

Inflation

Low inflation in 2021, inflationary pressure in 2022

November inflation inched up

- According to the General Statistics Office, the CPI in November inched up 0.32% MoM and 2% compared to December 2020. The 11-month average CPI was 1.84% YoY, the lowest since 2016, and much lower than the target set by the Government at 4%.
- The key factors behind November CPI include: (1) November gasoline and diesel prices went up 8.12% MoM and 7.3% MoM respectively, thereby leading to an increase in the price of transportation by 3.11% MoM or 20.71% YoY (the highest level of the year); (2) Construction input costs climbed, and the prices of electricity and domestic water rebounded 1.94% MoM; (3) Pork prices decreased 5.62% MoM as livestock producers boosted sales to avoid losses against the backdrop of surging feed costs, making food prices down 0.4% MoM.

December inflation is forecast to be up 0.8% MoM, thereby lowering the average inflation forecast for 2021 to 2% (from 3% in the previous report)

- The aggregate demand recovered slowly with total retail sales in the first 11 months down 14.1% YoY, partly due to Vietnamese people's habit of spending less to overcome difficulties fueled by the pandemic (Figure 1).
- M2 money supply and velocity of money slowed down. To be more specific, M2 was up 6.3% YTD in 9M21 vs. 8.6% YTD of 9M20 (Figure 2).
- The prices of essential commodities such as food, foodstuff, gasoline, housing and construction materials did not increase as sharply as in 2020. Hog prices even plunged and remained low (Figure 3).

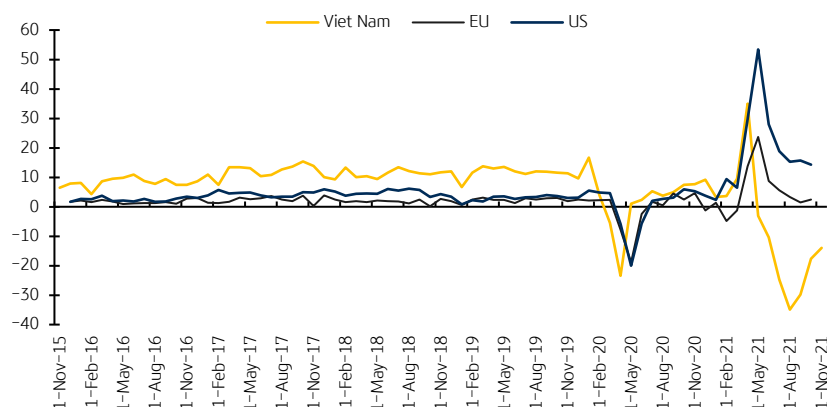
Inflationary pressure exists in 2022 with CPI forecast at 3.8% in the base scenario

- Although Vietnam's stimulus packages in 2021 were not big enough to trigger a boom in demand and inflation to rise as in the US, Europe and China (Figure 4), inflationary pressure is present in 2022, since packages cover all economic sectors including unemployment insurance fund, exemption or reduction of telecommunications, electricity, water charges, tuition fees. According to the Ministry of Planning and Investment, the support packages in 2021 reached USD10.45 billion, equivalent to 2.84% of GDP. In addition, the post-pandemic economic recovery and development package worth VND800 trillion or USD35 billion if approved early next year will impose great inflationary pressure and likely push 2022 CPI beyond the target of 4% (We will update further when we have more official news about stimulus packages).

- The risk of imported inflation is likely as Vietnam's production much depend on imported input materials, in the face of rising inflation in major trading partners namely the USA, EU, Korea.
- Vietnam has reopened the economy since September 2021, but the number of labor force returning to work stayed low (Figure 5). A survey on October 12, 2021 by the General Statistics Office indicated that 17.8% out of 22,764 enterprises encountered labor shortages, especially in the Southeast region with the highest proportion at 30.6%, notably Binh Duong (36.9%), Binh Phuoc (34.4%) and HCMC (31.8%). This may prompt businesses to raise wages and benefits for employees, causing inflation to soar.
- Commodity price movements, including pork and gasoline prices, are inclined to increase at a slower pace amid global economic recovery. We forecast that liveweight hog prices may increase to VND65,000–70,000/kg during the Lunar New Year and 1Q22 owing to slow re-herding, but less likely to reach 2020 peaks as a result of the Government's priority to enhance domestic supply. Besides, we expect that Governments of major countries such as the US, China, India, Japan and the UK will release oil from reserves to stabilize global fuel prices to slow down the strong uptrend of transportation.

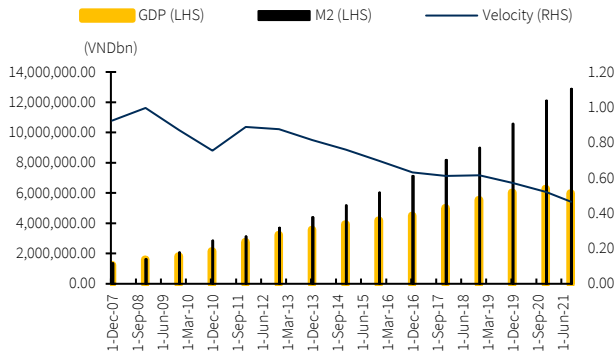
November total retail sales were down 14% YoY compared to 2020 low

Fig 1. US, EU, Vietnam – Sales of retail, food & catering and other services (%YoY)



Source: Bloomberg, KB Securities Vietnam

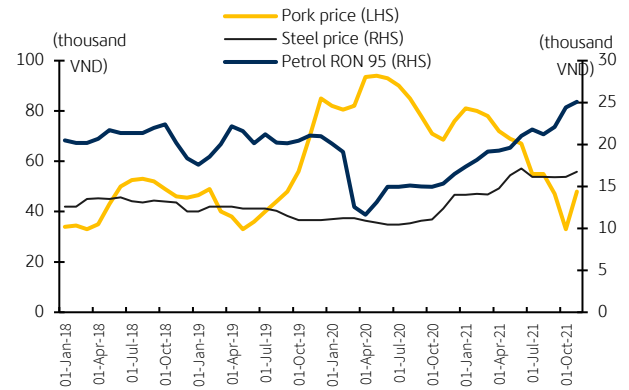
Fig 2. Vietnam - GDP, M2, Velocity of money (VNDbn)



Source: Fiiipro, KB Securities Vietnam

(*) Velocity of money = GDP/Money supply (M1 or M2). It is a measurement of the number of times that money moves from one entity to another in an economy in a given period of time. It decreases when GDP growth fails to keep pace with that of money supply, thereby reducing inflationary pressure of the economy.

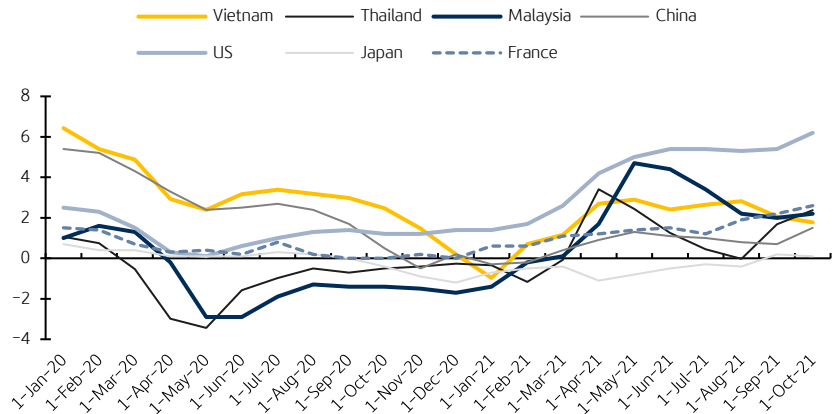
Fig 3. Vietnam - Commodity prices (thousand VND/kg)



Source: Animal Husbandry Association, Hoa Phat Group, PV Oil, KB Securities Vietnam

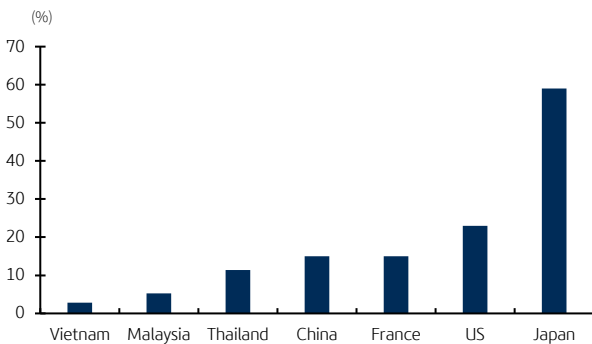
Fig 4. World - CPI (%YoY)

October CPI of the US rose 6.2% YoY, the historic peak since 1990



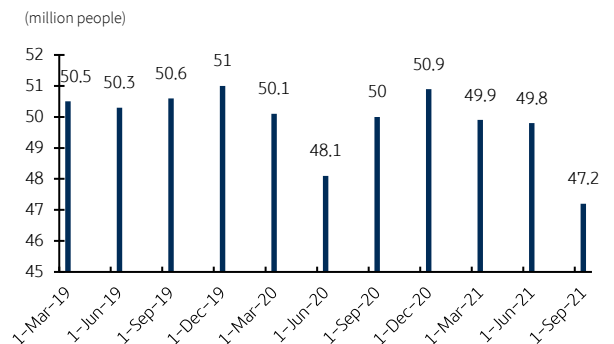
Source: Bloomberg, KB Securities Vietnam

Fig 5. World - Stimulus packages (%GDP)



Source: Ministry of Planning and Investment, Bloomberg, KB Securities Vietnam

Fig 6. Vietnam - Number of employees (million people)



Source: General Statistics Office, KB Securities Vietnam

Table 1. Vietnam – 2022 CPI (%)

No.	Groups	Weight (%)	+/- (% YoY)	Contribution to overall CPI (%)
1	Food and foodstuff			
	Grains	3.67	8	0.3
	Foodstuff	21.28	4	0.9
	Outdoor eating	8.61	3.5	0.3
2	Beverages and tobacco	2.73	1.5	0.0
3	Clothing and footwear	5.7	1.1	0.1
4	Housing, water, electricity, gas and other fuels	18.82	3.1	0.6
5	Furniture, household equipment and maintenance	6.74	1.5	0.1
6	Health	5.39	3.5	0.2
7	Transportation	9.67	9	0.9
8	Communication	3.14	-0.2	(0.0)
9	Education	6.17	5	0.3
10	Entertainment	4.55	2	0.1
11	Miscellaneous goods and services	3.53	2.5	0.1
	Total			3.8

Source: KB Securities Vietnam

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Investment Ratings for Stocks

(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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