THE US FED'S RATE CUT: A DOUBLE-EDGED SWORD FOR VIETNAM

The US Federal Reserve announced on Wednesday that it would cut rates by 50 basis points in response to falling inflation and clear signs that the US economy is slowing. The Fed's large rate cut is a double-edge sword for Vietnam because the resulting decline in the value of the US Dollar reduces depreciation pressure on the VN Dong, but a slower US economy will weigh on Vietnam's GDP growth.

First, the good news. Earlier in 2024, the VND had depreciated by nearly 5% YTD, prompting the State Bank of Vietnam (SBV) to aggressively tighten monetary policy by draining liquidity out of the country's money market. Some even expected the SBV to go further and actually hike Vietnam's policy interest rates by 50 bps later this year. All of those developments did help support the value of the VN Dong, but depreciation pressure on exchange rates across Asean only really started alleviating from late-June when Fed rate cut expectations started increasing.

The market now expects the Fed to cut rates by more than 100 bps this year and by another 100-bps next year, which in-turn drove a near 4% appreciation in the value of the VND since late-June as well as a 7-10% appreciations in the Malaysian Ringgit, Thai Baht and Indonesian Rupiah. The surge in the value of the Indonesian Rupiah enabled that country's central bank cut rates by 25 bps this week to 6%. We do not expect the SBV to follow suit, but we now see no possibility that the SBV will hike rates as the depreciation of the VND now stands at less than 1.5% YTD which is much more in-line with the SBV's "comfort zone."

On a more concerning note, however, is what the large rate cut says about the state of the US economy. As we have stated previously, exports in general and to the US specifically (which were up nearly 30% in 8M24) have been the most important driver of Vietnam's GDP growth this year, so a slower US economy will likely reduce US consumer demand for "Made in Vietnam" products such as laptops, mobile phones, and other goods.

Consequently, Vietnam's GDP growth will have to be driven by internal factors in 2025, in order to offset the impact of the slowing US economy. Fortunately, the Government has a number of tools it can use to propel the economy, such as increased infrastructure spending and facilitating the further thawing of the real estate sector. It looks likely that real estate transaction volumes in Vietnam will increase by as much as 35% yoy in 9M24 according to our industry contacts. Focusing on those two sectors would directly boost the economy, and a more robust real estate market would almost certainly improve consumer sentiment and consumption in Vietnam, which has been somewhat subdued in 2024.

Finally, while we are not surprised by the Fed's rate cut, we are concerned about what the size of it indicates about the US economy. We have often stated our belief recently that the boost Vietnam's GDP is currently enjoying from export growth would likely taper down in the year ahead, and the Fed's move essentially confirms that. Ramping up infrastructure spending and accelerating the

revival of the real estate sector are two powerful tools the Government has at its disposal to avoid the ramifications of lower export growth./.

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