

Keep an eye on the interest rates

- Interbank rates hit a 19-month high of 5.5% in early Nov, then slid to 3.3% by month-end.
- Deposit interest rates continue to drift upward amid strong credit demand towards the year-end.
- FX pressures continue to build up, pushing the USD/VND exchange rate up to 25.346 VND/USD.

The swift resurgence of USD exerted significant pressure on the VND

The DXY hit a two-year high following Trump's victory

November has been a blockbuster month for the US Dollar. The DXY rallied strongly during the month, even reaching a two-year high of 107.6 in mid-November, primarily driven by the 'Red Sweep,' in which President-elect Donald Trump is set to return to the White House, and Republicans are poised to regain control of both chambers of Congress. A complete Republican sweep would clear the path for Trump to implement his promised tax cuts and impose sweeping tariffs on imported goods, which are typically associated with rising inflationary pressures and a less aggressive rate-easing cycle from the Fed in the coming years. Additionally, resilient economic performance is another factor contributing to the upturn of the USD. The US economy appears to remain in solid shape, with the unemployment rate stable at 4.1%, an acceleration in the services PMI to a 32-month high of 57, consumer spending growing at a still-brisk 3.5% pace, and inflation cooling significantly. Based on this, Fed officials revealed that they would lean toward a more gradual rate-cutting process, as the economy is not showing any concerning signals. In early November, the Fed lowered its interest rate by 25 basis points to a target range of 4.5% – 4.75%, but the possibility of another rate cut in December is not guaranteed amid uncertainties over Trump's policies. Altogether, this acted as a boon for the USD, pushing the greenback to surge nearly 2% over the month to reach 106 by the end of November.

Exchange rate pressures remain on the verge of increasing

The rapid increase in the DXY during the month has placed significant pressure on the VND/USD exchange rate, pushing the interbank USD/VND to surge to 25,346 VND/USD by the end of Nov. The depreciation of the Dong against the US Dollar since the start of the year has risen to 4.1%, approaching the peak of 4.6% recorded in May. The free-market rate climbed to 25,740 VND/USD, while the central rate stands at 24,251 VND/USD, reflecting increases of 4% and 1.7%, respectively, compared to the start of 2024. We anticipate that pressures on FX rates will ease thanks to the SBV's interventions; however, this will occur at a modest pace, as Trump's proposed policies could further buoy the USD and add more pressure to the depreciation of the VND.

We believe the pressure on VND will ease gradually and expect the USD/VND to reach 25,000 by the end of 2024. Supportive factors for VND include positive trade surplus (~US\$23.3bn in 10M24), net FDI inflows (US\$19.6bn, +9% yoy) and a rebound of international tourist arrivals (+41.3% yoy in 10M24). 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. Additionally, pressures on the exchange rate are expected to be alleviated over

Director, Head of Research

Hien Tran Thi Khanh

Hien.tranthikhanh@mbs.com.vn

Analyst

Anh Dinh Ha

Anh.DinhHa@mbs.com.vn

time as the Fed's rate-cutting cycle, which has resulted in a total reduction of 75 bps since Sep, is likely to continue, albeit at a slower pace.

The uptrend in deposit rates regained momentum in Nov

Interbank rates have cooled down after hitting a 19-month high

Amid mounting exchange rate pressures, the State Bank of Vietnam (SBV) implemented several flexible measures in the money market to stabilize and manage the liquidity of the banking system. During the month, the SBV issued nearly VND 21.4tn T-bills, with interest rates of 3.7% - 4% for 28-day tenors. Along with that, the central bank also injected approximately VND 315tn through the OMO channel at an interest rate of 4% and tenors of 7 days, in order to relieve liquidity pressures in the system caused by consecutive withdrawals since Oct. As a result, the SBV made a net injection of VND 87.1tn into the system in Nov.

The interbank rates fluctuated greatly this month. Starting at 3.6% at the beginning of the month, the overnight rate skyrocketed to a 19-month high of 5.5% on Nov 4th. This increase is believed to have been driven by mounting pressure on the banking system's liquidity following the State Treasury's withdrawal of VND 110tn from three major banks in 3Q24. However, interbank rates have gradually declined, reaching 3.3% by the end of Nov, thanks to the substantial injection made by the SBV during the period. Meanwhile, for tenors ranging from one week to one month, interest rates span between 3.8% - 4.2%.

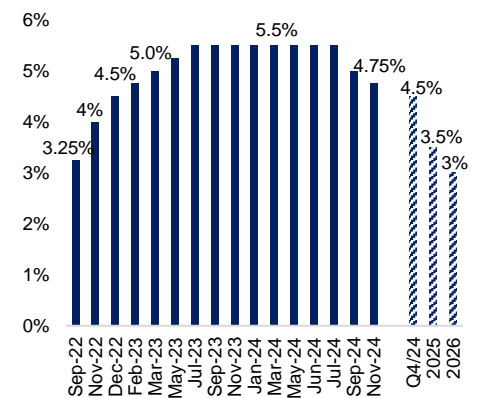
Deposit rates regained momentum in Nov

After nearly two months of stagnation, input rates began rising again in November, with 16 banks, including prominent ones such as Agribank, Techcombank, and MB, opting to increase their interest rates by 0.1% - 0.7%/year. This upturn in deposit rates is expected to continue toward the year-end, as credit growth is expanding nearly twice as fast as capital mobilization. According to the SBV, as of Nov 22nd, credit growth has increased by 11.12% compared to the end of 2023. Besides, the non-performing loan ratio of the banking system at the end of Sep 2024 reached 4.55%, almost the same as at the end of 2023 and twice the level of 2% in 2022. Thus, this appeared to be another factor encouraging banks to bolster their reserve buffers to mitigate liquidity risk via attracting new deposits. By the end of Nov, the average 12-month deposit rate for commercial banks reached 5% (14 bps higher than that at the start of the year). Meanwhile, the rate for state-owned banks remained unchanged at 4.7%, which is 26 bps lower than that at the start of the year.

We expect deposit rates to inch up further by 20 bps towards the year-end

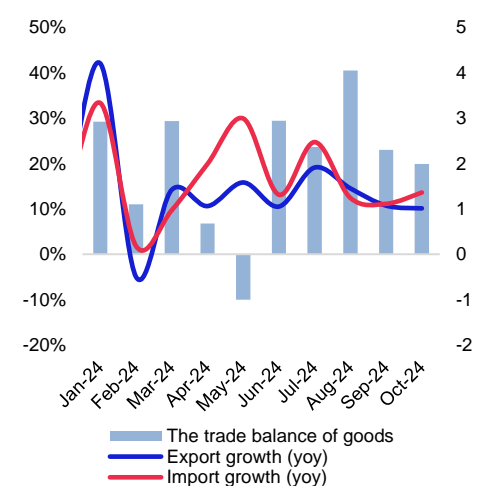
We observe a recovery in credit growth, coupled with robust production and investment growth, which may exert pressure on liquidity and potentially lead to an increase in deposit rates. As of Nov 22nd, credit growth had risen by 11.12%, higher than the 9.15% recorded in the same period last year. However, on the downside, we expect subdued inflation and lower FED fund rates to create more room for easing monetary policy in Vietnam. Considering all these factors, we anticipate that deposit rates will inch up by an additional 20 bps by year-end. Consequently, the average 12-month deposit rates of large commercial banks should range between 5.1% - 5.2% by the end of the year.

Fed is expected to bring interest rates down to 4.5% by the end of 2024



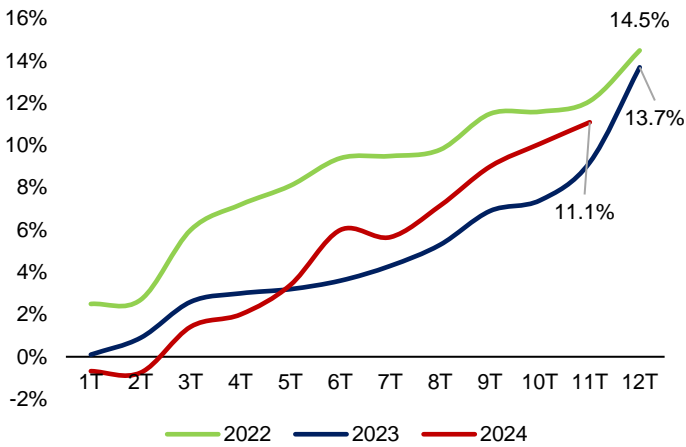
Source: Bloomberg, MBS Research

Import-export growth and monthly trade



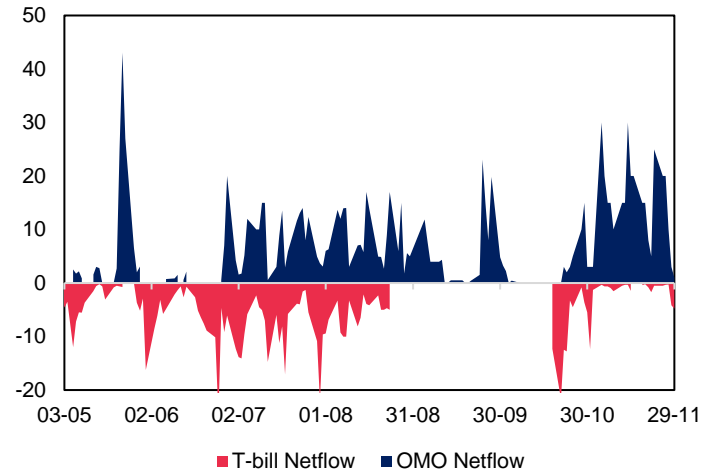
Source: GSO, MBS Research

Figure 1: Credit growth (% ytd)



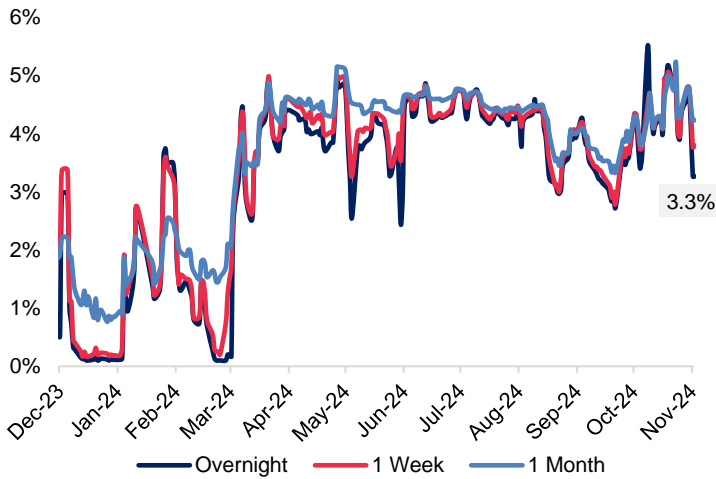
Source: Bloomberg, MBS Research

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



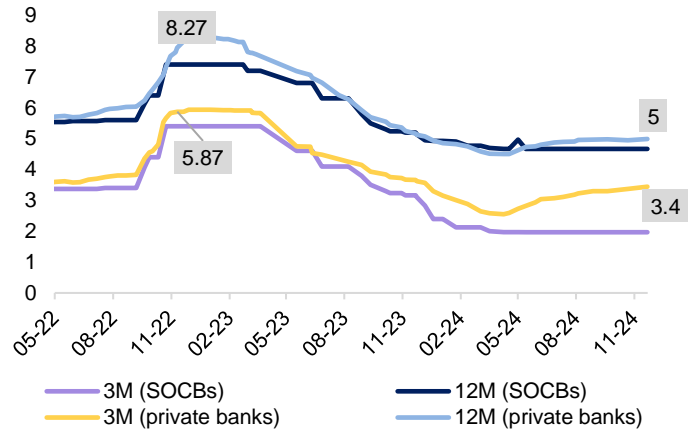
Source: SBV, MBS Research

Figure 3: Interbank lending rate in tenors (%)



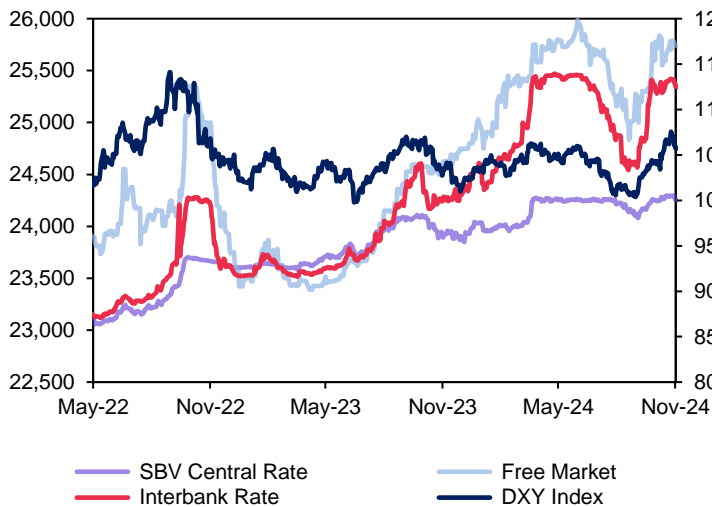
Source: Bloomberg, MBS Research

Figure 4: Commercial banks deposit rate (%)



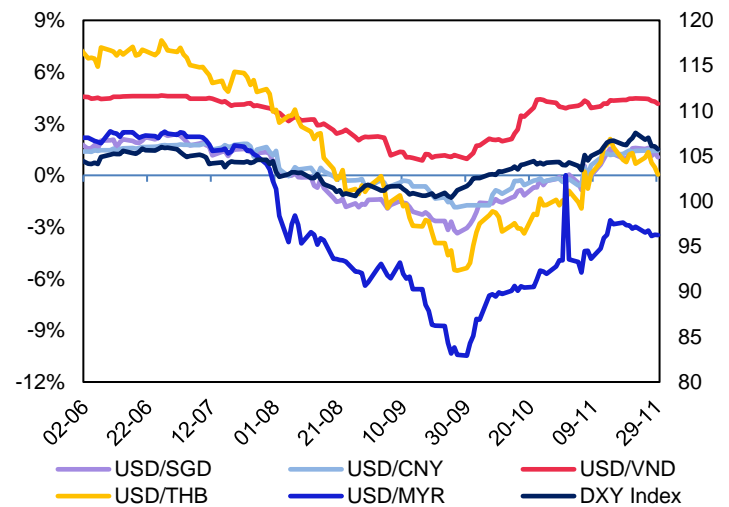
Source: Banks, MBS Research

Figure 5: VND/USD exchange rate



Source: Bloomberg, MBS Research

Figure 6: Regional currencies performance against USD



Source: Bloomberg, MBS Research

DISCLAIMER

This report has been written and distributed by MBS Research Center, MBS Securities JSC (MBS). It is based on information obtained from sources believed to be reliable, but MBS does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report and all of its content belongs to MBS. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of MBS.

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.

Address:

MB Building, 21 Cat Linh, Dong Da Dist., Hanoi

Tel: + 8424 7304 5688 - Fax: +8424 3726 2601

Website: www.mbs.com.vn

MBS RESEARCH TEAM

Director, Head of Research

Hien Tran Thi Khanh

Deputy Head of Equity Research

Dzung Nguyen Tien

Macro & Market Strategy

Hung Ngo Quoc

Cuong Nghiem Phu

Anh Dinh Ha

Anh Vo Duc

Banking – Financial Services

Luyen Dinh Cong

Hao Nguyen Duc

Real estate

Duc Nguyen Minh

Thanh Le Hai

Energy - Industrials

Tung Nguyen Ha Duc

Huyen Pham Thi Thanh

Consumer - Retail

Ly Nguyen Quynh