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Macro Report

VIETNAM ECONOMY IN 1Q2024: WAITING FOR RAIN DURING DROUGHT SEASON

- *Economic growth in Q12024 is in line with expectations*
- *Pressure on monetary policy in Q12024*

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VIETNAM ECONOMY IN 1Q2024: WAITING FOR RAIN DURING DROUGHT SEASON

- Economic growth in Q12024 is in line with expectations
- Pressure on monetary policy in Q12024

Economic growth in Q12024 is in line with expectations

Economic growth in the first quarter of 2024 is in line with expectations. GDP growth in the first quarter of 2024 is estimated to reach 5.7%, the highest increase in the first quarter since 2020. In Q1/2024, the mining industry was the only industry to record negative growth, and its activity declined for the third consecutive quarter. If excluding the mining industry, economic growth reached 5.9% over the same period.

Industry and construction sector activity recovered and contributed 2.2 percentage points to growth. However, the recovery was recorded to be relatively slow based on the negative growth of the same period. In particular, the manufacturing and processing industry will grow by approximately 7.0% in Q12024. This increase is still lower than the average for the 2019-2022 period. The construction industry's GDP increased by 6.8%, higher than the 1.9% increase in the same period last year but lower than the 7.1% increase in 2023. The picture of industrial production and export in the first quarter of the year needs to catch up. Industrial products with solid growth in production output in Q1/2024 include petroleum (+21.7%), sugar (+14.0%), textiles (+21.8%), fertilizer (19.9%), iron and steel (+11.8%), electricity (+11.4%). In contrast, growth in output of important export industries is fragile, such as fisheries (+3.4%), textiles (+1.8%), footwear (-4.8%), electronic components (-5.3%), phones (-13.3%), and televisions (-11.1%). Meanwhile, export turnover grew by 17.0% over the same period in Q1/2024. Because the export price index decreased by 1.75% over the same period, it can be assumed that export turnover increased due to increased export volumes. The level of recovery in export turnover is divided, including 1) The most positive is the agricultural products group (+34.2%), followed by the electronic goods group (+21.8%), iron and steel (+20.9%), wood and wood products (+18.9%); 2) Moderate growth in Footwear (+11.9%), Machinery (+10.2%) and Textile (+7.9%) groups; and 3) Slow recovery in Handbags, suitcases, umbrellas (+5.2%) and Seafood (+1.9%). The growth rate of electronics or textile exports does not seem to parallel the increase in production output. In addition, electronics inventory is still increasing by 10.1% compared to the same time in 2023, but textile inventory is decreasing (apparel inventory is down 8.5% compared to the same time in 2023).

Figure 1: Vietnam's GDP by economic activity

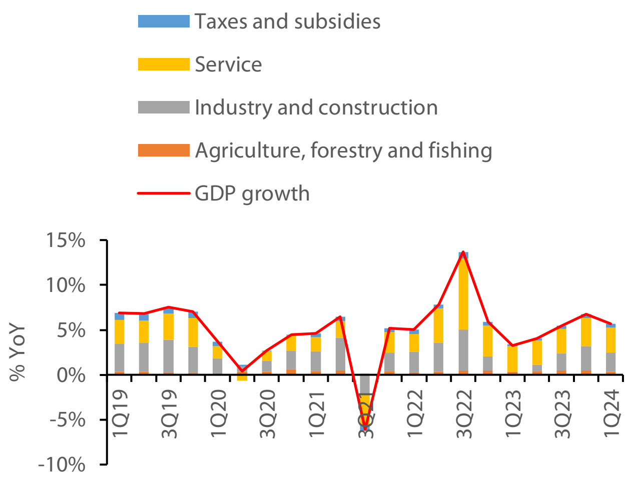
	1Q23	2Q23	3Q23	4Q23	1Q24	1Q23	2Q23	3Q23	4Q23	1Q24
			% yoy				% pt contribution to GDP			
Real GDP	**3.3**	**4.1**	**5.5**	**6.7**	**5.7**	**3.3**	**4.1**	**5.5**	**6.7**	**5.7**
Agriculture	2.9	3.7	4.3	4.1	3.0	0.3	0.4	0.5	0.5	0.3
Mining	(4.1)	0.8	(5.5)	(4.2)	(5.8)	(0.1)	0.0	(0.1)	(0.1)	(0.2)
Manufacturing	(0.5)	0.6	5.6	8.0	7.0	(0.1)	0.1	1.3	1.9	1.6
Construction	1.9	7.7	8.0	9.3	6.8	0.1	0.5	0.6	0.7	0.4
Wholesale & Retail Sales	8.0	8.0	8.7	9.9	6.9	0.8	0.7	0.8	0.8	0.7
Transportation & Storage	6.7	9.6	9.7	10.0	10.6	0.4	0.5	0.5	0.5	0.6
Accommodation & Food	22.9	8.8	9.4	8.9	8.3	0.5	0.2	0.2	0.2	0.2
Financial services	7.8	6.1	4.8	6.4	5.2	0.4	0.3	0.3	0.4	0.3
Real estate	(0.7)	(1.1)	(0.2)	2.1	1.7	(0.0)	(0.0)	(0.0)	0.1	0.1
Other	3.9	4.9	5.6	5.8	6.1	1.1	1.3	1.5	1.8	1.7

Source: GSO, RongViet Securities

Regarding services, GDP growth in this field in Q12024 is 6.1%, lower than the growth rate of 6.6% in the same period. Regardless of the period affected by COVID-19, the service sector has been growing at the lowest rate since Q1/2016. The reason for the decline in growth in the service sector is that 1) the retail goods sector (accounting for 10% of GDP) increased by about 6.9%, and 2) finance and real estate (accounting for 8.9% of GDP). % GDP) grew by 5.2% and 1.7%, respectively, and 3) the growth rate of tourism-related sectors after COVID-19 narrowed, such as accommodation, food, and entertainment services. Entertainment (accounting for about 3.5% of GDP) only increased by 8.3% and 7.3%, respectively, in Q1/2024, significantly lower than the increase of 12.2% and 12.6% in Q1/2024. 2023. In the service industry, the bright spot is transportation and warehousing services, recording an increase of 10.6% over the same period, higher than the 9.2% increase recorded in 2023.

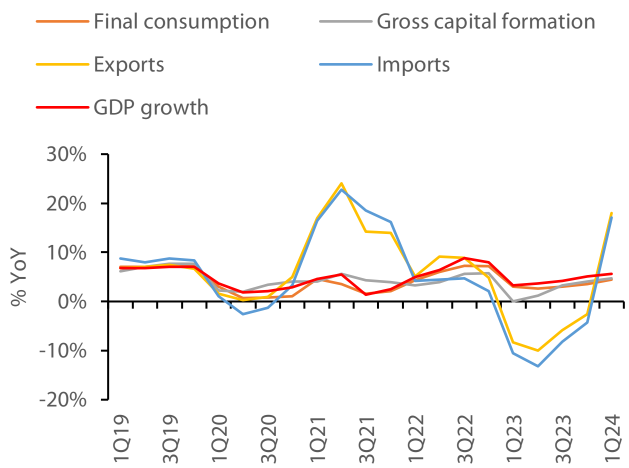
In summary, positive points in the Q1/2024 GDP picture include agricultural products, electricity, and transportation. The negative point is that the recovery speed of industrial production activities is still slow, and growth is declining in the service industry. High export growth is a remarkable point, but a detailed breakdown shows that the production motivation of crucial export products is still weak. With the economic growth results of Q1, economic growth in the remaining three quarters of the year needs to reach 6.1-6.8% to complete the Government's full-year growth target of 6.0-6.5%. Based on the current state of the economy, the lower bound of the 6.0% growth target is feasible. However, industrial production needs to improve further in a favorable global trade context to achieve the upper limit. At the same time, domestic consumption and investment are still waiting for a clearer boost from the delayed impact of loosening monetary and fiscal policies.

Figure 2: GDP by sector



Source: GSO, RongViet Securities

Figure 3: GDP growth by usage



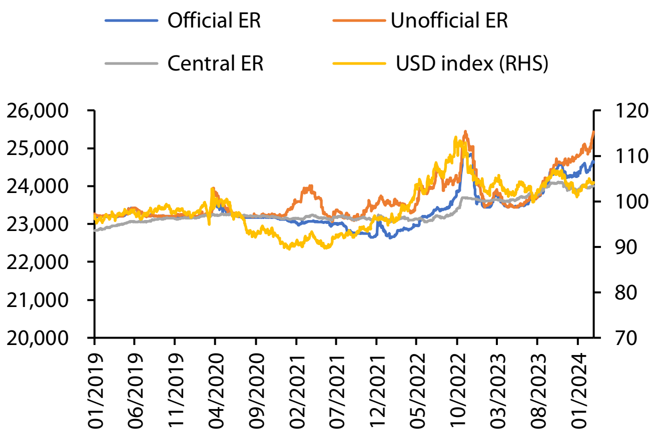
Source: GSO, RongViet Securities

Pressure on monetary policy in Q12024

Two outstanding issues in operating monetary policy in Q12024 are 1) rising exchange rate pressure in the first quarter of the year, affecting the goal of stabilizing the monetary market, and 2) weak capital demand in the economy, leading to excess liquidity in the interbank market.

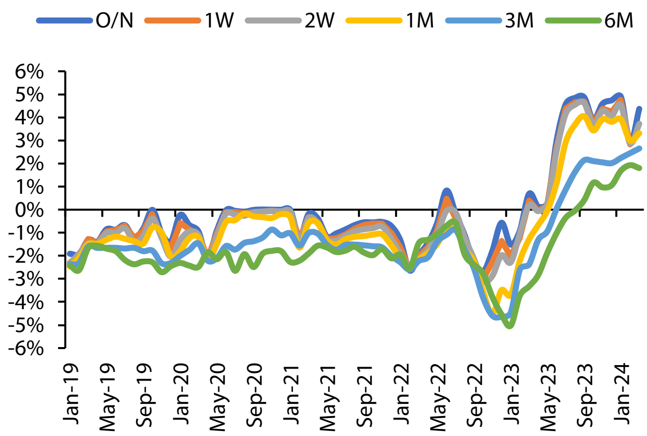
Regarding the first issue, as commented in the update on the monetary market in March 2024, we still maintain the view that the VND could depreciate by about 3% in the first half of 2024. The exchange rate on the interbank market has exceeded the psychological threshold of 25,000 VND/USD. Vietcombank's listed exchange rate increased to 25,130 VND/USD at the trading session on April 3, an increase of 2.9% compared to the end of 2024. The exchange rate on the market exceeded the old peak set in November 2022. This upward momentum may continue to bring the exchange rate on the interbank market close to the threshold of 25,500 VND/USD as the anchor level of the exchange rate on the free market. However, we still expect exchange rate pressure to cool down in the second half of the second quarter when the Fed begins to cut interest rates.

Figure 4: USDVND exchange rate



Source: Bloomberg, FiinPro, RongViet Securities

Figure 5: USD-VND interbank rate's gap



Source: SBV, RongViet Securities

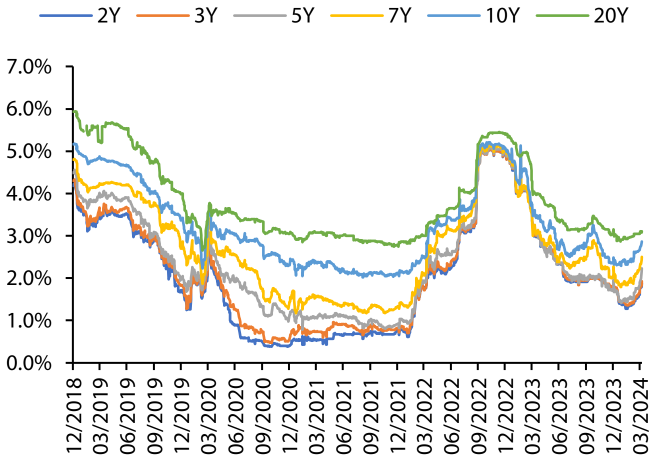
To deal with the remaining problem, the SBV has withdrawn about 163.5 trillion VND in the open market (as of April 3, 2024). The net withdrawal through the SBV bill channel was activated on March 11 and maintained for over half a month. The average interest rate is 1.5%/year, and the term is 28 days. The outstanding amount of SBV bills is 172.0 trillion VND, which will gradually mature in April 2024. In the opposite direction, the SBV moved to inject money through the open market channel in the first two trading sessions of April with a scale of about 8.5 trillion VND, and the 7-day lending interest rate is 4%/year. In April 2023, after a long duration of net withdrawal, but money had not returned to the system, the SBV also took a similar action when injecting money through a forward purchase operation to ensure liquidity for the system. Therefore, the SBV's regulatory activities in the open market are not a matter of concern.

Considering other capital channels of the economy, the corporate bond market continues to be quiet in Q1/2024. According to FiinPro statistics, the total value of new issuance reached about 19 trillion VND, down 36% over the same period. The main issuing businesses are real estate and construction materials (accounting for 79% of the total issuance scale). The buyback scale only reached about 13 trillion VND, down more than 60% over the same period. In the government bond channel, the scale of government bond issuance reached about 73 trillion VND in Q1/2024, which is only 57.3% of the plan, down about 30% over the same period. Contrary to the lending channel through the banking system, corporate bond yields tend to increase in the first quarter of the year, partly due to the absence of banking groups issuing corporate bonds in the first quarter of this year.

Meanwhile, government bond yields also recovered in March 2024. This development goes hand in hand with escalating exchange rate pressure and the SBV's implementation of withdrawing system liquidity. As of April 3, 2024, government bond yields increased by about 10-50 basis points compared to the beginning of the year, with a low increase in 2-3 year terms and a more significant increase in 5-10 year terms. The rise in government bond yields may imply that the mobilization interest rate cut may have ended in Q12024.

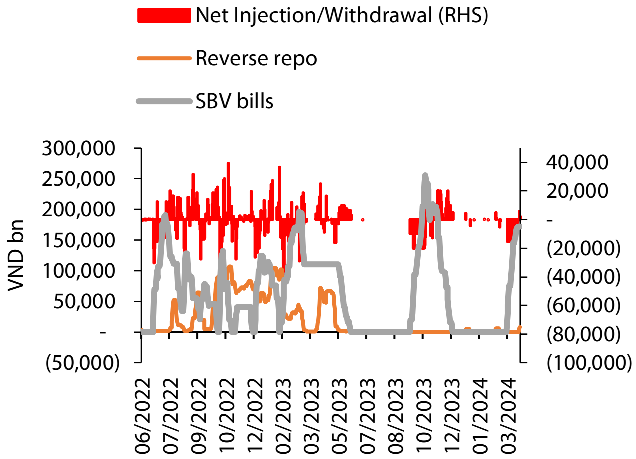
The question that awaits in the second quarter and the rest of the year is the extent to which capital demand in the economy recovers. According to GSO estimates, credit growth as of March 25, 2024, reached 0.26% compared to the end of last year. The growth rate in lending activities of the economy in Q12024 is significantly lower than the developments in previous years (on average, in the five years 2019-2023, credit increased by 3.2% compared to last year). Currently, the interest rate level in mobilization and lending has decreased. According to statistics from the SBV, deposit interest rates decreased more slowly than lending interest rates in Q12024, down 40 basis points and 60 basis points, respectively, compared to the beginning of the year. We also observed that many banks actively offered incentives to stimulate loan demand. With Q1 economic activity still paving the way for improvement in the coming quarters, we maintain a cautiously optimistic view that businesses and people will "absorb" the delayed impact of expansionary monetary policy in the coming quarters, which will be revealed through increased consumption and investment behavior.

Figure 6: Vietnam G-bond yields



Source: Bloomberg, RongViet Securities

Figure 7: SBV's operation in OMO market



Source: SBV, RongViet Securities

GLOBAL ECONOMY: WEAKER JPY – BUMBY DISINFLATION TREND – BETTER THAN EXPECTED CHINA'S GDP IN 1Q2024

- Limited impact on JPY FX despite the removal of NIRP
- The disinflation journey in the US is still bumpy
- China's economic recovery could beat estimates in 1Q2024

Limited impact on JPY FX despite the removal of NIRP

BOJ, for the first time since 2007, has finally reversed its negative interest rate policy (NIRP) from -0.1% to around 0-0.1% in the recent monetary policy occurring in March. As part of exits from NIRP, the BOJ also announced that it would abandon its yield curve control (YCC) policy, introduced in 2016, to keep the yield on 10-year Japanese government bonds around 0% to maintain accommodative financial conditions. Japan believes inflation will sustainably stay above 2% as wage hike negotiations from the big firms have successfully surpassed the 5% threshold. Furthermore, the BOJ announced that it would stop purchasing exchange-traded funds (ETF) and Japanese real estate investment trusts (J-REITS) while maintaining the pace of Japanese government Bond (JGB) purchases at 6 trillion yen ($39.6 billion) per month.

However, the Yen remained weak even after Japan reversed its negative interest rate policy, surpassing the 150-yen threshold against the US dollar. The market doesn't react much after the BOJ changes its policy as it perceives the end of the NIRP as a normalization of monetary policy, not due to concerns about inflation. Moreover, BOJ's actions are seen as "dovish" as it continues to commit to purchasing government bonds, implying the control of long-term bond yields and interest rates at low levels to assist in lowering the borrowing cost for businesses and consumers to boost economic growth. According to data from the Bank of Japan (BOJ), as of the end of September last year, the BOJ held Japanese government bonds (JGBs) worth 574 trillion yen. This amount of bonds accounted for 53.9% of Japan's total outstanding government bonds, excluding treasury bills. We believe that the Bank of Japan continues to purchase Japanese Government Bonds (JGBs) because mature bonds are primarily redeemed using funds from the issuance of new bonds. As interest rates rise, newly issued bonds must offer higher interest payments. Consequently, the BOJ's JGB purchases aim to preserve low interest rates and alleviate the government's burden of repaying these bonds with higher yields.

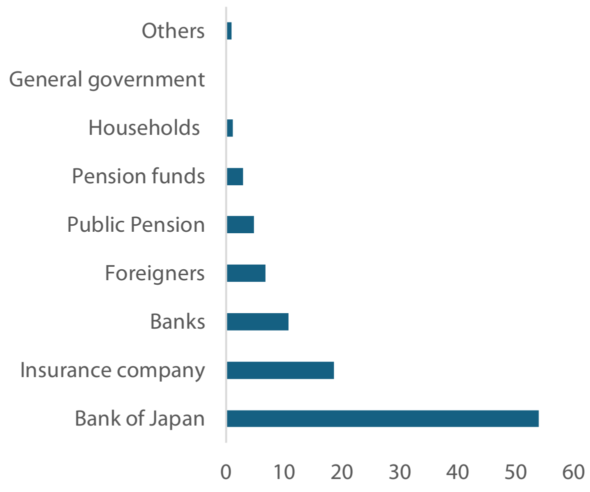
Furthermore, the significant disparity in interest rates between Japan and the US strongly favors investments in the US, exerting additional downward pressure on the yen. The current US Federal Reserve funds rate is 5.25% - 5.50%, and analysts anticipate no rate cuts until June 2024. The yield gap between US and Japanese government bonds at the 10-year maturity is nearly 350 basis points. This suggests that Japanese investors will likely continue to allocate their funds abroad, seeking higher returns, thereby depreciating the yen. These investors are estimated to hold approximately US$3 trillion in foreign bonds and engage in yen trades. Nevertheless, the gap between the US and Japan's rates might reduce as the Fed signals three rate cuts 2024, which will revive the yen.

Suppose the yen depreciates further beyond the 152 threshold against the US dollar. In that case, the Bank of Japan (BOJ) may find it necessary to engage in intervention measures involving the sale of government bonds to repurchase yen from the foreign exchange market, a strategy reminiscent of past interventions. However, it is important to note that such intervention strategies pose significant financial challenges, given the substantial costs involved, and may not always yield desired outcomes, as evidenced by instances where the value of the yen remained relatively unchanged despite intervention efforts.

Figure 8: JGB 10-Year Yield

Source: Bloomberg, RongViet Securities

Figure 9: Japanese Government Bond (JGB) holders



Source: Statista, RongViet Securities

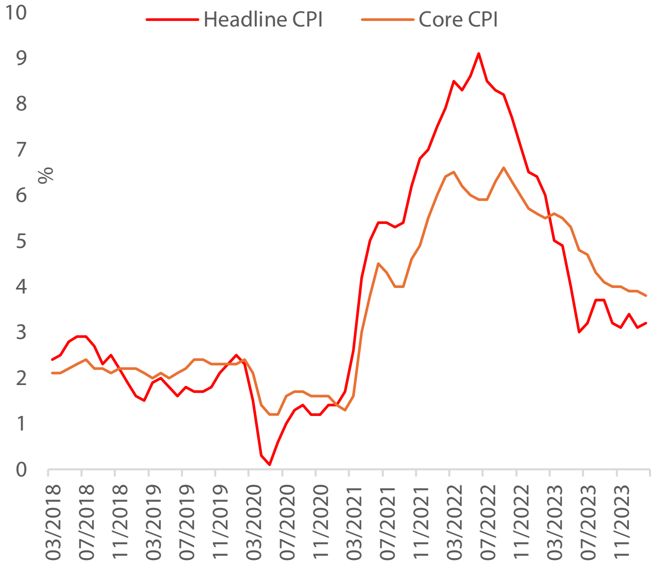
The disinflation journey in the US is still bumpy

During the March FOMC meeting, Federal Reserve Chair Jerome Powell kept the rates unchanged as expected, at 5.25% - 5.50%. He emphasized the need for further data to confirm a sustained decrease in inflation before considering adjustments to the target range. In the latest FOMC meeting, the Fed projected inflation higher at 2.6% in 2024 (Dec: 2.4%), 2.2% in 2025, and 2.0% in 2026. The Fed also anticipates implementing three rate cuts totaling 75 basis points throughout 2024. Investors are confident that the initial cut will take place in June, although there is uncertainty regarding the total number of cuts expected for the year. Some prominent financial institutions such as Barclays and JPMorgan Chase project only two cuts for the year, revising their forecasts for growth and inflation upwards. Conversely, others like Goldman Sachs and Morgan Stanley anticipate the Fed adhering to its initial forecast of three rate cuts, citing expectations of further decreases in inflation.

According to the CME Fed Watch Tool, investors are currently aligned with the Fed, expecting three rate cuts between 4.50% - 4.75% in 2024. However, for 2025, investors are slightly more "dovish" than the Fed, expecting four rate cuts in 2025 in the range between 3.50% – 3.75%, while the Fed expects three rate cuts in 2025, targeting 3.9%. The Fed's median projection for real GDP growth was upgraded to 2.1% in 2024, 2.0% in 2025, and 2.0% in 2026 (from 1.4%, 1.8% and 1.9%). However, investors are still worried that the Fed could have fewer than three rate cuts, as reports in recent months have shown that inflation remains elevated and the labor market is still robust.

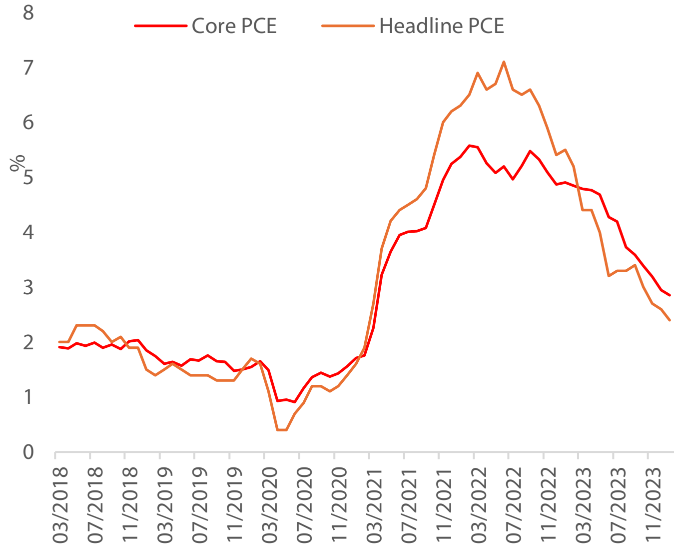
At the current juncture, the Fed might find it tough to carry out three interest rate cuts in 2024 as there are several leading indicators putting pressure on sticky inflation. First, the Producer Price Index (PPI), which measures average price shifts before they reach consumers, accelerated at a faster-than-expected pace in February. This serves as a potential signal for the prices consumers ultimately end up paying and is blamed for persistent inflation stress. The monthly PPI recorded a rise of 0.6%, double economists' expectations of 0.3% in February. Over the 12 months ending in February, the PPI increased to 1.6%, higher than the January report of 1.0%. The biggest contribution came from goods prices, which jumped to 1.2%, and the acceleration in energy prices recorded a 4.4% increase. Secondly, inflation at the factory gate price picked up in the PMI report, recording that prices paid by manufacturers rose to 55.8 from 52.5 in February. This indicates that raw material prices are still increasing, which will likely translate to higher inflation. Lastly, the wage growth rate has decreased significantly from a high of 6.7% in the summer of 2022 to 5.0% in February 2024. However, this amount is still considered high and has always been a major struggle in holding disinflation trend moving on. In conclusion, these three leading indicators will be closely monitored by the Fed and could potentially lower the Fed's rate cut if they do not see a downward trend.

Figure 10: US's CPI Inflation, YoY



Source: Bloomberg, RongViet Securities

Figure 11: US's PCE Inflation, YoY



Source: Bloomberg, RongViet Securities

China's economic recovery could beat estimates in 1Q2024

During the recent China National People's Congress (NPC) annual meeting, China unveiled an ambitious economic growth target of 5.0% for 2024. Additionally, China has set specific targets for inflation and unemployment at 3.0% and 5.5%, respectively. However, analysts perceive these targets as highly challenging due to persistent issues such as a prolonged property crisis, sluggish consumption, slow global economic expansion, and geopolitical tensions. China's primary focus in 2024 is anticipated to prioritize short-term economic stimulus measures over long-term strategies. However, policymakers will only resort to a moderate stimulus package as fiscal austerity continues. The fiscal deficit is expected to be 3.0% of GDP in 2024, down from 3.8% in 2023. Besides, the country plans to issue special ultra-long-term bonds totaling 1 trillion yuan ($139 billion), which are excluded from the budget. The approach heavily emphasizes investments, with loose monetary policies to support this direction.

In addition, the government's economic plan focuses mainly on boosting the production side of the economy. In industries, there's a focus on automation, digitization, environmental sustainability and backing new technologies like biotech and advanced materials. The country will also prioritize technological innovation as a new driver of economic growth. Specifically, the central government intends to allocate Rmb370 billion ($51 billion) to support technology development, marking a 10% increase from 2023.

To boost spending, China plans to promote consumer trade-in programs for automobiles and home appliances and maintain an Rmb40 billion ($5.5 billion) central government subsidy for the "urbanization of migrant workers," consistent with the previous year. Efforts in the property sector will also intensify, particularly in affordable housing construction and urban village renovation. As China's augmented fiscal stimulus remains limited, the ambitious GDP growth target set by the government also signals additional support from the monetary easing policies.

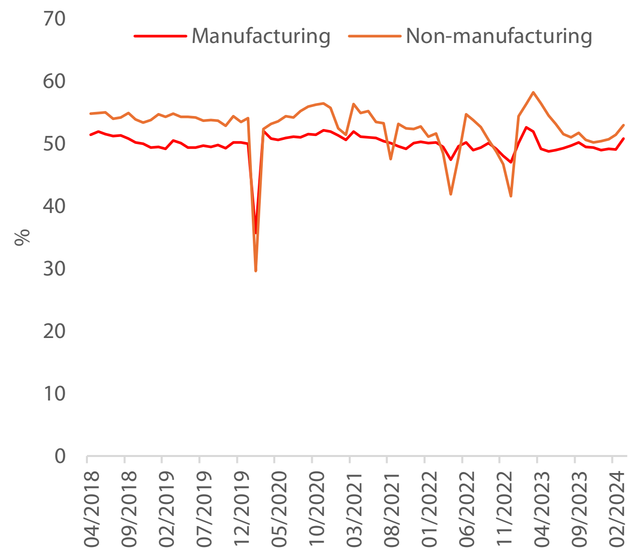
Despite lingering concerns about economic weakness, high-frequency data in 1Q2024 signals that an economic recovery was gaining traction. China's economy continued to bounce back strongly in the first two months of 2024, with solid growth in industrial production, fixed asset investment, and exports. Industrial output rose 7.0% in 2M2024, surpassing the previous year's December growth of 6.8%. Notably, manufacturing consumer goods and high-tech products saw the fastest growth. Fixed asset investment grew by 4.2% YoY, outpacing the growth rate for 2023 by 1.2 percentage points. Retail sales of consumer goods increased by 5.5% in 2M2024, lower than December 's growth of 7.4% and beating an expected 5.2% gain. Exports performed better than expected, rising by 7.1% in 2M2024, exceeding the forecast of 1.9% growth. However, the property sector still faces challenges, with property investment falling by 9.0% YoY in the first two months of 2024, even though at a slower rate than December 2023's 24.0% decline, but still far from reaching stability. Home prices continued to drop by 0.3% in February, following a similar decrease in January.

In March, both the manufacturing and non-manufacturing Purchasing Managers' Index (PMI) surpassed expectations, indicating a robust recovery in the world's second-largest economy. The manufacturing PMI rebounded strongly, entering expansionary territory for the first time since September 2023, reaching 50.8 in March, exceeding the forecast of 50.1 and the previous month's figure of 49.1. The significant improvement in PMI was driven by robust new order growth, which reached 53.0 in March compared to 49.0 in February. Production and new export orders also experienced substantial expansion, registering at 52.2 and 51.3, respectively, after contracting in the previous month. Additionally, China's non-manufacturing PMI rose to a 9-month high of 53.0 in March, well above Bloomberg's estimate of 51.5. However, deflationary risks persist in China, as both manufacturing and non-manufacturing output prices continue to contract.

The driver to the outperformed of China's economic growth in Q1 is the unexpected strength in both production and investment activities. The increase in Industrial Production (IP) was not a surprise due to strong exports rising significantly compared to December. Additionally, strong manufacturing activity, driven by increased manufacturing investment and industrial-use electricity production, further contributed to the upside surprise in production. On the investment side, manufacturing and infrastructure investment experienced notable growth in January and February.

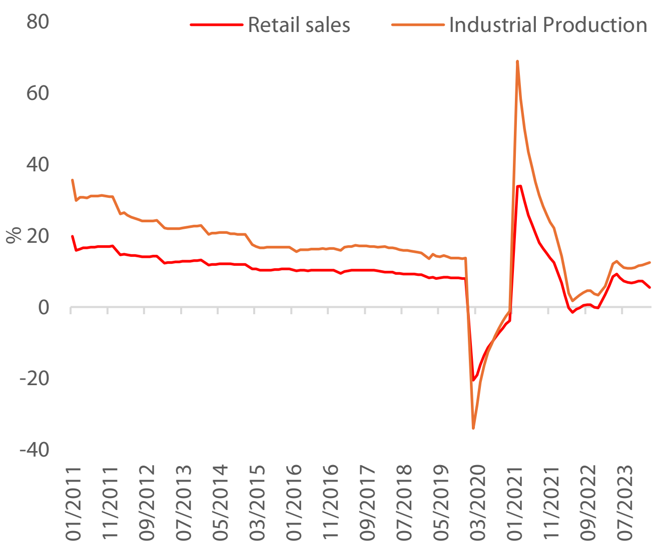
According to the Bank of China, China's GDP is expected to rise by 4.8% in Q1/2024. The UOB stated that with strong activity data at the start of the year, they estimated China's Q1 GDP growth to be at 4.9%. Some international organizations, including the IMF and World Bank, pointed to a 4.6% increase in China's GDP this year, down from a growth rate of 5.2% in 2023. However, some investment banks (i.e. Citibank) have recently upgraded China's 2024 GDP growth forecast to 5.0% on the back of the manufacturing sector's recovery.

Figure 12: China's PMIs



Source: Bloomberg, RongViet Securities

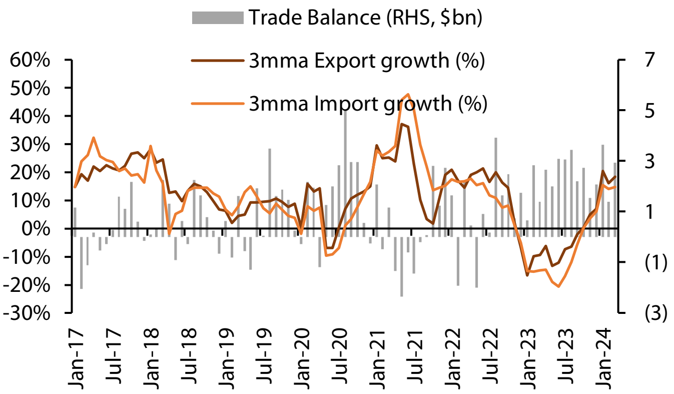
Figure 13: China Industrial Production vs Retail sales



Source: Bloomberg, RongViet Securities

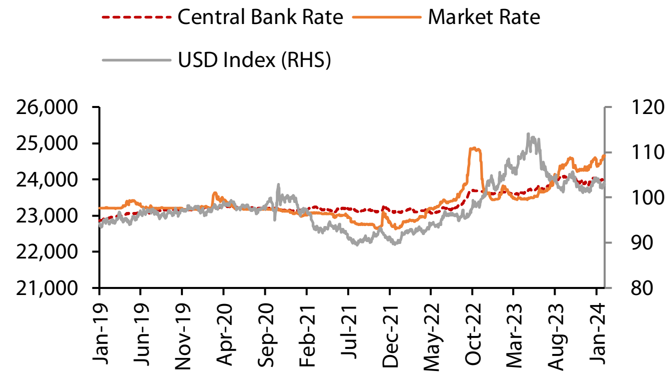
VIETNAM ECONOMIC INDICATORS IN MAR 2024

Trade balance



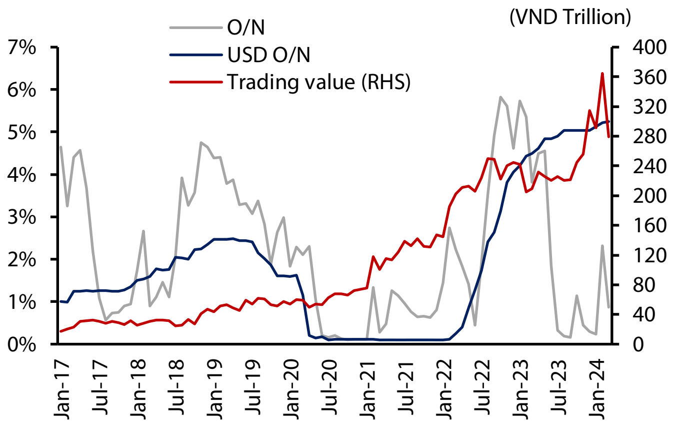
Source: GSO, Rong Viet Securities

USDVND exchange rate



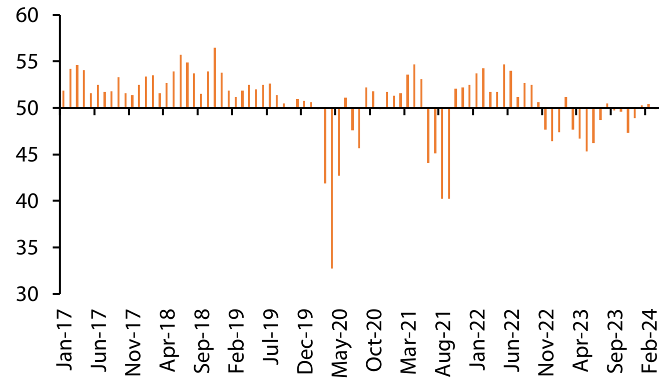
Source: SBV, Bloomberg, Rong Viet Securities

Interbank interest rate (%/year)



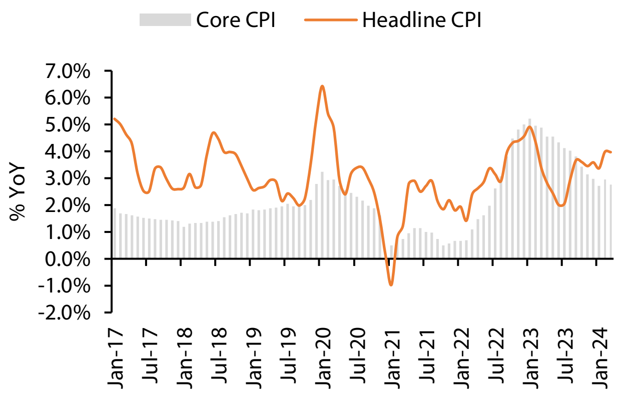
Source: SBV, Rong Viet Securities

Vietnam PMI



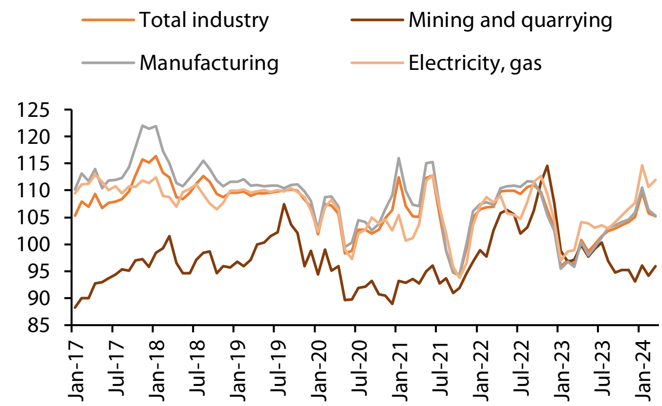
Source: S&P Global, Rong Viet Securities

Vietnam CPI



Source: GSO, Rong Viet Securities

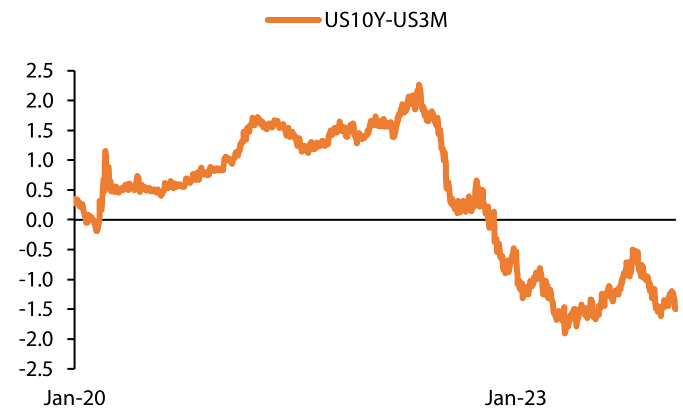
3-month MA Industrial Production Indices



Source: GSO, Rong Viet Securities

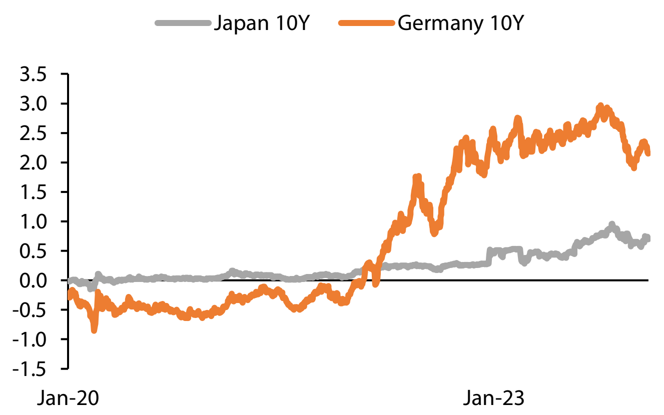
GLOBAL ECONOMIC INDICATORS IN MARCH

US G-Bond yields gap (%/year)



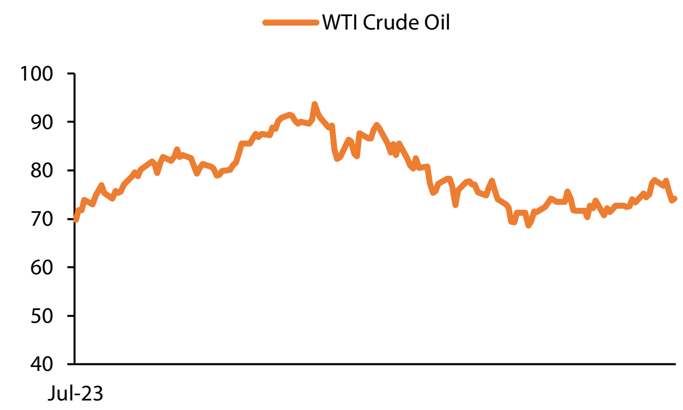
Source: Bloomberg, Rong Viet Securities

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



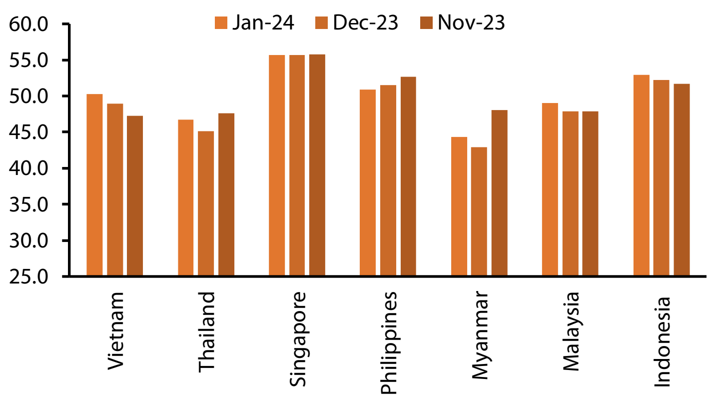
Source: Bloomberg, Rong Viet Securities

WTI crude oil price (USD/barrel)



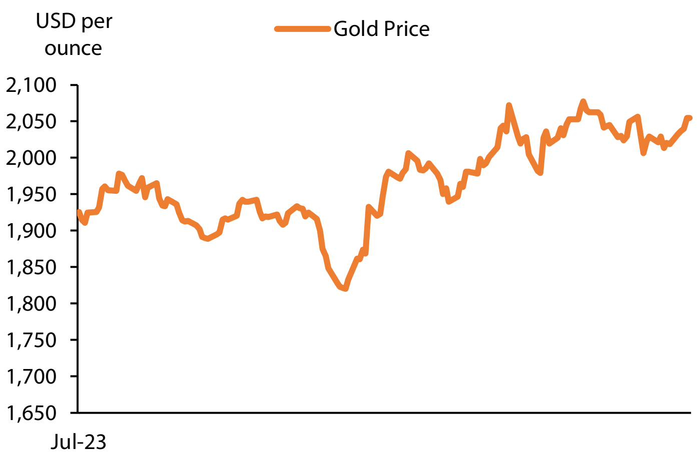
Source: Bloomberg, Rong Viet Securities

ASEAN's PMI



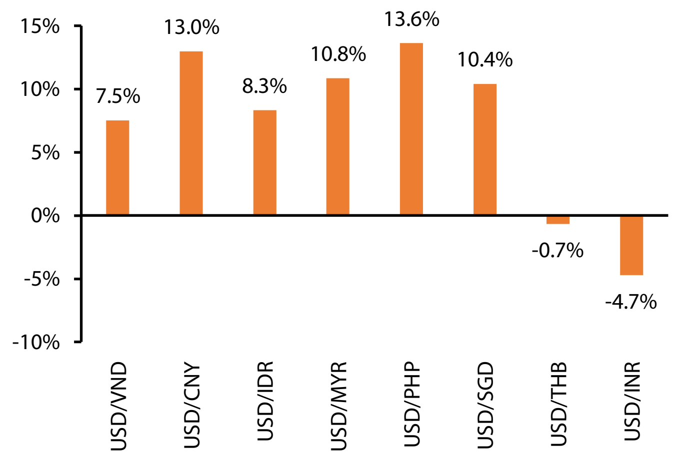
Source: Markit Economics, Rong Viet Securities

Gold prices (US$/ounce)



Source: Bloomberg, Rong Viet Securities

FX rates (%, YTD)



Source: Bloomberg, Rong Viet Securities

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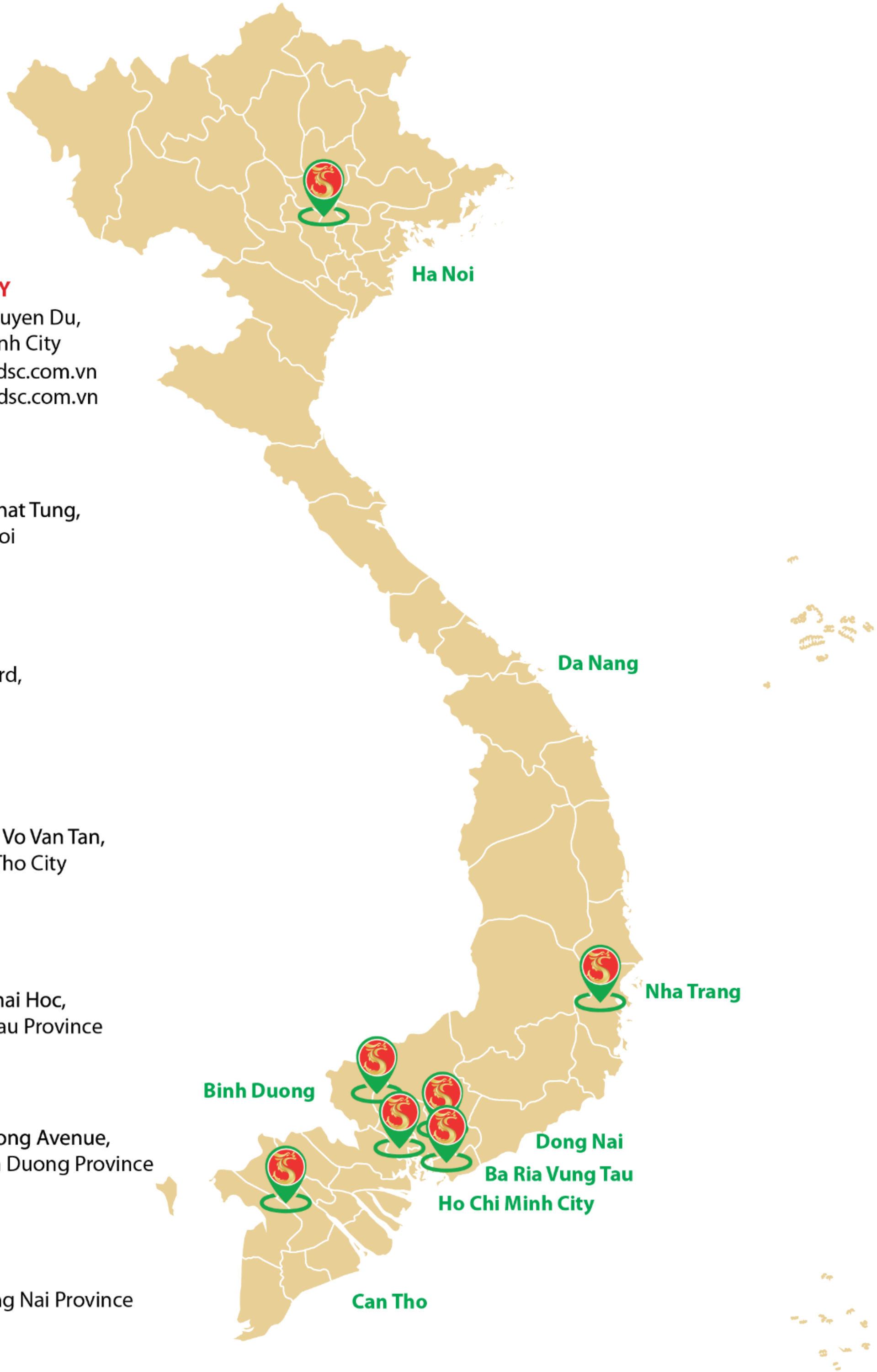

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