5th March 2024

Macro Report

HIGHLIGHTS IN 2M2024: EXPORT AND PUBLIC INVESTMENT

- *Industrial production growth improved slightly while consumption remained weak in 2M2024.*
- *Public investment activities flourish in Q1/2024.*
- *Dong depreciates by 1.6-2.7% YTD .*

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VIETNAM ECONOMY: HIGHLIGHTS IN 2M2024: EXPORT AND PUBLIC INVESTMENT

- Industrial production growth improved slightly while consumption remained weak in 2M2024.
- Public investment activities flourish in Q1/2024.
- Dong depreciates by 1.6-2.7% YTD.

Industrial production growth improved slightly while consumption remained weak in 2M2024

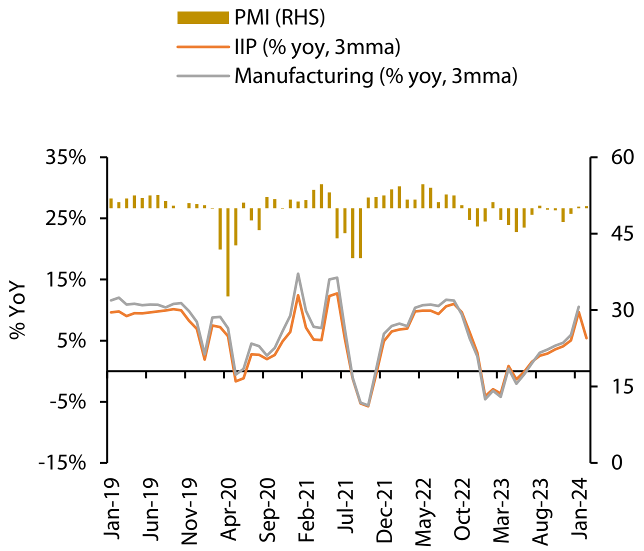
Industrial production activities in February mostly stayed the same compared to the previous month. Because the Lunar New Year holiday falls in February 2024, the industrial production index decreased by 18.0% over the last month and decreased by 6.8% over the same period. The industrial production index increased by 5.7% over the same period in 2M2024. Considering the negative growth rate of 6.3% for the same period in 2023, the recovery of industrial production activities is weak, as we mentioned in last month's strategic report. In more detail, the items with improved production activities include food (aquaculture, milk, sugar), fertilizer, and electricity.

On the contrary, key export industries such as textiles, garments, footwear, and electronics have yet to show improvement. The results of the survey of business conditions in the manufacturing sector showed that the PMI index in February 2024 increased to 50.4 points, a slight increase of 0.1 points compared to the previous month, thanks to a slight increase in new orders for the second consecutive month and employment increased for the first time in four months. In addition, business confidence also hit a one-year high, reflecting optimism on order prospects. However, measures of finished product inventories, purchases, and limited price increases in the February PMI report imply that the driving force for growth in Vietnam's manufacturing sector is still relatively weak.

According to estimates by the GSO, total trade turnover grew strongly in 2M2024, and exports and imports increased by 19.2% and 18.0% over the same period, respectively, partly due to the low base for the same period in 2023. Contrary to the results of industrial production activities, export activities of textile, footwear, and electronics groups were very positive in the first two months of the year. GSO estimates show that electronics exports increased by 19.8% over the same period in 2M2024, textiles and garments grew by 15.0%, footwear increased by 18.3%, seafood increased by 22.3%, and exports wood recorded the most substantial increase of 43.8%. The strong growth in exports of these items while manufacturing activities did not grow is consistent with the PMI survey results, as manufacturers use finished product inventories to meet orders.

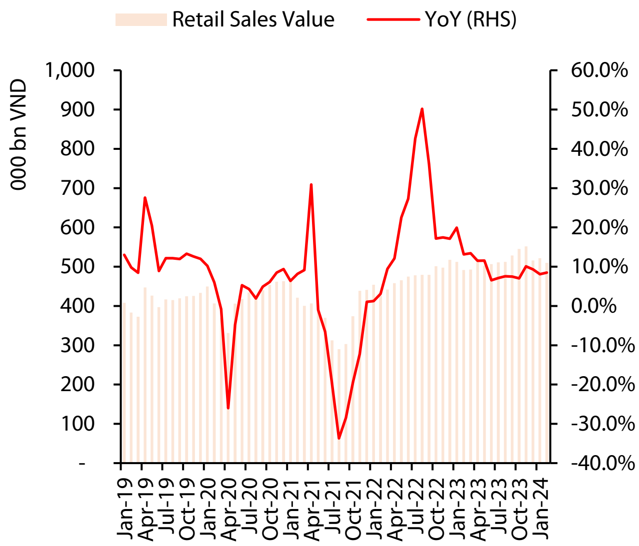
In the context of slight improvement in production activities, consumption activities before and after Tet were relatively weak. In February, retail sales of goods and services increased by 8.5% over the same period, a slight increase compared to the previous month's increase. Retail sales of goods increased slowly, increasing by 7.0% in February 2024, lower than the increase of 7.3% in January 2024. Service retail sales improved compared to the previous month thanks to vibrant accommodation and dining services during the holiday season. Service retail sales increased by 11.1% over the same period, which is higher than the increase of 8.5 % in the previous month. However, total retail sales in the first two months of 2024 increased by 8.1% over the same period and only increased by 5.0% after excluding the price factor, significantly lower than the growth rate of 10.9% recorded in the same period in 2023. Retail sector inflation rebounded due to the impact of spending during the Tet holidays. According to the GSO, the consumer price index in February 2024 increased by 1.04% compared to the previous month and increased by 3.98% over the same period. Items related to the retail sector increased sharply, such as the Food price index, which increased by 1.71% over the previous month; Beverages and Cigarettes; entertainment culture and tourism; and Other goods increased by 0.8%. Inflation in the year's first two months is much higher than our full-year 2024 forecast at 3.5%. However, we expect the pressure on rising consumer prices to ease after the Tet effect ends. In addition, global crude oil prices are still on track, fluctuating in the base scenario of $80-90/barrel.

Figure 1: Vietnam's industrial production and PMI



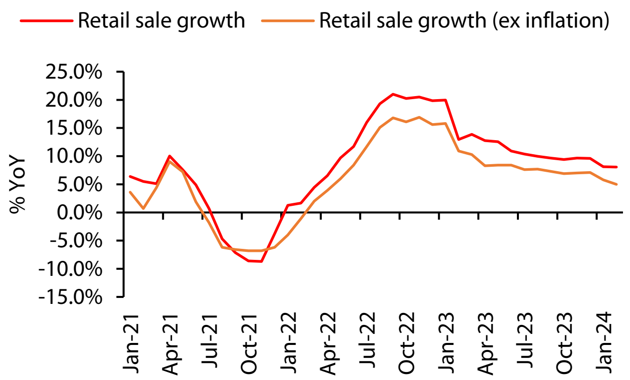
Source: GSO, RongViet Securities

Figure 2: Retail sales growth



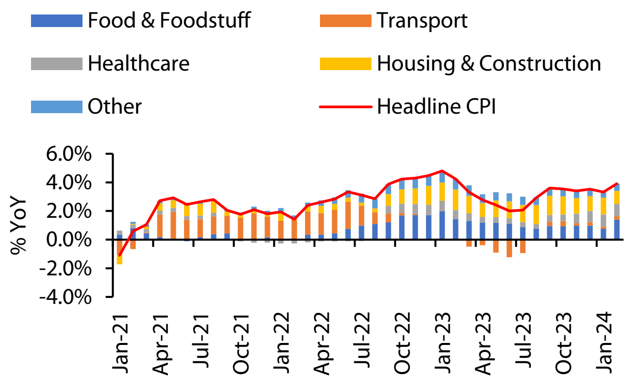
Source: GSO, RongViet Securities

Figure 3: Retail sales growth (ex inflation)



Source: GSO, RongViet Securities

Figure 4: Vietnam's inflation breakdown



Source: GSO, RongViet Securities

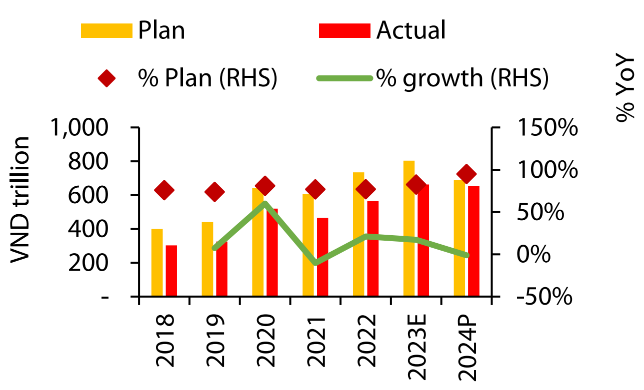
Public investment activities flourish in Q1/2024

2023 is the year recording a record high public investment capital plan, and at the same time, the rate and scale of investment capital put into the economy is the highest in recent years. According to the Ministry of Finance, by the end of January 31, 2024, the disbursement of public investment capital could reach VND662.6 trillion, equivalent to 82.5% of the total plan and 93.1% of the Prime Minister's plan. As a result, the disbursement of public investment capital in 2023 could increase by 17.2% over the same period. Of which, the estimated disbursement capital for implementation in 12M2023 of the central budget reached approximately VND278 trillion, equivalent to 70.4% of the plan, and the disbursed capital of the local budget reached VND345 trillion, equivalent to 76.8% of the plan. Among the ministries/sectors with capital focused on investment priorities, transport and security-defense fields have the highest disbursement rates, at VND82 trillion and VND25 trillion, respectively, reaching more than 86% of the plan. The remaining sectors with low capital disbursement rates include the SBV (2% interest rate support package, only disbursed 1.6% of the plan by November 2023) and Education/Health (only reached 31.1% of the plan by December 2023). Localities with the enormous disbursement scale of public investment capital in 2023 include Hanoi (VND45 trillion, reaching 80% of plan), Ho Chi Minh (VND41 trillion VND, 58% of plan), Hai Phong (17 trillion VND, 72% of plan)...

According to the report on the disbursement of public investment capital in 2M2024, the public investment capital plan in 2024 is estimated to reach about VND690 trillion, including VND657 trillion of capital assigned by the Prime Minister, VND32 trillion VND additional capital by localities, the capital carried forward from previous years is VND105.2 billion. According to this year's plan, the total scale of public investment capital is estimated to decrease by 18.2% compared to the 2023 plan but increase slightly by 4.1% compared to the estimated result in 2023. In particular, central budget capital decreased sharply to about VND225 trillion (-43% compared to the 2023 plan), and local budget investment capital increased slightly, reaching VND465 trillion (+3.5% compared to the 2023 plan). In terms of capital allocation in 2024, capital allocation priority is still focused on the fields of Transportation and Security - National Defense, but planned capital from the central budget in these two fields decreased by 40.5% and 15.4%, respectively compared to 2023, the public investment capital plan for the agriculture sector decreased the least (-12.5% compared to the 2023 plan). In localities with the enormous scale of public investment capital, public investment capital plans increased sharply in Hanoi (+41.5% compared to the 2023 plan), Hung Yen (+28.8%), and Ho Chi Minh City (+12.4%). On the contrary, this year's planned public investment capital by locality decreased in most remaining provinces.

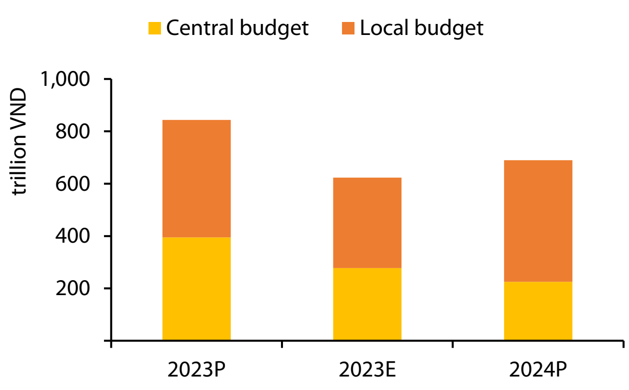
Although the public investment capital plan 2024 is reduced compared to the previous year, the speed of public investment capital disbursement and the ambition to complete the 95% disbursement plan will help ensure the size of public investment capital this year. Therefore, 2024 capital disbursement may improve slightly compared to 2023. According to the Ministry of Finance, the disbursement of public investment capital in 2M2024 is estimated to reach about VND60 trillion, equivalent to 8.7% of the plan, and increased by 21.8% over the same period last year. This shows that the capital disbursement momentum in 2024 will continue and no longer be interrupted like the beginning of the year in the previous period. Particularly for the transportation sector, the 2024 public investment capital plan for critical national projects is estimated at VND67 trillion (accounting for 9.8% of the capital plan), with VND4.5 trillion disbursed, equivalent to 6.6% of the plan in the first month of the year. The most positive disbursement speed is two PPP projects of the North-South Expressway project Phase 1 (Dien Chau - Bai Vot and Cam Lam - Vinh Hao), some component projects of the North-South Expressway Phase 2 (Bai Vot Vot – Ham Nghi, Can Tho – Hau Giang, Hau Giang – Ca Mau) and Chau Doc – Can Tho – Soc Trang expressway.

Figure 5: Public investment (Plan vs. Actual)



Source: MoF, RongViet Securities

Figure 6: Central and Local budget allocation (2024 vs. 2023)



Source: MoF, RongViet Securities

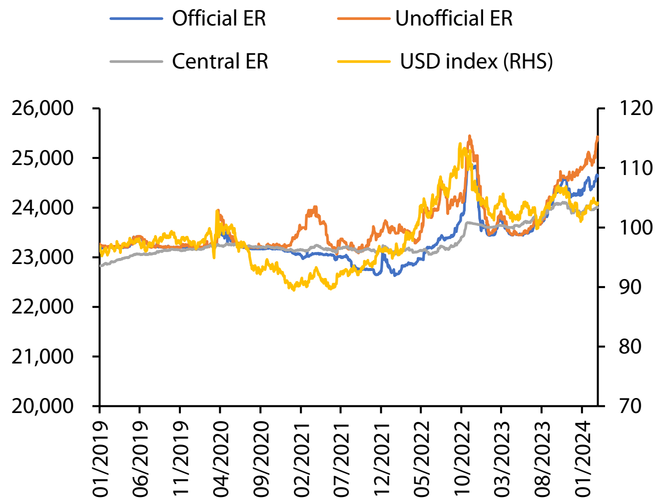
The Dong depreciates 1.6-2.7% in 2M2024

As commented in last month's Strategy Report, the depreciation pressure of the dong was maintained in February 2024. Specifically, the dong continued to depreciate by 0.91% in February, higher than the 0.6% depreciation in the year's first mon. Cumulatively, from the beginning of the year until now, the dong has depreciated by about 1.6% in the interbank market and 2.7% in the free market. The selling exchange rate at VCB recorded on March 4, 2024, is 24,870 VND/USD, 450 VND/USD higher than at the end of 2023, and the selling exchange rate on the free market is 25,430/USD, 660 VND/USD higher compared to the end of last year. In the above developments, the USD index increased slowly in February 2024, currently trading at 103.9, equivalent to an increase of 0.6% compared to the end of January 2024 and a rise of 2.5% YTD. Similar to the movements of the USD index, other currencies in the Asia-Pacific region continued to depreciate compared to the USD in February. Still, the volatility was also lower than the year's first month. Compared to currencies under pressure of depreciation in the first two months of this year, the dong's depreciation is higher than that of the Chinese yuan but at a moderate level compared to other currencies in the region.

In last month's report, we analyzed external impacts on exchange rates. This update will focus on the domestic factors we observe. First, global gold prices are recovering from the second half of February 2024, pushing the increase in domestic gold prices. Compared to the beginning of the year, although the global gold price decreased by 0.5%, the SJC gold price increased by 5.0% due to the monopoly status of the domestic gold bar market. Typically, the more significant the difference in domestic and global gold prices, the stronger the pressure to increase the USDVND exchange rate, especially the exchange rate on the free market. Second, trade data for the first two months of 2024 shows that although the overall trade surplus widened compared to 2M2023 (US$4.0 billion in 2M2024, +16.6% YoY), the deficit in the domestic sector also tends to increase strongly. Specifically, the domestic sector imported US$19.6 billion in 2M2024, recording a trade deficit of US$3.9 billion and growing approximately 30.0% over the same period. Increased import demand from the domestic sector also leads to depreciation pressure on the dong on the official market. Third, the positive difference in USD-VND interest rates has increased again in recent days, implying that the impact of carry trade activities on the development of the dong has not ended. In addition, the fact that VND mobilization interest rates are falling to low levels also increases the attractiveness of other asset channels, including foreign currency and gold.

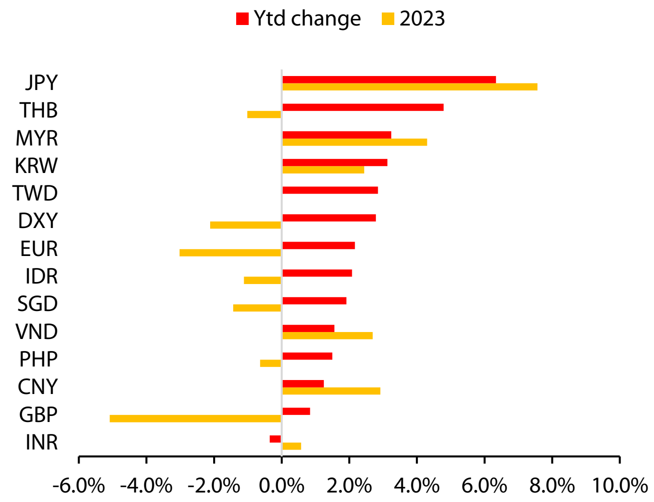
Meanwhile, the only counterbalancing factor is positive FDI disbursement activities in 2M2024 (reaching $2.8 billion, up 9.8% over the same period). We are not too concerned about the pressure of VND depreciation because the USDVND exchange rate still fluctuates within the allowed range. However, the SBV may need to take advantage of tools such as foreign exchange reserves or develop new solutions to manage the gold market to limit the dong's depreciation in March 2024.

Figure 7: USD/VND exchange rate and USD index



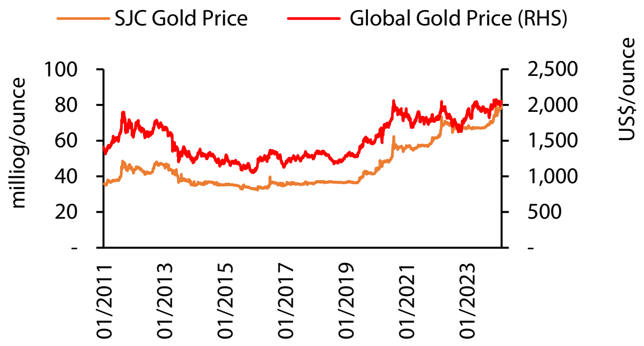
Source: Bloomberg, RongViet Securities

Figure 8: The dong's movement vs. other currencies



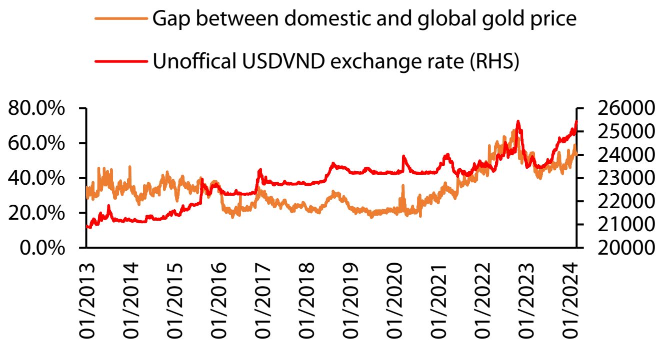
Source: Bloomberg, RongViet Securities

Figure 9: Global gold price vs. SJC gold price



Source: Bloomberg, FiinPro, RongViet Securities

Figure 10: Free USD/VND exchange rate and the gap between domestic and global gold price



Source: Bloomberg, FiinPro, RongViet Securities

GLOBAL ECONOMY: GLOBAL INFLATION DYNAMICS AND CENTRAL BANKS' POLICY IMPLICATIONS

- US Jan PCE popped most in a year, later rate cut
- China's deflation is taking hold, easing ahead from the PBoC
- Japan's CPI reading supports the end of negative interest rates
- The EU: The disinflation trend continued amidst geopolitical uncertainty

US Jan PCE popped most in a year, later rate cut

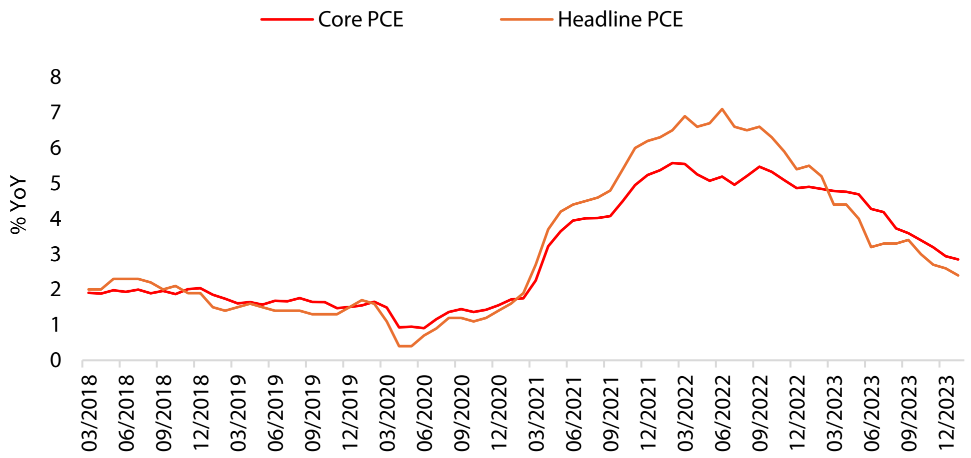
The Fed's preferred inflation gauge, the Personal Consumption Expenditures (PCE), advanced in January at the fastest pace in four months, although the yearly rate had decreased. PCE inflation rose by 0.3% MoM in January, meeting expectations. The year-over-year PCE inflation rate decreased from 2.6% in December to 2.4% in January. Core PCE, which excludes food and energy, rose by 0.4% MoM in January and increased by 2.8% YoY, aligning with forecasts and slightly down from an increase of 2.9% in December.

Prices for goods declined by 0.2% MoM, led by the largest drop in motor vehicles and parts at -0.9% in January, down from an increase of 0.1% in December. On the other hand, PCE services inflation, excluding energy and housing, a key concern for the Fed in its fight against inflation, saw a massive increase in January, recording a 0.6% MoM rise from 0.3% in December. This was boosted by a 0.6% MoM increase in the cost of housing and utilities. The so-called super core inflation increased by 3.5% YoY in Jan, accelerating from 3.2% in December.

Personal income witnessed the most significant increase in a year, a 1.0% rise in January vs. a 0.3% gain in December. Excluding inflation and taxes, real disposable personal income was flat in January vs. 0.2% growth in December. Personal spending rose 0.2% MoM, a notable deceleration after a robust 0.7% growth during the holiday shopping season in December. In real terms, consumer spending fell by 0.1%. As a result, a pick-up inflation in January came with a slowdown in consumer spending.

Despite the uptick in monthly core PCE, the annual disinflation trend kept the door open for rate cuts. Some caution flags, such as higher costs for services and housing, indicated "sticky" inflation. With that in mind, we think the first rate cut is unlikely to begin until the second half of 2024, and the Fed's rate cut trajectory could be slower than forecast at the beginning of the year. According to the CME Group's Fed Watch after the PCE report, most investors still believe there will be no interest rate cuts in March. However, with two more months of data, a May rate cut is still on the table. They continue to bet on the first interest rate cut in June, with the probability increasing to 55.8%. At the current juncture, most economists believe the Fed's first move on a cut will occur in June, forecasting around a total cut of 100 – 125 basis points in 2024.

Figure 11: US headline and core PCE inflation



Source: Bloomberg, RongViet Securities

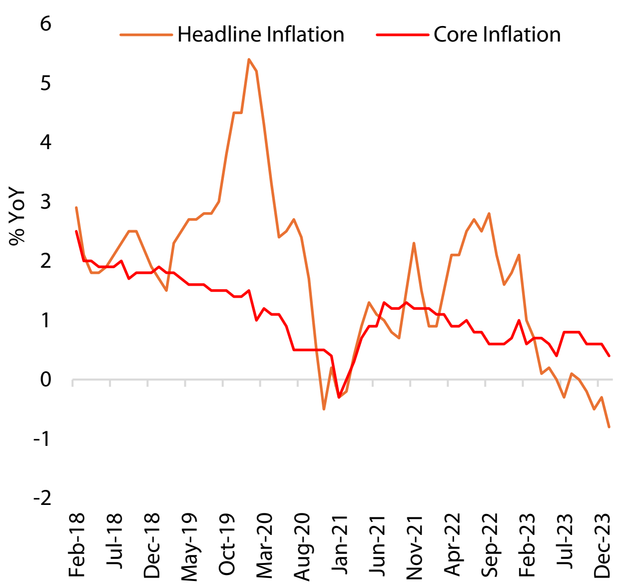
China deflation is taking hold, easing ahead from the PBoC

The deflationary situation in China is intensifying, evidenced by the most substantial decline in consumer prices in January in the past 14 years, posing a threat to the world's second-largest economy. In January, China's Consumer Price Index (CPI) recorded a 0.8% decline compared to last year, marking the most significant drop since September 2009. The inflation figure for January was considerably lower than the December reading of -0.3% and the expected -0.5%. China's deflation is especially severe in the food group as it recorded a decline of 5.9% YoY in January from -3.7% in December. Core inflation only increased by 0.4% YoY, down from the 0.6% uptick recorded in December. Service prices rose by 0.5% YoY, representing half the rate of increase compared to the previous month. Weak consumer demand can be seen during the Tet holiday. Pork is necessary for Chinese people who want to celebrate the Tet holiday. Even though the price of pork has fallen a fifth compared to a year ago, pork demand has been sluggish, even worse than in a normal holiday season.

Additionally, the Producer Price Index (PPI) fell by 2.5% in January compared to the same period last year, marking the 16th consecutive month of decline in the prices of goods at the factory gate. China's bright spot lies in its exports, which grew in December, recording a 2.3% YoY, primarily driven by semiconductor and electronics exports. However, more is needed to revive the economy's sluggish state and break free from deflation. On the other hand, house prices continued to fall in January. China's new home prices declined by 1.24% YoY in January, steeper than a 0.89% fall in the prior month. That in secondary markets edged down by 4.4% YoY. It was the steepest decline in 9 years, even as the Chinese government ramped up efforts to revive the economy.

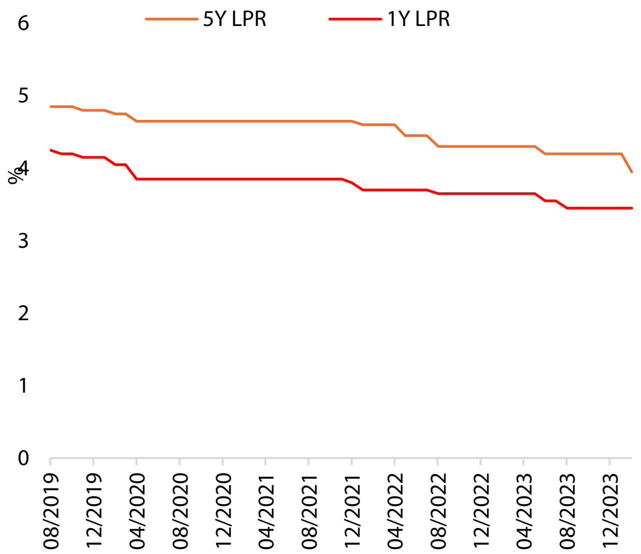
The PBOC has presented a few policies, such as lowering the required reserve ratio (RRR) by 50 basis points and reducing the 5Y loan prime rate by 25 bps from 4.20% to 3.95% to bolster the weakening of real estate and sluggish consumer confidence. However, as assessed by analysts, the People's Bank of China (PBOC) needs to implement additional supportive policies. Still, the timing hinges on when the Federal Reserve will cut its first interest rate.

Figure 12: China's inflation



Source: Bloomberg, RongViet Securities

Figure 13: China's Loan Prime Rate (LPR)



Source: Bloomberg, RongViet Securities

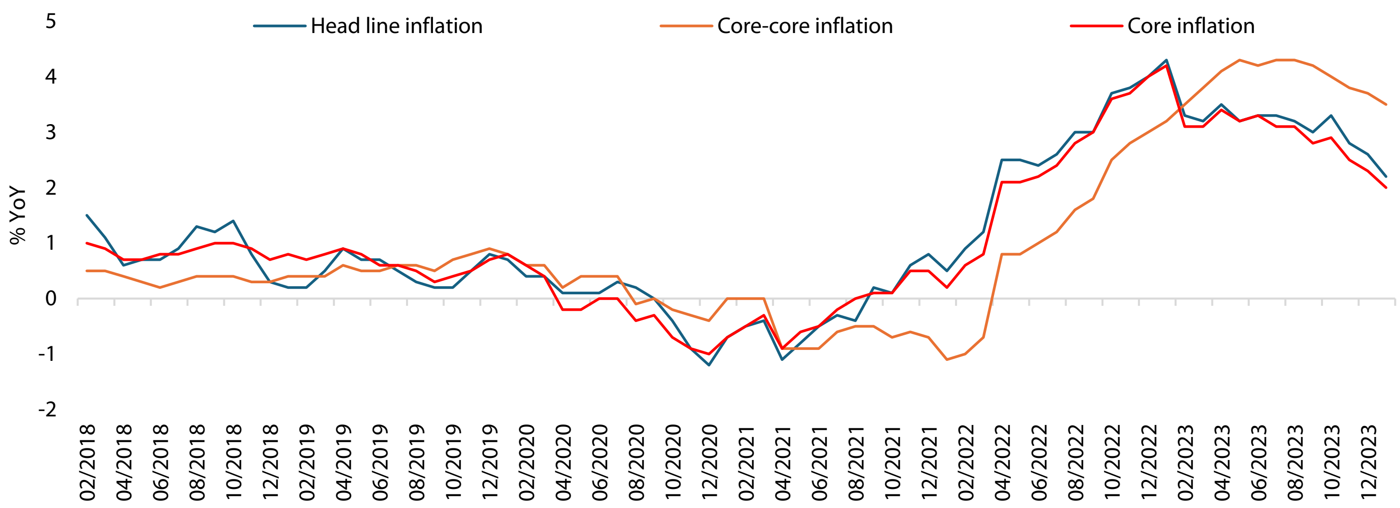
Japan's CPI reading supports the end of negative interest rates

Unlike other countries grappling with efforts to reduce inflation, Japan has actively pursued measures to stimulate inflation. The annual inflation rate in Japan dropped to 2.2% in January from 2.6% in the prior month, marking the lowest figure since March 2022. This decline is attributed to a significant decrease in food prices, which fell from 6.7% in December to 5.7% in January, representing the most substantial drop in 16 months. In addition, hotel charges increased 26.9% in Jan, down from 59.0% in December. Moreover, energy prices declined by 12.1% because electricity bills sank 21.0%. The core inflation rate, excluding food, also exhibited a slower increase to a 22-month low, dropping from 2.3% in December to 2.0% in January 2024. Lastly, the core-core CPI, excluding food and energy, declined from 3.7% in December to 3.5% in January.

The reading surpassed the BoJ's forecasts for the headline, core, and core-core inflation of 1.9%, 1.9%, and 3.3%, respectively. A significant factor contributing to the Consumer Price Index (CPI) surpassing the forecast was the unexpected 63.0% increase in the cost of foreign travel packages, following no gains in the past three years. Although higher than expected, inflation met the BoJ's 2% inflation target for the first time in nearly two years. In addition, Japan's inflation is likely to rebound in February, as a Bloomberg survey indicates core inflation excluding food will be 2.4% in 1H2024.

Recently, Governor Kazuo Ueda expressed confidence in anchoring inflation above 2%, anticipating a virtuous cycle of prices, wages, and employment to strengthen and allow Japan to break deflation. The precise amount of wage increase required for the Bank of Japan (BOJ) policy to reverse is currently unclear. However, many analysts suggest that if wages surpass the 3.58% result from the 2023 Shunto wage negotiations, the BOJ can be more confident in considering ending its ultra-low interest rates policy by April 2024.

Figure 14: Japan's inflation



Source: Bloomberg, RongViet Securities

The EU: The disinflation trend continued amidst geopolitical uncertainty

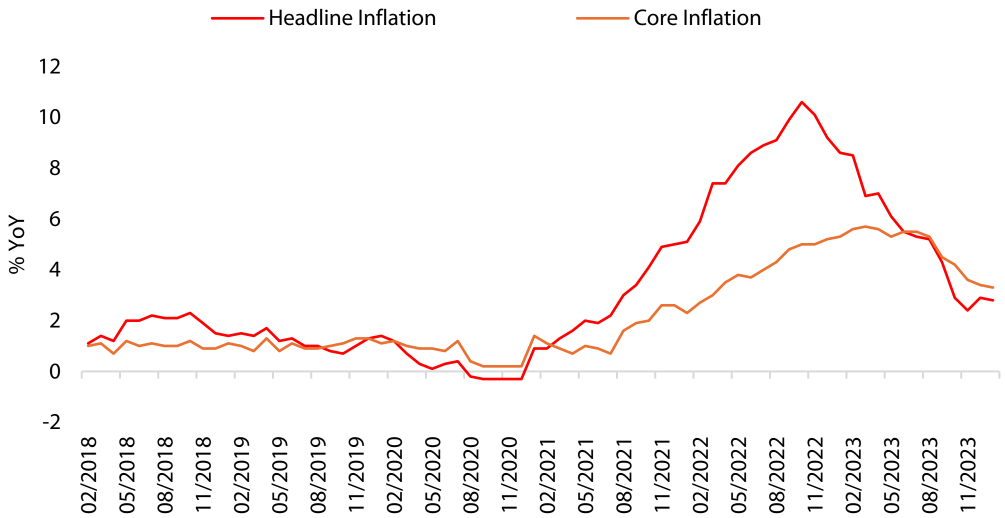
The inflation rate in the EU has shown positive movement at the beginning of the year. January's EU data revealed a decline in inflation to 2.8% from 2.9% in December 2023, marking a significant cooling from its peak of 10.6% in October 2022 and supporting the case for an ECB rate cut. EU core inflation also decreased from 3.4% in December to 3.3% in January. The reduction in inflation was primarily attributed to the slowdown in food, alcohol, and tobacco, which eased from 6.1% in December to 5.7% in January. Non-energy industrial goods also exhibited improvement, slowing down from 2.9% in December to 2.5% in January. Energy inflation declined slower, -6.3% in January, from -6.7% in December, due to higher gas and electricity bills. Core inflation showed a slight disappointment, decreasing by 0.1 percentage points to 3.3% in January from 3.4% in December. This was primarily due to high service inflation, which remained steady at 4.0%, affected mainly by wage factors.

Despite the gradual increase in energy prices, other sectors, such as food and non-energy industrial goods, are likely to experience a decline due to high base in the beginning of 2023.

Based on this, the ECB expected inflation to reach 2.2% in 2025, a 0.2% percentage point higher than the target. ECB is also careful when to cut rates as the current geopolitical tension in the Red Sea could create trade disruptions and push inflation higher.

Overall, it's evident that inflation in the EU is showing signs of improvement. The ECB's capacity to implement interest rate cuts will be closely tied to core inflation figures and wages currently surpassing inflation at a rate of 4.5% in 4Q2023. New wage figures are anticipated to be disclosed in May 2024. Therefore, analysts bet the first rate cut of the ECB will happen in June 2024.

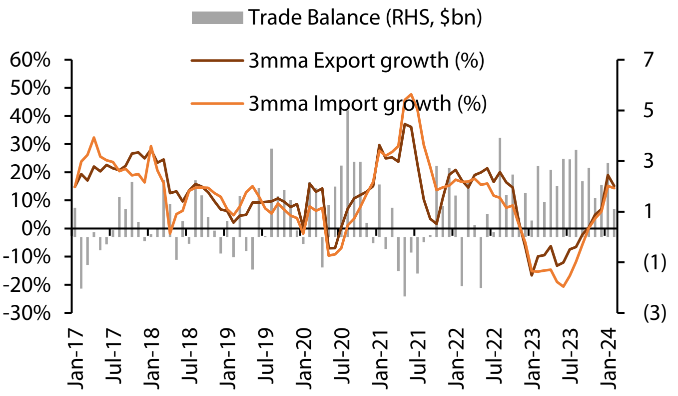
Figure 15: EU's inflation



Source: Bloomberg, RongViet Securities

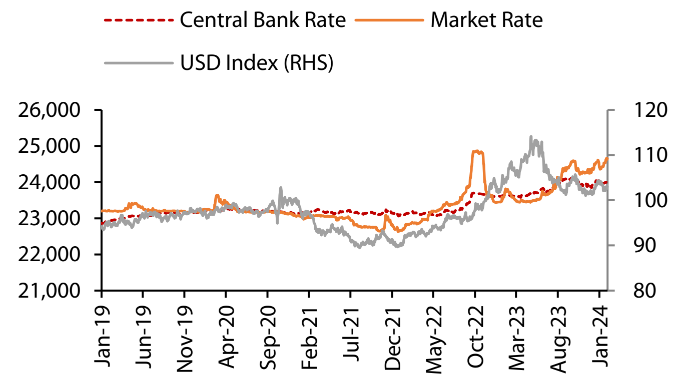
VIETNAM ECONOMIC INDICATORS IN FEB 2024

Trade balance



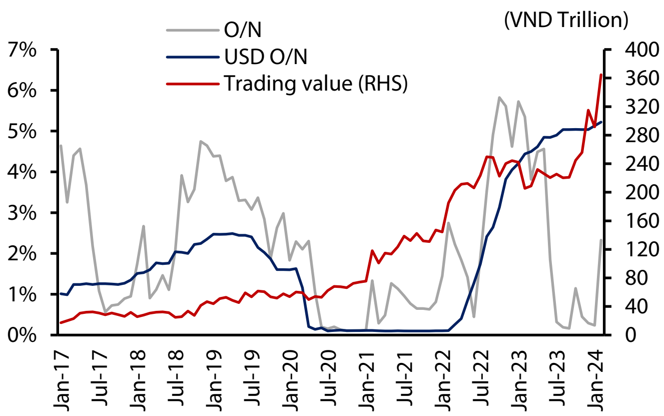
Source: GSO, Rong Viet Securities

USDVND exchange rate



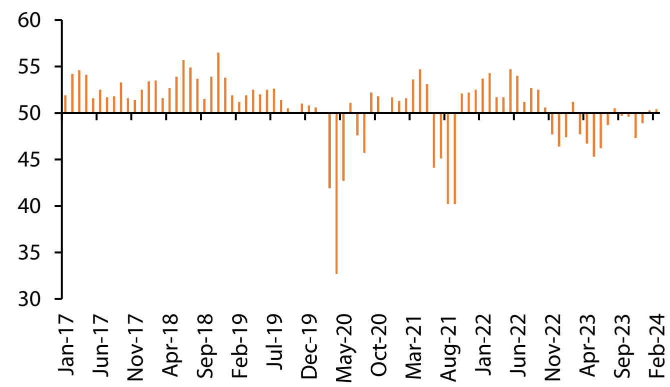
Source: SBV, Bloomberg, Rong Viet Securities

Interbank interest rate (%/year)



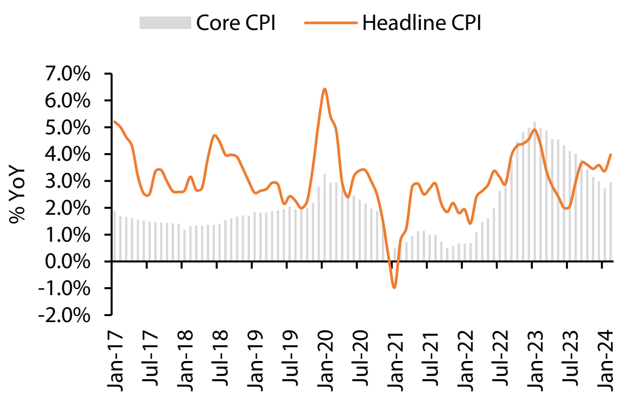
Source: SBV, Rong Viet Securities

Vietnam PMI



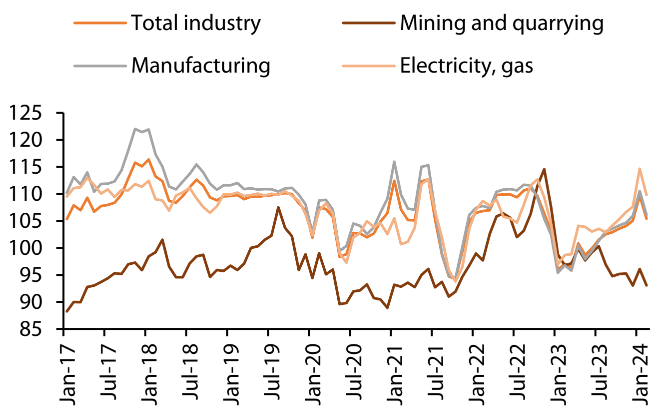
Source: S&P Global, Rong Viet Securities

Vietnam CPI



Source: GSO, Rong Viet Securities

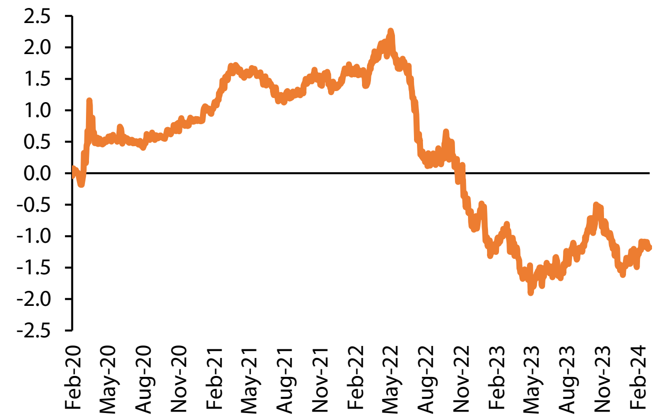
3-month MA Industrial Production Indices



Source: GSO, Rong Viet Securities

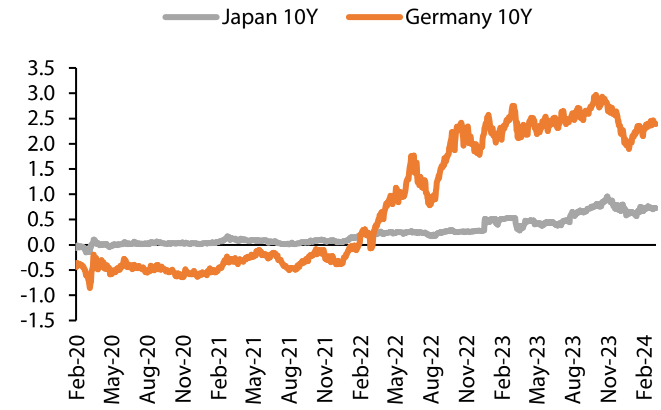
GLOBAL ECONOMIC INDICATORS IN FEB 2024

US G-Bond yields gap (%/year)



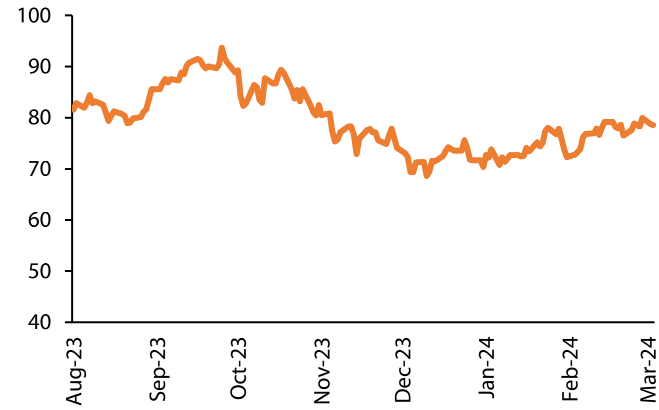
Source: Bloomberg, Rong Viet Securities

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



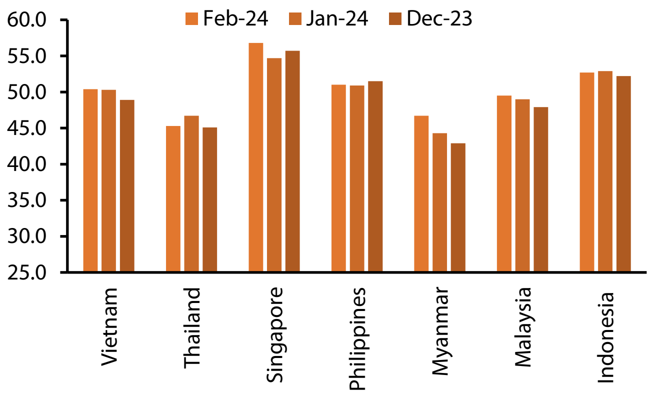
Source: Bloomberg, Rong Viet Securities

WTI crude oil price (USD/barrel)



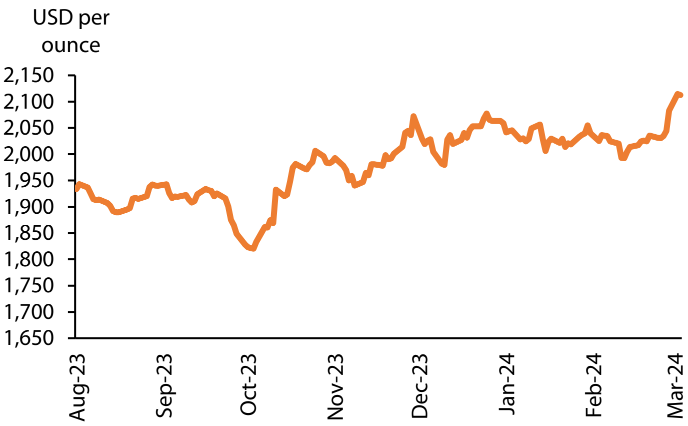
Source: Bloomberg, Rong Viet Securities

ASEAN's PMI



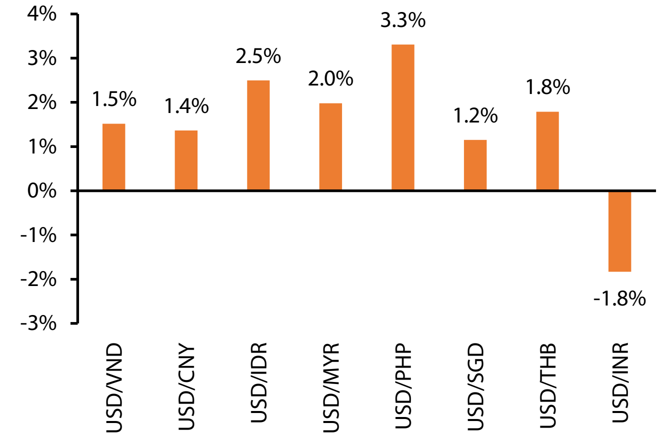
Source: Markit Economics, Rong Viet Securities

Gold prices (US$/ounce)



Source: Bloomberg, Rong Viet Securities

FX rates (%, YTD)



Source: Bloomberg, Rong Viet Securities

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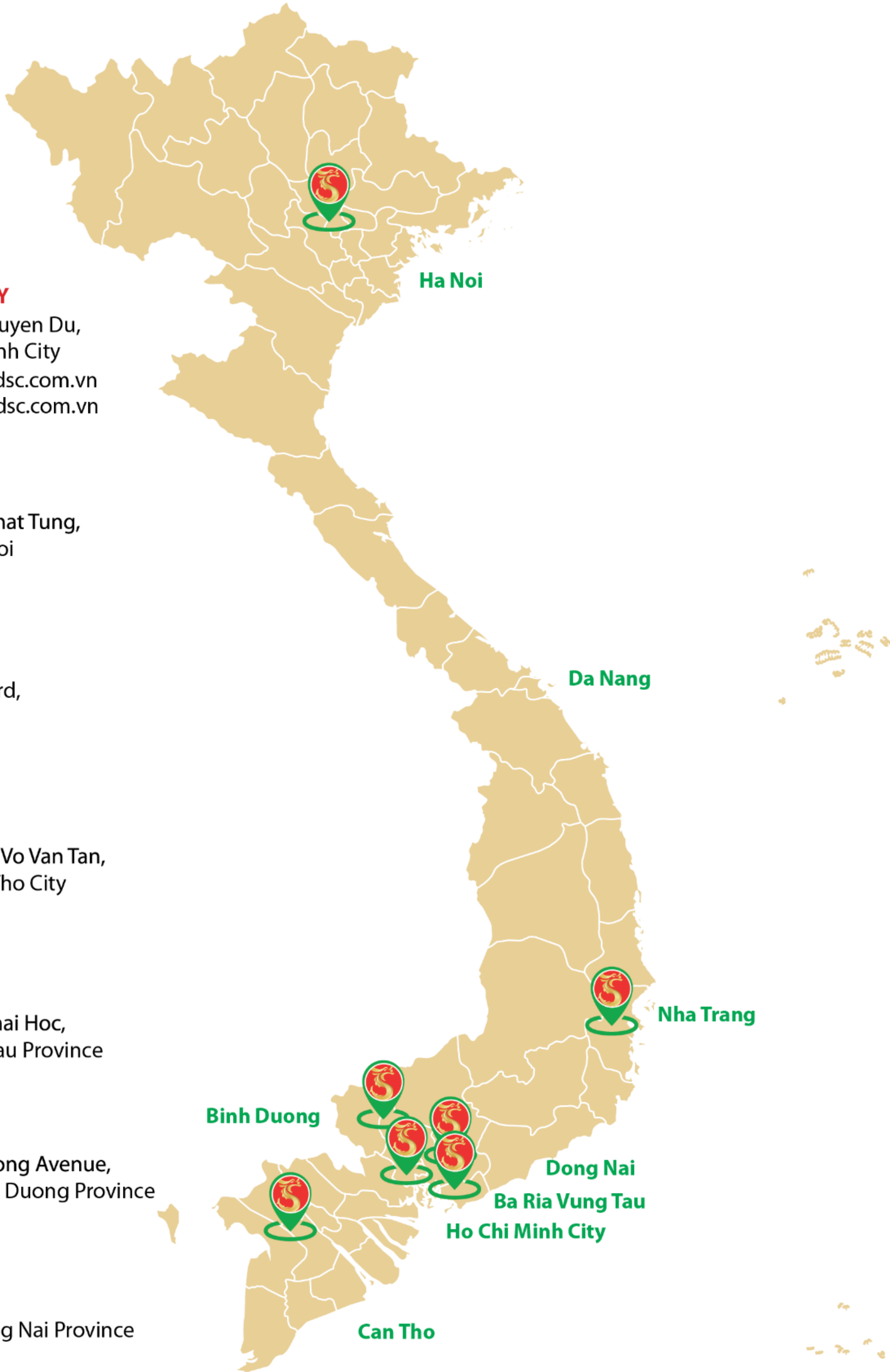

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