ONGOING EXCHANGE RATE PRESSURE

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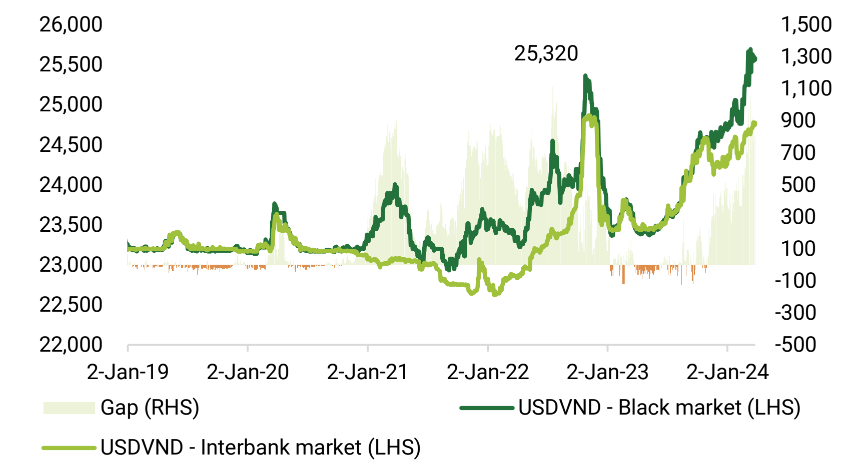
- The USDVND exchange rate in both the interbank and black markets has increased by 2.1% and 3.4% respectively compared to the beginning of the year.
- The main reasons remain as (1) pressure from the global market; (2) weak credit growth; (3) significant trade deficit from domestic area; and (4) demand for debt repayment and foreign currency settlements.
- Maintaining the view that the exchange rate is still under considerable pressure, and it is likely that the SBV will introduce further enhanced measures. Specifically,

(1) Bill interest rates are expected to continue rising to around 2.0 – 2.5%. The bill interest rate will serve as a benchmark for money market rates.
(2) The increase in money market rates will not affect deposit interest rates but may cause short-term government bond yields to rise.
(3) The exchange rate is expected to remain at a higher level for a longer period than our previous forecast, fluctuating around the range of 24,780 – 25,000 (an increase of 200 pips from the old forecast).
(4) The SBV may take further action by selling foreign exchange forward contracts as it did during the periods of 2018 & 2022 if the USDVND exchange rate approaches the 25,000 threshold.

Since we issued the updated exchange rate report on February 23, 2024, the exchange rate has continued its upward trend. Specifically, there has been a significant acceleration in the exchange rate, surpassing the threshold of 24,800 (more than 50 bps higher than our forecast). Currently, it is fluctuating around the range of 24,780 – 24,800 in the interbank market. In the black market, as our latest update, the exchange rate has stabilized around the range of 25,500 – 25,600, which is also the highest level to date. As of March 26, the USDVND exchange rate in the interbank and black markets has increased by 2.1% and 3.4% respectively compared to the beginning of the year. In our view, the main reasons for this trend continue to be (1) pressure from the world market; (2) weak credit growth; (3) significant trade deficit from domestic area; and (4) demand for debt repayment and foreign currency settlements.

Figure 1: Exchange rates fluctuations in interbank and black market (as of March 26, 2024)



Sources: Bloomberg, PHS compiled