FX risks looming as a prominent headwind in 2025

- Interbank rates reached 3.6% by year-end.
- With limited room for further monetary policy easing, we do not expect any policy rate cut in 2025 and expect input rates to fluctuate around the range of 5% - 5.2%.
- Amid uncertainties associated with 'Trump 2.0' that could lead to a surge in the value of the USD, we expect the exchange rate to range within 25,500 – 25,800 VND/USD in Q1/2025.

The USD/VND exchange rate hit an all-time high

Fed's cautious rate cut outlook set the stage for DXY surge

The DXY has been rising steadily throughout the month, reaching a two-year high of 108.4 on Dec 19th after the Federal Reserve delivered a widely expected interest rate cut of 25 bps. However, this move was accompanied by a message of caution regarding the incoming Trump administration. Consequently, Fed officials forecast only two rate reductions in 2025, acknowledging the economy's resilience and persistent inflation, with the CPI remaining above the Fed's 2% target, posting 2.7% in November. Meanwhile, the U.S. economy continues to show resilience, with GDP in the third quarter increasing by an upwardly revised 3.1%, driven by robust consumer spending. The DXY has gained in each of the past three months, supported by expectations that President-elect Donald Trump's policies - such as looser regulation, tax cuts, tariff hikes, and tighter immigration - will be both pro-growth and inflationary. Amid this backdrop, the U.S. 10-year Treasury yield hit a more than seven-month high of 4.6% by the end of December. The rising Treasury yield has provided additional support for the greenback, which surged 2.6% over the month to hit 108.5 by the end of December.

We expect the exchange rate to range within 25,500 – 25,800 VND/USD in Q1/2025

Exchange rates became a focal point in Mar, peaking in May at 25,470 VND/USD, marking a 4.6% year-to-date depreciation. This was driven by the Fed's 23-year-high interest rates, increased USD demand for imports, and speculative hoarding. After contending with depreciation pressures, the VND gradually recovered from mid-September, following the Fed's aggressive 50-basis-point rate cut - the first reduction in four years. However, this recovery was short-lived, as exchange rates surged again in Q4 due to rising import demand and the State Treasury's USD requirements for debt repayment.

As of December, exchange rate pressure remains elevated due to the swift resurgence of the USD, pushing the interbank USD/VND rate to reach an all-time high at 25,485 VND/USD by month-end. The depreciation of the Dong against the US Dollar since the start of the year has risen to 4.6%. By the end of December, the free-market rate climbed to 25,800 VND/USD, while the central rate stood at 24,335 VND/USD - the highest level since the central exchange rate mechanism was implemented in 2016. These rates reflect increases of 4.3% and 2%, respectively, compared to the start of 2024. Amid this, the SBV has intervened by selling a significant amount of USD and flexibly

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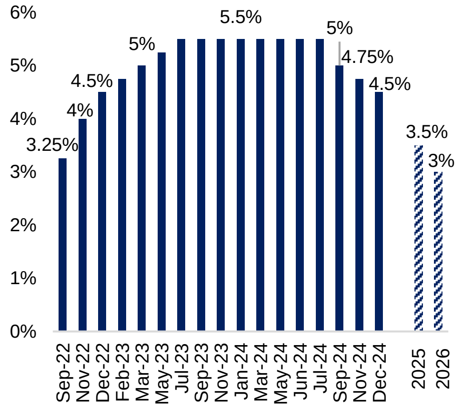
managing interbank liquidity to curb the upward momentum of the USD/VND exchange rate.

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, 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 the coming year. Nevertheless, there are still upside catalysts for the VND include positive trade surplus (~US$24.77bn in 2024), net FDI inflows (U$25.35bn, +9.4% yoy) and a rebound of international tourist arrivals (+39.5% yoy in 2024). 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.

Fed delivered 3 rate cuts in 2024, bring interest rates down to 4.5% by the year-end



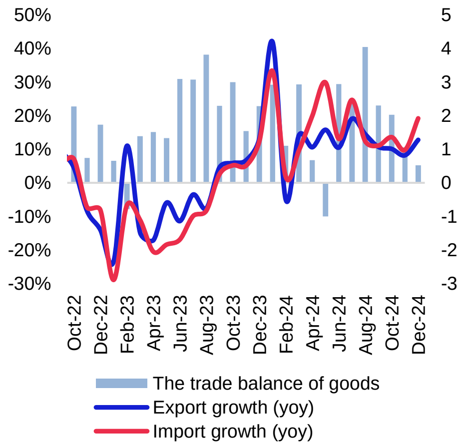
Source: Bloomberg, MBS Research

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

The overnight interbank rate reached 3.6% on the last day of the year

The State Bank of Vietnam (SBV) implemented several measures in the money market to manage banking system liquidity. During the month, the SBV issued nearly VND 123.7tn T-bills with interest rates ranging from 3.9% to 4% for 7, 14 and 28-day tenors. Additionally, the central bank injected approximately VND 172tn through the OMO channel at a 4% interest rate and tenors of 7-14 days. This month, the State Bank of Vietnam (SBV) gradually reduced the amount of liquidity supporting the system, with the net injection of VND 12.8tn – decreasing by nearly 7-fold compared to the previous month. This aimed to maintain interbank interest rates at a moderately high level, helping to alleviate pressure on the exchange rate.

Import-export growth and monthly trade



Source: GSO, MBS Research

The interbank rates fluctuated greatly this month. Starting at 4% at the beginning of the month, the overnight rate fell sharply to a 7-month low of 2.4% on Dec 19th thanks to the substantial intervention of the SBV. However, interbank rates had been rising quickly to reach 4% by Dec 27th after the Central bank sold a significant amount of USD, which contributed to the liquidity shortage. By the month-end, the overnight rate stayed at 3.6%. Meanwhile, for tenors ranging from one week to one month, interest rates span between 4.4% - 4.7%.

Deposit rates at commercial banks reached 5.1% by year-end

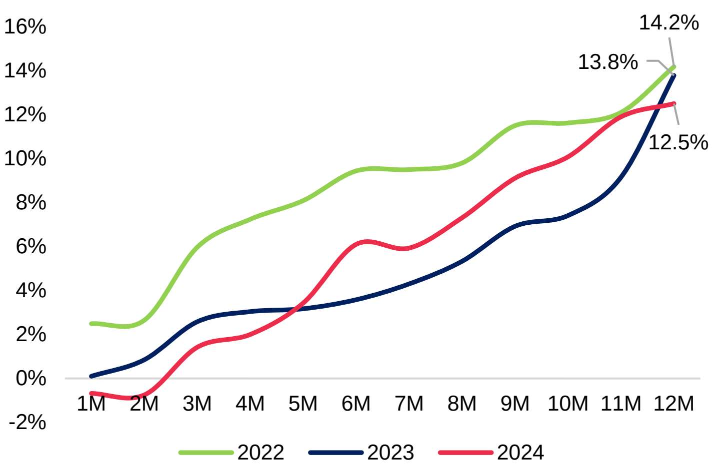
After bottoming out in Mar, deposits rates began to rise again in April as low deposit rates led to a gradual withdrawal of public deposits from the banking system. The upward trend became more pronounced from June, as credit growth accelerated from 3.4% at the end of May to 6.1% by the end of June. Credit growth outpacing deposit growth by 2-3 times fueled the competition to raise deposit rates, with some banks exceeding 6% per annum at times.

Following a two-month pause, the upward trend has resumed since Nov to ensure liquidity as credit demand typically accelerates toward year-end. Deposit rates continue to rise in Dec with 12 banks raised interest rates by 0.1% - 0.3%/year. This upturn in deposit rates fuelled by a robust credit growth. According to the SBV, as of Dec 7th, credit growth has increased by 12.5% 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 Dec, the average 12-month deposit rate for commercial banks reached 5.1% (20 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 rate to stay at 5% - 5.2% in 2025

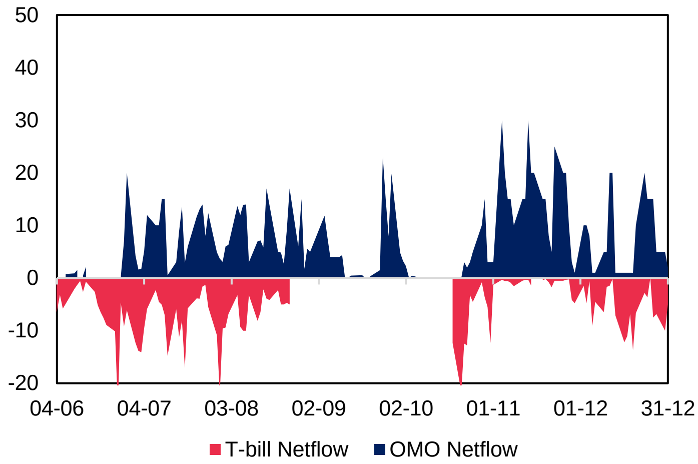
Vietnam's monetary policy space will be more constrained than previously anticipated due to a strong USD and the risk of ongoing U.S. investigations into currency manipulation allegations. In such a scenario, the SBV may need to adopt a more cautious monetary policy stance to ensure exchange rate stability, 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 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)



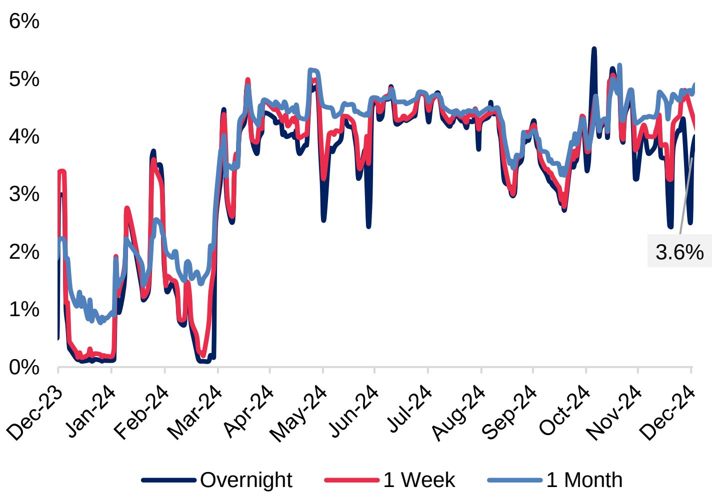
Source: Bloomberg, MBS Research

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



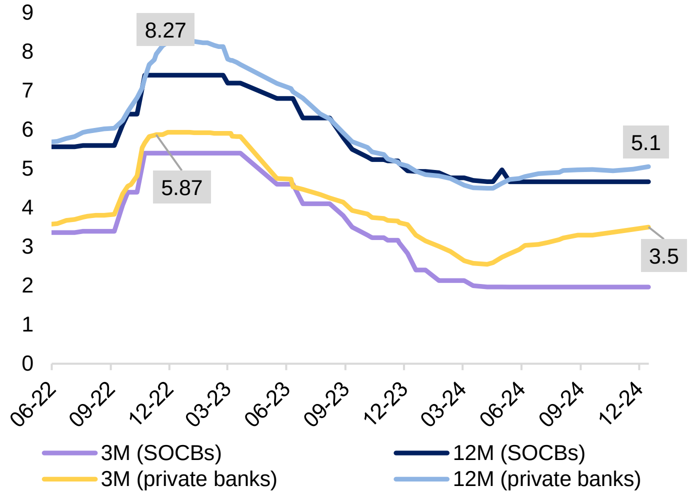
Source: SBV, MBS Research

Figure 3: Interbank lending rate in tenors (%)



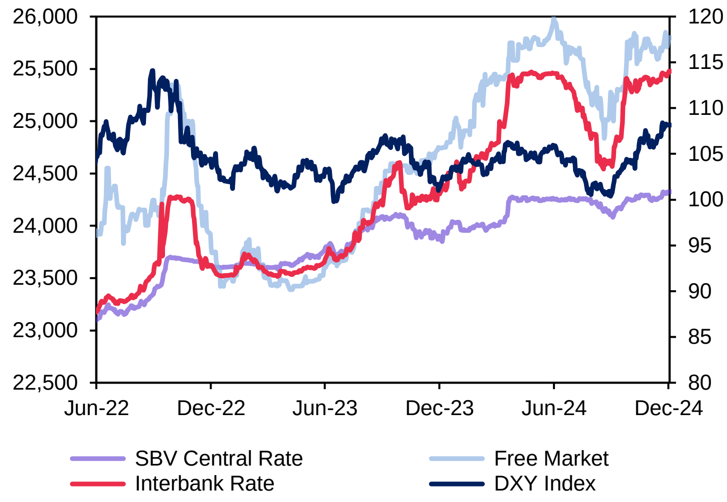
Source: Bloomberg, MBS Research

Figure 4: Commercial banks deposit rate (%)



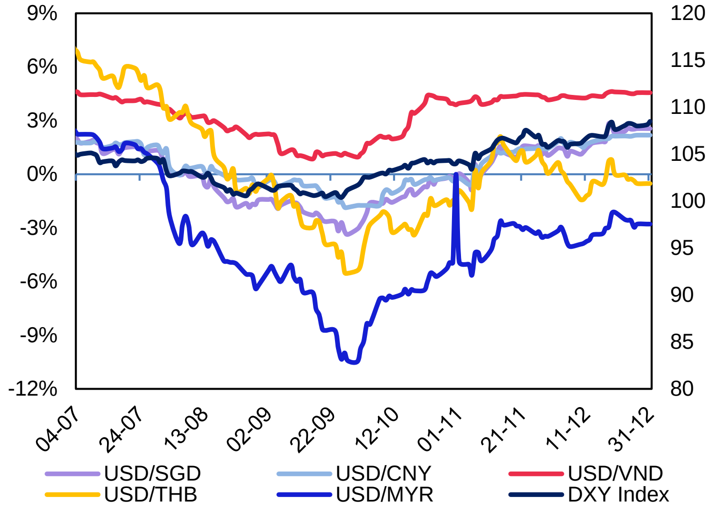
Source: Banks, MBS Research

Figure 5: VND/USD exchange rate



Source: Bloomberg, MBS Research

Figure 6: Regional currencies performance against USD



Source: Bloomberg, MBS Research

DISCLAIMER

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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