

## JANUARY MACRO RECAP: A POSITIVE START TO THE YEAR

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During the beginning of this year, there was a slight rise in inflation and risk assets outperformed. CPI rose 0.51% mom and 2.65% yoy in January 2018, the highest rise seen in the past three years. Stocks also had a very positive start this year, with the VNIndex and HNXIndex rising by 12.8% and 9.0% YTD, respectively.

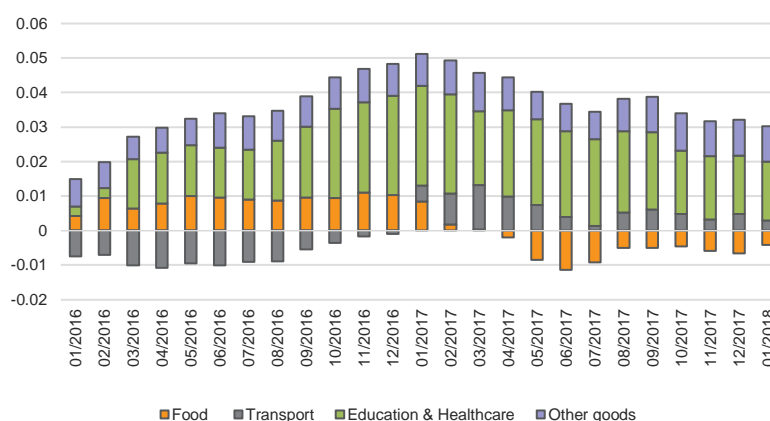
We view the OMO rate cut of 25 bps in January as a passive response to low interbank rates, rather than a step towards further monetary easing. The policy makers sent a strong message to continue to consolidate business confidence in the macro environment early in the year, and we expect both monetary and fiscal policies to be accommodative this year.

### January inflation was in line with our expectations

The following factors can explain the rise in inflation in January:

- **Continued upward adjustment of healthcare services prices:** Healthcare services prices rose the most (+1.83% mom) among 11 other categories of goods and services in the CPI basket, due to the hike in healthcare services prices in nine provinces and cities under central management.
- **The rise in oil prices:** The average Brent oil price was US\$70.1 per barrel in January (+7.8% yoy), and petroleum prices were adjusted twice this month, leading to a 1.17% increase in the transportation price index.
- **Increase in electricity prices** (+6.08% from 01/12/2017): This contributed 6 percentage points to CPI.
- **As the Lunar New Year is approaching, consumption demand also increased** and pushed up inflation, although this is a seasonal phenomenon every year and should therefore not affect yoy inflation numbers. However, this had an impact this January because the Lunar New Year this year falls in February versus January last year.

Figure 1: CPI breakdown



Source: GSO, VNDIRECT

In our view, inflation should be closely monitored this year because a continued acceleration in inflation could prompt the SBV to become more hawkish and start a tightening monetary policy. That being said, we see January's inflation reading as moderate and in line with our expectations. In addition, core inflation was only 1.18% in January, still well below the government's 1.6-1.8% inflation target rate for 2018.

There are some price adjustments in public goods and services expected later this year including the following: 1) another nine provinces and cities will adjust healthcare services prices; 2) base salary adjustment and administration costs will be factored into healthcare services prices, going forward; 3) educational services prices could be hiked by 8-10% in Q318. As per the MoF's estimates, these aforementioned adjustments could add a total of 0.62 percentage points to headline CPI this year.

Oil has rallied stronger than the market's expectations in early-2018, with global economic growth boosting oil demand amid an extension in OPEC supply cuts. We observed that many global investment banks have become much more bullish on crude oil prices. Goldman Sachs has recently revised its outlook for oil in 2018, predicting that the price of Brent oil will reach US\$82.5 per barrel by the summer. In our view, broad economic growth will help to keep oil demand elevated in the first half of 2018, but in the second half, higher production from US and OPEC could weigh on oil prices. The Brent oil price rose by 24.7% in January, to touch an average of US\$69.2 a barrel. If oil prices increase by 25% this year (US\$70 per barrel), we estimate this rise could contribute 1.1 percentage points to Vietnam's headline CPI. We expect headline inflation to rise to an average of 4.60% in 2018 vs. 3.53% in 2017.

**Figure 2: Brent oil price (US\$/barrel)**



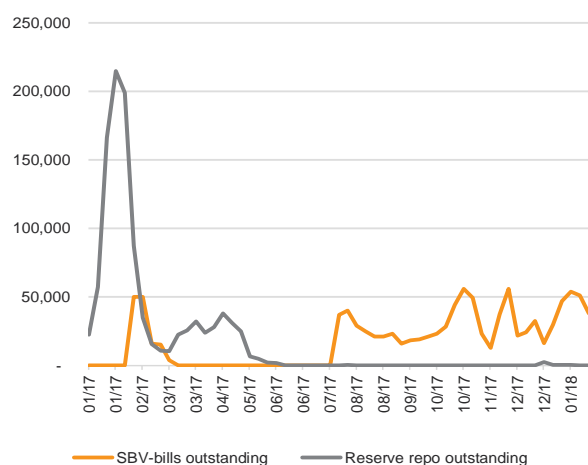
Source: Bloomberg, VNDIRECT

**OMO rate cut is not a strong enough message to indicate further monetary easing**

In January, the State Bank of Vietnam (SBV) cut the OMO rate for the first time in 4 years: the rate was trimmed by 25 bps to 4.75% per year. The policy message is to bring down interest rate levels and support economic growth. However, we see the move as being passive rather than active in nature as local banks have not been keen on reserve repo contracts for funding for several months anyways in light of high interbank liquidity; since June 2017, banks have become much less active in the repo market and this implies that lower OMO rates are unlikely to have much impact in boosting liquidity. Furthermore, the SBV has aggressively been selling T bills to withdraw liquidity from the banking system even as it lowers its OMO rates thereby indicating that

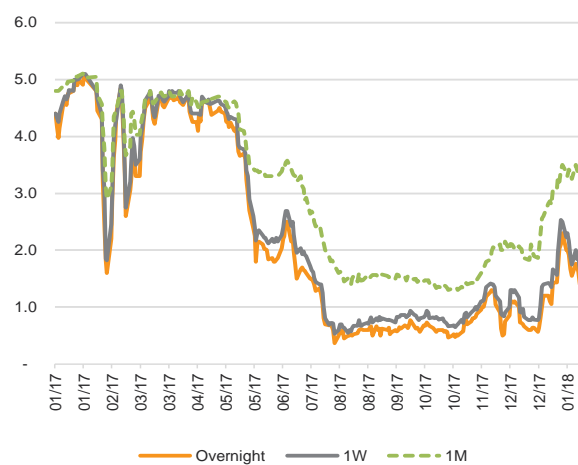
it is attempting a balancing act as opposed to going all out to further loosen monetary policy. In addition, banks preferred to borrow from their peers in the interbank market instead of the SBV, as interbank rates have declined steadily to record lows. The country often experiences high cash demand during the months leading up to the Tet holiday, although we see that short-term liquidity is still ample and the SBV only added a small amount of money (VND2,667 bn) into the banking system in the final week of January, after three consecutive weeks of withdrawals. We expect that liquidity in the banking system will continue to support the stock market in the near term.

**Figure 3: Transactions in OMO market (VND bn)**



Source: Bloomberg, VNDIRECT

**Figure 4: Interbank rates (%)**



Source: Bloomberg, VNDIRECT

**Government guidance for 2018: A positive start to the year but rapid credit expansion is a risk factor**

In January, the government released a set of measures and priorities to achieve its socio-economic development targets in 2018 (resolution No.01/NQ-CP). According to this resolution, the government will strive to achieve 6.7% GDP growth, while keeping average inflation at 4%. The budget deficit will be controlled at 3.7% of GDP, while the public debt is expected to be equivalent to 63.9% of GDP, increasing from 61.3% of GDP in 2017. We note that some financial institutions (ie. World Bank and Moody’s) have recently warned Vietnam of the risks of rapid credit expansion, and the SBV has also targeted a lower credit growth of 17% in 2018. However, banks typically request the SBV to raise the credit growth limit in the second half of every year. Based on the government guidance, we think the policy makers may continue to pursue an accommodative stance in both fiscal and monetary policies this year.

**Figure 5: Government guidance for 2018**

	2017	2018P
GDP growth	6.81%	6.70%
CPI	3.53%	below 4%
Budget deficit (%GDP)	3.50%	3.70%
Public debt (%GDP)	61.30%	63.90%
Credit growth	18.17%	17.00%

Source: Government, VNDIRECT

Further positive news for Vietnam’s economy is that the remaining 11 members of TPP (ex-US) are expected to reach a final agreement in March 2018. This could boost investors’ confidence in Vietnam’s rapid continued global integration, as the refashioned TPP (CPTTP) incorporates all of the old agreement terms except for 20 provisions that will be put into suspended status. These suspended terms are mainly issues of interest to the United States, including the operational provisions of the Investor State Dispute Settlement chapter, commitments relating to labour rights, biologics, as well as intellectual property and copyright protection provisions. In our view, the impact of the CPTTP on Vietnam’s economy will not be as great as the TPP in terms of contribution to GDP growth or export growth. However, the CPTTP will meaningfully impact some industries directly or indirectly, especially the textile and garment industry. Overall, we think that the CPTTP will be positive for Vietnam. In addition, if the 11 parties can successfully execute their agreement, it may attract the US back in to the block, post-Trump.

**Large central banks are still being cautious in pursuing monetary policy normalization; we expect the Dong to continue to be stable**

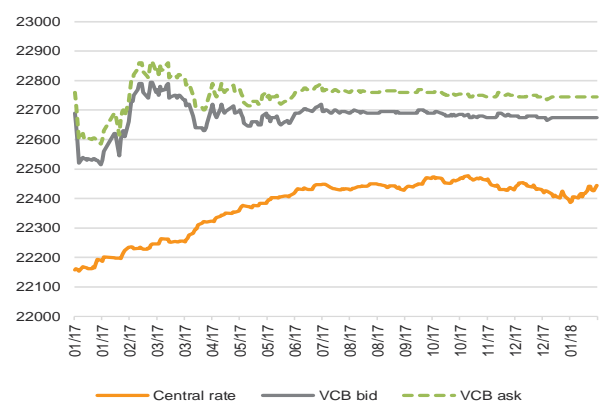
In January, Malaysia’s central bank surprised the markets by raising its key interest rate for the first time in four years to 3.25% from 3.00%, citing a stronger domestic and global economy. However, we see large central banks staying cautious on a change in policy direction. In particular, the ECB said it could revisit its communication stance in early 2018, based on the pace of recovery observed in the Eurozone. Meanwhile, the US Fed left rates unchanged in the January meeting, and is expecting inflation to rise and stabilize around its target of 2% this year. Markets now anticipate three rate hikes from the Fed this year with the next 25bps hike coming in March. The USD started the year on a very weak note, the US dollar index (DXY) dropped by 3.3% in January. There is a consensus view that the USD may remain weak at least in the first few months of the year based on the following factors: (1) global monetary policy convergence; (2) the consensus view that the US tax reform will not have a sustained impact on the real economy in terms of boosting inflation; and (3) on-going flattening of the US yield curve, as investors expect a decline in returns for longer-dated bonds compared to shorter-dated notes. The VND remained on a stable footing in early-2018 and this stability is likely to continue given a weakening USD.

Figure 6: DXY Index



Source: VNDIRECT

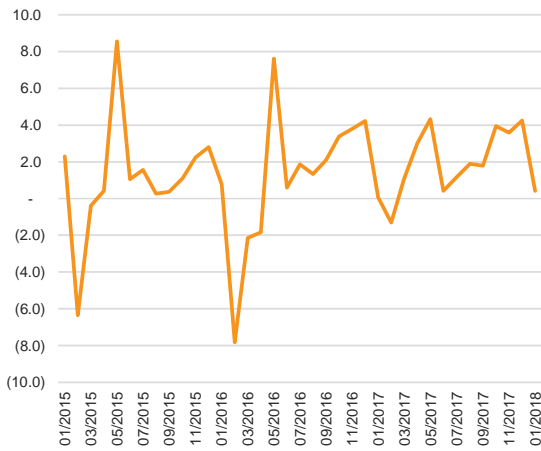
Figure 7: The USDVND exchange rate



Source: VNDIRECT

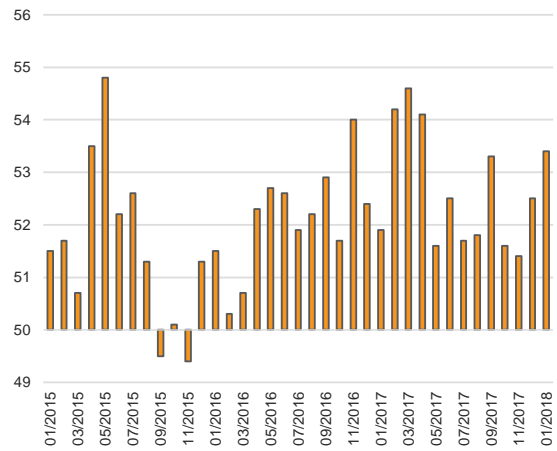
Macro Indicators in January 2018

Figure 8: Industrial production growth (3mma, %)



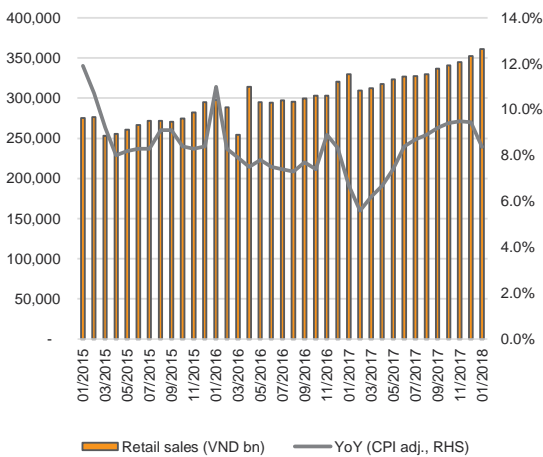
Source: GSO, VNDIRECT

Figure 9: PMI



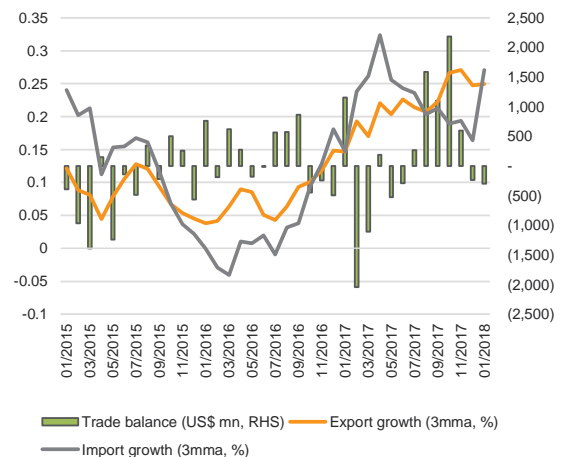
Source: Nikkei, VNDIRECT

Figure 10: Retail sales



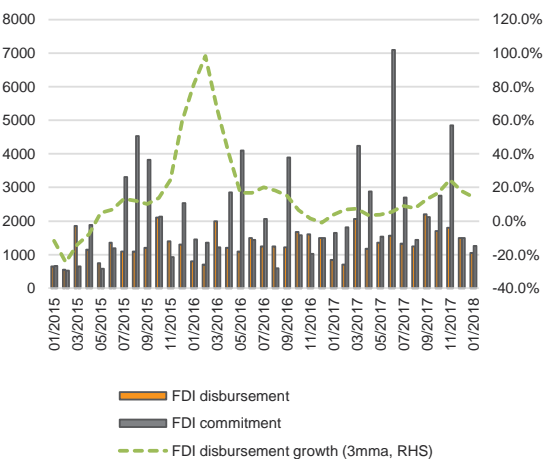
Source: VNDIRECT

Figure 11: Trade growth & balance



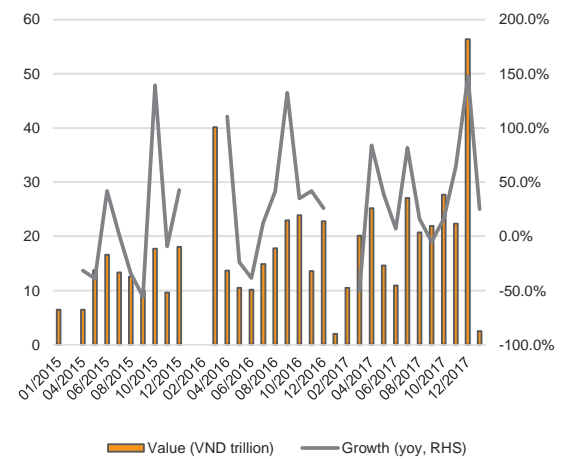
Source: VNDIRECT

Figure 12: FDI disbursement & commitment (US\$ mn)



Source: VNDIRECT

Figure 13: Public investment



Source: VNDIRECT

Figure 14: Commodities prices by industries in January 2018

	Unit	Current	+/- YTD (%)	Average (1M)	+/- YoY (%)	+/- MoM (%)
<b>Oil&amp;Gas</b>						
Brent	USD/barrel	70.1	5.3%	69.2	24.7%	7.8%
WTI	USD/barrel	66.1	9.4%	63.6	20.9%	9.7%
<b>Transportation</b>						
Baltic Dry Index		1,219.0	-10.8%	1,250.9	35.3%	-21.8%
Baltic Clean Tanker		623.0	-13.5%	604.7	-14.5%	-11.1%
Baltic Dirty Tanker		682.0	-17.5%	692.2	-31.1%	-15.2%
Diesel oil bunker	USD/MT	785.0	-2.5%	787.4	-19.5%	-1.1%
<b>Steel inputs</b>						
HRC	USD/tonne	585.0	3.5%	573.6	12.0%	2.1%
Scrap	USD/tonne	383.0	1.6%	376.6	49.1%	9.1%
Iron ore	USD/tonne	73.8	6.6%	73.3	-7.7%	6.4%
Hard coal	USD/tonne	192.4	0.7%	192.5	2.6%	5.4%
Graphite	USD/tonne	15,849.3	42.4%	14,639.8	743.2%	55.1%
<b>Agriculture</b>						
Rice	USD/tonne	433.0	12.2%	406.6	14.2%	4.5%
Corn	USD/tonne	129.1	2.2%	127.4	-5.8%	2.3%
Wheat	USD/tonne	164.6	4.9%	158.0	1.4%	4.7%
<b>Chemical</b>						
Urea	USD/tonne	341.0	-1.7%	339.8	24.5%	8.6%
Natural Rubber	USD/tonne	1,736.3	-6.4%	1,821.2	-26.1%	4.0%
<b>Textile</b>						
Cotton	USD/tonne	2,513.0	2.6%	2,470.8	6.5%	1.0%
<b>Metal</b>						
Lead	USD/tonne	2,593.0	4.2%	2,579.2	14.5%	2.9%
Steel	USD/tonne	594.0	-2.6%	589.3	39.1%	-5.7%
Zinc	USD/tonne	3,478.0	4.8%	3,390.3	23.7%	6.3%
Copper	USD/tonne	7,085.0	-2.2%	7,110.3	22.9%	3.6%
Gold	USD/oz	1,348.3	2.3%	1,332.1	9.7%	4.9%

Source: Bloomberg, VNDIRECT, Update date: 29/01/2018

Note:

- China's long steel prices have fallen since winter production cuts were imposed two months ago, as a slowdown in demand outweighs tighter supplies.
- According to Reuters, the Baltic Exchange's main sea freight index extended its slide to a fourth straight session to touch a near six-month low on Thursday, as rates fell for all vessel segments amid a seasonal slowdown in demand.



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### 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.

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