

## VND/USD trading band widened

23/03/2009: the SBV Governor has signed decision number 622/QĐ-NHNN widening the trading band of VND/USD from +/-3% to +/-5%, taking effect from 24/03/2009

**A anticipated move** As stated by SBV, the central bank is managing exchange rate flexibly so as to stabilize the market and stimulating export, the raise of trading band this time will effectively enable VND to depreciate by about the same level against the USD.

In our recent reports we have compared the exports structure of Vietnam and some neighboring countries and found a close similarity in some export items, with the currencies of those countries having declined considerably more than Vietnam Dong, we have anticipated an adjustment in exchange rate is soon to occur.

**Raising the competitiveness of Vietnam's exports** On the back of decreasing exports in January, February and expectedly March, it has become more urgent for the VND to become cheaper and thus improving the competitiveness of Vietnam's exports.

Following this decision, the VND/USD interbank rate might surge from the current level of 17,485 to about 17,800.

**Reaction expected to be mild** We have made a quick telephone research to FX trading agents late Monday 23 of March, a number of them are still offering at 17,700 which is the same as yesterday, meanwhile some others who may have been informed claimed a temporary shortage of USD for offering while ready to bid at 17,690.

Unlike previous times when such changes took place, we forecast the market is going to stay fairly calm following this decision, expectedly there will be a higher rise in the free market than in the interbank market, however the level is not anywhere near shocking since US Dollars are getting excessive in the banking system and among speculators trying to catch arbitrage gains in the short term. The USD deposit base has risen by 2.3% in January and 1.13% in Feb.

**More to come?** We think a similar adjustment is not expected at least until further evidence showing exports are seriously dwindling. In terms of specific time, it is not until the end of the next quarter.