A positive start to a prosperous year

- March: Export increased positively by 14.2% but the PMI index fell below the threshold of 50 points because the number of new orders decreased again.
- The exchange rate soared 2.9% since the beginning of the year to 25,003 VND/USD, the highest level in history. We expect exchange rate pressures to cool in the upcoming months.
- The GDP is expected to grow by 5.6% in 1Q 2024; we remain our expectation of 2024 GDP to grow by 5.9% - 6.1%.

Production and export activities are booming

The manufacturing was primarily responsible for the 4.1% yoy increase in the industrial production index in March. PMI index fell to 49.9, below the 50-point threshold, as a result of declining new order volume due to weak demand. The group of industrial goods is still the main force driving exports up 14.2% yoy in March and in 1Q24 increased by 17% yoy. We forecast exports to grow by 10%-12% in 2024, with a trade balance surplus of USD 21-24bn based on the economic sector's efforts in sustaining and expanding export markets.

Inflation remains under control

CPI in March grew 3.9% yoy and the 3M24 average increased by 3.7% yoy. We expect the average CPI in 2024 to range between 3.5%-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, EVN may raise electricity prices in the upcoming months and the ongoing fluctuations in the price of oil.

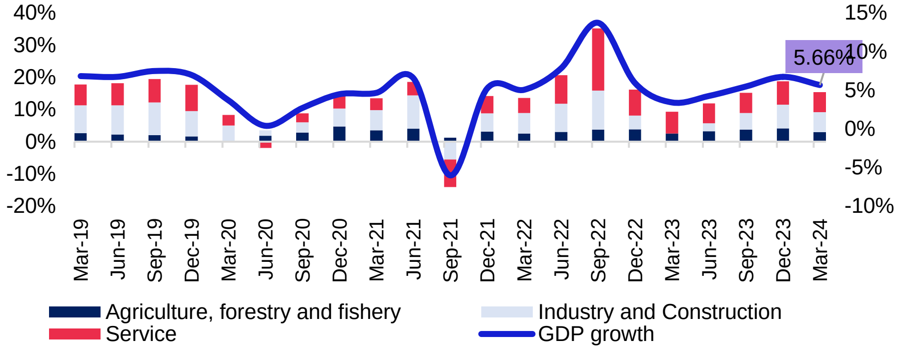
We anticipate a minor easing of exchange rate pressure

The domestic exchange rate has not yet shown signs of cooling down and is constantly reaching new peaks. The interbank rate is currently trading at 25,003 VND/USD. However, we believe that the increase in the exchange rate is only temporary and the exchange rate may return to the fluctuating in the range of 24,500 – 24,800 VND/USD in 2Q24 due to the government has given control instructions to stabilize the gold market; investors are anticipating three rate cuts by the Fed this year by roughly 70bps; positive macro factors such as trade surplus, tourism recovery, etc.

1Q24 GDP growth is robust with the industrial sector's breakthrough

GDP in the first quarter of 2024 was estimated to increase by 5.6%, this is the highest first quarter growth rate in the last 4 years. We maintain our 2024 GDP forecast of 5.9%-6.1% and 2Q24 GDP to grow by 5.8%-6.0% based on the recovery momentum of manufacturing, strong tourism activity as it approaches pre-pandemic growth.

Figure 1: GDP growth in sectors (yoy%)



Source: GSO, MBS Research

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A positive start to a prosperous year

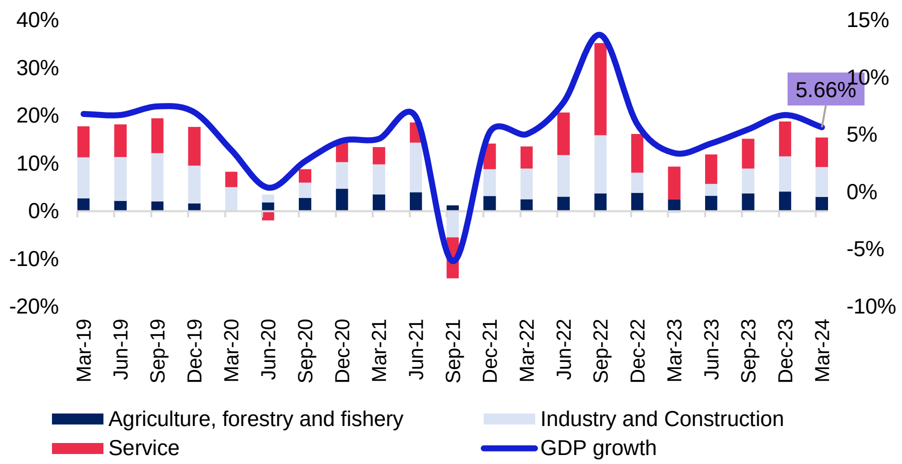
GDP in the first quarter of 2024 achieved the highest growth rate since 2020

Gross domestic product (GDP) in the first quarter of 2024 is estimated to increase by 5.6% yoy, higher than the growth rate of the first quarter of 2020-2023.

In particular, the industry and construction sector had recovered quite well in 1Q24 with the highest increase of 6.2% among the three sectors, contributing 41.6%; Of which, a significant contribution to growth was electricity, gas, steam and air conditionng supply and constructions, which increased by nearly 11.9% and 6.9% respectively. The agriculture, forestry and fishery sector increased by 2.9%, contributing 6.0% to the increase in total added value of the whole economy; This increase was contributed by the harvest of some perennial plants, major livestock products, and active growth in fishery. Service sector increased by 6.1%, contributing 52.2%. Of which, some core industries have stable growth such as transportation and storage (+10.5% yoy), accommodation & catering services (+8.3% yoy) and art, entertainment and recreation (+7.2% yoy)

We maintain our 2024 GDP forecast of 5.9%-6.1% and 2Q24 GDP to grow by 5.8%-6.0% based on the recovery momentum of manufacturing, strong tourism activity as it approaches pre-pandemic growth. Domestic consumption continues to be promoted with many consumer stimulus programs, discounts such as VAT reduction, reduced lending interest rates.

Figure 2: GDP growth in sectors (yoy%)



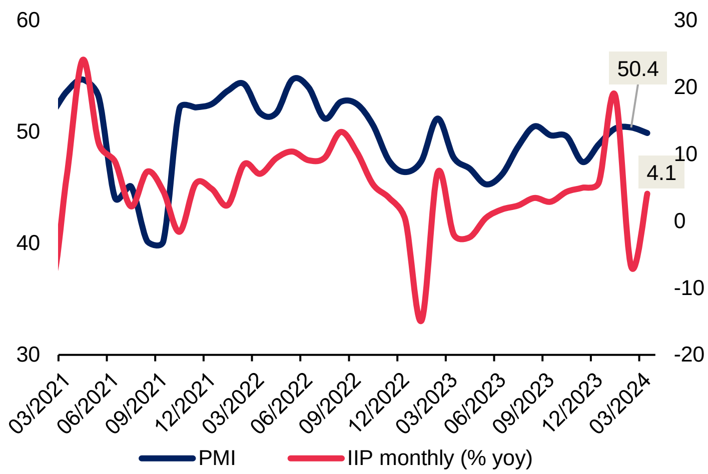
Source: GSO, MBS Research

Industrial production accelerated with the breakthrough of manufacturing section

Industrial production soared by 10% mom and went up 4.1% yoy in Mar, with the manufacturing sector's robust growth accounting for the majority of the gain overall. Industries with strong production growth in the month include: manufacture of rubber and plastics products (+29% yoy), manufacture of electrical equipment (+25% yoy), and manufacture of furniture (+14% yoy). For the first 3M24, industrial production grew by 5.7% yoy of which, repair and installation of machinery and equipment deliverd the biggest decrease of 21% yoy.

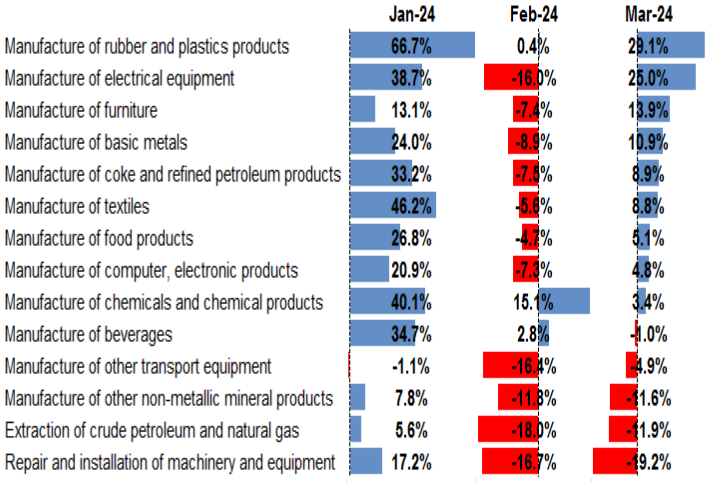
PMI dipped below the 50.0 nochange mark in March, posting 49.9 after a reading of 50.4 in February. PMI index is not very optimistic because, in the context of declining demand, both output and the number of new orders declined. This led to a slower increase in input costs and a decline in sales prices. The index therefore signalled an end to the two-month period of improving business conditions at the start of 2024, but pointed to broadly unchanged operating conditions overall. Manufacturers were increasingly confident that production will increase over the year ahead. Firms expect the launch of new products to boost output, while also hoping that an improvement in market demand will help to support new order growth.

Figure 3: Vietnam's PMI manufacturing and IIP (% change YoY)



Source: Bloomberg, MBS Research

Figure 4: Change in IIP in sectors monthly (% change YoY)



Source: GSO, MBS Research

Exports maintained uniform growth momentum in commodities

In Mar, export turnover of goods increased 37.8% mom, up 14.2% yoy to USD 34bn. Exports continued to increase due to very high growth in key commodities such as plastic products (+284% yoy), chemical products (+81% yoy) and textile fibres (+85% yoy). For 3M24, export turnover climbed 17% yoy to USD 93bn. The export items with the largest negative growth inculde toys, sports equipment and their parts (-20% yoy), clinker and cement (-11% yoy) and other basic metals and products (-7% yoy). Nevertheless, exports still highlight some bright spots in growth such as plastic products (+132% yoy), cameras, camcorders and their components (+70% yoy), and coffee (+54% yoy).

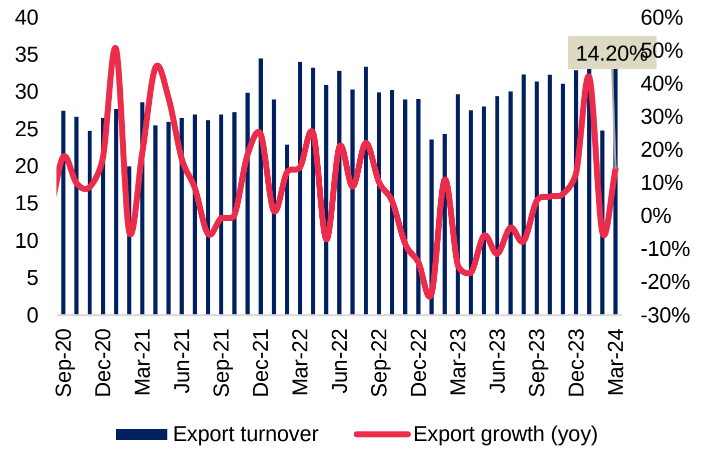
In term of export markets, export turnover to U.S. rose 26% yoy to USD 26.2bn, following by E.U with USD 12.1bn (+16.3% yoy); export to Japan reach USD 5.7bn (+6.4% yoy).

Import turnover of goods was about USD 31bn in Feb (+9.7% yoy) and USD 93bn in 3M24, (+9.7% yoy). China remained the largest import market of Vietnam with a turnover of USD 29.4bn. Two import products totaling more than USD 5bn in value in 3M24 (accounting for 40.3% of total import turnover), which are electronic goods, computers and their parts and machinery, instrument, accessory, respectively, with growth rates of +23.6% yoy and +12.1% yoy.

We forecast that exports will increase by 10%–12% in 2024, with a trade balance surplus of USD 21–24 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.

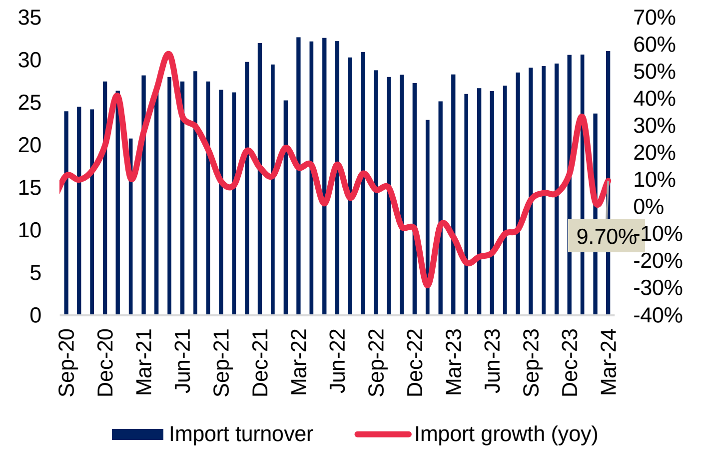
However, there are still notable challenges for Vietnam's export growth in 2024 including: transportation costs may spike due to geopolitical conflicts; rising competition from rival exporting countries such as China, Indonesia, Thailand, etc. Meanwhile, domestically, Vietnam's enterprises have to cope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

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



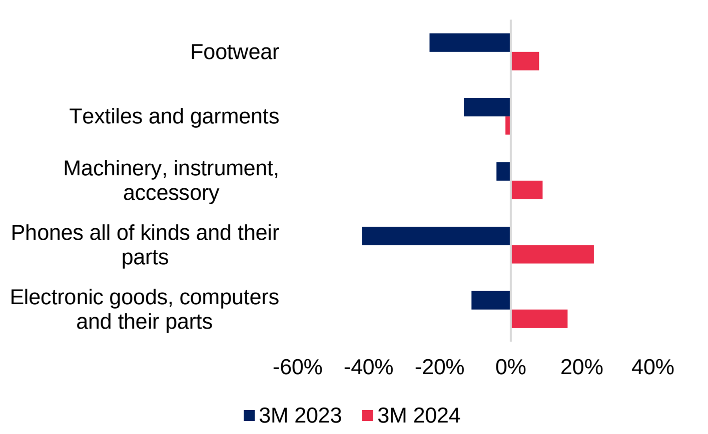
Source: GSO, MBS Research

Figure 6: Import market of Vietnam in monthly (USD bn)



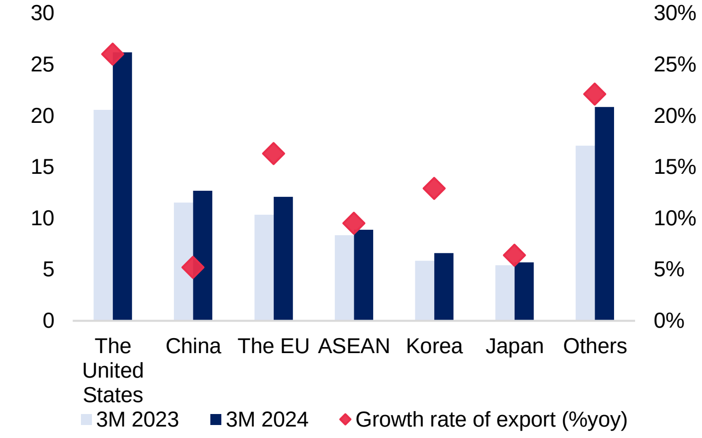
Source: GSO, MBS Research

Figure 7: Growth of major export products in 2M2024 (%yoy)



Source: GSO, MBS Research

Figure 8: Export market of Vietnam in 2M2024 (USD bn)



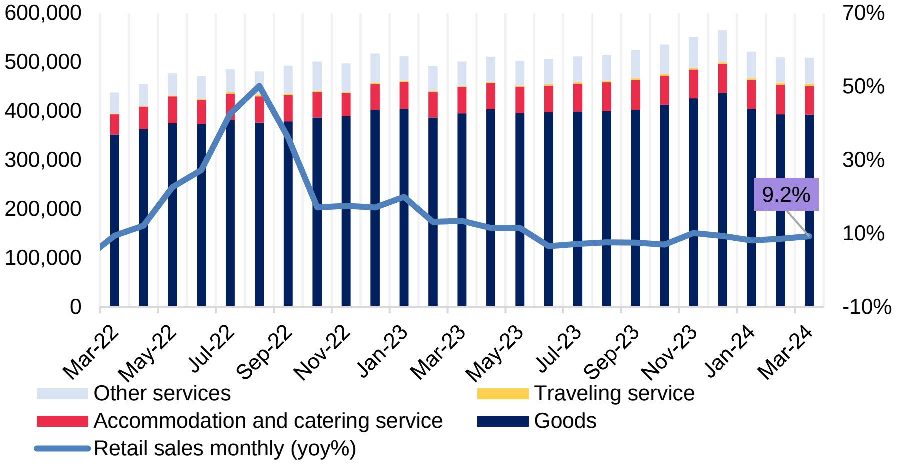
Source: GSO, MBS Research

Tourism continues to be a major role in the growth of retail and consumer activities

Retail sales of consumer goods and services growth went up by 9.2% yoy and fell by 0.5% mom in Mar 2024. Since the start of the year, the growth rate has been trending upward, indicating that even after the peak month of consumption, consumer demand is still being met.

For 3M24, the total retail sales of consumer goods and services was estimated to increase by 7% yoy (excluding the price factor). International visitors to Vietnam 3M24 were estimated at 4.6mn arrivals, up 72% yoy and increased 3.2% compared to the same period in 2019, the year no Covid-19 epidemic.

Figure 9: Retail sales of consumer goods and services (Trillion VND)



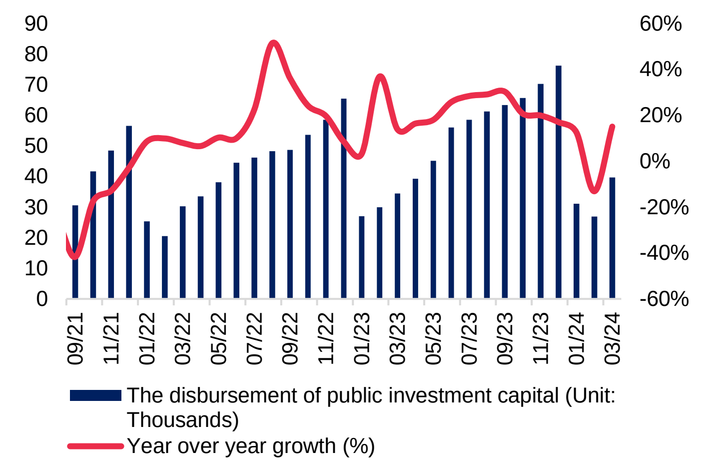
Source: GSO, MBS Research

Positive public investment disbursement with the highest first quarter disbursement rate since 2019

In Mar, newly registered FDI inflow decreased by 7% yoy, meanwhile disbursed FDI slightly went up 3% yoy. For 3M24, realized FDI inched up modestly 7% yoy to USD 3.6bn, in which: Processing and manufacturing industry sector attracted USD 2.1bn of new FDI inflow (accounting ~ 78%), real estate sector attracted USD 460.6mn (accounting ~ 9.9%), and about USD 197.5mn for utilities (accounting ~ 4.3%). Notably, XGIMI, a China-based projector manufacturer, will invest $30 million in the first phase of a project in Vietnam's northern province of Nam Dinh.

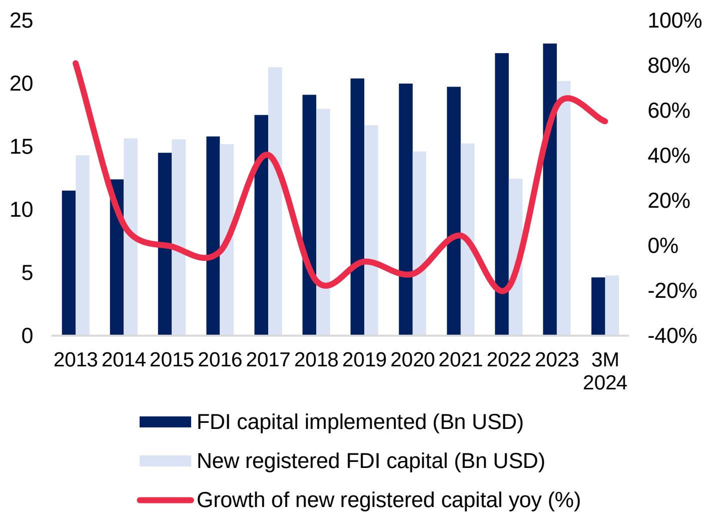
Disbursed state investment sped up 15% yoy in Mar to VND 39.7tn. For 3M24, state investment increased 3.7% yoy to VND 97.7tn, fulfilling 13.9% of Government's target.

Figure 10: Growth of realized investment capital from State budget



Source: GSO, MBS Research

Figure 11: Growth of foreign investment capital



Source: GSO, MBS Research

Inflation is still under control but cannot be subjective

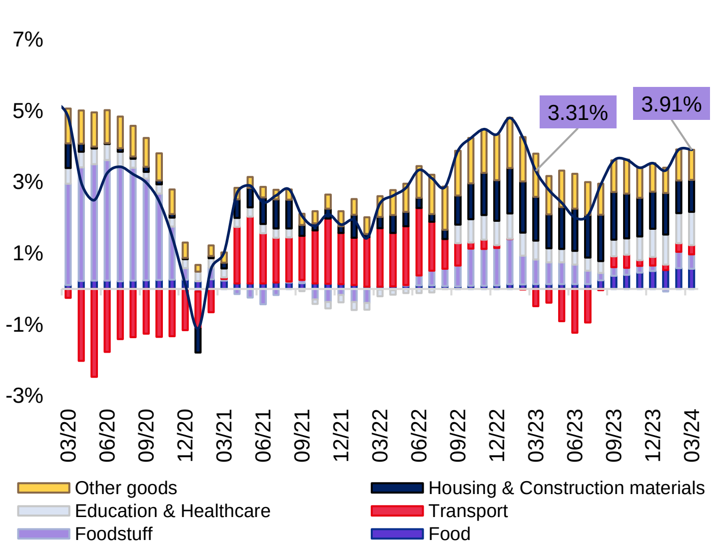
According to General Statistics Office (GSO), Vietnam's CPI in Mar declined 0.2% mom and 3.9% yoy, after seasonal factors passed (CPI in Mar 2023 increased 3.3% yoy). For the first 3M24, average CPI increased by 3.7% yoy; meanwhile, core inflation increased by 2.8% yoy.

Food and catering services (+4% yoy), which is largely responsible for the increase in the CPI in March compared to the same period last year, this happened due to a strong uptrend of the food basket from the second half of 1Q24 (+16.5% yoy), put significant pressure on inflation. The housing and construction materials group index rose 4.8% as a result of rising costs for rental housing as well as home maintenance supplies. Furthermore, the increase in tuition fees in some localities pushed the education group index up by 10.1% yoy, the highest growth among the CPI basket.

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 5.4% yoy, greatly affecting the average CPI of the first quarter. The increase in demand for rice during holidays causes rice prices in the first 3M24 to increase by 21.7%. In addition, tuition fee increases in some cities pushed the education group index up 9.2%.

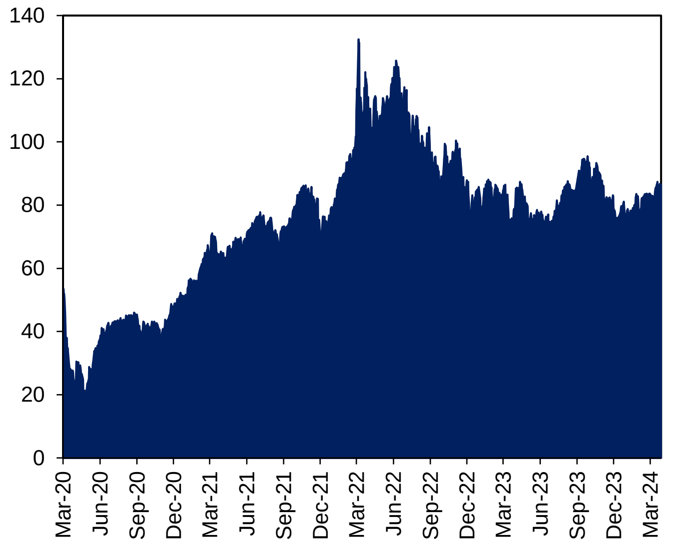
We expect the average CPI in 2024 to fluctuate at 3.5% - 3.6%, inflation will still remain within the government's target of 4% - 4.5% because domestic demand is still low. However, inflation next year will be at risk due to the following factors: First, domestic construction steel prices are expected to recover to 15mn VND/ton (+8% yoy) in 2024 due to increase in global steel prices and demand in the domestic market. Second, EVN might keep raising the price of electricites while inputs like coal and gasoline are in high supply. 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 12: Contribution of commodity groups to CPI growth (%)



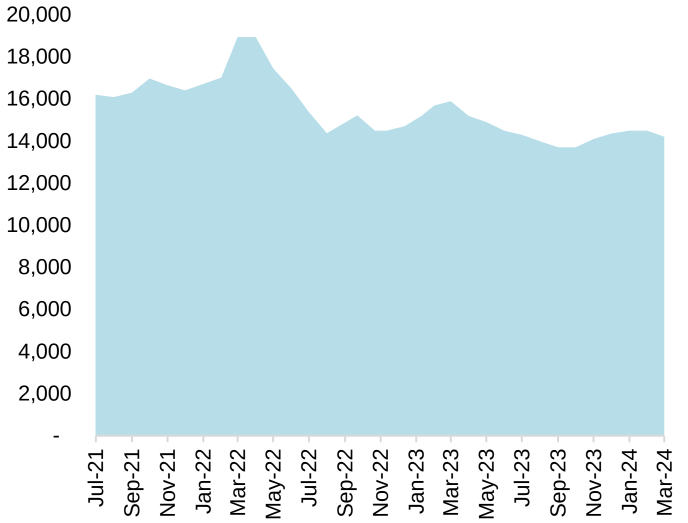
Source: GSO, MBS Research

Figure 13: Brent crude oil price (USD/Barrel)



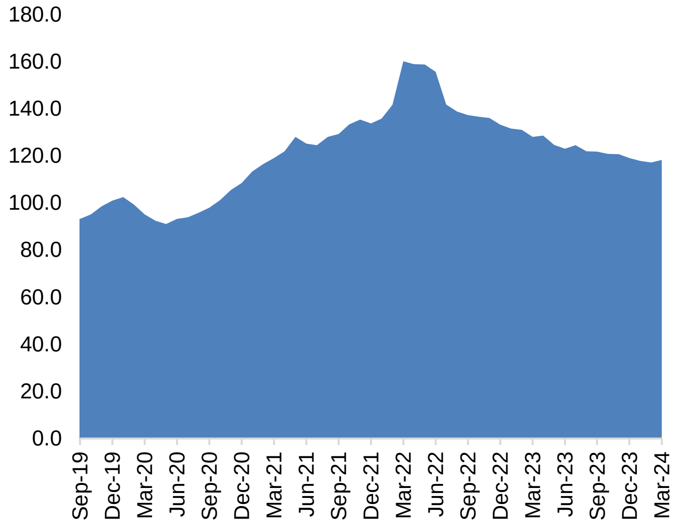
Source: Bloomberg, MBS Research

Figure 14: Steel price (Mn VND/ton)



Source: MBS Research

Figure 15: FAO food price index



Source: FAO, MBS Research

Interbank interest rates fell despite the SBV's withdrawal of VND

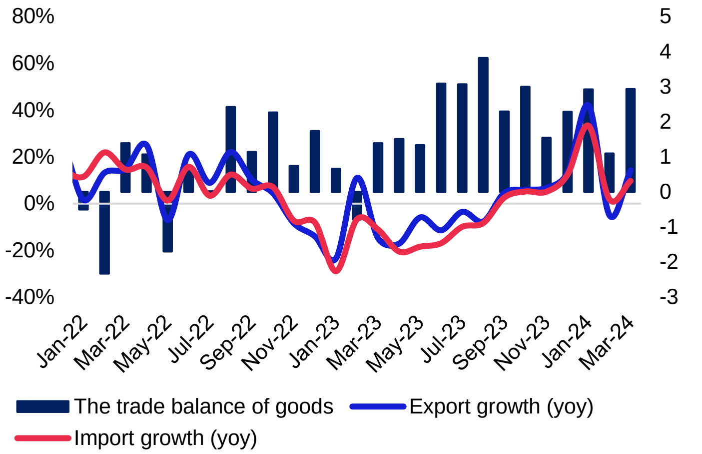
The interbank interest rate has been trending downward since the beginning of March, from 1.4% to 0.8%, as the tight money demand has subsided following the Lunar New Year. From March 11th to March 28th, the SBV has returned to using bill channels to withdraw about VND 169tn in the banking market, with tenors of 28 days and interest rates of the winning bids from 1.3%-2.5%. When loan demand was low and market liquidity was abundant, the SBV acted in response to a sudden spike in the USD/VND exchange rate. The interbank interest rate reacted to the SBV's move and bounced up to 1.4% on March 12th.

However, interest rates cooled down quickly and maintained a downward trend to 0.2% and are currently trading around this price range in the context that system liquidity is still abundant (as of March 25th, credit growth of the economy increased by 0.26% compared to the end of 2023, much lower than the increase of 2.6% in the same period last year). Interest rates of other tenors of less than 1 month also decreased slightly and are in the range of 1.2%-2%. Bank savings interest rates have continued to decrease since the beginning of March at 25 banks. Notably, on March 19th, BIDV adjusted interest rates at tenors, especially 12-month tenor by 0.1 percentage points, from 4.8% to 4.7%/year. Currently, the group of state-owned banks has an interest rate of 4.7% for a 12-month tenor. In other hand, five banks in the month recorded an increase in deposit rates, but the increase in interest rates only occurred at a few tenors with relatively small increases of less than 0.2%.

We expect input rates are likely to bottom out in 2Q24 and are unlikely to fall further mainly because credit demand will tend to increase in 2024. We forecast that the 12-month deposit rate of large commercial banks will be able to inch up by 30-50 bps and progressively return to their pre-year levels, given that certain banks displayed inconsistent deposit adjustments in March. The economy's credit growth as of March 25th reached 0.26%, indicating that the demand for capital in the economy is gradually recovering, which will have an immediate impact on commercial banks' capital and foreign exchange trading plans. In addition, the positive signs of the economy in the first 3M24 are expected to continue and achieve the credit growth target of 14-15%: Exports totaled USD

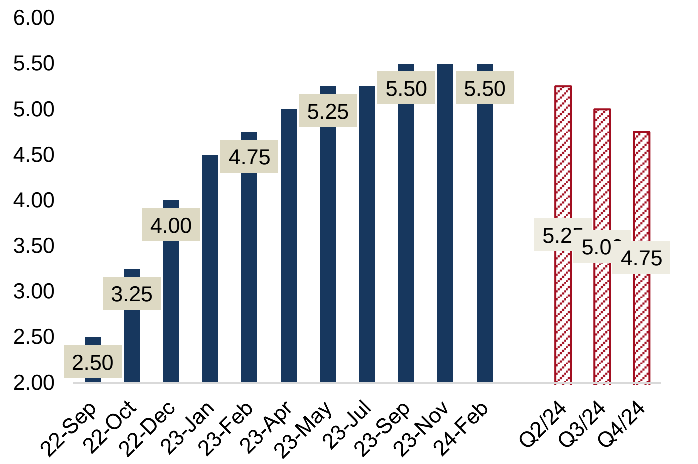
93bn in 3M24, up 17% yoy, and the trade surplus was USD 8bn. The real estate market is showing signs of warming up again due to increased demand and limited supply in the last 2 years when almost no new projects have been approved, which will boost credit in secondary real estate products. In addition, the SBV's current low interest rate has a positive impact on business expansion and increased inventory reserves of enterprises, which will be boosted to help credit growth improve.

Figure 16: Import-export growth and monthly trade surplus



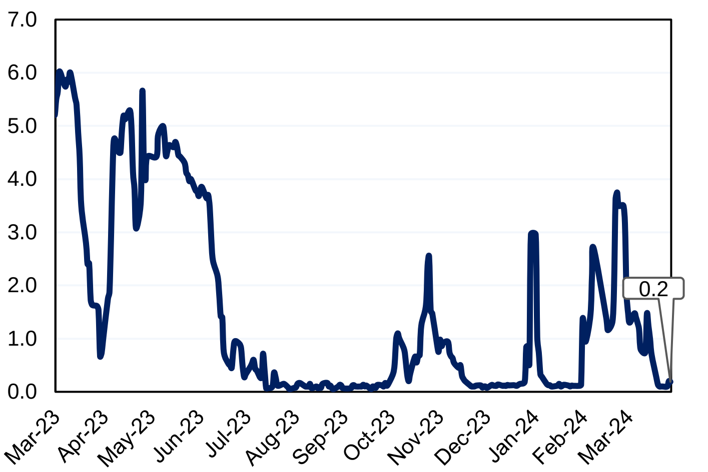
Source: GSO, MBS Research

Figure 17: FED is expected to cut interest rates from the end of Q2/24, bringing rates down to 4.75% by the end of the year.



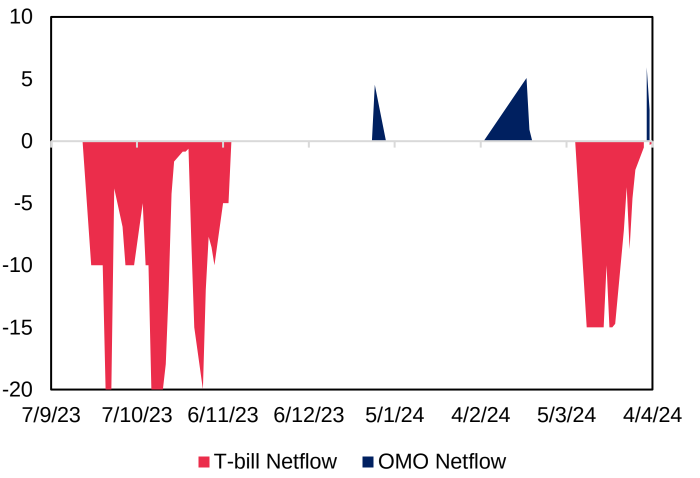
Source: Bloomberg, MBS Research

Figure 18: Interbank overnight lending rate (%)



Source: GSO, MBS Research

Figure 19: SBV's Open Market Operation (Liquidity) [VND tn]



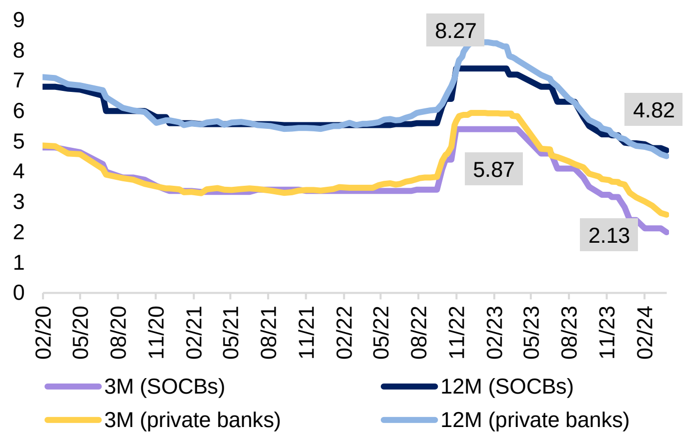
Source: Bloomberg, MBS Research

Figure 20: Interbank interest rate (%)

	O/N	1 Week	2 Week	1 Month
31/12	2.9	3.3	2.7	2.2
31/01	2.9	3.3	2.7	2.2
29/02	1.5	1.4	1.7	2.0
27/03	0.2	1.5	1.6	2.0

Source: MBS Research

Figure 21: Commercial banks deposit rate (%)



Source: FAO, MBS Research

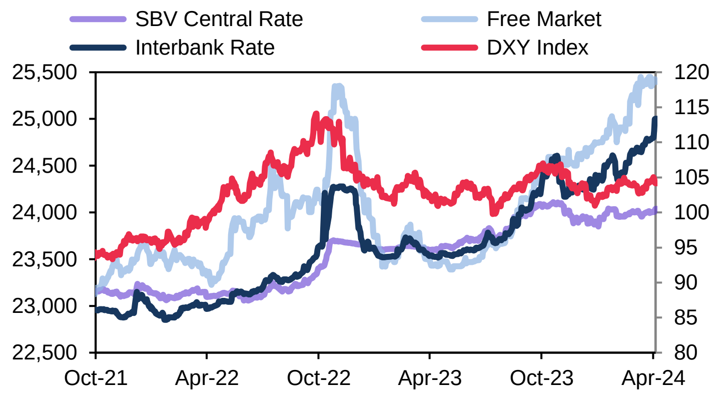
Domestic pressure continues to weigh on the exchange rate

The domestic exchange rate is continually rising to new heights and does not appear to be slowing down. The interbank exchange rate is currently trading at 25,003 VND/USD, up 2.9% since the beginning of the year. With an increase of 2.6% to 0.8% from the beginning of the year, the free exchange rate and the central rate are currently trading at 25,400 VND/USD and 24,038 VND/USD, respectively. The exchange rate has consistently broken records under domestic forces, such as the fact that domestic gold prices have not demonstrated a decreasing trend and at the meeting on March 20th, FED made a decision to keep the interest rate unchanged, causing the interest rate difference between USD-VND to continue to be prolonged.

The dollar index bounced to 104.2 after data showed manufacturing was growing for the first time in 1 and 1/2 years and in March, the number of new orders for U.S.-made goods recovered more than expected, while the labor market remained resilient. Investors have tempered expectations of a FED rate cut as announced if inflation in the US remains elevated and economic growth continues to be strong. Traders estimate the FED will cut rates by about 70bps, less than the central bank's prediction at the start of the easing cycle. However, with the PCE personal consumption expenditures price index rising 0.3% in February, less than economists' estimated 0.4% increase, the FED chair said this is data in line with what the FED wants to see, prompting markets to continue to expect a rate cut in June.

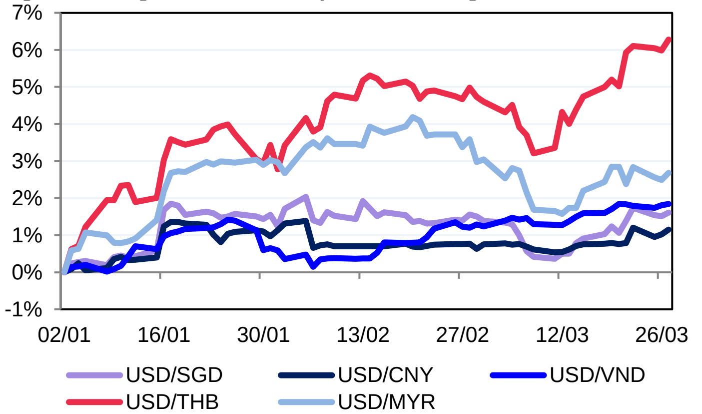
We believe that the exchange rate in 2Q2024 will fluctuate in the range of 24,500 – 24,800 VND/USD and will continue to be supported by factors such as: First, the government has given control instructions to stabilize the gold market; Secondly, investors are expecting the FED to start reducing interest rates at the June meeting and this will narrow the interest rate differential between USD and VND, contributing to limiting interest rate arbitrage trading activities and reducing depreciation pressure on VND. Third, positive macro factors will support such as a positive trade surplus when accumulated 3M24 reaches USD 8bn, foreign exchange reserves are still at a good level and are expected to reach USD 110b in 2024, FDI inflows implemented in 3 months are estimated at USD 4.6bn (+7.1% yoy) and tourism recovered strongly when 1Q24 increased by 72% yoy and increased by 3.2% compared to the same period in 2019 - a year without the Covid-19 epidemic. 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 22: VND/USD exchange rate



Source: SBV, Bloomberg, MBS Research

Figure 23: 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

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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Tung Nguyen Ha Duc
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