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## MACRO ECONOMIC OVERVIEW

### JULY 2019

#### July highlights

IIP in July slightly rebounded compared to June's.

Domestic demand strongly increased, which also resulted in higher retail sales.

Agriculture sector still recorded a low growth.

CPI inched up in July and the average CPI in the first 7 months of 2019 was the lowest in the last 3 years.

A trade surplus was posted in July, thanks to a surge in export growth.

Total registered FDI slowed down compared to the same period last year, while disbursed FDI remained stable.

USD/VND exchange rates were relatively stable in July, interbank and unofficial exchange rates decreased to the buying rate at SBV.

There was a slump in interbank exchange rates in July, and a net-withdrawal from the SBV in OMOs.

Primary and secondary government bond trading in July was busy in July with a large trading volume.

August 2019

#### Key macro indicators

	2019	
	June	July
IIP in Manufacturing (% YoY)	9.00	9.70
PMI	52.50	52.60
CPI (%YoY)	2.64	2.61
Exports (USDbn)	21.43	22.60
Imports (USDbn)	19.49	22.40
Disbursed FDI (USDbn)	1.80	1.45
5-year government bond yield (%)	4.66	4.42
Interbank exchange rate (VND)	23,301	23,205

Source: GSO, VIETNAM CUSTOMS, KBSV

#### 2019 forecast indicators

	2018	2019F
GDP growth (%YoY)	7.08	6.6 - 6.8
Average CPI (%YoY)	3.54	3.8 - 4.0
Credit growth (%YoY)	13.30	14.00
M2 growth (%YoY)	11.34	13.00
10-year government bond yield (%)	5.10	5.00
Export growth (%YoY)	13.80	10 - 12
Import growth (%YoY)	11.50	11 - 12
Interbank interest rate (VND)	23,240	23,600

Source: KBSV

**IIP in July slightly rebounded compared to that in June, with an increase of 5.9% MoM and 9.7% YoY.** Mining sector slightly rose (4.4% YoY) against the negative in the same period as coal mining and electricity distribution surged (+10.5% YoY) to meet the demand of electricity consumption of the people. IIP of the processing - manufacturing sector has stayed high (7.5% MoM, 10.4% YoY); but fell compared to the figures in the same period last year.

Thanks to the seasonal factor (both Samsung and Apple launched their new products in August and September), mobile phones output continued to surge, +22.6% YoY; while phone accessories output climbed +11.2% YoY, which is positive growth for 3 consecutive months. However, there is no significant upward signs noted from the export turnover of mobile phones and components before the two companies released their products as in previous years. Therefore, it is highly likely that many products are inventories, and would be stimulated to be exported by Samsung in the next months.

In addition, IIP of medical production and motor vehicles started to recover with increases of 11.34% and 10.3% YoY respectively. Sectors that witnessed a positive growth in the first 6 months of 2019 have remained their stable gaining momentum. They are including metal manufacturing, garment and textile.

**PMI in July 2019 hit 52.6 points – the peak of the year** with the highest growth rate in new purchase orders in 7 months. In particular, PMI trend of Vietnam has gone against the trend of ASEAN’s PMI since May 2019, when the trade jittery between the US and China hindered the global trade flow. IHS Markit claimed if PMI will still be around the current level for the rest of Q3, estimations based on PMI shows that the production of manufacturing sector may achieve a two-digit growth in this quarter.

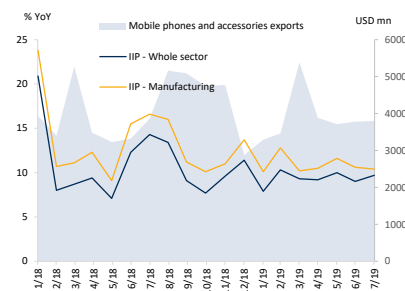
**The sharp increase in the domestic demand is one of the macro highlights in July.** According to the data from the General Statistics Office, the total retail sales and revenue from consumer services were high, with increases of 1.7% MoM and 12.4% YoY. This is a factor that strongly supported GDP growth in Q3.

**Agriculture sector still recorded a low growth** as the export markets were contracted and diseases has not been completely controlled. The bright spot is that the rice export turnover in the month has partly improved (+18.4% YoY) as the prices of rice increased slightly and export orders (equivalent to 150 thousand tons) exported to Iran were delivered in June and July.

The production of aquaculture and fishing was still stable (+4.6% YoY), however, pangasius and shrimp exports are facing difficulties with a decrease of 3.3% YoY in 6 consecutive months.

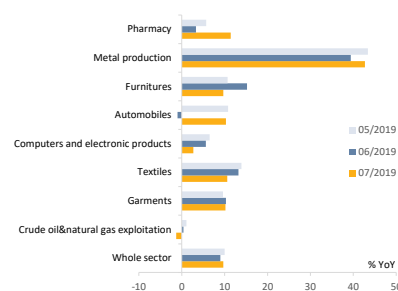
**CPI in July gained 0.18% MoM and average CPI in the first 7 months climbed 2.61% YoY** – the lowest 7-month increases in the last 3 years. Nevertheless, core inflation climbed to 2.04% YoY. Average core inflation in 7 months reached 1.89% - nearly approaching the 2% limit set by the Government – which shows that room for SBV to loosen monetary policy is limited. Food and foodstuff, education (increasing 2.34% and 6.48% YoY respectively) were the

**IIP**



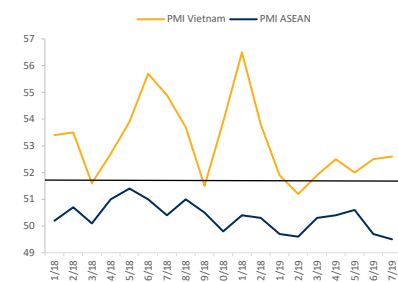
Source: GSO, KBSV

**IIP by sectors**



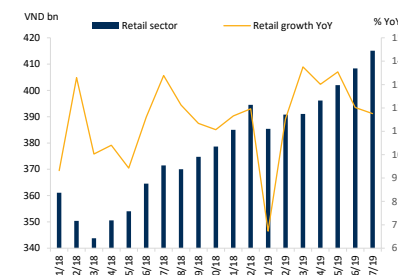
Source: GSO, KBSV

**PMI**



Source: HIS Markit, KBSV

**Total retail sales**



Source: GSO, KBSV

two biggest contributors to CPI in July (0.33% and 0.22% MoM).

**It is estimated that the trade balance in July had a surplus of USD200 million**, domestic economic sector had a deficit of 2.3 billion, FDI sector (including crude oil) had a trade surplus of USD2.5 billion. Both export and import turnovers in July jumped compared to the previous month (+5.5% and +14.6% MoM respectively).

Export surged with an estimated turnover of USD22.6 billion, +11.2% YoY. Particularly, export growth of the domestic economic sector was 16.4% YoY, much higher than that of FDI sector (6.4% YoY). This was contributed by the positive export growth of textiles, footwear and wood products. The analysis of export data showed that footwear and textiles grew by 18.4% and 13.1% YoY, while wood products increased 16.4% in July. In addition, exports of computers and electronics maintained a 2-digit increase in 5 consecutive months. The main reason is that the export growth of this sector to the US has increased continuously in the past 5 months, with the rate reaching nearly 100%. This sudden increase leaves the possibility of Chinese goods transported to Vietnam and then re-exported to the US to avoid taxes.

In contrast, import had a slower growth, with a turnover of USD22.4 billion, +5.0% YoY. Import growth of automobiles and electronics, computers and components recorded a high increase at 91% and 19.5% YoY respectively.

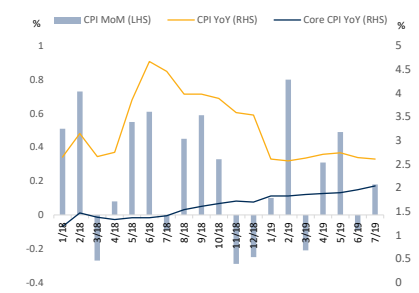
**FDI growth also had signs of a slowdown**, with total newly registered, added and contributed capital of foreign investors in July reached USD1.75 billion, and USD20.22 billion in the first 7 months, down by 11.9% YoY. This drop stems from the two FDI projects with a very large registered capital in June 2018 (Hanoi smart city project worth USD4.14 billion and the project of Polypropylene production in Vung Tau valued at USD1.2 billion).

In July, it is estimated that the total capital disbursed from FDI projects was USD 1.45 billion. Processing - manufacturing sector, wholesale and real estate still absorbed the largest investment capital in the first 7 months. In particular, China ranked first in terms of FDI committed to invest in new projects with the total capital of USD1,785 billion in July, +387% YoY.

**Exchange rates were relatively stable in July**, with the average interbank unofficial exchange rates dropping by about VND 100 compared to June, to around VND 23,200 – the USD buying price at the SBV. The central exchange rate was adjusted up and down alternately and increased slightly by 0.03% at the end of the month compared to the end of June. In the coming time, with escalating trade tension and a sharp depreciation of CNY, it is likely that there will be strong fluctuations in exchange rates as in May 2019.

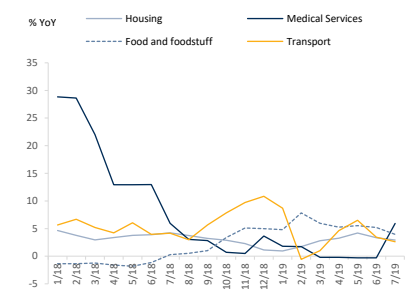
**Interbank interest rates, especially of overnight and 1 week terms, fell sharply in July** thanks to abundant liquidity and surplus short-term capital under the impact of Circular 16/2018/TT-NHNN. The average interbank overnight interest rate reached 2.88%, down from 3.04% in June. Meanwhile, the interbank interest rate for USD stayed flat around 2.45 - 2.55% for the overnight and 1 week terms

**CPI**



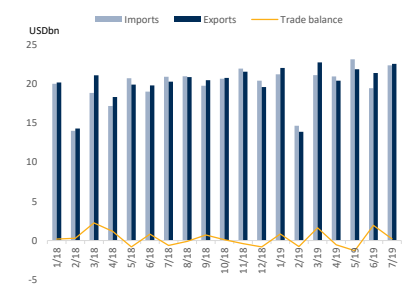
Source: GSO, KBSV

**CPI movements in key sectors**



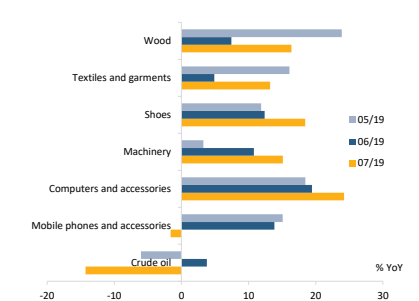
Source: GSO, KBSV

**Trade balance**



Source: GSO, KBSV

**Export movements of some sectors**



Source: GSO, VIETNAM CUSTOMS, KBSV

**The SBV net withdrew VND 29,000 billion through open market operations in July.** During the month, only treasury bills were used. In particular, in the middle of July, the SBV deliberately reduced the bill interest rate of 0.25% to 2.75% for 7-day term. The reduction in bill interest rates will encourage credit institutions to inject money into the economy instead of transferring it to the SBV.

**For market 1, the deposit interest rates for over 12 month terms remained high and diverged among banking groups.** From the beginning of July, over 12-month term interest rates increased by 0.1% and included many promotions at many banks such as BIDV, Techcombank,...

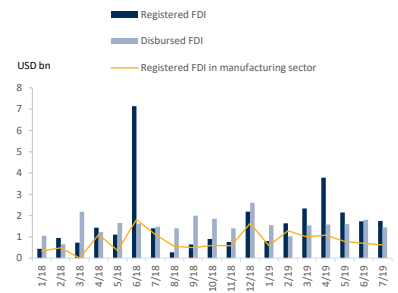
**Lending interest rates for many enterprises in priority areas were corrected from August 1.** This is the second reduction in VND lending interest rates this year. Previously, state-owned commercial banks (including Vietcombank, BIDV, Agribank and VietinBank) have reduced 0.5%/year VND lending interest rates for enterprises in priority areas at the beginning of the year.

**Primary and secondary government bond trading in July was busy in July with a large trading volume.** On the primary market, bid volume increased sharply (VND 36 trillion, +282% MoM) with the winning volume reached VND32,081 billion (+188% MoM). The winning ratio reached 89%, the highest level since the beginning of the year with the number of winning bonds focusing on 10 and 15 year terms.

**In comparison with the winning interest rates in June 2019, those in July 2019 decreased on all terms, with a decrease of 0.20 - 0.43%/year.** Thus, Government bond mobilization of the State Treasury in July completed 30% of the plan for the second half of 2019. The demand for government bonds was still relatively high as in the last 6 months of the year, liquidity tends to be abundant with increasing disbursed capital, and interest rates will still tend to decrease.

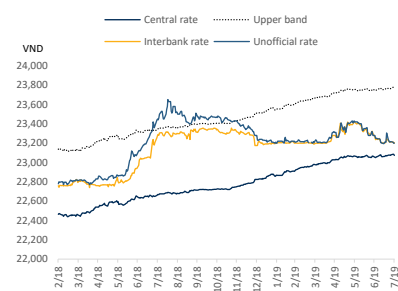
In the secondary market, the value of government bond transactions by regular and redemption method reached VND 97.2 and VND 96.1 trillion, +40% and -1.2% over the previous month. Bond yields fluctuated in a narrow range with a stronger decrease in terms of less than 5 years.

**Registered and disbursed FDI**



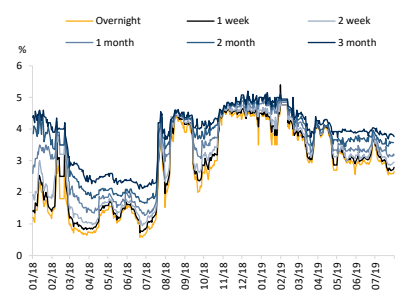
Source: FIA, KBSV

**USD/VND exchange rate**



Source: Bloomberg, KBSV

**Interbank interest rates**



Source: Bloomberg, KBSV

**VGB yield movements**



Source: Bloomberg, KBSV

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