FLASH NEWS MACRO

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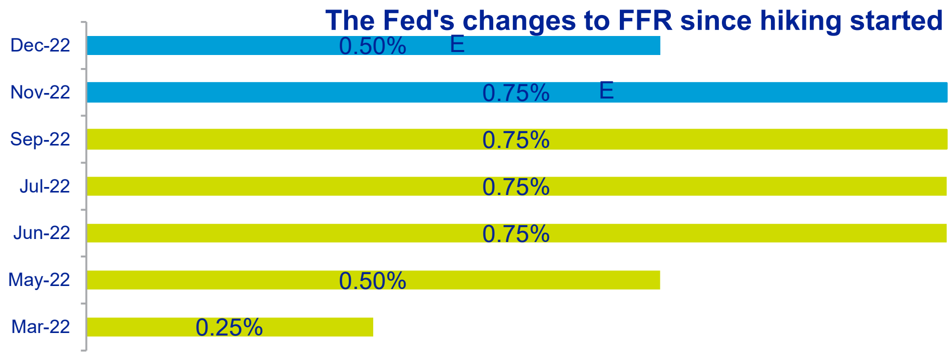
The US FED continued to raise its benchmark federal-funds rate by three-quarters of a percentage point (75 basis points) to 3-3.25%, the highest rate since the global financial crisis in 2008

The US Federal Reserve officials voted to raise interest rates by three-quarters of a percentage point (75bps) and signaled two more agressive rate hikes toward yearend to combat inflation which is running at a 40-year high (+8.26% YoY in August 2022). Besides that, in economic projections released, the FED policymakers expected to raise median the FFR in 2022 to 4.4% (vs 3.4% in June 2022) and suggested another 1.25% in total rate hikes, spread across the remaining two scheduled FOMC toward the end of 2022. In addition, FED's economic projections aslo expected the US economy will only grow by 0.2%YoY this year (vs forecasted +2.8%YoY in March 2022 and +1.7%YoY in June 2022) and prices, as measured by personal consumption expenditures (PCE), to rise by 5.4% over the course of 2022 (faster than 4.3% forecasted in March 2022 and 5.2% forecasted in June 2022). *Further details of the Fed's projections ın Appendix 1.*



What does the recent rate hike mean to Vietnam

Despite the high inflation rate in the US, in conjunction with the FED and other major central banks rate hikes and the Quantitative Tightening program of FED, we maintain our expectation of **Vietnam's CPI for 2022** will increase in the range of 3.2% - 4% and remain within Government's target of 4%.

Despite fears that **Vietnam's growth prospects** could slow in the upcoming quarters of 2022, with good fundamentals in 8M2022, Vietnam's economy has essentially regained its growth momentum as the post-COVID recovery carries on. We maintain our expectation that the GDP growth rate will continued to record strong growht in the last two quarters of 2022, especially in 3Q2022 with expectation of 10%+ growth, 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 YoY); and (3) normalization of transportation of goods help push trading activities especially export from FDI sector.

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, the SBV also confirmed (in the Vietnam socio-economic forum 2022) to maintain the credit growth target at 14% in 2022, which would indicate that another 2% extension of the credit growth quota will released towards the end of 2022, after recent moves to increase system wide credit by 2% in early September. As in our positive scenario, with the hypothesis that the 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. Overall, we maintain our view that Vietnam's economy will grow in range between 7.1% - 10.4% YoY in 2H2022 (10.4%-14.7% in 3Q and 4.5%-6.8% in 4Q) and 6.8% - 8.5% YoY in 2022.

We also maintain our view that **Vietnam's monetary policy management** by the **State Bank of Vietnam** will have no major surprises in 2022, supported by:

(1) As long as Vietnam's inflation rate under controlled and stay within 4%, monetary policy tends to continue to be expansionary for supporting the economic recovery;
(2) The main impact of the FED rate hikes expected to be mainly on foreign capital flows. In the short-term, with the history of others FED rate hikes, portfolio capital flows into emerging markets could turn negative and Vietnam could see net selling on the equity markets. Despite short term fluctuations, Vietnam, with good macroeconomic fundamental and acceptable inflation levels below 4%, will continue to be an investment destination for FDI companies, especially in the manufacturing industry; and
(3) Exports, which are the country's key economic growth driver, will remain strong as manufacturing activities gradually recover and are expected to continue its 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 USD500bn (+16.3% YoY) with trade balance surplus reach USD5.5bn.

We remain our expectation that the **SBV might raise benchmark rates toward the yearend by between 50bps – 75bps**.

Furthermore, SBV has recently increased spot reference asking exchange rate (for the third time 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. However, despite the FED rate hikes, 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, are expected to remain strong as manufacturing activities gradually recover. Vietnam emerged as a substitute manufacturing center to cover loss output causing by zero-COVID-19 strategy of China. In addition, trading activities continued to be solid as total export-import turnover in 8M2022 reached USD500bn (+16.3% YoY) and our balance of trade continued posted surplus USD3.9bn in August 2022 and overall 8M2022 remained surplus over USD5.5bn;
(3) FDI inflows disbursement grew strongly in 8M2022 (+10.5% YoY) to reach USD12.8bn;
(4) SBV will try to lower depreciation pressures on the 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 maintained our expectation that the VND might depreciate as high as **2.5-3.0%** for **FY2022** which spot reference asking exchange rate will be around 23.700 – 23.750VND/USD.

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APPENDIX 1

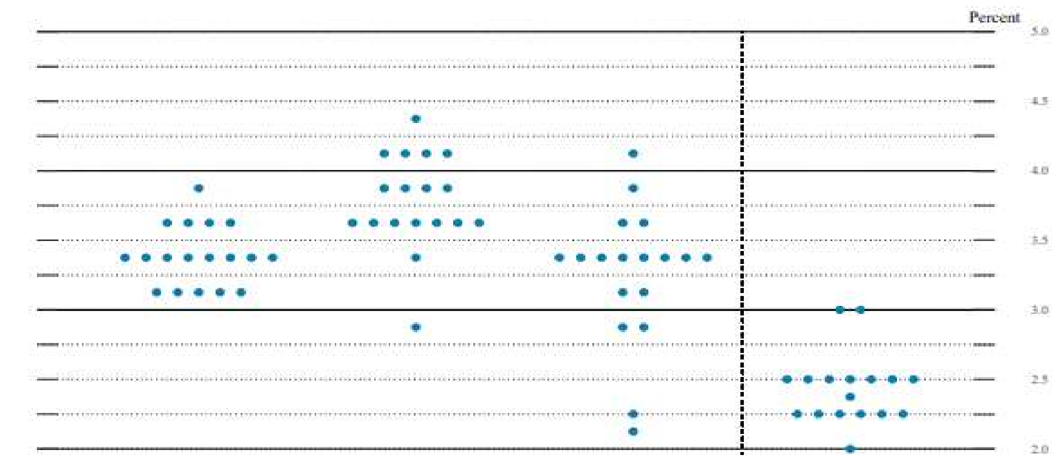
Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents September 2022

Percent

Variable	Median[1] 2022	2023	2024	2025	Longer run	Central Tendency[2] 2022	2023	2024	2025	Longer run	Range[3] 2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8	0.1–0.3	0.5–1.5	1.4–2.0	1.6–2.0	1.7–2.0	0.0–0.5	-0.3–1.9	1.0–2.6	1.4–2.4	1.6–2.2
June projection	1.7	1.7	1.9		1.8	1.5–1.9	1.3–2.0	1.5–2.0		1.8–2.0	1.0–2.0	0.8–2.5	1.0–2.2		1.6–2.2
Unemployment rate	3.8	4.4	4.4	4.3	4.0	3.8–3.9	4.1–4.5	4.0–4.6	4.0–4.5	3.8–4.3	3.7–4.0	3.7–5.0	3.7–4.7	3.7–4.6	3.5–4.5
June projection	3.7	3.9	4.1		4.0	3.6–3.8	3.8–4.1	3.9–4.1		3.5–4.2	3.2–4.0	3.2–4.5	3.2–4.3		3.5–4.3
PCE inflation	5.4	2.8	2.3	2.0	2.0	5.3–5.7	2.6–3.5	2.1–2.6	2.0–2.2	2.0	5.0–6.2	2.4–4.1	2.0–3.0	2.0–2.5	2.0
June projection	5.2	2.6	2.2		2.0	5.0–5.3	2.4–3.0	2.0–2.5		2.0	4.8–6.2	2.3–4.0	2.0–3.0		2.0
Core PCE inflation[4]	4.5	3.1	2.3	2.1		4.4–4.6	3.0–3.4	2.2–2.5	2.0–2.2		4.3–4.8	2.8–3.5	2.0–2.8	2.0–2.5	
June projection	4.3	2.7	2.3			4.2–4.5	2.5–3.2	2.1–2.5			4.1–5.0	2.5–3.5	2.0–2.8		
Memo: Projected appropriate policy path															
Federal funds rate	4.4	4.6	3.9	2.9	2.5	4.1–4.4	4.4–4.9	3.4–4.4	2.4–3.4	2.3–2.5	3.9–4.6	3.9–4.9	2.6–4.6	2.4–4.6	2.3–3.0
June projection	3.4	3.8	3.4		2.5	3.1–3.6	3.6–4.1	2.9–3.6		2.3–2.5	3.1–3.9	2.9–4.4	2.1–4.1		2.0–3.0

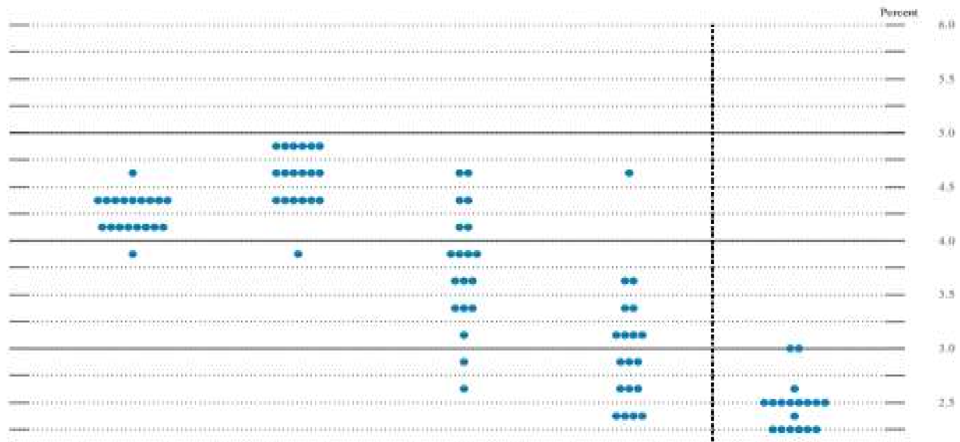
March 2022 Dot Plot

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



June 2022 Dot Plot

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Source: FED

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