

November 11, 2022

Head of Macro & Strategy Tran Duc Anh
anhtd@kbsec.com.vn
Analyst Le Hanh Quyen
quyenlh@kbsec.com

US inflation

Slow more than expected

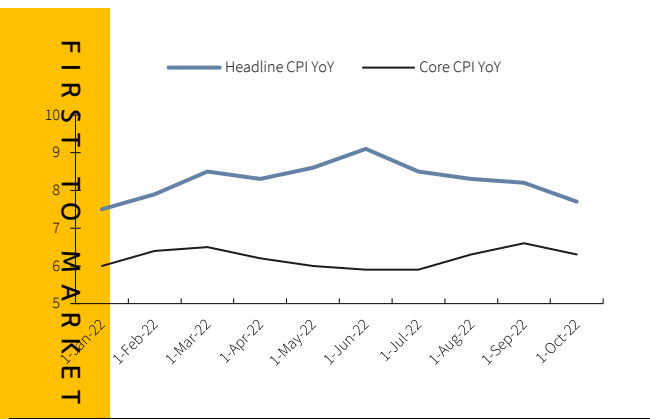
US CPI gained by 0.4% MoM in October and picked up 7.7% YoY in 10M22

- US inflation cooled down more than expected. In particular, CPI inched up 0.4% MoM last month and picked up 7.7% YoY in 10M22. Notably, core CPI (excluding volatile food and energy costs) only increased by 0.3% MoM, below the consensus forecast of 0.5% MoM and the actual increase of 0.6% MoM in September (Figures 1 & 2).
- Key factors affecting CPI in October (Table 1)
 - (i) Factors contributing to the gain of CPI: (1) Food prices went up 0.6% MoM (vs. 0.8% MoM in September, 0.8% MoM in August); (2) Energy prices shot up 1.8% MoM as gasoline and fuel oil prices grew 4% and 19.8% MoM respectively; (3) Rent continued its uptrend since the beginning of the year, up 0.8% MoM (Figure 3) due to skyrocketing Fed funds rate after four consecutive increases.
 - (ii) Factors helping to bring down the inflation figures: (1) Used vehicle prices dropped 2.4% MoM; (2) Apparel prices fell 0.7% MoM; (3) Medical care services contracted 0.6% MoM.

The FED is expected slow down on rate hikes in 2023

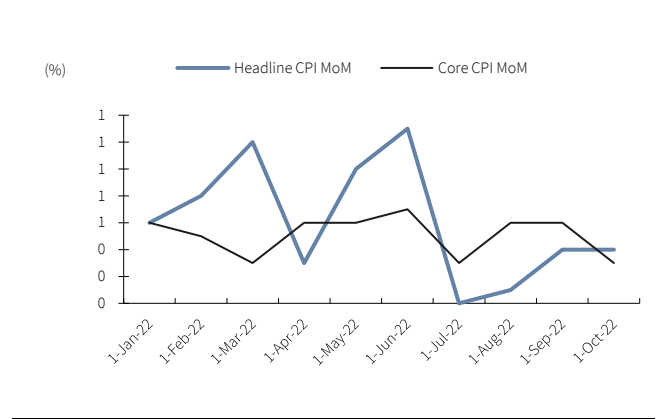
- In the base case scenario, we assume that CPI keeps growing at 0.3% MoM in the coming months until mid-2023, and core CPI should touch 4.7% YoY in May 2023. It is a relatively conservative scenario when US core CPI decreased sharply last month after peaking in July (up 0.7% MoM). We maintain this cautious view due to unpredictable factors related to the supply chain in light of China's longstanding zero-Covid policy, the ongoing Russia-Ukraine war, ...
- Correspondingly, we believe the FED will slow the pace of its interest rate hikes with an expected 50 basis point increase this December and two more hikes of 25 basis points at its January and March meeting next year. The Fed funds rate may hit a range of 4.75%-5% by the end of March 2023 (higher than expected the core CPI of 4.7% YoY in May 2023), and the US central bank would hold interest rates there until the end of the year to further assess how inflation goes and US's economic health before taking the next move. It is consistent with the Fed's intention to stabilize inflation slowly. In our view, the FED will likely lower interest rates at the end of 2023 when the US economy shows clear signs of weakening in a well-controlled inflation environment.

Fig 1. US - CPI (%YoY)



Source: Bloomberg, KB Securities Vietnam

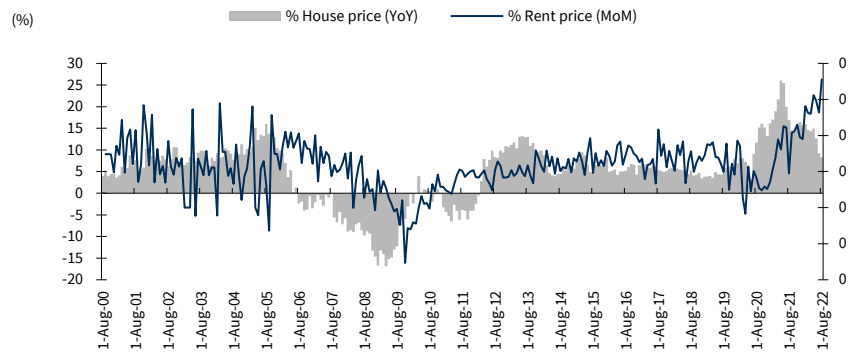
Fig 2. US - CPI (%MoM)



Source: Bloomberg, KB Securities Vietnam

Rent has maintained its upward trend since the beginning of the year.

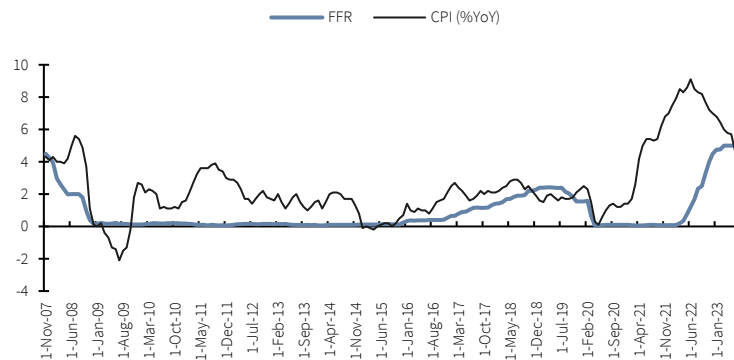
Fig 3. US - House and rent prices



Source: Bloomberg, KB Securities Vietnam

The Fed Funds Rate at the end of March 2023 should hit 4.75% - 5%, higher than the expected core CPI of 4.7% YoY in May 2023.

Fig 4. US - Fed Funds Rate & CPI (%YoY)



Source: KB Securities Vietnam

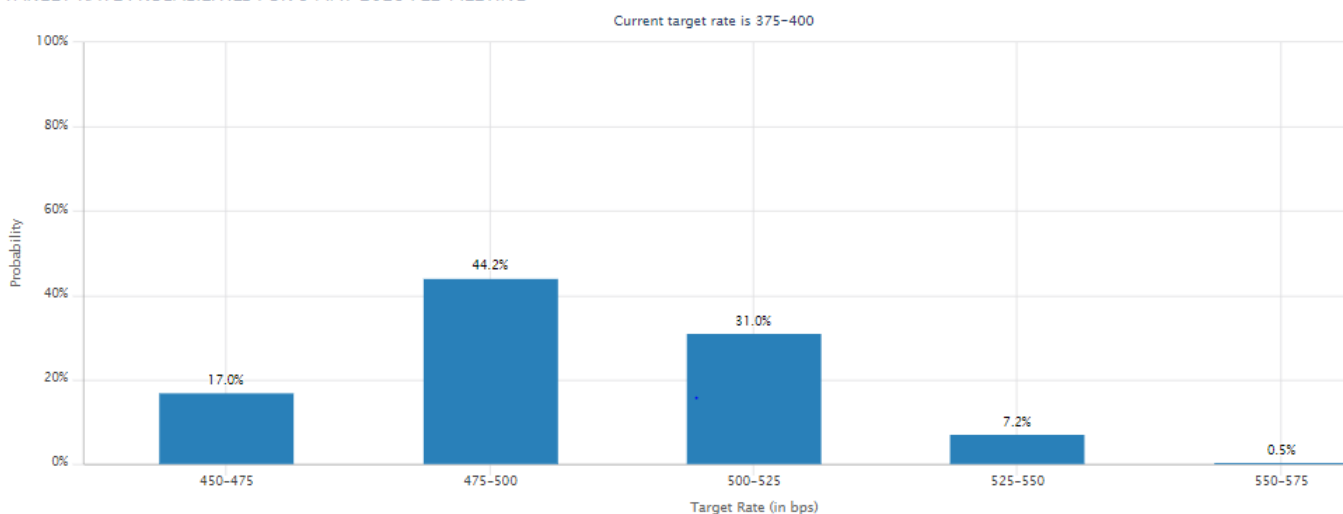
Table 1. US – CPI (%MoM)

	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	CPI 10M22 %YoY
Headline CPI	0.3	1.0	1.3	0.0	0.1	0.4	0.4	7.7
Food	0.9	1.2	1.0	1.1	0.8	0.8	0.6	10.9
Food at Home	1.0	1.4	1.0	1.3	0.7	0.7	0.4	12.4
Food Away from Home	0.6	0.7	0.9	0.7	0.9	0.9	0.9	8.6
Energy	-2.7	3.9	7.5	-4.6	-5	-2.1	1.8	17.6
Energy commodities	-5.4	4.5	10.4	-7.6	-10.1	-4.7	4.4	19.3
Gasoline (all types)	-6.1	4.1	11.2	-7.7	-10.6	-4.9	4	17.5
Fuel oil	2.7	16.9	-1.2	-11	-5.9	-2.7	19.8	68.5
Energy services	1.3	3	3.5	0.1	2.1	1.1	-1.2	15.6
Electricity	0.7	1.3	1.7	1.6	1.5	0.4	0.1	14.1
Utility (piped) gas service	3.1	8	8.2	-3.6	3.5	2.9	-4.6	20
Core CPI	0.6	0.6	0.7	0.3	0.6	0.6	0.3	6.3
Commodities	0.2	0.7	0.8	0.2	0.5	0.0	-0.4	5.1
New vehicles	1.1	1.0	0.7	0.6	0.8	0.7	0.4	8.4
Used cars and trucks	-0.4	1.8	1.6	-0.4	-0.1	-1.1	-2.4	2
Apparel	-0.8	0.7	0.8	-0.1	0.2	-0.3	-0.7	4.1
Services less energy services	0.7	0.6	0.7	0.4	0.6	0.8	0.5	6.7
Shelter	0.5	0.6	0.6	0.5	0.7	0.7	0.8	6.9
Transportation services	3.1	1.3	2.1	-0.5	0.5	1.9	0.8	15.2
Medical care services	0.5	0.4	0.7	0.4	0.8	1.0	-0.6	5.4

Source: Bloomberg, KB Securities Vietnam

Fig 5. US – Probability of Fed funds rate hikes

TARGET RATE PROBABILITIES FOR 3 MAY 2023 FED MEETING



Source: CMEC Group, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Research Division
research@kbsec.com.vn

Equity

Duong Duc Hieu – Head of Equity Research
hieudd@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Senior Analyst
tungna@kbsec.com.vn

Macroeconomics & Banks

Le Hanh Quyen – Analyst
quyenlh@kbsec.com.vn

Nguyen Duc Huy – Analyst
huynd1@kbsec.com.vn

Strategy, Chemicals

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Strategy, Fishery & Textiles

Tran Thi Phuong Anh – Analyst
anhhttp@kbsec.com.vn

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Utilities

Tieu Phan Thanh Quang – Analyst
quangtpt@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Retails & Consumers

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 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

Investment ratings & definitions

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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.