

## Rising pressure on Vietnam dong in Jun

- Interbank rates surged to 4.3% then slid to 2.4% by end of June, reflecting excess liquidity in the system.
- Deposit interest rates continue to rise, reflecting liquidity needs amid strong credit demand.
- The DXY has reached its highest point since late April, exerting pressure on the domestic exchange rate.

### Deposit rates to inch up across medium-size private banks

#### Interbank interest rates have slightly decreased as liquidity stabilizes

From the start of June to June 26<sup>th</sup>, the SBV issues T-bills with total amount of about VND 106.2tn with interest rates inching up to 4.25%-4.5% and tenors of 14-25 days. From June 21<sup>st</sup>, SBV made a new move in the monetary market by reducing the tenor of T-bills to 14 days to increase the attractiveness of T-bills channel, thereby expecting to raise the interbank interest rate. In addition, reducing the length of tenor will help banks be more proactive in regulating liquidity when the peak period at the end of the quarter is approaching. At the same time, the SBV injected a net amount of about VND 83.2tn with interest rates 4.5% and tenors of 7 days, including VND 76.3tn of maturing T-bills. It is estimated that about VND 76.7tn T-bills will mature in July.

The interbank interest fluctuated greatly this month, starting off with an upturn from 3.7% to surpass the 4% threshold in mid-June. On June 11<sup>th</sup>, the overnight rate peaked at 4.3% before sharply receding, currently hovering at 2.4% despite SBV's various effort of withdrawing money from the market. Interest rates span between 3.7% to 5.1% for different tenors, ranging from one week to one month.

### Deposit rates to inch up across medium-size private banks

In June, numerous commercial banks simultaneously adjusted deposit interest rates with the increase fluctuating between 0.1% - 0.5% amid credit growth accelerating to 3.79% as of June 14<sup>th</sup>, up from 2.4% at the end of May. This indicated banks' motivation to raise interest rates to attract capital to meet the rising credit demand over the month. On the other hand, the group of state-owned commercial banks maintained the average 12-month deposit interest rate at 4.7%. Markedly, VietinBank was the only state-owned commercial bank altered deposit rates in June, making its interest rates superior against 3 other banks in the group. Particularly, deposit interest rates for 1-11month terms and 24-36 month longer terms increased slightly by 0.2%/year.

### 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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## The surge in free market rate indicates renewed pressure on VND

### Dollar advances with US economic strength in focus

The DXY index has swiftly rebounded from 104 thresholds at the start of June to its current level of 105.6 (an increase by 3.3% since the beginning of the year), driven by recent release of US macroeconomics data signals a sturdy economic performance: flash US Composite PMI Output index in June nudged up to 54.6 – highest level since April 2022, new orders received by private businesses increased to 53.4, measure of employment rose for the first time in three months, etc. Under these circumstances, Fed lowered its guidance on interest rate cuts to just a single 25 basis points (bps) reduction in 2024 and a total of 100 bps cut next year.

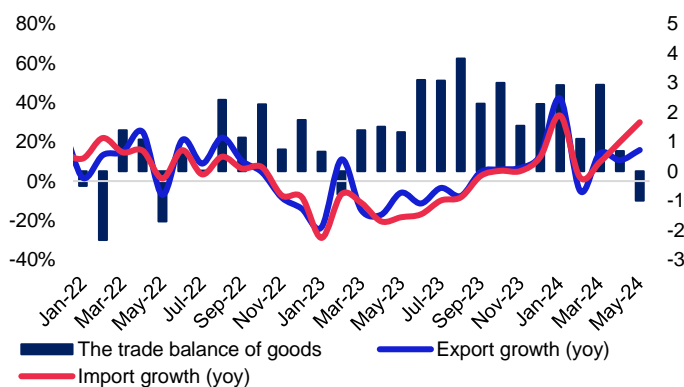
However, market still anticipates about a 65% chance that the Fed will begin a rate-cutting cycle in September, with cuts totaling nearly 50 bps this year. This forecast comes amidst slowing retail sales indicating signs of consumer fatigue in the US, and the unemployment rate rising to 4% in May for the first time since January 2022, which will likely prompt the Fed to cut interest rates.

### The exchange rate has been moving sideways within a narrow range

The rapid increase in the DXY index during the month has exerted additional pressure on the VND/USD exchange rate, making it more challenging for SBV to maintain stability. However, SBV's efforts, such as issuing T-bills and selling foreign currency to withdraw money from the market (as of June 25<sup>th</sup>, SBV has sold approximately USD 5.5bn since the end of April to manage the exchange rate, and this amount is anticipated to rise further in the coming period), have been crucial factors influencing the exchange rate this month. The interbank USD/VND slightly rose at 25,462 in May, marking a 4.5% increase since the start of the year. The free market rate continued its upward trend at 25,910 VND/USD, while the central rate is standing at 24,258 VND/USD, showing rises of 4.7% and 1.3%, respectively, compared to the start of 2024.

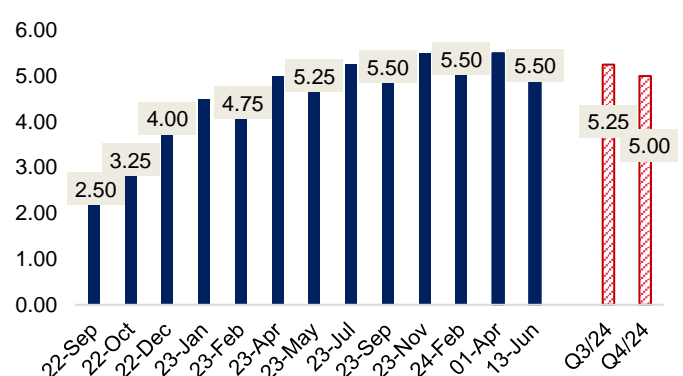
**We believe the pressure on VND will ease and expect the USD/VND to range within 25,100 – 25,300 in Jun – Jul.** Supportive factors for VND include: positive trade surplus (~US\$8bn in 5M24), net FDI inflows (US\$8.2bn, +7.8% yoy) and a bounce-back of international tourist arrivals (+64.9% yoy in 5M24).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



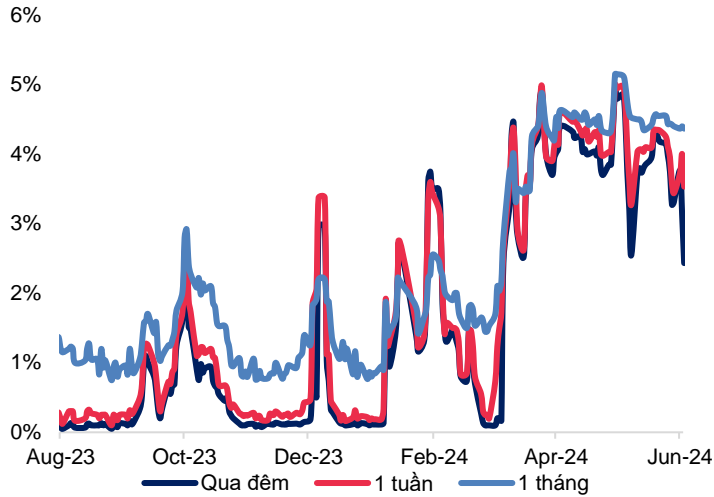
Source: GSO, MBS Research.

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



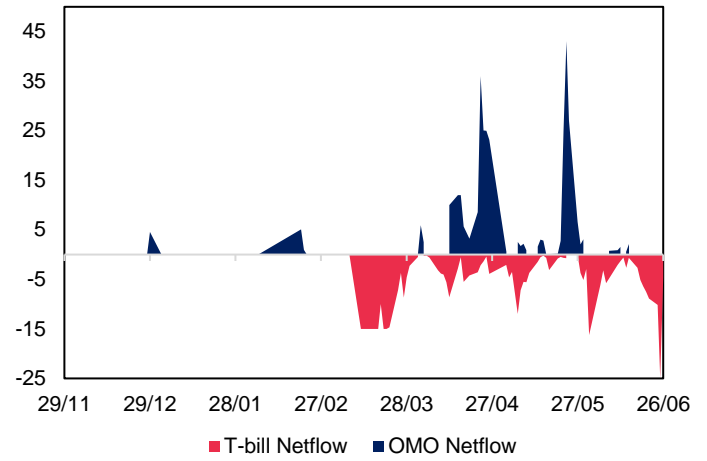
Source: Bloomberg, MBS Research

Figure 3: Interbank lending rate in tenors (%)



Source: Bloomberg, MBS Research.

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



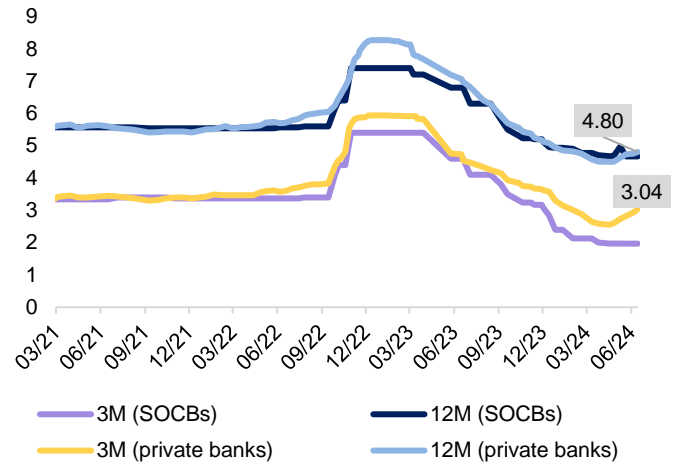
Source: SBV, MBS Research

Figure 5: Interbank interest rate (%)

Date	Overnight	1 Week	2 Week	1 Month
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
26/06	2.4	3.5	4.1	4.4

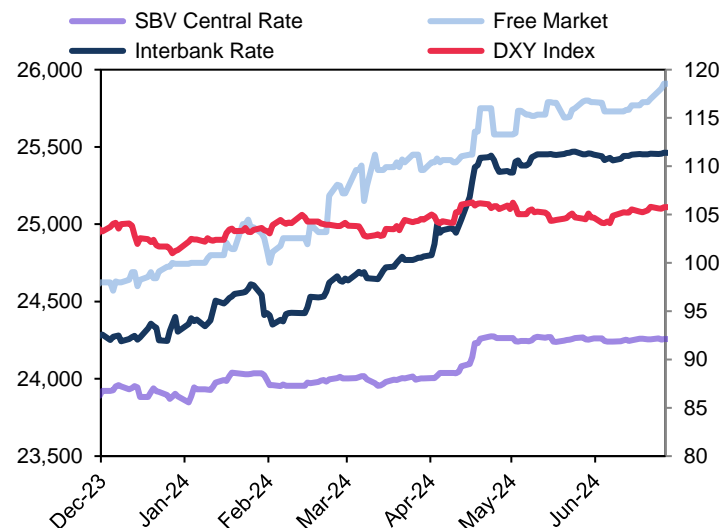
Source: Bloomberg, MBS Research

Figure 6: Commercial banks deposit rate (%)



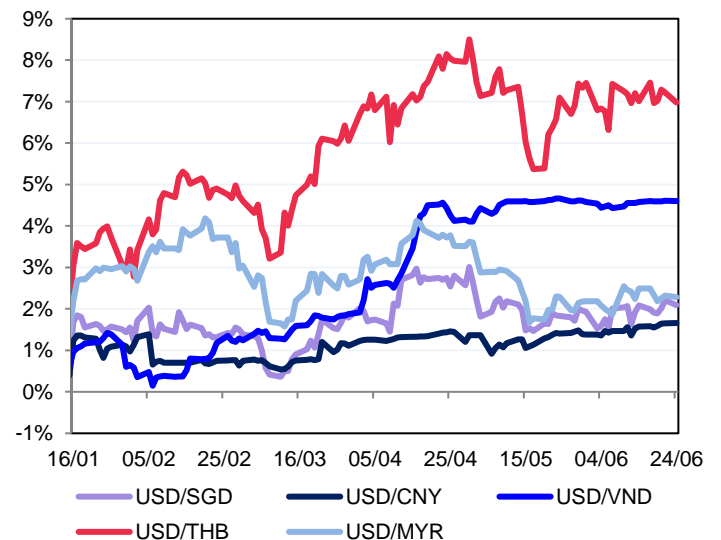
Source: SBV, Bloomberg, MBS Research

Figure 7: VND/USD exchange rate



Source: Bloomberg, MBS Research

Figure 8: Regional currencies performance against USD



Source: Bloomberg, MBS Research

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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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