



by **VCBS**
Vietcombank Securities

MACROECONOMIC RESEARCH 3Q.2021

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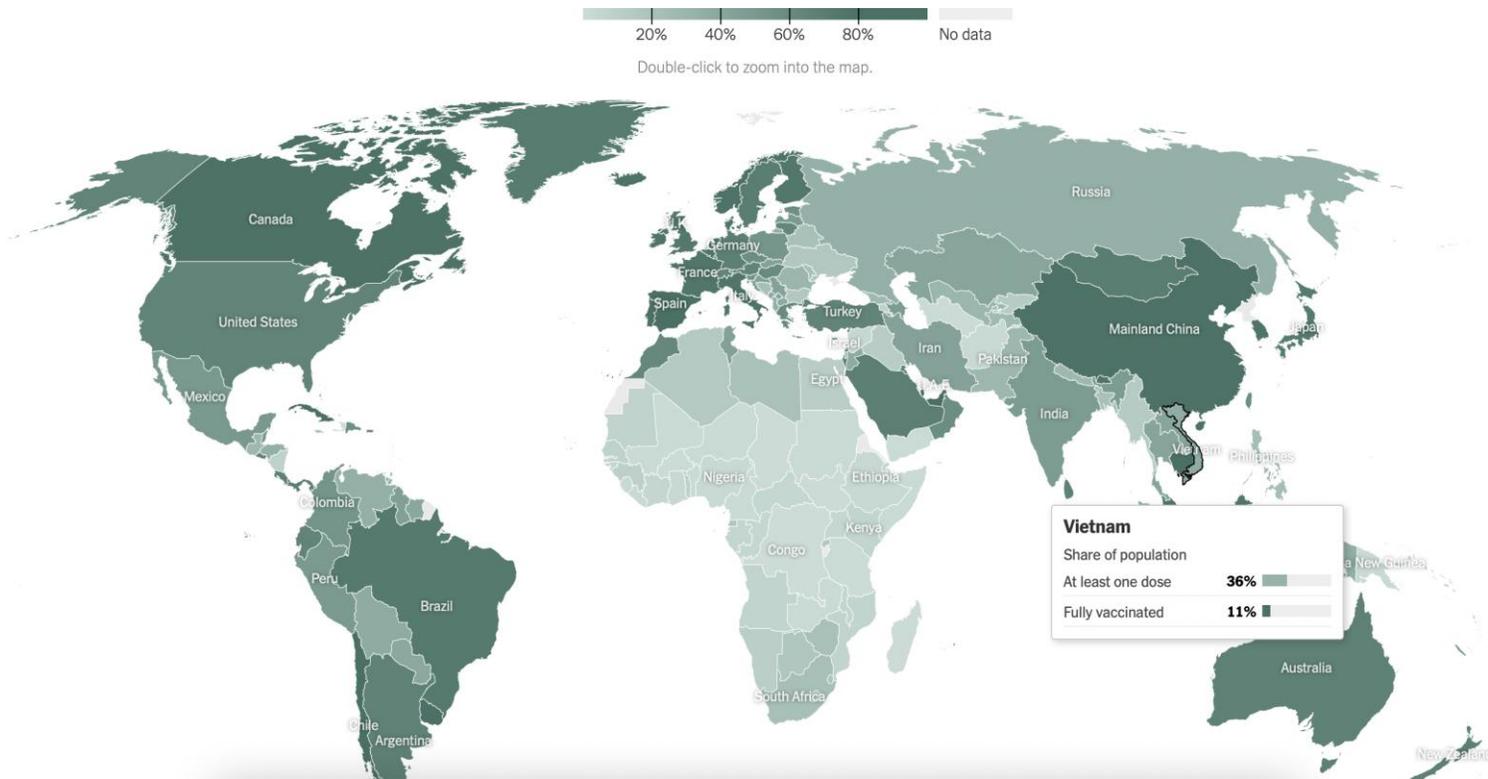
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- ❖ While there are still concerns around new variant, the vaccination has contributed to the economic recovery.
- ❖ Inflation will continue to climb up in many countries in 2021, especially related to energies.
- ❖ Some other central banks have begun to have more discussions about when to neutralize monetary easing policies, such as the Fed or the BOE. Meanwhile, fiscal policies are still seen as the key to help the economy recover.
- ❖ Domestically, entering new phase of opening the economy and learn to live along safely with Covid-19, VCBS expects the economy to gradually recover from the fourth quarter. Accordingly, VCBS forecasts Q4 growth of about 3.5%-4.5%. This figure corresponds to the GDP growth rate for the whole year of 2021 reaching about 2.1%-2.44%.
- ❖ The average consumer price index in 9 months of 2021 increased by 1.82% compared to the same period last year, the lowest average increase of 9 months since 2016. In October, VCBS forecasts that CPI is likely to continue the downward trend. 0.2%-0.3%. VCBS estimates that inflation will increase below 3.0%, which is a solid foundation, to create room for the SBV to regulate monetary policy, ensuring macroeconomic stability.
- ❖ Macro-economic stability is the key foundation for us to believe that inflows still go for Vietnam. Accordingly, the VND appreciates relative to the USD in the first 9 months of 2021. VCBS forecasts that the VND will tend to strengthen against the USD with a fluctuation of no more than 2% this year.
- ❖ The deposit interest rate is stable. Many commercial banks keep supporting programs to reduce lending interest rates during the epidemic period. Accordingly, VCBS believes that low interest rates will be maintained at a low level to support businesses to overcome difficulties.
- ❖ Regarding the trend of yield fluctuations in the rest of 2021, VCBS assesses that the downtrend will slow down. There may be a slight increase in bond yields as we approach the end of the year. Liquidity is still abundant though the seasonal factor may be observed at the end of the year.

DELTA VARIANT IS STILL INFECTIOUS, ESPECIALLY IN THE UNVACCINATED GROUP

Share of population vaccinated 02/10/2021



- 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 most infections are recorded in the unvaccinated group. In the meantime, scientists are also aware of new variants, which are virulent and resistant to vaccine.
- Many countries around the world, consequently, discuss about how to live with the coronavirus forever. The key point is easing the economic pain.
- There is also proposal for criteria to reopen the economy namely tracking the number of severe cases requiring hospitalization instead of the number of daily new cases.

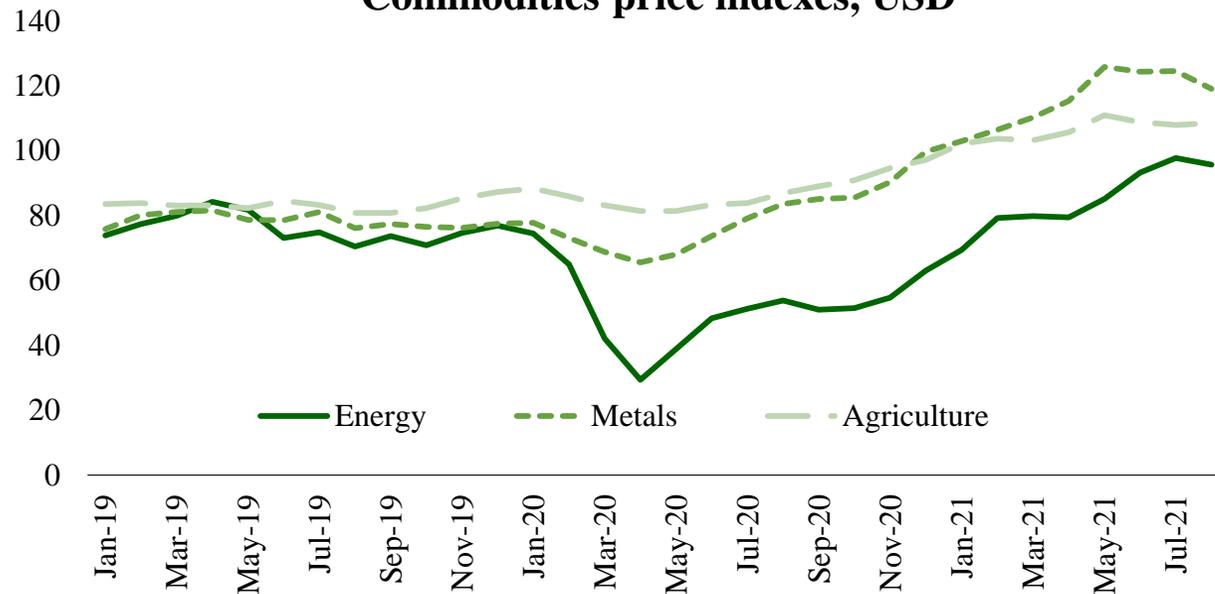
Source: Ourworldindata

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. Demands shift for “work from home” related products.
- ▼ Upward trend in commodities prices still dominates in 2022.
- ▼ Inflation ticked up significantly in some countries in 2021 especially when it comes to energy.

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

Commodities price indexes, USD



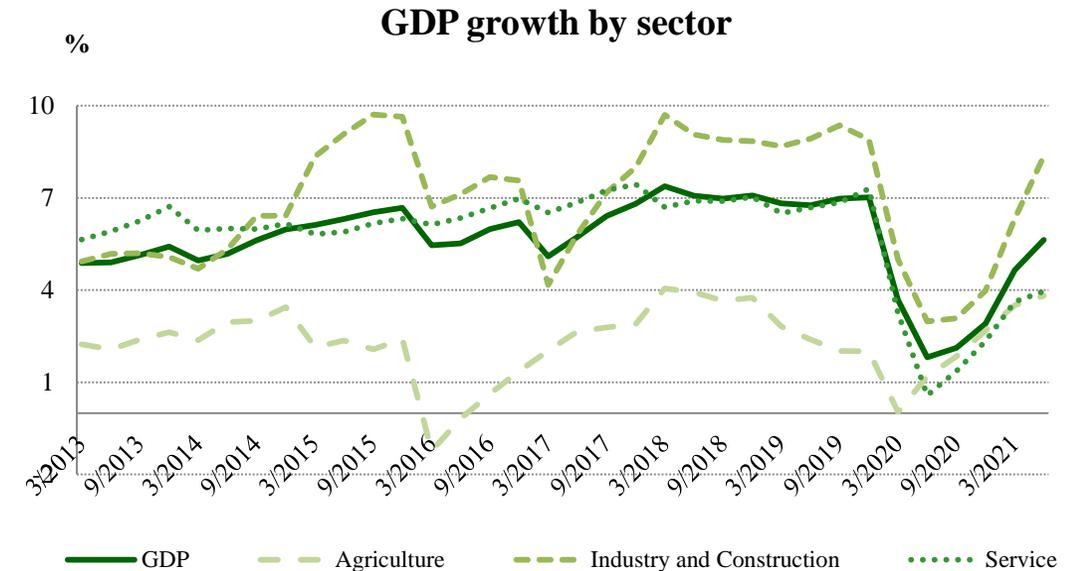
Source: WB, Bloomberg, VCBS Research

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**.
- ▼ For some central banks, there are more and more discussions about the timing to neutralize the expansionary monetary 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.

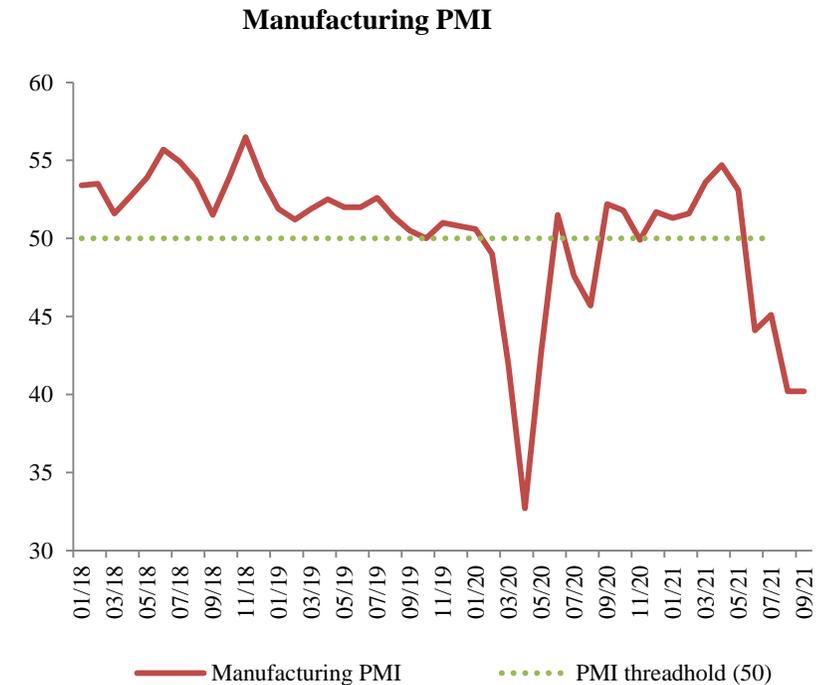
THE LATEST OUTBREAK EXACERBATES THE ECONOMIC PAIN

- According to the General Statistics Office, GDP in the third quarter recorded a negative growth of 6.17% compared to the same period last year. The growth figure fell short of expectations indicates a drastic impact on the economy, which resulted from strict lockdown measures.
- Negative growth in 9M observed in some service industries, which contributes big part in consumption demand, notably retail, transportation and warehousing, catering and accommodation services. Consequently, the whole economy's growth became sluggish. Growth in the first 9 months of the year reached 1.42% over the same period in 2020.
- The bright spot in contributing to economy's growth is processing and manufacturing subsector.
- It can be seen that this outbreak is different from the previous one in both scale and duration. Hence, it hard to deal with this and it shall cause enormous resources. During this period, the Government places priority on ensuring the safety of people's lives.
- In the last months of the year, VCBS expects the economy to resume operations of the economy when people learn to live along safely with the disease. At this stage, both the vaccination and the combination of aid package are the keys to push this process forward.



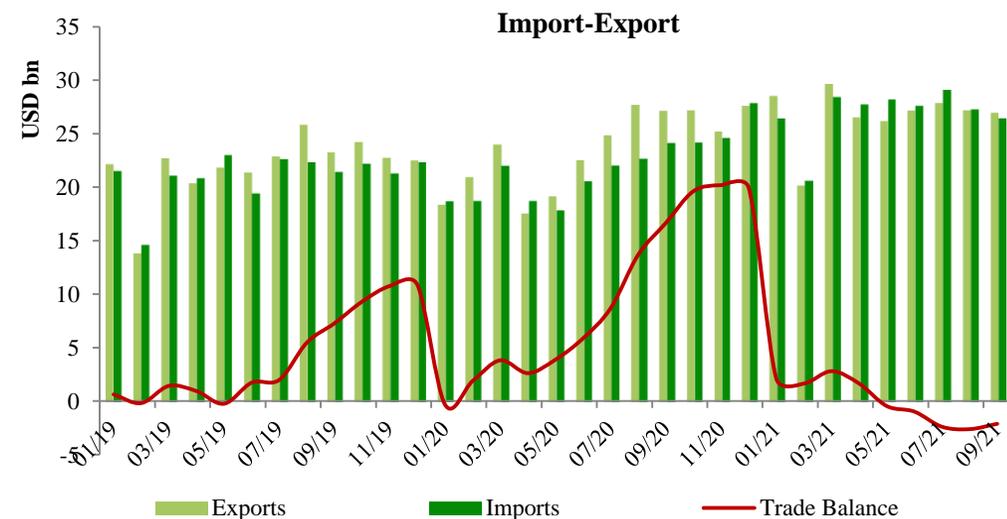
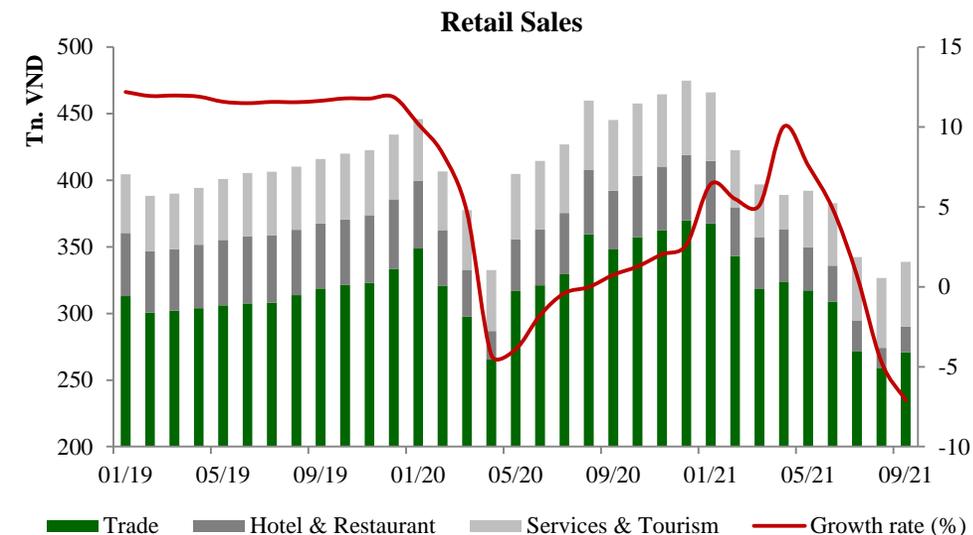
MANUFACTURING ACTIVITY IS HIT SEVERELY IN Q3.2021

- ❖ The bright spot was the processing and manufacturing industry, which increased by 7% (in the same period last year, it increased by 3.7%), the electricity production and distribution sector increased by 6.6%.
- ❖ According to IHS Markit data, businesses continue to face many difficulties in the production process due to strict lockdown measures. Specifically, the Purchasing Managers' Index (PMI) in September continued to remain at a low level of 40.2 points. This level is equivalent to the one recorded in August. However, the survey showed that the fourth wave of Covid had peaked. and the vaccination program begins to reach a certain degree of universality, creating a chance for a recovery in production in the last quarter of the year as well as in 2022.
- ❖ With the severity of this epidemic wave, businesses are forecasted to still face many difficulties, notably maintaining operating cash flow, along with the possibility of labor shortage. due to long-term production interruption.
- ❖ Thus, in addition to supporting capital from the banking system, employee support related to social aid policies will be a key factor in the post-epidemic recovery in the last quarter of the year as well as in 2022.
- ❖ Assuming production activities start and consumer demand starts to recover in Q4, VCBS forecasts Q4 growth of around 3.5%-4.5% y/y.



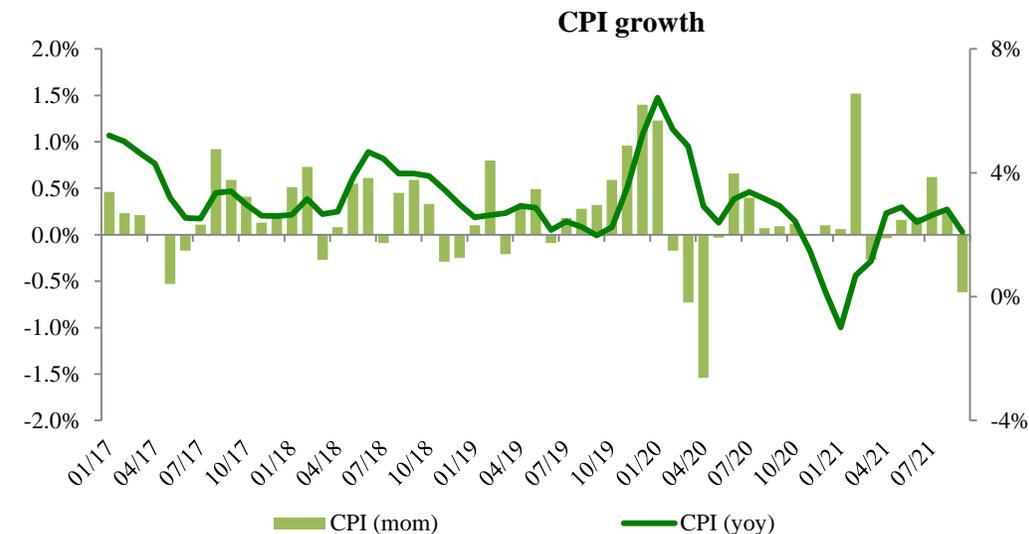
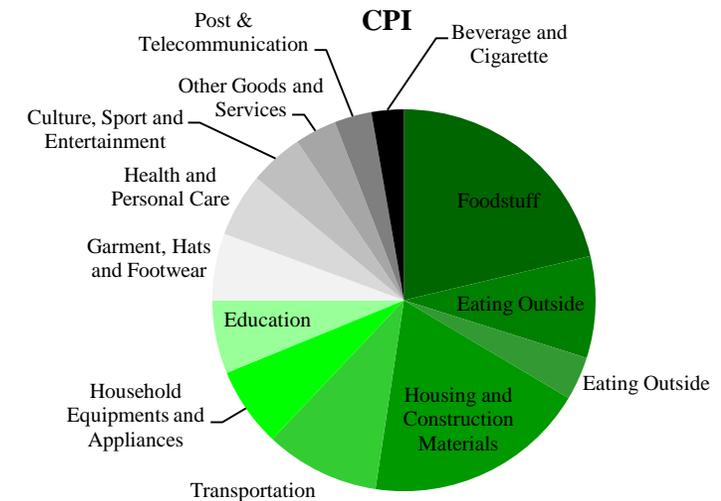
CONSUMER DEMAND AND EXPORT – IMPORT

- ▼ Total retail sales of consumer goods and services reached VND 3,367.7 trillion, down 7.1% over the same period last year (excluding the price factor, which decreased by 8.7%). The large reduction shows a clear impact of the epidemic on consumer demand.
 - ▼ Total import and export turnover of goods in 9M.2021 is estimated at 483.17 billion USD, up ~15.8% over the same period last year, in which export turnover of goods is estimated at 240.52 billion USD, up 18.8% over the same period; imports reached 242.65 billion USD, up 30.5%. Trade balance in the first 9 months of 2021 is estimated to have a trade deficit of 2.13 billion USD .
 - Export: mobile and spare part went up again
 - Import: 94.4% in means of production (+34.4% over the same period)
 - ▼ We also draw attention to the fact that input cost these days increase significantly
 - ▼ Although export-import turnover secured a significant growth rate over the same period, a number of export products recorded a slower growth. It indicates that difficulties extend for many products, especially those produced in the southern region. Meanwhile, the export of electronic and mobile phone components has rebounded in the last 2 months and contributed significantly to the trade surplus in September.
- => VCBS assesses this fact refer that in the near future the recovery speed is divergent between economic sectors as well as industries.



INFLATION IN 2021 MAY RISE BELOW 3%

- ▼ The average consumer price index in 9M2021 increased by 1.82% over the same period last year, the lowest 9-month average increase since 2016.
 - Upward pressure on CPI in 9M.2021: Domestic petrol price adjusted up; Gas prices fluctuated according to the world prices; Education tuition fee increases in the 2020-2021 school year; The domestic rice price increased in line with the export price of rice.
 - Downward pressure on CPI in 9M.2021: Food prices decreased compared to the same period last year; The average price of electricity decreased due to the Government's implementation of support packages. In addition, a number of other expenses are exempted or reduced during the period of social distancing such as rent, tuition fees.
 - ▼ After the positive movement of inflation in 9M.2021, VCBS assesses that upward pressure on inflation may appear in the last months of the year.
 - The demand for business travel and tourism may recover after efforts to control and repel the pandemic; thereby leading to higher inflation in the transport group in Q4.2021.
 - According to seasonal factors, to prepare the Tet holiday, people may boost their consumptions. Moreover, the CPI base in the last months of 2020 are relatively low.
 - In addition, the price of raw materials: commodity prices show signs of cooling down thanks to a number of management and supervision measures by the Chinese Government.
- In October, VCBS forecasts that CPI is likely to decrease by 0.2%-0.3% mom, corresponding to an increase of 1.76%-1.66% over the same period due to lower pork prices and tuition fees in October. On the other hand, the upward force on gasoline prices has not created high pressure when demand did not recover strongly.
- For the full year forecast, **VCBS assesses that inflation will increase below 3.0%, which is a solid foundation as well as room for the SBV to operate in the future.**

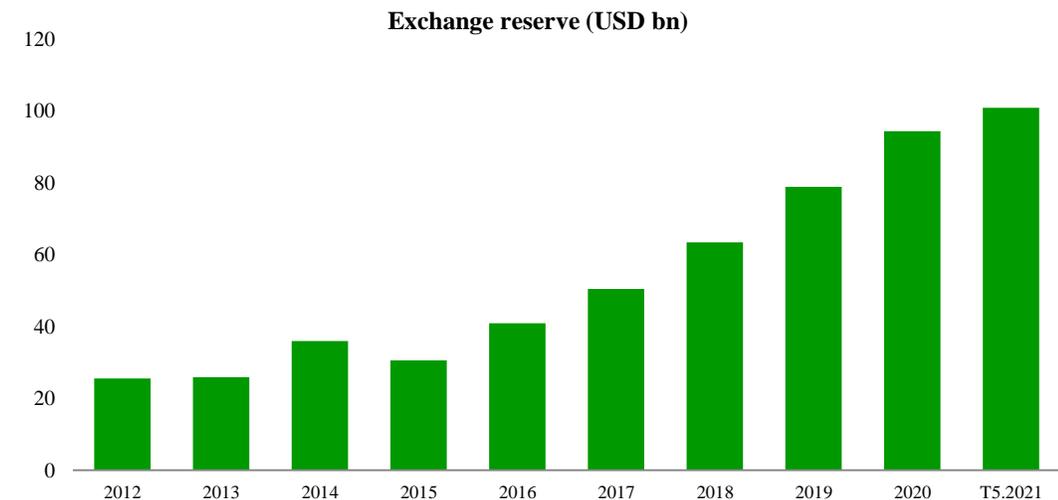
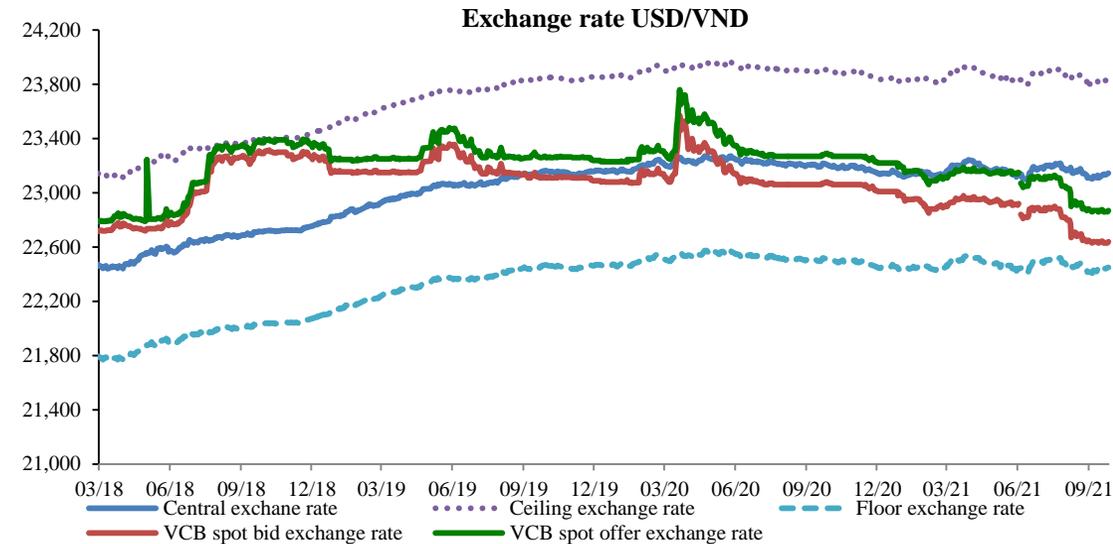


Source: CEIC, GSO

VND APPRECIATES RELATIVE TO USD IN THE FIRST 9 MONTHS OF 2021

- ▼ Center exchange rate on September 30, 2021 at 23,162 VND/USD(+31 VND ytd). Meanwhile, the exchange rate at commercial banks decreased by 355 VND to 22,860 VND/USD, equivalent to VND increasing by about 1.5% against USD in 9M.2021.
 - Disbursed FDI in 9M.2021 is estimated at 13.28 billion USD (-3.5% yoy). Total newly registered capital reached nearly 12.5 billion USD (+20.6% yoy), total additional registered capital reached 6.4 billion USD (+25.6% yoy), showing the attractiveness of Vietnam to foreign investment inflows.
 - The bright spot belongs to import and export activities. In which, export of goods is estimated at 240.52 billion USD (+18.8% yoy); imports reached 242.65 billion USD (+30.5% yoy). Trade balance in 9M.2021 is estimated to have a trade deficit of 2.13 billion USD when September recorded a trade surplus of 0.5 billion USD.
 - SBV adjusted the list price to buy USD-22,750 VND (decreased about 80-100 VND calculated based on the discount price for futures). At the same time, the SBV changed the 6-month forward contracts to the spot contracts, thereby creating new and immediate supply for the market.
- ▼ The exchange rates is expected to fluctuate in a band:
 - Macro-economic stability and recovering growth momentum are the basis for us to believe that foreign flows will come to Vietnam.
 - VCBS expects export activities to prosper again with more comprehensively implemented free trade agreements. At the same time, business returned to operation, especially in industrial parks.
 - The SBV still operates a flexible and consistent policy towards the goal of stabilizing the macro-economy in general and the exchange rate in particular. At the same time, solid foreign reserves are the basis for supporting exchange rate stability.

→ VCBS forecasts that VND will tend to strengthen against the USD with a limit of no more than 2% in 2021.



DEPOSIT RATES ARE EXPECTED TO BE STABLE AT LOW LEVEL, LENDING RATES HAVE ROOM TO DECREASE FURTHER

Updates

- Deposit rates are static while many commercial banks have announced programs to reduce lending rates to support businesses during the pandemic.
- During this period, the SBV's message continued to be consistent: strictly control credit to business activities, and real estate speculation. The general orientation is to maintain low rates to support businesses.

Deposit rates

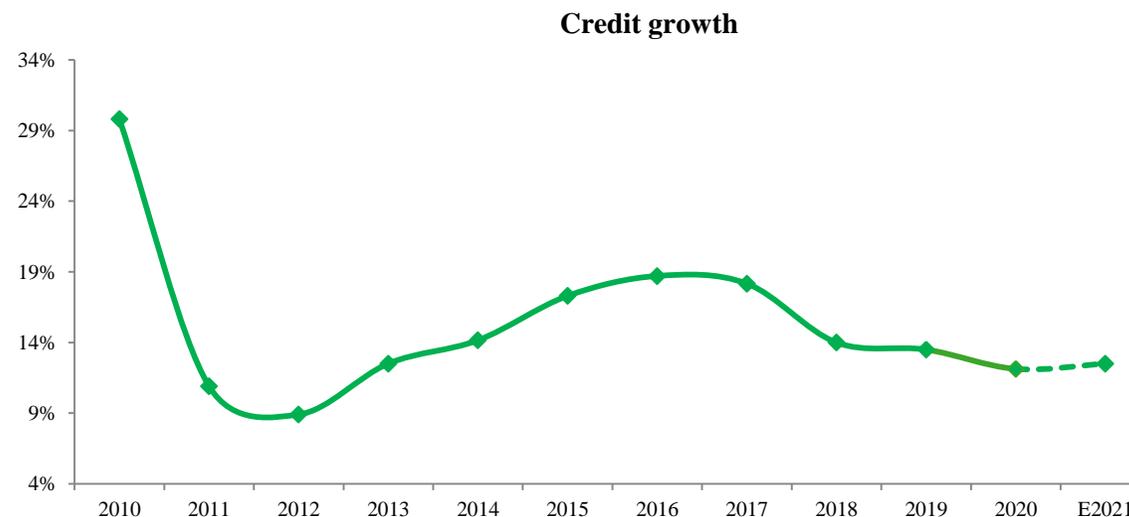
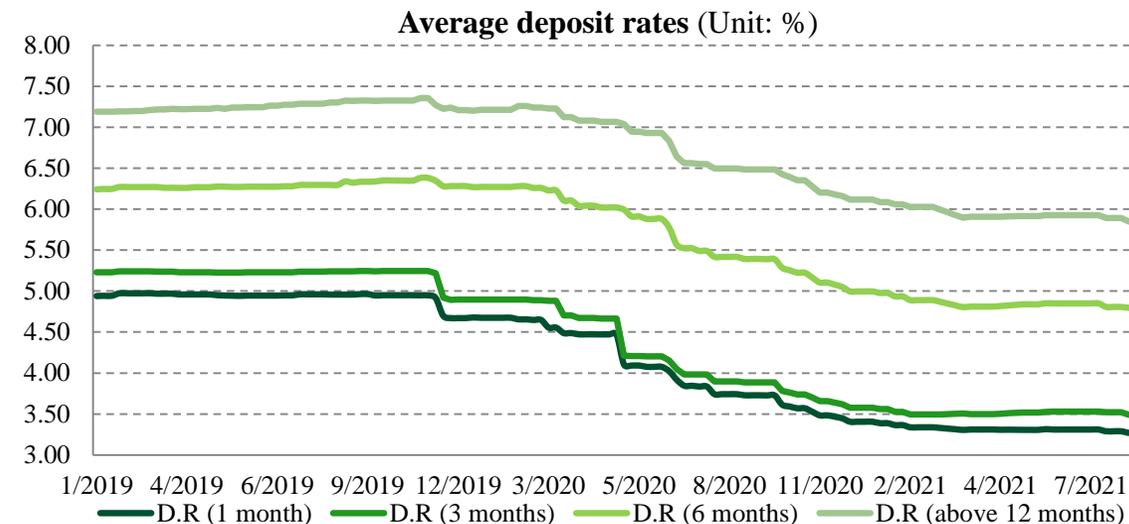
Deposit rates are expected to stay at current low levels in Q4.2021

- During this period, discussions about neutralizing loose monetary policies were discussed more, especially the FED and BOE in the context of high inflation in these countries. Although the trend of neutralizing loose monetary policy is difficult to reverse, VCBS still believes that this process will happen slowly when the post-pandemic economic recovery in many countries is still quite fragile.
- In such context, deposit rates at Vietnamese commercial banks can remain at current low levels.
- Certain upward pressure, if any, may appear at the end of the year, when banks usually boost lending activities; at the same time, businesses and people tend to withdraw money from the system, leading to mobilization pressure.

Lending rates

- The stable foreign market along with well-controlled inflation and abundant liquidity are an important factors for the SBV to maintain the orientation of reducing lending rates to support businesses and people to overcome difficult.

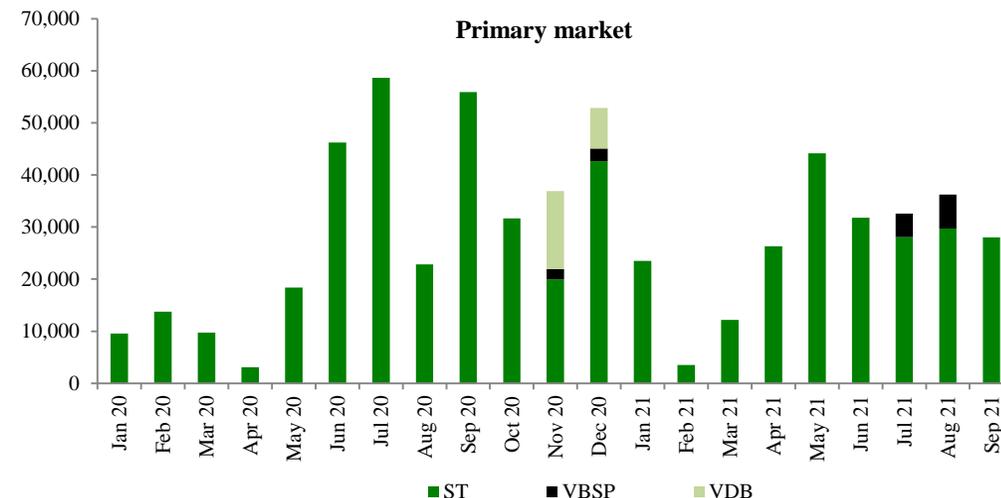
VCBS believes that low rates will continue to be maintained to support businesses in post-pandemic future.



BOND MARKET – PRIMARY MARKET

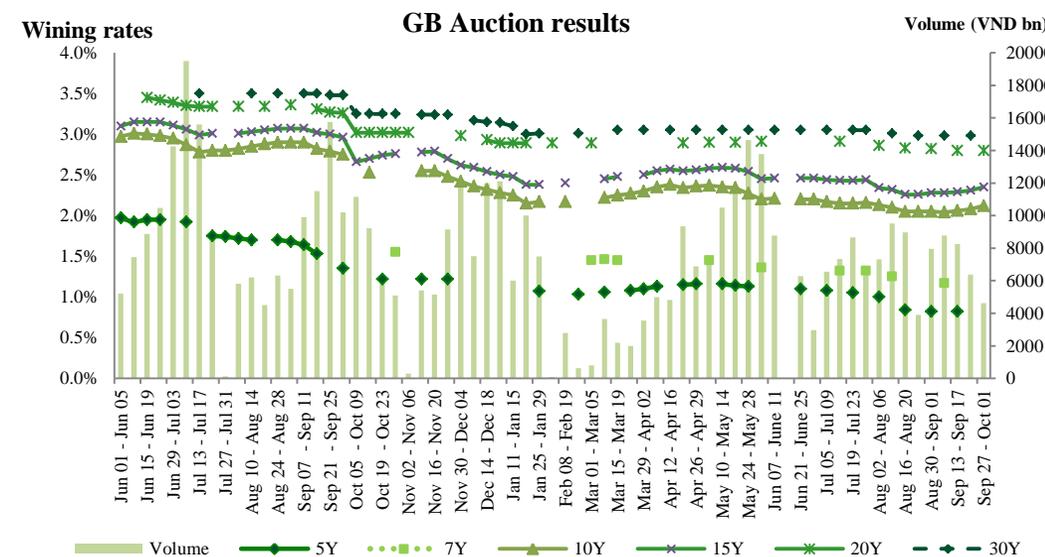
The primary market was less active

- ✓ VND 107,245 bn worth of bond was mobilized. In detail, State Treasury (ST) issued VND 96,221 bn for all tenors: VND 6,079 bn; VND 2,700 bn; VND 30,892 bn; VND 37,872 bn; VND 7,065 and VND 11,613 bn were mobilized in 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenors.
- ✓ Winning rates mainly decreased in the quarter, and only increased slightly in the last auction sessions. In particular, winning rates for 5Y, 10Y, 15Y, 20Y and 30Y stood at 0.82% (-28 bps qoq); 1.17% (-19 bps qoq); 2.12% (-08 bps qoq); 2.35% (-11 bps qoq); 2.80% (-11 bps qoq) and 2.98% (-07 bps qoq).



Plan 2021

	Plan Q3.2021	Plan 2021	Issued in Q3.2021	Issued in 3Q.2021	% Plan Q3.2021	% Plan 2021
5Y	10,000	20,000	6,079	19,848	60.8%	99.2%
7Y	8,000	15,000	2,700	5,231	33.8%	34.9%
10Y	40,000	120,000	30,892	106,034	77.2%	88.4%
15Y	50,000	135,000	37,892	76,525	75.8%	56.7%
20Y	5,000	30,000	7,065	10,505	141.3%	35.0%
30Y	7,000	30,000	11,613	19,571	165.9%	65.2%
Total	120,000	350,000	96,241	237,714	80.2%	67.9%

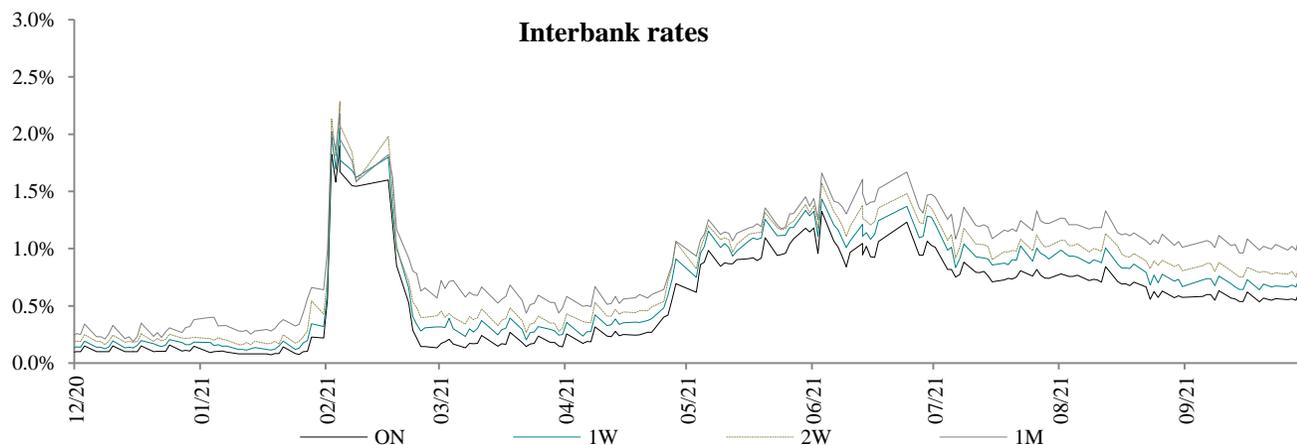
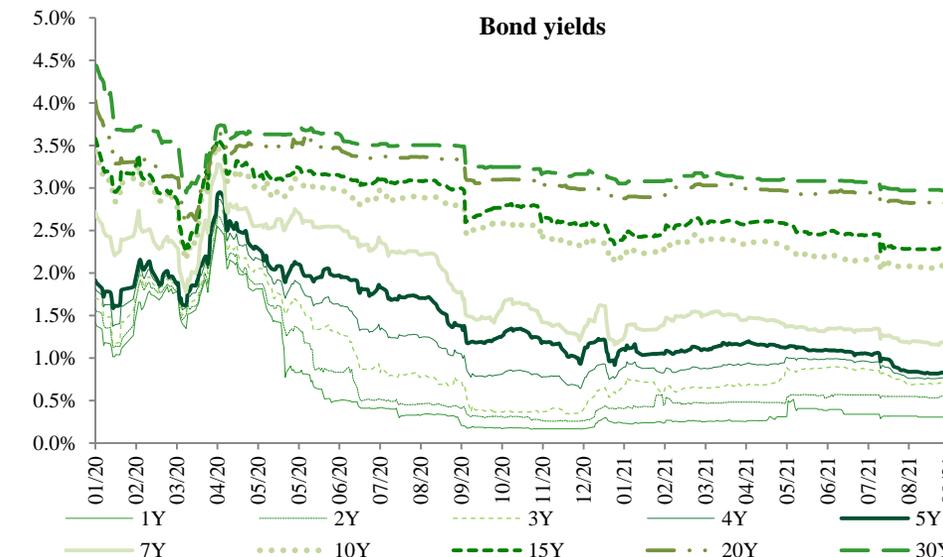


BOND MARKET – SECONDARY MARKET

- ▼ VND 507,971 bn (-15.4% qoq) was traded on secondary market in Q3.2021. Specifically, the value of outright transactions reached VND 330,517 billion (-9.9% qoq) while the value of repo transactions reached VND 171,455 billion (-24.4% qoq).
- ▼ Bond yields fell at the beginning of the quarter, then inched up at the end of the third quarter. According to Bloomberg, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y terms at the end of quarter stood at 0.395% (+7 bps qoq), 0.56% (+4.86 bps qoq), 0.89% (-6.55 bps qoq), 0.99% (-10,339 bps qoq), 1.09% (-14.12 bps qoq), 1.34% (-8.7 bps qoq), 2.20% (-6.25 bps qoq), 2.49% (-9.55 bps qoq), 2.95% (-12.93 bps qoq), 3.09% (-0.25 bps qoq).

4Q.2021 expectations:

- In the rest of 2021, VCBS assesses that the downtrend will slow down; upward force, if any, may appear at the end of the year.
- VCBS believes that liquidity will be abundant in Q4.2021; the interbank rates will remain at the current levels, and only observe short-term upward pressure at the end of the year.



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