

KBSV Research

## MACRO ECONOMIC OVERVIEW – OCTOBER 2019



## Overview

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The Index of Industrial Production (IIP) in October rose to 9.2% YoY, slightly decreasing compared to the data in September, mainly due to the plunge in coke and refined oil production. However, PMI has been in a downtrend in three consecutive months, which led this index down to 50 points – the lowest in the last four years. This will be a worrisome factor to the processing and manufacturing sector during the year-end period as the growth rate of new order number will turn down sharply.

Inflation also needs to be closely watched in the last two months as pork price moves are unpredictable.

It is most likely that there would be a trade deficit in November and December as companies will import a large volume of manufacturing and consumer goods for year-end production activities and preparation for Lunar New Year.

Liquidity in the banking system in the last two months may be not abundant as the Circular No.58/2019/TT-BTC will affect the deposit sources of the State Treasury at commercial banks. Furthermore, the mobilization need also increases at the end of the year.

In general, exchange rates will stay flat in the next two months as the foreign currency supply (remittances and disbursed FDI) still maintains a good growth.

Thái Thị Việt Trinh – Macro Analyst – [trinhtt@kbsec.com.vn](mailto:trinhtt@kbsec.com.vn)

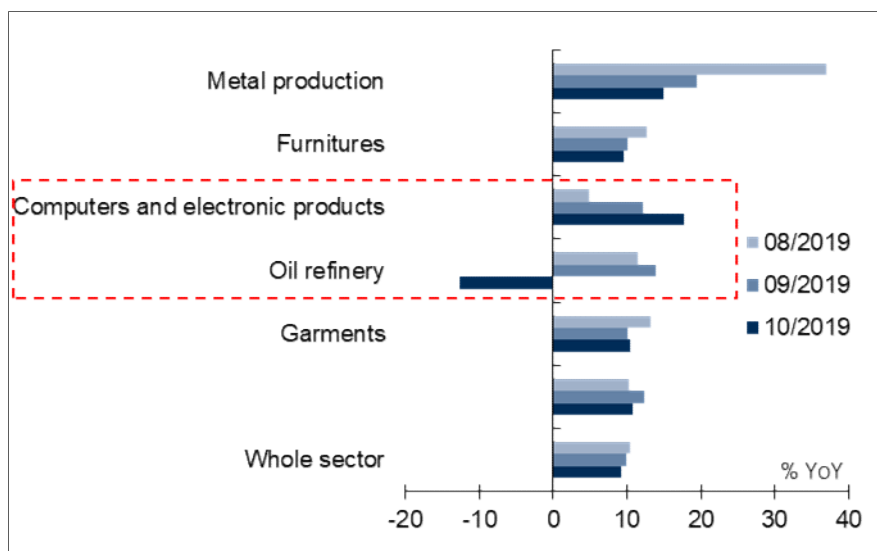
# 1. The Index of Industrial Production (IIP)

**IIP in October was increasing to 9.2% YoY, slightly decreasing compared to the data in September, mainly due to the plunge in coke and refined oil production**

Processing – manufacturing industry was the highlight in October, with a considerable increase of (+10.8% YoY), keeping a two-digit growth in the 17<sup>th</sup> month

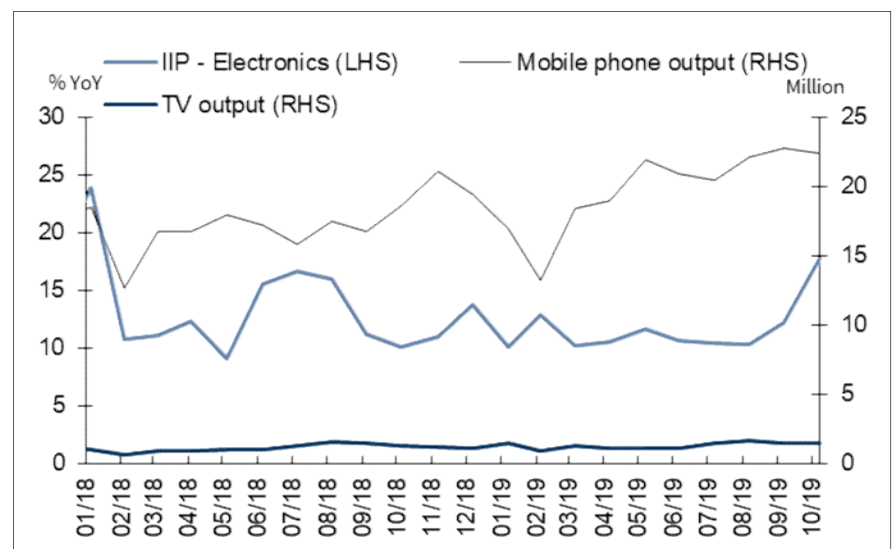
- Among the secondary industries, *electronic product manufacturing maintained a high growth (+17.7% YoY)* with surging production of smartphones and TVs (jumping 20.4% and 14.4% YoY)
- Meanwhile, *coke and refined oil production industry sharply decreased (-12.7% YoY)* as Nghi Son Refinery stopped operation in 45 days since October for technical maintenance.
- *Metal manufacturing increase*, with the main contribution from Formosa which has come into stable operation state, was *not as high as in previous months (+15% YoY)*
- Industries considered as ones benefiting from the trade war (*clothes and wood furniture production*) *still maintained a stable growth (~ 10% YoY)*

IIP of some main secondary industries



Source: General Statistics Office, KB Securities Vietnam

IIP and production of electronics sector



Source: General Statistics Office, KB Securities Vietnam

## 2. PMI and retail sales

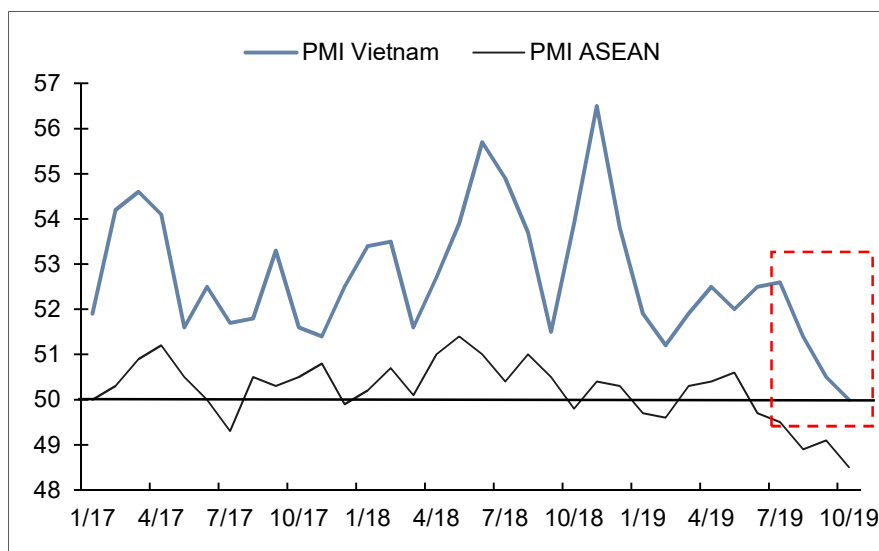
**In addition to IIP, PMI reflected a not very positive scenario of the processing – manufacturing industry in Vietnam in October. This sector has dropped for three consecutive months, down to only 50 points – the bottom in the last four years**

- Weaknesses in October concentrated in intermediate goods manufacturing companies
- The good news was the increase in the number of new orders, but the growth rate has slowed significantly

Basically, with two different approaches, IIP was calculated according to production data of economies (the supply), while PMI was built on the expectation of manufacturers (the demand), hence there are the contrast between PMI and IIP. However, the fall of PMI in three consecutive months being a worrisome factor to IIP in the months ahead, together with slowing new order growth rate, are likely to affect GDP growth in 4Q

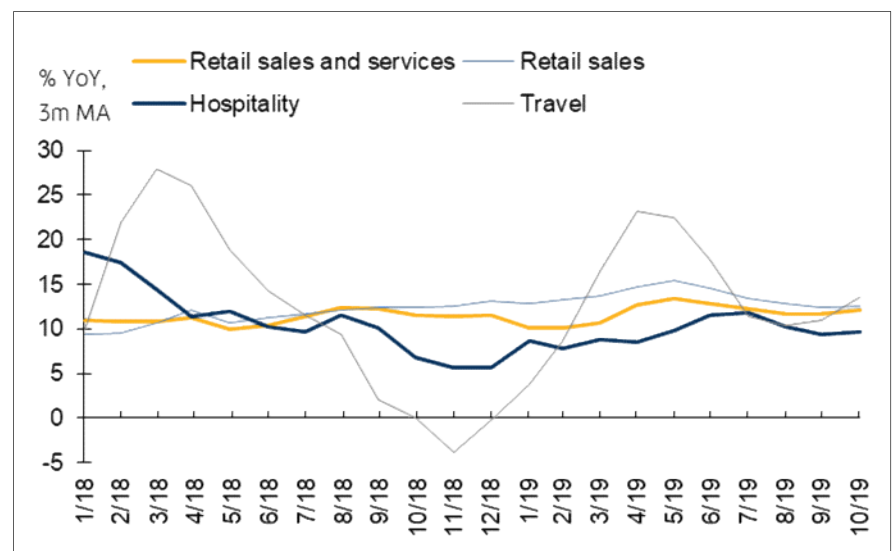
**Total retail sales of consumer goods and services witnessed a high growth rate (+ 12.42% YoY), showing that domestic demand remains positive**

PMI of Vietnam and ASEAN



Source: General Statistics Office, KB Securities Vietnam

Retail sales of consumer goods and services



Source: General Statistics Office, KB Securities Vietnam

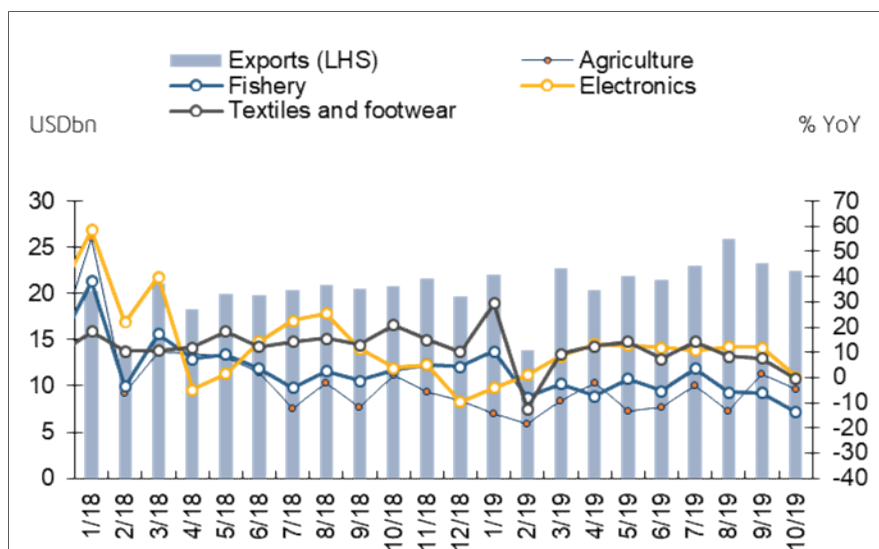
### 3. The trade balance – Goods import and export

**It is estimated that the trade deficit in Oct will reach USD100 million.** Domestic economic sector had a trade deficit of USD2.37 billion, FDI sector (crude oil included) had a trade surplus of USD2.27 billion. In particular:

- **Exports turned down slightly in Oct (-4.1% MoM, -0.8% YoY)** as Samsung ended the stimulation period of exporting the new product Galaxy Note 10, making *smartphones and components exports went down 0.9% YoY*
- Exports of the domestic economic sector strongly gained 11.7% YoY, while exports of FDI sector (crude oil included) only posted a marginal 5.5% YoY increase
- **Import turnover in Oct was estimated at USD22.8 billion, gaining +3.5% MoM and +3.5% YoY**, in which domestic and FDI sectors gained 5.8% and 1.9% YoY respectively. It can be seen that the imports of manufacturing goods still remained a positive growth compared to the same period last year (~10% YoY)

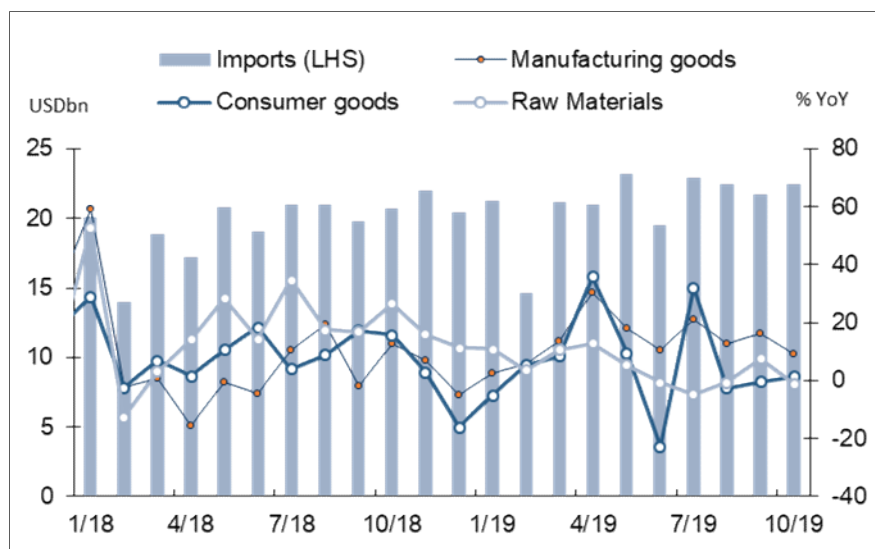
**It is most likely that there would be a trade deficit in November and December** as companies will import a large volume of manufacturing and consumer goods for year-end production activities and preparation for Lunar New Year. In addition, Samsung will increase the imports of electronic components to serve the launch of new products in the first quarter of next year

The key export groups



Source: General Statistics Office, VN Customs. KB Securities Vietnam

The key import groups



Source: General Statistics Office, VN Customs. KB Securities Vietnam

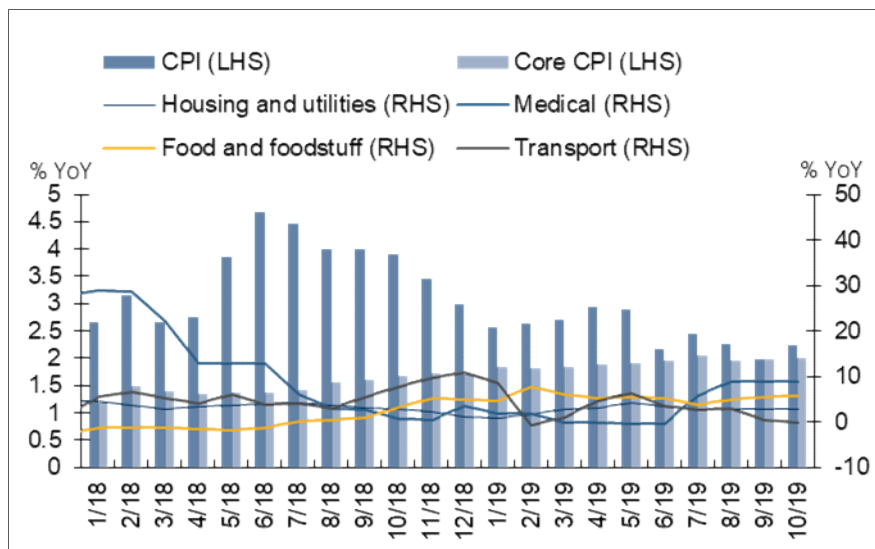
## 4. Inflation (CPI)

**The average CPI in the first ten months of 2019 only climbed 2.48% YoY – the lowest 10-month increase in the last three years.** Core inflation in Oct was still flat, +0.15% MoM and +1.99% YoY. 8-month average core inflation rate was 1.89% YoY

- *Food and food services (+1.04% MoM)* was the most influential industry that affected the overall CPI, which was mainly supported by food products (+1.57% MoM). Pork prices hike (7.85% MoM) due to ASF limited the pork supply, and added 0.33 percentage points to the overall CPI
- *Transportation gained 0.99% MoM* due to the adjustment of petrol and oil prices (up on Oct 1, 2019 and slightly down on Oct 16, 2019). As a result, the index of petrol and oil rose 2.22% (making CPI +0.1%)
- *Housing and construction materials rose 0.53% mainly due to the increase in gas price on Oct 1, 2019.* The index of gas prices went up 7.62% (making general CPI +0.09%)

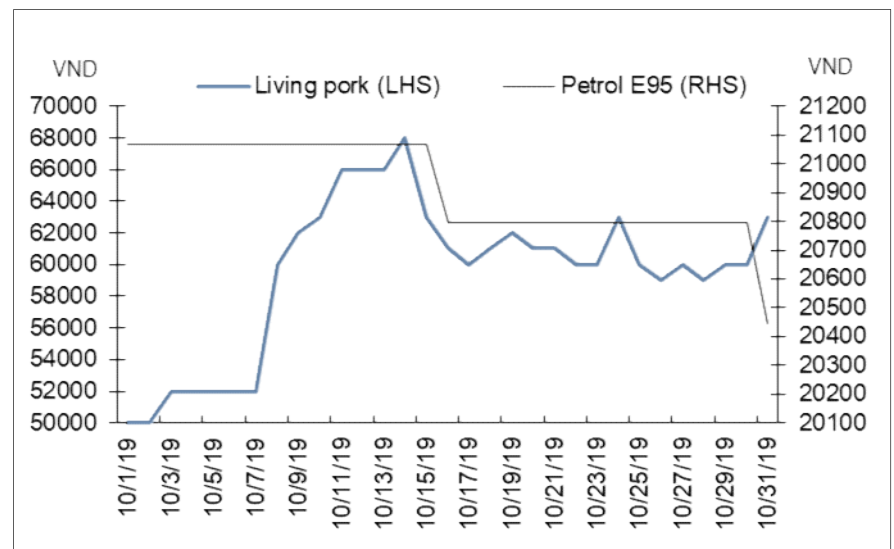
In the last two months of the year, we forecast monthly CPI would be still high, at 0.6% and 1.2% MoM, and continue to be affected by pork prices. Nevertheless, average CPI in 2019 would be positive – 2.7% YoY, much lower than the target (4%)

CPI movement



Source: General Statistics Office, KB Securities Vietnam

Price movements of living pork and petrol prices in Oct



Source: KB Securities Vietnam

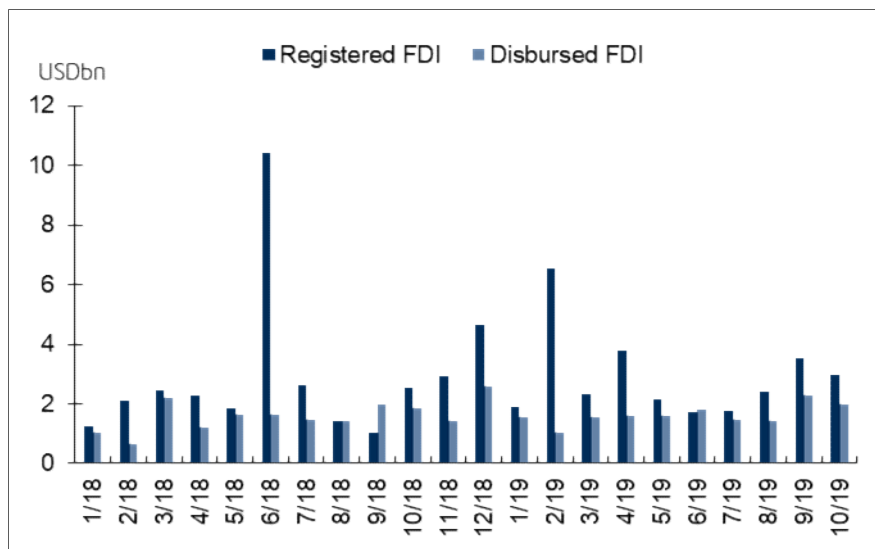
## 5. Foreign Direct Investment (FDI)

**Newly registered FDI in October reached the highest level since the beginning of the year, with a value of USD1.86 billion.** In ten months, the total value of newly registered, added and contributed FDI capital reached USD 29.1 billion, up to 4.3% YoY

- The processing and manufacturing industry was outstanding with a total capital of USD19.8 billion, accounting for 68.1% of the total registered investment capital. Real estate and retail-wholesale business occupied the 2nd and 3rd position respectively
- Hong Kong is the partner with the largest registered FDI in the first ten months, thanks to the capital contribution project to buy shares in Vietnam Beverage Co., Ltd. in Hanoi, accounting for nearly 60% of Hong Kong's total investment capital
- Korea and China are the two partners with largest newly registered FDI in ten months, with the value of USD2.7 and 2.1 billion, respectively. Notably, newly added FDI capital from China increased by 2.5 times over the same period, with large projects focusing on manufacturing and processing industry such as rubber production. This trend has also been clearly seen in regional countries such as Thailand, Indonesia, ...

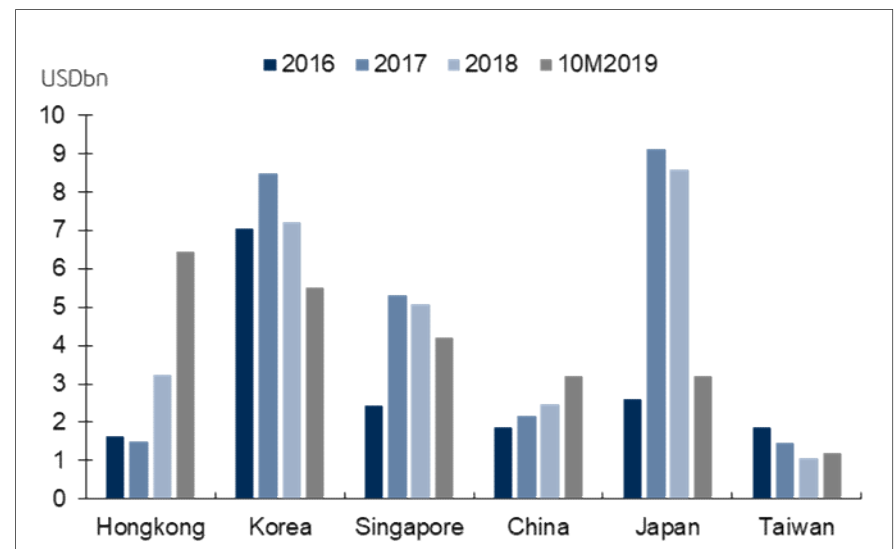
**Disbursed FDI in Oct was positive at USD1.99 billion, raising FDI in the first ten months up to USD16.21 billion, +10.74% compared to that in 2018**

Registered and disbursed FDI



Source: MPI, KB Securities Vietnam

Registered FDI by business partners



Source: KB Securities Vietnam

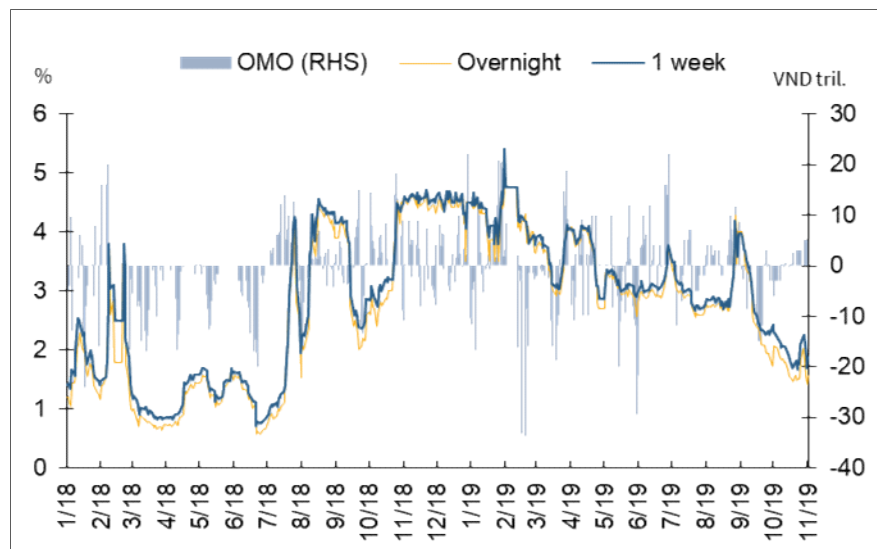
## 6. Interbank market – Government bond

**The abundant liquidity in the system made the interbank interest rate drop sharply in October, to the monthly average of 1.7% for the overnight interest rate compared to 2.7% in September. The average 10-year bond yield was only 3.8%**

- SBV still deliberately regulated liquidity through selling bills in open market operations in order to absorb the excess money in the context of the current abundant liquidity. The SBV also lowered the treasury bill rate to 2.25%
- On the primary bond market, the ratio of winning bonds was high, reaching 99.7% with a total value of VND 20.19 trillion. + 109% compared to September. The winning interest rate dropped sharply from 30 - 58bps
- We believe there are two main reasons for excess liquidity in October: The purchase of foreign currencies to supplement FX reserves (increasing VND supply) and The slow disbursement of public investment capital (making the State Treasury deposits at commercial banks stay high)

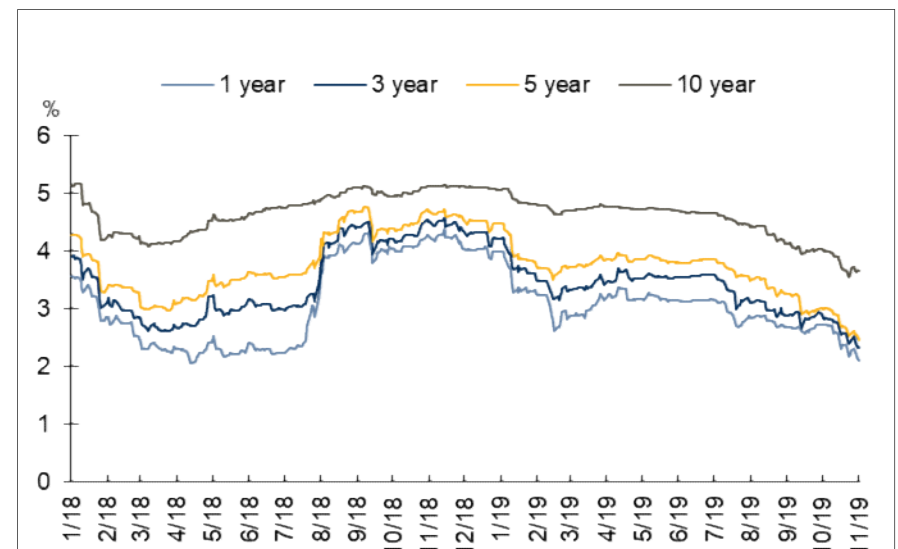
From November, liquidity in the system may not be redundant as the **Circular No. 58/2019/TT-BTC stipulating the management and use of State Treasury accounts opened at the State Bank and commercial banks officially becomes valid.** Accordingly, the payment deposit of the State Treasury will have to be transferred to the total account at the Transaction Office - SBV instead of located at commercial banks as before

Interbank interest rates and OMOs



Source: Bloomberg, State Bank of Vietnam, KB Securities Vietnam

Government bond yield movement



Source: Bloomberg, KB Securities Vietnam

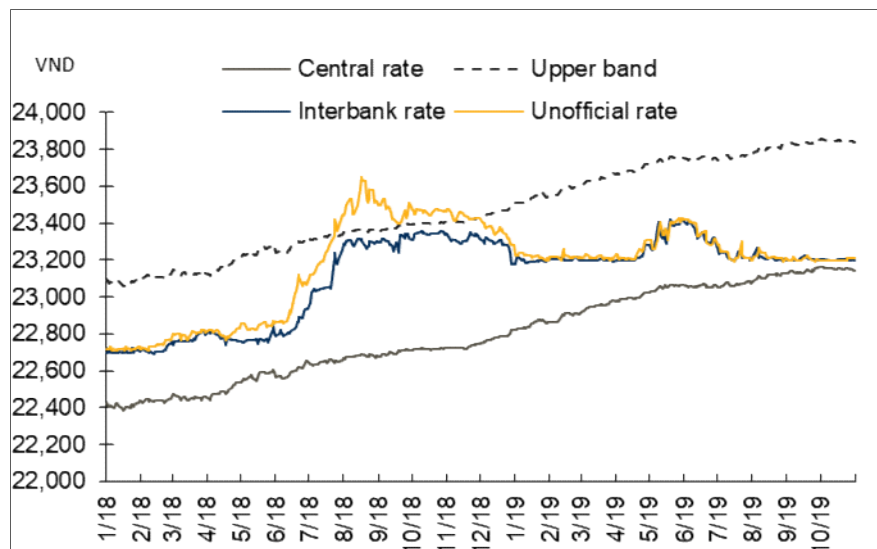


## 8. USD/VND exchange rate

### USD/VND exchange rates stayed stable in October

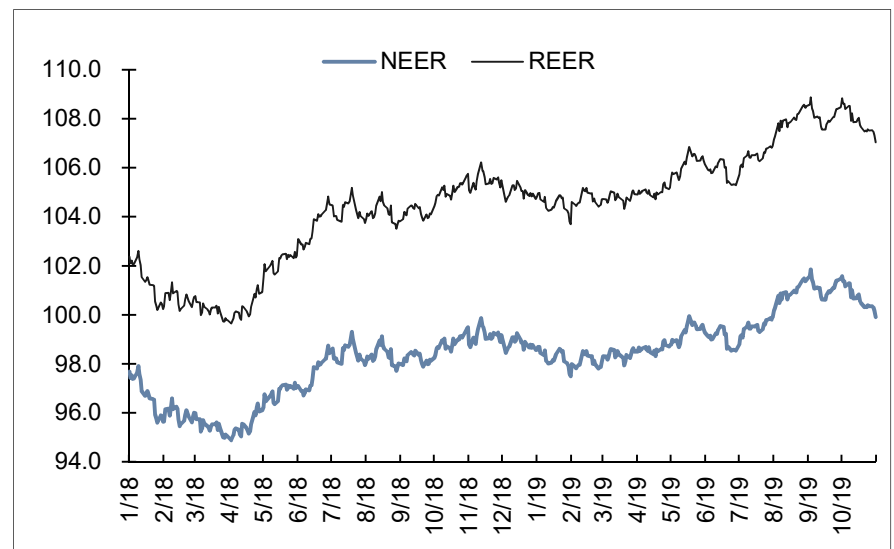
- The central rate almost stayed flat in Oct, and dipped -0.07% MoM at the end of the month
- Average interest rates on interbank and unofficial market moved around VND23,200 – the price of USD bought at the SBV
- NEER and REER showed signs of cooling since the middle of Oct, thanks to positive signals from the US-China trade talks and Fed's rate cut, making DXY go down by 2% MTD, while USD/CNY rates also cooled down, CNY gained by up to 1.5% in Oct
- The downturn of NEER and REER will strongly support exports in the last months of the year, and eliminate the pressure of VND depreciation of the SBV

USD/VND exchange rate movement



Source: Bloomberg, , KB Securities Vietnam

NEER and REER



Source : Bloomberg, , KB Securities Vietnam

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**KB SECURITIES VIETNAM (KBSV)****Head Office:**

Floor G, 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**

Floor 1, VP Tower, 5 Dien Bien Phu Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 3776 5929 - Fax: (+84) 24 3822 3131

**Saigon Branch**

Floor 1, Saigon Trade Center, 37 Ton Duc Thang Street, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 - Fax: (+84) 28 3910 1611

**Ho Chi Minh Branch**

Floor 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

**CONTACT INFORMATION**

**Institutional Client Center:** (+84) 28 7303 5333 - Ext: 2656

**Private Customer Care Center:** (+84) 24 7303 5333 - Ext: 2276

**Hotmail:** [ccc@kbsec.com.vn](mailto:ccc@kbsec.com.vn)

**Website:** [www.kbsec.com.vn](http://www.kbsec.com.vn)