growth falter slightly due to weak international demand, which constrained new export orders. The S&P report also highlights a slight increase in input prices, which was believed to be due to the depreciation of the domestic currency. In response, firms sought to control costs by reducing staffing levels, marking the second straight month of employment declines. Nonetheless, manufacturers remained optimistic about future output growth, driven by plans for new product launches, business expansions, and an anticipated rise in orders.

Figure 2: Vietnam's PMI manufacturing and IIP (% change YoY)



Source: Bloomberg, MBS Research

Figure 3: Change in IIP in sectors monthly (% change YoY)

	Sep-24	Oct-24	Nov-24
Manufacture of furniture	38.3%	28.2%	24.3%
Manufacture of rubber and plastics products	24.9%	13.0%	14.0%
Manufacture of electrical equipment	-3.0%	15.4%	13.2%
Manufacture of computer, electronic products	6.8%	4.1%	12.0%
Manufacture of food products	11.7%	9.4%	10.9%
Manufacture of textiles	11.2%	8.2%	10.7%
Manufacture of other non-metallic mineral products	5.4%	4.6%	7.3%
Manufacture of basic metals	12.3%	10.6%	6.2%
Manufacture of beverages	2.3%	3.2%	4.5%
Manufacture of chemicals and chemical products	19.9%	7.8%	2.5%
Manufacture of other transport equipment	4.1%	-0.8%	0.5%
Manufacture of coke and refined petroleum products	147.0%	18.9%	-4.4%
Extraction of crude petroleum and natural gas	-7.8%	-14.2%	-15.9%
Repair and installation of machinery and equipment	-8.0%	-4.0%	-20.8%

Source: GSO, MBS Research

The growth trajectory of exports continued at a slower pace

Export turnover in Nov decreased by 5.3% compared to the previous month, reaching USD 33.7bn. Compared to the same period last year, exports grew by 8.2%, ending the double-digit growth rates observed in the past nine months, as key commodities experienced significant drops: mobile phones (-13.9%), cameras and camcorders (-41.3%), etc. Nevertheless, other key commodities continued to maintain strong export value, including textile fibers (+68.7% yoy), pepper (+37.3% yoy), and furniture made of non-wood materials (+33.8% yoy).

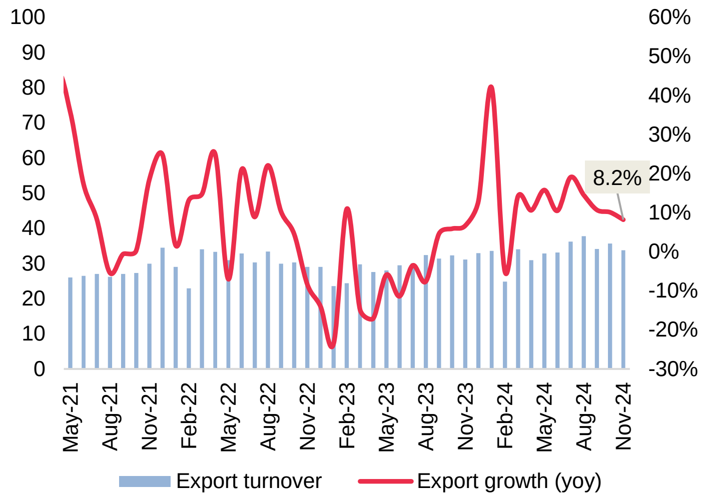
For 11M24, export turnover accelerated to USD 369.9bn (+14.4% yoy). Top largest export products witnessed significant drop across the board include Clinker and cement (-14.3% yoy); cassava and products (-10% yoy); paper and paper products

(-0.1% yoy). Nonetheless, exports still have some bright spots in terms of growth such as plastic products (+29.8% yoy); electronic goods, computers and their parts (+26.3% yoy); and machinery, instrument, accessory (+21.6% yoy).

In terms of export markets, the US named Vietnam's largest export market in 11M24 with export turnover reaching USD 108.9bn, up 23.9% yoy. Whilst exports to the E.U rose 18.1% yoy to USD 47.3bn, exports to China amounted to USD 55.2bn (-0.9% yoy).

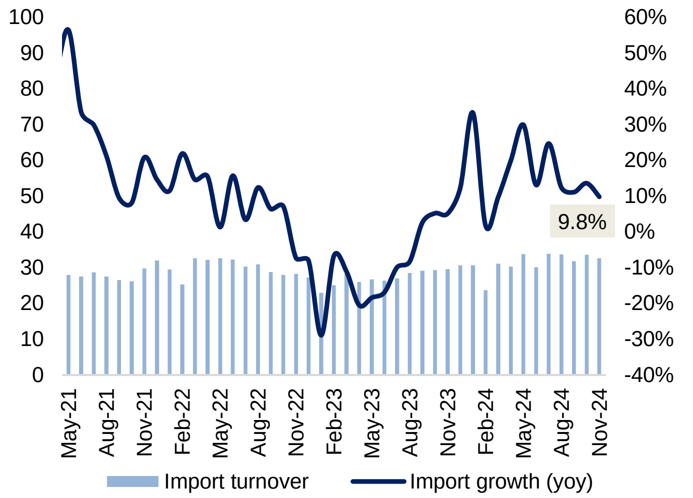
The import turnover of goods is estimated at USD 32.7bn (+9.8% yoy, -2.8% mom) in Nov, and USD 345.6bn in 11M24 (+16.4% yoy). China was still Vietnam's largest exporter with a turnover of USD 130.2bn (+29.7% yoy). As of Nov, electronic devices, computers and their parts; along with machinery, instrument, accessory; fabrics; iron and steel; and plastics are the 5 import commodities with a value of over USD 10bn (accounting for 51.4% of the total import turnover).

Figure 4: Vietnam's monthly export turnover (USD bn)



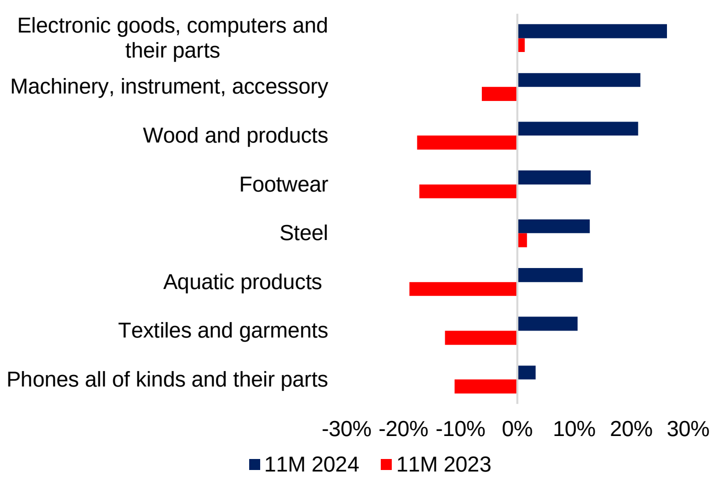
Source: GSO, MBS Research

Figure 5: Vietnam's monthly import turnover (USD bn)



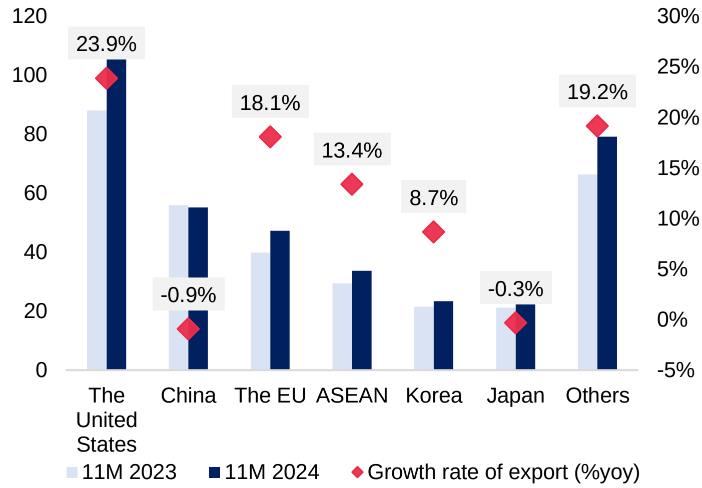
Source: GSO, MBS Research

Figure 6: Growth of major export products in 11M2024 (%yoy)



Source: GSO, MBS Research

Figure 7: Export market of Vietnam in 11M2024 (USD bn)



Source: GSO, MBS Research

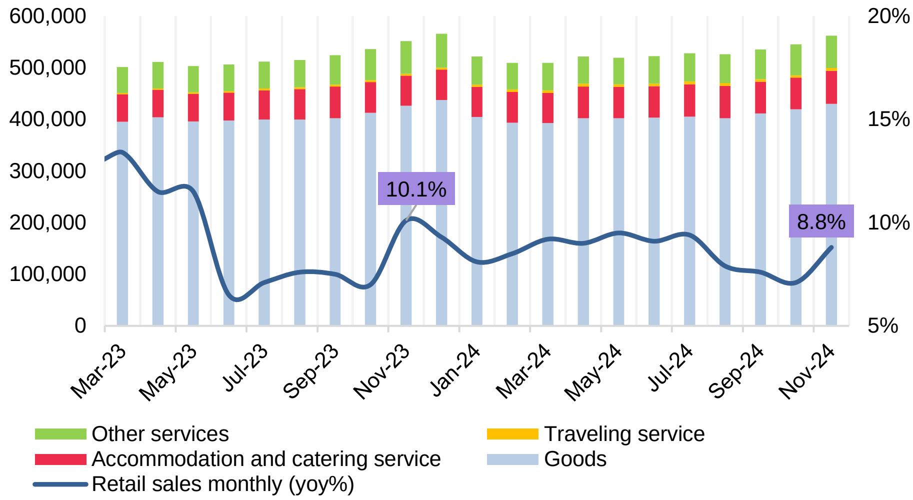
We forecast that exports will increase by 15% in 2024, with a trade surplus of USD 31bn based on the following factors: First, according to World Bank's forecast, the global trade in goods and services is projected to expand by 2.5% in 2024 and 3.4% in 2025 as inflation pressures are expected to abate this year, allowing real income to bounce back – especially in advanced economies – therefore, encourage the consumption of manufactured goods. Second, positive signs of FDI in Vietnam are anticipated to play a crucial role in commercial activities. Additionally, recent trade and customs policy reforms have enhanced the efficiency of import-export management, streamlined administrative processes, and reduced costs and time for enterprises.

However, Vietnam's export growth in 2024 still faces certain obstacles, including: potential spikes in transportation costs due to geopolitical conflicts and rising competition from rival exporting countries such as China, Indonesia, and Thailand. Moreover, uncertainties surrounding the escalating trade tensions between the U.S. and China under a new Trump presidency, may indirectly impact Vietnam's export activities, particularly for products exported to the US that contain raw materials imported from China. Consequently, key industries with significant export turnover, such as textiles, wood, and electronics, could face substantial trade volatility.

Gradual yet hesitant growth of domestic consumption

Incentive programs such as discounts, promotions, and trade fairs were intensified during the month, aiming to boost domestic consumption. Retail sales of consumer goods and services growth in Nov inched up by 0.8% mom, up 8.8% yoy. However, the retail sales growth rate has remained stagnant since the beginning of the year, as consumers have adopted a more cautious approach to spending. A recent Nielsen IQ survey revealed that, despite greater optimism about the country's outlook, consumers are saving even more than before rather than splurging. For 11M24, the total retail sales of consumer goods and services are estimated to have increased only by 5.8% yoy (excluding the price factor), much lower than the 5-year average growth of 8% (excluding 2021 – social distancing period). Meanwhile, the tourism sector continues to sustain its momentum. Thanks to favorable visa policies, intensified tourism promotion programs and prestigious international awards, Vietnam was able to attract over 15.8mn foreign tourists in 11M24, expanding by 41% yoy but was 2.8% lower than the same period in 2019, the year without Covid-19 epidemic.

Figure 8: Retail sales of consumer goods and services (Trillion VND)



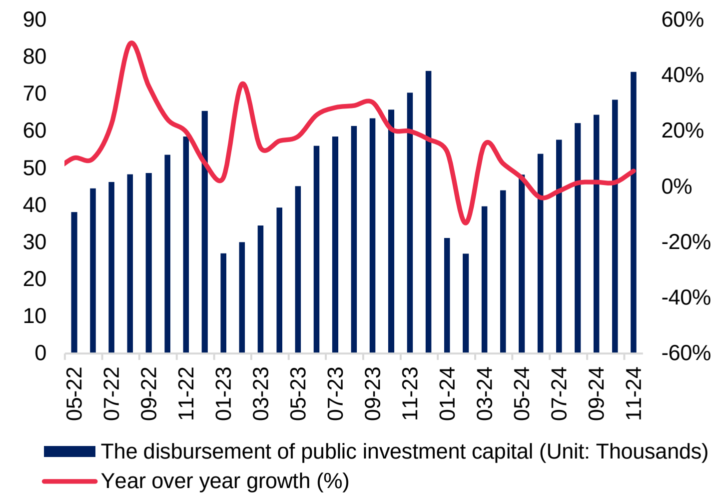
Source: GSO, MBS Research

Public investment disbursement ramped up substantially

In Nov, newly registered FDI inflow surged by 93% compared to the same period last year, while disbursed FDI went down by 4.5% yoy. For 11M24, realized FDI rose by 7.1% to USD 21.68bn, the fastest pace over the past 5 years. Of which, processing and manufacturing sector lured USD 17.6bn (accounting for ~ 81%), real estate sector attracted USD 1.66bn (accounting for ~ 7.6%), and utilities received about USD 887.4mn (accounting for ~ 4.1%). Notably, during the month, LG Group at the Trang Due Industrial Park (Hai Phong) increased its capital by an additional USD 1bn to expand high-tech OLED display production. This raised the total investment to USD 5.65bn.

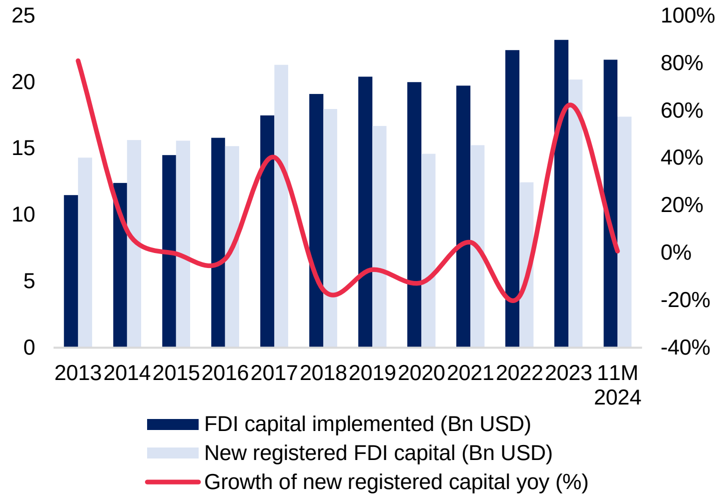
Disbursed state investment increased 5.6% yoy to VND 75.9tn in Nov. For 11M24, state investment amounted to VND 572tn (+2.4% yoy), fulfilling 73.5% of Government's target.

Figure 9: Growth of realized investment capital from State budget



Source: GSO, MBS Research

Figure 10: Growth of foreign investment capital



Source: GSO, MBS Research

Inflationary pressures continue to ease

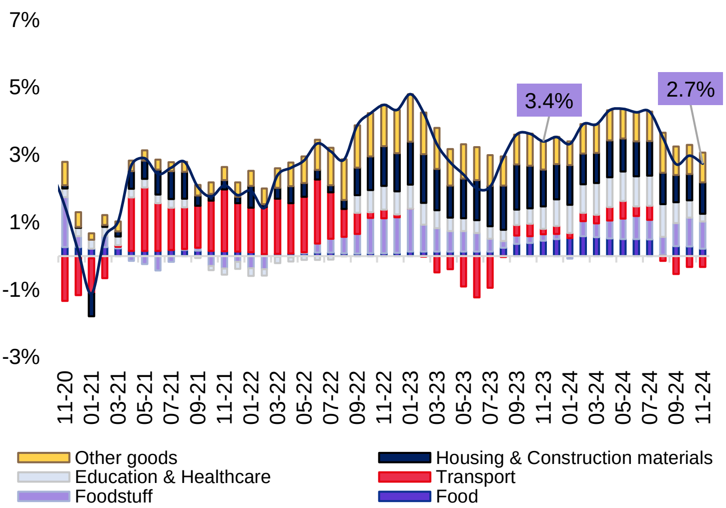
CPI in Nov nudged up slightly by 0.13% mom and by 2.77% yoy. The factor contributing substantially to the rise in CPI was an 7.8% yoy increase in electricity prices following EVN's adjustment of the average retail electricity price in early October. However, inflationary pressures were partly offset by a decline in domestic gasoline and oil prices from last year's high base. On average, for the first 11M2024, CPI surged by 3.7% yoy, while core inflation inched up by 2.7% yoy. Overall, inflation remains well-controlled, and the average CPI staying below the government's target of 4.5%.

In Nov, food and catering services (+4.1% yoy), driven by an 6.1% yoy increase in the food basket, contributed greatly to the rise in overall CPI. Elsewhere, the housing and construction materials group index inched up by 5.1% yoy. Additionally, the medicine and healthcare services group soared 5.3% yoy due to the adjusted healthcare service prices contribute further to the uptrend of CPI. Conversely, the transport group experienced a decrease of 3.3% yoy as domestic gasoline and oil price fell by 12.4% yoy. This decline was attributed to a high-base effect from last year when geopolitical tensions in the Middle East had placed substantial pressure on oil prices. Therfore, this helped to curb the rise in monthly CPI.

The 11-month average CPI was significantly driven by the rise in the price index for the housing and construction materials group (+5.2% yoy), largely due to increasing costs of input materials, rental expenses, and household electricity prices (+7.7% yoy) following EVN's adjustment of the average retail electricity price. Additionally, a 13% yoy increase in the food basket led to a 4.1% yoy rise in the food and catering services index, thereby further contributing to the overall CPI. Conversely, the price index for the postal and telecoms group fell by 1.1% yoy as the prices of older generation phones are depreciating, served as a limiting factor for the increase in the average CPI.

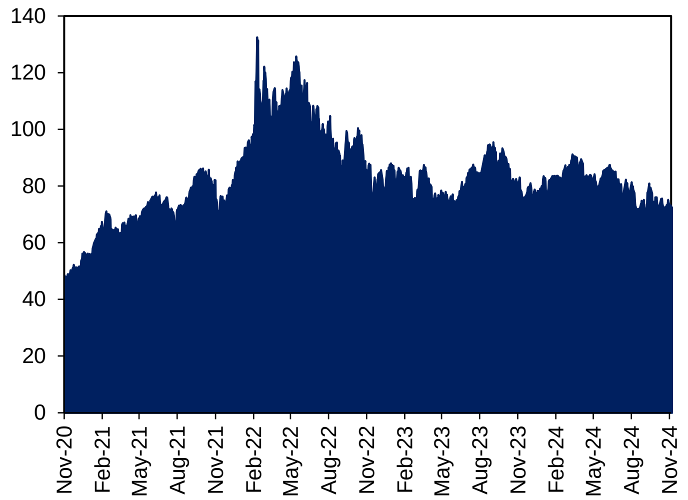
We anticipate a potential drop in CPI toward the end of the year, driven by lower fuel prices, which could reduce the average CPI for 2024 to 3.9%, below the government's target of 4.5%. Although OPEC+ has decided to extend output cuts until the end of March 2025, the downtrend in oil prices is expected to resume due to a relatively slow demand recovery, especially in China. However, tail risks remain as geopolitical tensions in the Middle East could flare further, which would inject significant uncertainty and volatility into the oil market. Based on this, we have revised down our oil price forecast for 2024, expecting it to fluctuate within a narrow range of around 80 USD/barrel. However, some inflationary pressures persist as domestic construction steel prices are expected to recover to 14mn VND/ton (+4% yoy) in 2024 due to the rising global steel prices and demand in the domestic market. Additionally, the widespread geopolitical conflicts could lead to supply chain disruptions and drive up commodity prices, which, in turn, raises the risk of imported inflation.

Figure 11: Contribution of commodity groups to CPI growth (%)



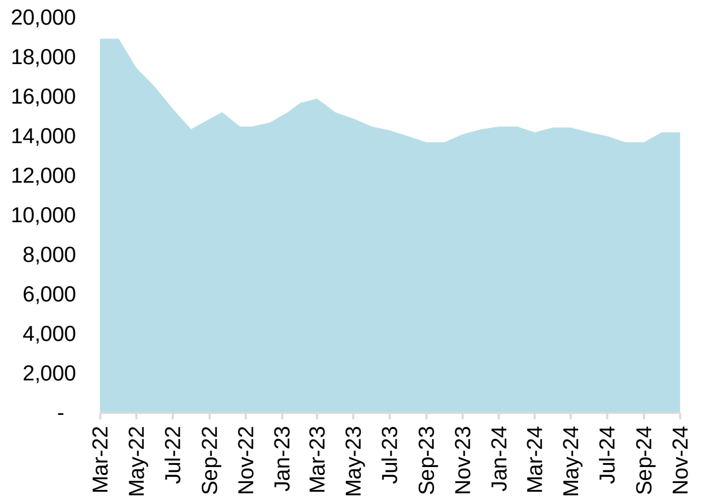
Source: GSO, MBS Research

Figure 12: Brent crude oil price (USD/Barrel)



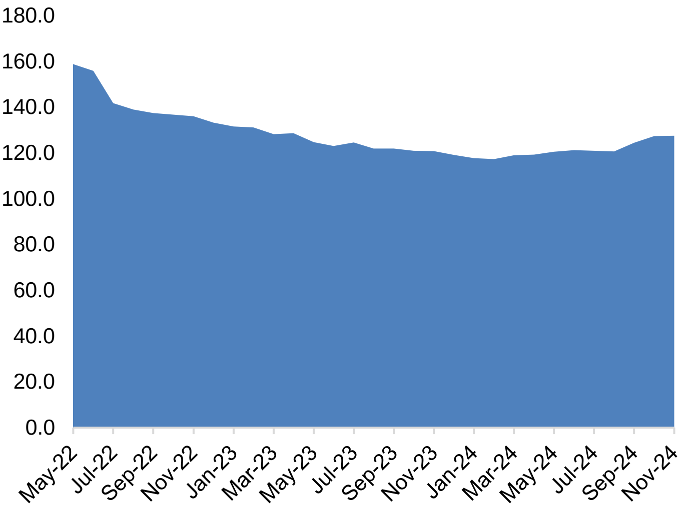
Source: Bloomberg, MBS Research

Figure 13: Steel price (Mn VND/ton)



Source: MBS Research

Figure 14: FAO food price index



Source: FAO, MBS Research

The uptrend in deposit rates regained momentum in Nov

Interbank rates have cooled down after hitting a 19-month high

Amid mounting exchange rate pressures, the State Bank of Vietnam (SBV) implemented several flexible measures in the money market to stabilize and manage the liquidity of the banking system. During the month, the SBV issued nearly VND 21.4tn T-bills, with interest rates of 3.7% - 4% for 28-day tenors. Along with that, the central bank also injected approximately VND 315tn through the OMO channel at an interest rate of 4% and tenors of 7 days, in order to relieve liquidity pressures in the system caused by consecutive withdrawals since Oct. As a result, the SBV made a net injection of VND 87.1tn into the system in Nov.

The interbank rates fluctuated greatly this month. Starting at 3.6% at the beginning of the month, the overnight rate skyrocketed to a 19-month high of 5.5% on Nov 4th. This increase is believed to have been driven by mounting pressure on the banking system's liquidity following the State Treasury's withdrawal of VND 110tn from three major banks in 3Q24. However, interbank rates have gradually declined, reaching 3.3% by the end of Nov, thanks to the substantial injection made by the SBV during the period. Meanwhile, for tenors ranging from one week to one month, interest rates span between 3.8% - 4.2%.

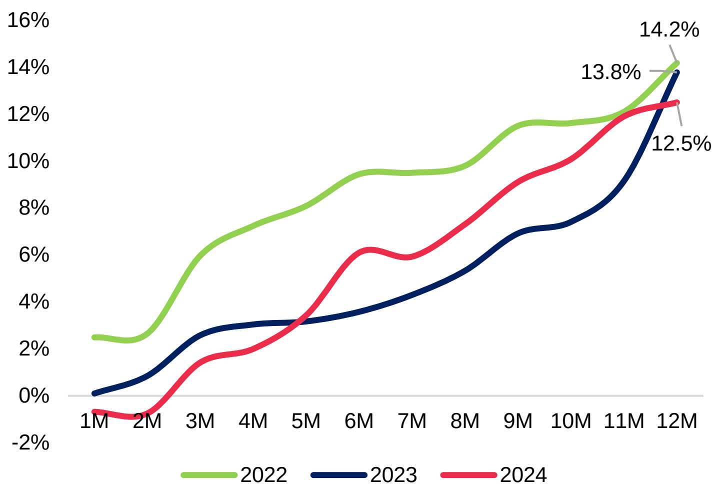
Deposit rates regained momentum in Nov

After nearly two months of stagnation, input rates began rising again in November, with 16 banks, including prominent ones such as Agribank, Techcombank, and MB, opting to increase their interest rates by 0.1% - 0.7%/year. This upturn in deposit rates is expected to continue toward the year-end, as credit growth is expanding nearly twice as fast as capital mobilization. According to the SBV, as of Dec 7th, credit growth has increased by 12.5% compared to the end of 2023. Besides, the non-performing loan ratio of the banking system at the end of Sep 2024 reached 4.55%, almost the same as at the end of 2023 and twice the level of 2% in 2022. Thus, this appeared to be another factor encouraging banks to bolster their reserve buffers to mitigate liquidity risk via attracting new deposits. By the end of Nov, the average 12-month deposit rate for commercial banks reached 5% (14 bps higher than that at the start of the year). Meanwhile, the rate for state-owned banks remained unchanged at 4.7%, which is 26 bps lower than that at the start of the year.

We expect deposit rates to inch up further by 20 bps towards the year-end

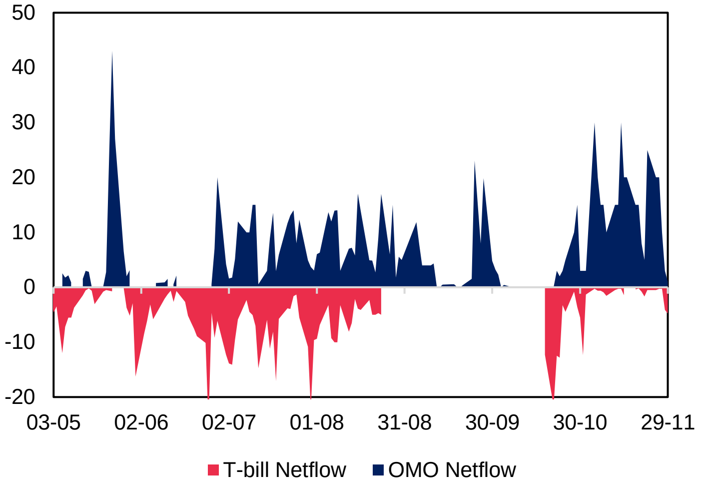
We observe a recovery in credit growth, coupled with robust production and investment growth, which may exert pressure on liquidity and potentially lead to an increase in deposit rates. As of Dec 7th, credit growth had risen by 12.5%, higher than the 9% recorded in the same period last year. However, on the downside, we expect subdued inflation and lower FED fund rates to create more room for easing monetary policy in Vietnam. Considering all these factors, we anticipate that deposit rates will inch up by an additional 20 bps by year-end. Consequently, the average 12-month deposit rates of large commercial banks should range between 5.1% - 5.2% by the end of the year.

Figure 15: Credit growth (% ytd)



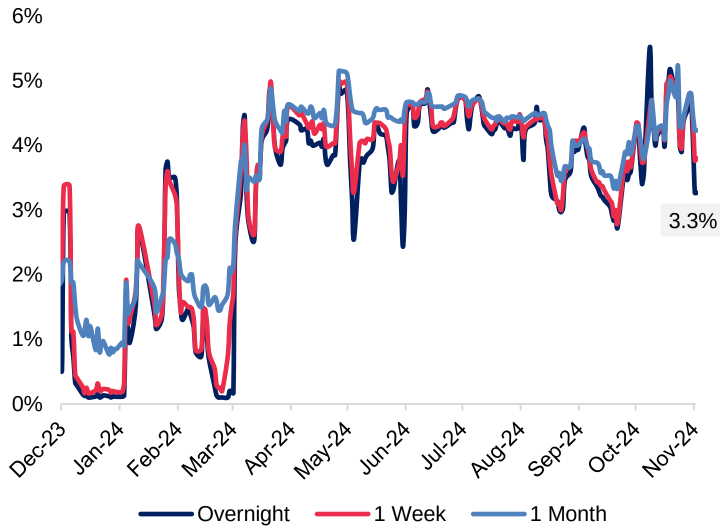
Source: Bloomberg, MBS Research

Figure 16: SBV's Open Market Operation (Liquidity) [VND tn]



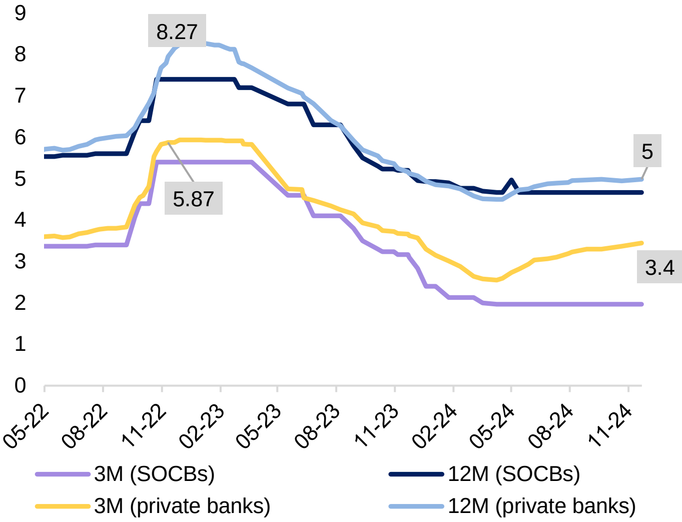
Source: SBV, MBS Research

Figure 17: Interbank overnight lending rate (%)



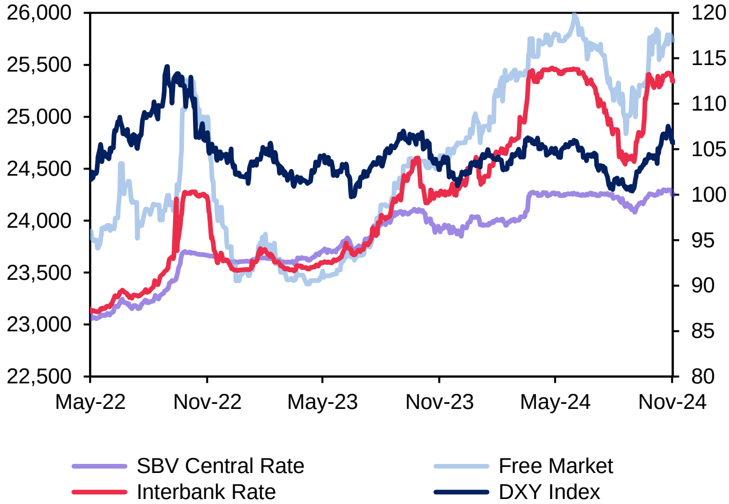
Source: Bloomberg, MBS Research

Figure 18: Commercial banks deposit rate (%)



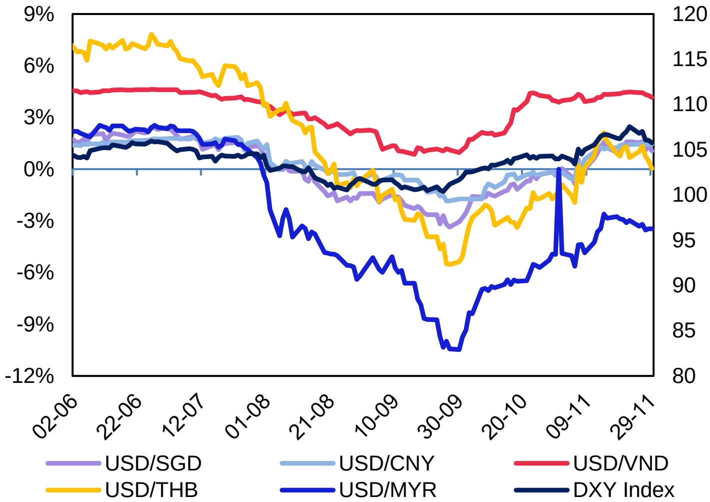
Source: Bloomberg, MBS Research

Figure 19: VND/USD exchange rate



Source: Bloomberg, MBS Research

Figure 20: Regional currencies performance against USD



Source: SBV, Bloomberg, MBS Research

The swift resurgence of USD exerts significant pressure on the VND

The DXY hit a two-year high following Trump's victory

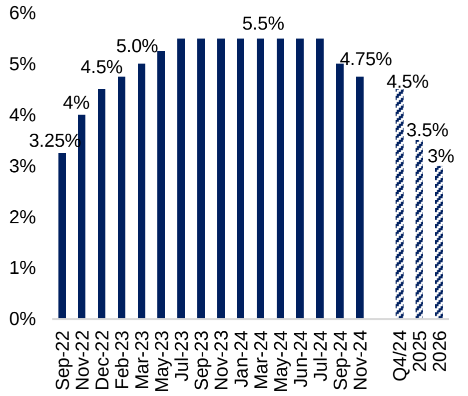
November has been a blockbuster month for the US Dollar. The DXY rallied strongly during the month, even reaching a two-year high of 107.6 in mid-November, primarily driven by the 'Red Sweep,' in which President-elect Donald Trump is set to return to the White House, and Republicans are poised to regain control of both chambers of Congress. A complete Republican sweep would clear the path for Trump to implement his promised tax cuts and impose sweeping tariffs on imported goods, which are typically associated with rising inflationary pressures and a less aggressive rate-easing cycle from the Fed in the coming years. Additionally, resilient economic performance is another factor contributing to the upturn of the USD. The US economy appears to remain in solid shape, with the unemployment rate stable at 4.1%, an acceleration in the services PMI to a 32-month high of 57, consumer spending growing at a still-brisk 3.5% pace, and inflation cooling significantly. Based on this, Fed officials revealed that they would lean toward a more gradual rate-cutting process, as the economy is not showing any concerning signals. In early November, the Fed lowered its interest rate by 25 basis points to a target range of 4.5% – 4.75%, but the possibility of another rate cut in December is not guaranteed amid uncertainties over Trump's policies. Altogether, this acted as a boon for the USD, pushing the greenback to surge nearly 2% over the month to reach 106 by the end of November.

Exchange rate pressures remain on the verge of increasing

The rapid increase in the DXY during the month has placed significant pressure on the VND/USD exchange rate, pushing the interbank USD/VND to surge to 25,346 VND/USD by the end of Nov. The depreciation of the Dong against the US Dollar since the start of the year has risen to 4.1%, approaching the peak of 4.6% recorded in May. The free-market rate climbed to 25,740 VND/USD, while the central rate stands at 24,251 VND/USD, reflecting increases of 4% and 1.7%, respectively, compared to the start of 2024. We anticipate that pressures on FX rates will ease thanks to the SBV's interventions; however, this will occur at a modest pace, as Trump's proposed policies could further buoy the USD and add more pressure to the depreciation of the VND.

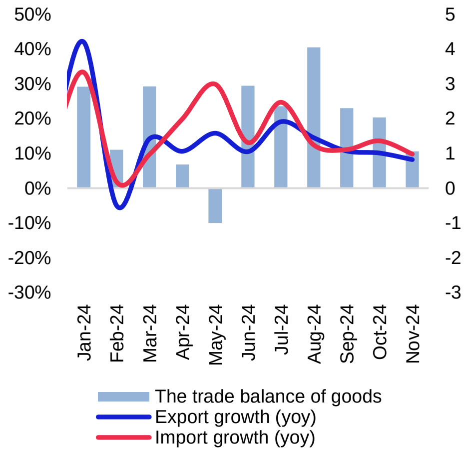
We believe the pressure on VND will ease gradually and expect the USD/VND to reach 25,000 by the end of 2024. Supportive factors for VND include positive trade surplus (~US$24.3bn in 11M24), strong FDI inflows (U$21.7bn, +7% yoy) and a rebound of international tourist arrivals (+41% yoy in 11M24). The stability of the macro environment is likely to be maintained, and further improvement will be the basis for stabilizing the exchange rate in 2024. Additionally, pressures on the exchange rate are expected to be alleviated over time as the Fed's rate-cutting cycle, which has resulted in a total reduction of 75 bps since Sep, is likely to continue, albeit at a slower pace.

Fed is expected to bring interest rates down to 4.5% by the end of 2024



Source: Bloomberg, MBS Research

Import-export growth and monthly trade



Source: GSO, MBS Research

Vietnam's economic indicators

Economic indicators	2019	2020	2021	2022	2023	2024F	2025F
1. GDP, population & income							
Nominal GDP (USDbn)	310.1	334.3	346.6	366.1	430	500-516	503-520
Real GDP growth (%)	7.02	2.91	2.58	8.02	5.05	7.0 – 7.1	6.7
Exports of goods and services (% yoy)	8.1	6.5	19	10.6	-4.4	15.0	9.0 – 10.0
Imports of goods and services (% yoy)	7	3.6	26.5	8.4	-8.9	16.0	10.0
Population (mn people)	96.4	97.7	98.5	99.3	100.3	101.5	102.7
GDP per capita (USD)	3,267	3,491	3,586	3,756	4,163	4,869	4,900
Unemployment rate (%)	2.33	2.2	2.2	2.2	2.9	2.3	2.3
2. Fiscal policy (%GDP)							
Government debt	49.2	51.5	39.1	34.7	34	37	35
Public debt	55.9	43.1	38	39.5	37	39	37
Foreign debt	47.1	47.9	38.4	36.8	37.2	38	34
3. Financial indicators							
USD/VND exchange rate	23,228	23,115	23,145	23,612	24,353	25,000	25,100 -25,500
Inflation rate (%)	2.8	3.2	1.8	3.15	3.25	3.9	4.0
Credit growth (%)	18.7	18.2	13.9	12.1	13.5	14.0	15.0
12-month deposit rate	7.2	6.8	5.8	8.5	5	5.1-5.2	5.0-5.2
Trade balance (USD bn)	9.9	19.1	4	11.2	28	31.0	27.0
Goods: Exports (USD bn)	263	281	336	371	355.5	409	445
Goods: Imports (USD bn)	253	262	332	360	327.5	380	418
Foreign reserve (USD bn)	78	94	109	86	95	92	94

DISCLAIMER

MBS INVESTMENT RECOMMENDATION

Stock rating

Our investment recommendations are based on the expected profitability of the stock, calculated as the sum of (i) the percentage difference between target price and market price at the time of publication, and (ii) expected dividend yield. Unless otherwise stated in the report, investment recommendations have an investment horizon of 12 months.

ADD	The stock can generate a profitability of 15% or more
HOLD	The stock can generate a profitability of between -15% and 15%
REDUCE	The stock can generate a loss of 15% or more

Sector rating

POSITIVE	Industry stocks have Add recommendations on a weighted market capitalization basis
HOLD	Industry stocks have Hold recommendations on a weighted market capitalization basis
NEGATIVE	Industry stocks have Reduce recommendations on a weighted market capitalization basis

ABOUT MBS

Founded in May 2000 by the Military Commercial Joint Stock Bank (MB), MB Securities Joint Stock Company (MBS) is one of the first six securities companies in Vietnam. After years of development, MBS has grown into one of the premier brokerage houses in the country. In two consecutive years between 2009 and 2010, MBS leads the brokerage house in terms of market share on both Hanoi Stock Exchange (HNX) and HCMC Stock Exchange (HOSE) and continuously ranked among the Top 5 of market share at both stock exchanges.

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