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Monthly Updates on Macroeconomics and Financial Market

Hanoi, June 2023

Prepared by Economic and Financial Market Analysis Team

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Given global uncertainties from mixed signals of US and EU economic indicators and China's weaker recovery than expected, there remains work to be done for Vietnam to achieve the 6.5% GDP target

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Section 1

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Executive Summary

- **Global economy:**

  - *The market has kept changing its view on whether the Federal Reserve (Fed) would increase policy rates again in June. Some of many reasons why the Fed should continue its rate hike are that US Personal Consumption Expenditure (PCE) in April and nonfarm payroll in May were higher than expected. However, we believe Fed might not hike rates in June's meeting due to current Fed Funds Target range at its peak, the limited use of fiscal policy to support the economy, the significant low ratio of assets to insured deposits, and the rising US unemployment rate.*

  - *The market is expecting the European Central Bank (ECB) to raise rates at least two more times for the rest of 2023. ECB policymakers are all on the same page about how the economy is performing, i.e. "inflationary pressures remain high" and EU economy remains resilient despite continuous rate hikes.*

  - *China was expected to make a quick and strong rebound. However, industrial production growth rate in April, YoY export growth in May and retail sales growth were all below what market had expected, while April youth unemployment rate was at the highest level since 2018.*

- **Vietnam economy:**

  - *Due to global slowdown, the economy has been suffering weaker external demands. Vietnam Manufacturing Purchasing Managers' Index (PMI) showed a decline in May. Exports in the first 5 months recorded a substantial reduction in key items. 5-month Index of Industrial Production (IIP) in 2023 was worse than the level in the COVID-19 period. The current slowdown led to the cessation of numerous firms. Additionally, global headwinds also affect FDI flows in Vietnam.*

  - *Demand side of Vietnam's economy managed to hold on, which was illustrated by a noticeable retail sales growth in both nominal and real terms. The number of tourists visiting Vietnam continues to improve each month thanks to the recovery of Chinese tourists.*

  - *Given domestic and global difficulties, there is a necessity to push to the public investment disbursement that possibly stimulates the economy to reach the 6.5% target.*

  - *In addition to fiscal policy, the Government has also made use of monetary policy via recent rate cuts and still had room for further cuts due to current economic slowdown, low year-to-date credit growth, and well managed inflation.*

  - *VND is expected to fluctuate in June and July due to seasonal effects. For the long-term view, we hold the belief that VND would be stable.*

Global Economy

As a result of mixed signals from economic indicators for central banks to make interest rate decisions and an indeterminate recovery pace in China, there is still a high level of economic uncertainties worldwide.

The probability of Fed rate hikes in June's meeting was 67%, yet a week afterwards, it was down to 20%

The market has kept changing its view back and forth on whether the Federal Reserve (Fed) would increase policy rates again in June, which has created a lot of fluctuation on rates and foreign exchange markets recently as uncertainty elevated. According to Bloomberg's survey on May 29th, the probability of the Fed hiking rates in June's meeting was 67%, yet after just a week, it went down to only 20%. This is because the market has been receiving mixed signals on how the US economy is doing.

Figure 1: Implied Fed funds rate

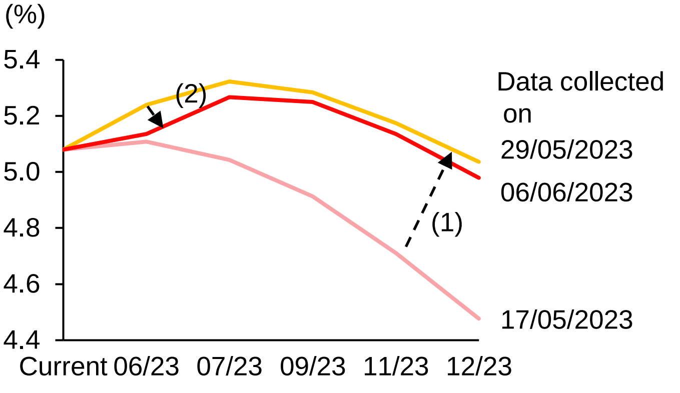
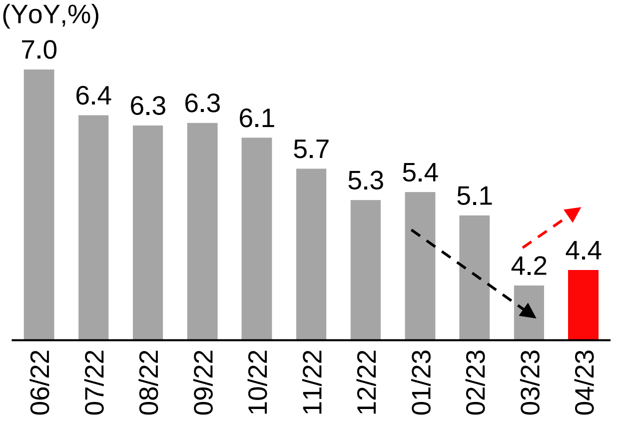


Figure 2: PCE



US economy added 339,000 jobs in May, way above market expectation of 190,000 jobs

Personal Consumption Expenditure prices (PCE) in April rose higher than market expectations on the year-over-year (YoY) basis, suddenly ending the disinflation trend in this year. GDP in the first quarter was revised up from 1.1% to 1.3%. Nonfarm payroll in May was 339,000 jobs, the highest in the last 4 months and way above the market's expectation of 190,000. These are just some of many reasons why the Fed should continue its rate hike, as many economists, including some of the Fed governors, have suggested.

We believe Fed might not hike rate in June's meeting

Our view stands on the other side, as we believe the Fed might not increase its policy rate next week because of following reasons. Firstly, both Fed Chairman Jerome Powell and Vice Chairman Phillip Jefferson hinted that they could support skipping a rate hike in the June meeting, especially since current Fed funds target range of 5.0%–5.25% has already reached its peak according to the Fed's anticipation in the Summary of Economic Projections March 2023.

Sources: Financial Times, BLS, Bloomberg

Global Economy *(Cont.)*

Unemployment rate rose to 3.7% in May, this is the highest level since last October

Secondly, as the passed debt deal is expected to limit the expansion of nondefense spending in fiscal 2024 and 2025, the Government would be in a difficult position to support the economy through fiscal policy if the economy fell into recession; hence, continued monetary tightening might be inappropriate at this stage. Thirdly, due to recent financial turmoil related to Silicon Valley Bank, etc., the ratio of assets to insured deposits in the US banking system fell to 1.1%, the lowest level since 2015, and was below minimum requirement of 1.35%. It would be very risky for the Fed to hike rates, as it could potentially lead to further financial instability. Lastly, the US unemployment rate rose to 3.7% in May, which is the highest level since last October and above market expectations of 3.5%. This proves the US labour market has been as loose as the Fed previously expected.

Figure 3: US unemployment rate

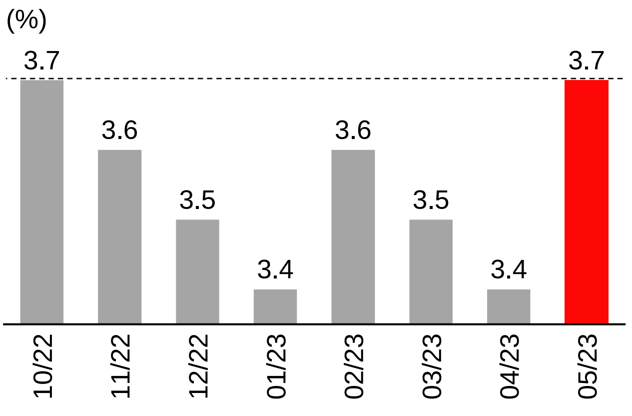
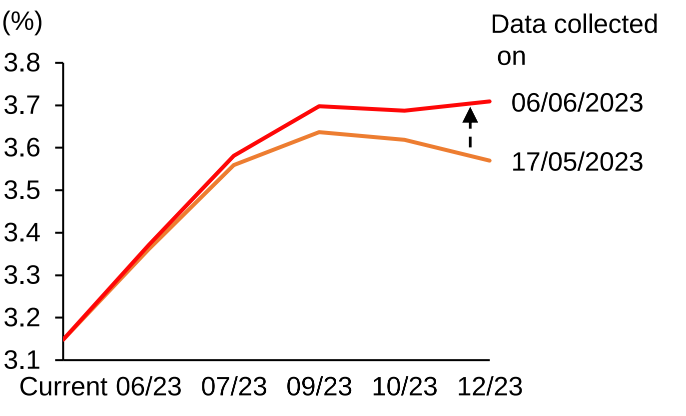


Figure 4: Implied overnight rate (Deposit facility-ECB)



The market expects the ECB to increase its policy rate by at least two more times this year

At first, after the latest GDP growth figure in 1Q2023 of Germany published at the end of May showed this country entered a technical recession, it seems reasonable to infer that the market anticipated the European Central Bank (ECB) to stop hiking rates earlier this year. However, instead of that, the market is expecting the ECB to raise rates at least two more times for the rest of 2023, based on Bloomberg's survey, with probabilities of 89% and 84% in the June and July meetings, respectively. This is because, unlike the Fed, ECB policymakers are all on the same page about how the economy is performing and are sending a very clear message to the market. For example, given that Eurozone inflation in May has fallen to the lowest level of 6.1% YoY since the Russian-Ukraine war started, much lower than the market's expectation of 6.5%, especially, core Consumer Price Index (CPI) has followed a disinflation trend in the past 3 months,

Sources: Financial Times, ECB

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Global Economy *(Cont.)*

The Eurozone QoQ GDP growth rate in 1Q2023 was confirmed at 0.1%

ECB President Christine Lagarde immediately gave a speech right after this data was published, saying that "inflationary pressures remain high" and rates would need to be increased again. Her continuously hawkish tone since May's meeting is understandable as although Germany fell into a technical recession, final GDP growth in 1Q2023 of Eurozone confirmed at 0.1% on quarter-over-quarter (QoQ) basis with the improvement in employment and the strong increase in exports. This is showing EU economy remains resilient despite continuous rate hikes. Furthermore, in a relatively simple comparison between EU and US, it is obvious that EU's monthly YoY inflation is roughly 1 percentage point higher than that of the US, yet EU policy rate is almost 2 percentage points lower than US rate. This could explain why ECB President said ECB was "not Fed-dependent" and would not stop until rates are "sufficiently restrictive" as some Fed policy makers signaled a pause in June's meeting.

Figure 5: Eurozone headline CPI

(YoY, %)

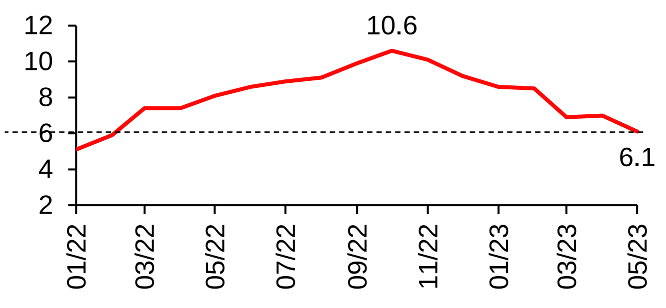
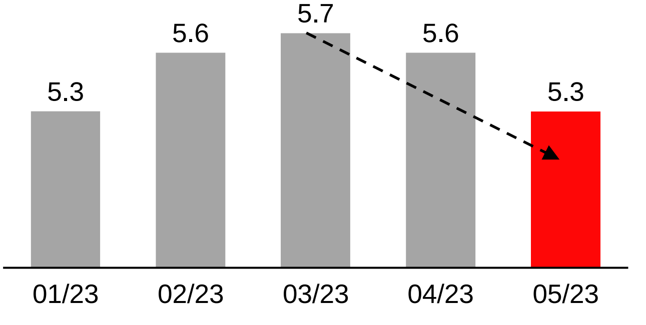


Figure 6: Eurozone Core CPI

(YoY, %)



YoY export growth of China in May was surprisingly low at -7.5%, as the expectations of many economists were in the range of -0.4 to 1%

After three years of zero-COVID policies, China, the second-biggest economy in the world, was expected to make a quick and strong rebound by many investors and economists, yet the facts have been turning out differently. Industrial production in April only grew by 5.6%, significantly lower than expectations of 10.6%. According to most recent data, such as the Manufacturing Purchasing Manager Index (PMI), fell four months consecutively to 48.8, below the 50-point benchmark in May. YoY export growth in May unexpectedly declined by 7.5%. This export figure was such a huge surprise, as Consensus anticipated a decrease of 0.4%, while Trading Economics hoped for a 1% increase.

Sources: Financial Times, NBS, Trading Economics, ECB, Eurostat

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Global Economy *(Cont.)*

Chinese youth unemployment aged 16 to 24 was 20.4% in April, the highest level since it started to be collected in 2018

The demand side has not shown a much better picture than supply side. An impressive 18.4% YoY increase in retail sales was below expectations of 21%, solely due to the low base last year as many cities were under COVID-19 lockdown, including Shanghai, the biggest city in China. Notably, youth unemployment aged 16 to 24 was 20.4% in April, which was even higher than any number during last-year lockdown period. This figure is also the highest level since China started to collect it in 2018.

Fortunately, unlike Western countries, inflationary pressure is not a problem in China. The YoY inflation rate in April was only 0.1%, and the average of the first four months of 2023 is only 0.98%, much lower than the 3% target set by the government. As the CNY depreciated by 3% just in May, the market has been anticipating the Chinese government to continue its monetary expansionary policy to support the economy and achieve the 5% target given the advantages of low inflation.

Figure 7: China export growth

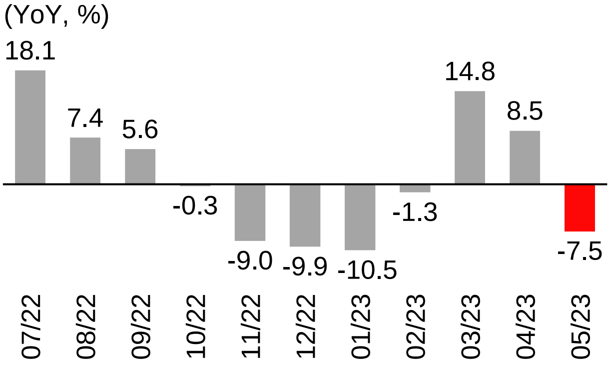
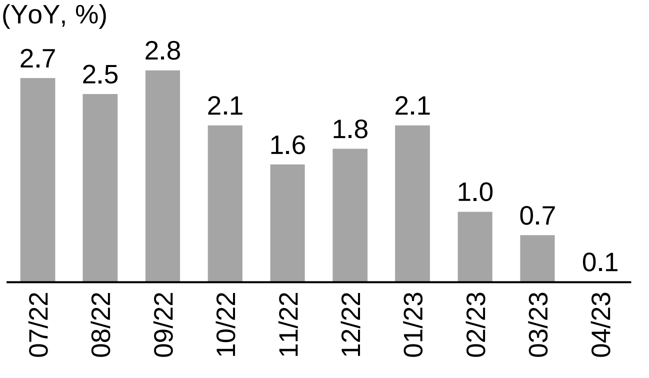


Figure 8: China's Headline inflation



Sources: Financial Times, NBS, Trading Economics

Section 3

Vietnam's economy

Amid global slowdown and high uncertainty, Vietnam economy has mainly been suffering from weaker external demands. In this context, the Government has been actively implementing both fiscal and monetary policy measures to stimulate growth

As one of the countries with the highest trade openness, Vietnam's economy largely depends on external factors and the operation of FDI enterprises

Vietnam is highly open and dependent on foreign direct investment (FDI). According to World Bank 2021 data, Vietnam's trade of goods and services was almost twice as much as GDP, the highest proportion among 5 ASEAN countries including Vietnam, Malaysia, Thailand, Philippines and Indonesia. In 2022, considering the share in total exports and imports, FDI accounted for more than 70% each. Obviously, the economy is vulnerable to external shocks.

Figure 9: Trade of goods and services/GDP in 2021

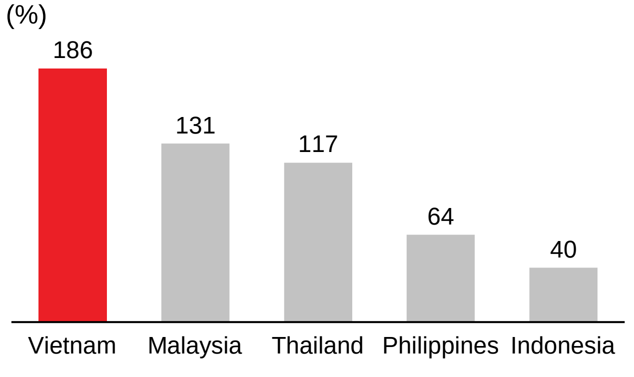
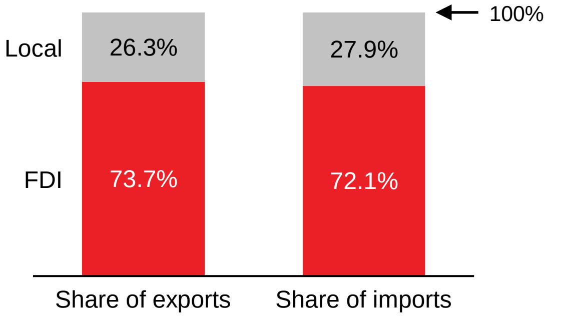


Figure 10: Share of FDI in Vietnam in 2022



Due to global slowdown, the economy has been suffering weaker external demands

Vietnam Manufacturing Purchasing Managers' Index (PMI) dropped to 45.3 in May, the third consecutive month of decline. The manufacturing sector faced a further contraction, as there was a massive fall in new orders, which in turn led to a cut down in output and employment. The number of new orders decreased rapidly to the lowest level in 20 months, suggesting a possibly long-winded downturn rather than a transitory soft-patch, Andrew Harker, Economics Director at S&P Global Market Intelligence said.

According to General Statistics Office (GSO), on the year-over-year basis (YoY), Exports in the first 5 months recorded a substantial reduction in key items including Wood and wooden products (-28.7%), Telephones and their parts (-16.0%), Footwear (-13.3%), Computers, electrical products and parts (-9.8%), and Other machinery, instrument and accessory (-5.1%). On the other hand, Rice exports showed a notable improvement in both value and volume at 52.0% and 40.8% respectively.

Sources: General Statistics Office (GSO), World Bank, S&P Global

Vietnam's economy *(Cont.)*

Despite the export decrease, there still existed trade surplus at USD 9.8 billion thanks to the proactive cut in input imports. For instance, considering year-to-date (YTD) import value, there was an almost 20% decrease in inputs of Textile while Computers, Electrical products and parts accounting for a quarter of total imports fell by 13.1% YoY.

In terms of 5-month Index of Industrial Production (IIP), 2023 saw a 2.0% reduction which has been even worse than COVID-19 period. Although monthly IIP in May 2023 slightly rose by 0.1% YoY, Manufacturing and Mining IIP fell by 0.5% and 2.9% YoY, correspondingly. Similarly, monthly production followed the same downward trend. Specifically, there were negative YoY growth rates of key items including Automobiles (-39%), Clothing (-26%), Iron and Steel (-24%), Mobile phones (-20%), Mobile phone parts (-14%), Natural fiber (-11%), Leather footwear (-9%).

Figure 11: 5-month IIP YoY growth rates

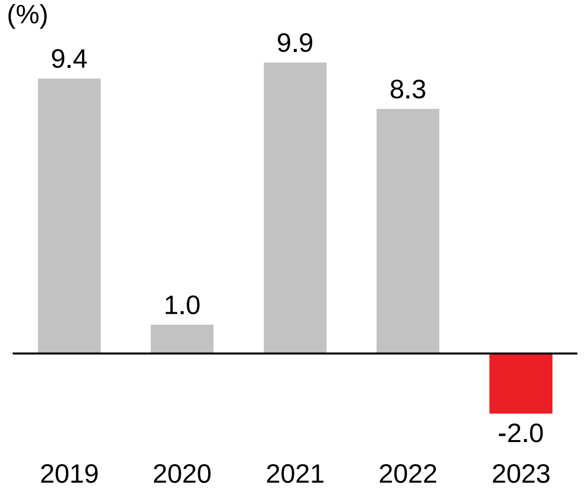
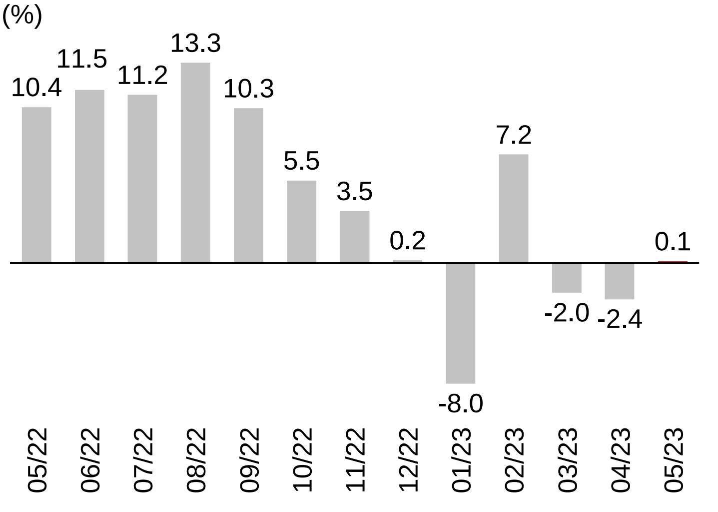


Figure 12: Monthly IIP YoY growth rates



The current slowdown has also been reflected by low performance and, in turn, the cessation of numerous firms. In the first 5 months of 2023 (5M2023), there were fewer new businesses and employees, while the registered capital amount slumped by more than 25% YoY. In addition, numbers of temporarily and permanently ceased firms increased rapidly by 20.3% YoY and 6.5% YoY correspondingly. Regarding specific industries, real estate sector saw not only a c.61% fall in the number of newly registered businesses but also a c.30% rise in the number of ceased businesses.

Source: GSO

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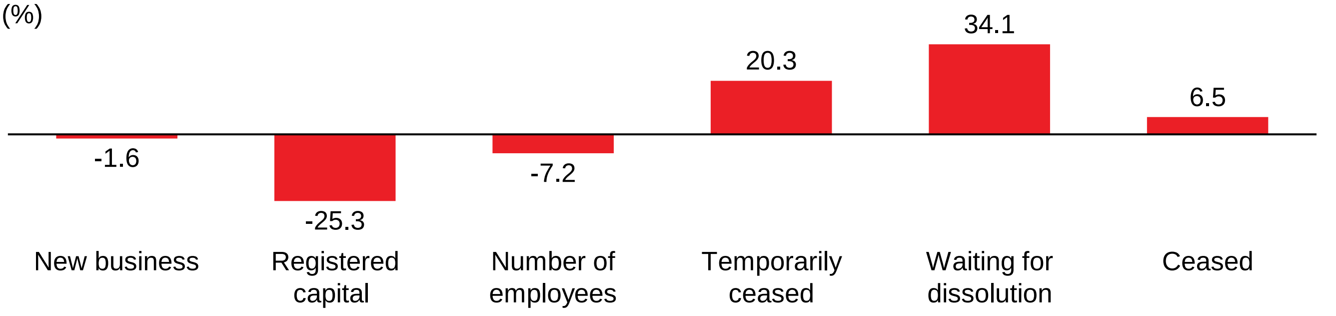
Vietnam's economy *(Cont.)*

Figure 13: 5M23 vs 5M22 business situation



Global headwinds also affect FDI flows in Vietnam

Amid global headwinds, Vietnam's Foreign Direct Investment (FDI) in 5M2023 was also impacted. Though 5M2023 FDI disbursement in the manufacturing sector showed a slight improvement at 6.7% YoY, disbursed FDI decreased by about 1% while registered FDI fell by 23% YoY.

Figure 14: 5-month disbursed FDI

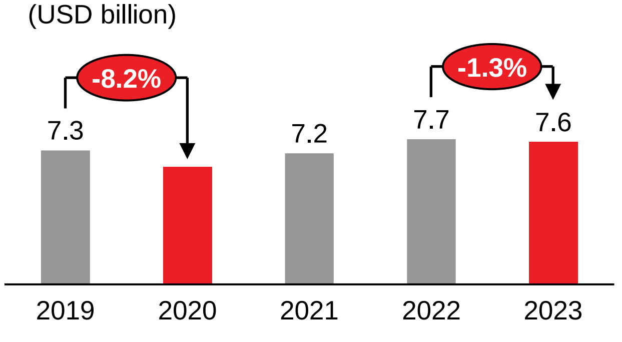
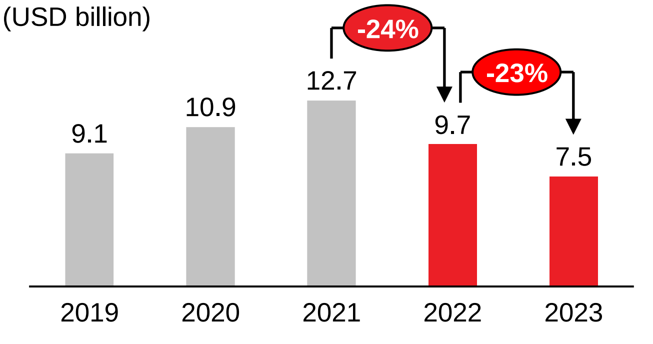


Figure 15: 5-month registered FDI



The number of tourists visiting Vietnam continues to improve each month thanks to the recovery of Chinese tourists

Demand side of Vietnam's economy managed to hold on, which was illustrated by a noticeable retail sales growth in both nominal and real terms. Total nominal retail sales grew by 1.5% on month-over-month (MoM) basis and 11.5% YoY. Besides, the ratio of total international tourists in 2023 and 2019 has continued to improve each month thanks to the recovery of Chinese tourists.

Figure 16: Total retail sales

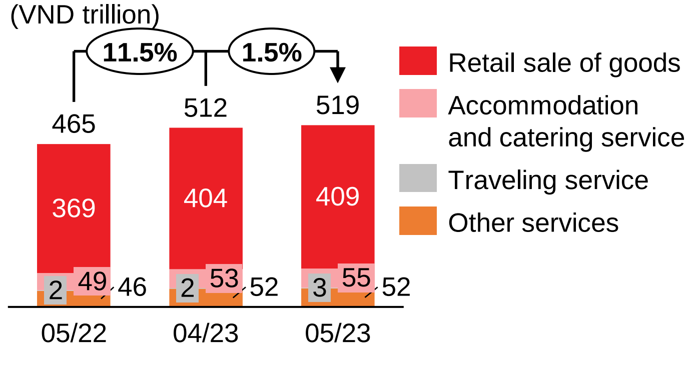
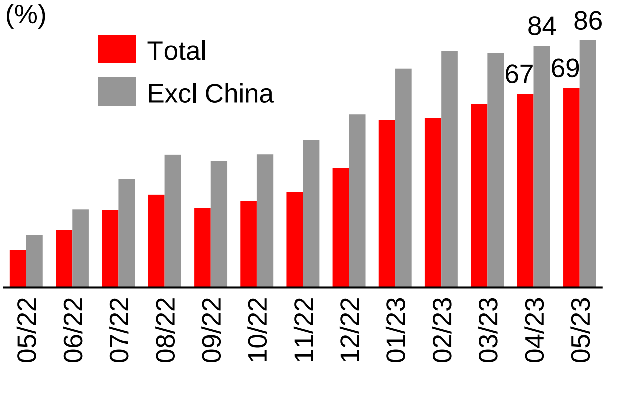


Figure 17: International tourists as % of 2019



Source: GSO

Section 3

Vietnam's economy *(Cont.)*

Given domestic and global difficulties, there is a necessity to push the public investment disbursement that possibly stimulates the economy to reach the 6.5% GDP target

According to Deputy Prime Minister Tran Luu Quang, despite global pressure from rate hikes, Vietnam maintains 2023 GDP target at 6.5% and the Government is making huge efforts to implement stimulating measures including the public investment disbursement. Development investment in the first 5 months of 2023 reached VND 157 trillion, increasing by 36% YoY, equivalent to 22.2% of budget. The Government has proactively set up 5 special teams to closely monitor and support the investment disbursement process with the aim of reaching at least 95% of the disbursement target.

In contrast to rising development investment, 5-month government revenue saw a YoY decline in key items such as domestic revenue (-1.1%), revenue from crude oil (-12.9%) and revenue from export-import activities (-19.5%); and it only achieved 47.5% of National Assembly's plan, compared to 57.1% in 5M22. Currently, the Assembly is strongly considering VAT reduction proposal, which shows the Government's efforts to stimulate the economy.

Figure 18: 5-month development investment

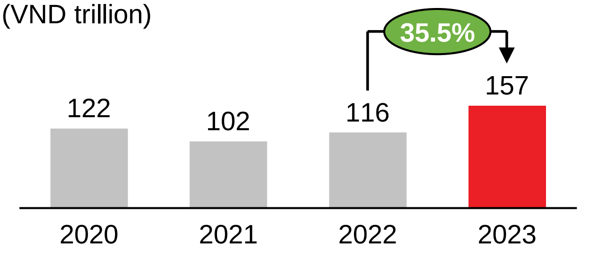
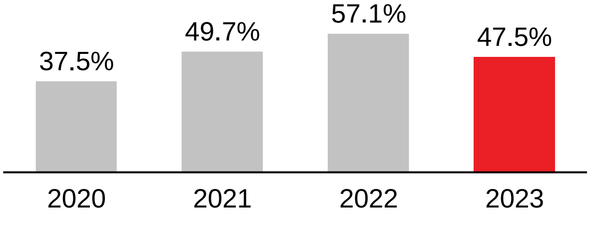


Figure 19: 5-month government revenue as of plan



In addition to fiscal policy, the Government has also made use of monetary policy via recent rate cuts and still had room for further cuts

On May 25th, State Bank of Vietnam (SBV) has reduced key policy rates for the third time in 2023. In this most recent rate cut, the refinancing rate and the maximum VND deposit rate fell by 50 basis points (bps). Since January 2023, 6-month deposit rate of G18(*) has dropped by 84 bps. In the coming time, we expect there is still room for further rate cuts, based on the following rationale. Firstly, Vietnam's economy experienced a slowdown as aforementioned. Secondly, year-to-date (YTD) credit growth remained slow at 3.2% in 5M2023, much lower than the 8% level in 5M2022. Thirdly, inflation has been well managed, as month-on-month (MoM) headline Consumer Price Index (CPI) decreased for 2 consecutive months (in March and April) and remained almost unchanged in May. It is forecast to be stable at 3.2% in 2023, well below the 4.5% target.

Sources: Reuters, TCB MA

(*) G18 includes 4 State-owned banks and top 14 Joint-stock banks

Section 3

Vietnam's economy *(Cont.)*

VND is expected to fluctuate in June and July due to seasonal effects

As aforementioned, elevated global uncertainty triggered DXY to appreciate by 2% in May. While the depreciation of the Euro and CNY could be explained by the technical recession of Germany and China's weak recovery, other currencies were also depreciated by mainly risk-off sentiments, such as Japanese Yen (2.8%), Thai Baht (1.9%), Singapore Dollar (1.4%), Philippine Peso (1.4%), and Indonesian Rupiah (2.0%). Fortunately, VND was depreciated by only 0.1%.

Yet, for the short-term view, VND is expected to fluctuate due to seasonal effects. Particularly, considering the past 10 years, VND depreciated in June in 7 years and in July in 6 years. This is because FDI businesses tend to transfer profits back to their countries during these months.

For the long-term view, we hold the belief that VND would be stable. Since global inflationary pressures have cooled off to some extent, the Fed and ECB are expected to stop their tightening monetary policies soon, which will eventually allow DXY to depreciate again.

Figure 20: Change of exchange rates in May

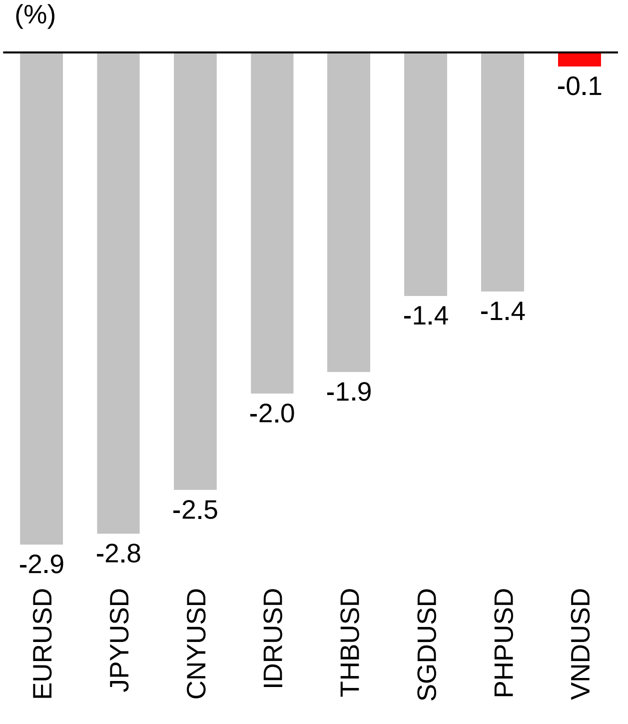
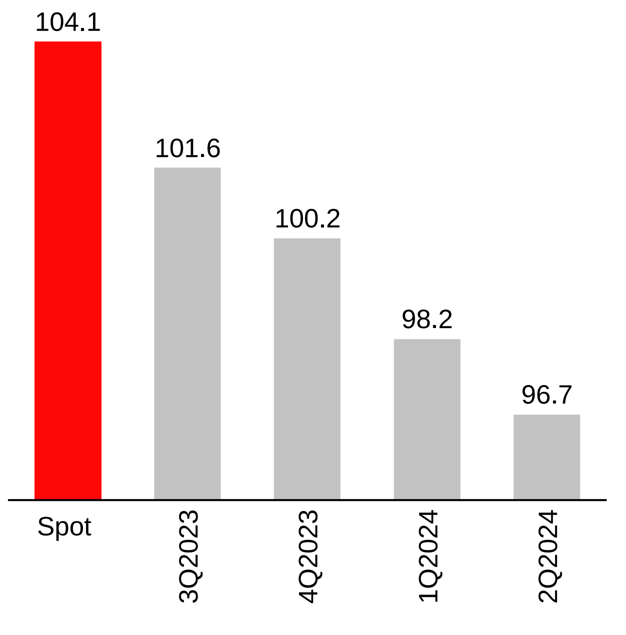


Figure 21: DXY forecast by Bloomberg



Sources: Reuters, Bloomberg and TCB MA

Section 4

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Appendix

Updates on macroeconomics and financial market in the world

Indicators	Country	Unit	2022	05	06	07	08	09	10	11	12	2023 01	02	03	04	05
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			1.3		
CPI	US	%, YoY, Monthly	**8.0**	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0	4.9	
	EU	%, YoY, Monthly	**9.1**	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9	7.0	
	China	%, YoY, Monthly	**2.2**	2.1	2.5	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	0.7	0.1	
	Japan	%, YoY, Monthly	**3.1**	2.5	2.4	2.6	3.0	3.0	3.7	3.8	4.0	4.3	3.3	3.2	3.5	
Fed funds target rate		%, End of month	**4.5**	1.0	1.75	2.5	2.5	3.25	3.25	4.0	**4.5**	4.5	4.75	5.0	5.0	5.25
DXY		Index, Monthly Average	**104.4**	103.1	103.9	106.9	107.1	110.7	111.9	108.0	104.5	102.7	103.7	103.8	101.8	102.8
USDCNY		Index, Monthly Average	**6.7**	6.7	6.7	6.7	6.8	7.0	7.2	7.2	7.0	6.8	6.8	6.9	6.9	7.0
10Y UST Yields		%, Monthly Average	**2.8**	2.6	3.0	2.8	2.9	3.4	3.5	3.5	3.5	3.2	3.8	3.7	3.5	3.6
WTI Oil price		USD/barrel, Monthly Average	**91.8**	104.3	109.1	94.7	91.5	80.0	87.0	80.6	76.5	74.4	76.9	73.4	79.4	71.6

Sources: Reuters, TCB MA

Updates on macroeconomics and financial market in Vietnam

Indicators	Unit	2022	05	06	07	08	09	10	11	12	2023 01	02	03	04	05
Real GDP growth	%, Quaterly, YoY	**8.0**		7.8			13.7			5.9			3.3		
IIP	%, Monthly, YoY	**7.8**	10.4	11.5	11.2	13.3	10.3	5.5	3.5	0.2	-8.0	7.2	-2.0	-2.4	0.1
Headline CPI	%, Monthly, YoY	**3.1**	2.9	3.4	3.1	2.9	3.9	4.3	4.4	4.5	4.9	4.3	3.4	2.8	2.4
Retail sales growth	%, Monthly, YoY	**19.8**	22.6	27.3	42.6	50.2	36.1	17.1	17.5	17.1	20.0	13.2	13.4	11.5	11.5
Registered FDI	USD bio, Monthly	**22.6**	0.7	2.0	1.2	0.9	1.6	3.3	2.4	1.5	1.5	0.8	1.9	1.6	1.8
Disbursed FDI	USD bio, Monthly	**22.4**	1.8	2.4	1.5	1.2	2.6	2.1	2.2	2.7	1.4	1.2	1.8	1.6	1.7
Trade exports	USD bio, Monthly	**371.3**	30.8	32.7	31.3	35.3	29.7	30.6	29.2	29.1	23.6	26.1	29.7	27.9	29.1*
Trade imports	USD bio, Monthly	**358.9**	32.9	32.4	31.0	30.9	28.5	27.8	28.2	27.4	22.9	23.3	28.3	25.2	26.8*
Trade balance	USD bio, Monthly	**12.4**	-2.1	0.3	0.3	4.4	1.3	2.8	1.1	1.7	0.7	2.8	1.4	2.7	2.2
Deposit growth**	%, YTD	**6.0**	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**	8.1	9.4	9.5	9.5	10.5	11.5	12.1	14.5	0.1	0.9	2.6	3.0	3.2
10Y Government bond yields	%, Monthly Average	**3.5**	3.1	3.2	3.3	3.5	4.0	4.9	4.9	4.9	4.6	4.2	4.0	3.3	3.1
1W Interbank rate	%, Monthly Average	**3.5**	1.8	1.2	2.1	3.8	5.1	6.5	6.4	5.9	6.4	5.8	4.3	4.7	4.7
6M Deposit rate***	%, Monthly Average	**5.0**	4.5	4.5	4.6	4.6	4.8	5.7	6.7	6.9	6.9	6.8	6.6	6.4	6.3
USDVND	Monthly Average	**23,431**	23,100	23,221	23,383	23,407	23,657	24,340	24,817	23,736	23,460	23,651	23,592	23,469	23,464

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

Notes:

* May's import and export data were collected from GSO

** YTD Data as of 20th Mar

*** Weighted average of 18 banks

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Economic and Financial Market Analysis
Finance and Planning Division
TECHCOMBANK
Floor 5, No. 6 Quang Trung, Tran Hung Dao Ward, Hoan Kiem District, Hanoi
Tckh.ptkt@techcombank.com.vn