

Moderate recovery underway

- Vietnam's CPI in Jul inched up only 0.45% on m-o-m basis and 1.1% yoy
- Despite the Fed's decision to raise interest rates throughout the month, the domestic exchange rate remained stable while the USD lost value relative to other currencies in the area.
- In Jul, export turnover of goods inched up 0.8% mom, in favor of crude oil (+127% mom) and rubber (+38% mom).

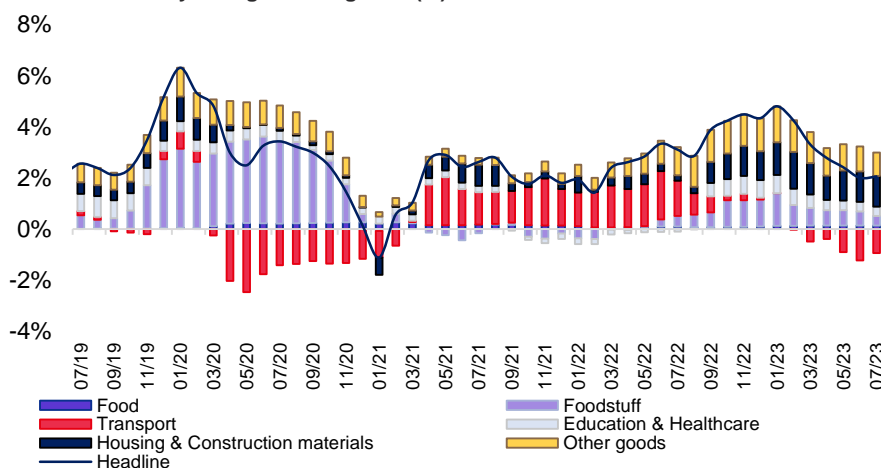
Inflation pressure ease on lower energy prices

According to General Statistics Office (GSO), Vietnam's CPI in Jul inched up only 0.45% mom and 1.1% yoy which is far below the increase of 2.1% seen in Jul last year. For the first 7M23, average CPI increased by 3.12% yoy; meanwhile, core inflation increased by 4.65% yoy.

On month-on-month basis, the increase of CPI in Jul was mostly driven by higher food prices and electricity tariff. Of which, the 2.7% m-o-m increase of hog prices brought to a hike of 0.79% m-o-m in food prices; meanwhile water and electricity tariff also increased 3.87% and 0.47% m-o-m. On year-on-year basis, CPI has extended the downtrend, mostly thanks to subdued domestic gasoline prices in line with the 2% ytd drop of Brent oil prices.

We expect inflation slightly to pick up in the upcoming months and average at 3.4% for the whole year 2023 based on following factors. First, we observed that education cost and building material have increased significantly 7.6% yoy and 6.6%, respectively for the first 7M27. Steel prices are likely to bottom out due to the shrinking global inventory as a result of the preponement shutdown of major steel makers. Second, oil prices so far have climbed 15% from its bottom in Jun and be expected to stay above USD 80/bbl towards year end following current low inventory.

Figure 1: CPI monthly change in categories (%)



Source: Bloomberg, MBS Research

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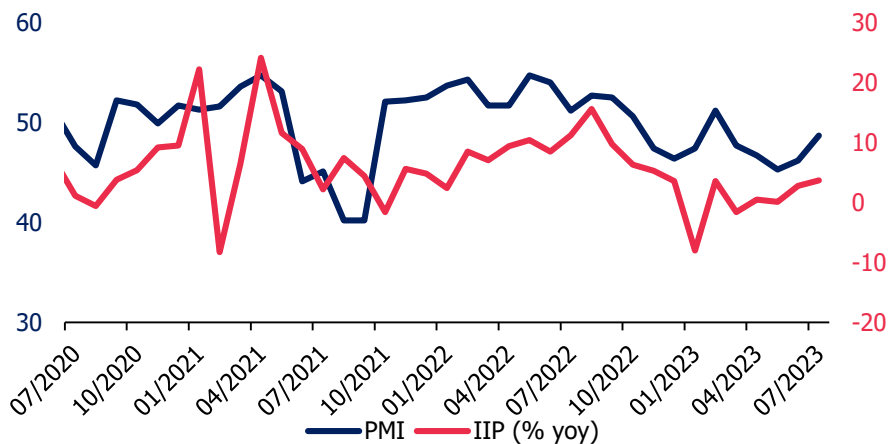
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Industrial production experience some modest improvement in Jul

Industrial production increased 3.9% mom and 3.7% yoy in Jul. Vietnam's PMI climbed to 48.7 in Jul from that of 46.2 in Jun, but still stayed below the threshold of 50 five months in a row. According to S&P Global PMI, the deteriorating business environment resulted in unsold product inventories and unused inputs that increased in July. Meanwhile, selling prices continue to fall and supplier delivery times are shortened.

For the first 7M23, industrial production decreased by 0.7% yoy, of which, processing and manufacturing industries delivered a lowest decrease of 1% yoy (vs. an increase of 9.5% yoy in 7M22).

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



Source: Bloomberg, MBS Research

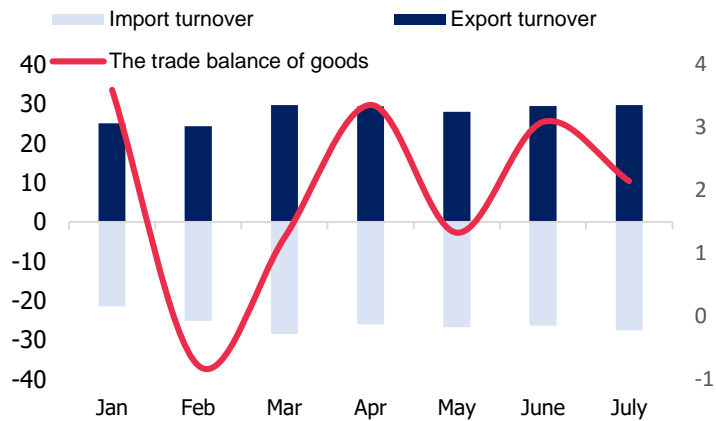
Export are likely to pick up for the upcoming months due to low base last year

In Jul, export turnover of goods inched up 0.8% mom, down 3.5% yoy to USD 29.68bn. For 7M23, export turnover decreased 10.6% yoy to US\$ 194.73bn. Top largest export products experienced sharp drop across the board, including: phones, components (-18.3% yoy); footwear (-17.1% yoy); textiles and garments (-15% yoy); wood and products (-26% yoy). In term of export destinations, export turnover to U.S. decreased 24% yoy to USD 52.4bn, following by E.U (-12% yoy); Japan (-3.5% yoy). On the bright side, exports still have some highlights in growth including rice exports (+30% yoy), means of transport and components (+20% yoy), vegetables and fruits (+68% yoy).

Import turnover of goods was about USD 27.53bn in Jul (+4.4% mom) and ~USD 179.5bn in 7M23, (-17.1% yoy). Two import products totaling more than USD 10bn in value in 7M23 (accounting for 37.9% of total revenue), which are electronic goods, computers and their parts and machinery, instrument, accessory, respectively, decreased by 9.4% and 14.6%.

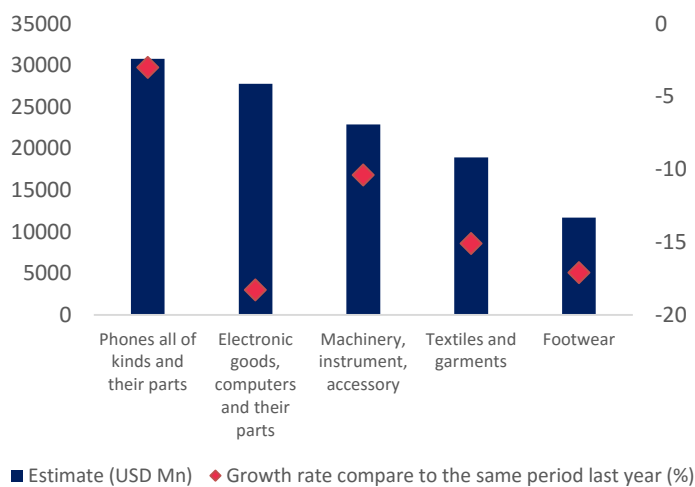
All at all, Vietnam's trade balance enjoyed a surplus of USD 16.5bn for 7M23 which was accounted for the stability of the VND against the strengthening USD.

Figure 3: The trade balance of goods in 7 months of 2023 (USD bn)



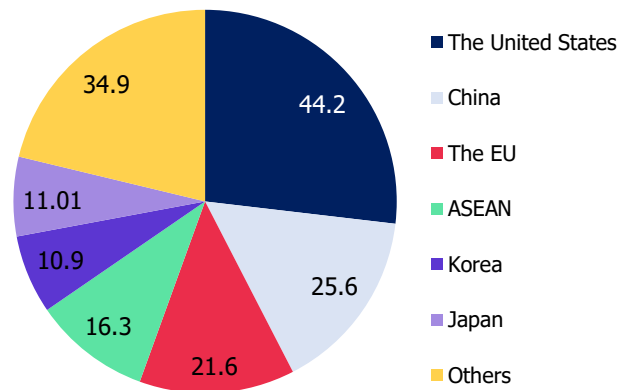
Source: GSO, MBS Research

Figure 5: Growth of major export products in 7M2023 (%yoy)



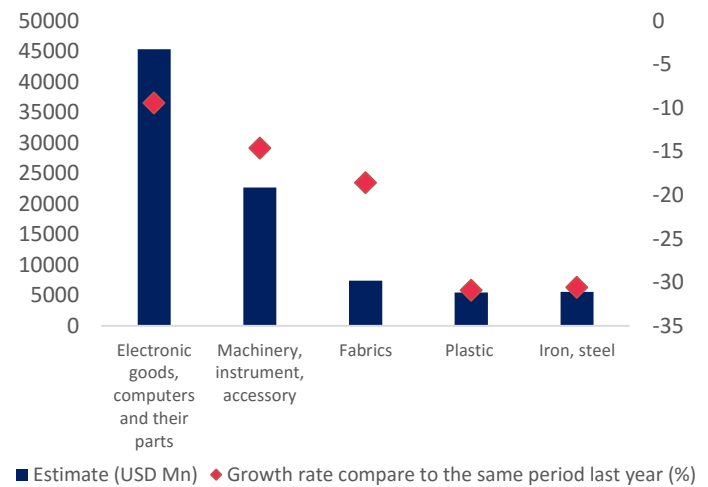
Source: GSO, MBS Research

Figure 4: Export market of Vietnam in 6M.2023 (USD bn)



Source: GSO, MBS Research

Figure 6: Growth of major import products in 7M2023 (%yoy)

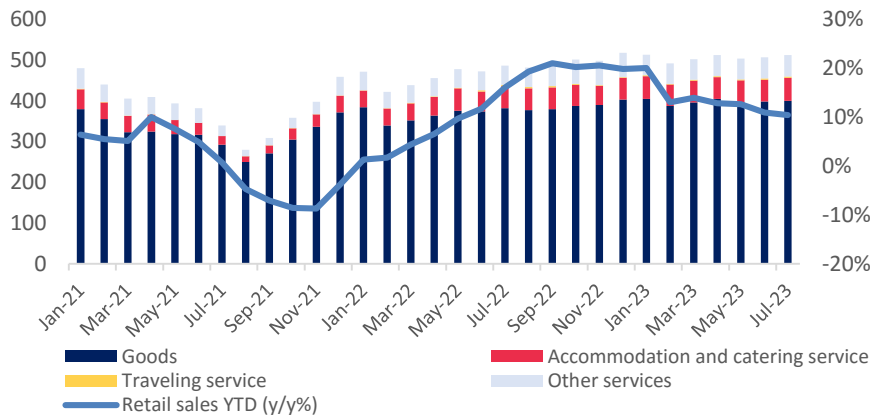


Source: GSO, MBS Research

Retail sales

Retail sales of consumer goods and services growth decelerated to +7.1% yoy, +1.1% mom as the effect of re-openings has gradually faded off. In Jul, foreign tourist arrivals were over 1 million people (2.9 times higher than the same period last year). For 7M23, the total retail sales of consumer goods and services was estimated to increase by 10.4% yoy, of which, tourism revenue increased by 53.6% yoy. International visitors to Viet Nam 7M23 were estimated at 6.6mn arrivals, 6.9 times higher than the same period last year but still down 67.5% compared to the same period in 2019, the year no Covid-19 epidemic.

Figure 7: Retail sales of consumer goods and services (Trillion VND)



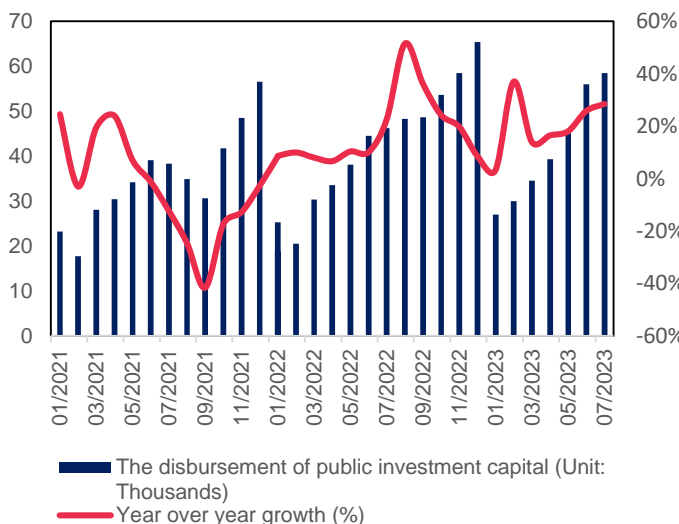
Source: Bloomberg, MBS Research

Investment

In Jul, new FDI inflow grew 68% yoy, meanwhile disbursed FDI increased 3% yoy. For 7M23, registered FDI inched up modestly 0.8% yoy to USD11.6bn, in which: manufacturing sector attracted USD 9.48bn of new FDI inflow (accounting ~ 81.8%), utilities attracted USD 778.3mn (accounting ~ 6.7%), and about USD 565mn for property sector (accounting ~ 4.9%). Top largest new FDI projects in this year are: LEGO Group, which is currently building a factory of more than USD 1.3bn in the Binh Duong Province; and The LG Innotek's Hai Phong factory is located in Trảng Duệ Industrial Park and invested in by LG Innotek Vietnam Hai Phong Co Ltd with total investment to over USD 2bn.

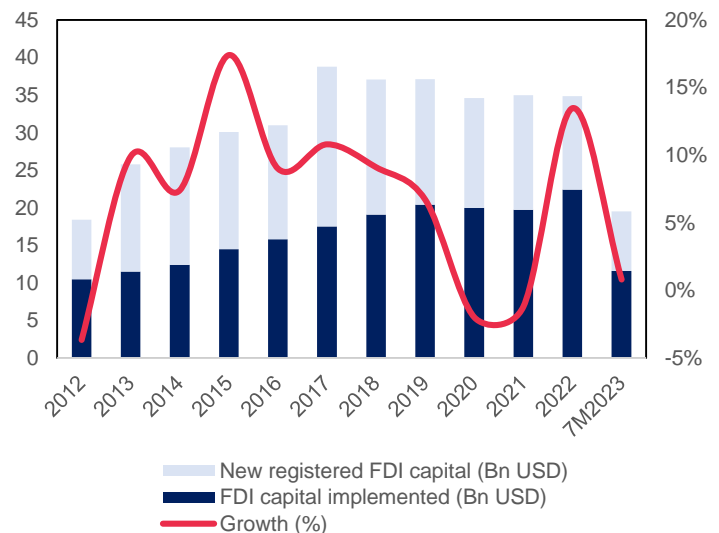
Disbursed state investment accelerated robustly 28.4% yoy in Jul to VND58.5tn. For 7M23, state investment increased 22.1% yoy to VND291tn, fulfilling 41.3% of Government's target.

Figure 8: Growth of realized investment capital from State budget



Source: GSO, MBS Research

Figure 9: Growth of foreign investment capital



Source: GSO, MBS Research

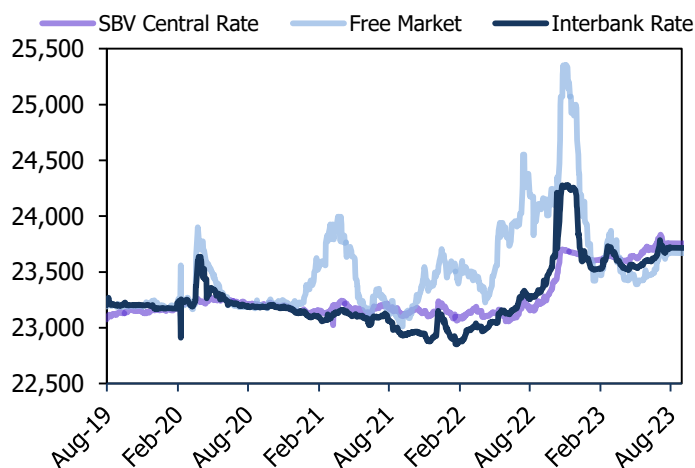
Exchange rate still pose a risk to economy, in our view

The USD/VND stayed relatively flat in July. Compared to the end of June, the VND/USD exchange rate on the free market up by VND 65 per USD and is currently trading at 23,670 VND/USD. The central and interest rates were respectively traded at VND 23,757 per USD, down VND 43 per USD and VND 23,717 per USD, up VND 25 per USD.

The dollar index weakened to the 15-month low of 99.5 in the first half of Jul following the FED's probability of ending the hiking cycles. However, the index bounced back since mid-Jul to current 102 as strong economic data push against dovish policy narrative. The better-than-expected U.S. economic data continued to dampen investors' expectations for relatively dovish monetary policy from the Federal Reserve. The recent data suggests that the U.S. is now averting a recession, raising the likelihood that the Fed could raise rates further if it continues to see negative data across the board.

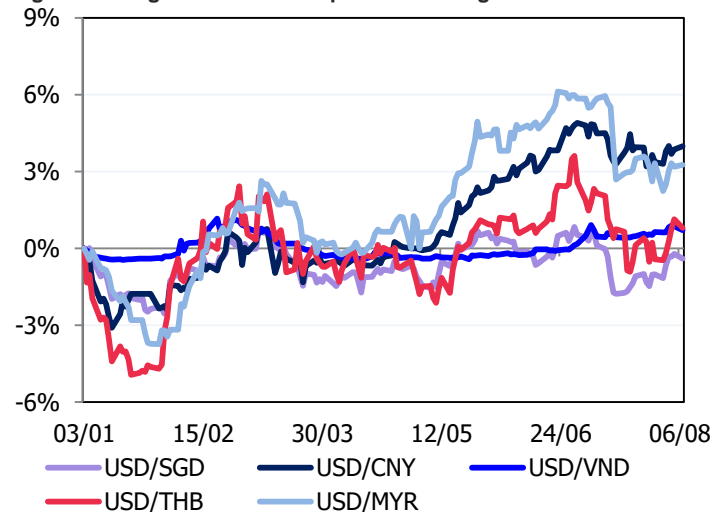
We expect the exchange rate to reach VND 24,100 with a view that the Fed may raise interest rates further this year, but the pressure may not be strong due to the domestic trade surplus recorded at a high level compared to recent years.

Figure 10: VND/USD exchange rate



Source: SBV, Bloomberg, MBS Research

Figure 11: Regional currencies performance against USD



Source: Bloomberg, MBS Research

Vietnam's economic indicators

Economic indicators	2017	2018	2019	2020	2021	2022	2023F
1. GDP, population & income							
Nominal GDP (USDbn)	193,2	281.3	310.1	334.3	346.6	366.1	408.8
Real GDP growth (%)	6,69	6.69	6.94	7.47	7.36	2.87	2.56
Exports of goods and services (% yoy)	7,9	7.9	9.0	21.8	13.2	8.4	6.5
Imports of goods and services (% yoy)	12,0	12.0	5.6	21.9	11.1	6.8	3.6
Population (mn people)	94.6	95.5	96.4	97.7	98.5	99.3	100.0
GDP per capita (USD)	2.086	2,992	3,267	3,491	3,586	3,756	4,163
Unemployment rate (%)	2,33	2.33	2.33	2.2	2.2	2.2	2.9
2. Fiscal policy (%GDP)							
Government debt	51.7	49.9	49.2	51.5	39.1	34.7	36.1
Public debt	58.3	55.0	55.9	43.1	38	39.5	38
Foreign debt	48.9	46	47.1	47.9	38.4	36.8	36
3. Financial indicators							
USD/VND exchange rate	22,690	23,180	23,228	23,115	23,145	23,612	24,100
Inflation rate (%)	3.5	3.5	2.8	3.23	1.94	3.15	3.43
Credit growth (%)	17,1	17.1	18.7	18.2	13.9	12.1	11
12-month deposit rate	8,5	8.5	8.5	8.5	8.5	8.5	8
Trade balance (USD bn)	-3.7	2.7	7.2	9.9	19.1	4	11.2
Goods: Exports (USD bn)	162	213	244	263	281	336	371
Goods: Imports (USD bn)	211	237	253	262	332	360	341
Foreign reserve (USD bn)	49	54	79	100	110	89	95

Source: MBS Research

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