The economy on an optimistic note

- Production has kept up the pace on the back of vibrant export activities.
- Risks related to FX and inflation are easing.
- We maintain our GDP growth forecasts of 6.6% yoy and 6.5% yoy in 3Q and 4Q, respectively, bringing the whole year pace to 6.5%.

Production has kept up the pace for the fifth month running

Exports in Aug leaped 14.5% yoy, mainly driven by Textile fibres (+120.3% yoy), Vegetables and fruits (+81.8% yoy), and Machinery, instrument, accessory (+30.7% yoy), while imports rose 12.4% yoy. For 8M24, exports and imports grew 15.8% and 17.7%, respectively, resulting in a trade surplus of USD 19.07bn. Production activities have shown steady growth for five months in a row, with the Industrial Production Index (IIP) surging by 9.5% yoy in tandem with the PMI index posted 52.4 points in Aug, indicating a promising outlook of Vietnam's industrial sector.

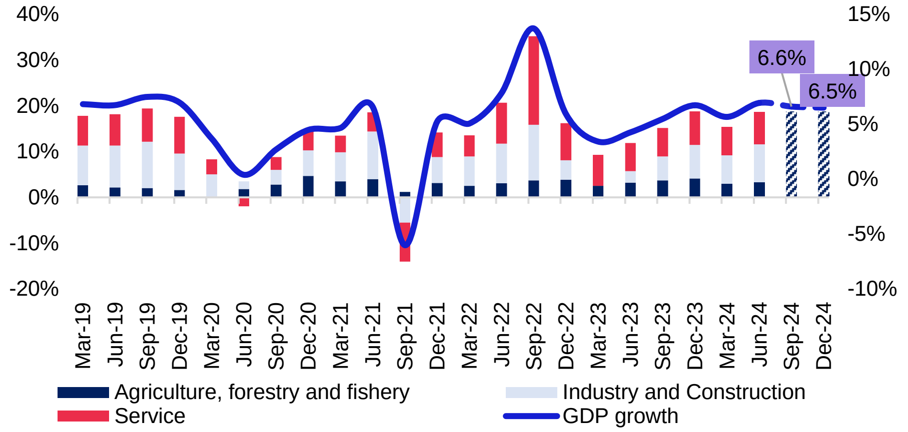
Softer inflationary pressures on the horizon

CPI in August remained stable compared to the previous month, increasing by 3.45% yoy, marking the lowest reading since March. Inflation this month was driven by rising domestic rice prices, which followed export prices and a shrinking supply as the summer-autumn rice crop is ending soon. However, this pressure was partially offset by a drop in domestic gasoline and oil prices, aligning with global trends. We expect the average CPI for 2024 to reach 3.9%, driven by lower fuel prices due to relatively slow demand recovery and easing global supply concerns. As a result, we have revised our 2024 oil price forecast to fluctuate within a narrow range of around 80 USD/barrel. Nonetheless, some inflationary pressures persist, including an expected recovery in domestic construction steel prices and potential inflation triggered by the base salary hike set to be implemented on July 1st.

We maintain our forecast 2024 GDP growth at 6.5%

We expect the economy to grow by 6.6% yoy and 6.5% yoy in 3Q and 4Q, respectively, on the back of bustling export activities amid a surge in new orders as consumer demand gradually revives, especially with the festive season approaching. Moreover, the tourism industry continues to show positive signs as international tourism progressively regains momentum, further stimulating GDP growth.

Figure 1: GDP growth in sectors (yoy%)



Source: GSO, MBS Research

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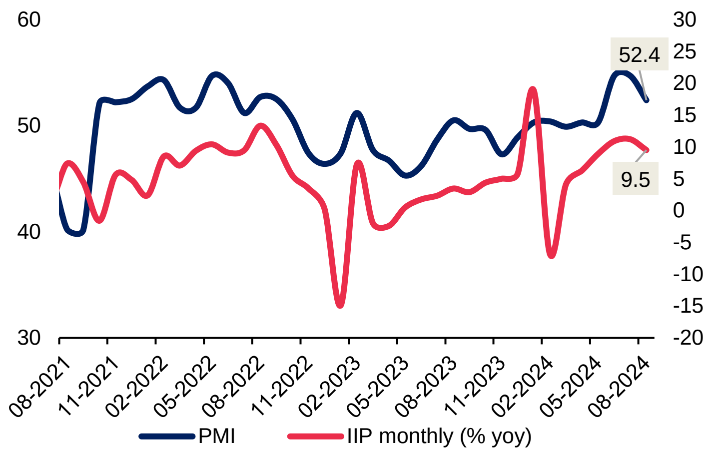
The economy on an optimistic note

The resilient growth of industrial production

Industrial production edged up by 2% mom and 9.5% yoy in August, driven by an increase in new orders as consumer demand gradually rises ahead of the upcoming festive season. Industries that experienced strong production growth during the month include: Manufacture of rubber and plastics products (+31.2% yoy), Manufacture of motor vehicles; trailers and semi-trailers (+29.5% yoy), and Manufacture of furniture (+25.6% yoy). For the first 8M24, industrial production grew by 8.6% yoy, with the extraction of crude petroleum and natural gas saw the largest decline, falling by 12.3% yoy.

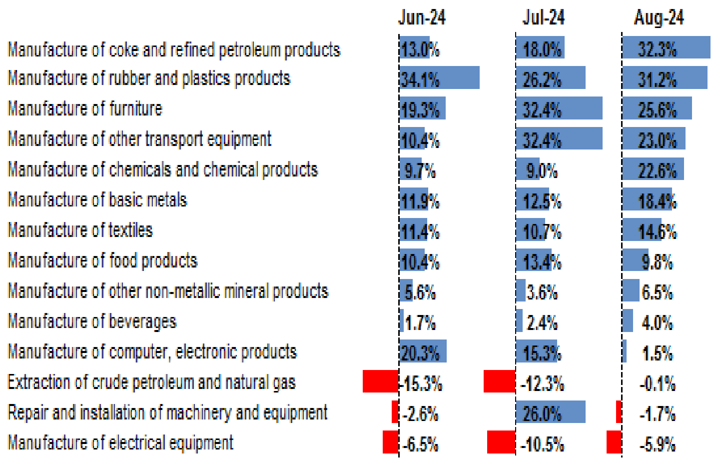
The PMI posted 52.4 in August, down from 54.7 in July but still indicating a solid monthly improvement in the health of the manufacturing sector. Despite easing from the particularly elevated rates of the past two months, the number of new orders and new export orders continued to expand sharply thanks to softer cost pressures and a rebound in consumer demand. This, in turn, boosted manufacturers' purchasing activity, driving it to grow at the fastest pace since May 2022. However, a decline in employment was recorded for the first time in three months, resulting in an accumulation of work backlogs. Nevertheless, manufacturers remain optimistic about a potential rise in output next year, hoping that customer demand and new orders will recover 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

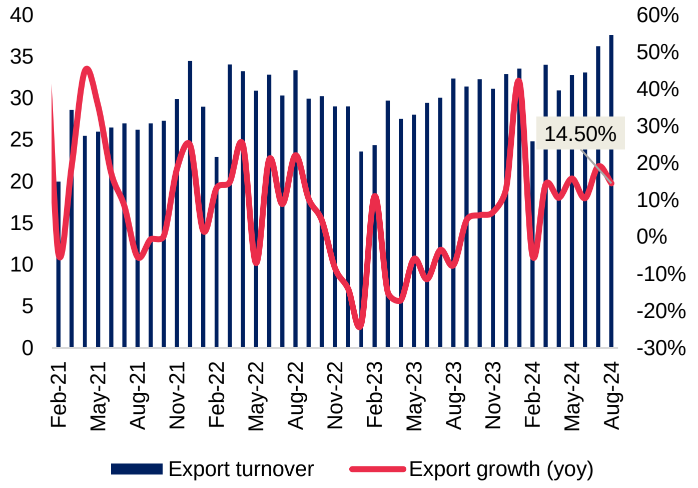
Exports remained a cornerstone of Vietnam's economic growth

Export turnover in August reached USD 37.59bn, up 3.7% mom and 14.5% yoy as new export orders rose for the fifth consecutive month, driven by improving international demand. Key commodities with high export value are Textile fibres (+120.3% yoy), Vegetables and fruits (+81.8% yoy), and Machinery, instrument, accessory (+30.7% yoy). For 8M24, export turnover accelerated to USD 265.09bn (+15.8% yoy). Top largest export products witnessed significant drop across the board include Clinker and cement (-14.4% yoy), Toys, sports equipment and their parts (-3.1% yoy), Paper and paper products (-1.2% yoy). Nonetheless, exports still have some bright spots in terms of growth such as Cameras, camcorders and their components (+41.9% yoy), Furniture made of non-wood materials (+31.4% yoy), and Plastic products (+31.2% yoy).

In terms of export markets, the US named Vietnam's largest export market in 8M24 with export turnover reaching USD 77.9bn, up 25.4% yoy. Whilst exports to the E.U rose 18.5% yoy to USD 34.4bn and exports to China amounted to USD 37.9bn (+2.8% yoy).

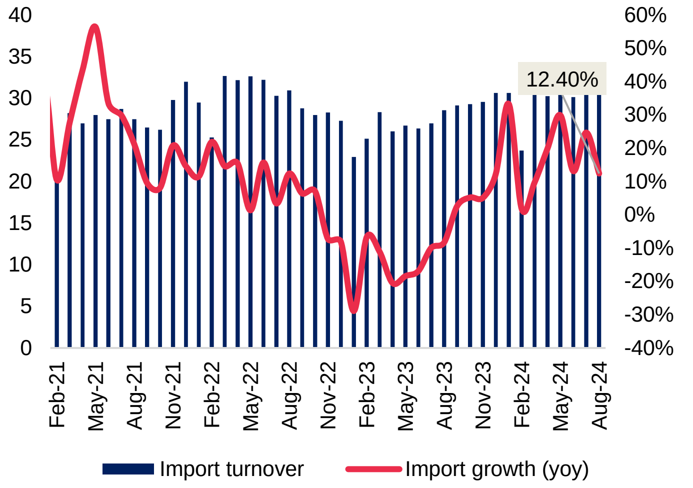
The import turnover of goods is estimated at USD 33.06bn (+12.4% yoy, -2.4% mom) in August, and USD 246.02bn in 8M24 (+17.7% yoy). China was still Vietnam's largest exporter with a turnover of USD 92.3bn (+33.9% yoy). As of August, Electronic devices, computers and their parts, along with Machinery, instrument, accessory are the 2 import commodities with a value of over USD 10bn (accounting for 40.7% of the total import turnover).

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



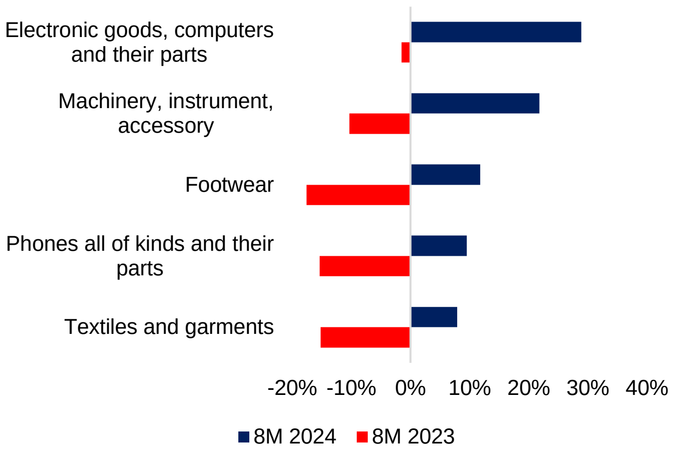
Source: GSO, MBS Research

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



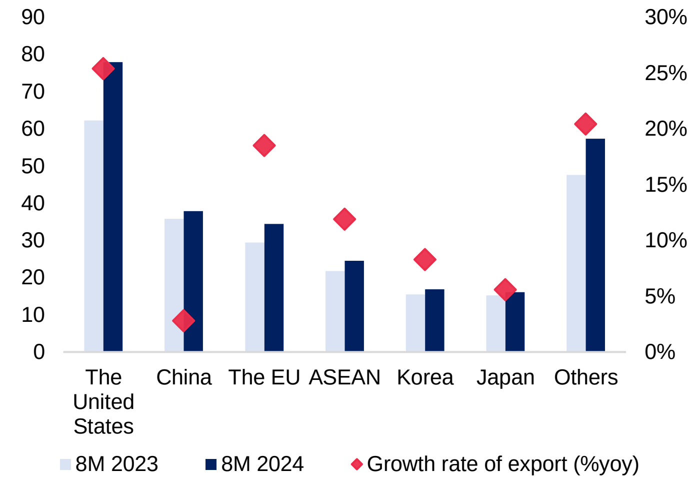
Source: GSO, MBS Research

Figure 6: Growth of major export products in 8M2024 (%yoy)



Source: GSO, MBS Research

Figure 7: Export market of Vietnam in 8M2024 (USD bn)



Source: GSO, MBS Research

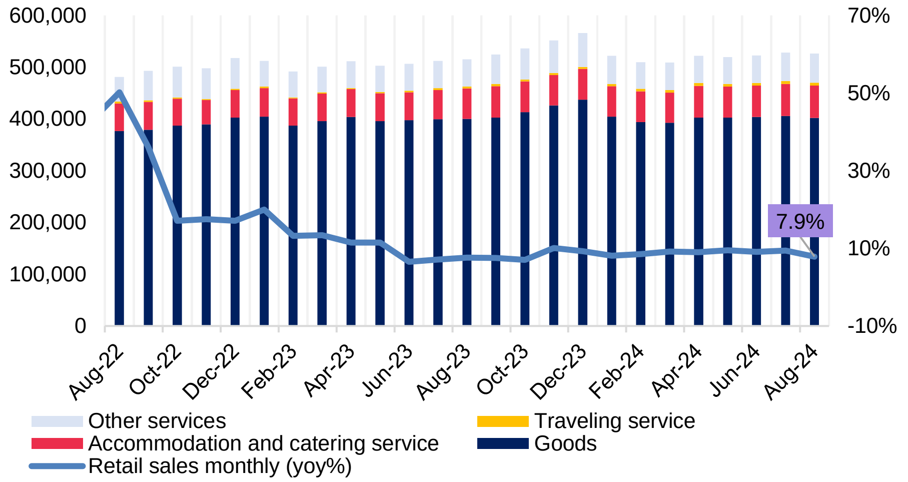
We forecast that exports will increase by 12% - 13% in 2024, with a trade surplus of USD 21 - 23bn based on the following factors: First, according to World Bank's forecast, the global trade in goods and services is projected to expand by 2.5% in 2024 and 3.4% in 2025 as inflation pressures are expected 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.

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.

Domestic consumption is still lackluster

Retail sales of consumer goods and services growth in August inched up by 0.4% mom, up 7.9% yoy, mainly supported by the tourism industry. However, the retail sales growth rate has been sluggish since the beginning of the year as consumers remain cautious with their spending due to the concerns about looming inflation resulting from the recent increases in their base salary. For 8M24, the total retail sales of consumer goods and services are estimated to have increased by 5.3% yoy (excluding the price factor), much lower than the 5-year average growth of 8% (excluding 2021 – social distancing period). Thanks to favorable visa policies, intensified tourism promotion programs and prestigious international awards, Vietnam was able to attract over 11.4mn foreign tourists in 8M24, expanding by 45.8% yoy and up 1% compared to the same period in 2019, the year without Covid-19 epidemic.

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



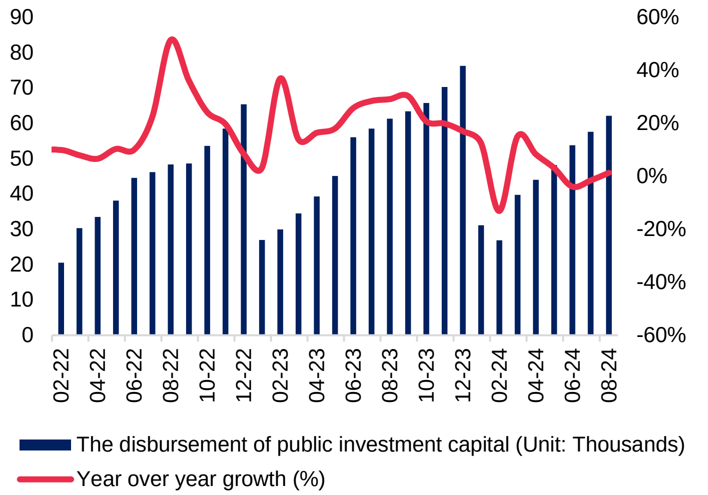
Source: GSO, MBS Research

An upward spiral in FDI inflow

In Aug, newly registered FDI inflow surged by 33% yoy, while disbursed FDI went up by 5% yoy. For 8M24, realized FDI rose by 8% to USD 14.15bn, the fastest pace in 5 years. Of which, processing and manufacturing sector lured USD 11.28bn (accounting for ~ 79.7%), real estate sector attracted USD 1.27bn (accounting for ~ 9%), and utilities received about USD 542.3mn (accounting for ~ 3.8%). This month, Joint Wise Corporation signed an agreement to invest USD 100mn in a high-quality aluminum alloy manufacturing project in My Thuan Industrial Park, Nam Dinh.

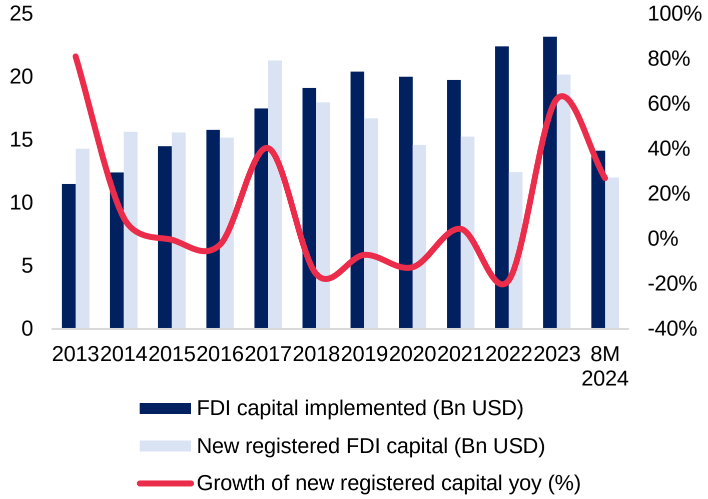
Disbursed state investment increased 1.3% yoy to VND 62.1tn in Aug. For 8M24, state investment amounted to VND 363.1tn (+2% yoy), fulfilling 47.8% of Government's target.

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

Softer inflationary pressures on the horizon

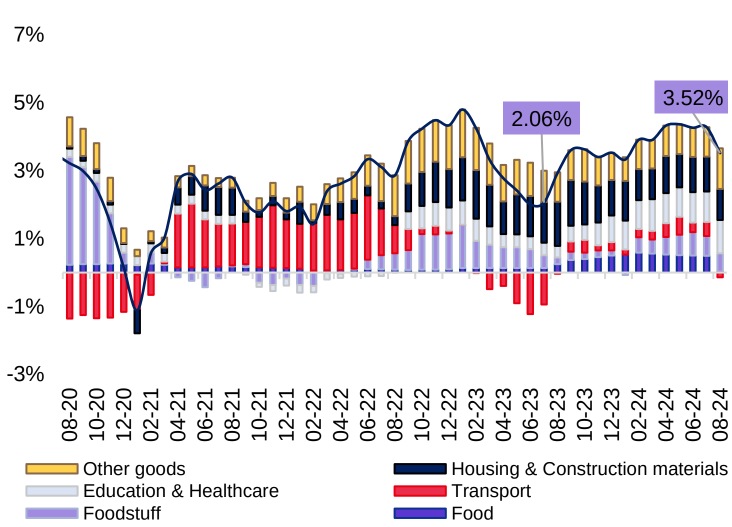
CPI in August remained stable compared to the previous month and up 3.45% yoy, marking the lowest reading since March. Inflation was driven by an increase in domestic rice prices, which followed export prices and a diminishing supply as the summer-autumn rice crop is ending soon. However, the pressure was partially offset by a drop in domestic gasoline and oil prices in line with global oil prices. On average, for the first 8M2024, CPI surged by 4.04% yoy; while core inflation inched up by 2.71% yoy. Overall, inflation is starting to show signs of easing, and the average CPI is still well maintained below the government's target of 4.5%.

In August, food and catering services (+3.7% yoy) contributed the most to the rise in overall CPI driven by a sharp 10.97% yoy increase in the food basket. Elsewhere, the housing and construction materials group index inched up by 5% yoy. Additionally, the increase in tuition fees in some localities pushed up the education group index by 7.1% yoy. Besides, the medicine and healthcare services group soared 8.3% yoy due to the adjusted healthcare service prices contribute further to the uptrend of CPI. In contrast, the transport group experienced a decrease of 1.5% yoy as domestic gasoline and oil price fell by 9.2% yoy following the global downtrend in oil prices. This decline helped to curb the rise in monthly CPI.

The 8-month average CPI was significantly driven by the rise in the price index for the housing and construction materials group (+5.5% yoy), largely due to increasing costs of input materials, rental expenses, and household electricity prices (+8.4% yoy) following EVN's adjustment of the average retail electricity price last year. In addition, tuition fees increased in some cities, leading to an 8.3% yoy rise in the education group index. Conversely, the price index for the postal and telecoms group fell by 1.3% yoy as the prices of older generation phones are depreciating, served as a limiting factor for the increase in the average CPI.

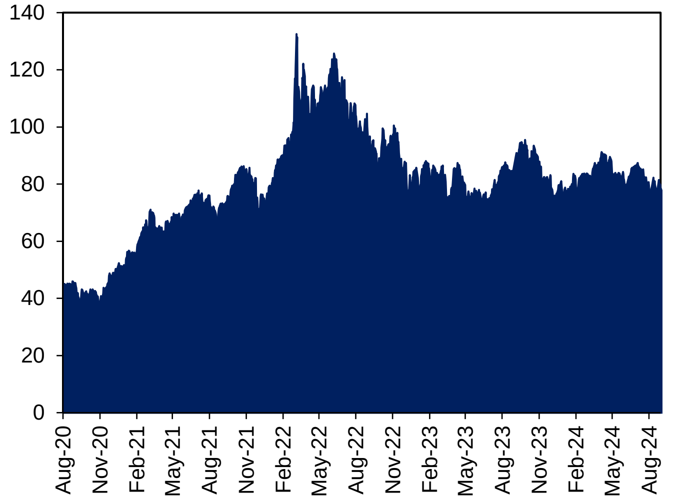
We anticipate a potential drop in CPI toward the end of the year, driven by lower fuel prices, which could reduce the average CPI for 2024 to 3.9%, below the government's target of 4.5%. Although OPEC+ has decided to extend output cuts until November, the downtrend in oil prices is expected to resume due to a relatively slow demand recovery, especially in the US and China. Moreover, global supply concerns have eased moderately thanks to the ceasefire agreement in the Middle East, which is expected to curb the upward trajectory of oil prices. Based on this, we revised down our oil prices forecast in 2024 to fluctuate within a narrow range of around 80 USD/barrel. However, some inflationary pressures persist as domestic construction steel prices are expected to recover to 14mn VND/ton (+4% yoy) in 2024 due to the rising global steel prices and demand in the domestic market. Moreover, the base salary hike set to be implemented from July 1st could trigger domestic inflation.

Figure 11: Contribution of commodity groups to CPI growth (%)



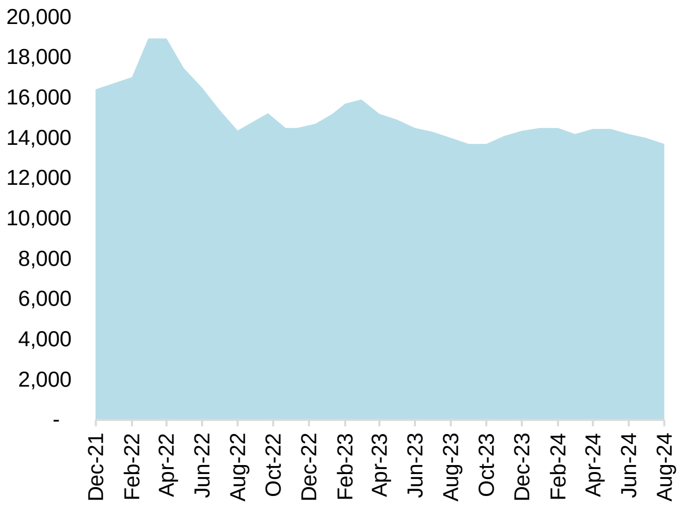
Source: GSO, MBS Research

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



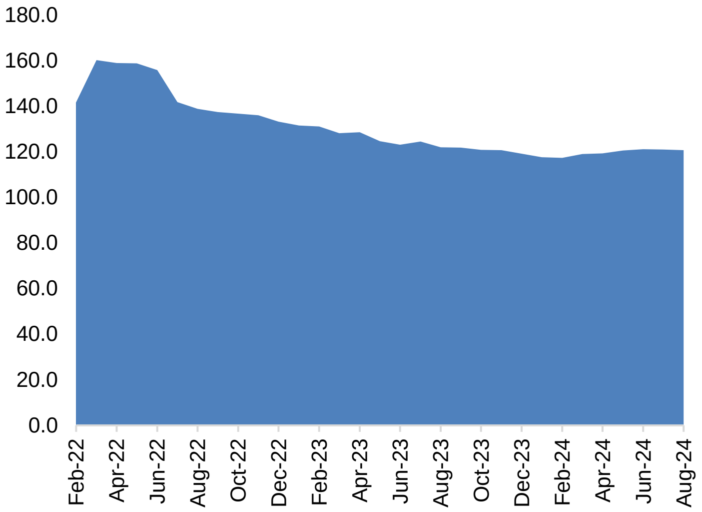
Source: Bloomberg, MBS Research

Figure 13: Steel price (Mn VND/ton)



Source: MBS Research

Figure 14: FAO food price index



Source: FAO, MBS Research

The upward momentum of deposit rates has slowed down

A lower interbank rate benchmark is being set

The SBV has implemented quantitative easing since the beginning of August as exchange rate pressures have alleviated. Particularly, the OMO interest rate was reduced by 25bps to 4.25% in early August. In addition, the Central bank also lowered T-bill interest rates three times during the month by a total of 35bps to 4.15%, and suspended T-bills issuance since Aug 26th. Altogether, this reflects SBV's intention to support the banking system liquidity, thereby helping to set a lower interbank interest rate benchmark. As of Aug 30th, a net amount of about VND 350tn had been injected into the system, with interest rates of 4.25% - 4.5% and tenors of 7 - 14 days, including VND 158.3tn of matured T-bills. It is estimated that about VND 22tn T-bills will mature in Sep. Along with that, a total of VND 98.8tn T-bills with interest rates of 4.15% - 4.5%, tenors of 14 days were issued in Aug.

The overnight rate, which stood at 4.5% in early Aug, had dropped drastically to 3.8% on Aug 29 but then quickly climbed to 4.2% by the end of the month. For tenors ranging from one week to one month, interest rates spanned between 4.3% - 4.4%. Despite the SBV's active interventions, the interbank rates across all terms still anchored above 4%, partially due to the rapid rebound in credit growth. According to the SBV, as of the end of Aug, credit growth had risen by 7.15% compared to the end of 2023.

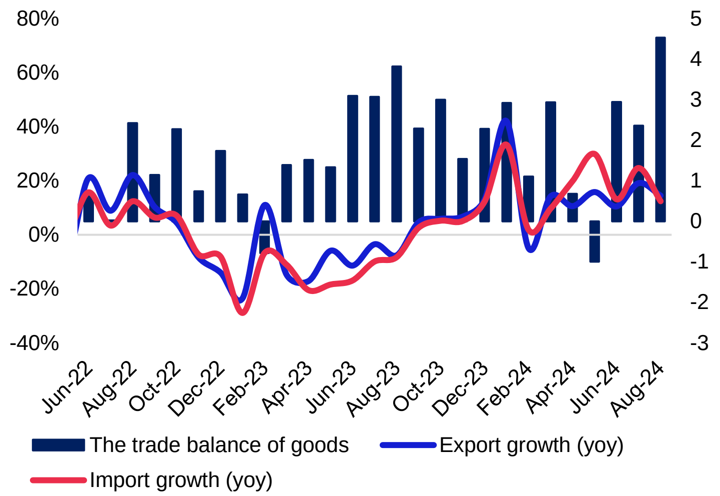
The upward momentum of deposit rates has stalled

Input rates in Aug are still on the cusp of rising, though at a slower pace, with a few banks opting to decrease their input rates by 0.1 - 0.3 percentage points. This occurred amid easing inflation pressures and more favorable liquidity conditions in the system compared to the past few months thanks to the SBV's interventions. Nonetheless, a sharp increase in bad debts within the system (which rose by 5.8% in 1H24 compared to last year) has further encouraged banks to bolster their reserve buffers to mitigate risks via attracting new deposits. Although banks have been raising deposit rates several times over the past few months, the average 12-month deposit rate for the private bank group only increased by 6bps compared to the beginning of the year, reaching 4.9%, while the rates for the state-owned bank group remained unchanged at 4.7%, which is 26bps lower than at the beginning of the year.

We expect deposit rates to inch up further by 20 bps towards year-end

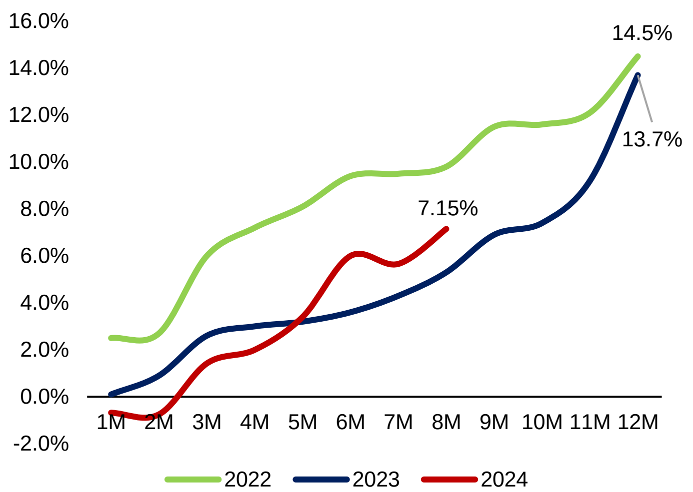
We observe a recovery in credit growth, coupled with robust production and investment growth, which may exert pressure on liquidity and potentially lead to an increase in deposit rates. As of the end of August, credit growth had risen by 7.15%, higher than the 5.3% recorded in the same period last year. However, on the downside, we expect subdued inflation and lower FED fund rates to create more room for easing monetary policy in Vietnam. Considering all these factors, we anticipate that deposit rates will inch up by an additional 20bps by year-end. Consequently, the average 12-month deposit rates of large commercial banks should range between 5.1% - 5.2% by the end of the year.

Figure 15: Import-export growth and monthly trade surplus



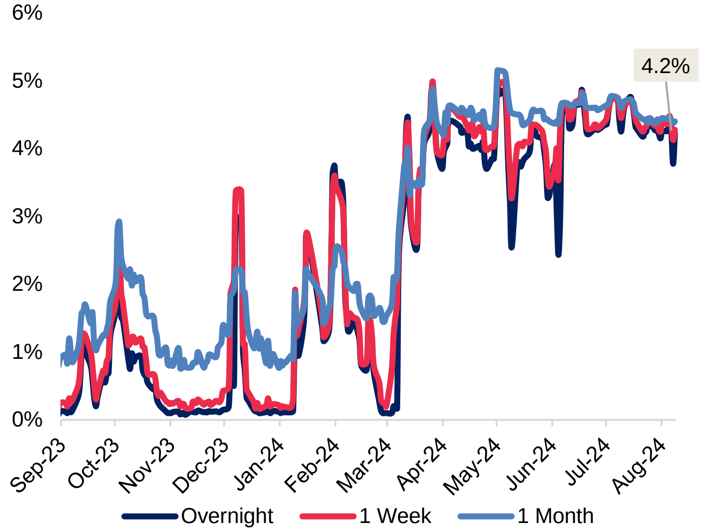
Source: GSO, MBS Research

Figure 16: Credit growth (% ytd)



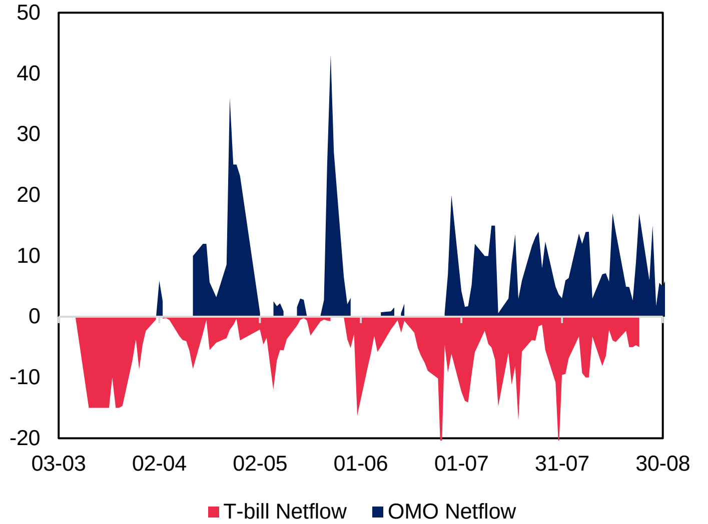
Source: SBV, MBS Research

Figure 17: Interbank overnight lending rate (%)



Source: Bloomberg, MBS Research

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



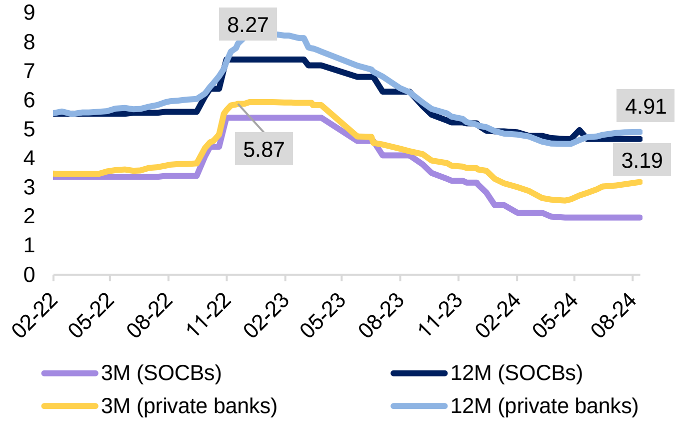
Source: Bloomberg, MBS Research

Figure 19: Interbank interest rate (%)

	O/N	1 Week	2 Week	1 Month
30/05	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
30/08	4.2	4.3	4.3	4.4

Source: Bloomberg, MBS Research

Figure 20: Commercial banks deposit rate (%)



Source: SBV, Bloomberg, MBS Research

Alleviated pressures on the exchange rate

The DXY slid to a 13-month low

The DXY index has been on a steady downfall throughout this month. Starting the month at 104.4, the DXY had plunged continuously and bottomed out at 100.6 - its lowest level in over a year – on Aug 27th. This occurred as inflation in the US cooled to 2.5% in Jul, down from a peak of 7.1% in 2022, edging closer to the Fed's 2% target. As a result, Federal Reserve Chair Jerome Powell has essentially declared victory over inflation, suggesting that the time has come for policy adjustments. Nevertheless, the timing and pace of rate cuts will depend on incoming data and the evolving outlook of the economy. By end of the month, the US Dollar recovered marginally to 101.7 after the GDP for Q2 was revised up to a solid 3% annual rate, indicating that the economy is in good shape overall. With a favorable inflation gauge, the Fed is poised to begin cutting its key interest rate by a quarter percentage point to 5% - 5.25% in September.

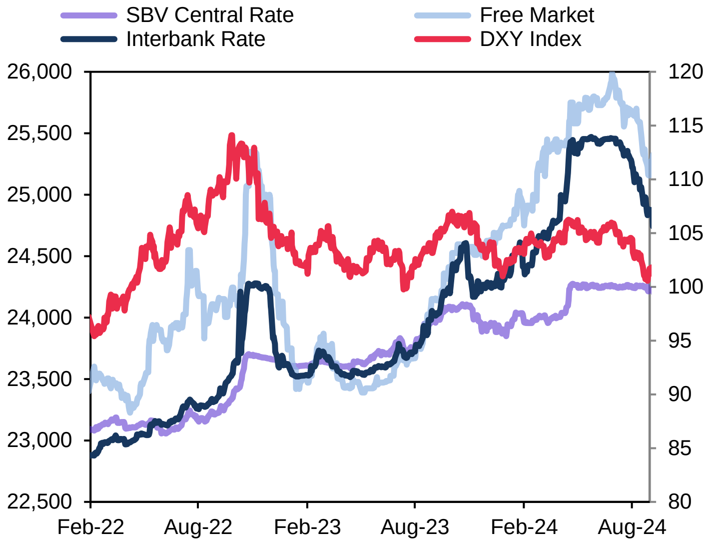
VND strengthens rapidly

The pressure on the VND/USD exchange rate eased significantly in Aug due to the weakening of the US dollar. Since the beginning of Aug, the interbank USD/VND plunged 1.4% to 24,875 VND/USD on Aug 30th, marking a 2.1% increase since the start of the year. The free-market rate slid to 25,255

VND/USD, while the central rate is standing at 24,224 VND/USD, showing rises of 2% and 1.6%, respectively, compared to the start of 2024.

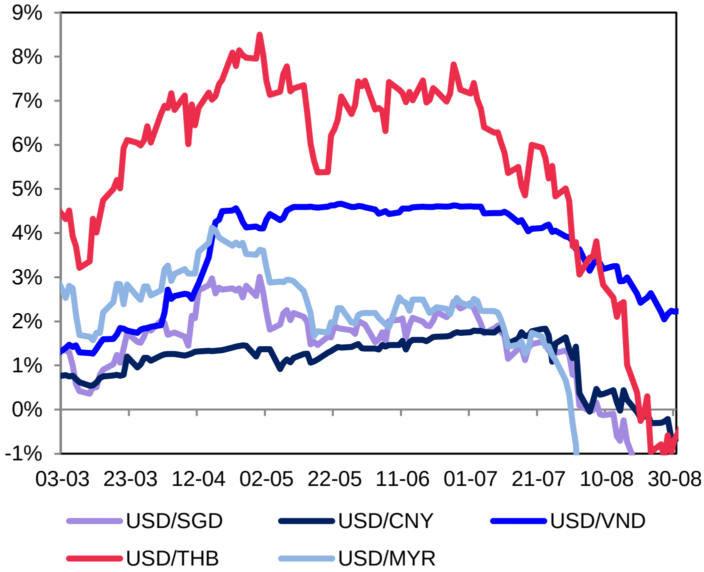
We believe the pressure on VND will ease further and expect the USD/VND to range between 24,700 – 24,900 in 4Q24. Supportive factors for VND include positive trade surplus (~US$19.1bn in 8M24), net FDI inflows (U$14.15bn, +8% yoy) and a rebound of international tourist arrivals (+45.8% yoy in 8M24). 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	12.0-13.0
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	24,800-25,000
Inflation rate (%)	3.5	2.8	3.2	1.8	3.15	3.25	3.9
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	21.0-23.0
Goods: Exports (USD bn)	244	263	281	336	371	355.5	401.1
Goods: Imports (USD bn)	237	253	262	332	360	327.5	378.1
Foreign reserve (USD bn)	55	78	94	109	86	95	92

DISCLAIMER

MBS INVESTMENT RECOMMENDATION

Stock rating

Our investment recommendations are based on the expected profitability of the stock, calculated as the sum of (i) the percentage difference between target price and market price at the time of publication, and (ii) expected dividend yield. Unless otherwise stated in the report, investment recommendations have an investment horizon of 12 months.

ADD	The stock can generate a profitability of 15% or more
HOLD	The stock can generate a profitability of between -15% and 15%
REDUCE	The stock can generate a loss of 15% or more

Sector rating

POSITIVE	Industry stocks have Add recommendations on a weighted market capitalization basis
HOLD	Industry stocks have Hold recommendations on a weighted market capitalization basis
NEGATIVE	Industry stocks have Reduce recommendations on a weighted market capitalization basis

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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