

Monthly Updates on Macroeconomics and Financial Market

Hanoi, May 2023

Prepared by Economic and Financial Market Analysis Team

Economic outlooks in the US and EU in 2023 remain gloomy, Vietnam's economy has not improved yet. However, low inflation creates more rooms for the Government to boost the economy in the coming time

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Executive Summary

› Global economy:

- › *The slowdown in US GDP growth in 1Q2023 mainly resulted from a significant contraction in investment, as gross private domestic investment fell sharply by 3.3% on quarter-over-quarter (QoQ) basis due to a reduction in fixed investment in equipment. The market is expecting US economy to have a mild recession because consumption is expected to slow down significantly from this second quarter as monthly retail sales have been falling since February. Our view stands with the market that Federal Reserve (Fed) would lower rates in this year based on the anticipation of considerably declining economic performance.*
- › *Eurozone remarkably avoided a winter recession as its GDP expanded by 0.1% QoQ in 1Q2023 after being revised down to no growth from 0.1% expansion in the previous quarter. In contrast to US's disinflation, YoY headline CPI of Eurozone rose to 7% in April compared to 6.9% in March after the decrease in six consecutive months due to higher costs of energy and services. Therefore, the market is expecting European Central Bank (ECB) to raise its interest rate by 38 basis points (bps) in 2023.*

› Vietnam economy:

- › *Vietnam's economy witnessed a slowdown in 1Q2023 growth, and economic indicators in April have showed no significant improvement. Purchasing Manager Index (PMI) was only 46.7, which has been the lowest level since the beginning of 2023. Production of many items recorded a Year-on-Year (YoY) decline. Particularly, manufacturing outputs of mobile phones and apparels decreased by 17% and 18% respectively.*
- › *Inflation in April was -0,34% on Month-over-Month (MoM) basis and 2.8% compared to April 2022. This is the 2nd consecutive month that Consumer Price Index (CPI) recorded a negative growth rate. We forecast CPI in May would continue its negative trend. Domestic demand has not improved yet and gasoline price decreased by more than VND 1,300/litre on May 4th, which together backed up our view.*
- › *Low inflation creates room for the Government to implement stimulating policies. The Government is making great efforts to submit a Proposal on Value Added Tax (VAT) reduction (from 10% to 8%) for the approval of National Assembly. Besides, we maintain our view that policy rate could be adjusted down, possibly in May at the earliest.*
- › *State Bank of Vietnam (SBV) has bought USD 6 billion since the beginning of 2023. We forecast SBV would be able to buy more foreign currencies in 2023. USD in the international market is under the depreciating pressure as Fed's rate hikes might stop. VND would be stable in the short term, and have a chance to appreciate further by the end of the year.*

Although economic slowdowns in the US and the EU were expected, actual figures still surprised the market in many ways

The slowdown in US GDP growth in 1Q2023 mainly resulted from a significant contraction in investment

The growth of the world's largest economy significantly slowed down to 1.1% on an annualised basis, much slower than 2.6% in the previous quarter, which surprised the market as their expectation was 2%. So far, the rate hike by Federal Reserve (Fed) has seemingly had more impacts on the business side than the consumer side. Particularly, personal consumption expenditure, the largest component of US GDP, increased by 0.9% on seasonally adjusted (SA) and quarter-on-quarter (QoQ) basis, which has been surprisingly the highest growth since 3Q2021 despite the recent high-rate situation. On the other hand, gross private domestic investment fell sharply by 3.3% QoQ, which mainly derived from a reduction in fixed investment in equipment. Other indicators also depict a similar picture. The ISM Manufacturing Purchasing Manager Index (PMI) was 47.1 in April, falling below the 50-point benchmark for six consecutive months. Meanwhile, imports to the US in March 2023 decreased for the second month in a row, which was mainly driven by a reduction in capital goods purchases such as semiconductors, electric apparatus, and machinery.

The market is expecting a mild recession for the US in the second half of 2023

Although, in his recent press conference, Fed Chair Jerome Powell said "I think the case of avoiding a recession is, in my view, more likely than that of having a recession", the market is thinking differently. According to a recent Bloomberg survey, the market is expecting US economy to have a mild recession as its GDP would fall in both 3Q2023 and 4Q2023, at -0.9% and -0.3%, respectively, with a probability of recession in the next 12 months of 65%.

Figure 1: Annualised US GDP growth

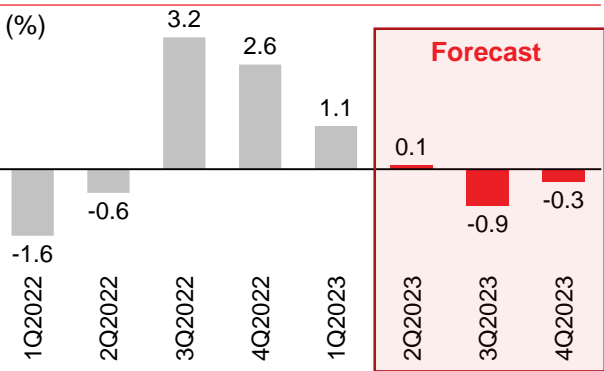
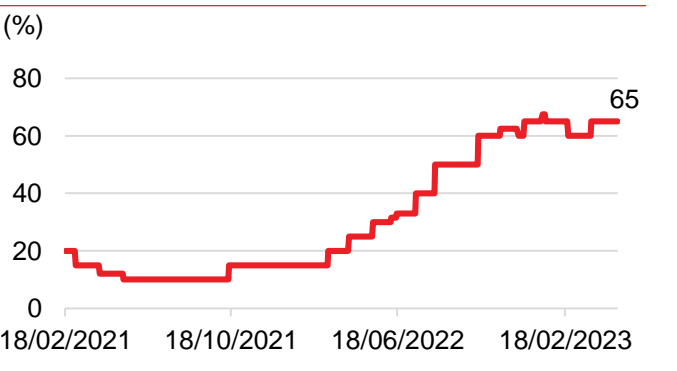


Figure 2: US probability of recession

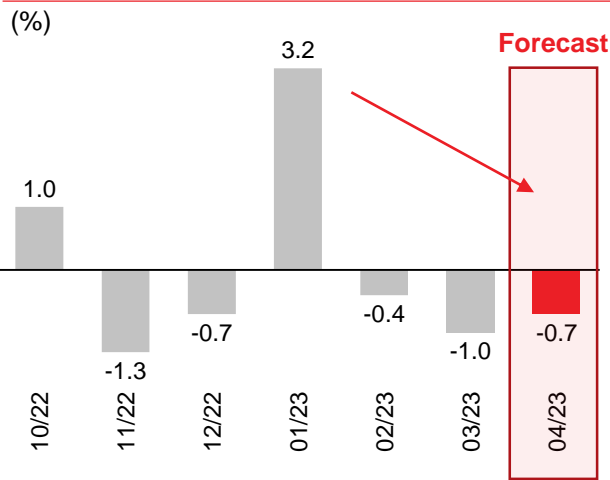


Global Economy (Cont.)

US consumption growth is expected to slow down, as retail sales data keeps getting worse

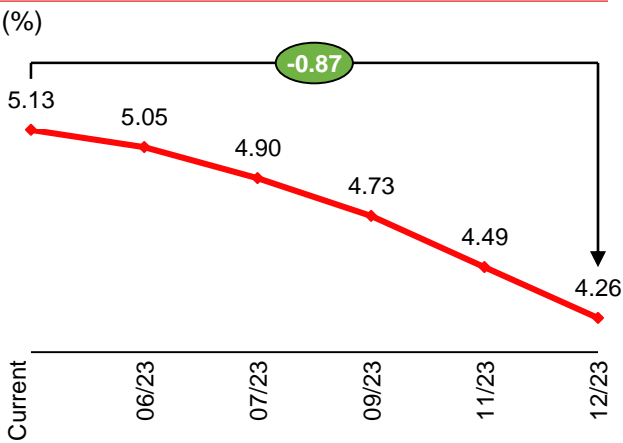
While US investment is expected to continue to fall for the rest of the year, consumption is also anticipated to slow down significantly from this second quarter as the impact of rate hikes may start on the demand side. This argument is solid, because regarding retail sales growth on month-over-month (MoM) basis, the aforementioned strong growth of consumption in the first quarter probably came from a considerable expansion in January, whereas February and March growth rates were in the negative territory. Specifically, after a strong MoM growth of 3.2% in January, US retail sales decreased by 0.4% in February, lower than expectations of a fall at 0.3%, and continued to reduce by 1% in March, which was significantly worse than many economists' anticipation of -0.4%. Retail sales data in April will be released on May 16th, and Trading Economics is predicting another 0.7% drop, indicating that the downward trend is far from done.

Figure 3: US retail sales growth



The market is expecting Fed funds rate to decrease by 87 basis points (bps)

Figure 4: Implied market Fed funds rate



Despite Fed's belief that rate cuts are inappropriate, our view stands with the market that Fed would lower rates in this year based on the anticipation of considerably declining economic performance, especially for the demand side as mentioned above. In addition, as the number of merger and acquisition (M&A) deals has increased in US banks as a result of bank failures, many economists started to blame Fed for the substantial harm of a high-rate environment on the US economy and its banking sector. Meanwhile, the headline Consumer Price Index (CPI) has been steadily falling from its peak of 9.1% in June 2022 to 5% in March 2023, with a forecast to remain at 5% in April by our team.

Global Economy (Cont.)

Eurozone’s economic performance remains resilient

Eurozone remarkably avoided a winter recession as its GDP expanded by 0.1% QoQ in 1Q2023 after being revised down to no growth from 0.1% expansion in the previous quarter. Although the output only grew by 1.3% on year-over-year (YoY) basis, which was slower than 1.6% in the US and 4.5% in China, this surely surprised many economists, as they previously expected a recession due to the energy crisis with an 80% probability in December. QoQ GDP growth rates of Portugal (1.6%), Spain (0.5%), Italy (0.5%), Belgium (0.4%), and France (0.2%) are key contributors to Eurozone GDP growth. Given an increase in exports and investment, Germany, the largest economy in Europe, barely avoided a technical recession as it recorded no growth in 1Q2023 compared to a 0.5% fall in output in 4Q2022. However, many economists caution that the biggest economy in the Eurozone has not completely avoided the prospect of a recession as the battle against inflation by European Central Bank (ECB) is expected to be prolonged.

The market is expecting ECB to raise its policy rate further by at least 25bps

In contrast to US’s disinflation, YoY headline CPI of the Eurozone rose to 7% in April compared to 6.9% in March after the decrease in six consecutive months, due to higher costs of energy and services. Therefore, the market is expecting ECB to raise its interest rate by 38 bps in 2023. Surely, the impact of a high-rate environment would deteriorate both consumption and investment, and especially exports due to US consumption slowdown.

Figure 5: Eurozone QoQ GDP growth

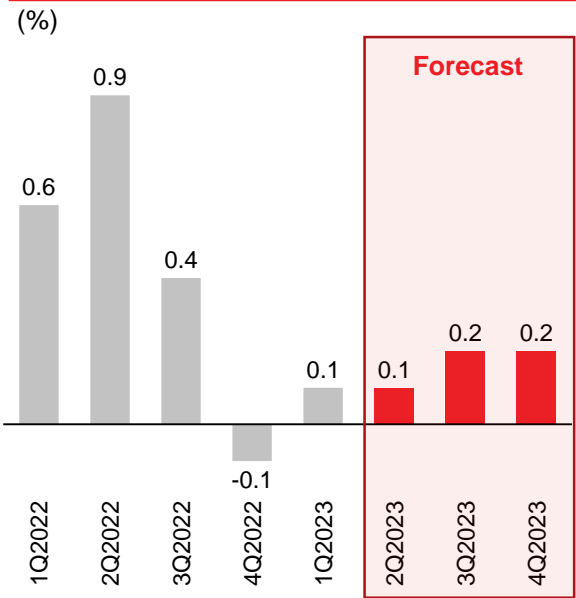


Figure 6: Eurozone YoY inflation

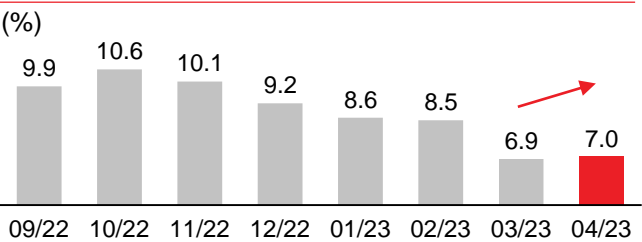
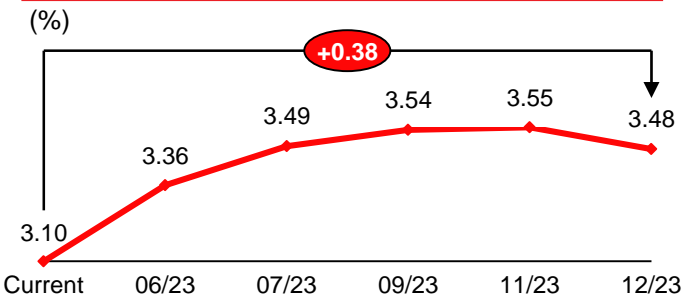


Figure 7: Implied overnight rate (Deposit facility)



Vietnam’s economy

Vietnam’s economy witnessed a slowdown in 1Q2023 growth, and economic indicators in April have showed no significant improvement. However, low inflation creates rooms for the Government to implement loose policies in order to support the economy.

In April, industrial sector has not improved yet

It was widely known that 1Q2023 GDP growth in Vietnam registered at only 3.32%, which has been the lowest level among the first quarters since 2010, except for 1Q2020 due to COVID-19 pandemic. The primary reason was that the manufacturing sector accounting for 22.5% of GDP recorded a -0.37% growth.

In April, no significant improvement has been seen yet. PMI was only 46.7, which was lower than last month’s figure at 47.7 and has been the lowest level since the beginning of 2023. According to S&P, the number of new orders continued its downward trend, thus, firms cut their production, jobs and purchases correspondingly.

Besides, the Index of Industrial Production (IIP) is another indicator showing that industrial sector has been facing difficulties. Year-to-date (YTD) IIP in April grew at -1.8% YoY, recording a negative growth rate in four consecutive months in 2023. However, given recent decreases at lower pace, it is expected that positive growth rates would possibly be seen in the coming time.

Figure 8: S&P Purchasing Manager Index

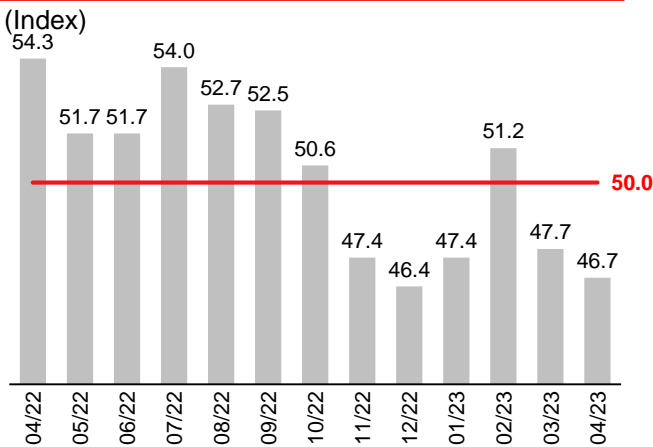
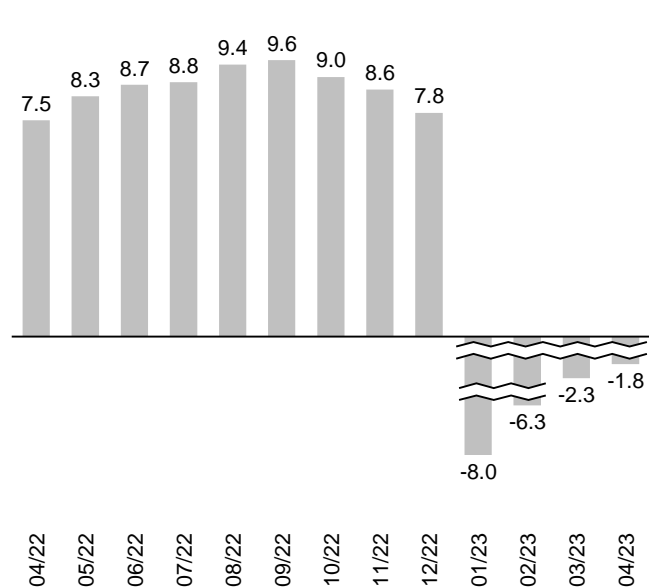


Figure 9: Index of Industrial Production (IIP)
(%, YoY, YTD)



Vietnam’s economy (Cont.)

The quantity of mobile phones and apparels manufactured in April shrank sharply compared to April 2022

Mobile phones and apparels are two key export items in the industrial sector. Mobile phone production in April only reached 15 million units, which decreased by 17% YoY, 5% MoM and was 88% of average volume in the last 12 months. This was a notable shrinkage as mobile phone production possesses a wide value chain that involves numerous businesses. Its spillover extent to the economy, thus, is more significant than that of other items.

Despite still being below the last-twelve-month average level, apparel industry showed a sign of recovery. The output of apparels manufactured in April was 413 million units, which fell by 18% YoY but rose by 8% MoM.

Figure 10: Production of mobile phones

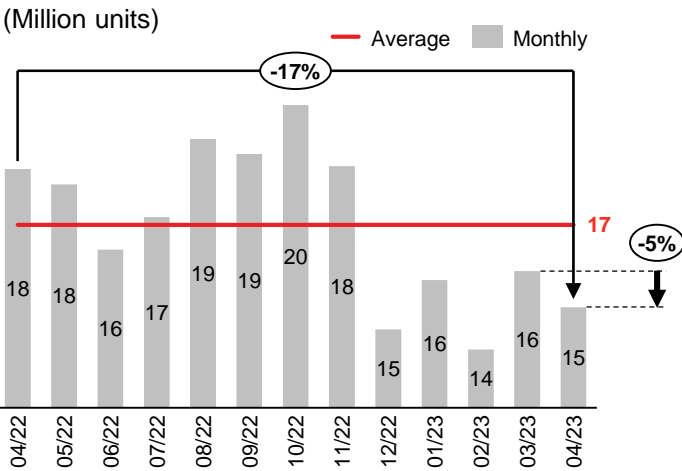
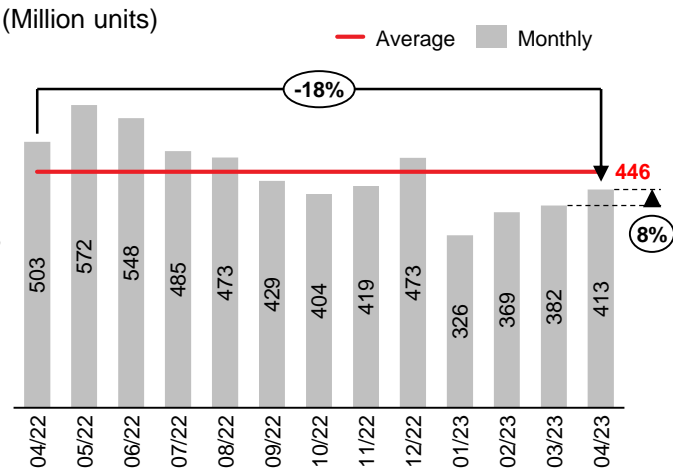


Figure 11: Production of apparels



CPI might probably decrease in May, thus, it would be the 3rd consecutive month of CPI decline

Given that manufacturing sector accounted for 22.5% of Vietnam’s GDP, its shrinkage had a substantial impact on jobs and income. The fall in income would lead to a decline in consumption, especially spending on non-essential items.

April was the 2nd month in a row that saw a negative MoM growth rate in CPI. CPI in April decreased by -0.34% MoM, which mainly resulted from the decline in domestic consumption as 7 out of 11 items recorded price fall. We forecast CPI would continue its negative trend in May. Two key drivers are that domestic demand has not improved yet and that domestic gasoline price was adjusted down by more than VND 1,300/litre on May 4th.

Given the reduction in both domestic and external demand, there exists a number of challenges to achieve 2023 GDP growth target set by the Government.

Vietnam’s economy (Cont.)

Figure 12: Core CPI

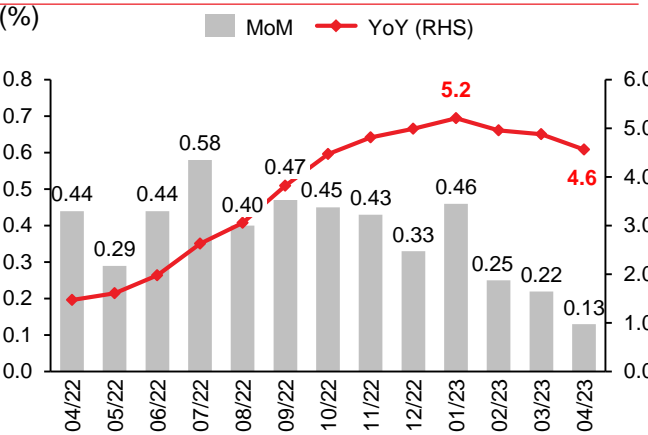
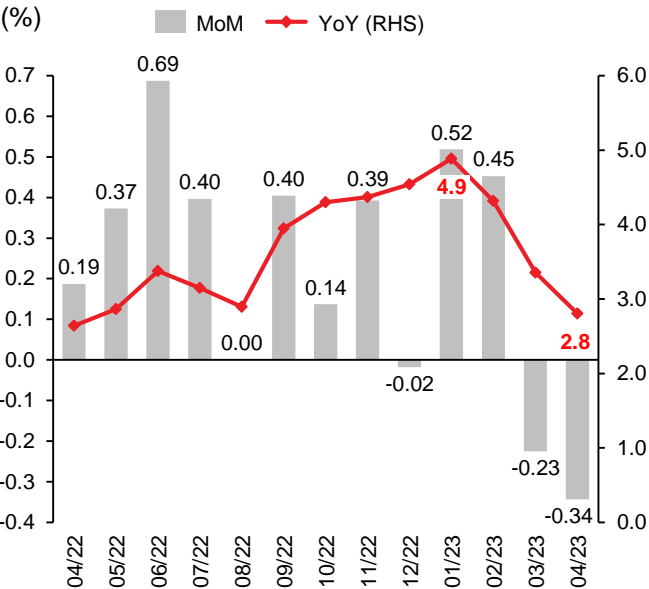


Figure 13: Headline CPI



Low inflation creates more rooms for the Government to implement loose policies to support the economy

Given 1Q2023 GDP growth rate at 3.32%, to achieve 2023 target of 6.5%, GDP in the rest 3 quarters should grow at 7.5% in average, which is not easy according to our forecast. However, the Government has implemented numerous policies to get closer to the preset target.

After 2 policy rate cuts in March, State Bank of Vietnam (SBV) issued 2 important circulars in April to help firms overcome difficulties under current circumstances. Circular No. 02 allowed banks to maintain original loan buckets when restructuring the payment term for customers who have difficulties in their businesses. That might help customers to postpone debt payment and make use of available funding for business operations. Additionally, more loan disbursements might be made for customers whose business plans are feasible ([Report link](#)). Meanwhile, pursuant to Circular No. 03, credit institutions would be able to buy back previously-distributed corporate bonds without 1-year blackout period as prescribed. These policies would probably help the capital to flow more easily in the context of the currently slow credit growth.

In addition to monetary policies, the Government also paid great attention to fiscal policies. Specifically, the Government is making efforts to submit a Proposal on VAT reduction (from 10% to 8%) for the approval of National Assembly in May. If approved, the new policy will help reduce prices, thereby stimulating domestic consumption demand.

Vietnam’s economy (Cont.)

Current credit growth was only 2.75% on April 25th

According to SBV, current credit growth on April 25th was only 2.75%, which was much lower than 7% in April 2022. Credit demand fell probably because businesses had difficulties in selling their products and the number of new orders decreased. Meanwhile, firms that need funding but were weakened by COVID-19 are not eligible for loans.

SBV have bought USD 6 billion since the beginning of 2023

Furthermore, SBV have bought USD 6 billion since the beginning of 2023, i.e. VND 140 trillion has been pumped into the economy. The banking system’s liquidity has improved since commercial banks held up to VND 110 trillion SBV notes and increased their Government bond holdings. Therefore, 10-year Vietnam’s government bond yield was 3.04%, lower than US yield at 3.5%, which rarely happened in the past.

The Government and SBV have some grounds to continue rate cut policies

The liquidity of the banking system has been improving, while inflation has been continuously kept low. Thus, the Government and SBV have some grounds to continue their rate cut policies. We maintain our view that policy rate could be adjusted down, possibly in May at the earliest ([Report link](#)). Since the beginning of 2023, G18 weighted 6-month deposit rate decreased by 53 bps. We expect deposit rates would continue the downward trend in the coming time.

Figure 14: Government bond yields

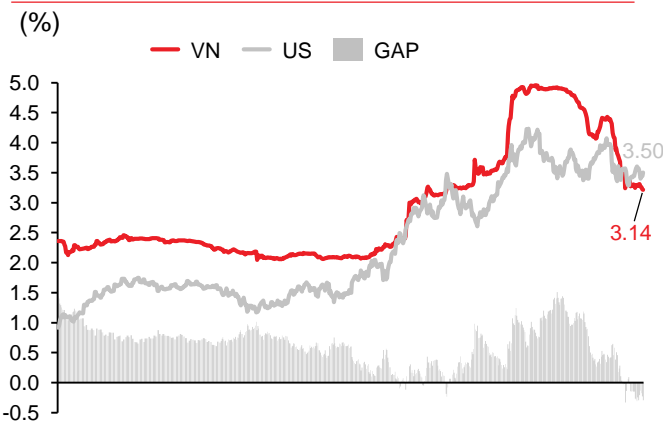
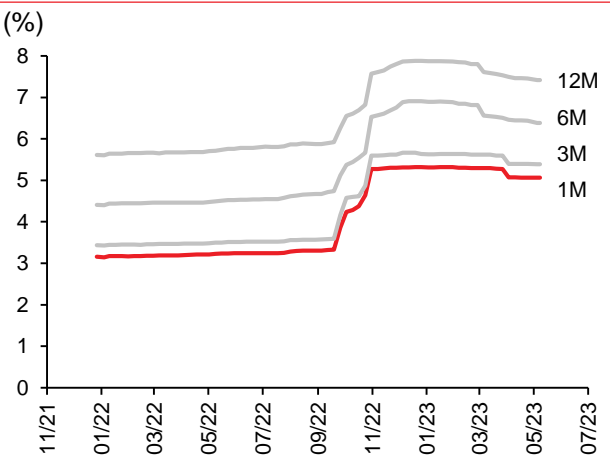


Figure 15: G18(*) weighted 6-month deposit rate



USD continues to be under the depreciating pressure

After raising interest rates in early May, Fed's rate hike is expected to stop, while ECB may need to hike rates further. The main reason is that EU inflation at 7% was higher than 5% in the US. As a result, the USD is expected to depreciate as USD-EUR interest rate gap narrows.

Vietnam’s economy (Cont.)

There is a likelihood that SBV is able to buy more foreign currencies in 2023

As previously mentioned, SBV has bought USD 6 billion so far this year. This amount may continue to increase in the near future, mainly driven by international trade. In the first four months of 2023, trade surplus has already reached more than USD 7.5 billion, a record high for the same period each year. When demand in the US and Europe declines, Vietnamese export enterprises, especially FDI ones, tend to reduce their inventories to the maximum extent, which leads to a sharp decrease in demand for imported raw materials. Besides, since the USD has weakened, more investors have been seeking opportunities in emerging markets. This is the reason why more M&A deals are expected to continue in the near future after SMBC invested USD 1.5 billion in VPBank. We expect SBV to continue purchasing foreign currencies in the coming time.

USD/VND exchange rate has decreased by 0.4% YTD. Given current developments, we continue to affirm that VND would be stable in the short term, and have a chance to appreciate further by the end of the year.

Figure 16: DXY forecast by Bloomberg

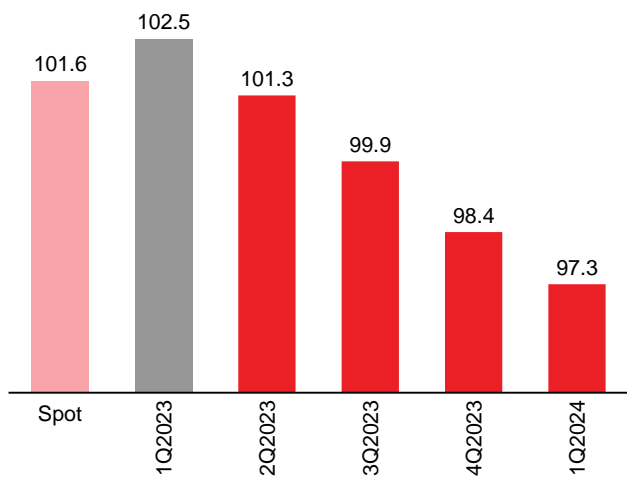
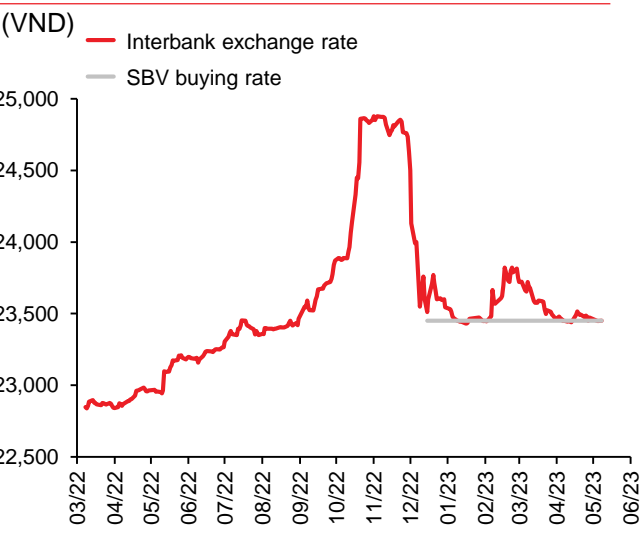















Figure 17: USD/VND development









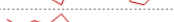
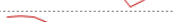
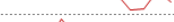
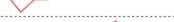





Appendix

Updates on macroeconomics and financial market in the world

Indicators	Country	Unit	2022													2023				
				04	05	06	07	08	09	10	11	12	01	02	03	04				
Real GDP Growth	US	%, YoY, Quarterly	2.1			1.8			1.9			0.9			1.6					
	EU	%, YoY, Quarterly	4.0			4.2			2.3			1.8								
	China	%, YoY, Quarterly	3.0			0.4			3.9			2.9			4.5					
	Japan	%, YoY, Quarterly	1.0			1.4			1.5			0.4								
CPI	US	%, YoY, Monthly	8.0	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0					
	EU	%, YoY, Monthly	9.1	7.4	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9					
	China	%, YoY, Monthly	2.2	2.1	2.1	2.5	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	0.7					
	Japan	%, YoY, Monthly	3.1	2.5	2.5	2.4	2.6	3.0	3.0	3.7	3.8	4.0	4.3	3.3	3.2					
Fed funds target rate		%, End of month	5.0	3.5	4.0	4.8	5.5	5.5	6.3	6.3	7.0	7.5	7.5	7.8	8.0	8.0				
DXY		Index, Monthly Average	104.4	100.7	103.1	103.9	106.9	107.1	110.7	111.9	108.0	104.5	102.7	103.7	103.8	101.8				
USDCNY		Index, Monthly Average	6.7	6.4	6.7	6.7	6.7	6.8	7.0	7.2	7.2	7.0	6.8	6.8	6.9	6.9				
10Y UST Yields		%, Monthly Average	2.8	2.5	2.6	3.0	2.8	2.9	3.4	3.5	3.5	3.5	3.2	3.8	3.7	3.5				
WTI Oil price		USD/barrel, Monthly Average	91.8	101.6	104.3	109.1	94.7	91.5	80.0	87.0	80.6	76.5	74.4	76.9	73.4	79.4				

Sources: Reuters, TCB MA

Updates on macroeconomics and financial market in Vietnam

Indicators	Unit	2022											2023				
			04	05	06	07	08	09	10	11	12	01	02	03	04		
Real GDP growth	%, Quaterly, YoY	8.0			7.8			13.7			5.9			3.3			
IIP	%, Monthly, YoY	7.8	11.1	10.4	11.5	11.2	13.3	10.3	5.5	3.5	0.2	-8.0	7.2	-2.0	3.6		
Headline CPI	%, Monthly, YoY	3.1	2.6	2.9	3.4	3.1	2.9	3.9	4.3	4.4	4.5	4.9	4.3	3.4	2.8		
Retail sales growth	%, Monthly, YoY	19.8	12.1	22.6	27.3	42.6	50.2	36.1	17.1	17.5	17.1	20.0	13.2	13.4	11.5		
Registered FDI	USD bio, Monthly	22.6	1.7	0.7	2.0	1.2	0.9	1.6	3.3	2.4	1.5	1.5	0.8	1.9	1.6		
Disbursed FDI	USD bio, Monthly	22.4	1.5	1.8	2.4	1.5	1.2	2.6	2.1	2.2	2.7	1.4	1.2	1.8	1.6		
Trade exports	USD bio, Monthly	371.3	33.4	30.8	32.7	31.3	35.3	29.7	30.6	29.2	29.1	23.6	26.1	29.7	27.9		
Trade imports	USD bio, Monthly	358.9	32.3	32.9	32.4	31.0	30.9	28.5	27.8	28.2	27.4	22.9	23.3	28.3	25.2		
Trade balance	USD bio, Monthly	12.4	1.1	-2.1	0.3	0.3	4.4	1.3	2.8	1.1	1.7	0.7	2.8	1.4	2.6		
Deposit growth*	%, YTD	6.0	3.4	3.8	4.8	4.4	4.0	5.0	5.0	5.0	6.0		0.1	0.8			
Credit growth**	%, YTD	14.5	7.2	8.1	9.4	9.5	9.5	10.5	11.5	12.1	14.5	0.1	0.9	2.1	2.8		
10Y Government bond yields	%, Monthly Average	3.5	2.9	3.1	3.2	3.3	3.5	4.0	4.9	4.9	4.9	4.6	4.2	4.0	3.3		
1W Interbank rate	%, Monthly Average	3.5	2.1	1.8	1.2	2.1	3.8	5.1	6.5	6.4	5.9	6.4	5.8	4.3	4.7		
6M Deposit rate***	%, Monthly Average	5.0	4.5	4.5	4.5	4.6	4.6	4.8	5.7	6.7	6.9	6.9	6.8	6.6	6.4		
USDVND	Monthly Average	23,431	22,919	23,100	23,221	23,383	23,407	23,657	24,340	24,817	23,736	23,460	23,651	23,592	23,469		

Sources: GSO, Customs, VBMA, Reuters, TCB MA

Notes:

* YTD data as of 20/3

** YTD data as of 25/4

*** Weighted average of 18 banks

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