

**ACBS**

# Money 360

**May 2022**

**June 3, 2022**

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**Associate – Macro**

## Macro Update

Vietnam's economy has basically regained its growth momentum as the post-COVID recovery carries on and continued to record relatively good fundamentals in May 2022.

Specifically, industrial activities continued to recover and accelerate, in which IIP recorded positive growth rate of 10.4% YoY in May 2022 (vs +11.8% YoY in May 2021) and posted an 8.3% YoY growth rate in 5M2022 (vs +9.9% YoY in 5M2021). Furthermore, the PMI continued to show signs recovery in May which increased to 54.7 (from 51.7 in April 2022) compared with last month thanks to sharp increases in output and new orders and boosted employment and raw material purchasing, which helped bring manufacturing production growth rate to record a 13-month high.

Disbursed FDI remained strong in 5M2022 (+7.8% YoY vs +6.7% YoY in 5M2021) as travel restrictions eased and industrial activities continued to recover and accelerate. Even though registered FDI in 5M2022 decreased 23.3% YoY, it remained high compared with pre-pandemic 2019 (+7.1% compared with 5M2019) and we are optimistic FDI inflows in the future will remain strong as Vietnam continues to be an attractive investment destination for FDI firms. Last but not least, average Consumer Price Index (CPI) 5M2022 increased 2.25% YoY, a little on the high side due to rising gasoline prices, but inflation still remain far below government's target 4% and remained under control.

There have been several exogenous risk factors which may bring uncertainties to Vietnam's economic growth prospects in upcoming months of 2022, which include:

- (1) FED and other major central banks rate hike. According to a Financial Times, a newspaper, central banks are raising rates rapidly in the most widespread tightening of monetary policy for more than two decades, with a total of more than 60 rate hikes from various central banks in the past three months;
- (2) Quantitative Tightening program of FED;
- (3) prolonged geopolitical tensions at the Russia-Ukraine border which cause surging oil and foods price;
- (4) China lockdowns several major cities due to COVID-19 outbreaks, included Shenzhen, Dongguan, Shanghai and Xi'an city; and
- (5) surging inflation globally.

However, despite fears that these events could slow Vietnam's growth prospects in the upcoming quarters of 2022, we still maintain our expectation that GDP growth rate will gradually recover in the last three quarters of 2022, supported by:

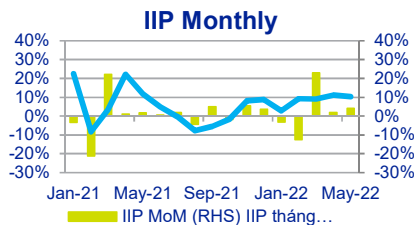
- (1) the continuing recovery of all industrial activities which will push activities from FDI sector in term of investment and export;
- (2) Vietnam emerged as a substitute manufacturing center to cover loss output causing by zero-COVID-19 strategy of China which continued to boost recovery of all industrial activities; and
- (3) the recovery of service sectors after relaxing all service businesses included reopening international tourism and normalization of transportation.

Furthermore, the fiscal and monetary stimulus package, worth VND337tn (VND291tn for fiscal package and VND46tn for monetary package), to support the socio-economic recovery and development program after the impact of the COVID-19 pandemic will be disbursed starting in 2Q2022, along with over VND382tn (of total VND530tn) of Capital under State Budget needed to disbursed toward the year end of 2022, which will push socio-economic recovery in the last three quarters of 2022.

Overall, we maintain our view that Vietnam's economy will have good performance and range between 5.8% - 6.9% in 2022.

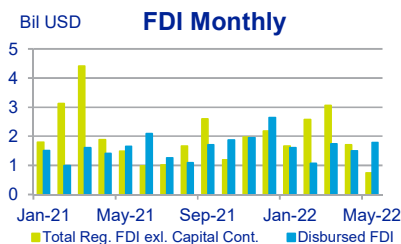


## Vietnam's industrial activities continued to recover and accelerate in 5M2022



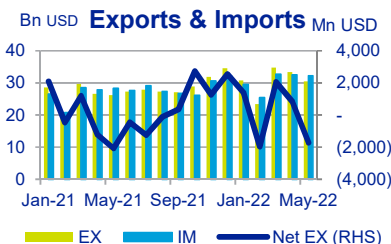
- IIP in May 2022 increased 4.0% MoM and 10.4% YoY (vs +11.8% YoY in May 2021), and IIP in 5M2022 grew 8.3% YoY (vs +9.9% YoY in 4M2021), in which:

	May 2022	May 2021	5M22	5M21
<b>IIP</b>	10.37%	11.82%	8.34%	9.92%
Mining and quarrying	4.15%	-5.94%	4.13%	-6.99%
Manufacturing	12.09%	14.39%	9.24%	12.59%
Prod. and dist. of electricity	2.39%	12.70%	5.52%	8.33%
Water supply and waste treatment	5.53%	4.13%	2.45%	7.54%



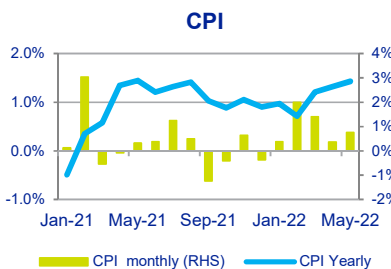
## Disbursed FDI continued to be strong in 5M2022

- Disbursed FDI in Vietnam reached USD7.7bn in 5M2022 – increasing 7.8% compared with same period last year, while registered FDI in 5M2022 decreased 23.3% YoY reached USD9.7bn. The capital contribution & share repurchase increased 51.5% YoY to USD2.0bn in 5M2022.
- Vietnam's top 3 FDI investors registered in 5M2022 are Singapore (USD2.4bn, -51.2% YoY), Republic of Korea (USD1.9bn, -25.5% YoY) and Denmark (USD1.3n).
- Vietnam's top 3 FDI registered sectors are: manufacturing with USD6.8bn of registered FDI; real estate with registered capital of USD3.0bn; and the information and communication sector accounted for USD370mn.



## Total trade value of Vietnam remained strong and keep accelerating

- According to the GSO, exports and imports in May 2022 reached USD30.5bn (+16.4%YoY) and USD32.2bn (+14.0%YoY) respectively.
- Generally, according to GSO, total export-import turnover in 5M2022 reached USD305.1bn (+16.1% YoY) with exports reaching USD152.8bn (+16.5% YoY) and imports USD152.3bn (+15.7% YoY). As a result, the cumulative trade surplus in 5M2022 reached over USD516mn (down from USD2.5bn in 4M22).



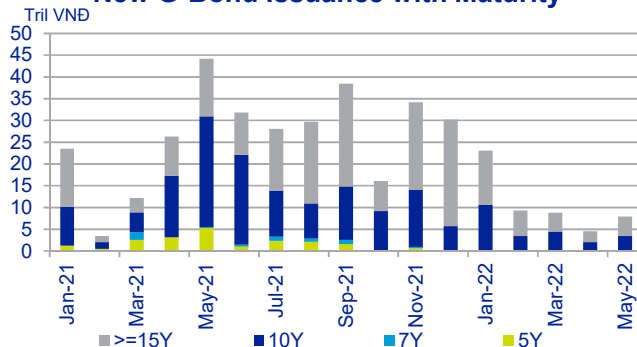
## Inflation remained under control, and still far below government's target 4%

- CPI in May increase 0.38% MoM and increased 2.86% YoY. In addition, core CPI of May 2022 stood at 1.61% YoY.
- Generally, CPI average in 5M2022 increased 2.25% compared to average 5M2021. In addition, average core CPI of 5M2022 stood at 1.10% YoY.

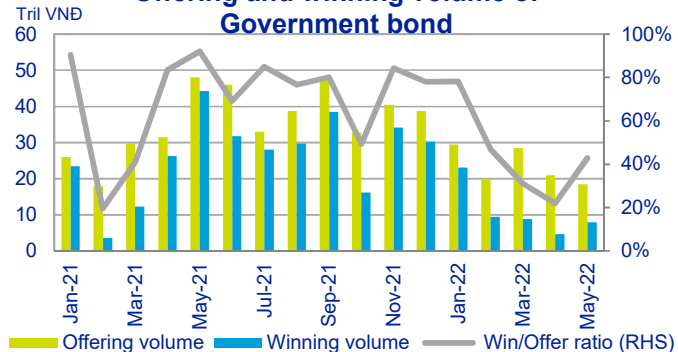
## VGB-GGB MARKET

### PRIMARY BOND MARKET

**New G-Bond Issuance with Maturity**



**Offering and winning volume of Government bond**



Source: HNX, ACBS

Total G-bonds issued in May 2022 reached VND7.9tn (vs VND44.2tn in May 2021). Winning yields of all mid-terms slightly increased during May, but due to high bidding rate and no winning value in May, short- and long-term yield remained the same compared with last month mainly due to unattractive offering rate. The winning rate of all terms reached 43% in May 2022 (slightly increased from 22% in April 2022). In addition, winning value continued to decrease by 82% compared with May 2021.

10Y and 15Y attracted investor's attention in May 2022 which accounted for 44% and 49% of the total issuance amount respectively, and winning rate reached 44% and 48% respectively.

Bond Yields in the primary market						
	5Y	7Y	10Y	15Y	20Y	30Y
End of May 2022	0.76%	1.10%	2.34%	2.58%	2.75%	3.01%
vs April 2022	0.76%	1.10%	2.24%	2.54%	2.75%	3.00%
vs May 2021	1.13%	1.45%	2.27%	2.54%	2.90%	3.05%

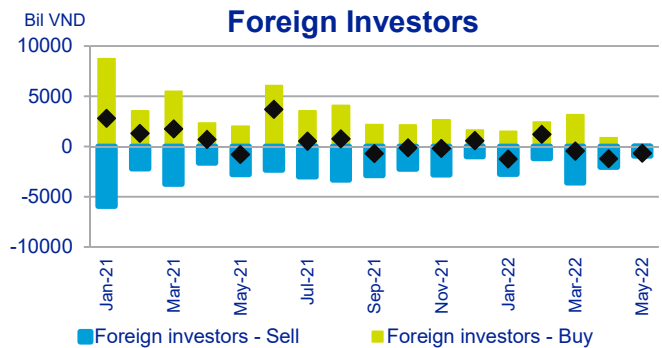
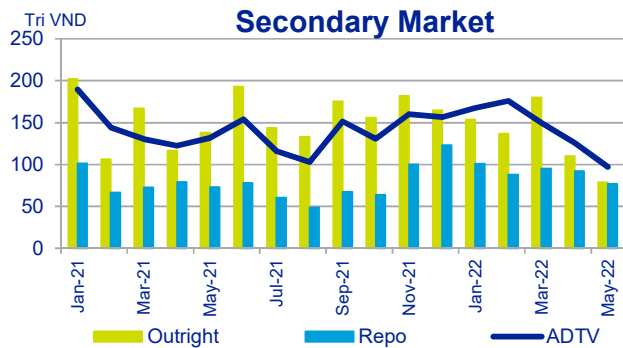
By the end of May, the VST only issued VND12.5tn of G-bonds in 2Q2022, fulfilling only 10.4% of 2Q2021's issuance plan (VND120tn) and 13.5% of 2022's issuance plan (VND400tn).

**Government Bond Issuance Plan**

VND Bn	2Q2022 Target	QTD Issuance	QTD Issuance/Target	2022 Target	2022 YTD Issuance	2022 YTD Issuance/Target
5-year	10,000	0	0.0%	30,000	0	0.0%
7-year	5,000	0	0.0%	15,000	0	0.0%
10-year	45,000	5,500	12.2%	140,000	5,500	12.2%
15-year	35,000	5,870	16.8%	150,000	5,870	16.8%
20-year	10,000	540	5.4%	30,000	540	5.4%
30-year	15,000	620	4.1%	35,000	620	4.1%
<b>Total</b>	<b>120,000</b>	<b>12,530</b>	<b>10.4%</b>	<b>400,000</b>	<b>12,530</b>	<b>10.4%</b>

**ANALYST COMMENT:** We expect that the VST will have to ramp up issuances in upcoming months of 2022 as the government needs to push disbursement of public investment and finance their fiscal and monetary stimulus package, which was planned to disburse starting in 2Q2022, in order to boost economic development after end of COVID-19 outbreak and start a new normal strategy in 2022. In addition, VST also needs to increase offering rates especially short-term rates to increase winning rate of issuance which was currently low due to unattractive low yields.

## SECONDARY BOND MARKET

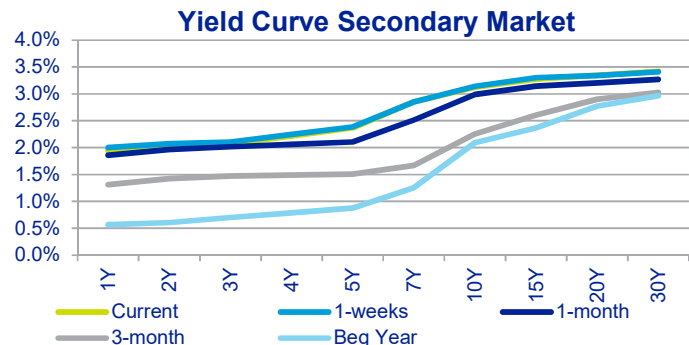
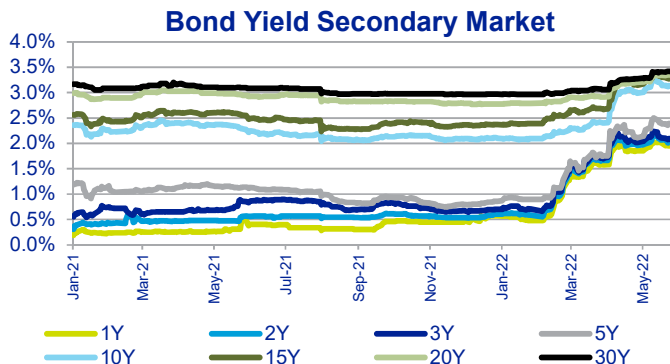
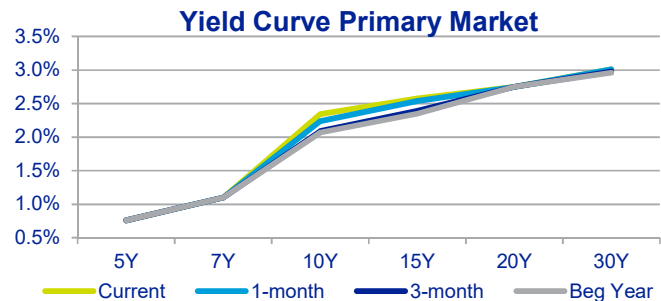
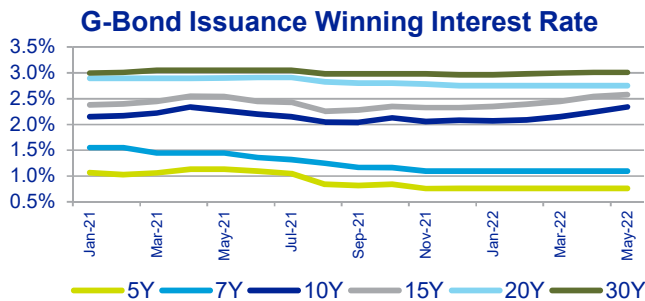


Source: HNX, ACBS

Total trading value of outright and repos in the secondary market in May 2022 decreased 22.8% compared with last month, reaching VND155.8tn and with the average daily trading value (ADTV) reaching VND7.8tn (-22.8% MoM). Of the total trading value in the secondary market, outright transactions accounted for 51% and ADTV of outright decreased 28% MoM to VND3.9tn. Of the total trading volume in the secondary market, repo transactions accounted for 49%.

Foreign investors trading position recorded a net sell of VND666bn in May 2022, the cumulative net sell since start of 2022 increased to VND2.3tn.

## Yield Curve



Source: HNX, VBMA, ACBS

Primary bond yields remained almost the same during May 2022 compared with same period last year. In addition, after surging in April, bond yields in the secondary market during May increased slightly and stabilized compared to last month thanks to easing liquidity in banking system.

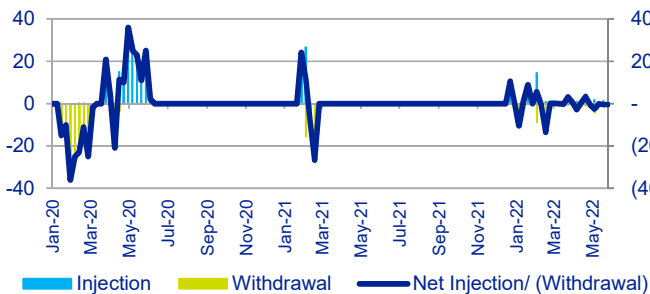
Bond Yields in the primary market										
					5Y	7Y	10Y	15Y	20Y	30Y
End of May 2022					0.76%	1.10%	2.34%	2.58%	2.75%	3.01%
+/- MoM (bps)					0	0	10	4	0	0
Bond Yields in the secondary market										
	1Y	2Y	3Y	4Y	5Y	7Y	10Y	15Y	20Y	30Y
End of May2022	1.94%	2.01%	2.07%	2.22%	2.37%	2.85%	3.13%	3.28%	3.35%	3.42%
+/- MoM (bps)	8	4	5	16	26	34	14	13	15	15

**ANALYST COMMENT:** In our opinion, the VST will need ramp up issuances in upcoming quarters of 2022 if the VST wants to fulfill their 2022's issuance plan. In addition, VST 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 but low offering rates from VST.

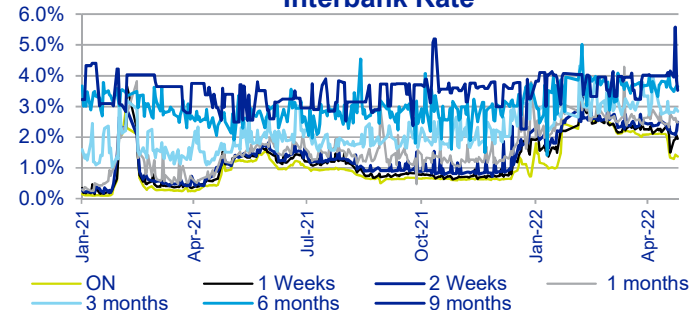
In the secondary market yields stabilized after surging in April driven by rising credit growth and pressure of rising interest rates globally. But we continue to hold expectation that yields in the secondary market could increase slightly in range of 0.5-1% in upcoming months of 2022 due to rising interest rate globally in conjunction with Quantitative Tightening plans for Federal Reserve's Balance Sheet which will executed starting in June 2022.

## MONEY MARKET

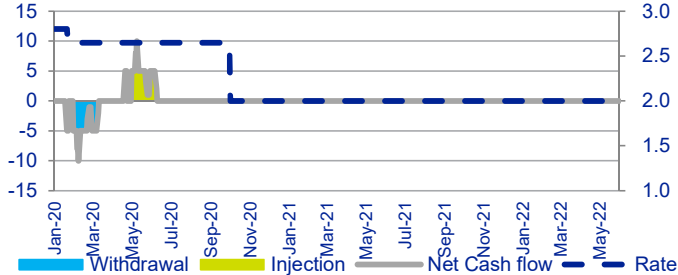
Trillion VND **Net Injection/ (Withdrawal) from OMO**



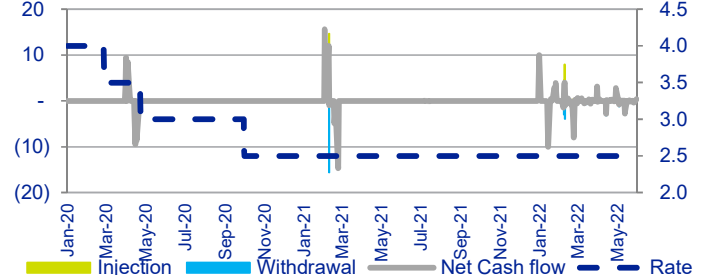
**Interbank Rate**



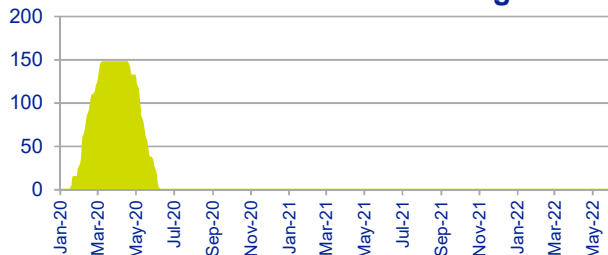
Trillion VND **T-bill- In and Out**



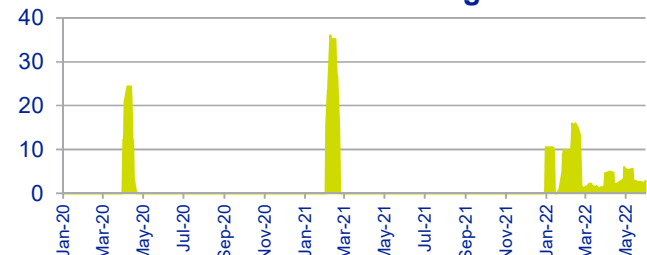
Trillion VND **OMO- In and Out**



Trillion VND **SBV Bills outstanding**



Trillion VND **OMO Outstanding**



Source: SBV, ACBS

Interbank interest rates continued decrease throughout May 2022 as liquidity of banking system stabilized and most banks have reached their credit growth quota & are waiting for SBV to approve new credit growth quota. In addition, during May, the SBV had also withdrawn over VND4.1tn out banking system using reverse Repo OMO.

**Interbank Rate**

	ON	1 Weeks	2 Weeks	1 months	3 months	6 months	9 months
Average of May 2022	1.42%	1.87%	2.19%	2.68%	2.98%	3.84%	4.04%
+/- MoM (bps)	-42	-24	-16	8	-3	11	-2
End of May 2022	0.33%	1.26%	1.72%	3.31%	3.26%	3.80%	3.87%
+/- beginning of	-104	-32	-31	59	29	-49	-7

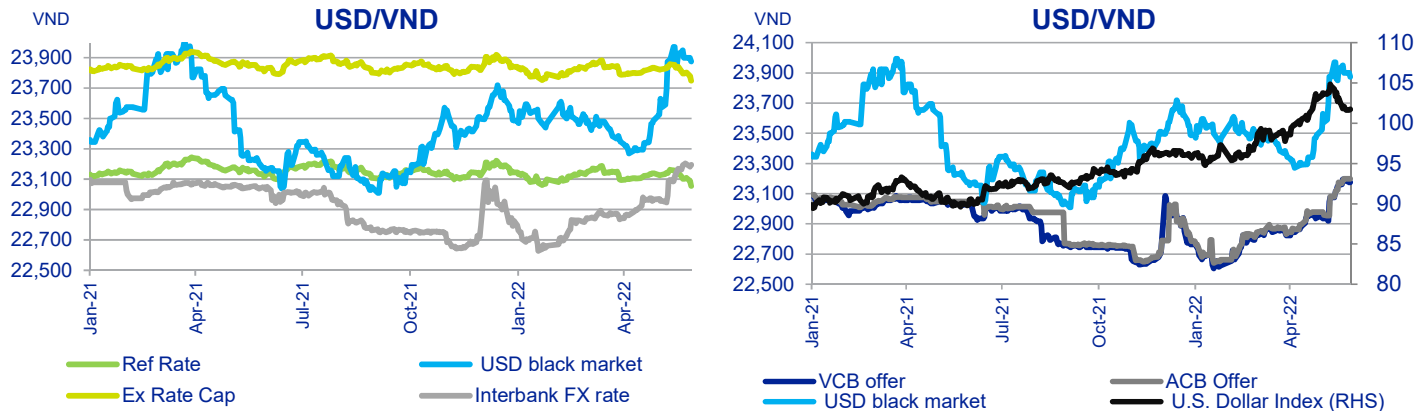
### ANALYST COMMENT:

We expect banking system liquidity will stabilize in 2Q2022 as the current liquidity is the banking system is abundant. However, we expect that interbank rates may increase and move in range 0.5-1% in upcoming months of 2022 due to (1) credit growth continued to surge (most banks have reached its credit growth quota approved at the beginning of 2022) as production and services business will continued to return to normal thanks to the Government's effective living-with-COVID-19 strategy against the COVID-19 pandemic; and (2) SBV will have to approved new credit growth quota for banks as late as the end of 2Q2022, which will intensify the liquidity issues in upcoming months to cover lost time due to waiting for credit growth quota's approval.



## OTHER MARKETS

### FOREX MARKET



Source: SBV, Bloomberg, ACBS

The USD/VND interbank exchange rate and USD/VND exchange rate in black market continued to depreciate in May 2022 compared with last months and same period last year. As the end of May 2022, USD/VND exchange rate of the market stood at VND23,195 (+0.99% MoM and +0.64% YoY). In addition, USD/VND exchange rate in black market also depreciated significantly to VND23,875 (+1.65 % MoM and +3.02% YoY).

#### ANALYST COMMENT:

Factors which will help VND in general (in banking system and in black market) reclaim its strength and stabilized in upcoming months of 2022, include:

- (1) Inflation remained low and under control below 4%;
- (2) Exports, which is the country's key economic growth driver, will remain strong as manufacturing activities gradually recovered and is expected to continue its upward trajectory given the recovery of the global economy. Vietnam emerged as a substitute manufacturing center to cover loss output causing by zero-COVID-19 strategy of China. In addition, our trading activities continued to be solid as total export-import turnover in 5M2022 reached USD305.1bn (+16.1% YoY);
- (3) FDI inflows disbursement remain stable in 5M2022 (+7.8% YoY); and
- (4) Abundant foreign reserves (stood at around USD113bn at the end of 2021).

However, potential risks which will continued to depreciate VND in the upcoming months of 2022 include:

- (1) The US FED and other major central banks such as ECB are planning to raise interest rate in other to combat with rising inflation. According to a Financial Times, a newspaper, central banks are raising rates rapidly in the most widespread tightening of monetary policy for more than two decades, with total more than 60 increases of various central banks in the past three months;
- (2) FED announce its Quantitative Tightening program in FOMC meeting in 4-5 May 2022, FED will begin allowing its Federal Reserve's securities holding to decline in June 2022 at an initial combined monthly pace of USD47.5bn (USD30bn per month for Treasury securities and USD17.5bn for agency debt and agency mortgage-backed securities) and stepping up over three months to USD95bn (USD30bn per month for Treasury securities and USD35bn for agency debt and agency mortgage-backed securities). With this plan, FED expected to reduce around USD400bn of its balance sheet by the end of 2022. In addition, ECB also plans to follow FED with its Quantitative Tightening program. Those events will affect VND strength in upcoming months;



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- (3) Registered FDI inflows decreased in 5M2022 (-23.3% YoY, vs +16.4% YoY in 5M2021). This may be a leading indicator of potential depreciation pressure on the foreign exchange rate in upcoming months, however, as actual disbursed capital remains in growth, this risk factor is minimal at the moment;
  - (4) China still continues to pursue zero-COVID-19 strategy and continued to lockdown several major cities due to COVID-19 outbreaks, included Shenzhen, Dongguan, Shanghai and Xi'an city; which could cause another major disrupt to global supply chains and further inflated shipping cost and in turn may impact our export and import activities and may put another depreciation pressure on foreign exchange rate in upcoming months.

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