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GLOBAL ECONOMIC OUTLOOK

Highlights:

US GDP in Q3 grew by 33.1% YoY at annualized rate while Q2 decreased by 31.4%. The positive recovery of the US economy in Q3 thanks to efforts to reopen business activities and normalize the economy following measures to curb the spread of Covid-19 epidemic.

The three largest economies in the EU region, Germany, UK, and France, respectively applied disease control measures in late October and early November, shutting down non-essential services when the disease broke out again within the area

The positive news about the effectiveness of Covid vaccines from Pfizer and BioNTech led to a surge of 14% in the price of WTI oil to \$ 42 / barrel on November 9th.

The US unemployment rate continued to decline in October to 6.9% from 7.9% in September.

Major European central banks are putting out new stimulus packages when the second Covid-19 wave is causing several countries go back to lockdown.

Donald Trump losing means the next fiscal stimulus from the federal government has to wait until Joe Biden comes into power. The size of the package will depend on whether the Democrats are going to take back control of the Senate from the Republicans or not.

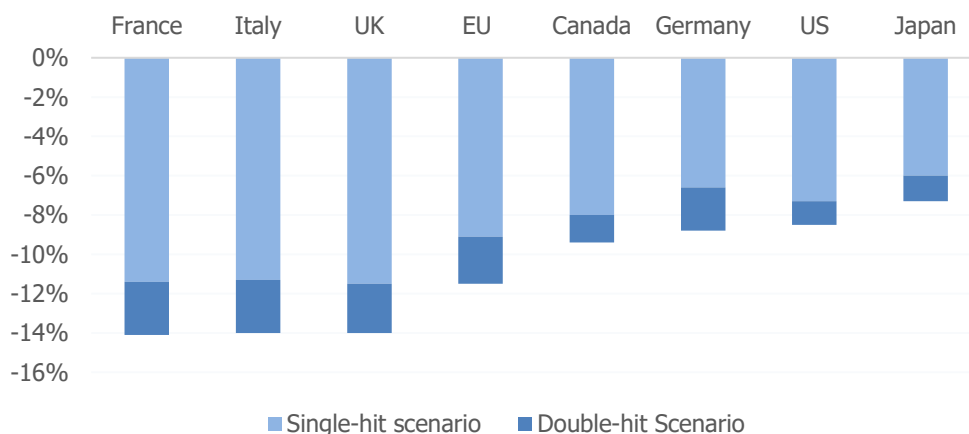
World Economic Outlook

Growth outlook

According to data from the US Bureau of Economic Analysis, Q3 GDP grew by 33.1% YoY while Q2 decreased 31.4%. The positive recovery of the US economy in Q3 was driven by an attempt to reopen business activities and normalize the economy after taken strict measures to control the spread of the Covid-19 epidemic. The recovery of the US economy under the Biden administration is expected to be driven by fiscal stimulus packages, large-scale public spending and investment, helping to boost US GDP output. Government has played a key role in filling the gaps caused by disease affecting US GDP, as businesses and individuals continue to face many difficulties in the normalization of the economy. The vaccine is still in the development phase and will only be widely available in 2021, meanwhile, the service, aviation, retail, restaurant and hospitality industries will still face limited demand in Q4/2020 and Q1/2021.

The COVID-19 epidemic is reappearing in Europe with an increase from 67,000 new cases/day in early October to 314,000 cases/day on November 8th, far exceeding March 2020. The three largest economies in the region, Germany, Great Britain and France, respectively applied national lockdowns in late October and early November, including closing non-essential services such as restaurants, bars, and cafes, movie theaters, shops and universities. Countries with a large proportion of services and tourism sectors such as Spain and Italy will soon follow the steps of Britain, France, and Germany to apply social distancing measures and stay-home orders. The partial national lockdown, though not as strict as in the first COVID-19 wave, is expected to last until the end of winter, the EU's economy will be severely affected. The service and tourism-dependent economies such as Italy, Spain and the UK will have a significant decline in GDP in Q4 and Q1/2021 when retail, restaurant and hotel services are closed. The economic shutdown will make economic growth dependent on government fiscal packages and the ability to continue borrowing by wealthy Western European economies that already have high debt/GDP ratios, meanwhile, putting pressure on the borrowing capacity of other economies in the region. Starting in March 2021, as the spring warms up and the expectation that vaccines against COVID-19 and more publicly available treatment will help reduce the risk of Corvid's impact on the economy, from then on only, the EU regional economy can recover sustainably from 2021.

2020 GDP Growth forecast of G7 countries

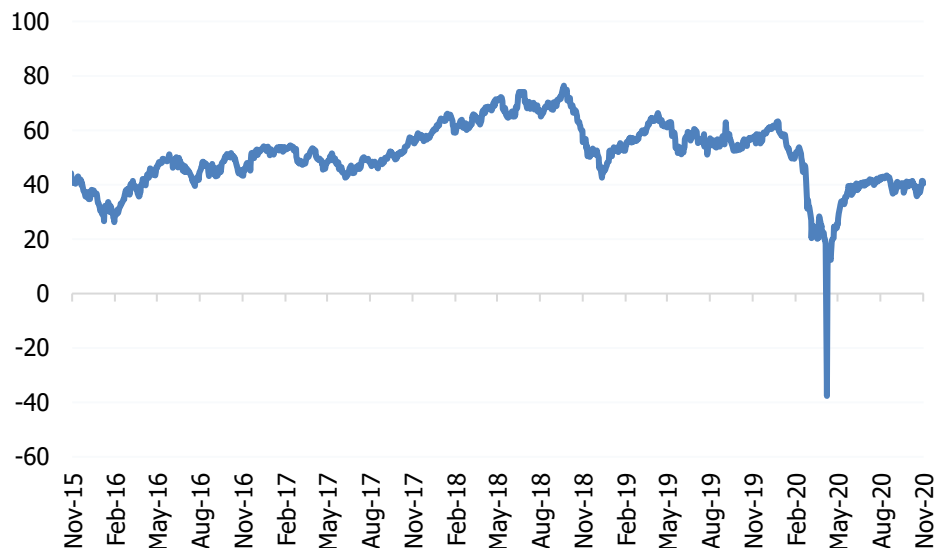


Source: OECD.

Oil Market

On November 9, Pfizer, a US pharmaceutical company and BioNTech, a German biotechnology company, announced that their COVID-19 vaccines are effective on 90% of the cases. The positive news about the vaccine outlook increases confidence in the recovery of the global economy, causing oil prices to spike. WTI oil prices surged 14% from USD 37/barrel to USD 42/barrel after the news of the vaccine effectiveness was released. However, we believe that the COVID-19 vaccine can only be widely applied globally in mid/late 2021, so the sharp increase in oil prices may be short-term and reflect the immediate positive information. In addition, the second wave of COVID-19 is returning and directly impacting global demand. National lockdown and social distancing measures will likely remain in many countries until vaccines are produced and widely applied, limiting the need for travel and consumption. We expect a partial recovery in oil demand in 2021, followed by a recovery in oil prices. Additionally, the OPEC+ agreement in which Saudi Arabia will cap its crude oil production to 9.5 million barrels a day in 2021, up only 3 percent from an average 9.2 million barrels a day in 2020, also is a supply-side factor supporting oil prices in 2021.

WTI oil price (USD/barrel)



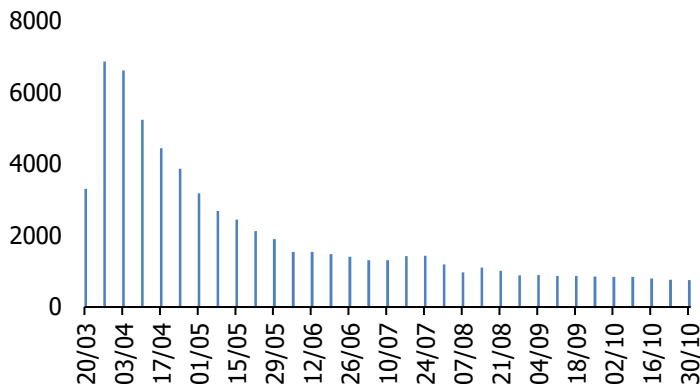
Source: Bloomberg.

Labor Market

The US unemployment rate continued to decline in October to 6.9% from 7.9% in September. The US unemployment rate is still improving for the 6th consecutive months thanks to the resumption of economic activities. The total number of non-farm jobs increased by 638,000 in October, and the number of unemployed decreased by 1.5 million to 11.1 million. The number of new jobs is improving markedly in the sectors most severely affected because COVID-19 in Spring, in October, they are also the sectors with the most significant recovery in recruitment demand namely in tourism, retail and construction services. Labor force participation rate improved in October; average hourly income increased by 4.5% yoy. However, the return of the epidemic and the risk of government reintroduction of strict epidemic control measures is a key factor hindering the recovery of the labor market. At the same time, the number of unemployed workers remained at 11.1 million, double the figure in February prior to the epidemic. The government's fiscal stimulus has yet to come to fruition as Democrats and

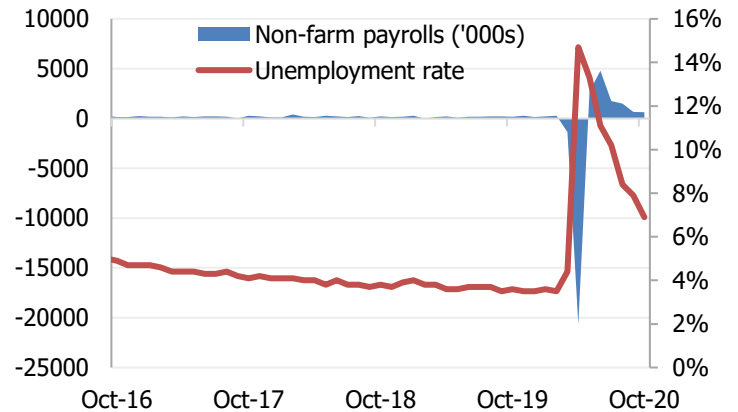
Republicans have yet to reach agreement on the size and terms of the package. We expect unemployment in the US to average 8% in 2020, to be revised downward in 2021 when the vaccine is widely available, and this will lead to a recovery of labor demand in the service sector.

Initial weekly jobless claims in the U.S. ('000)



Source: Bloomberg.

US unemployment rate and non farm payrolls



Source: Bloomberg.

Trade

RCEP free trade agreement has just been signed by the 15 member countries, creating the largest free trade deal with 2.2 billion people and a 30% portion of global GDP. The members include ASEAN countries, China, Japan, South Korea, Australia, New Zealand. RCEP creates unified rules of origin across much of the region to replace existing bilateral trade deals, bring Asia a step closer to being a coherent trading zone like the EU or North America. RCEP is also the first free trade agreement featuring the whole trio of China, Japan and South Korea. Even though it will not eliminate as many tariffs for ASEAN countries as existing agreements have already got rid of the majority, the presence of other developed economies create a big opportunity to promote trading activities in the region.

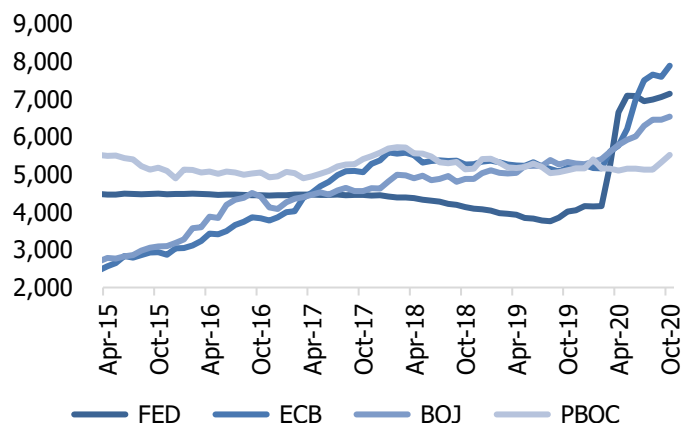
Policies

Monetary policy

Some European countries have reintroduced lockdown causing a challenge to the economic recovery process. To counter the problem, major central banks are putting out new stimulus packages. Bank of England just announced another GBP 150bn to their QE program right after the lockdown went into effect, as well as maintained the record low interest rate level of 0.1%/year. The content of this package is still purchasing bonds and has increased the total size of BoE support since Covid-19 started to GBP 895bn. With an inflation rate of 0.7% yoy, much lower than the 2% target, BoE's loosening monetary policy will continue until the economy shows clear signs of recovery. The same thing is happening in other developed economies: Low inflation because Covid-19 has restricted demand so low interest rates persist.

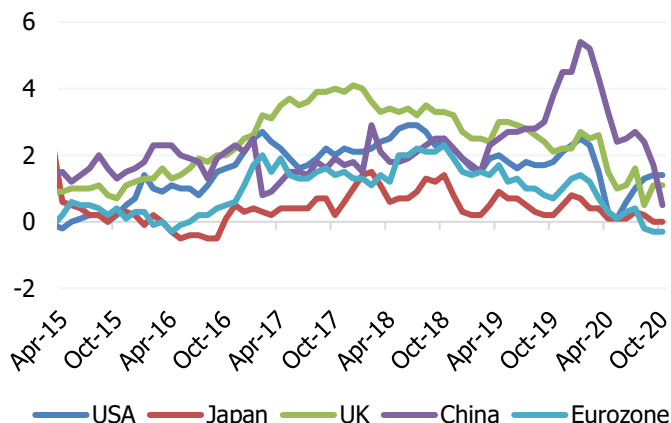
Meanwhile, in the recent meeting, ECB has not announced any new stimulus packages. However, chairwoman Christine Lagarde mentioned the second wave blocking the recovery and urged governments to assist ECB so there may likely be a new package coming in the next regular ECB meeting in December.

Total assets on major CB's balance sheets (USD bn)



Source: Bloomberg.

Inflation rate (% yoy) in major economies



Source: Bloomberg.

Fiscal Policy

The incumbent Donald Trump losing to the challenger Joe Biden in the 2020 US election has shattered any hopes of a new fiscal package from the federal government. Although the president-elect Biden has promised the package as his priority, the size of the stimulus is still an argued matter. As mentioned in earlier reports, the size and the recipients of the package have been debated over the past few months between the House, controlled by the Democrats and the Senate, controlled by the Republicans. After many discussions since August, the numbers are still quite far apart: Republicans want USD 1.5-1.6tn while the Democrats want USD 2.2-2.5tn. In order to focus on the race for President, Donald Trump decided to delay the stimulus until after the election.

Despite Joe Biden becoming the President-Elect, Democrats have not been able to seize control of the Senate back from the Republicans (final result in January 2021). Therefore, many disputes around the stimulus are unlikely to be resolved. We project the control of the Senate still belongs to the Republicans so the size of the package will be only around USD 1.5tn.

Economic indicators of selected countries

Countries	GDP (% yoy)		CPI (% yoy)		Unemployment rate (%)	
	Latest		Latest		Latest	
US	-2.9	Q3	1.4	Sep	6.9	Oct
EU	-3.9	Q3	-0.3	Sep	8.3	Sep
Germany	-4.3	Q3	-0.2	Sep	4.5	Sep
France	-4.3	Q2	0.0	Sep	7.9	Sep
Italy	-4.5	Q2	-0.6	Sep	9.6	Sep
Spain	-8.7	Q2	-0.4	Sep	16.5	Sep
UK	-21.5	Q2	0.7	Sep	4.8	Oct
Japan	-10.1	Q2	0.0	Aug	3.0	Sep
China	4.9	Q3	0.5	Sep	5.4	Sep
Russia	-5.6	Q2	4.0	Sep	6.3	Sep

Source: OECD, MBS summarized.

Economic indicators forecast of selected countries

Countries	GDP (% yoy)		CPI (% yoy)		Unemployment rate (%)	
	2019	2020F	2019	2020F	2019	2020F
US	2.3	-4.3	1.8	2.1	3.7	6.5
EU	1.2	-8.3	1.2	0.1	7.7	8.3
Germany	0.6	-6.0	1.3	0.3	3.2	4.3
France	1.3	-9.8	1.3	-0.5	8.6	8.8
Italy	0.3	-10.6	0.6	0.1	10.3	11.0
Spain	2.0	-12.8	0.7	-0.3	14.1	16.5
UK	1.4	-9.8	1.8	0.4	3.8	5.4
Japan	0.7	-5.3	1.6	-0.6	2.4	3.3
China	6.1	1.2	2.2	1.4	3.6	5.4
World	2.9	-4.4	3.5			

Source: OECD, IMF, MBS tổng hợp.

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