VIETNAM ECONOMIC UPDATE

July 26th, 2024

Shinhan Securities

A strong economic recovery, expected downward pressure on FX

Second strongest GDP growth in 2Q2024 in the last 17 quarters.

Estimated GDP growth in 2Q2024 was +6.93%YoY and for the first half of 2024, GDP is estimated to expand by +6.42%YoY. The reading was the second strongest GDP growth in the last 4 years.

Regarding GDP use in the first six months of 2024, final consumption increased by 5.78% over the same period in 2023, contributing 64.26% to the overall growth rate of the whole economy; asset accumulation increased by 6.72%, contributing 35.15%; exports of goods and services increased by 16.89%; imports of goods and services increased by 16.95%, net exports of goods and services contributed 0.59%.

Production was recovered, fueled by the acceleration in new orders.

The Index of Industrial Production (IIP) in 06/2024 was accelerated to +10.92%YoY. For the 1H2024, accumulative IIP is estimated to expand by +7.54%YoY.

Meanwhile, Vietnamese Purchasing Managers' Index (PMI) was jumped to 54.7 in June-2024. The survey pointed out that the business environment in Vietnam was improved significantly as the new orders was seen a strongest increase since March 2011, as the result, the production in Vietnam was in a fastest pace in the last five and a half years.

Trading activities in Vietnam remain positive in 06/2024 as total trading turnover reached USD64.11 bn, +14.88%YoY. In which, goods exported reached USD30.46 bn, +15.53%YoY. Goods imported was climbed by 14.29%YoY to USD33.66 bn.

Monetary policy is facing challenges but the pressure likely to loosen at end of the year.

As The State Bank of Vietnam (SBV) conducts a diverge monetary policy compared to FED, aiming to support the economy, VND have been depreciated against the USD. As end of 06/2024, VND have lost of 5%YTD of its value compared to USD on the free market. Beside the negative interest rate swap between VND_USD, a high demand USD for importing goods, invest in crypto currency - gold…. were also contributed to the depreciation of VND. However, as FED will end the tightening phase at the end of this year, the pressure on VND can soon start cooling down.

According to Asia Commercial Bank, in the last two months, SBV had to sell intervene USD6 bn to the market to support the Dong. As the result, a huge amount of VND was withdrawn out of the market lead to a spike in the interbank interest rate.

Due to the contracted liquidity condition and higher OMO interest rate, the interest rate in the market have shown some signal of increasing. In the 2H2024, the interest rate in the market may continue to go up as credit demand continue to pick up as Vietnam economy is expected to maintain the recovery momentum.

Vietnam Economic update - 06/2024

Economic indicators	06/24	05/24	04/24	03/24	02/24	01/24	12/23	11/23	10/23	09/23	08/23	07/23	06/23
CPI (YoY)	4.34%	4.44%	4.42%	3.97%	3.98%	3.37%	3.58%	3.45%	3.59%	3.66%	2.96%	2.06%	2.00%
CPI (MoM)	0.17%	0.05%	0.07%	-0.23%	1.04%	0.31%	0.12%	0.25%	0.08%	1.08%	0.88%	0.45%	0.27%
PMI	54.70	50.30	50.30	49.90	50.40	50.30	48.90	47.30	49.60	49.70	50.50	48.70	46.20
IIP (YoY)	10.9%	10.0%	7.4%	4.8%	-5.9%	19.5%	5.8%	5.0%	4.2%	2.9%	3.5%	2.3%	1.7%
IIP (MoM)	0.7%	3.9%	0.8%	20.0%	-18.0%	-4.4%	0.1%	3.0%	5.5%	0.1%	2.9%	3.9%	2.0%
Retail (YoY)	9.2%	9.5%	9.0%	9.2%	8.5%	8.1%	9.3%	10.1%	7.0%	7.5%	7.6%	7.1%	6.5%
Export (USD bn)	33.66	32.27	31.10	33.66	24.69	34.53	31.47	31.12	32.25	30.68	32.76	30.07	29.45
Import (USD bn)	30.46	32.72	29.99	30.88	23.30	30.91	29.40	29.58	29.52	28.48	29.32	27.00	26.36
Balance of trades (USD bn)	3.20	-0.45	1.11	2.78	1.38	3.62	2.07	1.54	2.73	2.20	3.44	3.07	3.09
Acc. Disbursed FDI (USD bn)	10.84	8.25	6.28	4.63	2.80	1.48	23.18	20.25	18.00	15.91	13.10	11.58	10.02
Acc. Registered FDI (USD bn)	15.19	11.07	9.27	6.17	4.29	2.36	36.61	28.85	25.76	20.21	18.15	16.24	13.43
Public Investment (VND trillion)	53.80	48.21	43.49	37.88	28.08	32.93	77.35	69.14	65.17	62.10	60.84	58.24	54.48
Credit growth	6.00%	3.43%	2.01%	1.42%	-0.75%	-0.68%	13.78%	9.19%	7.41%	6.96%	5.57%	4.54%	4.73%
Deposit growth	n.a	0.37%	0.37%	-0.53%	-1.60%	-1.49%	11.37%	10.32%	9.95%	9.95%	9.68%	8.93%	8.82%
Overnight interbank rate	4.50%	4.00%	4.60%	2.51%	1.46%	1.00%	0.97%	0.14%	0.81%	0.19%	0.16%	0.19%	0.44%
Average deposit rate at SOCBs	4.68%	4.68%	4.68%	4.70%	4.78%	4.93%	4.95%	5.18%	5.25%	5.50%	5.80%	6.30%	6.30%
10Y Government bond yield	2.75%	2.87%	2.85%	2.75%	2.46%	2.42%	2.39%	2.49%	3.07%	2.84%	2.72%	2.56%	2.75%
VND/USD exchange rate	25,900	25,855	25,640	25,470	25,430	25,000	24,770	24,650	24,600	24,450	24,220	23,720	23,630

Source: GSO, SBV, FiinPro-X, Shinhan Securities Vietnam



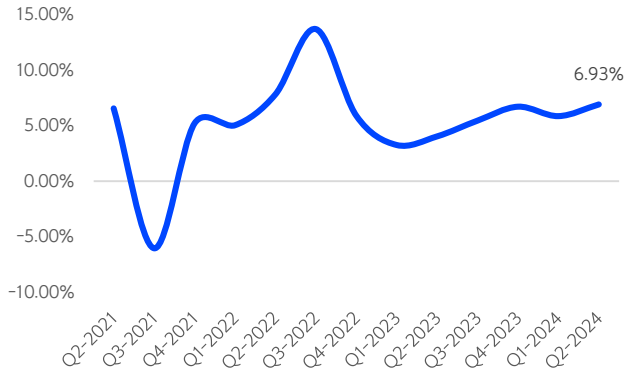
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Economic growth – Industrial Production

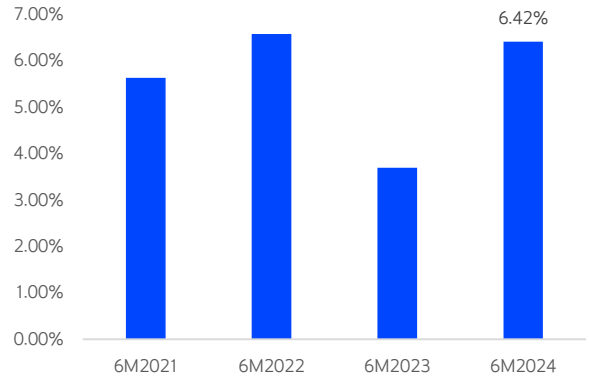
Estimated GDP growth in 2Q2024 was +6.93%YoY and for the first half of 2024, GDP is estimated to expand by +6.42%YoY. The reading was the second strongest GDP growth in the last 4 years. The outstanding GDP growth rate was boosted the significant expansion of the construction & industrial sector with +8.29%YoY growth rate, compared to +2.1%YoY in 2Q/2023

GDP growth rate by quarter (YoY)



Source: GSO, Shinhan Securities Vietnam

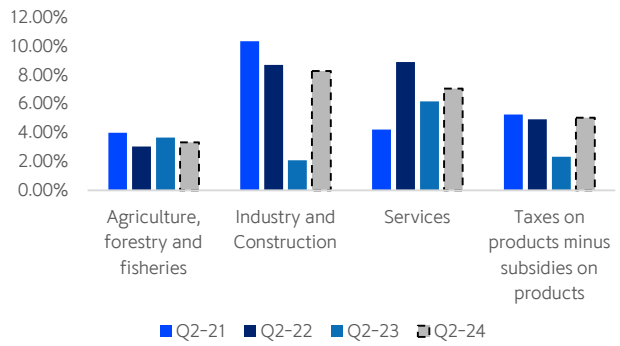
GDP growth rate in 1H of the year



Source: GSO, Shinhan Securities Vietnam

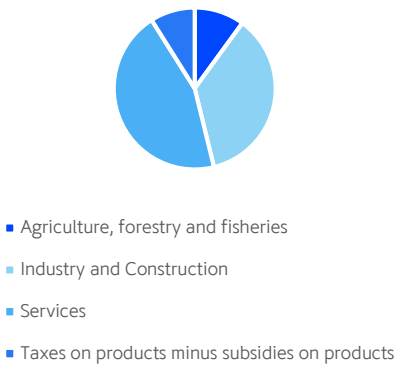
We see that the target of GDP growth rate 6%-6.5% in 2024 will be driven by the strong recovery of the construction & industrial sector. In contrast, a slowdown in the services sector due to weak retail sales and high base effect should be the headwind for the GDP growth rate this year.

GDP growth by sector (YoY)



Source: GSO,, Shinhan Securities Vietnam

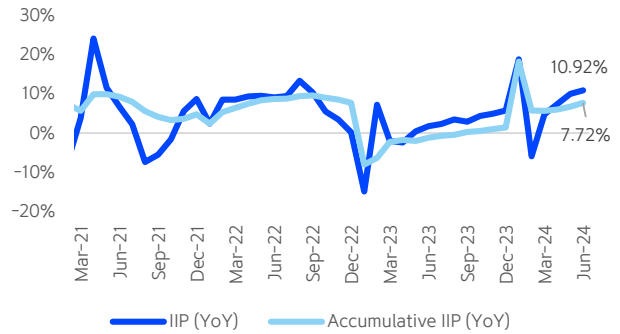
GDP contribution by sector



Source: GSO,, Shinhan Securities Vietnam

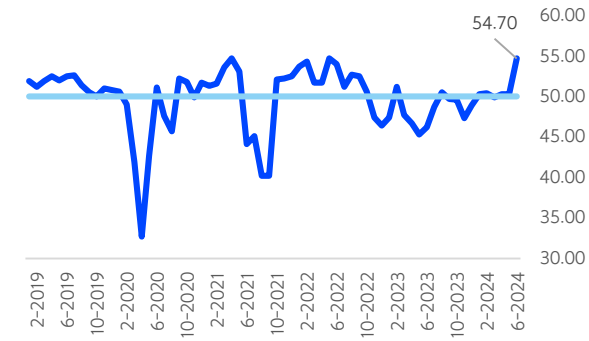
The Index of Industrial Production in 06/2024 was climbed by +10.92%YoY. The PMI data also strengthen to 54.7 show an evidence of a solid industrial sector. The survey suggested that the number of new orders have significantly risen as the major trading partner of Vietnam have accelerating import goods after a period of obsoleting old inventories.

Index of Industrial Production (IIP)



Source: GSO, Shinhan Securities Vietnam

Purchasing Managers' Index (PMI)

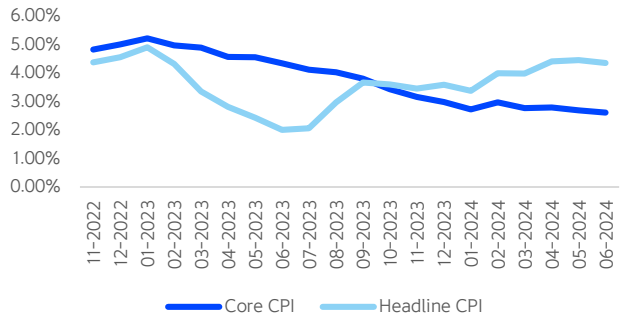


Source: GSO, Shinhan Securities Vietnam

Inflation

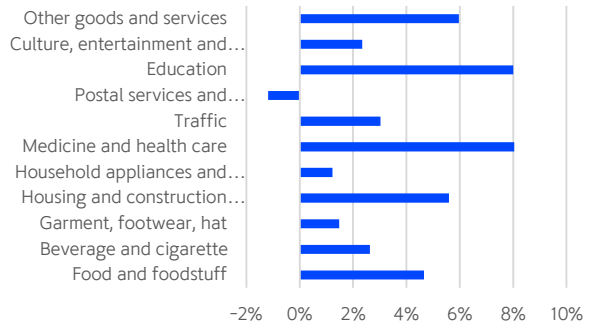
Vietnamese headline CPI was rose by +4.34%YoY due to the increase in food and housing prices. For 1H2024, CPI was up by +4.08%YoY. Along with the depreciation of VND, the decision of rising 30% base salary for public workers of Vietnamese National Assembly should be the major concern for Vietnam CPI in 2H2024.

Consumer price index (YoY)



Source: GSO, Shinhan Securities Vietnam

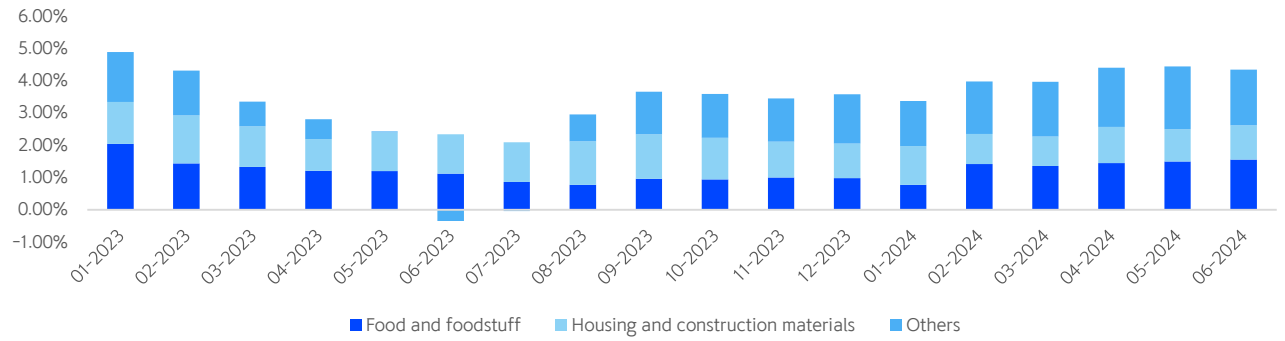
Headline CPI components in June (YoY)



Source: GSO, Shinhan Securities Vietnam

Foodstuff price and housing & construction price increase were contributed up to 50% of CPI incremental over a year. For housing & construction component, a higher shelter cost with the climb of some construction material like quarry, sand… were the main reason.

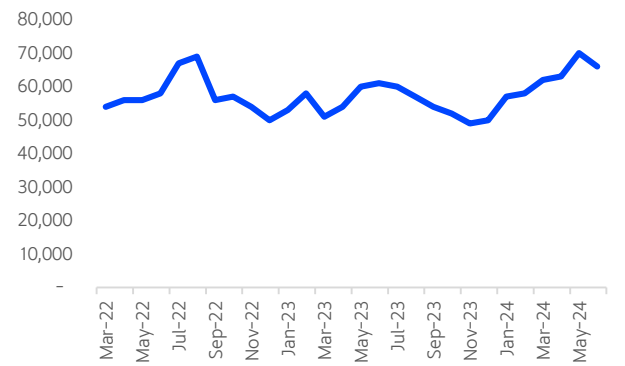
CPI contribution by components (YoY)



Source: GSO, Shinhan Securities Vietnam

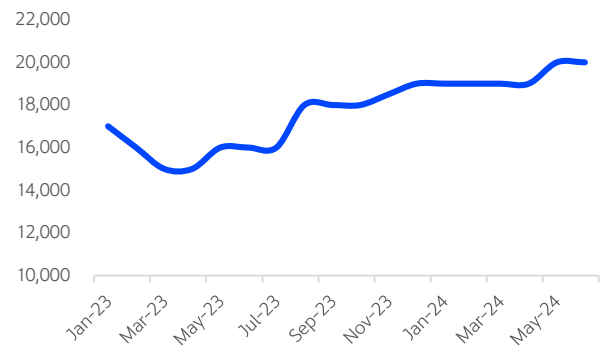
For the food & foodstuff, the hike in pork and rice prices were the main reason causing a higher CPI. However, we think that the price of the two commodities are stalled as supply will be improved as farmers and business back to operation.

Pork price (VND/kg)



Source: Shinhan Securities Vietnam collect

Rice price (VND/kg)



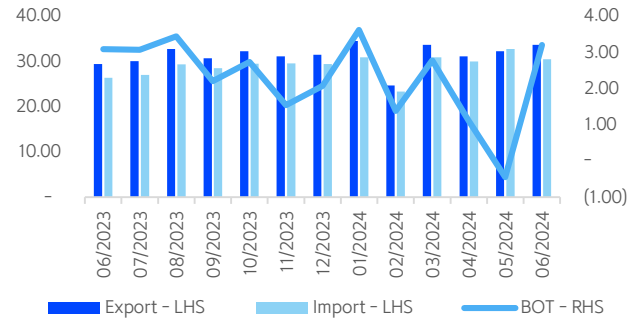
Source: Shinhan Securities Vietnam collect

Trading– Investment – Retails

Trading activities in Vietnam remain positive in 06/2024 as total trading turnover reached USD64.11 bn, +14.88%YoY. In which, goods exported reached USD30.46 bn, +15.53%YoY. Goods imported was climbed by 14.29%YoY to USD33.66 bn.

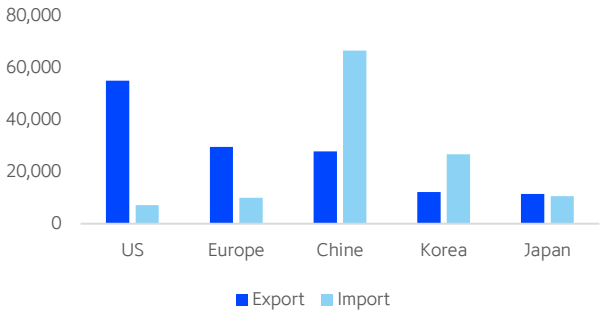
Trading activities is expected to maintain the positive growth for the rest of the year as new orders continues to surge. However, as new orders keep rising, the purchasing activities of firms for input materials could put the exchange rate on pressure.

Total trading turnover (USD bn)



Source: GSO, Shinhan Securities Vietnam

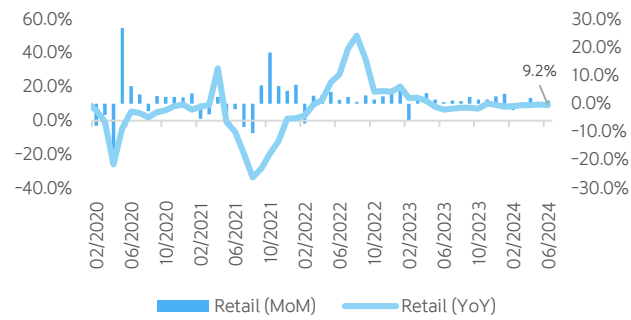
Vietnam major trading partners (Million USD)



Source: GSO, Shinhan Securities Vietnam

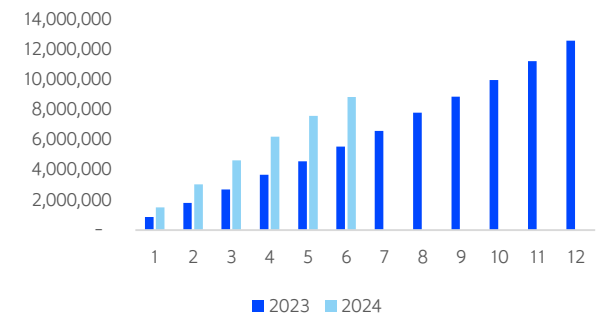
Total retail sales in 06/2024 was estimated to grow by +9.15%YoY. However, exclude the changes in price, total retail sales only by 5.7%YoY, a signal showing that a sluggish purchasing power was persisted.

Retail sales growth



Source: GSO, Shinhan Securities Vietnam

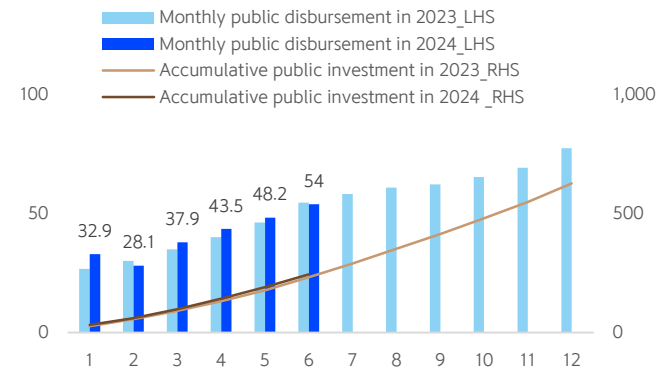
Foreign tourist (pax)



Source: GSO, Shinhan Securities Vietnam

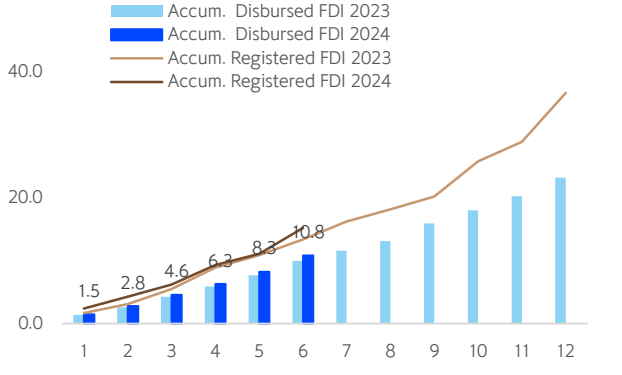
Public disbursement is estimated at VND53.8 trillion, downed by -3.9%YoY. In 1H2024, Public disbursement was at VND244.4 trillion, equivalent to 33.8% of the year plan and up by +3.5%YoY.
In 1H2024, registered FDI reached USD5.2 bn, up by +13.1%YoY while the disbursed FDI climbed by +8.2%YoY to USD10.84 bn.

Public investment (VND trillion)



Source: MPI, Shinhan Securities Vietnam

FDI (USD bn)

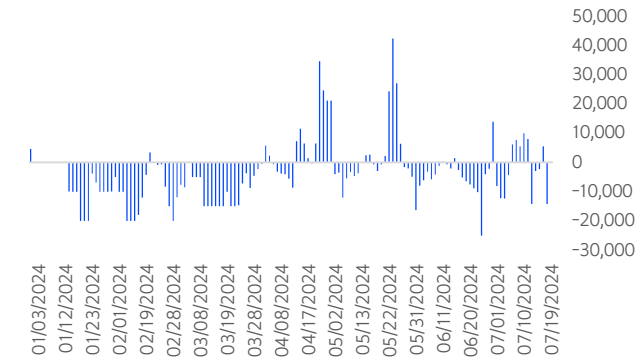


Source: MPI, Shinhan Securities Vietnam

Money market

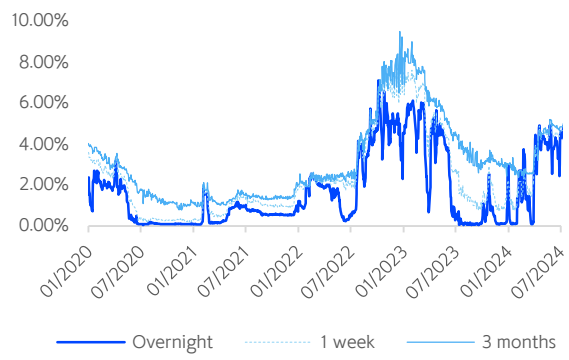
As exchange rate depreciated, SBV both withdrew VND out of the system and raised the interest rate for the reverse repo auction to capped rate at 4.5%p.a. In June, SBV already withdrew nearly VND 80 trillion out of the system through 28 days reverse repo.
As a result, the interbank interest rate was spiked in all tenors. In details, the overnight interbank interest rate was quoted at around 4.5%-4.6% recently.

Open Market Operation (VND trillion)



Source: SBV, FiinPro, Shinhan Securities Vietnam

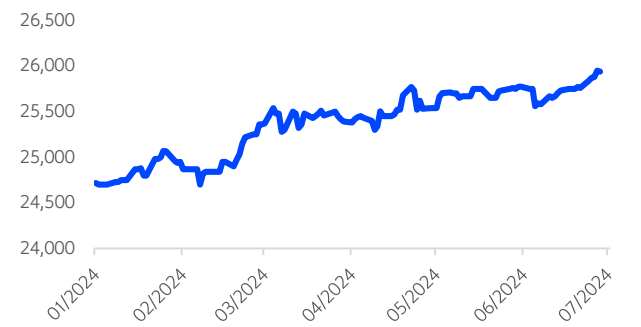
Interbank interest rate



Source: SBV, FiinPro, Shinhan Securities Vietnam

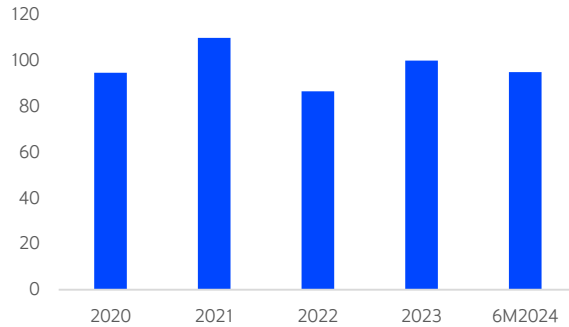
However, VND still depreciated as the VND-USD negative interest rate swap remained. According to Asia Commercial Bank, aiming to curb the exchange rate, SBV had to take a stronger measure by sold intervene around US6 bn in last 2 months, equivalent to VND150 trillion was also withdrew out of the system.

VND/USD exchange rate



Source: Fiinpro, Shinhan Securities Vietnam

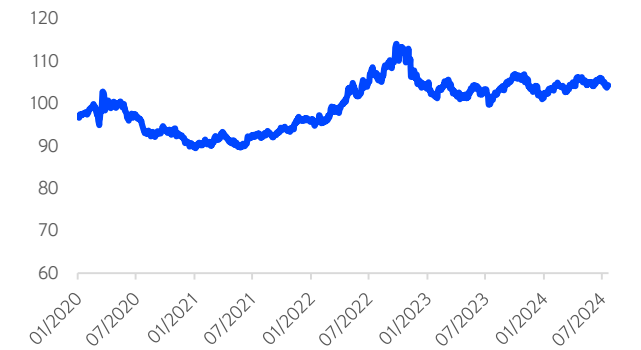
Foreign reserves (USD bn)



Source: IMF, Shinhan Securities Vietnam estimate

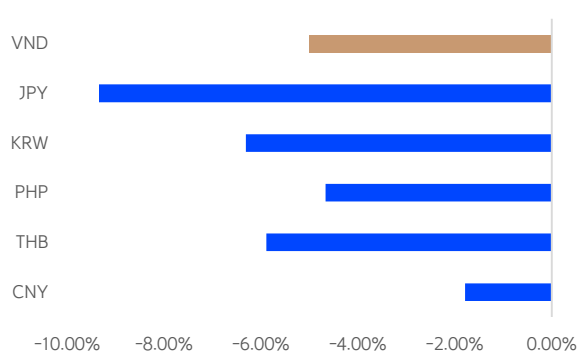
The depreciation of the domestic currency was in line with the common trend around the world amid a stronger USD. However, a better than expect CPI with a tight labor market in the US… would likely to support FED to take a first rate cut soon, thus, the pressure on the VND should reduced.

DXY index



Source: FiinPro, Shinhan Securities Vietnam

Depreciation rate vs USD

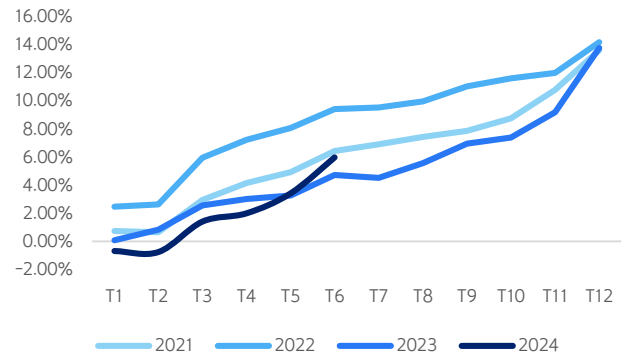


Source: Bloomberg, Shinhan Securities Vietnam

Money market

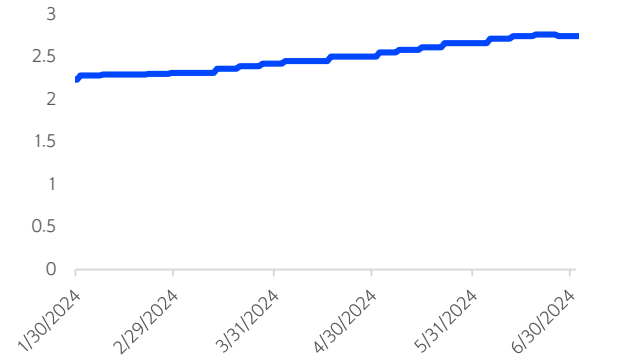
After a sluggish growth phase in early of this year, credit have picked up to 6%YTD in 2Q/2024. As credit growth continue to accelerate and the liquidity of VND became less abundant, the interest rate in the market have marginally increased. So, it is possible that the interest rate in the market will maintain to go up for the rest of this year as credit growth continue to remain solid.

Credit growth rate (YTD)



Source: SBV, FiinPro, Shinhan Securities Vietnam

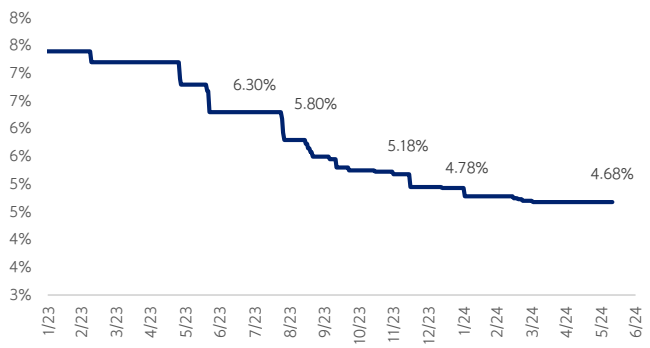
Vietnam 10Y government bond (%)



Source: SBV, FiinPro, Shinhan Securities Vietnam

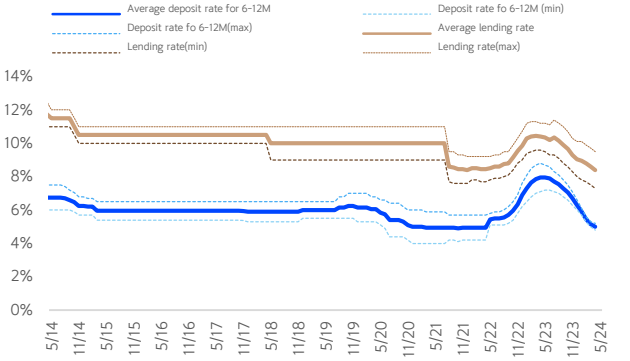
In general, the money market at the moment was faced many difficulties due to the diverged monetary policy of SBV to support the economic. However, by the time that FED start taking the first rate cut, the pressure on the monetary policy will likely to be released, thus create more room for SBV to loosen the monetary policy.

Deposit rate at SOCBs



Source: Fiinpro, Shinhan Securities Vietnam
SOCBs: Average 12M deposit rate at Vietcombank, Agribank, BIDV and VietinBank

Lending – deposit rates



Source: SBV, Shinhan Securities Vietnam
Average rate is a median of max and min rates

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