KB Securities VIETNAM

Macro Outlook 2022

Bouncing back from pandemic crisis

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KB Securities Vietnam's (KBSV) forecasts on Vietnam's economy in 2022 are as follows:

GDP in 2022 is estimated to increase by 6.3% assuming that the COVID-19 pandemic remains under control thanks to Vietnam's high level of immunization coverage rate and socio-economic activities returning to normal.

Headline CPI for 2022 may rise to 3.8% which is within the Government's target cap of 4.0% due to the weak recovery of domestic demand under the impact of the prolonged pandemic, combined with the upward momentum of commodity prices that levels off and shows divergence, and the slowdown of the M2 money supply.

The State Bank of Vietnam's (SBV) monetary policy is expected to remain supportive this year. However, due to potential inflationary pressure at 3.8% in the base case scenario, the SBV is likely to keep the policy rates unchanged, and the credit growth at 14%, equivalent to the increase in 2021. The lending rates should remain unchanged or decrease modestly for some priority industries thanks to the Government's interest rate support package, while deposit rates may inch up 0.5%. The USD/VND exchange rate is forecast to go up marginally by 0.5-1.0% on the assumption of stable USD supplies.

Contents

I. Vietnam market outlook in 2022

Prolonged lockdown caused by the fourth wave of COVID-19 has had sweeping and comprehensive impacts on almost all sectors of the Vietnamese economy. As a result, GDP growth in 2021 is estimated to hit a historic low of 2.58% YoY. However, with the acceleration of vaccination programs in major cities, the pandemic was better controlled by the end of the third quarter. The economy, therefore, showed signs of improvement during the last three months of 2021 thanks to the relaxed social restrictions.

By 2022, we expect COVID-19 to remain under control in Vietnam thanks to the high vaccination rate. The main contributors to the economy's growth this year will be the acceleration of public spending, the recovery of domestic consumption & manufacturing sector, boosted export activities benefiting from Vietnam's participation in free trade agreements (FTAs), and the return of FDI inflows (although it is difficult to return to the pre-pandemic levels due to severe and prolonged fourth wave of COVID-19 in 3Q21). In addition, the proposed stimulus package worth VND350,000 billion (approximately USD15 billion) was approved in the first extraordinary meeting of the 15th National Assembly. This package for socio-economic recovery and development will be a "stepping stone" for recovery in the period 2022-2023.

Macroeconomic stability continues to be prioritized and maintained in the coming period. KBSV believes that 2022F inflation will be kept under the Government's limit despite greater pressure, while the USD/VND exchange rate may increase modestly within the allowable range against the backdrop of the appreciating USD.

Table 1. Vietnam – Macroeconomic indicators in 2022

KBSV's forecast

	Unit	2021	2022
GDP growth	% YoY	2.58	6.3
Headline CPI	% YoY	1.84	3.8
Credit growth	% YTD	12.68	14
Policy rate (refinancing rate)	%/year	4	4
USD/VND	VND	22,826	23,000

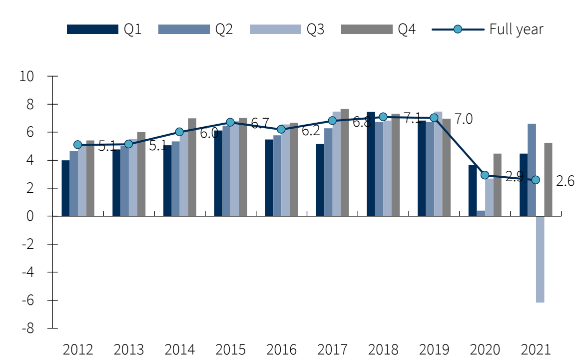
Source: KB Securities Vietnam
Data as of December 20, 2021

II. 2021 macro highlights

1. GDP growth in 2021

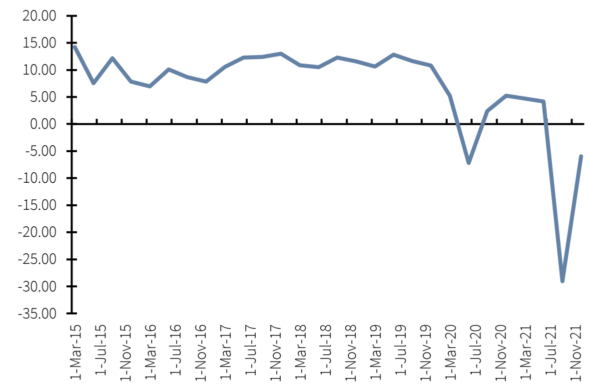
According to the General Statistics Office (GSO), the 2021 GDP is estimated to grow by 2.58% YoY (+4.72% YoY in 1Q21, +6.73% YoY in 2Q21, -6.02% YoY in 3Q21, +5.22% YoY in 4Q21), the lowest recorded ever. In the fourth quarter, GDP increased by 5.22% YoY, indicating the progressive recovery of the economy after switching away from "Zero COVID-19" to "safe and flexible adaptation and effective management of the pandemic" as per Resolution No. 128/NQ-CP dated October 11, 2021.

Fig 1. Vietnam – Quarterly GDP growth (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – Retail & service sales (%)



Source: General Statistics Office, KB Securities Vietnam

From the demand side, the fourth COVID-19 wave affected domestic consumption and realized social investment capital severely.

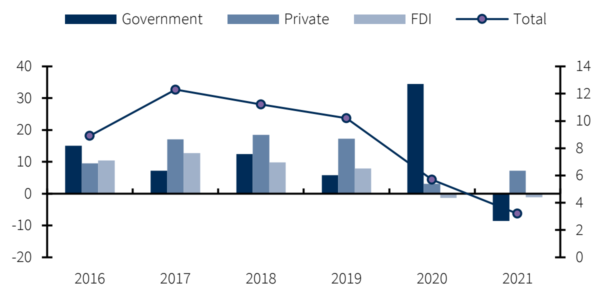
Consumption growth was disrupted by COVID-19, but offset by the recovery of activities from late 2021

- Total consumption in 2021 shrank by 3.8% YoY under the impact of prolonged and stringent social distancing measures. However, consumer services showed signs of recovery from the end of 2021. In particular, total retail sales of goods and services in 4Q reached VND1,312.6 trillion (+28.1% QoQ, -2.8% YoY) with VND1,076.4 trillion from retail sales of goods (+20% QoQ, +0.8% YoY).

Social investment decelerated considerably

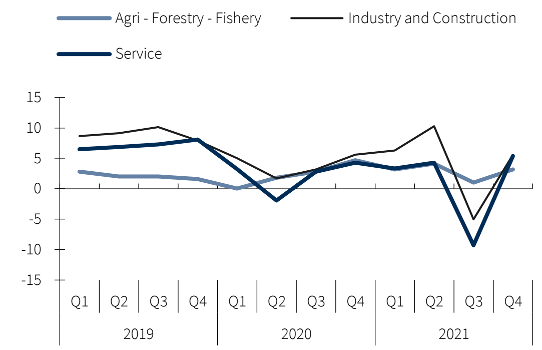
- Social spending in 2021 was VND2,891.9 billion (+3.2% YoY – the lowest increase in the past five years), with the main contribution from the private sector (+7.2% YoY – a sharp fall compared to pre-pandemic levels), while the state sector (-2.9% YoY) and FDI (-1.1% YoY) saw a dramatic decline.

Fig 3. Vietnam – Social investment growth (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – GDP growth across sectors (%)



Source: General Statistics Office, KB Securities Vietnam

From the supply side, the industry & construction, and services, which were hit hard by the pandemic, showed signs of recovery by the end of 2021.

Industry and construction showed signs of recovery in late 2021

- GDP growth of the industrial and construction sector gained 4.05% YoY for the whole year of 2021 (up 5.61% YoY in 4Q), with the main driving force coming from the processing and manufacturing industry (+6.73% YoY – contributing to a 1.61% gain in GDP growth).

- Index of industrial production (IIP) grew by 8.7% YoY in 2021 (up 6.4% YoY in 4Q). IIP varies across regions, depending on the impact of the fourth COVID-19 wave. While major processing and manufacturing zones in the North saw double-digit growths, production of those in the South endured a steep slump when factories had to either temporarily close or comply with the "three-on-spot" production strategy (production, meals, and rest after work at the same place).

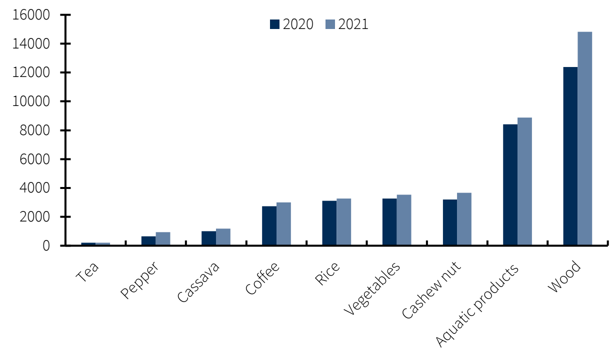
Service sector was severely affected by the pandemic

- GDP growth of the service sector recorded an increase of 1.22% YoY for 2021 (up 5.42% YoY in 4Q, the lowest recorded ever). Wholesale & retail (-0.2% YoY), hospitality (-20.8% YoY), and transportation & warehousing (-5.0% YoY) witnessed negative growths, dragging down the overall growth of the service sector and the economy. Meanwhile, finance, banking, and insurance grew strongly (+9.4% YoY) thanks to the positive development of investment channels.

The agriculture, forestry and fishery sector was the key factor to keep the economy afloat

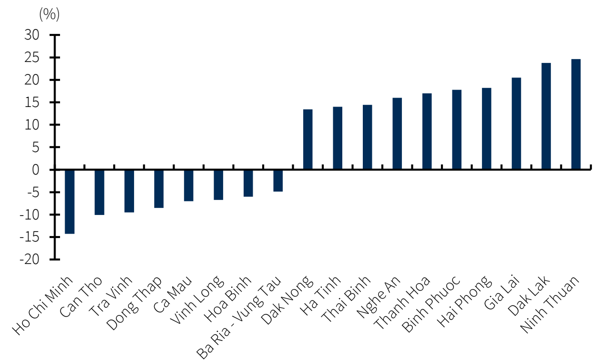
- The agriculture, forestry, and fishery sector rose by 2.9% YoY for 2021 and 3.16% YoY for 4Q21, playing the supporting role of the economy despite disrupted supply chain of production – processing – consumption. In 2021, the productivity of most crops was quite decent compared to a year ago while livestock grew steadily. Export turnover of some produce surges, sustaining the growth momentum of the whole sector (Figure 5).

Fig 5. Vietnam – Exports of produce, fishery & timber products (USD mn)



Source: General Department of Customs, KB Securities Vietnam

Fig 6. Vietnam – IIP across regions (%)



Source: General Statistics Office, KB Securities Vietnam

2. Inflation remained low

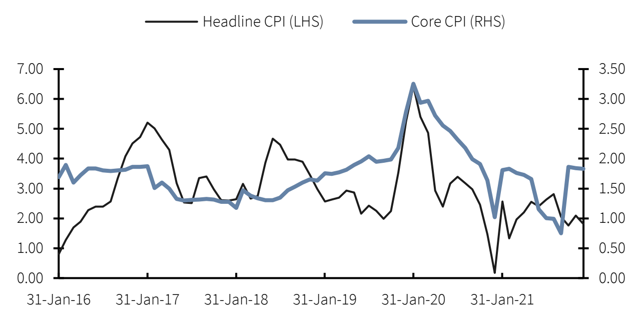
Inflation in 2021 continued to remain low

Headline CPI in 2021 expanded 1.84% YoY, the lowest in the past five years and well under the target of 4% set by the Government as per Resolution No. 01/NQ-CP at the beginning of the year. Quarterly, headline CPI increased by 1.89% in the fourth quarter, down slightly from 2.51% in the third quarter. However, inflation is gradually increasing along with the growing global consumption demand thanks to the accelerated vaccination programs. Core inflation tended to be similar to headline inflation when core CPI increased by 0.81% YoY on average.

Petrol and gas prices affected CPI the most

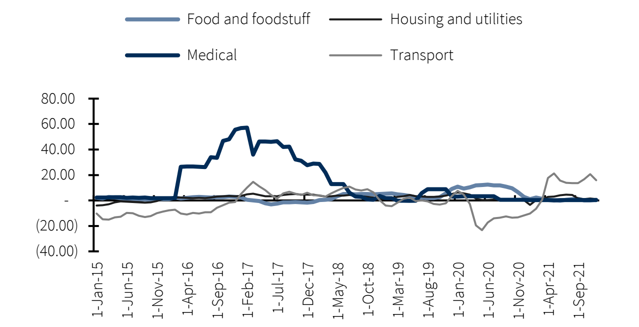
In 2021, the key factors affecting CPI include:
1) Prices of foodstuffs reduced 0.54% over the past year, making headline CPI go down 0.12 percentage points;
2) The Government has deployed support packages for pandemic-hit individuals and corporates such as the electricity tariff and electricity bills discount of Vietnam Electricity (EVN) that made the prices of household electricity decrease 0.89% YoY. Headline CPI declined 0.03 percentage points as a result;
3) Domestic petrol and oil prices jumped 31.74% YoY, causing headline CPI to increase 1.14 percentage points;
4) Gas prices climbed 25.89%, making the headline CPI inch up 0.38 percentage points;
5) The prices of educational services went up 1.87% YoY, making headline CPI rise 0.1 percentage points due to the tuition fee increases for the new school year 2020-2021 according to the roadmap of Decree No. 86/2015/ND-CP.

Fig 7. Vietnam – Headline & core CPI (% YoY)



Source: General Department of Customs, KB Securities Vietnam

Fig 8. Vietnam – Sector growth (%)



Source: General Department of Customs, KB Securities Vietnam

3. Interbank interest rates increased while deposit rates remained stable

Monetary policy was relaxed to support the economy

2021 monetary policy was consistent with the prudent dovish policy of the SBV throughout the pandemic. Specifically, the SBV has cut policy rates three times up to now, all in 2020, by less than in other regional economies. Apart from requiring commercial banks to cut lending rates in support of businesses struggling with maintaining operating cash flow, it issued Circular No. 14/2021 amending Circular 01 on debt structure, debt rescheduling, interest rate exemption and reduction for customers affected by COVID-19. Besides, raising credit caps for commercial banks in the third and fourth quarters helped credit growth in 2021 to reach 12.68% YTD.

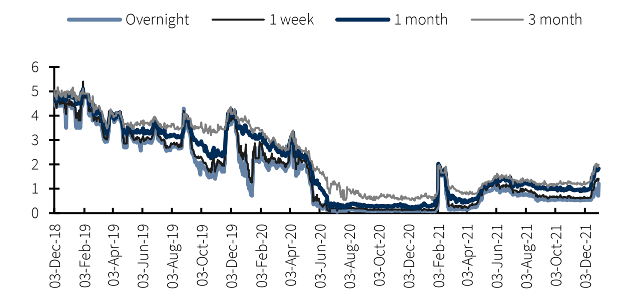
Interbank interest rates increased in 4Q

For the whole year of 2021, interbank interest rates have risen to a higher base but remained low thanks to abundant liquidity. Particularly in 4Q, interbank interest rates increased sharply with overnight, 1-week, and 1-month interest rates increasing by 66bps, 73bps, and 81bps respectively compared to the end of 3Q. This reflects the liquidity shortage across the banking system in the peak season.

Deposit interest rates were stable at low levels

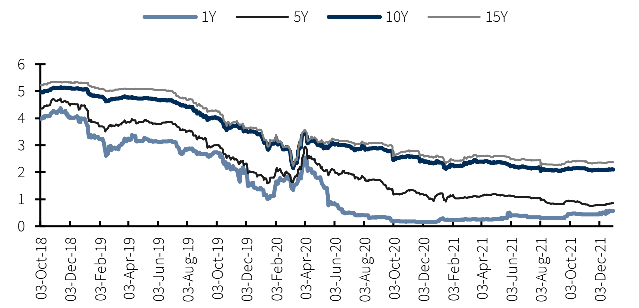
For the whole year of 2021, deposit interest rates were stable and fluctuated in a narrow range of below 0.4%. In 4Q alone, deposit interest rates moved sideways, increasing marginally for short terms (less than 12 months maturity).

Fig 9. Vietnam – Interbank rate (%)



Source: Bloomberg, KB Securities Vietnam

Fig 10. Vietnam – Government bond yield volatility (%)



Source: Bloomberg, KB Securities Vietnam

4. The gap between the USD/VND interbank rate and unofficial rate expanded

USD/VND interbank exchange rate remained low

In 2021, the SBV adjusted the USD/VND spot rates down three times after Vietnam continued to reach an agreement with the US Treasury and pledged not to deliberately devalue its currency to gain an export advantage. Besides, the USD supply remained ample thanks to remittances, foreign direct investment (FDI), and the return of trade surplus since September. As of year-end 2021, the USD/VND interbank rate was down 1.18% YTD to 22,826.
The interbank rate continued to stay low in the fourth quarter and increased slightly in December, reflecting a temporary shortage of USD in the banking system. The SBV lowered the asking price of the USD to 23,150 shortly thereafter to support liquidity and stabilize the exchange rate. For the whole quarter, the USD/VND interbank rate improved 0.29% QoQ from 22,761 to 22,826.

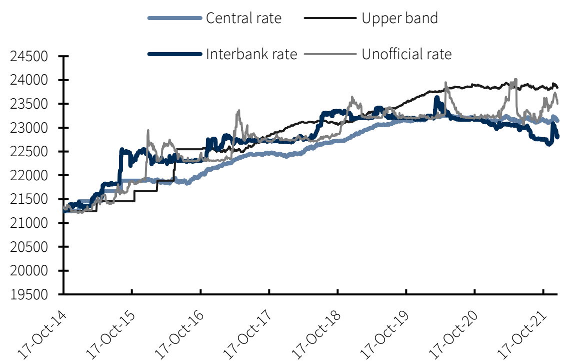
Gold smuggling sent unofficial rate increasing

The unofficial rate tended to rise as the gap between domestic and global gold prices widened, leading to an increase in demand for gold smuggling (the gap hit VND11 million/tael on December 31). For the fourth quarter, the USD/VND unofficial rate rose 1.0% to 23,503 from 23,270.

NEER and REER rose ahead of USD appreciation

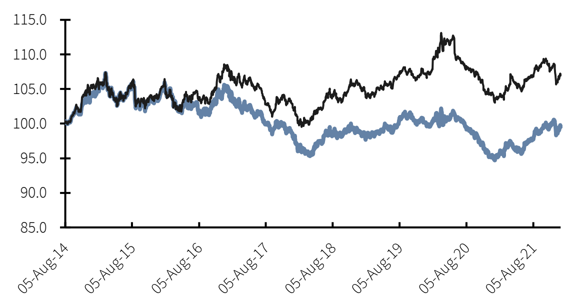
The NEER and REER curves of VND showed an upward trend in 2021. In particular, NEER and REER increased by 4.89% and 3% YTD respectively by the end of 2021. VND appreciated against USD thanks to the abundant supply of foreign currency similar to stronger VND against the currency basket of trading partners).
However, both NEER and REER of the VND have moved within a reasonable range and not posed pressure on VND devaluation since Vietnam applied the central exchange rate regime pegging VND to a currency basket since August 2014.

Fig 11. Vietnam – USD/VND exchange rate (VND)



Source: Bloomberg, KB Securities Vietnam

Fig 12. Vietnam – NEER & REER (points)



Source: Bloomberg, KB Securities Vietnam

Macro outlook in 2022

1. 2022F GDP growth

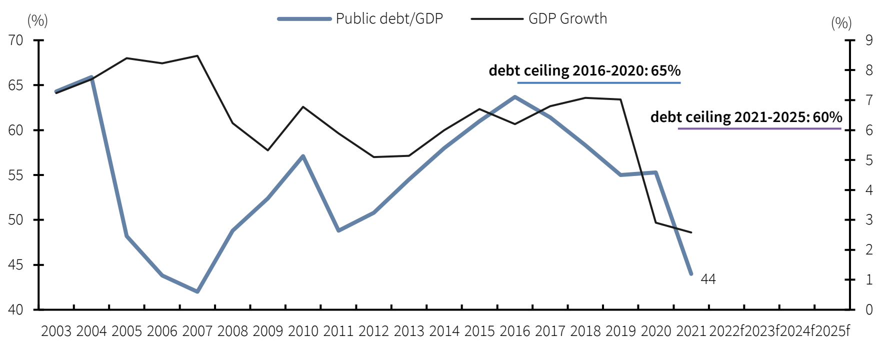
2022F GDP growth should reach 6.3%

In 2022, we expect the COVID-19 pandemic to remain under control in Vietnam thanks to high immunization coverage. Specifically, ending 2021, 79% of the population had received their first dose and 66% two, surpassing the WHO's target to vaccinate 40% of the population of every country by the end of 2021. Therefore, service, tourism, and hospitality sectors are set to rebound, and the resumption of international routes will be limited to countries with pandemic under control.

In addition, the stimulus package for 2022-2023 worth VND350,000 billion (Table 2) proposed by the Government was approved by the National Assembly thanks to the following factors: (1) Public debt/GDP is currently at a low level against 44% last year; (2) State budget revenue last year was high, reaching VND1,563,300 billion, 16.4% higher than the estimate.

In the base case scenario, we forecast Vietnam's GDP growth of 6.3% in 2022F, driven by: (1) the recovery of domestic consumption and manufacturing; (2) boosted exports thanks to effective FTAs, rising global consumer demand, and lower transport costs; and (3) the return of FDI inflows.

Fig 13. Vietnam – Public debt/GDP (%)



Source: KB Securities Vietnam

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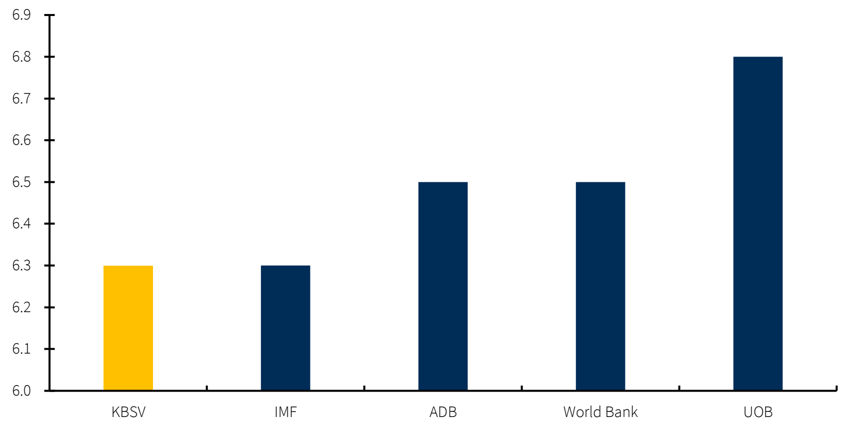
Source: KB Securities Vietnam
Date as of December 20, 2021

Fig ~~24~~14. Vietnam – 2022F GDP growth (%)

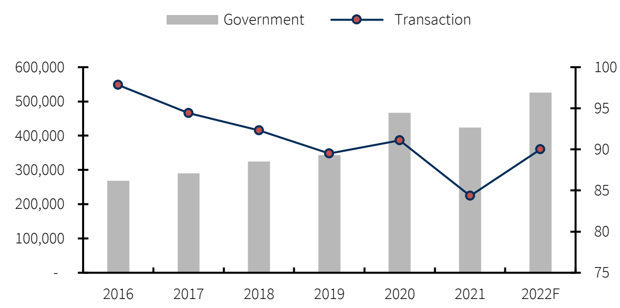


Source: IMF, World Bank, Bloomberg, KB Securities Vietnam

Public spending should be the driving force for economic growth

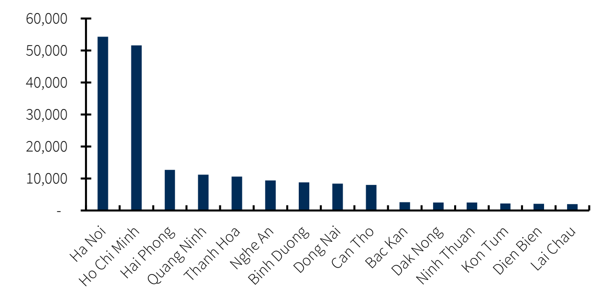
According to the Government report, the public spending from the State budget this year should hit VND526.1 trillion (+10.2% compared to the 2021 plan) and the Government set a target for actual/planned disbursement to be over 90%. We therefore expect the Government to accelerate the disbursement of public spending in 2022 given the following reasons: (1) Promoting public investment is the most feasible and fastest way to support the economy to recover from the pandemic. According to the GSO, if public spending rises by 1% YoY, GDP will expand 0.058%; and (2) eased social distancing measures would facilitate travel and promote backlogged projects.

Fig 15. Vietnam – Disbursement of public spending (VND bn)



Source: General Statistics Office, KB Securities Vietnam

Fig 16. Vietnam – 2022E budget allocation (VND bn)



Source: Government Report, KB Securities Vietnam

Export is expected to maintain growth in 2022

In 2021, Vietnam's export turnover of goods was 336.25 billion USD (+19% YoY). The bright spot of the import-export picture was that since the end of August, Vietnam's trade balance has returned to surplus after months of deficit. Data from the General Department of Customs also showed that most of the traditional exports to major trading partners recorded strong growth compared to the same period in 2020 (Figure 17). The drivers of Vietnam's export growth in 2022 include:

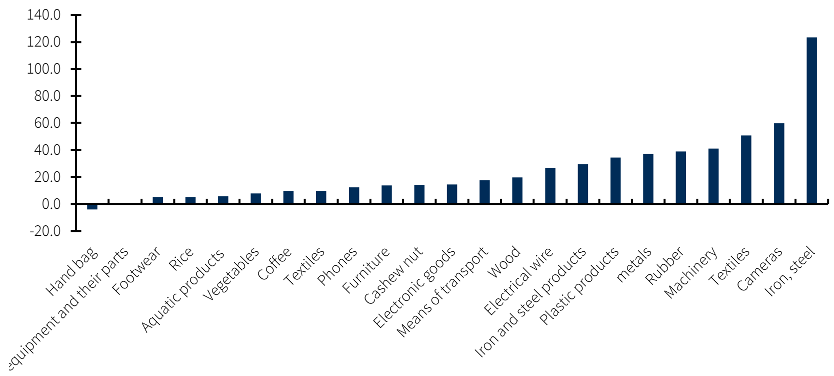
- Rising demand for goods in major economies after reopening thanks to high vaccination rate;
- Effective FTAs such as CPTPP, EVFTA, UKFTA, RCEP that help domestic exporters benefit from preferential tariffs and gain competitive advantages;
- The uptrend of export prices of key products like iron & steel, agriculture-forestry-fishery products, rice, which is an important driving force to accelerate export value;
- The rebound of the manufacturing sector when social distancing regulations eased off thanks to better control of the pandemic and effective COVID-19 vaccination programs

Table 2~~3~~. Vietnam – Roadmap for tax exemption at EVFTA and CTTPP

	Products	Current tariff	Tariff cut schedule
EVFTA	Footwear	8%	0 - 8Y
	Textile	12%	0 - 6Y
	Fisheries	8% (catfish) & 20% (shrimp)	4Y (catfish); Immediate (shrimps)
	Coffee	0% (unroasted); 7.5% (roasted)	Immediate
	Timber	0% (interior); 7% (wooden planks)	6Y
CTTPP	Coffee		Immediate except for Mexico (5-10Y)
	Textile		0 - 4Y (Canada), Immediate (Japan), 16Y (Mexico)
	Timber		Immediate except for Japan (15Y)
	Fisheries		Immediate (Canada, Japan), 3Y(Mexico)
	Footwear		Immediate (Canada), 0-16Y (Japan)
RCEP			Remove tariffs on at least 64% of tariff lines immediately. After 20 years, Vietnam will have removed approximately 90% of tariff lines for partner countries which, in return, will have removed 90-92% of tariff lines for Vietnam. Other ASEAN members will remove almost all tariff lines for Vietnam.

Source: Government Report, KB Securities Vietnam

Fig 17. Vietnam – Export growth of commodities in 2021 (%)



Source: General Statistics Office, KB Securities Vietnam

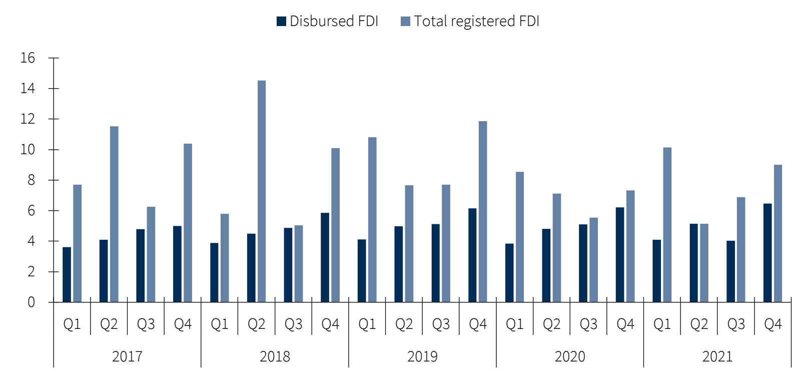
FDI inflows should continue to flow into Vietnam thanks to better control of the pandemic

Although the fourth COVID wave has negatively impacted the short-term outlook for the business environment in Vietnam, we believe that foreign investor confidence will improve in 2022 when the pandemic is gradually under control and social distancing regulations are lifted.

For 4Q alone, FDI disbursement reached USD6,460 million (+59.9% QoQ, +3.86% YoY) and newly registered FDI hit USD9,008 million (+31.0% QoQ, +23.0% YoY), showing that investors were upbeat about the business environment and would continue to diversify supply chains in Vietnam.

Assuming that the pandemic is better controlled, foreign investors' confidence will be improved gradually since Vietnam remains an attractive investment destination with great exposure to FTAs, favorable geographical location, young population structure, and supportive policies of the Government.

Fig 18. Vietnam – FDI (USD mn)



Source: General Statistics Office, KB Securities Vietnam

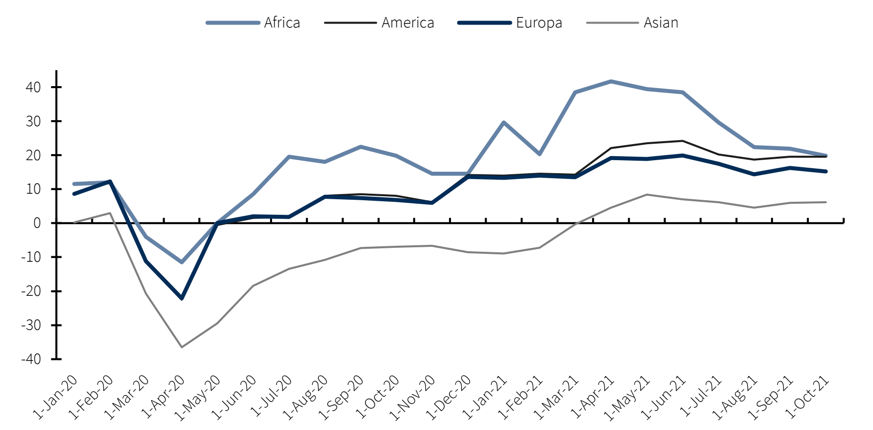
The recovery of domestic consumption and production slowed down due to the fourth COVID wave, which may restrain the sharp increase of GDP in 2022

During the past social distancing periods (the first starting April 2020, the second starting July 2020, the third starting February 2021, and the fourth starting April 2021), domestic consumption and production saw a sharp fall, then rebounded immediately (Figure 21, 22), proving the resilience of the Vietnamese economy.

However, the recovery of domestic consumption after the fourth wave was much slower than previous ones as a result of the far-reaching and long-lasting effect of this COVID wave. We, therefore, take a cautious stance on the pace of consumption recovery in 2022. Moreover, consumer spending in Vietnam will not be able to grow as strongly as in Western countries (Africa, Europe, and Latin America), because Asian people, including Vietnamese, tend to be more prudent after the pandemic (Figure 19).

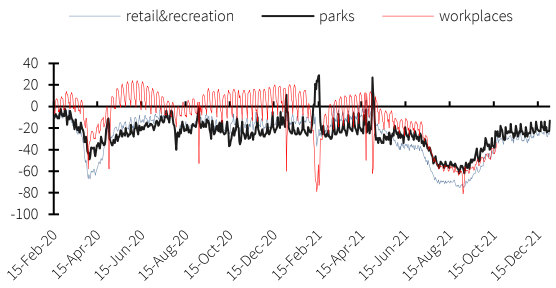
We also expect the catering and tourism sector to bounce back in 2022 (though not as much as the pre-COVID-19 level). This sector has recently shown signs of recovery thanks to the following factors: 1) The resumption of domestic and international routes in accordance with the roadmap of the Ministry of Transport. Specifically, the Prime Minister agreed to resume regular international flights to nine destinations with high vaccination coverage and adequate pandemic control measures in place including Beijing - Guangzhou, Tokyo, Seoul, Taipei, Bangkok, Singapore, Vientiane, Phnom Penh, San Francisco/Los Angeles from January 1, 2022; (2) domestic tourism resumed from 4Q21, corresponding to the Google Mobility Index inching up from the end-September low (Figure 20).

Fig 19. Global – Consumer spending (YoY)



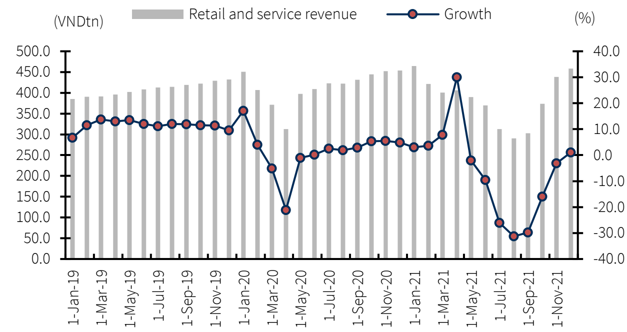
Source: Bloomberg, KB Securities Vietnam

Fig 20. Vietnam – Mobility to retail areas (%)



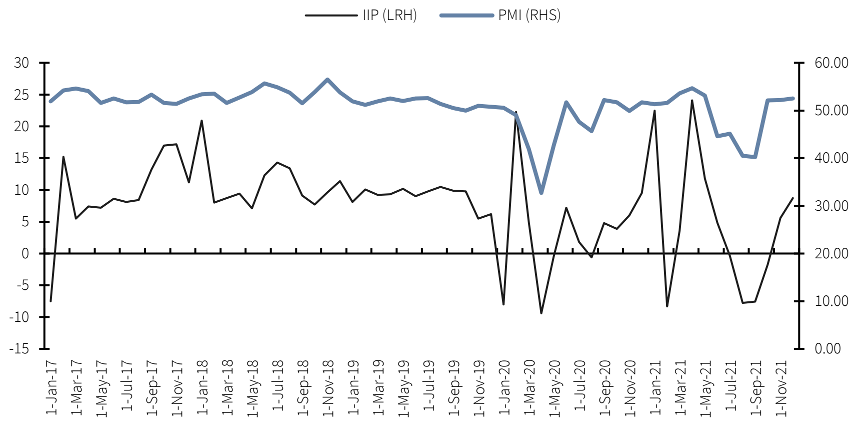
Source: Google, KB Securities Vietnam

Fig 21. Vietnam – Retail & service sales (VND bn)



Source: Fiinpro, KB Securities Vietnam

Fig 22. Vietnam – IIP & PMI (points)

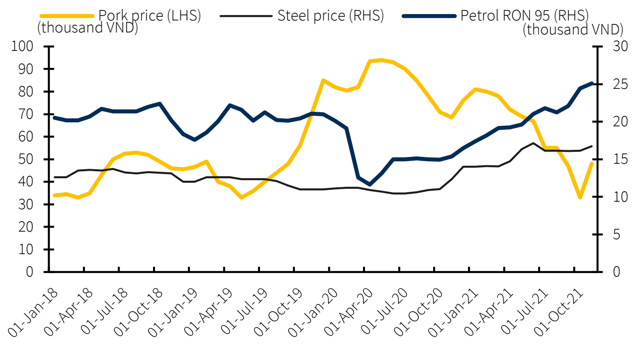


Source: General Statistics Office, IHS Market, KB Securities Vietnam

2. 2022F inflation

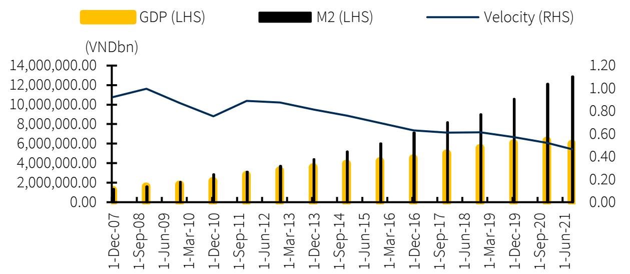
Despite some potential risks fueling inflationary pressure next year, we expect Vietnam's inflation to be kept well under 3.8% , underpinned by: (1) Slow recovery of demand partly coming from Vietnamese people's saving habit to overcome hardship; (2) the SBV's more cautious monetary policy in the face of concerns about inflation risks, slow M2 growth rate and conservative foreign currency purchases; and (3) the upward trend of commodity prices, including pork and petrol prices, but at a slower pace as the bottleneck of supply chain gradually eased off.

Fig 23. Vietnam – Commodity prices (thousand VND/kg)



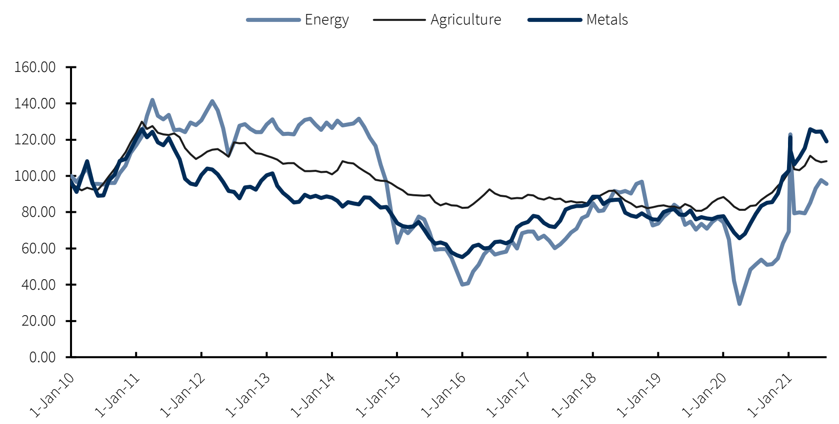
Source: Vietnam Livestock Association, Hoa Phat Group, PV Oil, KB Securities Vietnam

Fig 24. Vietnam – M2, GDP & velocity of money (VND bn)



Source: Bloomberg, KB Securities Vietnam

Fig 25. Global – Commodity prices (USD)



Source: World Bank, KB Securities Vietnam

Commodity prices showed divergence, especially in the energy sector which tended to increase and remain high

Commodity prices have recovered significantly from the second half of 2020 (Figure 25) until the middle of the second quarter of 2021 with the main driving force coming from China's boosting the import of energy, metals (fueled by infrastructure development), and agricultural commodities (to ensure food security). In the second half of 2021, the upward momentum showed signs of leveling off and moving sideways, except for the prices of energy commodities such as oil, gas, coal which increased from the end of the third quarter in the context of the energy crisis in the UK and China. We expect the Governments of the US, China, India, Japan, and the UK to work together and release oil reserves to restrain rallies in fuel prices.

We forecast pork prices could rise to VND60,000 – 70,000/kg in 2022 thanks to the increasing demand for food amid decreasing pork supply. Swine fever, high bran price and low bidding price are the main contributors to the slowdown of re-herding at the end of 2021. However, pork prices are unlikely to reach 2020 peaks thanks to the Government's priority to enhance domestic supply.

Table 4. Vietnam – 2022F headline CPI (%)

No.	Groups	Weight (%)	+/- (% YoY)	Contribution to overall CPI (%)
1	Food and foodstuff			
	Grains	3.67	8	0.3
	Foodstuff	21.28	4	0.9
	Outdoor eating	8.61	3.5	0.3
2	Beverages and tobacco	2.73	1.5	0.0
3	Clothing and footwear	5.7	1.1	0.1
4	Housing, water, electricity, gas and other fuels	18.82	3.1	0.6
5	Furniture, household equipment and maintenance	6.74	1.5	0.1
6	Health	5.39	3.5	0.2
7	Transportation	9.67	9	0.9
8	Communication	3.14	-0.2	(0.0)
9	Education	6.17	5	0.3
10	Entertainment	4.55	2	0.1
11	Miscellaneous goods and services	3.53	2.5	0.1
	Total			3.8

Source: KB Securities Vietnam

3. 2022F interest rate

The SBV's monetary policy is expected to remain supportive in 2022

We expect the SBV's monetary policy to continue to take a supportive stance in 2022. However, the operating interest rates are likely to stay the same and set a target for credit growth to reach 14%, equivalent to 2021's amid the presence of inflationary pressure (at 3.8% in the base case scenario).

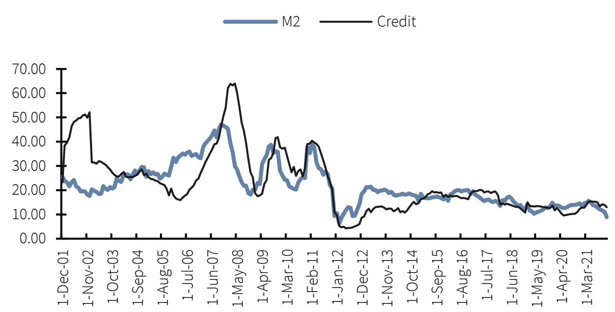
Deposit interest rates are likely to inch up 0.5% in 2022

We assess that the deposit interest rates are likely to inch up in 2022 from the current low because: (1) Inflation may bounce back, prompting banks to raise deposit rates to keep real rates positive and attractive enough to gain competitive advantage; (2) credit demand may grow after the economic reopening; and (3) more prudent monetary policy of the SBV may make deposit interest rates inch up 0.5%, equivalent to a 3.8% upturn in inflation.

The lending interest rates should stay unchanged or go down given the interest rate support package

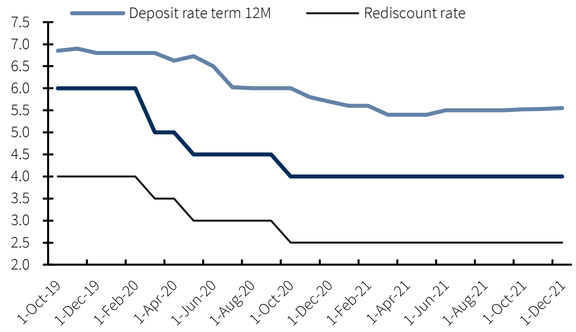
The lending rates should be kept unchanged or decrease slightly for some priority industries given the Government's interest rate support package. The National Assembly approved the 2% interest rate support package worth a maximum of VND40,000 billion for some priority industries since banks need to maintain high net interest incomes (corresponding to high NIM at present), to make room for provisioning given rising pandemic-induced bad debts.

Fig 26. Vietnam – M2 & credit growth (%)



Source: State Bank, KB Securities Vietnam

Fig 27. Vietnam – Deposit & operating interest rates (%)



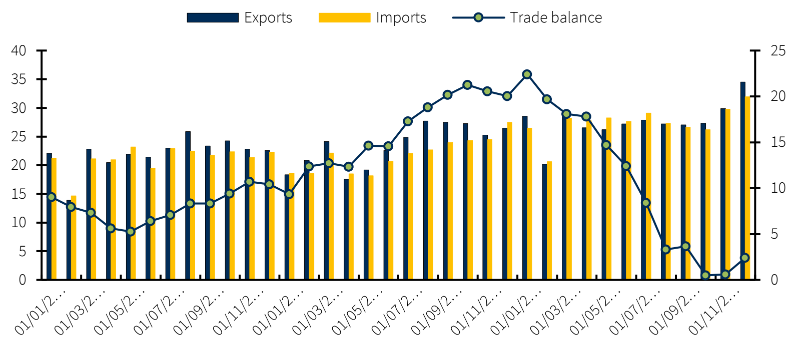
Source: State Bank, KB Securities Vietnam

4. 2022F USD/VND exchange rate

The USD supply is forecast to equal the level achieved in 2021

The USD supply in 2022 is forecast to be on the same level as in 2021 thanks to the recovery in exports, FDI, and remittance inflows. To be more specific, despite a sharp fall during the lockdowns, Vietnam's exports for the whole year of 2021 still reached USD336.25 billion (+19% YoY) and surpassed imports after months of trade deficit thanks to rising export prices. In 2022, we expect export volume to surge and export prices to remain stable. The manufacturing progressively recovered following lockdowns, and the demand in other countries spiked up during the year-end peak season. We believe that Vietnamese businesses will continue to boost exports in the coming months to bring in large amounts of foreign currency. Data from the World Bank also shows that despite being impacted by the COVID-19 pandemic, remittances into Vietnam in 2021 still reached a record high of USD18.1 billion (+7% YoY), of which Ho Chi Minh City alone (accounting for 30% of the country's remittances) recorded USD6.6 billion (+20% YoY). More capital inflows are expected in the coming months thanks to: (1) Overseas Vietnamese to support their pandemic-hit relatives in Vietnam; (2) great demand for investment in Vietnam. In addition, the disbursed FDI inflows are forecast to return when investor confidence improves in the context that the pandemic is under control (as analyzed in the 2021F GDP growth).

Fig 28. Vietnam – Imports – Exports

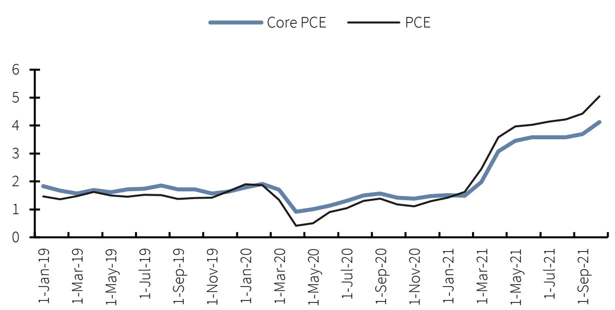


Source: Fiinpro, KB Securities Vietnam

USD/VND exchange rate is forecast to increase marginally

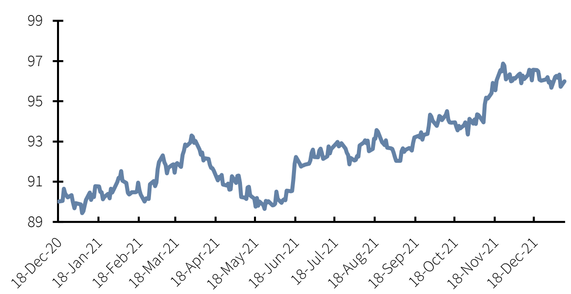
Stronger USD may drive the USD/VND exchange rate to increase 0.5%–1% in 2022 given stable USD supplies. In the fourth quarter alone, the US Dollar Index (DXY) which measures the strength of the US dollar against the currency basket traded 1.53% QoQ higher to 95.67 with the increase concentrated in the second half of November, after the FOMC and FED meetings. The message pointed to the trend of tightening (hawkish) as inflationary pressure persists with the US personal consumption expenditures price index (PCEPI) exceeding the target by 2%. PCEPI is an indicator used for capturing inflation (or deflation) by the FMOC that measures the prices people living in the United States, or those buying on their behalf, pay for goods and services. In addition, the fact that the US did not label Vietnam as a currency manipulator reflects positive diplomatic efforts of the SBV with the US Treasury. Accordingly, the SBV will continue to manage monetary policy and exchange rate policy reasonably to curb inflation, stabilize the macroeconomy, and reboot economic growth, not to create an unfair competitive advantage in international trade.

Fig 29. US – PCE & core PCE (%)



Source: Bloomberg, KB Securities Vietnam

Fig 30. US – US dollar index (%)



Source: Bloomberg, KB Securities Vietnam

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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