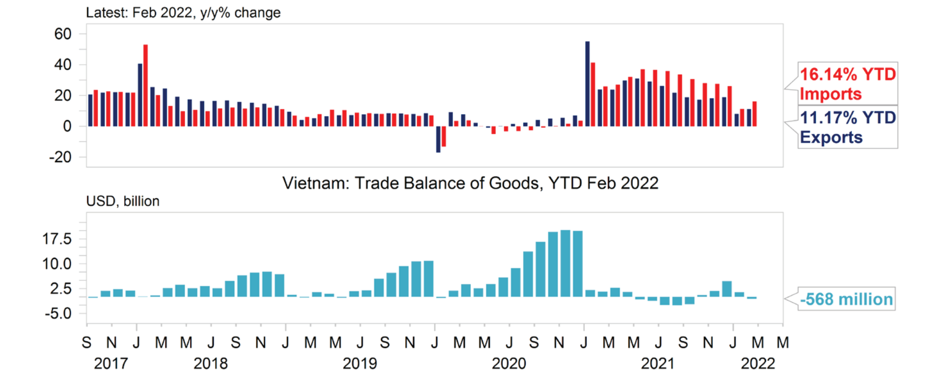
VIETNAM

FX & Rates	2Q22F	3Q22F	4Q22F	1Q23F
USD/VND	23,000	23,100	23,200	23,300
VND Refinancing Rate	4.00	4.00	4.00	4.00

Economic Indicators	2020	2021	2022F	2023F
GDP	2.9	2.6	6.5	7.0
CPI (average, y/y %)	3.2	1.8	4.1	5.5
Unemployment Rate (%)	2.4	3.6	2.9	2.5
Current Account (% of GDP)	3.7	-0.3	0.2	0.2
Fiscal Balance (% of GDP)	-3.9	-4.7	-4.5	-4.5

Vietnam, Foreign Trade, Monthly, YTD Feb 2022

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Geopolitics Is The Main Uncertainty Ahead

Economic activities in Vietnam rebounded sharply in 4Q21 after suffering from disruptions and lockdowns as a result of the COVID-19 pandemic during most of 3Q21. Real GDP growth accelerated to 5.22% y/y in 4Q21, reversing from the record contraction of -6.02% in 3Q21. The recovery is largely supported by external sectors while domestic sectors especially services continued to underperform amidst the pandemic. For 2021, Vietnam's economy expanded 2.58%, slowing from a 2.91% growth in 2020, but slightly above the government's forecast of 2.5%.

In the first two months of 2022, activities continued to improve despite the raging of Omicron variant, which is mitigated by the widespread vaccination of its population. Vietnam had gone from having the second lowest COVID-19 vaccine coverage in ASEAN in mid-Aug 2021, with only 7.5% of adults having received at least one dose, to 90% fully vaccinated by end-Feb 2022. Activities have resumed to resemble normalcy and the country ended the quarantine requirement for international travelers starting from 16 Mar. This is an important milestone, as the resumption of inbound tourism will help to rejuvenate Vietnam's domestic sector. Tourism receipts accounted for about 10% of GDP in 2018 with 18 million of inbound tourists. Retail sales remained muted so far, expanding 1.6% y/y in the first two months of 2022, less than half of the 5.5% pace in Jan-Feb 2021.

External facing sectors remained resilient and performed strongly in early 2022. Exports gained 11% y/y YTD Feb 2022, driven by smartphones, electronics, machinery and garments, which accounted for more than 53% share of exports. Foreign direct investment (FDI) inflows were healthy. Purchasing Managers Index (PMI) has been on an uptrend and stayed above the 50-mark for the 5th straight month in Feb 2022. Industrial production rose for the fourth straight month, with a gain of 8.5% y/y, the second biggest increase since May 2021.

Just as the global economy is making its recovery after two years of pandemic, the outbreak of the Russia-Ukraine conflict in late Feb 2022 caused significant chaos to the global commodities markets and added some uncertainty to Vietnam's growth outlook.

As postulated in our Focus article, there is a high probability (60%) that the conflict and sanctions against Russia could stay for some months. This means disruptions to Russia's (and Ukraine's) key exports such as energy, agricultural and other commodities. Elevated commodities prices are likely to feed into inflation globally and impact on consumer demand and investment demand at some point though it is unclear the extent of the shift, just as major central banks are tightening their policy.

With these headwinds ahead, we are trimming Vietnam's 2022 GDP growth forecast marginally to 6.5% from previous projection of 6.8%, bringing in line with official projection of 6.0-6.5%.

CENTRAL BANK

Staying On Hold As A Precaution

Vietnam's inflation rate has been trending down since hitting the peak of 2.9% y/y in May 2021, to 1.4% in Feb 2022. Nevertheless, the jump in fuel costs has been the main contributing factor with double digit y/y increases on a monthly basis in the past 9 months. The elevated commodity prices especially food and energy are likely to hit consumer prices fairly quickly. Against the backdrop of a stretched out conflict, we are adjusting upward our inflation forecast for 2022 to 4.1% from our previous projection of 3.2%.

With the uncertain outlook posed by geopolitical development, the State Bank of Vietnam (SBV) is likely to keep its policy rate steady to support the recovery efforts. While the US Fed and other ASEAN central banks will embark on their rate hike cycles this year, we anticipate both the refinancing rate at 4.0% and rediscounting rate at 2.5% to remain at their record lows for now.

CURRENCY

VND To Weaken Gradually

USD/VND has been gradually recovering from its late Jan's lows of about 22,630 after the Fed shifted into a hawkish mode in the month and signaled a first rate liftoff in Mar. Sentiments on Asia FX, which include VND, took a further hit after Russia's invasion into Ukraine. Potential portfolio outflows from Vietnam due to global de-risking triggered by both the start of the Fed rate hike cycle and geopolitical tensions give ground for a more cautious outlook for the VND. As the VND continues to weaken at a modest pace that we envisaged earlier, we will keep our USD/VND forecasts unchanged this time round. Our USD/VND forecasts are at 23000 at 2Q22, 23100 at 3Q22, 23200 at 4Q22 and 23300 at 1Q23.