KBSV RESEARCH

KB Securities VIETNAM

Macro outlook in 4Q23

Economy rebounding amid rising pressures

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Some of KBSV's forecasts about Vietnam's economy in 2023 are as follows:

1) GDP growth in 2023 should gain 5% (unchanged compared to the previous forecast). GDP supportive factors include: (i) Export recovery that helps boost industrial production, (ii) public investment promoted at the end of the year, (iii) Government policies to support economic growth, (iv) stable FDI capital flow, and (v) expectations about domestic consumption recovery.

2) Average CPI for the whole year 2023 is estimated at 3.6% YoY, well controlled below the target of 4.5% set by the Government thanks to the low increase in 1H23 CPI (+0.7% YTD), while the inflationary pressure is increasing in 2H23. Factors that may make inflation increase include: (i) The increase in gasoline prices; (ii) a slight increase in construction material prices due to promoted public investment at the end of the year; (iii) higher pork and rice prices due to fluctuations in supply and demand; and (iv) increased tuition fees according to Decree 81.

3) The 12M deposit interest rate is forecast to remain around 5.45% (flat compared to the present, down 2.8% compared to the beginning of the year). Lending interest rates continue to decrease by 0.25% compared to the present, down 1.75 – 2.25% compared to the beginning of the year.

4) The USD/VND exchange rate should gain 3.5% to around 24,460 when exchange rate pressure in the last three months of the year is still large and the State Bank (SBV) will even have stronger intervention measures if the exchange rate exceeds VND25,000/USD.

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I. Executive Summary

The macroeconomic picture was gloomy in the first nine months of 2023. The agriculture, forestry, fisheries and service sectors remain stable, while the industrial and construction sectors weakened, reflecting that manufacturing business activities are facing difficulties due to a decline in the number of orders amid unfavorable domestic macroeconomy and the frozen real estate market. However, the growth trend is still maintained each quarter, which bodes well for the prospect of economic recovery.

In the last quarter of 2023, we expect signs of macroeconomic recovery to return thanks to the rebound of export activities (leading to industrial production growth), the Government's speeding up the disbursement of investment and FDI capital, and the recovery of domestic consumption (thanks to demand stimulus policies).

The policy lag is still a supportive factor in the coming time but concerns over exchange rate and inflationary pressure could cause the macro environment to be volatile in 4Q23 and 1H24.

Table 1. Vietnam – Macro indicators in 2023

			KBSV's forecasts		
	Unit	3Q23	Apr 2023	Jul 2023	Oct 2023
GDP growth	% YoY	3.7	5.4	5	5
Average CPI	% YoY	3.3	4.1	2.8	3.6
Credit growth	% YTD	3.6	14	12.5	11
12-month average deposit rate	%/year		6.7	6.2	5.45
Exchange rate	VND		23,500	24,100	24,460

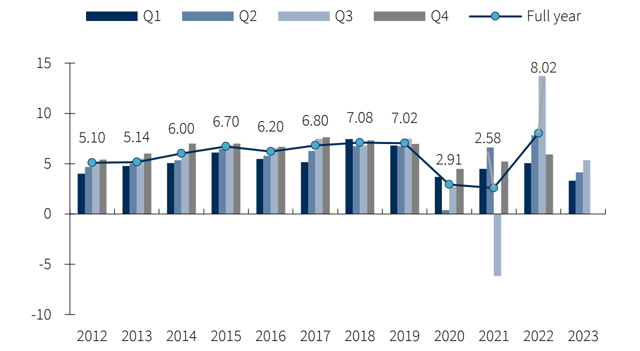
Source: KB Securities Vietnam

II. GDP growth

1. 9M23 GDP

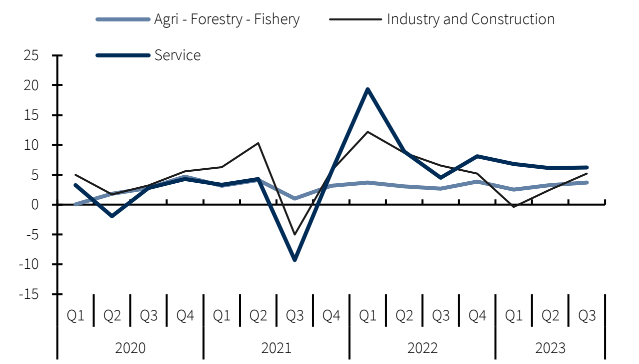
According to data from the General Statistics Office (GSO), GDP in the first nine months of 2023 is estimated to increase by 4.24% YoY, only higher than the growth rate of the same period in 2020 and 2021 in the period 2011-2023. This implied that the overall picture of the economy is still quite gloomy, darkened by the frozen real estate market and the not-as-expected domestic demand recovery. However, macroeconomic results are more and more positive month by month. Many bright signs have been spotted in the export sector, followed by a recovery in industrial production activities. In 3Q alone, GDP increased by 5.33% YoY, higher than the growth rate of 1Q (3.28%) and 2Q (4.05%).

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 is slowing while social investment is being boosted.

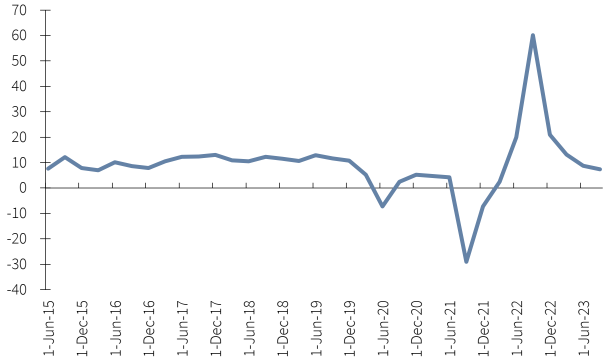
Consumption growth tends to slow down

9M23 consumption growth reached 3.03% YoY, which is quite slow due to weak domestic demand. Trade and service activities remained stable with total retail sales of goods and services in 9M23 at VND4,567.8 trillion, rising 9.7% YoY. In 3Q alone, retail growth grew by a mere of 7.3% YoY, slowing down significantly compared to 11.2% in 1Q and 8.8% in 2Q. Of that, retail sales of goods rose 8.4% YoY to VND3,572 trillion; tourism surged 47.7% YoY thanks to the Government's policies to attract foreign visitors.

Investment in the whole society is promoted

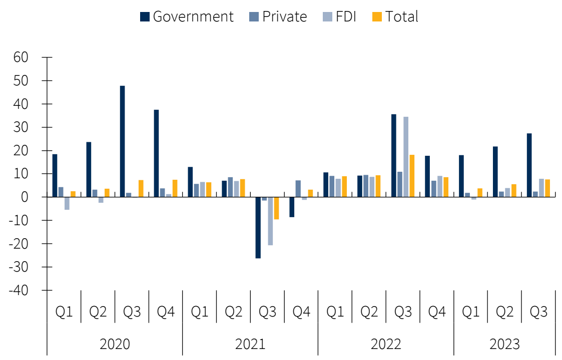
Total investment capital in 1H23 gained 5.9% YoY to VND2,260.5 trillion with VND1,250.7 trillion from the private sector (up 2.3% YoY), VND375.6 trillion from FDI (up 3.9% YoY), and VND415.5 trillion from the state sector (up 23.5% YoY). The big increase in the state sector proved the Government's determination and efforts in promoting public investment to create motivation for economic growth.

Fig 3. Vietnam – Total retail sales of goods and services (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – Total investment capital (% YoY)



Source: General Statistics Office, KB Securities Vietnam

From the supply side, the industrial and construction sectors grew slowly but positive signs appeared. The agriculture, forestry and fishery and the service sectors remained stable (Figure 2).

The industrial and construction sector is still weak but recovering

Growth in the industrial and construction sector in the first nine months of 2023 was 2.41% YoY. The industrial industry still faces many difficulties and only grew 1.65% YoY, the lowest increase of the same period of years from 2011 to 2023. The mainstay of the industry is processing and manufacturing, which increased by 1.98% YoY. The positive point is that the industry made a significant gain of 4.57% in 3Q, much higher than the results of the first two quarters of the year. The construction industry in 9M23 advanced 6.17%, contributing 0.42ppts.

9M23 IIP nationwide saw a contraction of 0.3% YoY, of which, 49 localities recorded an increase in IIP and 14 localities decreased. 3Q IIP improved significantly, reaching 3.5% YoY after two quarters of negative growth. This showed that industrial production has gone through the most difficult period thanks to economic promotion efforts from the Government and signs of recovery from import and export activities. The key industries are all on an upward trend (Figure 6).

The service sector remained stable

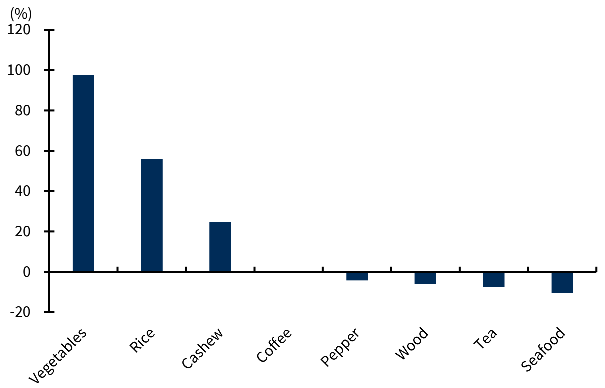
The service sector in 9M23 posted a gain of 6.32% YoY when the Government passed policies to stimulate domestic consumption and tourism activities. Accordingly, wholesale and retail increased by 8.04%; transportation and warehousing industry went up 8.66%; finance, banking and insurance activities rose 6.91%; and accommodation and food services surged 13.17%.

The agriculture, forestry and fisheries sector continued to grow

The agriculture, forestry and fisheries sector maintained a steady growth with 3.43% YoY, both meeting domestic demand and ensuring food security. The sector has also contributed significantly to export activities. Winter-spring rice productivity was quite good, and the output of some major industrial crops was higher than that of the same period last year. Poultry farming developed stably, and diseases were controlled.

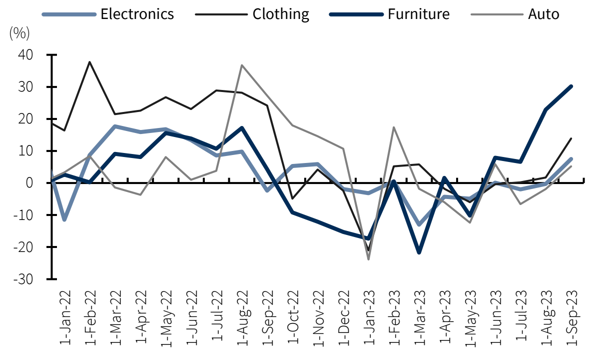
Although wood and fisheries exports decreased YoY, the decline has narrowed significantly thanks to better demand from major partner countries such as the US, China, and EU (Figure 5).

Fig 5. Vietnam – Agricultural, forestry & fisheries export growth (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 6. Vietnam – Some main industries' growth (% YoY)



Source: General Statistics Office, KB Securities Vietnam

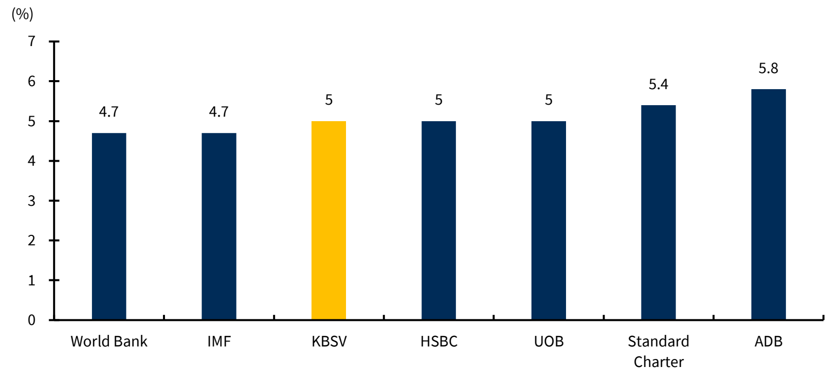
2. 2023F GDP

GDP is expected to reach 5% in 2023

We maintain our 2023 GDP growth forecast at 5% as macroeconomic results recover as expected. Factors supporting GDP growth in 4Q23 include: 1) Export recovery that boosts the manufacturing industry; 2) promoted public investment at the end of the year; 3) the Government policies to support economic growth; 4) stable FDI capital flow; and 5) expectations of domestic consumption rebound.

On the contrary, the return of inflationary and exchange rate pressure causes the SBV to be more cautious in operating policies. In addition, the domestic real estate market has not yet shown signs of recovery, which may hinder the growth momentum of GDP.

Fig 7. Vietnam – 2023F GDP growth (%)



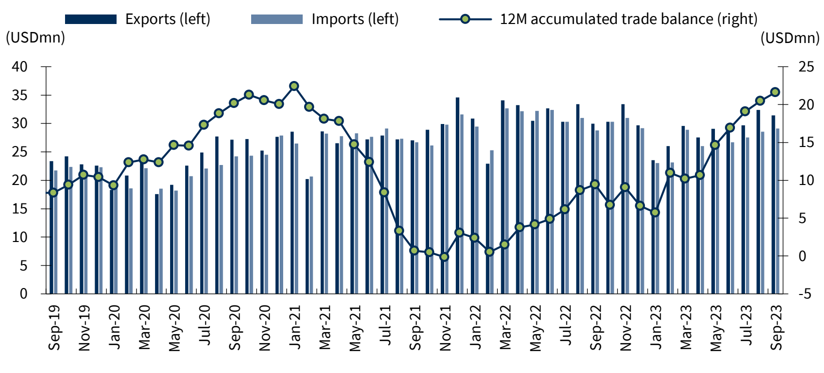
Source: **HSBC, WB, ADB, UOB, Standard Chartered**, KB Securities Vietnam

It is expected that exports will strongly bounce back

Export activities are one of the important factors promoting Vietnam's GDP growth. However, 2023 will see a decline in this sector mainly due to weak demand in major economies such as the US, EU and China, leading to stagnant domestic production. Export turnover in 9M23 reached USD259.7 billion, down 8.2% YoY. However, we believe that this fall partly results from the large export volumes last year when countries reopened after the Covid-19 pandemic. In general, exports are still on an upward trend, reaching USD31.4 billion in September. This is much higher than USSD23.56 billion in January, thereby narrowing the decrease in 3Q to 1.2% YoY (vs 11.8% in 2Q). Many key products grew strongly compared to the previous quarter, namely electronics, computers and accessories (+15.1% QoQ); phones and accessories (+37.7% QoQ); and textiles (+14.3% QoQ). In terms of export markets, the US accounts for the highest proportion with 27% of export turnover, followed by China (16%) and the EU (13%).

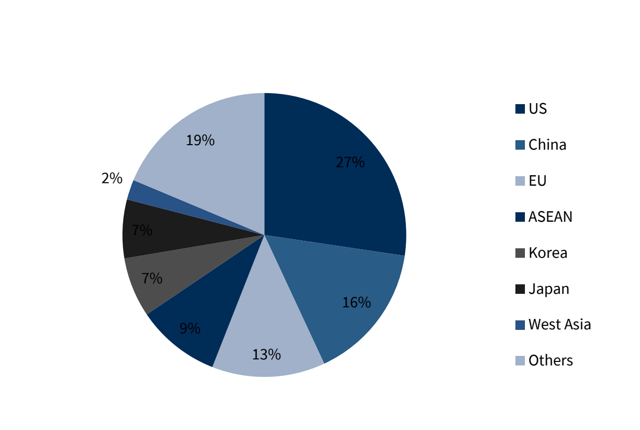
We expect Vietnam's export activities to recover in 4Q thanks to supporting factors from boy domestic and international markets: (1) Global economic growth is more positive than forecast. (2) The peak consumption season at the end of the year are boosted by holidays in all three markets, the US, China and the EU. (3) The retail inventory value in the US (not adjusted for inflation) bottomed out, which may help Vietnamese exports to rebound in this market. (4) An increase in exchange rate will make the prices of Vietnam's export goods lower, while supporting export businesses with USD revenue to benefit from recording revenue and profits in VND.

Fig 8. Vietnam, US – Import-export turnover and trade balance (USDbn)



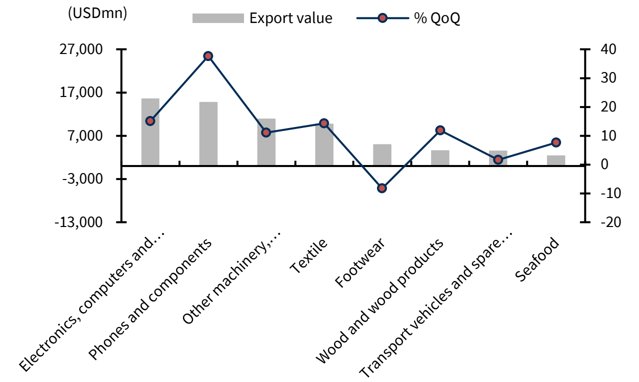
Source: General Statistics Office, KB Securities Vietnam

Fig 9. Vietnam – Exports to countries in 8M23



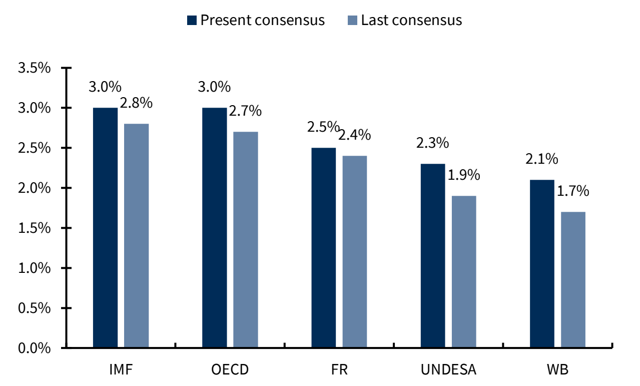
Source: Ministry of Industry and Trade, KB Securities Vietnam

Fig 10. Vietnam – Main exports in 3Q23



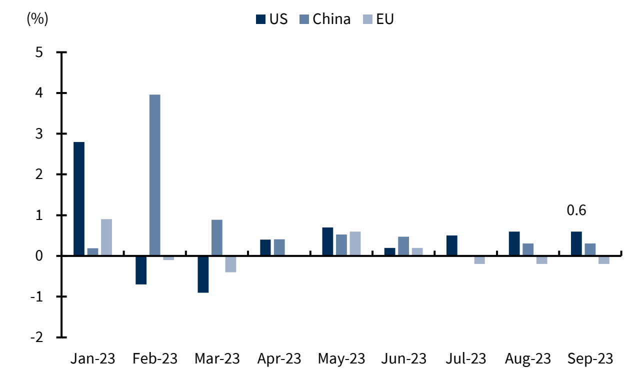
Source: General Statistics Office, KB Securities Vietnam

Fig 11. Global – 2023F economic growth (%)



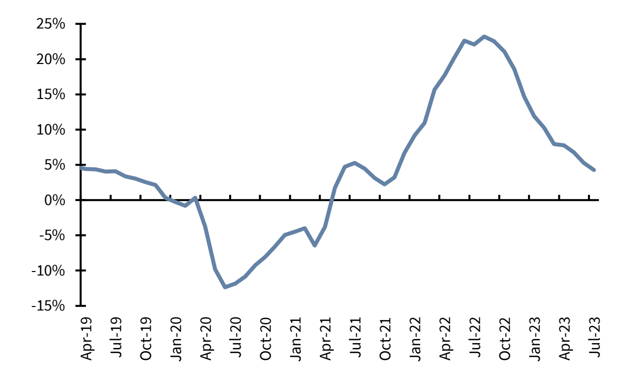
Source: IMF, OECD, FR, UNDESA, WB, KB Securities Vietnam

Fig 12. Global – Retail sales growth (% MoM)



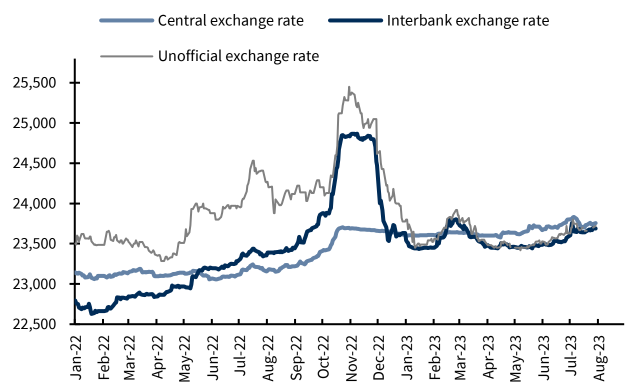
Source: Bloomberg, KB Securities Vietnam

Fig 13. US – Retail inventory growth (% YoY)



Source: Bloomberg, KB Securities Vietnam

Fig 14. Vietnam – Exchange rate developments



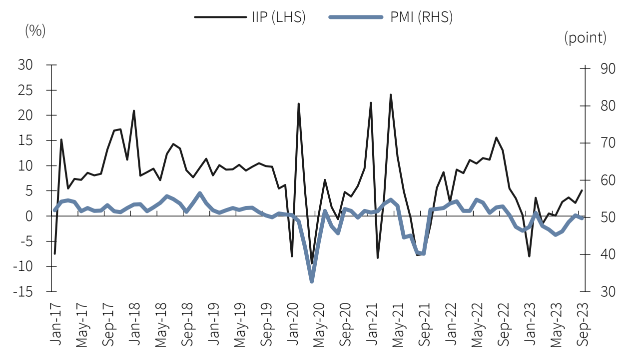
Source: Bloomberg, KB Securities Vietnam

Industrial production became more positive month by month

Industrial production activities recovered, following positive signals from exports. 3Q IIP hit 3.5% YoY after the first two quarters of negative growth. The main industries all improved each month (Figure 16). Processing and manufacturing advanced 5.9% YoY in September, higher than the average increase of the entire industry.

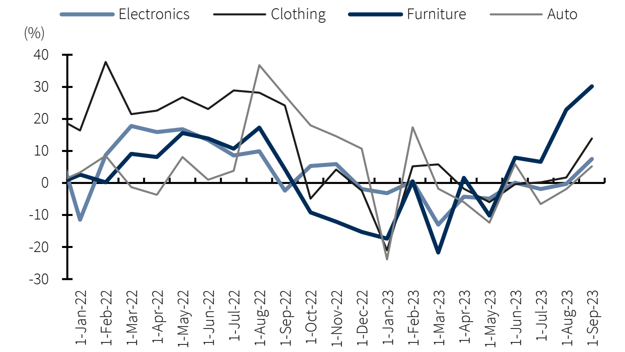
Besides, the PMI surpassed 50 points in August and decreased slightly to 49.7 points in September. However, the number of new orders continued to increase, mainly coming from export orders. This bodes well for Vietnam's industrial and export activities.

Fig 15. Vietnam – IIP & PMI (% YoY, point)



Source: General Statistics Office, KB Securities Vietnam

Fig 16. Vietnam – Some main industries growth (% YoY)

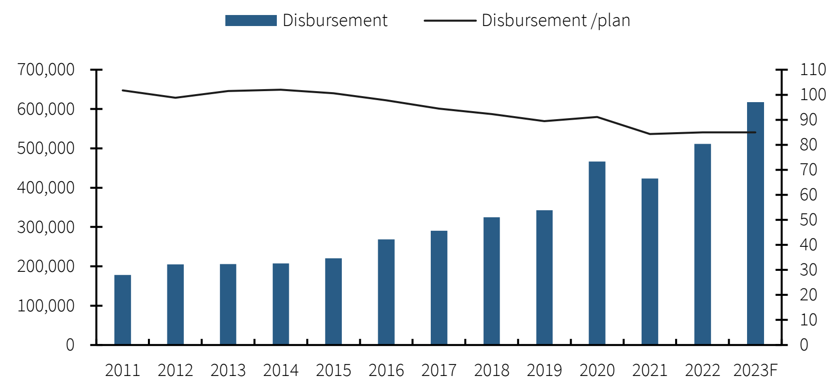


Source: General Statistics Office, KB Securities Vietnam

Public investment is accelerated in the last quarter of 2023

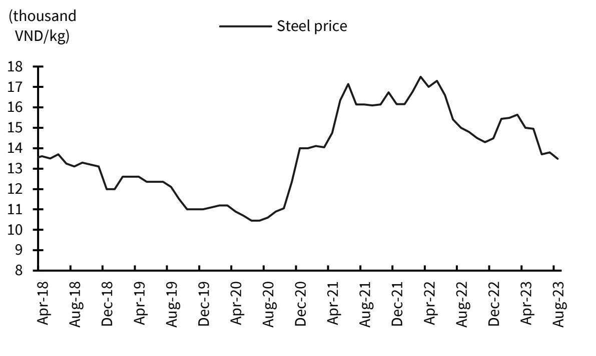
Public investment continues to be a key solution to stimulate the economy as it has spillover effects on other sectors in the long term. According to the GSO, realized public investment capital in the first nine months of the year is estimated at VND415.5 trillion, up 23.5% YoY and equal to 57.4% of the plan assigned by the Government. Disbursement progress is considered quite positive as it continues to increase month by month. If this pace continues to be maintained, we expect that the disbursement rate in 2023 will likely be equivalent to 2022 at 85% of the plan, implying that in the last quarter the average disbursement rate should be about VND67–70 trillion per month. Currently, we do not see any risks that will negatively impact the construction progress. We expect that public investment will be promoted at the end of the year and become a fulcrum to the economy.

Fig 17. Vietnam – Disbursement of public investment (VNDbn)



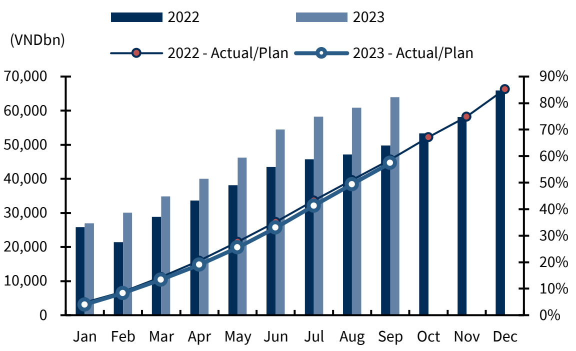
Source: General Statistics Office, Ministry of Finance, KB Securities Vietnam

Fig 18. Global – Construction steel prices (thousand VND/kg)



Source: Fiinpro, KB Securities Vietnam

Fig 19. Vietnam – Disbursed public capital by month (VNDbn)



Source: General Statistics Office, KB Securities Vietnam

Table 2. Vietnam – Key public projects

Projects	Total investment (VNDbn)	Disbursement from the State budget (VNDbn)	Expected disbursement during 2021-2025 (VNDbn)	Stimulus packages in 2022-2023 (VNDbn)
Expressway	**273,973**	**262,969**	**74,251**	**92,634**
The east sections of the North – South Expressway (Phase 2)	146,990	146,990	47,169	72,476
Bien Hoa – Vung Tau Expressway	18,635	18,635	5,740	3,500
An Huu, Tien Giang – Cao Lanh, Dong Thap Expressway	6,054	6,054	1,864	1,204
Chau Doc – Can Tho – Soc Trang – Tran De expressway	49,745	49,745	14,247	3,800
Khanh Hoa – Buon Ma Thuot Expressway	17,435	17,435	5,231	2,320
Tuyen Quang – Ha Giang Expressway	6,264	4,800		3,584
Hoa Binh – Moc Chau Expressway	9,770	9,770		4,650
Ninh Binh – Nam Dinh – Thai Binh – Hai Phong Expressway	19,080	9,540		1,100
Traffic projects connecting gateways, regions, industrial zones, and seaports	18,554	15,786	2,412	10,530
Long Thanh International Airport (Phase 1)	114,000		114,000	

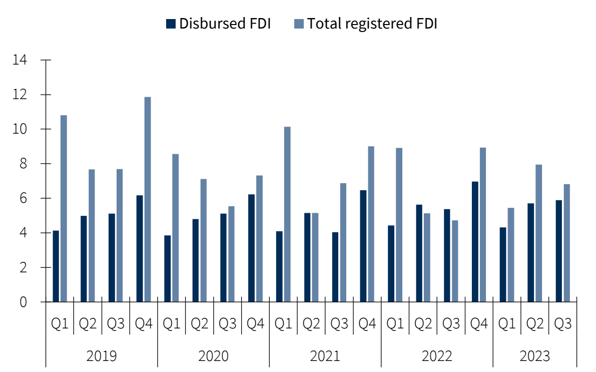
Source: KB Securities Vietnam

Expectation of FDI capital flow to continue into Vietnam

With many large newly registered projects and continuously increased investment capital being certified, Vietnam's total registered FDI capital in 9M23 rose 7.7% YoY to USD20.21 billion. Disbursed FDI capital in 9M23 gained 2.2% YoY to USD15.91 billion, the highest level compared to the same period in the period 2017-2023. Furthermore, the sustained increase in the number of projects also shows that FDI enterprises that have invested in Vietnam are gradually recovering and expanding production and business activities. Accordingly, we believe that FDI capital flows into Vietnam will continue to maintain stability and may surpass the results of 2022, supported by both domestic and international factors. In terms of internal factors, Vietnam is still proactively attracting foreign investment by issuing attractive support packages and creating a favorable business environment. Besides, it also makes good use of available competitive advantages including a stable economic and political situation, favorable location for investment activities, many signed free trade agreements, and abundant labor force.

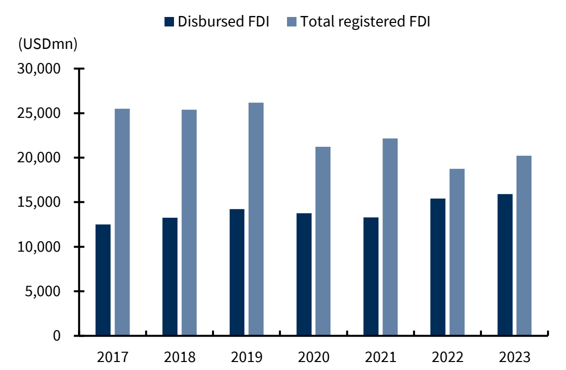
In terms of external factors, the advantages include: (1) Vietnam benefits from the trend of relocating production bases from China. The stability of VND compared to CNY has given Vietnam an advantage in building trust in the business environment. (2) Upgrading the comprehensive strategic partnership with the US is expected to indirectly attract a large amount of FDI inflows from this country to Vietnam. (3) Business confidence of European businesses in Vietnam tends to increase again when the BCI increased to 45.1 points in 3Q (according to EuroCham).

Fig 20. Vietnam – FDI over the year (USDmn)



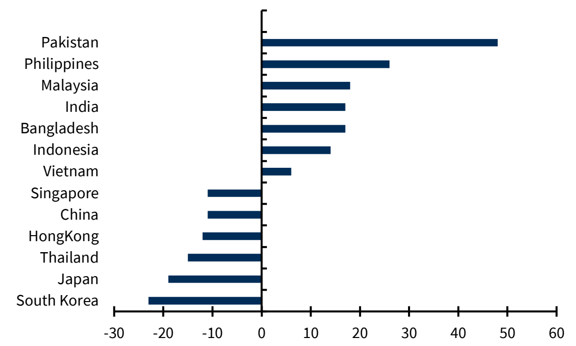
Source: Ministry of Planning & Investment, KB Securities Vietnam

Fig 21. Vietnam – 9M FDI in 2017-2023 (USDmn)



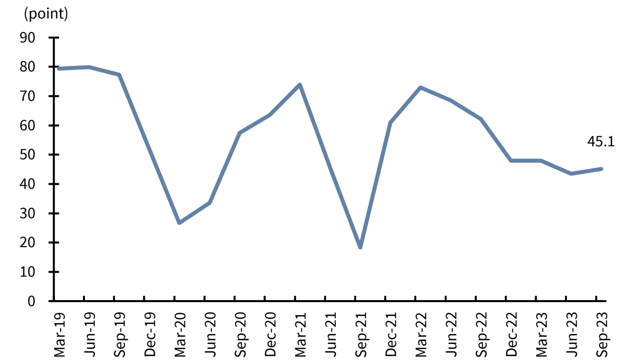
Source: Ministry of Planning & Investment, KB Securities Vietnam

Fig 22. Asia – Working age changes (years old)



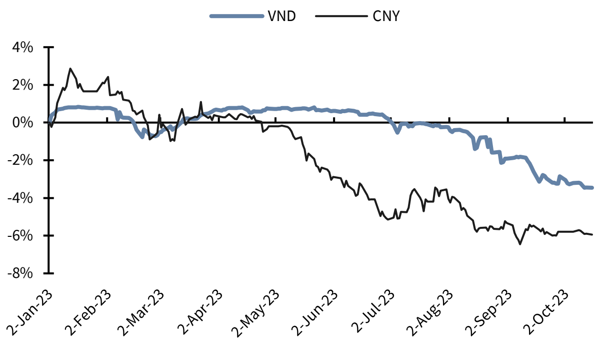
Source: Natixis, United Nations, KB Securities Vietnam

Fig 23. Vietnam – BCI (point)



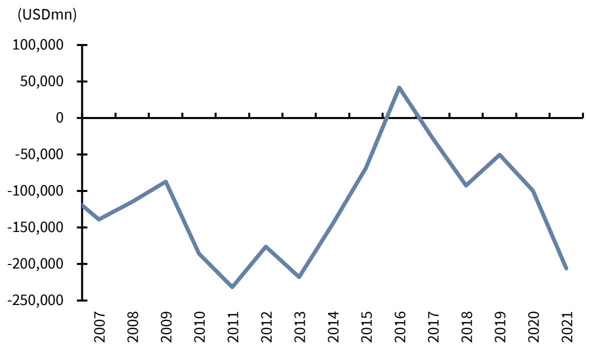
Source: EuroCham, KB Securities Vietnam

Fig 24. Vietnam, China – VND & CNY depreciation against USD (%)



Source: Bloomberg, KB Securities Vietnam

Fig 25. China – Net FDI (BOP, USDmn)

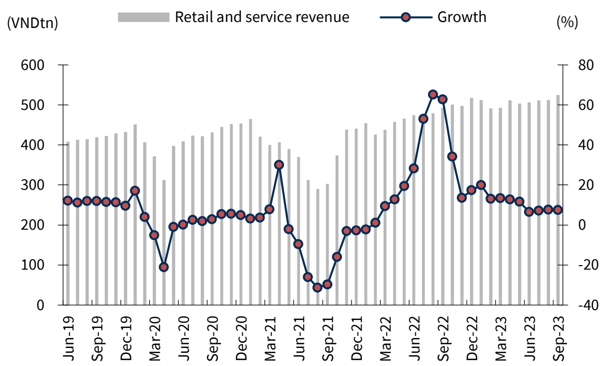


Source: Bloomberg, KB Securities Vietnam

Retail and services should continue to grow thanks to tourism and consumption stimulating policies

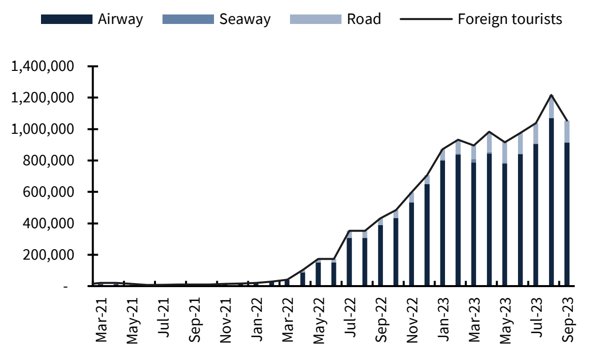
We expect the catering and tourism services to continue to be busy. In the first nine months of the year, international visitors to Vietnam were estimated at nearly 8.9 million people, 4.7 times higher than 9M22 but still only 69% compared to 9M19. This means that the industry has not yet fully recovered to the pre-Covid-19 levels, so there is still much room for growth in the near future. It is highly likely that the tourism industry will reach and even exceed the target of 110 million tourists, bringing in VND650 trillion in revenue and directly contributing 6.4% of GDP for the whole year. We believe that the Government and SBV's stimulus policies (such as reducing VAT, increasing basic salaries, and lowering policy rates) will take effect by 4Q23. Thanks to that, the retail sector is expected to make a stronger improvement and become one of the growth forces of the economy.

Fig 26. Vietnam – Total retail sales and sales growth (VNDtn, %)



Source: General Statistics Office, KB Securities Vietnam

Fig 27. Vietnam – Foreign tourist traffic (arrival)



Source: General Statistics Office, KB Securities Vietnam

Many policies were issued to support businesses and the economy

The government is supporting businesses and stimulating consumption through fiscal measures such as reducing taxes and fees, raising basic salaries, and issuing circulars to support the real estate market and corporate bonds. In addition, the SBV's continued monetary easing has caused deposit and lending interest rates to relatively cool down compared to the beginning of the year. Accordingly, credit growth accelerated in 3Q, reaching 6.92% YTD at the end of September.

Considering the policy lag, we expect the 4Q will be the time when the economy reflects positive effects of supportive policies more clearly than previous quarters.

Table 3. Vietnam – Supportive policies from the Government and SBV

Policy	Effective date	KBSV's notes
SBV's lowering policy rates	March 15, 2023, April 3, 2023, May 15, 2023, June 19, 2023	
Resolution No. 30/2022/UBTVQH15	January 1, 2023	Reducing environmental protection tax against gasoline, oil and grease in 2023
Decree 12/2023/ND-CP	April 14, 2023	Extending the deadline for paying VAT, CIT, PIT and land rents in 2023
Decree 36/2023/ND-CP	June 21, 2023	Extending the deadline for paying special consumption tax
Decree 41/2023/ND-CP	June 28, 2023	Reducing registration fees for domestically produced and assembled cars
Circular No. 44/2023/TT-BTC	July 1, 2023	Lowering 36 fees and charges
Decree 44/2023/ND-CP	July 1, 2023	Cutting VAT to 8%
Decree 24/2023/ND-CP	July 1, 2023	Increasing the base salaries for government officials
Circular No. 06/2023/TT-NHNN	September 1, 2023	Lending for roll-over loans
Circular 02/2023/TT-NHNN	April 24, 2023 - June 30, 2024	Restructuring the debt repayment terms and keeping the debt group unchanged
Decree 08/2023/ND-CP	March 5, 2023	Supporting the corporate bond market

Source: KB Securities Vietnam

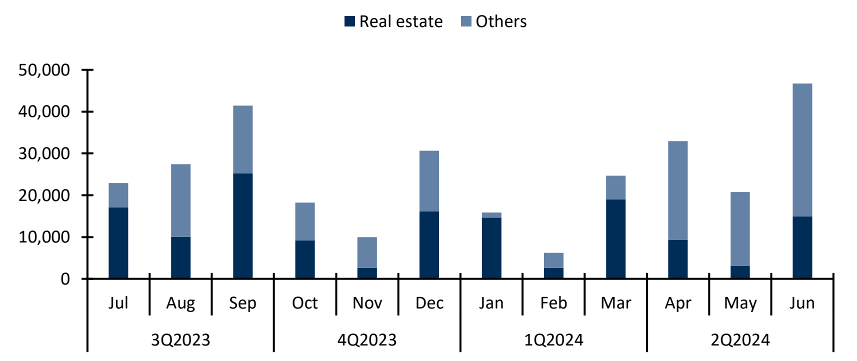
Inflationary and exchange rate pressure returns

The return of inflationary and domestic exchange rate pressure may hinder the growth momentum of GDP. Inflation dramatically climbed to respectively 0.88% and 1.08% MoM the last two months, causing the average 9M23 CPI to increase to 3.16% YoY. The positive point is that even if inflation maintains this rate, the Government's target of 4.5% in 2023 is still within reach. In fact, Vietnam's current inflation is mainly attributable to cost push (because imports are mostly used for export activities while domestic consumer demand is weak), so it will have a negligible impact on the economic executives' decisions on monetary policy, which requires fiscal measures such as reducing taxes on gasoline and other materials. On the contrary, the increase in exchange rate caused the SBV to have to take a net withdrawal of T-bills to partly balance the amount of VND in the market and prevent speculation in holding USD. If the VND continues to depreciate, there is a high possibility that the SBV will have to intervene more strongly (selling foreign exchange reserves), making it difficult for interest rates to fall to low levels, thereby weakening the supportive nature of the monetary policies. In addition, rising exchange rates also put pressure on demand-pull inflation as the costs of importing raw materials become more expensive.

The domestic real estate market continues to be quiet and there are no clear signs of recovery

Risks from the corporate bond market have decreased significantly because the volume of maturing bonds will cool down at least in the next two quarters. However, restoring investor confidence may not happen quickly, so the real estate market will continue to face many difficulties and remain frozen. This will have a negative impact on many other business sectors and partly make GDP post low growth in 2023.

Fig 28. Vietnam – Bond maturing value (VNDbn)



Source: Hanoi Stock Exchange, KB Securities Vietnam

III. Inflation

1. 9M23 inflation

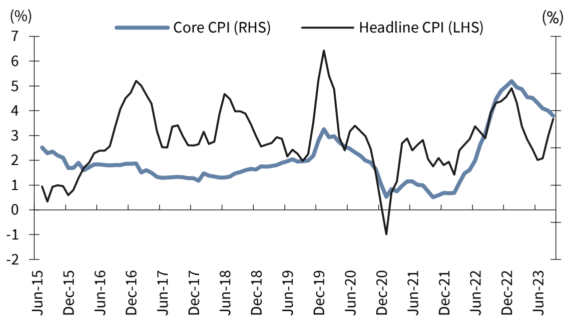
Inflationary pressure returns

Average CPI in 9M23 gained 3.16% YoY. Compared to the same period, CPI is the highest in the first months of the year and gradually decreases, but it has gradually increased since July 2023. In September alone, CPI increased by 1.08% MoM or 3.66% YoY due to rising gasoline prices, influenced by world oil prices and the roadmap to increase tuition fees.
Core CPI has been declining since the beginning of the year, the average 9M23 core CPI increased by 4.49% YoY.

Construction materials, house rents and educational fees hit hard on CPI

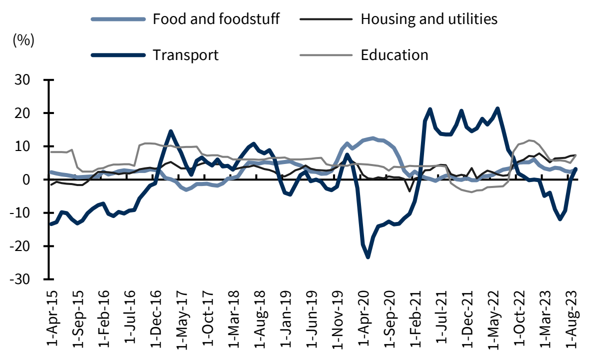
The main factors affecting the average CPI in the first nine months of the year include:
(1) Prices of housing and construction materials increased by 6.73% YoY, causing the headline CPI to gain 1.27ppts. The increase in cement and sand prices, following the price of raw and input materials, and house rents became higher.
(2) Education group prices advanced 7.28% YoY due to some localities increasing tuition for the 2023-2024 school year according to the roadmap of Decree No. 81/2021/ND-CP, raising the headline CPI by 0.45ppts.
(3) Food prices increased by 4.85% YoY due to higher domestic rice prices (in line with export rice prices), and foodstuff prices increased by 2.83% YoY as consumer demand rose during holidays and Tet, causing the headline CPI to go up 0.6ppts.

Fig 29. Vietnam – Core & headline CPI (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 30. Vietnam – CPI driving groups (% YoY)



Source: General Statistics Office, KB Securities Vietnam

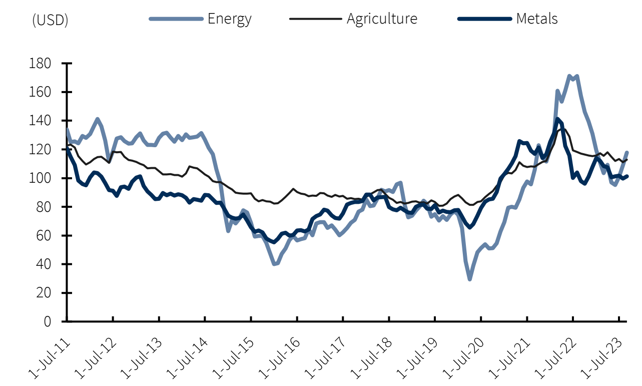
2. 2023F inflation

Inflation is forecast to expand by 3.6% YoY for the whole year of 2023

Inflation may follow an uptrend in the fourth quarter of 2023. However, given a tiny increase in the first half (+0.7% YTD, +0.1% MoM on average), we expect 2023F inflation will be kept in check well under the Government's target cap. Specifically, we anticipate 2023F inflation to expand by 3.6% YoY, equivalent to

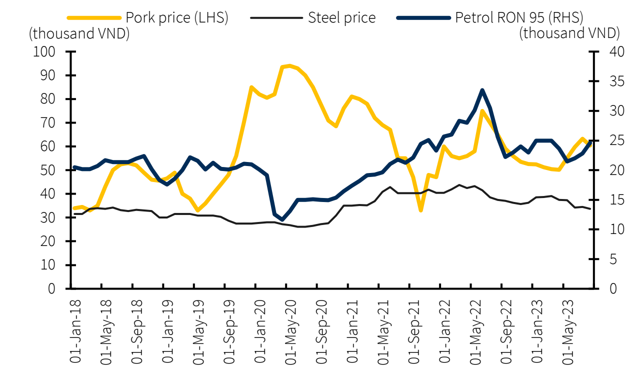
an average monthly increase of 0.77% MoM in 2H23. In particular, factors driving inflation higher include (1) high oil & gas prices; (2) a slight increase in building material prices following the acceleration of public projects in the year-end period; (3) higher pig and rice prices due to fluctuations in supply-demand; and (4) growing tuition fees according to Decree 81.
On the bright side, some factors restraining the rise of inflation consist of: low money supply growth, VAT reduction, stable import price index (MPI), fuel and building material prices lower YoY despite their downward trend.

Fig 31. Global – Commodity prices (USD)



Source: World Bank, KB Securities Vietnam

Fig 32. Vietnam – Commodity prices (thousand VND)

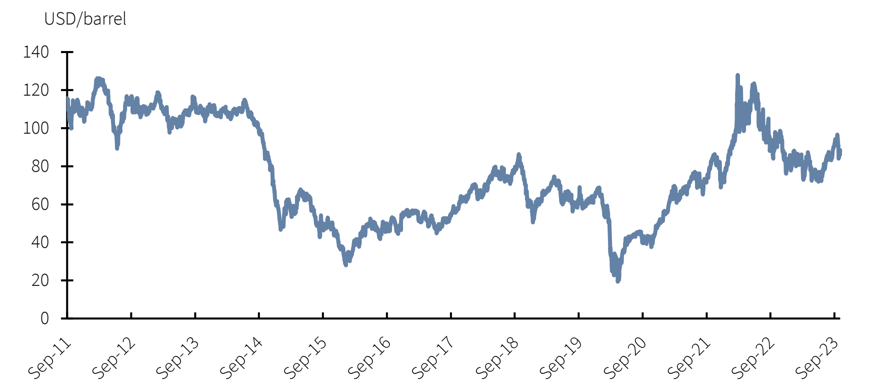


Source: KB Securities Vietnam

Transportation group: Brent crude oil should remain above USD85/barrel

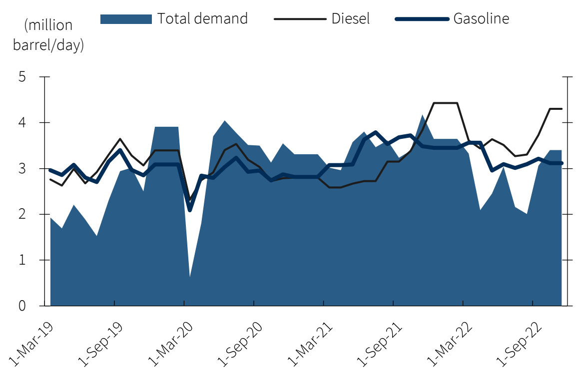
Brent prices resurged to nearly USD96/barrel at the end of September, marking the highest level over the past year. Although oil prices cooled down, we assess oil price fluctuation remains a risk factor putting pressure on Vietnam's inflation despite its cooldown. In 4Q23, Brent will likely linger above USD85/barrel as (1) OPEC+ sticks to its 4.96 million barrels/day production cut till the end of 2023, equaling nearly 5% of global demand; (2) US shale oil output falls due to reduced upstream investments; (3) global oil consumption is set to grow further in 2H23 and 2024, driven by China's rising consumption for industrial production, tourism, and fertilizer production; and (4) Gaza conflict will possibly escalate into a regional conflict, affecting oil supplies from Gulf countries.

Fig 33. Global – Brent crude oil prices (USD/barrel)



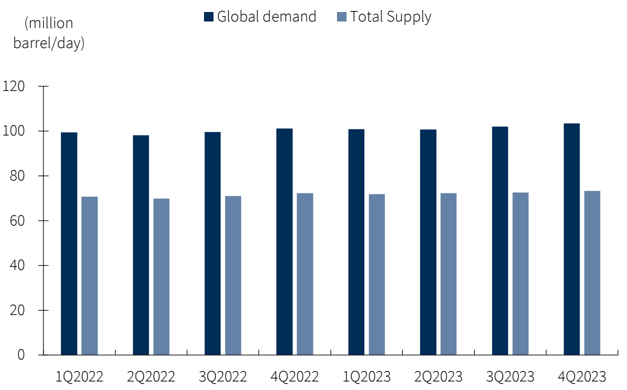
Source: Bloomberg, KB Securities Vietnam

Fig 34. China – Oil consumption demand (million barrels/day)



Source: Bloomberg, KB Securities Vietnam

Fig 35. Global – Oil demand-supply (barrels/day)

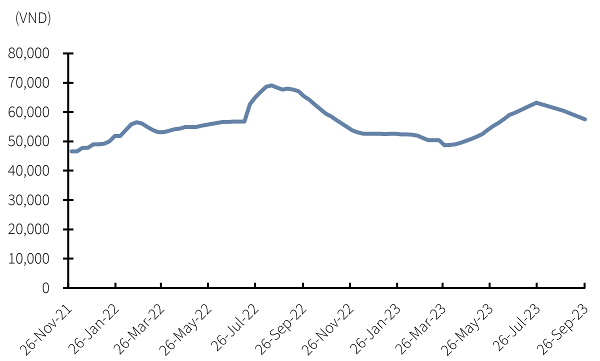


Source: OPEC, KB Securities Vietnam

Food group: Pig and rice prices are set to increase slightly

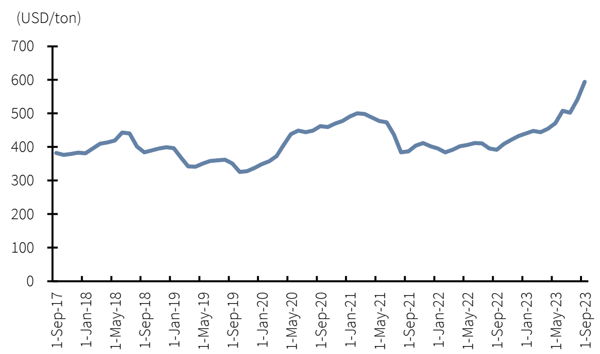
In September, the average live pig price fell to VND57,000/kg (-4.8% MoM and -12% YoY) amid increased supply and soft demand. Nevertheless, we predict pig prices will increase slightly to VND62,000/kg by the end of the year, backed by recovering demand from restaurants, eateries, and holiday destinations. Domestic rice prices may follow the global uptrend due to world supply and demand fluctuations. India has not yet lifted the ban on exporting broken rice or removing the 20% tax on white rice exports, the Philippines removed the rice price ceiling order, Indonesia opened a bid for 300,000 tons of rice, the main harvest in Vietnam has not come, ... At the end of September, Vietnam's export price of 5% broken rice touched nearly USD595/ton, an 11-year high.

Fig 36. Vietnam – Average pig price by month (VND/kg)



Source: Animal Husbandry Association of Vietnam, KB Securities Vietnam

Fig 37. Vietnam – 5% broken rice prices (USD/ton)

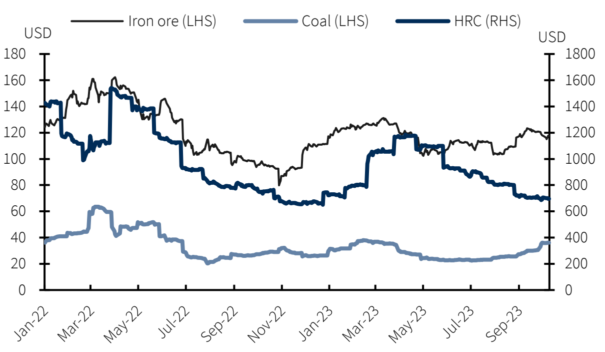


Source: Bloomberg, KB Securities Vietnam

Housing and construction materials group: Construction materials, electricity, and water prices rose slightly, while gas prices moved sideways

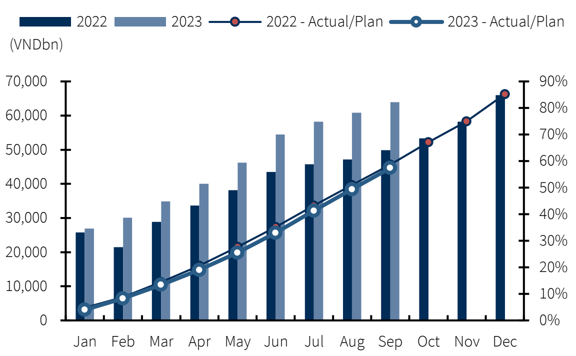
The acceleration of public projects in the year-end period will boost domestic construction material consumption. However, construction material price increases will be insignificant due to (1) cooling input costs for steel and cement production (Figure 38) and (2) humble residential sales, affecting the construction progress of new projects. Therefore, we forecast construction material prices will either move sideways or increase slightly by the end of 2023. We believe gas prices will move sideways as world energy prices are forecast to be stable towards the end of the year. Domestic electricity and water prices increased marginally compared to last year after recent price increases.

Fig 38. Global – Input prices for steel production (USD/ton)



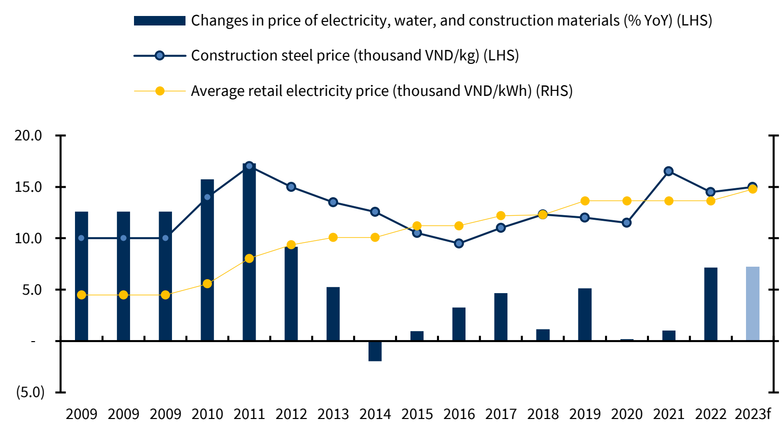
Source: Bloomberg, KB Securities Vietnam

Fig 39. Vietnam – Disbursed public spending (VNDbn)



Source: General Statistics Office, KB Securities Vietnam

Fig 40. Vietnam – Electricity & construction steel prices and contribution to CPI

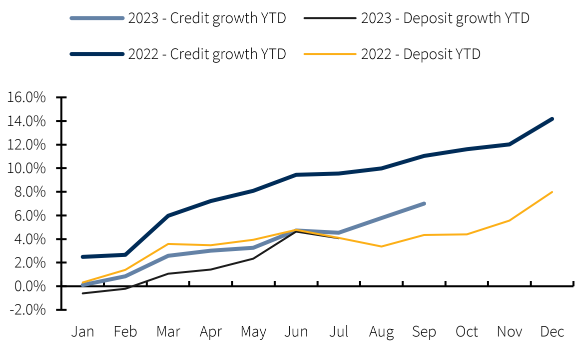


Source: General Statistics Office, Fiinpro, KB Securities Vietnam

Inflationary pressure from monetary policy is not worrisome

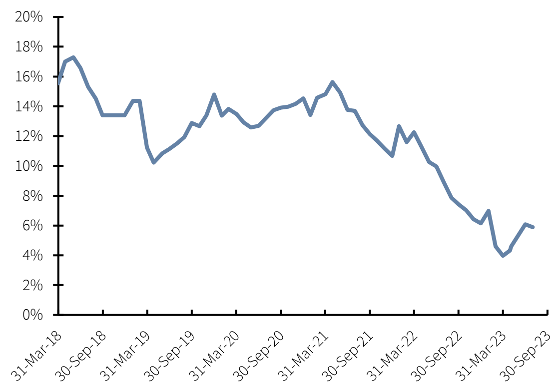
We do not find inflationary pressure from monetary pressure worrying. By the end of September, M2 growth was estimated at 7.75% YTD, relatively low compared to 2022, and the economy's ability to absorb capital is weaker when the real estate market is still facing many difficulties, causing credit growth to be lower YoY despite accelerating over the past two months (Figure 41).

Fig 41. Vietnam – Loan & deposit growth (%)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 42. Vietnam – M2 growth (%YoY)

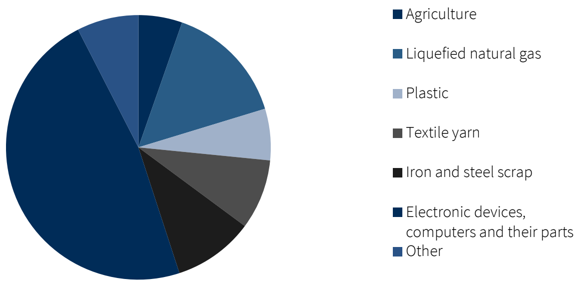


Source: State Bank of Vietnam, KB Securities Vietnam

Prices of imported raw materials are forecast to move sideways

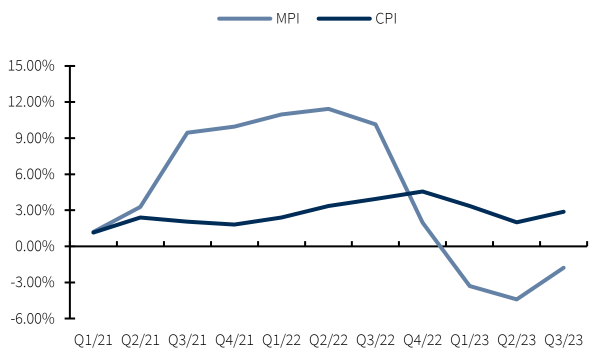
The import price index (MPI) of key commodities including farm produce, food & food stuff, fuel and raw materials has peaked since 3Q22 and is on a downward trend (Figure 46) thanks to plummeting world commodity prices. However, the rate of decrease has slowed. In the context of growing demand in the last months of the year, we believe imported raw material prices will move sideways in the near term.

Fig 43. Vietnam – Imported goods by percentage (%)



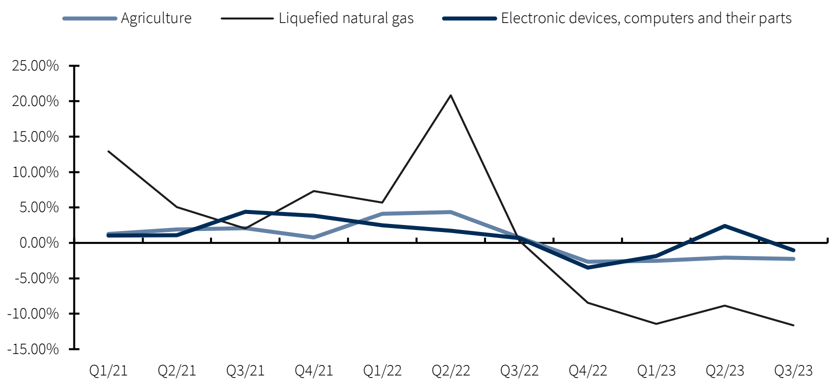
Source: Bloomberg, KB Securities Vietnam

Fig 44. Vietnam – Import price index (MPI) & CPI (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 45. Vietnam – Import price index of commodities (% QoQ)



Source: General Statistics Office, KB Securities Vietnam

Table 4. Vietnam – 2023F CPI

No.	Groups	Weights (%)	+/- (% YoY)	Contribution to CPI (%)
1	Food and foodstuff			
	Grains	3.67	6	0.2
	Foodstuff	21.28	3	0.6
	Outdoor eating	8.61	5	0.4
2	Beverages and tobacco	2.73	3	0.1
3	Clothing and footwear	5.7	2	0.1
4	Housing, water, electricity, gas and other fuels	18.82	7	1.4
5	Furniture, household equipment and maintenance	6.74	2	0.2
6	Health	5.39	1	0.1
7	Transport	9.67	-2	-0.2
8	Communication	3.14	-1	0.0
9	Education	6.17	7	0.5
10	Entertainment	4.55	3	0.1
11	Miscellaneous goods and services	3.53	5	0.2
	Total			3.6

Source: KB Securities Vietnam

IV. Interest rates

1. 9M23 interest rates

Interest rate developments are supported by easing policies

For 9M23, interest rate developments in both deposit and interbank markets fell substantially after the SBV had four policy interest rate cuts with a reduction of 0.5% – 1.5% (Table 5). At the same time, the SBV also issued many circulars, which we believe to be very supportive such as circulars 02, 03, and 06. The SBV's move aims to orient and encourage commercial banks to lower interest lending rates, supporting economic growth in the context of the economic downturn due to high interest rates and persistently high inflation globally.

Table 5. Vietnam – Policy interest rate reductions (%)

	March 15	April 3	May 25	June 19
Refinancing interest rate	6.0%	5.5%	5.0%	4.5%
Rediscounting interest rate	3.5%	3.5%	3.5%	3.0%
Interest rates for overnight loans in interbank electronic payments and loans to cover capital shortage in clearing payments by the SBV for credit institutions	6.0%	6.0%	5.5%	5.0%
Maximum short-term lending interest rate in VND of credit institutions for priority sectors	5.0%	4.5%	4.5%	4.0%
Maximum short-term lending interest rate in VND of People's Credit Funds and Microfinance Institutions	6.0%	6.0%	5.5%	5.0%
Maximum interest rate applicable to demand deposits and terms of less than one month	1.0%	0.5%	0.5%	0.5%
Maximum interest rate applicable to deposits with term from one month to less than six months	6.0%	5.5%	5.0%	4.75%

Source: State Bank, KB Securities Vietnam

Bank liquidity is abundant, interbank interest rates decreased sharply to low levels

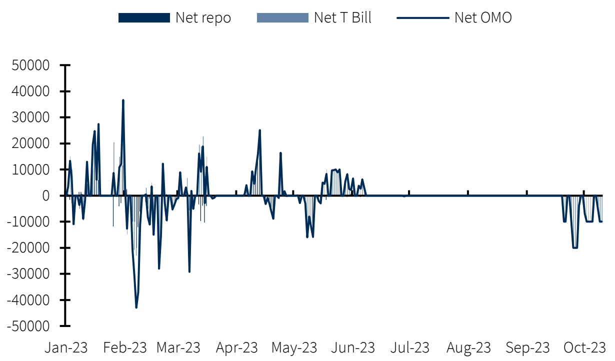
1H23 eyed the SBV's regulation through the open market with an aim to support liquidity and at the same time purchasing more than USD6 billion to gradually stabilize bank liquidity.

In 3Q23, there were hardly any transactions in the open market, although the SBV still offered bids regularly. However, the USD/VND exchange rate has been under pressure from the difference between USD and VND interest rates. The SBV intervened by issuing T-bills in late September to prevent the increase in the exchange rate (Figure 46). As of October 12, 2023, the SBV had net withdrawn more than VND145 trillion, with a term of 28 days and an average interest rate of 0.82%. The first T-bill will mature on October 19. With the exchange rate still remaining high even though the US dollar index (DXY) has cooled down, we believe the SBV will continue its net withdrawal after the first T-bill matures, with volume and interest rate equivalent to the current levels. Ample bank liquidity caused interbank interest rates to fall sharply across all terms in the first three quarters of the year. Although they increased slightly alongside the SBV's move to issue T-bills, they remained low. Specifically, ON, 2W, 1M, and 3M interbank interest rates were 0.66%, 1.4%, 1.75%, and 3.64% (-440bps, -514bps, -633bps, and -595bps YTD), respectively.

Deposit interest rates continue to decrease to close to pre-Covid levels

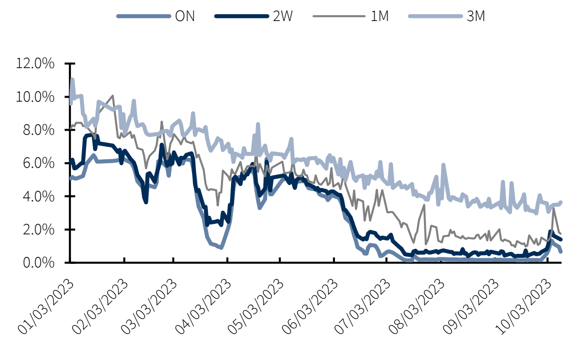
In the deposit market, banks are still actively lowering interest rates at the request of the Government and SBV. At the time of the report, the 12-month deposit interest rate among state-owned commercial banks (Sobs) was 5.3%, among large joint stock commercial banks (JSCBs) (like ACB, MBB, VPB, TCB) was 5.38%, and among other commercial banks was 5.7%. According to Deputy Governor of the SBV Dao Minh Tu, up to now, interest rates have decreased as set by the Government's target when deposit and lending interest rates dropped by about 2.5% and 1.5% - 2% YTD, respectively.

Fig 46. Vietnam – Open market operations in 10M23



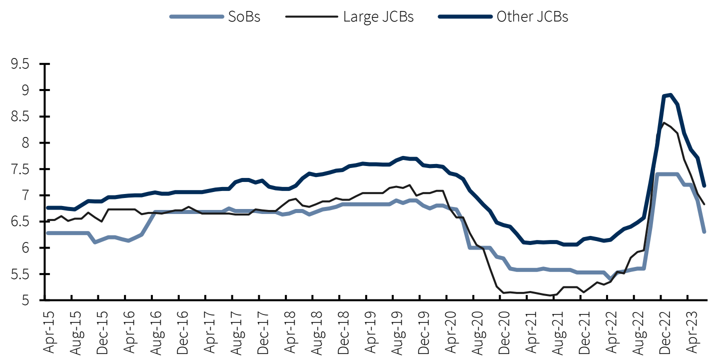
Source: FiinGroup, KB Securities Vietnam

Fig 47. Vietnam – Interbank interest rates in 10M23 (%)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 48. Local banks – The average 12-month deposit interest rate (%)

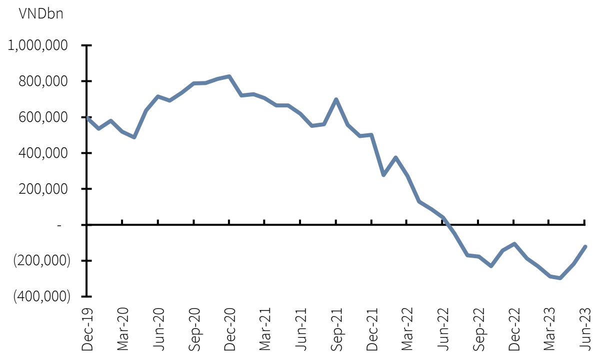


Source: Bloomberg, FiinGroup, KB Securities Vietnam

Credit growth, though far below the target, improved in September

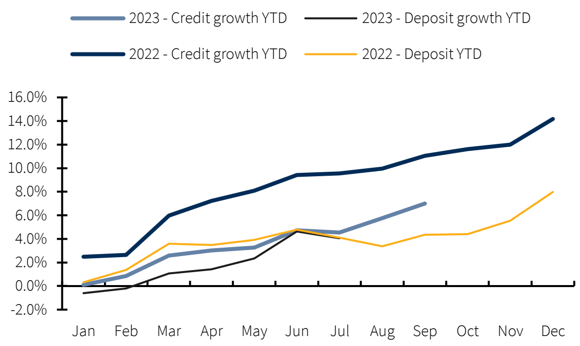
Although credit growth is far below the target, it saw improvements in September when outstanding loans reached about VND12.76 quadrillion, up 7% YTD, which is still far below the target of 14% - 15%. Besides, total mobilization was estimated at VND12.9 million billion (+5.9% YTD). The deposit-loan gap was positive again in September, reaching VND140 trillion, partly supporting bank liquidity, improved by improved credit growth and the SBV net withdrawing in the open market (Figure 49, Figure 50).

Fig 49. Vietnam – Deposit-loan gap (VNDbn)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 50. Vietnam – Credit growth (% YTD)



Source: State Bank of Vietnam, KB Securities Vietnam

2. 2023F interest rates

Deposit interest rates would move sideways while lending interest rates are forecast to decrease a further 0.25% in 4Q23

We assess deposit interest rates will move sideways from now until the end of 2023, with the average 12-month deposit interest rate around 5.45% (-2.8% YTD). Lending interest rates decreased more rapidly in 3Q23 due to the maturity of high-cost term deposits, however, the NPL ratio increased slightly in 3Q23, as the SBV reduced the ratio of short-term capital for medium- and long-term loans from 34% to 30%, and inflation and exchange rate pressures prevents further declines. KBSV forecasts lending interest rates will continue to decrease by 0.25% in 4Q23, down 1.75%-2.25% YTD.

Key factors affecting interest rates

i) Factors supporting interest rate reduction:

— **Easing policies have a lag response, the main driving force for interest rate decline.** Customer deposits account for ~70-80% of bank deposits, with 6 to 12-month terms, leading to high funding costs in the first half across banks. Therefore, the cost of funds will decrease after the maturity of these term deposits, encouraging banks to lower lending interest rates.

— **Credit growth has improved recently, but is still much lower than the target of 14%-15%.** There is ample room for loan growth when the loan-to-deposit ratio (LDR) reached 76.7% as of August 2023 while credit growth is still far below the assigned target.

— **Circular 06/2023 allows borrowers to seek loans from different banks to prepay existing loans.** Circular 06, effective from September 1, has encouraged banks to implement incentive programs like reducing lending interest rates to achieve assigned credit targets. However, we see that the impact of Circular 06 will take time because borrowing from other banks to prepay existing loans requires many procedures, not to mention early prepayment penalties.

ii) Factors hindering interest rate reduction:

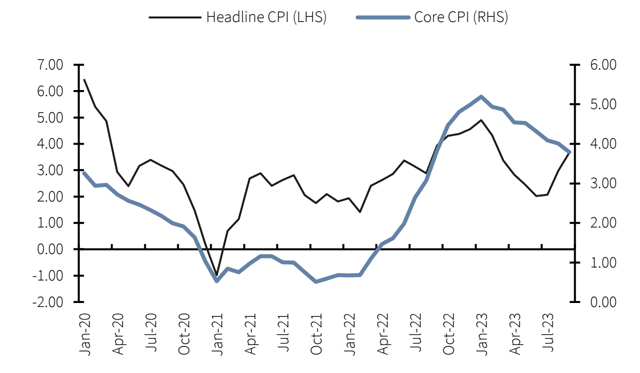
— Inflationary pressure. Headline CPI and core CPI picked up 1.08% and 0.26% MoM in September and expanded by 3.16% and 4.49% on a monthly basis over the first nine months of 2023 (Figure 51, Figure 52). Although the goal of keeping inflation well under 4.5% can be achieved, the government and the SBV should not take it for granted, given the rapid increases in inflation in recent months. Governor Nguyen Thi Hong said: "If the inflation trend flares up, monetary policy has the task of preventing and preparing for a tightening trend."

— USD/VND exchange rate pressure in 4Q23 due to (1) the wide gap between USD and VND interest rates, (2) the stronger USD, and (3) increased imports derived from the economic recovery.

— Liquidity pressure. In case the exchange rate does not cool down soon, the SBV may continue to withdraw cash via treasury bills with higher volume and possibly combine with foreign exchange forward/spot deals. This can help reduce bank liquidity and boost interbank interest rates, raising funding costs in the interbank market, especially among small and medium-sized banks with liquidity not too abundant. This makes it difficult for small and medium-sized banks to lower interest rates and could even cause deposit interest rates at these banks to increase slightly again.

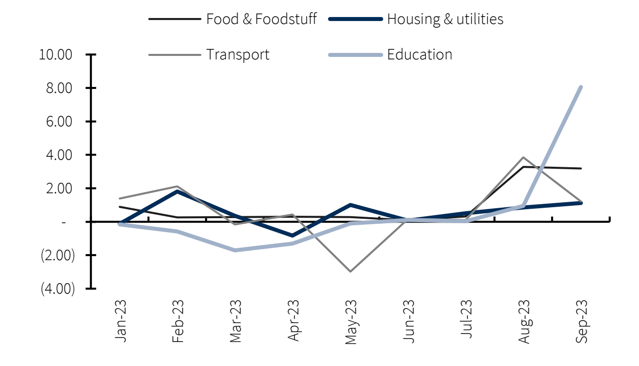
— However, in the base case scenario, we assess bank liquidity won't face enormous pressure in 4Q23 even though interbank interest rates may increase slightly when: (1) the acceleration of public spending disbursement helps deposits made by the State Treasury at the SBV to be released and flow into the mobilization channel; (2) USD/VND exchange rate pressure will not be strong enough to make the SBV sell foreign exchange reserves, although cash withdrawal via T-bills will last until the exchange rate decreases strongly.

Fig 51. Vietnam – Core CPI & headline CPI (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 52. Vietnam – Top groups affecting CPI in 9M23



Source: General Statistics Office, KB Securities Vietnam

V. USD/VND exchange rate

1. 9M23 USD/VND exchange rate

The interbank USD/VND exchange rate increased again from August

The USD/VND exchange rate decreased in the first half due to a weakening USD and abundant USD supply thanks to trade surplus, FDI, and remittances. However, the recovery of the DXY from July combined with the increased gap between USD and VND interest rates due to easing policies by the SBV made the exchange rate return to an upward trend. The interbank USD/VND exchange rate is moving around 24,450, up 3.4% YTD. The SBV has not yet made any significant adjustments to the asking price, which hovers around 25,200. However, the SBV had to adjust the central exchange rate by 1.9% YTD to 24,065, showing that it accepts a higher exchange rate to support the economy.

The unofficial USD/VND exchange rate rebounded on widening gap between domestic and international gold prices

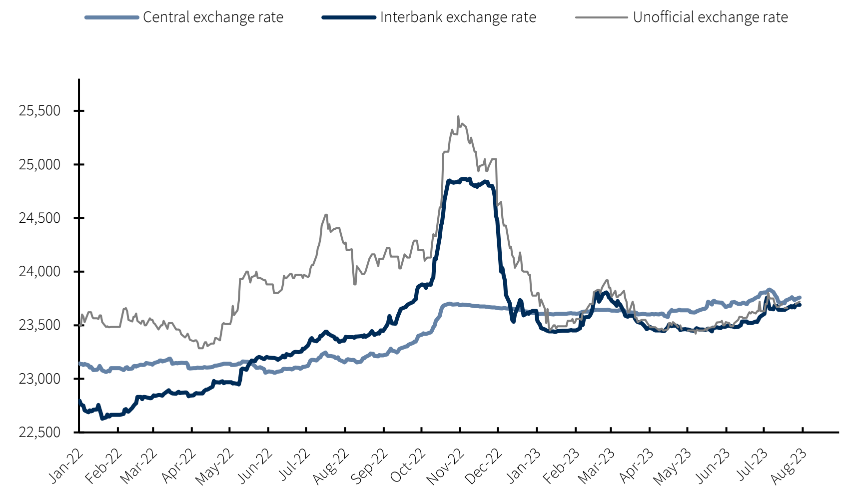
In the January-through-September period, the unofficial exchange rate moved in line with the interbank exchange rate, with the difference decreasing significantly when the domestic-international gold price gap narrowed to around VND10 million/tael, causing the demand for smuggling gold to fall. However, recent increases in domestic gold prices opposite to the international gold price movement have pushed the difference in domestic and world SJC gold prices to nearly VND15 million/tael, stimulating arbitrage demand and resulting in the unofficial exchange rate skyrocketing. Up to now, the unofficial exchange rate has reached 24,730, up 4% YTD.

The NEER and REER increased slightly due to the depreciation of many foreign currencies

Despite devaluing more than 3% against the USD, the nominal effective exchange rate (NEER) and real effective exchange rate (REER) increased slightly, up 1.5% and 1.35% YTD (similar to the appreciation of the VND against the currencies of trading partners) to 103.4 and 110.1 respectively. The NEER rose on CNY depreciation (-7% YoY), and the REER increased less than the NEER, reflecting Vietnam's inflation higher than that of its main trading partners due to a two-quarter lag.

Despite being within the target cap, Vietnam's inflation has increased rapidly recently, which will have a negative impact on the competitive advantage of Vietnamese goods and commodities when countries in the basket of foreign currencies have inflation lower and on a downtrend.

Fig 53. USD/VND exchange rate

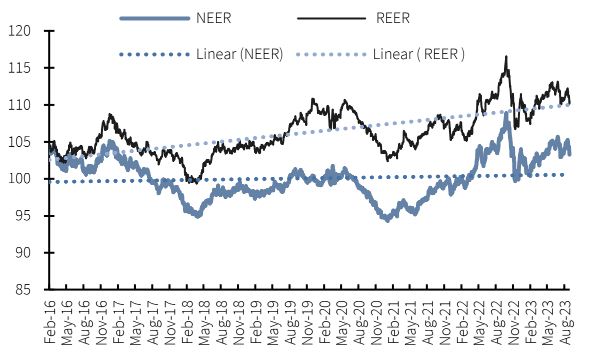


Source: Bloomberg, FiinGroup, KB Securities Vietnam

Fig 54. US – US dollar index (DXY)

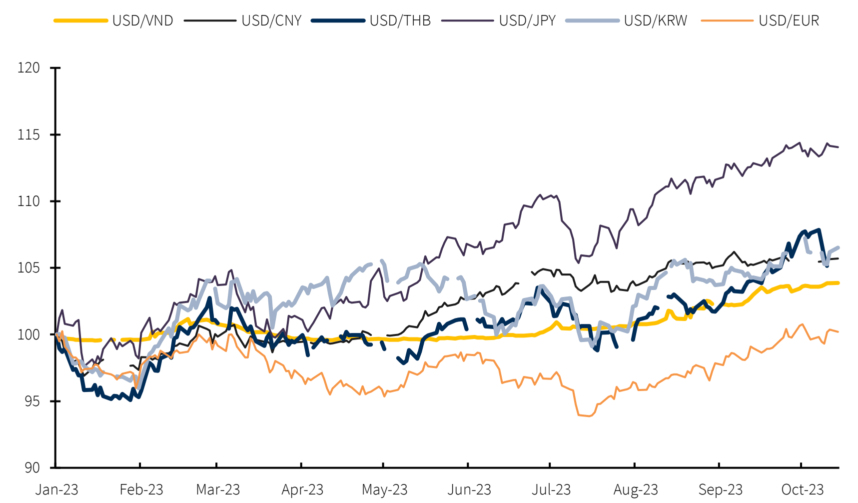
Source: Bloomberg, KB Securities Vietnam

Fig 55. Vietnam – NEER & REER



Source: Bloomberg, KB Securities Vietnam

Fig 56. The USD vs. other currencies



Source: Bloomberg, KB Securities Vietnam

2. 2023F USD/VND exchange rate

The USD/VND exchange rate is forecast to increase by 3.5% YTD by the end of 2023

We forecast the USD/VND exchange rate to increase about 3.5% YTD by the end of this year to around 24,460 (interbank exchange rate). With the DXY and US bond yield expected to continue their upward trend, it is likely that the SBV will continue to issue T-bills to net withdraw a maximum of about VND250,000 trillion and even take more drastic measures if the exchange rate surpasses the threshold of 25,000.

Factors driving the USD/VND exchange rate

The USD/VND exchange rate is projected to be under pressure in the remaining months of the year due to:

— The DXY and US bond yield would continue their uptrend. 3Q23 data reveals that the US economy remains healthy in a high interest rate environment. Specifically, September data showed that services PMI remained above 50 points and nonfarm payrolls increased by 336,000 (much higher than market expectations). In the same month, CPI expanded again due to energy costs up 1.5% MoM and rents up 4.2% MoM while core CPI dropped to 4.1% YoY as initially expected. This signals the possible pause in interest rate hikes at the Fed's upcoming November meeting, but at the same time, and keep interest rates high for a longer in the fight against inflation. In addition, the US 10-year bond yield rose to a 15-year high, given bond issuances to offset the US budget deficit.

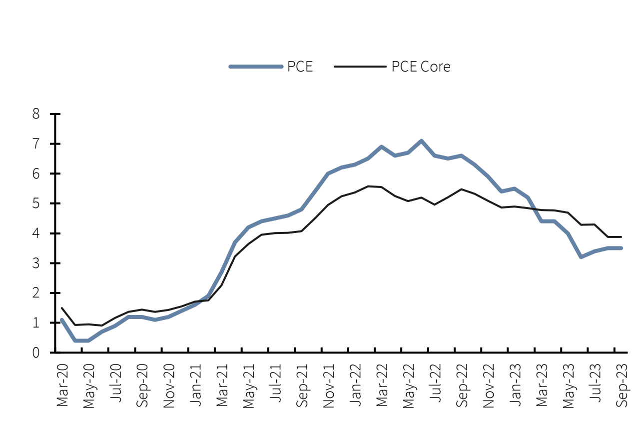
— The conflicting policies between the Fed and the SBV would continue in 4Q23. This development can cause the difference between USD and VND interest rates to widen with significantly higher USD interest rates, triggering carry trade activities (investors use a low-interest rate currency to buy a high-interest rate currency), thereby boosting the demand for USD and putting pressure on the exchange rate.

— Import-export demand in the year-end period will be on the rise. While import requires immediate payments in USD, production, processing, and sales policies cause slow collection of payments. Short-term USD shortage can be offset at the end of the year when the import-export situation improves. Therefore, despite a large trade surplus, a short-term USD shortage due to increased import demand and slow collection of payments by export enterprises can affect the exchange rate.

Abundant USD supply prevents the USD/VND exchange rate from increasing sharply

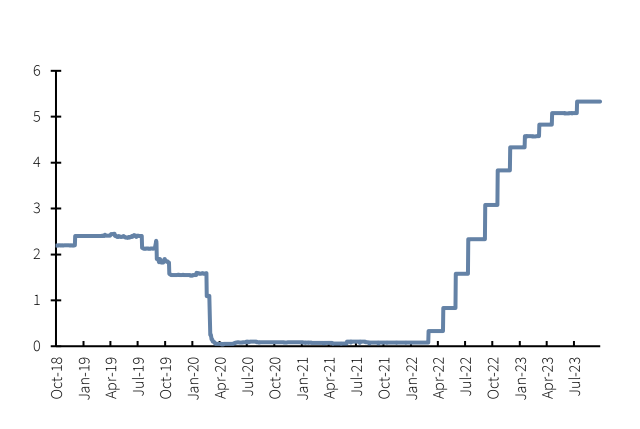
However, in the first nine months of the year, despite easing monetary policy, the VND was still one of the most stable currencies in the region due to abundant USD supply. We believe these advantages coupled with the SBV's intervention will prevent the exchange rate from increasing sharply in the last three months of the year. USD supply will continue coming from trade surplus, FDI, and remittances.

Fig 57. US – PCE, PCE core (%)



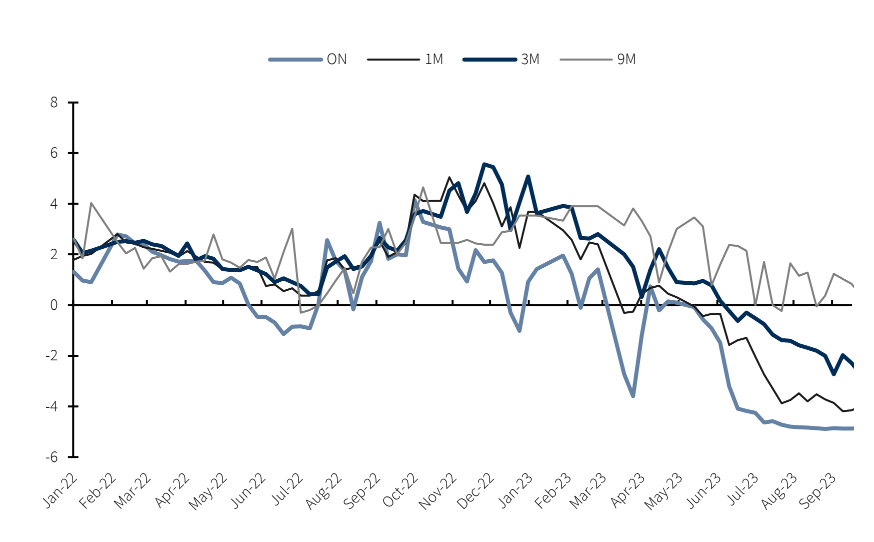
Source: Bloomberg, KB Securities Vietnam

Fig 58. US – Fed funds rate (%)



Source: Bloomberg, KB Securities Vietnam

Fig 59. Vietnam – VND-USD deposit interest rates (%)



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:	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

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