The pressure on VND likely to cool down

- Interbank rates surged to 4.9% then slid to 3.2% by end-May.
- Deposit interest rates have indicated a more distinct upward movement, and we anticipate a rise of 70-100bps in the latter part of 2024.
- We expect the pressure on VND to ease toward year-end following the State bank's efforts and FED's possibility of rate cuts.

We expect interest rates to inch up by 70-100 bps in 2H24

Interbank interest rates establish a new height throughout the month

During Apr 22nd and May 23rd, the State bank of Vietnam (SBV) have sold a total of 48,500 taels of SJC gold and approximately USD 3.5bn worth of foreign currency in order to narrow down the gap of domestic gold price and to curb VND slide. Between the start of May and May 29, the SBV injected a net amount of about VND 181.7tn with interest rates inching up to 4.25%-4.5% and tenors of 7-14 days, including VND 57.2tn of maturing T-bills. It is estimated that about VND 55.1tn worth of T-bills will mature in June.

The interbank interest rate has now surged close to 5%, marking a new benchmark driven by liquidity demands. On May 23rd, the overnight rate peaked at 4.9% before slightly receding, currently hovering at 3.2%. Interest rates span between 3.6% to 4.5% for different tenors, ranging from one week to one month. With the SBV's continued emphasis on managing and stabilizing the gold and foreign exchange markets, we anticipate that the interbank interest rate will remain elevated amid a decreasing VND money supply in the following month.

Some commercial banks have modestly lifted the deposit rates

In May, deposit rates showed a notable uptick, spearheaded by small and medium-sized commercial banks. From the start of the month, these banks took the lead in raising deposit rates, a move subsequently mirrored by larger commercial banks. As of May 21st, data from monitored banks indicated that the average 12-month deposit interest rate for small and medium commercial banks saw a month-over-month increase of 0.3%, while large commercial banks experienced a 0.1% rise in the same period. Although state-owned banks have not officially updated their deposit rates on their respective websites, it is anticipated that they will follow this increasing trend shortly.

We expect input rates to inch up by 70-100 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 5M24, the index of industrial production (IIP) increased by 6.8% yoy and the Purchasing Managers Index (PMI) rose to 50.3 in May. Moreover, public and private investments increased by 5% and 7.8% respectively. We forecast that the 12-month deposit rate of large commercial banks will be able to inch up by 70-100 bps and progressively return to 5.3%-5.6% 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.

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We see the pressure on VND start cooling down

The DXY lost its strength momentum in May

The DXY Index started falling from 106.5 after the FOMC meeting on May 1; Fed Chair Jerome Powell said the next policy rate move was unlikely a hike. More importantly, markets also tempered rate-cut expectations in other central banks. The DXY ended May at 104.7 following revised data indicating that 1Q24 U.S. economic growth was at an annualized rate of 1.3%, down from a previous estimate of 1.6%, due to weaker retail sales and equipment spending. Nonetheless, consumer confidence unexpectedly improved and the labor market showed stability, suggesting the U.S. economy remains robust despite inflation significantly exceeding the 2% target. Investors currently see a 50/50 chance of a 25bps interest rate cut in September, with a total of 57 basis points in cuts expected by December.

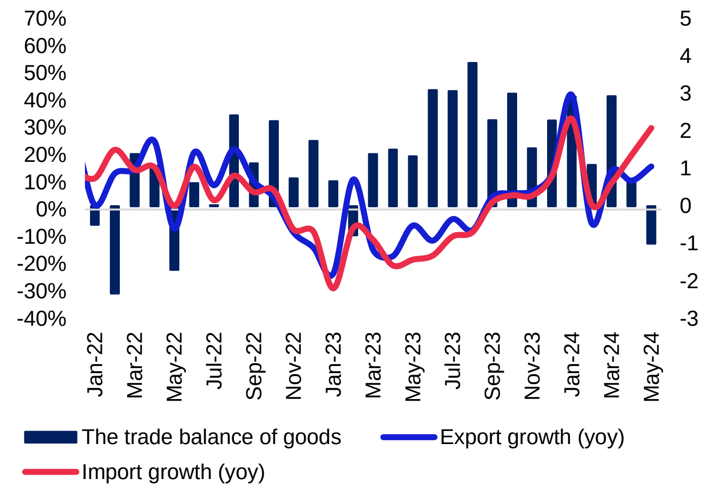
SBV's interventions alleviated the pressure on the domestic exchange rate

To support the VND, the SBV has not only intervened via FX reserves, but has also pushed up short-term interbank rates by withdrawing liquidity. The interbank USD/VND stayed stably at 25,415 in May, marking a 4.4% increase since the start of the year. The free market rate is 25,790 VND/USD, while the central rate is 24,261 VND/USD, showing rises of 4.2% and 1.7%, respectively, compared to the beginning of 2024.

We see that the downtrend of VND is relatively in line with regional currencies, eg: baht (-6.9% ytd), MYR (-2.4%), CNY (-2.3%); JPY (-10.5%).

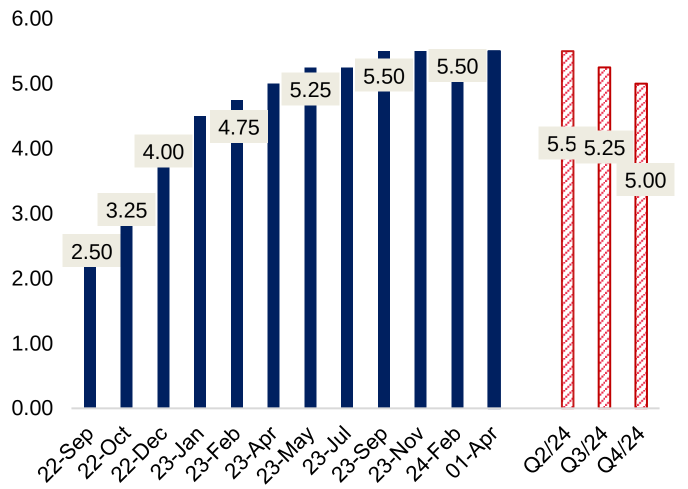
We believe the pressure on VND will ease and expect the USD/VND to range within 25,100 – 25,300 in Jun – Jul. Supportive factors for VND include: positive trade surplus (~US$8bn in 5M24), net FDI inflows (U$8.2bn, +7.8% yoy) and a bounce-back of international tourist arrivals (+64.9% yoy in 5M24). The 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



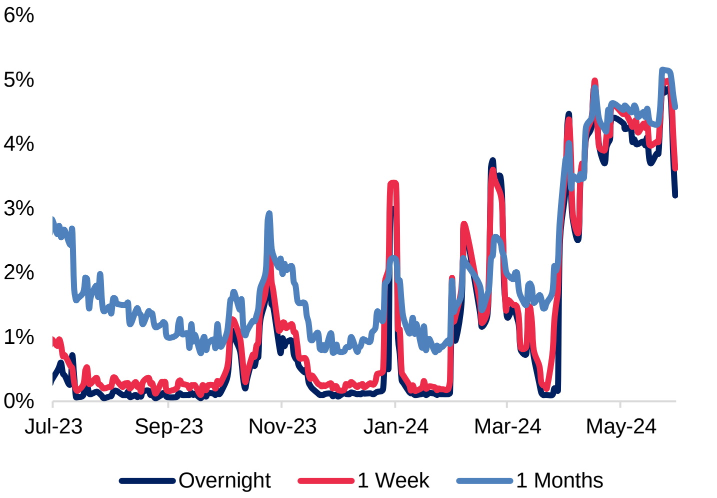
Source: GSO, MBS Research.

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



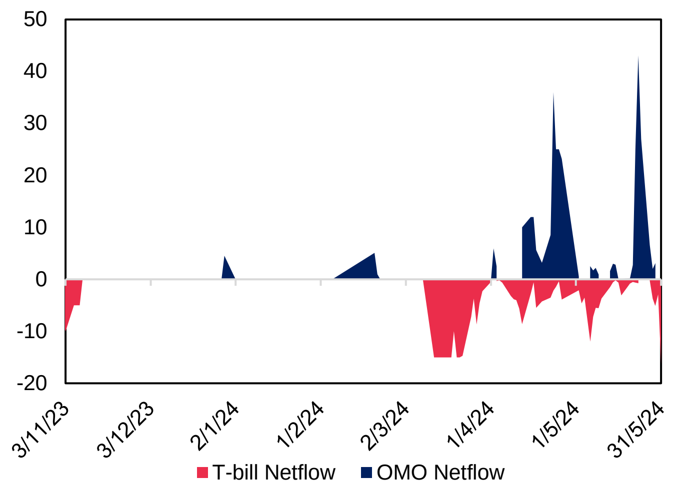
Source: Bloomberg, MBS Research

Figure 3: Interbank lending rate in tenors (%)



Source: Bloomberg, MBS Research.

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



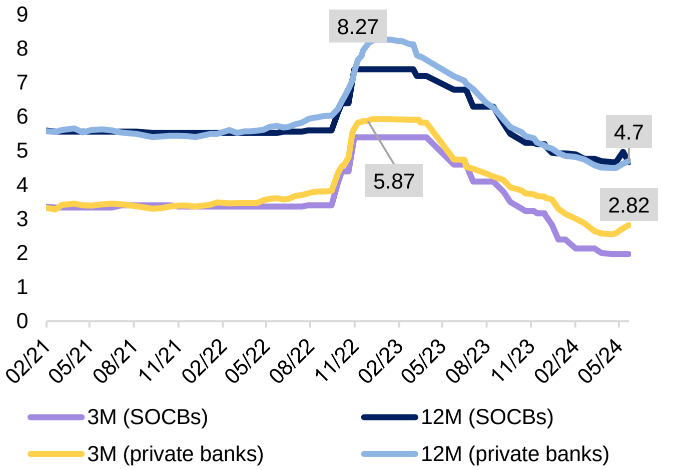
Source: SBV, MBS Research

Figure 5: Interbank interest rate (%)

Date	Overnight	1 Week	2 Week	1 Month
29/02	1.5	1.4	1.7	2.0
31/03	2.4	2.6	2.6	2.8
30/04	4.4	4.6	4.7	4.6
30/05	3.2	3.6	4.1	4.5

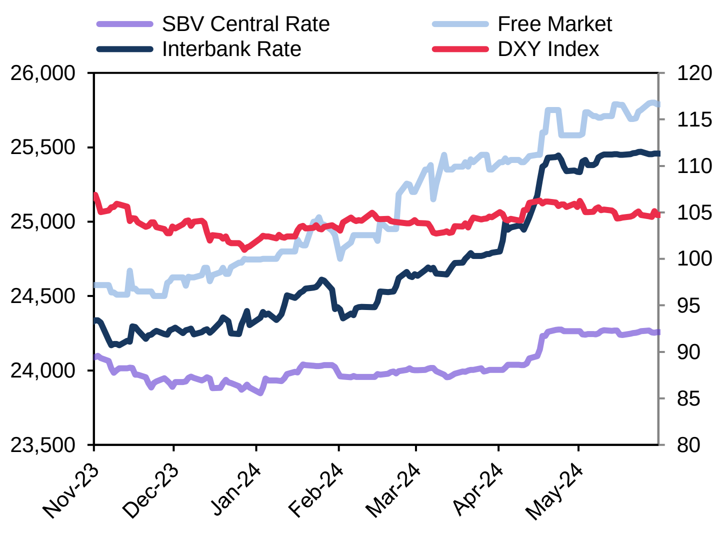
Source: Bloomberg, MBS Research

Figure 6: Commercial banks deposit rate (%)



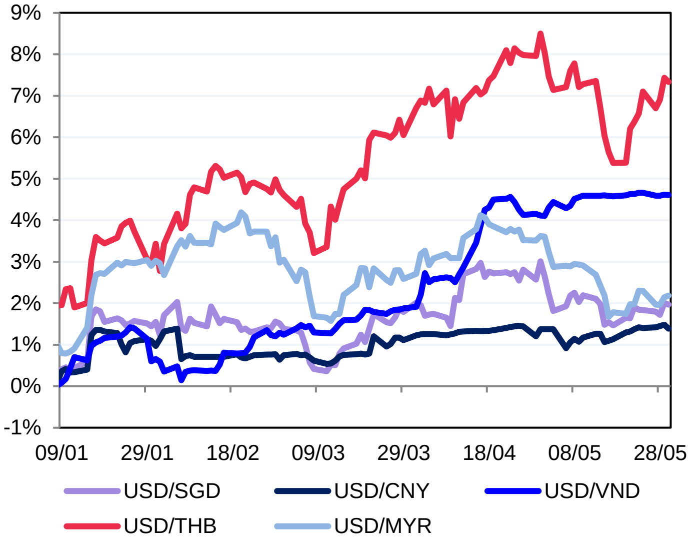
Source: SBV, Bloomberg, MBS Research

Figure 7: VND/USD exchange rate



Source: Bloomberg, MBS Research

Figure 8: Regional currencies performance against USD



Source: Bloomberg, MBS Research

DISCLAIMER

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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