

**Viet Nam money market chartbook**

**A turning point in monetary policy**

- The Fed raised its target range for the Federal Funds rate to between 4.75% and 5.0% and left the door open for another rate hike.
- The State bank of Vietnam (SBV) cut its policy rates twice in Mar-23.
- Government bonds yields, interbank interest rates, and deposit interest rates all decreased significantly after the SBV's rate cut.
- We lower our forecast that the average 12-month deposit rate will drop another 50 basis points to 7.0% p.a. by the end of 2023.

**Fed delivered less hawkish message on monetary policy**

During its Mar meeting, Fed unanimously decided to raise the target range for the Federal funds rate to between 4.75% and 5%. In addition, the recent turmoil in the banking system has caused Fed to no longer declare "constantly raising interest rates" as appropriate. Fed said it was open to the possibility of one more rate hike and no interest rate cut in 2023. However, the market forecast is somewhat more aggressive on easing than Fed's view. Specifically, markets now expect Fed to pause rate hikes at May meeting and also expect Fed to cut rates as early as 2H23 due to the possibility of a recession.

**Pressure on VND exchange rate will ease**

Dollar Index (DXY) dropped sharply amid banking crisis as Fed delivered less hawkish message on monetary policy. As of Mar 31, 2023, DXY fell to 102.5pts, down 2.7% before the Silicon Valley Bank (SVB) crash. The softer DXY has brought the US\$/VND down 0.7% ytd to 23,471. In addition, the SBV has increased foreign exchange reserves by U\$4bn since the beginning of 2023. We see downward pressure on the US\$/VND exchange rate in 2Q23F as Fed could issue more dovish messages on monetary policy at its next meeting in May 23 due to the increased possibility of a recession. Consequences, we expect US\$/VND exchange rate to fluctuate between 23,450 - 23,700 in 2Q23F. Upside risks to VND include (1) unexpectedly higher and longer-than-expect inflation pressure in the U.S, (2) the stronger-than-expected decline in remittances and FDI inflows amid global economic slowdown

**We saw a reversal in SBV's monetary policy.**

In Mar-23, the SBV had two reductions in its policy interest rates, whereby the rediscount rate was cut by 1 percentage point (% pts) to 3.5% per year; the refinancing interest rate was reduced by 0.5% pts to 5.5%, the overnight lending rate of the SBV for credit institutions was also lowered to 6%/year from 7%/year. The SBV also lowered the ceiling interest rate for short-term loans in VND of credit institutions for some priority sectors by 1% pts to 4.5%/year. They also reduced the maximum interest rate for deposits in VND with terms of less than 1 month and terms from 1 month to less than 6 months by 0.5% pts.

**We expect the average deposit rate will ease to 7.0% within 2023**

The 12-month deposit interest rates of commercial banks have decreased by 50 basis points compared to the peak in Jan 23, ranging from 7.1% - 8.4%. We expect deposit rates to drop more until the end of 2023, based on the following reasons: (1) Fed could end the policy rate hike cycle in 1H23, thereby reducing pressure on the VND exchange rate as well as Vietnam's interest rates in 2H23, (2) weak lending demand due to economic slowdown and murky residential property market and (3) the government promotes public investment thereby injecting more money into the economy. We expect the average 12-month deposit rate (average of both private banks and state-owned banks) will drop another 50 basis points to 7.0% p.a. within 2023.

Analyst(s):

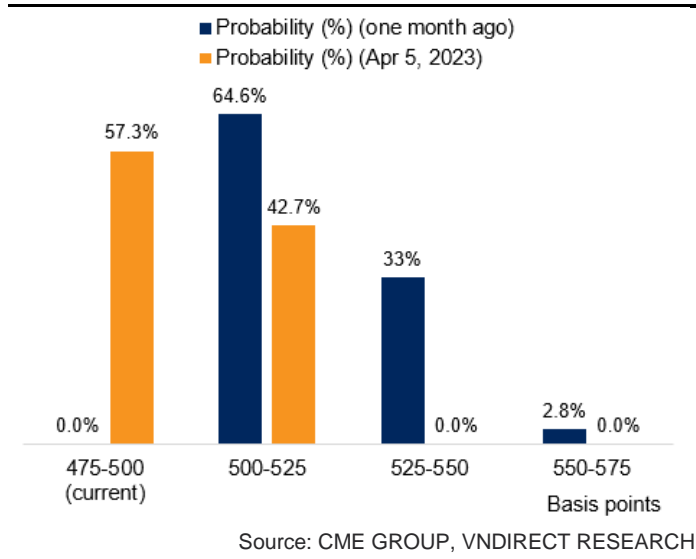


**Hinh Dinh Quang**

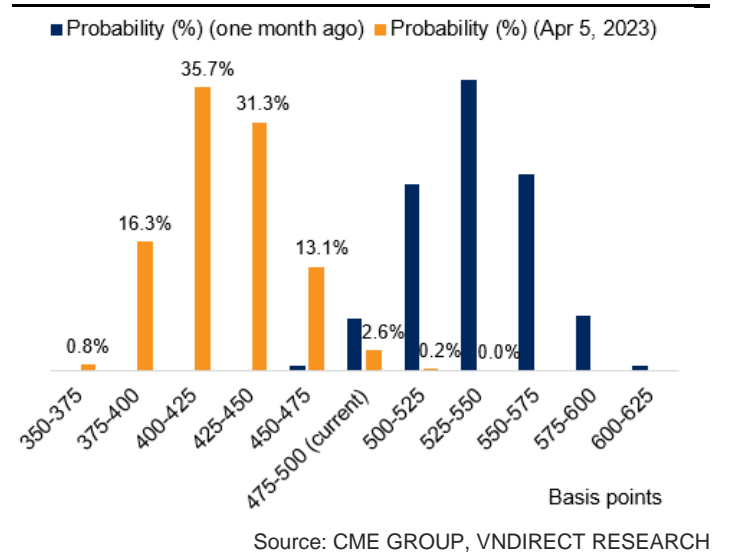
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**CHARTS IN FOCUS**

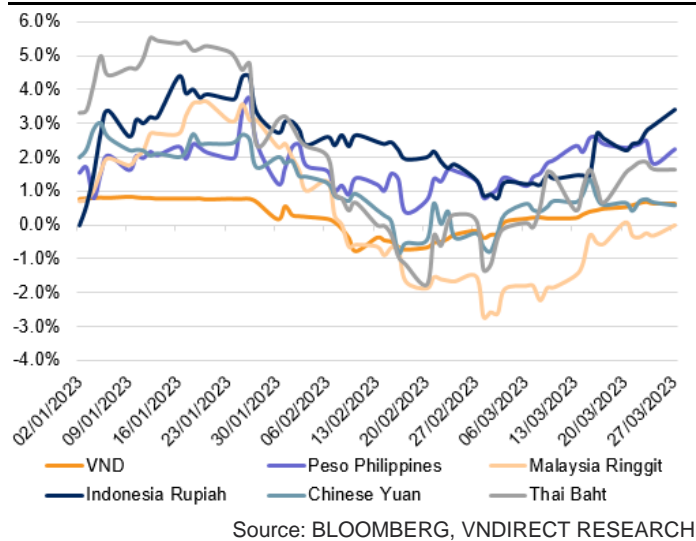
**Figure 1: Markets now expect Fed to pause rate hikes at May meeting**



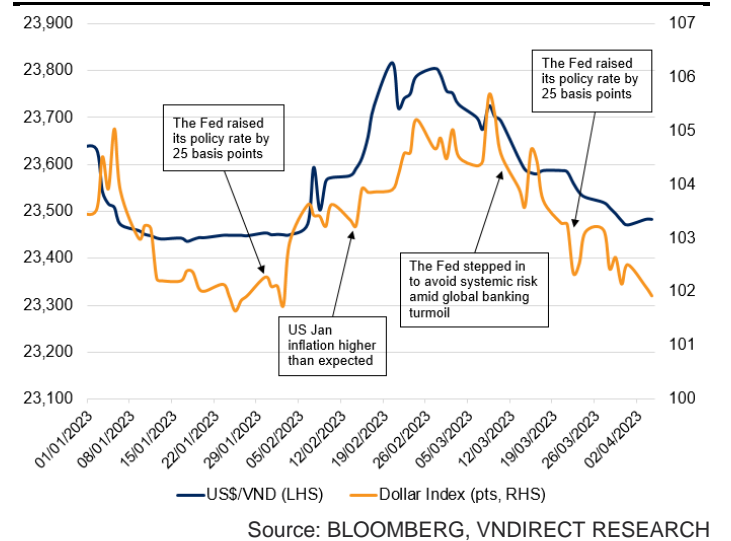
**Figure 2: Markets now expect the Fed to cut rates as early as 2H23 due to the possibility of a recession.**



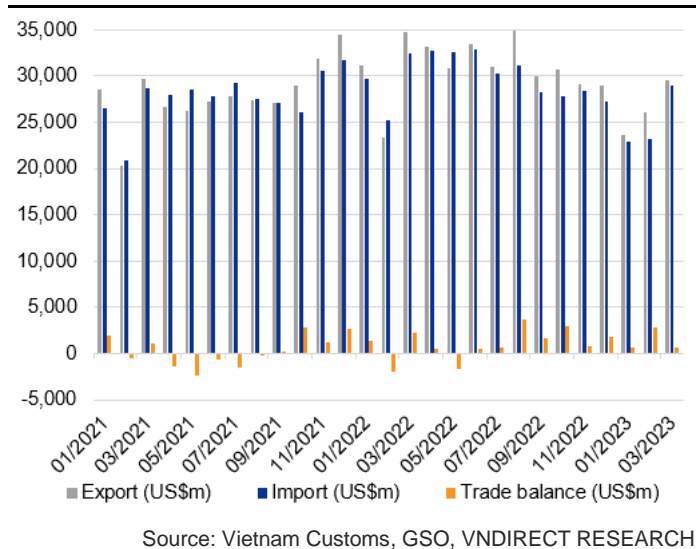
**Figure 3: Most regional currencies strengthen against the US\$ (+/- % ytd)**



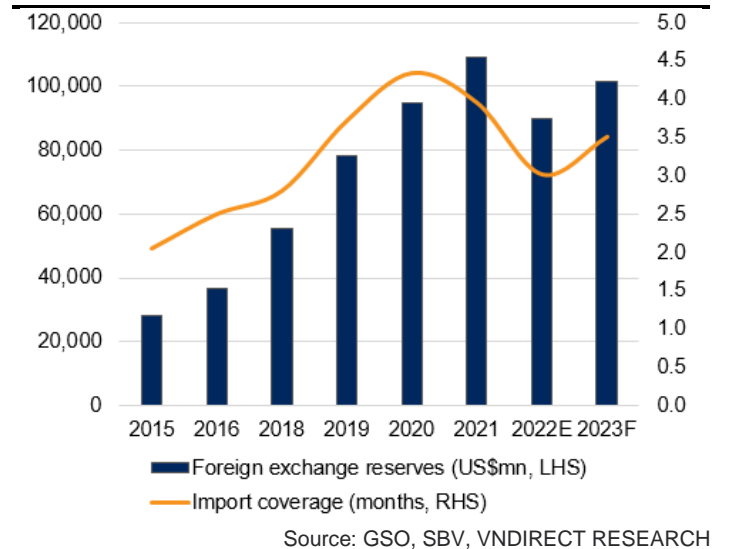
**Figure 4: The US\$/VND edged down 0.7% in 1Q23**



**Figure 5: Vietnam's recorded a trade surplus of US\$4.1bn in 1Q23 (vs. trade surplus of US\$1.9bn in 1Q22)**

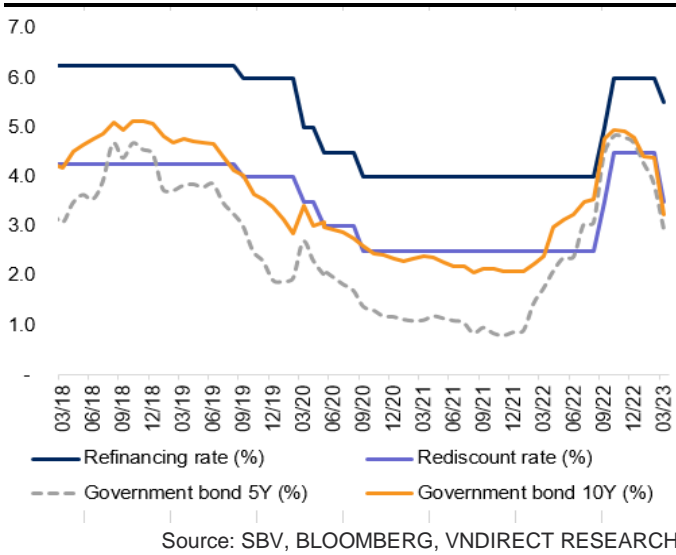


**Figure 6: Vietnam's import coverage (month) and FX reserves**

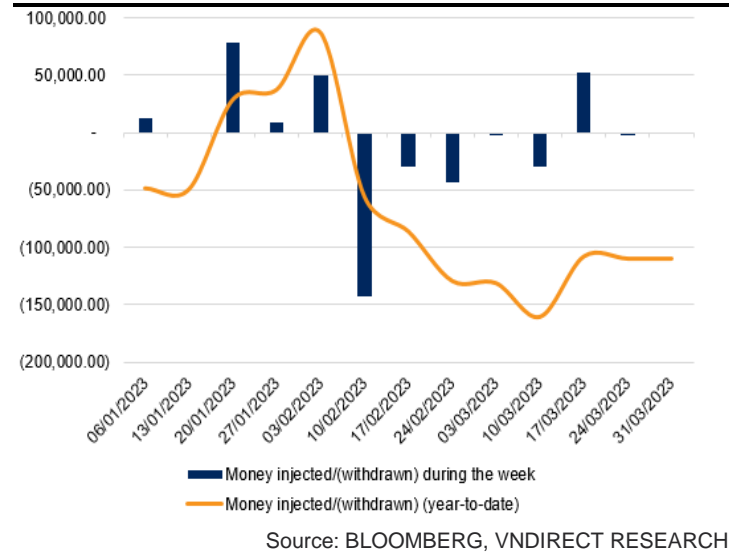


**CHARTS IN FOCUS**

**Figure 7: The SBV cut its policy interest rates twice in Mar-23**



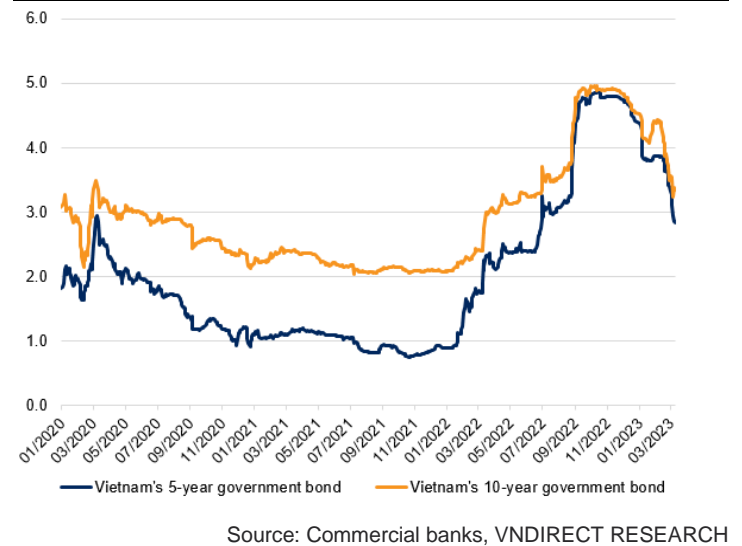
**Figure 8: Money injected/(withdrawn) by SBV (Unit: VNDbn)**



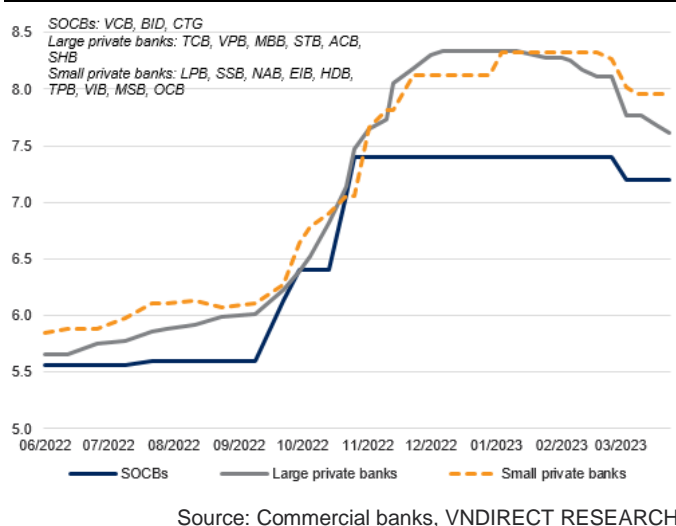
**Figure 9: The interbank overnight interest dropped sharply in Mar 23 (Unit: %)**



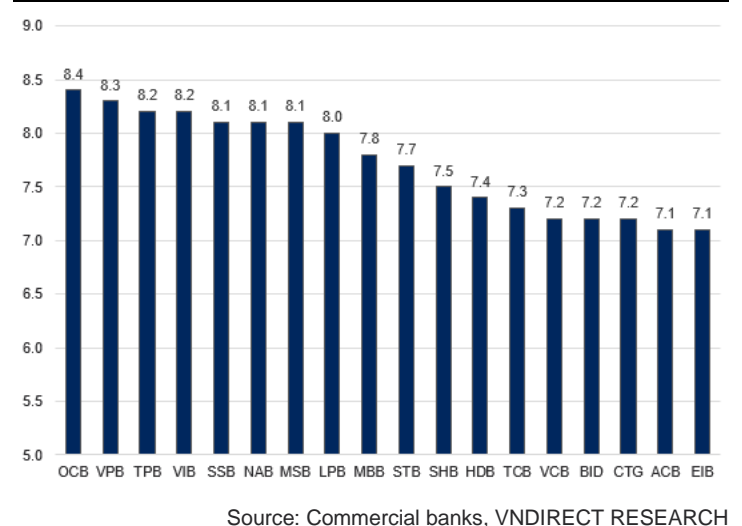
**Figure 10: Yields on Vietnam's government bonds extended their decline in Mar 23 (Unit: %)**



**Figure 11: The deposit interest rates declined markedly in Feb-Mar 23 period (Unit: %)**



**Figure 12: 12-month term deposit rates of some commercial banks range from 7.1% to 8.4% (%)**



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### Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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