KB Securities VIETNAM

Macro Outlook 2Q24

Growth potential amid exchange rate risk

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KBSV's projections for Vietnam's key economic indicators in 2024 are as follows:

1) GDP growth is forecasted to be robust, reaching 6%. Elements supporting growth are: (i) Continued positive signs of recovery in production and export activities; (ii) Strong growth in FDI inflows and public investment disbursement; (iii) Domestic demand recovery thanks to the government's stimulus measures; and (iv) Booming real estate market.

2) We raise our assumption for the average CPI to 3.8% YoY, which remains well below the government's target cap of 4.5%, due to concerns about the resurgence of oil prices, USD/VND exchange rate pressure as well as increased imports for production, which would push up input prices. Other factors causing inflation to rise include: (i) Prices of some government-controlled items increasing according to the planned roadmap, namely electricity, education, and healthcare services; (ii) Increased hog prices due to growing consumption demand; and (iii) Domestic rice prices rising alongside export prices.

3) The average 12-month deposit interest rate is expected to have bottomed out and may experience a minor increase to around 4.75-5.35%. The average lending interest rate, on the other hand, should stay steady within a range of ± 0.25% from the current level.

4) Despite the projected trade surplus, the USD/VND exchange rate is supposed to expand by 3%, hovering around 25,000 on the grounds of the significant interest rate gap between USD-denominated and VND-denominated loans and expectations that the Fed would officially announce the first rate cut this September.

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I. Executive Summary

The macroeconomic landscape signaled improvements in the first quarter of 2024. In particular, GDP growth reached its highest level compared to the same period over the past five years; industry and construction enjoyed positive recovery, especially the key processing and manufacturing industry; while the agriculture, forestry, fishery and service sectors maintained stable growth.

Towards the end of this year, we expect the positive signals in the economic picture to be sustained on the recovery of production and export activities amidst improving demand across major export markets, continued strong FDI inflows, the promotion of public investment disbursement, and domestic demand recovery following stimulus policies. Although there are upward pressures regarding inflation and the exchange rate, KBSV believes that if there are no significant changes in external factors, especially if Brent crude oil prices remain below USD93/barrel, the exchange rate and inflation will continue to be under control and not exceed the government's target.

Table 1. Vietnam – Key macroeconomic indicators

			KBSV's forecasts	
	Unit	**1Q2024**	**Jan 2024**	**Apr 2024**
GDP growth	% YoY	5.66	6	6
Average CPI	% YoY	3.77	3.5	3.8
Credit growth	% YTD	0.89	13.5 – 14.5	14 – 15
Average 12M deposit interest rate	%/year	4.6	4.85 – 5.35	4.75 – 5.35
USD/VND exchange rate	VND	24,791	24,600	25,000

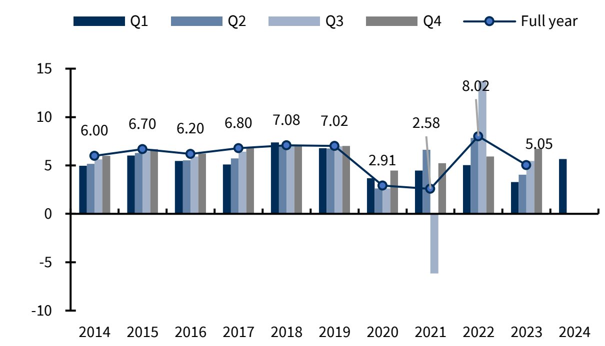
Source: KB Securities Vietnam

II. GDP growth

1. 1Q24 GDP growth

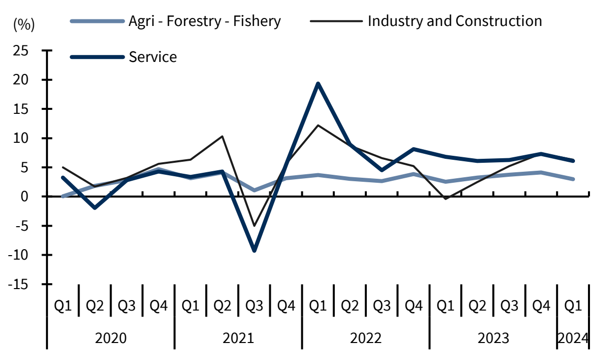
According to data from the General Statistics Office (GSO), GDP in the first quarter of 2024 is estimated to have expanded by 5.66% YoY, still lower than the same period before the pandemic but the highest in the 2020-2023 period, indicating Vietnam's economy is progressively recovering. In the context of global challenges, Vietnam's macroeconomic indicators followed a positive trend over the months, driven by the recovery of export activities combined with industrial production.

Fig 1. Vietnam – GDP growth by quarter (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – GDP growth by sector (%YoY)



Source: General Statistics Office, KB Securities Vietnam

From the demand side, consumption improved while realized social investment capital sustained its stable growth.

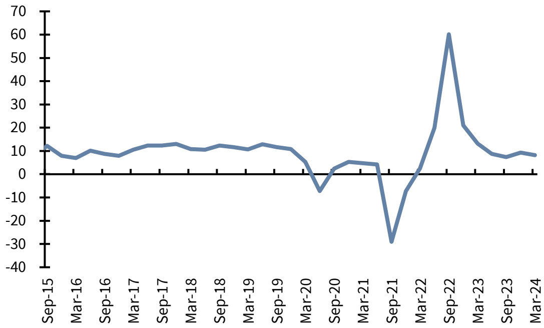
Consumption demand improved

Final consumption improved by 4.69% YoY in 1Q2024, reflecting recovery signals of domestic demand. Trade and service activities maintained stable expansion with total retail sales of goods and services up 8.2% YoY to VND1,537.6 trillion. Of this, the main driving force came from retail sales of goods and services with a growth rate of 7.0% YoY, while the tourism sector jumped by 46.3% YoY from a low base.

Realized social investment capital continued to see steady growth

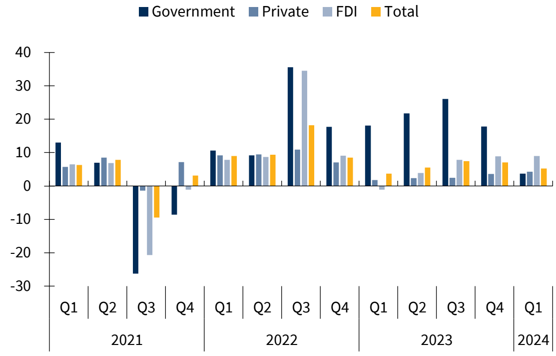
The realized investment capital of the entire society in the first quarter of 2024 hit VND613.9 trillion, up 5.2% YoY. Private sector contributions amounted to VND340.7 trillion (up 4.2% YoY), while FDI touched VND110.5 trillion (up 8.9% YoY), and the state sector contributed VND97.7 trillion (up 3.7% YoY).

Fig 3. Vietnam – Retail sales of goods & services growth (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – Realized social investment capital growth (% YoY)



Source: General Statistics Office, KB Securities Vietnam

From the supply side, industry and construction prospered, and the agriculture, forestry and fishery and the service sectors witnessed stable growth (Fig 2).

Industry and construction prospered

Industry and construction saw a significant increase of 6.28% YoY in 1Q2024 from the low base in 1Q2023. We assess that this sector is returning to its growth track. To be more specific, the added value of industrial production is estimated to pick up 6.18% YoY, with the key processing and manufacturing components growing by 6.98% YoY, higher than the overall growth. The construction sector also showed signs of vitality, with an increase of 6.83% YoY, significantly higher than the 1.87% level recorded in the first quarter of 2023. In the first three months of 2024, the index of industrial production (IIP) improved by 5.7% YoY and recorded positive growth in 54 provinces and cities nationwide. Among them, key industries such as electronics, furniture, and clothing were all trending upward (Fig 6).

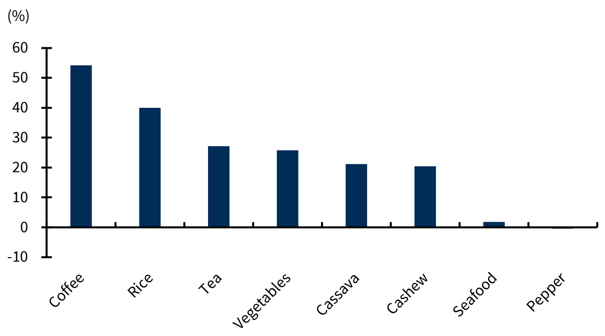
The service sector enjoyed stable expansion

The service sector grew by 6.12% YoY thanks to the government's stimulus policies to stimulate domestic consumption and promote tourism activities. Wholesale and retail trade increased by 6.94%; transportation and warehousing went up by 10.58%; finance, banking, and insurance gained 5.2%; accommodation and food services saw strong growth of 8.34% on the increase in international visitors to Vietnam.

Agriculture, forestry and fishery kept growing steadily

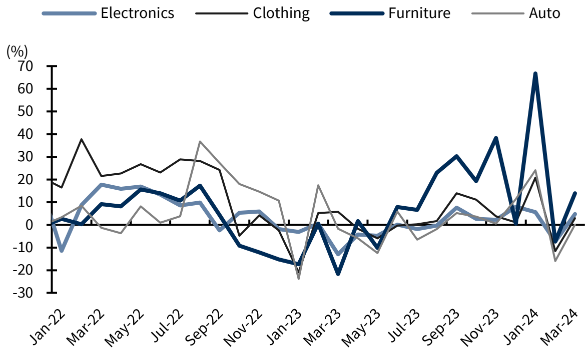
The agriculture, forestry, and fishery sector kept growing steadily at 2.98% YoY, accommodating domestic demand and ensuring national food security while making significant contributions to export activities. The progress of cultivating winter-spring rice crop was faster than the previous year; the yield of some perennial crops, livestock, forestry, and fishery products increased compared to the same period. Additionally, agricultural, forestry, and aquaculture export items grew well in the January-through-March period, indicating growing demand in major economies (Fig 5).

Fig 5. Vietnam – Agriculture, forestry, and fishery export growth (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 6. Vietnam – Growth of some key industries (%)



Source: General Statistics Office, KB Securities Vietnam

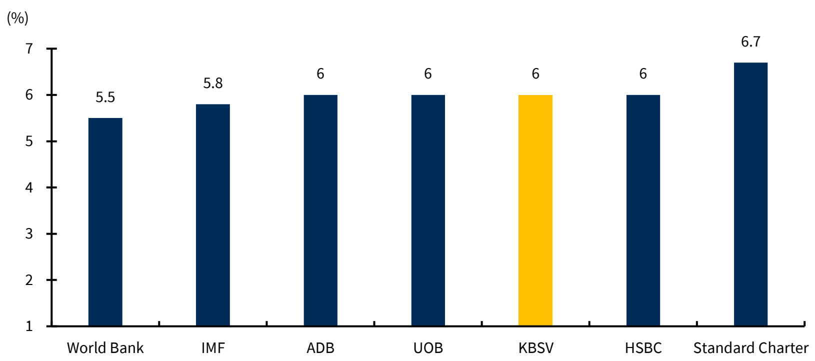
2. 2024F GDP growth

GDP growth is forecast to reach 6% for the entire year 2024

We maintain our GDP growth forecast for 2024 at 6% following improved macroeconomic indicators in 1Q2024. Elements supporting growth are: (i) Continued positive signs of recovery in production and export activities; (ii) Strong growth in FDI inflows and public investment disbursement; (iii) Domestic demand recovery thanks to the government's stimulus measures; and (iv) Booming real estate market.

On the flip side, the biggest risks to our GDP growth forecast include the resurgence of inflationary and exchange rate pressures. Geopolitical tensions in the Red Sea and Russia's war in Ukraine caused commodity prices, oil prices, and transportation costs to surge, exerting pressure on inflation and constraining central banks' dovish monetary policy. In particular, the variable needing close monitoring is the Brent crude oil price, as if it exceeds USD93 per barrel, it will adversely impact other factors and derail our forecasts in the base-case scenario.

Fig 7. Vietnam – 2024F GDP growth by international organizations (%)



Source: HSBC, World Bank, ADB, UOB, Standard Chartered, KB Securities Vietnam

Exports should maintain good growth in 2Q2024 before making a stronger breakthrough in 2H2024

Export activities were a significant growth driver of the economy in the first quarter of 2024 as consumer demand in major markets such as the US, EU, and China rebounded. Specifically, Vietnam's total import-export turnover in the first three months reached USD178.04 billion (+15.5% YoY), with an export turnover of USD93.06 billion (+17% YoY). The trade surplus amounted to USD8.08 billion from USD4 billion in the first two months of 2024. In particular, electronic products, computers, and components made up the majority with USD15.7 billion, up 30.3% YoY, while other key export items also saw strong YoY growth, namely phones and components (+9.7%), machinery (+10.2%), and textiles (+7.9%). Regarding export markets, the US accounted for the highest proportion of export turnover at 28%, followed by the EU (16%) and China (14%).

We believe that exports will maintain this growth rate in the second quarter before experiencing even stronger breakthroughs towards the end of the year based on the following reasons:

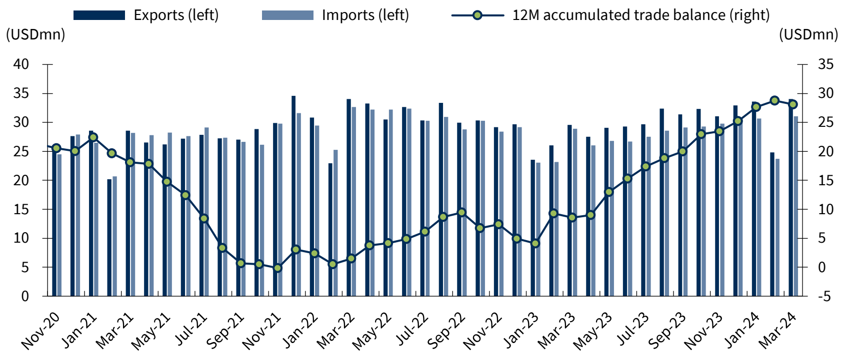
(i) Consumer demand in Vietnam's major trading partners is anticipated to be on the rise. Consumer Confidence Index (CCI) and Consumer Sentiment Index (CSI) in the US have been trending upward after hitting bottom last year (Fig 13), indicating an improving outlook on the economy and financial situation. Purchasing power is set to improve as well, especially in the context that the Fed may lower interest rates in 2H2024. CCI in the EU and China also improved positively (Fig 12).

(ii) Inventories in the US and EU bottomed out and it is predicted that the need to replenish inventories in these economies will help increase the quantity of export orders for Vietnam, especially essential consumer goods such as textiles, aquaculture, and furniture.

(iii) Exports will also derive benefits from the positive prospects of the semiconductor and electronic parts manufacturing industry as a whole. According to the WSTS organization, the semiconductor market will grow due to increasing demand for chips used in artificial intelligence (AI) technology, with expected year-on-year growth of 13.1% in 2024, reaching a record level of USD588.36 billion.

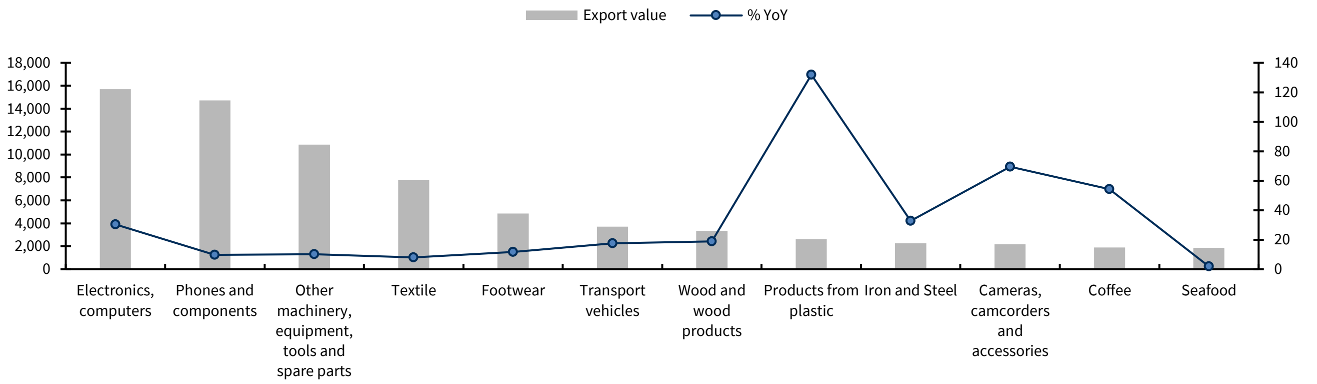
On the other hand, we note some risks that may negatively impact export activities: geopolitical tensions leading to higher oil prices, transportation costs, and input costs for production; the shift in spending habits amidst a high-interest rate environment among trading partner countries; the impact of electricity price hikes on production costs and unstable power supply.

Fig 8. Vietnam – Exports, imports, 12M trade balance (USDbn)



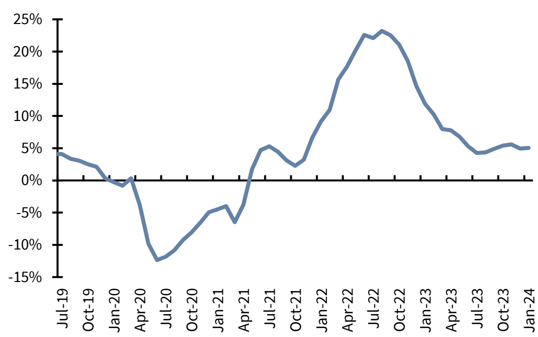
Source: General Statistics Office, KB Securities Vietnam

Fig 9. Vietnam – Export value, growth of key exports (USDmn, %YoY)



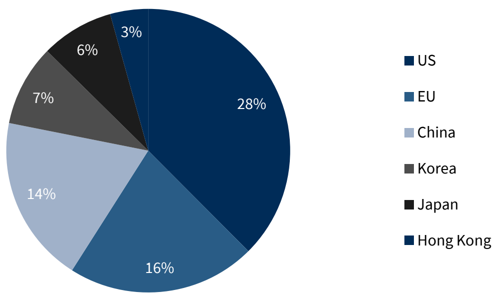
Source: General Statistics Office, KB Securities Vietnam

Fig 10. US – Retail inventories (%YoY)



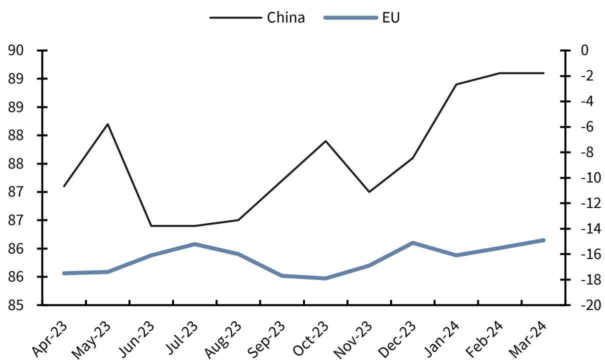
Source: General Statistics Office, KB Securities Vietnam

Fig 11. Vietnam – Exports to trading partners (%)



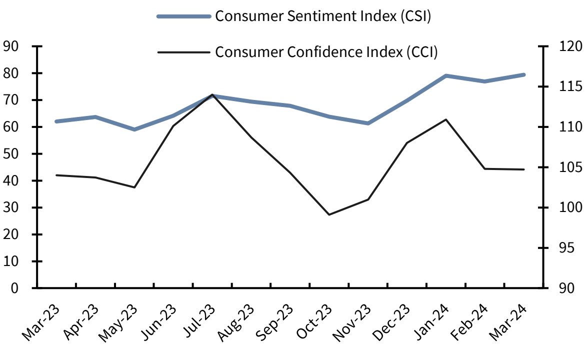
Source: Ministry of Industry & Trade, KB Securities Vietnam

Fig 12. China, EU – Consumer confidence index (CCI) (point)



Source: Bloomberg, KB Securities Vietnam

Fig 13. US – Consumer confidence index (CCI), consumer sentiment index (CSI) (point)

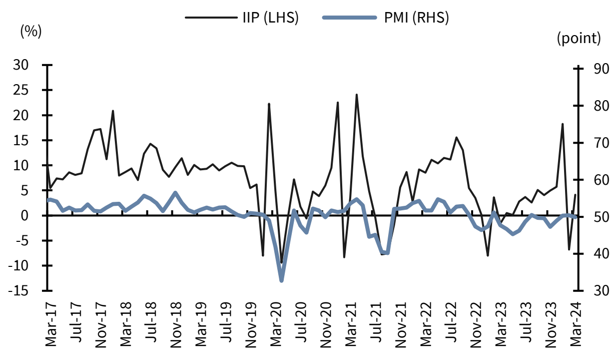


Source: Bloomberg, KB Securities Vietnam

Industrial production flourished following the recovery of exports

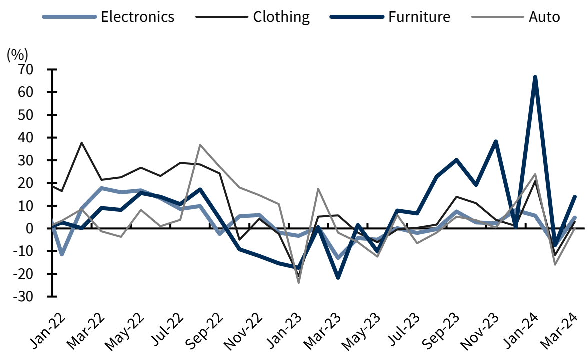
IIP increased by 5.7% YoY, with the key processing and manufacturing industry up 5.9%, higher than the overall growth. PMI surpassed the 50-point mark in the first two months of 2024 but slightly decreased to 49.9 points at the end of March due to waning demand resulting in diminished production and orders. However, we assess this decrease as minor, and a notable thing is the highest confidence in the manufacturing outlook among manufacturers in 18 months. Industrial production activities are, therefore, expected to recover along with the upward trend of exports in the future, supported by expansionary monetary and fiscal policies.

Fig 14. Vietnam – IIP, PMI (%YoY, point)



Source: General Statistics Office, KB Securities Vietnam

Fig 15. Vietnam – Growth of some key industries (%YoY)



Source: General Statistics Office, KB Securities Vietnam

FDI capital flows continue to grow steadily

Vietnam's total registered FDI in 1Q2024 was USD6.17 billion, up 13.4% YoY. Disbursed FDI rose by 7.1% YoY to USD4.63 billion, the highest level compared to the same period from 2017 to 2023. We expect FDI flows into Vietnam to grow well in 2024 due to the following factors:

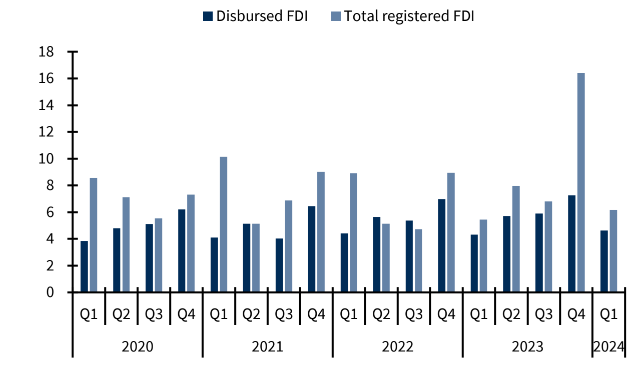
(i) Vietnam continues to benefit from the trend of shifting production away from China to diversify supply chains. From 2018 to 2023, Vietnam's trade surplus with the US increased by 2.7 times, ranking fourth among countries with significant trade surpluses with the US, only after Mexico, China, and Canada.

(ii) Vietnam possesses competitive advantages against the region and other rival countries, such as a stable economic and political environment, a favorable geographical position for global trade, numerous signed free trade agreements (FTAs), an abundant workforce, and competitive production costs. Furthermore, the Vietnamese government has continuously improved institutions and incentives to attract and better manage domestic and foreign investment resources, created a favorable business environment, and focused on infrastructure construction and upgrades. According to EuroCham, the business confidence index (BCI) of European companies in Vietnam rose to 46.3 in 4Q2023 from 45.1 in the previous quarter.

(iii) Trade activities and FDI attraction gained advantages from the government enhancing cooperation and upgrading comprehensive strategic relationships with the US, Japan, Australia, and diplomatic visits promoting collaboration with major international partners such as China and South Korea.

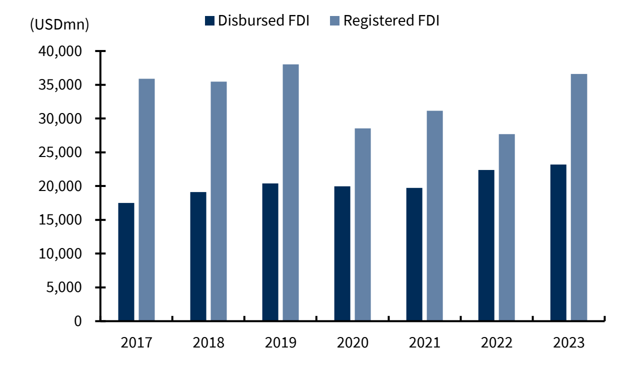
(iv) The imposition of the global minimum tax will not reduce Vietnam's investment attractiveness as competing countries for FDI like Malaysia, Indonesia, and Thailand have also adopted similar tax regulations. The government is also considering issuing alternative incentives to support FDI enterprises based on revenue from the global minimum tax to protect competitive advantages.

Fig 16. Vietnam – Disbursed & registered FDI by quarter (USDmn)



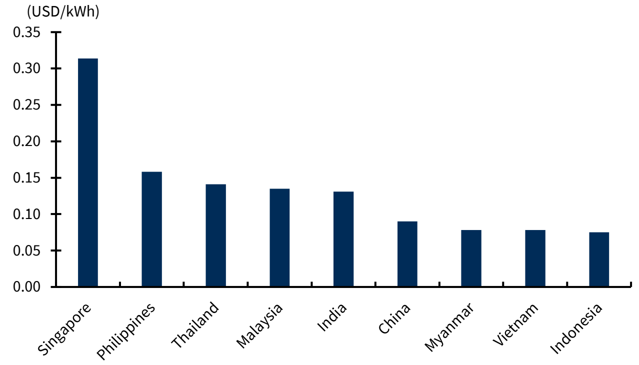
Source: Ministry of Planning & Investment, KB Securities Vietnam

Fig 17. Vietnam – Disbursed & registered FDI (USDmn)



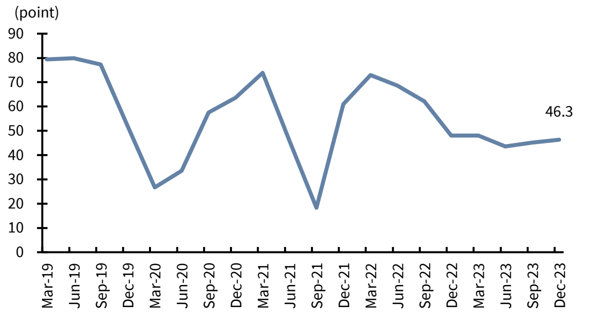
Source: Ministry of Planning & Investment, KB Securities Vietnam

Fig 18. Global – Average electricity prices for businesses in some countries (USD/kWh)



Source: Global Petro Prices, KB Securities Vietnam

Fig 19. Vietnam – Business Confidence Index (BCI) of European companies (point)



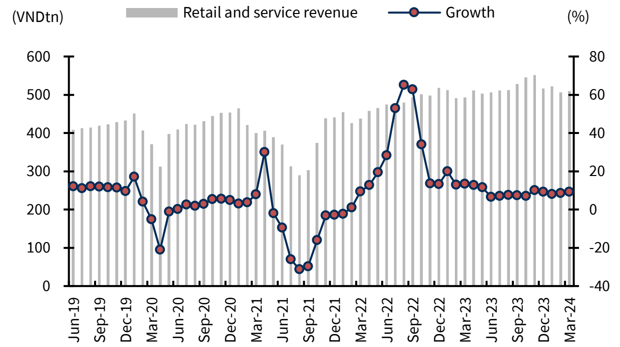
Source: EuroCharm, KB Securities Vietnam

Retail sales of goods and services grew well due to expectations of rising domestic demand

We expect the hospitality and tourism industries to keep thriving. In 1Q2024, Vietnam welcomed 4.6 million international arrivals, up 72% YoY from 1Q2023's low base and up 3.2% against 1Q2029, surpassing pre-pandemic levels for the first time. Domestic visitors reached 30 million. Total tourism revenue was ~VND195 trillion. For 2024, the tourism industry aims to welcome 17-18 million foreign tourists, approximating pre-pandemic levels, with an expected revenue of VND840 trillion (~8% GDP). The recovery of tourism and travel will also set the stage for revenue from accommodation and food services to recover.

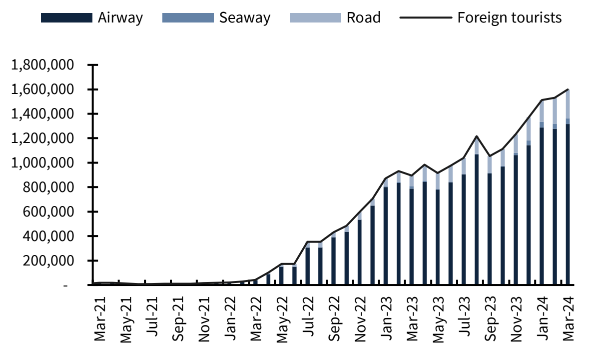
The total retail sales of goods and services have shown stable growth over the months, up 8.2% YoY in the first quarter. Although this is still lower than the pre-Covid average of ~14%, we believe that domestic consumption will rebound as (i) Loose monetary policies and stimulus measures (including the extension of VAT cut, basic wage increase, etc.) will have a more pronounced effect; (ii) Positive economic outlook underpinned primarily by export activities will create more jobs and drive income, positively impacting consumer demand; and (iii) Inflation, while showing signs of increase, is set to remain well-controlled below the government's target of 4.5%.

Fig 20. Vietnam – Retail sales of goods & services growth (VNDtn, %YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 21. Vietnam – International tourists



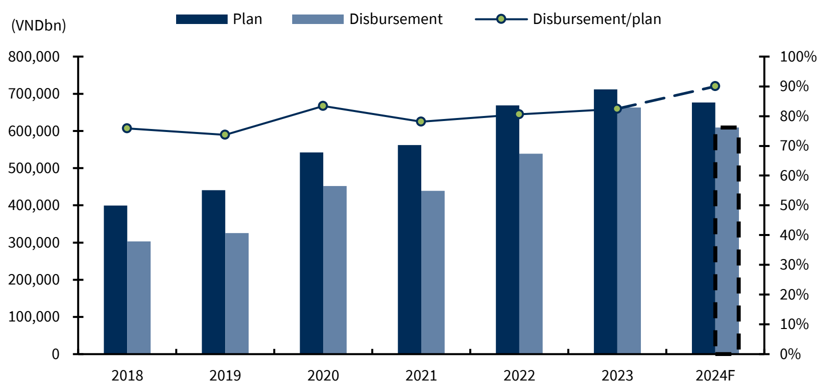
Source: General Statistics Office, KB Securities Vietnam

Public investment will be further promoted

Public investment is the key to stimulating the economy and has long-term ripple effects across other sectors. According to the GSO, the public investment capital disbursed from the state budget in the first quarter of 2024 is estimated at VND36.7 trillion, equal to 13.9% of the government's plan, lower than the 14.4% ratio of the same period last year but showing an absolute growth of 5.3% YoY, indicating that the disbursement remained stable. Legal obstacles and site clearance issues remained the biggest hurdles, causing public investment project implementation to be rather sluggish in the first half of the year.

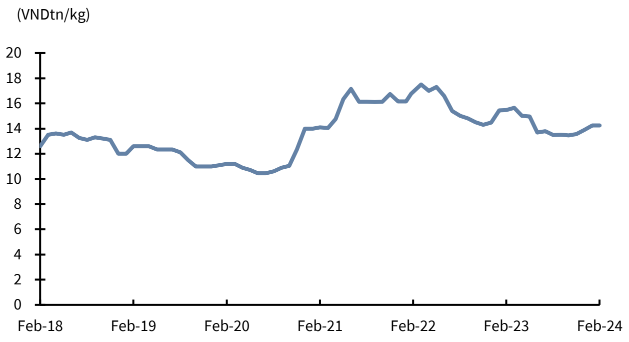
For the whole year of 2024, the government aims to allocate ~VNDVND677 trillion or 32% of the state budget, focusing on key projects such as the North-South Expressway, Long Thanh International Airport, Hanoi's Ring Road 4, Ho Chi Minh City's Ring Road 3, etc. We estimate the total realized public investment capital in 2024 to be around VND730 trillion (partly from 2023), down 5% YoY from the high base of the previous year but still relatively high compared to the five-year average. We expect the disbursement rate this year to reach a record level of around 90-95% of the plan due to: (i) Legal bottlenecks and investment issues gradually being resolved; (ii) 2024 being the year to accelerate the construction and completion of many key projects, while most new projects have completed preparation, legal procedures, and are ready for construction; and (iii) Input material prices projected to remain stable at low prices.

Fig 22. Vietnam – Planned and actual public investment disbursement in 2018-2024 (VNDbn, %)



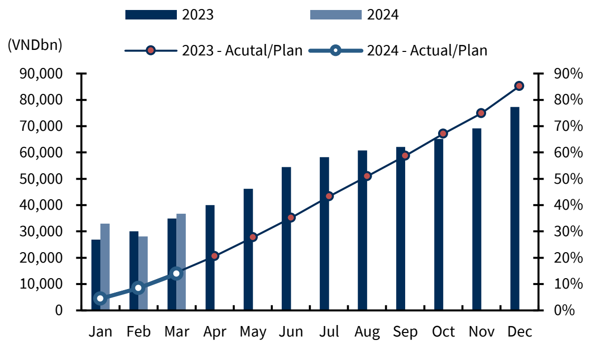
Source: Ministry of Finance, KB Securities Vietnam

Fig 23. Vietnam – Construction steel prices ('000 VND/kg)



Source: Fiinpro, KB Securities Vietnam

Fig 24. Vietnam – Public investment capital realized from the State budget (VNDbn)



Source: Ministry of Finance, KB Securities Vietnam

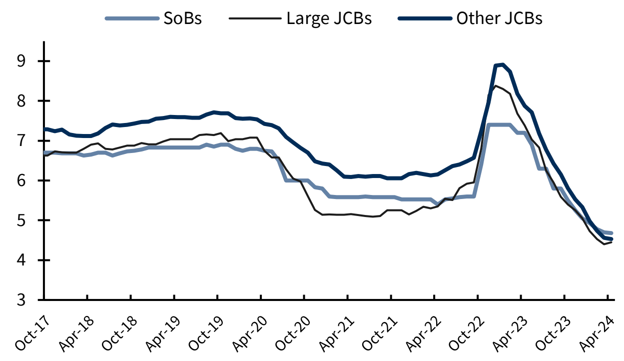
The real estate market prospered

Real estate is a crucial sector, not only accounting for a large proportion of GDP but also impacting various other industries. The property market has faced countless difficulties recently due to high interest rates, legal obstacles, and events related to real estate businesses that undermined investor confidence. A positive sign is that many signs of recovery appeared in late 2023. According to CBRE, the number of apartments sold in the Hanoi market in the fourth quarter of 2023 reached 3,316, with 7,001 units sold in the last six months of the year (+63% compared to the first half of 2023; +21% YoY) thanks to developers offering preferential sales policies.

The real estate market should continue its recovery trend as: (i) Low interest rates would support developers in accessing capital and enable them to accelerate project implementation, thus helping to increase supply in the market. Additionally, low interest rates coupled with preferential sales policies from developers also help boost housing demand; (ii) Amendments to Land Law, Housing Law, and Real Estate Business Law have been passed, gradually unblocking legal obstacles; (iii) Progress in implementing affordable housing projects is expected to improve, contributing to satisfying genuine housing needs and balancing supply and demand; and (iv) The acceleration of public investment projects, specifically large ones, axes connecting Hanoi and Ho Chi Minh City with neighboring localities, pushing up property prices and thereby stimulating real estate investment demand.

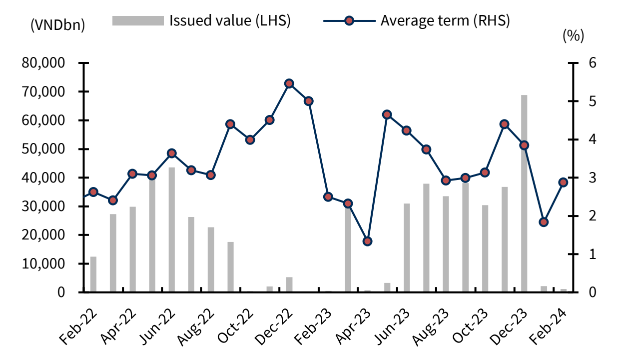
However, the pace of recovery will be relatively slow due to investor confidence having not fully recovered since the 2022 crash, property prices still hovering at high levels, risks related to corporate bond maturity, and cautious lending practices across banks as a result of the risk of rising non-performing loans while the use of short-term capital for medium and long-term loans is being restricted.

Fig 25. Vietnam – Deposit interest rates across banks (%)



Source: Wichart, KB Securities Vietnam

Fig 26. Vietnam – Corporate bond issuance value and term (VNDbn, years)



Source: Hanoi Stock Exchange, KB Securities Vietnam

Inflation and USD/VND exchange rate showed signs of accelerating

The acceleration of domestic inflation and the USD/VND exchange rate will expose a risk to GDP growth. In particular, the average inflation in the first quarter of 2024 reached 3.77% YoY, still below the government's target but with upward pressures amidst escalating geopolitical conflicts leading to higher energy prices. Brent crude oil prices have surged from USD76 per barrel at the beginning of the year to around USD85 by the end of March and will likely remain elevated. This will be an uncertainty factor that makes inflation more unpredictable for the remainder of 2024.

Additionally, the skyrocketing USD/VND exchange rate has prompted the State Bank of Vietnam (SBV) to conduct net withdrawals of treasury bills since mid-March to somewhat balance the volume of USD and VND in the market and limit speculation and hoarding of the greenback. If the VND continues to depreciate, there is a high possibility that the SBV will take more drastic intervention measures, such as selling forward contracts or even selling off foreign exchange reserves. This should be closely followed as it could lead to rising interest rates, thus weakening the supportive nature of monetary policy for economic growth.

III. Inflation

1. 1Q24 inflation

Inflation showed signs of accelerating again

In the first three months of 2024, headline CPI expanded by 3.77% YoY. CPI reached its highest level in February due to the influence of the Lunar New Year holiday and then cooled down towards the end of the quarter. However, inflationary pressures are showing signs of returning amidst ongoing geopolitical tensions, which have led to a surge in crude oil prices, impacting domestic fuel prices.

Core CPI, which excludes volatile prices of items like food and energy, experienced an average increase of 2.81% YoY in the first quarter of 2024, lower than overall CPI mainly due to food prices, fuel prices, medical service fees, and educational costs, which are excluded from the core CPI but have contributed to the increase in the headline CPI.

Construction material prices, house rent, educational costs, and rice prices impacted CPI the most

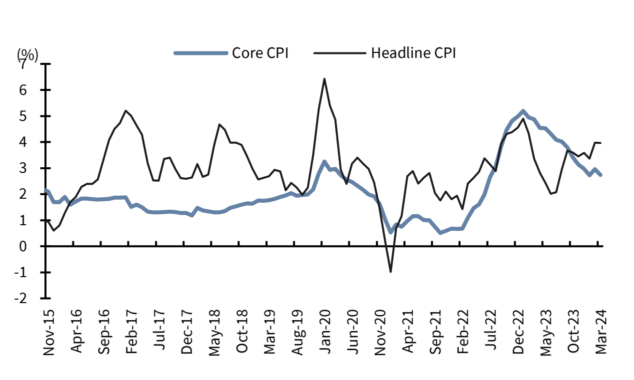
The main factors affecting the average CPI in the first quarter of 2024:

(i) Housing and construction materials prices increased by 5.4% YoY due to rising prices of cement, sand, and other raw materials as well as increased rental prices, contributing to a 1.02 percentage point increase in the overall CPI.

(ii) Educational costs gained 9.02% YoY, as some provinces and centrally-run cities raised tuition fees for the 2023-2024 academic year, resulting in a 0.56 percentage point increase in the overall CPI.

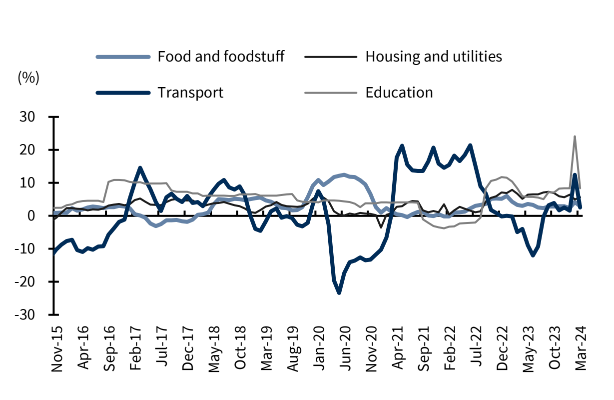
(iii) Domestic rice prices increased in line with export prices and the demand for glutinous and fragrant rice during the Kitchen Gods Day and Lunar New Year, contributing to a 0.55 percentage point increase in the overall CPI.

Fig 27. Vietnam – Headline & core CPI (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 28. Vietnam – Contribution of major components to CPI (%)



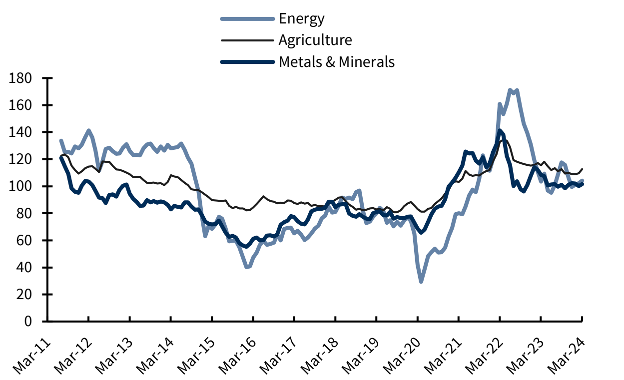
Source: General Statistics Office, KB Securities Vietnam

2. 2024F inflation

KBSV raised 2024F CPI for 2024 to 3.8% YoY

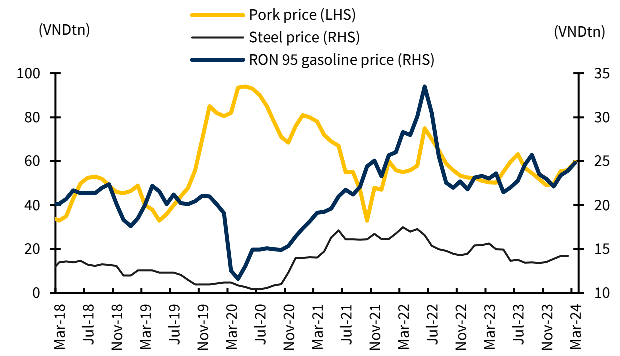
The CPI of Vietnam in 2024 is expected to be well controlled below the Government's limit of 4 – 4.5% given world commodity prices are maintained stable, and domestic consumer demand has not been able to create a great pressure. However, we raise our forecast for 2024 CPI to 3.8% YoY, equivalent to an average monthly increase in the remaining three quarters of ~0.2% MoM, reflecting concerns about the return of increasing gasoline prices, exchange rate risks, and input material prices following increased imports to serve production. In addition, other factors that affect inflation include: (i) The increase in the prices of some items managed by the State according to the roadmap (electricity, education, and medical services); (ii) higher pork prices in line with rebounding in consumption demand; and (iii) rising domestic rice prices to keep up with export rice prices.

Fig 29. Global – Commodity price index (point)



Source: World Bank, KB Securities Vietnam

Fig 30. Vietnam – Commodity prices (VND thousand)

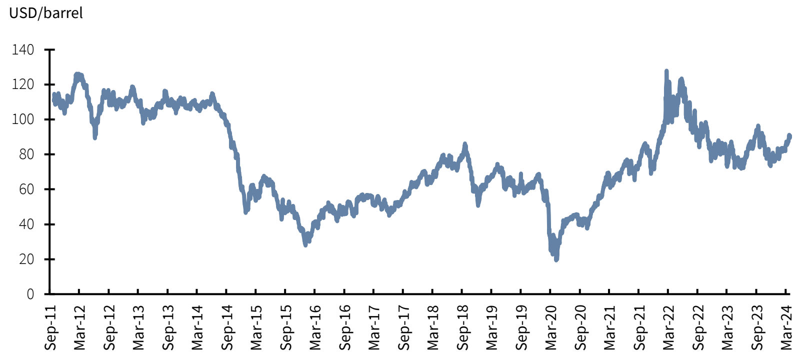


Source: KB Securities Vietnam

Brent oil price is forecast to fluctuate around USD83/barrel

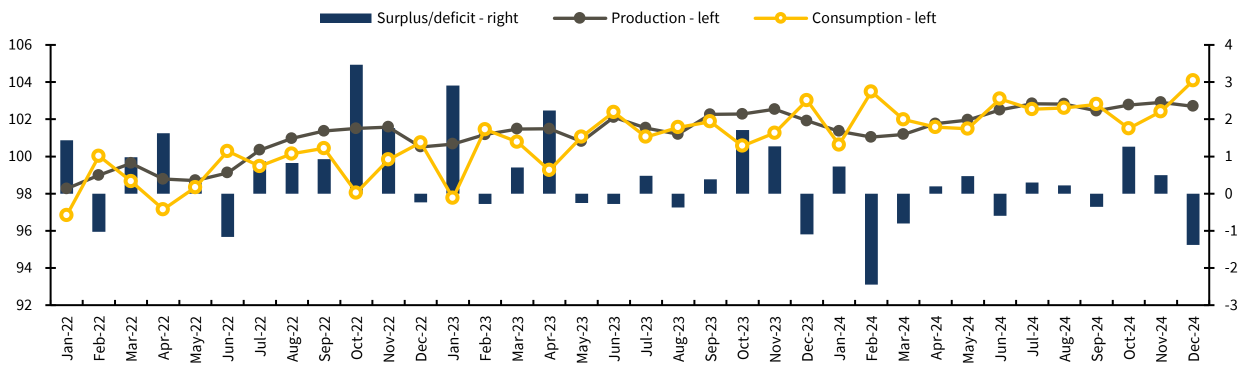
Brent oil prices not only directly affect the CPI of the transportation group but also have a strong spillover effect on the prices of other goods. In the first quarter of 2024, Brent crude oil prices spiked from USD76/barrel at the beginning of the year to around USD85/barrel in March 2024, causing the average price to reach USD81.3/barrel. It is forecast that Brent oil prices will continue to be high in 2024, reaching an average of USD83/barrel, which is flat compared to 2023. We believe that global crude oil demand in 2024 will still be affected by China's bleak economic outlook. However, factors such as (i) rig shortage, (ii) OPEC+ maintaining production cuts, and (iii) hostilities in the Red Sea and Russia-Ukraine will tighten global supply, causing crude oil price to stay high. In the negative case, if Brent oil prices continue to maintain the uptrend and exceed the threshold of USD93/barrel, it may change our base forecast.

Fig 31. Global – Brent oil price (USD/barrel)



Source: Bloomberg, KB Securities Vietnam

Fig 32. Global – 2024F crude oil supply (million barrels/day)



Source: EIA, KB Securities Vietnam

The average hog price rose to VND60,000/kg thanks to increased consumption demand

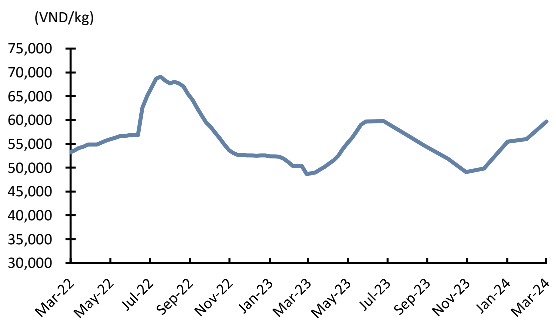
Domestic live-weight hog prices in 1Q24 rapidly increased compared to the end of 2023, reaching VND59,700/kg on average in March (+20% YTD) thanks to increased consumption demand. We forecast that the average hog price will continue to move around VND60,000 thanks to the recovery of domestic demand and tourism activities that should reach pre-pandemic levels and boost food demand at eateries. However, the increase will not be too large and will return to the peak area in 2022 thanks to stable domestic pork supply and controlled diseases. According to the US Department of Agriculture (USDA), Vietnam's pork output in 2024 is forecast to increase 5% YoY to 3.7 million tons.

Export rice prices can reach 700 USD/ton but the pressure on domestic prices is not high

At the end of March 2024, domestic rice prices cooled down along with export rice prices due to increased supply during the main harvest season of most producing countries. The export price of rice with 5% broken fell to USD582/ton last month after reaching a record of USD673/ton in February.

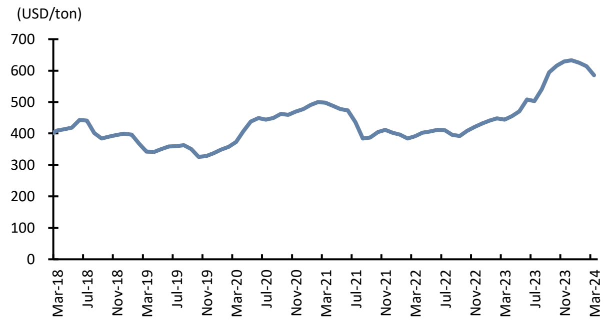
However, we believe that export rice prices will increase again and reach USD700/ton in 2024 due to: (i) India and Russia maintaining the ban on rice exports in 2024 and Thailand cutting its rice export quota; (ii) increasing demand from key export markets such as the Philippines, China and Indonesia; and (iii) unusual weather factors and the impact of El Nino putting pressure on supply. Domestic rice prices will accordingly increase but within a more stable range thanks to abundant supply with high productivity and our country's giving priority to food security.

Fig 33. Vietnam – Average pork price by month (VND/kg)



Source: Animal Husbandry Association of Vietnam, KB Securities Vietnam

Fig 34. Vietnam – Average rice with 5% broken price by month (USD/ton)

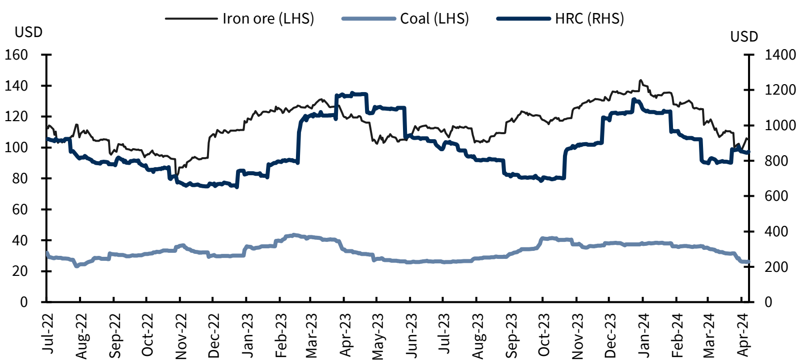


Source: Bloomberg, KB Securities Vietnam

Construction material prices remain low

We believe that construction material prices will bottom out and recover from 3Q24, underpinned by the recovery of the residential real estate market and a sharp increase in FDI inflows (boosting industrial construction and public investment). However, the level of recovery and price increase will be low because: (i) Input materials prices for steel production are decreasing from the peak (Figure 35); and (ii) consumption demand will not increase rapidly because the real estate market will hardly make a breakthrough despite recovery expectations.

Fig 35. Global – Raw materials prices for steel production (USD/ton)

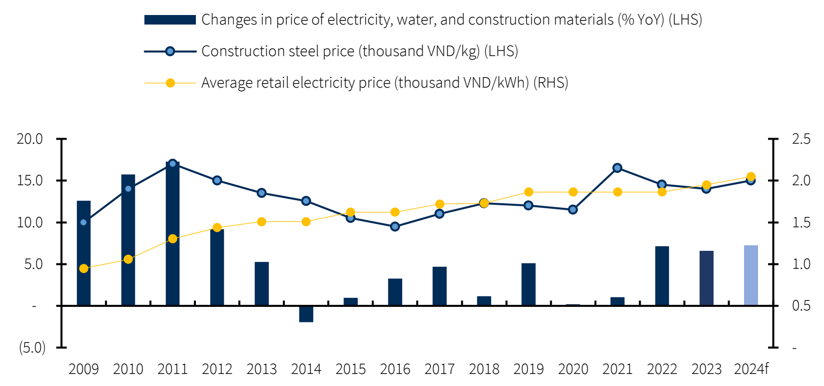


Source: Bloomberg, KB Securities Vietnam

Electricity prices may continue to increase and put more pressure on CPI

Higher electricity prices not only directly put pressure on inflation but also affect manufacturing energy-intensive industries such as steel, cement, and paper production. According to estimates by the General Statistics Office, a 10% increase in electricity prices will raise CPI by 0.33ppts. In 2023, the retail electricity prices were adjusted twice (up 3% from May 4 and +4.5% from November 9), so the average retail electricity price for the whole year 2023 was VND1,950/kWh, gaining VND68.22/kWh compared to 2022. We believe that the impacts from increasing electricity prices on the CPI were not too strong in 2023 but will become more obvious in 2024. In addition, electricity prices are likely to continue to be adjusted due to EVN's poor financial situation and increased demand due to extreme weather, the impact of El Nino and the recovery of the manufacturing sector.

Fig 36. Vietnam – The prices of electricity and construction steel & CPI of electricity, water, and construction materials (VND/kWh, VND/kg, % YoY)



Source: General Statistics Office, FiinPro, KB Securities Vietnam

Tuition and healthcare services fees are increased according to the Government's roadmap

Prices of other goods and services managed by the State will continue to increase according to the roadmap. Tuition fees in 2023-2024 are adjusted according to Decree No. 97. According to that, preschool and general education tuition fees remain unchanged; and university and vocational education tuition change is delayed by one year compared to Decree 81 (ie still increased compared to the actual tuition of 2022-2023 because the previous three school years, tuition was kept the same without increasing according to Decree 81). We believe that tuition fees for 2024-2025 will still follow this roadmap, so the increase will be lower. Accordingly, the CPI of the education group is forecast to have a lower increase in 2024, growing 6% from the high base of 2023. In addition, after medical service fees were adjusted according to Circular 22, the Ministry of Health proposed to raise the average price of medical examination and treatment services by 5% from July 2024.

Table 2. Vietnam – Ceiling tuition for public higher education institutions according to Decree 81 (VND/student/month)

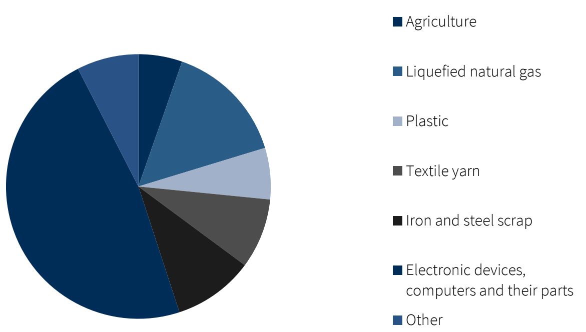
Training sectors	2022–2023	2023–2024	2024–2025	2025–2026
Social sciences, humanities, arts, education and training, journalism, information, and business	1,248	1,328	1,360	1,600
Science, law, and mathematics	1,326	1,411	1,445	1,700
Engineering and information technology	1,870	1,992	2,040	2,400
Production, processing and construction	1,794	1,909	1,955	2,300
Agriculture, forestry, fishery and veterinary medicine	1,287	1,370	1,400	1,650
Healthcare	2,184	2,324	2,380	2,800
Services, tourism and environment	1,560	1,660	1,700	2,000
Security and defense	1,716	1,820	1,870	2,200

Source: The Government Office, KB Securities Vietnam

There are many risks to imports

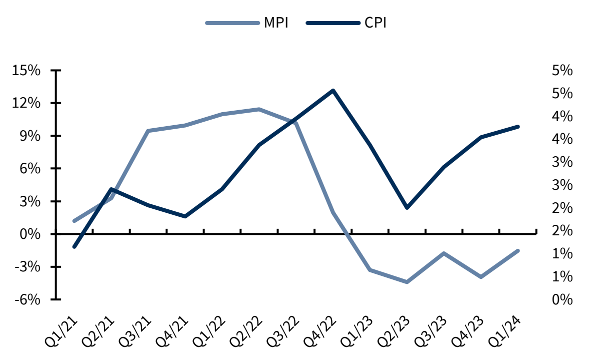
The import price index of key commodity groups including agricultural crops, food, fuel and raw materials for processing and manufacturing is still moving sideways in the low area (Figure 39), which is in line with the world commodity prices. However, the pressure may increase in the near future due to exchange rate fluctuations and increased import demand to serve production. Besides, we also do not rule out the possibility that escalating political conflicts will cause an energy shock, thereby raising world commodity prices. Vietnam is a country that imports a lot of raw materials for production, so this will affect costs and prices, put pressure on businesses and thereby push up the prices of domestic consumer goods.

Fig 37. Vietnam – Proportion of imports



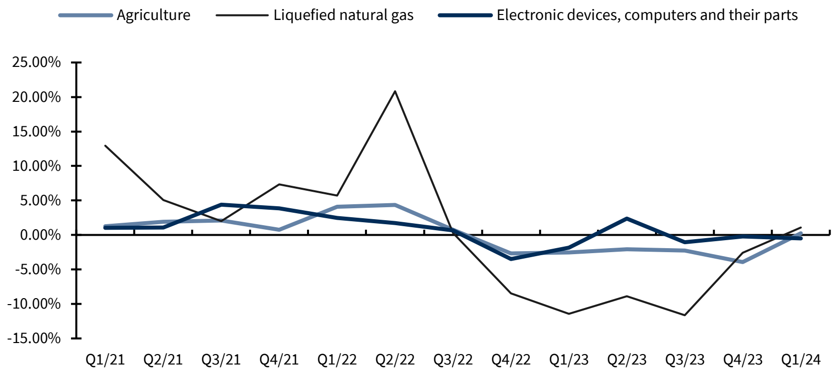
Source: Bloomberg, KB Securities Vietnam

Fig 38. Vietnam – Import price index & CPI (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 39. Vietnam – Import price index of commodity groups (% QoQ)



Source: General Statistics Office, KB Securities Vietnam

Table 3. Vietnam – 2024F average CPI (%)

No.	Groups	Weight (%)	+/- (% YoY)	Contribution to CPI (%)
1	Food and foodstuff			
	Food	3.67	6	0.2
	Foodstuff	21.28	3	0.5
	Eating out	8.61	4	0.3
2	Beverages and tobacco	2.73	3	0.1
3	Clothing and footwears	5.7	2	0.1
4	Housing, water, electricity, gas and other construction materials	18.82	7	1.4
5	Furniture, household equipment and maintenance	6.74	2	0.2
6	Medicine & healthcare services	5.39	3	0.2
7	Transportation	9.67	2	0.1
8	Communications	3.14	0	0.0
9	Education	6.17	6	0.4
10	Culture, entertainment & tourism	4.55	3	0.1
11	Others	3.53	5	0.2
Total				**3.8**

Source: KB Securities Vietnam

IV. Interest rates

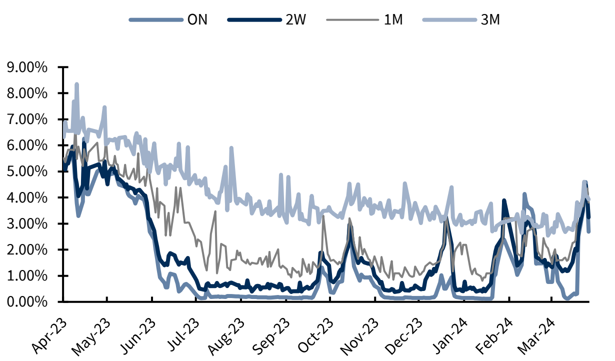
1. 1Q24 interest rates

Market liquidity decreased, while interbank interest rates increased

Given increasing exchange rates early this year, the SBV issued bills to raise interbank interest rates and limit interest rate differential transactions. Accordingly, market cash in 1Q was not as abundant as before although credit growth was still sluggish. The SBV has been issuing bills since March 11 with an average interest rate of about 1.58%. As of April 9, through OMOs, the bank net withdrawn more than VND141 trillion from the system. In addition, the SBV was also flexible in proactively opening forward purchases to provide local liquidity to banks when necessary in early April. Interbank trading activities were also more active in 1Q24, reaching VND15.8 million billion (+142% YoY), showing higher liquidity demand compared to the same period last year.

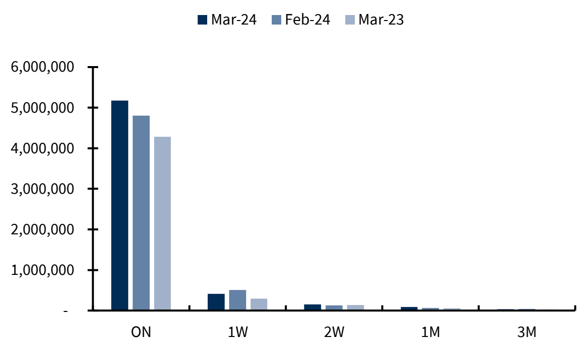
As of the end of April 9, interbank interest rates for ON, 2W, 1M and 3M terms reached 3.66%, 3.72%, 3.71% and 3.83% respectively (+271 bps, +153 bps, +191 bps and +57 bps YTD).

Fig 40. Vietnam – Interbank interest rates (%)



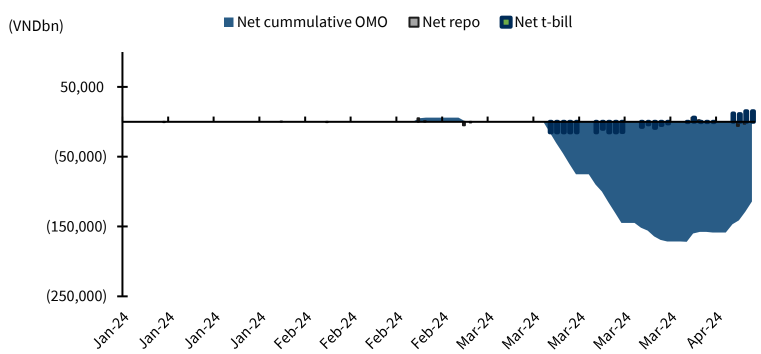
Source: FiinPro, KB Securities Vietnam

Fig 41. Vietnam – Average interbank trading volumes (VNDbn)



Source: FiinPro, KB Securities Vietnam

Fig 42. Vietnam – OMOs (VNDbn)



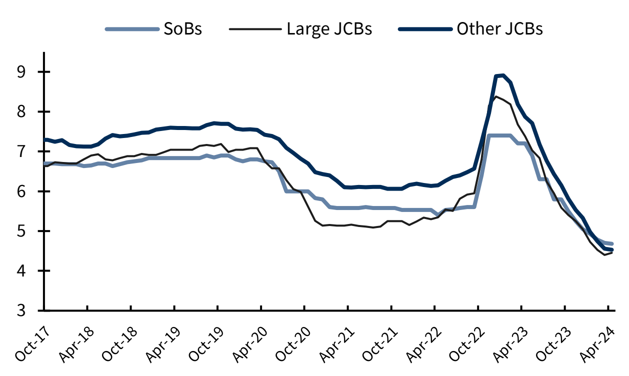
Source: State Bank of Vietnam, KB Securities Vietnam

Deposit interest rates continued to decrease but have shown signs of bottoming out

Although the downtrend of interest rates in 2023 has brought deposit interest rates to record lows, it continued in 1Q24 amid slow credit growth. The credit growth as of March 25 only reached 0.26% compared to the beginning of the year. As of the reporting time, the 12M deposit interest rates of state-owned commercial banks, large joint stock commercial banks (Asia Commercial Bank – ACB, Military Bank – MBB, Vietnam Prosperity Bank – VPB, and Techcombank – TCB) and other commercial banks reached 4.7%, 4.4% and 4.56% respectively (an average decrease of 0.2% – 0.3% YTD). However, in the context of less cash mainly due to net withdrawal of T-bills, the market has recorded a slight adjustment to increase interest rates in a few banks with small and medium-sized capital (VPB, Eximbank – EIB, Maritime Bank – MSB, Kien Long Bank – KLB, and Construction Bank – NCB), showing the ability of interest rates bottoming out.

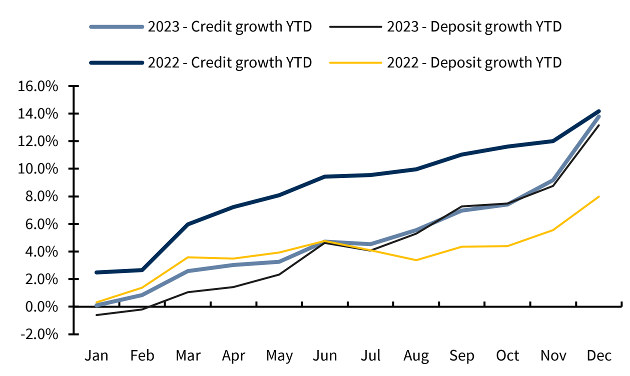
Meanwhile, lending interest rates lag compared to deposit interest rates due to term difference but also decreased quickly in 1Q24. According to the SBV, the average interest rate for new loans is currently only 6.4%/year, falling another 0.7% compared to the end of 2023. In general, the decline in lending interest rates is faster than we expected. New loan interest rates have returned to a relatively reasonable level with the gap between deposit and lending interest rates at 2.5%-3%.

Fig 43. Vietnam – Average 12M deposit interest rate of banking groups (%)



Source: Bloomberg, KB Securities Vietnam

Fig 44. Vietnam – Credit & deposit growth (%)



Source: Bloomberg, KB Securities Vietnam

2. 2024F interest rates

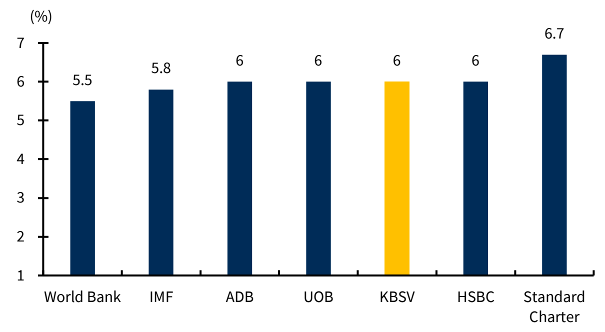
Deposit interest rates might have bottomed out and increase slightly to 4.75% – 5.35% while lending interest rates should move sideways

With deposit interest rates reaching historic lows, liquidity weakening, and exchange rate and inflationary pressure, we think deposit interest rates have bottomed out and will likely inch up for the rest of the year to be around 4.75% – 5.35% (+0.15% – 0.75% from the current bottom). The average lending interest rate may hardly decrease further as deposit interest rates increase slightly, credit demand recovers, and the real estate market recovers in the second half of the year. Therefore, we forecast that lending interest rates will remain flat with a margin of ± 0.25% until the end of the year.

Deposit interest rate drivers include:

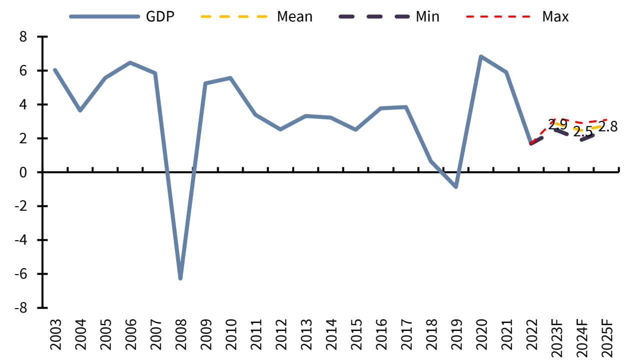
- **Credit demand is projected to rise in 2H24**. We expect credit growth to recover clearly in the second half of the year, in line with the economic recovery which is supported by rebounding exports from its comparative lows last year, the absorption of monetary policy to lower interest rates, and fiscal policy to promote public investment, warming real estate market thanks to the Government's policies, and improved FDI and domestic consumption.
- In fact, after the first two months of negative credit growth due to seasonal factors and unexpectedly high growth in December 2023, credit growth across the economy increased. As of March 25, it hit 0.26% YTD.
- However, KBSV believes that the recovery of the real estate market will be relatively slow due to the lack of supply and ready-to-deploy projects, while the real estate prices in central areas are still high. Accordingly, we forecast credit growth this year to reach 14% – 15%. Increased credit demand will lead to higher demand for deposits, thereby increasing deposit interest rates.

Fig 45. Vietnam – 2024F GDP growth (%)



Source: Bloomberg, KB Securities Vietnam

Fig 46. Global – 2024F GDP growth (%)



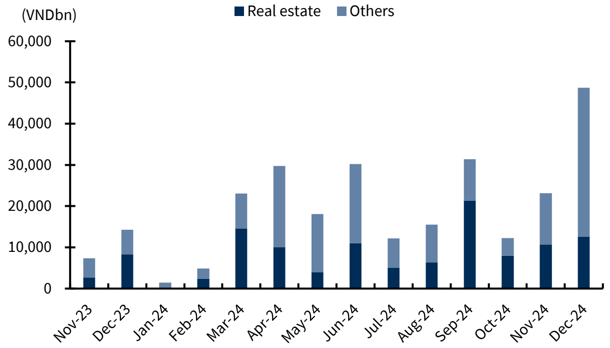
Source: Bloomberg, KB Securities Vietnam

- **Inflationary pressure is noticeable**: March headline CPI went down 0.23% MoM, and core CPI gained 0.03% MoM, on average in 1Q2024 rising 3.77% and 2.81%, respectively (Figure 14). Compared to 1Q23, the main impacted industry groups are food (+16.51%, of which rice prices climbed 21.7%); housing and construction materials (+5.4% due to increased rent, water and electricity prices), education (+9.02% due to increased tuition), and medical services (+6.51% due to price adjustment according to the circular of the Ministry of Health).
  In addition, Brent prices surged from USD76/barrel at the beginning of the year to around USD85/barrel in March and should continue the uptrend this year *(mentioned in Part VI. Sector outlook – Oil and gas in the Vietnam stock market outlook 2Q24 report)*. This will be an uncertain factor that makes inflationary pressures more unpredictable in the rest of 2024. In the negative scenario, Brent oil price exceeding the threshold USD93/barrel will put pressure on other commodities and change our forecast.
  What we are worried about geopolitical risks has happened, causing oil prices to increase sharply. At the same time, signs of inflation returning in the US become clearer, and Vietnam's inflation is also under pressure. Although inflation is still far from the limit of 4.5%, the rapid increase in recent months is reminding executives to stay cautious.
- **Regarding the USD/VND exchange rate**, the Fed's interest rate lowering date being pushed back to 3Q and a number of other internal factors will put more pressure on the exchange rate in 2024.

Important factors affecting lending interest rates:

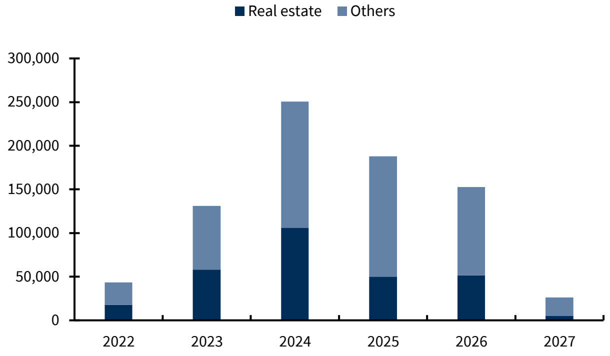
- Lending interest rates have decreased faster than our expectations, leaving little room for further reduction for the rest of the year. High-cost deposits of most banks matured in early 2024, so borrowing costs also respond quickly.
- Non-performing loans (NPLs) should also be closely watched. The difficult economic situation in 2023 has caused on-balance sheet NPLs of the entire system to reach 4.55% (+2.03% YoY) by the end of the year. NPLs that were temporarily restructured and sold to VAMC have not yet been processed. It is forecasted that the NPL situation in 2024 may be under pressure due to (1) Circular 02 expiry and (2) banks' reserve buffers shrinking.
- The bond channel has not yet recovered. Banks are expected to still be a long-term capital mobilization channel for businesses when the bond market has not yet recovered in 1Q24, while the pressure on corporate bond maturity in 2024 is at a record high of nearly VND258 trillion, focusing mainly from 2Q24 onwards. Therefore, lending interest rates are unlikely to see a steep fall.

Fig 47. Vietnam – Value of corporate bonds maturing by month (VNDbn)



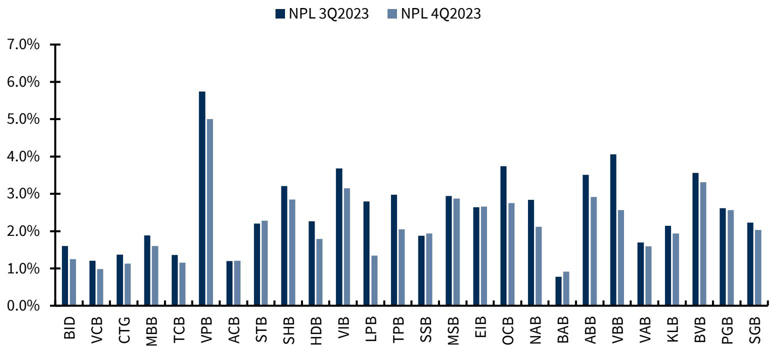
Source: KB Securities Vietnam

Fig 48. Vietnam – Value of corporate bonds maturing by year (VNDbn)



Source: KB Securities Vietnam

Fig 49. Vietnam – NPL ratio at banks (%)



Source: General Statistics Office, KB Securities Vietnam

V. USD/VND exchange rate

1. 1Q24 USD/VND exchange rate

Interbank exchange rate developments in 1Q24

The sharp increase in the interbank exchange rate in 1Q24 is mainly due to the increase in the DXY, increased import demand and activities of holding USD and carry trade. Although the SBV recognized the pressure from the beginning of the year and proactively issued T-bills from the beginning of March, it did not achieve the effect as expected. We believe that the reason for this is because the move only affected the carry trade of banks, while the need to pay USD for import and export activities was delayed and the USD hoarding continued. As of April 9, the interbank exchange rate was still at its peak since the beginning of the year, reaching VND24,948/USD (+2.8% YTD).

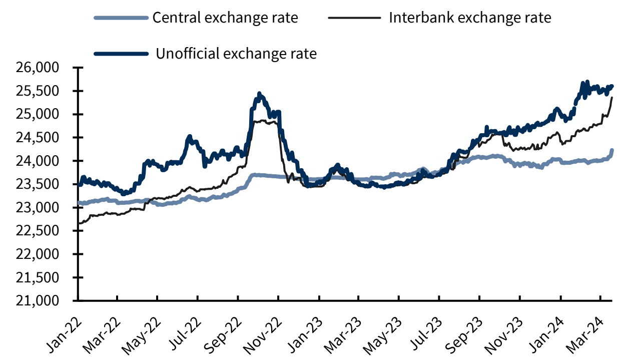
The unofficial exchange rate negatively fluctuated in 1Q24 due to the pressure from gold prices

The unofficial exchange rate has been increasing since May 2023, exceeding the peak of VND25,380 in November 2023 and still peaking until now. As of April 9, the unofficial exchange rate reached VND25,420/USD (+2.6% YTD). The increase in the rate mainly comes from the galloping increase in world gold prices, creating a large difference between domestic and world gold prices (at times up to VND20 million/tael), stimulating arbitrage demand.

NEER and REER move in the same direction

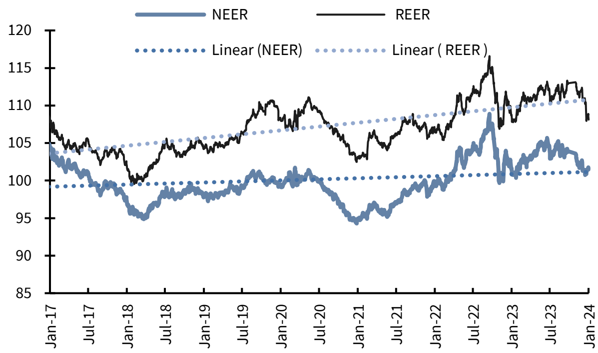
The NEER and REER moved in the same direction in 1Q24. On March 29, 2024, NEER gained 0.7% YTD, and REER rose 2.2% YTD (similar to VND appreciating compared to trading partners and even gaining more strongly when considering inflation factors). NEER decreased mainly because VND depreciated compared to USD, EUR, CNY bur strongly appreciated compared to JPY, KRW and THB, restraining the decline of NEER. The stronger increase in REER reflects that Vietnam's CPI in the first period of the year was higher than the average CPI of its main trading partners.
The early period of 2023 is still a difficult period for the SBV to manage exchange rates, especially when there were other existing pressures such as the pressure from gold prices. However, compared to currencies of other countries in the region, VND is still maintaining a devaluation equivalent to CNY, KRW and THB.

Fig 50. Vietnam – USD/VND exchange rate (VND)



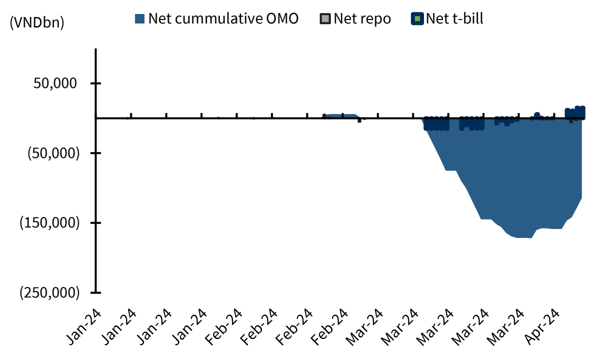
Source: Bloomberg, FiinPro, KB Securities Vietnam

Fig 51. US – NEER & REER (point)



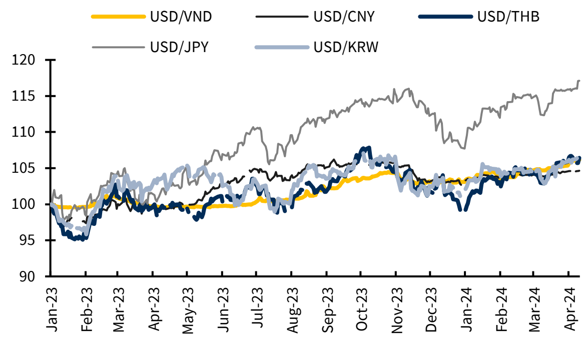
Source: Bloomberg, KB Securities Vietnam

Fig 52. Vietnam – OMOs (VNDbn)



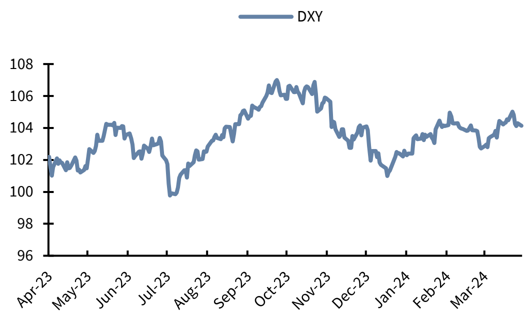
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 53. Global – USD against other currencies



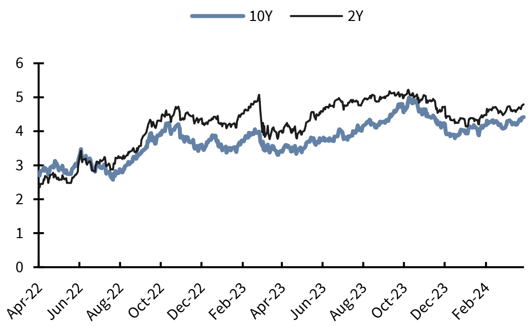
Source: Bloomberg, KB Securities Vietnam

Fig 54. US – DXY (point)



Source: Bloomberg, KB Securities Vietnam

Fig 55. US – Government bond yields (%)



Source: Bloomberg, KB Securities Vietnam

2. 2024F USD/VND exchange rate

The USD/VND exchange rate is expected to continue to be under great pressure

In the base case, we believe that **the USD/VND exchange rate will continue to be under great pressure for the rest of 2024 and increase by 3% to VND25,000/USD** as the overall balance is forecast to be more positive but the pressure from DXY and the negative interest rate difference between USD and VND continue to maintain with the adjustment of Fed Pivot by September.

Table 4. US – Probability of rate cuts according to futures (%)

MEETING DATE	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
01/05/2024			0,0%	0,0%	0,0%	0,0%	6,6%	93,4%
12/06/2024	0,0%	0,0%	0,0%	0,0%	0,0%	1,2%	22,9%	75,8%
31/07/2024	0,0%	0,0%	0,0%	0,0%	0,4%	8,6%	41,0%	50,0%
18/09/2024	0,0%	0,0%	0,0%	0,2%	3,8%	21,9%	44,7%	29,5%
07/11/2024	0,0%	0,0%	0,0%	1,1%	8,4%	27,7%	40,8%	22,0%
18/12/2024	0,0%	0,0%	0,5%	4,4%	17,2%	33,6%	32,2%	12,0%
29/01/2025	0,0%	0,2%	1,8%	8,5%	22,5%	33,2%	25,7%	8,1%
19/03/2025	0,1%	0,9%	4,7%	14,5%	27,1%	30,0%	18,2%	4,6%
30/04/2025	0,3%	1,9%	7,4%	18,0%	27,9%	26,7%	14,4%	3,3%

Source: CME Group, KB Securities Vietnam
* Note: Data as of April 12, 2024

Imports and exports are forecast to recover, but the surplus may decrease

We raise the forecast for the overall trade balance in 2024 with a surplus of USD10 – 12 billion thanks to more positive import and export activities as of 1Q24, while the pressure from carry trade decreases as interbank interest rates will no longer be as low as in the previous period. To be more specific:

- **Exports are expected to recover with a growth rate of 10% – 14%** thanks to (1) warming demand in major partner countries; (2) inventory growth in the US and EU bottoming out; and (3) benefits from the positive outlook of the global semiconductor and electronic components industry (Page 7).
- Imports are expected to have much room to grow, following the recovery of the domestic economy. In 1Q24, import turnover of goods is estimated at USD84.98 billion, climbing 13.9% YoY (down 15.4% in 1Q23). It is worth noting that the group of capital goods rose more strongly than the group of consumer goods, showing the need of businesses to restore production.
- Import and export services reduced the deficit due to the recovery potential of the tourism industry, especially for Chinese tourists.

FDI capital flows and remittances continue to stabilize and grow

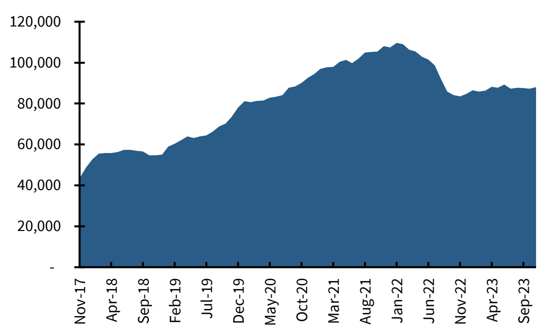
- Steady growth of FDI capital and remittances (for the reasons presented on page 9) will further promote FDI inflows and be a stable source of foreign currency supply for 2024.

The decrease in the USD/VND interest rate difference helps reduce exchange rate pressure

- The decrease in the interest rate difference in the market not only reduces speculative holdings by businesses but also alleviates carry trade pressure on the banking system. We forecast that ON interbank interest rates will remain in the range of 2%-3% for the remaining period of the year, helping to reduce exchange rate pressure.

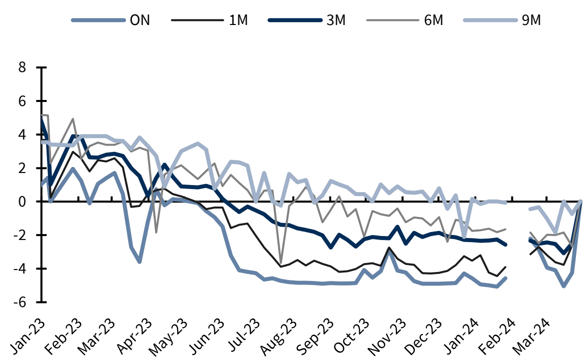
With external pressures from the rise of DXY, US bond yield and gold prices, we believe that the SBV will still focus on issuing treasury bills. However, if these pressures continue to increase, especially in the scenario that Brent price exceeds USD93 and the 10-year US government bond yield surpasses 4.7%, the SBV may have to intervene by selling futures or FX reserves to stabilize exchange rates.

Fig 56. Vietnam – FX reserves (USDbn)



Source: Bloomberg, KB Securities Vietnam

Fig 57. Vietnam – USD – VND interest rate difference (%)



Source: State Bank of Vietnam, 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:	Neutral:	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