

Viet Nam money market chartbook

SBV cuts the policy rates for the 3rd time

- In May 25, the SBV decided to reduce some policy rates such as the refinancing rate (down 0.5% points), the ceiling deposit interest rate for 1-month to 6-month term (down by 0.5% points),...
- The 12-month deposit interest rates of commercial banks dropped by 30-40 basis points in May 2023, ranging from 6.6%/year to 8.2%/year.
- We expect the average 12-month deposit interest rate drop to 6.5% p.a by the end of 2023

Vietnam's inflation rate cooled down further in May 2023

According to General Statistic Office (GSO), Vietnam's CPI increased by 2.4% yoy in May 2023, recording the lowest increase in the past 14 months. On mom basis, Vietnam's CPI was flat after falling 0.3% in the previous month. The drop in gasoline prices pulled the transport price index down 3% from the previous month and was a key factor in cooling down inflation in May 2023. In contrast, the average retail price of electricity increased by 3% since May 4, 2023, which was the main factor that put pressure on inflation in the past month.

The SBV decided to reduce its key policy rates for the third time in 2023

Facing the easing of domestic inflation and stable VND exchange rate, the SBV decided to reduce some policy rates from May 25, 2023, such as the refinancing rate (down by 0.5% points), the ceiling deposit interest rate for 1-month to 6-month term (down by 0.5% points),... Since the beginning of 2023, the SBV has had three reductions in its policy interest rates, according to which: the discount interest rate decreased by 1% pts to 3.5% p.a, the refinancing interest rate decreased by 1% pts to 5.0% p.a, the maximum short-term lending rate in VND of credit institutions for certain economic activities reduced by 1% pts to 5.0% p.a. The SBV also reduced the maximum interest rate for deposits with terms of less than 1 month and less than 6 months by 0.5% pts and 1% pts to 0.5% p.a and 5.0% p.a, respectively.

Deposite rates decreased further after the SBV's policy rates cut

Commercial banks simultaneously lowered deposit rates in May 2023. Since the beginning of May 2023, the average 3-month term deposit interest rate and the average 12-month term deposit rate of the private banking group dropped sharply by 57bps and 29bps, respectively; while the average interest rate in the same terms of the stated-owned banks decreased by 80 bps and 40 bps, respectively. We expect the average 12-month deposit interest rate drop to 6.5% p.a by the end of 2023, based on the following reasons: (1) weak credit demand due to economic slowdown and gloomy real estate market, (2) the government will further promote public investment, thereby injecting more money into the economy and (3) SBV still has room to decrease its policy rates.

FX rate inched up slightly after the interest rates reduction of SBV

DXY rose remarkably in May 2023 as the market is skeptical about the expectation that the FED will cut the policy rates in 2H23. As of May 31, 2023, the DXY rose by 2.6% mom to 104.3 points, as the market is skeptical about the expectation that the FED will cut the policy rates in 2H23. The recovery of the DXY and the recent policy rates reduction of SBV have put some pressure on the VND exchange rate. Accordingly, the US\$/VND exchange rate increased slightly by 0.1% mom to 23,490. We maintain our view that exchange rate pressure will not be huge in 2Q23 and expect the US\$/VND exchange rate to fluctuate between 23,400-23,700, as the USD supply is still abundant thanks to the trade surplus improvement, decreasing inflation, and the increase in foreign exchange reserves of SBV over the past time strengthened investors' confidence in the VND.

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

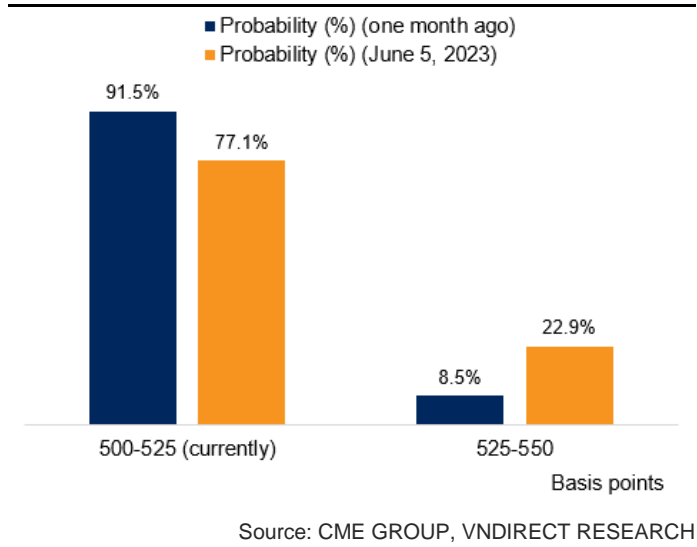


Figure 2: The market is also skeptical about the latest expectation that the FED will cut the policy rates in 2H23 (FED's rates forecast at the December 2023 meeting)

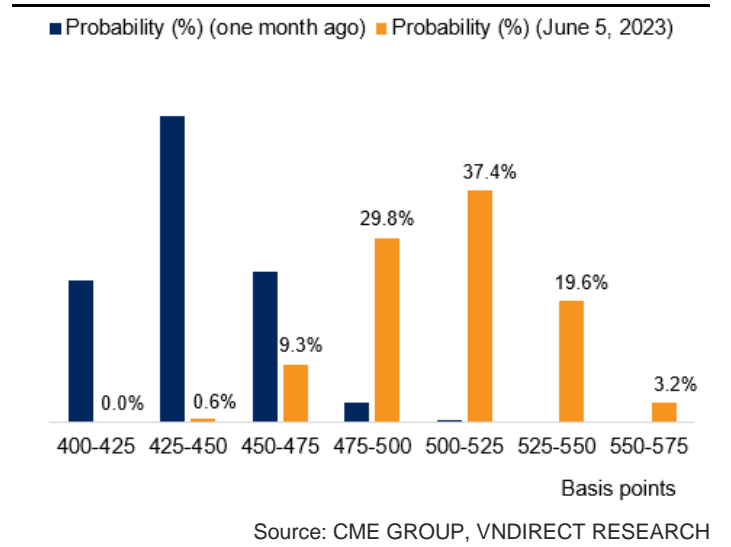


Figure 3: Regional currencies vs. the US\$ (+/- % ytd)

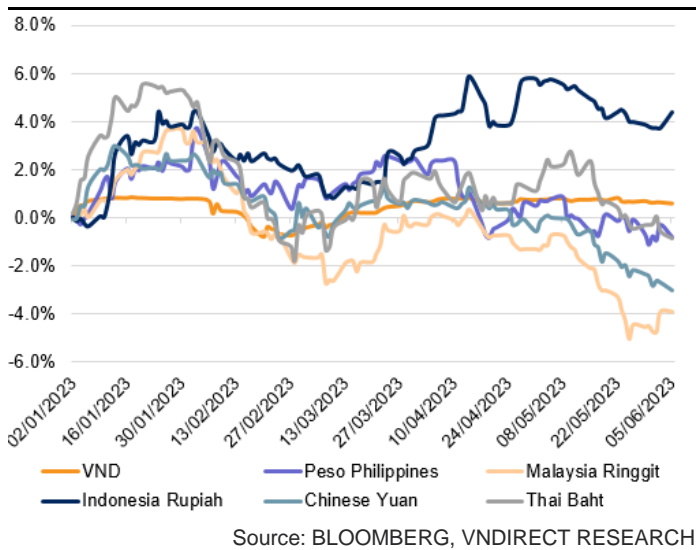


Figure 4: The US\$/VND edged down 0.6% ytd (data as at May 8, 2023)

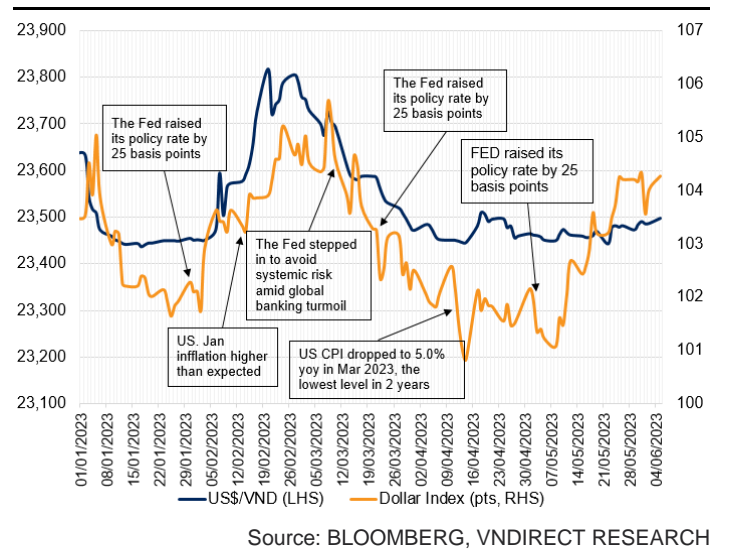


Figure 5: Vietnam's recorded a trade surplus of US\$9.8bn in 5M23

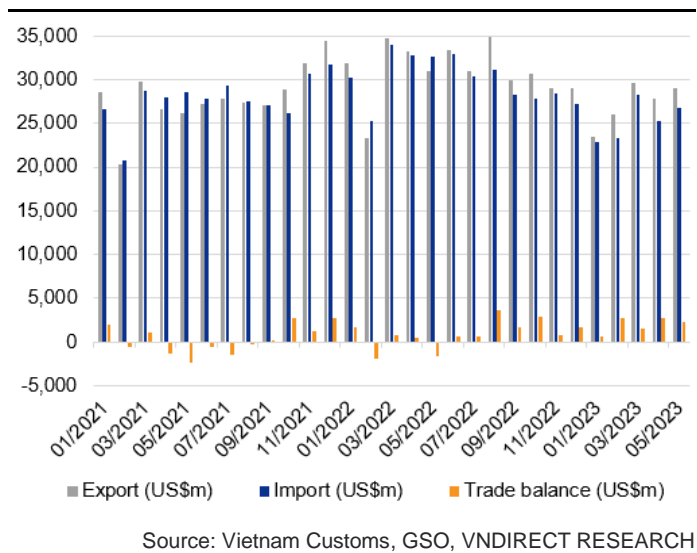
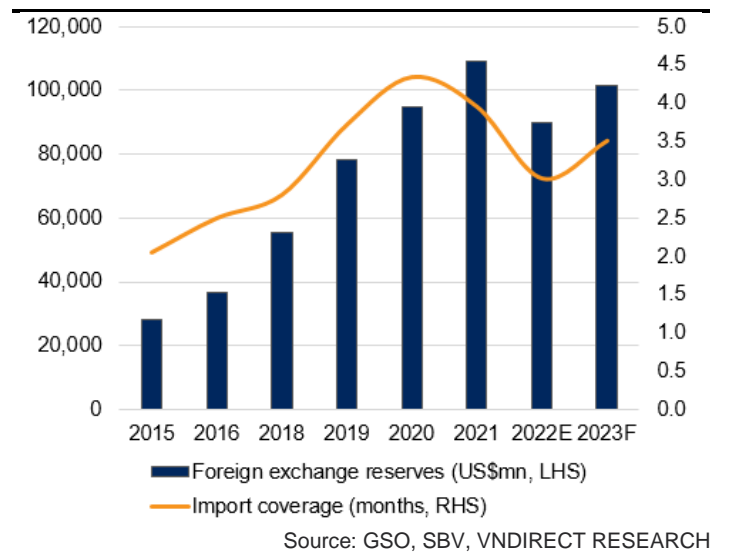
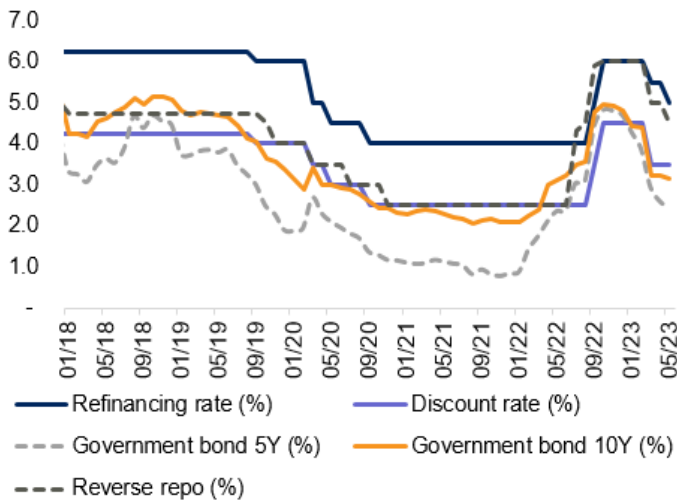


Figure 6: Vietnam's import coverage (month) and FX reserves



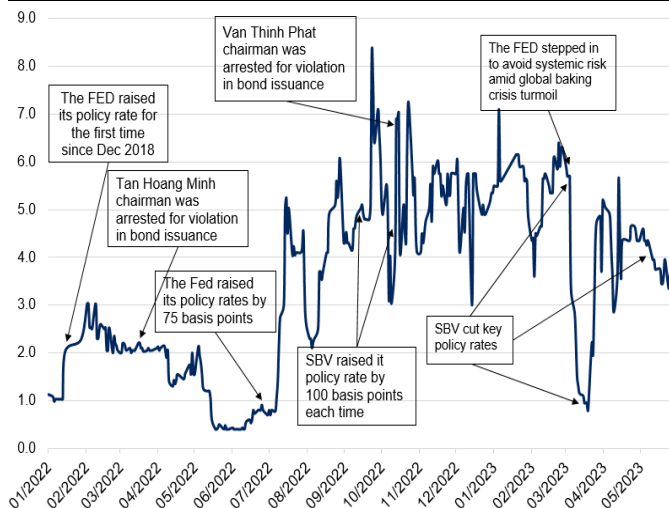
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Figure 7: The SBV cut its policy interest rates for the third time since the beginning of 2023



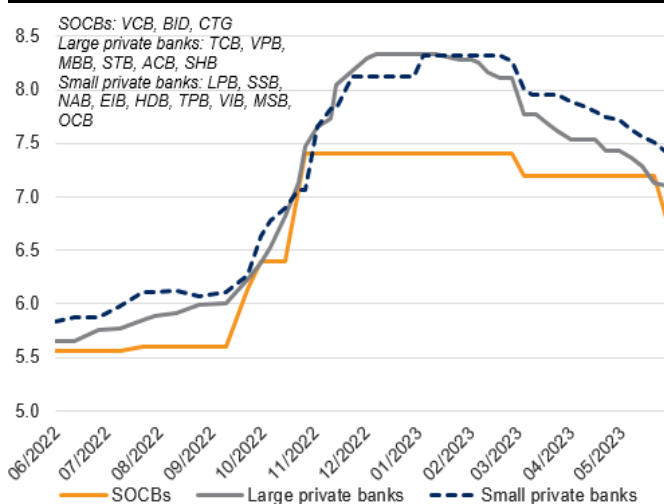
Source: SBV, BLOOMBERG, VNDIRECT RESEARCH

Figure 9: Interbank overnight interest rate fell after SBV cut some policy rates (Unit: %)



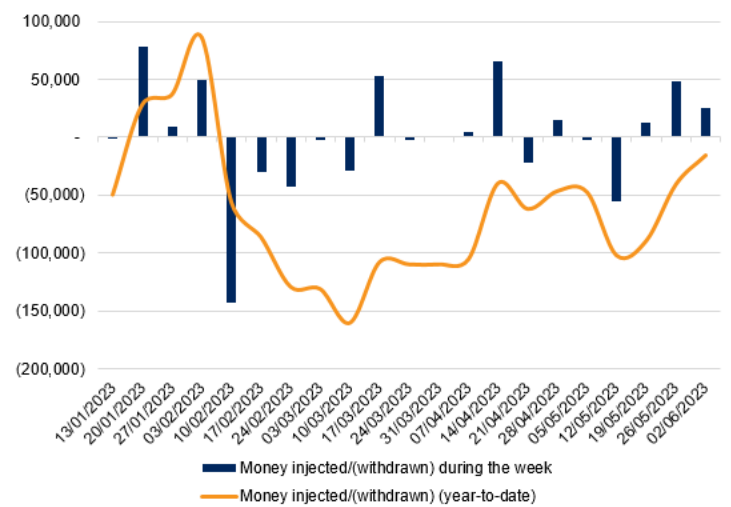
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 11: The deposit interest rates of commercial banks dropped by 30-40 basis points for 12-month term in May 2023 (Unit: %)



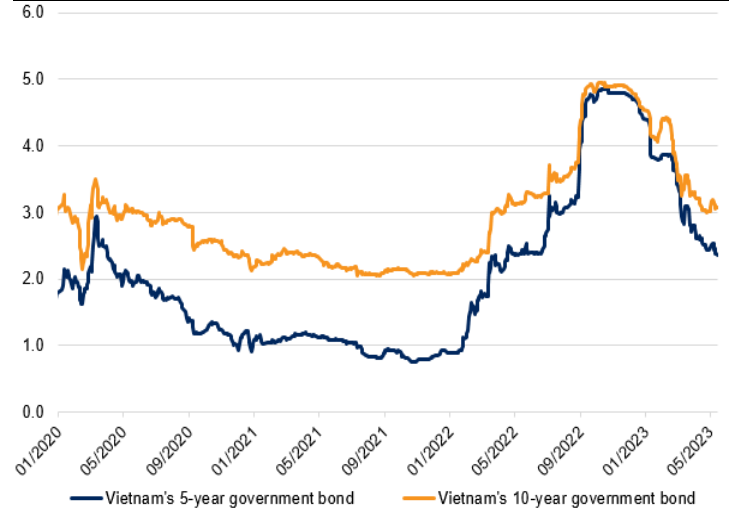
Source: Commercial banks, VNDIRECT RESEARCH

Figure 8: SBV net injected more than VND87,000bn into the money market in the past 3 weeks (Unit: VNDbn)



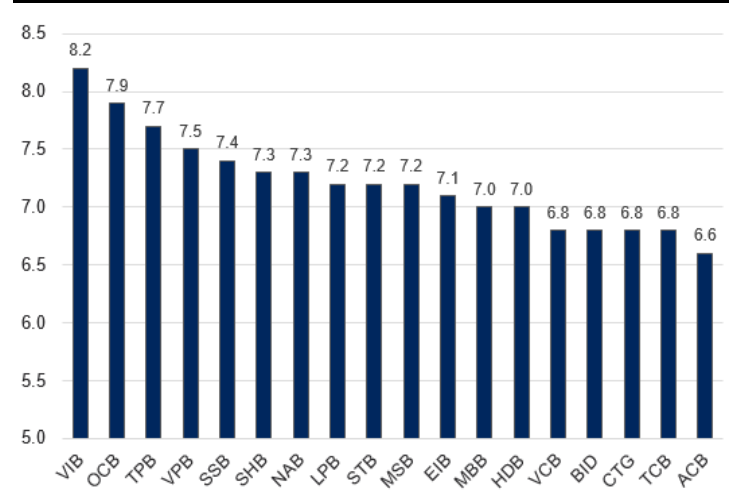
Source: BLOOMBERG, VNDIRECT RESEARCH

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



Source: Commercial banks, VNDIRECT RESEARCH

Figure 12: The 12-month term deposit interest rate of commercial banks currently ranges from 6.6%/year to 8.2%/year



Source: Commercial banks, VNDIRECT RESEARCH

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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.

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