Vietnam

Economics Update

Growth remains robust

- Vietnam's economy expanded 7.1% yoy in 1H18 and we forecast GDP growth to be reported at 6.8% yoy for 3Q18.
- Depreciation pressures on the dong have eased but still linger.
- We rule out a potential policy rate hike towards the end of 2018.
- Vietnam's fundamentals are sound compared to other emerging markets with ample FX, a current account surplus and a fiscal balance under control.
- The US-China trade war could hurt computer parts and components exports; potential beneficiaries: exporters of handbags, furniture and fishery products.

We expect GDP growth to remain strong in 3Q18

The latest reading on industrial activities showed better-than-expected growth (Index of Industrial Production, IIP, grew at 14.3% yoy in Jul and 13.4% yoy in Aug), which pointed to a sustained expansion in the manufacturing sector. Despite a high base in 3Q17, we expect GDP growth in 3Q18 to remain strong at 6.8% yoy. There could be a positive surprise in 4Q18, which could bring GDP growth to 6.9% for the full year.

Depreciation pressures on the dong have eased but linger

We believe pressures on the dong have eased in the short run as 1) the country has a healthy balance of payments, thanks to a trade surplus and positive FDI inflow; 2) PBOC has undertaken measures to mitigate Rmb depreciation pressure; and 3) market sentiment has improved in the official and black markets. In the long run, we think policy makers will tolerate modest depreciation in the dong amid broad US$ strength.

We do not project a policy rate hike in end-2018

The recent developments in Vietnam's money market offer a slew of signals on where we are in the interest rate cycle. Interbank rates rose to a record high, bond yields rebounded and there was a small hike in deposit rates. We view this tightening of liquidity in the banking system as a normalisation of monetary conditions. As such, we believe that the SBV will not be rushed into a policy rate hike this year.

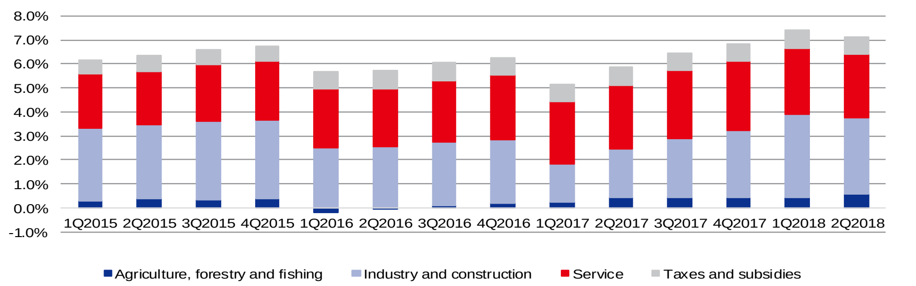
Fundamentals remain sound compared to other emerging markets

In many emerging markets, financial conditions have tightened more appreciably, particularly for countries with large current account deficits and high inflation rates. For Vietnam, we believe that the risk is relatively limited since Vietnam has much stronger fundamentals than Argentina and Turkey or even Indonesia and seems less vulnerable to current account pressures compared to other Asian countries.

Be selective to ride an escalating US-China trade war

We think pressure is building for Vietnamese technology exporters, especially computer parts and components. However, we also see a silver lining for domestic exporters of handbags, furniture and fishery products as US tariffs on Chinese imports in these categories are unlikely to be absorbed by the producers, rendering them uncompetitive vis-à-vis Vietnam.

Figure 1: Vietnam's real GDP growth by sector



SOURCES: VND RESEARCH, VIETNAM GENERAL STATISTICS OFFICE

Economist(s)

My TRAN Ha
T (84) 96 681 1636
E my.tranha@vndirect.com.vn

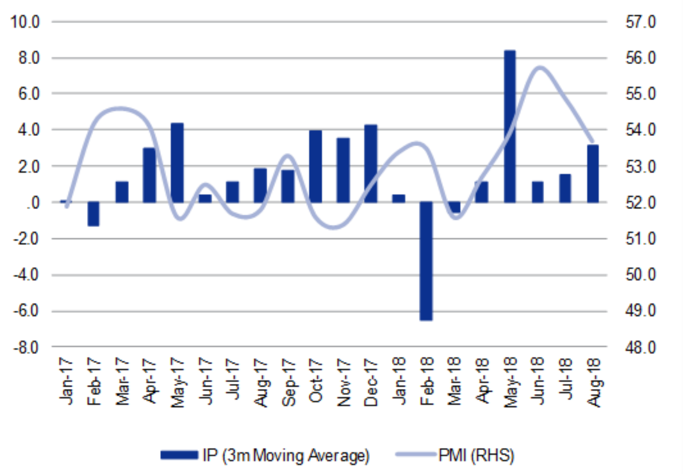
Growth remains robust and broad-based

Vietnam's GDP growth remains resilient

The Vietnamese economy expanded by 6.8% yoy in 2Q18 after GDP growth of 7.5% yoy in the first quarter (revised up from an initial estimate of 7.4% yoy). Vietnam's real GDP therefore recorded robust growth of 7.1% yoy in 1H18, led by strong manufacturing activity and domestic consumption. In our previous note, we forecast GDP growth to ease in the second half of 2018. However, the latest reading on industrial activities points to sustained strength in manufacturing.

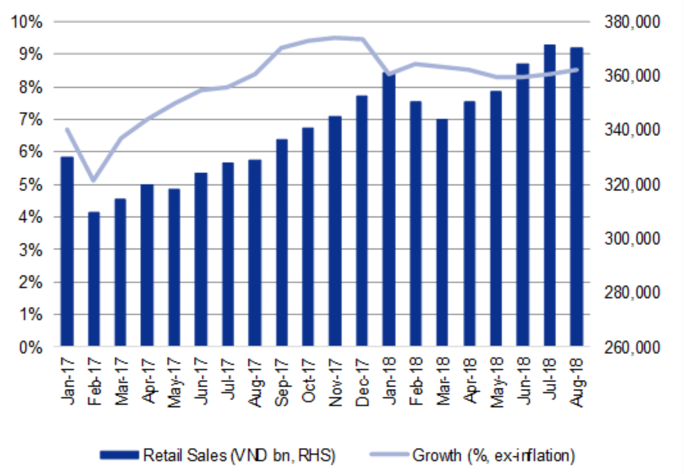
According to the General Statistics Office (GSO), the IIP rose 14.3% in Jul and 13.4% in Aug, supported by stronger manufacturing and a rebound in mining activities. As expected, the debut of the Nghi Son Refinery and Petrochemical complex boosted petroleum products output by 60.5% yoy in the first eight months of 2018, bolstering manufacturing growth. Despite an escalating trade war, export growth was sustained in the Jul-Aug period with the launch of Samsung's Galaxy Note 9 smartphone.

Figure 2: Industrial production growth and Vietnam PMI



SOURCES: VND RESEARCH, GSO, NIKKEI

Figure 3: Retail sales value and growth (Jan 17-Aug 18)



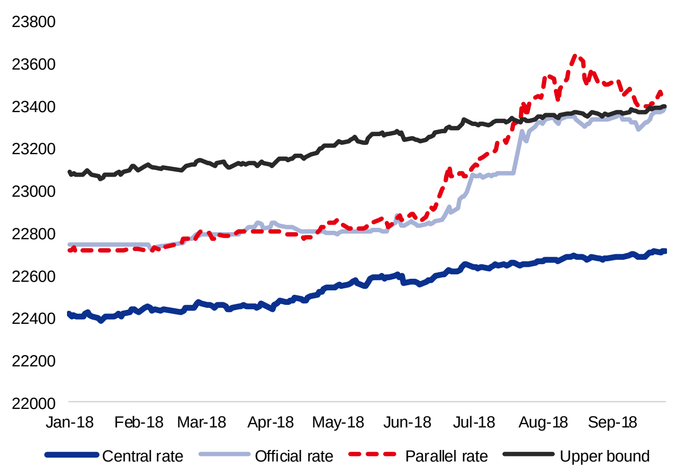
SOURCES: VND RESEARCH, GSO

In addition, domestic demand remains resilient, supported by sustained high consumer confidence levels. Retail sales (ex-inflation) grew 8.5% yoy in the first eight months of 2018 vs. 8.4% in the same period the previous year. Despite a high base in 3Q17, we expect GDP growth in 3Q18 to remain strong at 6.8% yoy. Our 2018 economic growth forecast remains unchanged at 6.8% as we maintain our 4Q18 GDP forecast at 6.5%. However, we see the likelihood of a positive growth surprise in 4Q18, which could raise full-year GDP growth to 6.9%.

Depreciation pressures on the dong have eased but linger

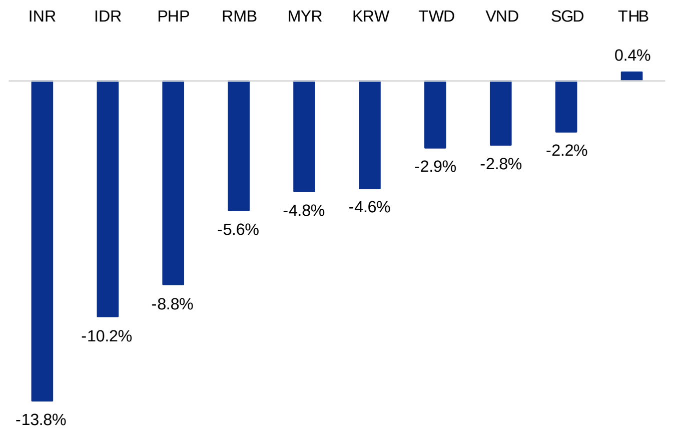
The dong turned materially weaker from 20 Jul 2018. Although the DXY index appreciated only 0.4%, the dong depreciated 1.0% against the US$ over the period 20 Jul-13 Sep, largely owing to concerns about Rmb depreciation amid rising trade tensions and the recent economic turmoil in Turkey putting pressure on emerging market currencies, including the dong. Notably, the black market exchange rate broke the upper boundary of the currency band to touch 23,650 dong per US$, expanding the spread between the black market and the official exchange rate to a record high in mid-Aug 2018.

Figure 4: Exchange rate movements (dong per US$)



SOURCES: VND RESEARCH, BLOOMBERG

Figure 5: Asian currencies' depreciation against US$ (ytd)



SOURCES: VND RESEARCH, BLOOMBERG

Figure 6 illustrates key indicators that we use to analyse the exchange rate movement. Although most trend-related indicators reflect negatively on the dong's stability, we see pressures on the dong depreciation being contained in the short term due to the following reasons:

1) Positive current account: Vietnam posted a surprise US$2.2bn trade surplus in Aug 2018, thanks to the recovery of telephone exports; although there were net outflows in both equity and bond markets in Jul-Aug 2018, FDI inflow has continued to support the supply side of US$.
2) The People's Bank of China (PBOC) raised its reserve requirement on some trading of foreign-exchange forward contracts from 0% to 20%, making it more expensive to short the Rmb. This is meant to be part of its counter-cyclical measures to control the Rmb depreciation.
3) Sentiment on the dong has improved in the black market. In addition, the spread between the dong and US$ interbank rates has turned positive, reducing the banks' incentive to hoard US$.

In the medium term, depreciation pressure could reappear if the US-China tariff dispute escalates into a full-blown and sustained trade war. Another risk is currency turmoil in emerging markets, especially evident in Argentina and Turkey. However, Vietnam is well equipped to weather the volatility due to a healthy balance of payments, in our view.

For now, investors are waiting for two more Fed rate hikes in the remaining months of 2018 and several more in 2019. We think policy makers could tolerate some modest depreciation in the dong amid broad US$ strength. Meanwhile, a sharp depreciation is unlikely given the lessons learnt by policy makers in Aug 2015 where a sharp competitive devaluation of the VND could hurt market confidence and endanger Vietnam's economic stability. Furthermore, stiff tariffs on Chinese imports into the US imply that Vietnam does not need to match the devaluation of the Rmb to maintain competitiveness versus Chinese exports as was the case in previous rounds of competitive devaluation.

Compared to other Asian currencies, such as the Indian rupee, Indonesian rupiah and Philippine peso, which have been among the worst-performing regional currencies, Vietnam has experienced a relatively small depreciation (just 2.5% YTD). We maintain our forecast of a 3.0-3.6% full-year depreciation vs. the US$ for 2018.

Figure 6: Key indicators for exchange rate

	Supply-demand side						Trend				
	Trade balance	Equity flow	Bond flow	FDI	US$ deposits growth	US$ loans growth	Spread bw black & official markets USD/VND rate	DXY	USDCNY	Spread bw VND & US$ interbank rates	Central rate (USDVND)
	US$ m	US$ m	US$ m	US$ m	ytd %	ytd %	avg. (dong)	% chg	% chg	avg. (% points)	% chg
1Q18	2732	524	49	3880	na	na	-14	-2.3%	-4.0%	-0.1	0.2%
2Q18	1008	1065	29	4490	-3.1%	8.0%	35	5.0%	6.0%	-0.5	0.9%
3Q18E	2758	-155	-215	4280	na	na	147	-0.3%	3.3%	1.1	0.3%
Impact	(+)	(-)	(-)	(+)	(-)	(-)	(-)	(+)	(-)	(+)	
Note	Estimated	3Q (till 25 Sep)	3Q (till 25 Sep)	Estimated	End of May 2018	End of May 2018	Gap was narrowed vs. the early of 3Q	DXY has fallen recently	Depreciation has eased after the PBoC's intervention	Turn to positive in 3Q	Gov. controls

SOURCES: VND RESEARCH

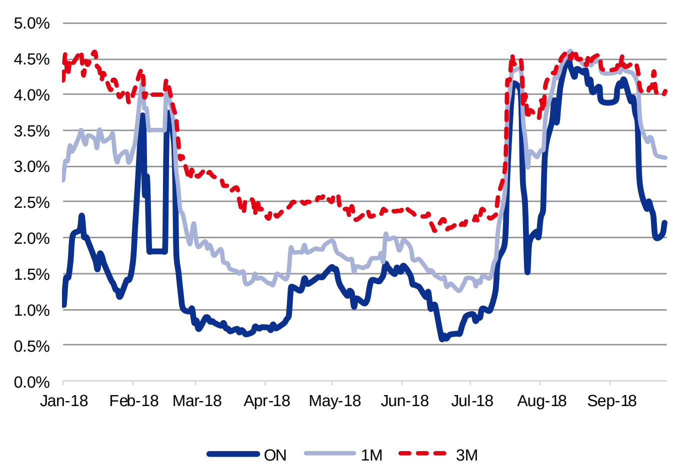
NOTE: USD/CNY and central rate columns: positive value meant the CNY depreciation and the dong depreciation, respectively.
(+): positive impact on the dong's stability; (-): negative impact on the dong's stability

Higher rate environment still on the cards

Interbank liquidity is tightening, driven by pressure on the dong

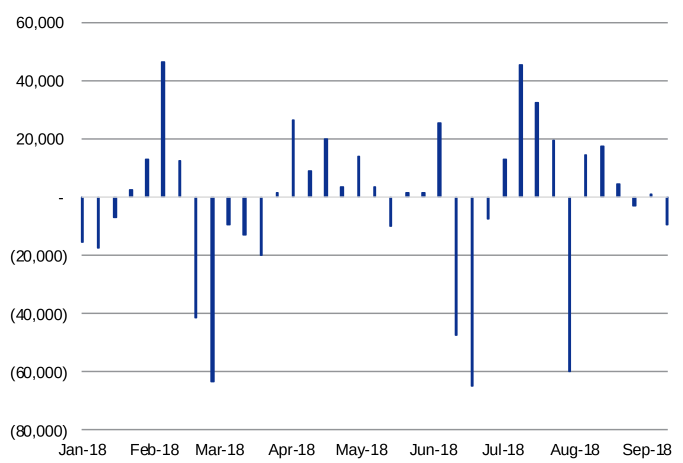
In our view, pressure on the dong has tightened banking liquidity since Jul 2018 because of a direct FX intervention by the central bank in selling US$. In mid-Jul 2018, the State Bank of Vietnam (SBV) sold nearly US$2bn worth of forex to commercial banks, which led to a fall in dong liquidity. In order to counteract this action, the SBV injected liquidity into the banking system via open market operations (OMO). However, we see that the intended neutralisation was not sufficient to bring down interbank rates. The overnight rate is currently at the highest level seen in 2018, hovering at around 4.0-4.5%.

Figure 7: Interbank rates have surged since Jul 2018



SOURCES: VND RESEARCH, BLOOMBERG

Figure 8: Cash withdrawal/injection via open market operations (VND bn)

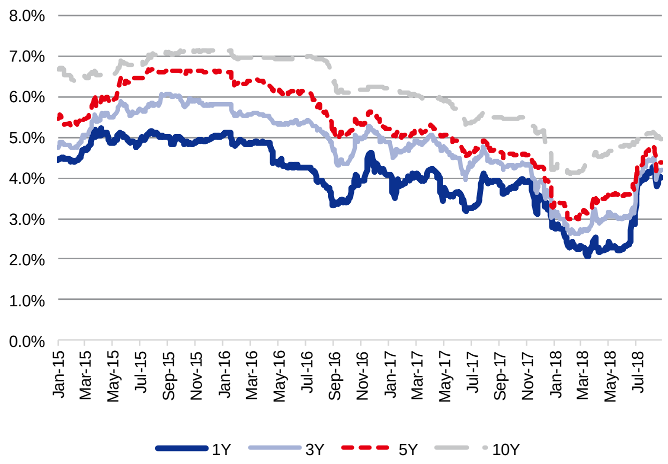


SOURCES: VND RESEARCH, SBV

Government bond (G-bond) yields on the rise

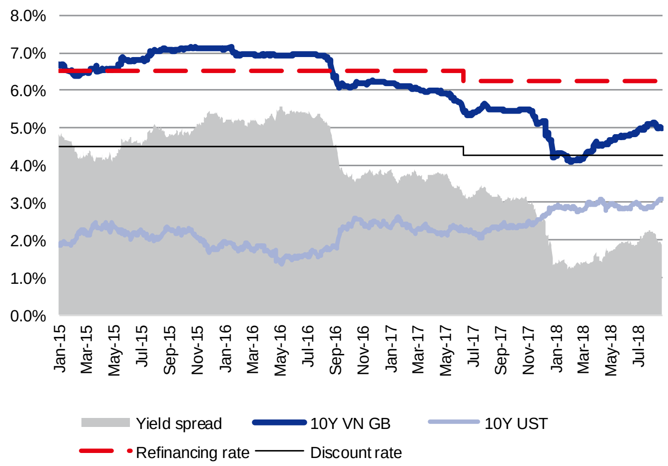
The Vietnam government bond market experienced a sharp decline in yields during the first half of the year due to excess liquidity in the banking system which led to easy absorption of government bond auctions. However, as liquidity has tightened and foreign investors have continued their net selling in the bond market, Vietnam bond yields have significantly recovered since the last two months. Yields on 5-year and 10-year government bonds are currently at 4.5% and 5.1%, respectively. Both yields have recovered to the same levels as at the end of last year. The yield spread between Vietnam and US government bonds widened to 212 basis points from its record low of 123 basis points in early 2018. In the primary market, demand for G-bonds has declined with the average winning ratio at around 54.3% in three recent months. Winning yields have also increased; the yield on 10-year government bond posted an increase of 34bp in 3Q18. We think a sharp drop in bond yields in the first half was largely driven by excess liquidity in the banking system. Therefore, tightening interbank liquidity led to a rebound of G-bond yields to their normal levels rather than foreign selling of bonds as was the case in many Asian emerging markets; this is largely because foreign participation in Vietnam's G-bond market is rather limited. Nonetheless, this and yields' rise in itself is not a clear signal for any potential policy rate hikes in the near term as yields still remain low relative to historical levels even as the policy rate has remain unchanged.

Figure 9: Vietnam government bond yields



SOURCES: VND RESEARCH, BLOOMBERG

Figure 10: The spread between 10-year Vietnam and US yields



SOURCES: VND RESEARCH, SBV, BLOOMBERG

We are not too concerned about a recent rise in deposit rates

In recent months, many local banks have adjusted up their deposit rates across tenors by 10-30 basis points. There might be concerns about higher funding costs for banks, but we still believe these adjustments will not have a significant impact on local banks' profitability as well as the outlook for lending rates. We see two main reasons for the recent hike in deposit rates: 1) the SBV only allows banks to use 40% of their short-term capital for long and medium-term loans from 2019 instead of 45% as in this year. Therefore, banks have to raise deposit rates for tenors of more than 12 months in order to attract more long term funding to meet SBV's requirement for next year; and 2) in first half of 2018, some major banks cut deposit rates to unusually low levels because of excess liquidity. Now, with liquidity tightening, a hike in deposit rates is a necessity. In early Aug 2018, the SBV issued Directive No.04, which strictly controls credit growth pace and credit quality of the banking system. As the SBV communicated a more conservative monetary policy, we think the SBV has recognised the need for measures to contain rising external risks. In other words, we see SBV's communication of their monetary policy direction as a strong signal indicating their intention to implement a tighter monetary policy in the future, even if this is accomplished without a hike in policy rates.

What do we expect?

Our observations are that the SBV has tightened by 1) reducing interventions in the OMO market; 2) requiring banks to control their lending according to credit growth limits set by the SBV; and 3) targeting credit growth at a maximum of 17% for 2018, lower than the 18.2% recorded last year. While we stress that the recovery of interbank rates and bond yields alone is not a clear signal for a hike in policy rates, it is a helpful starting point to assess the outlook for interest rates, especially from 2019 onwards.

For now, domestic inflation is stable and the dong has only depreciated slightly against the US dollar. If the dong faces greater pressure and inflationary expectation rises beyond the 5.0% threshold, the SBV might be forced to hike rates. Against the backdrop of rising global uncertainty led by lingering concerns about emerging market financial turmoil, increasing global trade tensions and monetary policy tightening by the central banks in developed countries in 2019 and beyond, we believe SBV's policy rate hike is likely to happen next year. We now project a 50bp hike in policy rates in 2019, bringing the discount rate and refinancing rate to 4.75% and 6.75%, respectively.

Emerging market financial turbulence is unlikely to have a huge impact on Vietnam

Turkey and Argentina are experiencing a bout of financial instability against the backdrop of rising US rates and the effects of a resurgent US$. The instability is evident in the sharp depreciation of the Turkish lira and Argentine peso, which have fallen by 65.0% and 105.2% YTD, respectively. Weak fundamentals, as evidenced by high inflation and sizeable current account and budget deficits have contributed to the erosion of confidence in these economies and are spurring anxiety in financial markets that tightening credit cycle conditions globally may spread to a broader set of frontier and emerging economies, including Vietnam. As we see in Figure 11, Turkey and Argentina seem vulnerable according to all indicators. For Asia frontier and emerging countries, we think a high current account deficit and high inflation rate might trigger a large currency depreciation. For Vietnam, we believe that the risk is relatively limited since Vietnam has much stronger fundamentals than Argentina and Turkey, and seems less vulnerable in its current account balance compared to other Asian countries such as Indonesia, the Philippines and India.

In particular, Vietnam's Aug headline inflation eased to just under 4.0% from 4.5% in Jun 2018, due to a decline in government-administered healthcare costs. Although we see broad inflationary pressures in food and transportation prices, we expect administrative controls and monetary tightening from the SBV to keep inflation under control this year (the SBV's target of below 4%). If successful, this will be well below levels seen in Argentina and Turkey. Other vulnerability indicators show a mixed picture. Vietnam is more vulnerable than peers in terms of external debt and import cover. However, it is important to note that external debt risk is contained as concessional loans account for around 40% of government guaranteed external debt. Regarding import cover, traditional "rules of thumb" that have been used to guide reserve adequacy suggest that countries should hold reserves covering 100% of short-term debt or the equivalent of three months' worth of imports. But for FDI-dependent economies like Vietnam that operate in downstream stages of the export manufacturing value chain, we think these traditional measures of reserve adequacy have limited relevance as a sizeable portion of Vietnam's imports are inputs for manufactured exports. If exports slow down due to a full-blown of trade war, import deceleration will follow, thereby mitigating the risk of a balance of payments crisis.

Figure 11: Vulnerability indicators for Asia emerging and frontier economies compared to Turkey and Argentina

Market	Country	Current account balance/GDP	External debt/GDP	Short-term external debt/reserves	Import cover (months)	Fiscal balance/GDP	Inflation	YTD change in local currency vs. US$
Emerging	China	1.3	14.0	34.8	17.8	(2.9)	1.9	5.4
Emerging	Korea	5.1	27.3	30.2	8.7	1.4	1.5	4.6
Emerging	India	(2.0)	20.0	25.1	8.9	(3.5)	5.0	13.8
Emerging	Indonesia	(1.7)	34.8	38.6	10.1	(2.5)	3.1	10.2
Emerging	Malaysia	3.0	65.0	92.0	5.6	(5.4)	0.8	2.3
Emerging	Pakistan	(4.1)	27.4	19.5	1.9	(5.8)	5.2	11.6
Emerging	Philippines	(0.8)	23.3	19.5	7.3	(2.2)	5.7	8.8
Emerging	Thailand	10.8	35.3	31.9	9.8	0.9	1.4	(0.4)
Frontier	Bangladesh	(2.5)	na	na	5.6	(4.8)	5.5	2.5
Frontier	Sri Lanka	(2.7)	59.5	109.4	4.3	(5.5)	2.5	9.9
Frontier	**Vietnam**	**2.7**	**48.9**	**45.0**	**3.0**	**(3.5)**	**4.5**	**2.8**
Emerging	**Turkey**	**(5.6)**	**53.2**	**21.4**	**3.7**	**(1.6)**	**15.4**	**62.6**
Frontier	**Argentina**	**(4.9)**	**37.0**	**67.1**	**10.1**	**(6.0)**	**29.5**	**105.2**

SOURCES: VND RESEARCH, CEIC, WB, ADB, BLOOMBERG

Note: Current account balance/GDP, external debt/GDP, Fiscal balance/GDP and short-term external as of 2017. Import cover as of Jun 2018 for China, Korea, Indonesia, Pakistan, Argentina; as of May 2018 for remaining countries. Inflation as of Jun 2018; year-to-date change in local currency vs. US$.

Neither Turkey nor Argentina are important export markets for Vietnam, therefore, the impact of a sharp depreciation of the Turkish lira and Argentine peso on Vietnam's trade is not significant. However, Argentina is Vietnam's largest source market for corn and animal feed products, accounting for 50.8% and 46.2% of total imports of these two products into Vietnam in 2017, respectively. Therefore, domestic **animal feed companies** (DBC VN Equity, Not Rated) could benefit from the plummeting peso, and thereby lower their production costs. Since Turkey and Argentina do not compete directly with Vietnam in terms of exports to a significant degree, we do not believe that Vietnam will lose export market share to these countries as a result of the devaluation.

The escalating US-China trade war remains the biggest unknown

In our view, the big risk that markets may not yet have fully factored in is the growing threat of a trade war between the US and China, whose effects would ripple through regional supply chains. With the US$50bn of tariffs becoming a done deal for both countries, the focus is now on the next US$200bn of Chinese goods and US$60bn of US goods that are targeted for additional tariffs. In the latest development, President Trump announced 10% tariff hikes on an additional US$200bn of Chinese goods, starting from 24 Sep 2018 with the tariff expected to kick up to 25% from 01 Jan 2019. If implemented, the latest round of tariffs would cover half of the total Chinese goods imported into the US and nearly all of US goods exports to China in 2017.

Figure 12: US-China tariff timeline

US-led			
Date in effect	**Tariff**	**Value of goods (US$ bn)**	**% of imports from China**
6 Jul 2018	25%	34	6.7%
23 Aug 2018	25%	16	3.2%
Proposed	10-25%	200	39.6%
Implied next step	na	267	52.8%
China-led			
Date in effect	**Tariff**	**Value of goods (US$ bn)**	**% of imports from US**
6 Jul 2018	25%	34	26.2%
23 Aug 2018	25%	16	12.3%
Proposed	5-10%	60	46.2%

SOURCES: VND RESEARCH, US CENSUS

Vietnam was in the top 15 list of the US's import partners with around US$46bn worth of imports in 2017. The US was ranked 3rd in Vietnam's list of top trading partners with total trade of US$51bn in 2017. China, on the other hand was Vietnam's top trading partner with a total trade value of US$94bn in 2017. The US was Vietnam's largest export destination in 2017 (19.4% of total exports) while China was Vietnam's largest import partner (27.5% of total imports).

In this report, we access the list of the whole package of tariffs for Chinese goods including: 1) the US$50bn that was already implemented; and 2) the proposed US$200bn awaiting official implementation by the US. In our view, the direct impact on Vietnam from the US tariff on Chinese goods is relatively insignificant for the US$50bn list as most of the products on this list are comprised of intermediate inputs and capital equipment; consumer goods made up only 1% of the list; the total value of Vietnam's export products that are exposed to this list was around US$4.4bn, only accounting for 2.1% of Vietnam's total exports in 2017.

However, we are concerned about the next set of tariffs worth US$200bn on Chinese goods. We estimate the total value of Vietnam's export products that are exposed to the US$200bn list to be around US$13.5bn, which is equivalent to 29.3% of Vietnam's total exports to the US and 6.3% of Vietnam's total exports in 2017. In our view, the impact of the ongoing US-China trade war on Vietnam could be four-pronged:

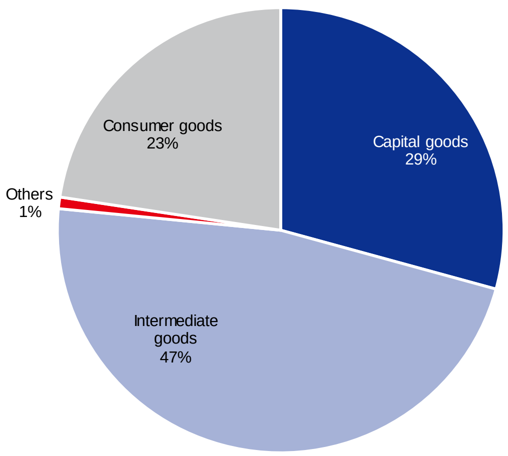
- Direct decline in demand for intermediate goods used in the production of China's exports to the US (negative).

- Indirect decline in demand for final consumer goods due to rising costs for US consumers (negative).
- Potential rise in demand for alternative sources if the US needs substitutes for Chinese goods (positive).
- Indirect impact on Vietnam's exports to China as a result of slower Chinese economic growth denting Chinese consumption (negative).

Figures 13 &14 illustrate the types of goods subject to the US tariffs. The list has been expanded to target consumer products. Figure 15 shows the potential products from Vietnam that are exposed to the US$200bn list. Vietnam is one of the top suppliers of **furniture** (PTB VN Equity, Not Rated) and **handbags** (GIL VN Equity, Not Rated), after China. Therefore, Vietnam could become an alternative sourcing destination for the US, thereby benefiting exports. The US tariffs on Chinese agricultural products could also indirectly benefit Vietnam. In fact, Vietnam's exports of agricultural products, **fishery products** (VHC VN Equity, Not Rated)**, vegetables & fruits** will benefit the most if the US needs substitutes for Chinese imports. Moreover, these measures would directly raise the price of the Chinese goods that are subject to the tariffs and therefore encourage Vietnamese exporters to raise prices as well.

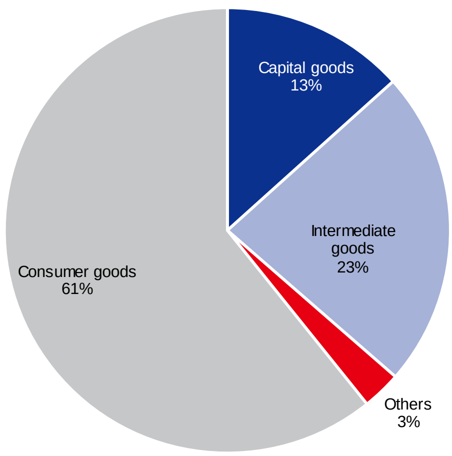
In contrast, companies that produce intermediate goods used in the production of China's exports to the US may see softer demand. The imposition of direct tariffs on telecommunication equipment and computer exports is likely to hurt Vietnam's exports of these products. Since some of these products are re-processed and re-exported to China in the form of semi-finished products, tariffs on Chinese goods may harm Vietnamese exports as they might cascade up the value chain. However, in the case of telephone exports, most Vietnamese exports are final products. Therefore, the impact will not be significant, in our view. **Computer parts & components** might be affected the most. For other types of products (auto parts, electrical transformers, plastics, lamps, steel, aluminium), we assume that they are not sold as raw or intermediate products to be re-exported to the US. In other words, they are more subject to Chinese end consumption which could suffer indirectly due to a sharper slowdown in China's economy due to the trade war.

Figure 13: US imports from China subject to the US$200bn list by type – category-wise share of imports



SOURCES: VND RESEARCH, USTR, PIIE

Figure 14: US imports from Vietnam that overlap with the US$200bn list by type – category-wise share of imports



SOURCES: VND RESEARCH, USTR, PIIE

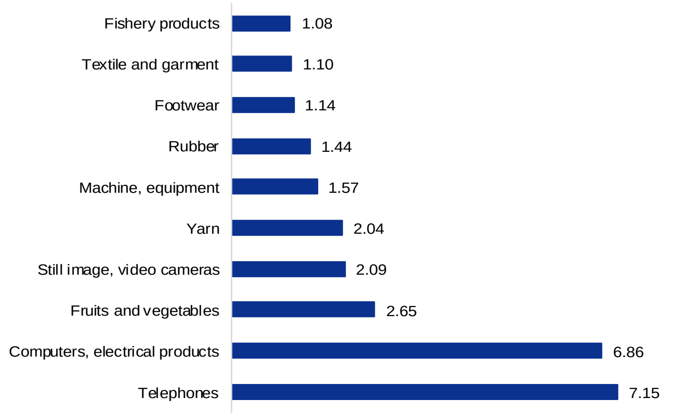
Figure 15: Export product categories that Vietnam is exposed to in the US tariffs imposed on US$200bn worth of Chinese imports

Products	Category	US imports from China		US imports from Vietnam		Vietnam's exports		Impact
		Value (US$ m)	% of total US imports	Value (US$ m)	% of total US imports	Value (US$ m)	% of total VN exports	
Telecommunication equipment	Capital	23,509	47.5%	903	1.8%	41,634	19.4%	Not clear
Computers, parts and accessories of computer	66%: intermediate, 34%: capital	23,110	21.7%	162	0.2%	25,978	12.1%	Negative
Furniture	**Mixed; 65%: consumer**	**21,088**	**45.4%**	**4,624**	**10.0%**	**6,646**	**3.1%**	**Positive**
Electrical transformers, static converters and inductors	Mostly capital	5,043	36.2%	168	0.2%	1,408	0.7%	Not clear
Auto parts	Intermediate	9,183	13.9%	153	0.2%	1,327	0.6%	Not clear
Plastics	81%: intermediate; 19%: consumer	6,367	12.2%	126	0.2%	1,231	0.6%	Not clear
Travel bags	**Consumer**	**6,605**	**60.9%**	**1,100**	**10.1%**	**3,404**	**1.6%**	**Positive**
Lamp and lighting and parts	78%: intermediate; 22%: consumer	7,253	63.9%	16	0.1%	190	0.1%	Not clear
Steel	Mixed; 70%: intermediate	7,763	12.0%	263	0.4%	3,745	1.7%	Not clear
Aluminium	Mostly intermediate	794	3.5%	15	0.1%	394	0.2%	Not clear
Agriculture	**Mixed; 77%: consumer**	**5,726**	**4.1%**	**2,858**	**2.0%**	**27,446**	**12.8%**	**Positive**
Others	Mostly services	79,500	na	3,081	na	na	na	na

SOURCES: VND RESEARCH, UNTACD, PIIE, USTR

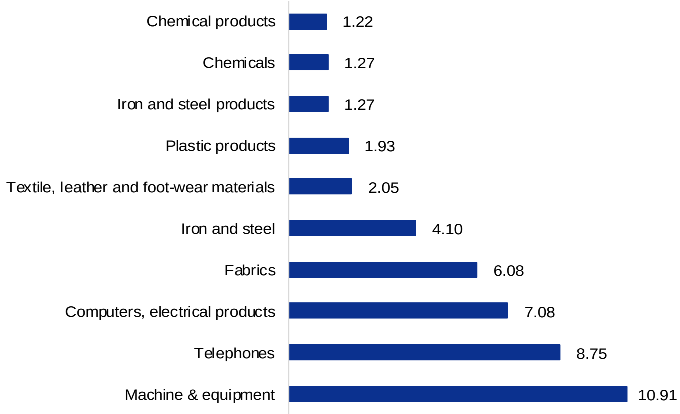
There are risks that the tariffs will significantly pressure China's economic growth particularly into 2019. According to Bloomberg's median estimation, the ongoing trade conflict will reduce China's economic growth to 6.3% in 2019 from the 6.6% expected this year. Again, China is the top trading partner of Vietnam, ranked 1st in term of imports into Vietnam and ranked 3rd in term of Vietnam's top export markets. By and large, if overall regional and China-centric trade flows decline, Vietnam will likely take a hit due to its dependence on trade and manufacturing activities with China but the potential fallout is not quantifiable due to the complex nature of supply chains. There could also be financial spillovers, dampening FDI and portfolio investments as companies delay capex plans and financial investors scurry for cover. We believe markets have not yet priced in a long and hard US-China confrontation. In the latest announcement, President Trump further said that another US$267bn of Chinese goods are coming under consideration for additional tariffs. This would bring tariff actions on all of China's exports to the US.

Figure 16: Top 10 exports to China from Vietnam (2017, US$ bn)



SOURCES: VND RESEARCH, VIETNAM CUSTOMS

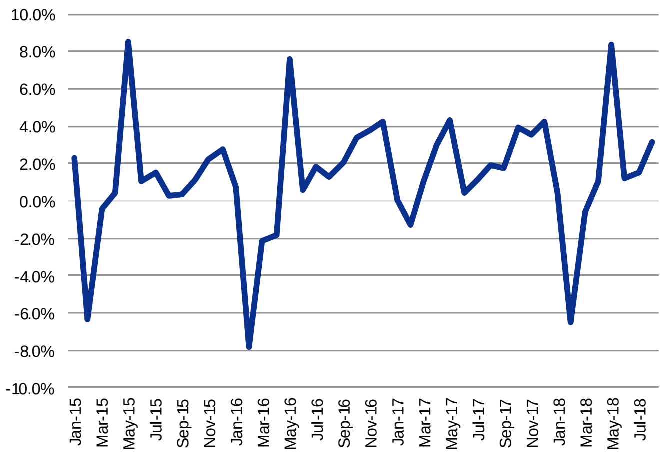
Figure 17: Top 10 imports to Vietnam from China (2017, US$ bn)



SOURCES: VND RESEARCH, VIETNAM CUSTOMS

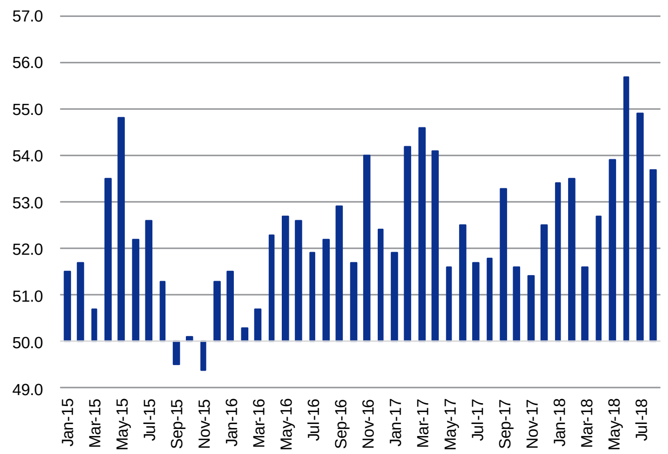
Macro indicators in Aug 2018

Figure 18: Vietnam's industrial production growth (mom % change, 3-month moving average) from Jan 2015 to Aug 2018



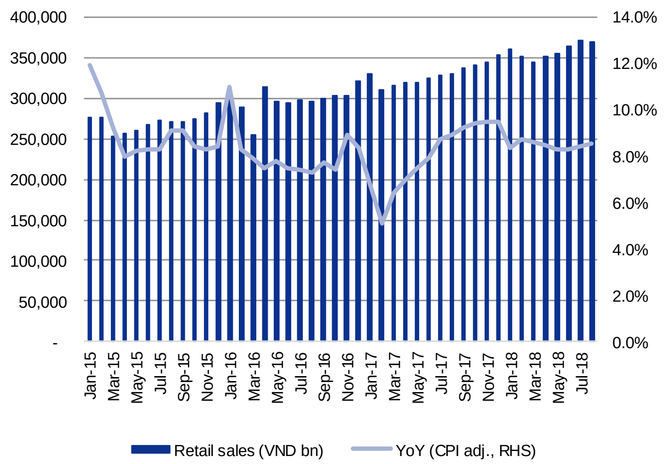
SOURCE: VND RESEARCH, GSO

Figure 19: Vietnam PMI from Jan 2015 to Aug 2018



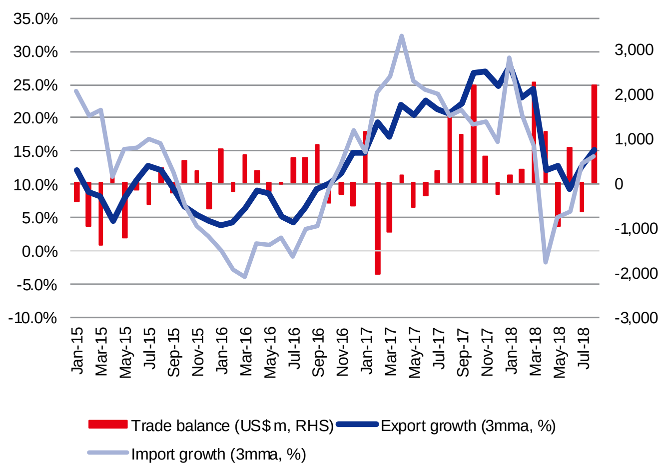
SOURCE: VND RESEARCH, NIKKEI

Figure 20: Retail sales from Jan 2015 to Aug 2018



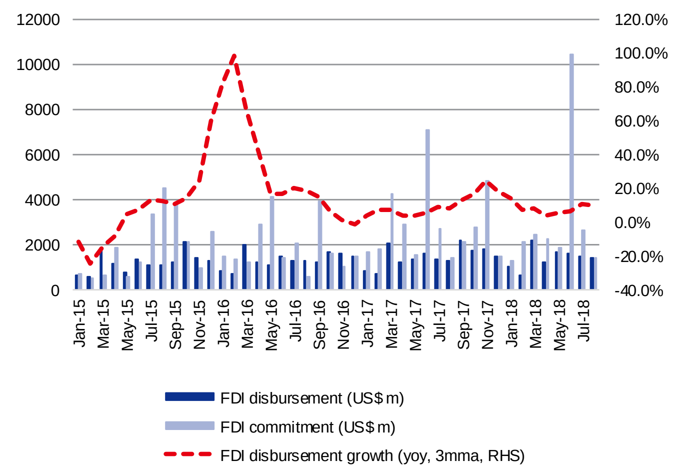
SOURCE: VND RESEARCH, GSO

Figure 21: Vietnam's trade balance, import and export growth from Jan 2015 to Aug 2018



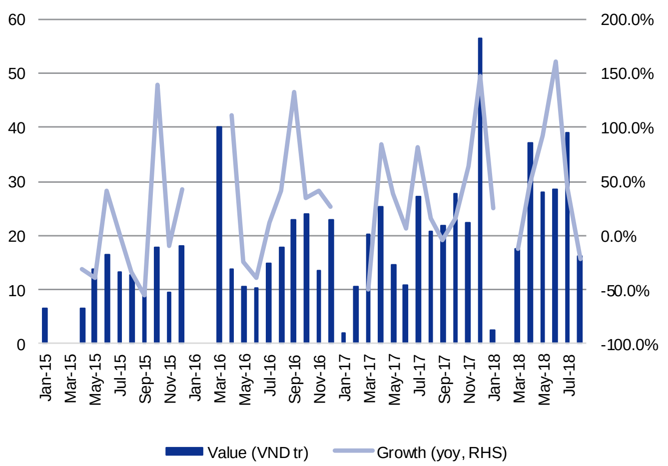
SOURCE: VND RESEARCH, GSO, CUSTOMS

Figure 22: FDI disbursement & commitment from Jan 2015 to Aug 2018



SOURCE: VND RESEARCH, GSO

Figure 23: Public investment from Jan 2015 to Aug 2018



SOURCE: VND RESEARCH, GSO

Figure 24: Commodity prices by industry (Sep 2018)

	Unit	Current	+/- YTD (%)	Sep 2018 average	+/- YoY (%)	+/- MoM (%)
Oil&Gas						
Brent	US$/barrel	81.9	23.0%	78.5	41.6%	6.4%
WTI	US$/barrel	72.3	19.7%	69.5	39.6%	2.5%
Transportation						
Baltic Dry Index		1,434.0	-22.5%	1,441.3	5.8%	-15.9%
Baltic Clean Tanker		516.0	-21.2%	514.6	-16.5%	6.1%
Baltic Dirty Tanker		801.0	14.4%	777.7	5.4%	2.4%
Steel inputs						
HRC	US$/tonne	617.0	-4.6%	619.7	-3.8%	-0.1%
Scrap	US$/tonne	387.0	2.7%	382.5	35.6%	0.2%
Iron ore	US$/tonne	64.9	-10.8%	63.7	-12.3%	1.7%
Hard coal	US$/tonne	364.0	-1.1%	382.0	10.0%	11.9%
Graphite	US$/tonne	8,949.5	-19.6%	8,909.9	-45.4%	-10.7%
Agriculture						
Rice	US$/tonne	397.0	2.8%	395.0	2.6%	0.4%
Corn	US$/tonne	124.4	-2.5%	122.4	-1.0%	-3.2%
Wheat	US$/tonne	191.3	20.1%	185.2	15.4%	-6.3%
Chemical						
Urea	US$/tonne	319.0	-8.1%	314.0	17.6%	4.2%
Natural Rubber	US$/tonne	1,301.8	-28.8%	1,343.8	-30.7%	-8.3%
Textile						
Cotton	US$/tonne	750.0	-1.3%	776.3	11.9%	-4.2%
Metal						
Lead	US$/tonne	2,009.5	-21.8%	2,051.3	-14.3%	-1.0%
Steel	US$/tonne	662.1	0.3%	678.6	7.1%	7.3%
Zinc	US$/tonne	2,507.0	-25.1%	2,416.2	-22.3%	-3.3%
Copper	US$/tonne	6,318.0	-12.3%	6,024.4	-9.0%	-1.0%
Gold	US$/oz	1,201.3	-7.8%	1,199.4	-8.8%	-0.1%

SOURCE: CGS-CIMB RESEARCH, BLOOMBERG, PRICE AS OF 25 SEP 2018

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBT does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

Anirban Lahiri – Head of Research
Email: anirban.lahiri@vndirect.com.vn

My Tran Ha – Senior Analyst
Email: my.tranha@vndirect.com.vn

VNDIRECT Securities Corporation
1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi | Tel: +84 2439724568
Email: research@vndirect.com.vn | Website: https://vndirect.com.vn