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May Inflation

Pork prices hit 10-year high

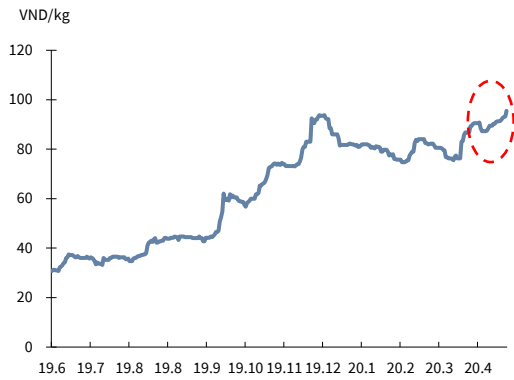
Live hog prices surge to 10-year high at nearly VND 100,000/kg

— Live hog prices skyrocketed this week and reached their highest in ten years. Alarming, live hog prices in the South hit VND97,000–98,000/kg and have caught up to the high prices of the North that have seen pork supplies more severely impacted by the *African Swine Flu*. We estimate that average pork prices could increase by 12.5% MoM in the latest CPI calculation period (April 21 to May 20) and could alone add 50 basis points to May's headline CPI. This is in stark contrast to the government's request to suppliers to lower pork prices, which has proven difficult due to local shortages and poor distribution and consumer habits preventing wider access to imported pork supplies. Moreover, hog herds are down by 20% since the 2H of 2019 and should keep pork prices high in the coming months.

Expect May CPI to tick up but tamer inflation into 4Q

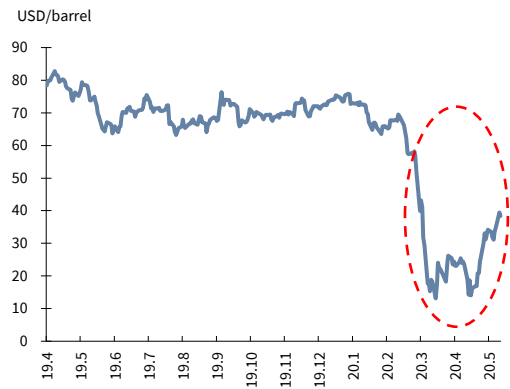
— We expect May CPI to increase by 0.46% MoM and a more modest 2.90% YoY to average 4.50% for the first four months of the year. High pork prices and recovering gasoline prices should see inflationary pressure persist for the next three months and limit the possibility of another rate cut from the State Bank of Vietnam in 3Q. That said, we expect CPI to fall below 2020 targets when 2H 2019's strong base effect helps moderate pork prices from 2H and allow the State Bank of Vietnam to resume cutting policy rates in 4Q.

Fig 1. Vietnam – Live hog prices, Jun 19–May 20 (VND/kg)



Source: KB Securities Vietnam

Fig 2. Vietnam – RON95 gasoline import prices, Apr 19–May 20 (USD per liter)



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

Fig 3. Vietnam – Estimated May CPI breakdown (%MoM, %YoY)

Group		Monthly change (%)	Weight-adjusted monthly change (%)
1	Food & catering services	3.50	1.26
2	Beverages & tobacco	0.10	0.00
3	Textiles & footwear	0.10	0.01
4	Housing & construction materials	-0.20	-0.05
5	Appliances & equipment	0.05	0.00
6	Medicine & health services	0.03	0.00
7	Transport	-8.50	-0.80
8	Telecoms	-0.05	0.00
9	Education	0.04	0.00
10	Culture, entertainment & tourism	0.10	0.00
11	Others	0.15	0.00
		March CPI (MoM)	0.46
		March CPI (YoY)	2.90
		Average rolling 3-month CPI (YoY)	4.50

Source: KB Securities Vietnam

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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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