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MACRO ECONOMIC OVERVIEW

AUGUST 2019

August highlights

IIP in August was still positive thanks to a surge in coal production and an moderate increase in mobile phone production.

PMI in August tumbled over July, mainly because of the weakening signs in investment goods.

The total retail sales of consumer goods and services increased more slowly, but they were still high, which shows the domestic demand is still positive in the short-term.

Agriculture still witnessed a low growth. Rice exports has not seen any extraordinary increase in the number of orders to offset the plunge in exports to China.

CPI slightly gained in August, and average CPI in the first 8M was the lowest in the last 3 years. Core inflation was still in an uptrend.

The trade balance was at a surplus in August, with surging exports, mainly contributed by mobile products and components.

Total registered FDI saw a slowdown compared to the same period, while disbursed FDI was maintained stable.

USD/VND exchange rates were relatively stable in August amid complex external factors.

Interbank interest rates surged in the last week of August, with the SBV's net injection in OMOs.

Deposit rates considerably climbed for terms of more than 6 months.

Trading on the Government bond market was less active than in July.

September 2019

Key Macro indicators

	2019	
	July	August
IIP in Manufacturing (% YoY)	9.80	10.50
PMI	52.60	51.40
CPI (%YoY)	2.61	2.57
Exports (USDbn)	22.98	24.50
Imports (USDbn)	22.94	22.80
Disbursed FDI (USDbn)	1.45	1.41
10-year government bond yield (%)	4.42	4.13
Interbank exchange rate (VND)	23,205	23,196

Source: GSO, TCHQ, KBSV

2019 forecast indicators

	2018	2019F
GDP growth (%YoY)	7.08	6.6 - 6.8
Average CPI (%YoY)	3.54	3.6 - 3.8
Credit growth (%YoY)	13.30	14.00
M2 growth (%YoY)	11.34	13.00
10-year government bond yield (%)	5.10	4.00
Export growth (%YoY)	13.80	8 - 10
Import growth (%YoY)	11.50	9 - 11
Interbank interest rate (VND)	23,240	23,400

Source: KBSV

IIP in August followed the upward momentum, with an increase of 5.4% MoM and 10.5% YoY – the highest increase since the beginning of the year. The highlights in the month were the surge in coal production, and the considerable increase in the production of mobile phones. To be more specific:

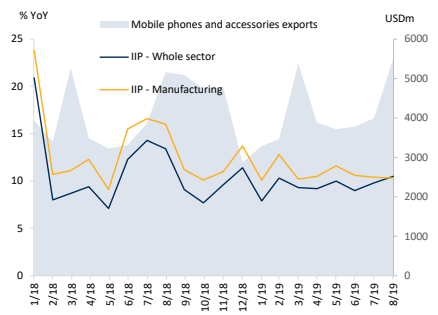
- (i) IIP of the mining sector skyrocketed (+14.4% YoY) as the coal mining volume surged (coal production hit 3.8 million tons, +13.3% YoY) to meet the demand of thermal power plants in hot summer season. Additionally, the volume of gas mining also strongly rose (gas production reached 0.78 billion m3, +26.3% YoY). In the coming months, mining sector is prone to a negative growth as the rainy and stormy season will strongly affect coal production, while the demand for electricity consumption will gradually go down.
- (ii) IIP of the processing – manufacturing sector was still at a high level (7.5% MoM, 10.5% YoY), but showed a noticeable drop over the same period last year. Thanks to the launch of Samsung Galaxy Note 10 product line in August, the production of mobile phones continued to maintain a gaining momentum over the same period in 2018, +4.14% YoY. Besides, export turnover of phones and components in August was the highest ever (estimated at USD5.5 billion, +6.5% YoY). However, the cycle of electronics manufacturing, especially mobile phones, was still on a downward trend due to declining demand amid escalating trade war, and we are concerned that the production of mobile phones in the coming months will sharply decline as sales from Samsung and Apple have not shown signs of positive growth again.

IIP of the coke and refined petroleum manufacturing has returned to a good growth (+11.5% YoY) when Nghi Son Refinery is likely to have completed the maintenance schedule. Meanwhile, metal manufacturing industry (with main contribution from Formosa) still maintained a high growth rate (> 30% YoY). Sectors that are supposed to benefit from the trade war, such as textiles, apparel manufacturing, wood products and furniture, still kept a positive growth (growth > 10%).

The PMI in August 2019 reached 51.4 points, which is a sharp decline from its high in July to the lowest bottom within the past 6 months, indicating a slight improvement in business conditions. Weaknesses in August focused on manufacturers of basic investment goods (minerals, agricultural products), while consumer goods and intermediate goods continued to advance. Vietnam's PMI trend is now following the downtrend of ASEAN's PMI, which shows that Vietnam is not outside the influence of trade tensions between the US and China.

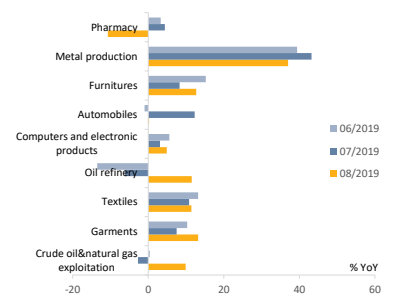
The total retail sales and consumption services are increasing more slowly, but they were still high, which shows the domestic demand is still positive. According to the latest survey by Nielsen on Consumer Confidence Index, CCI of Vietnam is relatively high despite a slight decline in Q2/2019. Although US-China trade tensions will partly affect consumer confidence, rising wages and

IIP



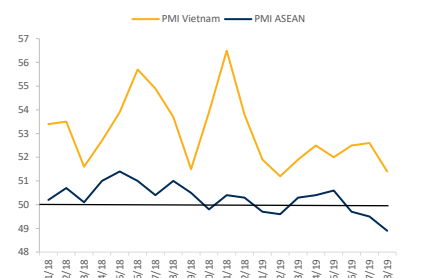
Source: GSO, KBSV

IIP by sectors



Source: GSO, KBSV

PMI



Source: HIS Markit, KBSV

Total retail sales



Source: GSO, KBSV

steady growth will keep consumption in the short-term positive.

Agriculture still witnessed a low growth, as the prices of most agricultural crops were lower than those in same period. In addition, complicated weather events (hot weather in the Central region, storms in the North) and disease outbreaks caused a decrease in the production of crops. Rice export in August had no bright spot as there was no big export orders, rice with 5% broken prices were flat compared to July. Data from the General Department of Customs showed that August rice export volume reached 580 thousand tons, down sharply from 598 thousand tons in July. It is expected that rice export in September will continue to have no extraordinary increase, as the data shows that only about 29.8 thousand tons of rice exported through HCM ports in the first 10 days of the month.

Production of aquaculture and fishing remained at a stable growth rate (+4.8% YoY), however, Pangasius and shrimp export is currently facing difficulties with a decrease of 12.3% YoY – in the 7th consecutive month.

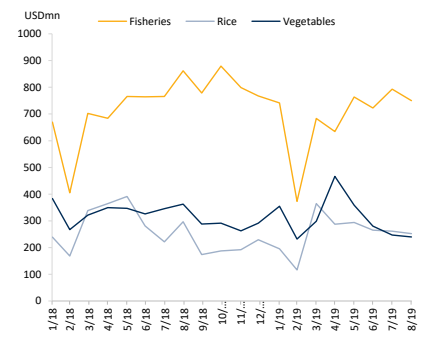
CPI in August increased by 0.18% MoM, average CPI of the first 8 months gained 2.57% YoY - the lowest 8M average increase in the last 3 years. Core inflation in August also cooled down, + 0.13% MoM and +1.95% YoY. Average inflation of 8M reached 1.86% YoY.

In August, the two groups with the strongest impact on the general CPI were health and food and foodstuff (respectively contributing 0.14% and 0.09% MoM to the overall CPI). The medicine and medical service group increased the most (+2.81% MoM) due to the increase adjustment according to Circular No. 13/2019/TT-BYT dated July 5, 2019 and Circular No. 37/2018/TT-BYT dated November 30, 2018. Meanwhile, food and foodstuff rose by 0.24% MoM, mainly due to the increase of 0.89% in pork prices over the previous month.

The trade balance of goods in August was estimated at a trade surplus of USD1.7 billion, equivalent to the trade surplus of the previous 7 months. The domestic economic sector had a trade deficit of USD1.96 billion, the FDI sector (including crude oil) had a trade surplus of USD3.66 billion. In particular:

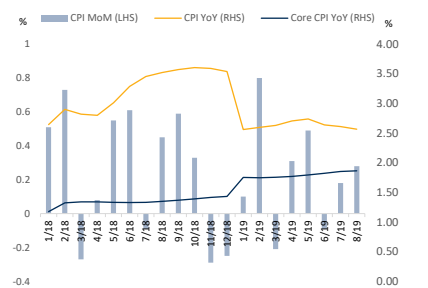
- Exports surged in August with a total turnover of USD24.5 billion, mainly thanks to the mobile phone and components group with an export value reaching USD 5.5 billion - the highest ever. This is mainly due to Samsung boosting exports to launch a new product line in mid-August.
- The growth rate of 8M export turnover of the domestic economic sector hit 14% YoY, much higher than the growth rate of the FDI sector (0.4%); and the proportion of the domestic economic sector continued its upward trend, accounting for 29% of total export turnover (28% in the same period last year). However, analysis of export data shows that US-China trade tensions affect trade flows and have now had a negative impact on Vietnam. Export growth of all major groups is tending to slow down, in which agricultural and fishery products are the two most seriously affected.
- Regarding the imports of goods, import turnover of goods in August was estimated at USD22.8 billion, +7.5% YoY and the growth of sectors tended to decrease slightly compared to July, except for raw materials. If compared

Exports of rice and fishery



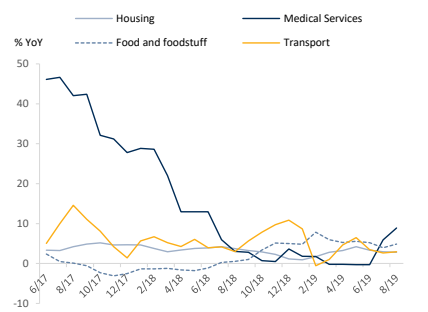
Source: GSO, TCHQ, KBSV

CPI



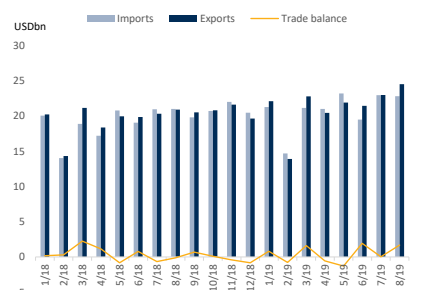
Source: GSO, KBSV

CPI movements in key sectors



Source: GSO, KBSV

Trade balance



Source: GSO, KBSV

with the same period last year, the positive point is that imports of manufactured goods still maintained a positive growth, in line with the favorable prospects of manufacturing and processing sector, while the growth of raw materials slowed down - showing a significant change to using domestic goods in the companies' manufacturing operations.

FDI in August remained stable with total newly registered, added and contributed capital and shares purchased by foreign investors in August reached USD2.41 billion, the highest monthly level in the past 4 months. Generally, in 8M, this figure reached USD22.6 billion, down 7.1% compared to the same period in 2018. This decrease is partly due to 2 new investment projects with large registered capital in June last year.

In August, it is estimated that USD1.41 billion USD was disbursed from FDI projects. Manufacturing and processing, real estate, wholesale and retail sectors continued to be the top 3 sectors that absorb the largest investment capital in the first 8M.

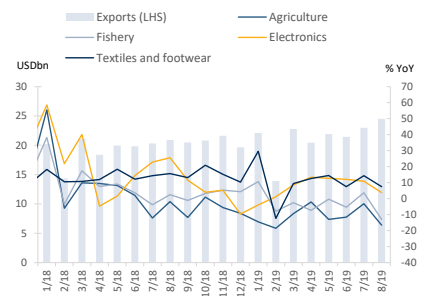
USD/VND exchange rates were relatively stable in August amid complex international factors. The average interbank and unofficial exchange rates fluctuated around VND23,200 – the USD buying price at the SBV. The central exchange rate was adjusted up and down alternatively (mostly adjusted up), and ended the month with a rise of 0.26% compared to the end of July. This is a rather surprising signal amid complicated external factors as CNY depreciated markedly last month (3.95% MTD), while DXY index was still high (98 points). This is explained by the abundant source of foreign currency supply in August (surplus trade balance, the deal BIDV sold to Keb Hana...), making the foreign currency balance in the bank stay high (increasing from USD1.5 billion to USD 2 billion).

Interbank interest rates increased sharply in the last week of the month due to temporary shortage of liquidity in the system while enterprises need capital to pay wage to employees before September 02 holiday. The overnight interbank interest rates on average in the first 3 weeks of August reached 2.74%, while the overnight interest rates in the last week soared to 3.78%. Interbank interest rates for USD continued to decline over the weeks and currently stay at 2.28 - 2.38% for overnight and 1 week terms, down nearly 10bps compared to the end of July.

The SBV net injected more than VND 63 trillion via OMOs in August - the second largest net injection volume since the beginning of the year. The SBV Treasury bill purchase was used in the first 3 weeks of the month to withdraw VND in the context of abundant liquidity. In the last week, the Reverse Repo (OMO) was used to inject a large amount of money to boost liquidity.

For market 1, the deposit rates for terms of more than 12 months remained high and differentiated among banking groups. Many small and medium commercial banks set interest rates ranging from 8-8.5%/year for 12-month deposits and over 9% for 24 months or more through CDs. However, it is worth noting that the short-term interest rates (6 months - 12 months) are also increasing significantly. 6-month interest rates of many banks such as VIB,

Export movements of some sectors



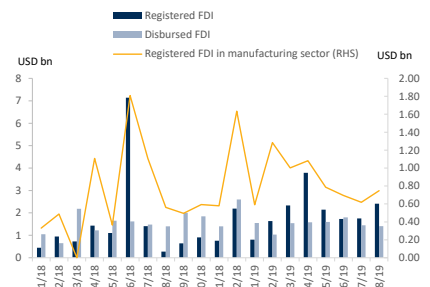
Source: GSO, TCHQ, KBSV

Import movements of the main sectors



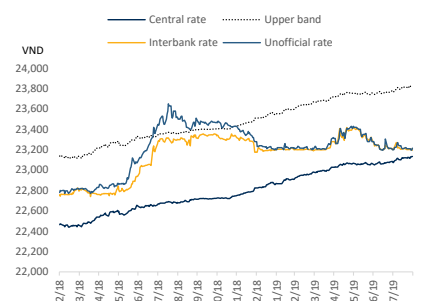
Source: GSO, TCHQ, KBSV

Disbursed and registered FDI



Source: FIA, KBSV

USD/VND exchange rate



Source: Bloomberg, FinnPro, KBSV

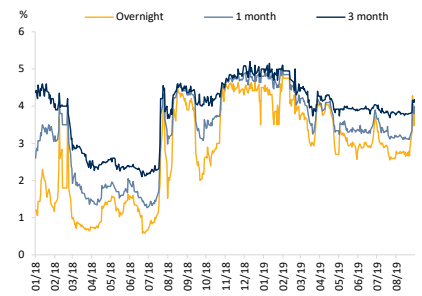
North Asia are now up to 7.4 - 7.5% - higher than 12-month interest rates of the SOCBs. The main reason may mainly stem from the need to prepare capital for the year-end business season.

Trading volume of Government bonds (VGBs) in August decreased sharply compared to July while trading activities on secondary market were quite active. on the primary market, bidding volume reached only VND11.5 trillion, down 68.1% compared to July. However, the winning ratio was the highest since the beginning of the year - reaching 94% and registering value was 5 times more than offering value, showing that demand for VGBs is still high at credit institutions and insurance companies. Compared to July 2019, winning interest rates in August 2019 decreased across all maturities, with a reduction of 9 - 26 basis points. Currently, the amount of issued VGBs has reached 61% of the plan for the Q3 and the demand for VGBs is still relatively high as in the last 4 months, the amount of disbursed capital will increase, and interest rates will tend to decrease.

On the secondary market, the value of VGB trading via normal method and repurchase reached VND103 and 115 trillion, +6% and +19.6% respectively compared to the previous month. Bond yield curve fluctuated in a narrow band with a stronger decline in long terms (> 10 years).

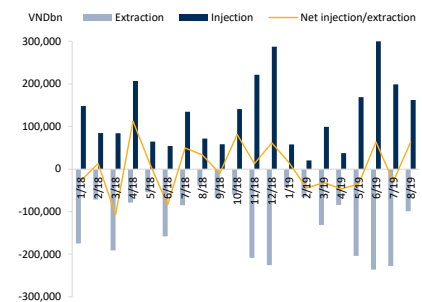
The total corporate bond value issued in August hit VND 9,659.05 billion, decreasing 33.4% over July. The two largest issuers were commercial banks with the total issuance value of VND5.7 trillion (59%), and Real estate companies with the total issuance value of VND2,395 billion (24.8%). The average issuance interest rate in August was 9.47% for an average term of 3.43 years.

Interbank interest rates



Source: Bloomberg, FinnPro, KBSV

OMO



Source: NHNN, KBSV

Government bond yield fluctuations



Source: Bloomberg, KBSV

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