5th October 2022

Macro Report

THE ECONOMY WILL CONTINUE TO EXPAND AT A SLOW PACE

- *Economic growth in 3Q22 was extremely high thanks to low base effects, Consumption and exports are the main drivers of growth in 9M22.*
- *The expansion rate of the economy in 3Q22 was generally significantly weaker than the GDP trend before the COVID-19 pandemic occurred.*
- *We forecast Q4 GDP growth at around 6.3-6.7%, full-year GDP growth in 2022 therefore estimated at 8.1-8.2%, higher than our previous forecast of 7.3%.*
- *In the case of oil prices in the 4Q22 in the range of $90-100/barrel, the headline inflation is estimated at 3.6-3.8% for 2022, lower than the Government's target of 4%.*
- *Although the impact of public investment on the economy is pervasive, there is always a delay, public investment is expected to be the pillar of economic growth next year.*

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VIETNAM ECONOMY

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- The economic outlook in Q4/2022: growth slows, inflation under control
- Public investment improves in Sep 2022, further acceleration is expected in Q4

Record high GDP growth due to low base effect, weak expansion rate

Economic growth in the third quarter of 2022 was extremely high thanks to low base effects, in the third quarter of 2021, the economy was negatively affected by the large-scale lockdown that caused GDP to decrease by 5.8%. Accordingly, GDP in the third quarter of 2022 grew by 13.7% over the same period last year, of which the agricultural sector increased by 3.2%, industry and construction increased by 12.9%, and services by 18.9%. The increase recorded in the last quarter was higher than our previous expectation (10.5%) as the recovery of the service sector was much higher than forecasted. In 3Q22, the service sector contributed 7.7 pts to the overall growth, while the industry & construction sector contributed 4.9 pts. In the service group, retail services of goods and services contributed 3.4 percentage points to the overall growth, followed by transportation (1.4 pts) and administrative services (1.0 percentage points). The only sector with negative growth in the third quarter was health services (-18.2% yoy, causing the overall GDP to decrease by 0.3 pts).

Excluding the low base level of the same period, the expansion rate of the economy in the third quarter was generally significantly weaker than the GDP trend before the COVID-19 pandemic occurred. GDP in the third quarter increased by only 1.8% compared to the previous quarter, without adjusting for seasonal factors. In which, agriculture, industry & construction continued to expand with an increase of 6.6% qoq and 3.3% qoq, respectively which are lower than the growth during the pre-pandemic period. Notably, although the service sector recorded a very strong yoy increase, it almost did not grow compared to the previous quarter. In the service sector, the growth momentum was maintained in accommodation and catering services, and entertainment activities with an increase of 14.0% qoq and 13.0% qoq, respectively. On the contrary, the GDP of good retails and transportation sectors decreased by 8.6% qoq and 4.6% qoq, respectively, which are different from the expansion trend of these two sectors before the pandemic. As for financial services, banking and insurance showed an improvement (+8.7% yoy and +14.0% qoq), but real estate increased 11.8% yoy but only rose by 2.2% qoq, lower than the growth trend of this sector before the pandemic.

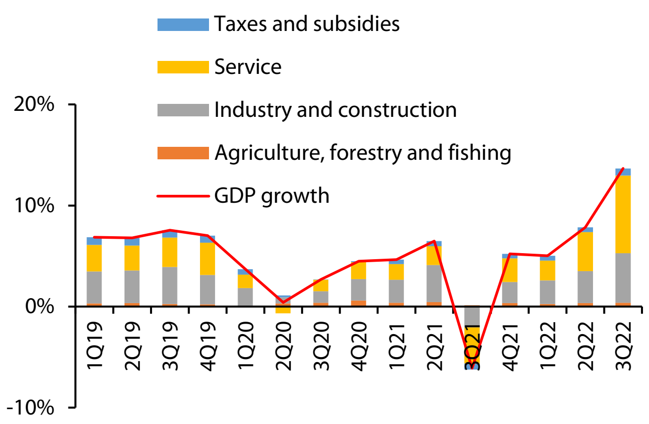
In the first 9 months, Vietnam's GDP growth reached 8.8% yoy, significantly higher than the increase of 6.4% recorded in 1H22. In terms of GDP usage, final consumption expenditure and the difference between import and export of goods and services contributed 3.9 pts and 3.3 pts to the overall growth, respectively, while the cumulative assets only contributed 1.6 pts to overall growth. This shows that consumption and exports are the main drivers of growth.

Figure 1: GDP breakdown by key sector

	4Q21	1Q22	2Q22	3Q22	4Q21	1Q22	2Q22	3Q22
	% yoy				% Contribution to GDP			
GDP growth	**5.2**	**5.1**	**7.8**	**13.7**	**5.2**	**5.1**	**7.8**	**13.7**
Agriculture	3.2	2.4	3.1	3.2	0.3	0.3	0.3	0.4
Mining	(2.7)	1.2	4.5	6.6	(0.1)	0.0	0.1	0.2
Manufacturing	8.0	7.8	11.1	13.0	1.8	1.8	2.5	3.1
Construction	2.1	2.6	4.9	16.6	0.2	0.1	0.3	1.1
Wholesale & Retail Sales	4.9	3.0	8.3	21.0	0.4	0.3	0.8	1.6
Transportation & Storage	0.9	7.1	9.5	28.8	0.0	0.4	0.5	1.4
Accomodation & Food	(15.3)	(1.8)	26.6	171.7	(0.3)	(0.0)	0.5	1.7
Financial services	11.2	9.8	8.7	8.7	0.6	0.5	0.4	0.5
Real estate	0.7	1.8	6.2	11.8	0.0	0.1	0.2	0.4
Other	8.3	4.9	7.2	11.3	2.2	1.6	2.1	3.2

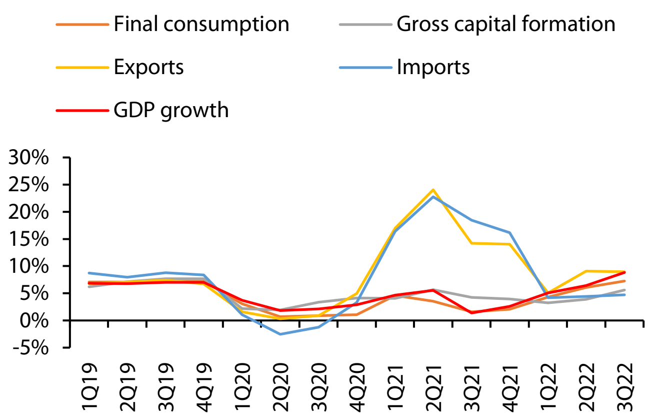
Source: GSO, RongViet Securities

Figure 2: GDP growth by sector (quarterly)



Source: GSO, RongViet Securities

Figure 3: GDP growth in terms of usage



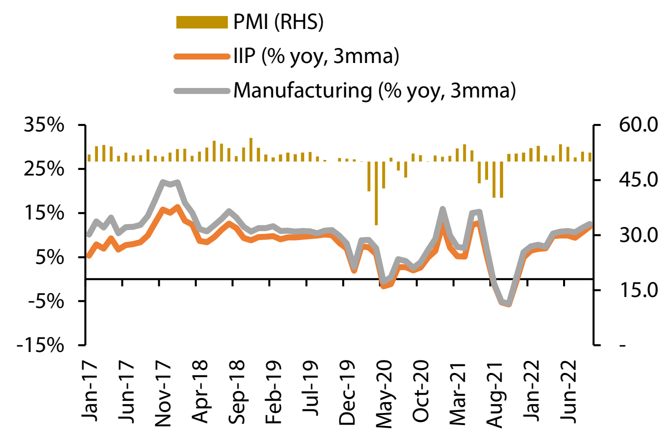
Source: GSO, RongViet Securities

The economic outlook in Q4/2022: growth slows, inflation under control

In Sep 2022, the manufacturing and processing industry grew 12.5% yoy and 3.3% mom. PMI in Oct 2022 continued to expand, recording at 52.5 points, slightly lower than the 52.7 points recorded in the previous month. However, the common point we find in these two economic variables is that the growth engine of the industrial production sector is slowing down. Sep 2022's import and export data as estimated by GSO also decreased by 14.2% and 7.3% respectively compared to the previous month, reflecting the picture of the global growth slowdown affecting Vietnam's trade activities. In the structure of exports, in 8M2022, the driving force for export growth comes from Vietnam's key export items such as electronics, textiles, and machinery and equipment. By market, export growth to the US contributed 39% to the overall growth, followed by EU and ASEAN markets. Concerns in Q4 come from 1) the Fed's further tightening of monetary policy leading to rising recession risks in the US, while 2) the European market is likely to worsen as the energy crisis escalates in the winter. We expect industrial production and export growth to slow down in Q4, but the level of decline will be moderate. The service sector's growth is likely to slow down in Q4 with the initial signs of a decline in the retail and transportation sectors that we mentioned above. Accordingly, we forecast Q4 GDP growth at around 6.3-6.7%, full-year GDP growth in 2022 therefore estimated at 8.1-8.2%, higher than our previous forecast of 7.3%.

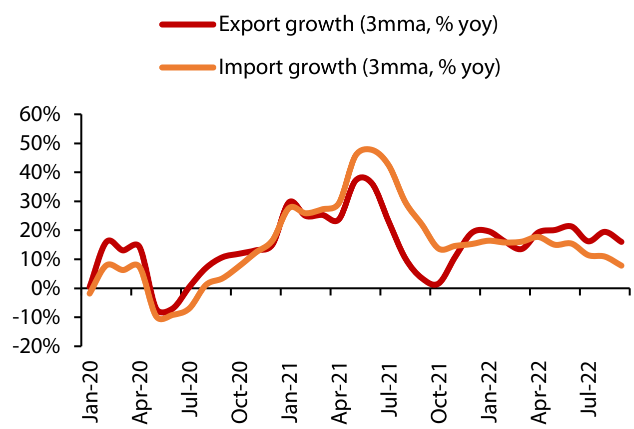
Regarding inflation, the average oil price in the first nine months of the year was 50.5% higher than the same period last year, while the domestic gasoline price was 43.3% higher than the same period last year. The 9-month transport price index is 15.0% higher than the same period and contributes 50.0% to the overall CPI increase. The global oil price is falling and the upcoming reduction of VAT and excise tax proposed by the Ministry of Finance is an advantage for the upcoming inflation movement. In Sep 2022, the average price of Brent oil was $90.5/barrel, 7.1% lower than the average in Aug 2022. Currently, the domestic gasoline price (RON95 Gasoline) is 9.2% lower than that at the end of 2021. In a less favorable movement, the headline inflation and core inflation of Sep 2022 increased by 3.9% and 3.8% respectively over the same period. Food price inflation contributed more than 30% to the overall CPI increase, while core inflation was led by the increasing momentum of Housing & Building Materials and Education groups. Currently, the prices of commodities that have a material impact on the food price index such as rice and pork remain relatively stable, in the case of oil prices in the 4Q22 in the range of $90-100/barrel, the headline inflation is estimated at 3.6-3.8% for 2022, lower than the Government's target of 4%.

Figure 4: Manufacturing growth & PMI



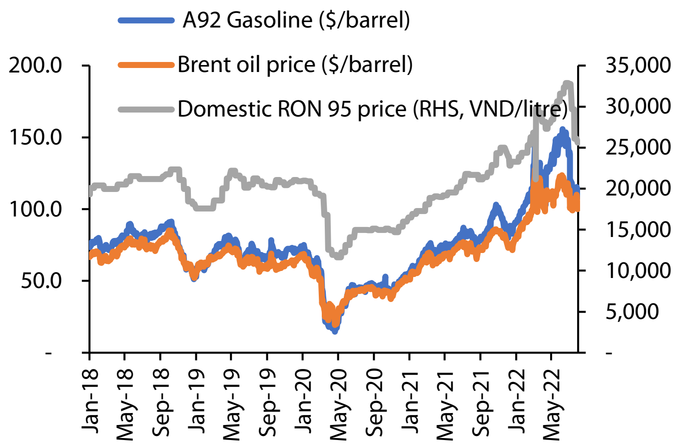
Source: GSO, IHS Markit, RongViet Securities

Figure 5: Import & Export growth



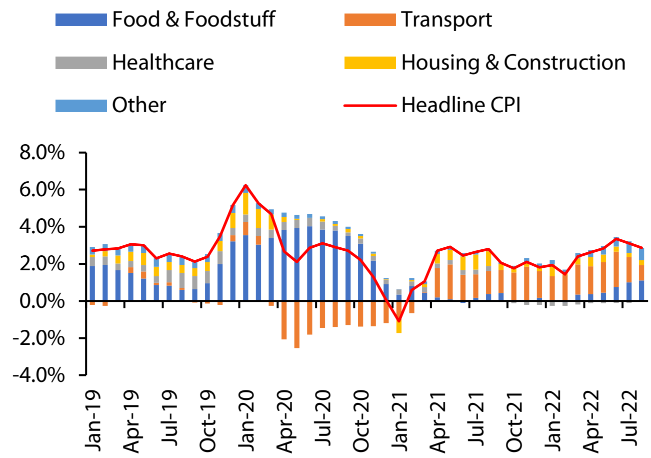
Source: Customs, RongViet Securities

Figure 6: Domestic vs. global petrol prices



Source: PLX, Bloomberg, MOIT, RongViet Securities

Figure 7: Breakdown of headline CPI (% yoy)



Source: GSO, RongViet Securities

Public investment improves in Sep 2022, further acceleration is expected in Q4

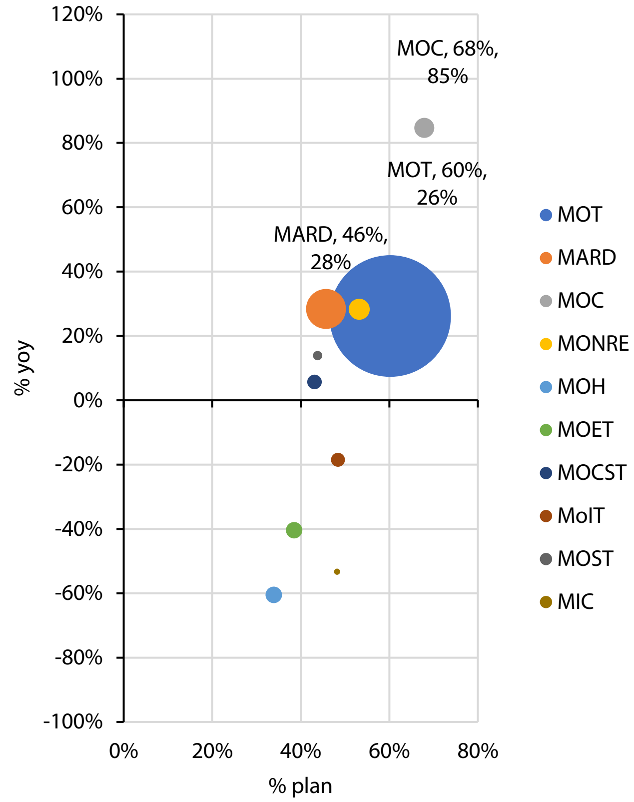
As of the end of Sep 2022, development investment expenditure reached VND253.1 trillion, up 15.8% over the same period and completing 48.1% of the full-year plan. At the central level, the Ministry of Transport and the Ministry of Construction are the two ministries with the disbursement rate of investment capital completing 60% and 68% of the annual plan, higher than the average. At the local level, Hanoi and Ho Chi Minh City are the two provinces with the largest scale of public investment, completing 63% and 45% of the yearly plan, respectively.

In Sep alone, development investment expenditure reached VND40.9 trillion, 54% higher than the average monthly disbursement in the first 8 months of the year. This shows that the disbursement speed of public investment capital has improved significantly in September. The demand for disbursement of public investment capital in the remaining months of 2022 is very large, estimated at VND273.1 trillion.

Looking back at 2021, the disbursement rate of public investment is still very slow until the end of Nov 2021, however, the Ministry of Finance data shows that, in the period from Sep 2021 to Dec 2021, total investment and development expenditure is estimated at VND313.7 trillion. In the event that the disbursement is as planned and an additional part from the development recovery program is added, development investment spending is estimated to increase by 12.4% over the same period in the whole year of 2022. In 2021, although expenditure development investment decreased by 10.5% over the same period. However, the State's consumption expenditure and the GDP of the State sector still increased by 4.7% and 4.9% over the same period, respectively.

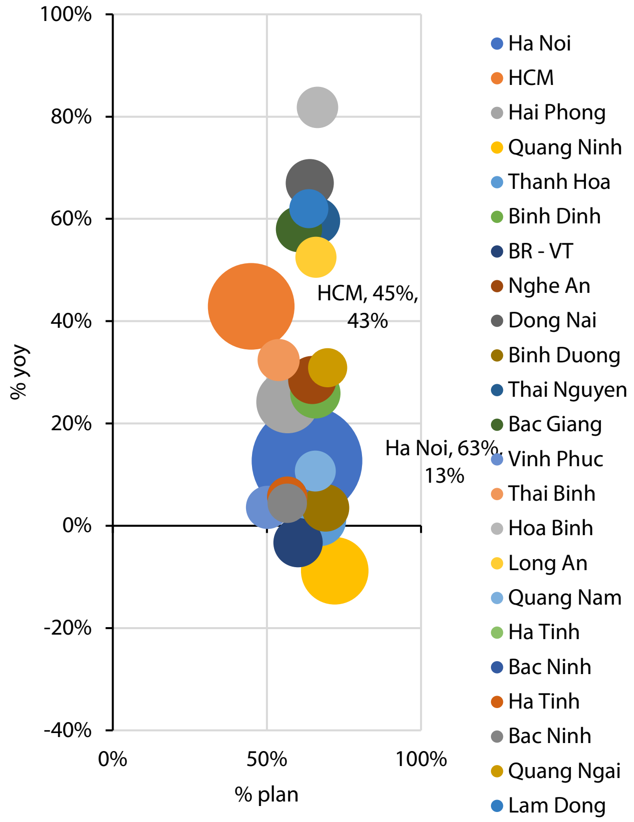
Although the impact of public investment on the economy is pervasive, there is always a delay, the growth momentum in public investment disbursement is maintained and the Government is continuously prioritizes promoting the progress of projects, public investment is expected to be the pillar of economic growth next year.

Figure 8: Public disbursement by Ministry



Source: GSO, RongViet Securities

Figure 9: Public disbursement by Province



Source: GSO, RongViet Securities

Monetary policies: getting tighter

- Central banks around the world are raising interest rates. Latest to date are Britain, Indonesia, and Kenya.
- The jury is still out on whether it will be enough to stem inflation.
- We have entered an era of higher interest rates.

Japan, the outlier among major developed economies, kept interest rates steady last week only to be punished as traders pushed the yen to a record low against the dollar - prompting the first intervention by Japanese authorities to support the currency since 1998. However, this intervention by the Bank of Japan did not do much as the Yen is still trading at above 144 per USD (Figure 10).

Figure 10: JPY versus USD

Intervening in markets tends to result in sub-optimal economic outcomes. We may be entering an era of intervention in foreign exchange markets.

The actions by the Fed, along with those of other major central banks, have formed the backdrop for early warnings from international officials and analysts that rising rates for currencies like the dollar and the euro could tighten global financial conditions so much that it leads to a global recession.

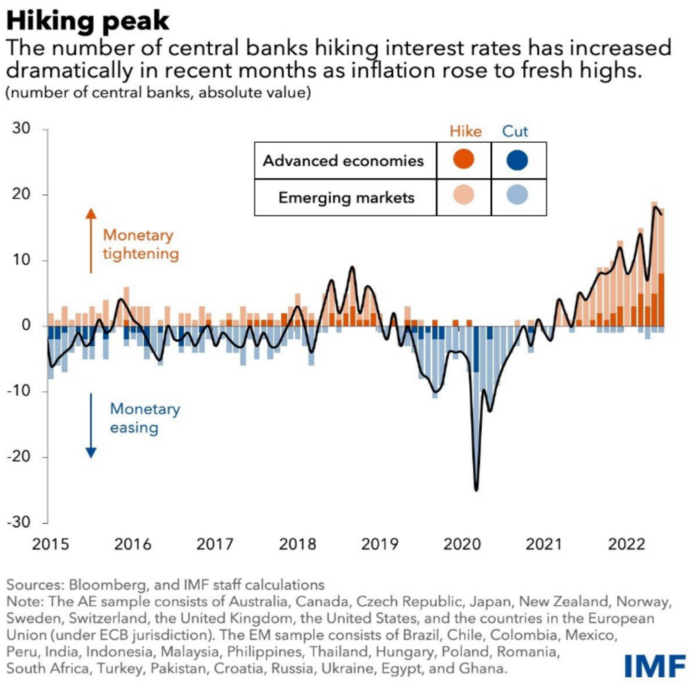
Market participants have also pushed up their rate expectations for the European Central Bank, which is all but certain to hike again on Oct. 23. It is now seen taking its own interest rate to almost 3% next year from 0.75% now.

Along with the Fed's action in September, the fifth interest rate increase since March, a half dozen central banks from Indonesia (Rupiah versus USD, Figure 11) to Norway followed suit with their own rate increases and often with guidance that more would follow.

Figure 11: Indonesian Rupiah versus USD

Central banks are fighting inflation rates ranging from Switzerland's 3.5% to nearly 10% in Britain - the result of a rebound in demand since the pandemic subsided accompanied by sluggish supply, especially from China, and rising prices for fuel and other commodities in the wake of Russia's invasion of Ukraine.

Figure 12:



That era of cheap liquidity, which lasted through the worst of the coronavirus pandemic and until inflation became a prominent risk, is now ending. US interest rates and the dollar serve as reference points for borrowing costs around the world, and Federal Reserve officials have now flagged not just plans to continue tightening monetary policy, but to keep it tight for years to come in what may for many countries amount to a fresh financial shock - and a broad repricing of bonds, stocks, and other financial instruments.

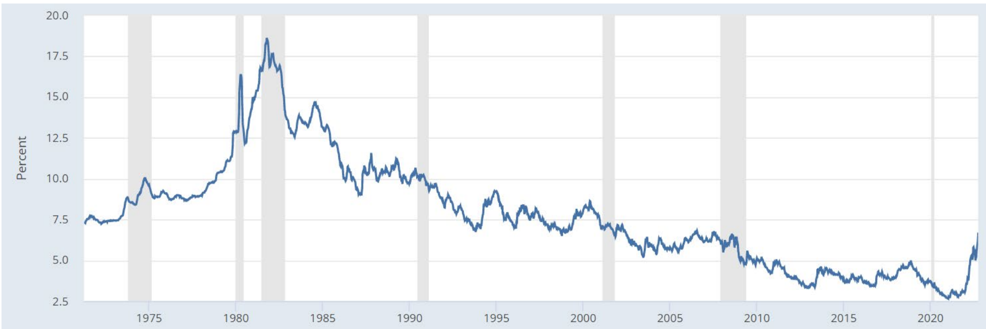
Rising interest rates are making it more expensive for companies and consumers to borrow money, signaling that the period of "cheap money" that followed the Great Recession of 2008-2009 is finally coming to an end.

US two-year yields have now reached their highest level since 2007 and do not look like they are about to reverse the trend anytime soon (Figure 13).

Figure 13: US two-year government yields

In fact, US mortgage rates are now at their highest level since 2007 (Figure 5), which is starting to impact housing demand.

Figure 14: US 30-yr mortgage rates



Source: Freddie Mac

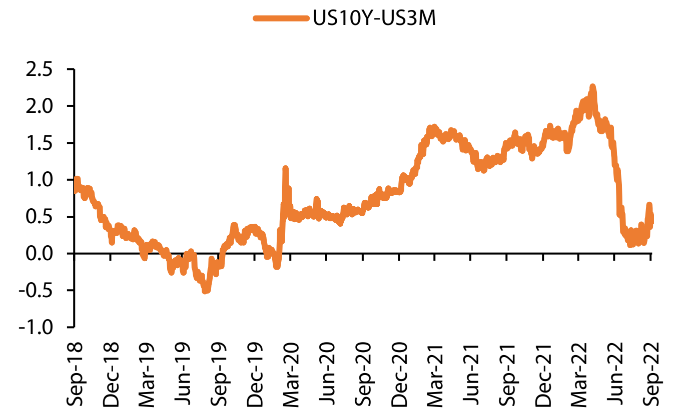
<u>Bottom line:</u>

The monetary policy cycle is now increasingly synchronized around the world. Importantly, the pace of tightening is accelerating in several countries, particularly in advanced economies, in terms of both frequency and magnitude of rate hikes. Some central banks have begun to reduce the size of their balance sheets, moving further towards normalization.

This will not be over soon.

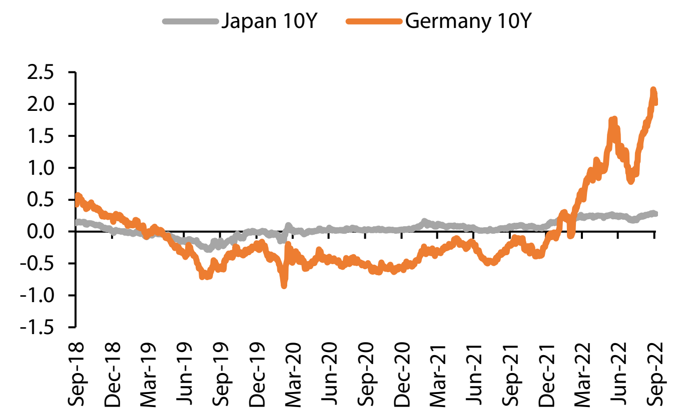
GLOBAL ECONOMIC INDICATORS IN SEPTEMBER

US G-Bond yields gap (%/year)



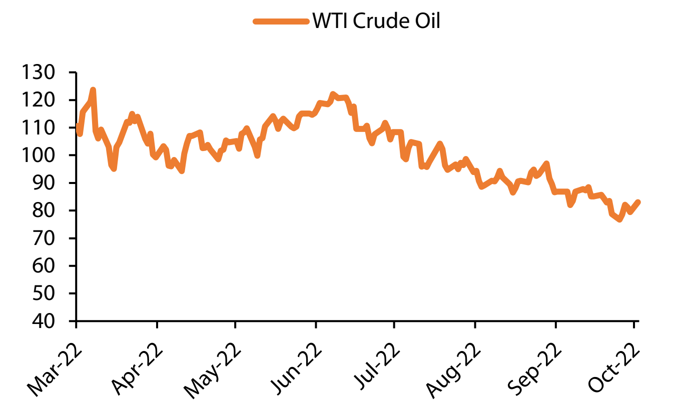
Source: Bloomberg, Rong Viet Securities

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



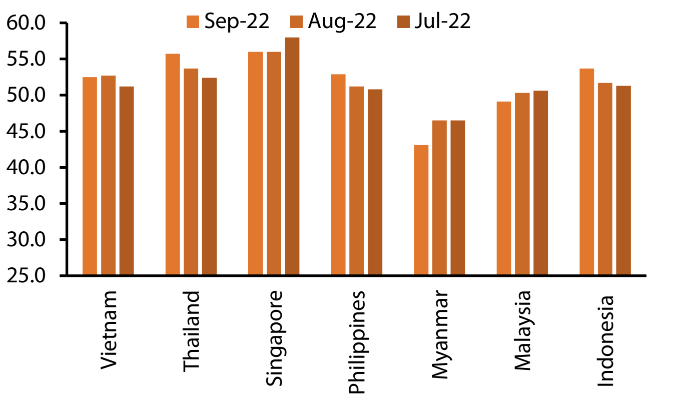
Source: Bloomberg, Rong Viet Securities

WTI crude oil price (USD/barrel)



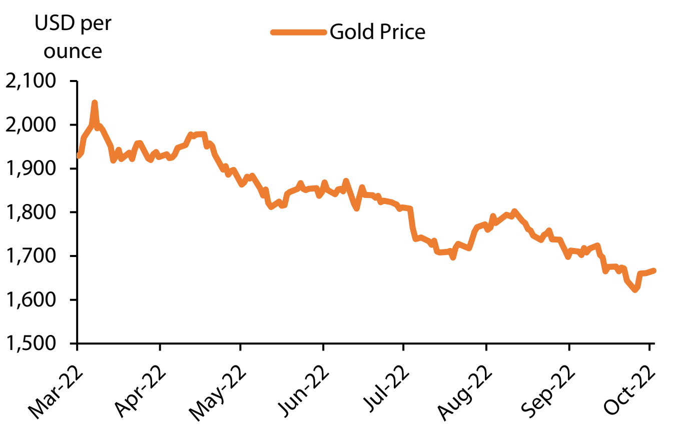
Source: Bloomberg, Rong Viet Securities

ASEAN's PMI



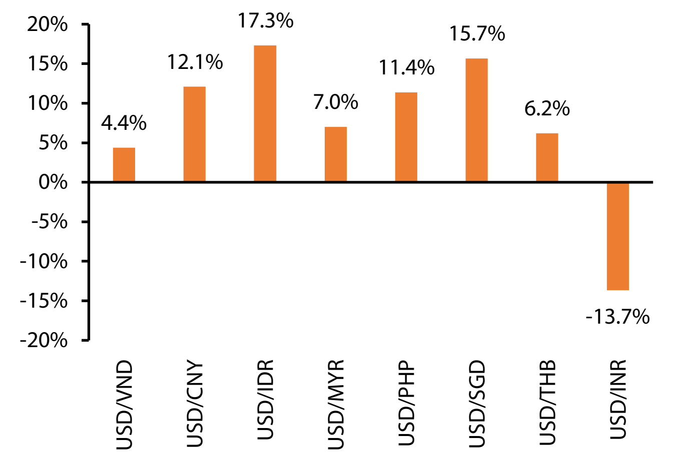
Source: Markit Economics, Rong Viet Securities

Gold prices (US$/ounce)



Source: Bloomberg, Rong Viet Securities

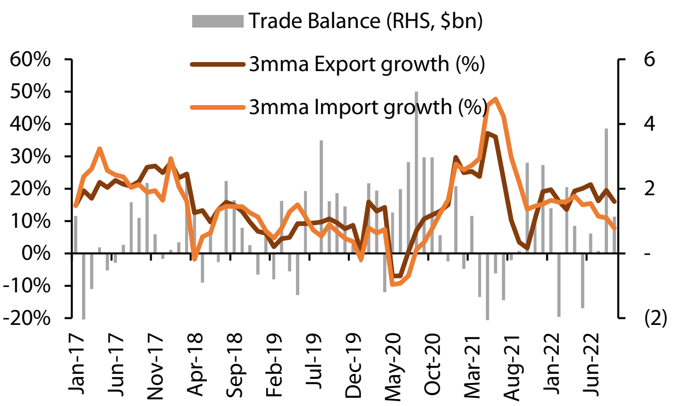
FX rates (%, YTD)



Source: Bloomberg, Rong Viet Securities

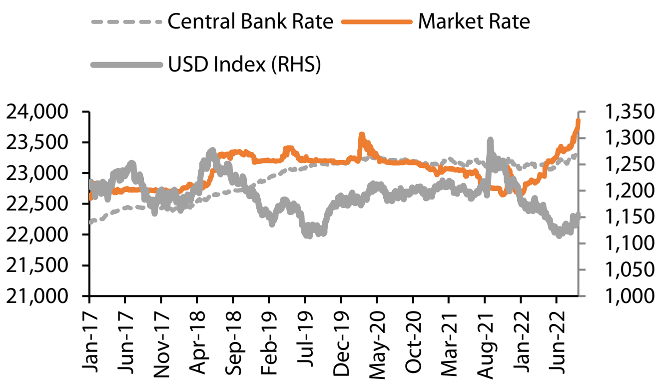
VIETNAM ECONOMIC INDICATORS IN SEP 2022

Trade balance



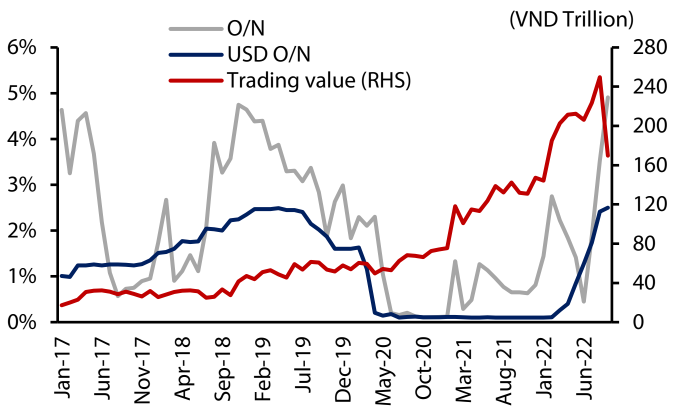
Source: GSO, Rong Viet Securities

USDVND exchange rate



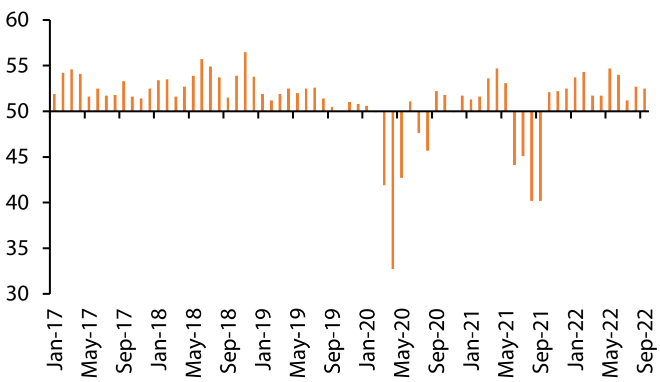
Source: SBV, Bloomberg, Rong Viet Securities

Interbank interest rate (%/year)



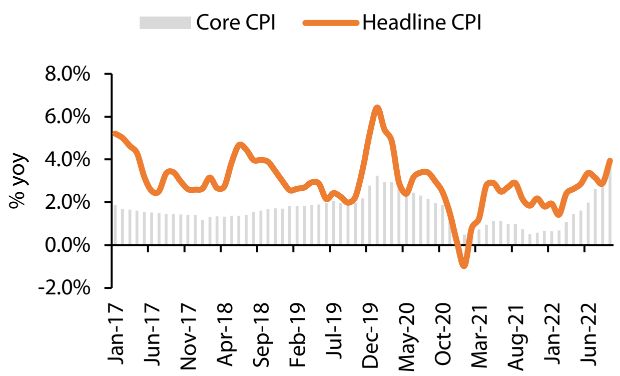
Source: SBV, Rong Viet Securities

Vietnam PMI



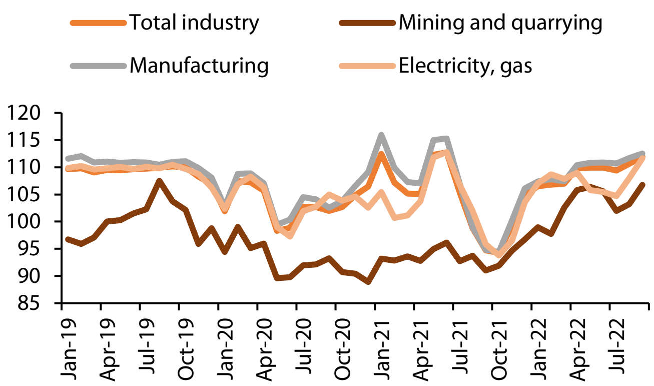
Source: IHS Markit, Rong Viet Securities

Vietnam CPI



Source: GSO, Rong Viet Securities

3-month MA Industrial Production Indices



Source: GSO, Rong Viet Securities

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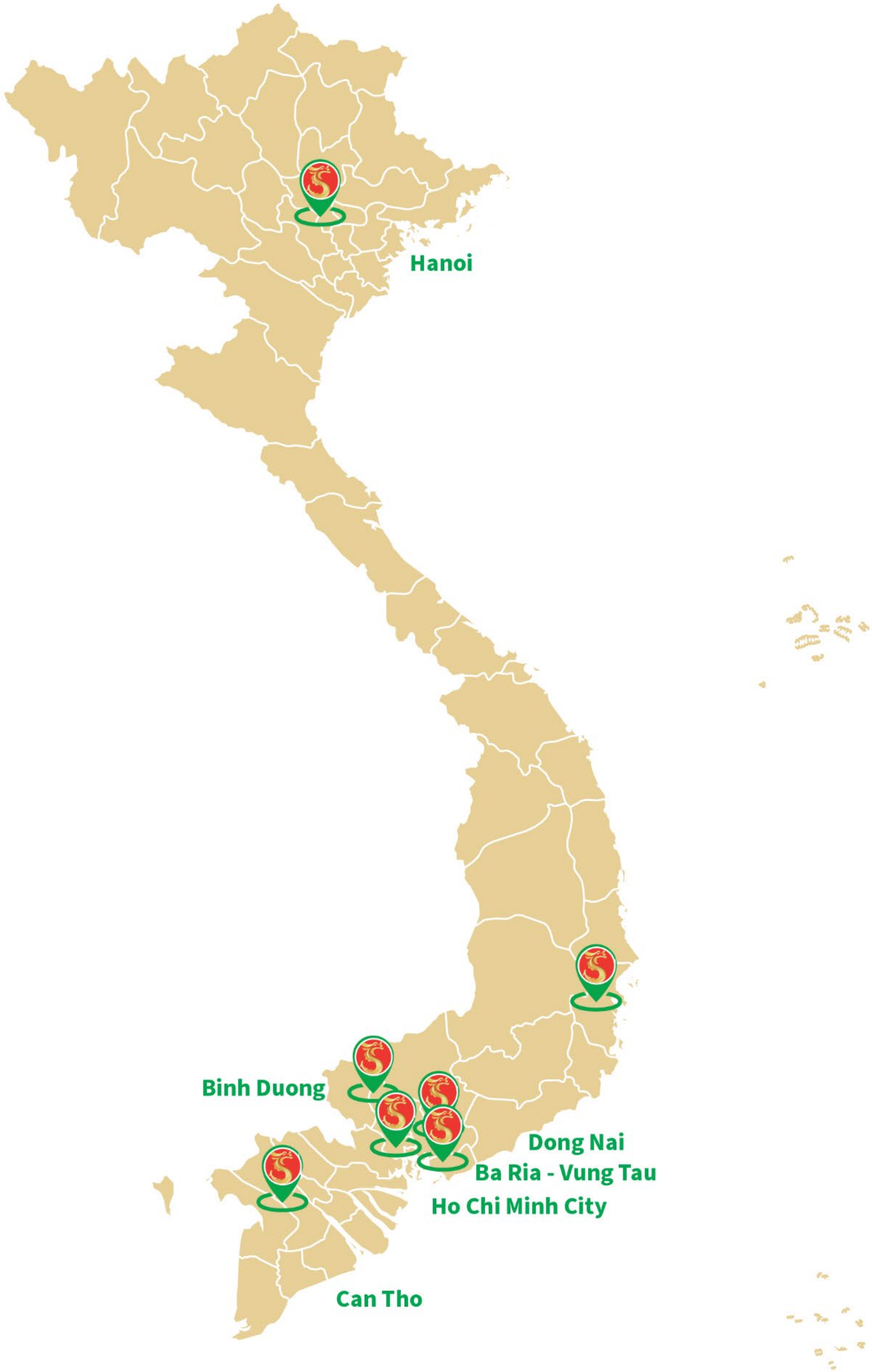
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