trueFriend KIS Viet Nam Securities Corporation

Economy
Monthly

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Economic Perspectives

Economic growth to slow down under COVID-19 uncertainty

Local infection to concern trade momentum

Although export was slowing down, trade activities in November witnessed a slight acceleration due to a higher growth rate in import value compared to last month. COVID resurgence and the postpone of stimulus packages slow down export growth, while the country's well-controlled pandemic boost domestic demand and accelerated import growth. We predict trade to slow down due to global anti-virus restrictions enhancement and domestic consumers' looming confidence related to new local affected cases.

Petroleum prices to push CPI up

The CPI witnessed a reduction compared to the previous month, recording the first negative growth rate after a series of five rising months. Traffic was the main reason putting downward pressure on CPI, while food and foodstuff and housing and construction materials were the main forces pushing CPI up. We predict CPI to increase by 0.16% MoM in December.

New FDI continues to set multi-month high

November data showed that a recent growth in registered FDI continues to gain momentum. However, with new COVID-19 cases being found in the society in early-December, the government has again closed the international flights without a specific end date. Thus, it would likely cause further delay in new FDI registration in December.

High domestic demand to lift up industrial growth

Looking forward to December, export demand-related industries would face difficulties to boost production as consumers in the U.S. and Europe markets signal negative sentiment due to the COVID-19 impact. We expect that high domestic demand would continue to be a key to unlock further growth in industries serving domestic market.

KIS leading economic index (USD bn, %, % QoQ, % YoY)

	1Q20	2Q20	3Q20	4Q20F	2019	2020F	2021F
GDP	3.82	0.36	2.62	5.03	7.02	2.50	5.94
Trade balance	1.73	0.57	7.41	5.06	10.42	7.94	1.77
CPI	4.87	3.17	3.81	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	23,188	23,252	23,231	23,255	23,246
US GDP	(4.80)	(34.20)	NA	7.90	2.3	(5.70)	3.90
China GDP	(6.80)	1.10	NA	6.00	6.10	1.80	8.00

Source: KIS

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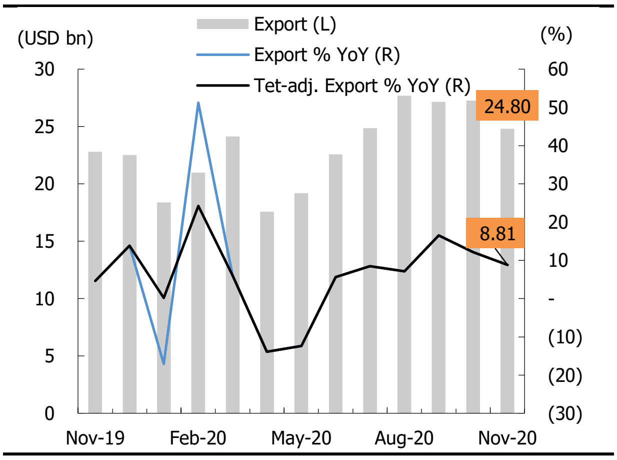
I. Local infection to concern trade momentum

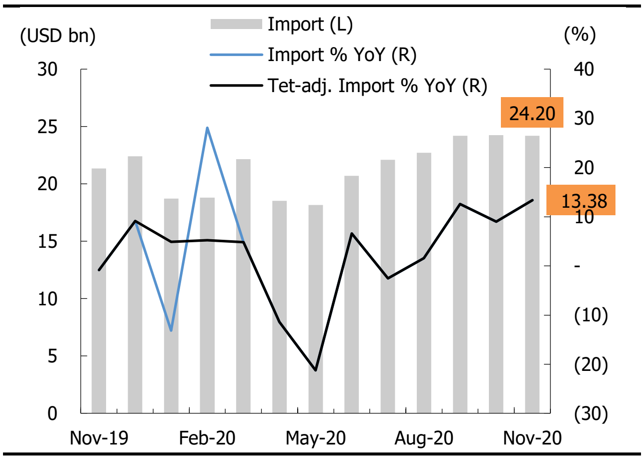
Although export was slowing down, trade activities in November witnessed a slight acceleration due to higher growth rate in import value compared to last month. Specifically, export and import rose by 8.81% YoY and 13.38% YoY, posting USD24.80bn and USD24.20bn, respectively. Consequently, the trade value increased by 11.02% YoY, 34bps-higher than October and the trade balance recorded a surplus of USD0.60bn, marking the seventh month in series starting from May.

Figure 1. Vietnam monthly export



Source: KIS, GSO

Figure 2. Vietnam monthly import



Source: KIS, GSO

Most of the essential items witnessed slowdowns, even deteriorations, while just a few items showed slight accelerations in export structure. Computers, electrical products and parts (CEPP), machines, equipment, tools and instruments (METI), and wood and wooden products (W&Wprod), fishery, and iron and steel (I&S) are products depicting the overall slowdown in export as rising by 16.22 %YoY, 55.11% YoY, 14.79% YoY, 4.47% YoY, and 37.50% YoY, lower than October by 4.44-, 14.96-, 8.86-, 5.88-, and 24.35- percent points, respectively. More noticeably, textiles and footwear became worse as tumbling by 22.54% YoY and 17.83% YoY, much-lower than percentage changes in October. In the minority, telephones, mobile phones and parts (TMPP), other means of transportation and parts (otherMoT&parts), and still image, video cameras and parts (SIVCP) improved and partly mitigated the overall slowdown. The TMPP slightly accelerated as rising by 4.48% YoY, 97bps-higher than the previous period, while the SIVCP enhance its upward momentum by climbing 58.75% YoY, 2.59 percent point- higher than the previous month.

In the import structure, most key items improved their growth rates except for CEPP and plastic products (Plasprod). In detail, TMPP recorded one more remarkable acceleration in this period as soaring by 66.28 % YoY, more doubling its previous rate and mainly drove the overall acceleration in import value. Also, fabrics and I&S softened their downtrends, while plastic, other base metals (otherBM), and chemical significantly rebounded. Fabric and I&S declined by 6.43% YoY and 7.01% YoY, 3.02- and 24.30-percent points higher than October, while plastic, otherBM, and chemical rose by 2.15% YoY, 4.05% YoY, and 10.23% YoY, much higher than the previous month. On the opposite, CEPP and Plasprod slightly lessen their upward momentums as rising by 39.62 %YoY and 10.42 %YoY, 0.21- and 5.10-percent points lower than October.

Figure 3. Vietnam top 10 export items

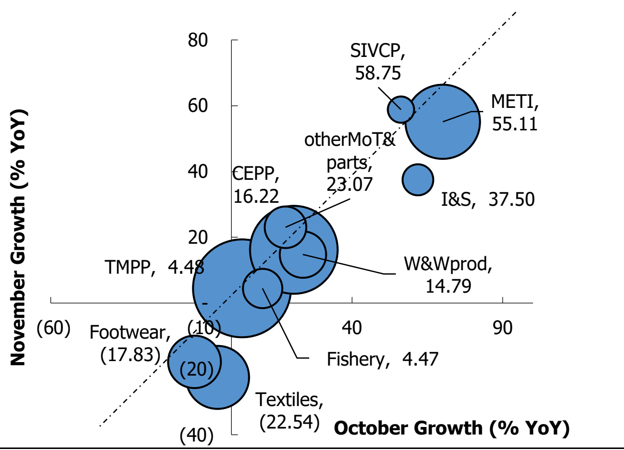
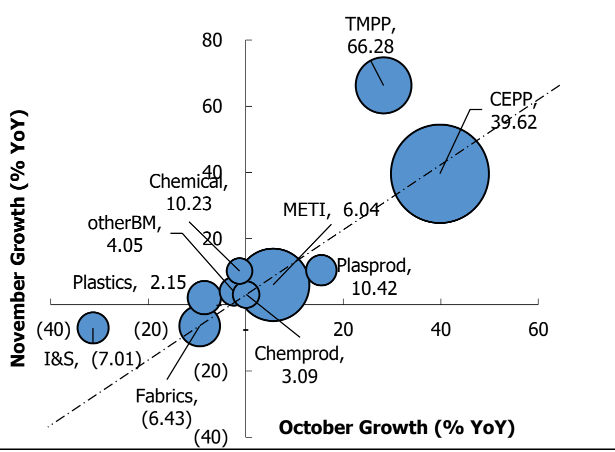


Figure 4. Vietnam top 10 import items



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.

There are several reasons for the current trade move. First, foreign consumer's attitude toward spending, especially in the U.S. and EU, became less optimistic than in October, hence slowed export growth down in this period. COVID resurgence and the postpones of stimulus packages likely concern consumers about future income and business prospects. Also, government stringency indices over our major trading partners, except for South Korea, became higher relative to the previous month and somewhat lessen the upward momentum in export operations. Second, the country's well-controlled pandemic boost Vietnam's customer demand for domestic and foreign goods and accelerated import growth.

Figure 5. Consumer confidence indices (CCI)

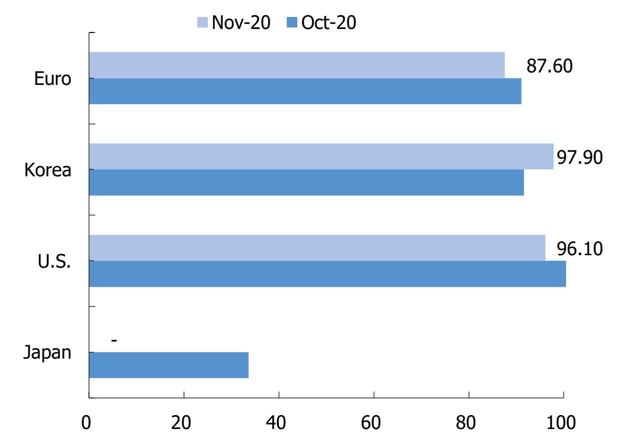
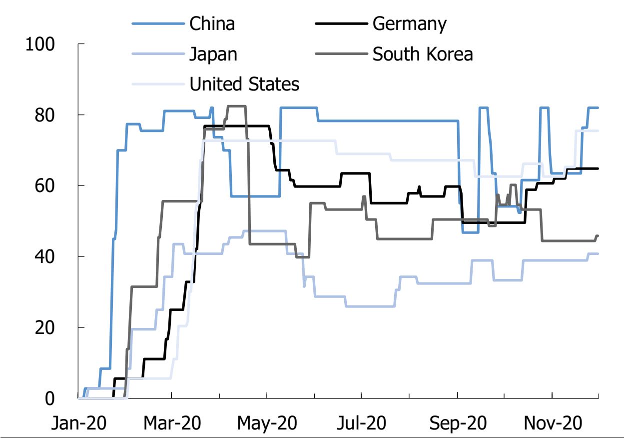


Figure 6. Government response stringency index



Source: WHO, Bloomberg, Our World in Data, KIS

COVID effect seems to overwhelm what EVFTA would potentially benefit to Vietnam's export. As one of the essential articles, the EU commits to immediately exempt for 85.6% tariff lines, equivalent to 70.3% of Vietnam's export value to the EU when the agreement comes into effect. However, there is no clear evidence about the benefit of EVFTA in recent months when the EU portion in export structure tends to lower since May 2020 due to the lower recovery pace relative to the world.

Figure 7. Export to EU relative to World

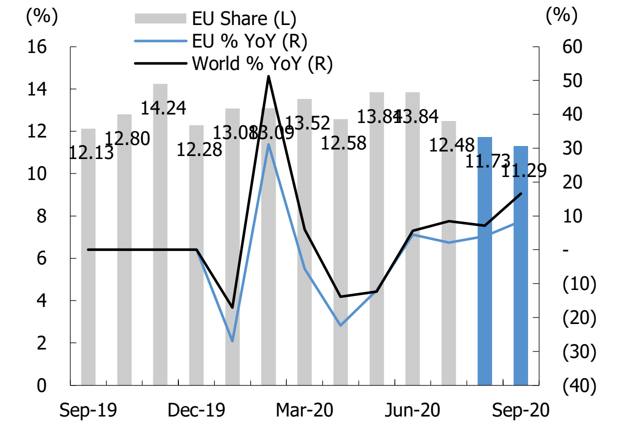
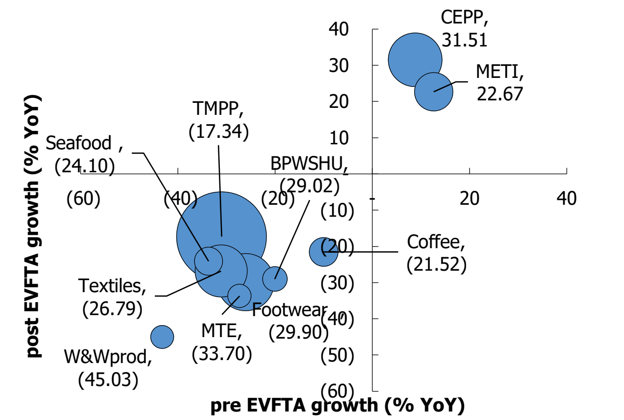


Figure 8. Top 10 export items to EU: before and after EVFTA



Source: GSO, Bloomberg, KIS

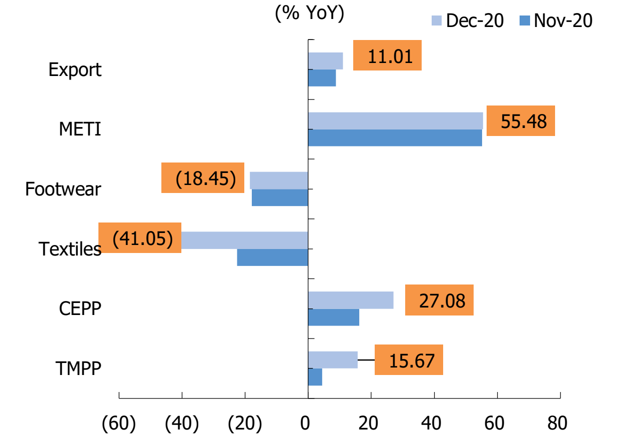
Notes: blue bars indicate the time that EVFTA takes effect

TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, MTE: Means of transport and equipment, W&Wprod: wood and wooden products, BPWSHU: Bags, pockets, wallets, suitcases, hats and umbrellas

PREDICTION:

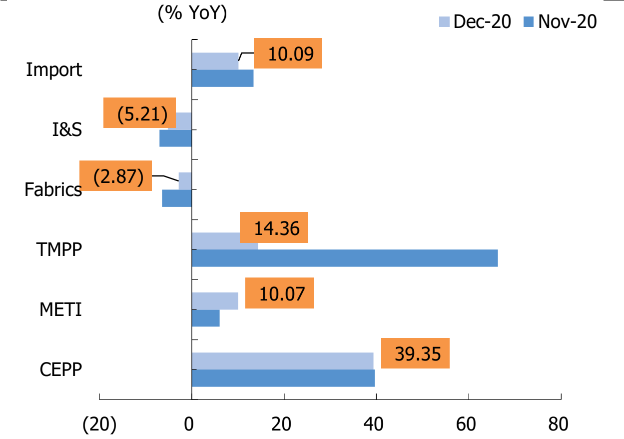
- Covid resurgence risk seems to set the world to the new lockdown wave and other measures to ensure the pandemic was under control. The stringency index tends to increase along with the covid resurgence in the US, UK, and some European countries. Hence, the new level of such restrictions will slow export growth next period.
- Although EVFTA came into effect in August 2020, its effect seems to fade in the ongoing pandemic context. Tariff exemptions attract exporters to increase their capacity, but the current business prospect does not motivate customers to spend more. Therefore, we assert that EVFTA's effect will become more significant in the longer run.
- The U.S second stimulus package will sharpen after the presidential election finishes and is predicted to boost consumer confidence in the last quarter of 2020. Hence, we consider this COVID-19 relief to the economy as an essential factor supporting trade activities.
- Two new local effected-cases end Vietnam's covid-free period and seem to change consumers' buying plans over the late months of 2020. We predict import's upward momentum to lose at the extent reversely depending on how quickly the community infection under control.
- We predict export and import to grow by 11.01% YoY and 10.09% YoY in December 2020, respectively.

Figure 9. Vietnam export forecast



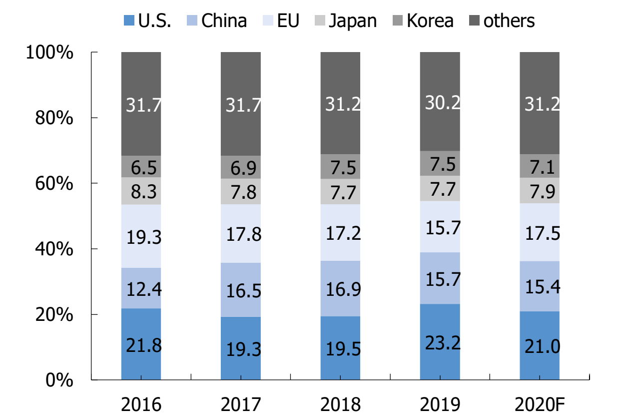
Source: KIS, Bloomberg

Figure 10. Vietnam import forecast



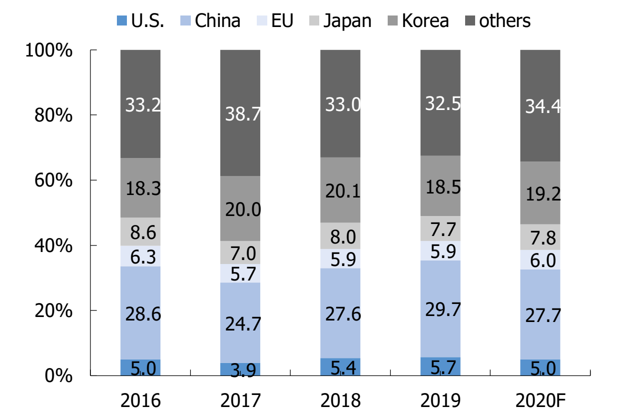
Source: KIS, Bloomberg

Figure 11. Vietnam export by country



Source: KIS, GSO

Figure 12. Vietnam import by country

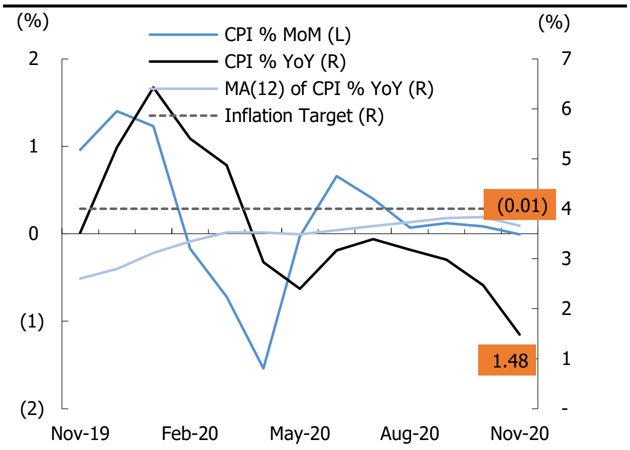


Source: KIS, GSO

II. Petroleum prices to push CPI up

The Consumer Price Index (CPI) witnessed a reduction of 0.01% compared to the previous month, recording the first negative growth rate after a series of five rising months. Consequently, the yearly change in CPI slowed down more significantly as the current monthly change was much lower than that in November 2019. Specifically, CPI increased by 1.48% YoY in this period, 99bps-lower than the previous month. The 12-month rolling inflation rate posted 3.66%, 34bps-lower than the authority target rate of 4%. Traffic was the main reason putting downward pressure on CPI as declining by 0.47% MoM, while food and foodstuff (F&Fs) and housing and construction materials (HCM) rose by 0.05% MoM, 0.07% MoM, respectively and were the main forces pushing CPI up.

Figure 13. CPI monthly change



Source: GSO, KIS

Table 1. Inflation by sectors

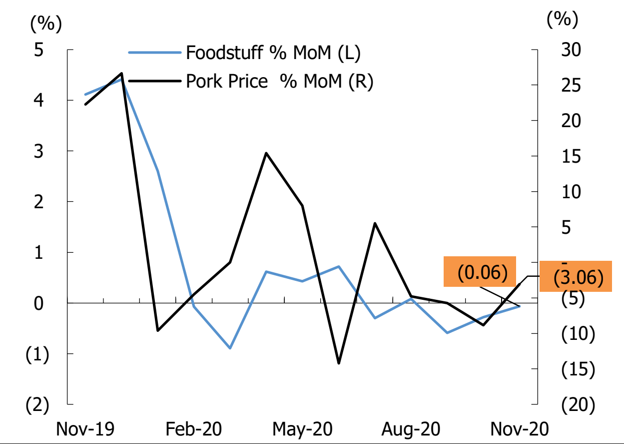
Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	0.05	6.63
Beverage and cigarette	3.59	0.06	1.25
Garment, Footwear, hat	6.37	0.14	0.55
Housing and construction materials	15.73	0.07	0.64
Household appliances and goods	7.31	0.03	0.81
Medicine and health care	5.04	0.00	0.53
Traffic	9.37	(0.47)	(13.27)
Postal services & Telecommunication	2.89	(0.17)	(0.61)
Education	5.99	0.00	4.15
Culture. entertainment and tourism	4.29	(0.06)	(2.24)
Other goods and services	3.3	0.12	2.22
Consumer Price Index		(0.01)	1.48

Source: GSO, KIS

Regarding the impact of commodities prices on CPI's components, pork price softened its downward momentum by declining by 3.06% YoY, 5.81-percent points higher relative to October's percentage change. As a result, the pork price continued sliding to hit the four-month low at VND69.80k per kilogram. This move of pork price mainly dragged F&Fs down in this period.

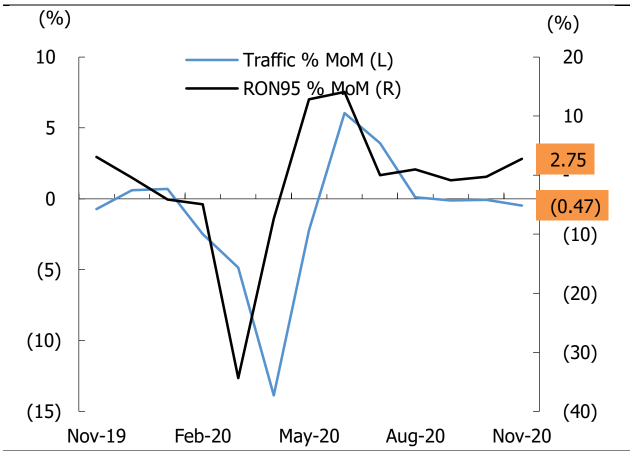
Considering the petroleum product prices, E5RON92 and RON95 rose by 2.73% MoM and 2.75% MoM to post VND14,494 and VND15,351 in November, respectively. However, October's reductions were likely the main reason to drive the transportation index to decline by 0.47% MoM this month due to the lag effect. Consequently, the traffic dragged the overall CPI monthly change down by 4bps.

Figure 14. Pork price and food and foodstuff



Source: KIS, Bloomberg

Figure 15. Petroleum product prices movements

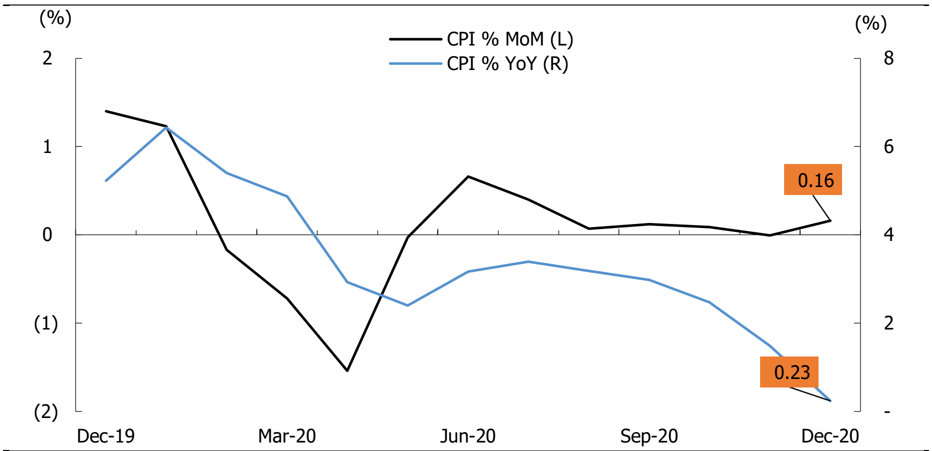


Source: KIS, Bloomberg

PREDICTION:

The increase in petroleum product prices in November likely put upward pressure on the next period. However, the downturn in F&Fs index tends to soften due to the mitigating reduction in pork price. We use those patterns to predict CPI to increase by 0.16% MoM in the next period.

Figure 16. Forecast of CPI in December 2020

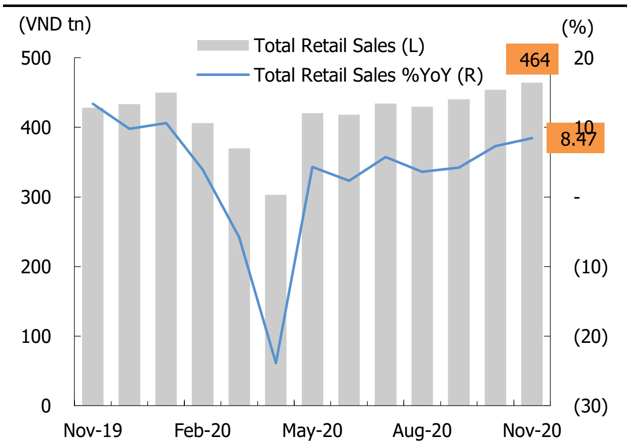


Source: KIS, GSO

III. Retail sector accelerates

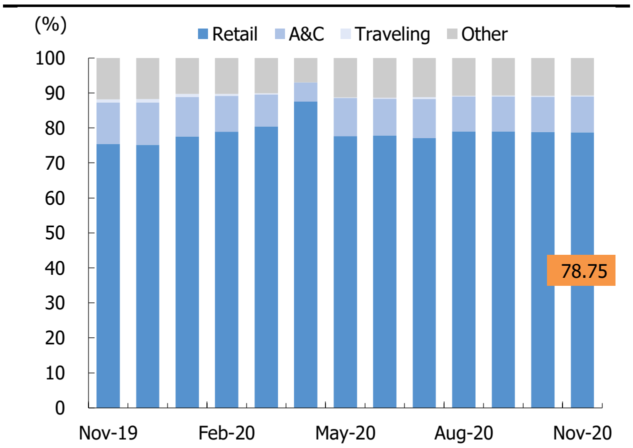
According to GSO's estimates, the retail sales in November strengthened its upward momentum as rising by 8.47%, 119bps-higher than the previous month and posting VND464.39tn. The retailing sector kept growing with a double-digit rate at 13.29% YoY and was the main reason for lifting retail sales. The accommodation and catering (A&C) softened its downward momentum as reducing by 6.49% YoY, 61bps-higher than October while traveling sectors kept tumbling by 68.32% YoY. The well-controlled pandemic within the country boosted domestic consumer confidence, while COVID global resurgences in recent months postponed the authorities to lose the international tourism ban. In October-late, Prime Minister Nguyen Xuan Phuc directed to delay reopening the border for foreigner travelers and consequently remained the revenues of A&C and traveling operations at a low base.

Figure 17. Monthly retail sales



Source: GSO, KIS

Figure 18. Components of retail sales

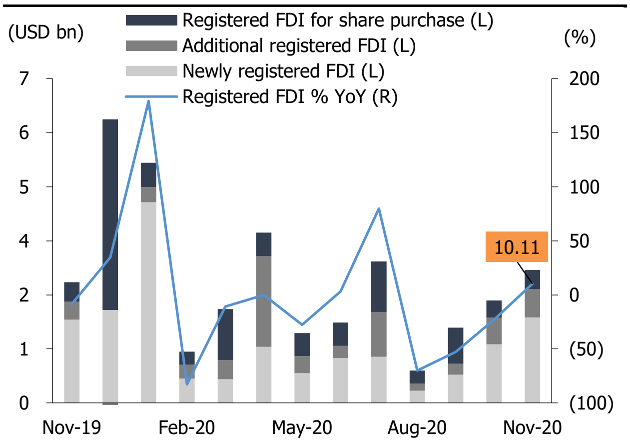


Source: GSO, KIS

IV. New FDI continues to set multi-month high

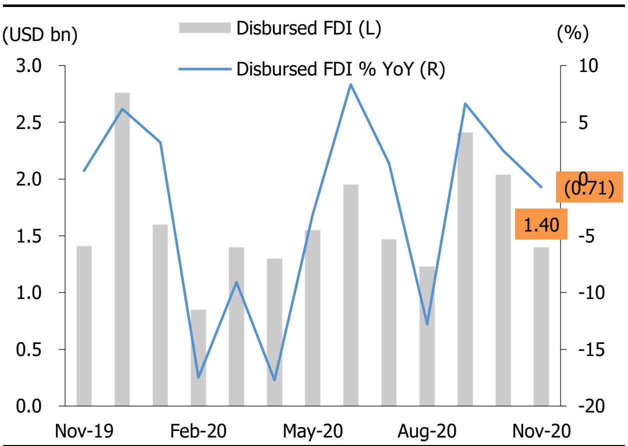
November data showed that recent growth in registered FDI continues to gain momentum in November with a relatively strong economic outlook in the post-crisis. Specifically, newly registered FDI reached a 10-month high of USD1.90bn, while the additional capital was also at 4-month high of USD0.62bn. Besides, the value for share purchase stayed subdued, at just USD0.43bn. Accumulatively, the total registered FDI increased for the third month straight from August, up to USD2.95bn in the month (up by 10.11% YoY). Meanwhile, the actual investment activity cooled off in November as the disbursement value decreased to just a 3-month low of USD1.40bn (-0.71% YoY).

Figure 19. Registered FDI and components



Source: MPI, KIS

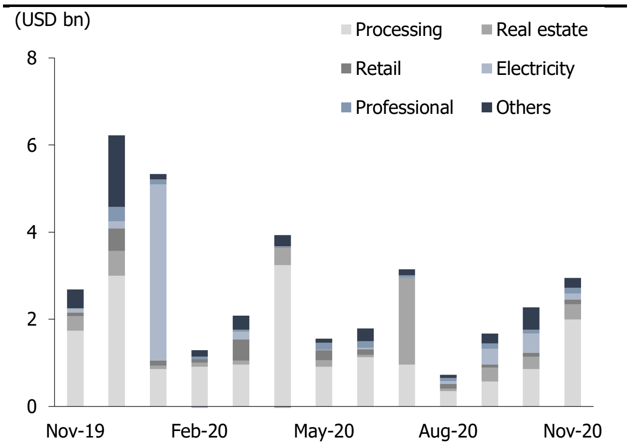
Figure 20. Disbursed FDI



Source: MPI, KIS

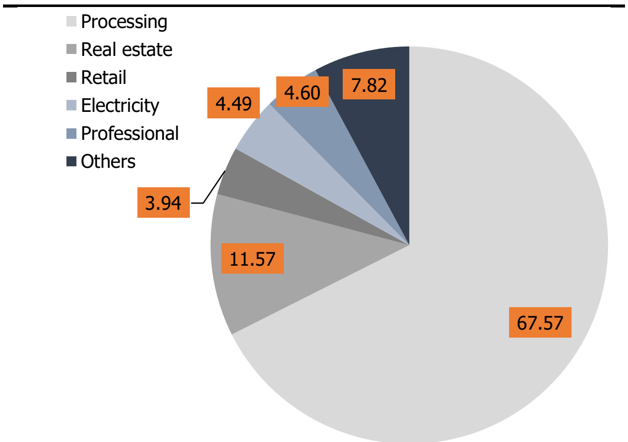
Thanks to a solid growth in the manufacturing sector, FDI inflows to processing accelerated to about USD1.99bn, accounting for 67.57% of total. About USD0.34bn capital was registered in the real estate, equivalent to 11.57% of total. Registered FDI in other sectors remained insignificant with less than 5% share.

Figure 21. Registered FDI by sector



Source: MPI, KIS

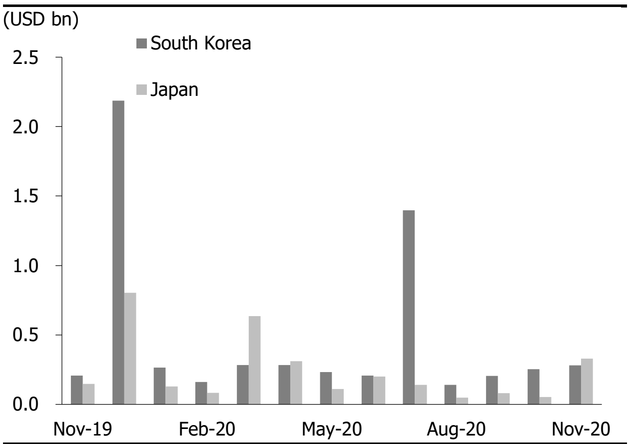
Figure 22. Structure of registered FDI in 2Q20



Source: MPI, KIS

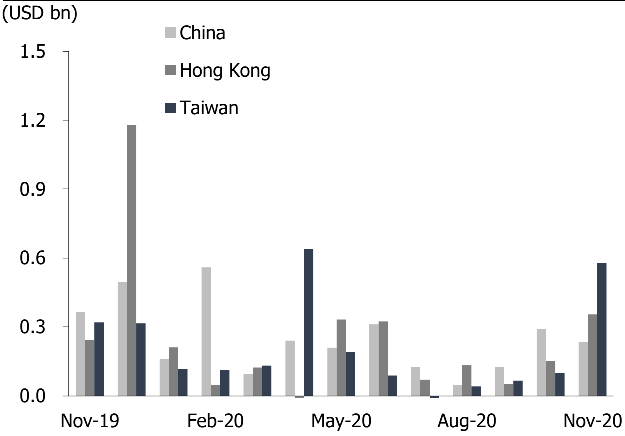
After several months of being distressed, November witnessed notable recovery in FDI activity from Japan, Hong Kong, and Taiwan. FDI inflows from these three partners accelerated to USD0.33bn, USD0.35bn, and USD0.58bn, respectively. Registered FDI from South Korea and China saw just little changes, recording USD0.28bn and USD0.23bn, respectively.

Figure 23. FDI inflows from South Korea, Japan



Source: MPI, KIS

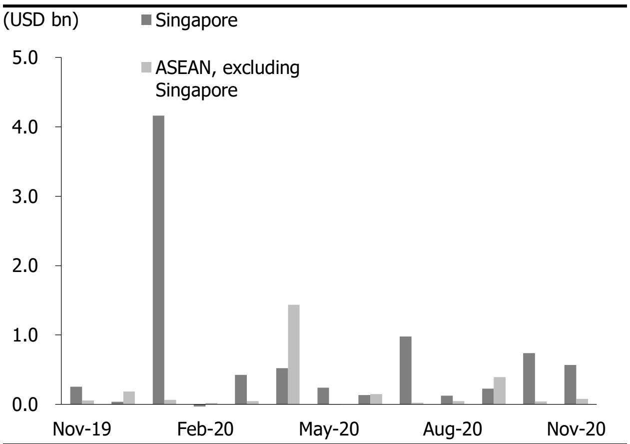
Figure 24. FDI inflows from China, Hong Kong, Taiwan



Source: MPI, KIS

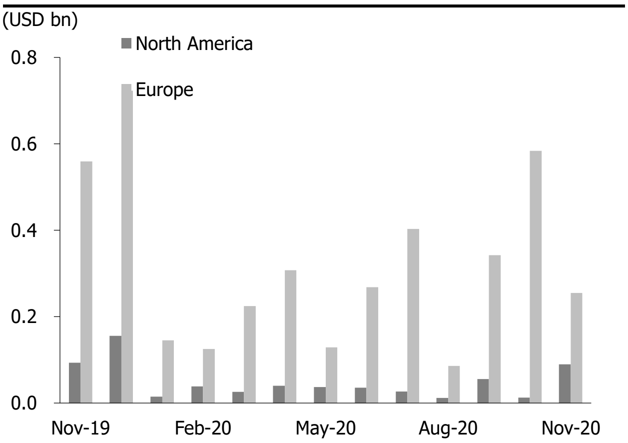
Singapore remained the second-largest partner in the month with USD0.57bn registered capital. FDI from European region saw a slowdown in November compared to September and October, at USD0.25bn. Besides, FDI from ASEAN region (excluding Singapore) and North America (including the U.S. and Canada) were insignificant, at just USD0.08bn and USD0.09bn, respectively.

Figure 25. FDI inflows from ASEAN partners



Source: MPI, KIS

Figure 26. FDI inflows from EU and North American



Source: MPI, KIS

PREDICTION:

With new COVID-19 cases being found in the society in early-December, the government has again closed the international flights without a specific end date. Thus, it would likely cause further delay in new FDI registration in December. Meanwhile, this near year-end period may record high disbursement activity, but this seasonal effect, if true, would remain very short-lived.

V. High domestic demand to lift up industrial growth

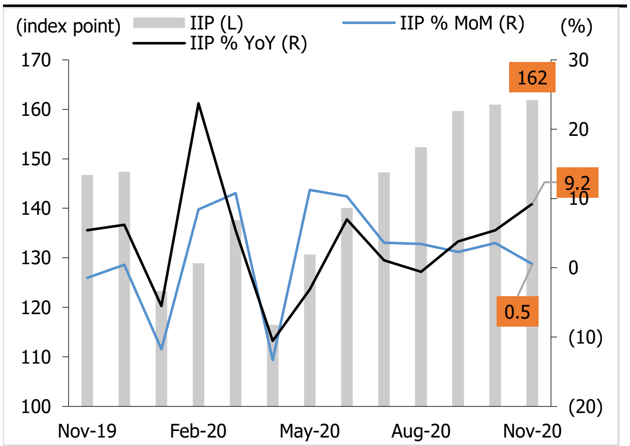
In November, the industrial sector saw expansion in a wide range of sub-sectors, attributed to strong domestic economic activities and also high export demand in some particular industries. The only notable exception was the electronic industries with export for electronic products slumping, which was disrupting the most key growth driver for the industrial sector.

Accordingly, the industrial growth continued its upward momentum for seven months, subsequently setting a new high for the third straight month, by increasing by 9.2% YoY. However, the upward momentum was hitting the lowest since May as the MoM increase recorded just 0.5%.

Given expansions over most industries, the manufacturing sector continued growing strongly by 11.9% YoY and marked the highest level for the third straight month. Meanwhile, downward pressure in the mining sector was eased somewhat in the month thanks to an acceleration in the mining of basic materials, down by 6.24% YoY.

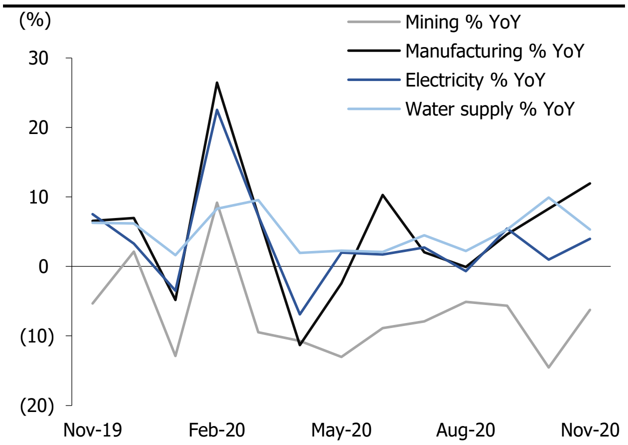
Besides, electricity production & distribution and water supply contributed to the industrial growth when increasing by 3.95% YoY and 5.30% YoY, respectively.

Figure 27. Industrial production index



Source: GSO, KIS

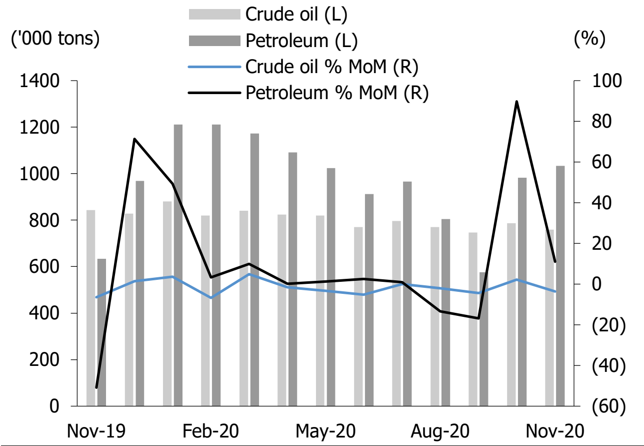
Figure 28. Level-1 sectoral components



Source: GSO, KIS

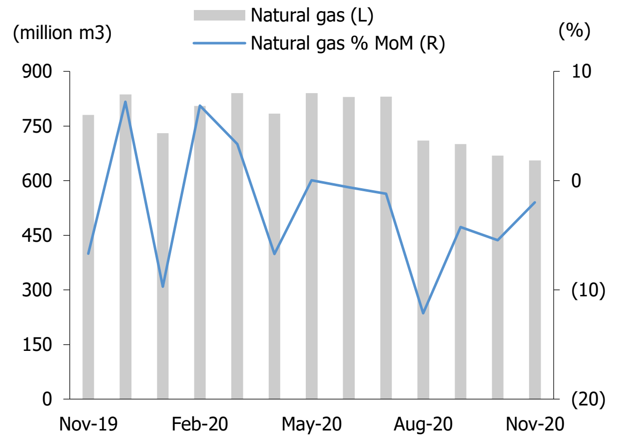
Further details about major industries and also main industrial products are as follows.

Figure 29. Production of crude oil and petroleum



Source: KIS, GSO

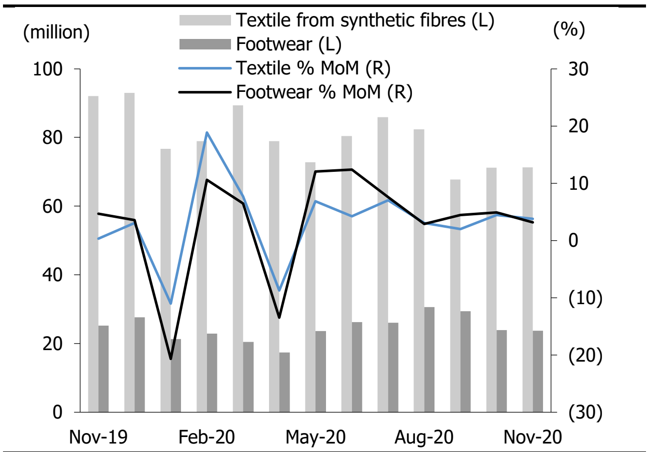
Figure 30. Production of natural gas



Source: KIS, GSO

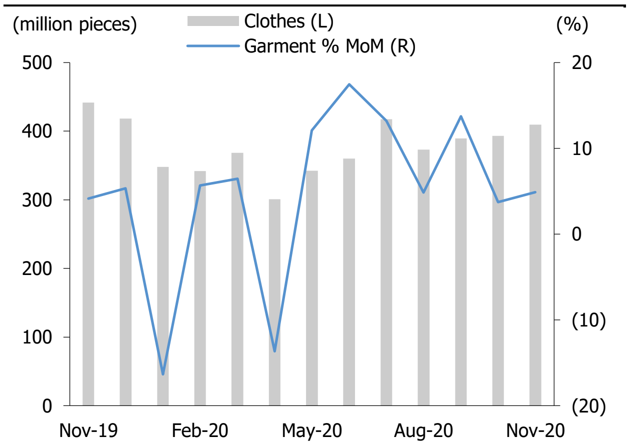
Real production data showed that the oil and gas industry keep plunging further to its all-time low in November as the downward trend in this industry continued mainstream for years. More specifically, the production of crude oil and natural gas dropped by 3.6% MoM and 2.0% MoM, respectively. Meanwhile, petroleum production reached a 7-month high when increasing 11.0% MoM.

Figure 31. Production of textile and footwear



Source: KIS, GSO
Textile from synthetic fibres: million m2; Footwear: million pairs

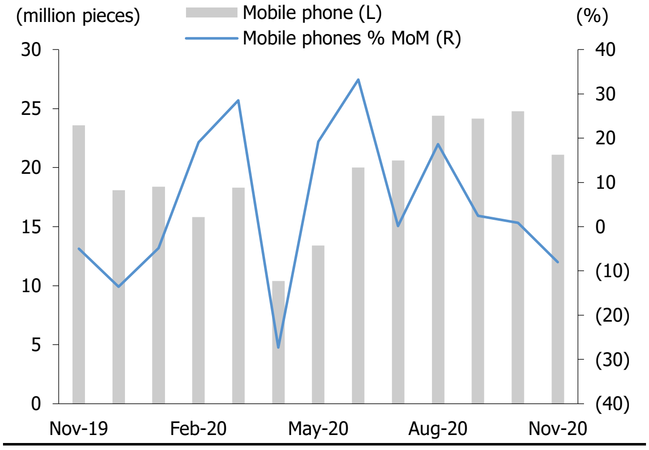
Figure 32. Production of clothes



Source: KIS, GSO

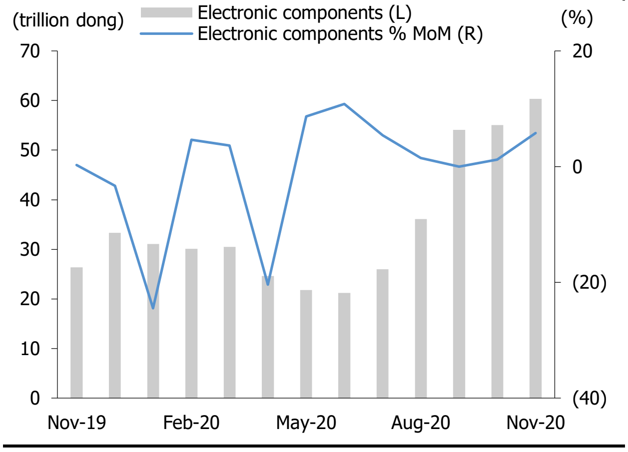
High seasonal sales in November and December in the western world helped to boost up the production of the textile & clothing & footwear sector in the month. As a result, the production levels in these sectors recorded multi-month improvements since April, increasing by 3.8% MoM, 4% MoM, and 3.2% MoM, respectively.

Figure 33. Production of mobile phones



Source: KIS, GSO

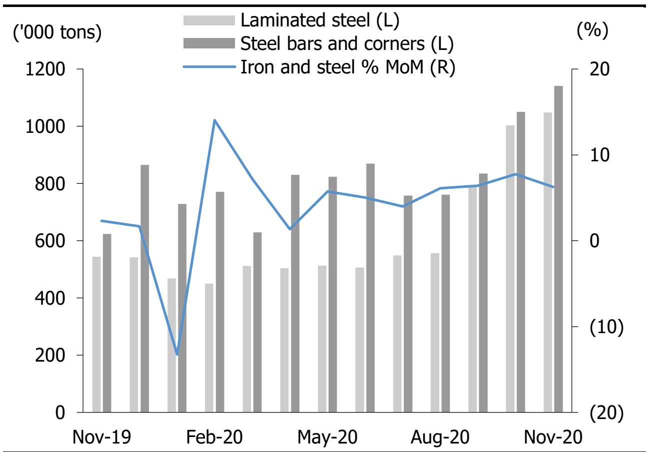
Figure 34. Production of electronic components



Source: KIS, GSO

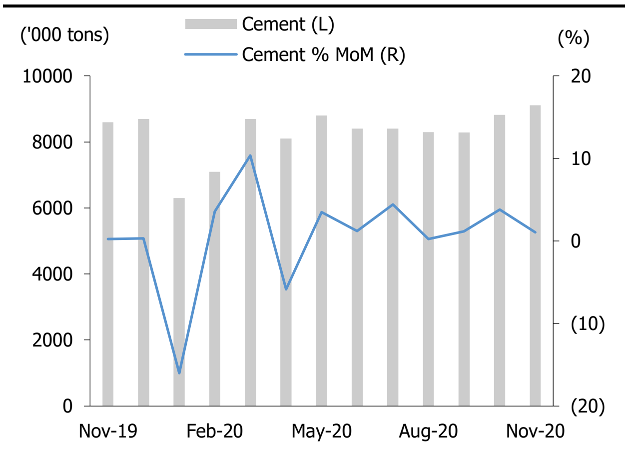
On the contrary, the production of mobile phones and parts declined for the first time after fast-growing in the previous 7 months due to a slowdown in the export activity, dropping by 8.1% MoM. Production of other electronic components continued to grow at 5.8% MoM.

Figure 35. Production of steel products



Source: KIS, GSO

Figure 36. Production of cement



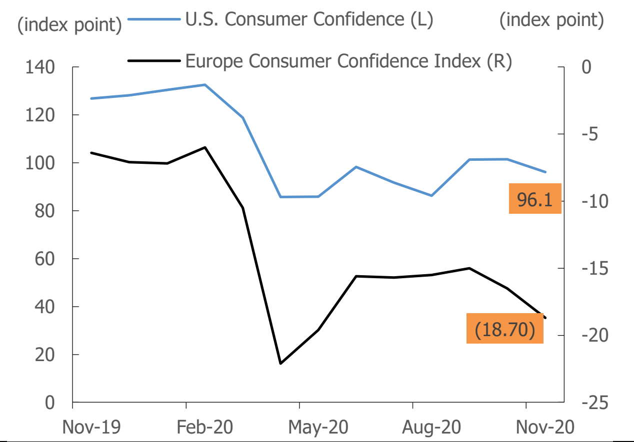
Source: KIS, GSO

Production of iron and steel continued to set a new record high for many years, and this phenomenal growth was thanks to strong domestic and export demand. Accordingly, production of iron and steel was up by 6.3% MoM. Cement also recorded a new peak in the month, increasing by 1.1% MoM.

PREDICTION:

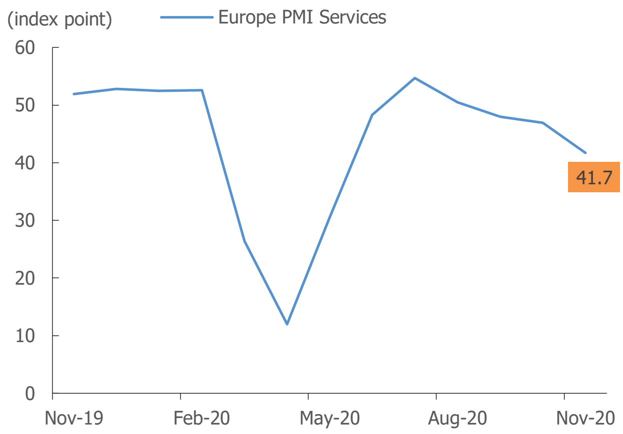
Severe impact from the re-lockdown in Europe markets and elsewhere is reflected in the latest data, specifically in the manufacture of telephones and parts. We believe that this downward pressure would continue to place on the electronic, textile, garment and footwear industries in the near term, especially after the high sale season.

Figure 37. U.S. and Europe Consumer Confidence



Source: KIS, GSO

Figure 38. European Services PMI



Source: KIS, GSO

On the other side, robust growth in the retail sector continued to support food, beverage, and other domestic demand-related industries. We expect that high demand for domestic consumption in the next two months would be a key to unlock further growth in those sectors.

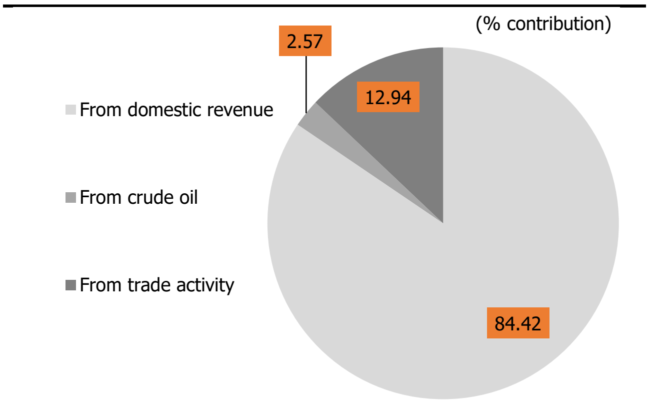
We also expect no change in the downward trend in the crude oil and natural gas exploitation.

Taking all into account, we expect the IIP would grow about 7% YoY – 9% YoY, but would reduce slightly on a month-over-month basis.

VI. Budget deficit expands to VND136.9tn

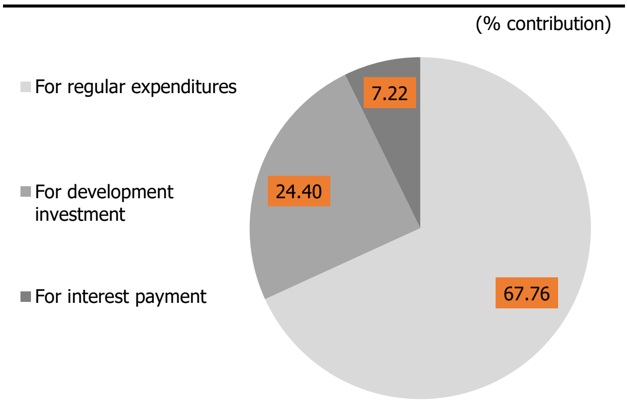
According to GSO's latest update, as of 11M20, total government revenue posted VND1,186.3tn, equivalent to 78.4% of the year estimate. Of which, domestic revenue achieved VND1,001.5tn, equaling 79.2% of the annual estimate. Revenue from crude oil reached VND30.5tn, equaling 86.5%, while that from export-import activities was VND153.5tn, equaling 73.8%.

Figure 39. Sources of government revenue in 11M20



Source: GSO, KIS

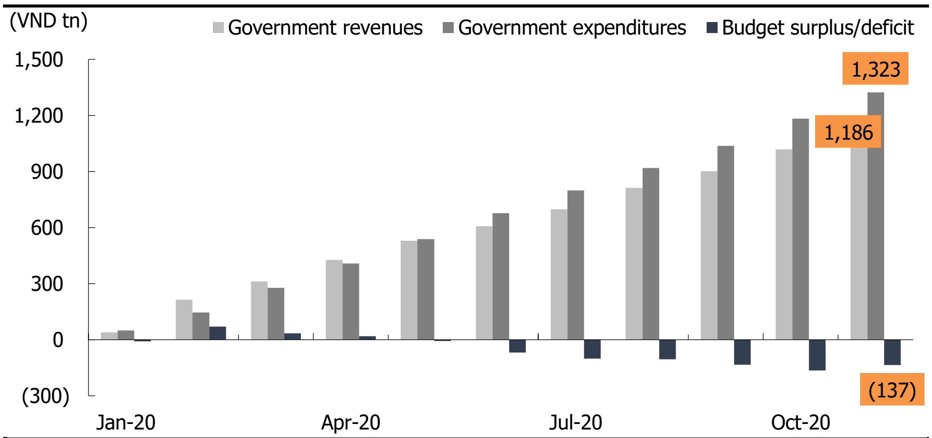
Figure 40. Types of government expenditures in 11M20



Source: GSO, KIS

On the other side, total expenditure was estimated at VND1,323.2tn, fulfilling 75.7% of the year estimate. In particular, the regular expenditure posted VND884.3tn, equaling 83.7% of the year plan, the development and investment spending recorded VND338.3tn, equivalent to 71.9%, and the interest payment was VND91.5tn, equaling 77.4%.

Figure 41. Year-to-date government revenue and expenditures in 2020



Source: GSO, KIS

As a result, by 11M20, the state budget recorded a deficit of VND136.9tn.

Macro scorecard

(USD bn, USD, %, % YoY)

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	4Q19	1Q20	2Q20	3Q20	2016	2017	2018	2019
Real GDP growth	0.36			2.62			6.97	3.82	0.36	2.62	6.21	6.81	7.08	7.03
Registered FDI	1.79	3.15	0.72	1.67	2.27	2.92	11.86	8.55	7.12	5.54	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	21.00	23.00	27.70	27.16	27.26	24.80	69.61	63.52	59.33	79.74	176.6	215.1	243.5	263.6
Import	20.50	22.00	22.72	24.20	24.27	24.20	66.02	59.69	57.41	69.02	175.0	213.2	236.7	254.4
Export growth	(2.00)	0.31	2.49	18.02	12.22	8.81	8.52	7.99	(6.82)	10.61	8.99	21.82	13.19	8.16
Import growth	5.16	(2.94)	2.85	11.63	9.00	13.38	3.45	4.06	(9.46)	3.74	5.55	21.85	11.01	7.41
Inflation	3.17	3.39	3.18	2.98	2.47	1.48	2.79	3.53	3.57	3.81	2.66	3.53	3.54	2.79
USD/VND	23,206	23,167	23,175	23,188	23,181	23,141	23,173	23,637	23,206	23,188	22,761	22,698	23,175	23,173
Credit growth	3.26	4.05	4.16	6.10			13.70	0.68	2.80	26.10	18.25	18.24	13.89	13.70
10Y gov't bond	3.07	2.88	2.88	2.52	2.21	2.26	3.37	3.24	3.07	2.52	6.23	5.14	5.07	3.37

Source: GSO, Bloomberg, FIA, IMF

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