

ACBS

Money 360

February 2022

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Associate – Macro

Macro Update

Vietnam's economy continued to record relatively good fundamentals in February 2022. After several months of switching to the living-with-COVID-19 strategy, Vietnam has basically regained its growth momentum. Specifically, industrial activities continued to recover, in which IIP continued to record positive growth (+8.5% YoY in February 2022). Furthermore, the PMI continued to show signs recovery for five consecutive months in February 2022 (54.3, up from 53.7 in January 2022, from 40.2 in September 2021), major industrial areas in Southern area (Binh Duong, Dong Nai, Long An and Tay Ninh Province) and Northern areas (Bac Giang and Bac Ninh Province) continued to resume their operations after implementing living-with-COVID-19 strategy, supported by rising new orders due to stronger customer demand and rise in exports, which has helped Vietnamese manufacturers get back to business and be more confident in the future growth outlook.

Disbursed FDI also recovered in January 2022 and recorded a positive growth (+7.2% YoY in February 2022 vs +2.0% YoY in February 2021), and we are also optimistic about the FDI inflows in the future will continue to recover as registered FDI remained strong. Last but not least, Consumer Price Index (CPI), which increased 1.0% MoM and 1.42% YoY remained low and under control even we were having a Lunar New Year holiday in February 2022.

Over the past month, there were two events which could affect Vietnam's economy in term of growth prospect which were FED rate hike and geopolitical tensions at the Russia-Ukraine border. Two of the events were expected to affect Vietnam's monetary policy and lift inflation rate up. However, our monetary policy management of the State Bank of Vietnam will have no major impact over FED rate hikes if:

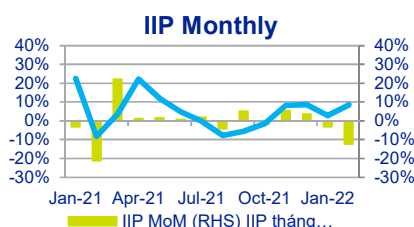
- (1) Vietnam could continue to maintain inflation below 4%,
- (2) FDI inflows continued to be strong and
- (3) trading activities especially export continued to remain solid.

In addition, we also expected that Vietnam's inflation to remain below the government's 4% target in 2022 thanks to

- (1) grain food and foodstuff prices will stabilize when transportation and supply chains of goods are normalized in 2022,
- (2) food & foodstuffs will not in supply shortage due to surging demand or supply chain disruptions or low production in 2022, and
- (3) size of stimulus package is relatively small (+~3% of the total money supply, and ~4% GDP of 2021) and will not cause major inflation pressure.

Overall, we expected that our economy will continue to perform well in 2022.

Vietnam's industrial production continued to recover in February 2022

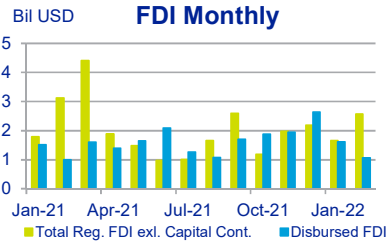


- IIP in February 2022 decreased 12.4% MoM and increased 8.5% YoY (vs -8.3% YoY in February 2021), in which:

	February 2022	February 2021
IIP	8.5%	-8.3%
Mining and quarrying	-4.1%	-12.4%
Manufacturing	10.0%	-7.8%
Prod. and dist. of electricity	8.0%	-10.0%
Water supply and waste treatment	0.8%	3.7%

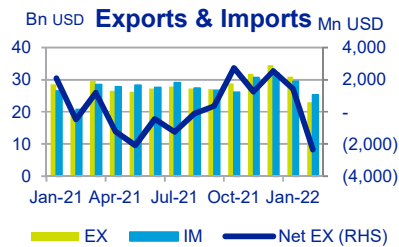
FDI inflows expected to remain positive in upcoming months

- Disbursed FDI in Vietnam reached USD2.7bn in 2M2022 – increasing 7.2% compared with same period last year, while registered FDI in 2M2022 reached



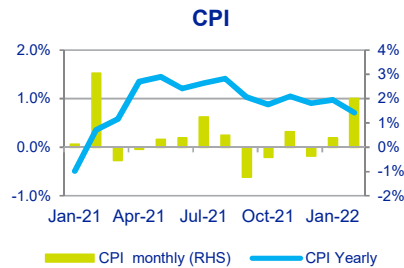
USD4.2bn (-14% YoY). The capital contribution & share repurchase increased 42% YoY to USD770mn in 2M2022.

- Vietnam's top 3 FDI investors in 2M2022 are Singapore (USD1.3n, +32.4% YoY), Korea (USD1.3bn, +34.1% YoY) and China (USD522mn, -29.2% YoY).
- Vietnam's top 3 sectors in 2M2022 are the manufacturing sector with USD2.9bn of registered FDI; the real estate activities sector with registered capital of USD1.2bn; and the production and distribution of electricity, gas, air conditionals sector accounted for USD49.2mn.



Trading activities remained solid

- According to the GSO, exports and imports in February 2022 reached USD22.9bn (+13.6%YoY) and USD25.3bn (+22.4%YoY) respectively.
- Generally, according to GSO, total export-import turnover in 2M2022 reached VND108.5bn (+13.2% YoY) with exports reached USD53.8bn (+10.4% YoY) while imports USD54.7bn (+16.2% YoY), resulting in a trade deficit of USD936mn in 2M2022.

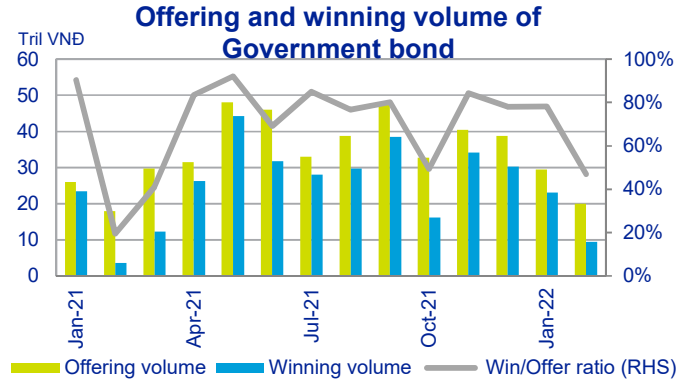
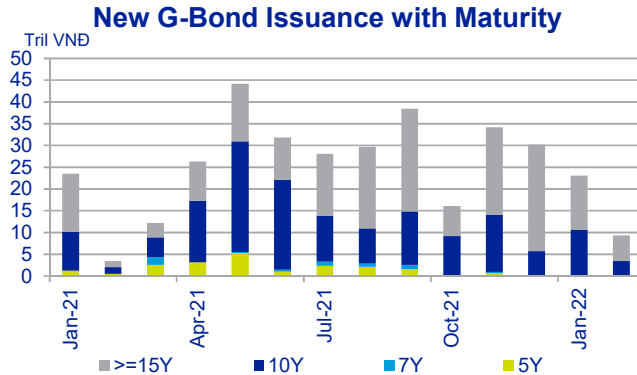


Inflation remained low even we were having Lunar New Year in February 2022

- CPI in February increase 1.0% MoM and 1.42% YoY.
- Generally, CPI average in 2M2022 increased 1.68% compared to average last year. In addition, average core CPI of 2M2022 at 0.67% YoY.

VGB-GGB MARKET

PRIMARY BOND MARKET



Source: HNX, ACBS

Total G-bonds issued in February 2022 reached VND9.4tn (vs VND3.5tn in February 2021). Yields of all terms remain almost the same during February, and all yield terms remain a little bit lower than same period last year. The winning rate of all terms downed 47% in February 2022 which downed from winning rate 78% in January 2022.

10Y and 15Y attracted investor's attention in February 2022 accounted for 38% and 32% of the total issuance amount respectively, and winning rate reach 44% and 50% respectively.

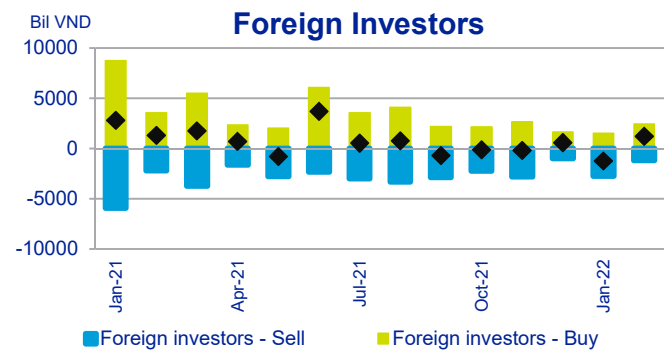
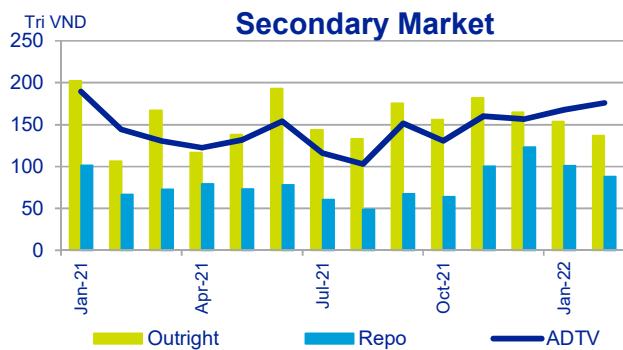
Bond Yields in the primary market						
	5Y	7Y	10Y	15Y	20Y	30Y
End of February 2022	0.76%	1.10%	2.09%	2.39%	2.75%	2.98%
vs January 2022	0.76%	1.10%	2.07%	2.35%	2.75%	2.96%
vs February 2021	1.03%	1.55%	2.17%	2.40%	2.89%	3.01%

By the end of February, the VST issued VND32.5tn of G-bonds in 1Q2022, fulfilling 31% of 1Q2021's issuance plan (VND105tn) and 8.1% of 2022's issuance plan (VND400tn).

Government Bond Issuance Plan						
VND Bn	1Q2022 Target	QTD Issuance	QTD Issuance/Target	2022 Target	2022 YTD Issuance	2022 YTD Issuance/Target
5-year	5,000	0	0.0%	30,000	0	0.0%
7-year	5,000	0	0.0%	15,000	0	0.0%
10-year	35,000	14,142	40.4%	140,000	14,142	10.1%
15-year	40,000	9,950	24.9%	150,000	9,950	6.6%
20-year	10,000	1,685	16.9%	30,000	1,685	5.6%
30-year	10,000	6,685	66.9%	35,000	6,685	19.1%
Total	105,000	32,462	30.9%	400,000	32,462	8.1%

ANALYST COMMENT: We expect that the VST will ramp up issuances in 2022 as the government needs to push disbursement of public investment and finance their fiscal and monetary stimulus package in order to boost economic development after end of COVID-19 outbreak and start a new normal strategy in 2022.

SECONDARY BOND MARKET

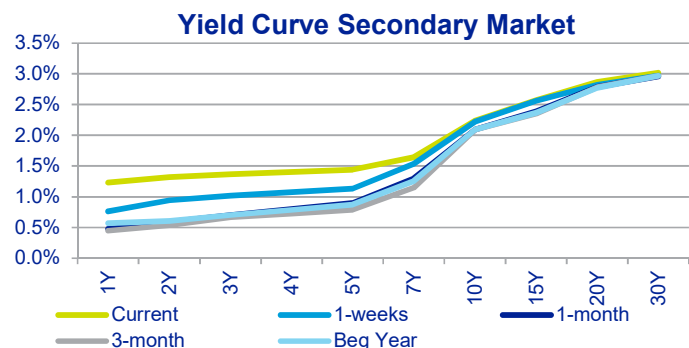
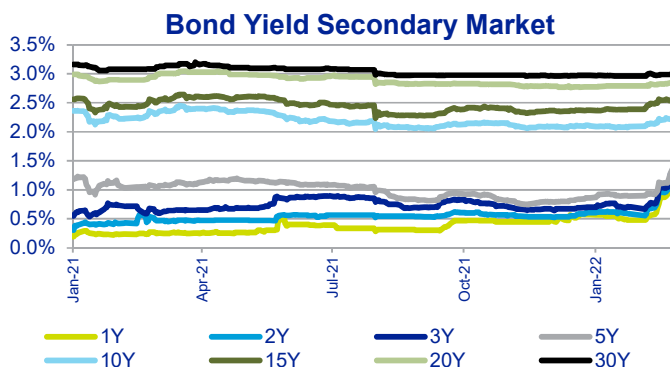
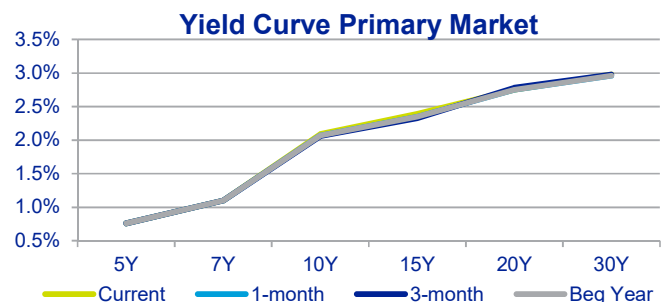
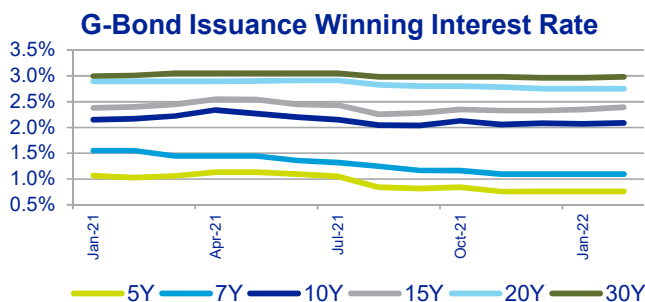


Source: HNX, ACBS

Total trading volume of outright and repos in the secondary market in February 2022 decreased 11.6% compared with last month, reaching VND225tn and with the average daily trading value (ADTV) reaching VND14tn (+5.0% MoM). Of the total trading volume in the secondary market, outright transactions accounted for 61% and ADTV of outright increased 6% MoM to VND8.6tn. Of the total trading volume in the secondary market, repo transactions accounted for 39%.

Foreign investors trading position recorded a net buy of over VND1.2tn in February 2022, the cumulative net sell since start of 2022 decreased to VND20bn

Yield Curve



Source: HNX, VBMA, ACBS

Primary bond yields remain almost the same during February 2022, and all yields remained low compared with same period last year. In addition, bond yields in the secondary market increased during February compared to last month, especially short-term yields due to the liquidity constraints in banking system during Feb, which caused a sharp increase in the supply of Government Bonds of commercial banks.

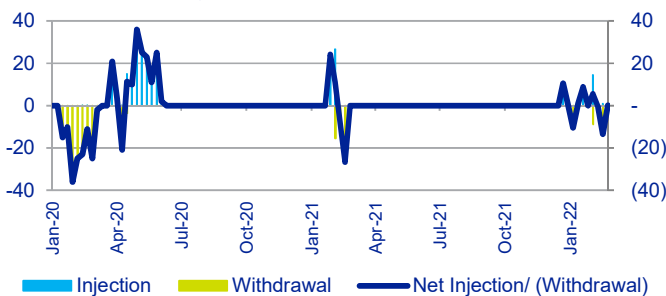
Bond Yields in the primary market										
					5Y	7Y	10Y	15Y	20Y	30Y
End of February 2022					1.03%	1.55%	2.17%	2.40%	2.89%	3.01%
+/- MoM (bps)					0	0	2	4	0	2
Bond Yields in the secondary market										
	1Y	2Y	3Y	4Y	5Y	7Y	10Y	15Y	20Y	30Y
End of February 2022	1.23%	1.32%	1.37%	1.40%	1.44%	1.64%	2.24%	2.57%	2.87%	3.02%
+/- MoM (bps)	75	73	66	60	55	34	15	18	8	6

ANALYST COMMENT: In our opinion, the VST will need ramp up issuances in 2022. As a result, if the VST wants to fulfill their 2022's issuance plan, they need to increase their offering yield in order to attract more investors, as winning value of bond issuance recently was low compared with total registering value due to high bidding rates.

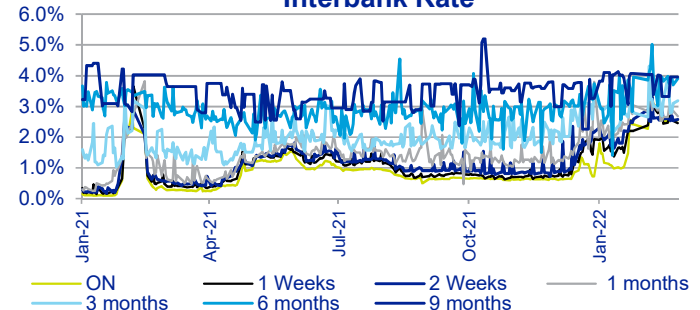
In the secondary market, February saw fairly sharp increases in yields, especially in the shorter term tenors driven by short term cash demand during the Tet holidays. We expect those yields in the secondary market could normalize in 2Q2022, but will likely find stability at levels slightly higher than beginning of 2022.

MONEY MARKET

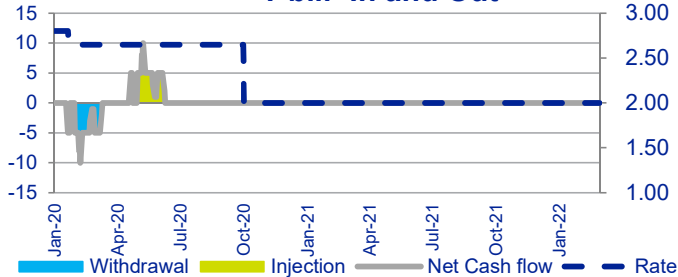
Trillion VND **Net Injection/ (Withdrawal) from OMO**



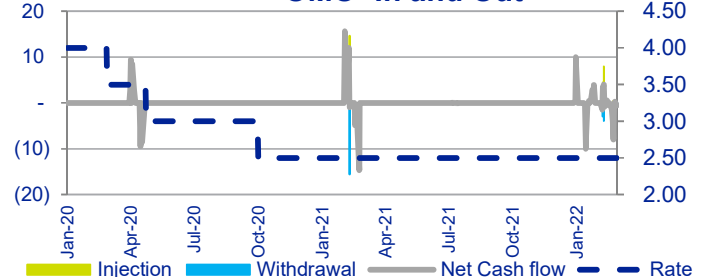
Interbank Rate



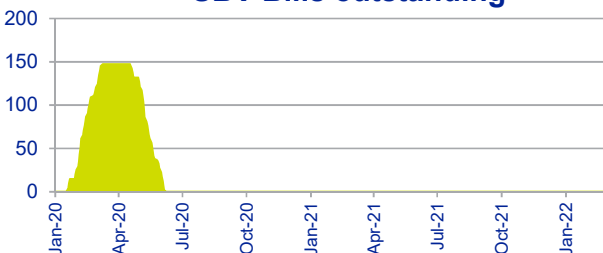
Trillion VND **T-bill- In and Out**



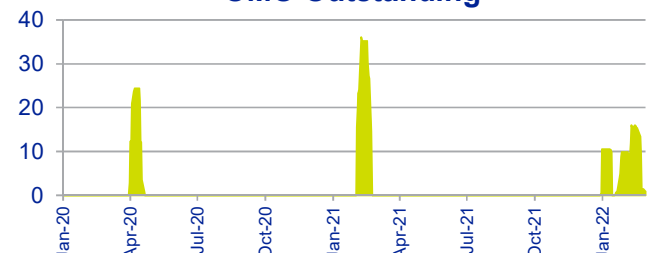
Trillion VND **OMO- In and Out**



Trillion VND **SBV Bills outstanding**



Trillion VND **OMO Outstanding**



Source: SBV, ACBS

Interbank interest rates increased throughout February 2022 as liquidity of banking system was constrained during Lunar New Year which people spend and use a lot of cash. Given the reduction of liquidity of banking system during Lunar New Year, the SBV had pump over VND10tn into system on last two weeks of January 2022 and another VND16tn in week after Lunar New Year to ease the short-term liquidity constraints.

Interbank Rate

	ON	1 Weeks	2 Weeks	1 months	3 months	6 months	9 months
Average of January 2022	2.75%	2.76%	2.68%	2.91%	3.17%	3.94%	3.79%
+/- MoM (bps)	130	95	59	51	38	76	-11

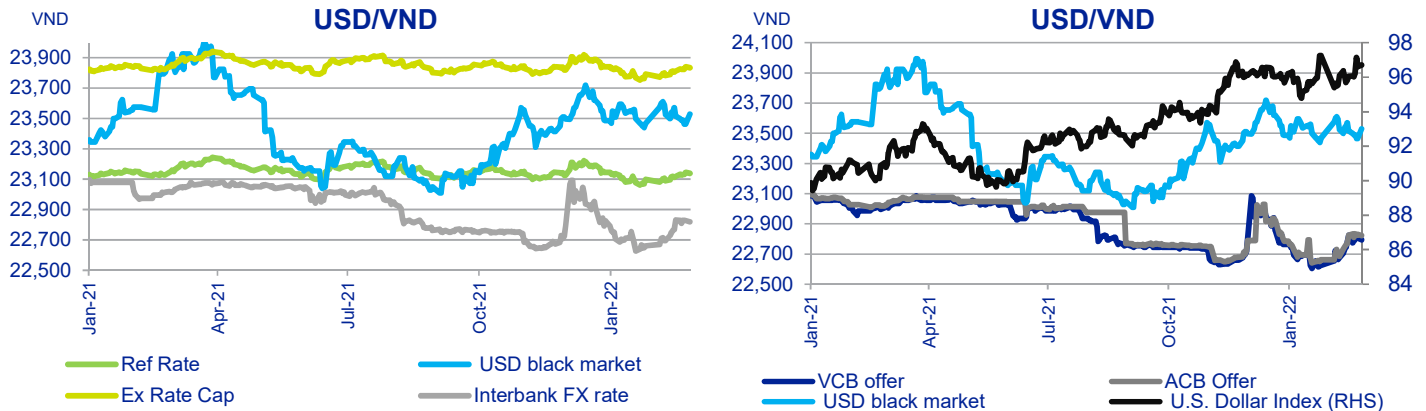
ANALYST COMMENT:

We expect that the interbank interest rate may increase slightly especially throughout 1Q2022 as liquidity in banking system may be squeezed in January and February as we have a lot of holidays especially around the Lunar New Year, which people might have to use a lot of cash and spend for a lot of activities.

But we expect banking system liquidity will stabilize in 2Q2022 and the SBV will also help maintain the stability in short-term by using reverse repos OMO (as in the last 2 weeks of January 2022 and the week before Lunar New Year, SBV pumped over VND26tn which helped eased short-term liquidity constraints) when needed to curb the interbank interest rate surging aggressively.

OTHER MARKETS

FOREX MARKET



Source: SBV, Bloomberg, ACBS

The USD/VND interbank exchange rate depreciated slightly in February 2022. As the end of February 2022, USD/VND exchange rate of the market stood at VND22,820 (+0.69% MoM and -0.85% YoY), which still around new SBV's buying price of VND22,550 (down from VND22,650 in 19th January 2022). In addition, USD/VND exchange rate in black market also increased slightly to VND23,530 (+0.27% MoM and -1.16 % YoY).

ANALYST COMMENT: We expect the VND in general (in banking system and in black market) will maintain its strength in upcoming months of 2022 despite the FED rate hike, supported by:

- (1) Inflation remained low and under control below 4%;
- (2) Exports which is the country's key economic growth driver, will remained strong as manufacturing activities gradually recovered and is expected to continue its upward trajectory given the recovery of the global economy and a long list of Free Trade Agreements (FTAs) achieved to date such as EVFTA, UKVFTA, CPTPP.
- (3) FDI inflows disbursement recovered recently and FDI inflows registered to Vietnam is expected to continue to after we control the outbreak of COVID-19 cases across country and reopen our economy, especially the manufacturing sector, given our long list of Free Trade Agreements (FTAs) achieved up to now; and
- (4) Abundant foreign reserves (stood at around USD111bn at the end of September 2021).

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