STRATEGY REPORT

August 23rd, 2024

Shinhan Securities

Await the pivot monetary policy

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After 8 months from the last rate hike to 5.25%-5.5% - a highest level in the last 22 years to combat inflation and marking 2 years of tightening monetary policy, market starts to expect the pivot monetary policy to easing in 09/2024.

Accordingly, the target to bring down inflation to long term rate at 2% have made many positive progress. The July meeting minute also showed that a vast majority of FED members agreed that FED can deliver a first rate cut in Sep-2024. Even a few members suggest the first rate cut decision could have been made in the July meeting. Thus it is expected the pivot monetary policy to easing could happen very soon.

Survey from Bloomberg shows that the analysts and economist forecast FED can cut the rate by 1.25 to 1.5 percentage point to the end of next year, corresponding with the rate could be down from 5.25% to 3.65%-3.75% as end of 2025.

A convergence monetary policy with FED will reduce many pressure on the State Bank of Vietnam.

As the rate is expected to cut down by 1.5 percentage point, we expect the State Bank of Viet Nam (SBV) will have more room to cut key interest rate in 2025 by 50 basis point. For the rest of 2024, due to small interest rate cut by FED and SBV already maintained a loosening monetary policy stance since middle 2023, the key interest rate in Viet Nam will not see any significant change.

Beside key interest rate cut, we expect the liquidity in the financial market will be more ample. As the VN-USD interest rate gap is narrowed, SBV will be able to maintain an ample liquidity condition to support the economy.

In addition, we that the convergence monetary policy will release the depreciation pressure on the Dong in the last couple years.

Stock market is greatly benefit from the pivot monetary policy.

Thanks to the FED rate cut in the next two and a half year, we foreseen the prospect of Vietnamese stock market have becoming more attractive in 2024 and 2025. The stock market growth will be mainly driven by (1) convergence monetary policy release pressure on exchange rate, (2) a comeback of foreign fund flow, (3) market revaluation and (4) earning growth maintain the recovery momentum.

We believe that the stock market could head back to the old peak 1,500 which was formed in 2022 and reach a new all time high in the future.

Forecast macro – stock market indicators base on FED cut rate scenarios

	FED rate cut in 2025	VND depreciation rate in 2025	VN-Index P/E	Earnings growth in 2025	VN-Index (2025)
Bull case	-2.0%	0%	16	15%	1,867
Base case	-1.5%	0.5%	15	10%	1,708
Bear case	-1.0%	1.0%	14	5%	1,542

Source: Shinhan securities, calculation base on VN-Index end 2024 at 1,390 with P/E of 14x and earnings growth 15%



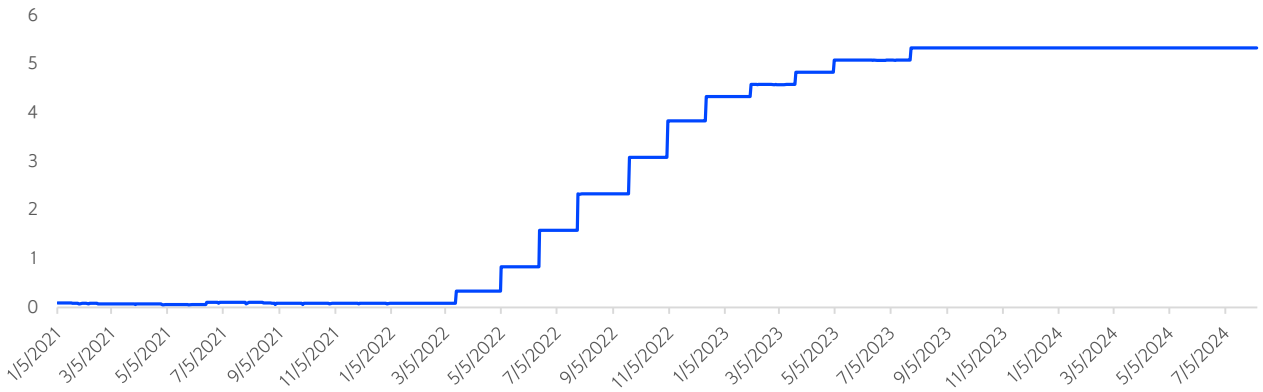
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FED pivot monetary policy to easing, driven by encouraging inflation data

After 8 months from the last rate hike to 5.25%-5.5% - a highest level in the last 22 years to combat inflation and marking 2 years of tightening monetary policy, market starts to expect the pivot monetary policy to easing in 09/2024.

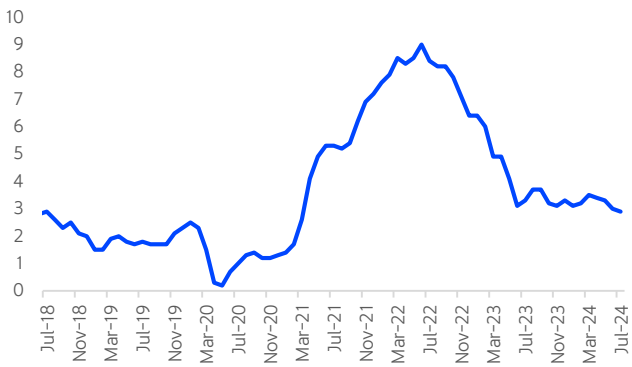
FED Fund Rate (%)



Source: FRED, Shinhan Securities Vietnam

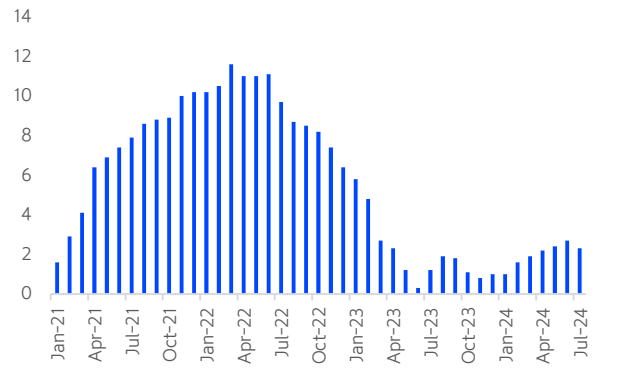
Accordingly, the target to bring down inflation to long term rate at 2% have made many positive progress. The July meeting minute also showed that a vast majority of FED members agreed that FED can delivery a first rate cut in Sep-2024. Even a few members suggest the first rate cut decision could have been made in the July meeting. Thus it is expected the pivot monetary policy to easing could happen very soon.

US CPI (% - YoY)



Source: US Bureau of Labor Statistics, Shinhan Securities Vietnam

US PPI (YoY -%)



Source: US Bureau of Labor Statistics, Shinhan Securities Vietnam

Market has increase its bet on the interest rate cut recently. Investors is on hope that FED will deliver a 0.5 percentage point cut instead of 0.25.

Rate cut probability (As end of 13/08/2024)

MEETING DATE	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525
18/09/2024							0,0%	0,0%	0,0%	49,5%	50,5%
07/11/2024		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	11,3%	49,7%	39,0%	0,0%
18/12/2024	0,0%	0,0%	0,0%	0,0%	0,0%	3,3%	22,4%	46,6%	27,7%	0,0%	0,0%
29/01/2025	0,0%	0,0%	0,0%	0,0%	3,1%	21,7%	45,7%	28,4%	1,0%	0,0%	0,0%
19/03/2025	0,0%	0,0%	0,0%	3,2%	21,7%	45,7%	28,4%	1,0%	0,0%	0,0%	0,0%
30/04/2025	0,0%	0,0%	1,7%	13,2%	34,6%	36,4%	13,7%	0,5%	0,0%	0,0%	0,0%
18/06/2025	0,0%	1,3%	10,3%	29,3%	35,9%	19,3%	3,8%	0,1%	0,0%	0,0%	0,0%
30/07/2025	0,6%	5,4%	19,0%	32,3%	28,3%	12,2%	2,1%	0,1%	0,0%	0,0%	0,0%

Source: CME market watch, Shinhan Securities Vietnam

US 10Y T-bond yield

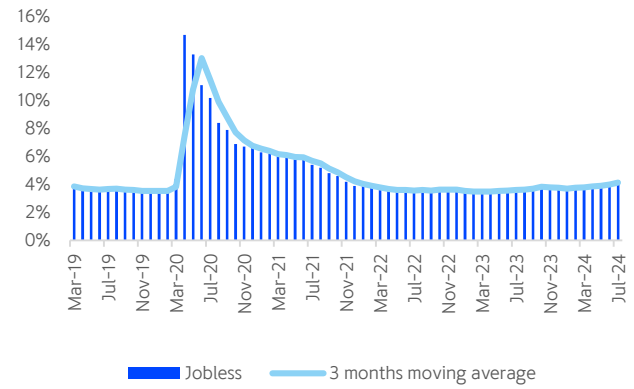


Source: Bloomberg, Shinhan Securities Vietnam

A fear in slowdown of labor market could trigger a recession…

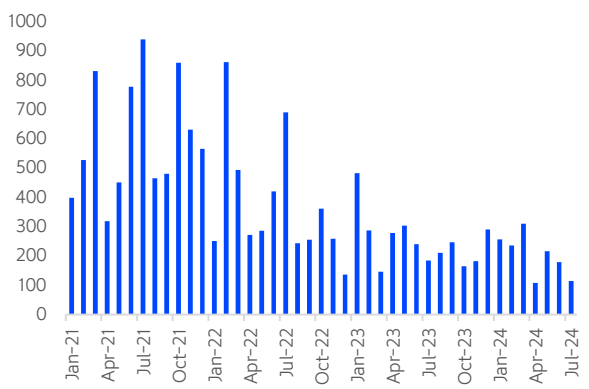
Data from CME market watch hint that investors are betting two cut, and even for the 10Y T-bond yield suggest a three rate cuts from FED for the rest of 2024.
But why market is on hope of a more aggressive rate cut by FED for this year? Along with inflation data suggest that the disinflation process to the long term target of 2% is on track, the recent data from the labor market raise an alarm of a possible recession in case FED is slowly taking the rate cut. Accordingly, new jobs added in June-2024 was only at 114,000 – below the expectation of 175,000 jobs from the market and the unemployment rate was ticked up to 4.3% - higher than the rate 3.5% of the pre-pandemic.

Unemployment rate in US



Source: US Bureau of Labor Statistics, Shinhan Securities Vietnam

Job added in US (thousand)



Source: US Bureau of Labor Statistics, Shinhan Securities Vietnam

The market saw that the labor market data have trigger a recession indicator which is the Sahm rule. Sahm rule states that when the three-month average U.S. unemployment rate rises by 0.50% or more from its 12-month low, a recession is underway. In detail, the three month jobless rate moving average was at 4.13%, 0.5 percentage point higher than the last 12 months low in 08/2023.
The historical data pointed out that the Sahm rule predict exactly when the recession will occurs as the indicator have successfully predicted nine recession in the history. In the other hand, others did not agree with the rule as the sample is quite short and not convincing enough.

Sahm rule indicator – percentage point different between 3-month average and 12 month low (%)



Source: FRED, Shinhan Securities Vietnam

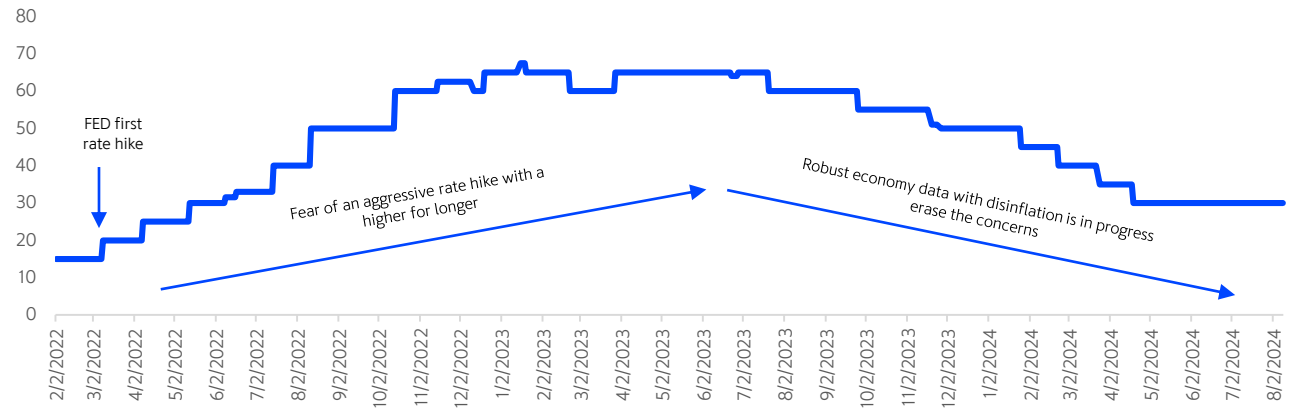
We agree that FED could soon take a first rate cut in the very near future, driven by an encouraging inflation data.

From the data of labor market, is US economy weakening and heading to a recession? From different data batches, we think that the investors are over pessimistic about the US condition. Beside, the story of US recession have been on and off on the table in the last two years as FED maintained the tighten monetary policy stance.

…However, strong economic data support US not fall into a recession

In the last 2 years, the market feared that aggressive rate hikes and higher for longer policy can push US economy into a recession. Most of the time in 2023, data from Bloomberg showed that the probability of US recession in next 12-months always stayed above 60%, driven by the fear of US could fall into a recession

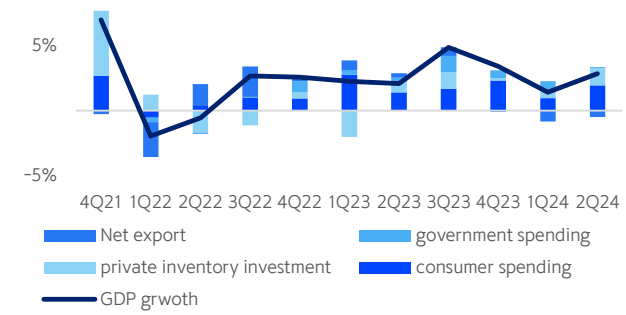
Probability of US recession in next 12M (%)



Source: Bloomberg, Shinhan Securities Vietnam

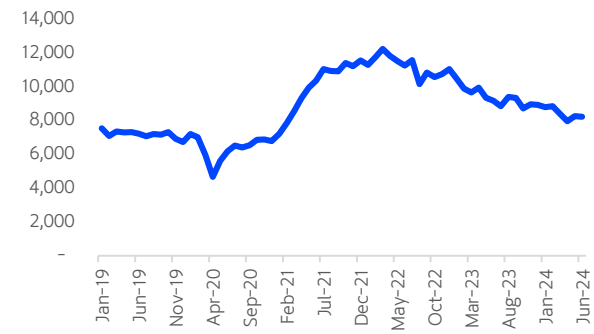
However, the data came out show that the US economy still solid with the GDP kept expanding in the last 8 quarters. In which, GDP in 2Q/2024 in the US growth by 2.8%QoQ, boosted by strong spending consumption and private investment. The strong economic data did not support the idea of an upcoming recession in the near term for US.

US GDP by components



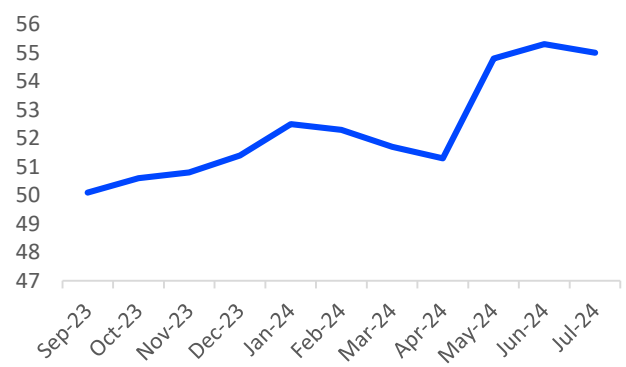
Source: S&P Global,, Shinhan Securities Vietnam

US Job openings (thousand) – Slowing down but higher than the pre-pandemic



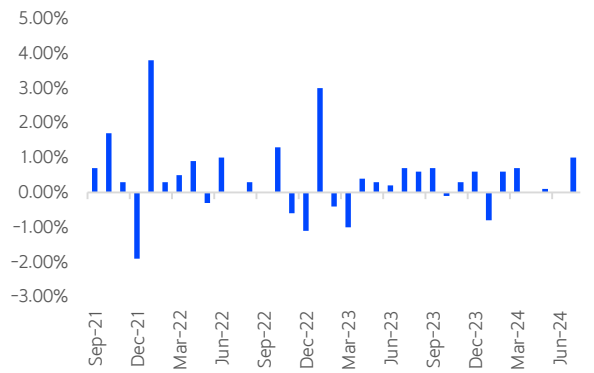
Source: S&P Global, Shinhan Securities Vietnam

US services PMI



Source: S&P Global,, Shinhan Securities Vietnam

US Retail sales growth (MoM)



Source: S&P Global, Shinhan Securities Vietnam

Lower interest rate, liquidity is amplified

Survey from Bloomberg shows that the analysts and economist forecast FED can cut the rate by 1.25 to 1.5 percentage point to the end of next year, corresponding with the rate could be down from 5.25% to 3.65%-3.75% as end of 2025. It is suggest that the market expect the pivot to easing will be aggressively for the whole 2025 while the progress will slowdown in 2026 as the rate will only reduce by 75 basis points.

Bloomberg survey on FED rate

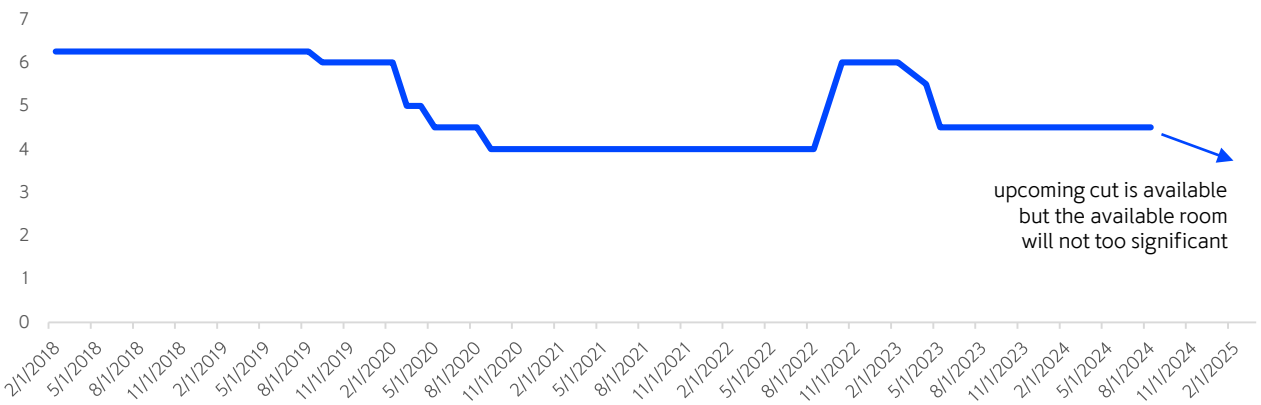
	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26
Bloomberg average weighted	4.91	4.49	4.2	3.9	3.73	3.6	3.36	3.19	3.1	3.09
Median	5	4.75	4.5	4.25	4	3.75	3.25	3	3	3
Average	5.01	4.69	4.37	4.06	3.81	3.64	3.37	3.21	3.12	3.1
High	5.25	5.25	5	4.75	4.5	4.5	4.5	4.75	4.75	4.75
Low	4.75	4	3.5	3	2.75	2.5	2.25	2	2	2.25

Source: Bloomberg, Shinhan Securities Vietnam

As the rate is expected to down by up to 1.5 percentage point, we think that the State Bank of Vietnam (SBV) will have more room to cut the policy rate in 2025 by 50-100 basis point.

For the rest of 2024, due to small interest rate cut by FED and SBV already maintained a loosening monetary policy stance since middle 2023, the key interest rates in Viet Nam will not see any significant change.

Key interest rate (%)



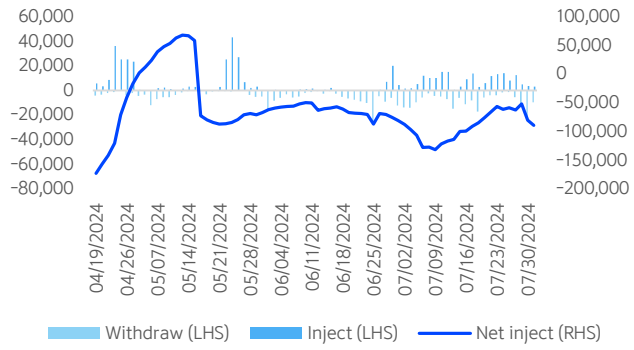
Source: SBV, Shinhan Securities Vietnam

Lower interest rate, liquidity is amplified

Along with a lower interest rate environment, we hope that the liquidity condition will continue to improve thanks to SBV monetary policy tool including the open market operation and foreign reserves. As the VND-USD interest rate gap is narrowed, SBV will be able to maintain an ample liquidity condition to support the economy.

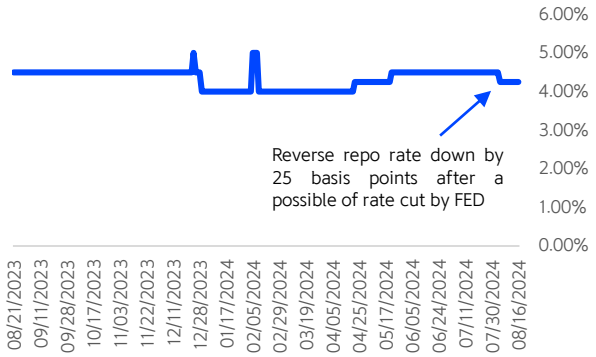
It can be seen that as VND weakening rapidly in the last couple months, SBV had to withdraw VND out of the system to curb the exchange rate pressure.

Operation market operation (VND billion)



Source: SBV, Shinhan Securities Vietnam

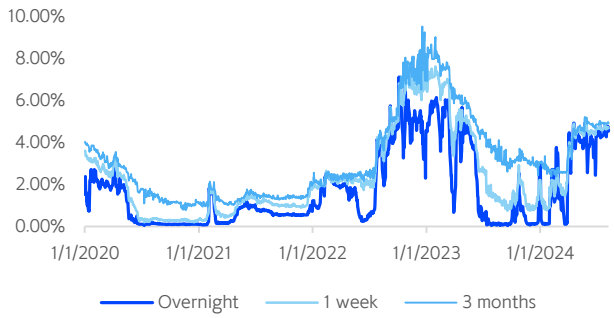
Reverse repo rate – hit the ceiling but calm lately



Source: SBV, Shinhan Securities Vietnam

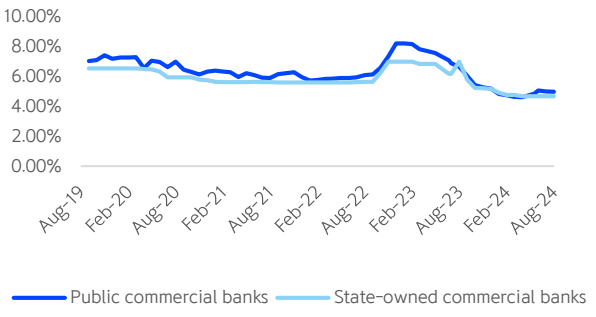
A liquidity remain abundant and a lower key policy rates should allow commercial banks to lower the theirs funding cost. Thus, we expect that the lending rate can be cut downed by 0.5-1 percentage point in 2025.

Interbank interest rate



Source: Shinhan Securities Vietnam

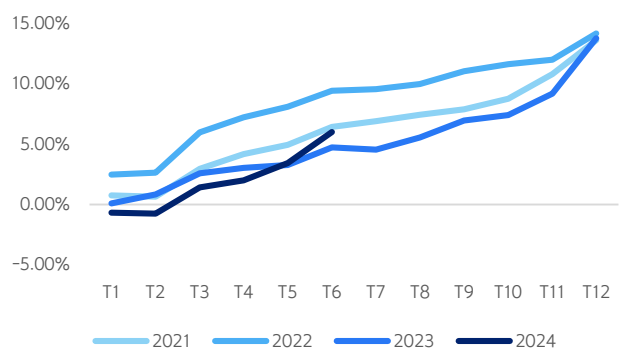
Average 12M deposit rates



Source: Shinhan Securities Vietnam

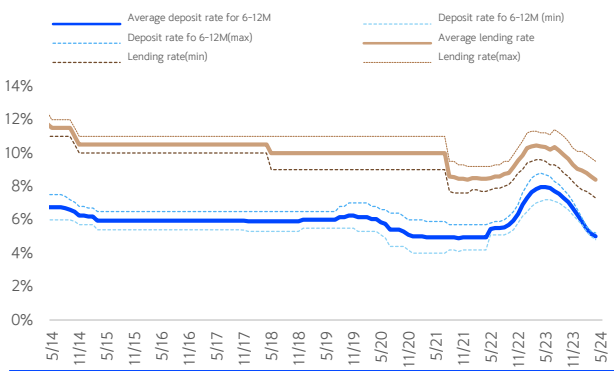
However, we raise our concern on the low interest rate environment, as in the pre-pandemic period, the interest rate was quoted as higher level but credit and economic growth rate still remain solid. We expect that with

Credit growth rate – remained solid amid high rate in the past



Source: Shinhan Securities Vietnam

Lending rate – stayed below pre-pandemic level

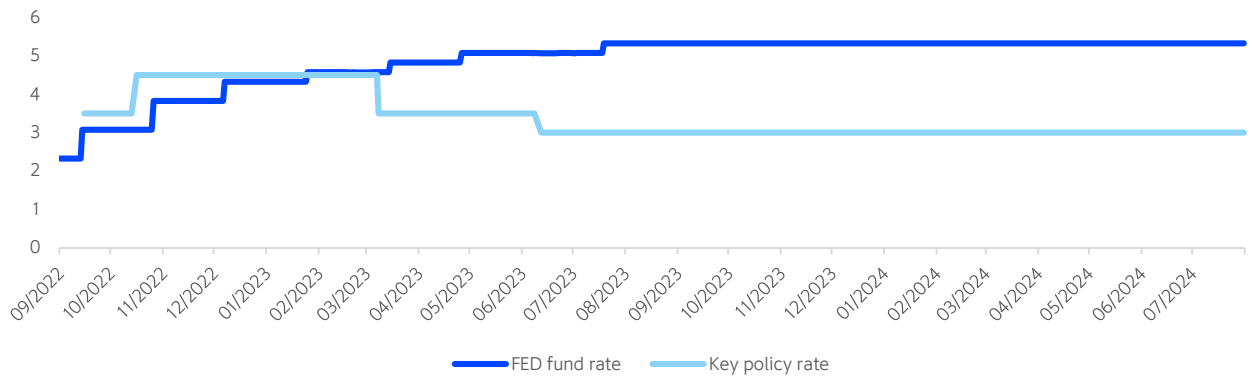


Source: Shinhan Securities Vietnam

Exchange rate eased amid of an upcoming rate cuts

We expect that as FED shifts toward the easing monetary policy, SBV's monetary policy will change from divergence to convergence and the risk from currency market will be reduced. Diverged with FED, SBV already maintain an accommodative monetary policy stance since the middle of 2023, aiming to support Vietnam economy recovery to continue take path in after the Covid-19 pandemic.

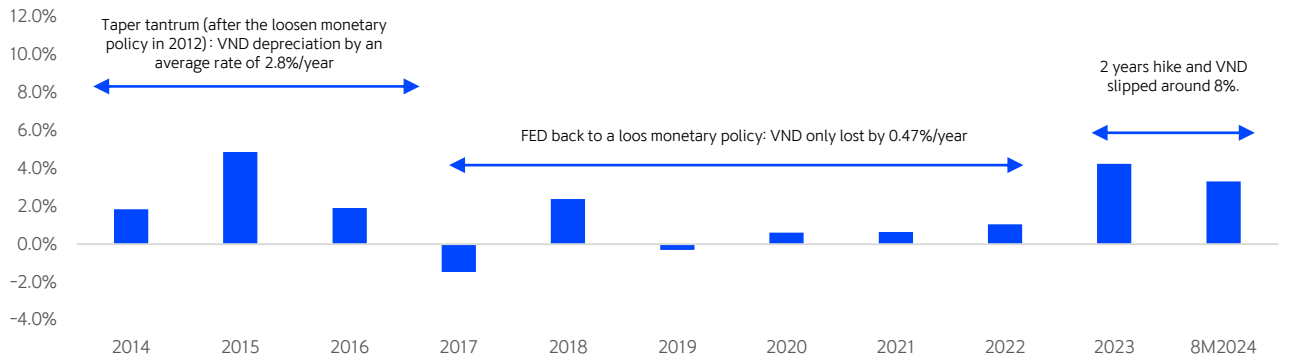
Vietnam maintain a divergence monetary policy in more than a year



Source: Bloomberg, SBV, Shinhan Securities Vietnam

The divergence monetary policy already result in a high volatile of the exchange rate in the last 2 years. From the first rate hike by FED in 03/2022 up to now, the Dong already lost nearly 8% of its value. However, this is the common problem that most of the emerging markets are facing as FED tighten the monetary policy even the emerging countries choose a convergence monetary policy.

VND depreciation rate compared to USD



Source: Fiinpro, Shinhan Securities Vietnam

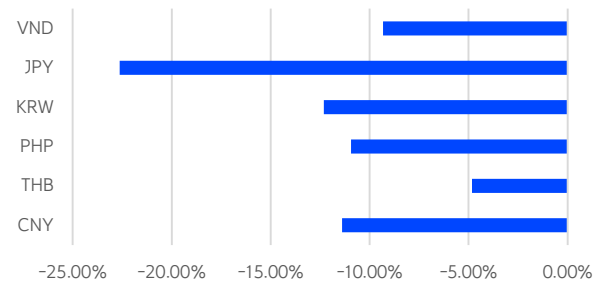
As a result, in the upcoming time, with an expansionary monetary policy in the US, SBV will be able to loose the monetary policy without an intensive pressure on VND. We expect that VND will be benefit in the next few years and the devaluation rate of the VND will be only 0.5%-1%, like what already happened in 2017-2022.

A convergence monetary policy stance…

	2020	Aug-24	Percentage point change
Korea	2.5	3.25	0.75
ThaiLand	0.5	2.5	2
Japan	-0.1	0.25	0.35
Phillipines	2.5	7	4.5
China	2.85	2.65	-0.2

Source: Bloomberg, Shinhan Securities Vietnam

However, exchange rate still suffered in last 2 years



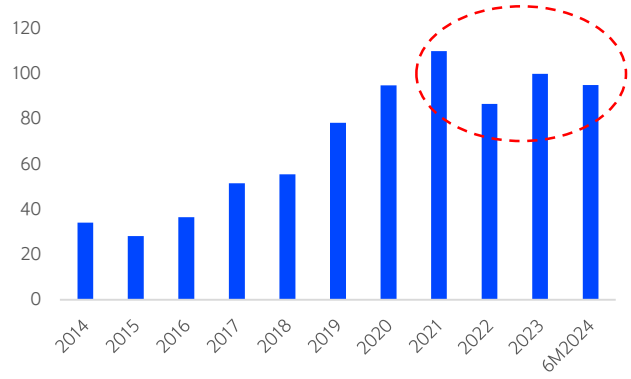
Source: Bloomberg, Shinhan Securities Vietnam

Exchange rate eased amid of an upcoming rate cuts

We also expect that beside the interest rate cut, SBV can take another loosen monetary measure by buying USD into the foreign reserves as FX ease in next few years.

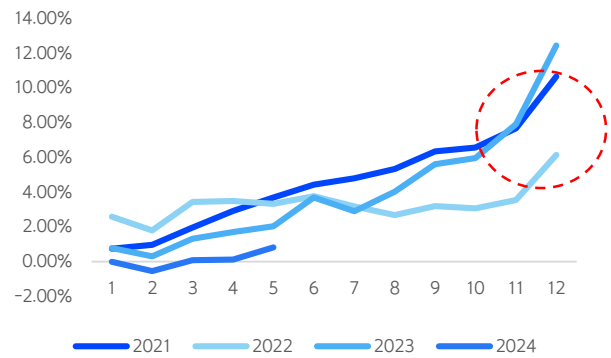
In the last 2 years, under a strong USD environment, SBV had to sell intervene USD to the market and result in a contracted money supply. So, in the next few years with a favorable condition, SBV can increase the foreign reserves by USD8 – USD10 billion each year, equivalent to a huge amount of VND could be injected into the system.

Vietnam foreign reserves (USD billion)



Source: Shinhan Securities Vietnam

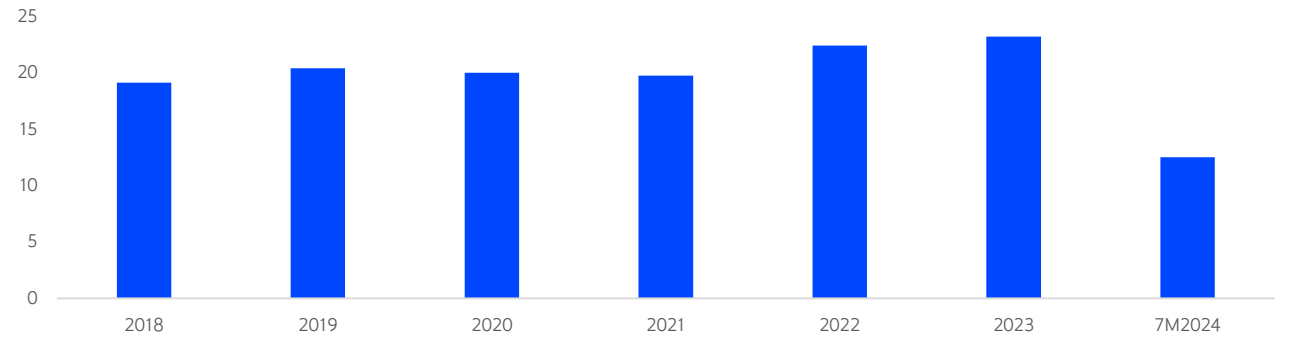
M2 money supply



Source: Shinhan Securities Vietnam

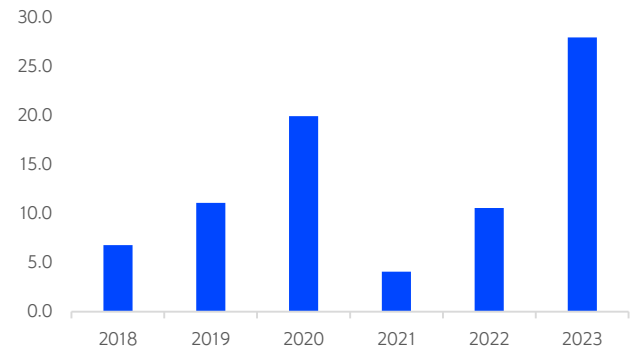
The USD inflow to Vietnam in the next few years will still mainly from (1) FDI and FII inflow thanks to robust economic growth and attractiveness designation, (2) trade surplus as exports growth in line with global demand recovered and (3) a steady remittance over the years.

FDI disbursed (USD billion)



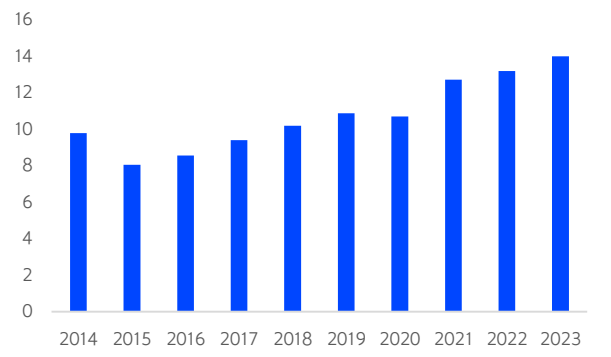
Source: Fiinpro, Shinhan Securities Vietnam

Trade surplus (USD billion)



Source: Shinhan Securities Vietnam

Remittance (USD billion)

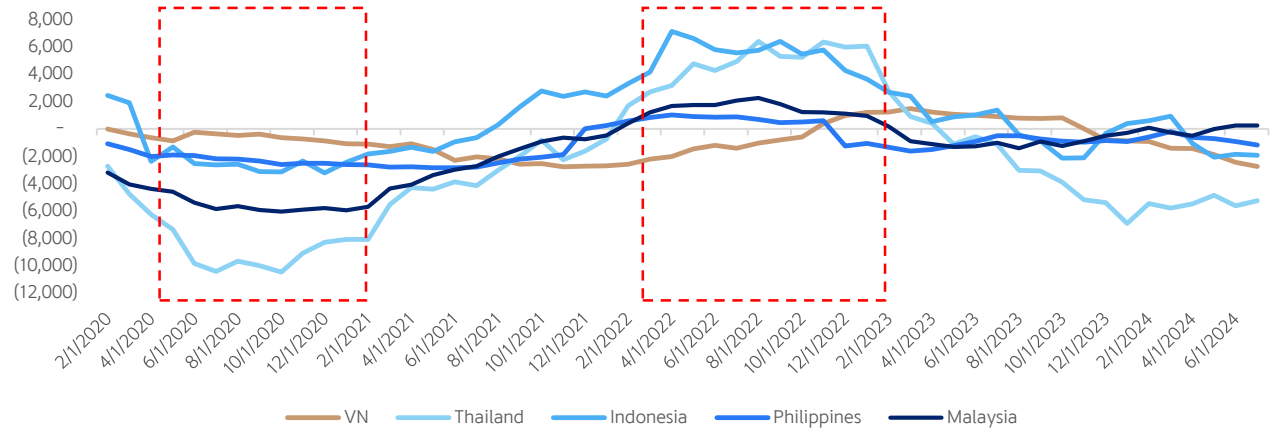


Source: Shinhan Securities Vietnam

Welcome back foreign capital inflow, selling pressure cool down

The foreign investors already net sold by roughly USD3 billion in the stock market for the last 1 year. This is a common issue that most emerging markets are facing and tend to happen since the begging of 2022 – the time FED started to hike the interest rate.

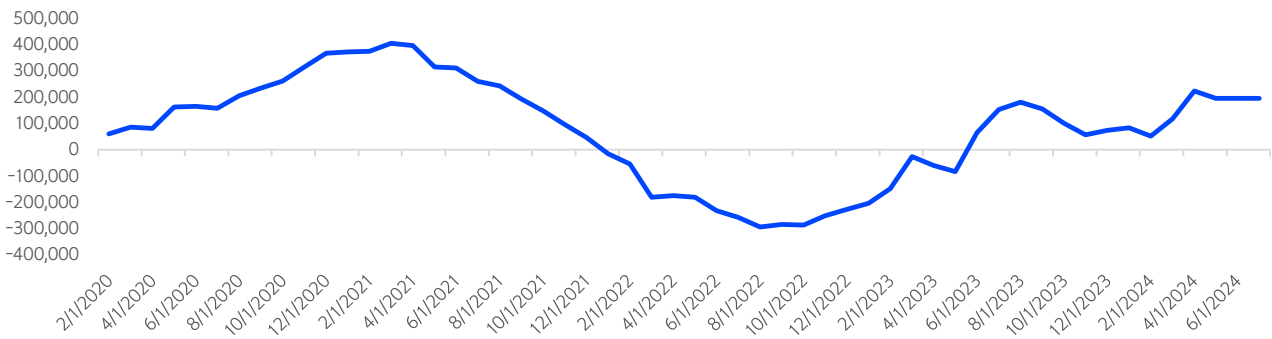
Net foreign fund flow (12M accumulative – USD million) – inversed with US interest rate



Source: Bloomberg, Shinhan Securities Vietnam

Meantime, in the US market, the capital have go back to the country to enjoy a higher yield and stronger USD. As a interest rate in US is pivot shortly and the rate cut could persist till end of 2026, we believe that the foreign capital flow could go back to Vietnam.

US net fund flow (12M accumulative – USD million)



Source: Bloomberg, Shinhan Securities Vietnam

Data from 80 ETFs with total USD245 billion invest in emerging markets showed that they only saw an inflow of USD4 billion in last year, however, they the total inflows in last 5 years still surged by roughly USD70 billion – a signal suggest that the foreign inflow will be back into Vietnam as FED cut the rate and Vietnam stock market can upgrade from frontier to emerging.

Net fund flow in major ETFs fund (USD million)

	1Y	3Y	5Y
iShares Core MSCI Emerging Markets ETF	1,020	11,190	22,550
Vanguard FTSE Emerging Markets ETF	(1,870)	8,860	13,770
iShares MSCI Emerging Markets ETF	(6,680)	(6,380)	(8,230)
iShares MSCI Emerging Markets ex China ETF	8,530	12,980	13,870
SPDR Portfolio Emerging Markets ETF	3,901	37,761	68,777
Schwab Emerging Markets Equity ETF	(267)	1,010	2,880

Source: VetaFi, Shinhan Securities Vietnam

Stock market re-rating

As Vietnamese stock market currently traded at an attractive valuation with the promising outlook from the monetary policy and solid growth in earnings of listed companies, we foreseen that the stock market can be revaluated to a higher valuation. Currently, VN-Index is traded at a P/E ratio of 14.8x – lower than 10Y average of 15.8x and the expansionary monetary policy period of 17x.

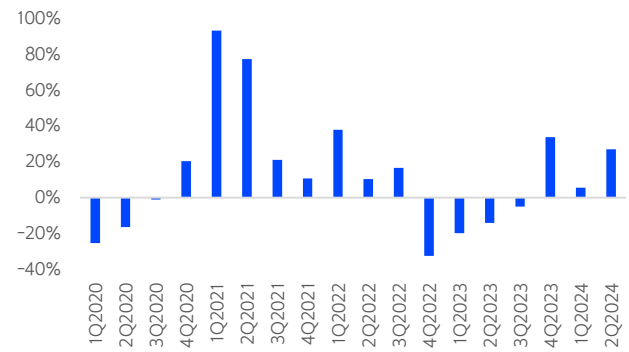
VN-Index valuation



Source: Bloomberg, Shinhan Securities Vietnam

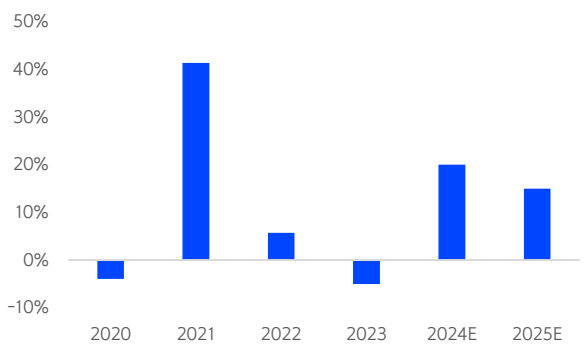
With robust GDP growth rate expected at 6%-6.5% and solid earnings growth of listed companies, the valuation of Vietnamese stock market have becoming more attractive. As listed companies earnings growth is expected at 15% and 10% in 2024 and 2025, respectively, the forward P/E for 2024 and 2025 is at 13.6x and 11.8x.

Listed companies quarterly earnings growth (YoY)



Source: Fiinpro, Shinhan Securities Vietnam

Listed companies yearly earnings growth (YoY)



Source: Fiinpro, Shinhan Securities Vietnam

In addition, Vietnamese stock market is looking relative cheap in terms of valuation and profitability ratio compared to other peers in the region. Thus we expect that Vietnamese stock market is deserved a better valuation.

To sum up, we believe that the pivot monetary policy of FED to easing is a "elixir" and create many benefits for both macroeconomic and stock market in 2025 – 2026. Thus, should any correction on the stock market is a chance for investors to enter the market with high weighted to welcome a strong booming in the next few years.

Vietnamese stock market looks good compared to regional peers (TTM – data as of 16/08/2024)

	P/E	ROE (%)	P/B
Vietnam	**14.78**	**12.28**	**1.65**
Japan	22.39	8.64	1.97
Hong Kong	9.56	9.78	0.99
China	13.58	8.60	1.21
Korea	17.60	6.04	0.93
Thailand	14.58	7.82	1.24

Source: Bloomberg, Shinhan Securities Vietnam

Summary

As many favorable conditions mentioned in this report, we believe that the outlook of the stock market in 2024-2025 and further is becoming more promising, boosted by (1) favorable monetary policy (2) a welcome of foreign inflow, (3) market revaluation and (4) solid growth of listed companies.

So, we believe that the stock market could head back to the old peak 1,500 which was formed in 2022 and reach a new all time high in the future.

Summary of macro indicators forecast

	FED rate cut in 2025	VND depreciation rate in 2025	VN-Index P/E	Earnings growth in 2025	VN-Index (2025)
Bull case	-2.0%	0%	16	15%	1,867
Base case	-1.5%	0.5%	15	10%	1,708
Bear case	-1.0%	1.0%	14	5%	1,542

Source: Shinhan securities, calculation base on VN-Index end 2024 at 1,390 with P/E of 14x and earnings growth 15%

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