HongLeong Bank

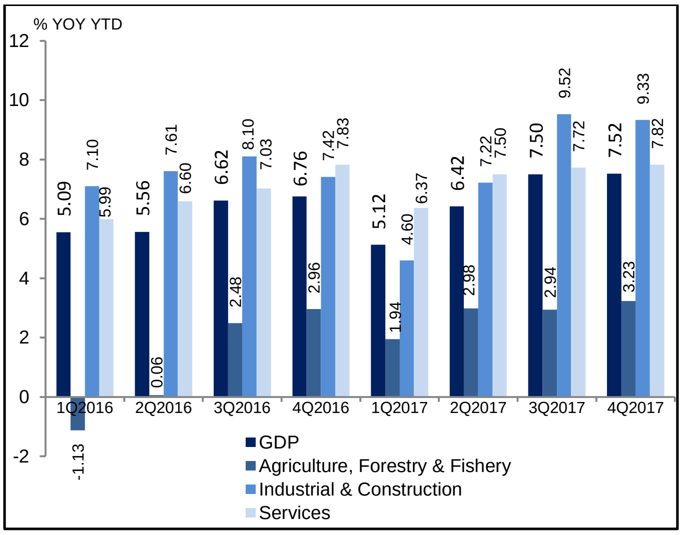
Global Markets Research
Economics: Vietnam

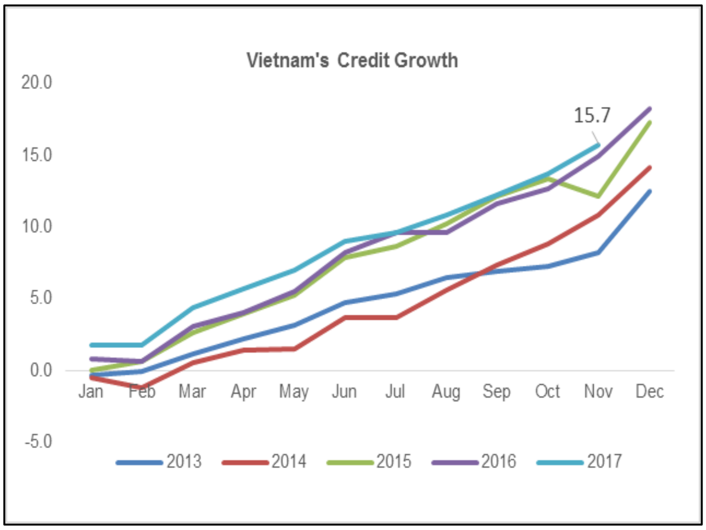
Vietnamese Economy At A Glance: Steady growth outlook in 2018

The Vietnamese economy sustained a 7.53% YOY grwoth in 4Q (3Q: +7.50% YOY), supported by faster growth in agriculture, forestry & fishery (+3.23% vs +2.94%) and sustained expansion in services (+7.82% vs +7.72%) and industry & construction (+9.33% vs +9.52%). Full year 2017 growth settled higher at 6.81% (2016: +6.21%), surpassing the government target of 6.7%. Growth outook in 2018 is expected to remain steady, at between 6.7-7.0% with the government target standing at 6.7%.

Credit growth continued to gain traction, outpacing growth pace seen for the same time period of previous years . Credit growth last increased 15.7% in November-17, from Dec-16 levels. YTD, credit expanded19.1% YOY in the first eleven months of 2017, on track to achieve the revised growth target of 18-19% for the year (previous target 21%). Looking ahead, the State Bank of Vietnam has set a credit growth target of 17% for 2018, to be supported by anticiapted sustained 6.7% expansion in the Vietnamese economy.

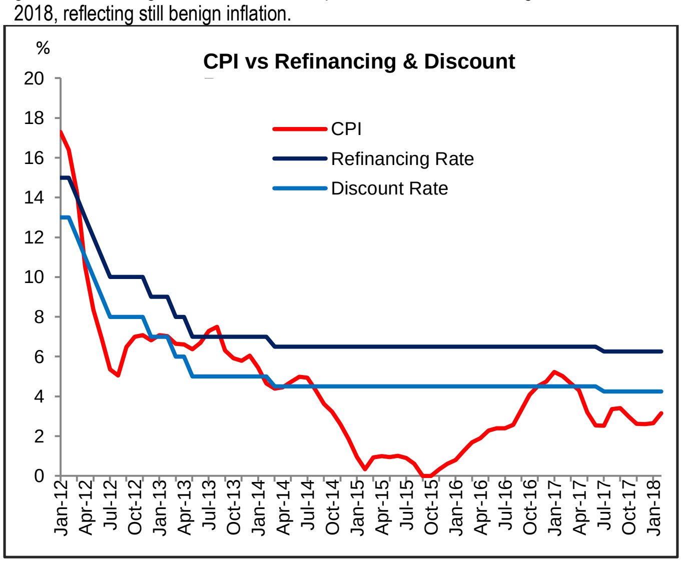
* growth from December the preceding year

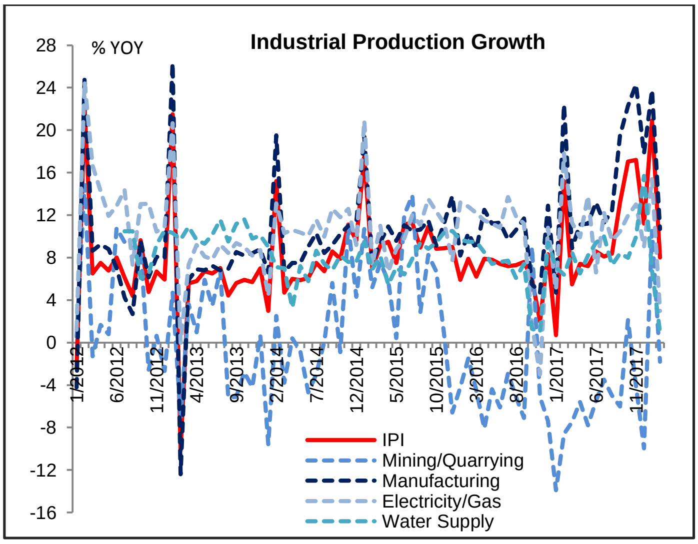




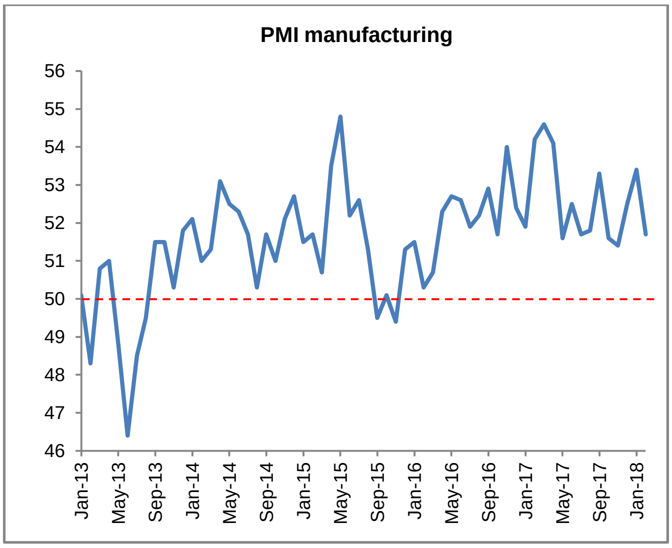
Consumer inflation ticked higher for the 2nd consecutive month, to 3.15% YOY in February (Jan: +2.65%). The higher inflaiton was driven by faster price increases across most categories led by food (+4.33%), housing (+3.76%), and transport(+4.17%). CPI averaged 3.44% in 2017 (2016: 2.67%), below the government's target of 4.0%, and is expected to hover in the region of 3.0-3.5% in 2018, reflecting still benign inflation.

Industrial output growth decelerated sharply, growing a mere 8.0% YOY in January (Dec: +20.9%), normalizing from the double-digit growth seen in 2H17. Pullbacks were evident in all subsectors. Output of manufacturing, electricity/ gas, water supply all rose at a slower pace of 10.7%, 3.0%, and 1.0% respectively while mining & quarrying contracted 1.8% YOY in February.



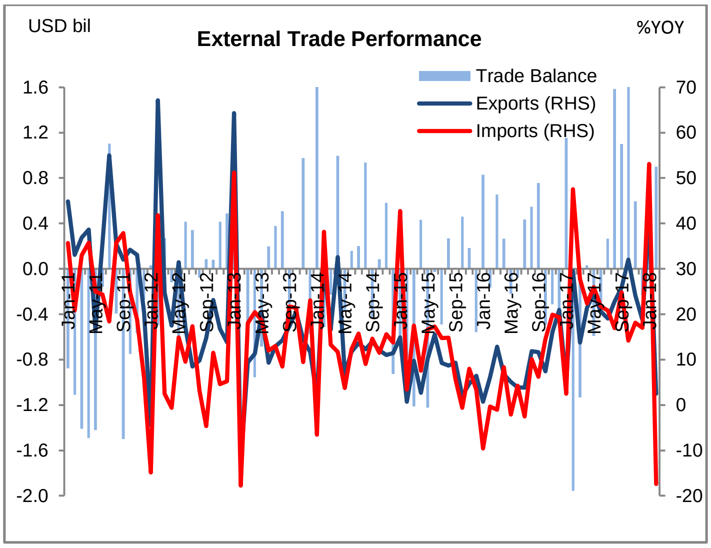


The Purchasing Manager's Index pulled back from a 9-month high of 53.4 in January to 51.7 in February, reflecting slower growth momentum seen in global manufacturing which offered telltale signs of slightly softer growth in 1Q.

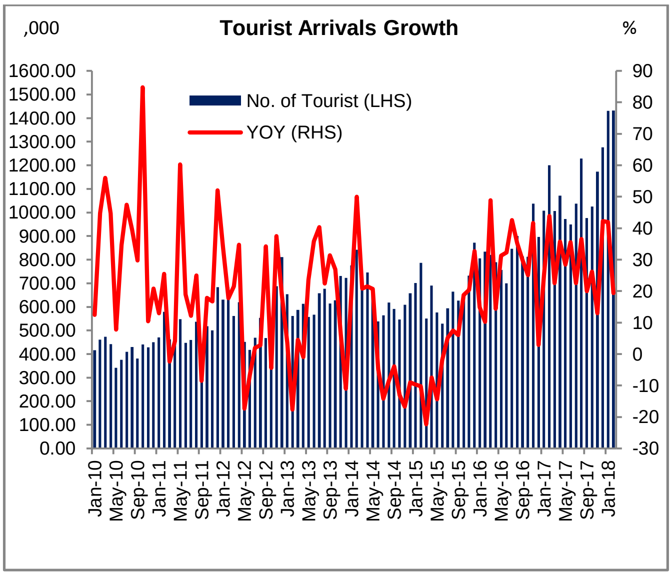


Exports grew at a much softer pace of 2.5% YOY in February (Jan: +41.6%), distorted by the Lunar New Year festive holidays, as evident in previous years. Exports ranging from food to electronics and steel and machinery all deteriorated. Imports also plunged 17.2% YOY in February, a sharp reversal from the 53.1% YOY increase in January. Trade balance remained in surplus of US$0.9bn, its best in four months thanks to a steeper decline in imports (-37.6% MOM) vs exports (-33.7% MOM).

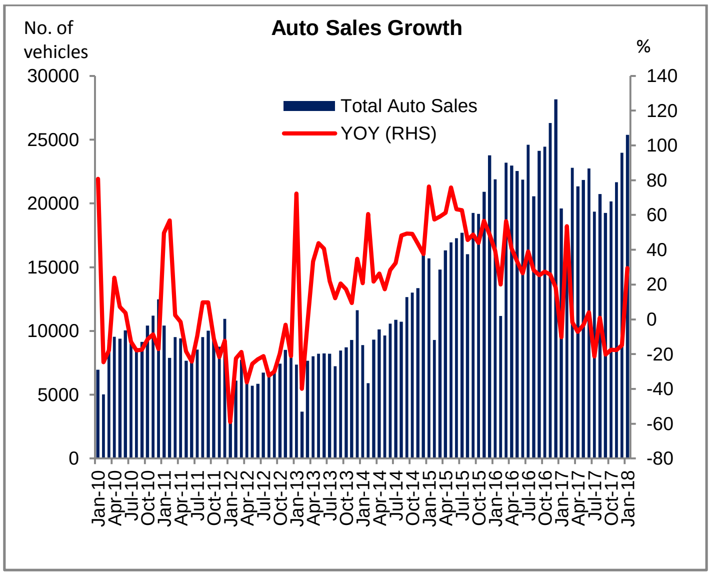
Year-to-date February, exports growth remained commendable at 22.9% YOY while imports growth was comparatively more subdued at 15.3% YOY (YTD Feb-17: +15.4% and +19.6% respectively), signaling softer domestic demand.



Tourist arrivals continued to see double digit growth, albeit softer at 19.3% YOY, receiving 1.432m tourists in February (Jan: +42.0% YOY to 1.43m), reaffirming booming tourism activities in Vietnam. Tourists arrivals from China rose 20.1% YOY to 484k in February, while South Korea tourists saw a 57.5% YOY jump to 304k.



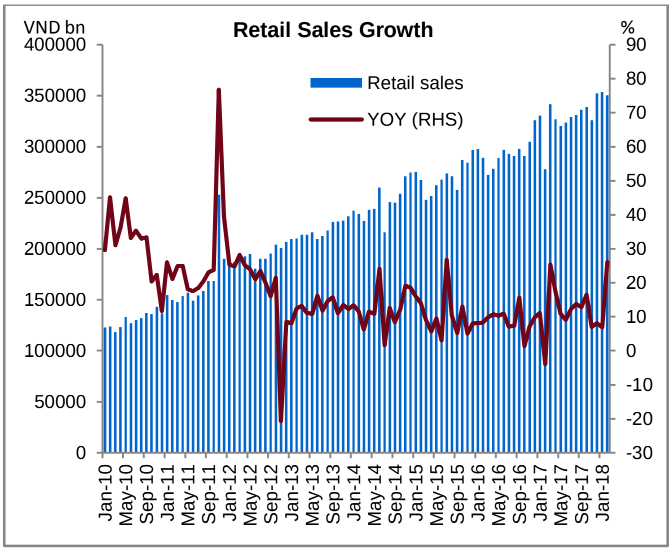
Auto sales bounced higher for the first time in five months, rising 29.4%% YOY to 25,381 units in January (Dec: -14.9% YOY), data from the Vietnam Automotive Manufacturers Association showed. MOM, total auto sales continued to increase for the 4th consecutive month, spurred by higher sales of passenger cars, indicating improving consumer spending.

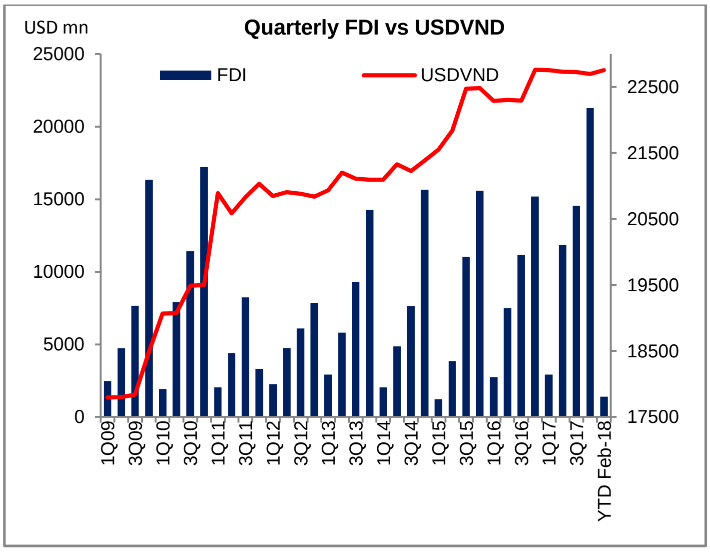


Retail sales growth jumped to 26.1% YOY in February. Much higher than January's 6.9% YOY increase and an average of 11.5% YOY in 2017 skewed by a low base month in Feb-17. YTD Feb-18, retail sales grew 10.1% YOY, led by continued healthy growth in all the main categories from trade to hotel/ restaurants, services, and tourism.

The Vietnamese Dong depreciated 0.2% MOM against USD at 22759 as at end-February on the back of USD strength spurred by expectations the Fed could be more aggressive in raising interest rates.

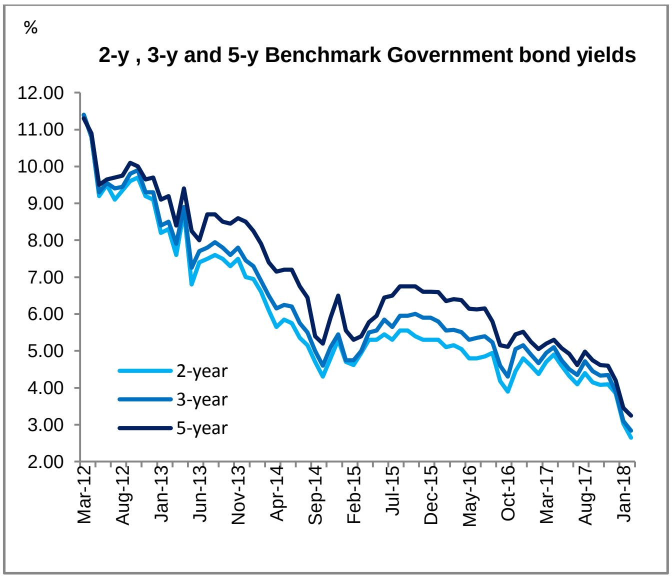
Foreign direct investment (FDI) saw a slow start to the new year, contracting 31.4% YOY to USD1.39bn in the first two months of 2018, a sharp pull back from the 40.1% YOY increase to USD21.3bn for the full year of 2017. We expect FDI to pick up in the months ahead, as Vietnam remains one of the favourite investment destinations for foreign investors.

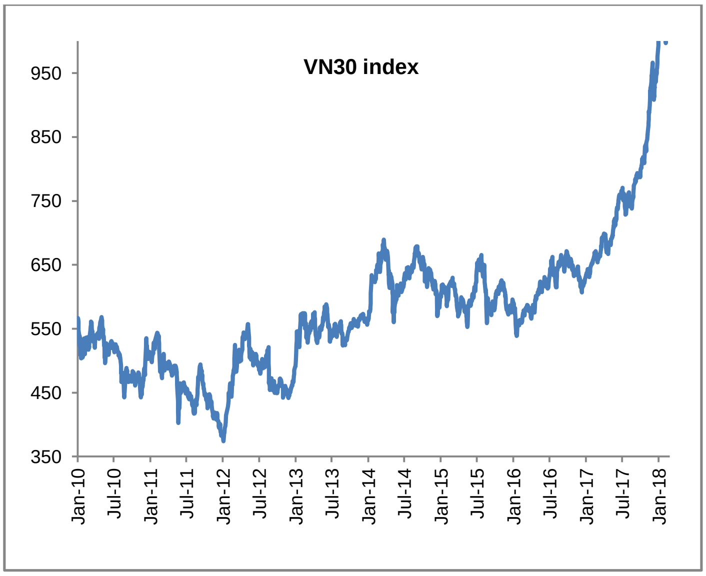




Vietnamese bond yields continued to trend lower since September. Yields of 2y, 3y and 5y benchmarks further edged down by 2-4bps MOM to 2.65%, 2.84%% and 3.25% respectively as at end-February.

Equity market in Vietnam rallied furher at the beginning of 2018. The VN30 Index advanced a commendable 13.6% YTD to 1108.23 as at end-February as investors remained upbeat about riskier emerging market equities amid improving global macroeconomic outlook.





Source: General Statistics Office, Vietnam, State Bank of Vietnam, Markit, and Bloomberg

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