

Economic Perspectives

The COVID-19 resurgence to dampen domestic economic activity

Trade to slump due to Tet

Trade activities in January 2021 recorded a striking growth due to a later-than-previous arrival of the Tet season and the recent upward momentum. We argue trade to slump due to the Tet effect in the next period. However, the improvement in global consumer confidence, resulting from promising relief packages and favorable vaccination, will mitigate the reduction. Consequently, export and import growth rates to post -16.48% YoY and -17.15% YoY in February 2021, approximating +11.36% YoY and +10.46% YoY after adjusting the Tet effect.

Retail sales to be subdued

The upward momentum of retail sales became less strong in this period due to the slowdown in the retail sector despite downturns in accommodation and catering and traveling activities were softening. The government increased restrictions to combat COVID19 resurge in January-late, and this situation limits considerably household spending, especially in the Lunar New Year. We predict retail sales to decrease in February 2021 compared to the same period last year.

IIP to face pressure from COVID-19 outbreak

In January, the industrial sector saw a marked broad-based decline from mining to manufacturing. Looking ahead to February, under impacts from a long Tet's holiday and the new outbreak, we expect that the industrial production would decline at a fast pace in February and record a 3% - 5% lower level than in the previous year.

KIS leading economic index

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

	1Q20	2Q20	3Q20	4Q20F	2019	2020F	2021F
GDP	3.82	0.36	2.62	4.48	7.02	2.91	5.94
Trade balance	3.82	1.92	10.72	2.54	10.42	19.01	1.77
CPI	4.87	3.17	2.98	0.19	5.23	3.24	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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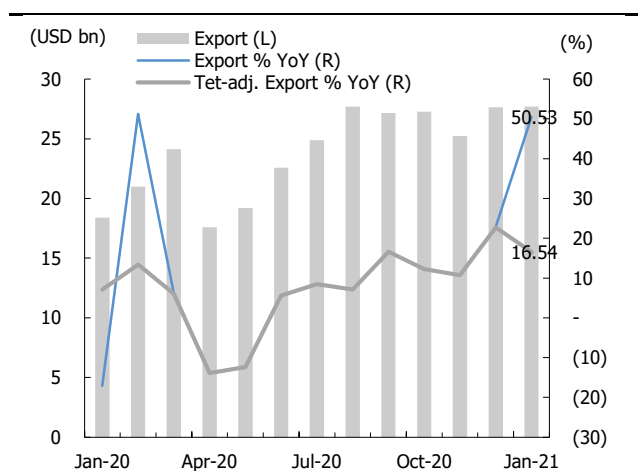
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I. Trade to slump due to Tet

Trade to slump next period due to the Lunar New Year seasonality

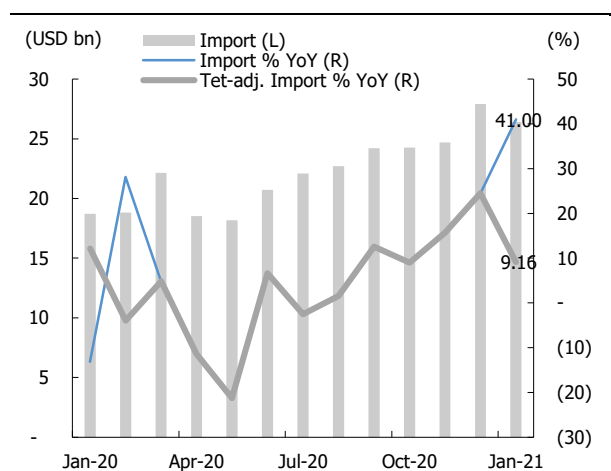
Trade activities in January 2021 recorded a striking growth due to a later-than-previous arrival of Tet season and the recent upward momentum. According to GSO, export and import sustained their upward momentums in this period by increasing by 50.53% YoY and 41.00% YoY, posting USD27.70bn and USD26.40bn, respectively. After adjusting for Tet-seasonality, export and import growth rates were 16.54% YoY and 9.16% YoY, respectively. The trade balance recorded a surplus of USD1.30bn this month, returning to the previous trend after a short halt in December 2020.

Figure 1. Vietnam monthly export



Source: KIS, GSO

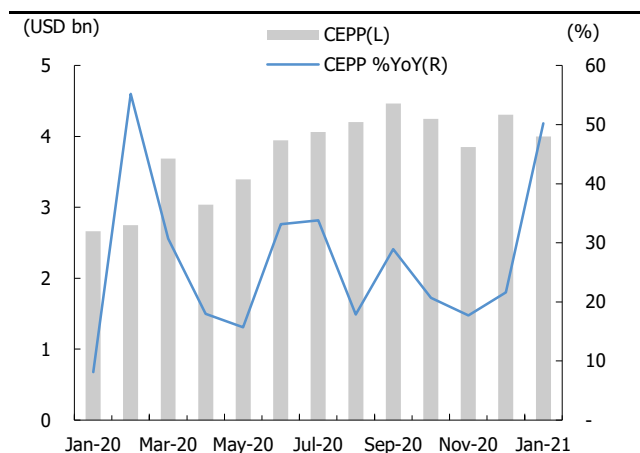
Figure 2. Vietnam monthly import



Source: KIS, GSO

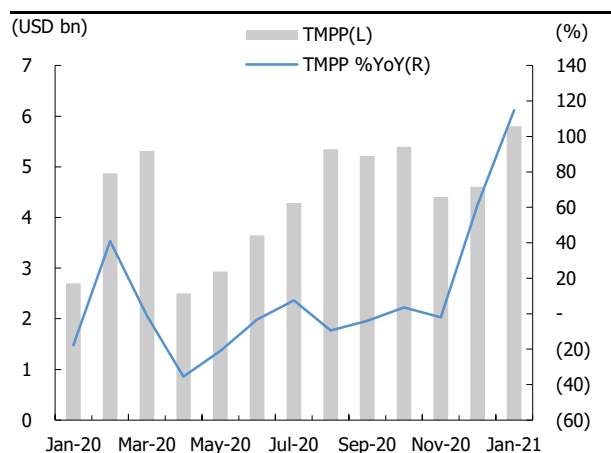
The surge in export this month was mainly attributed to impressive increases in computers, electrical products and parts (CEPP), machines, equipment, tools, and instruments (METI), and telephones, mobile phones, and parts (TMPP). In detail, TMPP, CEPP, and METI skyrocketed by 114.76% YoY, 50.24% YoY, and 115.30% YoY, roughly doubling their growth rates in December 2020, to post USD5.80bn, USD4.00bn, and USD3.20bn, respectively. Vietnam's electronics export, similar to those of China and South Korea, was benefiting from the increasing consumption of electronics devices due to COVID19 mobility restrictions and the work-from-home. This demand became even stronger in the 2020-late as the spending generally increased in Christmas and New Year holidays. Besides, footwear and textile marked considerable progress as turning into expansion from contractions last month.

Figure 3. Monthly CEPP export



Source: KIS, GSO

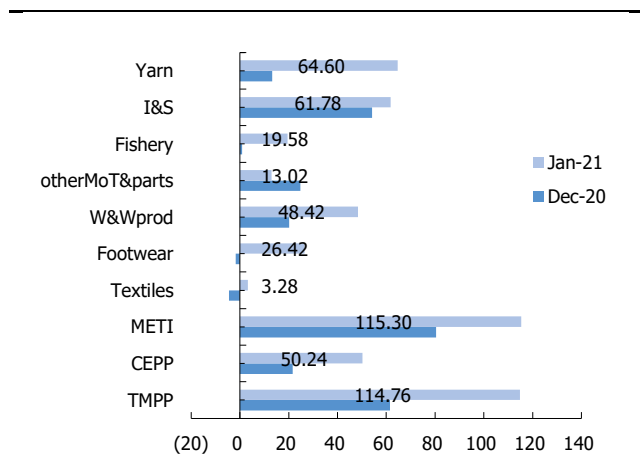
Figure 4. Monthly TMPP export



Source: KIS, GSO

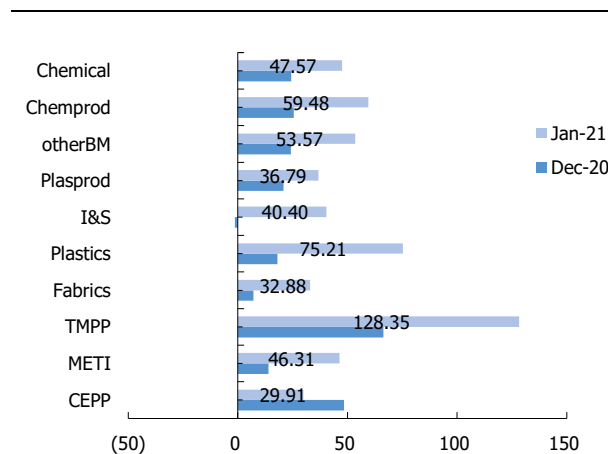
In the similar vein with export situation, import growth this month was characterized by extraordinary growths in CEPP, METI, and TMPP values compared to the same period last year. More specifically, export values of CEPP, METI, and TMPP posted USD5.50bn, USD4.10bn, and USD2.60bn, rising by 29.91% YoY, 46.31% YoY, and 128.35% YoY. Iron and steel (I&S) also make an impressive improvement as its growth rate turns into 40.40% YoY from a contraction at 1.39%YoY in December 2020.

Figure 5. Top 10 export item: growth rates (% YoY)



Source: KIS, GSO

Figure 6. Top 10 import item: growth rates (% YoY)

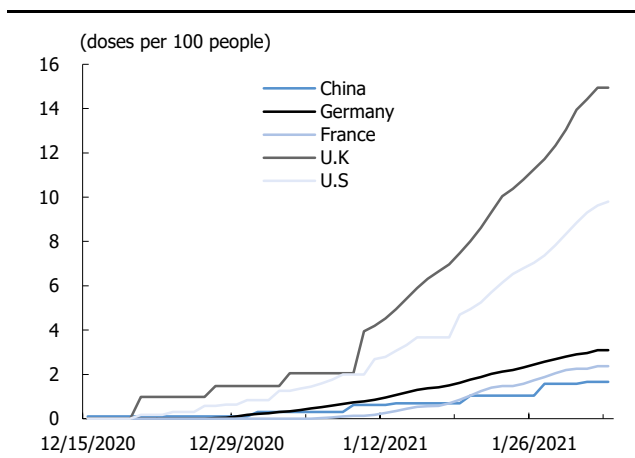


Source: KIS, GSO

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, Chemprod: chemical products.

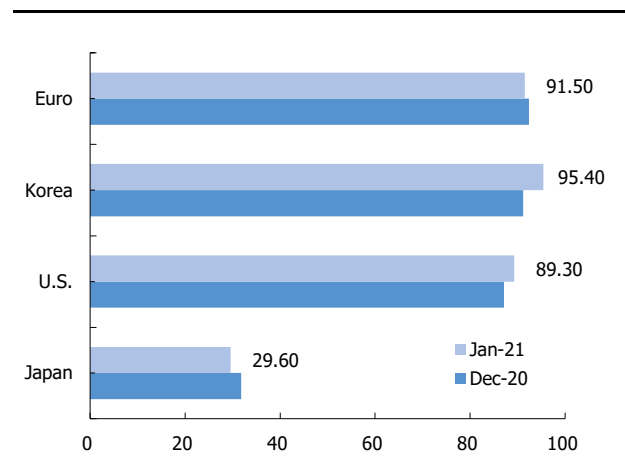
Looking broader, vaccine roll-out and fiscal stimulus status seem to decide how much consumers in Vietnam's major markets will spend out. In the U.S., after the presidential inauguration, Biden showed his robust commitments by pursuing consistently a promising stimulus package valued at USD1,900bn under his plan to resolve the pandemic turbulence. This plan improved consumer's attitude toward spending to 89.30 from 87.10 the previous month. Also, the vaccination was running favorably as the number of doses per hundred people increased significantly in January. In the opposite direction, slow vaccine distribution and roll-out were likely to worrisome European and Japan consumers about income and business prospects.

Figure 7. Vaccination



Source: KIS, GSO

Figure 8. Consumer confidence index

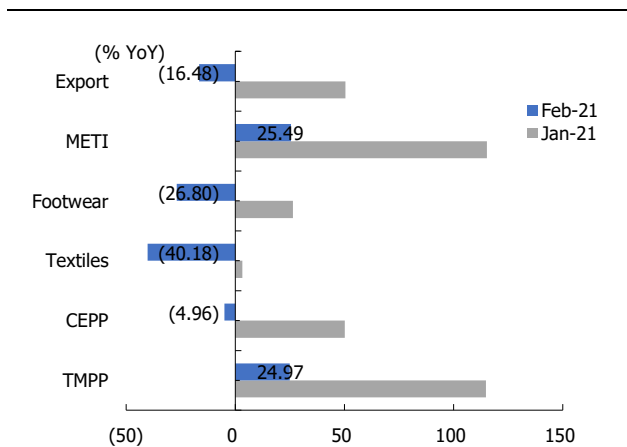


Source: KIS, GSO

PREDICTION

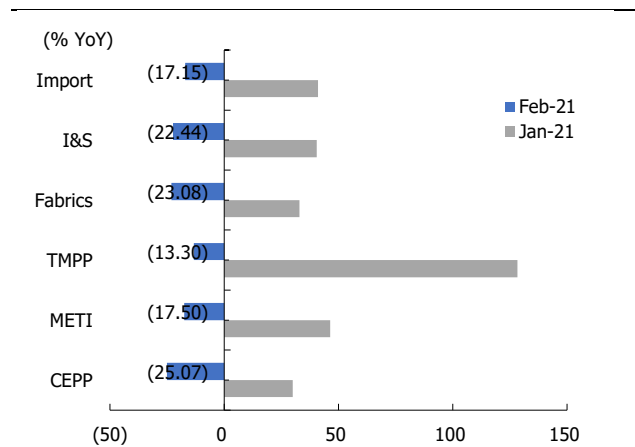
- Push factors: (1) Upward momentum in global electronics consumption to sustain and favor export turnover over those items. (2) The increase in relief packages and favorable vaccinations over the world tend to boost consumer confidence level.
- Pull factors: (1) Tet seasonality to mainly slump trade activities.
- We predict export and import growth rates to post -16.48% YoY and -17.15% YoY in February 2021, approximating +11.36% YoY and +10.46% YoY after adjusting Tet effect, respectively.

Figure 9. Vietnam export forecast



Source: GSO, KIS

Figure 10. Vietnam import forecast



Source: GSO, KIS

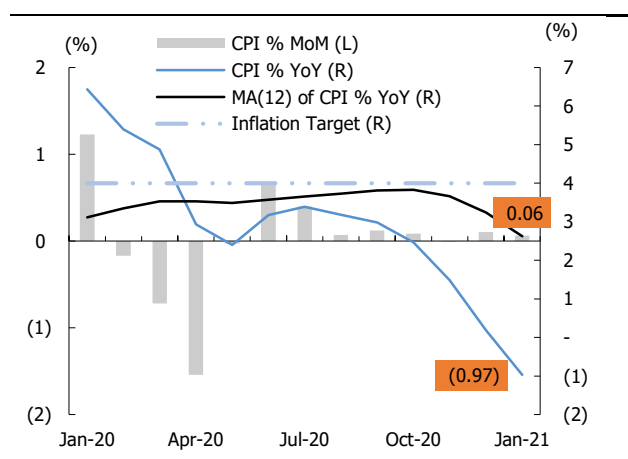
II. CPI to decline

Food and foodstuff price supports CPI's increase

According to GSO's release, the Consumer Price Index (CPI) witnessed a modest increase compared to the previous month due to increases in food and foodstuff (F&Fs) and traffic prices. CPI in January 2021 increased by 0.06% MoM, marking the second consecutive rise. Regarding sectoral contributions, F&Fs and traffic rose by 0.64% MoM and 2.29% MoM and were determinants pushing CPI up. In the opposite, housing and construction materials (HCM) price reduced by 2.31% MoM and significantly dragged the CPI down.

Considering yearly change, the CPI turned into contraction after a long streak of slowdown by declining 0.97% YoY, 116bps-lower than the previous rate. Hence, the 12-month rolling inflation rate posted 2.62%, 138bps-lower than the authority target rate of 4%.

Figure 11. CPI Changes



Source: GSO, KIS

Table 1. Inflation by Sectors

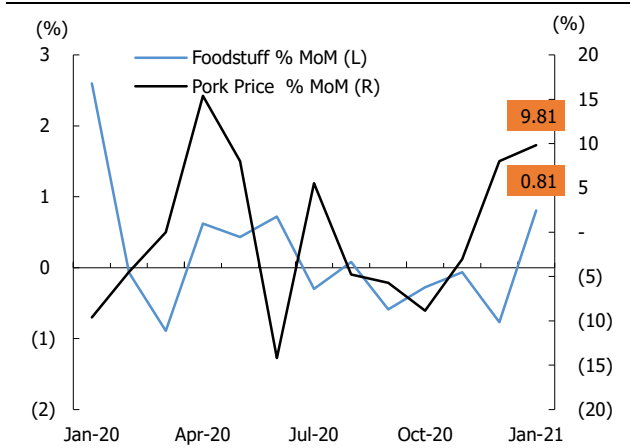
Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	0.64	1.03
Beverage and cigarette	3.59	0.32	0.80
Garment, Footwear, hat	6.37	0.44	0.47
Housing and construction materials	15.73	(2.31)	(3.55)
Household appliances and goods	7.31	0.08	0.48
Medicine and health care	5.04	0.01	0.36
Traffic	9.37	2.29	(10.27)
Postal services & Telecommunication	2.89	(0.10)	(0.58)
Education	5.99	0.38	4.53
Culture, entertainment and tourism	4.29	0.08	(2.61)
Other goods and services	3.3	0.24	1.42
Consumer Price Index		0.06	(0.97)

Source: GSO, KIS

Regarding the impact of commodities prices on CPI's components, pork price uptrend accelerated as rising by 9.81% MoM, 1.79-percent points higher than the previous growth rate. As a result, the pork price climbed up to hit the five-month high at VND82.80k per kilogram. This move of pork price mainly pushed F&Fs up this period.

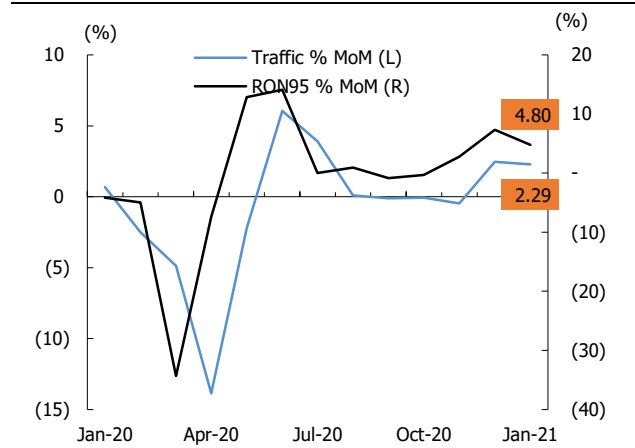
Considering the petroleum product prices, E5RON92 and RON95 rose by 5.10% MoM and 4.80% MoM to post VND16,309 and VND17,270 in January 2021, respectively. The deceleration in petroleum product price slowed the upward momentum in traffic price as its growth rate posted 2.29% MoM, 17bps-lower compared to December 2020. Consequently, the traffic's increase contributed 21bps to the overall CPI monthly change.

Figure 12. Pork price and food and foodstuff



Source: KIS, Bloomberg

Figure 13. Petroleum product prices movements

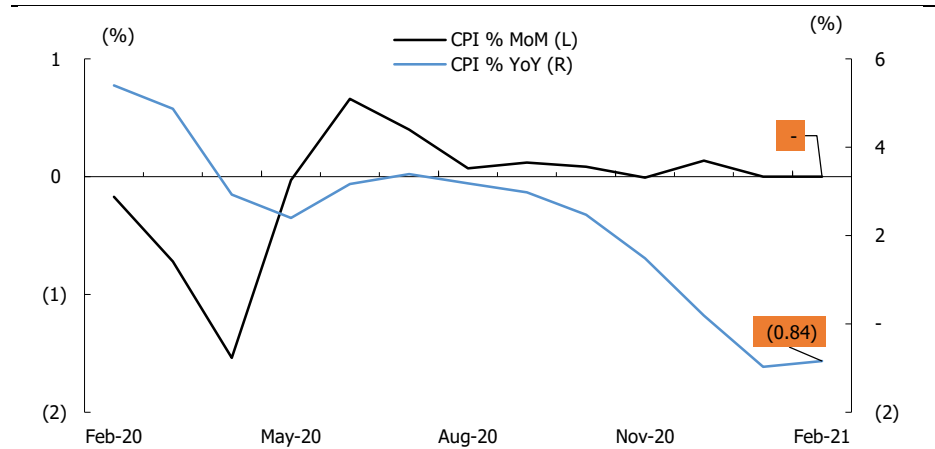


Source: KIS, Bloomberg

PREDICTION:

Upward momentum in pork and petroleum product prices tend to push the overall price up. However, downturn in HCM price is likely to sustain and put downward pressure on CPI. As a result, we predict CPI to decline by 0.84% MoM in February 2021.

Figure 14. Forecast of CPI in February 2021



Source: KIS, GSO

III. Retail sales to be subdued

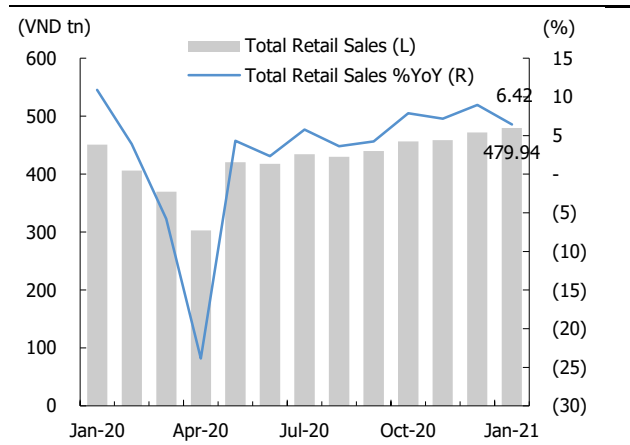
Retail sales slowed down

The upward momentum of retail sales became less strong in this period due to the slowdown in the retail sector despite downturns in accommodation and catering (A&C) and traveling activities were softening. According to GSO's estimates, the retail sales in January 2021 witnessed a slowdown as its growth rate just posted 6.42%YoY, 254bps-lower than the previous month. The shrink in growth rate in the retail sector was the main reason for the move of the total retail sales. The retailing activity rose by 8.65% YoY, being two-third of the previous growth rate, to post VND378.92tn this month. Besides, despite the laggard role in recent months, A&C and

traveling activities were warming up as contracting at rates 161bps- and 793bps-lower than November, respectively.

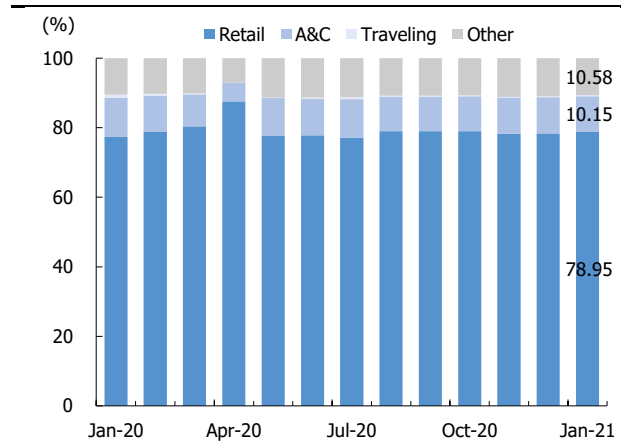
Regarding the structure, the retail value kept overwhelming with the largest share at 78.95% of the total, while A&C and traveling sectors jointly consisted of 20.73% of total revenue.

Figure 15. Monthly retail sales



Source: GSO, KIS

Figure 16. Components of retail Sales

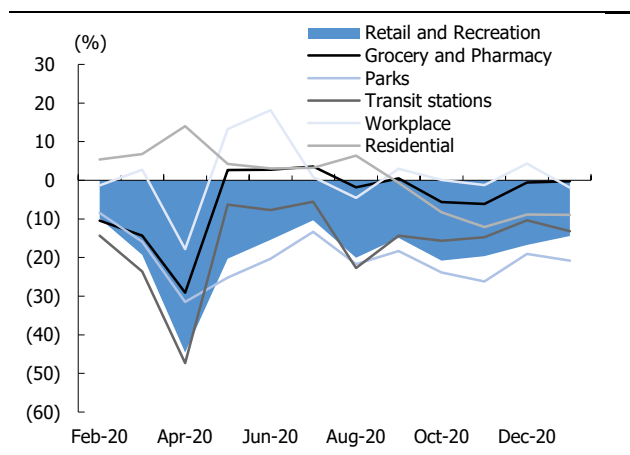


Source: GSO, KIS

PREDICTION:

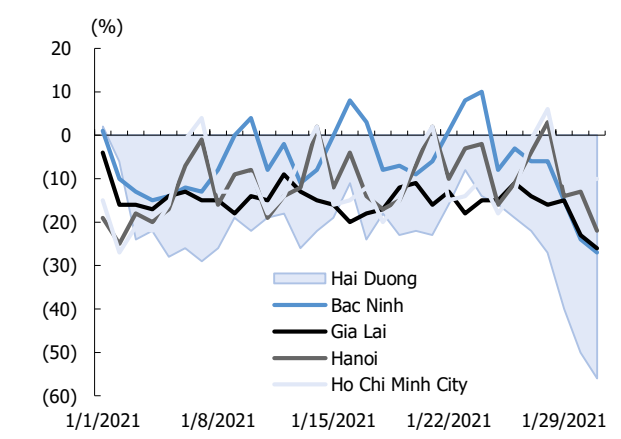
The government increased restrictions to combat COVID19 resurgence in January-late, and this situation limits considerably household spending, especially in the Lunar New Year. We predict retail sales to decrease in February 2021 compared to the same period last year.

Figure 17. Vietnam community mobility by category



Source: GSO, KIS, Google LLC "Google COVID-19 Community Mobility Reports"
Notes: mobility values are calculated as percent change from baseline

Figure 18. Vietnam retail and recreation mobility by province in January 2021



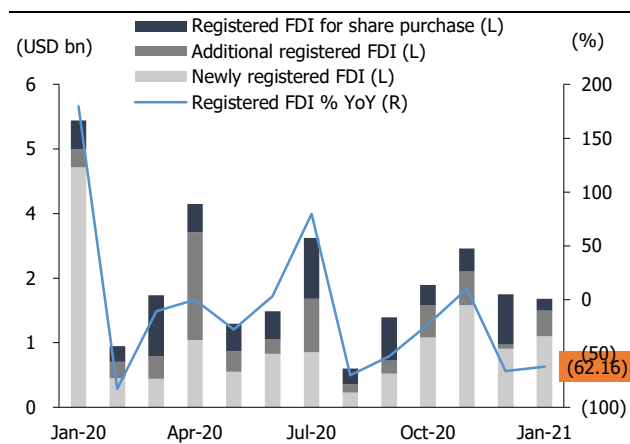
IV. FDI to be put on hold amid the outbreak

FDI remained at several-month lows before the New Year

In the latest update from the Ministry of Planning and Investment, FDI saw a low start in the first month of 2021 for both the registration activity and the disbursement. At the end of January, the situation becomes even worse as the new outbreak requires the government to implement stricter measures, which put high uncertainty on the foreign investment activity.

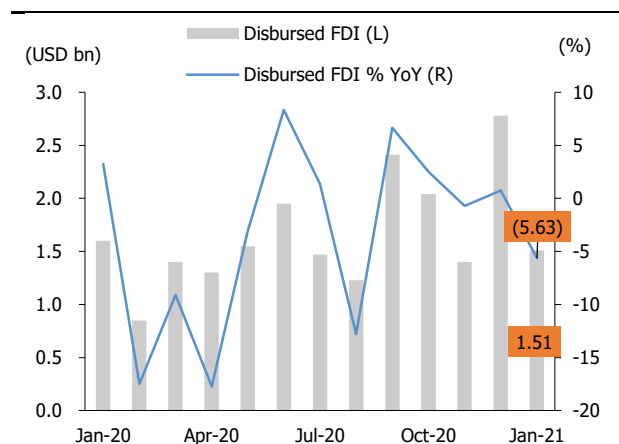
More specifically, the new registration amount recorded USD1.32bn in January, which is the second-largest amount since January 2020, while the raising capital for existing projects posted USD0.47bn. On the contrary, the amount for share purchase was down to its 3-year low at just USD0.22bn. As a result, the total registered FDI was dragged down to a 4-month low of USD2.02bn, down by 62.16% YoY. The disbursed FDI also plunged to USD1.51bn from the record high in December.

Figure 19. Registered FDI



Source: MPI, KIS

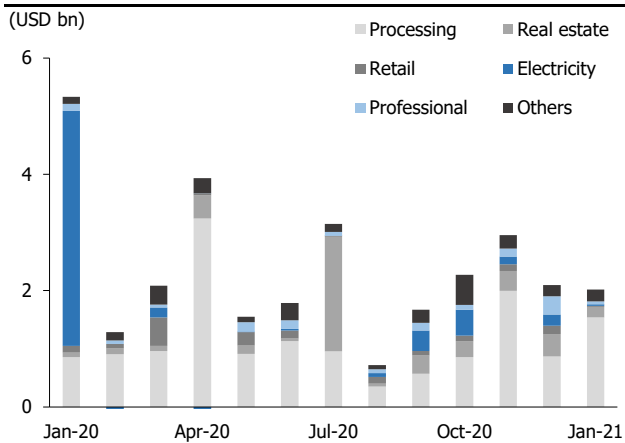
Figure 20. Disbursed FDI



Source: MPI, KIS

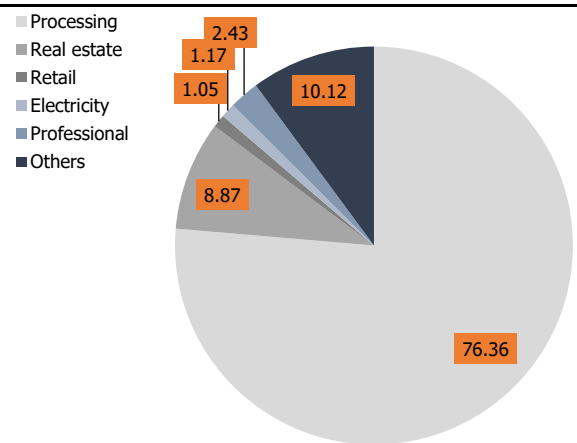
In the month, FDI registered in the manufacturing sector accounted for more than three-fourths of the total registration amount, at USD1.54bn and 76.36% of the total. The real estate sector ranked second place with USD0.18bn or about 8.87% of the total. FDI in other sectors, including retail, electricity, and professional, etc., remained insignificant.

Figure 21. Registered FDI by sector



Source: MPI, KIS

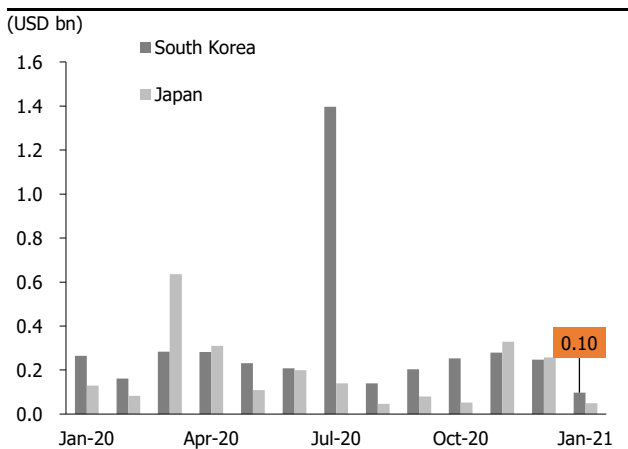
Figure 22. Structure of registered FDI in 1M21



Source: MPI, KIS

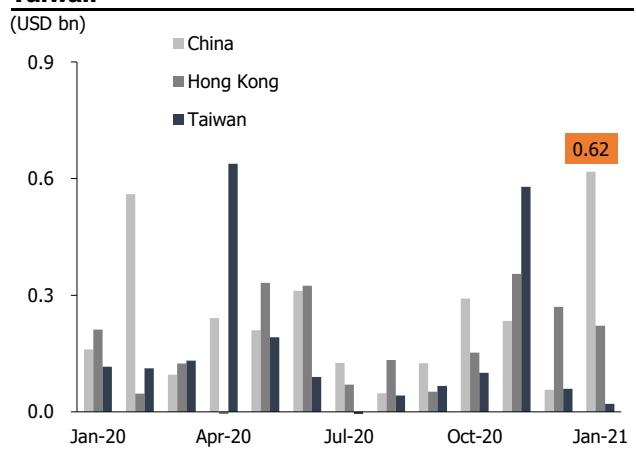
Most noticeably in the month, the FDI amount from China accelerated to a 21-month high of USD0.62bn, following by Hong Kong with 0.22bn. Besides, the registered capital from South Korea, Japan, and Taiwan was extremely low, at just USD0.10bn, USD0.05bn, and USD0.02bn, respectively.

Figure 23. FDI inflows from South Korea, Japan



Source: MPI, KIS

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



Source: MPI, KIS

Singapore continued to be the largest investment partner in January with USD0.68bn, although somewhat lower than in December. Registered FDI from ASEAN countries (excluding Singapore), North America, and Europe remained insignificant, at just USD0.01bn, USD0.13bn, and USD0.12bn, respectively.

PREDICTION:

For the current time, the ongoing COVID-19 outbreak from late-January is putting many uncertainties and difficulties for FDI investors in the short-term, especially with a long New-Year holiday ahead. As Bac Ninh, Bac Giang, Hai Phong, Ha Noi, and Binh Duong, etc., have been dealing with the outbreak, the foreign investment activity will most likely be put on hold in February. It is no doubt that the FDI registration and disbursement would slow down significantly this month.

V. IIP to face pressure from COVID-19 outbreak

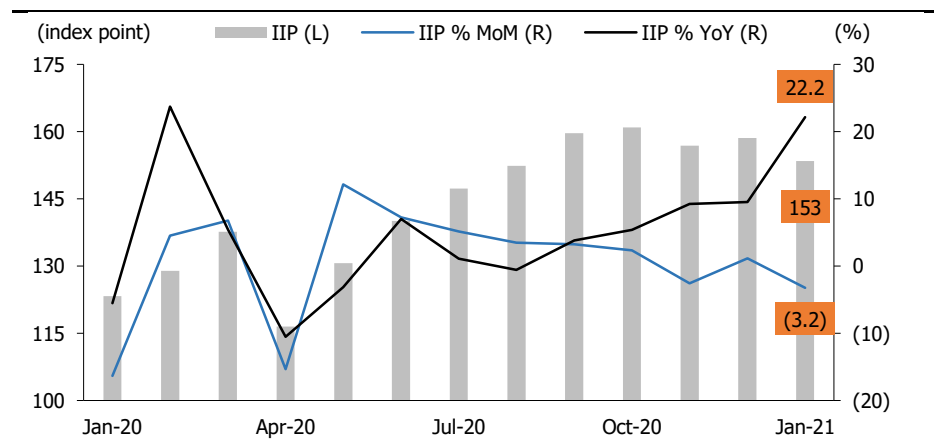
IIP slows down due to the seasonality

In January, the industrial sector saw a marked broad-based decline from mining to manufacturing. According to the latest update from GSO, IIP recorded the biggest drop of 3.25% MoM since the COVID-19 pandemic began in April, although still increasing 22.16% YoY thanks to a low base in 1M20 (2020 Lunar New Year took place in January).

Breaking down by sub-sector, the manufacturing sector saw the worst performance in 9 months, dropping by 3.12% MoM but increasing by 27.15% YoY. Regarding the mining sector, after a big jump in December, the growth again turned negative, in which the decreasing pace accelerated to a 5-month high of 9.77% MoM (also thanks to a low base in the previous year, the year-over-year growth rate was down by just 6.22%).

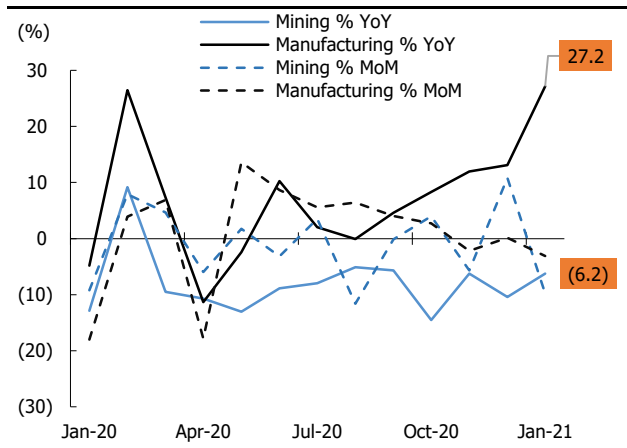
Besides, the electricity production & distribution increased by 1.04% MoM and 16.27% YoY, while the water supply sector dropped by 3.36% MoM but still 8.40% higher than in the previous year.

Figure 25. The industrial production



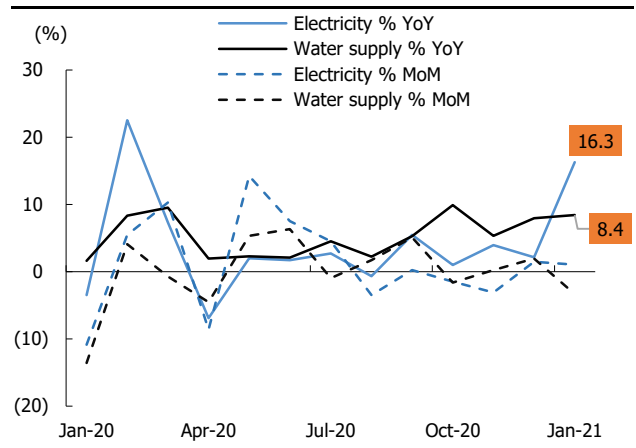
Source: GSO, KIS

Figure 26. Mining and manufacturing sub-sectors



Source: GSO, KIS

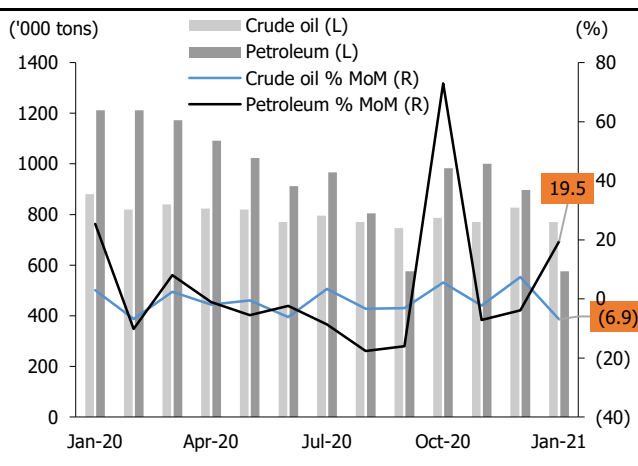
Figure 27. Electricity and water supply sub-sectors



Source: GSO, KIS

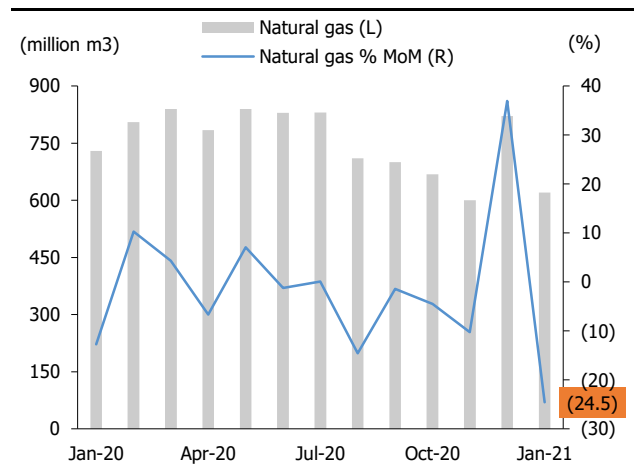
Further details about main industries and industrial products are as follows.

Figure 28. Production of crude oil and petroleum



Source: KIS, GSO

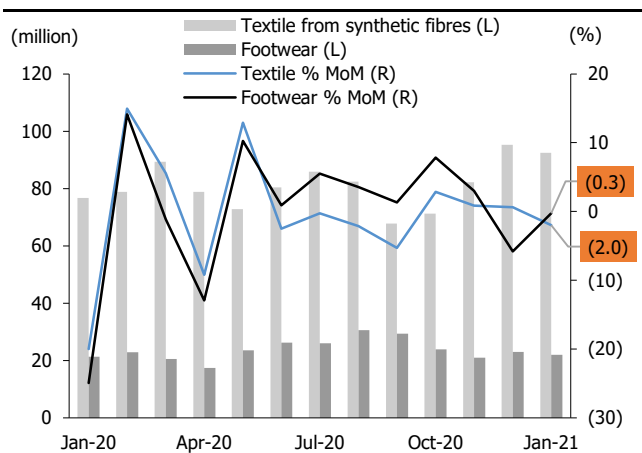
Figure 29. Production of natural gas



Source: KIS, GSO

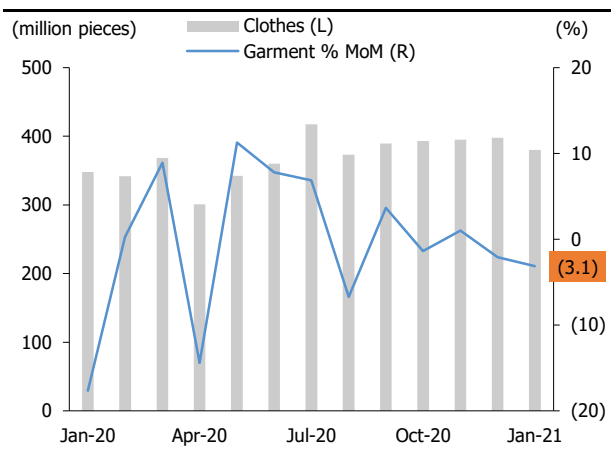
After a strong recovery in December, both the production of crude oil and natural gas fell significantly to the second slowest levels since the indices originated, by 6.9% MoM and 24.5% MoM, respectively. We suspect that the operation of the Sao Vang – Dai Nguyet gas field was delayed in January, when both the production levels of crude oil and natural gas dropped back to nearly November's levels.

Figure 30. Production of textile and footwear



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

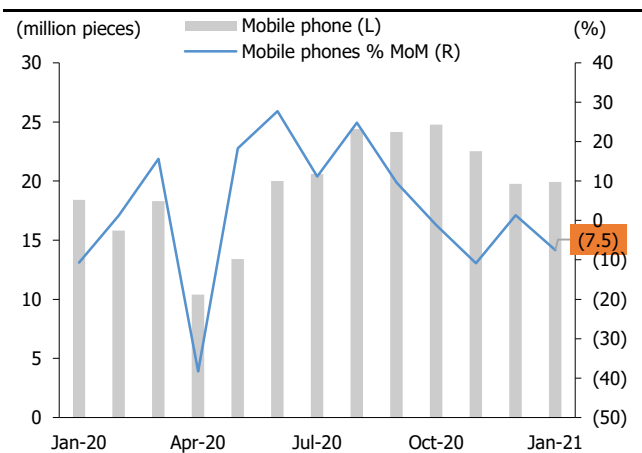
Figure 31. Production of clothes



Source: KIS, GSO

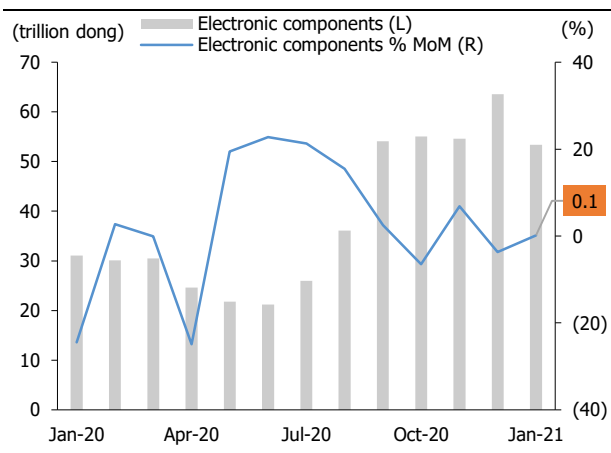
Overall, the textile, garment, and footwear industries were all slowing down in the month. The textile production saw the first reduction (2.0% MoM) since October, while the footwear output decreased slightly by 0.23% MoM. Furthermore, it is noticed that the garment production dropped at a fast pace for the second month, by 3.14% MoM.

Figure 32. Production of mobile phones



Source: KIS, GSO

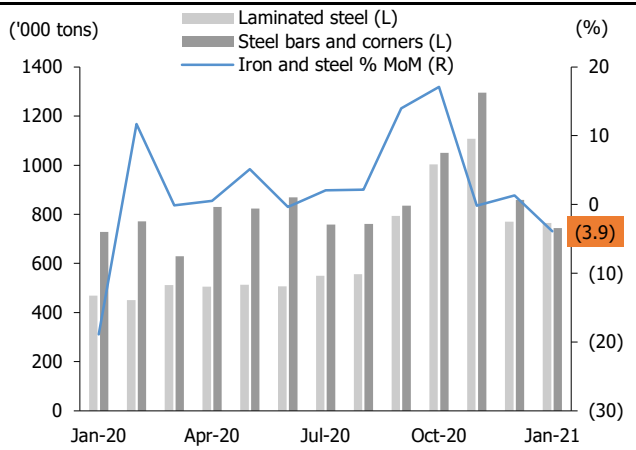
Figure 33. Production of electronic components



Source: KIS, GSO

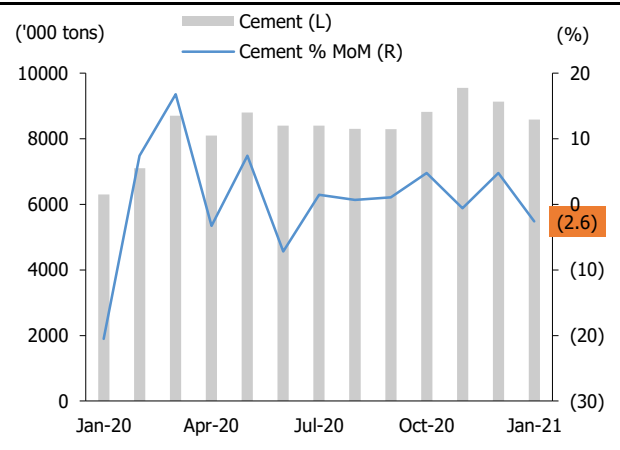
The production of mobile phones plunged to a 6-month low in the month, recording a reduction for the third time in the past four months. Meanwhile, the manufacture of the electronic components increased slightly by 0.1% MoM.

Figure 34. Production of steel products



Source: KIS, GSO

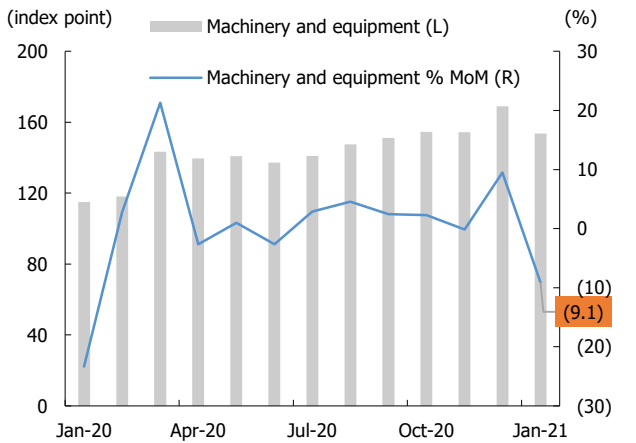
Figure 35. Production of cement



Source: KIS, GSO

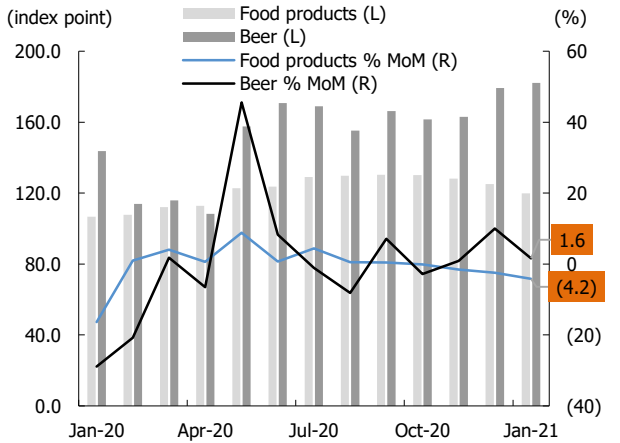
After climbing to a record high in December, the iron and steel industry tumbled by 3.9% MoM to a 3-month low, recording the worst performance since January 2020. Similarly, the cement production fell by 2.6% MoM from an all-time high in the prior month. However, we believe that the reductions in both steel and cement productions reflected the fall of demand for construction just before the Lunar New Year.

Figure 36. Production of machinery industry



Source: KIS, GSO

Figure 37. Production of F&B industries



Source: KIS, GSO

The production of the machinery industry shrank to a 4-month low, in which the decreasing pace was recorded a 12-month high. The food industry also tumbled at the fastest pace in 12-month of 4.17% MoM, continuing a fourth-month reduction. On the contrary, the beer industry performed strongly with 1.63% MoM growth in the month.

PREDICTION:

The sustainability in the industrial growth is put into question with the negative result in January. Although a part of the slowdown was due to the Tet's impact, which was seen in previous years, considerable reductions in the electronics, construction materials, and machinery industries, etc., have raised some concerns about the health of the industrial sector in 1Q20.

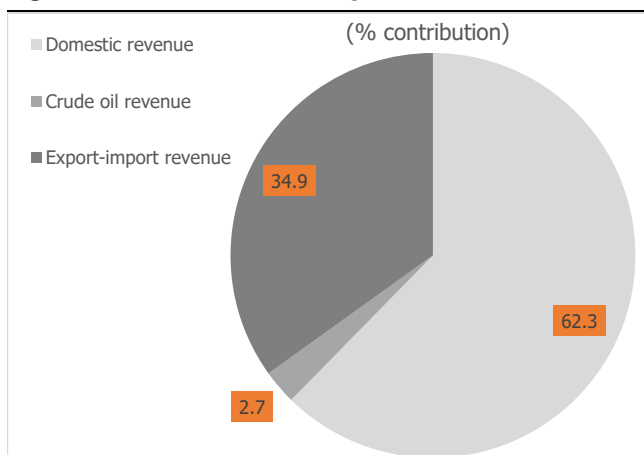
In February, the Tet's negative impact would surely become more significant and drag down the industrial production temporarily. Also, the new COVID-19 outbreaks put high uncertainty about the business conditions in the manufacturing sector as the authority was putting several manufacturing hubs, including Bac Giang, Bac Ninh, Hai Phong, and Ha Noi, on high alert for the new outbreak.

As a result, we expect that the industrial production would decline at a fast pace in February and record a 3% - 5% lower level than in the previous year.

VI. State budget begins 2021 with VND6.5tn deficit

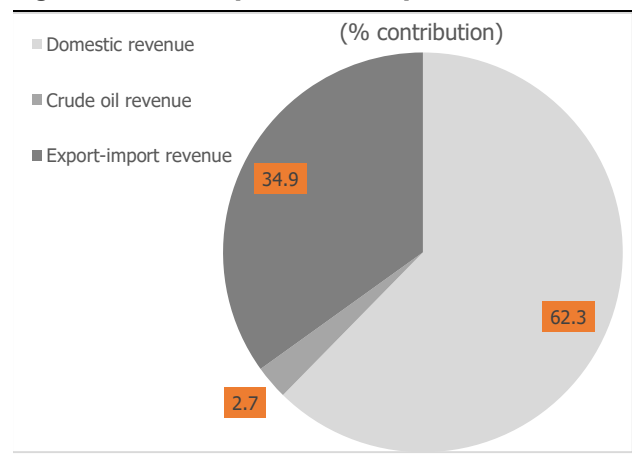
According to GSO's latest update, as of 1M21, total government revenue posted VND36.0tn, equivalent to just 2.7% of the annual plan. Breaking down by revenue component, domestic revenue achieved VND22.5tn, equaling 2.0% of the annual estimate. Revenue from crude oil reached VND1.0tn, equaling 4.3%, while that from export-import activities was VND12.6tn, equaling 7.0%.

Figure 38. State revenue components



Source: KIS, GSO

Figure 39. State expenditure components

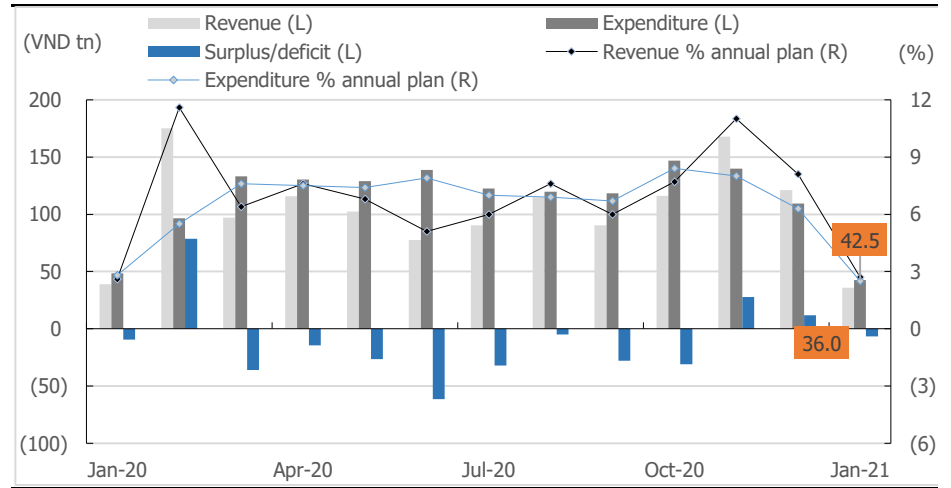


Source: KIS, GSO

Meanwhile, total expenditure was estimated at VND42.5tn, fulfilling 2.5% of the year estimate. In particular, the regular expenditure posted VND29.7tn, equaling 2.9% of the year plan, the development and investment spending recorded VND3.0tn, equivalent to 0.6%, and the interest payment was VND9.8tn, equaling 8.9%.

As a result, in the first month of 2021, the state budget recorded a deficit of VND6.5tn.

Figure 40. Monthly state revenue and expenditure



Source: GSO, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	1Q20	2Q20	3Q20	4Q20	2016	2017	2018	2019
Real GDP growth		2.62			4.48		3.82	0.36	2.62	4.48	6.21	6.81	7.08	7.03
Registered FDI	0.72	1.67	2.27	2.95	2.10	2.02	8.55	7.12	5.54	7.32	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	27.70	27.16	27.26	25.24	26.50	27.70	63.52	59.33	79.74	79.00	176.6	215.1	243.5	263.6
Import	22.72	24.20	24.27	24.69	27.50	26.40	59.69	57.41	69.02	76.46	175.0	213.2	236.7	254.4
Export growth	7.14	16.57	12.21	10.73	17.63	50.53	7.99	(6.81)	10.61	13.48	8.99	21.82	13.19	8.16
Import growth	1.58	12.58	9.00	15.69	22.70	41.00	4.03	(9.46)	3.74	15.81	5.55	21.85	11.01	7.41
Inflation	3.18	2.98	2.47	1.48	0.19	(0.97)	3.53	3.57	3.81	3.24	2.66	3.53	3.54	2.79
USD/VND	23,175	23,188	23,181	23,141	23,126	23,049	23,637	23,206	23,184	23,126	22,761	22,698	23,175	23,173
Credit growth	4.16	6.10	6.15	8.46	10.14		1.30	3.26	6.10	10.14	18.25	18.24	13.89	13.70
10Y gov't bond	2.88	2.52	2.21	2.26	2.01	2.03	3.24	3.07	2.65	2.01	6.23	5.14	5.07	3.37

Source: GSO, Bloomberg, FIA, IMF

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