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US Treasury Watchlist

Brighter outlook ahead

Only one violation and remains on the US Treasury's currency watchlist

- Vietnam only exceeded the USD20 billion threshold for the bilateral trade surplus at USD47 billion over the four quarters though June 2019
- But Vietnam's current account surplus no longer exceeded the threshold for current account balance during the latest review period after the rising deficit in the service account and foreign payment obligations narrowed the surplus to 1.7% of GDP from 5%.
- Vietnam's FX intervention remained below the threshold at only 0.8% of GDP

Vietnam's currency intervention improved

- Vietnam's FX intervention improved as net purchases fell to 0.8% of GDP from 1.7% previously as the State Bank of Vietnam (SBV) sold a large amount of foreign exchange in 2H18 to stabilize the VND exchange rate.
- Nominal VND exchange rates remained flat against the USD in 2019 but NEER and REER continued to strengthen by 1.7% and 2.2%, respectively, during the first 11 months of 2019 (Fig 2). But REER is approaching equilibrium (Fig 3) and may no longer be undervalued according to the International Monetary Fund (IMF).
- The US should still be willing to tolerate Vietnam's currency intervention as foreign exchange reserves only reached 76% of reserve adequacy at the end of 2018, keeping foreign currency purchases within IMF guidelines for foreign exchange management.

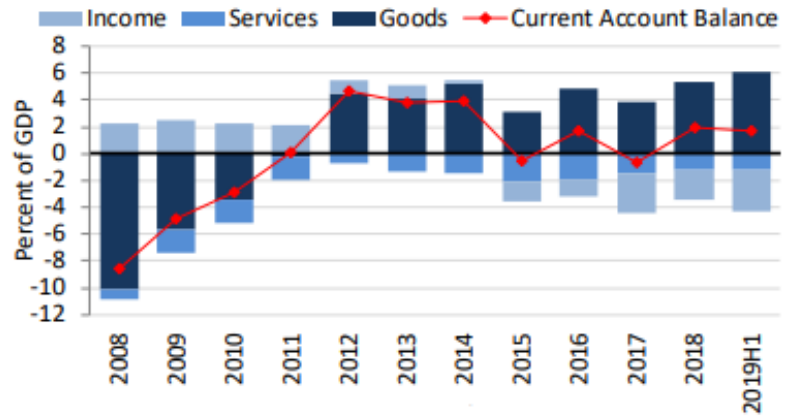
Likely to stay on watchlist for next review but little risk of being currency manipulator

- Results from the latest review will not likely last and Vietnam will likely remain on the watchlist for the Jan 2019–Jan 2020 review but its important geopolitical role and willingness to cooperate with the US should prevent being named a currency manipulator.
- Recalculation of GDP and international balance of payments should allow Vietnam's current account surplus/GDP to decline further as foreign payment obligations continue to rise.
- However, the trade surplus should remain well above the USD20 billion mark and net foreign exchange purchases/GDP may exceed the 2% threshold as Vietnam significantly raised the purchase volume in 2019.

Little risk of Vietnamese goods being taxed

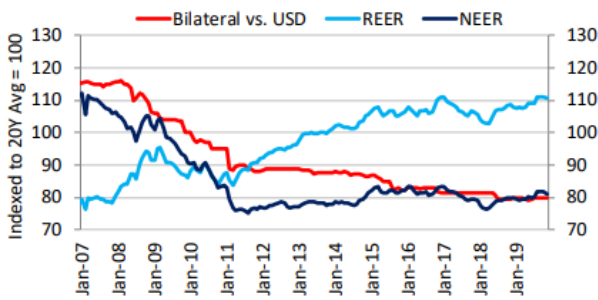
- The US acknowledges that the surge in imports from Vietnam partly resulted from the relocation of supply chains from China to Vietnam.
- The US also acknowledges Vietnamese Government's drastic measures in resolving over 1,300 cases of trade fraud in the first half of 2019.

Fig 1. Vietnam's current account



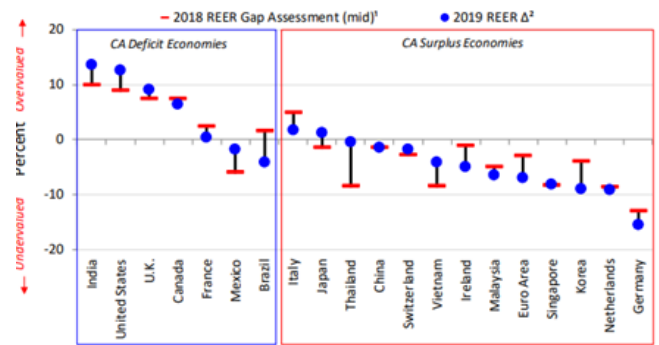
Source: IMF BOP Statistics, State Bank of Vietnam

Fig 2. Vietnam exchange rate



Source: Vietcombank, JP Morgan

Fig 3. Estimated REER



Source: IMF

Fig 4. The US Treasury assessment on countries on the watchlist

	Bilateral Trade	Current Account			FX Intervention			
	Goods Surplus with United States (USD Bil., Trailing 4Q) (1)	Balance (% of GDP, Trailing 4Q) (2a)	3 Year Change in Balance (% of GDP) (2b)	Balance (USD Bil., Trailing 4Q) (2c)	Net Purchases (% of GDP, Trailing 4Q) (3a)	Net Purchases (USD Bil., Trailing 4Q) (3b)	Net Purchases (USD Bil., Trailing 2Q) (3c)	Net Purchases 6 of 12 Months† (3d)
China	401	1.2	-1.2	166	-0.3	-40	-1	No
Mexico	93	-1.0	1.7	-13	0.0	0	0	No
Japan	69	3.4	-0.2	168	0.0	0	0	No
Germany	67	7.3	-1.5	283	..	..	..	..
Ireland	50	-0.8	0.4	-3	..	..	..	..
Vietnam	47	1.7	1.2	4	0.8	2	9	No
Italy	33	2.8	0.7	56	..	..	..	..
Malaysia	26	3.0	0.9	11	-0.3	-1	6	Yes
Switzerland	22	10.7	0.9	74	0.5	3	2	Yes
Canada	21	-2.2	1.3	-37	0.0	0	..	No
India	21	-2.0	-1.3	-56	-0.6	-15	9	Yes
Korea	20	4.0	-3.5	67	-0.5	-8	-7	No
Thailand	19	5.3	-4.4	27	1.5	8	9	Yes
France	19	-0.7	-0.2	-18	..	..	..	..
Taiwan	18	11.0	-2.8	66	0.1	1	1	Yes
United Kingdom	-4	-5.0	0.4	-141	0.0	0	..	No
Singapore	-4	17.9	0.3	65	9.0	32	27	Yes
Brazil	-9	-2.4	-0.8	-44	-0.5	-10	1	No
Belgium	-14	-1.3	-2.2	-7	..	..	..	..
Netherlands	-24	10.3	2.2	93
Memo : Euro Area	156	2.7	-0.4	362	0.0	0	0	No

Source: The US Treasury

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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

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