

## Deposit rates are expected to rise in the upcoming quarters

- Interbank interest rates had surged to nearly 5% in April.
- We expect input rates to bottom out in 2Q24 and will be able to inch up by 50-70 bps in the second half of 2024.
- The interbank USD/VND exchange rate cooled down with a decline of 0.3% from its peak.

### We expect input rates are likely to inch up by 50-70 bps in the second half of 2024

#### A surge in the interbank interest rates show signs of liquidity demand

In April, the interbank market became vibrant as interest rates skyrocketed at tenors. The overnight rate had risen from 0.1% at the end of March to its peak at 4.9% on April 17<sup>th</sup> and fluctuated around 4.4% throughout the last week of the month. We think this surge in the interbank rates was due to the central bank's net cash withdrawals of about VND 58tn from the banking system from April 1<sup>st</sup> to May 3<sup>rd</sup>. In addition, the increase in credit demand also pushed up interbank interest rates. The economy's credit growth as of March 29<sup>th</sup> reached 1.34%, much higher than that as of March 25<sup>th</sup> which was at 0.26%.

From April 2<sup>nd</sup>, the SBV continued to inject money through OMO channel with an interest rate of 4% - 4.25% and a term of 7-14 days. By the end of April, we estimate that about VND 145.3tn were injected to the banking system, including VND 27tn of maturing T-bills. It is estimated that about VND 57.2tn T-bills will mature in May.

#### Input rates slightly increase at some small-medium commercial banks

Deposit rates fluctuated in opposite direction this month. Notably, on April 9<sup>th</sup>, VCB decreased deposit rates at tenors, especially 12-month tenor by 0.1 percentage points, from 4.7% to 4.6%/year. The average 12-month deposit rate of the state-owned bank group is at 4.7%, 26bps lower than at the beginning of the year. Conversely, some commercial banks increased their rates by 0.2%-0.3% in the context that customers are gradually withdrawing their deposits from banks. According to General Statistics Office (GSO), as of March 25<sup>th</sup>, capital mobilization of credit institutions decreased by 0.76% as compared to the end of 2023, while in the same period last year, it increased by nearly 1.2%. At the press conference held on April 19<sup>th</sup>, SBV informed that as of March 31<sup>st</sup>, the average deposit interest rate and the average lending interest rate for new transactions were at 3.02%/year and 6.5%/year respectively, recording decreases of 0.5% and 0.6% respectively as compared with the rates of the end of 2023.

### We expect input rates to inch up by 50-70 bps in the second half of 2024

We believe that credit demand will start increasing sharply from 3Q2024 in the context of strong production and investments growth. For 4M24, the index of industrial production (IIP) increased by 6% yoy and the Purchasing Managers Index (PMI) rose to 50.3. Moreover, public and private investments both increased by 5.9%. We forecast that the 12-month deposit rate of large commercial banks will be able to inch up by 50-70 bps and progressively return

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to 5.1%-5.3% by the end of 2024. However, we believe that output rates will remain the same as regulators and commercial banks are actively striving to provide credit capital for businesses.

### **We believe that the pressure on the exchange rate will cool down**

#### **DXY index stays strong as FED interest rate remains unchanged as the economic growth continues to be strong and inflation remains elevated**

Since the beginning of April, the US dollar Index (DXY) breached the 105 threshold, at some points, it even reached 106.3, marking its highest level since Nov 2023, DXY has increased 3% since the beginning of the year. This is in correlation with the recent economic data revealing that inflation rate in March is at 3.5%, up 0.4% mom, and higher than market expectations. In addition, the increase in the price of oil, grains, coffee, etc. put further pressures on inflation, hence, lower the market expectations on Fed's cutting rate decision. On May 2<sup>nd</sup>, Fed made it clear that it is not ready to start cutting interest rate and the current rate may last longer. Economists predict the first rate-cut would occur either in September or December press conference with equal probability of 40%. In the case of having two rate-cuts, interest rate is expected to decrease by 0.25% each time and return to 4.75%-5% by the end of 2024.

#### **The domestic exchange rate stabilizes after SBV's interventions**

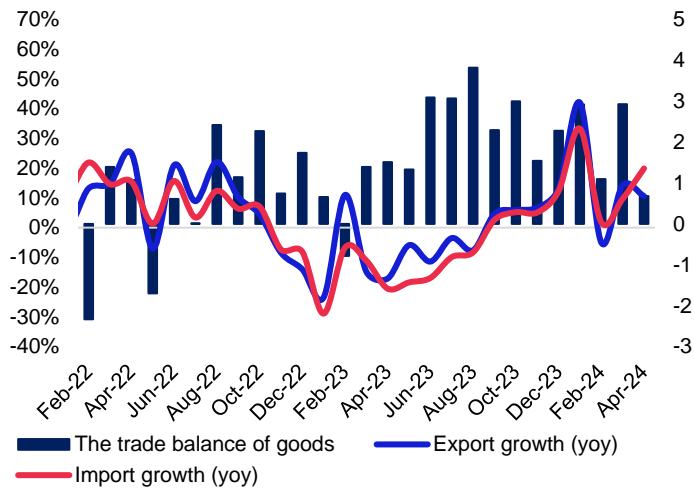
In April, the SBV has been using various tools to manage the domestic exchange rate including: host gold auctions to narrow the gap between domestic and world gold prices as well as between buying and selling prices, increased interest rates to minimize carry trade activities, and intervene via selling foreign currency to credit institutions with negative foreign asset position. We think this strong measure of the SBV has helped to relieve market psychology together with the decrease in seasonal demand for USD have stabilized the domestic exchange rate in the last week of April.

By the end of April, the interbank exchange rate is at 25,415 VND/USD, down 0.1% from its peak on April 23<sup>rd</sup>, up 4.4% since the beginning of the year. The free exchange rate is currently trading at 25,735 VND/USD, while the central rate is at 24,261 VND/USD, an increase of 4.4% and 1.6% respectively, compared to the beginning of 2024. Overall, as compared to currencies of other countries in the region, VND is still maintaining an equivalent devaluation to Baht Thailand (-7.8%), Malaysia ringgit (-3.8%), Singapore dollar (-3.4%),...

#### **We believe that the exchange rate in 2Q2024 will fluctuate in the range of 25,100 – 25,300 VND/USD and will continue to be supported by factors such as:**

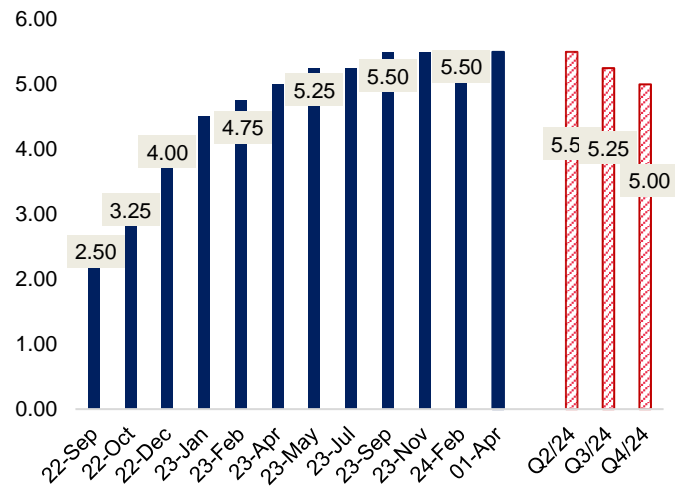
First, the government has given control instructions to stabilize the gold market; Secondly, positive macro factors will support such as a positive trade surplus when accumulated 4M24 reaches USD 8.4bn (increased twofold compared to the same period last year), foreign exchange reserves are still at a good level and are expected to reach USD 110bn in 2024, FDI inflows implemented in 4 months are estimated at USD 6.2bn (+7.4% yoy) and tourism recovered strongly when 4M24 increased by 68.3% yoy and increased by 3.9% compared to the same period in 2019 – a year without the Covid-10 epidemic. The stability of the macro environment is likely to be maintained and further improvement will be the basis for stabilizing the exchange rate in 2024.

Figure 1: Import-export growth and monthly trade surplus



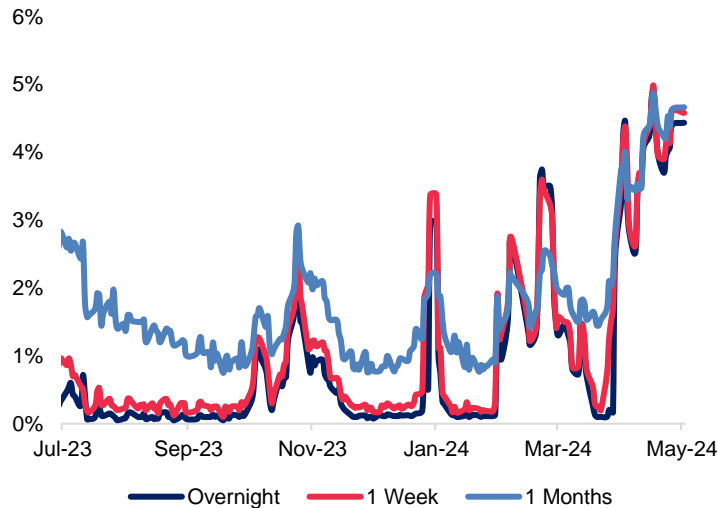
Source: GSO, MBS Research.

Figure 2: FED is expected to cut interest rates from the end of 3Q24, bringing rates down to 5% by the end of the year



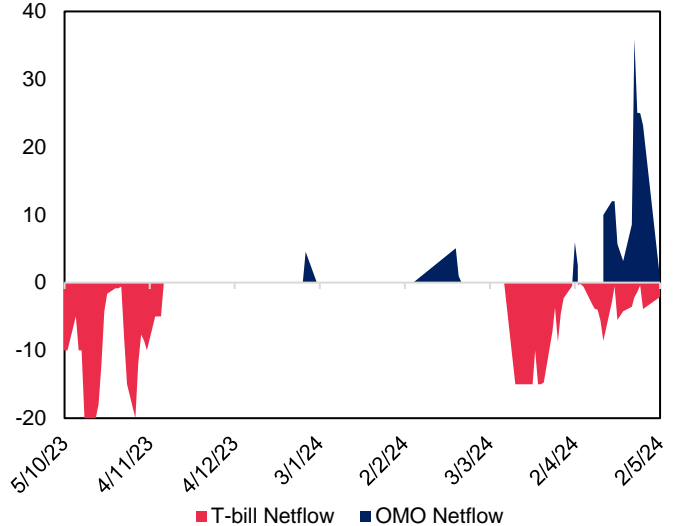
Source: Bloomberg, MBS Research

Figure 3: Interbank lending rate in tenors (%)



Source: Bloomberg, MBS Research.

Hình 4: SBV's Open Market Operation (Liquidity) [VND tn]



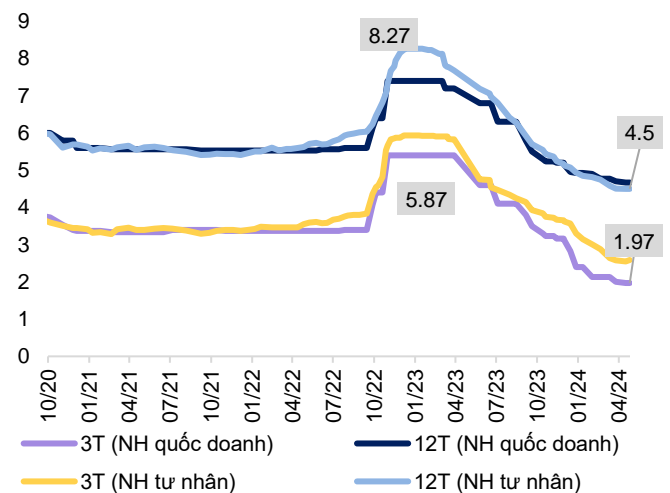
Source: SBV, MBS Research

Hình 5: Interbank interest rate (%)

Date	Overnight	1 Week	2 Week	1 Month
31/01	2.9	3.3	2.7	2.2
29/02	1.5	1.4	1.7	2.0
29/03	2.4	2.6	2.6	2.8
02/05	4.4	4.5	4.6	4.6

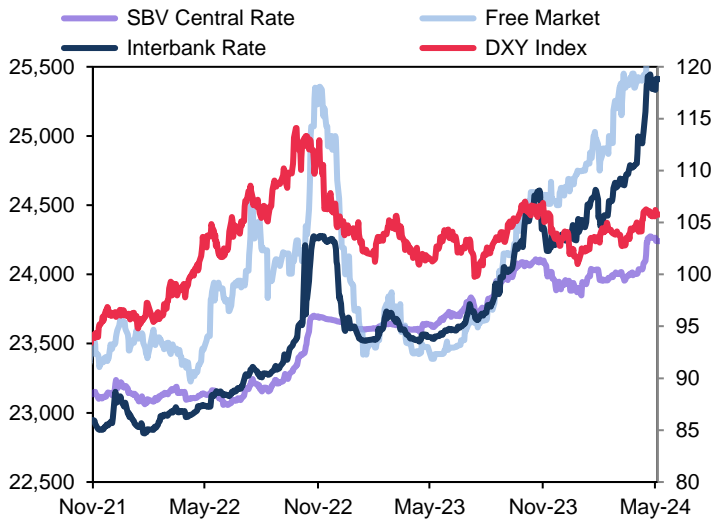
Source: Bloomberg, MBS Research

Hình 6: Commercial banks deposit rate (%)



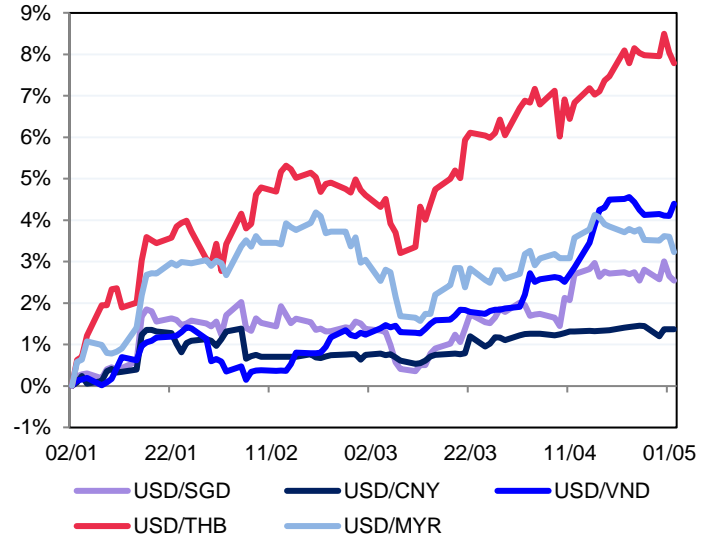
Source: SBV, Bloomberg, MBS Research

Hình 7: VND/USD exchange rate



Source: Bloomberg, MBS Research

Hình 8: Regional currencies performance against USD



Source: Bloomberg, MBS Research

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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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