VIETNAM MACRO UPDATE

August 2nd,2024

Manufacturing recovery on track, inflation is expected under control

Manufacturing sector maintained the recovery momentum.

Follow the expansionary in June, the Index of Industrial Production (IIP) in July-2024 continued the growth with an increase of 11.2%YoY. Overall, for the first seven months of 2024, the IIP is estimated to increase by 8.5% compared to the same period last year.

The PMI in July 2024 also showed that manufacturing activities maintained their expansion momentum when recording at 54.7 points, unchanged from the previous month. Similar to June, the data in July showed that Vietnam's manufacturing sector continued to improve with impressive growth in new orders and expectations that new orders will continue to improve in the final months of the year.

Import and export activities continued to flourish in July 2024 with total import and export turnover reaching USSD69 billion, up by 22% YoY. Of which, the export turnover of goods reached USSD35.92 billion, jumped by 19% YoY. Imports of goods also recorded a sharp increase of 25% YoY in July to 33.8 billion USD. Vietnam recorded a trade surplus of USD14 billion in first 7 months of 2024.

Hot inflation data but expected to cool down at year end.

Headline inflation heat up as the reading spiked to 4.36%YoY in 07/2024. The rise in CPI was continued to driven by the high shelter and food prices while Vietnamese government started to raise the wages of public workers by 30% . Overall in 7M2024, CPI was climbed by 4.12%YoY.

However, educational cost which contributed by 0.5 percentage point in CPI will not have any impact on 4Q/2024 thanks to the base effect. In 4Q/2023, Some localities have increased tuition fees for preschool and general education institutions, and some public, private and non-public universities and colleges have also increased tuition fees for the 2023-2024 school year to ensure regular expenses.

VND strengthen should allow the State Bank of Vietnam to loose monetary policy.

As of mid-July 2024, according to data released by the State Bank of Vietnam (SBV), credit growth unexpectedly reversed and decreased again in July. Accordingly, credit growth as of July 17th was recorded at 5.26% YTD, compared with 6%YTD increase as end of June. However, we believe that with manufacturing sector showing signs of recovery, demand for credit will continue to increase in the last months of the year.

After a period of aggressively sold USD intervention and cash withdrawal by SBV with the expectation of FED cut rate, the exchange rate in the free market has shown signs of cooling down. As of the end of July 2024, the free exchange rate decreased to 25,630 VND per 1 USD, thereby helping the Dong to only depreciate by about 3.68% YTD compared to 4.9% YTD in June 2024.

We expect that as exchange rate and inflation cool down at the end of the year, the SBV will have more room to loosen and maintain interest rates at a reasonable level to support domestic enterprises to continue the recovery.

Macro indicators- 07/2024

Economic indicators	07/24	06/24	05/24	04/24	03/24	02/24	01/24	12/23	11/23	10/23	09/23	08/23	07/23
CPI (YoY)	4.36%	4.34%	4.44%	4.42%	3.97%	3.98%	3.37%	3.58%	3.45%	3.59%	3.66%	2.96%	2.06%
CPI (MoM)	0.48%	0.17%	0.05%	0.07%	-0.23%	1.04%	0.31%	0.12%	0.25%	0.08%	1.08%	0.88%	0.45%
PMI	54.70	54.70	50.30	50.30	49.90	50.40	50.30	48.90	47.30	49.60	49.70	50.50	48.70
IIP (YoY)	11.2%	12.4%	10.0%	7.4%	4.8%	-5.9%	19.5%	5.8%	5.0%	4.2%	2.9%	3.5%	2.3%
IIP (MoM)	0.7%	0.7%	3.9%	0.8%	20.0%	-18.0%	-4.4%	0.1%	3.0%	5.5%	0.1%	2.9%	3.9%
Retail (YoY)	9.4%	9.2%	9.5%	9.0%	9.2%	8.5%	8.1%	9.3%	10.1%	7.0%	7.5%	7.6%	7.1%
Export (USD bn)	35.92	33.66	32.27	31.10	33.66	24.69	34.53	31.47	31.12	32.25	30.68	32.76	30.07
Import (USD bn)	33.80	30.46	32.72	29.99	30.88	23.30	30.91	29.40	29.58	29.52	28.48	29.32	27.00
Balance of trades (USD bn)	2.12	3.20	-0.45	1.11	2.78	1.38	3.62	2.07	1.54	2.73	2.20	3.44	3.07
Acc. Disbursed FDI (USD bn)	12.55	10.84	8.25	6.28	4.63	2.80	1.48	23.18	20.25	18.00	15.91	13.10	11.58
Acc. Registered FDI (USD bn)	18.00	15.19	11.07	9.27	6.17	4.29	2.36	36.61	28.85	25.76	20.21	18.15	16.24
Public Investment (VND trillion)	57.60	53.80	48.21	43.49	37.88	28.08	32.93	77.35	69.14	65.17	62.10	60.84	58.24
Credit growth	5.26%*	6.00%	3.43%	2.01%	1.42%	-0.75%	-0.68%	13.78%	9.19%	7.41%	6.96%	5.57%	4.54%
Deposit growth	n.a	n.a	0.37%	0.37%	-0.53%	-1.60%	-1.49%	11.37%	10.32%	9.95%	9.95%	9.68%	8.93%
Overnight interbank rate	4.60%	4.50%	4.00%	4.60%	2.51%	1.46%	1.00%	0.97%	0.14%	0.81%	0.19%	0.16%	0.19%
Average deposit rate at SOCBs	4.68%	4.68%	4.68%	4.68%	4.70%	4.78%	4.93%	4.95%	5.18%	5.25%	5.50%	5.80%	6.30%
10Y Government bond yield	2.75%	2.75%	2.87%	2.85%	2.75%	2.46%	2.42%	2.39%	2.49%	3.07%	2.84%	2.72%	2.56%
VND/USD exchange rate	25,630	25,900	25,855	25,640	25,470	25,430	25,000	24,770	24,650	24,600	24,450	24,220	23,720

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

*As end of 17/07



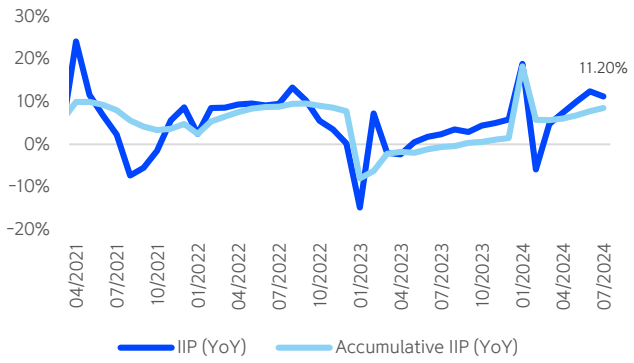
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Production – Consumption

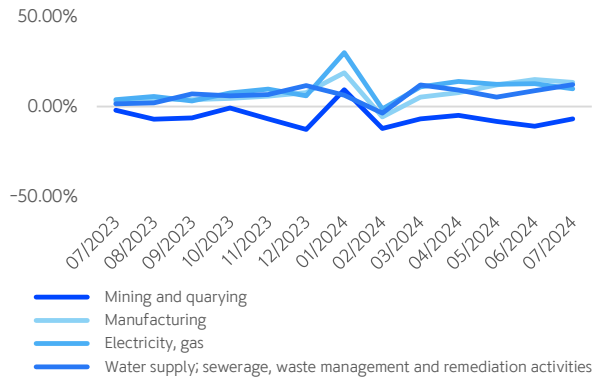
Follow the expansionary in June, the Index of Industrial Production (IIP) in July-2024 continued the growth with an increase of 11.2%YoY. Overall, for the first seven months of 2024, the IIP is estimated to increase by 8.5% compared to the same period last year. In which, the manufacturing sector was soared by 13%YoY.

Index of Industrial production (IIP)



Source: GSO, Shinhan Securities Vietnam

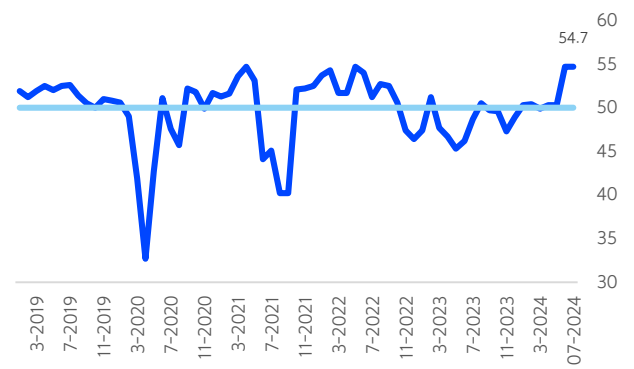
IIP by sub-sectors



Source: GSO, Shinhan Securities Vietnam

The PMI in July 2024 also showed that manufacturing activities maintained their expansion momentum when recording at 54.7 points, unchanged from the previous month. Similar to June, the data in July showed that Vietnam's manufacturing sector continued to improve with impressive growth in new orders and expectations that new orders will continue to improve in the final months of the year.

Purchasing managers' index (PMI)



Source: S&P Global,, Shinhan Securities Vietnam

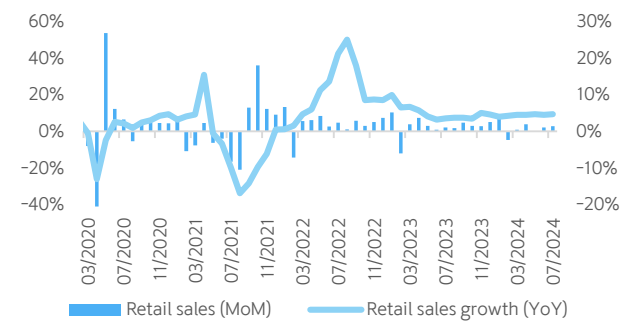
PMI summary

New orders	Continue the growth of June momentum
Production	Increased follow the new orders
Inventories	Depleted at strongest pace only behind 02/2014
Purchasing	Firm accelerates purchasing as new orders increase and depleted inventories.
Employment	Marginally improved
Business confidence	Sentiment is positive but eased to 7 months low.

Source: S&P Global, Shinhan Securities Vietnam

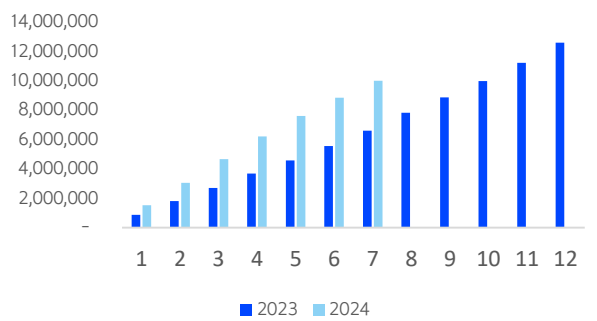
Total retail sales in 07/2024 estimated to grow by 9.4%YoY. Retail growth was fueled by tourism activities as the number of international visitors to Vietnam in July is estimated to have increased by 10.9% YoY to 1.15 million. In the first seven months of 2024, international visitors to Vietnam reached nearly 10 million, up 51% year-on-year.

Retail sales growth



Source: GSO, Shinhan Securities Vietnam

Foreign tourist (pax)



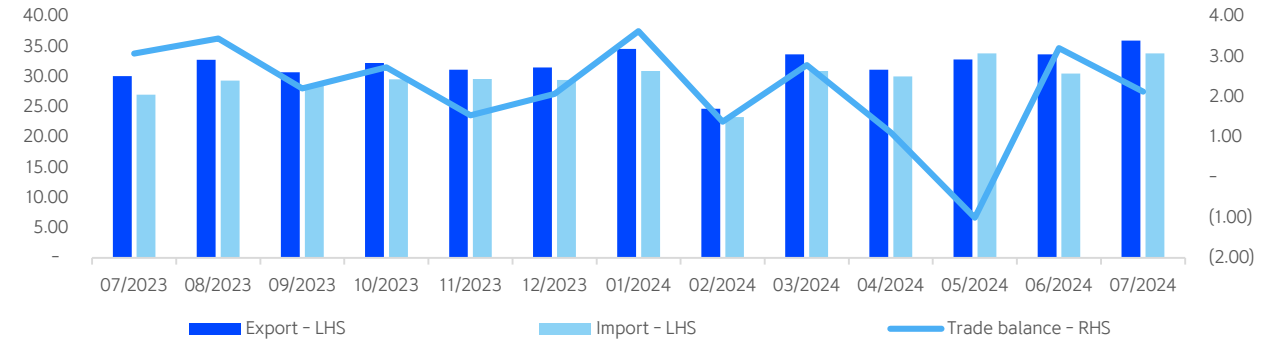
Source: S&P Global, Shinhan Securities Vietnam

Trading – Investment

Import and export activities continued to flourish in July 2024 with total import and export turnover reaching USSD69 billion, up by 22% YoY. Of which, the export turnover of goods reached USSD35.92 billion, jumped by 19% YoY. Imports of goods also recorded a sharp increase of 25% YoY in July to 33.8 billion USD. Vietnam recorded a trade surplus of USD14 billion in first 7 months of 2024.

Import will continue to clime as the demand of raw material for manufacturing recover while inventory of business are depleted. In 2H2024, we expect import data will continue to rise, in line with the strong domestic demand for production.

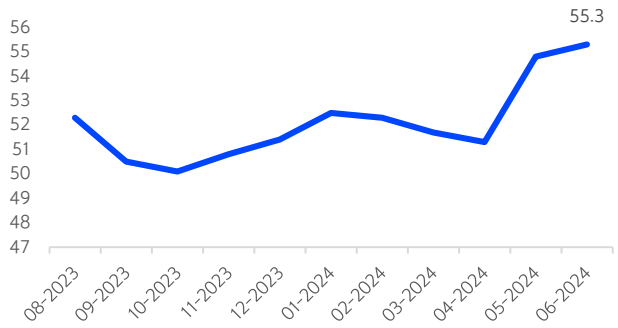
Total trading turnover (USD bn)



Source: GSO, Shinhan Securities Vietnam

Meanwhile, exports also solid thanks to Vietnam's major trading partners such as the US and Europe increasing imports of goods to increase inventories as the economy in these region show largely positive results.

US service PMI



Source: S&P Global, Shinhan Securities Vietnam

EU GDP growth rate (% - QoQ)

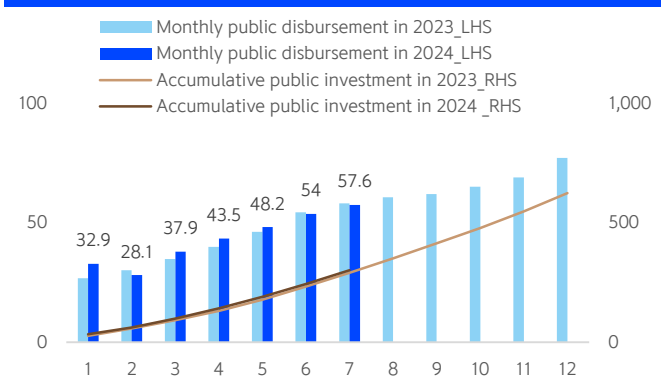


Source: EuroStat, Shinhan Securities Vietnam

Disbursed investment capital from the State budget in July is estimated at VND 53.8 trillion, down 1.6% over the same period last year. In the first 7 months of 2024, the disbursed investment capital from the State budget is estimated at VND 301.5 trillion, equal to 40.6% of the annual plan and up 2.3% over the same period last year.

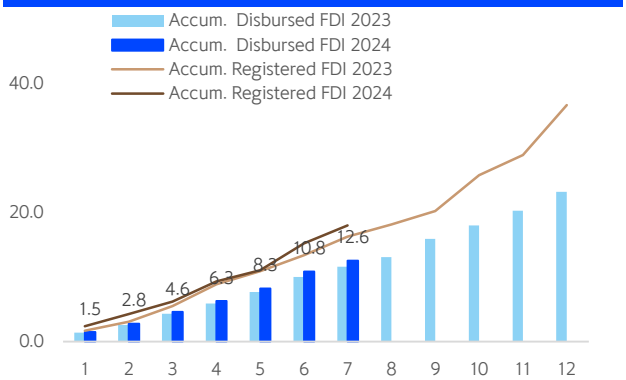
In the first 7 months of 2024, registered FDI reached 18 billion USD, up 10.9% over the same period in 2023. disbursed FDI also increased by 8.4% over the same period, reaching about 12.55 billion USD

Public investment (VND trillion)



Source: MPI, Shinhan Securities Vietnam

FDI (USD bn)

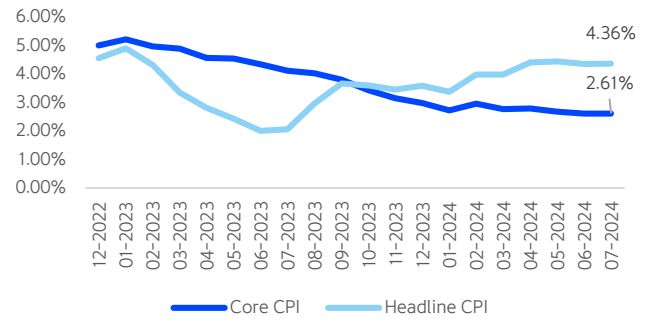


Source: MPI, Shinhan Securities Vietnam

Inflation

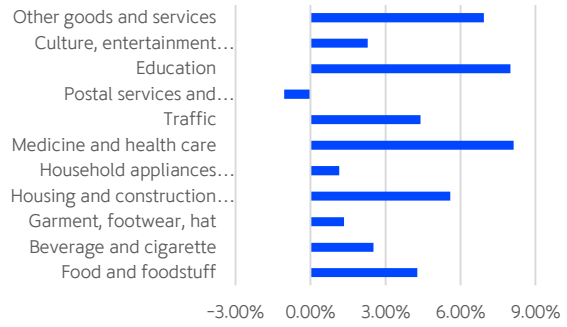
Headline inflation continues to heat up, recording an increase of 4.36% YoY in July 2024, with food and housing costs remained elevated while base salary of public workers was up by 30%. Excluding food, electricity, education services, healthcare services and gasoline costs, core inflation increased by only 2.61% YoY.
In the first 7 months of 2024, the average CPI increased by 4.12% YoY, core inflation increased by 2.73% compared to the same period in 2023.

Consumer price index (YoY)



Source: GSO, Shinhan Securities Vietnam

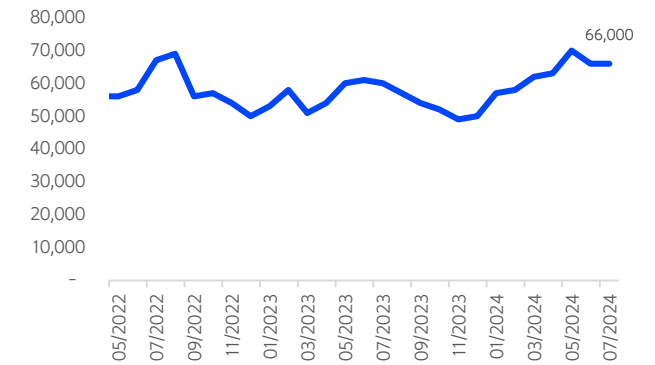
CPI component in July (YoY)



Source: GSO, Shinhan Securities Vietnam

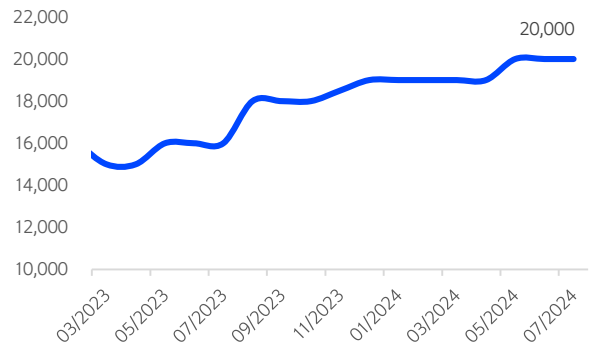
The pressure on CPI is still present in the second half of the year and puts many challenges on the policy makers with the target of CPI for the whole year below 4.5%. We maintain our view that the increase in basic salary of public workers from 01/07/2024 and the devaluation of VND causing the price of imported raw materials to increase will still be the main factors weighing on inflation.

Pork price (VND/kg)



Source: Shinhan Securities Vietnam collect

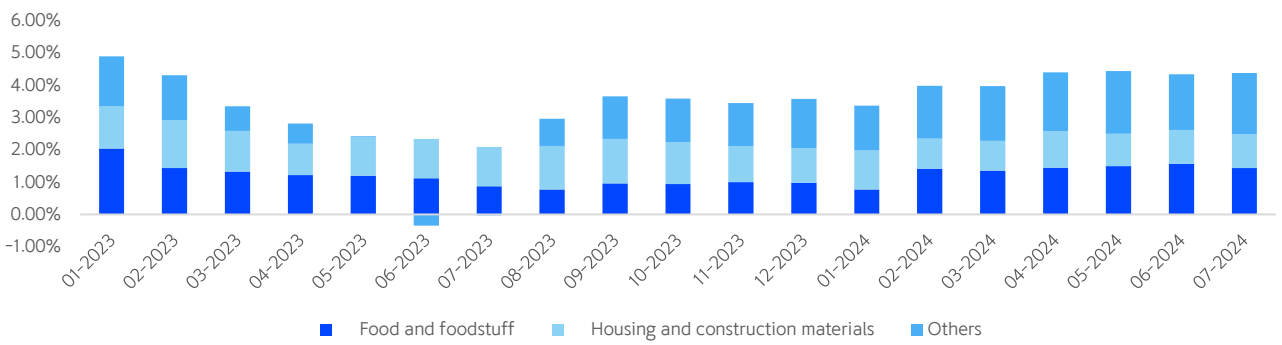
Rice price (VND/kg)



Source: Shinhan Securities Vietnam collect

However, educational cost which contributed by 0.5 percentage point in CPI will not have any effect on 4Q/2024 thanks to the base effect. In 4Q/2023, Some localities have increased tuition fees for preschool and general education institutions, and some public, private and non-public universities and colleges have also increased tuition fees for the 2023-2024 school year to ensure regular expenses.

Contribution by components in CPI

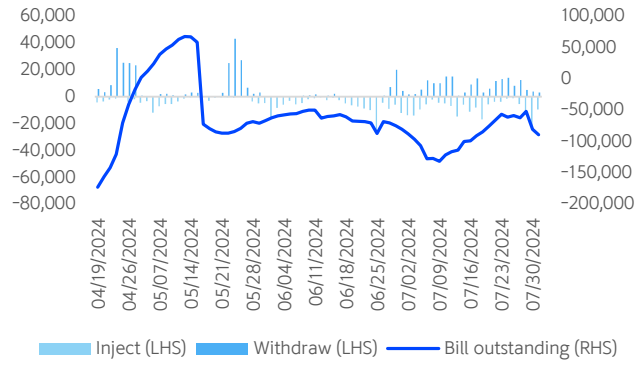


Source: GSO, Shinhan Securities Vietnam

Money market

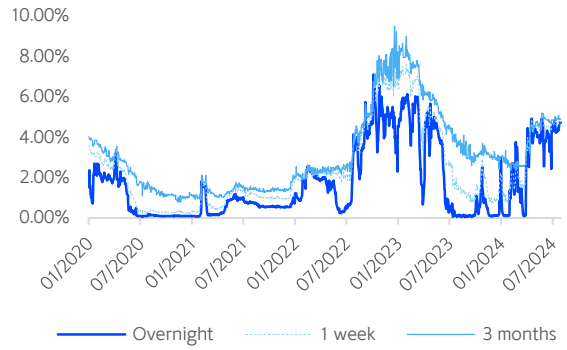
Interbank interest rates continued to increase slightly in the as end of July 2024 with overnight interest rates recorded at 4.7% compared to 4.5% at the end of June 2024. We believe that in the current period, the SBV will continue to maintain system liquidity at the current level to support the exchange rate.

Open market operation (VND billion)



Source: SBV, FiinPro, Shinhan Securities Vietnam

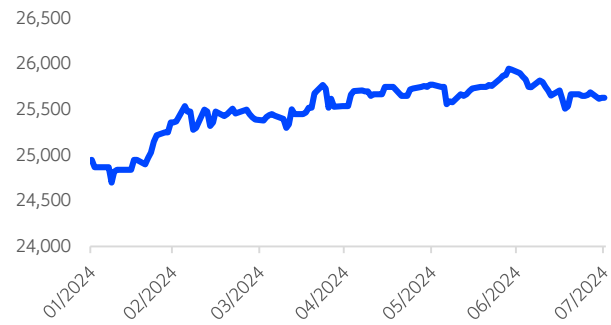
Interbank interest rate



Source: SBV, FiinPro, Shinhan Securities Vietnam

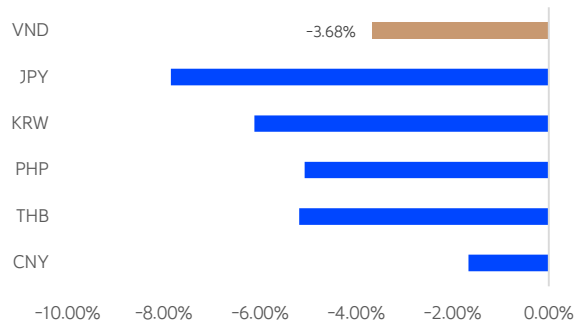
After a period of aggressively sold USD intervention and cash withdrawal by SBV and expectation of FED cut rate, the exchange rate in the free market has shown signs of cooling down. As of the end of July 2024, the free exchange rate decreased to 25,630 VND per 1 USD, thereby helping the Dong to only depreciate by about 3.68% YTD compared to 4.9% YTD in June 2024.

VND/USD exchange rate on free market



Source: Bloomberg, Shinhan Securities Vietnam

Depreciation against USD in some countries



Source: Bloomberg, Shinhan Securities Vietnam estimate

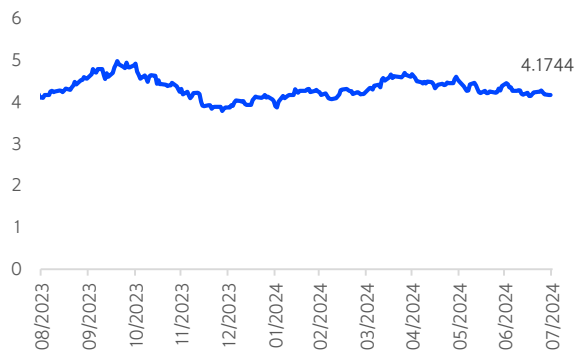
The yield on the 10-year US Treasury bond has fallen to just 4.17%, the lowest level in the past 4 months as investors bet on the possibility of the Fed cutting interest rates twice this year instead of once as before. We believe that, in case the Fed does not take the first rate cut in September, the pivot monetary policy is still on at year end, thereby helping to gradually reduce pressure on the exchange rate in the last months of the year.

Dollar index



Source: FiinPro, Shinhan Securities Vietnam

US 10Y T-bill (%)



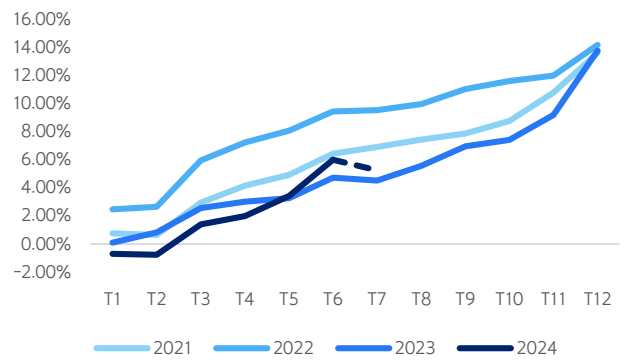
Source: Bloomberg, Shinhan Securities Vietnam

Money market

As of mid-July 2024, according to data released by the State Bank of Vietnam (SBV), credit growth unexpectedly reversed and decreased again in July. Accordingly, credit growth as of July 17th was recorded at 5.26% YTD, compared with 6%YTD increase as end of June. The signal hints that credit demand still unstable at the moment.

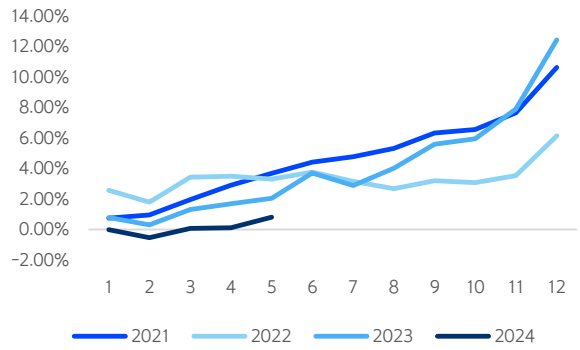
However, we believe that with manufacturing sector showing signs of recovery, demand for credit will continue to increase in the last months of the year.

Credit growth rate



Source: SBV, FiinPro, Shinhan Securities Vietnam

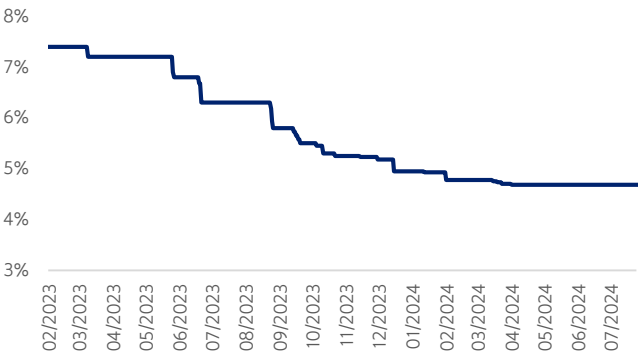
M2 money supply growth (YTD)



Source: SBV, FiinPro, Shinhan Securities Vietnam

We expect that as exchange rate and inflation cool down at the end of the year, the SBV will have more room to loosen the monetary poilcy while maintain interest rates at a reasonable level to support domestic enterprises to continue the recovery path.

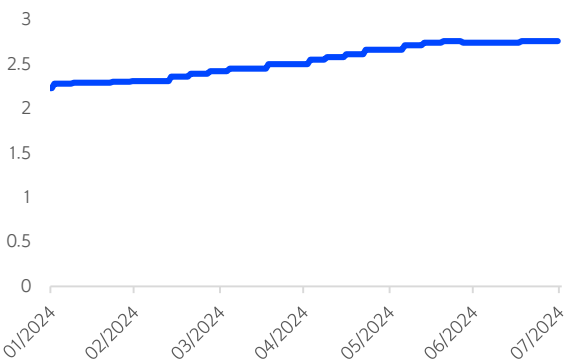
Average deposit rate at SOCBs



Source: Fiinpro, Shinhan Securities Vietnam

SOCBs: Vietcombank, Agribank, BIDV and Vietinbank

Vietnamese government 10Y bond (%)



Source: SBV, Shinhan Securities Vietnam

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