Stronger growth upturn

- Exports continued to flourish while PMI in July anchored at 54.7 as manufacturing outputs surged at the fastest pace since Mar 2011.
- Exchange rate pressures eased moderately leading to a decrease in foreign exchange rate to 25,264 VND/USD.
- We expect the economy to grow healthily by 6.6% and 6.5% yoy in 3Q and 4Q, respectively, which will bring the 2024 GDP growth rate to 6.5%.

Production upholds positively on the back of vigorous export activities

Exports in Jul leaped 19.1% yoy, mainly driven by Pepper (+181.8% yoy), Textile fibres (+81.6% yoy), and Cameras, camcorders, and their components (+56.5% yoy), whilst imports rose 24.7% yoy. For 7M24, exports and imports grew 15.7% and 18.5%, respectively, resulting in a trade surplus of USD 14.08bn. Production activities have shown steady growth for five months in a row, with the Industrial Production Index (IIP) surging by 11.2% yoy in tandem with the PMI index to hold stable at 54.7 in Jul, showcasing the resilience and a promising prospect of Vietnam's industrial sector.

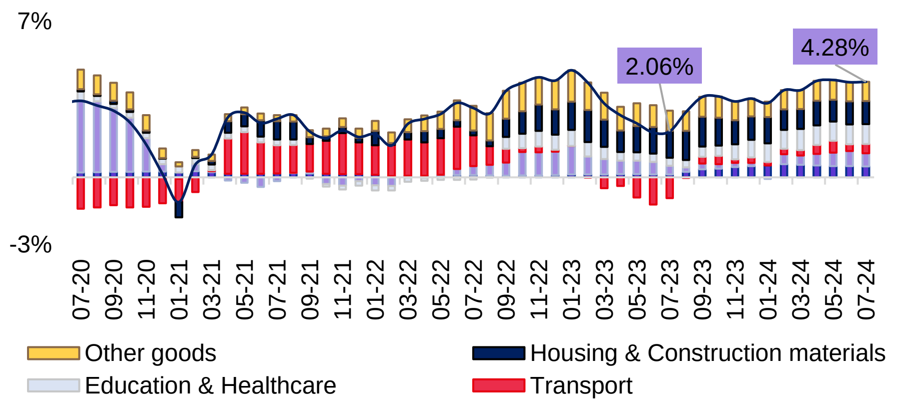
Inflationary pressure continues to drift upward, yet still under control

CPI nudged up 0.5% mom and 4.4% yoy in Jul emanating from higher health insurance price stemming from a rise in the base salary commenced at the beginning of this month and rising domestic gasoline price affected by elevated world oil prices due to escalating geopolitical tensions. We estimate a potential rise of CPI in 2H24 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 1st may impact domestic inflation. Besides, 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 2H23.

We forecast 2024 GDP growth at 6.5%

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 by 6.6% and 6.5% yoy in 3Q and 4Q, respectively, underpinned by bustling export activities, improving domestic consumption, more effective public investment disbursement and a resilient growth of the tourism sector.

Figure 1: CPI in Jul was mostly driven up by foodstuff and gasoline price (%/yr)



Source: GSO, MBS Research

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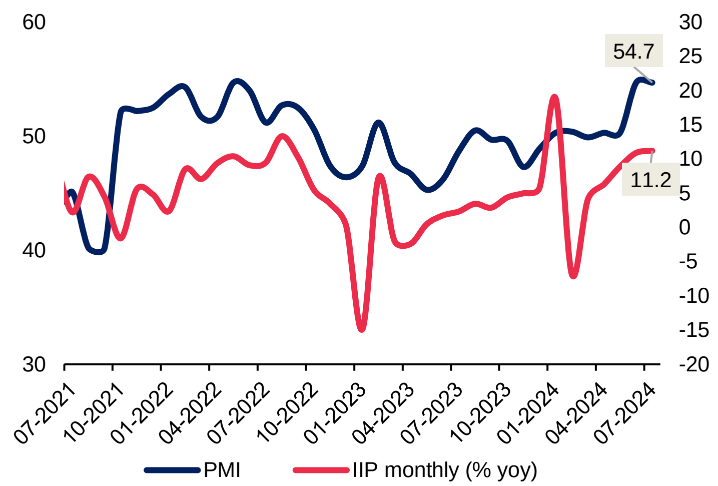
Stronger growth upturn

Industrial production on an optimistic note

Industrial production inched up by 0.7% mom and 11.2% yoy in July, amidst a sustained rise in new orders boosted by the rebound of market. Industries with strong production growth throughout the month include: Manufacture of other transport equipment (+32.4% yoy), Manufacture of furniture (+32.4% yoy), and Manufacture of rubber and plastics products (+26.2% yoy). For the first 7M24, industrial production grew by 8.5% yoy, with the extraction of crude petroleum and natural gas experienced the largest decline, falling by 12.4% yoy.

This month, Vietnam's manufacturing sector remained robust with the PMI holding stable at 54.7. The number of new orders as well as new export orders both expanded significantly in July; however, the number of new export orders grew at a slower pace, hampered by high logistics costs due to disruptions in the supply chain. Nevertheless, manufacturing output in July surpassed last month's, recording the most substantial increase since March 2011. Notably, new orders surged to such an extent that companies had to rely heavily on their finished goods inventories, reaching near-record levels, even as they attempted to boost employment and input purchases. Thus, Vietnam's ability to maintain June's robust growth into July has fuelled optimism that we are entering a period of sturdy growth, which will drive the economy forward.

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



Source: Bloomberg, MBS Research

Figure 3: Change in IIP in sectors monthly (% change YoY)

	May-24	Jun-24	Jul-24
Manufacture of other transport equipment	-5.2%	10.4%	32.4%
Manufacture of furniture	18.8%	19.3%	32.4%
Manufacture of rubber and plastics products	24.1%	34.1%	26.2%
Repair and installation of machinery and equipment	1.9%	-2.6%	26.0%
Manufacture of coke and refined petroleum products	8.6%	13.0%	18.0%
Manufacture of computer, electronic products	17.4%	20.3%	15.3%
Manufacture of food products	6.1%	10.4%	13.4%
Manufacture of basic metals	6.8%	11.9%	12.5%
Manufacture of textiles	7.9%	11.4%	10.7%
Manufacture of chemicals and chemical products	6.2%	9.7%	9.0%
Manufacture of other non-metallic mineral products	1.0%	5.6%	3.6%
Manufacture of beverages	4.4%	1.7%	2.4%
Manufacture of electrical equipment	19.4%	-6.5%	-10.5%
Extraction of crude petroleum and natural gas	-17.1%	-15.3%	-12.3%

Source: GSO, MBS Research

Buoyant trade activities in July

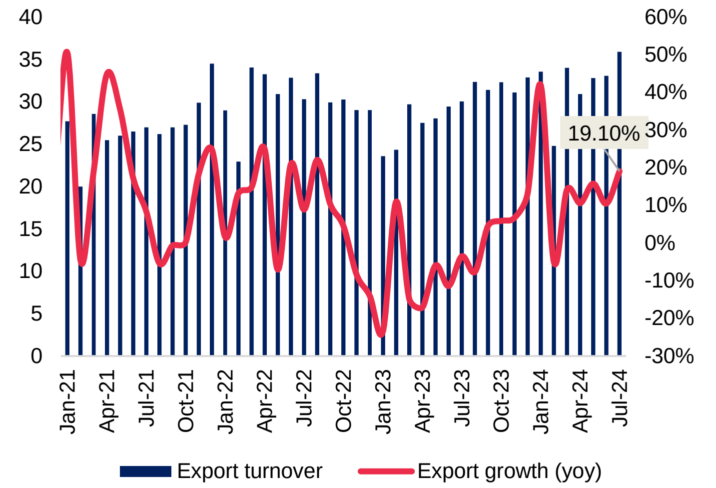
Export turnover of goods remained resilient in July with a 6.7% mom increase, up 19.1% yoy to USD 35.92bn driven by a significant rise in the number of orders driven by the recovery of global consumer demand. Key commodities with high export value are Pepper (+181.8% yoy), Textile fibres (+81.6% yoy), and Cameras, camcorders and their components (+56.5% yoy). For 7M24, export turned over accelerated to USD 226.98bn (+15.7% yoy). Top largest export products witnessed significant drop across the board include Clinker and cement (-12.5% yoy), Toys, sports equipment and their parts (-6.7% yoy), Paper and paper products (-2.6% yoy). Nonetheless, exports still have some bright spots in terms of growth such as

Furniture made of non-wood materials (+31.5% yoy), Plastic products (+30.7% yoy), and Electronic goods, computers and their parts (+30% yoy).

In terms of export markets, the US named Vietnam's largest export market in 7M24 with export turnover reaching USD 66.1bn, up 24.4% yoy. Whilst exports to the E.U rose 15.8% yoy to USD 29.3bn and exports to China amounted to USD 33.4bn (+7.6% yoy).

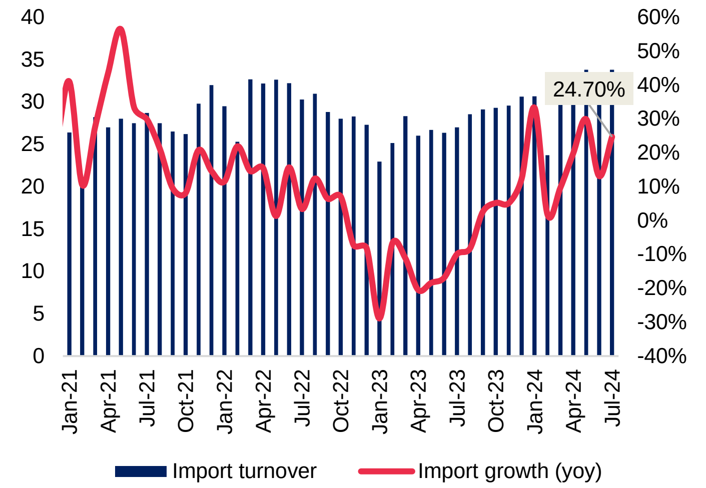
The import turnover of goods is estimated at USD 33.8bn (+24.7%yoy, +11% mom) in July, and USD 212.9 bn in 7M24 (+18.5% yoy). China was the biggest importer of Vietnamese goods with a turnover of USD 79.2bn (+34.9% yoy). As of July, there are 10 import products with a value of over USD 5bn (accounting for 62.5% of the total import turnover) such as: Electronic goods, computers and their parts (+28.1% yoy), Other basic metals (+27.2% yoy), Phones all of kinds and their parts (+26.9% yoy), machinery, instrument, accessory (+14.6% yoy), etc.

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



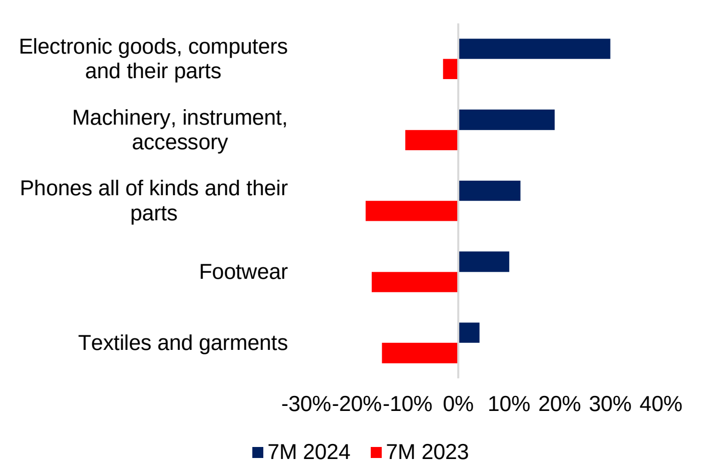
Source: GSO, MBS Research

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



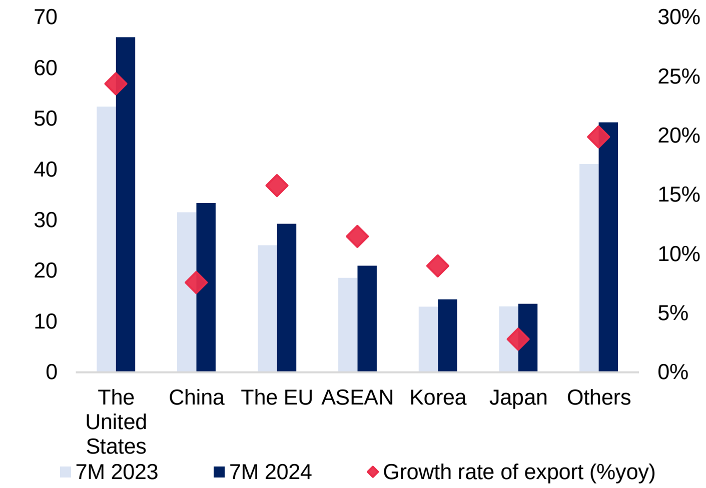
Source: GSO, MBS Research

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



Source: GSO, MBS Research

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



Source: GSO, MBS Research

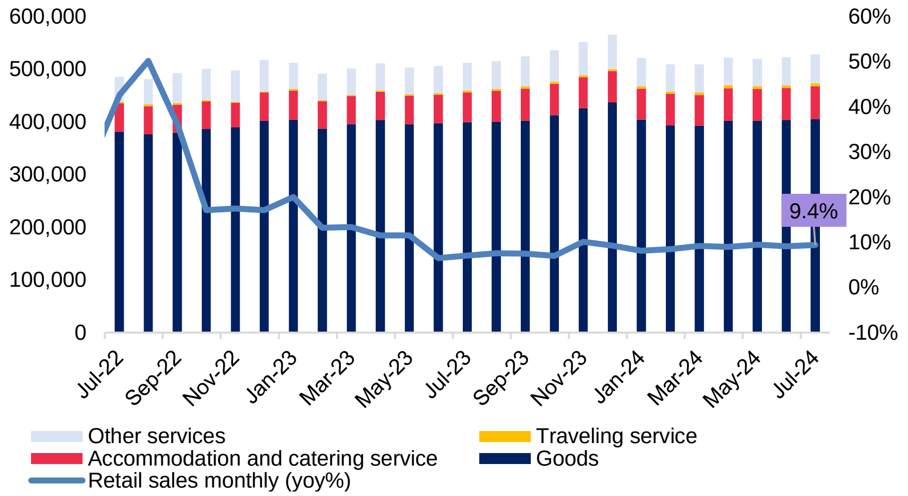
We forecast that exports will increase by 11% - 12% in 2024, with a trade surplus of USD 12 - 14bn based on the following factors: First, according to World Bank's forecast, the global trade in goods and services is projected to expand by 2.5% in 2024 and 3.4% in 2025 as inflation pressures are expected 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 the '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.

Vietnam bustling with international visitors, led by European influx

Retail sales of consumer goods and services growth in July recorded an uptick of 1.4% mom, up 9.4% yoy as travelling demand and consumer spending continued to expand during summer holiday season. Nevertheless, the retail sales growth rate has been mostly flat since the beginning of the year as consumers are still cautious with their spending due to the concern about looming inflation caused by the increase in their base salary. For 7M24, the total retail sales of consumer goods and services was estimated to increased by 5.2% yoy (excluding the price factor), much lower than the 5-year average growth of 8% (excluding 2021 – social distancing period). Vietnam continued to affirm itself on the tourism map when attracting nearly 10mn foreign tourists in 7M24, expanding by 51% yoy and up 1.9% over the same period in 2019, the year without Covid-19 epidemic. Notably, the tourism sector recorded a strong growth in visitors from Europe with a 47.3% increase. This was thanks to numerous favourable visa policies and tourism promotion programs that have been intensified by localities across the country.

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



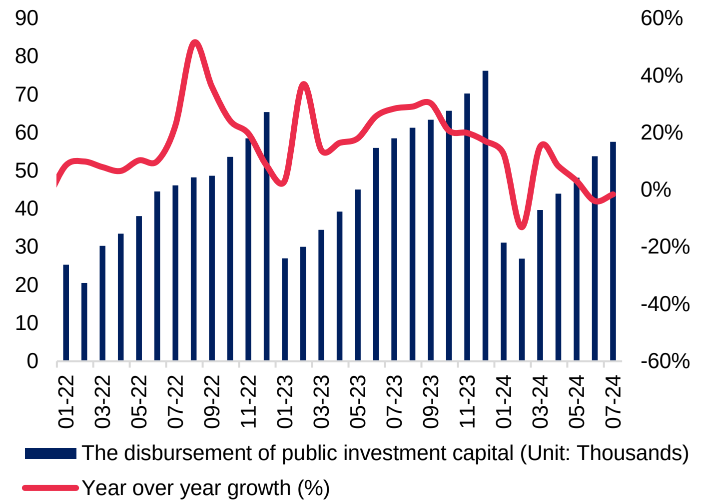
Source: GSO, MBS Research

FDI flows concentrated in high-tech industries

In Jul, newly registered FDI inflow decreased by 16% yoy, whilst disbursed FDI went up by 10% yoy. For 7M24, realized FDI increased by 8.4% to USD 12.6bn, the fastest pace within 5 years. In which, processing and manufacturing sector lured nearly USD 10bn (accounting ~ 79.5%), while real estate sector attracted USD 1.1bn (accounting ~ 9.1%), and about USD 481.1mn for utilities (accounting ~ 3.8%). This month, Bac Ninh province led the country in attracting FDI thanks to the significant contribution of the increase in capital by an additional USD 1.07bn of the AMKOR Technology Singapore Holding Pte. Ltd.'s factory specialized in building, assembling, and testing semiconductor materials and equipment. This has brought the total investment of this project to USD 1.6bn, with a production capacity of 3.6bn units per year.

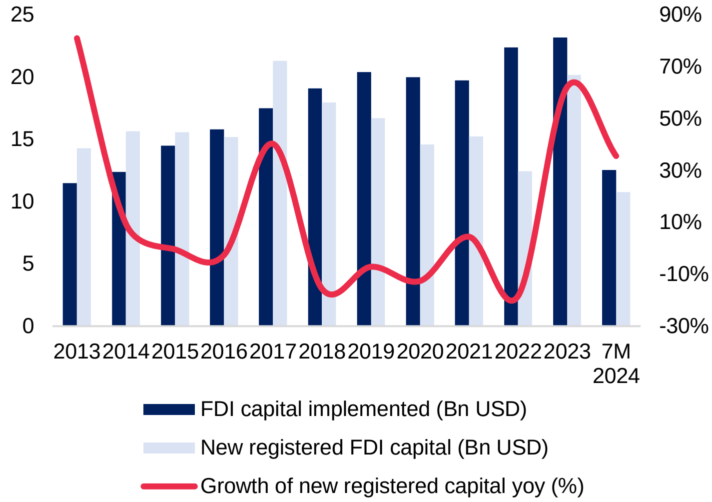
Disbursed state investment dropped 1.6% yoy to VND 57.6tn in Jul. For 7M24, state investment amounted to VND 301.5tn (+2.3% yoy), fulfilling 40.6% of Government's target.

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

Inflationary pressure continues to build up

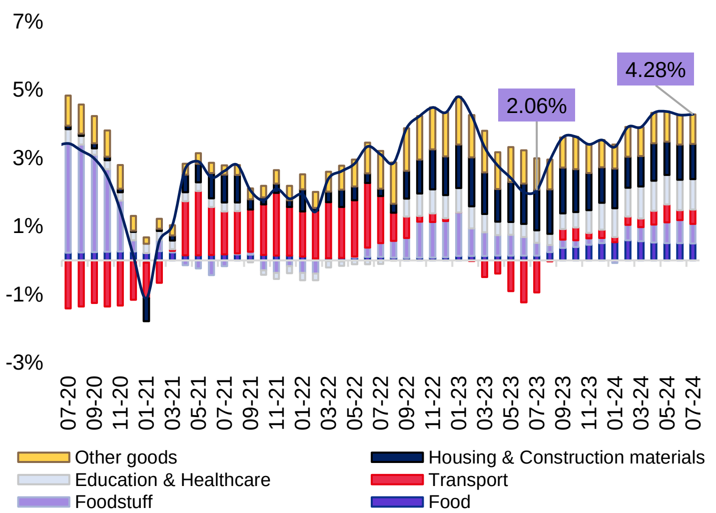
CPI in July nudged up 0.5% mom and 4.4% yoy, driven by higher health insurance price stemming from a rise in the base salary commenced at the beginning of this month and rising domestic gasoline price affected by elevated world oil prices due to escalating geopolitical tensions. On average, in the first 7M2024, CPI surged by 4.12% yoy; whilst core inflation inched up 2.73% yoy. The concern over inflation has been building up since the start of 2024 as the CPI growth rate has consistently crept up over the months, getting closer to the government's target of 4.5%.

This month, food and catering services (+4.3% 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 14.4% 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 4.4% yoy as domestic gasoline price elevated 5.9% yoy following the surge in global oil prices. Additionally, the increase in tuition fees in some localities pushed up the education group index by 8% yoy. Finally, the medicine and healthcare services group soared 8.13% yoy due to the adjusted healthcare service prices is another factor attribute to the uptrend of CPI.

The prices of cement and sand have increased in correspondence with the rising costs of input materials and high rental expenses, thereby elevating the price index. Furthermore, the increase in household electricity prices (+8.6% yoy) due to EVN adjusting the average retail electricity price last year also contributed to the increase of 5.5% yoy in the average price index for the housing and construction materials group, and affecting the seven-month average CPI subsequently. In addition, tuition fee increased in some citites caused the increase of 8.5% yoy for the education group index. Conversely, the postal and telecoms group's price index fell by 1.36% yoy as the prices of older generation phones are depreciating, serving as a limiting factor for the increasing pace of the average CPI.

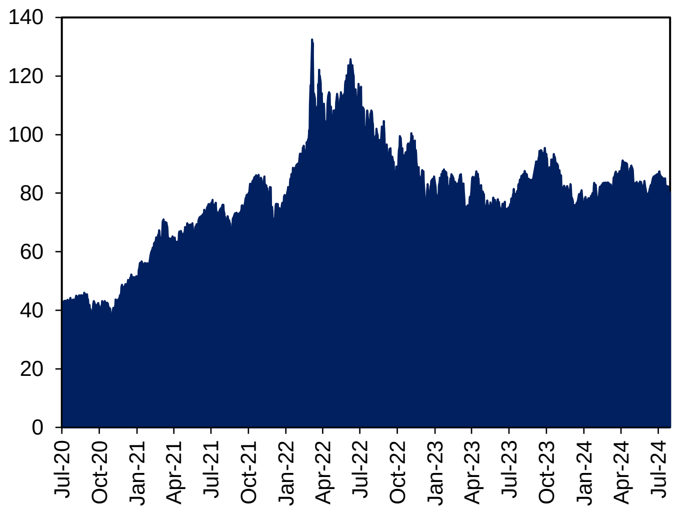
We peg a potential rise of CPI in 2H24 which will lift the average CPI for 2024 up to 4.3%, getting closer to the government's guidance of 4.5%. Despite reluctant domestic demand, inflation in 2H24 will still be at risk due to the following factors: First, domestic construction steel prices are expected to recover to 15mn VND/ton (+8% yoy) in 2024 due to the rising 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 11: Contribution of commodity groups to CPI growth (%)



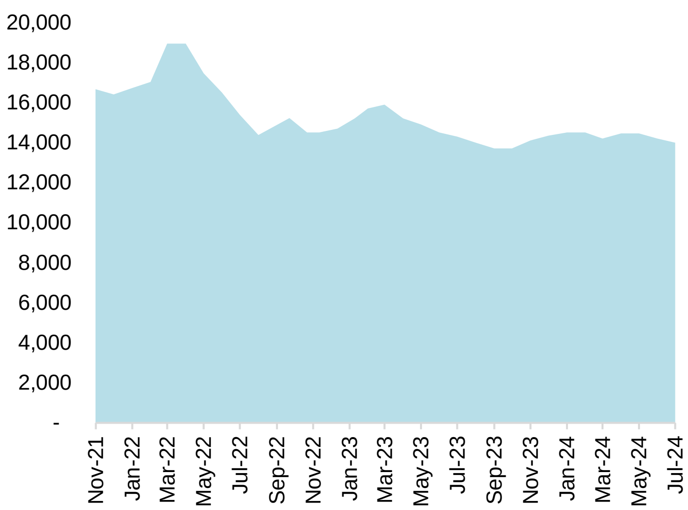
Source: GSO, MBS Research

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



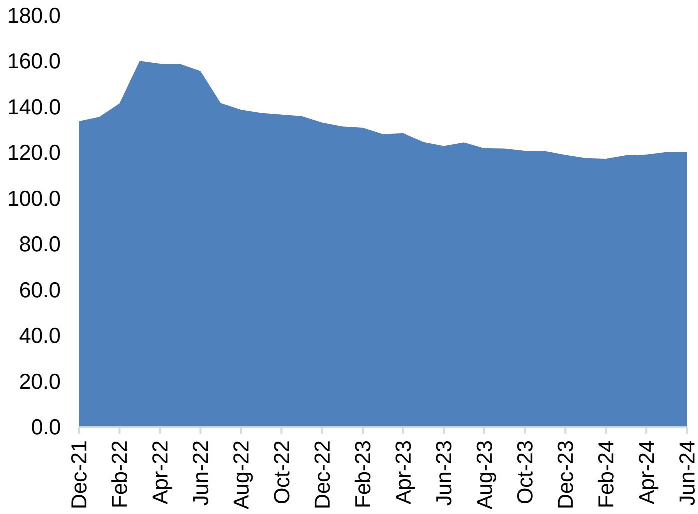
Source: Bloomberg, MBS Research

Figure 13: Steel price (Mn VND/ton)



Source: MBS Research

Figure 14: FAO food price index



Source: FAO, MBS Research

Deposit rates are still on the rise

Interbank rates are anchoring above 4% at all terms

In Jul, the SBV has been using T-Bills and OMO channel simultaneously to stabilize the banking system's liquidity. Notably, the amount of money injected through OMO channel in Jul has scaled up 5 times as compared to last month. By the end of this month, the central bank has pumped a net amount of about VND 416.4tn with interest rates of 4.5% and tenors of 7 days, including VND 236.1tn of matured T-bills. It is estimated that about VND 81.6tn T-bills will mature in Aug. At the same time, a total of VND 196.1tn T-bills with interest rates of 4.5%, tenors of 14 days were issued in Jul.

The interbank interest rates have been hovering above the 4% threshold at all terms throughout the month. On Jul 9th, the overnight rate skyrocketed to 4.9% - highest level since end of May - signifying a liquidity shortage in the system after the SBV's aggressive money withdrawal in the past two months. In addition, the economy's credit growth as of Jun 30th spiked to 6% is another factor contributing to the upsurge of interbank rates. By the end of Jul, thanks to the SBV's net injection throughout the month, the overnight rate has returned to 4.3%. Apart from that, interest rates span between 4.5% to 4.6% for different tenors, ranging from one week to one month.

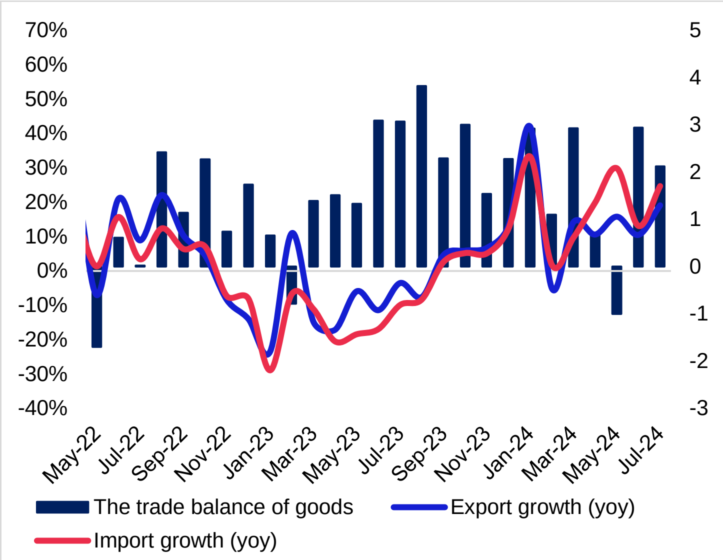
Input rates are still on the cusp of ascending

As of Jul 31st, 20 banks (including 5 large-scale banks: MBB, VPB, ACB, Sacombank, and BIDV) have raised their deposit interest rates with the increase fluctuating between 0.1% - 0.7%, some banks' rates even surpassed 6%/year, amidst credit growth is expanding three times faster than capital mobilization. This has prompted banks to increase deposit rates to reinforce its attractiveness against other investment channels in the market. Following VietinBank's move, BIDV was the second bank in the group of state-owned commercial banks to altered deposit rates. The bank announced that online deposit interest rates for 24-36 month longer terms increased slightly by 0.1%/year.

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

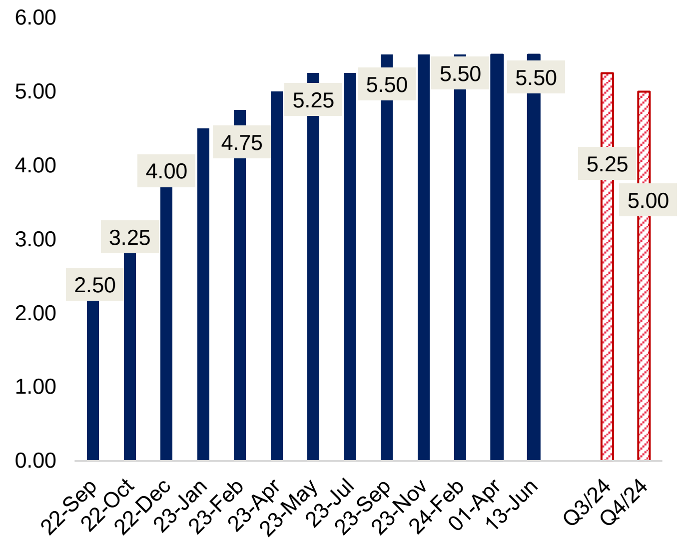
We believe that credit demand will start increasing sharply from 3Q2024 in the context of strong production and investments growth. For 7M24, the index of industrial production (IIP) increased by 11.2% yoy and the Purchasing Managers Index (PMI) rose to 54.7 in Jul. Moreover, public and private investments inched up 2.3% in 7M24 and 6.7% in 2Q24. 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 15: Import-export growth and monthly trade surplus



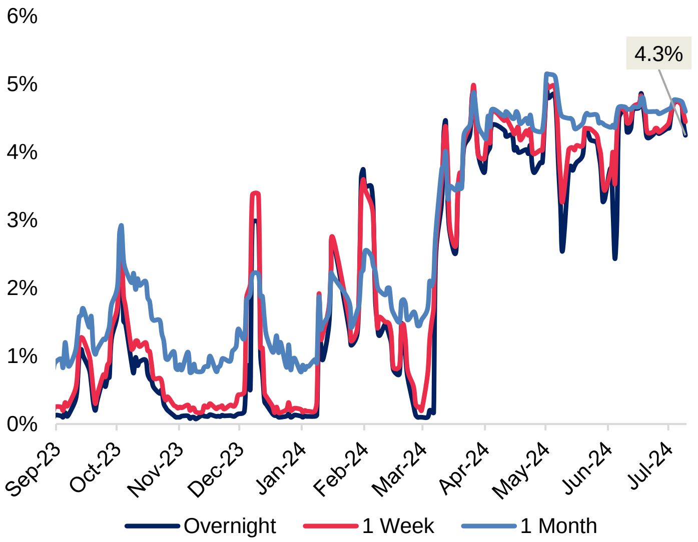
Source: GSO, MBS Research

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



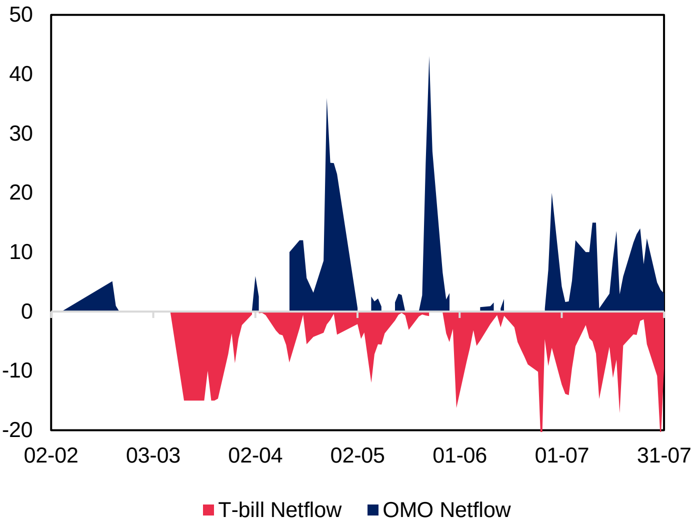
Source: Bloomberg, MBS Research

Figure 17: Interbank overnight lending rate (%)



Source: Bloomberg, MBS Research

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



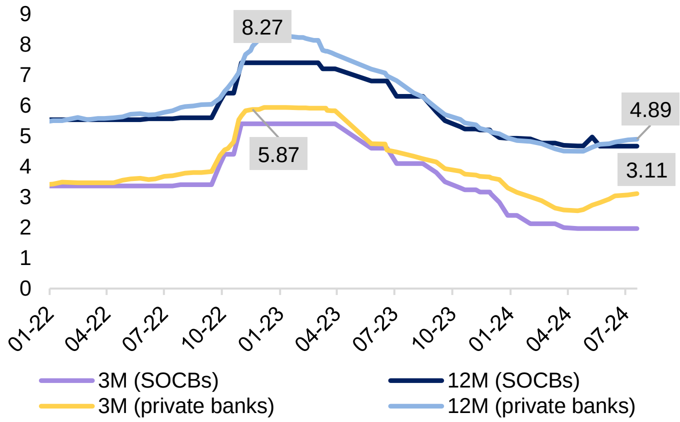
Source: Bloomberg, MBS Research

Figure 19: Interbank interest rate (%)

	O/N	1 Week	2 Week	1 Month
30/04	4.4	4.6	4.7	4.6
30/05	3.2	3.6	4.1	4.5
28/06	4.5	4.6	4.7	4.7
31/07	4.3	4.5	4.5	4.6

Source: Bloomberg, MBS Research

Figure 20: Commercial banks deposit rate (%)



Source: SBV, Bloomberg, MBS Research

Diminishing pressures on the exchange rate

The DXY slipped as the economy showed signs of stagnation

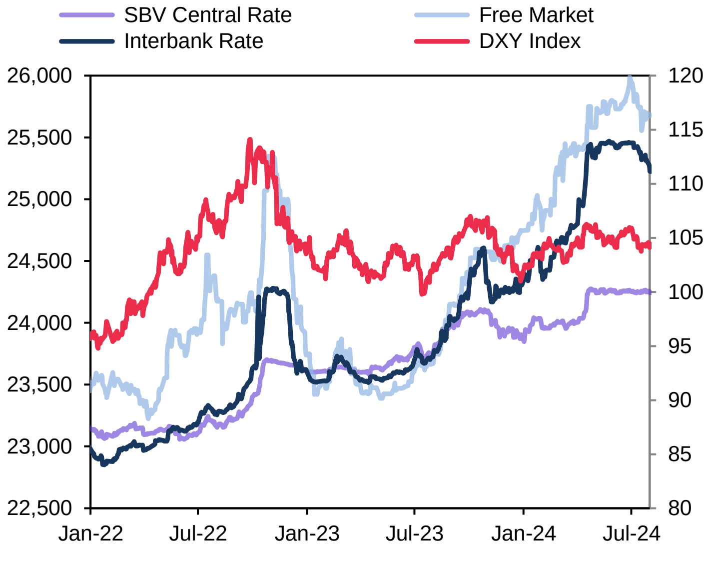
The DXY index has been on a downward trend throughout the month. Starting off with 105.9 at the beginning of Jul, the DXY fell below the 104 thresholds to reach 103.7 on Jul 17th driven by a string of favorable inflation data including: CPI in June increased at the slowest pace in over 3 years, unemployment rate crept above 4% for the first time in more than 2 years, shelter inflation - the biggest hurdle to CPI slowing – recorded the coolest reading in 2 years. By the end of Jul, the US dollar has slightly recovered and is currently hovering around 104, after Fed decide to hold rates steady but disclosed that they felt a 'soft landing' and a rate cut could be on a table in September if the economy is still going on the right track. There is now an 80% probability that the Federal Reserve will reduce its target range for the key interest rate by a quarter percentage point to 5% - 5.25% in September.

The exchange rate is on the verge of declining

The weakened DXY index, along with the effective intervention of the SBV via FX reserves, has eased the pressure on the VND/USD exchange rate in Jul. As of July 3rd, SBV has sold approximately USD 6.5bn since the end of April to curb the rise of exchange rate. Moreover, the SBV's maintenance of a higher interbank interest rate also helped in reducing the interest gap between the US dollar and the Dong, thereby providing an additional buffer against the depreciation of the Dong. The interbank USD/VND dropped sharply to 25,264 in Jul, marking a 3.7% increase since the start of the year. The free-market rate decreased to 25,680 VND/USD, while the central rate is standing at 24,255 VND/USD, showing rises of 3.8% and 1.7%, respectively, compared to the start of 2024.

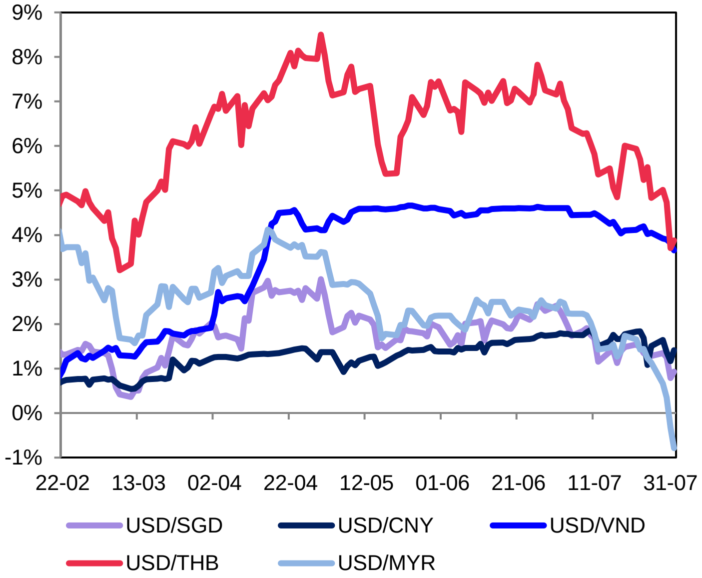
We believe the pressure on VND will ease and expect the USD/VND to range within 25,100 – 25,300 in 4Q24. Supportive factors for VND include: positive trade surplus (~US$14.1bn in 7M24), net FDI inflows (U$12.6bn, +8.4% yoy) and a rebound of international tourist arrivals (+51% yoy in 7M24). The stability 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: 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	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 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	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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Hung Ngo Quoc
Anh Dinh Ha
Cuong Nghiem Phu

Banking – Financial Services
Luyen Dinh Cong
Hao Nguyen Duc

Real Estate
Duc Nguyen Minh
Tri Nguyen Minh
Thanh Le Hai

Consumer - Retail
Ly Nguyen Quynh

Industrials – Energy
Tung Nguyen Ha Duc
Huyen Pham Thi Thanh