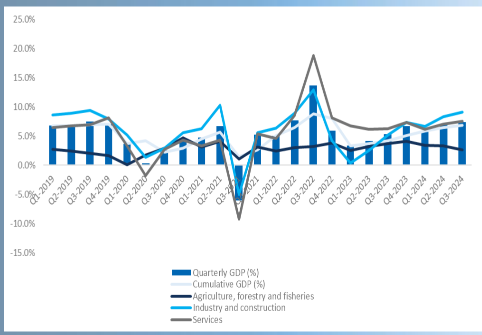
Strategy

Vietnam Macro

10 October 2024

9M24 GDP growth reached +6.8% YoY



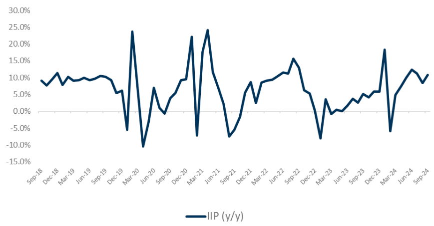
What's new?

- 3Q24 GDP growth of 7.4% surprised everybody, we think.
- Yagi softened Sept industrial output, but export surge continues.
- Domestic economic indicators are still a bit soft.
- Credit growth +9.0% YTD to Sep 30.
- Sept CPI +2.6% -- inflation risks have eased.

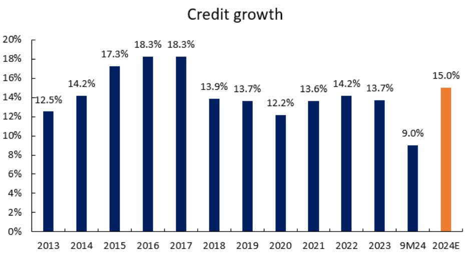
Our View

- Typhoon's impact is just a temporary hit to the export manufacturing boom.
- Retail spending growth to ease in 4Q as low-base effect from tourism comes to an end.
- US jobs data and resulting USD bounce in recent days present a challenge to our "increased SBV policy flexibility" story.
- Capital flight remains a concern but may ease in 2H24 as the gold arb trade is over.

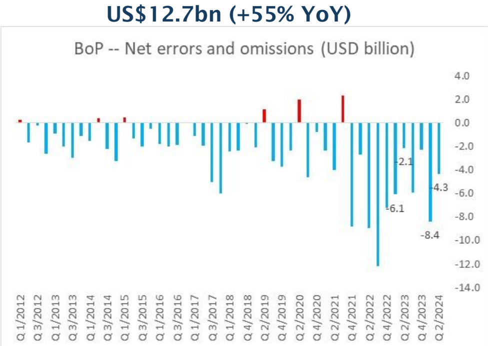
Industrial output +10.8% in 2024



Credit growth +9.0% YTD to end-Sept



Net errors & omissions in 1H24: US$12.7bn (+55% YoY)



Sources: *GSO, SBV, FiinPro, various domestic media, Bloomberg, Yuanta Vietnam*

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Lots to like in the Sept macro data

What's good? Industrial output declined MoM in Sept, but only marginally (-0.2% MoM), while YoY IIP was still up +10.8% YoY. This strong monthly result outperformed our expectations which were cautious due to the expected negative impact of Typhoon Yagi during the month. 9M24 IIP thus increased by +8.34% YoY, driven by +9.8% growth in manufacturing output YTD. The manufacturing PMI slid below 50 for the first time in five months, but this likewise appears like a transitory dip as manufacturers' confidence for the next year improved to a 3-month high. Sept CPI (+2.1% YTD / +2.6% YoY) indicates that inflationary pressures have eased.

What's bad? State investment has been sluggish YTD – a sharp contrast to FDI. Public investment in 9M24 reached VND428 trillion, up by just +2.0% YoY and equivalent to 55.7% of the annual budget. Retail sales of goods and services in September rose by +7.6% YoY. That result may not appear to be bad, but the growth trajectory might continue to slow as the low base from tourism comes to an end. Tourism receipts are only c.1% of YTD retail sales, but this official data understates the actual impact because most tourist spending is incorporated into general retail sales.

Hopes for further sharp cuts by the Fed may be misplaced. The latest data from the USA indicates that the employment market is hot, and the earlier soft numbers – that were used to justify the Fed's 50bp pivot on Sep 17 – have now been revised sharply higher. This is feeding through to higher long-duration US Treasury rates and a stronger USD. The implied return of depreciation pressure on the VND may limit the degree to which the SBV can loosen to support the domestic economy in 4Q24.

Credit growth YTD to end-3Q24 reached +9.0% YoY. This figure is up substantially vs. the +6.6% YTD growth of end-August, suggesting another banker KPI-inspired surge of lending into the end-Sept quarterly balance sheet close. We are confident that the SBV's +15% growth target for 2024E is still achievable. But the back-dated quarter-end growth is likely to persist, with much of the added lending to occur in Dec.

Capital flight to ease in 2H24? The GSO's balance of payments data indicates that net errors and omissions – in part, an indicator of offshore wealth transfers by domestic HNWIs – were negative US$4.3bn in 2Q24. As such, net E&O outflows reached US$12.7bn in 1H24, up +55% YoY and c.5-6% of GDP on an annualized basis. We would postulate that the gold arbitrage trade's demise since June may result in this figure declining in 3Q24. However, the disclosure schedule for the quarterly BoP data suggests that we'll have to wait another three months to find out.

Macro Update – A 3Q24 GDP Surprise

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Highlights of the GSO macro data for Sep and 9M24 – Outlook is positive.

- 3Q24 GDP growth came in at a surprise +7.4% YoY.
- Thus, 9M24 GDP growth reached +6.82%.
- Full-year GDP expansion is likely to exceed the official growth target of 6.0%-6.5% in 2024.
- The prime minister recently set out a target for 4Q24 growth of +7.5%-8.0%, which would result in annual growth exceeding +7.0%.
- Typhoon Yagi impacted manufacturing in September, in line with expectations.
- IIP in September cooled off as a result.
- The September PMI dropped along with declining new orders, but manufacturer confidence in the next 12 months hit a 3-month high despite the typhoon.
- Retail demand softened in August-September.
- FDI remains in high-growth territory, but public investment has been more sluggish than usual this year and is unlikely to reach 100% of the annual budget.
- Inflation is cooling down as oil price dropped, which counterbalanced the impact of rising food prices.
- Low inflation and a softening US dollar provide flexibility to exercise expansionary policies.
- However, expectations of extremely dovish Fed policy going forward may be overly optimistic given strong US employment and persistent US inflationary pressures.
- The USD has firmed up again following strong / upwardly revised US employment data, which suggests that continued rapid rate cuts by the Fed are not warranted.
- As such, policy flexibility for the SBV may not be as plentiful as we had hoped.

3Q24 GDP posts surprise growth of +7.4% YoY

The GSO reported 9M24 GDP growth of 6.82%, as expansion momentum has been building from +5.9% growth in 1Q24 and +6.93% in 2Q24 to an impressive +7.4% YoY in 3Q24. The 3Q24 GDP growth is among the highest quarterly results in recent years. It is less than the 7.99% YoY expansion in the second quarter of 2022, when the economy was rebounding from the Covid-driven low base.

The 3Q24 growth was a surprise, to put it mildly, as we had anticipated temporary softening driven by Typhoon Yagi's impact on Northern Vietnam in September. That negative impact did show up in the September data, but it failed to curtail overall growth in the quarter.

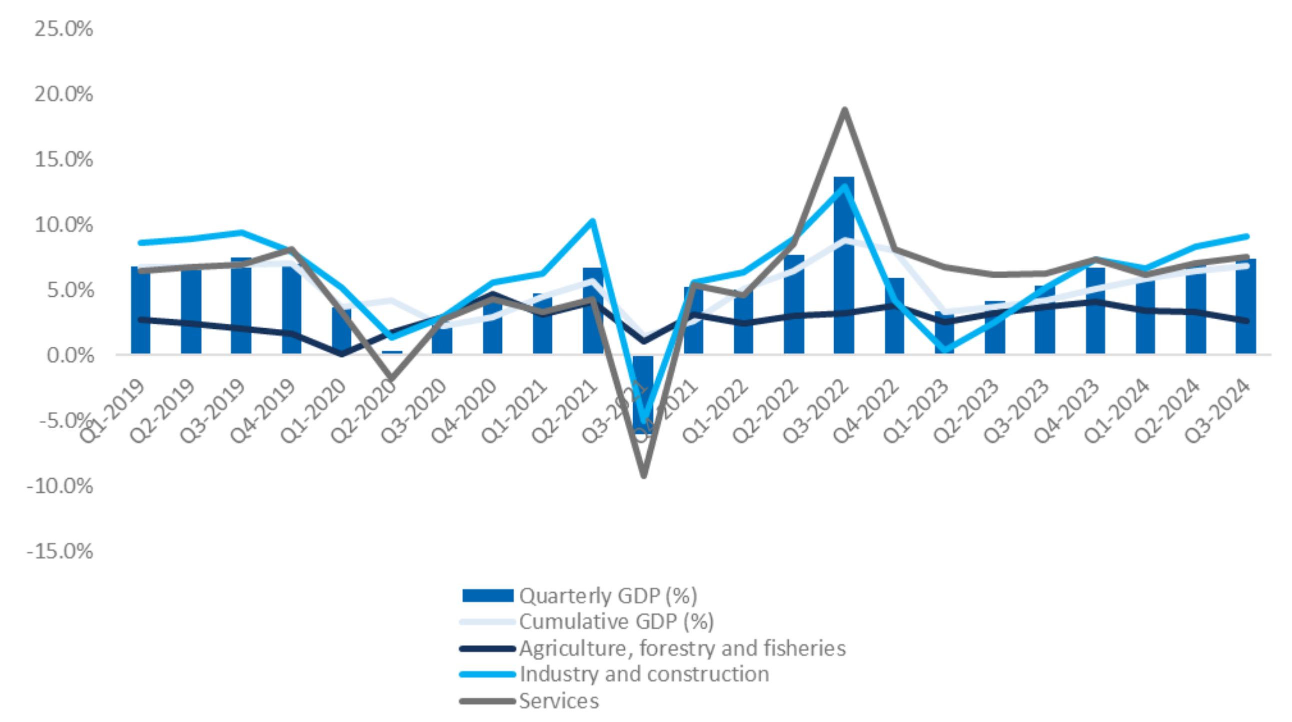
Key 3Q24 results include --

- Output in the industrial and construction sector increased by +9.1% YoY. Within this category, manufacturing activity rose by +11.4% YoY.
- Services output increased by +7.5% YoY, higher than blended GDP in the quarter.
- However, agriculture, forestry and fishery sector output increased by just +2.6% YoY in 2Q24. Typhoon damage clearly had a substantial negative impact on this sector in September and 3Q24.

In terms of expenditure, 3Q24 consumption rose by +7.0% YoY, investment rose by +7.1%, and net exports (both goods and services) increased by +1.2%.

As such, GDP in 9M24 increased by +6.82%. This was stronger than we (and we think the consensus) had expected, driven by the industrial and construction sector's +8.2% YoY expansion in the first nine months. Services output increased by +6.95% YoY, while the agriculture, forestry and fishery sectors were a drag at just +3.2% YoY growth.

3Q24 GDP record high since 3Q22



Source: GSO

In a recent meeting with officials representing 63 provinces, the prime minister set out a 4Q24 GDP target of 7.5%-8.0%, which would bring full-year GDP growth to above 7% in 2024. This is higher than the government's original target of 6.0-6.5% set by the National Assembly, which now looks set to be exceeded.

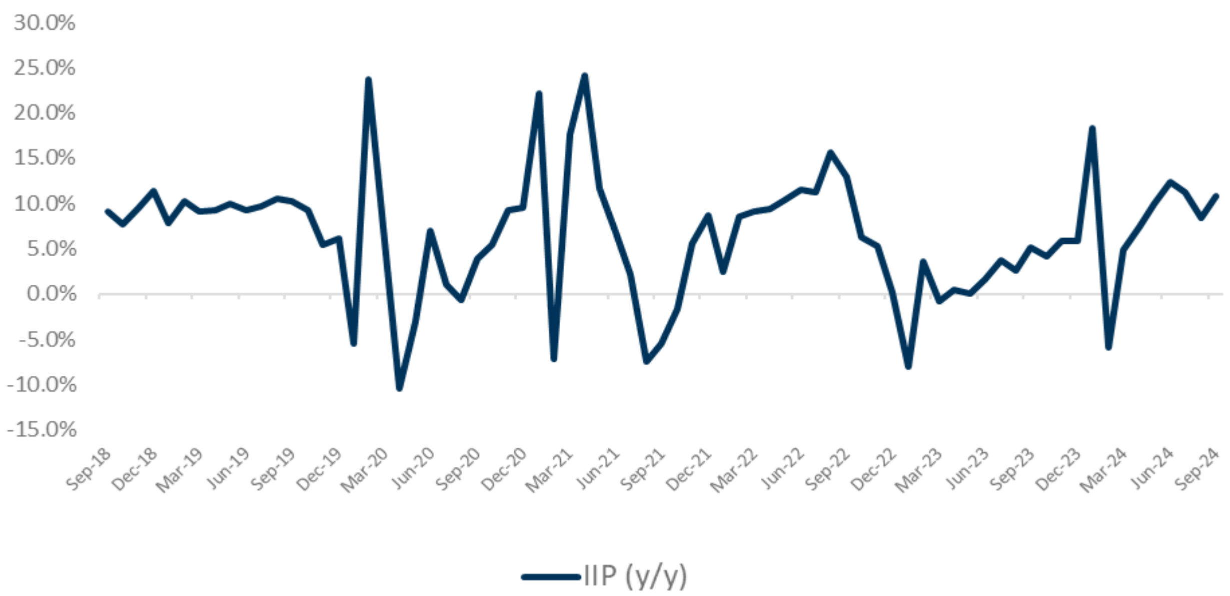
Manufacturing softened in September, but 4Q24 looks positive

The September Index of industrial Production fell by -0.2% MoM, a modest slide that appears to have been triggered by Typhoon Yagi and subsequent flooding. However, despite the sequential slowdown, the GSO estimates that IIP rose by +10.8% YoY off last year's low base.

9M24 IIP is estimated to increase by +8.34% YoY, a substantial improvement from the decrease of -0.2% YoY in 9M23.

Broken down by sector, output of the manufacturing sector posted a +9.8% YoY increase in 9M24; the electricity production and distribution industry increased by +11.1% YoY; the water supply, waste and wastewater management and treatment industry increased by +9.8%; and the mining industry decreased by -7.0% YoY.

Index of Industrial Production: YoY output growth remains solid



Source: GSO

Yagi did cause some temporary disruption for manufacturers in September, as expected. The impact is highlighted by participants in the September PMI survey. As discussed in our September macro note, we believe that the impact of such natural disasters is only temporary. We expect production to resume quickly, and manufacturers should be able to make up for any shortfall in output.

Banks have launched accommodative forbearance to support firms hit by the typhoon and flooding. Specifically, the SBV's Directive 04/CT-NHNN extends loan repayments, and reduces or exempts interest payable to lenders.

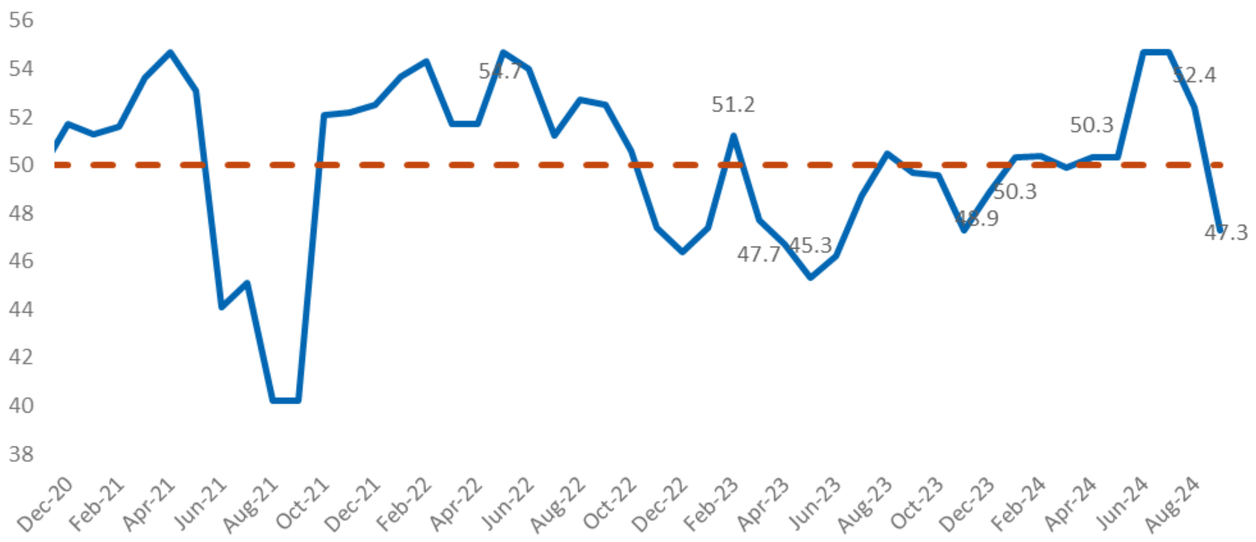
4Q24 outlook positive? The GSO's 3Q24 survey indicates that 41.8% of firms expect production volume to grow in 4Q24 (we assume this means QoQ growth); 41.8% of firms expect production volume to remain stable (QoQ) and the remaining (16.4%) expect production volume to decline.

Manufacturing PMI: Disruption is short-lived, sentiment to improve

The S&P Global Vietnam Manufacturing Purchasing Managers' Index™ (PMI) fell to 47.3 in September, down from 52.4 in August, ending – or at least interrupting -- the previous five-month period of expansion.

The typhoon's impact on Vietnam's manufacturing output is more clear from the PMI survey than from the GSO's IIP numbers, as expected given that inclement weather and flooding led to widespread albeit temporary business closures in northern Vietnam in the second week of September. However, this softness is very likely to be a temporary hiccup.

Temporary disruption in manufacturing



Source: S&P Global

A marked fall in manufacturing output was seen in the PMI results. New orders (especially from domestic buyers), and materials / components input purchases were all weak. The export orders also slid but the rate was only marginal. With declines in output and new orders, firms have reduced their purchasing activities for the first time in six months.

But the good news is that order backlogs continued to accumulate, suggesting that actual output will be more back-loaded toward the yearend than usual this year.

Positive sentiment amongst manufacturers. Also good news amid the coincidentally dour survey results: leading indicators are still quite positive. Notably, manufacturer sentiment toward business conditions in the next 12 months improved (despite the typhoon disaster) to reach a 3-month high in September.

Expanding staff levels. Also, despite the factory shutdowns and logistical challenges presented by Yagi, the survey respondents expanded their hiring activities.

Yagi amplified seasonality in the PMI: As discussed last month, monthly PMI results typically ease in October to December each year. This is because orders for year-end holidays typically peak about three months beforehand, and the back-to-school effect should have played out largely in May-August.

Exports slowed in September, but survey indicate a bright 4Q24

What's new in this month GSO report? The GSO's survey on export orders for 4Q24 had some interesting results: 36% of respondents expect an increase (we assume QoQ) in export orders; 47.6% of respondents expect export orders to remain stable; 16.4% expect export orders to fall.

9M24 total trade surplus reached US$11.6bn, driven by 9M24 merchandise net exports of US$20.8bn and net service imports of US$9.2bn.

- **9M24 Services Trade**

9M24 net service imports reached an estimated US$9.2bn (+37.3% YoY). 9M24 service exports were US$17.4bn (+18.8%YoY), while import turnover reached US$26.6bn (+26.8% YoY).

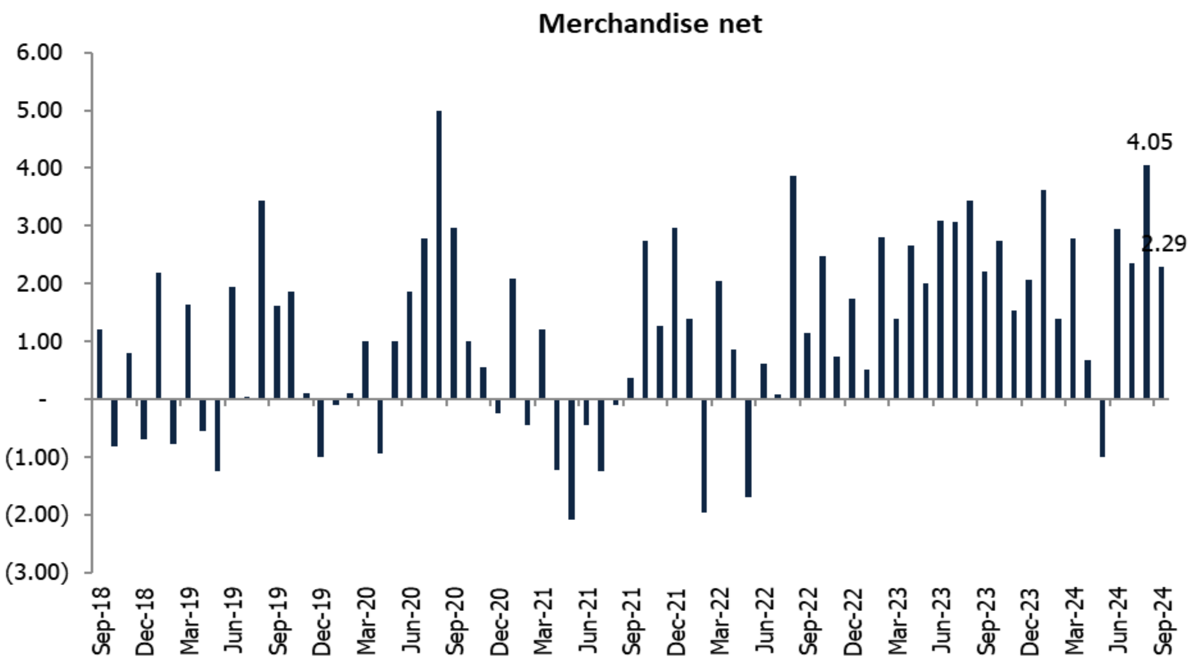
- **9M2024 Merchandise Trade**

The merchandise trade surplus in September was US$2.3 billion. This result brings the 9M24 merchandise net export to US$20.8 billion (-6% YoY).

Merchandise exports in Sep 2024 reached an estimated US$34.1 billion (-9.9% MoM / +14.7% YoY). Exports from the FDI sector (inc. crude oil) reached US$24.7 billion (-8.1% MoM), accounting for 71.1% of total exports. Imports for the domestic sector reached US$10.8 billion, up +9.8% MoM.

In 9M2024, export turnover of goods reached an estimated US$299.6 billion, up +15.4% YoY. Exports from the FDI sector (including crude oil) reached US$216.2 billion (up +13.4%) to account for 72.1% of total export turnover. Exports from the domestic economic sector reached US$83.5 billion (+20.7% YoY) to account for 27.9% of total YTD exports.

Merchandise trade surplus of US$2.3bn in September 2024



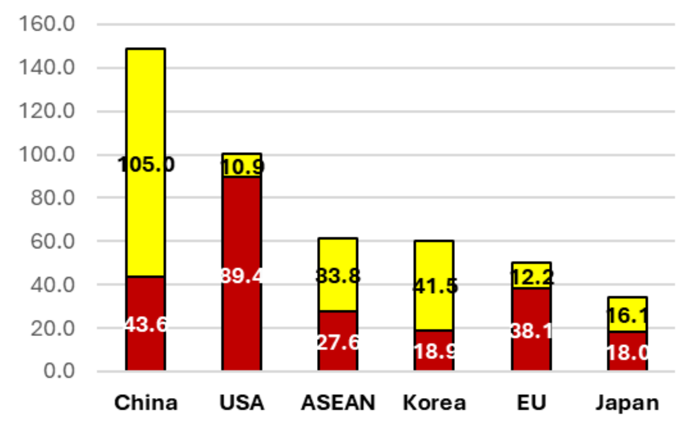
Source: GSO

Imports slowed in Sept. Imports of goods in Sep 2024 reached an estimated US$31.8 billion (-5.9% MoM). This brings 9M24 import turnover to US$278.8 billion, up +17.3% YoY, of which the domestic economic sector accounted for US$100.9 billion (up +18.8% YoY) and the FDI sector accounted for US$178 billion, up +16.5% YoY.

The merchandise trade surplus with the United States reached an estimated US$78.5 billion in 9M24 (up +31% YoY). Meanwhile, the trade surplus with the EU is estimated at US$25.9 billion (up +20.8% YoY) and the trade surplus with Japan reached US$1.9 billion (+28.8% YoY).

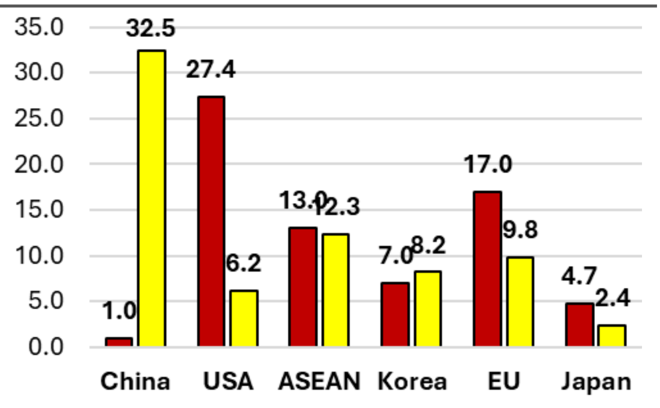
By contrast, Vietnam's trade deficit with China in 9M24 reached US$61.4 billion (up +70.1% YoY). The trade deficit with South Korea reached US$22.6bn (up +9.2% YoY); and the trade deficit with ASEAN reached US$6.2 billion (up +9.3% YoY).

9M24 Trade by country (yellow: Imports, red: Exports)



Source: GSO

9M24 trade growth by country (% YoY)



Source: GSO

In 9M24, there were 30 items with export turnover of over US$1 billion, accounting for 92.3% of total export turnover: with 6 of these items posting export turnover of over US$10 billion and accounting for 62.6% of total exports.

Notably, labor-intensive textiles and garments have remained among the top export products so far this year, with an encouraging growth rate of 8.9% YoY; similarly, footwear exports rose by +12.5% YoY.

Seven largest export items (above US$10bn) in 9M24

	Est. 9M24 export turnover (US$ mn)	% YoY growth
Major export product segments		
Electronic goods, computers and parts	52,757	27.4
Phones all of kinds and parts	41,895	7.2
Machinery, instrument, accessory	37,794	22.1
Textiles and garments	27,348	8.9
Shoes	16,538	12.5
Wood and wooden products	11,686	21.5
Auto and parts	11,054	3.8

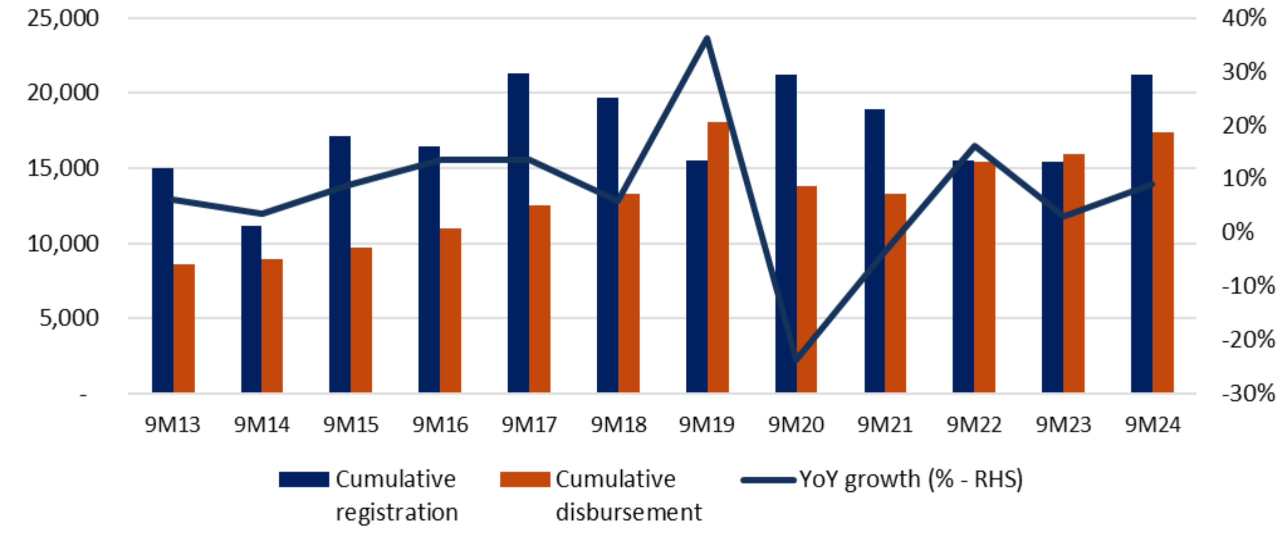
Source: GSO

Disbursed FDI continues to shine, but public investment has little chance to reach annual target this year

Disbursed FDI rose by +8.9% YoY in 9M24 to reach US$17.34bn, a record high. This was broken down by:

- **Manufacturing FDI accounted for 80.5% of total 9M24 disbursed FDI**, or US$ 13.96bn.
- **Property accounted for 8.3% of the FDI mix** (US$ 1.43bn).
- Gas, hot water, steam, and air-conditioning accounted for 4.0% of total disbursed FDI (US$691.3mn) in the 9M24.

FDI disbursals in 9M24 rose by +8.9% YoY, led by manufacturing



Source: GSO

Pledged FDI rose by +22.2% YoY in 9M24 to reach US$21.19bn. Specifically, newly registered FDI reached US$13.55bn, up by an even more impressive +11.2% YoY. The surge in interest in new projects -- among manufacturers in particular -- indicates that future disbursals are likely to remain strong.

Public investment seems to be a bit slower than normal this year. By now, it seems unrealistic to expect close to 100% fulfillment of 2024E public investment budgets given only three months are left. Perhaps achieving 80-85% target is a more reasonable target.

State investment in 9M24 reached VND 428 trillion, up by just +2.0% YoY, equivalent to 55.7% of the annual budget (9M23 reached 57.4% budget). As a reminder, target public investment this year is set at VND664tn, +14.5% YoY compared to actual disbursals in 2023.

Specifically, 9M24 investment by the central government reached VND 75.2 trillion, down by -1.1% YoY but reaching 60.4% of the full-year budget. Provincial government investment reached VND353 trillion, up by +2.7% YoY (which is at least slightly encouraging) but still just 54.8% of the aggregate annual provincial budget allocation (which is not).

Retail spending growth softened in September

Retail sales of goods and services growth further cooled down in September vs. the stronger momentum of the past several months. Retail sales of goods and services in Sep rose by +7.6% YoY (+1.7% MoM) to reach VND526.6tn, with the growth primarily driven by tourism.

However, 9M24 retail sales growth remains solid. According to the GSO, the recovery of domestic consumption overall -- and especially the strong rebound of tourist spending -- has driven growth of the retail sales of goods and services. 9M24 retail receipts thus grew by +8.8% YoY to reach VND4,703tn.

Growth in 9M24 retail sales was driven by hospitality and catering services receipts, which rose by +13.6% YoY to reach VND543 trillion, accounting for 11.5% of total retail spending.

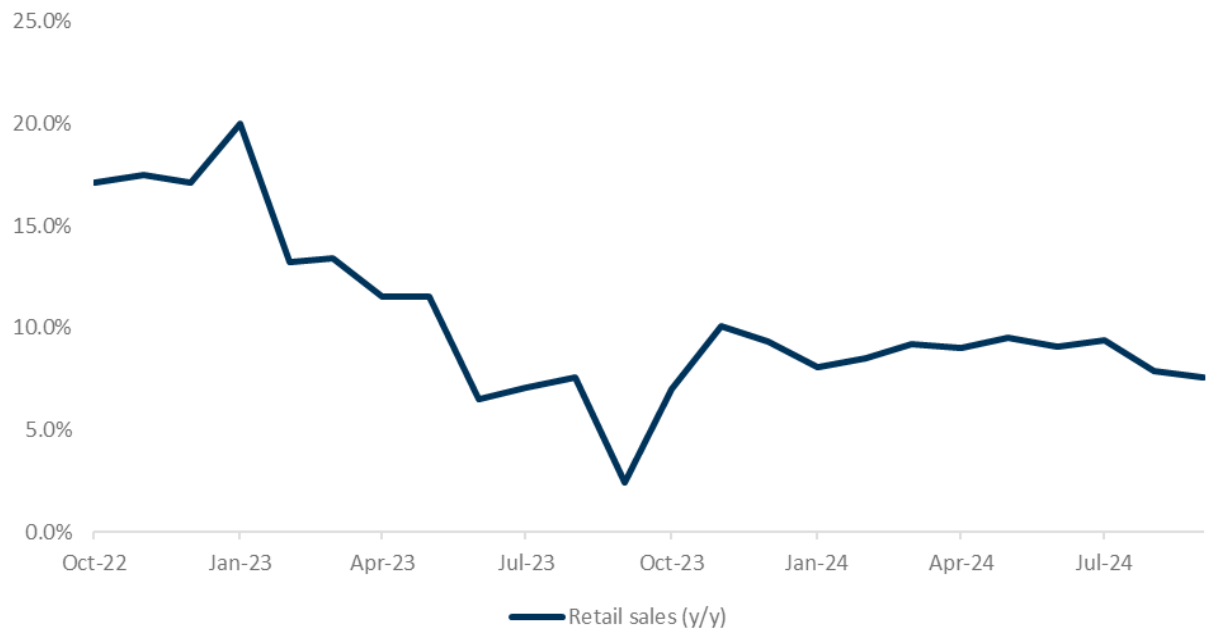
Tourism receipts specifically rose by +26.2% YoY to reach VND45tn, accounting for 1% of total retail sales. That might seem to be a *de-minimis* contribution, but the official data under-reports the actual impact because most tourist spending is incorporated into general retail sales.

In any case, tourism has clearly been a key factor driving total retail sales growth YTD. This is an unmitigated positive from a purely economic perspective. But the low-base effect is now getting long-in-the-tooth, suggesting that the monthly retail spending YoY growth numbers may continue to ease in 4Q24 and, perhaps more impactfully, in 2025.

Vietnam welcomed another 1.3mn international visitors in September (+20.9% YoY). The ongoing recovery in international visitor arrivals is perhaps better illustrated by GSO figures showing that the number of international arrivals to Vietnam reached 12.7 million persons in 9M24, up +43.0% YoY.

Retail merchandise purchases rose by +8.8% YoY in nominal terms in 9M24 (i.e., +5.8% after adjusting for inflation) to reach VND3,630 trillion, accounting for 77.2% of total retail sales. Of course, spending typically picks up toward yearend and we expect this year to be no exception heading into the 2025 Tet holidays, which will be in late January.

Retail sales growth softened a bit in August and September, as base effects kick in



Source: GSO

The Fed pivot in September opens up the potential for greater SBV flexibility to exercise expansionary policy in support of the domestic economy. Reduced inflation (discussed below) supports an outlook for expansionary monetary policy, which would also be positive for retail spending going forward, in our view.

However, the CB Pivot Narrative has taken a hit following the Fed's 50bp rate cut of mid-September, which was partially ascribed to weak employment numbers that have since been revised higher. This suggests that a rapid series of rate cuts is not in the cards, as demonstrated by increased US longer-duration bond rates in the past week or so.

Still, a strong US economy is positive for employment and overall confidence in Vietnam, and we continue to like retailers such as **MWG (BUY)**, **FRT (BUY)**, and **PNJ (BUY)** going forward. Please find our latest update on PNJ: Please access the link for our complete report: https://yuanta.com.vn/wp-content/uploads/2024/09/PNJ-Company-Update-Sep-2024-2.pdf

Domestic inflation risk has declined substantially

The CPI in September increased by 0.29% MoM, +2.18% YTD and by 2.63%YoY is now far below the top of the government's annual target range 4.0%-4.5%.

Specifically, petrol prices dropped by -6.86% MoM, offsetting the impact of rising food prices (+1.06% MoM) and house rental costs (+0.42% MoM).

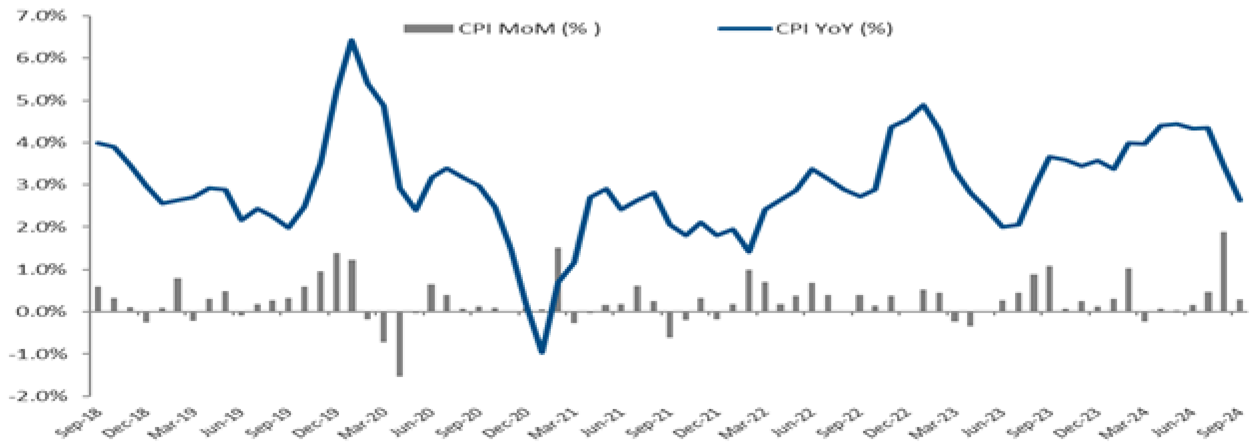
Nine out of the 11 items in the CPI basket posted increased prices on a MoM basis in August, but most of these increases are close to zer. Specifically, prices of --

- **Food and catering services (33.56% of the basket)** increased by +0.92% MoM of which: Food increased by +1.06%; foodstuff increased by +0.72%; and eating out increased by +0.65%.
- **Housing and building materials (18.8% of the CPI basket) increased by +0.52% MoM** as prices of house rentals increased by +0.42% MoM, electricity rose by 0.37% MoM, and gas rose by +1.45% MoM.
- **Education (6.17% basket) increased by 2.09% MoM**, as tuition fees rose by 2.33% in the new school year.
- Other items increased by less than +0.2% MoM.

Transportation was the only item in the CPI basket to post a MoM decline.

- **Transport prices (9.67% of the CPI basket) fell -2.77% MoM** (vs. +1.45% in August), as diesel decreased by -7.05% MoM and gasoline fell -5.83% MoM.
- **Entertainment and tourism slid by -0.24% MoM** as summer holidays ended in September.

Soft oil prices sent inflation down in September



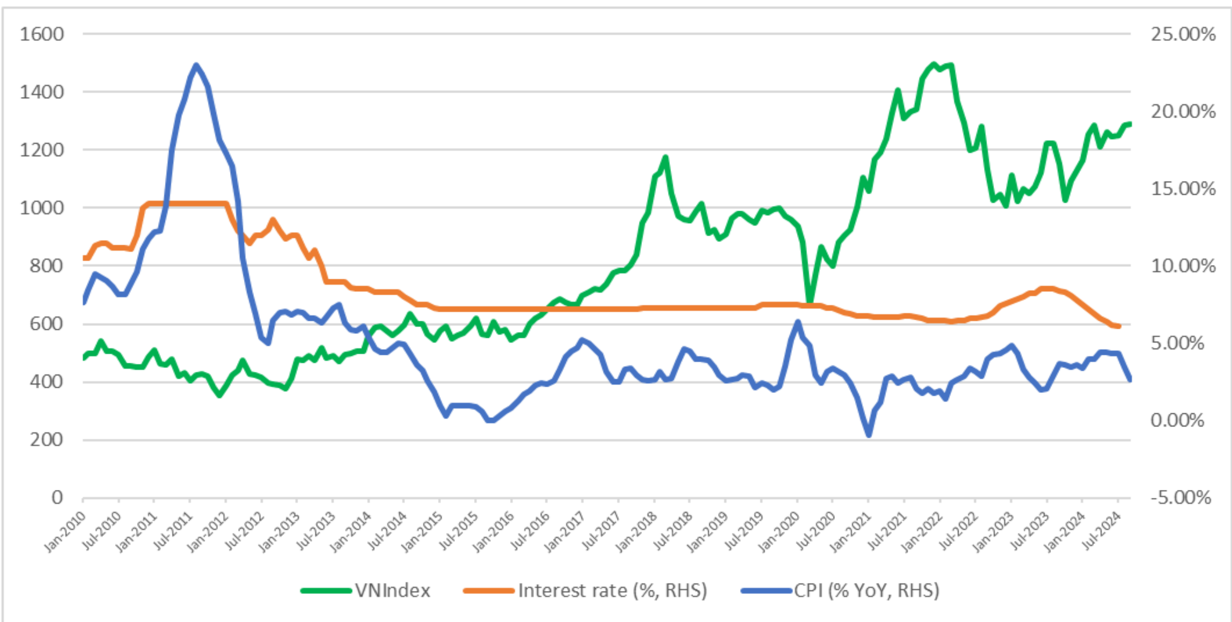
Source: GSO

We now believe that inflation risk has eased substantially and is less likely to be a big concern unless oil prices jump. Brent is trading at around US$78 per barrel, down -12% MoM / -9.85% YoY despite the turbulence in the Middle East. The impact of geopolitical risk on oil prices seems to have been short-lived, at least for now.

We continue to believe that the softened CPI outlook and global rates environment is conducive to share price increases. However, the sharp appreciation in the US dollar in recent days indicates that hopes for a series of rapid rate cuts by the US Federal Reserve Bank may have been misplaced. Specifically, the revised US employment data suggests that another 50bp cut (or any cut at all) in November is not appropriate.

As such, we are less confident than previously that the SBV's policy flexibility will suffice to drive stock market valuations higher in the very near term. However, this doesn't imply substantial need to support the VND through monetary tightening either.

Lower interest rate is always positive to stock market



Source: Fiinpro

**interest rate: the highest 12M deposit interest rate*

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