MACROECONOMICS RESEARCH

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QUARTERLY REPORT

by

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Highlights

- GDP growth in Q1.2019 was 6.79% (yoy), lower than Q1.2018 but higher than in Q1 of 2011-2017. The Industrial and Construction sector with processing and manufacturing industries continues to play a leading role. **GDP growth for the first half of 2019 is forecasted to range between 6.74% - 6.82%**
- Inflation is strictly controlled right from the beginning of the year, the most from the increase in electricity price. The government is still on the right track with the goal of controlling inflation at around 4% for the whole 2019 with drastic and close measures. *In April, the increase in electricity and gasoline prices is expected to be the key factor in raising CPI in Q2.2019*.
- Foreign exchange supply prevented the exchange rate from significant pressures in Q1.2019. In the context of positive macroeconomic situation, we adjusted the VND depreciation for 2019 from no less than 3% in the end of 2018 reports down to no less than 2% discount.
- In Q1.2019, mobilizing rates recorded a slight increase in some banks and mainly in terms of over 12 months; new information about the draft circular to amend Circular 36 has changed somewhat expectations with interest rates. VCBS adjusted the forecasts for the increase of deposit interest rates for 2019 to 80 points compared to that of increasing 50 points at the end of the year as mentioned in the previous reports.
- The market was quite active in most of Q1.2019. Bond yields may fluctuate in a narrow margin or decrease slightly in Q2.2019
- FED is expected not to raise interest rates this year. Additionally, the Eurozone's regional economy continued to improve but failed to meet expectations. It was noteworthy that Chinese economic figures in March are showing more positive signals.

Macroeconomic indicators Q1.2019

CPI: -0,21% (mom) và +2,7% (yoy)
Exports : USD 58.51 bn ytd (+4,7% yoy)
Imports : USD 57.98 bn ytd (+8,9% yoy)
Trade surplus: USD 536 bn (ytd)
FDI: Registered value in 9M.2018: USD 5.1 bn (30.9%)
Capital contribution and share purchase: USD 4.1 bn (+82.4% yoy)

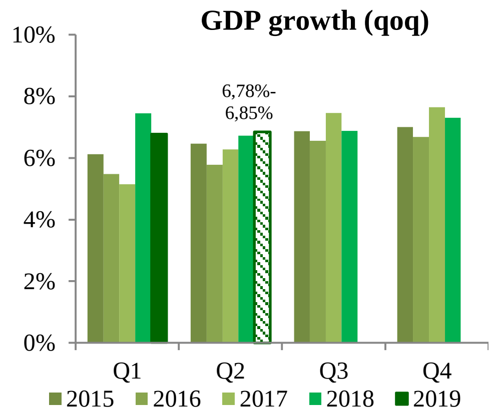
GDP growth in 2018 is more likely to reach more than 7%.

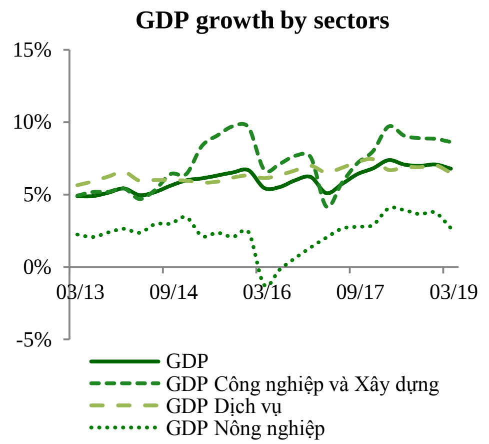
GDP growth in Q1.2019 was 6.79% (yoy), lower than Q1.2018 but higher than in Q1 of 2011-2017.

The Industrial and Construction sector with processing and manufacturing subsector continues to play a leading role.

The service sector continues to keep a positive contribution.

GDP growth in Q1.2019 was 6.79% (yoy), lower than Q1.2018 but higher than in Q1 of 2011-2017. Therein, agriculture, forestry and fishery increased by 2.68%, contributing 4.9% to the overall growth rate; Industrial and construction sector increased by 8.63%, contributing 51.2%; Services sector increased by 6.5%, contributing 43.9%.





Source: CEIC, VCBS

The Industrial and Construction sector with processing and manufacturing subsector continues to play a leading role. In this sector, the industry segment increased by 8.95% over the same period last year, contributing 3.14 percentage points to the growth rate of total value added to the whole economy. The main growth driver of the economy in Q1.2019 quarter was processing and manufacturing industry with an increase of 12.35%. Although it was lower than the 14.3% increase in Q1.2018 but still a high growth rate, making a big contribution to the increase in total value added with 2.72 percentage points. The mining industry in the first quarter of this year recorded negative growth (-2.2%), reducing 0.15 percentage points of the total value added of the whole economy due to a 10.3% decrease in crude oil production and natural gas fell by 2.4%. The Construction segment, in Q1.2019, maintained a good growth rate of 6.68%, contributing 0.39 percentage points.

The service sector continues to keep a positive contribution with the growth rate in Q1.2019 reached 6.50%. In particular, the contribution of some segments with a large proportion of the overall growth rate is as follows: Wholesale and retail increased by 7.82% compared to the same period last year, which has the highest contribution to the overall growth rate with 0.95 percentage points; accommodation and catering services increased 6.22%, contributing 0.3 percentage points; finance, banking and insurance activities increased by 7.71%, contributing 0.36 percentage points; real estate business increased by 4.75%, contributing 0.32 percentage points.

The agriculture, forestry and fishery sector increased by 1,84% over the same period last year, much lower than the 3.97% increase of the 1.2018 quarter, contributing 0.17 percentage points to the growth rate of the total added value of the economy; forestry increased by 4.2%, due to low proportion, only contributed 0.03 percentage points; The fishery segment increased by 5.1%, reaching the highest growth rate in the first quarter in the last 9 years, contributing 0.14 percentage points.

It can be seen that the growth of the industry is not at a sudden level, which is the main reason for lower economic growth in Q1.2019. However, we assess that this deceleration is not worrisome when growth this year is still considered high.

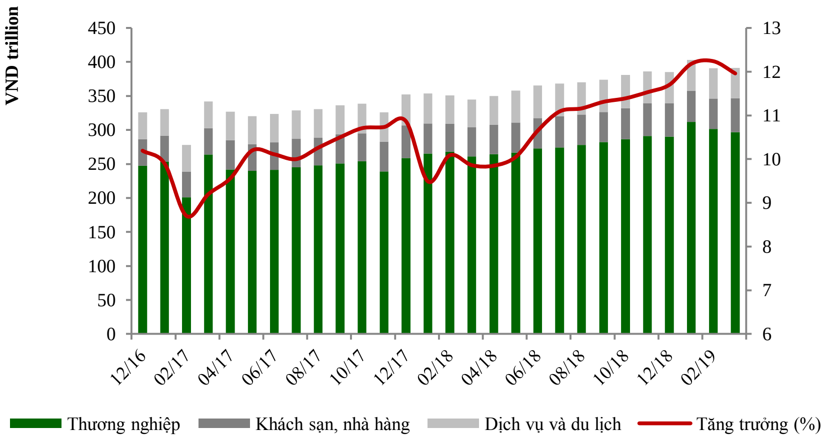
Total demand continued to grow and contributed positively to economic growth.

Retail sales - Consumer demand index continued to maintain a positive trend.

Total retail sales of consumer goods and services were estimated at VND 1,184.9 trillion, up 12% over the same period last year, excluding the price increase of 9% (higher than the increase of 8.9% for the same period of 2018).

By sector, retail sales of goods in the first 6 months were estimated at VND 910.4 trillion, accounting for 76.8% of the total and incresed 13.4% over the same period last year. Food and foodstuff increased by 13.5%; garment increased by 12.7%; appliances, appliances, home appliances up 12.1%; cultural and educational products increased by 12.9%; transportation increased by 10.8%. These figures show the significant contribution of the retail sector in particular and the service sector in general.

Retail sales



Source: CEIC, VCBS

While the disbursement of public investment has not changed much, disbursed FDI inflows continue to be a important resource for the economy

Expenditure on development investment only reached 7.8% of estimates in 2019.

Expenditure on development investment from the State budget still not have any significant improvements. Specifically, as of March 15th, 2019, investment expenditure reached only VND 33.5 trillion, equivalent to 7.8% of estimates in 2019. However, we also observed some efforts to clear barrier to disburse public investment and therefore, we expect this issue to be significantly improved in the second half of 2019.

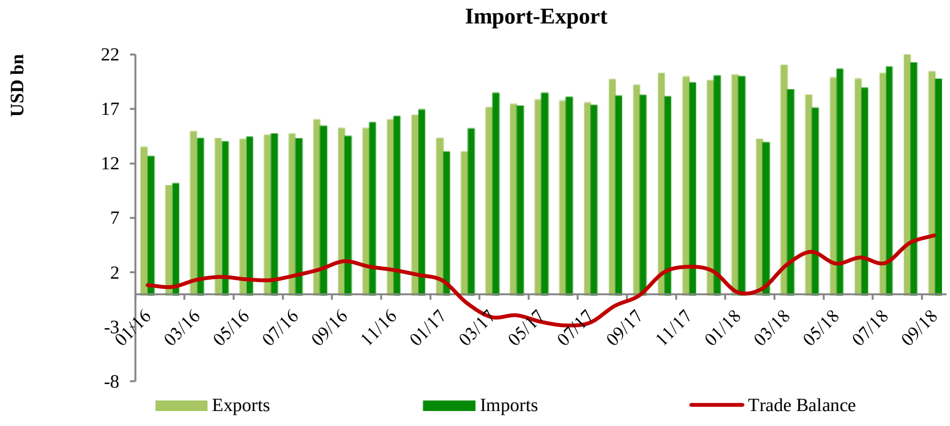
Foreign direct investment (FDIs) from the beginning of the year to March 20th, 2019, attracted 785 new licensing projects with a registered capital of USD 3.8 billion, equivalent to an increase of 27% in number of projects and an increase of 80.1% of registered capital. Total newly registered and additional registered capital in 3 months reached USD 5.1 billion, up by 30.9% over the same period last year. Foreign direct investment in 3 months was estimated at USD 4.2 billion, increased by 6.2% over the same period in 2018. In the first 3 months of 2019, there were 1,653 times of capital contribution, buying shares of the first home. Foreign investment with a total capital contribution of USD 5.69 billion, 3 times higher than the same period in 2018. Thus, as soon as the macro-factors continue to be stable, FII and FDI inflows continue to pay attention to the Vietnamese market. This is still a significant resource for the economy in the context of public investment disbursement has not changed much.

Import and export growth rate slowed down. However, the trade balance continued to surplus in Q1.2019.

Export turnover is estimated at USD 58.51 billion, up by 4.7% compared to the same period in 2018; Import turnover is estimated at USD 57.98 billion, 8.9% higher than the same period in 2018. The trade balance in the first quarter recorded a surplus of USD 536 million.

Export turnover of some items increased sharply compared to the same period last year: Specifically, textiles and garments reached USD 7.3 billion, up 13.3%; electronics, computers and components reached USD 6.9 billion, up 9.3%; footwear reached USD 4 billion, up 15.3%; machinery and equipment and spare parts reached USD 3.9 billion, up 5.2%; wood and wood products reached USD 2.3 billion, up 17%; vehicles and spare parts reached USD 2.2 billion, up by 7.6%; iron and steel reached USD 1.1 billion, up 3.6%.

On the other hand, some items that have import turnover include: Electronics, computers and components with USD 11.7 billion (accounting for 20.2% of total import turnover), up 12.2% compared to with the same period last year; machinery, equipment and spare parts reached USD 8.7 billion, up 15.1%; fabric reached USD 2.8 billion, up 6.4%; iron and steel reached USD 2.3 billion, up 4.1%; plastics reached USD 2.2 billion, up 4.1%; automobile reached USD 1.8 billion, up 103.7%; plastic products reached USD 1.5 billion, up 7.8%; textile, garment and footwear materials reached USD 1.4 billion, up 8.8%;



Source: CEIC, VCBS

GDP growth for the first half of 2019 is forecasted to range between 6.74%-6.82%

GDP growth for the first half of 2019 is forecasted to range between 6.74%-6.82%, respectively, GDP growth in Q2.2019 is forecasted to reach 6.67% - 6.85%. Particularly:

(1) **Industry & construction sector** - Processing and manufacturing industry will continue to play a leading role, in which, some major projects will continue to contribute positively to economic growth over the same period as Nghi Son Petrochemical Refinery Project, the second high kiln of Formosa Project, some solar energy projects are about to generate power in Q2.2019, etc.

(2) **The service sector** will continue to be an important contributor to GDP growth with the bright spots of stable growth regarding the demand for goods and services.

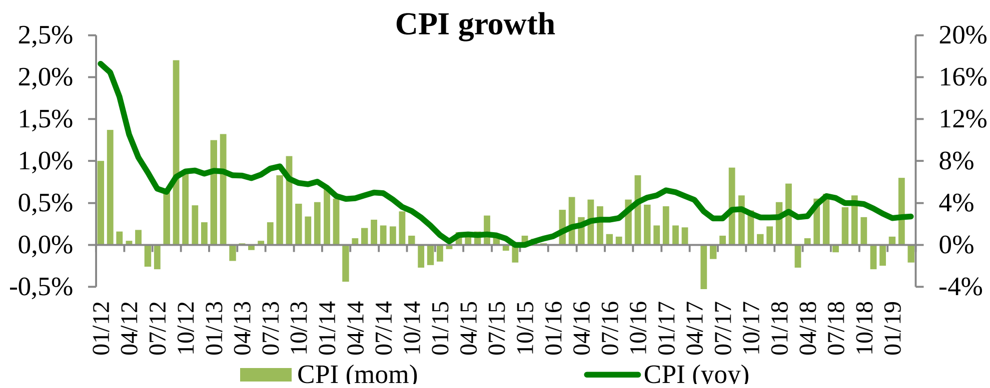
(3) **Regarding the Agriculture-Forestry-Fisheries sector**, we expect the contribution of this sector to the economy will be relatively stable and shall not fluctuate within the overall growth of the whole economy.

We believe that there will not be too many difficulties for the Government to complete or even exceed the target growth for 2019.

CPI is strictly controlled from the beginning of the year. Highlights from adjusting electricity prices

Inflation in Q1.2019 was well controlled and remained below 4%. Remarkable highlights still belong to the roadmap to increase prices of goods regulated by the Government.

In Q1.2019, the main factors that impact on CPI include (1) food and foodstuff prices with a high proportion in the basket of goods. In January, the increase in the environment protection tax bracket did not cause too much impact on the price of the index basket in general because administrative bodiey has been operating quite resolutely, not increasing the price of petroleum to be kept stable throughout both before and after the Lunar New Year. Hence, the CPI over the same period has always been below the 4% threshold during the first quarter.



Source: CEIC, VCBS

The government is still on the right track with the goal of controlling inflation at around 4% for the whole 2019 with drastic and close measures.

In April, the increase in electricity price and gasoline price is expected to be the key factor in raising CPI in Q2.2019

We believe that the government is still on the right track with the goal of controlling inflation at around 4% for the whole 2019 with drastic and close measures.

It was noteworthy that from March 20th, the average electricity price has been adjusted up by 8.63%. This adjustment is expected to have significant impacts on input costs of production and business because coal prices and natural gas prices have also increased. Accordingly, in the months of the second quarter, this will be the factor to pull up the consumer price index. On the other hand, the food and foodstuff sector will be a neutralizing factor, partially ease upward force on CPI note that in the same period of 2018, pork price was high.

SBV successfully bought large amounts of foreign currencies. Exchange rate pressure is relieved.

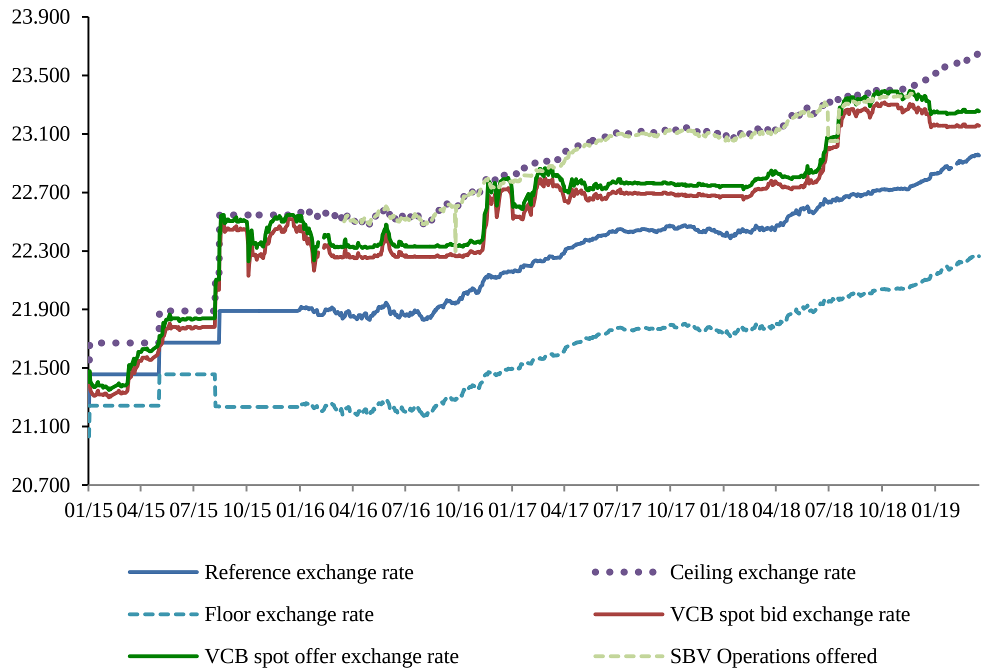
Foreign currency supply prevented the exchange rate from significant pressure in Q1.2019.

The gap between the central exchange rate ceiling and the exchange rate at commercial banks has been widened.

After a period of continuously following the 3% band of the SBV, since the end of 2018, the exchange rate gradually cooled down. As of March 31st, the central exchange rate increased by VND 112, equivalent to 0.67% from the end of 2018, listed at 22,978 VND per USD. Meanwhile, the exchange rate of commercial banking system is not much changed. Currently, the selling rate at commercial banks is around VND 23,250 per USD.

It can be seen that the gap between the central exchange rate ceiling and the exchange rate at commercial banks has been widened, indicated that there is no significant exchange rate pressure during this period. The reasons explained this fact are:(1) The investment capital flow is maintained and even increased significantly after the re-evaluation of risk. In detail registered FDI surged by 30% while amount of capital contribution in the first quarter recorded also triple investment value compared to the same period. (2) In the worldwide market, the FED announced that it may not raise interest rates this year is considered a positive signal. The above factors create favorable conditions for the SBV to continue to flexibly administer exchange rates, strengthen resources for foreign exchange reserves during Q1.2019.

USD/VND Exchange rate



Source: CEIC, SBV, VCBS

We adjust the VND depreciation for the whole 2019 from no less than 3% in the end of 2018 reports down to no less than 2%.

After FED's event, we believe that the risk factors affecting the exchange rate from the world market have declined significantly. Meanwhile, with other assumptions that are maintained, including a stable macroeconomic index that will be a prerequisite for continual inflows to Vietnam, we adjust the VND depreciation for the whole 2019 from no less than 3% in the end of 2018 reports down to no less than 2%.

Deposit and lending rates were stable and less volatile in Q1.2019. The draft circular on Circular 36 made a significant change to the level of interest rate fluctuations.

The deposit and lending rates were almost unchanged in Q1.2019

Deposit rates increased locally at some banks.

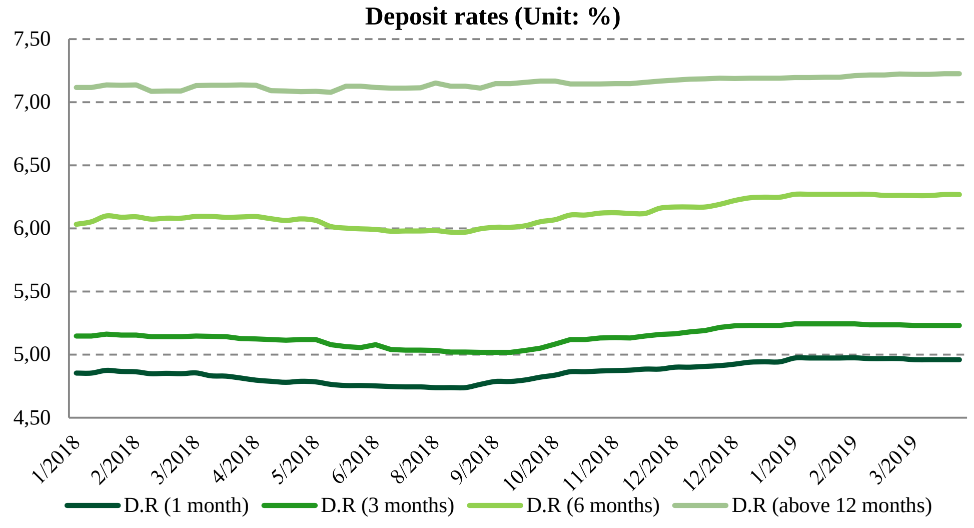
Lending rates were stable and did not record any significant fluctuations in Q1.2019

In Q1.2019, mobilizing rates recorded a slight increase in some banks and mainly in terms of over 12 months. However, compared to the end of 2018, the increase was negligible and did not change the overall level of the system. VND deposit rates are popular at 0.5 - 1% per year for demand deposits and term deposits of less than 1 month; 4.5 - 5.5% per year for term deposits from 1 month to less than 6 months; 5.5 - 6.5% per year for term deposits from 6 months to less than 12 months; the term of over 12 months is at 6.6 - 7.3% per year.

We believe that the mobilization pressure is appearing more in some credit institutions since the beginning of April 2019, the State Bank started to rank credit institutions according to Circular 52/2018. This makes the demand for capital mobilization of credit institutions increase higher to meet or exceed the capital safety targets regulated by SBV.

Lending rates were stable and there was no significant change in Q1.2019. Currently, VND lending rates are popular at 6.0 - 9.0% per year for short-term; 9.0 - 11% per year for medium and long term. USD lending interest rates were popular at 2.8 - 6.0% per year; in which short-term lending interest rate is popular at 2.8 - 4.7% per year, medium and long-term lending interest rate is 4.5 - 6.0% per year.

Credit growth in the first 3 months (as of March 25th, 2019) reached 2.28% (lower than 2.78% in the same period last year). The SBV has shown its transparency with the target of credit growth at a reasonable level, concentrating on resources to handle bad debts.



Source: CEIC, VCBS

VCBS adjusted the forecasts for the increase of deposit interest rates for 2019 to 80 points compared to that of increasing 50 points at the end of the year as mentioned in the previous reports.

Throughout the SBV's guiding documents in recent years, we have seen a clear orientation on some outstanding orientations: **(1) reasonable credit growth coupled with quality and efficiency ; (2) operating monetary policy to keep interest rates fairly stable to ensure benefits for depositors with appropriate deposit rates, maintaining lending rates at a reasonable level, sharing difficulties with people and businesses; (3) continue to deal with bad debts in accordance with the roadmap, plans and ensure the safety and healthy stability of the operations of credit institutions.**

This orientation continues to be shown in the Draft Circular amending Circular 36 regulating the safety limits and ratios in the operation of credit institutions and foreign bank branches being consulted for market members. The most noteworthy point is the draft of (1) the roadmap to reduce the ratio of short-term capital for medium and long-term loans and (2) increase the risk factor for some related loans Real estate sector. In terms of mainstream thinking, this draft continues to show clearly the direction of the SBV in bringing the system to Basel II and Basel III international safety standards. However, this means that the pressure on rasing charter capital for banks will increase significantly with **effects that can be seen as pushing up the deposit interest rate level; increasing capital costs for the interbank market;**. However, it should be noted that the draft is still opened for market participants' comment and the official version may be different from this draft. However, in the short term, psychological impacts may appear in the market.

Compared to the expectation in the 2019 outlook report, this information is a new factor and will probably affect the level of fluctuation of interest rates in the year. Accordingly, VCBS adjusted the forecasts for the increase of deposit interest rates for 2019 to 80 points compared to that of increasing 50 points at the end of the year as mentioned in the previous reports.

Bond market

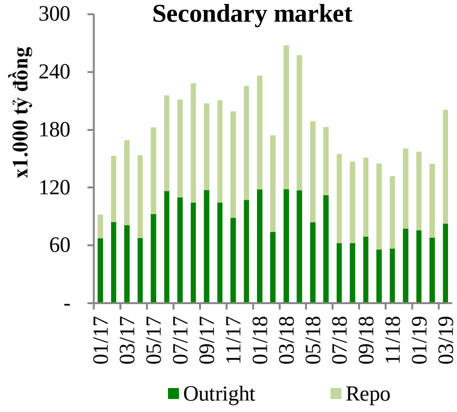
The market was quite active in most of Q1.2019

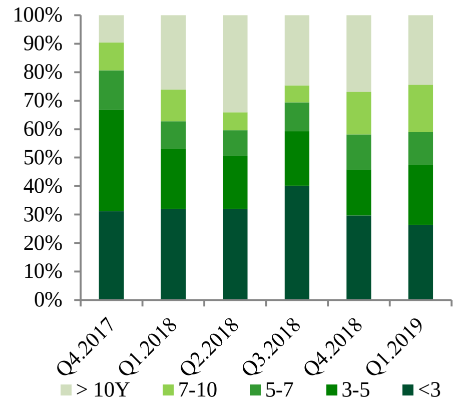
Winning rates decreased in Q1.2019

Yield curve became more steper and shifted downward in the context of short-term bond yields decreased sharply.

Liquidity in the interbank was abundant, interbank rates decreased in Q1.

In Q1.2019, VND 69,469 billion of bonds (+9.36% qoq) was mobilized in the primary market. VND 503.026 billion (+15% qoq trading on the secondary market.

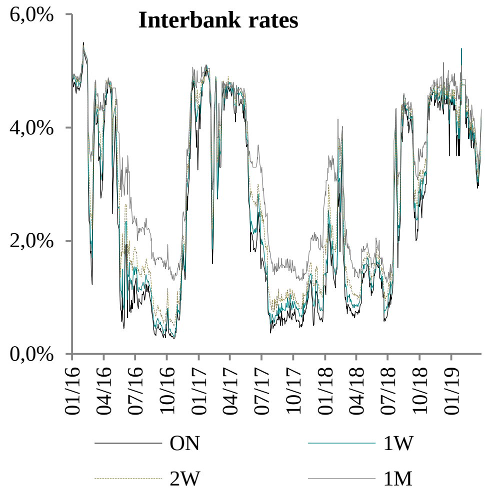


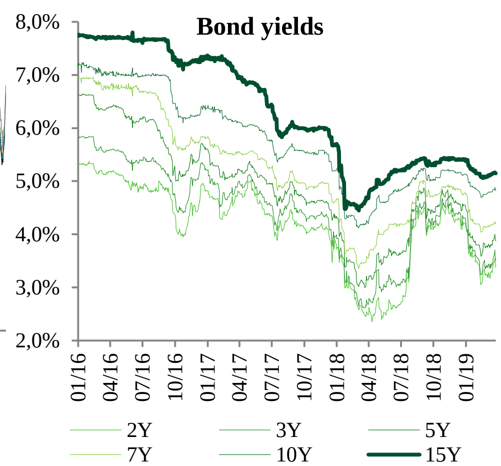


Source: HNX, VCBS

Yield curve becomes steeper and moves downward in the context of short-term bond yields declined sharply. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y tenors ended Q1.2019 at 3.257% (-84.3 bps qoq), 3.373% (-83.7 bps qoq), 3.508% (-78.7 bps qoq), 3.878% (-67.7 bps qoq), 4.2% (56.3 bps qoq), 4.825% (-30 bps qoq), 5.148% (-26.5 bps qoq).

Interbank rates decreased in Q1.2019 after seasonal factor came to an end. In particular, interbank rates declined sharply from the beginning of January; however, at the end of March, there were signs of increasing again at all terms. We believe that the cause may stem from some banks to ensure that they meet safety ratio regulated by the SBV. Interbank rates for ON-3M tenors were recorded at 4.15%, 4.183%, 4.217%, 4.317% and 4.433% respectively.





Source: HNX, VCBS

Bond yields may fluctuate in a narrow margin or decrease slightly in Q2.2019

Interbank rates are forecasted to have rooms to fall.

Bond yields may fluctuate in a tight band or decrease slightly in Q2.2019 with the following argument: (1) Interbank rates still have room to decline. (2) Bonds matured relative high in Q2. (3) Expectations of market participants are also more optimistic as FED may remain interest rate this year. (4) Domestic marco-econony remained, even more positive than forecasts at the end of 2018.

Until the beginning of April, we believe that interbank rates still have rooms to decrease in Q2.2019 based on these factors: (1) Liquidity will be abundant when the amount of Government bonds maturing mainly in the first half of the year. (2) It is likely that public investment will be enhanced in the second half of 2019. (3) SBV has favorable conditions to reserve foreign exchange, creating abundant liquidity in the market. (4) Credit growth is forecasted to grow at the same level compared to 2018, ensuring risk control and supporting economic growth (forecasted to reach 14% for the whole 2019).

However, we believe that there are still some uncertainties that need to be monitored and considered (1) Risks of the economic crisis after the US Government reversed bond yield curve in March as well as concerns around the world slowing down economy. (2) Warning signs about trade tension between the US and EU. Finally, (3) the psychological effect derives from drafting amendment circular to Circular 36.

Global economy

United States

FED is expected not to raise interest rates this year

US GDP growth in Q4.2018 increased 2.2%, lower than 2.6% of the previous quarter and 3.4% compared to the same period last year. Q1 GDP growth is forecast to be 1.5% lower than the previous figure of 1.75%. Inflation in February increased by 1.5% yoy due to the impact of gasoline prices. Unemployment rate in March recorded at 3.8%, unchanged from the previous month as market expectations. PMI in March reached 52.4 but production showed signs of slowing down when the average PMI of Q1.2019 was the lowest since Q3.2017.

In the March monetary policy meeting, FED decided to keep interest rates as market expected. However, it is worth noting that the interest rate expected to remain unchanged from now to the end of the year in the context of global risks affecting economic prospects and falling inflation.

Europe

The Eurozone's regional economy continued to improve but failed to meet expectations.

Eurozone's economic growth rate in Q4.2018 continued to improve and reached 0.2%, higher than the previous - 0.1%, but lower than the average GDP growth rate from 1995-2018 (0.39 %), growth mainly comes from exports and household consumption. Inflation in March only increased by 1.4% compared to 1.5% of the previous month, and is far from the target of less than 2% set by the ECB. This partly reflects the lack of strong consumer demand in the Eurozone. Meanwhile, the PMI in March dropped to 47.5 from 49.3 points in February with the manufacturing activity of Germany dropped the most in over 6 years (44.7 points). Besides, the unemployment rate in Eurozone region was at the lowest level from 2008 to now - 7.8%.

In early March, the ECB lowered its forecast of economic growth in 2019 and 2020 due to the instabilities. In detail, ECB forecasts that the economy will grow by 1.1% (down by 0.6% compared to the previous forecast). European common currency area has to deal with uncertainties related to Brexit as well as ECB's policy.

Asia

Fears of a decline in global economic growth are also recorded in China. However, March figures are showing more positive signals.

China's economic growth has shown signs of slowing down in Q4. 2018 when it reached only 1.5% compared to the previous quarter - 1.6%. Unemployment rate in Q4. 2018 decreased to 3.8% from 3.82% in Q3.2018, while the average unemployment rate from 2002-2018 was recorded at 4.09%.

Concerned about China's economic growth has been partly eased by recent figures. Inflation dropped to 1.5% yoy in February, the lowest since January last year due to falling food prices. Remarkably, the PMI index increased to 50.8 in March 2019 from 49.9 last month, recording the highest growth since 2012. In detail, manufacturing industry has grown after three consensues declining months, a sign that growth stimulus measures such as tax and fee reduction gradually effect positive on the economy. However, the number of manufactured purchases is sstill low; indicating that there will be pressures in the next month and may need more supportive policies.

The government has announced downgrading its forecast for economic growth in 2019 to 6% - 6.5% from the target of around 6.5% for 2019, partly to show that the outlook is not positive as before.

The pace of recovery of the Japanese economy is slightly better off.

Japan's economy grew by 0.5% in the Q4.2018, thanks to an increase in domestic demand, indicating an improvement in economic recovery. Inflation in Feburuarywas 0.2%, unchanged from the previous month. Notably, the unemployment rate dropped to 2.3% in February, while this figure was forecasted at 2.5%. This is also the lowest unemployment rate since August last year. In addition, the PMI index also maintained at a relative level of 49.2 in March, indicating the economic recovery rate has improved.

Although the Japanese economy is expected to improve, there are still unexpected factors such as trade tension or labor shortage. Besides, easing monetary policy of the Central Bank of Japan (BoJ) is likely to continue for a long time to promote economic growth as well as to pursue inflation target of 2%.

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