

Economic Perspectives

Vietnam's economy on edge of contraction

Trade to face headwinds

Trade activities deteriorated in August as the export value was lower than the average level of 7M21, and the speed of import recovery also slowed significantly, attributed to the disrupted production and seaport congestion in the southern area. High labor-intensive sectors, such as textile, footwear, and fishery, are affected more severely, and the situation seems to further sustain. Moreover, global economic recovery has become less favorable in fear of the slowdown of China's economy, as the consumer confidence indices and PMIs have been lessening. Therefore, we predict that trade activities to face more headwinds in the next month.

CPI to decline

F&Fs caused CPI to increase further in August with a more significant spatial dispersion than the previous month, reflecting a poor link between suppliers and consumers under stricter restrictions and interrupted distribution.. However, F&Fs are slowing down, and the demand for non-essential goods remains weak, putting downward pressure on the CPI next month. We forecast that the CPI to reduce by 0.20% MoM in September.

IIP to see unprecedented freefall

Unprecedented social-distancing restrictions sent the industrial sector into deep contraction in August, also reversing a year-long growth. The outlook for the industrial sector for the remainder of 2021 would closely link to the government efforts to controlling the pandemic. Not only financial support from the government is needed in a fight against the pandemic, but accommodative policy support is also a key to resolve the problem for the manufacturing firms. Looking forward to September, we expect the production conditions continue to deteriorate, and the 3Q21 performance of the industrial sector would likely be the worst in many years.

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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Contents

I. Trade to face headwinds.....	1
II. CPI to decline	5
III. Retail sales hit 2021-low	8
IV. IIP to see unprecedented freefall	9
V. FDI to face challenges in a long-term outlook	16
Macro scorecard	20

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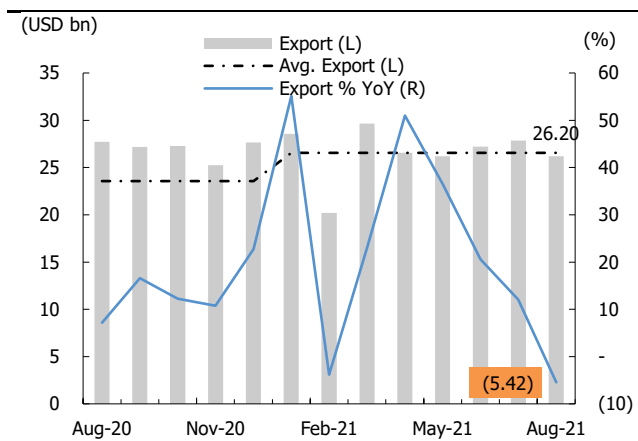
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I. Trade to face headwinds

Trade recovery is slowing down

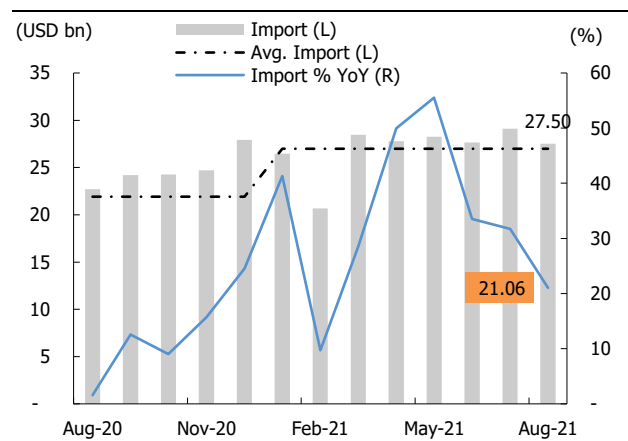
GSO's estimates this month show us that trade operations were being affected as the disruption in the production under the ongoing outbreak was inevitable. The export value in August was lower than the average level of seven first month of 2021 and below its value in the same period last year. In detail, the total revenue from exporting goods was USD26.20bn, decreasing by 5.42% YoY. Operations of importing goods from outside countries seem to face slighter pressures than export when its value this month was USD27.50bn, remaining higher than the 2021-average level. However, the speed of recovery in import from the 2020 low base also slows significantly as the growth rate this month was just 21.06% YoY, much lower than three recent months.

Figure 1. Vietnam monthly export



Source: KIS, GSO

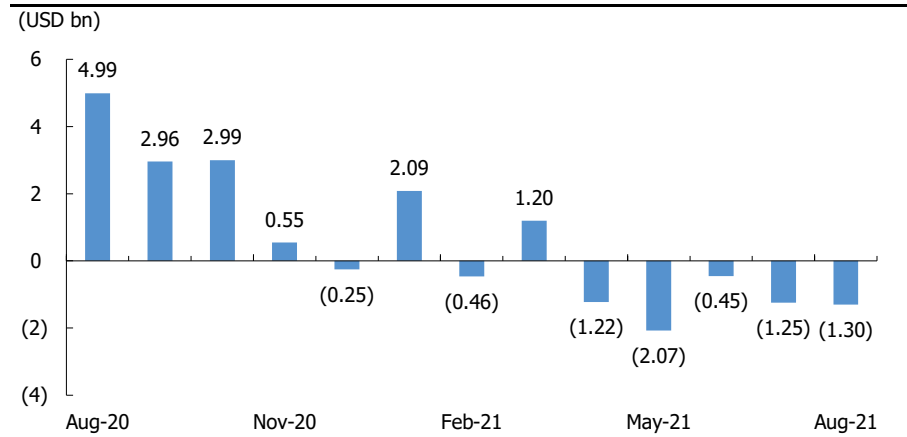
Figure 2. Vietnam monthly import



Source: KIS, GSO

Besides, except for mild economic effects in the U.S. and Europe due to the high vaccination, our major trading partners in Asia, such as China, South Korea, Japan, and southeast Asia countries, suffered economic losses in various degrees from the Delta outbreak, partially resulting in the decrease in their demand for our goods. Furthermore, shipping costs remained high under the congestion in southern seaports, making trade activities slower than usual. For 8M21, export and import values grew by 21.20% YoY and 33.76% YoY, posting USD212.55bn and USD216.27bn, respectively. Besides, the trade balance recorded a deficit of USD3.74bn this month, marking the 5-month streak of the low export turnover relative to import turnover.

Figure 3. Vietnam monthly trade balance

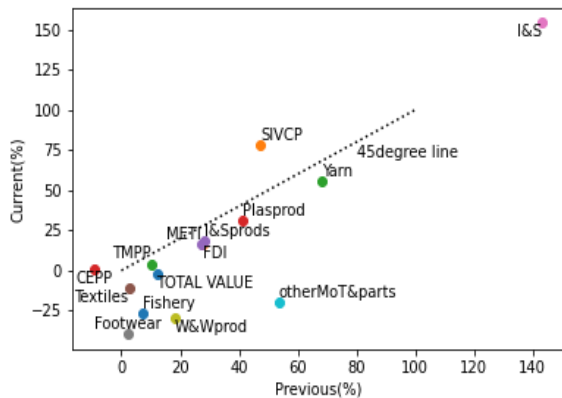


Source: KIS, GSO

In the export structure, the majority recorded lower year-over-year growth rates than those in the previous month and labor-intensive products, such as textiles, footwear, and wood-related product (W&Wprod), seem to suffer the hardest damage from the disruption of domestic production. Specifically, footwear, W&Wprod, and textile stepped into the deterioration territory as declining by 38.40% YoY, 26.05% YoY, and 8.97% YoY, posting USD0.85bn, USD0.85bn, and USD2.70bn, respectively. Besides, fishery recorded a significant decrease this month as its export value decreased by 26.36% YoY to post USD0.60bn. On the other hand, exporting of flagship products generally experienced a slighter effect than others as the machine, equipment, tools and instruments (METI) and telephones, mobile phones and parts (TMPP) reported modest growth rates of 11.61% YoY and 10.33% YoY, posting USD2.90bn and USD4.72bn, respectively. Amid the gloomy picture in export activities, revenue from selling iron and steel products (I&S) to foreign customers remained fruitful as posting a high value of USD1.20bn this month, increasing by 107.26% YoY.

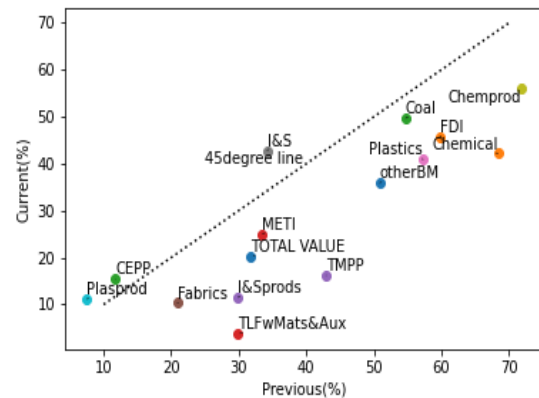
The deterioration in import activity was less severe than export as its flag ship products, including CEPP, METI, and TMPP, kept growing this month. Specifically, import values of CEPP, METI, and TMPP were USD6.30bn, USD4.00bn, and USD1.80bn and rose by 4.49% YoY, 25.03% YoY, and 11.38% YoY. Besides, the import value of iron and steel (I&S) remained high value of USD0.97bn, increasing by 29.46% YoY.

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



Source: KIS, GSO

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



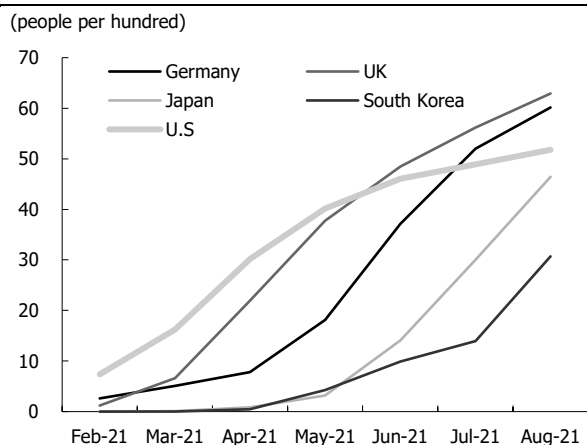
Source: KIS, GSO

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 external conditions became less favorable for Vietnam’s export, the deterioration in selling goods to outside clients was hardly attributed to the disrupted production and seaport congestion in the southern area.

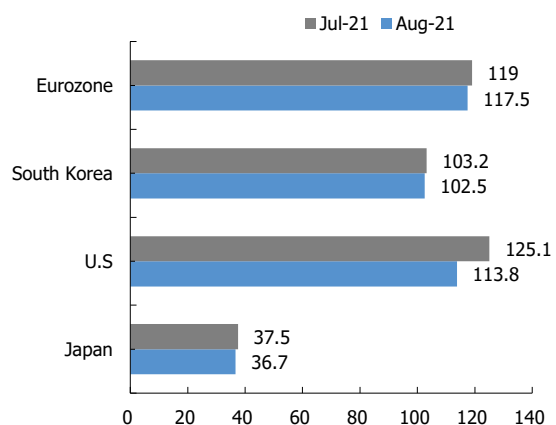
In August, vaccinations in major countries, such as the U.S, Germany, South Korea, Japan, China, increased further to approach the WHO’s immunity level, enabling governments to re-open their economic activities. At the end of August, the ratios of fully vaccinated people per population in the United States, Germany, Japan, and South Korea were 51.77%, 60.15%, 46.42% and 30.70%. Japan and South Korea, economic centers in Asia, accelerated their vaccinations significantly, while U.S. and European countries, such as Germany, kept their campaign going at a relatively lower pace.

Figure 6. Vaccination: fully vaccinated people per hundred



Source: KIS, Our World In Data

Figure 7. Consumer confidence index

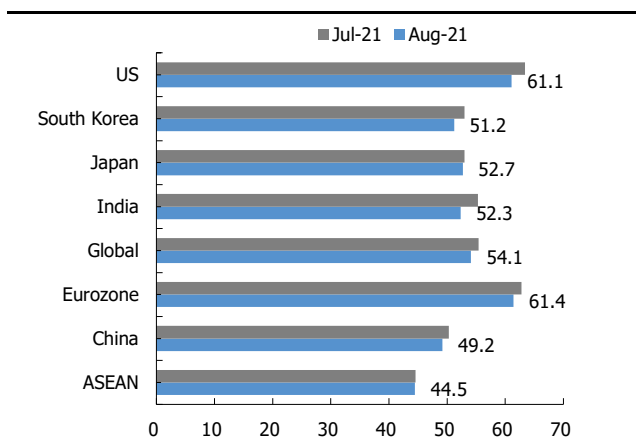


Source: KIS, Bloomberg

After peaking in July with fruitful economic data, consumer attitudes toward buying became less optimistic due to concerns related to the economic slowdown in China. The U.S conference board announced that the consumer confidence index for this country this month was 113.81, declining by 11.3pts compared to the previous month, indicating that U.S buyers became less bright in assessing the current and future business and job market conditions. Moreover, the consumer confidence index in Eurozone, South Korea, and Japan reduced by 1.5pts, 0.7pts, and 0.8pts compared to the previous month. Worldwide PMI movements this month also reflect fear of a slower economic growth coming from the world manufacturer. Purchasing managers in China and Southeast Asian factories were assessing that the business environment would worsen under the delta strain's domination. Meanwhile, manufacturers in other regions reduce their expectations of economic prospects with lower PMI values than the previous month.

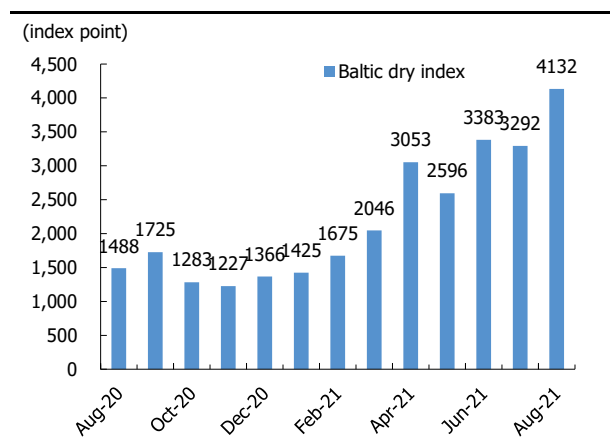
On the other hand, the Baltic dry index climbed to the new high at 4,132, adding challenges to the recovery of international trade, including Vietnam, in the coming months.

Figure 8. Global manufacturing PMI



Source: KIS, Our World In Data

Figure 9. Shipping cost



Source: KIS, Bloomberg

Seaport congestion and disrupted production in the southern region emerged to hinder the trade recovery under stricter restrictions in Resolution No.16 to prevent widespread transmission within the country. Resolution No.16 and the “3 on-site” decrease the designed capacity in southern factories, especially in high labor-intensive industries. Textile, footwear, and fishery products seemed to be affected more than others when their productions were heavily located in the southern regions with a relatively high number of workers.

PREDICTION:

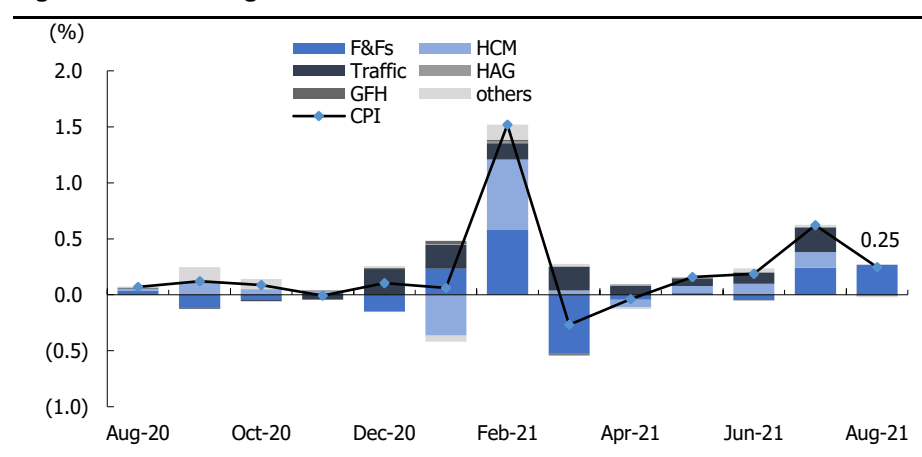
August witnessed the global economic data became less favorable in fear of the economic slowdown of China. Hence, consumers and suppliers in our main trading partners turn into less optimistic. Furthermore, disrupted production and its related potential order-canceling risk add more challenges to the recovery of trade activities. Therefore, we predict that trade activities to face more headwinds in the next month.

II. CPI to decline

F&Fs causes CPI to up.

According to GSO, the food and foodstuff index (F&Fs) continued gaining its upward momentum and was the main reason to push CPI up this month. CPI marked its 4-month rising streak by climbing up the new level, which is 0.25% higher than the previous month. F&Fs noticeably increased by 0.74% MoM, contributing 27 basis points (bps) to the monthly change of the overall price index under the high demand for essential goods. In terms of the yearly change, the CPI slowed down when it increased by 1.79% YoY, 86bps-lower than in the previous month. Accordingly, the 12-month rolling inflation rate was 1.70%, 230bps-lower than the government's 2021 target rate of 4%.

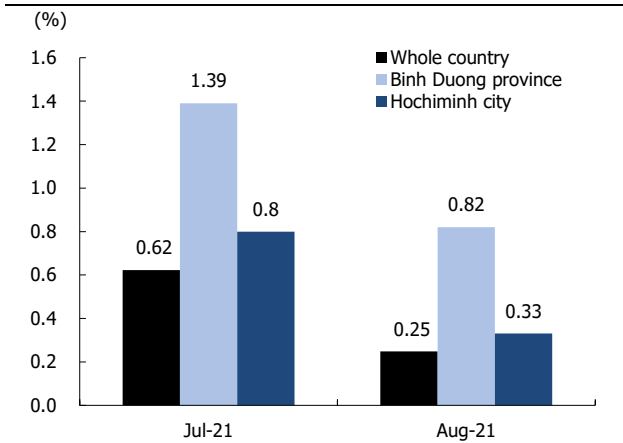
Figure 10. CPI Changes



Source: GSO, KIS

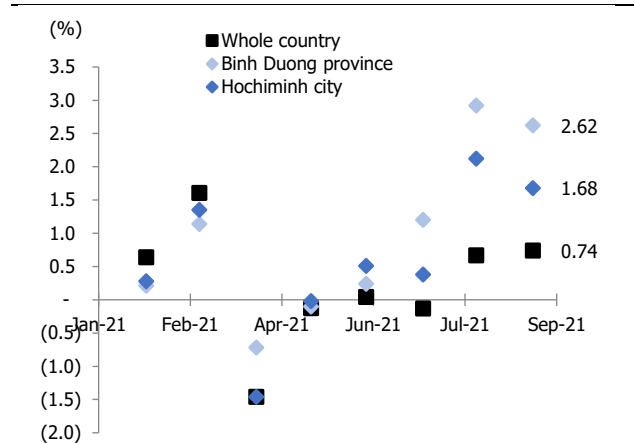
CPI increased further this month with a larger spatial dispersion, reflecting the poor connection between suppliers and consumers under stricter restrictions and interrupted distribution. CPI's increase tends to be higher in epicenters with prevailing application of Resolution No.16 than remainders. The consumer price indices in Hochiminh city and Binh Duong province rose by 0.33% MoM and 0.80% MoM, 8pts- and 57pts- higher than the inflation level of the whole country. The movement of F&Fs this month provided more evidence for our argument. F&Fs was the main reason to push up CPI in August due to the high transportation cost and demand for essential goods stockpiling in lockdown areas. More specifically, the F&Fs in Hochiminh city and Binh Duong increased by 1.68% MoM and 2.62% MoM, roughly double and triple the overall increase.

Figure 11. CPI by provinces



Source: GSO, KIS

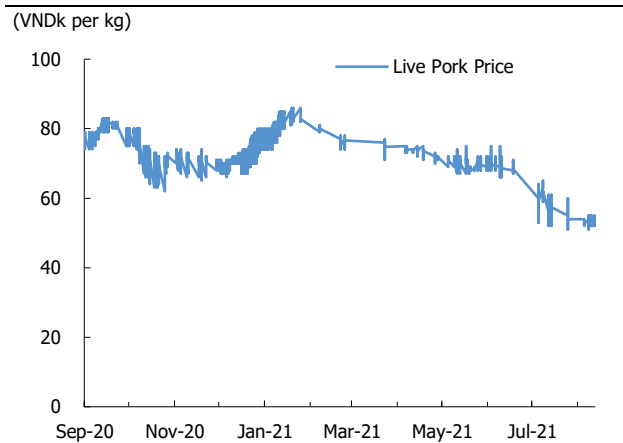
Figure 12. F&Fs by provinces



Source: GSO, KIS

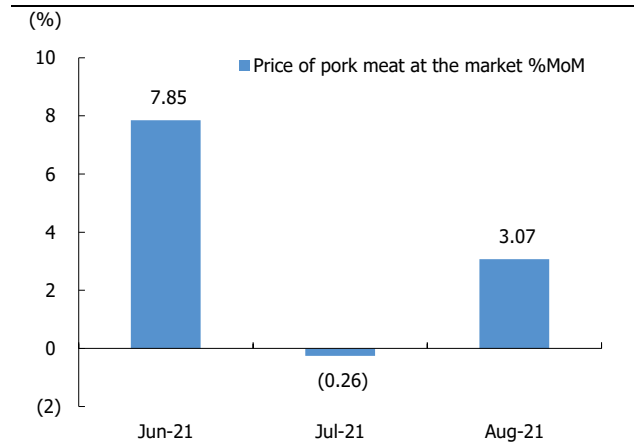
The movement of the pork price this month illustrated the impact of the disrupted distribution on the surge in the selling price of foodstuff to consumers. High transportation costs under the stricter COVID-19 restrictions push the price of pork meat at butchers, minimarts, and supermarkets higher, although the price of live pork continued sliding to the new 2021-low. In August, the live pork price generally declined by 8.43% MoM, while the pork meat at the market increased by 3.07% MoM, implying that the growth rate of intermediate costs was high and mainly drove the increase in consumer prices in the F&Fs sector.

Figure 13. Historical pork price



Source: GSO, KIS

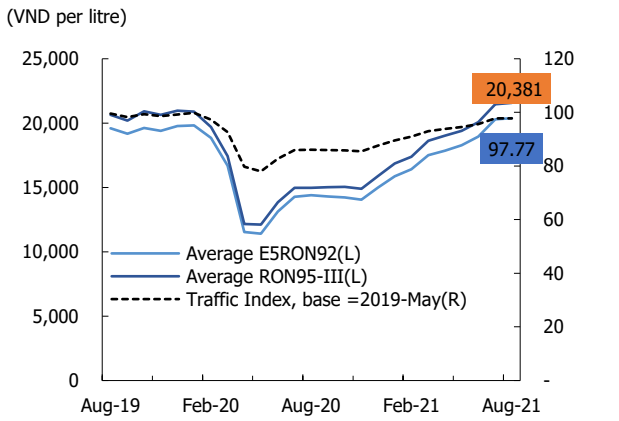
Figure 14. Retailing pork price at the market



Source: GSO, KIS

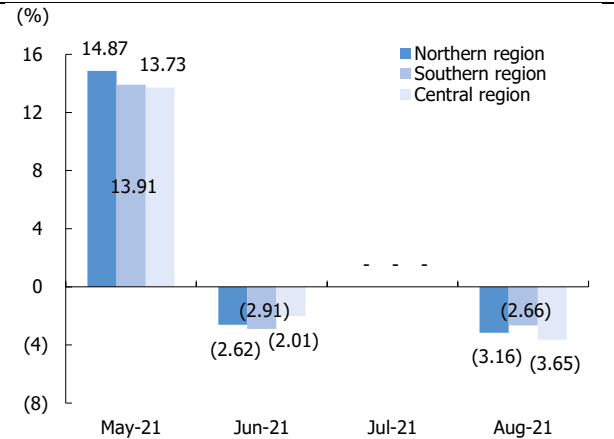
MoIT only made one adjustment to reduce the selling prices of gasoline this month on 26th August when the global crude oil price generally became more stable than the previous month. In detail, ERON92 and RON95 declined by 2.96% MoM and 2.54% MoM in August to VND19,891 and VND21,131 per liter, respectively. Therefore, the average prices of ERON92 and RON95 were VND20,381 and VND21,575 this month, increasing trivially by 0.44% and 0.54% compared to July and mainly kept the traffic index unchanged this month. Steel price generally made another reduction after peaking in May, partial putting downward pressure on the HCM index.

Figure 15. Petroleum prices and traffic index



Source: GSO, KIS

Figure 16. Steel price by regions

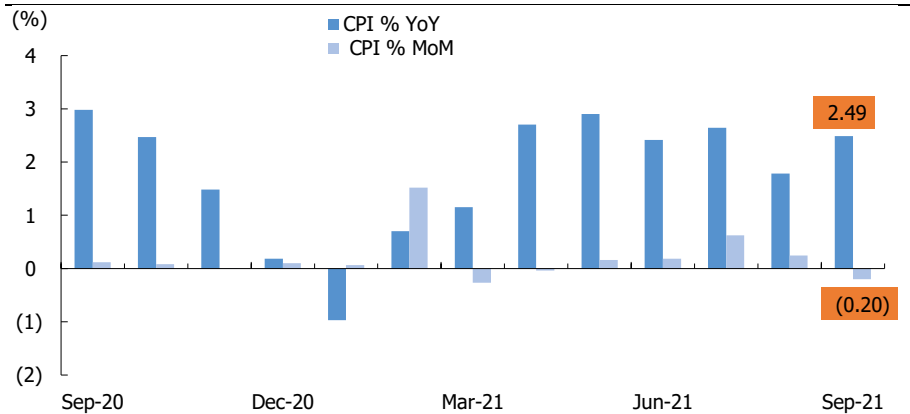


Source: GSO, KIS

PREDICTION:

F&Fs index, as the main push factor in recent months, seems to slow down when the demand for the reserve of essential goods is becoming lower, easing the upward pressure on CPI. Prices in this sector would decline further if the congestion in transporting goods to hot spots is solved soon. On the other hand, we argue that the demand for non-essential goods would remain weak in September, although local authorities in epicenters, such as Hochiminh city and Binh Duong, are planning to loosen their restrictions in the second half of the month in the effort of recovering the economic activities. Summing these assumptions up, we forecast CPI to reduce by 0.20% MoM in the next month.

Figure 17. CPI forecast in September 2021



Source: KIS, GSO

III. Retail sales hit 2021-low

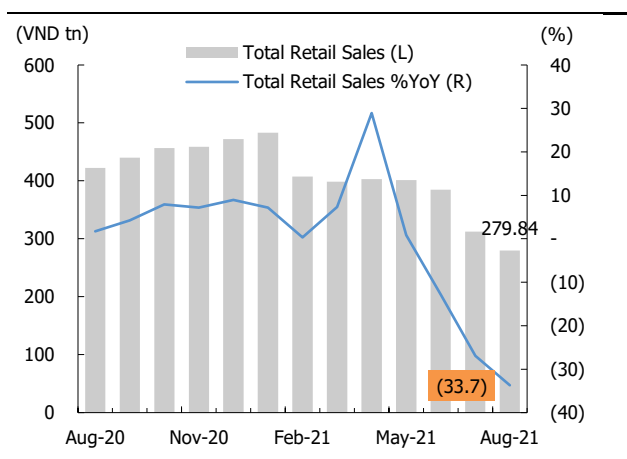
The retail sales reduced further under tightening restrictions

In August, 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 August 2021 continued declining strongly to the 2021-low of VND279.84tn, decreasing by 10.50% MoM or 33.70% YoY. This reduction focused on the decrease in retailing activities in southern areas, such as Hochiminh city and Binh Duong province, where Directive No. 16 generally limited the community mobility.

The revenue from the retail sector kept worsening this month as just recording a modest amount of VND249.94tn, decreased by 0.73% MoM and 25.35% YoY, respectively. Furthermore, performances of the accommodation and catering (A&C) and traveling businesses reduced further and added more downward pressure on the total retail sales. More specifically, revenues of the A&C and traveling businesses reduced by 66.89% YoY and 97.56% YoY to post VND13.53tn and VND0.02tn this month.

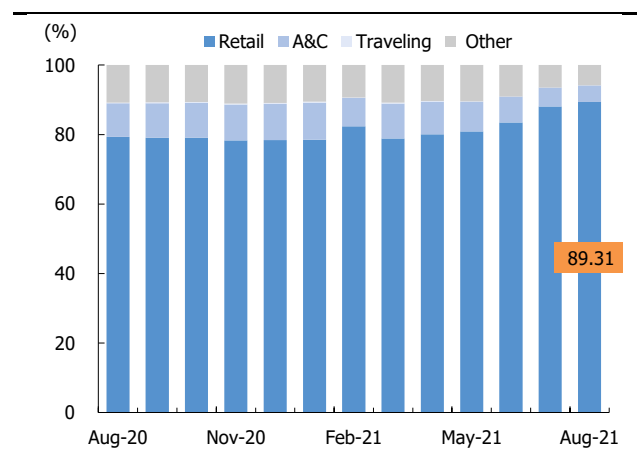
Regarding the structure, the retail value kept overwhelming, with the largest share at 89.13% of the total, while A&C and traveling sectors jointly consisted of 4.84% of total revenue.

Figure 18. Monthly retail sales



Source: GSO, KIS

Figure 19. Components of retail Sales



Source: GSO, KIS

PREDICTION:

Economic centers in the southern region, such as Hochiminh city, Dong Nai, and Binh Duong, sustained their anti-transmission measures at a high level when the epidemiological situation has not recorded any significant improvement. Given the high relative magnitude of services business, limited mobility continued to reduce the retail sales in the next month. However, local authorities in affected cities, especially Hochiminh city, are planning to re-open the economic activities in the second half of September when the vaccination reaches the specific requirement level, signaling hope for the retail sales to recover in the next month.

Figure 20. Directive No. 16 timeline through the 4th outbreak

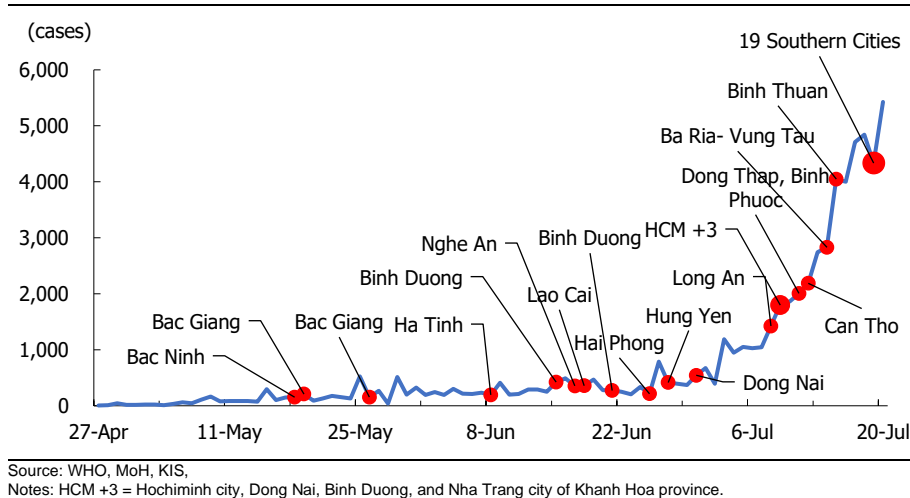
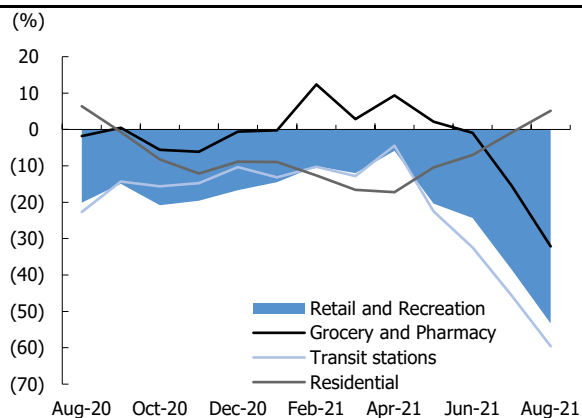
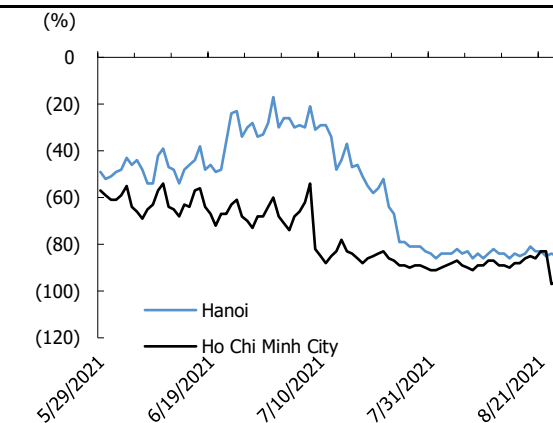


Figure 21. Vietnam retail and recreation mobility



Source: GSO, KIS

Figure 22. Retail and recreation mobility



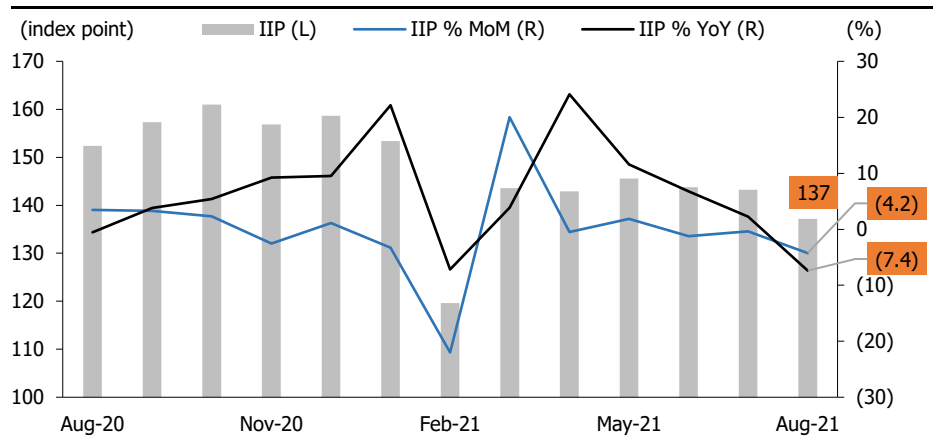
Source: GSO, KIS

IV. IIP to see unprecedented freefall

Disruption in labor-intensive sectors pressures on industrial growth

Current strict containment measures remain a real challenge for manufacturing firms as it is evident that labor-intensive industries must scale down their production activities to comply with new conditions. Besides, we also saw marked declines in manufacturing industries that rely on domestic demand, especially those in F&B industries. Under an impact of the ongoing COVID-19, industrial production marked the third consecutive and also the biggest decline in August since the first lockdown last year, by 4.24% MoM (excluding Tet's month). IIP year-over-year growth also fell to contraction territory for the first time in a year, by 7.39%.

Figure 23. The industrial production



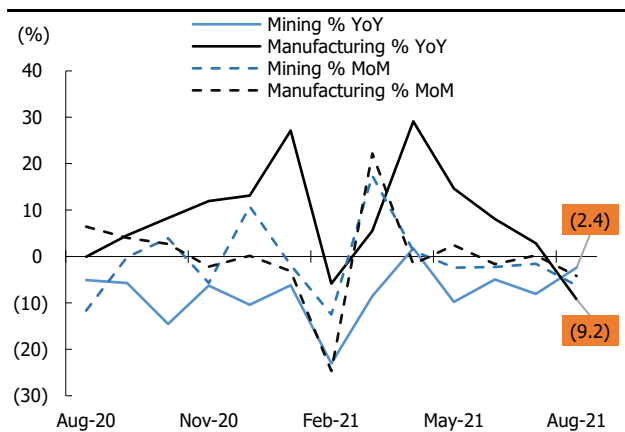
Source: GSO, KIS

By sectors, the mining sector continued to be the most underperform among others as crude oil & natural gas output plunged deeper. Output level in this sector was falling into contraction territory for 4 months and reached a fresh record low in this month, down by 6.24% MoM and 2.37% YoY.

Also mentioned above, many industries in the manufacturing sector were hit severely by the current outbreak, manufacturing output posted the lowest level in 15 months since May last year, dropping by 4.21% MoM. Its year-over-year growth in 11 months also ended in August, down by 9.23% YoY.

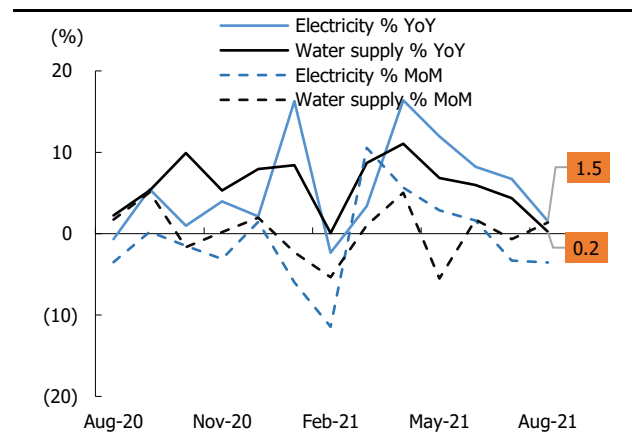
Besides, electricity production & distribution was also impacted by a slowdown in the manufacturing sector, posting a second-month decline of 3.55% MoM (+ 1.54% YoY). The water supply industry was the only sector recording positive growth in the month, expanding by 1.36% MoM and 0.23% YoY.

Figure 24. Mining and manufacturing sub-sectors



Source: GSO, KIS

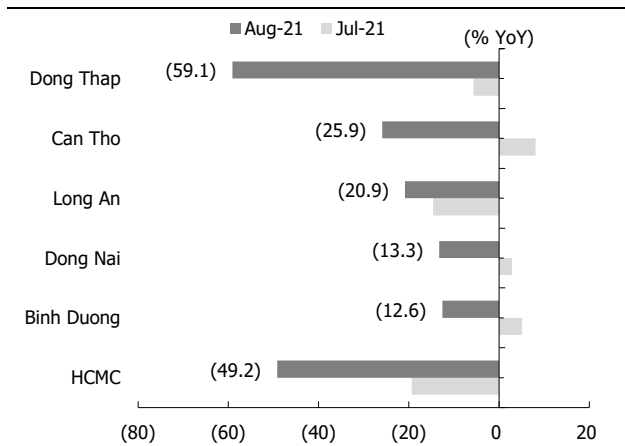
Figure 25. Electricity and water supply sub-sectors



Source: GSO, KIS

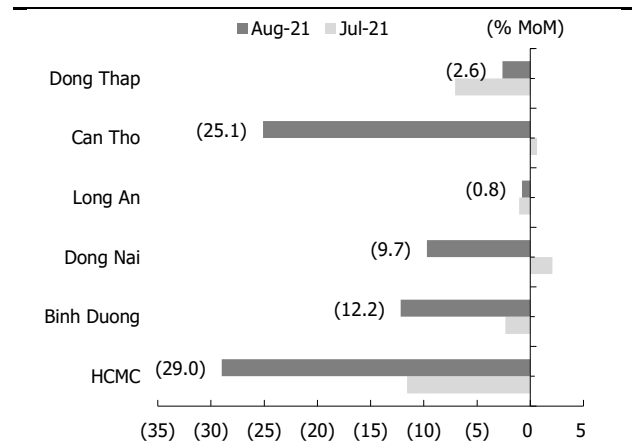
On the positive side, a new update from GSO also showed that the contraction in the industrial sector concentrated mostly on Southern provinces, not spreading nationwide like in the first lockdown. Data also pointed out that the ongoing “enhanced Directive 16” social-distancing measures implemented in those provinces affected severely the textile, apparel, leather, food & beverage industries. Besides, a few other provinces with a similar pandemic situation, including Khanh Hoa, Da Nang, Quang Nam, Ha Noi, also reported marked reductions in industrial output.

Figure 26. IIP from Southern key industrial provinces



Source: GSO, KIS

Figure 27. Industrial labor conditions



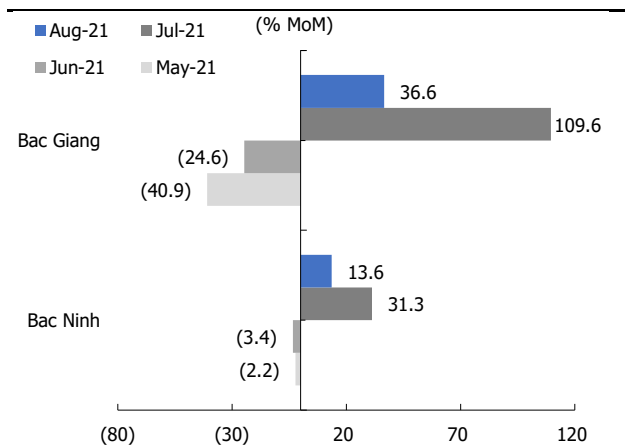
Source: GSO, KIS

Note: Employment index is reported as of the first day in a month

There is a similar case from Bac Giang and Bac Ninh a few months ago about a disruption in production activities under the strict-containment measures, then a fast recovery after controlling the outbreak. Just about one month after the pandemic was controlled in Bac Ninh and especially Bac Giang (Bac Giang had to lock down 4 largest industrial parks in 2 weeks from late May), production activities there were recovering fast in the first two months after the crisis.

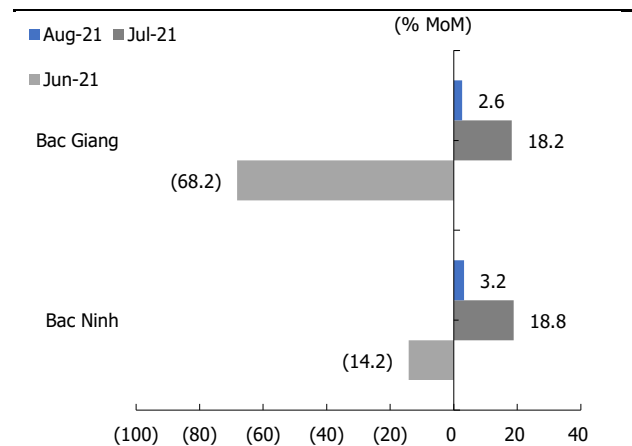
Although the pandemic situation is more complicated this time in the Southern part, a scenario of a similar "fast-recovery" pattern is still possible if the pandemic will be soon brought under control within September.

Figure 28. IIP from Bac Giang and Bac Ninh



Source: GSO, KIS

Figure 29. Industrial labor conditions



Source: GSO, KIS

Note: Employment index is reported as of the first day in a month

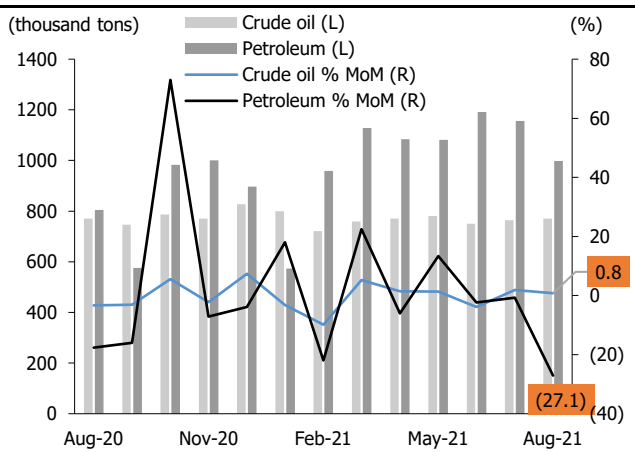
Further details about main industries and industrial products are as follows.

Oil & Gas industries:

Under the broad-scaled lockdown, plummeting demand for petroleum products pressured production activities. Dung Quat Oil Refinery, one of the largest oil refineries, said it has to reduce production capacity under a threat of temporary shutdown if petroleum demand remains subdued. As a result, petroleum output saw the biggest slump in nearly 2 years since November 2019, down by 27.1% MoM. Furthermore, natural gas production also fell to the second-lowest level on record this month after the four consecutive months of contractions, dropping by 11.9% MoM, while crude oil output remained around a low level, up slightly by 0.8% MoM.

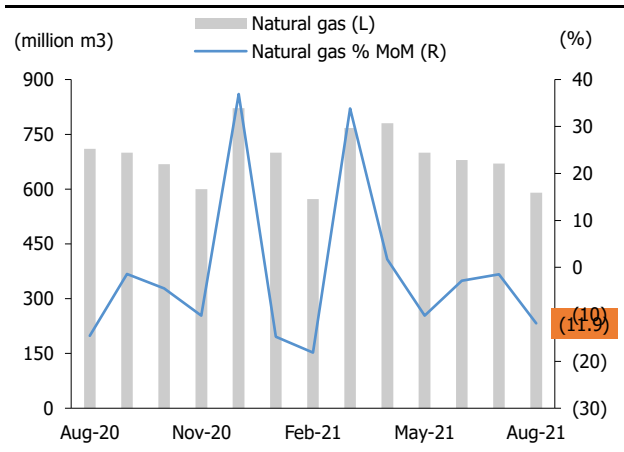
The near-term outlook of this sector would attach closely to the re-opening phase of the economy, as the negative demand shock would then be solved. As long as mobility restrictions remain to the highest extent, the petroleum supply continues falling into deeper contraction.

Figure 30. Production of crude oil and petroleum



Source: KIS, GSO

Figure 31. Production of natural gas



Source: KIS, GSO

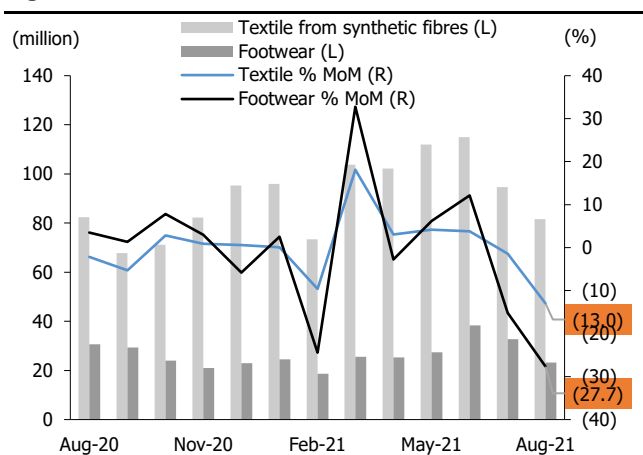
Textiles & apparels & footwear industries:

As expected before, textiles & apparels & footwear industries are among the ones taking the biggest hit from the pandemic under unprecedented “3 in 1 spot” conditions during the pandemic. Data pointed out that the contraction in those industries is even more severe than the first outbreak. Although we view this slump as just a temporary disruption under the pandemic situation, firms in those industries face imminent risks of canceling export orders from importing partners ahead of a 4Q holiday season. A failure in meeting export demand would put a heavy drag on the post-pandemic recovery path.

Going into details, both textiles & footwear industries experienced the largest reductions on record (excluding Tet’s months), by 13.0% MoM and 27.7% MoM, respectively. Meanwhile, apparel production also dropped by 8.0% MoM, which was just less than in the first lockdown.

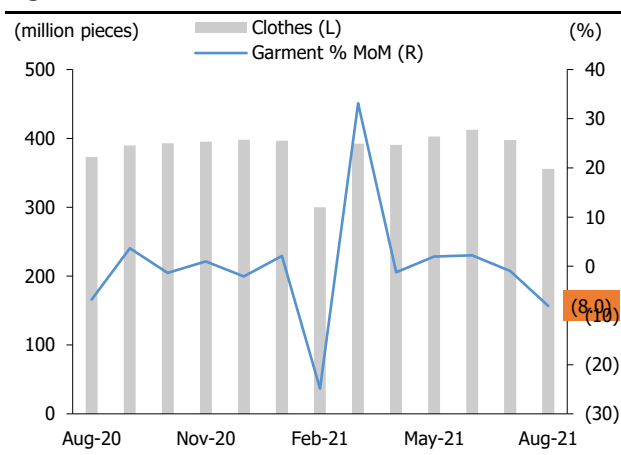
We believe that those industries would continue to face challenges in September as well as in the early stage of the re-opening phase as labor conditions would take more time to recover to a pre-crisis level. Besides, export demand would be put into question in September and 4Q21, as August data pointed out that export of textiles, apparel, and footwear even fell during this high export-demand period.

Figure 32. Production of textile and footwear



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

Figure 33. Production of clothes



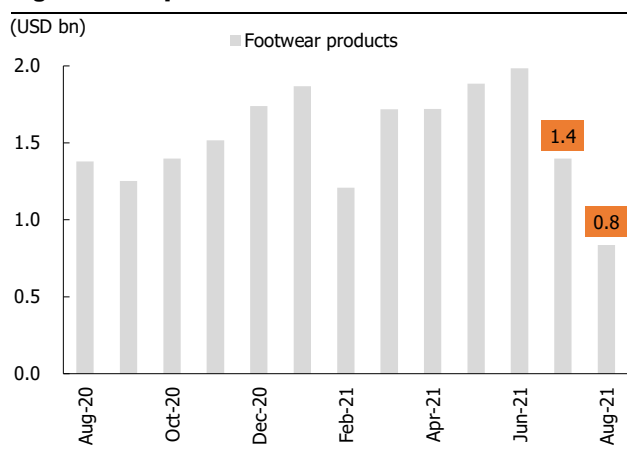
Source: GSO, KIS

Figure 34. Export of textiles & apparels



Source GSO, VN Customs, KIS

Figure 35. Export of footwear



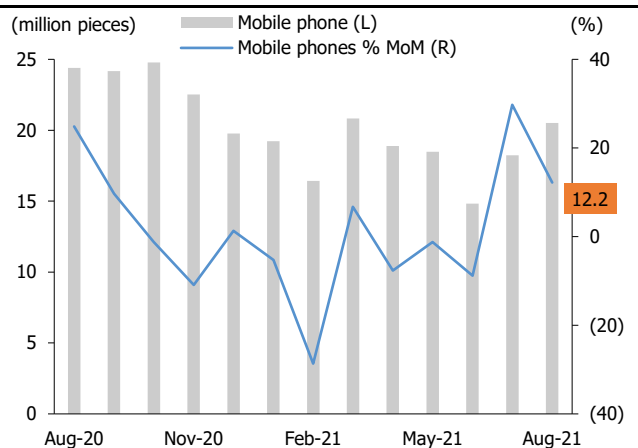
Source: GSO, VN Customs, KIS

Electronics industry:

After a slump in the May-June period due to the third COVID-19 wave in Bac Giang and Bac Ninh, electronics manufacturing was recovering fast in July and August at a two-digit pace. Production indexes for electronic components and mobile phones hit their highest levels in 2021, increasing by 12.2% MoM and 2.7% MoM, although still lower than the same period last year. This strong increase in production output was supported by solid export demand. Besides, the latest launch of Samsung's two flagship phones Z Fold 3 and Z Flip globally is also expected to boost electronics production in the coming months.

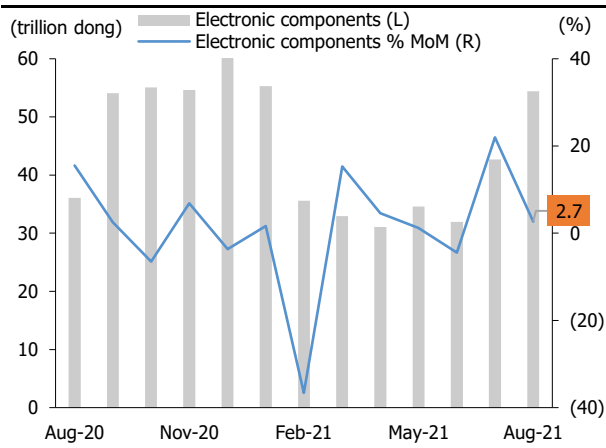
As high-tech manufacturing hubs for the electronic industry in the Northern region, including in Bac Ninh, Bac Giang, Thai Nguyen, Hai Phong, etc., remain normally operational, combined with increasing export demand for a coming holiday season in major markets, we believe this industry would perform well in coming months.

Figure 36. Production of mobile phones



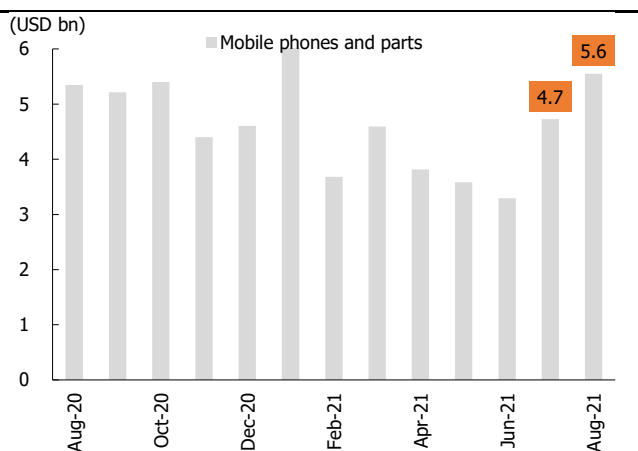
Source: GSO, KIS

Figure 37. Production of electronic components



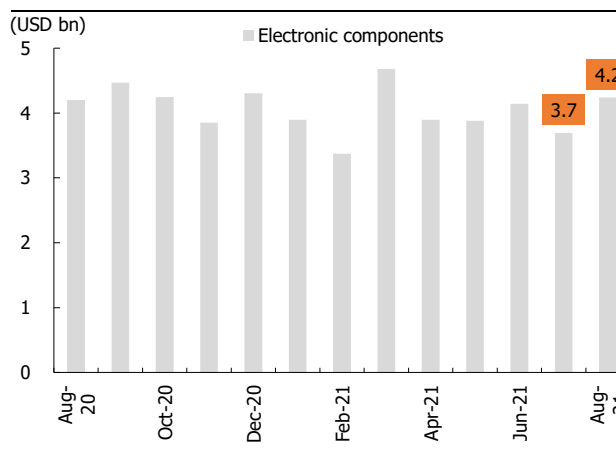
Source: GSO, KIS

Figure 38. Export of mobile phones and parts



Source GSO, VN Customs, KIS

Figure 39. Export of electronic components



Source: GSO, VN Customs, KIS

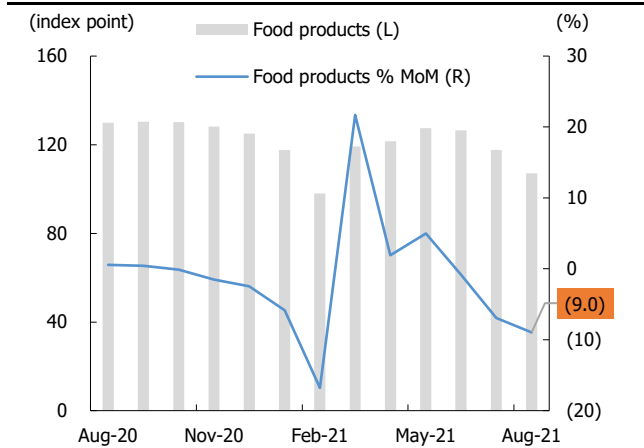
Food and beverage industries:

Featuring as labor-intensive in manufacturing activities, the food and beverage industries have been significantly impacted by the containment safety measures. Output levels in both F&B industries dropped sharply in July – August period, which were much worse than in the first lockdown. Food productions fell by nearly 9% MoM in the month, accumulating to about a 15% drop in July - August, while the figures for the beer industry were - 22.61% MoM in August and - 30.8% in two recent months.

Skyrocketing costs in maintaining production activities under the “three on the spot” requirement and broken domestic logistics conditions are puzzles that manufacturers have yet found effective solutions for the time. Furthermore, a

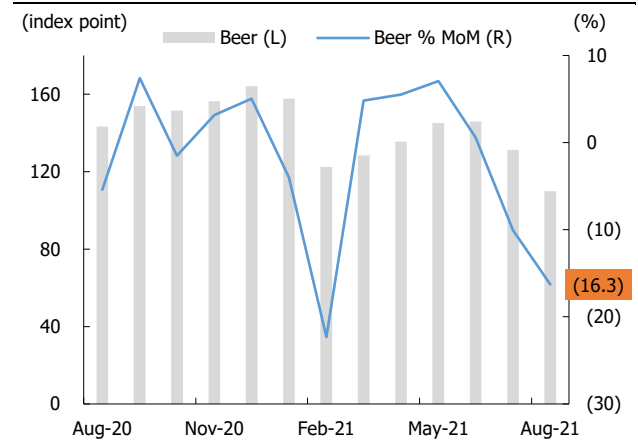
long-lasting shutdown in domestic catering services also put a burden on those industries in the recovery phase ahead.

Figure 40. Production of food products



Source: GSO, KIS

Figure 41. Production of beer



Source: GSO, KIS

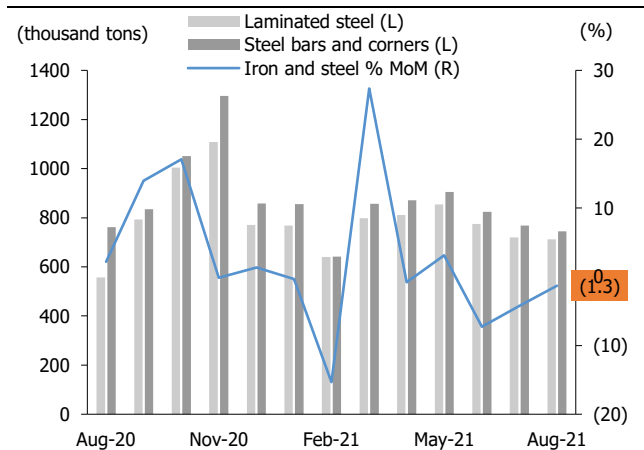
Construction materials industry:

As construction activities have been postponed in COVID-19-affected areas, production of construction materials has also slowed down in June – August period. Output levels for iron & steel and cement continued decreasing for three consecutive months since June, although the reductions were somewhat limited in August, by 1.3% MoM and 1.1% MoM.

A spotlight in iron & steel manufacturing is that export demand for iron & steel products has continuously recorded three fresh record highs in June – August period, growing from 2 to 3 times to the same period last year.

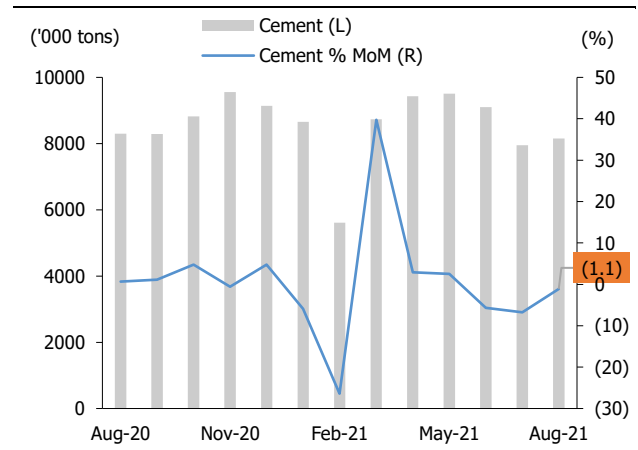
In our view, we expect that this industry would see a fast and strong recovery in the post-crisis period, supported by pending-up domestic demand and strong export demand.

Figure 42. Production of steel products



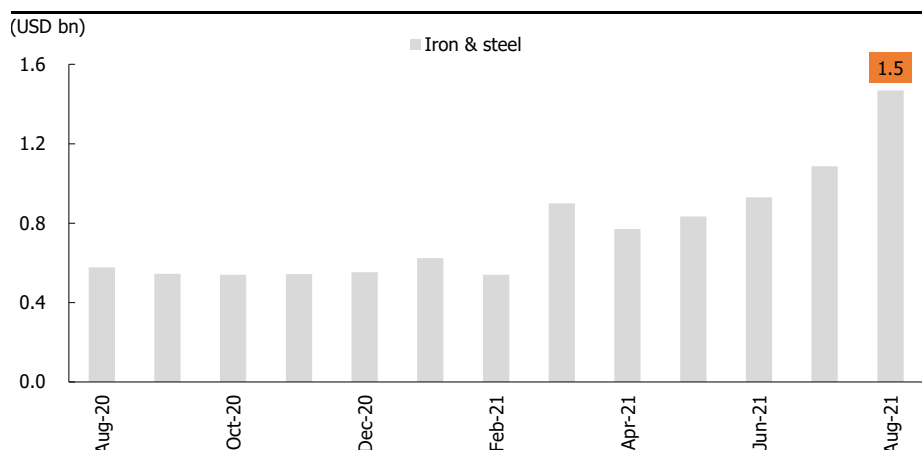
Source: GSO, KIS

Figure 43. Production of cement



Source: GSO, KIS

Figure 44. Export of iron & steel



GSO, VN Customs, KIS

PREDICTION:

The outlook for the industrial sector would closely link to the government efforts to controlling the pandemic in the remainder of 2021. Manufacturing firms need not only financial support but also accommodative policy support from the government in a fight against the pandemic, and a key factor is when to ease the restriction measures in production activities and to which extent, particularly the “three on the spot” requirement. Besides, September and 4Q21 production & export data need to be put under a careful test to see that whether a shifting in export orders to other manufacturing hubs continues to take place or not.

Looking forward to September, we expect the production conditions continue to be deteriorating, and the 3Q21 performance of the industrial sector would likely be the worst in many years.

V. FDI to face challenges in a long-term outlook

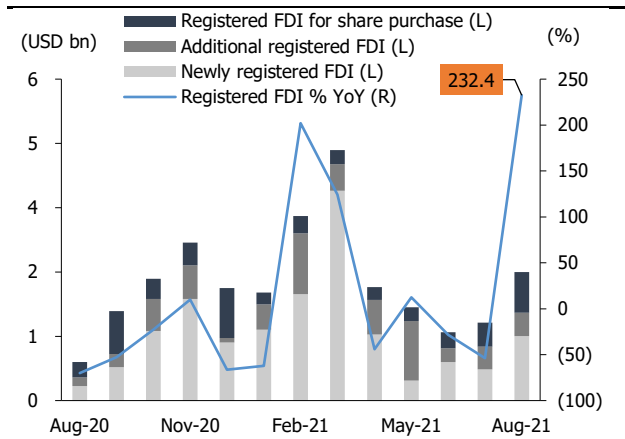
Impacts of COVID-19 outbreak dampens FDI disbursement to a several-year low

As nearly 40% of a total of 63 provinces are under strict social-distancing measures (as of mid-August), foreign investors continued to face great pressure on investment activity. Although there was a notable rebound in FDI registration in August from recent lows, the investment disbursement dipped into a low level in many years.

Going into details, new FDI registration rebounded to a 4-month high of USD1.20bn in August, up 341.1% YoY, which is a marked improvement after several months of being subdued. Additional capital registered for existing projects also saw a slight advance compared to recent months, posting USD0.44bn and increasing 174.4% YoY. Most noticeably, the amount for foreign share purchase activity to the highest level in 2021, at about USD0.76bn and 161.9% higher than the same period last year. As a result, total registered FDI accumulated to USD2.40bn in the month, a 5-month high since March and up 232.4% YoY.

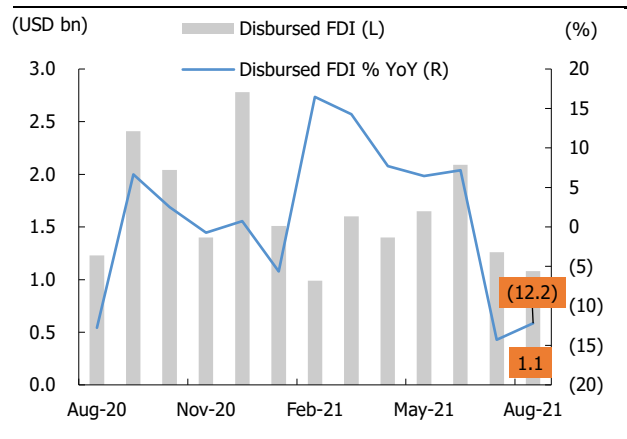
On the contrary, FDI disbursement remained depressed for the second month under lockdown in FDI-leading provinces, including HCM City, Binh Duong, Dong Nai, and Long An. The disbursement amount dropped to the lowest level since January 2017 (excluding Tet's months in a 2017-2021 period), reaching only USD1.08bn and declining 12.2% YoY.

Figure 45. Registered FDI



Source: MPI, KIS

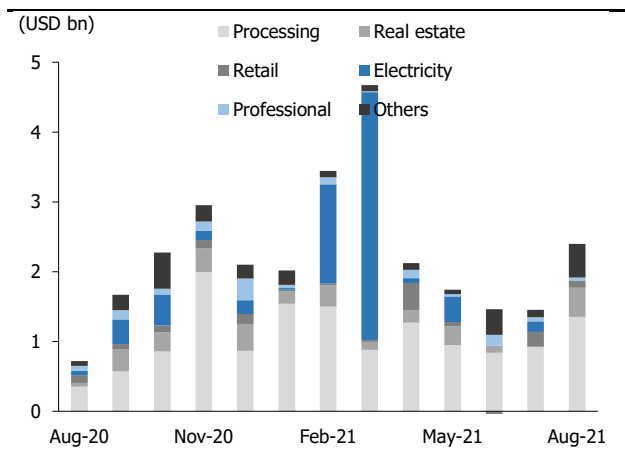
Figure 46. Disbursed FDI



Source: MPI, KIS

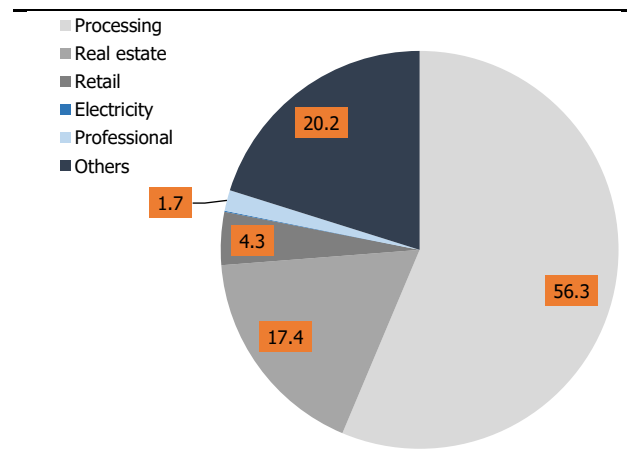
Thanks to a USD0.61bn paper manufacturing project Kraft Vina, newly registered capital in the processing sector hit a 6-month high of USD1.35bn, accounting for 56.3% of total registered FDI. Investment registration into the real estate sector also picked up in the month with USD0.42bn, the highest level since July last year, about 17.4% of total FDI. The retailing sector also posted about USD0.1bn registered capital in August (4.3%), although this sector has been severely impacted during the outbreak. Besides, it is noticing that about USD0.32bn investment was registered in the transportation sector via share purchase activity. FDI inflows into other sectors remained insignificant in the month.

Figure 47. Registered FDI by sector



Source: MPI, KIS

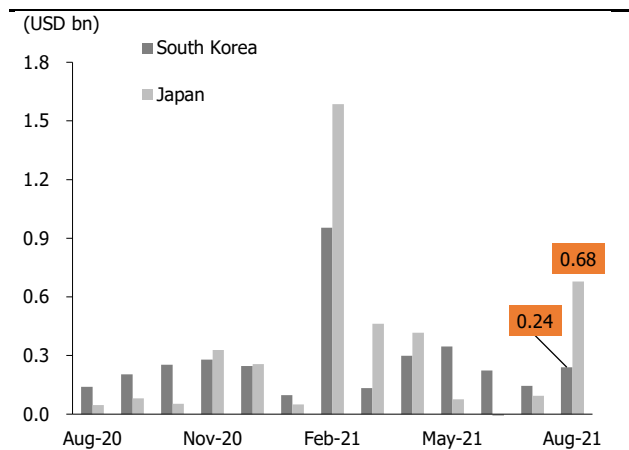
Figure 48. Structure of registered FDI



Source: MPI, KIS

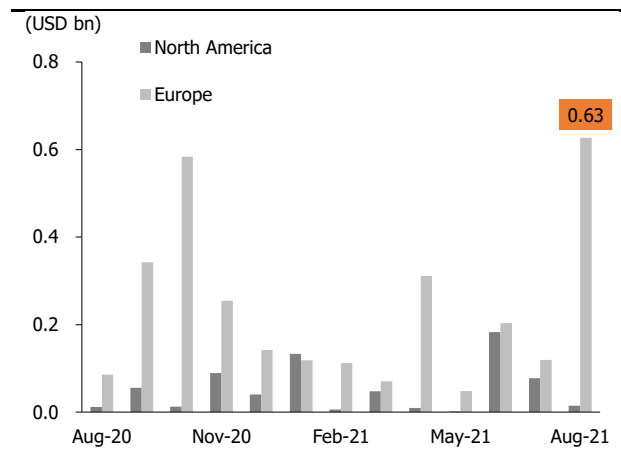
There is a structural change in FDI inflows in August with Japan and European investors becoming the top 2 largest partners in the month. Japan, with a USD0.61bn “Kraft Vina” paper manufacturing project, was the largest investor, posting USD0.68bn in registered capital and accounting for 38.9% of the total. Furthermore, investors from Netherlands and Cayman Islands (classified as European partners) invested about USD0.29bn and USD0.22bn via share purchase activity. In total, European investors made up about 36.0% of the total with USD0.63bn registered capital.

Figure 49. FDI inflows from South Korea and Japan



Source: MPI, KIS

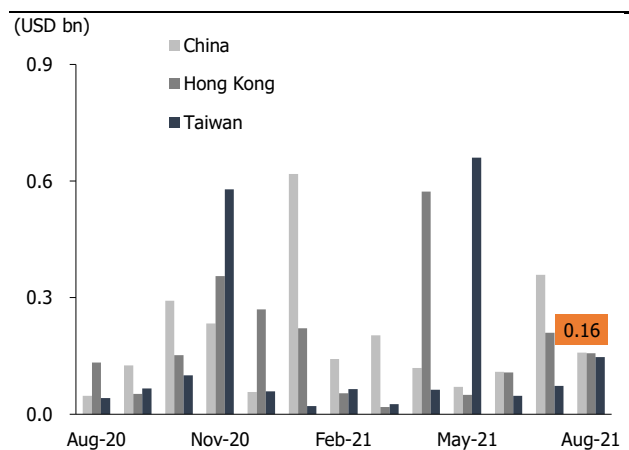
Figure 50. FDI inflows from EU and North America



Source: MPI, KIS

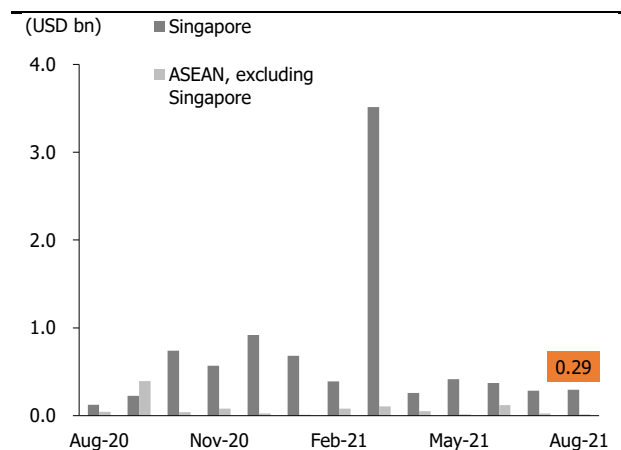
Investment from both China and Hong Kong was slowing down in the month, approximately USD0.16bn registered capital from each one, followed by Taiwan investors with USD0.15bn. Regarding ASEAN partners, investment inflows from Singapore were slowing down in recent months in contrast to its peak during 4Q20 and 1Q21. It just posted about USD0.29bn registered capital in August (16.9% of total), while other ASEAN partners were nearly inactive.

Figure 51. FDI inflows from Greater China region



Source: MPI, KIS

Figure 52. FDI inflows from ASEAN partners



Source: MPI, KIS

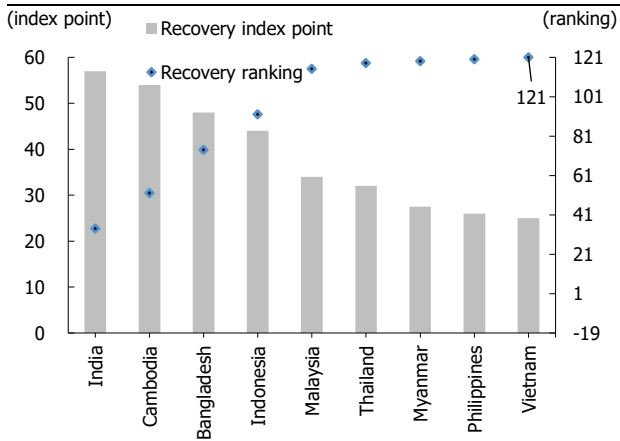
PREDICTION:

From our view, the ongoing pandemic has posed a more serious threat to the FDI outlook than initial FDI data can portray. To be more specific, FDI companies in the processing sector are facing tremendous pressure in production activities under the “three on one spot” restriction. Recently, Toyota carmaker, Adidas & Nike sportswear giants, etc., are the latest names that have voiced out the COVID-19 situation in Vietnam could potentially disrupt their global supply chain.

Back in the early days of COVID-19 origins in China, under potential disruption in production in China, a shift in the global supply chain from China had actually been taking place, and Vietnam was then among beneficiaries. Once Vietnam’s position as a global manufacturing powerhouse is vulnerable under foreign investors’ eyes, it could do prolonged damage to Vietnam’s FDI outlook in the long term.

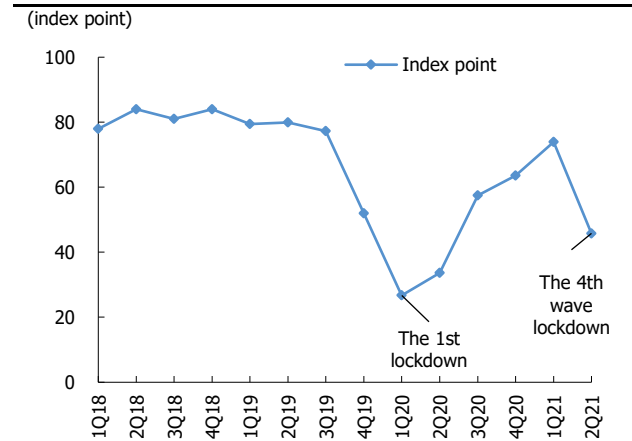
Two graphs below are qualitative measures of assessing Vietnam’s capability in controlling the pandemic and Vietnam’s business conditions assessment by key European business leaders in Vietnam. The first one showed that Vietnam remained at the bottom in Nikkei’s list of 121 countries in dealing with the pandemic as of August 2021, worse than any manufacturing hubs in the region, including India, Bangladesh, Indonesia, and Thailand, etc. Meanwhile, business conditions in Vietnam are also severely deteriorating under a survey from European business leaders in Vietnam, although it just partly reflected the severity of the situation in an early phase of strict lockdown (as of 2Q21).

Figure 53. Nikkei COVID-19 Recovery Index



Source: Nikkei, KIS
Note: Data as of 31st August, 2021

Figure 54. Eurocham Business Climate Index



Source: Eurocham Vietnam, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-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	4.67	2.12	1.74	1.28	1.45	2.40	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	29.65	26.55	26.19	27.20	27.87	26.20	79.74	80.15	77.34	79.23	215.1	243.5	263.6	282.7
Import	28.46	27.78	28.27	27.66	29.11	27.50	69.02	76.86	75.32	83.50	213.2	236.7	254.4	263.0
Export growth	22.89	51.00	36.52	20.56	12.03	(5.42)	10.61	15.14	21.76	33.50	21.82	13.19	8.16	7.02
Import growth	28.48	49.95	55.52	33.54	31.75	21.06	3.74	16.43	26.17	45.68	21.85	11.01	7.41	3.81
Inflation	1.16	1.16	2.90	2.41	2.64	2.82	3.81	3.24	0.30	1.23	3.53	3.54	2.79	3.24
USD/VND	23,076	23,053	23,048	23,020	22,947	22,784	23,184	23,126	23,076	23,020	22,698	23,175	23,173	23,126
Credit growth	2.95	4.17	4.95	6.44	6.70	7.36	6.10	10.14	4.95	6.70	18.24	13.89	13.70	10.14
10Y gov't bond	2.40	2.36	2.27	2.04	2.06	2.07	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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