KB Securities VIETNAM

FIRST TO MARKET

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USD/VND exchange rate

Pressure to increase the exchange rate

The SBV adjusted the exchange rate band and raised the selling price of the USD

— On October 17, the State Bank of Vietnam (SBV) decided to widen the USD/VND spot exchange rate band from ±3% to ±5% against the central rate of VND versus USD.

— At the same time, the SBV raised the USD selling rate to 24,380 (+4.1% compared to the central rate, still within the new +5% range). Accordingly, the USD selling price jumped by 7% YTD (Figure 1).

Causes

— Throughout the first nine months of 2022, the No. 1 priority of the Vietnamese government was to keep inflation in check, so numerous efforts have been made to stabilize the exchange rate to limit imported inflation. To that end, the SBV had to pump a large amount of USD, estimated at USD24 billion, into the market (Figure 3). This led domestic foreign exchange reserves to drop sharply below the standard of 12 weeks of imports as recommended by the IMF and monetary and limited room for fiscal policy. Thus, the SBV's move was simply to lift the USD selling price to closely follow the fluctuations of the USD in the international market.

Impacts and movements of the exchange rate in the coming period

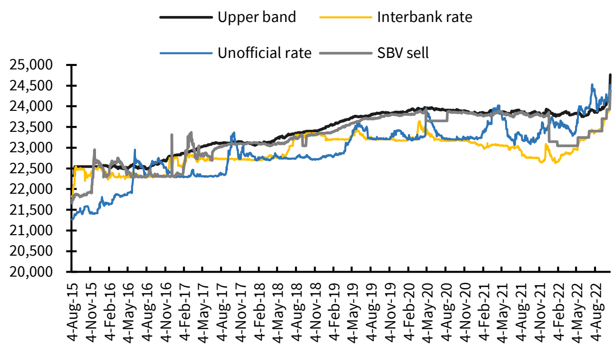
— The SBV has adjusted the USD selling rate to approximate the unofficial rate, consistent with the market expectations up to now. However, it has both positive and negative effects:

- Positive: (1) FDI enterprises may not delay disbursement as before due to the fear of the devaluation of the VND (The SBV's constant intervention to keep the value of the local currency can make companies afraid that the VND is overvalued); (2) Exporters whose inputs are less dependent on imports will benefit (The income from foreign currency once converted into VND will increase if the local currency depreciates).
- Negative: (1) Pressure from imported inflation will be bigger, which may impact deposit and lending rates; (2) Enterprises whose inputs are imports while finished products primarily meet domestic consumption demand will be adversely affected.

— In the coming time, the SBV may hardly intervene in the foreign exchange market, and USD/VND movements will be linked to the performance of the USD in the world market, as shown by the US dollar index (Figure 4). In the worst-case scenario, inflation does not ease off as expected, the Fed keeps hiking interest rates, and the USD maintains its uptrend, the USD/VND exchange rate will potentially approach the upper band of the central rate, reaching 24,700. The SBV, therefore, will have to raise the central exchange rate.

Interbank USD/VND exchange rate rose sharply

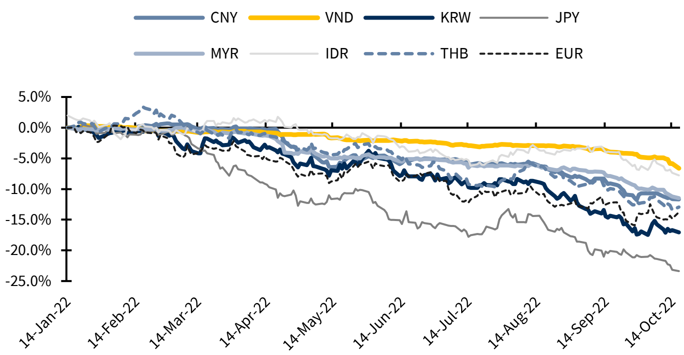
Fig 1. Vietnam – USD/VND exchange rate (VND)



Source: Bloomberg, KB Securities Vietnam

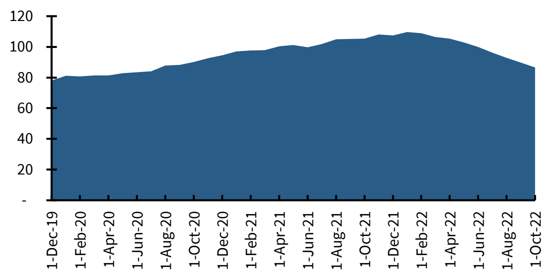
The VND is one of the currencies reporting the lowest depreciation

Fig 2. Global – The depreciation of currencies against the USD



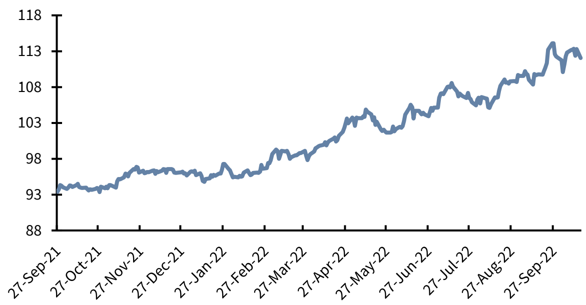
Source: Bloomberg, KB Securities Vietnam

Fig 3. Vietnam – Foreign exchange reserves (USDbn)



Source: KB Securities Vietnam

Fig 4. US – US dollar index DXY (USD)



Source: Bloomberg, 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