true friend KIS Viet Nam Securities Corporation

Economy
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Strategic Insight

INFLATION: A transient or long-lasting shock?

Contents

What cause a commodity price boom?

2020 – 2021 has been a milestone for the world economy as the global economy has experienced many extreme ups and downs amid the global pandemic. But from the trough in early 2Q20, the global economy, the global manufacturing sector, and the global commodity markets have seen a similar V-shaped recession-recovery trend. That trend is going upward remarkably without stopping, surprising economists, investors, and even monetary policymakers. However, the bottlenecks in the global commodity supply would be unblocked as the commodity supply would be getting close to the demand scale over time. We expect the upward trend for commodity prices would eventually reverse later this year and in 2022, and the correction would take place more gradually versus the ongoing sharp recovery.

Vietnam CPI to face short-term pressure

We saw that Vietnam's CPI recently was exposed to external shock related to the volatile global commodity. The direction of CPI in the next coming months would depend heavily on changes in the global energy & metal & agriculture prices. Furthermore, the government has conducted several policies to stabilize the overall price index. According to our analysis on CPI's basket at item-level, we forecast that the overall price index would increase slightly in 2Q21.

Vietnam stock market reaction

In contrast to the high inflation period in the period 2008 and 2010-2011, inflation this year is still under government control. As a result, inflation will have little impact on the long-term uptrend of the market vs. 2008 and 2010-2011. Instead, inflationary pressure may have a short-term impact on investors' sentiment, causing a short-term correction while the mid to long-term uptrend will still be intact. We expect that the VNIndex may correct to the range of 1,300-1,320 points.

In addition, an increase in commodities' prices such as energy, metal, and agriculture prices can positively or negatively impact some specific industries such as mining, fisheries, livestock, etc.

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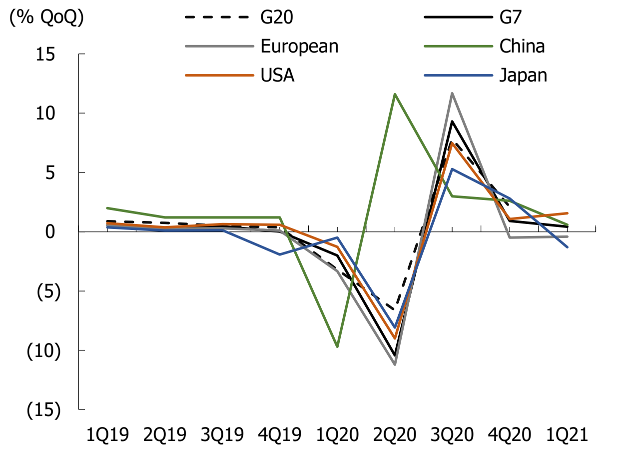
I. What cause a commodity price boom?

Global economy saw a recession-recovery pattern during the pandemic

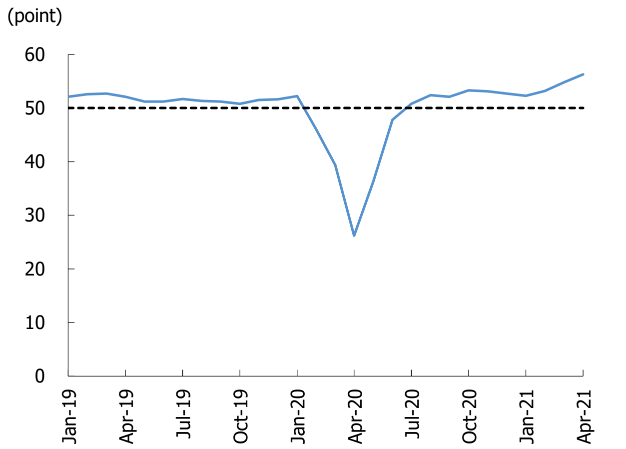
2020 – 2021 has been a milestone for the world economy with the devastating impact of the COVID-19 pandemic since early 2020. The global economy has experienced many extreme ups and downs that are primarily driven by new waves of the COVID-19 pandemic in advanced economies. But a recovery path has been slowly-but-steadily shaped from a deep bottom in March - April 2020, and this resilience has been more and more strengthening in the beginning of 2021, driven by fast and effective large-scaled fiscal support from advanced economies and a super-easing monetary environment globally.

Figure 1. Major economic growth (Real GDP growth)



Source: OECD, KIS

Figure 2. Global Composite Output PMI Index

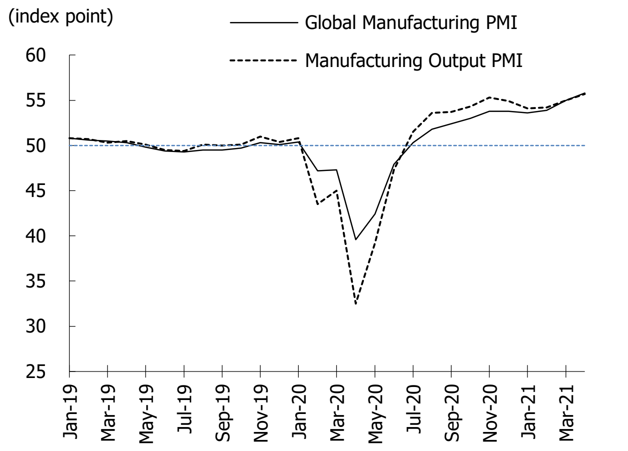


Source: IHS Markit, KIS

The global manufacturing sector, the primary demand driver for global commodities, have experienced a very fast and solid recovery from its dip in April 2020. According to data from IHS Markit, JPMorgan Global Manufacturing PMI and corresponding Global Manufacturing Output indexes, which measure overall business conditions and overall production output in the global manufacturing sector, increased sharply from their bottoms in April, entering the recovery phase just three months after the recession and reaching its new all-time peaks consecutively in March and April 2021.

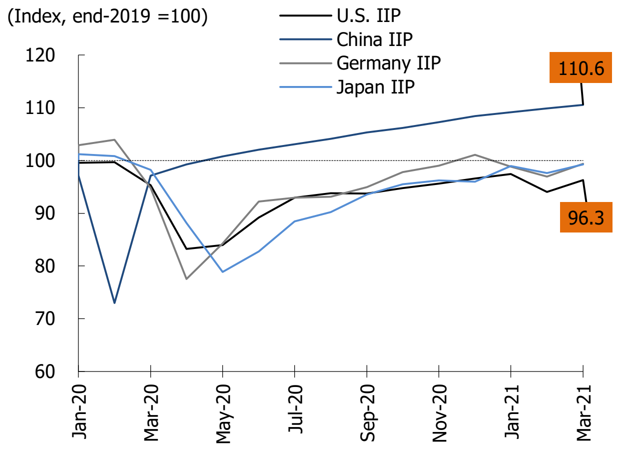
Besides, industrial productions from top 4 largest manufacturing nations, including the U.S., China, Germany, and Japan, demonstrated the same fast and sharp recession-recovery pattern as well. Most notably, the global largest manufacturer, China, was far above the pandemic-caused bottom as its industrial production 10.6% higher than the pre-pandemic level. Other major manufacturers almost recovered nearly to pre-pandemic levels.

Figure 3. Global manufacturing PMI



Source: IHS Markit, KIS

Figure 4. IIP index



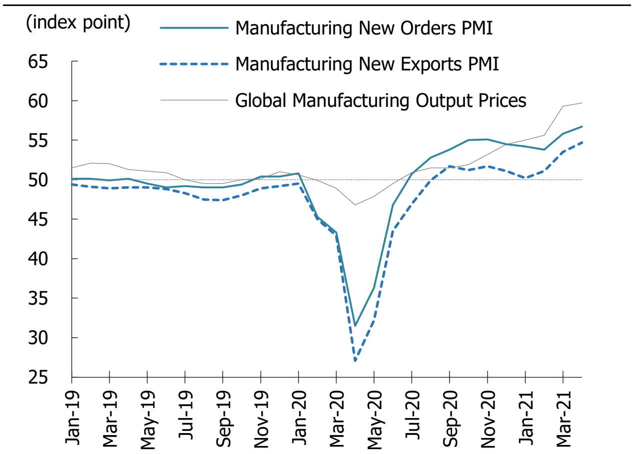
Source: Bloomberg, KIS

Fast-recovered global manufacturing sector is demand-driven

The sharp recovery in the manufacturing sector is strongly supported by increasing demand for manufacturing products globally. The index measuring demand for the global manufacturing products, the Global Manufacturing New Orders PMI Index, accelerated at a fast pace from October 2020 and set two consecutive all-time highs in March and April 2021.

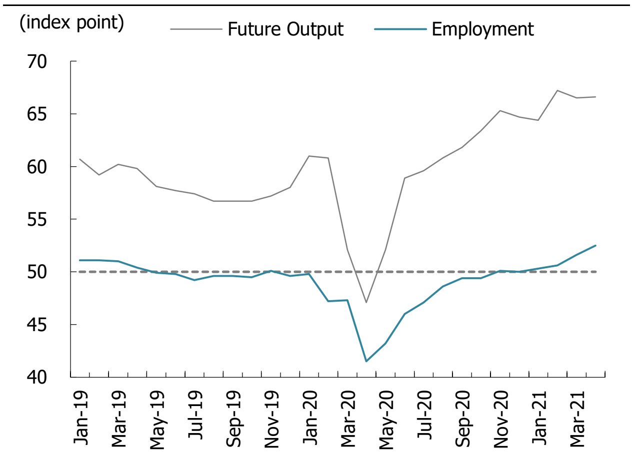
Interestingly, those manufacturing demand indicators formed up new peaks at the same time with record increasing paces of manufacturing products. Regarding the price level, Global Manufacturing Output prices rose for the tenth consecutive month in March and likely continue to increase in coming months as the last 2-month upward momentum hit their records. Indicators for future output and employment levels of global manufacturers also showed that manufacturer confidence were extremely positive, indicating a continued solid growth for this sector in the future, and employment resources are trying to catch up with continued increasing demand. Increases in the employment capacity were up to a 2-year high in February and March.

Figure 5. Global demand for manufacturing products



Source: IHS Markit, KIS

Figure 6. Manufacturing conditions in the future



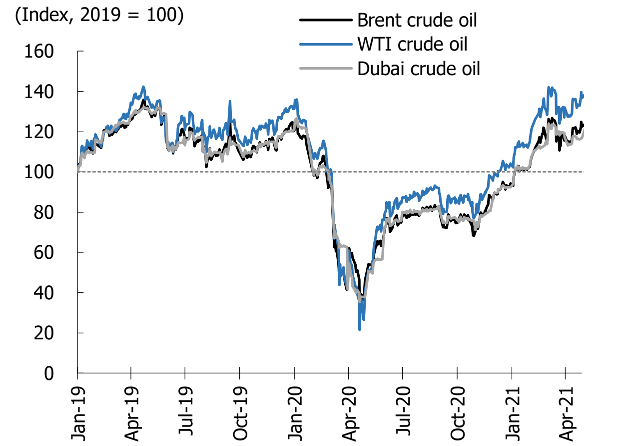
Source: IHS Markit, KIS

The similar V-shaped recovery is spotted in commodity markets

The central question this part aims to solve is how the commodity prices react to the V-shaped recession-recovery of the manufacturing sector. Besides, other concern is also raised whether the surge in the global commodity prices is being driven by demand-pull or cost-push factors?

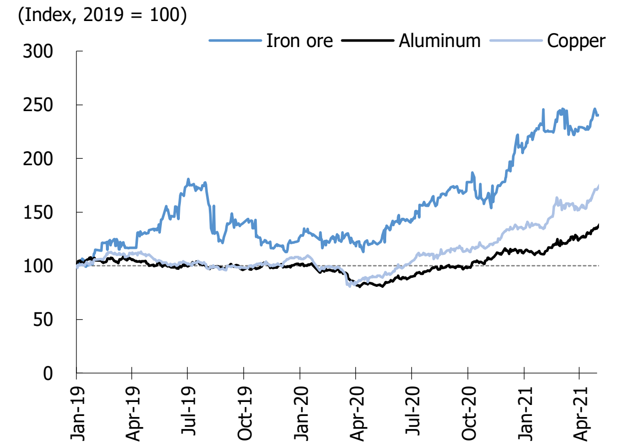
A similar-but-not-identical recession-recovery pattern is spotted in the global commodity markets, as global economic activity (global manufacturing sector to be more accurate) is the main driver for commodity demand.

Figure 7. Crude oil prices



Source: Bloomberg, KIS

Figure 8. Primary metal prices



Source: Bloomberg, KIS

Going back to the early global pandemic, in the very first collapse in early 2Q20, oil and metal prices were also plunging by about 75.0% and 21.9% just within a few months if compared to end-2019 levels. However, from that trough, following the fast-recovered manufacturing production, most metal prices exceed pre-pandemic levels, and some even reach new peaks in nearly a decade.

In average, as of End-April, base metal prices surged by about 107.1% from their bottoms in April and exceeded about 61.6% relative to end-2019 levels. To a lesser extent, oil price recovery was somewhat less significant, surging by up to 337.7% from its trough but just 1.0% above pre-pandemic levels. Those numbers illustrated that oil has been impacted more severely than other commodities, and the recovery path is not as strong as other commodities as gasoline demand in some areas, like jet fuels, remain subdued.

Table 1. Changes in commodity prices before and after the pandemic

	Change (%)			Change (% QoQ)		
	From low-2020	From end-2019	From 2020-end	3Q20	4Q20	1Q21
Brent crude oil	247.90	1.89	29.83	(0.49)	26.50	22.66
WTI crude oil	535.16	4.13	31.04	2.42	20.64	21.93
Dubai crude oil	229.98	(3.07)	26.26	1.73	20.05	29.31
Iron ore	142.28	91.10	15.38	26.74	16.88	8.38
Aluminum	67.58	33.60	20.79	9.16	13.75	10.88
Copper	111.32	60.14	27.28	11.76	16.04	13.54

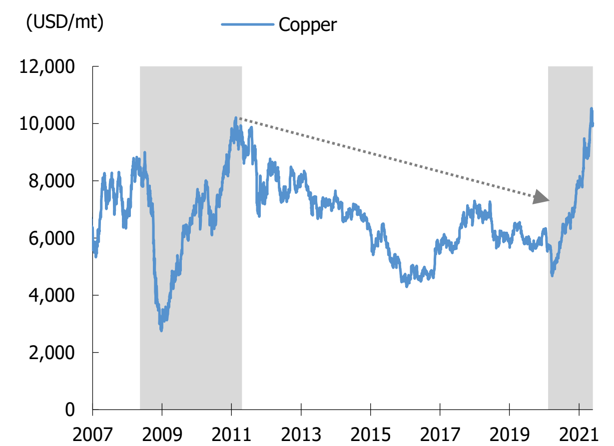
Source: Bloomberg, KIS

Similar occurrences in the Great Recession 2008 - 2009

Most notably, the ongoing patterns of the global economy and the commodity prices seem to repeat what happened in the past, particularly in the Great Recession 2008 – 2009. Shortly before the financial crisis burst out, the commodity prices, including Copper, Aluminum, and Brent crude oil prices, set up their peaks following global fast economic growth in a period between 2006 – early 2008. During late-2008 and early-2009 when the crisis took place, the commodity prices were bottoming in just a few months after their peaks. The downtrend was fast and strong, illustrated by that Copper and Aluminum prices lost more than 60% in less than 9 months and Brent crude oil price plunged even three-fourth from its peak in just 5 months. From that crash, thanks to similarly huge fiscal packages and easing monetary conditions from the U.S. and Western world, to Japan and China, the energy and non-energy commodity prices recovered to their new heights in nearly two and half years.

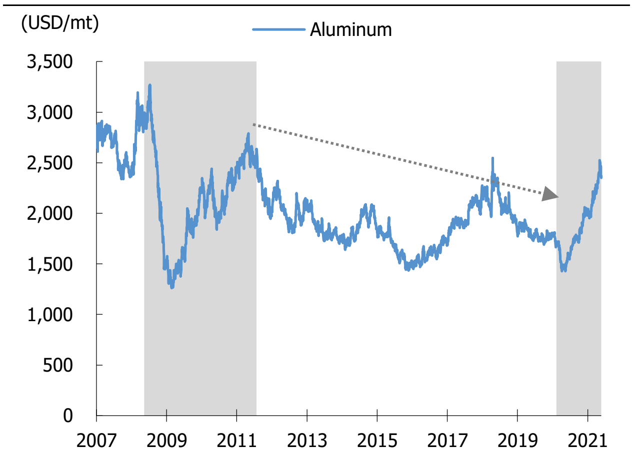
For the current pandemic-caused crisis, similar occurrences were seen in the global economic developments and the commodity markets. Due to sudden disruptions in the economic activity, it took only 2 or 3 months to dump the commodity prices to the bottom. The deepest plunge in the world economy forced advanced economies to respond with historic fiscal packages, concentrating on government investment spending. The recovery in global commodities has lasted for almost a year, and the upward trend is gaining more and more momentum for the present.

Figure 9. Historical copper price trend



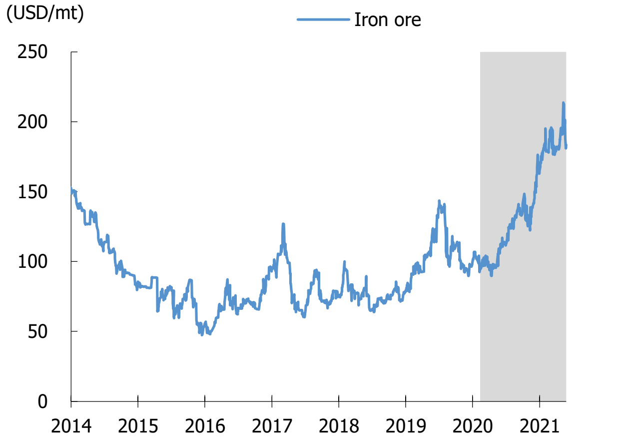
Source: Bloomberg, KIS

Figure 10. Historical aluminum price trend



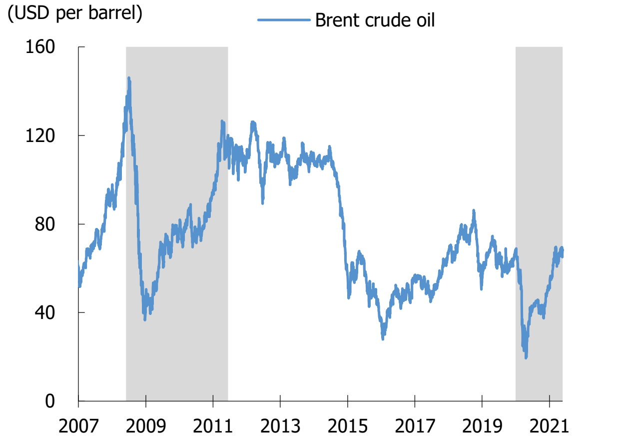
Source: Bloomberg, KIS

Figure 11. Historical iron ore price trend



Source: Bloomberg, KIS

Figure 12. Historical Brent crude oil price trend



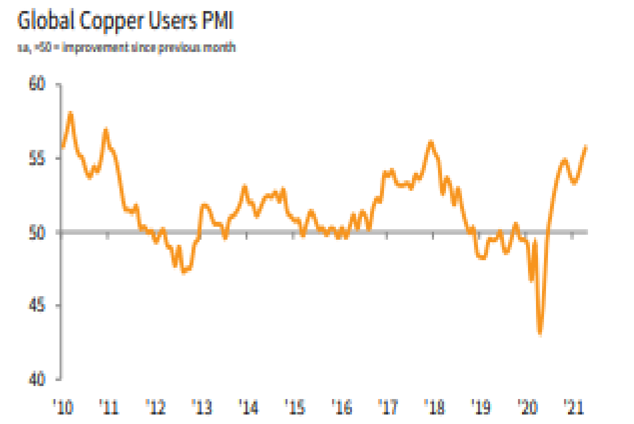
Source: Bloomberg, KIS

Surging commodity price trend is ongoing under a demand shock

The phenomenon in the commodity price reactions we described above is repeatedly mentioned in the academic world. It is due to the nature of the demand-supply relationship of most commodities. When demand shock for any commodity is occurring, even it is a boom or a crash, the supply side is usually inelastic to changes in demand and prices. It took a yearlong to transmit from, for example, positive demand shock to an equivalent increase in supply, and it is similar regarding a negative demand shock.

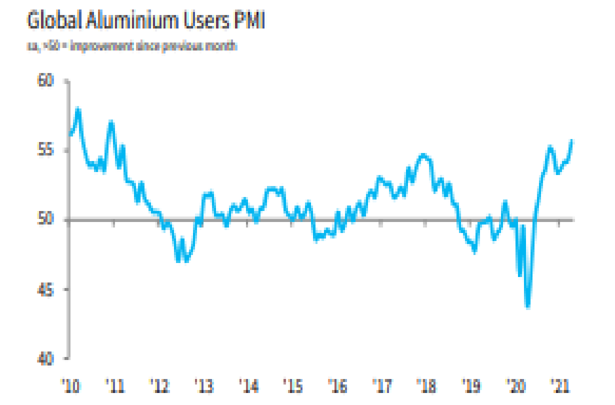
In our view, the surging commodity prices for the present are the result of demand-supply imbalance. Commodity demand supported to huge fiscal spending (mostly in terms of infrastructure investment) and fast-recovered manufacturing sector seems to outpace the underlying supply. More specifically, the Global Copper & Aluminum & Steel Users indexes, which measure the overall business conditions for global manufacturers using heavily Copper & Aluminum & Steel for their products, are improving at a fast pace since mid-2020, reaching nearly their record highs in a decade just recently. Other criteria measuring the overall output, new orders, and new export orders for Copper & Aluminum & Steel products are also reported at significantly high. In the World Bank Commodity Outlook report, China's global largest base metal consumption was reported increasing for the ninth month as of January 2021, and the metals consumption already exceeded pre-pandemic levels.

Figure 13. Global demand for copper



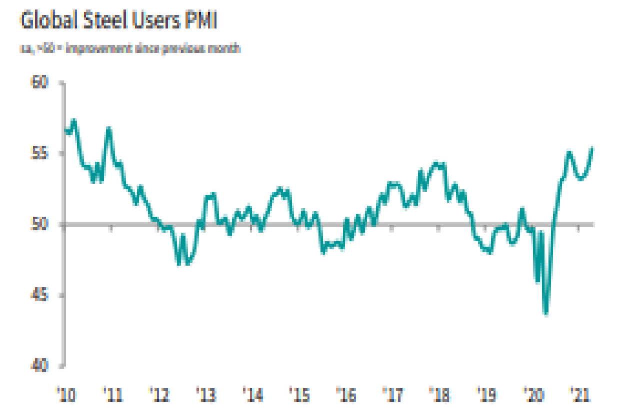
Source: IHS Markit, KIS

Figure 14. Global demand for aluminum



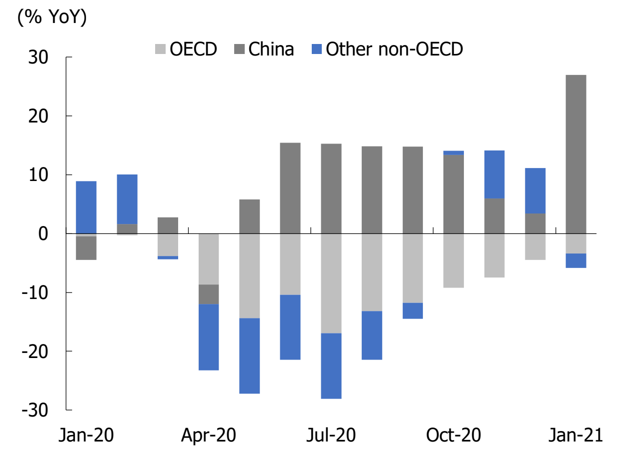
Source: IHS Markit, KIS

Figure 15. Global demand for steel (iron ore)



Source: IHS Markit, KIS

Figure 16. Global demand for base metals

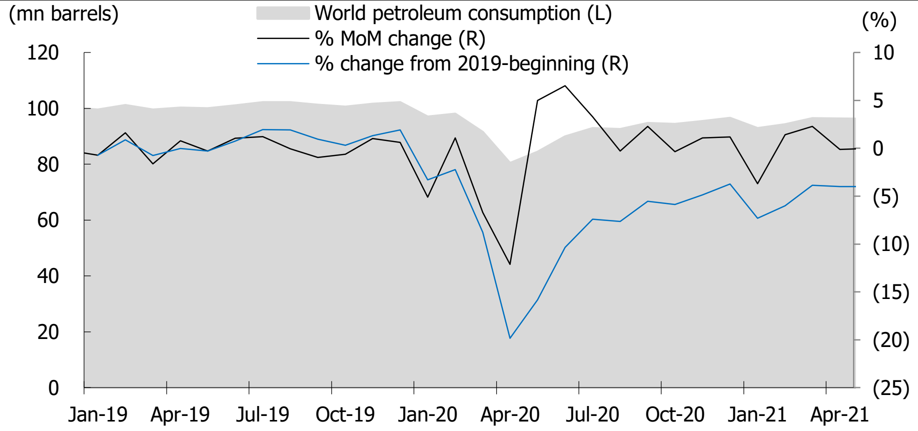


Source: World Bank, KIS

For the global energy demand, the recovery was less impressive compared to those raw materials because of three main reasons: (1) the world aviation demand remained muted under still strict international flight restrictions as the vaccination progress in most countries is in an early stage; (2) demand from the fast-growing manufacturing sector transmitting to global energy demand is far less direct than the other raw materials; (3) elsewhere around the globe still suffer badly from the ongoing pandemic, which put further uncertainty on the recovery path of the energy industry.

More specifically, the world petroleum consumption fell to the lowest in 17 years, at just 80.35 million barrels per day, falling by nearly 20% from beginning-2019 consumption level. As of April 2021, the energy consumption already recovered 80% of the slump, but the recovering pace was getting lower in 2021.

Figure 17. World petroleum production

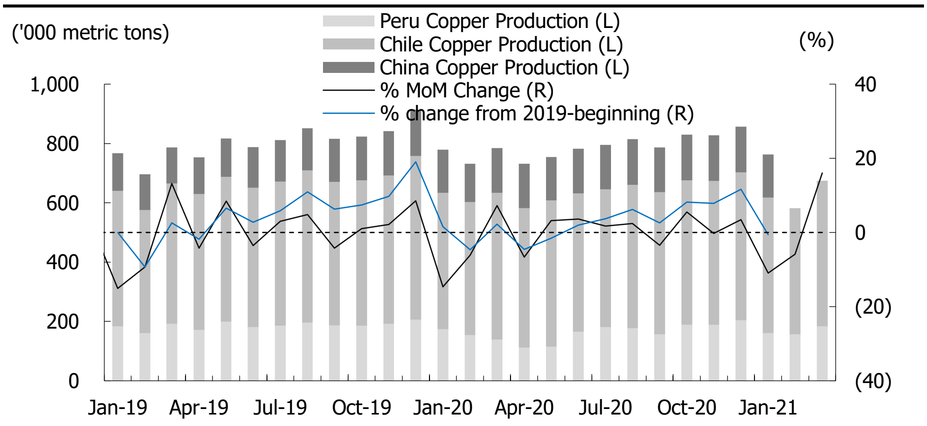


Source: U.S. Energy Information Administration, KIS

Commodity supply conditions remain robust in and after the pandemic

From the supply side, it is evident that the supply conditions for raw materials remain strong before and after the pandemic. For Copper production, we collected copper mine production from the global three largest copper producers. In 2020, although facing a temporary slowdown in the mining activity in Peru in 1H20, the total copper production of those producers dropped just 2% compared to 2019's level. Furthermore, China and Chile copper producers signaling to ramp up copper mining under surging copper prices in late-2020 up to the present.

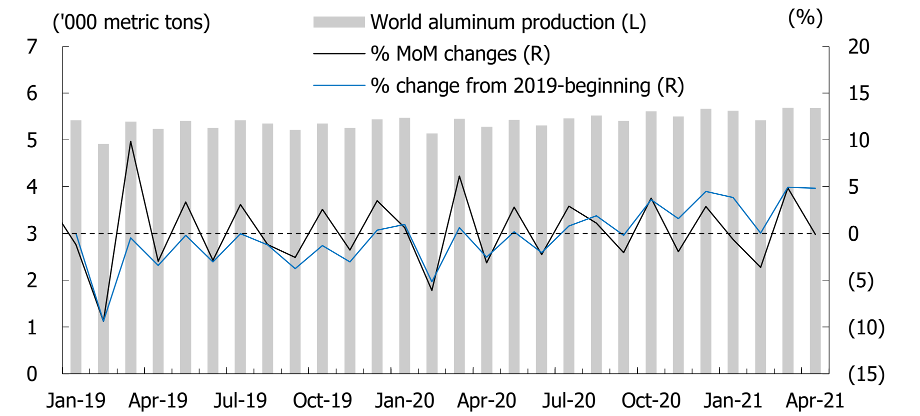
Figure 18. Global three largest copper mine producers



Source: Bloomberg, China & Peru & Chile National Statistics Department, KIS

Regarding aluminum production, according to production data from the International Aluminum Organization, the world aluminum production level remained robust in the pandemic era. Even in late-2020, aluminum production was ramping up thanks to higher aluminum prices.

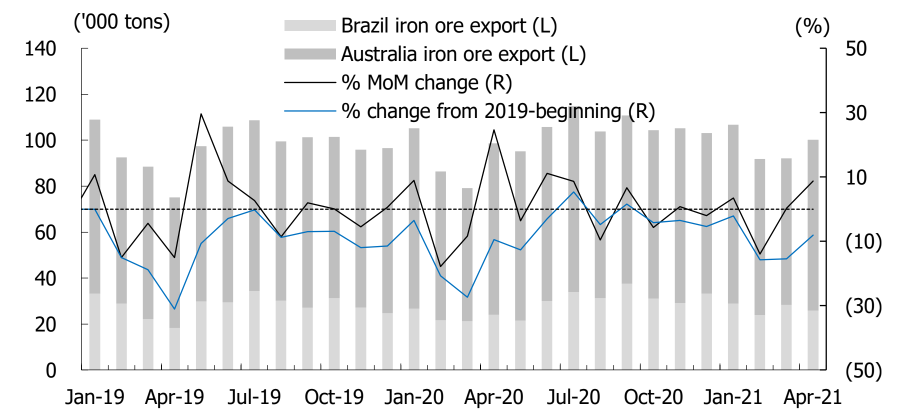
Figure 19. World primary aluminum production



Source: International Primary Aluminum Institute, KIS

As iron ore mine production data is limited, we choose to pick other indicators to illustrate the global iron ore supply. The graph below showed total iron-ore export volume from the two largest global iron-ore exporters Australia and Brazil, which accounted for more than 80% of the world iron-ore export. In early-2020, both Brazil and Australia fell strongly by at least 20% total export volume, likely because of the pandemic-caused disruption. However, we saw a similar trend that iron-ore export volume accelerated in the second half of 2020 than in the previous period.

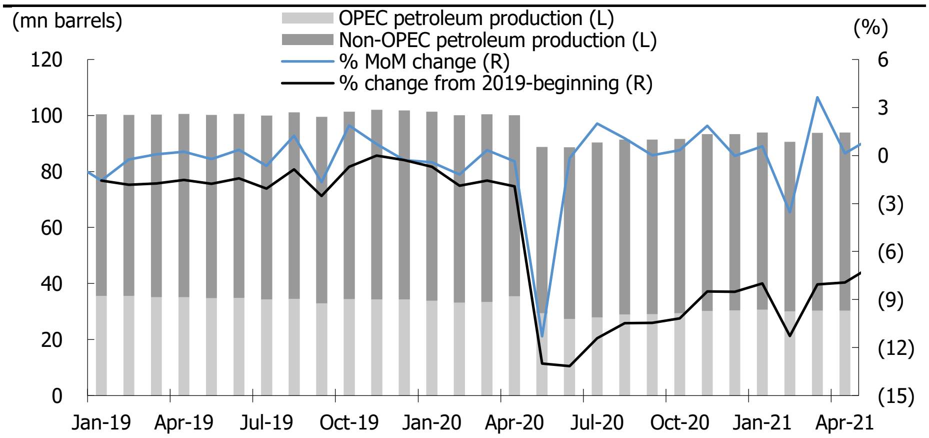
Figure 20. Global two largest iron ore exporters



Source: Bloomberg, Australia & Brazil National Statistics Department, KIS

The supply conditions in the energy markets were more complicated than in other commodity markets as the world production of petroleum is brutally controlled by the OPEC+ organization. The graph below, showing the world petroleum production, can be used to illustrate global crude oil and non-crude oil supply. It is clear that the historic crude oil production cut deals from the OPEC+ organization since April last year primarily run down the world petroleum production. However, under improved energy demand and favorable global energy prices, the energy supply conditions are also improving. For about a year since the crisis took place, global energy production has ramped up for about a half of its total production cut in early 2020.

Figure 21. OPEC and non-OPEC petroleum supply



Source: U.S. Energy Information Administration, KIS

CONCLUSION:

After all the evidence we provided above, some important points should be concluded for the current and future conditions in the global commodity markets:

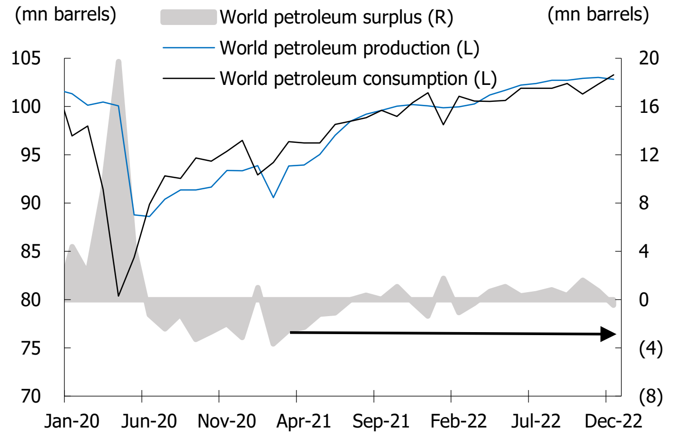
- After the large-scale disruption in the world economy in early 2020, the economic outlook has improved significantly thanks to huge fiscal spending and super-accommodative monetary conditions. This impressive growth in the global economy has been strongly driven by the manufacturing sector, which saw the post-crisis fastest recovery in the 21st century.
- Fast-recovered global manufacturing production is the underlying driver for surging commodity prices, especially the base metal commodities. Commodity-users PMI indexes and the global manufacturing PMI index are reaching their record highs almost at the same time from their bottoms last year, while measures for manufacturing-product and metal-products demand are also improving at record paces.
- The energy demand seemed to slowly recover relatively to the raw material commodities, as the global transportation sector are still severely impacted by the ongoing pandemic and the still early-stage global vaccination progress.

Commodity prices would fall as supply will eventually catch up with demand

Looking forward to late-2021 and the coming years, the surging trend in the commodity prices would face more and more as the supply will be gradually catching up the demand level under attractive price levels. Taking the energy commodity as a prime example thanks to the availability of historical and projected data from reliable institutions.

As it is shown in graph below, after slumping in April 2020, the world petroleum consumption has been strongly outpacing the petroleum production under both those production and consumption upward moving. However, according to the latest estimate from the U.S. Energy Information Administration, the energy production would approximately catch up with the consumption in a next few months, and then outpacing for almost all the projection horizon until the end of 2022. As a result, the global energy prices, the Brent crude oil price as the global benchmark, would reach its peak in 3Q2021 (mostly around August this year) and fall gradually over the next year 2022.

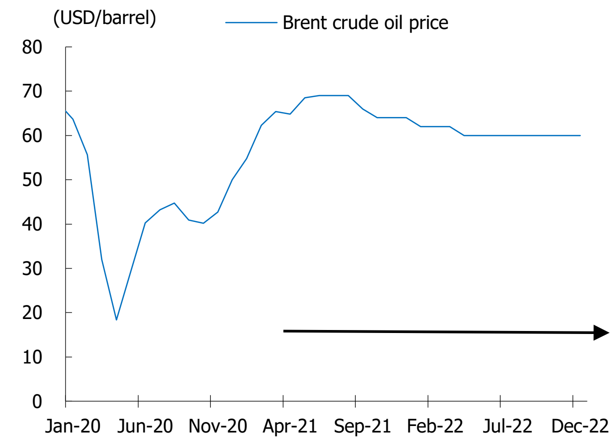
Figure 22. Petroleum production & consumption forecast



Source: U.S. Energy Information Administration, KIS

Note: The forecast horizon is from May 2021 to Dec 2022

Figure 23. Brent crude oil price forecast



Source: U.S. Energy Information Administration, KIS

Note: The forecast horizon is from May 2021 to Dec 2022

Under the similar rationale that the commodity supply would eventually outpace the production in a certain period of time, in the latest Commodity Markets Outlook report in April 2021, World Bank also gave out its forecast for Copper, Aluminum, and Iron ore prices. The correction in Iron ore is expected to happen at extreme levels as World Bank forecasted that the Iron ore price would lose nearly 30% in end-2021 and almost a half in 2022-end from its price level in End-April. The projections for Copper and Aluminum prices would be less intense with the expectedly more stable demand from the manufacturing sector. The Copper price is projected to fall about 14% in end-2021 and 24% in 2022-end from its End-April price level, and similar reductions of about (16.3%) and (14.2%) for the Aluminum price, respectively.

Table 2. Commodity price forecast

	Forecast					Comparison (%)			
	2020-end	April-2021	2021	2022	2023	2021 vs 2020-end	2022 vs 2020-end	2021 vs Apr-2021	2022 vs Apr-2021
Copper	7758	9874	8500	7500	7555	9.6	(3.3)	(13.9)	(24.0)
Aluminum	1979	2390	2000	2050	2075	1.1	3.6	(16.3)	(14.2)
Iron ore	165	190	135	100	98	(18.2)	(39.4)	(28.9)	(47.4)

Source: World Bank Commodity Markets Outlook report in 20 Apr 2021, Bloomberg, KIS

II. Vietnam CPI to face short-term pressure

Vietnam CPI peaked at 8-year high amid global fear of inflation

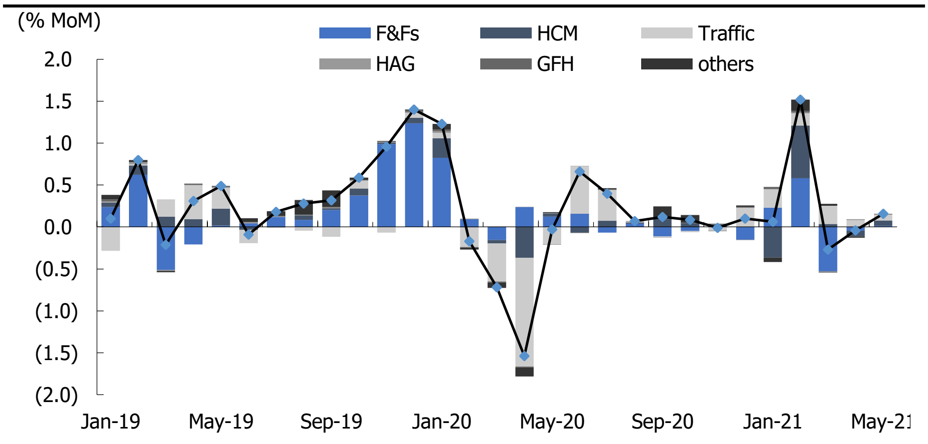
We saw that Vietnam's CPI recently was exposed to external shock related to the volatile global commodity. The direction of CPI in the next coming months would depend heavily on how energy, metal, agriculture prices in the global market movements. Furthermore, the government has conducted several policies to stabilize the overall price index. According to our analysis on CPI's basket at item-level, we forecast that the overall price index would increase slightly in the near future.

Table 3. Short-term commodity expectations

Commodity	Weight in CPI basket	Short-term direction	Catalyst
Rice	~4.00%	Increase	Increases in export demand and fertilizer prices
Pork	4.20%	Increase	Resurging ASF and increasing animal fodder price
Non-pork livestock	NA	Increase	Emerging cattle disease and rising animal fodder
Vegetable and fruit	NA	Increase	Rising export demand
Electricity	NA	Decrease	Electricity price and bill reduction phase 3
Construction materials	2.03%	Decrease	Supply-demand catching up
Petroleum products	NA	Increase	Crude prices remain strong

Given large weights in CPI basket, food and foodstuff (F&Fs), housing and construction materials (HCM), and traffic sub-indices mainly fluctuate the overall price over the first five months of 2021. While F&Fs and HCM seem to follow the random walk pattern, the traffic index shows a persistent uptrend. Our CPI forecast mainly concentrates on the prospects of products in these sectors for several coming months.

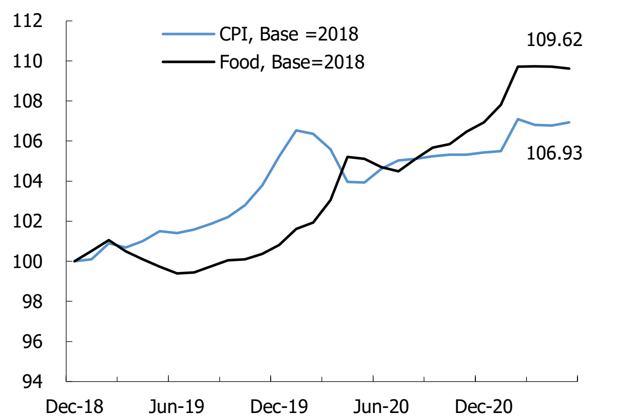
Figure 24. Consumer Price Index and its sectoral contributions



Source: GSO, KIS

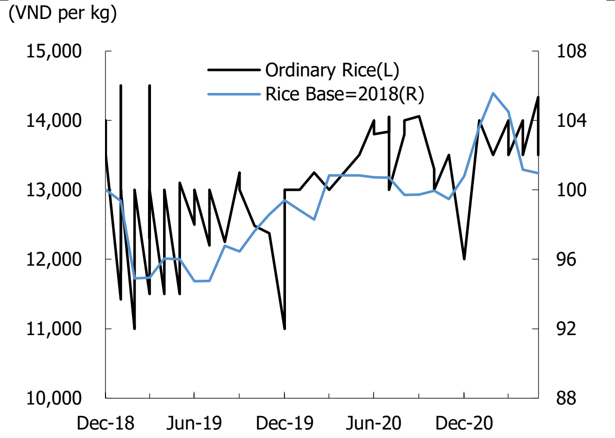
In more detail, the F&Fs index experienced a temporary increase in February due to the Tet season that quickly reserves to the regular price base when Vietnam's biggest holiday ends. F&Fs increased by 1.61% MoM in February and decreased in the adjacent month by an approximate level of 1.46% MoM. The ordinary rice price also became stable in recent months after surging to VND14,000 per kilogram in pre-Tet period. From the beginning of the year, the F&Fs cumulatively increased by 0.64% compared to end-2020. According to MoF's statistics, the rice price generally makes an adjustment around 2% from the high level in February this year. This correction, from the uptrend triggering from the July of 2020, contributed meaningfully in cooling the rice price in the domestic market.

Figure 25. CPI and food index, base = 2018



Source: GSO, KIS

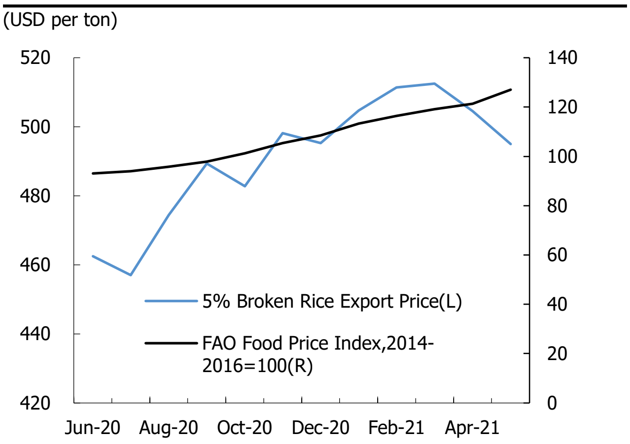
Figure 26. Historical rice prices



Source: GSO, KIS

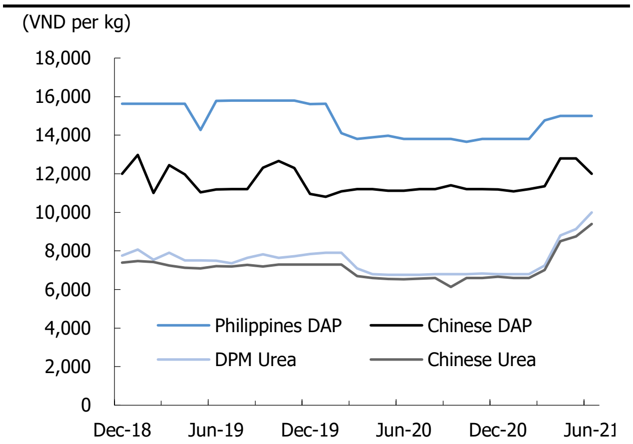
We forecast the rice price in domestic market would increase in several coming months due to the exporting price remains at the high level. The complicated COVID19 disrupt partly the production in some major rice suppliers for the global rice market, including India and Thailand, this production reduction hardly reverses in the short-term, causing upward pressure on rice price due to the supply shortage. The spreading infection also increase the demand for food reserve. FAO food price index reached 127.1 points in May 2021, recording the new high this year and 5.8pts- higher than April. Compared to the same period last year, this index was also 36.1pts -higher. Furthermore, rising costs for fertilizers and pesticides put more upward pressure on the domestic rice prices. According to MoF, the Philippines and Chinese DAP prices have increased by 8.70% YTD and 7.33% YTD, while the DPM and Chinese Urea prices also witnessed increases of 47.06% YTD and 40.97% YTD, respectively. However, MARD estimated that the output of the winter- spring crop would increase by 0.49% YoY, contributing for the stability of the domestic rice price in the next months.

Figure 27. Vietnam 5% broken rice export price and FAO food price index



Source: GSO, KIS

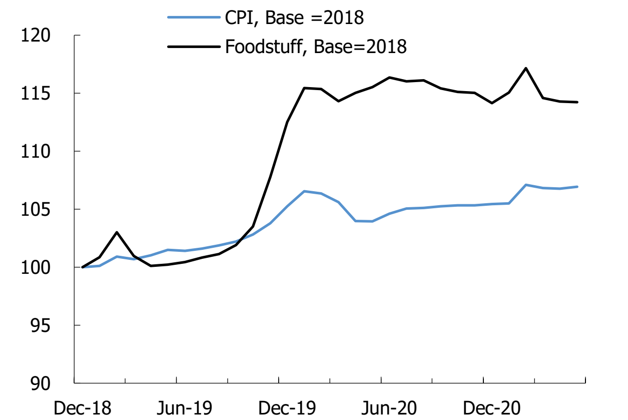
Figure 28. Historical DAP fertilizer price



Source: GSO, KIS

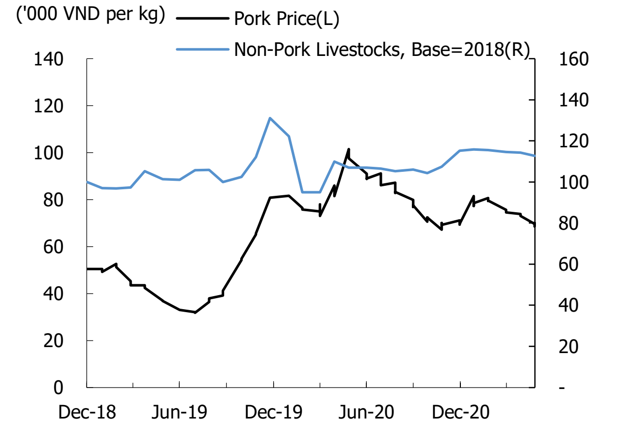
Regarding ingredients of the foodstuff index, pork accounts for roughly 4.2% of the CPI basket, and its price plays a vital role in sharpening the movement of this index. Generally, the pork price witnessed a sharp increase in February due to the high demand in the Tet holiday before gradually decreasing to VND68.20k per kilogram at the end-May. This adjustment in pork price, from the high in May 2020, is mainly attributed to the well-controlled African Swine Fever (ASF) and the favorable re-herding. Besides, the pork prices in Vietnam's significant importers, such as Russia, Brazil, Canada, U.S, and Poland, generally are declining from their peaks, loosening the upward pressure on domestic prices.

Figure 29. CPI and foodstuff index, base = 2018



Source: GSO, KIS

Figure 30. Historical pork price



Source: GSO, KIS

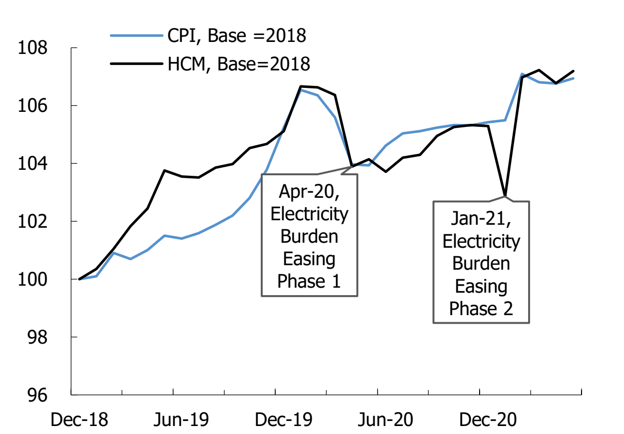
The foodstuff index seems to face the short-term upward pressure mainly due to the resurging ASF and the rising price of animal fodder. However, we forecast that the pork price in the second quarter remains low relative to the average price in 2020 due to several reasons.

First, the re-herding is performing well when the Ministry of Agriculture and Rural Development (MARD) officials announced that the number of pigs at the end of 2020 accounted for around 87% of the pre-ASF level, ensuring the sufficiency for domestic consumption in coming months. Besides, MARD also stated that the commercial vaccine for ASF would circulate in around July to August this year, ensuring the re-herding to make specific achievements soon. Second, the import price of swine meat tends to correct in the next period, in line with the drop in selling price in foreign suppliers, including Russia, Brazil. Third, the demand for pork tends to be lower in the second quarter as the high for foodstuff in Tet season is over. Furthermore, the COVID19 situation became more complicated in the first month of 2Q21 as MoH recorded the resurging number of cases in the northern cities. Therefore, the following government's restrictions to combat the virus infection are unavoidable, reducing outside eating activities and causing the potential drop in pork demand from restaurants and traditional markets.

On the other side, our concern relates to the increasing price of animal fodder that would push the input cost and consequently transmits partly into the selling price. According to the MARD's figures, 85% of raw materials for production of animal feed comes from abroad markets and four first months of 2021 witnessed an average increase of 8.79% in prices of these products, putting upward pressure on domestic animal fodder market.

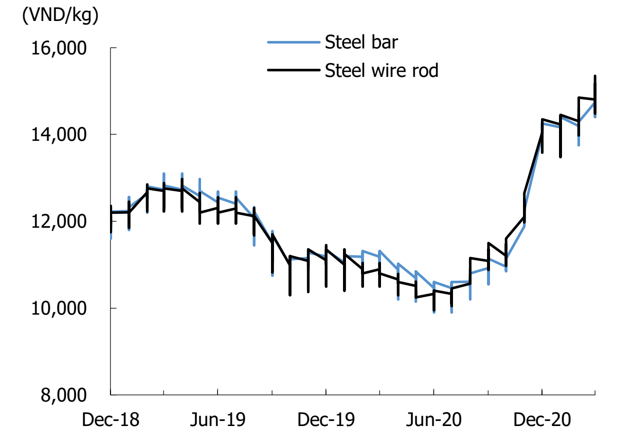
Besides, the general decline in price of vegetables and fruit also contributes to lower the foodstuff index in 2021. According to MoF's figures, over 27 products in the vegetables and fruits group, the price averagely decreased by 7.69% YTD, partly dragging the overall price in this sector.

Figure 31. CPI and HCM index, base = 2018



Source: GSO, KIS

Figure 32. Historical steel prices



Source: GSO, KIS

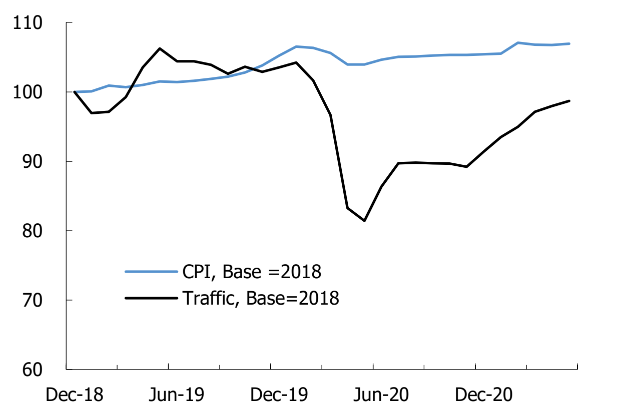
Electricity reduction also relieves upward pressure

The easing policy on the electricity spending burden amid the pandemic creates short-term fluctuations in the housing and construction materials index (HCM), while the increase in the general price of construction materials persistently puts upward pressure on it. According to the Government's Resolution No. 180/NQ-CP, Vietnam Electricity Corporation (EVN) implemented two phases of reductions for electricity prices and bills for the invoices incurring between April

– 20 to June – 20 and Oct 20 to Dec – 20, respectively. While phase one smoothly affects the HCM through three months from May to July in 2020, phase two caused a more aggressive reduction in HCM in January 2021 that reversed fully in February when the support ends. At the early of June, the government approved MoIT's propose to ease the electricity burden amid the pandemic via reducing the electricity price and bill for the third time. In this phase, EVN estimated the electricity relief package value worth around VND1,500bn, which was reasonably small relative to phase1(VND9,300bn) and phase2(VND3,000bn). The reduction will be applied for bills incurring from June to December 2021. We forecast that this support will ease modestly upward pressure on the CPI in the second half of this year.

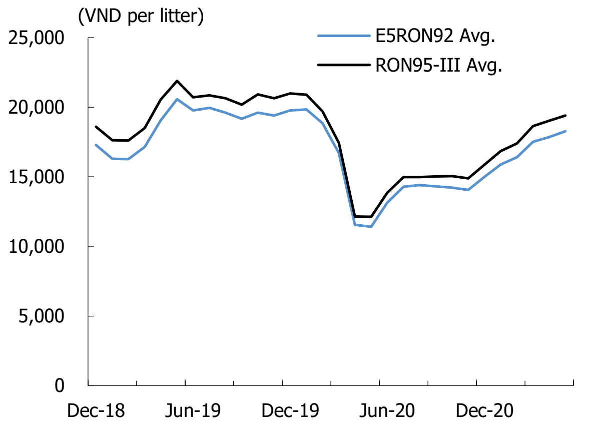
The prices of construction materials in the domestic market overall surged in line with the global trend of commodity prices. Accounting for the four first months of 2021, the steel price increased by 5.71% YTD, mainly driving the HCM up. However, this sector only constitutes 2.03% the CPI basket, thereby it contributes a limited upward pressure on the CPI.

Figure 33. CPI and Traffic index, base = 2018



Source: GSO, KIS

Figure 34. Historical petroleum product prices



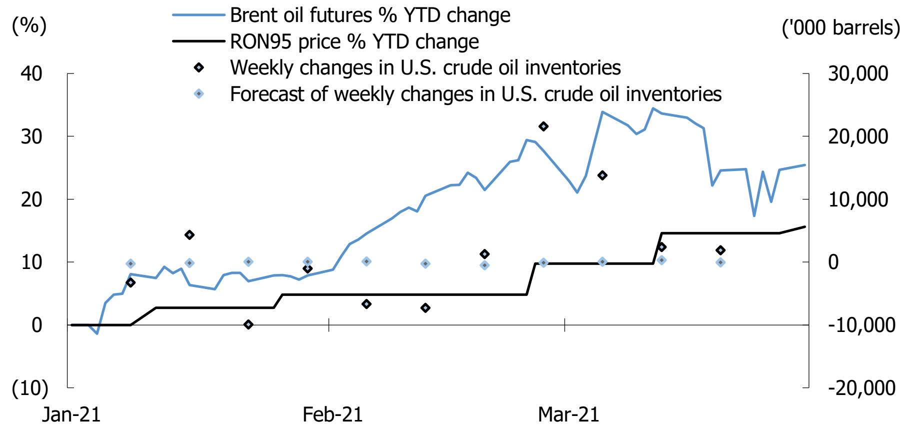
Source: GSO, KIS

High global oil prices not likely preserve in the near term

The global oil market surprisingly saw a short-term supply shortage as a massive snowstorm attacked Texas-based oil facilities and interrupted oil exploitation & production activities. Since then, oil & petroleum prices reacted to the supply shortage and increased significantly, e.g., world-benchmark Brent oil futures climbed from nearly USD61 a barrel up to USD71.5 a barrel in early March. However, since a large part of oil resources have been restored shortly after natural disasters, oil prices also went back to pre-crisis levels.

For this reason, we believe that domestic petroleum prices would hardly preserve a currently high base. As a result, the upward pressure on prices in the Traffic sector would also be loosening in coming months.

Figure 35. U.S. oil supply shortage and oil & petroleum prices



Source: EIA, MoIT, Reuters, Bloomberg, KIS

The government has introduced solutions to stabilize the CPI

In the context of rising global commodity prices, the government has suggested several ministry-level policies aiming to ease the upward pressure on the overall consumer price within the country. Specifically, to mitigate the rush in steel product prices, MoIT proposed limiting exporting steel products to concentrate on domestic demand. Also, MoIT planned to enhance its administrative measures to prevent manipulation activities. On the other hand, MoF suggests reducing the safeguard tariff for imported steel billets and construction steel products to ease the uptrend in material input costs.

III. Stock market reacts to inflationary pressure

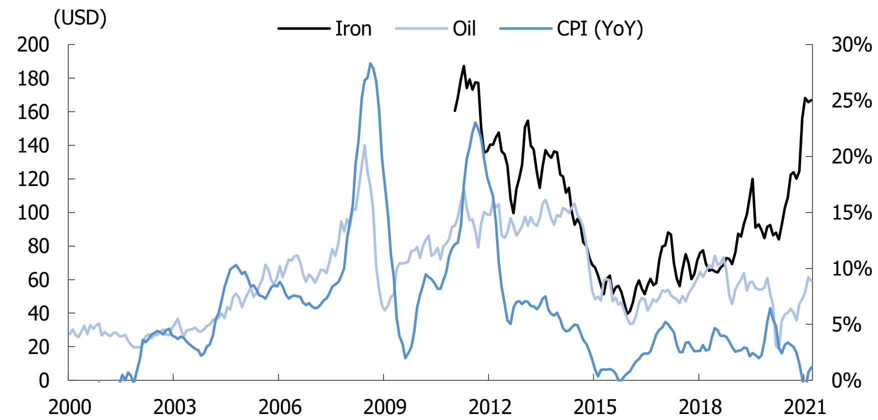
1. Period 2008

Many reasons have been cited for this strong return of inflation during 2007-2008. Particularly, the large increase in minimum wage, the surge of international commodity prices, the loose and not flexible monetary policy, and the opening up of Vietnam to the world economy since it joined the WTO in late 2006 which caused great influx of FII which in turn caused stock and asset prices to soar. Relating to market movement during this period, VNIndex formed its peak when inflation skyrocketed.

At this time, the majority of real estate enterprises in Viet Nam had limited financial capacity; most of them depend on outside capital, mainly from banks and credit institutions. Therefore, those enterprises were facing difficulties in the current financial crisis situation. At the end of 2007, real estate speculation had pushed the price of Vietnamese real estate to a too high level compared with the real value. Market became a virtual fever; virtual demand increased.

In 2008, Vietnamese economy had met with the difficulties due to the effect of the global financial crisis, the increased inflation made people tighten the purse-strings, real estate market had been frozen, the price of real estate decreased by 40%, real estate enterprises fell into the difficulty and could not sell the products, incurring a high interest rate because of the tightening monetary policies. The reduction in the real estate price would result in the reduction of the banks' assets; the increase in NPLs ratio has led to unfavorable capital structure for commercial banks. Thus, capital market had experienced the collapse due to the underperformance of Real Estate and Banking sector.

Figure 36. Movement of Iron, oil, and CPI



Source: Fiinpro, KIS

However, due to the global economic downturn and the drop in commodity prices, Vietnam's inflation pressure, which was still high in late July of 2008, strongly decreased. As the government's stimulus packages were being accelerated during the 2Q09, money supply increased massively and so did lending. Specifically, from Feb – Jun 2008, the base interest rate was brought up from 8.25% to 14% to cope with the inflation, pushing the deposit rates and lending rates of commercial banks up to their peaks at 17-18% and 20-21% respectively in Aug and early Sep 2008. On Sep 2008, with inflation easing, the SBV increased the required reserve rate for commercial banks from 3.6% to 5% to help reduce lending rates as well as the base rate was cut to 7% on 1 Feb 2009. On 01 Mar 2009, the SBV reduced the required reserve ratio for VND deposits (demand deposits and savings deposits) from 5% to 3%. The ratio for deposits longer than 12 months was 1%. Thus, the stimulus package covers a wide range of incentives provided to export industries. It not only seeks to assist exporters in general (such as by reduction of corporate taxes and interest rate subsidies) but also to promote the export of specific commodities and services (such as the reduction of export duties). In addition, the depreciation of the VND has also played an important role in boosting exports.

The intervention of Government had boost the capital market. Particularly, the reduced lending rate had contributed to the growth rate of companies, triggering the strong recover from 1Q09.

2. Period 2010 - 2011

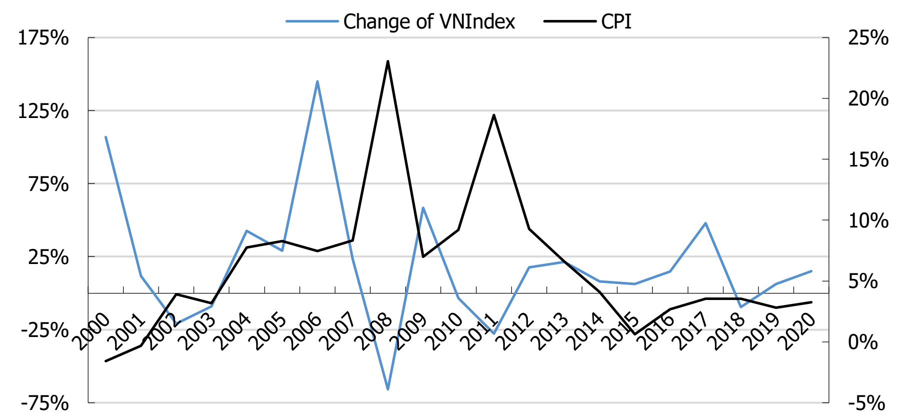
Vietnam's inflation rate hit double digit in Nov 2011, which was mainly driven by the increase of oil price, higher food cost, and the surge in iron price. Besides, inflation had peaked in 2011 because of government measures to rein in credit. In this case, tightening monetary policy is applied. Particularly, Vietnam's central bank has raised borrowing costs several times and pledged to cut the amount of money which allowed to lend.

The capital market benchmark – VNIndex has lost more than 17% in 2011 due to the concern that the high inflation rate will hurt the economy.

3. Stock market reacts as high inflation in 2021

During regular periods (with inflation under control), we do not see any clear relationship between inflation and stock market returns (proxy as the VNIndex). However, during unusual periods as high inflation is strong and tends to peak, the stock market returns often show negative. For example, in 2008, the return also went down 65% (possibly affected by the global financial crisis) inflation reached 23%. Another example when inflation peaked in 2011, the market's return also lost 27%. This implies that in years when inflation increases sharply, the stock market often has been adverse movements.

Figure 37. Returns of the VNIndex and inflation



Source: Fiinpro, KIS

In 2011, inflation started with an increase in the minimum wage effective Jan 1st, 2011, which pushed the household demand to increase. Next, in February, the SBV devalued the local currency by 9.3% as foreign exchange reserves were low. The increase in the exchange rate raised all input costs of the economy (Vietnam's economy mainly imported raw materials for production), which pushed up inflation with the upward momentum of commodity prices. However, in 2021, the foreign exchange rate remains stable, with foreign exchange reserves at a high level of over USD100bn. Meanwhile, Vietnam's balance of trade has a trade surplus. Therefore, the market's reaction will be different in 2021.

In contrast to the high inflation period in the period 2008 and 2010-2011, inflation this year is still under government control. As a result, inflation will have little impact on the long-term uptrend of the market vs. 2008 and 2010-2011. Instead, inflationary pressure may have a short-term impact on investors' sentiment, causing a short-term correction while the mid-and long-term uptrend will still be intact. We expect that the VNIndex may correct to the range of 1,300-1,320 points.

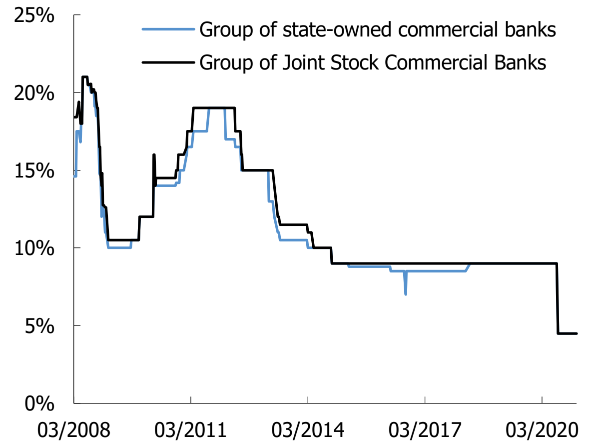
4. Positive and negative sectors

High Inflation will have a substantial impact on the economy's operation, changing the business environment of enterprises. Therefore, most companies will be negatively affected in the short term:

Firstly, rising commodity prices (food prices, oil prices) will directly impact companies that import goods or materials from abroad for production. The cause is the rising input costs.

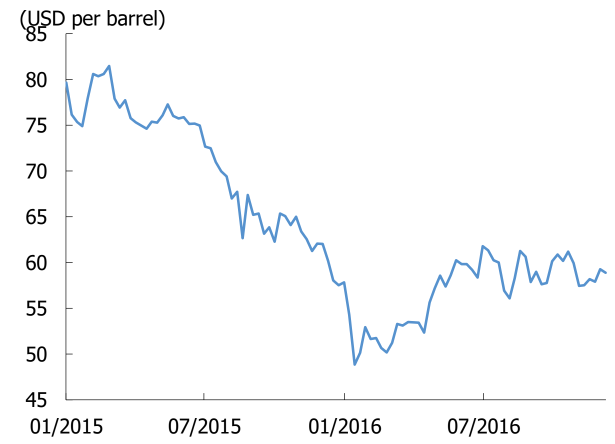
Secondly, if inflation is high, it will force the SBV to take macroeconomic policies to control inflation. In which raising interest rates is often the first choice of banks. This will generally affect the current low-interest rate, thereby affecting all businesses in the Vietnam stock market. Significantly, firms with large debts and high leverage will be affected, such as the Real Estate industry.

Figure 38. Lending interest rate



Source: Fiinpro, KIS

Figure 39. Movement of Crude Oil Prices



Source: Fiinpro, KIS

On the other hand, some companies benefit less or suffer less, including:

Firstly, companies with the ability to control prices or have a high market share will have certain advantages over other companies, as they can pass costs on to consumers.

Secondly, some companies in the commodity group will benefit from inflation and rising prices.

IV. Related Industry check.

1. Promising industry under cost push inflation.

Rice-related companies.

The surge of demand pulls up the export price of Vietnamese rice. In Mar 2021, the average export price of Vietnamese rice reached USD547/ton, up 0.5% compared to Feb 21 and up 19.1% compared to Mar 20. Most notably, the global food price index rose 2.1% on Mar 21 and was at its highest level since June 2014. Prices of commodities including rice, sugar, vegetable oil, wheat, corn, butter, powdered milk... have all increased over the past year. Relating to rice price, the Covid-19 pandemic has forced many countries to increase their food reserves, especially rice. Thus, the tightening supply in rice exporting countries and importing countries are also boosting imports to spare, thereby pushing up rice prices.

Vietnam rice suppliers such as Loc Troi Group Joint Stock Company (LTG) and An Giang Agriculture and Foods Import – Export (AFX) are considered promising thanks to the higher rice price.

Relating to Loc Troi Group Joint Stock Company (LTG), LTG has fixed yearly domestic and international orders in February, June and September. Therefore, the increase in world rice price will positively impact the LTG's export revenue and improve the profit margin of this segment. In addition, in 2021, LTG will focus on the export orders from the EU to benefit from the 0% tax incentives which in the framework of the EVFTA agreement.

With An Giang Agriculture and Foods Import – Export (AFX), in 2021, AFX sets a revenue target of VND984bn, profit before tax of VND49bn, 2 times higher than 2020. The yearly financial plan is based on the estimated global food import volume (44.8mn tonnes, up 1% YoY) as well as the increasing demand across Vietnam's main export market. Although the epidemic is under control, rice importing countries are still expected to have high demand and rice stocks, thereby facilitating AFX's rice exports and consumption.

Table 4. Main companies in Rice Industry (VND bn)

No	Ticker	Name	Exchange	Market cap	Main business
1	LTG	Loc Troi Group	UPCOM	3,288	Production and trading of plant protection chemicals, seeds and paper packing in Vietnam
2	AGM	An Giang Import Export	HOSE	522	Producing, processing and trading food
3	AFX	An Giang Agriculture and Foods	UPCOM	497	Produce, process and trading food, aqua products and aquatic feed

Source: Fiinpro, Bloomberg, KIS

Feed companies

According to data from the Ministry of Industry and Trade, the price of pork on the domestic market is currently ranging from 65,000 to 74,000 VND/kg. Although a slight decrease compared to the first five months of the year (sometimes up to 100,000 VND/kg), compared to the price level of a few years ago, the pork price is still at a high level.

However, ASF, which appeared in early 2019 and spread to most provinces and cities across the country, has devastated the domestic pig industry, sharply reduced supply, and pushed up pork prices. Domestic supply does not meet demand. This can be clearly seen through the number of 111,500 tons of fresh and frozen pork imported from Russia, Brazil, Canada, the US, Poland... to Vietnam in the first ten months of this year, up 407.3% in terms of quantity. Volume compared to the same period in 2019.

The high level of pork price will boost the related firms in 2021. The domestic pig price could not return to the previous level because the supply is still tight. Besides, ASF is still at risk of resurgence, and the high cost of raising many livestock farmers is still not ready for re-herding. Notably, due to the farmers' reluctance to re-herd, imported meat remains at a low level due to the slowdown in production and transportation activities due to the Covid-19 epidemic, and consumers are still not ready to switch to other alternative foods, the growth prospect of related enterprises in the near future is very bright.

Table 5. Main companies in Feed Industry (VND bn)

No	Ticker	Name	Exchange	Market cap	Main business
1	MML	Masan MEATLife	UPCOM	19,276	Investment activities, management consultancy and commercial activities of goods trading; producing, processing and processing animal, poultry and aqua feed products ...
2	DBC	DABACO	HOSE	6,442	Farm industry, engage in the manufacturing and wholesale trade of livestock feeds, breeding, contracted farming, food processing, packaging, real estate, and investment in infrastructure construction.
3	VSN	VISSAN JSC	UPCOM	2,104	Manufacture and trade fresh and frozen meat and foodstuff made from meat
4	VLC	Vietnam LiveStock	UPCOM	1,962	Breeding cattle and poultry; sale food; import and export of livestock, poultry, food, raw materials, animal feed, veterinary medicine and veterinary supplies ...
5	AFX	An Giang Agriculture and Foods	UPCOM	497	Produce, process and trading food, aqua products and aquatic feed
6	PSL	Phu Son LiveStock	UPCOM	322	Supplying cattle, poultry such as pork, breeding pigs, pig semen, 1-day-breeding- chickens, broilers and crocodiles to the market

Source: Fiinpro, Bloomberg, KIS

Oil and gas production companies

The surge in oil price brings significant impacts to the related companies. Particularly, Oil and Gas exploration and production activities tend to be more excited when there is a surge in oil price. Thanks to this event, there are more potential jobs for upstream firms (PVD and PVS). Furthermore, firms which have product price related to the world oil price also be positively impacted, especially PVGas (GAS). However, the high oil price would drag the downstream firms, eating into firms' profit margins such as POW, DPM, and DCM.

Stocks under the surge of oil price. With PVD, thanks to the drilling contracts in the first six months, the drilling profit margin will be boosted thanks to the increase of demand in Oil and Gas exploration and production activities which also encourages the rental rate to surge.

With GAS, thanks to the stable business model, which would be directly benefited by the increase of oil price. For example, higher average gas selling price (ASP) and higher LPG selling price.

With PLX and OIL, their profit margins tend to correlate with the oil price trend due to the vast amount of inventory. Particularly higher average selling price with the lower purchased inventory.

With Fertilizer firms (DCM and DPM), the gross profit margin will be dragged down by the higher oil price, which accounted for 60% of the input cost.

Table 6. Main companies in Oil and Gas production (VND bn)

No	Ticker	Name	Exchange	Market cap	Main business
1	PLX	Petrolimex	HOSE	69,529	Import, distribution and retail of oil and gas products
2	BSR	Binh Son Refining and Petrochemical	UPCOM	66,041	Manages and operates Dung Quat refinery
3	OIL	PV Oil	UPCOM	15,100	Processing, trading, distributing, importing and importing petroleum and biofuels
4	PVS	Petroleum Technical Services	HNX	14,482	Supplying oil and gas service vessels; pursuant to the petroleum service port; services of floating storage, processing and export of crude oil (fso/fpso) ...
5	PVD	PetroVietNam Drilling & Well	HOSE	9,833	Drilling rigs and drilling services to serve for petroleum exploration and exploitation in domestic and abroad markets

Source: Fiinpro, Bloomberg, KIS

Mining companies

Similar to oil and gas firms, mining firms are also benefited. The Metals and Mining industry consists of aluminum, iron & steel, precious metals & minerals, coal and base metal markets. The Vietnamese Metals and Mining industry had total revenues of USD25.2bn in 2019, representing a compound annual growth rate (CAGR) of 42.9% between 2015 and 2019. Notably, production volume increased with a CAGR of 12.3% between 2015 and 2019, to reach a total of 71.6mn metric tons in 2019. The performance of the industry is expected to decelerate, with an anticipated CAGR of 11.2% for the five-year period 2019 – 2024.

Vietnam is in the top 40% of economies globally when considering the importance of mining to the economy. Vietnam's power plan it aims to build more than 70 new coal-fired power stations by 2030, and it is therefore anticipated that economy will move from being a net exporter of coal to a net importer. Over the last several years, Vietnam has witnessed an increase in foreign investments, resulting in increased exploration and the expansion and commissioning of new bauxite, copper and gold projects.

Mining companies are discovering the flip side of the commodities boom, soaring costs. Metal and mineral producers have long enjoyed high-flying commodity prices, but they're increasingly becoming victims of their own success amid surging costs for everything from energy and raw materials to labor. Thus, we expect the mining industry and its related firm to go flat in 2021.

Table 7. Main companies in Mining industry

(VND bn)

No	Ticker	Name	Exchange	Market cap	Main business
1	MSR	Masan High-Tech Materials	UPCOM	23,632	Mining, processing and trading minerals, non-ferrous metals and other rare metals such as tungsten, fluorspar, bismuth and copper
2	HGM	Ha Giang Mineral	HNX	435	Antimony manufacturing entitled to exploit mau due mine and bo moi mine with the total capacity of 10,600 tons of antimony ore/year
3	BMC	Binh Dinh Minerals	HOSE	216	Mining and trading of minerals (ilmentie)
4	KCB	Cao Bang Mineral and Metallurgical	UPCOM	68	Mining and trading of minerals (tin)
5	AMC	Asia Mineral	HNX	67	Manufacture, process and trading super fined calcium carbonate powder
6	MIC	Quang Nam Mineral	UPCOM	44	Silica powder, thang binh white sand, feldspar powder, trang loc dai loc

Source: Fiinpro, Bloomberg, KIS

2. Promising industry under Demand Pull Side Inflation.

Seafood. After being negatively affected by the Covid-19 epidemic, the business activities of Seafood companies' recoveries. The industry's business results are expected to improve in 2021 due to:

- The effectiveness of large-scale vaccination in major economies such as the U.S., Europe, and China will help these countries reopen. Thereby, that pushes the consumption demand (such as seafood) up.
- Benefit from the EVFTA. Accordingly, the tax on seafood products will be reduced to zero in several years to help products penetrate the European market. However, only firms that achieve international certifications such as ASC, BAP or Global G.A.P will benefit.

Table 8. Main companies in Seafood

(VND bn)

No	Ticker	Name	Exchange	Market cap	Main business	Percentage of internal supply
1	VHC	Vinh Hoan Corp.	HOSE	8,342	Farming, processing and exporting frozen Tra and Basa fish with the main products of Tra, Basa, Snakehead, Tilapia, fillets under Vinh Hoan brand name	55%
2	ANV	Nam Viet	HOSE	3,807	Raising aquaculture, processing aqua-foods and producing animal feed for aquaculture	100%
3	MPC	Minh Phu Seafood	UPCOM	7,915	Processing, trading and export of seafood products with frozen shrimps	30%
4	FMC	Sao Ta Foods	HOSE	2,166	Process and export of shrimp products	20-30%
5	CMX	CAMIMEX Group	HOSE	482	focus on best quality fishery products as Black Tiger, White and Pink shrimps	100%

Source: Fiinpro, Bloomberg, KIS

At the moment, Seafood can be affected as the number of costs are increasing.

- The cost of input materials usually accounts for most COGS. Now, the cost of breeding stock and animal feed has increased, which will affect the profit margin of businesses in the industry.
- Shipping cost, logistics. This cost is tripling due to (1) high oil prices (2) epidemic prevention regulations in countries making it difficult to transport goods, (3) Suez Canal obstruction in 2021, and (4) shortage of refrigerated container.

Therefore, firms that are self-sufficient in raw materials and achieve international certification will be the beneficiaries.

Travel, Tourism & Hospitality. The COVID-19 epidemic has a strong impact on the Tourism and Hostal Companies industry in 2020. Specifically:

- The number of international visitors to Vietnam decreased sharply due to (1) regulations restricting travel between countries (2) a 14-day quarantine period if the tourist wants to enter Vietnam.
- The number of domestic visitors decreased sharply due to (1) people's fear of the epidemic (2) anti-epidemic measures such as social distancing according to Directive 15 and Directive 16.

Thereby, the revenue and profit of the firm decreased sharply. It is expected that the COVID-19 epidemic will continue to be complicated. If the epidemic ends, it will take 2 years for the number of visitors to return to the previous stage.

In 2021, the Tourism and Hostal Companies continue to face difficulties in the near future because:

- The complicated development of the 4th wave of the COVID-19 epidemic in Vietnam will continue to drag on.
- Vietnam has not been able to reach the threshold of herd immunity for COVID-19 epidemic to open in 2021.

Table 9. Main companies in Travel, Tourism & Hospitality (VND bn)

No	Ticker	Name	Exchange	Market cap	Main business
1	ACV	Airports of Vietnam	UPCOM	155,652	Manages, operates, and exploit the entire system of 22 international and domestic airports in Vietnam
2	VRE	Vincom Retail	HOSE	74,873	Retail trade centers and relevant services, investment, development and trading of real estate
3	VJC	Vietjet Air	HOSE	63,260	Air transport services
4	HVN	Vietnam Airlines	HOSE	39,287	Air-transport services
5	SCS	Saigon Cargo Service	HOSE	6,800	Provision of air cargo services at Tan Son Nhat international airport
6	SAS	Southern Airports Services	UPCOM	3,470	The business of tax-free products and airport services
7	ASG	ASG., Corp	HNX	2,364	Provision of air freight services, air passenger services, freight and passenger transport services, and warehouses services
8	SGN	Saigon Ground Services	HOSE	2,310	Supply kinds of ground services complying with the standard of international air transport association IATA and other airlines
9	AST	Taseco Air Services	HOSE	2,300	Provide restaurant services, department stores, souvenirs at the airport, hotel business, advertising services and production of aviation catering
10	TSJ	Hanoi Toserco	UPCOM	1,735	Provision of travel, renting an office, hotel and restaurant services
11	OCH	Ocean Hospitality and Service	HNX	1,680	Trading hotel and restaurant services
12	DSP	Phu Tho Tourist Service	UPCOM	1,306	Entertainment and recreational services
13	RIC	Royal International Casino	HOSE	1,224	Hotel accommodation and gambling facilities open for foreign tourists
14	RGC	PV-Inconess Investment	UPCOM	1,212	Golf services,
15	VNG	Thanh Thanh Cong Tourism	HOSE	1,231	Hotel accommodation, restaurant, domestic and international tourism
16	BTV	Ben Thanh Tourist	UPCOM	671	Tourism
17	VTR	Vietravel	UPCOM	546	Tourism
18	DSN	Dam Sen Water Park	HOSE	503	Entertainment and recreational services
19	SGH	Saigon Hotel Corp.	HNX	507	Accommodation and hospitality services by hotels (saigon hotel located in no.1 district, ho chi minh city) for tourists.

Source: Fiinpro, Bloomberg, KIS

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