Exchange rate pressures have reemerged

- Interbank rates hit a 4-month low of 2.7% in mid-Oct, then surged to 3.8% by month-end, reflecting liquidity pressures within the system.
- The USD/VND exchange rate surged by nearly 3% over the month, reached 25,295 VND/USD by the end of Oct.
- Credit growth is expanding almost twice as fast as capital mobilization, which will continue to pressure banks to adjust input rates towards the year-end.

FX pressures have resurged but are expected to diminish soon

The USD rallied amid rising odds of a less dovish approach from the Fed

After hitting a 14-month low of 100.4 at the end of September, the DXY has been steadily rising, fuelled by a series of robust economic data, especially a blockbuster jobs report showing no signs of labour market deterioration. In particular, US job gains saw the highest increase in six months, while the unemployment rate declined for the second consecutive month to 4.1% in Sep. With upward revisions from previous months, the report has eased concerns about the state of the labour market. Along with that are other favourable economic indicators such as: an acceleration in the services PMI to a one-and-a-half-year high at 54.9; PCE index increased 2.1% yoy – a fresh three-and-a-half-year low; and retail sales rose 1.7% yoy supported by strong discretionary spending. Hence, these solid economic data likely solidify a more gradual pace of Federal Reserve's rate reduction. Traders are now pricing in a 96.6% chance that the Fed will reduce interest rates by 25 bps to 4.50% - 4.75% at the upcoming meeting in Nov. Additionally, the increasing likelihood of former US President Donald Trump securing a second term has also contributed to the USD rally lately, as investors price in proposed tariff extensions under a new Trump administration, expected to add inflationary pressures and maintain elevated US rates. Thereby, the DXY has surged nearly 3% over the past month, reaching 104.1 by the end of October.

VND is once again on the back foot against the USD

After a relatively strong recovery over the past two months, the VND/USD pair is once again on the back foot due to the robust recovery of the USD since early October. However, the currency devaluation is influenced not only by external factors but also by rising foreign currency demand driven by seasonal dynamics. USD demand typically surges in October as businesses ramp up imports of raw materials to meet year-end export needs. Furthermore, the international debt obligations of about USD 1bn have prompted the State Treasury to bolster its USD inventory. This month, the State Treasury announced that it would purchase US Dollar from commercial banks with a maximum total value of USD 940mn, bringing the total amount of USD acquired since the beginning of the year to nearly USD 1.3bn. This has tightened the USD supply, thereby adding further pressure on the exchange rate. In response to this, on Oct 24th, the SBV implemented a strong intervention by selling hard currency to commercial banks at 25,450 VND/USD, aiming to ease sentiment in the FX market and curb further depreciation of the domestic currency.

Since the beginning of the month, the interbank USD/VND has spiked 2.8% to reach 25,295 VND/USD on Oct 30th. The depreciation of the Dong against the US Dollar since the start of the year has risen to 3.9%, approaching the peak of 4.6% recorded in May. The free-market rate climbed to 25,772 VND/USD, while

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the central rate stands at 24,246 VND/USD, reflecting increases of 4.2% and 1.7%, respectively, compared to the start of 2024. However, we anticipate that pressures on FX rates will ease soon, as this fluctuation was mainly attributed to seasonal factors. Along with that, the Fed's rate cut cycle is expected to continue, and the SBV's prompt interventions will also help to curb the rising pace of the USD.

We believe the pressure on VND will ease and expect the USD/VND to range between 24,800 – 25,000 by the end of 2024. Supportive factors for VND include positive trade surplus (~US$20.8bn in 9M24), net FDI inflows (U$17.3bn, +9% yoy) and a rebound of international tourist arrivals (+43% yoy in 9M24). 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.

We expect input rates to inch up by 20 bps by the end of the year

The interbank rates drifted upward following SBV's new move in the money market

Thanks to the SBV's continuous liquidity injections through the OMO channel over the past three months, the liquidity in the banking system was quite stable during the first half of October. However, in the face of a surging USD/VND exchange rate, the SBV has resumed T-bills issuance from Oct 18th after nearly two months of suspension. This move aims to absorb excess capital in the system, which will help to raise the interbank interest rate corridor. As of Oct 30th, the SBV had issued a total of approximately VND 76.9tn T-bills, with interest rates of 3.6% - 3.75% for 14-day tenors and 4% for 28-day tenors. Along with that, the central bank also injected nearly VND 47tn through the OMO channel, with an interest rate of 4% and tenors of 7 days, in order to relieve liquidity pressures in the system caused by consecutive withdrawals during the month. The parallel utilization of T-bills and OMO tools is believed to serve the dual target of ensuring liquidity for the banking system to maintain low interest rates, thereby continue to support economic growth, while also alleviating pressures on exchange rates by narrowing the interbank interest rate gap between the VND and USD.

The overnight rate, which stood at 4% in early Oct, dropped sharply to 2.7% on Oct 18th - the lowest rate since late June. However, after the SBV's T-bills reissuance, the overnight interbank rate has been on a cusp of ascending, reaching 3.8% by the end of the month. While for tenors ranging from one week to one month, interest rates spanned between 4% - 4.1%.

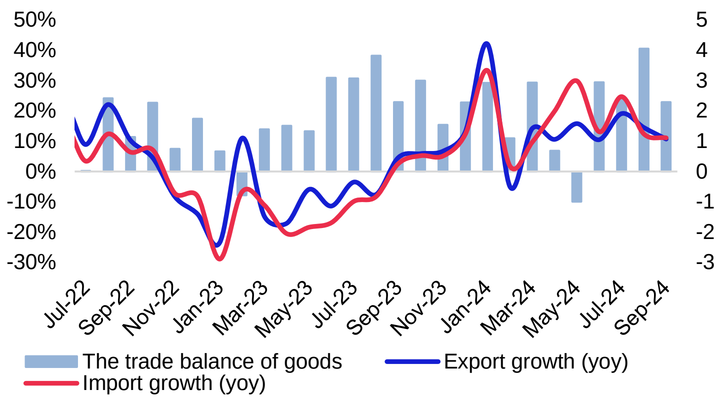
Deposit rates' upward momentum has stagnated for third straight month

The upward momentum of input rates continued to stall in Oct, with four banks announcing a reduction in their 12-month savings rates by 0.1 to 0.2 percentage points amid relatively stable liquidity in the banking system, thanks to the SBV's net injections over the past three months. The average 12-month deposit rate for commercial banks in Oct slightly decreased by 4 bps compared to the previous month, reaching 4.9% (9 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. Nevertheless, banks still face pressure to raise deposit rates towards the year-end as credit growth is expanding almost twice as fast as capital mobilization. According to the SBV, as of Sep 30th, credit growth has increased by 9% compared to the end of 2023.

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

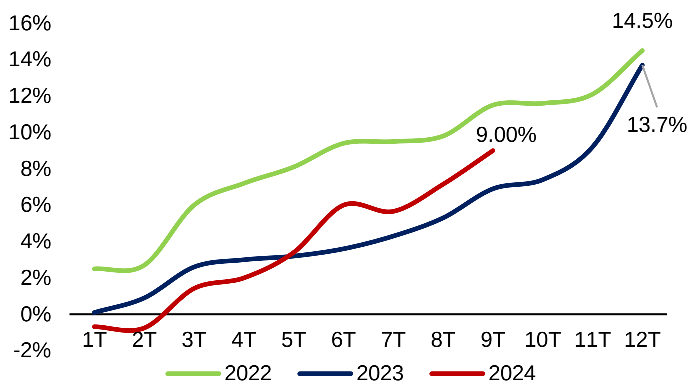
We observe a recovery in credit growth, coupled with robust production and investment growth, which may exert pressure on liquidity and potentially lead to an increase in deposit rates. As of September 30th, credit growth had risen by 9%, higher than the 6.92% recorded in the same period last year. However, 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.

Figure 1: Import-export growth and monthly trade surplus



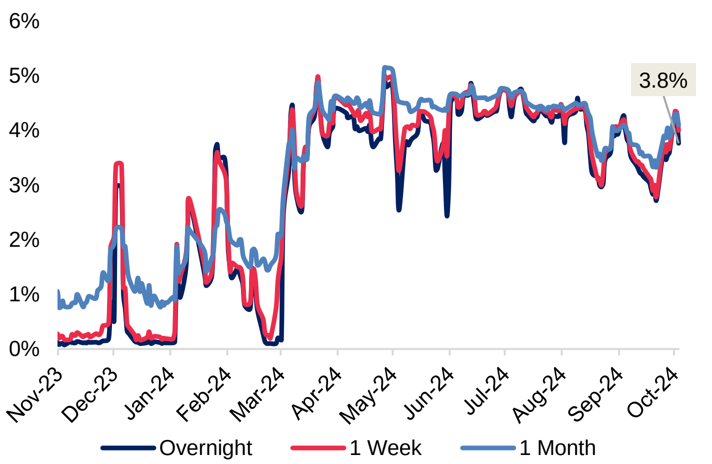
Source: GSO, MBS Research

Figure 2: Credit growth (% ytd)



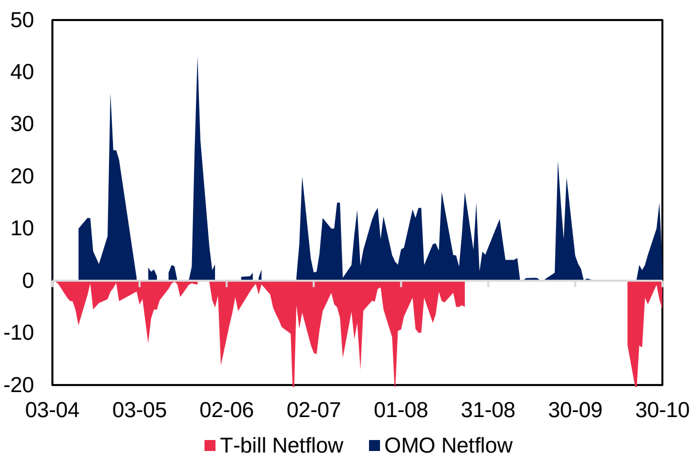
Source: Bloomberg, MBS Research

Figure 3: Interbank lending rate in tenors (%)



Source: Bloomberg, MBS Research

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



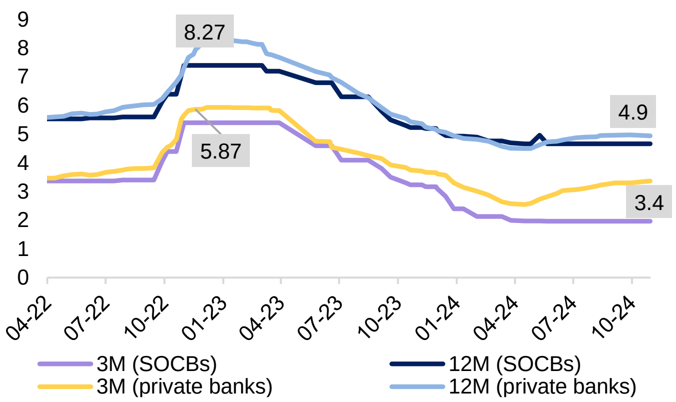
Source: SBV, MBS Research

Figure 5: Interbank interest rate (%)

Date	Overnight	1 Week	2 Week	1 Month
31/07	4.3	4.5	4.5	4.6
30/08	4.2	4.3	4.3	4.4
30/09	4.3	4.2	4.1	4.1
30/10	3.8	4.0	4.1	4.1

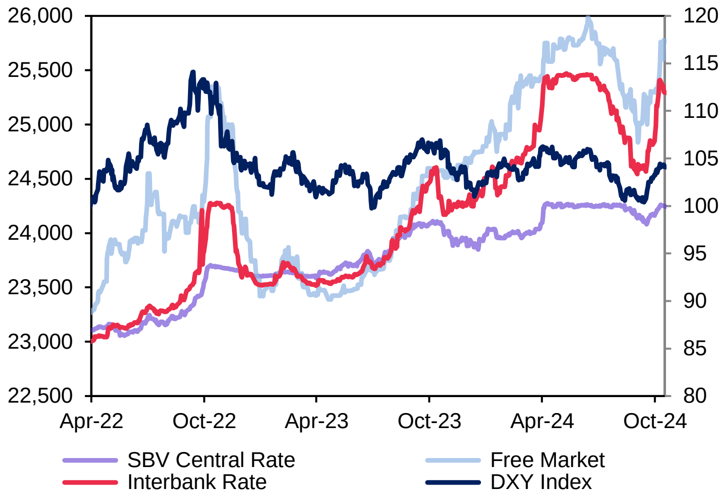
Source: Bloomberg, MBS Research

Figure 6: Commercial banks deposit rate (%)



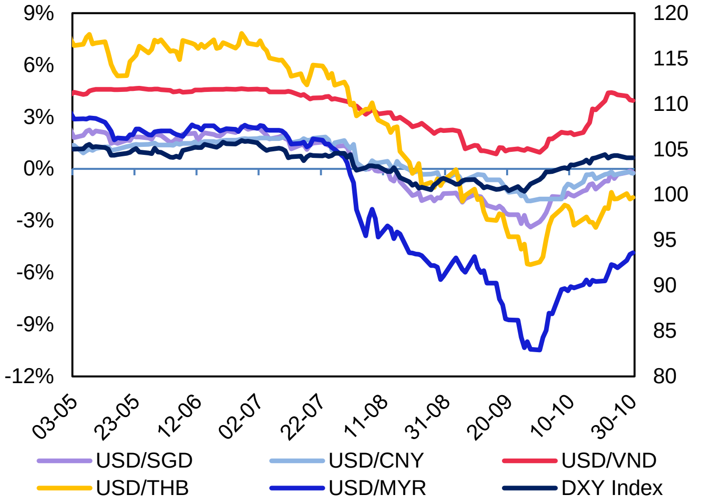
Source: SBV, Bloomberg, MBS Research

Figure 7: VND/USD exchange rate



Source: Bloomberg, MBS Research

Figure 8: Regional currencies performance against USD



Source: Bloomberg, MBS Research

DISCLAIMER

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.

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