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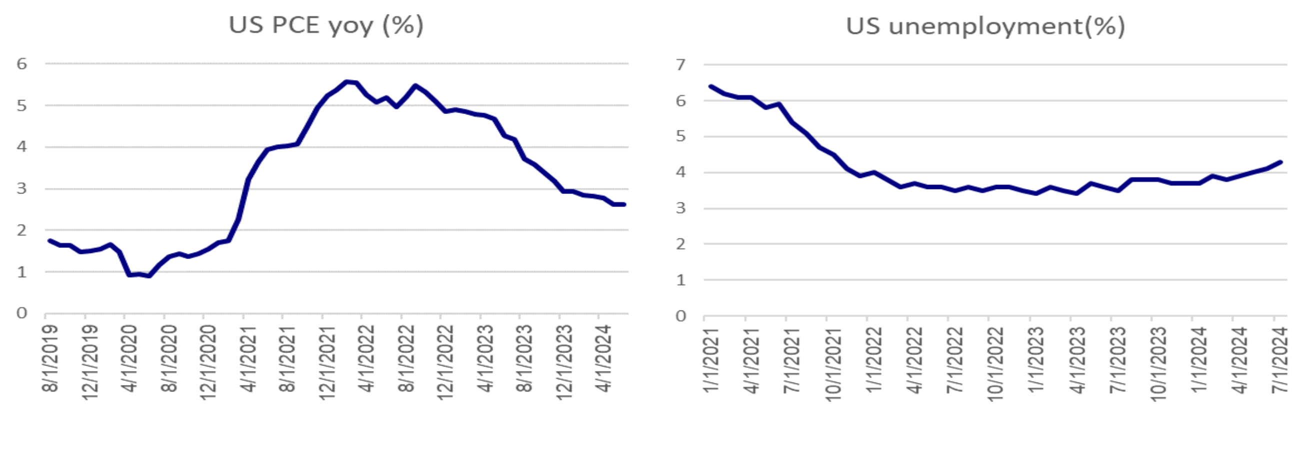
14/08/2024

Vietnam Macro Update July/2024:

July witnessed some fluctuations in the world's largest economy, the United States, as well as in several other countries. Inflation in the world's leading economy continued to cool down, with the Federal Reserve's (Fed) preferred measure of inflation, the PCE index, decreasing to 2.5% compared to 2.6% the previous month. This index has been steadily declining from its peak in July 2022, indicating that the Fed's efforts to curb inflation have yielded positive results. The continuous decline in inflation, moving towards the Fed's 2% target, has increased speculation about the possibility of the Fed cutting interest rates in 2024.

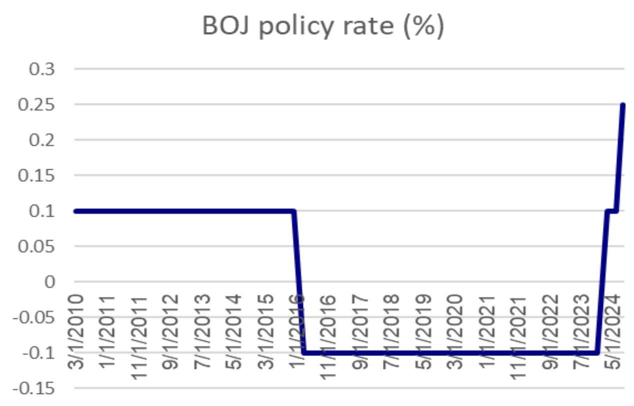
In addition to the cooling inflation, the employment data, unemployment rate, and average income in the U.S. also showed a downward trend in July, raising concerns that the country's economy might have fallen into a recession. Although most investors in the market still hope for a soft landing, the employment and income figures have significantly impacted expectations about the U.S. economy, which relies on consumer spending for up to 70% of its GDP. This has led to a decline in the stock market.

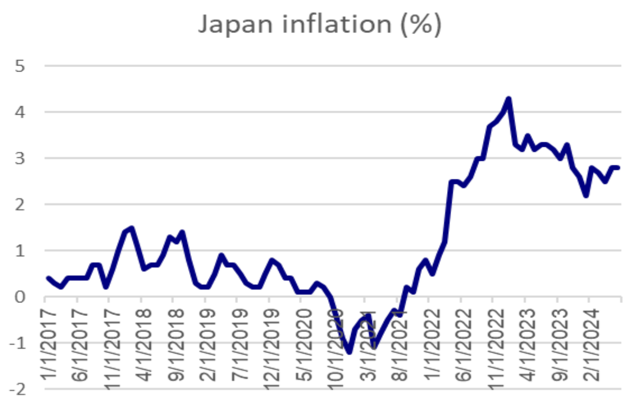


Source: Bloomberg, GTJA RS team

The international financial markets have been influenced not only by developments in the U.S. but also by actions in Japan, where the Bank of Japan (BOJ) raised interest rates for the second time this year. After maintaining record-low interest rates from 2016 to early 2024, the BOJ was compelled to increase rates in response to a sharp rise in inflation, which has now reached the bank's target, following years of struggling against deflation.

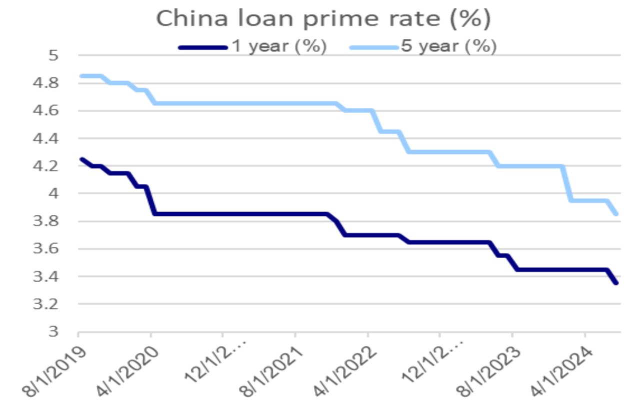
The current interest rate of 0.25% set by the BOJ has not been seen since after the 2008 financial crisis, catching many investors off guard and forcing them to reverse their carry trade positions, leading to significant volatility in global stock markets. During this period, the VIX index, which measures the volatility of the U.S. S&P 500, at one point reached 63 points—an exceptionally high level that has only been seen twice in the history of the VIX: during the 2008 crisis and the COVID-19 pandemic in 2020.





Source: Bloomberg, GTJA RS team

In the Chinese market, the People's Bank of China (PBoC) has continued to cut interest rates for the sixth time since 2020 in an effort to support an economy facing the risk of deflation due to challenges in the real estate market. To support the market, various stimulus policies have been introduced by local governments in China, focusing on consumer products, as concluded in the Third Plenum. The meeting also set a long-term goal of completing the restructuring of the Chinese economy by 2029.



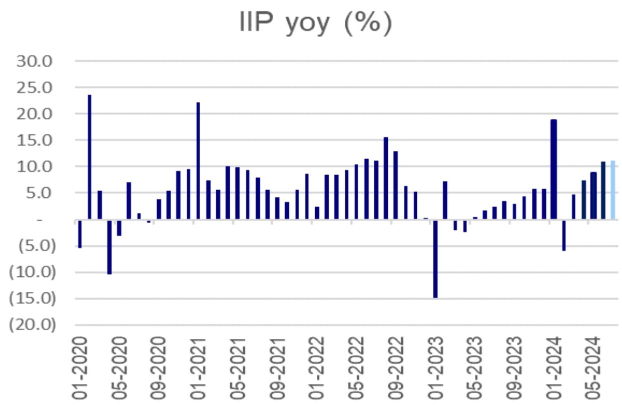
Source: Bloomberg, PBoC, GTJA RS team

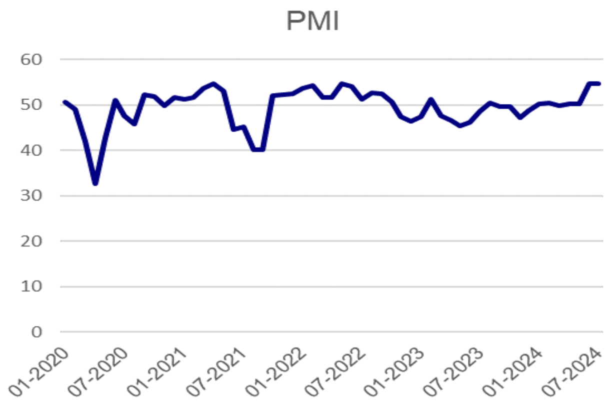
In Vietnam, industrial production continues to accelerate. The Industrial Production Index (IIP) recorded an impressive growth of 11.23% in July, the highest since 2022, excluding the months around the Lunar New Year, when data tends to fluctuate significantly. As a result, in the first seven months of 2024, the industrial index grew by 8.5% compared to the same period in 2023.

The highest growth in the industrial sector continues to be in the manufacturing and processing industry, which saw a 13.3% increase in July. This sector is a major focus and is expected to be the primary driver of growth, helping Vietnam achieve its goals of industrializing and modernizing the economy, as well as joining the global supply chain and becoming a high middle-income economy by 2023. Following the manufacturing and processing industry is the water supply, waste management, and waste treatment sector, which grew by 12.1% in July, and the electricity production and distribution sector, which saw a more modest increase of 9.9%. However, for the year 2024 so far, the electricity production and distribution sector has experienced the highest growth, reaching 12.4%. On the other hand, the mining sector continued to show negative growth, with a -7.0% decline in July 2024 and a -6.2% decrease for the first seven months of the year, demonstrating Vietnam's efforts to reduce its dependence on natural resources.

Not only did Vietnam record positive data for the month, but the outlook for the industrial sector also remains highly promising, with the PMI (Purchasing Managers' Index) registering at 54.7, consistent with the previous month. This marks the fourth consecutive month that the PMI has indicated an expansion in production, and the sixth month in 2024 with this trend. This result contrasts sharply with the contraction in production observed during the latter part of 2022 and throughout 2023, which was negatively impacted by inflation, interest rates, and global oil prices.

The continuous strong increase in the PMI recently is the result of a significant rise in orders over the past period. Manufacturers have ramped up their operations and increased output accordingly. In the context of rising orders, companies have relied more on existing inventories, leading to a sharp decrease in the finished goods inventory levels. The number of employees has continued to grow, although at a slower pace compared to the previous month, resulting in a slight increase in the backlog of work.



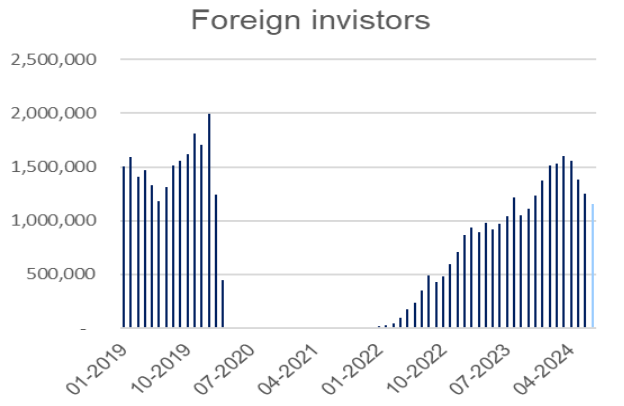


Source: GSO, S&P Global, GTJA RS team

The services sector has also maintained a growth rate of over 9% in 2024, with total retail sales of goods and services increasing by 9.41% in July, up from 9.15% the previous month. This growth rate is comparable to the period of 2018-2019 when Vietnam's economy experienced a stable growth of around 7.0% before being significantly impacted by the COVID-19 pandemic.

Retail sales of goods continue to account for 77.3% of total sales, showing a promising growth of 8.6% in July. However, the highest growth was observed in the accommodation and food services sector, which grew by 13.9% for the month, followed by the travel services sector with a growth of 6.8%. These two sectors also recorded the highest growth rates in the first seven months of 2024, achieving 15.2% and 31.8%, respectively.

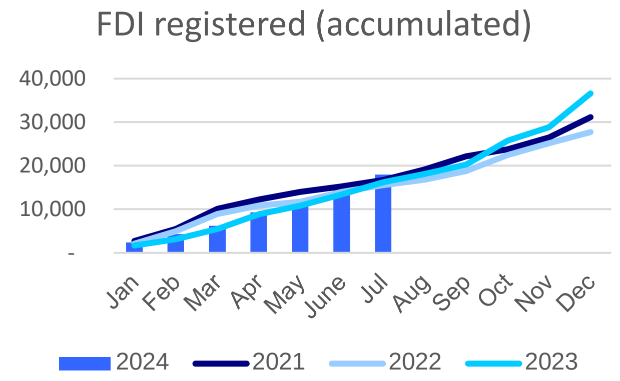
In July, the number of foreign visitors to Vietnam continued to grow well, reaching 10.9%. Since the beginning of the year, the number of foreign visitors to Vietnam has increased by 51.0%, with 87% of visitors in July arriving by air. Approximately 12.9% of visitors used road transportation, while the number of visitors arriving by sea was negligible.

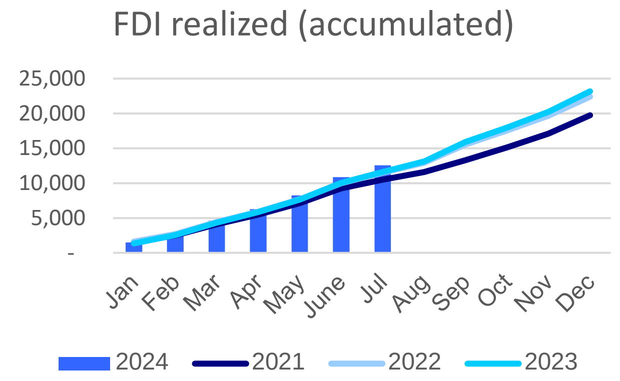


Source: GSO, GTJA RS team

FDI investment registered in July continued to show positive growth. A total of approximately $2.8 billion was registered in Vietnam for the month, bringing the total registered FDI to $18 billion, a 14.5% increase compared to the same period in 2023. Of the 1,816 FDI projects recorded since the beginning of the year, Ho Chi Minh City accounted for 710 projects, followed by Bac Ninh (259 projects) and Hanoi (146 projects). However, in terms of the value of registered FDI, Bac Ninh is the leading locality with 18.9% of the total registered FDI, followed by Quang Ninh (9.9%) and Ba Ria-Vung Tau (9.7%).

FDI disbursement in July reached approximately $1.7 billion, bringing the total disbursement for the year to $12.55 billion. Year-to-date, FDI disbursement has increased by 8.4% compared to the same period in 2023. This level of disbursement is significantly higher than the negative growth or 2-3% increases seen in various months of 2023, indicating that international manufacturers are increasingly moving to Vietnam amid rising geopolitical tensions. Vietnam has demonstrated itself as a safe, stable destination with attractive costs for international businesses.



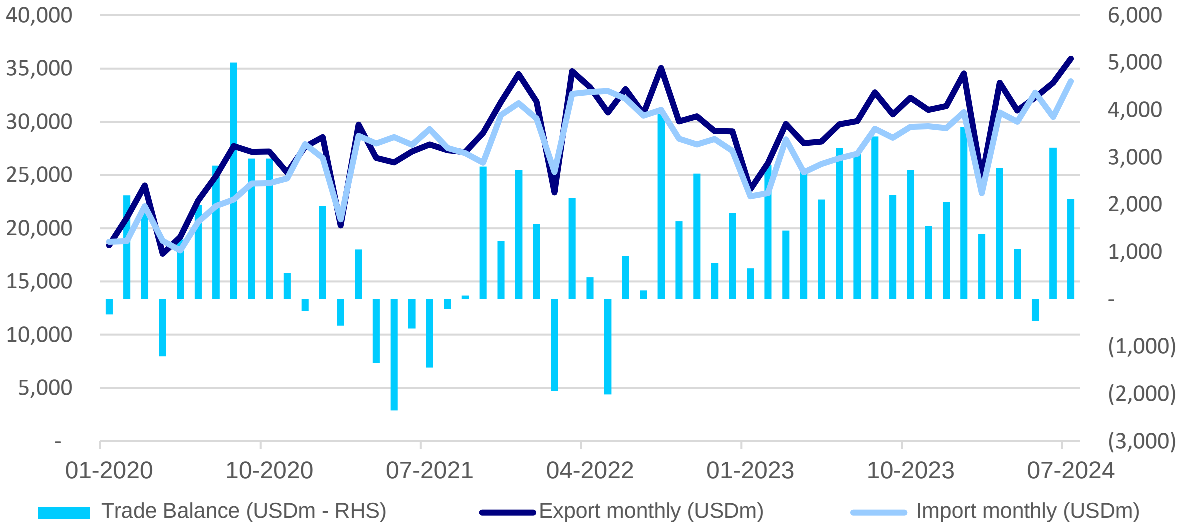


Source: MPI, GTJA RS team

Along with the vibrant domestic production activity, import-export activities have also shown positive progress. In July, export turnover surged by 19.1%, nearly one and a half times higher than the previous month, reaching $35.92 billion. Meanwhile, import turnover also saw a strong increase of 24.7% compared to July 2023, totaling $33.8 billion. Despite the strong growth, most of the imports are raw materials for production, which will likely lead to increased export turnover in the coming months.

Thus, for the first seven months of the year, exports grew by 15.1% compared to the same period in 2023, reaching $225.77 billion. Meanwhile, imports increased by 18.0%, driven by the implementation of FDI projects and the need for raw materials to support the rapidly growing orders, totaling $212.05 billion. The total import-export turnover for the seven months amounted to $437.82 billion, a 16.5% increase compared to the same period in 2023.

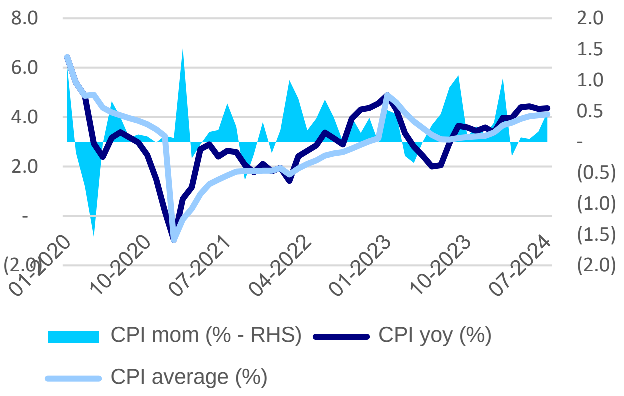
Although imports have been growing faster than exports, Vietnam still maintained a trade surplus of $2.1 billion in July. This is the sixth month this year that Vietnam has recorded a trade surplus, bringing the total trade surplus for 2024 to $13.7 billion, which is only slightly lower than the $16.5 billion surplus for the same period in 2023.

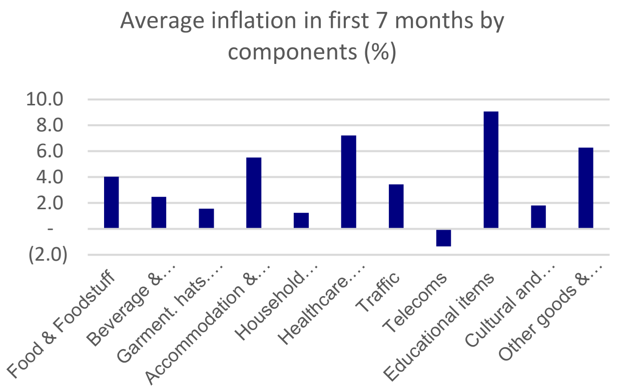


Source: Custom Vietnam. GSO, GTJA RS team

Despite the positive economic news, concerns about inflation in Vietnam persist. The CPI in July increased by 4.36%, showing little improvement from the 4.33% rise the previous month. The average inflation rate for this year has slightly risen to 4.12% compared to 4.08% in the first half of the year, though it remains within the target range of 4.0-4.5% for the year. Compared to the end of 2023, average interest rates have increased by 0.8-0.9%, putting certain pressure on domestic interest rates and potentially limiting the impact of the government's stimulus and easing policies.

The sectors with the highest CPI increases this year are education (9.07% average in 2024), healthcare (7.22% average in 2024), and housing and construction materials (5.52%). Slightly lower is the food sector, with an increase of 4.04%, though it contributes significantly to the overall CPI increase due to its large weight in the basket of goods, accounting for 32.5% of the CPI rise. Inflation is likely to remain complex as increases in the minimum wage drive spending among middle and low-income groups in the coming months.



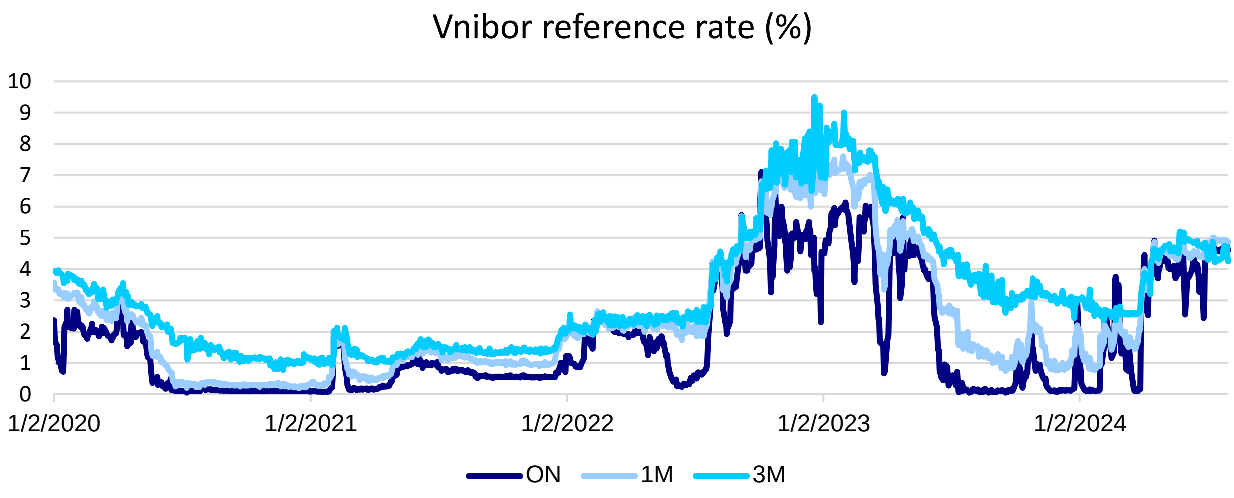


Source: GSO, GTJA RS team

The low interest rates in Vietnam recently have positively supported the recovery of domestic businesses, especially in the real estate sector. However, low interest rates also impact inflation and the ability of banks to attract deposits. As of the end of July, capital mobilization from businesses and individuals increased by approximately 1.93%, which is lower than the rate of credit growth.

To control inflation and balance system liquidity, banks have gradually and cautiously increased interest rates recently. This approach ensures that the financial system does not face major shocks from a simultaneous and sharp rate hike, as seen at the end of 2022, which caused many businesses difficulties in renewing loans for their operations.

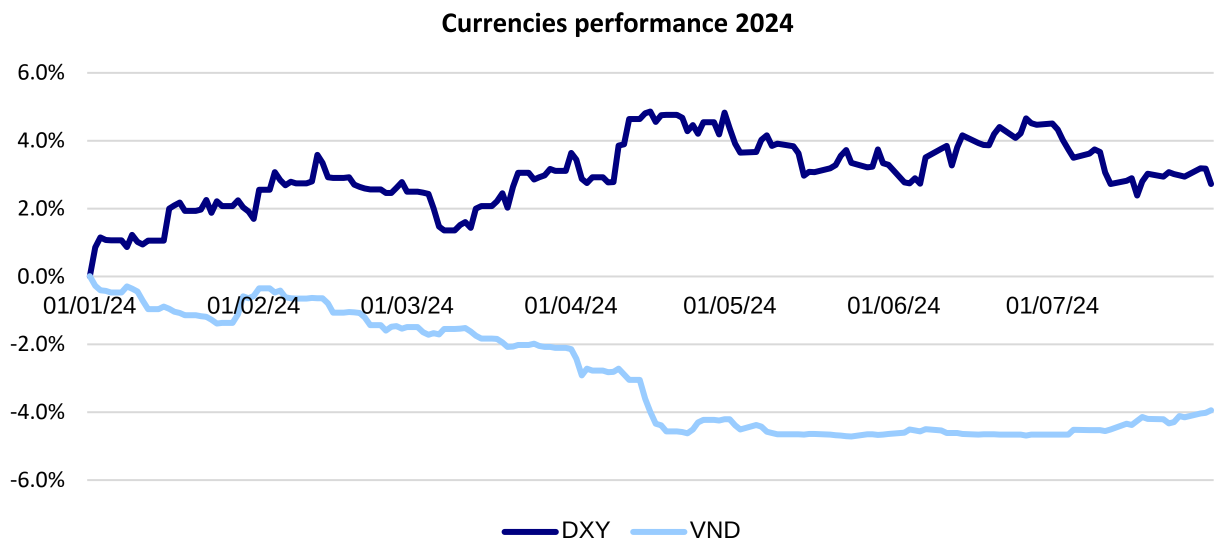
Observations indicate that deposit interest rates have increased by approximately 0.2-0.5% across banks, yet they remain relatively low compared to historical levels. This ensures flexibility for the State Bank of Vietnam (SBV) in achieving its objectives.



Source: Bloomberg, GTJA RS team

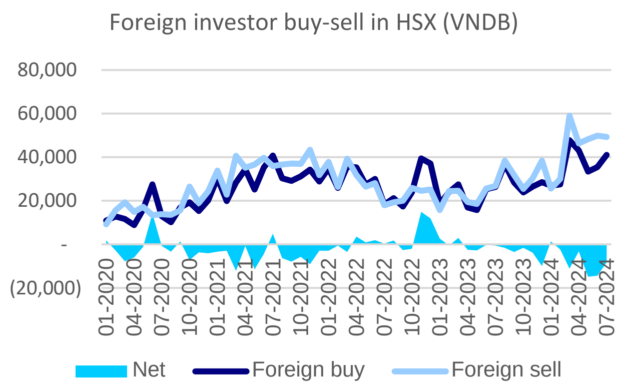
Despite inflation being a pressure point for the domestic currency, the Vietnamese Dong (VND) experienced recovery in July due to trade surpluses, FDI disbursements, and remittances. Additionally, the strength of the USD, as measured by the DXY index, decreased slightly during the month due to expectations of an imminent Fed rate cut and the rebound of other currencies, particularly the JPY, which positively impacted expectations for the VND. Consequently, in July, the VND appreciated by approximately 0.75% against the USD, closing the month at 25,264 VND per USD. However, since the beginning of the year, the VND has depreciated by around 4.1% against the USD.

Additionally, the SBV's previous increase in OMO rates and the subsequent rise in deposit interest rates by joint-stock banks have enhanced the attractiveness of the VND. This contributed to stabilizing the exchange rate in July as the demand for foreign currencies eased somewhat.



Source: Bloomberg, GTJA RS team

In July, foreign investors continued to sell net approximately 8,230 billion VND, bringing the total net selling for 2024 to 52,881 billion VND on the Ho Chi Minh City Stock Exchange. Despite the ongoing net selling, the month showed a relatively positive trend as the net selling pressure significantly decreased to about one-fifth of the previous month's level. By the end of the month, there were several net buying sessions interspersed with net selling, indicating that foreign investors are considering returning as market prices have become very attractive after a series of declines.

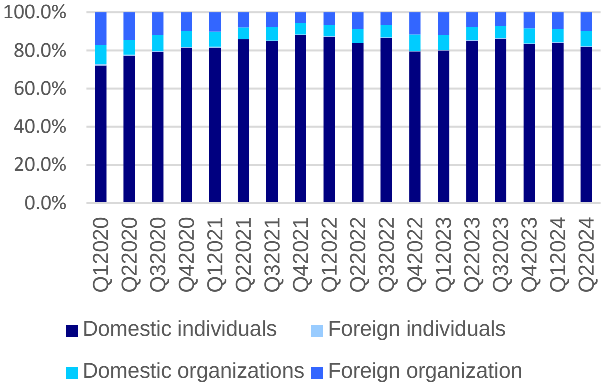


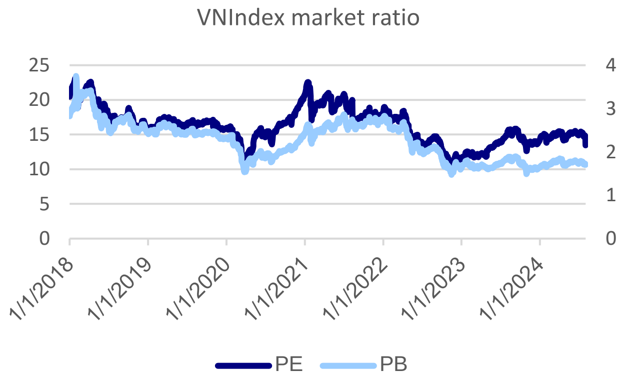
Source: Bloomberg, Hochiminh Stock Exchange, GTJA RS team

We maintain a positive long-term outlook on the Vietnamese stock market, driven by strong economic growth coupled with a flexible monetary policy aimed at stabilizing the exchange rate while supporting growth. With the successful attraction of international FDI, labor productivity, along with the income and consumption of Vietnamese people, is expected to improve in the coming years, making the prospects for domestic companies extremely attractive.

The key to stimulating activity in the Vietnamese stock market lies not only in attractive valuations and the foreign capital inflows that are trending towards a bottom and recovery, but also in the efforts to upgrade Vietnam's market status by regulatory agencies. In recent years, the Government, the Ministry of Finance, and the State Securities Commission of Vietnam have continuously promoted the Vietnamese market and implemented solutions to resolve the constraints for market upgrade, helping Vietnam move from Frontier Market (FM) to Emerging Market (EM) status with FTSE and MSCI.

These solutions are gradually yielding positive results, with restrictions being progressively lifted. Given that the Vietnamese market is still predominantly influenced by retail investors, there are significant opportunities for experienced investors from more developed markets to achieve attractive returns with relatively low risk.





Source: Bloomberg, FiinPro, GTJA RS team

COMPANY RATING DEFINITION

Benchmark: VN – Index. Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

DISCLAIMER

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