

Foreign exchange risks still linger

- Interbank rates remained relatively stable during the month before surging to 4.6% by month-end due to mounting liquidity pressure from seasonal factors.
- The DXY slid during the month, relieving pressure on the foreign exchange rate. The interbank USD/VND exchange rate declined by 1.6% over the month, reaching 25,082 VND/USD by the end of January.

Exchange rate pressure eased slightly in January

The DXY slid as Trump held off day-one tariffs; however, FX risks persist

Starting at 109.4 at the beginning of January, the DXY followed an upward trend and even hit 110 - the highest level in more than two years - on January 13th, as the country continued to show resilience: manufacturing expanded for the first time since 2022, with the PMI reaching 50.9 in January, job growth unexpectedly accelerated in December, while the unemployment rate fell to 4.1%, and GDP growth for 2024 stood at 2.8%, supported by steady consumer spending.

However, the greenback lost momentum after the inauguration of President-elect Donald Trump, as he held off unveiling tariffs on his first day in office. This move reflected a shift by the incoming president into negotiation mode and an eagerness to strike deals with other countries. As a result, the reprieve triggered a decline in the Dollar Index to 108 on January 21st.

Notably, while inflation has cooled significantly from its mid-2022 40-year high, it remains an obstacle for the Fed in maintaining its rate-cut cycle. Inflationary pressure persisted at the end of 2024, as the PCE rose by 2.6% in December - still well above the Fed's 2% target. Amid Trump's wave of economic plans and prolonged inflation risks, Fed officials decided to pause interest rate cuts at their January meeting after three rate cuts in 2024. Following this, the DXY recovered slightly to 108.4 by the end of the month.

Exchange rate pressure eased slightly but remains sticky

The weaker USD throughout the month has significantly alleviated exchange rate pressures. Additionally, interbank interest rates remained high due to tightened liquidity, as cash demand surged during the Lunar New Year period. This factor also contributed to narrowing the interest rate differential between the USD and VND, thereby supporting the VND. As a result, the interbank exchange rate declined 1.6% over the month to 25,082 VND/USD by the end of January. Meanwhile, the free-market rate reached 25,500 VND/USD and the central rate stood at 24,325 VND/USD, reflecting declines of 0.1% and 1%, respectively, compared to early 2025.

However, challenges remain as a spiraling tit-for-tat trade war is expected to provide support for the USD in the near term. Recently, China imposed tariffs on US imports in swift retaliation against newly introduced US duties on Chinese goods, reigniting the trade war between the world's two largest economies. In addition, the US has imposed a 25% tariff on imports from Mexico and Canada, which will take effect in March if negotiations fail to produce the expected results. The risks related to Trump's tariff policies will further bolster the USD's position as a safe-haven asset amid rising political uncertainties. As a result, exchange rate risks remain prevalent in the coming period.

We expect the exchange rate to fluctuate in the range of 25,500 – 25,800 VND/USD in Q1/2025 as the new administration's plans for fiscal easing,

Director, Head of Research

Hien Tran Thi Khanh

Hien.tranthikhanh@mbs.com.vn

Analyst

Anh Dinh Ha

Anh.DinhHa@mbs.com.vn

combined with stricter immigration policies, along with high interest rates in the U.S. compared to other economies and the relatively high protectionism of the United States, is expected to support for a surge in the value of the USD in 2025. Nevertheless, there are still upside catalysts for the VND include positive trade surplus (~US\$3.03bn in 1M25), disbursed FDI (US\$1.51bn, +2% yoy) and a rebound of international tourist arrivals (+36.9% yoy in 1M25). The stability of the macro environment is likely to be maintained, and further improvement will be the basis for stabilizing the exchange rate in 2025.

We expect input rates to stay at 5.0% - 5.2% in 2025

Interbank interest rates surged by month-end due to seasonal factors

The State Bank of Vietnam (SBV) continued to conduct T-bill issuances and OMO operations in January to manage banking system liquidity. During the month, the SBV issued nearly VND 162.5tn T-bills at a 4% interest rate with tenors of 7-14 days. At the same time, the central bank injected approximately VND 233.6tn through the OMO channel at interest rates of 4% for 7, 14 and 21-day tenors. In January, the SBV increased the amount of liquidity support for the system, with a net injection of VND 67.5tn – rising fivefold compared to the previous month. This occurred amid easing pressure on the foreign exchange rate and a liquidity shortage as cash demand surged during the Lunar New Year at the end of the month.

Interbank interest rates remained relatively stable during the month. Starting at 4% at the beginning of January, the overnight rate gradually dropped to 3.6% on January 23rd before surging to 4.6% on January 24th. This development is attributed to seasonal factors, as system liquidity tends to decline as the Lunar New Year approaches due to rising consumer spending. Consequently, interbank interest rates surged again. By the end of the month, the overnight rate remained at 4.6%. Meanwhile, for tenors ranging from one week to one month, interest rates ranged between 4.7% and 4.8%.

Deposit rates remain stable during the month

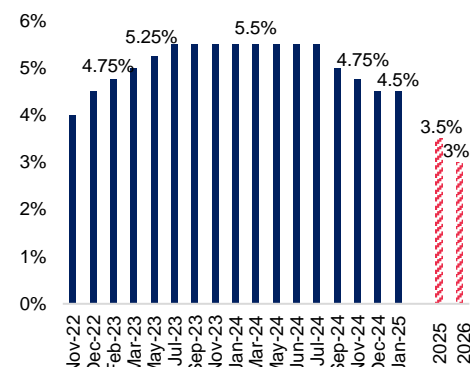
Even though 12 banks raised interest rates by 0.1% - 0.9%/year in January, 7 banks also lowered their deposit rates by 0.1% - 0.75%/year. The upward trend in deposit rates was mainly observed among smaller commercial banks, which are preparing large capital reserves to support their lending plans for the year. Recently, the SBV had set a credit growth target of approximately 16% to support an economic growth goal of 8% in 2025.

By the end of January, the average 12-month deposit rate for commercial banks remained at 5.1%, unchanged from the previous month, while the rate for state-owned banks held steady at 4.7%.

We expect deposit rate to stay at 5% - 5.2% in 2025

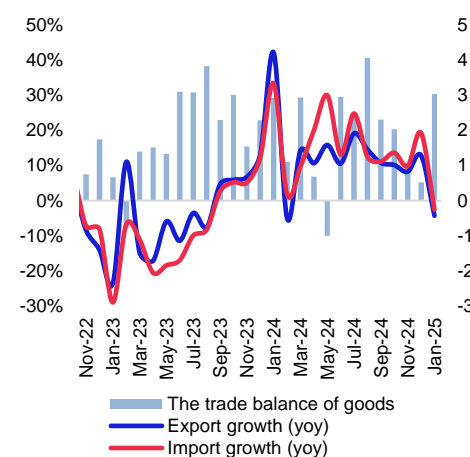
Vietnam's monetary policy space will be more constrained than previously anticipated due to a strong USD and the risk of ongoing U.S. investigations into currency manipulation allegations. In such a scenario, the SBV may need to adopt a more cautious monetary policy stance to ensure exchange rate stability, thereby limiting the scope for further monetary easing. Thus, we do not expect any policy rate cut in 2025. Meanwhile, the rebound of the manufacturing sector and the acceleration of public investment disbursement in the coming year are

Fed kept interest rates unchanged at 4.5% in the January meeting



Source: Bloomberg, MBS Research

Import-export growth and monthly trade



Source: GSO, MBS Research

expected to support a continued improvement in credit growth, will exert upward pressure on input rates. However, the SBV has requested credit institutions to stabilize deposit interest rates and further reduce lending rates. Therefore, we expect the average 12-month deposit rates of large commercial banks to fluctuate around the range of 5% - 5.2% in 2025.

Figure 1: Credit growth (% ytd)

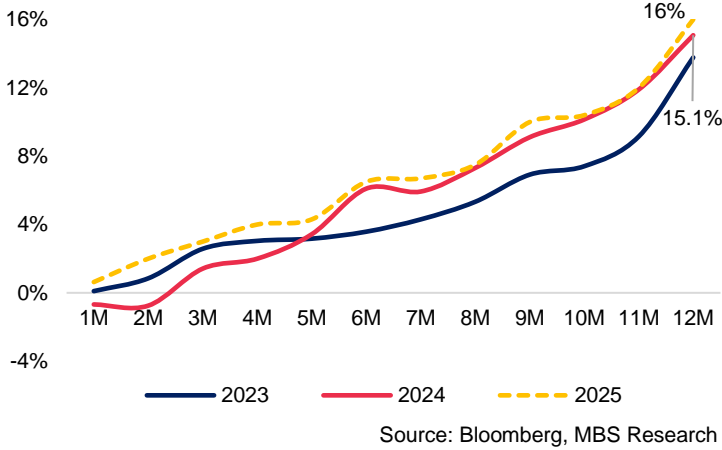


Figure 2: SBV's Open Market Operation (Liquidity) [VND tn]

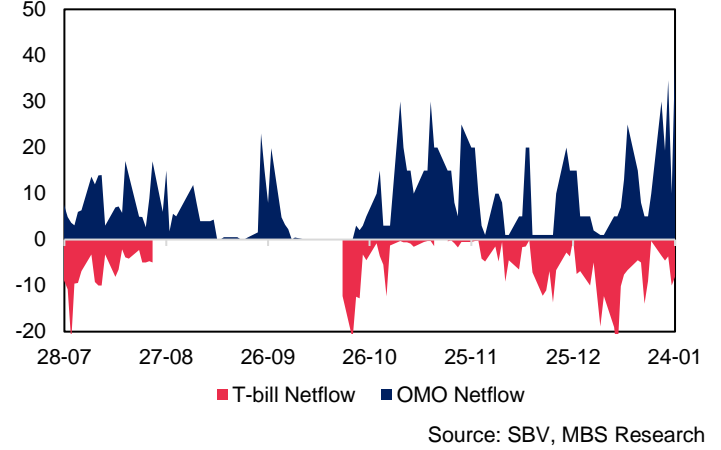


Figure 3: Interbank lending rate in tenors (%)

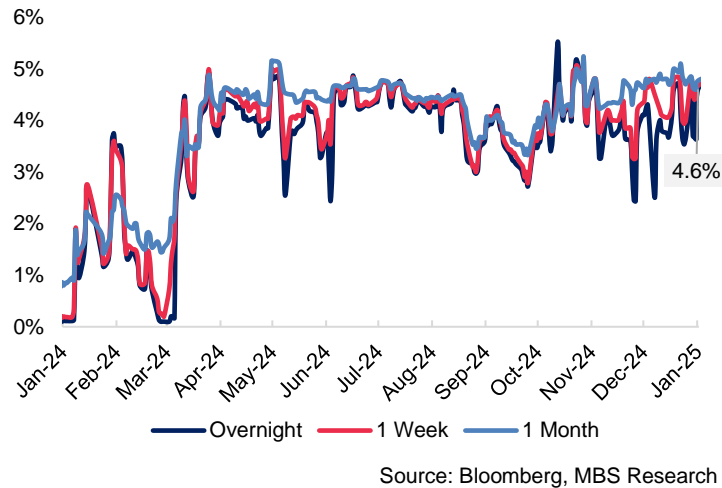


Figure 4: Commercial banks deposit rate (%)

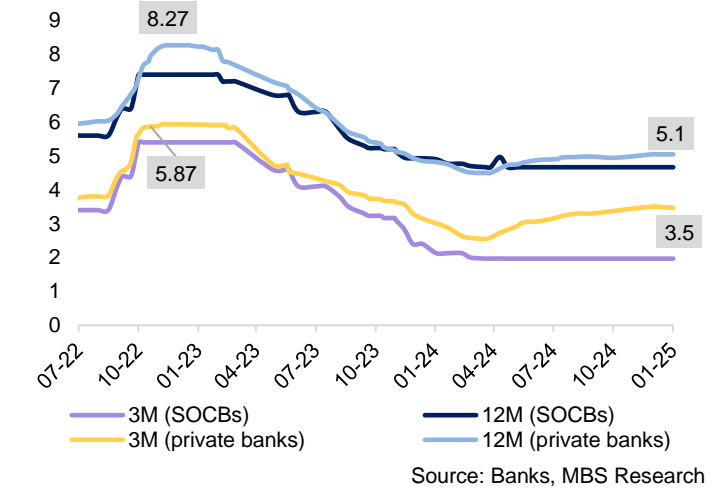


Figure 5: VND/USD exchange rate

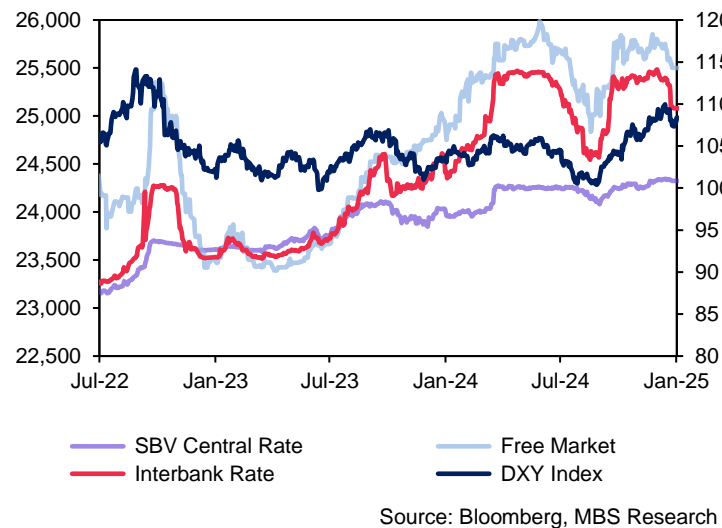
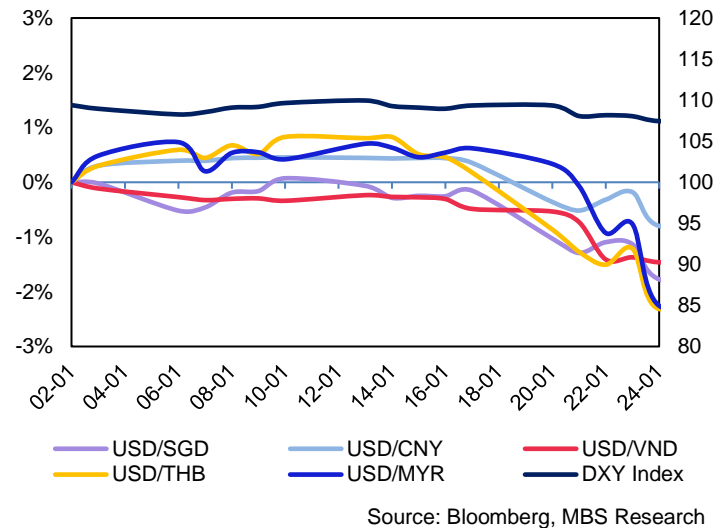


Figure 6: Regional currencies performance against USD



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