US FED raised its benchmark federal-funds rate by three-quarters of a percentage point

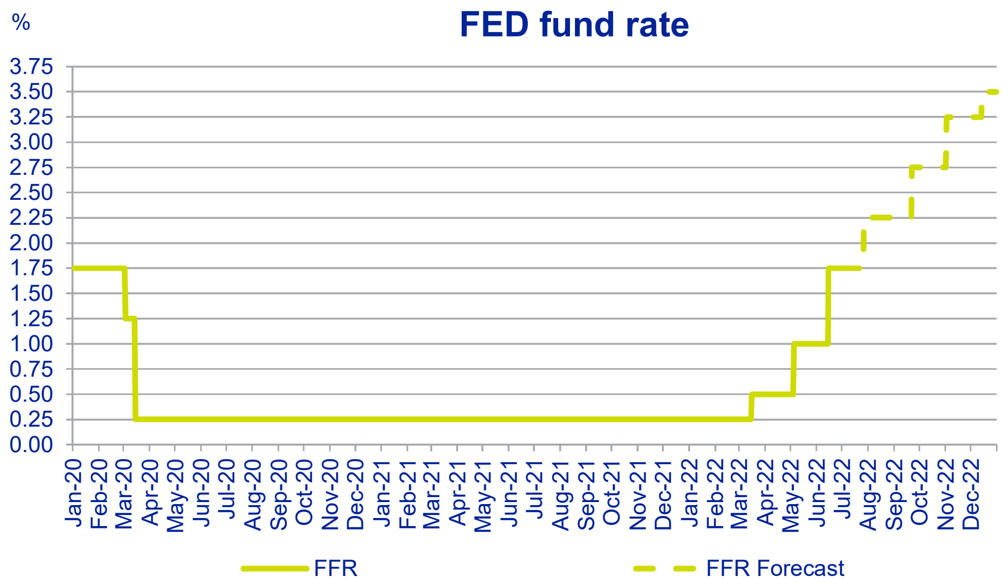
The US Federal Reserve officials voted to raise interest rates by three-quarters of a percentage point (75bps) and signaled four more agressive rate hikes toward yearend to combat inflation which is running at a 40-year high (+8.6% YoY in May 2022). Besides that, in economic projections released, the FED policymaker expected to raise median FFR in 2022 to 3.4% (vs 1.9% in March 2022) and suggested another 1.75% in total rate hikes, spread across the remaining four scheduled FOMC toward the end of 2022. In addition, FED's economic projections aslo expected the US economy will only grow by 1.7%YoY this year (vs forecasted +2.8%YoY in March 2022) and prices, as measured by personal consumption expenditures (PCE), to rise by 5.2% over the course of 2022 (faster than 4.3% forecasted in March 2022).

Furthermore, the FED also announced its Quantitative Tightening program in FOMC meeting in 4-5 May 2022. The FED will begin allowing its Federal Reserve's securities holdings to decline in June 2022 at an initial combined monthly pace of USD47.5bn (USD30bn per month for Treasury securities and USD17.5bn for agency debt and agency mortgage-backed securities) and stepping up over three months to USD95bn (USD30bn per month for Treasury securities and USD35bn for agency debt and agency mortgage-backed securities). With this plan, FED expected to reduce around USD400bn of its balance sheet by the end of 2022 (decreased roughly 10% of over USD4.6tn increased in FED balance sheet during March 2020 to May 2022). In addition, ECB also plans to follow FED with its Quantitative Tightening program and also signaled to raise interest rate by half percentage point (50bps) in July 2022.

In our opinion, recent inflation was coming from

(1) **monetary-related inflation** caused by sustained increase in the money supply of various countries over 2020-2021 period;
(2) **demand-pull inflation** cause by expansionary fiscal and monetary policy during COVID-19 pandemic;
(3) **supply-push inflation** due to supply shocks (geopolitical war between Russia and Ukraine and zero-COVID-19 strategy of China), which caused supply-chain disruptions, surging energy and food prices and fewer workers are in the active labor market after pandemic; and
(4) **inflation expectations** which people and firms expect higher prices in the future and they will translate this expectation into salary and contracts negotiations that lead to higher inflation.

As central banks, such as the FED and the ECB, raised interest rate and executed QT program to combat inflation, we expect issues (1), (2) and (3) are being addressed, in which rate hikes help reduce money supply; curb surging demand & consumption while waiting for supply side issued resolved soon. However, those actions won't help ease (4) supply-push inflation and raising rates too much & too fast might also hurt growth rate or help push economies into a recession. According to Joseph Stiglitz, a nobel laureate professor from Columbia University, *"raising interest rates is not going to solve the problem of inflation. It's not going to create more food. It's going to make it more difficult because you aren't going be able to make the investments."* So we think that central banks, especially the FED, must be very careful with their new aggressive rate hikes plan (FED is now expected to deliver a much steeper path of rate hikes than it had previously forecast in March which FED intent to lift FFR by total 1.75% in the next four sections of FOMC by the end of 2022). There should be a balance between subduing inflation & slowing down economy in order to avoid a "hard landing" for their economy. In addition, governments and policy makers, especially in US, should focus more effects to solve current supply shock issues (cause by geopolitical war between Russia and Ukraine and zero-COVID-19 strategy of China) by normalize supply-chain and reduce high energy & food prices, which raising interest rate can't fixed.

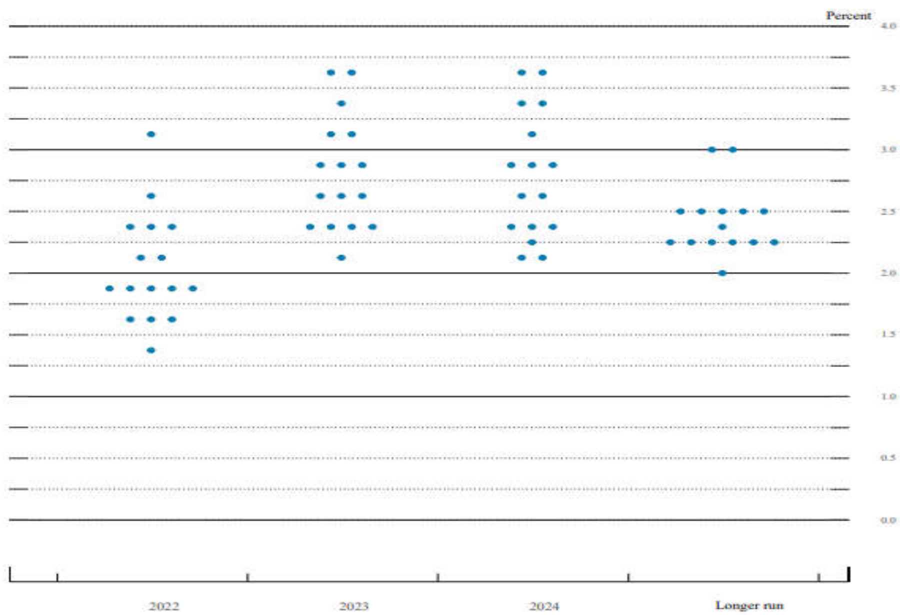


Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents June 2022

Variable	Median [1]			
	2022	2023	2024	Longer run
Change in real GDP	1.7	1.7	1.9	1.8
March projection	2.8	2.2	2.0	1.8
Unemployment rate	3.7	3.9	4.1	4.0
March projection	3.5	3.5	3.6	4.0
PCE inflation	5.2	2.6	2.2	2.0
March projection	4.3	2.7	2.3	2.0
Core PCE inflation[4]	4.3	2.7	2.3	
March projection	4.1	2.6	2.3	
Memo: Projected appropriate policy path				
Federal funds rate	3.4	3.8	3.4	2.5
March projection	1.9	2.8	2.8	2.4

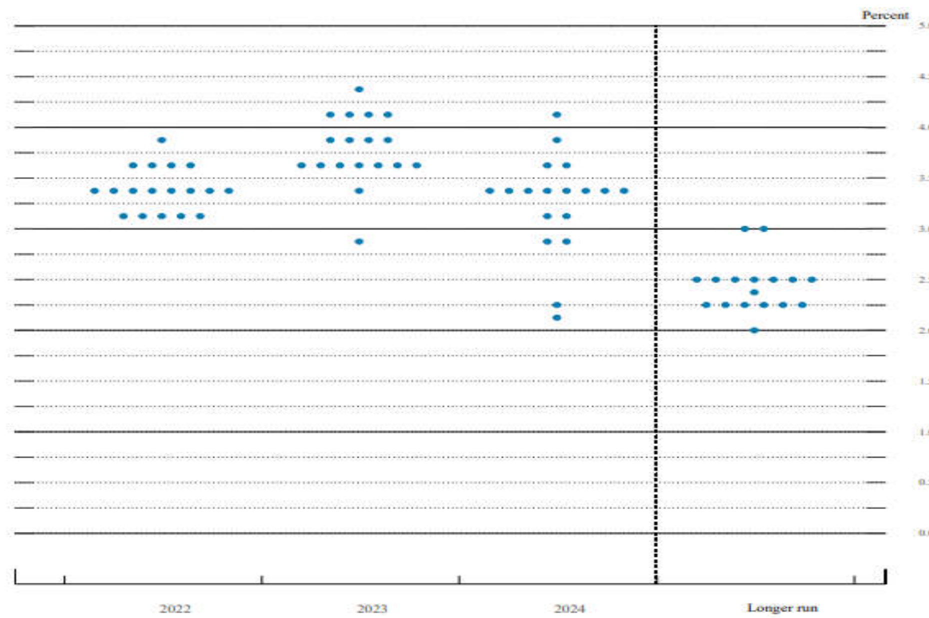
March 2022 Dot Plot

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



June 2022 Dot Plot

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Source: FED

What does the recent rate hike mean to Vietnam

Despite the high inflation rate in the US, in conjunction with the FED and other major central banks rate hikes and the Quantitative Tightening program of FED, we maintain our expectation of **Vietnam's CPI for 2022** will increase in the range of 3.5% - 4% and remain within Government's target of 4%.

Despite fears that **Vietnam's growth prospects** could slow in the upcoming quarters of 2022, with good fundamentals in 5M2022, Vietnam's economy has essentially regained its growth momentum as the post-COVID recovery carries on. We maintain our expectation that the GDP growth rate will gradually recover in the last three quarters of 2022, supported by:

(1) the continuing recovery of industrial activities which will push activities from the FDI sector in terms of investment and exports;
(2) Vietnam emerged as a substitute manufacturing base to cover output losses caused by the zero-COVID-19 strategy of China, which continued to boost recovery of all industrial activities in Vietnam; and
(3) the recovery of domestic consumption and service sectors after relaxing restrictions on all service businesses, including reopening international tourism and normalization of transportation (retail sales in 5M2022 grew 9.7% vs same period in 2021).

Overall, we maintain our view that **Vietnam's economic growth will range between 5.8% - 6.9% in 2022**.

We also maintain our view that **Vietnam's monetary policy management** of the **State Bank of Vietnam** will have no major impact in 2022, supported by:

(1) As long as Vietnam's inflation rate under controlled and stay within 4%, monetary policy tends to continue to be expansionary for supporting the economic recovery;
(2) The main impact of the FED rate hikes expected to be mainly on foreign capital flows. In the short-term, with the history of others FED rate hikes, portfolio capital flows into emerging markets could turn negative and Vietnam could see net selling on the equity markets. Despite short term fluctuations, Vietnam, with good macroeconomic fundamental and acceptable inflation levels below 4%, will continue to be an investment destination for FDI companies, especially in the manufacturing industry; and
(3) Exports, which are the country's key economic growth driver, will remain strong as manufacturing activities gradually recover and are expected to continue its upward trajectory given the recovery of the global economy. Vietnam emerged as a substitute manufacturing center to cover loss output causing by zero-COVID-19 strategy of China. In addition, our trading activities continued to be solid as total export-import turnover in 5M2022 reached USD305.1bn (+16.1% YoY).

We also remain our expectation that **SBV might raise its benchmark interest rates toward yearend by about half percentage point (50bps)**.

Furthermore, despite the FED rate hikes, factors which will help **VND** in general (in banking system and in black market) maintain its strength and stability towards the yearend 2022, include:

(1) Inflation remained low and under control below 4%;
(2) Exports, which are the country's key economic growth driver, will remain strong as noted in point (3) above
(3) FDI inflows disbursements remain stable in 5M2022 (+7.8% YoY); and
(4) Abundant foreign reserves (stood at around USD113bn at the end of 2021).

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