

Mizuho Chart Speak: SBV-VND

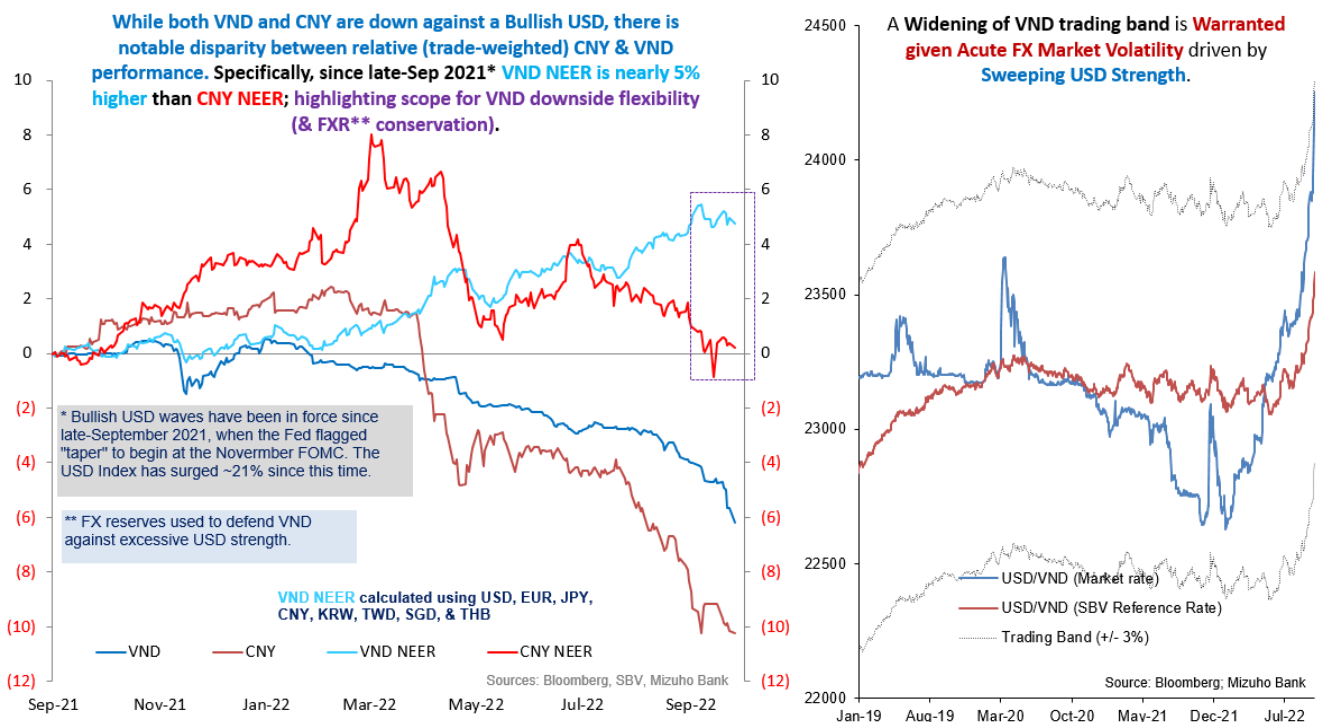
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Wider Bands About USD Exceptionalism, Not VND Mercantilism



Wider VND Trading Bands to Accommodate Sweeping USD Strength

The State Bank of Vietnam widened VND (USD/VND) trading bands (with respect to daily SBV USD/VND "fixing") from +/-3% to +/-5%. This should *not be mistaken for peculiar and precarious VND weakness, but recognized as an accommodation of sweeping USD strength*. Crucially, **in the context of not squandering FX reserves to protect arbitrary VND levels against brutal, broad-based USD surge**.

Especially Given Corresponding VND NEER Strength

In fact, this is **not merely to a reaction that concedes to a strong USD, but critically, to allow for some calibration in the context of significant trade-weighted VND strength; as reflected in a buoyant VND NEER** (See Charts). Specifically, despite VND depreciation, **VND NEER is up some 4.8%**, since USD embarked on a strong and sustained upswing on Fed normalization cues (late-September 2021). **In contrast, the CNY NEER, is largely unchanged** for the corresponding period; having given up earlier gains.

Calibration to Optimize FX Policy & Conserve FX Reserves

And so, **wider FX policy bands will allow for a more efficient, and market-driven calibration of VND NEER**, which is important for two key reasons. First, allowing this VND (and VND NEER) calibration will **avoid excessive "cash burn" (FX reserve depletion) to defend arbitrarily VND levels consistent with unsustainably rich VND NEER**. Second, it also **absolves the SBV of the burden of fixing much weaker VND**; in reaction to USD volatility. This not only *recognizes exceptional USD volatility*, but also avoids the optics of mercantilist FX manoeuvres. Simply put, this may be the **optimal policy reaction to USD exceptionalism**, that keeps clear of even the appearance of mercantilism.

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