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Global

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FX Flash

Some VND Weakness on Potential Threats

US 301 Could Be Taken More Seriously Than CVD on Tires

VND seems to have shown modest weakness in recent days. This seems to be a reaction to recent actions taken by the US. The US Trade Representative (USTR) office launched a Section 301 investigation into "Vietnam's Acts, Policies, and Practices related to Currency Valuation" and a separate investigation into the import and use of illegal timber on 2nd Oct. Since the scope of the latter investigation is likely narrow, this report focuses on the investigation into "Vietnam's Acts, Policies, and Practices related to Currency Valuation".

Since then, the USDVND has crept up slightly towards 23200. The pair has been swivelling around 23180 for the past several weeks. This rise in the pair comes despite a backdrop of broadly weaker USD (against DMs and regional Asian peers), RMB outperformance as well as a widening Biden win – an unusual phenomenon. We see the recent depreciation in the VND vs. the USD as a reaction to potential threats from the USTR that can be undertaken via Section 301 and that Vietnam could be at risk of being labelled a currency manipulator officially in a long overdue FX report to lay the groundwork for USTR to build. However, the process for USTR to complete its investigation could take months. Should our base case of a Biden-win at the US elections come true, a Biden administration may not take such a combative approach and may prefer to engage in more closed-door dialogues to settle trade issues. As such, weakness in the VND could still reverse towards our year-end forecast of 23,000.

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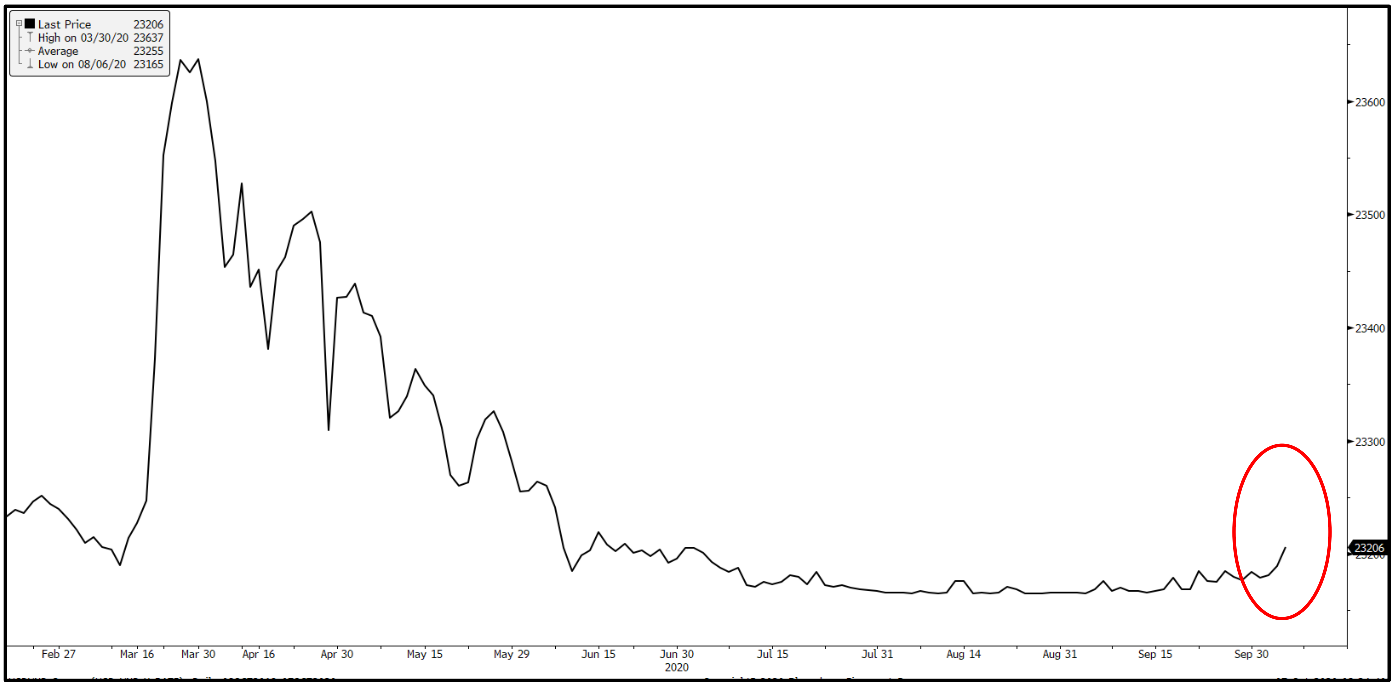
USDVND Rises on USTR Section 301 Investigation



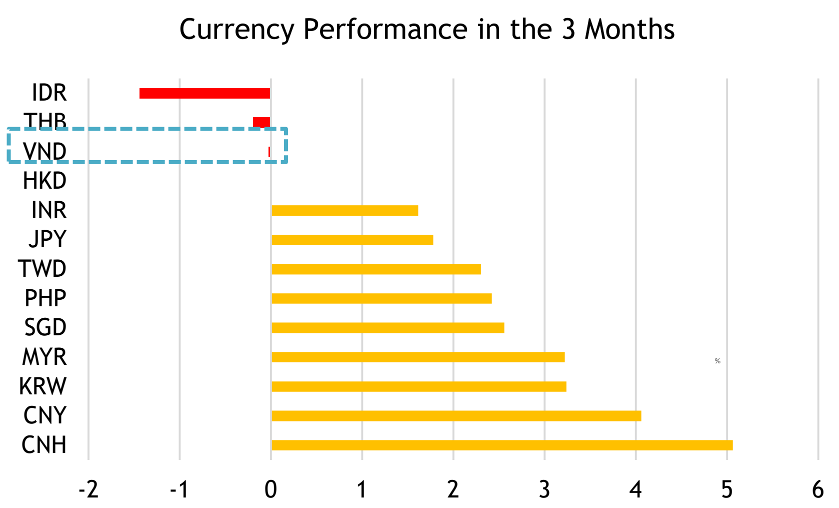
Source: Bloomberg

USTR launches Section 301 Investigations into Vietnam

The US Trade Representative office launched a Section 301 investigation into "Vietnam's Acts, Policies, and Practices related to Currency Valuation" and a separate investigation into the import and use of illegal timber on 2nd Oct. According to the statement released on its website, the USTR will consult with the Department of the Treasury as to issues of currency valuation and exchange rate policy. State Bank of Vietnam Governor Le Minh Hung defended that the country has never used monetary policy to gain an "unfair advantage". Our report focuses on currency investigation.

Since then, the USDVND has crept up slightly towards the 23200 (closed 23206 6 Oct). The pair has been swivelling around 23180 for the past several weeks. This rise in the pair comes despite a backdrop of broadly weaker USD (against DMs and regional Asian peers), RMB outperformance as well as a widening Biden win – an unusual phenomenon. Earlier, the VND has been able to remain rather flat vs. USD (between 3 Jul – 6 Oct) whilst CNH had gained 5.1% over the same period. The VND only weakened a tad more apparently against the USD upon the news that USTR had started an investigation under section 301 as shown in the chart on the first page.

VND Has Held Steady VS. the USD Since Start of Jul



Source: Bloomberg, Maybank FX Research & Strategy
Note: This chart depicts %changes of respective currencies vs. the USD between 3 Jul - 6 Oct 20

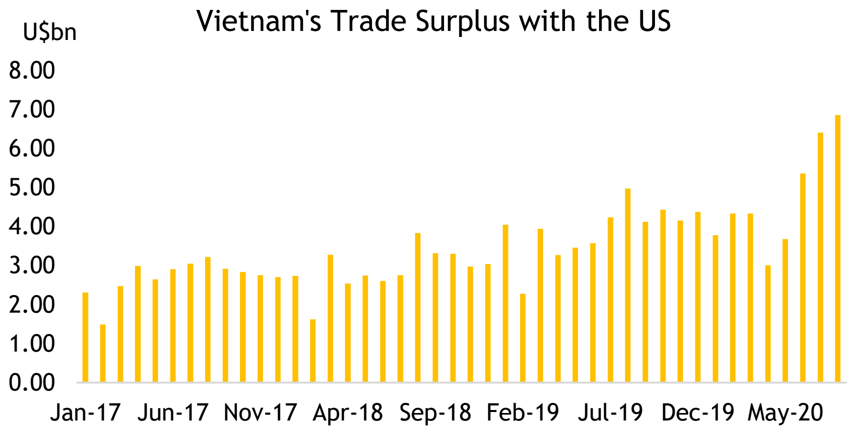
US Commerce Department's Countervailing Duties Verdict on Vietnamese Tires Postponed

Earlier this year (26th Aug), the US Treasury had determined that the VND was undervalued in 2019 by around 4.7% (based on IMF estimates) partly because of government intervention, a purchase of $22bn in foreign exchange reserves. The assessment was then sent to the US Commerce Department for a verdict on countervailing duties on Vietnamese Tires (this was initiated in 22nd Jun 2020). Currency manipulation in this case is deemed to be a government subsidy that hurt certain US businesses. As our Vietnam Economist had noted, new pneumatic tires, of rubber makes up just 0.9% of exports to the US in 2019. Hence, countervailing duties (CVD) imposed would be product-specific and the label of a currency manipulator is more likely to be used as a leverage for trade concessions.

The original deadline was supposed to be on the 26 Aug 2020 but the preliminary determination in the CVD investigation has been postponed to "no later than 130 days after the date on which the investigation was initiated which works out to be 30 Oct 2020. The final determination would have to be not later than 75 days after the prelim. determination.

We suspect that the Department of Commerce might hesitate to make a decision as imposing countervailing duties on specific products based on "acts that has caused an undervaluation" of the country's currency is rather new (only proposed in 2019, took effect in Apr 2020) and could be subject to fresh criticism by WTO. In addition, the scope of countervailing duties would be narrow and less impactful on the broader trade imbalance (chart above) that has become an eyesore for the administration.

Rising VN-US Trade Imbalance an Eyesore for the Trump administration



Source: Vietnam Customs, Maybank FX Research & Strategy

On the other hand, the use of Section 301 by the Office of the US Trade Representative has been well-tested with other countries, most notably China that started the trade war (with criticism from the WTO). This is the first time that this administration has invoked its authority under Section 301 of the Trade Act of 1974 against Vietnam. Recall, the authority had imposed tariffs on around $370bn (annual worth) of imports from China under the same act. Hence, there is room for the Trump administration to use Section 301 to enact tariffs that are wider in scope or use them as a more credible threat to get trade concessions, much like the high-profile US-China trade war. Note that WTO did rule that the tariffs the US imposed on Chinese goods were "inconsistent" with international trade rules. The Trump administration has also blocked the appointments of judges to the appellate body.

Potential for an Official Currency Manipulation Label on the FX Report

The Treasury is now thrown in the position (again) to determine whether Vietnam has acted in a way that caused an undervaluation of the VND. Earlier in Aug, it has established that Vietnam is a based on its foreign exchange purchases in 2019 not too long ago in Aug. The verdict could be refreshed, taking into account the 4 quarters to Jun 2020 as it usually does for Oct reports. Up till 2018, the Treasury typically publishes the FX Report to Congress twice a year (Apr and Oct). Reports have been irregular since 2019. The last report was released in Jan 2020 (also a long-delay publication that was due Oct 2019) and a report in Oct (this month) could put the report back into its regular publishing cycle.

US Treasury Criteria and Our estimates

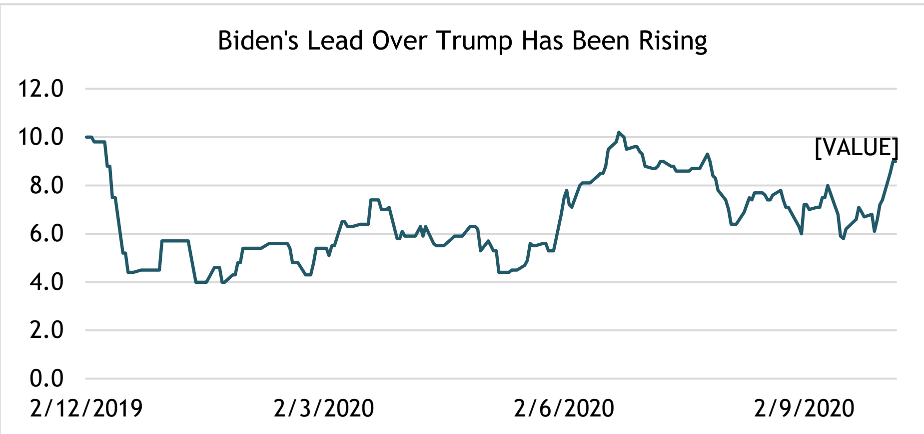
Criteria	Benchmark	Threshold	Vietnam (trailing 4Q through Jun 2020)
Major Trading Partner Coverage	Total Bilateral Goods Trade (Imports plus Exports	$40bn	$87.4bn (Vietnam is a major trading partner)
1) Significant Bilateral Trade Surplus with the US	Goods Surplus with the US	$20 bn	~$50.8bn
2) Material Current Account Surplus	Current Account Balance	2% of GDP	~5.6% of GDP
3) Persistent, One-sided Intervention in Foreign Exchange Markets	Net FX Purchases	2% of GDP	~7.4% of GDP ($19.7bn)
	Persistence of Net FX Purchases (months)	6 out of 12 months	Yes

Source: US Treasury
Note: Vietnam does not produce FX intervention data, something that the US Treasury has urged for more transparency. Hence, FX purchases in the report are calculated using US Treasury's internal estimates but sum of changes in monthly foreign exchange reserves (without valuation adjustments) has been rather close to their estimates.

Based on our prelim. estimates for the 4Q through Jun 2020, there is a good chance for Vietnam to retain the currency manipulator label.

Just as USDCNY had risen in the most intense periods of the US-China trade war, the USDVND could be exhibiting early signs of the same behavior, rising from its multi-week narrow swivels around the 23180. However, we do not expect the USDVND pair to rise too much as the procedure of investigation, feedback gathering from the public and the generation of a report could take months, well beyond the possible expiration of the present administration on the 3rd Nov. Since the 1st round of Presidential debate and Trump's contraction of COVID-19, Biden's lead over Trump has been widening, last check at 9.0pts based on Real Clear Politics Average Polls.

Odds of Biden Taking over as President is Rising



Source: Real Clear Politics Average Polls, Bloomberg, Maybank FX Research & Strategy. Note: Polls as of 6 Oct.

Biden has acknowledged that in order to counter China, he would try to get support from allied nations - a less confrontational approach that could potentially be also benign for Vietnam.

“China can’t afford to ignore half the global economy if we’re united. That gives us substantial leverage to shape the future rules of the road on everything from the environment to labor to trade to technology to transparency,”.

Our base case expects a Biden win and this current move up could be a cautious reaction to the potential actions of the USTR. A Biden administration is likely to take a less combative approach with closed door dialogues to settle trade issues. Should Biden administration takes over, USDVND could be repriced lower. We retain our USDVND forecast at 23000 for 2020 end.

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