

Viet Nam money market chartbook

More supportive measures to come

- The Fed raised its target range for the Federal Funds rate to between 5% and 5.25% and hinted that the current tightening cycle is at an end.
- The State bank of Vietnam (SBV) announced to buy US\$6bn in foreign exchange reserves since the beginning of 2023.
- We expect the SBV to cut its policy rates further by at least 50 basis points towards the end of 2023.
- We maintain 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.

The Fed's rate hike cycle is coming to an end

In a unanimous decision widely expected by market, the Fed announced its 10th-straight interest rate hike at its last meeting, raising the benchmark rate by 0.25 percentage points to a target range of 5-5.25%. Additionally, the post-meeting statement omitted a sentence contained in the Mar meeting documents that said "The Committee anticipates that some additional policy firming may be appropriate" for the Fed to achieve its 2% inflation goal. It gives a tentative hint that the current tightening cycle is coming to an end. After the Fed's somewhat dovish statements on upcoming policy, the market now expects the Fed to pause rate hikes at its Jun meeting and cut rates as early as 2H23 due to the possibility of a recession.

Lower pressure on VND exchange rate

As of May 8, 2023, DXY fell to 101.1pts, down 4.0% before the Silicon Valley Bank (SVB) crash. The softer DXY has brought the US\$/VND down 0.8% ytd to 23,449. Thanks to lower exchange rate pressure, the SBV has increased foreign exchange reserves by about US\$6bn since the beginning of 2023. As a result, the SBV has pumped out about VND140,000bn into the economy to buy US\$, thereby supporting liquidity of the banking system and lowering domestic interest rates. For 2Q23, we see downward pressure on the US\$/VND exchange rate as Fed could pause its rate hike cycle as soon as its next meeting in Jun 2023 and expect the US\$/VND exchange rate to fluctuate between 23,400-23,700.

The SBV delivered additional measures to support the economic growth

On Apr 23, 2023, the SBV announced Circular 02/2023 to guide credit institutions to review and reschedule principal/interest payments or maintaining debt group for customers who are (1) facing liquidity problems to run businesses and (2) losing demand for consumer loans. In addition, the SBV also announced Circular 03/0223 allowing the postponement of Article 11 Clause 4 of Circular 16/2021. This means banks are still able to buy back unlisted corporate bonds sold/distributed by them with several conditions. Moreover, the SBV is studying the draft amendment to Circular 41/2016. It aims to lower the risk factor of industrial property loans and loans to social housing group, in general, pointing out that lending to those segments are encouraged. We expect that these supportive measures coupled with lower lending rates will improve the credit growth outlook in 2H23. As of Apr 25, 2023, credit of the whole economy rose by 2.75% ytd (vs. +7.2% ytd in 4M22).

...and may continue to lower its policy rates

In Mar-23, the SBV had two reductions in its policy interest rates, which marks a reversal in the domestic monetary policy. As the risk of a recession in the US economy is increasing, the market expects the FED to pause its rate hike cycle as soon as its next meeting in Jun 2023. In this case, the pressure on VND exchange rate and domestic interest rates will ease further. Therefore, we expect the SBV to cut its policy rates further by at least 50 basis points in the remaining of 2023.

Analyst(s):



Hinh Dinh Quang

hinh.dinh@vndirect.com.vn

CHARTS IN FOCUS

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

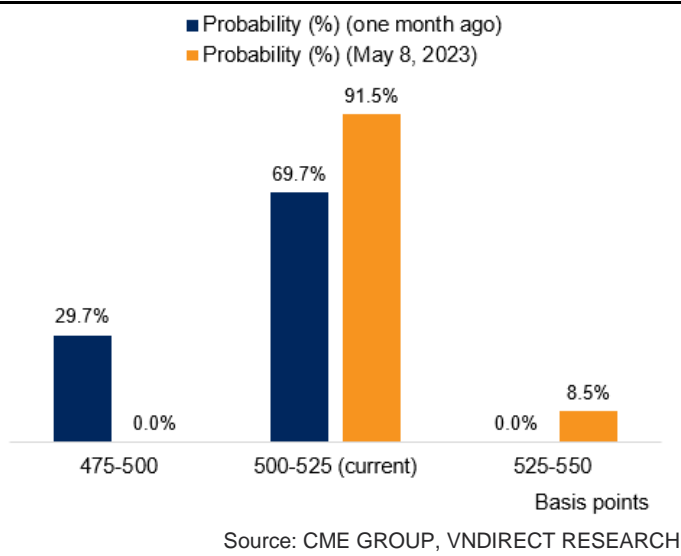


Figure 2: Markets now expect the Fed to cut rates as early as 2H23 (The probability of FED fund target rate at the Dec 23 meeting)

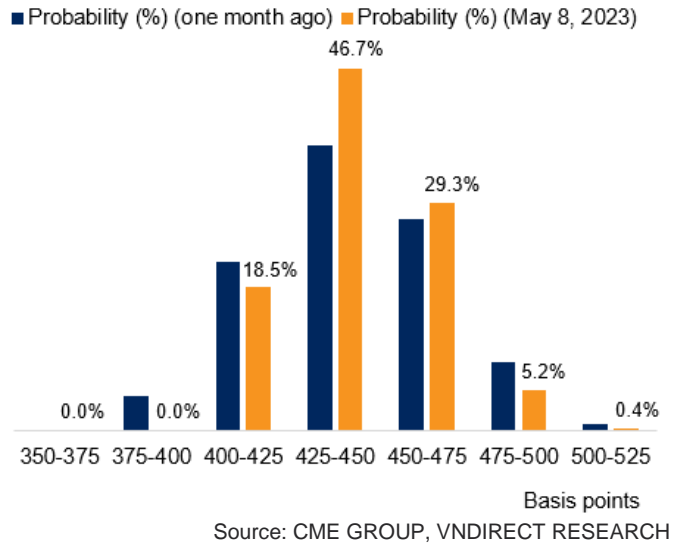


Figure 3: Regional currencies vs. the US\$ (+/- % ytd)

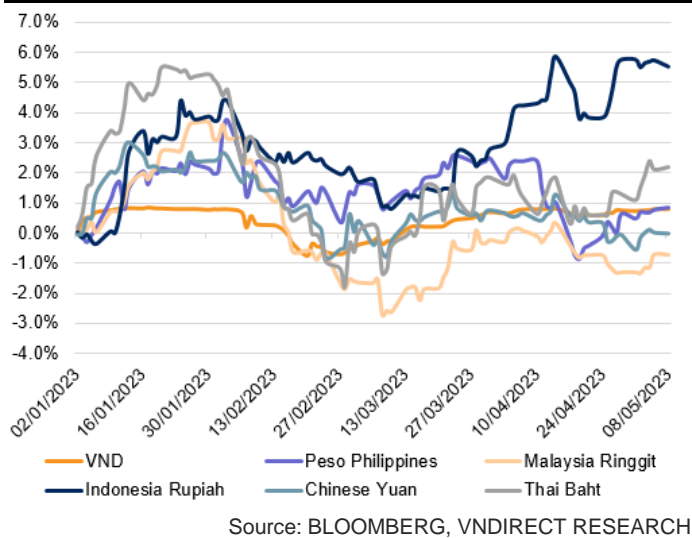


Figure 4: The US\$/VND edged down 0.8% ytd (data as at May 8, 2023)

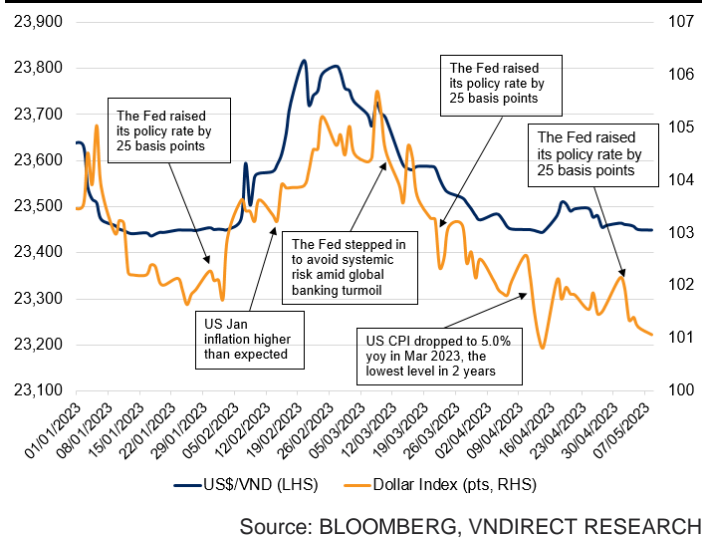


Figure 5: Vietnam's recorded a trade surplus of US\$7.6bn in 4M23

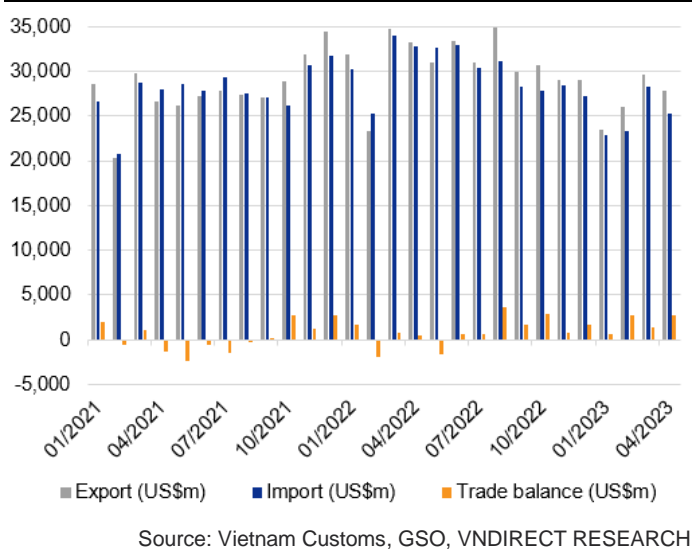
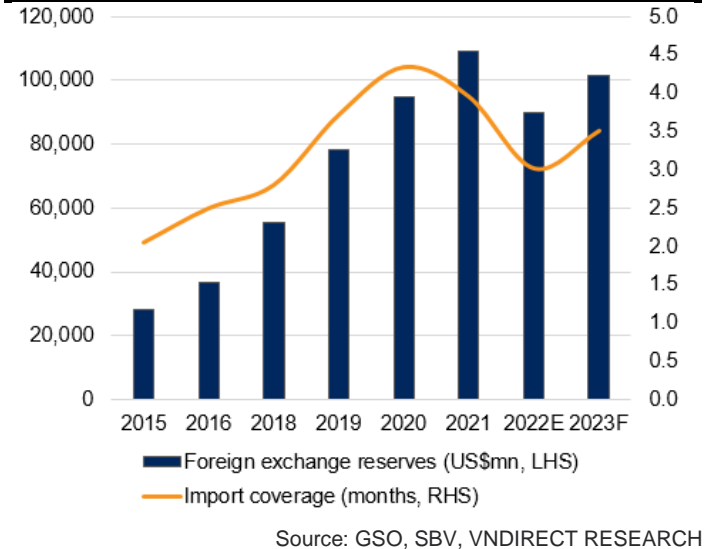
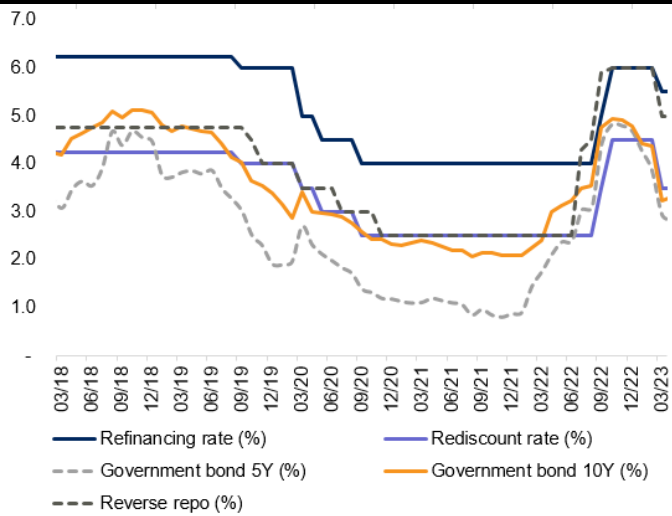


Figure 6: Vietnam's import coverage (month) and FX reserves



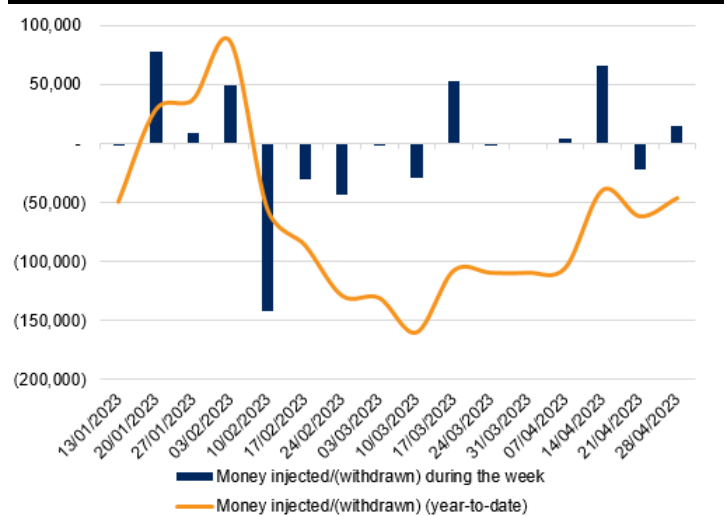
CHARTS IN FOCUS

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



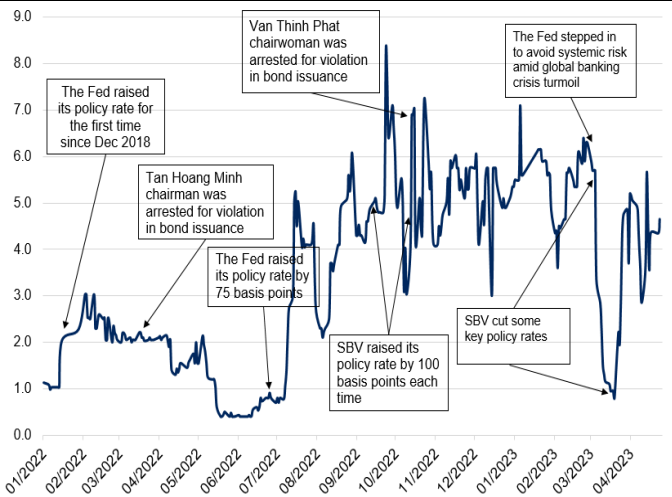
Source: SBV, BLOOMBERG, VNDIRECT RESEARCH

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



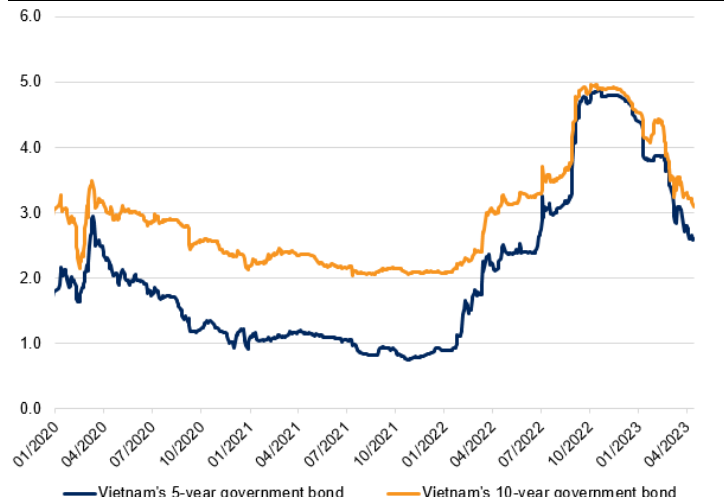
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 9: The interbank overnight interest rate rebounded in Apr 23 (Unit: %)



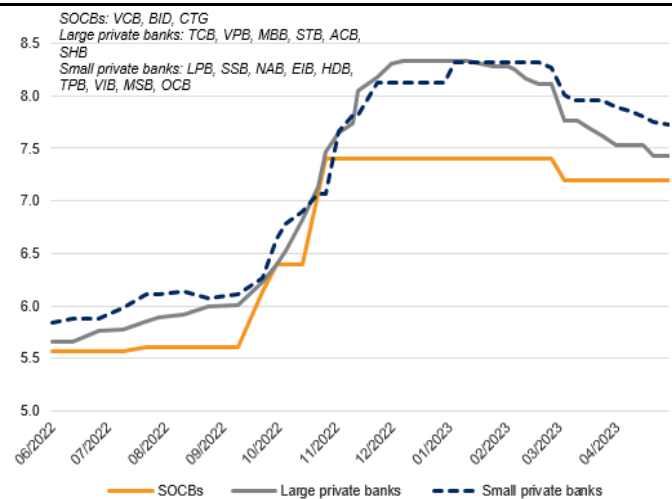
Source: BLOOMBERG, VNDIRECT RESEARCH

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



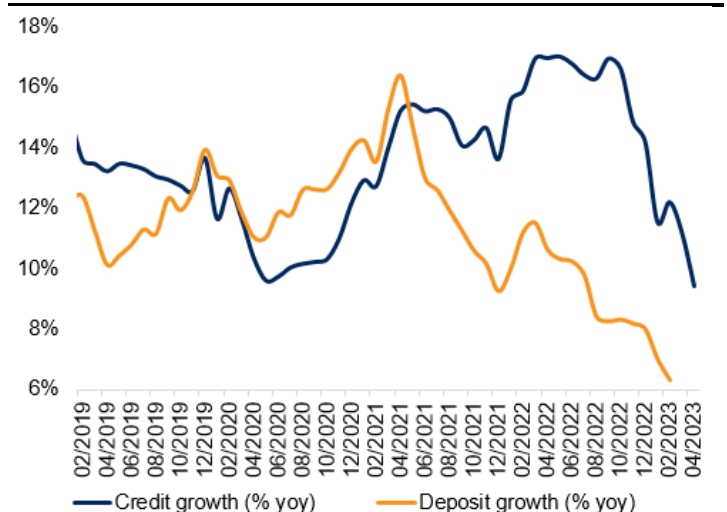
Source: Commercial banks, VNDIRECT RESEARCH

Figure 11: The deposit interest rates of private banks dropped by 20 basis points for 12-month term in Apr 23 (Unit: %)



Source: Commercial banks, VNDIRECT RESEARCH

Figure 12: Credit growth decelerated in 4M23 (%)



Source: Commercial banks, VNDIRECT RESEARCH

DISCLAIMER

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

This report and all of its content belongs to VNDIRECT. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of VNDIRECT.

RECOMMENDATION FRAMEWORK

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.

Hien Tran Khanh – Research Director

Email: hien.trankhanh@vndirect.com.vn

Hinh Dinh – Head of Macro & Market strategy

Email: hinh.dinh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>