INCREASING EXCHANGE RATE PRESSURE

RESEARCH DIVISION

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- In the context of the U.S. economy maintaining strong growth momentum along with a "solid" labor market, while the core PCE inflation index remains above the Fed's target and is likely to face pressure from Trump's tax policies, the Fed Chair reaffirmed that there is no urgency in cutting interest rates. The USD continues to hold its position as a strong currency, repeatedly testing previous highs. The market has also scaled back Fed rate cut expectations to just one time this year.
- The exchange rate has been under constant pressure since the Lunar New Year and is currently trading around 25,600 (+0.4% YTD) – the highest level ever recorded. The SBV has continuously adjusted the central exchange rate upward while removing the intervention selling price cap at 25,450 on February 11, 2025.
- We believe that the USD/VND exchange rate is likely to reach 25,700 – 25,800 in Q1 2025, with a worst-case scenario approaching the 26,000 level. The SBV may raise the OMO rate along with Bill rate to maintain a reasonable interest rate differential between the USD and VND.
- For the full-year 2025 forecast, we expect exchange rate pressures to ease from mid-year, leading to USD/VND closing the year in the 25,600 – 25,700 range.

Fed affirms no urgency in cutting interest rates

Federal Reserve Chair Jerome Powell began his testimony before the US Congress on February 11, 2025. In the context of the US economy maintaining strong growth momentum along with a "solid" labor market, the core PCE index (the Fed's preferred inflation gauge) has continued its downward trend, ending 2024 at 2.8%. However, it remains above the Fed's 2% target. This puts the Fed in a position where there is no need to rush into further rate cuts, especially as President Trump begins implementing new trade tariffs on various countries.

The US labor market has consistently shown positive signs, with the unemployment rate dropping to 4.0%. Trump's ongoing policies aimed at boosting domestic economic growth—such as bringing jobs back to the US and cutting corporate income taxes—are expected to further strengthen consumer confidence. This, in turn, may pose challenges to bringing inflation down to the Fed's 2.0% target.