MACRO REPORT
06-Mar-2020

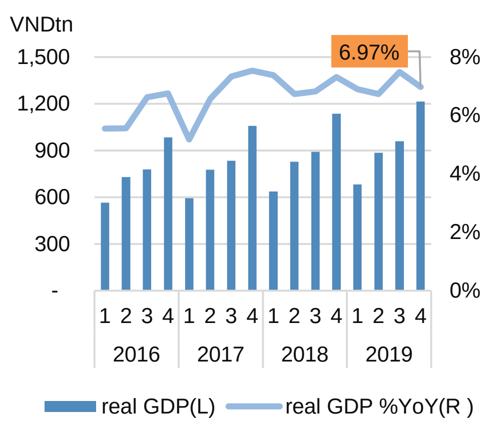
Trade sees early symptoms

Macro Indicators

Quarterly data	**4Q19**	**3Q19**	**2Q19**
GDP growth (% YoY)	6.97	7.31	6.73
Disbursed FDI (USDbn)	6.16	5.12	4.98
Monthly data	**Feb**	**Jan**	**Dec**
CPI (% YoY)	5.40	6.43	5.23
IIP (% YoY)	23.71	-5.51	6.20
Export (% YoY)	33.76*	-13.9*	10.15*
Import (% YoY)	26.08*	-10.2*	10.98*

*Source:GSO, Nikkei, IHS Markit, Bloomberg, FIA. * GSO estimate.*

Quarterly GDP at 2010 constant price



Source: GSO

The COVID-19 does not fully affect trade activities yet. The latest GSO's estimate shows that the value of export rose by 33.76% YoY, posting USD18.6 bn, while the import value also moves up by 26.08% YoY, recording USD18.5 bn. However, after adjusting the reverse Tet-effect, the export and import values turned to decline by 3.14% YoY and 8.70% YoY, respectively. These figures were likely to indicate that the COVID-19 epidemic already but not fully effected to trade activities in this month. (Page 2)

The gasoline prices partly drag CPI down. In February 2020, the Consumer Price Index declined by 0.17% MoM, marking a contraction after seven consecutive rising months. As a result, CPI increased by 5.40% YoY, and its 12-month rolling inflation rate posted 3.35%, lower than the Government target rate of 4%. The deceleration in traffic price was the reason to drive CPI down this month despite a quite persistency in food and foodstuff (FaF) prices. (Page 5)

FDI is "positive" for COVID-19 test. As of 20th February 2020, the registered capital inflow recorded at just USD1,139.5mn, which was the lowest since September 2018. Furthermore, foreign investors seemed to be unwilling to disburse amid the accelerating risks of the virus outbreak when the disbursed FDI posted only USD850mn, just a little more than a half of January 2020 with USD1,600mn. (Page 6)

Manufacturing is lacking energy to push the industrial sector. In 2M20, the production index for the whole industrial sector (IIP) expanded by just 6.2% YoY, lower if compared to 9.2% in 2M19 or 13.7% in 2M20. All of its components, including manufacturing, mining, electricity production & distribution, water supply & other related activities, saw a correction when the currently worsening business conditions, under the widespread of the COVID-19 outbreak, have gradually been affecting the growth of the whole industry. (Page 9)

Vietnam dong is under downward pressure from a stronger USD. Under a massive pressure from the stronger USD, the interbank USD/VND rate in February fluctuated in a widening range 23,218 – 23,256 with a low-high spread of 38, which was greater than in prior months since August 2019. (Page 11)

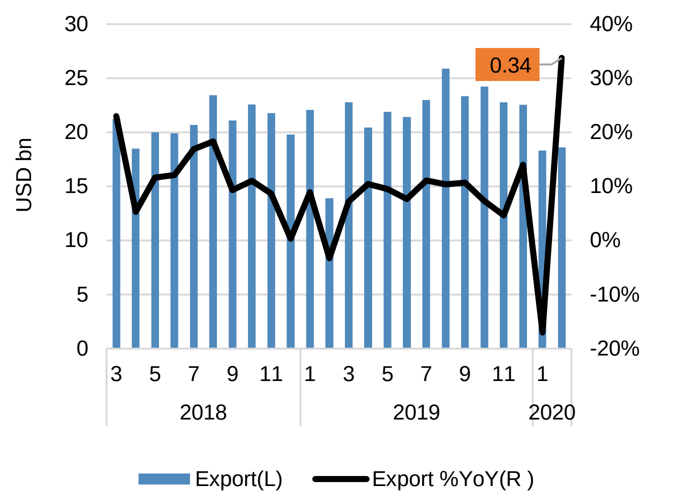
Vietnam state budget records a surplus of VND69.2tn. As of 15th February 2020, total government revenue achieved VND214.2tn, equivalent to 14.2% of the year estimate. Of which, domestic revenue posted VND179.8tn, equaling 14.2% of the annual estimate. Furthermore, revenue from crude oil reached VND8.6tn, equaling 24.3%, while that from export-import activities was VND25.9tn, equaling 12.4%. (Page 12)

Mr. Y Nguyen
Macro – Team Leader
(+84-28) 3914 8585 - Ext: 1463
y.nt@kisvn.vn

Mr. Tuan Doan
Macro - Associate
(+84-28) 3914 8585 - Ext: 1470
tuan.doan@kisvn.vn

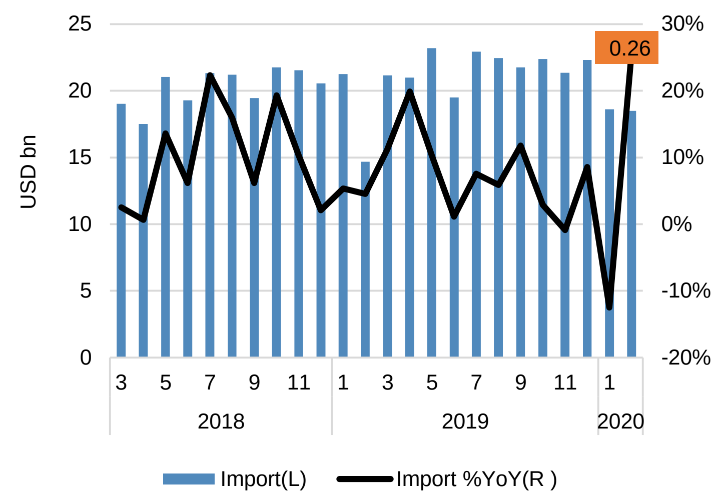
The COVID-19 does not fully affect trade activities yet

Fig 1. Vietnam monthly export



Source: KIS, GSO

Fig 2. Vietnam monthly import

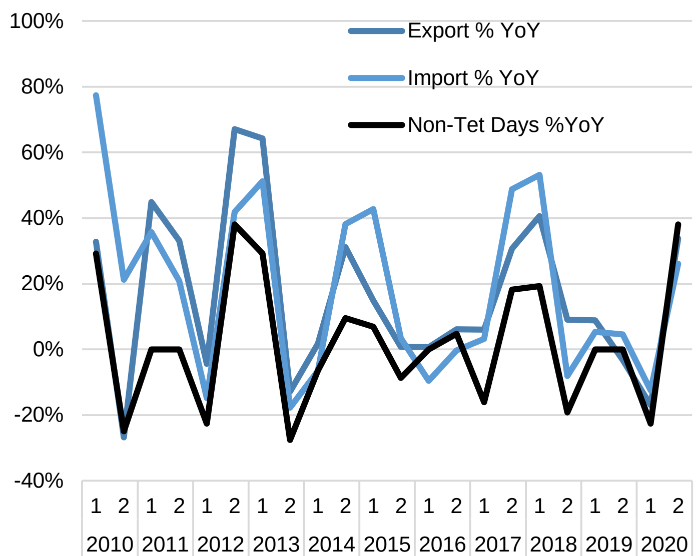


Source: KIS, GSO

The latest GSO's estimate shows that the total trade seasonally bounced dramatically by 29.82% YoY to reach USD37.1 bn in February 2020. In detail, the value of export rose by 33.76% YoY, posting USD18.6 bn, while the import value also moves up by 26.08% YoY, recording USD18.5 bn. As a result, the trade balance experienced a surplus of USD100 mn. The reverse effect of the Tet holiday mostly drives the surge in trade value in this month.

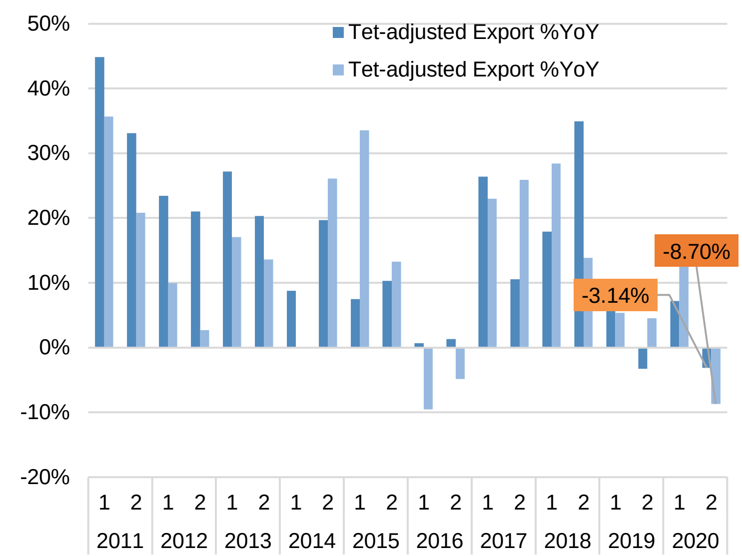
To illustrate the impact of Tet holiday in trade activities, we calculate the number of non-Tet-day of a month and treat its year-over-year percentage change as an explanatory variable for both export and import values. We assume that Tet holiday spans seven days beginning two days before the first day of Lunar Year and use the number of non-Tet-day as a proxy for the seasonality. We then found out a high correlation between this figure and the movements of trade activities in January and February each year. The number of non-Tet-day in February 2020 was 29, while what in February 2019 is 21. We show that the Tet-adjusted export and import growth rates were -3.14% YoY and -8.70% YoY, respectively. These figures were likely to indicate that the COVID-19 epidemic already but not fully effected to trade activities in this month.

Fig 3. Tet holiday and export, import growths



Source: KIS, GSO

Fig 4. Tet-adjusted export and import growths



Source: KIS, GSO

In terms of export product structure, reverse effect of Tet holiday systematically pushed up 24 over 30 items. Telephones, mobile phones and parts (TMPP), computers electrical products spare-parts and components thereof (CEPP), textiles and garments, machine equipment tools and instruments (METI), and footwears posited in the top-five export value, with respective shares were 22.58%, 14.52%, 11.02%, 8.06%, and 6.99% of total export value. This group contributed 24.54% to the overall growth rate.

Most of export items (26 over 30) experienced significant increases compared to the same period last year due to the reverse effect of Tet holiday. Specifically, Telephones, mobile phones and parts (TMPP), computers electrical products spare-parts and components thereof (CEPP), textiles and garments, machine equipment tools and instruments (METI), and footwears rose by 21.34% YoY, 52.56% YoY, 56.70% YoY, 58.75% YoY and 52.26% YoY pushing the overall growth up 531 basis points (bps), 669 bps, 533 bps, 399 bps, and 321 bps, respectively. In the opposite direction, still image video cameras and parts thereof (SIVCP) and iron and steel declined by 40.48% YoY and 18.20%, dragging the total export growth down by 107 bps and 38 bps.

On the import side, most of items (26 over 33 items) also bounced back in association with the export trend. Top-five items, including *CEPP, METI, TMPP, Fabrics,* and *Plastics,* expand their import scales with growth rates are 31.51% YoY, 19.45% YoY, 50.33% YoY, 19.12% YoY, and 20.58% YoY and add 13.85% to the total import growth.

Fig 5. Vietnam export by products (% YoY)

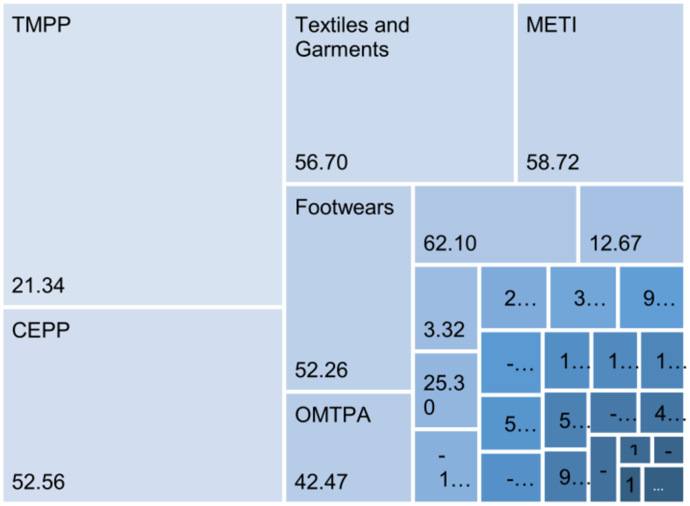
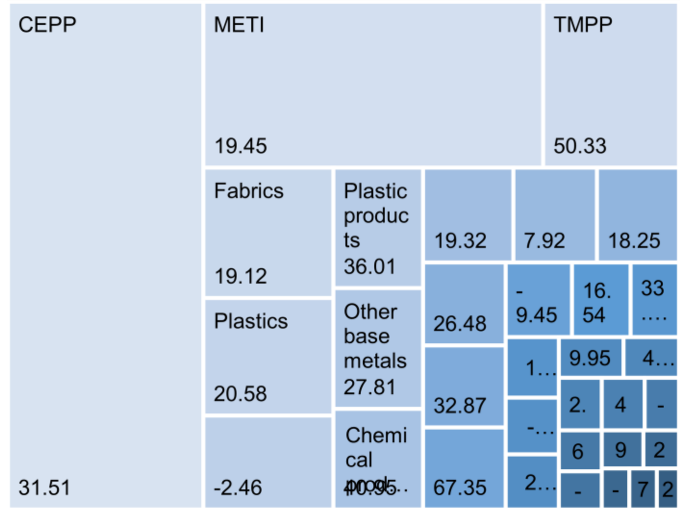


Fig 6. Vietnam import by products (% YoY)



Source: KIS, GSO

TMPP: Telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, OMTPA: Other means of transportation parts and accessories thereof, WWP: Wood and wooden products, HPSCHU: Handbags purses suit-cases headgear and umbrellas.

PREDICTION:

We predict that trade activities will be severe in the next few months due to the temporary interruptions in the production of large trading partners such as China, Korea, Japan. Also, the complication of COVID-19 disease will damage the private consumption confidence in some large markets such as the U.S., Korea, EU, Japan and hence discourages trade activity. According to the underlying adjustment in February 2020 and our negative outlook for the next couple of months, we predict that both export and import in March 2020 will decrease compared to March 2019 at double-digit rates.

Fig 7. Vietnam export by country

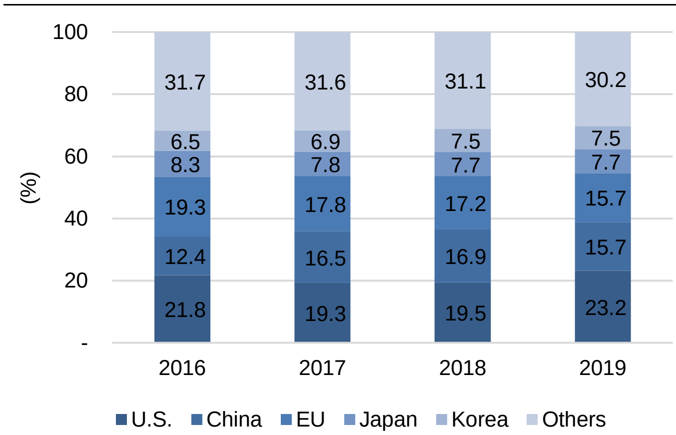
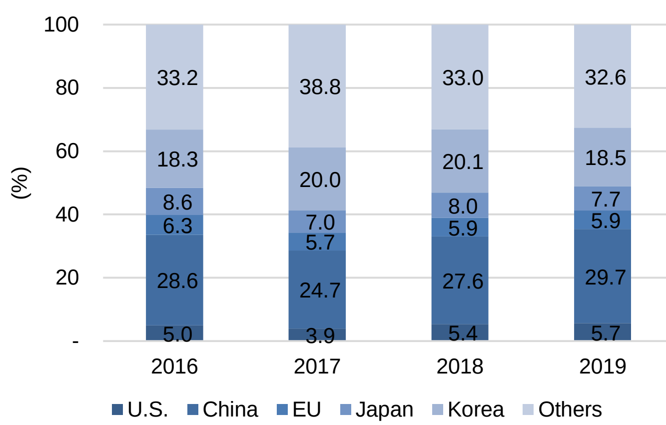


Fig 8. Vietnam import by country



Source: KIS, GSO

The gasoline prices partly drag CPI down

In February 2020, the Consumer Price Index declined by 0.17% MoM, marking the adjustment after seven consecutive rising months. As a result, CPI increased by 5.40% YoY, and its 12-month rolling inflation rate posted 3.35%, lower than the Government target rate of 4%. The deceleration in traffic prices is the reason to drove CPI to move down this month despite the quite persistency in food and foodstuff (FaF) prices.

In a more in-depth view, the opposite movements between pork price and rice price primarily change the FaF index slightly compared to the previous month. The pork price adjusted by 4.08% MoM after hitting the peak VND83.06 k/kg of the uptrend starting in June 2019, and such reduction effected negatively on the FaF index. Oppositely, the rice price rose 2.15% MoM to USD357.42 per metric ton, marking the fourth consecutive month of the uptrend and put an upward pressure to the FaF index, in specific, the food index.

The reduction in gasoline prices drove the traffic index down by 2.50% MoM. At the end of February 2020, the E5RON92 decreased by 0.80% MoM, and the RON95 declined by 1.23% MoM, posting VND19,400 and VND20,265, respectively. The sluggishness in both global crude oil and petroleum products markets in the recent few months partly explained the movements of domestic gasoline prices.

Fig 9. CPI Change in February 2020

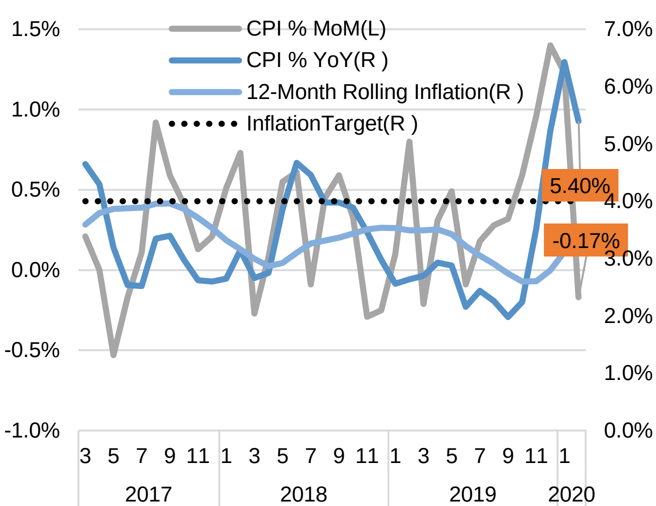


Fig 10. Inflation by sector in February 2020

Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	0.26	9.32
Beverage and cigarette	3.59	-0.28	1.59
Garment, Footwear, hat	6.37	-0.13	1.17
Housing and construction materials	15.73	-0.03	5.53
Household appliances and goods	7.31	0.08	1.27
Medicine and health care	5.04	0.13	3.26
Traffic	9.37	-2.50	4.64
Postal services & Telecommunication	2.89	-0.05	-0.66
Education	5.99	0.04	4.65
Culture. entertainment and tourism	5.16	0.04	4.76
Other goods and services	4.29	-0.43	0.53
Consumer Price Index		**-0.17**	**5.40**

Source: GSO, KIS

Fig 11. Pork & rice prices, and FaF movements

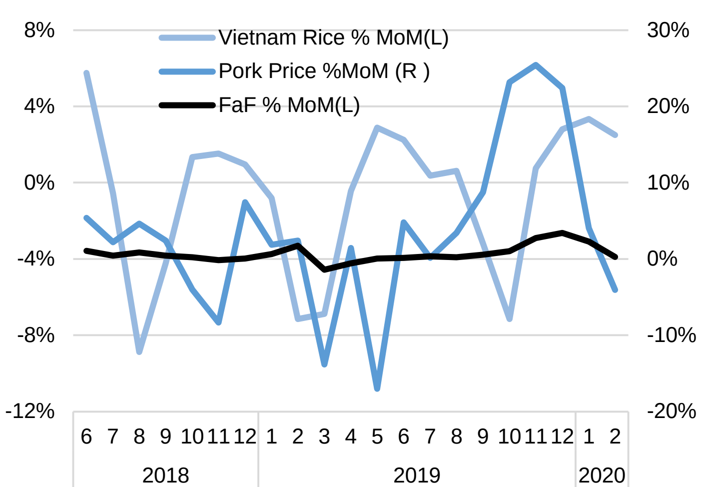
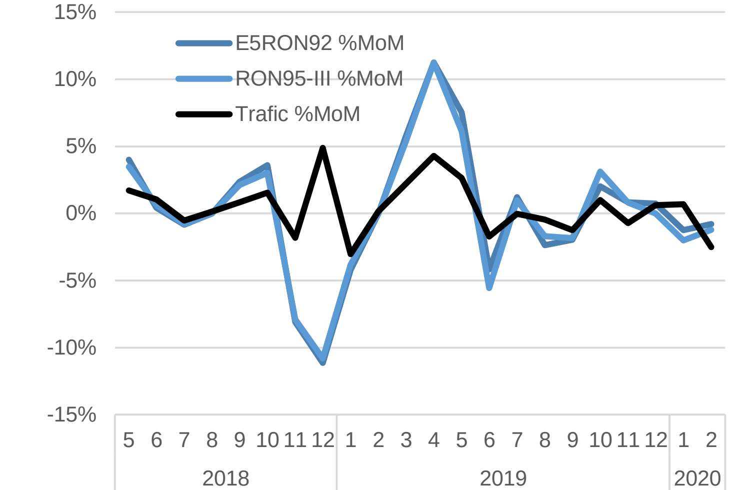


Fig 12. Petroleum product prices movements



Source: GSO, KIS

PREDICTION:

The spreading COVID-19 demotivates global commodity markets and ultimately puts downward pressures on Vietnam CPI in next couple of months:

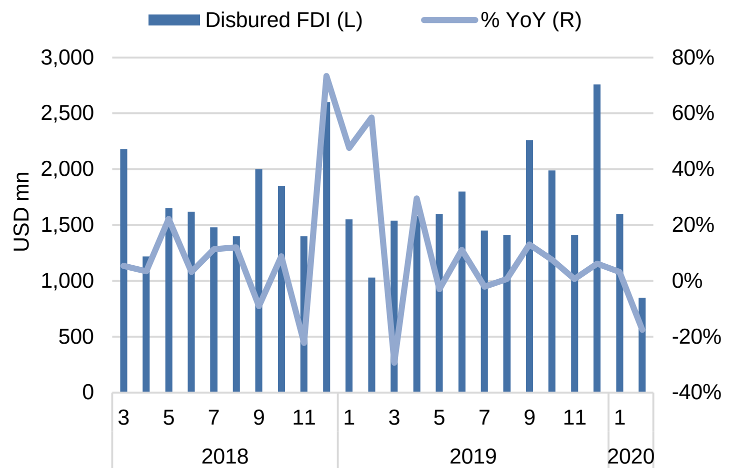
- We predict pork price to decline in March 2020 because of the reverse of Tet-effect.
- The crude oil, as well as, petroleum product will be under downward pressures due to COVID-19 outbreak and consequently negatively effect to traffic index.
- The COVID-19 disease will also melt down the private consumption confidence in the culture, entertainment and tourism sector and then the price index.

FDI is "positive" for COVID-19 test

Around the globe, investor confidence seems to be collapsing as the coronavirus outbreak is shedding to every corner of the global economy. Vietnam market, an attractive destination for foreign capital investment, is suffering the most when just a few ones are willing to take the risk.

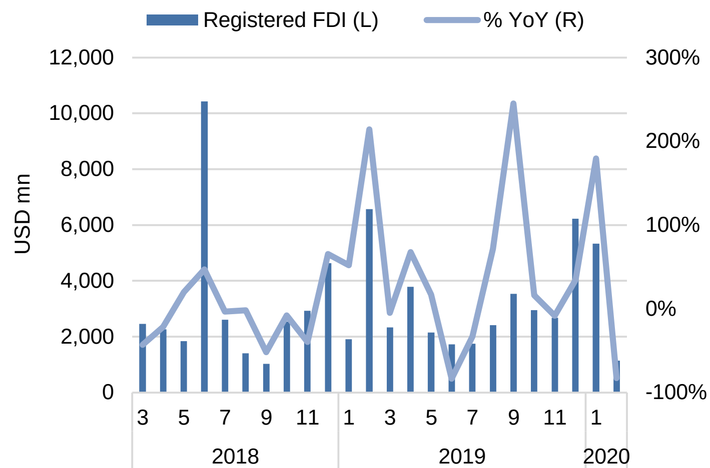
According to the data from the Ministry of Planning and Investment, as of 20 Feb 2020, the registered capital inflow recorded at just USD1,139.5 mn, which is the lowest since September 2018, much lower than the monthly average amount of USD3168.26 mn in 2019. Furthermore, foreign investors seem to be unwilling to disburse amid accelerating risks of the outbreak when the disbursed FDI posted only USD850 mn, just more a half of January 2020 with USD1,600 mn. More severely, if we remove a USD4,000 mn liquefied natural gas plant project of the Thermal Power Center Corporation (Singapore) in January, the total foreign capital registered in 2M20 was only equal to 29.1% of that in 2M19.

Fig 13. Disbursed FDI



Source: KIS, FIA, FiinPro

Fig 14. Registered FDI

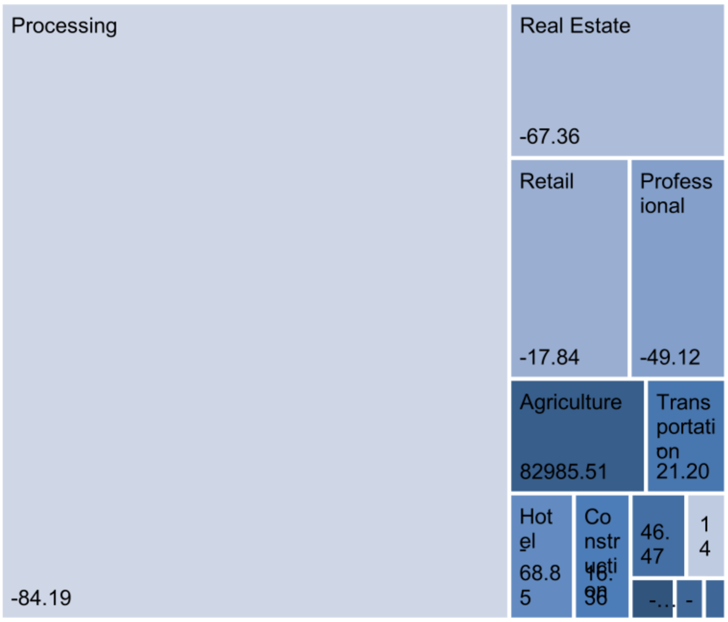


Source: KIS, FIA, Fiinpro

By sector, in February, capital registered in processing reached USD907.7 mn, accounting for 75.80% of the total registered FDI. The second and third positions are for real estate with 8.56% of total and retail with 6.75% of the total when receiving USD97.56 mn and USD76.89 mn, respectively. Finally, professional sector took fourth place with USD61.54 mn, equivalent to 5.40% of the total. It is worth noticing that the amounts of the registered FDI of the top four sectors received in the month were much lower than in February 2019. In other words, the year-over-year growths of the registered FDI of processing, real estate, retail, and professional were -84.19%, -67.36%, -17.84%, and -49.12%.

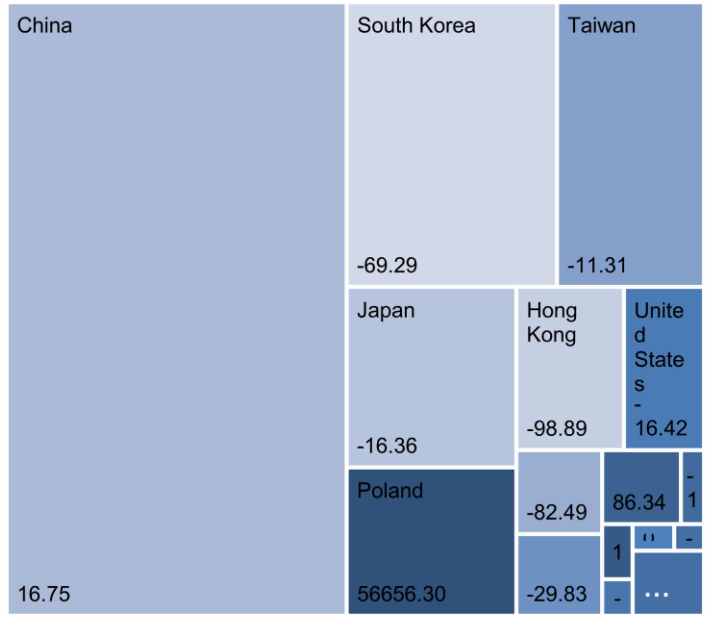
By partner, in February, we saw significant reductions in the registered capital from ASIA partners, including Japan, South Korea, Hong Kong, Taiwan, and Singapore, which are hard hit by the COVID-19 outbreak. Overall, China became the largest foreign investors in the month with the registered capital of USD559.9 mn, accounting for 49.14% of the total. South Korea ranked second with USD160.92 mn and 14.12% of the total, while Taiwan stood the third position with USD112.31 mn and 9.86% of the total. Japan and Poland were the fourth and fifth largest investors with USD82.16 mn and USD67.54 mn, respectively. Besides, the registered amounts of South Korea, Taiwan, and Japan plummeted by 69.29%, 11.31%, and 16.36% on a year-over-year basis, respectively.

Fig 15. Registered FDI by sector (% YoY)



Source: KIS, FIA, Fiinpro

Fig 16. Registered FDI by partner (% YoY)



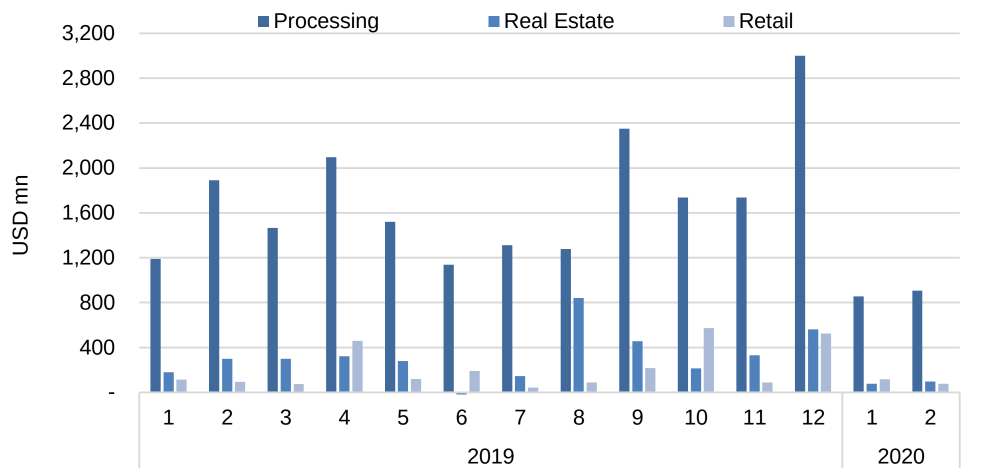
Source: KIS, FIA, Fiinpro

PREDICTION:

From our viewpoint, the downward trend of the foreign capital inflows will likely continue to take place in the next few months. Among sectors receiving the most registered FDI over years, processing has been affected severely by the COVID-19 outbreak as a large part of its business activities have relied on parts, machines, materials, etc., imported from China. Therefore, it is likely that all business plans in this sector may have a second thought in the current condition. Besides, the outlook for other sectors, including real estate and retail, turns to negative when the whole economy is taking the damage from the epidemic, and it just seems not a right time for new business to launch in these areas at this time.

We expect both the registered and disbursed FDI to continue to slow down in the coming months, especially in 1Q2020. Most likely, the reductions are going to take place in the processing, retail, and real estate sectors. Full damage of the outbreak may yet to be revealed.

Fig 17. Foreign capital registered in processing, real estate, and retail sectors

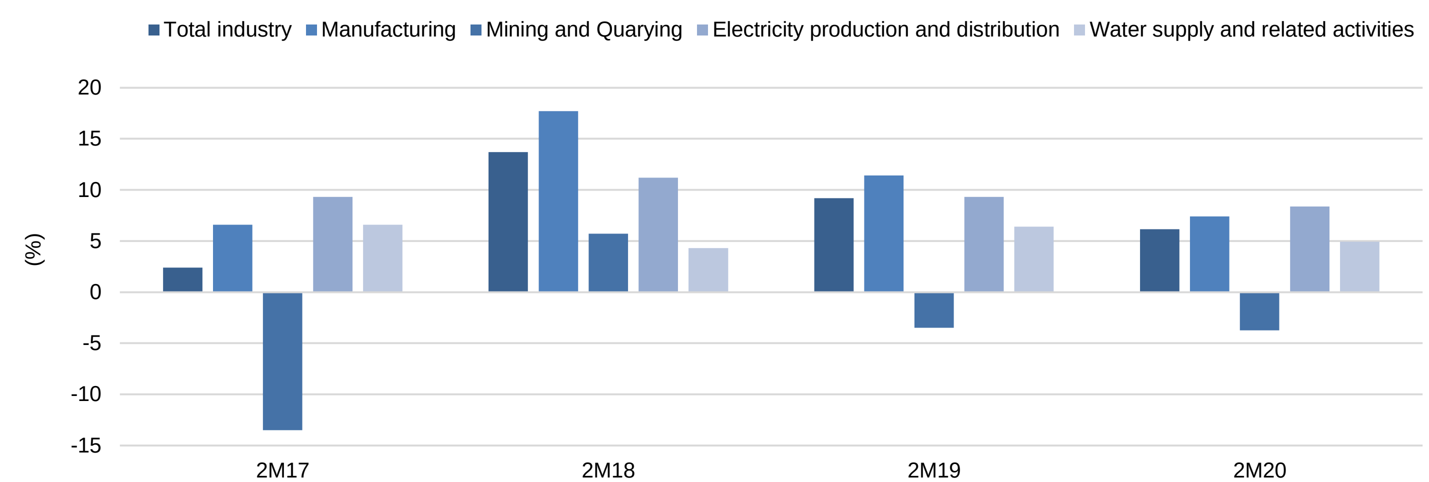


Source: KIS, FIA, Fiinpro

Manufacturing is lacking energy to push the industrial sector

In 2M20, the production index for the whole industrial sector (IIP) expanded by just 6.2% YoY, lower if compared to 9.2% in 2M19 or 13.7% in 2M20. All of its components, including manufacturing, mining, electricity production & distribution, water supply & other related activities, saw a correction when the currently worsening business conditions, under the widespread of the COVID-19 outbreak, have gradually been affecting the growth of the whole industry.

Fig 18. Industrial Production Index by sector (% YoY)



Source: GSO, KIS

- In 2M20, the production of the mining sector fell by 3.7% YoY compared to -3.5% YoY in 2M19. Its largest sub-sector, the exploitation of crude oil and natural gas, continued to decrease markedly by -8.6% YoY in 2M20. In which, the extraction of crude oil decreased by -8.1% YoY, while that of natural gas reduced by -9%

YoY. A global demand shock for crude oil, due to a deterioration in the global growth outlook in the year, is expected to worsen this sub-sector in the short-to-medium term.

- In the same period, manufacturing was the primary factor that slow down the whole industry in 2M20. The growth of this sector in 2M20 posted at 7.4% YoY, contributing to more than 90% of the expansion of the whole industrial sector. Most notably, this growth was remarkably lower than 11.4% YoY in the same of 2019 and 17.7% YoY in 2018. On the downside, we saw the productions in several sub-sectors, including the manufacture of foods, beverages, wearing apparel, and leather, could not grow as high as in 2019 when some of them have been interrupted partly due to the disruption of the China economy recently. On the contrary, the manufacture of computer & electronic products and refined petroleum products were among some bright spots in the month. With a release of the latest flagship S20 Samsung Galaxy in February, the manufacture of computer & electronic products impressively jumped up by 13.4% YoY in 2M20, greater than just 5.2% YoY in 2M19. Moreover, the production of refined petroleum products accelerated by 18.6% YoY.

Fig 19. Mining sector

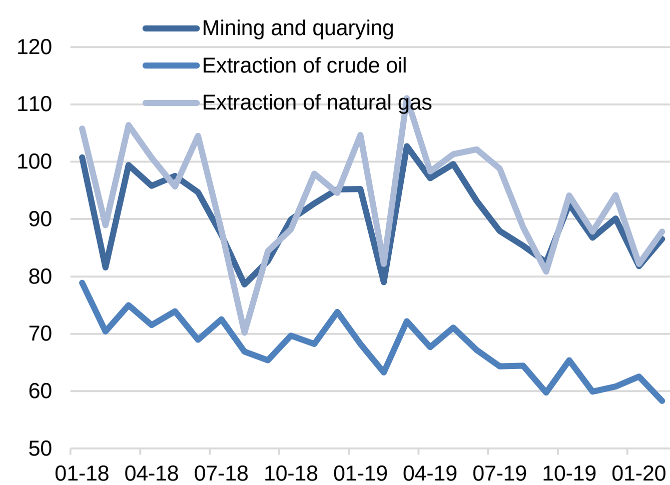
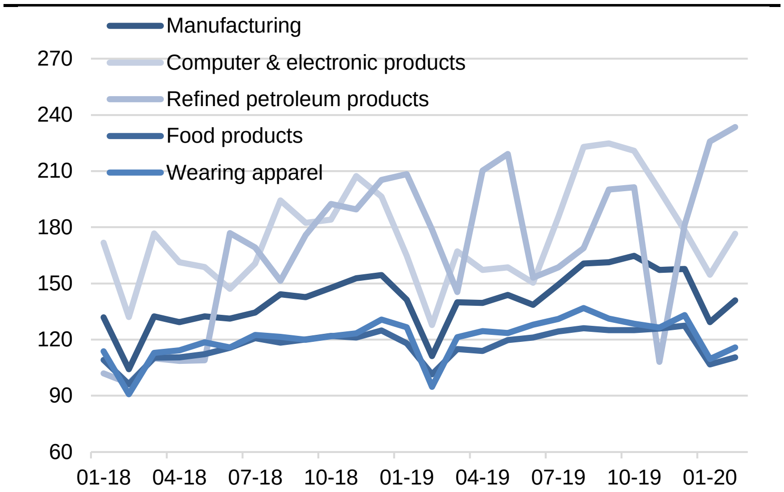


Figure 20. Manufacturing sector



Source: KIS, Bloomberg

PREDICTION:

We are still maintaining our opinion so far that the COVID-19 outbreak is a boom slowly exploding right in the center of the industrial sector, with its damage is continuing to spread to all over the place with increasing magnitude. Just more than a month from the beginning of the epidemic, based on the production index for each sub-sector, we estimated that more than a dozen of them are being affected negatively with different degrees. More seriously, more and more victims will likely be added to this list in the coming months, depending on how far the virus will spread and how long the outbreak will be contained.

The impact of the outbreak is complicated when it is causing shocks to both demand and supply sides. However, from our view, the worst is yet to full disclosure. Our most concern in this current time is that the outbreak will hit hard the manufacture of computers & electronic products, including mobile phones, because the Vietnam electronics industry largely relies on components and parts imported from China. The input supply shock in this industry will potentially happen in the case that the outbreak cannot be controlled within the second quarter. Manufacturing firms with an insufficient amount of inventories will be the first ones collapsing.

In conclusion, our outlook for the industrial sector is negative in the next 2 – 3 months. A good scenario for the growth of the industrial sector in March will be about 1 - 3% on the year-over-year basis.

Vietnam dong is under downward pressure from a stronger USD

February witnessed an identically downward trend of all ASEAN currencies against the greenback. Starting from the denominator, USD saw a significant appreciation recently, primarily because it is one of the safest assets in the context the outbreak is spreading risks globally. At some times in the month, the USD index, DXY, reached the highest level of 99.87 since April 2017.

As a result, it is unavoidable that other currencies were depreciating against USD. IDR was the worst performer among other ASEAN currencies when it lost about 4.64% in value compared to USD. To a lesser extent, MYR and SGD were decreasing relatively by 3% and 2.25%, while the value of the bath fell by 1.32% against USD. On the other side, VND and PHP remained stable when dropping negligibly by 0.03% and 0.11%. The biggest surprise on the global foreign market was CNY was appreciating against USD by 0.42% in the situation that the whole China economy has been hit the most severely by the COVID-19 outbreak.

Regarding the movement of the rate USD/VND, under a massive pressure from the stronger USD, the interbank USD/VND rate in February fluctuated in a widening range 23,218 – 23,256 with a low-high spread of 38, which is greater than in prior months since August 2019.

Fig 21. USD/VND exchange rate

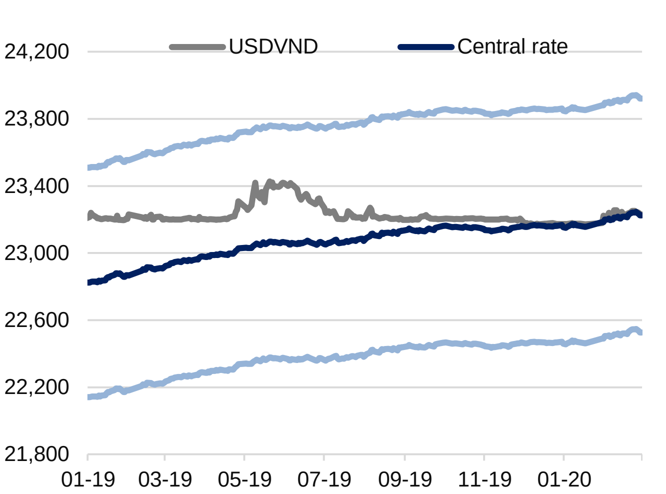
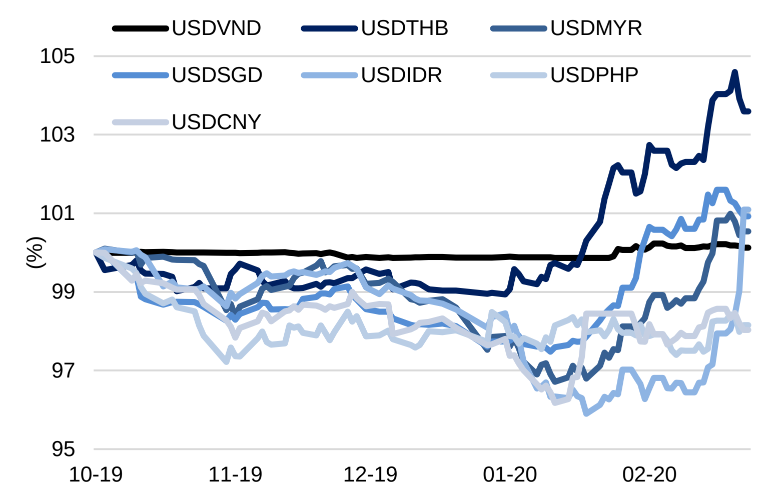


Fig 22. Movements of some ASEAN currencies in 2020



Source: KIS, Bloomberg

PREDICTION:

From our viewpoint, the central bank will face difficulty in keeping the USD/VND rate stable when several factors are going against the central bank's will. Amid the outbreak, the trade activities will continue to slow down in the next months. Therefore, one of the largest sources of the USD via this channel will likely be limited. Furthermore, another source of the foreign reserves, the foreign capital inflows, is also not as ample as in recent years when the global FDI is sluggish due to the outbreak. The data in February has shown these trends have already been taking place. All these things lead to our prediction that the exchange rate USD/VND will likely increase but moderately in the next 2 – 3 months.

Vietnam state budget recorded a surplus of VND69.2tn

As of 15 Feb 2020, total government revenue achieved VND214.2tn, equivalent to 14.2% of the year estimate. Of which, domestic revenue posted VND179.8.8tn, equaling 14.2% of the annual estimate. Furthermore, revenue from crude oil reached VND8.6tn, equaling 24.3%, while that from export-import activities was VND25.9tn, equaling 12.4%.

At the same time, total expenditure was estimated at VND145tn, fulfilling 8.3% of the year estimate. In particular, the regular expenditure posted VND116.1tn, equaling 11% of the year plan, the development and investment spending recorded VND7.4tn, equivalent to 1.6%, and the interest payment was VND21.4tn, equaling 18.1%.

As a result, by the first half of February 2020, the state budget recorded a surplus of VND69.2tn.

Macro scorecard

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	1Q19	2Q19	3Q19	4Q19	2016	2017	2018	2019
Real GDP growth (%)							6.82	6.73	7.31	6.97	6.21	6.81	7.08	7.03
Registered FDI (USD bn)	3.54	2.95	2.68	6.23	5.33	1.14	10.09	10.81	7.66	11.86	20.95	35.88	35.47	38.02
GDP per capita (USD)											2,172	2,353	2,551	2,730
Unemployment rate (%)											2.33	2.21	2.21	2.25
Export (USD bn)	23.36	22.40	22.79	21.80	19.00	18.60	58.76	63.77	72.22	68.83	176.6	215.1	243.5	263.6
Import (USD bn)	21.75	22.50	22.34	22.80	19.10	18.50	57.09	63.68	67.14	66.51	175.0	213.2	236.7	254.4
Export growth (%)	10.68	7.33	4.66	10.15	-13.93	33.76	5.10	9.17	10.72	7.29	8.99	21.82	13.19	8.16
Import growth (%)	11.77	2.89	-0.87	10.98	-10.16	26.08	7.25	10.12	8.30	4.22	5.55	21.85	11.01	7.41
Inflation (% YoY)	1.98	2.24	3.52	5.23	6.43	5.40	2.63	2.66	2.23	2.79	2.66	3.53	3.54	2.79
USD/VND	23,203	23,202	23,197	23,173	23,223	23,231	23,189	23,301	23,203	23,173	22,761	22,698	23,175	23,173
Credit growth (%)	9.40			13.70			3.13	7.36	9.40	13.70	18.25	18.24	13.89	13.70
10Y gov't bond (%)	4.07	3.70	3.58	3.37	2.88	2.81	4.78	4.66	4.07	3.37	6.23	5.14	5.07	3.37

Source: GSO, Bloomberg, FIA, IMF

Contacts

HCM City Head Office

Level 3, Maritime Bank Tower
180-192 Nguyen Cong Tru St., District 1, HCM City
Tel: (+84 28) 3914 8585
Fax: (+84 28) 3821 6898

Hanoi Branch

Level 6, CTM Tower
299 Cau Giay, Cau Giay District, Hanoi
Tel: (+84 24) 3974 4448
Fax: (+84 24) 3974 4501

Pham Ngoc Thach Transaction Office

Level 3, 62A Pham Ngoc Thach, District 3, HCM City
Tel: (+84 28) 7108 1188
Fax: (+84 28) 3820 9229

Ba Trieu Transaction Office

Level 6, 74 Ba Trieu, Hoan Kiem District, Hanoi
Tel: (+84 24) 7106 3555
Fax: (+84 24) 3632 0809

Lang Ha Transaction Office

Level 5, TDL Tower, 22 Lang Ha, Dong Da District, Hanoi
Tel (+84 24) 7108 1188
Fax: (+84 24) 3244 4150

Research Department

Mr. Huy Hoang, CFA

Head of Research
(+84 28) 3914 8585 (x1450)
huy.hoang@kisvn.vn

Institutional Brokerage

Ms. Uyen Lam

Head of Institutional Brokerage
(+84 28) 3914 8585 (x1444)
uyen.lh@kisvn.vn

Disclaimer