January 4, 2021

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SBV to stop buying USD on the spot

Efforts to remove the currency manipulator tag

State Bank of Vietnam (SBV) has modified its exchange rate management policy after being accused of currency manipulation

— From December 31st, 2020, SBV stopped listing spot bid-rates of USD/VND at the SBV Operations Centre and deferred the purchases of FX on the spot. Besides, from 4/1/2021, SBV will start buying 6-month forward contracts (instead of 3-month term as before) at VND23,125/USD with requirement for cancellation. Each credit institution may only cancel once of the entire transaction value for the forwards. This is the first action from SBV after being accused by the US of currency manipulation in mid-December. Previously in early-December, SBV lowered the spot bid-rate from VND23,175/USD to 23,125.

— Interbank rate decreased marginally on December 31st, to around VND23,100/USD. USD/VND rate listed by commercial banks remained unchanged on December 31, but also dropped by VND30/USD in the morning of January 4, to 22,980/23,190. The unofficial exchange rate saw opposite move, when it increased by VND50/USD on December 31 on both bid/ask rate but decreased by 50 VND/USD on the bid rate and unchanged on the ask side, down to 23,320/23,400 in the morning of January 4.

It is considered as SBV's efforts to remove the currency manipulation tag

— Stopping the bid-rate listing at the Operations Centre will remove the support for VND to appreciation.

— Deferring the purchases of FX on the spot shows that SBV is no longer willing to buy USD to accumulate FX reserves as before. Commercial banks thus, need to actively contact SBV in case of a large positive FX position and if there is any proceeding, the spot purchase of USD will most likely take place on a case-by-case basis.

— The extend of USD forwards contract term to 6 months with one-time revocable condition shows that selling USD has become much more difficult for commercial banks. In addition, the 6-month timeline will also limit the violation of the third criterion set by the US Treasury Department of Commerce, as it requires the one-way intervention in the foreign exchange market occurs at least 6/12 months.

— SBV can use the difficulty of commercial banks to sell foreign currencies as an evidence in negotiating with the US Treasury Department in the context of being designated as currency manipulator. However, this will limit the unsterilized tools to pump VND into the system and in the event of a temporary liquidity shortage, it is likely that the State Bank will have to extend the maturity date on OMO market (currently is 7 days for reverse repos).

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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