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Macro Analyst – Thai Thi Viet Trinh  
trinhthv@kbsec.com.vn

# March Inflation

## Sharp drop in gasoline prices expected

### **Petrol & oil product prices could be adjusted down by 20%–25% later this week**

- This could be as much as a VND3,000–3,500 per liter based on our estimates using international oil prices at USD35 per barrel (down from USD60 per barrel at the start of the year or the sharpest drop in five years).
- We estimate a 20%–25% drop in RON95 gasoline and finished product prices from the previous adjustment period (Feb 29–Mar 13) would translate into a 10% drop in the petrol and oil price index and a 5% decrease of the transport group in the CPI basket.

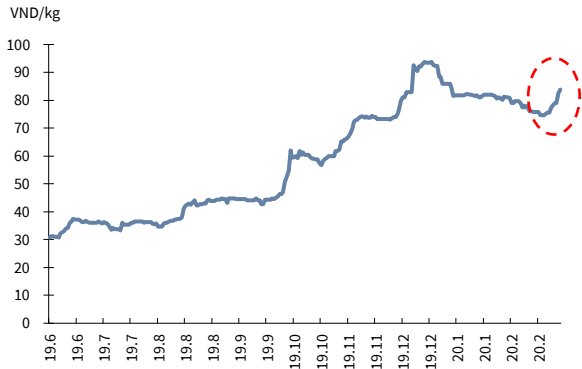
### **Most inflationary pressure in March should be focused on food and medical items**

- Export rice prices have increased by about 5% from the previous month and this will likely push domestic rice prices higher and lead to a 0.5% increase in the food price index for March, by our estimates.
- We also expect COVID-19 to pressure domestic pork prices in the second half of March in two important ways: 1) increased hoarding due to outbreak fears; and 2) stockpiling by traders for illegal smuggling to China. Average prices for March, however, should remain at the same levels in February at about VND78,000–80,000 per kilogram and minimize any negative impact to March headline CPI.
- We estimate prices for medicine and medical services will rise by 0.15% in March or at a similar pace seen in February amid increasing demand for medications as COVID-19 cases become more widespread.

### **March CPI to continue the downward trend seen in previous months**

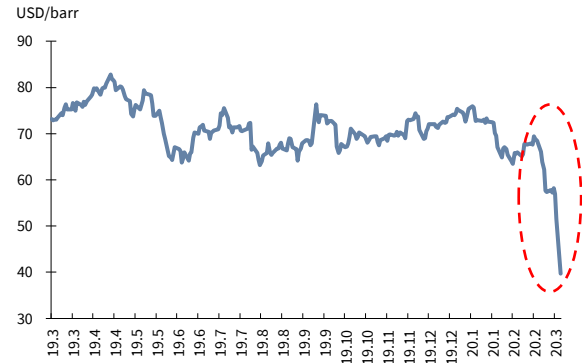
- We expect March CPI to fall by 0.38% MoM and rise by 5.22% YoY, with inflation averaging 5.68% for the first three months of the year.
- With inflation running above the State Bank of Vietnam's target level, we believe monetary policy will remain tight in the near term and Vietnam will not resort to any strong easing as seen in other countries in the region. Moreover, low credit growth has led to abundant liquidity conditions and the central bank has been conducting open market operations to reduce liquidity for the past six weeks despite the Lunar New Year.
- Government measures on the COVID-19 outbreak will likely continue to focus on preventing any further spread and asking commercial banks to support affected businesses. Resumption of China's production activities should help the recovery of Vietnam's manufacturing sector but tourism, transportation, aviation and consumption will likely continue to suffer until the COVID-19 outbreak is contained. We expect fiscal policy action – such as increasing public investment and reducing corporate income tax – to only be implemented after the COVID-19 outbreak comes under control.

Fig 2. Vietnam – Live hog prices, Feb 19–Mar 20 (VND/kg)



Source: KB Securities Vietnam

Fig 3. Vietnam – RON95 gasoline import prices, Mar 19–Mar 20 (USD per liter)



Source: Bloomberg, Ministry of Industry & Trade, KB Securities Vietnam

Table 4. Vietnam – Estimated March CPI breakdown (%MoM, %YoY)

Group		Monthly change (%)	Weight-adjusted monthly change (%)
1	Food & catering services	0.25	0.09
2	Beverages & tobacco	-0.10	0.00
3	Textiles & footwear	-0.10	-0.01
4	Housing & construction materials	0.00	0.00
5	Appliances & equipment	0.10	0.01
6	Medicine & health services	0.15	0.01
7	Transport	-5.00	-0.47
8	Telecoms	-0.05	0.00
9	Education	0.01	0.00
10	Culture, entertainment & tourism	-0.30	-0.01
11	Others	0.15	0.00
		March CPI (MoM)	-0.38
		March CPI (YoY)	5.22
		Average rolling 3-month CPI (YoY)	5.68

Source: KB Securities Vietnam

## KB SECURITIES VIETNAM RESEARCH

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**Head of Research – Nguyen Xuan Binh**

binhnx@kbsec.com.vn

### **Macro/Strategy**

**Head of Macro & Strategy – Tran Duc Anh**

anhtd@kbsec.com.vn

**Macro Analyst – Thai Thi Viet Trinh**

trinhhtt@kbsec.com.vn

**Market Strategist – Le Anh Tung**

tungla@kbsec.com.vn

### **Equity (Hanoi)**

**Head of Equity Research (Hanoi) – Duong Duc Hieu**

hieudd@kbsec.com.vn

**Information Technology & Logistics Analyst – Nguyen Anh Tung**

tungna@kbsec.com.vn

**Property Analyst – Pham Hoang Bao Nga**

ngaphb@kbsec.com.vn

**Power & Construction Material Analyst – Le Thanh Cong**

conglt@kbsec.com.vn

**Financials Analyst – Nguyen Thi Thu Huyen**

huyenntt@kbsec.com.vn

### **Equity (Ho Chi Minh)**

**Head of Equity Research (Ho Chi Minh) – Harrison Kim**

harrison.kim@kbf.com

**Consumer & Retailing Analyst – Dao Phuc Phuong Dung**

dungdpp@kbsec.com.vn

**Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh**

danhnt@kbsec.com.vn

**Oil & Gas & Chemicals Analyst – Nguyen Vinh**

vinhn@kbsec.com.vn

### **Research Marketing**

**Korea Marketing Analyst – Seon Yeong Shin**

shin.sy@kbsec.com.vn

## KB SECURITIES VIETNAM (KBSV)

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### Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam  
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

### Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam  
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

### Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam  
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

### Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam  
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

### CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656  
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276  
Email: [ccc@kbsec.com.vn](mailto:ccc@kbsec.com.vn)  
Website: [www.kbsec.com.vn](http://www.kbsec.com.vn)

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### 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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