SLOW GROWTH MOMENTUM IN 1H23, WAIT FOR A MODEST RECOVERY IN 2H

- *1H23 Review: Slow growth amid strong headwinds.*
- *Be cautious with the risk of devaluation of the dong in the second half of 2023.*

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1H23 Review: Slow growth amid strong headwinds

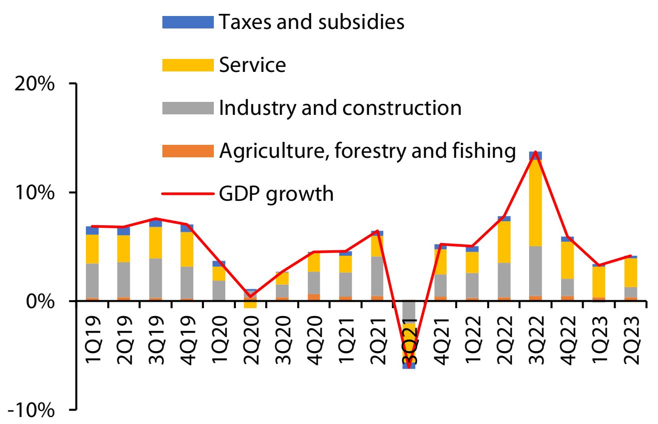
Economic growth in Q2/2023 is estimated at 4.14% YoY, higher than our estimate thanks to the improvement of the manufacturing sector, which is more positive than expected. Q1/2023 growth was revised slightly to 3.28% from the previous estimate of 3.32%. For Q2 alone, the manufacturing sector grew by 1.25% YoY, compared to the negative 0.49% growth in Q1 and the no-growth estimate we had expected. More prominently, construction sector growth improved from 1.9% in Q1 to 7.1% in Q2, the best gain since Q2/2019. In the service sector, wholesale and retail services maintained an increase of 9.0%, higher than the increase of 8.0% in Q1. However, accommodation and food services grew by only 7.7% YoY, significantly lower than the 22.9% growth in the previous quarter. Real estate continued to experience negative growth, although the decline was not much changed compared to Q1 (down 0.9% in Q2 compared to a decrease of 0.7% in Q1). Generally, in the first half of 2023, economic growth is estimated at 3.7% over the same period.

Figure 1: GDP breakdown by sector

	2Q22	3Q22	4Q22	1Q23	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
	% yoy				% pt contribution to GDP					
Real GDP	**7.8**	**13.7**	**5.0**	**3.3**	**5.0**	**7.8**	**13.7**	**5.6**	**3.3**	**4.1**
Agriculture	3.1	3.7	0.4	2.9	0.3	0.3	0.4	0.5	0.3	0.3
Mining	4.5	6.4	(0.1)	(4.1)	0.0	0.1	0.2	0.2	(0.1)	0.0
Manufacturing	11.1	11.6	1.9	(0.5)	1.8	2.5	2.8	0.7	(0.1)	0.3
Construction	4.9	17.5	0.2	1.9	0.1	0.3	1.2	0.5	0.1	0.4
Wholesale & Retail Sales	8.3	24.9	0.4	8.0	0.3	0.8	1.9	0.6	0.8	0.8
Transportation & Storage	9.5	27.3	0.0	6.7	0.4	0.5	1.3	0.3	0.4	0.4
Accommodation & Food	26.6	172.3	(0.3)	22.9	(0.0)	0.5	1.7	0.7	0.5	0.2
Financial services	8.7	9.3	0.6	7.8	0.5	0.4	0.5	0.5	0.4	0.3
Real estate	6.2	11.8	0.0	(0.7)	0.1	0.2	0.4	0.2	(0.0)	(0.0)
Other	7.2	11.0	1.9	4.0	1.6	2.1	3.2	1.6	1.1	1.3

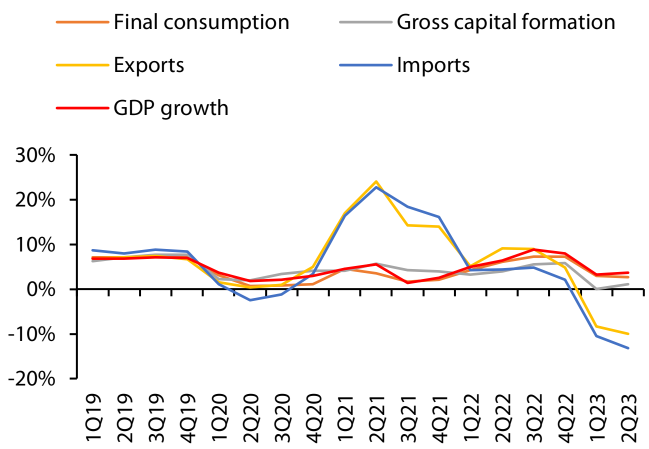
Source: GSO, RongViet Securities

Figure 2: GDP growth by sector



Source: GSO, RongViet Securities

Figure 3: GDP growth by usage



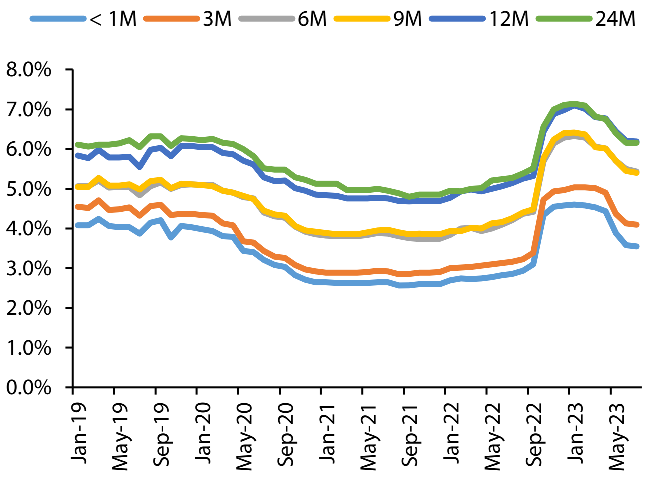
Source: GSO, RongViet Securities

Although economic growth is not very encouraging, business confidence and consumption decline, and the economic bottlenecks have only been slowly removed, Vietnam's economy in the first half of 2023 still has positive points. First, retail services and goods still maintained a relatively high growth rate of 10.9% in 1H2023 and increased by 8.4%, excluding the price factor. In which retail sales of goods increased by 9.3%, and accommodation, catering, and tourism revenue continued to recover from a low base, rising by about 14.6% over the same period. This is also the pillar contributing the most to GDP growth in the year's first two quarters.

Next, interest rates in the economy are falling thanks to a combination of the SBV's policy easing orientation, weak credit demand due to less favorable business conditions, and no additional shocks in the corporate bond market. The level of deposit interest rates has decreased compared to the beginning of the year, the average decrease is 1.25 percentage points for 6-month and 1-year terms. This will be a premise for lending interest rates to decrease further in the second half of 2023. Meanwhile, the exchange rate and inflation are relatively stable in the first half of 2023. Average inflation in 6M23 only increased by 3.3 % over the same period. The food & foodstuffs and construction groups contributed the most to this increase, 1.4 % points and 1.2 % points, respectively, while the transportation group helped the average inflation decreased by 0.5 % points. The USDVND exchange rate in the official market increased by 0.21% compared to the end of 2022, and at the same time, the SBV bought more than $6 billion, helping foreign exchange reserves increase to more than $91 billion.

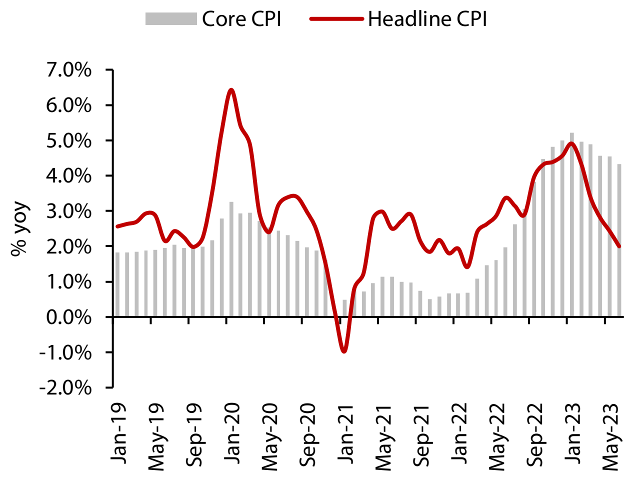
Finally, focusing on the trend, the economy in Q2 is better than Q1 in some aspects. For example, gross fixed capital formation is recovering thanks to public investment, up 1.1% YoY in 1H2023, compared with no growth in Q1. Investment capital growth from the state budget reached VND232.2 trillion in 6M23, an increase of 20.5% over the same period, nearly double the growth rate of the same period in 2022. In June 2023, the Government started important projects: RingRoad 3 in HCMC and RingRoad 4 in Hanoi. The most dynamic area of the economy is Ho Chi Minh City, which saw a remarkable recovery in Q2, the city's GRDP increased by 5.9%, higher than the increase of only 0.7% in Q1. In which the service sector increased by 5.0% over the same period, industry and construction increased by 0.8%, and agriculture, forestry, and fishery increased by 2.1%. Public investment in Ho Chi Minh City accelerated faster in June 2023, by the end of June 23, the total disbursed capital of the city's 2023 public investment was VND10,244 billion, completing 15 % of the total capital plan (VND68,490 billion), significantly higher than the estimate of 3.3% as of 31 May.

Figure 4: Deposit rates



Source: RongViet Securities compiled (4 SOBs, 4 JCBs và 4 Foreign banks)

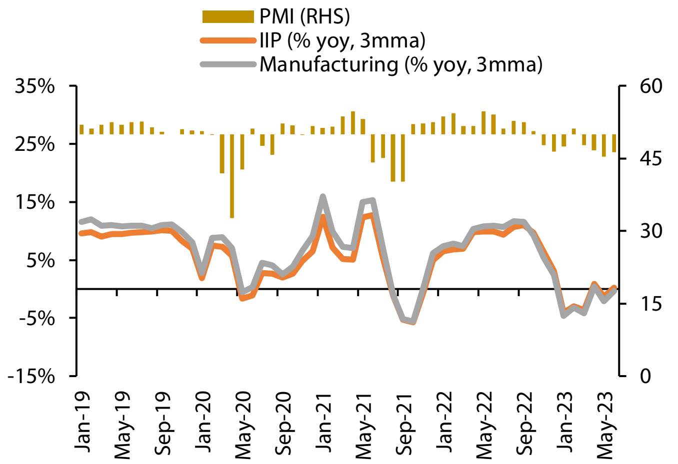
Figure 5: Vietnam's inflation



Source: GSO, RongViet Securities

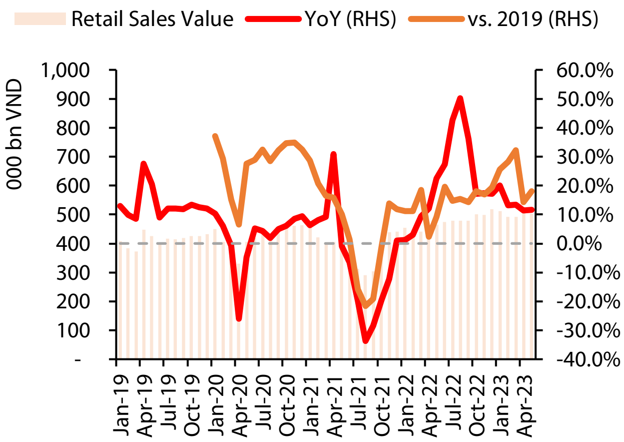
Looking to the second half of 2023, some short-term indicators show that Vietnam's economy still faces many challenges. In June 2023, industrial production recovered slightly, increasing by 2.8% YoY compared to the previous month's increase of 0.5%, highlighted by the improvement in food production and processing activities, beverages, motor vehicles, and weaving. However, the production index of export industries (including apparel, footwear, wood, and electronics) still grew negative or did not grow over the same period. PMI in June 2023 increased slightly to 46.2 points, 0.9 points higher than the previous month, but new and export orders continued to decrease. On the other hand, the pillar supporting economic growth in the first half of the year showed signs of decline. Retail sales of goods and services in June 2023 only increased by 6.5% YoY, significantly lower than the 11.5% increase in the previous month. The reason is that the low base effect is gradually disappearing in the accommodation, catering, and tourism services groups. Still, more alarmingly, retail sales of goods increased by only 6.0% over the same period, lower than the increase of 11.0% in the previous month. Due to the high base level of the same period last year, the condition of the manufacturing sector is not improving much, while the service sector is showing signs of decline, we believe that economic growth in 3Q23 will still be low at about 3.5-4.0%. Currently, there are not many indicators to expect a significant improvement in the growth of Q4, but with a certain optimism, including improved business and consumer confidence driven by supporting policies, accelerated public investment combined with a low base in Q4/2022, we think Q4 economic growth will be the best. Accordingly, Rong Viet believes that the reasonable expectation for GDP growth for the whole year is 4.5-5.0%, of which the growth in the second half of 2023 is estimated at 5.2-6.1%, higher than with an increase of 3.7% in the first half of the year.

Figure 6: Industrial production growth and PMI



Source: GSO, S&P Global, RongViet Securities

Figure 7: Retail sales growth

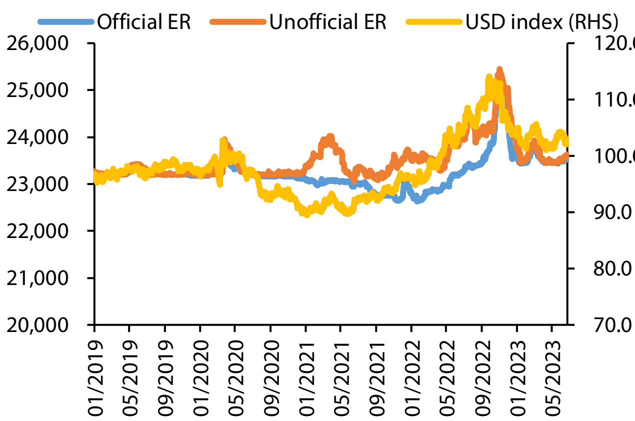


Source: GSO, RongViet Securities

Be cautious with the risk of devaluation of the dong in the second half of 2023

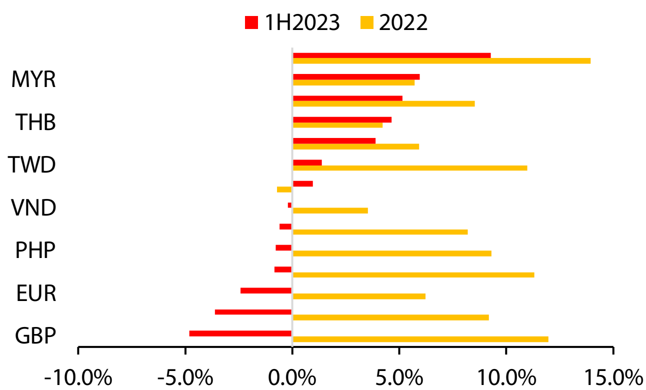
As mentioned in the review of the 1H23 macro picture, the exchange rate was relatively stable in the first half of the year, with a slight increase compared to the end of 2022. However, the exchange rate in the interbank market has inched up gradually. in May 2023 (+0.13% compared to April) and, in June alone, increased by 0.4% compared to the end of May. In the unofficial market, the free exchange rate increased by 0.8% in June. At the time of this report, the quoted exchange rate at Vietcombank is 23,430-23,800 VND/USD, 0.2-0.3% higher than at the end of 2022.

Figure 8: USDVND Exchange rate



Source: Bloomberg, Fiinpro, RongViet Securities

Figure 9: The movements of other currencies vs. USD

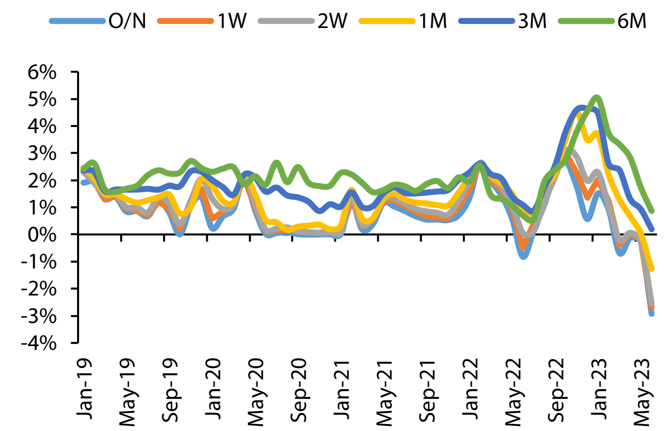


Source: Bloomberg, RongViet Securities

In the first half of 2023, the USD index had two slight retracements, but the second retracement peaked lower than the first. Compared to the beginning of the year, the USD index decreased by 0.6% compared to the end of 2022. Thus, the USD index still maintained its strength as the Fed gradually entered the final stage of the interest rate hike cycle. At the same time, views on monetary policy shape the movements of the remaining currencies. The ECB's continued tightening of monetary policy has helped the EUR gain slightly against the USD in the first half of the year, even though the Eurozone is confirmed to fall into a technical recession for two consecutive quarters in Q4/2022 and Q1/2023. Or in Asia, the stance of maintaining the expansionary monetary policy of the central banks of China and Japan made the currencies of these two countries continue to depreciate by about 5.0% and 9.3% against the USD in the first half of this year. In Vietnam, the currency is stable in the context of the SBV continuously cutting regulatory interest rates, which is an exception?!

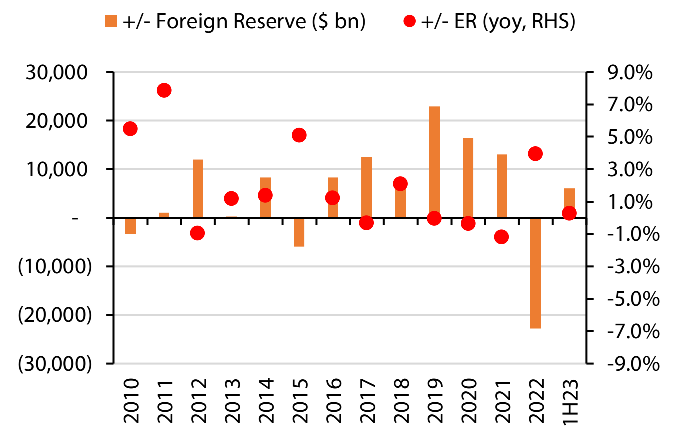
Currently, the USD-VND interest rate differential on the interbank market is at a record high, with the highest being 4.4 % points for the overnight interest rate and the lowest being 0.6 % points for the 3-month term. For terms of 3 months or more, VND interest rates are about 0.3-1.4 % points higher than USD interest rates. Widening interest rate differentials will stimulate carry trade activity and dong depreciation. In the next 3-6 months, we see several premises that could add to the depreciation pressure of the dong. Firstly, most financial institutions believe that the outlook for the dollar in the second half of 2023 is positive. The consensus is that this currency will stay at a high-level thanks to attractive interest rates and its role as a haven in the world economic turmoil. Second, the Chinese yuan has depreciated by about 5.2% in the first half of 2023, which is substantial compared with a depreciation of about 8.5% in 2022. China's post-reopening growth rebound was disappointing, and continued monetary easing in the second half of this year leads to the expectation that the yuan will depreciate further in 2023. Given the strong correlation between the VND and the yuan, we believe this "stationary" status can hardly be maintained long in the second half. Finally, the SBV reduced the regulatory interest rates quite drastically in the first half of 2023, aligning with the growth target and reducing the shield of exchange rate stability. Economic growth has mostly stayed the same in Q3, which is also the key reason for the SBV to reduce regulatory interest rates further. Given the above factors, the next level for the USD/VND exchange rate is expected to be 24,500. The USD/VND exchange rate may rise above this level if the USD index accelerates strongly. Still, the pressure may not be as intense as last year because Vietnam is expected to have a record trade surplus this year, inflation is downward, and foreign exchange reserves are accumulating.

Figure 10: VND-USD interest rates' gap



Source: SBV, RongViet Securities

Figure 11: Vietnam's FX and exchange rate



Source: Bloomberg, RongViet Securities

Mid-year recap

The MSCI World index is up 10.9 % year-to-date while the Topix dominates G7 equity markets up almost 20% in local currency terms. Canada and the UK are flat (Table 1). The S&P 500 Index meanwhile is up 13.2% ytd. Over the past 20 years (2002 to 2022), the average nominal annualized return on the S&P 500 is 8.2%.

Table 1: G7 equity markets performance year-to-date

Country	Indices	ytd, %, local currency
Japan	TOPIX	19.7
Italy	BORSA	14.0
Germany	DAX	13.7
US	S&P 500	13.2
France	CAC 40	10.9
Canada	TSX	flat
UK	FT 100	flat

Note: as of June 24

Source: Tradingview

North Asia has done better than South East Asia apart from Vietnam (Table 2). Interestingly with the tension between China, Taiwan and the US, the Taiwan (TWSE Index) has performed the best in Asia ex-Japan with a gain in local currency of 21% year-to-date, the best performing market in Asia. Most SE Asian markets have had a hard time posting negative returns.

Table 2: Asia ex-Japan markets performance year-to-date

Country	Indices	ytd, %, local currency
Taiwan	TWSE	21.0
Korea	KOSPI	14.2
Vietnam	VN Index	12.1
India	SENSEX	3.5
China	CSI 300	0.0
Singapore	STI	-1.8
Philippines	PCOMP	-2.3
Indonesia	JCI	-3.1
Hong Kong	HIS	-3.3
Malaysia	KLCI	-7.0
Thailand	SET	-9.8

Note: as of June 24

Source: Tradingview

In the Philippines, Bangko Sentral Ng Pilipinas (BSP) maintained its overnight reverse repurchase rate at 6.25% for the second successive meeting on June 22nd, as it continues to assess the impact of tighter monetary conditions on inflation and domestic demand. The BSP's rhetoric remained hawkish. This is not favorable for equities.

Thailand's opposition secured a stunning election win in May after trouncing parties allied with the military, setting the stage for a flurry of deal-making over forming a government in a bid to end nearly a decade of conservative, army-backed rule. This has not helped the equity market. Inflows have not returned yet, while the Thai currency weakened to 35 baht to the greenback (Figure 1), reflecting that confidence has not returned and is weakening the SET index. Continued global external headwinds for Thai manufacturers is also not helping sentiment.

Figure 12: USD/THB.

In Vietnam things look better as the VN Index broke through the 1130 level. The 200-day exponential moving average is on an upward trend which should be supportive (Figure 3). The Index could easily 'fly' to 1200, a zone of extreme congestion last visited in September 2022.

Figure 13: VN Index

In the meantime, MSCI has kept South Korea in the emerging market index despite a push for an upgrade to developed market status. MSCI said it welcomes the South Korean government's proposed measures aimed at improving the accessibility of the equity market, but for the MSCI to consider potential reclassification of the country's market status, it must implement measures first and international investors should experience over time the reforms in practice. In February, the government unveiled its plan to improve the country's foreign exchange (FX) market structure, including measures to allow foreign institutions to participate in the onshore interbank FX market upon registration, extend trading hours and implement specific enhancements in infrastructure that aim to better align with global FX markets. The measures will go into effect in the second half of 2024. The Financial Services Commission has also announced that KOSPI-listed companies with assets of 10 trillion won (US$7.7 billion) or more will be mandated to offer English disclosures from next year, and the requirement will be expanded to firms with assets of 2 trillion won or more from 2026.

In a market accessibility report released in June, MSCI said South Korea needs to show improvements in six out of 18 categories -- FX market liberalization level, investor registration and account set up, information flow in market organization, clearing and settlement in market infrastructure, transferability in market infrastructure and the availability of investment instruments.

Figure 14: KOSPI Index

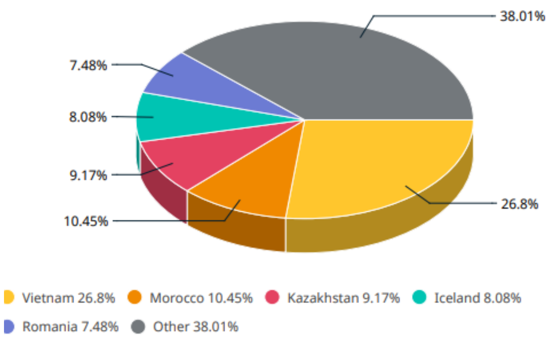
In the case of Vietnam, it risks missing a self-established 2025 deadline to complete reforms that would enable it to upgrade its stock market to emerging economy status from frontier market and attract billions of dollars in investments. The country accounts for almost 27% of the frontier market index (Table 3).

This has been on the card since 2018. The delay has been caused by needed key reforms, including on settlements and companies' foreign ownership. Despite being an open economy that relies on offshore industrial investment and whose total exports are as much as its gross domestic product, Vietnam has shielded its equity market by limiting foreign investor access. As a result, top equity index managers classify Vietnam as a frontier market, together with much less developed economies such as Benin or Burkina Faso. The Vietnamese government in 2022 committed to aiming for an upgrade to emerging market status by 2025.

The inclusion in any major emerging market index by 2025 would require an announcement a year earlier, leaving only a few months for authorities to adopt and implement complex market reforms.

Five of the top 10 constituent of the MSCI Frontier index- in %- are Vietnamese companies: Hoa Phat Group, Vinhomes, Vingroup, Vinamilk, Vietcombank.

Table 3: MSCI Frontier market weight



Source: MSCI

So what next for Vietnam?

The stock market may have to wait until 2025 to be upgraded to emerging market status. That could be viewed as disappointing to those that around 2018 expected an upgrade around 2020. They misread the situation.

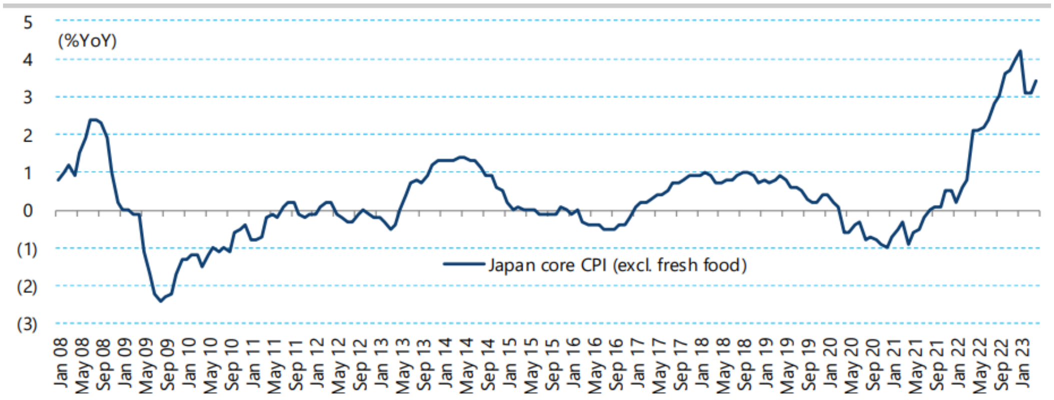
<u>Currencies</u>

The Yen's recent weakness versus the USD and Euro (Figures 15 &16) may not be as rapid as in 2002 when it lost around 20 percent of its value relative to the US dollar, but the prospect of it staying longer at current levels is already a cause for alarm for Japan corporates and consumers. Core inflation is now running way above the central bank target of 2% at 3.3% y/y (Figure 17).

Figure 15: USD/JPY

Figure 16: EUR/JPY

Figure 17: Japan core CPI, %, y/y



Nguồn: Jefferies

While Japanese authorities say they are closely monitoring forex developments due to the importance of stable currency moves that reflect economic fundamentals, the Yen's recent weakness is largely due to the divergence of monetary policies between Japan and its peers in the United States and Europe. Bank of Japan Governor Kazuo Ueda has been taking a neutral stance on the Yen's fall of late, calling it "positive for some sectors but negative for others". Since Mr. Ueda became governor of the BoJ in early April the Yen has fallen almost 7% against the dollar.

Consumer inflation is well above the BoJ's two percent target for the 14th straight month, but the central bank has repeatedly shot down speculation of dialing back monetary stimulus soon because inflation is expected to slow.

Japan intervened in the currency market after the Yen breached 145 to the US dollar in September. It carried out three Yen-buying, dollar-selling operations in September and October, spending over nine trillion yen ($62.6 billion). As the Yen's weakness also trimmed its current account surplus, Japan was removed from a US watch list that monitors trading partners for potentially unfair foreign exchange practices for the first time since 2016.

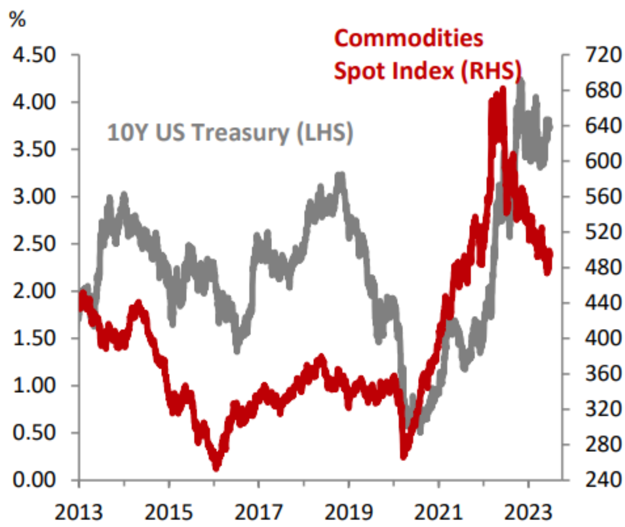
Watch the 1.10 level on EUR/USD. It has tried to break it twice in 2023 (Figure 18). If it does we look for 1.14. Hawkish European Central Bank's (ECB) president Christine Lagarde, fueled a rise in German bond yields supporting the Euro in mid-June. Lagarde commented that inflation in the eurozone is still too high and that interest rates are to remain high as long as necessary. Lagarde has also spoken extensively in recent days and there have been several ECB source reports, and all imply a July rate hike from the ECB is a done deal, while the odds of another hike in September are also increasing. The latest source reporting this morning noted that some ECB officials are considering a faster reduction of its bond portfolio, noting active sales of securities.

Figure 18: EUR/USD

Commodities

Global commodity prices are down about 30% y/y, back to levels last seen two years ago. A simple framework for gauging the direction of commodities would be that high interest rates tend to push down demand, which then tends to push down commodity prices. With the US Federal Reserve hiking rates by 500bps so far in this cycle and 10-yr treasuries yielding 3.5- 4% over the past year, the commodity demand downturn is largely unsurprising. Many of the concerns regarding supply tightness soon after the invasion of Ukraine have not materialized and markets are better supplied than was feared a year ago.

Figure 19: Commodity prices and 10- yr US treasury yield



Source: DBS

We think commodity markets are telling us more about demand than supply. China's recovery has proven to be underwhelming, while the US and Europe are heading to 2% GDP growth in the next few quarters. We find it hard to see a substantial upside for commodities for the time being, regardless of lingering concerns about supply side conditions.

Copper prices are a good example of why commodity prices are not rebounding. Copper is a leading barometer of global economic health due to its wide-ranging usage, including in electrical equipment and industrial machinery. It had a strong start to the year, given a weakening dollar and investor expectations to see a surge in demand after the reopening of the Chinese economy. But that did not last (Figure 20).

Figure 20: Copper price, COMEX (USD/ lb)

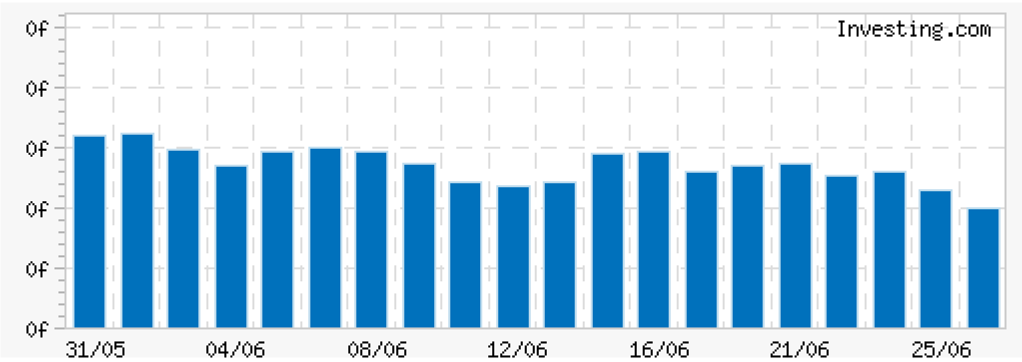
Bottom line:

- Equity market volatility is still very low. The VIX index is trading around 14, down from 33-34 six-seven months ago (Figure 21). This indicates to us that markets are vulnerable to any mishaps.

Figure 21: VIX Index

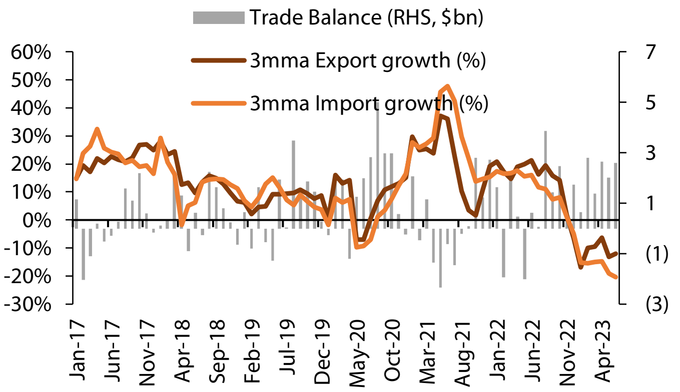
- FX volatility is still low but we expect it to rise as the ECB is more hawkish than the FED. Investors should consider this in their global exposure.

Figure 22: EUR/USD daily volatility



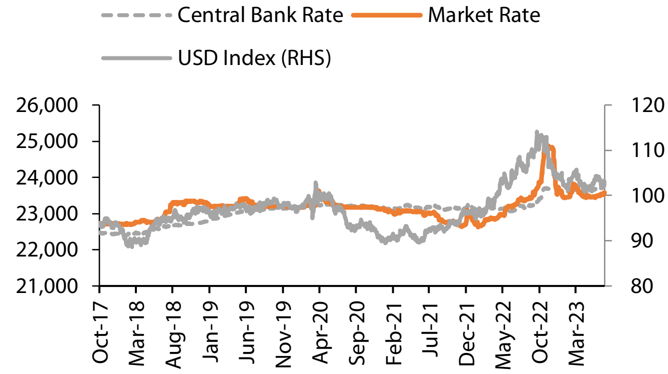
VIETNAM ECONOMIC INDICATORS IN JUNE 2023

Trade balance



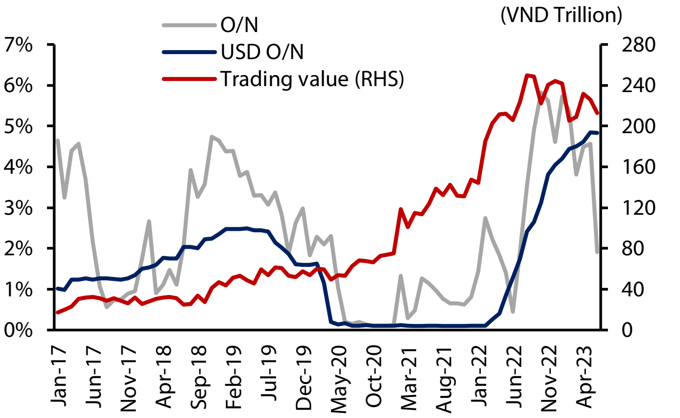
Source: GSO, RongViet Securities

USDVND exchange rate



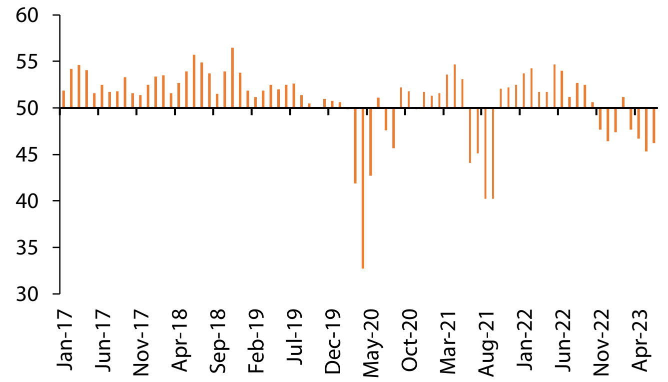
Source: SBV, Bloomberg, RongViet Securities

Interbank interest rate (%/year)



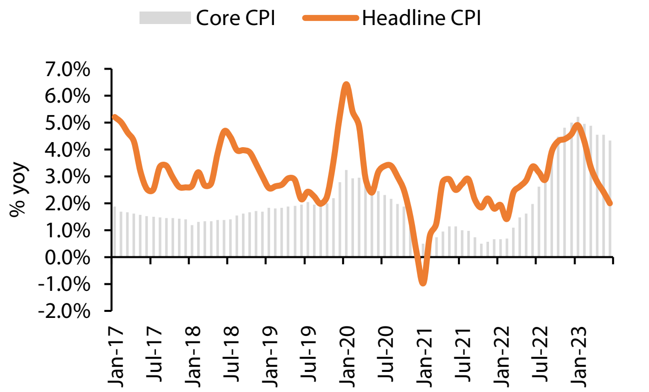
Source: SBV, RongViet Securities

Vietnam PMI



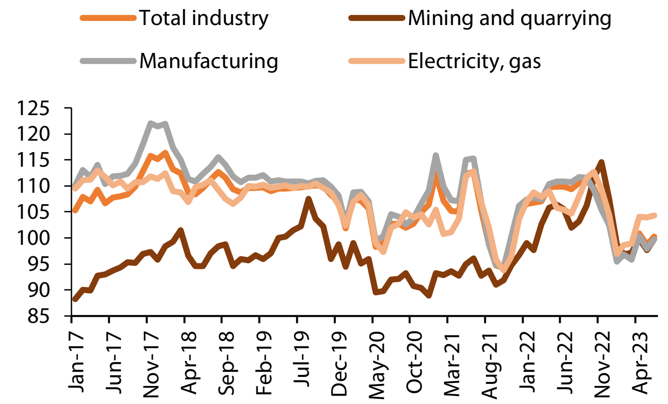
Source: S&P Global, RongViet Securities

Vietnam CPI



Source: GSO, RongViet Securities

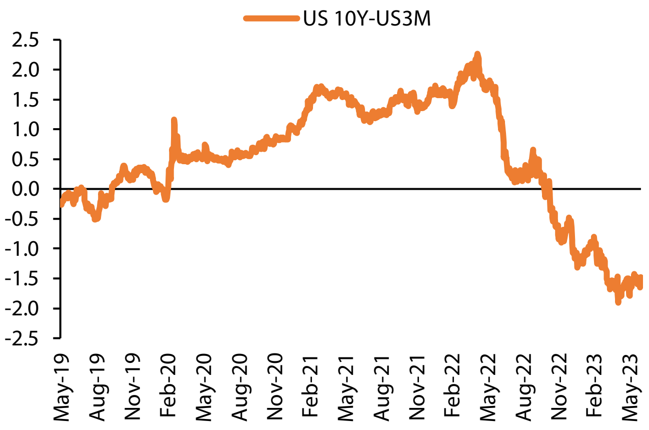
3-month MA Industrial Production Indices



Source: GSO, RongViet Securities

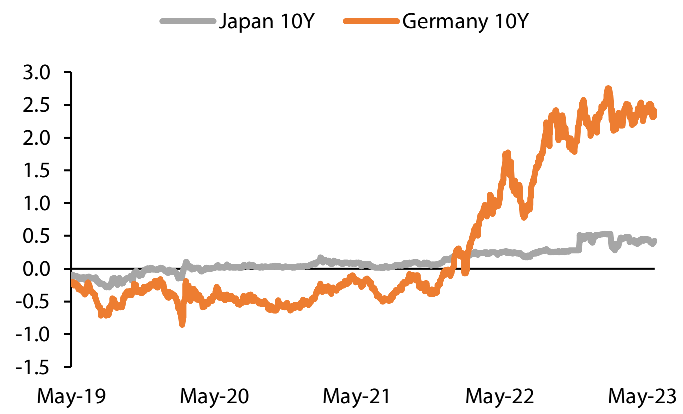
GLOBAL ECONOMIC INDICATORS IN JUNE 2023

US G-Bond yields gap (%/year)



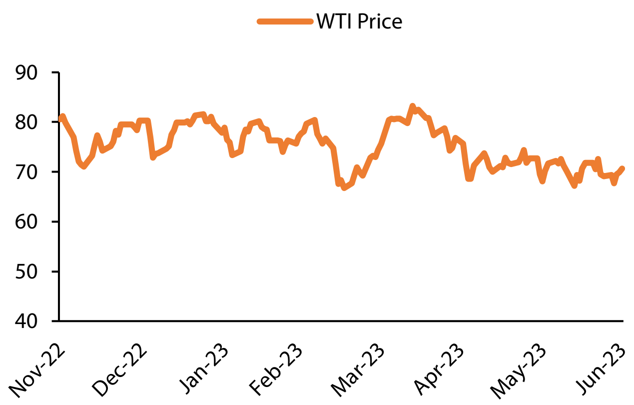
Source: Bloomberg, RongViet Securities

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



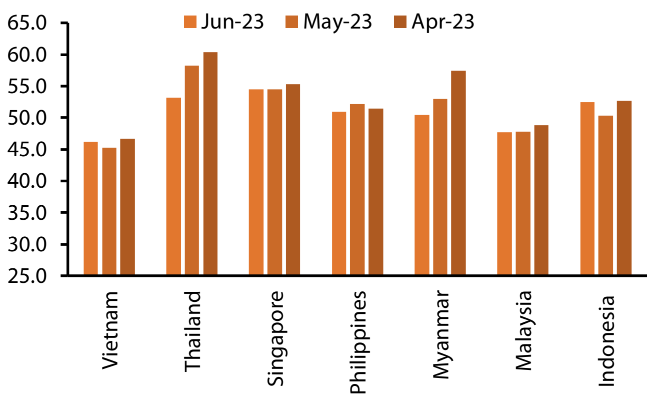
Source: Bloomberg, RongViet Securities

WTI crude oil price (USD/barrel)



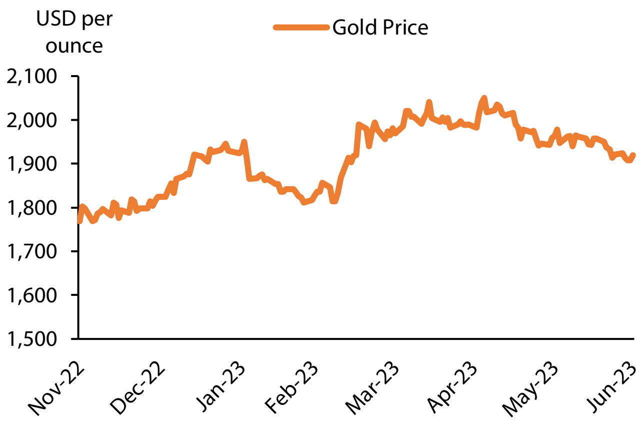
Source: Bloomberg, RongViet Securities

ASEAN's PMI



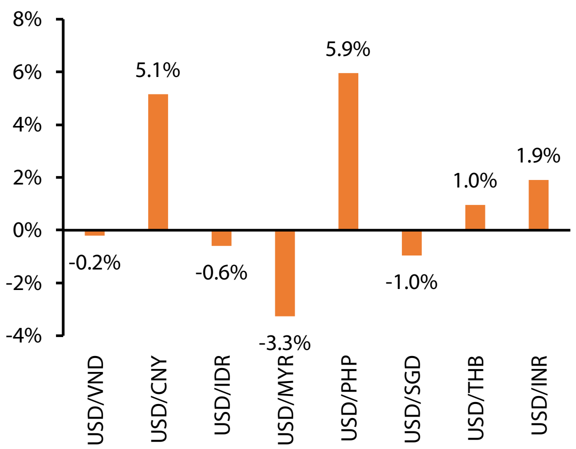
Source: Markit Economics, RongViet Securities

Gold prices (US$/ounce)



Source: Bloomberg, RongViet Securities

FX rates (%, YTD)



Source: Bloomberg, RongViet Securities

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