

Clearer signs of recovery

- Industrial production and exports-imports turnover improved positively in Oct, but the recovery pace was still quite slow.
- The VND/USD exchange rate cooled down since big central banks take time out after aggressive rate hikes.
- We expected our 2023 GDP forecast to 4.7% - 4.8%, in which we forecast that Q4 GDP to grow by 6.1% - 6.3%.

Production recovered slowly, exports-imports turnover improved

Industrial production increased 5.5% mom and 4.7% yoy in Oct. Vietnam's PMI dipped to 49.6 from 49.7 in September, showing that the health of the manufacturing sector is still quite weak. On the bright side, new orders increased for the third month running amid signs of improvement in customer demand. Exports in Oct increased by 5.3% yoy, marking the second consecutive month of positive growth. Imports increased by 5.2%, higher than the previous month's 2.6%, showing signs of production rebounding.

Inflation continued to inch up in Oct but remained under control

CPI in Oct grew 3.5% yoy while average CPI for the first 10M23 increased 3.2% yoy, still under control below the government target of 4.5%. However, we expect that inflation is still under pressure from factors such as: World oil prices due to the adverse impact of supply scarcity and concerns about slow demand recovery; Rising rice prices amid rising demand in Asian and African markets.

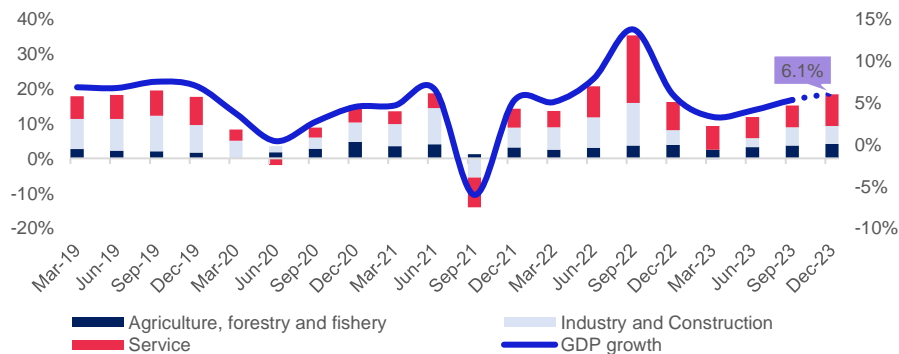
USD tumbled in the wake of Fed's decision to hold policy rates

We expect that some positive macro factors adding up such as: The trade surplus in the first 10M23 is estimated to reach USD 24.6bn; Remittances and FDI flows actively disbursed... will contribute to stabilizing the pressure on exchange rate at the end of the year. We forecast that the exchange rate may fluctuate in the range of 24,300 - 24,500 VND/USD in the last months of the year, with the difference between USD and VND interest rates still being maintained and the high demand for foreign currency often occurs at the end of the quarter.

We forecast 2023 GDP growth at 4.7%-4.8%

In which, we forecast that Q4 GDP to grow by 6.1% - 6.3% based on the low base of the same period last year, as well as manufacturing activity will improve thanks to improvement in exports as the demand for inventory hoarding by the US and Europe countries rebounds from low levels and the number of orders will return due to shopping needs during the year-end holidays.

Figure 1: GDP growth in sectors (yoy%)



Source: GSO, MBS Research

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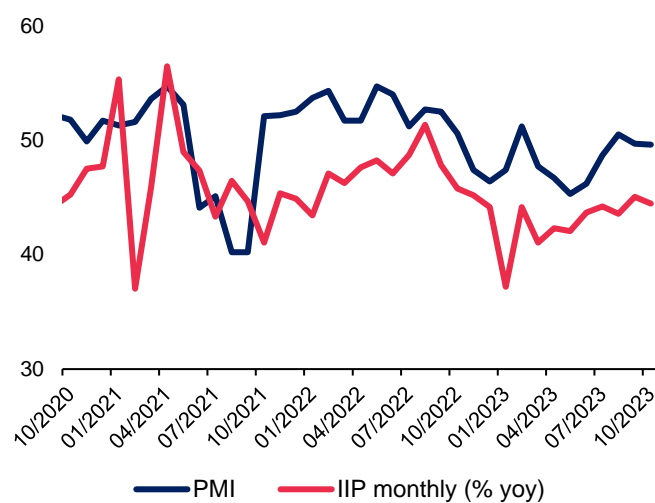
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Industrial production is recovering at a modest pace.

Industrial production increased 5.5% mom and 4.7% yoy in Oct. For the first 10M23, industrial production grew by 0.5% yoy, of which, mining and quarrying delivered a minus decrease of 3.2% yoy (vs. an increase of 5% yoy in 10M22).

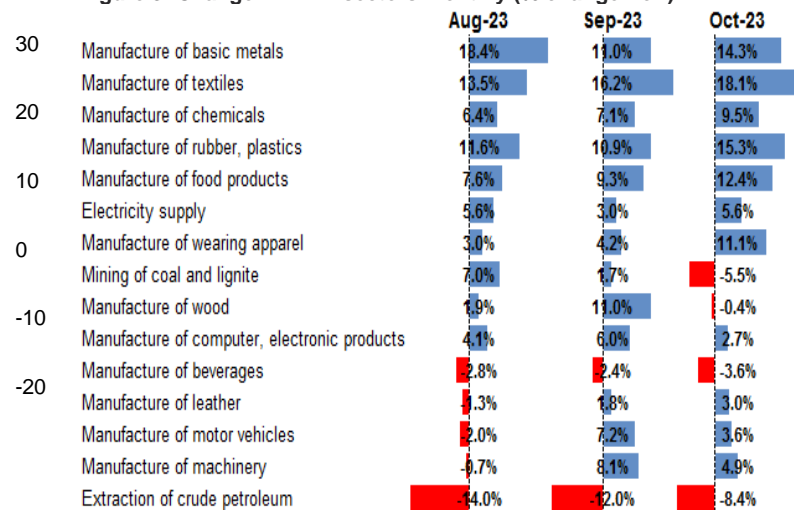
Vietnam's PMI remained below the 50 during October, dipping to 49.6 from 49.7 in September. This signalled a second consecutive monthly deterioration in the health of the sector. Central to the latest decline in business conditions was a further reduction in manufacturing output, the second in as many months. New orders increased for the third month running amid some signs of improvement in customer demand. That said, the rate of growth was only marginal and the weakest in the current sequence of expansion. Anecdotal evidence suggested that clients remained hesitant about committing to new orders.

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-Imports expanded their positive growth momentum for the second consecutive month

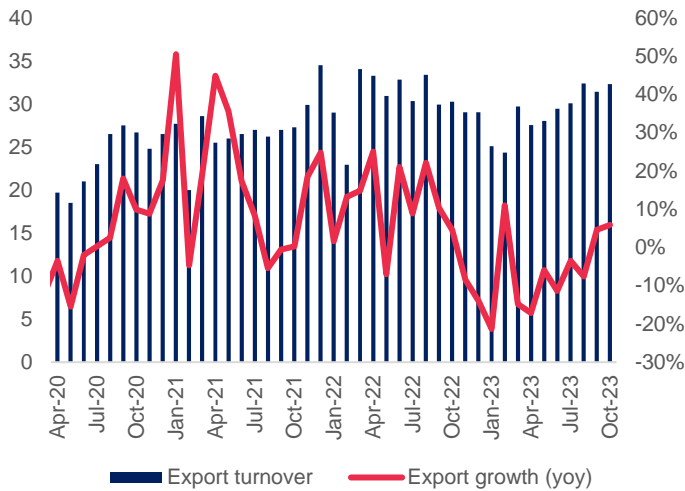
In Oct, export turnover of goods rose 5.3% mom, up 5.9% yoy to USD 32.3bn. This is the second consecutive month, exports recorded positive growth due to the fact that many agricultural products exported saw relatively strong growth such as vegetables and fruits (+130% yoy) and rice (+27% yoy), exports have now grown positively for two months running. For 10M23, export turnover decreased 7% yoy to US\$ 291.2bn. Top largest export products experienced sharp drop across the board, including: chemicals (-26% yoy); footwear (-20% yoy); fishery (-21% yoy). On the other hand, exports still have some highlights in growth including rice exports (+35% yoy), means of transport and components (+18% yoy), vegetables and fruits (+79% yoy).

In term of export destinations, export turnover to U.S. decreased 15% yoy to USD 78.6bn, following by E.U with USD 36.2bn (-8.9% yoy); export to Japan reach USD 19.2bn (-4.2% yoy).

Import turnover of goods was about USD 29.3bn in Oct (+5.2% yoy) and USD 266.6bn in 10M23, (-12.3% yoy). China remained the largest import market of Viet Nam with a turnover of USD 89.8bn. Three import products totaling more

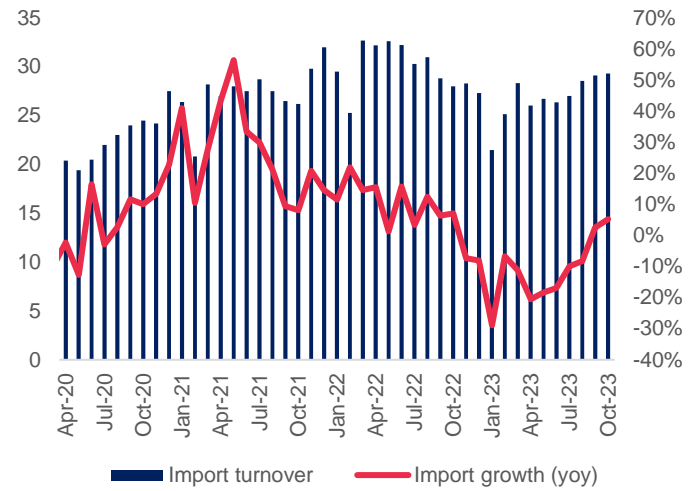
than USD 10bn in value in 10M23 (accounting for 43.4% of total revenue), which are electronic goods, computers and their parts; machinery, instrument, accessory and fabrics, respectively, with growth of +0.8% yoy, -10.5% yoy and -14.2% yoy.

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



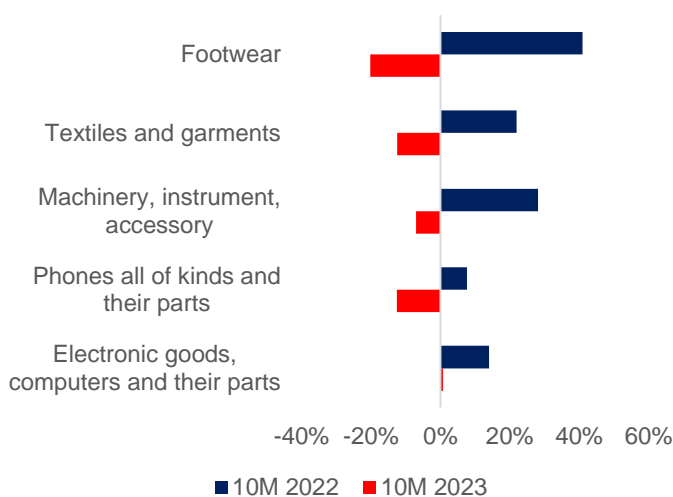
Source: GSO, MBS Research

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



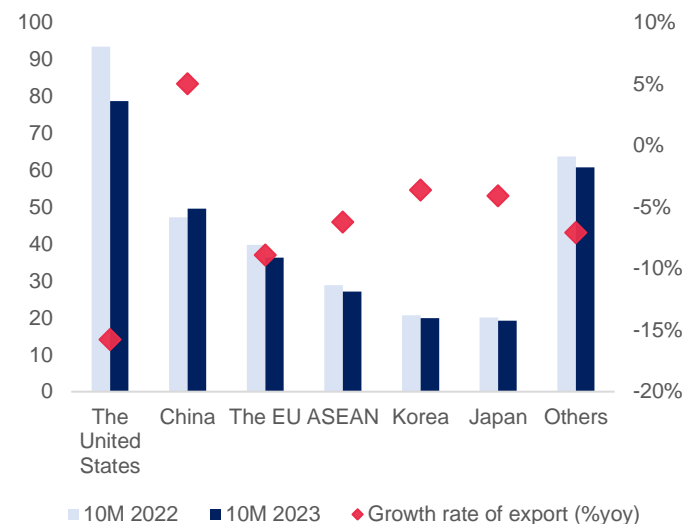
Source: GSO, MBS Research

Figure 6: Growth of major export products in 10M2023 (%yoy)



Source: GSO, MBS Research

Figure 7: Export market of Vietnam in 10M2023 (USD bn)

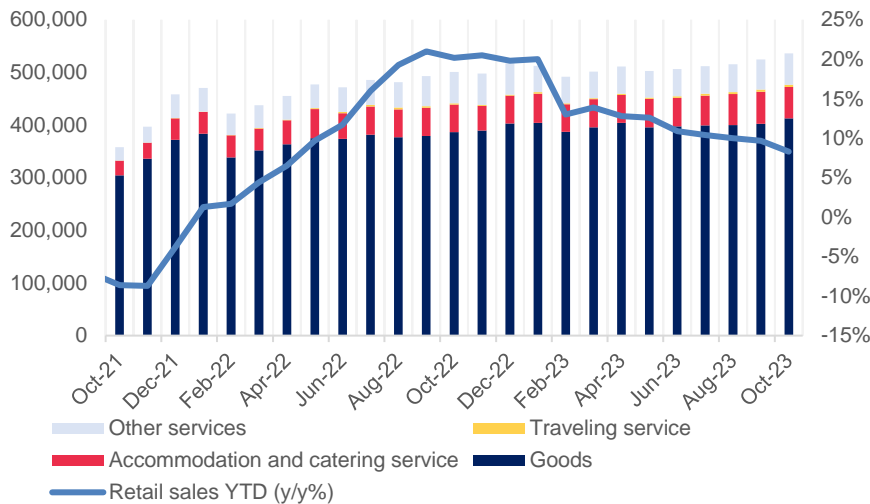


Source: GSO, MBS Research

Tourism rebounded at a slower rate than it did prior to the COVID-19 pandemic

Retail sales of consumer goods and services growth soared to +7% yoy and +1.5% mom in Oct. For the third consecutive month, the growth rate of retail sales has slowed down, indicating that consumer demand is declining in the context of a weak economy that is still impacting people's income.

For 10M23, the total retail sales of consumer goods and services was estimated to increase by 6.8% yoy (excluding the price factor). International visitors to Viet Nam 10M23 were estimated at 10mn arrivals, 4.2 times higher than the same period last year but still down 69% compared to the same period in 2019, the year no Covid-19 epidemic.

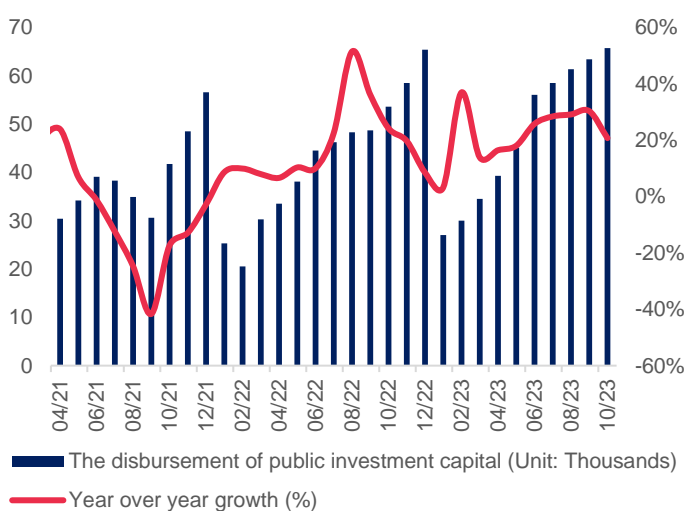
Figure 8: Retail sales of consumer goods and services (Trillion VND)


Source: GSO, MBS Research

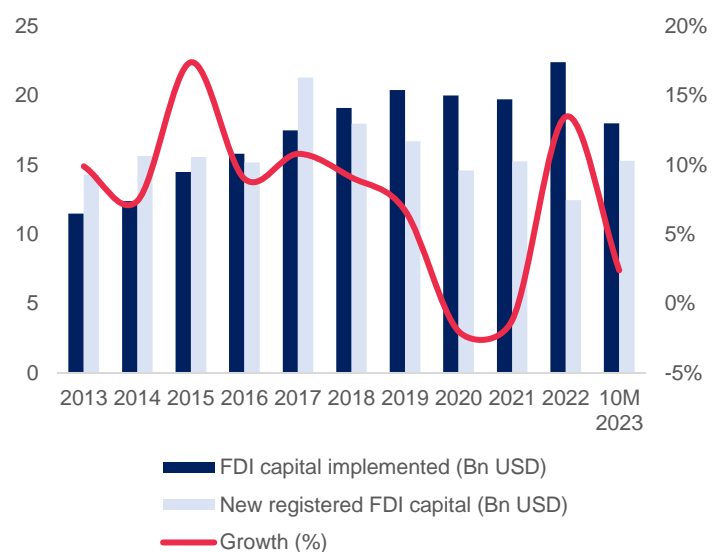
Both public investment and FDI achieved impressive growth

In Oct, newly registered FDI inflow grew 80% yoy, meanwhile disbursed FDI increased 3% yoy. For 10M23, realized FDI inched up modestly 2.4% yoy to USD 18bn, in which: Processing and manufacturing industry sector attracted USD 14.8bn of new FDI inflow (accounting ~ 82%), utilities attracted USD 1.1bn (accounting ~ 6.1%), and about USD 860.5mn for real estate sector (accounting ~ 4.8%). Notably, Quang Ninh took the lead in attracting investment capital with the issuance of two new large investment projects in Oct. These are the International Technology Complex Project of photovoltaic cells of Jinko Solar run by Hai Ha Vietnam with a total investment of USD 1.5 billion and the Lite-on Quang Ninh Factory Project with a total investment of USD 690 million.

Disbursed state investment sped up 20% yoy in Oct to VND 65.7tn. For 10M23, state investment increased 22.6% yoy to VND 479.3tn, fulfilling 65.8% 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

Inflation continued to inch up in Oct but remained under control

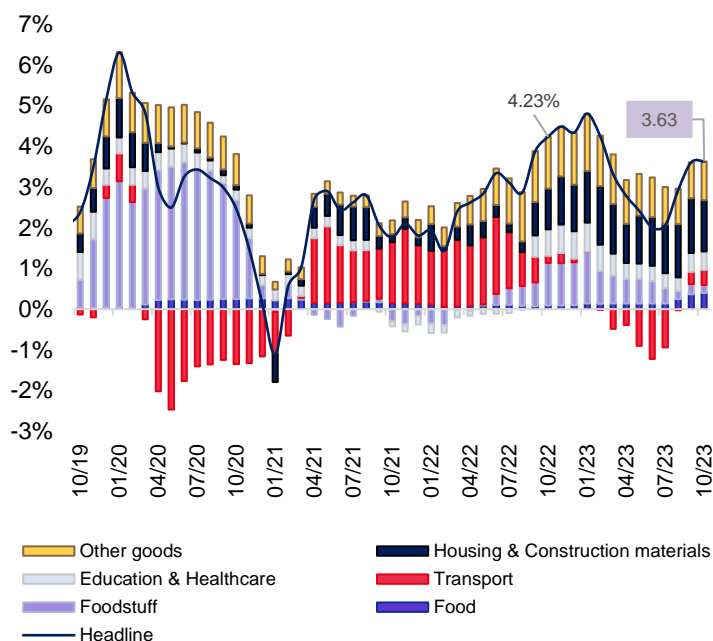
According to General Statistics Office (GSO), Vietnam’s CPI in Oct inched up only 0.08% mom and 3.5% yoy (CPI in Oct 2022 increased 4.3% yoy) shows that domestic inflation is still under control below the set target of 4%. For the first 10M23, average CPI increased by 3.2% yoy; meanwhile, core inflation increased by 4.3% yoy.

The acceleration is on the back of construction materials price and rent house, which put pressure on housing and construction materials group (+6.8% yoy). Food and catering services increased by 2.8% yoy, of which: Food basket increased by 11.3% yoy due to the domestic price of rice remain at a high level following world rice prices. In addition, the increase in tuition fees in some localities pushed the education group index up by 7.1% yoy but has cooled down because the peak month has passed.

The air ticket price index increased by 75.1% yoy, combined with increased travel demand during holidays and summer vacations, impacting on airline expenses, leading the average CPI of the year back to the uptrend. In addition, the increase in cement and sand prices in line with the price of input materials along with the high rent house has pushed up the price index, pushing the average price index of the housing and construction materials group up by 6.7%, greatly affecting the overall CPI.

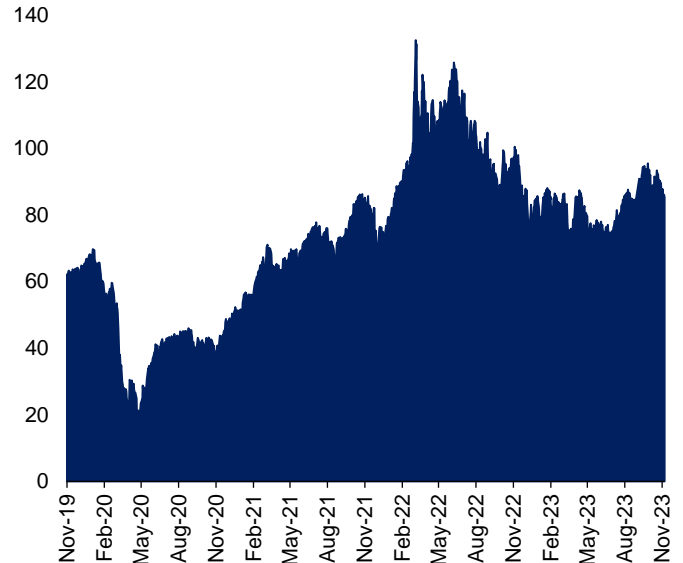
We expect inflation slightly to pick up in the upcoming months and average at 3.7% for the whole year 2023 based on following factors. First, we observed that oil prices so far have climbed 29% from its bottom in Jun and be expected to fluctuated around USD 90/bbl due to the adverse impact of supply scarcity and concerns about slow demand recovery. Second, due to the effects of rice export restrictions globally, rice prices will rise. Finally, the VND/USD exchange rate rose to 24,400 VND/USD (+3.5% since the beginning of the year), which has put pressure on price of most import products.

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



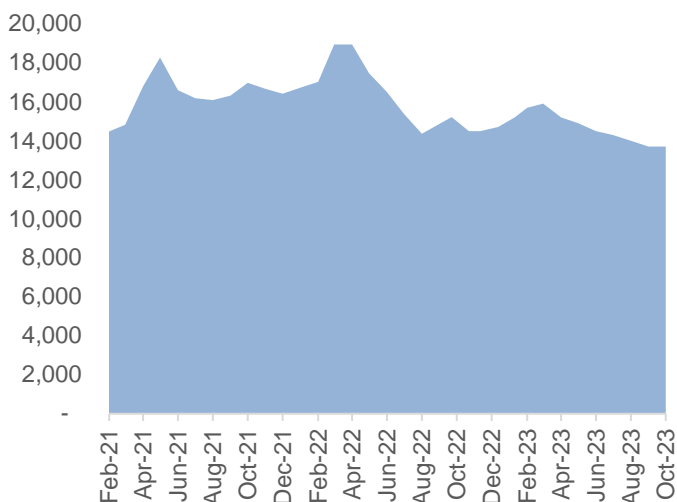
Source: GSO, MBS Research

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



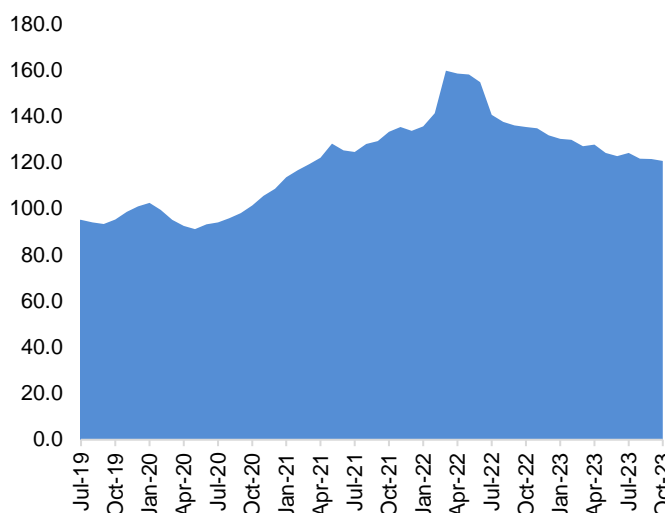
Source: Bloomberg, MBS Research

Figure 13: Steel price (Mn VND/ton)



Source: MBS Research

Figure 14: FAO food price index



Source: FAO, MBS Research

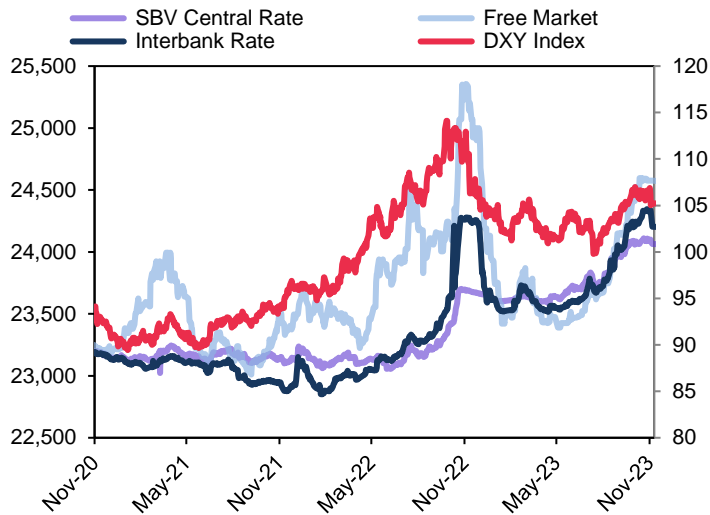
USD tumbled in the wake of Fed’s decision to hold policy rates

Since the beginning of Nov, the domestic exchange rate has declined once more, exhibiting a tendency toward stability. The USD pricing at commercial banks continued to plummet, breaking below 24,500 VND as at 7/11. Currently, the interbank exchange rate is varying by about 24,355 VND. The exchange rate on the free market has been trading at about 24,525 VND in recent sessions, which is a little more stable. The central bank rate generally declines; it fell precipitously from its peak of 24,110 VND of last month to its current trading level of 24,014 VND.

In the past two months, the USD Index has often remained above the 106, but has cooled down in the latest sessions after the Fed as well as major central banks around the world made the decision to taking time out before weighing up their next move at the November meetings, after aggressive rate hikes. Along with the decline in bond yields, the USD Index dropped sharply to 105.09, the lowest level since the end of September.

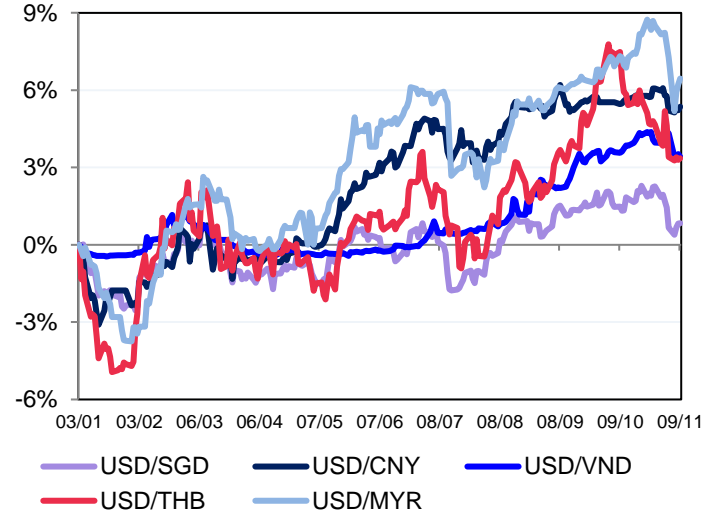
We expect that some positive macro factors adding up such as: The trade surplus in the first 10M23 is estimated to reach USD 24.6bn; Remittances are expected to reach USD 14bn in 2023, Vietnam's disbursed FDI increased for the 5th consecutive month in Oct with a 10M increase of 2.4% year-on-year, reaching 15.9bn USD... will contribute to stabilizing the pressure on exchange rate at the end of the year. We forecast that the exchange rate may fluctuate in the range of 24,300 - 24,500 VND/USD in the last months of the year, with the difference between USD and VND interest rates still being maintained and the high demand for foreign currency often occurs at the end of the quarter.

Figure 15: VND/USD exchange rate



Source: SBV, Bloomberg, MBS Research

Figure 16: 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	408.8	476.9
Real GDP growth (%)	7.08	7.02	2.91	2.58	8.02	5.3	4.7
Exports of goods and services (% yoy)	13.8	8.1	6.5	19	10.6	-8	7
Imports of goods and services (% yoy)	11.5	7	3.6	26.5	8.4	-10	9
Population (mn people)	96.4	97.7	98.5	99.3	100	100.0	101.5
GDP per capita (USD)	2,992	3,267	3,491	3,586	3,756	4,163	4,707
Unemployment rate (%)	2.33	2.33	2.2	2.2	2.2	2.9	2.3
2. Fiscal policy (%GDP)							
Government debt	49.2	51.5	39.1	34.7	36.1	36.1	39.8
Public debt	43.1	38	39.5	38	39.5	38	32.3
Foreign debt	47.1	47.9	38.4	36.8	36	36	36.5
3. Financial indicators							
USD/VND exchange rate	23,180	23,228	23,115	23,145	23,612	24,100	23,600
Inflation rate (%)	3.5	2.8	3.2	1.8	3.15	3.43	3.5
Credit growth (%)	17.1	18.7	18.2	13.9	12.1	11	10
12-month deposit rate	7	7.2	6.8	5.8	8.5	6.3	6
Trade balance (USD bn)	7.2	9.9	19.1	4	11.2	22	12
Goods: Exports (USD bn)	244	263	281	336	371	340	366
Goods: Imports (USD bn)	262	332	360	322	354	322	354
Foreign reserve (USD bn)	55	78	94	109	86	95	110.5

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