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February inflation

Government taking action to curb inflation

Recovery in pork supplies, weaker demand and request by the Ministry of Agriculture & Rural Development (MARD) to cut prices cause February liveweight hog prices to plunge

- We estimate that liveweight hog prices during the current CPI calculation (January 20–February 19) should fall by 5% MoM and average VND80,000 per kilogram.
- Three main reasons include: 1) less pork demand after Tet due to the coronavirus outbreak; 2) rebounding supplies for February (estimated at 330,000 tons in February and recovery of about 10,000–20,000 tons each month); and 3) request by MARD on February 13 to large corporates to cut liveweight hog prices to VND75,000/kilogram in an effort to cool inflation. Liveweight hog prices have fallen to VND79,000/kilogram since this request and continue to fall.

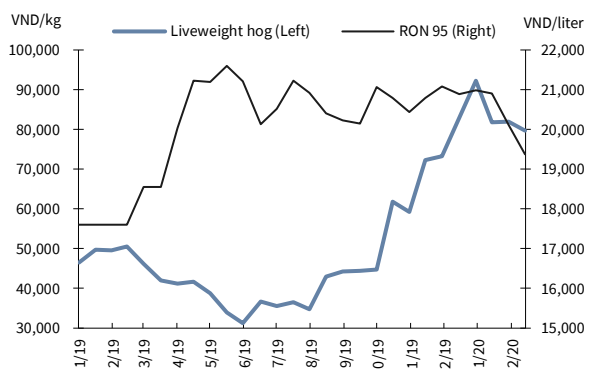
Pump prices fell sharply during the last two price adjustment periods (Jan 30 & Feb 14)

- RON E95 prices have been adjusted down by 6% MoM to VND 19,750/liter.
- Falling gasoline prices can largely be attributed to lower world crude prices since the coronavirus outbreak, with Brent and WTI oil prices down 13% and 14%, respectively, since January.

We estimate February CPI to drop to 0.46% MoM and 5.10% YoY and headline and core inflation to cool to 5.76% YoY and 2.96% YoY, respectively

- The impact from the coronavirus outbreak lowers our February CPI forecast to 5.76% YoY from 6.1% given our expectations for lower pricing for most items in the consumer basket, while we estimate average core inflation at 2.96% YoY.
- Despite the drop in average headline and core CPI, inflation remains above government full-year targets – and will likely remain so during 1Q – giving little room for the State Bank of Vietnam (SBV) to ease monetary conditions in the short term. This is the main reason we believe that the SBV may not move quickly on monetary easing to meet its economic growth target as seen by other central banks in the region.
- Average CPI figures should moderate into 2H – helped by the base effect from the spike in pork prices in 2H19 – and we maintain our average CPI estimate for 2020 at 3.70%.

Fig 1. Vietnam – Liveweight hog & RON E95 prices, Jan 19– Feb 20 (VND/kg, VND/liter)



Source: Ministry of Industry & Trade, KB Securities Vietnam

Table 1. KBSV – February CPI forecast (%)

Groups	Impact on CPI (%)
1 Food & catering services	-0.90
2 Beverages & tobacco	-0.10
3 Textiles	-0.15
4 Housing, water-electricity, fuels	0.00
5 Households & equipment	0.20
6 Health services & medicine	0.10
7 Transport	-1.50
8 Telecoms	-0.03
9 Education	0.00
10 Culture, entertainment & tourism	-0.10
11 Others	0.00
February CPI (MoM)	-0.46
February CPI (YoY)	5.10
February average CPI (YoY)	5.76

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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