true friend KIS Viet Nam Securities Corporation

Economy
Monthly

13 Apr 2020

Economic Perspectives

Economic setback triggered by the COVID-19

The growth rate drops through expectation
According to GSO estimates, the 1Q20 real GDP grew by 3.82% YoY, marking the five-year low and much lower than the current expectation of 4.52% of the Government 2020 plan and 4.80% of the ADB 2020 forecast and 6.50% of the IMF 2020 estimate. The output of the economy decelerated significantly compared to 4Q19 due to the increasing economic impact of the COVID19 pandemic.

Trade activities step into the stagnation stage
The latest estimate of GSO shows that the total trade declined significantly by 2.37% YoY to USD113.1bn in 1Q20. Specifically, the export value dropped by 3.13% YoY, posting USD56.9bn, while the import value also decreased by 1.59% YoY, recording USD56.2bn.

FDI decelerates due to uncertainties
In our perspective, it is too risky to make investments under the worsening underlying economic conditions for the time being. In 1Q20, the registered FDI recorded USD8.55bn, dropping by about 20.85% YoY. Following the same trend, the foreign investors disbursed just USD3.85bn, equivalent to 6.55% YoY reduction, the second-lowest one since 2017.

KIS leading economic index

Quarterly data	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F
GDP growth (% YoY)	6.90	6.73	7.48	6.97	3.82	4.88
Disbursed FDI (% YoY)	6.19	10.91	4.92	5.30	-6.55	3.64
Monthly data	**Nov19**	**Dec19**	**Jan 20**	**Feb 20**	**Mar 20**	**Apr 20F**
CPI (% YoY)	3.52	5.23	6.43	5.40	4.87	4.00
IIP (% YoY)	5.41	6.20	-5.51	23.71	5.41	3.40
Export (% YoY)	4.66	13.99	-17.00	33.76	-12.2	1.52
Import (% YoY)	-0.87	8.56	-12.51	26.08	-10.2	1.31

Source: KIS

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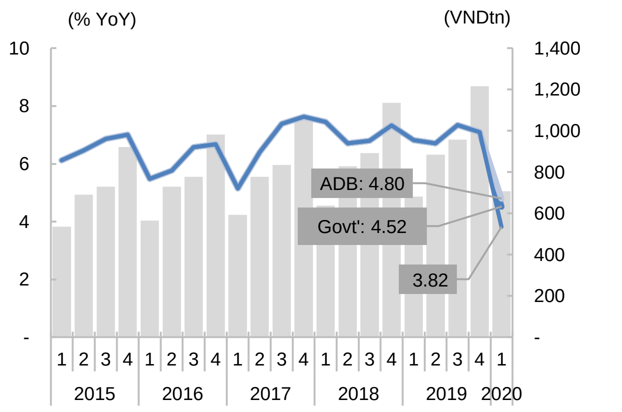
I. The growth rate downs through expectations

The 1Q20 real GDP grew by 3.82% YoY

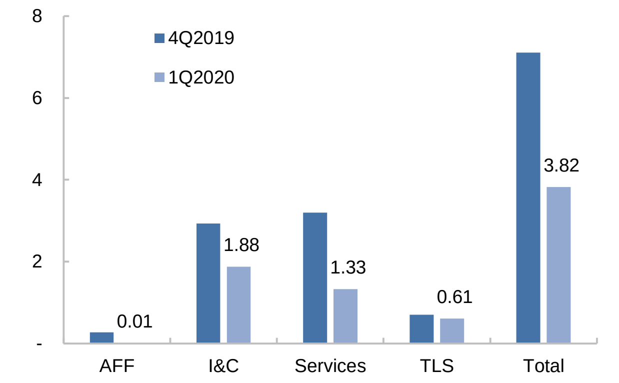
According to GSO estimates, the 1Q20 real GDP grew by 3.82% YoY, marking the five-year low and much lower than the current expectation of 4.52% of the Government 2020 plan and 4.80% of the ADB 2020 forecast and 6.50% of the IMF 2020 estimate. The output of the economy decelerated significantly compared to 4Q19 due to the increasing economic impact of the COVID19 pandemic. By sector, agriculture, forestry, and fishery (AFF), industry and construction (I&C), and services expand by 0.08% YoY, 5.15% YoY, and 3.27% YoY, which were 191 basis points (bps)-, 283bps-, and 497bps- lower than compared to the previous quarter, respectively.

Fig 1. Vietnam Real GDP in 1Q20



Source: KIS, GSO

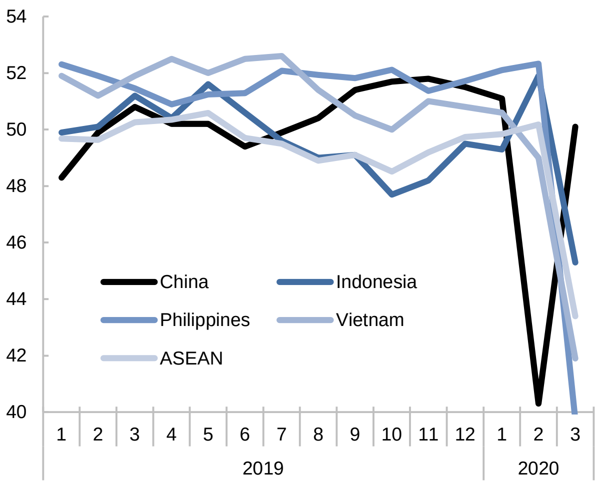
Fig 2. Vietnam GDP growth contribution by sector



Source: KIS, GSO

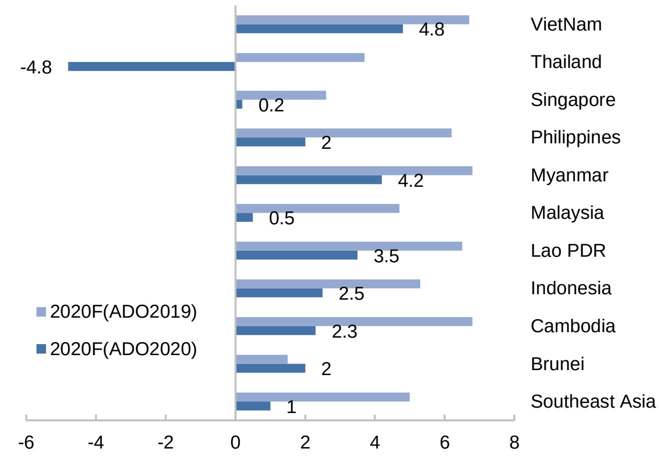
As the world's largest manufacturer, the significant disruption in production of China triggered a contagion to other manufacturing areas, including southeast Asia, as well as Vietnam. China PMI plunged in February 2020 and mainly drove PMI of most of ASEAN countries to decline in March 2020. Besides, the pandemic globally melts consumption confidence and leads the economy slowdown with some lags. The Asian Development Bank (ADB) recently also adjusted its predictions for countries in coverage to reflect the economic impact of COVID-19 disease. Following that, Vietnam's GDP growth was changed from 6.7% in the previous outlook to 4.8% in the latest one.

Fig 3. PMI of China and ASEAN countries



Source: KIS, Bloomberg

Fig 4. ADB 2020 Forecast (% YoY)



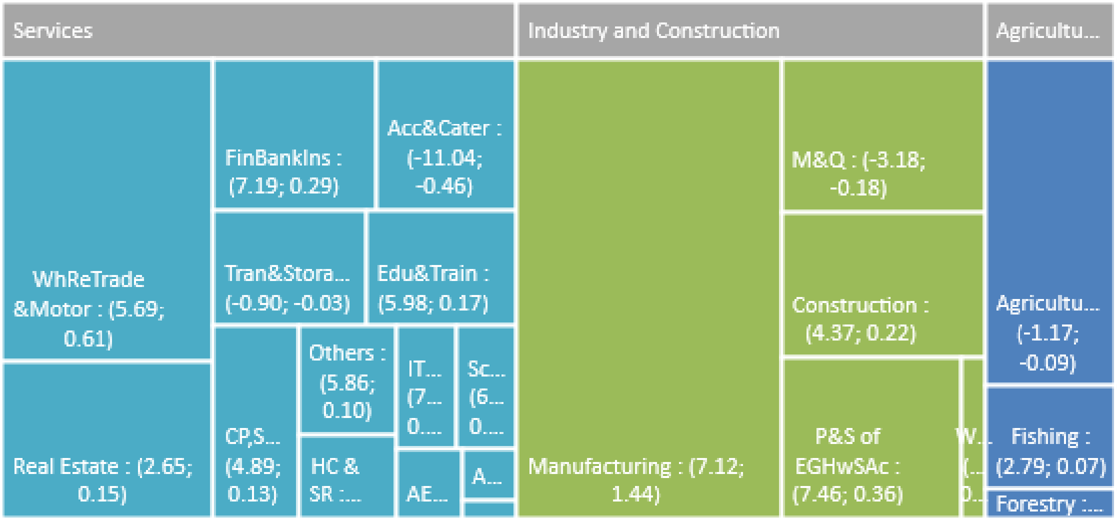
Source: Asian Development Bank. ADO2020 (April 2020)

By sector, the quick adjustment in services reflects the impact of the pandemic. In the context of overall slowdown, there are some sub-sector have entered to the reduction phase such as accommodation & catering services (Acc&Cater, -11.04% YoY), transportation and storage (Tran&Storage, -0.90% YoY), and Administrative activity and supporting services (Admin, -3.50% YoY).

In the AFF sector, although the rice-harvested output in Mekong delta increases by 5.9% YoY in this quarter, the combination of the drought, saltwater, and complexity of COVID19 disease prevented farmers from expanding their cultivation. Hence, the agriculture sector slightly declined by 1.17 %YoY in this quarter.

The I&C also witnessed the five-year-low in growth rate in 1Q20. In which, four over five sub-sectors decelerated, mining and quarrying (M&Q) even recorded a decline by 3.18% YoY.

Fig 5. 1Q20 Real GDP structure (%YoY; % Contribution)



Source: KIS, GSO

Contribution (%) to the total GDP growth = current growth rate (%) * share (%) in the same period last year

PREDICTION:

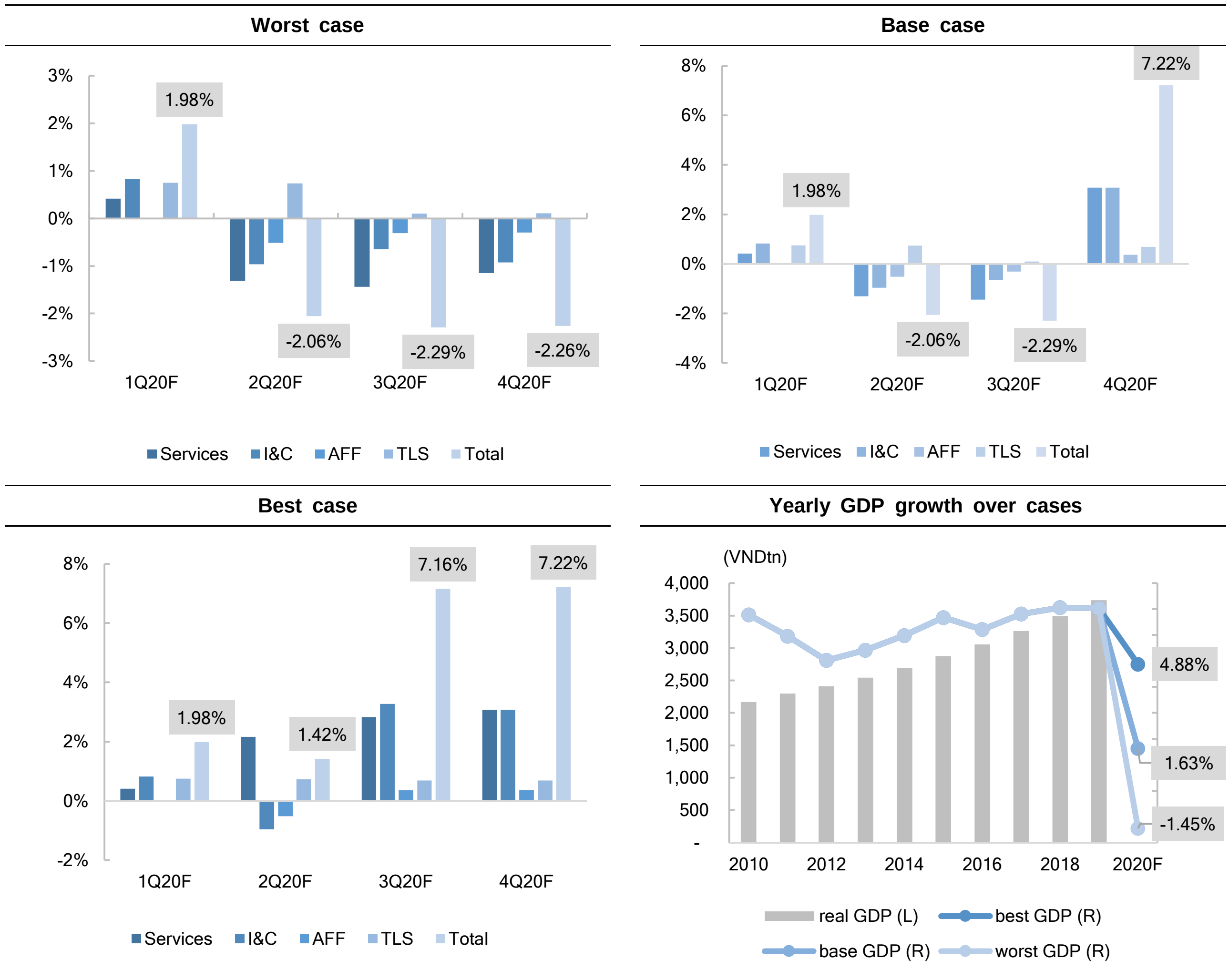
We assume that the impact of COVID-19 on Vietnam's economic growth depends on the length, disease-induced disruption level to production, and the reduction in market demand. We also assert that the pandemic will damage services and industry and construction sectors most heavily while the agricultural, forest, and fishery experienced a less severe downtrend. Based on this assumption, we build three scenarios to forecast the GDP growth rates for four upcoming quarters. In term of the length of the disease, we assume that:

- Best case: the pandemic will end in the 2nd quarter of 2020 and business backs to normal in the 3rd quarter.
- Base case: the pandemic will end in the 3rd quarter of 2020 and business backs to normal in the 4th quarter.
- Worst case: the pandemic will end in the 4th quarter of 2020 and business backs to normal in the 1st quarter of 2021.

In term of the severity level of COVID19 effect by sectors, we assume that:

- In our view, COVID-19 global contagion will disrupt the industry and construction and services worst, among others, at 5% in the first quarter and 10% for the next quarters. Besides, the disease seems to damage the AFF sector less severely at 2% in the first quarter and 5% for the upcoming quarters.
- The government is assumed to support affected firms by using taxes and subsidies as the pandemic lasts to the third quarter, with a rate of 5%.

Fig 6. Vietnam GDP growth Forecasts by Case



Source: KIS

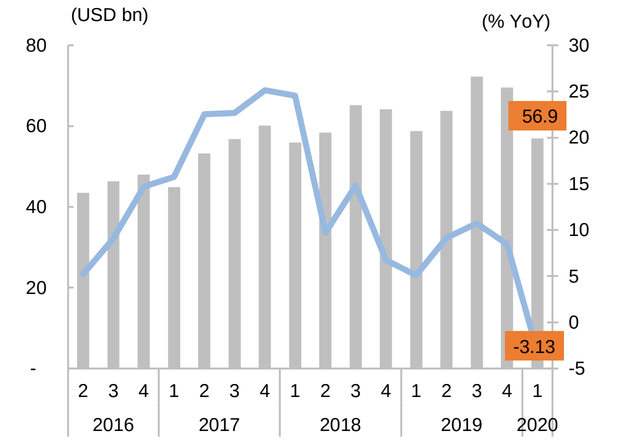
Source: KIS

II. Trade activities step into the stagnation stage

The global trade into the stagnation stage due to the pandemic

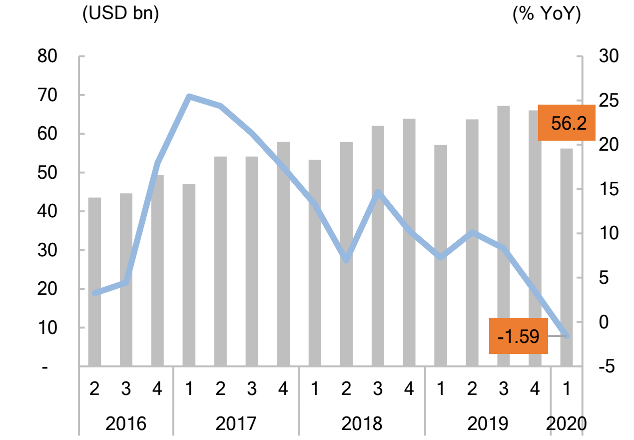
The latest estimate of GSO shows that the total trade declined significantly by 2.37% YoY to USD113.1bn in 1Q20. Specifically, the export value dropped by 3.13% YoY, posting USD56.9bn, while the import value also decreased by 1.59% YoY, recording USD56.2bn. As a result, the trade balance experienced a surplus of USD744.7mn. To March 2020, both export and import values turned down with double-digit rates at 12.2% YoY and 10.2% YoY, respectively. The effect of pandemic seems to overwhelm the prospect of the phase-one trade deal and push the global trade into the stagnation stage.

Fig 7. Vietnam monthly export



Source: KIS, GSO

Fig 8. Vietnam monthly import



Source: KIS, GSO

Most of the export items (37 over 46) experienced significant decreases compared to the same period last year in association with the spreading pandemic in 1Q20. In which, telephones, mobile phones and parts (TMPP), textiles and garments (Textiles), footwear, and other means of transportation parts and accessories thereof (other MTPA) declined by 3.64% YoY, 11.43% YoY, 3.35% YoY and 7.37% YoY, dragging the overall growth down by 66 basis points (bps), 135bps, 24bps, and 23bps, respectively. On the minor side, the computer, electrical products spare-parts and components thereof (CEPP), machine equipment tools and instruments (METI), and wood and wooden products (WW prods) grew by 17.31% YoY, 11.76% YoY, and 5.33% YoY. This group adds the overall growth up by 370bps and offsets partially the general reduction in this period.

In the import side, although some items recorded positive moves such as CEPP, TMPP, plastic products (plastic prods), and crude oil (CO) with respective growth rates at 12.61% YoY, 14.16% YoY, 8.65% YoY, and 54.14% YoY, most of the items (42 over 54) in the import basket move in the shared tendency due to the production disruption of large trading partners. Import values in METI, fabrics, plastics, and iron and steel (I&S) drop by 8.36% YoY, 17.77% YoY, 5.11% YoY, and 15.75% YoY. These reductions represent for the incoming stagnation in global trade due to both demand- and supply-side impacts of COVID19.

PREDICTION:

Fig 9. Vietnam export by products (% YoY, % Contribution)

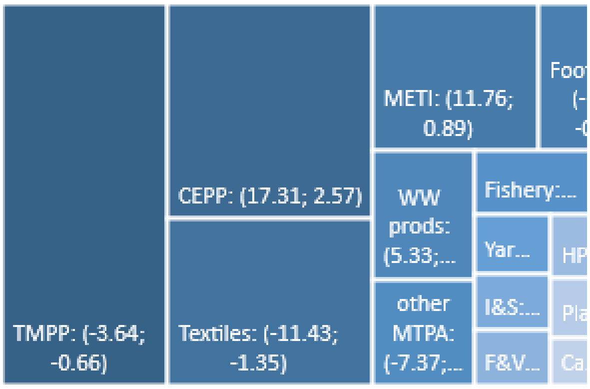
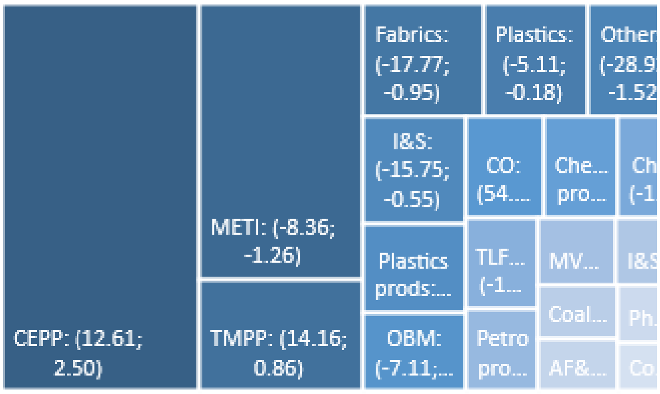


Fig 10. Vietnam import by products (% YoY, % Contribution)

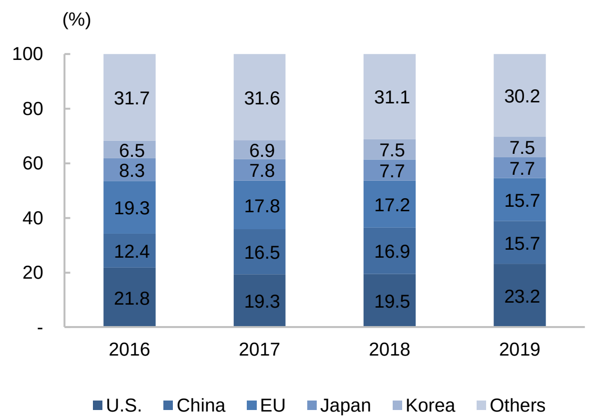


Source: KIS, GSO

TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, other MTPA: other means of transportation parts and accessories thereof, WWP: wood and wooden products, HPScHU: Handbags purses suit-cases headgear and umbrellas.

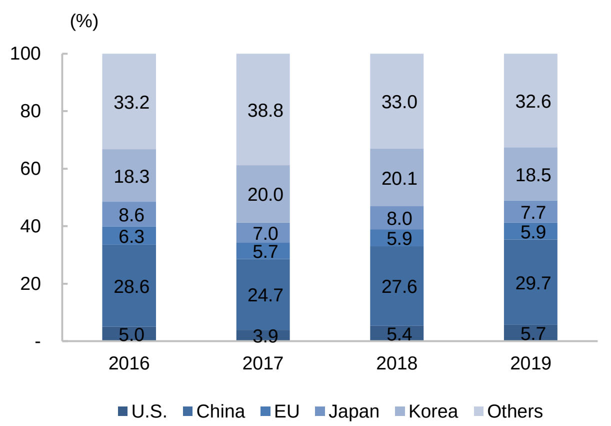
We predict that trade activities will be severe in the next few months due to the temporary interruptions in the production of large trading partners such as China, Korea, Japan. Also, the complication of COVID-19 disease will damage the private consumption confidence in some large markets such as the 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 quarter, we predict that both export and import in the second quarter of 2020 will decrease compared to 2Q19 at double-digit rates.

Fig 11. Vietnam export by country



Source: KIS, GSO

Fig 12. Vietnam import by country

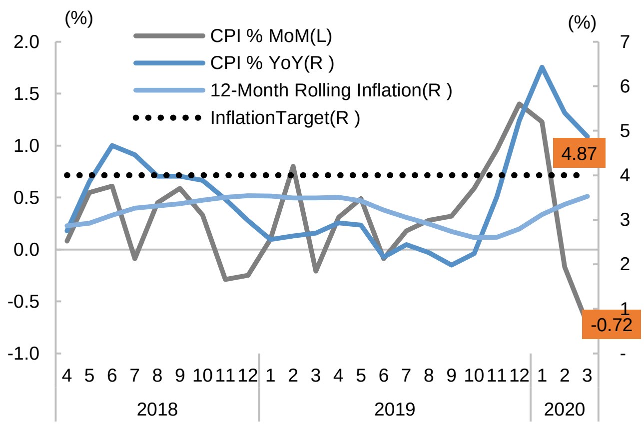


Source: KIS, GSO

III. CPI drops in association with the pandemic

At the end of March 2020, the Consumer Price Index continued declining 0.72% MoM, at a faster rate compared to February 2020. Consequently, CPI increased by only 4.87% YoY, and its 12-month rolling inflation rate posted 3.53%, a little lower than the Government target rate of 4%. The pandemic has put the economic activities into stagnation, and hence implicitly driven the CPI down.

Fig 13. CPI Change in March 2020



Source: GSO, KIS

Fig 14. Inflation by sector in March 2020

Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	-0.43	10.42
Beverage and cigarette	3.59	-0.11	1.56
Garment, Footwear, hat	6.37	-0.15	1.19
Housing and construction materials	15.73	-0.25	4.45
Household appliances and goods	7.31	0.09	1.39
Medicine and health care	5.04	0.05	3.28
Traffic	9.37	-4.87	-2.62
Postal services & Telecommunication	2.89	-0.06	-0.65
Education	5.99	0.04	4.69
Culture. entertainment and tourism	4.29	-1.4	-0.79
Other goods and services	3.3	0.16	3.62
Consumer Price Index		**-0.72**	**4.87**

Source: GSO, KIS

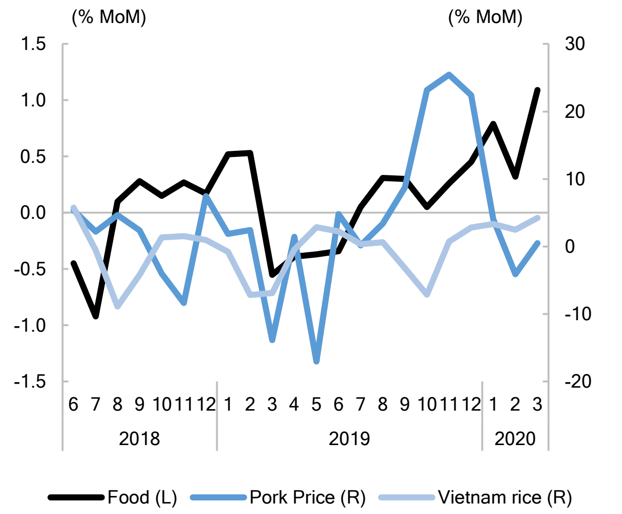
Traffic and food and foodstuff (FaF) were on top of affected sectors. The shortfall in transportation demand and the deep-down of petroleum product prices together dampen to the traffic index. Therefore, the traffic index declined by 4.87% MoM, dragging the CPI down by 46bps.

Prices in the food sector slightly increased by 1.09% MoM because of the persistence in pork price and a moderate increase in rice price. However, items in foodstuff basket dropped averagely by 0.89%, subtract 20bps from CPI change, and then resulted in a decline in FaF sector at 0.43% MoM.

The culture, entertainment, and tourism sector also recorded a price adjustment related to the COVID-19 impact with the rate at 1.4% MoM, subtracting 6bps from the percentage change in CPI.

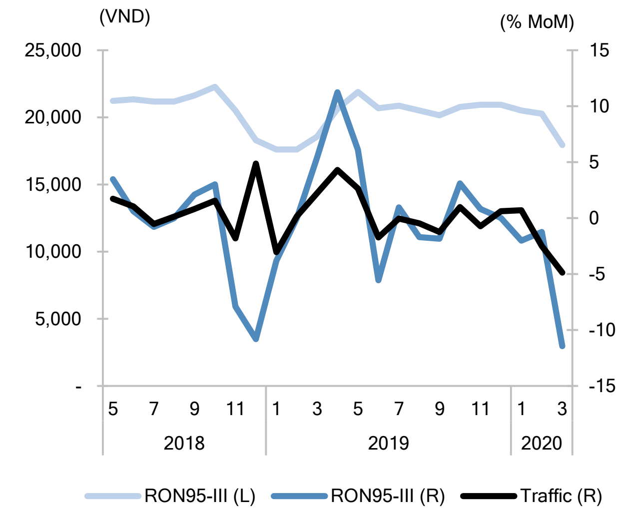
PREDICTION:

Fig 15. Pork & rice prices, and Food movements



Source: GSO, MoIT, KIS

Fig 16. Petroleum product prices movements



Source: GSO, MoIT, KIS

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

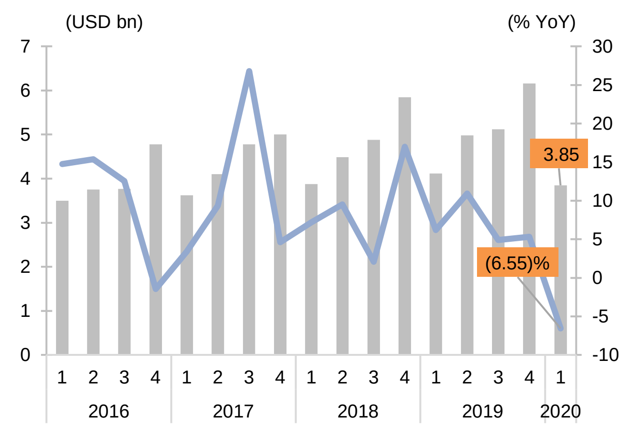
- We predict prices in food sector to persist slightly due to high food-reserve demand.
- The crude oil, as well as, petroleum product will be under downward pressures due to COVID-19 outbreak and consequently negatively effect to traffic index.
- The COVID-19 disease will also melt down the private consumption confidence in the culture, entertainment and tourism sector and then the price index.

IV. FDI decelerates due to uncertainties

The amount of foreign investment in the first quarter of 2020 turned to worse, primarily due to multiple factors of the COVID-19 pandemic. In other words, the current time is too risky to make investments under the worsening underlying economic conditions.

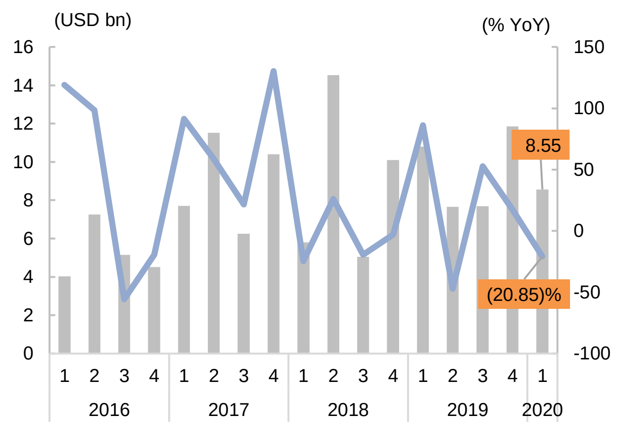
According to the data from the Ministry of Planning and Investment, as of 20 March 2020, the registered FDI recorded USD8.55bn in 1Q20, dropping by about -20.85% YoY. Following the same trend, the foreign investors disbursed just USD3.85bn, equivalent to 6.55% YoY reduction, the second-lowest one since 2017.

Fig 17. Disbursed FDI



Source: KIS, FIA, FiinPro

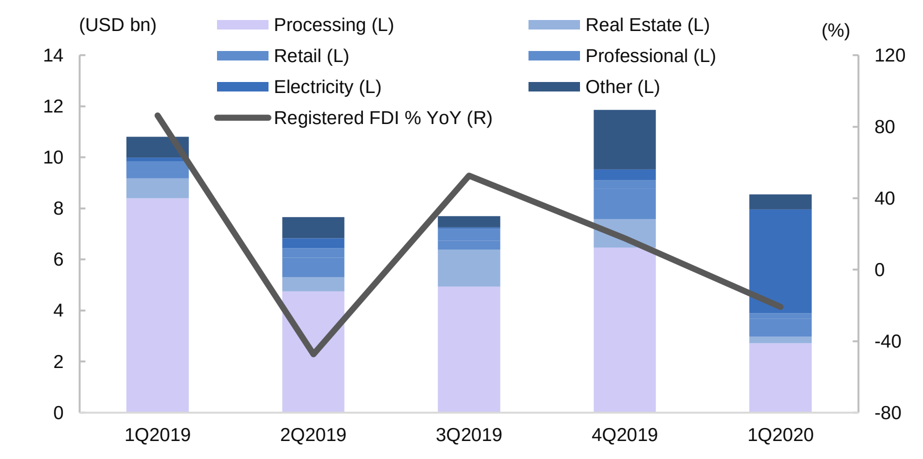
Fig 18. Registered FDI



Source: KIS, FIA, Fiinpro

By sectors, in 1Q20, electricity sector was receiving the most registered capital of about USD4.07bn, accounting for 47.54% of total registered FDI. The second and third positions were for processing with USD2.73bn and retail with USD0.68bn, equivalent to 31.86% and 7.98% of the total, respectively. Real estate took the fourth position when posting USD0.26bn or 3.09% of total registered FDI, followed by professional with USD0.23bn. However, major setbacks in processing (-67.6% YoY) and real estate (66.1% YoY) raised serious concerns about the sustainability of foreign inflows in 2020.

Fig 19. Registered FDI by sectors

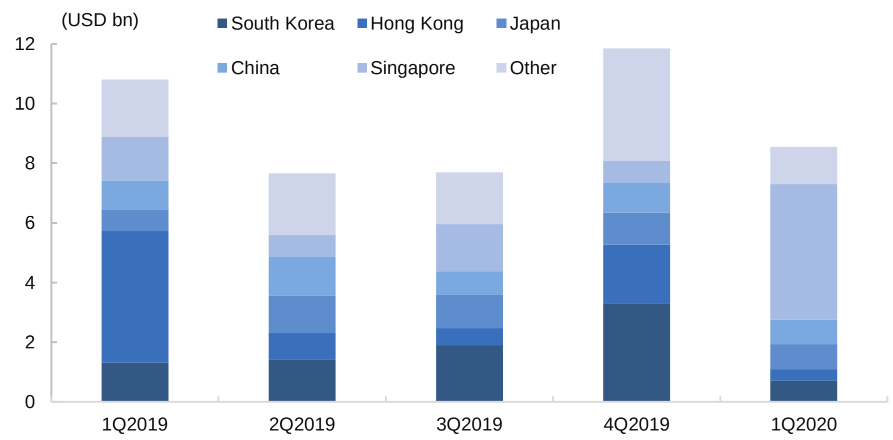


Source: KIS, FIA, Fiinpro

By partners, meanwhile, we saw a significant slowdown in the capital inflows of major partners from North American, Europe, and ASIAN, including China, South Korea, Hong Kong, Virgin Islands, the UK, USA, and the Netherlands, etc., which have been affected most seriously by the coronavirus outbreak. Overall, in 1Q20, Singapore surprisingly became the largest investor with USD4.55bn of the registered capital, accounting for 53.14% of the total, of which a USD4000mn liquefied natural gas plant project of the Thermal Power Center

Corporation (Singapore) made up for 46.77% of the total. Japan and China shared the second and third positions with USD0.85bn and USD0.82bn, making up 9.90% and 9.54% of the total, respectively. South Korea, one of the largest investors in recent years, fell to the fourth place with just USD0.71bn, 8.29% of the total, followed by Hong Kong with USD0.38bn or 4.48% of the total. On the other side, 5 over the 7 largest investors, including China, South Korea, Hong Kong, Taiwan, and the Virgin Islands, scaled-down their registered capital by 18.5%, 46.2%, 91.3, 5.9, and 55.6% on a year-over-year basis, respectively.

Fig 20. Registered FDI by partners



Source: KIS, FIA, Fiinpro

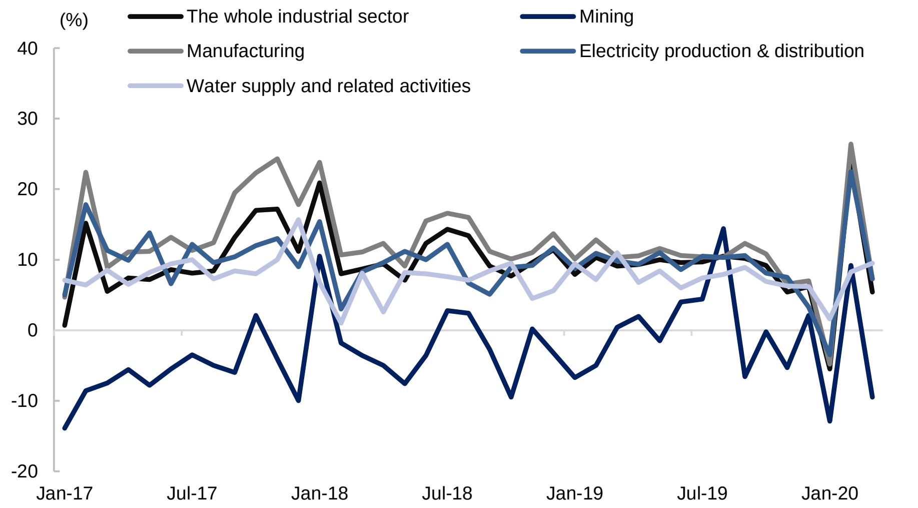
PREDICTION:

The downward trend of the foreign investment inflows has been taking place amid high uncertainties in the global and domestic economies. The economic conditions will continue to worsen until the containment of the COVID-19 disease proves effective. In our perspective, the trend would be converted if two following conditions are met: (1) The domestic and international travel restrictions and city lockdown are lifted in Vietnam and other countries; (2) demand for goods and services bounces back to a sustainable level. Until that, we expect the registered and disbursed FDI in 2Q20 to go even lower, and April is unlikely to see a partial recovery in these numbers. Furthermore, we expect foreign investors to continue to postpone their investment in processing and real estate sectors under the current circumstances.

V. Weak global demand slows down IIP

In 1Q20, the production index for the whole industrial sector (IIP) expanded by just 5.41% YoY, which is the slowest growth since 2015 if excluding months of before-and-after Tet Nguyen Dan (excluding the seasonality factor). The two largest components, the mining and manufacturing sectors, saw a significant slowdown in production when being hard-hit by the COVID-19 pandemic. While the former continued to drop further by -9.49% YoY, the latter grew at a slow pace at 7.34% YoY. The production in two other level-1 sectors, including electricity production & distribution and water supply & other related activities, rose by 7.30% YoY and 9.52% YoY, respectively.

Fig 21. Industrial Production Index by sectors (% YoY)



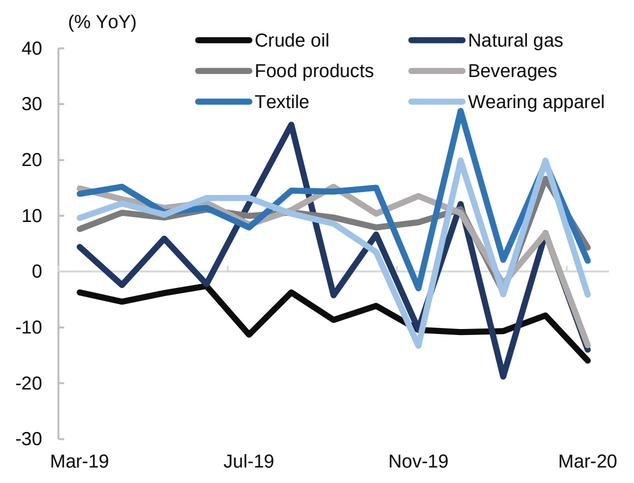
Source: KIS, GSO, Fiinpro

The mining sector recorded the worst month in March since October 2018, plummeting by 9.49% YoY. Two of its largest-weighted components, the extraction of crude oil and natural gas, continued to decrease further by 15.93% YoY and 13.98% YoY, respectively. Similarly, the data also showed that production activities in other sub-sectors also slowed down. A sudden slump in global demand for crude oil and a collapse of the output-cut pact of OPEC+ organization have been cataclysm of the crude oil and gas industry.

Meanwhile, the production in the manufacturing sector grew at a modest pace at just 7.34% YoY thanks to impressive growths of few industries. On the downside, the textile and garment industry, including the manufacture of textiles, wearing apparel, and footwear, was being affected most severely by negative global demand shock. In particular, the growths of those sectors in March posted 2.10% YoY, -4.13% YoY, and 6.44% YoY, respectively. Food industry was also dealing with the same shock but to a lesser extent, growing by just 4.30% YoY. More severely, the manufacture of beverages was on a freefall due to Circular No. 100 and closures in foods and beverages services, slumping by

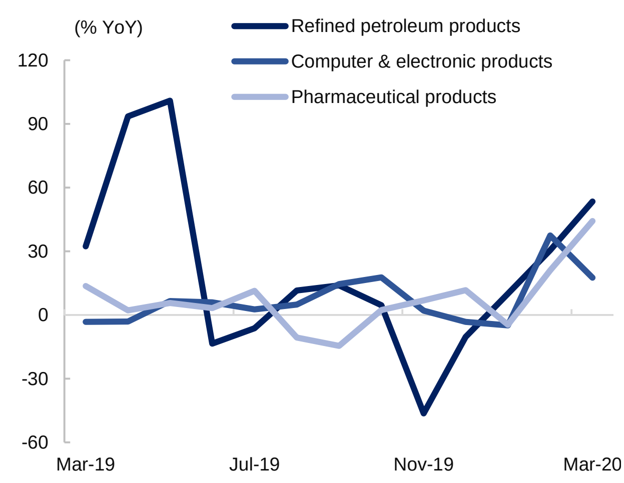
13.20% YoY. Oppositely, sharp increases in the manufacture of computer & electronic products and refined petroleum products contributed most to the modest growth of the whole industrial sector. Disruption in the manufacturing industry in China and South Korea gave the Vietnam electronic industry, especially the manufacture of mobile phones, huge opportunities to grow, and the number in March showed that the manufacture of computer & electronic products rose by 17.50% YoY. Besides, the production of refined petroleum products also soared by 53.48% YoY.

Fig 22. Pull factors of IIP



Source: KIS, Fiinpro, GSO

Fig 23. Push factors of IIP



Source: KIS, Fiinpro, GSO

PREDICTION:

“The COVID-19 outbreak is a boom slowly exploding right in the center of the industry, with its damage is continuing to spread to all over the sectors with increasing magnitude”. The scenario in our previous report seemed to be taking place in March when the economic impact of the pandemic has become more visible. There are no signs that this trend will convert in the next few months. However, this time the shock is coming from the demand side.

Based on the current situation of the COVID-19 outbreak in Vietnam and the world and other factors, we remain of our view that the economic conditions of the industrial sector will become worse in the near term. The electronic industry probably will be the next victim of the pandemic because the two largest markets for mobile phones, the U.S. and Europe, have locked down most of their major cities. Besides, the domestic petroleum market has recently been imbalanced due to the oversupply from domestic production and import. According to a report of the second-largest refining company Binh Son, the company's oil stockpile has reached up to 90% of its total capacity, and a major cut of production will be considered if the gap in the market could not be filled.

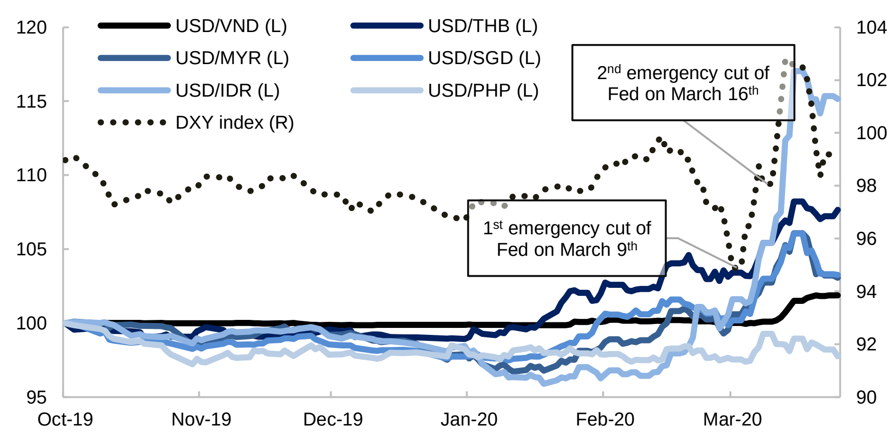
From these reasons above, it seemed to be that none of those sectors above would be push factors of the industrial sector in April, and a growth rate of 2 – 4% on a year-over-year basis will be the most likely case.

VI. Global factors shape currency movements

Amid heightened uncertainties in the global financial markets caused by the virus outbreak, the greenback is being considered a solid shelter for global investors, and it suddenly has become the most valuable asset in the time of the so-called global recession.

In March, we saw a skyrocket in USD value, thus all ASEAN currencies were under extreme depreciation pressure against the U.S. dollar. Starting from the denominator, the DXY index, the benchmark for the greenback value, reached a 17-year high record of 102.99 for some times in the month. Notably, the movement of the DXY index tended to react to two emergency interest cuts of the U.S. Federal Reserve, which were considered a sign of a recession of the largest economy. As a result, most ASEAN currencies were depreciating significantly against USD. In particular, IDR saw the biggest drop of 12.21% MoM, accumulatively a loss of 16.9% YTD, following by -3.77% MoM of THB. To a lesser extent, MYR and SGD reduced by about 2.46% MoM and 2.27% MoM, respectively, while CNY also fell by -1.28% MoM. VND, which is considered the most stable currency versus other peers, could not remain its value when depreciating by 1.72% MoM. On the contrary, only PHP rose by 0.40% MoM against the U.S. dollar.

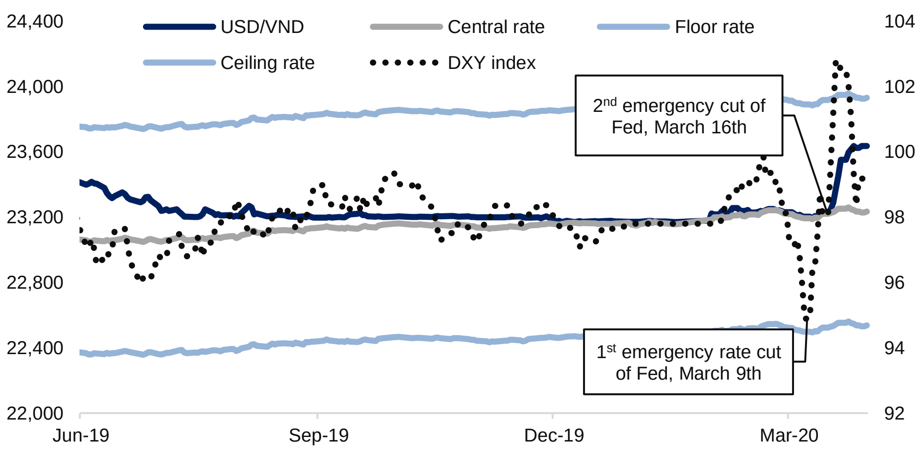
Fig 24. Movement of ASEAN and Chinese currencies against USD



Source: KIS, Bloomberg

Regarding the movement of VND, the interbank USD/VND rate in the first half of March remained stable in a narrow range of 23,190 – 23,231, at sometimes it was even lower than in February. However, after the second monetary easing of the Fed on March 16th, the global investors seemed to be panicking and preferred holding cash so as to preserve their investment portfolio. Since then, USD/VND continued to jump up to an all-time high of 23,637. On the other hand, the central rate adjusted back to the pre-shock level at the end of March, posting 23,235, which means the upward pressure on the USD/VND rate on the interbank market may be just a temporary factor.

Fig 25. USD/VND rate and DXY index



Source: KIS, Bloomberg

PREDICTION:

Currently, with massive support measures from the governments and central banks around the world, the panic in the global financial markets has somewhat faded away. Besides, with new support measures from the U.S. central bank, including the credit swap line facility and a recent temporary repurchase agreement program with other central banks around the globe, the insufficiency of the U.S. dollar has been partly resolved, and the upward pressure on the U.S. value, as a result, will probably be adjusted.

Furthermore, in a recent meeting held by the Vietnam central bank, SBV disclosed that they have yet conducted any intervention to the foreign exchange rate, showing that the possibility that the USD/VND rate is out of control would be insignificant.

Therefore, from our viewpoint, there is just a limited space for USD/VND to go up in April. We expect the interbank USD/VND rate will be adjusted about 0.2% - 0.5% MoM.

VII. State budget records a surplus of VND33.2tn

According to GSO's estimation, in 1Q20, total government revenue posted VND311.3tn, equivalent to 20.6% of the year estimate. Of which, domestic revenue achieved VND256.8tn, equaling 20.3% of the annual estimate. Furthermore, revenue from crude oil reached VND12.1tn, equaling 34.5%, while that from export-import activities was VND42.4tn, equaling 20.4%.

At the same time, total expenditure was estimated at VND278.1tn, fulfilling 15.9% of the year estimate. In particular, the regular expenditure posted VND201.2tn, equaling 19% of the year plan, the development and investment spending recorded VND47.7tn, equivalent to 10.1%, and the interest payment was VND28.6tn, equaling 24.2%.

As a result, in the first quarter of 2020, the state budget recorded a surplus of VND33.2tn

Macro scorecard

(USD bn, USD, %, %YoY)

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	2Q19	3Q19	4Q19	1Q20	2016	2017	2018	2019
Real GDP growth							6.73	7.31	6.97	3.82	6.21	6.81	7.08	7.03
Registered FDI	2.95	2.68	6.23	5.33	1.14	2.08	10.81	7.66	11.86	8.55	20.95	35.88	35.47	38.02
GDP per capita											2,172	2,353	2,551	2,730
Unemployment rate											2.33	2.21	2.21	2.25
Export	22.40	22.79	21.80	19.00	18.60	19.30	63.77	72.22	68.83	56.9	176.6	215.1	243.5	263.6
Import	22.50	22.34	22.80	19.10	18.50	18.60	63.68	67.14	66.51	56.2	175.0	213.2	236.7	254.4
Export growth	7.33	4.66	10.15	-13.93	33.76	-12.2	9.17	10.72	7.29	-3.13	8.99	21.82	13.19	8.16
Import growth	2.89	-0.87	10.98	-10.16	26.08	-10.2	10.12	8.30	4.22	-1.59	5.55	21.85	11.01	7.41
Inflation	2.24	3.52	5.23	6.43	5.40	4.87	2.66	2.23	2.79	3.53	2.66	3.53	3.54	2.79
USD/VND	23,202	23,197	23,173	23,223	23,231	23,637	23,301	23,203	23,173	23,637	22,761	22,698	23,175	23,173
Credit growth			13.70			0.68	7.36	9.40	13.70	0.68	18.25	18.24	13.89	13.70
10Y gov't bond	3.70	3.58	3.37	2.88	2.81	3.24	4.66	4.07	3.37	3.24	6.23	5.14	5.07	3.37

Source: GSO, Bloomberg, FIA, IMF

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