

Economic Perspectives

Domestic areas rebound

Trade downtrend to decelerate in June

Trade downtrend accelerated in May 2020 as export and import declined by 15.54% YoY and 16.36% YoY, respectively. We expect that trade activities will become less severe in June as consumer confidence and manufacturing of large trading partners bounce back.

Oil prices rebound to ease traffic price

The Consumer Price Index (CPI) continued to decrease by 0.03% compared to previous month, but the downward momentum seems to significantly lose its energy. We predict that the improvement in domestic consumer confidence will encourage spending and partly put upward pressure on CPI in next month.

FDI yet to pick up

Although some other macroeconomic indicators show resilience along with economic re-opening, the economy still finds it struggling to attract foreign investment. June is not likely to see any surprises in FDI numbers. From our perspective, timing for the recovery in FDI will likely place in 3Q20.

Strong rebound in IIP draws attention

In May, business conditions in the industrial sector turned much better as economic activities almost resumed in the country and around the globe, which somewhat eased tremendous downward pressure due to weak demand. We expect the IIP will improve further in June in a range from 0% YoY to 3% YoY.

KIS leading economic index

(USD bn, %, % QoQ, % YoY)

	1Q20	2Q20F	3Q20F	4Q20F	2019	2020F	2021F
GDP	3.82	3.93	4.15	5.03	7.02	4.32	5.94
Trade balance	1.73	(4.56)	5.72	5.06	10.42	7.94	1.77
CPI	4.87	4.65	3.61	3.09	5.23	3.09	2.41
Discount rate	3.50	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,264	23,248	23,256	23,252	23,231	23,255	23,246
US GDP	(4.80)	(34.20)	15.00	7.90	2.3	(5.70)	3.90
China GDP	(6.80)	1.10	5.00	6.00	6.10	1.80	8.00

Source: KIS

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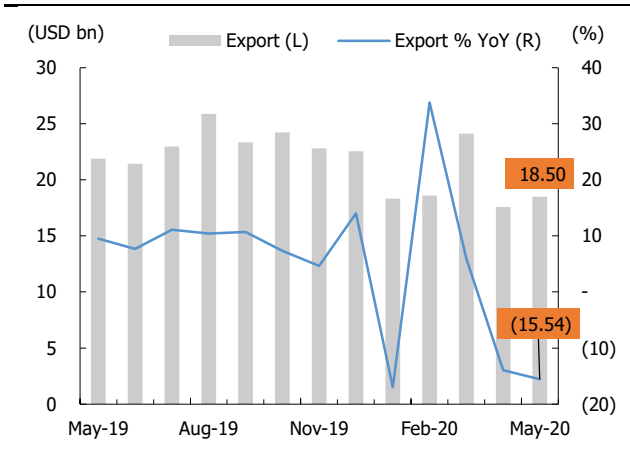
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I. Trade downtrend to decelerate

Trade tumbled but expected to decelerate

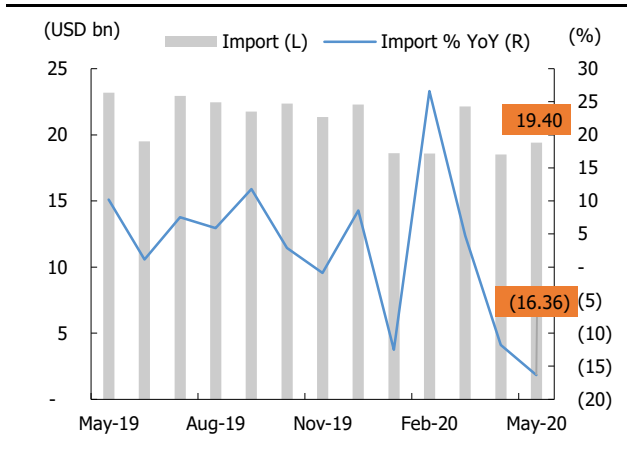
According to the latest estimate of GSO, the trade activity moved down deeper in a reduction in May 2020 as the total trade slumped by 15.96% YoY, lower by 157 basis points (bps) compared to April. In terms of trade type, the export value dropped by 15.54% YoY, posting USD18.50bn, while the import value also decreased by 16.36% YoY, recording USD19.40bn. As a result, the trade balance experienced a deficit of USD0.90bn. The ongoing pandemic continued lowering the consumption confidence of Vietnam's largest trading partners and hence discouraged the trade activity significantly.

Figure 1. Vietnam monthly export



Source: KIS, GSO

Figure 2. Vietnam monthly import



Source: KIS, GSO

In the export structure, most of the export items (24 over 36) experienced significant decreases compared to the same period last year in association with the spreading pandemic in May 2020. Notably, telephones, mobile phones and parts (TMPP), textiles and garments (Textiles), footwear, wood and wooden products (W&Wprod) and fishery declined by 29.99% YoY, 31.14% YoY, 18.54% YoY, 16.86% YoY and 18.78% YoY, dragging the overall growth down by 508 basis points (bps), 426bps, 145bps, 69bps, and 65bps, respectively. On the contrary, the computer, electrical products, spare parts, and components (CEPP) and machine equipment tools and instruments (METI) rose by 9.60% YoY and 16.32% YoY. This group adds the overall growth up by 240bps and offsets partially the general reduction in this period.

Most of the import items also witnessed strengthening reduction in a similar manner as export items. The fabrics, TMPP, iron and steel (I&S), and plastic experienced worse declines compared to May 2019 at 19.82% YoY, 23.45% YoY, 25.89% YoY, and 30.38% YoY subtracting 117bps, 106bps, 109bps, and 108bps respectively. CEPP, METI declined less severely by 3.04% YoY and 5.41% YoY, taking 57bps and 76bps out of the overall import growth.

Figure 3. Vietnam top 10 export items

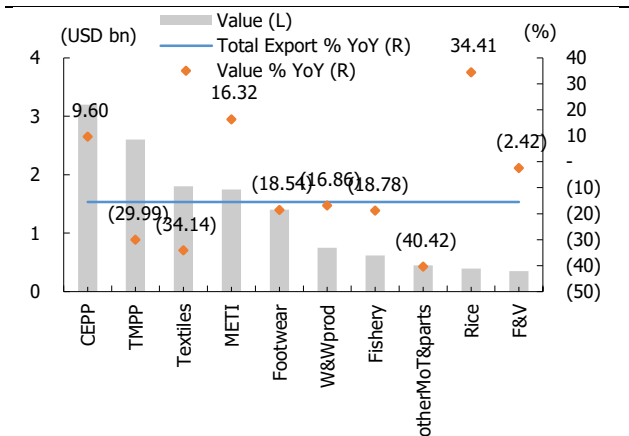
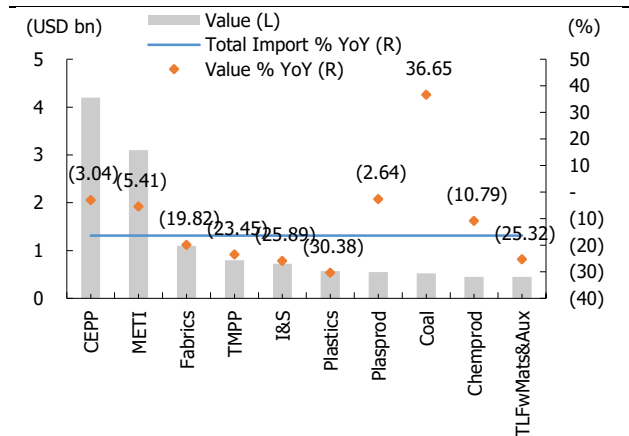


Figure 4. Vietnam top 10 import items

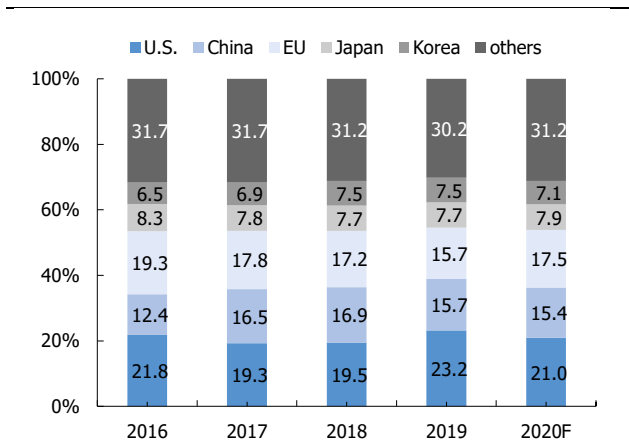


Source: KIS, GSO

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.

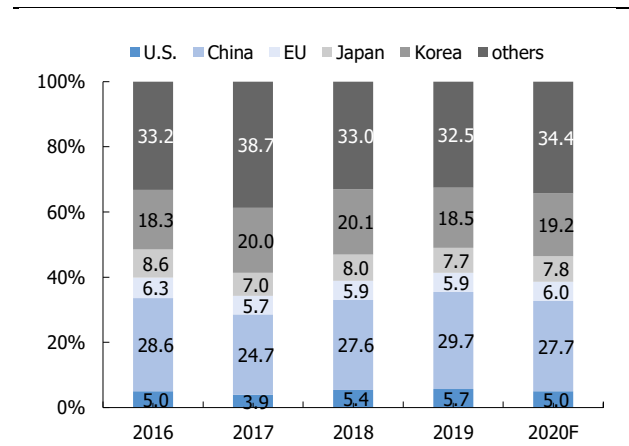
PREDICTION:

Figure 5. Vietnam export by country



Source: KIS, GSO

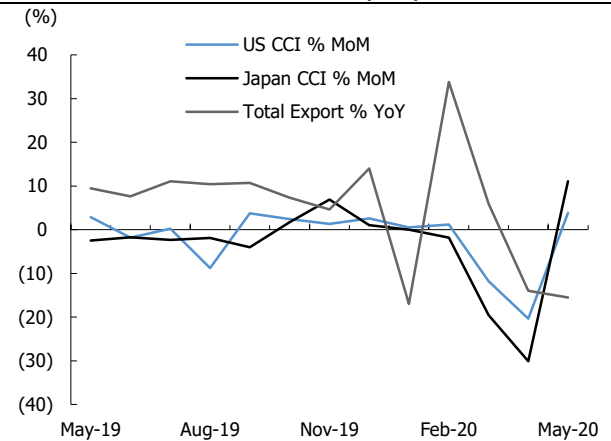
Figure 6. Vietnam import by country



Source: KIS, GSO

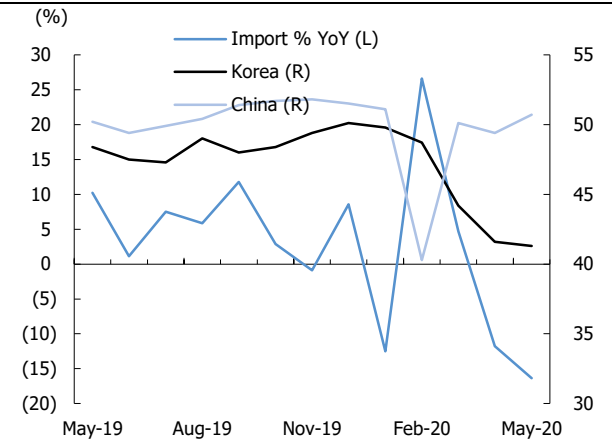
- Trade activities will become less severe in the next month as leading economic indicators in large trading partners improve.
- Re-opening wave help resurges consumer confidence of major trading partners, such as the U.S., EU, Japan, hence will decelerate the downward momentum of the trading scale.
- Global production revealed signals to rebound as downward momentums of PMI indices tended to decelerate, especially in China, South Korea.

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



Source: KIS, Bloomberg

Figure 8. Vietnam import and partner's PMI

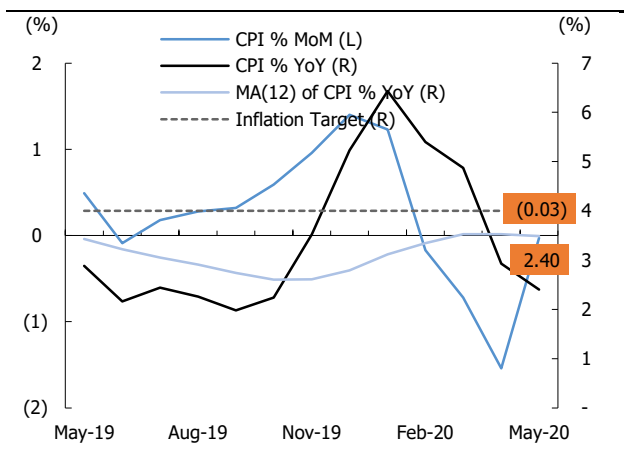


Source: KIS, Bloomberg

II. Oil prices rebound to ease traffic price

The Consumer Price Index (CPI) continued to decrease by 0.03% compared to the previous month, but the downward momentum seems to lose its energy significantly. Consequently, CPI increased by only 2.40% YoY, and its 12-month rolling inflation rate posted 3.49%, 51bps-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 May 2020



Source: GSO, KIS

Figure 10. Inflation by sector in May 2020

Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	0.34	12.11
Beverage and cigarette	3.59	0.25	1.7
Garment, Footwear, hat	6.37	-0.01	0.82
Housing and construction materials	15.73	0.25	0.37
Household appliances and goods	7.31	0.05	1.29
Medicine and health care	5.04	0.04	3.41
Traffic	9.37	-2.21	-23.37
Postal services & Telecommunication	2.89	-0.02	-0.57
Education	5.99	0	4.8
Culture, entertainment and tourism	4.29	-0.02	-1.41
Other goods and services	3.3	0.07	3.27
Consumer Price Index		-0.03	2.40

Source: GSO, KIS

Compared to April 2020, E5RON92 bounced back by 13.34% to post VND12,402 and mainly decelerated the traffic index's plunge. Consequently, the traffic sector declined by 2.21% MoM in this month, 1,165bps-higher than the prior month, and drag the overall CPI monthly change down by 21bps.

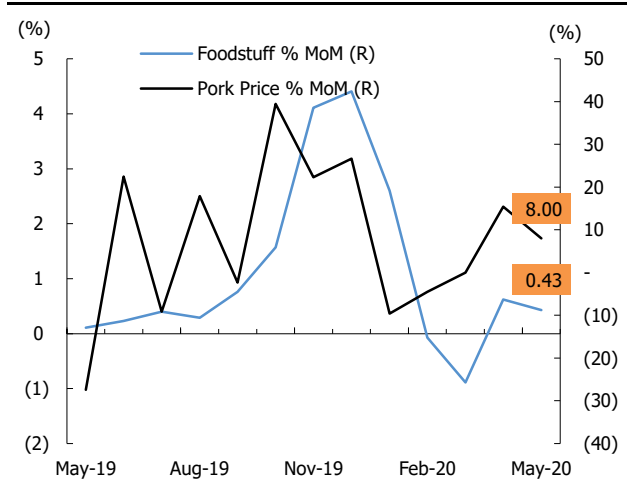
The pork price continued to rise by 8.00% MoM and mainly drive the foodstuff up by 0.43% MoM. Besides, items in eating outside averagely increased by 0.34%

MoM while the food index declined by 0.08% MoM after a rising series of ten months. Overall, the food and foodstuff sector rose by 0.34% MoM, adding up 12bps to the CPI monthly change.

Housing and construction materials (HCM) slightly increased by 0.25% MoM, contributing 4bps to the overall monthly change.

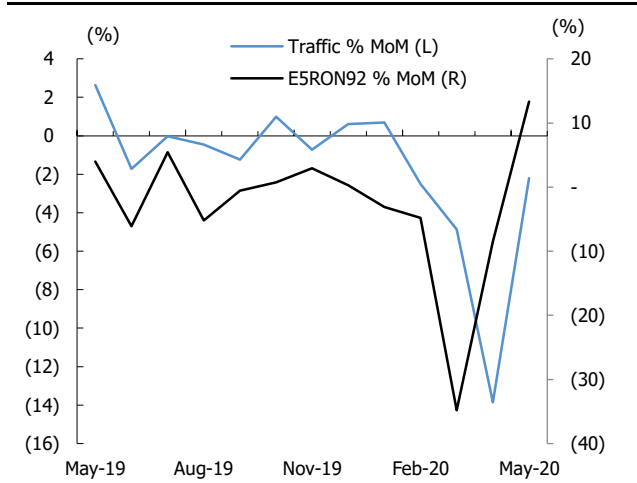
PREDICTION:

Figure 11. Pork & rice prices, and foodstuff movements



Source: GSO, MoIT, KIS

Figure 12. Petroleum product prices movements



Source: GSO, MoIT, KIS

The improvement in consumer confidence will encourage spending and partly put upward pressure on CPI:

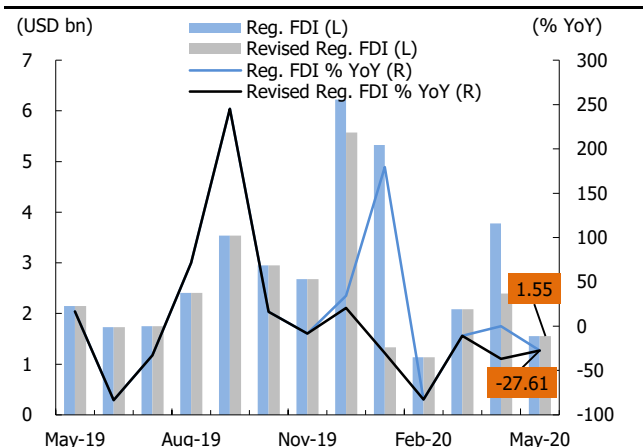
- The crude oil and petroleum prices are highly likely to rebound and somewhat put upward pressure on traffic items in CPI basket.
- Upward momentums in pork and rice prices will push the CPI up.

III. FDI yet to pick up

In May, although some other macroeconomic indicators show resilience along with economic activities re-opening, the economy still finds it struggling to attract foreign investment as a mandatory two-week quarantine remains effective for outsiders.

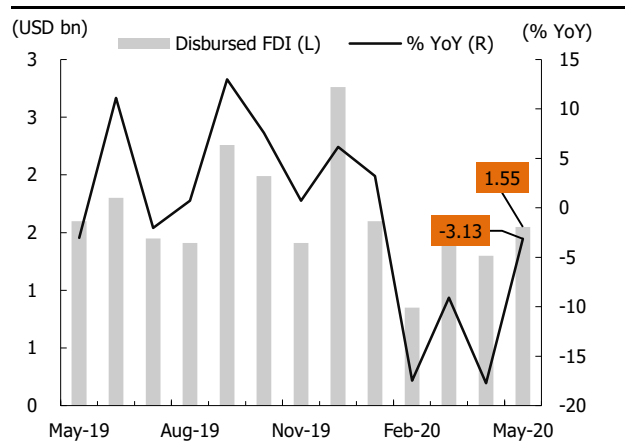
As of 20th May 2020, registered FDI recorded the second lowest level of just USD1.55bn, reducing by 27.61% YoY, while the amount for disbursed capital was USD1.55bn, down by 3.13% YoY.

Figure 13. Registered FDI



Source: KIS, FIA, FiinPro
 Revised Reg. FDI: Registered FDI excluding projects with greater than USD1bn in registered capital

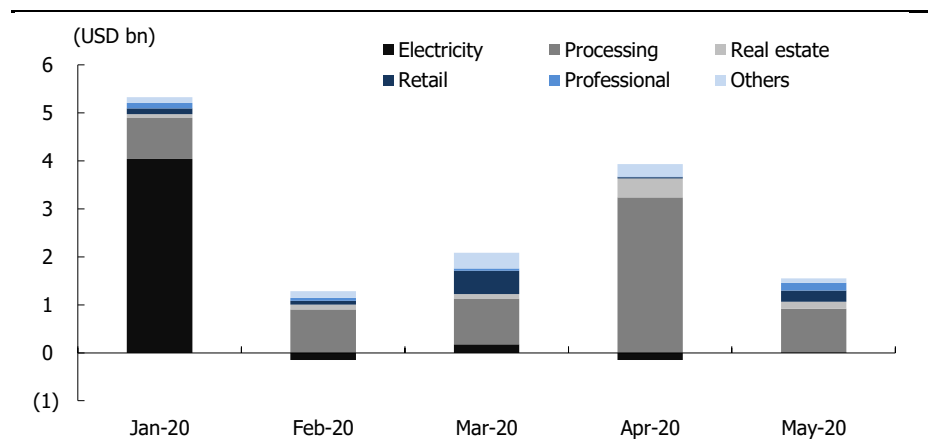
Figure 14. Disbursed FDI



Source: KIS, FIA, FiinPro

By sectors, in May, processing was on top receiving the most registered capital of USD0.91bn, accounting for 58.59% of total registered FDI, followed by retail with USD0.24bn or 15.15% of total. The third and fourth positions were professional with USD0.16bn and retail with USD0.14bn, equivalent to 10.31% and 9.21% of the total, respectively.

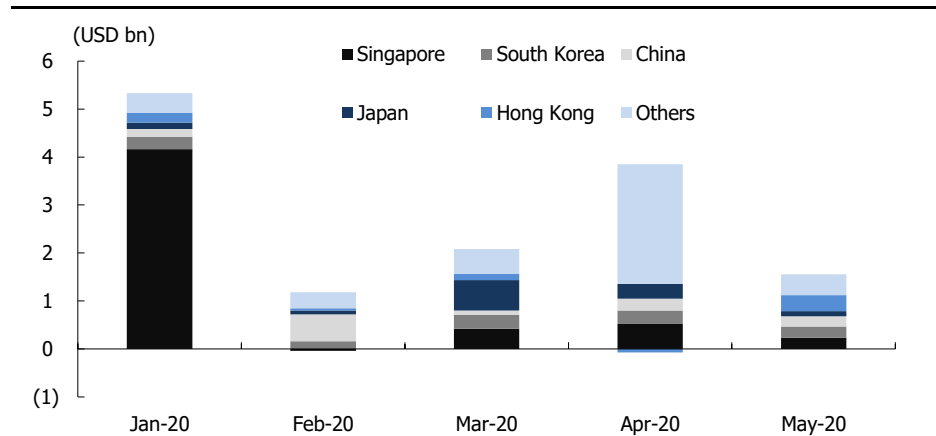
Figure 15. Main sectors



Source: KIS, FIA, FiinPro

Meanwhile, investment inflows from major ASEAN partners, which were main sources in recent years, still remained subdued. Hong Kong was the largest partner in the month with USD0.32bn or 21.39% of total, while Singapore took the 2nd place with USD0.24bn or 15.31% of total. South Korea and Japan shared the 3rd and 4th positions with USD0.23bn and USD0.21bn, equivalent to 14.87% and 13.50% of total, respectively.

Figure 16. Main partners



Source: KIS, FIA, Fiinpro

PREDICTION:

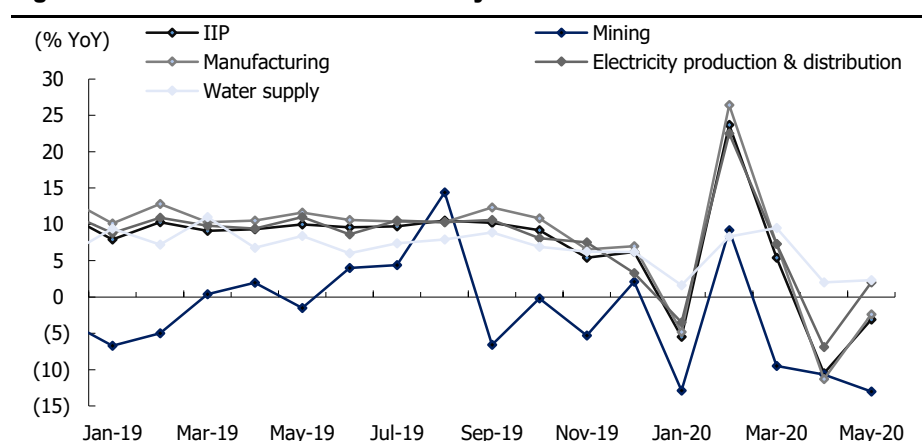
Recently, the Vietnam government agreed to re-start to grant visas to foreigners from 1st July although the two-week quarantine is still mandatory. This news certainly eases some difficulties for foreign investors entering Vietnam since the pandemic has started. In other words, the outlook for the FDI into Vietnam, from our perspective, is much positive than in a couple of months ago. However, the recovery in FDI is likely to take place in the 3Q19 rather than in June.

IV. Strong rebound in IIP draws attention

In May, business conditions in the industrial sector turned much better as economic activities almost re-opened in the country and around the globe. Although its year-over-year growth still stayed in negative territory, the downward pressure caused by the pandemic was somewhat eased.

In May, after the historical plunge in April, the production of the industrial sector declined though at a slower pace of just 3.13% YoY. The biggest component, the manufacturing sector, dropped slightly by 2.44% YoY compared to 11.31% YoY plunge in April. Meanwhile, the mining sector saw a further contraction of 13.02% YoY. On the contrary, two other sectors, the electricity production & distribution and water supply & other related activities, rose by 1.98% YoY and 2.26% YoY, respectively.

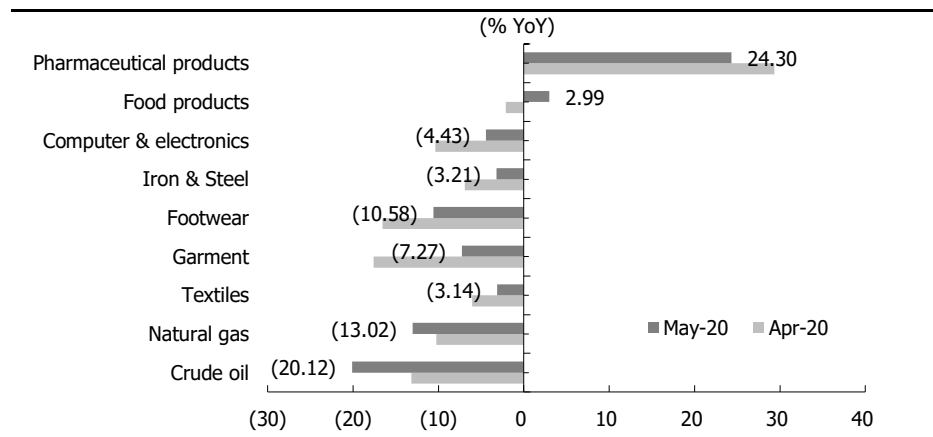
Figure 17. Industrial Production Index by sectors



Source: KIS, GSO, Fiinpro

- The overall production in the mining sector remained subdued due to excess inventory of crude oil accumulated during the health crisis despite a sharp recovery in the global oil market recently. In particular, the exploitation of crude oil continued to plummet by 20.12% YoY, the strongest reduction in recent years, while that of natural gas reduced at a slower pace, by 13.02% YoY.
- Meanwhile, data showed that most of sub-sectors in the manufacturing sector, from textiles, garment, footwear to computers, mobile phones, and electronics, seemed to bottom out in April when the output of the majority rebounded remarkably in May, supported by re-opening of economic activities domestically and globally. More details, textiles, garments, and footwear continued to decline by 3.14% YoY, 7.27% YoY, and 10.58% YoY, respectively, but improving significantly than in April. Similarly, the manufacture of computers & electronics experienced a modest contraction of 4.43% YoY, less than two-fold of its prior reduction. On the upside, the manufacture of pharmaceutical products went up for four months straight, posting 24.30% YoY, even when the pandemic is successfully contained. Besides, the manufacture of food products fully returned to its pre-crisis level, rising by nearly 3% YoY.

Figure 18. Production index of main products



Source: KIS, GSO, Fiinpro

PREDICTION:

From our viewpoint, the business conditions in the industrial sector have been improved markedly as the health crisis no longer creates tremendous pressure on the production activities like in a couple of months ago. But a “V-shaped” scenario for the industrial sector is not likely to happen despite its strong recovery in May.

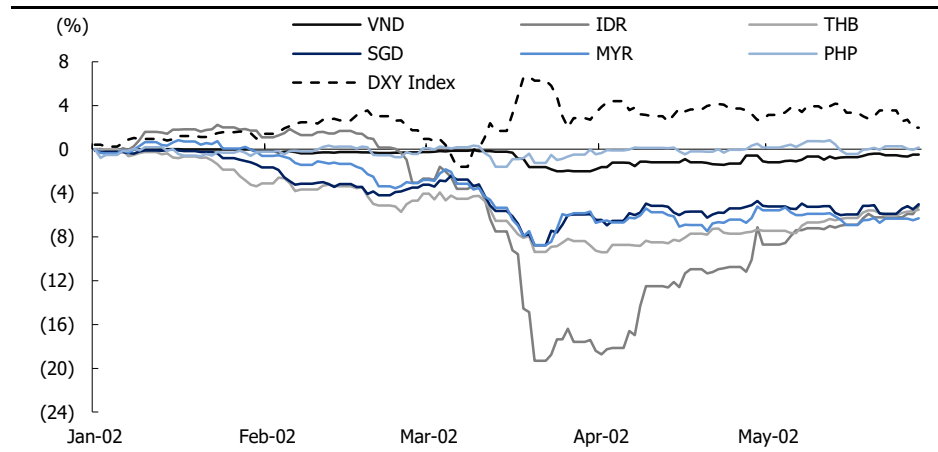
We expect that manufacture of textiles, garment, footwear, computer & electronics will improve further in June, while the outlook for the extraction of crude oil and natural gas, following a recovery in economic activities, may become less severe. Based on those reasons, a growth rate of the IIP from 0% YoY to 3% YoY will likely be the scenario in June.

V. Mixed signals from ASEAN currencies

After a series of downs in March, when the COVID-19 pandemic spread globally, and ups in April, when the global disease containment showed some promising results, ASEAN currencies just fluctuated in a narrow range in May. But, the upward pressure remained dominant on these currencies as the U.S. dollar continued to decline markedly.

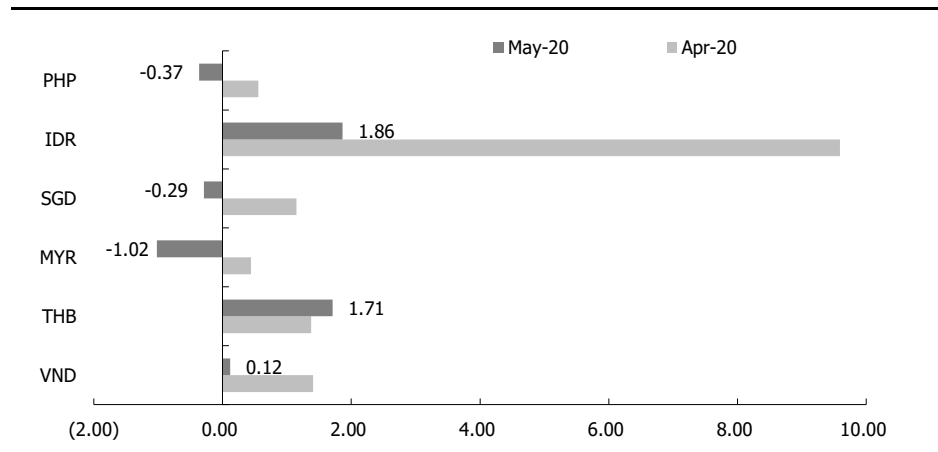
On the upside, VND, THB, and IDR continued to remain strong against the USD as these appreciated for the second month. Most impressively, after an increase of nearly 10% MoM in April, the IDR kept its upward momentum by going up 1.86% MoM in May, which was the strongest recovery among its peers. To a lesser extent, THB went up by 1.71% MoM against the greenback, followed by VND with just 0.12% MoM gain. On the opposite side, MYR contracted modestly by 1.02% MoM, while PHP and SGD dropped but insignificantly by 0.37% MoM and 0.29% MoM, respectively.

Figure 19. YTD changes in ASEAN currencies



Source: KIS, Bloomberg

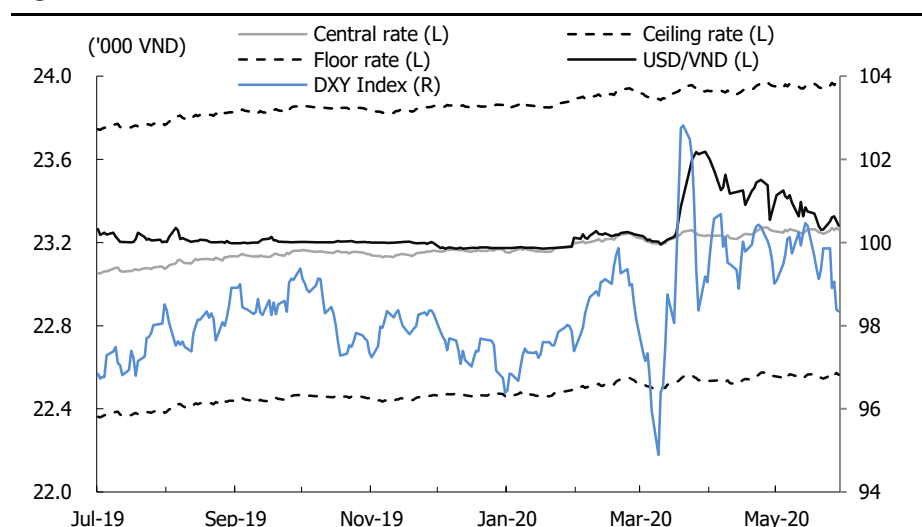
Figure 20. Monthly changes in ASEAN currencies



Source: KIS, Bloomberg

Meanwhile, despite a temporary decline in early May, VND kept going up for the rest of the month, ending at 23,261 or 0.12% higher than its level in April, in line with the downtrend of the USD. It is worth noticing that the VND nearly recovered to its level before the health crisis of around 23,200, which is sooner than any of the rest.

Figure 21. USD/VND rate and DXY index



Source: KIS, Bloomberg

PREDICTION:

As the global economy is on the way to re-open more and more in June combined with a strong downward momentum of the greenback recently, we expect the USD will drop further in May. As a result, it is likely that VND will go up but slightly by about 0.1% - 0.4% by the end of June.

VI. State budget posts a deficit of VND7.8tn

According to GSO's estimation, in 5M20, total government revenue posted VND529.6tn, equivalent to 35% of the year estimate. Of which, domestic revenue achieved VND439.9tn, equaling 34.8% of the annual estimate. Furthermore, revenue from crude oil reached VND18.9tn, equaling 53.7%, while that from export-import activities was VND70.5tn, equaling 33.9%.

At the same time, total expenditure was estimated at VND537.4tn, fulfilling 30.8% of the year estimate. In particular, the regular expenditure posted VND385tn, equaling 36.4% of the year plan, the development and investment spending recorded VND103.8tn, equivalent to 22.1%, and the interest payment was VND45.6tn, equaling 38.6%.

As a result, in 4M20, the state budget recorded a deficit of VND7.8tn.

Macro scorecard

(USD bn, USD, %, % YoY)

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	2Q19	3Q19	4Q19	1Q20	2016	2017	2018	2019
Real GDP growth	7.03			3.82			6.73	7.31	6.97	3.82	6.21	6.81	7.08	7.03
Registered FDI	6.23	5.33	1.14	2.08	3.75	1.59	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	21.80	19.00	18.60	19.30	17.60	18.50	63.77	72.22	68.83	56.9	176.6	215.1	243.5	263.6
Import	22.80	19.10	18.50	18.60	18.52	19.40	63.68	67.14	66.51	56.2	175.0	213.2	236.7	254.4
Export growth	10.15	(13.93)	33.76	5.93	(19.98)	(15.50)	9.17	10.72	7.29	(3.13)	8.99	21.82	13.19	8.16
Import growth	10.98	(10.16)	26.08	4.71	(11.77)	(15.90)	10.12	8.30	4.22	(1.59)	5.55	21.85	11.01	7.41
Inflation	5.23	6.43	5.40	4.87	2.93	2.40	2.66	2.23	2.79	3.53	2.66	3.53	3.54	2.79
USD/VND	23,173	23,223	23,231	23,637	23,309	23,282	23,301	23,203	23,173	23,637	22,761	22,698	23,175	23,173
Credit growth	13.70	0.10	0.17	1.30	1.42	1.20	7.36	9.40	13.70	0.68	18.25	18.24	13.89	13.70
10Y gov't bond	3.37	2.88	2.81	3.24	2.90	3.07	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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