Global Markets Research
Economics: China

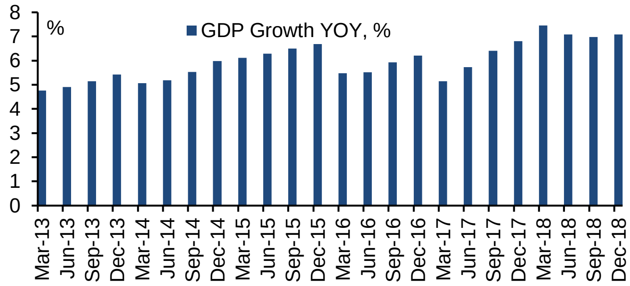
Vietnam Economy at a Glance:

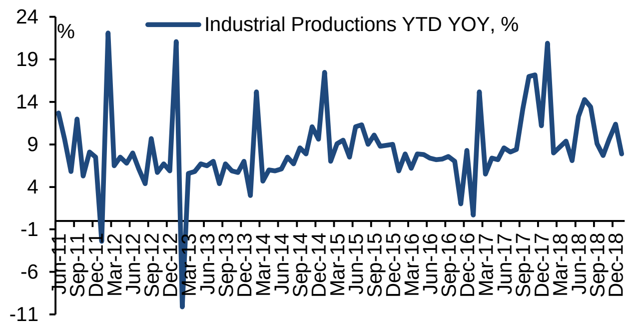
Vietnam economy grew a solid 7.08% YOY in 2018 among the fastest globally, supported by a solid manufacturing sector with domestic consumptions continuing to strengthen further despite slower growth abroad.

GDP growth underpinned by solid manufacturing sector

- The Vietnam economy continued to register strong growth, at a solid 7.08% YOY in 2018 (2017: +6.81%). The impressive print was mainly underpinned by the fast growing primary and manufacturing sector as growth in the services sector eased in 2018. The primary sector (agriculture, forestry & fishery) grew 3.76% YOY (2017: +2.90%) while the secondary sector (industry & construction) expanded 8.85% (2017: +8.00%). Services went up by 7.03% coming off from the 7.44% observed in 2017.

- Industrial production growth eased to 7.9% YOY in January (Dec: +11.4%) from the rebound in December due to continuos weakness in the mining and quarrying sector (-6.7% vs -3.2%). Both manufacturing and electricity output saw a lacklustre month as well, with growth softening to 10.1% YOY (Dec: +13.7%) and 8.8% YOY (Dec: +11.7%) respectively. The slower manufacturing production jives with the weaker PMI reading in January (51.9 vs 53.8) as output and new orders were reported to have softened last month. Despite that, optimism level among manufacturers remained very much intact as output is expected to rise in the coming months.



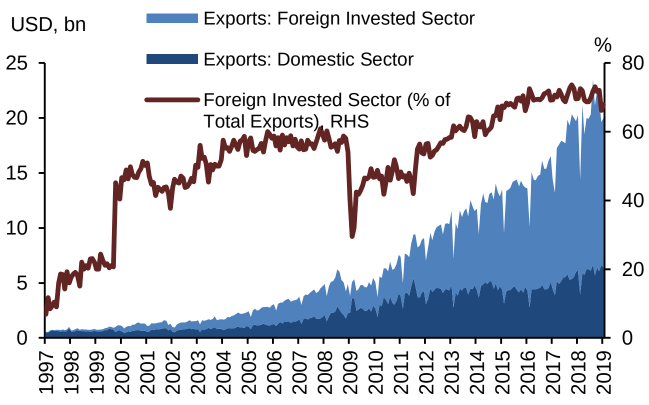


Source: Bloomberg

Trade sector started the year on weaker note as global demand softened

- Exports started the year on a weak note declining by 1.3% YOY in January (Dec: -0.4%) versus the 40.6% increase in the same month a year ago. Exports growth has eased substantially from the phenomenal growth observed in 2017 – in fact December's contraction (-0.4% YOY) was the first time in nearly six years. Foreign investor sector exports continued to make up about 70% of total exports, and was the key reason pulling down overall exports growth in recent months - contracting by 3.7% YOY in January (Dec: -5.2%) amidst slower global demand.

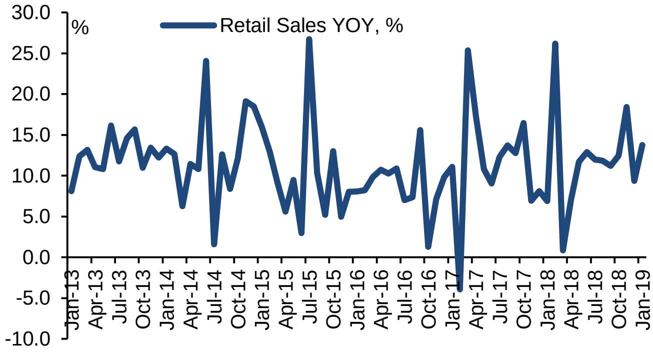
- On the contrary, imports strengthened to increase by 3.1% YOY in January (Dec: +1.6%) but paled in comparison to the double digit growth seen prior to December 2018, thus bringing the trade deficit to narrow to $800m (Dec: -$811m).



Source: CEIC

Retail sales supported by strong domestic demand

- Retail sales rebounded to increase 13.8% YOY in January (Dec: +9.4%) following a slower December despite lower visitor arrivals in recent months, pointing to underlying strength in domestic resident demand. Sales in the accommodation, food & beverages service rebounded by a huger margin rising 11.5% YOY (Dec: +1.9%). Sales in tourism eased further to 7.9% YOY (Dec: +11.0%) in line with the mentioned softer increase in visitors. Looking ahead, the retail sector is expected to be supported by solid domestic demand as well as consumptions from incoming visitors as the new year started.

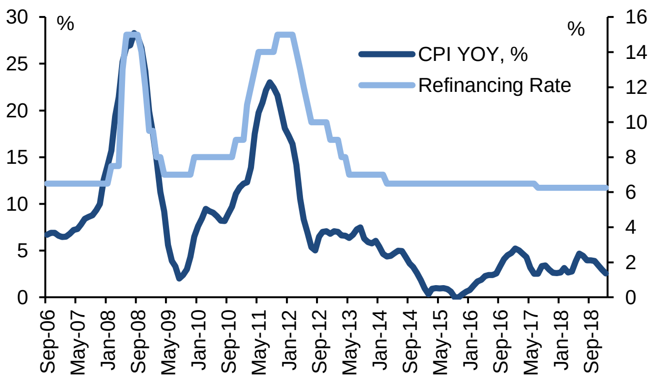


Source: Bloomberg

Inflation pulled back on lower oil prices and moderating credit growth

- Inflation eased further to 2.56% in January (Dec: +2.98% YOY). weighed down by lower oil prices. The rise of prices of food, beverages, tobacco as well as textiles was more than offset by a sharp fall in prices of transport (-3.95% vs +0.21%) and the softer rise in cost of healthcare and housing/construction.

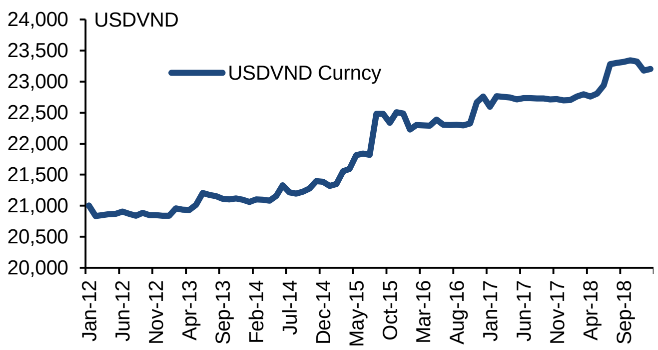
- The recent pullback in inflation from the high levels in June and July 2018 was in line with the easing in Vietnam's credit growth as quoted by government officials. (Note that the State Bank of Vietnam (SBV) uses credit growth targets as its main monetary policy tool) The SBV has also reported on its official website that credit growth for 2018 was a moderate 14% YOY, the slowest rate since 2014 and equivalent to its 2018 target. Target for 2019 was also unchanged at 14% suggesting that price pressure is likely to remain moderate this year. The benchmark refinancing rate meanwhile has been held steady at 6.25% since July 2017 and is expected to stay so for the rest of the year.



Source: Bloomberg

VND expected to remain stable, bonds rallied in recent months

- The vietnamese dong is expected to remain stable against the US dollar as the Fed hold off its plan to hike rates this year and the SBV's ample amount of foreign reserves could help stabilize the currency if volatility arises.
- Vietnam's government debts have become attractive in recent months with bonds rallying across the curve - Yields on 2y, 3y and 5y notes have fallen by roughly 100bps since November 2018 to a respective level of 3.176%, 3.333% and 3.721%.



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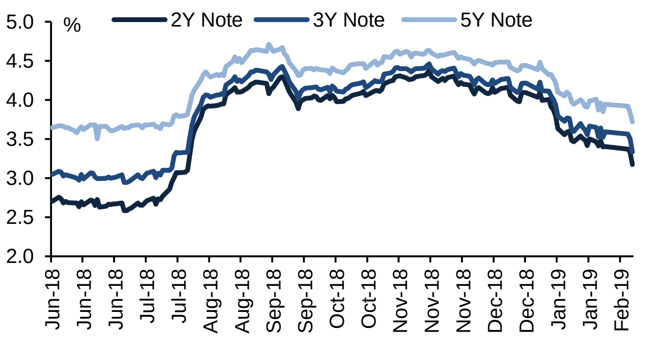

Source: CEIC

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