

Economic Perspectives

Economic recovery: Light at the end of 2Q20

GDP growth hits low since the financial crisis

Real GDP growth in 2Q20 nearly approached reduction territory as expanding slightly by 0.36% YoY, recording the lowest level since the global financial crisis.

Trade downtrend to decelerate

Overall, trade activity continues to tumble in 2Q20 due to the global health crisis. But, a recent fast recovery in export-import numbers in June showed a brighter future towards 3Q20.

Bright spots for FDI inflows in 2Q20

In 2Q20, solid-growth industries remain attractive to foreign investors even under tremendous challenges in international mobility into Vietnam. Looking forward 3Q20, a strong recovery in economic activities may blow a strong tailwind to FDI in the manufacturing, retail, and real estate sectors.

Export-related sectors drive the industrial growth

In June, downward pressure from weak global demand has been relieved as export-related industries were driving growth in the industrial sector. These industries will likely remain key factors in the industrial growth in 3Q20.

U.S. dollar accelerates downward

In June, USD continued to depreciate for the third straight month at a faster pace. From our view, VND is not likely to see any significant changes in July as the implied volatility of the USD/VND remained very low even when the greenback may continue to drop further.

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KIS leading economic index

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

	1Q20	2Q20	3Q20F	4Q20F	2019	2020F	2021F
GDP	3.82	0.36	4.15	5.03	7.02	4.32	5.94
Trade balance	1.73	0.57	5.72	5.06	10.42	7.94	1.77
CPI	4.87	3.17	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	23,206	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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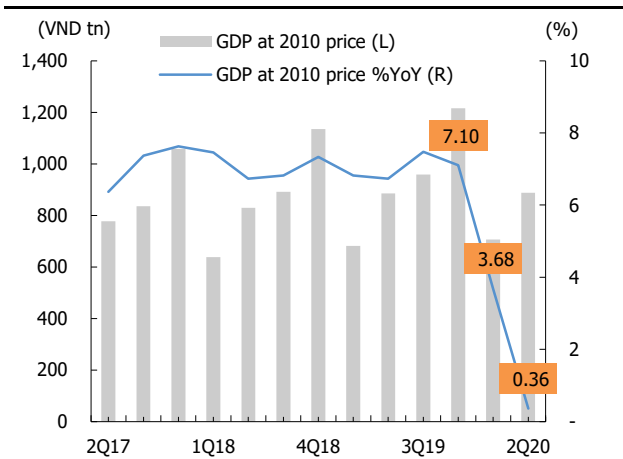
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I. GDP growth hits low since the financial crisis

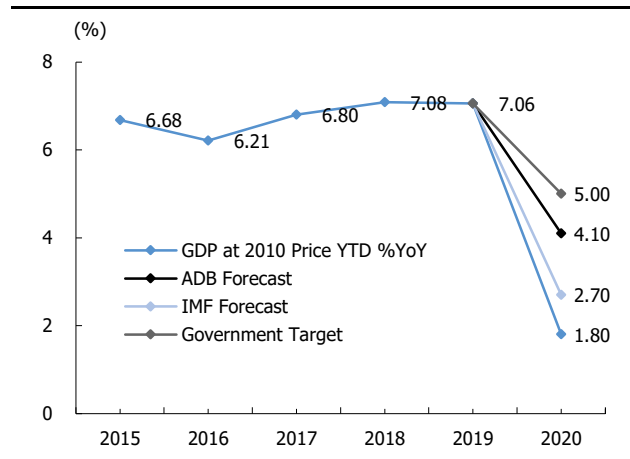
According to GSO, real GDP growth in 2Q20 nearly approached the reduction territory as expanding slightly by 0.36% YoY, recording the lowest level since the global financial crisis. This quarter also witnessed the consecutive second deceleration in the economic growth with a rate of more than 3%, implying that the overall economic conditions were somewhat worse than 1Q20, primarily due to the nationwide lockdown in April.

Figure 1. Vietnam Real GDP



Source: KIS, GSO

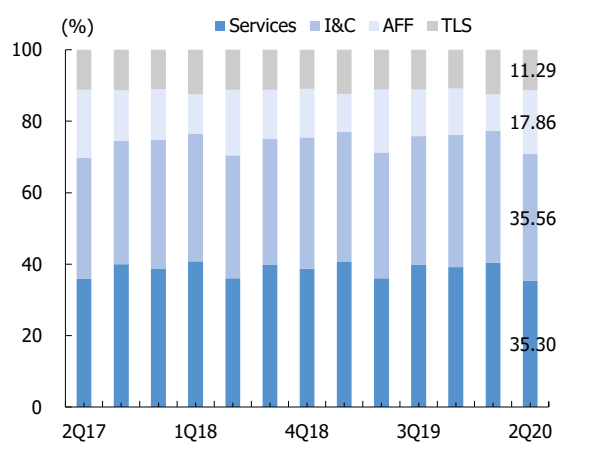
Figure 2. Vietnam GDP YTD growth and forecast



Source: KIS, GSO

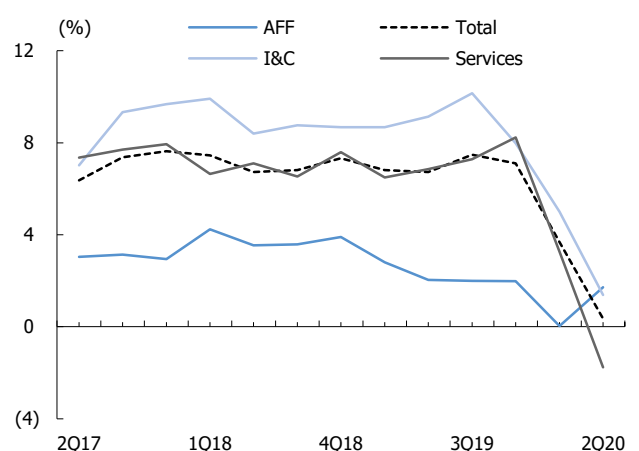
By sectors, economic activities in services and industry and construction (I&C) continued shrinking significantly while agriculture, forestry, and fishery (AFF) witnessed an acceptable growth in this period. More specifically, I&C decelerated in the second consecutive quarter by increasing only 1.38% YoY, 3.62%-lower than growth level in the previous period. Meanwhile, the data even showed a worse tendency in the services sector as it's added value declined by 1.76% compared to the same period last year. AFF was the spotlight as increasing by 1.72% YoY, implying some better conditions in expanding the production. As consequent, the share of AFF in real GDP structure increased to 17.86% while I&C and services shares decreased to 35.56% and 35.30% respectively.

Figure 3. Real GDP structure



Source: KIS, Bloomberg

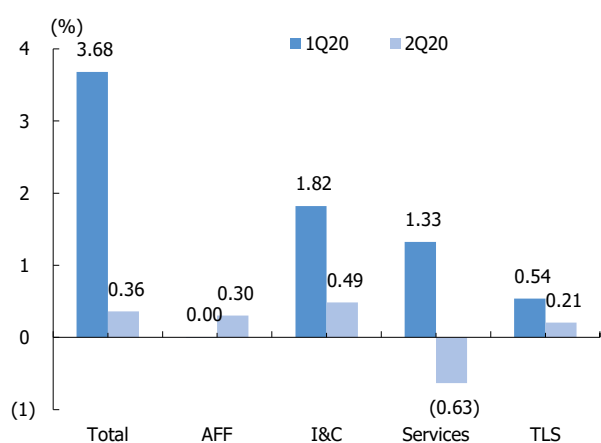
Figure 4. Sectoral growth rates



Source: Asian Development Bank. ADO2020 (April 2020)

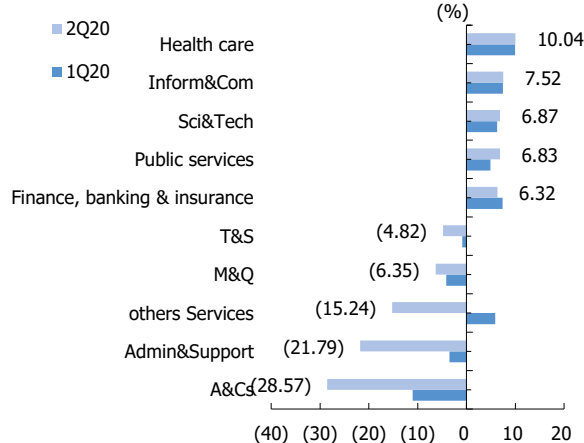
By sub-sectors, health care, information and communication (Inform&Com), scientific and technical specialty (Sci&Tech), activities of Communist Party, socio-political organizations; state management and national defense; compulsory social security (Public services), and finance, banking, and insurance remain their robust growth at 10.04% YoY, 7.52% YoY, 6.87% YoY, 6.83% YoY, and 6.32% YoY. On the opposite, transportation and storage (T&S), mining and quarrying (M&Q), administrative activity and supporting service (Admin&Support), and Accommodation & catering services (A&Cs) were industries incurring the most losses directly related to the pandemic. Their respective growths were -4.82%, -6.35%, -21.79%, and -28.57%, almost tripling each sub-sectors' reduction paces in the previous quarter.

Figure 5. Sectoral contributions of GDP growth



Source: KIS, GSO

Figure 6. Sub-sectoral growth rates



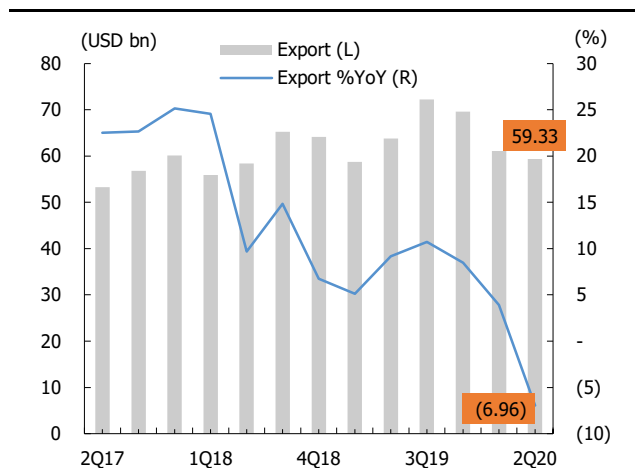
Inform&Com: Information & communication, Sci&Tech: Scientific and technical specialty, Public services: Activities of Communist Party, socio-political organizations; State management and national defense; compulsory social security, T&S: Transportation and storage, M&Q: Mining and quarrying, Admin&Support: Administrative activity and supporting service, A&Cs: Accommodation & catering services.

II. Trade downtrend to decelerate

Trade tumbled but expected to decelerate

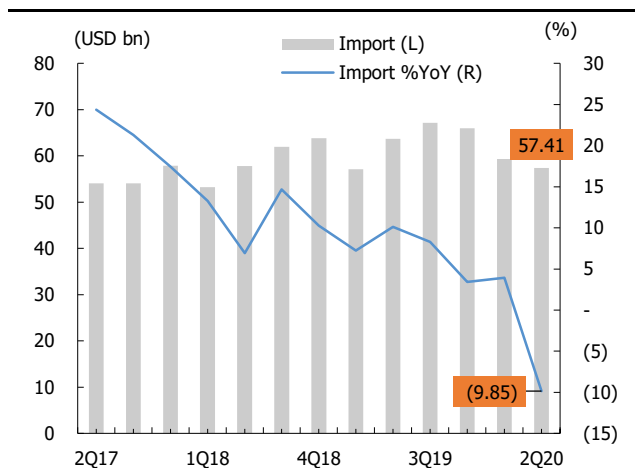
According to the latest estimate of GSO, the trade activity tumbled in 2Q20 after decelerating in the previous quarter due to the global health crisis as the total trade, export and import declined by 9.80% YoY, 9.41% YoY, and 10.18% YoY to post USD114.97bn, USD57.77bn, and USD57.20bn, respectively.

Figure 7. Vietnam quarterly export



Source: KIS, GSO

Figure 8. Vietnam quarterly import

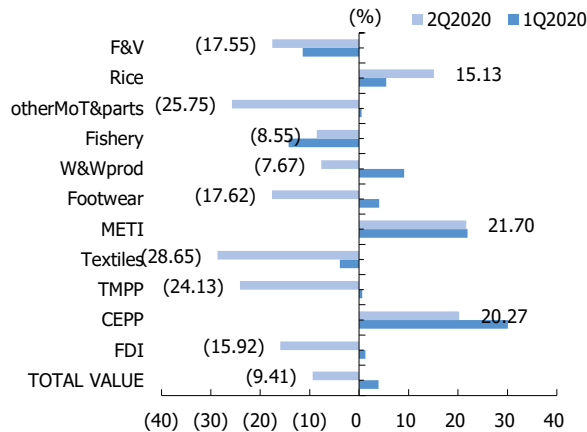


Source: KIS, GSO

In the export structure, most of the export items experienced significant decreases compared to the same period last year in association with the spreading pandemic in 2Q2020. 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 further reduction in a similar manner as export items. The fabrics, TMPP, iron and steel (I&S), and plastic experienced further 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.

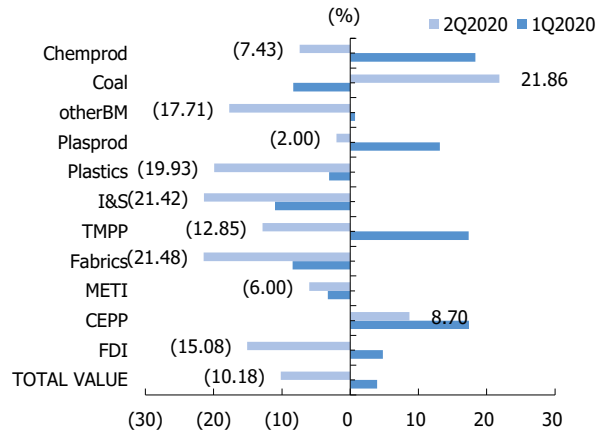
Figure 9. Vietnam top 10 export items



Source: KIS, GSO

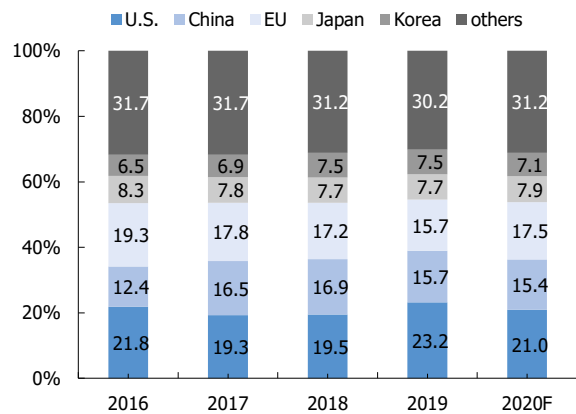
TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, otherMoT&parts: other means of transportation parts and accessories thereof, W&Wprod: wood and wooden products, F&V: fruits and vegetables, I&S: iron and steel,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

Figure 10. Vietnam top 10 import items



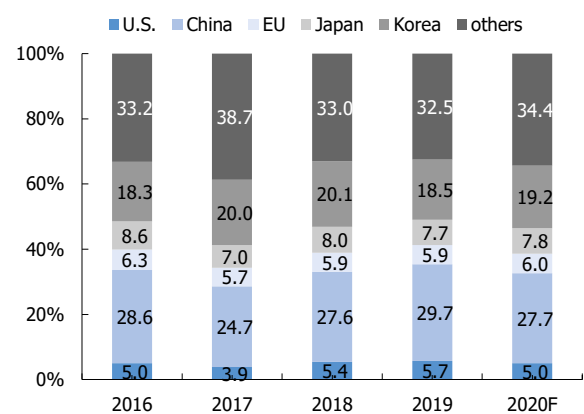
PREDICTION:

Figure 11. Vietnam export by country



Source: KIS, GSO

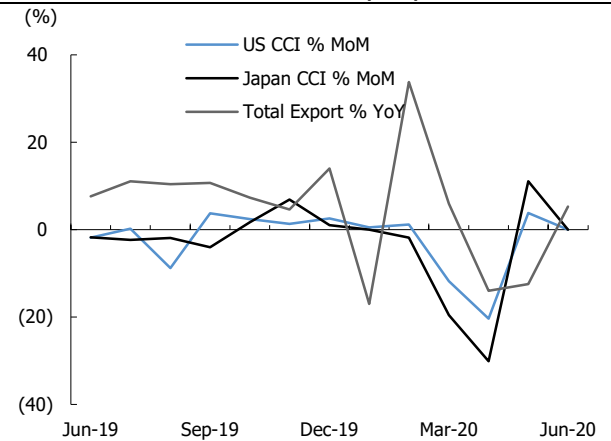
Figure 12. Vietnam import by country



Source: KIS, GSO

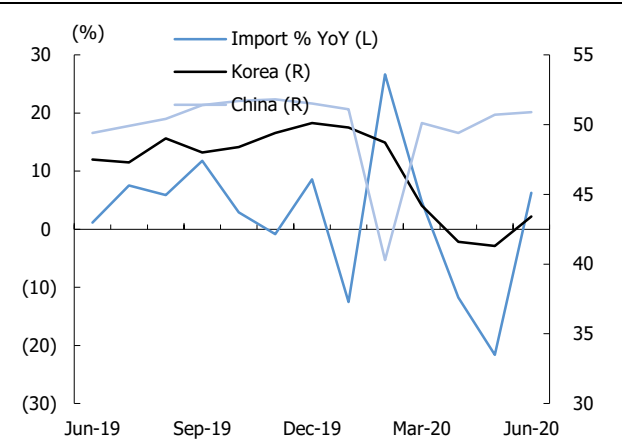
- Trade activities will become less severe in the next month as leading economic indicators in large trading partners improve.
- Re-opening wave help resurges consumer confidence of major trading partners, such as the U.S., EU, Japan, hence will decelerate the downward momentum of the trading scale.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

Figure 13. Vietnam export and partner's OECD Consumer Confidence Indices (CCI)



Source: KIS, Bloomberg

Figure 14. Vietnam import and partner's PMIs

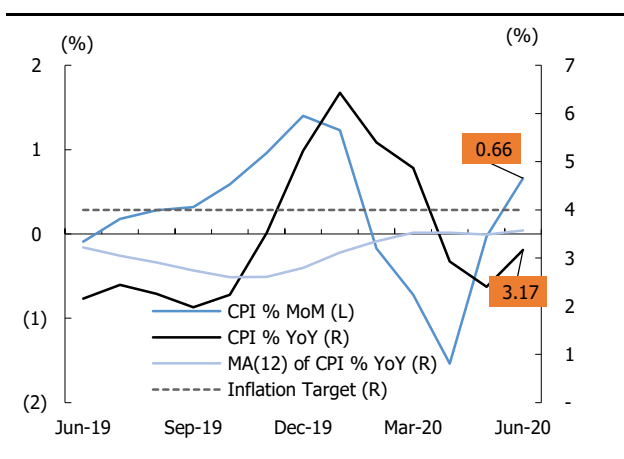


Source: KIS, Bloomberg

III. Oil prices drive CPI recovery

The Consumer Price Index (CPI) increased by 0.66% compared to the previous month, marking the recovery after a long path of the reduction over four consecutive months. Consequently, CPI also increased by 3.17% YoY, and its 12-month rolling inflation rate posted 3.57%, 43bps-lower than the Government target rate of 4%. The recovery in petroleum product prices mainly drove CPI in this period.

Figure 15. CPI Change in June 2020



Source: GSO, KIS

Table 1. Inflation by sector in May 2020

Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	0.44	12.46
Beverage and cigarette	3.59	0.09	1.46
Garment, Footwear, hat	6.37	0	0.68
Housing and construction materials	15.73	-0.42	0.16
Household appliances and goods	7.31	0.07	1.22
Medicine and health care	5.04	0.01	3.37
Traffic	9.37	6.05	-17.3
Postal services & Telecommunication	2.89	-0.04	-0.51
Education	5.99	0	4.64
Culture, entertainment and tourism	4.29	-0.01	-1.62
Other goods and services	3.3	0.19	3.31
Consumer Price Index		0.66	3.17

Source: GSO, KIS

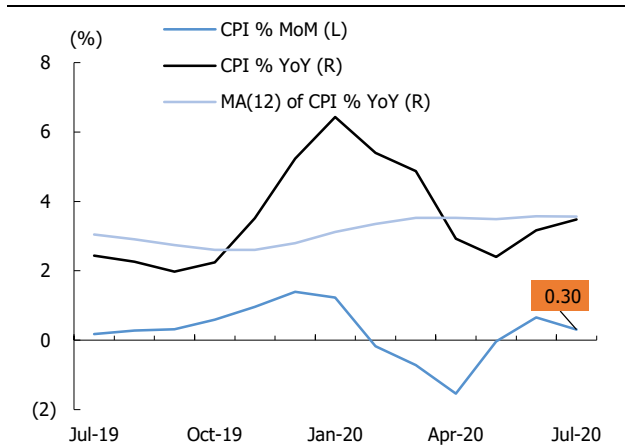
Compared to May 2020, E5RON92 rose remarkably by 14.97 % to post VND14,258 and was the main reason to push the traffic index up. Consequently, the traffic sector increased by 6.05 % MoM in this month, tripling the reducing magnitude in the prior month, and added the overall CPI monthly change up by 57bps.

The foodstuff increased 0.72% MoM in spite of the noticeable fall in pork price at 14.20% MoM. Vegetable, fruits and fishery products likely determined such increase in foodstuff. Also, general prices in eating outside basket recorded a

positive change at 0.15% MoM. On the contrary, food sector witnessed the second consecutive decrease in prices at 0.40% MoM and partly offset the increases in two former peers. Consequently, the food and foodstuff index (FaF) rose by 0.44% MoM, adding 16bps to the monthly change of CPI.

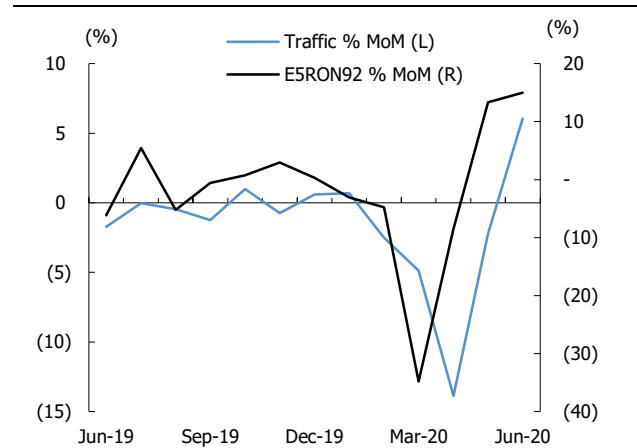
Housing and construction materials (HCM) decreased by 0.25% MoM, dragging 7bps to the overall monthly change.

Figure 16. Forecast of CPI in July 2020



Source: KIS, Bloomberg

Figure 17. Petroleum product prices movements



Source: KIS, Bloomberg

PREDICTION:

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

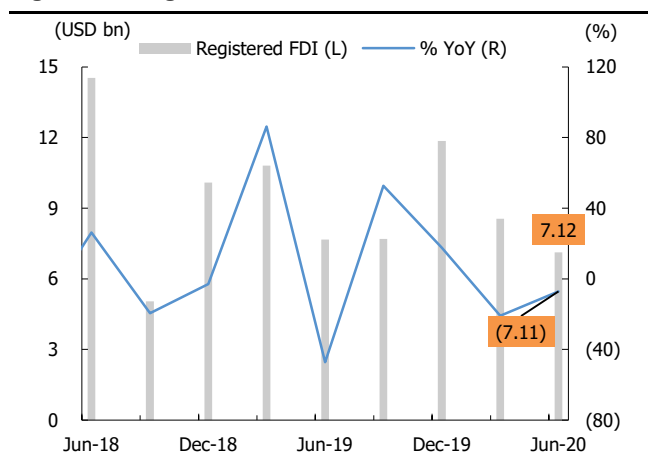
- The crude oil and petroleum prices are highly likely to rebound and somewhat put upward pressure on traffic items in CPI basket.
- Upward momentums in pork was likely complete and partly mitigate the price index in foodstuff's basket.

IV. Bright spots for FDI inflows in 2Q20

Speaking generally, foreign investment activities in 2Q20 remain quiet as foreign investors still struggle with restrictions on international mobility. But, at least there are significant changes in investors' confidence in the potential of Vietnam's economic growth relative to other peers for the post-crisis future.

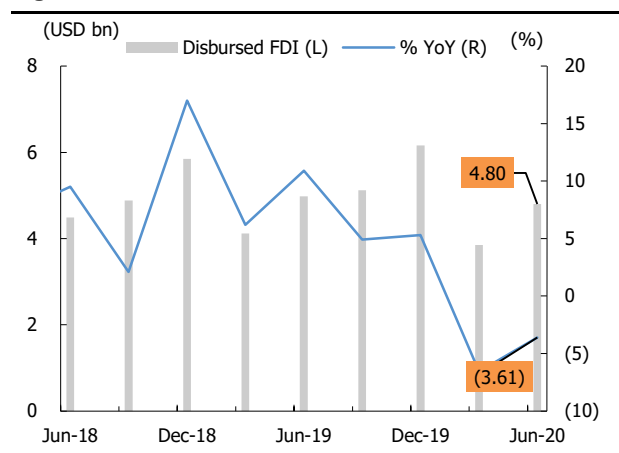
As of 2Q20, registered FDI saw a modest reduction of -7.11% YoY, posting USD7.12bn, while the capital disbursement started picking up to reach USD4.8bn, dropping slightly by 3.61% YoY.

Figure 18. Registered FDI



Source: KIS, FIA, FiinPro

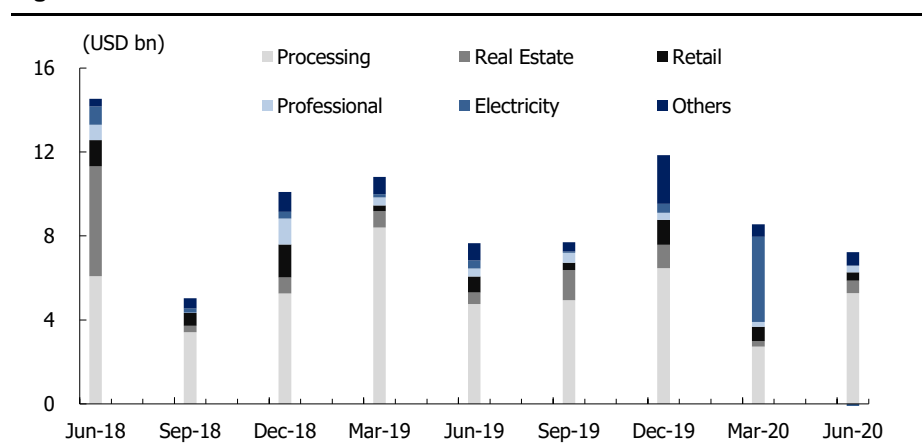
Figure 19. Disbursed FDI



Source: KIS, FIA, FiinPro

The spotlight in 2Q20 was a fast recovery in the manufacturing sector driving foreign capital flows into this sector increasing remarkably. In particular, the FDI registered in manufacturing was nearly doubled from its 1Q20 level, reaching USD5.28bn or about 74% of the total. Meanwhile, FDI registered in real estate started to accelerate after plummeting in the first quarter, achieving USD0.59bn. However, the retail sector, which was hardest hit by the crisis among others, still yet recovered when only receiving USD0.40bn, losing nearly half of its 2Q19 amount.

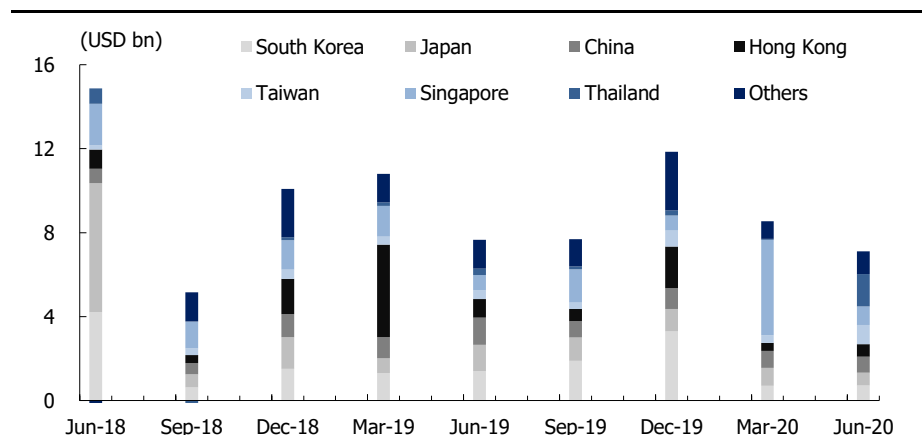
Figure 20. Main sectors



Source: KIS, FIA, FiinPro

Meanwhile, about 85% of the total FDI registered in this period was coming from the top 7 ASIA partners, including Thailand, Taiwan, Singapore, China, South Korea, Hong Kong, and finally Japan, arranged by their proportions. Thailand was the largest investor in 2Q20 with USD1.54bn thanks to a one-off increase from a USD1.4bn additional investment into the Long Son Petrochemical Complex Project. Taiwan and Singapore also expanded their investment significantly by about USD0.92bn and USD0.89bn, respectively. On the opposite, South Korea's and Japan's investors still remained silent in the year.

Figure 21. Main partners



Source: KIS, FIA, Fiinpro

PREDICTION:

Data in 2Q20 indicated that solid-growth industries are still attractive to foreign investors even under tremendous challenges in international mobility into Vietnam.

Macroeconomic data for 2Q20 showed nearly full recoveries in the retail and manufacturing sectors, and the real estate sector is expected to grow strongly in 2H20. Looking forward to 3Q20, it is expected to see a strong rebound in FDI, especially in these sectors listed above.

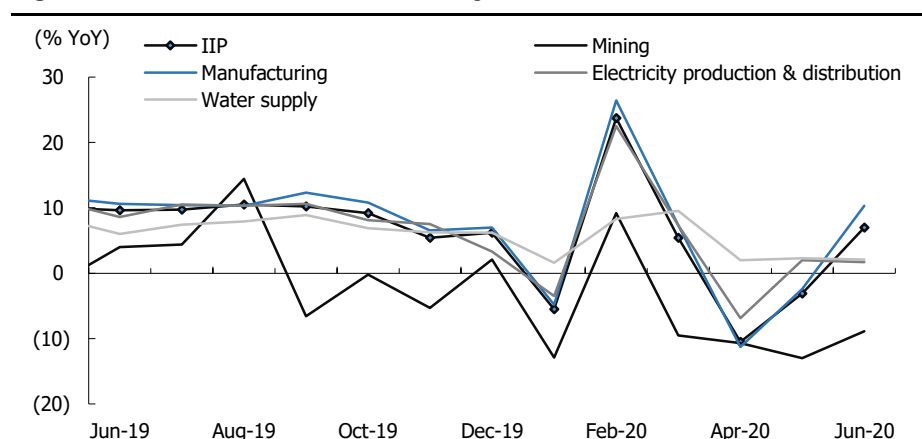
Besides, it is not likely that the Vietnam government will maintain strictly international travel restrictions for any longer than 3Q20 as its economic cost for tourism-related industries may pose a threat to the whole economy. If successfully lifted, this may give a strong tailwind to the FDI.

V. Export-related sectors drive the industrial growth

In June, the recovery in the industrial sector was beyond our expectation as some major sub-sectors rebounded to even more than pre-crisis thanks to economic activities re-opening both domestically and globally. It seems downward pressure from weak global demand has been relieved as export-related industries were driving growth in the industrial sector.

In particular, the industrial production index IIP rebounded remarkably by 6.99% YoY after plunging in April and recovering modestly in May. This sharp recovery was mainly driven by the expansion of 10.26% YoY in the manufacturing sector. Besides, the electricity production & distribution sector was up by 1.72% YoY, while water supply & other related activities increased by 2.07% YoY. On the downside, the mining sector still contracted for four straight months, at -8.86% YoY.

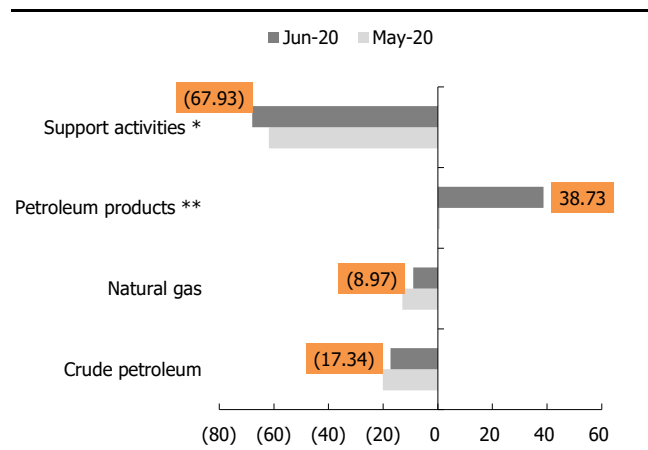
Figure 22. Industrial Production Index by sectors



Source: KIS, GSO, Fiiipro

- A long-lasting severe contraction in the energy production industry continued to drive the mining sector down in June. In particular, the exploitation of crude oil and natural gas plunged by 17.34% YoY and 8.97% YoY, respectively. Service activity related to these sub-sectors also scaled down more than half on a year-over-year basis for the third consecutive month.
- Export-related industries, including the manufacture of textiles, garment, footwear and computers, mobile phones, and electronics, further recovered in the month, driven by global demand increasing. Most noticeably, the manufacture of telephones surged by 30.11% YoY, which was the highest level in recent years, while that of electronics also increased by 2.66% YoY after plunging deeply in April and May. Meanwhile, the production levels in textiles, garments, and footwear were back to pre-crisis levels after bottoming in April, increasing by 9.09% YoY, 4.95% YoY, and 0.75% YoY.
- Besides, the production of inputs for the construction industry, including mining of iron ores and manufacturing of basic iron & steel & cement, also expanded remarkably.

Figure 23. Energy industry (% YoY)

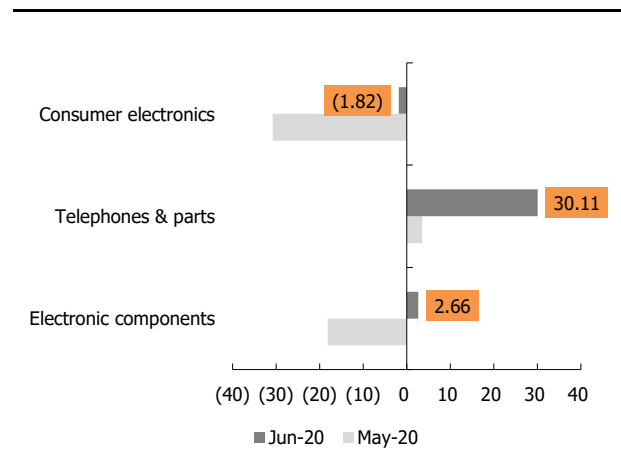


Source: KIS, FIA, Fiiipro

*: Support services for the exploitation of crude oil and natural gas

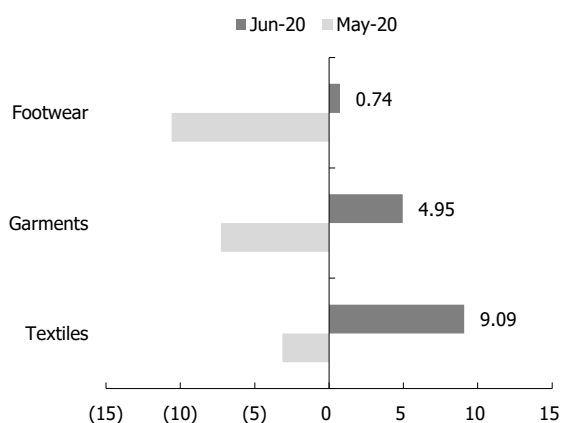
** : Part of a phenomenal year-over-year increase was due to a temporarily very-low production base in 2019

Figure 24. Electronics industry (% YoY)



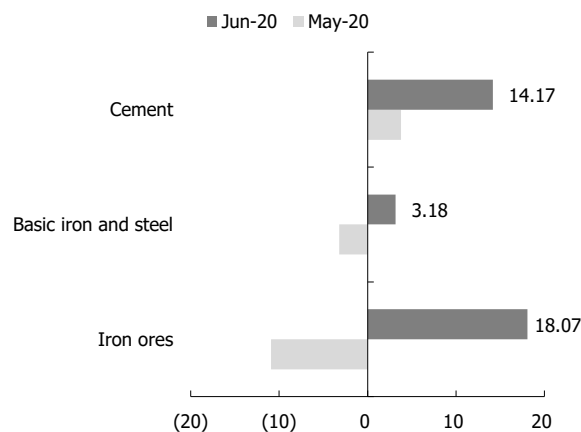
Source: KIS, FIA, Fiiipro

Figure 25. Textile and garment industry (% YoY)



Source: KIS, FIA, FiinPro

Figure 26. Construction industry (% YoY)



Source: KIS, FIA, Fiinpro

PREDICTION:

Looking forward to July and the third quarter of 2020, in our opinion, there is still room for further expansion in the industrial sector. As our major export markets are hurry to fully re-open their business activities, export-related industries will be the ones benefited from it.

Furthermore, the Vietnam government is accelerating infrastructure investment in June and the 2H20, and it is undoubtedly that the cement and iron & steel industries will take advantage of this great opportunity.

Last but not least, we expect the crude oil & natural gas industry to rebound in upcoming months as the soar in the manufacture of petroleum products in June was considered an early indicator for the recovery in demand for crude oil and natural gas.

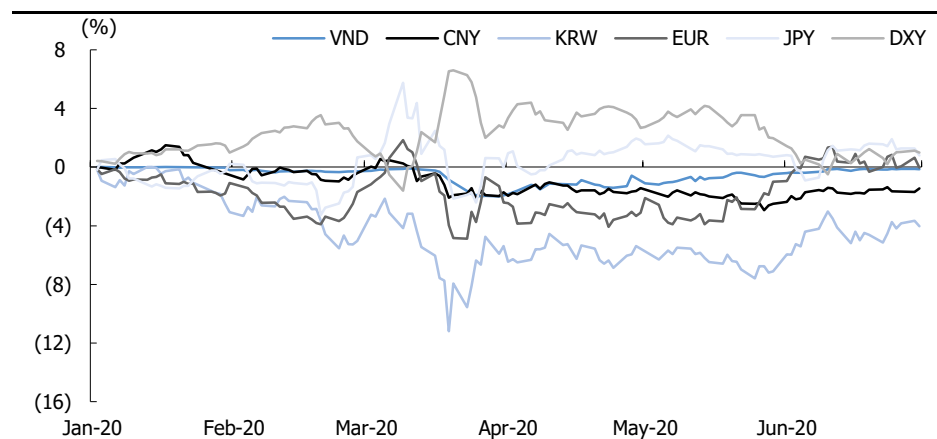
One thing should be mentioned that the manufacture of computers & telephones & related parts had an abnormally high base production levels in the 3rd quarter of 2019, which may technically slow down its year-over-year growth in this period.

Finally, based on the current data and our view for the industrial sector, we forecast the IIP growth will be between 2% YoY – 5% YoY in July.

VI. U.S. dollar accelerates downward

In June, the U.S. dollar continued to depreciate for the third straight month at a faster pace as economic conditions improved markedly in the global economy. However, data showed that there are still some cautions among investors' confidence that hold back the USD value from slumping further. As a result, all currencies of our major trading partners appreciated against the greenback in the month.

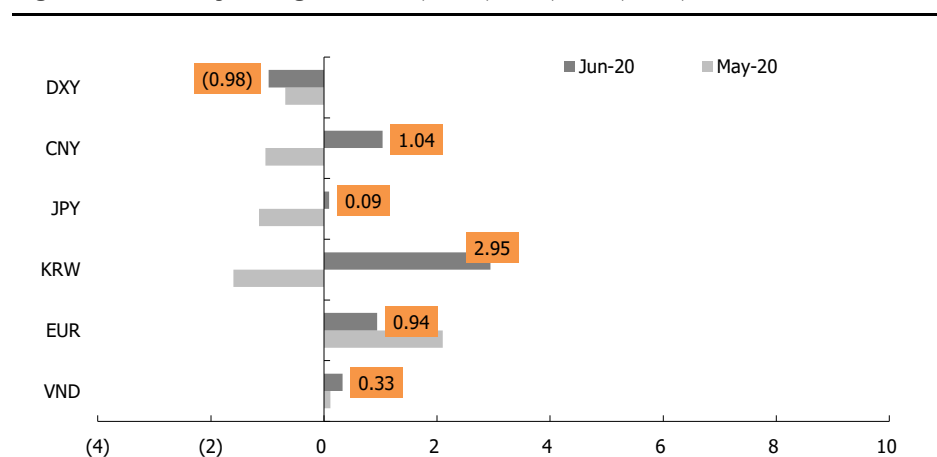
Figure 27. Movements of VND, USD, CNY, KRW, JPY, and EUR



Source: KIS, Bloomberg

Most notably, KRW saw a sharp rebound of nearly 3% mom. To a lesser extent, CNY and EUR were also up by 1.04% mom and 0.94% Mom. VND increased for the third straight month, up by 0.33% mom, while JPY remained weak, increasing by just 0.09% mom, after falling 1.15% mom in May. On the opposite, USD continued to drop by 0.98% mom to even below its pre-crisis level.

Figure 28. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR

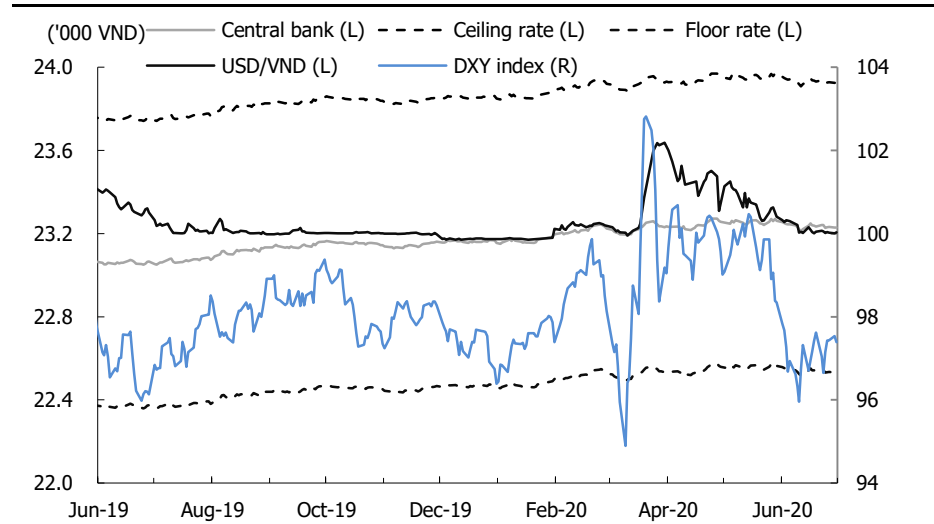


Source: KIS, Bloomberg

Meanwhile, the volatility of the USD/VND remained relatively low compared to the prior period as its low-high spread was just 63 dong from 23,202 to 23,265 in the month, which indicates the USD/VND is highly stable at the current time.

Furthermore, the interbank USD/VND also stayed below the central rate by late June, which probably implied decreasing demand for the greenback.

Figure 29. USD/VND rate and DXY index



Source: KIS, Bloomberg

PREDICTION:

From our view, VND is not likely to see any significant changes in July as the implied volatility of the USD/VND remained very low even when the greenback may continue to drop further.

Besides, while the currencies of our major exporting markets appreciated markedly against the USD and also VND, we expect that this may make a positive impact to export activity in 3Q20.

VII. State budget posts a deficit of VND69.1tn

According to GSO’s estimation, as of 15th June, total government revenue posted VND607.1tn, equivalent to 40.1% of the year estimate. Of which, domestic revenue achieved VND503.8tn, equaling 39.9% of the annual estimate. Furthermore, revenue from crude oil reached VND20.2tn, equaling 57.5%, while that from export-import activities was VND82.8tn, equaling 39.8%.

At the same time, total expenditure was estimated at VND676.2tn, fulfilling 38.7% of the year estimate. In particular, the regular expenditure posted VND475.1tn, equaling 45% of the year plan, the development and investment spending recorded VND140.3tn, equivalent to 29.8%, and the interest payment was VND56.4tn, equaling 47.8%.

As a result, in the first half of 2020, the state budget recorded a deficit of VND69.1tn.

Macro scorecard

(USD bn, USD, %, % YoY)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	3Q19	4Q19	1Q20	2Q20	2016	2017	2018	2019
Real GDP growth			3.82				7.31	6.97	3.82	0.36	6.21	6.81	7.08	7.03
Registered FDI	5.33	1.14	2.08	3.78	1.55	1.79	7.66	11.86	8.55	7.12	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	19.00	18.60	19.30	17.60	18.50	21.00	72.22	68.83	56.9	59.2	176.6	215.1	243.5	263.6
Import	19.10	18.50	18.60	18.52	19.40	20.50	67.14	66.51	56.2	60.3	175.0	213.2	236.7	254.4
Export growth	(13.93)	33.76	5.93	(19.98)	(15.50)	(2.00)	10.72	7.29	(3.13)	(5.31)	8.99	21.82	13.19	8.16
Import growth	(10.16)	26.08	4.71	(11.77)	(15.90)	5.16	8.30	4.22	(1.59)	(7.17)	5.55	21.85	11.01	7.41
Inflation	6.43	5.40	4.87	2.93	2.40	3.17	2.23	2.79	3.53	3.57	2.66	3.53	3.54	2.79
USD/VND	23,223	23,231	23,637	23,309	23,282	23,206	23,203	23,173	23,637	23,206	22,761	22,698	23,175	23,173
Credit growth	0.10	0.17	1.30	1.42	1.20	2.80	9.40	13.70	0.68	2.80	18.25	18.24	13.89	13.70
10Y gov't bond	2.88	2.81	3.24	2.90	3.07	3.07	4.07	3.37	3.24	3.07	6.23	5.14	5.07	3.37

Source: GSO, Bloomberg, FIA, IMF

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