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Macro Report

GDP GROWTH IS EXPECTED TO REMAIN LOW IN 2Q2023

- *Expecting slow 2Q GDP growth.*
- *A review of some policies removing difficulties for real estate and corporate bonds and an expansion of monetary policy.*

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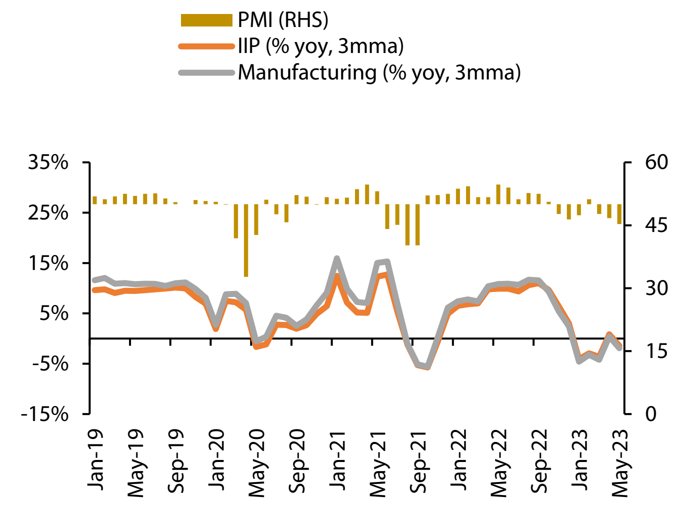
- Expecting slow 2Q GDP growth
- A review of some policies removing difficulties for real estate and corporate bonds and an expansion of monetary policy

An expected slow 2Q GDP growth

Industrial production in May 2023 improved compared to the previous month but was still in the "no growth" zone over the same period. In the first five months of this year, the industrial production index decreased by 2.0% over the same period, in which the manufacturing and processing industry decreased by 2.5% y/y. Some industries with notable growth included food processing (+3.8%), coke and petroleum (12.7%), rubber (+6.3%). Industries with sharp declines included apparel (-8.3%), motor vehicles (-10.1%), electronics (-5.1%). In terms of output, mobile phones dropped sharply in May (-24.9%), automobiles (-32.6%), and apparel continued to decline but to a lesser extent than in previous months (-6.7%).

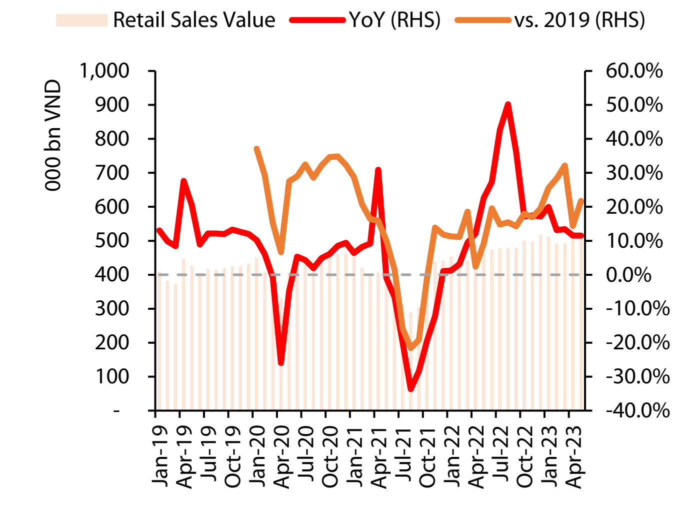
The short and medium-term picture is not optimistic for the manufacturing sector. Vietnam's manufacturing PMI fell to 45.3 in May 2023 from 46.7 in the previous month, three consecutive months in a contraction zone and the lowest level since the index was released (if not counting the period affected by Covid-19). Import activity continued to grow negative in May, with a decrease of 18.4% yoy, higher than the previous month's decrease. A recent survey by the Private Economic Research and Development Board (Board IV) with a sample of 9,556 businesses showed negative statistics about the current business confidence. Specifically, up to 82.3% of enterprises plan to reduce their size, suspend business, or stop doing business in the remaining months of the year. Similarly, 83.7% of enterprises rated the economic picture negatively. According to the GSO, the number of newly established enterprises decreased sharply in May (-9.5%), with the scale of registered capital and labor decreasing by 17.5% and 16.6%, respectively, over the same period.

Figure 1: Industrial production growth



Source: GSO, S&P Global, RongViet Research

Figure 2: Retail sales growth



Source: GSO, RongViet Research

Retail sales of goods and services in May 2023 were relatively stable, maintaining 11.5% over the same period. Retail sales of goods recovered compared to the increase of 9.7% in the previous month, thanks to the prolonged holiday, which raised demand for goods. In addition, data on retail sales also showed a recovery in textiles and household goods consumption compared to previous months. While maintaining had a reasonable growth rate, we observe two signs of difficulties for the retail industry: 1) the low base effect is fading, therefore, the growth of the tourism, accommodation and food and beverage sectors is decelerating; 2) growth in retail sales of goods and services has also been decelerating in the two big cities of Ho Chi Minh City and Hanoi in the past month. In the first five months of the year, retail sales of goods and services increased by 12.6% over the same period, slightly down from the increase of 12.8% in 4M2023.

Excluding the price factor, this index grew by 8.4% over the same period, a slight increase compared to 8.3% in 4M2023.

With the current situation of industrial production, it is difficult to see an improvement in the short term. In Q2/2023, the industrial sector is likely not to grow. The construction sector may be better than Q1 thanks to the growth in public investment disbursement. The growth rate of investment capital over the same period in 6M is estimated at 30%, which will partly help offset the decline in the construction sector affected by the real estate sector. The retail, accommodation and catering sectors account for about 11-12% of GDP, continuing to be a growth driver, the Q2 growth can maintain the same as Q1, about 11-12% yoy. Based on this, Q2 GDP is estimated to be equivalent to or slightly higher than Q1's growth (~3.0-3.5%). With low economic growth persisting through the first half of the year, our forecast for full-year GDP growth of 5% will be challenging to achieve.

A review of some policies for removing difficulties for real estate and corporate bonds and an expansion of monetary policy

Table 1: Policies issued during the first five months

Date	Target	Document	Regulation
March 05 2023	Corporate bonds	Decree 08/2023/ND-CP	Allowing bond debt restructuring with the extension of maturity up to two years; an issuer may negotiate with bondholders to make payment by assets other than cash; Postponing the application of certain requirements until 01 Jan 2024 such as the requirement to have a credit rating, new criteria for individual professional investors, the application of the 30 days distribution period.
March 11 2023	Real estate sector	Resolution 33/NQ-CP	Measures to remove barriers and promote the real estate market safe, healthy, and sustainable development.
March 14 2023	The whole economy	Decision 313-314/2023/QD-NHNN	The SBV reduced the rediscount rate and the overnight lending rate by 100 basis points and made up for the shortfall.
March 31 2023	The whole economy	Decision 574-575-576/2023/QD-NHNN	SBV reduced by 50 basis points the refinancing interest rate and ceiling deposit and lending interest rates in priority sectors; keep the rediscount rate and the overnight lending rate unchanged and cover the shortfall in capital.
April 01 2023	Real estate sector	Document No 2308/NHNN-TD	Guiding the lending interest rates, the application period of the preferential interest rates and the beneficiaries (customers) for the credit package of VND120 trillion for social housing development.
April 03 2023	Real estate sector	Decision 388/QD-TTg	Approved a project of developing at least one million affordable homes for low-income earners and workers in industrial zones in the 2021-30 period.
April 20 2023	Real estate sector	Dispatch No 1551/BXD-QLN	Guiding the determination of the list of projects, subjects, conditions and criteria for preferential loans for developing social housing and worker

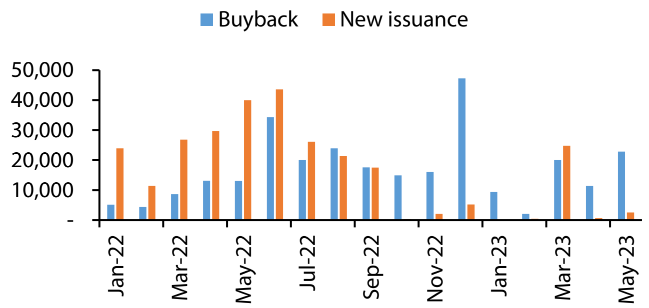
			housing and renovating and rebuilding old apartments.
April 23 2023	Corporate bonds	Circular 03/2023/TT-NHNN	Allowing banks to buy back corporate bonds without waiting one year after selling.
April 23 2023	Banks' customers	Circular 02/2023/TT-NHNN	Structuring repayment terms and keeping the debt group unchanged for customers with difficulties.
May 23 2023	The whole economy	Decision 950-951/2023/QD-NHNN	SBV reduced by 50 basis points the refinancing interest rate and ceiling deposit rate, priority sector lending rate, overnight lending rate; keep the discount rate unchanged.

Source: RongViet Research compiled

Corporate bond market: pressure to ease gradually

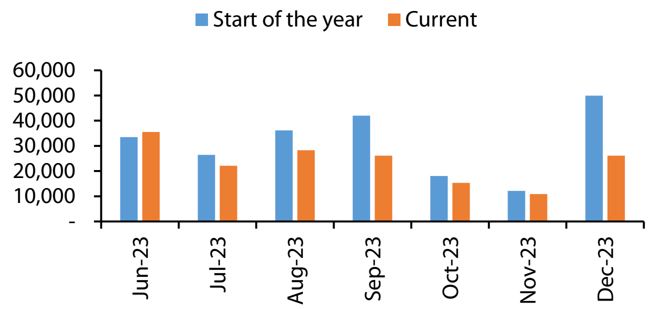
Four lots of bonds were issued in May 2023 by Nui Phao Mining and Processing Co., Ltd, with a total value of VND 2,600 billion. The size of bonds bought back before maturity in May reached VND22.8 trillion, 2.0 times higher than the repurchase size in the previous month. In the first five months of the year, the total scale of individual corporate bond issuance was estimated at VND28.7 trillion, down 72.6% over the same period. On the contrary, the repurchase value is estimated at VND65.8 trillion, up 47.8% over the same period. Based on statistics on issuers who are slow to perform their debt obligations, the bad debt ratio of corporate bonds tends to increase gradually, currently accounting for about 14-15% of total outstanding loans and 18-19% of total non-bank corporate bonds. Since the issuance of Decree 08, 16 issuers have successfully negotiated to reduce the pressure of bonds maturing with a size of about VND8 trillion. The nature of corporate bonds' repayment extension is to prolong the time, the capital cost is higher, and it is difficult to negotiate. Hence, the issuer still prioritizes the repurchase option if the cash flow can be arranged. With the scale of repurchase accelerating again in May 2023, the pressure on corporate bond maturity has been "softened" significantly compared to the beginning of the year.

Figure 3: The value of buyback and issuance corporate bonds



Source: HNX, RongViet Research

Figure 4: The value of matured corporate bonds



Source: HNX, RongViet Research

Real estate market: challenging to remove difficulties in the short term

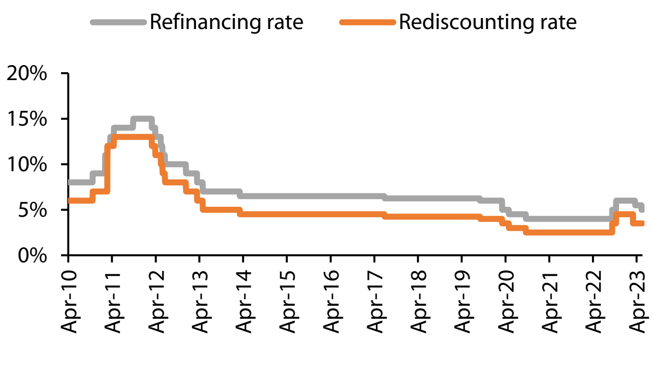
As for the policy to remove difficulties for the real estate market, the government is currently focusing on two things: 1) removing legal difficulties for real estate projects that have been/are being implemented and 2) promoting the development of the social housing market. Currently there are 148 projects with legal problems in Ho Chi Minh City, mainly due to overlapping legal regulations, acquired public land inappropriately or issues related to planning. The current result is that only 10/148 projects can be resolved, and 73/148 projects are being considered. The goal is to resolve 50 real estate projects by the end of 2023. Currently, the credit package of VND 120 trillion for the development/purchase of social housing and worker housing has yet to be disbursed. According to the Credit Department - SBV, only two localities, Tra Vinh and Bac Giang, have submitted a list of concessional loan projects. According to the Ministry of Construction, there are about 100 projects eligible for loans, the loan demand of some localities (mainly the northern provinces) is estimated at VND11.6 trillion. The bottleneck for social housing comes from the supply-demand gap and problems in project implementation/borrowing procedures. Credit growth in the real estate sector as of the end of April 2023 was 3.5%, demand decreased for borrowers but increased for real estate businesses. In addition to institutional problems, the real estate market is still challenging due to reduced housing demand and limited supply.

Effectiveness of monetary policy: waiting for confidence to recover

At the end of May 2023, the SBV's policy interest rates reduction continued to help reduce the deposit interest rate level in the economy. Deposit rates for terms below six months decreased more with a decrease of 60-80 basis points compared to the end of April 2023, deposit rates for terms from 6 months and above reduced by about 30-50 basis points. Compared to the beginning of the year, deposit interest rates have decreased by 50-200 basis points, a more substantial decrease coming from the group of private commercial banks. Compared to the time before the SCB event in October 2022, the deposit interest rate is currently 40-150 basis points higher. Although deposit rates have decreased quite a lot, lending rates have decreased less, on average, by about 50-100 basis points. Lending interest rates are to be reduced immediately, partly because a part of high-cost mobilized capital has not been fully "absorbed" and somewhat because the risk of bad debt is increasing. Capital demand, in general, increased slowly due to the difficulties of businesses and the economy. By the end of May 2023, the credit growth of the whole economy was only 3%, only expanding by about 0.25 percentage points compared to the end of April 2023.

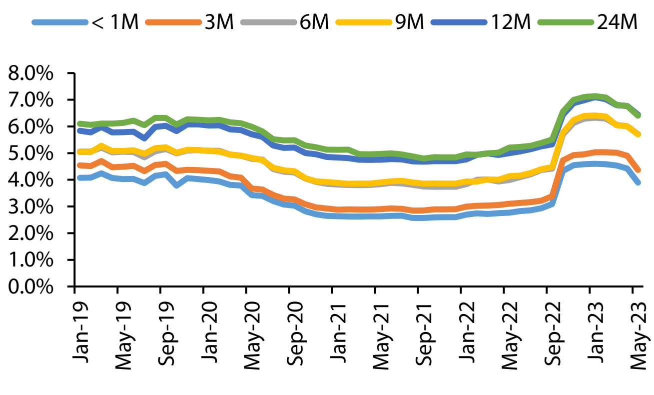
Regarding the 2% interest rate support package, the disbursement progress needs to catch up. Currently disbursing is less than 1% of the total scale. Therefore, the Government is submitting to the National Assembly to transfer the capital from the 2% interest rate support package to the fiscal policy. It is necessary to allow the transfer to implement the 2% VAT reduction policy (~VND24 trillion VND). The rest will continue to be disbursed in the direction of loosening regulations to remove the "recoverable" condition. This will help the budget to have more room to support the economy, however, keeping nearly VND16 trillion while the implementation ability is not good could reduce the effectiveness of the policy.

Figure 5: Policy rates movement



Source: SBV, RongViet Research

Figure 6: Deposit rates movement



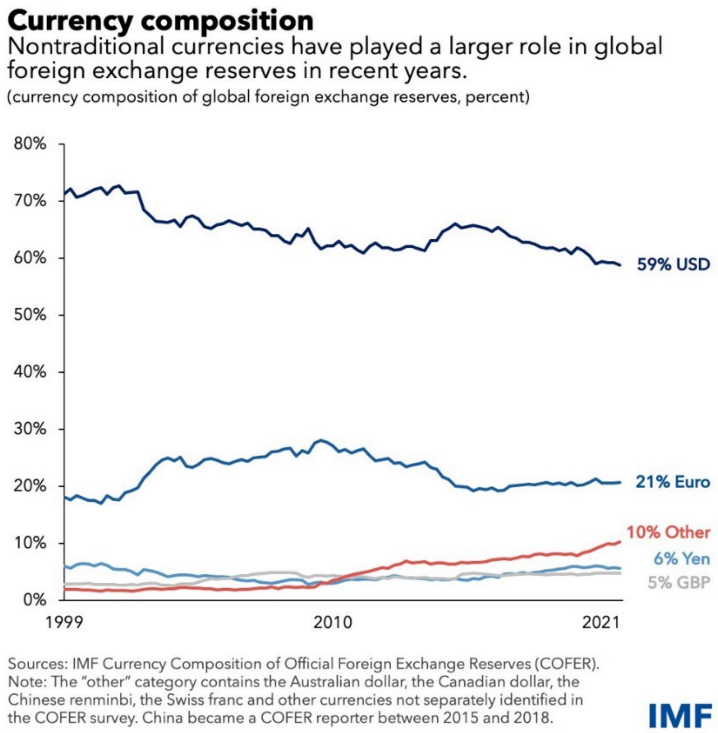
Source: RongViet Research compiled

US Dollar

- Strength based on interest rate differentials.
- Asian currencies should rebound.

The US dollar has long played an outsized role in global markets. It continues to do so even as the US economy has been producing a shrinking share of global output over the last two decades. The currency's presence in global trade, international debt, and non-bank borrowing still far outstrips the US share of trade, bond issuance, and international borrowing and lending. Hence central banks are not holding the greenback in their reserves to the extent that they once did (Figure 7).

Figure 7:



By contrast, the currencies of smaller economies that haven't traditionally figured prominently in reserve portfolios, such as the Australian and Canadian dollars, Swedish krona and South Korean won, account for three quarters of the shift from dollars.

Two factors may help to explain the movement into this set of currencies:

- These currencies combine higher returns with relatively lower volatility. This appeals increasingly to central bank reserve managers as foreign exchange stockpiles grow, raising the stakes for portfolio allocation.
- New financial technologies—such as automatic market-making and automated liquidity management systems—make it cheaper and easier to trade the currencies of smaller economies.

In some cases, the issuers of these currencies also have bilateral swap lines with the Federal Reserve. This, it can be argued, creates confidence that their currencies will hold their value against the dollar.

At the same time, the importance of this factor can be questioned. The nontraditional currencies tend to float. In practice, they fluctuate widely against the dollar. And their issuers have rarely if ever drawn on their bilateral swap lines with the Fed. Important attributes of reserve currency issuers include not just economic weight and financial depth, but also transparent and predictable policies. In other words, the stability of the economy and policy decisions matter for international acceptance.

The US Q1 Gross Domestic Product was revised to 1.3% from the previous estimate of 1.1%. Firmer growth would allow the central bank to extend its monetary tightening cycle for one or two more meetings which would be supportive for the USD.

The recent Federal Open Market Committee (FOMC) Minutes showed that policymakers were divided on the rate path, with some of them still looking for more hikes. Furthermore, the country published the Personal Consumption Expenditures (PCE) Price Index, which rose by 4.4% on a yearly basis in April from 4.2% in March, while core PCE inflation increased by 4.7% YoY, higher than the previous 4.6%. The PCE Price Index is the Fed's favorite inflation gauge, and rising figures support the case for another rate hike, particularly if the economy continues growing at an encouraging pace.

As a result the Dollar index (DXY) has rebounded lately (Figure 8).

Figure 8: US Dollar index.

European data, on the other hand, reflects a more fragile economic stance. German GDP was revised to -0.3% QoQ, following a preliminary estimate of 0%. Annualized growth came in at -0.5%, worse than the -0.1% previously expected. Other German data released these days also weighed on the Euro (Figure 3), as the May IFO survey on Business Climate contracted by more than anticipated, to 91.7, while the June Gfk Consumer Confidence Survey printed at -24.2, worse than the -24 expected.

Figure 9: EURUSD

It is still unclear whether the US Dollar could preserve its latest strength in a risk-on scenario. A potential agreement over the US debt ceiling would likely spark optimism. There is a good chance US lawmakers will clinch a deal about the debt-ceiling extension, something that happened multiple times in the last few years.

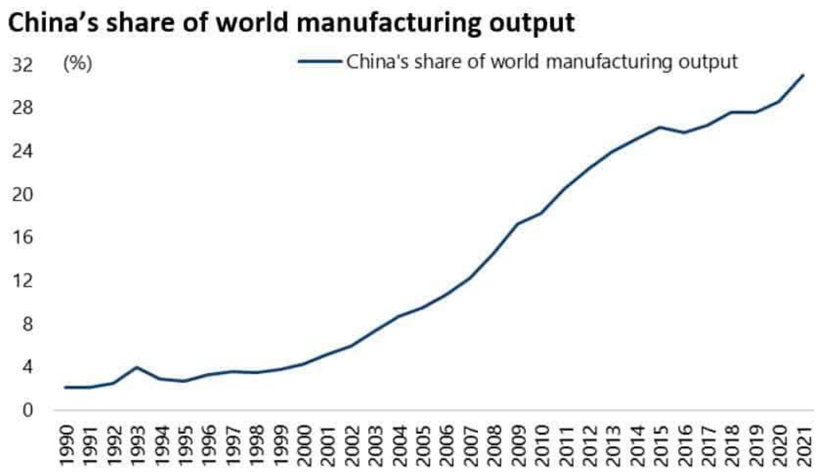
On the related point of the growing use of the renminbi in trade, there have recently been two interesting developments.

First, China's CNOOC and France's Total Energies finalized in late March the first-ever deal on liquified natural gas (LNG) in China settled in renminbi. The trade involves about 65,000 tons of LNG imported from the United Arab Emirates, marking a further step in Beijing's seeming attempts to undermine the US dollar as the universal "petrodollar" for the oil and gas trade.

Second, Rio de Janeiro-based Chinese bank Banco BOCOM BBM, a subsidiary of China's Bank of Communications, also announced in late March that it will be linked to China's cross-border interbank payment system (CIPS), an alternative to SWIFT, to support trade settlements between China and Brazil in renminbi. The bank will become the first direct participant in the CIPS in South America, while the Brazilian branch of the Industrial and Commercial Bank of China (ICBC) will become the renminbi clearing bank in Brazil. The announcement came after China and Brazil reportedly reached a deal in February to trade in their own currencies, ditching the US dollar as an intermediary.

Even though China's share of manufacturing has gone up massively over the last 20 years or so (Figure 10), the Renminbi is still not a free tradable currency, limiting its 'power' as a global medium of exchange.

Figure 10:



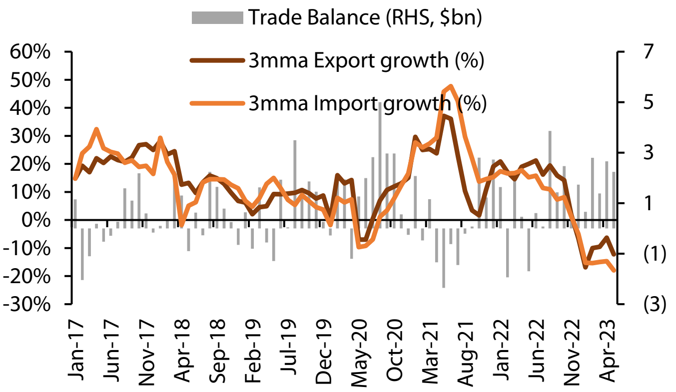
Source: United Nations Industrial Development Organization

In terms of the USDVND exchange rate, as our economist Ha My Tran noted recently "accordingly, the USD index has recovered from its lowest level since the beginning of the year of 101 (on April 13) to 103.9 (on May 24), corresponding to an increase of 2.8%. However, the USDVND exchange rate movement was relatively stable, only increasing by about 10-20 VND compared to the beginning of the month on the official and unofficial market."

Bottom line:

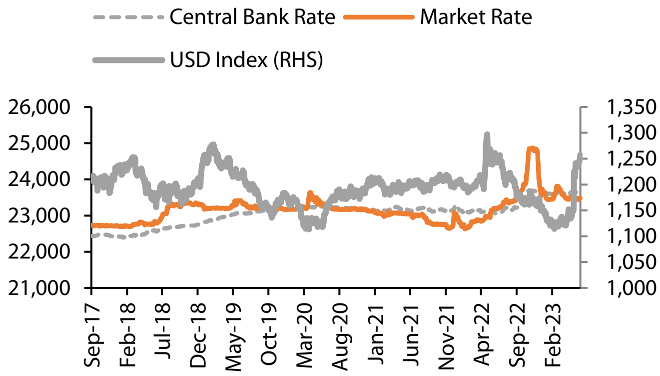
- In the next few years we should expect the USD dominance to be further eroded. However this writer does not expect its dominance in international trade and foreign exchange reserves to be affected that much.
- **The US dollar remains the world's dominant "medium of exchange,"** or means of buying and selling goods. In March, for instance, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) reported that it was the most commonly used currency on its global payment system, accounting for 41.7% of payments, followed closely by the euro. By comparison, the Chinese renminbi was used in 2.4% of SWIFT payments, despite China accounting for a relatively larger percentage of global trade.
- **There is currently no viable alternative**. Other currencies have been discussed as potential competitors to the US dollar, but none come close to posing a credible threat—at least, not yet.

Trade balance



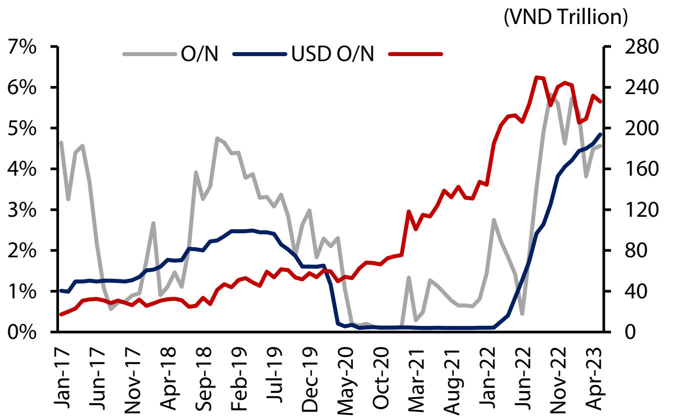
Source: GSO, Rong Viet Securities

USDVND exchange rate



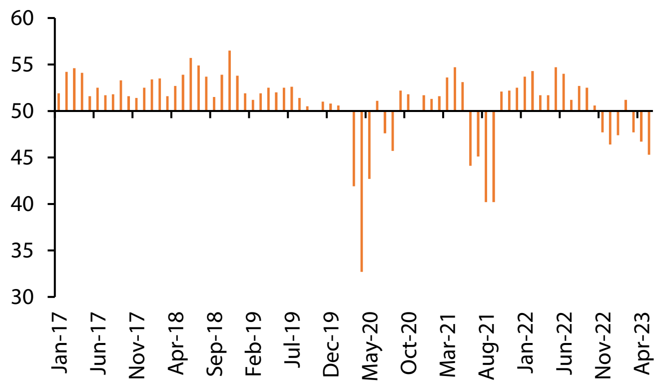
Source: SBV, Bloomberg, Rong Viet Securities

Interbank interest rate (%/year)



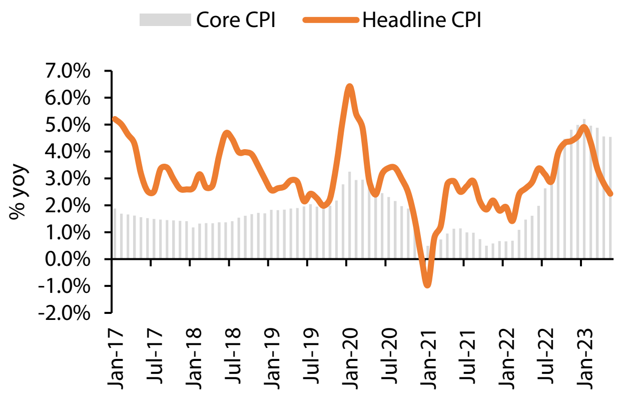
Source: SBV, Rong Viet Securities

Vietnam PMI



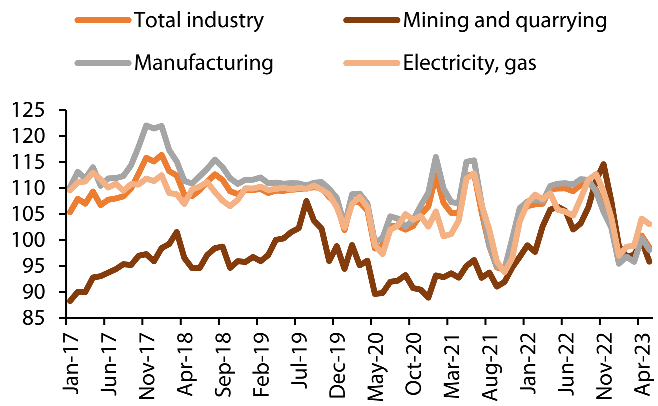
Source: S&P Global, Rong Viet Securities

Vietnam CPI



Source: GSO, Rong Viet Securities

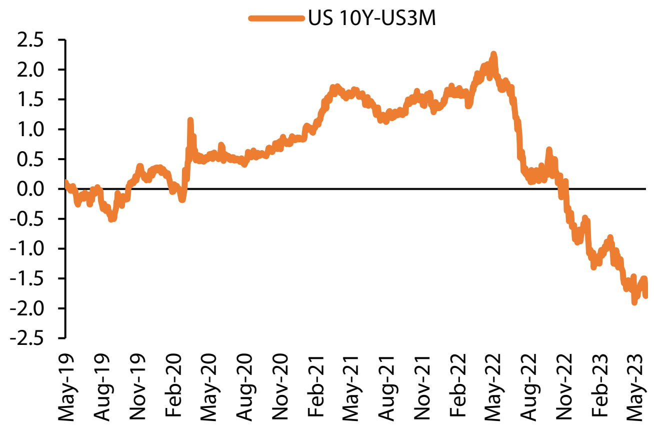
3-month MA Industrial Production Indices



Source: GSO, Rong Viet Securities

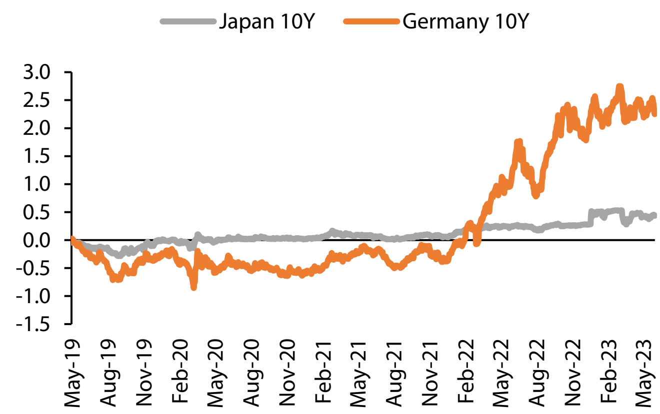
GLOBAL ECONOMIC INDICATORS IN MAY

US G-Bond yields gap (%/year)



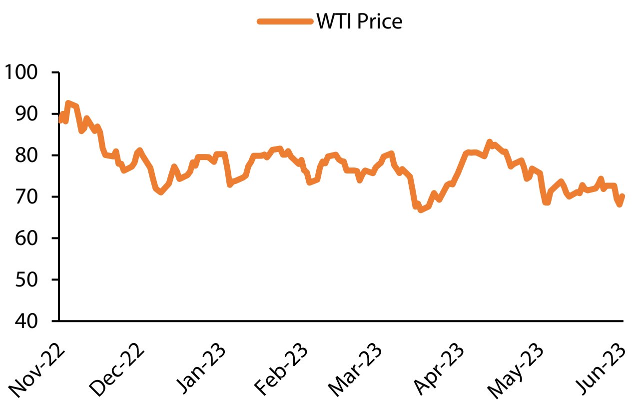
Source: Bloomberg, Rong Viet Securities

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



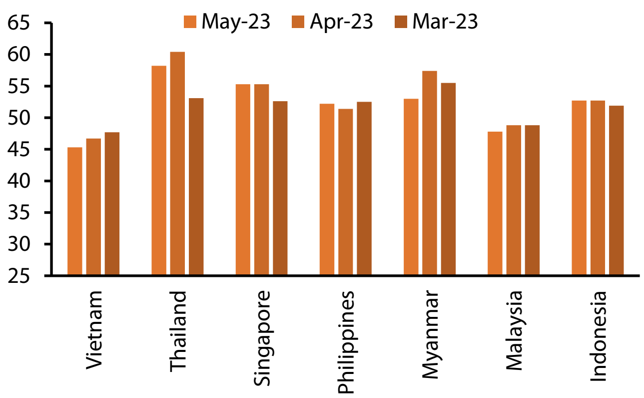
Source: Bloomberg, Rong Viet Securities

WTI crude oil price (USD/barrel)



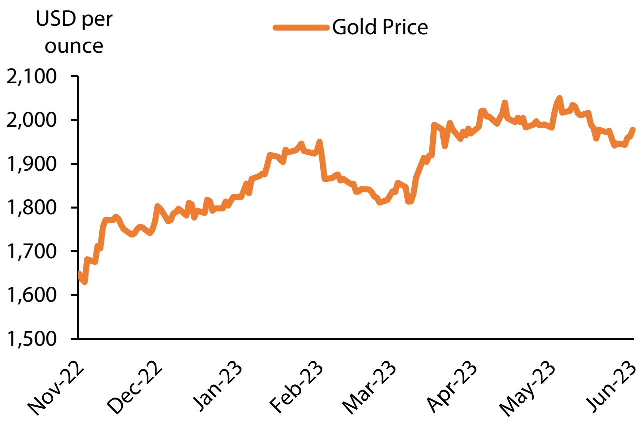
Source: Bloomberg, Rong Viet Securities

ASEAN's PMI



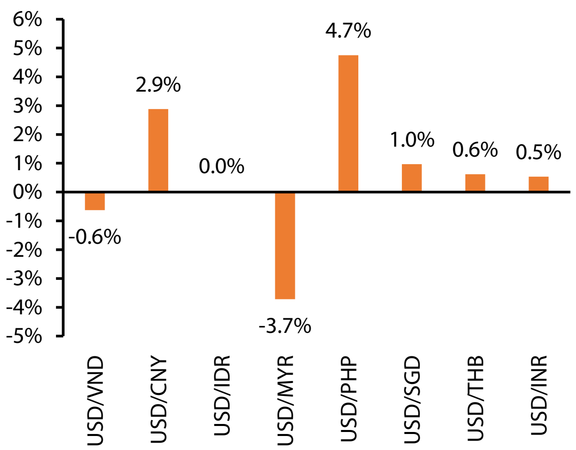
Source: Markit Economics, Rong Viet Securities

Gold prices (US$/ounce)



Source: Bloomberg, Rong Viet Securities

FX rates (%, YTD)



Source: Bloomberg, Rong Viet Securities

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