



Macro Update

June 2019

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MACRO UPDATE JUNE 2019

The macro picture in the first half of the year posted continued strong results on the backdrop of global uncertainty. The fundamentals of the Vietnamese economy are humming along with an 1H2019 GDP growth rate of just under 6.8%, CPI under control at 2.2% YoY at the end of June, FDI flows remain abundant and the IIP showing strong production figures.

Refined petroleum help maintain strong IIP growth in June. The index of industrial production (IIP) in June grew 9.6% YoY, of which manufacturing IIP continued to rise to 10.6% YoY but the sentiment is slow due to global growth outlook weaker including increasing trade wars, tariff hikes, tighter financial conditions globally and weakening business confidence; production and distribution of electricity IIP grew 8.6% YoY; water supply and waste treatment IIP grew 6%; and IIP for the mining sector up 4% YoY. Generally, IIP 1H2019 grew 9.13% YoY, lead by manufacturing IIP with a growth of 11.18%. Strong growth in IIP manufacturing in 1H2019 was attributed to some sub-sectors, including manufacturing of coke and refined petroleum products (+69.1%), basic metals (+40.1%), and Machinery and equipment (+11.7%), thanks to the opening of the Nghi Son refinery in June and higher production capacity at the Formosa steel plant at Thanh Hoa Province. In addition, production and distribution of electricity IIP recorded a strong growth of 10.63% YoY, many thanks to the surge in electricity output at the Duyen Hai Thermal Power Company. Beside that, IIP of mining sector grew 1.78% in 6M2019 after declining for 3 consecutive years, mainly due to rising mining coal and lignite (+11.9%) and mining metal ores (+18.1%).

Inflation remained low. CPI in June decreased 0.1% MoM and rose 2.2% YoY, down from an increase of 0.5% MoM and down from an increase of 2.88% YoY in May. The CPI in June declined in comparison to last month due to some main reasons including: (1) the transportation sector, which decreased the most to 1.73% MoM mainly due to downward adjustment of domestic retail gasoline prices on June 1 and June 17; and (2) housing and construction materials sector, which also decreased 0.2% MoM after a downward adjustment of retail gas price of 8.79% and retail kerosene price of 3.28%. Generally, CPI in 2Q2019 increased 0.74% in compared to last quarter and increased 2.65% in compared to same quarter last year. And as of the end of June, the increase in the 6M2019 CPI hit 1.41% from the beginning of the year, lower than the Government's target of 4%. In addition, core CPI in June came in at 1.96% YoY, and average core CPI over 6 months is at 1.87% YoY

FDI flows remained strong in June. Disbursed FDI reached USD9.1bn in 1H2019, up 8.1% YoY, while registered FDI in 1H2019 declined slightly 9.2% YoY, to USD18.5bn. Vietnam's top 3 FDI investors 1H2019 are Hong Kong (USD5.3bn, including 3.85bn USD of shares purchase in Vietnam Beverage Co., Ltd. in Hanoi), South Korea (USD2.7bn), and China (USD2.3bn) – which replaced Singapore to become the third largest FDI investors in Vietnam. The manufacturing sector is still the biggest FDI lure, accounting for over USD13.2bn of registered FDI in 6 months (71.2% of total FDI registered). Real estate ranked second, with registered capital of USD1.3bn, accounting for 7.2%. And the wholesale & retail sales sector accounted for USD1bn (5.7% of total FDI registered).

GDP maintains strong growth in 1H2019 despite external and domestic slowdown. Vietnam has reported 1H2019 GDP growth of 6.76% which is lower than the 7.05% expansion recorded in 1H2018 but still remain the highest 6-month rate in compared to the 2011 – 2017 period. Despite the slowdown in the global economy and the impact of African swine fever (ASF) on the country's domestic agriculture sector, Vietnam still managed 2Q2019 GDP growth of 6.71% YoY, which is just slightly lower vs the 6.73% YoY recorded in 2Q2018.

Macro Indicators 1H2019

GDP	+6.76%
Agri., forestry, and fishery	+2.39%
Industry and construction	+8.94%
Services	+6.68%
Industrial Production Index (IIP)	+ 9.6%
Mining and quarrying	+4.0%
Manufacturing	+ 10.6%
Production and distribution of electricity	+ 8.6%
Water supply and waste treatment	+ 6.0%
Vietnam Exports Total Value (USDmn)	122,533
Vietnam Imports Total Value (USDmn)	120,770
Net Export/(Import) (USDmn)	1,763
Retail sales of goods and services	+ 12.41%
CPI	+ 2.16%
Core CPI	+ 1.96%

GDP

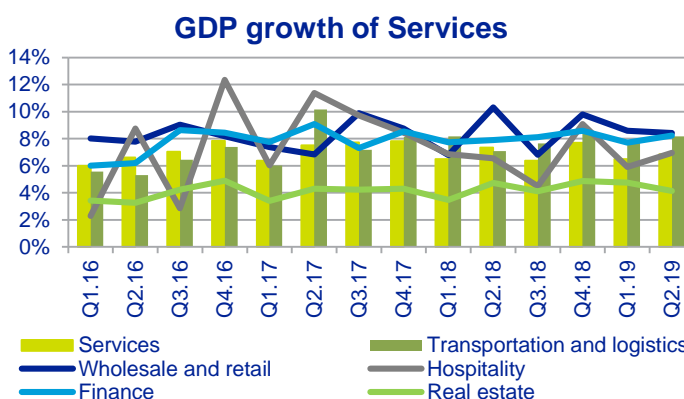
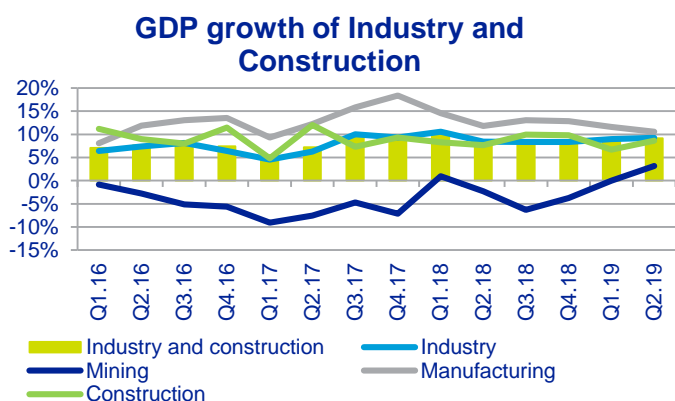
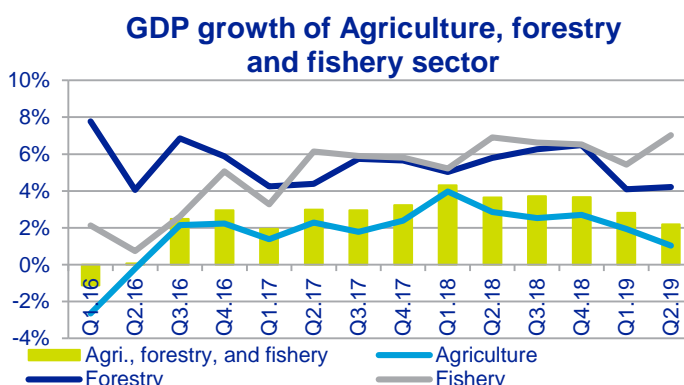
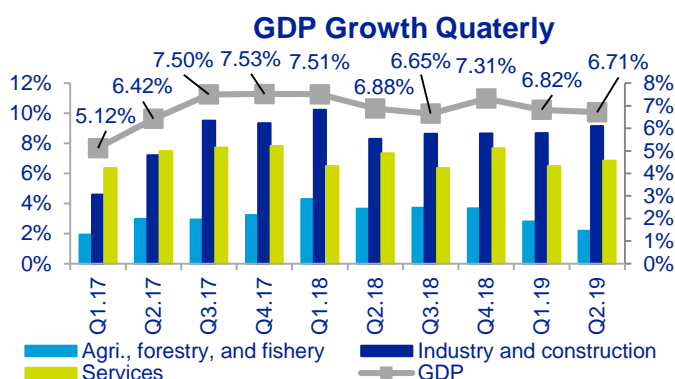
GDP maintains strong growth in 1H2019 despite external and domestic slowdown

Despite the prolonged US-China trade war and global economic slowdown, and even though the African swine fever (ASF) made a significant impacts on the country's domestic agriculture sector, Vietnam's economy still managed to grow 6.71% YoY in 2Q2019, which is just slightly lower vs the 6.88% YoY recorded in 2Q2018. Generally, GDP 1H2019 rose 6.76% vs 7.08% in 1H2018 which is lower than the 7.05% expansion recorded in 1H2018 but still remain the highest 6-month rate in compared to the 2011 – 2017 period.

The African swine fever has been dragging down the agriculture sector. The agriculture, forestry and fishery sector rose 2.19% YoY (vs 3.65% in 2Q2018), in which the agriculture sub-sector rose only 1.03% YoY (vs 2.87% in 2Q2018) as the ASF drags down pig production. The impact of ASF on the agriculture, forestry and fishery sector was partly offset by the strong growth of the fishery sub-sector thanks to rising demand from consumption market as it achieved the highest 2Q growth in the past ten years, reach 7.03% YoY.

The industry and construction sector grew 9.14% YoY (vs 8.29% in 2Q2018), in which the manufacturing sub-sector continued to record a strong growth but the sentiment is slower, which grew 10.59% YoY slightly slower than 11.81% recorded in 2Q2018. In addition, mining sub-sector recovered with growth of 3.2% after years of declines, thanks to increasing metal ores and coal mining.

Service sector growth remained high. The service sector growth remained high in which recorded growth of 6.85% YoY (vs 7.33% in 2Q2018; but it was higher than growth of 2Q from the same period 2011 to 2016). In the service sector, we saw stronger growth in compared to 2Q2018 in transportation & logistics, finance & insurance and hospitality sub-industry. On the other hand, wholesale & retail and real estate sub-industry recorded lower growth than 2Q2018.



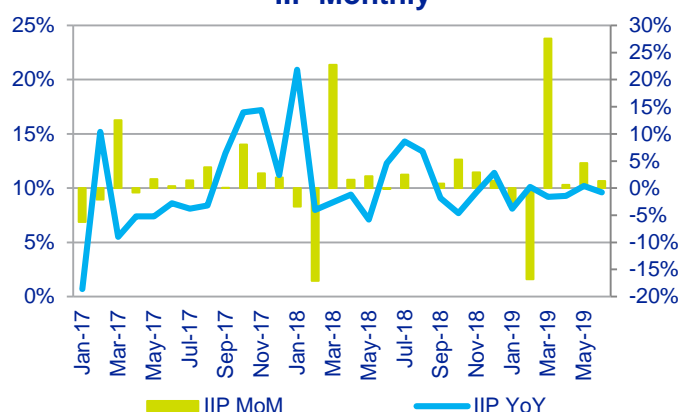
ANALYST COMMENT: In 2H2019, on the production side, we expect the Government to accelerate business activity in the industry and services sectors in order to compensate for the impact of ASF on the agriculture sector. Meanwhile, on the expenditure side, we expect continuing investment and strong domestic demand to offset the negative impact caused by slower export growth and a smaller trade surplus. As a result, we keep our 2019 GDP growth expectation unchanged at 6.8%.

INDUSTRIAL PRODUCTION

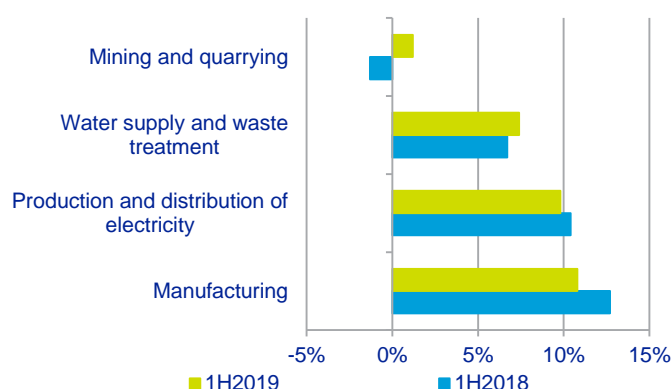
Refined petroleum help maintain strong IIP growth in June

The index of industrial production (IIP) in June grew 9.6% YoY, of which manufacturing IIP continued to rise to 10.6% YoY but the sentiment is slow due to global growth outlook weaker including increasing trade war, tariff hikes, tighter financial conditions and weakening business confidence; production and distribution of electricity IIP grew 8.6% YoY; water supply and waste treatment IIP grew 6%; and IIP for the mining sector up 4% YoY. Generally, IIP 1H2019 grew 9.13% YoY, lead by manufacturing IIP with a growth of 11.18%. Strong growth in IIP manufacturing in 1H2019 was attributed to some sub-sectors, including manufacturing of coke and refined petroleum products (+69.1%), basic metals (+40.1%), and Machinery and equipment (+11.7%), thanks to the opening of the Nghi Son refinery in June and higher production capacity at the Formosa steel plant at Thanh Hoa Province. In addition, production and distribution of electricity IIP recorded a strong growth of 10.63% YoY, many thanks to the surge in electricity output at the Duyen Hai Thermal Power Company. Beside that, IIP of mining sector grew 1.78% in 1H2019 after declined for 3 consecutive year, mainly due to rising mining coal and lignite (+11.9%) and mining metal ores (+18.1%).

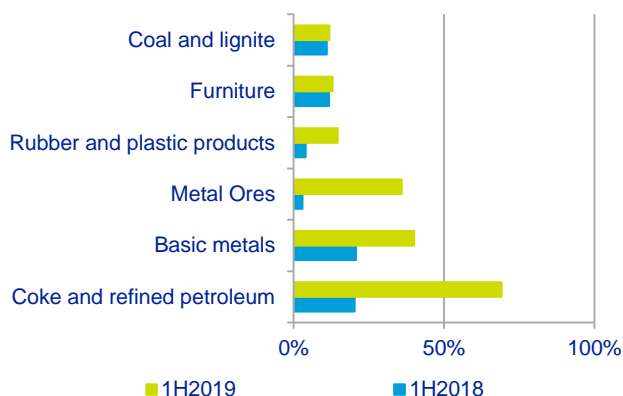
IIP Monthly



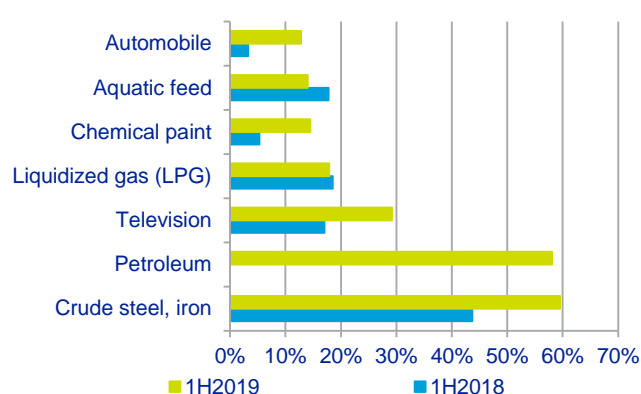
IIP of sub-sector



IIP of sub-Industry



Main Products of Industry



Source: GSO

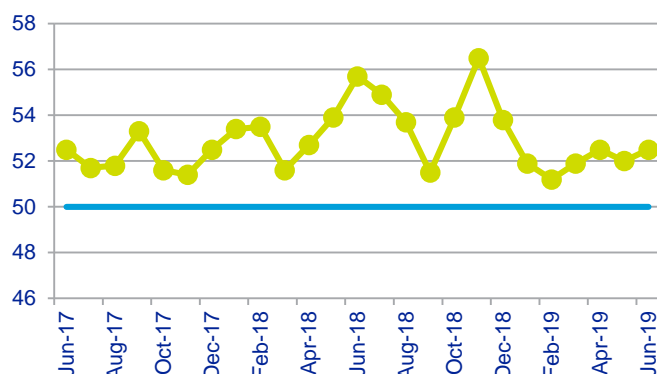
Strong and accelerated increase in new orders despite slow PMI in May

According to Nikkei Markit, Vietnam's Purchasing Managers Index (PMI) posted 52.2 in June from 52 in May. thanks to strong growth of new orders, which was the highest level over the past six months, and despite export orders reported to grow at the slowest pace since February. Manufacturers remained optimistic about the output outlook for the coming year, but business confidence fell to a five-month low due to lingering concerns regarding trade tension between the US and China.

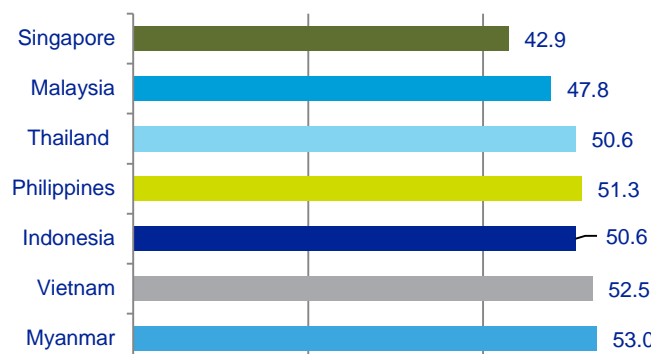
A strong and accelerated increase in new orders coming from domestic and foreign clients, which was highest level over the past six months of 2019, however export order growth rate was the slowest since Feb 2019. However, manufacturers remained optimistic about the output outlook for the coming year, but business confidence continues to fall to five-month lows due to concerns regarding trade tension between the US and China. Besides that, the manufacturing sector has expanded

(with a PMI score above 50) for the past 37 months. Except Myanmar (53), Vietnam outperformed all countries in the region such as Philippines (51.3), Indonesia (50.6), Malaysia (47.8), Thailand (50.6) and Singapore (42.9).

PMI Vietnam



PMI ASEAN JUNE 2019



Source: HIS Markit

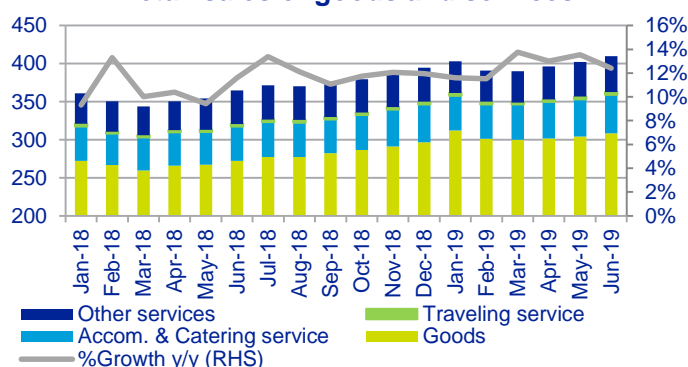
Retail sales of goods and services

Retail sales remain strong

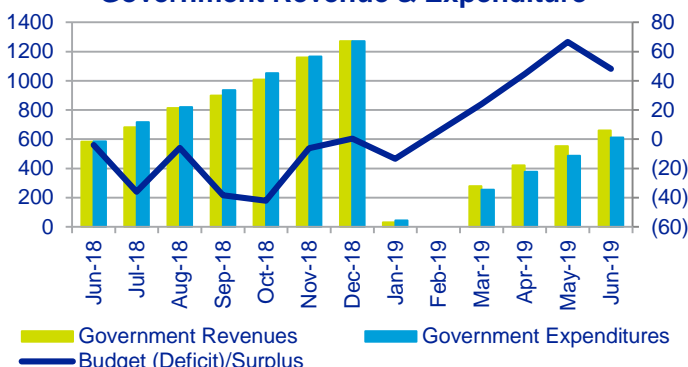
Total retail sales of consumer goods and services in June 2019 reached VND410tn, increasing 1.94% MoM and up 12.41% YoY. Total retail sales of consumer goods in 1H2019 hit VND2,392tn, up 12.5% YoY. Retail sales of goods accounted for over 76% of the total, increasing by 14% YoY. In addition, accommodation & catering services continued to grow, reaching 9.8% and accounted for 1% of total. Beside that, retail sale of traveling service up 13.3% YoY but the growth rate is slow in compare to 19.5% YoY growth in 1H2018.

ANALYST COMMENT: We expected that strong economic growth accompanied by controlled inflation will help to maintain the strength of domestic consumption in 2H2019. In addition, , FED become more dovish, easing pressure on interest rates for the SBV and help to maintain domestic interest rates low and stable, which could in turn support domestic consumption.

Bn VND Retail sales of goods and services



Tn VND Government Revenue & Expenditure



Source: GSO

Government Expenditure

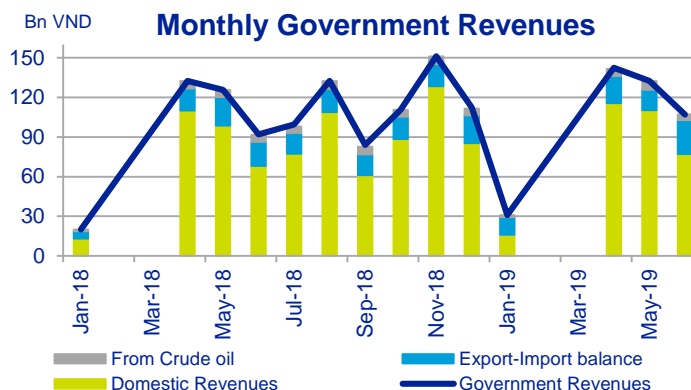
Government fiscal continued to be surplus

Total estimated government revenues from the beginning of the year to June 15, 2019 hit VND660.6tn, achieving 47.2% of the annual plan. Domestic revenue contributed VND524.8tn and revenue from import-export activity was VND109tn, completing 44.7% and 57.6% respectively of this year's plan. In domestic revenues, revenue from State owned enterprises was VND70.3tn, accounting for 39.6% of the year plan; revenue from foreign-invested enterprises (excluding crude oil) was VND89tn.

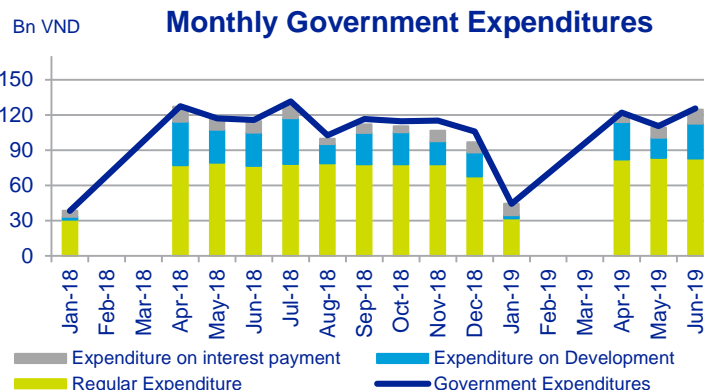
Total government expenditures still lagged behind schedule, reaching VND612.5tn and completed just 37.4% of the plan, and mainly due to slow disbursements for investment and development. Expenditure on investment and development only fulfilled 26.1% the full-year target, reach VND112.1tn. In addition, interest payments expenditures have reached 44.7% of the 2019 target spending.

As a result, the State budget surplus total hit VND48.1tn, well above the deficit of VND3.9tn from the same period last year.

Monthly Government Revenues



Monthly Government Expenditures



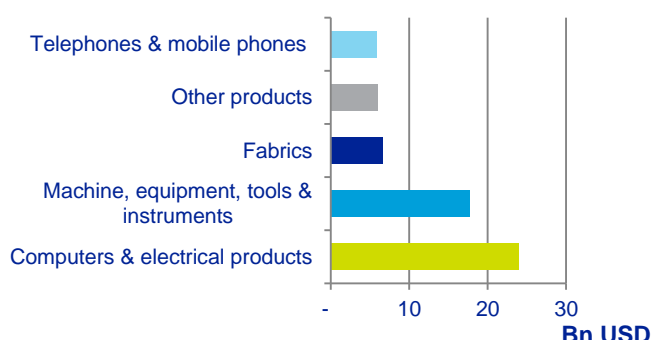
Trading Activities

The global economy slowdown somewhat affect trade balance in June

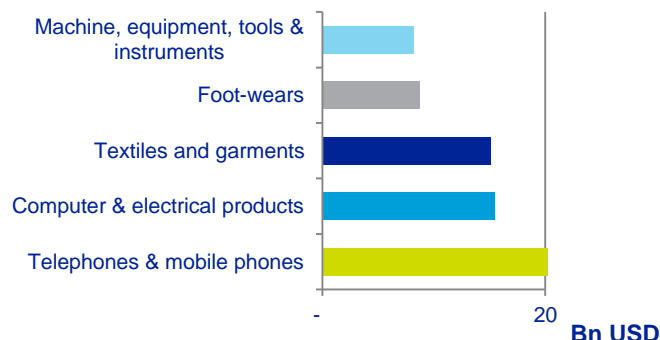
June exports decreased slightly, by 2.2% MoM to USD21.4bn while imports in June drag down significantly 15.9% MoM reached US\$19.5bn, which lead to a monthly trade surplus of USD1.9bn – trade balance back to surplus after a deficit for 2 consecutive months. Generally, exports in 1H2019 reached USD122.5bn (+7.6% YoY vs +16.5% YoY in 1H2018), while imports grew to USD120.8bn (+8.6% YoY vs +10.7% YoY in 1H2018), resulting in a trade surplus of USD1.7bn which is lower in compared with trade surplus of USD2.7bn same period last year.

The key driver in the slowing export growth rate were due to export from telephones & mobile phones falling (US\$23.5bn, +3.9% YoY vs +16% YoY in 1H2018). On the other side, exports from computers & electrical products remain strong (USD15.5bn, +14.1% YoY vs +17% YoY in 1H2018). In addition, key export drivers were included textiles & garments (USD15bn, +10.3% YoY), footwears (USD8.7bn, +13.4% YoY) and machine, equipment, tools & instruments (USD8.2bn, +6.5% YoY). Meanwhile, computers & electrical products (USD23.9bn, +18.9% YoY) and machine, equipment, tools & instruments (USD17.6bn, 13.2% YoY) remain the top import items while telephones & mobile phones continued to decline in June (USD5.8bn, -2.8% YoY).

Main Import Products in 1H2019



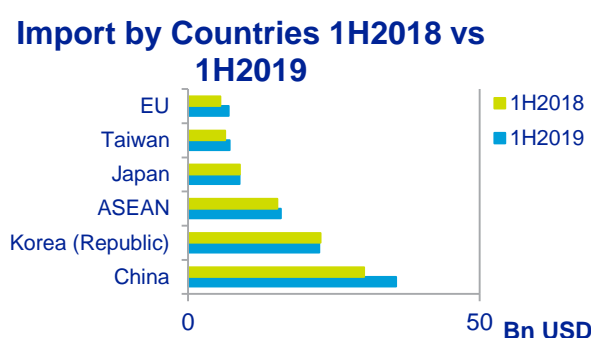
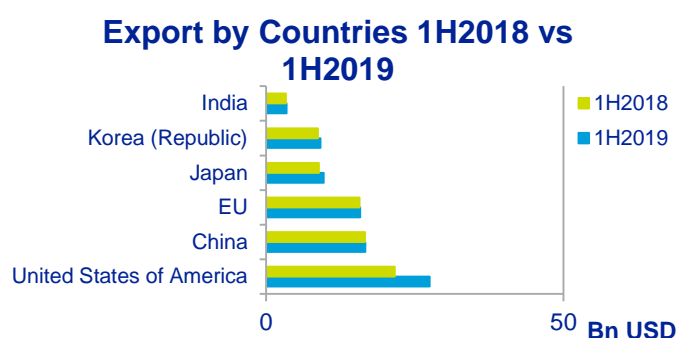
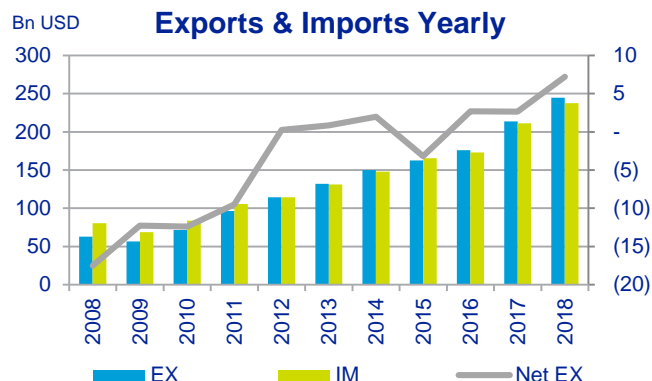
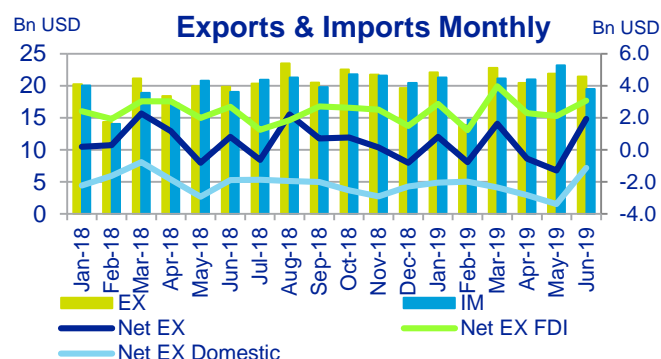
Main Export Products in 1H2019



Thanks to trade war, Vietnam goods have become substitutes for some of China's products in United States, so in 1H2019 US was still the biggest export market for Vietnam with the turnover of USD27.5bn (+27.3% YoY vs 9.8% YoY in 1H2018), followed by China with USD16.7bn (+0.3% YoY) and EU rank third with USD15.8bn (+1% YoY). Meanwhile, Imports from China continued to surge and became the top importer to Vietnam in 1H2019 with export reach USD35.6bn(+18.2% YoY vs +12.3% YoY in 1H2018), followed by South Korea (USD22.5bn, -0.8% YoY) and ASEAN (USD15.9bn, +4.1% YoY).

ANALYST COMMENT: We still expect export growth will improve in 2H2019 and the trade balance in 2H2019 will be surplus as (1) mobile exports could improve in 2H2019 thanks to Samsung's new product line (Galaxy Note 10 will be released in 3Q2019); (2) Samsung's mobile phone market share could somewhat benefit from Huawei's disruption which in turn raising Samsung's

production; and last but not least (3) we expect that US's consumers will continue to find substitutions in Vietnam for China's products as US raised tariffs on Chinese imports from 10% to 25%.



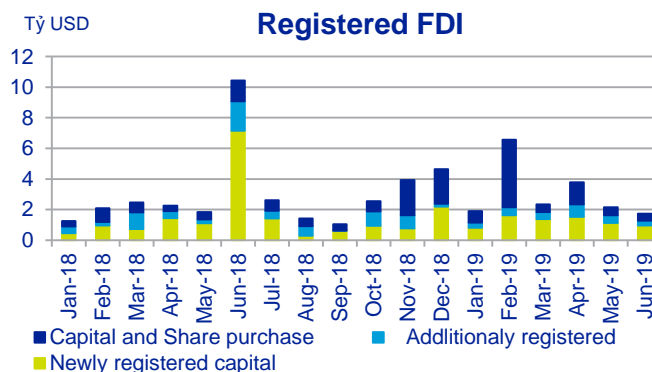
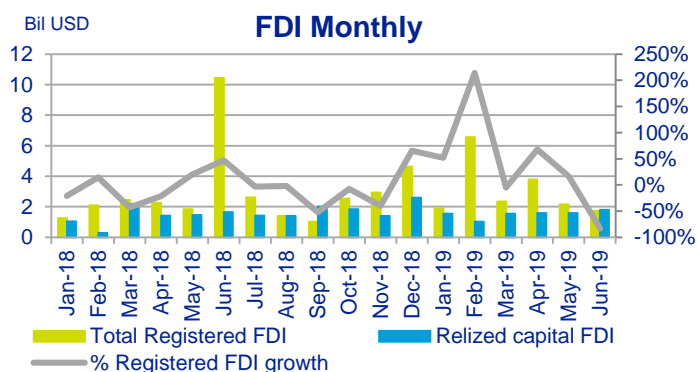
Source: Custom Vietnam

Foreign Direct Investment

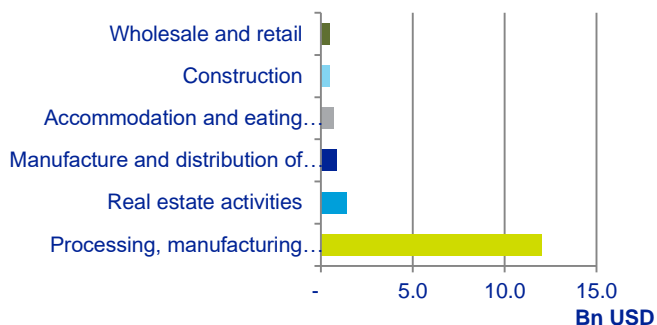
FDI flows remained strong in June

Disbursed FDI reached USD9.1bn in 1H2019, up 8.1% YoY. Meanwhile, registered FDI in 1H2019 declined slightly 9.2% YoY, to USD18.5bn, Vietnam's top 3 FDI investors 1H2019 are Hong Kong (USD5.3bn, including 3.85bn USD of shares purchase in Vietnam Beverage Co., Ltd. in Hanoi), South Korea (USD2.7bn), and China (USD2.3bn) – which take down Singapore to become the third largest FDI investors in Vietnam with two projects in tire production including Radial ACTR (USD280mn) and Advance Tyre Vietnam (USD214mn) licensed in 1H2019. The manufacturing sector is still the biggest FDI lure, accounting for over USD13.2bn of registered FDI in 1H2019 (71.2% of total FDI registered). Real estate ranked second, with registered capital of USD1.3bn, accounting for 7.2%. And the wholesale & retail sales sector accounted for USD1bn (5.7% of total FDI registered).

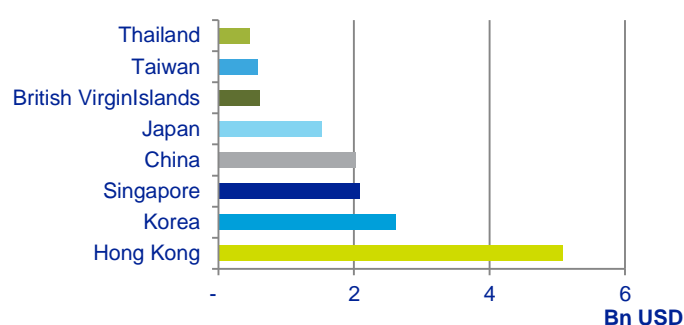
ANALYST COMMENT: We expect FDI to maintain robust growth in the upcoming months of 2019 as recent FTAs such as CPTPP, ASEAN – Hong Kong/China FTA and the EVFTA should further encourage FDI into Vietnam. We also expect to see continuing solid disbursement in 2H2019 and FDI registration continues to grow in 2H2019.



FDI by Sectors 1H2019



FDI by Countries 1H2019



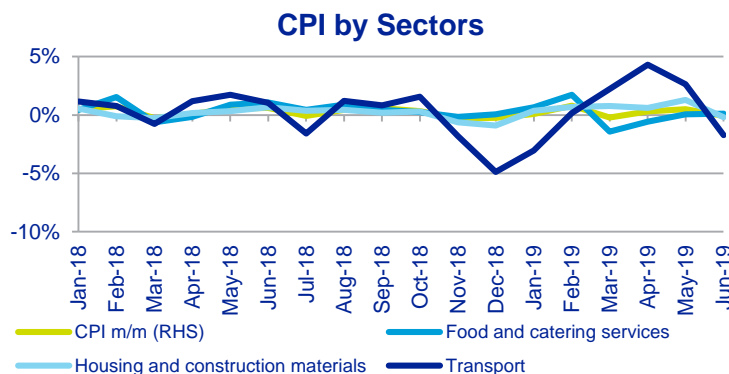
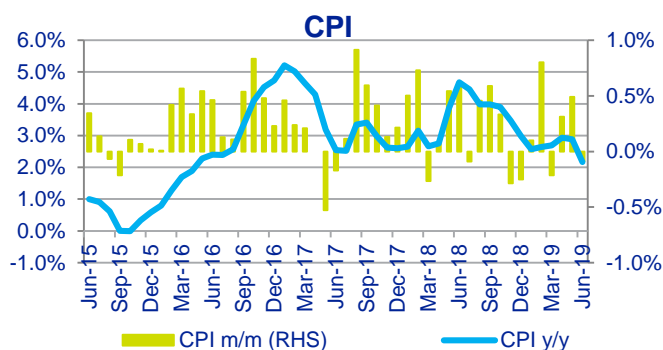
Source: MPI

Consumer Price Index

Inflation remained low

CPI in June decreased 0.1% MoM and rose 2.2% YoY, down from an increase of 0.5% MoM and down from an increase of 2.88% YoY in May. The CPI in June declined in comparison to last month due to some main reasons including: (1) the transportation sector, which decreased the most to 1.73% MoM mainly due to downward adjustment of domestic retail gasoline prices on June 1 and June 17; and (2) housing and construction materials sector, which also decreased 0.2% MoM after downward adjustment of retail gas price of 8.79% and retail kerosene price of 3.28%. Generally, CPI in 2Q2019 increased 0.74% in compare to last quarter and increased 2.65% in compare to same quarter last year. And as of the end of June, the increase in the 1H2019 CPI hit 1.41% from the beginning of the year, lower than the Government's target of 4%. In addition, core CPI in June came in at 1.96% YoY, and average core CPI over 6 months is at 1.87% YoY.

ANALYST COMMENT: We expect the inflation could increase again in July due to (1) basic salary for civil servants will increase of 7.2% effective in 1st July; (2) retail pork prices bounce backed recently; and (3) the rebound of crude oil prices in the second half of June, which will led to an upward adjustment (by the MoIT and MoF) in domestic retail gasoline prices at the beginning of July.



Source: GSO

Economic data - Vietnam

Monthly data	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Industrial Production (YoY)	7.7%	9.6%	11.4%	8.1%	10.1%	9.2%	9.3%	10.2%	9.6%
<i>Mining and quarrying</i>	-9.5%	0.2%	-3.20%	-4.5%	-5.0%	3.4%	2.4%	2.3%	4.0%
<i>Manufacturing</i>	10.1%	11.0%	13.70%	10.2%	12.8%	10.2%	10.0%	11.6%	10.6%
<i>Production and distribution of electricity</i>	8.9%	9.2%	11.70%	8.3%	10.9%	9.6%	12.4%	10.3%	8.6%
<i>Water supply and waste treatment</i>	9.5%	4.5%	5.60%	8.7%	7.2%	8.0%	7.9%	7.4%	6.0%
Purchasing Managers Index	53.9	56.5	53.8	51.9	51.2	51.9	52.5	52.0	52.5
Retail Sales (YoY)	11.75%	12.07%	11.96%	11.60%	11.52%	13.76%	13.01%	13.54%	12.41%
Consumer Price Index (MoM)	0.33%	-0.29%	0.25%	0.10%	0.80%	-0.21%	0.31%	0.49%	-0.09%
Consumer Price Index (YoY)	3.90%	3.50%	2.98%	2.57%	2.64%	2.70%	2.93%	2.88%	2.16%
Export Value (YTD) (USDmn)	200,267	223,626	244,723	22,076	35,981	58,761	79,201	101,106	122,533
Import Value (YTD) (USDmn)	193,843	216,820	237,512	21,260	35,934	57,087	78,082	101,275	120,770
Cumulative Trade Balance (USDmn)	6,424	6,806	7,211	816	48	1,674	1,119	(170)	1,763
Disbursed FDI (USDmn)	1,850	1,400	2,600	1,550	1,030	1,540	1,580	1,600	1,800
Registered FDI (USDmn)	2,542	2,924	4,629	1,907	6,563	2,335	3,786	2,146	1,731

Quarterly data	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
GDP (YoY)	6.41%	6.81%	7.38%	7.08%	6.98%	7.08%	6.79%	6.76%
<i>Agriculture, Forestry and Fishing</i>	2.78%	2.90%	4.05%	3.93%	3.65%	3.76%	2.87%	2.39%
<i>Industry and Construction</i>	7.17%	8.00%	9.70%	9.07%	8.89%	8.85%	8.85%	8.94%
<i>Services</i>	7.25%	7.44%	6.70%	6.90%	6.89%	7.03%	6.44%	6.68%
Industrial Production (YoY)	9.7%	14.4%	12.7%	8.2%	10.7%	9.4%	9.2%	9.7%
Retail Sales (YoY)	12.38%	13.01%	10.85%	10.48%	12.18%	11.93%	11.90%	11.10%
Export Value (YTD) (USDmn)	154,033	213,770	54,310	113,929	178,910	244,723	58,761	122,533
Import Value (YTD) (USDmn)	154,475	211,096	53,005	111,217	173,520	237,512	57,087	120,770
Trade Balance (USDbn)	(0.4)	2.7	1.3	2.7	5.4	7.2	1.7	1.7
Disbursed FDI (USDmn)	4,780	5,000	3,880	4,490	4,880	5,850	4,120	4,980
Registered FDI (USDbn)	6,254	10,400	5,802	14,532	5,037	10,096	10,805	7,663

Yearly data	2011	2012	2013	2014	2015	2016	2017	2018
GDP	6.24%	5.25%	5.42%	5.98%	6.68%	6.21%	6.81%	7.08%
Industrial Production	6.8%	4.8%	5.9%	7.6%	9.8%	7.5%	11.3%	10.2%
Retail Sales	24%	14%	10%	12%	11%	11%	10%	11.7%
Consumer Price Index	18.6%	9.2%	6.6%	4.1%	0.6%	2.7%	3.5%	3.5%
Export Value (YTD) (USDmn)	96,257	114,631	132,175	150,042	162,439	175,942	213,770	244,723
Import Value (YTD) (USDmn)	105,774	114,347	131,312	148,058	165,609	173,262	211,096	237,512
Trade Balance (USDmn)	(9,517)	284	862	1,984	(3,170)	2,680	2,674	7,211
Disbursed FDI (USDbn)	11.00	10.46	11.50	12.35	14.50	15.80	17.50	19.10
Registered FDI (USDbn)	15.60	16.34	22.30	21.92	22.76	24.37	35.88	35.47

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Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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