6th February 2024

Macro Report

THE ECONOMY IS EXPECTED TO RECOVER SLOWLY IN Q1/2024

- *Manufacturing activity data showed mixed movements in Jan 2024.*
- *Consumption during the peak shopping month is not encouraging.*
- *The pressure of the dong's depreciation may remain in the first half of 2024.*

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VIETNAM ECONOMY: THE ECONOMY IS EXPECTED TO RECOVER SLOWLY IN Q1/2024

- Manufacturing activity data showed mixed movements in Jan 2024
- Consumption during the peak shopping month is not encouraging
- The pressure of the dong's depreciation may remain in the first half of 2024

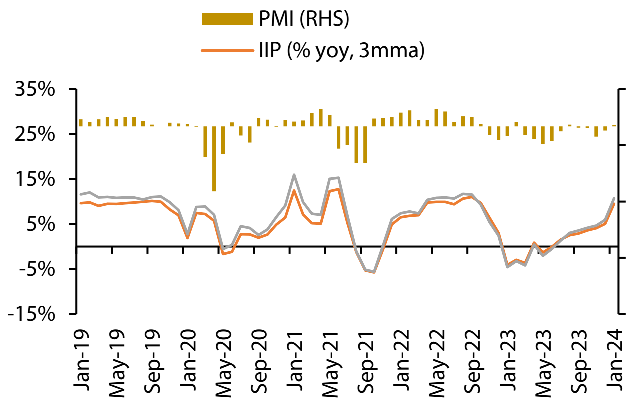
Manufacturing activity data in Jan 2024 showed mixed movements

In January 2024, the industrial production index increased by 18.3% over the same period and decreased by 4.4% over the previous month. The high increase in industrial production activities is due to the low base level of the same period due to January 2023 being influenced by the Tet holiday. If we consider the same period when the Tet holidays of two consecutive years fell in two different months, the industrial production index in the first month of 2024 grew lower than in 2018 and 2021. However, PMI survey data shows that Vietnam's manufacturing industry improved in January 2024. Specifically, Vietnam's PMI increased to 50.3 points, recording the first month of expansion since August 2023 and higher than 48.9 points in December 2023. Besides the positivity from the slight improvement in domestic and export demand, other component indexes of the PMI survey have yet to show a sustainable recovery. Indicators include 1) raw material purchases remained broadly unchanged, and pre-production inventories fell the most since June 2023; 2) input and transportation costs increased due to chain disruptions supply, but output selling prices decreased; 3) confidence in output prospects in the next year decreased to the lowest level of 7 months and lower than the historical average of the index.

In a related development, according to the General Department of Customs, the growth of import-export turnover in the first half of January 2024 improved slightly, reaching $29.8 billion and growing 5.4% over the same period. Exports grew by 4.1%, and imports grew by 6.8%. However, according to the General Statistics Office estimates, exports and imports in the first month of the year are expected to increase significantly, 42.2% and 33.5% respectively over the same period. It's partly due to seasonal effects; however, on a monthly basis, trade activities are still improving. Specifically, exports and imports in January 2024 are estimated to increase by 6.7% and 4.2%, respectively, compared to the previous month. Import-export turnover in the first month of the year increasing higher than the last month of the previous year is an uncommon phenomenon. At the same time, the growth rate of January 2024 is the best monthly improvement since 2019 until now.

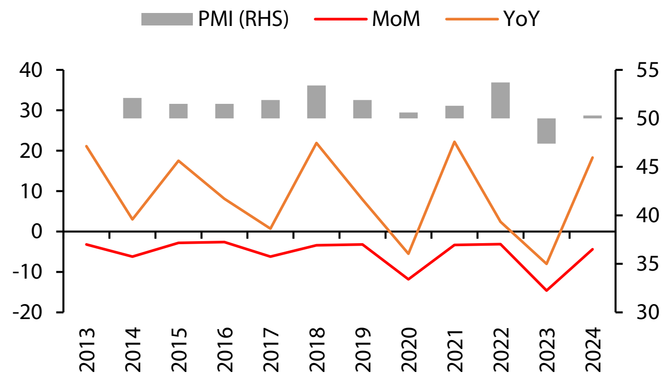
Although data on industrial production activities in January 2024 showed mixed developments, we still maintain our view on the recovery of this sector in 2024. The developments in the first month of the year imply that the pace of recovery in the first quarter is likely to be slow.

Figure 1: Industrial production index and PMI



Source: GSO, RongViet Securities

Figure 2: Industrial production and PMI in Jan during 2013-24



Source: GSO, RongViet Securities

Consumption during the peak shopping month is not encouraging

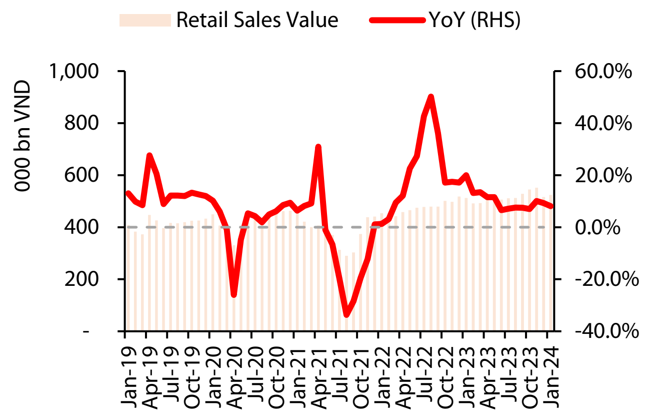
January 2024 is the shopping month to prepare for the Lunar New Year. However, GSO data shows that consumer demand is not buoyant. Retail sales of goods and services in January 2024 reached 524 trillion VND, up 1.6% over the previous month and 8.1% over the same period. It is worth noting that the retail sales figures for the last month (December 2023) and the same period (January 2023) were adjusted to decrease sharply compared to previous estimates. Therefore, the growth results in retail sales of goods and services in January 2024 are not convincing.

Based on statistical data, the growth rate of the consumer sector in the first month of the year was relatively weak. Retail sales growth after excluding price factors only reached 5.8% over the same period, the lowest level recorded in January since 2013 until now (excluding the period affected by COVID-19 (2021-2022)). In particular, essential goods such as food or textiles increased relatively low during the Tet holidays. Specifically, food consumption growth only reached 6.2% over the same period, lower than the period affected by Covid-19. Similarly, consumer sales of textiles and garments increased only 1.5% over the same period.

In addition, although the number of international tourists coming to Vietnam in January 2024 has approached the scale at the same time in 2019 (before COVID-19) and the number of tourists from China increased 15 times compared to the same period and 60.6% higher than January 2019 (before Covid-19), retail sales of tourism-related consumer sectors are still 14-15% lower than the growth potential. Growth in revenue from the accommodation & catering, and tourism services reached 10.2% and 18.5%, respectively, over the same period last year, lower than the increase of 14.7% and 52.5% in 2023.

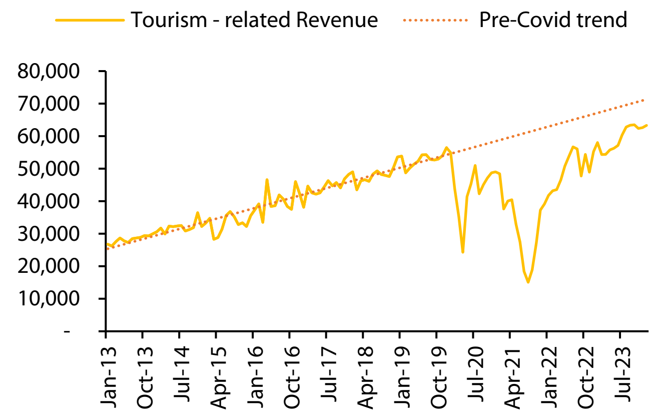
The developments in the first month of the year cannot yet tell the picture of the whole year. However, with weak consumer sentiment, especially in the context of weak spending for the traditional national Tet holiday, the Government could extend the 2% VAT reduction policy deadline until the end of 2024 to improve economic growth.

Figure 3: Vietnam's retail sales



Source: GSO, RongViet Securities

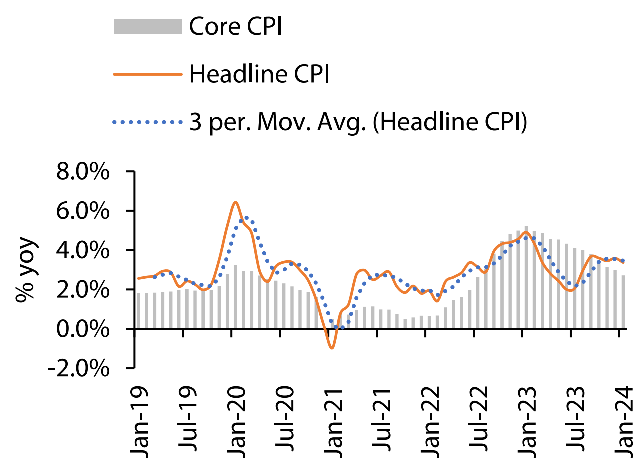
Figure 4: Tourism-related revenue and pre-Covid trend



Source: GSO, RongViet Securities

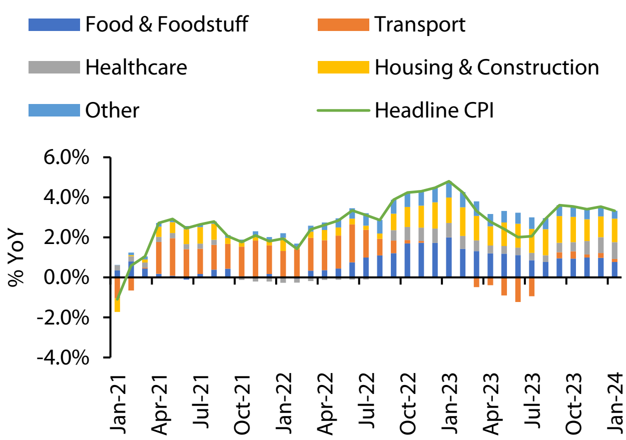
A noteworthy point is that inflation in January 2024 increased to the highest level since September 2023. However, inflation data also reflected weak demand in the domestic market. Specifically, the headline inflation increased by 0.31% over the previous month and 3.37% over the same period. If we exclude the impact of healthcare price adjustments and oil price fluctuations, headline inflation in January 2024 is estimated to increase only 2.3% over the same period. In January 2024, the Ministry of Industry and Trade proposed an increase in electricity prices in 2024. This development matches our expectations. Currently, the time of electricity price adjustment and the level of price increase have yet to be announced. However, the electricity price increase may be about 5-8%. At the same time, this increase has been reflected in Rong Viet's 2024 inflation forecast at 3.3%.

Figure 5: Vietnam's inflation



Source: GSO, RongViet Securities

Figure 6: Breakdown of headline CPI



Source: GSO, RongViet Securities

The pressure of the dong's depreciation may remain in the first half of 2024

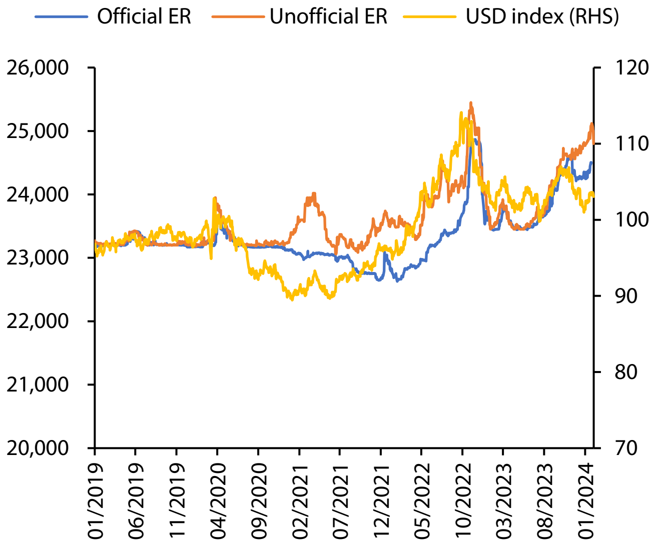
In January 2024, the USDVND exchange rate fluctuated sharply but within the allowed range. As of January 25, 2024, the dong depreciated by 1.4% compared to the beginning of the year and then cooled down, increasing by 0.6% for the official market exchange rate and 0.1% for exchange rates on the free market. The main reason for the dong's depreciation in the first month of the year was the recovery of the USD, stemming from investors' reduced expectations about the prospect of the Fed's interest rate cuts. According to the FedWatch tool, the probability of cutting interest rates at the Fed's March 2024 meeting has decreased from 70% at the beginning of the year to only 34.5% after the Fed's announcement at the meeting on January 31, 2024. Meanwhile, market expectations for a cut in 2024 remain unchanged at 150 basis points, with a probability of 42.8%. Accordingly, the DXY index in January 2024 recovered to 103, 1.7% higher than at the beginning of the year. In addition, the gap between USD-VND interest rates is still high in the first month of the year (~4.85 percentage points), which also puts pressure on the dong's stability.

Compared to other currencies, the dong is one of the currencies that has depreciated the least against the USD in January 2024. In the context that the PoBC continues to implement additional monetary easing measures to support growth, the unfavorable economic situation in the first month of the year caused the yuan to depreciate by about 1.1%. Meanwhile, the Japanese Yen depreciated the most (~3.8%) as investors continued waiting for a signal to change the negative interest rate policy from the BoJ. Other currencies in the ASEAN region (except Vietnam) will depreciate by 1-3% in January 2024. It can be seen that, concerning the economic outlook and monetary policies of central banks, the USD had a significant advantage in the early period of 2024.

Although the economic context of 2024 is different, comparing fluctuations in oil prices, USD, and gold prices during Fed easing (2019-2021) and tightening monetary policy (2022-2023) shows some implications. First, when the Fed implemented its tightening monetary policy, the USD fluctuated in price sharply in the early stages and maintained its strength for a while afterward when interest rates were anchored at high levels. Second, when the Fed cut interest rates, the first steps did not change the USD trend, and the decline of the USD only took place later when the rate cut cycle ended. Third, the fluctuations in oil and gold prices during the Fed's policy easing and tightening periods are quite interesting. Specifically, crude oil experiences sharp up and down, but the trend is to increase during Fed easing periods and decrease during Fed tightening of monetary policy.

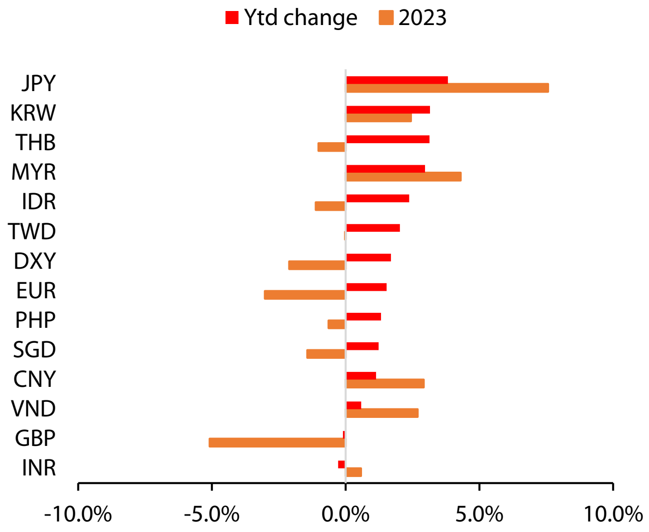
Meanwhile, gold prices increased in both periods. Looking back at history can partly help predict exchange rate fluctuations in the near future. The USD's strength remains in the early stages of the monetary easing cycle, which may pressure the USDVND exchange rate. In our view, this development may last at least in the first half of 2024.

Figure 7: USDVND exchange rate and the DXY index



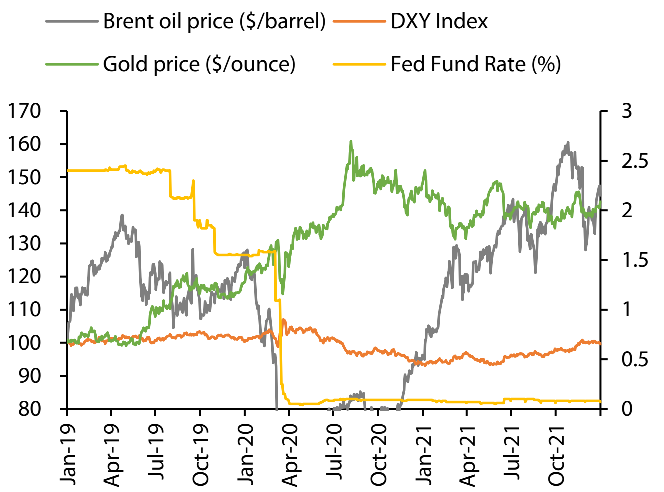
Source: Bloomberg, RongViet Securities

Figure 8: The dong vs. other currencies



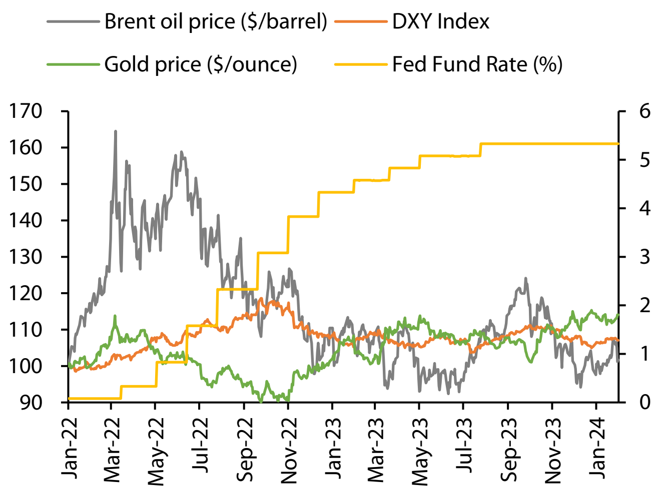
Source: Bloomberg, RongViet Securities

Figure 9: Oil price, USD Index and gold price during Fed easing period (2019-2021)



Source: Bloomberg, RongViet Securities, year 2019 = 100

Figure 10: Oil price, USD Index and gold price during Fed tightening period (2019-2021)



Source: Bloomberg, RongViet Securities, year 2022 = 100

GLOBAL ECONOMY: CENTRAL BANK CAUTION DAMPENS EARLY RATE CUT HOPES IN 2024

- The Fed: A Pivot Towards Patience
- The ECB: No hint at cutting interest rates
- The BOE: Divided opinions, delayed cuts
- The PBoC: Cautious easing monetary policy
- The BOJ: The timing of monetary policy normalization remains uncertain

The Fed: A Pivot Towards Patience

In January 2024, central banks of developed countries, including the US Federal Reserve (Fed), European Central Bank (ECB), and Bank of England (BOE), all admitted that economic conditions have improved. Still, their messaging and actions reflect a cautious approach, tempering expectations for an immediate rate cut. The Fed's January meeting saw policymakers agree to keep interest rates unchanged at 5.25% - 5.50%. This was largely expected, but Chairman Jerome Powell's accompanying statement and press conference provide important nuances. First, there is a tone of optimism mixed with caution when declaring a more optimistic tone about the US economy, emphasizing risks to the labor market and the inflation target under current interest rate conditions have become more balanced. Second, the Fed chairman also mentioned the need for "more data" to confirm the downward trend of inflation before considering interest rate cuts and, at the same time, extinguished the market's hopes for interest rate cuts in March 2024. In addition, the Fed chairman's statement shows a potential shift to monetary easing without slowing down the tightening of the quantitative easing package instead of reducing interest rates at the March 2024 meeting. The Fed is still maintaining its balance sheet reduction target of $95 billion/month.

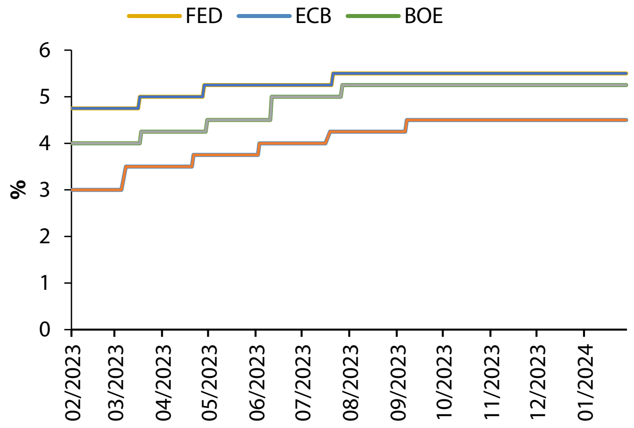
The ECB: No hint at cutting interest rates

On the other side of the Atlantic, the ECB and BOE kept interest rates stable. Specifically, the ECB kept the operating interest rate unchanged at 4.0% for the third consecutive meeting but did not hint at cutting interest rates. The ECB Governing Council reaffirmed its commitment to "ensure that our policy interest rates will be set at sufficiently stringent levels for as long as necessary." This emphasizes maintaining a prudent monetary policy stance to contain inflation. The ECB believes that reducing inflation is still going on with the argument that core inflation is decreasing and the previous interest rate increase is having an effect. At the same time, inflation data in December 2023 increased again, which is believed to be due to the influence of the low base level in the same period last year. Inflation in December 2023 increased to 2.9%, 0.5% higher than November 2023. However, core inflation (excluding food and energy prices) decreased slightly, from 3.6% in November to 3.4% in December 2023. Similar to the Fed, the ECB said the prospect of reducing interest rates depends heavily on economic data in the near future.

The BOE: Divided Opinions, Delayed Cuts

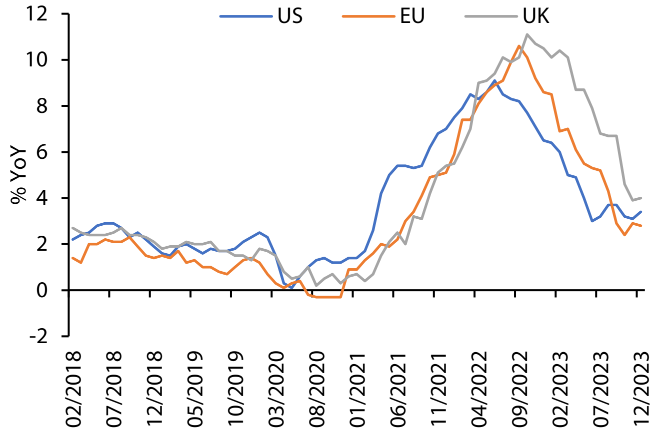
Meanwhile, the BOE was still divided in the meeting in early February 2024, showing differences of opinion on the appropriate monetary policy direction. Although the decision to keep interest rates unchanged at 5.25% was a majority vote in the BOE's Monetary Policy Committee, one member favored reducing the interest rate to 5.0%, and two others favored increasing the interest rate to 5.5%. In the latest forecast, BOE is also more optimistic about growth and inflation prospects; GDP growth in 2024 is adjusted from 0% to 0.25%, and inflation is expected to temporarily decrease to 2% in Q2/2024 and increase slightly again in Q3 and Q4 to 2.25% and 2.75% respectively. Although disagreement arose in the decision of BOE members in the January 2024 meeting, the lower inflation outlook shows that it is less likely that the BOE's operating interest rate will increase further. At the same time, the ability to reduce interest rates will also depend on inflation in the service sector and wage growth.

Figure 11: Operating interest rates of the Fed, ECB and BOE



Sources: Bloomberg, RongViet Securities

Figure 12: Inflation in the US, Europe and the UK



Sources: Bloomberg, RongViet Securities

PBoC: Cautious easing monetary policy

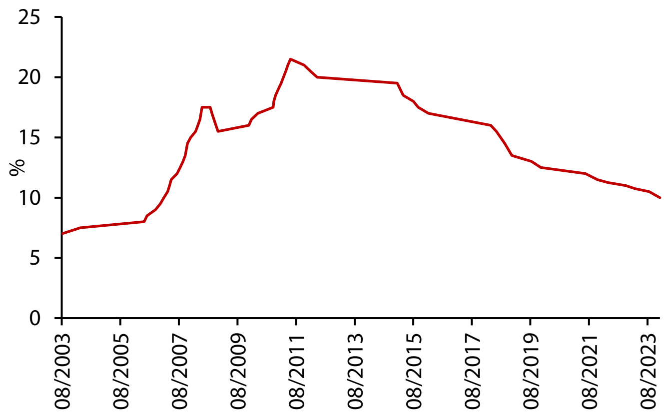
In Asia, the People's Bank of China (PBoC) announced on January 24, 2024, that the required reserve ratio (RRR) will be lowered by 50 basis points, effective February 5, 2024. This move is estimated to release liquidity of about 1,000 billion yuan (~ 139 billion USD) from long-term reserve funds to the banking system. However, most analysts do not appreciate it. China's latest monetary policy easing action because the reduction in the required reserve ratio depends on the still weak absorptive capacity of the economy. China's average RRR is 7.4% at the end of 2023 and is expected to decrease to 7.0% after the cut in early February 2024. According to the PBoC Governor, China will have more room for monetary easing when US interest rates decrease. Overall, China's central bank is taking a cautious and balanced approach to monetary policy. The PBoC's decisions to cut interest rates in the near future will take place when there are more signals about narrowing the interest rate gap between the US and China.

BOJ: The timing of monetary policy normalization remains uncertain

One of the market's most anticipated policy decisions is the time of policy reversal by the Bank of Japan (BOJ). However, in the January 2024 meeting, the BOJ agreed to maintain short-term interest rates at negative levels (-0.1%) and target 10-year Japanese government bond yields at around 0%. In the latest forecast, BOJ adjusted its estimate of economic growth in 2024 from 1.0% to 1.2%, keeping the forecast of GDP growth in 2025 unchanged at 1.0%. The forecast for core inflation in 2024 is adjusted to 2.4% (compared to 2.8% in the meeting in October 2023), and in 2025 is adjusted to increase slightly to 1.8% (compared to 1.7% in October 2023). Analysts agree that the normalization of BOJ's monetary policy will only begin after the Shunto wage negotiations in the spring of 2024, ending around mid-March 2024. Therefore, the expectation is that the BOJ will escape the ultra-loose monetary policy by raising short-term interest rates from -0.1% to 0.0% in April 2024 and eliminating the yield curve control policy at the June 2024 meeting.

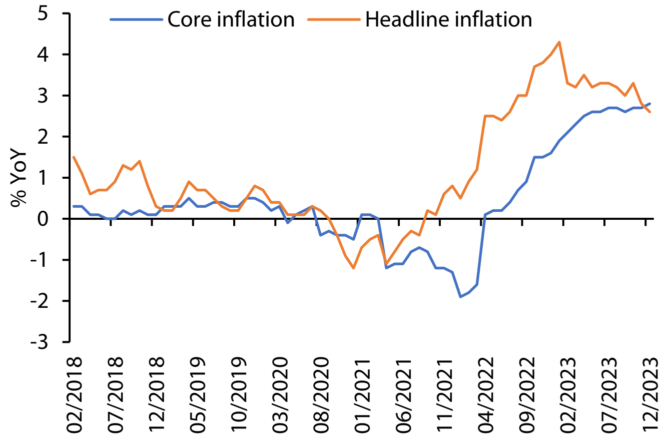
In short, the Fed, ECB, and BOJ are all optimistic about improving economic conditions, and the inflation outlook is decreasing, but they are all cautious about premature policy reversals. This caution is similar to PoBC, which, on the one hand, is under pressure to introduce measures to stimulate economic recovery, at the same time, must ensure the stability of domestic financial conditions. Given the operating developments of the global central banks in January 2024, investors hoping for a sharp reduction in interest rates in 2024 may need to adjust their expectations as central banks prioritize data-driven decisions and a gradual approach to normalizing monetary policy.

Figure 13: China's Reserve Requirement Ratio



Sources: Bloomberg, RongViet Securities

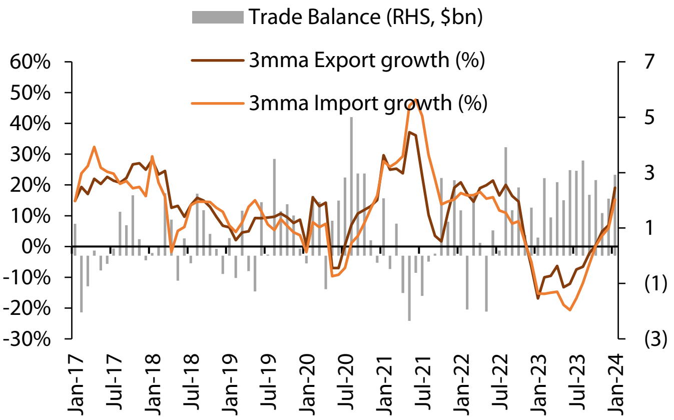
Figure 14: Japan's inflation



Sources: Bloomberg, RongViet Securities

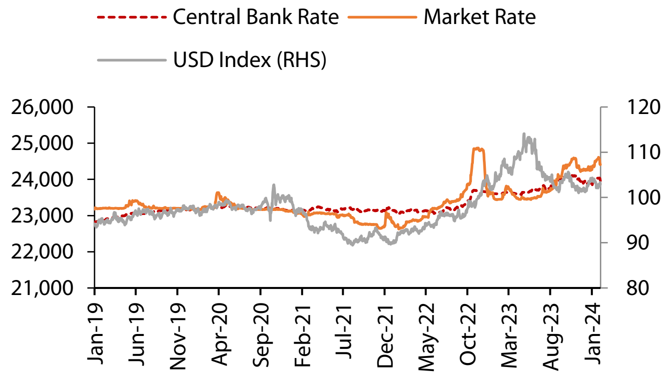
VIETNAM ECONOMIC INDICATORS IN JAN 2024

Trade balance



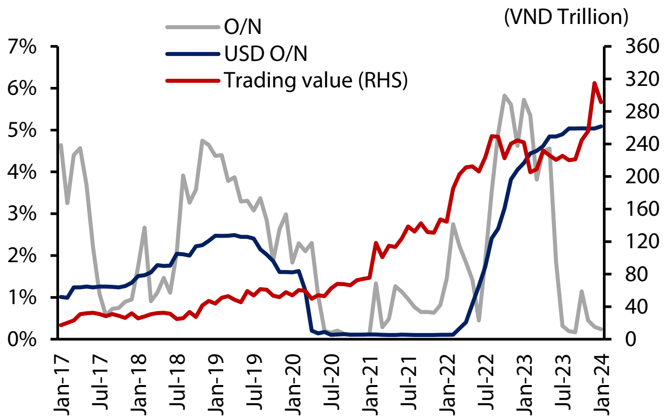
Source: GSO, RongViet Securities

USDVND exchange rate



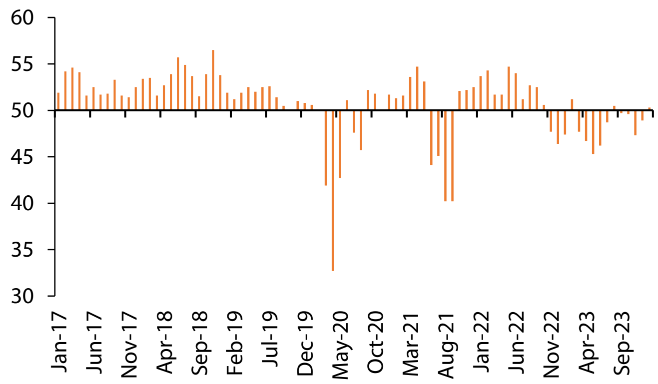
Source: SBV, Bloomberg, RongViet Securities

Interbank interest rate (%/year)



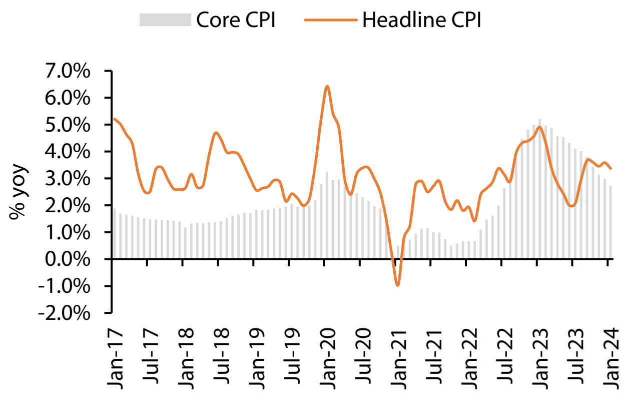
Source: SBV, RongViet Securities

Vietnam PMI



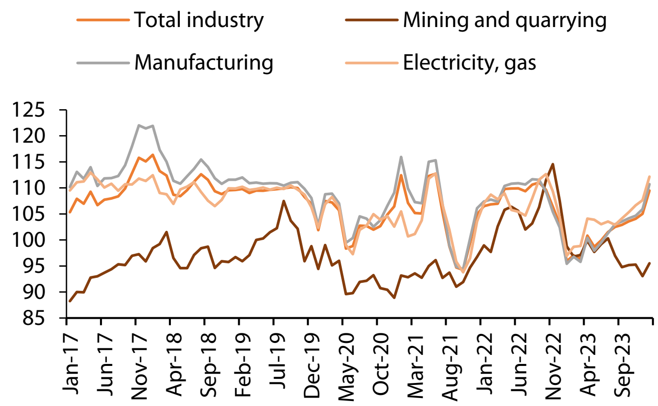
Source: S&P Global, RongViet Securities

Vietnam CPI



Source: GSO, RongViet Securities

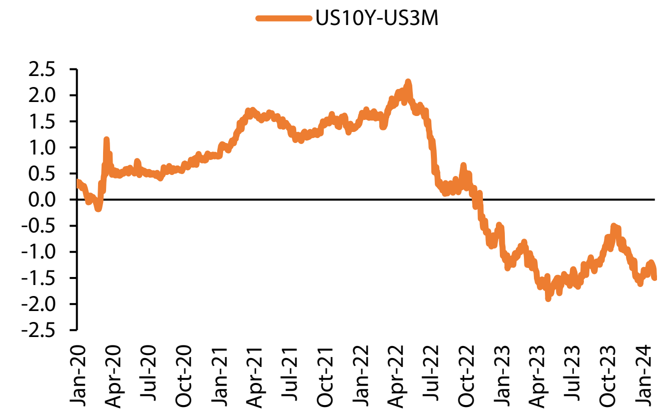
3-month MA Industrial Production Indices



Source: GSO, RongViet Securities

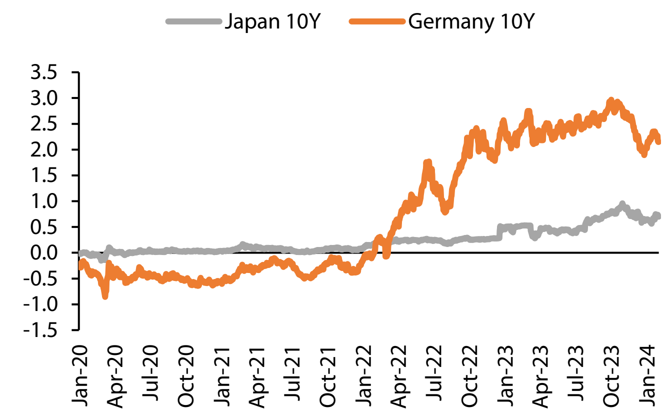
GLOBAL ECONOMIC INDICATORS IN JAN 2024

US G-Bond yields gap (%/year)



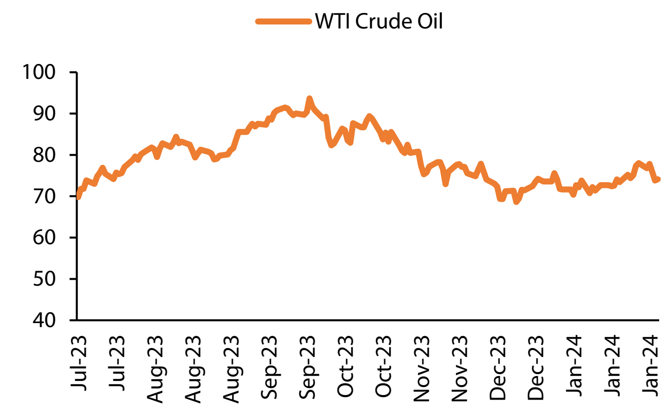
Source: Bloomberg, RongViet Securities

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



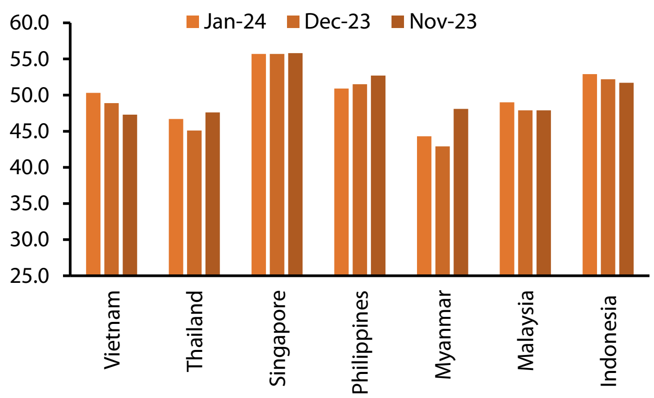
Source: Bloomberg, RongViet Securities

WTI crude oil price (USD/barrel)



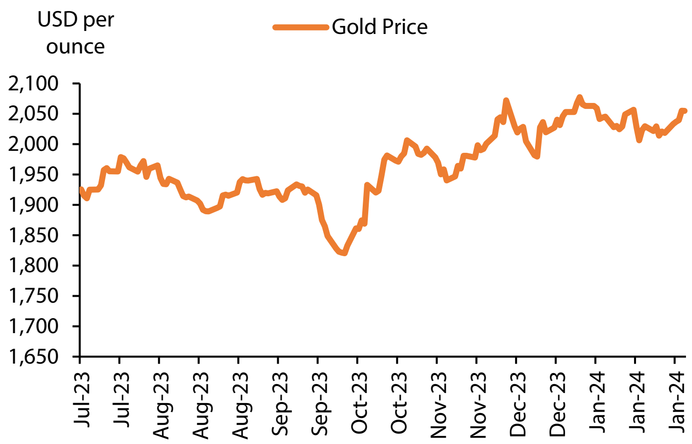
Source: Bloomberg, RongViet Securities

ASEAN's PMI



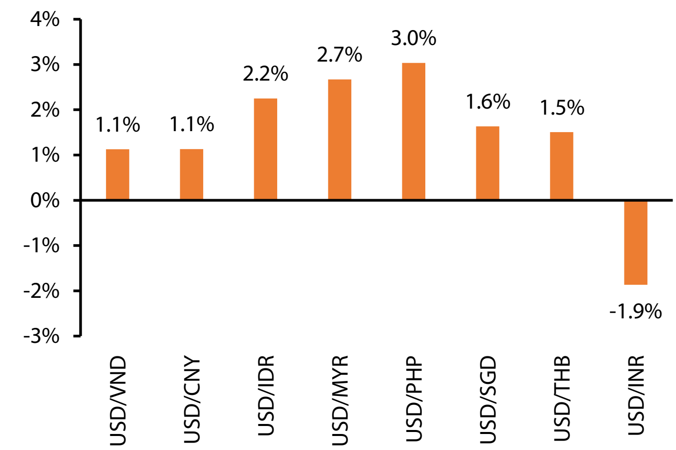
Source: Markit Economics, RongViet Securities

Gold prices (US$/ounce)



Source: Bloomberg, RongViet Securities

FX rates (%, YTD)



Source: Bloomberg, RongViet Securities

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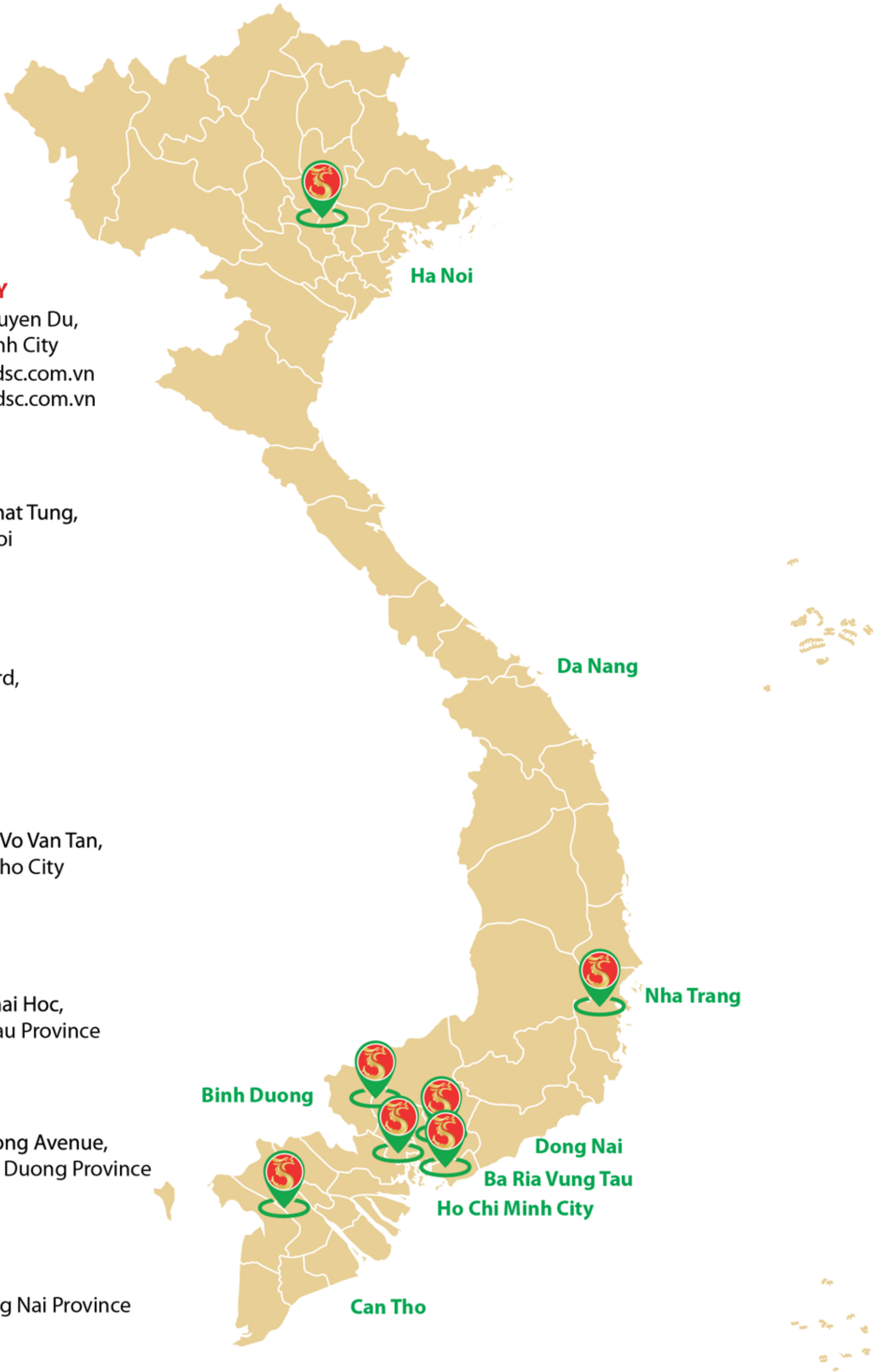

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