VND strengthens amid easing FX pressures

- The FED's first rate cut in mid-Sep has eased the upward pressure on both the FX and Vietnam Dong interest rates.
- The interbank rates dropped to a 2-month low of 3% in mid-Sep, then surged to 4.3% at the end of Sep.
- We expect deposit rates to inch up further by 20 bps towards year-end, amid a slowdown in the upward trend of input rates.

Ebbing exchange rate pressures

US Dollar buckled on the Fed's big rates cut

The US Dollar began the month on a strong note at 101.8 and remained relatively steady until mid-September, as economic indicators continued to send mixed signals. While the unemployment rate stayed at a historically low 4.2%, it had risen in four of the past five months—a pattern that often foreshadows recessions. This, along with weaker job gains in August, heightened concerns over the health of the labor market. However, on a positive note, other aspects of the economy appeared to remain on solid footing. In particular, inflation fell sharply from a peak of 9.1% in mid-2022 to a three-year low of 2.5% in Aug, while retail sales surprised on the upside with an increase of 2.1% yoy. Payroll growth also remained seemingly steady, and manufacturing production rebounded sharply helped soothe concerns about the sector. Amid a raft of upbeat news on the economy, the DXY hovered around the 101 threshold, as the market anticipated a 25 bps rate cut by the central bank, given that there was not enough distress to warrant a 50 bps reduction.

Surprisingly, the Fed took an unusually aggressive move by slashing its key interest rate by 50 bps, aiming to cushion the economy from a further slowdown amid mounting risks to the labor market. Following this decision, the DXY plunged continuously and call off the month at 100.2. With the economy now in equipoise and inflation on track to reach the 2% target, Fed policymakers signaled the likelihood of two more rate cuts this year, but in smaller, 25 bps increments.

The USD/VND rate slid to 24,564 VND/USD, following USD weakness

The Fed's monetary policy pivot has modestly eased the pressures on the USD/VND exchange rate. Since the beginning of Sep, the interbank USD/VND plunged 1.3% to reach 24,564 VND/USD on Sep 30. The depreciation of the Dong against the US Dollar since the beginning of the year has narrowed to 0.9%, down from a peak of nearly 5% recorded in June. The free-market rate dropped to 25,250 VND/USD, while the central rate is standing at 24,093 VND/USD, showing rises of 2% and 1%, respectively, compared to the start of 2024. We observed that this ebbing exchange rate pressures would give the SBV ample room to focus on boosting credit growth and stimulating domestic consumption as well as investments.

We believe the pressure on VND will ease and expect the USD/VND to range within 24,700 – 24,900 in 4Q24. Supportive factors for VND include positive trade surplus (~US$19.1bn in 8M24), net FDI inflows (U$14.15bn, +8% yoy) and a rebound of international tourist arrivals (+45.8% yoy in 8M24). 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.

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The increase in deposit rates has plateaued

The interbank rate has cooled modestly

Amid easing FX pressures, the SBV continued to actively support the banking system in Sep, aiming to lower the interbank interest rates. The OMO interest rate was trimmed for the second time this year by 25bps to 4%. As of Sep 30th, a net amount of about VND 128.2tn had been injected into the system, with interest rates of 4% - 4.25% and tenors of 7 days, including VND 22tn of matured T-bills. Moreover, the SBV has proactively halted the issuance of T-bills since late August. Additionally, with the exchange rate stabilizing significantly, the State Treasury has revealed its demand to purchase US Dollar from commercial banks for a maximum value of USD 350mn in Sep. Consequently, this will further expand the banking system liquidity by an estimated VND 5.8tn.

The overnight rate, which stood at 4.3% in early Sep, dropped sharply to 3% - the lowest rate in the past 2 months. However, it suddenly surged to 4.3% in the last week of the month, signaling a liquidity shortage in the system that was partially impacted by the steady revival in credit growth. According to the SBV, as of Sep 17th, credit growth had risen by 7.38% compared to the end of 2023. For tenors ranging from one week to one month, interest rates spanned between 4.1% - 4.2% by the end of the month.

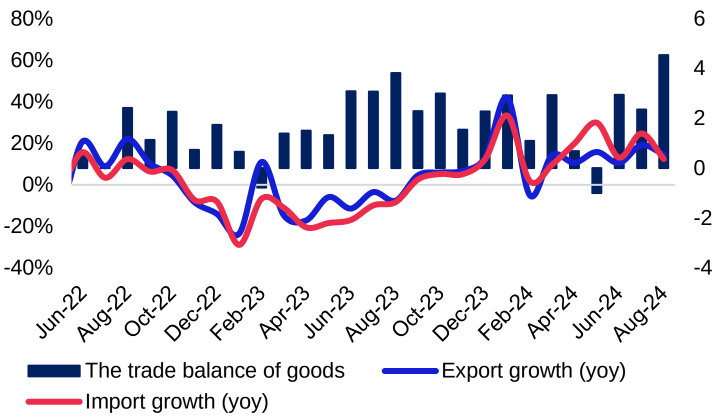
The uptrend in deposit rates has been treading water

The upward momentum of input rates continued to stall in September, with only a few banks choosing to raise their rates by 0.1 to 0.5 percentage points, reflecting a favorable liquidity condition in the system during the first few weeks of the month. Notably, the Typhoon Yagi caused extensive damage and severe disruptions, preventing several companies from meeting their debt obligations. As a result, this could add more pressure to the volume of bad debts in the system (which had already increased by 5.8% in 1H24 compared to the same period last year). Therefore, this has further encouraged banks to bolster their reserve buffers to mitigate risks via attracting new deposits. The average 12-month deposit rate for commercial banks has edged up by 13 bps since the beginning of the year, reaching 5%, while the rate for state-owned banks remained unchanged at 4.7%, which is 26 bps lower than at the start of the year.

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

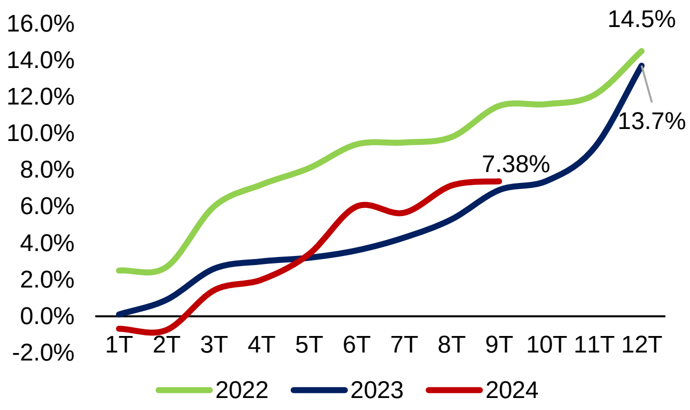
We observe a recovery in credit growth, coupled with robust production and investment growth, which may exert pressure on liquidity and potentially lead to an increase in deposit rates. As of September 17th, credit growth had risen by 7.38%, higher than the 5.3% recorded in the same period last year. 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



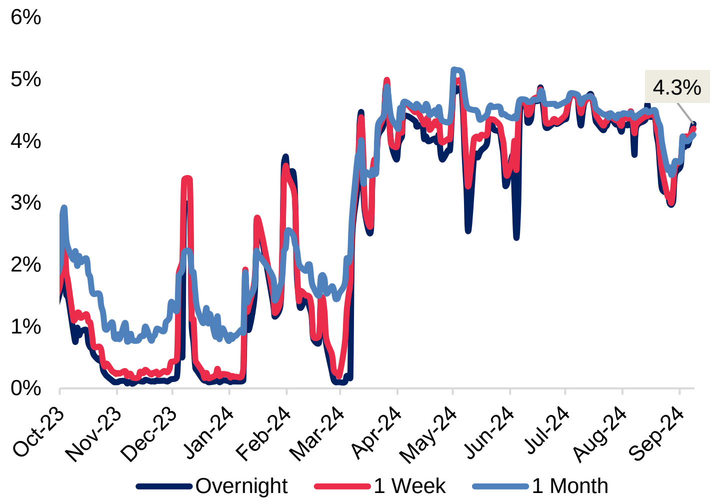
Source: GSO, MBS Research

Figure 2: Credit growth (% ytd)



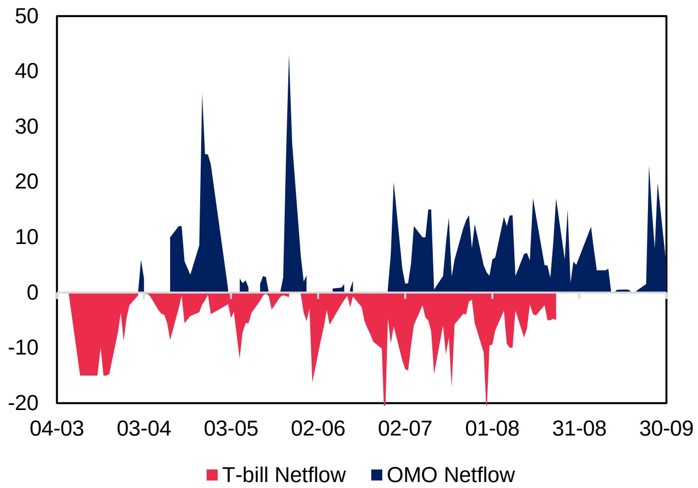
Source: Bloomberg, MBS Research

Figure 3: Interbank lending rate in tenors (%)



Source: Bloomberg, MBS Research

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



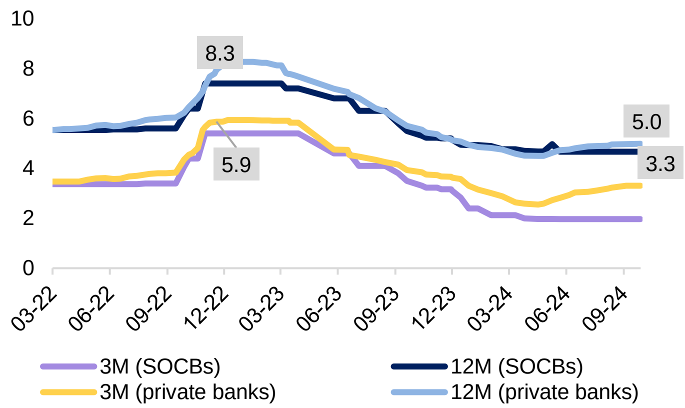
Source: SBV, MBS Research

Figure 5: Interbank interest rate (%)

Date	Overnight	1 Week	2 Week	1 Month
28/06	4.5	4.6	4.7	4.7
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

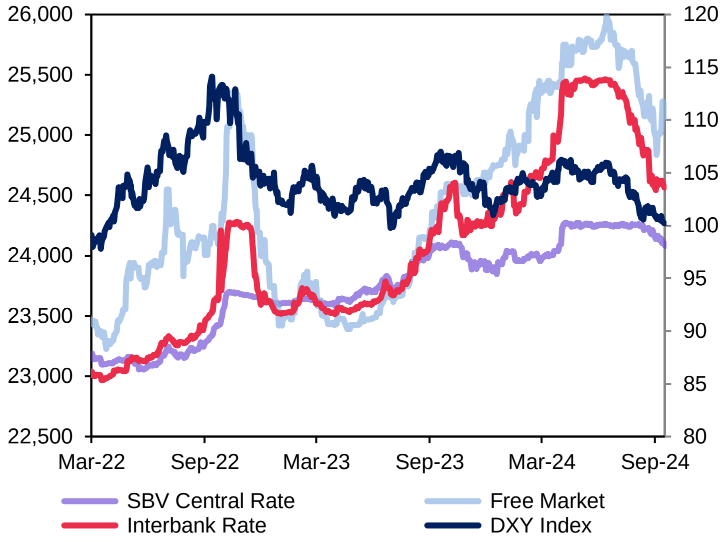
Source: Bloomberg, MBS Research

Figure 6: Commercial banks deposit rate (%)



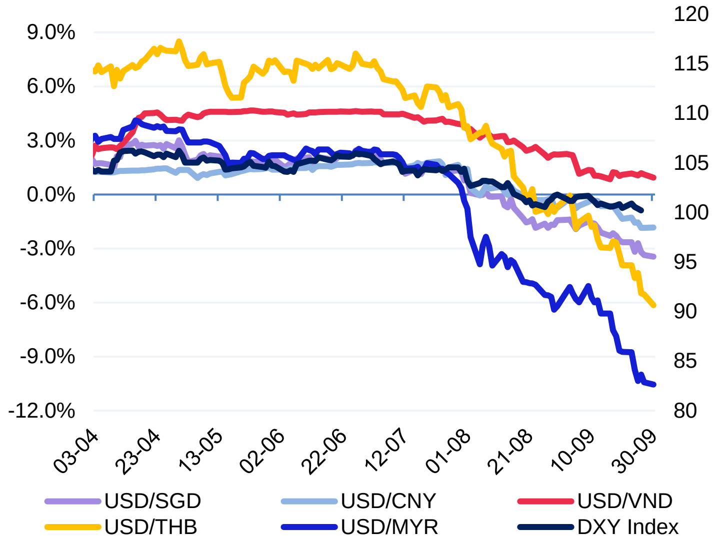
Source: SBV, Bloomberg, MBS Research

Figure 7: VND/USD exchange rate



Source: Bloomberg, MBS Research

Figure 8: Regional currencies performance against USD



Source: Bloomberg, MBS Research

DISCLAIMER

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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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