

## Vietnam Quarterly Review 3<sup>rd</sup> Quarter 2019

### BSC Research

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### Macroeconomics

- GDP of Q3.2019 increased by 7.31% YoY. Industry and construction sector had the strongest growth with 10.05% YoY.
- PMI in September 2019 decreased to 50.5 from 51.4 in August, making the annual average return to 51.8 (2018 was 53.7).
- Total retail sales of goods and services in 9M2019 were estimated at VND 3,634 trillion, up 11.6% over the same period last year.
- The total registered FDI capital in 9M2019 reached USD 15.76 billion (- 19.9% YoY) but the total realized FDI capital reached VND 14.2 billion (+ 7.3% YoY). The manufacturing and processing sector is the main contribution of Vietnam's FDI.
- The fluctuation range of the interbank exchange rate is 23,250 - 23,350 USD/VND in the third quarter of 2019. Interbank interest rates for short and mid-terms dropped sharply in September thanks to the impact of Decision No. 1870 .

### Stock Market

- The VN-Index officially increased by 12.5 points compared to the end of last month (+1.27% MoM, +11.65% ytd) and HNX-Index increased 2.73 points (+2.67% MoM, +0.79% ytd). In the third quarter, the VN-Index increased by 46.62 points (+4.91% QoQ), the HNX-Index increased 1.54 points (+1.49% QoQ).
- Average liquidity on both exchanges decreased by -8.3% compared to August 2019, and maintained at VND 4,381 billion/session and equivalent to nearly USD 188 million/session. In Q3, the average liquidity on the 2 exchanges increased +8.5% compared to Q2 and maintained at VND 4,463 billion/session and equivalent to USD 191.5 million/session.
- In September, foreign investors were net sellers on the HSX with VND -378.9 billion, and -28.4 billion on the HNX. In Q3, foreign investors net bought VND 162.5 billion on the HSX, and net sold VND -413.3 billion on the HNX.
- P/E of VN-Index increased to 17.00, equivalent to +1.53% MoM, +5.37% QoQ, +13.02% Ytd and HNX-Index increased to 7.54, equivalent to +2.75% MoM, +1.33% QoQ and -13.38% Ytd. Compared to August, the P/E of the VN-Index is at 10th and the HNX-Index is at 20 in Asia.

### Market outlook of QIV.2019

Based on the evaluation of domestic and foreign impact factors, the VN-Index can range from 940 to 1,050 points, of which the key price area is around 980 points. We forecast that the VN-Index will rebound up to 1,015 - 1,025 points in October. If this short-term peak is not reached, the VN-Index is likely return to accumulate around 980 points in November and recover gradually in December. In the fourth quarter, BSC proposed two scenarios as follows:

- In a positive case, VN-Index closed above 1,000 points at the end of the year (an increase compared to 980 points in the 6-month report). The trend is still moving around large-cap stocks, stocks that had full Foreign ownership in the new index are expected to attract new foreign capital inflows.
- VN-Index may drop below 960 points when encountering unfavorable news from the world and international capital flows are not strong enough to spread to markets.
- Recommended stocks:
  - We see positive industry and stocks in 2019 Sector Outlook Report;
  - Stocks with strong improvements and positive outlook such as Banking, Retail, information technology, leading stocks;
  - Stocks benefiting from rebounding price material and oil prices;
  - Highly defensive stocks such as Electricity, Information Technology - Post, Retail consumption have high growth rates and dividends;

In the long term, the recommended shares of BSC will be mentioned in the fourth quarter sector outlook report, the stocks with good changes are recommended in the weekly report on and our sector / company update report.

## Macroeconomics of 3<sup>rd</sup> Quarter 2019

### Economic growth

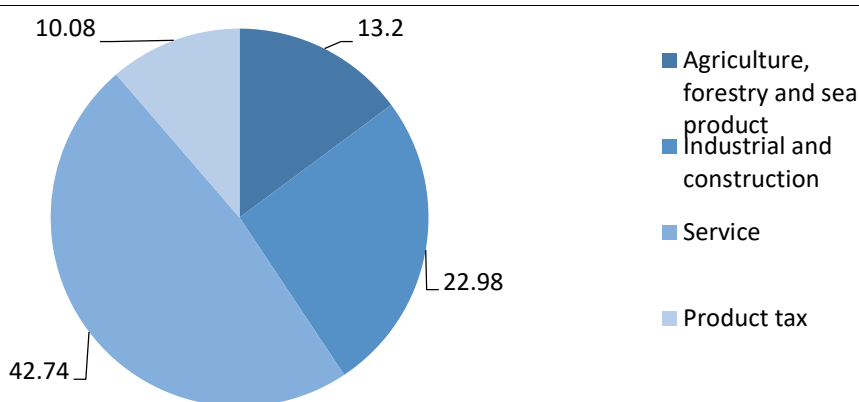
- Gross domestic product (GDP) in the third quarter of 2019 is estimated to increase by 7.31% over the same period, the highest increase of all 9M results in the last 9 years.
- The PMI in September 2019 decreased from 51.4 in August to 50.5, making the year-wide average decrease to 51.8 (2018 was 53.7).

The gross domestic product (GDP) in the third quarter of 2019 is estimated to increase by 7.31% over the same period last year. 9M2019 GDP increased by 6.89%, the highest increase in 9 months in the last 9 years. In which, agriculture, forestry and fishery increased by 2.02%, contributing 4.8% to the general growth; industry and construction increased by 9.36%, contributed 52.6%; service sector increased by 6.85%, contributing 42.6%.

In the industry and construction sector, 9M2019 industry maintained a good growth rate of 9.56%, contributing 3.16 percentage points to the total added value of the whole economy. The processing and manufacturing industry continued to affirm its bright spot as the main contributor to economic growth with an increase of 11.37%, contributing 2.42 percentage points. Mining industry increased by 2.68%, contributing 0.17 percentage points. 9M2019 construction industry maintained a good growth rate of 8.33%, contributing 0.55 percentage points.

Chart1

Economic sector proportion in 3<sup>rd</sup> Quarter 2019 (%)



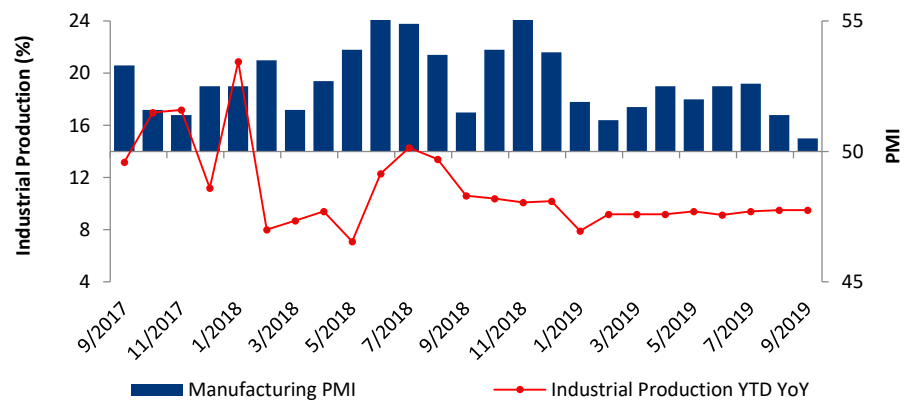
Nguồn: GSO, BSC Research

Production index of the whole industry (IIP) in 9M2019 was estimated to increase by 9.56% over the same period last year (the first quarter increased by 9%; the second quarter increased by 9.24, the second increased by 10.29%), the highest increase in the last 4 years. Processing and manufacturing sector continued to be the bright spot of the whole economy with an increase of 11.18% (the first quarter increased by 11.52%; the second

quarter increased by 10.9%, the third quarter increased by 11.68%), contributing 6.3 percentage points to the increase; electricity production and distribution increased by 10.7%, contributing 0.5 percentage points; water supply and waste treatment increased by 8.43%, contributing 0.06 percentage points; mining industry increased by 2.68% after 3 years of continuous decrease (due to the lower decrease in crude oil and the mining of coal and metal ores all increased), contributing 0.17 percentage points to the total increase.

Chart 2

### Industrial production index & PMI



Nguồn: GSO, Markit, BSC Research

**Consumption index for the whole manufacturing in September 2019 increased by 3.9% over the previous month and by 9.7% over the same period last year.** As of 9M2019, the consumption index of the whole manufacturing industry increased by 9.5% over the same period last year (the same period in 2018 increased by 12.2%). In particular, the top 3 industries with high consumption index: Production of coke and refined petroleum products increased by 41.4%; metal production increased by 28.5%; rubber and plastic products increased by 14.6%.

Inventory index of the whole processing industry was estimated at 17.2% as of September 30, 2019 compared to the same period last year (the same period in 2018 increased by 13.8%), of which some sectors had inventory index increased over the same period last year: Manufacture of products from precast metal (except machinery and equipment) increased by 35.8%; metal production increased by 39.6%; Production of paper and paper products increased by 52.4%

The average inventory rate of the whole processing and manufacturing industry in 9M2019 was quite high with 72.1% (63.8% in the same period last year), of which some industries had a high inventory rate: Textile 272.4%; wood processing and producing wood and bamboo products from 127.5%; chemical production and 92% chemical products.

**The PMI index plummeted to 50.5 from the level of 51.4 in August.** Vietnam's manufacturing output fell amid the growth in the number of new orders. The number of jobs also dropped slightly and business optimism was the lowest in

the index history. Signs of weakening demand mean prices continue to be under upward pressure. Input costs only increased slightly, while output prices continued to fall. The latest PMI results show that the slowdown in global trade and trade tensions between the United States and China are starting to negatively affect companies when Vietnam enters the last quarter of 2019.

China's PMI index rebounded to 49.8 in September from 49.5 in August. Although showing signs of improvement, this is the 5th consecutive month the index is below 50 and signals the contraction of the economy. The recovery in September mainly came from the increase of domestic demand. However, the number of export orders continued to decline along with uncertainty in trade negotiations and a cooling real estate market continued to weaken the Chinese economy. This economic result will force China to negotiate under a weak position in the upcoming the US-China trade negotiations.

*Although the economic growth rate in the third quarter of 2019 has become the highest rate in the past 9 years, the PMI has decreased in August (51.4) and September (50.5) with signs of slowing down starting in May. 07 (52.6). With the number of new orders declining and confidence in the positive outlook of businesses becoming the weakest since August 2019, the growth rate of manufacturing and processing industries may decline. in the fourth quarter of 2019. GDP in QIII/2019 increased sharply thanks to a strong increase in the manufacturing industry. Specifically, thanks to Samsung has increased the export of Galaxy Note 10 in August 2019. Strong increase in export surplus boosted GDP growth in the third quarter. BSC expects that the launch of Samsung Galaxy Fold product in the international market can maintain Vietnam's GDP growth rate in the fourth quarter of 2019 in the context of clearer business activities' s declining signs.*

## Inflation

- **Average CPI in the third quarter of 2019 increased by 2.23% compared to the average of the third quarter of 2018.**
- **CPI in June decreased by 0.09% compared to the previous month due to a sharp decrease in traffic from 2 corrections to reduce gasoline and oil prices.**
- **Total retail sales of consumer goods and services in 9M2019 were estimated at 3,634 trillion VND, up 11.6% over the same period last year.**

**CPI of September increased by 0.32% over the previous month, and by 2.16% over the same period in 2018.** Core inflation in September 2019 increased by 0.16% over the previous month and by 1.96% over the same period last year.

Generally in the third quarter of 2019, CPI increased by 0.48% compared to the previous quarter and by 2.23% over the same period in 2018, of which the education group increased the most and reached 5.19% over the same period

last year. Average core inflation in 9M2019 increased by 1.91% over the same period last year.

**Average CPI of 9M2019 increased by 2.5% compared to the same period of 2018.** CPI fluctuations increased mainly due to the following reasons:

(+) The price of electricity increases from March 20, 2019, according to the Decision No. 648 / QD-BCT of the Ministry of Industry and Trade, along with the increasing demand for electricity during Tet and hot weather in the second quarter of 2019 and the third quarter of 2019, the price of electricity in 9 months of 2019 increased by 7.69% over the same period last year.

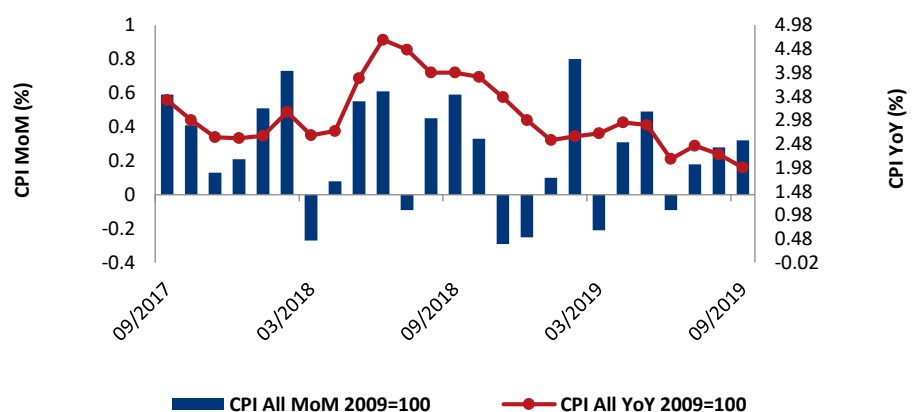
(+) Provinces adjust the price of medical services according to the Circular No. 13/2019 / TT-BYT dated July 5, 2019 and the Circular No. 37/2018 / TT-BYT dated November 30, 2018 of the Ministry Health made the service price index increase by 3.36% over the same period last year.

(+) The educational service price index increased by 6.73% over the same period last year due to some localities adjusting the tuition increase in the new school year.

(+) The price of food items increased by 4.21% thanks to the pork price increase of 8.04% after the decline of swine cholera.

From an overall perspective, the increase in electricity prices has put pressure on the CPI but was limited by the decline in oil prices compared to the previous year, the CPI remained low. However, geopolitical tensions in the Middle East will push up oil price pressure due to concerns about declining oil supplies. The fact that the Houthi rebels successfully shot past the U.S. Patriot missile defense system has increased the risk perception of a shortage of oil supply and will put pressure on prices to increase the price of crude oil futures. . With the trend of key groups of goods and services only increasing slightly and oil prices falling slightly compared to 2018, the average CPI for the whole year of 2019 will only be in the range of 2.5-2.8%.

Chart 3  
**Monthly CPI movements**



Sources: GSO, BSC Research

**CPI of 8/11 commodity and service groups of CPI in September increased compared to the previous month mainly due to education and food service.** The education sector had the highest increase of 3.15% (education service increased by 3.53%), making the general CPI increase by 0.18% because 50 provinces and cities directly under the Central Government implemented the government's roadmap to increase tuition for the new school year. Food and catering services increased by 0.56%, of which food rose by 0.3% due to rising rice prices in some areas affected by floods; food increased by 0.76%.

Total retail sales of goods and services in September 2019 were estimated at VND 420.3 trillion, up 1.7% MoM and up 12.7% YoY. Of which, retail sales of goods reached VND 315.9 trillion, up 0.73% MoM and up 11.6% YoY.

Generally for the third quarter of 2019, the total estimated retail sales of consumer goods and services reached VND 1.46.9 trillion, up 3.5% from the previous quarter and up 12.2% over the same period last year, of which : Retail sales of goods reached VND 941.7 trillion, up 3.3% MoM and up 13.2% YoY.

Generally, in 9M2019, total retail sales of consumer goods and services reached 3,634.8 trillion VND, up 11.6% over the same period last year, if excluding the price factor, it increased by 9.2% (in the same period in 2018, it increased 9.1%). ). Retail sales of goods in nine months reached VND 2,762.3 trillion, up 12.6% over the same period last year.

Chart 4  
Retail Sales

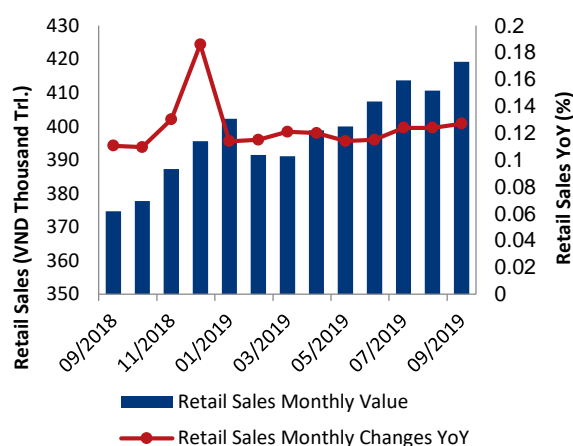


Table 1  
Increase/decrease of service sectors in July

No.Sector	MoM (%)	YoY (%)
1 Food and catering	0.56	1.81
2 Transportation	-1.24	-2.65
3 Health care	-0.01	8.83
4 Housing & Construction	0.12	2.72
5 Entertainment	0.06	1.63
6 Beverage and Cigarettes	0.06	2.09
7 Clothing	0.09	1.82
8 House appliance	0.13	1.36
9 Education	3.15	4.65
10 Telecommunication	0	-0.53
11 Other	0.25	3.04

Source: GSO, BSC Research

## Foreign Direct Investment (FDI)

- Newly registered FDI in 9M2019 reached USD 15.7 billion, down 19.9% compared to the same period last year.
- Realized FDI in 9 months was estimated at 14.2 billion USD, up 7.3% over the same period in 2018.

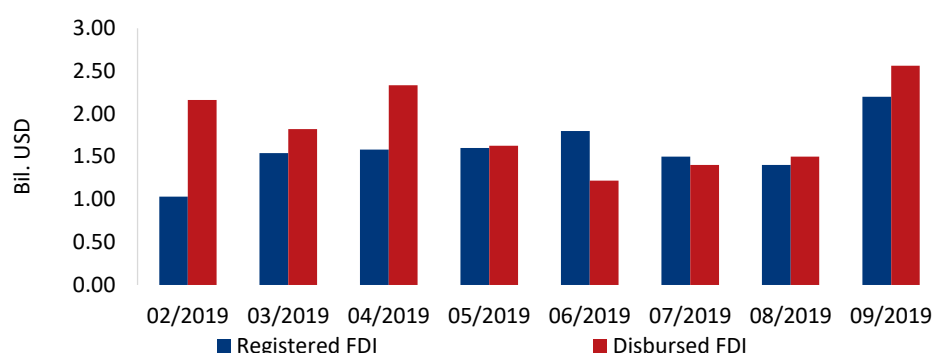
- **In the third quarter of 2019, processing and manufacturing industries are the focal points to attract FDI inflows.**

Total newly and additionally registered FDI capital until September 20, 2019 of 2,759 projects (+ 26.4% YoY), reaching USD 10.97 billion (-22.3% YoY), plus USD 4.79 billion of adjusted registered capital of 1,037 The project was licensed in previous years. Therefore, the total newly and additionally registered FDI capital reached USD 15.76 billion (-19.9% YoY). Newly registered FDI and additional capital in the third quarter of 2019 reached USD 5.46 billion, up 5.41% QoQ and 58.4% YoY (in Q32018 only USD 3.4 billion but Q22018 reached USD 12.3 billion).

**Realized FDI capital in 9M2019 was estimated at USD 14.2 billion (+ 7.3% YoY).** The direct investment of the third quarter of 2019 also reached USD 5.1 billion, up 2.41% QoQ and 4.51% YoY.

*Since the beginning of the year, the tension of the US-China trade war has helped the FDI inflow to Vietnam grow fairly and steadily in the months. However, it is worth noting that in 9M2019, Vietnam still has not had a large billion-dollar investment project, the direct investment capital is still small and medium and mainly from Eastern countries such as China, Korea, and Japan. Direct investment in 2019 is likely to decline compared to 2018 if there is no large billion-dollar project into Vietnam in the fourth quarter of 2019.*

Chart 5  
**FDI (USD Bil)**



Source: GSO, BSC Research

In 9M2019, the processing and manufacturing sector attracted the largest foreign direct investment with the registered capital of newly licensed projects reaching USD8.14 billion, accounting for 74.2% of the total newly registered capital; real estate business reached USD 1.18 billion, accounting for 10.8%; the remaining industries reached 1.65 billion USD, accounting for 15.8%.

If including the additional registered capital of the licensed projects from the previous years, the foreign direct investment in the processing and manufacturing sector in 9 months reached USD 12.4 billion, accounting for 78.6% of the total registered capital. sign; real estate business reached USD 1.06 billion, accounting for 6.7%; the remaining sectors reached 2.31 billion USD, accounting for 14.7%. For capital contribution, share purchase of foreign



investors, capital invested in processing and manufacturing sector reached USD 5.70 billion, accounting for 54.8% of the total value of capital contribution; real estate business reached USD 1.70 billion, accounting for 16.4%; the remaining sectors reached USD 2.99 billion, accounting for 28.8%.

Top 3 regions attracting FDI nationwide: Binh Duong (USD 1.18 billion - 10.8%), Ho Chi Minh (USD 0.95 billion - 8.7%), Dong Nai (USD 0.76 billion - 6.9%).

In 9M2019, Korea was the largest direct investor in Vietnam with a total investment of USD 209 billion, accounting for 19.1% of the total newly registered capital; followed by China with USD 2.02 billion, accounting for 18.4% and Japan with 1.58 billion USD, accounting for 14.4%.

## Trade balance, Import and Export

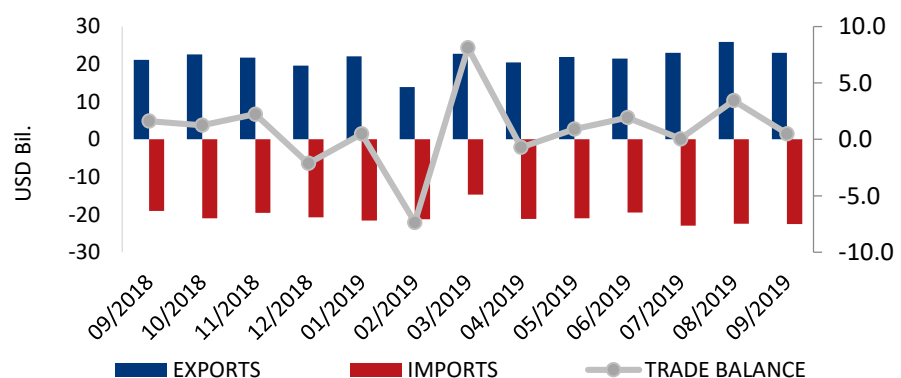
- The trade balance in September was estimated at trade surplus of USD 500 million. For 9M2019, the export surplus was 5.9 billion USD.
- In 9M2019, total import and export turnover was estimated at 245.48 billion USD (+ 9.7% YoY). Spearhead growth in both export and import sides still revolves around groups of goods that benefit from the trade war: Telephones, components; Textile; Computer electronics; Fabrics, and machinery.

September export turnover is about 23 billion USD, down by 11.1% MoM and up by 9% YoY. In which, domestic economic sector gained 6.88 billion USD, down 14.5% MoM and up 24.4% YoY; FDI sector reached USD 16.12 billion, down 9.78% MoM and up 3.5% YoY.

Imported goods in September is estimated at 22.5 billion USD, up by 0.2% MoM and up by 15.6% YoY. In which, domestic economic sector gained 9.1 billion USD, down by 1.2% MoM and up by 20.8% YoY. Foreign-invested sector reached USD 13.5 billion, up 1.2% MoM and 12.4% YoY.

Chart 6

Import and Export (Bil USD)



Source: GSO, BSC Research



In 9M2019, export turnover was estimated at USD 194.30 billion, up 8.2% YoY, of which the domestic economic sector gained USD 59.57 billion, up 16.4% yoy; FDI sector (including crude oil) reached 134.73 billion USD, up 5% yoy. From the beginning of the year to September 15, the phone and spare part continued to maintain the leading position in export with 35.89 billion USD, up 4.7% YoY. Textile and garment still ranked second with 23.68 billion USD and increased by 15.9% YoY. Electronics and computers ranked right after gaining 9.4% YoY and reaching 23.07 billion USD.

Regarding the export commodity market in the first 6 months of this year, the United States is Vietnam's largest export market with a turnover of 44.9 billion USD (+ 28% YoY). Next is the EU with 31.1 billion USD (-0.7% YoY); China reached 27.8 billion USD (-3.8% YoY).

Table 2  
Top 10 export goods

No	Exported Good	Turnover (Bil USD)	%YoY
1	Mobile phone	35.89	4.7%
2	Electronics	23.68	15.9%
3	Textile	23.07	9.4%
4	Shoes	12.54	12.7%
5	Other machines	12.10	7.3%
6	Woods	6.98	16.5%
7	Vehicles	6.00	7.0%
8	Aquaculture	5.81	-2.0%
9	Steel	2.98	-4.8%
10	Fibers and yarns	2.89	2.5%

Source: GSO, BSC Research

Table 3  
Top 10 imported goods

No	Imported Goods	Turnover (Bil USD)	%YoY
1	Electronics	35.90	21.2%
2	Machine	25.36	12.4%
3	Fabric	9.73	-4.5%
4	Mobile phone	9.19	3.1%
5	Steel	6.81	-4.5%
6	Plastic	6.33	1.1%
7	Other metals	4.49	-16.9%
8	Plastic Products	4.47	9.3%
9	Textile Materials	4.14	3.0%
10	Gasoline	3.97	-33.2%

Source: GSO, BSC Research

In 9M2019, import turnover was estimated at USD 188.42 billion, up 8.9% YoY, of which the domestic economic sector gained USD 78.97 billion, up 14% YoY; foreign invested sector reached 109.45 billion USD, up 5.5% YoY. From the beginning of the year to September 15, computer electronics accounted for the largest proportion of 35.90 billion dong (+ 21.2% YoY). Machinery and equipment ranked second when reaching 25.36 billion USD (+ 12.4%). Fabrics ranked third with 9.73 billion USD and decreased -4.5% YoY.

Regarding import market in the first 9 months, China is still the largest import market of Vietnam with a turnover of 55.5 billion USD (+ 17.3% YoY). Followed by South Korea with 35.4 billion USD, up 1% YoY; ASEAN reached 24.1 billion USD, up 3.8% YoY.

### Forex market

- **USD / VND exchange rate maintained a sideways trend from the beginning of the year to the end of the second quarter, with a slight decrease in the third quarter when the trade surplus increased sharply.**
- **The State Bank continues to raise the central exchange rate when the US-China trade negotiations have not yet finished. This policy is still alignment line with the SBV's estimate of raising the exchange rate to 2% since early 2019.**

**The central exchange rate in September fluctuated from 23,130– 23,160 USD/VND, increasing from the range of 23,079 – 23,133 USD/VND in August. The average monthly rate is 23,140 USD/VND. On September 27, the exchange rate is trading at 23,066, up + 1.5% YTD and + 2.0% YoY.**

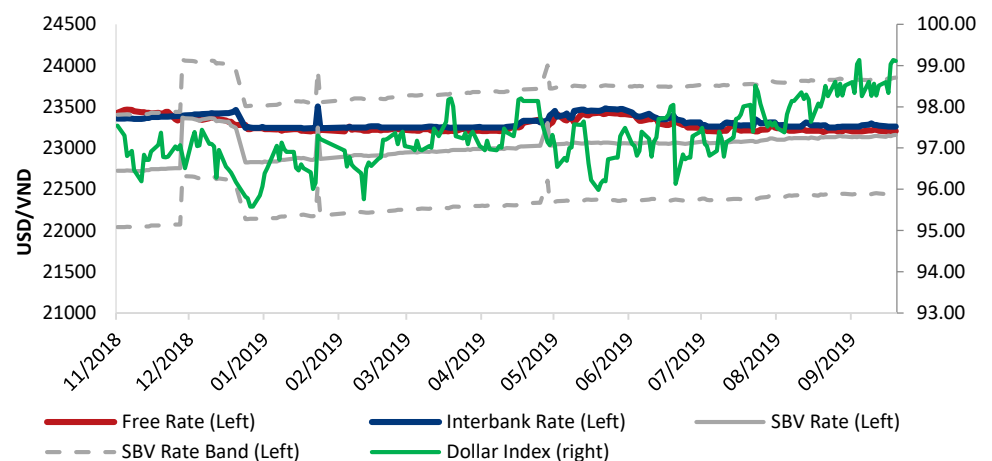
**The interbank exchange rate in September fluctuated between 23,250– 23,300 USD/VND, down from the range of 23,260– 23,330 USD/VND in August. The average monthly rate is 23,266 USD/VND. On September 27, the exchange rate is trading at VND 23,380, up + 0.6% YTD and -0.4% YoY.**

**The free exchange rate in September fluctuated between 23,195 – 23,225 USD/VND, lower than the range of 23,195 – 23,270 USD/VND in August. The average free exchange rate in the month is 23,206 USD/VND. On September 27, the exchange rate is trading at 23,425, down -0.3% YTD and -1.0% YoY.**

**The Dollar Index price at 27/9/2019 increased by 0.9% compared to the end of August, and increased by 4.4% compared to the same period last year. In September, the index fluctuated around 98.26-99.13 with the average of 98.6. Currently, this index is trading at 99.11.**

Chart 7

Exchange rate movements



Source: Bloomberg, BSC Research

Free exchange rate and interbank exchange rate are maintaining a sideways trend from the beginning of the year to the end of the second quarter. In the third quarter, these rates had a slight adjustment when the trade surplus returned to this quarter. However, the Dollar Index has risen sharply again in the

world when the US-China trade negotiations have come to a standstill. The signs of agreement revolved around key issues such as technology transfer, expanding foreign investment restrictions on the Chinese market. President Trump continued to threaten and prepare tariffs in October to put pressure on China to negotiate. This incident is raising concerns about global economic prospects as trade war instability will further weaken developed economies across the globe. This has led investors to look for safe-haven assets - the US dollar, as the US economy remains the best developed global economy.

## Bank - Interest rate

- **Credit growth as of September 20, 2019 reached 8.86% (2018 was 9.15%).**
- **Deposit and lending rates are relatively stable.**
- **Interbank interest rates for both short and medium terms decreased in September, while long term rates continued to move sideways.**

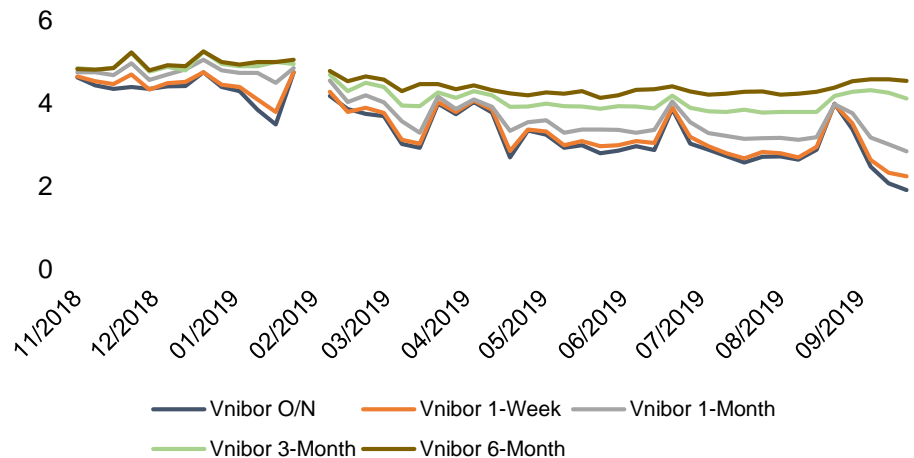
As of September 20, 2019, the total means of payment increased by 8.44% compared to the end of 2018 (the same period in 2018 increased by 8.74%); capital mobilization of credit institutions increased by 6.09% (the same period in 2018 increased by 7.76%); Credit growth of the economy reached 8.4% (the same period in 2018 increased by 9.52%).

Currently, Vietnam dong deposit interest rates are popular at the following levels:

- 0.5% -1% / year for demand deposits and terms with less than 1 month;
- 4.5% -5.5% per annum for term deposits from 1 month to less than 6 months;
- 5.5% -6.8% per annum for term deposits from 6 months to less than 12 months;
- Over 12 month term at 6.6% -7.5% / year.

**Deposit rates and lending rates of credit institutions in general were relatively stable**, deposit rates in some banks increased slightly, mainly in the medium and long term to ensure the balance of terms and capital adequacy limits in banking operations. VND lending interest rate is popular around 6% -9%/year for short term and 9% -11%/year for medium and long term. The credit structure continues to focus on the production and business sectors, especially the priority areas; credit for risky areas is strictly controlled, ensuring safety for banking activities.

Chart 8  
**Interbank interest rates**



Source: Bloomberg, BSC Research

Currently, the interest rates at all tenors for short and medium terms have dropped sharply in September. The interest rates for the overnight, 1 week, 1 month, 3 month and 6 month terms are trading at 1.92%, 2.25%, 2.85%, 4.12%. Only long-term interest rates remain flat

In September, the SBV net injected VND 12,145 billion in the first week, net withdrew VND 988 billion in the second week, net withdrew VND 68,997 billion in the third week and there was no net pumping / suction activity in the last week. The system liquidity remained stable, with capital mobilizing interest rates declining mainly thanks to Decision 1870 - cutting refinancing rates which reduced floor rates in the interbank market.

From the beginning of the year, interbank interest rates at all terms were sharply increased at the time of the Lunar New Year when the demand for payment and payment in the system increased, then was reduced. In the second quarter, interest rates continued to cool down in April and May after a recovery in March. Interest rates rose sharply again at the end of June when the State Bank net withdrew strongly from the banking system. In the third quarter, signs of interest rate cuts by central banks around the world began to have an impact on the interest rates in Vietnam. Starting with a series of large commercial banks such as VCB, BID, ACB,... lowering the interest rates on August 1<sup>st</sup>. Next is the Decision 1870 issued on 12/09 to reduce 4 refinancing rates by 0.25% but still keep the base rate at 6.25%. This decision caused interbank interest rates to decline sharply in September. This trend of cutting interest rates may be a sign of an upcoming easing cycle of Vietnam economy in the context of a difficult global economy.

## Macro Forecast for 4<sup>th</sup> Quarter of 2019

**On an international scale, macroeconomic in the Q4.2019 of Vietnam may be affected by some of the following impacts:**

**1. Trade war.** On Oct. 10 in Washington DC, senior Chinese and U.S. negotiators are expected to meet to determine the possibility of a trade deal with the goal of avoiding the use of strong tariffs. If the negotiations do not proceed in a positive way, the United States will raise tariffs from 25% to 30% on USD 250 billion of goods from China starting October 15. In recent days, except for the issue of sovereignty intervention, China's senior officials have been quite peaceable, constantly reiterated their views on resolving disputes in a calm and reasonable manner, and promised to continue buying more goods from the United States. In contrast, the United States has taken a tougher stance with more drastic actions such as considering delisting of Chinese corporation. The move is seen as part of an effort to limit cash flow to investment in China other than just to increase US negotiating advantage. Despite facing the negative consequences of prolonged tensions, China suddenly had a strong increase of PMI within nineteen months, from 50.4 to 51.4. Such positive increase is due to the rebound of domestic demand. Investment sentiment remains cautious. Export orders continued to fall for the fifth consecutive months. Manufacturing enterprises' profits fell 2.0% in August, after a positive increase of 2.6% in July. Concerns about recession continued.

**2. ECB monetary policy meeting (October 24).** The European Central Bank cut its operating rate by 0.10%, down to -0.50%, and restarted the purchase of bonds worth 20 billion EURO/month. President Mario Draghi also pledged to maintain purchasing until the region's inflation rose to the target below 2%. The EU manufacturing PMI index continued to fall below the growth threshold for the eighth consecutive month, plummeting to 45.6 in September, from 47 in August. In addition, the German manufacturing PMI continued to lie below the growth threshold for the ninth consecutive month, plummeting to 41.4 in September, from 43.5 in August. German inflation fell to 1.2% in September, from a low of 1.4% in August. Confronting with negative development in Germany, the drastic movement of ECB's is consistent with the increasingly negative economic situation. However, such policy has caused a deep divide among ECB leaders. Notably, the resignation of Sabine Lautenschlaeger - member of Germany. Therefore, the last interest rate cut may be the last in 2019. If the UK leaves the alliance without agreement, the ECB may continue to lower interest rates.

**3. FED monetary policy meeting (October 29-30).** The US Federal Reserve continues to cut rates by 0.25% at the latest meeting. However, the views of policy makers are strongly divided. 7 people agreed on the same interest rate cut this year. 5 people agree on keeping current interest rates. 5 people agree with the increase in operating interest rates. Macro indicators show that the economy is still developing positively, although consumer spending - accounting for more

than two-thirds of economic activity - increased slowly, stayed at 0.1% in August, and annual investment of production is expected to decrease by 1.0% from GDP in Quarter II. Trade tensions negatively affect spending when tariffs are imposed on consumer goods, and negative effects on investment when the lack of policy uncertainty make the psychology cautious. New orders for durable goods increased slightly by 0.2% in August, after a sharp increase of 2% in July. In contrast, other macro indicators were positive. US manufacturing PMI index rebounded, rising to 51.0 in September, after falling to a historic low of 50.3 in August. Personal income increased by 0.4% in August, after rising by 0.1% in July. Wages rose 0.6% in August. The positive signal reflects the unemployment rate at the lowest level in many years - from the 1960s. Inflation calculated based on individual consumer price index - excluding food and energy prices - increased by 0.1% in August, after rising by 0.2% in July, bringing the annual increase to 1.8%, close to the target of 2%. As such, the Fed is likely to keep current rates for the rest of 2019.

**4. *Brexit (October 31):*** The executive order with the content of suspending the British parliament from 9/19 to 14/10 was removed by the British Supreme Court. A law requiring the prime minister to negotiate to postpone the Brexit process through October 31, was also enacted by the British parliament. Thus, a subsequent extension of the date of leaving the union is entirely possible, and is the third extension since the original deadline in March. The coalition leaders also meet on 17- 18 to discuss the final time of the extension. This time is highly likely in mid-2020 - when coalition leaders are forced to finalize their budgets by the end of 2020. However, negotiations are expected to face many challenges. The core issue of the negotiations is still that the border between the two regions of Ireland will hardly be compromised by the UK or the EU. UK demanded that any agreement should remove this border clause - including keeping the country in a customs union to avoid restoring tariff barriers between the two Irish regions and to avoid violating Good Friday. No deal Brexit affected negatively on economic groups in UK. For example, if the financial sector wants to continue doing business directly with Europe, it must satisfy both financial system - interpretation of policy executives to determine the similarities between the two institutions that govern financial rules in order to avoid unfair competition.

**For the domestic policies, the notable issues in Q4.2019 are:**

**1. *The 8<sup>th</sup> National Assembly from October 20 to November 21.*** This convention will be an important meeting around the Government Investment Project Law in the form of public-private partnership; The Draft Law and supplements a number of articles in the Investment Law and the Enterprise Law. In addition, the government will issue reports on the results of the implementation of the Socio-Economic Development Plan 2019 and the Socio-Economic Development Plan 2020; results of implementation of state budget estimates in 2019, state budget estimates in 2020 together with the implementation process of Long Thanh International Airport project under Resolution No. 94/2015 / QH13 of the National Assembly ; Report of the

Government on the implementation of Resolution No. 52/2017 / NQ14 on investment policy of a project to build a number of expressway sections on the North - South East route in the period of 2017-2020. The objectives of the 2020 macro criteria and the disbursement of public investment projects worth trillions of VND billion will partly reflect Vietnam's macroeconomic prospects in 2020.

**2. Commercial banks will stop lending foreign currencies to a demand group according to regulations on September 30.** This is the roadmap set out in Circular No. 42/2018 / TT-NHNN amending and supplementing a number of articles of Circular No. 24/2015 / TT-NHNN, provisions on lending in foreign currencies of credit institutions. for resident borrowers, which the State Bank issued at the end of 2018. Previously, from April 1, 2019, banks also stopped short-term foreign currency loans to pay to the country. in addition to the import of goods and services in order to carry out the plan of goods production and trading to meet the domestic demand. Instead, businesses that need short-term foreign currencies must switch from borrowing to buying foreign currencies in the market or borrowing in VND. The aforementioned regulation is on the roadmap to control foreign currency loans in the direction of narrowing loan demands, gradually shifting capital mobilization and foreign currency lending relations to foreign currency trading and buying relations. It also aims to gradually reduce the ratio of foreign currency credit to total outstanding loans and proceed to stop lending in foreign currencies so that by the year 2030, it will basically overcome the dollarization situation in the economy.

**3. 7 cases where credit institutions are subject to special control.** On August 2, 2019, the State Bank of Vietnam issued Circular 11/2019 / TT-NHNN providing special control for credit institutions. The Circular takes effect from October 1, 2019, whereby credit institutions (other than people's credit funds) in one of the following cases will be put under special control:

- Risk of insolvency: Shortfall of highly liquid assets at 20% or more at the time of calculating solvency ratio resulting in failure to maintain the solvency ratio in 03 consecutive months.
- Inability to pay: Inability to pay off debt obligations within 1 month from the date of maturity and with the ratio between the total of bad debts, potential debts becoming bad debts, bad debts sold yet to be able to handle the total amount of sold debts and non-settled bad debts at 10% or more at the time after one month from the date the debt obligation reaches maturity.
- There is a risk of insolvency: Capital adequacy ratio is lower than 4% in 06 consecutive months and there is a ratio between total bad debts, potential structural debts that become bad debts and bad debts sold yet. to be able to handle the total unsold bad debts and sold bad debts at 10% or more at the time after 6 consecutive months and the level of capital adequacy ratio of a credit institution is lower than 4%.
- Insolvency: Inability to pay debt obligations within 03 months from the date the debt obligation is due.



- Accumulated losses of the credit institution are greater than 50% of the value of the charter capital and reserve funds recorded in the latest audited financial statements.
- Failure to maintain the capital adequacy ratio for 12 consecutive months or the capital adequacy ratio of less than 4% for 6 consecutive months.
- Weak ratings for 02 consecutive years according to the State Bank's regulations.

**4. The Ministry of Finance has just issued Circular No. 58/2019 / TT-BTC regulating the management and use of accounts of the State Treasury (ST) opened at the State Bank of Vietnam (SBV) and banks.** commercial goods (commercial banks). The circular takes effect from November 1, 2019. According to the new regulations of the Ministry of Finance, 4 types of demand deposit accounts of the State Treasury open at the State Bank and commercial banks, including: general payment accounts, collection accounts, payment accounts and accounts. collection specialist. The circular clearly guides on the content of account use. In particular, the central payment account of the Central State Treasury opened at the State Bank's Transaction Office is used to ensure the general solvency of the State Treasury units through the inter-bank electronic payment channel.

Table 4  
Monthly macro indicators

Indicator/Month	2019M02	2019M03	2019M04	2019M05	2019M06	2019M07	2019M08	2019M09
PMI	51.2	51.9	52.5	52	52.5	52.6	51.4	50.5
IIP yoy (%)	10.3	9.1	9.3	10	9.6	9.7	10.5	9.7
IIP ytd yoy (%)	9.2	9.2	9.2	9.4	9.1	9.4	9.5	9.5
Retail Sales yoy (%)	11.5	12.1	12.0	11.4	11.5	12.4	12.4	12.7
Retail Sales ytd yoy (%)	12.2	12	11.9	11.6	11.5	11.6	11.5	11.6
CPI mom (%)	0.8	-0.21	0.3	0.59	-0.09	0.18	0.28	0.32
CPI yoy (%)	2.64	2.7	2.93	2.88	2.13	2.44	2.26	1.98
Registered FDI (Bil. USD)	3.30	5.12	7.45	9.09	10.37	11.7	13.2	15.76
Disbursed FDI (Bil. USD)	2.58	4.12	5.70	7.30	9.10	10.6	12.0	14.2
Export (Bil. USD)	13.9	22.4	20.4	21.5	21.4	22.6	25.9	23.0
Import (Bil. USD)	14.7	21.8	20.9	22.8	19.5	22.4	22.5	22.5
Trade Balance (Bil. USD)	-0.8	0.6	-0.5	-1.3	1.9	0.2	3.4	0.5
Exchange rate (USD/VND)	23,252	23,245	23,261	23,420	23,404	23,292	23,284	23,266
Credit growth (%)	-	2.28	-	-	6.09	-	-	8.4

Source: BSC Research

Table 5  
Quarterly macro indicators

Indicators/Quarter	Q3/2017	Q4/2017	Q1/2018	Q2/2018	Q3/2018	Q4/2018	Q1/2019	Q2/2019	Q3/2019
GDP yoy (%)	7.46	7.65	7.38	6.73	6.88	7.31	6.79	6.71	7.31
IIP yoy (%)	9.7	14.4	11.6	12.3	10.7	9.4	9.2	9.2	10.3
Retail Sales yoy (%)	11.6	10.9	9.9	10.7	12.5	12.9	12	11.1	12.7
CPI yoy (%)	2.54	2.73	2.66	3.23	3.57	3.44	2.63	2.65	2.23
Registered FDI (Bil. USD)	4.98	5.00	3.91	12.3	3.4	5.68	5.12	5.18	5.46
Disbursed FDI (Bil. USD)	4.1	8.4	3.88	4.5	4.9	5.18	4.12	4.98	5.1
Export (Bil. USD)	56.4	58.8	55.8	58.2	64.3	63.9	58.7	63.9	71.8
Import (Bil. USD)	54.2	56.9	52.9	57.0	62.0	62.9	57.0	65.3	67.8
Balance of Trade (Bil. USD)	2.2	1.9	2.8	1.2	2.3	1.0	1.7	-1.4	4.0
Exchange rate (USD/VND)	22,743	23,720	22,820	22,967	23,260	23,351	23,245	23,404	23,279
Credit growth (%)	7.54	18	3.5	6.35	9.52	14	2.28	6.09	8.4

Source: BSC Research

## Stock market September 2019

### Market outlook

**In September, the index's recovery after recording a slight decrease in the previous month mainly came from positive macro factors domestically and globally.** Investor sentiment was supported when the US-China trade war cooled off with the decision to delay the tax and exempt tax from both sides. In addition, due to the trend of lowering interest rates of major central banks in the world such as the Fed or ECB, the Decision 1870 of the State Bank of Vietnam on reducing interest rates also brought positive expectations about further interest rate cuts. productivity. The positive growth of GDP in the third quarter also contributed to the consolidation of the VN-Index. As of September 30, 2019, the VN-Index officially increased by 12.5 points compared to the end of last month (+ 1.27% MoM) and HNX-Index increased by 2.73 points (+ 2.67% MoM). In the third quarter, the VN-Index increased by 46.62 points (+ 4.91% QoQ), the HNX-Index increased 1.54 points (+ 1.49% QoQ). Since the beginning of 2019, the VN-Index has increased by 104.02 points (+ 11.65% ytd) and the HNX-Index has increased by 0.82 points (+ 0.79% ytd).

**Compared to August, the synchronous movements among stock groups by capitalization were not maintained. Instead, the cash flow only moved between VN30 and LargeCap stocks.** In September, there were 146 gainers, 219 losers and 15 unchanged stocks. 5 stocks supporting VN-Index including VCB increased by 5.66% (contributed 4.8 points), VNM increased by 7.20% (contributed 4.5 points), GAS increased by 5.67% (contributed 3.2 points), TCB increased by 8.60% (contributed 1.9 points), VHM increased by 1.71% (contributed 1.5 points). The stocks that made VN-Index drop the most include VIC -3.0% (-3.6 points), SAB -2.89% (-1.5 points decrease), HVN -7.31% (-1.1 points decrease), VRE decrease. -3.92% (-0.9 points reduction) and BHN decrease -13.68% (-0.8 points reduction).

**In Q3, the average liquidity on the 2 exchanges increased by +8.5% compared to Q2 and maintained at 4,463 billion/session, equivalent to 191.5 million USD/session.** Average liquidity in the first 9 months dropped sharply compared to 2018, cash flow focused on large-cap stocks and VN30 and medium-cap stocks. In 9M2019, there were 202 gainers, 182 losers and 1 unchanged stock on the HSX, 5 VN-Index supporting stocks including VCB increased by 53.46% (contributed 31.81 points), VHM increased by 23.30% (contributed 17.28 points), VIC increased by 16.99% (contributed 16.96 points), GAS increased by 28.22% (contributed 14.05 points), MWG increased by 48.47% (contributed 5.41 points). Stocks that caused the VN-Index to decline the most included: BVH decreased -18.96% (-3.74 points down), TCB declined -10.36% (-2.91 points down), HVN declined -15.15% (-

2.45 points decrease), POW decreased -17.31% (decrease -1.89 points) and ROS decreased -28.16% (decrease -1.77 points).

Table 6

Fluctuation in the last 6 months on HOSE

Month	Index	Volume (Bil shares)	Capitalization (VND Trillion)
9	996.56	2.41	3,375.62
8	984.06	2.94	3,327.02
7	991.66	2.90	3,347.75
6	949.94	2.28	3,199.25
5	959.88	2.68	3,229.07
4	979.64	2.40	3,207.75

Source: HSX, Bloomberg, BSC Research

Table 7

Fluctuation in the last 6 months on HNX

Month	Index	Volume (Bil shares)	Capitalization (VND Trillion)
9	105.05	0.46	188.21
8	102.32	0.58	185.36
7	104.43	0.59	185.11
6	103.51	0.50	183.08
5	104.35	0.71	184.52
4	107.46	0.57	203.06

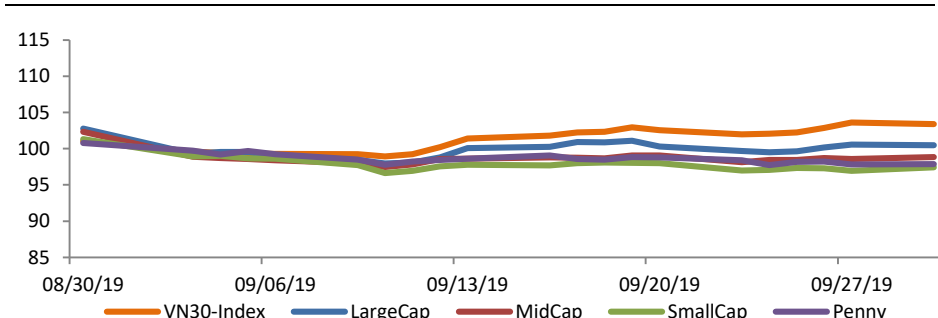
Source: HNX, Bloomberg, BSC Research

## Stock groups performances

**Stock groups by capitalization showed differentiation. In the first two weeks of September, most stock groups were under corrective pressure when receiving negative global macro information.** However, signs of divergence appeared in the following weeks when the VN30 and LargeCap groups recorded positive performance of 3.4% and 0.5% respectively while the performance of MidCap, SmallCap and Pennies decreased by -1.2%, -2.5% and -2.1%. It can be seen that the rise of VN-Index in September mainly came from the cash flow towards stocks of VN30 and LargeCap group. Meanwhile, smaller capitalization groups continued to be under correction.

Chart 9

Stock sector developments



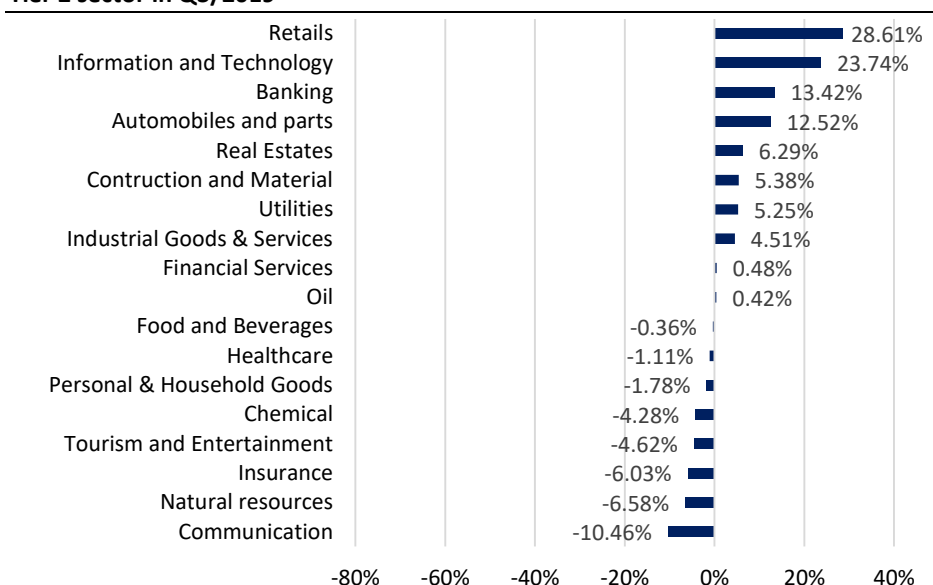
Source: Bloomberg, BSC Research

In the third quarter, the market saw 10/18 Sectors gaining. In which, Retail sector increased the most with 28.61%, thanks to the contribution of MWG and DGW stocks with the increase of 7.87% and 6.20% respectively,

Information Technology sector increased by 23.74% with FPT (+8.66% ), Banking increased by 13.42% with VCB (+5.66%).

Đồ thị 10

Tier 2 sector in Q3/2019



Source: Fiinpro, BSC Research

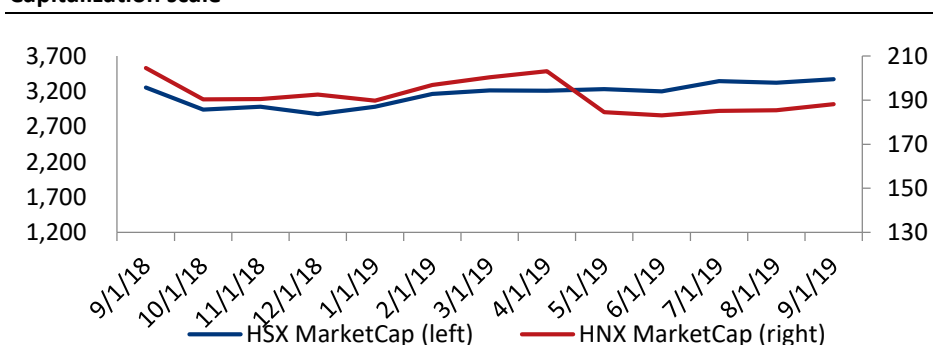
## Capitalization scale

Market capitalization on both exchanges reached VND 3,563 trillion, equivalent to USD 152.9 billion, up 1.57% MoM, 5.4% QoQ and 16.2% Ytd. Upcom slightly decreased to VND 985.6 trillion at the end of September. As of September, there were no first listed shares on HOSE, 69.1 million additional listed shares and 125.9 million delisted shares; 1 million additional listing ETFs, 439.3 million ETF delisting; There were no first listed bonds and 15 million unlisted bonds.

In terms of listing scale on HOSE on September 30, there are 83.13 billion shares listed for VND 831.3 trillion (95.28% market value), 361.4 million bonds equivalent to VND 36.1 trillion (4.14% market value), 440 million ETF certificates equivalent to VND 4.4 trillion (0.50% of the market).

Chart 11

Capitalization scale



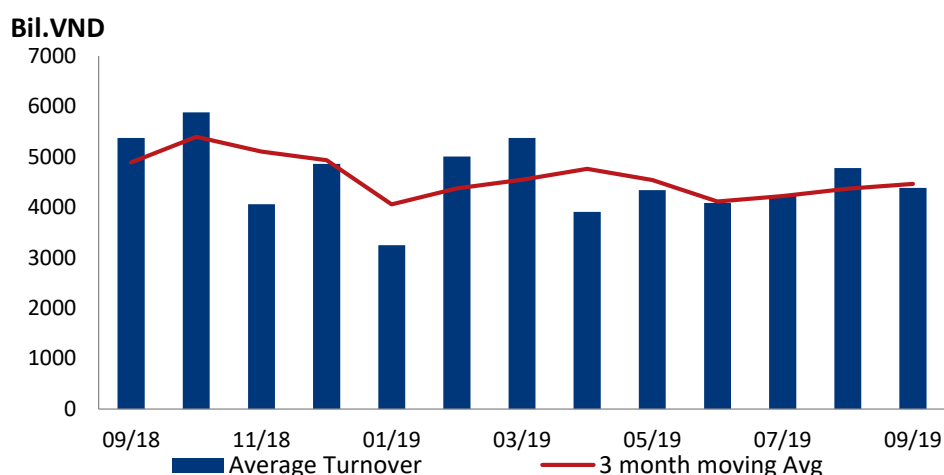
Source: Bloomberg, BSC Research

## Average market liquidity

Average liquidity on both exchanges decreased by -8.3% compared to August 2019, and maintained at VND 4,381 billion/session and equivalent to nearly USD 188 million/session. The improvement of VN-Index's score still mainly came from the cash flow towards large-cap blue-chips and did not spread to the whole market. In addition, investors still keep on waiting when Vietnam is still on the FTSE's watchlist.

In Q3, the average liquidity on the 2 exchanges increased + 8.5% compared to Q2 and maintained at VND 4,463 billion/session and equivalent to 191.5 million USD/session. In 9M2019, the average liquidity on the both exchanges reached VND 4,421 billion/session, down -35% compared to the average in 2018.

Chart 12  
Average market liquidity



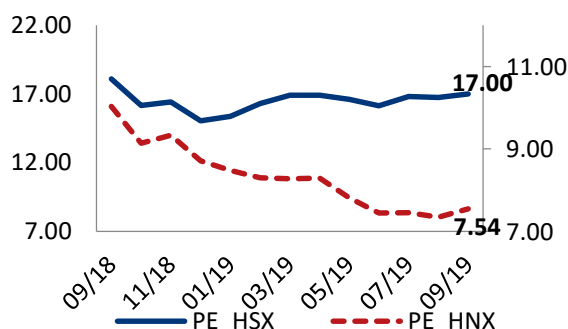
Source: Bloomberg, BSC Research

## Price level of Vietnam stock market

P/E of VN-Index increased to 17.00, equivalent to +1.53% MoM, +5.37% QoQ, +13.02% Ytd and HNX-Index increased to 7.54, equivalent to +2.75% MoM, +1.33% QoQ and -13.38% Ytd. The P/E of the HSX increased significantly, recording the highest level in the first 9 months of the year as investors continued to expect profit growth to be maintained in the fourth quarter. Compared to August, the P/E of the VN-Index is at 10th and the HNX-Index is at 20 in Asia.

Chart 13

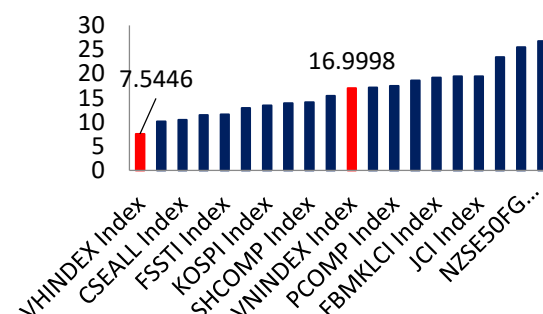
P/E indicator or performance on both Exchanges



Source: Bloomberg, BSC Research

Chart 14

Vietnam's P/E indicator compared to other countries in the region



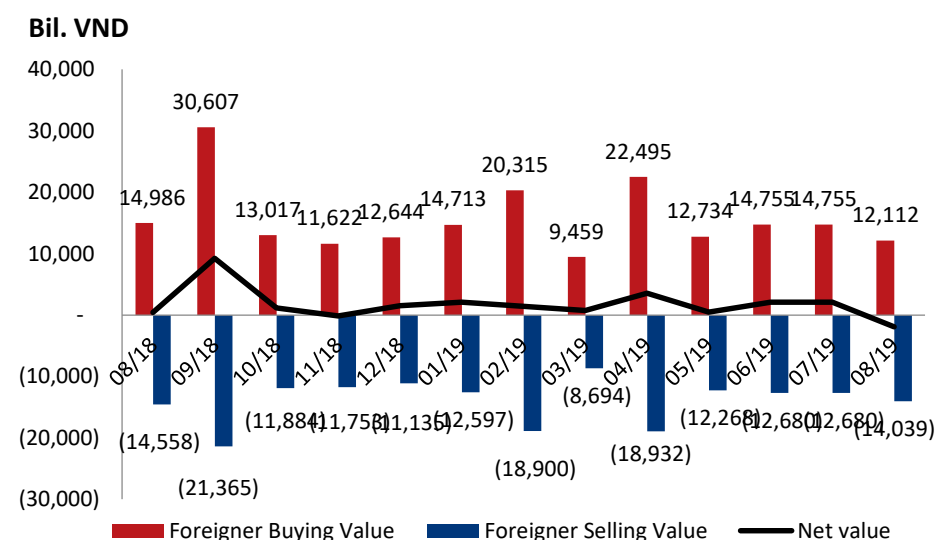
Source: Bloomberg, BSC Research

## Foreign trading

**In September, foreign investors continued to net sell strongly on both HSX and HNX.** Upcom in September went against the general trend when receiving foreign capital with a total net buying value of VND 271.9 billion, they focused on buying VND 157.8 billion of QNS and VND 48.1 billion of ACV while net selling of VND -33.1 billion BSR.

Chart 15

Foreigner transaction performances on both Exchanges



Source: BSC Research

In September, foreign investors net sold VND 378.9 billion on the HSX with 176 net sold stocks and 145 net-bought stocks, net sold VND 28.4 billion on the HNX with 81 stocks sold and 94 stocks buy. On the HSX, they bought a lot of VJC (VND 914.1 billion), AST (VND 294.9 billion), HPG (VND 132.5 billion), VNM (VND 112.6 billion), BID (VND 83.6 billion) and sold VRE ( VND -387.4 billion), NVT (VND -217.2 billion), VIC (VND -212.9 billion). On the HNX, this



group focused on buying PVI (VND 87.7 billion), SHB (VND 26.8 billion) and selling NET (VND -59.3 billion), PVS (VND -52.5 billion).

Table 8  
**Top 10 foreign traded stocks on HSX in 9/2019**

Ticker	Net value (VND Bil)	Ticker	Net value (VND Bil)
VJC	914.10	VRE	(387.43)
AST	294.87	NVT	(217.20)
HPG	132.55	VIC	(212.90)
VNM	112.61	VHM	(178.78)
BID	83.57	VCB	(177.31)
PLX	62.75	NT2	(138.01)
VCI	57.39	E1VFN30	(126.55)
PC1	43.78	BVH	(118.60)
YEG	43.78	SSI	(98.21)
GEX	40.50	HDB	(95.67)

Source: BSC Research

Table 9  
**Top 10 foreign traded stocks on HNX in 9/2019**

Ticker	Net value (VND Bil)	Ticker	Net value (VND Bil)
PVI	87.68	NET	(59.31)
SHB	26.89	PVS	(52.47)
HUT	4.93	CEO	(22.65)
NTP	2.49	VCS	(13.28)
BAX	2.38	NDN	(4.17)
SCI	2.01	DTD	(3.88)
TIG	1.99	PVG	(3.32)
SLS	1.69	SHS	(3.30)
IDV	1.56	BVS	(1.54)
DGC	1.45	PPE	(0.77)

Source: BSC Research

In the 3rd quarter, foreign investors were net buyers on the HSX with VND 162.5 billion with 197 stocks sold and 166 stocks bought, net selling of VND -413.3 billion on the HNX with 133 stocks sold and 123 stocks bought. On the HSX, foreign investors bought PLX (VND 1,466.5 billion), VIC (VND 936.4 billion), AST (VND 321.9 billion), BID (VND 245.5 billion), NVL (VND 222.4 billion) and sold HPG (VND -813.9 billion), E1VFN30 (VND -521.7 billion), VRE (VND -420.6 billion). On HNX, this group focused on buying PVI (VND 101.8 billion), SHB (VND 55.1 billion) and selling PVS (VND -187.9 billion), CEO (VND -101.9 billion). Upcom shared the same pattern of net buying value of VND 610.7 billion, focusing on buying VND 385.7 billion of QNS, VND 75.7 billion of VTP and VND 69.5 billion of VEA while selling VND -38.5 billion BSR, VND -16.4. billion CTR and VND -15.9 billion dong C21.

Table 10  
**Top 10 foreign traded stocks on HSX in Q3/2019**

Ticker	Net value (VND Bil)	Ticker	Net value (VND Bil)
PLX	1,466.47	HPG	(813.89)
VIC	936.38	E1VFN30	(521.70)
AST	321.90	VRE	(420.59)
BID	245.47	NVT	(240.80)
NVL	222.37	STB	(216.53)
CTD	219.06	NT2	(192.83)
CMG	212.39	SSI	(191.15)
KBC	206.21	POW	(181.14)
BMP	136.65	MSN	(111.32)
GEX	116.18	CII	(106.70)

Source: BSC Research

Table 11  
**Top 10 foreign traded stocks on HNX in Q3/2019**

Ticker	Net value (VND Bil)	Ticker	Net value (VND Bil)
PVI	101.79	PVS	(187.97)
SHB	55.07	CEO	(101.83)
DGC	15.17	ACB	(83.86)
HUT	8.73	NET	(57.79)
TIG	5.66	VCS	(57.57)
AMV	4.60	TNG	(39.96)
HDA	4.44	SHS	(33.36)
IDV	4.37	NDN	(16.28)
BAX	3.91	VGS	(8.54)
SLS	3.40	INN	(8.22)

Source: BSC Research

## Market outlook of QIV.2019

Signals of slowing down on the growth rate and concern on the effect of trade war have partly affected policies of central banks in many countries. A number of countries have actively adjusted interest rate down to support their economies from the end of 2018 and early 2019. However, factor that led to reduction of interest rate at global scale was the decision to lower interest rate by 0.25% by FED at its policy meeting in late July and September.

Considering other major economies, ECB also lowered the interest rate from 0.1% to -0.5%, expanding quantitative easing package; PBOC lowered required reserve ratio by 0.5% to release about 126 billion USD while BOJ maintained loose policy, kept interest rate at 0.1% and considered further monetary easing.

The markets did respond clearly to central banks interest rate adjustments. The markets struggled with negative outlook on global economy, causing by US-China trade war, impeachment of President of the United States, Brexit and conflicts in the Middle East. Beyond that, the US-China trade war has received the most attention. Pattern of negotiation - deadlock – tariff increase – retaliation, was repeated times and times again, without breakthrough. Another opportunity for negotiations is on October 10 to 11, though it still raises doubt for even the most optimistic investors.

Decreasing interest rates mean that assets' price will tend to rise. Movements of world financial markets in the third quarter are forecasted to gradually improve. However, the fact that central banks continue to inflate the asset bubble while the internal risk issues have not been completely solved, given increasingly exhausted policy space, could cause a crisis in the future. Along with US-China trade war, Brexit and geopolitical tensions will also make markets fluctuate strongly. Taking advantage of opportunities in the short term but also cautious in the near future may be the concern of many investors.

In the third quarter, markets fluctuated sharply in July and August and stabilized in September.

Regarding foreign exchange market, USD Index increased by 3.4% despite FED raised interest rate twice in the quarter. The US economy is not as bad as expected while the yuan has depreciated sharply and the central banks of other countries have cut their interest rates, causing the USD to rise. The USD Index stabilized and only increased by 0.5% in September. The currencies with strong depreciation against USD included CHF (Switzerland) -2.2%, CNY (China) - 3.5%, EUR (Eurozone) -4.4%, BRL (Brazil) -8.9%, ARS (Argentina) -35.1%. A small number of foreign currencies increased against the USD, including VND (Vietnam) + 0.5%, THB (Thailand) + 0.5% and TRY (Turkey) + 2.5%.

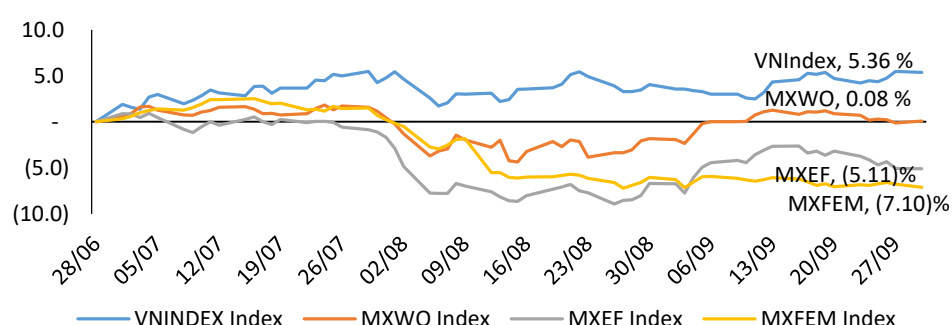
Regarding commodity market, BCOM Index of goods index in the third quarter decreased -2.4%. Contributor to the decrease of the index were crude oil (-8.1%)

and agricultural products such as Wheat -3.4%, Cotton -5.4%, Café -6.6% and Iron Ore -20.1%. Contributor to the increase were precious metals like Gold + 3.7%, Lead + 12.2% and Silver + 12.8%. The commodity index rebounded in September with a 1% increase. The main items contributing to the growth were agricultural products including Soybean + 5.8%, Sugar + 7%, Café + 8.1%, Wheat + 11.1% and Iron Ore + 10.3%.

Regarding the stock market, MSCI for developed market (MXWO) increased by 0.08% and was the only index to gain in the third quarter while MSCI for emerging market (MXEF) and MSCI for marginal market (MXFM) decreased. - 5.1% and -7.1% respectively. In September alone, MXWO led the increase with 1.9% compared to fluctuations of MXEF and MXFM, respectively 1.9% and -1.1%.

Chart 15

### MSCI development, emerging and frontier regions in Q3 2019 (USD)



Source: Bloomberg, BSC Research

In the developed market area, all key markets recorded gains in September, helping the markets grow positively. Japanese and German markets increased by over 4%. The US market has the lowest increase of 1.7%. In the third quarter, the Japanese market increased by 2.7% while the UK market decreased by -0.2%.

Chart 16

### Fluctuations of countries' stock markets in 9 months

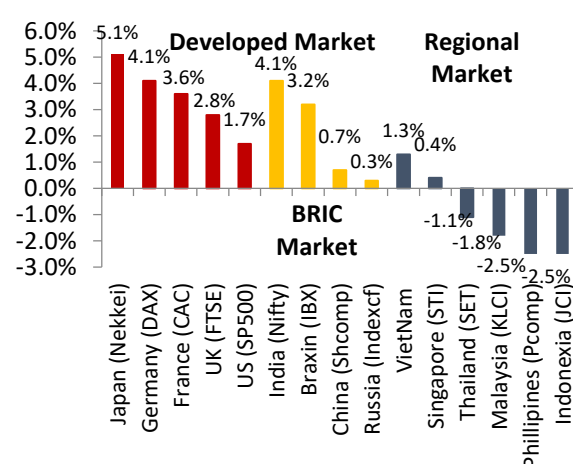


Table 12

### Net buy/sell of foreign investors in 9 months (Mio.USD)

Nations	QIII (mil USD)	9M (mil USD)
India	(3,136)	8,203
Indonesia	(1,190)	3,656
Japan*	(30,361)	(37,454)
Malaysia	(756)	(1,887)
Philippines	(289)	119
Korea	(1,394)	3,133
Sri Lanka	22	(14)
Taiwan	(869)	2,477
Thailand	(1,491)	(173)
Pakistan	17	63
Vietnam	29	361

Source: Bloomberg, BSC Research

In BRIC countries, all markets increased, with India leading the increase with 4.1% in September. As for the third quarter, Brazil market was the only one with 4.3%.

In the regional market, Vietnam and Singapore markets were the only two gaining markets, respectively 1.3% and 0.4% in September. As for the third quarter, the Vietnamese market was the only market to gain with 4.9%.

VN-Index recovered from the short-term bottom in June, gaining over 1,000 points in July but profit-taking pressure and divergence of key stocks pulled the index sideways in the range of 960-1,000 points in August and September. The stock market in the third quarter fluctuated between positive information about the easing of monetary policy on large scale of central banks and negative information about the world economic prospects as well as the weakening of many economies. The US-China trade war expanded in scale and nature, Middle East conflict made the market volatile and unpredictable. The cash flow into the market was weak, movement of stocks that benefited from the trade war, stocks with positive business results, and stocks with information supported formation of market divergence. Despite unpredictable fluctuations, VN-Index still recorded an increase of 4.9% in the third quarter.

By sector in the third quarter, Retail, Information Technology, and Banking led the way with 28.6%, 23.7% and 13.4%, respectively. Positive business results of the leading stocks in the industry helped these industries gain a remarkable increase compared to the market. On the other hand, Insurance, Basic Resources and Media dropped by -6.0%, -6.6% and -10.5%, respectively. Although the market gained, only 10/18 industries gained. This shows that the degree of market divergence occurred strongly in the third quarter.

In the third quarter of 2019, top 5 stocks contributed an increase of 42.2 points, of which VCB (+ 16.5%, contributed 12.7 points), VHM (+ 13.9%, contributed 10.9 points), BID (24.3%, contributed 7.8 points), GAS (+ 11.5%, contributed 6.3 points), and VNM (+ 7.2%, contributed 4.5 points). On the other hand, HVN (-20%, contributed -3.5 points), SAB (-3.6%, contributed -1.9 points), POW (-15.1%, contributed -1.6 points), MSN (-5.4%, contributed -1.6 points), and HPG (-6.6%, contributed -1.3 points) took the market 9.9 points.

In the third quarter, we meet and evaluate the business performance of enterprises such as PNJ, MWG, GVR, FPT, PAC and GMD, DBD, MBB, DRC, VCB, ACB, DIG, LCG, VHC, REE, TPB, VNM, and MSN. We also update our industry outlook report for the third quarter, which had positive assessment for non-life insurance, information technology - telecommunications, textile, industrial real estate, consumer, bank and maintain negative outlook with Sugar; 6M.2019 Income Statement; Report on Decision 1870 of SBV. In addition, 44 quick reports were also updated on BSC iBroker.

Highlights in the fourth quarter of 2019:

***Economic growth exceeded forecast, Vietnam has a solid foundation to fulfill and exceed the growth target of 2019, and has room for policy to cope with future changes in the world.***

Contrary to forecasts of international organizations, Vietnam's GDP growth in the third quarter increased sharply by 7.31%, bringing the 9-month growth rate to the highest in 9 years to reach 6.98%. Industry and construction sector and service sector remained the pillars of growth with 9.3% and 6.9%, respectively, contributing 52.6% and 42.6% for 9-month growth. In particular, processing and manufacturing industry and market service industries are the main growth engines of the economy.

GDP growth regained momentum after slowing down in the second quarter while macro factors are also favorable, supporting the growth potential in 2019. CPI in September increased by 0.32%, average CPI in 9 months increased by 2.5 %. USD price index decreased by 0.49% compared to December 2018 thanks to trade surplus, and FII and FDI inflows. Total turnover increased by 8.2% and trade surplus was about 5.9 billion USD. Credit growth was 8.4%, lower by 0.3% over the same period. The total social investment capital in 9 months increased by 10.3% over the same period. Budget revenue remained stable while budget expenditure was still behind schedule. With positive growth momentum and stable macroeconomic forecast, GDP growth rate will exceed the target of 6.6% - 6.8%.

In the context that world economy tends to grow slowly and the unpredictable risks from the trade war, escalating tensions in the Middle East, the risk of no-deal Brexit, Vietnam is still a bright spot. Stable macro foundation, along with room for policy, is the premise for fulfilling socio-economic goals in 2019 and coping with complex fluctuations from the external environment.

***The State Bank of Vietnam still has the opportunity to lower the basic interest rates and policy rates when it needs to support economic growth or adjust with trend of lowering interest rates of central banks of other countries.***

In September, the State Bank of Vietnam lowered policy rates for the first time since July 2017, accordingly, reducing 0.25% for refinancing rate, discount rate, overnight lending rate in electronic payment, and clearing rate of SBV for banks, and offering interest rate of valuable papers through open market operations, to 6.0%, 4%, 7.0% and 4.5% per year respectively. This adjustment aims to support interest rate stabilization thereby stabilizing macroeconomic. In the context that many central banks reducing interest rates, this is an appropriate step that is also supported by stable macroeconomic fundamentals.

In short term, this interest rate adjustment this time of the State Bank has a strong impact on the interbank market. Interest rates dropped sharply by nearly half compared to the end of August to 2% and 2.4% for overnight and 1-week period. Signs of liquidity tensions were pushed back, the SBV reduced the cash flow by re-issuing 7-day bills after nearly 3 weeks of interruption. This

adjustment of the State Bank has not sent a message to change the current monetary policy, though the possibility of interest rate lowering is likely to continue if other central banks continue to cut interest rates.

This information also positively affected the stock market through 2 channels: (1) creating an effect of increasing the profit of enterprises by about 1% according to our calculations and (2) supporting easy cash flow when liquidity is abundant and interest rates are stable.

***The second quarter net profit of the whole market grew positively, after only 1% in the first quarter. The third quarter business results is forecasted to maintain the current speed, attracting investors in the short term.***

By the end of August, 1,064 enterprises had announced Q2 business results with profit growth of over 10%, bringing the growth of the first 6 months to 5.1% over the same period in 2018. Banking and a number of key real estate companies contributed the most to the growth of the market. This showed a clear divergence of business results among industry groups and growth of profit depended on two groups (1) Finance and (2) Banking. Market ROE is 14.6%, ROA is 2.4%.

According to the business update report of H1.2019 of BSC, 469 enterprises recorded positive growth profit over the same period, accounting for 44.0% of the total number of enterprises announced. Top 5 large-cap enterprises with impressive growth in the first half of 2019 are: VIC (92%); VHM (40%), VCB (41%), MWG (38.8%) and VPB (29%). The whole market had 15/23 sectors with positive growth over the same period. Divergence is likely to continue in the third quarter when many banks announce preliminary business results, maintaining positive growth momentum.

VN-Index PE increased to 17 from 16.45 at the end of Q2. P/E is currently at average level compared to the region but quite high compared to the valuation of MSCI border market. P/E ratio of VN30, gathering the top 30 stocks, is only about 14.1%. This valuation is quite reasonable for investment activities. Many stocks in the VN30 basket have no room, which is an obstacle for foreign investors to participate in the market. While waiting for breakthrough regulations, domestic funds are raising capital for ETFs based on the VN-Diamond Index and VN-Capped Financial Index of Hose, which is effective in attracting foreign capital.

The market is about to enter the third quarter earnings season, which is a support for short-term market trends. However, when capital flow into the market is still quite limited, the market will continue to diverge along with the Q3 business results likely to continue in the last months of the year.

***Missing the opportunity to upgrade the market in 2019, can Vietnam expect any foreign investors' cash flows by the end of 2019.***

Unsurprising with the updated results of the stock market rankings of countries, Vietnam was still on the list of upgrading to 2<sup>nd</sup> tier emerging markets. According to announcement of FTSE Russell in March, Vietnam satisfied 7/9 criteria, 1



criterion of payment rate/rare error had no evaluation information and payment criteria was not achieved. FTSE Russell assessed the cooperation of the Vietnamese market regulator in the past 12 months and will consider possibility of upgrading at the annual review in next September. Therefore, the upgrade opportunity of Vietnam market must wait until 2020 with FTSE and 2021 with MSCI.

Foreign investors owned about 20% of the market capitalization and maintained a net buying of about 360 million USD in the first 9 months. Vietnam is a rare spot that attracts foreign investors. In addition to put-through deal activities, ETFs continued to play an active role in trading in the first nine months. Open-ended funds had not been able to increase their size, and transactions were largely related to portfolio restructuring. Monetary easing of key economies can help cash flow back to emerging markets. Therefore, cash flow would have lag and is not expected to breakthrough in the last 3 months of the year.

However, market can expect activity from domestic ETFs to operate based on two sets of indices, VN-Diamond Index and VN-Capped Financial Index, built by Hose. Stocks in the basket of these two sets of indexes had reach foreign ownership limitation. Establishment of these ETFs partly addressed need of foreign investors' investment for quality stocks but do not have room left for foreign investment. The establishment of these domestic ETFs is expected to attract foreign capital and thereby support the market in the fourth quarter.

***The US and China tension was eased to pave the way for ministerial-level talks on October 10-11. The chance of reaching an agreement though is not clear after many failures.***

China exempted tariff with 16 product lines of the US after Mr. Trump announced postponement of tariff on \$250 billion Chinese goods until October 15, 2019. The US Trade Office (USTR) later announced 437 tariff-exempted items. USTR offers 3 sets of tariff-exempted goods, including: (1) \$200 billion of goods that have been applied tariffs on September 24, period ending August 7, 2020; (2) \$16 billion of goods that have been applied tariffs on August 23, 2018, period ending 20/9/2019, and (3) \$34 billion of goods that have been applied tariffs on July 6, 2018, period ending 20/9/2020.

Temporary retreat is paving the way for ministerial-level talks on October 10-11. In addition to tax exemptions, China also showed goodwill by buying US agricultural products. The recent statements of both sides have proved goodwill and reduced pessimism about the trade war. However, many times, trade negotiations failed, although both sides had positive outlook.

The world market is also quite cautious with the possibility of making progress in the coming negotiations in October. Yet, decreased tension would be good news for the market even if it is temporary.

***Reversing policy, trend of monetary easing continues to support the economy . Asset markets benefit.***



More than 30 central banks have cut interest rates after the Fed signaled possibility of reversing the policy towards easing monetary policy. After the Fed cut interest rates during the policy meeting in July, number of central banks cutting interest rate increased sharply in August, rose to 14 countries and was largest level since the 2008 crisis. 4/5 countries in BRICS cut interest rates from 25 pbs to 50 pbs. China had not cut but adjusted reserve requirement ratio of 50 pbs for banks. 3/4 Central banks of the world's leading economies are adjusting monetary policies including FED, ECB, and PBOC. Only the BOJ has not adjusted yet because it maintains the super loose monetary, but they are considering to ease monetary policy even further under necessary conditions.

The Fed still has two policy meetings in October and December in 2019. Outlook that FED may lower interest rates once again in 2019 is expected by experts despite the low voting rate. Survey data of Bloomberg show that the possibility of lowering interest rates is only 50% in the December meeting with a 0.25% reduction.

FOMC	Decrease by 0.25%	Decrease by 0.5%
30/10/2019	40.8%	0%
11/12/2019	50.5%	21.5%

With interest rate of -0.5%, ECB has not much room to cut interest rates. Therefore, quantitative easing packages are being utilized by ECB. Fed considers to use this tool when it needs to expand asset purchase program and balance sheet.

Interest rates decrease in the short term is good news for asset markets. Abundant cash flow after filling international markets, will shift to seek opportunities in potential markets. This is an opportunity for Vietnam market to regain foreign capital inflows by the end of the fourth quarter and early 2020.

***Brexit and geopolitical conflicts are potential risk factors, increasing volatility for markets.***

Brexit continued to linger as a problem for British politics after a court declared the suspension of parliament for five weeks by Prime Minister Johnson, to be unlawful. Earlier, British Prime Minister pledged to bring Britain out of the EU on October 31, with or without agreement, and had no intention of seeking another extension. The British Prime Minister said he would not resign under pressure from the opposition party and called on the Conservatives to undertake Brexit as planned.

The proposed alternative to the backstop provision, in Ms. May's Brexit deal but was not approved by the parliament is expected to be submitted this week. Mr. Johnson asked to remove this provision to receive support from Congress, but may not be agreed by the EU. This is still an unsolved problem that draw Britain ever closer to a no deal Brexit.

Middle East tensions became a special topic at the 74th session of the United Nations General Assembly. After American drone was shoot down and British tanker was captured, Middle East tensions increased. Two Arab Saudi oil fields

were attacked, resulting in a 6% drop in world oil output. The US and other Western countries blamed Iran for being the culprit despite Houthi forces in Yemen taking responsibility. Iranian President warned the Gulf region is on the verge of collapse because just one mistake can ignite a major fire.

Oil prices have risen sharply following the Saudi Arabia attack and retaliation will not only affect oil prices but also spread the conflict in the Gulf.

Table 13  
**Factors affecting the market in Q4 2019:**

Events	Impact on stock market
The economy regained growth momentum, stable macroeconomic factors supporting achievement of the socio-economic goals in 2019.	Positive
The State Bank reduced policy rates and still had room to cut rates in accordance with adjustment of global economy.	Supportive for enterprises, Positive
The third quarter earnings season is forecasted to maintain the growth momentum of the second quarter.	Positive
Domestic ETFs operate based on two sets of index, the VN-Diamond Index and the VN-Capped Financial Index, a collection of stocks that have reached foreign ownership limitation.	Attract foreign capital, Positive
Implementing privatization and divestment of state capital by the end of 2020 according to decision 26/2019 QD-TTg.	Increase liquidity and cash flow rotation but also dilution
11th Central Conference in October and National Assembly meeting in November	Legislation about politics - economy - society. Sensitive
The ETF VNM and FTSE VN portfolio restructuring in December; MSCI published market ratings.	Increase liquidity Reform motivation
Trend to ease monetary policy and lower interest rates of key countries and regions support cash flows to move to emerging and frontier markets.	Positive, increase cash flow
US-China trade talks on October 10-11, negotiations can be prolonged and unpredictable.	Positive impact in short term, but result is unpredictable
OPEC met in December, considering its commitment to reducing production	Support oil price
Brexit deadline on October 31	Unpredictable, decreasing impact
Geopolitical conflicts, especially in the Middle East	Potential risks

Source: BSC Research

Vietnam stock market moved quite smoothly in Q3, VN-Index gained positively against the downtrend in the region. However, except for a positive uptrend in the first quarter, VN-Index was still in sinusoidal movement with amplitude decreasing from 940 to 1,010 with a focus of around 980 points. Liquidity remained at moderate level when cash flow did not grow and was not supported by foreign cash flow. The market continued to diverge sharply, similar to the situation in the second quarter. Based on the assessment of external and internal factors, Vietnam's stock market has both advantages and challenges in the last 3 months of the year.

Considering external influences, trend of monetary easing is widespread on a global scale, which makes the cash flow more abundant and able to return to emerging regions. Vietnam will have the opportunity to attract foreign capital inflows in late 2019 and early 2020 thanks to high growth and stable macro outlook. However, weakening of the world economy, US-China trade war and geopolitical tensions are factors that make the market volatile and unpredictable.

Intrinsically, strong economic growth and stable macroeconomic positively support investment. Expectations of market upgrading, privatization activities and market reform will attract international investment flows. Q3 business results will be positive in the short term, supporting the market to surpass threshold of 1,000 points. However, when cash flow has not improved considerably and P/E of many stocks at a high level cannot help the market have a clear trend in the fourth quarter.

Based on the evaluation of domestic and foreign factors, VN-Index can move in the range from 940 to 1,050 points in the fourth quarter, of which the key price area is around 980 points. We forecast that the VN-Index will recover up to 1,015 - 1,025 points in October. If this short-term peak is not reached, the VN-Index will return to accumulate around 980 points in November and recover gradually in December.

- In a positive scenario, VN-Index closed above 1,000 points at the end of the year (an increase compared to 980 points in the 6-month report). The trend of movement is still influenced by movements of large-cap stocks, stocks with no room for foreign investment in the new index are expected to attract new foreign capital inflows.

- In a negative scenario, VN-Index may drop below 960 points when encountering unfavorable information from world market and international capital flows are not strong enough to spread to the markets.

Investors can refer to some topics, and updated reports in Q4:

- Industry and stocks are evaluated positively in the Sector Outlook Report 2019 and Quarter 2 Sector Outlook ;
- Stocks with improvement and positive outlook such as Banking, Retail, leading stocks;
- Stocks benefited from recovering NVL prices and oil prices;
- Defensive stocks such as Electricity, Information Technology - Post, Retail consumption have high growth and dividends;
- In the long-term, BSC's recommended stocks will be mentioned in the sector strategic reports for the third quarter, stocks with good changes are recommended in the Weekly Report , and update report for Sector/Company

### Disclosure

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