7th May 2024

Macro Report

VIETNAM MACRO: BETWEEN A ROCK AND HARD PLACE

- *The spillover effects of public investment and exports are unclear.*
- *Inflation outlook for the second half of 2024.*
- *Exchange rate pressure subsided while deposit interest rates began to increase.*

Ha My Tran

my.tth@vdsc.com.vn

Pham Huu Luan

luan.ph@vdsc.com.vn

Tran Thi Ngoc Ha

ha.ttn@vdsc.com.vn

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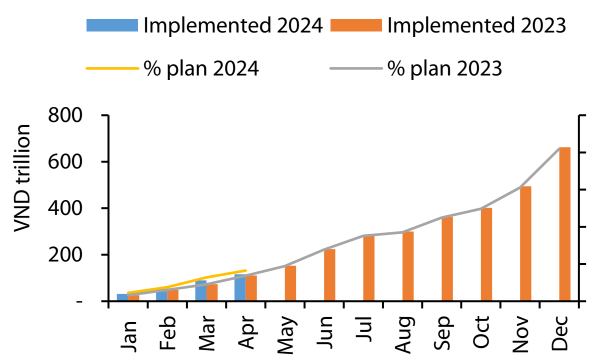
- The spillover effects of public investment and exports are unclear
- Inflation outlook for the second half of 2024
- Exchange rate pressure subsided while deposit interest rates began to increase

The spillover effects of public investment and exports are unclear

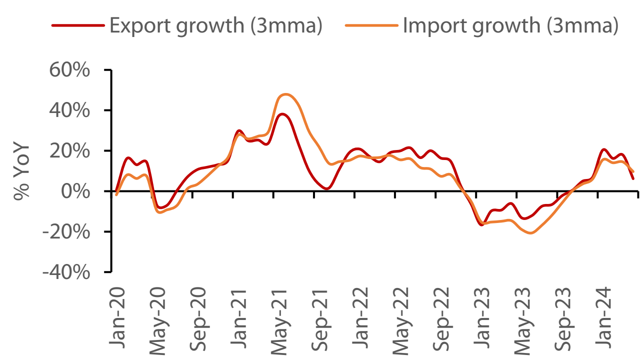
The growth rate of public investment and exports slowed down due to the fading of the low base effect. According to the Ministry of Finance, the estimated disbursement of public investment capital as of April 30, 2024, reached VND115,906.9 billion, equivalent to 16.4% of the total plan. The disbursement rate is higher than in the same period last year. However, the growth rate of public investment capital has narrowed significantly, only increasing by 4.8% over the same period in 4M2024, lower than the increase of 22.7% over the same period in Q1/2024. Detailed reports show that the disbursement of public investment capital is only positive in some ministries, central agencies and localities such as the Ministry of Transport (VND15,189.9 billion, ~25.6% of the plan), the Ministry of National Department (VND3,963.9 billion, ~20.4% of plan), Ministry of Agriculture and Rural Development (VND2,809.4 billion, ~28.3% of plan), Long An (VND3,212.8 billion, ~38.3% of plan), Thanh Hoa (VND3,045 billion, ~25.8% of plan). Localities that are expected to speed up the disbursement of public investment capital and create spillover effects, such as Hanoi or Ho Chi Minh City, have yet to make real progress. As of April 30, 2024, the scale of public investment capital in Hanoi and Ho Chi Minh City reached VND10,323.3 billion (~12.7% of plan) and VND7,948.7 billion (~10.0% of plan), respectively. At the same time, the Ring Road 4 - Hanoi and Ring Road 3 - Ho Chi Minh City projects have only completed 7.9% of the plan and 3.3% of the plan as of March 31, 2024. Export activity growth also declined in April 2024, reaching 10.6% over the same period, lower than the increase of 13.0% in the previous month. The slowdown in export growth is also reflected in the 8.1% decrease in total export turnover compared to the previous month. In 4M2024, export turnover reached $123.6 billion, up 15.0% over the same period, lower than the increase of 16.8% in Q1/2024. The slowdown in export activity and public investment aligns with our expectations.

Figure 1: Public investment disbursement



Source: MoF, RongViet Securities

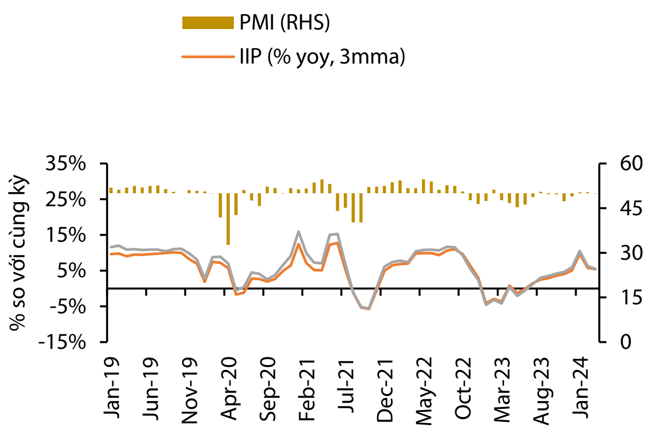
Figure 2: Vietnam's trade growth



Source: GSO, RongViet Securities

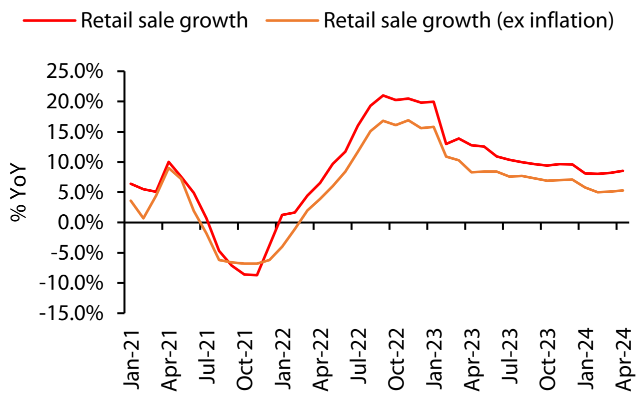
Meanwhile, expectations about the spillover effects of public investment and exports to the entire economy currently do not have clear prospects. The GSO's April 2024 socio-economic report points to a slight improvement in industrial production and consumption of the economy. Industrial production index growth in April 2024 reached 6.3% over the same period, higher than the increase of 4.8% in the previous month. Overall, in 4M2024, the manufacturing and processing industry sector grew by 6.3%, higher than the increase of 5.9% in Q1/2024. Similarly, the manufacturing PMI index improved from 49.9 points last month to 50.3 points. The total number of new orders increased faster than the number of new export orders, meaning domestic demand was more favourable than external demand. The growth rate of retail sales of goods and services represents the best month-on-month increase since October 2023, up 2.0% month-on-month. However, retail sales growth of goods and services was stable at 9.0% over the same period. Overall, in 4M2024, total retail sales of goods and services increased by 8.5% over the same period, higher than the increase of 8.2% in Q1/2024. Although retail sales grew in nominal terms, the actual increase after excluding the price factor was still relatively weak, reaching only 5.3% over the same period, significantly lower than the increase of 8.3% in 4M2023.

Figure 3: Industrial production index and PMI



Source: GSO, S&P Global RongViet Securities

Figure 4: Retail sales growth



Source: GSO, RongViet Securities

Inflation outlook for the second half of 2024

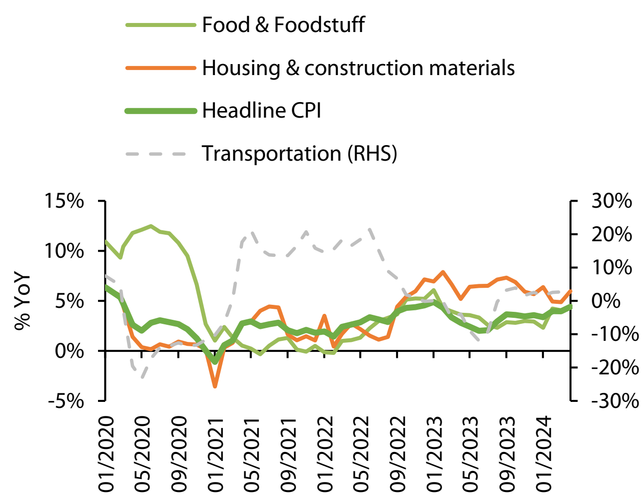
The economy's headline CPI tends to increase in the first months of 2024 but may decrease in the coming months. In the past three months, annual inflation has risen by 4.0%-4.4% (the highest increase was recorded in April 2024 and is close to the Government's target). The main contribution to the high rise in inflation in the first months of this year is the lagged impact from 1) the food & foodstuff, 2) the housing and construction materials, and 3) the healthcare and education services. Considering inflation in April 2024 alone, these three product groups contributed nearly 80% to the overall price increase. In particular, the rapid rise in rice prices from August 2023 affected the price index of the food and foodstuffs group. On a monthly basis, the rice price index has decreased for two consecutive months, down 0.5% and 0.8% compared to the previous month in March 2024 and April 2024, respectively. This development will favor the inflation trend in the following months because the food and foodstuff group accounts for more than 33% of the CPI basket.

The housing and construction materials group accounts for 18.8% of the CPI basket. The high increase in this group is due to the price adjustment of electricity, water, and gas items that took place in the previous year. The electricity price index in April 2024 is estimated to increase by 10.6% over the same period, higher than the 7.7% adjustment of the average retail electricity price in 2023. Decision 05/2024 on the adjustment mechanism of average retail electricity price will take effect from May 15, 2024. Accordingly, the average retail electricity price adjustment time will be shortened to at least 03 months from the most recent electricity price adjustment compared to the old regulation of 06 months. Electricity prices were adjusted to increase by 4.5% in May last year. As the most recent adjustment happened in November 2023, the average retail electricity price still needs to be adjusted. This leads to concerns that electricity prices may soon be adjusted. In May 2024, the electricity price adjustment period will be shortened, and electricity production costs will continue to increase because EVN must mobilize high-cost power sources to ensure electricity supply in prolonged hot weather conditions. However, because the action to adjust electricity prices is always linked to macroeconomic targets and the Government still prioritizes inflation control, the subsequent increase in electricity prices can be delayed until inflation shows signs of easing.

In April 2024, the price components of healthcare and educational services increased by 6.7% and 8.8%, respectively, over the same period in 2023. Most of this price increase reflects the results of price adjustments from the previous year. According to the newly updated tuition roadmap in Decree 97/2023, tuition fees for preschool and high school education in 2023-2024 are kept stable, while the roadmap to increase tuition fees for university and vocational education will be delayed one year compared to the previous roadmap. For medical services, the new Law on Medical Examination and Treatment takes effect from July 1, 2024, with regulations that service prices need to include full costs[1]. According to the Ministry of Health, the new service price calculation basis includes only ¾ of the components (excluding depreciation costs) and will be issued in July 2024. Accordingly, the increase in the price of new medical services price expected to be applied at the end of this year is about 5%, lower than the adjustment of about 9% in 2023. Thus, we expect the price pressure due to the government's regulation on headline inflation will be under control.

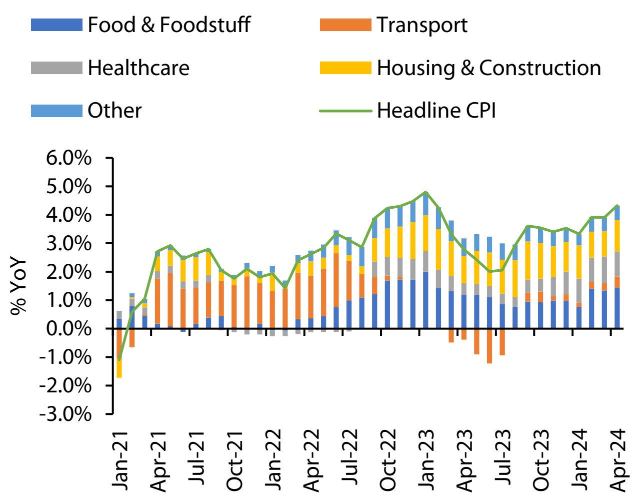
Looking at the inflation outlook for the remaining months of 2024, factors reflecting inflation expectations include 1) exchange rates and 2) oil price developments. Quantitative research shows some significant results regarding the correlation between inflation, oil prices, and exchange rates in Vietnam. First, the lag impact of oil prices and exchange rates on inflation is most apparent in 3-6 months. Second, the impact of oil prices on inflation will be more severe than the impact of exchange rates (Nguyen Thi Yen Hanh et al., 2024)[2]. Finally, the level of exchange rate pass-through to inflation will depend on the inflationary environment; the pressure of the dong's depreciation will have a substantial impact on inflation in conditions where monthly inflation is above the threshold of 1.5% (Quach Doanh Nghiep, 2019)[3]. As presented in the global macro section, unless a geopolitical shock leads to a short-term acceleration in oil prices, global Brent oil prices are expected to fluctuate in the range of $85-90/ barrel from now until the end of 2024. Accordingly, the average oil price in 2024 is estimated to increase by 5-7% compared to 2023, which will not significantly impact the inflation trend. In addition, the average monthly inflation from the beginning of the year until now is about 0.3%/month, showing that Vietnam is still in a moderate inflation environment. At the same time, the pressure to increase prices of items such as food and gasoline and state-controlled price items is still relatively well controlled. Therefore, we expect that the VND depreciation of about 5.0% from the beginning of the year until now will not significantly impact inflation in the second half of 2024. We slightly adjust the inflation forecast for 2024, from 3.5% to 3.8%, after considering the impact of oil prices and exchange rates. The expected headline CPI is still lower than the Government's 4.5% inflation target.

Figure 5: Inflation of some key items



Source: GSO, RongViet Securities

Figure 6: Vietnam's inflation breakdown



Source: GSO, RongViet Securities

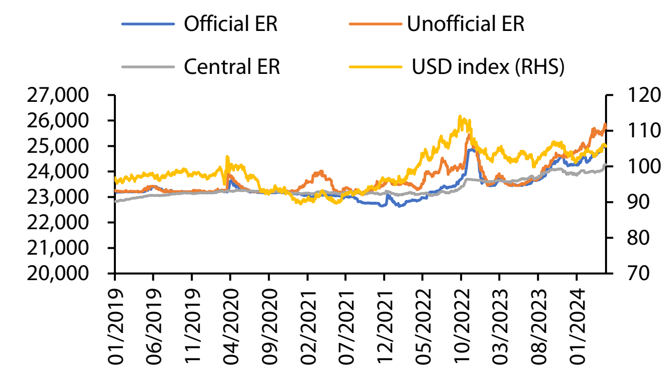
[1] Labor costs, direct costs used for medical examination and treatment, equipment depreciation and management costs.
[2] https://kinhtevadubao.vn/ung-dung-mo-hinh-var-trong-phan-tich-moi-quan-he-giua-ty-gia-hoi-doai-va-lam-phat-o-viet-nam-28208.html
[3] https://journalofscience.ou.edu.vn/index.php/econ-vi/article/view/476/404

Exchange rate pressure temporarily subsided while deposit interest rates began to increase

Since the SBV started selling USD, the USD/VND exchange rate increase on the interbank market has stopped. During the last two weeks of April and early May, the exchange rate listed at VCB was almost unchanged at 25,127-25,457 VND/USD. The exchange rate on the free market is also anchored at a high level of about 25,700-25,800 VND/USD for the bidding side. The scale of FX sales by the SBV from April 19 until now is manageable, estimated at only about $500-700 million[4] (~VND13-18 trillion). We believe that three factors helped the exchange rate stop increasing further: 1) The USD is facing a resistance range in the 105-106, and 2) The SBV's regulatory activities in the open market have caused the interest rate level in the interbank market to anchor at a high level, an average of about 4.2%/year for overnight lending rates for VND in the last two weeks of April, and 3) the interest rate level on the open market inched up along with the rebound in deposit rates also affects exchange rate expectations. The scenario of controlling VND depreciation at 5% can be maintained in the short term. However, variables in the Fed's interest rate outlook and the possibility of the USD recovering are still causing risks of further VND depreciation.

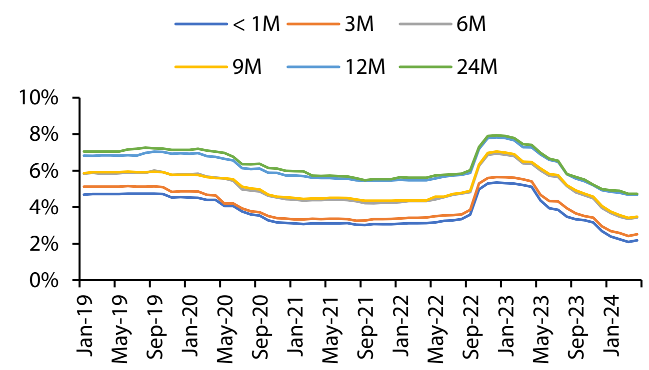
The notable development in April 2024, following the intervention to control the depreciation of the dong, was that the deposit interest rate rebounded from the bottom area. Specifically, the interest rate trends of the group of state-owned commercial banks are differentiated. While BIDV and Vietinbank, in turn, increased deposit interest rates for 1-9 month terms by 10-20 basis points, Vietcombank reduced deposit interest rates for all terms by 10 basis points compared to the end of Q1/ 2024, the deposit interest rate at Agribank remains unchanged. Deposit interest rates of private commercial banks recorded a more substantial increase of 20-50 basis points in April 2024. In particular, the most significant increase in short terms (1-3 months) belongs to the level 1 private commercial banks[5], while restructuring banks tend to adjust deposit interest rates at longer terms (from 6 months or more). The average deposit interest rate is still about 50-75 basis points lower compared to the beginning of the year. Observing recent developments in interbank interest rates and exchange rates, we believe that the deposit interest rate level may recover to the beginning of this year in the coming months, equivalent to an average increase of 50 - 100 basis points from the bottom, depending on the term and banking group. The next movement of interest rates will depend on the SBV's ability to control the depreciation of the dong as well as the development of Fed's monetary policy. In the coming months, some critical macro developments to monitor in the monetary market include: 1) The SBV is likely to net withdraw in the OMO to maintain a suitable interest in the interbank market to respond to exchange rate pressure, 2) the factor promoting the pressure of the dong's depreciation may return if the Fed further delays the time to cut interest rates or 3) the move to reduce interest rates by major central banks (except for Fed) creates an opportunity for the USD to recover through the resistance level of 105-106.

Figure 7: USDVND exchange rate movement



Source: Bloomberg, Fiinpro, RongViet Securities

Figure 8: Deposit rate of Vietnam's JSC Banks



Source: RongViet Securities compiled

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[4] According to Wigroup
[5] MBB, TCB, VPB, SHB, ACB, STB

CHINA'S GROWTH WANES, US ECONOMY SLOWS, COMMODITY PRICE OUTLOOK

- China’s economic growth wanes despite strong 1QGDP expansion
- The US economy slows while inflation stays elevated
- Preliminary outlook in 2H2024 commodity prices

China's economic growth wanes despite strong 1QGDP expansion

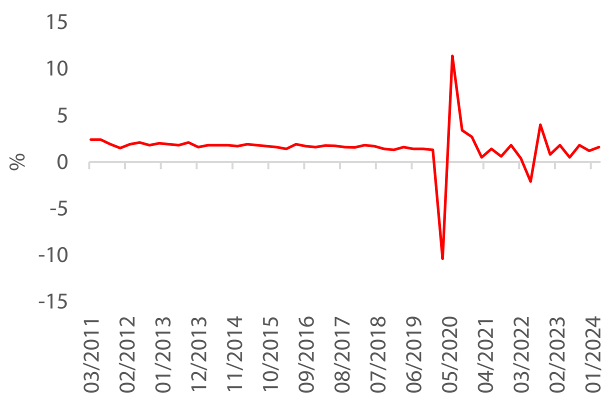
China's GDP exhibited remarkable resilience in the first quarter, registering a growth of 5.3%, surpassing expectations as Beijing endeavours to propel a manufacturing-driven recovery. This robust growth rate exceeded analysts' projections of 4.6% and accelerated from the previous quarter's 5.2%. Quarterly growth increased to 1.6% from 1.4% in the preceding three months. Industrial production rose to 6.1% YoY in 1Q24, boosted by solid growth in the high-tech manufacturing sector, expanding 7.5% and accelerating by 2.6 percentage points from 4Q23. Consumer goods retail sales have slowed, recording a 4.7% YoY increase, while online retail sales surged by 12.4% in the same period. Moreover, fixed asset investment also improved, growing 4.5% YoY, boosted by a 9.9% increase in manufacturing investment.

Nevertheless, a series of March indicators, disclosed alongside the gross domestic product (GDP) figures, revealed that domestic demand continues to be feeble, hindering overall economic momentum. Industrial output in March grew only 4.5% from a year earlier, below the 6.0% forecast and a gain of 7.0% for the first two months. Retail sales increased by 3.1% in March compared to the previous year, down from February's 5.5%. This decrease can be attributed to weakened household confidence and income, as the robust consumer activity typically associated with the Lunar New Year is diminishing. External demand conditions remain unpredictable, as seen in March’s sharp export underperformance; exports fell by 7.5% YoY in Mar 2024.

On top of that, the crisis in the property sector has been a significant drag on China’s economy since 70% of Chinese household wealth is tied to real estate. Last month, China saw its new home prices drop the fastest in over eight years, dropping 2.2% in March compared to the previous year, and worse than a 1.4% decline in February. Property investment fell by 9.5% compared to the same time last year in the first quarter, worsening the decline after a 9.0% drop in January and February. Property sales by floor area also took a hit, falling by 23.7%, more than the 20.5% decrease in the first two months of the year.

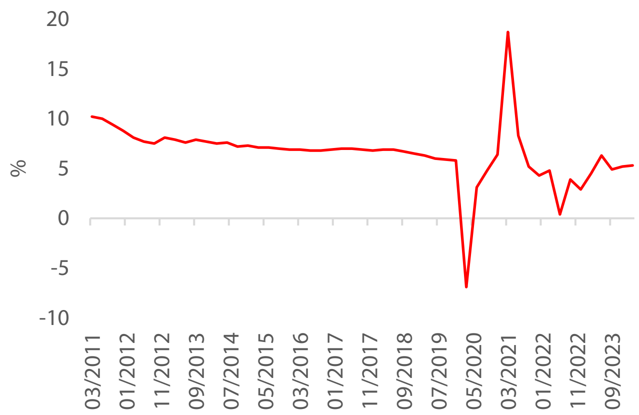
Goldman Sachs adjusted their forecast for China’s GDP growth to 5.0% from 4.8% for 2024, aligning with the central bank's targeted growth rate, following the release of better-than-expected growth figures in the first quarter. However, it can be seen that China is currently experiencing a ‘two-speed economy’. Manufacturing continues to be the primary driver, while household spending remains subdued. There are also lingering uncertainties about the growth outlook as March data indicates a slowdown in the Chinese economy. Another major headwind is that there could be potential friction in the West, including additional tariffs, primarily as the US has recently blamed China for the overcapacity issues. This can pose a challenge to China’s trade sector as well as economic growth momentum.

Figure 9: China's GDP Q/Q



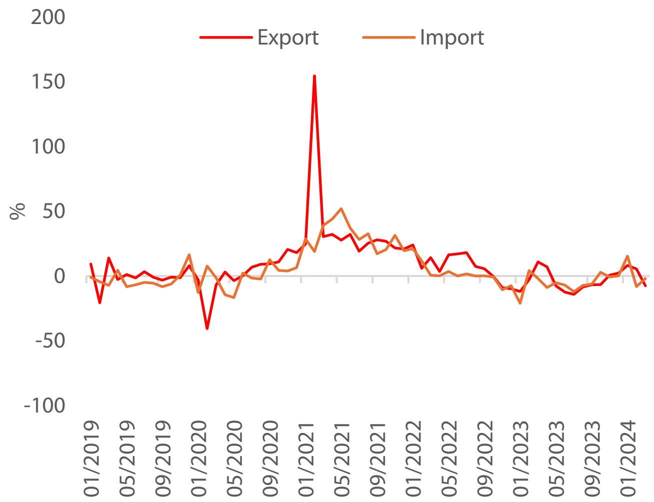
Source: Bloomberg, RongViet Securities

Figure 10: China's GDP Y/Y



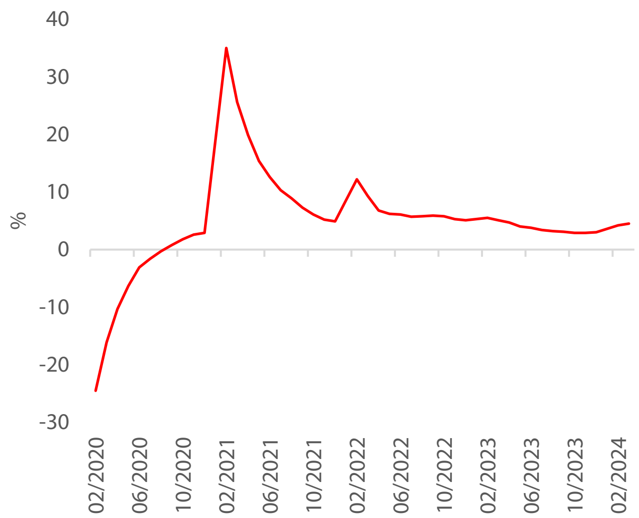
Source: Bloomberg, RongViet Securities

Figure 11: China's Export and Import



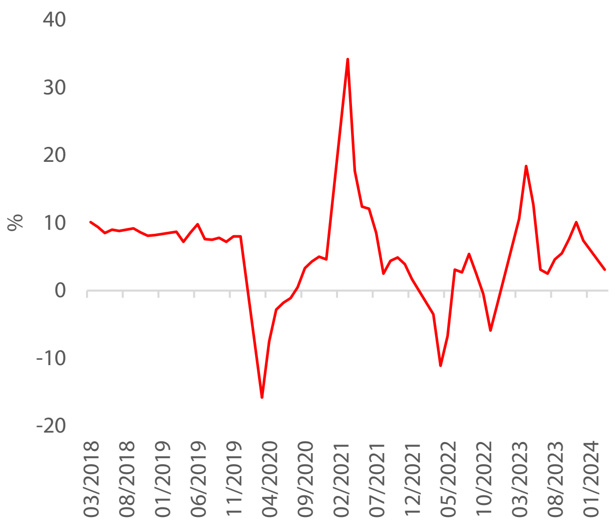
Source: Bloomberg, RongViet Securities

Figure 12: China's fixed assets investment



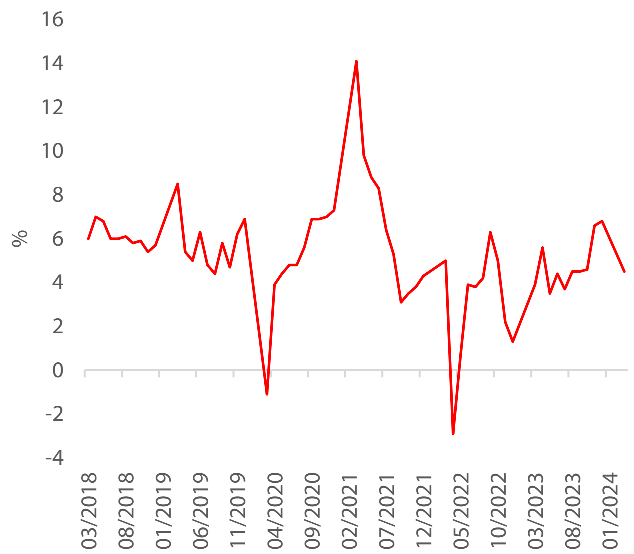
Source: Bloomberg, RongViet Securities

Figure 13: China's retail sales



Source: Bloomberg, RongViet Securities

Figure 14: China's Industrial production



Source: Bloomberg, RongViet Securities

The US economy slows while inflation stays elevated

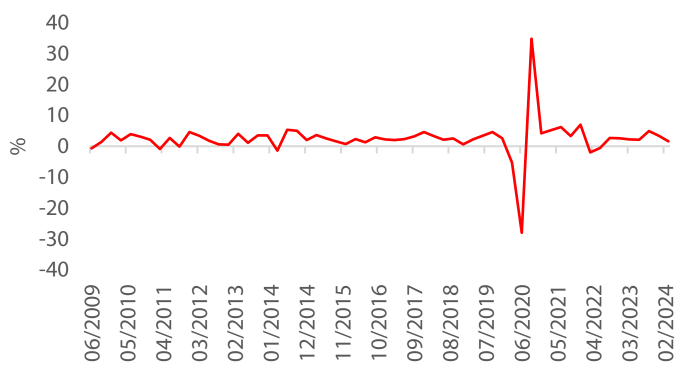
US economic growth in the first quarter was surprisingly much weaker than expected. It registered an increase of 1.6% annualised in Q12024, lower than the strong growth of 3.4% in Q42023 and a consensus forecast of 2.4%. Most of the deceleration in growth was attributed to a slowdown in inventory and net exports, which deducted 1.21% points from the total GDP growth. The GDP slowdown also came from a cooling in gross investment growth, from 22.1% in Q4 to 1.6% in Q1. However, there is a positive sign for the housing market: residential investment surged 13.9%, its most significant increase since the fourth quarter of 2020.

The US private sector remained solid in 1Q2024 despite a slowdown of the topline number. Expansion in final sales to domestic buyers[6] eased to 2.8% from 3.6% in Q42023. If considering only private businesses[7], actual final sales eased to 3.1% from 3.3% in the preceding quarter. Indeed, the primary driver of US growth, consumer spending, increased slower than anticipated, reaching 2.5%, down from a 3.3% increase in the previous quarter. However, increased spending on services partly offset the decrease in goods pending. Expenditure on goods decreased to -0.4% in Q1 compared to 3.0% in Q4, mainly due to a 1.2% decline in spending on durable goods.

Conversely, spending on services saw a notable uptick, rising by 4.0%, marking its highest quarterly level since Q32021. In addition, government spending also slowed to 1.2% as federal outlays fell 0.2%, marking the first contraction in two years. Spending growth at the state and local level also cooled to 2.0%, following a 6.0% gain in Q42023.

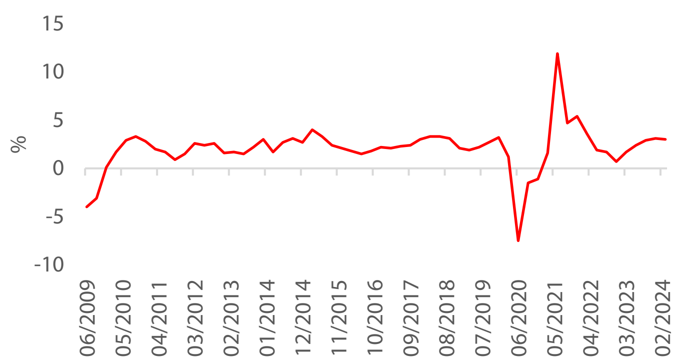
The more worrying outcome was that the Personal Consumption Expenditure inflation component showed its hottest result, increasing 3.4% in the first quarter of 2024, almost double the pace of the previous quarter, when prices grew 1.8%. The core PCE index, excluding food and energy, increased by 3.7% in the first quarter, up from the Fed's target level of 2.0% in the past two quarters and higher than the expectation of 3.4%. In the latest meeting (30 Apr—01 May 2024), the Fed agreed to keep its regulatory rate unchanged at 5.25-5.50%, in line with market expectations. However, it is essential to note that the Fed decided to slow the pace of the quantitative tightening (QT) program from a monthly reduction of US Treasuries of US$60bn to US$25 bn since June 2024. In addition, Fed Chair Jerome Powell also removed fears of a rate hike by confirming that it was unlikely that the Fed's next move would be a rate hike. Regardless of the level of inflation and economic growth, it is likely that the Fed wants to ease financial conditions and prevent a liquidity drain, signals a more dovish at the margin than markets anticipated. About 48.8% of traders expect a 25 bps rate cut in Sep 2024, according to the CME FedWatch Tool, as of 05 May 2024. For now, a scenario of two rate cuts of 50 bps is a reasonable baseline for 2024. However, the risk is tilted toward the Fed to delay cuts even further, nudged by a stickier-than-expected US inflation.

Figure 15: US's GDP Q/Q



Source: Bloomberg, RongViet Securities

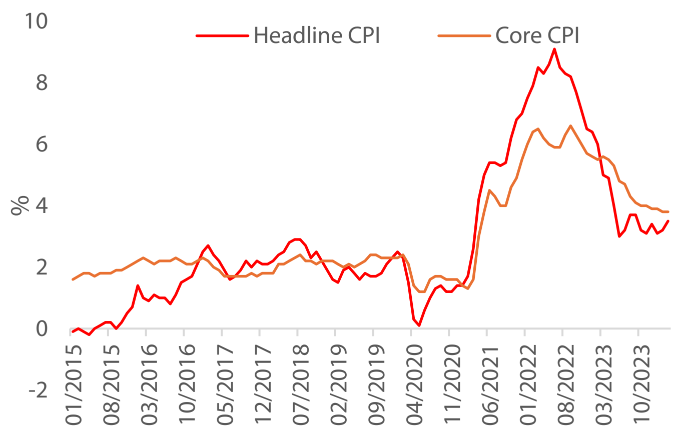
Figure 16: US's GDP Y/Y



Source: Bloomberg, RongViet Securities

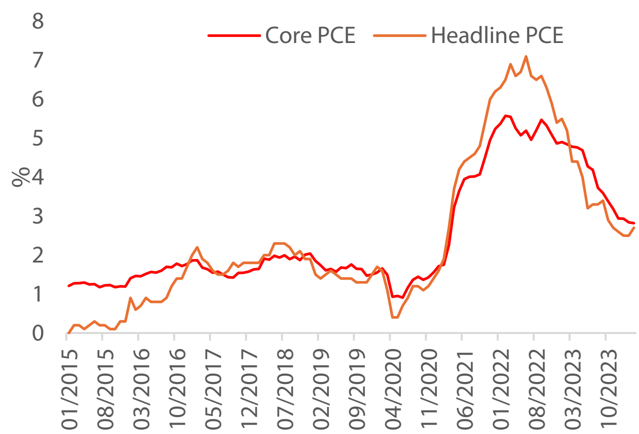
[6] *Excluding the net international trade aspects*
[7] *Excluding government expenditure*

Figure 17: US's CPI Inflation



Source: Bloomberg, RongViet Securities

Figure 18: US's PCE inflation



Source: Bloomberg, RongViet Securities

Preliminary outlook in 2H2024 commodity prices

The escalating tension in the Middle East has entered a new phase following Iran's recent assault on multiple regions of Israel on April 14, involving a substantial arsenal of ballistic missiles, unmanned aircraft, and cruise missiles. This retaliation was triggered by an Israeli attack that targeted the Iranian Consulate in Damascus, Syria, on April 1, 2024, resulting in casualties, including Iranian military leaders. This ongoing conflict has raised concerns regarding its potential impact on oil prices, given the significant role of Middle Eastern nations in global oil production and transportation. Earlier this month, before Iran's reported attack on Israel, the price of Brent crude went above $90 per barrel, but it has since dropped back to around $86-88 per barrel. Similarly, before the incident, WTI crude peaked above $86 per barrel but fell to around $83 per barrel. We have seen oil prices jump 3% on April 12th after Iran attacked Israel, then fall, and spike 4% on April 19th when Israel reportedly retaliated, then fall again. This situation is similar to when the Houthis caused disruption through the Red Sea, but the market adjusted. This indicates that while investors remain cautious, there is no significant increase in oil prices, possibly due to the balance of probabilities still tilting toward a contained conflict and lingering concerns about the global growth outlook.

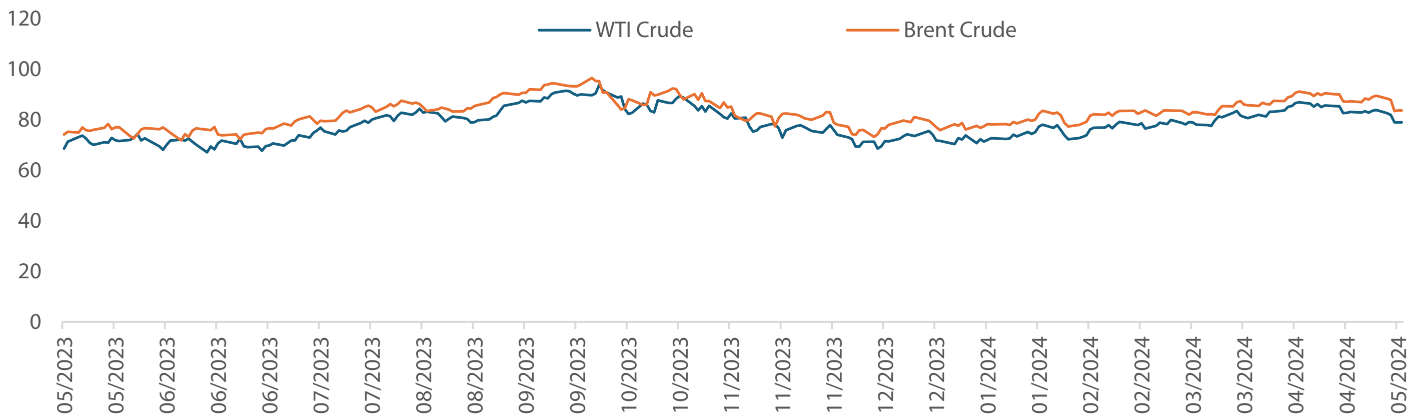
Tensions between Israel and Iran have also affected various commodity markets, i.e. metals. Despite expectations of a surge in gold prices as a haven asset, the immediate aftermath witnessed only a modest increase in precious metals. There was a marginal increase of 4.7% from $2,229.9 per ounce to $2,334.3 per ounce in April. Conversely, silver experienced a notably more significant increase of 10.2% during April to $27.4 per ounce. Aluminium prices rose by 4.6% during the month, while copper and zinc gained by 16.8% and 11.3%, respectively and in agriculture, rice, sugar, and rubber prices declined by 1.9%, 9.1% and 11.7%, respectively, during April.

In contrast, corn and wheat saw notable increases of 10.7% and 7.6%, respectively. Cacao prices, which started 2024 below $4,200 per ton, now trade at an all-time high of $9,945 per ton. However, this massive surge is not due to the conflict but rather due to disruptions on the supply side caused by severe El Niño-induced dry weather conditions, reported wildfires, and an outbreak of the cacao swollen shoot virus, which has reduced cocoa supply.

The commodity complex has shown a run-up in prices in recent months. Geopolitical tension and supportive fundamentals, such as supply shortages, led to commodity buoyancy. In the upcoming months, the trend of oil prices will depend on 1) the tightening of physical markets, 2) decisions by OPEC+ members to prolong production cuts, 3) potential increased demand from major oil consumers, and 4) escalating geopolitical tensions. For now, all four factors remain favourable for oil prices. As a result, besides a potential short-term spike induced by geopolitics, oil prices could stay at $85-90/barrel through May and 2H2024. At the same time, experts believe the gold price still has legs, as gold is an asset class to hedge against inflation and risk events.

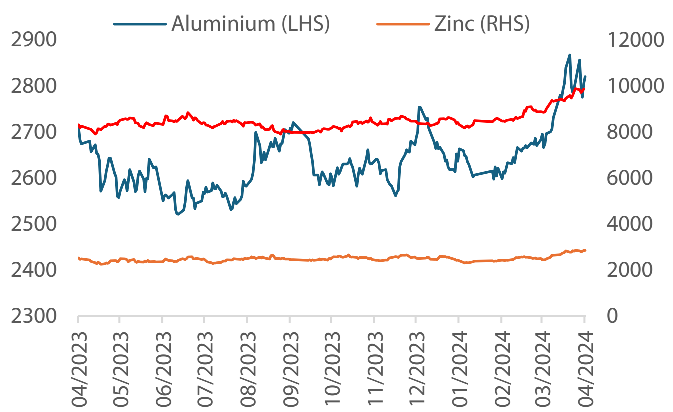
In addition, the long-term catalyst for gold still lies in the continued demand for central banks and the China market. Regarding the agriculture sector, it is predicted that El Niño will fade away sometime in the first half of 2024, and there could be a potential return of La Niña by late 2024. A smooth weather transition will slightly boost agricultural output and lower global food prices.

Figure 19: Brent vs WTI crude oil price ($/barrel)



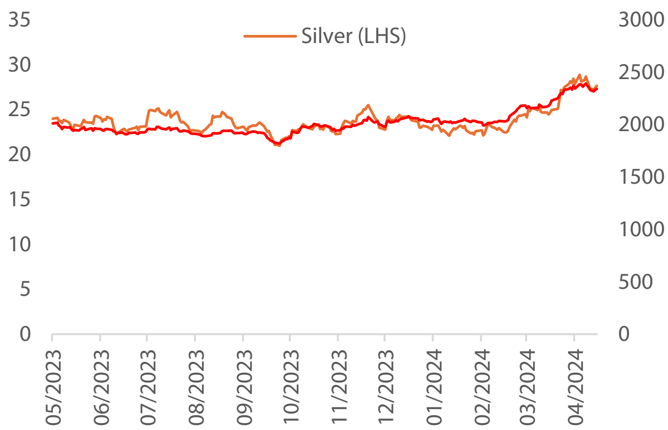
Source: Bloomberg, RongViet Securities

Figure 20: Non-ferrous metal prices ($/metric tons)



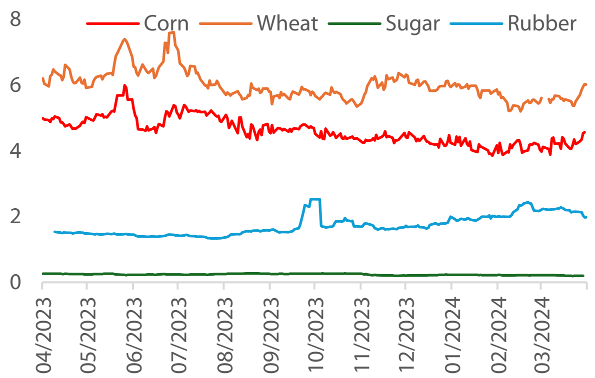
Source: Bloomberg, RongViet Securities

Figure 21: Rare metals prices ($/Oz)



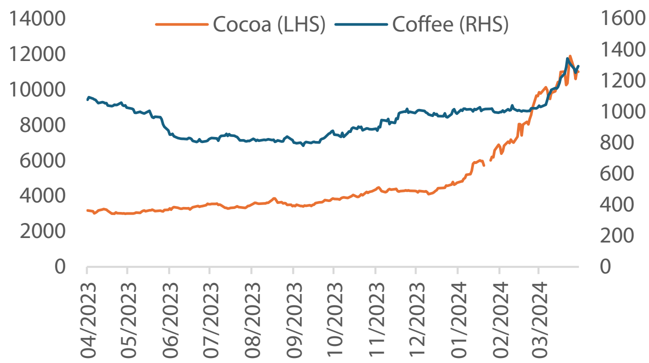
Source: Bloomberg, RongViet Securities

Figure 22: Agriculture prices ($/Bu)



Source: Bloomberg, RongViet Securities

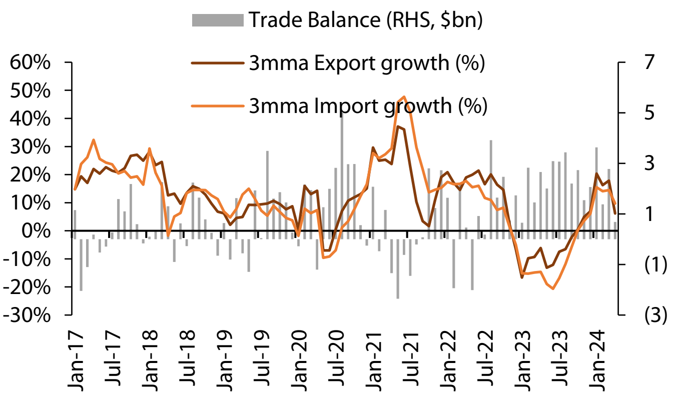
Figure 23: Coffee vs. cocoa price ($/lb)



Source: Bloomberg, RongViet Securities

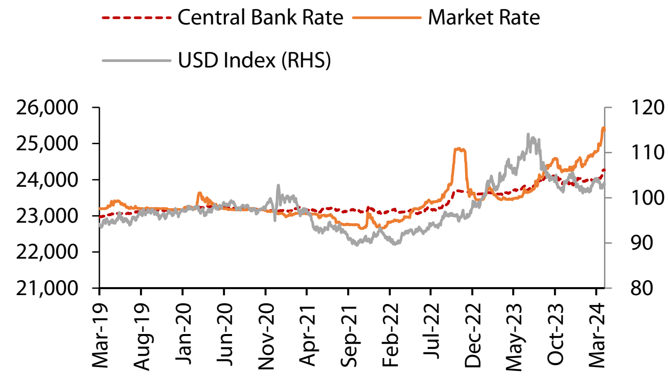
VIETNAM ECONOMIC INDICATORS IN APR 2024

Trade balance



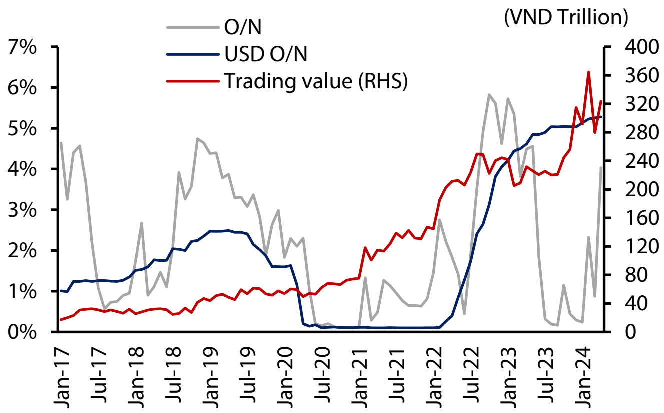
Source: GSO, Rong Viet Securities

USDVND exchange rate



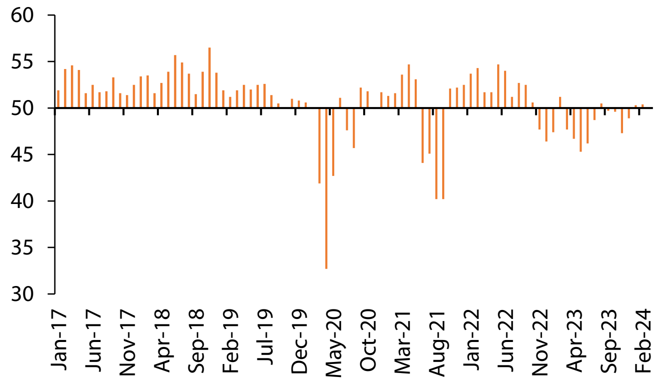
Source: SBV, Bloomberg, Rong Viet Securities

Interbank interest rate (%/year)



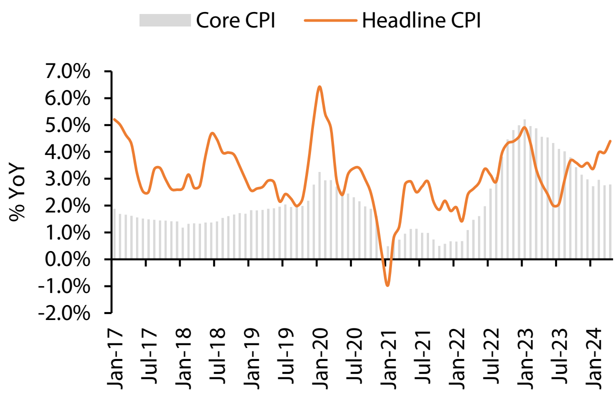
Source: SBV, Rong Viet Securities

Vietnam PMI



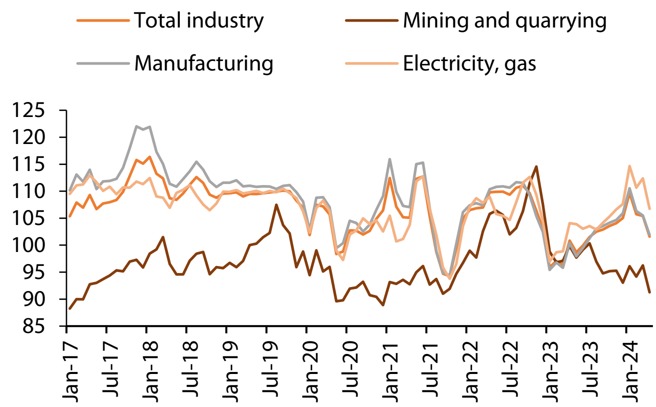
Source: S&P Global, Rong Viet Securities

Vietnam CPI



Source: GSO, Rong Viet Securities

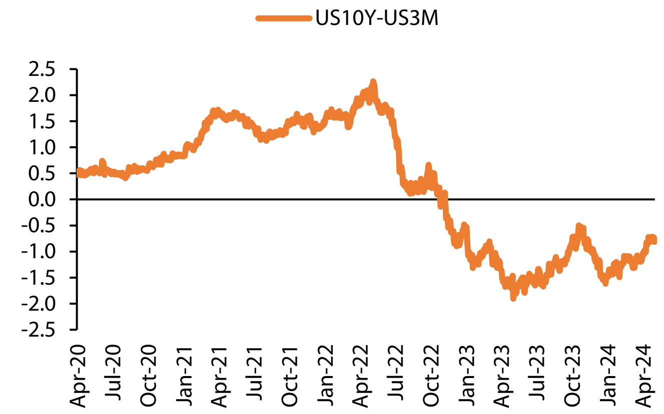
3-month MA Industrial Production Indices



Source: GSO, Rong Viet Securities

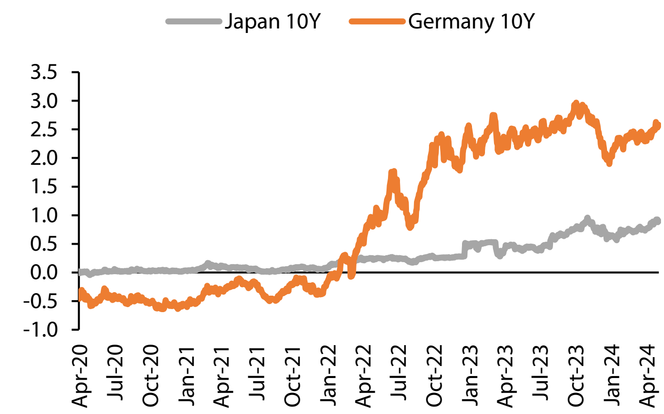
GLOBAL ECONOMIC INDICATORS IN APR 2024

US G-Bond yields gap (%/year)



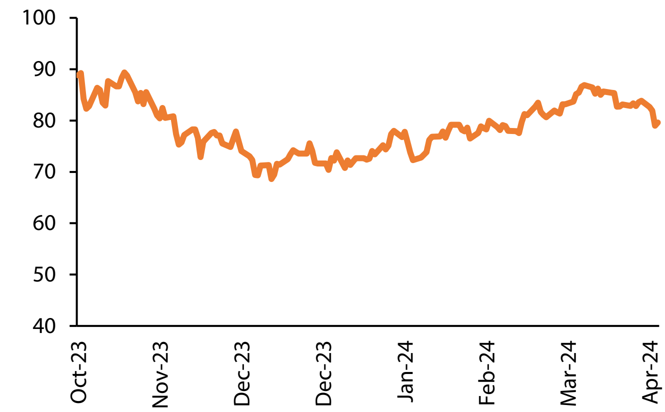
Source: Bloomberg, Rong Viet Securities

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



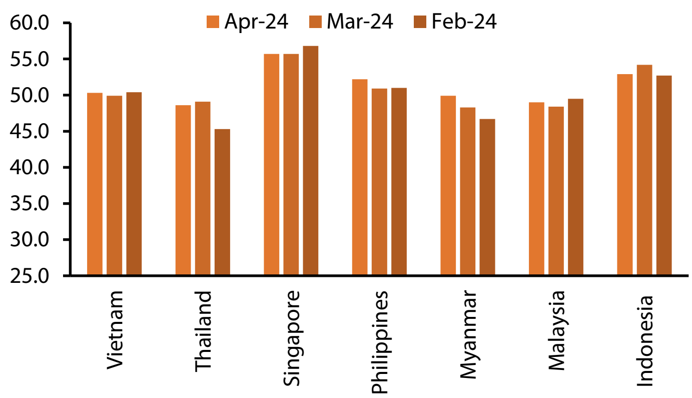
Source: Bloomberg, Rong Viet Securities

WTI crude oil price (USD/barrel)



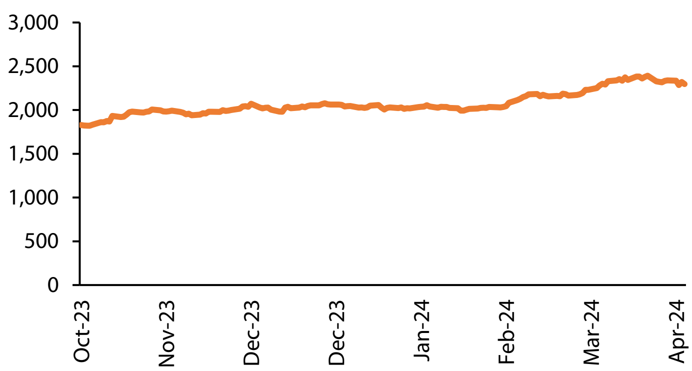
Source: Bloomberg, Rong Viet Securities

ASEAN's PMI



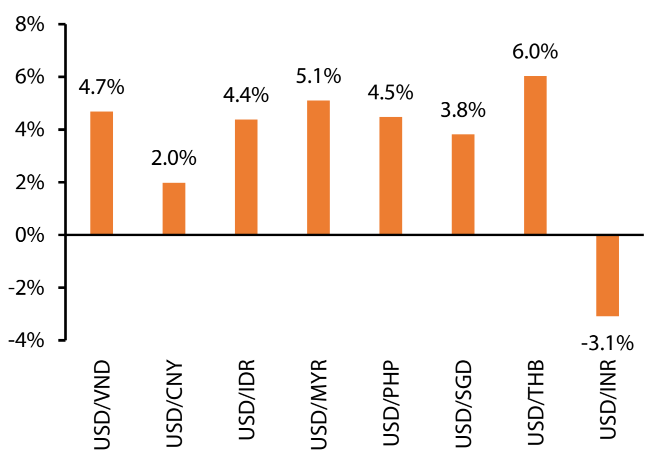
Source: Markit Economics, Rong Viet Securities

Gold prices (US$/ounce)



Source: Bloomberg, Rong Viet Securities

FX rates (%, YTD)



Source: Bloomberg, Rong Viet Securities

ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

Vu Tran
Senior Manager
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1512)
- O&G
- Fertilizer

Tung Do
Manager
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Aviation
- Logistics
- Market Strategy

An Nguyen
Senior Analyst
an.ntn@vdsc.com.vn
+ 84 28 6299 2006 (1526)
- Food & Beverage
- Retail

Lam Do
Senior Analyst
lam.dt@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Real Estate

Ha My Tran
Senior Consultant
my.tth@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Hoai Trinh
Analyst
hoai.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Utilities
- Textiles

Quan Cao
Analyst
quan.cn@vdsc.com.vn
+ 84 28 6299 2006 (2223)
- Sea ports
- Pharmaceuticals

Hien Le
Analyst
hien.ln@vdsc.com.vn
+ 84 28 6299 2006
- Fishery

Hung Le
Analyst
hung.ltq@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Industrial RE
- Market Strategy

Luan Pham
Analyst
luan.ph@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Ngan Le
Analyst
ngan.lk@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- O&G
- Fertilizer

Chinh Nguyen
Analyst
chinh.nd@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Bank

Hung Nguyen
Analyst
hung.nb@vdsc.com.vn
+ 84 28 6299 2006
- Retail
- Automotive & Spare parts

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Thao Phan
Assistant
thao.ptp@vdsc.com.vn
+ 84 28 6299 2006

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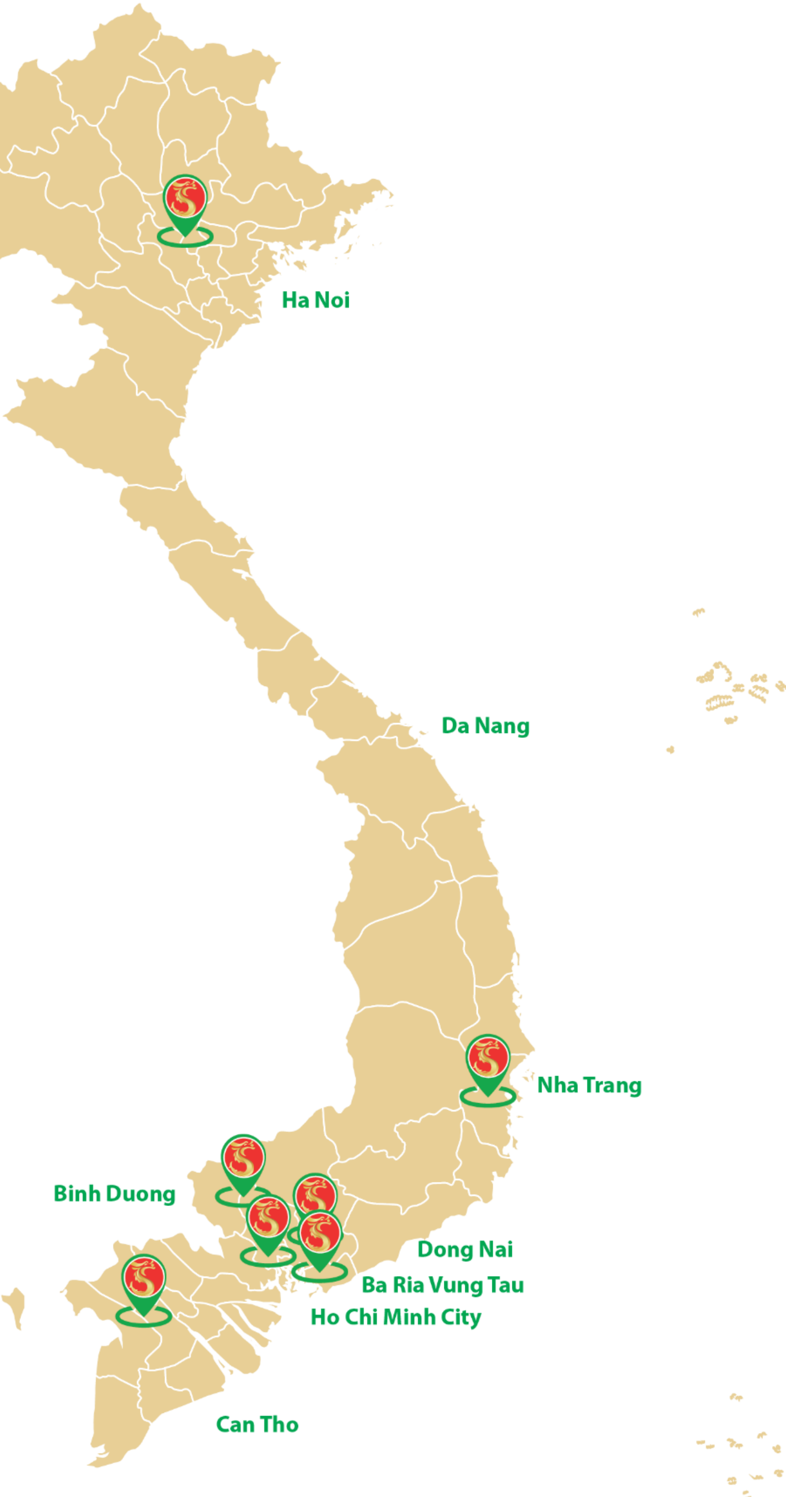

HEADQUARTER IN HO CHI MINH CITY
Floor 1 - 8, Viet Dragon Tower, 141 Nguyen Du,
Ben Thanh Ward, District 1, Ho Chi Minh City
T (+84) 28 6299 2006 E info@vdsc.com.vn
F (+84) 28 6291 7986 W www.vdsc.com.vn
Tax code 0304734965

HANOI BRANCH
10th floor, Eurowindow Tower, 2 Ton That Tung,
Trung Tu Ward, Dong Da District, Hanoi
T (+84) 24 6288 2006
F (+84) 24 6288 2008

NHA TRANG BRANCH
7th floor, 76 Quang Trung, Loc Tho Ward,
Nha Trang City, Khanh Hoa
T (+84) 25 8382 0006
F (+84) 25 8382 0008

CAN THO BRANCH
8th floor, Sacombank Tower, 95-97-99, Vo Van Tan,
Tan An Ward, Ninh Kieu District, Can Tho City
T (+84) 29 2381 7578
F (+84) 29 2381 8387

VUNG TAU BRANCH
2nd floor, VCCI Building, 155 Nguyen Thai Hoc,
Ward 7, Vung Tau City, Ba Ria – Vung Tau Province
T (+84) 25 4777 2006

BINH DUONG BRANCH
3rd floor, Becamex Tower, 230 Binh Duong Avenue,
Phu Hoa Ward, Thu Dau Mot City, Binh Duong Province
T (+84) 27 4777 2006

DONG NAI BRANCH
8th floor, TTC Plaza, 53-55 Vo Thi Sau,
Quyet Thang Ward, Bien Hoa City, Dong Nai Province
T (+84) 25 1777 2006