FLASH NEWS MACRO

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In the afternoon of September 7th, the SBV has increased spot reference asking exchange rate by 300VND to 23,700

The SBV has just increased spot reference asking exchange rate (for the third times in 2022) in the late afternoon of September 7th, 2022 (which is the rate offering to commercial banks to buy USD from SBV) by 300VND (increased from 23,400 to 23,700 VND/USD) under heavy selling pressure of USD to banks recently. We estimate that from the beginning of the year to the end of June, the SBV sold upto USD15bn; since July 2022, when the SBV increased the asking rate from 23,250 to 23,400, we estimate a further USD5.7bn has been sold, resulting the the foreign reserves sliding to approximately USD90bn.

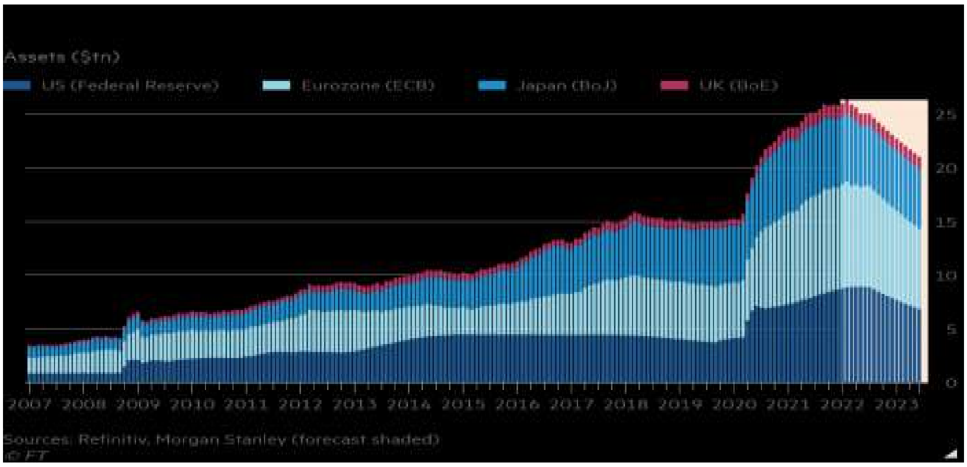
The USD/VND exchange rate of banking system has depreciated since the begining of April 2022 due in part to upward pressure from rate hikes by major central banks. As the end of August 2022, average USD/VND exchange rate of banks stood at VND23,451 (+2.93% YoY and +2.74% YTD). In addition, USD/VND exchange rate in black market also depreciated to VND24,060 (+2.44% MoM and +4.47% YoY).

In general, the USD has been on a strong run with the Dollar Index (DYX) surpassing the 110 level, reaching a two-decade high, and appreciating just under 15% YTD. The strong dollar has been contributed to by several factors including the aggressive interest rate hikes by the US Fed and weaknesses seen in the Pound Sterling and Euro as those economies are facing the fallout of surging energy costs and the weaponization of the gas markets by Russia in response to economic sanctions placed upon them by many Western nations. The VND has historically been under pressure when the DXY is strengthening, which is contributing to the actions from the SBV.

SBV moves wer due to risks and potential risks that SBV faced recently which put depreciation pressure on VND, inlcluding:

(1) Interest rate hikes are expected to continue throughout the end of the year as over 16 major central banks around the world, especially US (FED) and UK (BOE), have indicated. Moving to 2023, we expect that while inflationary pressures will remain in the early parts of the year, if the actions of central banks have the intended effects and inflation is brought under control, we could see easing monetary policies emerging in the second half as encouraging economic growth will return to the forefront of policy makers minds;

(2) FED, along with BOE and ECB are stopping reinvesting maturing assets and starting to sell assets on their balance sheet (also known as Quantitative Tightening program). The FED expected to reduce around USD400bn of its balance sheet by the end of 2022. ECB and BOE also plans to follow FED. Morgan Stanley estimated that the balance sheets of the heaviest-hitting central banks will shrink by roughly USD4tn by the end of next year. Those events will affect VND strength in upcoming months;



(3) China continues to pursue a zero-COVID-19 strategy with mass testing and lockdowns when cases surge. This strategy could cause another major disruption to global supply chains and further inflate shipping costs, which in turn could hinder our trading activities and may put another depreciation pressure on foreign exchange rate in upcoming months;

(4) The Chinese Renminbi (CNY) has been under pressure since 1Q2022, seeing a devaluation vs the USD of c. 8.5% and approaching the important psychological level of 7:1 and hitting a 2-year low. The devaluation of the CNY could have knock on effects to emerging/frontier markets which compete with China for global shares of exports, which includes Vietnam, as Chinese exports are getting cheaper for importers; and
(5) Recession risks grow, especially in US and EU as US technically fall into recession with GDP declined for two consecutive quarters and gas & energy crisis following the recent disruption of Russian natural gas supplies through the Nord Stream 1 pipeline in EU. The effects of low performance from US's and EU's economy could weigh on our export activities which is the country's key economic growth driver.

However, Vietnam's economy continues to exhibit relatively good fundamentals and factors which will help VND in general (in banking system and in black market) reclaim its strength and stabilized in upcoming months of 2022, include:

(1) Inflation remaining low and under control below 4%;
(2) Exports, which are the country's key economic growth driver, will remain strong as manufacturing activities gradually recover and are expected to continue their upward trajectory given the recovery of the global economy. Vietnam emerged as a substitute manufacturing center to cover loss output causing by zero-COVID-19 strategy of China. In addition, our trading activities continued to be solid as total export-import turnover in 8M2022 reached USD431.9bn (+15.1% YoY) and our balance of trade continued posted surplus USD2.4bn in August 2022 and overall 8M2022 remained surplus over USD4bn;
(3) FDI inflows disbursement grew strongly in 8M2022 (+10.5% YoY);
(4) Support from the SBV to keep the positive gap between the VND and USD interbank interest rate positive in order to support VND/USD exchange rate in conjunction with abundant foreign reserves (stood at around USD110bn at the end of 1Q2022, however there has been speculation that c. USD15bn have been sold by the SBV, putting current reserves at an estimated USD95bn).

Overall, we amend our expectation that the VND might depreciate as high as **2.5-3.0%** (last report 2-2.5%) for **FY2022** which spot reference asking exchange rate will be around 23.700 – 23.750VND/USD.

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