MARKET STRATEGY: VIETNAM IN THE MIDST OF GLOBAL EASING

19 March 2020

Hinh Dinh – Senior Analyst

hinh.dinh@vndiect.com.vn

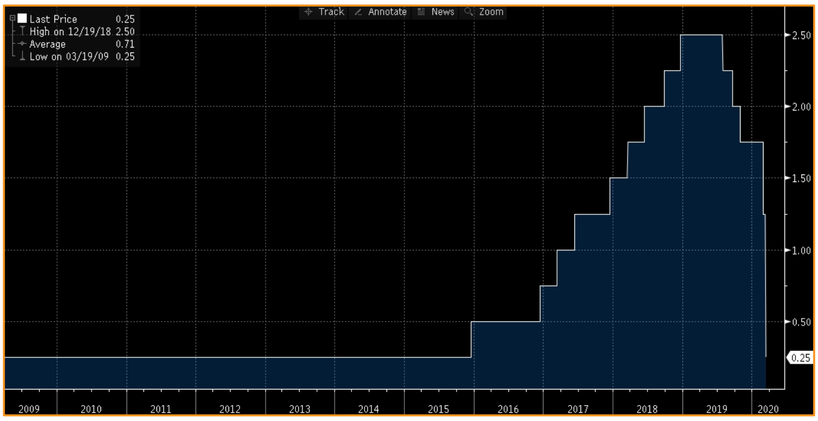
Ha My Tran – Senior Analyst

my.tranha@vndiect.com.vn

Global central banks coordinate to combat coronavirus fallout

On 15 Mar 2020, the Federal Reserve cut its benchmark rate by 100bps to near zero in an effort to save the U.S. economy from the fallout of the coronavirus (COVID-19) pandemic. This is the most dramatic move by the Fed since the 2008 financial crisis as its key rate is now 0% (lower bound) to 0.25% (upper bound), matching the record low level it hit during the 2008 financial crisis. In addition to rate cuts, the Fed said it would restart unconventional programme of bond purchases known as "quantitative easing" (QE) as it was committed to buying US$700bn in Treasury and mortgage-backed securities. The Fed also announced to let banks borrow from the discount window for as long as 90 days and reduced reserve requirement ratios to 0%. In addition, it would unite with five other central banks to ensure US dollars are available around the world via swap lines. The Fed's actions above followed an emergency interest rate cut and a large US$1.5tr bond-buying programme announced on 3 Mar. These coordinated actions are aimed at providing sufficient liquidity for financial institutions as well as the whole economy, making borrowing costs as low as possible and keeping the financial markets stable.

Figure 1: The Fed fund rate (upper bound) (2009-2020)



Source: Bloomberg

Figure 2: MSCI World Index fell 9.5% despite the Fed's emergency action

Source: Bloomberg

However, investors were unimpressed with the Fed's move, and the global stock market tumbled on 16 Mar amid investors' mounting concerns that the global economy might be in worse shape than market thought.

The Fed's latest move is part of coordinated actions made by several central banks around the world to minimize the negative impact of the COVID-19 pandemic on the global economy. Since the beginning of Feb 2020 when the COVID-19 pandemic spread in China, more than 30 central banks across the world have decided to cut their benchmark rates and expanded assets-purchasing programme in order to provide sufficient liquidity and stabilise financial markets. However, these loosening monetary policies are unlikely to reverse the slowdown of the global economy at least in 1H20F as factories are being shut across the world to inhibit the spread of the pandemic. Therefore, we consider that governments around the world should coordinate with each other and make more powerful fiscal policies along with loosening monetary policy to revive global economy.

Figure 3: Central banks loosened monetary policy to tackle the impacts of the COVID-19 pandemic on global economy

5 Feb 2020
Thailand cut Repo Rate by 25bps

6 Feb 2020
Philippines reduced Key Policy Rate by 25bps

20 Feb 2020
The People's Bank of China (PBOC) cut Loan Prime Rate by 10bps
Indonesia adjusted Repo Rate by 25bps

3 Mar 2020
The Fed cut Funds Rate by 50bps and announced $1.5tn capital injection into the financial systerm
Malaysia reduced Policy Rate by 25bps
Hongkong cut Base Rate by 50bps

4 Mar 2020
The Bank of Canada (BOC) cut Target On Rate by 50bps

10 Mar 2020
The Bank of England (BOE) reduced Bank Rate by 50bps

12 Mar 2020
The Europen Central Bank (ECB) announced to expand its assets purchase programme by 120bn Euros ($135.3bn)

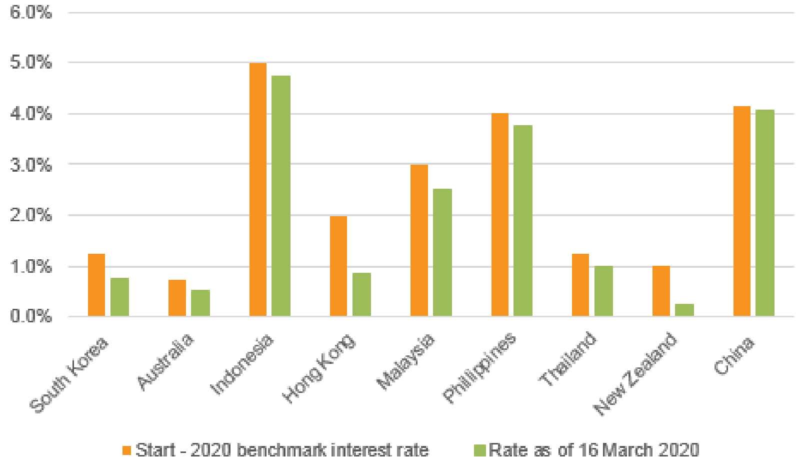
13 Mar 2020
BOC adjusted Target On Rate by 50bps

15 Mar 2020
The Fed cut Fund Rate by 100bps and promise to buy $700bn in Treasury and mortage-backed securities

16 Mar 2020
South Korea trimmed its key rate by 50bps
HongKong cut Base Rate by 64bps
Bank of Japan (BOJ) announced to double its purchasing of exchange-traded fund securities to 12tn yen ($112bn)

Source: Bloomberg, CNBC, cbrates.com

Figure 4: Rate cuts in Asia-Pacific amid the COVID-19 pandemic



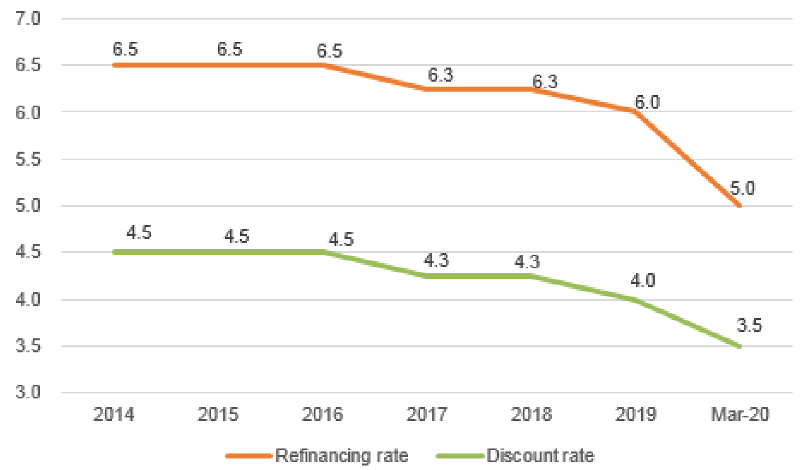
Source: Bloomberg, Cbrates.com

Vietnam's central bank took strong move to battle COVID-19 impacts

Following the Fed's decision to drastically lower its policy rate by 100bps while launching a massive US$700bn QE program, the State Bank of Vietnam (SBV) - the central bank, has stepped up to negate the impact of the COVID-19 pandemic, joining a wave of easing policy across Asia.

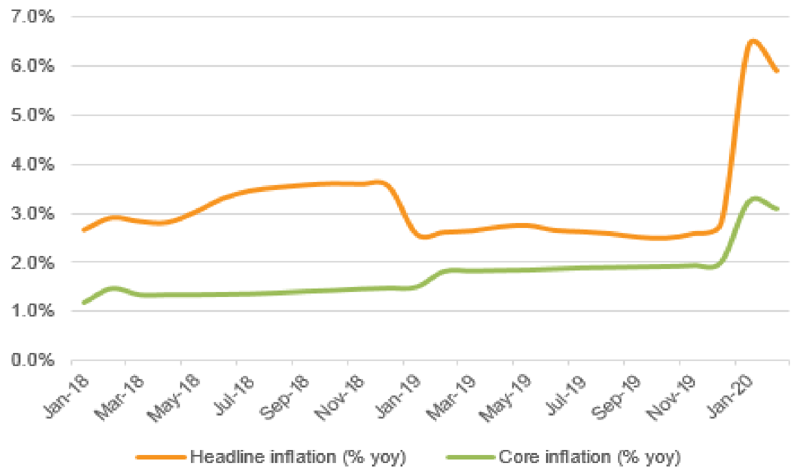
To be specific, the refinance rate will be cut to 5% from 6% and the discount rate to 3.5% from 4.0%. The SBV also ordered banks to lower the caps on short-term lending rate to 5.5% from 6.0%. Besides, it cut interest-rate cap for dong-denominated deposits with maturity of one to less than six months to 4.75% from 5.0%, while cutting the overnight lending rate on the interbank market to 6.0% from 7.0%. Additionally, the central bank raised the interest rate on dong compulsory reserves by banks to 1% from 0.8%.

Figure 5: Vietnam's policy rate since 2014



Source: SBV, VNDIRECT RESEARCH

Figure 6: Vietnam's inflation rate picked up since late-2019 on the back of pork price spike



Source: GSO, VNDIRECT RESEARCH

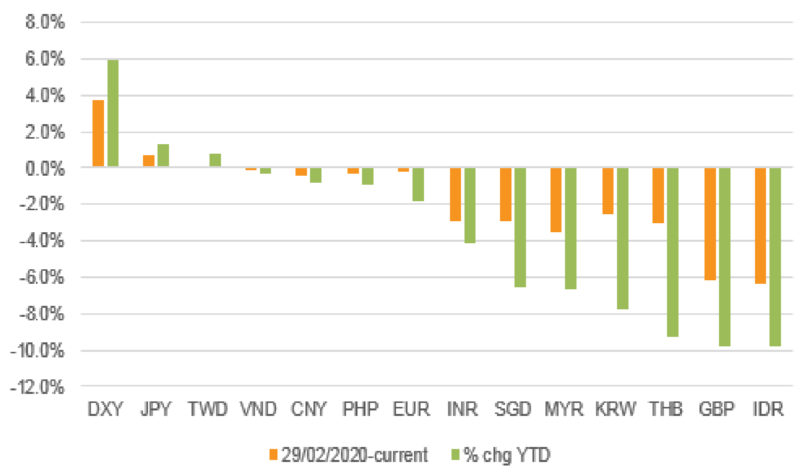
In our view, with all the main policy rates being cut more aggressively than previous rate cuts, this policy action will help provide liquidity to the financial system during this difficult period and lower borrowing costs for domestic firms.

However, as we expect inflation to be around the official ceiling of 4.0%, we think the latest action might leave the SBV little room for additional rate cuts. In addition, it is difficult for banks to spur lending as loan demand is likely to be slower during this period. Therefore, we think fiscal policy will be employed to address demand issues over the next few quarters.

The Vietnamese dong stays stable amid the chaos

During 2MFY20, uncertainties stirred up by the COVID-19 spread have seen the dollar broadly strengthen, resulting in the strong depreciation of most Asian currencies. However, the Vietnamese dong seems to be immune to currency pressure in Asia and remains more stable than regional peers.

Figure 7: Most of Asia's currencies have weakened as COVID-19 outbreak

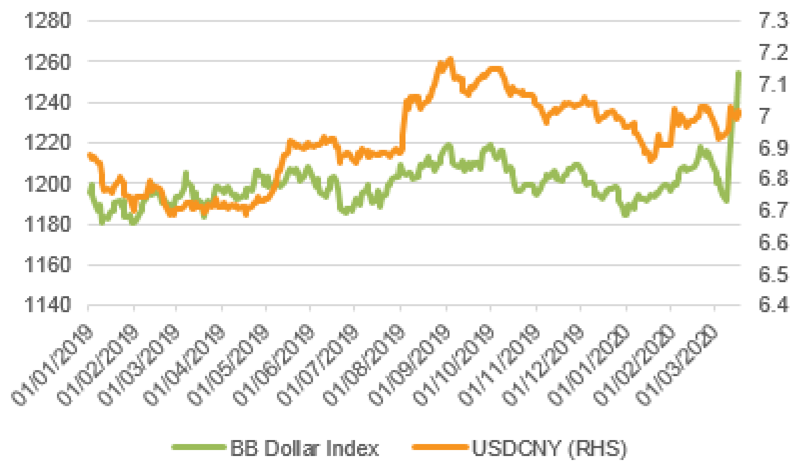


Source: Bloomberg

After the Fed made its second surprise rate cut, the U.S. dollar fell against a broad range of currencies. But then the demand for the dollar has outweighed the impact of lower Fed rates as investors seek shelter amid the unprecedented amount of uncertainty caused by the outbreak. Meanwhile, the yuan has been more stable than the dollar during the outbreak, and the pandemic in China appeared to be slowing. In addition, as other central banks could follow Fed in making similar efforts towards further easing to protect the economy from a possible recession due to the COVID-19 and the new quantitative easing scheme will ultimately bring the dollar lower, we think the net impact of global easing policy on the US$/VND is likely to be muted. Therefore, we maintain our forecast for US$/VND rate at 1US$ = VND23,300-23,500 in 1H20F.

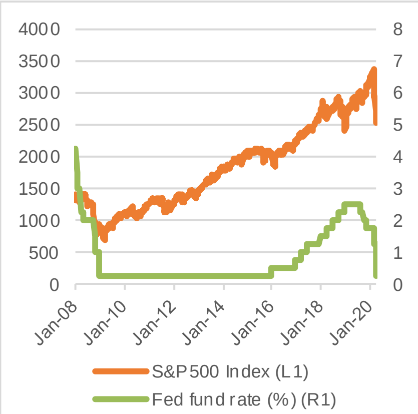
On the other hand, a relative stable currency vs. other Asia countries might hurt Vietnam's export competitiveness. However, we believe a sharp currency devaluation will not be the government's priority in the context of depressed trade and investment activities due to the pandemic as the government would want to control inflation to keep room open for accommodative monetary policy.

Figure 8: Dollar index vs. USDCNY



Source: Bloomberg

Figure 9: Fed fund rate & S&P 500 Index



Source: Bloomberg

Easing global financial conditions will not boost capital inflows into Vietnam in the short term …

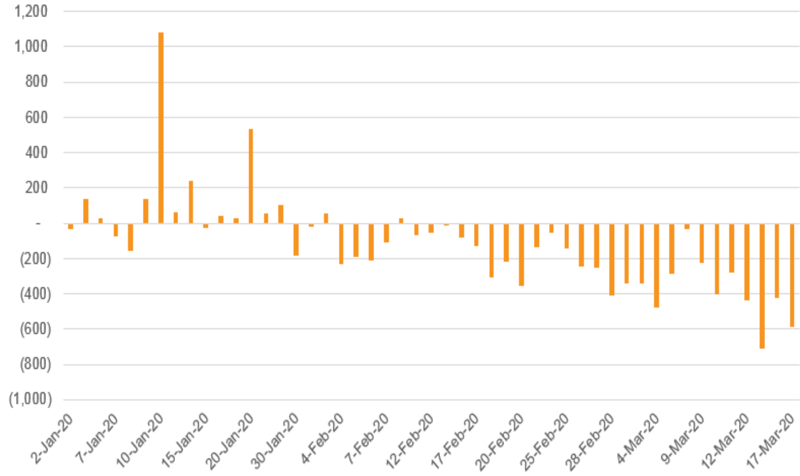
Normally, monetary easing of advanced countries has a rapid spillover effect on capital flows into emerging markets. However, in the current environment of heightened risk aversion, monetary accommodation from advanced countries will not be processed in a traditional manner. On the foreign direct investment front, we think foreign investors are likely to postpone their investment decisions until late-2020. On the indirect foreign investment front, the global flight to quality assets will continue until the outbreak is contained globally. As a result, we believe that easing global financial condition will not boost capital inflows into Vietnam from a short-term view.

… However, it could gradually stabilise investors' sentiment in the financial market

Although it is unlikely to immediately reverse the downtrends in the global stock market, the monetary easing policies adopted by central banks around the world would provide sufficient liquidity to financial institutions as well as the whole economy and avoid causing a serious disruption in the financial market, thus helping stabilise investors' sentiment.

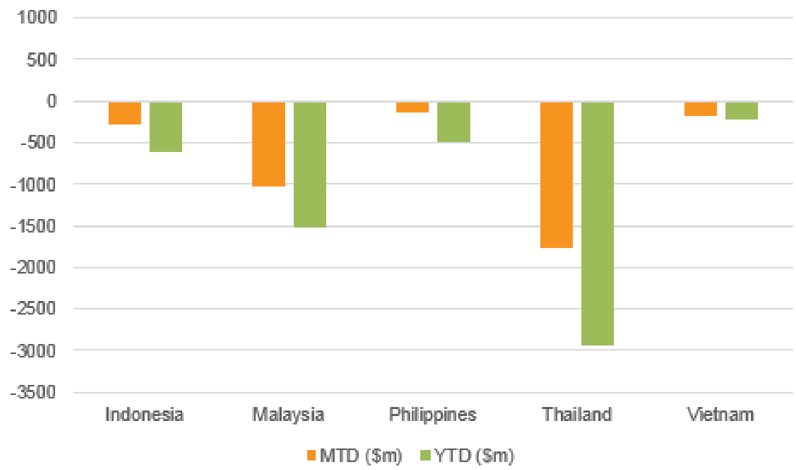
For Vietnam's stock market, the Fed's announcement on resuming the QE program has not been able to reverse foreign investors' current net-selling trend in the stock market at least in the short term, but it could gradually stabilise investors' sentiment.

Figure 10: Foreign investors turned to net-selling from 31 Jan 2020 when the coronavirus spread in China



Source: Bloomberg

Figure 11: Equity markets across ASEAN witnessed the massive foreign flight since the outbreak



Source: Bloomberg

In the medium- to long term, massive funds would flow into the countries which are able to bring manufacturing activity back to normal at the fastest pace, regarding which Vietnam is among the most potential candidates

We expect central banks across the world to expand the scale of asset purchase programmes in the near future to save the global economy from recession amid historical-low level of base rate, which could not be reduced any further. In particular, the main goal of QE program is to lower long-term interest rates to spur economic activities when the short-term interest rate hit the zero lower bound. Currently, the Fed's fund rate hits the zero lower bound while the short-term target rate of BOJ stands at -0.1%.

During the 2008-13 period, massive capital flowed into the emerging and frontier markets when the Fed ran its QE program. Although the current situation may not be the same as before, we believe that when the global financial market stabilises, it will stimulate cheap capital towards the countries with better growth outlook. Especially, the cheap capital would flow to the countries which have proved to be effective in containing the COVID-19 outbreak and have the ability to resume manufacturing activities at the fastest pace, regarding which Vietnam is one of the most potential candidates. Vietnam has demonstrated its ability to cope with the pandemic very effectively, which is highly appreciated by the international community. Moreover, Vietnam still maintains its manufacturing activities at normal level despite stepping up the fight against the COVID-19.

DISCLAIMER

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

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.

Hien Tran Khanh – Deputy Head of Research
Email: hien.trankhanh@vndirect.com.vn

Hinh Dinh Quang – Senior Analyst
Email: hinh.dinh@vndirect.com.vn

My Tran Ha – Senior Analyst
Email: my.tranha@vndirect.com.vn

VNDIRECT Securities Corporation
1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi
Tel: +84 2439724568
Email: research@vndirect.com.vn
Website: https://vndirect.com.vn