

April 15, 2020

Macro Analyst – Thai Thi Viet Trinh
trinhhtt@kbsec.com.vn

April Inflation

Government clamping down further

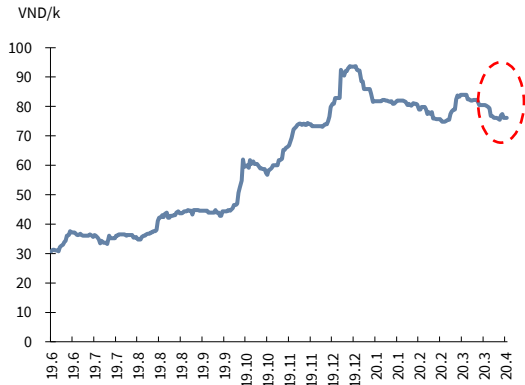
Government taking more action on price controls to tame inflation

- April pork prices saw a downward trend after government action but cuts still modest until sufficient supplies are built up. The Prime Minister asked fifteen major pork suppliers to lower the price of live hogs by VND70,000/kg from April 1st by increasing herd sizes or re-herding. The government also stepped up efforts to increase pork imports to raise supply in the local market. Average prices for April only fell marginally by 1.5% MoM due to a temporary shortage in pork supply, thereby having a minimal impact on April headline CPI.
- The government was more successful in capping the rise in rice prices, with domestic rice prices only up marginally despite the spike up in global rice prices to the highest in seven years. In order to ensure food security, the government suspended rice exports from March 28th and may limit April exports to 400 thousand tons or 40% lower than seen in the previous year.
- Domestic petrol prices fell by VND5,000 per liter or a whopping 26% MoM during April's CPI calculation period (March 21–April 20), which should allow an 18% drop in the overall transportation group in the CPI basket.
- Lower electricity prices will have to wait until the May CPI calculation period given the lag before March's declaration of Resolution No. 41 can be reflected in a 10% drop in electricity bills.

April CPI continues downward trend and should moderate further in the coming months

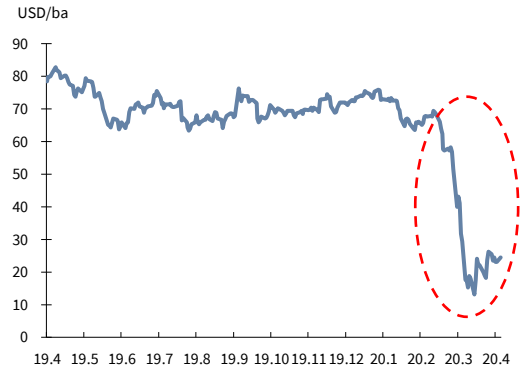
- We expect April CPI to fall by 1.81% MoM and rise only by 2.66% YoY, with inflation averaging 4.84% for the first four months of the year.
- Weaker demand – and further helped by the high base effect seen in 2H19 – should continue to moderate inflationary pressure in the coming months and we believe headline CPI should fall below the State Bank of Vietnam's 2020 target. This should allow the State Bank of Vietnam to gradually loosen monetary policy by: 1) injecting additional liquidity into the long-term channels (greater than three months) via OMO; 2) further lowering operating interest rates; 3) dropping deposit rates; 4) hiking rates on reserves; and 5) reduce the loan-to-deposit ratios at banks.
- The State Bank of Vietnam is likely to maintain money supply (M2) growth and credit growth within its growth band of 10–14% YoY (equivalent to about VND1,000 trillion) throughout the year to avoid any unwanted consequences, such as bad debt or asset price bubbles in the real estate market as seen between 2009–2011. This level of growth is very much inline with policy seen in the past two years and reflects the desire of the central bank to strike a good balance between stimulating growth and maintaining economic stability.

Fig 1. Vietnam – Live hog prices, Jun 19–Apr 20 (VND/kg)



Source: KB Securities Vietnam

Fig 2. Vietnam – RON95 gasoline import prices, Apr 19–Apr 20 (USD per liter)



Source: Bloomberg, Ministry of Industry & Trade, KB Securities Vietnam

Table 3. Vietnam – Estimated April CPI breakdown (%MoM, %YoY)

Group		Monthly change (%)	Weight-adjusted monthly change (%)
1	Food & catering services	-0.20	-0.07
2	Beverages & tobacco	-0.10	0.00
3	Textiles & footwear	-0.10	-0.01
4	Housing & construction materials	0.00	0.00
5	Appliances & equipment	0.10	0.01
6	Medicine & health services	0.10	0.01
7	Transport	-18.00	-1.69
8	Telecoms	-0.05	0.00
9	Education	0.04	0.00
10	Culture, entertainment & tourism	-1.40	-0.06
11	Others	0.15	0.00
		March CPI (MoM)	-1.81
		March CPI (YoY)	2.66
		Average rolling 3-month CPI (YoY)	4.84

Source: KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Le Thanh Cong

congl@kbsec.com.vn

Financials Analyst – Nguyen Thi Thu Huyen

huyennt@kbsec.com.vn

Equity (Ho Chi Minh)

Head of Equity Research (Ho Chi Minh) – Harrison Kim

harrison.kim@kbf.com

Consumer & Retailing Analyst – Dao Phuc Phuong Dung

dungdpp@kbsec.com.vn

Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh

danhnt@kbsec.com.vn

Oil & Gas & Chemicals Analyst – Nguyen Vinh

vinhn@kbsec.com.vn

Research Marketing

Korea Marketing Analyst – Seon Yeong Shin

shin.sy@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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