Higher inflation on the horizon

- Both exports and manufacturing accelerated in May.
- We lifted the average 2024 CPI forecast to 4.1%-4.3%, from previous, as rising inflation pressure on the horizon.
- We expect 2Q24 GDP to grow 6.3%-6.5% which will bring the whole year growth pace to 6.1%-6.3%.

Production accelerates as exports of industrial products maintain positive

Export in May increased 15.8% yoy mainly led by the industrial, processing goods especially phones all of kinds and their parts and cameras, camcorders and their components with impressive growth of 50.6% yoy and 50.7% yoy respectively. Production activities linger positive growth with the Industrial production index (IIP) rose 8.9% yoy, remark the third consecutive month having an upturn momentum. The PMI index in May remained stable at 50.3, signifying a steady improvement in the business circumstances of the industry.

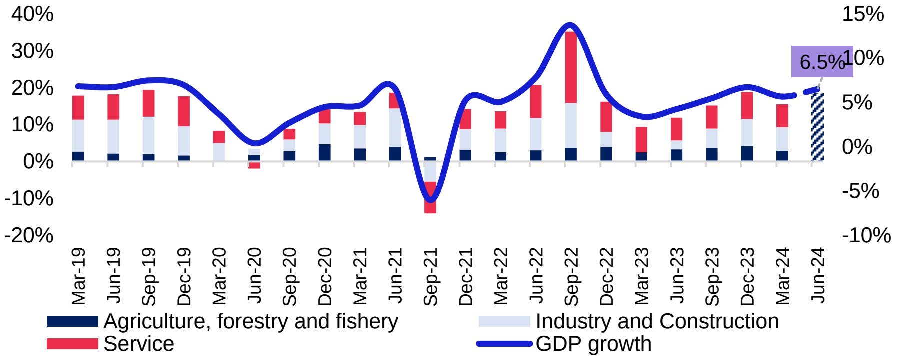
Challenges persist for Vietnam's economy

Firstly, the CPI has consistently increased since the beginning of the year, rising by 4.4% yoy in May, primarily due to higher food and catering service prices driven by pork prices. Additionaly, domestic oil prices climbed due to international oil price trends and the exchange rate remains elevated, affecting the cost of imported goods. Considering these factors, we project the average CPI for 2024 to increase by 4.1%-4.3%. Secondly, the trade balance narrowed as the trade deficit emerged for the first time since February last year, despite positive growth in both imports and exports, indicating weakening support for the exchange rate. Finally, domestic consumption, a primary contributor to the economic growth, continue to move sideways in May, despite numerous policies were conducted to stimulate domestic demand such as: low interest rate, extending the 8% value-added tax (VAT) until the end of 2024. For 5M24, the total retail sales of consumer goods and services (excluding the price factor) was estimated to increased by 4.5% yoy, much lower than the 5-year average growth of 8% (excluding 2021 – social distancing period).

We forecast 2024 GDP growth at 6.1% - 6.3%

In particular, we forecast that 2Q24 GDP to grow by 6.3% - 6.5% based on the shift in market strategies by many businesses has resulted in a resurgence of orders and the creation of more jobs for workers. Export growth is also a notable, reflecting the expansion and diversification of consumption markets for domestic enterprises. Moreover, the tourism industry continues to thrive with enhanced promotional programs and discounts for customers.

Figure 1: GDP growth in sectors (yoy%)



Source: GSO, MBS Research

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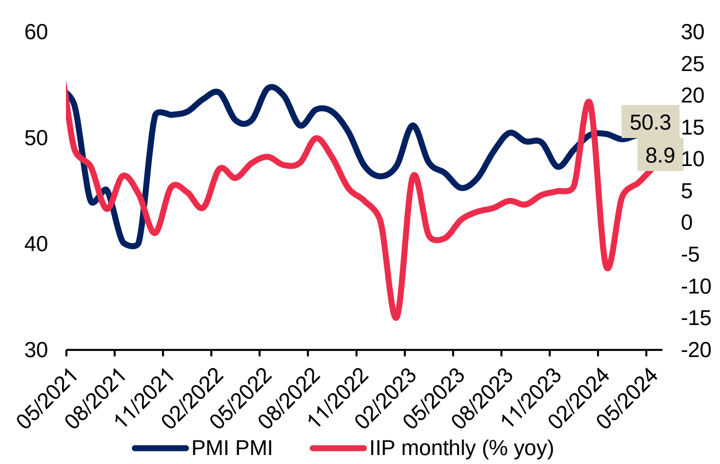
Higher inflation on the horizon

Industrial production keeps up the growing pace

Industrial production increased 3.9% mom and 8.9% yoy in May, mainly driven by the increase in number of new orders, sustain its growth for four straight months. Industries with strong production performance throughout the month include: manufacture of rubber and plastics products (+24.1% yoy), manufacture of electrical equipments (+19.4% yoy), manufacture of furniture (+18.8% yoy). For the first 5M24, industrial production grew by 6.8% yoy, with the largest decline of 11.9% yoy coming from repair and installation of machinery and equipment

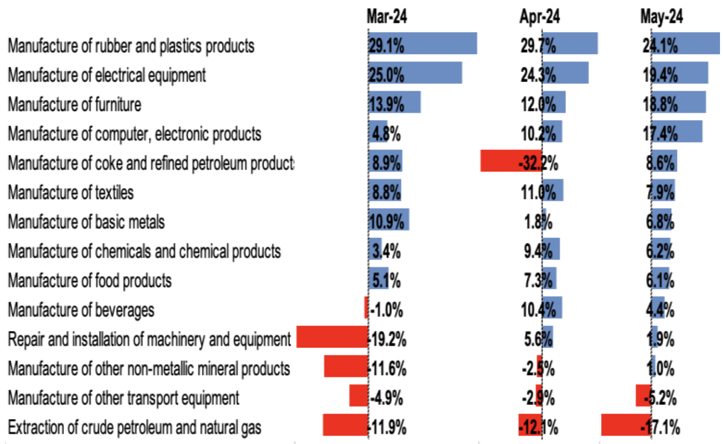
PMI remained stable at 50.3 in May, signifying a steady improvement in the business circumstances of the industry. The number of new orders as well as new export orders have continued to grow extensively this month amid a surge in consumer demand, however, at a slightly lower pace as compared to last month. Thus, this has driven the amount of output being produced to grow at the fastest rate since September 2022. On the downside, there are concerns about employment and inflation pressures. The employment rate continued to decline sharply might threatened the companies' production capacity. Meanwhile, the production cost is growing at the fastest pace in nearly two years has led to the hike in selling price, which can possibly affect market demand in the upcoming months. Nevertheless, producers are optimistic about the future as they expect the rise in new orders can assist them in overcoming the headwinds affecting other aspects of their business.

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



Source: Bloomberg, MBS Research

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



Source: GSO, MBS Research

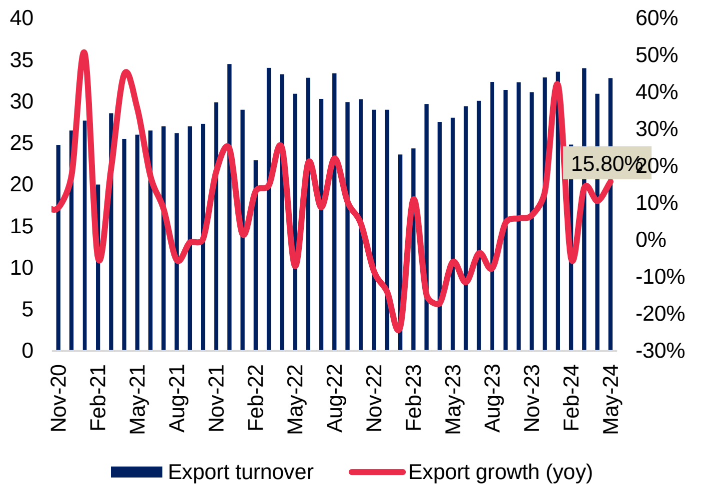
The trade surplus gradually narrows down

Export turnover of goods in May showed signs of recovery with 5.7% mom increase, up 15.8% yoy to USD 33.81bn. In May, Vietnam registered a trade deficit of USD 1bn, despite a substantial rise in export turnover. This deficit was primarily driven by an even larger increase in imports, attributed to the surge in imported equipment, machinery, and raw materials. Many businesses have been expanding their operations to fulfill orders from newly established markets, formed through trade agreements between Vietnam and various international partners. Key commodities with high export value are other basic metals and products (+111.6% yoy), rice (56.4% yoy), and textile fibres (52.7% yoy). For 5M24, export turned over accumulated to USD 156.77bn (+15.2% yoy). The export items with the largest negative growth include toys, sports equipment and their parts (-13.91% yoy), clinker and cement (-9.12% yoy) and paper and paper products (-2.13% yoy). Nonetheless, exports still have some bright spots in growth such as cameras, camcorders and their components (+61.18% yoy), coffee (+43.94% yoy), and furniture made of non-wood materials (+34.2% yoy).

In terms of export markets, the US remains being our primary market with export turnover of USD 44bn, up 2% yoy. Export to the E.U rose 16.1% yoy to USD 20.7bn, meanwhile, export to ASEAN countries amounted to USD 15.3bn (+12% yoy).

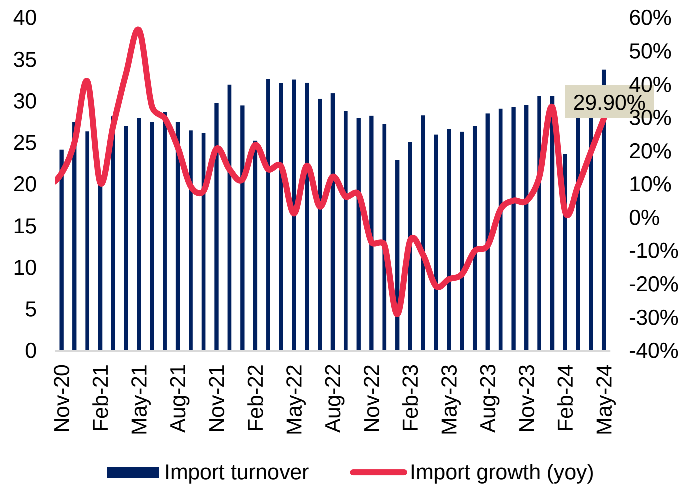
The import turnover of goods is estimated at USD 33.81bn (+29.9%yoy, +12.8% mom) in May, and USD 148.76 bn in 5M24 (+18.2% yoy). China was the largest import market of Vietnam with a turnover of USD 54.9bn (+33.1% yoy). As of May, four import products with a value of over 5 billion USD (accounting for 47% of the total import turnover) are: electronic goods, computers and their parts (+27.3% yoy), machinery, instrument, accessory (+15.4% yoy), fabrics (+13.3% yoy) and iron, steel (+28.3% yoy).

Figure 4: Export market of Vietnam in monthly (USD bn)



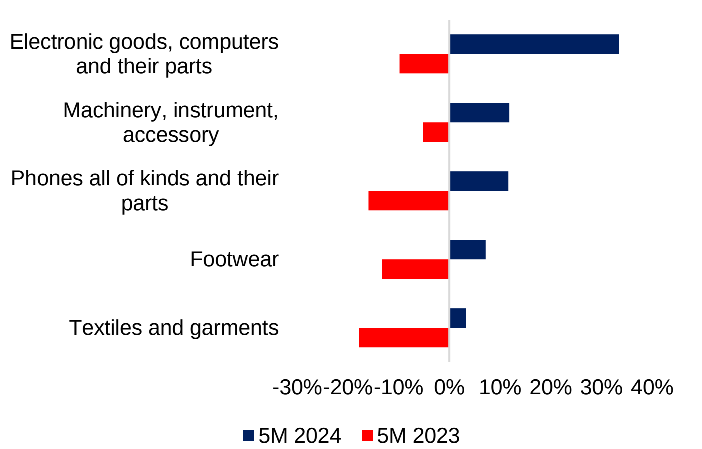
Source: GSO, MBS Research

Figure 5: Import market of Vietnam in monthly (USD bn)



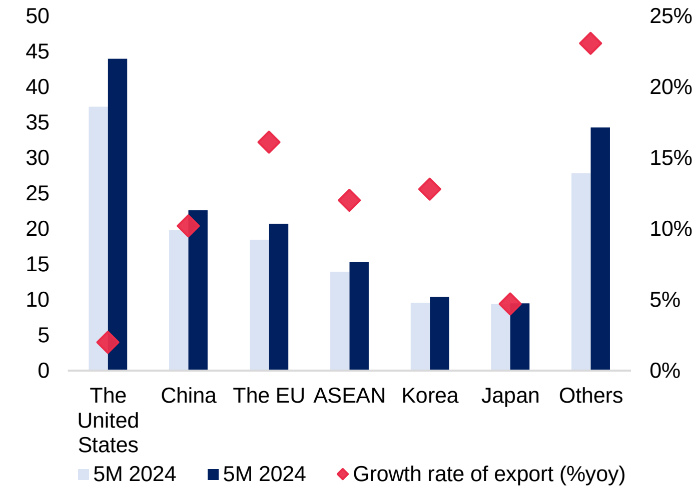
Source: GSO, MBS Research

Figure 6: Growth of major export products in 5M2024 (%yoy)



Source: GSO, MBS Research

Figure 7: Export market of Vietnam in 5M2024 (USD bn)



Source: GSO, MBS Research

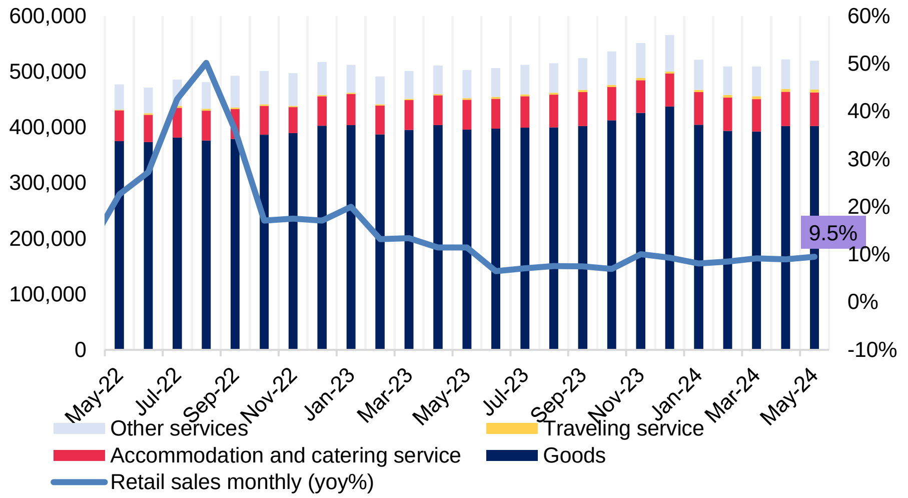
We forecast that exports will increase by 10% - 12% in 2024, with a trade surplus of USD 21 - 24bn based on the following factors: First, according to WTO's April report, global goods trade is predicted to grow by 3.3% in 2024 as inflation pressures are expected to abate this year, allowing real income to bounce back – especially in advanced economies – therefore, encourage the consumption of manufactured goods. Second, positive signs of foreign direct investment (FDI) in Vietnam is awaited to be a crucial part in commercial activities, together with that are the revolutionizations of trade and custom policy has reinforced the efficiency of im-exports management, simplified administrative formalities, trim costs and time for enterprises.

However, Vietnam's export growth in 2024 still enduring certain obstacles including: transportation costs may spike due to geopolitical conflicts; rising competition from rival exporting countries such as China, Indonesia, Thailand, etc. Moreover, Vietnam's partner countries are experiencing a slower economic recovery as Fed is holding its high interest rate longer than expected. In addition, Vietnam's trade openness is relatively high, hence, immensely being affected by the global economic situation. Consequently, this will arise challenges for key industries with considerable export turnover such as textile fibers, wood, electronics.

Domestic consumption is showing encouraging signs

Retail sales of consumer goods and services growth in May slightly dropped by 0.1% mom as travelling demand and consumer spending decreased after the long holiday period occured early this month, yet still increase 9.5% yoy thanks to the significant contribution of the tourism industry. The growth rate gradually inched up as product prices stabilized after the peak New Year period. This increase was similar to April, substantial supported by the service industry due to the recovery of tourism. For 5M24, the total retail sales of consumer goods and services was estimated to increased by 4.5% yoy (excluding the price factor), much lower than the 5-year average growth of 8% (excluding 2021 – social distancing period). Tourism industry's robust recovery is still retained with the number of international visitors to Vietnam 5M24 accumulated to 7.6mn arrivals, up 64.9% yoy and up 3.9% over the same period in 2019, the year without Covid-19 epidemic.

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



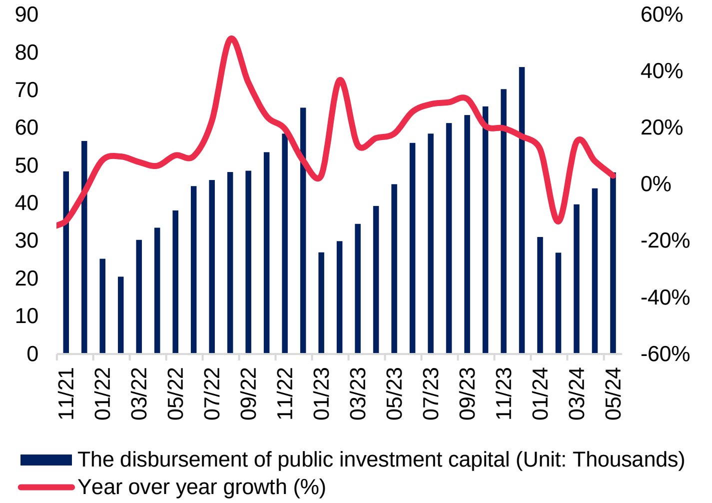
Source: GSO, MBS Research

Vietnam affirmed its trademark as an attractive destination for foreign investors

In May, newly registered FDI inflow reduced by 28% yoy, meanwhile disbursed FDI went up by 9% yoy. For 5M24, realized FDI increased by 7.8% to USD 8.25bn, the fastest pace within 5 years. In which, processing and manufacturing industry sector attracted USD 6.5bn (accounting ~ 78.0%), real estate sector attracted USD 781.0mn (accounting ~ 9.5%), and about USD 336.2mn for utilities (accounting ~ 4.1%). Notably, Denmark-based Pandora, the world's largest jewelry maker, has started its USD 150mn crafting factory at Vietnam-Singapore Industrial Park 3 (VSIP 3) in Binh Duong Province with production scale of 60 million pieces of jewelry per year.

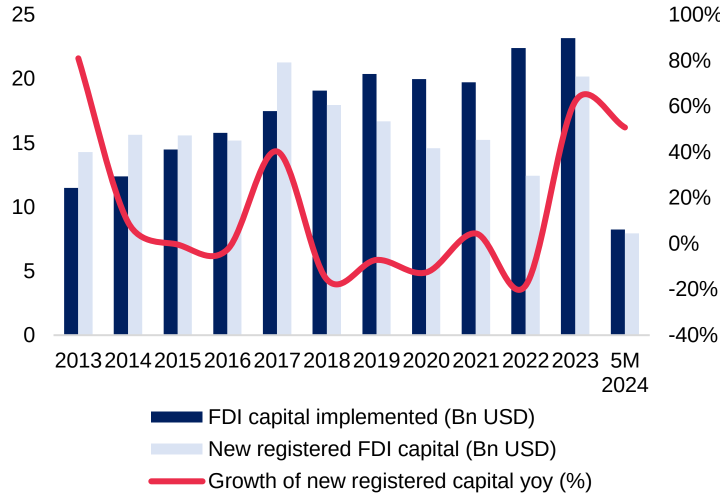
Disbursed state investment rose by 3.1% yoy to VND 48.2tn in May. For 5M24, state investment increase 5% yoy to VND 190.6tn, fulfilling 26.6% of Government's target.

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

Inflation has been rising since the beginning of the year, significant pressure particularly in 3Q24

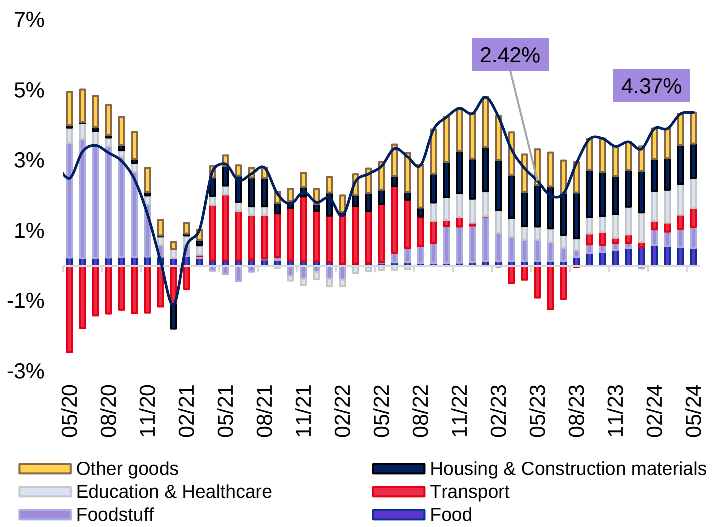
CPI in May inched up 0.05% mom and 4.4% yoy, mainly due to the surge in price of pork meat caused by the supply shortage following the outbreak of African swine fever at the end of 2023, whilst a spell of hot weather pushed up the electricity price is another factor pulled up the CPI. On average, in the first 5M2024, CPI hiked by 4.03% yoy; while core inflation increased by 2.78% yoy. CPI growth rate has been witnessed an upward trend since the beginning of this year, nearing the government's target ceiling of 4.5%.

This month, food and catering services (+4.47% yoy) had the largest impact on the rise in overall CPI, this was due to a strong uptrend of the food basket with the increase of 14.83% yoy. Elsewhere, the housing and construction materials group index also inched up 5.3% yoy amid rising global commodity prices, particularly for imported goods. The exchange rate faced significant pressure this month, raising the cost of importing goods, raw materials, and fuel, which in turn impacted domestic inflation. Notably, transportation also increase 5.58% yoy, driven by the rise in global oil price (+9.6% yoy), resulting in higher domestic gasoline prices. Transportation costs and airfare also rose due to the resurgence in tourism demand. The increase in tuition fees in some localities pushed up the education group index by 8.14% yoy. Finally, the medicine and healthcare services group increased 7.41% yoy due to the adjusted healthcare service prices is another factor which served to curb the CPI uptrend.

Cement and sand prices increase in consonance with rising price of input materials together with the high rental costs have levitated the price index, pushing the average price index of the housing and construction materials group by 5.49% yoy, enormously affect the five-month average CPI. Moreover, tuition fee increases in some citites caused the increase of 8.7% yoy for the education group index, and the increase in average CPI subsequently. Conversely, the postal and telecoms group's price index fell 1.42% yoy in May 2024 as older generation phones prices are dropping, acting as a limiting factor for the increase pace of average CPI.

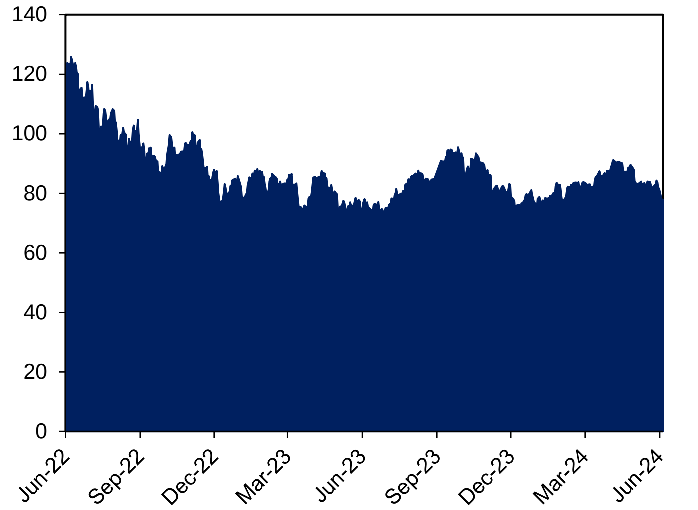
We expect the average CPI in 2024 to fluctuate at 4.1% - 4.3%, inflation will still remain within the government's target of 4% - 4.5% because domestic demand is still low. However, inflation will be at risk due to the following factors in 2H2024: First, domestic construction steel prices are expected to recover to 15mn VND/ton (+8% yoy) in 2024 due to increase in global steel prices and demand in the domestic market. Second, the exchange rate remains elevated, affecting the cost of imported goods. Third, base salary hike set to be implemented from July 1 may impact domestic inflation. In addition, oil price is also a notable factor next year in the context of international conflicts that may last longer. However, the outlook is still not too clear and is expected to remain quite stable around 83 - 85 USD/barrel due to supply reduction efforts from OPEC+..

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



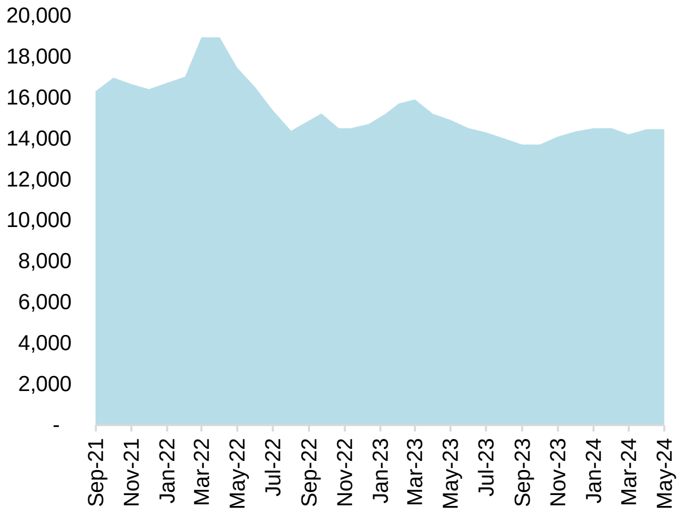
Source: GSO, MBS Research

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



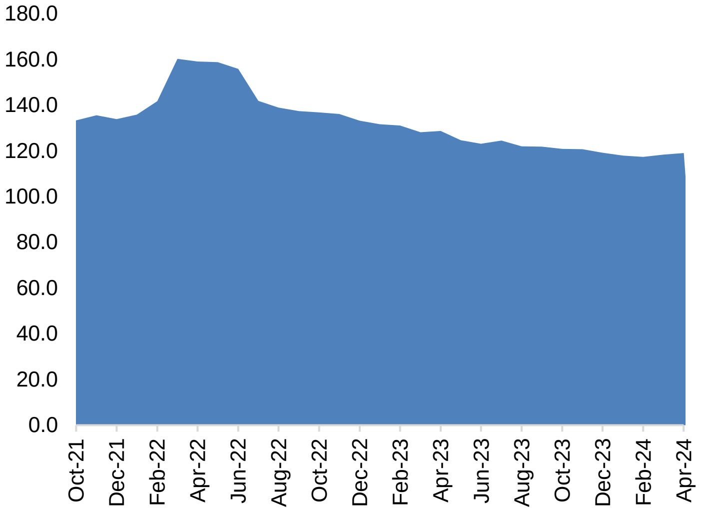
Source: Bloomberg, MBS Research

Figure 13: Steel price (Mn VND/ton)



Source: MBS Research

Figure 14: FAO food price index



Source: FAO, MBS Research

We expect interest rates to inch up by 70-100 bps in 2H24

Interbank interest rates establish a new height throughout the month

During Apr 22nd and May 23rd, the State bank of Vietnam (SBV) have sold a total of 48,500 taels of SJC gold and approximately USD 3.5bn worth of foreign currency in order to narrow down the gap of domestic gold price and to curb VND slide. Between the start of May and May 29, the SBV injected a net amount of about VND 181.7tn with interest rates inching up to 4.25%-4.5% and tenors of 7-14 days, including VND 57.2tn of maturing T-bills. It is estimated that about VND 55.1tn worth of T-bills will mature in June.

The interbank interest rate has now surged close to 5%, marking a new benchmark driven by liquidity demands. On May 23rd, the overnight rate peaked at 4.9% before slightly receding, currently hovering at 3.2%. Interest rates span between 3.6% to 4.5% for different tenors, ranging from one week to one month. With the SBV's continued emphasis on managing and stabilizing the gold and foreign exchange markets, we anticipate that the interbank interest rate will remain elevated amid a decreasing VND money supply in the following month.

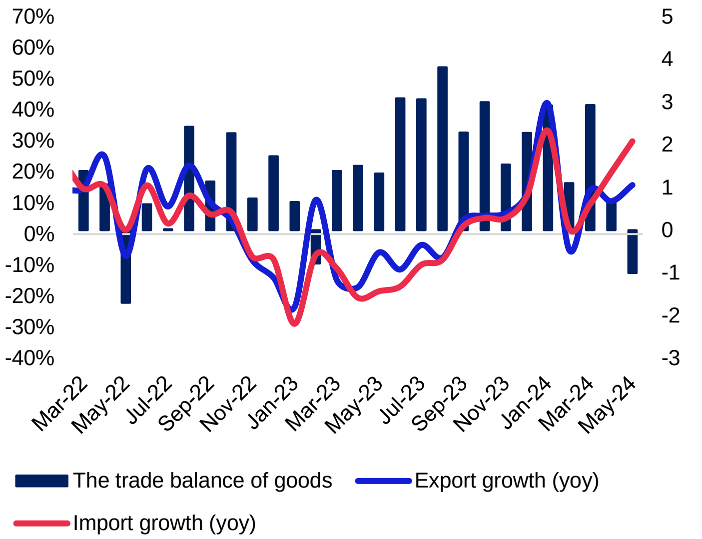
Some commercial banks have modestly lifted the deposit rates

In May, deposit rates showed a notable uptick, spearheaded by small and medium-sized commercial banks. From the start of the month, these banks took the lead in raising deposit rates, a move subsequently mirrored by larger commercial banks. As of May 21st, data from monitored banks indicated that the average 12-month deposit interest rate for small and medium commercial banks saw a month-over-month increase of 0.3%, while large commercial banks experienced a 0.1% rise in the same period. Although state-owned banks have not officially updated their deposit rates on their respective websites, it is anticipated that they will follow this increasing trend shortly.

We expect input rates to inch up by 70-100 bps in the second half of 2024

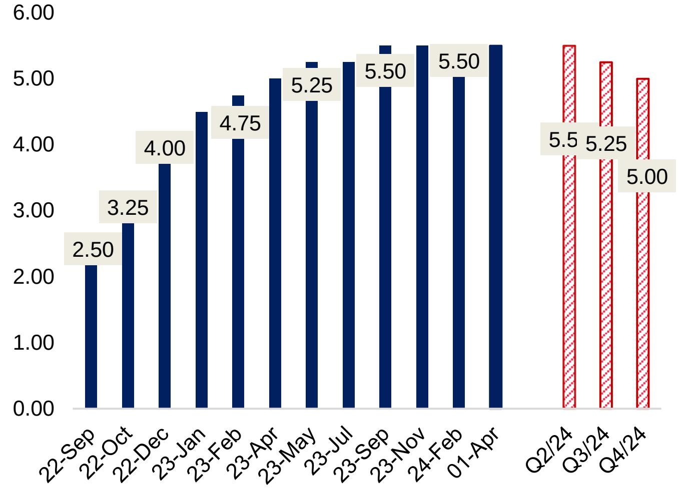
We believe that credit demand will start increasing sharply from 3Q2024 in the context of strong production and investments growth. For 5M24, the index of industrial production (IIP) increased by 6.8% yoy and the Purchasing Managers Index (PMI) rose to 50.3 in May. Moreover, public and private investments increased by 5% and 7.8% respectively. We forecast that the 12-month deposit rate of large commercial banks will be able to inch up by 70-100 bps and progressively return to 5.3%-5.6% by the end of 2024. However, we believe that output rates will remain the same as regulators and commercial banks are actively striving to provide credit capital for businesses.

Figure 15: Import-export growth and monthly trade surplus



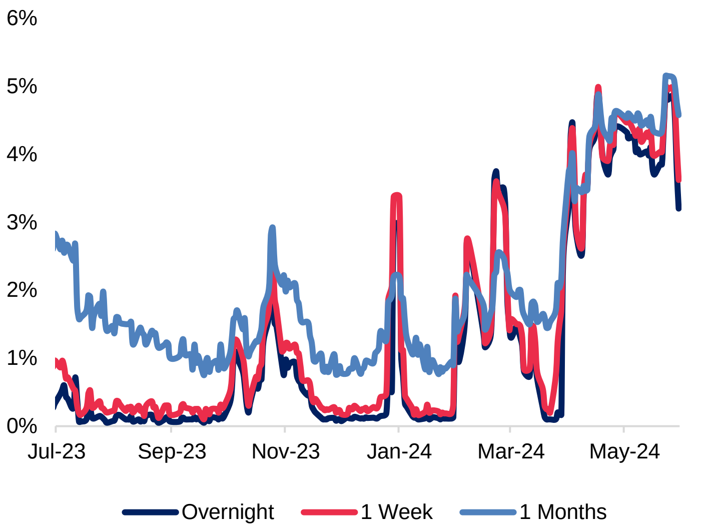
Source: GSO, MBS Research

Figure 16: FED is expected to cut interest rates from the end of 3Q2024, bringing rates down to 5% by the end of the year



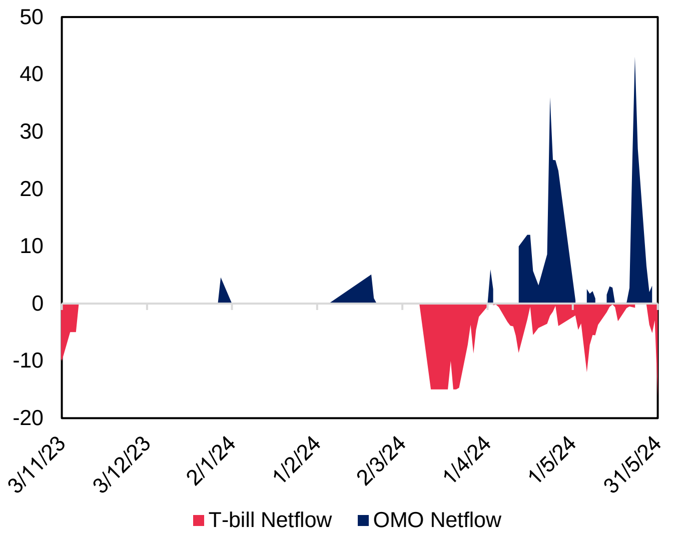
Source: Bloomberg, MBS Research

Figure 17: Interbank overnight lending rate (%)



Source: GSO, MBS Research

Figure 18: SBV's Open Market Operation (Liquidity) [VND tn]



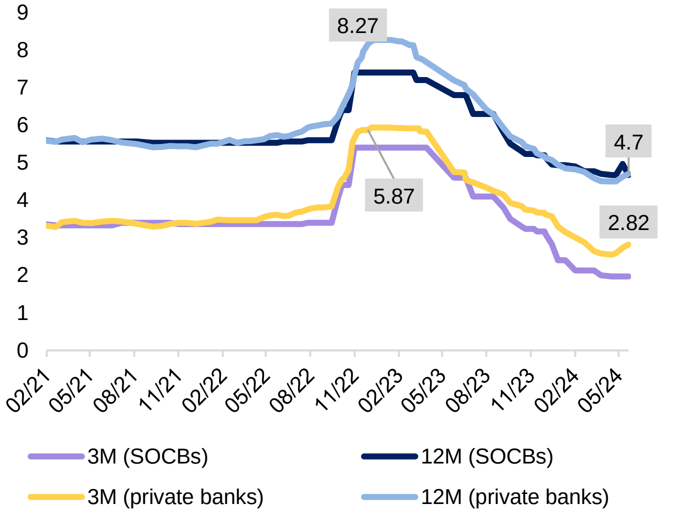
Source: Bloomberg, MBS Research

Figure 19: Interbank interest rate (%)

	O/N	1 Week	2 Week	1 Month
29/02	1.5	1.4	1.7	2.0
31/03	2.4	2.6	2.6	2.8
30/04	4.4	4.6	4.7	4.6
30/05	3.2	3.6	4.1	4.5

Source: MBS Research

Figure 20: Commercial banks deposit rate (%)



Source: FAO, MBS Research

We see the pressure on VND start cooling down

The DXY lost its strength momentum in May

The DXY Index started falling from 106.5 after the FOMC meeting on May 1; Fed Chair Jerome Powell said the next policy rate move was unlikely a hike. More importantly, markets also tempered rate-cut expectations in other central banks. The DXY ended May at 104.7 following revised data indicating that 1Q24 U.S. economic growth was at an annualized rate of 1.3%, down from a previous estimate of 1.6%, due to weaker retail sales and equipment spending. Nonetheless, consumer confidence unexpectedly improved and the labor market showed stability, suggesting the U.S. economy remains robust despite inflation significantly exceeding the 2% target. Investors currently see a 50/50 chance of a 25bps interest rate cut in September, with a total of 57 basis points in cuts expected by December.

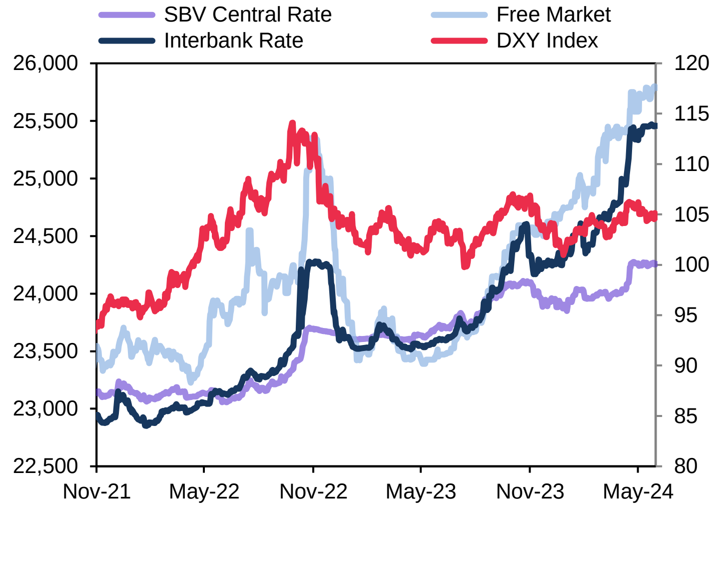
SBV's interventions alleviated the pressure on the domestic exchange rate

To support the VND, the SBV has not only intervened via FX reserves, but has also pushed up short-term interbank rates by withdrawing liquidity. The interbank USD/VND stayed stably at 25,415 in May, marking a 4.4% increase since the start of the year. The free market rate is 25,790 VND/USD, while the central rate is 24,261 VND/USD, showing rises of 4.2% and 1.7%, respectively, compared to the beginning of 2024.

We see that the downtrend of VND is relatively in line with regional currencies, eg: baht (-6.9% ytd), MYR (-2.4%), CNY (-2.3%); JPY (-10.5%).

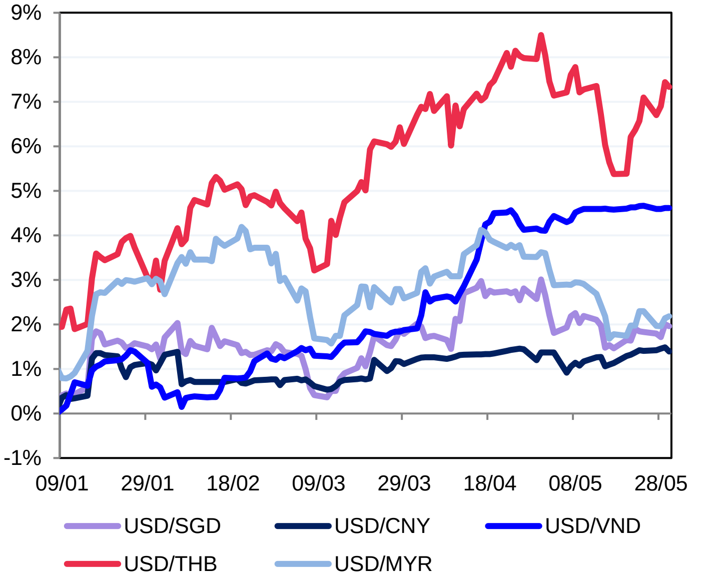
We believe the pressure on VND will ease and expect the USD/VND to range within 25,100 – 25,300 in Jun – Jul. Supportive factors for VND include: positive trade surplus (~US$8bn in 5M24), net FDI inflows (U$8.2bn, +7.8% yoy) and a bounce-back of international tourist arrivals (+64.9% yoy in 5M24). The stability of the macro environment is likely to be maintained and further improvement will be the basis for stabilizing the exchange rate in 2024.

Figure 21: VND/USD exchange rate



Source: SBV, Bloomberg, MBS Research

Figure 22: Regional currencies performance against USD



Source: Bloomberg, MBS Research

Vietnam's economic indicators

Economic indicators	2018	2019	2020	2021	2022	2023F	2024F
1. GDP, population & income							
Nominal GDP (USDbn)	281.3	310.1	334.3	346.6	366.1	430	485-500
Real GDP growth (%)	7.08	7.02	2.91	2.58	8.02	5.05	5.9-6.1
Exports of goods and services (% yoy)	13.8	8.1	6.5	19	10.6	-4.4	10.0-12.0
Imports of goods and services (% yoy)	11.5	7	3.6	26.5	8.4	-8.9	13.0-15.0
Population (mn people)	95.5	96.4	97.7	98.5	99.3	100.3	101.5
GDP per capita (USD)	2,992	3,267	3,491	3,586	3,756	4,163	4,869
Unemployment rate (%)	2.33	2.33	2.2	2.2	2.2	2.9	2.3
2. Fiscal policy (%GDP)							
Government debt	49.9	49.2	51.5	39.1	34.7	34	37
Public debt	55	55.9	43.1	38	39.5	37	39
Foreign debt	46	47.1	47.9	38.4	36.8	37.2	38
3. Financial indicators							
USD/VND exchange rate	23,180	23,228	23,115	23,145	23,612	24,353	23,800-24,300
Inflation rate (%)	3.5	2.8	3.2	1.8	3.15	3.25	3.5-3.6
Credit growth (%)	17.1	18.7	18.2	13.9	12.1	13.5	13.0-14.0
12-month deposite rate	7	7.2	6.8	5.8	8.5	5	5.25-5.5
Trade balance (USD bn)	7.2	9.9	19.1	4	11.2	28	21.0-24.0
Goods: Exports (USD bn)	244	263	281	336	371	355.5	398.1
Goods: Imports (USD bn)	237	253	262	332	360	327.5	376.6
Foreign reserve (USD bn)	55	78	94	109	86	95	110.5

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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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