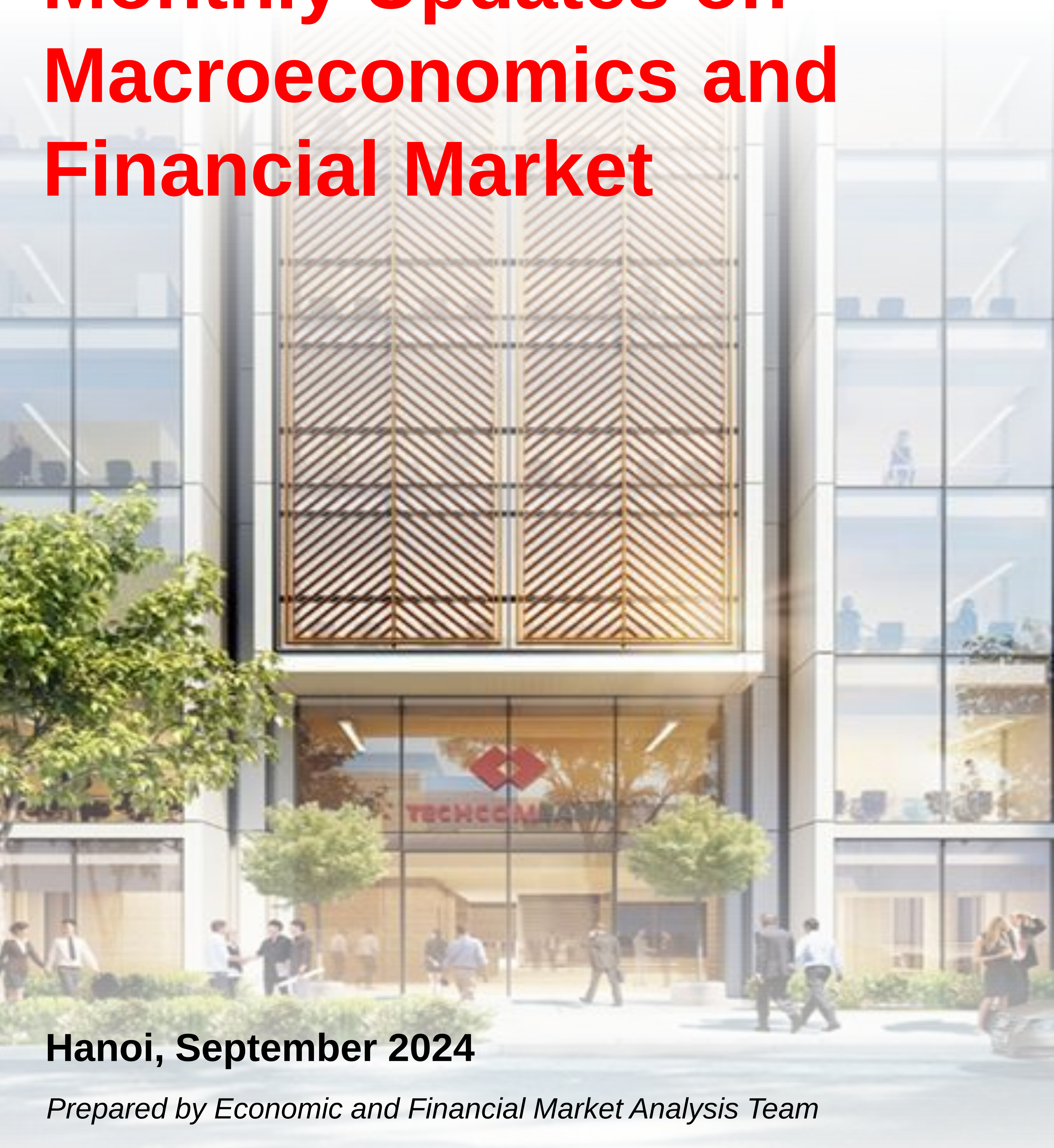
Monthly Updates on Macroeconomics and Financial Market



Hanoi, September 2024

Prepared by Economic and Financial Market Analysis Team

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Easing global uncertainties amidst the resilient US economy and the slowly recovering EU economy. Vietnam must enhance domestic demand and Government investment to ensure sustainable growth

Section 1

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Executive Summary

Global Economy:

- *Global uncertainties slightly ease amidst the better growth results of the advanced economies in 2Q24.*
- *The US economy showed signs of resilience with better growth numbers, and consumer demand remained steady. However, challenges persist within the US industrial sector, witnessing a 0.2% YoY decline in industrial production and a stagnant ISM PMI manufacturing index at 47.2.*
- *A potential soft landing scenario for the US becomes more plausible, thanks to a gradual cooling of the labour market and a clearer trajectory towards achieving the 2% inflation target.*
- *In the EU, consumer demand growth displays lackluster, as reflected by a YoY decline of 0.2% in retail sales growth and a slight dip in consumer confidence results.*
- *Mixed signals emerge from the EU supply-side dynamics, with the industrial sector encountering obstacles while services maintaining resilience.*
- *Further rate cuts by the ECB are highly likely, and it is considered crucial for the recovery of the EU's economy, especially given the significant decline in inflation and the ongoing sluggishness in consumer demand.*

Vietnamese Economy:

- *Vietnam has recorded a trade balance of USD 4.5 billion in August, the highest since August 2020, driven by a 20% YoY increase in local exports over the past three months. The rebound in trade activities is expected to continue, supported by a moderate recovery in global demand.*
- *Northern Vietnam is facing an aggregate supply shock due to Super Typhoon Yagi and subsequent floods. However, we remain optimistic in the outlook for the manufacturing sector and that the disaster's impact will be somewhat limited.*
- *Real retail sales growth has continued to slow down significantly over the past three months, with retail sales growth in the first eight months registered at 4.6%.*
- *We have yet to witness a strong bounce back of public investment.*
- *Looking ahead, as the recent natural disaster in Northern Vietnam may drive prices of food items like vegetables, fruits, and seafood up due to limited supply, we do not expect its overall impact on inflation to be enormous, thus the CPI shall range around 3% for the rest of the year.*
- *The USD/VND has decreased significantly and is expected to fluctuate in short-term due to global uncertainties. However, by year-end, the VND may face less depreciation pressure thanks to the remittances.*
- *Deposit interest rates are anticipated to rise modestly by year-end as the economy continues its recovery path.*

Section 2

Global Economy

Recent developments suggest a slight easing of global uncertainties, as the advanced economies show some resilience. US soft-landing scenario has become more likely thanks to a gradual cooling labour market and aligned inflation rates. Meanwhile, the EU faces sluggish consumer demand, leading to the belief that further rate cuts are considered necessary for the region's economic recovery.

Global uncertainties slightly ease amidst the better growth results of the advance economies

Recent developments in August indicate a slight easing of global uncertainties, largely due to improved economic performance in a major economies. According to the IMF, GDP growth of the advanced economies increase to 1.7% year-on-year (YoY) in the second quarter of 2024 (2Q24) from 1.6% YoY in 1Q24, reflecting an overall improvement in financial stability. Furthermore, The World Uncertainty Index (WUI), which measures uncertainty in the global economic landscape, shows a declining trend in its most recent published result. Additionally, the CBOE Volatility Index (VIX), which assesses market expectations for future US equity volatility and often used as global proxy for financial market uncertainty, has begun to decline, reflecting reduced investor anxiety about market fluctuations. Together, these indicators suggest a steadier economic outlook and bolstered market confidence.

Figure 1: World Uncertainty Index

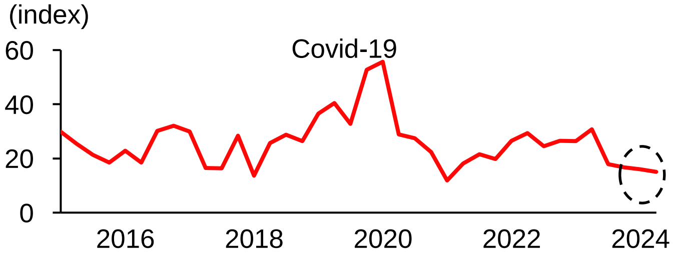
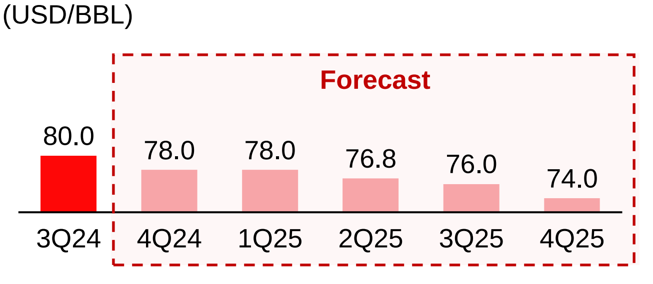


Figure 2: WTI oil price forecast by Bloomberg



Oil price is anticipated to decrease, amidst the easing uncertainty and clearer outlook for global oil supply and demand

As global uncertainty diminished, the outlook for global oil supply and demand becomes clearer with oil prices are expected to fall. Despite OPEC+'s prevention of an oil surplus in 2024 by delaying its production hike, global oil markets are expected to face a significant oversupply in 2025. This surplus is driven by weaker oil demand growth—less than 1% globally, partly due to the shift toward electric vehicles in the major market – China. Additionally, increased oil production from non-OPEC nations like the US, Guyana, and Brazil is exacerbating the situation. Notably, according to JPMorgan's prediction, even when OPEC+ continues to limit its output, oil prices could drop towards 60 USD per barrel in 2025 due to oversupply.

Sources: CBOE, Refinitiv, Bloomberg, IEA, JPMorgan, WUI

Global Economy *(Cont.)*

The US economy show signs of resilience with better growth numbers

In the 2Q24, the US economy displayed signs of resilience, evidenced by a revision in GDP growth from 2.8% to 3.0%. This upward adjustment reflects a stronger consumer sector than initially anticipated. The savings rate saw a slight downgrade, moving from 2.5% to 2.3%, while revised consumer spending number increased from 2.3% to 2.9%. This indicates that consumers are reducing their savings to support spendings. The overall economic picture is resilient, with consumer behavior playing a pivotal role in shaping future economic trajectories.

Consumer demand remained steady in August

**The Johnson Redbook Index, also known as the Redbook Retail Sales Index, is a weekly report that measures the YoY change in retail sales. It provides an overview of the sales performance of a sample of major US retailers across different sectors of the retail industry including Apparel Specialty, Books, Toy & Hobby, Department, Discount, Footwear, Furniture, Drug, Home Improvement, Home Furnishings, Electronic, Jewelry, Sporting Goods, and Miscellaneous.*

According to US Census Bureau, retail sales also showed resilient signs, picking up to 2.7% YoY in July. Another indicator focusing on retail activity - the Redbook index* continues to show prudent figure at the end of August, reaching 6.3% YoY despite a high base from the previous year, suggesting sustained consumer engagement and spending. Furthermore, consumer confidence has risen for the third consecutive month, reflecting growing optimism about economic prospects among US households. These positive indicators—modest retail sales and rising consumer confidence—points to a resilient demand landscape.

Figure 3: US Redbook Retail Sales Index

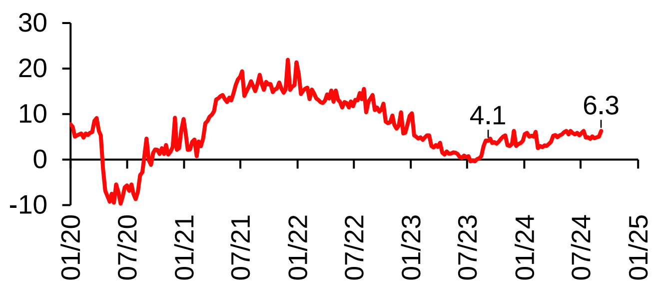
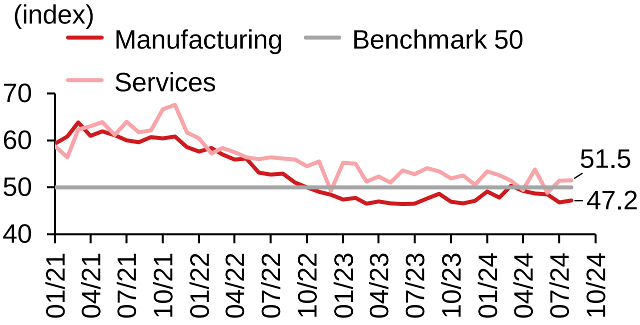


Figure 4: US ISM PMI



There existed challenges in the US industrial sector

Despite the buoyant ISM PMI services of 51.5, August data points to challenges within the US industrial sector. This decline underscores a broader slowdown in the industrial segment, further evidenced by the ISM PMI manufacturing registering at 47.2, below the threshold of 50. The decrease in both new orders and production indices suggests that manufacturing will continue to face headwinds. In addition, industrial production witnessed a decline of 0.2% YoY, marking the first annual drop in the last three months and a significant shift from the 1.1% rise observed in June. Thus, the US is anticipated to undergo a temporary slowdown in growth, largely attributed to difficulties in the industrial sector.

Sources: IMF, Bloomberg, Refinitiv, BLS, Johnson Redbook Service, TCB Market Research

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Global Economy *(Cont.)*

Clearer path to the 2% inflation target rate

During the August Jackson Hole meeting, it was acknowledged by chair Jerome H. Powell of the Federal Reserve Board that the path for inflation has become much clearer. The Consumer Price Index (CPI) for August continuing its downward trend to 2.5%. While shelter rent slightly increased year-over-year to 5.2%, however, the declining trend is expected to persist due to the continuing decline in YoY growth of Zillow Observed Rent index, as mentioned in our previous reports (Report link). Most importantly, the service excluding shelter price sustains its declining pattern, bolstering confidence that inflation may indeed be moving toward to the Fed's target of 2 percent. This shift has prompted a more optimistic outlook from policymakers about reaching inflation targets. The expected upcoming CPI results in 4Q24 might see a slight increase due to a low base effect. Thus, the market consensus expects the upcoming CPI reading to decrease to 2.6% on average in 4Q24, contributing to the continuation of the downward trend in the inflation rate.

Figure 5: US YoY monthly CPI key components

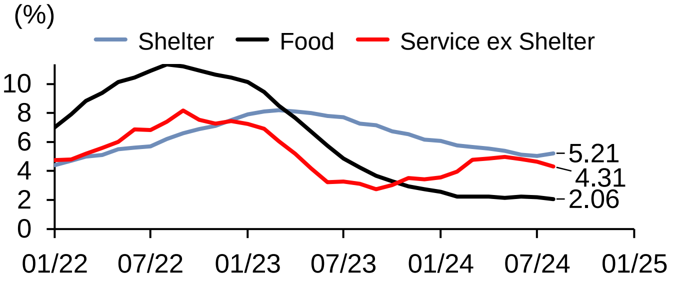
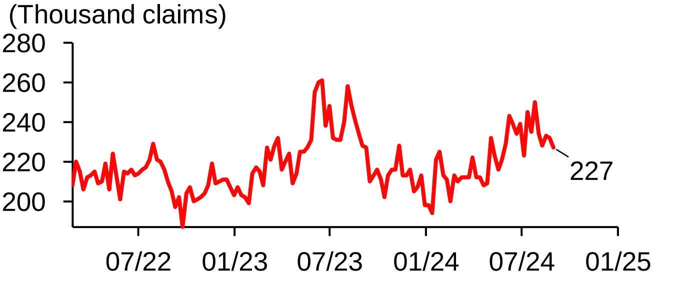


Figure 6: US initial unemployment claims



The US labour market is cooling but remains strong compared to historical patterns

In terms of the labour market, there is a nuanced picture that warrants a more focused analysis. The Sahm Rule index, an indicator used to predict recessions based on unemployment data, has risen slightly from 0.53 to 0.57 percentage points, which might typically create fear of recession for the market. However, this increase alone is not deemed sufficient to conclude that a recession is probable. Firstly, the unemployment rate for August was 4.2%, aligning with market expectations and reflecting a slight decrease from July's 4.3%, which is low by historical standards. Secondly, the labour force participation rate has seen an uptick, primarily due to more men entering the workforce, alongside a decline in initial unemployment claims in August. Thirdly, the dynamics between job openings and unemployment level provide additional insights into the labour market's condition. The ratio of job openings-to-unemployment remains above 1, indicating that there are more job openings than job seekers. Accordingly, the labour market is …

Sources: Bloomberg, Refinitiv, BLS, FRED, TCB Market Research

Global Economy *(Cont.)*

… experiencing agradual adjustment rather than a sharp contraction. Historically, Benigno and Eggertsson's research indicates that when job openings vastly decline, labour market tightness loosens, resulting in reduced inflation without a strong increase in unemployment, which frequently contributes to a soft landing. Hence, these factors points to a labour market that, while cooling, remains resilient when viewed through a historical lens.

Figure 7: US labour force participation rate

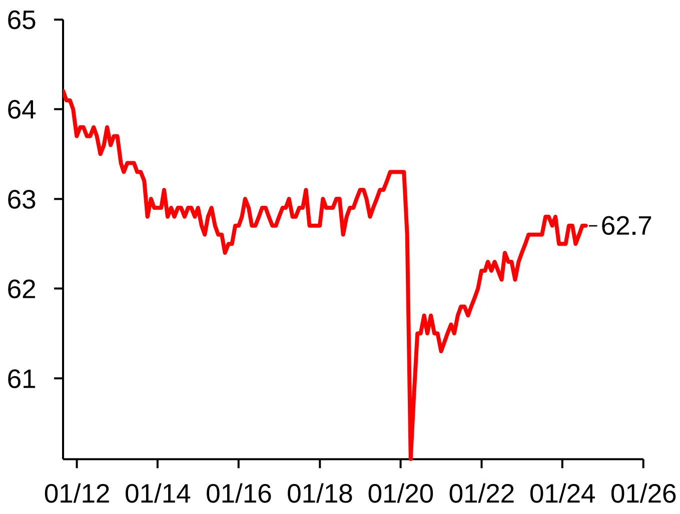
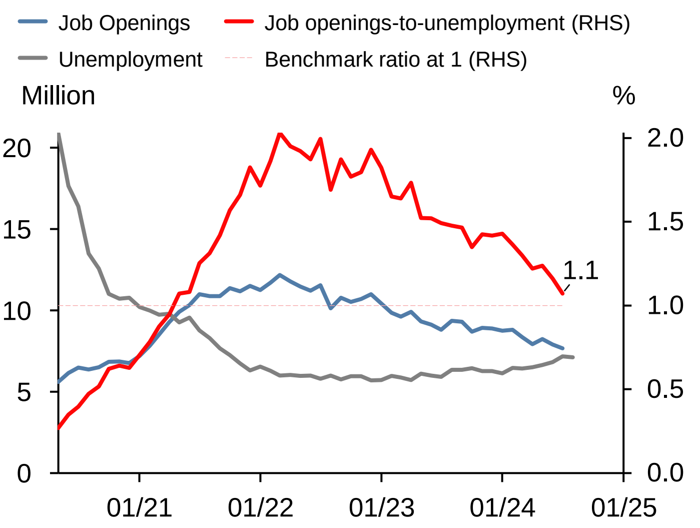


Figure 8: US job opening-to-unemployment ratio



We continue to believe that the US economy could achieve a soft landing

The possibility of achieving a soft-landing for the U.S. economy is plausible, as we maintain our stance that the Fed may opt for a modest rate cut of 25 basis points (bps). This expectation is grounded in the observation that gradual cooling of the labour market and inflation rate is meeting expectations and moving toward the target. Additionally, the market is now expecting a 100% chance of a 25bps cut and an 25.8% chance of a 50bps cut in September. The economic performance in 2Q24 has surpassed expectations, underpinned by persistent consumer demand that has demonstrated resilience despite various macroeconomic challenges, especially for the industrial sector. Although a slowdown is still expected in the upcoming quarters, this resilient economic performance has prompted market analysts to slightly raise their US GDP growth forecasts. In the context of this sustained growth and anticipated Fed rate cut of only 25bps, the US Dollar Index (DXY) is projected to experience a gradual decline over the long term. Market consensus forecasted that the DXY could stabilize around the 102 level by 4Q24, before tapering off to 101 by 1H25.

Sources: Bloomberg, BEA, Refinitiv, Census Bureau, FOMC, Pierpaolo Benigno and Gauti B. Eggertsson's research

Global Economy *(Cont.)*

Figure 9: US GDP forecasted by Bloomberg

(SAAR QoQ, %)

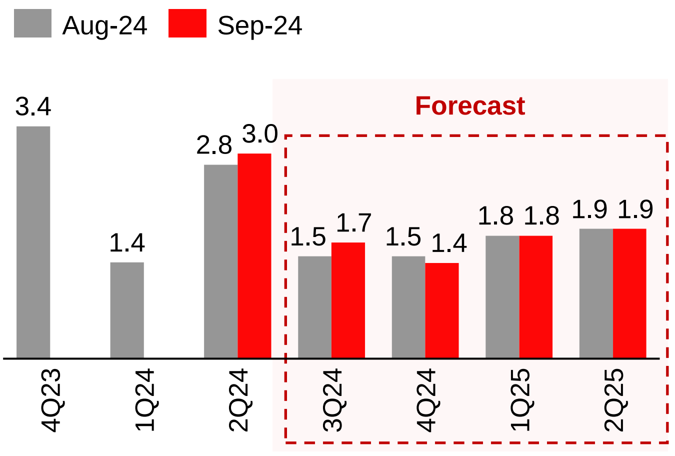
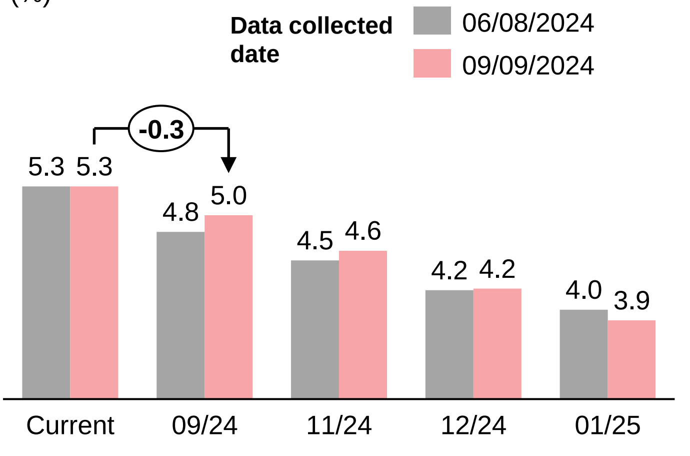


Figure 10: Market Fed funds rate expectation

(%)



The EU's consumer demand demonstrated sluggish growth

In the EU, current economic dynamics reflect dim consumer demand. This is evidenced by a slight dip in consumer confidence in August 2024. The low consumer sentiment is also reflected in the region's newly adjusted economic growth numbers. Eurostat recently revised the Eurozone's GDP growth for the second quarter of 2024 (Q2/24) down to 0.2%, from an earlier estimate of 0.3%. On a year-over-year basis, the revised GDP growth remains steady at 0.6%, mainly driven by consumption of households and Government. Retail sales exhibit a mixed story: a slight increase of 0.1% MoM, but a decline of 0.1% YoY on an annual basis. Overall, these signs indicate that the EU economy is experiencing sluggish growth in consumer demand, presenting potential challenges for maintaining long-term economic progress. The situation highlights the fragile recovery, which depends heavily on consumption behaviours and the Government support.

Figure 11: EU consumer confidence

(index)

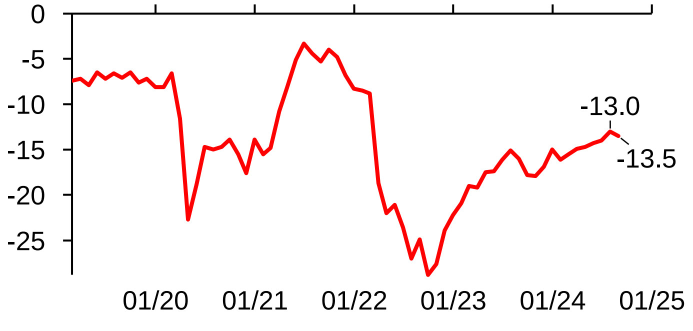
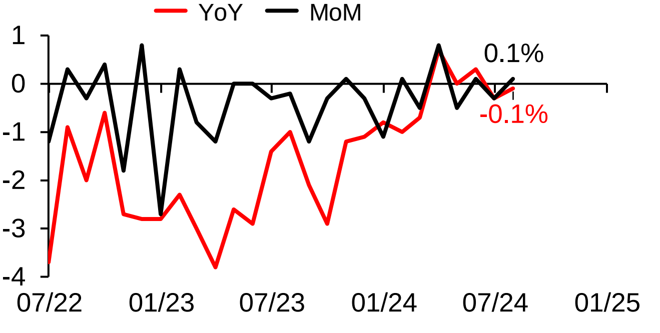


Figure 12: EU retail sales

(%)



Sources: Bloomberg, Eurostat, BLS, Refinitiv, European Commission

Global Economy *(Cont.)*

The EU supply-side shows mixed signals: the industrial sector faces challenges, while services remain strong

The industrial sector within the EU continues to face significant challenges, as indicated by the persistent decline in industrial production growth across the region. The HCOB Manufacturing PMI for August 2024 recorded a value of 45.8, well below the threshold 50. This figure underscores the ongoing difficulties faced by factories, with new orders experienced a steep contraction, particularly in Germany and France where manufacturing conditions have notably deteriorated. In contrast, the HCOB Services PMI presented a more optimistic scenario, rising to 52.9 in August from 51.9 of the previous month, surpassing market expectations. This increase was supported by a rise in new business inflows, predominantly driven by higher domestic demand. As a result, the Composite PMI, which aggregates the manufacturing and services indices, improved to 51, suggesting a better overall market condition. These mixed signals between manufacturing and services highlights the uneven recovery and resilience within different sectors of the EU economy, underscoring the complex interplay of factors affecting supply-side dynamics.

Figure 13: EU industrial production growth

(YoY, %)

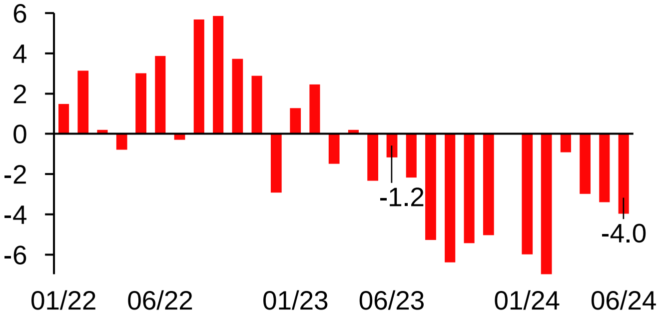
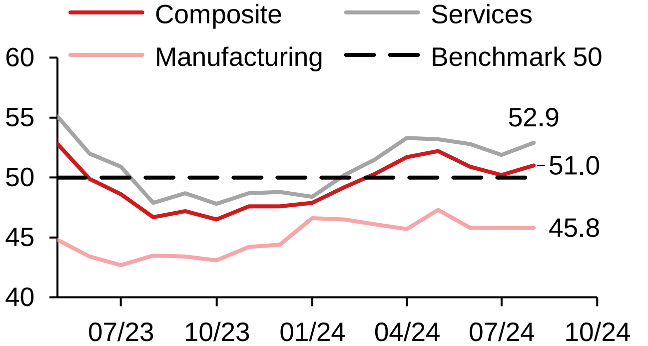


Figure 14: Eurozone PMI

(%)



Further rate cuts by the ECB are highly likely and considered crucial for the recovery of the EU's economy

We believe that the prevailing economic indicators continue to suggest that the European Central Bank (ECB) is poised to implement a rate cut in the upcoming meetings, despite the 25bps cut in September. Firstly, this anticipation is largely driven by the recent downward trajectory in inflation, which decreased to 2.2% in August from 2.6% in the previous month. Although this inflation reduction primarily resulted from a significant decline in energy costs (augmented by base effects), the core inflation also dropped to 2.8%, marking its lowest level in four months. Thus, it closely approaching the ECB's target rate. Furthermore, the long-term decline in oil prices can indirectly…

Sources: Bloomberg, Refinitiv, ECB, Eurostat, S&P Global

Global Economy *(Cont.)*

… affect core inflation in the EU, as it reduces transportation and production costs for goods, potentially resulting in lower retail prices. Secondly, there are signs of a deceleration in consumer demand within the EU, a trend underscored by the economic data mentioned above. Given these conditions, there is a compelling argument for the ECB to take swift and decisive action in the upcoming meetings. Market expectations have already projected up to two additional rate cuts by the end of 2024. This proactive monetary policy adjustment is deemed necessary to stimulate economic activity and buffer the EU against potential sluggishness prompted by weakening demand and inflation dynamics. Given the expected Government support, we believe the EU economy will gradually see a modest recovery over the next few quarters.

Figure 15: EU CPI

(YoY, %)

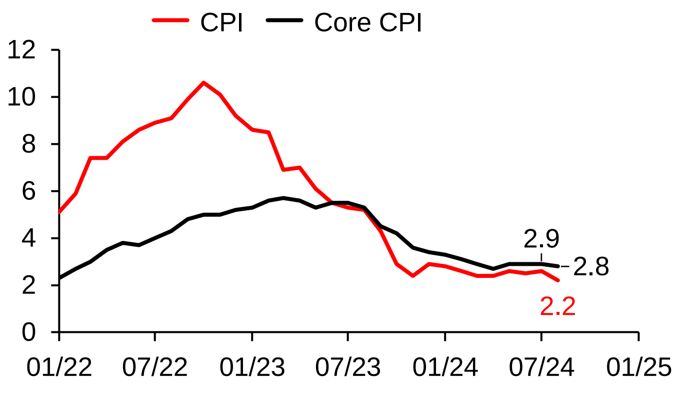


Figure 16: Market ECB implied rate expectation

(%)

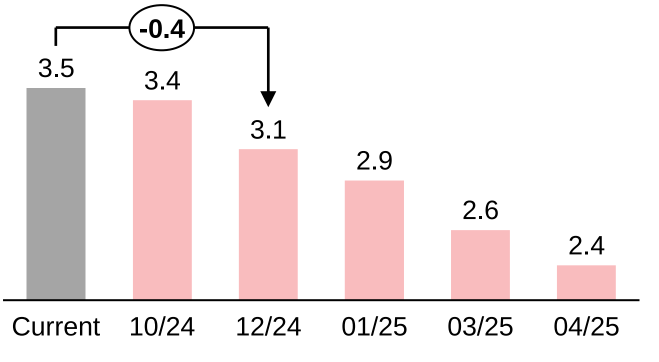
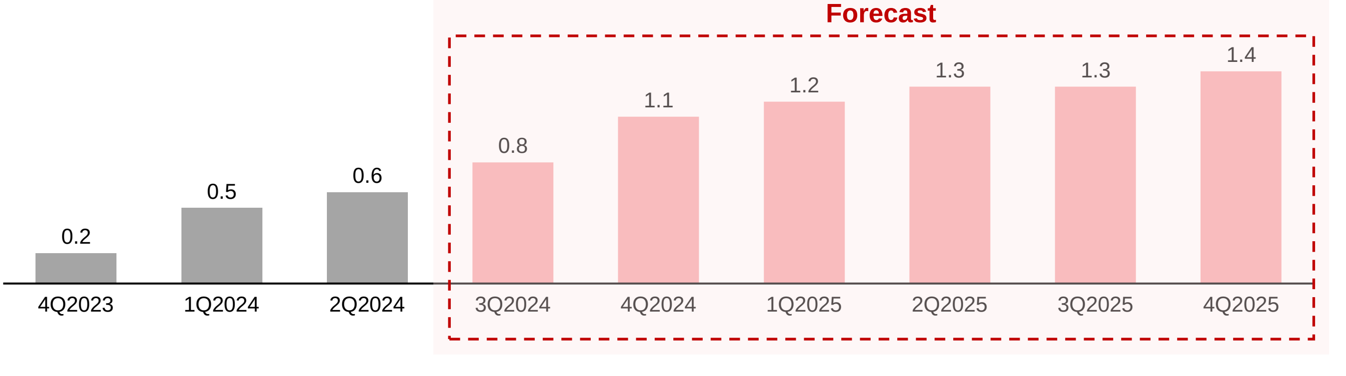


Figure 17: EU GDP growth & forecast by Bloomberg

(YoY, %)



Sources: Bloomberg, Refinitiv, ECB, Eurostat

Vietnamese Economy

Despite the expected slowdown, the US economy still exhibits resilience, meanwhile, the EU economy is experiencing moderate recovery. Given this context, Vietnam's international trade, manufacturing activities, and foreign investment remain the primary drivers of its economy. However, given the prevailing global uncertainties, Vietnam may require additional factors to achieve a more sustainable growth, particularly in terms of domestic demand and development investments by the Government.

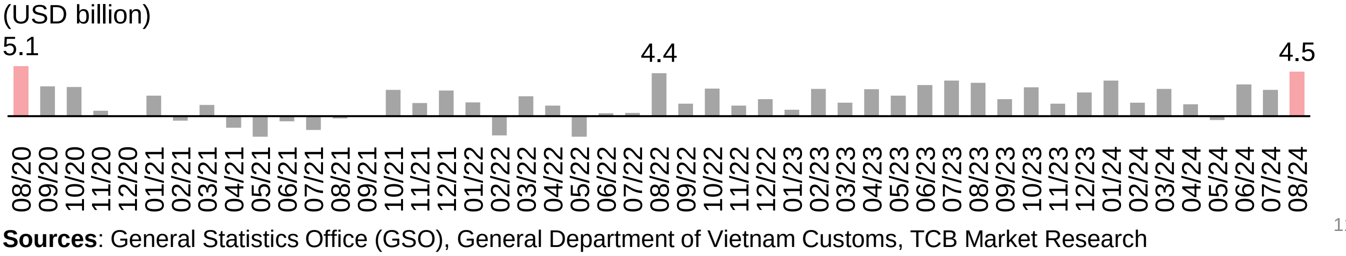
Vietnam achieves a trade balance of 4.5 USD billion in August, the highest monthly figure since August 2020

Given the -10% YoY growth rate of exports in the first eight months of 2023, many might argue that the recent strong recovery of Vietnam's international trade activities this year is primarily attributable to the low base effect from last year. However, according to data from the General Statistics Office of Vietnam (GSO) and Vietnam Customs, our calculations[1] show a 16% YoY growth in exports for the first eight months of 2024, along with a 5% increase compared to 2022. This proves the undeniable fact that this phenomenon is also driven by the recovery of global demand, as the global economy has been resilient.

Local firms' exports has expanded 20% YoY for the past three consecutive months

Imports grew slightly less than exports in August due to seasonal factors; this has helped Vietnam achieve a trade balance of 4.5 USD billion, the highest monthly figure since August 2020. The electronic product sector is the largest contributor to trade activities as it accounted for half of the total growth rate in both exports and imports so far this year. Notably, local firms have shown significant improvement in export growth, achieving 20% YoY for the past three consecutive months. This growth has made a considerable contribution to the overall performance of the apparel and textile, agricultural, and wooden products sectors. Looking ahead, the rebound in trade activities is expected to continue, thanks to the moderate recovery in global demand. For example, in the apparel and textile sector, some businesses in this area have begun negotiating export orders for next year, according to Vietnam Textile and Apparel Association.

Figure 18: Monthly trade balance of good



Sources: General Statistics Office (GSO), General Department of Vietnam Customs, TCB Market Research

(1) Vietnam Custom has not yet published trade data for August at the time this report was written, so Aug data is from GSO

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Vietnamese Economy *(Cont.)*

Figure 19: Monthly export growth

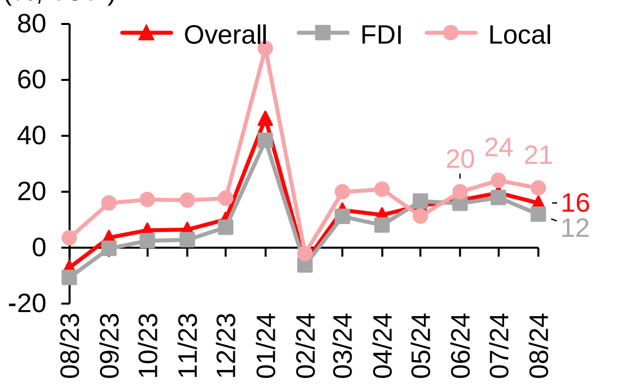
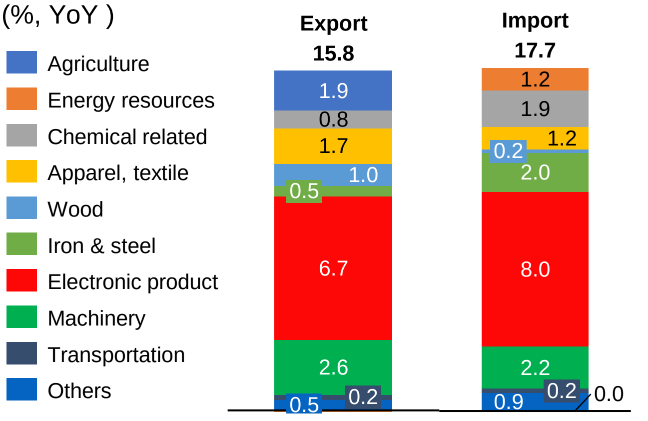


Figure 20: Contribution to 8M growth by products



Purchasing activity grew at its fastest pace since May 2022, according to S&P Global

The positive narrative is also reflected in the Manufacturing Purchasing Managers' Index (PMI), a leading indicator. The index has remained above the 50 benchmark for five consecutive months, supported by the expansion of new orders. While the index in August (52.4) is slightly below July's figure (54.7), purchasing activity grew at its fastest pace since May 2022, according to S&P Global.

Figure 21: Manufacturing PMI

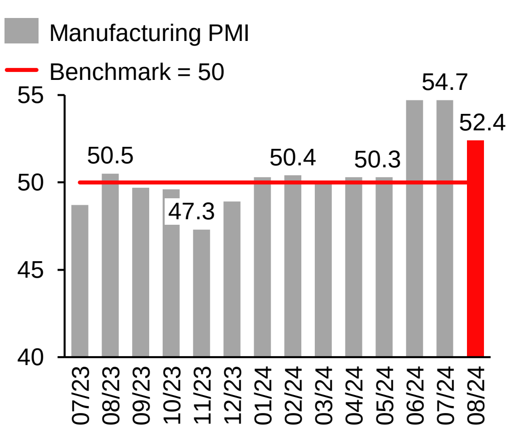


Figure 22: Manufacturing sector information

Top 5 provinces focusing on manufacturing (2023)

Dong Nai: 34 industrial parks (Top 1 in number of industrial park)

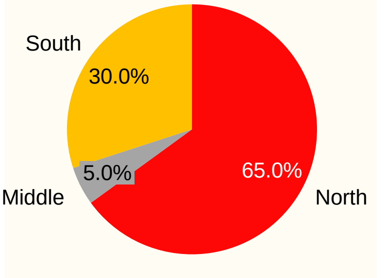
Long An: 34 industrial parks

Binh Dương: 33 industrial parks (Top 1 in industrial parks area)

HCMC: 21 industrial parks

Bac Ninh: 18 industrial parks (Top 1 in number of industrial park in the North)

FDI electronics companies set up production facilities in...



Northern Vietnam has been experiencing an aggregate supply shock due to Super Typhoon Yagi and subsequent floods

However, the bright side of the story may stem from a recovery in global demand and increases in the number of orders. From a production perspective, the outlook might appear a bit different. In the past two weeks, due to Super Typhoon Yagi and subsequent floods, Northern Vietnam has been experiencing an aggregate supply shock. These disasters have hit the manufacturing sector hard, affecting output production, employment, electricity supply, and logistic activities, as they directly impact the manufacturing hubs such as Bac Ninh, Hai Phong, Quang Ninh, Bac Giang, and Thai Nguyen.

Sources: GSO, S&P Global, Fitch Solution, Savills, TCB Market Research

Vietnamese Economy *(Cont.)*

Moreover, according to Fitch Solutions in 2023, about 65% of FDI electronic companies chose Northern Vietnam to establish their facilities. As a result, the production of electronic products in September could be slightly affected, potentially impacting international trade activities, as this sector contributes significantly to recent growth.

We remain optimistic that the overall outlook for the manufacturing sector will improve and that the severe impact of this natural disaster shall be limited to some extent

We remain optimistic that the overall outlook for the manufacturing sector will improve steadily and that the severe impact of this natural disaster is limited to some extent. Firstly, among the top five manufacturing provinces in Vietnam, four are located in Southern Vietnam, where they strongly focus on apparel, textiles, and electronic production. Secondly, according to the Vietnam National Center for Hydro-Meteorological Forecasting, the weather in the North is expected to improve starting September 12th. Finally, we believe the proactive engagement of the entire political system in predicting and managing this natural disaster from the early stage has significantly mitigated damages and supports the efficient recovery from this event.

Figure 23: Real Growth in retail sales

(YTD, % YoY)

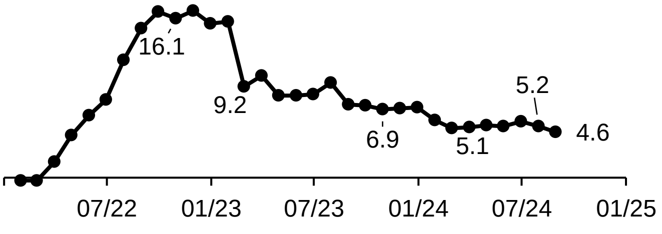
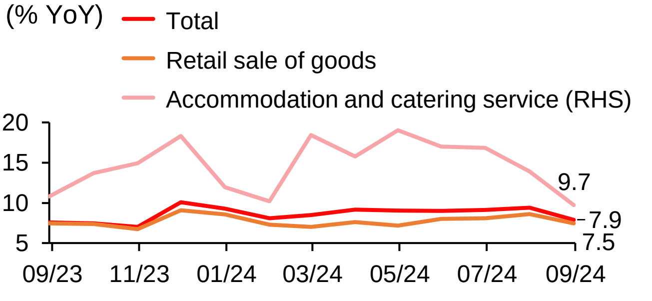


Figure 24: Nominal growths in retail sales

(% YoY)



Real retail sales growth has continued to slow down significantly over the past three months, reaching 4.6% for the growth in the first eight months

The latest real retail sales figures are concerning, as they depict a gloomy picture of domestic demand. This also poses a potential threat to the overall economic growth target as private consumption contributes more than half of the Gross Domestic Product (GDP). The growth rate has significantly slowed down over the past three months, falling to 4.6% for the first eight months of the year. To some extent, this is an alarming signal, especially when the Government has already implemented various policies to stimulate demand, such as lowering VAT and reforming State salaries. However, we have yet to see the noticeable impacts of these measures. Given this context, Prime Minister Pham Minh Chinh has immediately issued Directive No. 29/CT-TTg, which aimed at boosting domestic demand, supporting production and business.

Sources: GSO, Ministry of Planning and Investment (MPI), TCB Market Research

Section 3

Vietnamese Economy *(Cont.)*

Vietnam will attract 18 million international tourists in 2024 and 25-28 million in 2025, according to Tourism Advisory Board

Meanwhile, nominal growths are also demonstrating the same picture across various categories, except for the travelling services thanks to tourism activities. As mentioned in the previous monthly report, the decline in the number of international tourists in recent months was mainly due to the holiday season. With summer coming to an end, we have seen a slight improvement in the number of international tourists visiting Vietnam in August, and we expect this upward trend to continue toward the end of the year. The Tourism Advisory Board anticipated that Vietnam will attract 18 million international tourists this year, which implies an additional 7 million tourists over the next three months. Furthermore, they have set a target of 25 to 28 million inbound international tourists by 2025, representing a 30-50% increase compared to 2024. Based on our evaluation, it will require significant effort to achieve this goal. For example, Vietnam's visa exemption program still appears less attractive compared to those of regional countries.

Figure 25: Number of visa exempted countries

(Countries)

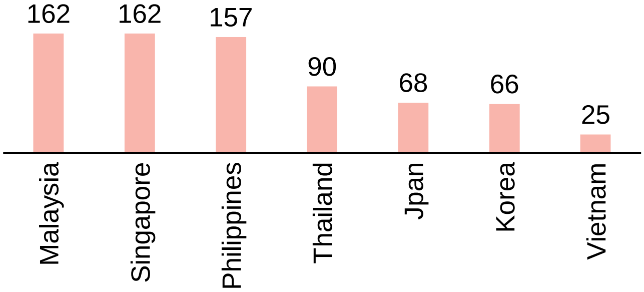
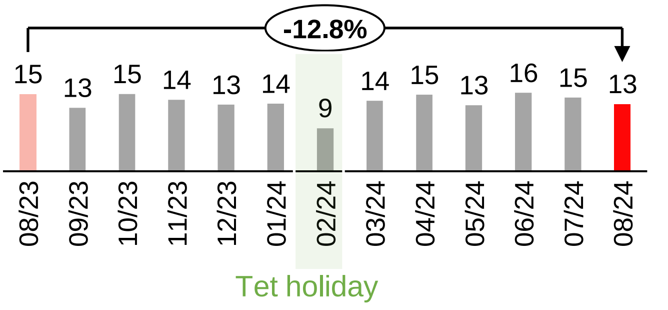


Figure 26: Newly established enterprises

(Thousand enterprises, Monthly)



The growth rate of temporarily inactive and ceased enterprises has outpaced the growth rate of newly established and resumed enterprises across the overall economy and its individual sectors

While the supply side of the economy has been recovering at a steady pace, the demand side has been experiencing some weaknesses. It is not surprising to see a gloomy picture of the business situation. The latest figures indicate that newly established enterprises grew at negative rates in both YoY and MoM measures. Although the eight-month figure looks promising with a 4.4% YoY increase in the number of newly established enterprises, both the monthly average of registered capital and employment for these enterprises decreased by 3.6% and 1.9%, respectively. Moreover, when examining the overall economy and its individual sectors, the growth rate of temporarily inactive and ceased enterprises has outpaced the growth rate of newly established and resumed enterprises.

Sources: GSO, Tourism Advisory Board ,TCB Market Research

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Vietnamese Economy *(Cont.)*

Despite various implementation of favorable tax policies for businesses such as the extension of deadlines for tax payments and land rental fees for the 2024 tax year since June, we still expect further measures from the Government to help the economy achieve a full potential recovery.

Figure 27: Growth of Newly established & Resumed versus Temporarily inactive & Ceased enterprises

(YTD, YoY %)

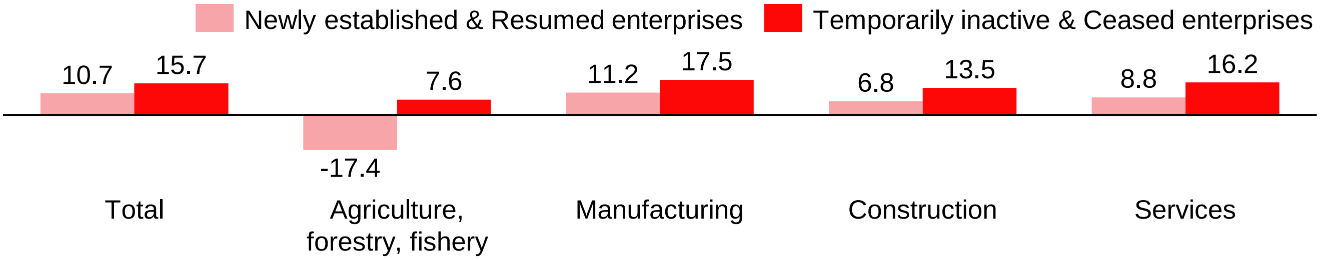


Figure 28: State budget balance

(VND trillion)

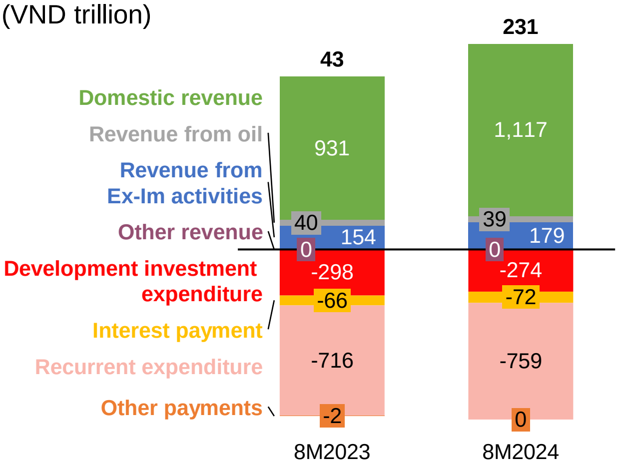
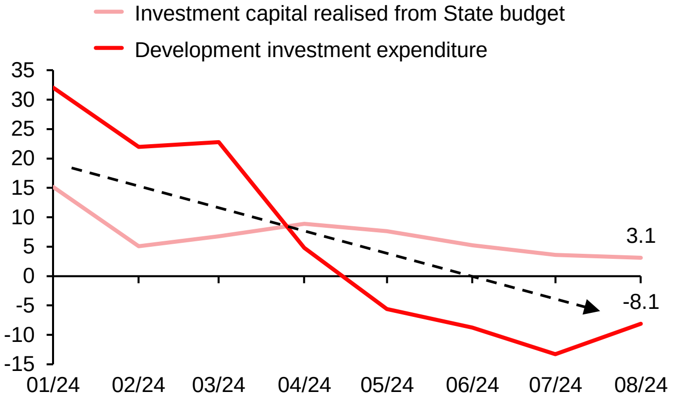


Figure 29: Public investment growth

(YTD, YoY %)



A surplus of VND 231.4 trillion could be interpreted as the amount of money the Government withdrawing from the economy

Another critical task that the Government should focus on is public investment. In our opinion, this is one of the most important factors for Vietnam's sustainable economic growth, given its spillover effects on other areas of the economy, particularly regarding the liquidity of the banking system and interest rates. Notably, although Vietnam is a developing country, the State budget balance tends to be in surplus for most of the year before turning to a deficit in December. This situation largely depends on how we interpret the data: a substantial surplus in the first eight months of 2024 could indicate that the economy is performing well and the Government revenue is secured. Conversely, it shall also suggest that the Government has not been spending enough to support economic growth. A surplus of VND 231.4 trillion could be interpreted as the amount of money the Government withdrawing from the economy, which partially explains why...

Sources: GSO, State Bank of Vietnam (SBV), TCB Market Research

Vietnamese Economy *(Cont.)*

...the YTD deposit growth rate is abnormally low, especially in comparison to the corresponding period in 2023, when the State budget surplus was only one-fifth of the value for 2024.

We have yet to notice a strong bounce back of public investment

As highlighted in our previous reports, a concerning indicator that worth mentioning is the Government's development investment disbursement. Following our close monitoring of this indicator, its recovery remains weak. There are two data sources that measure Government spending on investment: the investment capital realised by GSO and the development investment expenditure reported by the Ministry of Finance. However, both sources indicate a slowdown in State investment disbursement: one shows a negative growth rate, while the other demonstrates a declining YTD YoY growth rate in recent months. Going forwards, we are hopeful that the Prime Minister's recent aggressive push to boost public investment through Directive 26/CT-TTg will lead to positive changes in the near future.

Figure 30: MoM inflation contribution

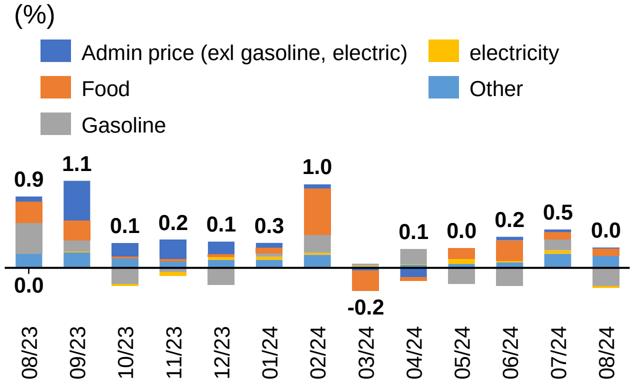
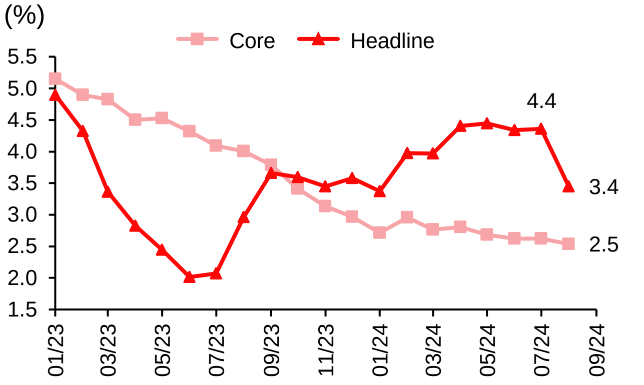


Figure 31: YoY Headline and core inflation



The elevated inflation from April to July was primarily due to a low base from the previous year, as August data demonstrated a significant drop to 3.4% from 4.4% in previous month

Inflation, which remained close to 4.5% at the time, has emerged as a rising concern on media in recent months. However, our team has consistently maintained the view that high inflation is unlikely for 2024. As mentioned in previous reports, the elevated inflation from April to July was primarily due to a low base from the previous year, as August data demonstrated a significant drop to 3.4% from 4.4% in previous month. This decrease was largely influenced by a substantial 5.8% reduction in gasoline prices, driven by the bleak outlook for global crude oil prices. Looking ahead, while we acknowledge that the recent natural disaster in Northern Vietnam may drive up prices of food items like vegetables, fruits, and seafood due to limited supply, ...

Sources: GSO, State Bank of Vietnam (SBV), TCB Market Research

Section 3

Vietnamese Economy *(Cont.)*

We expect inflation rate to be around 3% for the rest of the year

...we do not expect the overall impact on inflation to be enormous, with CPI ranging around 3% for the rest of the year. This is largely because the supply shock is confined to the northern part of Vietnam and is expected to be short-lived. Meanwhile, global crude oil prices dropped significantly in early September. Additionally, we have observed a persistent slowdown in core inflation, which can be attributed to weak domestic demand in the economy, as previously noted.

Figure 32: Currencies versus USD

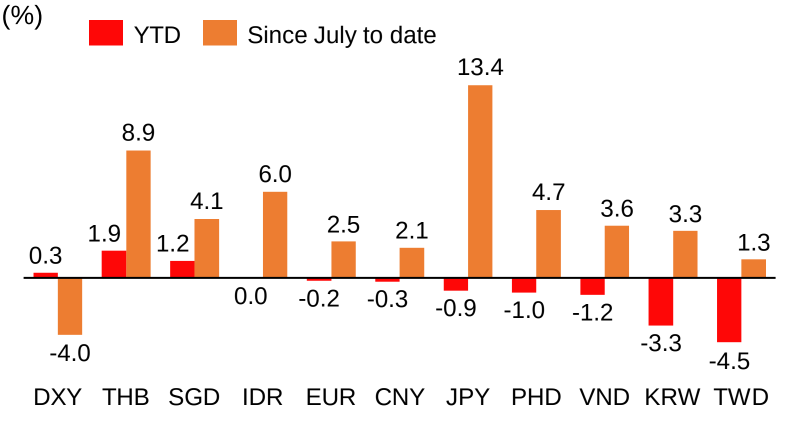
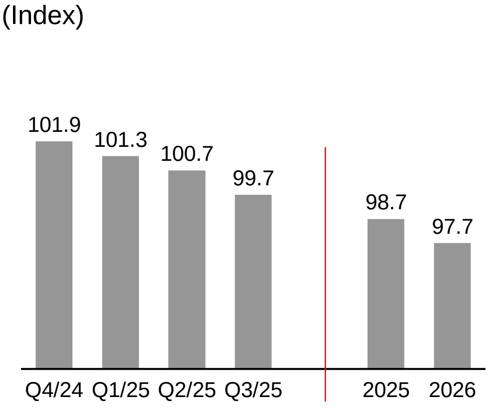


Figure 33: DXY forecast by Bloomberg



The USD/VND has decreased significantly and is expected to fluctuate in short-term due to global uncertainties. However, by year-end, the VND may face less depreciation pressure thanks to remittances

The recent appreciation of the VND is primarily driven by the weakening USD, as not only the VND but the majority of currencies have appreciated significantly in the past two months. While the appreciation of the VND was anticipated, as noted in previous reports, we admit we were surprised by the magnitude of this appreciation, especially since we did not expect the DXY to devalue so quickly. That said, this appreciation has also been supported by the narrowing negative interest rate gap and off-season outflows related to both imports and profit repatriation. In the coming months, given that Bloomberg forecasts the DXY to remain stable at this level in 2024, the USD/VND could hold steady as well. However, since the USD/VND is currently heavily influenced by the DXY, it is important to keep in mind that the exchange rate could fluctuate in either direction due to uncertainties surrounding the US elections and the economies of the US and EU. Towards the end of the year, we believe the VND may face less depreciation pressure due to expected inflows from seasonal remittances, particularly with the Tet holiday in 2025 occurring earlier than it did last year.

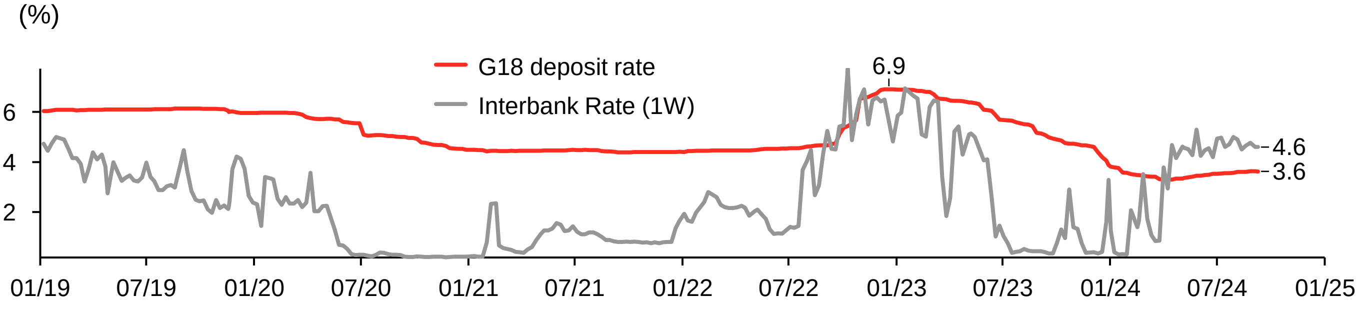
Sources: GSO, State Bank of Vietnam (SBV), TCB Market Research

Vietnamese Economy *(Cont.)*

Deposit interest rates are anticipated to rise modestly by year-end as the economy continues its recovery

Although we have observed strong support from the State Bank of Vietnam (SBV) for the liquidity of the banking system, including cuts to the OMO rate and the note issuance rate, followed by a halt in note issuance, the interbank market rate has surprisingly remained consistently above 4.5% for both July and August. This situation is partly due to a surplus in the State budget balance, as previously assessed. Additionally, the SBV's sales of USD at the beginning of the year has negatively impacted total deposit growth, creating a significant gap between total credit growth and total deposit growth, which has ultimately led to tighter interbank market rates. However, we expect that liquidity tightness in the interbank market could ease slightly in the coming months. This is likely to occur under key assumptions, such as further cuts by the SBV following several reductions by the Fed and improvements in public investment, which we believe will materialise by the end of the year. While the interbank rate is expected to ease, we anticipate an opposite trend for term deposit rates. This is because credit demand is expected to rise as the economy continues its recovery, while deposit growth may lag behind. However, any increase in deposit rates is likely to be modest.

Figure 34: The average deposit interest rate for the G18* group with a 6-month term



Sources: SBV, Reuters, Bloomberg, TCB Market Research
Note: G18 consists of 4 state-owned banks and 14 other joint-stock commercial banks

Section 4

Appendix

Updates on macroeconomics and financial market in the world

Indicators	Country	Unit	2023	2023				2024							
				09	10	11	12	01	02	03	04	05	06	07	08
Real GDP Growth	US	%, YoY, Quarterly		2.90			3.1			2.9			3.1		
	Eurozone	%, YoY, Quarterly		0.0			0.0			0.4			0.3		
	China	%, YoY, Quarterly		4.90			5.2			5.3			4.7		
	Japan	%, YoY, Quarterly		1.60			1.2			-0.2					
CPI	US	%, YoY, Monthly		3.70	3.24	3.14	3.40	3.1	3.2	3.5	3.4	3.3	3.0	2.9	2.5
	EU	%, YoY, Monthly	5.46	4.30	2.90	2.40	2.90	2.8	2.6	2.4	2.4	2.6	2.5	2.6	2.2
	China	%, YoY, Monthly		0.00	-0.20	-0.50	-0.30	-0.8	0.7	0.1	0.3	0.3	0.2	0.5	0.6
	Japan	%, YoY, Monthly		3.00	3.30	2.80	2.60	2.2	2.8	2.7	2.5	2.8	2.8	2.8	
Fed funds target rate		%. End of month	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
DXY		Index. Monthly Average	103.25	105.28	106.35	104.49	102.69	102.95	104.1	103.7	105.41	104.95	105.17	104.63	102.21
USD/CNY		Index. Monthly Average	7.08	7.30	7.31	7.22	7.15	7.17	7.19	7.20	7.24	7.23	7.25	7.26	7.15
10Y UST Yields		%. Monthly Average	3.96	4.38	4.80	4.51	4.05	4.05	4.23	4.21	4.51	4.48	4.31	4.25	3.87
WTI Oil price		USD/barrel. Monthly Average	77.66	89.43	85.47	77.38	72.06	73.86	76.61	80.4	84.4	78.6	78.7	80.48	75.43

Updates on macroeconomics and financial market in Vietnam

Indicators	Unit	2023	2023				2024							
			09	10	11	12	01	02	03	04	05	06	07	08
Real GDP growth	%, Quarterly, YoY	**5.05**	5.33			6.72			5.87			6.93		
IIP	%, Monthly, YoY	**1.50**	2.89	4.38	5.79	5.76	18.86	-6.81	4.13	6.30	8.90	10.92	11.23	9.50
Headline CPI	%, Monthly, YoY	**3.25**	3.66	3.59	3.45	3.58	3.37	3.98	3.97	4.40	4.44	4.34	4.36	3.45
Retail sales growth	%, Monthly, YoY	**9.60**	7.5	7.0	10.1	9.3	8.1	8.5	9.2	9.0	9.0	9.1	9.4	7.9
Registered FDI	USD billion, Monthly	**28.10**	2.00	5.20	2.30	5.20	2.2	1.8	1.7	2.6	1.7	3.5	2.2	2.0
Disbursed FDI	USD billion, Monthly	**23.20**	2.80	2.10	2.30	2.90	1.5	1.3	1.8	1.7	2.0	2.6	1.7	1.6
Trade exports	USD billion, Monthly	**355.5**	30.80	32.50	31.20	32.1	34.5	24.7	33.7	31.1	32.3	34.5	36.8	37.6*
Trade imports	USD billion, Monthly	**327.5**	29.10	29.50	29.90	29.6	30.9	23.3	30.9	29.9	32.7	31.2	34.1	33.1*
Trade balance	USD billion, Monthly	**28.00**	1.70	2.90	1.30	2.40	3.6	1.4	2.8	1.2	-0.4	3.0	2.7	4.6*
Deposit growth	%, YTD	**10.85**	6.76	7.09	8.88	13.20	-1.29	-1.70	-0.9	-0.1	0.0			
Credit growth	%, YTD	**13.50**	6.20	7.10	9.15	13.78	-0.68	-0.75	1.42	2.01	3.43	6.10		
10Y Government bond yields	%, Monthly Average	**3.07**	2.60	2.90	2.56	2.26	2.25	2.32	2.50	2.78	2.80	2.80	2.79	2.73
1W Interbank rate	%, Monthly Average	**2.60**	0.40	1.37	0.71	0.82	0.43	2.53	1.32	4.20	4.55	4.84	4.79	4.64
6M Deposit rate**	%, Monthly Average	**-3.04**	4.90	4.70	4.54	4.19	3.70	3.40	3.37	3.31	3.39	3.49	3.55	3.61
USD/VND	Monthly Average	**23,847**	24,246	24,488	24,321	24,283	24,476	24,520	24,724	25,153	25,446	25,443	25,370	25,026

Updated full-year forecasts for Vietnam

Indicators	Unit	2023				2024								Forecast
		09	10	11	12	01	02	03	04	05	06	07	08	2024
Real GDP growth	%	5.33			6.72			5.87			6.93			6.50
Headline CPI	%, YoY. Average	3.66	3.59	3.45	3.58	3.37	3.98	3.97	4.40	4.44	4.34	4.36	3.45	3.65
Deposit growth	%, YTD	6.76	7.09	8.88	13.20	-1.29	-1.70	-0.9	-0.1	0.0				10.10
Credit growth	%, YTD	6.20	7.10	9.15	13.78	-0.68	-0.75	1.42	2.01	3.43	6.10			14.00
USD/VND	Average	24,246	24,488	24,321	24,283	24,476	24,520	24,724	25,153	25,446	25,443	25,370	25,026	24,875
10Y Government bond yields	%, 10Y, Average	2.60	2.90	2.56	2.26	2.25	2.32	2.50	2.78	2.80	2.80	2.79	2.73	2.60
1W Interbank rate	%, Average	0.40	1.37	0.71	0.82	0.43	2.53	1.32	4.20	4.55	4.84	4.79	4.64	3.70

Sources: GSO. Customs. VBMA. Reuters. TCB Analysis

Notes:

* Estimated numbers

** Weighted average of 18 banks

The latest trade data updated by GSO. Previous data updated by Customs

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