Upbeat 2Q24 GDP perfomance

- The 2Q24 GDP surprisingly grew 6.9% yoy which prompted us to **upgrade our 2024 GDP forecasts to 6.5% from previous 6.3%.**
- Exports accelerated 10.5% in Jun while PMI stayed above 50-point level for three months in a row.
- Inflation risk is tilted toward the upside with 4.3% in Jun, and 4.08% for 1H24.

Both exports and manufacturing picked up in Jun

In Jun, exports value increased 10.5% yoy, primarily driven by pepper (+112.8% yoy), textile fibres (+67.8% yoy) and machinery, instrument, accessory (+27.9% yoy). Import accelerated 13.1% yoy. For 6M24, export and import grow 14.5% and 17%, respectively, which brought the trade surplus to USD 11.6bn. Production activities linger positive growth with the Industrial production index (IIP) rose 10.9% yoy, remark the fourth consecutive month having an upturn momentum. The PMI index grew sharply to 54.7 in June, reflecting the resilience and dynamism of Vietnam's industrial sector.

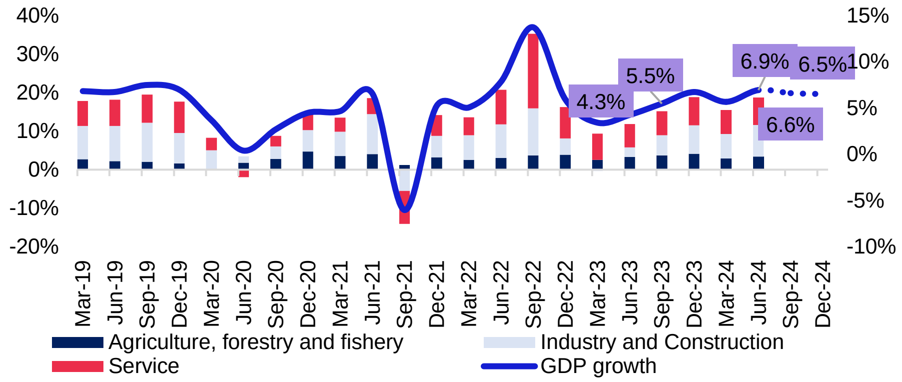
Inflationary pressure poses big challenge to economy

CPI vaulting to a 0.17% mom and 4.3% yoy in June mainly driven by the increase in food and catering services group index as price of pork meat remain high, together with rising electricity and oil price. We estimate a potential rise of CPI in 2H which will lift the average CPI for 2024 up to 4.3%, close to the government's guidance, for the following reasons: Expected recovery in domestic construction steel prices; High exchange rates affecting the cost of imported goods; Base salary hike set to be implemented from July 1 may impact domestic inflation. In addition, we still hold our forecast that oil prices in 2024 will fluctuate within a narrow range around USD 85 per barrel, higher than the average oil price in the 2H2023.

For 1H24, GDP grew 6.42%, the second highest level for the period since 2020

GDP in the second quarter of 2024 grew positively, with an estimated growth rate of 6.93% yoy, driven by a notable recovery in the industrial sector, which saw the highest growth among the three regions. The surprising 2Q24 performance prompted us to upgrade our 2024 GDP forecasts to 6.5% from previous 6.3%. We expect the economy to grow healthily 6.6% and 6.5% yoy in 3Q and 4Q, respectively, following bouncing export, improving domestic consumption and more effective public investment disbursement.

Figure 1: GDP growth in sectors (yoy%)



Source: GSO, MBS Research

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Upbeat 2Q24 GDP perfomance

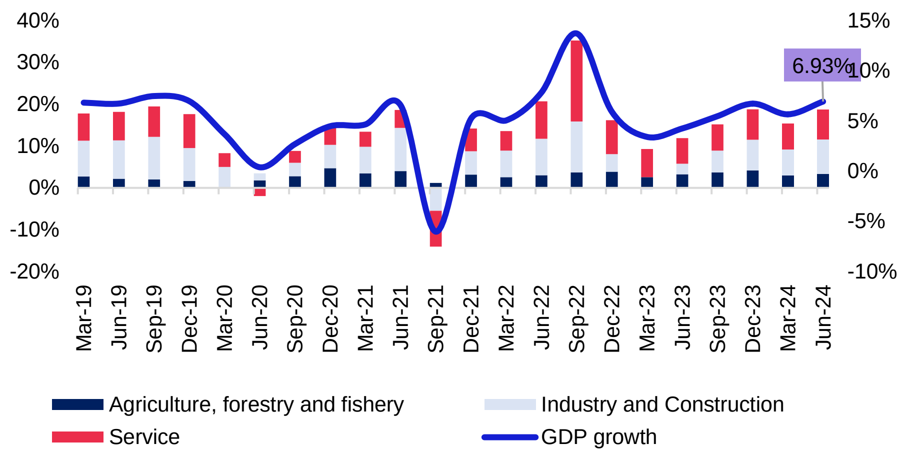
GDP in the second quarter of 2024 witnessed the strongest yearly expansion since Q3/2022

Gross domestic product (GDP) in 2Q2024 is estimated to increase by 6.9% yoy, only lower than the 8% growth rate of 2Q2022 during the period 2020-2024.

In particular, the industry and construction sector grew remarkably in 2024 with the highest increase of 8.3% among the three sectors, contributing 45.7%. Of which, Electricity, gas, steam and air conditioning supply together with Manufacturing are two major contributors to the sector's growth, at the pace of 14.2% and 10% respectively in the 2nd quarter. The agriculture, forestry and fishery sector increased by 3.3%, contributing 5.4% to the overall growth. This was mainly driven by the increase in the output of some perennial plants as well as aquaculture activities. Meanwhile, service sector rose 7.1%, contributing 48.9%. Of which, some core industries possess stable growth such as Transportation and storage (+11.5% yoy), Accommodation & catering services (+11.3% yoy) and administrative activity and supporting service (+11.5% yoy).

The surprising 2Q24 performance prompted us to upgrade our 2024 GDP forecast to 6.5% and 3Q24 GDP to grow by 6.6%, fueled by bouncing-back export growth, manufacturing expansion and more effective public investment disbursement. Beside that, domestic consumption continues to be promoted by various consumer stimulus programs, discounts such as VAT reduction, reduced lending interest rates.

Figure 2: GDP growth in sectors (yoy%)



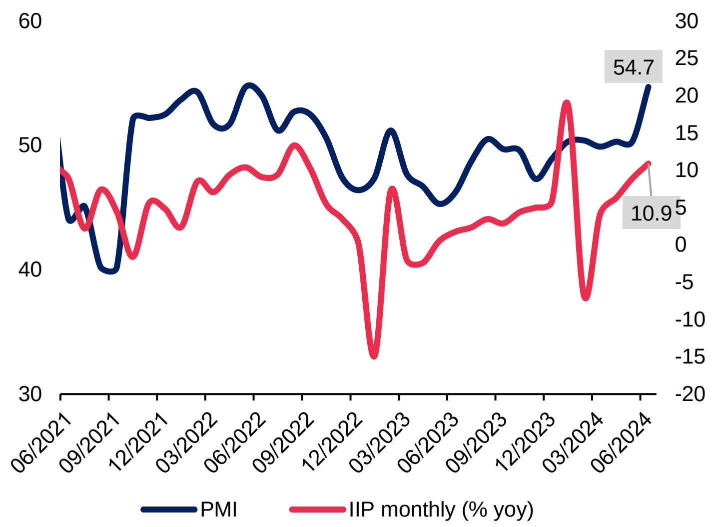
Source: GSO, MBS Research

Production activities flourished with highest output recorded within over 5.5 years

Industrial production slightly increased 0.7% mom and 10.9% yoy in June thanks to a surge in the number of new orders. Industries with strong production performance throughout the month include: manufacture of rubber and plastics products (+34.1% yoy), mining support service activities (+20.8% yoy), Manufacture of computer, electronic and optical products (+20.3% yoy). For the first 6M24, industrial production grew by 7.7% yoy of which, extraction of crude petroleum and nutural gas delivered the biggest decrease of 11.7% yoy.

In June, Vietnam's manufacturing sector expanded sharply with the PMI surged to 54.7, marking the strongest improvement of manufacturing sector since May 2022. The number of new orders as well as new export orders both grew extensively this month, especially the number of new orders spike at the fastest pace since Mar 2011 thanks to competitive pricing. As a result, manufacturing output in June has recorded the most substantial increase within over 5.5 years. On the downside, accompanying the strong growth is the burden of rising costs, especially with increased transportation costs pushing input prices to the highest level in two years. Nevertheless, as having favorable production and business conditions, business confidence in the manufacturing sector's output prospects for the coming year remains strong.

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



Source: Bloomberg, MBS Research

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

	Apr-24	May-24	Jun-24
Manufacture of rubber and plastics products	29.7%	24.1%	34.1%
Manufacture of computer, electronic products	10.2%	17.4%	20.3%
Manufacture of furniture	12.0%	18.8%	19.3%
Manufacture of coke and refined petroleum products	-32.2%	8.6%	13.0%
Manufacture of basic metals	1.8%	6.8%	11.9%
Manufacture of textiles	11.0%	7.9%	11.4%
Manufacture of other transport equipment	-2.9%	-5.2%	10.4%
Manufacture of food products	7.3%	6.1%	10.4%
Manufacture of chemicals and chemical products	9.4%	6.2%	9.7%
Manufacture of other non-metallic mineral products	-2.5%	1.0%	5.6%
Manufacture of beverages	10.4%	4.4%	1.7%
Repair and installation of machinery and equipment	5.6%	1.9%	-2.6%
Manufacture of electrical equipment	24.3%	19.4%	-6.5%
Extraction of crude petroleum and natural gas	-12.1%	-17.1%	-15.3%

Source: GSO, MBS Research

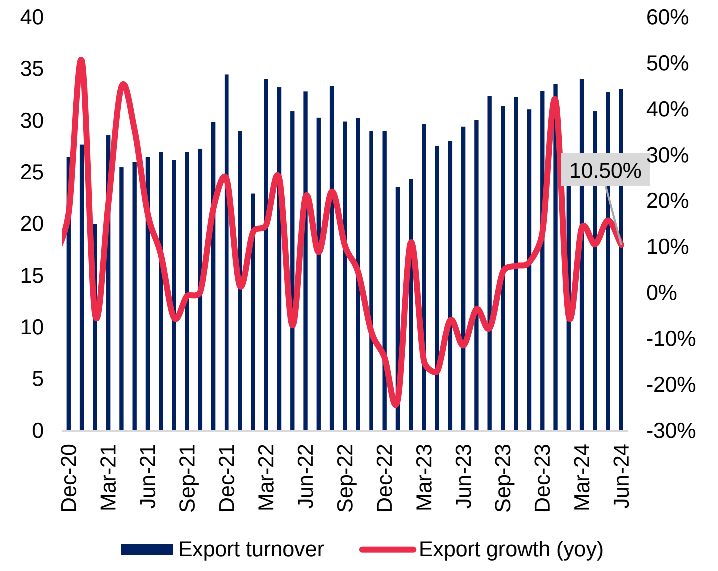
Vietnam's exports picked up, boosting the trade surplus

After running a trade deficit in May, Vietnam's trade balance has quickly returned to enjoy a trade surplus of USD 2.94bn as exports bounced back in line with the recovery of global consumer demand in June. Export turnover of goods this month slightly increase 0.58% mom, up 10.5% yoy to USD 33.1bn. Key commodities with high export value include pepper (+112.9% yoy), tea (+86.4% yoy), and textile fibres (+67.8% yoy). For 1H24, export turnover accelerated to USD 190.1bn (+14.5% yoy). Top largest export products experienced sharp drop across the board include toys, sports equipment and their parts (-10.2% yoy), clinker and cement (-10.8% yoy), and paper and paper products (-4.12% yoy). In contrast, exports still have some highlights in growth such as cameras, camcorders and their components (+52.9% yoy), coffee (+34.5% yoy), and furniture made of non-wood materials (+32.6% yoy).

In terms of export markets, the US remains being our primary market with export turnover of USD 54.3bn, up 22.1% yoy. Export to the E.U rose 14.1% yoy to USD 24.5bn, meanwhile, export to ASEAN countries amounted to USD 18.2bn (+12.9% yoy).

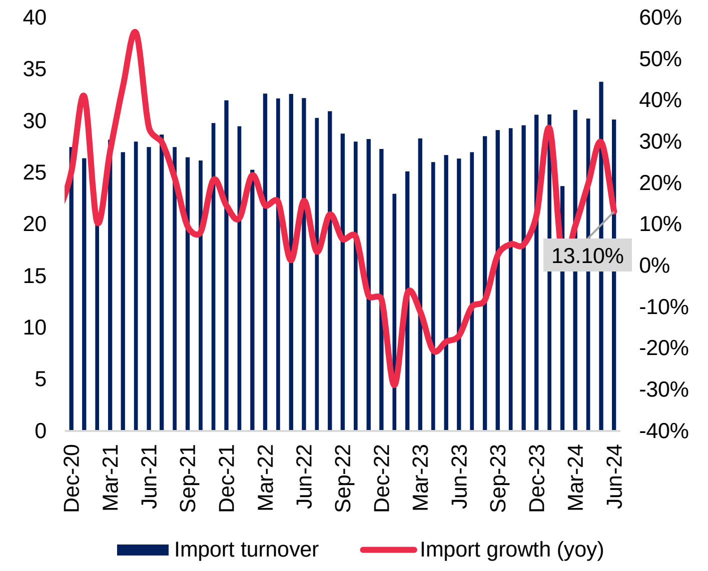
The import turnover of goods is estimated at USD 30.1bn (+13.1%yoy, -7.9% mom) in June, and USD 178.5 bn in 1H24 (+18.2% yoy). China is still being Vietnam's largest import market with a turnover of USD 34.7bn (+67% yoy). Five import products having values of over 5 billion USD (accounting for 50.2% of the total import turnover) in 1H24 include: electronic goods, computers and their parts (+26.7% yoy), machinery, instrument, accessory (+14.6% yoy), fabrics (+110.8% yoy), iron, steel (+124% yoy), and plastics (+114.7% yoy).

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



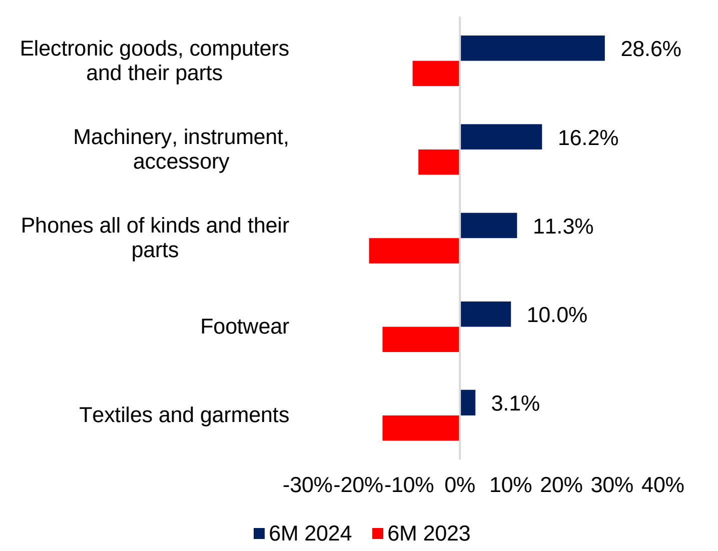
Source: GSO, MBS Research

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



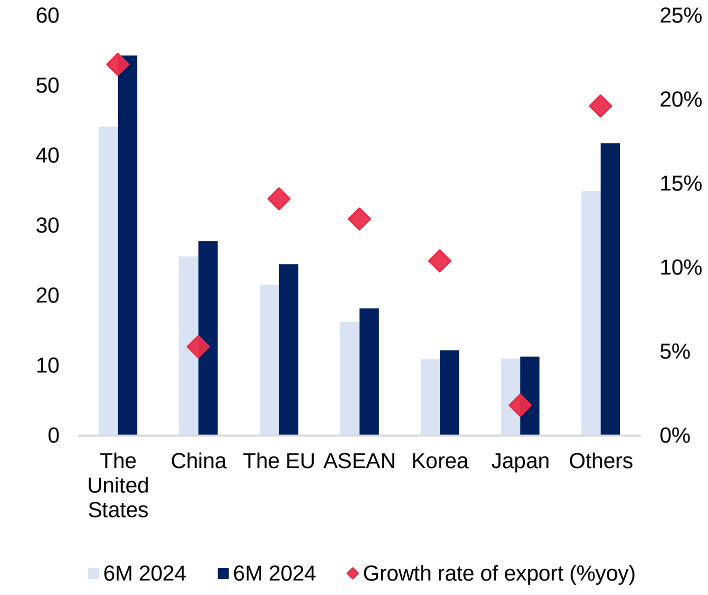
Source: GSO, MBS Research

Figure 7: Growth of major export products in 6M2024 (%yoy)



Source: GSO, MBS Research

Figure 8: Export market of Vietnam in 6M2024 (USD bn)



Source: GSO, MBS Research

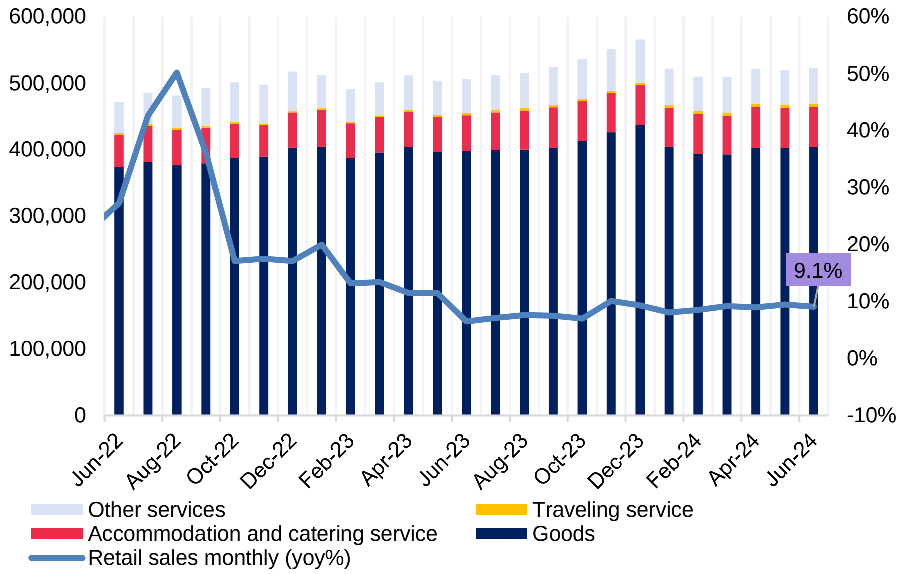
We forecast that exports will increase by 11% - 12% in 2024, with a trade surplus of USD 12 - 14bn based on the following factors: First, according to World Bank's forecast, the global trade in goods and services is projected to expand by 2.5% in 2024 and 3.4% in 2025 as inflation pressures are expected 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 FDI in Vietnam are anticipated to play a crucial role in commercial activities. Additionally, recent trade and customs policy reforms have enhanced the efficiency of import-export management, streamlined administrative processes, and reduced costs and time for enterprises. Lastly, for long-term the possibility of 'market economy' status granted by U.S will ease the market entry barrier for Vietnam exporting goods.

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.

Tourism sector blossomed in 1H24

Retail sales of consumer goods and services growth in June rose 1.1% mom, up 9.1% yoy mainly driven by the bustling commercial activities throughout June - the peak season for tourism. Nevertheless, the retail sales growth rate since the beginning of this year is still relatively low amid a bleak consumer demand recovery, especially when consumers are still vigilant in terms of spending due to the pressure of rising inflation and economic uncertainties. For 1H24, the total retail sales of consumer goods and services was estimated to increased by 5.7% yoy (excluding the price factor), much lower than the 5-year average growth of 8% (excluding 2021 – social distancing period). The tourism sector maintains growth momentum, with the cumulative number of international visitors to Vietnam reaching over 8.8mn arrivals as of June 2024, up 58.4% yoy and up 4.1% over the same period in 2019 - the year without Covid-19 epidemic. The Vietnam National Administration of Tourism believes that the tourism industry will soon achieve the target of welcoming 17-18 mn international tourists supported by loosen visa policies.

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



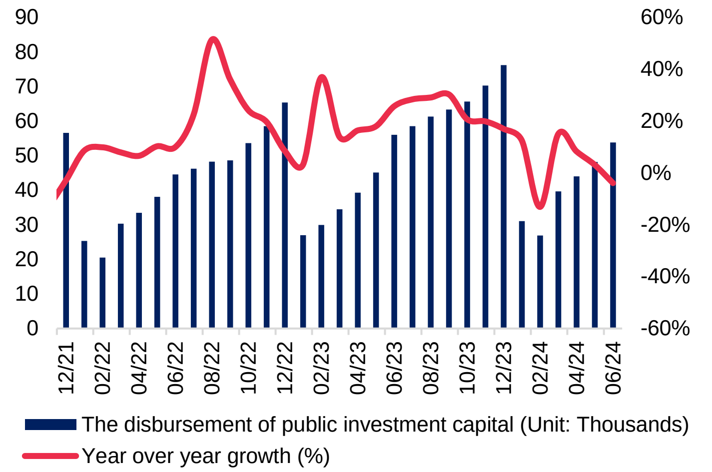
Source: GSO, MBS Research

Public investment disbursement remains sluggish

In June, newly registered FDI inflow grew 30% yoy along with disbursed FDI also went up by 9% yoy. For 6M24, realized FDI increased 8.2% yoy to USD 10.8bn, the fastest pace within 5 years. In which, processing and manufacturing industry sector attracted USD 8.6bn (accounting ~ 79.3%), real estate sector attracted USD 1bn (accounting ~ 9.3%), and about USD 418mn for utilities (accounting ~ 3.9%). Notably, in June, Bac Ninh Province granted an investment registration license to the FCPV Foxconn Bac Ninh factory with a total investment capital of USD 383mn.

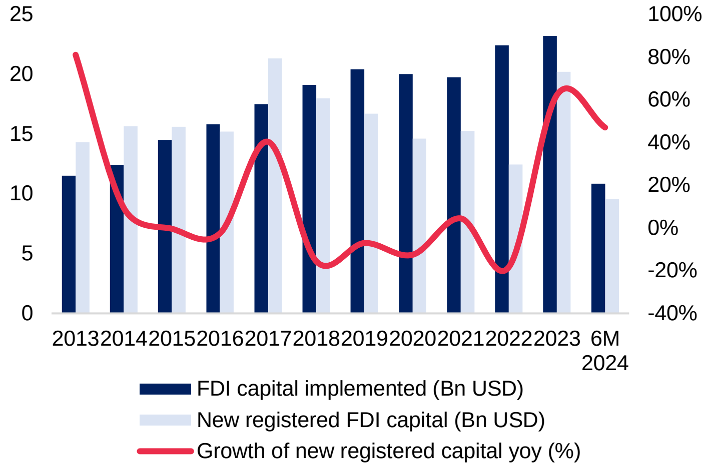
Disbursed state investment dropped 3.9% yoy to VND 53.8tn in June, with the reasons are suppose to be due to the stagnancy in approval process, the delay in site clearance and rising construction material prices. For 6M24, state investment increase 3.5% yoy to VND 244.4tn, fulfilling 33.8% of Government's 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

Persistent inflation pressure over the months

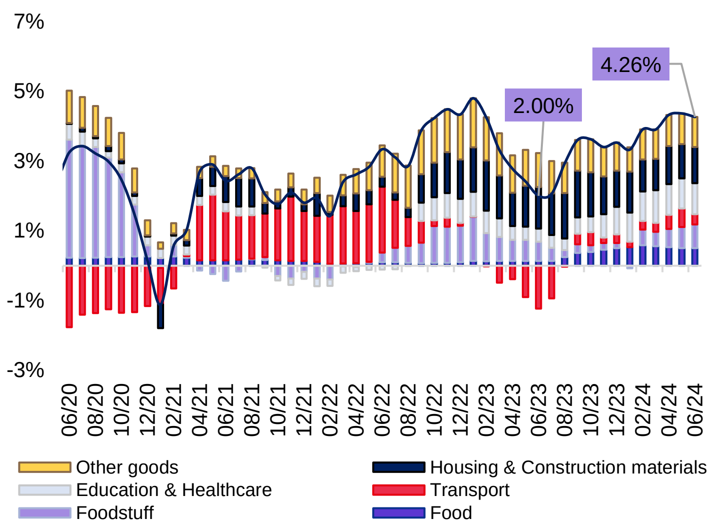
CPI continued to pick up in June, vaulting to a 0.17% mom and 4.3% yoy, mainly driven by the surge in price of pork meat (+14% yoy) stemming from a supply shortage caused by the outbreak of African swine fever last year, beside that, rising electricity and oil price also contributed to the increase of CPI. On average, in the first half of 2024, CPI hiked by 4.08% yoy; while core inflation increased by 2.7% yoy. The concern over inflation has been building up since the start of 2024 as the CPI growth rate has consistently been on an upward trend, getting closer to the government's target of 4.5%.

This month, food and catering services (+4.7% yoy) contributed the largest to the rise in overall CPI, this was due to a strong uptrend of the food basket with the increase of 14.7% yoy. Elsewhere, the housing and construction materials group index also inched up 5.6% yoy caused by the increase in household electricity prices during the peak of summer. Remarkably, transportation also head upwards by 3.03% yoy as domestic gasoline price elevated 2.13% yoy following the surge in world fuel prices. Additionally, the increase in tuition fees in some localities pushed up the education group index by 8.01% yoy. Finally, the medicine and healthcare services group increased 8.04% yoy due to the adjusted healthcare service prices is another factor which served to curb the CPI uptrend.

For 1H24, the average CPI was enormously affected by 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 5.5% yoy. Moreover, tuition fee increases in some citites also caused the increase of 8.6% yoy for the education group index, and the growth of average CPI subsequently. Conversely, the postal and telecoms group's price index fell 1.2% yoy in June 2024 as older generation phones prices are dropping, acting as a limiting factor for the increase pace of average CPI.

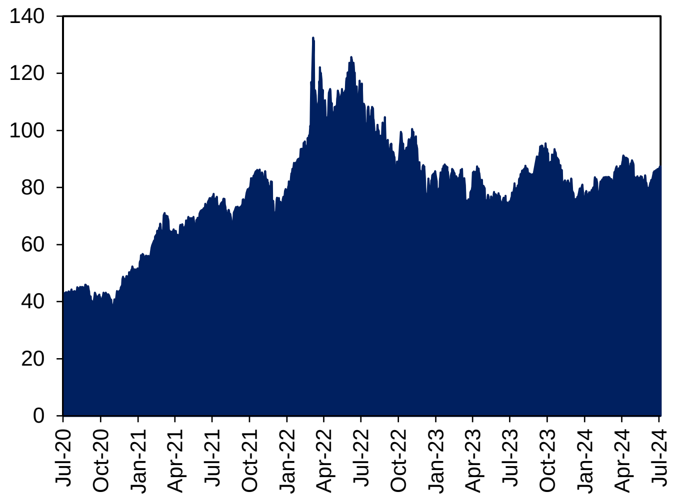
We estimate a potential rise of CPI in second half of the year which will lift the average CPI for 2024 up to 4.3%, close to the government's guidance of 4.5%. Desptie domestic demand is still low, inflation in 2H2024 will be at risk due to the following factors: First, domestic construction steel prices 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, the exchange rate remains elevated will put certain pressure on the cost of imported goods. Third, the base salary hike set to be implemented from July 1 may impact domestic inflation. In addition, we still hold our forecast of oil price in 2024 to fluctuate within a narrow range of around 85 USD/barrel as OPEC+ has decided to maintain production cuts until the end of Q3/2024, higher than the average oil price in the second half of 2023.

Figure 12: Contribution of commodity groups to CPI growth (%)



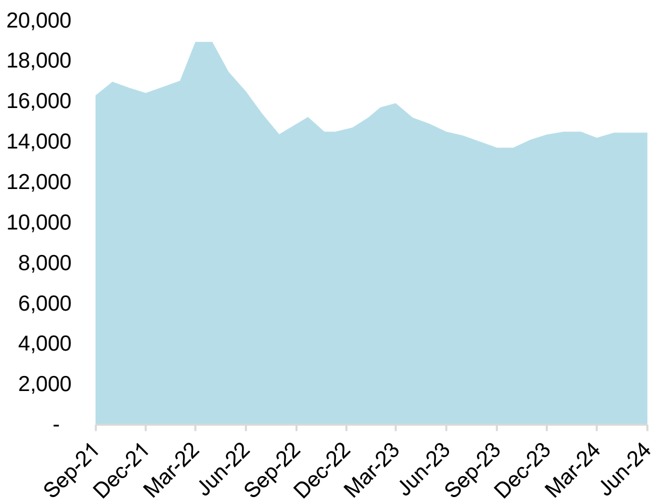
Source: GSO, MBS Research

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



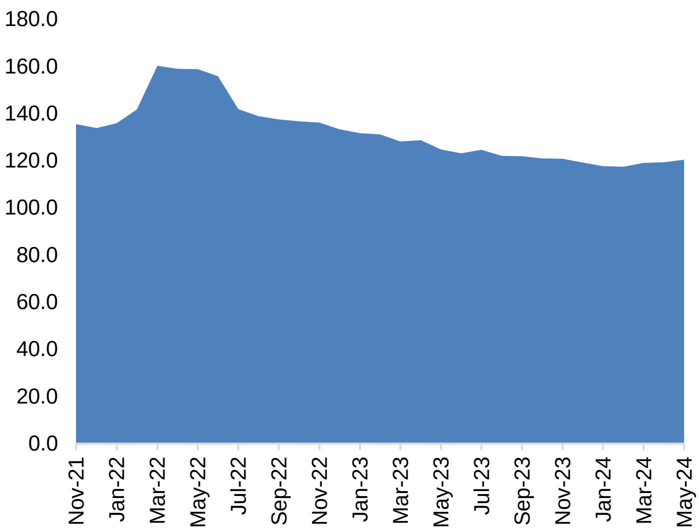
Source: Bloomberg, MBS Research

Figure 14: Steel price (Mn VND/ton)



Source: MBS Research

Figure 15: FAO food price index



Source: FAO, MBS Research

We expect input rates to inch up by 50 bps in the second half of 2024

Interbank interest rates have slightly decreased as liquidity stabilizes

Throughout this month, the SBV consistently withdrawing excessive liquidity from the system via T-bills channel with the total amount of about VND 121.6tn, interest rates inching up to 4.25%-4.5% and tenors of 14-28 days. From June 21st, SBV made a new move in the monetary market by reducing the tenor of T-bills to 14 days to increase the attractiveness of T-bills channel, thereby expecting to raise the interbank interest rate. In addition, reducing the length of tenor will help banks be more proactive in regulating liquidity when the peak period at the end of the quarter is approaching. At the same time, the SBV injected a net amount of about VND 110.2tn with interest rates 4.5% and tenors of 7 days, including VND 76.3tn of maturing T-bills. It is estimated that about VND 147.7tn T-bills will mature in July.

The interbank interest fluctuated greatly this month, starting off with an upturn from 3.7% to surpass the 4% threshold in mid-June. On June 11th, the overnight rate peaked at 4.3% before sharply receding, currently hovering at 3% despite SBV's various effort in withdrawing money from the market. By the end of the month, interest rates span between 3.5% to 5.1% for different tenors, ranging from one week to one month.

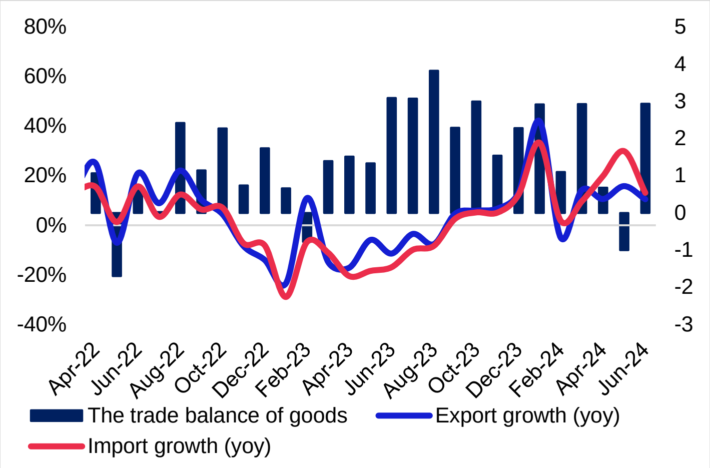
Deposit rates to inch up across medium-size private banks

In June, numerous commercial banks simultaneously adjusted deposit interest rates with the increase fluctuating between 0.1% - 0.5% amid credit growth accelerating to 4.45% as of June 24th, up from 2.4% at the end of May. This indicated banks' motivation to raise interest rates to attract capital to meet the rising credit demand over the month. According to General Statistics Office (GSO), as of June 24th, capital mobilization of credit institutions records an uptick of 1.5% as compared to the end of 2023. On the other hand, the group of state-owned commercial banks maintained the average 12-month deposit interest rate at 4.7%. Markedly, VietinBank was the only state-owned commercial bank altered deposit rates in June, making its interest rates superior against 3 other banks in the group. Particularly, deposit interest rates for 1-11month terms and 24-36 month longer terms increased slightly by 0.2%/year.

We expect input rates to inch up by 50 bps in the second half of 2024

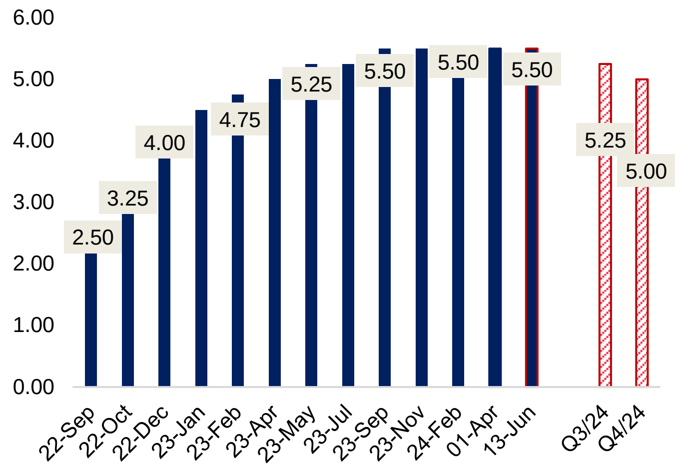
We believe that credit demand will start increasing sharply from 3Q2024 in the context of strong production and investments growth. For 1H24, the index of industrial production (IIP) increased by 7.7% yoy and the Purchasing Managers Index (PMI) rose to 54.7 in June. Moreover, public and private investments increased by 3.5% and 6.7% respectively. We forecast that the 12-month deposit rate of large commercial banks will be able to inch up by 50 bps and progressively return to 5.2%-5.5% 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 16: Import-export growth and monthly trade surplus



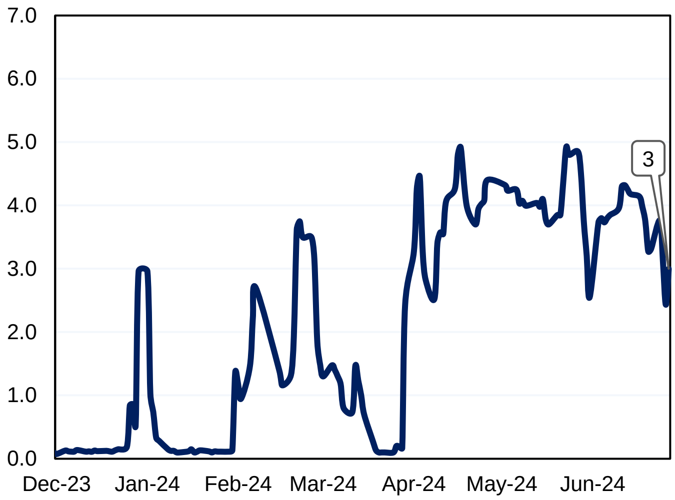
Source: GSO, MBS Research

Figure 17: FED is expected to cut interest rates from the end of 3Q24, bringing rates down to 5% by the end of the year



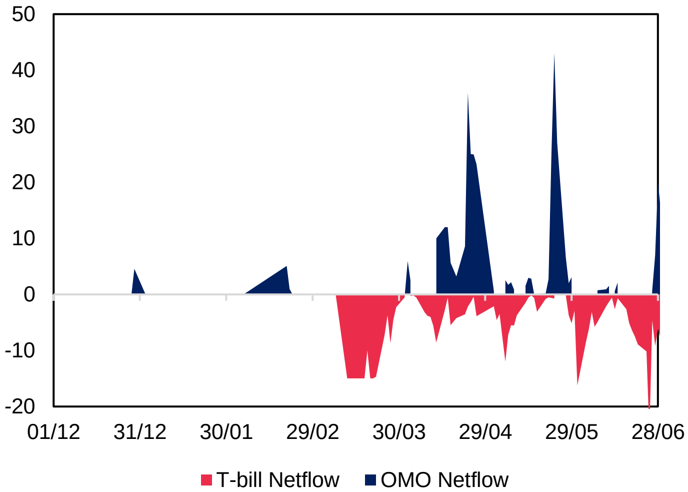
Source: Bloomberg, MBS Research

Figure 18: Interbank overnight lending rate (%)



Source: GSO, MBS Research

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



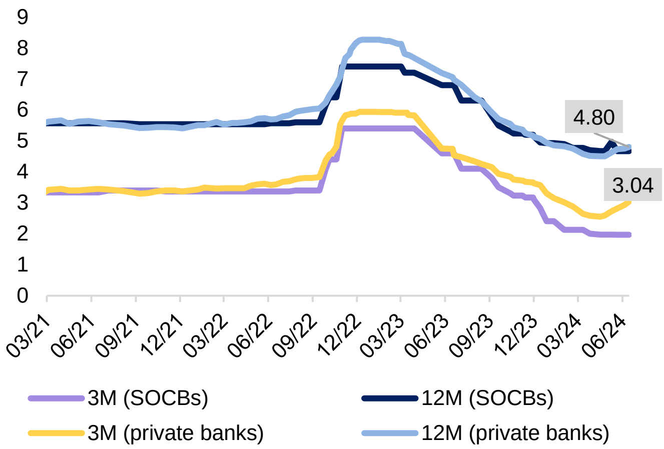
Source: Bloomberg, MBS Research

Figure 20: Interbank interest rate (%)

	O/N	1 Week	2 Week	1 Month
31/03	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
27/06	3	4.3	4.4	4.6

Source: MBS Research

Figure 21: Commercial banks deposit rate (%)



Source: FAO, MBS Research

The surge in free market rate indicates renewed pressure on VND

Dollar advances with US economic strength in focus

The DXY index has swiftly rebounded from 104 thresholds at the start of June to its current level of 105.9 (an increase by 3.7% since the beginning of the year), driven by recent release of US macroeconomics data signals a sturdy economic performance: the US S&P Composite PMI Output index in June nudged up to 54.8 – highest level since April 2022, new orders received by private businesses increased to 53.4, measure of employment rose for the first time in three months, etc. Under these circumstances, Fed lowered its guidance on interest rate cuts to just a single 25 basis points (bps) reduction in 2024 and a total of 100 bps cut next year.

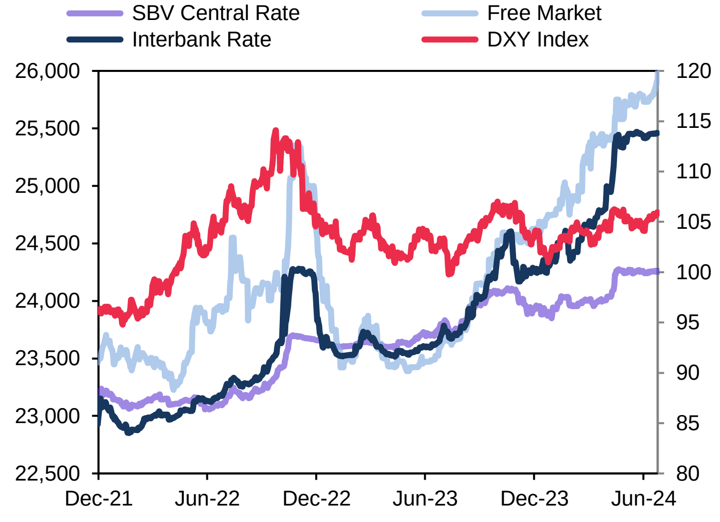
However, market still anticipates about a 65% chance that the Fed will begin a rate-cutting cycle in September, with cuts totaling nearly 50 bps this year. This forecast comes amidst slowing retail sales indicating signs of consumer fatigue in the US, unemployment rate rising to 4% in May for the first time since January 2022, and core PCE index in May showed an uptick of 2.6% marking the slowest rate since March 2021 which will likely prompt the Fed to cut interest rates.

The exchange rate has been moving sideways within a narrow range

The rapid increase in the DXY index during the month has exerted additional pressure on the VND/USD exchange rate, making it more challenging for SBV to maintain stability. However, SBV's efforts, such as issuing T-bills and selling foreign currency to withdraw money from the market (as of June 25th, SBV has sold approximately USD 5.5bn since the end of April to manage the exchange rate, and this amount is anticipated to rise further in the coming period), have been crucial factors influencing the exchange rate this month. The interbank USD/VND slightly rose to 25,459 as of 27th June, marking a 4.5% increase since the start of the year. The free-market rate continued its upward trend at 25,990 VND/USD, while the central rate is at 24,260 VND/USD, showing rises of 5% and 1.7%, respectively, compared to the start of 2024.

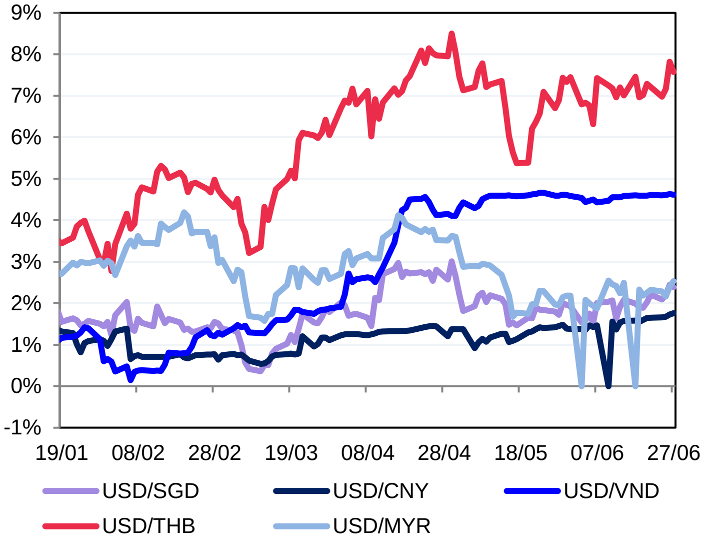
We believe the pressure on VND will ease and expect the USD/VND to range within 25,300 – 25,700 in second half of 2024. Supportive factors for VND include: positive trade surplus (~US$10bn in 6M24), net FDI inflows (U$10.8bn, +8.2% yoy) and a bounce-back of international tourist arrivals (+58% yoy in 6M24). 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	2023	2024F
1. GDP, population & income							
Nominal GDP (USDbn)	281.3	310.1	334.3	346.6	366.1	430	500-516
Real GDP growth (%)	7.08	7.02	2.91	2.58	8.02	5.05	6.5
Exports of goods and services (% yoy)	13.8	8.1	6.5	19	10.6	-4.4	11.0-12.0
Imports of goods and services (% yoy)	11.5	7	3.6	26.5	8.4	-8.9	15.0-16.0
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	25,300-25,700
Inflation rate (%)	3.5	2.8	3.2	1.8	3.15	3.25	4.3
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	14.0
Goods: Exports (USD bn)	244	263	281	336	371	355.5	391.05
Goods: Imports (USD bn)	237	253	262	332	360	327.5	376.6
Foreign reserve (USD bn)	55	78	94	109	86	95	92

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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