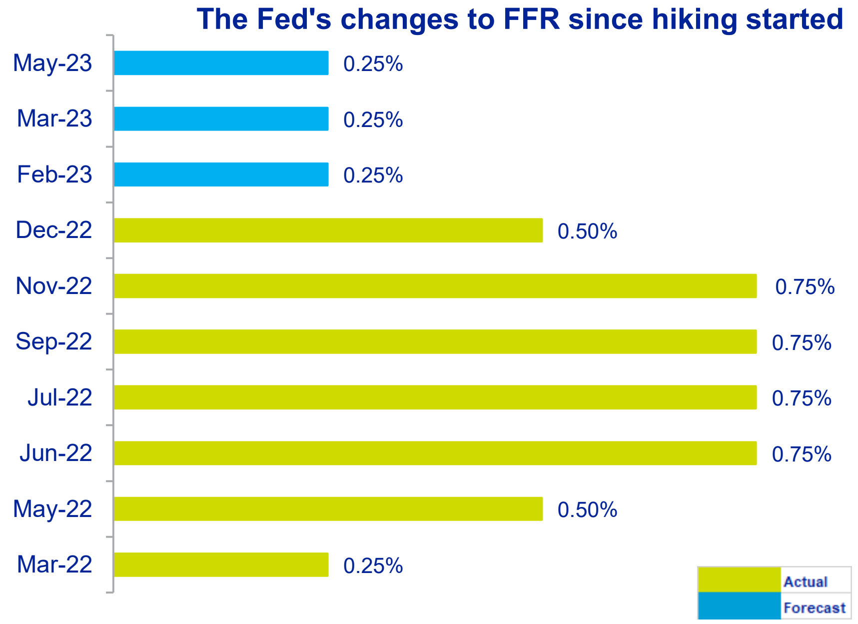
The US FED continued to raise its benchmark federal-funds rate by half of a percentage point (50 basis points) to 4.25-4.50% and signals more increases in 2023. The SBV signal buying USD from commercial banks.

The US Federal Reserve officials voted to raise interest rates by half of a percentage point (50bps) and signaled in their new economic projections that the peak level of fed-funds rate (FFR) between 5% and 5.5% in 2023 and hold it there until some time in 2024. Besides that, in economic projections released, we saw that economic outlook has worsened over time. The FED's economic projections upgraded the US economic outlook for GDP to grow by 0.5% YoY in 2022 (vs forecasted 0.2%YoY in June 2022), but they revised their growth expectations for 2023 to 0.2% (vs forecasted 1.5%YoY in September 2022), indicating that the FED expections economic output to cool as the economy continues to combat sturbornly high inflation. In addition, the FED also increased their median forecasts for inflation next year, as measured by personal consumption expenditures (PCE), to rise by 5.6% over the course of 2022 (faster than 5.4% forecasted in September 2022) and to rise to 3.5% (faster than 3.1% forecasted in September 2022). Further *details of the Fed's projections in Appendix 1.*



Source: FED, ACBS

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%. However, we expected that the indirect effect of oil prices and rising electricity, water, medical and educational price in 2023 will put upward pressures on our **CPI which we expected might reach as high as 4.5% next year (within Government's target of 4.5% for 2023)**.

Beside that , we continued to expect banking system liquidity might remain tight at this current level as a support for the VND from the SBV. Therefore, we expect that **interbank rates may increase further in the range of 50-100bps from this current level** in the last month of 2022 and **may increase further in the range of 50-100bps** in 1H2023 as the FED's rate hikes are expected to continue in 1H2023. We expect the SBV will continue to keep the 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 **50bps toward year-end 2022 and another 100-200bps in 2023.**

We also expected depreciation pressures on the VND in 2023 will be low as:

(1) The USD has pulled back recently, which has contributed to the strengthening of the VND. We expect that trend might continue as the FED is expected to slow the rate of increases in 2023 and stop increases by the end of 1H2023;
(2) According to the Vietnamese Government Portal, remitances to Ho Chi Minh city are expected to reach USD6.8bn in 2022 (increased from USD 6.5bn in 2021);
(3) Disbursed FDI inflows are expected remain strong in 2023 as disbursement continued to increase 15.1% YoY in 11M2022, reach USD19.7bn;
(4) Recession risks grow, especially in Vietnam's large trading partners such as the US, EU, Japan and China. Fortunately, as the FED's economic projections signaled that 2023's US GDP growth rate will continue grow 0.5% in 2023, so our export activities, which is one of our main source of USD, could remain positive in 2023, although the rate of growth could see some moderation;
(5) On Dec 15^{th}, the SBV brought back the USD bid date (which is the rate at which the SBV buys USD from commercial banks), which is positive news for liquidity in the banking system. This move signal that SBV will start buying back foreign currency from commercial banks that have positive foreign currency positions. This news is very good for the liquidity of the banking system at this time because if the SBV buys USD, it will directly inject liquidity into the banking system, helping to reduce constraints in the system.

Overall, **we expected that the VND/USD** exchange rate **might be neutral in 1H2023** and may aprreciate **in 2H2023.**

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APPENDIX 1

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

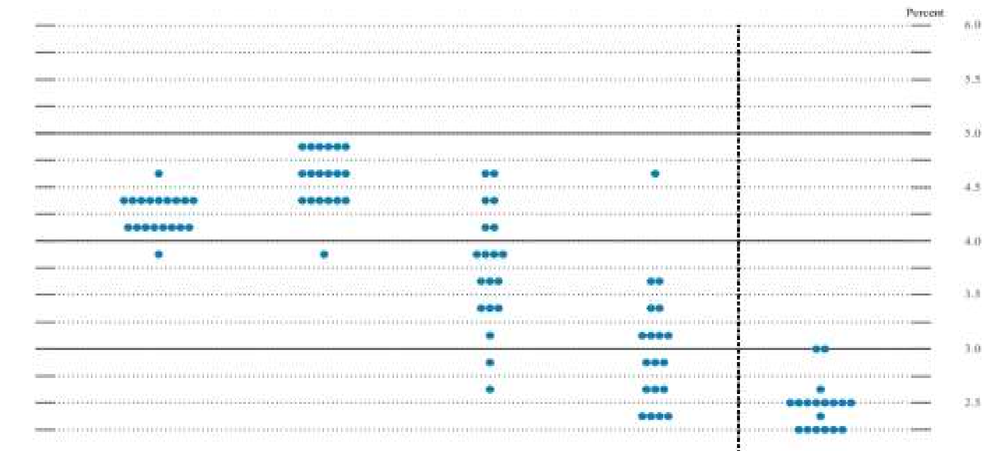
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2022

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run
Change in real GDP	0.5	0.5	1.6	1.8	1.8	0.4–0.5	0.4–1.0	1.3–2.0	1.6–2.0	1.7–2.0	0.2–0.5	-0.5–1.0	0.5–2.4	1.4–2.3	1.6–2.5
September projection	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
Unemployment rate	3.7	4.6	4.6	4.5	4.0	3.7	4.4–4.7	4.3–4.8	4.0–4.7	3.8–4.3	3.7–3.9	4.0–5.3	4.0–5.0	3.8–4.8	3.5–4.8
September projection	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
PCE inflation	5.6	3.1	2.5	2.1	2.0	5.6–5.8	2.9–3.5	2.3–2.7	2.0–2.2	2.0	5.5–5.9	2.6–4.1	2.2–3.5	2.0–3.0	2.0
September projection	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
Core PCE inflation[4]	4.8	3.5	2.5	2.1		4.7–4.8	3.2–3.7	2.3–2.7	2.0–2.2		4.6–5.0	3.0–3.8	2.2–3.0	2.0–3.0	
September projection	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	
Memo: Projected appropriate policy path															
Federal funds rate	4.4	5.1	4.1	3.1	2.5	4.4	5.1–5.4	3.9–4.9	2.6–3.9	2.3–2.5	4.4	4.9–5.6	3.1–5.6	2.4–5.6	2.3–3.3
September projection	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

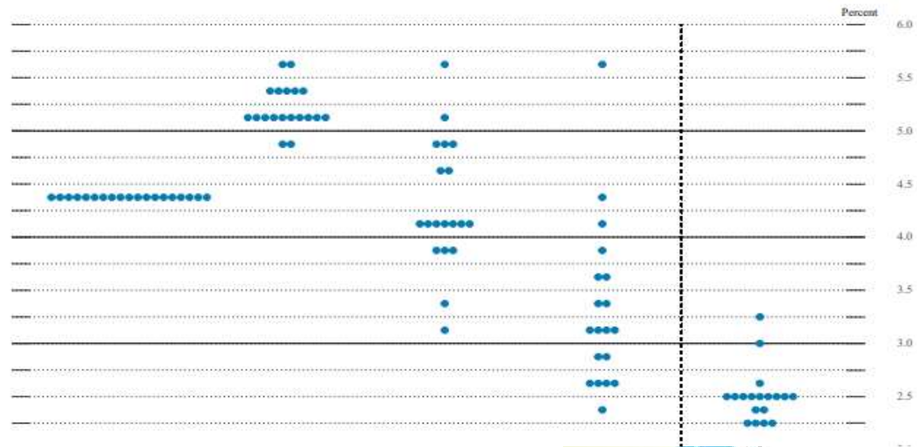
September 2022 Dot Plot

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



December 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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