



# Macro Update

**May 2019**

**June 18, 2019**

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## MACRO UPDATE MAY 2019

### Macro Indicators 5M2019

<b>Industrial Production Index (IIP)</b>	<b>+ 10.0%</b>
Mining and quarrying	-1.5%
Manufacturing	+ 11.6%
Production and distribution of electricity	+ 11.0%
Water supply and waste treatment	+ 8.4%

<b>Vietnam Exports Total Value (USDmn)</b>	<b>101,106</b>
<b>Vietnam Imports Total Value (USDmn)</b>	<b>101,275</b>
<b>Net Export/(Import)</b>	<b>-170</b>

<b>Retail sales of goods and services</b>	<b>+ 14.06%</b>
<b>CPI</b>	<b>+ 2.88%</b>
Core CPI	+ 1.90%

**IIP growth in May hit five-year high.** We expect that manufacturing activity will remain strong given the new export orders coming from domestic and foreign clients in May. With the expected domestic and foreign demand boost, we expect that manufacturing activity will remain strong in June. As a result, IIP and PMI of Vietnam in upcoming months is expected to increase.

**Strong economic growth helps maintain consumption sentiment.** Strong economic growth accompanied by controlled inflation will help to maintain the positive trend in consumer sentiment. However, growth of travelling services could slow or even decrease due to slower international arrivals, particularly from China recently.

**The trade balance continues to post a deficit in May.** We expect the trade balance could improve and reverse to a surplus in upcoming months due to seasonal variables. In previous years, demand for imports surge in May before declining in June. In addition, we expect a trade war between China and the US to benefit Vietnam, as US importers (the US is the biggest source of exports) may look to source some goods from Vietnam instead of China due to the recently imposed tariffs, potentially leading to rising export values from the US (which is rising over 29% YoY in May).

**Surging FDI thanks to trade tension between US and China.** We expect FDI to maintain robust growth in the upcoming months of 2019 as US-China trade war tensions are accelerating the trend in FDI flows shifting from China to Vietnam (China is still ranked 1st in term of newly registered FDI and ranked 4th in term of total registered FDI in 5M2019). In addition, despite rising global risks, the PMI report shows that Vietnam is benefiting from the tension as the PMI of Vietnam is still in expansion in May (Vietnam has a PMI of 52), and we believe with its favorable location, stable economic and political environments, improving business and investment conditions, and low labor costs and a long list of FTAs (including the upcoming CPTPP) Vietnam will continue to attract FDI and secure sustainable FDI inflows.

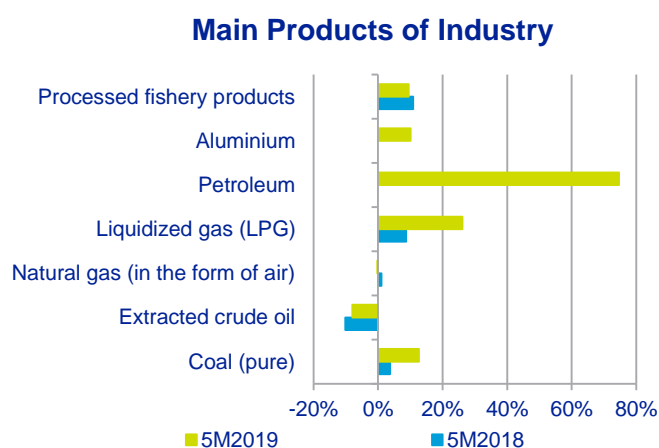
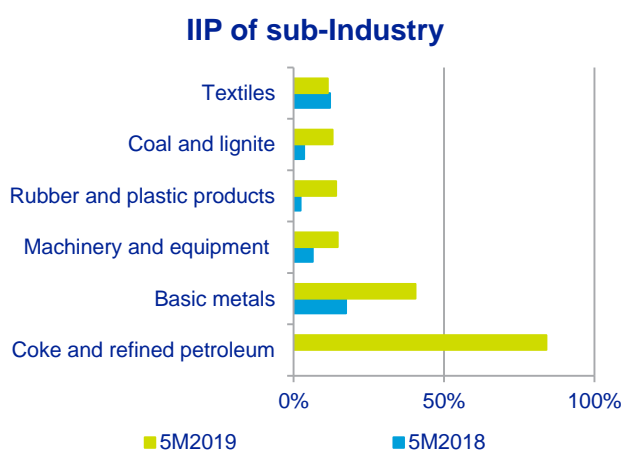
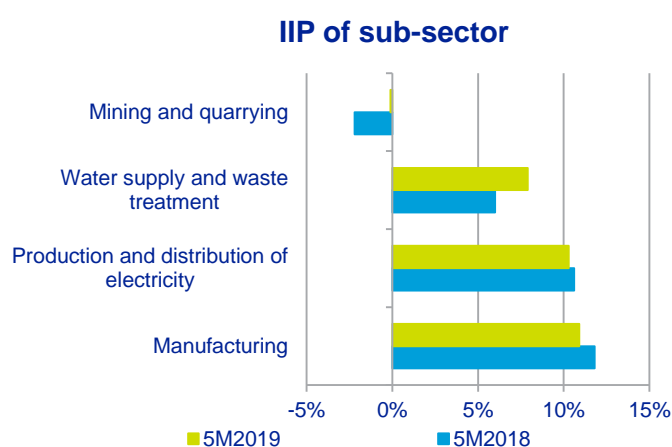
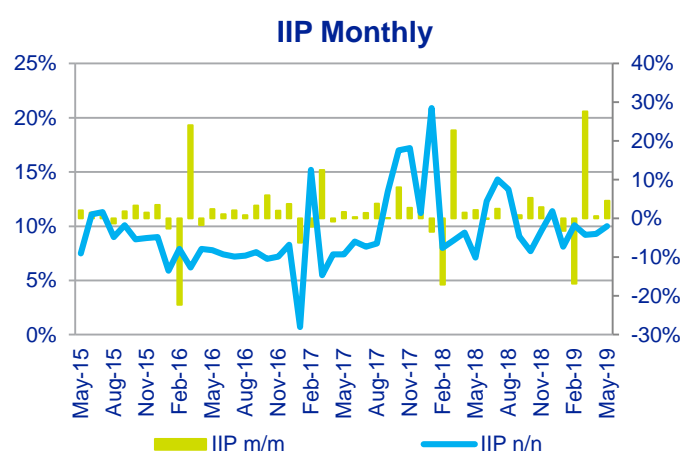
**CPI will be around government's target of 4%.** CPI in May increased 0.49% MoM and rose 2.88% YoY, up from rising 0.31% MoM and down from an increase of 2.93% YoY in April. As of the end of May, the 5M2019 CPI rose 1.5% from the beginning of the year, lower than the Government's target of 4%. In addition, core CPI in May came in at 1.9% YoY, and average core CPI over 5 months is at 1.85% YoY. Given that domestic retail gasoline prices were adjusted downward on May 17 and June 1, and continued depression of retail pork prices due to concerns regarding ASF, we expect the inflation to be low in June.

## INDUSTRIAL PRODUCTION

### IIP growth in May hit five-year high

The index of industrial production (IIP) in May grew 10% YoY, of which manufacturing IIP bounces back to 11.6% YoY, production and distribution of electricity IIP grew 11% YoY and water supply and waste treatment IIP grew 8.4%. In contrast, IIP for the mining sector dropped 1.5% YoY, mainly due to continuing weaker crude oil and natural gas mining activity (-4% YoY).

Generally, IIP 5M2019 grew 9.4% YoY, lead by manufacturing IIP with a growth of 10.9%. Strong growth in manufacturing was attributed to some sub-sectors, including manufacturing of coke and refined petroleum products (+84%), basic metals (+40.5%), and Machinery and equipment (+14.7%), 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 10.3% YoY, many thanks to the surge in electricity output at the Duyen Hai Thermal Power Company.



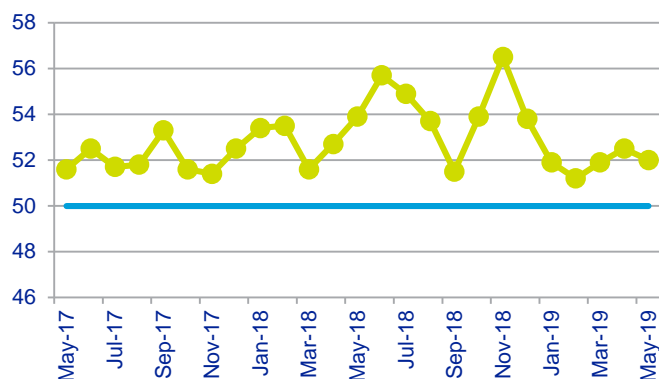
Source: GSO

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

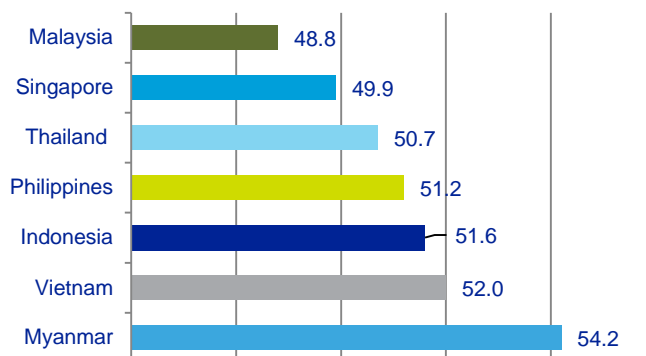
According to Nikkei Markit, Vietnam's Purchasing Managers Index (PMI) posted 52.0 in May, down marginally from 52.5 in April but still representing an improvement in business conditions in Vietnamese manufacturing. A strong and accelerated increase in new orders coming from domestic and foreign clients, which is the strongest rate in 2019 so far, and faster increases in output are recorded in May. Moreover, PMI in May is down slightly due to a drop in employment – which is the third in the past four months and mainly linked to employee resignations and retirements. In addition, finished goods inventories decreased in May ending a seven-month sequence of accumulation. Whereby stock of post-production also fell due to the use of stocks to meet new orders. Besides that, the manufacturing sector has expanded (with a PMI score above 50) for the past 36 months. Except Myanmar (54.2), Vietnam outperformed all countries in the region such as Philippines (51.2), Indonesia (51.6), Malaysia (48.8), Thailand (50.7) and Singapore (49.9).

**ANALYST COMMENT:** PMI suffered a slight decline due to issues related to supply of labour, which is reported to be due to resignations and retirements, leading to reduced employment levels in spite of the aforementioned improvements in demand and output requirements. We expected that PMI could be reversed in upcoming months due to demand side remaining strong and firms be able to replace departed workers.

**PMI Vietnam**



**PMI ASEAN MARCH 2019**



Source: HIS Markit

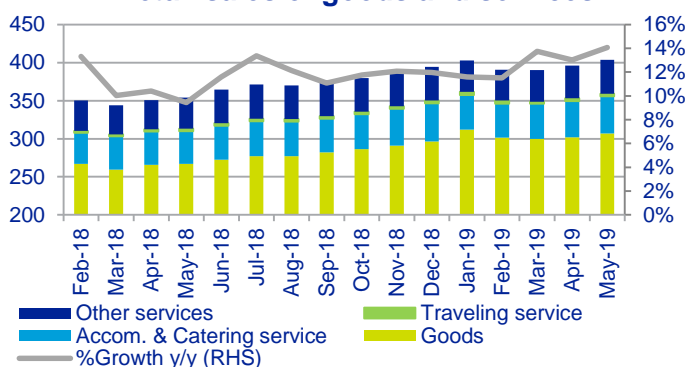
## Retail sales of goods and services

### Strong economic growth helps maintain consumption sentiment

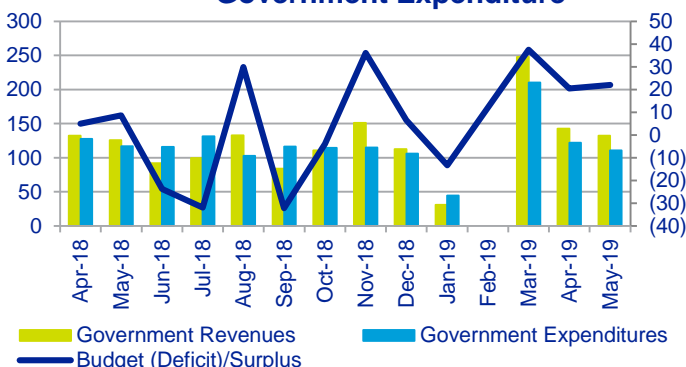
Total retail sales of consumer goods and services in May 2019 reached VND403 trillion, increasing 1.94% MoM and up 14.06% YoY. Total retail sales of consumer goods in 5M2019 hit VND1,985 trillion, up 12.8% YoY. Retail sales of goods accounted for over 76% of the total, increasing by 15% YoY. In addition, accommodation & catering, and travel services continued to grow, reaching 13.5% and 10.5% YoY respectively, thanks to long holidays pushing spending for entertainment activities and Outdoor eating and drinking in May.

**ANALYST COMMENT:** We expected that strong economic growth accompanied by controlled inflation will help to maintain the strength of domestic consumption. However, growth of travelling services could slow or even decrease due to slower international arrivals, particularly from China, recently.

**Retail sales of goods and services**



**Government Expenditure**



Source: GSO

## Government Expenditure

### Government spending is far behind schedule compared to revenue

Total estimated government revenues from the beginning of the year to May 15, 2019 hit VND553.5 trillion, achieving 39.5% of the annual plan. Domestic revenue contributed VND447.6 trillion and revenue from import-export activity was VND83.3 trillion, completing 38.1% and 44% respectively of this year's plan. In domestic revenues, revenue from State owned enterprises was VND60.9 trillion, accounting for 34.3% of the year plan; revenue from foreign-invested enterprises (excluding crude oil) was VND77.2 trillion.

Total government expenditures were slightly behind schedule, reaching VND486.9 trillion and completed just 29.8% of the plan. Expenditure on investment and development only fulfilled 19.2% the full-year target, reach VND82.5 trillion. In addition, interest payments expenditures have reached 35.8% of the 2019 target spending.

As a result, the State budget surplus total hit VND66.6 trillion, well above the surplus of VND19.9 trillion from the same period last year.

**ANALYST COMMENT:** We expect that the Ministry of Finance (MoF) will boost State expenditure to meet the 2019 target in the second half of the year, as State investment projects are typically higher in the second half of the year. This is expected put State revenues and expenditures back into balance by the end of the year.

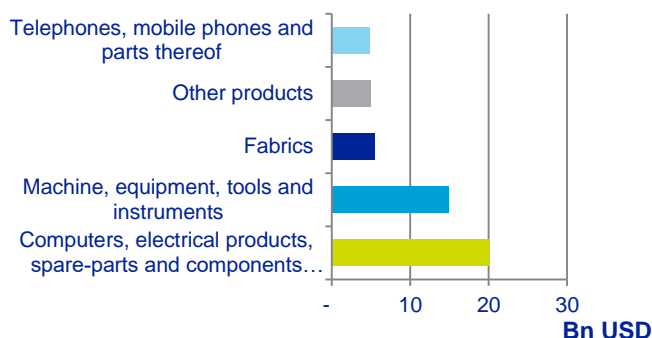
## Trading Activities

### The trade balance continue to deficit in May

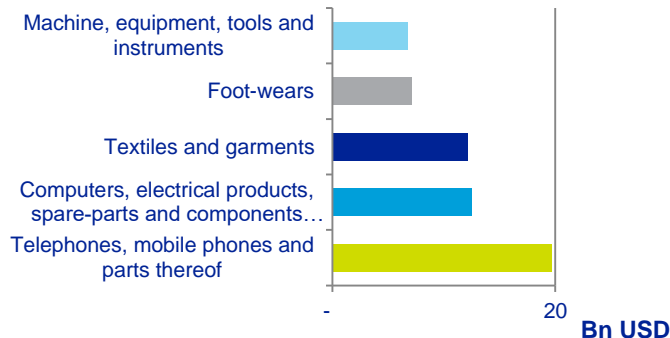
May exports increased slightly, by 9.8% MoM to USD21.9 billion while imports in May reached USD23.2 billion, which lead to a monthly trade deficit of USD1.3 billion - the highest monthly deficit level since March 2017. Over the first 5 months of 2019, exports reached USD101.1 billion (+8.6% YoY), while imports grew to USD101.28 billion (+12.9% YoY), resulting in a minor trade deficit of USD170 million, compared with trade surplus of USD2.6 billion same period last year.

The key export items were Telephones, mobile phones and parts (USD19.7 billion, +3.0% YoY), Computers, electrical products, spare-parts and components (USD12.5 billion, +11.1% YoY) and textiles and garments (USD12.1 billion, +10.3% YoY). In addition, exports of key agriculture products saw sharp declines, including coffee (USD1.33bn, -23%), cashews (USD1.2bn, -14.1%) and rice (USD1.2bn, -20%). Meanwhile, the top import items were Computers, electrical products, spare-parts & components (USD20.1 billion, +17.3% YoY), Machine, equipment, tools & instruments (USD14.8 billion, 14.9% YoY) while Telephones, mobile phones & parts declining in May (USD4.9 billion, -3.9% YoY).

#### Main Import Products in 5M2019

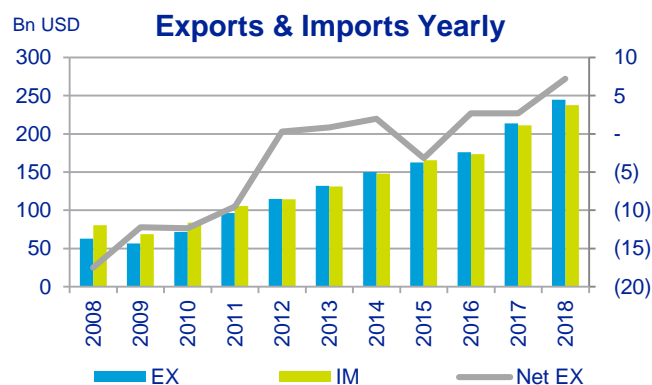
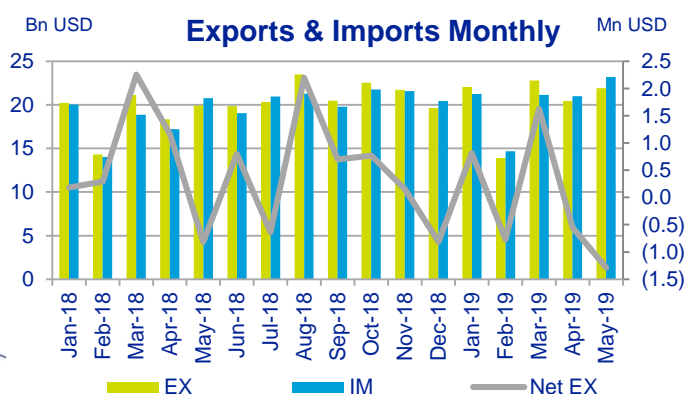


#### Main Export Products in 5M2019



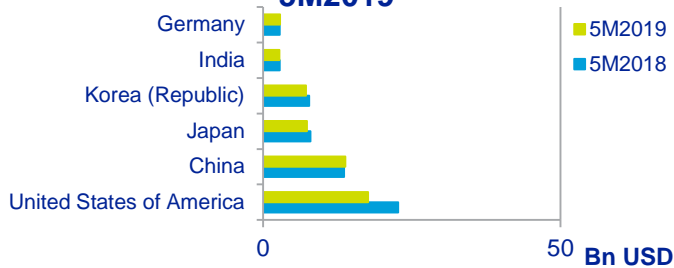
The United States was still the biggest export market for Vietnam with the turnover of USD22.7 billion (+29% YoY), followed by EU with USD17.3 billion (+1.9% YoY) and China rank third with USD13.6 billion (-1.48% YoY). Meanwhile, top main imports market of Vietnam in 5 months are China (USD29.9 billion, +20.3 % YoY), South Korea (USD19.1 billion, +0.68% YoY) and ASEAN (USD13.6 billion, +7.2% YoY).

**ANALYST COMMENT:** We expect the balance of trade could improve and reverse to surplus in upcoming months due to seasonal variable. In previous years, demand for imports surge in May and declining in June.

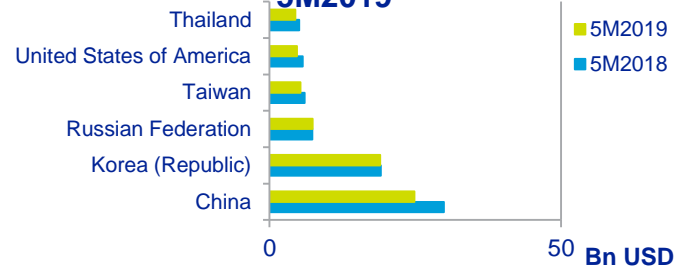




### Export by Countries 5M2018 vs 5M2019



### Import by Countries 5M2018 vs 5M2019



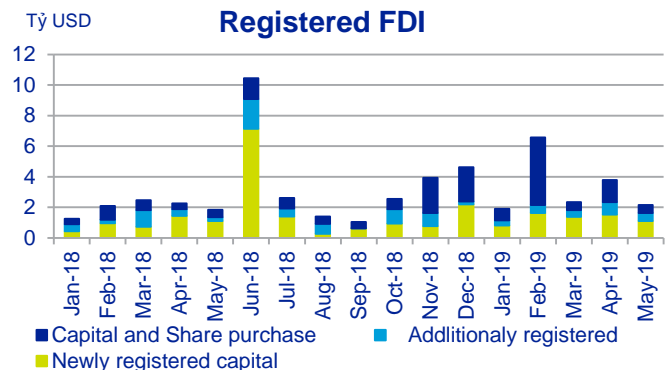
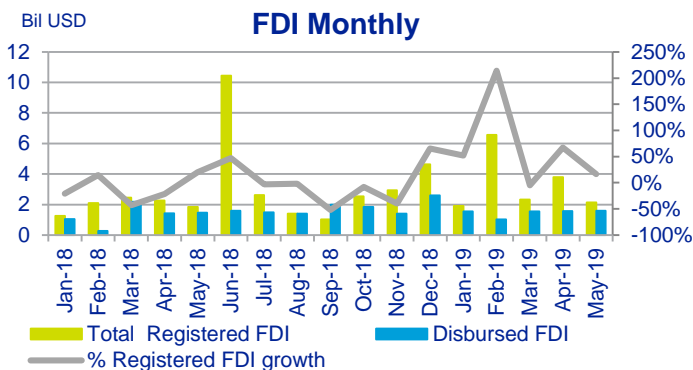
Source: Custom Vietnam

## Foreign Direct Investment

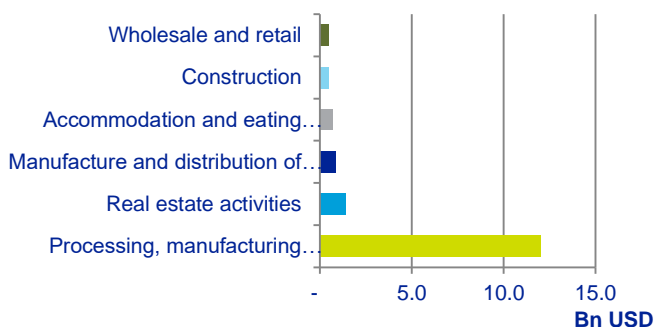
### Surging FDI thanks in part to trade tension between US and China

Disbursed FDI reached USD7.3 billion in 5M2019, up 7.8% YoY. Meanwhile, registered FDI in 5M2019 surged 69% YoY, to USD16.7 billion, reaching the highest level over the first five months of the year in the past four years. Vietnam's top 3 FDI investors over the first 5 months of 2019 are Hong Kong (USD5.08 billion, including 3.85 billion USD of shares purchase in Vietnam Beverage Co., Ltd. in Hanoi), South Korea (USD2.62 billion), and Singapore (USD2.09 billion). The manufacturing sector is still the biggest FDI lure, accounting for over USD12 billion of registered FDI in 5 months (71.8% of total FDI registered). Real estate ranked second, with registered capital of USD1.38 billion, accounting for 8.2%. The wholesale & retail sales sector accounted for USD864 million (5.2% of total FDI registered).

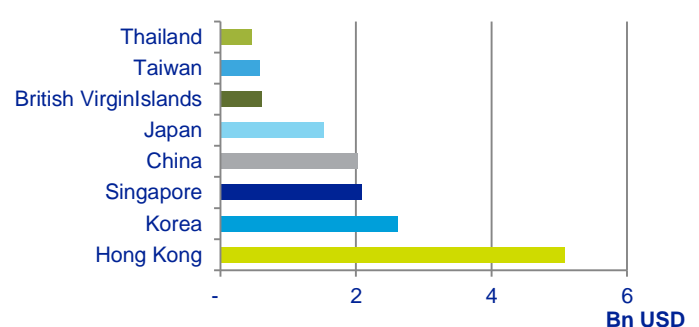
ANALYST COMMENT: We expect FDI to maintain robust growth in the upcoming months of 2019 as US-China trade war tensions are accelerating the trend in FDI flows shifting from China to Vietnam (China is still ranked 1<sup>st</sup> in term of newly registered FDI and ranked 4<sup>th</sup> in term of total registered FDI in 5M2019). In addition, despite rising global risks, the PMI report (Vietnam has a PMI of 52) shows that Vietnam is benefiting from the tension as PMI of Vietnam is still in expansion in May, and we believe with its favorable location, stable economic and political environments, improving business and investment conditions, and low labor costs and a long list of FTAs (including the upcoming CPTPP) Vietnam will continue to attract FDI and secure sustainable FDI inflows.



### FDI by Sectors 5M2019



### FDI by Countries 5M2019



Source: MPI

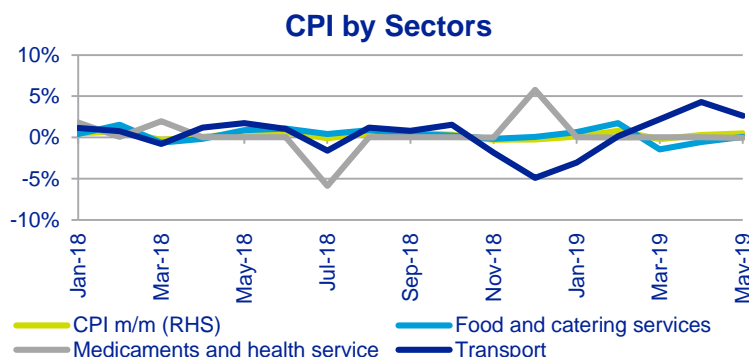
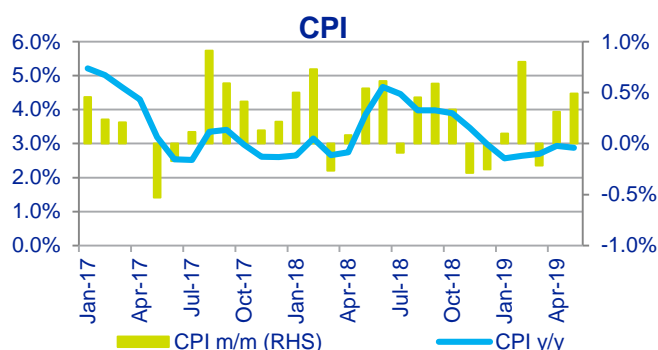
## Consumer Price Index

### Inflation remained low

CPI in May increased 0.49% MoM and rose 2.88% YoY, up from rising 0.31% MoM and down from rising 2.93% YoY in April. The May CPI increases were due to several reasons including: (1) the transportation sector, which increased the most to 2.63% MoM mainly due to upward adjustment of domestic retail gasoline prices on May 2; and (2) housing and construction materials sector, which also increased 1.28% MoM after upward adjustment of retail electricity price of 6.86% and retail gas price of 0.6%. The effect of rising domestic retail gasoline prices and electricity prices was partly offset by declining rice and pork prices in May. In May, rice prices fell 0.5% due to abundant supply from the harvesting season and retail pork prices fell 0.6% due to declining demand affect by African swine fever (ASF).

As of the end of May, the 5M2019 CPI rose 1.5% from the beginning of the year, lower than the Government's target of 4%. In addition, core CPI in May came in at 1.9% YoY, and average core CPI over 5 months is at 1.85% YoY.

ANALYST COMMENT: Given the domestic retail gasoline prices were adjusted downwards on May 17 and June 1 and a continued depression in retail pork prices due to concerns regarding ASF, we expect the inflation to be low in June.



Source: GSO

## Economic data - Vietnam

Monthly data	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Industrial Production (YoY)	9.1%	7.7%	9.6%	11.4%	8.1%	10.1%	9.2%	9.3%	10.0%
<i>Mining and quarrying</i>	-2.7%	-9.5%	0.2%	-3.20%	-4.5%	-5.0%	3.4%	2.4%	-1.5%
<i>Manufacturing</i>	11.2%	10.1%	11.0%	13.70%	10.2%	12.8%	10.2%	10.0%	11.6%
<i>Production and distribution of electricity</i>	5.1%	8.9%	9.2%	11.70%	8.3%	10.9%	9.6%	12.4%	11.0%
<i>Water supply and waste treatment</i>	8.4%	9.5%	4.5%	5.60%	8.7%	7.2%	8.0%	7.9%	8.4%
Purchasing Managers Index	51.5	53.9	56.5	53.8	51.9	51.2	51.9	52.5	52.0
Retail Sales (YoY)	11.07%	11.75%	12.07%	11.96%	11.60%	11.52%	13.76%	13.01%	14.06%
Consumer Price Index (MoM)	0.59%	0.33%	-0.29%	0.25%	0.10%	0.80%	-0.21%	0.31%	0.49%
Consumer Price Index (YoY)	3.98%	3.90%	3.50%	2.98%	2.57%	2.64%	2.70%	2.93%	2.88%
Export Value (YTD) (USDmn)	178,910	200,267	223,626	244,723	22,076	35,981	58,761	79,201	101,106
Import Value (YTD) (USDmn)	173,520	193,843	216,820	237,512	21,260	35,934	57,087	78,082	101,275
Cumulative Trade Balance (USDmn)	5,390	6,424	6,806	7,211	816	48	1,674	1,119	(170)
Disbursed FDI (USDmn)	2,000	1,850	1,400	2,600	1,550	1,030	1,540	1,580	1,600
Registered FDI (USDmn)	1,021	2,542	2,924	4,629	1,907	6,563	2,335	3,786	2,146

Quarterly data	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
GDP (YoY)	5.73%	6.41%	6.81%	7.38%	7.08%	6.98%	7.08%	6.79%
<i>Agriculture, Forestry and Fishing</i>	2.65%	2.78%	2.90%	4.05%	3.93%	3.65%	3.76%	2.68%
<i>Industry and Construction</i>	5.81%	7.17%	8.00%	9.70%	9.07%	8.89%	8.85%	8.63%
<i>Services</i>	6.85%	7.25%	7.44%	6.70%	6.90%	6.89%	7.03%	6.50%
Industrial Production (YoY)	8.2%	9.7%	14.4%	12.7%	8.2%	10.7%	9.4%	9.2%
Retail Sales (YoY)	12.29%	12.38%	13.01%	10.85%	10.48%	12.18%	11.93%	12.00%
Export Value (YTD) (USDmn)	97,775	154,033	213,770	54,310	113,929	178,910	244,723	58,761
Import Value (YTD) (USDmn)	100,471	154,475	211,096	53,005	111,217	173,520	237,512	57,087
Trade Balance (USDbn)	(2.7)	(0.4)	2.7	1.3	2.7	5.4	7.2	1.7
Disbursed FDI (USDmn)	4,100	4,780	5,000	3,880	4,490	4,880	5,850	4,120
Registered FDI (USDbn)	11,519	6,254	10,400	5,802	14,532	5,037	10,096	10,805

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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## DISCLAIMER

### 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%.

### Analyst Certification(s)

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