

Challenges are gradually emerging

- Production activities flourished as the PMI bounced up to 50.3 in April due to the rebound of new orders.
- We deem some emerging challenges are: inflation appears to be on the rise again, the narrowed trade surplus leaves lesser room to support for exchange rate.
- We expect input rates to bottom out in 2Q24 and will be able to inch up by 50-70 bps in the second half of 2024.

Export activities slowed down, but production activities remain positive

Exports in April only increase 10.6% yoy, lower than the 4M24's growth at 15.2% yoy, especially the export amount of crude oil witnessed a leap of 165% yoy increase. Production activities this month still uphold positively with the 6.3% yoy increase in the Industrial production index (IIP), higher than the record of last two months. The PMI index returned to stay above the 50-point threshold, reached 50.3 in April, as a revive in consumer demand has pull up number of new orders.

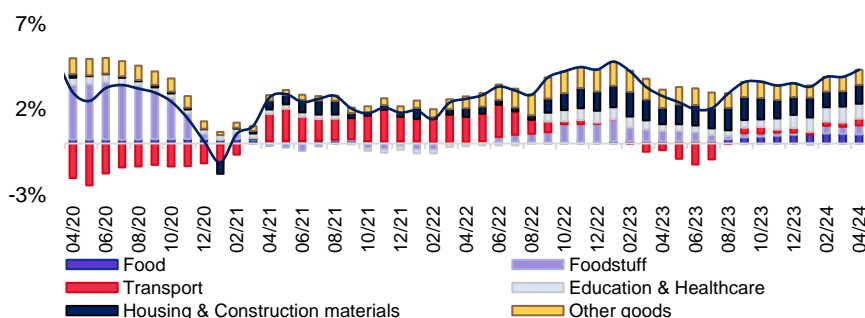
We suppose some challenges are emerging

Firstly, although inflation is still under control, CPI in April grew 4.4% yoy led to the increase of 3.9% yoy in the 4M24 average CPI. The recent upturn of inflation is mainly due to foreign factors such as the 20% increase in brent crude oil price and food price index also rose by 15.4% over the same period last year. Secondly, export is growing slowly amid consumer demand remains at low level in correlation with the low expectation of Fed cutting rates decision. Moreover, the ongoing high container freight rates put further pressures on exporters. Thirdly, the trade surplus stayed positive, yet has been narrowed sharply to USD 0.6bn in April, signifying a weakened support for the exchange rate. Finally, domestic consumption, a primary contributor to the economic growth, is standing still and continue to move sideways in April, despite numerous policies conducted to stimulate domestic demand such as: low interest rate, extending the 8% value-added tax (VAT) until June 30th 2024. For 4M24, the total retail sales of consumer goods and services (excluding the price factor) was estimated to increased by 5.3% yoy, much lower than the 5-year average growth of 8% (excluding 2021 – social distancing period).

Input rates will inch up by 50-70 bps in the second half of 2024

We forecast that the 12-month deposit rate of large commercial banks will be able to inch up by 50-70 bps and progressively return to 5.1%-5.3% 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 1: Foodstuff and gasoline price being the main contributors to CPI in April (%/yr)



Source: GSO, MBS Research

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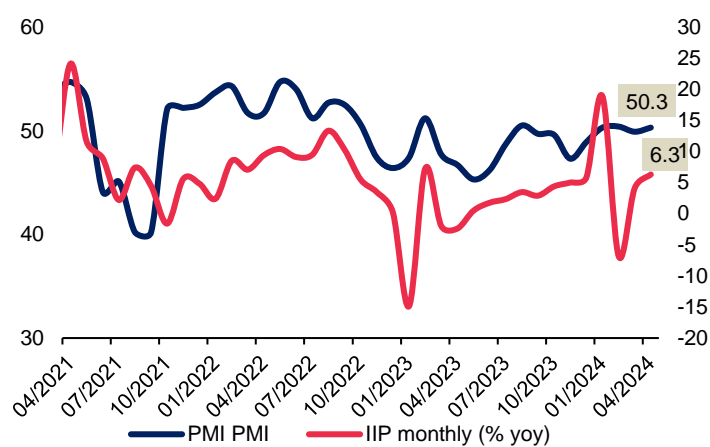
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Industrial production maintains growth momentum

Industrial production increased 0.8% mom and 6.3% yoy in April, mainly due to the increase in number of new orders. Industries with strong production growth throughout the month include: manufacture of rubber and plastics products (+30% yoy), manufacture of electrical equipment (+24% yoy), manufacture of fabricated metal products (+16% yoy). For the first 4M24, industrial production grew by 6% yoy of which, repair and installation of machinery and equipment delivered the biggest decrease of 15.4% yoy.

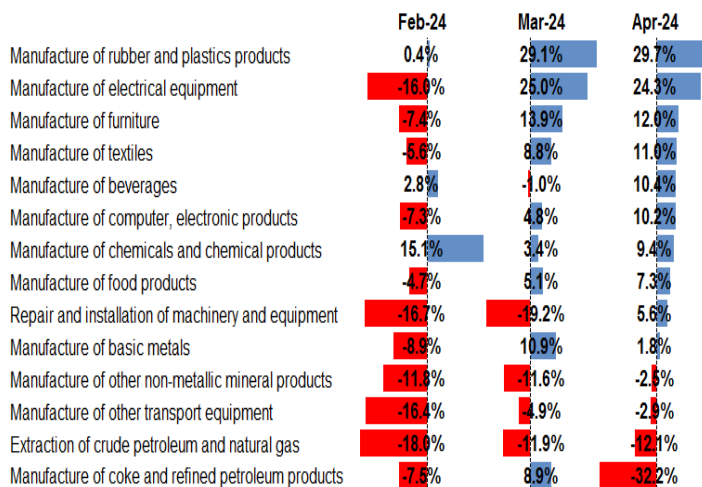
PMI rose back above the 50-point threshold, reached 50.3 in April as compared to 49.9 in March. Notably, the number of new orders has increased again at the fastest pace since August 2022, with new export orders also returned to growth but at a smaller degree. This solid expansion in new orders was thanks to the increase in market demand and a reduction in selling prices amid efforts to maintain competitive pricing and accommodate customers demand for discounts. However, the instability of the market recently has led to a drop in business confidence. Nevertheless, hopes for a more stable and positive market demand in the upcoming months reinforced the optimism that output will increase over the coming 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)



Source: GSO, MBS Research

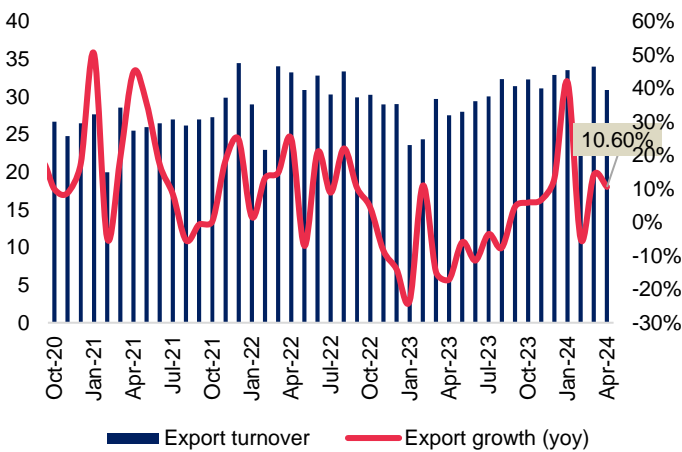
Slowing export momentum amid challenges are arising

Export turnover of goods in April dropped 8.1% mom, up 10.6% yoy to USD 30.94bn. Exports continued to increase due to the very strong growth of key commodities such as crude oil (+165.8% yoy) and textile fibers (+81.2% yoy). For 4M24, export turned over accumulated to USD 123.64bn (+15% yoy). The export items with the largest negative growth include toys, sports equipment and their parts (-7% yoy), clinker and cement (-7% yoy) and other basic metals and products (-7.7% yoy). Nonetheless, exports still have some bright spots in growth such as cameras, camcorders and their components (+63.5% yoy), coffee (+57.9% yoy), and crude oil (+56.8% yoy).

In terms of export markets, export turnover to the U.S. rose 19.1% yoy to USD 34.1bn, following by the E.U with USD 16.4bn (+15% yoy); export to Japan reached USD 7.7bn (+4.6% yoy).

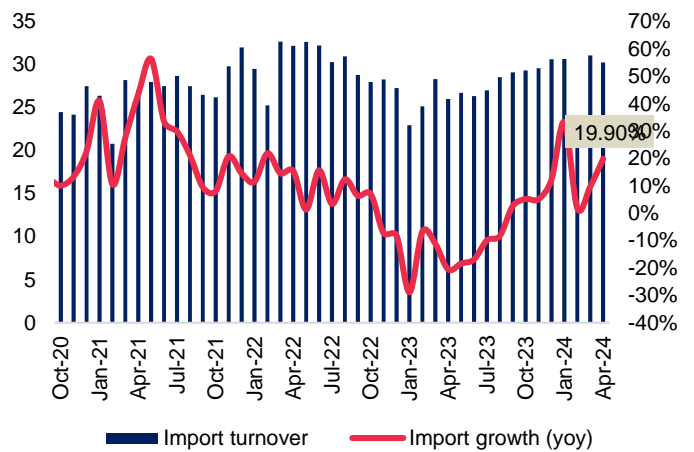
Regarding the import of goods, the import turnover of goods was estimated at USD 30.26bn (+19.9% yoy, -2% mom) in April, and USD 115.24 bn in 4M24 (+15.4% yoy). China remained being the largest import market of Vietnam with a turnover of USD 41.6bn (+28.4% yoy). As of April, two import products with a value of over 5 billion USD (accounting for 39.4% of the total import turnover) are: electronic goods, computers and their parts (+23.1% yoy), and machinery, instrument, accessory (+12.8% yoy).

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



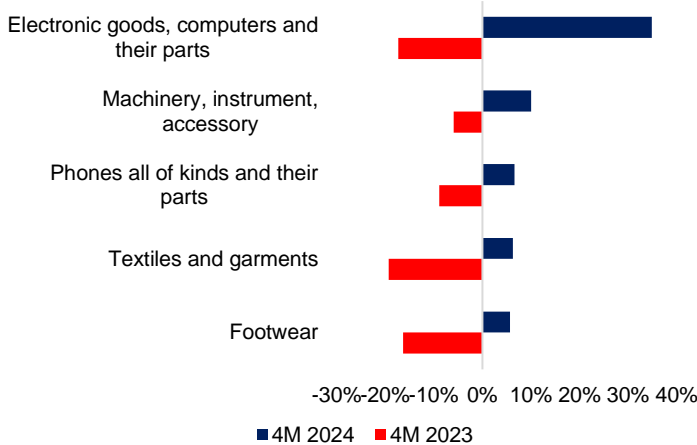
Source: GSO, MBS Research

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



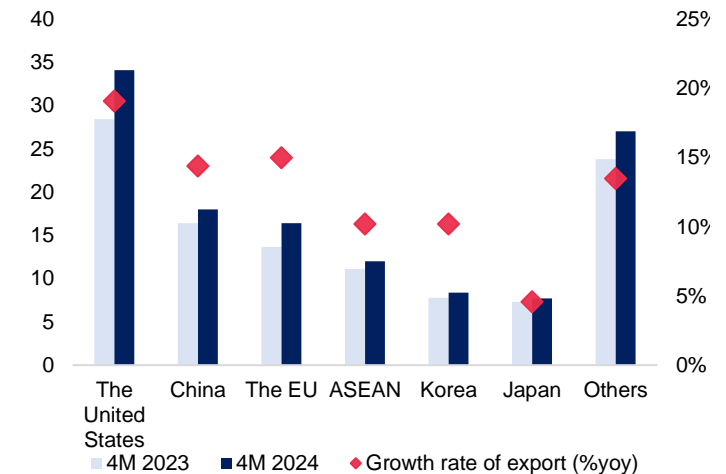
Source: GSO, MBS Research

Figure 6: Growth of major export products in 4M2024 (%yoy)



Source: GSO, MBS Research

Figure 7: Export market of Vietnam in 4M2024 (USD bn)



Source: GSO, MBS Research

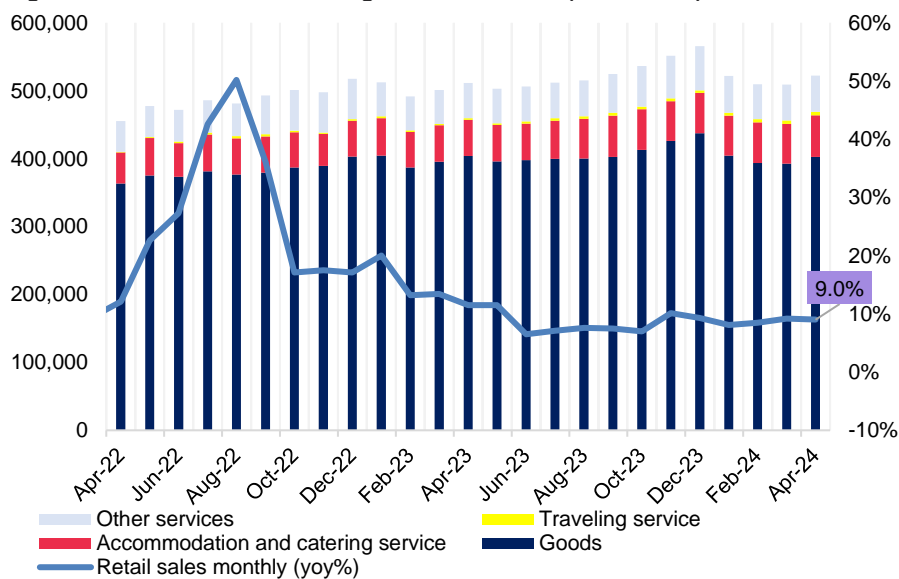
We forecast that exports will increase by 10% - 12% in 2024, with a trade balance surplus of USD 21 - 24bn based on the following factors: First, according to WTO's April report, global goods trade is predicted to grow by 3.3% in 2024 as inflation pressures are expected to abate this year, allowing real income to bounce back – especially in advanced economies – therefore, encourage the consumption of manufactured goods. Second, positive signs of foreign direct investment (FDI) in Vietnam is awaited to be a crucial part in commercial activities, together with that are the revolutionizations of trade and custom policy has reinforced the efficiency of im-exports management, simplified administrative formalities, trim costs and time for enterprises.

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. 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.

Consumption growth is standing still despite the implementation of pump-priming.

Retail sales of consumer goods and services growth in April went up by 9% yoy and increase 2% mom. Since the beginning of this year, the growth rate has not witnessed any significant shift despite the considerable contribution from the services sectors as tourism has revived. This indicates that market demand is relatively weak, especially when consumers tighten their spending after the pandemic has negatively affect the purchasing power in the market. For 4M24, the total retail sales of consumer goods and services was estimated to increased by 5.3% yoy (excluding the price factor), much lower than the 5-year average growth of 8% (excluding 2021 – social distancing period). International visitors to Vietnam 4M24 were estimated at 6.2mn arrivals, up 68.3% yoy and up 3.9% over the same period in 2019, the year without Covid-19 epidemic.

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



Source: GSO, MBS Research

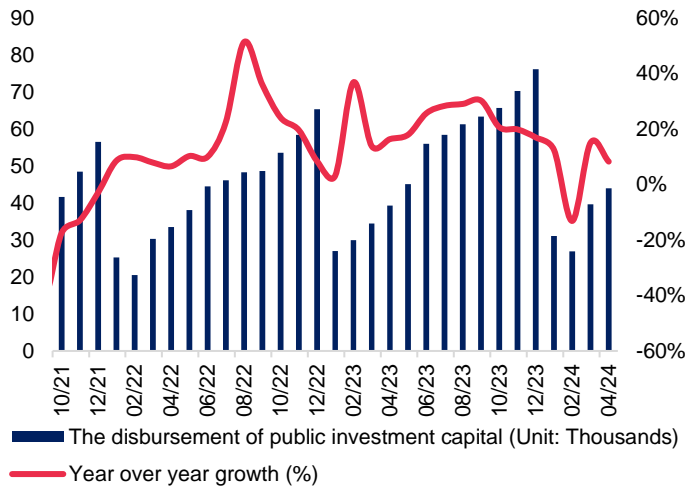
Ascending newly registered FDI inflow signifies Vietnam’s attractiveness to foreign investors

In April, newly registered FDI inflow increase by 18% yoy, meanwhile disbursed FDI slightly went up by 0.3% yoy. For 4M24, realized FDI increase sharply by 7.4% to USD 6.28bn, the fastest pace within 5 years. In which, processing and manufacturing industry sector attracted USD 4.93bn (accounting ~ 78.5%), real estate sector attracted USD 607.6mn (accounting ~ 9.7%), and about USD 259.8mn for utilities (accounting ~ 4.1%). Notably, Ba Ria – Vung Tau province led the country’s FDI influx with over USD 1.52bn, increased twelve times compared to the

same period last year. In April, the People’s Committee has approved 12 more FDI projects, especially the establishment of Bio-BDO factory with the investment of USD 730mn.

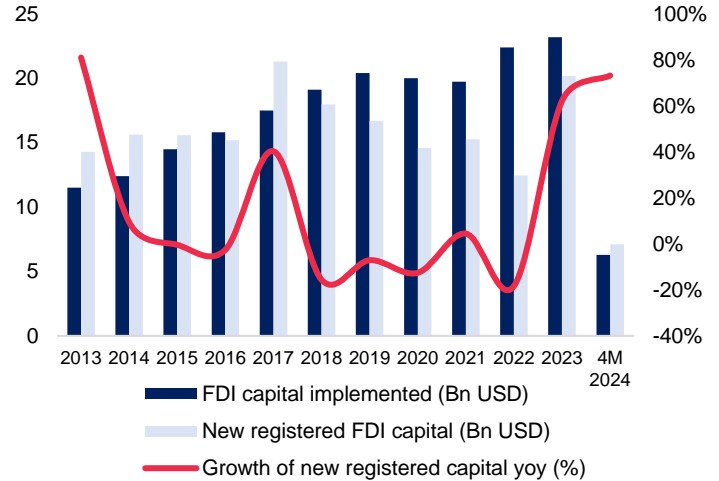
Disbursed state investment rose by 8.3% yoy to VND 44tn in April. For 4M24, state investment increase 5.9% yoy to VND 142.8tn, fulfilling 20.1% of Government’s target.

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

Rising domestic oil price due to higher global fuel costs put pressure on inflation

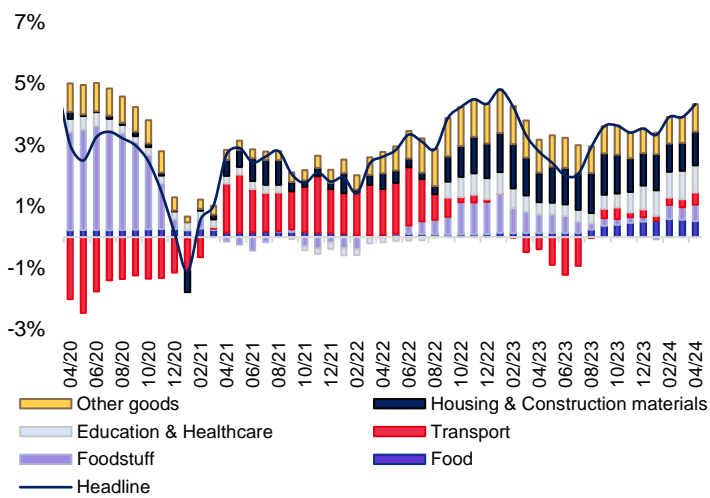
Vietnam’s CPI in April increased by 0.07% mom and 4.4% yoy, mainly due to the surge in oil price following world fuel prices. On average, in the first 4M2024, CPI hiked by 3.93% yoy; while core inflation increased by 2.8% yoy. CPI growth rate has been witnessed an upward trend since the beginning of this year, yet, still lower than the government’s target of 4.5%.

This month, food and catering services (+4.3% yoy) was the major contributor to the rise in CPI, this was due to a strong uptrend of the food basket with the increase of 15.4% yoy. Besides, the housing and construction materials group index rose by 5.7% yoy. Notably, transportation also increase 4.2% yoy as domestic gasoline price elevated 5.3% in response to the spike in world fuel prices marking its peak with an increase of 20% compared to the beginning of the year. In addition, the food and catering services index climbed 4.3% yoy caused by the 15.4% yoy increase of the food basket. Furthermore, the increase in tuition fees in some localities pushed up the education group index by 8.3% yoy. Finally, the medicine and healthcare services group increased 7.4% yoy due to the adjusted healthcare service prices is another factor led to the increase in CPI.

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, enormously affect the four-month average CPI. Moreover, tuition fee increases in some citites caused the increase of 8.8% yoy for the education group index, and the increase in average CPI subsequently. Conversely, the postal and telecoms group’s price index fell 1.4% yoy in April 2024 as older generation phones prices are dropping, acting as a limiting factor for the increase pace of average CPI.

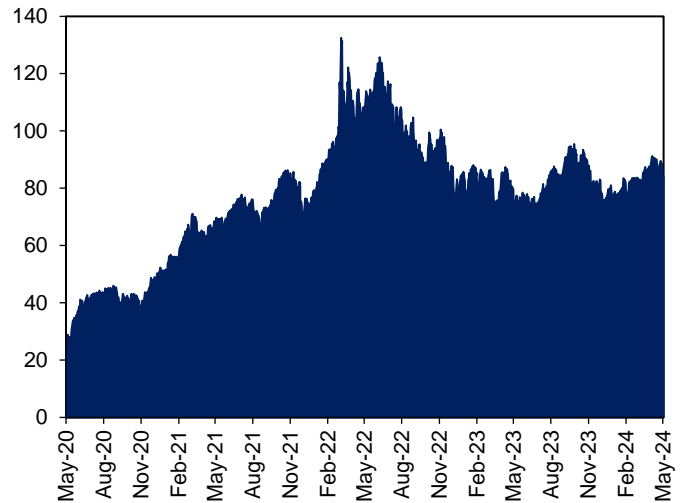
We expect the average CPI in 2024 to fluctuate at 3.5% - 3.6%, inflation will still remain within the government's target of 4% - 4.5% because domestic demand is still low. However, inflation next year will be at risk due to the following factors: First, domestic construction steel prices are expected to recover to 15mn VND/ton (+8% yoy) in 2024 due to increase in global steel prices and demand in the domestic market. Second, EVN might keep raising the price of electricities 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 11: Contribution of commodity groups to CPI growth (%)



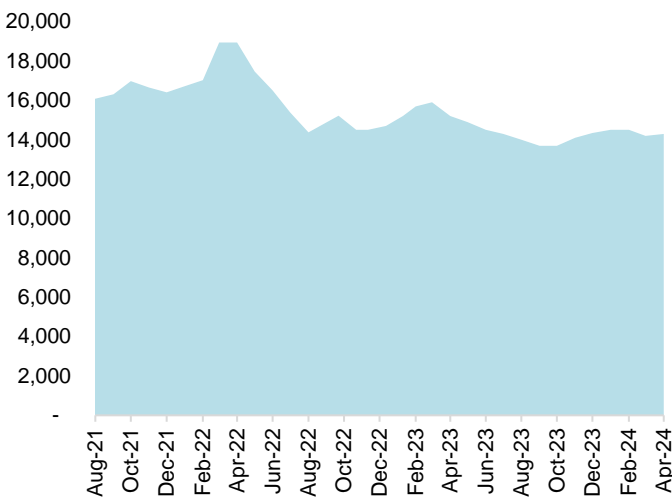
Source: GSO, MBS Research

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



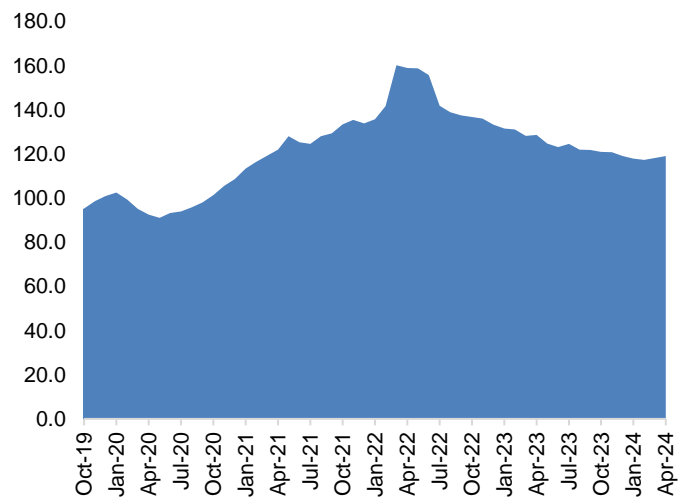
Source: Bloomberg, MBS Research

Figure 13: Steel price (Mn VND/ton)



Source: MBS Research

Figure 14: FAO food price index



Source: FAO, MBS Research

We expect input rates to inch up by 50-70 bps in the second half of 2024

A surge in the interbank interest rates show signs of liquidity demand

In April, the interbank market became vibrant as interest rates skyrocketed at tenors. The overnight rate had risen from 0.1% at the end of March to its peak at 4.9% on April 17th and fluctuated around 4.4% throughout the last week of the month. We think this surge in the interbank rates was due to the central bank's net cash withdrawals of about VND 58tn from the banking system from April 1st to May 3rd. In addition, the increase in credit demand also pushed up interbank interest rates. The economy's credit growth as of March 29th reached 1.34%, much higher than that as of March 25th which was at 0.26%.

From April 2nd, the SBV continued to inject money through OMO channel with an interest rate of 4% - 4.25% and a term of 7-14 days. By the end of April, we estimate that about VND 145.3tn were injected to the banking system including VND 27tn of maturing T-bills. It is estimated that about VND 57.2tn T-bills will mature in May.

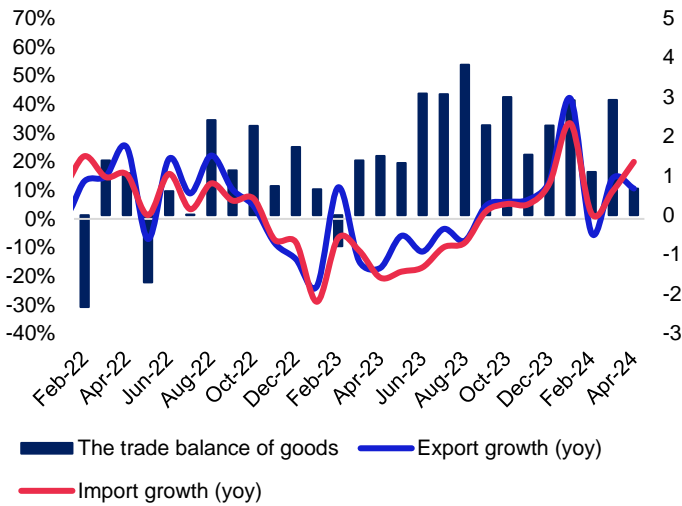
Input rates slightly increase at some small-medium commercial banks

Deposit rates fluctuated in opposite direction this month. Notably, on April 9th, VCB decreased interest rates at tenors, especially 12-month tenor by 0.1 percentage points, from 4.7% to 4.6%/year. The average 12-month deposit rate of the state-owned bank group is at 4.7%, 26bps lower than at the beginning of the year. Conversely, some commercial banks increased their rates by 0.2%-0.3% in the context that customers are gradually withdrawing their deposits from banks. According to General Statistics Office (GSO), as of March 25th, capital mobilization of credit institutions decreased by 0.76% as compared to the end of 2023, while in the same period last year, it increased by nearly 1.2%. At the press conference held on April 19th, SBV informed that as of March 31st, the average deposit interest rate and the average lending interest rate for new transactions were at 3.02%/year and 6.5%/year respectively, recording decreases of 0.5% and 0.6% respectively as compared to the rates of the end of 2023.

We expect input rates to inch up by 50-70 bps in the second half of 2024

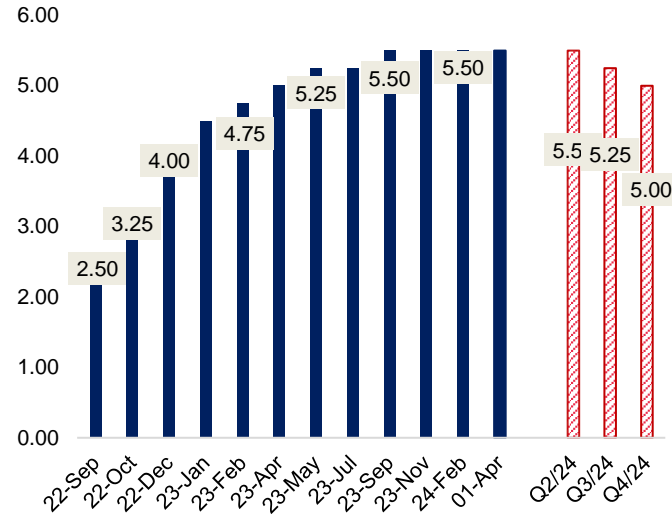
We believe that credit demand will start increasing sharply from 3Q2024 in the context of strong production and investments growth. For 4M24, the index of industrial production (IIP) increased by 6% yoy and the Purchasing Managers Index (PMI) rose to 50.3. Moreover, public and private investments both increased by 5.9%. We forecast that the 12-month deposit rate of large commercial banks will be able to inch up by 50-70 bps and progressively return to 5.1%-5.3% 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 15: Import-export growth and monthly trade surplus



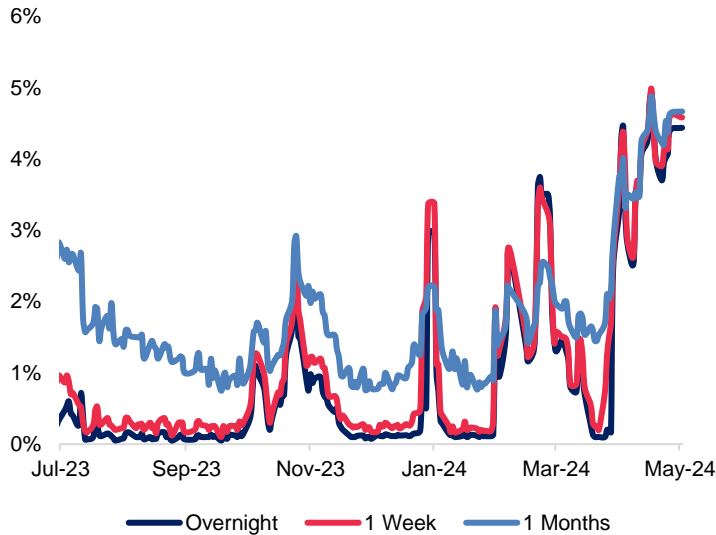
Source: GSO, MBS Research

Figure 16: FED is expected to cut interest rates from the end of 3Q2024, bringing rates down to 5% by the end of the year



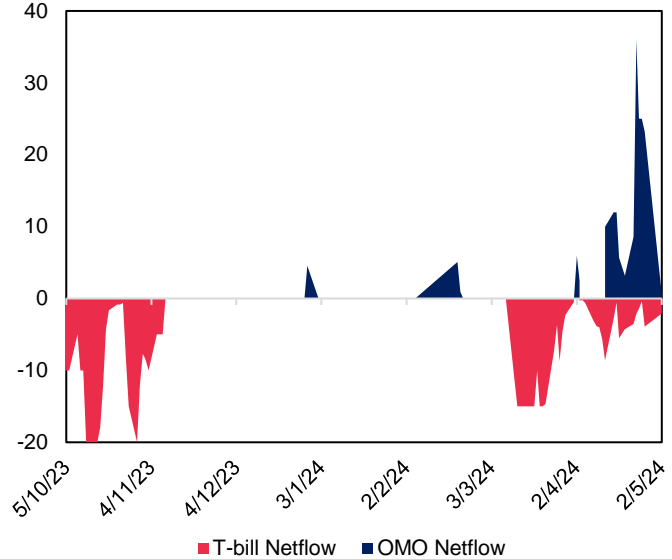
Source: Bloomberg, MBS Research

Figure 17: Interbank overnight lending rate (%)



Source: GSO, MBS Research

Figure 18: SBV's Open Market Operation (Liquidity) [VND tn]



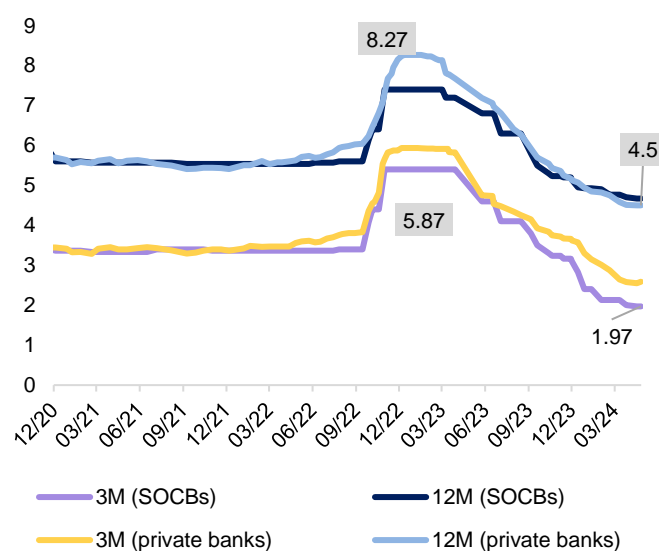
Source: Bloomberg, MBS Research

Figure 19: Interbank interest rate (%)

	O/N	1 Week	2 Week	1 Month
31/01	2.9	3.3	2.7	2.2
29/02	1.5	1.4	1.7	2.0
29/03	2.4	2.6	2.6	2.8
02/05	4.4	4.5	4.6	4.6

Source: MBS Research

Figure 20: Commercial banks deposit rate (%)



Source: FAO, MBS Research

We believe that the pressure on the exchange rate will cool down

DXY Index stays strong as FED interest rate remains unchanged as the economic growth continues to be strong and inflation remains elevated

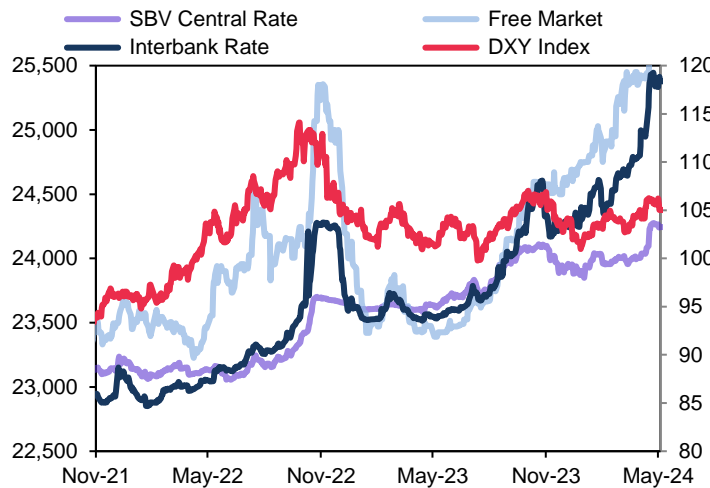
Since the beginning of April, the US dollar Index (DXY) breached the 105 threshold, at some points, it even reached 106.3, marking its highest level since Nov 2023, DXY has increased 3% since the beginning of the year. This is in correlation with the recent economic data revealing that inflation rate in March is at 3.5%, up 0.4% mom, and higher than market expectations. In addition, the increase in the price of oil, grains, coffee, etc. put further pressures on inflation, hence, lower the market expectations on Fed's cutting rate decision. On May 2nd, Fed made it clear that it is not ready to start cutting interest rate and the current rate may last longer. Economists predict the first rate-cut would occur either in September or December press conference with equal probability of 40%. In the case of having two rate-cuts, interest rate is expected to decrease by 0.25% each time and return to 4.75%-5% by the end of 2024.

The domestic exchange rate stabilizes after SBV's interventions

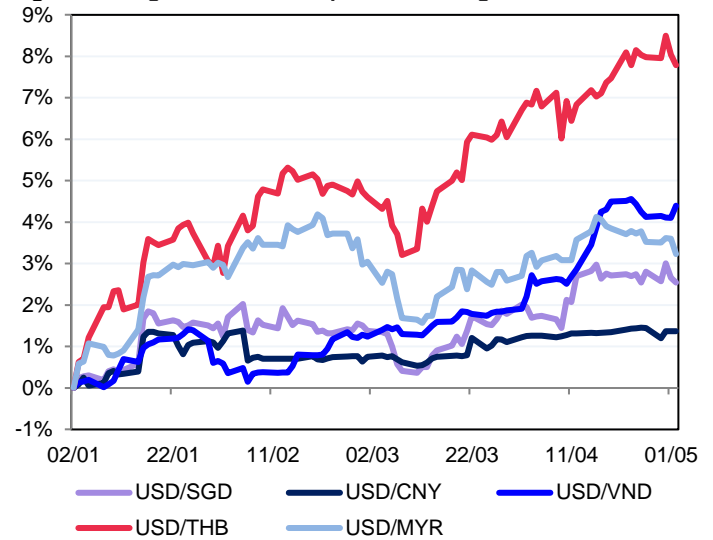
In April, the SBV has been using various tools to manage the domestic exchange rate including: host gold auctions to narrow the gap between domestic and world gold prices as well as between buying and selling prices, increased interest rate to minimize carry trade activities, and intervene via selling foreign currency to credit institutions with negative foreign asset position. We think this strong measure of the SBV has helped to relieve market psychology together with the decrease in seasonal demand for US dollar have stabilized the domestic exchange rate in the last week of April.

By the end of April, the interbank exchange rate is at 25,415 VND/USD, down 0.1% from its peak on April 23rd, up 4.4% since the beginning of the year. The free exchange rate is currently trading at 25,735 VND/USD, while the central rate is at 24,261 VND/USD, an increase of 4.4% and 1.6% respectively, compared to the beginning of 2024. Overall, as compared to currencies of other countries in the region, VND is still maintaining an equivalent devaluation to Baht Thailand (-7.8%), Malaysia ringgit (-3.8%), Singapore dollar (-3.4%),...

We believe that the exchange rate in 2Q2024 will fluctuate in the range of 25,100 – 25,300 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, positive macro factors will support such as a positive trade surplus when accumulated 4M24 reaches USD 8.4bn (increased twofold compared to the same period last year), foreign exchange reserves are still at a good level and are expected to reach USD 110bn in 2024, FDI inflows implemented in 4 months are estimated at USD 6.2bn (+7.4% yoy) and tourism recovered strongly when 4M24 increased by 68.3% yoy and increased by 3.9% 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 21: VND/USD exchange rate


Source: SBV, Bloomberg, MBS Research

Figure 22: 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 deposit 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

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