

Clear sign or recovery

- Vietnam's CPI in August inched up only 0.88% on m-o-m basis and 2.96% yoy as result of gasoline costs and domestic rice prices rising in tandem with global prices.
- The domestic USD exchange rate increased sharply during the month as the interest rate difference between VND and USD remained high.
- In Aug, export turnover of goods inched up 7.7% mom, in favor of rice (+79% mom) and chemical products (+83% mom).

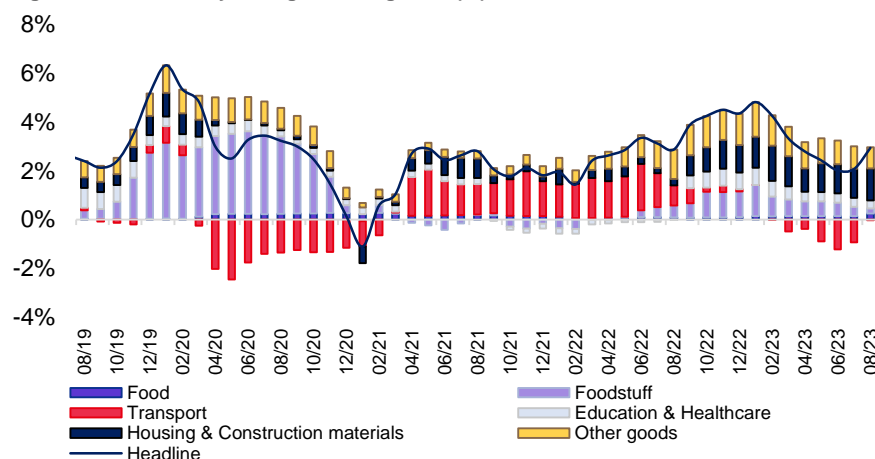
Global rice price hike weigh on domestic inflation

According to General Statistics Office (GSO), Vietnam's CPI in August inched up only 0.88% mom and 2.9% yoy which is a little higher than the increase of 2.8% seen in Aug last year. For the first 8M23, average CPI increased by 3.1% yoy; meanwhile, core inflation increased by 4.57% yoy.

On month-on-month basis, the increase of CPI in Aug was mostly driven by domestic rice prices that were in line with export prices. This happened due to the prohibitions on rice exports of India, Russia, UAE, political conflicts and the influence of the El Niño phenomenon have complicated the global rice market. Of which, the 4.4% m-o-m increase of rice brought to a hike of 3.28% m-o-m in food prices; meanwhile after three revisions to the price fuel, gasoline and diesel prices also increased 9.85% and 15.9% m-o-m. However, the average CPI still shows a downward trend, mainly thanks to the average domestic gasoline and oil prices in the first 8M23 dropping by 17.56% yoy, of which, gasoline prices decreased by 11.3% yoy in line with the 33% drop of Brent oil prices from the peak.

We expect inflation slightly to pick up in the upcoming months and average at 3.4% for the whole year 2023 based on following factors. First, we observed that education cost and building material have increased significantly 7.2% yoy and 6.6%, respectively for the first 8M23. Due to the effects of rice export restrictions globally, rice prices will rise. This will boost local pricing while also opening up chances for domestic nation's rice exports. Finally, oil prices so far have climbed 18% from its bottom in Jun and be expected to stay above USD 83/bbl towards year end following current low inventory.

Figure 1: CPI monthly change in categories (%)



Source: Bloomberg, MBS Research

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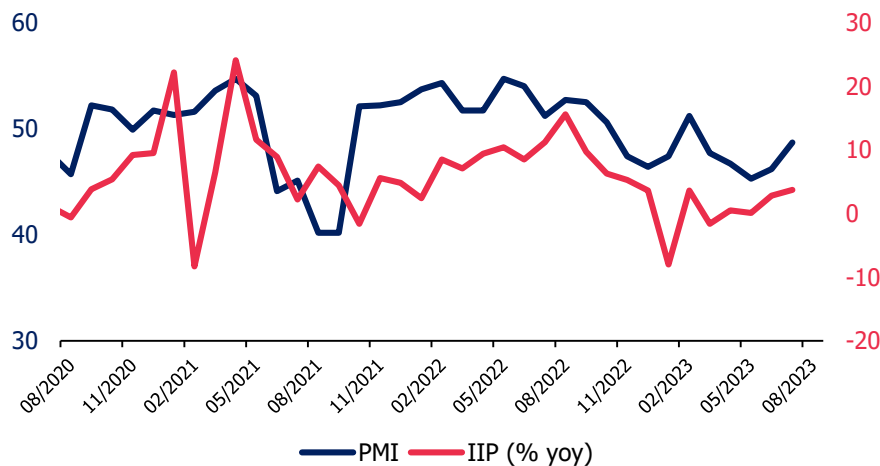
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August saw a positive expansion in industrial production.

Industrial production increased 2.9% mom and 2.6% yoy in Aug. For the first 8M23, industrial production decreased by 0.4% yoy, of which, processing and manufacturing industries delivered a lowest decrease of 0.6% yoy (vs. an increase of 10.1% yoy in 8M22).

Vietnam's PMI moved back above the 50.0 for the first time in six months during August. At 50.5, the index was up from 48.7 in July and pointed to a marginal monthly improvement in business conditions in the sector. Manufacturers recorded a first increase in new orders for six months, while new export business also rose following a five-month sequence of decline. The picture for employment was less positive, however, with firms remaining hesitant to commit to hiring additional staff and thereby seeing a drop in workforce numbers for the sixth month in a row.

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



Source: Bloomberg, MBS Research

Exports are gradually regaining growth momentum

In Aug, export turnover of goods inched up 7.7% mom, down 7.6% yoy to USD 32.37bn. For 8M23, export turnover decreased 10% yoy to US\$ 227.71bn. Top largest export products experienced sharp drop across the board, including: phones, components (-15.4% yoy); footwear (-17.6% yoy); textiles and garments (-25.4% yoy); fishery (-25% yoy). In term of export destinations, export turnover to U.S. decreased 21% yoy to USD 53bn, following by E.U (-9.7% yoy); export to Japan reach USD 1.5bn. On the bright side, exports still have some highlights in growth including rice exports (+37.3% yoy), means of transport and components (+15.3% yoy), vegetables and fruits (+68% yoy).

Import turnover of goods was about USD 32.37bn in Aug (+7.7% mom) and ~USD 207.5bn in 8M23, (-16.2% yoy). China remained the largest import market of Viet Nam with a turnover of USD 50.1bn. Two import products totaling more than USD 10bn in value in 8M23 (accounting for 38.8% of total revenue), which are electronic goods, computers and their parts and machinery, instrument, accessory, respectively, decreased by 6% and 13%.

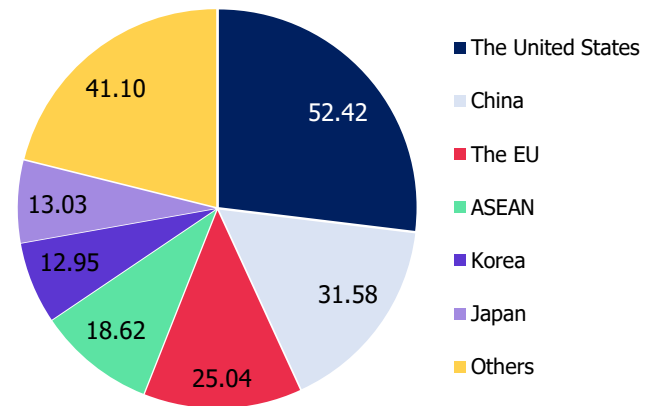
All at all, Vietnam's trade balance enjoyed a surplus of USD 20.1bn for 8M23, up more than 12 times from the same period last year. Due to the USD's propensity to increase, this will keep the VND stable.

Figure 3: The trade balance of goods in months of 2023 (USD bn)



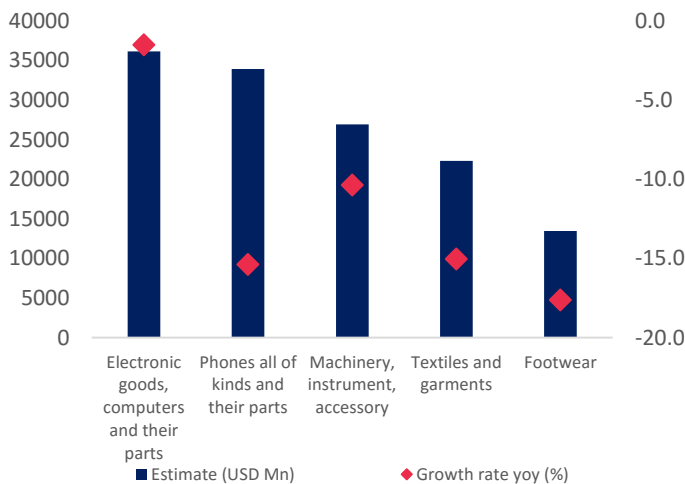
Source: GSO, MBS Research

Figure 4: Export market of Vietnam in 7M.2023 (USD bn)



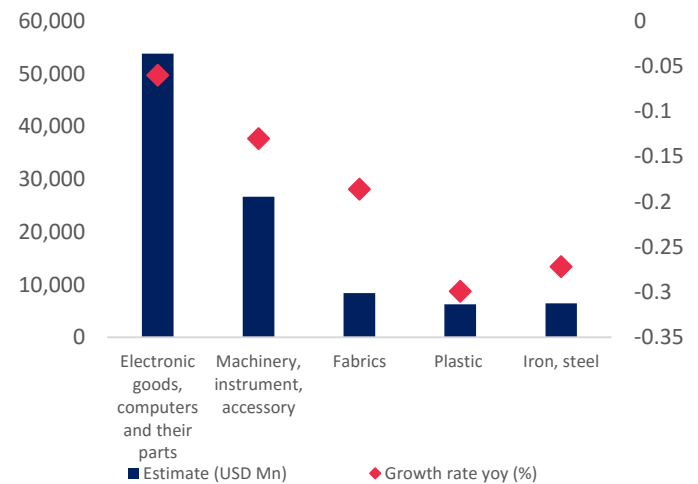
Source: GSO, MBS Research

Figure 5: Growth of major export products in 8M2023 (%yoy)



Source: GSO, MBS Research

Figure 6: Growth of major import products in 8M2023 (%yoy)



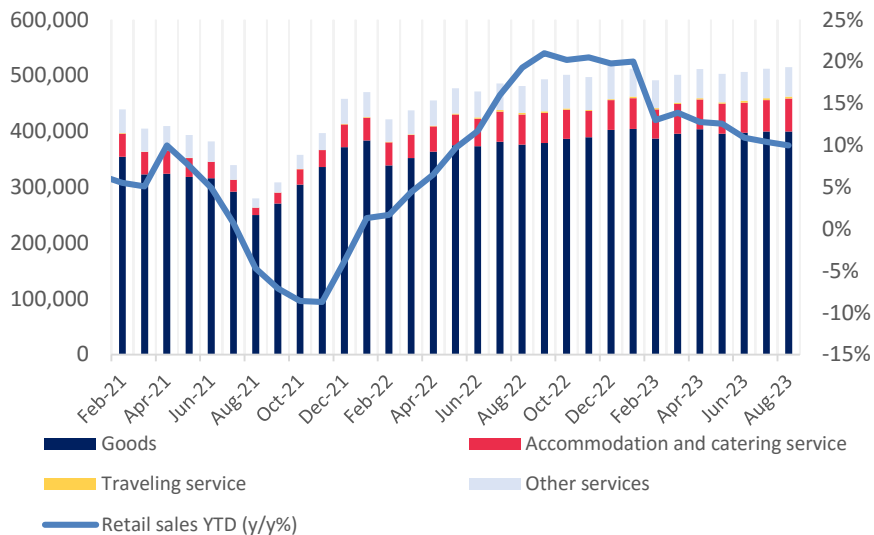
Source: GSO, MBS Research

Retail sales stayed firm

Retail sales of consumer goods and services growth decelerated to +7.6% yoy, +0.9% mom due to the effect of demand for essential items, especially for the start of new school year as well as an increase in tourism and outdoor activities during the last summer month of the year. In Aug, foreign tourist arrivals were over 1.2mn people (2.5 times higher than the same period last year)

For 8M23, the total retail sales of consumer goods and services was estimated to increase by 7% yoy (excluding the price factor), of which, tourism revenue increased by 47% yoy. International visitors to Viet Nam 8M23 were estimated at 7.8mn arrivals, 5.4 times higher than the same period last year but still down 69.2% compared to the same period in 2019, the year no Covid-19 epidemic.

Figure 7: Retail sales of consumer goods and services (Trillion VND)



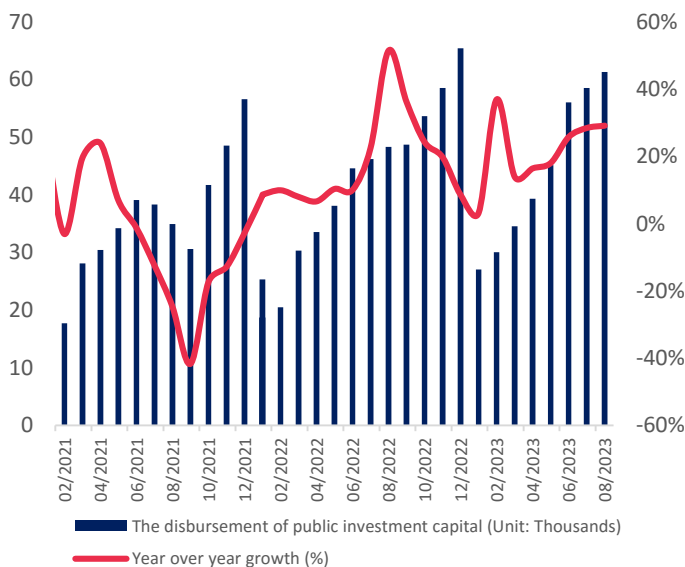
Source: Bloomberg, MBS Research

Both FDI and public investment shine

In Aug, newly registered FDI inflow grew 48% yoy, meanwhile disbursed FDI increased 24% yoy. For 8M23, realized FDI inched up modestly 1.3% yoy to USD 13.1bn, in which: Processing and manufacturing industry sector attracted USD 10.7bn of new FDI inflow (accounting ~ 82.1%), utilities attracted USD 863.5mn (accounting ~ 6.6%), and about USD 626mn for real estate sector (accounting ~ 4.8%). Notably, in Aug, Vietnam received USD165mn project to build an Innovation Precision Factory at VSIP Nghe An, by Green-wich Management Limited (China).

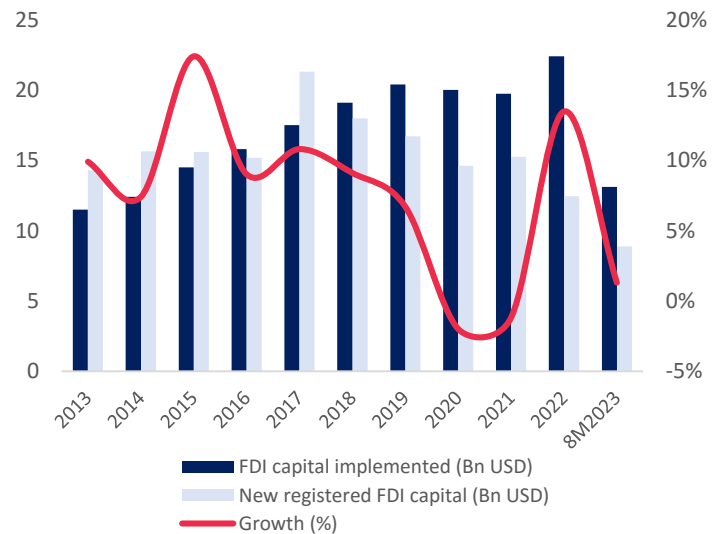
Disbursed state investment accelerated robustly 29% yoy in Aug to VND 61.3tn. For 8M23, state investment increased 23.1% yoy to VND 352.1tn, fulfilling 49.4% of Government's target.

Figure 8: Growth of realized investment capital from State budget



Source: GSO, MBS Research

Figure 9: Growth of foreign investment capital



Source: GSO, MBS Research

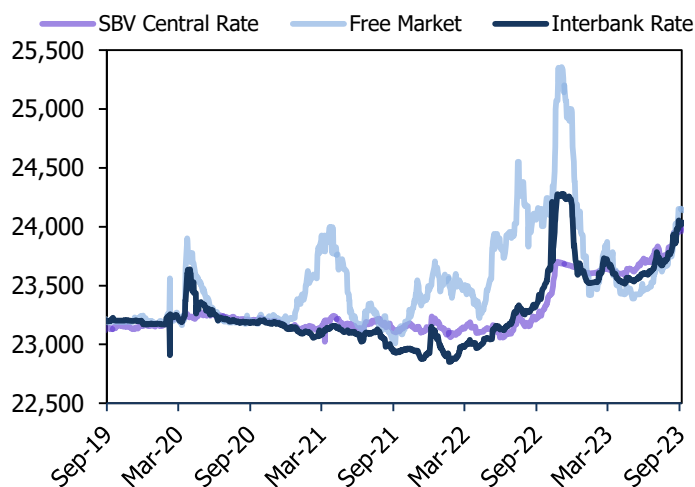
Exchange rate escalated under the influence of the key policies

Throughout the month, the domestic exchange rate displayed a steady increasing trend. Currently, overnight interest rates in USD between banks are above 5%, expanding the differential between USD and VND interest rates, which encourages USD holdings and puts pressure on VND. The VND/USD exchange rate officially exceeds 24,000 VND. Compared to the end of July, the VND/USD exchange rate on the free market up by VND 470 per USD and is currently trading at 24,140 VND/USD. The central and interest rates were respectively traded at VND 23,991 per USD, up VND 233 per USD and VND 24,035 per USD, up VND 312 per USD.

The latest data shows that the dollar index has now soared to 104.8, a recent five-month high. This is a result of investors moving to the US dollar as a safe haven currency due to concerns about global growth, particularly in China. China's services activity grew at an 8-month slowest pace in Aug, as weak demand continued to weigh on the second-largest economy and incentive measures cannot restore rational consumption.

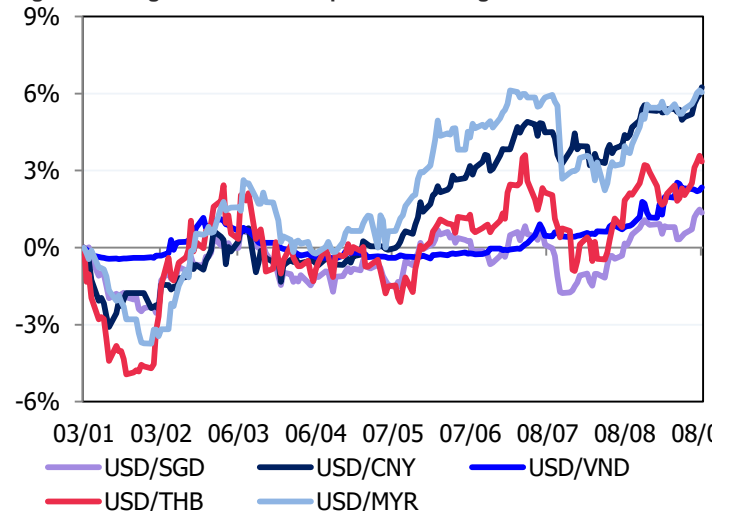
We expect the exchange rate to reach VND 24,500 with a view that the Fed may raise interest rates further this year, but the pressure may not be strong due to the domestic trade surplus recorded at a high level compared to recent years.

Figure 10: VND/USD exchange rate



Source: SBV, Bloomberg, MBS Research

Figure 11: Regional currencies performance against USD



Source: Bloomberg, MBS Research

Vietnam's economic indicators

Economic indicators	2017	2018	2019	2020	2021	2022	2023F
1. GDP, population & income							
Nominal GDP (USDbn)	193,2	281.3	310.1	334.3	346.6	366.1	408.8
Real GDP growth (%)	6.81	7.08	7.02	2.91	2.58	8.02	5.3
Exports of goods and services (% yoy)	21.1	13.8	8.1	6.5	19	10.6	-8
Imports of goods and services (% yoy)	20.8	11.5	7	3.6	26.5	8.4	-10
Population (mn people)	95.5	96.4	97.7	98.5	99.3	100	100.0
GDP per capita (USD)	2,086	2,992	3,267	3,491	3,586	3,756	4,163
Unemployment rate (%)	2,33	2.33	2.33	2.2	2.2	2.2	2.9
2. Fiscal policy (%GDP)							
Government debt	49.9	49.2	51.5	39.1	34.7	36.1	36.1
Public debt	55.9	43.1	38	39.5	38	39.5	38
Foreign debt	46	47.1	47.9	38.4	36.8	36	36
3. Financial indicators							
USD/VND exchange rate	23,180	23,228	23,115	23,145	23,612	24,100	24,100
Inflation rate (%)	3.5	2.8	3.2	1.8	3.15	3.43	3.43
Credit growth (%)	17,1	17.1	18.7	18.2	13.9	12.1	11
12-month deposit rate	6.9	7	7.2	6.8	5.8	8.5	6.3
Trade balance (USD bn)	2.7	7.2	9.9	19.1	4	11.2	22
Goods: Exports (USD bn)	213	244	263	281	336	371	340
Goods: Imports (USD bn)	237	253	262	332	360	322	341
Foreign reserve (USD bn)	55	78	94	109	86	95	95

Source: MBS Research

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