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Petrol prices & January CPI

Government managing down inflation concerns

Government lowers pump prices into Tet holidays & taps the stabilization fund

- The Ministry of Industry and Trade released the latest 15-day adjustments for retail fuel prices on January 15, with cuts across the board (except Mazut fuel oil) ahead of the Tet holidays. Price adjustments for pump prices include: gasoline down VND36 per liter (-0.2%) for E5RON92 biofuel and down VND77 per liter (-0.4%) for RON95-III premium unleaded, diesel down VND43 (-0.3%) and kerosene down VND50 (-0.3%), while Mazut 180CST 3.5S fuel oil increased by VND789 per kilogram (+3.9%).
- In order to facilitate this cut in pump prices, the Ministry tapped the Petroleum Price Stabilization Fund by raising the subsidy provision for E5RON92 biofuel to VND150 per liter from VND100 per liter, diesel to VND100 per liter from zero and kerosene to VND100 per liter from zero to offset input costs. During this period, the basic price (or input cost price) from Singapore for E5RON92 rose by 0.2% while RON95 prices dropped by 0.9%.

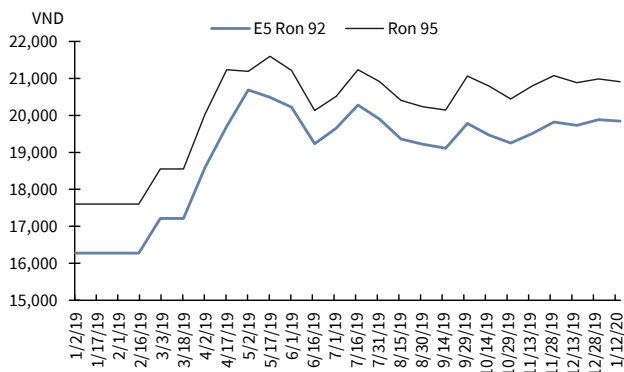
We believe the goal of this move is to curb inflation before Tet to ease market concerns about rising prices

- The Ministry of Industry and Trade usually decreases oil and gas prices ahead of Tet to prevent soaring inflation via the Petrol Price Stabilization Fund.
- Moreover, we expect oil and gas prices are likely to stabilize in the short term due to: 1) stabilization in crude oil prices with easing US-Iran tensions; and 2) ample resources in the Petrol Price Stabilization Fund at VND2,500 billion.

We estimate January CPI at 0.7–0.8% MoM but a surge of 5.5%–6.0% YoY

- Pork prices have already shown signs of stabilizing, with the rise in hog live weight prices slowing to 14% MoM given more imported supply. This should ease the pressure on the consumer basket and we expect the January CPI for food and catering services to pick up 1.5% vs December 2019, with overall CPI for the month likely to come in at 0.7%–0.8% MoM. The base effect should heavily impact January's YoY numbers – with CPI likely to surge by 5.5%–6.0% YoY – as monthly YoY inflation data remain at elevated levels until 2H20
- Overall, we expect 2020 inflation of 3.7% (and below the government's 4% threshold) with the continual stabilization of pork prices as imports ease supply constraints (vs the 75% rise in pork prices seen in 2019). Moreover, we believe the government has additional tools to fight inflation by delaying the scheduled hike in administrative services should prices continue to rise.

Fig 1. E5Ron92 & Ron95 prices



Source: Ministry of Industry & Trade, KB Securities Vietnam

Fig 2. Forecast January CPI

	Groups	Weight in January CPI (%)
1	Food & catering services	0.54
2	Beverages & tobacco	0.07
3	Clothing & footwear	0.03
4	Housing, electricity - water & fuels	0.11
5	Furniture & Households	0.01
6	Health	0.00
7	Transport	0.04
8	Communication	0.00
9	Education	0.00
10	Entertainment	0.02
11	Others	0.01
	Total	0.83

Source: KB Securities Vietnam

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

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

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