VIETNAM MONTHLY REPORT

30 June 2023

DRAGON CAPITAL

ECONOMY REVIEW AND OUTLOOK

Zen and the art of macroeconomic maintenance

Vietnam's economy saw a growth rate of 3.7% in 1H23, marking a low in the country's recent positive trajectory, bar the impact of Covid in 2020. A rise in GDP of 4.1% in 2Q23, from 3.3% in 1Q23, was prompted by swift supportive policies, including four rate cuts totalling 150bps since March. The big question, however, is whether Vietnam can continue to maintain its loose monetary policies in the face of global market complexities and contrarian policy movements.

Expansionary mechanisms needed for momentum

Firstly, we believe that leveraging monetary policy to boost the economy will not precipitate significant inflationary pressure. Headline inflation edged up by just 2.0% YoY in H1, with average 2023 CPI projected to hover between 3.5%-4.0% YoY. Additionally, borrowing demand and total money supply remain weak, with total credit and M2 expanding by a mere 4.7% and 3.2% YTD, respectively. These figures underscore the necessity for incentive mechanisms, as a weakened money cycle presents significant obstacles for an economy to regain its momentum.

Shrewd diplomacy bolsters inflows and currency

Secondly, the VND's strong performance is thanks to consistent inflows. With the influx of foreign receipts from an expected 12 million inbound tourists this year, the current account surplus is projected to rebound to $7.5bn, or 1.7% of GDP (fig. 3). Meanwhile, flow from trade, remittances, and especially FDI, remain strong. Vietnam's effectiveness in FDI diplomacy is evident in the steady disbursement figures of $10bn, flat YoY, underpinned by a series of high-level visits from key partners, including 50 major US and 200 major Korean companies in H1.

Harmonised global policy to fuel recovery

Finally, the synchronisation with global monetary policy is vital for a sustainable economic recovery. As the world's leading central banks continue to tighten monetary policy and raise interest rates, policy divergence could instigate short-term exchange rate volatility, and in turn, compromise the effectiveness of Vietnamese supportive measures. This is particularly relevant in the context of the CNY retesting 7.3, while the VND-USD interest rate differentials are leaning negative. Should other central banks adopt a more accommodative stance next year, we predict a surge in both global and Vietnamese product demand, leading to an increase in export orders.

Marrying money and policy required for full-scale growth

Vietnam, therefore, can maintain loose monetary policy in order to provide a temporary tonic for the economy. Full-scale economic revival, however, necessitates a relaxation in fiscal policy, primarily in public investment. In 1H23, disbursement only reached 30.5% of the annual target, marginally higher than 1H21 and 1H22. Typically, the majority of public investment is distributed in the second half of the year, and in difficult years such as Covid (see fig. 4) this rate is often much higher than expected, as the Government uses this as a tool for fiscal stimulus.

Fig. 1

ECONOMIC FORECASTS

30-June-23	Unit	2021	2022E	2023E	2024F
Real GDP Growth	%	2.6	8.0	5.5	6.5
Nominal GDP	$bn	366.1	408.8	448.5	494.4
CPI (average)	%	1.8	3.2	4.0	4.0
Export Growth (cif)	%	19.0	10.6	-6.2	12.0
Import Growth (cif)	%	26.7	8.4	-7.7	11.6
Trade Bal (cif)	$bn	3.3	12.4	17.1	18.7
FX Reserves	$bn	106.5	85.0	95.0	110.0
FDI Disbursed	$bn	19.8	22.4	20.9	22.0
VND:$	1	22,800	23,550	23,450	23,300

Fig. 2

GDP H1 IN 2011-2023

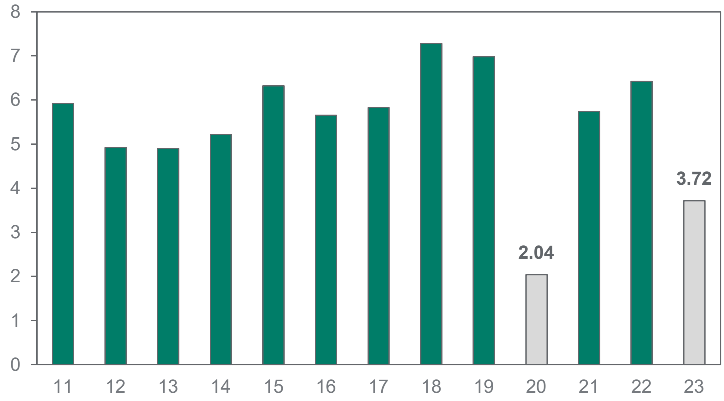


Fig. 3

CURRENT ACCOUNT BACK TO SURPLUS

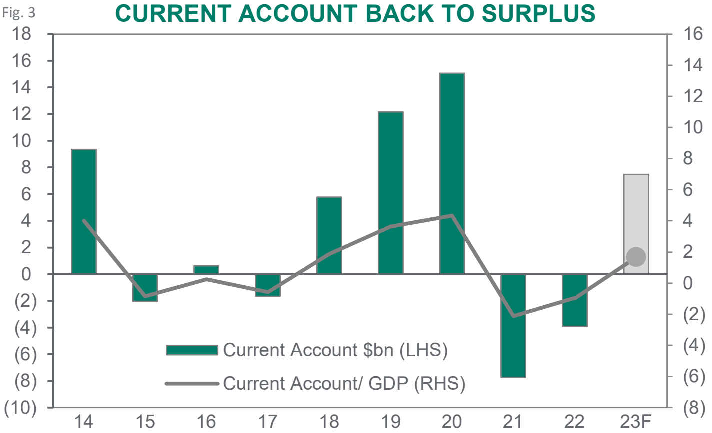
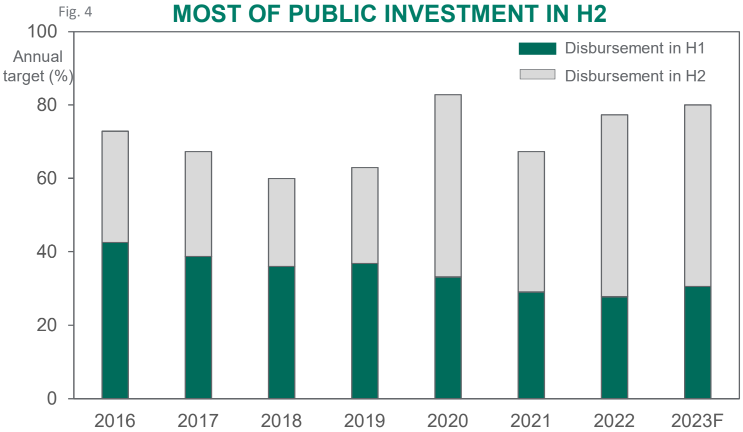


Fig. 4

MOST OF PUBLIC INVESTMENT IN H2



MARKET REVIEW AND OUTLOOK

VNI best performing ASEAN market YTD

The VNI maintained its upward momentum in June, marking a 4.1% (TR$) increase, making it one of the best in Asia YTD. This robust showing can largely be attributed to the SBV's fourth interest rate cut since March, prompting a bullish resurgence from retail investors.

Liquidity surges as investors turn bullish

The sense of optimism that started to build in May found greater traction in June, evident from the significant surge in combined daily turnover to $843m, a MoM increase of 36.0%. Positive market sentiment was helped by the SSC's commitment to accelerate the new KRX trading system upgrade. We cannot predict if the SSC will reach its goal for implementation by year-end or its immediate impact, but the news was received positively, nonetheless. As market sentiment begins to improve, our hypothesis in last month's report that retail investors may seek riskier assets as high-interest bank deposits matured seems to have played out, with over $100m net bought by local participants.

Sleeping property giants wake up

We have seen activity in both primary and secondary property markets pick up since May. The Government's efforts in resolving legal bottlenecks have started to bear fruit with one clear example in Novaland. The special working group led by the Deputy Prime Minister has worked with NVL, Ministries, and provincial Governments to tackle the root cause of the impediments, pushing for solutions for its projects. Developers have started tiptoeing back into the primary market to launch new projects, and once again Vinhomes is leading the charge with Vinhomes Glory Height, with 80% of units already finding deposits, aided by attractive payment options. The consecutive rate cuts over the past four months have helped alleviate the burden of high mortgage payments, and we are hopeful it will continue to drop to around 10% to further encourage mortgage demand. The real estate market is now showing signs of defrosting, with all parties firmly committed to its revival in 2H23.

Banks rise as rates fall

The banking sector put in a strong performance in June, with the private sector leading the way, up 5.9% MoM. The easing of monetary policy has played a significant role in driving the increase, particularly for the private banks which boast a higher risk appetite than SOEs. The positive trend is expected to continue in the second half of 2023, with favourable factors such as higher credit growth in 2H23 supporting both interest income and investment income. We believe banks will remain proactive in their provisioning for potential bad debts, providing further stability in the face of potential issues. Overall, our outlook for the banking sector remains positive, anticipating EPS growth for 2023 of around 10%.

Fig. 1 **DC TOP-80 FORECASTS**

30-Jun-23	Unit	2021	2022	2023E	2024F
PER	x	14.5	9.1	10.1	8.1
EPS Growth	%	37.1	-1.4	3.9	24.4
PEG	x	0.4	Neg	2.6	0.3
Sales Growth	%	22.0	12.3	4.1	13.8
EBIT Growth	%	50.8	2.5	12.0	21.8
PBT Growth	%	38.0	1.5	2.7	24.2
NPAT Growth	%	41.9	0.0	4.0	24.4
Net DER	x	0.2	0.3	0.2	0.2
Yield	%	1.0	1.8	1.4	1.3

Fig. 2 **MARKET PERFORMANCE**

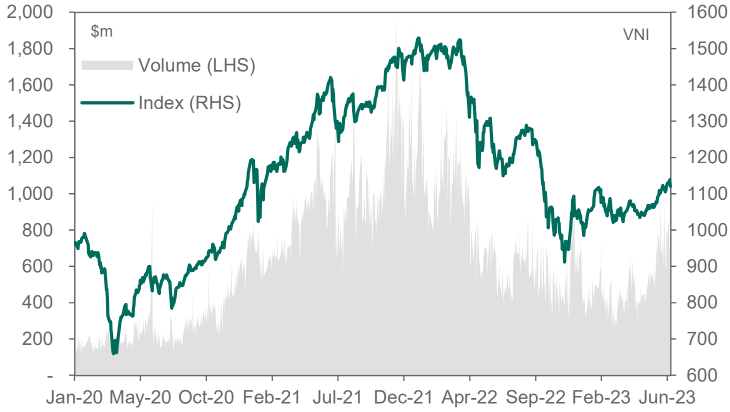


Fig. 3 **VNI TRAILING 5Y PE**

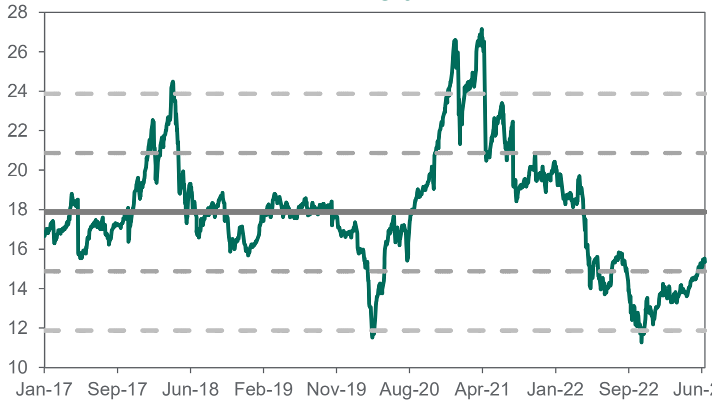
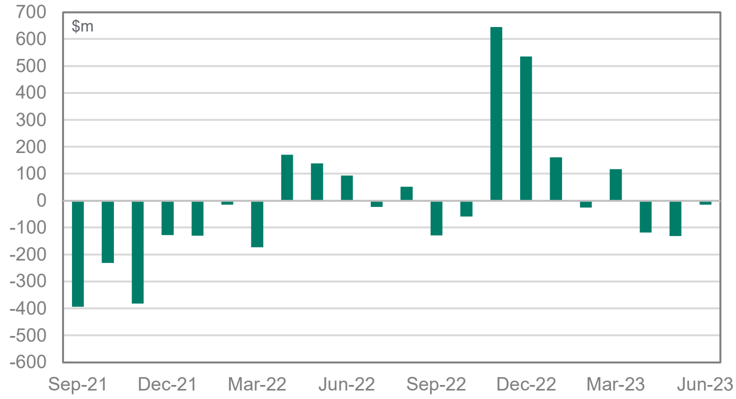


Fig. 4 **FOREIGN FLOW**



Sources: DC, Bloomberg, Credit Suisse / Refinitiv – all adjusted for free float

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