trueFriend KIS Viet Nam Securities Corporation

Economy
Monthly

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Economic Perspectives

Uncertain economic conditions under Delta outbreak

Contents

Delta outbreak limits trade's recovery

Although witnessing a slowdown, trade turnover in July kept recoding high value thanks to the favorable foreign demand under prevailing vaccination in developed countries. We expect the high levels of vaccination to foster trade activities in the coming months. However, persistently high shipping costs and widespread transmission in Asia regions partially hinder trade activities' recovery in August.

CPI to lower amid the outbreak

In July, food and foodstuff price index emerged to add upward pressure on CPI under the temporary shortage in essential products along with the momentums of the traffic index and housing and construction materials index. The pork price tends to reduce further under the widespread infection, reflecting the low demand from outside eating. Furthermore, the crude oil prices became less aggressive, easing the upward pressure on the domestic retailing prices of gasoline. Summing these predictions up, we forecast CPI to reduce in the next month

Export drivers to sustain industrial strength

Despite domestic demand is severely hit by broad COVID-19 curbs across the country, industries serving export demand have become a strong foothold for the industrial sector in July. Looking ahead to August, domestic manufacturers would continue to face more challenges from the current strict containment measures, especially those relying on intensive labor. However, we expect that a peak export season in the textiles, apparel, footwear, and electronics industries can offset a loss in domestic consumption for the industrial sector.

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

	3Q20	4Q20	1Q21	2Q21	2019	2020	2021F
GDP	2.62	4.48	4.48	6.61	7.02	2.91	5.94
Trade balance	10.72	3.29	2.82	(3.75)	10.42	19.01	1.77
CPI	3.18	1.38	0.30	2.67	5.23	3.24	2.41
Discount rate	3.00	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,188	23,252	23,076	23,020	23,231	23,255	23,246
US GDP	NA	7.90	NA	NA	2.3	(5.70)	3.90
China GDP	NA	6.00	NA	NA	6.10	1.80	8.00

Source: KIS

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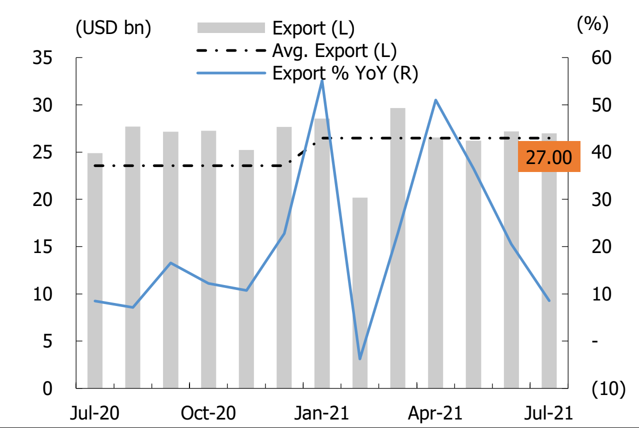
I. Delta outbreak limits trade's recovery

Trade recovery slows down

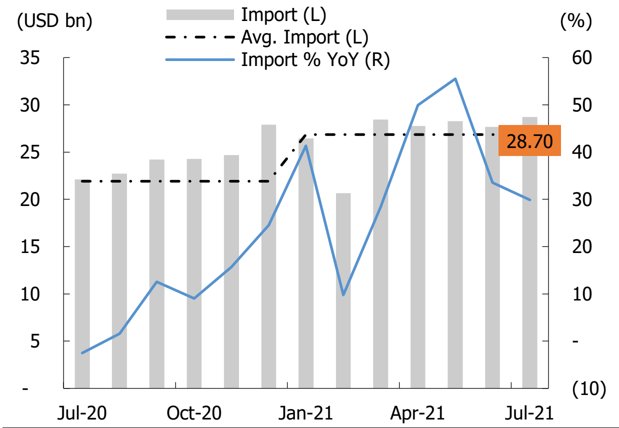
Although witnessing a slowdown, trade turnover in July kept recoding high value due to the favorable foreign demand under prevailing vaccination in developed countries. In detail, export and import values posted USD27.00bn and USD28.70bn, growing by 8.55% YoY and 29.88% YoY in this period, respectively. A high turnover of goods and services internationally traded outside this period confirms the trade activity was still on the recovery path as the demand from our major trading partners, including the U.S., EU, South Korea, Japan, and China, generally keep higher than 2020. For seven months of 2021, export and import values impressively grew by 25.46% YoY and 35.04% YoY, posting USD185.34bn and USD187.97bn, respectively. Besides, the trade balance recorded a deficit of USD1.70bn this month, marking the 4-month streak of the low export turnover relative to import turnover.

Figure 1. Vietnam monthly export



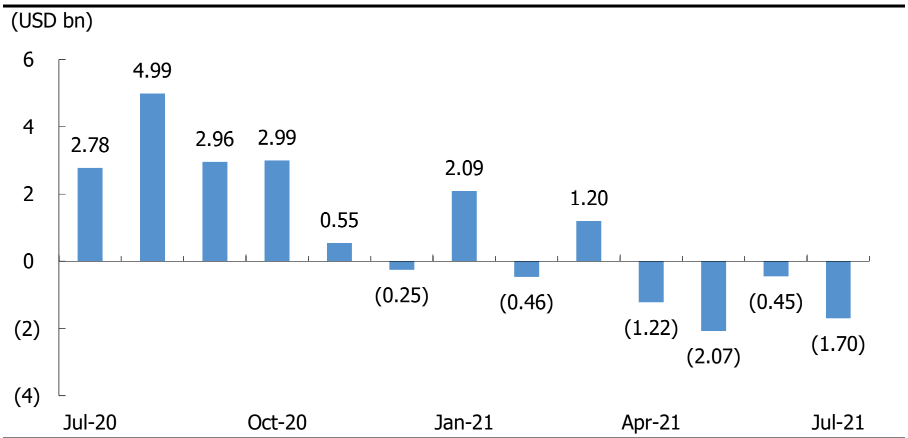
Source: KIS, GSO

Figure 2. Vietnam monthly import



Source: KIS, GSO

Figure 3. Vietnam monthly trade balance

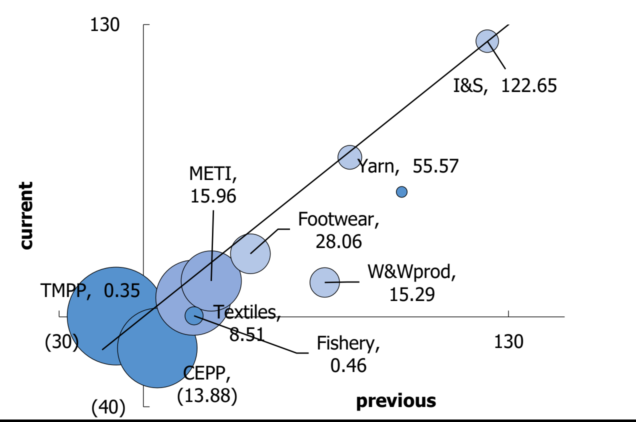


Source: KIS, GSO

In the export structure, the majority recorded lower year-over-year growth rates than those in the previous month except steel. Specifically, steel was the brightest product this month by recording a turnover of USD995.35mn from overseas customers, excessively doubling the export value in the same period last year. On the other hand, exporting of flagship products became less favorable as computers, electrical products and parts (CEPP) recorded a contraction of 13.88% YoY, while machine, equipment, tools and instruments (METI) and telephones, mobile phones and parts (TMPP) reported modest growth rates of 15.96% YoY and 0.35% YoY, much lower than those in June. The remaining items, such as textiles and footwears, also recorded high exporting values of USD3.30bn and USD1.75bn, respectively, but their recoveries also were less solid than the previous month.

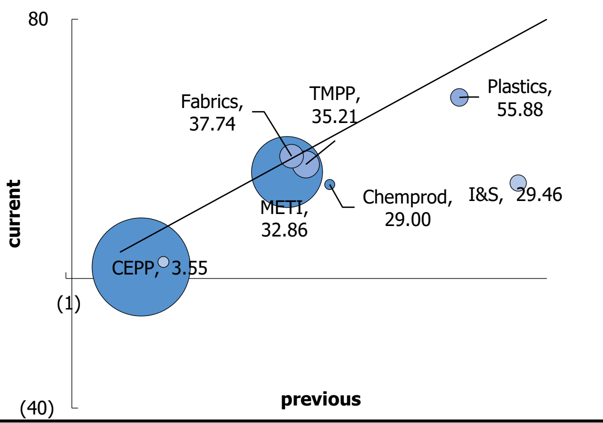
Import activity experienced a similar slowdown to the export situation but a smaller extent. Specifically, CEPP, METI, and TMPP kept recording high importing values of USD5.80bn, USD4.20bn, and USD1.60bn, and their growth rates were 3.55% YoY, 32.86% YoY, and 35.21% YoY, seemingly unchanged compared to June. On the other hand, the import value of iron and steel (I&S) reduced to USD0.97bn, and its growth rate was 29.46% YoY, roughly one-third of June.

Figure 4. Top 10 export item: growth rates (% YoY)



Source: KIS, GSO

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

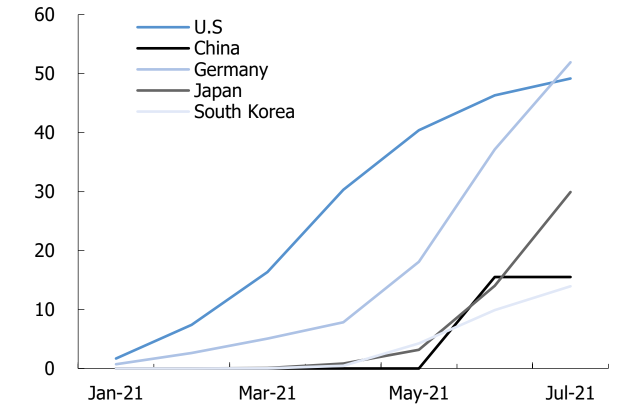


Source: KIS, GSO

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.

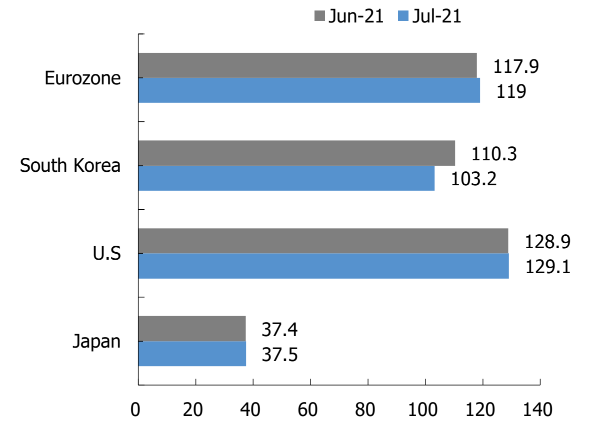
Although July recorded the general slowdown in vaccination in major countries, such as the U.S, Germany, South Korea, Japan, China, the number of fully vaccinated people increased significantly toward the WHO's immunity level, allowing governments re-open their economic activities. In July-end, the ratios of fully vaccinated people relative to population in United States, Germany, Japan, South Korea, and China were 49.17%, 51.92%, 29.92%, 13.94%, and 15.51%. Japan and South Korea, economic centers in Asia, seem to keep their high vaccination speed, while U.S. and European countries, such as Germany, slow their campaigns down as the vaccination coverage nearly meets the required levels to re-open the economy.

Figure 6. Vaccination: fully vaccinated people per hundred



Source: KIS, Our World In Data

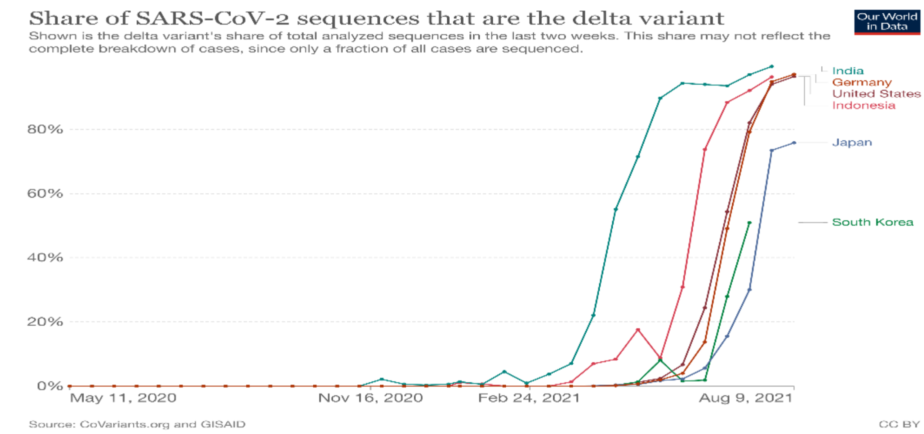
Figure 7. Consumer confidence index



Source: KIS, Bloomberg

Under the emergence of the delta variant and related concerns of its overwhelming transmissibility, consumers in highly vaccinated countries seem to maintain their positive attitude. The U.S conference board announced the consumer confidence index for this country was 129.1, increasing slightly compared the previous month, indicating that U.S buyers highly assess the current and future business and job market conditions. High vaccination also positively affected the consumer's sentiment in euro area, slightly increasing the consumer confidence index to 119 from 117.9 in June. In contrast, purchasers in countries with the lower level of vaccination became more cautious about the economic and income prospects. The consumer confidence index of South Korea dropped to 103.2 from 110.3 in the previous month, reflecting the complicated development of the new outbreak starting in June-late.

Figure 8. Delta variant share

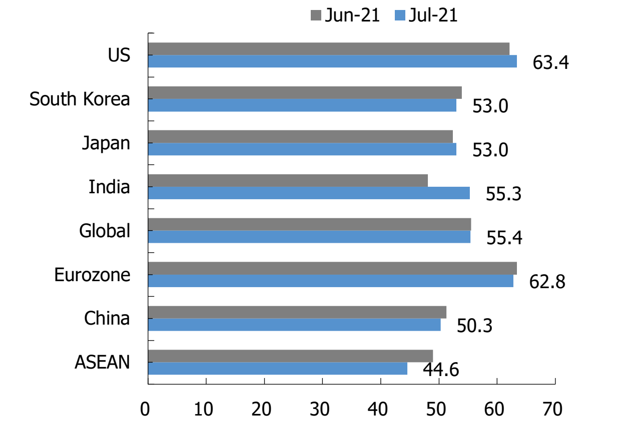


Source: KIS, OWID

Worldwide PMI movements this month also reflect the epidemiological situations of countries. Given the high vaccination or improvement in infection control, the U.S, the euro area, Japan, and India remain at high levels of PMI, while China and Southeast Asian countries witness their PMIs drop generally under 50. The situation implies that purchasing managers in southeast Asian factories were assessing that the business environment became less favorable under the domination of the delta strain. Therefore, trade activities seem to be more excited in the western region and less fruitful in Asia.

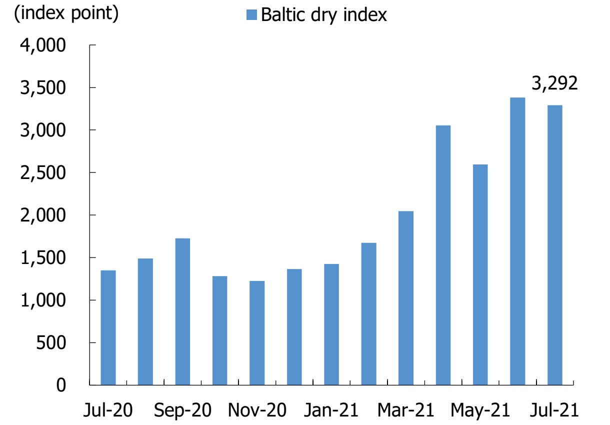
The Baltic dry index kept staying at a high value despite a reduction of 2.69% MoM this month. The current value of this index was 2.44 times higher than the same period last year. The persistence of high shipping costs would limit the recovery of trade activities.

Figure 9. Global manufacturing PMI



Source: KIS, Our World In Data

Figure 10. Shipping cost

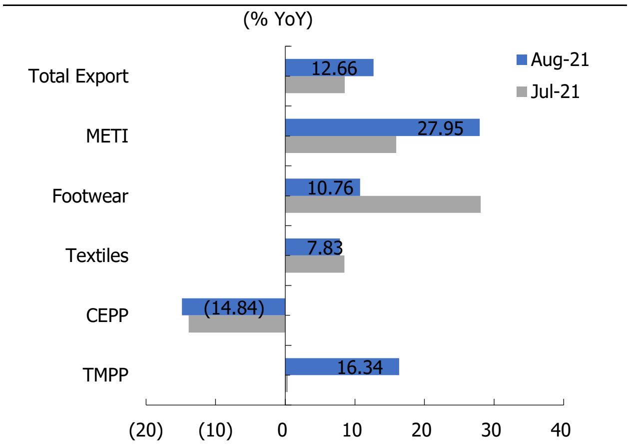


Source: KIS, Bloomberg

PREDICTION:

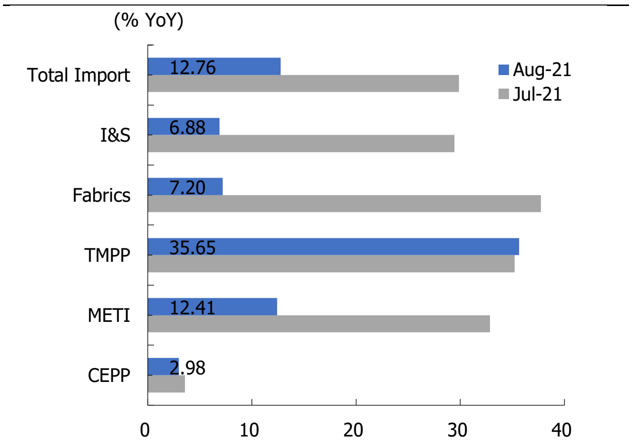
We expect the ongoing vaccination and pent-up saving to continue being the primary factors driving the trade activities in the coming months. In response to the overshooting demand and corresponding high consumer price index, global production is expected to gradually increase to catch up, causing trade activities to increase. However, persistently high shipping costs and widespread transmission in Asia regions hinder partly the recovery of trade activities in the next month. According to these arguments, we forecast export and import values in August to remain high at USD31.21bn and USD25.61bn in August, growing by 12.66% YoY and 12.76% YoY, respectively.

Figure 11. Vietnam export forecast



Source: GSO, KIS

Figure 12. Vietnam import forecast



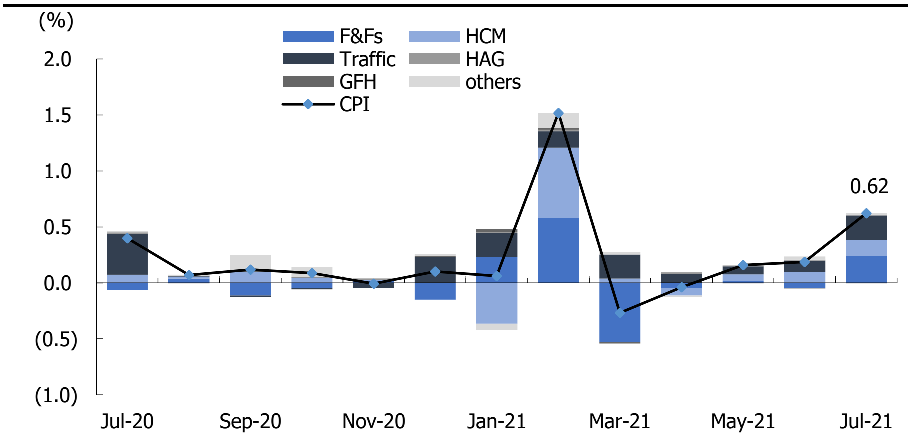
Source: GSO, KIS

II. CPI to lower amid the outbreak

F&Fs adds upward pressure along with traffic and HCM momentums on CPI.

According to GSO, the food and foodstuff index (F&Fs) emerged to add upward pressure on CPI under the temporary shortage in essential products along with the momentums of the traffic index and housing and construction materials (HCM) index. More specifically, CPI in June rose by 0.62% MoM, 44bps-higher than in June.

Figure 13. CPI Changes



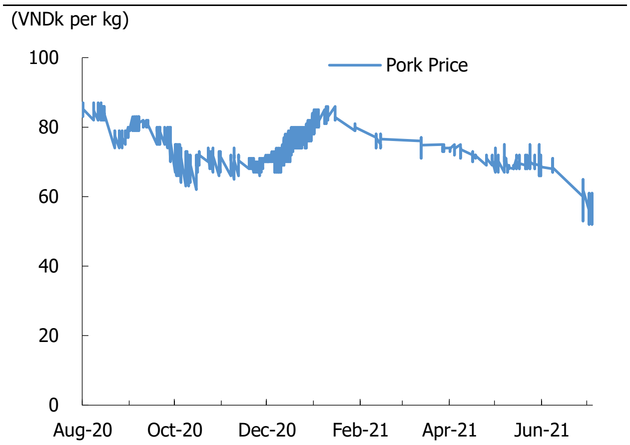
Source: GSO, KIS

F&Fs, traffic, and HCM indices were the main reasons to extend the increased streak of CPI to 3 months. The traffic index increased along with the upward adjustment of MoIT on the retailing gasoline prices this month. Similarly, the HCM accelerated seems to reflect the general upturn in construction materials prices. Prominently, F&Fs advanced strongly under the temporary shortage of essential goods, marking the first time after the post-Tet.

Considering yearly change, the CPI accelerated as increasing by 2.64% YoY, 23bps-higher than that in the previous month. Hence, the 12-month rolling inflation rate posted 1.82%, 218bps-lower than the government's 2021 target rate of 4%.

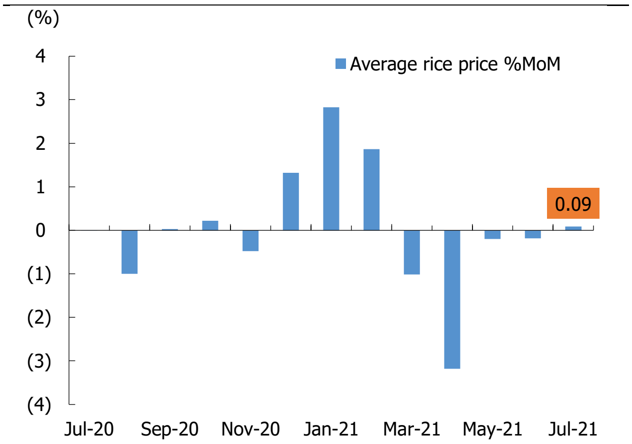
In the structure of item-level, the pork price continued recording a reduction this month under the weak demand of outside eating. Under stricter restrictions of Directive 16 in many provinces, demand from restaurants and malls dropped significantly when these businesses were being forced to close. Besides, a bulk of traditional markets are required to close in the first days of the lockdown, limiting retailers to meet customer demand.

Figure 14. Historical pork price and foodstuff



Source: GSO, KIS

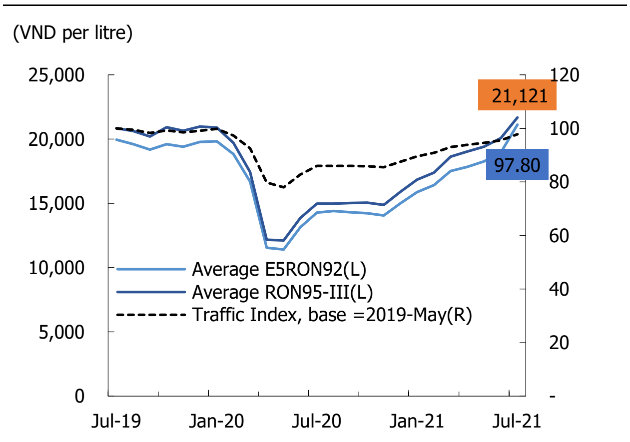
Figure 15. Domestic rice prices



Source: GSO, KIS

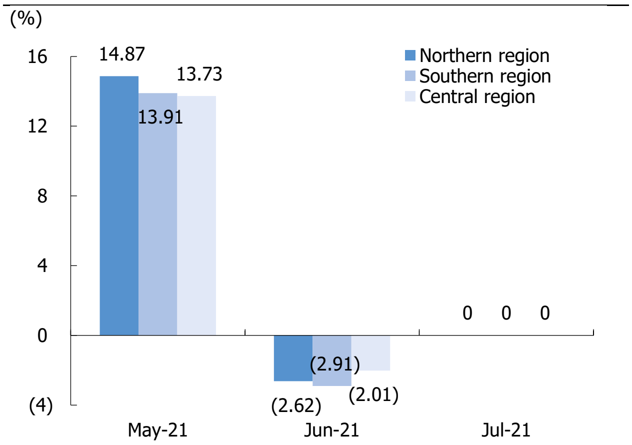
Align with the global movements of the global crude oil market, MoIT made two opposite adjustments this month. MoIT increased ERON92 and RON95 to VND20,610 and VND21,783 per liter early while reducing them to VND20,498 and VND21,681 late of the month. Therefore, the average prices of ERON92 and RON95 were VND 20,290 and VND21,677 in July, increasing 7.02% and 6.88% compared to June and mainly driving the traffic index up this month.

Figure 16. Petroleum prices and traffic



Source: GSO, KIS

Figure 17. Historical steel price



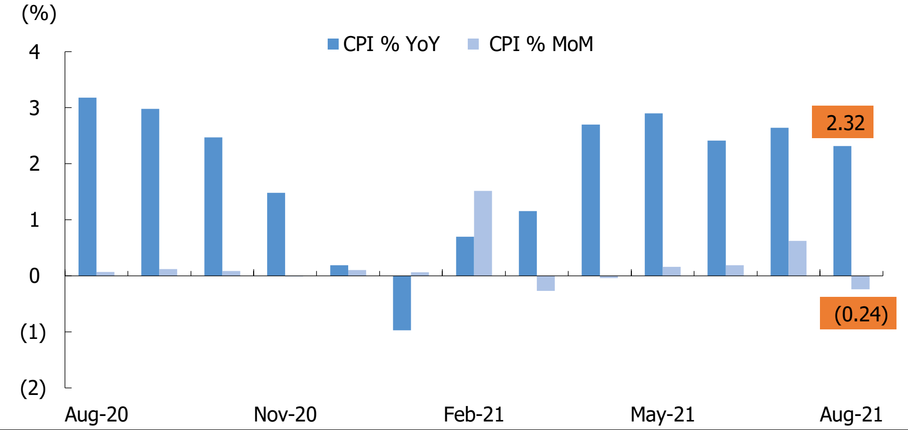
Source: GSO, KIS

PREDICTION:

- The pork price tends to reduce further under the widespread infection, causing the low demand from outside eating. Furthermore, the crude oil prices became less aggressive, easing the upward pressure on the domestic retailing prices of gasoline.

- Summing these predictions up, we forecast CPI to reduce by 0.24% MoM in the next month.

Figure 18. CPI forecast in August 2021



Source: KIS, GSO

III. Retail sales to lower under stricter restrictions

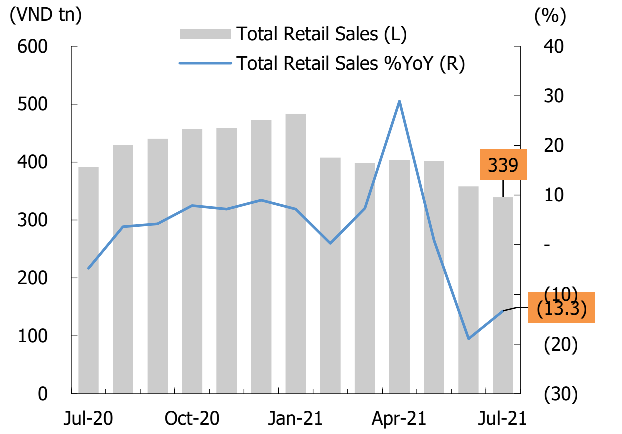
The retail sales tumbled under the stricter restrictions

In July, the retail sales tumbled as the government generally tightened the restrictions to deal with the widespread transmission in the southern epicenters, including Hochiminh city, the country's economic center. According to GSO's estimates, the retail sales in July 2021 dropped strongly to VND339.36tn from the previous value of VND358.07tn, marking a notable reduction of 5.23% MoM or 13.30% YoY. This reduction focused on the decrease in retailing activities in southern areas, including Hochiminh city, where Directive No. 16 was applied strictly to limit the complicated development of the outbreak.

The accommodation and catering (A&C) and traveling significantly dropped, mainly driving the total retail sales to decline this month. More specifically, revenues of the A&C and traveling businesses reduced by 48.76% YoY and 82.94% to post VND21.19tn and VND0.13tn this month, respectively. Furthermore, the reduction in retail sector became less severe as its value decreased modestly by 4.02% YoY, posting VND291.77tn.

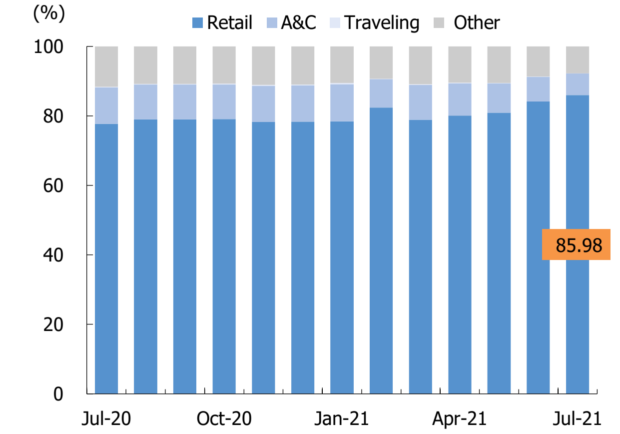
Regarding the structure, the retail value kept overwhelming, with the largest share at 85.98% of the total, while A&C and traveling sectors jointly consisted of 6.28% of total revenue.

Figure 19. Monthly retail sales



Source: GSO, KIS

Figure 20. Components of retail Sales

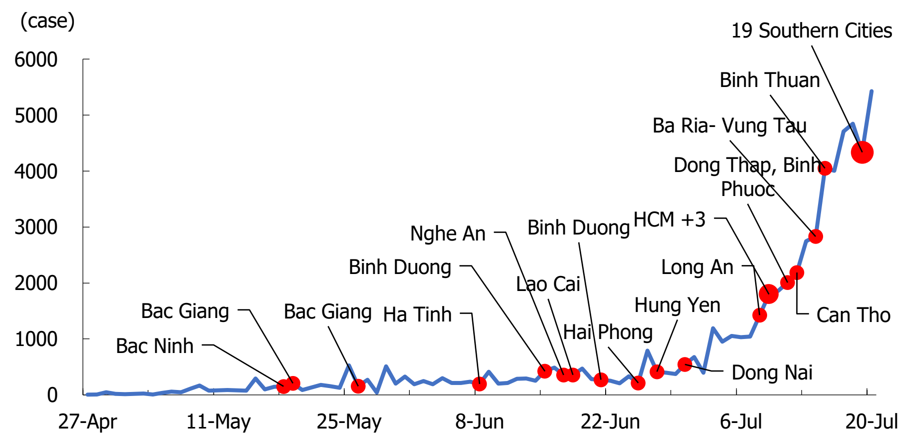


Source: GSO, KIS

PREDICTION:

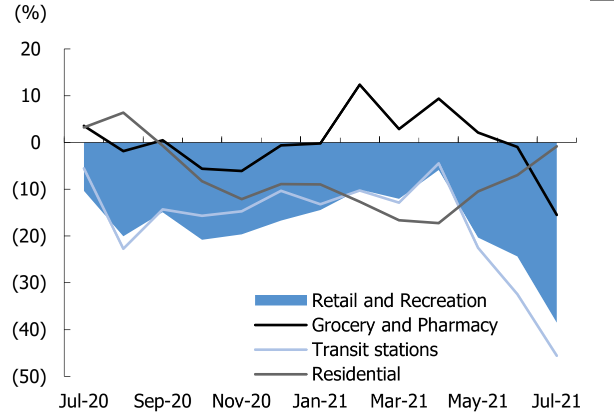
Complicated outbreak causes the government to retain the stricter restrictions under Directive No.16 in epicenters such as Hochiminh city, Dong Nai, and Binh Duong. Given the high relative magnitude of services business, limited mobility continued to reduce the retail sales in the next month.

Figure 21. Directive No. 16 timeline through the 4th outbreak



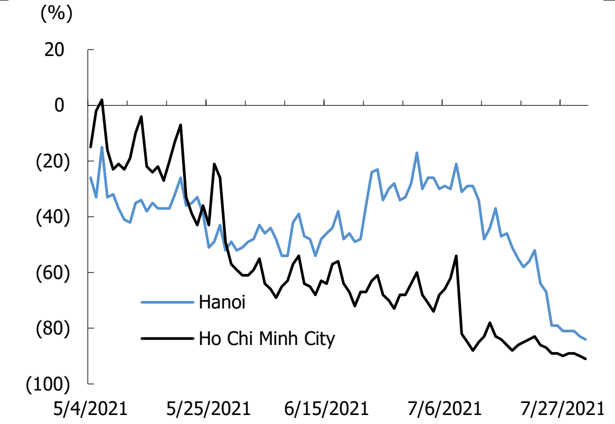
Source: WHO, MoH, KIS,
Notes: HCM +3 = Hochiminh city, Dong Nai, Binh Duong, and Nha Trang city of Khanh Hoa province.

Figure 22. Vietnam retail and recreation mobility



Source: GSO, KIS

Figure 23. Retail and recreation mobility



Source: GSO, KIS

IV. Gloomy FDI outlook amid economic uncertainties

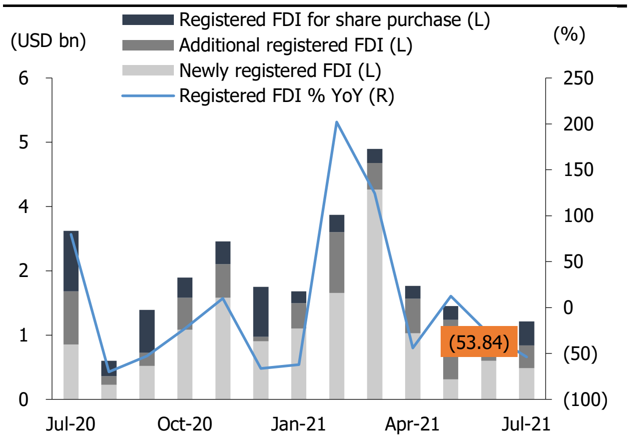
FDI activity disrupted under worsening economic conditions

The complicated COVID-19 outbreak and the ongoing strict social-distancing measures remained a real challenge for FDI investment activity in the near term. Almost all criteria for FDI investment measures have been at low levels for many years, while currently business conditions have been much worsening, causing a potential disruption for the economy in the short term in the fight against the outbreak.

Going into details, new FDI registration recorded only USD0.58bn in July, which is the second-lowest since September last year, down by up to 43.45% YoY. Additional capital registered for existing projects also dropped sharply to the lowest amount in 2021, at just USD0.43bn and decreasing about 56.95% YoY. Meanwhile, strong investment inflows into the stock market recently boosted the foreign capital for share purchase & M&A activity to a high this year, at USD0.45bn, although still 53.84% lower than its level in the same period 2020. As a result, total registered FDI capital saw a big drop of 53.8% YoY, at USD1.45bn.

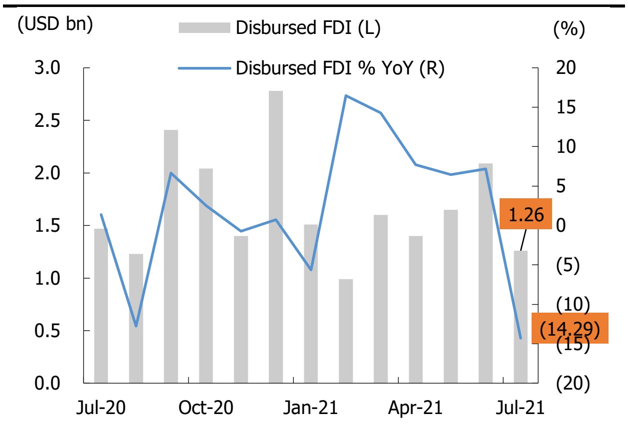
A main concern in the month was a significant slowdown in the FDI disbursement, which we expected was under strong impacts of COVID-19-related lockdowns in several FDI destinations, such as in Binh Duong, Dong Nai, and Ho Chi Minh City. As a consequence, FDI disbursement posted only USD1.26bn, the worst performance since February this year, and dropped by 14.3% YoY.

Figure 24. Registered FDI



Source: MPI, KIS

Figure 25. Disbursed FDI

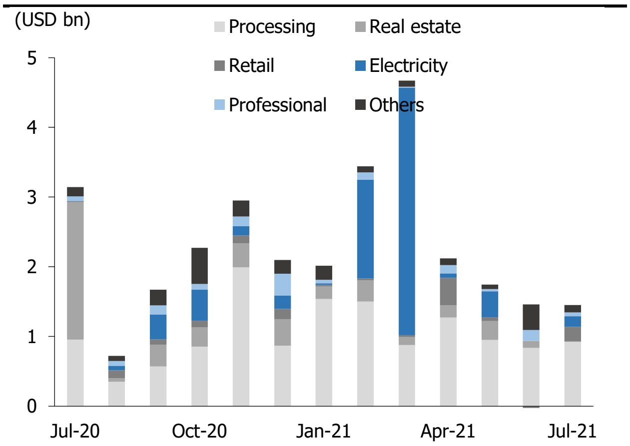


Source: MPI, KIS

It is no surprising that FDI capital registered into most sectors continued to remain low at the time amid a gloomy economic outlook and difficulties in FDI registration process. Processing remained the largest FDI receiver in July with USD0.92bn, accounting for about 63.6% of total registered FDI, but newly registration in this sector remained tremendously quiet since the beginning of this year. Meanwhile, it is a real disruption taking place in FDI activity in the real estate sector as we believe the current strict mobility restrictions have sent real estate development and selling activities into uncertainty in the near term. As a result, total FDI capital registered into this sector posted remained near zero, at USD0.04bn, in the month.

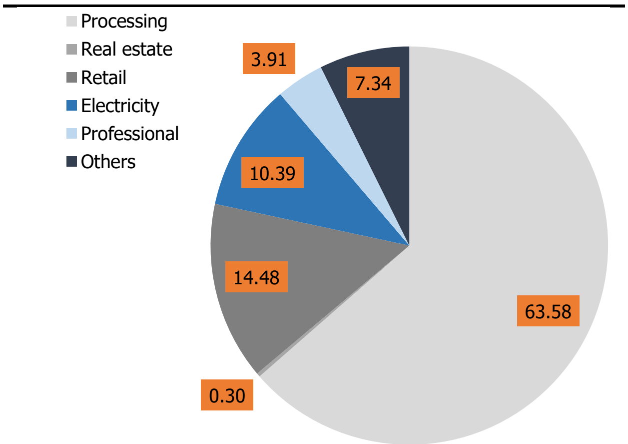
Besides, it is noticing that there was large foreign capital inflows into retailing sector via share purchase activity in the month, pushing registered FDI into this sector to a 3-month high of 0.21bn. Besides, electricity sector posted USD0.15bn in FDI registered capital in the month.

Figure 26. Registered FDI by sector



Source: MPI, KIS

Figure 27. Structure of registered FDI

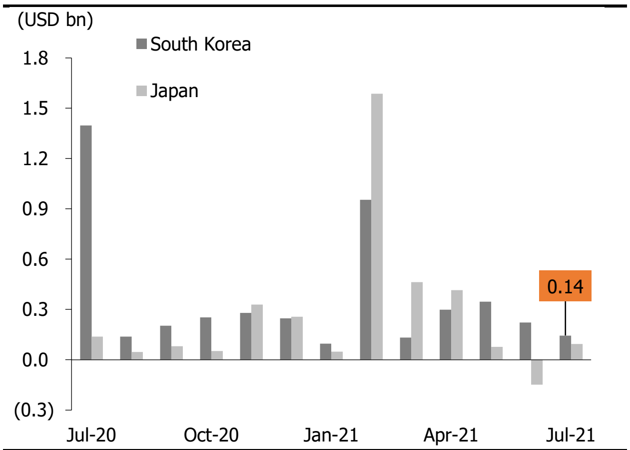


Source: MPI, KIS

Regarding FDI inflows by partners, there is a similarly gloomy picture for FDI investment from most partners illustrated well in these graphs below. Registered investment from two key partners Japan and Korea continued to be subdued, at USD0.15bn and USD0.10bn (10.0% and 6.5% of total registered FDI), which were not seen in normal times. Investment inflows from other ASEAN partners, including Singapore and the rest, were also frozen during this time. Registered FDI from Singapore investors recorded only USD0.28bn (19.5% of total), the second-lowest in 10 months, while registered capital from other ASEAN countries was nearly zero, at USD0.03bn (1.9% of total). FDI capitals from NA and EU regions posted about USD0.12bn and USD0.08bn, accounting for 5.3% and 8.2% of the total.

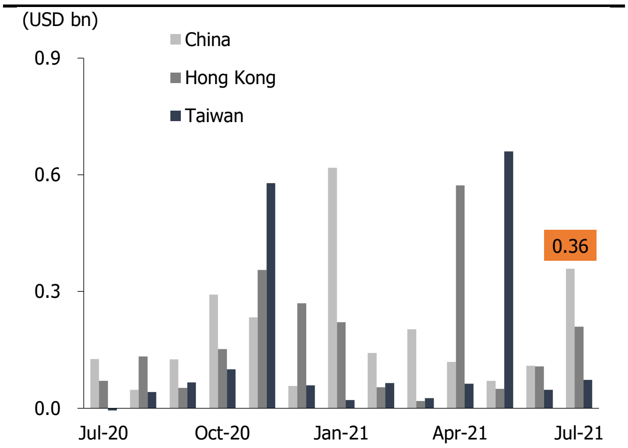
On the other side, FDI inflows from China, Hong Kong, and Taiwan were suddenly accelerating after months of being inactive. China became the largest investor with USD0.36bn, a 6-month high since January this year, accounting for 24.7% of the total. FDI inflows from Hong Kong investors also recovered to a 3-month high of USD0.21bn (14.5% of total), while Taiwan investors registered for about USD0.08bn, which is relatively insignificant.

Figure 28. FDI inflows from South Korea and Japan



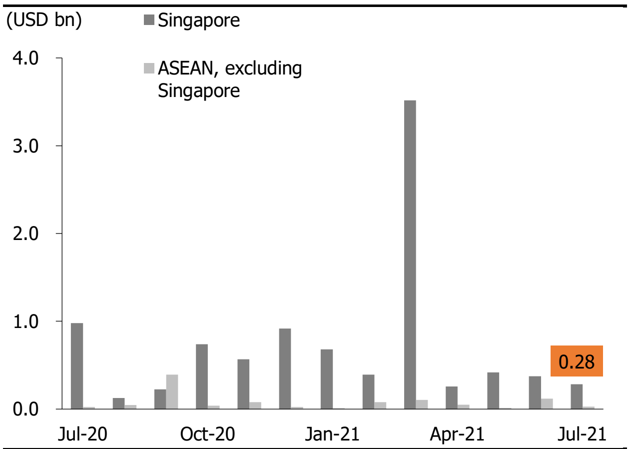
Source: MPI, KIS

Figure 29. FDI inflows from Greater China region



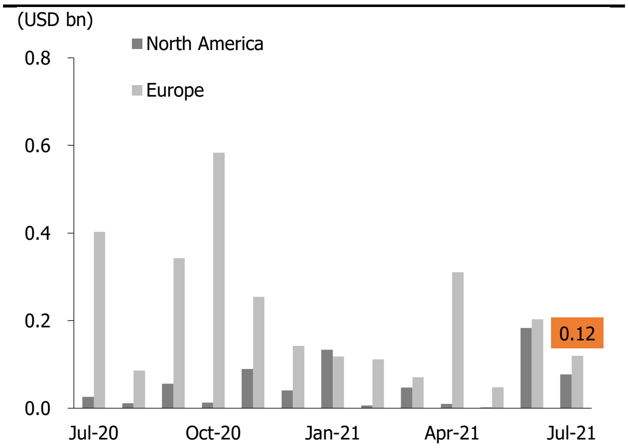
Source: MPI, KIS

Figure 30. FDI inflows from ASEAN partners



Source: MPI, KIS

Figure 31. FDI inflows from EU and North America



Source: MPI, KIS

PREDICTION:

We remain a view that it is going to be a rough way before foreign investment inflows can recover. FDI will likely continue to suffer unfavorable conditions, mostly due to COVID-19-related impacts, for the rest of this year. To launch any multi-million projects, certainties in domestic economic conditions would be one of the priorities.

On the positive side, just shortly after the outbreak was brought under control in some high-tech industrial zones from the North, data showed that production activity backs to almost fully normalization but in the context that the past outbreak was far less complicated and short-lived than the current epidemics in Southern industrial provinces including Ho Chi Minh City, Binh Duong, and Dong Nai. The more resilient the economic recovery is after the disruption, the sooner and stronger FDI inflows would return to our economy.

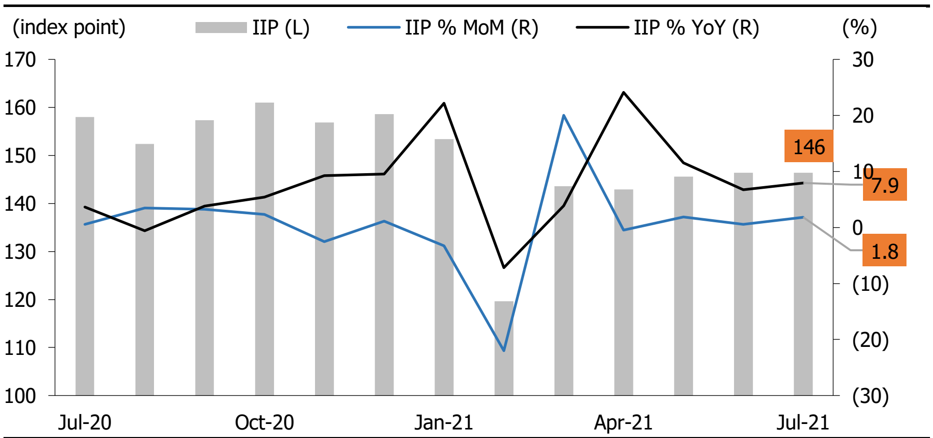
V. Export drivers to sustain industrial strength

Key manufacturing sector remained strong amid the outbreak

In contrast to a scenario that the current outbreak could potentially cause severe disruption to the industrial sector, data for industrial production in July has proved that the impacts of the pandemic are still under control. This time, when the domestic demand is severely hit by strict social-distancing measures implemented almost everywhere, industries serving export demand have become a strong foothold for the industrial sector. More specifically, phenomenal growths in the apparel, electronics, and iron & steel industries were the main drivers for the industrial growth in the month.

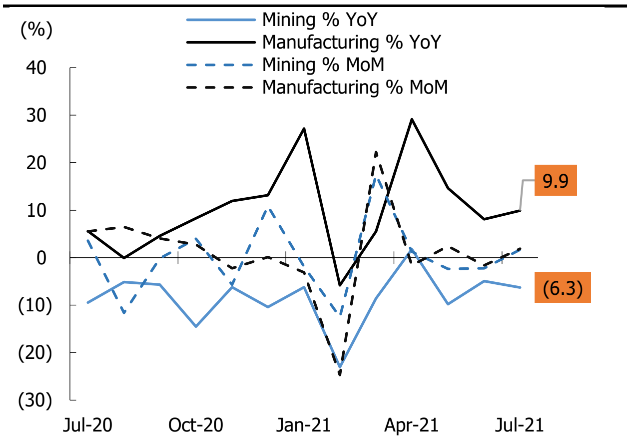
To be more specific, the industrial production level reached the highest level since January 2021 amid the severity of the current broad COVID-19 curbs, increasing by 1.83% MoM and 7.94% YoY. The manufacturing sector continued to be the main driver for industrial growth when its output expanded by 1.88% MoM (+9.92% YoY). Electricity production & distribution continued expanding for five consecutive months since February, up by 1.52% MoM in July (+8.22% YoY), while the water supply sector also improved for the second month, by 2.64% MoM (+5.55% YoY). It is also surprising that the mining sector recorded positive growth in July by 1.64% MoM, although still 6.30% lower than the previous year, thanks to a recovery in crude oil & natural gas production activity.

Figure 32. The industrial production



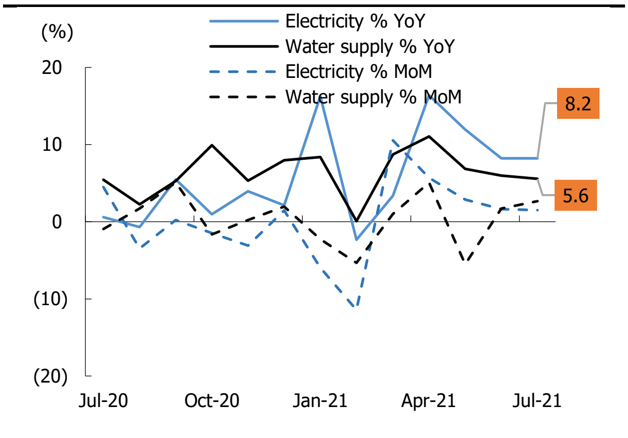
Source: GSO, KIS

Figure 33. Mining and manufacturing sub-sectors



Source: GSO, KIS

Figure 34. Electricity and water supply sub-sectors



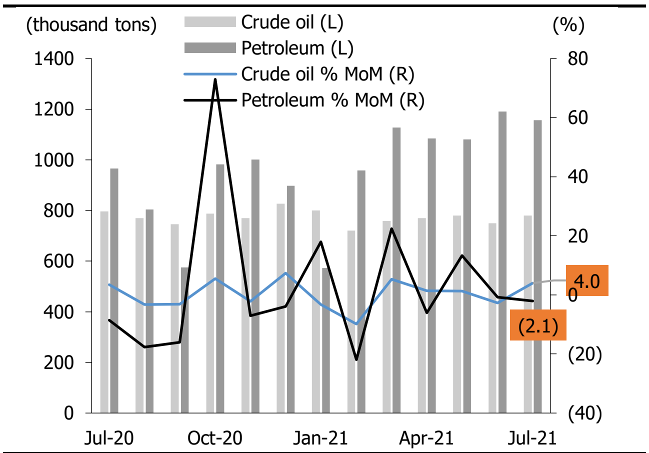
Source: GSO, KIS

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

Oil & Gas industries:

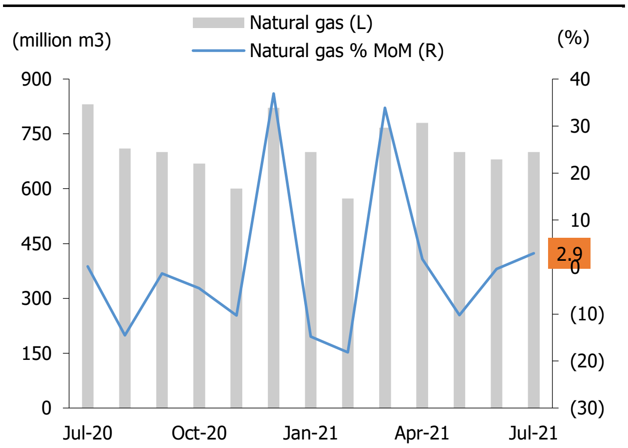
After a two-month plummet, oil & gas production recovered at a fast pace in July, by 4.0% MoM and 2.9% MoM, in which the crude oil output recorded the highest level since January this year. On the contrary, lower demand for energy use due to strict mobility restrictions reduced petroleum output by about 2.1% MoM.

Figure 35. Production of crude oil and petroleum



Source: KIS, GSO

Figure 36. Production of natural gas

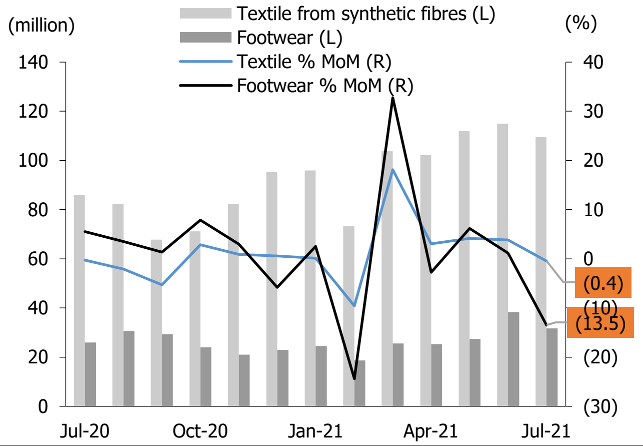


Source: KIS, GSO

Textiles & apparels & footwear industries:

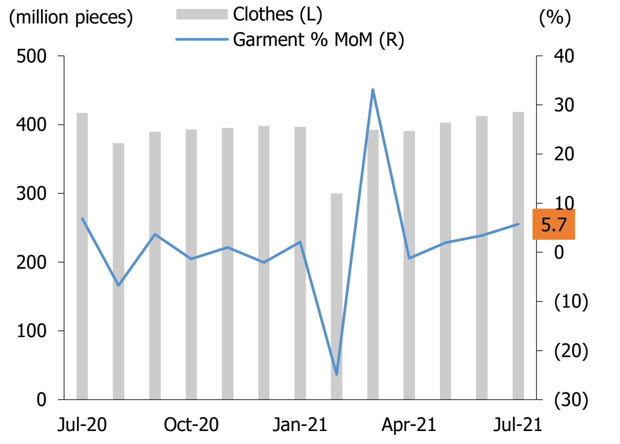
Under the current outbreak, it is expected that textiles & apparels & footwear industries are under considerable pressure when these industries rely strongly on employment conditions. In July, data showed that the manufacture of textiles & footwear were affected significantly as these labor-intensive industries found many challenges in operation due to strict containment measures. A several-month expansion in the textiles industry since October last year ended this month with a slight reduction of 0.4% MoM, while footwear output even plunged by 13.5% MoM after its 2-month increase. On the contrary, the manufacture of apparels continued to increase for the third straight month, by 5.7% MoM. Besides, from the demand side, it is worth noticing that export demand remained strongly positive for the current time.

Figure 37. Production of textile and footwear



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

Figure 38. Production of clothes

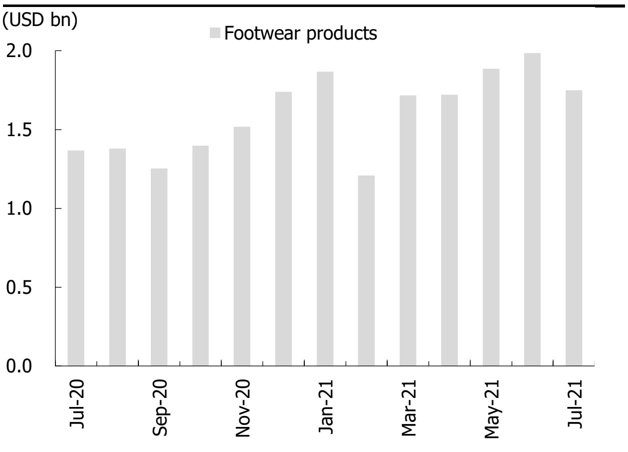


Source: GSO, KIS

Figure 39. Export of textiles & apparels

Source GSO, KIS

Figure 40. Export of footwear

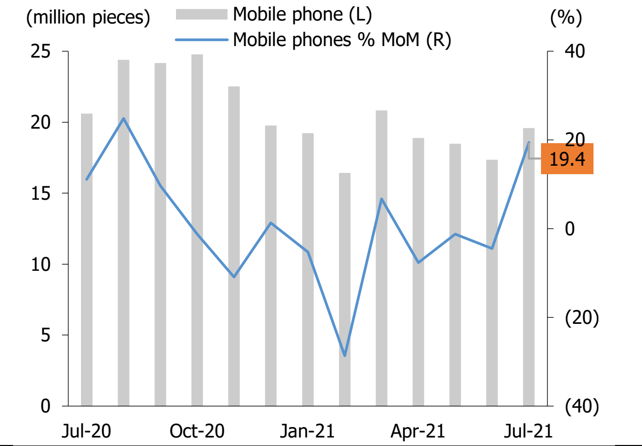


Source: GSO, KIS

Electronics industry:

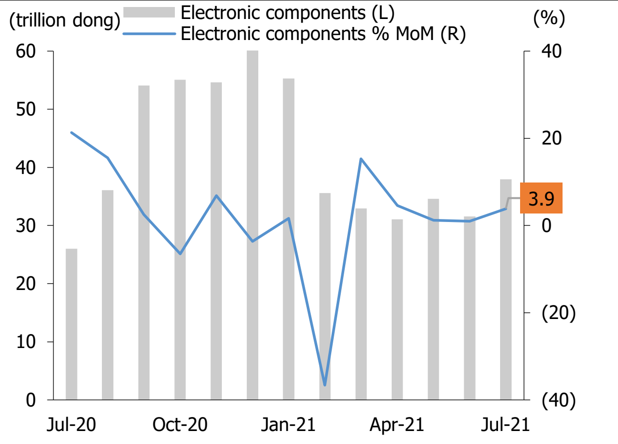
After a temporary disruption in high-tech industrial parks in Bac Giang and Bac Ninh in June, July data showed the electronics industry to grow even more than its pre-outbreak level, up by 14.21%, driven by growth in mobile phones' production. Besides, increasing export demand in the month also played a key role in driving this impressive growth in this industry. The electronics output reached the highest level in 4 months, although it was still significantly lower if compared to its high record in 2H20.

Figure 41. Production of mobile phones



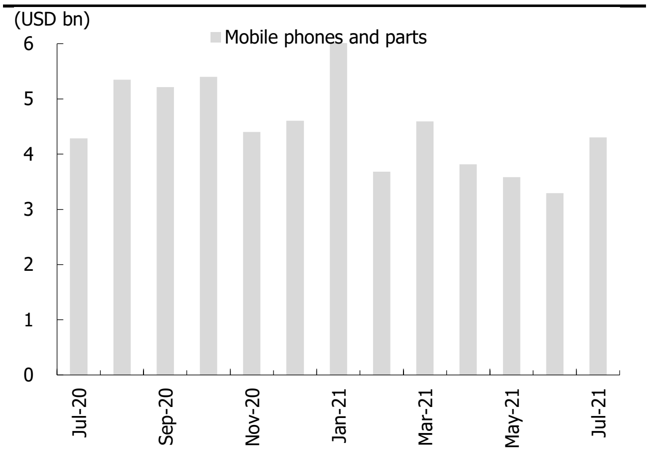
Source: GSO, KIS

Figure 42. Production of electronic components



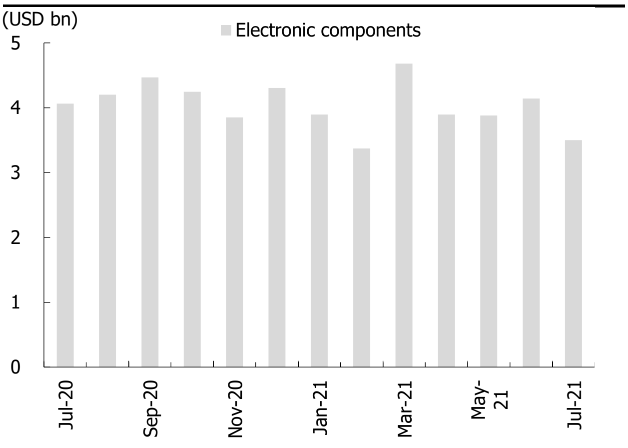
Source: GSO, KIS

Figure 43. Export of mobile phones and parts



Source GSO, KIS

Figure 44. Export of electronic components



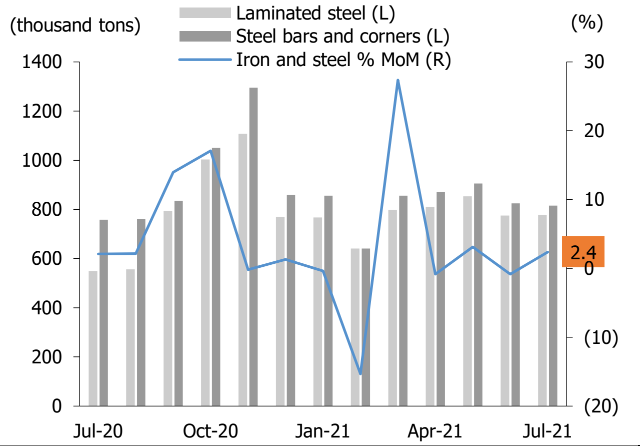
Source: GSO, KIS

Iron & steel industry:

Iron & steel output continued to remain high, up by 2.4% MoM, although it cannot be compared to its record high in 4Q20. In the context that domestic demand for iron & steel is being strongly affected as most construction activities are forced to postpone amid the COVID-19 outbreak, export demand continued to offset a loss from domestic demand. Iron & steel export just recorded a new record high in July, which is also the third-month consecutive growth.

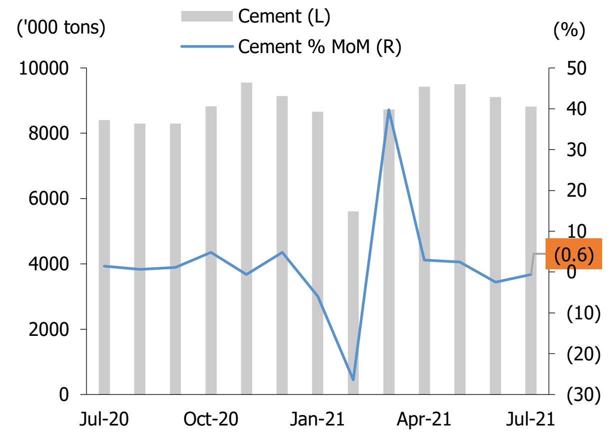
Unlike the iron & steel industry, the manufacture of cement posted a reduction of 0.6% MoM for the second month, while its output reached the lowest in 8 months (excluding Tet's month).

Figure 45. Production of steel products



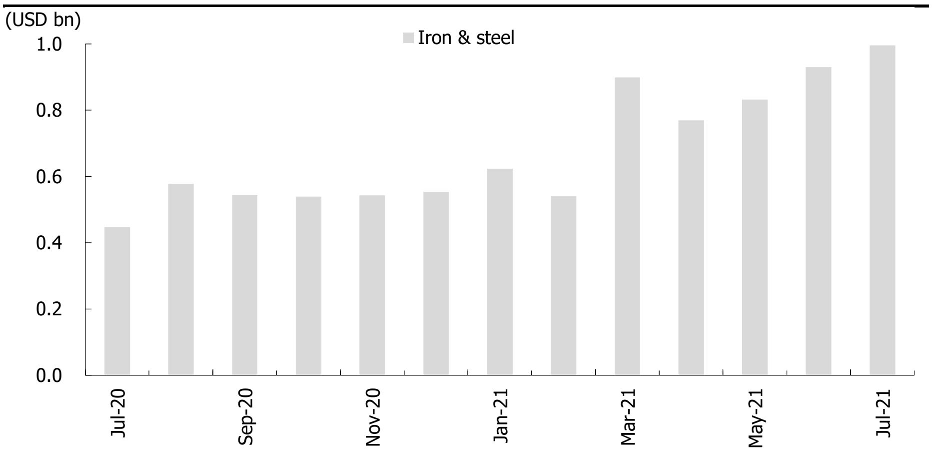
Source GSO, KIS

Figure 46. Production of cement



Source: GSO, KIS

Figure 47. Export of iron & steel



Source: GSO, KIS

PREDICTION:

Looking ahead to August, domestic manufacturers would face more challenges from the current strict containment measures, especially those relying on intensive labor, including textiles, apparel, footwear, F&B industries, etc. More and more production companies reported that increasing costs related to the containment requirements would create so much burden in the production activity, and it would not be sustainable for a longer time.

From our view, the health of the industrial sector is closely attached to the growth of export demand in few key industries including those analyzed above, and those industries would be the main drivers for the industrial sector at least in this quarter. Other industries serving domestic demand continue to be affected by the continued lockdown.

Macro scorecard

(USD bn, USD, %, % YoY)

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	3Q20	4Q20	1Q21	2Q21	2017	2018	2019	2020
Real GDP growth		4.48			6.61		2.62	4.48	4.65	6.61	6.81	7.08	7.03	2.91
Registered FDI	3.44	4.67	2.12	1.74	1.28	1.45	5.54	7.32	10.13	5.14	35.88	35.47	38.02	28.53
GDP per capita											2,353	2,551	2,730	
Unemployment rate											2.21	2.21	2.25	2.48
Export	20.20	29.65	26.55	26.19	27.20	27.00	79.74	80.15	77.34	79.23	215.1	243.5	263.6	282.7
Import	20.66	28.46	27.78	28.27	27.66	28.70	69.02	76.86	75.32	83.50	213.2	236.7	254.4	263.0
Export growth	(3.77)	22.89	51.00	36.52	20.56	8.55	10.61	15.14	21.76	33.50	21.82	13.19	8.16	7.02
Import growth	9.75	28.48	49.95	55.52	33.54	29.88	3.74	16.43	26.17	45.68	21.85	11.01	7.41	3.81
Inflation	0.70	1.16	1.16	2.90	2.41	2.64	3.81	3.24	0.30	1.23	3.53	3.54	2.79	3.24
USD/VND	23,018	23,076	23,053	23,048	23,020	22,947	23,184	23,126	23,076	23,020	22,698	23,175	23,173	23,126
Credit growth	1.21	2.04	3.34				6.10	10.14			18.24	13.89	13.70	10.14
10Y gov't bond	2.13	2.40	2.36	2.27	2.04	2.06	2.65	2.01	2.40	2.04	5.14	5.07	3.37	2.01

Source: GSO, Bloomberg, FIA, IMF

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