

## Exchange rate heatwave persists

- The interbank rate hovered around 4% throughout May before dropping to 3.1% by month-end.
- The interbank exchange rate hit an all-time high at 26,029 VND/USD on May 29, before ending the month at 26,008 VND/USD (+2.2% compared to the beginning of the year).
- By the end of May, the average 12-month deposit rate at commercial banks had decreased by 16bps from the start of 2025, reaching 4.89%.

### The interbank exchange rate soared to a record high in May

#### The DXY rebounded marginally by month-end, yet volatility risks linger

Starting the month at 99.8, the DXY maintained an upward trend and consistently hovered around the 101 level from May 12, driven by positive developments in trade negotiations, including the US-UK trade agreement and a US-China agreement to slash 15% tariffs on each other's goods for 90 days. However, downward pressure on the greenback reemerged after May 19 amid a string of pessimistic economic news: Moody's downgraded the US credit rating by one notch to Aa1 due to the growing burden of the government's budget deficit; US GDP shrank by 0.2% in Q1, confirming the first contraction since 2022; consumer spending only inched up by 0.2% as households opted to boost savings amid mounting economic uncertainties; and US manufacturing contracted for the third consecutive month, with the ISM PMI posting 48.5 in May. Additionally, economic jitters intensified near the end of the month as President Trump escalated his trade war by proposing a 50% tariff on EU goods, threatening Apple with a 25% duty on iPhones manufactured outside the US, and raising tariffs on steel and aluminum to 50%. Consequently, the DXY dropped to a one-month low of 98.9 on May 26. Amid this volatile context, the Federal Reserve left its benchmark interest rate unchanged at its May meeting. By month-end, the dollar rebounded slightly to 99.5 (-9.1% compared to the beginning of the year) thanks to reduced trade tensions after Trump backed off his threat against the EU, restoring a July 9 deadline.

#### The interbank exchange rate hit an all-time high of 26,029 VND/USD

The recovery of the USD in May has increased downward pressures on the VND. Additionally, on the domestic front, pressures largely stemmed from high USD demand. In May, the State Treasury announced plans to purchase US dollars from commercial banks, with a maximum total value of USD 250mn, thereby raising the total USD purchased since the beginning of the year to nearly USD 1.6bn, tightening the USD supply. Furthermore, as May is a peak import period, the demand for foreign currency also surged. According to preliminary statistics from the General Department of Customs, the trade balance of goods in the first half of May recorded a deficit of USD 2.3bn. As a result, the interbank exchange rate hit an all-time high of 26,029 VND/USD on May 29, before ending the month at 26,008 VND/USD (+2.2% compared to early 2025). Meanwhile, the free-market rate climbed to 26,310 VND/USD, while the central rate stood at 24,978 VND/USD, marking increases of 2.2% and 2.6%, respectively, from the start of the year.

The exchange rate is facing various headwinds this year. First, the USD is expected to maintain its strength, supported by high U.S. protectionism and elevated interest rates, as the Federal Reserve is projected to cut interest rates only twice this year. Second, we believe that tariff risks will also be a significant

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factor affecting the USD/VND exchange rate this year. If high retaliatory tariffs persist, they will pose significant challenges for Vietnam's exports and FDI attraction, further tightening the foreign currency supply and exerting pressure on the exchange rate. According to the latest data from the GSO, in the first four months of 2025, the trade balance of goods recorded a surplus of approximately US\$3.79bn, while disbursed FDI amounted to US\$6.74bn (+7.3% yoy). However, if both countries successfully negotiate to reduce tariffs, it would significantly contribute to stabilizing the exchange rate, interest rates, and strengthening key economic activities such as exports and FDI attraction. Therefore, we are closely monitoring the latest updates on negotiation outcomes and the final tariffs to adjust our forecasts.

## Deposit rates maintained downward momentum in May

**The interbank rate hovered around 4% in May before falling to 3.1% by month-end**

Amid rising exchange rate pressures, the State Bank of Vietnam (SBV) resumed net liquidity withdrawal in May, with an estimated value of over VND 21.4tn. Specifically, the SBV injected nearly VND 101tn through open market operations (OMO) at a 4% interest rate for tenors ranging from 7 to 91 days, while total matured capital exceeded VND 122.3tn. Following the SBV's net withdrawal, the interbank overnight interest rate remained stable around 4% throughout May. By month-end, the overnight rate dropped to 3.1% due to the SBV's net injection in the final week, which helped ease liquidity pressures. Meanwhile, rates for tenors from one week to one month fluctuated between 3.7% and 4.2%.

## Deposit rates maintained downward momentum in May

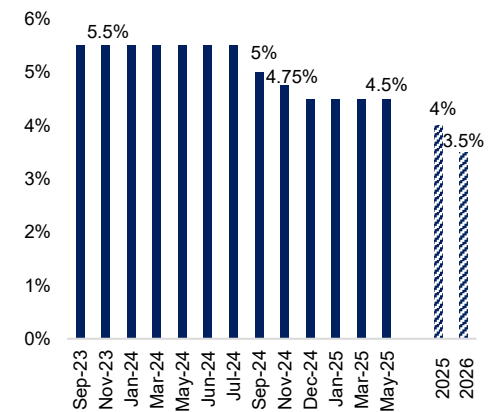
The downward trend in deposit rates continued in May, though the number of banks reducing rates and the extent of the reductions were significantly lower than the cuts in February and March. During the month, only four banks - MB, VPBank, Eximbank, and GPBank - reduced deposit rates by 0.1% to 0.25% per year across various tenors. Conversely, BacABank increased its deposit rates by 0.2% per year for tenors ranging from 1 to 15 months. According to the SBV, deposit rates have increased marginally by 0.08% since the start of the year, primarily due to adjustments by a few small-sized commercial banks. However, most banks have reduced rates in response to government and SBV guidance.

By the end of May, the average 12-month deposit rate at commercial banks had decreased by 16bps from the beginning of 2025, reaching 4.89%, while the rate for state-owned banks held steady at 4.7%.

## We expect deposit rates to stay at 5.5% - 6% by the end of 2025

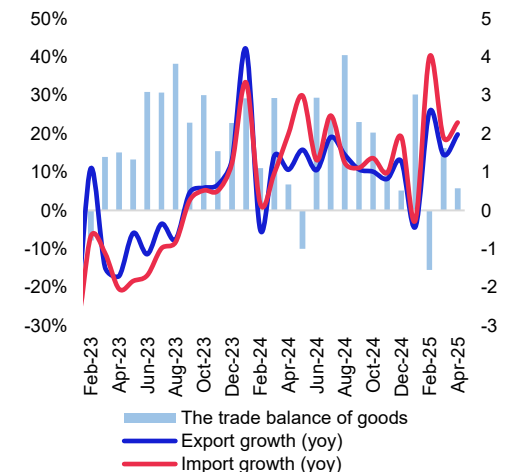
Although deposit rates have been on a downward trend following the PM's directive, we believe that input rates will gradually increase toward the end of 2025, driven by expectations of positive economic growth and credit growth. As of mid-Apr, credit growth had increased by 3.95% compared to the end of 2024, indicating a strong recovery in capital demand. We expect credit growth will reach 17 – 18% in 2025, driven by the recovery of the manufacturing sector and domestic consumption amid rising demand, as well as the acceleration of public investment disbursement. Therefore, we anticipate that the average 12-month deposit rates of large commercial banks will fluctuate within the range of 5.5% – 6% by the end of 2025.

## Fed has kept interest rates at 4.5% amid mounting uncertainty caused by the tariff crisis



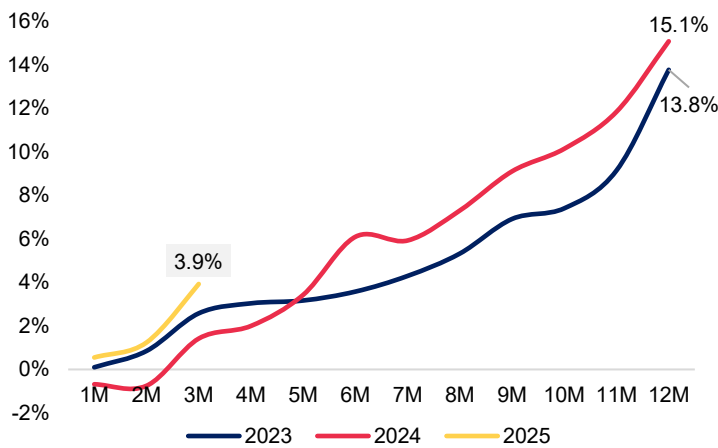
Source: Bloomberg, MBS Research

## Import-export growth and monthly trade



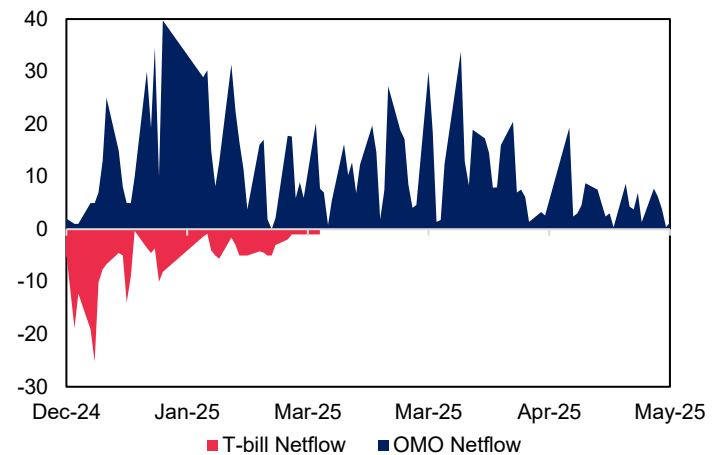
Source: GSO, MBS Research

Figure 1: Credit growth (% ytd)



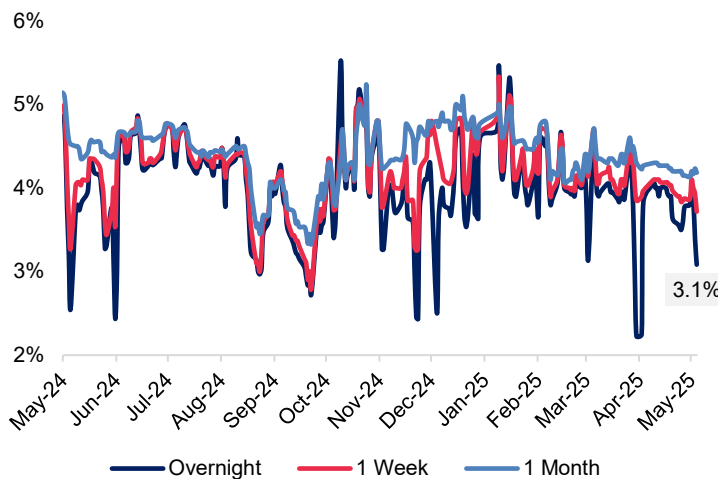
Source: Bloomberg, MBS Research

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



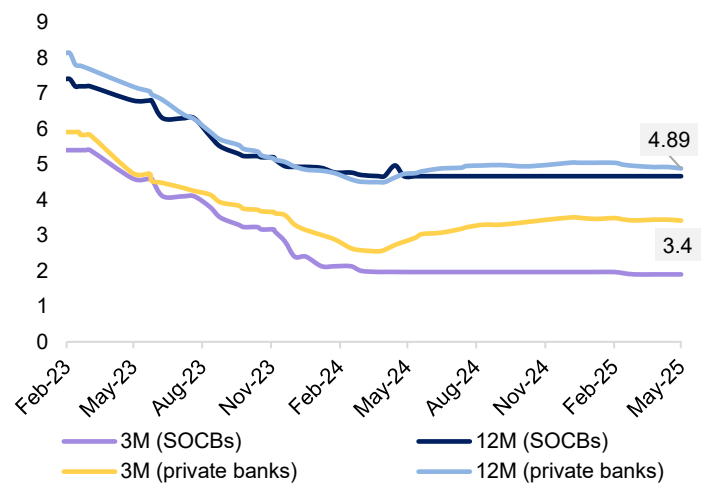
Source: SBV, MBS Research

Figure 3: Interbank lending rate in tenors (%)



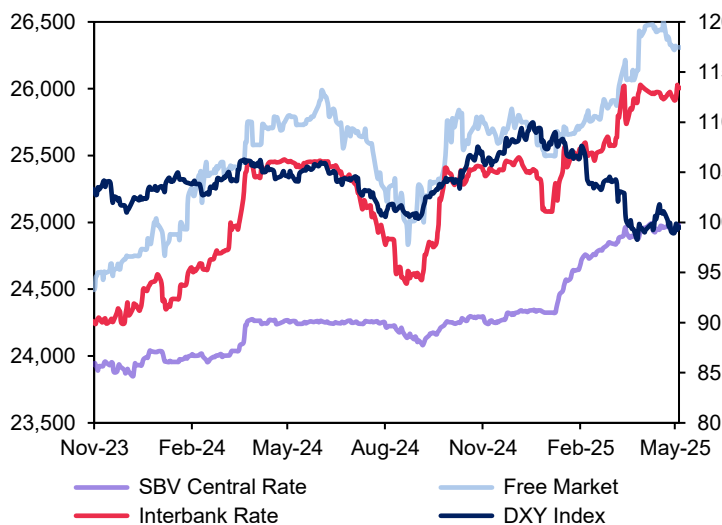
Source: Bloomberg, MBS Research

Figure 4: Commercial banks deposit rate (%)



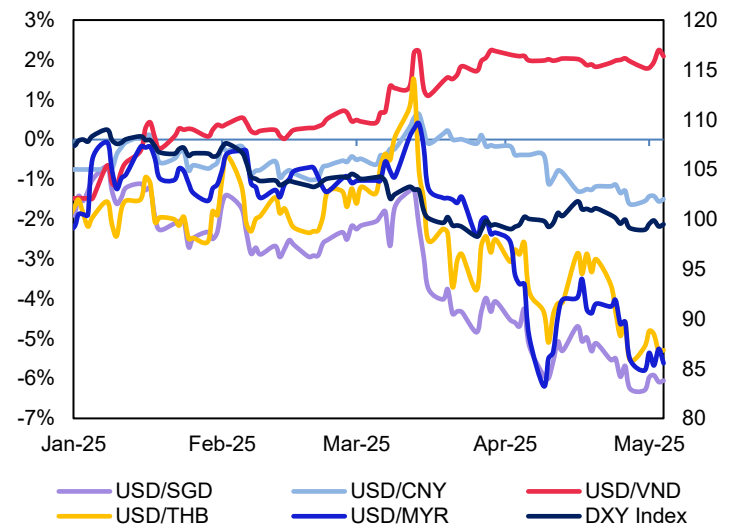
Source: Banks, MBS Research

Figure 5: VND/USD exchange rate



Source: Bloomberg, MBS Research

Figure 6: Regional currencies performance against USD



Source: Bloomberg, MBS Research

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