Deposit rates slid following PM's directive

- Interbank interest rates hovered above 4% across all tenors by month-end.
- Several banks reduced deposit rates across tenors to facilitate lower lending rates.
- The interbank USD/VND exchange rate declined by 1.9% over the month, reaching 25,557 VND/USD by the end of February.

Exchange rate pressures have swiftly reemerged

The USD faltered due to policy uncertainties and softening economic data

The four-month rally of the DXY, which began in October 2024, appears to be losing momentum in February due to policy uncertainty and soft economic data. Having started strong at 109 at the beginning of the month, the DXY has been on a steady decline and even hit a two-month low of 106.3 on February 25th.

Regarding economic indicators, the US economy faced a string of less favorable data compared to previous months. The US service sector activity unexpectedly slowed in January amid cooling demand, job growth decelerated more than expected following robust gains in the prior two months, and the CPI increased by 3% yoy – the highest rate since June 2024. This hotter-than-expected inflation was partly driven by a surge in food prices, particularly a 53% yoy spike in egg costs due to widespread shortages caused by an avian flu outbreak. Additionally, US retail sales posted their biggest drop in nearly two years in January, while the Philly Fed monthly manufacturing index tumbled at the fastest pace in nearly five years, reaching 18.1 in February.

Another factor weighing on the dollar during the month was "tariff fatigue." Since early February, new tariff announcements have been made almost every week. The series began with an additional 10% tariff on imports from China, followed by various other tariffs imposed by the White House, including a 25% tariff on all steel and aluminum imports, threats of global reciprocal tariffs, and 25% tariffs on autos, chips, pharmaceuticals, and EU goods. Despite these tariff concerns, the dollar still depreciated by 2.4% over the month, reaching 106.3 on February 25th. This reflects that the market has reached tariff-fatigue, where it no longer reacts as strongly as it did in the post-election period.

By month-end, the DXY recovered slightly to reach 107.4 after Trump's announcement stating that the proposed 25% tariffs on Canada and Mexico would go into effect on March 4, and that China would likewise be charged an additional 10% tariff on the same day - on top of the 10% imposed earlier this month.

The SBV took new action amid heightened exchange rate volatility

The exchange rate experienced strong volatility throughout the month under multiple pressures. On the international front, although the USD weakened, it remained at a high level and exerting certain pressure on the exchange rate. On the domestic front, pressures stemmed from the seasonal rise in USD demand as businesses ramped up imports of raw materials to support exports in the first quarter. Additionally, in February, the State Treasury announced that it would purchase US Dollar from commercial banks with a maximum total value of USD 500mn. This has tightened the USD supply, thereby adding further pressure on the exchange rate.

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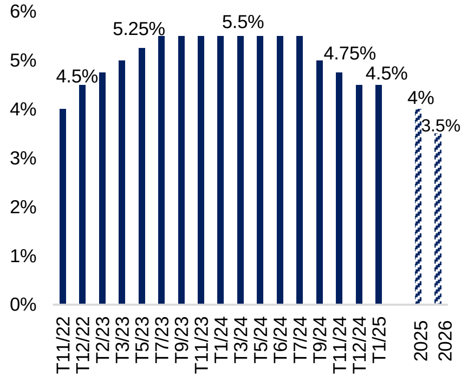
To address this, the SBV intervened by continuously raising the central exchange rate, helping to widen the exchange rate ceiling. Since the beginning of the month, the central rate has risen by a total of 401 VND, equivalent to 1.6% - a sharp adjustment compared to the 487 VND increase for the entire year of 2024. Furthermore, the SBV took new action by no longer enforcing a hard cap of 25,450 VND/USD on the interbank exchange rate, as it did in the previous period. On February 11th, the central bank made a significant move by raising its USD intervention selling price for the first time since late October 2024, bringing it to 25,698 VND/USD. It then allowed the intervention rate to float based on the central exchange rate, keeping it 50 VND below the ceiling rate at which banks are permitted to trade. This move indicating the SBV's acceptance of greater exchange rate fluctuations to ease pressure on foreign exchange reserves after having sold more than USD 9bn over the past year.

Nevertheless, the interbank exchange rate surged by 1.9% over the month, reaching 25,557 VND/USD by the end of February. Meanwhile, the free-market rate climbed to 25,720 VND/USD, and the central rate stood at 24,726 VND/USD, marking a 0.1% decline and a 1.6% increase, respectively, compared to early 2025.

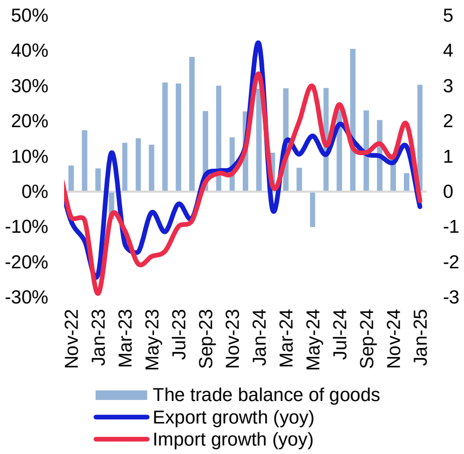
We expect the exchange rate to fluctuate in the range of 25,500 – 25,800 VND/USD in Q1/2025 as the new administration's plans for fiscal easing, combined with stricter immigration policies, along with high interest rates in the U.S. compared to other economies and the relatively high protectionism of the United States, is expected to support for a surge in the value of the USD in 2025. Nevertheless, there are still upside catalysts for the VND include positive trade surplus (~US$3.03bn in 1M25), disbursed FDI (U$1.51bn, +2% yoy) and a rebound of international tourist arrivals (+36.9% yoy in 1M25). The stability of the macro environment is likely to be maintained, and further improvement will be the basis for stabilizing the exchange rate in 2025.

Fed kept interest rates unchanged at 4.5% in the January meeting



Source: Bloomberg, MBS Research

Import-export growth and monthly trade



Source: GSO, MBS Research

Interbank interest rates hovered above 4% across all tenors by month-end

The SBV conducted net liquidity withdrawal for the first time in three months

The State Bank of Vietnam (SBV) resumed net liquidity withdrawal for the first time in three months to maintain interbank interest rates at a moderately high level, thereby helping to ease exchange rate pressures.

During the month, the SBV issued nearly VND 64.3tn worth of 7-day T-bills, with interest rates ranging from 3.3% to 4%. At the same time, the central bank injected approximately VND 286.4tn through the OMO channel at an interest rate of 4% for 7- and 14-day tenors. As a result, the SBV conducted a net liquidity withdrawal of around VND 41.1tn in February amid intensifying exchange rate pressures.

Interbank interest rates surged at the beginning of the month, reaching 5.5% on February 4th, as heightened consumer spending during the Tet holiday exerted pressure on system liquidity. Since then, interbank rates have eased slightly but remained elevated, as the SBV's net liquidity withdrawal contributed to a liquidity decline. By month-end, the overnight rate stood at 4.6%, while rates for tenors ranging from one week to one month hovered around 4.7% - 4.8%.

Several banks reduced deposit rates across tenors to facilitate lower lending rates

Deposit rates fluctuated in opposite directions this month, with a total of 15 banks adjusting their deposit rates. Specifically, some small and medium-sized banks slightly raised their rates by 0.1% - 0.4% per year, aiming to attract capital to meet this year's credit growth target of 16%. According to the SBV, as of February 18th, credit growth had increased by 0.02% compared to the end of 2024, marking a 16.4% yoy rise (whereas during the same period in 2024, credit growth had contracted by 1.01% from December 2023).

On the other hand, nine banks significantly lowered deposit rates, mostly for long-term tenors, with reductions ranging from 0.1% to 0.6% per year. Notably, several banks have adjusted their 12-month deposit rates to below 6%. For instance, BVBank lowered its rate by 0.25% to 5.8% per year, KienLongBank reduced it by 0.4% to 5.7% per year, MSB cut its rate by 0.2% to 5%, and TPBank decreased it by 0.1% to 5.2%, etc. These reduction in deposit rates were implemented in compliance with the Prime Minister's directives to stabilize deposit rates and lower lending rates.

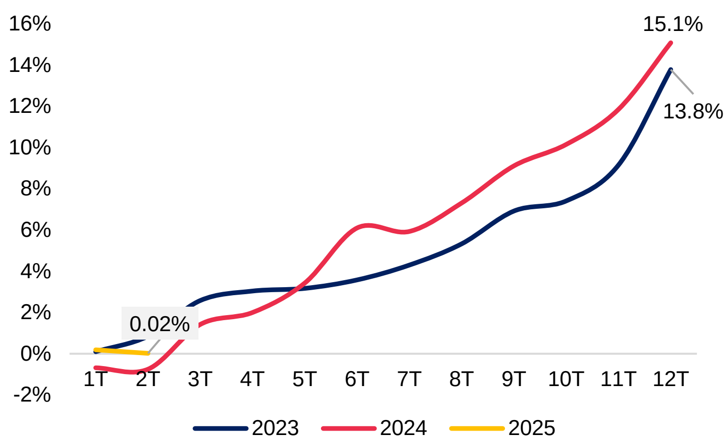
The Government has recently issued multiple directives urging the SBV and financial institutions to lower borrowing costs and support business expansion. However, some commercial banks have raised deposit rates, leading to an increase in lending rates. In response, on February 24th, the Prime Minister released Official Dispatch No. 19, directing the SBV to promptly inspect and oversee banks that have hiked deposit rates, ensuring adherence to legal regulations and government policies.

By the end of February, the average 12-month deposit rate at commercial banks hovered at 5%, while the rate for state-owned banks held steady at 4.7%.

We expect deposit rate to stay at 5% - 5.2% in 2025

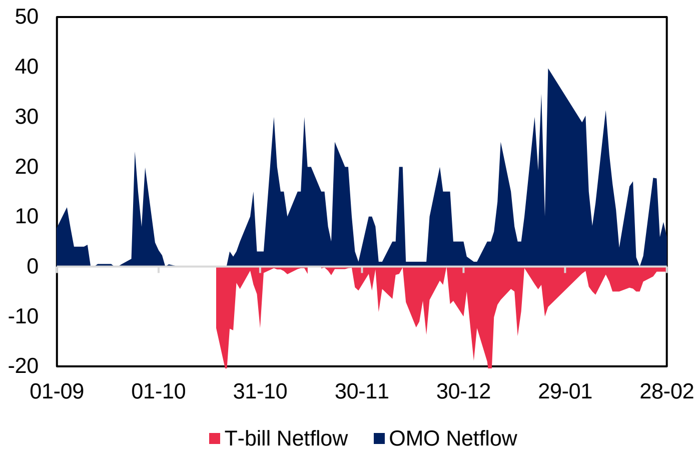
Vietnam's monetary policy space will be more constrained than previously anticipated due to a strong USD and the risk of ongoing U.S. investigations into currency manipulation allegations. In such a scenario, the SBV may need to adopt a more cautious monetary policy stance to ensure exchange rate stability, thereby limiting the scope for further monetary easing. Thus, we do not expect any policy rate cut in 2025. Meanwhile, the rebound of the manufacturing sector and the acceleration of public investment disbursement in the coming year are expected to support a continued improvement in credit growth, will exert upward pressure on input rates. However, the SBV has requested credit institutions to stabilize deposit interest rates and further reduce lending rates. Therefore, we expect the average 12-month deposit rates of large commercial banks to fluctuate around the range of 5% - 5.2% in 2025.

Figure 1: Credit growth (% ytd)



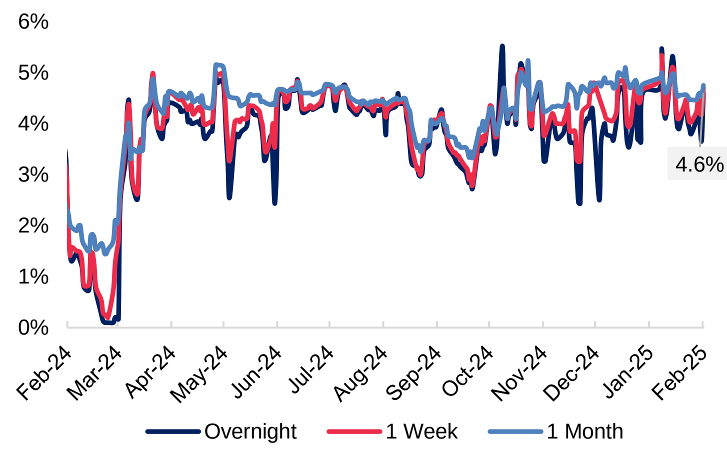
Source: Bloomberg, MBS Research

Figure 2: SBV's Open Market Operation (Liquidity) [VND tn]



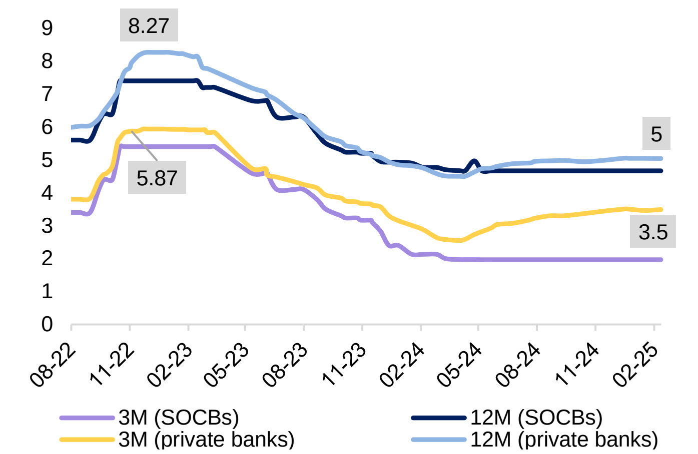
Source: SBV, MBS Research

Figure 3: Interbank lending rate in tenors (%)



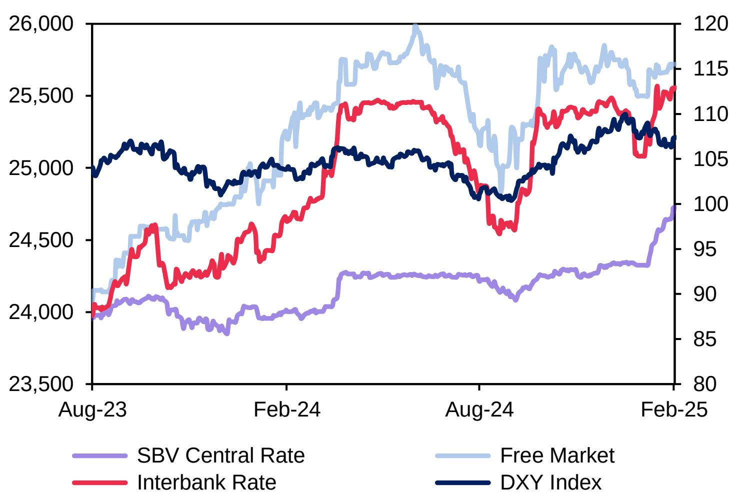
Source: Bloomberg, MBS Research

Figure 4: Commercial banks deposit rate (%)



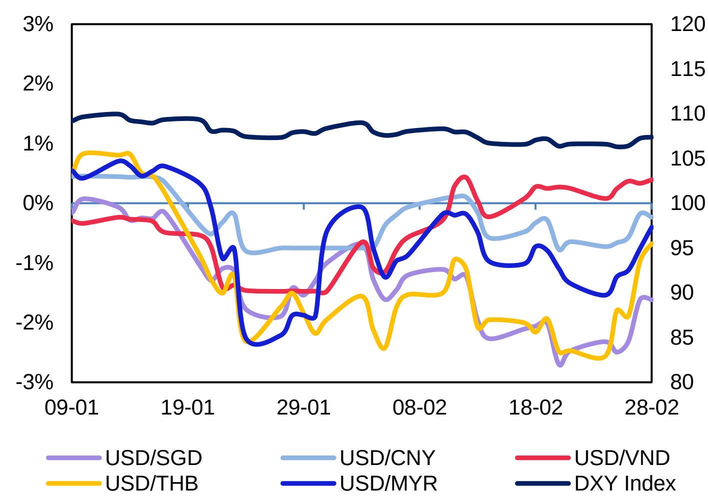
Source: Banks, MBS Research

Figure 5: VND/USD exchange rate



Source: Bloomberg, MBS Research

Figure 6: Regional currencies performance against USD



Source: Bloomberg, MBS Research

DISCLAIMER

MBS INVESTMENT RECOMMENDATION

Stock rating

Our investment recommendations are based on the expected profitability of the stock, calculated as the sum of (i) the percentage difference between target price and market price at the time of publication, and (ii) expected dividend yield. Unless otherwise stated in the report, investment recommendations have an investment horizon of 12 months.

ADD	The stock can generate a profitability of 15% or more
HOLD	The stock can generate a profitability of between -15% and 15%
REDUCE	The stock can generate a loss of 15% or more

Sector rating

POSITIVE	Industry stocks have Add recommendations on a weighted market capitalization basis
HOLD	Industry stocks have Hold recommendations on a weighted market capitalization basis
NEGATIVE	Industry stocks have Reduce recommendations on a weighted market capitalization basis

ABOUT MBS

Founded in May 2000 by the Military Commercial Joint Stock Bank (MB), MB Securities Joint Stock Company (MBS) is one of the first six securities companies in Vietnam. After years of development, MBS has grown into one of the premier brokerage houses in the country. In two consecutive years between 2009 and 2010, MBS leads the brokerage house in terms of market share on both Hanoi Stock Exchange (HNX) and HCMC Stock Exchange (HOSE) and continuously ranked among the Top 5 of market share at both stock exchanges.

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