KB Securities VIETNAM

Macro outlook 2Q21

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Some forecasts of KBSV about Vietnam's economy in 2021 are as follows:

1) GDP growth in 2021 should slightly go down to 6.5% from the previous level of 6.6% given the recovery of domestic consumption demand, the impact of trade agreements on export and import activities and private investment and FDI;
2) Average CPI may rise to 3.8% for the whole year 2021, under the inflation target set by the Government. Inflationary pressure focuses on 2Q and early 3Q.
3) Monetary policy is forecast to be more tightened under inflationary pressure, with money and credit growth at 14% and 13%, respectively. Deposit rates are likely to bottom out in 1Q and will inch up slightly in the 2Q of the year. The upward pressure of the USD made the VND depreciate, but still under control thanks to the plentiful supply of foreign currencies. The VND's biggest risk is the accusation of being currency manipulator from the US.

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Executive Summary

Vietnam's economy in 1Q continued post signs of recovery, especially in the industrial and construction sectors. Although the Covid-19 broke out strongly and spread just before the Lunar New Year, positive import and export activities and a recovery in investment from the private sector and FDI helped to maintain a sustainable growth. For the rest of the year, we expect the pandemic to be kept under control and the distribution of vaccines should be accelerated. As a result, the main drivers of economic growth are the recovery of domestic consumption demand, the impact of trade agreements on exports, and FDI inflows. In addition, the reopening of international commercial flights could also be a highlight for the service area. The biggest risks are the vaccine resistance of the Covid-19 variants, making the it more difficult to contain the pandemic; inflationary pressures and the alleged currency manipulation.

Macro stability will continue to be focused and maintained in the coming period, despite the pressure on inflation and exchange rate management. KBSV stated that exchange rate and inflation would continue to fluctuate under control and not exceed the target set by the Government.

Table 1. Vietnam – 2021 macro targets as of March 20, 2021

			KBSV forecast	
	Unit	2020	Jan-21	Apr-21
GDP growth	% YoY	2.91	6.60	6.50
Headline CPI	% YoY	3.23	3.60	3.80
Credit growth	% YTD	10.14*	13.00	13.00
M2 growth	% YTD	12.56*	14.00	14.00
Policy rate (refinancing rate)	%/year	4.00	3.50	4.00

Source: KB Securities Vietnam

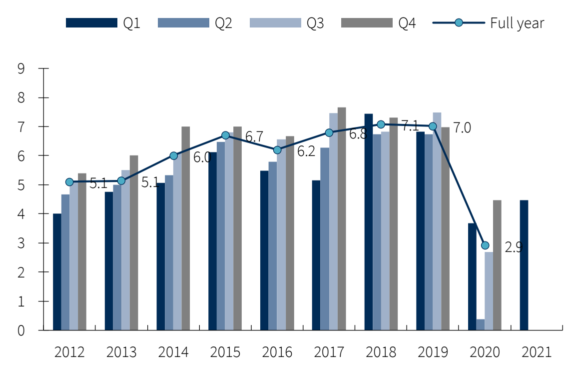
Macro highlights in 1Q21

Good growth thanks to thriving im-export activities

❖ 1Q GDP growth: On an upward trajectory

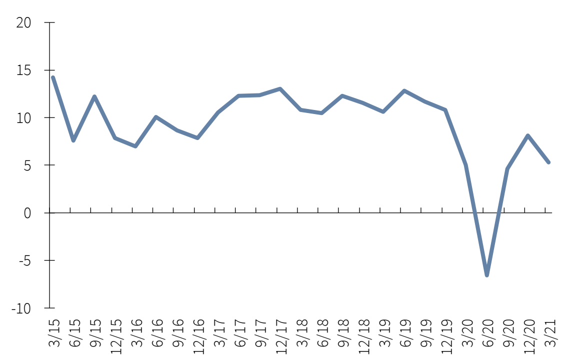
Vietnam economy continued its strong rebounds in 1Q, although the resurgent Coronavirus cases right before the Lunar New Year badly hurt domestic demand. Data from the General Statistics Office (GSO) indicated that 1Q GDP is estimated to increase 4.5% YoY (Figure 1), which is equivalent to the increase in 4Q20 and lower than the target set in Resolution 01/NQ-CP. However, this speed is still encouraging when the economy is affected by the third Coronavirus wave. Booming export activities (+ 22% YoY) as well as the recovery in growth of private investment and FDI are the two main factors helping Vietnam maintain the above growth.

Fig 1. Vietnam – Quarterly GDP growth (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – Retail and services sales (%)



Source: General Statistics Office, KB Securities Vietnam

Consumption growth was badly affected in 1Q21 due to the Covid-19

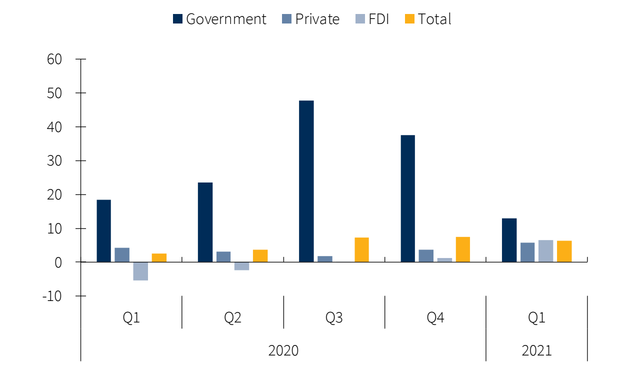
From the demand side, consumption was strongly impacted by the Covid-19 while private investment and FDI rebounded. To be more specific:

- Final consumption rose 4.6% YoY and lower than the average increase of 7.5% in the period 2015 – 2019. Covid-19 broke out and spread right before the Lunar New Year, making retail and service revenue growth in 1Q only up by 5.3% (vs 8.1% in 4Q20).

The recovery signal from private investment and FDI

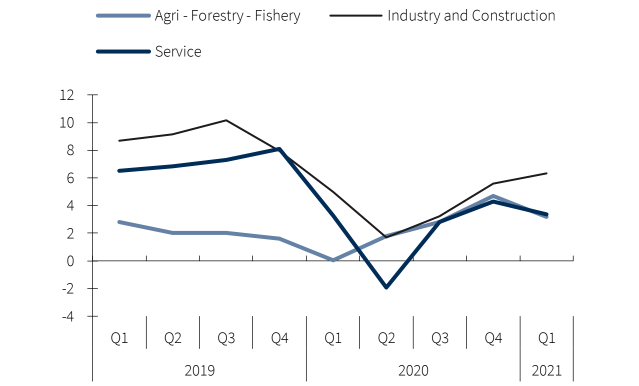
- Social investment capital in 1Q (6.3% YoY), though higher than the average growth rate in 2020 (2.5%), is still at a low growth rate over the past 10 years. The difference in investment growth in the first quarter of 2021 is that it no longer depends entirely on the state budget capital, but has shifted to the private sector and FDI (Figure 3). Specifically, investment growth from the state budget capital inched only 13.0%, much lower than the average growth rate of 34.5% in 2020. Meanwhile, the private sector (+6.5% YoY) continued its growth momentum from 4Q20 thanks to active production. FDI also grew well at 6.3% YoY. 3M20 foreign investment into Vietnam reached USD10.1 billion (+18.5% YoY), of which FDI disbursement was USD4.1 billion USD (+ 6.5% YoY). Export turnover of FDI sector surged 27.5% YoY, the highest increase ever.

Fig 3. Vietnam – Social investment capital growth (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – GDP growth by region (%)



Source: General Statistics Office, KB Securities Vietnam

From the supply side, the service sector growth was slowed down by the Coronavirus outbreak while the surge in commodity prices benefit the agricultural and manufacturing sectors.

Service sector growth was negatively affected by the 3rd Covid-19 outbreak

- Service sector in 1Q21 increased by 3.3% (down from 4.29% in 4Q20). The pandemic hindered the growth of the wholesale and retail industry (+6.5%, from +7.0% in 4Q20), while the financial and banking activities remained strong thanks to the growth of stock market (+7.4% YoY). Meanwhile, the travel restrictions on international visitors to Vietnam was maintained throughout 1Q and continued to slow the growth of the hospitality and catering (-4.5%), transportation, and warehousing industries (-2.2%).

The recovery of fishery and rice exports supported the growth of the agriculture, forestry and fishery sector

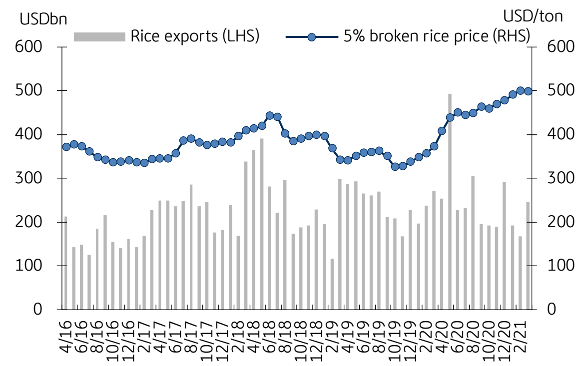
- The agriculture, forestry and fishery sector increased by 3.2% in 1Q, the highest growth rate of 1Q in the past three years. The prices of agricultural and fishery products increased sharply thanks to rebounding demand, making export activities more active. Rice prices maintained their 8-year highs for many months while fishery exports increased by 3.3% YoY. However, Vietnam's agricultural and fishery exports have been hit hard by the shortage of ships, lack of containers and skyrocketing freight charges, especially shipping to the US and EU.

Manufacturing and processing industry continues to be the driving force for GDP growth

- GDP growth of industrial and construction sector increased by 6.3%, of which the manufacturing continued to be the main driver of growth in this sector. Processing and manufacturing increased by 9.5% YoY, mainly due to the booming export activities of FDI enterprises. Export data shows positive growth for most of the export sectors (Figure 6). In 1Q, Vietnam's export turnover reached USD77.3 billion, up 22.0% YoY. This result is significantly supported by the recovery of consumer demand in many major trading partners, of which exports to the US are 32.8%, China is up 34.3%, EU is up 14.2%. Export growth remained healthy in the FDI sector (+ 28.5% YoY) as these enterprises took advantage of the supply chain and global economic recovery after relocating their production to Vietnam.

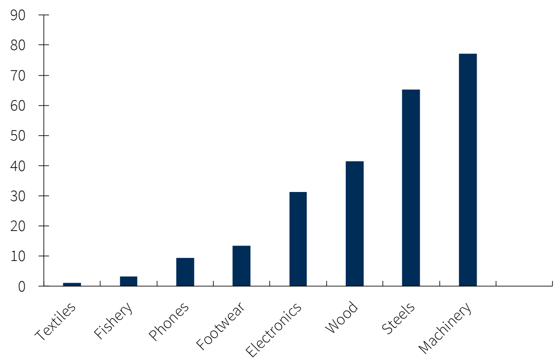
Domestic firms have also taken advantage of trade agreements, with export growth of 4.9% YoY. Export activities shifted and surged for machinery and equipment (+ 77.2%), electronics, computers and components (+ 31.3% YoY), and wood (+ 41.5%). The surge in raw material prices raised export turnover of these products, such as rubber (116.5%), crude oil (+ 27.7%), and steel (+ 65.2%). Global recovery demand and Covid-19 support packages help the key exports in previous years recover, including mobile phones and accessories (+ 9.5%), textiles and apparel (1.1 %) and footwear (13.5%).

Fig 5. Vietnam – Rice export price and turnover (USD million, USD/ton)



Source: Vietnam Customs, KB Securities Vietnam

Fig 6. Vietnam – Export growth of some main products (%)



Source: Vietnam Customs, KB Securities Vietnam

1Q21 inflation was low due to a high base level in the first two months of 2020

❖ **1Q20 inflation: Reached 20-year lows**

1Q20 CPI fell to its lowest level in the past 20 years. Average inflation increased by only 0.3%, mainly due to the high base level in the first two months of 2020. Monthly inflation gradually rose and began to reflect the low base level of gasoline prices in 2020 due to the impact of the pandemic (Figure 8). Core inflation also plunged to 0.7%, the lowest level since 2015.

Food, electricity and pump prices are the three factors that have the strongest impact on 1Q CPI

Main factors affecting CPI in 1Q21:

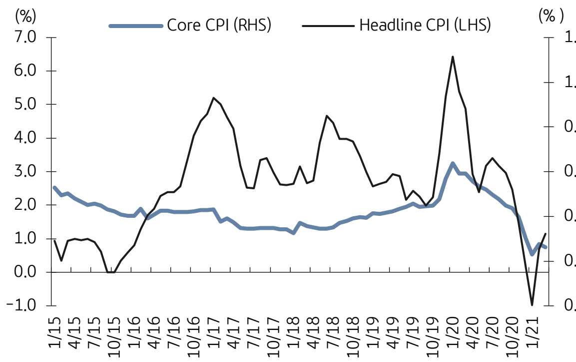
1) The prices of the food group increased by 6.7%, mainly due to the increase of 8.6% in the rice prices, which raised overall CPI up 0.2 percentage points;

2) The prices of the educational group rose 4.1% due to the gain in tuition fees for the new semester 2020-2021 according to the roadmap of Decree No. 86/2015/ND-CP;

3) Housing and service prices decreased by 0.8% owing to a 7.2% drop in the average cost of electricity for domestic use, leading to a decrease in overall CPI by 0.2 percentage points;

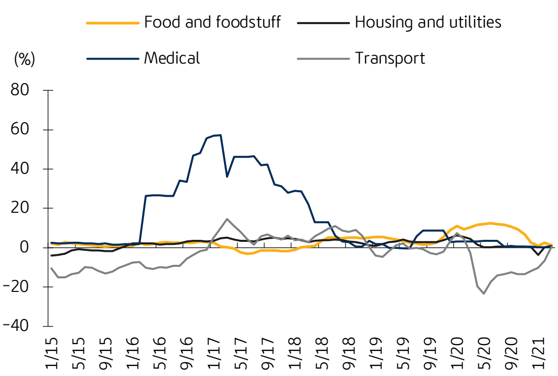
4) Transportation prices fell 5.1% due to a 9.5% drop in gas pump prices, lowering overall CPI by 0.3 percentage points.

Fig 7. Vietnam – Inflation and core inflation (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 8. Vietnam – Movements of some main CPI groups (%)



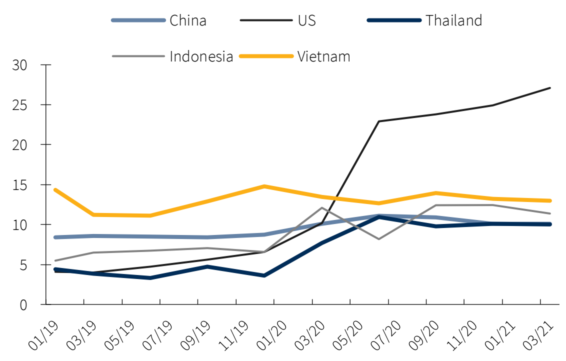
Source: General Statistics Office, KB Securities Vietnam

❖ 1Q21 monetary policy: Prudent

Prudently eased monetary policies are still applied

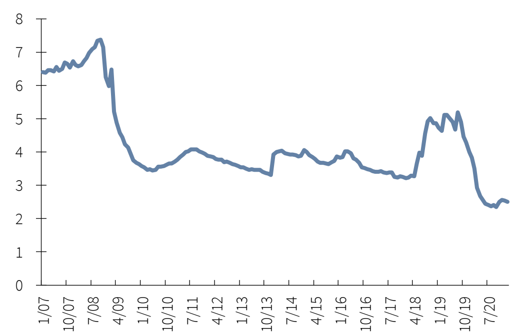
Monetary policy in 1Q21 remained consistent with the policy of the State Bank in 2020, with a more cautious trend under the pressure of inflation expectation. Unlike the trend of expansionary money supply like other central banks in the region and the world, the State Bank kept M2 growth stable around 10-14% (Figure 9). As analyzed in previous reports, the State Bank's monetary policies amid COVID-19 are still more friendly than those of other regional countries and mainly use resources from commercial banks, hence minor impact on money supply growth. We think these policies are appropriate to Vietnam's economic conditions, and can avoid future consequences such as bad debt and asset price bubbles as in the 2009 – 2011 period.

Fig 9. The world – M2 growth (% YoY)



Source: Bloomberg, KB Securities Vietnam

Fig 10. The world – Policy rates (%)



Source: BIS, KB Securities Vietnam

* The world policy interest rate is calculated as the average of the policy rates of 38 major economies

Liquidity continued to be redundant, causing interbank interest rates and treasury bond yields to remain low but slightly rose compared to the end of 2020

System liquidity in 1Q was ample except for the period before the Lunar New Year, and the spread between M2 and credit growth is positive (Table 2). However, market liquidity was less abundant than in 2020, given: 1) Credit recovery; 2) The pause of the State Bank in injecting VND through buying foreign currencies. This also affects interbank interest rates and government bond yields, which is though still at historic low levels, have increased slightly vs the end of 2020 (Figure 11, 12).

Deposit and lending interest rates are flat

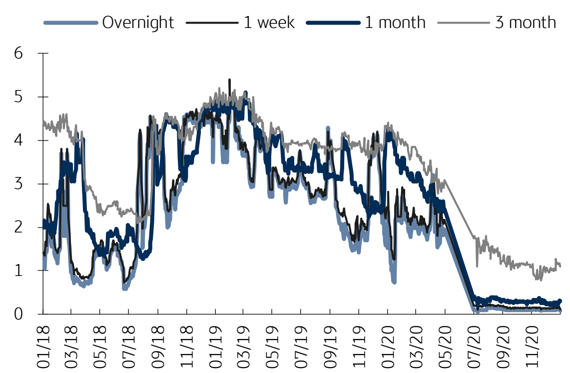
1Q deposit interest rates were almost flat at 3.0-4.0%/year (less than 6-month terms), 3.5-5.5%/year (6-12-month terms) and 4.6-6.0%/year (>12-month terms). Lending interest rates are also stable, not much changed compared to the end of 2020. Specifically, in addition to VCB's interest rate reduction for all outstanding loans affected by COVID-19 and BIDV's support credit package for SMEs until September 30, 2021, some commercial banks also reduce lending interest rates by 10-40bps, but only with a short preferential period in the first 6-12 months.

Table 2. Vietnam – Money demand and supply

(VNDbn)	31/3/2019	30/6/2019	30/9/2019	31/12/2019	30/3/2020	30/6/20020	30/9/2020	31/12/2020	20/3/2021
M2	9,478,157	9,866,810	10,083,289	10,573,725	10,755,572	11,118,423	11,485,845	11,975,801	12,154,240
Growth rate YTD (%)	2.89	7.11	9.46	14.78	1.72	5.15	8.63	13.26	1.49
Growth rate QoQ (%)	2.89	4.10	2.19	4.86	1.72	3.37	3.30	4.27	1.49
Increase in M2 amount by quarters	266,309	388,653	216,478	490,436	181,847	362,851	367,422	489,956	178,439
Credit outstanding balance	7,437,086	7,742,083	7,888,910	8,195,393	8,302,412	8,494,504	8,694,050	9,189,494	9,324,580
Growth rate YTD (%)	3.13	7.36	9.40	13.65	1.31	3.65	6.08	12.13	1.47
Growth rate QoQ (%)	3.13	4.10	1.90	3.88	1.31	2.31	2.35	5.70	1.47
Increase in lending amount by quarters	225,911	304,997	146,827	306,483	107,019	192,092	199,546	495,444	135,086
Annual gap bt. M2 and lending growth	40,398	124,054	193,706	377,659	74,828	245,587	338,635	162,388	43,354
Quarterly gap bt. M2 and lending growth	40,398	83,656	69,651	183,953	74,828	170,759	167,876	(5,488)	43,354

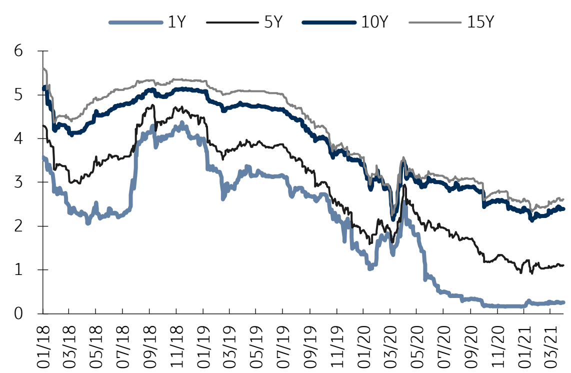
Source: State Bank, KB Securities Vietnam

Fig 11. Vietnam – Interbank interest rates (%)



Source: KB Securities Vietnam, Bloomberg

Fig 12. Vietnam – Government bond yield movements (%)



Source: KB Securities Vietnam, Bloomberg

❖ USD/VND: The gap between interbank and unofficial interest rates

Interbank USD/VND exchange rate continuously decreased

Interbank USD/VND exchange rate continuously decreased in 1Q and only inched up at the end of March due to increasing pressure from the USD. This movement is due to the State Bank's shift from buying additional foreign currencies for spot to buying futures to raise foreign exchange reserves from January 2021 and the frequency of buying foreign currency also switched from daily to weekly. By the end of March, the central rate rose 0.5% YTD while the interbank rate slipped 0.1%. The listed exchange rates at commercial banks were quite similar, currently at 22,970/23,180 due to the abundant supply of foreign currency thanks to the surplus trade balance (estimated at USD2.0 billion for 1Q). Specifically, given the excess supply of foreign currency, we observe that USD6.5 billion was sold by commercial banks to the SBV in 1Q.

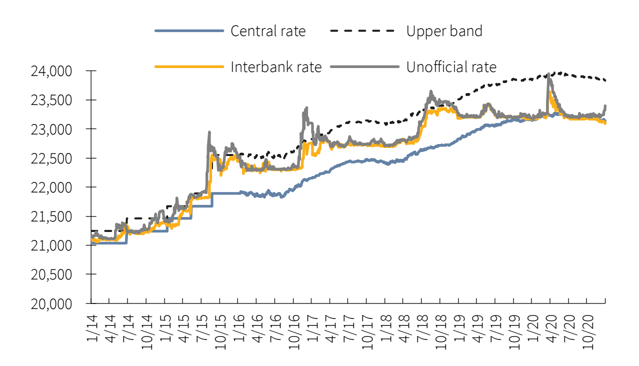
Unofficial rate skyrocketed due to the large domestic – international gold prices gap

The gap between domestic and international gold prices widened to VND5 -7 million/tael. The demand for gold accumulation increased sharply after Tet while the supply was limited (SJC is the exclusive producer of gold bars of the SBV) and gold is a commodity that cannot be officially imported, causing the demand for smuggled gold to spike. This is the reason why the exchange rate on the free market surged in recent years. By the end of March, the buying/selling rate was 23,800/23,850, up 2.0% compared to the end of 2020.

NEER and REER rallied given the USD uptrend

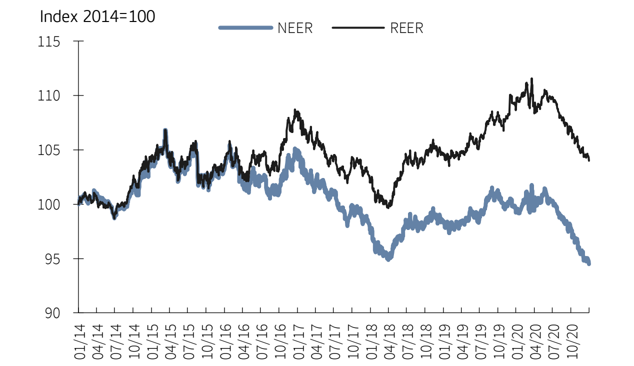
The uptrend of NEER and REER lines returned from the end of February (Figure 14), reflecting the upward movement of USD in the world. Combined with the widening gap between the unofficial market exchange rate and the interbank rate, the pressure of the VND devaluation becomes even more pronounced.

Fig 13. USD/VND exchange rates (VND)



Source: Bloomberg, KB Securities Vietnam

Fig 14. NEER and REER (points)



Source: Bloomberg, KB Securities Vietnam

The SBV continues to adjust the exchange rate management policy to stabilize the macro and partially solve the problem of currency manipulation allegations from the US.

From December 31, 2020, the SBV stopped listing the spot exchange rate at transaction spots and stop buying foreign currencies at spot. Besides, from January 4, 2021, the Bank bought foreign currencies for a 6-month term (instead of a 3-month term as before) with cancellation at the forward buying rate of VND23,125/USD. Each credit institution is only entitled to cancel once and the entire transaction value for each foreign currency sale contract with the SBV. After that, the SBV also adjusted the trading frequency from daily to weekly. This method is cash flow-oriented for a period of time (six months), instead of having to focus on buying or selling to intervene in the market as alleged from the US side. The factor that allows commercial banks to cancel is the key, helping commercial banks to flexibly adjust their foreign exchange reserves, based on their own foreign currency capital without giving direct intervention to the SBV. In case the spot rate at the contract expiry is lower than the forward price (VND23,125), commercial banks can execute the contract, thereby injecting a large amount of VND into the market and making the market exchange rate go sideways or up. In case the spot rate at contract maturity is higher than the forward price (VND23,125), commercial banks can cancel the forward contract. Thus, the exchange rate in both cases tends to increase in line with the export target and the SBV does not directly manipulate the currency as the US alleged.

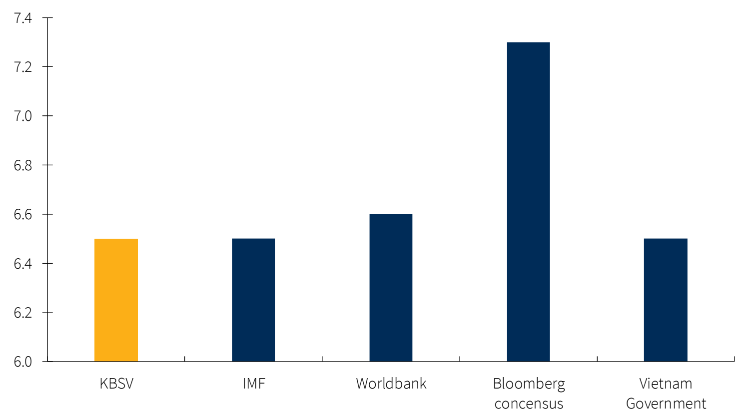
2021 macro outlook

2021E GDP forecast is 6.5%

❖ GDP growth forecast in the 2Q21

We revised down our 2021E economic growth forecast from 6.6% to 6.5%, reflecting the impact of the third COVID-19 wave before the Lunar New Year. Given a low base in 2Q, we expect GDP growth YoY in 2Q21 to surge (7.2% YoY) and return to normal in the 2H21. Growth drivers include export activity, domestic consumption, and the return of FDI and private investment.

Fig 15. Vietnam – GDP growth in 2021 (%)



Source: IMF, WB, ADB, Bloomberg, KB Securities Vietnam

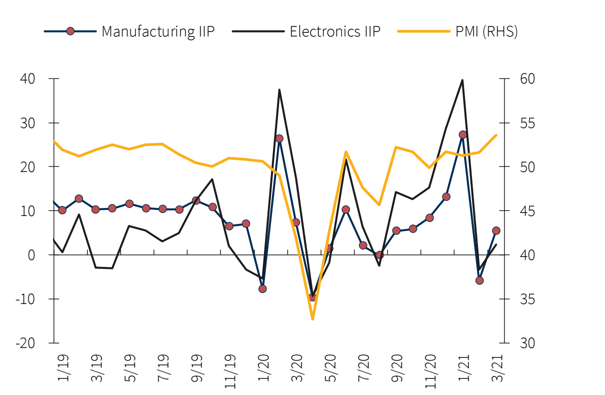
Exports continue to be a bright spot for the rest of the year, with the recovery of the traditional export sector

Vietnam's manufacturing activities have bounced back strongly since April 2020 (except for February 2021, which dropped sharply due to seasonal factors). March PMI improved thanks to customer demand and successful Coronavirus control. New orders rose for the seventh month in a row while new export orders spiked since November 2018. The growth of the manufacturing industry is still very strong, especially from the electronics segment. New orders continuously went up over the past several months in major countries of the value chain such as Korea, China, and Taiwan, and we expect Vietnam to continue to benefit from this, as Vietnam is increasingly consolidating its position as a leading manufacturing hub in Southeast Asia. The recovery sign appeared in the traditional export sector in 1Q. We expect that FTAs will boost Vietnam's industries and the elimination of tariffs will benefit key export industries, including smartphones and electronic products, textiles, footwear, agricultural products (rice and coffee) and fisheries (catfish and shrimp). The three largest trade agreements that Vietnam has joined and signed in the past two years are CTTPP, EVFTA and RCEP. Notably, the CTTPP and EVFTA took effect from 2019 and 2020, paving the way for increased trade between the EU, six partner countries in the CTTPP, and Vietnam. The EVFTA eliminates nearly 99% of customs duties between the two countries with an eight-year roadmap while CTTPP commits to remove 97% - 100% of goods from Vietnam, depending on each partner with a 16-year roadmap (Table 3).

Domestic demand is expected to be a driving factor for growth in the 2Q21

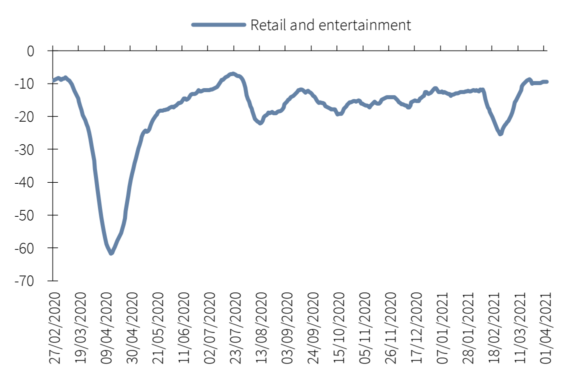
Well-insulated pandemic is a key supportive factor that helps domestic demand recover in 2021, especially in the second and third quarters when domestic tourism is in the high season. Google's mobility survey (Figure 17) shows that mobility to retail and entertainment, although has not recovered from the pre-pandemic levels, has remained a stable uptrend over the past month given controlled COVID-19.

Fig 16. Vietnam – IIP and PMI



Source: Vietnam Customs, IHS Markit, KB Securities Vietnam

Fig 17. Vietnam – Mobility to retail and entertainment (%)



Source: Google, KB Securities Vietnam

Table 3. Tax elimination roadmap according to EVFTA and CTPPP

	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)

Source: KB Securities Vietnam

FDI attraction in 2021 prospers thanks to FTAs and recovery in manufacturing activities

FDI inflows to Vietnam should be positive despite fierce competition from ASEAN countries and India. CTTPP and EVFTA have come into effect, and RCEP would in 2H21 will help Vietnam have a free trade advantage over a major trading partners, along with well-insulated COVID-19 and political stability to help production activities. The return of exports is the difference between Vietnam and other countries in the region. According to calculations, before the Covid-19 pandemic, FDI inflows into Vietnam were much higher than countries in Southeast Asia such as Thailand and Malaysia. Specifically, Vietnam, received an average of USD15 billion per year in foreign direct investment (FDI) during the past 10 years (7.2% of GDP on average), and an increasing trend meanwhile, Thailand. received only USD3.6 billion in FDI per year on average (average 0.9% of GDP).

On the other hand, we consider a notable risk that the US will continue to be accused of currency manipulation in the next assessment period.

The risk of imposing additional tax/comprehensive tax when being accused of currency manipulation

There is still a risk of Vietnam violating all three criteria of currency manipulation. Up to now, we have not observed a drastic change in trade policy from US President Biden and there have not been many investment cooperation activities between the US and Vietnam under Biden. Therefore, the risk of accusing Vietnam of being a currency manipulator from the US Treasury is present. In the worst case and the two sides do not come to an agreement to narrow the two countries' trade deficit, Vietnam will be subject to additional taxes, or in the worse scenario, a comprehensive tax on goods exported to Vietnam. The US is similar to China in 2018. The immediate impact is that exports are affected in the context that the US is Vietnam's largest export partner and export growth to the US has increased rapidly in the past 2 years.

❖ **Inflation Forecast 2021**

We raise our inflation forecast for 2021 to 3.8%, with the risk heavily skewed towards commodity prices maintaining bullish momentum due to recovering demand.

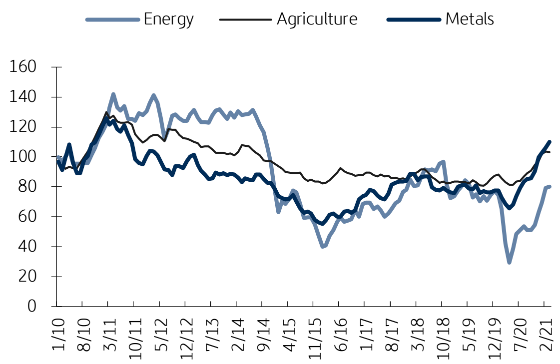
Commodity prices, including agricultural products and petroleum prices, tend to go up high

Commodity price fluctuations, including agricultural and petroleum prices, are inclined to increase and remain high. The Covid-19 pandemic has changed the balance of supply and demand in raw materials in 2020 and made commodity prices worse. sharply decreased. However, commodity prices have recovered strongly since the second half of 2020 (Figure 17) thanks to the recovery of the global economy. The price level of food and metals was almost the same as in the period 2010 – 2011 (after the 2008 GFC crisis) while energy prices were about 60%. We believe that commodity price movements in this period have many similarities with the period 2010 – 2011 when the world economy recovered from the crisis. Commodity prices will at least continue to maintain high levels in the next quarter, when economic recovery signals are still strong. This will put a burden on inflation, especially in transport (low 2020 background), food and housing (high building material prices).

Pork prices cooled down

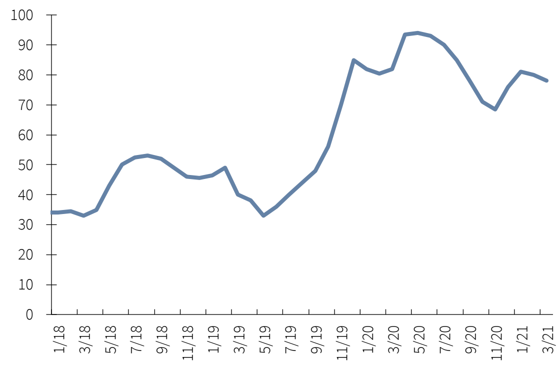
The positive point in 2021 is that pork prices will gradually cool down when the domestic pork supply is increased because the Government has prioritized increasing domestic pork production, after the outbreak of ASF. The US Department of Agriculture (USDA) forecasts that in 2021 global pork production will increase by about 4% compared to 2020 thanks to the recovery of production in countries affected by the ASF pandemic, as well as the recovery from the impact of the pandemic. impact of the COVID-19 pandemic. Data from the General Statistics Office also shows that, by the end of March 2021, the total output of live hog for slaughter increased by 7.5% YoY. In 2021, the Ministry of Agriculture and Rural Development sets a target of 3.67 million tons of pork production, an increase of 6.1% compared to 2020 and equivalent to the period before the ASF pandemic.

Fig 18. Vietnam – Commodity Price Index (2010=100) (points)



Source: World Bank, KB Securities Vietnam

Fig 19. Vietnam – Live-hog prices (thousand VND/kg)



Source: World Bank, KB Securities Vietnam

The roadmap to increase public service prices has not been restored in 2021

The Government continues to push back the price increase schedule of public services in 2021 when the Resolution on State budget estimate 2021 has been officially approved by the National Assembly. approved, with the decision not to increase the base salary for cadres, civil servants and public employees in 2021. The roadmap to increase the price of medical services will also not be adjusted according to the base salary.

Table 4. Vietnam – Estimated average CPI in 2021

No.	Groups	Weights (%)	+/- (%)	Contribution to overall CPI (%)
1	Food and foodstuff			
	Grains	4.46	6	0.27
	Foodstuff	22.60	3	0.68
	Outdoor eating	9.06	7	0.63
2	Beverages and tobacco	3.59	2	0.07
3	Clothing and footwear	6.37	1.5	0.10
4	Housing, water, electricity, gas and other fuels	15.73	5	0.79
5	Furniture, household equipment and maintenance	7.31	1.5	0.11
6	Health	5.04	3	0.15
7	Transport	9.37	5	0.47
8	Communication	2.89	-0.5	-0.01
9	Education	5.99	3	0.18
10	Entertainment	4.29	1	0.04
11	Miscellaneous goods and services	3.30	3	0.10
Total				

Source: KB Securities Vietnam

Monetary policy is cautious in the face of inflationary pressures

Monetary policy will be relatively cautious for the rest of 2021 in the face of inflationary pressures as well as monetary policy movements of major central banks. We expect the SBV will not adjust the operating interest rate in 2021, after 3 reductions in 2020. M2 growth will increase slightly compared to 2020, expected to reach 14% and be in the range maintained by the State Bank from 2018. This growth rate is considered to be just enough to be able to provide an amount of money into the economy (about 1.5 million billion VND) and not put pressure on the asset price bubble. However, the disadvantage in 2021 is that the tool to inject VND through buying foreign currencies is limited. New cash flow to support market liquidity is expected to come from the State Treasury, when from April 1, 2021, the State Treasury will conduct a repurchase of government bonds with term of 7 days and 14 days. 21 days, 1 month, 2 months and 3 months.

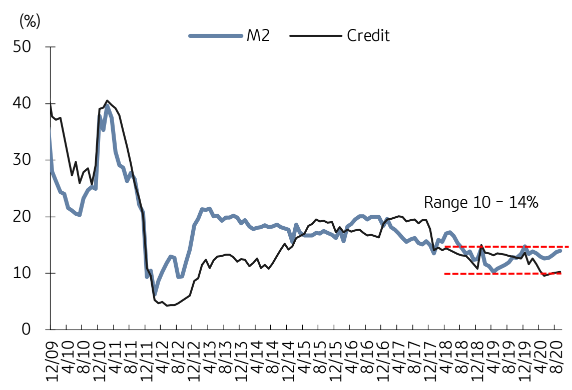
Credit growth will be around 12-14% in 2021

We expect credit growth to continue its recovery momentum in 2021, with an increase of 12-14% when observing indicators such as IIP, PMI shows that production activities are gradually recovering, as well as lending interest rates are at low levels for many years thanks to the policy direction of the State Bank. Credit is expected to recover quickly in the second half of 2021, in the scenario that the vaccine is widely distributed across many countries, facilitating a recovery in production.

Interest rates may have bottomed in early 2021

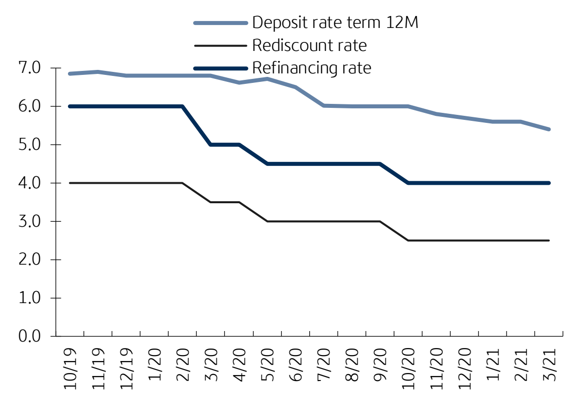
We believe that the deposit interest rate has bottomed out in early 2021, and will increase slightly in the second half of 2021 when: 1) Credit growth in the last 6 months will usually recover quickly; and 2) The roadmap to tighten the short-term deposit ratio for medium and long-term loans, effective in October 2021, will strengthen the level of deposit competition and reverse the trend of falling deposit interest rates. However, the point of liquidity support in banks in the first period of Q3 was through a large amount of VND (estimated VND 175,000 billion) injected into the market in case foreign currency forward contracts are performed by commercial banks. Therefore, the deposit interest rate level will remain stable throughout most of Q2/2021 and early Q3/2020 and may increase by 30-50bps in the second half of Q3 - Q4. Lending rates in general. will remain stable.

Fig 20. Vietnam – M2 and credit growth (%)



Source: State Bank, KB Securities Vietnam

Fig 21. Vietnam – Deposit and policy rates (%)



Source: State Bank, KB Securities Vietnam

❖ **Exchange rate forecast 2021**

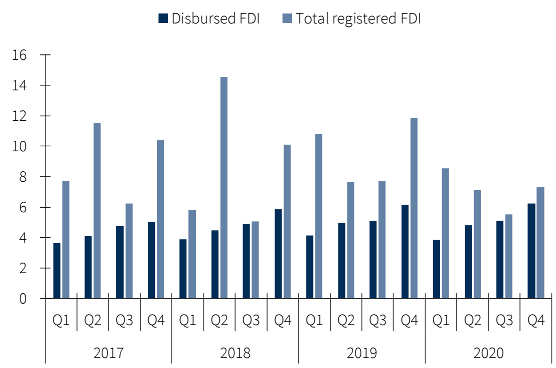
USD/VND exchange rate in 2021 is forecasted to increase slightly

We adjust the scenario that VND in 2021 will depreciate by 0.5 – 1% due to the upward pressure of USD. The positive factor still remains is the positive supply of foreign currency. In addition, the move of the State Bank to adjust the exchange rate management policy also supported the uptrend of USD/VND. The biggest risk of VND is continuing to be accused of currency manipulation from the US.

Foreign currency supply remains positive

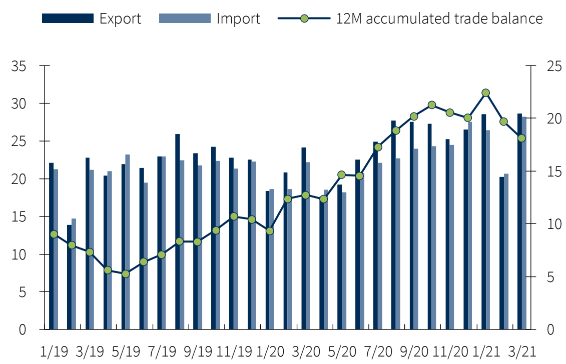
Foreign currency supply is considered to remain abundant in 2021, when import and export activities are active and FDI inflows are expected to flow strongly to Vietnam. The IMF has forecast that global trade volume will increase by about 8% in 2021 and with an increasing share of global exports, Vietnam will certainly benefit from this trend. Disbursed FDI inflows are also expected to be positive thanks to the production shift and the effectiveness of the Covid-19 vaccine.

Fig 22. Vietnam – Disbursed and registered FDI (USDbn)



Source: General Statistics Office, KB Securities Vietnam

Fig 23. Vietnam – Trade balance (USDbn)



Source: General Statistics Office, KB Securities Vietnam

The USD trend is bullish in the second half of 2021

The USD trend is heavily tilted to the upside in 2021 thanks to the following signals:
1) The recovery of the US economy is better than the rest of the world, especially the G10 bloc and the strong increase in government bond yields are factors that support the USD increase;
2) The market is now expecting the Fed to start raising interest rates from 2023, while the ECB and BOJ will continue to maintain negative interest rates for a long time. This will create interest rate divergence (similar to the period 2018 - 2019) and support the USD.

VND will fluctuate unpredictably from US accusations of "currency manipulation"

VND will fluctuate unpredictably in the second half of 2021 when we evaluate currency manipulation criteria for the May 2021 assessment and show that Vietnam still violates all three criteria (Table 5). Thus, except for the case that Vietnam successfully negotiates with the US Department of Finance in the coming period, Vietnam's currency manipulation label will still be maintained in the next assessment period. Meanwhile, the changes in foreign exchange management policy of the State Bank show that the State Bank has and will no longer actively intervene in the foreign currency market one way and the VND will be regulated according to the supply and demand of the market.

Table 5. Currency manipulation assessment criteria 2021

	Goods trade balance with US				Current account	
	USD billion	% GDP	USD billion	% GDP	USD billion	Net FX purchase (6 out of 12 month)
Four quarters till 4Q2020*	90.8	29.9	11.0	4.0	15.0	Yes
Criteria	20.0			2.0		Yes

Source: 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