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June 2019

### Key macro indicators

	2019	
	April	May
IIP in Manufacturing (% YoY)	9.30	10.00
PMI	52.50	52.00
CPI (%YoY)	2.70	2.74
Exports (USDbn)	19.90	21.50
Imports (USDbn)	20.60	22.80
Disbursed FDI (USDbn)	1.58	1.60
5-year government bond yield (%)	4.78	4.75
Interbank exchange rate (VND)	23,280	23,415

Source: GSO, KBSV

### 2019 forecast indicators

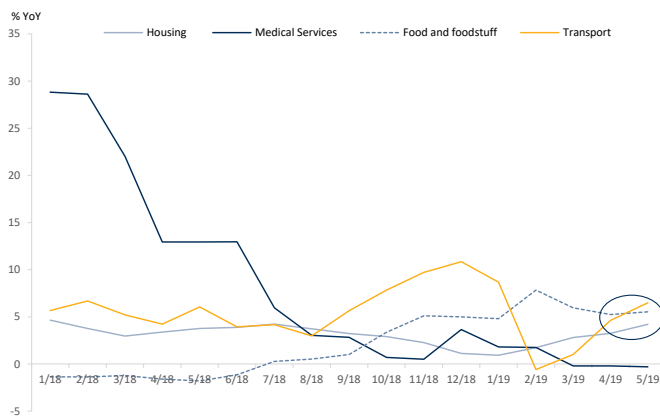
	2018	2019F
GDP growth (%YoY)	7.08	6.6 - 6.8
Average CPI (%YoY)	3.54	3.8 - 4.0
Credit growth (%YoY)	13.30	14.00
M2 growth (%YoY)	11.34	13.00
10-year government bond yield (%)	5.10	5.00
Export growth (%YoY)	13.80	10 - 12
Import growth (%YoY)	11.50	11 - 12
Interbank interest rate (VND)	23,240	23,600

Source: KBSV

## MACRO ECONOMIC OVERVIEW - MAY 2019

**CPI in May gained 0.49% MoM and the average CPI in the first five months climbed 2.74% YoY** – the lowest 5-month average CPI in the last three years. In May, inflation is the most concerned factor in addition to exchange rates, whereas oil and gas prices went up and prolonged hot weather raised the demand of electricity consumption. Figure 1 shows CPI movements by main sectors. Transportation and housing – construction materials (rising 6.49% and 4.20% YoY respectively) are the two sectors that had a large contribution to CPI in May (0.25% and 0.20% MoM). Food and food stuff witnessed insignificant gains (+0.05% MoM, 5.54% YoY) as prices of substitute goods like beef, poultry meat, and seafood surged under the impact of the African swine fever. Core inflation in May inched up 0.13% MoM and 1.9% YoY – in five consecutive months, and approached the target set by the Government (2% YoY) – this means that the remaining room for the State Bank of Vietnam (SBV) to loosen monetary policy is not much.

Figure 1: CPI movements by main sectors



Source: GSO, KBSV

**The trade deficit is estimated to reach USD1.4 billion in May**, domestic economic sectors' trade deficit is USD3.49 billion, FDI (including crude oil) has a trade surplus of USD2.19 billion. According to our assessment, the trade balance tilting towards a deficit in two consecutive months is not a serious issue as this is a seasonal factor (our statistics showed that the trade deficit occurred in every May of the last five years.)

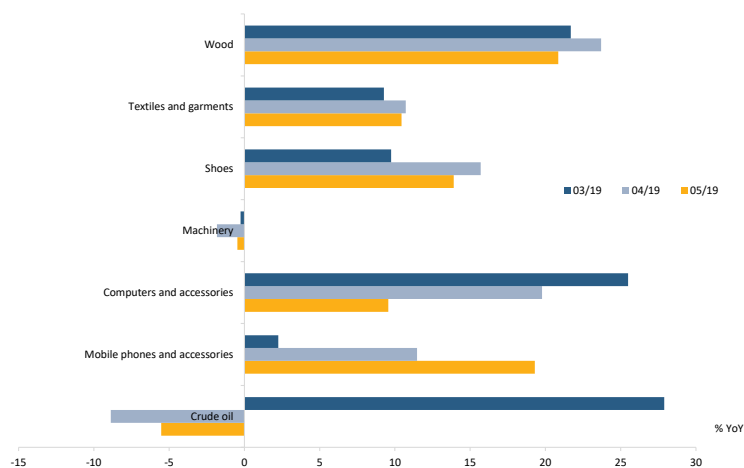
In this May, export growth was stable with an estimated turnover of USD21.5 billion, +7.5% YoY. In particular, the exportation of mobile phones and components in May increased up to 19.9% YoY, the highest rise since August 2018, which indicates that the exportation of Vietnam phones has not received a significant impact from the general trend in the region. In addition, the export growth of footwear and wooden products stayed positive (at 14.3% and 18.3% YoY). Nevertheless, agriculture export growth plunged against the same period, especially rice export growth, which declined up to 22.1% YoY. This decrease can be explained with the sharp decline in the volume of rice exported to China.

In contrast, imports saw a stronger growth, which was about USD22.8 billion, +8.3% YoY. The exportation of crude oil, automobiles, mobile phones and

components saw a strong growth, especially phones and components (increasing 36.2% YoY). This can be considered a signal showing that Samsung will increase the number of imported facilities to prepare for the launch of new phone product this September. Additionally, we estimate the import turnover of mobile phones and components from Korea in May 2019 to gain 101.9% YoY.

According to the Census Bureau of the United States, imports from Vietnam to the US gained 38% YoY in the first four months of 2019, which shows the US have been trying to buy more commodities from Vietnam, while Chinese goods are under high tariffs due to trade war. If this increasing momentum lasts until the end of this year, Vietnam will rise to the 7<sup>th</sup> ranking among the top exporters to the US from the 12<sup>th</sup> last year. However, the risks are still existing as many manufactures have started to import Chinese goods – most of which are textiles, seafood and agricultural crops illegally labeled ‘Made in Vietnam’ to dodge US tariffs.

Figure 2: Export growth of the main sectors



Source: GSO, VIETNAM CUSTOMS, KBSV

**The Index of Industrial Production (IIP) in May 2019 gained 4.6% MoM and 10.0% YoY**, in which manufacturing still played a key role in boosting the overall growth (+5.7% MoM; +11.6% YoY). In general, IIP of the while sector was at a moderate level, with IIP of the manufacturing grew at two-digit level in 12 consecutive months (Figure 3).

The number of exported phones surged compared to the same period in 2018, +15% YoY, and the volume of exported phone components also rebounded to a positive growth (+14% YoY). This signal and the dramatic growth of mobile phones and components imports in May showed that Samsung are accelerating the manufacturing to prepare for the launch of new products in the third quarter, and to provide OLED screen for partners like Apple.

In addition, IIP of electronics and computers manufacturing in May began to recover after two consecutive months of negative growth and is expected to remain positive in the coming months. Sectors that saw positive growth in 2018 continued to perform well, including metal, textiles, and motor vehicle manufacturing (Figure 4).

**PMI in May 2019 was 52 points, slightly decreasing compared to that in April (Figure 5)**, but has stayed above 50 points for 42 consecutive months. In the survey conducted by IHS Markit this May, the production and number of new

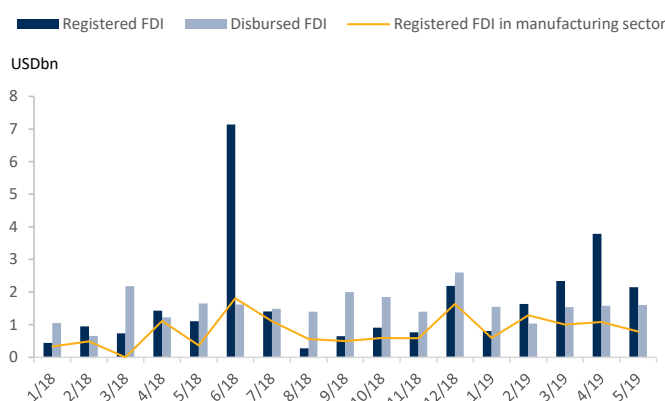
orders strongly rose because of high demand from customers.

**The growth of agriculture and fishery slowed down amid limited export markets (Figure 6).** Agriculture sector was still in a downward trend because the weather condition was unfavorable (prolonged hot weather adversely affected the production of rice in Mekong River Delta), and export orders, especially rice and coffee, have not been improved (exported rice in May went down 22.1% YoY in value and 6.1% YoY in volume).

In terms of fishery sector, although the volume of aquaculture and fishing was still stable (+6.5% YoY), the exportation of catfish and shrimp has currently met some difficulties. Fishery export growth in May was estimated to lose 1.4% YoY, and the amount of catfish exported to the main markets such as the US and China went down. Although the exported volume to EU and ASEAN increased, the decline in the two key above markets cannot be offset. Meanwhile, shrimp export will face obstacles triggered by fierce competition from India, Thailand, and Indonesia.

**FDI still experienced a positive growth,** with the total of newly register, added capital and capital to buy shares contributed by foreign investors was USD16.74 billion, increasing 69.1% YoY. In May 2019, it is estimated that the total disbursed capital from FDI projects can reach USD1.6 billion, the highest since the beginning of this year. Processing – manufacturing, real estate and wholesaling, and retailing were still the three sectors that absorbed most of the investment capital in the first five months. In particular, China ranked first in terms of FDI committed to invest in new projects with the total capital of USD1.56 billion, compared to USD281 million in the same period last year. The two biggest projects all belonged to tire manufacturing industry, namely Radial Tyre ACTR (USD280 million) and Advance Tyre Vietnam (USD214 million.)

Figure 3: Disbursed and registered FDI



Source: FIA, KBSV

**Exchange rates experienced strong movement in May.** In particular, the average monthly exchange rates on the interbank and unofficial markets soared to 0.58% and 0.47% MoM respectively (Figure 14). The central rate inched up 0.16% MoM. However, the noticeable difference this year is that the gap between interbank rate/unofficial rate and the ceiling was quite safe, and by the end of May 31, the SBV did not have any direct measures to intervene in the foreign exchange market. The main reasons leading to the increase in May include: the CNY plunged (up to MoM 2.6%) due to trade war; the USD continued to show an obvious appreciation during May (average DXY rose 0.6%

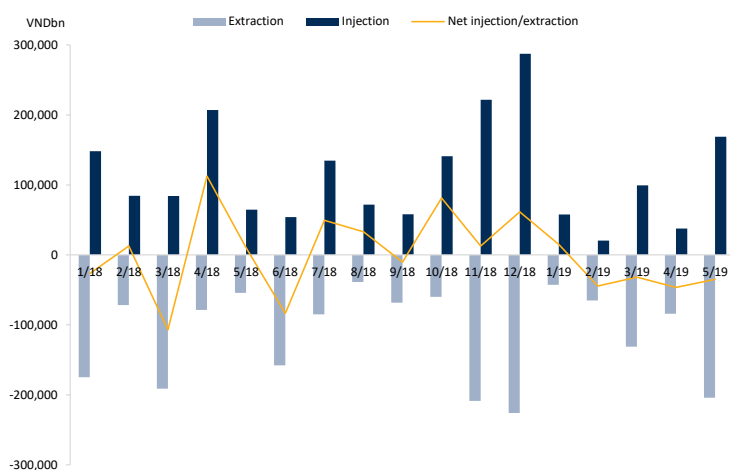
MoM); and the trade balance tilted towards a deficit.

**M2 and credit growth by May 31, 2019 reached 4.98% and 5.74% YTD**, much lower than the relevant figures recorded in the previous year. Thus, the M2 growth is currently lower than credit growth, but liquidity in the banking system is still quite abundant. In May, the SBV did not conduct any foreign currency transactions.

**Interbank interest rates tumbled in May (Figure 12)** thanks to the improvement in liquidity after the State Treasury had transferred money from the SBV to commercial banks by the end of April; and the abundant short-term capital under the impact of Circular No.16/2018/TT-NHNN. The average overnight interest rate was 3.01%, sharply fell from 3.63% in April. Meanwhile, USD interbank interest rates were stable around 2.5 – 2.6% at overnight and 1-week terms.

**The SBV withdrew VND35,106 billion via OMOs – the fourth consecutive month of net-withdrawal (Figure 4).** In addition, this bank carried out net-injection and net-withdrawal alternately by week, with VND612 billion on Reverse repos newly issued, while the due value hit VND918 billion. Additionally, liquidity was becoming more abundant as the SBV also issued a large number of bills valued at VND203,131 billion that absorbed a part of liquidity.

Figure 4: Open market operations

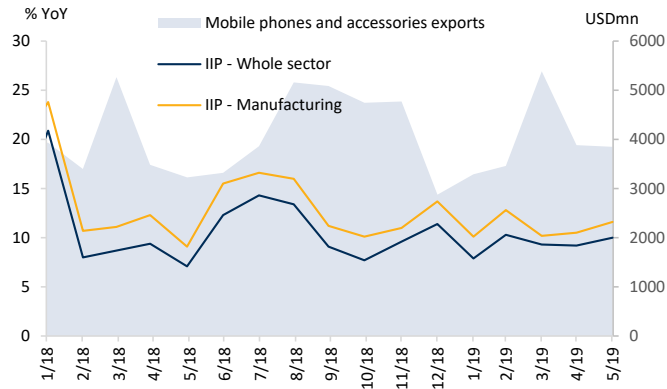


Source: SBV, KBSV

**Liquidity on the Government bond market (both primary and secondary) stayed flat in May.** On the primary market, the State Treasury mobilized VND11,936 billion (-5.09% MoM). The registration - bidding rate increased from 2.08 to 2.81 times while the winning rate slightly rose to 70.21%. The demand remained flat, so the yields of most terms remain unchanged. As a result, the Government bond mobilization of the State Treasury in May completed 30% of the plan for the second quarter and bond mobilization in the first five months of the year completed 36% of the 2019 plan.

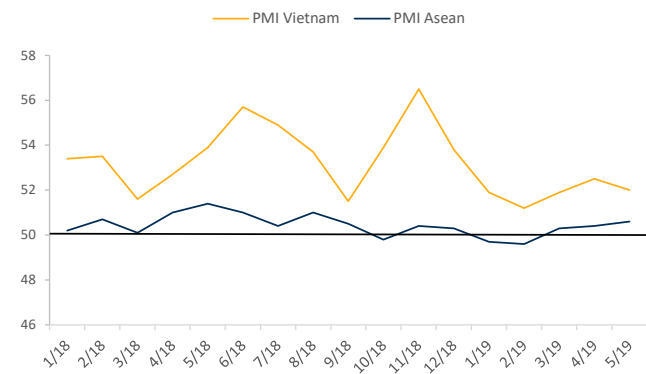
On the secondary market, the trading values of outright and repos were VND86.1 trillion and VND90.2 trillion (+11.5% and -8.3% MoM), respectively. Bond yields fluctuated in a narrow band, short-term yields tended to inch up, while long-term yields dipped.

Figure 5: IIP



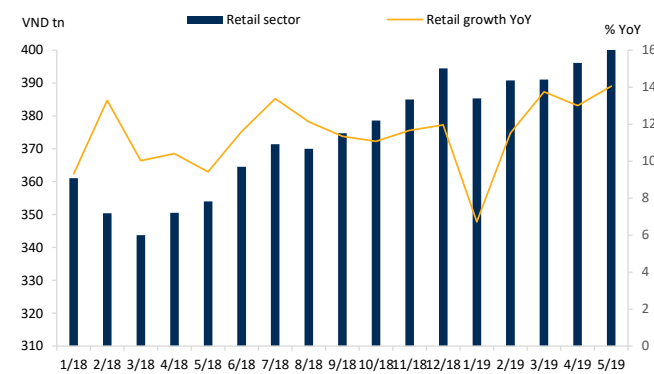
Source: GSO, KBSV

Figure 7: PMI



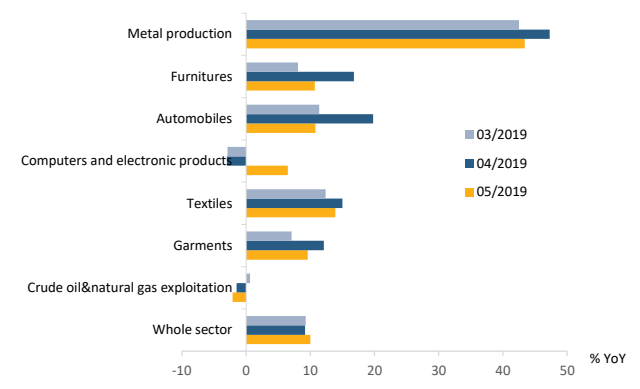
Source: IHS Markit, KBSV

Figure 9: Retail sales



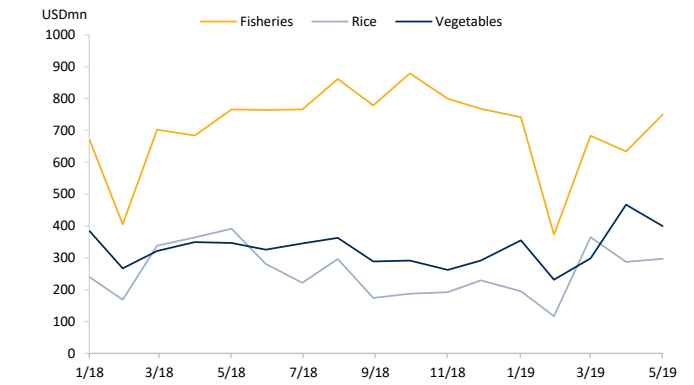
Source: GSO, KBSV

Figure 6: IIP by sectors



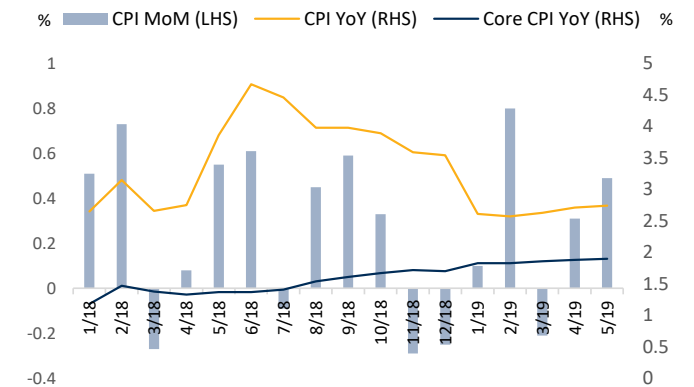
Source: GSO, KBSV

Figure 8: Rice, fishery and vegetables exports



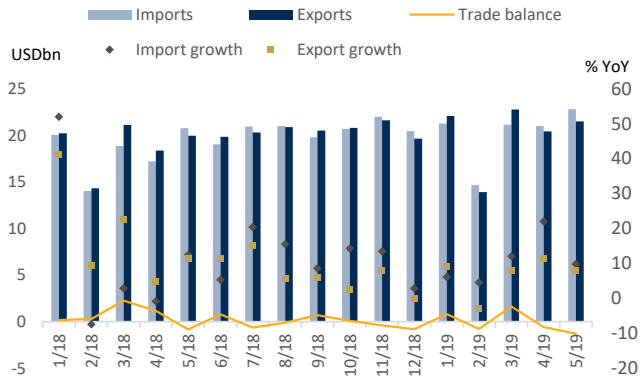
Source: GSO, VIETNAM CUSTOMS, KBSV

Figure 10: CPI



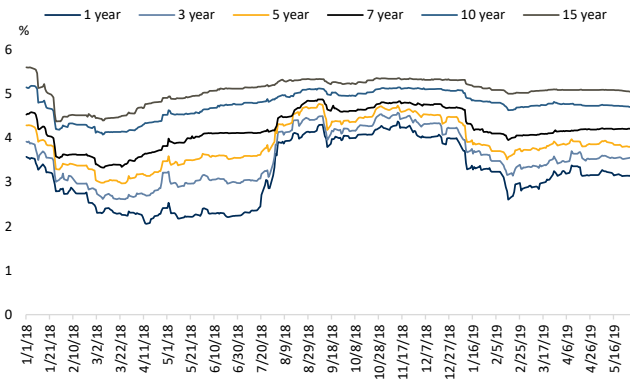
Source: GSO, KBSV

Figure 11: Trade balance



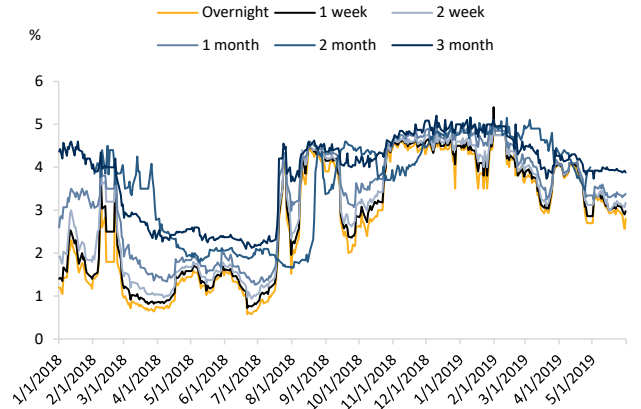
Source: GSO, VIETNAM CUSTOMS, KBSV

Figure 13: Government bond yield movements



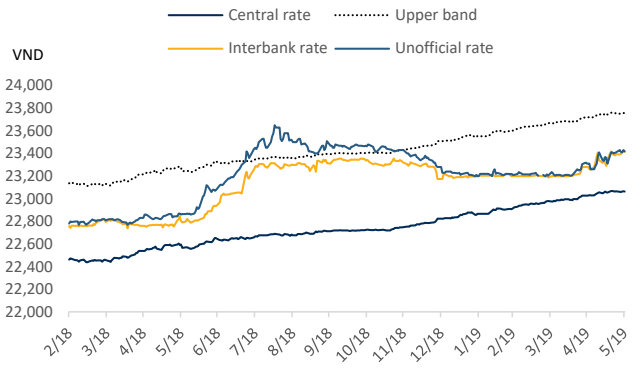
Source: Bloomberg, KBSV

Figure 12: Interbank interest rates



Source: Bloomberg, KBSV

Figure 14: Exchange rate movements



Source: Bloomberg, KBSV

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