KB Securities VIETNAM

Currency manipulation

Risks

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Vietnam was officially designated as a currency manipulator

The currency manipulator label, applied by the U.S. Treasury Department on this Wednesday as Vietnam violated all three criteria in the 2H2019 – 2H2020 period

The State Bank of Vietnam is expected to make first step to reduce its foreign reserves accumulation activities

Vietnam seems particularly at risk of being hit by US tariffs as Vietnam has massively benefitted from US tariffs on China via transshipment

Weaker Dollar support EM

Emerging market is expected to perform well if the Dollar continue to weaken

Possibility of higher VND to deal with currency manipulator may neutralize the effect of lower USD through REER line

Weaker Dollar usually led to lower REER of Vietnam due to peg currency regime but REER may go sideways this time if SBV allows VND to go higher to deal with the currency manipulator situation. There is a strong inverse relationship between REER and P/E forward of VN-Index

Export companies may suffer but power companies can benefit from currency manipulator

Wood, Fishery and textile sectors can be the target for tariff due to their strong export value and growth to the US. On the other hand, energy sector may be benefit from lower USD/VND due to high proportion of outstanding loans denominated in USD

Macro Implications

Vietnam was officially designated as a currency manipulator

The latest decisions from the U.S Treasury in the Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the U.S report designate Vietnam and Switzerland as currency manipulators. Accordingly, trailing 4Q to 2H2020, Vietnam has violated all three criteria set by the US: 1) trade surplus with the US reached USD58 billion (the required threshold of USD20 billion); 2) current account surplus was USD15 billion (4.6% GDP) (above the 2% of GDP threshold) and 3) one-way intervention in the foreign exchange market through net USD purchases of USD17 billion (5.1% of GDP) for 6 out of 12 months (the permitted threshold of 2% of GDP). The last time the US made a conclusion of currency manipulation was in August 2019 with China, but by January 2020 the US has withdrawn the above conclusion after the "Phase 1" agreement with China. Before that, South Korea and Taiwan were also assessed by the US for currency manipulators in the period 1988 - 1992. These countries actions afterwards normally were to limit intervention in the foreign exchange market and reduce surpluses in current account.

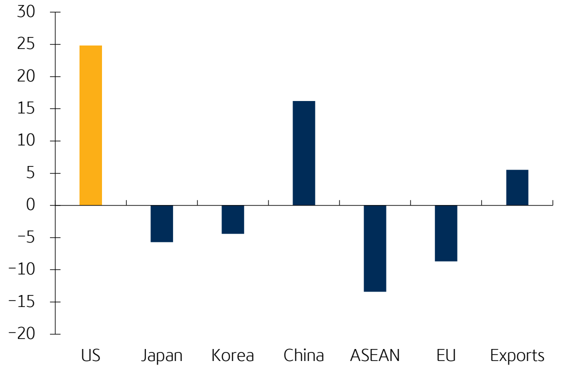
Vietnam exports particularly at risks of being hit by U.S tariffs

Under U.S regulations, the US and Vietnamese governments must engage in negotiations for up to 1 year to resolve trade disputes. In other words, being labeled as a currency manipulator does not automatically trigger any tariffs on Vietnamese goods. However, Vietnam seems particularly at risk of being impacted by US tariffs as it has greatly benefited from US tariffs on China since 2018. Specifically, Vietnam's exports to the U.S boomed in 2019 and 2020 (currently, by 11M2020 up by about 25% YoY) and is inconsistent with the flatten index of industrial production up by about 10 % YoY. These numbers tend to indicate that Chinese companies are moving some of their products to Vietnam, most likely, just for the very last stages of a simple transshipment. The suspect items include wood, paper, plastic products, and rubber products.

SBV will reduce its FX purchases and will likely continue to lower the bid price of USD at the SBV's Exchange.

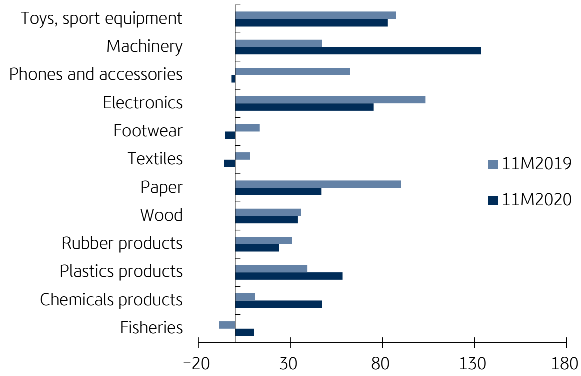
The State Bank of Vietnam is expected to make first step to reduce its foreign reserves accumulation activities in response to the decisions as well as lowering the USD bid price at the SBV’s Exchange. In the medium and long term, the restriction in FX purchases will let SBV less tools to pump VND liquidity into the market and it could push up the interest rate level in the interbank market. However, in the other ways, in 2021, with the forecast of tamed inflation, we believe that the SBV will continue to maintain a loosening monetary policy via further lowering the policy rate /deposit rate cap.

Fig 1. Exports growth rate to main partners, 11M2020 (%)



Source: Customs Offices, KB Securities Vietnam

Fig 2. US exports growth rate by main products, 11M 2019&11M2020 (%)



Source: Customs Offices, KB Securities Vietnam

Impact to stock market

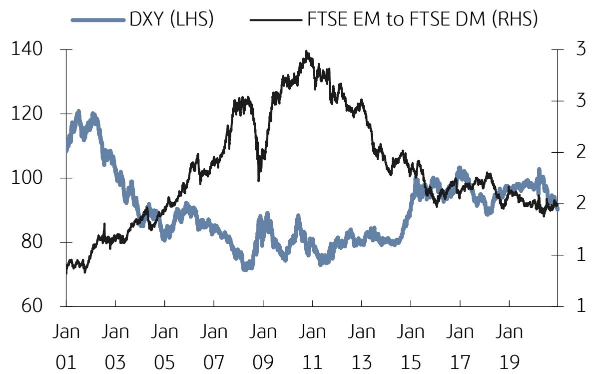
Weaker Dollar support EM

The Dollar is expected to weaken further in 2021 amid anticipated global economic recovery, continuous low interest rate in low inflation environment, and "twin deficit" effect. This will be a strong supportive factor as emerging market typically perform well during period of weak Dollar (Fig. 3).

Possibility of higher VND after being labeled as currency manipulator may neutral the REER

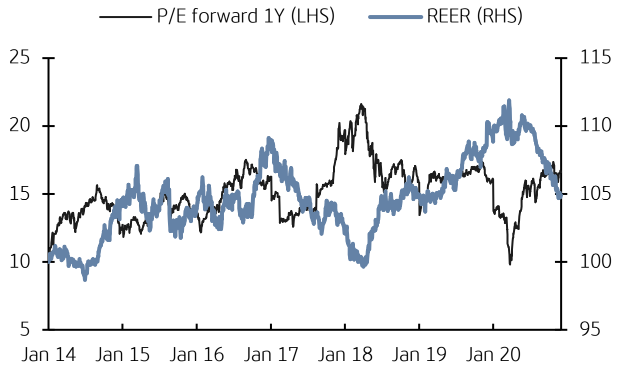
Weaker Dollar usually led to lower REER of Vietnam due to peg currency regime. In the period of lower REER, P/E of VN-Index usually higher (Fig. 4) due to favorable export environment and stronger foreign inflow. However, after being labeled by the US as a currency manipulator, the policy effects of the SBV on the exchange rate will be limited. This makes the VND may slightly increase against the USD in 2021, thus lead to the REER go sideways, neutralizing the positive effects from the low USD. In general, we still expect foreign flow will improve in 2021, benefit from overall trend in emerging market.

Fig 2. DXY vs Relative performance of FTSE-EM to FTSE-DM



Source: Bloomberg, KB Securities Vietnam

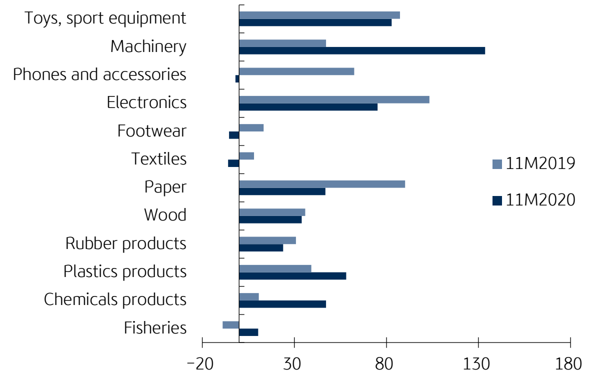
Fig 3. Vietnam - P/E forward 1Y and REER



Source: Bloomberg, KB Securities Vietnam

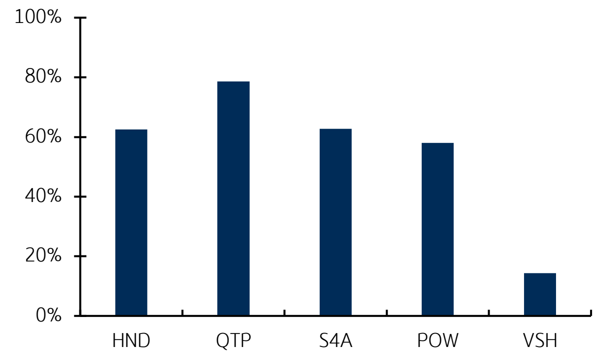
Wood, Fishery and textile sectors can be the target for tariff due to their strong export value and growth to the US. On the other hand, energy sector may be benefit from lower USD/VND due to high proportion of outstanding loans denominated in USD.

Fig 5. US exports growth rate by main products, 11M 2019&11M2020 (%)



Source: Customs Offices, KB Securities Vietnam

Fig 6. Debt denominated in USD to total debt of power companies (%)



Source: Company report, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks
(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