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FX Flash

VND - Tracking The RMB Weakness

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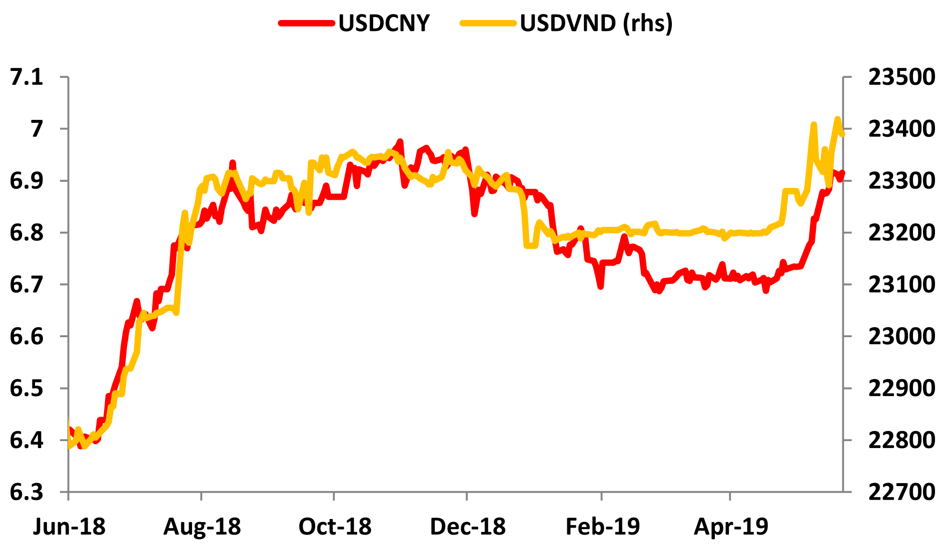
Recent VND Weakness

Ever since trade talks between the China and the US broke down around the start of May, the CNY has been under pressure, taking a number of regional peers along including the VND. VND weakened 0.5% against the USD month-to-date (22 May) even as talks of US potentially labelling Vietnam a currency manipulator gave the VND some respite.

However, when the Trump administration put Huawei and its affiliates on the list of foreign entities that are deemed to be threats to US national security and also restrict US firms from using technology produced by companies assessed to be national security risk, CNY came under renewed pressure and VND also weakened. China has warned of retaliation, President Xi rallied for a “new Long March” and we see lower chances of a trade deal within the quarter. USDVND is last seen at 23390 but we still see chances of some positive developments within the quarter that can bring USDVND lower to 23250 by end 2Q.

Vietnam has been keeping the VND stable against the USD between Jan-Apr but the recent rally in the USDCNY gave USDVND a lift in May. The weakness in the VND might seem alarming given the fact the VND had practically hugged the 23200 figure since Jan but we note that its month to date performance is not the poorest in the region. Still, to prevent bets against the VND from snowballing, SBV has started to jawbone. Yesterday, SBV mentioned on its website that it could sell dollars “at suitable price” to minimize volatility in local money market. SBV assured that liquidity has remained stable.

Chart 1: USDVND Tracks the USDCNY Higher



Source: *Bloomberg, Maybank FX Research & Strategy*

Chart 2a: VND Is Rather Resilient

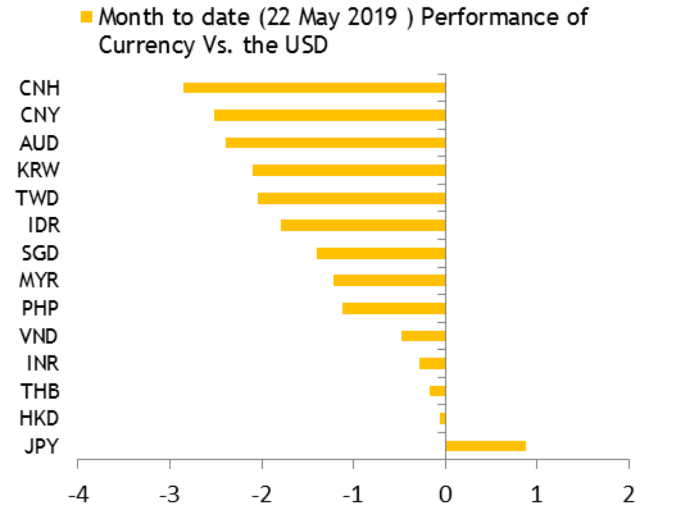
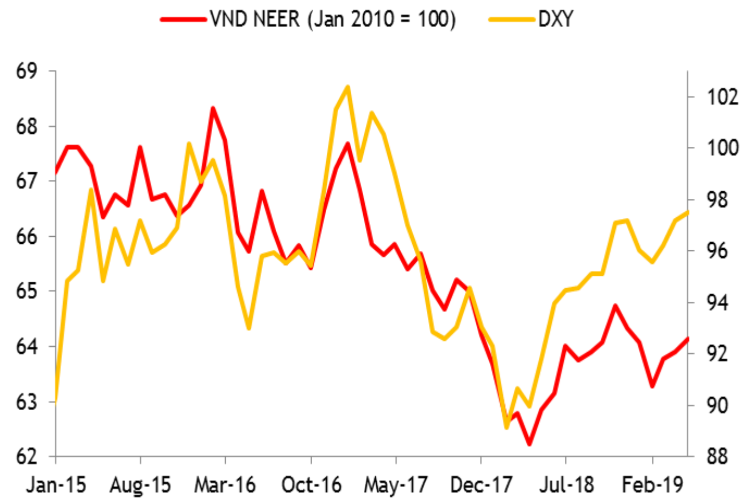


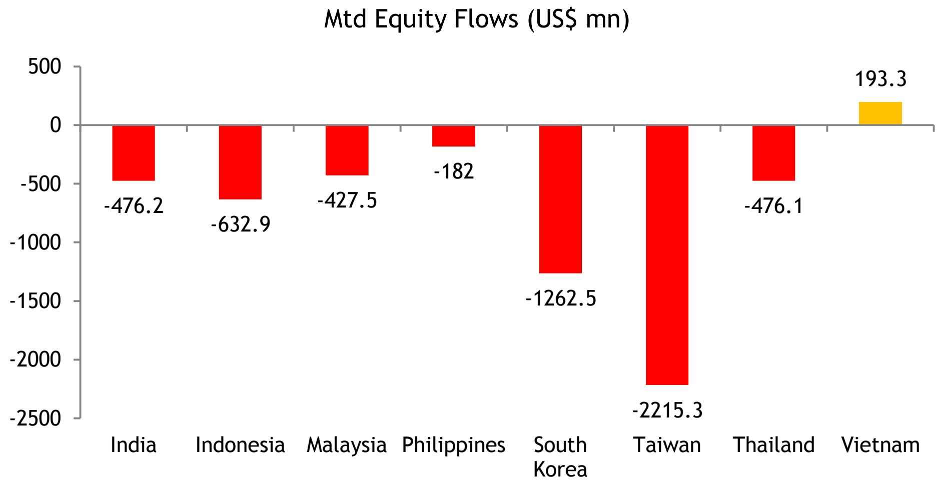
Chart 2b: VND NEER Tracks the DXY



Source: Bloomberg, Maybank FX Research & Strategy Estimates

In periods of USD strength, VND typically show a tad more resilience to market forces compared to regional peers because of its relatively closed capital account, managed exchange rate policy and this time it is of no different. Generally, the PM Nguyen Xuan Phuc had committed to stable exchange rate policy. However, we note that VND could have also gotten some support from equity-related inflows this month with foreigners buying a net $193.3mn of equity recorded since 21st May for the month, a contrast to India, Indonesia, Malaysia, Philippines, South Korea, Taiwan and Thailand which suffered net outflows within May (Chart 3). Strong foreign direct investment can also cushion the VND from excessive weakness.

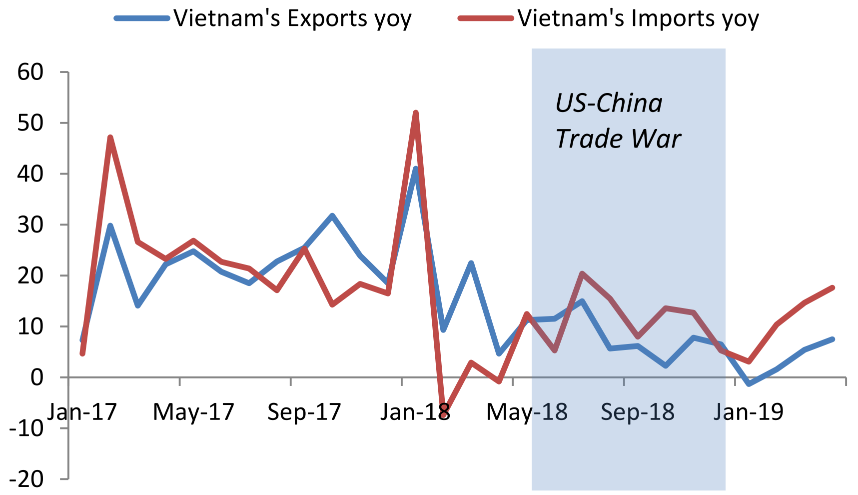
Chart 3: VND weakness mitigated by Equity-related inflow



Source: Bloomberg
Note: Data available is as of 20 May for India, 21st May for Indonesia, Malaysia, Philippines, Taiwan, Thailand and Vietnam, 22nd May for South Korea.

However, as long as the CNY remains under pressure, we expect VND to be weighed as well. In fact, even as Vietnam has been benefitting from trade and investment diversions, the slowdown in global growth as the trade standoff between China and the US drags poses risk to the external demand for Vietnam's exports.

Chart 4: Trade has shown some improvement of late but may sour if trade war drags on



Source: Bloomberg, General Statistics Office of Vietnam, Maybank FX Research & Strategy

According to Deputy Prime Minister Truong Hoa Binh, the government requests "ministries and provincial units to implement drastic measures". At the same time, the US Treasury Secretary Mnuchin is said to be in a discussion with Deputy Prime Minister Vuong Dinh Hue recently on Vietnam's currency and foreign exchange policy as Vietnam is still at risk of being brand a "currency manipulator" by the US treasury.

News of Vietnam being in the list of 20 countries that could be labelled as currency manipulators by the US Treasury surfaced on 9 May and spurred VND to strengthen before the currency came under pressure again along with CNY more recently. The verdict is not out yet and should come within the month. In the unlikely case that Vietnam is branded a currency manipulator, SBV is likely to keep the VND strong as a show that it does not artificially cheapen its currency and to appease the US. However, if the US follows up with more drastic actions, expect VND to come under pressure. At this point, Vietnam is under pressure to ensure that amidst the height of the trade war, Vietnam is not used as a "transshipment" destination for China. The General Department of Vietnam Customs have stepped up inspections on origins of imports from China to stop Chinese products bearing fake made-in-Vietnam labels (Tuoi Tre).

With President Xi rallying for a "new Long March", we acknowledge increasing risks that our base scenario of a trade deal within the quarter would not materialize and that raises upside risks to our USDVND forecast. We refresh our projections as follows.

Forecast	2Q 2019	3Q 2019	4Q 2019	1Q 2020
USDVND	23250 (23100)	23200 (23000)	23200 (23100)	23300 (23000)

Previous forecasts in parenthesis.

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