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MONETARY POLICY CHANGES: LEVERAGES FOR THE ECONOMY & MARKETS

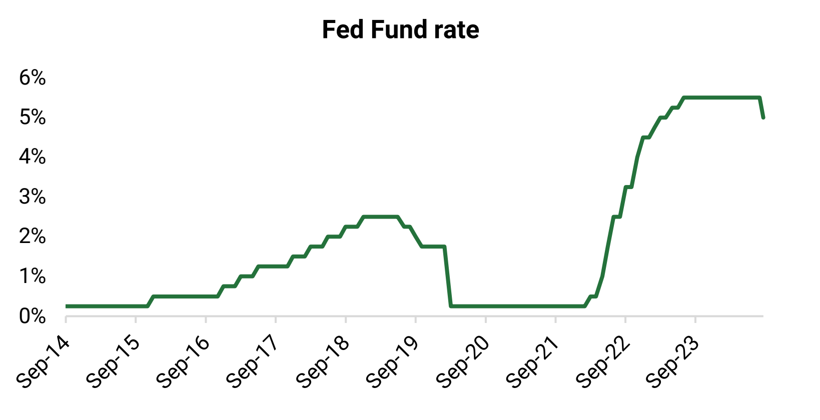
- The decision to cut rates by 50 bps is not an overly accommodative move by the Fed driven by concerns about a recession. In fact, the Fed continues to maintain its "quantitative tightening" program as of the September 2024 meeting. Global market developments are supporting SBV's decisions as the DXY falls sharply and the Fed is likely to aggressively cut rates.
- This move brings multiple benefits to Vietnam's economy, including increased exports, attracting FDI, lowering USD borrowing costs, and creating room for the SBV to ease monetary policy.
- The trend of rate cuts by major central banks will attract capital flows to emerging and frontier markets due to their growth potential and attractive valuations. The Fed's rate cut also indirectly influences SBV and government policies, enhancing the internal strength of Vietnam's economy and helping businesses recover faster.
- The SBV may introduce further easing measures, especially following the impact of Typhoon Yagi. As a result, we believe that interest rates will remain stable at low levels. The exchange rate is also expected to stabilize around 24,300 - 24,600, and there is a possibility that the SBV may buy foreign currencies to increase its foreign reserves toward the end of the year.

The Fed officially lowers interest rates for the first time since 2020

After months of anticipation, the debate over whether the Fed would choose to cut interest rates by 25 bps or 50 bps for the first time in more than four years has finally been settled. **The majority of Fed policymakers (11 out of 12 members) agreed to reduce rates by 50 bps, bringing US interest rates to the range of 4.75% - 5.00%.**

While some investors had anticipated the 50 bps rate cut, the decision still came as a surprise, especially given that there are no signs of recession or financial crisis at present. As of September 12, most of the market had expected a 25 bps cut, but within just a few days, the probability of a 50 bps cut surged from 15% to 67%. The market experienced strong and uncertain fluctuations in the lead-up to the Fed's September meeting.

Figure 1: Fed Fund rate (As of 19/09/2024)



Sources: Bloomberg, PHS compiled