Vietnam Economic Update

January 2023

Macro indicators in Jan 2023 affected by Tet holiday, inflation warning

Performance highlights

Manufacturing were still weak. The index of industrial production (IIP) in Jan decreased -14.6%MoM and -8%YoY, partially affected by Tet holiday fallen in Jan, business and factories have been closed for 7 days. PMI posted 47.4 in Jan, up from 46.4 in Dec thanks to decline in new orders softens as new export orders return to growth, but still pointing to a solid monthly deterioration in the health of manufacturing sector.

Retail sales grew strongly but still lower than pre-pandemic scale. Total retail sales of goods and services in Jan was estimated at VND544.8 trillion (+5.2%MoM and +20%YoY). However, total retail sales of Jan 2023 only reached 88.1% its estimated scale if the Covid-19 pandemic has not been happened since 2020 until now, indicating that room for retails growth still remains.

Investment activities mixed. Public investment reached VND27trillion (+3.2%YoY), equal to 4% of the year plan while FDI disbursed USD1.35bn (-16.3%YoY). Total registered FDI was also lower at USD1.69bn (-19.8%YoY), however, newly registered FDI reached USD126.6mn, soared 2.9 times over the same period last year.

Inflation warning

Inflation is still rising hot. Jan CPI increased 0.52% MoM but skyrocketed 4.89%YoY, highest level since Jan 2020. Core inflation set new record at 5.21%YoY, higher than headline CPI in 4 consecutive months and has not showed sign of peak, a warning for monetary policy makers.

Monetary policy will still prioritize inflation control.

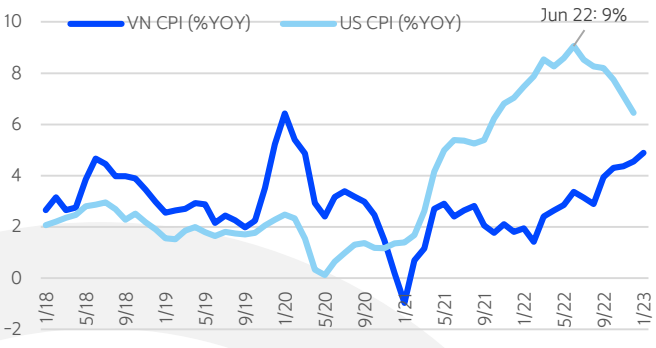
Inflation target of 4.5% would be a great challenge in 2023 due to (1) materials price can increase again after China reopening; (2) pressure of increasing electricity price due to holding back in many years and price of other services controlled by the State like education and healthcare; (3) increase of basic salary by 20.8% since 1 July 2023; (4) stronger USD when Fed keep hiking interest rate that will put more pressure on exchange rate USD/VND.

On Feb 1st, 2023, Fed raised interest rate by 25 basis points to range of 4.50% to 4.75%, a first softening rate increase after US inflation peaked 7 months ago, and expect more rate hikes ahead to bring down inflation. Some central banks have also raised their interest rates several hours later.

In this context, we think that another increase of policy rate by 50 basic points will be conducted by SBV soon to calm down inflation. However, the move may risk economic growth and stock market.

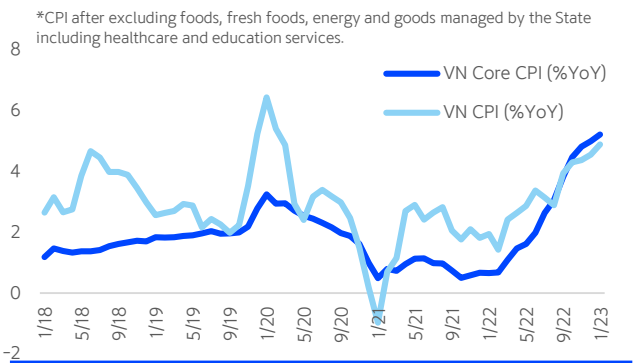
Charts of the month

Vietnam vs. US inflation



Source: Bloomberg, GSO, Shinhan Securities Vietnam

Core inflation* recorded new high



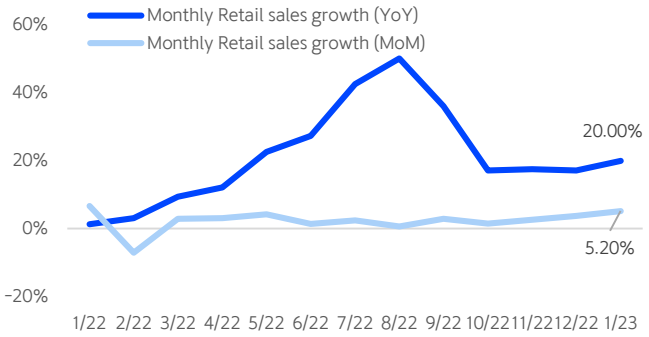
Sources: GSO, Shinhan Securities Vietnam

Ly Bui
Head of Research
☎ (84-28) 6299-8029
✉ ly.btt@shinhan.com

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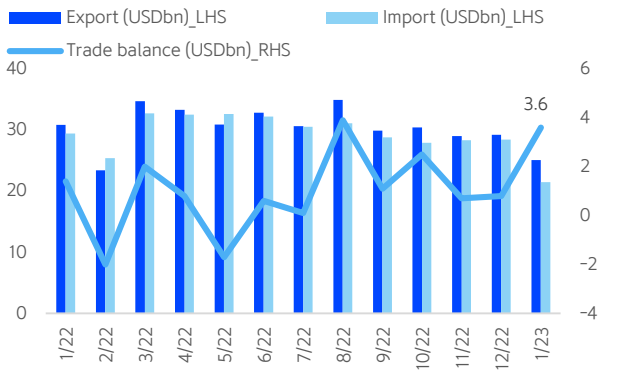
Retails and Export

Retail sales of goods and services



Source: GSO, Shinhan Securities Vietnam

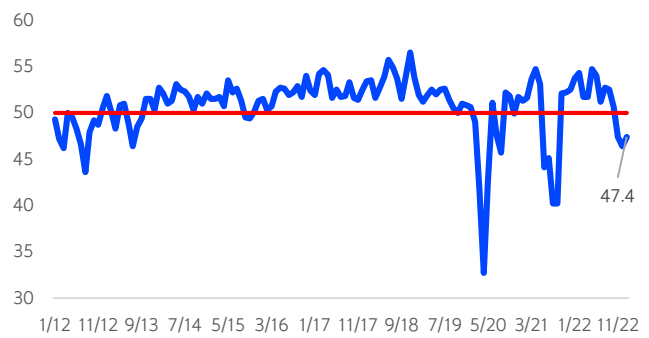
Import-Export turnover



Source: GSO, Shinhan Securities Vietnam

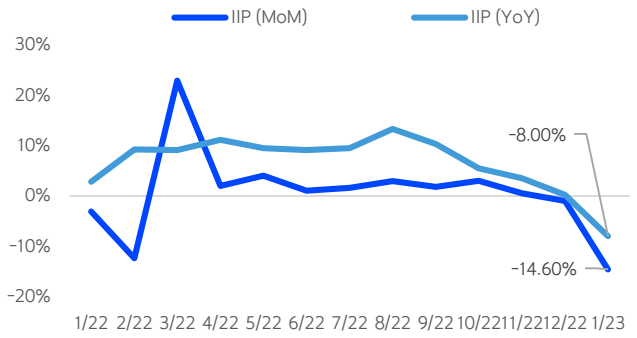
Industrial production

Purchasing Managers' Index (PMI)



Source: S&P Global PMI, Shinhan Securities Vietnam

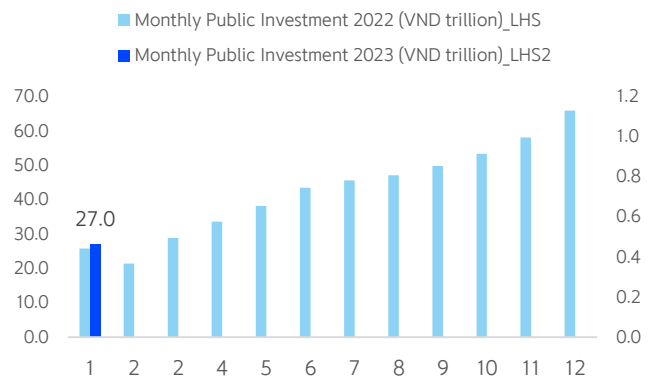
Index of industrial production (IIP)



Source: GSO, Shinhan Securities Vietnam

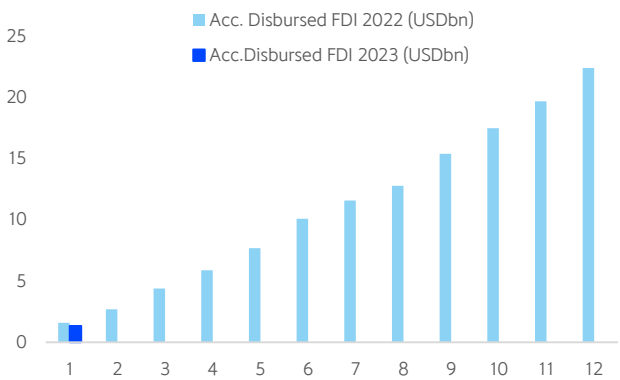
Investment

Public investment



Source: GSO, Shinhan Securities Vietnam

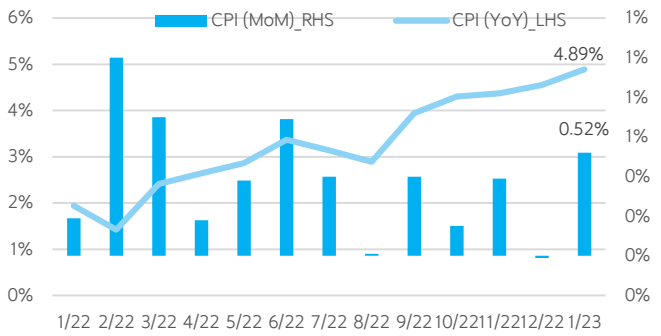
Foreign direct investment (FDI)



Source: MPI, Shinhan Securities Vietnam

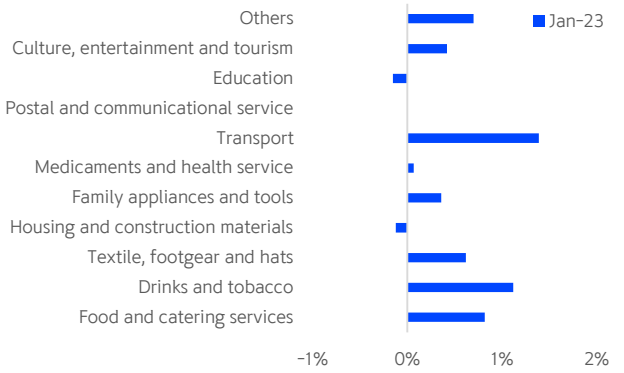
Inflation

CPI



Source: GSO, Shinhan Securities Vietnam

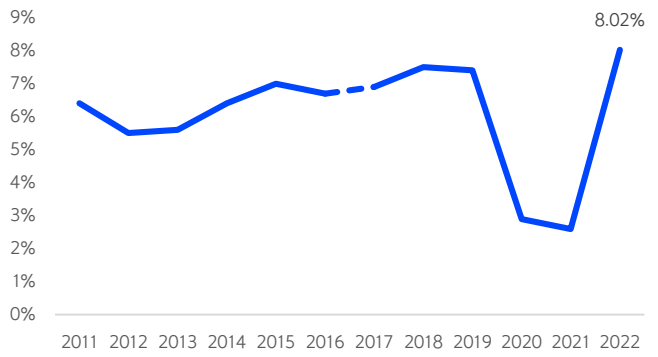
Changes in CPI categories (MoM)



Source: GSO, Shinhan Securities Vietnam

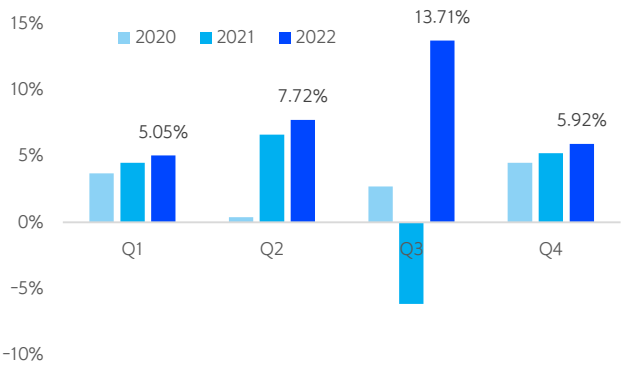
GDP growth

GDP, YoY growth



Source: GSO, Shinhan Securities Vietnam

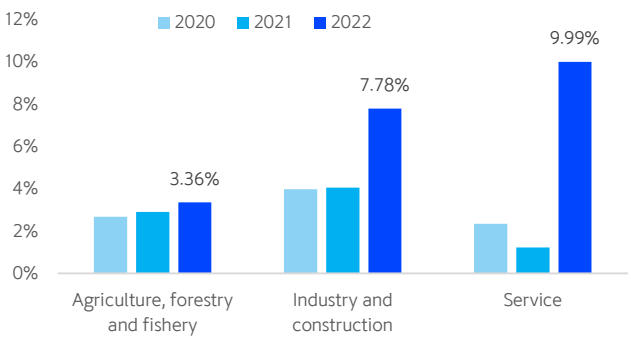
Quarterly GDP, YoY growth



Source: GSO, Shinhan Securities Vietnam

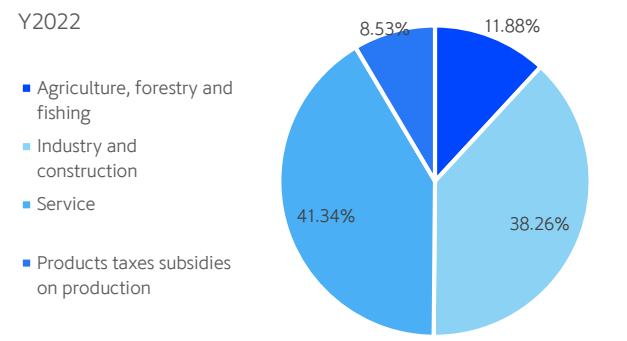
GDP breakdown

GDP by sectors, YoY growth



Source: GSO, Shinhan Securities Vietnam

% shares of GDP



Source: GSO, Shinhan Securities Vietnam

Shinhan Investment Network

Shinhan Securities

SEOUL

Shinhan Securities Co., Ltd
Shinhan Investment Tower
70, Youido-dong, Yongdungpo-gu,
Seoul, Korea 150-712
Tel : (82-2) 3772-2700, 2702
Fax : (82-2) 6671-7573

SHANGHAI

Shinhan Investment Corp.
Shanghai Representative Office
Room 104, Huaneng Union Mansion No.958,
Luijiazui Ring Road, PuDong, Shanghai, China
Tel : (86-21) 6888-9135/6
Fax : (86-21) 6888-9139

NEW YORK

Shinhan Investment America Inc.
1325 Avenue of the Americas Suite 702,
New York, NY 10019
Tel : (1-212) 397-4000
Fax : (1-212) 397-0032

HO CHI MINH

Shinhan Securities Vietnam Co., Ltd.
22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai Street,
District 3, Ho Chi Minh City, Vietnam
Tel : (84-8) 6299-8000
Fax : (84-8) 6299-4232

HONG KONG

Shinhan Investment Asia Ltd.
Unit 7705 A, Level 77
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel : (852) 3713-5333
Fax : (852) 3713-5300

HA NOI

Shinhan Securities Vietnam Co., Ltd.
Hanoi Branch
2nd Floor, Leadvisors Building, No. 41A Ly Thai To,
Ly Thai To Ward, Hoan Kiem District,
Hanoi, Vietnam.
Tel : (84-8) 6299-8000

INDONESIA

PT Shinhan Sekuritas Indonesia
30th Floor, IFC 2, Jl. Jend. Sudirman Kav.
22-23, Jakarta, Indonesia
Tel : (62-21) 5140-1133
Fax : (62-21) 5140-1599



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