

FX pressure to cool down

- The SBV implemented various monetary easing measures throughout the month, aiming to set a lower interbank rate level.
 - Deposit interest rates continue to rise as credit growth regained momentum.
 - The DXY hit a 13-month low as the Fed declared that the time had come for policy adjustments.
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Alleviated pressures on exchange rate

The DXY slides to a 13-month low

The DXY index has been on a steady downfall throughout this month. Starting the month at 104.4, the DXY had plunged continuously and bottomed out at 100.7 - its lowest level in more than a year – by the end of the month. This occurred as inflation in the US cooled to 2.5% in Jul, down from a peak of 7.1% in 2022, edging closer to the Fed's 2% target. As a result, Federal Reserve Chair Jerome Powell declared victory over inflation, believing that the time has come for policy to adjust. Nevertheless, the timing and pace of rate cuts will depend on incoming data and the evolving outlook of the economy. There are now 71.5% odds that the Fed's target range for its key interest rate will be lowered by a quarter percentage point to 5% - 5.25% in September.

VND strengthens rapidly

The pressure on the VND/USD exchange rate eased significantly in Aug due to the weakening of the US dollar. Since the beginning of Aug, the interbank USD/VND plunged 1.4% to 24,860 VND/USD, marking a 2.1% increase since the start of the year. The free-market rate slid to 25,250 VND/USD, while the central rate is standing at 24,254 VND/USD, showing rises of 2% and 1.7%, respectively, compared to the start of 2024.

We believe the pressure on VND will ease and expect the USD/VND to range within 24,800 – 25,000 in 4Q24. Supportive factors for VND including: positive trade surplus (~US\$14.1bn in 7M24), net FDI inflows (US\$12.6bn, +8.4% yoy) and a rebound of international tourist arrivals (+51% yoy in 7M24). 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.

Prolonged upward momentum of deposit rates

A lower interbank rate benchmark is being set

The SBV has implemented quantitative easing since the beginning of August as exchange rate pressures have alleviated. Particularly, the OMO interest rate was reduced by 25bps to 4.25% early this month, and the tenor was extended to 14 days on Aug 26th. In addition, the Central bank also lowered T-bill interest rates three times this month by a total of 35bps to 4.15%, and suspended T-bill issuance on Aug 26th. Altogether, this reflects the SBV's intention to establish a lower interbank interest rate benchmark aimed at supporting the banking system's liquidity and stimulating economic growth. As of Aug 26th, a net amount of about VND 322.7tn had been injected into the system, with interest rates of 4.25% - 4.5% and tenors of 7 - 14 days, including VND 158.3tn of matured T-bills. It is estimated that about VND 22tn T-bills will mature in Sep. Along with

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that, a total of VND 98.8tn T-bills with interest rates of 4.15% - 4.5%, tenors of 14 days were issued in Aug.

The overnight rate, which stood at 4.5% in early Aug, has slightly dropped to 4.3% by Aug 26th. For tenors ranging from one week to one month, interest rates spanned between 4.3% - 4.4% by the end of the month. Despite the SBV's active intervention, the interbank rates across all terms remained above 4%, partially was due to the rebound in credit growth. According to the SBV, as of Aug 16th, credit growth had risen by 6.25% compared to the end of 2023.

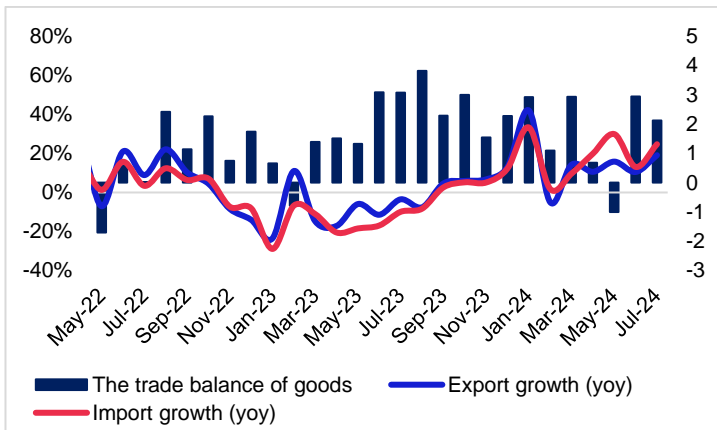
Input rates continue to drift upward

The upward momentum of deposit rates persisted in Aug as credit growth regained traction, prompting banks to raise input rates to attract more capital. Additionally, a sharp increase in bad debts within the system (which rose by 5.8% in 1H24 compared to last year) further encouraged banks to bolster their reserve buffers to mitigate liquidity risks via attracting new deposits. As of Aug 26th, 15 banks had raised their savings interest rates, with increases ranging from 0.1% to 0.8%. Conversely, only 4 banks opted to decrease their input rates by 0.1% - 0.3%. Notably, Agribank became the third state-owned commercial bank to adjust deposit rates, raising rates for 1-5 month and 24-month terms by 0.1%/year.

We expect input rates to inch up by 50 bps in the second half of 2024

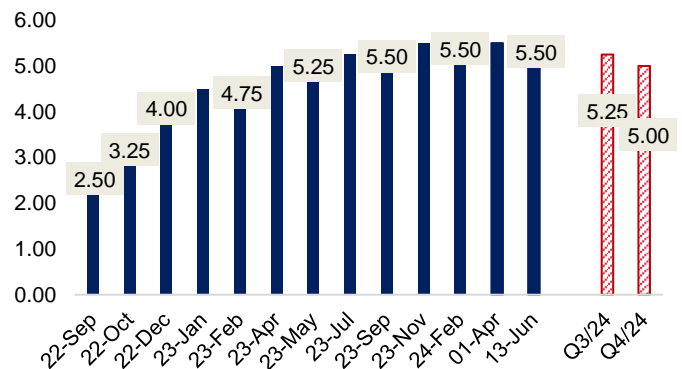
We anticipate that credit demand will surge sharply from 3Q2024 onward due to strong production and investments growth. For 7M24, the index of industrial production (IIP) increased by 11.2% yoy and the Purchasing Managers Index (PMI) rose to 54.7 in Jul. Moreover, public and private investments inched up 2.3% in 7M24 and 6.7% in 2Q24, respectively. We forecast that the 12-month deposit rate of large commercial banks will be able to inch up by 50bps and progressively return to 5.2% - 5.5% by the end of 2024. However, we believe that output rates will remain stable as regulators and commercial banks are actively striving to provide credit capital for businesses.

Figure 1: Import-export growth and monthly trade surplus



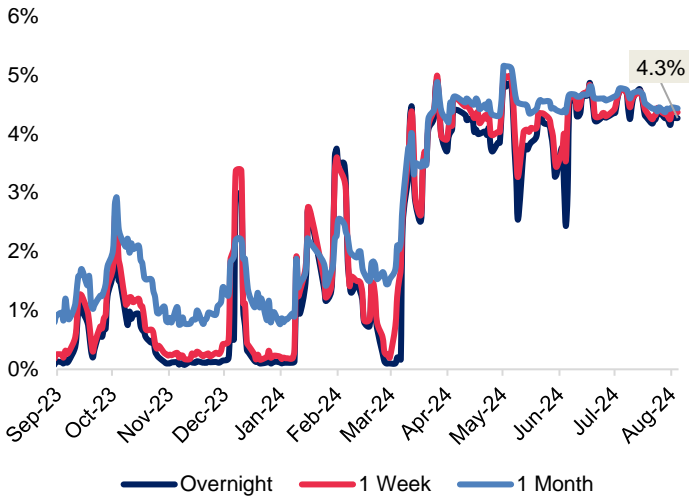
Source: GSO, MBS Research

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



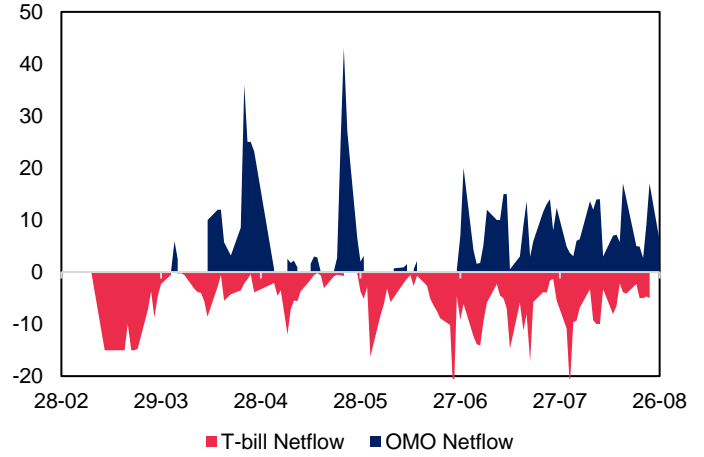
Source: Bloomberg, MBS Research

Figure 3: Interbank lending rate in tenors (%)



Source: Bloomberg, MBS Research

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



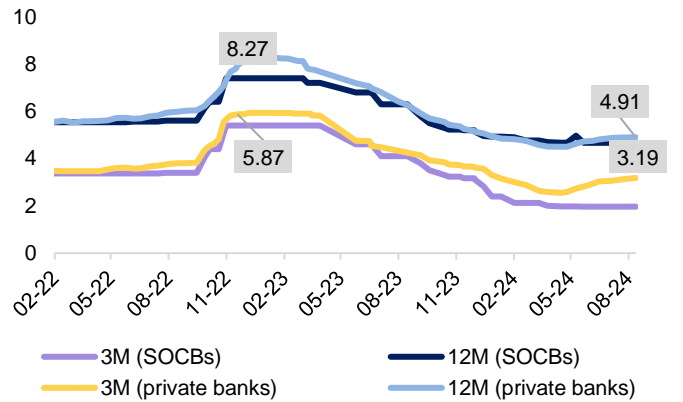
Source: SBV, MBS Research

Figure 5: Interbank interest rate (%)

Date	Overnight	1 Week	2 Week	1 Month
30/05	3.2	3.6	4.1	4.5
28/06	4.5	4.6	4.7	4.7
31/07	4.3	4.5	4.5	4.6
26/08	4.3	4.4	4.4	4.4

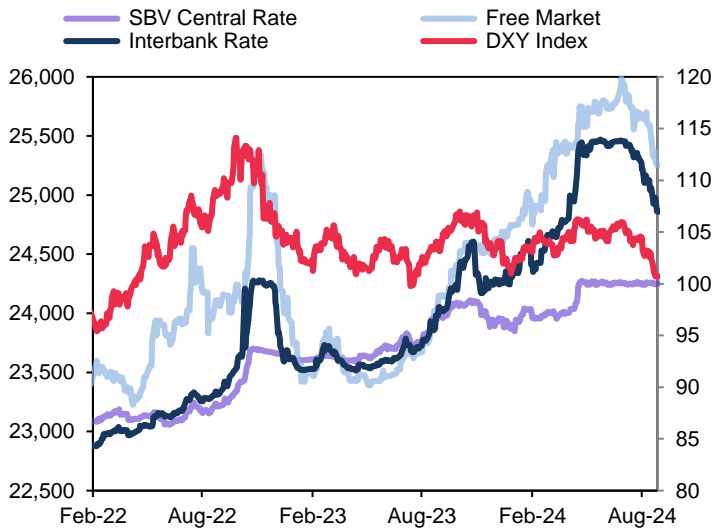
Source: Bloomberg, MBS Research

Figure 6: Commercial banks deposit rate (%)



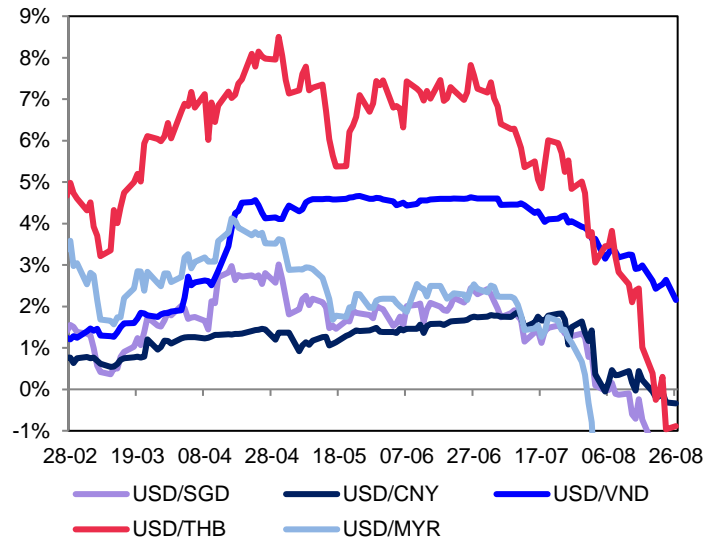
Source: SBV, Bloomberg, MBS Research

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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