4th July 2024

Macro Report

VIETNAM'S ECONOMY: CAUTIOUSLY OPTIMISM

RONG VIET SECURITIES

- *Economic growth improves positively in Q2/2024*
- *GDP growth for 2024 will meet the Government's expectations*
- *Monetary policy is still under pressure in the second half of the year*

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VIETNAM'S ECONOMY: CAUTIOUSLY OPTIMISM

- Economic growth improves positively in Q2/2024
- GDP growth for 2024 will meet the Government's expectations
- Monetary policy is still under pressure in the second half of the year

Economic growth improves positively in Q2/2024

Economic growth is projected to soar to 6.93% in Q2/2024, marking a substantial increase compared to 4.05% in Q2/2023 and the adjusted growth of 5.83% in Q1. The robust growth in Q2/2024 benefits from a favorable base effect. Importantly, unlike Q1, this quarter demonstrates evident improvements in economic activities.

Firstly, the primary growth driver is the manufacturing and processing industry, which accounts for nearly 23% of GDP and has increased robustly by 10.0% over the same period. This growth rate is the highest observed since Q3/2022 and exceeds the sector's growth in Q1/2024 by 2.84 percentage points.

The recovery of the manufacturing and processing industry exhibits varying dynamics. Sectors such as wood processing, electronic product manufacturing, and prefabricated metal manufacturing have shown strong growth and improvement compared to the previous quarter. Conversely, other industries like textiles, chemicals, rubber, iron and steel, and machinery are also recovering, benefiting from the low base effect.

Secondly, while the consumption of goods saw modest improvement, the consumption of services thrived. The wholesale and retail sector, constituting approximately 10% of GDP, grew by 7.6% over the same period. Although this growth rate represents an improvement from Q1, it remains below the 8.0% growth rate observed in Q1/2023. In contrast, other service sectors showed more positive growth trends. For instance, warehousing and transportation increased by 11.5% compared to the same period in Q2/2024 (higher than the 9.6% increase in the corresponding period last year), and accommodation and food services grew by 11.3% over the same period (compared to an 8.8% increase in Q2/2023).

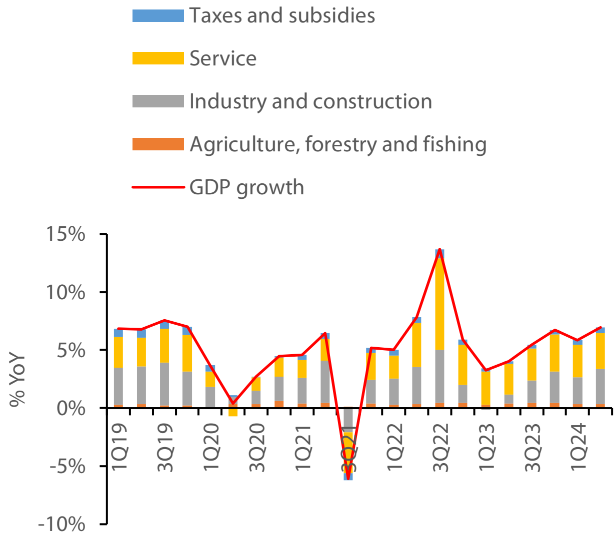
Ultimately, the construction and real estate sector shows ongoing improvement but presents mixed signals for Q2. The real estate industry's GDP growth accelerated from 1.8% in Q1 to 3.1% in Q2. In contrast, the construction industry's GDP growth reached only 7.1% in Q2, lower than the 7.7% increase in the previous quarter and the growth rate recorded in Q2 of 2023.

Figure 1: GDP breakdown by sector

	2Q23	3Q23	4Q23	1Q24	2Q24	2Q23	3Q23	4Q23	1Q24	2Q24
			% yoy				% pt contribution to GDP			
Real GDP	**4.1**	**5.5**	**6.7**	**5.9**	**6.9**	**4.1**	**5.5**	**6.7**	**5.9**	**6.9**
Agriculture	3.7	4.3	4.1	3.4	3.3	0.4	0.5	0.5	0.4	0.3
Mining	0.8	(5.5)	(4.2)	(5.3)	(9.1)	0.0	(0.1)	(0.1)	(0.2)	(0.3)
Manufacturing	0.6	5.6	8.0	7.2	10.0	0.1	1.3	1.9	1.6	2.3
Construction	7.7	8.0	9.3	7.7	7.1	0.5	0.6	0.7	0.4	0.5
Wholesale & Retail Sales	8.0	8.7	9.9	7.0	7.6	0.7	0.8	0.8	0.7	0.7
Transportation & Storage	9.6	9.7	10.0	10.5	11.5	0.5	0.5	0.5	0.6	0.7
Accommodation & Food	8.8	9.4	8.9	8.7	11.3	0.2	0.2	0.2	0.2	0.3
Financial services	6.1	4.8	6.4	4.6	5.7	0.3	0.3	0.4	0.3	0.3
Real estate	(1.1)	(0.2)	2.1	1.8	3.1	(0.0)	(0.0)	0.1	0.1	0.1
Other	4.9	5.6	5.8	6.5	7.8	1.3	1.5	1.8	1.8	2.0

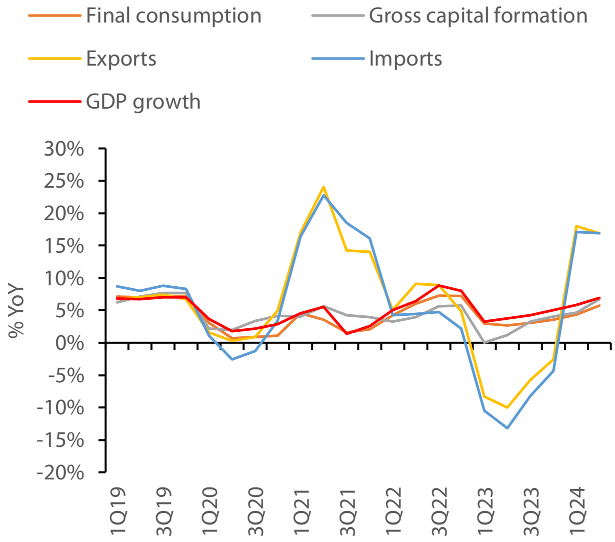
Source: GSO, RongViet Securities

Figure 2: GDP growth by sector



Source: GSO, RongViet Securities

Figure 3: GDP growth by usage



Source: GSO, RongViet Securities

From a consumption standpoint, import and export activities notably reflect the primary growth driver. Both exports and imports recorded a robust growth of around 17% in the first half of 2024 compared to the same period last year. Specifically, goods exports in Q2/2024 expanded by 12.5%. Although this rate is lower than the 16.7% observed in Q1, it remains promising as key export items such as electronics, wood products, agricultural goods, and machinery maintained growth rates between 20-22%. Conversely, export growth in aquatic products, textiles, and footwear remained relatively subdued, reaching 3.6% and 3.0%, respectively, in Q2.

In addition to exports, final consumption and asset accumulation growth also showed improvement. Asset accumulation outpaced final consumption, increasing by 6.7% and 5.8%, respectively, in the first half of 2024. This trend aligns with the recovery seen in social investment capital growth. Specifically, the rebound in private and foreign investments offset the decline in public sector investment. Private and foreign investment grew by 6.7% and 10.3% in 6M2024, respectively, marking significant increases compared to the 1.7-1.8% growth observed in the same period. Meanwhile, state investment grew by 4.8%, a decrease from the 13.8% growth recorded in the previous period.

GDP growth for 2024 will meet the Government's expectations

In the first half of 2024, overall economic growth reached 6.4%, surpassing the 3.7% increase in 6M2023 and matching the growth rate in the first half of 2022. We view the economic improvement in Q2/2024 positively. Looking ahead, momentum in growth is expected to be sustained in the latter half of the year despite the gradual fading of the low base effect.

Firstly, the expansion of global trade is set to bolster Vietnam's export activities and manufacturing sector. According to HSBC's latest report on global trade in June 2024, global export output growth is projected to reach 2.8% in 2024 and 3.6% in 2025. The anticipation of sustained high US imports[1] and ongoing inventory reductions across various manufacturing sectors supports this trend. Domestically, the significant rise in the PMI index to 54.7 points in June 2024 is an optimistic indicator for the outlook of industrial production activities in the latter half of 2024.

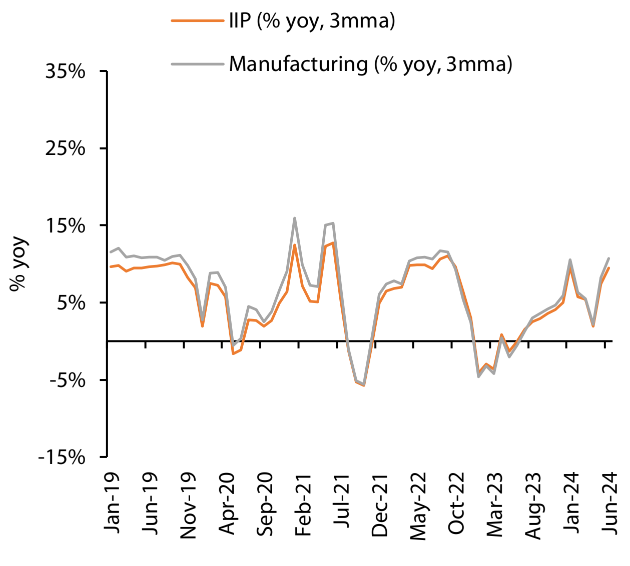
Secondly, domestic consumption is anticipated to strengthen due to wage hikes and the delayed effects of monetary policy. The budget allocation for the wage reform initiative in 2024 is estimated at approximately 1.2% of total retail sales of goods and services and 0.7% of the GDP size recorded in 2023. Despite a slight uptick in mobilization interest rates, average lending rates

[1] *The US National Retail Federation estimates the volume of imported goods will be 4.8% higher year-on-year between July and October this year.*

are expected to remain lower than those observed in the latter half of 2023. Consequently, consumption and consumer credit are poised to benefit from these factors.

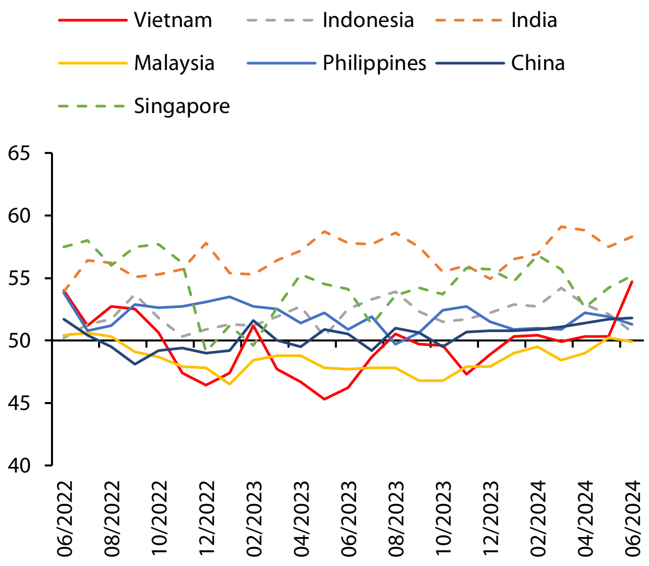
Thirdly, the resurgence in private investment has been a standout feature of the economy in the year's first half. Investment growth in this sector remained subdued in the latter half of 2023. Hence, the favorable base effect of private investment is expected to persist through the remaining six months of the year, thereby bolstering overall economic expansion.

Figure 4: Manufacturing growth



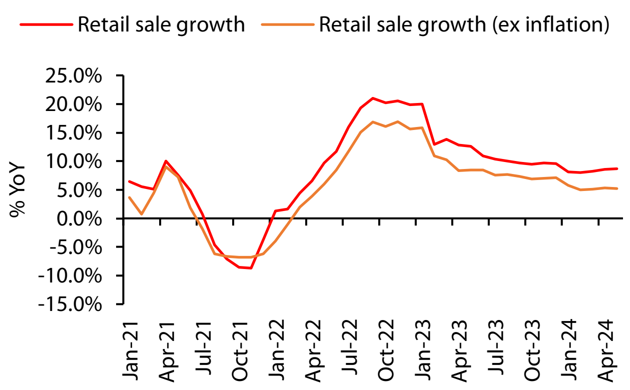
Source: GSO, RongViet Securities

Figure 5: Vietnam's PMI vs. other countries



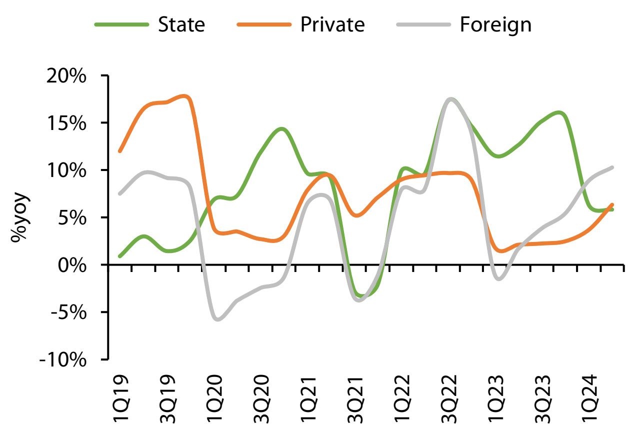
Source: S&P Global, RongViet Securities

Figure 6: Retail sales growth



Source: GSO, RongViet Securities

Figure 7: Investment growth by sector



Source: GSO, RongViet Securities

According to projections from the General Statistics Office, growth in Q3/2024 and Q4/2024 is estimated at 6.53% and 6.61%, respectively, compared to the previous year. Based on this analysis, we find this scenario feasible and anticipate it will support achieving a 6.5% economic growth rate. However, if external demand experiences unexpected fluctuations and investment and consumption fail to recover, Vietnam's economy could still achieve the government's target growth rate of just under 6.0% this year.

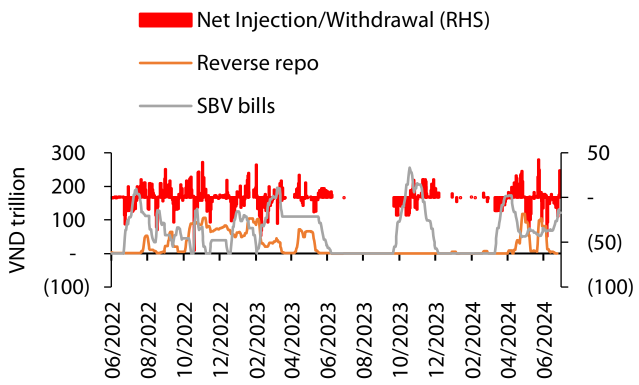
Monetary policy is still under pressure in the second half of the year

June marked the second consecutive month of net money withdrawal by the SBV in the open market, with a total of approximately VND99.5 trillion, reflecting a sharp increase of 62% compared to the previous month. This net withdrawal was evenly distributed between the mortgage channel and the issuance of SBV bills. Approximately VND54 trillion was withdrawn through the mortgage channel, while the remainder was net withdrawn via SBV bills. The use of the SBV bill channel was more active, and the SBV also raised the SBV-bill interest rate to match the mortgage rate at 4.5% per year in June. Additionally, the SBV adjusted the bill term from 28 to 14 days to address short-term liquidity needs.

According to unofficial reports, the SBV sold approximately $1.9 billion (VND48.3 trillion) in June. The scale of foreign currency sales decreased compared to May 2024, and the demand for foreign currency has increased from the second half of June. By July 3, the SBV is estimated to have sold about $6.4 billion (~VND162.5 trillion VND).

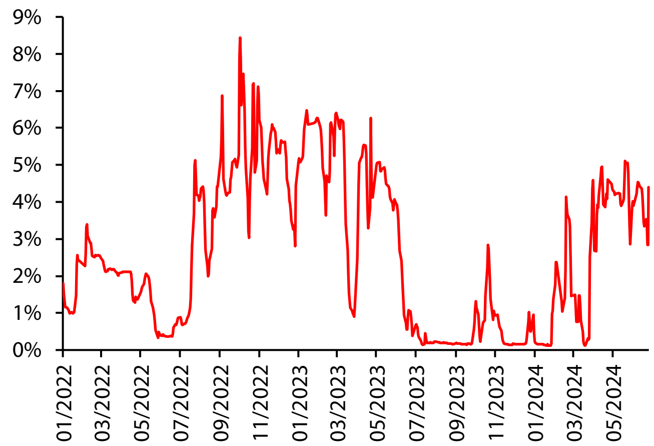
Combining these two management outcomes, it is evident that the SBV did not fully offset the VND absorbed through foreign currency sales. As of July 4, the balance in the open market for the mortgage and SBV bill channels stood at VND34.5 trillion and VND147.8 trillion, respectively. The overnight lending rate in VND on the interbank market, after a slight dip at the end of June 2024, rebounded to around 4.5% per year in early July. While withdrawing money through the open market and selling foreign currency helps maintain high interbank interest rates, it is also likely to strain VND liquidity. This could lead to liquidity risks for the system in the near future, as M2 money supply and mobilization increase slowly while credit growth is accelerating. Mobilization growth as of June 24 only reached 1.5%, lower than the 3.7% increase of the same period. Meanwhile, as of June 24, credit growth reached 4.5% compared to the beginning of the year, higher than the 3.8% increase of the same period.

Figure 8: The SBV's operation in OMO market



Source: SBV, RongViet Securities

Figure 9: VND overnight rate (%/year)



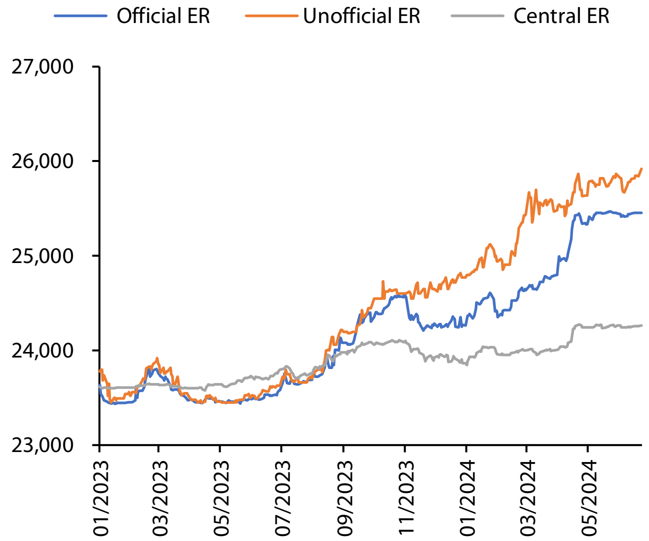
Source: SBV, RongViet Securities

In the second half of this year, the SBV is expected to face continued pressure on exchange rates in the latter half of 2024. This pressure is due to several factors: 1) the strength of the USD is likely to remain high because the interest rate differential between the US and other countries will persist, as the Fed is expected to cut interest rates more slowly and by less than other central banks, 2) many economists believe that if Trump wins the upcoming US presidential election, inflation may rise again, influencing the Fed's interest rate decisions, and 3) prolonged geopolitical risks increase the demand for USD as a safe haven. Given this outlook, the SBV may need to continue depleting foreign exchange reserves to control the exchange rate.

Vietnam's limited foreign exchange reserves and the typically increased demand for USD towards the end of the year pose a risk that the SBV's depletion of reserves may not effectively curb the exchange rate increase. As a result, the SBV might need to raise interest rates in the open market to narrow the USD-VND interest rate gap in the interbank market, with an expected increase of 25-50 basis points. Currently, the interest rate for issuing SBV bills and mortgages in the open market is 4.5% per year, equivalent to the refinancing rate. Therefore, if maintaining foreign exchange reserves proves challenging, we anticipate the SBV will increase the regulatory interest rates by 25-50 basis points in the second half of 2024.

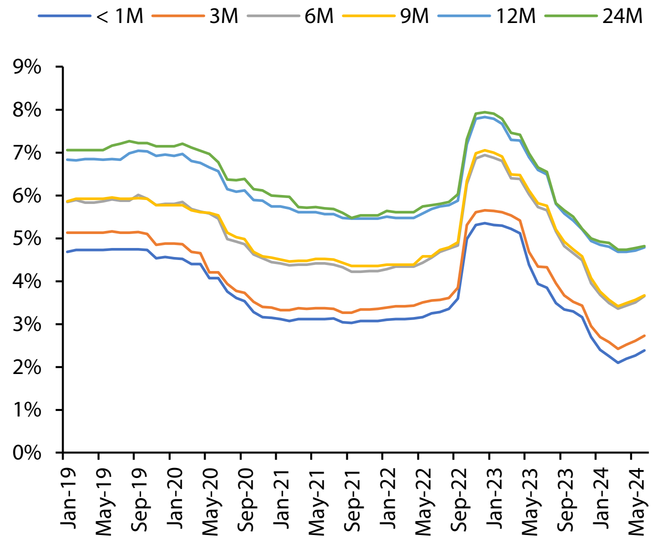
In the first half of 2024, deposit interest rates have rebounded from their lowest points, rising by an average of 30-50 basis points since the end of March 2024. However, they remain 15-45 basis points lower than last year's end. For the second half of 2024, we anticipate a further increase in deposit interest rates by approximately 50-100 basis points, considering expected fluctuations in exchange and policy interest rates. On the lending side, data from the SBV indicates that lending interest rates decreased by about 90 basis points in the first five months of the year, outpacing the decline in deposit interest rates. While the rise in deposit interest rates may slow the decline in lending rates, we expect this impact to become more noticeable in 4Q/2024 or early 2025.

Figure 10: The USDVND exchange rate



Source: Bloomberg, RongViet Securities

Figure 11: Deposit rate (%/year)



Source: RongViet Securities compiled from 4SOBs and 4 private banks

GLOBAL ECONOMIC: US CONSUMER SPENDING WEAKENS, JAPANESE YEN PLUNGES, AND CHINA GRAPPLES WITH PROPERTY CRISIS

- US Consumer Spending Shows Signs of Weakening Amid Rising Savings and Debt Strains
- The Japanese Yen plunges uncontrollably
- Navigating China's Consumer Spending Amid Persisting Property Crisis

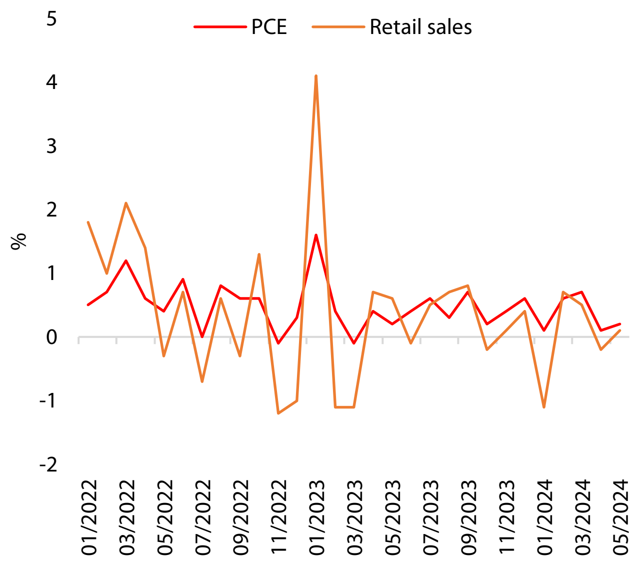
US Consumer Spending Shows Signs of Weakening Amid Rising Savings and Debt Strains

US consumer spending was mixed in May 2024. According to the Commerce Department report on 18 June, retail spending was weaker than expected. Sales rose by just 0.1%, falling short of the forecasted 0.3%. April's figures were revised downward to a decline of 0.2%, previously reported as unchanged at 0.0%. However, the May PCE report released on 28 June indicated that overall US consumer spending and income continued to grow.

US personal consumer spending was recorded at 0.2% in May. This is higher than the revised 0.1% recorded in the previous month but weaker than the 0.3% forecast. In real terms, spending rose 0.3% in May, more than reversing the -0.1% decline recorded in April. While households showed a renewed interest in purchasing goods (+0.6% mom), they remained cautious with spending on services (+0.1% mom).

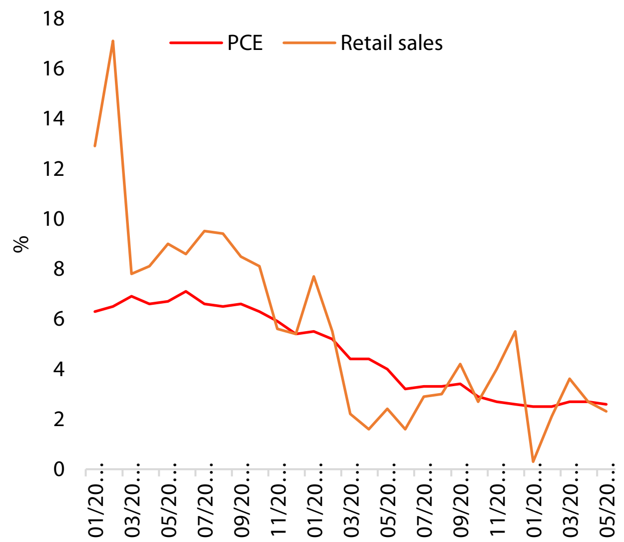
On the other hand, personal income rose a solid 0.5% in May, up from April's 0.3% gain and higher than the 0.4% forecast. This was driven by a robust 0.7% advance in wages and salaries, a 0.4% advance on income receipts on assets, and 0.3% in government benefits. Accounting for inflation and taxes, real personal disposable was also up 0.5% mom in May, relative to a flat reading in April, the highest level since Jan 2023. Annually, real consumer spending and disposable income growth strengthened to 2.4% yoy and 1.1% yoy in May.

Figure 12: US's monthly personal consumption expenditures (PCE) and retail sales



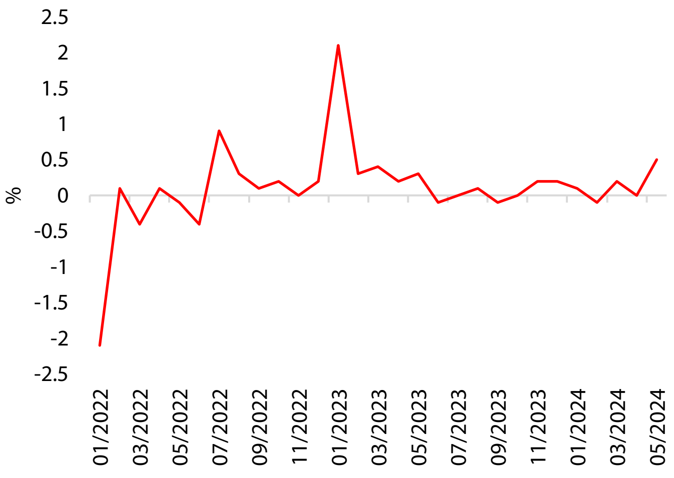
Sources: Bloomberg, RongViet Securities

Figure 13: US's yearly personal consumption expenditures (PCE) and retail sales



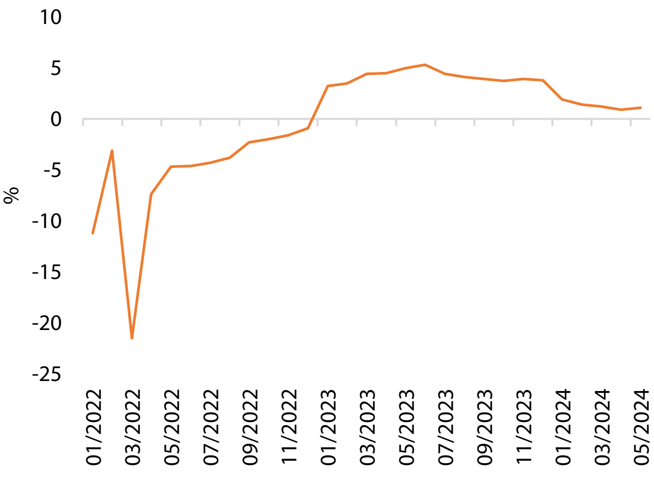
Sources: Bloomberg, RongViet Securities

Figure 14: US's monthly disposable personal income



Sources: Bloomberg, RongViet Securities

Figure 15: US's yearly disposable personal income

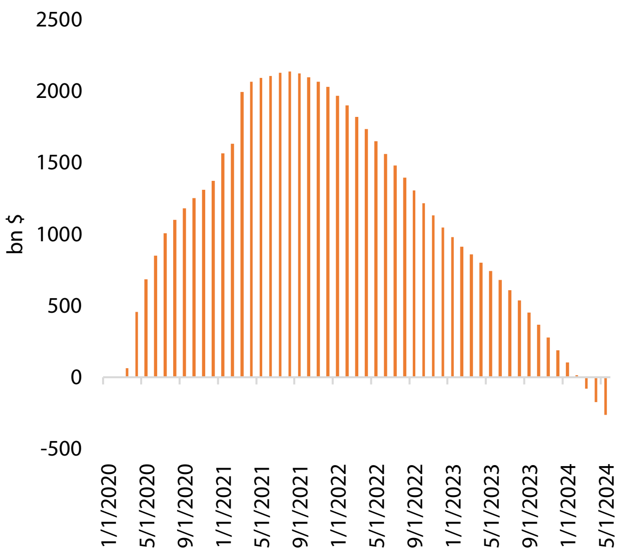


Sources: Bloomberg, RongViet Securities

Due to running out of pandemic savings, US consumers have to save more. One of the primary reasons consumer spending has remained strong through 2023 and early 2024 despite high Fed rates is the massive cash reserves households received as government aid during COVID-19. These excess savings stood at $2.1 trillion in August 2021. However, excess savings have been exhausted since March 2024 and turned negative at -$262.6 billion in May 2024.

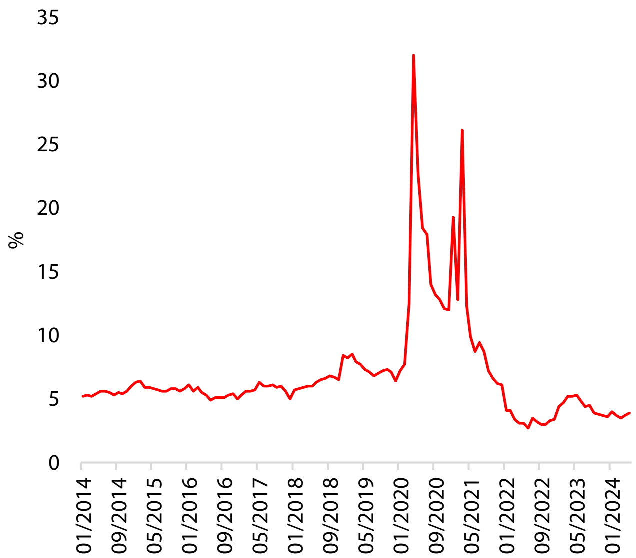
The saving rate in May rose to around 3.9% from 3.5% in April, indicating that consumers are not spending recklessly anymore. Goldman Sachs forecasts that the US personal savings rate as a percentage of disposable personal income will recover to 4.1% in 2024 and continue to rise to 4.4% in 2025. Before the pandemic, Americans saved less than 5% of disposable income. Normalizing the saving rate could lead to lower spending in the second half of 2024.

Figure 16: Cumulative aggregate pandemic-era excess savings



Sources: Bloomberg, RongViet Securities

Figure 17: US personal saving as a % of disposable - personal Income



Sources: Bloomberg, RongViet Securities

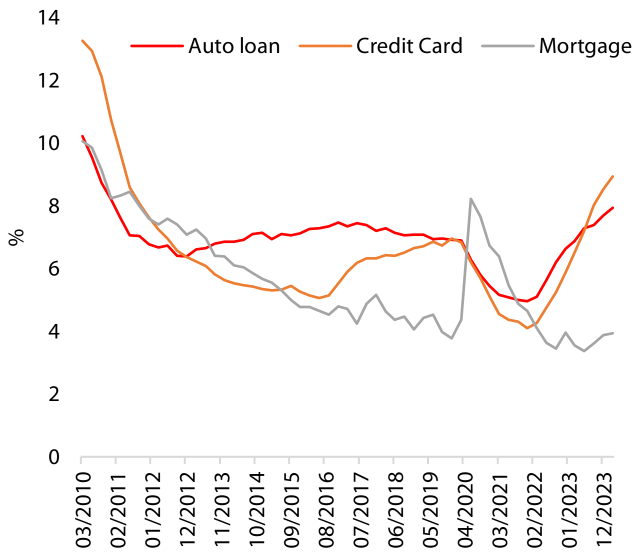
US consumers are feeling more financial stress. The rise in credit card and auto loan delinquencies continues to exceed levels seen before the pandemic. According to the New York Fed's quarterly report on household debt and credit, an annualized 8.9% of credit card balances and 7.9% of auto loan balances moved into delinquency in 1Q2024. Credit card debt increased by 13% yoy in

1Q2024, and the automotive loan balances were approximately $54 billion higher in the first quarter of 2024 than a year earlier.

Fortunately, the most significant type of debt, mortgages, backed by long-term fixed-rate loans with low interest rates (averaging below 4%), has not experienced a notable increase in delinquencies. However, if wage growth slows and the unemployment rate rises, it could pose consumer risks. These factors are expected to dampen consumer spending and confidence in the upcoming months. As shown in Figure 8 below, the University of Michigan's consumer sentiment index and the Conference Board's consumer confidence index declined in June and are anticipated to continue decreasing.

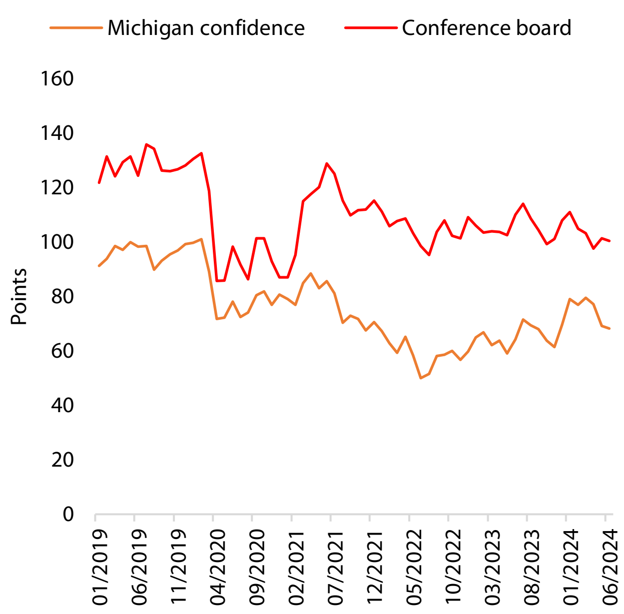
In sum, we anticipate continued softness in consumer spending as slower labor market momentum constrains income growth and compels more families to limit their expenditures due to reduced savings buffers and higher debt burdens.

Figure 18: US deliquencies ratio by loan type



Sources: Bloomberg, RongViet Securities

Figure 19: US consumer confidence index



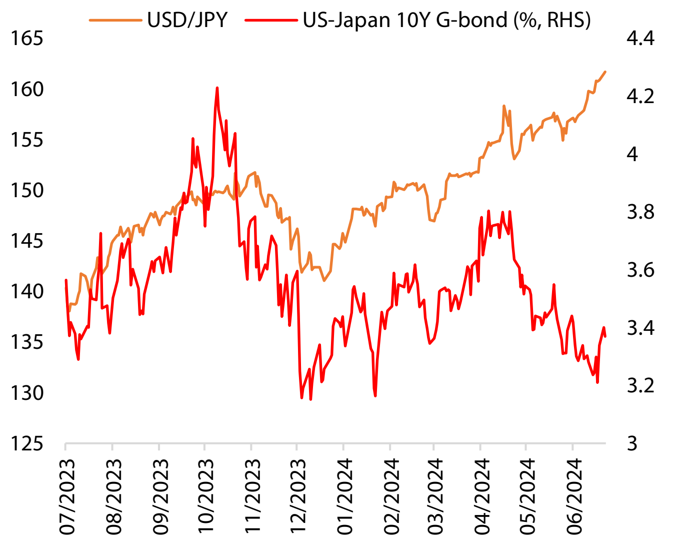
Sources: Bloomberg, RongViet Securities

The Japanese Yen plunges uncontrollably

Japan's MoF intervention is viewed as an ineffective measure for fighting the Yen's depreciation. The Yen reached its lowest level against the US dollar in almost 38 years on July 1st, closing at 161.44. This has increased pressure on Japan to find a solution. In late April and early May, Japan intervened by spending 9.79 trillion Yen (approximately $62 billion) to strengthen the currency after it fell below 160 yen per dollar. However, like interventions in 2022, this effort provided only temporary support as the Yen again depreciated above the 160 yen per dollar threshold afterward. This occurs due to the disparity in interest rates between Japan and the US, which favor investment abroad, the main cause of the Yen depreciation.

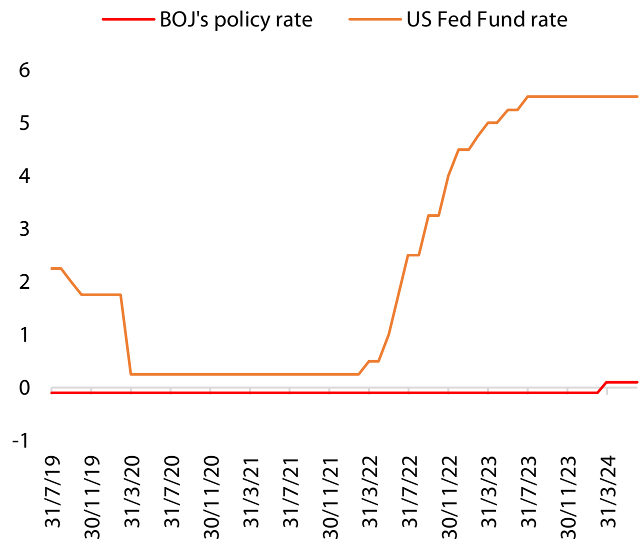
Masato Kanda, Vice Minister of Finance for International Affairs at Japan's Ministry of Finance, is closely monitoring the situation and has signaled preparedness to intervene in currency markets to prevent excessive fluctuations. However, the market response to this statement has been muted, as many view it as temporary. Given the US Federal Reserve's benchmark interest rate range of 5.25-5.50 percent, significantly higher than the Bank of Japan's 0-0.1 percent rate, narrowing this interest rate gap remains crucial for rejuvenating the Yen.

Figure 20: The USDJPY vs. the gap between US-Japan yield



Sources: Bloomberg, RongViet Securities

Figure 21: Japan and the US policy rate



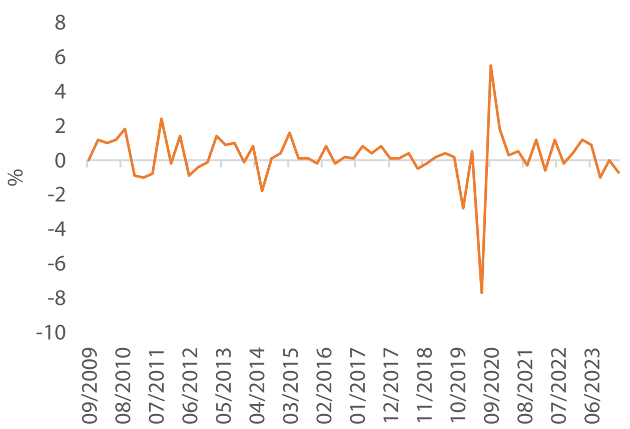
Sources: Bloomberg, RongViet Securities

Recent economic data from Japan presents a mixed picture, leading the BOJ to adopt a cautious stance regarding a potential rate hike in late July. Japan's GDP contracted by 2.9% in the first quarter of 2024 compared to a 0.1% growth in Q3 2023 qoq and declined by 0.7% yoy following a period of stagnation in Q3 2023, indicating the economy is still weak.

High-frequency data showed that consumer spending was disappointed with a 1.2% decline in April compared to a 1.2% increase in March month-on-month. On the other hand, retail sales in Japan showed improvement, increasing by 1.7% mom in May 2024, accelerating from a 1.2% gain in April and marking the highest reading since February. Yearly retail sales rose by 3.0% in May, surpassing market expectations for a 2.0% growth after an upwardly revised 2.4% gain in April.

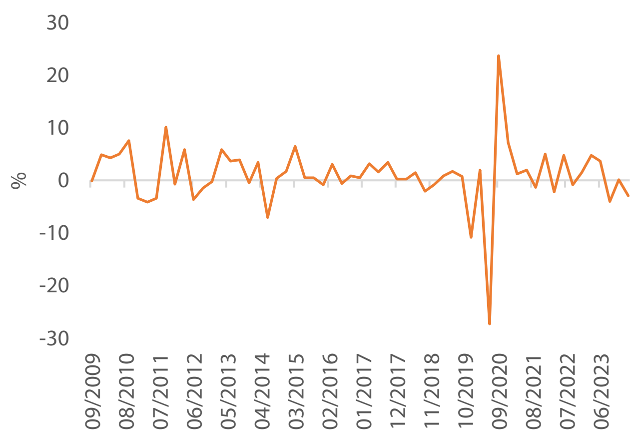
It is important to note that Japan's inflation accelerated in May, keeping the Bank of Japan (BoJ) on course to consider a rate hike in the coming months despite signs of economic weakness. The core CPI (excluding fresh food) increased by 2.5% year over year in May 2024, while the core-core CPI (excluding fresh food and energy) rose by 2.1%.

Figure 22: Japan GDP growth yearly



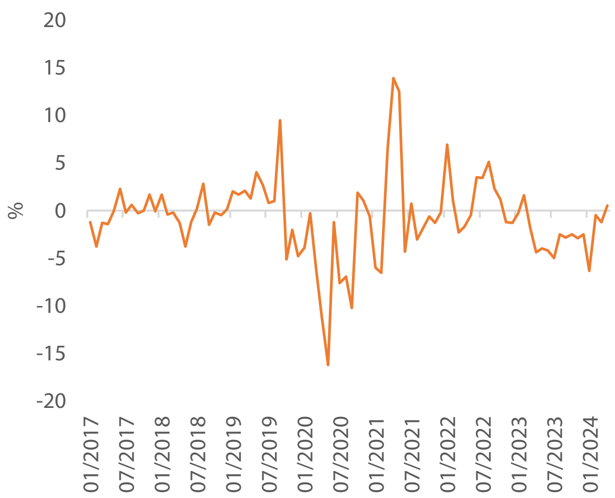
Sources: Bloomberg, RongViet Securities

Figure 23: Japan GDP growth quarterly



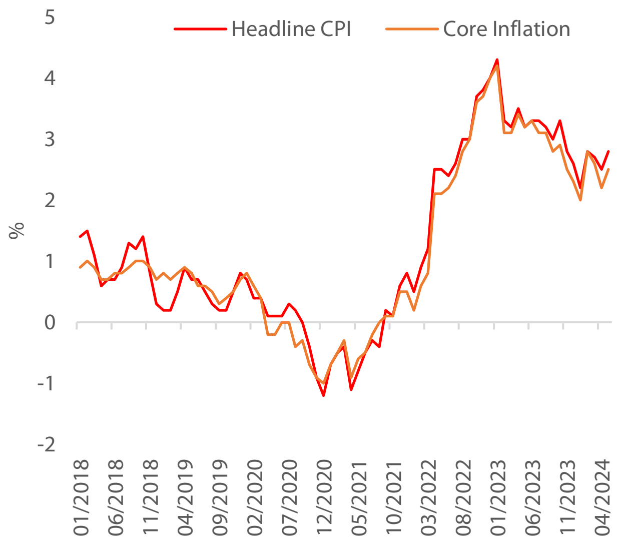
Sources: Bloomberg, RongViet Securities

Figure 24: Japan household spending yearly



Sources: Bloomberg, RongViet Securities

Figure 25: Japan's CPI inflation



Sources: Bloomberg, RongViet Securities

The rate hike this month seems impossible. Currently, the Ministry of Finance (MoF) is exerting pressure on the Bank of Japan (BOJ) to directly intervene and raise interest rates, citing concerns over the sustainability of Japan's financial markets amidst a weakening Yen trend. However, it seems unlikely that the BoJ could increase the policy rate in the next 30-31 July meeting. According to Bloomberg, only one-third of 43 economists said the upper bound of Japan's policy rate would be raised from 0.1% in July, which was unchanged from the survey before the June meeting. Meanwhile, those expecting a hike in October were up from 33% to 42%.

In addition, the BoJ signaled that it will soon begin to scale back its government bond purchases, with the details set to be worked out at the policy board's July 30-31 meeting. The BoJ has consistently communicated that its monetary policy normalization will be cautious and data-dependent. The quantitative tightening details plus a hike seemed too much in one shot.

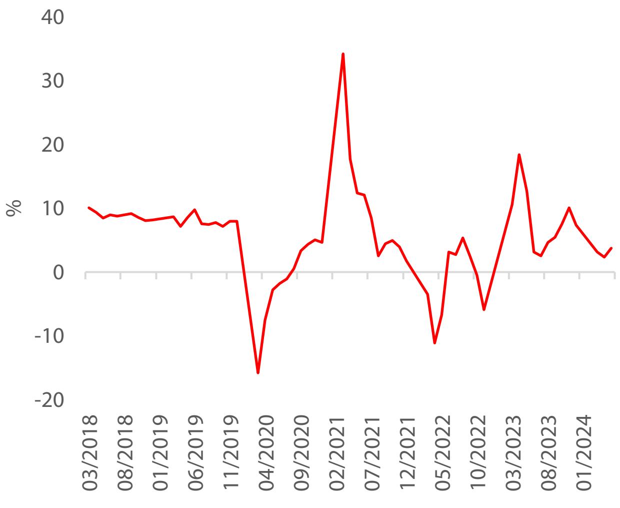
Navigating China's Consumer Spending Amid Persisting Property Crisis

The persistent weakness in the real estate market continues to weigh on household consumption and investment. New home prices in China dropped by 4.30% in May yoy, a sharper decline from the 3.51% decrease observed in April, marking the steepest drop since July 2015. Additionally, property investment fell by 10.1% from January to May compared to a decline of 9.8% from January to April.

In May 2024, consumer spending improved, with retail sales rising by 3.7% yoy, compared to a slower growth of 2.3% in April but still below pre-pandemic levels. However, attributing this increase mainly to a five-day public holiday suggests premature conclusions about sustained recovery in consumer spending.

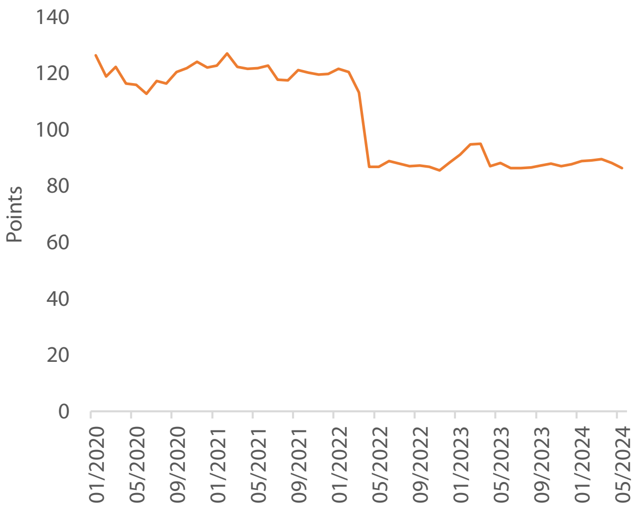
In addition, consumer sentiment has also remained low, dropping to 86.4 points since the beginning of the year. Meanwhile, private sector investment grew by a mere 0.1% from January to May, down from 0.3% in the first four months of 2024.

Figure 26: China's retail sales yearly



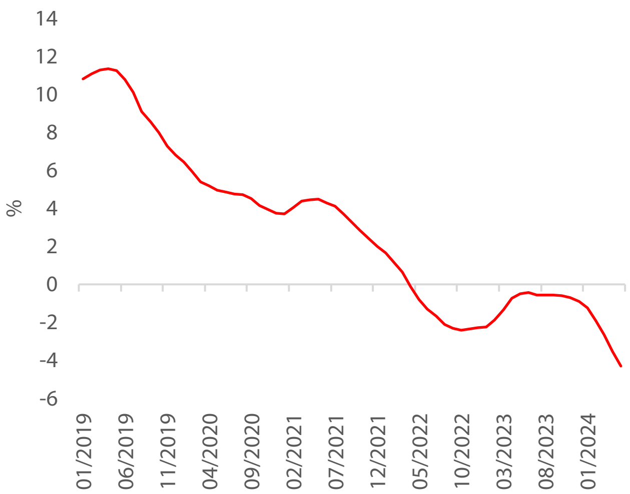
Sources: Bloomberg, RongViet Securities

Figure 27: China's consumer sentiment



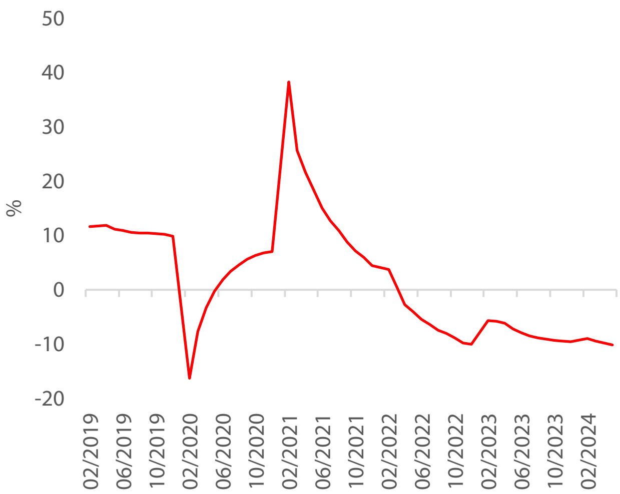
Sources: Bloomberg, RongViet Securities

Figure 28: China's home prices yearly



Sources: Bloomberg, RongViet Securities

Figure 29: China's property investment yearly



Sources: Bloomberg, RongViet Securities

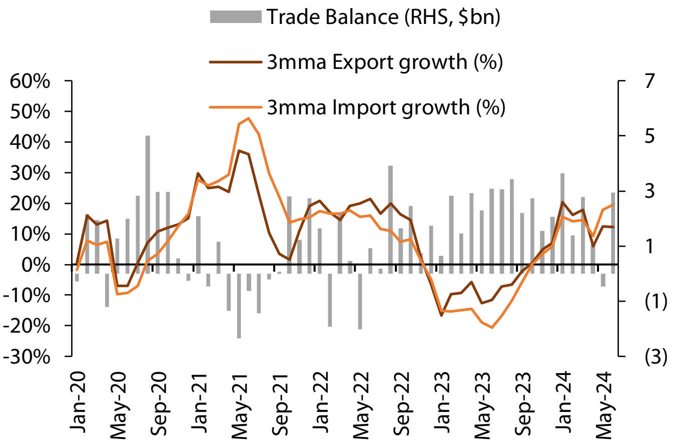
The country's economic recovery remained uneven and patchy. China kicked off 2024 with strong economic growth, achieving a 5.3% increase in GDP in Q1 compared to the previous year, setting a solid foundation toward its ambitious 5% growth target. However, momentum has slowed during the first two months of 2Q2024. Recent PMIs also suggested that the economy softened in Jun, with manufacturing PMI contracting for the second month while non-manufacturing PMI falling to the lowest since the beginning of the year.

In response, China recently introduced a substantial plan to stimulate home sales, including easing mortgage access and encouraging local governments to purchase unsold homes. However, the effectiveness of these incentives remains questionable, given the persistently depressed state of the property sector in May.

Meanwhile, the growth strategy of leaning on export-led growth faces risks, particularly from ongoing trade tensions with major partners such as the EU and the US, resulting in heightened trade barriers. Further uncertainty looms with the upcoming US elections, where potential policy shifts, including significant tariffs on Chinese imports, could impact China's export strategy. Looking ahead, China may need to prioritize boosting internal demand and consumption to navigate these challenges. This could involve considering interest rate adjustments, although such moves are likely once the Fed makes decisive policy changes.

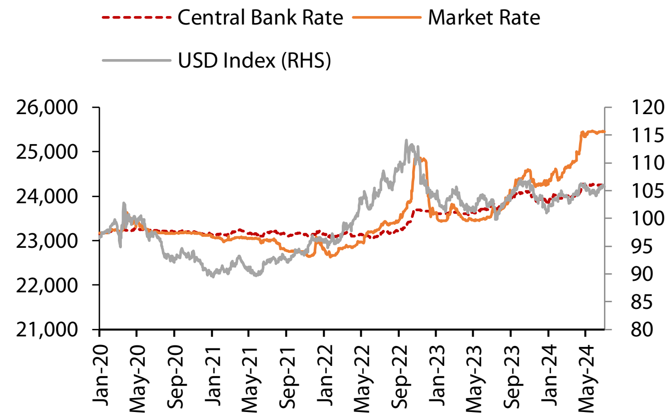
VIETNAM ECONOMIC INDICATORS IN JUN 2024

Trade balance



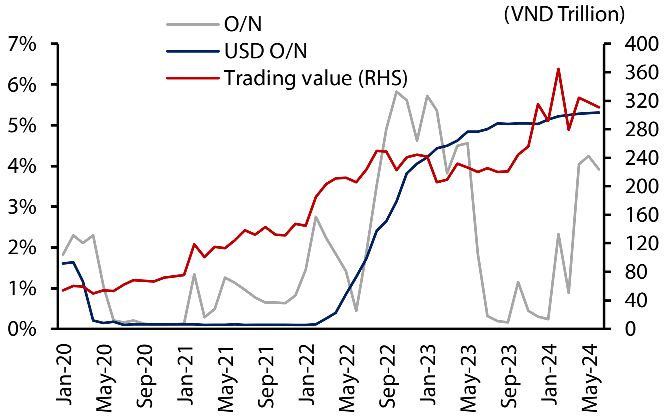
Source: GSO, RongViet Securities

USDVND exchange rate



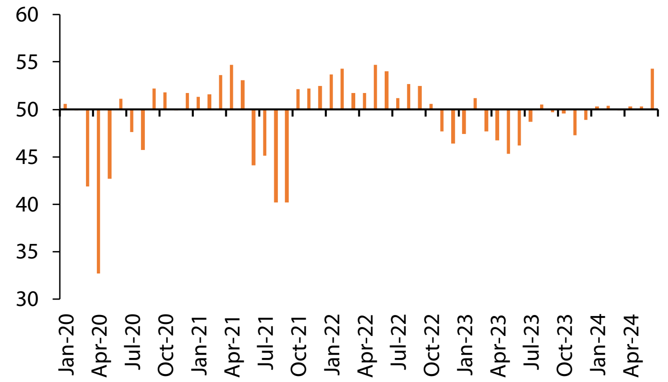
Source: SBV, Bloomberg, RongViet Securities

Interbank interest rate (%/year)



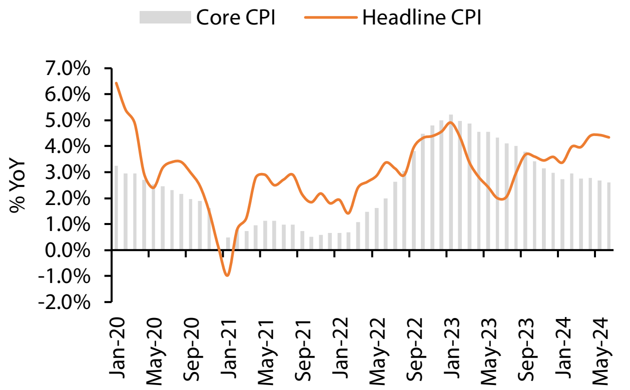
Source: SBV, RongViet Securities

Vietnam PMI



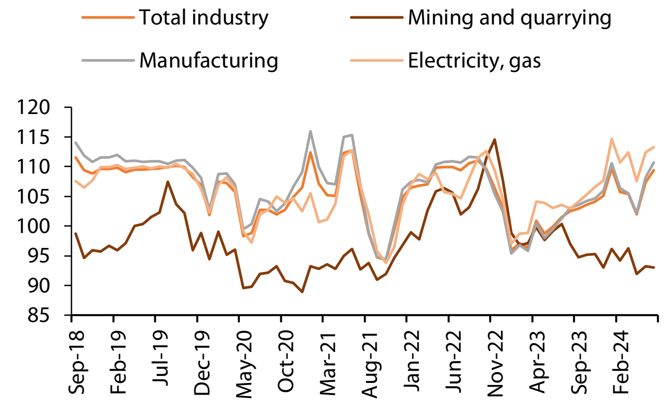
Source: S&P Global, RongViet Securities

Vietnam CPI



Source: GSO, RongViet Securities

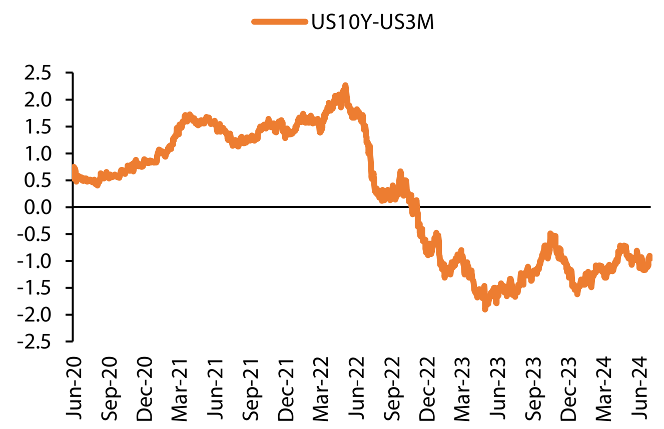
3-month MA Industrial Production Indices



Source: GSO, RongViet Securities

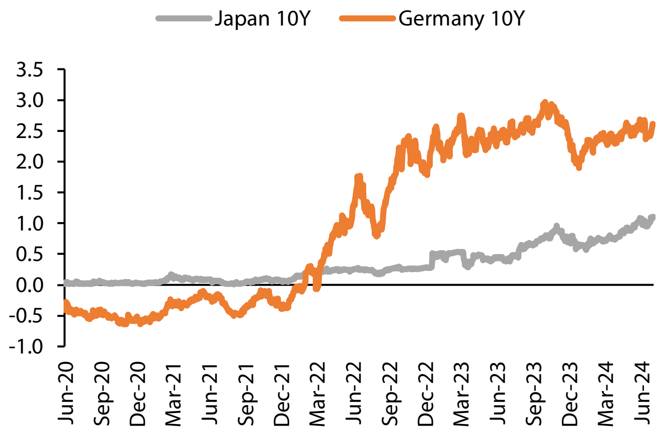
GLOBAL ECONOMIC INDICATORS IN JUNE 2024

US G-Bond yields gap (%/year)



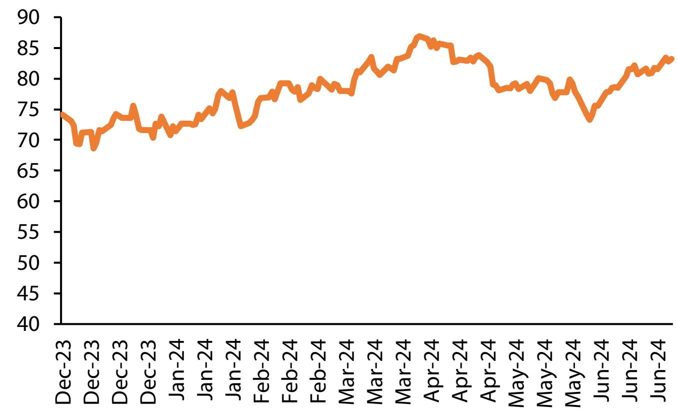
Source: Bloomberg, RongViet Securities

Germany and Japan 10Y G-Bond yields (%/year)



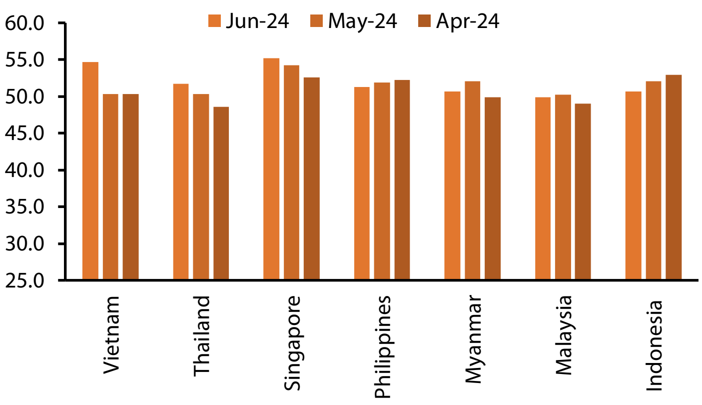
Source: Bloomberg, RongViet Securities

WTI crude oil price (USD/barrel)



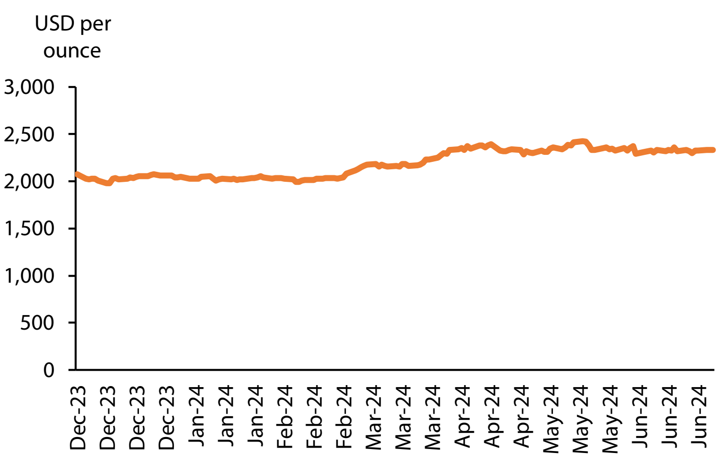
Source: Bloomberg, RongViet Securities

ASEAN's PMI



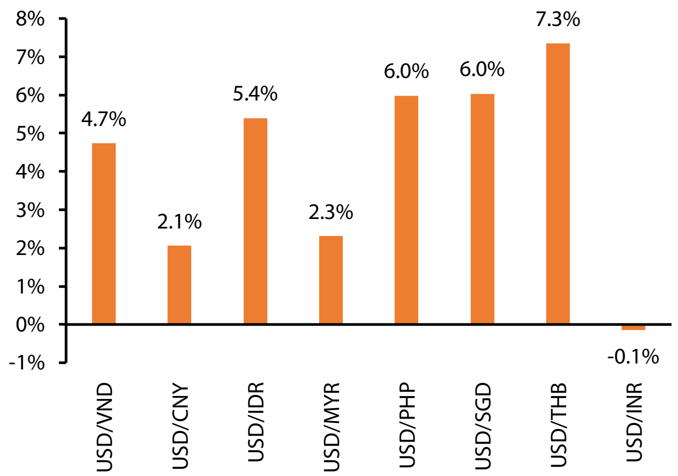
Source: Markit Economics, RongViet Securities

Gold prices (US$/ounce)



Source: Bloomberg, RongViet Securities

FX rates (%, YTD)



Source: Bloomberg, RongViet Securities

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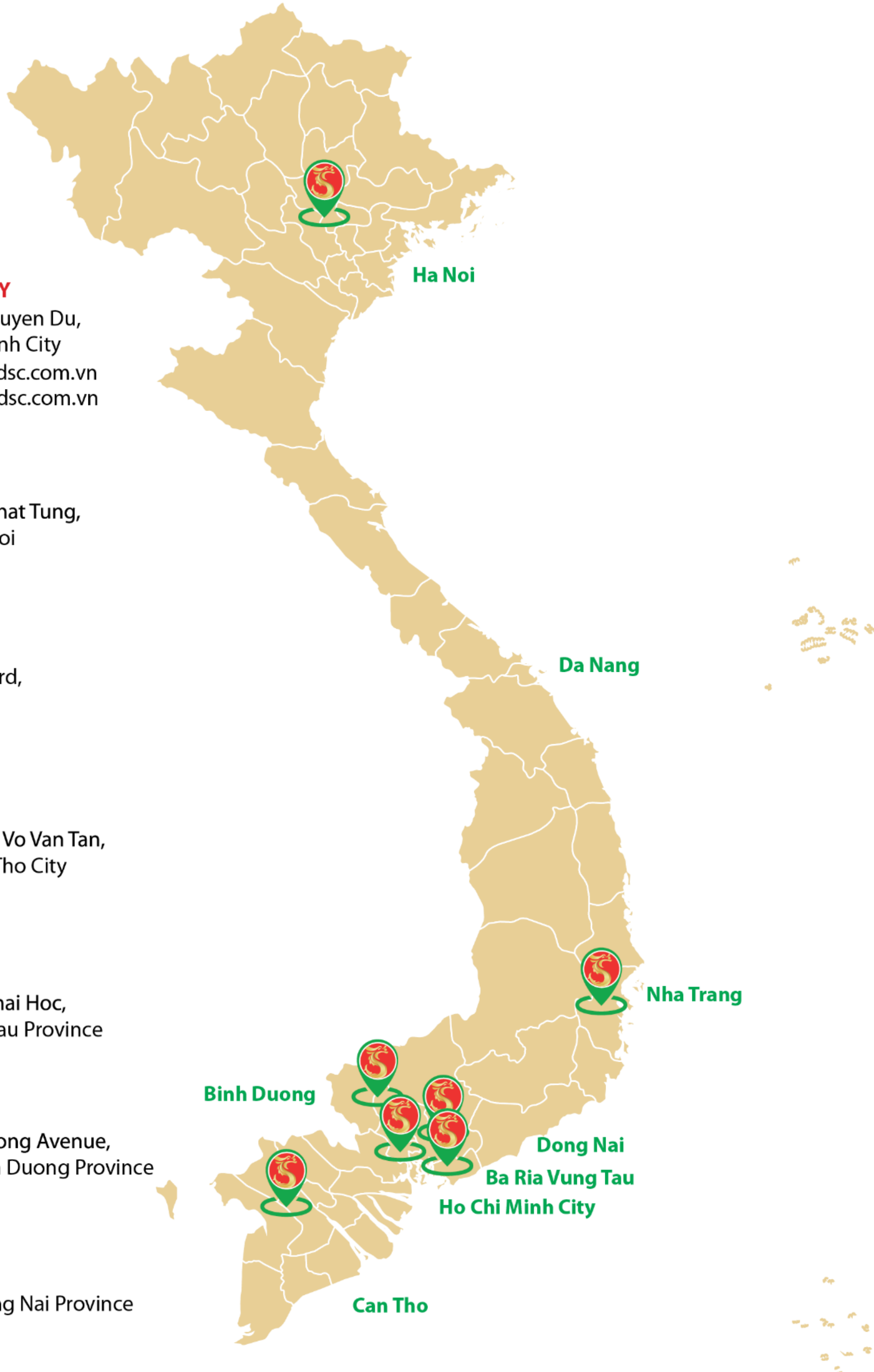

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