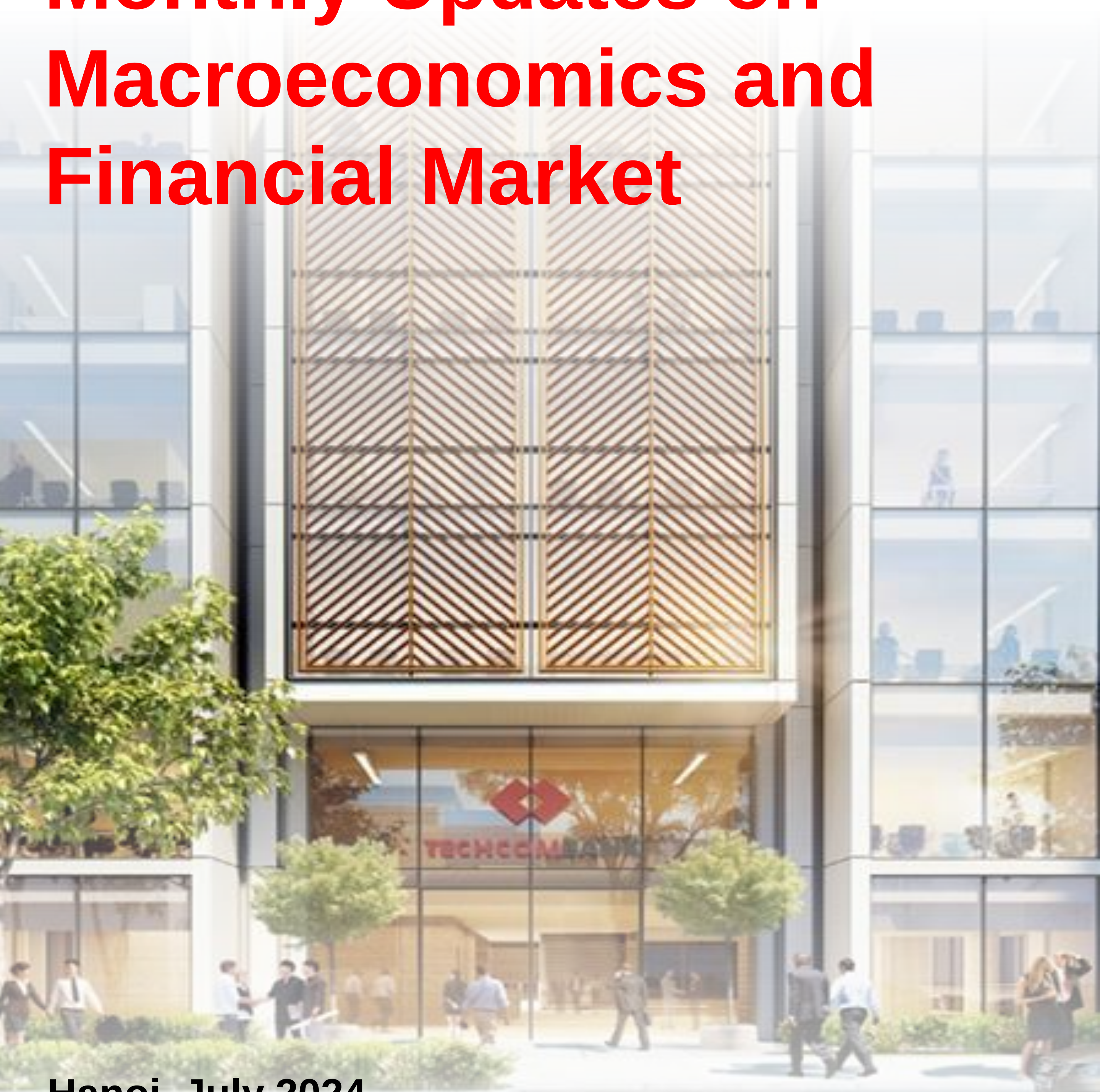
Monthly Updates on Macroeconomics and Financial Market



Hanoi, July 2024

Prepared by Economic and Financial Market Analysis Team

BE GREATER

TECHCOMBANK

Vietnam's resilient recovery: Thriving economy amidst the US economic slowdown and EU's ongoing rebound in 2024

Section 1

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Executive Summary

Global Economy:

- *Although global ocean freight rates surged amidst increasing shipping costs on the Asia-US/EU routes, the chances of the US/EU inflation rates increasing due to shipping costs are small.*
- *US consumer demand exhibits weakening characteristics as retail sales, personal consumption expenditures of services, and consumer confidence experience slowdowns. The labour market displays a persistent downward trend, with vastly revised non-farm payroll figures of the previous months, as well as the unemployment rate has risen to 4.1%.*
- *The US CPI is expected to continue to cool off in 2H24. We maintain our view that the first Fed rate cut might happen in September, considering the current situation of the labour market and US inflation.*
- *EU consumer sentiment is showing signs of improvement. Industrial and service production has experienced a slowdown, but there remains a prevailing sense of optimism.*
- *The likelihood of an ECB rate cut in July is low, with a higher probability of such action being considered during the September meeting.*
- *EU GDP is expected to continue to recover due to improved consumer sentiment, a resilient labour market, income growth, and the ECB's monetary easing policy, but the recovery is slow due to the current deceleration of the supply-side.*

Vietnamese Economy:

- *The industrial and construction sectors remained the primary drivers of economic growth. We have adjusted our GDP forecast for the entire year of 2024 to 6.5%.*
- *The strong increase in new orders have enabled Vietnam's trade and manufacturing activities. We expect YoY export and import growth for 2024 to be 12.5% and 18.5%, respectively.*
- *The total value of newly registered and additionally registered FDI capital in 6M24 witnessed an impressive growth of 43.2% YoY, reaching USD 13.5 billion. The manufacturing sector continues to receive significant attention from foreign investors.*
- *Domestic consumption demand is expected to improve, primarily driven by the full recovery of tourism and supportive policies from the Government.*
- *The average inflation for the whole year 2024 is forecasted to be in the range of 3.5% to 4.0%, below the Government's target of 4.5%.*
- *We forecast USD/VND rate would fluctuate around 25,450 in the short-term, and cool down to 25,250 by the end of the year.*
- *Deposit interest rates are forecasted to experience a slight increase at the end of the year as the economy recovers.*

Section 2

Global Economy

The US economy continues to exhibit decelerated economic activities. We maintain our anticipation of the initial rate cut by the Fed in September, given the persistently downward trajectory of US inflation and unemployment rate surpassing the FOMC's projections. The EU economy is projected to slowly recover, albeit at a sluggish pace, supported by a resilient labour market amidst the monetary easing policies.

Global ocean freight rates surged amidst increasing shipping costs in the Asia-US/EU routes, while the North America and EU route saw flat rate

The global rise in ocean freight rates has been observed alongside an increase in shipping costs specifically in the Asia-US/EU routes, while the shipping costs in North America-EU routes have remained steady. This surge in rates is primarily influenced by two main factors. ***Firstly***, China facing tariffs from both the US and EU has led suppliers to expedite exports in order to meet the Western holiday season, which typically occurs later in July. ***Secondly***, the ongoing conflicts in the Red Sea region, a vital maritime route connecting Asia - Europe and Asia - Americas, continues to disrupt shipping activities, increase security risks, cause delays or rerouting of vessels, resulting in higher costs, extended transit times, logistical challenges, and increased insurance premiums for shipping companies. Consequently, the increased in both demand and input cost has resulted in a subsequent rise in ocean freight rates.

Figure 1: Freight rate: global and other regions

(Thousand USD)

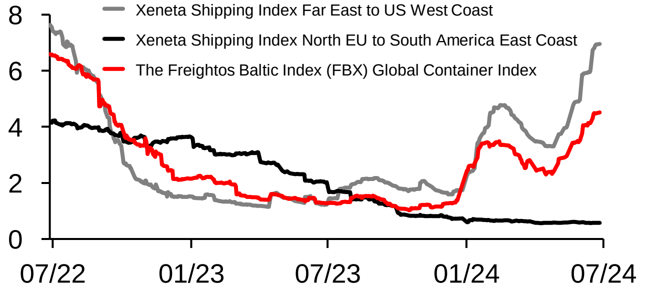
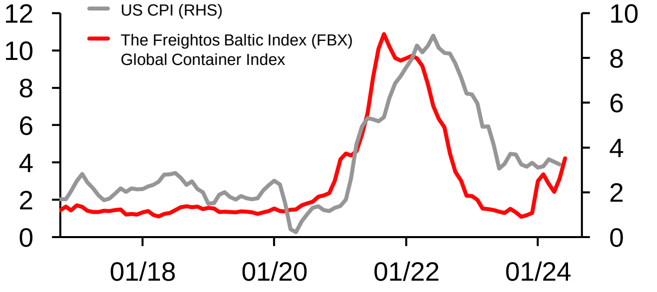


Figure 2: US CPI and freight rate

(Thousand USD, %)



However, we see that the chances of the US/EU inflation rates increasing due to shipping costs are small

The escalation of shipping costs raises concerns about potential inflationary pressures in both the US and the EU. Back in 2021, the average cumulative global freight rate surge of ~300% year-to-date (YTD) year-on-year (YoY), inflation in the EU was impacted modestly with an estimated range of 0.3 percentatge point (ppt) to 0.5 ppt, while the impact on US inflation ranged from 3.6 percentage point to 5.9 percentage point. In 2024, we see that the chances of the US inflation rate increasing due to shipping costs are small. ***Firstly***, the average cumulative global freight rates have only increased by 84% YTD YoY, which can be consider moderated compared with the 300% …

Sources: Bloomberg, BLS, Refinitiv, Central Bank of Cyprus, Federal Reserve Bank of St. Louis

… increase during the post-COVID-19 period of 2021. ***Secondly***, it is likely that US goods might be subject to the commodity price pass-through effect from China. China, being a significant exporter to the US, has been witnessing a period of deflation in the second half of 2023 (2H23), followed by disinflation in the first half of 2024 (1H24). As a result, the prices of Chinese goods and products have decreased. Given the stable USDCNY exchange rate, it is likely that US goods will be influenced by China's deflation and disinflation pass-through effect. This, in turn, will mitigate the overall impact of the rising freight rates on Chinese exports to the US. ***Thirdly***, the unexpected 0.4% decline in US import prices in May, contrary to market expectations, further supports the aforementioned reasons. ***Lastly***, the forthcoming implementation of tariffs by the US on major Chinese goods, such as electrical machinery and equipment, as well as steel, is expected to occur on August 1st, 2024. As a consequence, exporters may opt to reduce their export volumes in response to these tariffs, which could potentially lead to a decline in shipping demand beyond the end of July, ultimately resulting in a decrease in freight rates. Based on the assessment above, the likelihood of a notable increase in US inflation rates due to shipping costs is minimal.

Figure 3: US tariffs on Chinese goods and the implementation dates

Category	Tariff	Implementation Date
Battery parts	Increase from 7.5% to 25%	Aug-24
Electric vehicles	Increase from 25% to 100%	Aug-24
Facemasks	Increase from 0 – 7.5% to 25%	Aug-24
Lithium-ion EV batteries	Increase from 7.5% to 25%	Aug-24
Other critical minerals	Increase from 0% to 25%	Aug-24
Ship-to-shore cranes	Increase from 0% to 25%	Aug-24
Solar cells (whether or not assembled into modules)	Increase from 25% to 50%	Aug-24
Steel and aluminum products	Increase from 0 – 7.5% to 25%	Aug-24
Syringes and needles	Increase from 0% to 50%	Aug-24
Semiconductors	Increase from 25% to 50%	Jan-25
Lithium-ion non-EV batteries	Increase from 7.5% to 25%	Jan-26
Medical gloves	Increase from 0 – 7.5% to 25%	Jan-26
Natural graphite	Increase from 0% to 25%	Jan-26
Permanent magnets	Increase from 0% to 25%	Jan-26

Figure 4: China inflation

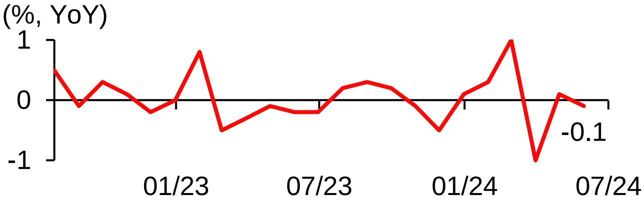
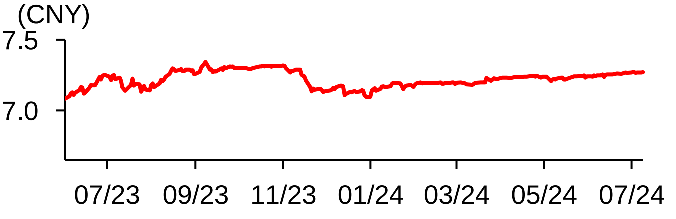


Figure 5: USDCNY exchange rate



Sources: Bloomberg, Census Bureau, Refinitiv, BLS, USTR

Section 2

Global Economy *(Cont.)*

US consumer demand exhibits weakening characteristics

The US economy continues to exhibit decelerated economic activities, especially in the demand side. ***First and foremost***, it is worth noting that the Bureau of Economic Analysis (BEA) has reported a continuation of the low growth in personal spending on a month-on-month (MoM) basis, reaching only 0.3% compared with 0.7% on March. Furthermore, it is noteworthy that the personal consumption expenditures of services have recently witnessed a continuous decline from 0.4% in February to 0.1% MoM in May. ***Secondly***, retail sales experienced a slowdown in May, with a YoY growth rate of 2.3%, falling from 4.0%. ***Thirdly***, US consumer confidence, surveyed by the Conference Board, slightly declined to 100.4 in June compared to 102 of the previous month. As a result, the ongoing downward trend indicates a continued weakening of consumer demand in the US.

Figure 6: US YoY retail sale

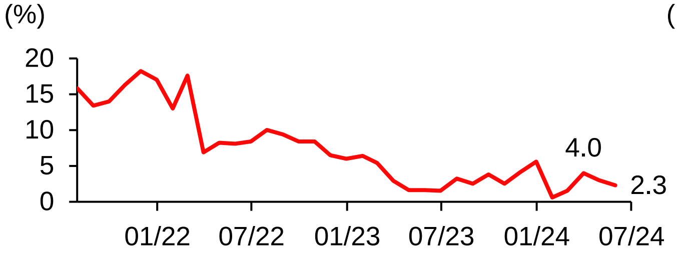
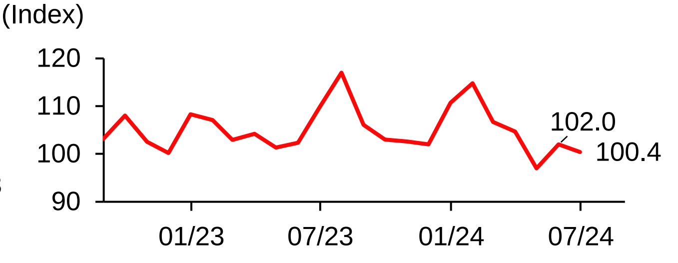


Figure 7: US Consumer Confidence index



The labour market displays a persistent downward trend

The decline in consumer demand coincides with the ongoing and prolonged weakening of the labour market in the United States. ***Firstly***, despite a small increase in job openings to 8.14 million, the job openings rate reaches a level of 4.9%, the lowest in three years, showing weak labour demand. ***Secondly***, the non-farm payroll in June reached 206,000 jobs, which we consider to be low compared to the benchmark set by Morgan Stanley at 265,000 jobs to have a significant impact on the unemployment rate, as mentioned in our previous report (Report link). Moreover, the non-farm payroll figures for May and April were significantly revised downward to 218,000 and 108,000 jobs respectively, compared to the initial report of 272,000 and 175,000 jobs respectively. Unsurprisingly, the unemployment rate has risen to 4.1%, surpassing both the market consensus (4.0%) and the Federal Open Market Committee's (FOMC) projection for the fourth quarter of 2024 (4Q24). Additionally, the NY Fed Survey of Consumer Expectations indicates a notable increase in concerns about higher unemployment rates. Collectively, these factors continue to suggest that the labour market is currently experiencing a phase of easing.

Sources: Bloomberg, BEA, Refinitiv, Census Bureau, FOMC, Morgan Stanley, Conference Board

Global Economy *(Cont.)*

ISM PMI service and manufacturing depict a gloomy picture

On the supply-side of the economy, both the ISM PMI service and manufacturing in June exhibit a significant downward trend, dropping from 53.8 to 48.8 and from 49.2 to 48.5, respectively. Particularly, the ISM PMI service has dropped down at the lowest level for the first time since May 2020. Unsurprisingly, prominent research institutions from Bloomberg survey have revised down their estimates for US GDP growth in 2024, lowering it from 2.4% to 2.3%, primarily driven by the decline in growth anticipated in the second half of 2024 (2H24). However, despite this adjustment, the market still forecasts an average GDP growth of 1.7% for the remaining three quarters, which is better than 1Q24 GDP number of 1.4%. We contend that the market's estimation is overly optimistic, considering the current economic situation of the US and the aforementioned factors.

Figure 8: US GDP growth forecast by Bloomberg

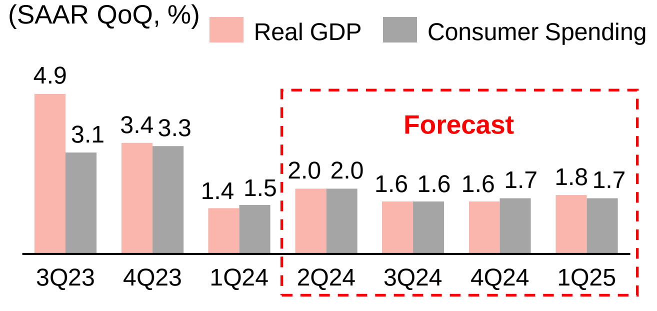
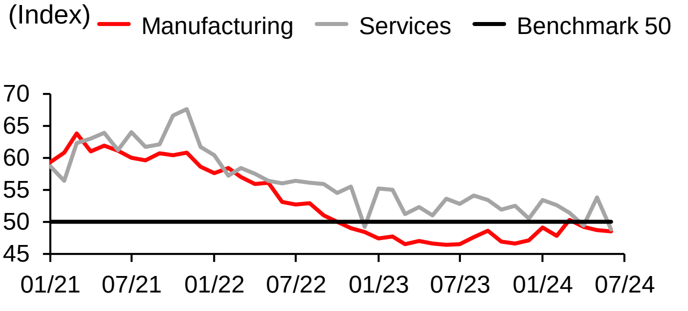


Figure 9: ISM Purchasing Manager Index (PMI)



The US CPI is expected to continue to cool off in 2H24

As the economy is slowing down, the US inflation rate is expected to be bumpy in its downward trajectory. In various Fed meetings, Chair Jerome Powell has emphasised three primary components of inflation that require attention: housing services, goods, and core services excluding housing. ***Firstly***, there has been a decline in the growth of shelter prices in May, and this trend is expected to persist, as mentioned in our previous reports (Report link). ***Secondly***, the goods inflation component such as apparel or food have continued their downward trajectory, with the latest figure even drop to 0.8% and 2.1%, respectively. Furthermore, the previously mentioned high freight rates are unlikely to exert significant pressure on the US goods inflation. ***Thirdly***, and of utmost importance, with the rapid decline in the ISM PMI Service and personal consumption expenditures of services as mentioned earlier, we anticipate a drop in the inflationary component of services excluding housing in the forthcoming results. Additionally, the market also expects the upcoming June CPI reading to decrease from 3.3% to 3.1%, contributing to the continuation of the downward trend in the inflation rate.

Sources: Bloomberg, BLS, Refinitiv, ISM

Section 2

Global Economy *(Cont.)*

Figure 10: US YoY monthly CPI key components

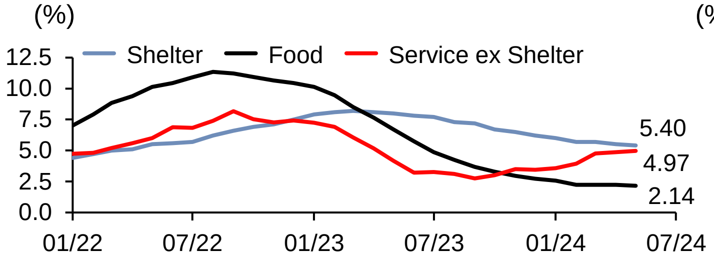
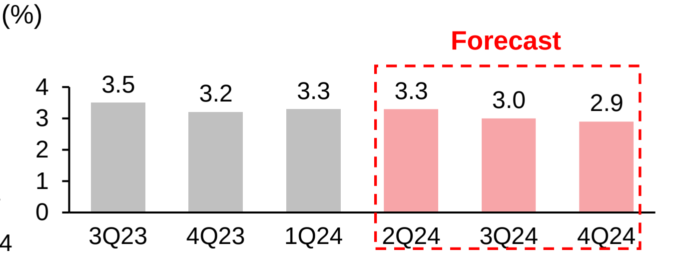


Figure 11: US YoY CPI forecast by Bloomberg

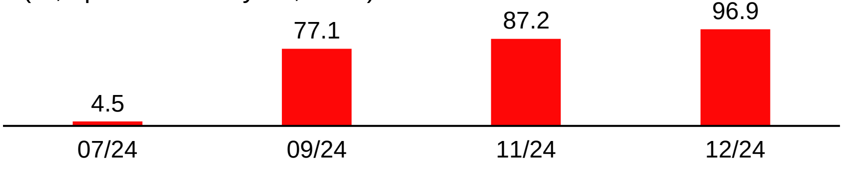


We maintain our view that the first Fed rate cut might happen in September, considering all the reasons mentioned above

The outlook for a rate cut by the Federal Reserve in September remains unchanged based on the following factors. ***Firstly***, the inflation rate continues to demonstrates a downward trend and it is expected to decline in the upcoming time, especially after the ISM PMI service results. ***Secondly***, the overall trend of US labour markets remains on a downward trajectory. The market consensus reflects a 77.1% cumulative probability of a rate cut in September, adjusted from 67.6% of last month. Thus, we maintain our view that the first Fed rate cut will happen in September.

Figure 12: Fed rate cut probability by Reuters Poll

(%, updated on July 8th, 2024)



EU consumer sentiment is showing signs of improvement

(*) McKinsey's Consumer Wise survey in June 2024

The European Central Bank's (ECB) decision to lower interest rates in June can be regarded as reasonable and rational, as it has effectively supported the economy's demand-side. In 2023, according to McKinsey's Consumer Wise survey data, the impact of high interest rates led to a shift in consumer behaviour, with individuals opting to reduce spending. Therefore, the recent reduction in interest rates is necessary to stimulate consumption, particularly in light of a marginal increase in EU consumers' income in 2Q24*. Additionally, the EU Consumer Confidence Index has exhibited a consistently upward trend in June, reaching its highest level since February 2022. This positive trend indicates an improved perception among individuals regarding their household's past financial situation. Moreover, it is worth noting that recent data on the EU unemployment rate stands at 6.4% YoY, the lowest level since 1995, suggesting a resilient labour market. Consequently, the recovery of EU consumption becomes visible in the upcoming time, with nominal income experiencing an upward trend amidst disinflationary pressures and a favorable labour market.

Sources: Bloomberg, BLS, Refinitiv, Fed, IMF, ECB, McKinsey

Global Economy *(Cont.)*

Industrial and service production has experienced a deceleration but there remains a prevailing sense of optimism

The industrial and service production has experienced a slowdown, as evident from the decline in the PMI composite index from 52.2 to 50.9. However, this number is still better than market consensus of 50.8. Also, S&P Global's data suggests that despite a slight decrease in new orders, there is a sustained level of optimism regarding future production, comparable to the optimism observed in May. This indicates that EU businesses maintain their confidence, but the weak EU economic recovery persist in plain sight.

The likelihood of an ECB rate cut in July is low, with a higher probability of such action being considered during the September meeting

The possibility of the ECB rate cut in July appears to be low, while there is a greater likelihood of such a cut taking place during the September meeting. The labour market in the EU has demonstrated resilience, as the unemployment rate has remained steady at 6.4% and wages growth number remains strong, showing that ECB is unlikely to rush for another rate cut in July. However, there has been a decrease in the inflation rate, which is expected to continue to decline gradually by the ECB. Eurostat's preliminary estimates for June indicate a slight decline in EU CPI growth to 2.5%, down from the previous month's figure of 2.6%. This decline is primarily attributed to two factors: (1) Services inflation is expected to ease as the effects of the post-pandemic reopening (high base effect) diminish; and (2) previous tightening monetary policy is still influencing forthcoming inflation outcomes. Consequently, these factors suggest that an early rate cut in July is unlikely, but there is a higher probability of another rate cut in September as the inflation rate continues to decline. Market expectations also align with this assessment, with a 67.3% cumulative probability assigned to a rate cut in September, according to Reuters.

Figure 13: ECB rate cut probability by Reuters

(%, updated on July 8th, 2024)

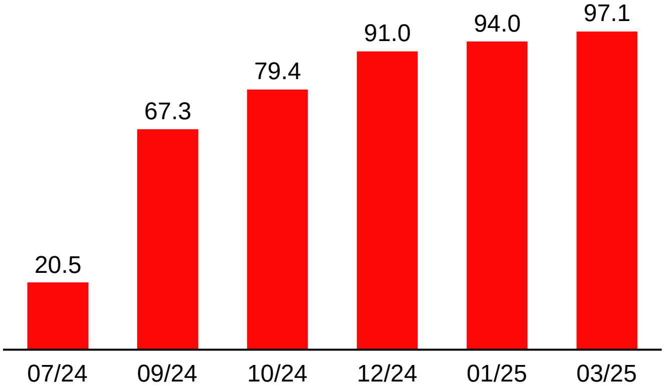
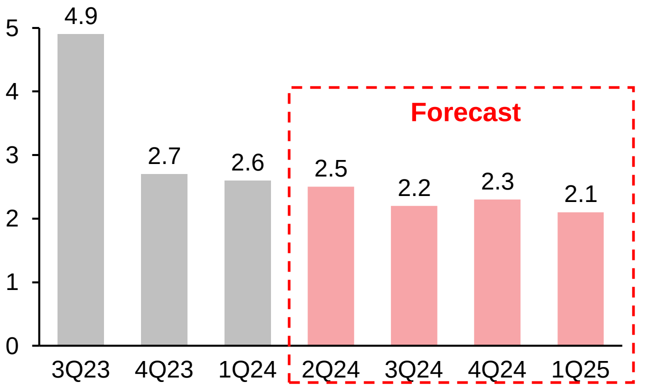


Figure 14: EU YoY CPI forecast by Bloomberg

(%)



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

Section 2

Global Economy *(Cont.)*

EU GDP is expected to continue to recover slowly

The trajectory of GDP recovery is anticipated to persist at a gradual pace within the EU. Several abovementioned factors are likely to contribute to the ongoing recovery of EU GDP. ***Firstly***, there have been notable improvements in EU consumer sentiment, accompanied by a resilient labour market and modest increases in individuals' income levels. ***Secondly***, the ECB has implemented an easing monetary policy, which includes an anticipated rate cut in the upcoming months. ***Lastly***, despite a slight decline, the EU PMI composite survey continues to reflect optimism regarding future economic prospects, according to S&P Global. As a result, Bloomberg has revised its GDP expectations upward for the upcoming quarter, further confirming the positive trajectory of economic recovery within the EU.

Figure 15: EU PMI

(Index)

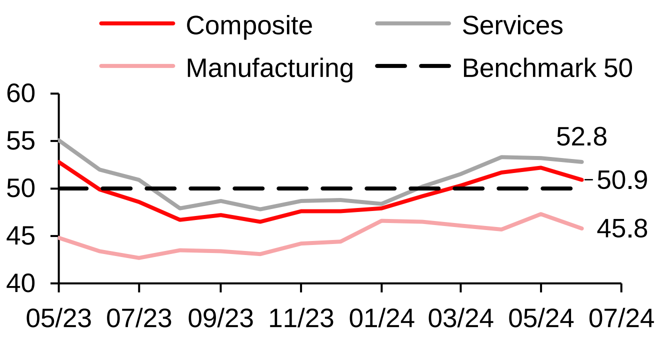
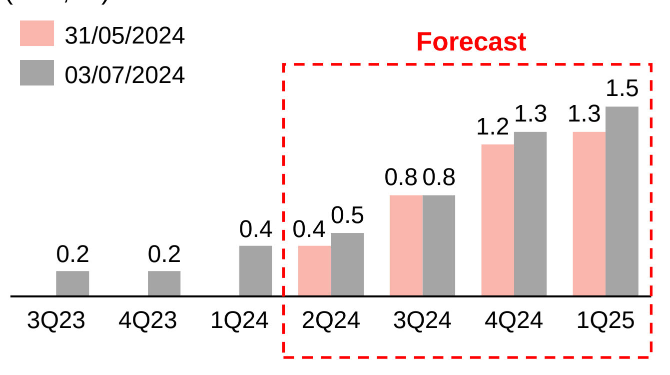


Figure 16: EU GDP growth forecast by BB

(YoY, %)



In summary, the US economy continues to exhibit decelerated economic activities. We maintain our anticipation of the initial rate cut by the Fed in September, given the persisting downward trajectory of US inflation rates and the unemployment rate surpassing the projections of the FOMC. On the other hand, the EU economy is projected to slowly recover, albeit at a sluggish pace, supported by a resilient labour market amidst the ECB's monetary easing policies.

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

Section 3

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Vietnamese Economy

The sharp increase in the number of orders has benefited Vietnam's trade and production activities amidst the slowing US economy, recovering EU market. The expectation of increased public investment disbursement, improvements in both the real estate market and domestic demand in the second half of the year shall exert positive impact on economic growth. We have revised our GDP growth forecast for Vietnam in 2024 to 6.5%.

The industrial and construction sectors remained the primary drivers of economic growth

GDP growth in the second quarter improved to 6.9% compared to the same period last year (YoY), leading to a decent YoY growth rate of 6.4% for the first six months of the year (6M24). The main contribution to GDP growth comes from the industrial and construction sectors. Accordingly, the industrial production index (IIP) has already demonstrated a recovering trend since March. The 6M24 IIP in key sectors such as textiles, electronics, electrical equipment, and furniture all experienced decent growth. Additionally, the construction sector maintains a 7% GDP growth rate thanks to the gradual warming up of the real estate sector and on-track disbursement of public investment, especially in key projects. We expect the industrial and construction sectors to continue recovering and contributing significantly to GDP growth in the remaining two quarters. ***Firstly***, the increase in new orders continues to support the manufacturing and processing sector. According to IHS Global, the Purchasing Managers' Index (PMI) for June rose significantly to 54.7. Specifically, the number of new orders has increased for the third consecutive month and reached a near-record high growth rate. ***Secondly***, we expect public investment disbursement to reach 95% of the 2024 plan as the Government has constantly pushed for progress. ***Thirdly*****,** the Land Law becoming effective from August 1st, 2024 will expedite land clearance for businesses, increase the land fund supply, and attract foreign investment. As a result, the real estate and construction sectors are expected to experience better growth in the near future. ***Fourthly*****,** despite the recent increases, the interest rate level remains lower compared to previous periods, which will continue to support economic growth. As a result, we have adjusted our GDP forecast for the entire year of 2024 to 6.5%.

Sources: General Statistics Office (GSO), TCB Market Analysis

Vietnamese Economy *(Cont.)*

Figure 17: GDP growth in the first six months compared to the same period by sector

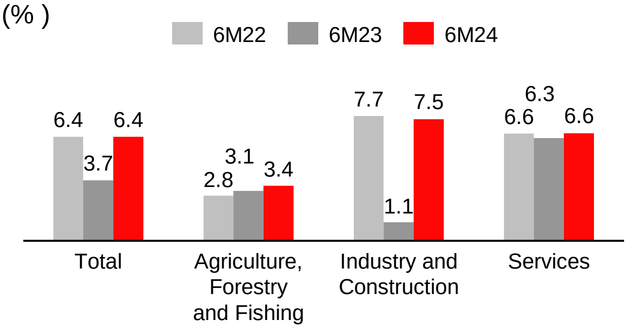


Figure 18: IIP by industry

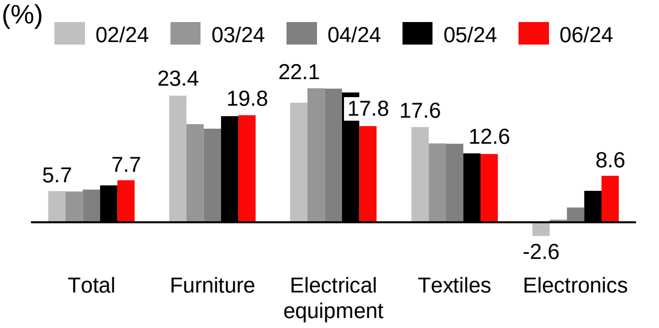


Figure 19: Vietnam's Manufacturing PMI

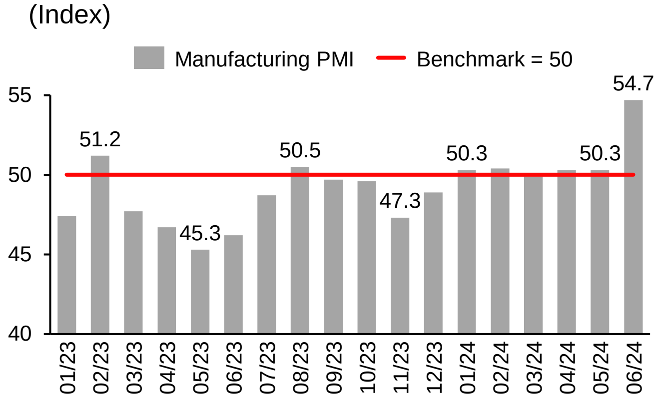
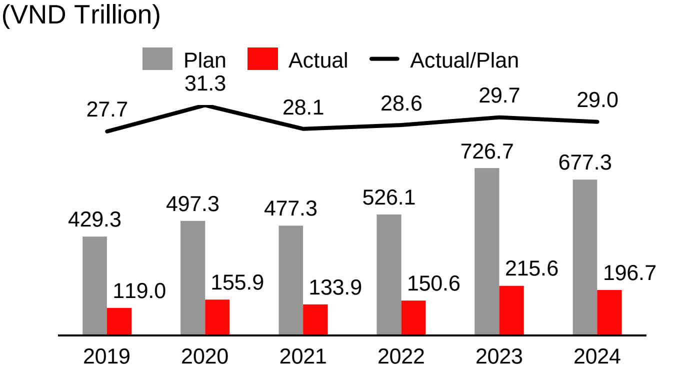


Figure 20: Investment expenditure in the first six months of each year



Vietnam's trading activities shall benefit from the expected increase in new orders

Exports to key markets such as the US, EU, ASEAN, and South Korea sustained double-digit growth in 6M24. Specifically, major export products witnessed significant recovery. Given the trade balance surplus of USD 11.6 billion in 6M24, the trade balance surplus in June exclusively amounted to USD 3 billion, which was not surprising. Based on our observation, import trends in June are anticipated to be weaker compared to the preceding month. However, in July, we noticed a clear resurgence in import pressure as the number of new orders increased, particularly for electronic components and machinery equipment. On a bright note, according to a survey of the General Statistics Office (GSO) conducted on nearly 6,400 processing and manufacturing enterprises, 83.8% of businesses expected that new orders in the third quarter will continue to increase or remain stable, supporting trade activities in the near future. As mentioned in previous reports, we maintain the viewpoint that imports will continue to grow stronger in the second half of the year as the economy recovers. Therefore, we expect YoY export and import growth for the whole year 2024 to be 12.5% and 18.5%, respectively.

Sources: GSO, Ministry of Planning and Investment (MPI), Jones Lang LaSalle (JLL), TCB Market Analysis

Vietnamese Economy *(Cont.)*

Figure 21: YoY trade growth by nation in 6M24

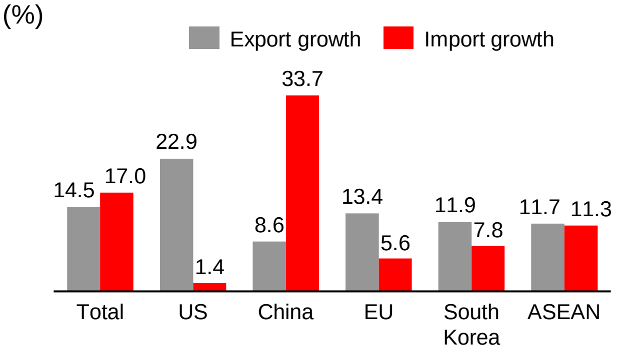


Figure 22: YoY trade growth by product in 6M24

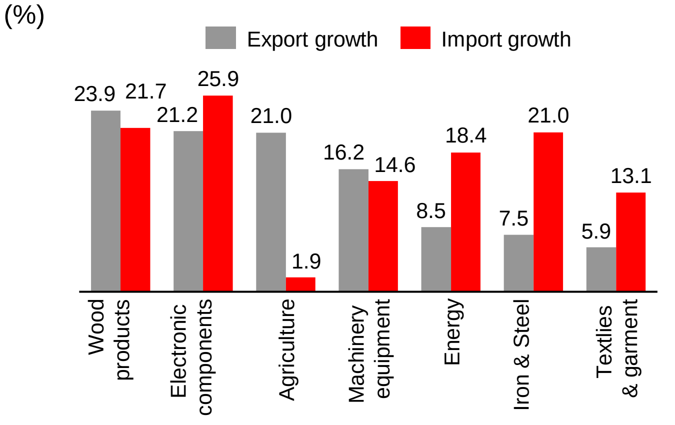
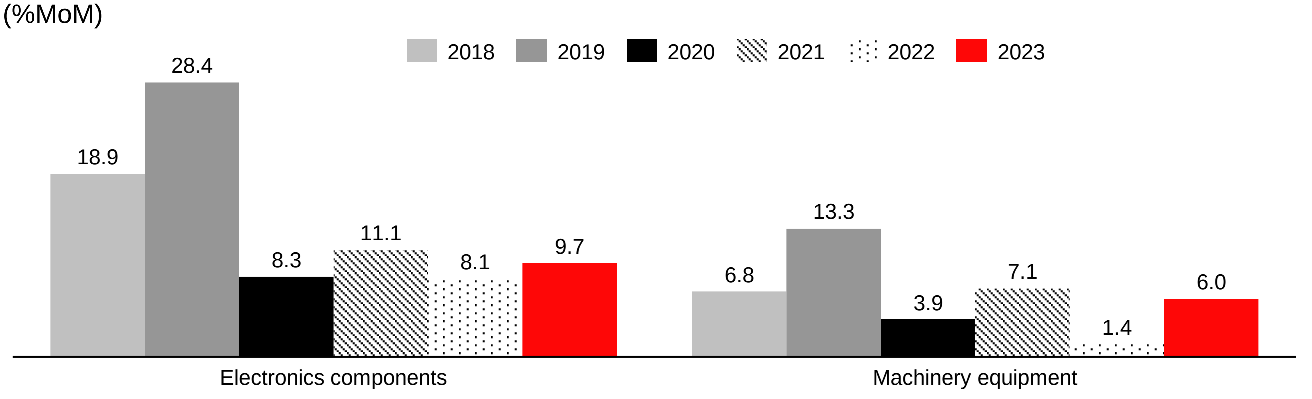


Figure 23: Growth in imports of goods in July compared to the preceding month



The manufacturing sector continues to receive significant attention from foreign investors

Newly registered and additionally registered foreign direct investment (FDI) capital into Vietnam in 6M24 increased significantly by 43.2% YoY, indicating continued optimism among major enterprises regarding investment prospects in Vietnam. Specifically, investment in the manufacturing sector rose by 36.6%. In June, Amkor invested an additional USD 1 billion in its semiconductor equipment manufacturing plant, Foxconn invested in three electronic component manufacturing plants with a total investment of USD 950 million in Bac Ninh and Quang Ninh provinces... In the coming term, many large companies, such as LG, Samsung, and Nvidia, have shared plans to expand their facility in Vietnam. Meanwhile, the Government has demonstrated its effort in ensuring electricity supply for the production areas with the National Power Development Master Plan 2021-2030 (Power Development Plan VIII) and creating additional opportunities for foreign investors to participate in the real estate market with the 2024 Land Law. Hence, we believe that Vietnam will continue to be an attractive destination for foreign investors, especially in the manufacturing sector.

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

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Vietnamese Economy *(Cont.)*

Figure 24: Registered FDI by sector

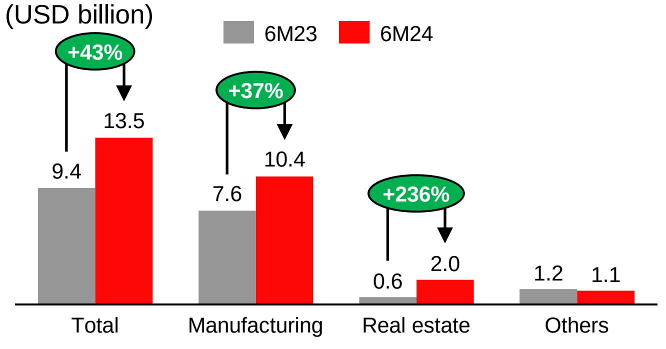
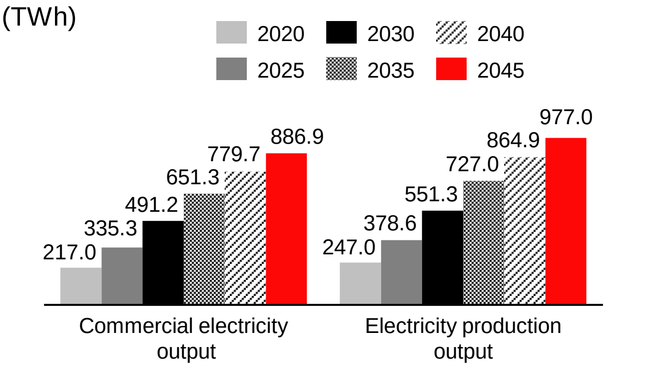


Figure 25: Forecast of electricity output 2020 - 2045F according to Electricity Planning VIII



Domestic consumption demand is expected to improve, primarily driven by the full recovery of tourism and additional supportive policies from the Government

Considering the breakdown of 6M24 GDP, final consumption increased by 5.8% YoY, lower than the GDP growth rate of 6.4% YoY, indicating moderate domestic consumption demand. Similarly, the growth of retail sales of goods and services (excluding price factors) in 6M24 registered a slight increase of 5.7% YoY. On a positive note, both international and domestic tourism have not only achieved full recovery, but also exhibited slight growth compared to pre-Covid-19 levels. We believe that the 2024 target of welcoming 18 million international tourists and 110 million domestic tourists set by the Ministry of Culture, Sports, and Tourism can be fully achieved. Consequently, the revenue from tourism, and accommodation & catering services will continue to positively influence total retail sales of goods and services. Additionally, we expect that the implementation of supportive policies issued by the Government from July 1st shall stimulate domestic consumption in the coming time. These policies include the implementation of salary reform, the reduction of value-added tax, and the extension of deadlines for corporate income tax, personal income tax, VAT & land rental payments.

Figure 26: Growth in retail sales of goods and services (excluding price factors)

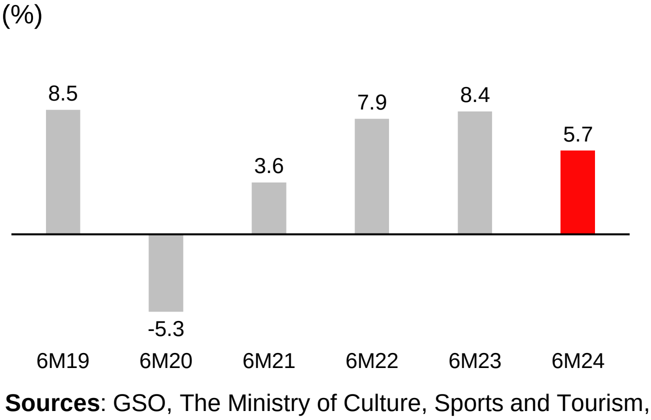
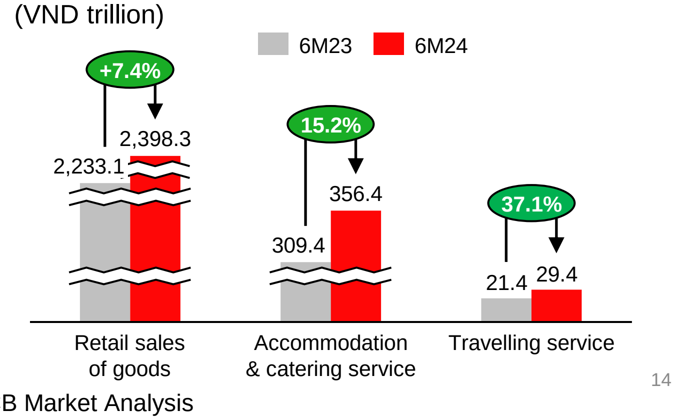


Figure 27: Total retail sales of goods and services by segment



Sources: GSO, The Ministry of Culture, Sports and Tourism, TCB Market Analysis

Vietnamese Economy *(Cont.)*

Figure 28: Domestic tourists

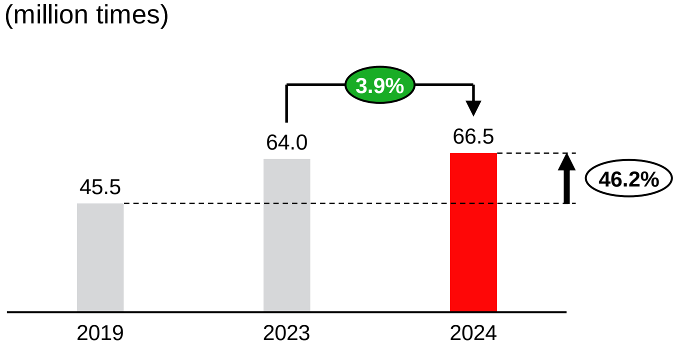
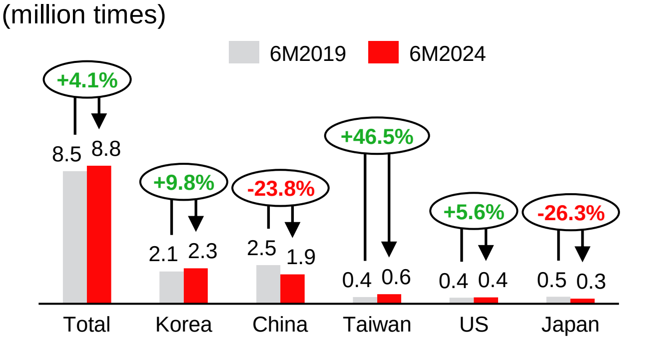


Figure 29: International tourists

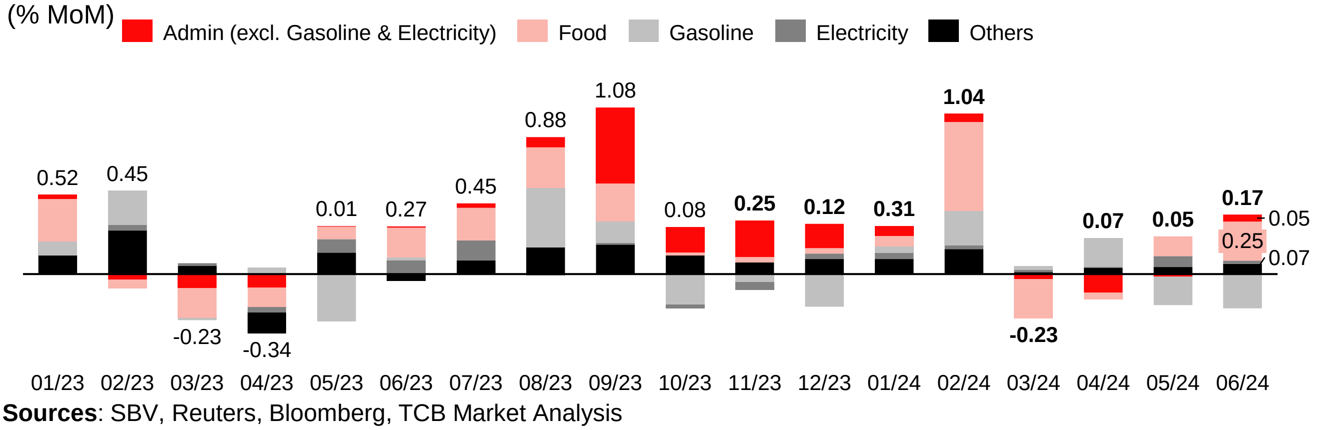


The average CPI in 2024 is forecasted to be in the range of 3.5 to 4.0%

In June, the Consumer Price Index (CPI) increased slightly by 0.17% MoM and 4.3% YoY. Key factors contributing to inflationary pressures in June include ***Firstly***, live hog prices climbed up due to supply shortages following the African swine fever outbreak last year and the reemergence of the disease in certain provinces. ***Secondly***, some provinces such as Hue and Long An have adjusted their healthcare service prices. The weather patterns have shifted, with the El Niño cycle coming to an end. This has resulted in temperatures being less hot compared to the previous year, leading to only a slight increase in electricity prices in June 2024.

For the remaining months of the year, we anticipate that inflation will stabilize. ***Firstly***, according to Bloomberg, the forecast for WTI oil price suggests fluctuations around USD 80 per barrel, remaining unchanged from the current price level. ***Secondly***, prices of administrative items such as electricity, healthcare, and education might be adjusted upwardly but are unlikely to exert significant inflationary pressure. Therefore, we forecast the CPI for the entire year of 2024 to be in the range of 3.5% to 4.0%, below the Government's target of 4.5%.

Figure 30: MoM CPI component contribution



Sources: SBV, Reuters, Bloomberg, TCB Market Analysis

TECHCOMBANK

Vietnamese Economy *(Cont.)*

We forecast USD/VND rate would fluctuate around 25,450 in the short-term, and cool down to 25,250 by the end of the year

In June, the USD/VND rate fluctuated around 25,450, which is the spot selling price set by the State Bank of Vietnam (SBV). We estimate that the SBV has sold over 6.4 billion USD since the beginning of the year to meet the foreign currency demand from the banking system. The main reason behind this is the increase in import of raw materials by businesses and the negative swap rate. Since the beginning of the year, VND has depreciated by 4.6%. Similarly, other currencies in the region, such as THB, PHP, IDR, and KRW, have also depreciated by around 5.0% to 6.5%.

The exchange rate is forecasted to continue facing pressures until the end of the third quarter of 2024. ***Firstly***, according to Bloomberg, the Dollar Index (DXY) is expected to maintain around 105 points in the third quarter, increasing by 3.7% YTD. ***Secondly***, July is usually the month when FDI enterprises repatriate profits and import a significant amount of raw materials. As a result, the SBV is likely to maintain a flexible approach in operating the exchange rate according to market supply and demand. At the same time, SBV will continue implementing measures to regulate VND liquidity and be ready to sell foreign currency when needed to ensure the smooth operation of the VND and USD. However, the tension in the USD/VND exchange rate is expected to ease in the last months of 2024 due to two factors. ***Firstly***, there will be inflows of foreign currency from remittances and FDI into Vietnam. ***Secondly***, the DXY index is projected to decrease as the Federal Reserve begins to lower interest rates. Therefore, we have adjusted our forecast that the VND shall depreciate by 4.1% by the end of this year.

Figure 31: Selected regional currencies have depreciated against the USD

(% YTD)

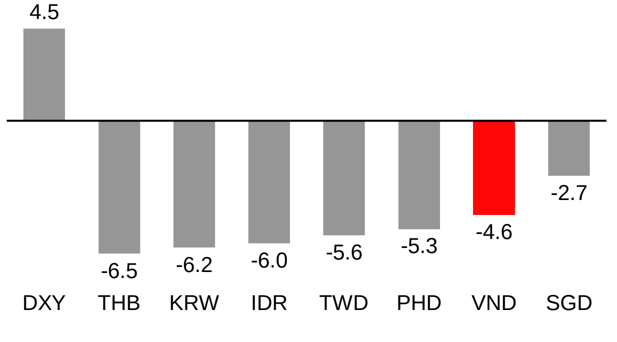
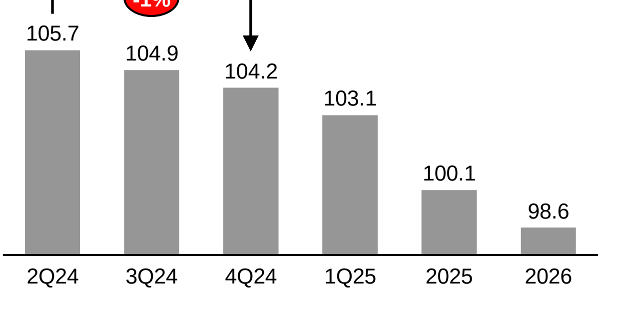


Figure 32: DXY forecast by Bloomberg

(Index)



Sources: SBV, Reuters, Bloomberg, TCB Market Analysis

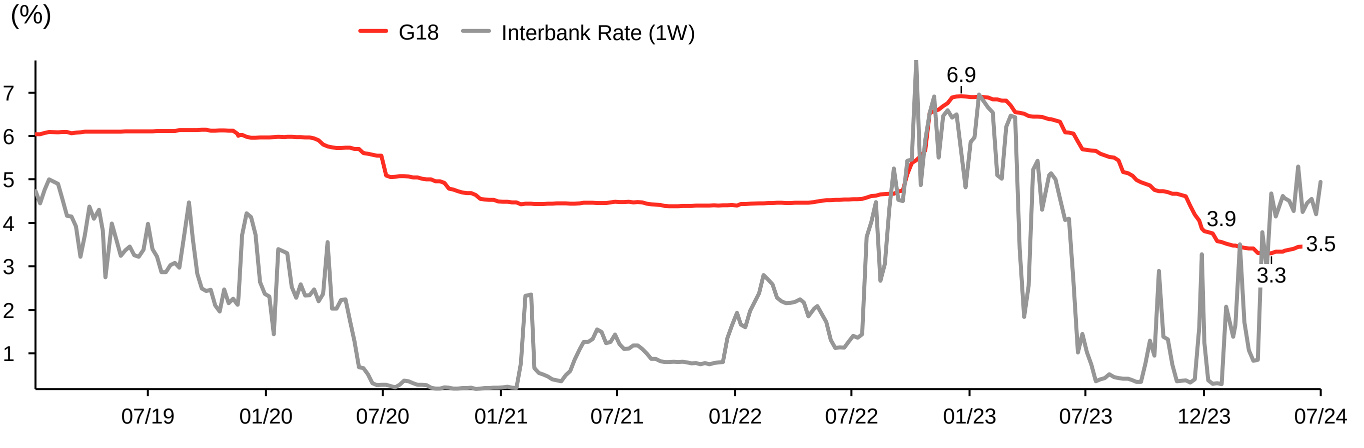
Vietnamese Economy *(Cont.)*

Deposit interest rates are forecasted to experience a slight increase at the end of the year as the economy recovers

The liquidity of VND has remained stable, with interbank interest rates fluctuating between 4% and 5%. Part of the liquidity support comes from the State Treasury depositing funds with the banking system. In June, the SBV increased the notes winning interest rate to 4.5%, equal to the Open Market Operations (OMO) rate. We believe that the SBV is focusing on exchange rate stabilisation. Therefore, SBV would continue to use OMO tools and issue notes to mitigate negative swap rates between VND and USD interbank interest rates.

As of June 24, 2024, according to the GSO, credit growth and deposit growth registered at 4.5% and 1.5% YTD, respectively. Deposit growth is slower than credit growth due to the following reasons. ***Firstly***, the SBV has been selling gold and USD from its foreign exchange reserves to stabilise the market. ***Secondly***, the State budget surplus was VND 217 trillion in 6M24. We assess that the slow deposit growth shall put pressure on the liquidity of the banking system in the short term and will impact deposit and lending interest rates in the long term. Our estimate indicates that the 6M weighted average deposit interest rate for the G18 has increased by 25 basis points compared to the end of March 2024. However, this interest rate level is still 35 basis points lower than the figure at the end of 2023. In the second half of 2024, with the expectation of the economy recovering, credit growth surpassing deposit growth would create pressure on deposit interest rates. We forecast that the 6M deposit interest rate for the G18 will increase slightly by 75 basis points compared to the end of 2023.

Figure 33: The average deposit interest rate for the G18* group with a 6-month term



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

Section 4

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Appendix

Updates on macroeconomics and financial market in the world

Indicators	Country	Unit	2023	2023						2024					
				07	08	09	10	11	12	01	02	03	04	05	06
Real GDP Growth	US	%, YoY, Quarterly				2.90			3.1			2.9			
	Eurozone	%, YoY, Quarterly				0.10			0.10			0.4			
	China	%, YoY, Quarterly				4.90			5.2			5.3			
	Japan	%, YoY, Quarterly				1.60			1.2			-0.2			
CPI	US	%, YoY, Monthly		3.17	3.67	3.70	3.24	3.14	3.40	3.1	3.2	3.5	3.4	3.3	
	EU	%, YoY, Monthly	5.46	5.30	5.20	4.30	2.90	2.40	2.90	2.8	2.6	2.4	2.4	2.6	2.5
	China	%, YoY, Monthly		-0.30	0.10	0.00	-0.20	-0.50	-0.30	-0.8	0.7	0.1	0.3	0.3	0.2
	Japan	%, YoY, Monthly		3.30	3.20	3.00	3.30	2.80	2.60	2.2	2.8	2.7	2.5	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	101.40	103.10	105.28	106.35	104.49	102.69	102.95	104.1	103.7	105.41	104.95	105.17
USD/CNY		Index. Monthly Average	7.08	7.19	7.25	7.30	7.31	7.22	7.15	7.17	7.19	7.20	7.24	7.23	7.25
10Y UST Yields		%. Monthly Average	3.96	3.89	4.17	4.38	4.80	4.51	4.05	4.05	4.23	4.21	4.51	4.48	4.31
WTI Oil price		USD/barrel. Monthly Average	77.66	76.03	81.32	89.43	85.47	77.38	72.06	73.86	76.61	80.4	84.4	78.6	78.7

Updates on macroeconomics and financial market in Vietnam

Indicators	Unit	2023	2023						2024					
			07	08	09	10	11	12	01	02	03	04	05	06
Real GDP growth	%, Quarterly, YoY	**5.05**			5.33			6.72			5.87			6.93
IIP	%, Monthly, YoY	**1.50**	3.69	2.62	2.89	4.38	5.79	5.76	18.86	-6.81	4.13	6.30	8.90	10.92
Headline CPI	%, Monthly, YoY	**3.25**	2.06	2.96	3.66	3.59	3.45	3.58	3.37	3.98	3.97	4.40	4.44	4.34
Retail sales growth	%, Monthly, YoY	**9.60**	7.1	7.6	7.5	7.0	10.1	9.3	8.1	8.5	9.2	9.0	9.0	9.1
Registered FDI	USD billion, Monthly	**28.10**	2.70	1.30	2.00	5.20	2.30	5.20	2.2	1.8	1.7	2.6	1.7	3.5
Disbursed FDI	USD billion, Monthly	**23.20**	1.60	1.50	2.80	2.10	2.30	2.90	1.5	1.3	1.8	1.7	2.0	2.6
Trade exports	USD billion, Monthly	**355.5**	30.70	32.70	30.80	32.50	31.20	32.1	34.5	24.7	33.7	31.1	32.3	33.8*
Trade imports	USD billion, Monthly	**327.5**	27.10	29.30	29.10	29.50	29.90	29.6	30.9	23.3	30.9	29.9	32.7	30.8*
Trade balance	USD billion, Monthly	**28.00**	3.60	3.40	1.70	2.90	1.30	2.40	3.6	1.4	2.8	1.2	-0.4	3.0
Deposit growth	%, YTD	**10.85**	3.83	4.86	6.76	7.09	8.88	13.20	-1.29	-1.70	-0.9			
Credit growth	%, YTD	**13.50**	4.50	5.33	6.20	7.10	9.15	13.78	-0.68	-0.75	1.42	2.01		
10Y Government bond yields	%, Monthly Average	**3.07**	2.60	2.50	2.60	2.90	2.56	2.26	2.25	2.32	2.50	2.78	2.80	2.80
1W Interbank rate	%, Monthly Average	**2.60**	0.60	0.40	0.40	1.37	0.71	0.82	0.43	2.53	1.32	4.20	4.55	4.84
6M Deposit rate**	%, Monthly Average	**-3.04**	5.60	5.20	4.90	4.70	4.54	4.19	3.70	3.40	3.37	3.31	3.39	3.49
USD/VND	Monthly Average	**23,847**	23,670	23,882	24,246	24,488	24,321	24,283	24,476	24,520	24,724	25,153	25,446	25,443

Updated full-year forecasts for Vietnam

Indicators	Unit	2023						2024						Forecast
		07	08	09	10	11	12	01	02	03	04	05	06	2024
Real GDP growth	%			5.33			6.72			5.87			6.93	6.50
Headline CPI	%, YoY. Average	2.06	2.96	3.66	3.59	3.45	3.58	3.37	3.98	3.97	4.40	4.44	4.34	3.81
Deposit growth	%, YTD	3.83	4.86	6.76	7.09	8.88	13.20	-1.29	-1.70	-0.9				9.50
Credit growth	%, YTD	4.50	5.33	6.20	7.10	9.15	13.78	-0.68	-0.75	1.42	2.01			14.00
USD/VND	Average	23,670	23,882	24,246	24,488	24,321	24,283	24,476	24,520	24,724	25,153	25,446	25,443	25,163
10Y Government bond yields	%, 10Y, Average	2.60	2.50	2.60	2.90	2.56	2.26	2.25	2.32	2.50	2.78	2.80	2.80	2.62
1W Interbank rate	%, Average	0.60	0.40	0.40	1.37	0.71	0.82	0.43	2.53	1.32	4.20	4.55	4.84	3.60

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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