true friend KIS Viet Nam Securities Corporation

Economy
Monthly

13 May 2020

Economic Perspectives

Global wave of re-opening to mitigate the economic setback

Trade activities to become less severe
Trade activities witnessed a slide in April 2020 as export and import declined by 3.62% YoY and 2.83% YoY, respectively. We expect that trade activities will become less severe in the next month due to the slight improvements in consumer confidence and the manufacturing of large trading partners.

Demand recovery to push CPI up
The CPI continued to drop by 1.54% MoM due to reductions in traffic and the housing and construction materials (HCM) sectors. We forecast that CPI will rebound in May 2020 because of demand recovery after the ease of social distancing.

Manufacturing slumps to low record
It seems to be that the significant weakness of the industrial sector was from the demand side, and it will certainly take the economy a considerable time to rebound to its pre-crisis level. However, re-opening taking place in Vietnam and its major trading partners will be a positive sign for the IIP in May as it will partially help resolve the problem.

Things better off for registered FDI
In April, the registered and disbursed FDI gave an unclear signal about the current flow of the FDI to Vietnam. However, the situation has been much better as Vietnam has contained the COVID-19 spread the most effectively, which in turn will help the economy to get recovered much faster than any other countries, making Vietnam become a more attractive destination for global investors.

KIS leading economic index (% YoY)

Quarterly data	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F
GDP growth	6.90	6.73	7.48	6.97	3.82	4.88
Disbursed FDI	6.19	10.91	4.92	5.30	(6.55)	3.64
Monthly data	**Dec 19**	**Jan 20**	**Feb 20**	**Mar 20**	**Apr 20**	**May 20F**
CPI	5.23	6.43	5.40	4.87	2.93	3.15
IIP	6.20	(5.51)	23.71	5.41	(10.55)	(4.74)
Export	13.99	(17.00)	33.76	5.93	(3.50)	(1.60)
Import	8.56	(12.51)	26.08	4.71	(2.30)	(1.40)

Source: KIS

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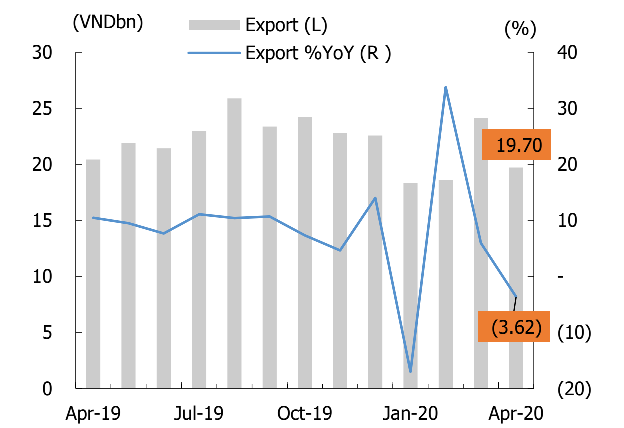
Y Nguyen
y.nt@kisvn.vn
Tuan Doan
Tuan.doan@kisvn.vn

I. Trade activities to become less severe

The global trade into the stagnation stage due to the pandemic

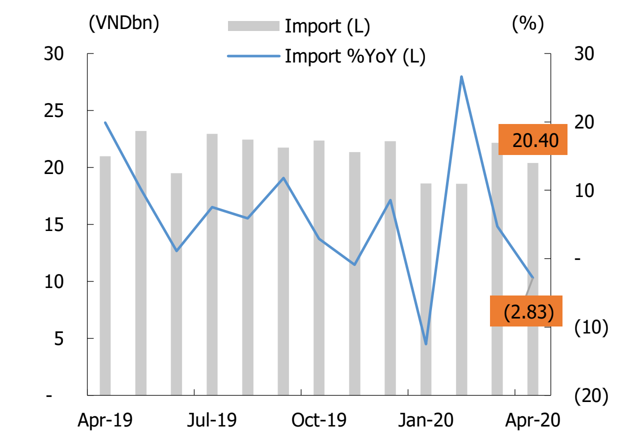
The latest estimate of GSO shows that the trade activity turned into reduction after witnessing a slowdown in the previous month. Specifically, the total trade declined by 3.22% YoY to USD40.10bn in April 2020. In which, the export value dropped by 3.62% YoY, posting USD19.70bn, while the import value also decreased by 2.83% YoY, recording USD20.40bn. As a result, the trade balance experienced a deficit of USD0.70bn. The ongoing pandemic has clearly affected the consumption confidences of Vietnam's largest trading partners and hence discouraged the trade activity significantly.

Figure 17. Vietnam monthly export



Source: KISVN, GSO

Figure 2. Vietnam monthly import



Source: KISVN, GSO

Most of the export items (33 over 46) experienced significant decreases compared to the same period last year in association with the spreading pandemic in April 2020. In which, telephones, mobile phones and parts (TMPP), textiles and garments (Textiles), footwear, and other means of transportation parts and accessories thereof (other MoT&parts) declined by 15.03% YoY, 18.91% YoY, 10.70% YoY and 24.93% YoY, dragging the overall growth down by 286 basis points (bps), 217bps, 76bps, and 81bps, respectively. On the minor group, the computer, electrical products spare-parts and components thereof (CEPP) and machine equipment tools and instruments (METI) surged by 28.16% YoY and 34.70% YoY. This group adds the overall growth up by 582bps and offsets partially the general reduction in this period.

On the import side, the data shows a slight expansion, compared to the same period last year, in the group of large items (the item with a share higher than 2.00%), but records the prevalent reduction in the remaining group. Notably, METI, plastic products (Plasprod), and chemical products increased by 9.89% YoY, 21.74% YoY, and 28.63% YoY, contributing 141bps, 53bps, and 58bps respectively. The fabric moved in the opposite direction as declining by 17.15% YoY, taking 99bps out of the overall import growth. In the smaller group, the reductions in crude oil (CO) and petroleum product (Pprod) majorly drove the group's performance down as decreasing by 67.50% YoY and 77.69% YoY, dragging 158bps and 240bps from the overall growth, respectively.

Figure 3. Vietnam top 10 export items

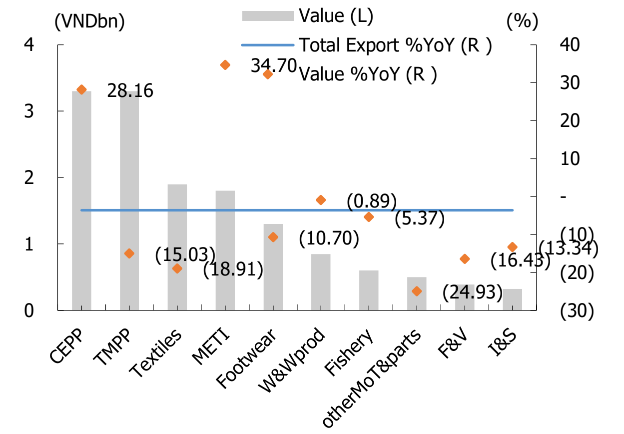
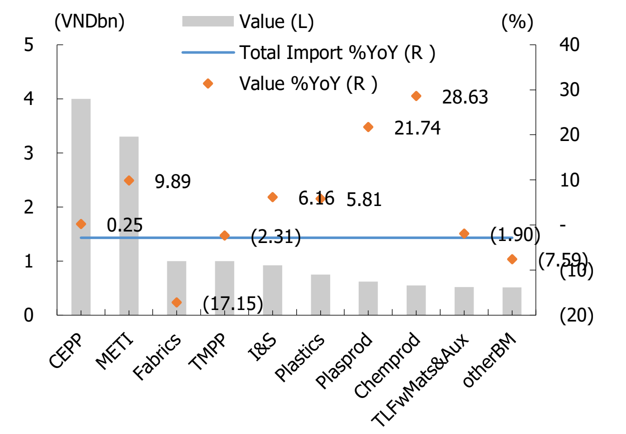


Figure 4. Vietnam top 10 import items

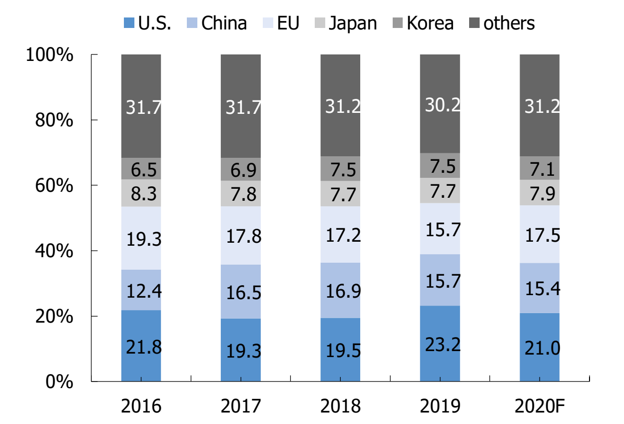


Source: KIS, GSO

TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, otherMoT&parts: other means of transportation parts and accessories thereof, W&Wprod: wood and wooden products, F&V: fruits and vegetables, I&S: iron and steel, Plasprod: plastic products, TLFwMats&Aux: textile, leather and foot-wear materials and auxiliaries, otherBM: other base metals.

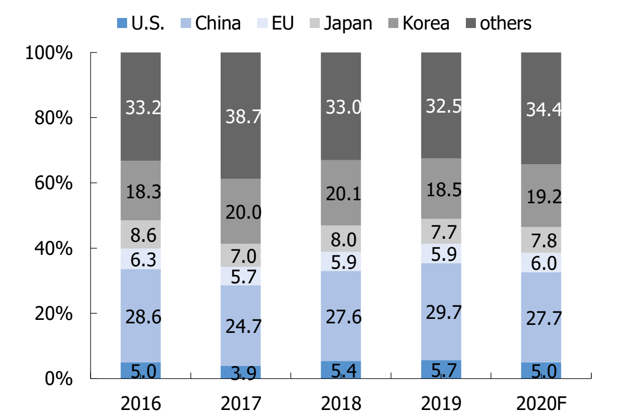
PREDICTION:

Figure 5. Vietnam export by country



Source: KIS, GSO

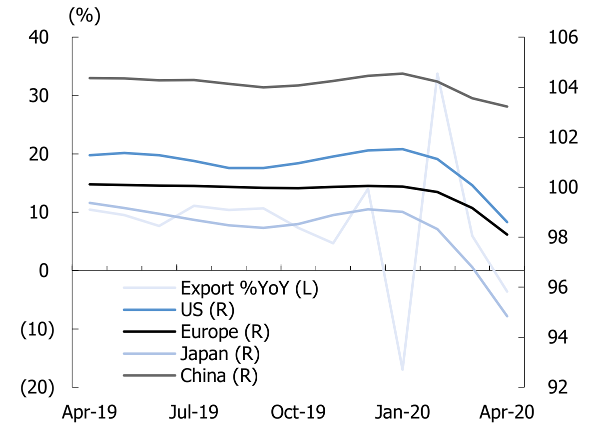
Figure 6. Vietnam import by country



Source: KIS, GSO

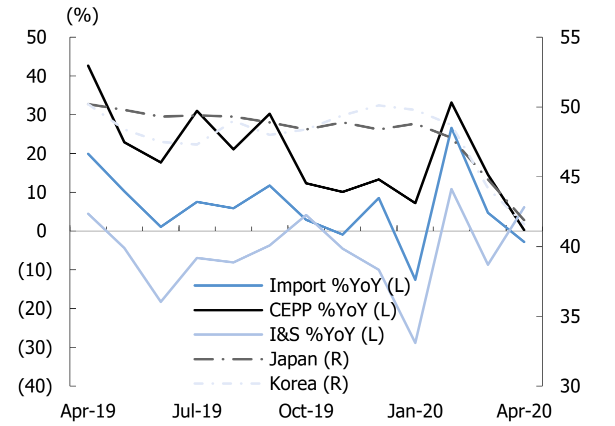
- Trade activities will become less severe in the next month as leading economic indicators in large trading partners improve.
- Re-opening wave will mitigate the drop in consumer confidence of major trading partners, such as the U.S., EU, Japan, hence will decelerate the downward momentum of the trading scale.
- PMI indices of large suppliers such as Korea, Japan will less discourage import value.

Figure 7. Vietnam export and partner's OECD Consumer Confidence Indices (OCC)



Source: KIS, Bloomberg

Figure 8. Vietnam import and partner's PMI

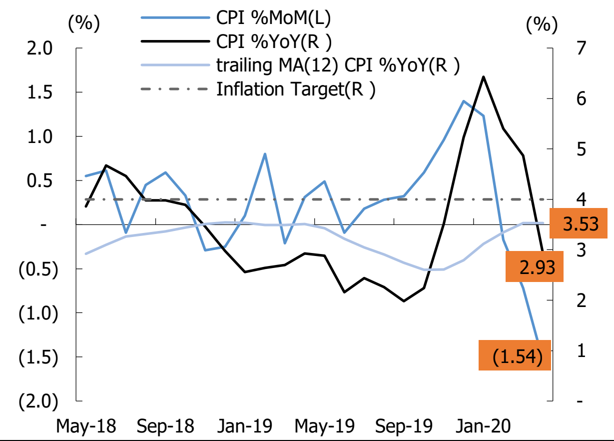


Source: KIS, Bloomberg

II. Demand recovery to push CPI up

At the end of April 2020, the Consumer Price Index continued to decline 1.54% MoM, accelerating the downward momentum by 82bps compared to March 2020. Consequently, CPI increased by only 2.93% YoY, and its 12-month rolling inflation rate posted 3.53%, a little lower than the Government target rate of 4%. The pandemic has caused the economic activities to become sluggish, and hence implicitly driven the CPI down.

Figure 9. CPI Change in March 2020



Source: GSO, KIS

Figure 10. Inflation by sector in March 2020

Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	0.66	11.78
Beverage and cigarette	3.59	0.13	1.62
Garment, Footwear, hat	6.37	-0.17	0.95
Housing and construction materials	15.73	-2.33	1.41
Household appliances and goods	7.31	0.06	1.35
Medicine and health care	5.04	0.03	3.3
Traffic	9.37	-13.86	-19.57
Postal services & Telecommunication	2.89	-0.02	-0.6
Education	5.99	0	4.63
Culture. entertainment and tourism	4.29	-0.4	-1.29
Other goods and services	3.3	-0.13	3.34
Consumer Price Index		**-1.54**	**2.93**

Source: GSO, KIS

The traffic and the housing and construction materials (HCM) were on top of the 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 13.86% MoM, dragging the CPI's monthly change down by 130bps. In the same manner, HCM also recorded a plunge in this month by reducing 2.33% MoM, subtracting 141bps from the monthly change of the overall index.

Prices in the food sector increased by 2.09% MoM because of the persistence in pork price and continuous increase in rice price. Besides, items in foodstuff basket rebounded averagely by 0.62%, adding 14bps to CPI change, and then resulted in a recovery in food and foodstuff (F&FS) sector at 0.43% MoM.

The culture, entertainment, and tourism sector also decelerate the reduction pace as the COVID-19 impact became less severe by decreasing by 0.40% MoM, subtracting 2bps from the percentage change in CPI.

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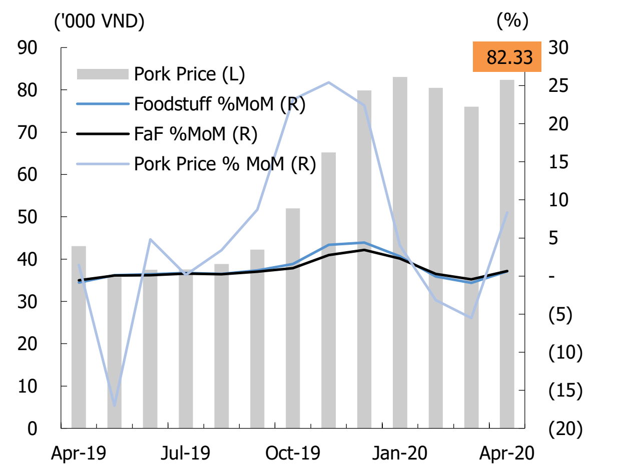
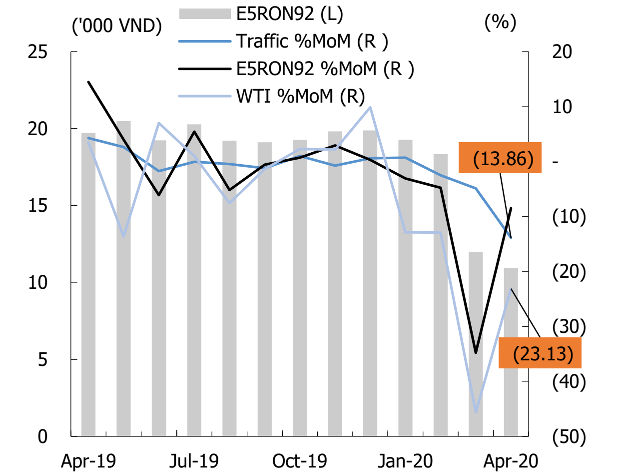
Figure 11. Pork & rice prices, and foodstuff movements



Source: GSO, MoIT, KIS

Figure 12. Petroleum product prices movements



Source: GSO, MoIT, KIS

The ease of social distancing at the beginning of May 2020 will improve consumer confidence, hence put upward pressure on CPI:

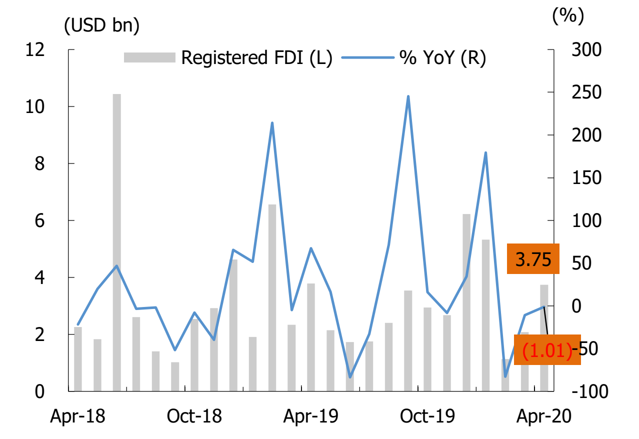
- The crude oil and petroleum product will lose their downward momentum and somewhat mitigate the negative impact of traffic on CPI.
- Upward momentums in pork and rice prices will push the CPI up.

III. Things better off for registered FDI

In April, the registered and disbursed FDI gave an unclear signal about the current flow of the FDI to Vietnam. However, the situation has been much better as Vietnam has shown the world that we have contained the COVID-19 spread the most effectively, which in turn will help the economy to get recovered much faster than any other countries.

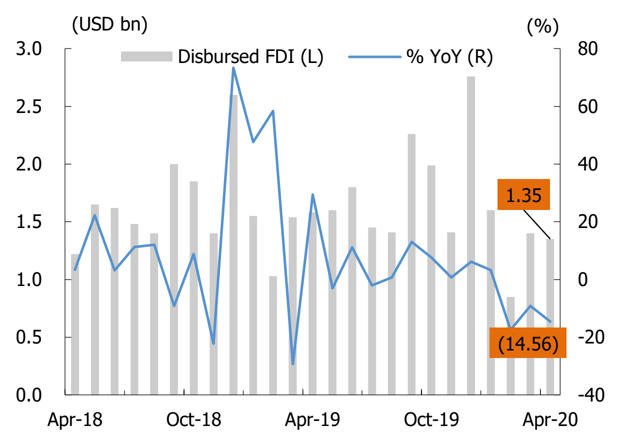
According to the data from the General Statistics Office, as of 20 April 2020, the registered FDI recorded USD3.75 bn in 4M20, dropping by just 1.01% YoY compared to -10.76% YoY in March. On the contrary, the disbursement number was much worse when recording just USD1.35 bn, equivalent to a decrease of 14.56% YoY.

Figure 13. Registered FDI



Source: KIS, FIA, FiinPro

Figure 14. Disbursed FDI



Source: KIS, FIA, Fiinpro

PREDICTION:

Three things are worth being noticed by the end of April: (1) Vietnam had somewhat contained the COVID-19 outbreak successfully sooner than most of world, and the social-distancing order mostly lifted nationwide; (2) Vietnam had planned to re-open the country to the world step by step from June, which is virtually essential to foreign investors; (3) there had been some signs that top global tech companies, including Apple, Amazon, etc., were planning to move parts of their manufacturing plants to Vietnam soon this year. Those things make Vietnam become a more attractive destination than before to the global investors thanks to a stable and fast-recovering economy.

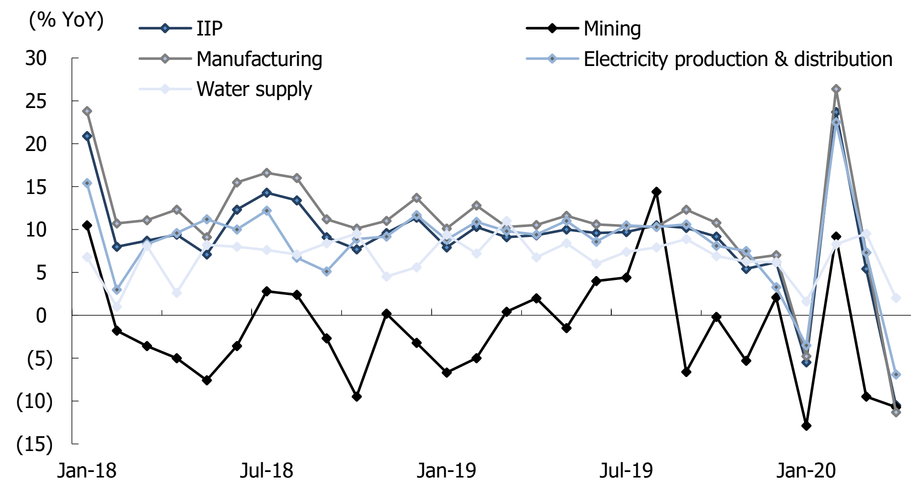
With all information in hand, we expect the registered capital number to be more positive in May, while it will take more time for the disbursement to get recovered, not likely it would take place this month.

IV. Manufacturing slumps to low record

The sudden slump in the industrial sector in April was beyond our worst-case expectation by its extraordinary magnitude. Most importantly, the business conditions deteriorated due to weak domestic and global demand. Social-distancing measures and city lockdowns around the world primarily caused the collapse of the industrial sector.

In April, the industrial sector saw the worst month on record as its production index (IIP) plummeted by 10.50% YoY. The largest contributor to the collapse of the IIP was the manufacturing sector when its growth turned negative, particularly -11.30% YoY, for the first time since the index established (excluding Tet-holiday month). Meanwhile, the mining sector was onto the downward territory since 4Q19, down 10.70% YoY. Two other sectors, the electricity production & distribution and water supply & other related activities, also saw a slowdown in the production activities as the former declined by 6.90% YoY and the latter rose at a modest pace of 2.00% YoY.

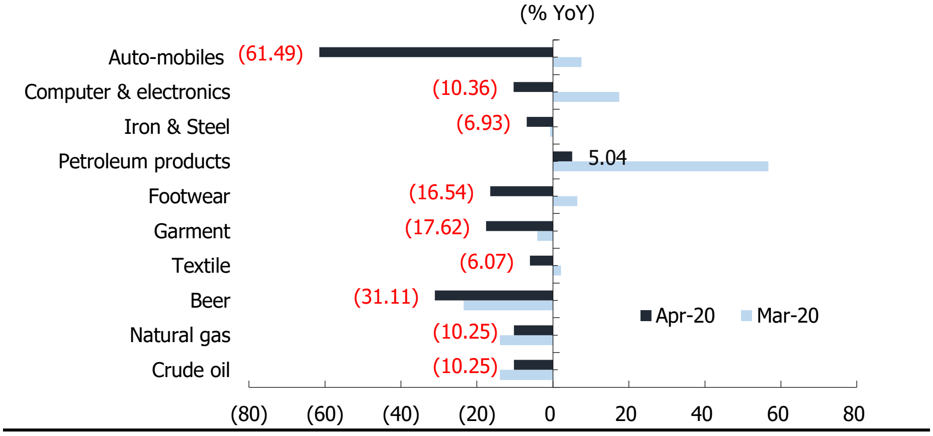
Figure 15. Industrial Production Index by sectors



Source: KIS, GSO, Fiinpro

- A drop in the mining activities were largely due to a recent crisis in global crude oil prices, which discouraged the crude oil and natural gas exploitations. Data shows that the production of crude oil plunged by 13.17% YoY, while that of natural gas dropped by 10.25% YoY, and those two sub-sectors accounted for more than 80% reduction in the mining sector. Besides, the support activities for crude oil and natural gas extractions reduced by nearly half of its level in 4M19 amid the gloomy crude oil market.
- The situation of the manufacturing sector was even more depressed as it contracted by 11.30% YoY, and most of its components also fell sharply due to the shrink from the demand side. Textile, garment and footwear continued to be affected severely by weak global demand as the growth of those sectors posted -6.07% YoY, -17.62% YoY, and -16.54% YoY, respectively. Similarly, the production of computer & electronics products suddenly turned negative, contracting -10.36% YoY, most likely due to subdued demand for those high-end products globally. Meanwhile, top losers in the month included beer and automobile industries, and the most reason was coming from lacking domestic demand. Particularly, the productions of automobile and beer sank by -61.49% YoY and 31.11% YoY.

Figure 16. Production index of main products



Source: KIS, GSO, Fiinpro

PREDICTION:

Although the situation of the health crisis in Vietnam and major trading partners including China, South Korea, Japan, and even the U.S., had been improved a lot in late April, it may be too optimistic to expect a fast recovery in the production activities in the next month. It seems to be that the significant weakness of the industrial sector is coming from the demand side, and it will certainly take a considerable time for demand to rebound to its pre-crisis level.

Recently, the U.S. and Europe, two major markets for textile, garment, footwear, smartphones, and electronics, plan to re-open their businesses in mid-May, while China, Korea have opened for the most part of their economies. More importantly, Vietnam already lifted the social-distancing order in late April. Those factors will somewhat encourage industrial production in the upcoming months.

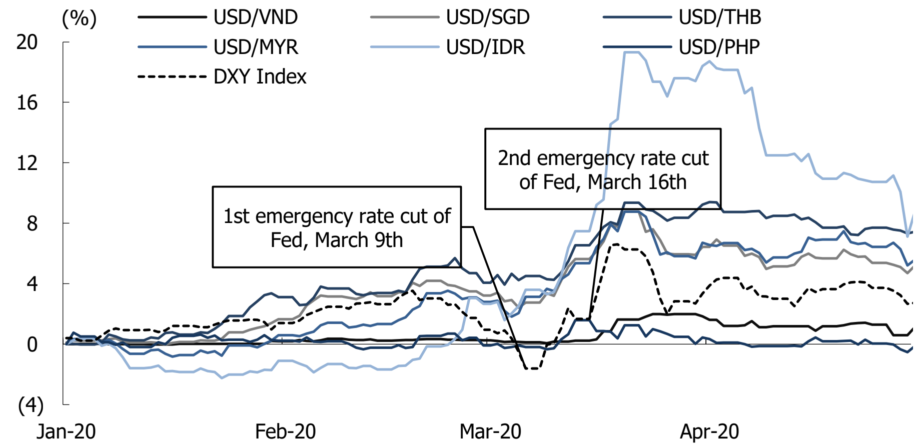
Finally, from our viewpoint, it is likely that the industrial sector will continue to decline in May but less severe than in April. Business conditions in several industries, including beverages, textile, garment, footwear, computer & electronics, and crude oil & natural gas exploitations, will be better than the last month. A growth rate of the IIP from -5% YoY to 2% YoY will be the most likely the case.

V. Recovery in ASEAN currencies

Across global financial markets, investors seem to have calmed down after overreacting to the COVID-19 pandemic in March, showing hope that the worst seems to be behind. USD is not as attractive as it was a month ago, while other currencies are getting back what they have lost since the COVID-19 outbreak.

In April, all ASEAN currencies appreciated significantly against USD while the greenback still remained its value. From the denominator, the greenback index, (Bloomberg DXY index), fluctuated in a high range between 99-100 but went down during the last week of April as the pandemic situation was getting much better and several U.S. states planned for reopening. Meanwhile, ASEAN currencies jumped up markedly versus the USD. In particular, IDR, which saw the steepest drop in March, became the biggest gainer when bouncing back by 9.60% MoM, followed by Vietnam dong with 1.40% MoM gain. To a lesser extent, THB and SGD rose by about 1.38% MoM and 1.15% MoM, respectively. PHP, which is the strongest currency so far, increased slightly by 0.55% MoM, while MYR appreciated by 0.44% MoM.

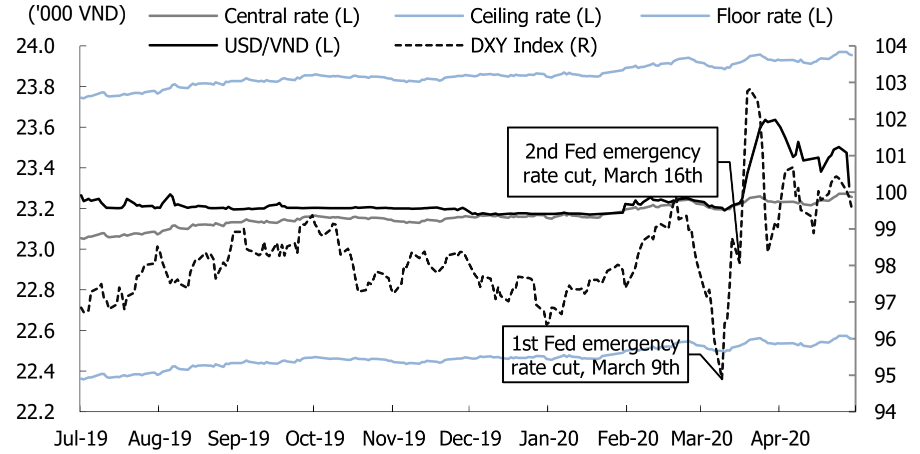
Figure 17. YTD changes in ASEAN currencies



Source: KIS, Bloomberg

Meanwhile, the interbank USD/VND rate fell off significantly during the month from 23,600 to just 23,309, nearly getting back to its pre-crisis level. Besides, the central rate also remained stable, showing the stability of VND against other currencies.

Figure 18. USD/VND rate and DXY index



Source: KIS, Bloomberg

PREDICTION:

The economic conditions of the global economy have changed significantly from a month ago in a positive way as major economies plan to re-open in May. In that circumstance, the USD becomes less attractive as investors diversify their holdings away from the greenback. As a result, VND will likely continue to strengthen against the USD. We expect the interbank USD/VND will be adjusted about 0.3% - 0.6% by the end of May.

VI. State budget posts a surplus of VND18.7tn

According to GSO's estimation, in 4M20, total government revenue posted VND427.2tn, equivalent to 28.2% of the year estimate. Of which, domestic revenue achieved VND351.6tn, equaling 27.8% of the annual estimate. Furthermore, revenue from crude oil reached VND17.3tn, equaling 49.1%, while that from export-import activities was VND58.0tn, equaling 27.9%.

At the same time, total expenditure was estimated at VND408.5tn, fulfilling 23.4% of the year estimate. In particular, the regular expenditure posted VND291.6tn, equaling 27.6% of the year plan, the development and investment spending recorded VND76.6tn, equivalent to 16.3%, and the interest payment was VND38.6tn, equaling 32.7%.

As a result, in 4M20, the state budget recorded a surplus of VND18.7tn.

Macro scorecard

(USD bn, USD, %, %YoY)

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	2Q19	3Q19	4Q19	1Q20	2016	2017	2018	2019
Real GDP growth		6.97			3.82		6.73	7.31	6.97	3.82	6.21	6.81	7.08	7.03
Registered FDI	2.68	6.23	5.33	1.14	2.08	3.75	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	22.79	21.80	19.00	18.60	19.30	19.70	63.77	72.22	68.83	56.9	176.6	215.1	243.5	263.6
Import	22.34	22.80	19.10	18.50	18.60	20.40	63.68	67.14	66.51	56.2	175.0	213.2	236.7	254.4
Export growth	4.66	10.15	-13.93	33.76	5.93	(3.50)	9.17	10.72	7.29	-3.13	8.99	21.82	13.19	8.16
Import growth	-0.87	10.98	-10.16	26.08	4.71	(2.30)	10.12	8.30	4.22	-1.59	5.55	21.85	11.01	7.41
Inflation	3.52	5.23	6.43	5.40	4.87	2.93	2.66	2.23	2.79	3.53	2.66	3.53	3.54	2.79
USD/VND	23,197	23,173	23,223	23,231	23,637	23,309	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	3.58	3.37	2.88	2.81	3.24	2.90	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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VIET NAM

JAE HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)
KIS Vietnam Securities Corporation
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.
Fax: 8428 3821-6898

SOUTH KOREA

YEONG KEUN JOO, Managing Director, Head of International Business Division (ykjoo@truefriend.com, +822 3276 5157)
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320
Fax: 822 3276 5681~3
Telex: K2296

NEW YORK

DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)
Korea Investment & Securities America, Inc.
1350 Avenue of the Americas, Suite 1110
New York, NY 10019
Fax: 1 212 314 0699

HONG KONG

DAN SONG, Managing Director, Head of HK Sales (dan.song@kisasia.com +852 2530 8914)
GREGORY KIM, Sales (greg.kim@kisasia.com, +822 2530 8915)
Korea Investment & Securities Asia, Ltd.
Suite 2220, Jardine House
1 Connaught Place, Central, Hong Kong
Fax: 852-2530-1516

SINGAPORE

ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasia.com.sg +65 6501 5602)
CHARLES AN, Sales (alex.jun@kisasia.com.sg +65 6501 5601)
Korea Investment & Securities Singapore Pte Ltd
1 Raffles Place, #43-04, One Raffles Place
Singapore 048616
Fax: 65 6501 5617

LONDON

Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)
Korea Investment & Securities Europe, Ltd.
2nd Floor, 35-39 Moorgate
London EC2R 6AR
Fax: 44-207-236-4811