Flash Note

Money Market

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Key Indicators

VN Gov Bond Yield 10Y	**3.0%**
USDVND	
Refference Rate	24,097
Cap Rate USDVND	25,784
Floor Rate USDVND	22,410
Interbank USDVND	24,565
Interbank Interest rate (VND)	
ON	2.85%
1-Week	2.85%
2-Week	2.90%
1-Month	3.00%
3-Month	3.70%

Exchange rate and Interest rates - A fragile equilibrium

More than a month after the State Bank of Vietnam (SBV) intervened in the interbank market by issuing 28-day SBV bills VND interbank interest rates have risen sharply and are approaching the interest rates for customers deposits. As a result, the interest rate gap between VND and USD deposits has narrowed down. The USD/VND exchange rate, on the other hand, has continued to grow. The current situation, we acknowdge, represents a new equilibrium, although it is rather precarious. Any moving up in the exchange rate or interest rate might trigger a new action from SBV.

The USD/VND exchange rate was under pressure due to two key factors: (1) the continuing interest rate gap between USD and VND since May 2023, and (2) the constant rise in the US dollar index (DXY).

(1) Due to the weak credit growth, liquidity was abundant in the interbank market, and the VND interest rates across all tenors in the interbank market were at an all-time low. For a very long time, the USD deposits rates were around 3.0-3.5% higher than VND deposits rates. As a result, the entire banking system was motivated to keep a net buying position in USD. This helped to drive up the USD/VND exchange rate.

(2) The US dollar index (DXY) has been strengthening in the last four months, rising 6.5% (since July 2023), on expectations of continued strong US economic growth, while the rest of the world is facing the risk of slower growth or even recession. This has resulted in a wave of capital outflows from emerging and frontier markets, as well as outflows from risky financial assets. Therefore, the demand for USD and capital flow into the money market funds increased strongly. and

In response to this situation, SBV issued 28-day SBV-Bills to absorb excess VND liquidity in the interbank market and aim to raise short-term interest rates in this market. As a result, the interest rate gap between USD and VND has narrowed, making banks less likely to hold big net buy position of USD. Therefore, the USD/VND exchange rate should cool down for a while.

After more than a month of enactment, the outstanding balance of SBV-Bills as of October 24 stood at VND233tn, and the interbank interest rates have risen sharply (ON: from 0.14% to 2.10%, 1-month: from 1.03% to 3.00%). However, the USD/VND exchange rate has risen further, with the VCB's FX asking rate reaching 24,735 on October 24, 2023 (+4.24% YTD and +1.12% MoM).

Actually, the VND interest rates for the tenor 1M-3M in the interbank market have begun to approach customers deposit rates. If interbank rates continue to climb and remain stable at high level for a long time, it may trigger banks to continue rising saving deposit rates, causing a domino effect on the system. Meanwhile, the exchange rate has recently surged significantly (+1.12%) and is close to the peak of 24,888 set in 2022. Therefore, any increase in interest rates or exchange rates in the following days could lead to the SBV issuing additional policies to achieve the goal of stability and balance.

However, we believe that the SBV still has sufficient resources to keep the exchange rate and interest rates stable. The relatively sufficient USD amount from export and import operations, FDI, FII, and remittances supports our point of view. Meanwhile, the pressure to repay foreign debt isn't getting heavier. According to the General Statistics Office, the trade surplus of goods was USD21.6bn, the trade deficit of services was USD6.7bn, FDI disbursed was USD15.9bn, and remittances were USD9-10bn in 9M2023.

In our opinion, SBV will have two possible solutions as below:

1. Allow the SBV-Bills balance to expire so that the cash flow can return to the interbank market. The liquidity in the interbank market can be improved and interest rates will

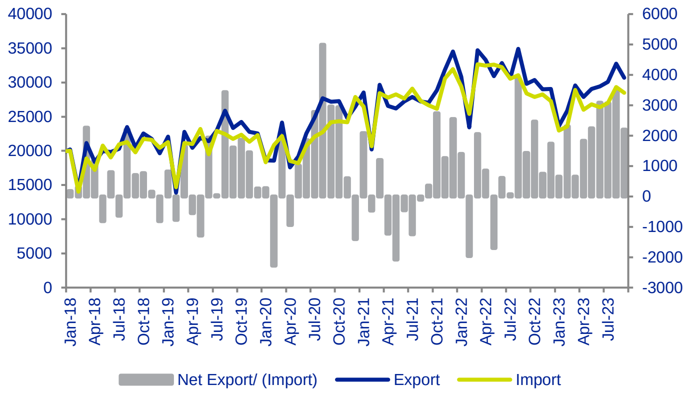
then return to normal level but still high enough to weaken the USD demand. The ultimate goal is to retain the interbank interest rates at a high level, close to customers deposit rates, for 1M-3M term, without causing customer deposits rate race.

2. In case the tool of SBV-Bills can't help to cool down the situation. The exchange rate continues to volatile, and interest rates stay high, SBV may consider utilizing revocable 3-6M USD forward contracts.

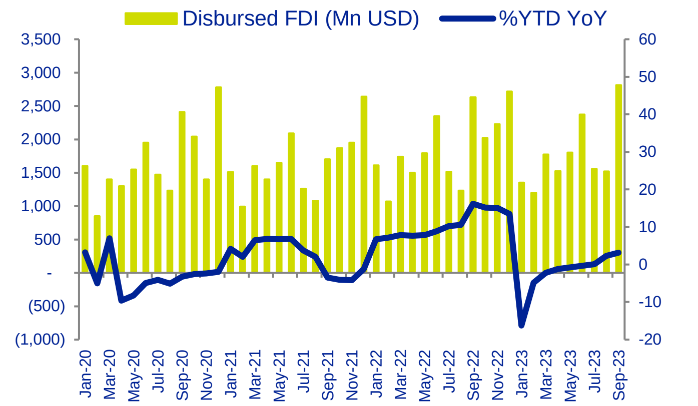
These solutions are adjustable and will be strongly driven by the banking system's credit growth as well as the supply and demand of USD in the Q4/2023. If credit growth accelerates in the Q4, we anticipate that SBV will consider providing liquidity to the banking system through the OMO.

APPENDIX

Export - Import Monthly

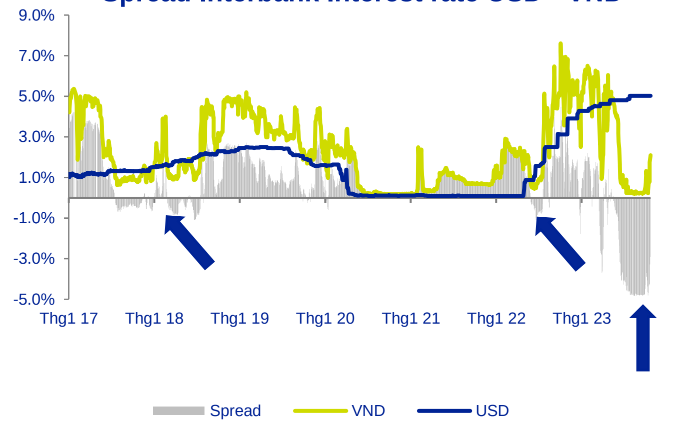


Source: Custom VN



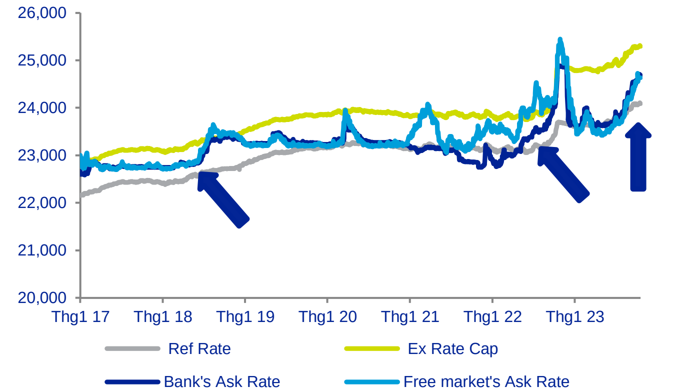
Source: GSO

Spread Interbank Interest rate USD - VNĐ



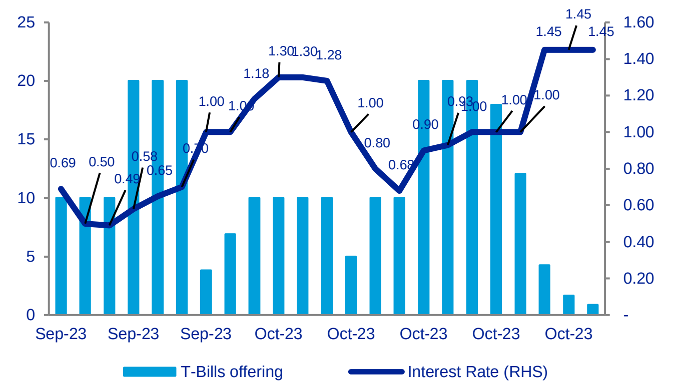
Source: SBV

VND/USD Foreign Exchange



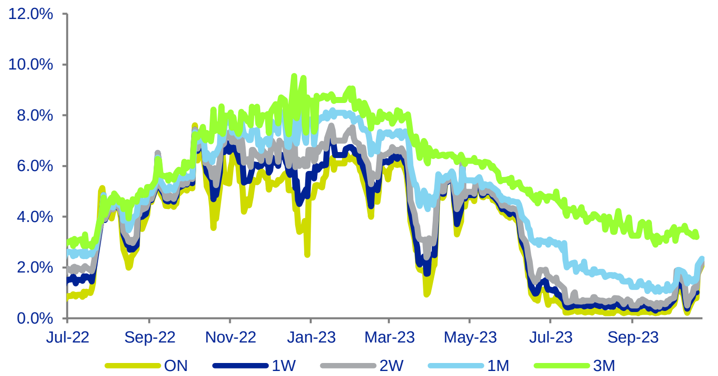
Source: SBV

T-Bills Offering



Source: SBV

Interbank Interest Rate



Source: SBV

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