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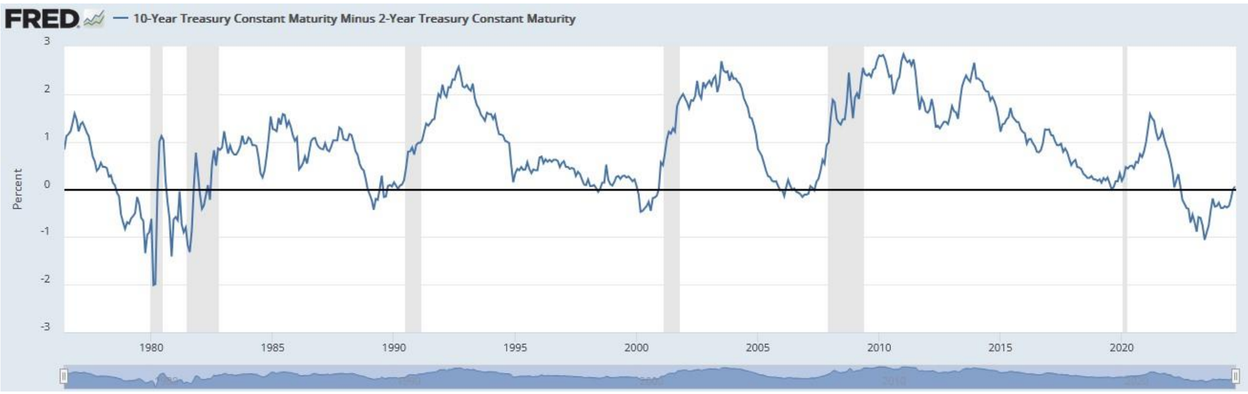
Vietnam Macro Update August/2024:

Economic data from the U.S. in August presents a mixed picture. On one hand, the number of new jobs created in August dropped significantly to 142,000, below the expected 164,000, while average wages rose by 0.4% compared to the forecasted 0.3%. The unemployment rate remained stable at 4.2%, compared to 4.3% in the previous month. Additionally, the U.S. Department of Labor released revised job creation data for the period from April 2023 to March 2024, indicating that the total number of new jobs created during this period was about 800,000 less than previously reported. These somewhat negative labor market changes suggest that the U.S. economy may be slowing down faster than anticipated. Meanwhile, the PCE inflation index for the month remained at a 2.5% increase year-over-year, unchanged from the previous period and within the Federal Reserve's safe zone.

On the other hand, the U.S. preliminary Q2 GDP grew by 3.0%, surpassing the forecast of 2.8%. The Conference Board's consumer confidence index also reached 103.3 points, exceeding expectations of 100.9 points. Personal income and the services sector PMI recorded higher-than-expected increases, indicating that American consumers continue to spend robustly, with consumption accounting for 70% of the country's GDP. This suggests that concerns over a potential U.S. economic recession may not yet be materializing.

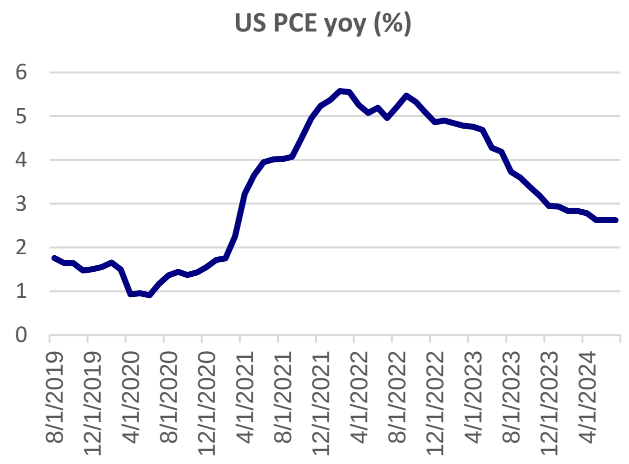
Nevertheless, the yield curve spread between U.S. 10-year and 2-year Treasury bonds has normalized (no longer inverted, where the 10-year yield is lower than the 2-year yield) for the first time since mid-2022. Typically, the normalization of this yield curve after a prolonged inversion is seen as a signal of an impending economic recession in the following months. However, the exact timing is difficult to predict and can range from 6 months to a year.

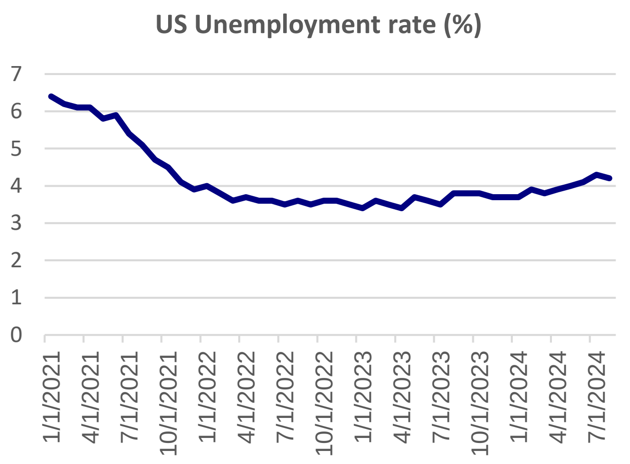


Source: Federal Reserve Economic Data, GTJA RS team

Before the meeting concluded on September 18, market surveys indicated that the Federal Reserve (Fed) was expected to cut interest rates by 0.25-0.5%. The Fed reduced rates by 0.5% and is projected to cut an additional 0.5% in 2024 and another 1% in 2025. Despite this, Fed officials emphasized that the U.S. economy remains strong, suggesting that the rate cuts were a cautious move rather than a reaction to the current economic conditions.

If successful, these rate cuts, made while the U.S. economy still has solid fundamentals, could help the U.S. avoid a hard landing scenario. It may also become a significant milestone in Fed Chair Jerome Powell's career, marking a potential triumph.

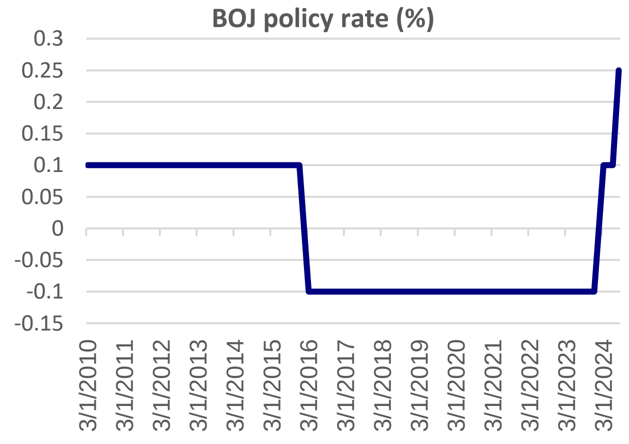


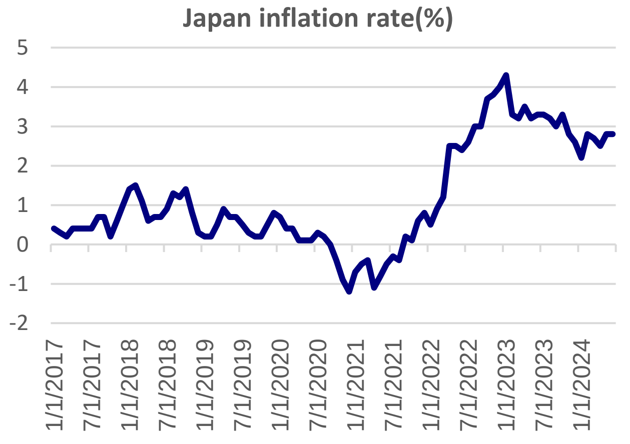


Source: Bloomberg, GTJA RS team

Inflation in Japan has remained at 2.8% over the past few months, following the Bank of Japan's (BOJ) decision to raise its policy interest rate by 0.15%, from 0.1% to 0.25%. This hike caused significant volatility in international financial markets, prompting the BOJ Governor to issue statements and commitments aimed at calming the markets. Despite assurances that there would be no sudden interest rate increases, the current inflation rate remains relatively high in the context of Japan's history, a country that has struggled with deflation (negative inflation) for decades.

Overall, in the upcoming mid-September meeting, it is likely that the Bank of Japan (BOJ) will maintain its current interest rate but will pave the way for another rate hike in the fourth quarter to control inflation. This move contrasts with the interest rate cuts being implemented by many other central banks to support their economies. Such an action has the potential to cause significant volatility in financial markets, as traditional investment strategies like JPY carry-trades could lose effectiveness.





Source: Bloomberg, GTJA RS team

In China, the country continues to face challenges as retail sales in August only grew by 2.1%, a significant drop from 2.7% in the previous month and lower than the forecast of 2.5%. Overall, consumer spending in this market is heavily impacted as people feel that the economic outlook remains bleak. Meanwhile, the government's economic stimulus measures and efforts to rescue the real estate market have not yet achieved the desired results.

On the other hand, there have been some signs that China is managing to control the risk of deflation, as inflation in August saw a slight increase of 0.6% compared to the same period in 2023, which is also higher than the 0.5% rise in the previous month. If inflation remains at low levels, the central bank may take more aggressive actions by intervening in market interest rates to ensure economic and social stability.

Source: Bloomberg, PBoC, GTJA RS team

Industrial production growth in Vietnam maintained a positive momentum in August. The Industrial Production Index (IIP) for the month rose by 9.5% compared to the same period last year, exceeding this year's average of 8.6%. However, the increase in August was somewhat milder than the 11.1% achieved in the previous month.

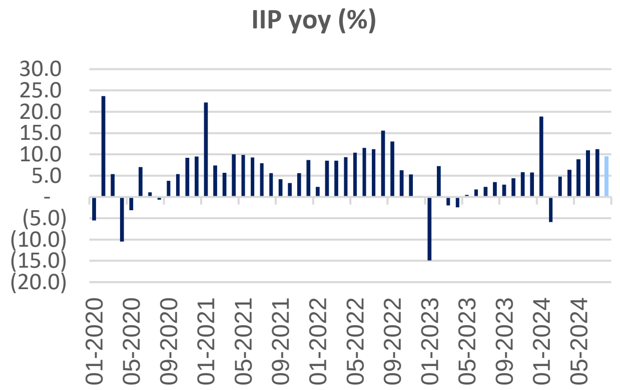
Looking in more detail, the manufacturing and processing industry achieved a growth rate of 10.6%, leading the overall industrial production activity. However, this sector experienced a slowdown compared to July (which saw a growth of 13.8% year-on-year), attributed to a decline in production of electronic devices, computers, optics, and motor vehicles. This adjustment is likely a result of waiting for government policies to support registration fees for automobiles, as well as phone manufacturers reassessing their plans due to some international demand risks.

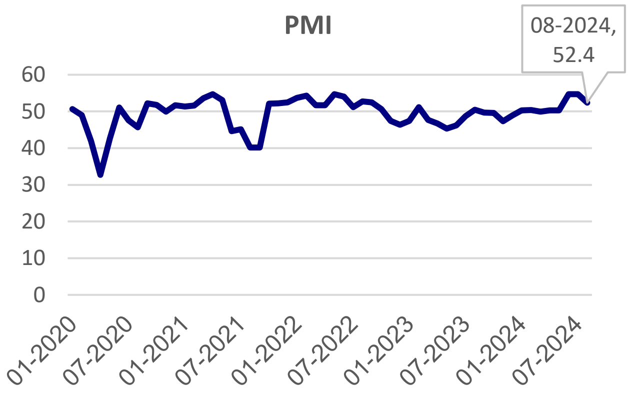
Meanwhile, the decline in the mining sector slowed in August, with a decrease of only 1.5% compared to the same period in 2023, compared to an average annual decline of 6%. Electricity production and distribution also improved, rising by 8.9% in August compared to a 7.6% increase in the previous month, likely due to the inauguration and operation of the 500kV Circuit 3 transmission line. The water supply and wastewater treatment sector maintained a growth rate of 12.6%, compared to 11.1% in July.

The commissioning of the 500kV Circuit 3 transmission line is a highly encouraging effort by the government, facilitating the transfer of electricity from the Central and Southern regions, which have surplus capacity, to the North, a destination for many manufacturers in recent years. Despite ongoing challenges, EVN (Electricity of Vietnam) is committed to ensuring electricity supply for production and business in 2024, alleviating concerns among domestic and foreign enterprises about the possibility of a repeat scenario like in 2023.

While industrial production continues to grow, the PMI for August also reached 52.4 points, indicating that the trend of production expansion will remain dominant in the coming months. However, this growth level reflects a more cautious approach compared to the score of 54.7 over the previous two months. This caution may stem from manufacturers' concerns about the potential decline in demand from major economies due to recent unusual fluctuations in financial markets, as well as anticipation for the outcomes of upcoming elections in the U.S. and Japan.

S&P Global's detailed report on the PMI indicates that production and new orders continue to grow well, while the increase in input costs and output prices has stabilized, positively supporting the production activities of businesses. On the flip side, there has been a decrease in employment compared to the previous month, as temporary contracts are ending and workers are leaving factories.



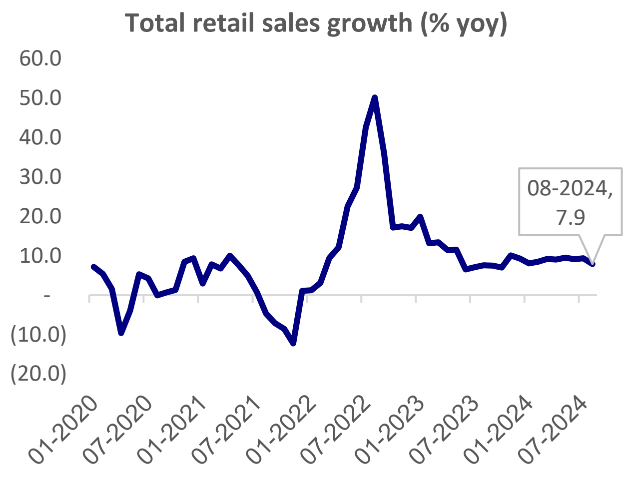


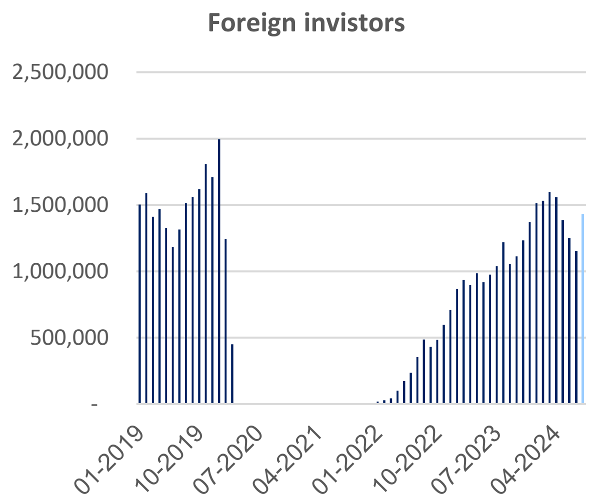
Source: GSO, S&P Global, GTJA RS team

Total retail sales of goods and services in August are estimated to reach 526.6 trillion VND, up 7.9% compared to the same period in 2023. Thus, retail sales of goods and services have slowed down compared to the previous month (which saw an increase of 9.4%) and are also lower than the average for 2024, which is 8.5%. However, when excluding price factors, total retail sales still grew by 5.3% compared to the average growth of 5.1-5.2% in recent months, indicating no unusual signs in this sector.

Retail sales of goods continued to account for approximately 77.1% of total retail sales, growing by 7.5% compared to the same period in 2023. Additionally, accommodation and food services represented 11.6% of total retail sales and experienced a more positive growth rate of 9.7%. The tourism sector, which makes up a small share of 1%, showed modest growth of 7.1% in August.

In August, the number of foreign visitors to Vietnam exceeded 1.4 million, marking a significant increase after three consecutive months of decline. Compared to the same period in 2023, the growth rate of foreign visitors reached 17.7%, which is equivalent to the level seen in August 2019, before the restrictions during the COVID-19 pandemic and the war led to reduced travel.

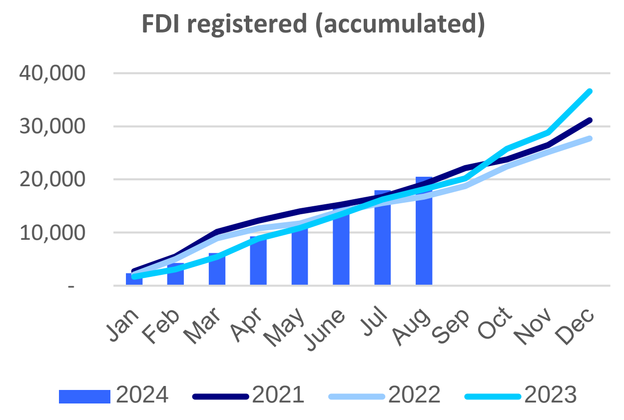


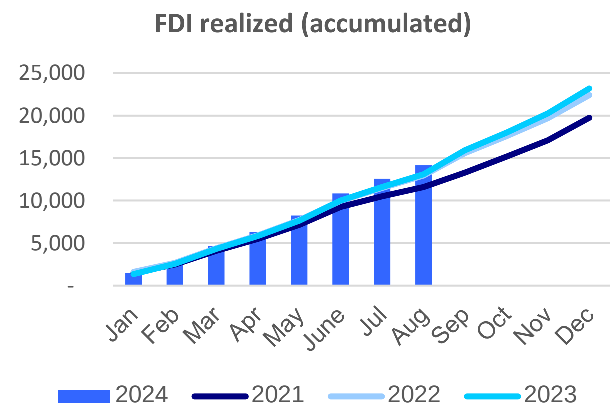


Source: GSO, GTJA RS team

Foreign direct investment (FDI) registered in August saw a significant increase of $2.5 billion compared to the previous month, bringing the total registered FDI for this year to $20.5 billion. The majority of this FDI (approximately $17.7 billion) is allocated for new project establishment and increasing capital for existing projects, with only $2.8 billion going toward purchasing shares and investing in existing businesses. Thus, committed FDI this year has risen by 13.1% compared to the same period last year, indicating that Vietnam remains an attractive destination for foreign manufacturers in their strategies to diversify manufacturing locations and supply chains.

In August, FDI disbursement reached $1.6 billion, bringing the total disbursement for 2024 to $14.15 billion. Compared to the same period in 2023, this represents a strong growth of approximately 8.0%, continuing to maintain a record in attracting and disbursing FDI for the year. Furthermore, the sustained growth of FDI in the context of Vietnam's commitment to the global minimum tax indicates that the country's ability to attract FDI is due to its inherent attractiveness, rather than solely relying on incentive factors.





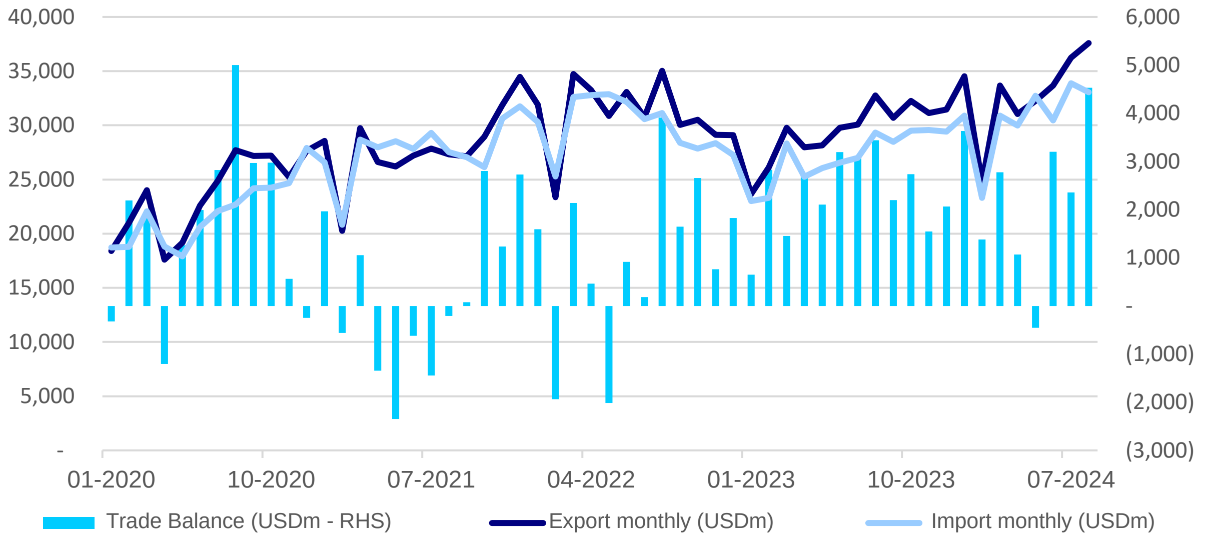
Source: MPI, GTJA RS team

In August, trade showed solid growth. The estimated export turnover for the month reached $37.59 billion, while imports totaled $33.06 billion. Thus, in August, exports grew by 14.5%, while imports are projected to increase by 12.4% compared to the same period in 2023. This growth rate is higher than the average increase of 10-12% in 2024, although it is lower than the record

20-25% seen in the previous month. The trade surplus for the month reached $4.53 billion, the highest so far this year, as the growth rate of exports outpaced that of imports.

Thus, in the first eight months of the year, exports grew by 15.2%, reaching $263.68 billion, while imports increased by 17.3%, totaling $245.19 billion. The cumulative trade surplus since the beginning of the year reached approximately $18.5 billion, which is a very high level in recent years.

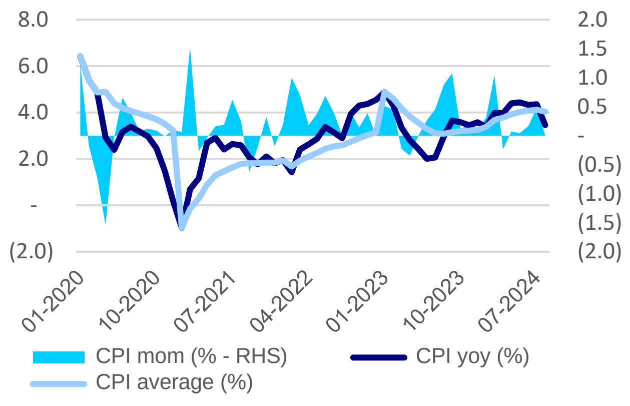
As mentioned in previous reports, although the recent growth rate of imports has slightly outpaced that of exports, most of these imports are intended to support exports. We expect the trade balance will not face significant pressure. Additionally, the increase in imports for production will lead to export surpluses in the coming months, and the figures from August can be considered evidence supporting this assessment.

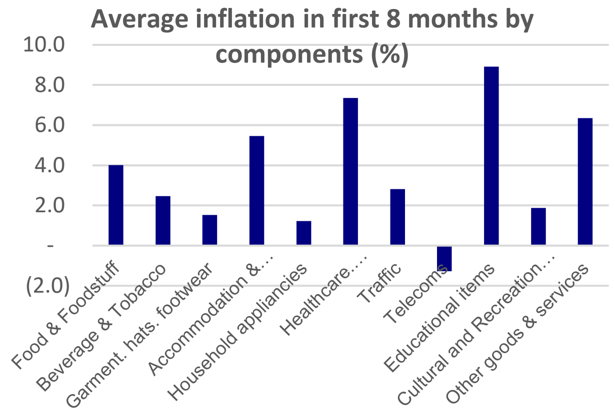


Source: Custom Vietnam. GSO, GTJA RS team

Inflation in August experienced a sudden slowdown. The Consumer Price Index (CPI) for this month increased by 3.45% compared to the same period in 2023, a significant drop from 4.36% in the previous month and lower than the average of 4.04% for 2024. While there have been some factors contributing to the recent rise in inflation, such as increases in the minimum wage (primarily affecting salaries in the public sector), higher healthcare and medication costs, as well as education expenses, the decline in gasoline prices in August played a crucial role in supporting the decrease in inflation. Gasoline is a key input for freight transportation, with 94% of transportation volumes being carried out by gasoline/diesel-powered vehicles on both road and water.

Education (up 7.8% year-on-year), pharmaceuticals and healthcare (up 8.3%), housing and construction materials (up 4.99%) are among the sectors that saw significant price increases in August, followed by food (3.84%). Overall, these sectors experienced a slowdown of about 0.1-0.5% compared to July, while transportation dropped sharply from a 4.4% increase in July to a decrease of 1.46% in August. Despite this slowdown, the average inflation rate for 2024 remains at 4.01%, which is within the government's target for this year (4.0-4.5%) but higher than the ceiling of previous years (maximum 4.0%).



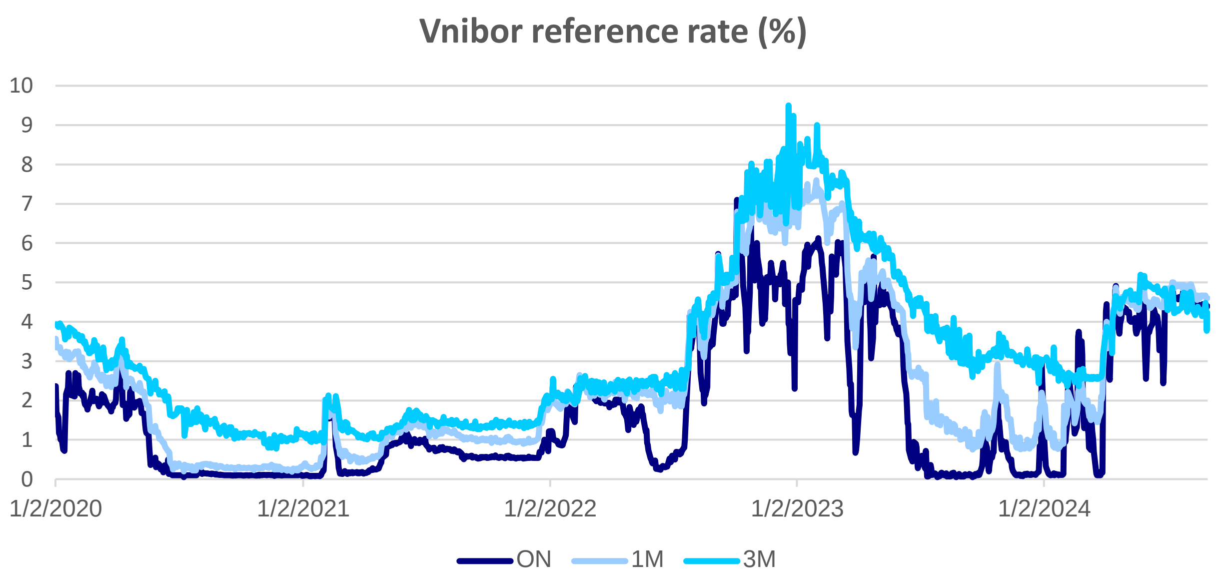


Source: GSO, GTJA RS team

According to information from the State Bank of Vietnam (NHNN), as of August 26, credit growth in the entire system increased by approximately 6.63%, while capital mobilization grew by about 2.76%. It is expected that the entire system could achieve a credit growth target of 15% for the year 2024.

However, according to the early-year survey by the State Bank of Vietnam (NHNN) with credit institutions, capital mobilization this year is expected to increase by 10-11%, and the current trends in mobilization and credit seem to align with that forecast. On one hand, this discrepancy means that credit institutions will need to raise interest rates on deposits to somewhat balance the activities of mobilization and lending. In fact, banks have been cautiously increasing interest rates since May of this year, with a common increase of about 0.3-0.5% so far.

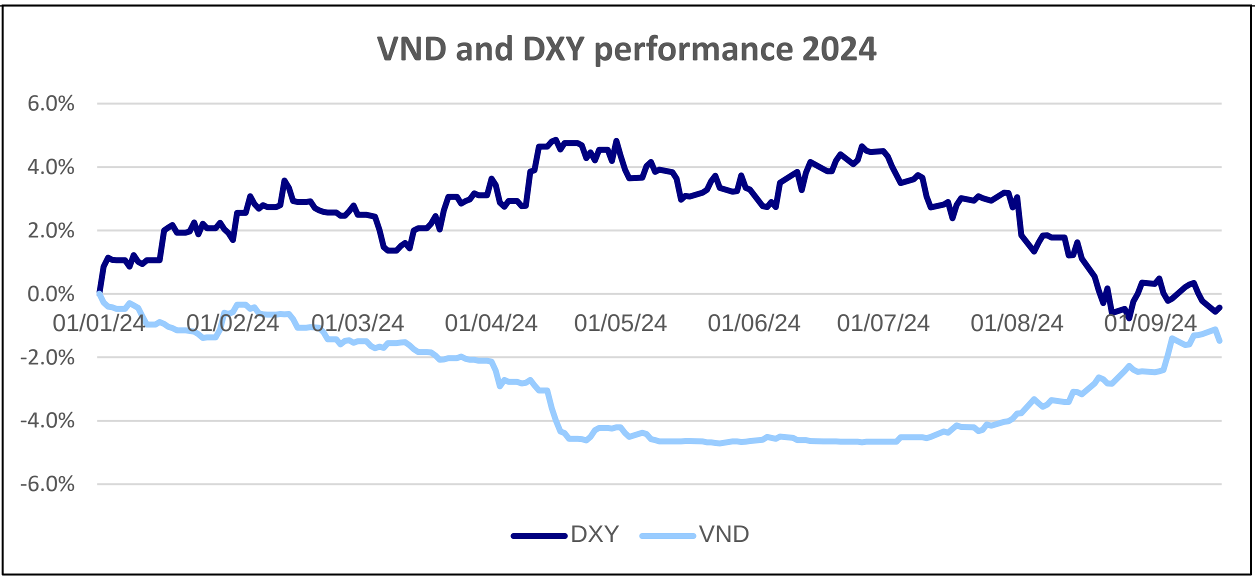
On the other hand, credit institutions and the State Bank of Vietnam (NHNN) have anticipated these market developments and have strategies in place. NHNN has proactively requested market members to save costs, ensuring that deposit interest rates do not increase in support of economic growth targets. We observe that the stability of the system is currently maintained; however, the discrepancy between the mobilization and credit channels is likely to persist throughout this year.



Source: Bloomberg, GTJA RS team

The current account surplus, driven by trade surplus, FDI disbursement, and remittances, has continued to support the appreciation of the VND in August. Additionally, the strength of the USD has weakened, aligning with the levels seen at the beginning of the year in mid-September, which significantly alleviated pressure on Vietnam's domestic currency. As a result, the VND has appreciated notably since early July, with a decline of only 2.4% in August 2024, down from a peak decline of 4.7%. By mid-September, the depreciation against the USD was reduced to approximately 1.5%. Compared to the years from 2012 to 2022, the VND generally depreciated by around 1.8-2.0% on average each year. The 1.5% depreciation observed by mid-September is relatively mild, providing support for domestic exports and helping to stabilize and maintain confidence in the Vietnamese dong.

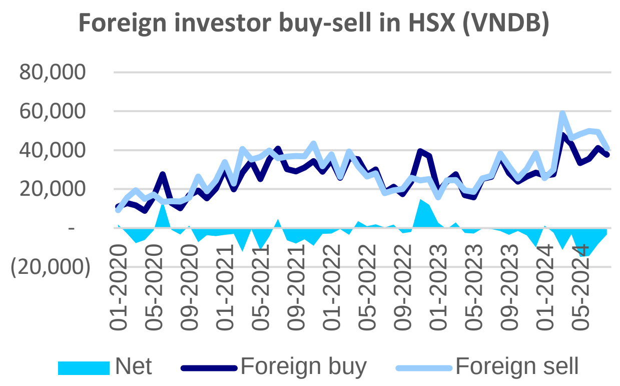
With the stable exchange rate paving the way for the State Bank of Vietnam (SBV) to implement several accommodative policies, such as reducing the discount rate on treasury bills, limiting treasury bill auctions, and decreasing the OMO rate by 0.25%, the SBV aims to support economic growth and recovery following the historic Yagi storm.



Source: Bloomberg, GTJA RS team

In August, foreign investors continued to sell off, but the selling pressure weakened significantly. Throughout the month, the net selling value was approximately 3.279 trillion VND, a sharp decline from the peak net sell of around 14 trillion VND in May and June. Cumulatively, since the beginning of the year, foreign investors have net sold about 56 trillion VND on the Ho Chi Minh Stock Exchange.

In addition to the weakened net selling in July and August, there have been several sessions where foreign investors showed net buying demand, especially when the VNIndex approached the attractive price range of 1200-1250. With the government and the State Securities Commission actively implementing measures to enhance the market's attractiveness and aiming for growth in the stock market's scale by the end of 2025, the 1,200-1,250 range is expected to serve as a long-term bottom. Absent any unusual shocks, the market is projected to gradually recover and reach previous highs in 2024-2025.

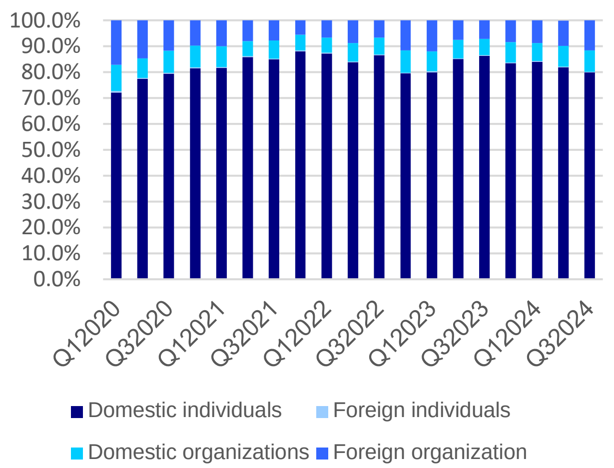


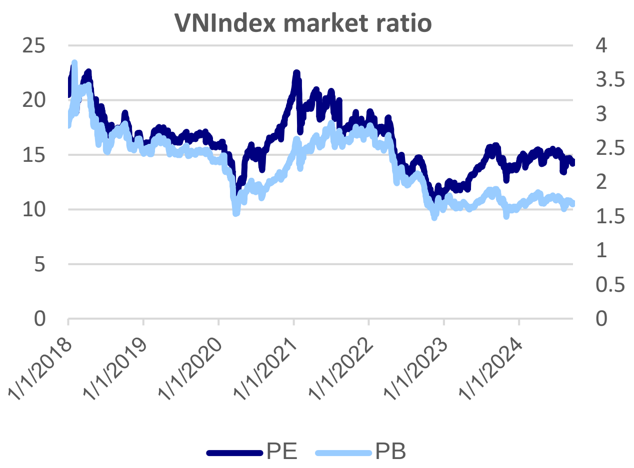
Source: Bloomberg, Hochiminh Stock Exchange, GTJA RS team

The Vietnamese stock market continues to be an attractive long-term investment channel as the economy becomes a desirable destination for FDI inflows. The stability of macroeconomic and political policies fosters confidence among domestic and foreign investors. The State Securities Commission's active collaboration with related entities to address bottlenecks and meet the FTSE upgrade conditions, expected to make significant progress in September, will further bolster investor confidence.

However, the recent impacts of Typhoon Yagi have caused considerable economic and human losses, estimated at around 40 trillion VND, potentially reducing GDP growth by approximately 0.15%. Consequently, Vietnam's GDP growth is projected to be around 6.5-6.7% in 2024, still exceeding the target of 6.0-6.5%. However, achieving the government's ambitious target of 7.0% remains highly challenging.

With funds needing to be redirected towards reconstruction efforts after the natural disaster, the anticipated boom in the stock market is likely to be extended for several more months. However, this situation presents an opportunity for investors to take advantage of short-term corrections and increase their holdings. By doing so, they can benefit from the sustainable long-term growth trends of the Vietnamese market. The focus on recovery may provide favorable entry points, allowing investors to position themselves advantageously for future market developments.





ASource: 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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