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VND undervaluation

Risk of being labeled as currency manipulator

The Dong has considered of 4.7% undervaluation against the dollar

— The U.S. Treasury has determined that Vietnam's currency (VND) was undervalued in 2019 by about 4.7% against the dollar due in part to government intervention, according to a new valuation assessment sent to the U.S. Commerce Department conducting for an anti-subsidy investigation into light vehicle tire imports from Vietnam. The assessment is the first issued by the Treasury under a new U.S. rule that allows the Commerce Department to consider currency undervaluation as a form of subsidy when determining anti-subsidy duties.

— The Treasury the State Bank of Vietnam purchased USD 22 billion for foreign exchange (FX) reserve in 2019, of which pushed down Vietnam's real effective exchange rate by 3.5% to 4.8%.

This could increase the chances of Vietnam labeling as a "currency manipulator"

— Treasury's determination that VND is undervalued could increase the chances that the Treasury designates Vietnam a "currency manipulator" in the upcoming report (expected to publish in October 2020) when Vietnam has violated all three criteria in 2019 (Table 1). However, in its most recent report, the Treasury stated that Vietnam's FX reserve have been below the adequacy level for several years, similar to the IMF's previous assessment at the end of 2018 that the reserve is only about 76% of IMF reserve adequacy metric for fixed exchange rate regime. As such, Vietnam has a legitimate reason to increase FX reserve in order to improve the economy health, in the context of ample supply of dollars thanks to trade surpluses, FDI and remittances. Therefore, <u>we assess that risk of Vietnam being labeled as currency manipulator in the next review is still average</u>. In the worst scenario, according to current regulations, Vietnam will have one year to seek bilateral consultations with the U.S to correct the situation.

— Actions Vietnam could take to reduce the risk of "currency manipulator" include: 1) explanation to the U.S Treasury Department about the need to increase FX reserve as Vietnam has received recommendations from IMF about FX reserve inadequacy; 2) clarifying the policies of the State Bank of Vietnam, completely not using exchange rate tools or deliberately devaluing VND to support exports; and 3) lowering the goods surplus with U.S by committing to buy more U.S products, and taking measures to minimize the "transshipment" of Chinese goods. Besides, in the long term, the State Bank will still need to find other monetary policy tools besides easing foreign exchange reserves to support local liquidity.

Table 1. Vietnam – "Currency manipulator" Evaluation criteria – 2019 (% GDP, USD billion)

	Goods surplus with U.S	Current Account		FX intervention		
	USD billion, 2019	% GDP, 2019	USD billion, 2019	% GDP, 2019	USD billion, 2019	Net purchases 6 of 12 months
Vietnam	47.0	5.0	13.0	8.7	22.9	Yes
Evaluation criteria	20.0	2.0		2.0		Yes

Source: General Statistics Office, Customs Office, State Bank of Vietnam, KB Securities Vietnam

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(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market