

## Thematic report: U.S. Treasury Department Designates Vietnam a Currency Manipulator

### 1. The US added Vietnam on a list for Currency manipulation, the criteria are given as follow

At the end of August, the US Treasury Department has determined that Vietnam depressed its currency by 4,7% in 2019. This announcement goes along with the Trump administration says it will allow companies to pursue tariffs against foreign competitors if they can show those rivals have benefited from currency manipulation in their countries as a form of government subsidy.

In the latest developments, according to the December 2020 Report, the Omnibus International Trade and Competition Act 1988, Vietnam, along with Switzerland, violated 3 criteria and consequently are designated as a currency manipulator.

US added Vietnam on a list for Currency manipulation, the criteria are given as follow	Accumulated in 12M (06/2020)
A trade surplus with the US of a least \$20 bn	USD 58 bn
A current-account surplus of a minimum of 2% GDP	USD 15 bn (~ 4.6% GDP)
One-sided intervention in Foreign Exchange markets: Net FX Purchases >2% GDP; Persistence of Net FX Purchases 6/12 months	Net bought USD 16.8 bn (~ 5.1% GDP)

Source: VCBS compiled

### 2. The U.S. has designated the following countries as currency manipulators

- South Korea: 1988
- Taiwan: 1988 and 1992
- China: 1992-1994 and 2019
- India: 2017

#### Case study related to India

- India was added to the list in 2017 for ‘questionable foreign exchange policies’. It had stated that India had increased its purchases of foreign exchange over the last three quarters of 2017, although the rupee still rose in value. India's net purchases of foreign exchange in 2017 as a whole totalled \$56 billion (2.2% of GDP).
- In May 2019, the United States Department of the Treasury removed India from its currency monitoring list and once again added India to the list.
- Note that report was released semi-annual basis.

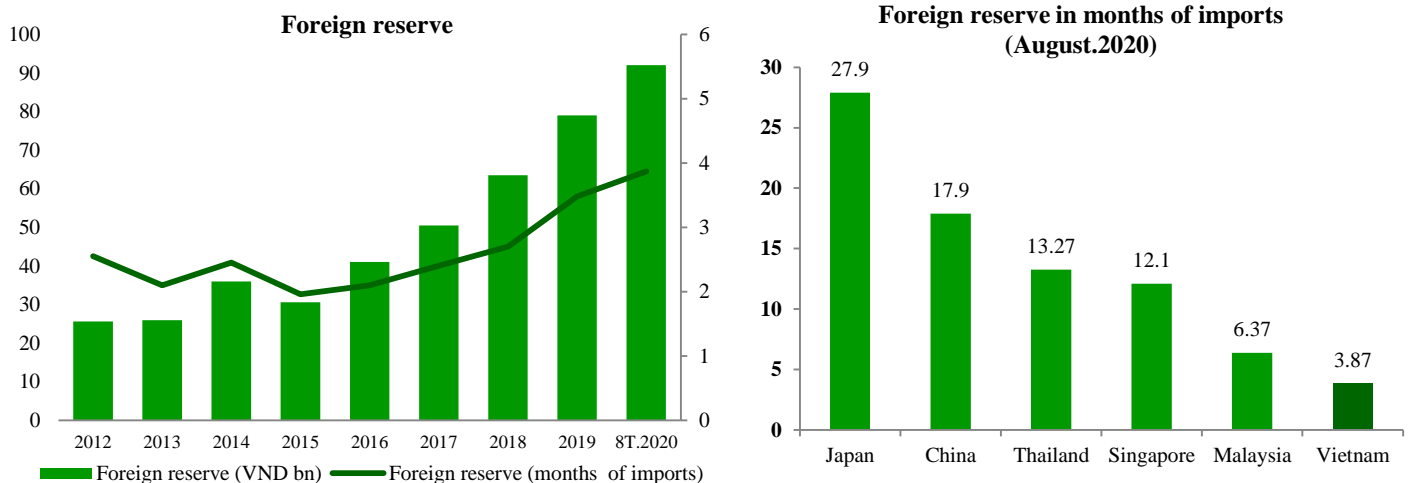
### 3. Macroeconomic measures

#### 3.1. Vietnam is making efforts to negotiate trade and give appropriate explanations

Vietnam hit a record high in trade surplus and attracted massive FDI inflows despite the pandemic. These activities have supported to minimize the impact of reducing remittances and foreign currency income from foreign tourists, which is the basis for the SBV to reserve foreign exchange.

After having official information about the US putting Vietnam on the list of currency manipulation, the State Bank immediately announced the press release of **net buying foreign currency** to ensure smooth operation of the market in the context of an abundant supply of foreign currencies, contributing to macroeconomic stability, and strengthen the foreign exchange reserve at a low level compared to other countries in the region.

In detail, Vietnam's foreign exchange reserves are estimated at 3.87 months of imports - much lower than other countries in the region. Therefore, building foreign reserves is absolutely essential in the context of prioritizing macroeconomic stabilization.



Source: CEIC, VCBS collected

#### 3.2. Measures to be taken in the future:

- SBV shall cooperate in providing information, making explanations about not utilize interventions to create a competitive advantage in export. Instead, the SBV aims to build up foreign reserve in the context low in terms of relative value as number of months of imports turnover.
- Implement groups of anti-origin fraud solutions to limit products from third masquerading as Vietnam-made goods so as to avoid US safeguard measures. In particular, measures have been taken: completing the legal framework, increasing sanctions for acts related to goods origin fraud, forging goods labels to increase deterrence; urgently complete legal provisions related to the origin of goods, especially goods circulated domestically...

→ It can be seen that the Government, the SBV and related legislative bodies have been taking measures minimizing the subsequent sanctions. In the baseline scenario, VCBS expects that the US will not implement large-scale tariff sanctions against Vietnam. In negative case, VCBS notes that the items are at high risk of investigation (according to update from Ministry of Industry and Trade to Quarter 2.2020):

- **Hardwood plywood**
- **Mattress**

- **Wooden cabinets and vanities**
- **Quartz surface products**
- **Ceramic tile**
- **Tyres for buses or lorries**
- **Electric bicycles**
- **Seamless refined copper pipe and tube**
- **Forge steel fittings**
- **Steel wheels**
- **Fabricated structural steel**
- **Steel propane cylinders**
- **Carton-closing staples**

Noted that these products may belong to specific industry groups and may not be typical products that account for the largest proportion of Vietnam's exports to the US.

At the same time, from a political perspective, it is a coincidence that this information appeared immediately after the news that Apple plans to move the iPad and Macbook production lines to Vietnam. It means that the tendency to shift production lines from China to many other countries in the region, including Vietnam, will continue. Accordingly, it is getting harder to reduce the trade surplus between the US and Vietnam in the upcoming years. Thus, this will create significant advantages for the US not only on the trade negotiation procedure but also create a certain advantage in attracting influence over the US side.

### ***3.3. Intervention from SBV's viewpoint:***

In the future, this news will significantly affect the level of flexibility in the combination of the SBV's management tools related to foreign exchange reserves and exchange rate management. Specifically, the SBV shall limit buying massively and continuously a large amount of USD in the market and at the same time it is necessary to consider lowering the buying price of USD at some point. Accordingly, VCBS forecasts that there will be times in 2021 when VND appreciate against the USD. The amplitude of fluctuation of the exchange rate is forecasted to be within  $\pm 0.5\%$ . In our opinion, the fact that the VND is under strong pressure will not affect too much on exports as (1) exports are mainly contributed by FDI and (2) currencies of many other countries in the world. Also under pressure to increase prices against the USD. Moreover, the strong VND is also seen as positive news from the foreign investor's perspective.

Along with that, from an interest rate perspective, the State Bank may give priority to using interest rate management tools to ensure the fulfillment of the target of macroeconomic stability. In other words, this will reinforce the expectation that the interest rate will fall further in the near future, partly reducing the strong pressure on the VND..

## **4. Stock market**

The stock market on December 17 reacted negatively to the information that the US Finance Department determined that Vietnam is the currency manipulator. End of the session on December 17, the Index declined to 1,060 mark, decreased by 15 points (-1.43%).

In our opinion, investors' sentiment are negative with short-term reactions. The fact that Vietnam was put on the list was not immediately accompanied by sanctions from the Washington administration. Currently, experts are making different predictions about possible sanctions from the United States as well as foreign policies from Vietnam. We believe that the VN-Index may continue to be under pressure in the next few sessions, however, the market will soon reevaluate the impact of the event on Vietnam's economy.

In the medium term, we believe that the above information will be less likely to have a negative impact on market movements and trends, with only a small portion of listed firms exporting to the market. In general, the uptrend is expected to recover after a few dropping sessions, but the gaining motivation will be more cautious in the next rally.

#### 5. The schedule



## DISCLAIMER

This report is designed to provide updated information on the fixed-income, including bonds, interest rates, some other related. The VCBS analysts exert their best efforts to obtain the most accurate and timely information available from various sources, including information pertaining to market prices, yields and rates. All information stated in the report has been collected and assessed as carefully as possible.

It must be stressed that all opinions, judgments, estimations and projections in this report represent independent views of the analyst at the date of publication. Therefore, this report should be best considered a reference and indicative only. It is not an offer or advice to buy or sell or any actions related to any assets. VCBS and/or Departments of VCBS as well as any affiliate of VCBS or affiliate that VCBS belongs to or is related to (hereafter, VCBS), provide no warranty or undertaking of any kind in respect to the information and materials found on, or linked to the report and no obligation to update the information after the report was released. VCBS does not bear any responsibility for the accuracy of the material posted or the information contained therein, or for any consequences arising from its use, and does not invite or accept reliance being placed on any materials or information so provided.

This report may not be copied, reproduced, published or redistributed for any purpose without the written permission of an authorized representative of VCBS. Please cite sources when quoting. Copyright 2012 Vietcombank Securities Company. All rights reserved.

## CONTACT INFORMATION

**Tran Minh Hoang**  
Head of Research  
tmhoang@vcbs.com.vn

**Le Thu Ha**  
Senior Economic Analyst  
ltha\_ho@vcbs.com.vn

**Dang Khanh Linh**  
Economic Analyst  
dklinh@vcbs.com.vn