



by **VCBS**  
Vietcombank Securities

# MACROECONOMIC RESEARCH FEBRUARY 2021

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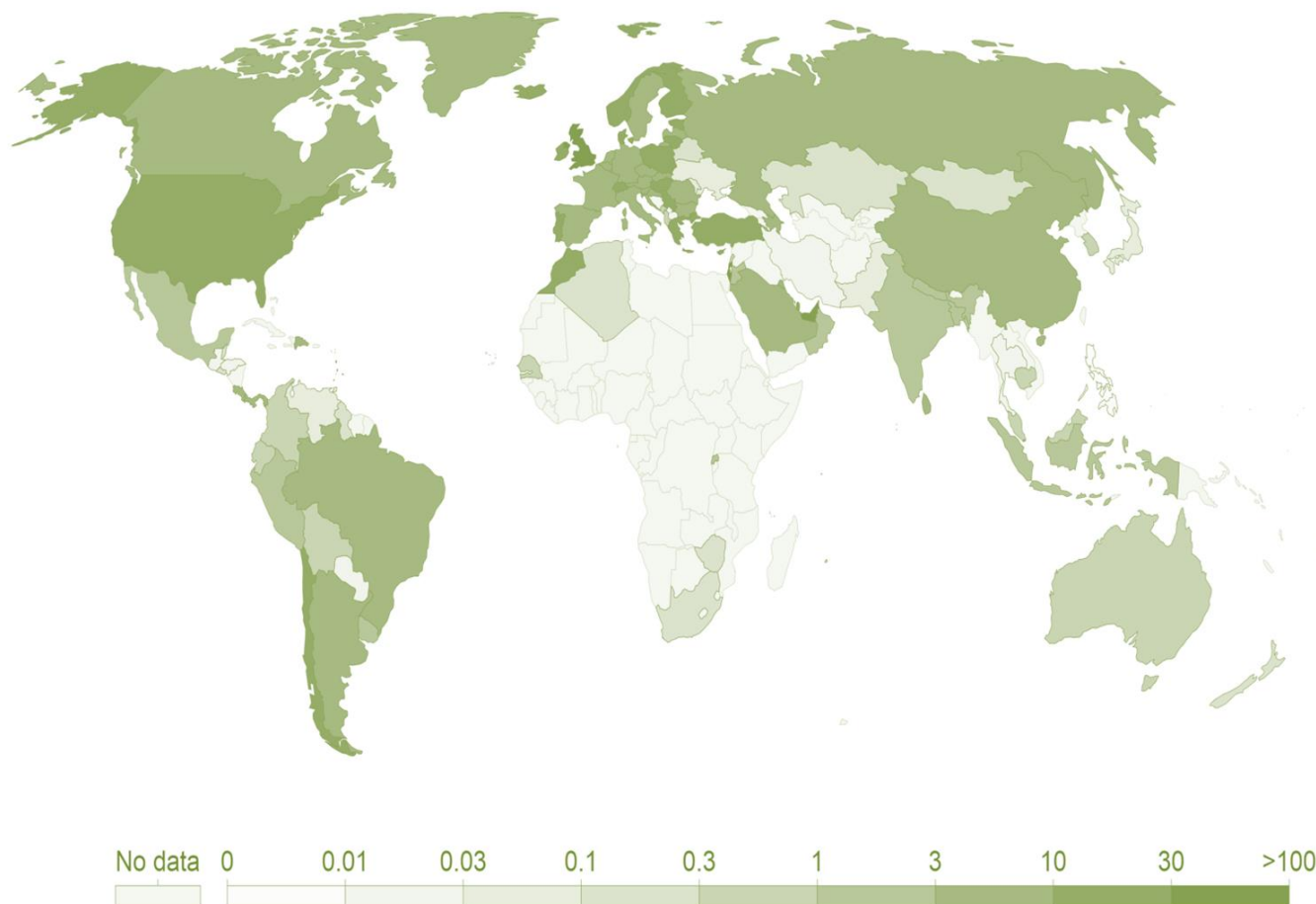
**5** INTEREST RATES

**6** BOND MARKET

- ❖ All focused on vaccination, Vietnam vaccinated some cases in the early days of March.
- ❖ Commitments around loosening measures of central central banks in the world have not changed.
- ❖ Production activities interrupted due to the Lunar New Year effect. However, production activities and import-export still recorded growth in the first 2 months of the year. VCBS forecasts that GDP growth in Q1 is forecasted at 5% - 5.5%.
- ❖ CPI in February 2021 increased by 1.52% mom, significantly higher than the market expectation. In our opinion, inflationary risk is not a concern for government regulators.
- ❖ Central rate was 23,130 VND/USD, insignificant change compared to the previous month. The source of foreign currency from the trade surplus or disbursement of FDI continued to be the highlight to support the movement in this period. Accordingly, VCBS remained its forecast in 2021: exchange rate would fluctuate in the range of  $\pm 0.5\%$ .
- ❖ The deposit rates stayed at a low levels while the lending rates show signs of reducing trend due to supporting program. In our opinion, SBV will operate in a proactive, flexible direction and maintain abundant liquidity. VCBS assesses there is still room for deposit rates and lending rates to decrease further.
- ❖ Bond market: In the short term, upward force may dominate bond yields due to the effect of US government bonds. In the long-term, the main trend is still declining trend. Liquidity in the interbank market is abundant.

# WORLDWIDE SPOTLIGHT - VACCINE

## Number of vaccinations per 100 people in countries around the world



	Number of COVID-19 vaccinations administered per 100 people	Total COVID-19 vaccinations administered (million)
Israel	96.6	8.7
UAE	64.2	6.3
UK	34.9	23.3
Bahrain	31.1	0.5
Maidives	27.5	0.2
US	27.3	89.6

- ✔ All focused on vaccinations administered. In many countries, the positive signals begin to show as the Covid-19 pandemic under control thanks to lockdown and a portion of the population has been vaccinated.
- ✔ After a year of research, the vaccine is now in use over the world. In particular, Israel is the country with over half of the population injected at least one dose of the vaccine.
- ✔ Accordingly, vaccination is gradually considered as an urgent requirement to ensure a solid economic recovery.
- ✔ Vietnam also vaccinated employees in the early days of March.

Source: Official data collated by Our World in Data – Last updated 8 March, 11:30 (London time)

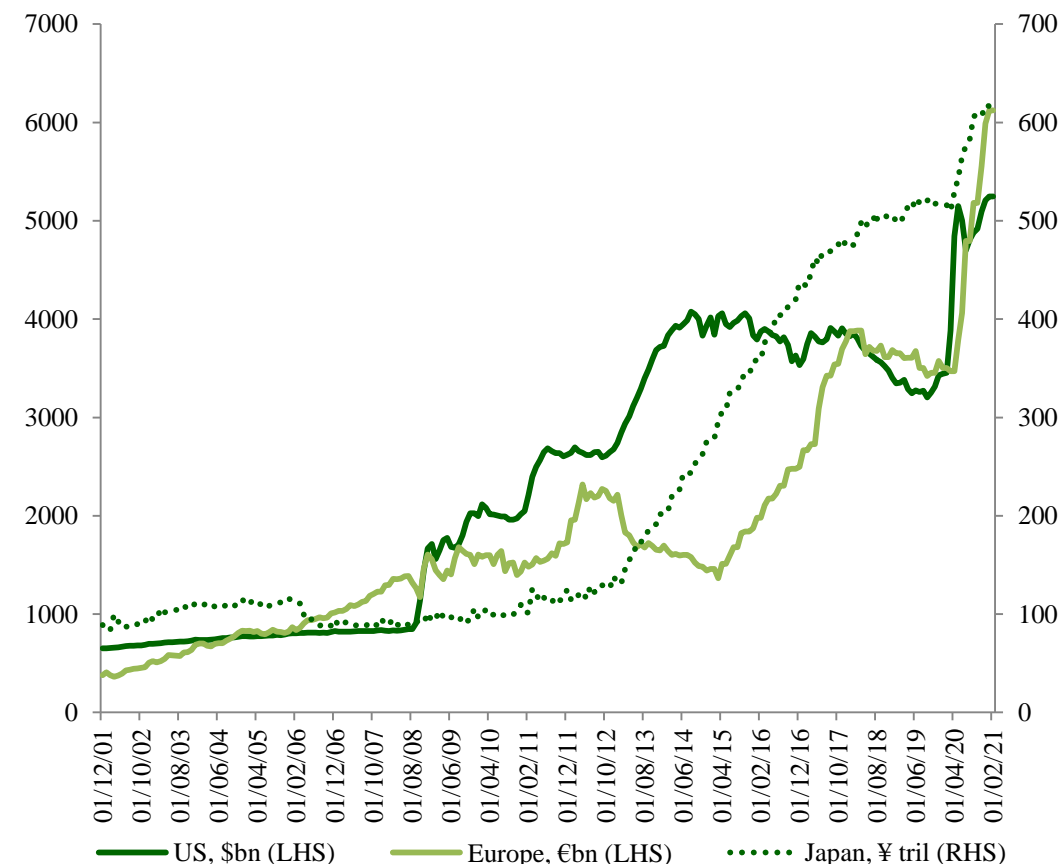
Despite recent doubts about the possibility of raising interest rates, the loosening monetary policy is forecast to maintain for a long time:

- Fed may keep interest rates at low levels until a sign of recovery in labor is reached.
- Although ECB does not change interest rates and asset purchase program, it is committed to speeding up in the coming months.

Table. Adjusted kye rates over the world

	May 20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	LS
US											0,25
EU											-0,5
Japan											-0,1
China											2,95
India	↓ 0,40										4
Indonesia		↓ 0,25	↓ 0,25				↓ 0,25			↓ 0,25	3,5
Korea	↓ 0,25										0,5
Malaysia	↓ 0,50		↓ 0,25								1,75
Philippines		↓ 0,50					↓ 0,25				2
Thailan	↓ 0,25										0,5
Vietnam	↓ 0,50			↓ 0,50							4

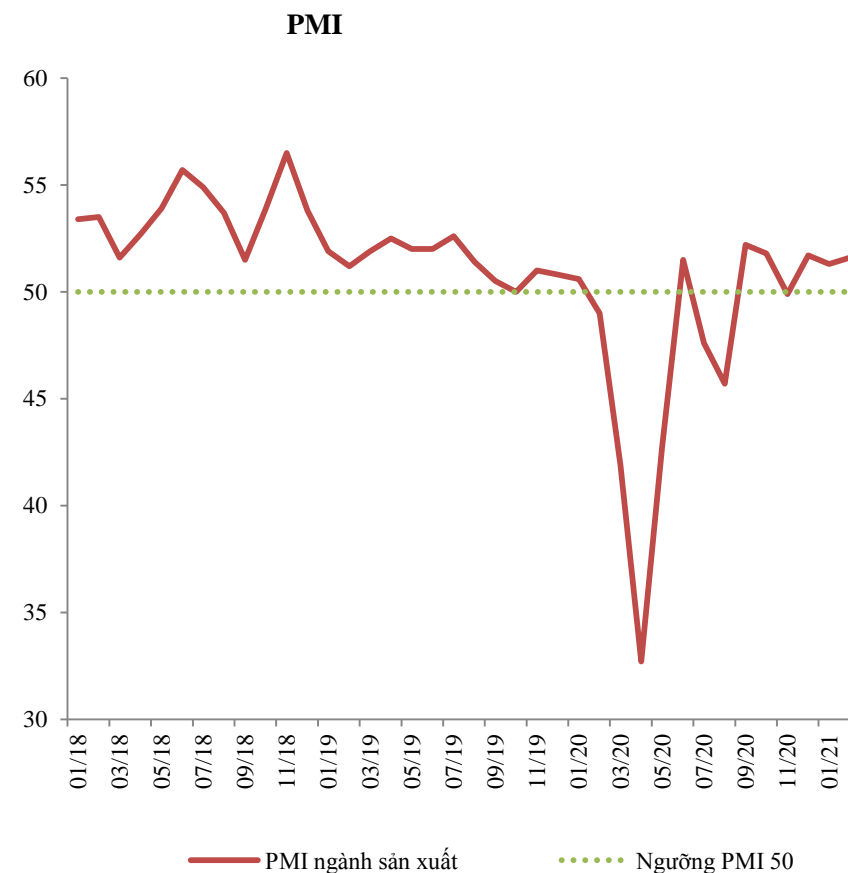
## Monetary base in some countries



Nguồn: Bloomberg, ABO, VCBS tổng hợp

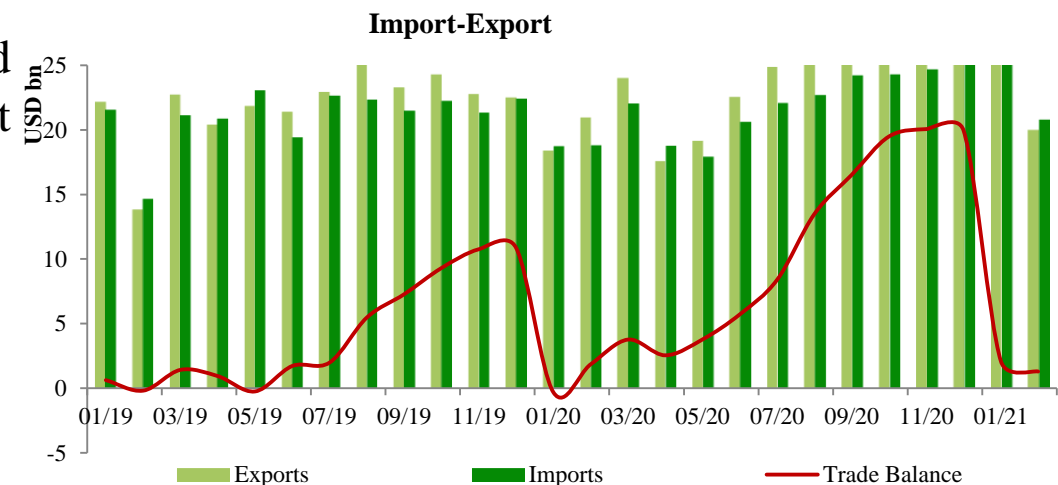
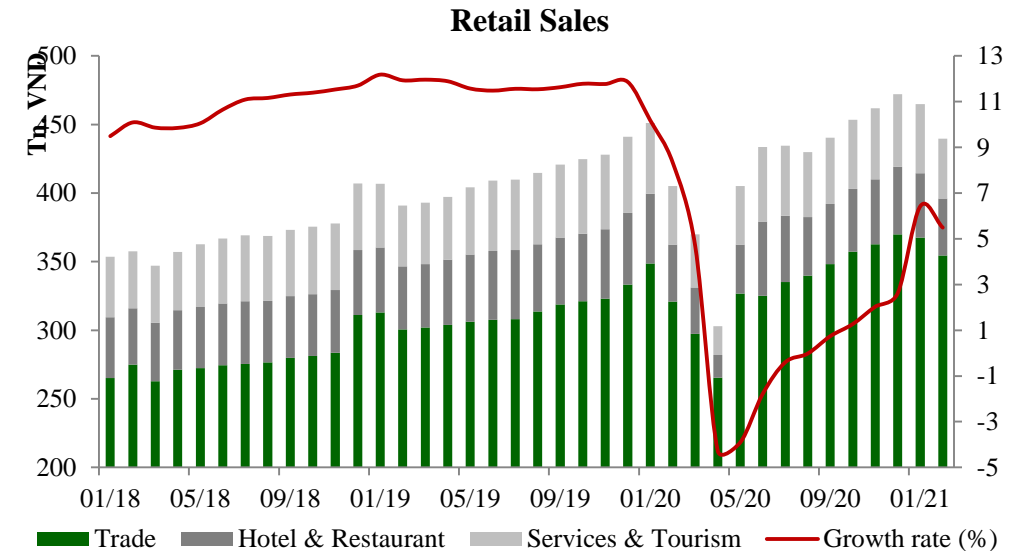
## MANUFACTURING ACTIVITIES DISRUPTED DUE TO COVID-19 PANDEMIC

- ❖ IIP in February is estimated to increase by 3.6% mom and 5.4% yoy. IIP in the first 2 months of the year reached a growth rate of 7.4% - higher than the 7.1% of the same period last year.
- ❖ According to IHS Markitch data, PMI in February increased slightly to 51.6 points, marking the expansion of the manufacturing industry for the third consecutive month. The most positive point in this month is that labor demand rebounded for the first time after January, before the first outbreak.
- ❖ We expect production will regain growth when the pandemic is gradually under control in March and the following months.



## CONSUMER DEMAND AND EXPORT – IMPORT

- Total retail sales of consumer goods and services in 2M.2021 were estimated at VND 904.5 trillion (+5.49% yoy). If excluding the price factor, it would increase by 5.52% (2020: +5.4% yoy). Although affected by the pandemic, the growth of retail sales year-on-year is a positive factor.
- Total export and import in 2M.2021 was estimated at \$95.81 billion (+24.5% yoy). Exports reached \$48.55 billion (+23.2% yoy); import reached \$47.26 billion (+25.9% yoy). Trade balance in the first 2 months of the year was estimated to have a trade surplus of \$1.29 billion.
- February was the month when the COVID-19 pandemic spread again in 13 provinces and cities. Along with that, it is the difficult for import-export businesses when the freight fee increases.





## GDP GROWTH IN Q1.2021 IS FORECAST TO VARY FROM 5.0% - 5.5%



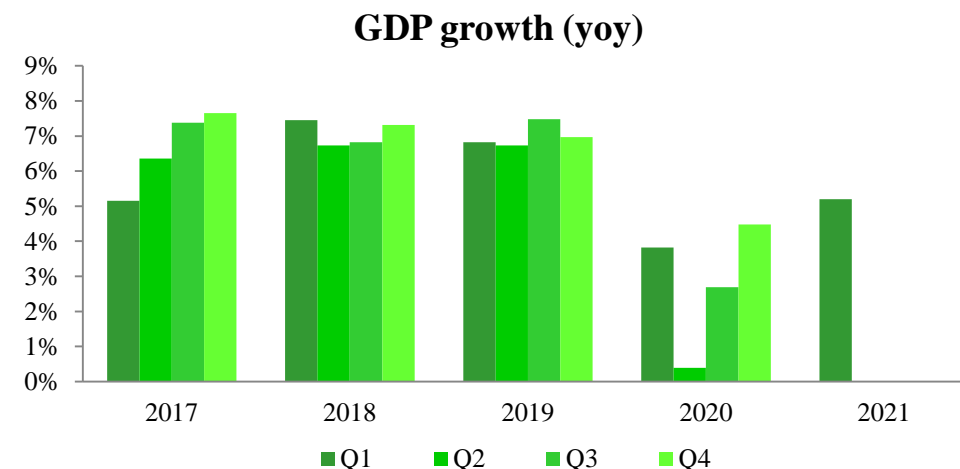
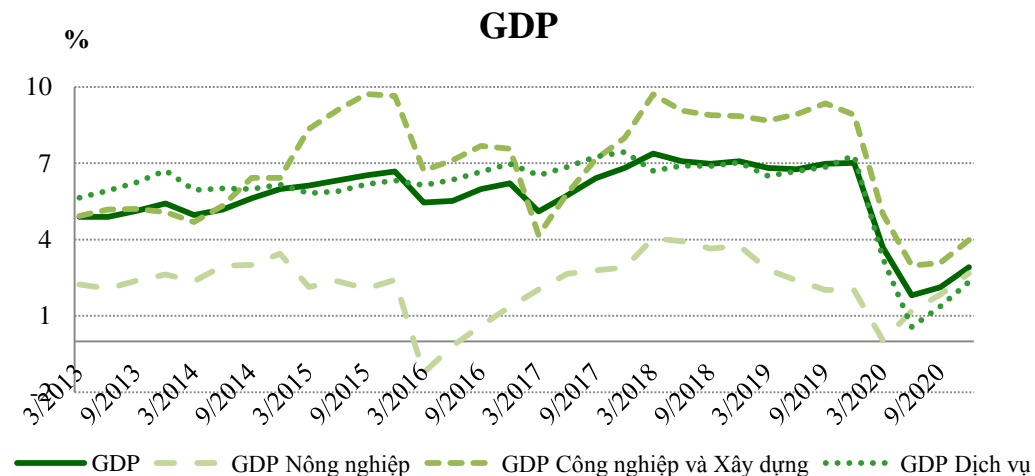
✓ The dual goal continues to be priority to ensure a sustainable recovery in the long term

✓ Import and export activities continued to grow strongly, despite rising transportation fees.

✓ Consumer demand is forecast to recover and grow over the same period.

✓ Strengthen the role of public investment to promote private investment:

- The North-South-East Expressway project has started construction or is scheduled to start in 2021 after selecting a contractor.
- Public investment disbursement in 2M.2021 decreased compared to the same period, but increased sharply for investment in infrastructure.
- Projects related to logistics services as well as investment in the high-tech industry.
- The capital inflow showed an impact on industries such as Industrial real estate, Energy, ...





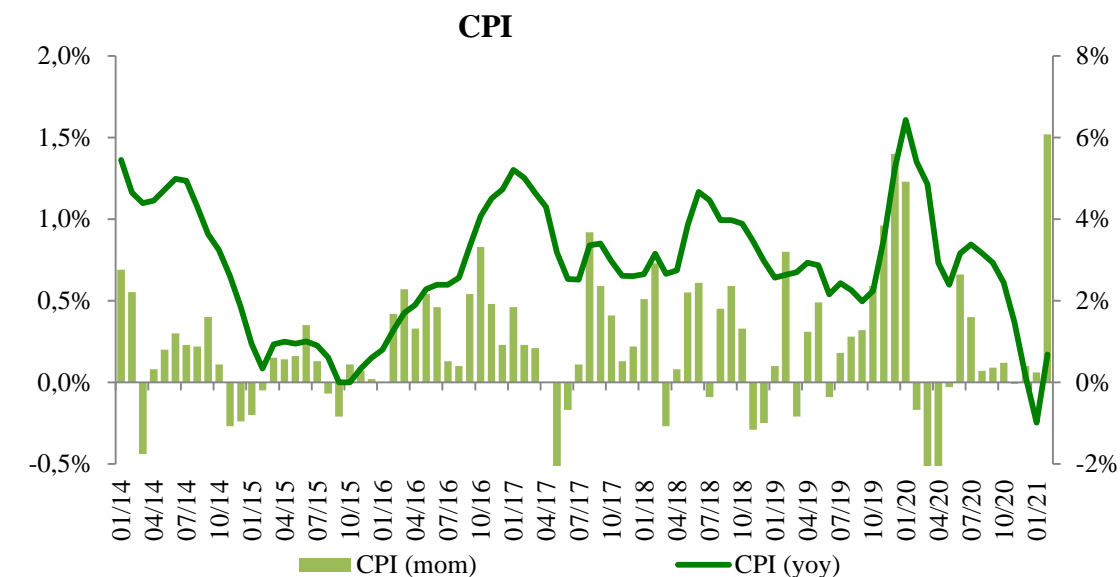
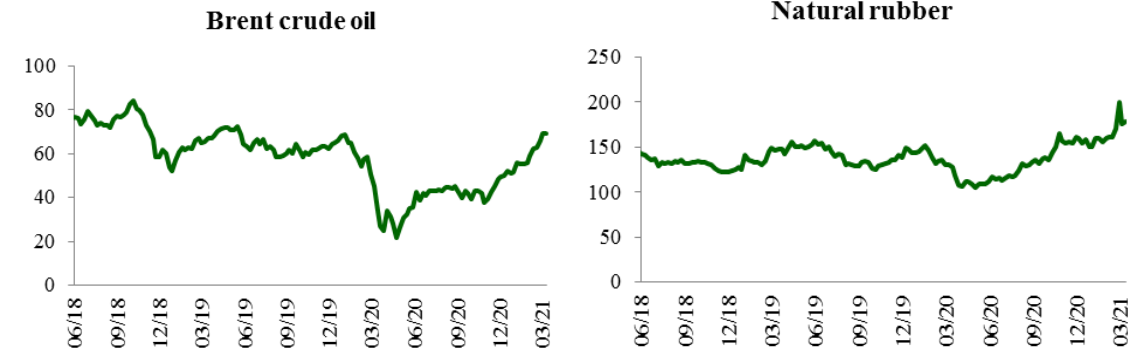
# THERE IS EXPECTATION ABOVE HIGHER INFLATION

- ❖ The consumer price index in February 2021 increased by 1.52% mom, significantly higher than the market's expectation.
- ❖ The commodity prices surged on the worldwide market. We observed many similarities in this period and commodities boom in the 2000s. Specifically:

Criteria	2000s	2020s
<b>Low interest rates and the depreciation of USD.</b>	Low interest rate result in higher aggregate demand and consequently boost the commodities price.	FED's loosen monetary policy in accordance with unprecedented stimulus packages to deal with the pandemic resulted in a significant depreciation of the greenback against other strong currencies.
<b>Correlation commodities price and its substitute product or strongly impacted by crude oil price.</b>	Crude oil does not move alone. Instead, it shows a strong impact on other commodities. In addition, oil price is also a key input to production.	These days along with an increase in oil price, we observe a higher price for plastic, metals or other basic materials such as coal, iron ore, etc.
<b>Trend for clean energy.</b>	Biofuels shows up result in higher crop production for some specific plant. This result in higher demand for soil or water. Consequently, a higher food price is recorded in this period.	The elected US president is favor renewable energy. Hence, there is concern that there will be a shortage in investment made on Oil & gas sector and result in an upward force on crude oil price.
<b>Higher demand for basic materials in the procedure of economic development.</b>	These days, there is a phenomenal demand for materials from third-world countries to build up the economy.	Some economies manage to recover from the pandemic notably China. Hence, experts project that demand for commodities shall pick up.
<b>Price inelastic from supply perspective.</b>	A huge change in price does not trigger a change in supply for the same level.	For eg: change in supply of crude oil these days strongly depends on OPEC+ talk (meeting on 04 Mar).
<b>Commodities play a role as investment assets.</b>	That period, the OI related to commodities derivatives grew phenomenally.	After investment assets taking turn to surge, commodities are considered as potential investments

# INFLATION SHALL NOT A CONSIDERABLE RISK

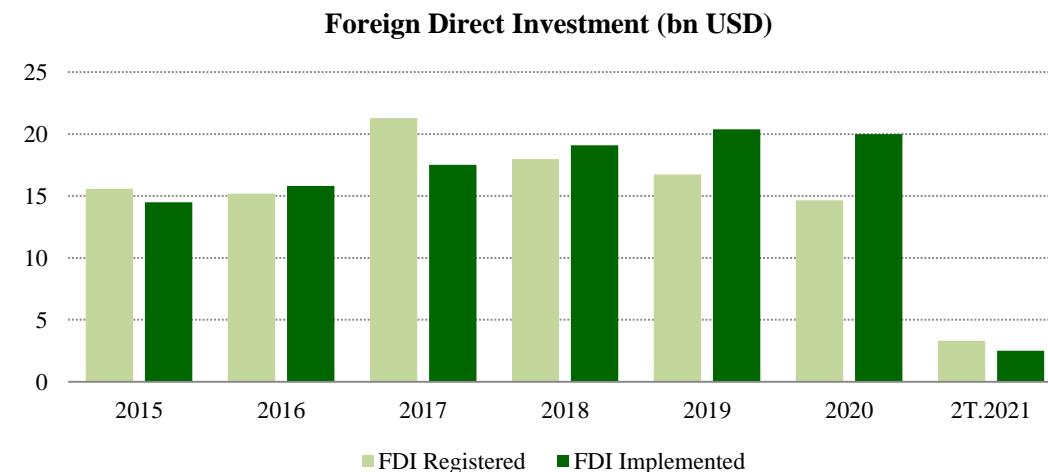
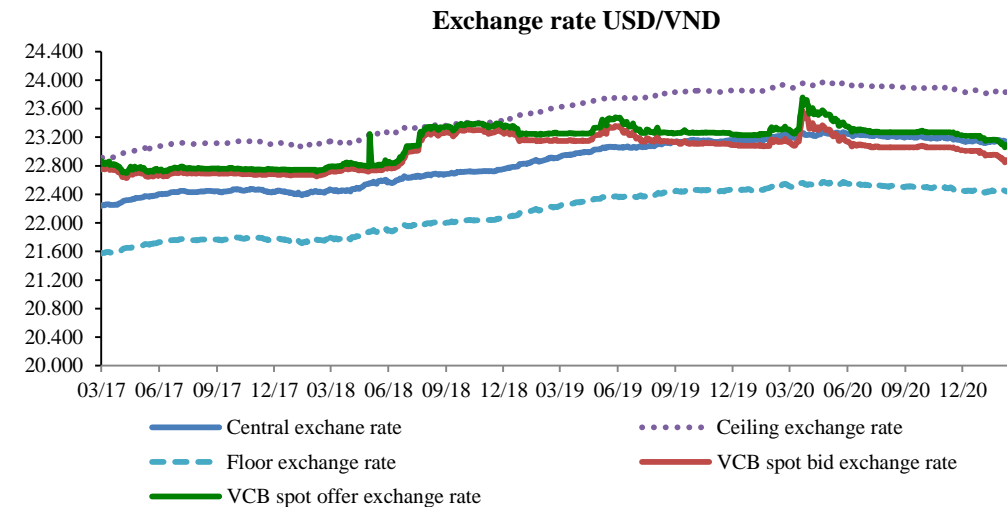
- ▼ Although, we observe some similarities with the commodities boom in the 2000s. We do not think that the inflation risk will put the market in jeopardy due to some supporting ideas:
  - The signal from labor market is not good enough. Consequently, Fed still commit to stick to a low level of interest threshold. It indicates that expected inflation may be overestimated..
  - In addition, in this period due to the pandemic, there is a rapid money creation, derived from unprecedented stimulus policies. They create a surge in asset prices instead of a higher in consumption demand.
  
- ▼ Compared to the same period last year, CPI only increased by 0.7% - the lowest since 2016 up to now. Accordingly, on average, in the first 2 months of 2021, CPI decreased by 0.14% over the same period last year, core inflation increased by 0.64%, still quite far from the direction of inflation figure. .
  
- ▼ Government still has some tools to achieve the inflation target:
  - No increase in national minimum wage in 2021.
  - Government releases document about public services price in 2021.
  - Consumer demands shall not rise exponentially
  
- ▼ To sum up, VCBS projects that CPI in Mar shall increase 0.4%-0.5%, which equal to a gain of 1.88% yoy mainly due to higher commodities price.



## EXCHANGE RATES TICKED DOWN FRACTIONALLY IN FEB

- Center rate at the end of the month was traded at 23,130, decrease 30 VND compared to the previous month. At the same time, the exchange rate at commercial banks decreased by 40 VND to 22,920 VND / USD at the end of the month.
- The SBV adjusted the trading currencies plan of commercial banks. In detail, the transaction method is still a 6-month tenor, the purchase price is 23,125 VND and changes the frequency to once a week on Wednesday. VCBS evaluates that this adjustment does not affect the nature of the transactions but minimize paper procedures. Note that in the worldwide market, many liquidity tools providing are also on weekly basis notably ECB's main refinancing operations (MRO).
- FDI disbursement in 2M.2021 is estimated at USD 2.5 bn, (+2% yoy), indicates that foreign investment inflows continue to seek for countries with macroeconomic stability and have the disease contained well.
- Tracking factor: (1) foreign inflows. (2) relative strength of the greenback: higher US bond yields may results in capital flows back to this first-world country and consequently create an expectation for the appreciation of US dollar.

→Accordingly, VCBS maintains its forecast that in 2021 the exchange rate will fluctuate in the range of  $\pm 0.5\%$ .



Source: CEIC, VCBS Research

## THERE IS STILL ROOM FOR INTEREST RATE TO TICK DOWN MORE.

### Updates

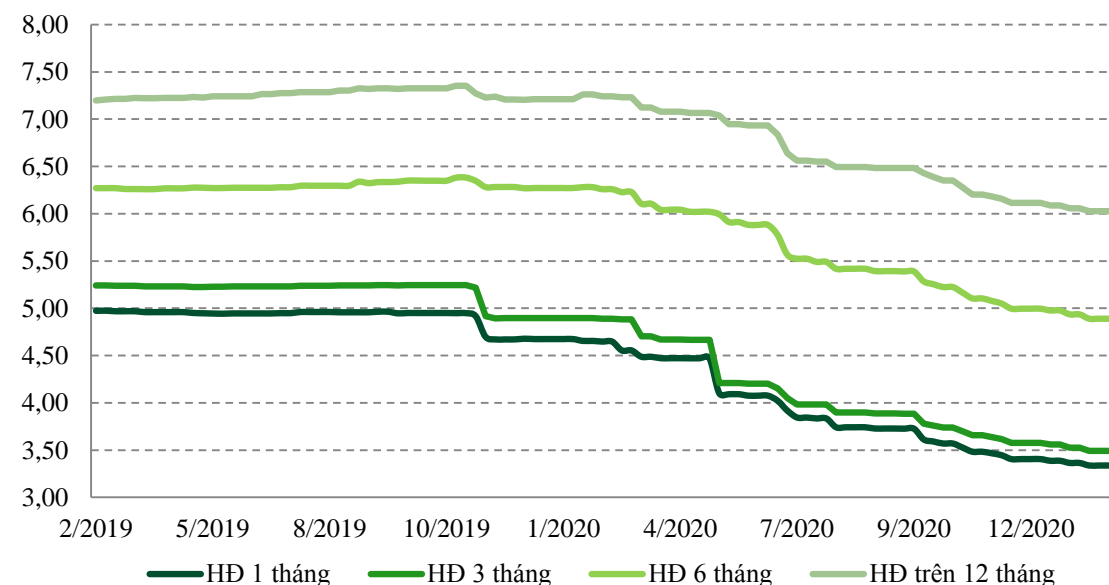
- From the beginning of the year, deposit rates decrease 10 basis points.
- Last month, many commercial banks apply supporting packages on lending rates so as to help firms to overcome the pandemic.

### Forecast

- Tracking factor: deposit rates remained in downward trend and then settle at a low level. The upward pressure on deposits rates if any shall last in the short-run and at a short-tenor. The supporting idea is that this is a period that banks have to get along with new SBV policies on purchasing foreign currencies, when they have to manage their available resource neatly.
- We observe that in the worldwide market, the priority is still vaccination for the whole population so as to regain the normal status quo of the economy. Hence, we believe that the loosen monetary policy will not come to an end at least in 2022.

→ To sum up, regarding regulative policies, we expect the State Bank will keep operating in a proactive, flexible direction and maintain abundant system liquidity. The lending interest rate level will have room to decrease further in the context of the deposit interest rate has decreased significantly in the last one year. VCBS believes that at the present time there is still room to decrease with both deposit and lending rates

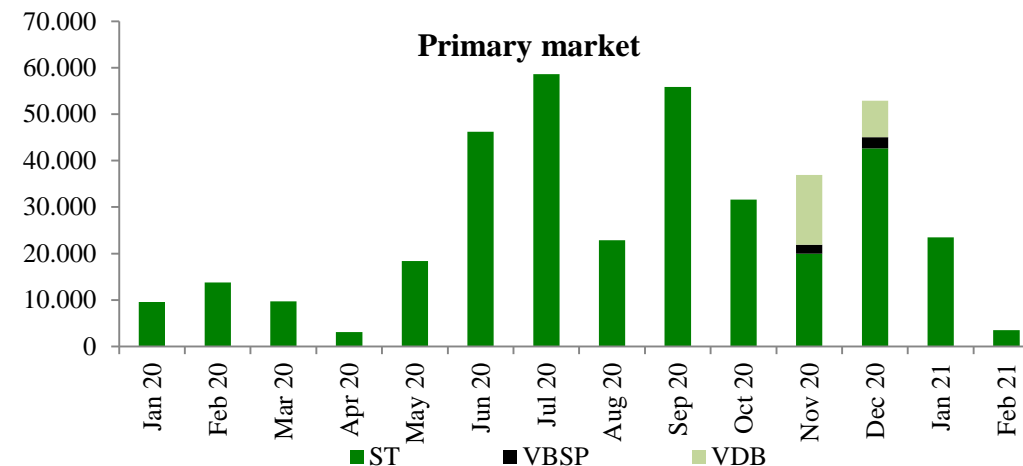
Average level of deposit rates (Units: %)



Source: Commercial banks, VCBS Research

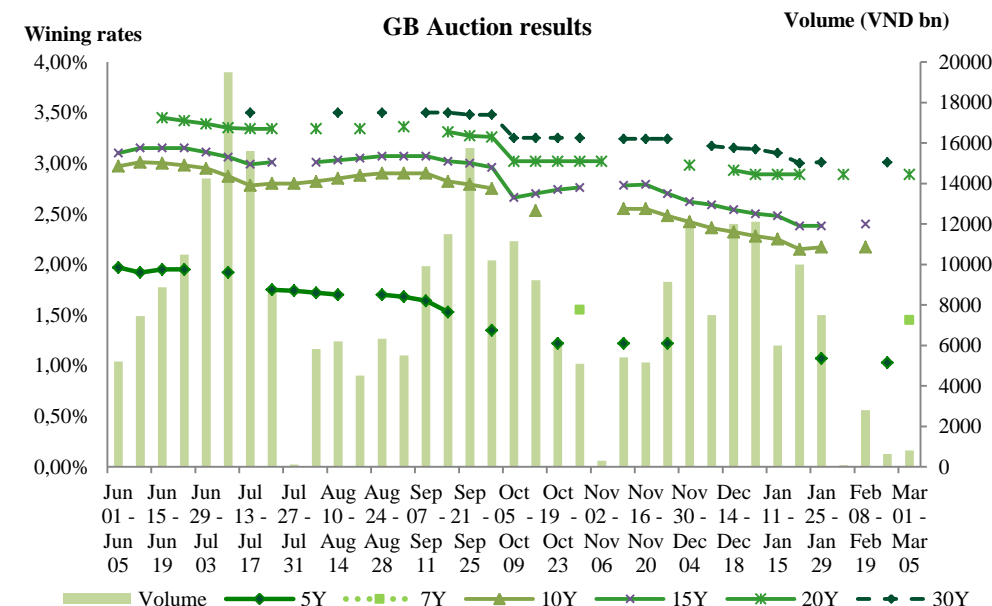
## Primary market was inactive.

- ✓ VND 3,515 bn (-85.0% mom, -73.4% yoy) was mobilized in Feb from ST.
- ✓ Winning rates did not change much; In detail, winning rates for 5Y, 10Y, 15Y, 20Y and 30Y tenor winning rates posted at 1.07% (-04 bps mom), 2.17% (0 bps mom, -62 bps yoy), 2.38% (+02 bps mom, -48 bps yoy), 2.89% (0 bps mom, -20 bps yoy), 3.01% (0 bps mom, -54 bps yoy).



## State Treasury issuance plan 2021

Tenor	Plan Q1.2021	Plan 2021	Issued in M2.2021	Issued in 2M.2021	% complete Q1.2021	% complete 2021
5Y	5,000	20,000	500	1,800	36.0%	9.0%
7Y	5,000	15,000	0	0	0.0%	0.0%
10Y	35,000	120,000	1,500	10,350	29.6%	29.6%
15Y	35,000	135,000	1,300	9,581	27.4%	7.1%
20Y	10,000	30,000	80	2,080	20.8%	7.0%
30Y	10,000	30,000	135	3,200	32.0%	10.7%
<b>Total</b>	<b>100,000</b>	<b>350,000</b>	<b>23,496</b>	<b>27,011</b>	<b>27.0%</b>	<b>7.7%</b>

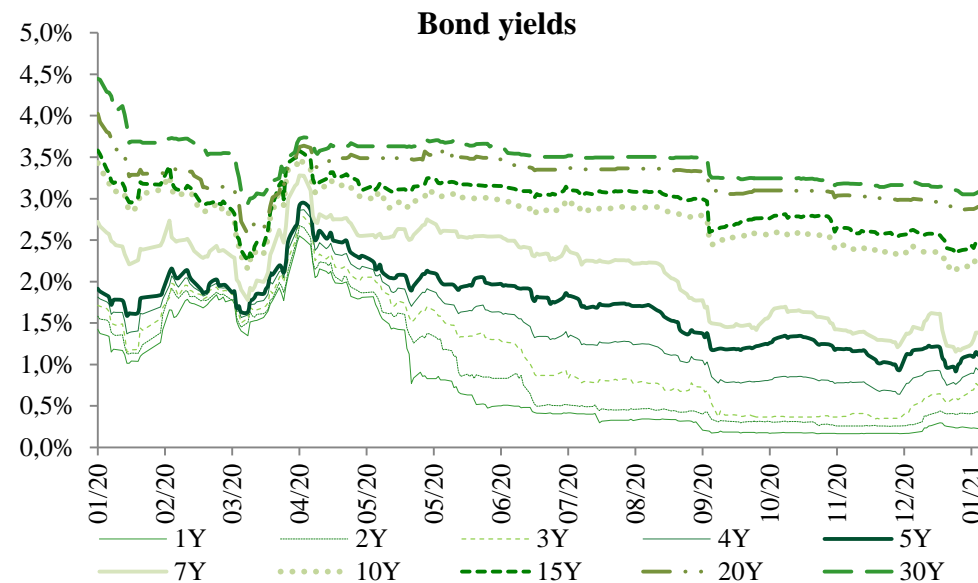
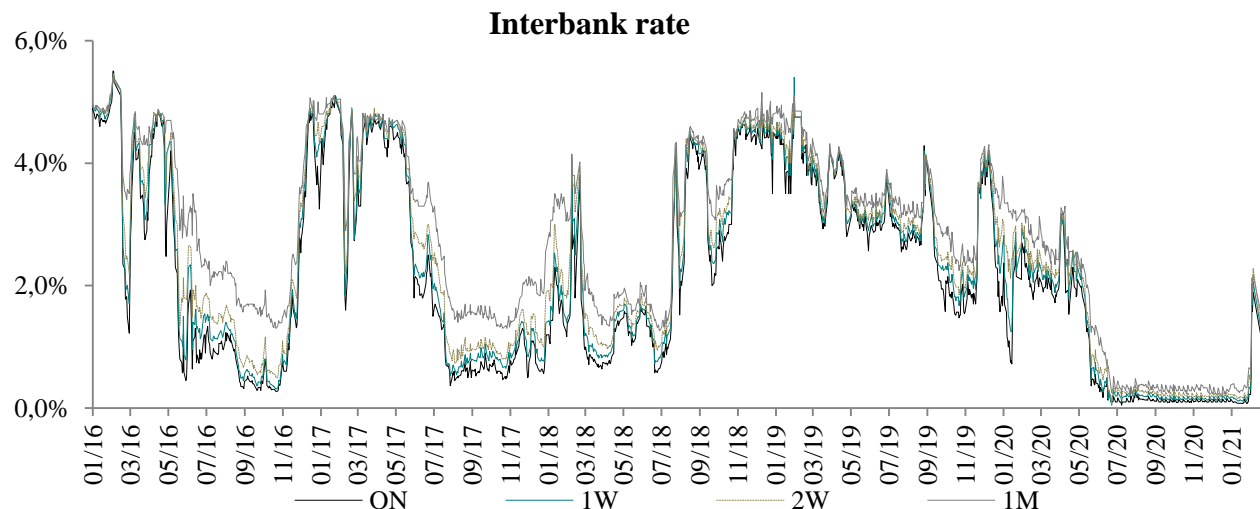


## TRADING VOLUME DECREASED THIS MONTH.

- ▼ VND 172,949 bn (-43.0% mom, -16.4% yoy) was traded on the secondary market. Outright and repo trading volume reached VND 106,474 bn (-47.3% mom) and VND 66,475 bn (-34.4% mom), respectively. Thus, the average trading volume per session reached 11,529 bn VND (-24.0% mom).
- ▼ Bond yields fluctuated in a tight band. According to VBMA's statistics, bond yields for 1Y, 2Y, 3Y, 4Y, 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenors ended February at 0.227% (+4.1 bps mom), 0.427% (+11.2 bps mom), 0.747% (-6.7 bps mom), 0.932% (-4,9 bps mom), 1.116% (-3 bps mom), 1.386% (+9.1 bps mom), 2.293% (+6.6 bps mom), 2.491% (+7,1 bps mom), 2.9% (4.2 bps mom), 3.079% (-11.7 bps mom), respectively

### Comentary on March: more detail at [Fixed income report Feb.2021](#)

- Short-term: bond yields suffer an upward force, derive from expectation regarding inflation and US bond yields' movement.
- Long-term trend of bond yield: still downward.
- Abundant liquidity in bnking system. Interbank rate shall remain at a low threshold.





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