

**Money market chartbook**

15 Feb 2023

**VIETNAM MONEY MARKET CHARTBOOK**

**Interest rates tend to peak out in 1Q23**

- Fed scaled back to a quarter-percentage-point rate increase in the last policy meeting (Feb 1, 2023) after a year of larger hikes.
- According to our estimates, the SBV bought about US\$3.6bn in foreign exchange reserves since the beginning of 2023.
- Yields on Vietnam's 5-year and 10-year government bonds fell sharply by 42 and 38 basis points, respectively, in Jan 2023.
- Deposit rates of commercial banks stayed flat in Jan 2023.

**Markets expect the Fed to stop raising its key rate after the May meeting**

Fed scaled back to a quarter-percentage-point rate increase in the last policy meeting (Feb 1, 2023) after a year of larger hikes. Although the Fed chairman said there was still a lot of work to be done to hit the inflation target and there could be some rate hikes to come, the market believes that "the end of the monetary tightening cycle is near." Markets are now betting that the Fed will raise the benchmark interest rate by a total of 50 basis points at its next two meetings (25 basis points each), and then stop raising rates after that. Thus, the market forecast the top of the Fed's rate hike cycle at 5.25%, unchanged from previous expectations.

**SBV lifted the foreign exchange reserves amid easing FX pressure**

The decrease of the US\$ in the international market has contributed to reducing pressure on the VND exchange rate in Jan 2023. Specifically, as of 31 Jan 2023, the US\$/VND exchange rate on the interbank market fell to 23,450 from 23,633 on 31 Dec 2022. According to our estimates, the SBV bought about US\$3.6bn in foreign exchange reserves since the beginning of 2023.

**Government bond yields fell while deposit rates stayed flat**

As of end-Jan 23, on secondary market, Vietnam's 5-year and 10-year G-bonds yields decreased 42 and 38 basis pts ytd, to 3.8% and 4.1%, respectively. On primary market, 10-year and 15-year G-bond yields dropped 45 and 40 basis pts ytd, respectively. Meanwhile, deposit interest rates stayed flat across all tenures in Jan 2023. As of end-Jan 23, the average 12-month term deposit rates of private banks and state owned banks were 7.4% and 8.2%, respectively. Basing on our perspective, the reversal trend of G-bond yields often heralds the turning point for of deposit rates.

**The uptrend of interest rates will approach the pivot point in 1Q23**

We expect the deposit rate to peak out in 1Q23 and then cool down since 2Q23. basing on the following arguments: (1) FED's policy rates will peak out in 2Q23, which will ease the pressure on Vietnam's exchange rate and interest rates, (2) SBV will be more proactive in supporting market liquidity through open market channel or buying foreign exchange reserves, (3) weak lending demand due to economic slowdown and murky residential property market. We lower our forecast that the average 12-month deposit rate will drop to 7.5%/year by the end of 2023, lower than the previous forecast of 8.0-8.5%/year.

**SBV 's effort to lower lending interest rates**

The SBV said banks with lower lending interest rates will be granted higher credit quotas than others. Therefore, we believe that there are banks that will actively reduce a part of net interest margin (NIM) to have an advantage in receiving higher credit allocation limit in the future. Currently, the average NIM of Vietnam's commercial banks is around 3.2%-3.4%, relatively high compared to commercial banks in other countries in the region such as Thailand (average NIM is from 2.7%-3%); Malaysia (2-2.3%); China (~2%); Singapore (~1.6%).

**Analyst(s):**

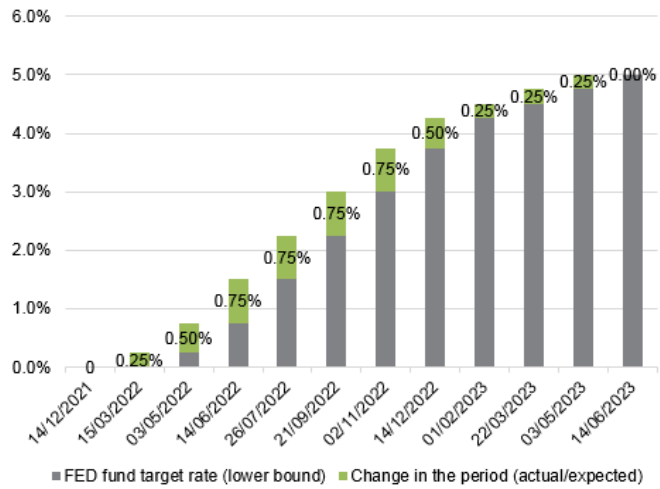


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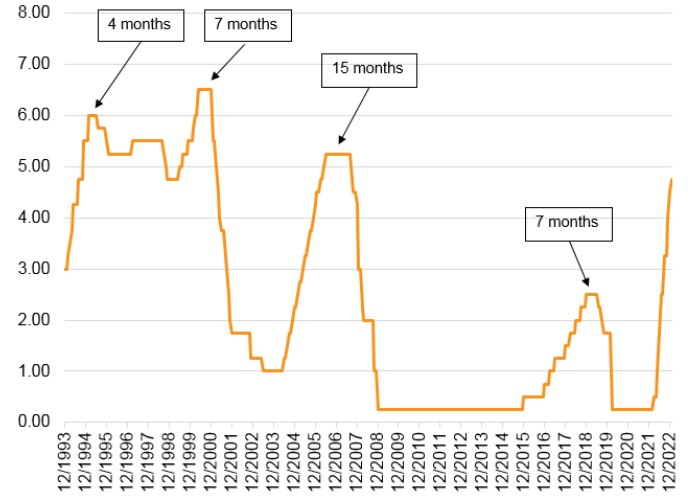
**CHARTS IN FOCUS**

**Figure 1: Markets bet that Fed might raise the benchmark interest rate by 25 basis points at its next meeting in mid-Mar**



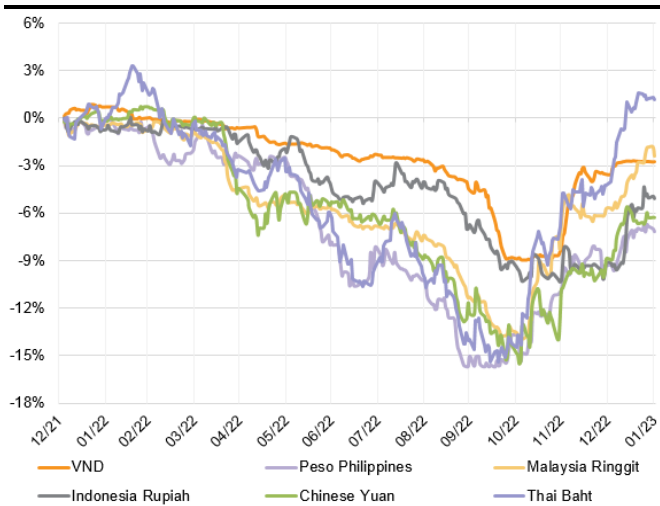
Source: IMF, VNDIRECT RESEARCH

**Figure 2: The first Fed cut in the median hiking cycle has often come roughly 7 months after the last hike (%)**



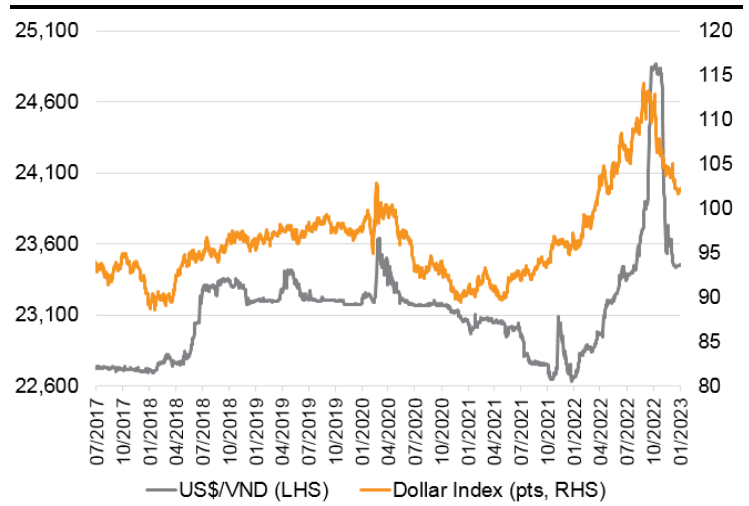
Source: BLOOMBERG, VNDIRECT RESEARCH

**Figure 3: Regional currencies appreciated against US\$ (% ytd)**



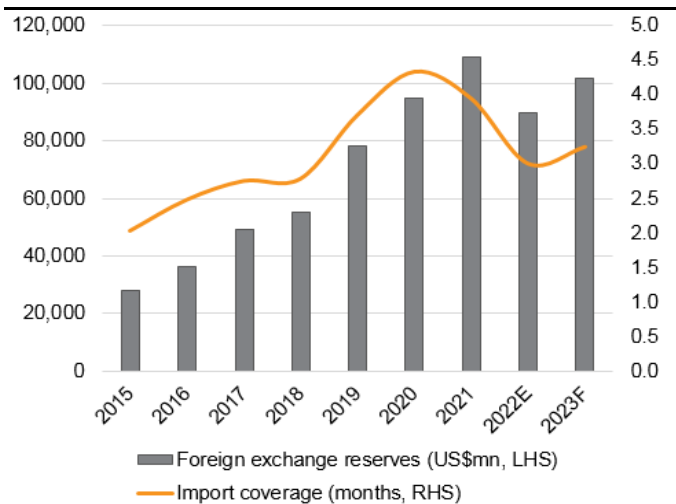
Source: BLOOMBERG, VNDIRECT RESEARCH

**Figure 4: The US\$/VND exchange rate movements (Jul 2017- Jan 2023)**



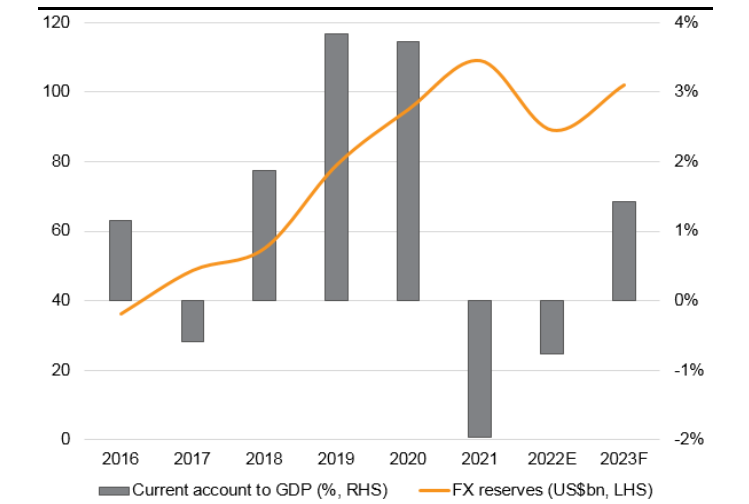
Source: SBV, VNDIRECT RESEARCH

**Figure 5: Vietnam's import coverage (month) and FX reserves**



Source: BLOOMBERG, VNDIRECT RESEARCH

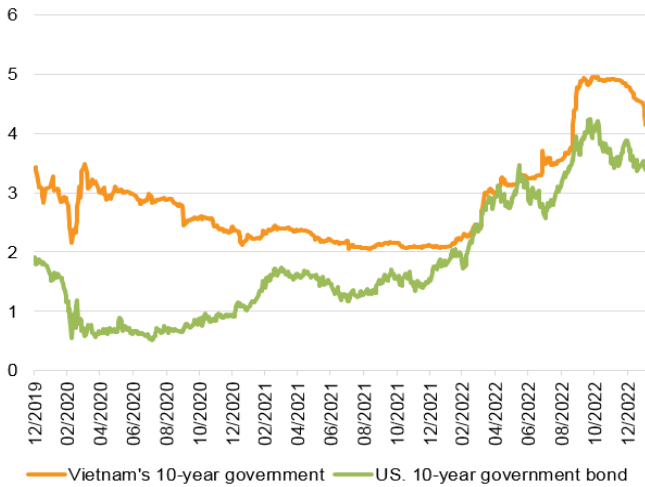
**Figure 6: Vietnam's current account and FX reserves**



Source: SBV, VNDIRECT RESEARCH

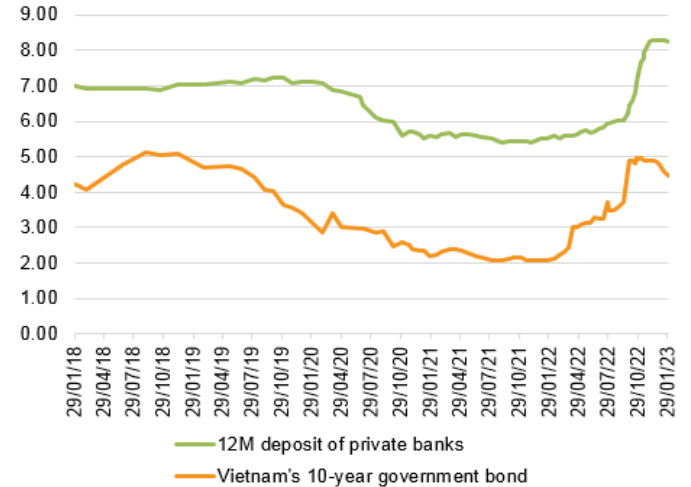
**CHARTS IN FOCUS**

**Figure 7: Vietnam's 10-year government bond yield declined significantly in Jan 2023 (Unit: %)**



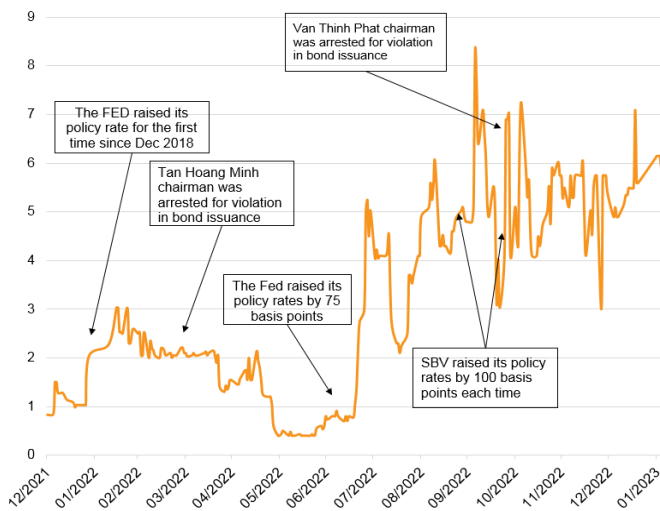
Source: VBMA, BLOOMBERG, VNDIRECT RESEARCH

**Figure 8: The reversal trend of government bond yields usually precedes the reversal trend of deposit rates (Unit: %)**



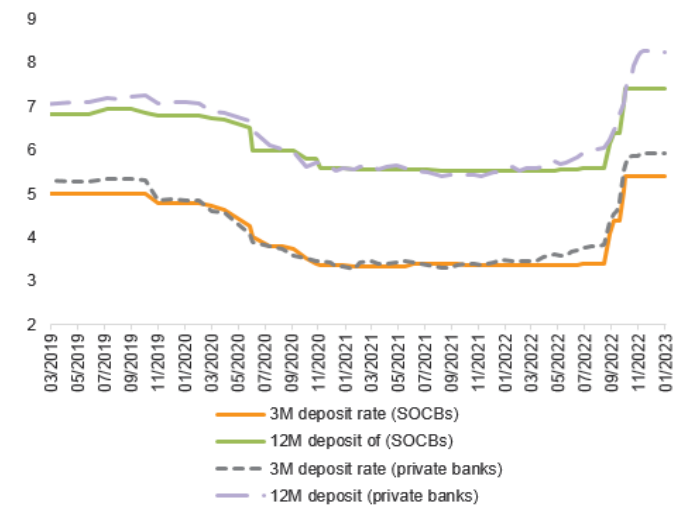
Source: VBMA, BLOOMBERG, VNDIRECT RESEARCH

**Figure 9: The interbank overnight interest rate rose by 75 basis points in Jan 2023 (Unit: %)**



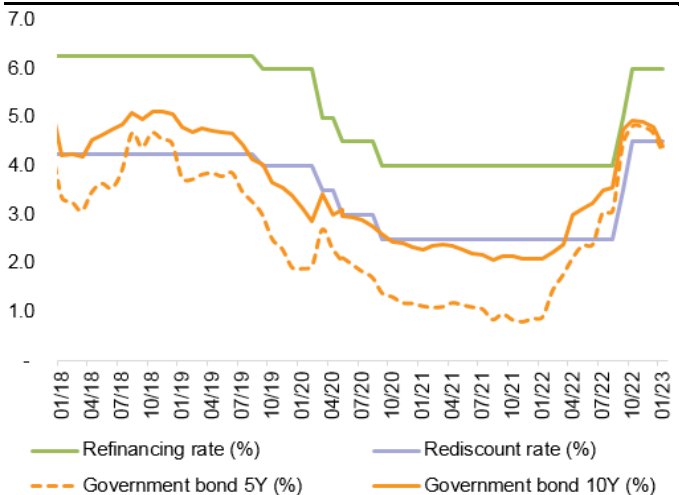
Source: BLOOMBERG, VNDIRECT RESEARCH

**Figure 10: The deposit interest rates stayed flat in Jan 2023 (Unit: %)**



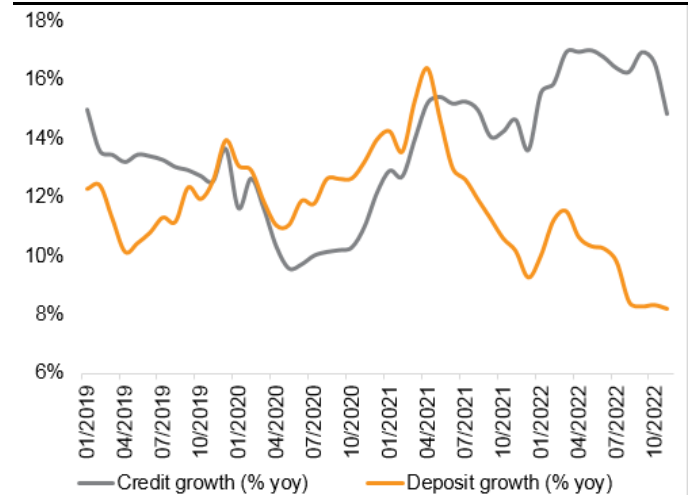
Source: Commercial banks, VNDIRECT RESEARCH

**Figure 11: We expect SBV's policy rate to keep unchanged in 2023F**



Source: BLOOMBERG, SBV, VNDIRECT RESEARCH

**Figure 12: Credit growth vs. deposit growth**



Source: SBV, VNDIRECT RESEARCH

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**RECOMMENDATION FRAMEWORK**

**Stock Ratings**

Definition:

- Add                   The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold                   The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce                The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight           An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral                A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight         An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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