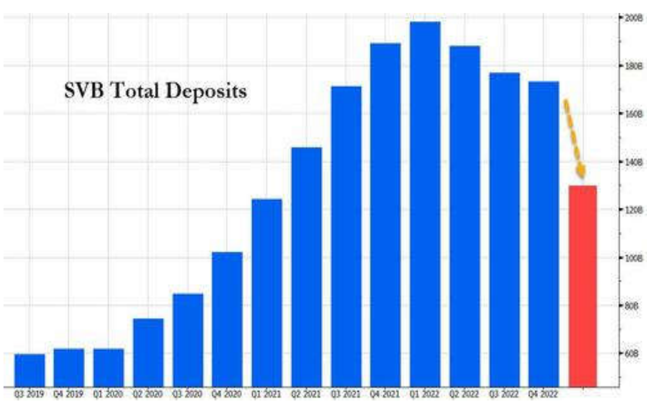
Three small regional banks in the US faced a liquidity crisis, UBS acquires Credit Suisse for $3.2 billion, raising concerns of a financial crisis similar to that of 2008.

Three small regional banks in the US faced a liquidity crisis

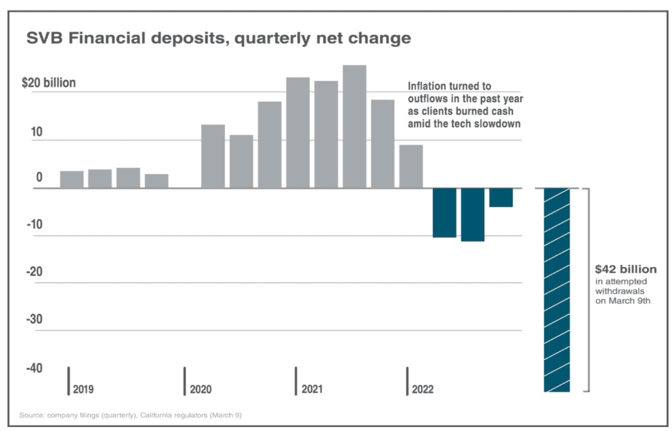
Recently, several US banks have encountered liquidity issues, leading to concerns about a financial crisis similar to the one in 2008. Silvergate Bank, ranked 128th in terms of total assets in the US, faced its first liquidity hurdle as FTX, a cryptocurrency exchange, faced legal troubles. Then, Silicon Valley Bank, the 16th largest bank in the US in terms of total assets, experienced a liquidity crisis on March 10th and had to file for Chapter 11 bankruptcy protection on March 17th. Similarly, Signature Bank, ranked 29th in terms of total assets, had to cease operations and be taken over by regulators due to systemic risks on March 12th.

According to our observations, the recent liquidity crisis in some small US banks was caused by the Federal Reserve's (FED) agressively increase of interest rates. This affected investment portfolios, including US Government Bonds, resulting in significant losses due to the previously low-interest rate environment from 2020-2021. The events at Silicon Valley Bank were also attributed to this low-interest rate environment. During this period, SVB raised substantial deposits, primarily from startups and speculation funds in the Silicon Valley area. Instead of lending out the majority of these deposits, SVB invested most of them in US's Government Bonds (USGB) and mortgage-backed securities (MBS) with low-interest rates and longer terms than the deposit periods (accounting for nearly 65% of total assets). Thus, when customers withdrew their deposits, the bank had to liquidate these investment portfolios to ensure liquidity for depositors, leading to liquidity risks (when loan or investment asset maturities differ from deposit maturities). However, selling at significant losses resulted in interest rate risks (the price differential between loans or investment portfolios and bank deposits), potentially leading to losses exceeding shareholder equity. This situation further raised concerns among investors and depositors, leading SVB to spiral deeper into crisis and ultimately file for bankruptcy. Following SVB, Signature Bank faced a similar situation and was also temporarily forced to close.

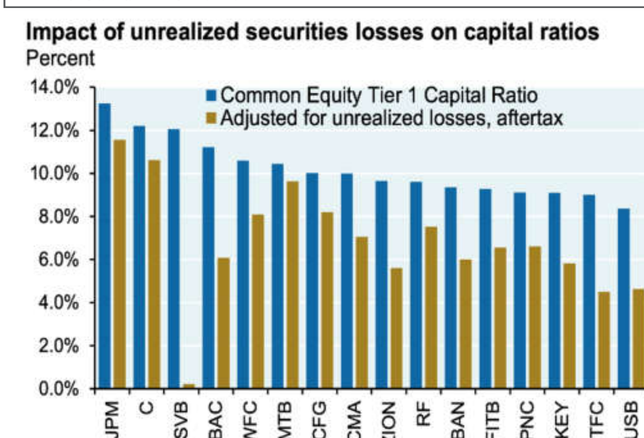
Overall, the recent liquidity crises in several US banks serve as a cautionary tale for the potential risks of illiquid investment portfolios in low-interest rate environments.



Source: Tyler Durden, Zero Hedge



Source: SVB Q4 2022 Financial Highlights



Source: JPMAM. Q4 2022.

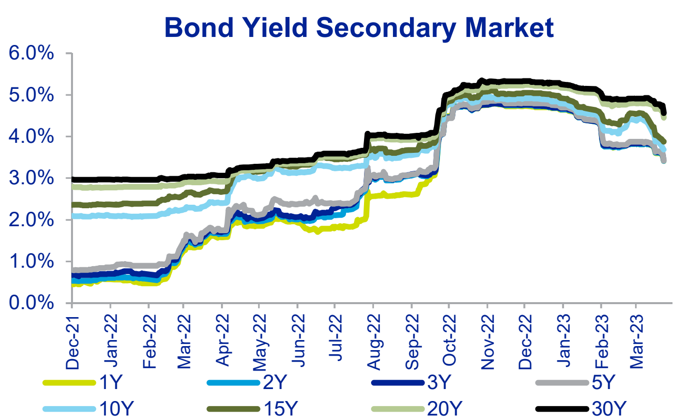
We also believe that the risks of the events mentioned above will still be concentrated in some small banks in the US as these smaller banks were exempted from strict control laws (Dodd–Frank Act) by the US Congress in 2018 (only the large banks with total asset value over USD250bn in the US were tightly controlled to avoid system collapse). In addition, the rights of depositors are still guaranteed when the Federal Reserve (FED), the Department of Treasury, and the Federal Deposit Insurance Corporation (FDIC) all agree to protect even deposits larger than $250,000 to reassure depositors and minimize the risk of system collapse. Furthermore, to support the banking system, FED has also launched a term lending program worth about $25 billion to support banks and credit institutions through short-term loans of up to one year, guaranteed by high-quality US TPCPs and MBSs, to help banks and credit institutions avoid losses due to selling US TPCPs to meet customer cash withdrawal needs (as happened with SVB).

UBS acquires Credit Suisse for $3.2 billion

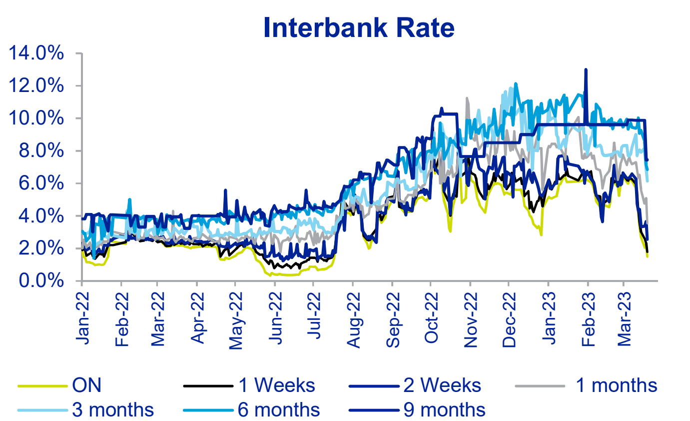
The main event for Credit Suisse (CS) occurred on March 15 when Saudi National Bank's chairman refused to inject more capital into CS, causing the stock price to plummet along with a surge in cash withdrawals, prompting the Swiss National Bank (SNB) to lend CS 50 billion Swiss francs (~ $54 billion) to ensure liquidity. However, this did not prevent the collapse of CS when the source of the problem began in 2020 when the bank changed its leadership and was embroiled in numerous litigation scandals (the largest being Greensill) and incurred losses from investment activities (losing $5.5 billion from the Archegos incident). The peak was last year when they had a net loss of nearly 7.3 billion Swiss francs (~ $7.9 billion) - the largest since the 2008 financial crisis, and customers withdrew nearly $100 billion due to concerns about the financial health of CS. The incident ended on March 19 when UBS agreed to acquire CS for a deal value of $3.25 billion with the support of SNB, which agreed to provide over $9 billion to compensate for any losses that UBS may face while taking over CS while helping provide more than $100 billion in liquidity to UBS during the transition.

On March 19, the FED, along with the central banks of Canada, England, Japan, Europe, and Switzerland, announced their coordinated action to increase market liquidity through USD swap line arrangements. Under the agreement, from March 20 to at least Q4/2023, the FED and central banks agree to increase the supply of USD from weekly to daily. Commercial banks expect that currency swap agreements will ease liquidity tensions in the global markets, thereby minimizing the risk of system collapse.

Regarding the Vietnamese banking system, we have noticed that the events occurring in the US mentioned above have had no significant impact on the financial health of Vietnamese banks, and customer deposits are still ensured by the State Bank of Vietnam. The fact that US banks suffered losses from investing in US Treasury bonds also does not have any similarities to the actual situation in Vietnam due to (1) the low proportion of Vietnam's government bonds on the balance sheets of Vietnamese banks, usually accounting for less than 10% of total assets, (2) Vietnamese banks are not required to set aside provisions for the depreciation of government bond investments under Circular 24/2022 of the Ministry of Finance, and (3) in reality, Vietnamese government bond yields have tended to decrease recently.



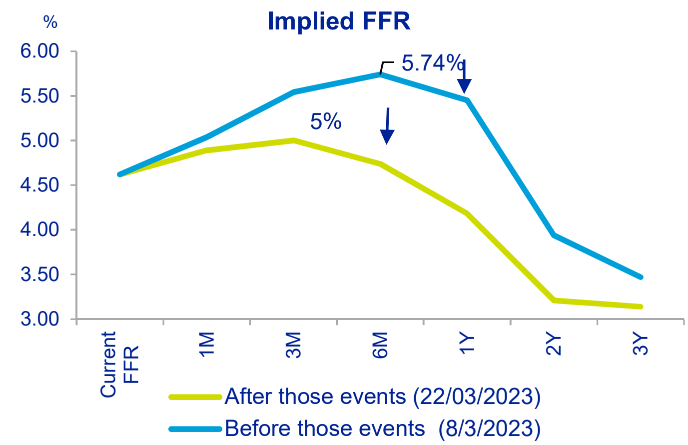
Source: VBMA



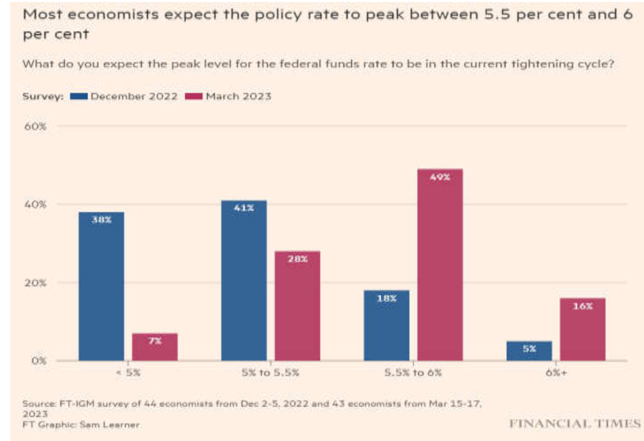
Source: SBV

The market expects the Fed to slow down its interest rate hikes, but economists hope the Fed maintains its path of increasing rates.

These events put the Fed in a dilemma with two options: should it temporarily pause its rate increases in efforts to stabilize the financial system, or should it still maintain its rate hike trajectory to control persistent inflation? On one hand, the market predicts that the Fed will decrease the intensity and pace of its interest rate hikes, based on the Fed's projected interest rate hikes adjusted by the market's significant changes after these events. Currently, the market forecasts that the peak of the Fed's interest rate hikes will be at 5%, which is lower than the previous forecast of 5.75%, and the Fed may start cutting interest rates from Q4/23, earlier than the previous forecast of Q1/24. (See Figure Vs Dot plot December 2022 in Appendix 1)



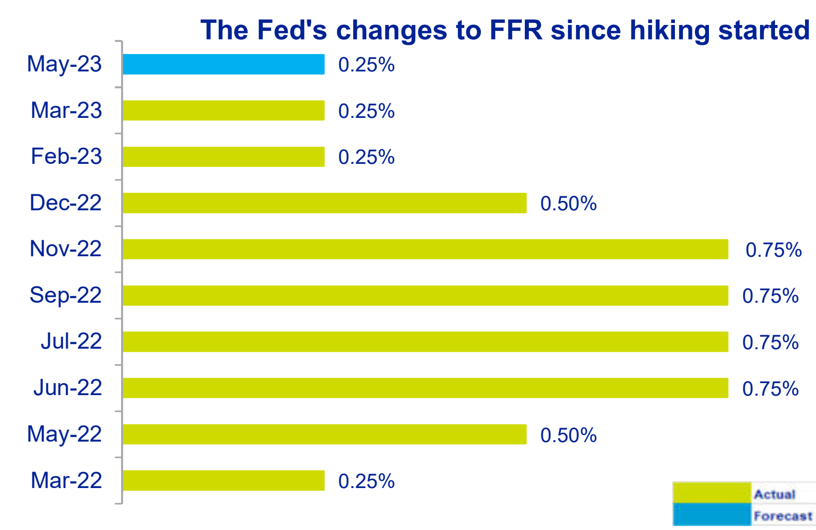
Source: BBG



Source: FT

The US FED continued to raise its benchmark federal-funds rate by a quarter of a percentage point (25 basis points) to 4.75-5.00% 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 a quarter of a percentage point (25bps) and signaled in their new economic projections that the peak level of fed-funds rate (FFR) between 5.00% and 5.25% 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 revised the US economic outlook for GDP to grow by 0.4% YoY in 2023 (vs forecasted 0.5%YoY in December 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 in 2023, as measured by personal consumption expenditures (PCE), to rise by 3.3% over the course of 2023 (faster than 3.1% forecasted in December 2022). Further *details of the Fed's projections in Appendix 1.*



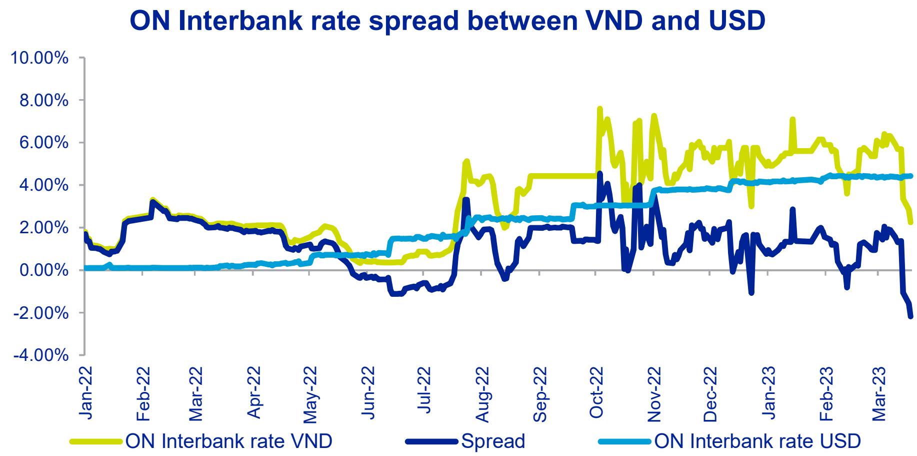
Source: FED, ACBS

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 2023** will increase in the range of **3.2% - 4.5% (within Government's target of 4.5% for 2023)** under the indirect effect of oil prices and rising electricity, water, medical and educational price in 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. However, the demand for credit remains low because interest rates are still higher than the current demand of the economy. Besides, according to our observations, the current source of USD pouring into Vietnam is abundant, which will help support the exchange rate as well as the liquidity of the banking system. Therefore, we expect that **interbank rates may**

remain low in the near future, but due to the pressure from the FED's interest rate hike, we still do not rule out the possibility that exchange rate pressure might return, SBV might have to 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 expect the interbank interest rate might fluctuate around the 5-6% if foreign exchange pressure come back.



Beside that, we also expect that the SBV might try to maintain the current policy with reasonable interest rates to boost economy. However, in the worst case scenario (in which inflation continues to be high while labor market is still strong in the US, FED needs to be more hawkish with its rate hike plan as US's Core CPI beated market expectations), we expect that the SBV might think of gradually increasing policy rates (especially refiancing rate) by 50-100bps toward the end of 2023 in order to maintain stablility of the foreign exchange market.

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 interest rate increases in 2023 and stop increases by the end of 1H2023;

(2) Disbursed FDI inflows are expected remain strong in 2023 as disbursement continued to increase 13.5% YoY in 2022, reach USD19.7bn and in 2M2023 slightly dcreased but reach over USD2.5bnas, as Vietnam remains a low-cost manufacturer, stability in the macro economy and with more competitive labor costs in the region could be attractive for FDI firms to invest and establish production plants, which might bring more USD to Vietnam;

(3) The strong recovery of the service sector especially coming from international tourism (retail sales of travelling services increased by 271% YoY in 2022 and increased by 124% YoY in 2M2023) will also be a supporting factor for foreign inflows; and

(4) Recession risks grow, especially in Vietnam's large trading partners such as the US, EU, Japan and China. Fortunately, the latest IMF's economic projections revised global GDP growth for 2023 to 2.9% compared with 2.7% in October 2022 projection, so our export activities, which is one of our main sources of USD, could remain positive in 2023, although the growth rate could see some moderation.

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

The impact of the above event on Vietnam's stock market

Vietnam Stock Market: Our viewpoint is to exercise caution in the first half of 2023 with regards to VNIndex due to the maintained low liquidity pressure caused by interest rates pressure as well as the corporate bond debt maturity. However, thanks to the issuance of Resolution 33/NQCP on March 11th, there is positive news which helps alleviate the pressure of corporate bond maturing and facilitates real estate enterprises in restructuring and resolving their debt issues. Since March 11th, more than VND 9 trillion of corporate bond have been issued. Additionally, investors should exercise utmost caution in utilizing leverage as interest rate pressure still persists with FED maintaining the interest rate increase path with an anticipated rate hike in May 2023. A bright spot that contributes positively to Vietnam's stock market in H1 2023 is the continued inflow of foreign capital from ETF funds (with more than VND 4 trillion disbursed from the Fubon FTSE Vietnam, VanEck Vectors, and FTSE Vietnam funds since the beginning of the year), which will continue to be gradually disbursed in 2023.

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APPENDIX 1

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents March 2023

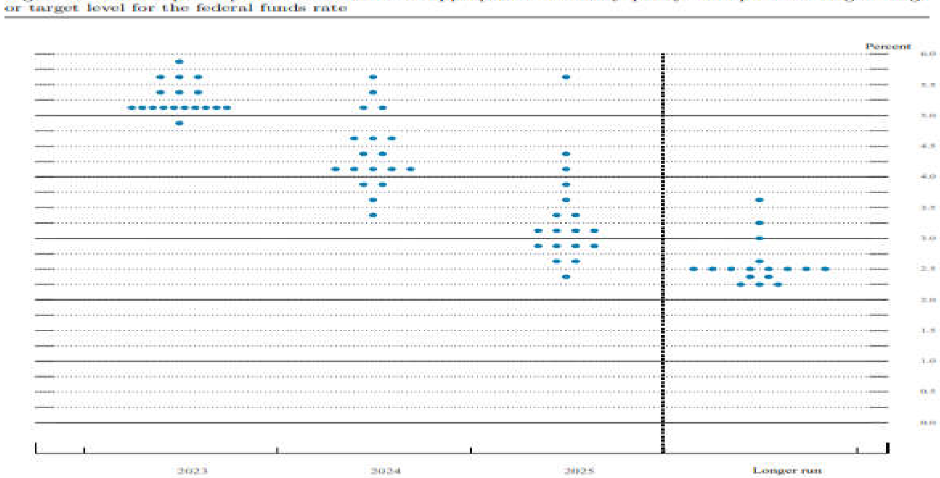
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2023

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2023	2024	2025	Longer run	2023	2024	2025	Longer run	2023	2024	2025	Longer run
Change in real GDP	0.4	1.2	1.9	1.8	0.0–0.8	1.0–1.5	1.7–2.1	1.7–2.0	-0.2–1.3	0.3–2.0	1.5–2.2	1.6–2.5
December projection	0.5	1.6	1.8	1.8	0.4–1.0	1.3–2.0	1.6–2.0	1.7–2.0	-0.5–1.0	0.5–2.4	1.4–2.3	1.6–2.5
Unemployment rate	4.5	4.6	4.6	4.0	4.0–4.7	4.3–4.9	4.3–4.8	3.8–4.3	3.9–4.8	4.0–5.2	3.8–4.9	3.5–4.7
December projection	4.6	4.6	4.5	4.0	4.4–4.7	4.3–4.8	4.0–4.7	3.8–4.3	4.0–5.3	4.0–5.0	3.8–4.8	3.5–4.8
PCE inflation	3.3	2.5	2.1	2.0	3.0–3.8	2.2–2.8	2.0–2.2	2.0	2.8–4.1	2.0–3.5	2.0–3.0	2.0
December projection	3.1	2.5	2.1	2.0	2.9–3.5	2.3–2.7	2.0–2.2	2.0	2.6–4.1	2.2–3.5	2.0–3.0	2.0
Core PCE inflation[4]	3.6	2.6	2.1		3.5–3.9	2.3–2.8	2.0–2.2		3.5–4.1	2.1–3.1	2.0–3.0	
December projection	3.5	2.5	2.1		3.2–3.7	2.3–2.7	2.0–2.2		3.0–3.8	2.2–3.0	2.0–3.0	
Memo: Projected appropriate policy path												
Federal funds rate	5.1	4.3	3.1	2.5	5.1–5.6	3.9–5.1	2.9–3.9	2.4–2.6	4.9–5.9	3.4–5.6	2.4–5.6	2.3–3.6
December projection	5.1	4.1	3.1	2.5	5.1–5.4	3.9–4.9	2.6–3.9	2.3–2.5	4.9–5.6	3.1–5.6	2.4–5.6	2.3–3.3

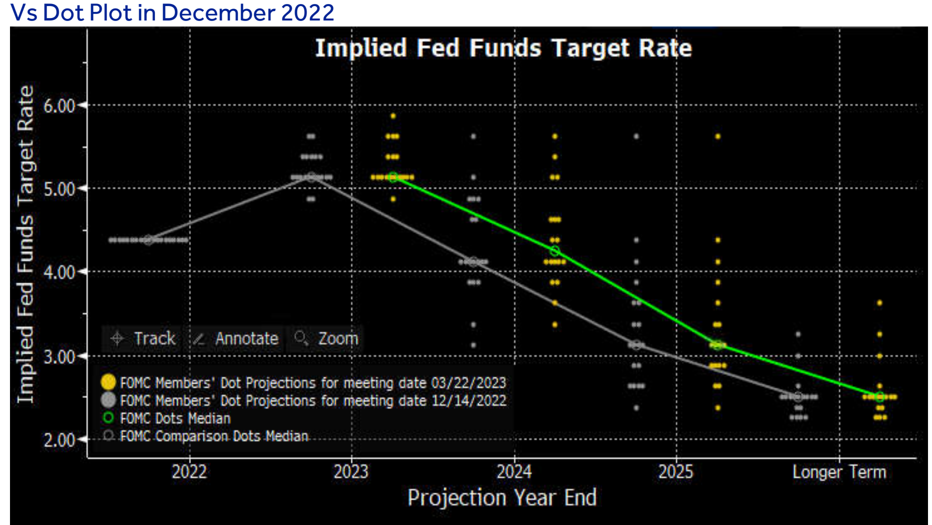
March 2023 Dot Plot

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



Source: FED

Vs Dot Plot in December 2022



Source: BBG, FED

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