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COVID-19 Resurfaces in Vietnam: A View from the Ground

Over the past week the emergence of community infection in Vietnam has been dominating domestic, and now international headlines. Vietnam's effective measures to manage COVID-19 at the start of the outbreak in January enabled the country to record a remarkable 100-day stretch of no community transmission and zero deaths. The current resurgence will certainly be keenly followed, particularly as to how the local authorities and community respond to this outbreak.

What do we know so far? As of writing, over 100 new cases of the outbreak have been confirmed over the past week, originating from Danang, a popular beachside tourist destination and Vietnam's third largest city; this brings the nationwide total to 546 confirmed cases of COVID-19 since the disease was first identified within our borders in early 2020. Local news has now reported the first COVID-related death, which is certainly a grim milestone that heightens the sense of apprehension amongst the local community. We must brace for the possibility that there may be more cases identified over the coming days and weeks, particularly wary of community transmission that may occur in Hanoi and Ho Chi Minh City.

What has been the government's response so far? With immediate effect, the authorities essentially closed the city of Danang, restricting incoming visitors, and enacting an aggressive contact tracing program for visitors leaving Danang to return to their home cities. As a precautionary measure, both Hanoi and Ho Chi Minh City began closing places of public gathering (e.g., bars and nightclubs) and re-introducing social distancing practices, with other possible measures to be if cases of community infection escalate. Recall that the country experienced a brief three-week period of "mandatory social distancing" in early April. This proved effective in balancing the need to arrest the spread of the virus while allowing the economy to get back on its feet in a speedy fashion. The local community are now very familiar with the procedures and expectations that a full lock-down would entail and therefore there is an acceptance amongst locals to readily comply with health authority recommendations to help limit the risk of a second wave.

What is the market response? From an investment perspective, we expect greater market volatility over the days and weeks to come. Over the month of July, the Vietnam Index declined by approximately -3.2% (local terms), while the MSCI ASEAN benchmark is up by 0.7%. However, the month should be viewed as two parts, with the index up +3.8% from the start of the month to last Thursday, 23 July, while from Friday 24 July to Friday 31 July, the index is down -6.8%, very much fomenting the localized impact of the recent community outbreak. During this past week, we have seen foreign investors buying over USD40 million since last Friday, reversing the net selling trend over recent weeks, to take advantage of the dips to add to their portfolio exposure.

As mentioned, there certainly can be a risk that the spread of the virus continues, and new cases are reported as the days and week progress. There are market observers who are too willing to ruminate on the possible outcomes under best and worst-case scenarios. The market has been gyrating this past week on news flows and speculation, with wild swings in volatility and volumes traded.

How will this affect the economic recovery? The curtailment in business activities threatens to slow the country's economic growth, which had been showing a respectable, if not impressive, bounce of late. For example, Vietnam's July economic statistics showed that the on-going rebound in domestic economic activity continued to recover briskly, as can be seen below.

Fig 1: Nominal Retail Sales (YoY)

Source: CEIC, VinaCapital

Foreign tourists account for about 10% of Vietnam's retail sales figures, making the rebound in nominal retail sales even more impressive given that there is no foreign tourist spending at present. The rebound in retail sales show domestic economic activity is likely to immediately surge again.

The export picture also suggests better resiliency than many expected. Some observers were concerned that slowing global demand would have an impact on Vietnam (given that exports are around 100%/GDP), yet according to the latest US retail sales figures, the demand for "stay at home" goods in developed countries is actually above pre-COVID levels. This has benefited Vietnam, as many such items are made in the country. July's economic statistics reported production and exports of "stay at home" goods continue to rise, which in turn caused Vietnam's trade surplus to increase to USD6.5 billion (4%/GDP) in the first seven months of the year.

Still, a prolonged battle against this recent outbreak could knock the consensus GDP growth forecast (~3%) and the government's target (of 4%) lower. It could also lead to greater fiscal support, as we estimate that the actual amount of fiscal stimulus that the government approved is a bit above 1%/GDP (as opposed to the higher "fiscal measure" figures widely published by the media).

Conclusions: In summary, the arrival of the second wave is obviously of concern to us. However, we fully expect the government to continue to apply the same decisive actions to control this latest outbreak as effectively as it did the first. Doing so should enable the country to quickly identify and contain suspected cases and enable the economy to recover sooner rather than later.

We view this volatility as short term in nature and will find opportunities to invest in key companies that we have been eyeing and are now at fairer valuations. With second quarter earnings results for many leading companies already announced, with few surprises, we look ahead to the second half and into 2021 for Vietnam's economic recovery to continue. Sectors such as materials, construction, financials, and information technology should lead this recovery, in which our portfolios have exposure.

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