

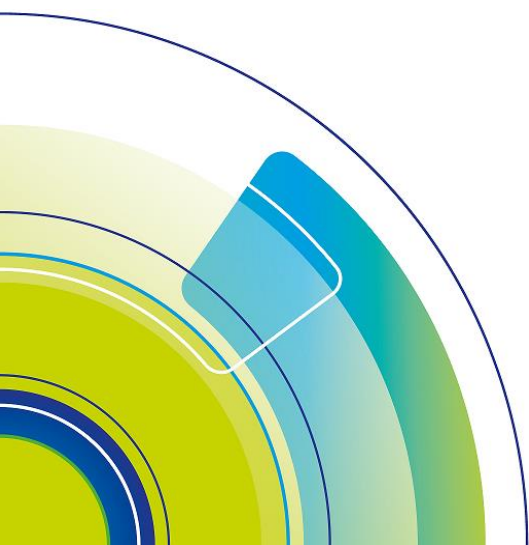


Flash Note

Money Market

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Draft amendment to Circular 02/2021/TT-NHNN on USD/VND forward exchange rate

• Amendment content:

- + The USDVND forward rate will be determined flexibly by parties involved and adhering to the rules issued by the State Bank of Vietnam (SBV).
- + Three criterias that were previously used to specifically regulate the forward exchange rate are no longer in use. They are: (1) the USDVND spot exchange rate on the transaction date; (2) the gap between the two current interest rates: the refinancing rate announced by the SBV and the target USD interest rate of the US Federal Reserve (Federal Funds Target Rate); and (3) the tenor of the transaction.

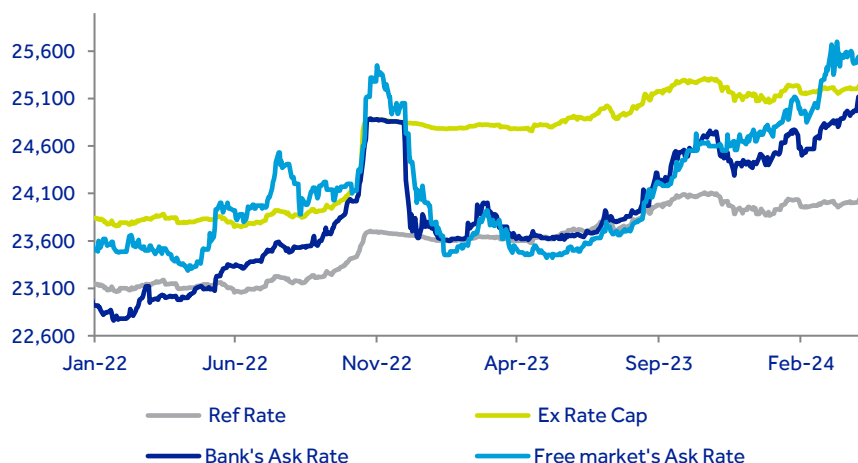
• Reasons for amendment:

- + To increase the flexibility and proactiveness of the SBV in managing the foreign exchange market.
- + To adapt to the rapid and unpredictable changes in the international and domestic markets.

• Current environment of FX market:

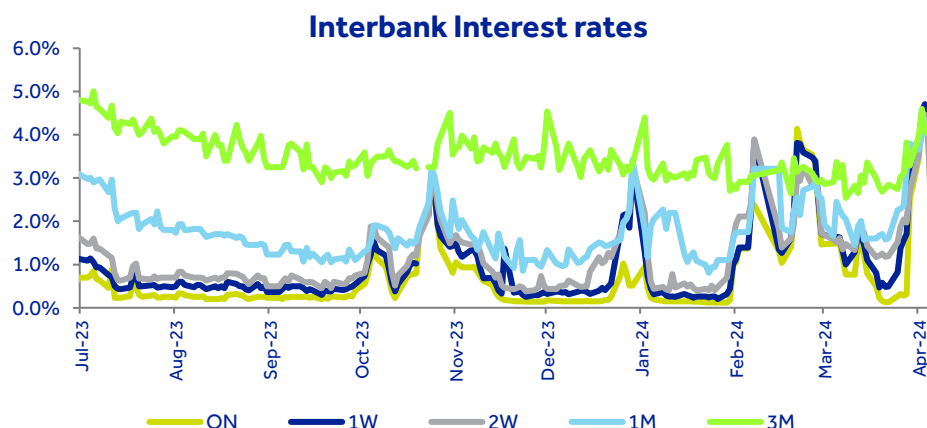
- + The first few months of 2024 have seen a significant increase in the USDVND exchange rate.
- + USDVND exchange rates are now trading at record highs. Specifically, USDVND offer rate at commercial banks reaching 25,170 (+3.07% YTD) and USDVND offering rates at the paralell market reaching 25,585 (+3.29% YTD). Besides, USDVND bid/ask rate in the interbank market is around 24,985-24,990.

USDVND exchange rates



+

- + In order to absorb excess liquidity, SBV issued SBV bills as part of their ongoing effort to reduce the surplus capital within the banking system, which is driving up VND interest rates in the interbank market, therefore, helping reduce the gap between USD and VND interest rates. The prolong negative gap between VND-USD interest rate has put further pressure on the exchange rate, along with the mounting demand from corporates.
- + Pressure on USDVND will not be diminished until the day the FED cuts rate and the DXY declines.



• **ACBS's comment:**

- + Currently, the negative spread between the SBV's refinancing rate and the FED rate implies a lower USDVND forward rate compared to the spot rate. For example, the calculation is presented as below:

Transaction date	11/04/2024
Maturity date	11/07/2024
USDVND Spot rate at SBV	25,198
Tenor	3 months
FED rate	5.25%
SBV's refinance rate	4.50%
Interest rate gap	-0.75%
USDVND Forward Rate	25,151

- + It is uncommon for the USDVND forward exchange rate to be lower than the spot exchange rate in previous years. Therefore, the negative gap between VND and USD at present is only temporary and unlikely to occur frequently. It may change quickly when the FED starts cutting rates.
- + In 2024, the USDVND exchange rate will continue to face persistent pressure until the day the FED formally pivots. Hence, SBV will need a set of useful tool kits to stabilize the FX market, such as: Bills to intervene the VND liquidity and the VND interest rates, selling out USD (forward/spot) to fill up the customers' demand, etc.
- + The efficacy of liquidity restriction measures implemented via the issuing Bills channel in accomplishing the objective of reducing the exchange rate has been limited in recent weeks. Despite a significant decline in the system's liquidity and a rise in VND interest rates, the exchange rate has exhibited a consistent upward trend and remains close to 25,000. Consequently, we anticipate that SBV will soon need to employ alternative methods, such as selling USD in advance to the banks.
- + As a result, the amendment to Circular 02/2021/TT-NHNN will create flexibility for the SBV to be more proactive in setting the USD forward offering price to intervene more effectively in the foreign exchange market.

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