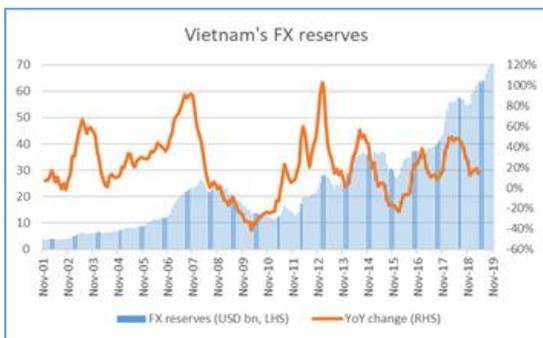
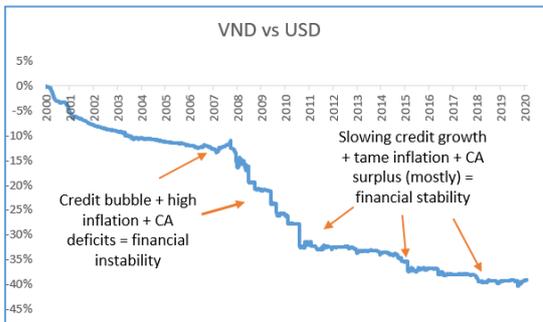


Source: US Census Office (Data is for 7M19 and we are currently unable to access the site to update it for the most recent figures).



Source: FinPro, Yuanta Vietnam



Source: Bloomberg, Yuanta Vietnam

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US action on currency a moderate negative, but not a game changer

The US Treasury has determined that the Vietnam dong was deliberately undervalued by about 4.7% against the US dollar in 2019 (Source: Reuters). US authorities appear to have determined that the SBV's purchase of US\$22bn of FX reserves last year constitutes a specific action to decrease the currency rate.

Our Take

Offsetting tariffs are likely. The statement was made as part of a Commerce Department investigation into tire imports from Vietnam, and will very likely result in offsetting tariffs on tires of c.5%. However, the impact is likely to be broader than the specific products under investigation, as competing manufacturers of other made-in-Vietnam products are likely to request similar tariffs.

Incrementally negative for the FDI story. Although tariffs are paid by the importer (and ultimately by consumers), the incremental costs associated with FX-related tariffs are an incremental negative for Vietnam's very high attractiveness for foreign direct investment (FDI) as manufacturers diversify a portion of capacity away from China.

But not a game-changer. Disbursed FDI of US\$10.1bn in 7M20 was down -4.1% YoY, but we think the decline was related to COVID-19 and we expect a recovery in the post-pandemic world. Manufacturing made up 71% of the total, and global manufacturers are not likely to be swayed by incremental tariffs of c.5% to one end-market given the myriad other factors involved in their decisions. For Vietnam, the key structural hurdles for high value-add manufacturing FDI remain issues such as logistics and scalability.

Stock market implications are marginally negative. Overall, we think this is a marginal negative for the manufacturing FDI story and thus for the industrial property thematic.

The silver lining: Vietnam dong stability. Foreign investors with long-term experience in Vietnam frequently exhibit a low level of confidence in the VND. But the currency has been relatively stable for the past five years, and we believe the macroeconomic drivers (e.g., persistent balance of payment surplus and high levels of FX reserves) suggest fundamental currency strength rather than weakness. We have argued that the main downside risk for the VND is potential competitive devaluation vs. regional currencies (especially the RMB). However, the news from Washington suggests that the probability of this occurring is low, and thus the VND should remain strong.

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