



by **VCBS**
Vietcombank Securities

MACROECONOMIC RESEARCH JULY 2021

CONTENTS

1 WORLDWIDE MOVEMENT

2 ECONOMIC GROWTH

3 INFLATION

4 EXCHANGE RATES

5 INTEREST RATES

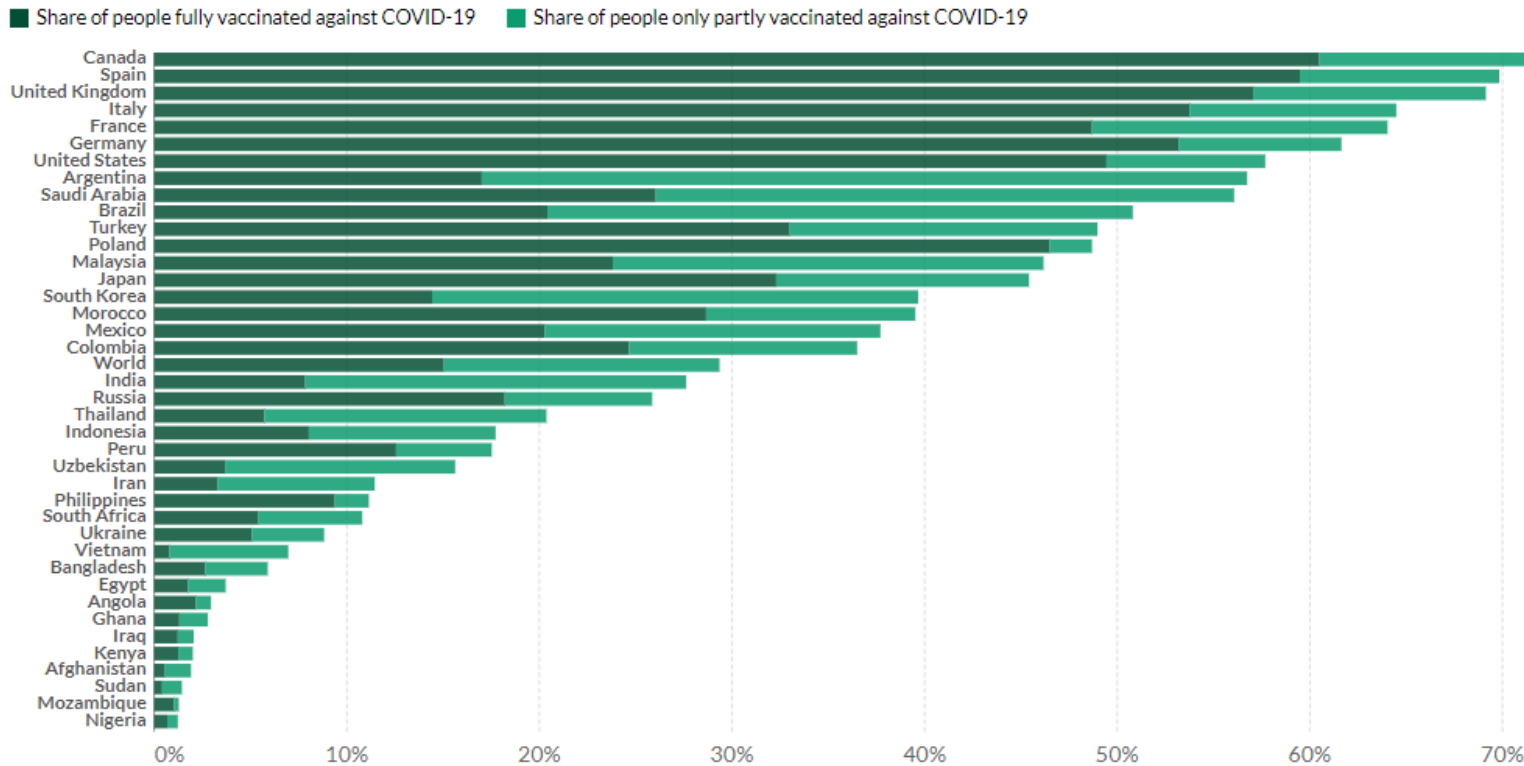
6 BOND MARKET

- ❖ The Delta variant and others seriously threaten the ability to return lives and economies to pre-pandemic states.
- ❖ The upward trend of commodity prices tends to halt in some commodities. However, the uptrend still dominates.
- ❖ Loose monetary policy in the world will still be maintained at least until 2022. At this point, these central banks have yet to state forward guidance for monetary policy changes, which results from concerns on rising inflation.
- ❖ In comparison with other countries in the region, Vietnam still achieve an above average performance in containing the pandemic and supporting economic activities. VCBS forecasts that Q3 growth will reach about 2.81%-3.63% over the same period, continuing to be a low growth rate compared to the same period in the third quarter of previous years. This figure corresponds to a 9-month growth rate of about 5.67%-5.71%. GDP growth for the whole year 2021 shall be around 6-6.3%.
- ❖ CPI in July increased by 0.62% mom, up 2.9% yoy, and increased by 2.25% compared to December 2020. VCBS forecasts that CPI in August may increase by 0.3%-0.4%, corresponding to an increase of 2.87%-2.97% yoy.
- ❖ After bilateral negotiation with the US works, SBV promptly reacts to exchange rates as well as the foreign exchange. VCBS forecast that the VND shall appreciate against the greenbacks this year. The fluctuation band shall be less than 2%..
- ❖ The deposit interest rate is stable while many commercial banks have announced package to reduce lending interest rates to support businesses during the pandemic. Accordingly, VCBS maintains the view that low interest rates will continue to be maintained at low levels to support businesses to overcome difficulties.
- ❖ In August, interbank liquidity is forecasted to improve with a slight decrease in interbank interest rates. Meanwhile, government bond yields still have room to fall, but downward force shall not strong.

DELTA VARIANT- PREVENT LIVES FROM BEING NORMAL AGAIN

DELTA VARIANT IGNITE A NEW INFECTIOUS WAVES , ESPECIALLY IN THE UNVACCINATED GROUP

Share of population vaccinated 04/08/2021



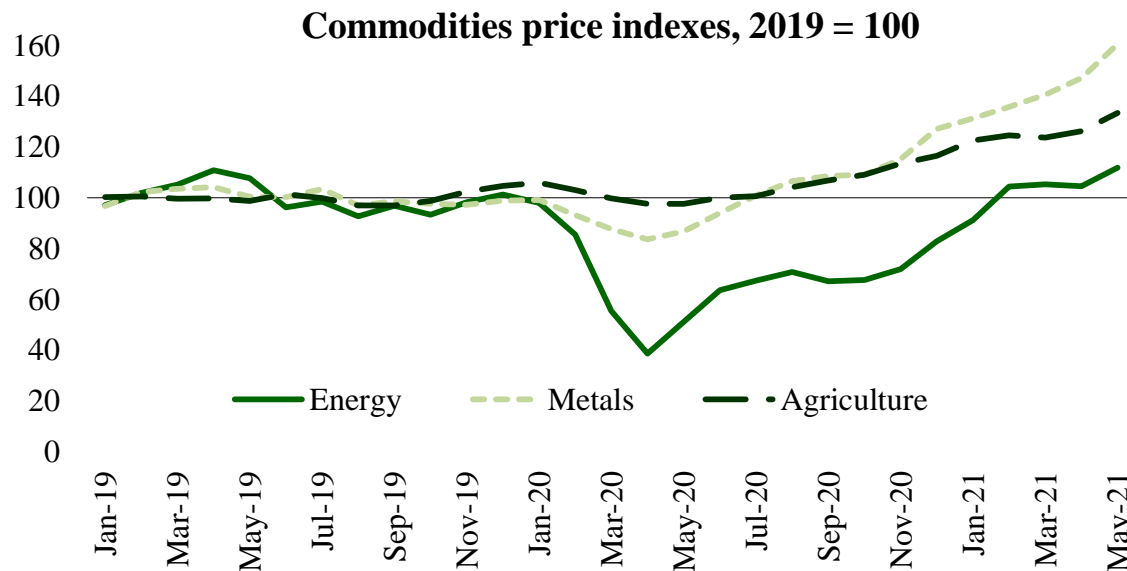
Nguồn: Ourworldindata

- According to the CDC US, the Delta variant is as contagious as smallpox. It currently accounts for 80% of new cases in the US and the majority of infections are recorded in the unvaccinated group.
- Many countries around the world, consequently delayed their reopening plans and extended the stay-at-home order. Accordingly, the ability to bring the economy back to the pre-epidemic normal level becomes even more challenging.
- According to the latest information, Vietnam has imported about 18 million doses of vaccines and is launching the largest vaccination campaign in history. Vaccine diplomacy continues to work.

Phenomena and assumption post-pandemic period.

- ▼ New variants show up prevent lives from returning to post-pandemic period.
- ▼ Transitory shortages have occurred amid shifting spending patterns .
- ▼ Upward trend in commodities prices still dominates in 2022.
- ▼ Inflation ticked up significantly in some countries in 2021.

=> In general, we believe that the financial market still benefit from these factors.



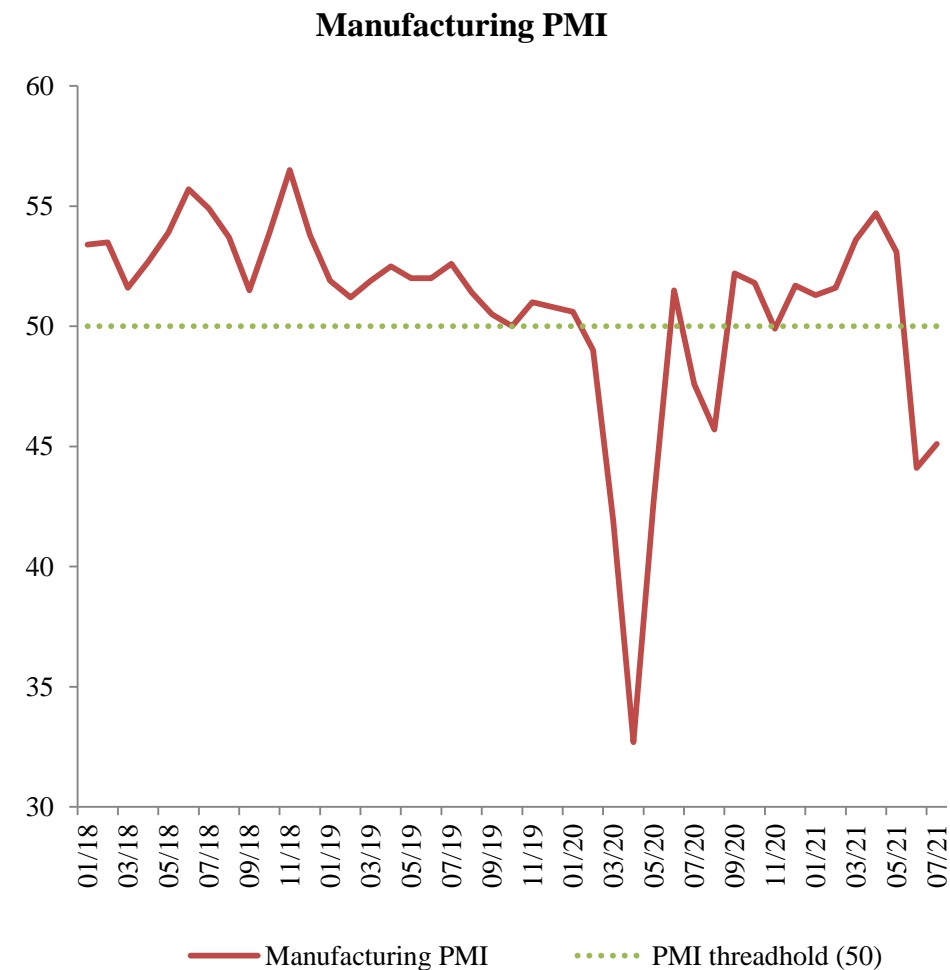
Source: WB, Bloomberg, VCBS Research

Outlook: Economic prospects have diverged further across countries and appeared to extend through 2022.

- ▼ The 2021 global forecast is unchanged in latest report from IMF, settled at 6%. Prospects for emerging market and developing economies have been marked down for 2021, especially for Emerging Asia. By contrast, the forecast for advanced economies is revised up. The divergence shall **extend through 2022**.
- ▼ The Fed and the ECB show consensus view not to raise interest rates and continue to conduct asset repurchase programs. However, at some other central banks, there has been discussion about the timing of neutralizing monetary easing policies. Meanwhile, fiscal policies are still seen as the key to help the economy recover.
- ▼ According to VCBS, it is hard to neutral the loosening monetary policies as method used is unconventional loose monetary policy.
- ▼ In case the central banks begin to neutralize the loosened monetary policy, (1) this is a positive signal when the world economy gradually recovers, minimizing the risk of global economic crisis. (2) Note that, the negative impact on Vietnam is faint and weak as it is indirect effect.

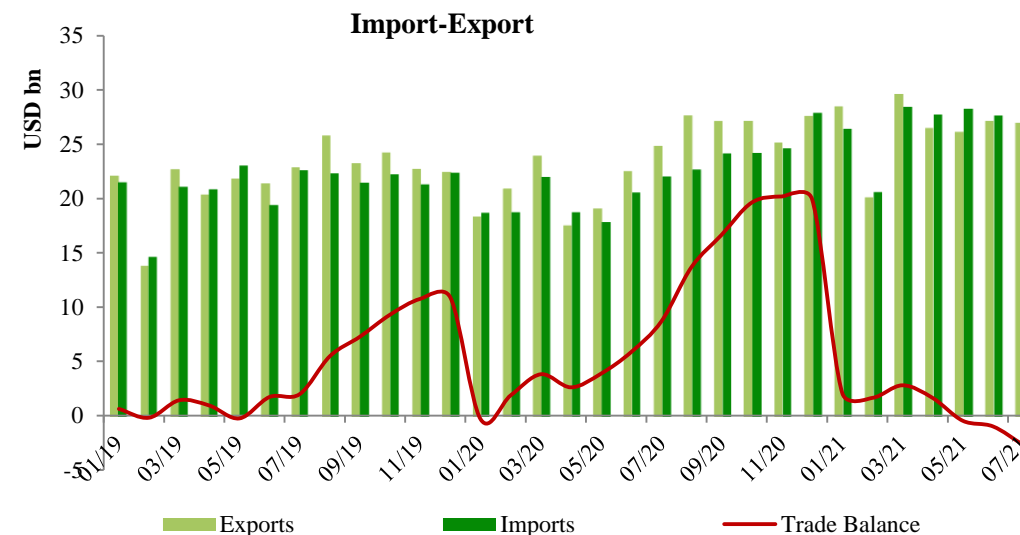
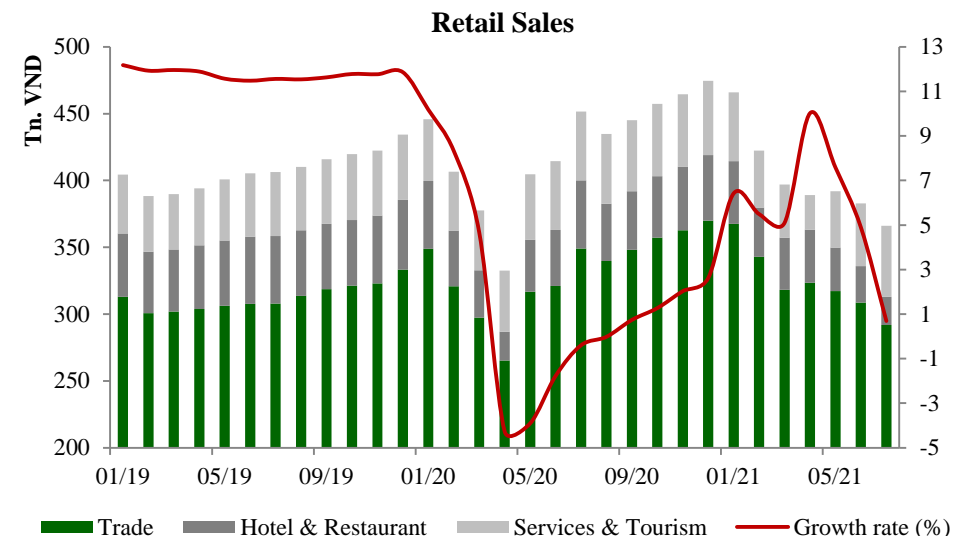
MANUFACTURING ACTIVITY IS HIT SEVERELY IN Q3.2021

- Industrial production index (IIP) Industrial production index in July 2021 only increased by 1.8% compared to the previous month. In general, for the first seven months of 2021, the industrial production index increased by 7.9% compared to the first seven months of 2020.
- According to IHS Markit data, output growth is starting to take a hit from the latest Covid wave. Specifically, the Purchasing Managers' Index (PMI) The PMI index recorded the second consecutive month below 50 points, reaching 45.1 points in July, just up slightly from 44.1 points in the previous month.
- Accordingly, with the complexity of the epidemic wave this time, VCBS expects the speed of production expansion will not strongly recover until the end of the third quarter and thereby reduce the forecast of the increase in production growth of the economy in the third quarter as well as the whole of 2021.
- VCBS forecasts that GDP growth in Q3 shall be roughly 2.81%-3.63% over the same period, continuing to be a low growth rate compared to the same period in Q3 of 2019: 7.48%; 2018: 6.92% respectively). Note that in the pre-epidemic period, the third quarter is usually the time when the GDP growth rate accelerates rapidly compared to the second quarter.





CONSUMER DEMAND AND EXPORT – IMPORT


- ▼ Total retail sales of consumer goods and services only increased by 0.7% over the same period last year, if excluding the price factor, it increased by 0.74%. The low increase compared to the first quarter of the year continued to show the clear impact of the epidemic on consumer demand.
- ▼ Total import and export turnover of goods in 7M.2021 is estimated at 373.33 billion USD, up ~30.2% over the same period last year, of which commodity export turnover will reach 18533 billion USD, up 25.5 %; imports turnover reached \$188.03 billion, up 35.3%. Commodity trade balance in 7M.2021 is estimated to have a trade deficit of USD 2.7 bn.
 - Export: +33% in heavy industry & minerals
 - Import: 93.6% in means of production (+35.8% over the same period)
- ▼ Import and export activities continued to be a bright spot despite the difficulties caused by the pandemic and high transportation costs. The stronger growth in import activity showed a recovery in production as Vietnam increased the import of input materials for production.
- ▼ We also draw attention to the fact that input cost these days increase significantly



GDP GROWTH IN Q2.2021 IS FORECAST TO VARY FROM 6.5% - 6.7%

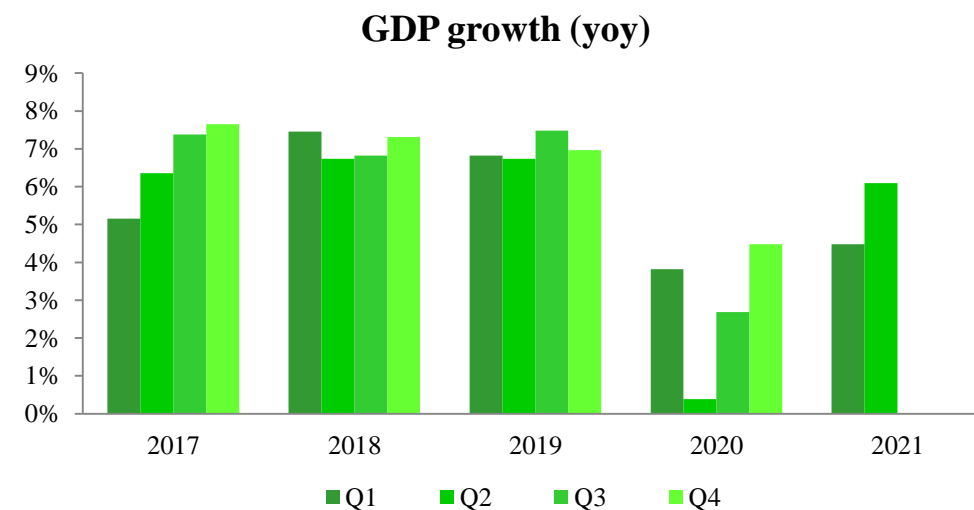
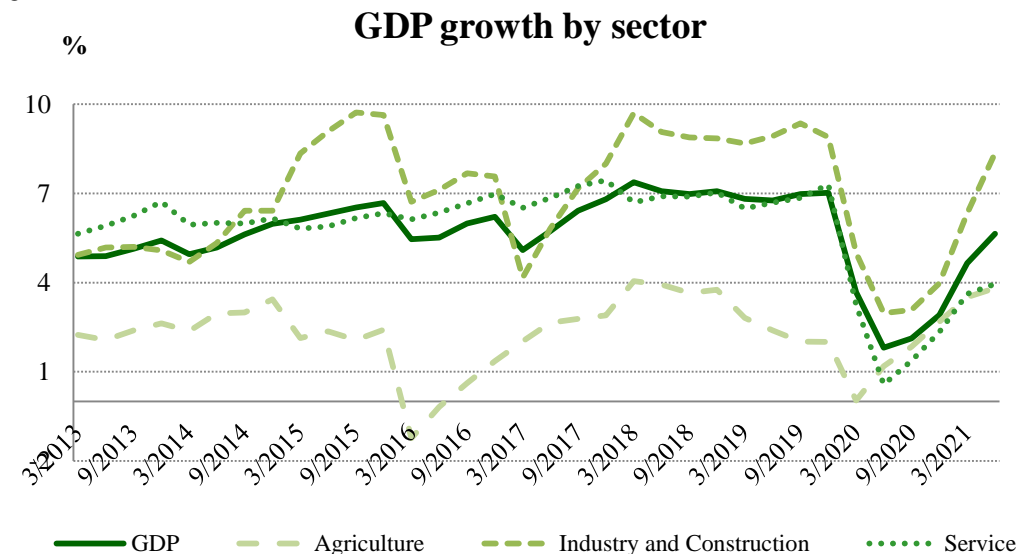
 In comparison with other countries in the region, Vietnam still achieve an above average performance in containing the pandemic and supporting economic activities. With the assumption that production will only recover at the end of the quarter, VCBS forecasts that Q3 growth will reach about 2.81%-3.63% over the same period, continuing to be a low growth rate compared to the same period in the third quarter of previous years. 2019: 7.48%; 2018: 6.92%. This figure corresponds to a 9-month growth rate of about 5.67%-5.71%. GDP growth for the whole year 2021 will be around 6-6.3%.

 Import and export activities continued to grow strongly. The sharp increase in capital goods imports shows the potential for production growth and Vietnam's ability to benefit from the recovery of world demand after the pandemic.

 Consumer demand is forecasted to recover slightly and grow over the same period thanks to efforts to achieve dual goals. .

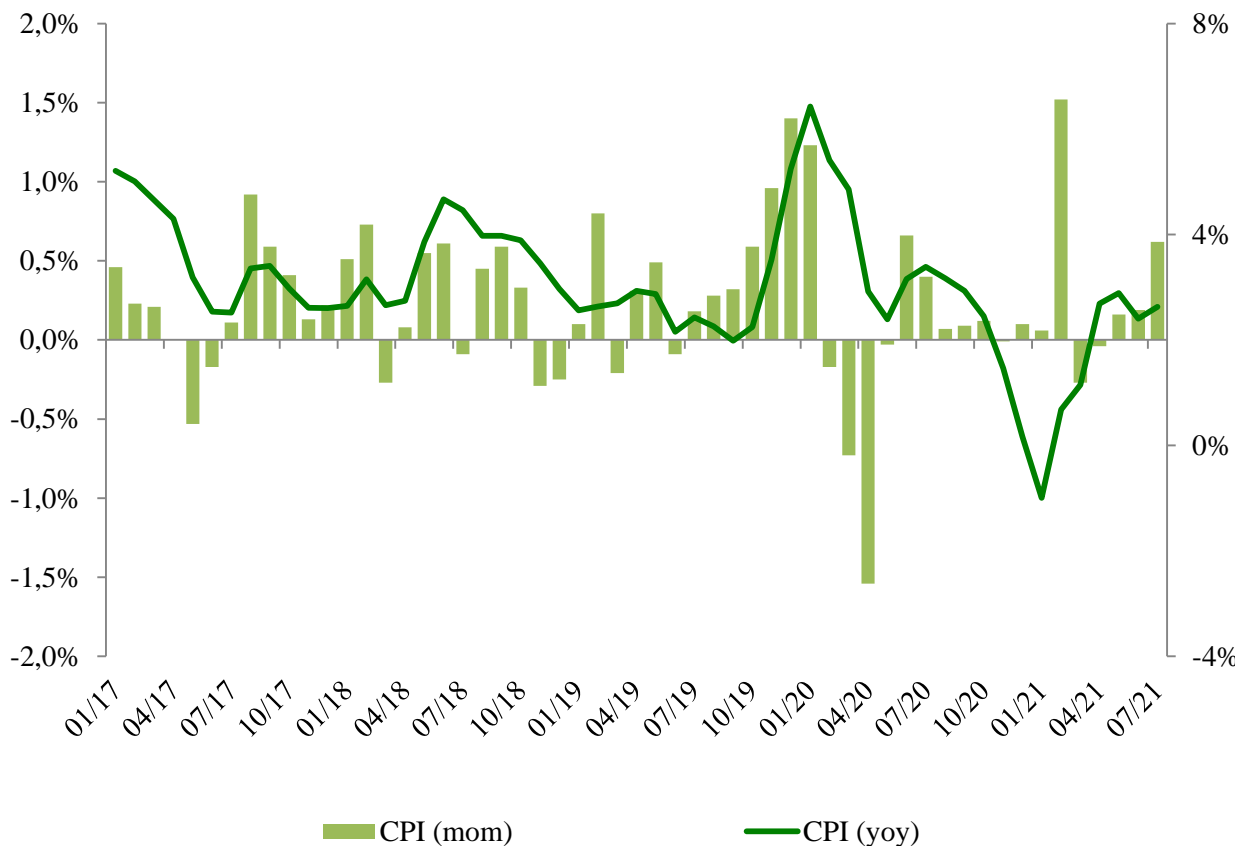
 Strengthen the role of public investment to promote private investment:

- Supplementing the 'green channel' to transport equipment for the North - South expressway
- Approving the disbursement plan for medium-term public investment for the 2021-2025 period in the July National Assembly session with the number of projects halved but the amount of capital allocated to each project increased.
- 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,...



CPI IN JULY INCREASED BY 0,62% MOM

CPI growth

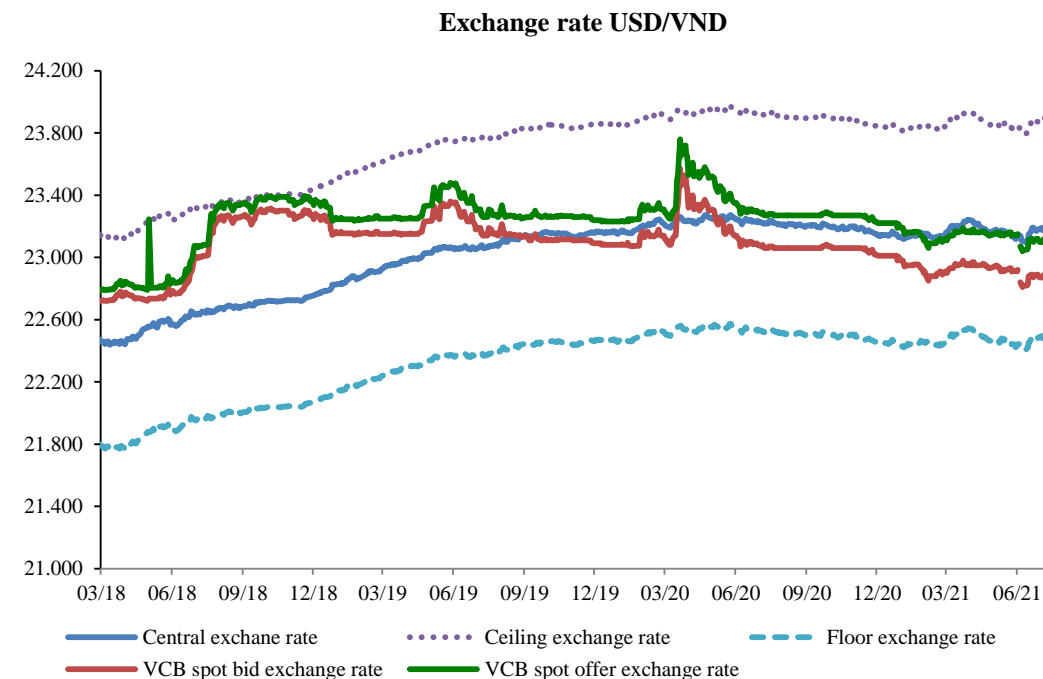


Source: GSO, VCBS Research

- ▼ CPI in July increased by 0.62% mom, +2.9% yoy, and increased by 2.25% compared to December 2020.
 - Food prices increased as people increased stockpiling during the period of social distancing.
 - Gas prices increase according to world material prices.
 - ▼ On average, in the first 7 months of 2021, CPI increased by 1.64% over the same period last year.
 - ▼ Core inflation in July 2021 decreased by 0.06% mom and increased by 0.99% yoy. Average core inflation in the first 7 months of this year increased by 0.89% yoy.
 - ▼ In the next month, the pandemic may affect the supply chain, and the sentiment of hoarding essentials can be observed when social distancing in some major cities.
 - ▼ Measures to support discounts on electricity, water or telecommunications bills come into effect in the August period.
- **VCBS forecasts that CPI in August may increase by 0.3%-0.4%, corresponding to an increase of 2.87%-2.97% yoy.**

EXCHANGE RATES DECREASED SLIGHTLY IN JULY

- ▼ Central exchange rate increased by 2 VND to 23,180 VND/USD on July 30, the exchange rate at commercial banks decreased by about 70 VND.
 - ▼ On July 20, the US Department of Finance and the State Bank of Vietnam issued a joint statement after an online working session regarding the exchange rate and operating policies of Vietnam. It can be seen that this joint statement has allayed concerns surrounding the possibility of the US imposing tariffs on Vietnamese exports. This also confirms the effectiveness of the bilateral negotiation process of state management agencies.
 - ▼ On August 11, the State Bank of Vietnam decrease reference exchange rate at SBV Operations Centre to 22,975 VND (roughly 80-100 VND lower, discount from forward last price). Simultaneously, the SBV changed the method of purchasing foreign currencies from forward contracts to spot transactions.
 - ▼ This move will add a significant amount of liquidity to the banking system. We consider it good news with 2 supporting ideas: (1) in the period when the epidemic continues to evolve, a more abundant liquidity "buffer" is vital to ensure the stable operation of the banking system as well as financial markets. (2) Along with that, ample liquidity and lower interbank rates are two criteria that commercial banks appreciate during their conducting package to lower the lending rates.
- VCBS forecast that the VND shall appreciate against the greenbacks this year. The fluctuation band shall be less than 2%.

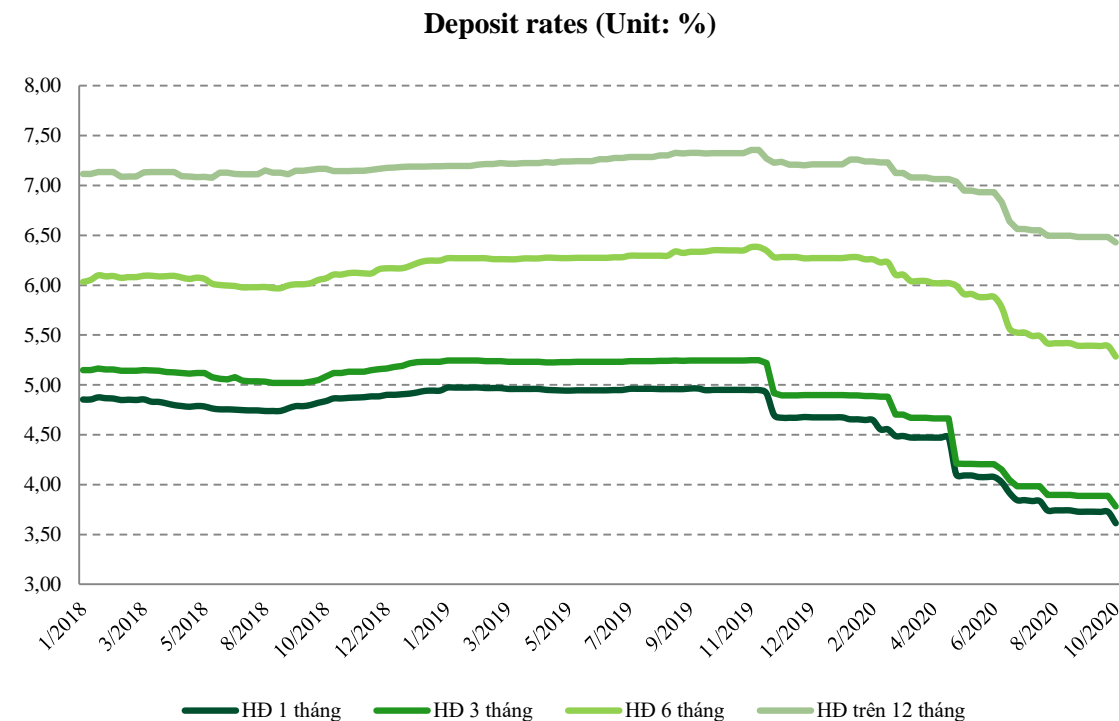


Source: Finpro, CEIC, VCBS Research

DEPOSIT RATES AND LENDING RATES

- ▼ The deposit rate levels are stable while many commercial banks have announced programs to reduce lending rates to support businesses during the pandemic.
- ▼ This is the period when foreign currency futures are executed and spot transactions will significantly add liquidity to the system.
- ▼ The stable exchange rates and well-controlled inflation are basis for the State Bank to maintain the orientation of reducing lending rates to support businesses and people.
- ▼ According to the latest report, the State Bank continues to conduct credit management according to the oriented targets, associated with improving credit quality, handling bad debts, periodically reviewing and adjusting credit growth targets. applicable to each credit institution on the basis of its operations, financial capacity and healthy credit growth. Along with that, the reduction in lending rates is a criterion for credit growth

→ Accordingly, VCBS maintains the view that low interest rates will continue to be maintained to support businesses in the context of complicated pandemic developments.



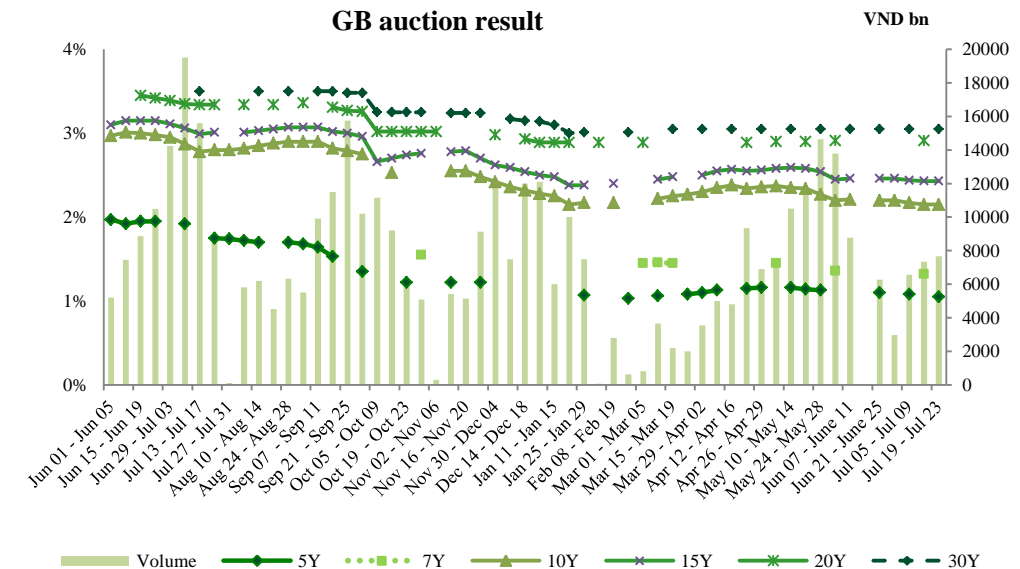
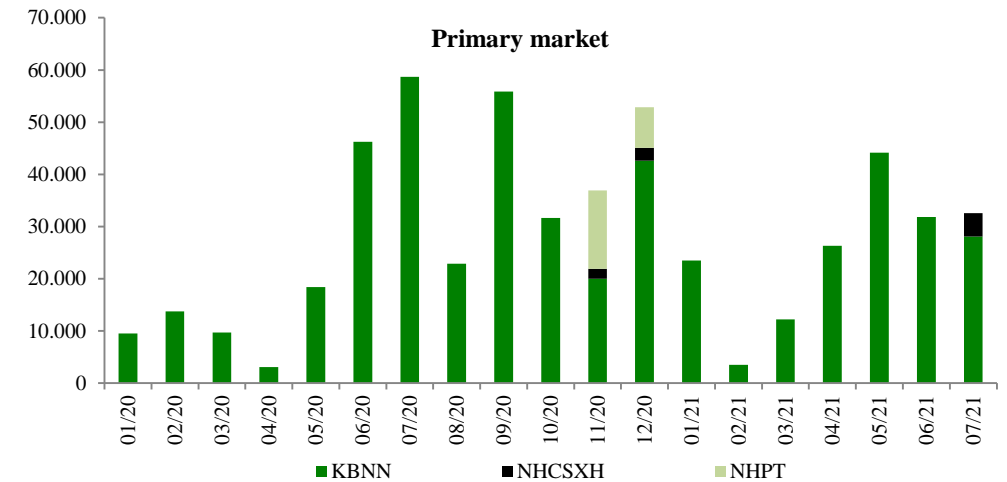
Source: Commercial banks, VCBS Research

BOND MARKET – PRIMAYR MARKET

Primary market was inactive. Wining rates decreased slightly.

- ✓ VND 32,561 bn worth of bonds were mobilized in this month. In detail, ST issued VND 28,061bn (-11.7% mom, -52.2% yoy) and Vietnam Bank for Social Policies (VBSP) issued VND 4.500 bn in this month.
- ✓ Winning rates decrease slightly. In detail, winning rates for 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenor winning rates posted at 1.05% (-05 bps mom), 1.32% (-04 bps mom), 2.16% (-04 bps mom), 2.44% (-02 bps mom), 2.9%, 3.05% (+0 bps mom).

Tenor	Plan Q3.21	Plan 2021	Issued in July.21	Issued in 7M.2021	% plan Q3.21	% plan 2021
5Y	10,000	20,000	2,350	16,119	23.5%	80.6%
7Y	8,000	15,000	950	3,481	11.9%	23.2%
10Y	40,000	120,000	10,650	85,792	26.6%	71.5%
15Y	50,000	135,000	8,268	46,921	16.5%	34.8%
20Y	5,000	30,000	140	3,580	2.8%	11.9%
30Y	7,000	30,000	5,703	13,661	81.5%	45.5%
Total	120,000	350,000	28,061	169,554	23.4%	48.4%

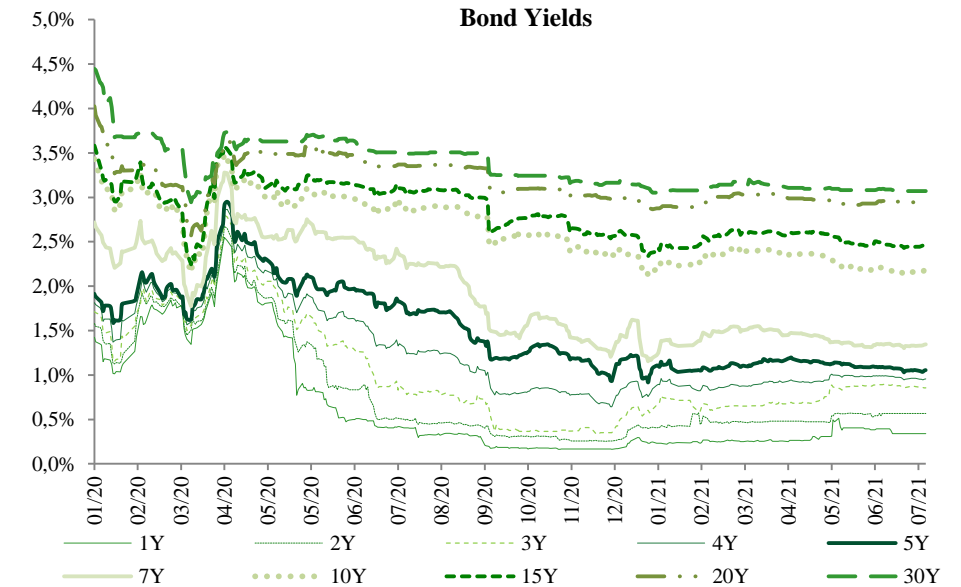
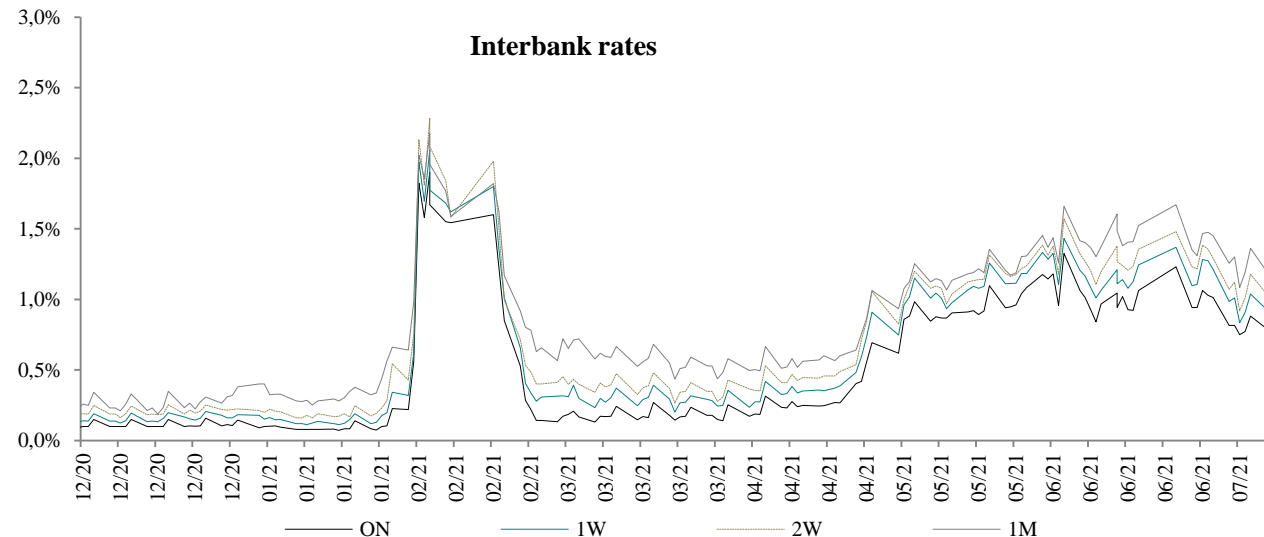
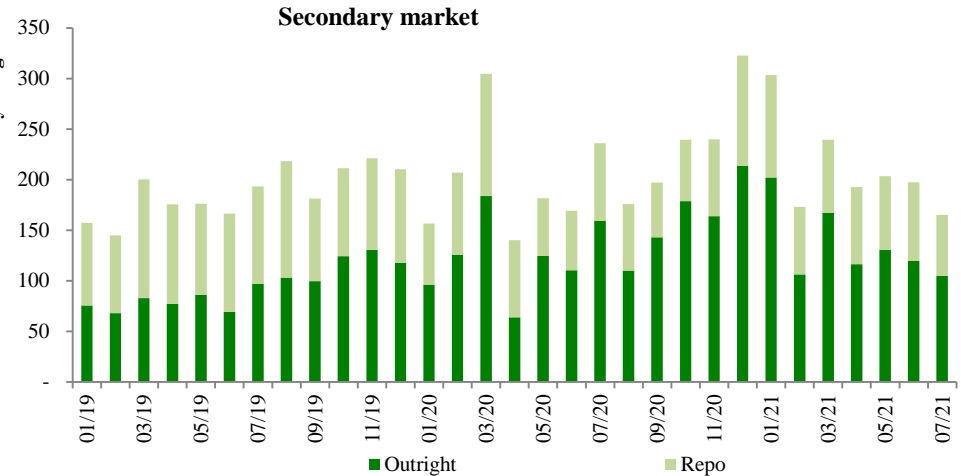


MARKET LIQUIDITY WAS LESS ACTIVE

- VND 165.080 bn (-16% mom) was traded on the secondary market. Outright and repo trading volume reached VND 105,203 bn (-12% mom) and 59,846 bn (-23% mom).
- Yield curve shifted downwards. According to VBMA's statistics, bond yields for 1Y, 2Y, 3Y, 4Y, 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenors at the end of the month stood at 0.395% (-5.6 bps mom), 0.568% (-0.033 bps mom), 0.8925% (-3.65 bps mom), 0.992% (-3.639 bps mom), 1.092% (-3.727 bps mom), 1.346% (+0.1 bps mom), 2.2055% (-1.85 bps mom), 2.4925% (-3.45 bps mom), 2.958% (-1.233 bps mom), 3.095% (-9.6 bps mom).

Forecast:

- Interbank liquidity was abundant, thereby interbank rates may tick down in August.
- We maintain our expectation that bond yields should decrease further. Note that the downward force shall not strong if we take the conservative sentiment of market participants into consideration



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