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Vietnam's Q3 Macroeconomic Update and Key Event Analysis:

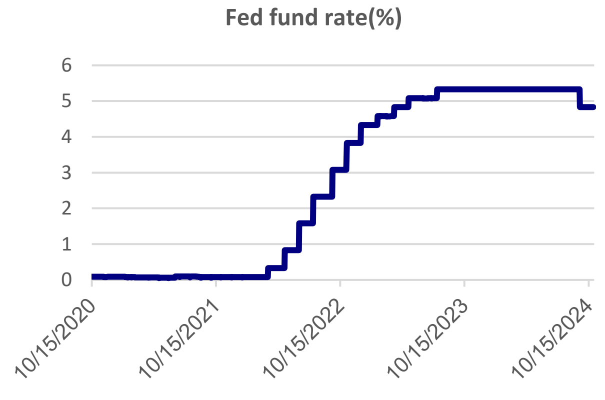
Summary of Key Information:

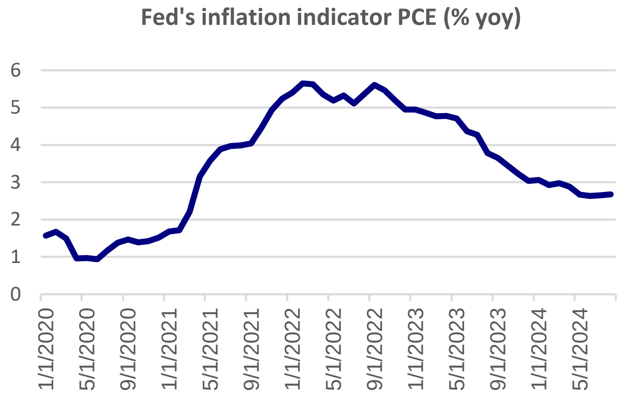
- Major global economies are entering Q4 with significant events ahead, including the U.S. presidential election, the Japanese prime ministerial election, and China's introduction of an economic stimulus package.
- The U.S. economy is experiencing stable growth, and the market anticipates potential acceleration in the coming years, while China shows signs of reaching a bottom and beginning recovery. Conversely, Japan remains in a normalization phase as it gradually moves away from the ultra-loose monetary policies of the past decade.
- Vietnam's economy showed solid growth in Q3, with inflation tightly controlled. However, there are signs of a slight slowdown toward the end of the quarter due to natural disasters, which need closer monitoring.
- Although the real economy remains stable, Vietnam's financial and monetary markets are under certain pressures due to global uncertainties. The State Bank of Vietnam (SBV) is managing the situation smoothly, but pressures persist.
- The stock market continues to offer attractive valuations. Investors could leverage short-term fluctuations to increase their positions.

GLOBAL MACRO UPDATE

In the US, the most important financial market update in September was the Federal Open Market Committee (FOMC) meeting, which concluded with a substantial rate cut of 0.5%. Leading up to the meeting, there was considerable speculation in the market regarding this record-breaking reduction, especially as FOMC typically opts for smaller rate adjustments, usually around 0.25%, during similar phases in the past.

The rate cut is seen as a cautious move by the Federal Reserve (Fed), given that inflation is trending downward, and the economy shows signs of slowing. Fed Chair Jerome Powell described this action as an adjustment to bring rates back to a neutral level, noting that previous rate hikes and monetary tightening had achieved the goal of quickly curbing inflation. Following the meeting, investors in the market made strong predictions about the Fed's rate-cutting trajectory for the remainder of 2024 and into 2025. According to these forecasts, the Fed may cut rates by an additional 0.5% in 2024, followed by 1.0% in 2025 and 0.5% in 2026.

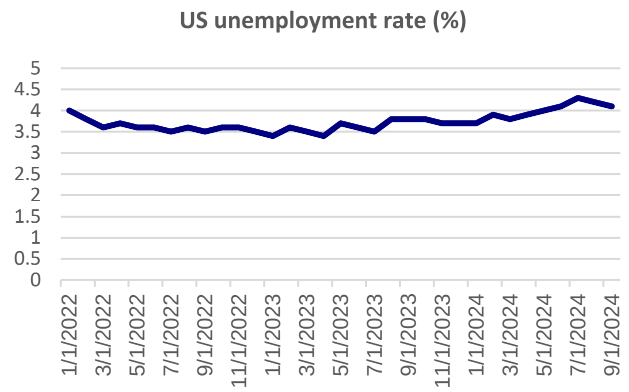


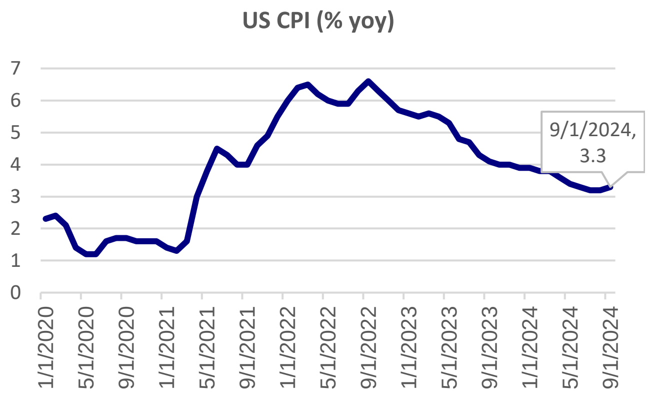


Source: Federal Reserve Economic Data, Bureau of Economic Analysis, GTJA RS team

However, with the U.S. presidential election approaching, the Fed's actions could be perceived as politically motivated, potentially giving an economic advantage to the ruling Democratic Party and its presidential candidate, Kamala Harris. Former President Donald Trump, also a candidate for the Republican Party, has publicly cautioned the Fed against making any politically motivated moves in the lead-up to the election.

Immediately after the Fed’s rate cut in September, the market experienced unexpected volatility. With inflation slightly ticking up and positive developments in the U.S. economy, including declining unemployment rates, rising hourly wages, and improvements in retail sales and real estate, many investors reversed their expectations. There is now reduced confidence in a robust rate-cutting trajectory by the Fed for the remainder of 2024 and into 2025.

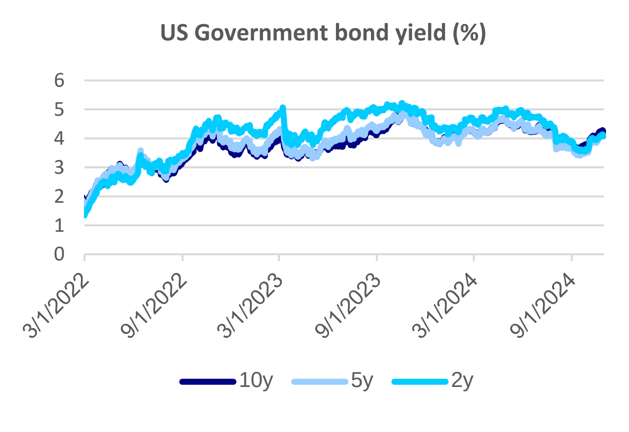


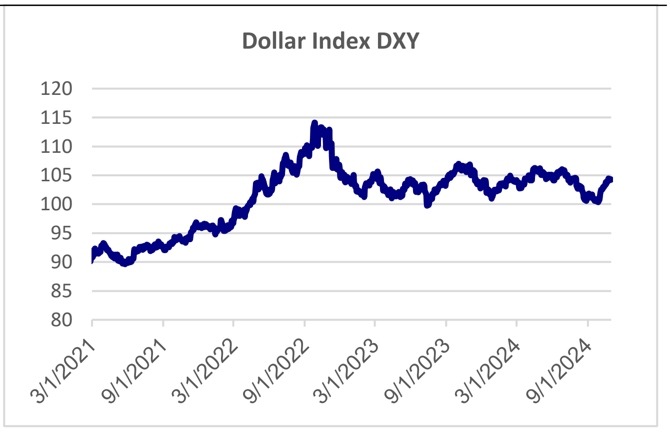


Source: Bureau of Labor Statistics, GTJA RS team

Presidential candidate Donald Trump is currently showing an edge in several key swing states and has subtly hinted at potential changes in Federal Reserve leadership should he be elected. The recent developments have sparked unusual volatility in U.S. markets, with mid- to long-term bond yields surging significantly. The 10-year Treasury yield has surpassed the 4.2% mark for the first time in years, with yields on the 2-year and 5-year bonds also rising. Generally, long-term bond yields shift in alignment with expectations around growth and inflation, suggesting that investors are now increasingly betting on Trump's electoral chances and the anticipated positive economic impact of his policies.

The recent rise in the U.S. dollar, along with the surge in long-term bond yields, has prompted investors to channel more capital into U.S. markets, benefiting from the high interest rates. However, this upward trend in the USD and the contrasting movement between rising long-term yields and falling short-term rates (as the Fed has cut interest rates) signals unusual market behavior. This situation brings challenges for the U.S. economy, which has a high debt-to-GDP ratio, as it leads to higher interest costs on government borrowing. Additionally, a stronger USD can increase imports and reduce the competitiveness of American goods on the global market, potentially dampening domestic manufacturing and export growth.

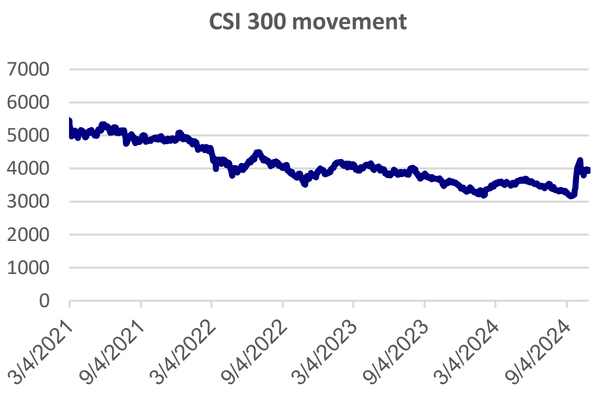




Source: Bloomberg Terminal, GTJA RS team

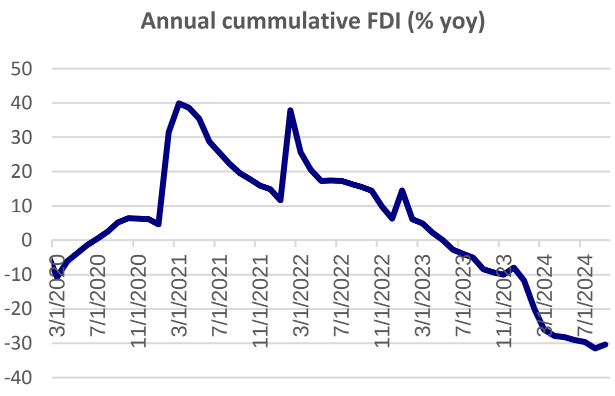
In China, inflation continues to lag below expectations, indicating that deflation risks in the market have yet to be fully alleviated. China's GDP grew by 4.6% in Q3, slightly lower than the previous quarter's 4.7%, though it exceeded forecasts of around 4.5%. Despite the challenges, China remains committed to its 2024 GDP growth target of 5.0% and has introduced numerous fiscal and monetary stimulus measures to support this goal.

Specifically, the People's Bank of China (PBoC) has implemented unprecedented monetary easing packages, allowing investment funds and securities companies to use fund certificates like ETFs as collateral with the PBoC. They have also reduced the required reserve ratio and lowered mortgage interest rates. These measures from the PBoC have yielded positive results, leading to a surge in the Chinese stock market and attracting interest from both domestic and foreign investors, including retail clients and large institutions.



Source: Bloomberg, National Bureau of Statistics of China, GTJA RS team

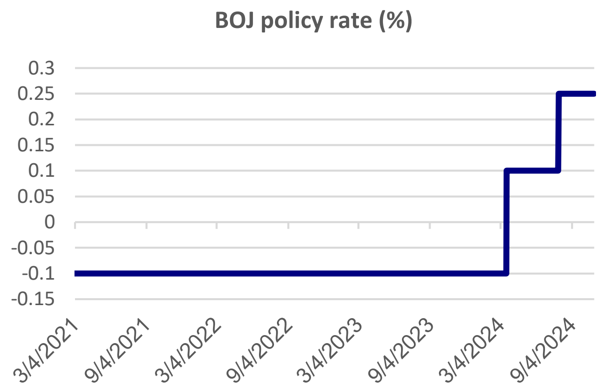
In addition to the strong growth in the stock market, China's unemployment rate has also shown a downward trend recently. The People's Bank of China (PBoC) continues to aggressively cut lending rates, reinforcing confidence in the government's commitment to pull the economy out of its stagnation. However, foreign direct investment (FDI) into China has been declining recently and may weaken further if Donald Trump, who has a hardline stance towards China, is elected. This could create difficulties and prolong the restructuring and recovery phase for China.

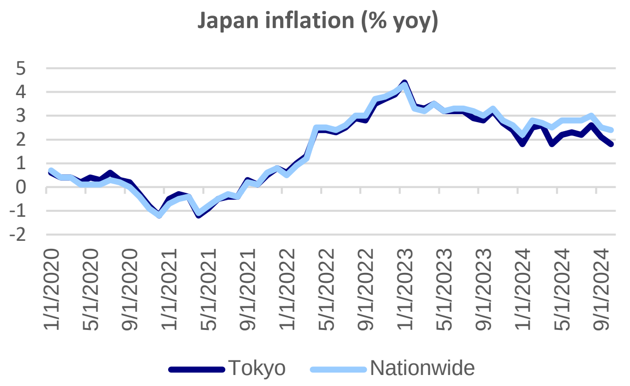


Source: Bloomberg, National Bureau of Statistics of China, GTJA RS team

Regarding Japan, the situation in this country is also experiencing unpredictable fluctuations. Inflation in Japan in recent months has been trending higher than expected, with the core CPI in Tokyo reaching 1.8% compared to the forecast of 1.7%, while the national core inflation is at 2.4% versus 2.3%. This could prompt the Bank of Japan (BOJ) to continue raising interest rates in upcoming meetings, although there are concerns that a continuous increase in interest rates by the BOJ could lead to negative fluctuations in the global financial markets, like what occurred earlier this year.

In addition to the developments in the economy, the political situation in Japan is also undergoing changes. After former Prime Minister Kishida decided not to run for re-election, paving the way for his party to nominate Ishiba for the position of Prime Minister, the LDP and its coalition no longer hold a majority in the Japanese House of Representatives after 15 years. This setback for the LDP is a result of several recent scandals involving the party and could lead to Ishiba losing his Prime Minister seat in the special election scheduled for November 11.





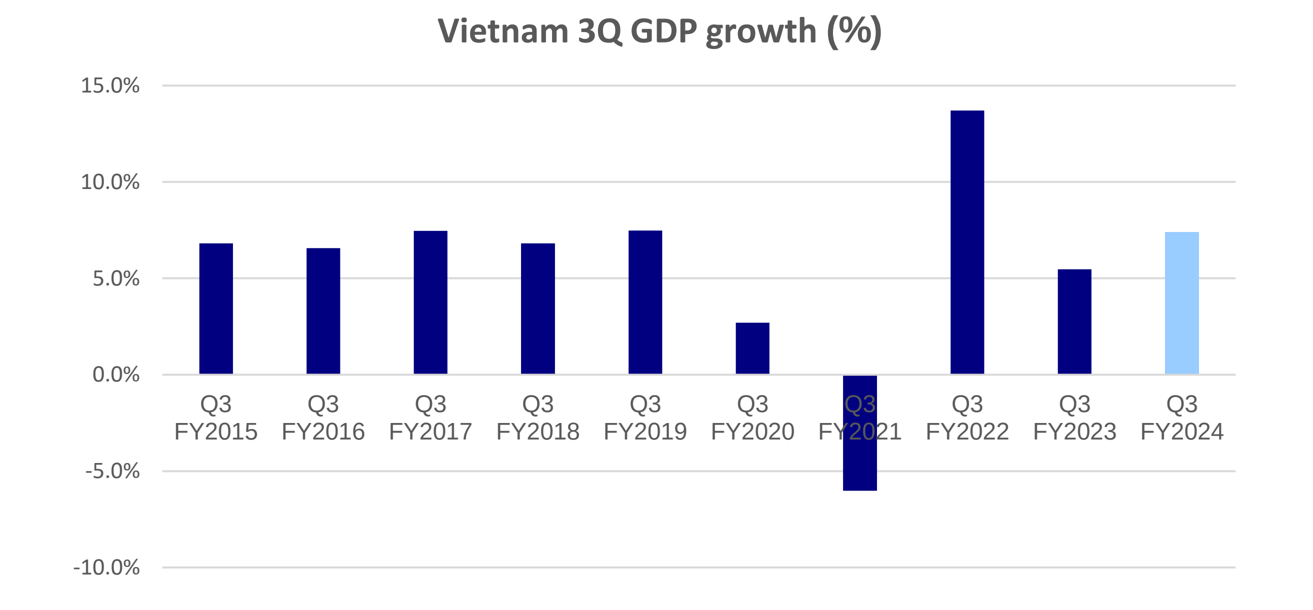
Source: Bloomberg, GTJA RS team

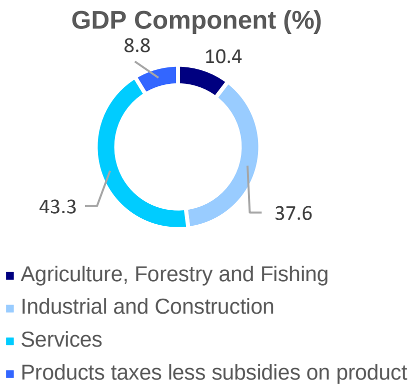
VIETNAM

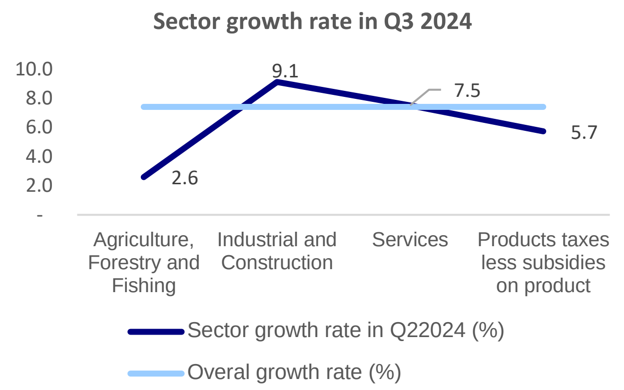
In October, the General Statistics Office of Vietnam announced the GDP growth for the third quarter, revealing that the Vietnamese economy experienced a remarkable growth of 7.4% during this period, significantly higher than previous expectations, especially considering that Vietnam was heavily affected by Typhoon Yagi in early September, which was expected to reduce GDP by about 0.15%. Overall, the Industrial and Services sectors remained the leading fields, accounting for the largest share of the economy in Q3 and achieving high growth rates (9.1% and 7.5%) compared to the overall average of 7.4% for the economy.

GDP

With GDP growth reaching a high of 7.4%, Vietnam's projected growth for the entire year of 2024 is estimated to be between 6.8% and 7.0%, making it the second highest in the last five years, following the growth rate of 8.02% in 2022 when the economy reopened after the COVID-19 lockdown in 2021. With a growth rate close to 7.0% in 2024, Vietnam is set to firmly establish itself as the fastest-growing economy in Southeast Asia, second only to India's growth rate among relatively large economies in Asia, according to IMF forecasts.







Source: General Statistics Office of Vietnam, GTJA RS team

Industrial manufacturing

Industrial output in September showed a recovery compared to the previous month. The Industrial Production Index (IIP) for the month increased by 10.8% year-on-year, surpassing this year's average of 8.6%. This result is very positive given the context in which Vietnam's industrial production was severely impacted by Typhoon Yagi, causing several industrial centers in Hai Phong and Quang Ninh to temporarily halt production to avoid the storm and to clean up afterwards. Logistic operations were also affected for 1-2 weeks during the storm due to flooding and inconvenient traffic.

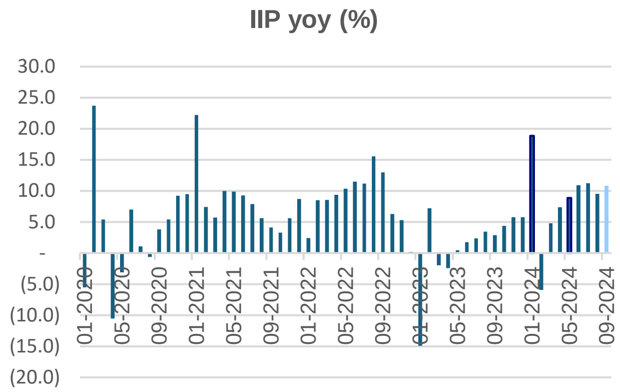
In the structure of Industry, the Processing and Manufacturing sector continues to be the most important driving force, growing by 13.1% in September compared to the same period in 2023. Compared to the previous month, this sector accelerated from the 9.1% growth of the previous month, exceeding the average growth of 9.9% for the sector in the first nine months of 2024. In the third quarter, this sector grew by approximately 11.9%, higher than the 6.0% in the first quarter and 11.6% in the second quarter of this year.

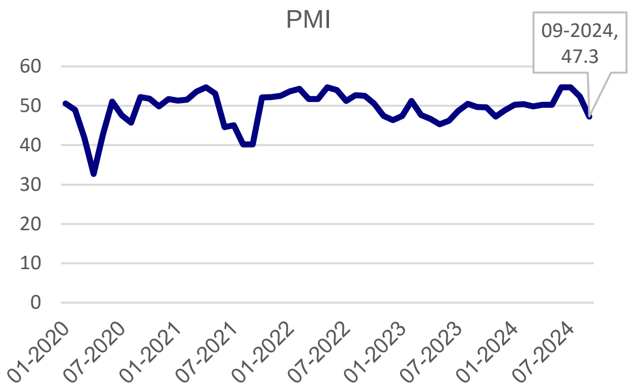
In addition to the leading Processing and Manufacturing sector, the Water Supply, Waste Management, and Sewage sector also made significant breakthroughs in September and the third quarter. In September, this sector grew by 15.2%, even surpassing the growth rate of the Processing and Manufacturing sector despite its smaller proportion. In the third quarter, this sector also had the fastest growth rate at 16.8%, compared to a modest 4.8% in the first quarter and 7.8% in the second quarter.

Meanwhile, the Electricity Production and Distribution sector experienced relatively modest growth of 6.4% in September, and slowed slightly in the third quarter, reaching 8.0%, compared to 12.7% in the first quarter and 13.0% in the second quarter. With the recent operation of the 500kV Circuit 3 transmission line, it is certain that Electricity Production and Distribution will continue to grow sustainably and contribute significantly to Vietnam's development.

In September, there were signs of weakening production activity in Vietnam, as the PMI only reached 47.3 points, indicating a slight contraction among the surveyed units by S&P. This is likely due to the negative impact of Typhoon Yagi, which caused facilities to reduce output and temporarily suspend new orders. The purchasing activity of companies also saw a decline for the first time in six months due to a decrease in orders.

Despite the decline, the surveyed companies reported that business sentiment remains high, and expectations for orders to rebound strongly next year when the short-term negative impacts subside. With the backlog of orders still increasing due to production halts during the typhoon, production growth will be ensured at a certain level before entering a new growth cycle in 2025. However, due to the complex fluctuations in international markets, especially in leading economies like the US, China, and Japan, close monitoring of the data is needed before drawing any definitive conclusions.





Source: General Statistics Office of Vietnam, S&P Global, GTJA RS team

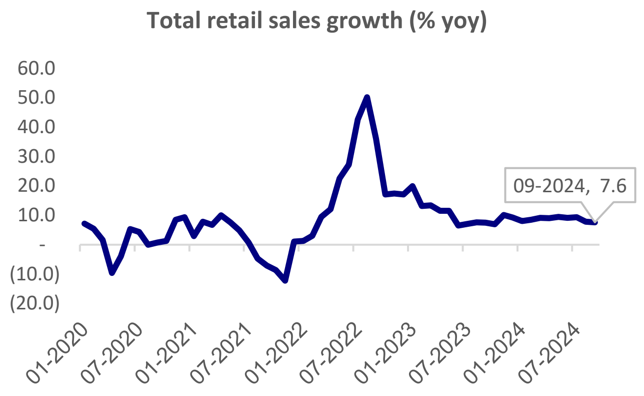
Total retail sales of goods and services

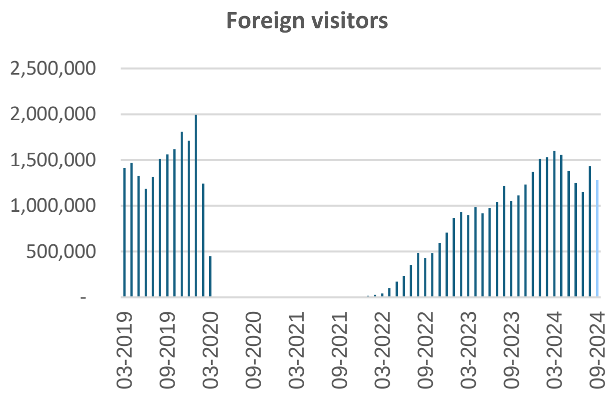
Total retail sales of goods and services in September are estimated at 535.8 trillion VND, an increase of 7.6% compared to the same period in 2023. Thus, retail sales continued to slow down in September, with the growth rate for the entire quarter reaching only 8.4%, compared to an average of 9.1% in the second quarter and 8.8% for the whole year of 2024. Excluding the price factor, the growth rate of retail sales is about 5.8%, higher than the 5.2% recorded in August and also the highest level this year. However, in 2024, the real growth rate of retail sales is expected to be between 5-6%, lower than the 8-9% seen in recent years.

Retail goods still account for the largest share of total retail sales, making up 77.2% of the total, with a growth rate of 7.7% compared to the same period in 2023, which is comparable to the sector's growth in 2024 at 7.9%. However, in September, the accommodation and food services sector grew by only 7.9%, compared to the average of 13.6% in 2024, while the travel sector only increased by 1.9% compared to the average of 16.7% for 2024. These two sectors are likely to have been severely affected by Typhoon Yagi, leading to a significant decline that contributed to the slowdown in total retail sales of goods and services. However, with recovery efforts after the typhoon being implemented decisively, it can be expected that the situation will improve in this fourth quarter.

Another positive signal for the economy is that in September, Vietnam welcomed approximately 1.3 million foreign tourists, an increase of 20.9% compared to the same period in 2023. This growth was more robust than in August, when the number of tourists visiting Vietnam only increased by 17.7%, marking the highest growth in the past three months. Thus, Vietnam's tourism has shown solid recovery, with tourist growth in the first nine months of the year reaching about 43% compared to the same period in 2023.

The largest contribution to the number of tourists comes from Asian visitors, with China (24.3% of the total number of Asian tourists) and South Korea (33.6%) being the most favored destinations for Vietnam. China also recorded the highest growth rate of tourists in September (49.4%) and in 2024 (241%), highlighting the importance of this country in Vietnam's development. At the current pace, it is highly likely that Chinese tourists will account for the largest share of tourism in Vietnam as early as 2025.



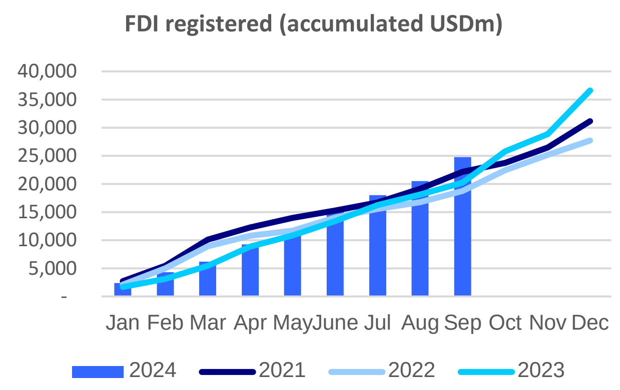


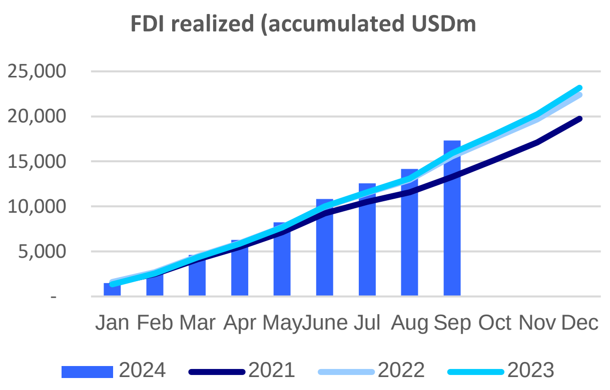
Source: General Statistics Office of Vietnam, GTJA RS team

FDI

In September, Vietnam attracted an additional $4.3 billion in committed FDI, bringing the total registered FDI for this year to $24.8 billion. This is a record high for registered FDI, surpassing the $22.1 billion recorded in the first nine months of 2021. With this result, registered FDI in the first nine months of 2024 has grown by 22.6%, reaffirming Vietnam's attractiveness to international manufacturers. With a focus on modernizing and greening domestic production and actively participating in and moving up the value chain in international production supply chains, it is believed that Vietnam will make significant strides in the coming years.

In September, FDI disbursement reached $3.5 billion, consistent with the strong increase in committed FDI, bringing the total FDI disbursement for 2024 to $17.43 billion. Thus, disbursed FDI has increased by approximately 9.0%, further strengthening production capacity as well as creating opportunities for technology transfer, enhancing production capabilities, and improving the economy for Vietnam.





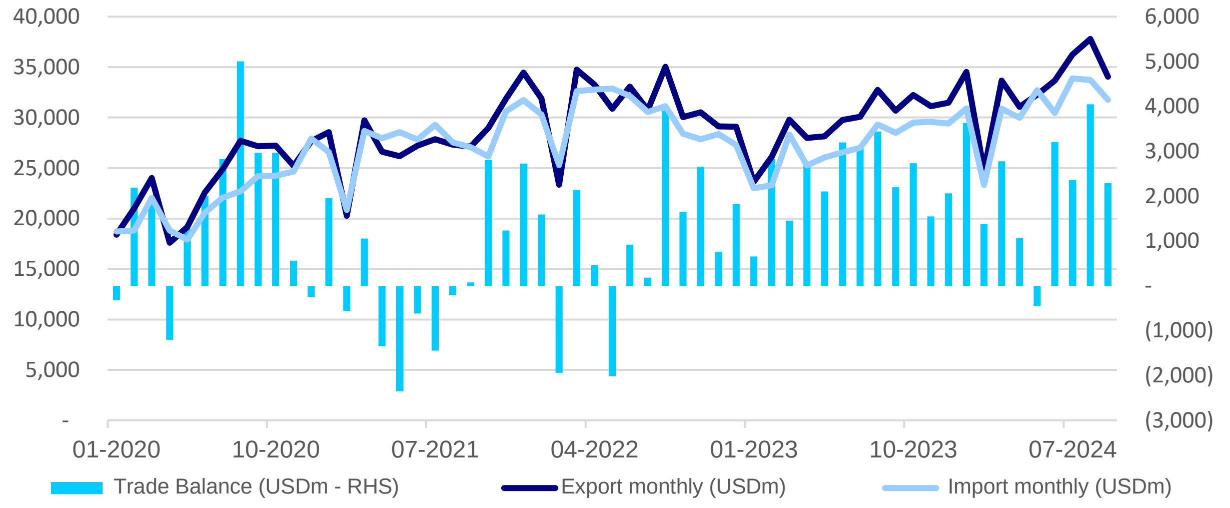
Source: MPI, GTJA RS team

Import/ Export

In September, exports and imports continued to grow positively; however, the growth rate likely slowed down due to the disruption caused by the storm. Exports in September were estimated at $34.05 billion, an increase of 10.7% compared to the same period in 2023. Meanwhile, imports reached $31.76 billion, up 11.1%. The trade balance maintained a surplus of $2.3 billion for the month, positively contributing to the balance of payments and helping to stabilize the macroeconomy.

As of the end of September, total exports this year reached $297.9 billion, an increase of 14.7% compared to the same period in 2023. Imports also amounted to $277.6 billion, up 16.8%. This year, the Vietnamese economy is expected to achieve a trade surplus of $20.3 billion, a record surplus in many years, highlighting Vietnam's increasingly important role in the global supply chain.

However, with countries increasingly adopting trade defense measures, imposing tariff and non-tariff barriers, along with the potential for Donald Trump to become President of the United States and continue his agenda aimed at promoting a trade balance with the U.S., Vietnam will face challenges in maintaining a positive trade surplus as it has in the past. Currently, the U.S. is Vietnam's largest trade surplus partner, with a surplus of approximately $104 billion with the U.S. in 2023, ranking among the top three countries with the largest trade surplus with the U.S.

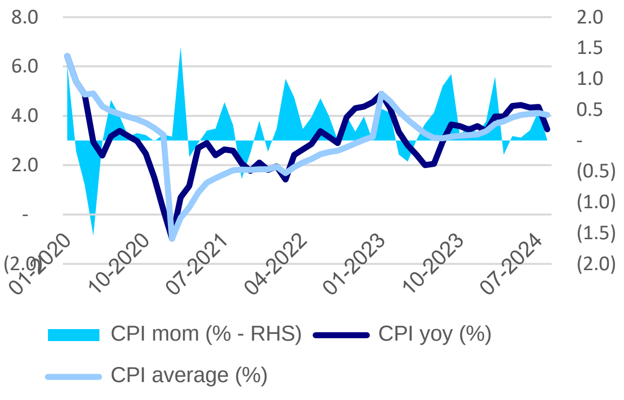


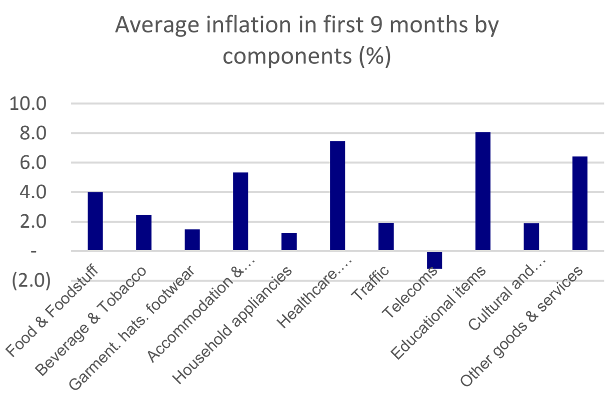
Source: Custom Vietnam. General Statistics Office of Vietnam, GTJA RS team

Inflation is under control but pressure is forecasted to escalate in the coming months

Inflationary pressures continued to ease in September. The CPI for this month only increased by 2.63% compared to the same period in 2023, significantly down from the peak of 4.44% in May. Thus, the average inflation rate for this year stands at 3.88%, lower than the ceiling of previous years (4.0%) and within a safe range for this year's expenditures (below 4.5%). The key factor stabilizing inflation this month was the decrease in gasoline prices, in line with the global trend of falling oil prices. Thanks to this reduction in this crucial commodity, the CPI for the transportation sector fell by 5.33% compared to the same period in 2023, while the information and communication sector also saw declining costs due to advancements in technology and infrastructure (down 0.42% compared to the same period in 2023, with an average decrease of 1.19% over nine months). This alleviated inflationary pressures, even as the economy continues to grow and monetary policy remains accommodative.

However, due to the recent adjustment in electricity prices, which increased by about 4.8%, the CPI is likely to not decrease significantly in the coming months but rather remain around 3.5-4.0%. Overall, this increase in the CPI is reasonable and aligns with the calculations of the management agencies, continuing to be a positive factor for macroeconomic stability and promoting growth in Vietnam.





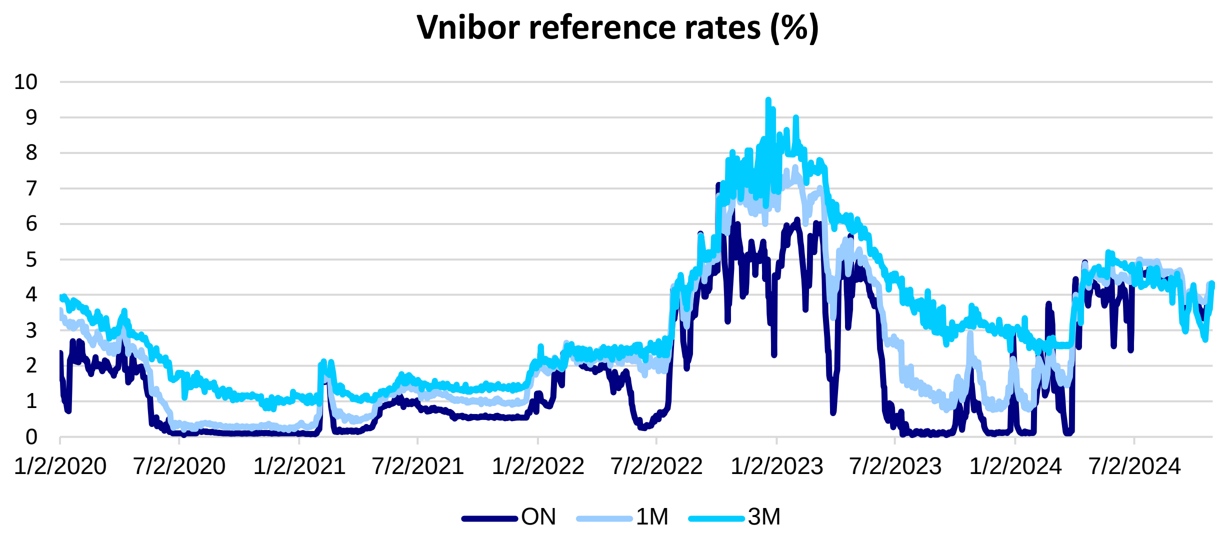
Source: GSO, GTJA RS team

According to information from the General Statistics Office, credit at the end of September reached approximately 8.53-9.0%, which is very positive compared to the target of 15% for this year. With this growth rate, achieving the credit growth target set at the beginning of the year is entirely within the reach of the State Bank of Vietnam (SBV) and credit institutions.

In addition to the positive credit growth, which significantly contributes to the development of Vietnam's economy, the SBV reports that the total mobilization balance of the entire system is lower than the total credit balance by about 200 trillion VND. This gap is compensated for through the banks' equity, and therefore there is no liquidity pressure or risk on the system.

However, the situation of capital mobilization for the economy from commercial banks seems to be slower than credit growth. With credit expected to grow strongly in the fourth quarter (around 6% for the quarter compared to 8.5-9% for the first nine months of the year), capital mobilization needs to be significantly improved through increasing interest rates and optimizing internal capital sources from credit institutions.

The increase in interest rates may put certain pressure on organizations with high debt ratios or unhealthy balance sheets; however, this will likely be a localized phenomenon with limited impact on the overall market, as Vietnamese enterprises have actively restructured over the past two years.



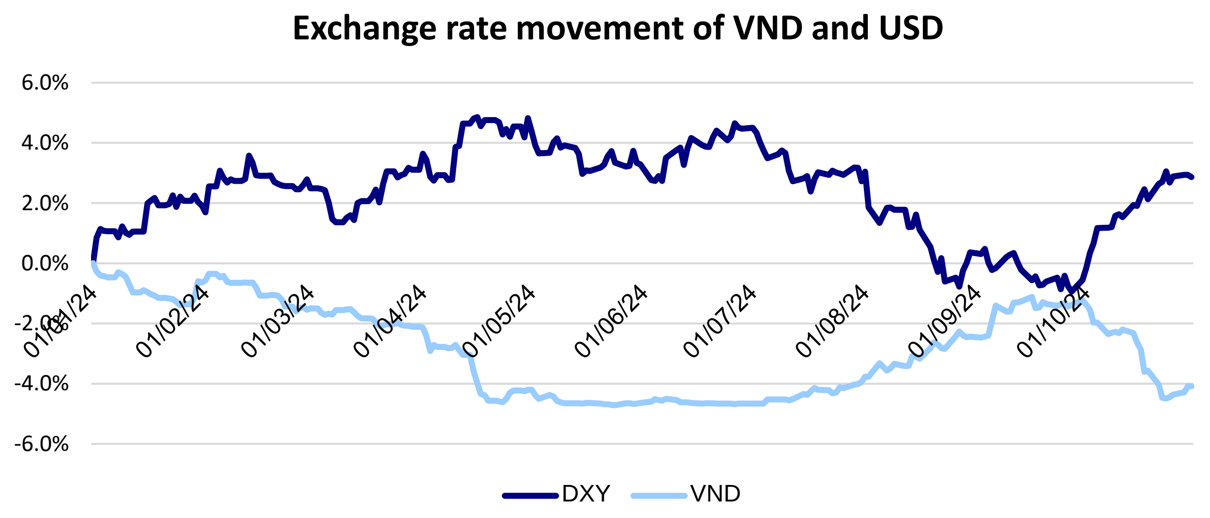
Source: Bloomberg, GTJA RS team

Exchange rate pressure returned

Despite continued support from a trade surplus and FDI inflows, the significant appreciation of the USD due to high yields in the US has put considerable pressure on the VND, causing Vietnam's currency to depreciate again at the beginning of October. At one point, the exchange rate reached its lowest decline since mid-year, although it later stabilized thanks to timely intervention by the State Bank of Vietnam (SBV).

In the near term, the exchange rate is expected to remain elevated due to organizations' payment demands according to their plans, while imports for year-end production will also increase foreign currency purchases in the short term. Conversely, the SBV has quickly intervened with flexible and decisive measures to stabilize the market, so there will not be significant negative impacts this year.

Looking further ahead, the pressure on the VND will increase due to the strength of the USD as well as long-term yields in the US. This may limit the ability to support the economy through the SBV's monetary easing policies.

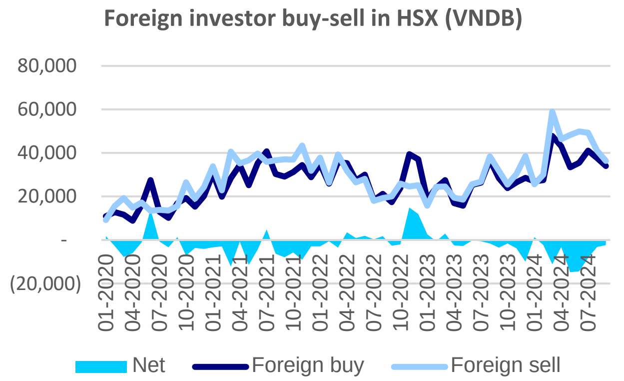


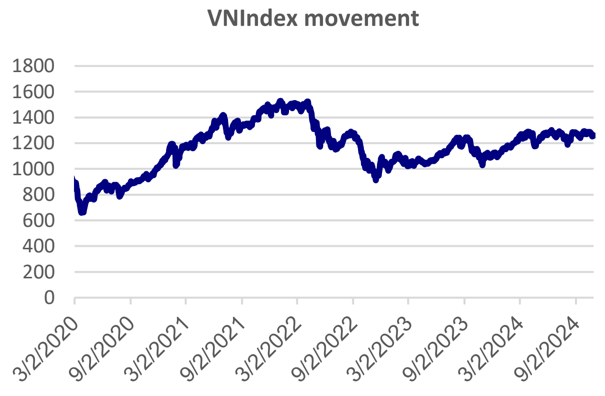
Source: Bloomberg, GTJA RS team

Stock market performance

In September, the net selling momentum of foreign investors continued to weaken, with net sales down to approximately 2.3 trillion VND compared to a net sale of 3.3 trillion in August. This is also a low level of net sales compared to the peak of 14 trillion in the middle of the year. Additionally, about 2.7 trillion VND was from the divestment of Commonwealth Bank after several years of strategic investment in VIB Bank. If we exclude this volume, foreign investors on the stock exchange were net buyers again in September. Overall, this aligns with our observations that there have been more net buying sessions by foreign investors. This trend has continued to be observed in the early part of October.

The Vietnamese stock market in September and early October fluctuated around the 1250-1300 point range, despite many positive supporting factors. This is likely due to the weak capital inflow into stock investment, as it has been drawn away to business operations due to strong credit growth compared to capital mobilization, as mentioned. With liquidity in the market weakening due to the decline in indirect capital flows, it is likely that the stock market will not see a breakthrough in the short term.





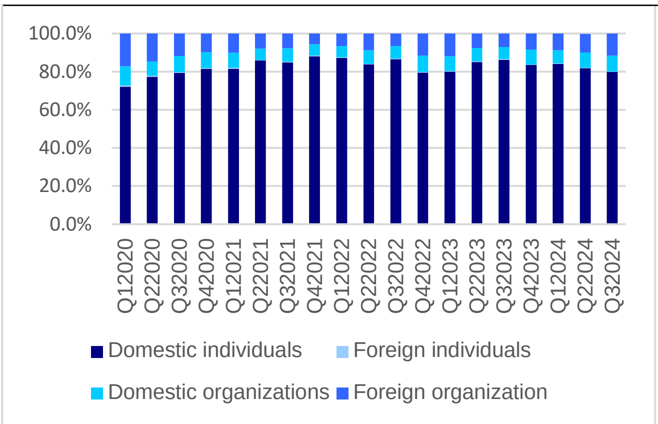
Source: Bloomberg, Hochiminh Stock Exchange, GTJA RS team

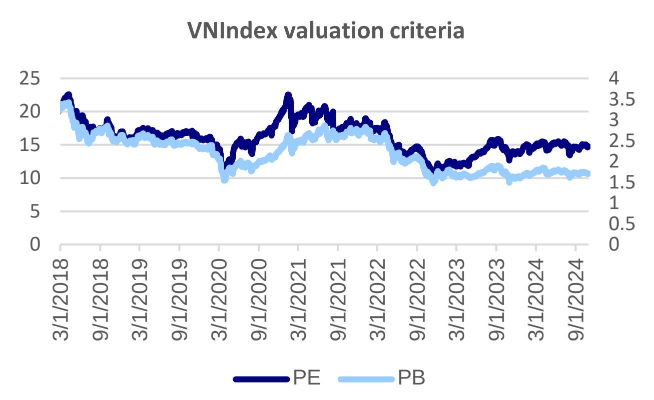
From a macroeconomic and policy perspective, Vietnam's economy is at a very attractive point due to high economic growth, appealing investment policies, and a strong commitment from the government and regulatory agencies to develop the financial market. Low inflation also facilitates the implementation of measures to unlock capital flow at the right time, making transactions easier in the market.

With historically low valuations and favorable macroeconomic and policy conditions, we continue to affirm the long-term attractiveness of the Vietnamese stock market. However, the absence of institutional investors with a long-term vision and capital, as well as in-depth market assessments, poses a disadvantage, leading to short-term valuations that are much lower than historical levels.

The shortage of capital and the unpredictable developments in international markets also contribute to the current inefficiency of the Vietnamese stock market. However, these are certainly short-term factors that will improve soon, especially after the elections in the U.S. and Japan in November.

Thus, the current market presents a good opportunity for knowledgeable investors with solid capital. Upcoming corrections will be very suitable moments to increase holdings and yield high returns in the coming years.





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

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