

Weathering typhoons and tariffs; Vietnam's scenarios and strategies under Trump 2.0



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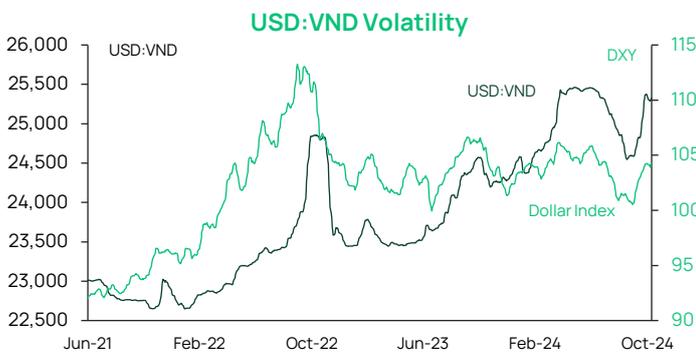
Macroeconomics:

- ▶ PMI improved to 51.2 in October from 47.3 in September, indicating economic recovery post-Typhoon Yagi.
- ▶ The Vietnamese dong depreciated by 2.9%, the most significant decline in two years, amidst global currency shifts ahead of Trump 2.0.
- ▶ Potential exchange rate volatility may limit the scope for further monetary easing, emphasising the need for enhanced fiscal policy implementation.

Stock Market:

- ▶ Foreign outflows from the VNI persisted, totalling \$388.8mn in October and \$3.0bn YTD, ahead of the non-prefunding circular implemented in early November.
- ▶ The VNI declined 4.5% in October and 9.2% YTD in TR\$ terms, driven by foreign selling, domestic profit-taking, and a strengthening DXY.
- ▶ 3Q24 net profit for our Top-80 universe was 19.0% YoY, in line with our full-year 2024 target of 16-18%.

CHARTS OF THE MONTH



Monthly Insights

Vietnam's economic indicators recovered well following September's Typhoon Yagi. PMI rebounded to 51.2 from 47.3 in September and the trade sector showed positive activity; exports reached approximately \$35.6bn, +10.1% YoY, and imports rose to \$33.6bn, +13.8% YoY. Trade activity is also expected to increase in the coming months, influenced by the year-end holiday season and potential stockpiling efforts by manufacturing companies. Consequently, Vietnam's total trade could reach \$780bn in 2024, up 15.5% YoY, with the trade surplus potentially reaching \$25bn.

The appreciation of the USD in October, driven by expectations of policy changes under a second Trump term, exerted additional pressure on emerging market currencies, which saw the VND depreciate 2.9%, its sharpest monthly decline in two years. Total USD deposits in Vietnam's banking system fell from approximately \$42bn in 2022 to \$39.5bn in 2024, corresponding to a drop from 12.1% of GDP to 8.6%. This reduction, alongside a drawdown of more than \$20bn from foreign reserves from a peak of \$110bn, has increased the VND's sensitivity to global dollar fluctuations. The impending maturity of a USD-denominated offshore government bond with a value of \$1.1bn, and a renewed preference among local businesses and citizens to hold USD, has added short-term pressure.

FDI flows into Vietnam remain consistently strong, indicating recent fluctuations in the exchange rate were partly driven by local speculative activities, which are expected to remain in the short term. To stabilise the market the State Bank of Vietnam (SBV) responded swiftly, issuing SBV-bills to keep interbank rates above 4.0% p.a. and manage the USD-VND differential, an effective strategy that has been used on several occasions to drain excess liquidity from the banking system. The central bank also committed to direct FX interventions from its reserves as required. Following these interventions, the VND's depreciation has eased, with the exchange rate currently trading around 25,300-25,400 VND per USD, close to the SBV's selling rate. We believe the exchange rate will likely experience continued volatility as global market and exchange rate dynamics unfold, indicating limited scope for further monetary easing and necessitating greater emphasis on fiscal policy implementation.

The potential for substantial global economic and financial market fluctuations under Trump 2.0 poses two scenarios for Vietnam. The first involves intensified US protectionist measures, potentially applying a broad spectrum of tariffs on US imports, which could reduce global merchandise trade volumes, impacting Vietnam's \$400bn of exports, of which nearly \$100bn go to the US. This scenario could reduce Vietnam's GDP growth by 0.9-1.1% to around 6.0% in 2025 and slow corporate earnings growth to mid-single digits from the current forecast of 16-18%. The second and more probable scenario involves selective tariffs on specific countries or products, which could ultimately benefit Vietnam through tariff differentials with China as foreign firms look to relocate supply chains to the region, helping to realise the 7.0% GDP growth target.

Overall, Vietnam's economic and trade outlook remains relatively positive, strengthened by a pro-growth leadership that could potentially bring more opportunities than risks. On the downside, the strengthening of the dollar could continue to drive foreign outflows from Vietnam's equity markets, which are already at \$3.0bn YTD. Nonetheless, Vietnam's Q3 earnings season closed on a high note, with our Top-80 universe achieving net profit increases of 19.0% YoY. These results underscore the resilience of Vietnam's equity market and support our growth expectations of 16-18% in 2025. With our Top-80 universe trading at a forward PE of 11.6x based on projected 2024 earnings, compared to the five-year historical average of 13.9x, the market appears well-supported by value-focused domestic investors, suggesting limited scope for further de-rating.