# Strong recovery to unfold in March

- Manufacturing activities picked up in Feb following increasing new export orders.
- We believe rising exchange rate could be a short-term risk.
- We keep our expectation of 2023 GDP forecast at 5.9% - 6.1%, in which we forecast that Q4 GDP to grow by 4.8% - 5.0%.

**Im-export activities grow impressively, the number of new orders increase**

Industrial production fell 6.8% yoy in due to coinciding with the Lunar New Year holiday. PMI climbed to 50.4 in February as the number of new orders rebounded amid a recovery in demand in both domestic and export markets. Exports in February decreased 5% yoy 2M 2024 went up 19.2% yoy supported mainly by industrial group items. We forecast exports to grow by 6%-7% in 2024, with a trade balance surplus of USD 12-15bn based on the economic sector's efforts in sustaining and expanding export markets.

**Inflation remains under control despite Tet holiday**

CPI in February in 2024 grew 3.9% yoy and the two-month average will increase by 3.6% yoy. We expect the average CPI in 2024 to range between 3.5% and 3.6%, with pressure continuing to come from factors such as construction material prices, rice export prices that have not shown any signs of cooling down, electricity prices increased twice in 2023 affecting the prices of related commodities and services and the ongoing fluctuations in the price of oil.

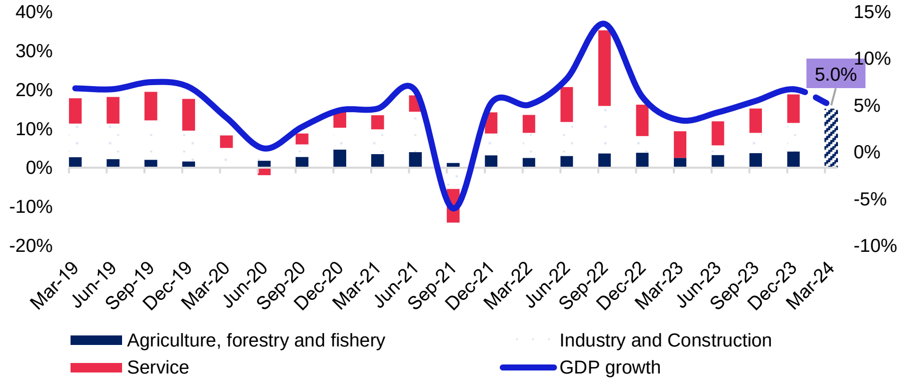
**We see rising pressure on exchange rate as short-term risk**

The domestic exchange rate has returned to the peak in which the interbank exchange rate set a new record and reached 24,702 VND/USD. However, we believe that the risk upon rising USDVND might ease thanks to trade surplus, possitive FDI disbursement, rebounding international tourism and stable remittances (the IMF forecasts more than USD 110bn in remittances in 2024). We expect the USDVND may range between 23,800 – 24,300 VND/USD toward year-end.

**We forecast 2024 GDP growth at 5.9% - 6.1%**

In particular, we forecast that Q1 GDP to grow by 4.8% - 5.0% based on the low base of the same period last year, as well as manufacturing activity will recover thanks to improved exports and the number of new orders both at home and abroad has shown signs of rebounding. Tourism is expected to continue to expand, the economy will be supported by the recovery of tourism and related services.

**Figure 1: GDP growth in sectors (yoy%)**




Source: GSO, MBS Research

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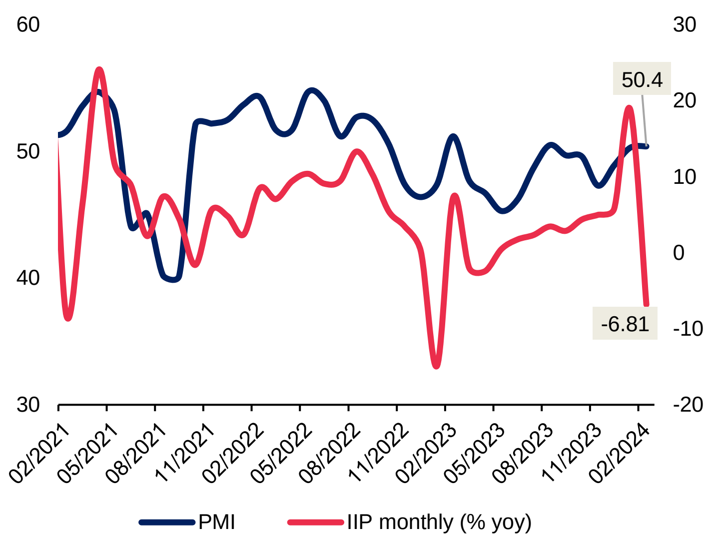
## Industrial production was halt during the holiday season, but new orders and employment rebounded

Industrial production decreased 18% mom and went down 6.8% yoy in Feb, a low growth index due to the Lunar New Year holiday in February. Industries with strong production growth in the month include: manufacture of coke and refined petroleum products (+20.9% yoy), manufacture of chemicals and chemical products (+15.1% yoy), and mining support service activities (+13% yoy). For the first 2M24, industrial production grew by 5.7% yoy of which, repair and installation of machinery and equipment deliverd the biggest decrease of 21.8% yoy.

The February PMI posted 50.4, up fractionally from 50.3 in January and above the 50.0 nochange mark for the second consecutive month. Consistent with the increase in new orders, output growth was recorded for two consecutive months, with some survey respondents linking higher total new business to improved new orders from abroad. The rate of growth in new export orders slowed, however, and was only marginal. Higher new orders encouraged manufacturers to expand their staffing levels for the first time in four months, and to the greatest extent in a year.

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




Source: Bloomberg, MBS Research

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

| | Dec-23 | Jan-24 | Feb-24 |
|---|---|---|---|
| Manufacture of chemicals and chemical produ | 10.0% | 40.1% | 15.1% |
| Mining of metal ores | 8.1% | 34.7% | 2.8% |
| Manufacture of rubber and plastics products | 0.5% | 66.7% | 0.4% |
| Manufacture of food products | 7.8% | 26.8% | -4.7% |
| Manufacture of textiles | 18.7% | 46.2% | -5.6% |
| Manufacture of computer, electronic products | -6.4% | 20.9% | -7.3% |
| Manufacture of furniture | -24.1% | 13.1% | -7.4% |
| Manufacture of fabricated metal products | 23.3% | 33.2% | -7.5% |
| Manufacture of tobacco products | 11.4% | 24.0% | -8.9% |
| Manufacture of other non-metallic mineral prod | 8.7% | 7.8% | -11.8% |
| Manufacture of motor vehicles | 16.4% | 38.7% | -16.0% |
| Manufacture of other transport equipment | -19.0% | -1.1% | -16.4% |
| Manufacture of wood products | 8.7% | 17.2% | -16.7% |
| Extraction of crude petroleum and natural gas | 8.0% | 5.6% | -18.0% |

Source: GSO, MBS Research

## Industrial commodities remained the staple of exports

In Feb, export turnover of goods declined 28.1% mom, down 5% yoy to USD 24.8bn. The growth rate of exports decreased in the month (Feb 2023 increased by 11% yoy) due to the coincidence of the Lunar New Year holiday, so customs and businesses were closed, causing the export volume to decrease. Traders who buy goods also take a week off for the holiday, so trading slows down, the source of export goods decreases. However, during the month, there were still some industrial goods recording positive growth such as textile fibres (+100% yoy), cameras, camcorders and their components (+55% yoy) and furniture made of non-wood materials (+27% yoy). For 2M24, export turnover climbed

19.2% yoy to USD 59.3bn. The export items with the largest negative growth inculde crude oil (-28% yoy), toys, sports equipment and their parts (-11% yoy) and clinker and cement (-10% yoy). Nevertheless, exports still highlight some bright spots in growth due to the contribution of agricultural products inculde coffee (+67% yoy), cameras, camcorders and their components (+65% yoy), and furniture made of non-wood materials (+64% yoy).

In term of export markets, export turnover to U.S. rose 33.7% yoy to USD 17.4bn, following by E.U with USD 7.7bn (+14.2% yoy); export to Japan reach USD 4bn (+19.6% yoy).

Import turnover of goods was about USD 23.7bn in Feb (+1.8% yoy) and USD 54.6bn in 2M24, (+18% yoy). China remained the largest import market of Vietnam with a turnover of USD 20.9bn. Two import products totaling more than USD 5bn in value in 2M24 (accounting for 71% of total import turnover), which are electronic goods, computers and their parts and machinery, instrument, accessory, respectively, with growth rates of +24.4% yoy and +24.8% yoy.

We forecast that exports will increase by 6%–7% in 2024, with a trade balance surplus of USD 12–15 bn based on the following factors: First, the recovery from Vietnam's major export markets such as the US and China and the promotion of negotiations by the Ministry of Industry and Trade to expand and diversify other export markets. Second, according to the WTO, global trade is forecast to grow by 3.3% in 2024 as world inventories have bottomed out as well as global supply chain pressures have cooled significantly. Third, phone demand showed signs of bottoming out in Q2/23, mainly because Chinese consumer demand recovered positively in Q3/23. Finally, because of the chip industry's recovery and the growing demand for AI technology, it is anticipated that the demand for electrical components would rise once more in the upcoming months.

However, there are still notable challenges for Vietnam's export growth in 2024 including: transportation costs may spike due to geopolitical conflicts; rising competition from rival exporting countries such as China, Indonesia, Thailand, etc. Meanwhile, domestically, Vietnam's enterprises have to cope with interest costs that remain high, input costs increase due to electricity price increases, basic wage increases, etc.

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

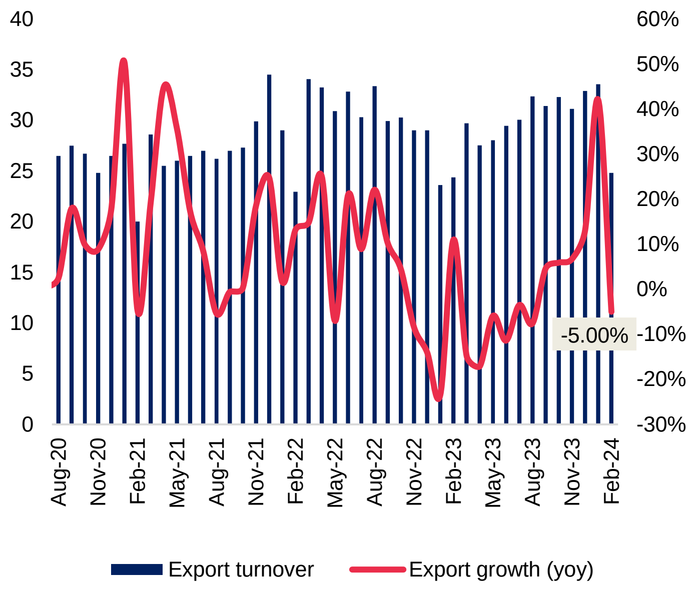
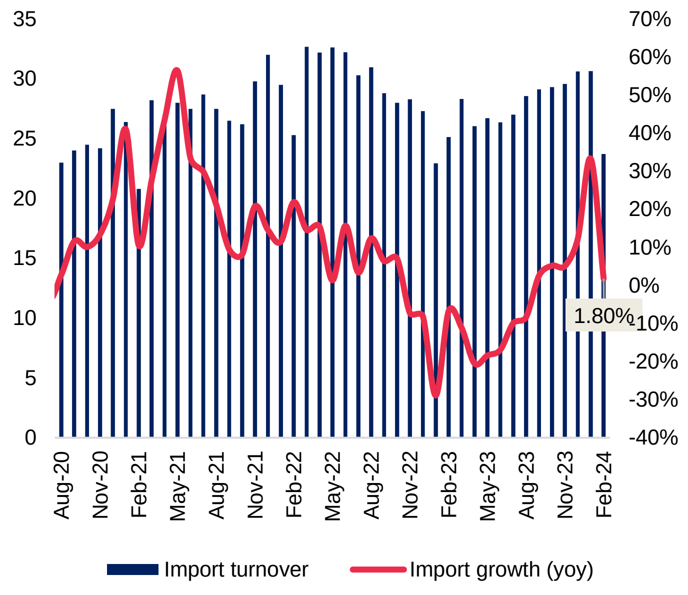


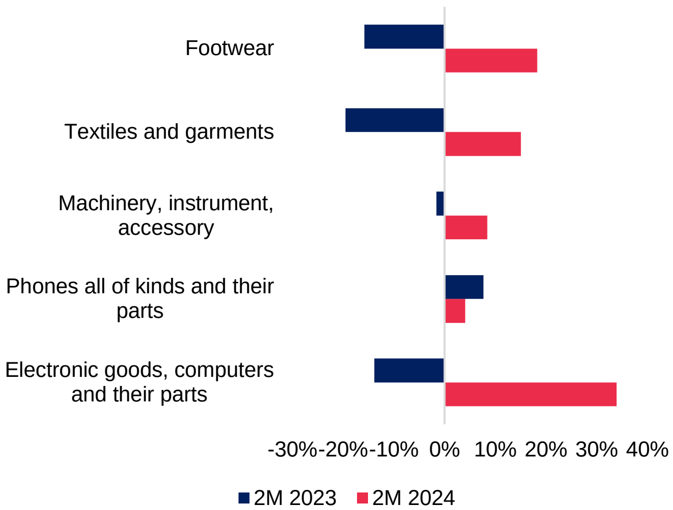

**Figure 5: Import market of Vietnam in monthly (USD bn)**



Source: GSO, MBS Research

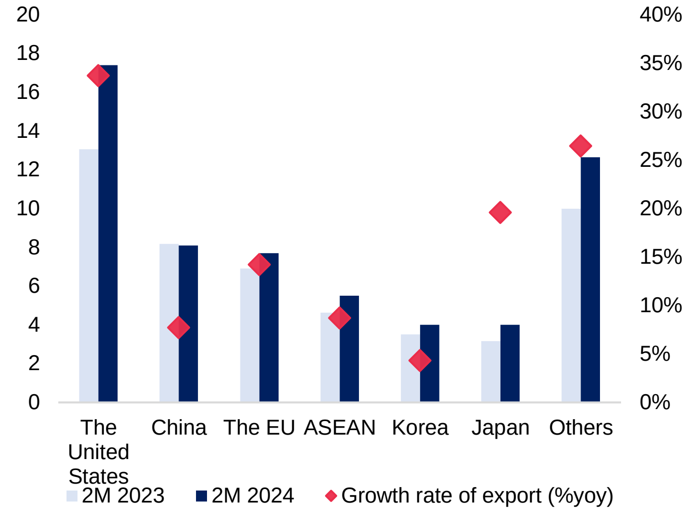
Source: GSO, MBS Research

**Figure 6: Growth of major export products in 2M2024 (%yoy)**




Source: GSO, MBS Research

**Figure 7: Export market of Vietnam in 2M2024 (USD bn)**



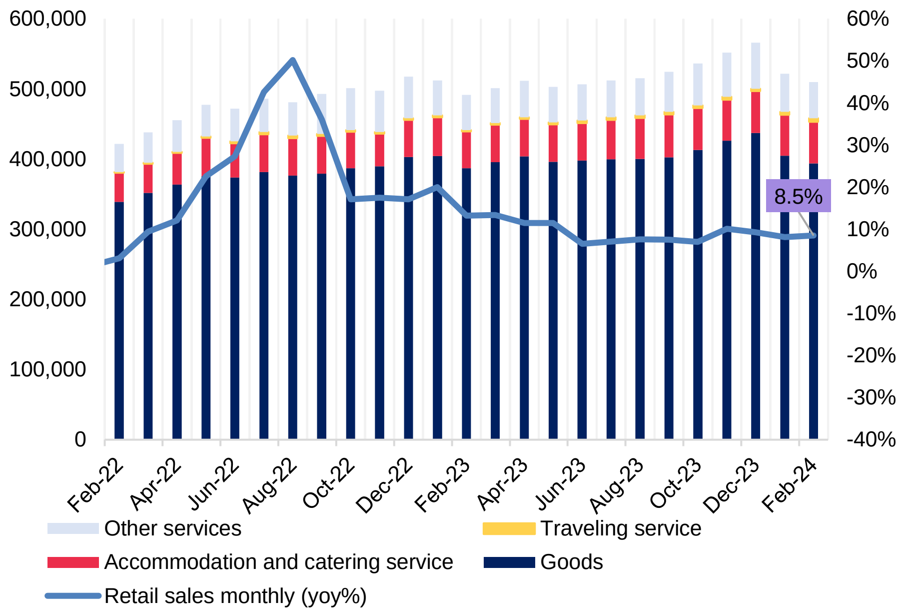

Source: GSO, MBS Research

## Consumption growth slowed down compared to weak domestic demand but was supported by positive tourism

Retail sales of consumer goods and services growth went up by 8.5% yoy and fell by 2.3% mom in Feb 2024. Trade in services in February was quite active due to the high demand for consumption, shopping and tourism of people. However, the growth rate is still lower than last year even though retail activity, which usually picks up more strongly during the holidays, this is due to last year's growth (February 2023 up 13.2% yoy) based on the pandemic-affected year's lows.

For 2M24, the total retail sales of consumer goods and services was estimated to increase by 5% yoy (excluding the price factor). International visitors to Vietnam 2M24 were estimated at 3mn arrivals, up 68.7% yoy and equal to 98.5% compared to the same period in 2019, the year no Covid-19 epidemic.

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



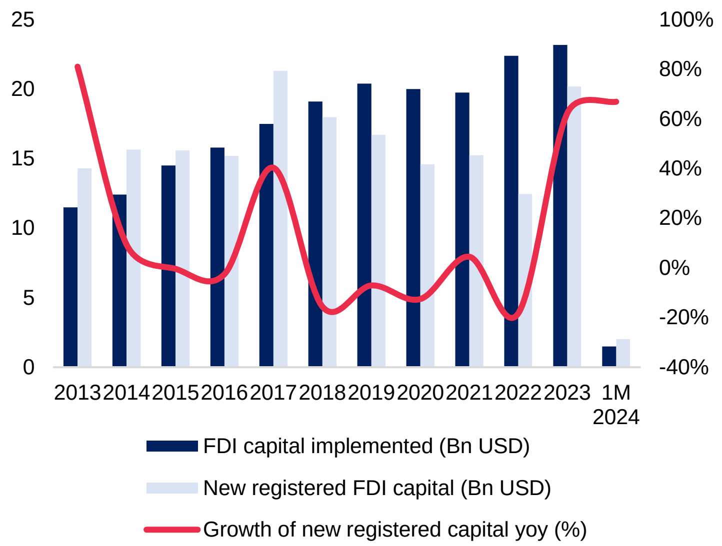

Source: GSO, MBS Research

## New FDI registered capital growth in the month stood out, attracted by the high-tech sector

In Feb, newly registered FDI inflow rose nearly 2 times over the same period lát year, meanwhile disbursed FDI increased 10% yoy. For 2M24, realized FDI inched up modestly 9.8% yoy to USD 2.8bn, in which: Processing and manufacturing industry sector attracted USD 2.1bn of new FDI inflow (accounting ~ 77.5%), real estate sector attracted USD 279.3mn (accounting ~ 10%), and about USD 128.4mn for utilities (accounting ~ 4.8%). Notably, the amount of new registrations skyrocketed in the month due to good news such as Dong Nai province attracted nearly USD 500mn to invest in industrial parks in 2 months and in January, Quang Ninh province attracted 8 new projects with a total registered investment capital of USD 478mn. Of which, the Quang Ninh Economic Zone Management Board awarded investment certificates to two FDI projects with a total investment of over USD 330mn (Gokin Solar Hai Ha Vietnam monocrystalline silicon panels and photovoltaic monocrystalline silicon bars project and production of bearings and linear motion equipment at Song Khoai Industrial Park (Quang Yen town) of IKO Thompson Vietnam Co., Ltd.)

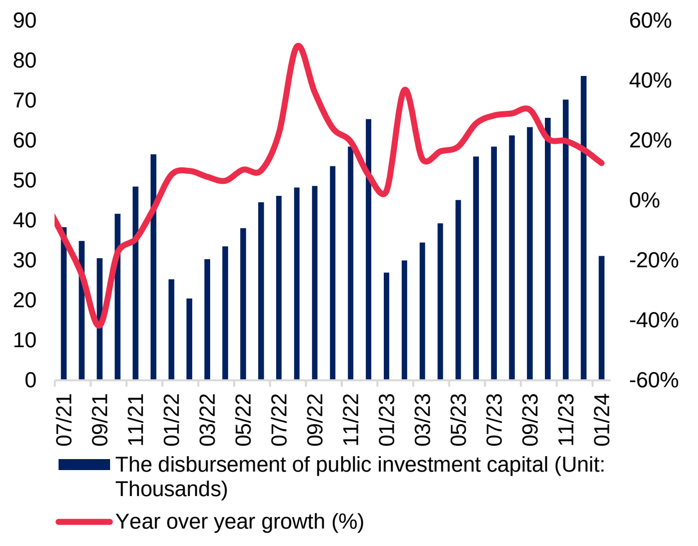
Disbursed state investment dropped 13.1% yoy in Feb to VND 26.9tn. The pace of public investment disbursement decreased significantly compared to Feb 2023 (+36.9% yoy) when last year February this year fell on an extended public holiday. For 2M24 , state investment increased 2.1% yoy to VND 59.8tn, fulfilling 8.4% 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 remains under control even during peak month

According to General Statistics Office (GSO), Vietnam's CPI in Feb inched up only 1.05% mom and 3.9% yoy, resulting from the demand for goods and services increased in the month of Lunar New Year. However, the CPI increase was still lower than the same period in February 2023 (CPI in Feb 2023 increased 4.3% yoy), indicating that inflation is still under control. For the first

2M24, average CPI increased by 3.6% yoy; meanwhile, core inflation increased by 2.8% yoy.

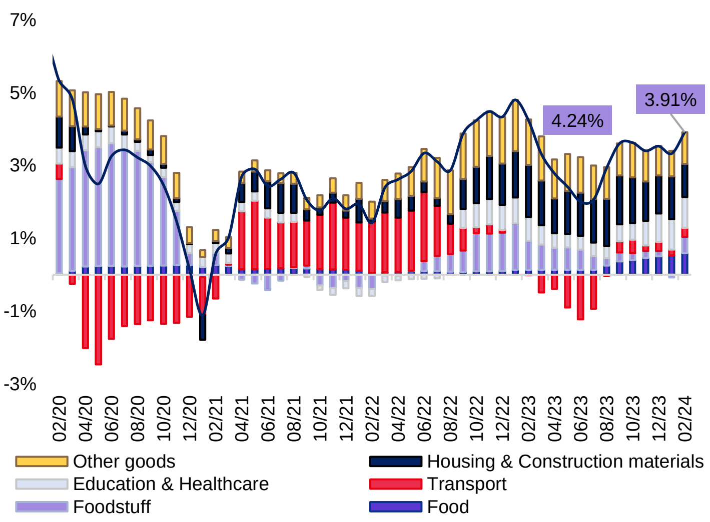
The food and catering services group increase (+4.2% yoy) was the primary factor contributing to the CPI index rocket in February, of which: Grain food basket increased by 17.3% yoy due to the domestic price of rice remain at a high level in line with world rice prices and foodstuff saw a rise of 2.1% yoy as a result of higher consumer demand for the Lunar New Year. Due to rising costs for rental housing and home maintenance supplies, housing and construction materials group saw a 4.9% increase. In addition, tuition fee increases in some cities pushed the education group index up 8.5% and the medicines and health services group increased by 6.5% as revised health service prices contributed to pushing up the consumer price index for the month over the same period.

The increase in cement and sand prices in line with the price of input materials along with the high rent house has pushed up the price index, pushing the average price index of the housing and construction materials group up by 6.7% yoy, greatly affecting the overall CPI. The increase in demand for rice during holidays causes rice prices in the first 2M2024 to increase by 21.6%. The increase in household electricity prices (+9.4% yoy) due to EVN adjusting the average retail electricity price last year also contributed to the increase in the average CPI.

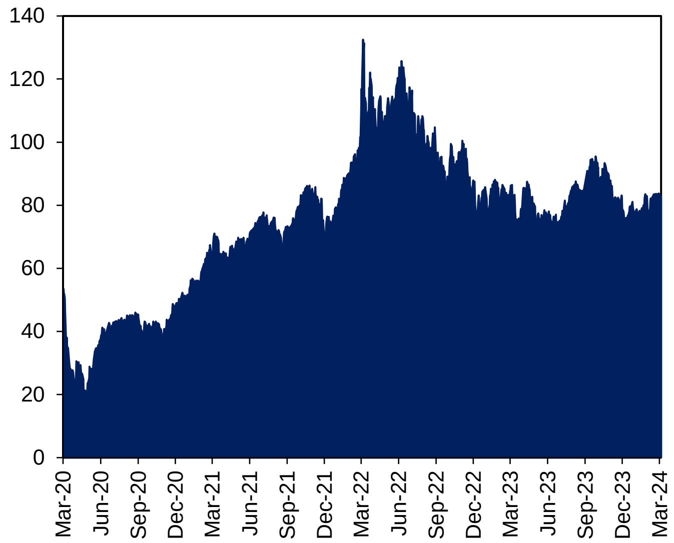
We expect the average CPI in 2024 to fluctuate at 3.5% - 3.6%, inflation will still remain within the government's target of 4% - 4.5% because domestic demand is still low. However, inflation next year will be at risk due to the following factors: First, domestic construction steel prices are expected to recover to 15mn VND/ton (+8% yoy) in 2024 due to increase in global steel prices and demand in the domestic market. Second, rising electricity demand along with EVN adjusting the average retail electricity price twice in 2023 will impact related goods, products and services and push up daily spending to go up. Third, the food price index tends to increase because rice prices will increase in the context of increased demand in Asian and African markets. 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 (%)**

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

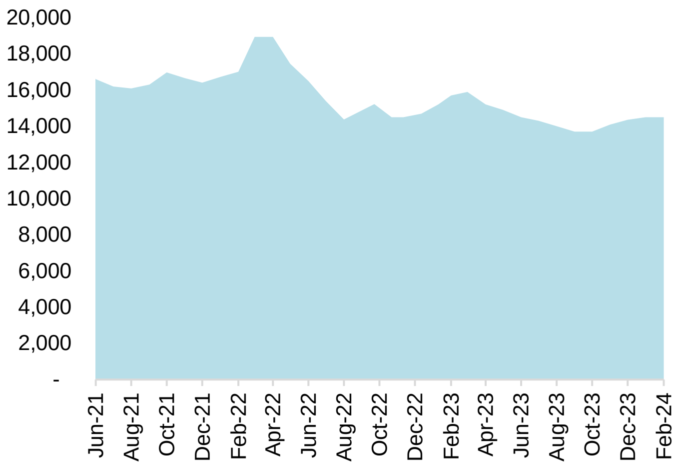



Source: GSO, MBS Research



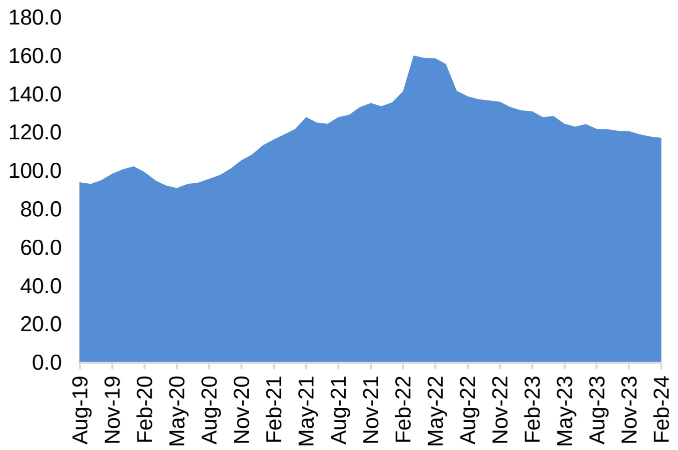

Source: Bloomberg, MBS Research

**Figure 13: Steel price (Mn VND/ton)**




Source: MBS Research

**Figure 14: FAO food price index**




Source: FAO, MBS Research

## Interbank interest rates cool down amid stable liquidity

Seasonality caused the interbank interest rate to peak on February 22nd, which put pressure on short-term liquidity and caused the overnight interest rate to rise to 3.7%/year. But just after that, interbank rates had a tendency to progressively decline until the end of the month and then settle back to a low level. Overnight rate has fallen rapidly and is now trading at 1.4%, down 63% from its peak. Interbank rates on other short tenors of 1 month or less simultaneously fell sharply and are currently trading in the range of 1.5%-2%.

The SBV continued to inject money through OMO channel in February. On February 20th-21st, the SBV injected more than VND 6tn through OMO channel with an interest rate of 4%/year and a term of 7 days and this amount matured and returned to the SBV. Meanwhile, the bill issuance channel has no activity. The fact that the SBV did not make any more transactions after shows that liquidity in the system has returned to a stable state.

The race of deposit rate reduction has not stopped in the majority of banks. The group of state-owned banks has not yet demonstrated any movement to modify new interest rates, with the average interest rate remaining 4.7% for a 12-month term, some private banks have set interest rates noticeably lower than those of the state-owned group. However, some joint stock banks have begun to raise interest rates, typically from 2.5 to 3.8% annually, for short terms of less than five months, to draw in deposits after the Lunar New Year. Particularly for 12-month deposits, it still fluctuates around 5% / year.

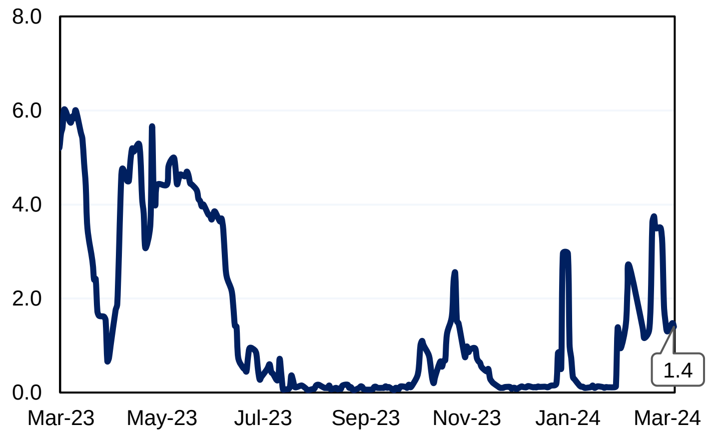
The race of deposit rate reduction has not stopped. In January, the average deposit rate fell to between 4.73% and 4.98%/year. Since the system's capital resources are still quite plentiful, the state-owned bank group saw the biggest decline. State-owned banks are currently implementing interest rates for 12-month terms specifically as follows: Agribank, VietinBank and BIDV have the same interest rate of 4.8%/year. For the same duration, Vietcombank alone offers a lower interest rate of 4.7% annually.

We think input rates are likely to bottom out in 1Q24 and are unlikely to fall further mainly because credit demand will tend to increase in 2024. In the context of more positive export growth at 6-7%, investment and consumption both prospered on the low level of the same period last year, we believe that the current liquidity excess will be balanced by a return to capital demand. According to our forecast, credit growth in 2024 to reach around 13-14%.

However, in the opposite direction, the upward pressure on interest rates is not great because the US monetary tightening cycle has almost ended. With the forecast that the Fed's operating rate will be lowered to approximately 4% by the end of 2024, the pressure on the exchange rate is not great, the State Bank will have room to maintain the current monetary policy. We forecast that the 12-month deposit rate of large commercial banks will be able to inch up by 25-50 basis points, returning to 5.25%-5.5% in 2024.

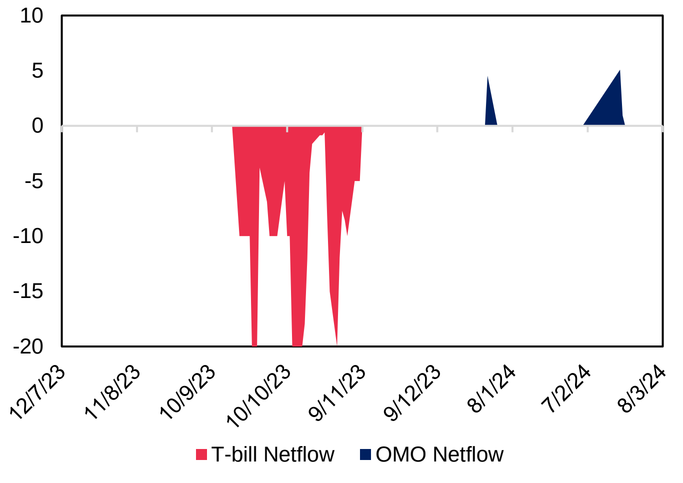
On the other hand, since the US monetary tightening cycle is virtually over, there is less pressure to raise interest rates. The FED's operating interest rate is expected to decline to about 4% by the end of 2024 since there won't be much pressure on the exchange rate, SBV will be able to continue with its existing monetary policy. According to our forecast, the 12-month deposit rate of major commercial banks would rise by 25 to 50 basis points, returning to 5.25 to 5.25% in 2024.

**Figure 15: Interbank overnight lending rate (%)**




Source: GSO, MBS Research

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



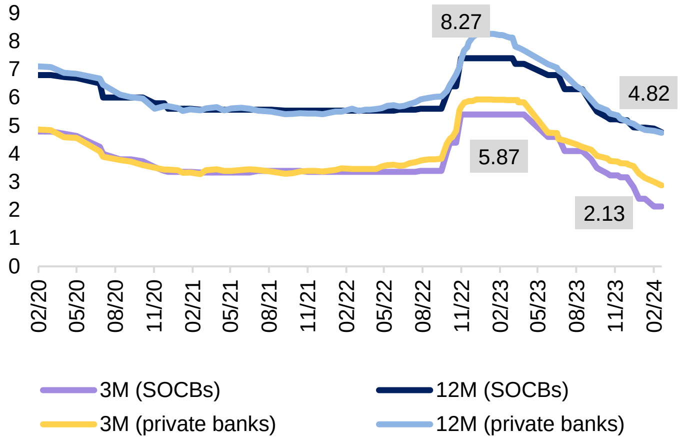

Source: Bloomberg, MBS Research

**Figure 17: Interbank interest rate (%)**

**Figure 18: Commercial banks deposit rate (%)**

| | O/N | 1 Week | 2 Week | 1 Month |
|---|---|---|---|---|
| 30/11 | 0.1 | 0.2 | 0.3 | 0.8 |
| 31/12 | 2.9 | 3.3 | 2.7 | 2.2 |
| 31/01 | 2.9 | 3.3 | 2.7 | 2.2 |
| 05/03 | 1.4 | 1.5 | 1.6 | 2.0 |

Source: MBS Research




Source: FAO, MBS Research

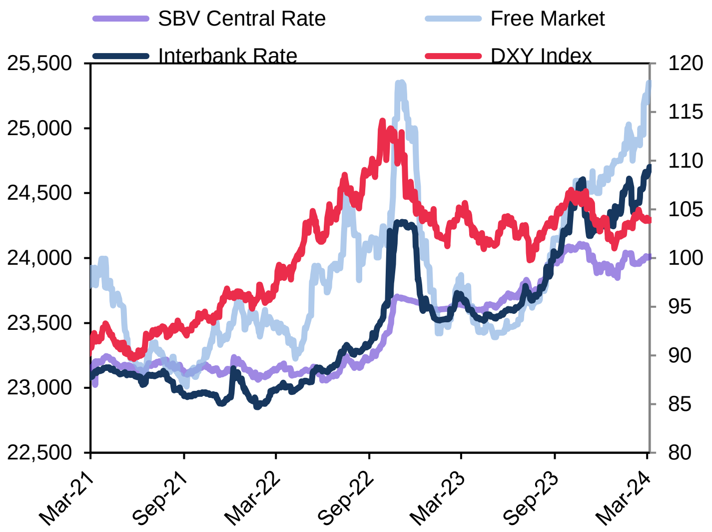
## The exchange rate continuously surpasses historical highs under multiple domestic pressure factors

Since November 2023, the domestic exchange rate has maintained an upward trend, and since February 14, it has been rising very quickly. The interbank exchange rate has reached a new all-time high at 24,702 VND/USD, up 1.6% since the beginning of the year. With a decline of 2.4% to 0.5% from their peaks in January, then free exchange rate and the central rate are currently trading at 25,350 VND/USD and 24,012 VND/USD, respectively. The domestic exchange rate is under pressure when the Fed shows signs that it will not lower interest rates soon, causing the interest rate difference between USD-VND to be prolonged. The demand for foreign currency to import production materials increased due to improved import and export, which put pressure on the price of the USD domestically. Furthermore, Vietnam has been consuming roughly 50–60 tons of raw gold annually, which is more than 20 times the entire amount of gold mined in the nation. The import of gold to meet domestic demand and the hoarding of USD during the ongoing fluctuations in domestic and international markets have affected market supply and demand and exerted pressure on the exchange rate.

In contrast to the domestic market, the world dollar fell slightly to 103.8 and hovered below 104. The market is anticipating the Fed's testimony before Congress on Wednesday and Thursday, as well as the release of the US jobs report for February at the end of the week. In light of the expectation that the US economy would continue to grow rapidly, signs point to the Fed sticking to its position of keeping interest rates high for an extended period of time, which could boost the USD's recovery in the next stage. Investors are also betting the Fed will lower rates by about 85 basis points instead of the 150 basis points expected in early January.

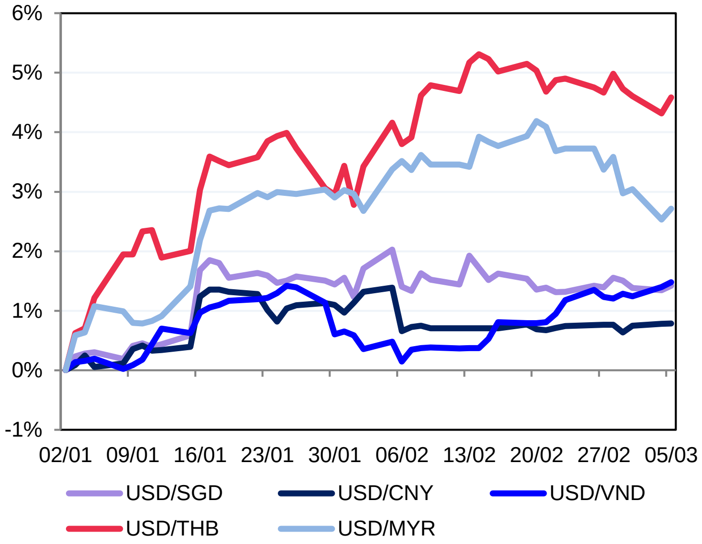
Heading to 2024, the context of improving US inflation means increasing the likelihood that the Fed will start cutting interest rates sooner than expected. With the easing of global monetary policy, there will be less pressure on the domestic exchange rate as the US dollar depreciates significantly. We believe that the exchange rate in 2024 will fluctuate in the range of 23,800 – 24,300 VND/USD and will continue to be supported by factors including trade surplus, however, it may not be as good as now when import and export will recover, FDI disbursement will be positive, and remittances will be stable (the IMF forecasts more than USD 110bn in remittances in 2024), and international tourism rebounds sharply,...

**Figure 19:** VND/USD exchange rate




Source: SBV, Bloomberg, MBS Research

**Figure 20:** 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 | 6.0-7.0 |
| Imports of goods and services (% yoy) | 11.5 | 7 | 3.6 | 26.5 | 8.4 | -8.9 | 9.0-10.0 |
| 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 | 12.0-15.0 |
| Goods: Exports (USD bn) | 244 | 263 | 281 | 336 | 371 | 355.5 | 366 |
| Goods: Imports (USD bn) | 237 | 253 | 262 | 332 | 360 | 327.5 | 354 |
| Foreign reserve (USD bn) | 55 | 78 | 94 | 109 | 86 | 95 | 110.5 |

## DISCLAIMER



## 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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*Huyen Pham Thi Thanh*

**Real Estate**
*Duc Nguyen Minh*
*Thanh Le Hai*

**Consumer - Retail**
*Ly Nguyen Quynh*