

Dimming DXY outlook following rate cuts

- The overnight interbank rate hit 2-month low of 1.6% on Aug 28 before ending the month at 3.8%.
- Deposit rates remained unchanged in August. By the end of the month, the average 12-month deposit rate at commercial banks stayed at 4.89%.
- Foreign exchange pressures remain sticky despite the SBV's intervention. By the month-end, the interbank exchange rate reached 26,345 VND/USD (+3.5% ytd).

The SBV began intervening to counter foreign exchange pressures

The DXY slid in August as September rate cut odds soared and political friction persisted

The DXY started August with volatility, dropping sharply by nearly 1% from the end of July to 99.1 in early August. Since then, it has maintained a fairly steady downward trend amid growing downside risks to the labor market, which saw a significant slowdown in both worker supply and demand. Specifically, the economy added only 22,000 new jobs in August, while the unemployment rate rose to a nearly four-year high of 4.3%. Meanwhile, US inflation remains largely moderate, with the core PCE rising 0.3% mom and 2.9% yoy in July. Thus, the data keeps the Federal Reserve on track for a widely anticipated rate cut at its September meeting. According to the CME's FedWatch Tool, markets are pricing in a 90% probability of a 25 bps rate cut in September. Additionally, the DXY faced pressure from political tensions between former President Trump and the Federal Reserve. In August, President Trump announced the removal of Fed Governor Lisa Cook, which reignited debates about Federal Reserve independence. By the end of August, the DXY fell 1.4% over the month, reaching 97.7 (-10.6% ytd).

Foreign exchange pressures remain sticky despite the SBV's intervention

Despite the decline of the DXY, the exchange rate continued to drift upward in August. The depreciation of the VND was partly attributed to high domestic demand for foreign currency, particularly as businesses typically increase imports of raw materials for production during this period. Additionally, the hoarding of USD in the domestic market amid the State Bank of Vietnam's (SBV) loosening of monetary policy may have contributed to the exchange rate's upward momentum. To tackle this, on August 25-26, the SBV began intervening via selling USD through 180-day cancellable forward contracts to banks with negative foreign currency positions at a fixed price of 26,550 VND/USD. This move was seen as an effort to stabilize market sentiment and protect foreign exchange reserves as commercial banks could cancel transactions if exchange rate pressures ease in the last six months of the year. Subsequently, the exchange rate showed signs of cooling on August 25; however, it quickly rose again toward the end of the month. Specifically, the interbank exchange rate ended the month at 26,345 VND/USD (+0.5% mom, +3.5% ytd). Meanwhile, the free-market rate surged 0.9% mom, reaching 26,685 VND/USD (+3.6% ytd). In contrast, the central exchange rate dropped slightly by 0.04% mom, reaching 25,240 VND/USD (+3.7% ytd).

Although the USD is expected to continue declining toward the end of the year as the Fed is projected to start cutting interest rates, we believe intrinsic pressures will be a key factor contributing to the surge in exchange rates, including: (1) Persistent USD-VND interest rate differential despite the FED

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cutting rates to 4%. (2) Higher import demand due to 0% tariffs on U.S. goods. Conversely, exports will slow down in 2H25, leading to a narrower trade surplus in 2025. (3) Slower FDI inflows as investors await clearer tariff information. (4) Domestic-global gold price gap amid rising gold prices. Hence, **we expect the exchange rate to fluctuate in the range of 26,600 – 26,750 VND/USD by year-end, representing a year-to-date increase of 4.5% - 5%.**

The overnight interbank rate hit 2-month low of 1.6%

The overnight interbank rate hit 2-month low of 1.6% despite SBV's net withdrawal

After the SBV began resuming net liquidity withdrawal in late July, interbank interest rates showed a strong upward surge in early August, with the overnight rate even hitting a 5-week high of 6.4% on August 7. However, subsequently, interbank interest rates maintained a relatively steady decline despite the SBV's continued net liquidity withdrawal. During the month, the SBV injected nearly VND 361 trillion through the open market operation (OMO) channel at a 4% interest rate for tenors ranging from 7 to 91 days. The total matured OMO capital was approximately VND 386.1 trillion. Cumulatively, the SBV conducted a net withdrawal of over VND 25.2 trillion. Despite this, the overnight interbank rate still hit a 2-month low of 1.6% on August 28, indicating that system liquidity remained abundant. By the end of the month, the overnight rate rose to 3.8% as increased spending demand for the National Day holiday temporarily exerted pressure on system liquidity. Meanwhile, rates for tenors ranging from one week to one month fluctuated between 4.2% and 5.2%.

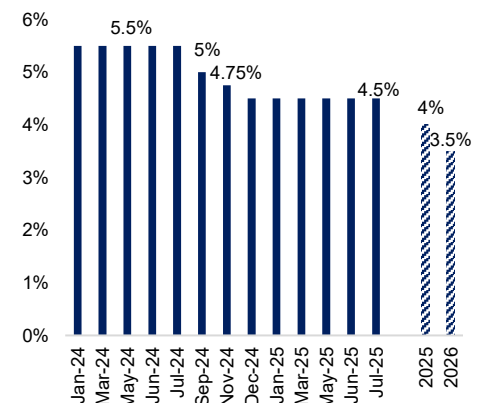
Deposit rates remained stable in August

Among the banks we monitored, no new adjustments to deposit rates were recorded. Accordingly, by the end of August, the average 12-month deposit rate at commercial banks remained at 4.89% (down 16 basis points from the beginning of 2025), while the rate for state-owned banks held steady at 4.7%. This occurred despite strong credit growth (as of August 29, credit growth has increased by 11.8% compared to the end of 2024 and by 20.6% yoy). The stability of deposit rates despite sustained credit growth is attributed to the abundant system liquidity, following a significant net injection of over VND 156.9 trillion in June and July. Hence, this has supported banks in maintaining low interest rates to promote economic growth as directed by the government. According to the SBV, the average lending rate as of August 31 had decreased by 0.56% compared to the end of 2024, reaching 6.38%.

We expect deposit rates to ease to 4.7% by the end of 2025

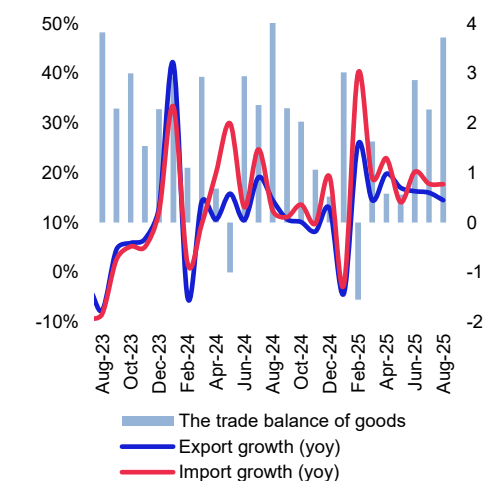
Toward year-end, deposit rates may face pressure from credit growth, particularly following the SBV's announcement of increased credit growth quotas for banks to meet the economy's capital needs. However, the SBV also requested credit institutions to implement comprehensive measures to stabilize and strive to reduce deposit interest rates, contributing to stabilizing the money market and creating room to lower lending interest rates. This, combined with the expectation of a 50 bps interest rate cut by the FED in the second half of 2025, will help narrow the VND-USD interest rate gap and create room for the SBV to maintain a low interest rate environment. Based on these factors, we anticipate that the average 12-month deposit rates of large commercial banks will have room to decrease slightly by 2 bps, easing to 4.7% by the end of 2025.

Fed has kept interest rates at 4.5% amid growing downside risks to the labor market



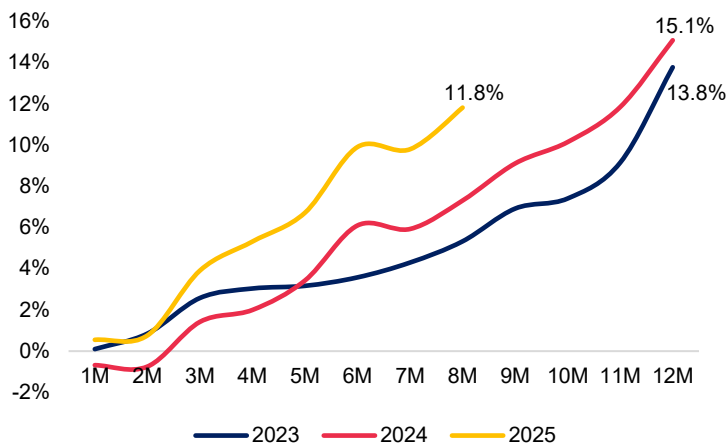
Source: Bloomberg, MBS Research

Import-export growth and monthly trade



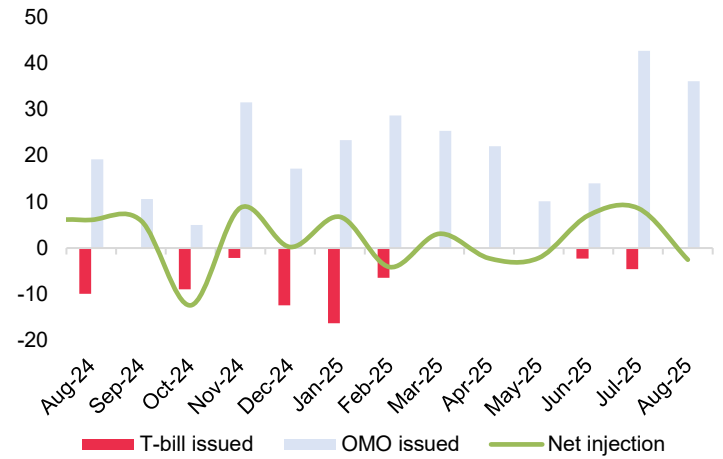
Source: GSO, MBS Research

Figure 1: Credit growth (% ytd)



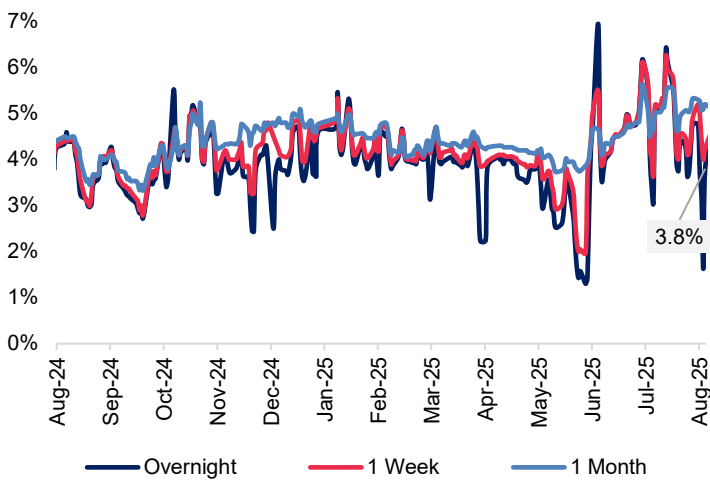
Source: Bloomberg, MBS Research

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



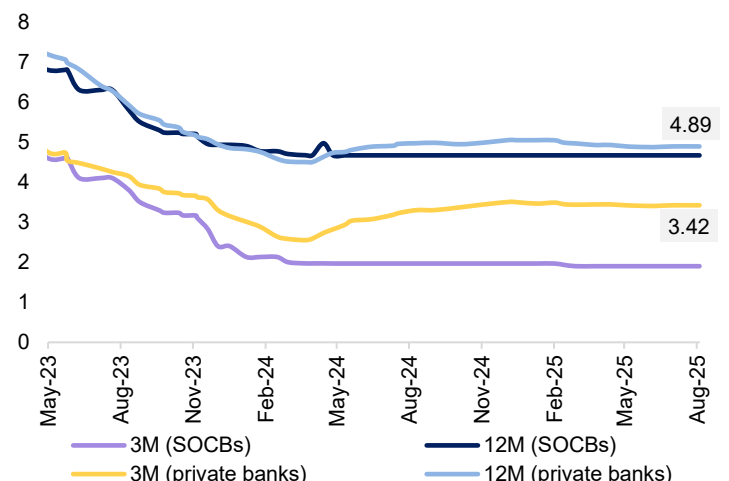
Source: SBV, MBS Research

Figure 3: Interbank lending rate in tenors (%)



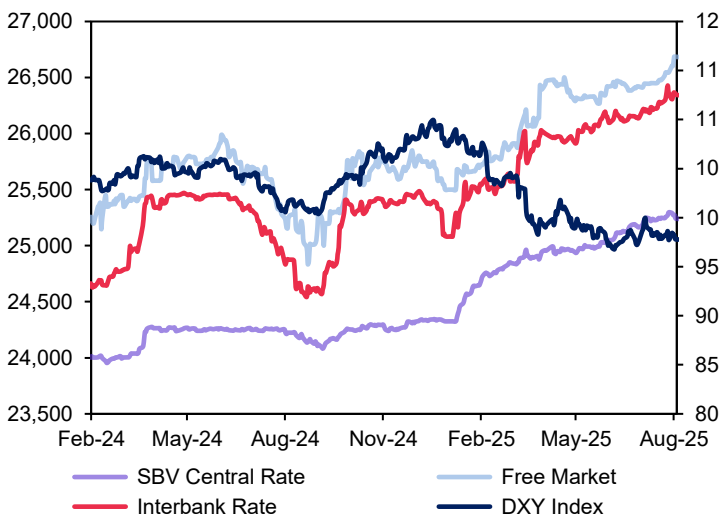
Source: Bloomberg, MBS Research

Figure 4: Commercial banks deposit rate (%)



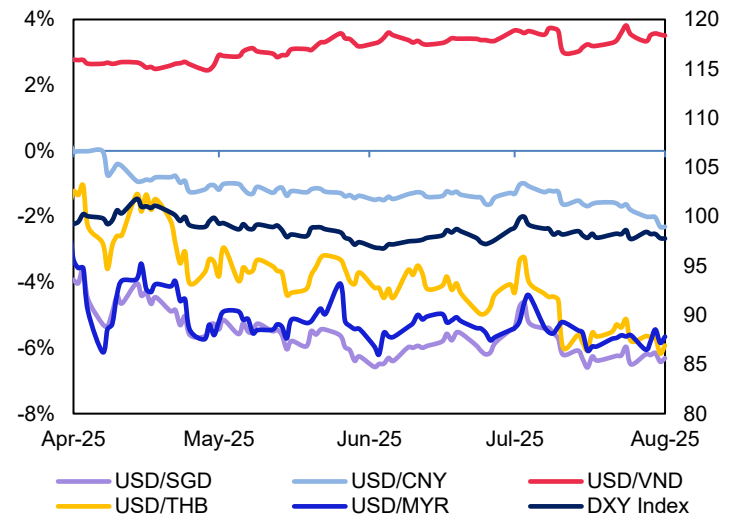
Source: Banks, MBS Research

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

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