

Money 360

August 2022

September 8, 2022

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Associate – Macro

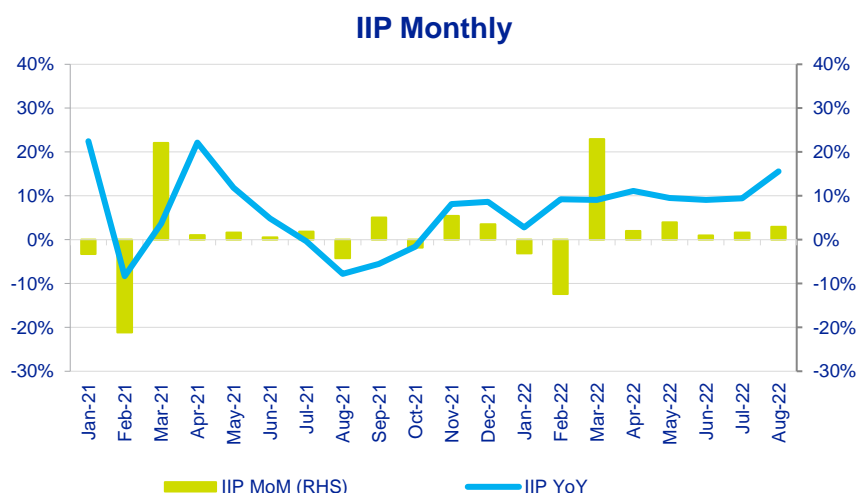
HIGHLIGHTS

- **Government Bond Issuances in 8M2022 have fulfilled only 26.1% of the annual plan** with 10Y and 15Y tenors attracting the vast majority of interest. We expect that the VST will have to ramp up issuances in upcoming months of 2022 and increase offering rates as current unattractive yields are failing to attract investor interest.
- **Secondary yields stabilized and increased slightly in August after surged on pressures from the FOMC meetings in July.** We continue to hold expectation that yields in the secondary market could increase and upgrade the range of yield increased to 1-1.5% (last report 0.5-1%), as more hawkish view from the FED in upcoming months of 2022 due to rising interest rate globally caused by surging inflation.
- **We expect that maintaining low interbank interest rates will be tough for the SBV** as they need to maintain a gap between the USD and VND interbank interest rates in order to support VND/USD exchange rate and surging credit needs when the SBV approves remaining credit growth quotas in the banking sector.
- **The USD/VND rates continued to depreciate in August 2022** compared with last months and last year. **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 of SBV will be around 23,700 – 23,750VND/USD.

Macro Update

IIP recorded a positive growth rate of 9.4% YoY 8M22

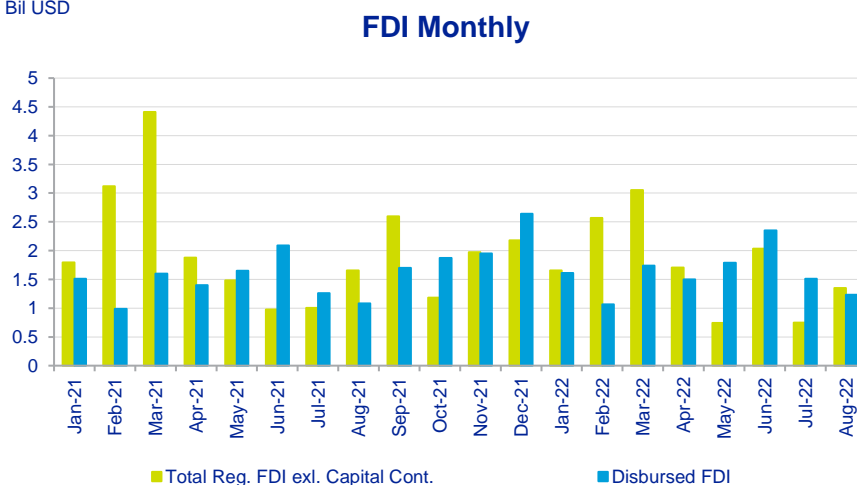
Industrial activities continued to post strong figures, in which IIP recorded a positive growth rate of 15.6% YoY in August 2022 and 9.4% YoY in 8M2022 (vs -7.8% YoY in August 2021 and +5.6% YoY in 8M21). Furthermore, the PMI August 2022 posted 52.7, continued to be in expansionary territory. According to PMI report, Vietnamese manufacturing sector recorded strong growth with improving demand and faster increases in output, new orders and employment during the month.



Disbursed FDI up 10.2% YoY in 8M22

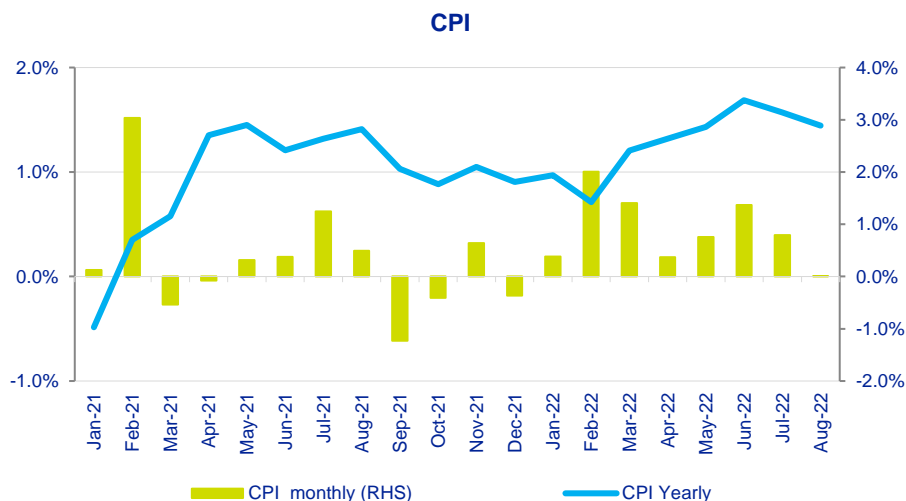
Disbursed FDI remained strong in 8M2022 (+10.5% YoY vs +2.0% YoY in 8M21) as travel restrictions eased and industrial activities continued to recover and accelerate. Even though registered FDI in 8M2022 decreased 15.1% YoY, (vs +11.8% YoY in 8M21) we are optimistic FDI inflows in the future will remain strong as Vietnam continues to be an attractive investment destination for FDI firms.

Bil USD



Average inflation creeping up to 2.58% in 8M22, but remains under control

Consumer Price Index (CPI) August 2022 increased only 0.005% MoM and 2.89% YoY, a little on the high side due to rising foodstuffs prices, but the average inflation rate in 8M2022 reached 2.58% YoY and far below government's target 4% and remained under control.



Primary risks to Vietnam's economic growth remain exogenous

There are several exogenous risk factors which may bring uncertainties to Vietnam's economic growth prospects in upcoming months of 2022, which include:

1. The FED and other major central banks continue to hike rates aggressively to tame surging inflation;
2. Recession risks grow, especially in US and EU as the US has technically fallen into recession with GDP declining for two consecutive quarters and the gas & energy crisis following the recent disruption of Russian natural gas supplies through the Nord Stream 1 pipeline in EU;
3. Prolonged geopolitical tensions between Russia and Ukraine, which have lead to sustained high oil and food prices;
4. China continues to pursue its zero-COVID-19 strategy with mass testing and lockdowns when cases surge; and
5. Surging inflation globally.

H2 GDP growth expected to increase as industrial and service activities continue to show strength

However, despite fears that these events could slow Vietnam's growth prospects in the upcoming quarters of 2022, we maintain our expectation that GDP growth rate will gradually recover in the last two quarters of 2022, supported by:

1. The continuing recovery of all industrial activities (IIP increased 15.6% YoY in August 22 and 9.4% YoY in 8M22), which will push activities from FDI sector in term of investment and export;
2. Vietnam emerged as a substitute manufacturing center to cover output losses caused by the zero-COVID-19 strategy in China; and
3. The strong recovery of the service sector, after relaxing all COVID-19 related restrictions on service businesses, coming from (1) improvement of domestic consumption (total retail sales of goods and services August 22 increased 50.2% YoY and 8M22 increased 19.3% YoY), (2) reopening international tourism (retail sales of travelling services August 22 increased 51x YoY and 8M22 increased 12x

Government stimulus plans expected to further support growth

YoY); and (3) normalization of transportation of goods help push trading activities especially export from FDI sector.

With new extension of the credit growth quota granted at the last month of 3Q2022, we expected that Vietnam's economic performance will reached as high as our favourable scenario

Furthermore, the fiscal and monetary stimulus package, worth VND337tn (VND291tn for fiscal package and VND46tn for monetary package), to support the socio-economic recovery and development program after the impact of the COVID-19 pandemic started disbursement in 2Q2022 (according to minister Nguyen Chi Dung, Ministry of Planning and Investment, by September 2nd, disbursement of fiscal and monetary stimulus package reached VND55.5tn, about 16% of total package) along with over VND244tn (of total VND530tn) of Capital under State Budget needed to disbursed toward the year end of 2022, which will push socio-economic recovery in the last months of 2022.

Besides that, SBV have just released notes (on 6th September 2022) stated that SBV has made adjustments for credit growth quota in 2022 for credit institutions that have requested and sent notices to these credit institutions. In addition, SBV acknowledged that credit growth up until 26 August 2022 reached 9.91% YTD. We also heard rumor that the new extension of the credit growth quota to credit institutes equal 2% more compared with the end of 2021 (~VND209tn). As our positive scenario, with one hypothesis SBV will grant new credit growth quota in 3Q2022, we expected that GDP of Vietnam for 3Q2022 will grow as high as 14.7% YoY. However, the new extension of the credit growth quota is lower than expected (~4%), so in our opinion the fundamental economic activities of Vietnam in Q3 will be a little lower than our positive scenario.

Overall, we maintain our view that Vietnam's economy will grow in range between 7.1% - 10.4% YoY in 2H2022 and 6.8% - 8.5% YoY in 2022.

Favourable Scenario

Key Assumption:

+ Economic growth remain strong.

- Agriculture, forestry and fishery sector accelerate in 3Q and 4Q.
- Industrial activities continue to accelerate in 3Q and 4Q2022.
- Services sector fully recover in 3Q and 4Q2022 support by normalized transportation, rising domestic consumption and surging international tourism.
- Inflation peaked and remain at this level through out 2H2022.

+ Fiscal Policy: fiscal and monetary stimulus package worth VND337tn especially the developing infrastructure package (VND113.85tn) will be disbursed soon in 3Q and 4Q.

+ Monetary Policy:

- SBV will grant new credit growth quota in 3Q2022.
- Monetary policy tends to continue to be expansionary for supporting the economic recovery
- SBV might raise its benchmark interest rates toward yearend by about half percentage point (50bps)

+COVID-19: no major outbreak in major cities.

| GDP | | IIP | | Ex and Im | FDI | Retail Sales | | CPI |
|--------|--------|--------|--------|---------------------------------|-------------------------------------|--------------|--------|--------|
| 3Q22 | 4Q22 | 3Q22 | 4Q22 | | | 3Q22 | 4Q22 | |
| % | % | % | % | | | % | % | |
| 14.7% | 6.8% | 21.7% | 11.6% | | | 58.3% | 21% | |
| 2H2022 | FY2022 | 2H2022 | FY2022 | FY2022 | FY2022 | 2H2022 | FY2022 | FY2022 |
| % | % | % | % | Bn USD | Bn USD | % | % | % |
| 10.4% | 8.5% | 16.6% | 12.7% | Im: 390 Ex: 394 Net Ex: 4 | Disbursed: 21.5 Registered: 26.0 | 36.5% | 22.9% | 3.5% |

VGB-GGB MARKET

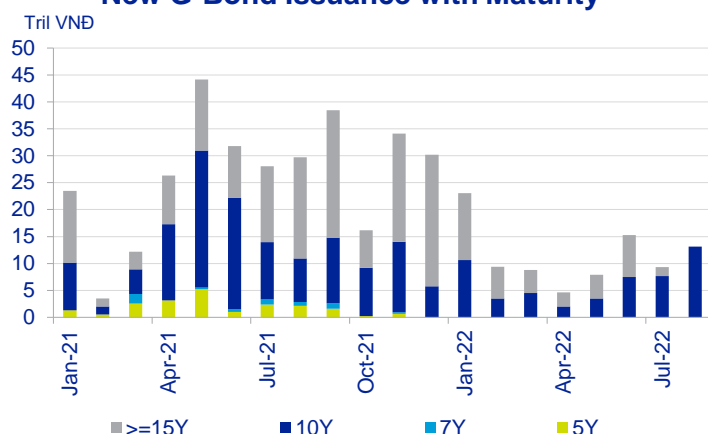
PRIMARY BOND MARKET

G-Bond issuances increased significantly in August with interest primarily in 10Y and 15Y tenors

Total G-bonds issued in August 2022 reached VND26.2tn (vs VND29.7tn in August 2021). Winning yields of all mid-terms slightly increased during August, but due to high bidding rates and no winning values in August, short- and long-term yield remained the same compared with last month mainly due to low winning value caused by low and unattractive offering rate. The winning rate of all terms reached 80% in August 2022 (increased from 45% in July 2022). In addition, winning value continued to decrease by 12% compared with August 2021.

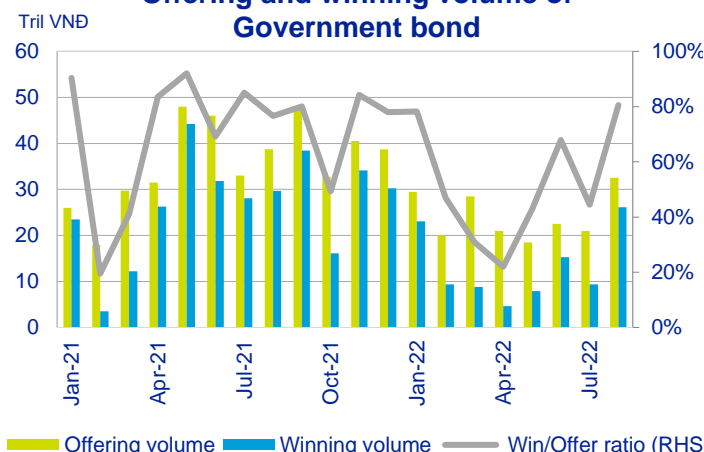
10Y and 15Y attracted investor's attention in August 2022 which each term accounting for 50% of the total issuance amount, and winning rates all reaching 88%.

New G-Bond Issuance with Maturity



Source: HNX, ACBS

Offering and winning volume of Government bond



Source: HNX, ACBS

Bond Yields in the primary market

| | 5Y | 7Y | 10Y | 15Y | 20Y | 30Y |
|--------------------|-------|-------|-------|-------|-------|-------|
| End of August 2022 | 0.76% | 1.10% | 2.67% | 2.94% | 2.75% | 3.01% |
| vs July 2022 | 0.76% | 1.10% | 2.37% | 2.67% | 2.75% | 3.01% |
| vs August 2021 | 0.84% | 1.25% | 2.05% | 2.26% | 2.83% | 2.98% |

YTD issuances remain far behind pace to complete annual target

By the end of August, the VST only issued VND35.5tn and VND104.5tn of G-bonds in 3Q2022 and 2022 respectively, fulfilling only 41.8% of 3Q2022's issuance plan (VND85tn) and 26.1% of 2022's issuance plan (VND400tn).

Government Bond Issuance Plan

| VND Bn | 3Q2022 Target | QTD Issuance | QTD Issuance/Target | 2022 Target | 2022 YTD Issuance | 2022 YTD Issuance/Target |
|--------|---------------|--------------|---------------------|-------------|-------------------|--------------------------|
| 5-year | 5,000 | 0 | 0.0% | 30,000 | 0 | 0.0% |
| 7-year | 5,000 | 0 | 0.0% | 15,000 | 0 | 0.0% |

| | | | | | | |
|--------------|---------------|---------------|--------------|----------------|----------------|--------------|
| 10-year | 30,000 | 20,795 | 69.3% | 140,000 | 52,437 | 37.5% |
| 15-year | 35,000 | 14,700 | 42.0% | 150,000 | 41,255 | 27.5% |
| 20-year | 5,000 | 0 | 0.0% | 30,000 | 2,265 | 7.6% |
| 30-year | 5,000 | 0 | 0.0% | 35,000 | 8,625 | 24.6% |
| Total | 85,000 | 35,495 | 41.8% | 400,000 | 104,582 | 26.1% |

Issuances and yields expected to increase in last four months

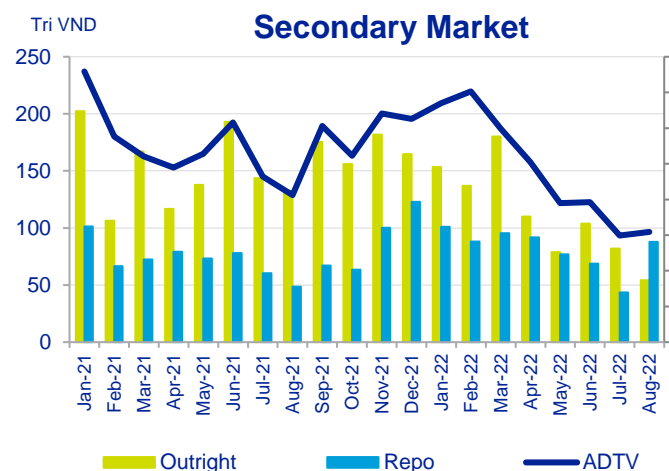
ANALYST COMMENT: We expect that the VST will have to continue to speed up issuances in upcoming months of 2022 as the government needs to push disbursement of public investment and finance their fiscal and monetary stimulus package, which was planned to disburse mainly in 2022, and have already been disbursed 16% by September 2nd, in order to boost economic development after end of COVID-19 outbreak. In addition, VST also needs to increase offering rates especially short-term rates to increase winning rate of issuance which was currently low due to unattractive low yields.

SECONDARY BOND MARKET

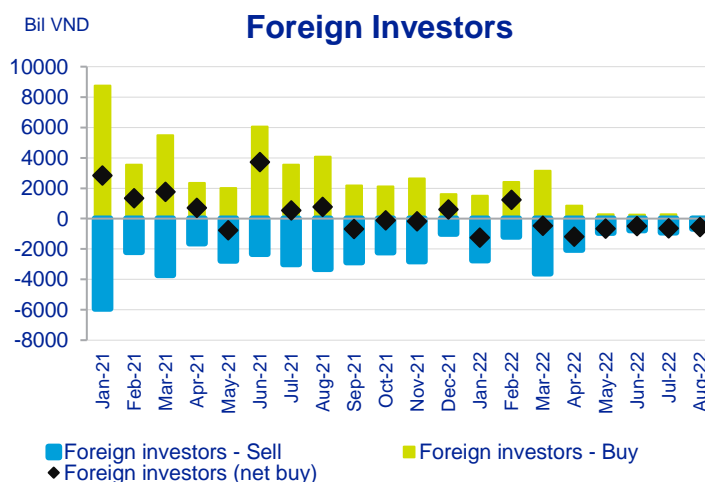
Secondary trading values increased over 13% MoM, and foreign investors continued to be net sellers

Total trading value of outright and repos in the secondary market in August 2022 increased 13.3% compared with last month, reaching VND142.2tn and with the average daily trading value (ADTV) reaching VND6.2tn (+3.4% MoM). Of the total trading value in the secondary market, outright transactions accounted for 38% and ADTV of outright decreased 39% MoM to VND2.4tn. Of the total trading volume in the secondary market, repo transactions accounted for 62%.

Foreign investors trading position recorded a net sell of VND566bn in August 2022, the cumulative net sell since start of 2022 increased to VND4.1tn.



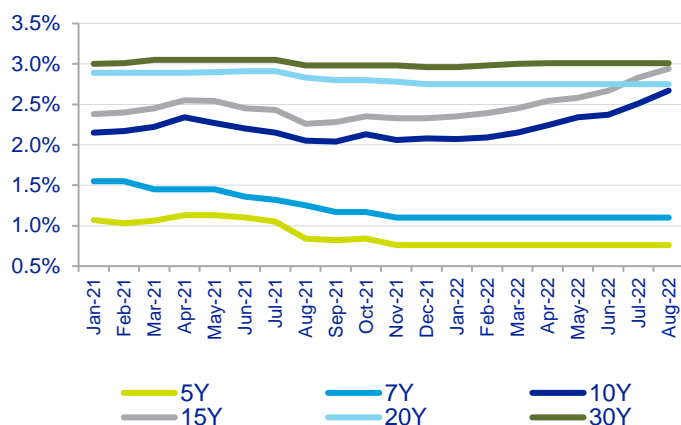
Source: HNX, ACBS



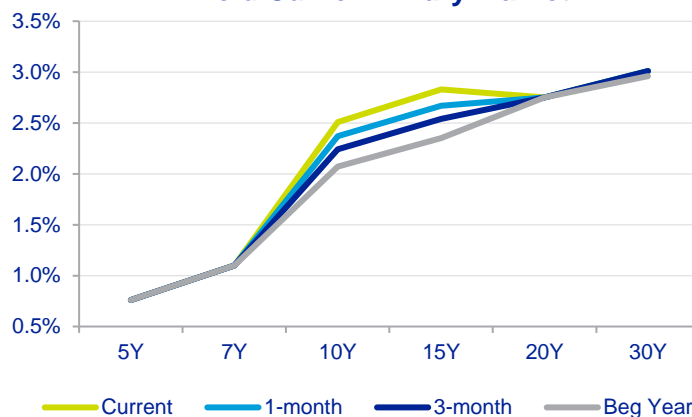
Source: HNX, ACBS

Yield Curve

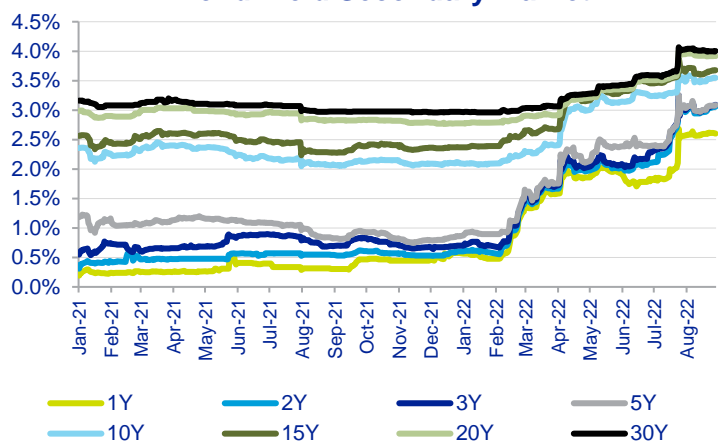
G-Bond Issuance Winning Interest Rate



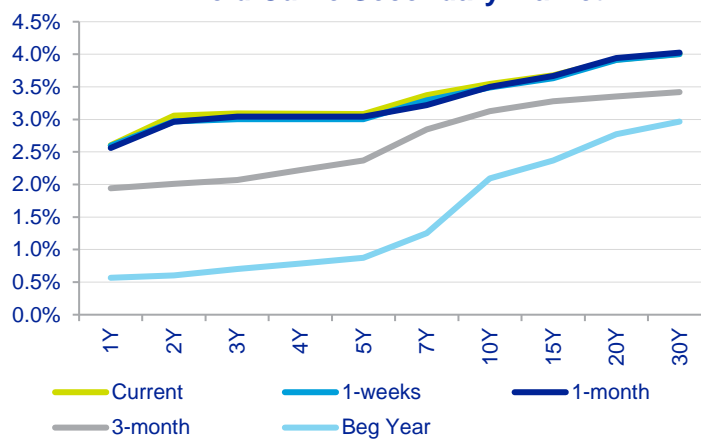
Yield Curve Primary Market



Bond Yield Secondary Market



Yield Curve Secondary Market



Secondary yields stabilized and increased slightly in August after surged on pressures from the FOMC meetings in July

Primary bond yields (except 10Y and 15Y) remained almost the same during August 2022 compared with same period last year mainly due to low winning value caused by low and unattractive offering rate.

Besides that, bond yields in the secondary market during August stabilized and increased slightly after surged on pressures from the FOMC meetings in July.

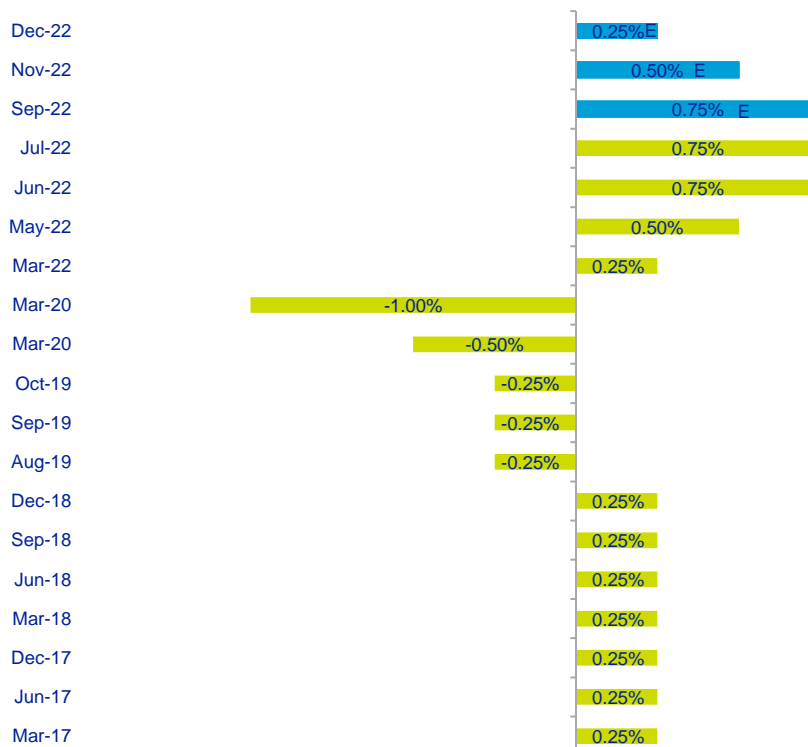
| Bond Yields in the primary market | | | | | | | | | | |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 5Y | 7Y | 10Y | 15Y | 20Y | 30Y | | | | |
| End of August 2022 | 0.76% | 1.10% | 2.67% | 2.94% | 2.75% | 3.01% | | | | |
| +/- MoM (bps) | 0 | 0 | 16 | 11 | 0 | 0 | | | | |
| Bond Yields in the secondary market | | | | | | | | | | |
| | 1Y | 2Y | 3Y | 4Y | 5Y | 7Y | 10Y | 15Y | 20Y | 30Y |
| End of August 2022 | 2.60% | 3.06% | 3.09% | 3.09% | 3.08% | 3.37% | 3.55% | 3.68% | 3.92% | 4.01% |
| +/- MoM (bps) | 4 | 9 | 5 | 4 | 4 | 15 | 4 | 1 | -2 | -2 |

Expectations are for yields in the secondary market to increase in the second half of 2022

ANALYST COMMENT: In our opinion, the VST will need ramp up issuances in upcoming quarters of 2022 if the VST wants to fulfill their 2022's issuance plan. In addition, VST need to increase their offering yield in order to be more attractive to investors as current interest rates are high globally. Furthermore, VST have just issued 26.1% of 2022's issuance plan (VND400tn), so VST are under pressure to carry out remaining plan (around VND295tn) in the last four months especially when government needs to push disbursement of public investment in 2H2022.

In the secondary market yields stabilized and increased slightly in August after surged on pressures from the FOMC meetings on 26-27 July. However, rising interest rate globally caused by surging inflation and pressure of expected three rate hikes of 25-75bps (last report range from 25-50bps) each towards the year end 2022 continued to put upward pressure on our bond yields. Furthermore, we also continue to hold expectation that yields in the secondary market could increase, and upgrade the range of yield increased to 1-1.5% (last report 0.5-1%), as more hawkish view from the FED in upcoming months of 2022.

The Fed's changes to FFR since 2017



Source: CME, FED, ACBS

MONEY MARKET

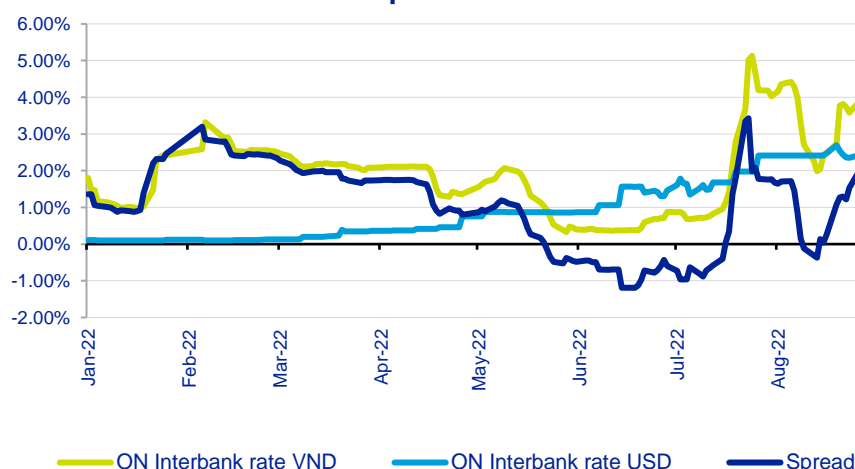
Reengaging the T-bills channel helped closing the interest rate gap between the USD and VND interbank interest rate and in turn helped reduced depreciation pressure and stabilize the exchange rate and the foreign exchange market as a whole

In August, SBV continued to issue over VND160tn, while over VND194tn come due through T-bills channel. In addition, VND35bn of reverse repos OMO issued in August combined with over VND74tn coming due during the month through reverse repo OMO. Furthermore, we estimate that the SBV has sold over USD3bn in August, which indirectly withdrew over VND70tn from the system through-out August. As a result, the SBV withdrawn over VND75tn net via T-bills, reverse repos OMO and selling USD.

The interbank rate volatile across all tenors throughout August due to unstable liquidity of banking system caused by interbank activities of SBV listed above. As of the end of August, the average interbank rates of ON (3.53%, +164 bps MoM), 1-week, (3.79%, +151 bps MoM), 2-weeks (3.91%, +165 bps MoM), 1-month (4.59%, +136 bps MoM), 3-months (5.06%, +140 bps MoM), 6-months (6.24%, +165 bps MoM) and 9-months (6.51%, +169 bps MoM) all increased dramatically.

As we expected in our last report in June, the recent SBV moves are likely aimed at closing the negative interest rate gap between the VND and USD interbank interest rate on the interbank market, helped reduced depreciation pressure and stabilize the exchange rate and the foreign exchange market as a whole.

ON Interbank rate spread between VND and USD

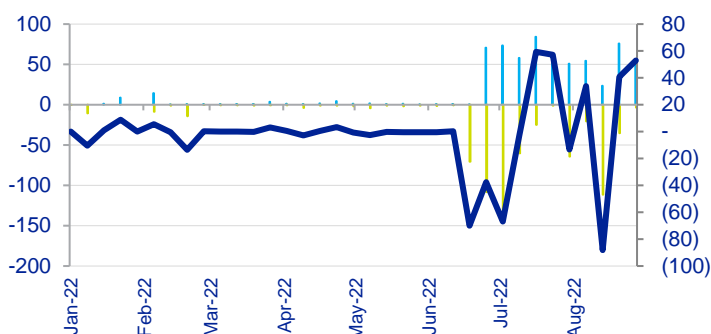


Source: SBV, ACBS

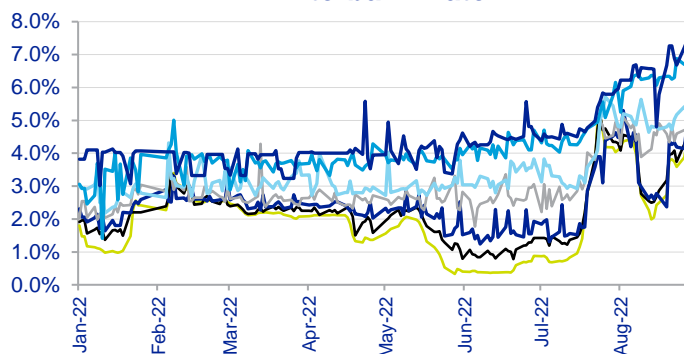
| | Interbank Rate | | | | | | |
|------------------------|----------------|---------|---------|----------|----------|----------|----------|
| | ON | 1 Weeks | 2 Weeks | 1 months | 3 months | 6 months | 9 months |
| Average of August 2022 | 3.53% | 3.79% | 3.91% | 4.59% | 5.06% | 6.24% | 6.51% |
| +/- MoM (bps) | 164 | 151 | 165 | 136 | 140 | 165 | 169 |
| End of August 2022 | 4.42% | 5.11% | 5.09% | 5.03% | 6.07% | 6.46% | 7.42% |
| +/- MoM (bps) | 23 | 36 | 70 | 58 | 35 | 138 | 163 |

Source: SBV, ACBS

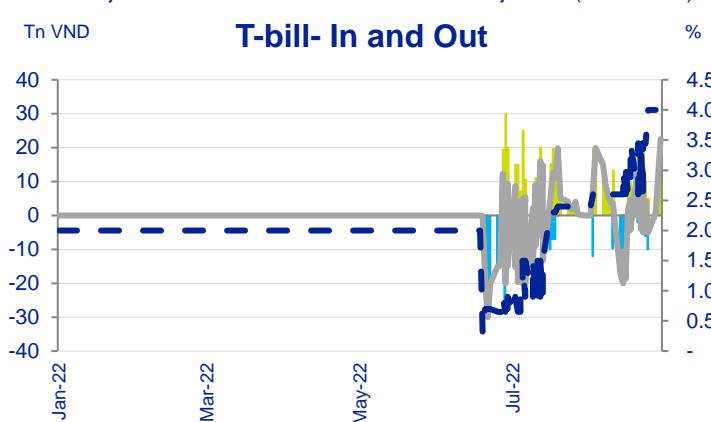
Tn VND **Net Injection/ (Withdrawal) from OMO**



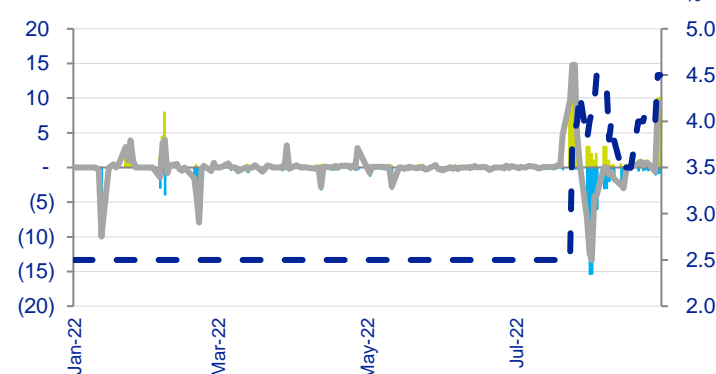
Interbank Rate



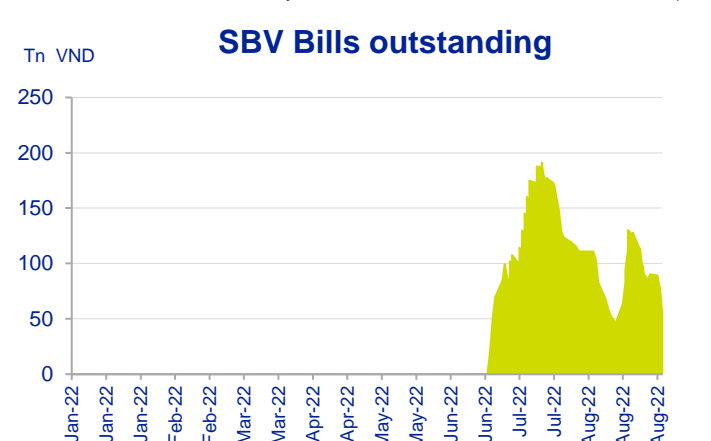
Tn VND **T-bill- In and Out**



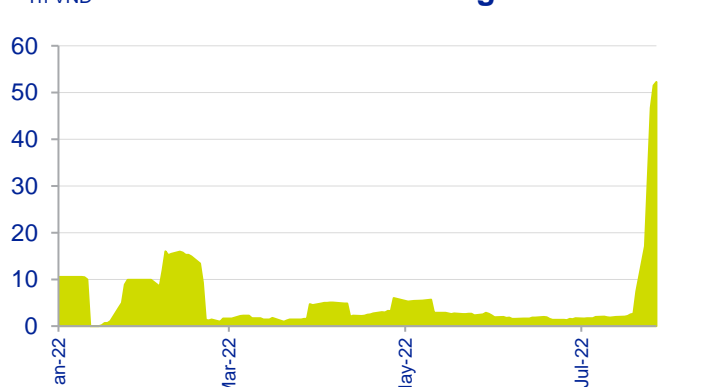
OMO- In and Out



Tn VND **SBV Bills outstanding**



OMO Outstanding



Source: SBV, ACBS

ANALYST COMMENT:

Keeping interbank interest rates low would be tough for the SBV as they have to keep gap between the USD and VND interbank interest rate positive in order to support VND/USD exchange rate and surging credit needs after the SBV

We expect that maintaining low interest rates would be tough for the SBV as the FED might have another three rate hikes towards the year end, which will put pressure on VND/USD exchange rate and the SBV will have to keep gap between the VND and USD interbank interest rate positive in order to support VND/USD exchange rate.

In addition, as most banks have reached their credit growth quota by the end of August 2022, SBV have just released notes (on 6th September 2022) stated that SBV has made

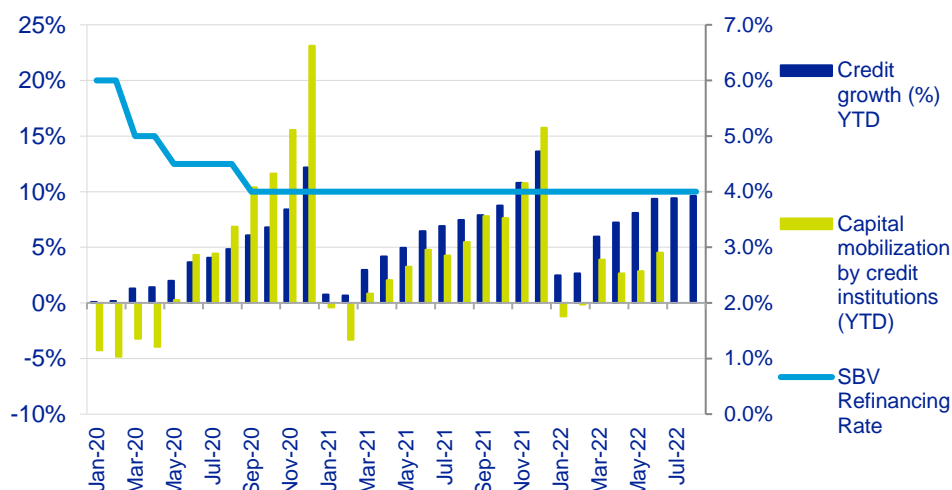
approves remaining credit growth quota

We expect banking system liquidity might not be as good condition in 2H2022, and interbank rates may remain at this current high in upcoming months of 2022

adjustments for credit growth quota in 2022 for credit institutions that have requested and sent notices to these credit institutions. New extension of the credit growth quota will, in turn, lower liquidity in the upcoming months. However, as the rumor new credit growth quota granted seems to be lower than expected (rumor equal 2% but market expecting ~4%), in our opinion, liquidity will not be as tight as we expected as the addition credit quota will be fully utilized fairly quickly.

As a result, we expect banking system liquidity might not be in as good a condition in 2H2022, especially after the additional credit growth quota is granted, as there might be a reduction of liquidity in the banking system due to surging credit growth in conjunction with supporting the VND from SBV. We also expect that **interbank rates may remain at this current high** level in the upcoming months of 2022 due to:

- (1) credit growth continued to surge in last months of 2022 as production and services business will continued to return to normal thanks to the Government's effective living-with-COVID-19 strategy against the COVID-19 pandemic. In addition, up until 30 June 2022, credit growth (+9.35% YTD, and new data from SBV as of 26th August reached 9.91% YTD) has outgrown capital mobilization by credit institutions (+4.51% YTD) which also put upward pressure on our interbank rate and policy interest rate;



With new extension of the credit growth quota granted will, in turn, intensify the liquidity issues in upcoming months. However, liquidity will not be as tight as we expected as the addition credit quota will be fully utilized fairly quickly

Expected further rate hikes at central banks throughout the world to put pressure on the SBV to increase key policy rates before year end

- (2) SBV have just released notes (on 6th September 2022) stated that SBV has made adjustments for credit growth quota in 2022 for credit institutions that have requested and sent notices to these credit institutions. And credit growth quota's approval will, in turn, intensify the liquidity issues in upcoming months. However, the rumor new credit growth quota granted seems to be lower than expected (rumor equal 2% but market expecting ~4%), in our opinion, liquidity will not be as tight as we expected as the addition credit quota will be fully utilized fairly quickly;
- (3) 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. However,

Maintaining positive gap between VND and USD interbank rate could keep VND interbank rate high

toward yearend 2022, those pressure will continue to put upward pressure on our interbank rate and policy interest rate; and

- (4) SBV intended to keep gap between the VND and USD interbank interest rate positive in order to support VND/USD exchange rate, so with Fed Fund Rates continuing to be high and higher toward the year end, we don't expect SBV will lower interbank rates much in upcoming months.

In addition, we maintain our expectation that our **key policy interest rates** might gradually **increase between 50bps – 75bps** toward year-end.

OTHER MARKETS

FOREX MARKET

The SBV has just increased spot reference asking exchange rate (for the third times in 2022) in the late afternoon of September 7th, 2022 by 300VND to 23,700 VND/USD) under heavy selling pressure of USD to banks recently

The VND under pressure from central bank rate hikes globally

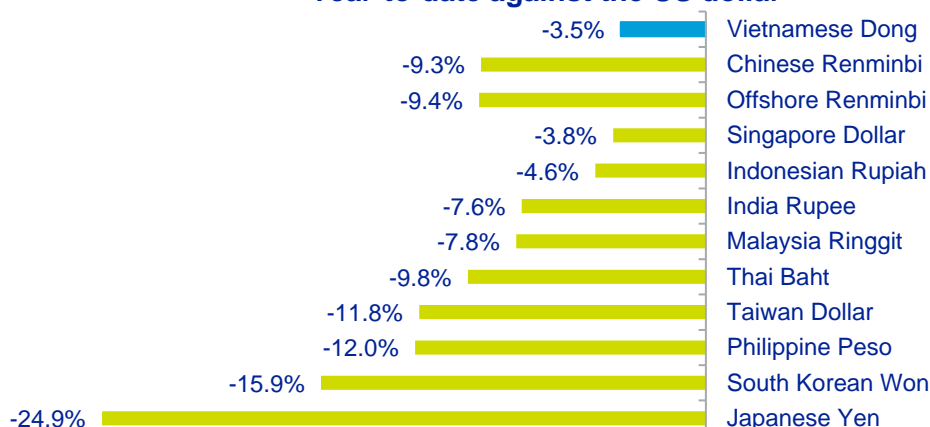
The strong USD put depreciation pressure on various currencies not just Vietnamese Dong

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 up to 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 foreign reserves sliding to approximately USD90bn.

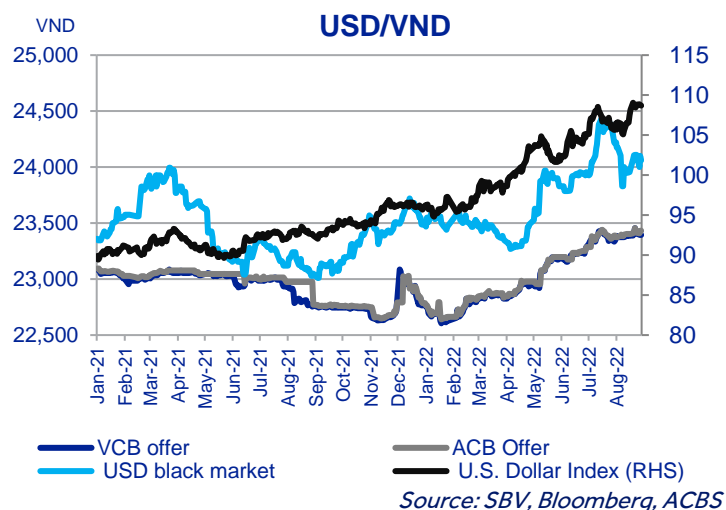
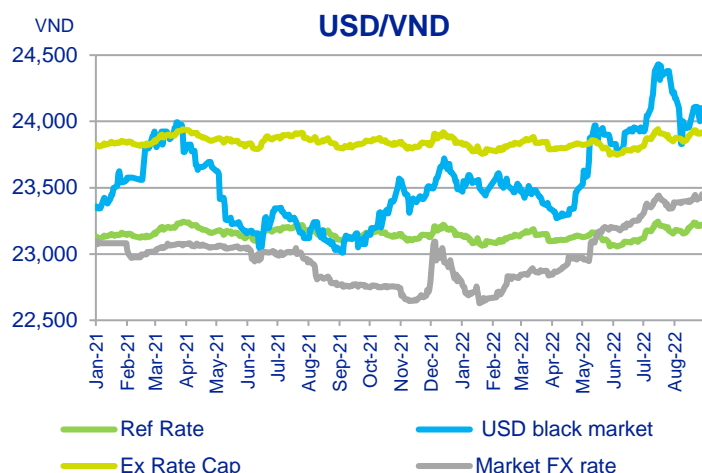
The USD/VND interbank exchange rate has depreciated since the beginning of April 2022 due in part to upward pressure from rate hikes by major central banks. As the end of August 2022, average USD/VND exchange rate of banks stood at VND23,451 (+0.46% MoM, +2.93% YoY and +2.74% YTD). In addition, USD/VND exchange rate in black market also depreciated to VND24,060 and (-1.31% MoM, +4.47% YoY and +2.44% YTD).

In general, the USD has been on a strong run with the Dollar Index (DXY) 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. In addition, the Japanese yen, Korean won, Thai baht and Malaysian ringgit also under pressure by aggressive hikes of US Fed which also depreciated significantly from beginning of 2022. So, the Vietnamese Dong has historically been under pressure when the DXY is strengthening, which is contributing to the actions from the SBV lately.

Year-to-date against the US dollar



Sources: Bloomberg, ACBS



ANALYST COMMENT:

Domestic macro factors and continue to positively support the VND along with actions by the SBV

External headwinds from global central banker's raising rates and implementing QT to fight inflation putting downward pressure on the VND

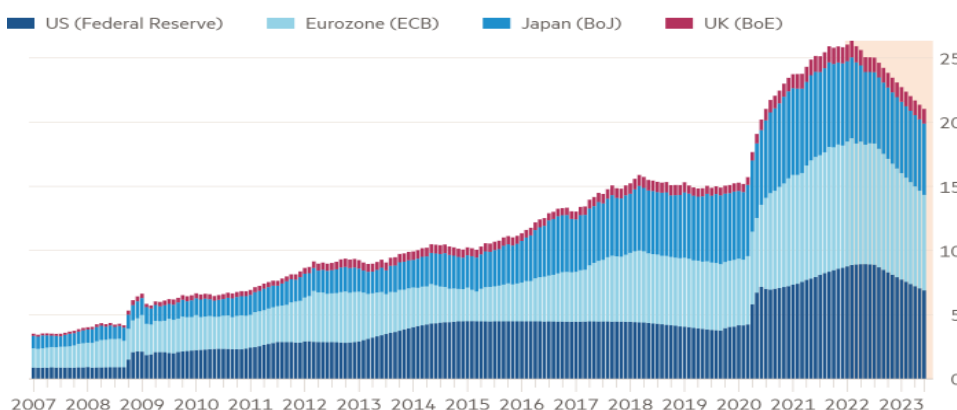
FED and other major central banks will shrink their balance sheet soon and will put depreciation pressure to VND in upcoming months

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

- (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;

The balance sheets of central banks are set to shrink

Assets (\$tn)



Sources: Refinitiv, Morgan Stanley (forecast shaded)
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China zero-COVID-19 strategy and recession risks in US and EU also putting downward pressure on the VND

Recession risks grow which in turn lead to low performance from US's and EU's economy could weigh on our export activities which is the country's key economic growth driver

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

- (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 the US has technically fallen into a 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 USD497.6bn (+15.8% 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) SBV will try to lower depreciation pressure to VND by keeping the positive gap between the VND and USD interbank interest rate. In addition, with sufficient foreign reserves (stood at around USD110bn at the end of 1Q2022, however there has been speculation that c. USD20bn have been sold by the SBV, putting current reserves at an estimated USD90bn) SBV could use to defend its currency when needed.

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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