

Vietnam's economy is in sound health as H1 data confirms positive momentum, but near-term market volatility may return



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Macroeconomics:

- ▶ PMI surged to 54.7 from 50.3 in May, the strongest improvement in business conditions since June 2022. Consumption for the manufacturing sector increased by 10.8% YoY in 1H24 vs a decrease of 2.2% in H1 2023.
- ▶ Credit growth has reached nearly 6% YTD, equivalent to a 15% YoY increase, the highest since October 2022.
- ▶ International arrivals exceeded 8.8 million, a 58.4% YoY increase and 4.1% higher than the same period in 2019.

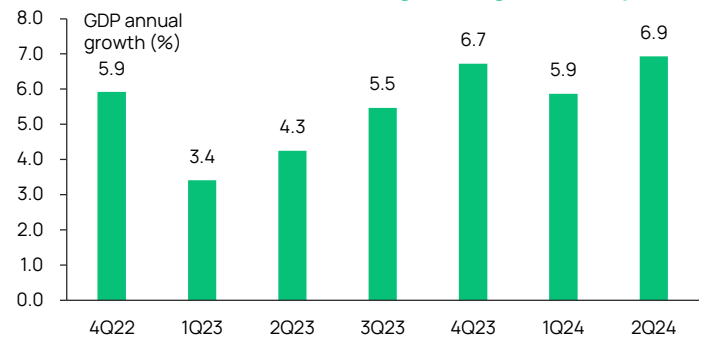
Stock Market:

- ▶ Despite continued foreign outflows of \$650 million in June, the VNI showed resilience, declining just 1.2%.
- ▶ The Fed nearing a rate cut decision, solid 2Q24 earnings outlook, and a final draft on non-prefunding requirement serve as upcoming catalysts for the VNI.
- ▶ Our broad market view remains cautious, emphasizing stock selection, given some sectors' valuations are already pricing in excessive future growth.

CHART OF THE MONTH

- Vietnam's GDP grew by 6.9% year-on-year in Q2 2024, marking the 11th consecutive quarter of growth.
- Updated AI technology in electronics and mobile devices has fuelled a new production cycle, causing the manufacturing sector to accelerate sharply at the end of the second quarter.
- With a 6.4% YoY growth in H1 2024, the Government has revised its annual growth target from 6.0-6.5% to 6.5-7.0%. This adjustment corresponds to projected year-on-year growth rates of 7.4% for Q3 2024 and 7.6% for Q4 2024.

GDP Growth is Showing Strong Recovery



Monthly Insights

Vietnam continued its upward trajectory as GDP advanced 6.9% in 2Q24, marking the 11th consecutive quarter of growth. Q1 GDP was revised upwards to 5.9% from 5.7%, resulting in a 6.4% growth rate for the first half of 2024, the second-highest for this period since 2020. This strong performance exceeded expectations and was driven by the processing and manufacturing sectors (+8.7%). PMI reflected this momentum, jumping to 54.7 in June from 50.3 in May. Domestic consumption also grew in Q2, with an 8.8% overall increase. Goods consumption rose by 7.7%, F&B services jumped by 17.5%, and tourism surged by over 30%, evidencing a robust recovery with foreign visitors to Vietnam stable at 1.2-1.4 million per month.

We estimate global merchandise trade to resume with a 1.2% YoY increase in H1 2024 after a 3% YoY decline in 2023, positively impacting Vietnam's export activities. The total export-import turnover of goods in H1 2024 is estimated at \$369.6bn, up 16.0% YoY, with exports rising by 14.9% and imports by 17.3%. Key export groups saw substantial YoY growth, including electronics, computers, and components (+28.6%), machinery, equipment, tools, and parts (+16.2%), and phones and components (+11.3%).

From a policy perspective, Vietnam has maintained stable interest rates, with lending rates largely unchanged since the end of 2023 despite deposit rates rising approximately 50-100bps across various tenors. The VND's depreciation (4.8% YTD) against a strengthening USD and rising inflation may limit monetary policy options, making fiscal policy the primary growth driver for the remainder of the year. Public investment disbursement has been slow, fulfilling just 29.4% of the H1 target, indicating substantial room for expansion in the latter half of 2024. Additionally, ongoing reductions in taxes and fees, combined with a 30% increase in the base salary for state employees and a 6% hike in the minimum wage, are likely to bolster purchasing power to the end of 2024.

The equity market was relatively flat in June, with a TR\$ return of -1.2%. Despite ending the month negatively, this performance showed resilience amidst significant foreign outflows from the VNI of \$650mn. This is not unique to Vietnam, however, as most Asian markets are facing similar pressures, and the liquidation of the iShares Frontier ETF, with c.\$120mn AUM in Vietnam, further contributed to the redemptions. However, as the Fed nears a rate cut decision, Vietnam's equity market could benefit from a more stable and improved macro backdrop. The upcoming 2Q24 earnings season is expected to be solid, with preliminary earnings showing a YoY growth of 14-17% led by the retail, brokerage, materials, and IT sectors. The release of the final draft circular on non-prefunding requirements in July may further boost the VNI outlook and investor sentiment, reinforcing the government's commitment to a FTSE Emerging Market upgrade. Nonetheless, with some sectors' valuations pricing in excessive future growth, our broad market view is one of caution, emphasizing stock selection with a sufficient margin of safety; domestic investors absorbing the substantial foreign selling pressure with leveraged positions could potentially lead to a return of market volatility.

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