

# THERMATIC REPORT THE POWER OF THE US DOLLAR



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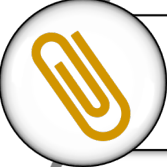
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# TABLE OF CONTENTS



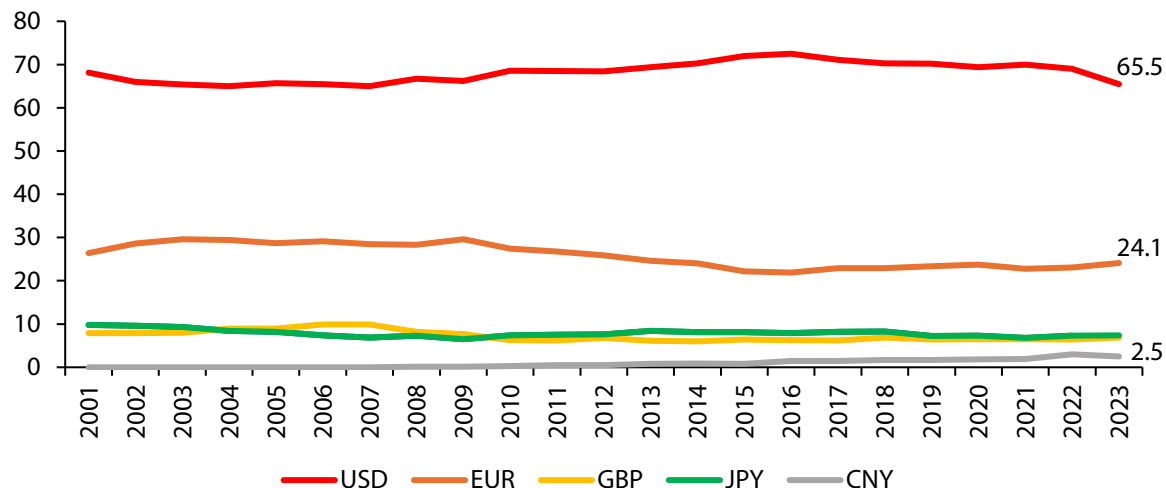
|                                                                                       |                                                                      |
|---------------------------------------------------------------------------------------|----------------------------------------------------------------------|
|    | <u><b>THE DOMINANT POSITION OF THE US DOLLAR</b></u>                 |
|    | <u><b>THE DOLLAR'S EXCLUSIVE DOMINANCE AND THE PRICE TO PAY</b></u>  |
|    | <u><b>THE IMPACT OF A STRONG US DOLLAR ON THE GLOBAL ECONOMY</b></u> |
|   | <u><b>OUTLOOK FOR THE US DOLLAR</b></u>                              |
|  | <u><b>THE IMPACT OF A STRONG US DOLLAR ON VIETNAM</b></u>            |

In this macro report, we provide a comprehensive assessment of the current position of the US dollar, its ongoing cycle, and the impacts of a strong dollar on several global economies, including Vietnam. In addition, we aim to offer insights into the correlation between exchange rates and the Vietnamese stock market, serving as a reference point for investors' strategy. The report is structured into five concise sections as follows:

- **The dollar's dominance** was supported by historical factors, with the US emerging as the sole superpower after the Cold War. This was underpinned by the strength of its economy and military, advantages that the US has continued to reinforce over subsequent decades.
- The US reaps **significant benefits from a strong dollar**, including relatively cheaper imports, abundant low-cost capital inflows, and easier deficit financing, all of which help drive economic growth. However, these advantages also **create structural imbalances within the US economy itself**.
- **The tariff policies proposed under Trump 2.0 are likely part of a deliberate strategy to reshape the global trade and financial system**, a system originally established by the US and enabled by the privileges conferred by the dollar's status over the past century.
- **Both strong and weak dollar cycles present opportunities and risks.** The key for other nations is to clearly understand these mechanisms in order to craft appropriate policies that safeguard their economies from the volatility of this global reserve currency.
- **In the short term, factors influencing the USD outlook remain relatively balanced.** Our base case expects the dollar to remain stable or decline to its historical average, while retaining its special status. **Over the longer term, we believe USD strength may gradually decline.**
- **VND typically faces depreciation pressure during USD appreciation cycles and tends to stabilize or strengthen modestly when the USD weakens.** We believe any devaluation pressure on the VND in the next USD downcycle (if it occurs) will be moderate unless there are significant domestic or external shocks.
- **Exchange rates have a more fundamental impact on macroeconomic indicators, while their influence on the stock market is often driven by sentiment.**

- **The dominance of the US dollar** was supported by historical factors when the US became the sole superpower after the Cold War, backed by its economic and military strength, which the country continued to reinforce and maintain for many decades thereafter.
- **The US dollar fulfills all the functions of a global currency**, including "a measure of value," "a medium of exchange," and "a store of value." This is achieved through the openness to trade and capital flows, along with the depth and liquidity of the US financial markets, coupled with global confidence in the country's economic and institutional strength.
- **In terms of "measure of value" and "medium of exchange," the US dollar dominates all aspects simultaneously**, including trade/export invoices, international payment systems, global financial and banking transactions, and foreign exchange trading: 1) 54% of global trade invoices are denominated in USD, 2) The USD accounts for more than half of the total international foreign exchange flow processed through the SWIFT payment system, 3) Around 60% of cross-border deposits and loans are denominated in USD, and 4) The USD represents over 88% of global foreign exchange transactions.
- **In terms of "store of value," the USD is the world's primary reserve currency and the preferred choice for issuing international debt**: 1) The USD accounted for 57.8% of global foreign exchange reserves in 2024, down from 71% in 2000, and 2) 70% of global foreign-currency-denominated debt is issued in USD.
- **The trend of de-dollarization has gradually become more evident over the past two decades. However, to date, investors continue to favor USD-denominated assets**: 1) Foreign investors held 31% of the total US Treasury bond market in 2022, down from a peak of 56.5% in 2008, and 2) Approximately one-third of foreign investors' stock and bond portfolios are focused on USD-denominated assets.
- **During global shocks (financial crises, pandemics, etc.), global investors flock to the USD as a safe haven**. At the same time, as the issuer of the global currency, **the US leads international liquidity rescue efforts through the Federal Reserve, acting as the "lender of last resort."**

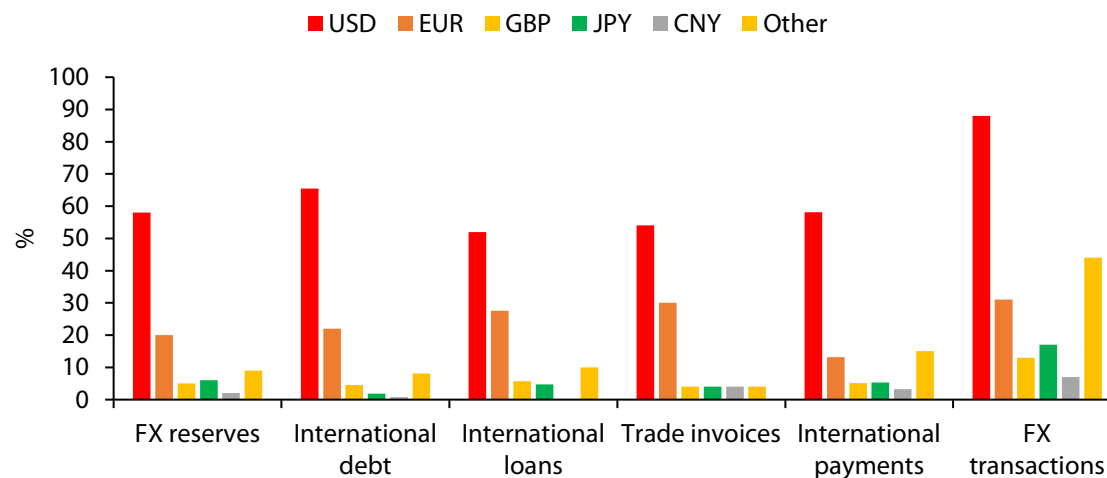
**Figure 1: Currency utilization index**



Source: FED, IMF COFER, RongViet Securities

Index is a weighted average of various foreign currencies in global foreign exchange reserves (25%), foreign exchange trading volumes (25%), foreign currency debt issuance (25%), foreign currency deposits through international banking activities (12.5%), and foreign currency loans through international banking activities (12.5%).

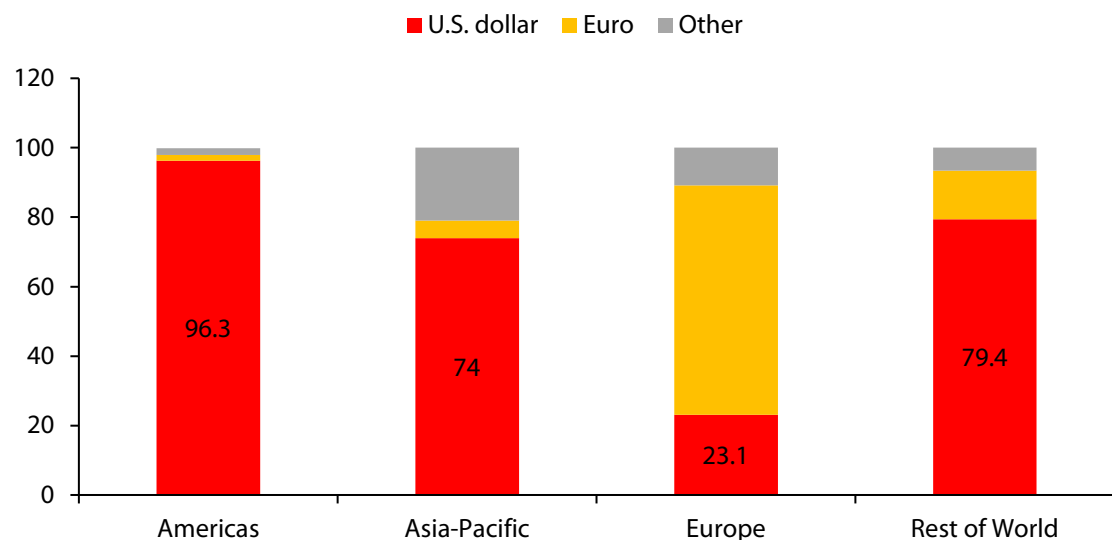
**Figure 2: The position of the US dollar relative to other currencies**



Source: Brookings, RongViet Securities

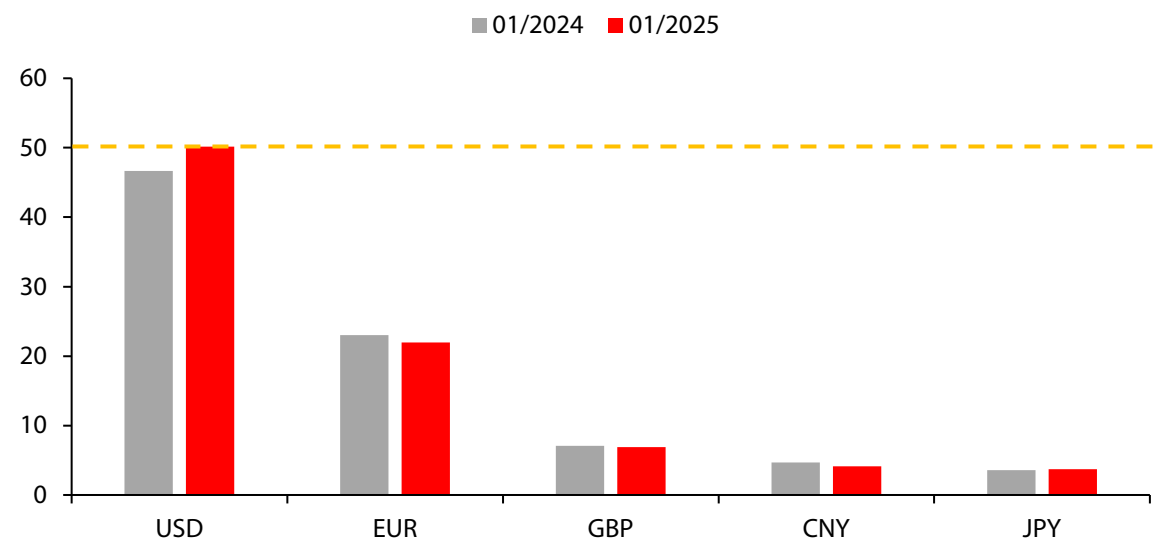
- **Over the past two decades, the dominant role of the USD in the global financial system has remained stable**, despite macroeconomic fluctuations and the trend of de-dollarization.
- The USD utilization index remained steady at around 65.5 in 2023, far surpassing other currencies. While the utilization index of the Chinese Yuan (CNY) has grown rapidly over the past two decades, it only reached around 2.5 in 2023, still lower than the Euro (24.1), Japanese Yen (7.4), and British Pound (6.9).
- The USD dominates all aspects simultaneously, including trade/export invoices, international payment systems, global financial and banking transactions, and foreign exchange trading.

**Figure 3: Share of USD utilization in export invoices**



Source: IMF COFER, RongViet Securities  
Data reflects the average annual currency composition in export invoicing from 1999 to 2019.

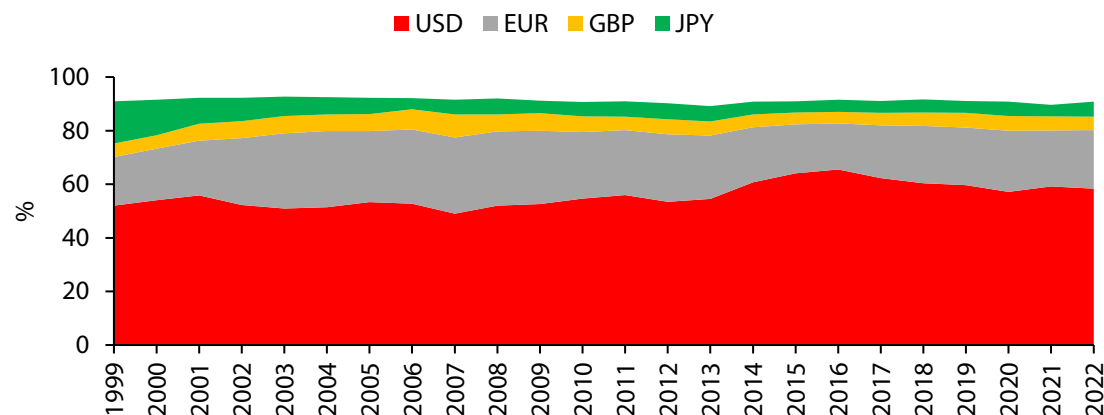
**Figure 4: USD usage in payments via SWIFT system**



Source: Bloomberg, RongViet Securities  
SWIFT: Society for Worldwide Interbank Financial Telecommunication

- **Around 54% of global trade invoices are denominated in USD**, despite the US accounting for only about 13% of total global trade.
- Commodities ranging from oil and metals to agricultural products are almost universally priced in USD.
- **The US dollar accounts for more than half of the total international foreign exchange flow processed through the SWIFT international payment system.** The share of global payments involving the USD rose to 50.2% in January 2025, up from 49.1% the previous month. This is also the highest level since the SWIFT revised its transaction data collection methodology in mid-2023.

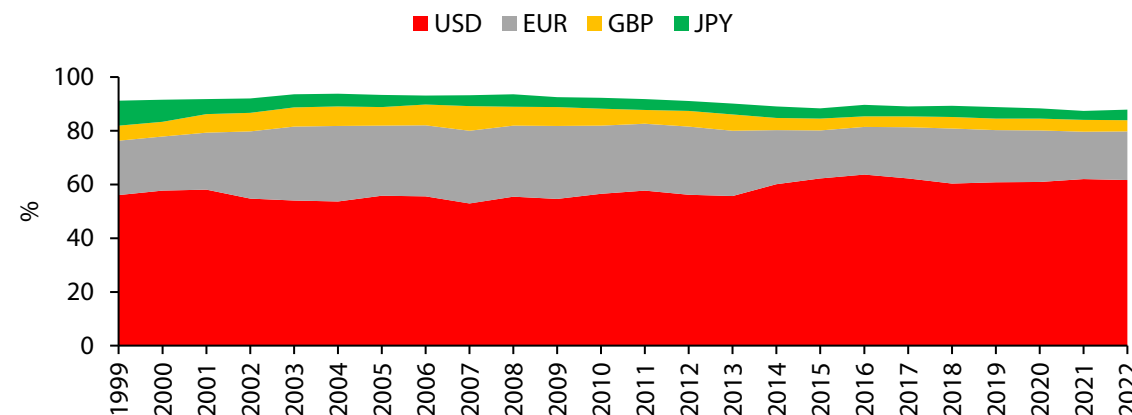
**Figure 5: Share of FX deposits in international banking**



Source: BIS, FED, RongViet Securities

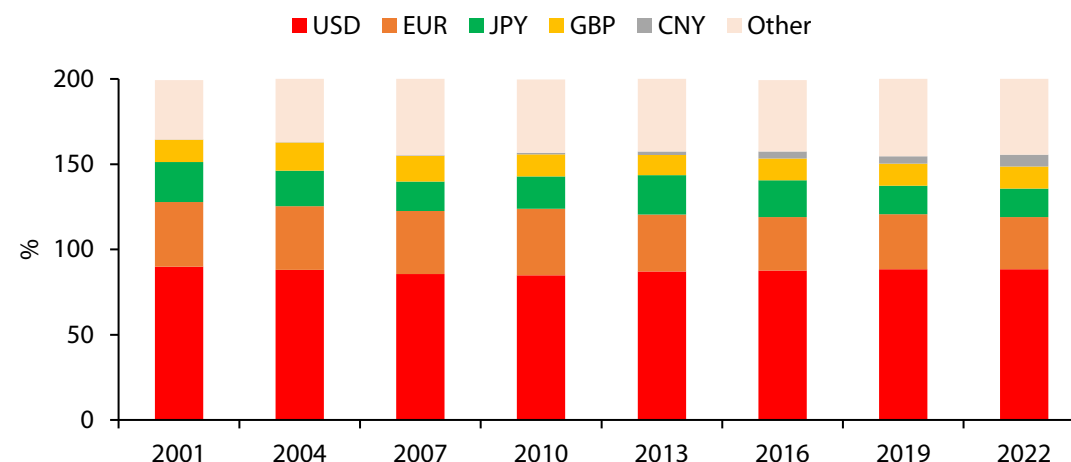
- The role of the US dollar as a medium of exchange continues to be demonstrated by **its dominant position in international banking activities**. Approximately 60% of cross-border bank deposits and loans are denominated in USD. This ratio has remained relatively stable since 2000 and is significantly higher than the Euro, which accounts for around 20%.
- One of the key demands for the US dollar comes from foreign exchange transactions.** In 2022, the USD accounted for more than 88% of global foreign exchange transactions, a share that has remained stable for over 20 years. In comparison, the Euro accounted for 30% of total transaction value, down from 38% in 2001.

**Figure 6: Share of FX loans in international banking**



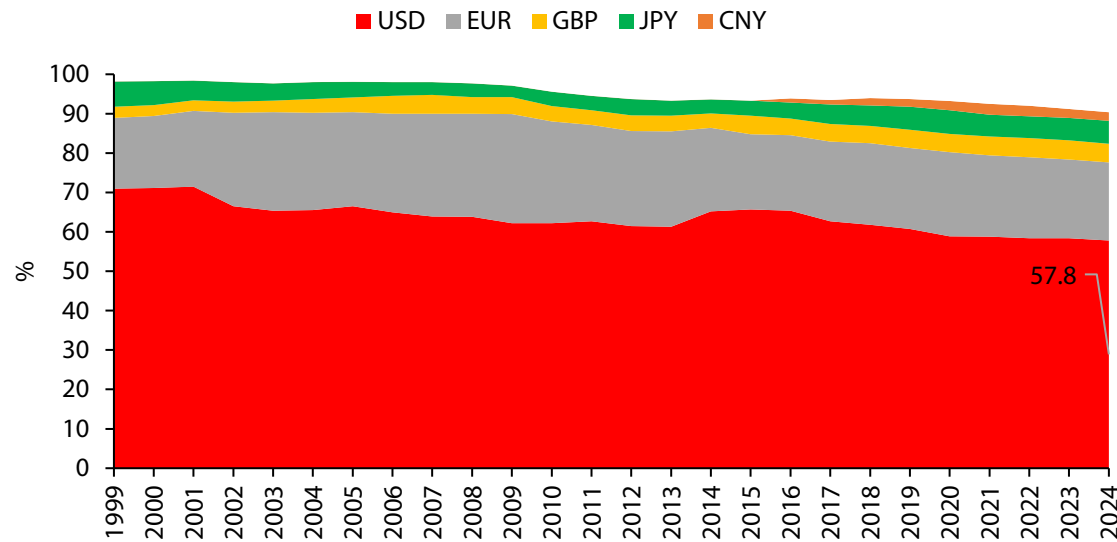
Source: BIS, FED, RongViet Securities

**Figure 7: Share of USD utilization in OTC FX transactions**



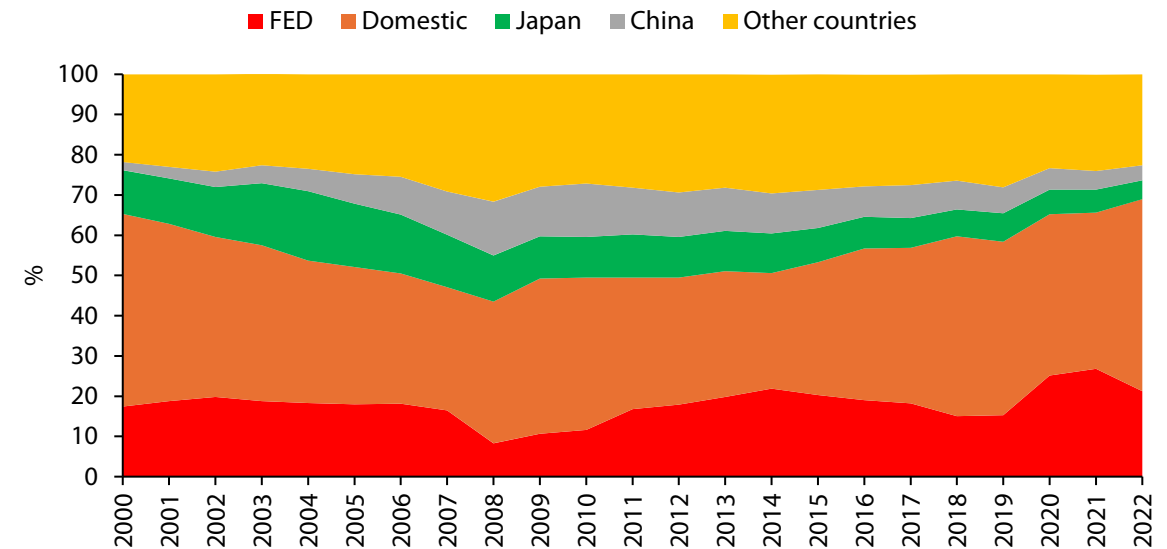
Source: BIS, RongViet Securities

**Figure 8: Global FX reserves by currency type**



Source: IMF COFER, RongViet Securities

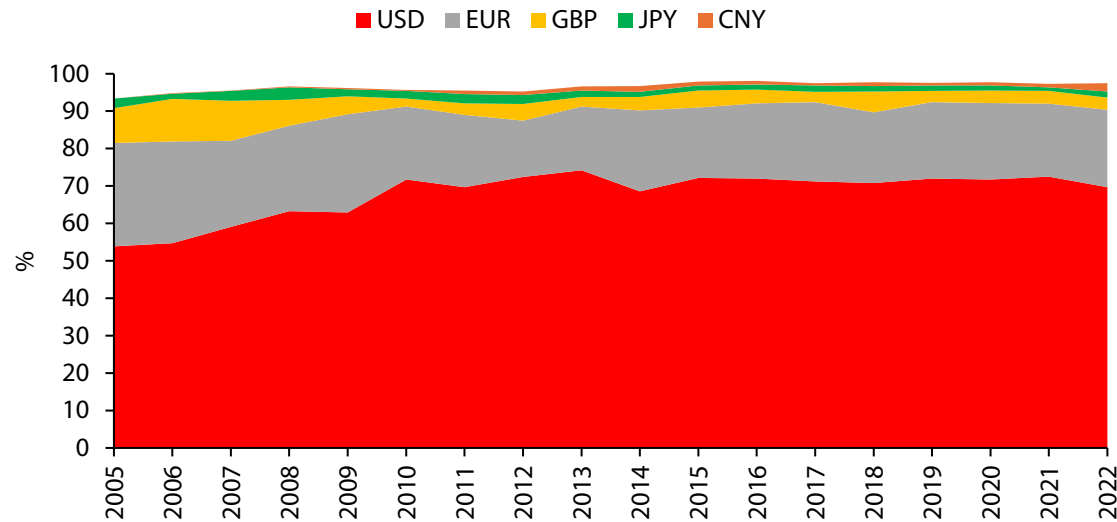
**Figure 9: Share of US treasury bond holdings**



Source: US Treasury, RongViet Securities

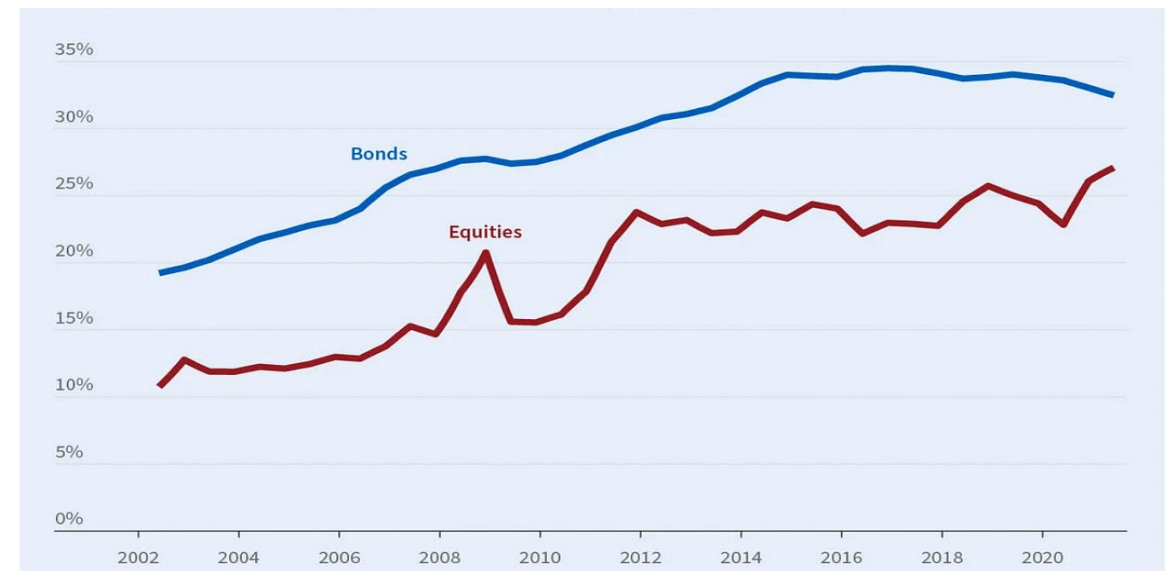
- **The USD is the world's primary reserve currency; however, the share of USD holdings in global foreign exchange reserves has been gradually declining.** The USD accounted for 57.8% of global foreign exchange reserves in Q4/2024, down from 71.0% in 2000, as central banks diversified their holdings.
- A significant portion of the USD-denominated foreign exchange reserves of countries is invested in US Treasury bonds. As of the end of 2022, foreign investors held approximately \$7.4 trillion in US Treasury bonds, accounting for 31.0% of the total bonds in circulation, down from a peak of 56.5% in 2008.

**Figure 10: Global FX denominated debt by currency type**



Source: FED, RongViet Securities

**Figure 11: Share of USD-denominated assets held by foreign investors**



Source: Wenxin Du et al. (2023), RongViet Securities

- **The USD is the preferred choice for international debt issuance.** From 2010 to 2022, 70% of global foreign-currency-denominated debt was issued in USD. USD-denominated debt offers lower benchmark interest rates compared to other currencies, and the USD bond market is highly liquid, attracting both institutional and private investors. Notably, the demand for USD financing increases during times of crisis, as banks and businesses seek safe assets to protect their balance sheets ([see slide 10](#)).
- **Approximately one-third of foreign investors' stock and bond portfolios are concentrated in USD-denominated assets.** The holdings of USD-denominated stocks and bonds by foreign investors have increased sixfold, from \$5.5 billion in 2002 to about \$33.4 billion in 2021.

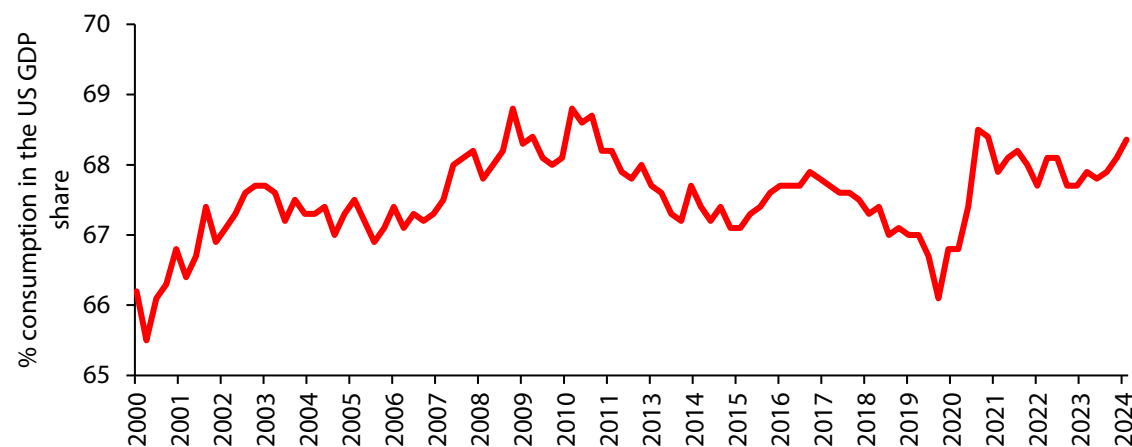
- In the event of global shocks (financial crises, pandemics, etc.), global investors flock to the USD as a safe haven. At the same time, as the issuer of the global currency, the US leads international liquidity rescue efforts through the Federal Reserve, acting as the "lender of last resort."
- **The USD liquidity support mechanisms by the Fed during crises include:**
  - ❑ **Currency swap agreements with central banks:**
    - *2008-2009 financial crisis:* The Fed established temporary swap lines with multiple central banks, with the peak size reaching \$585 billion. Since 2013, the Fed has maintained long-term bilateral swap agreements with several central banks, including the Bank of Canada (BoC), Bank of England (BoE), Bank of Japan (BoJ), European Central Bank (ECB), and Swiss National Bank (SNB), providing stable USD liquidity to major economies.
    - *COVID-19 period (2020):* The Fed expanded its long-term swap agreements and added temporary swaps, with the peak size reaching \$450 billion.
    - *Banking crisis (2023):* The Fed and other central banks strengthened their currency swap agreements to support liquidity for commercial banks, following a wave of withdrawals that led to the collapse of two US banks and the crisis at Switzerland's Credit Suisse, which was later acquired by UBS.
  - ❑ **FIMA repo facility:** The Fed provides USD liquidity to countries that do not have Swap Lines with the Fed but meet two criteria: holding US Treasury bonds and having an open account with the Fed. In these transactions, FIMA account holders temporarily exchange US Treasury bonds with the Fed in exchange for USD at a specific interest rate. Upon maturity, the Treasury bonds are returned to the central banks.

- **A strong US dollar has been the foundation of both America's soft and hard power for decades.**
- The US has reaped **immense benefits from a strong dollar**, as imports are relatively cheaper compared to domestic goods, attracting an abundant supply of cheap capital, which in turn helps finance deficits and stimulate growth.
- However, this has also created **imbalances within the US itself**. Specifically, domestic production capacity in certain industries has been harmed due to its inability to compete with imported goods, leading to job losses in the manufacturing sector. At the same time, the debt-fueled spending spiral has turned the country into the world's largest debtor.
- **The tariffs under the Trump 2.0 administration may not just be a negotiation tactic, but rather a deliberate plan to alter the global free trade and financial system that the US itself established**, leveraging the privilege granted to it by the USD over the past century.

The dominance of the US dollar grants the US what is known as "exorbitant privilege," which includes:

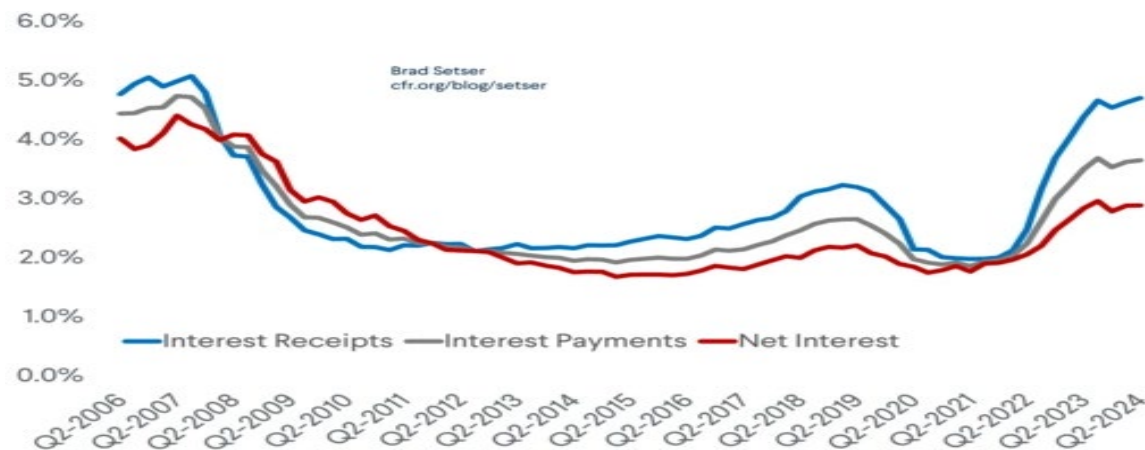
- **Benefits for US consumers and importing businesses.** When the USD appreciates against other currencies, imported goods become cheaper for US consumers, helping to curb import-driven inflation and increase purchasing power.
- **No balance of payments crisis.** The US does not face a balance of payments crisis because imports are paid for with its own currency.
- **Investor confidence in USD assets.** This leads to large capital inflows into the US, especially when the economy is growing relatively well or when global instability arises. The US tends to earn more from international investments (and lending) than it pays in foreign debt.
- Lower borrowing costs. Thanks to backing from international investors, the US can borrow more cheaply than other countries, allowing the US government to finance budget deficits at a lower cost.
- **Unilateral imposition of effective sanctions.** Specifically, the ability to freeze USD assets of governments or individuals considered adversaries, or to ban their access to the USD payment system.
- [See Appendix: The Exorbitant Privileges of the US dollar – page 37](#)

**Figure 12: The consumer power of the US economy**



Source: Bloomberg, RongViet Securities

**Figure 13: The US is benefiting from higher foreign lending rates compared to the interest rates paid on foreign debt**



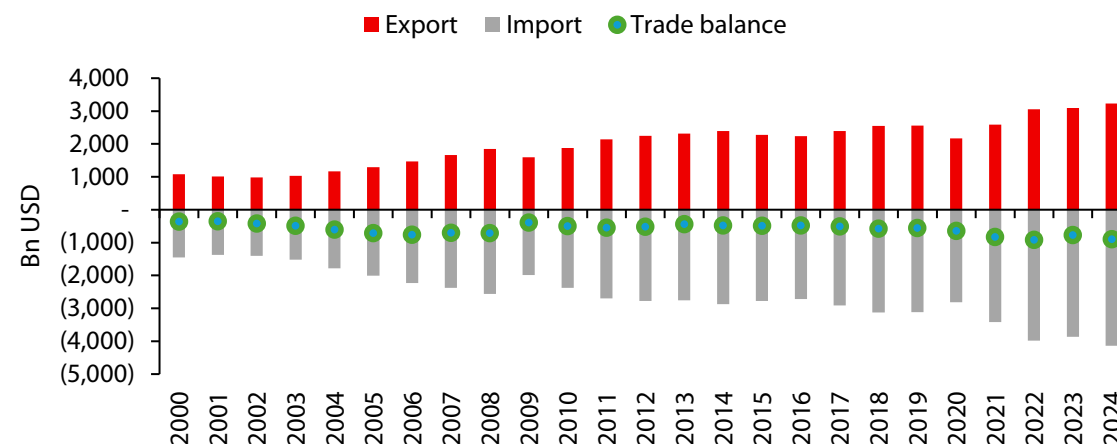
Source: CFR, RongViet Securities

## "Exorbitant privilege" also comes with a price:

- While a strong USD benefits US consumers, **exporters, and domestic manufacturers face disadvantages** when competing with cheaper imported goods. This has led to **damage in some domestic industries**, along with **the elimination of jobs in those sectors**.
- Exports decline while imports increase, leading to **a growing and prolonged trade deficit**.
- The government's increasing reliance on borrowing creates an **unsustainable trajectory for public debt**.

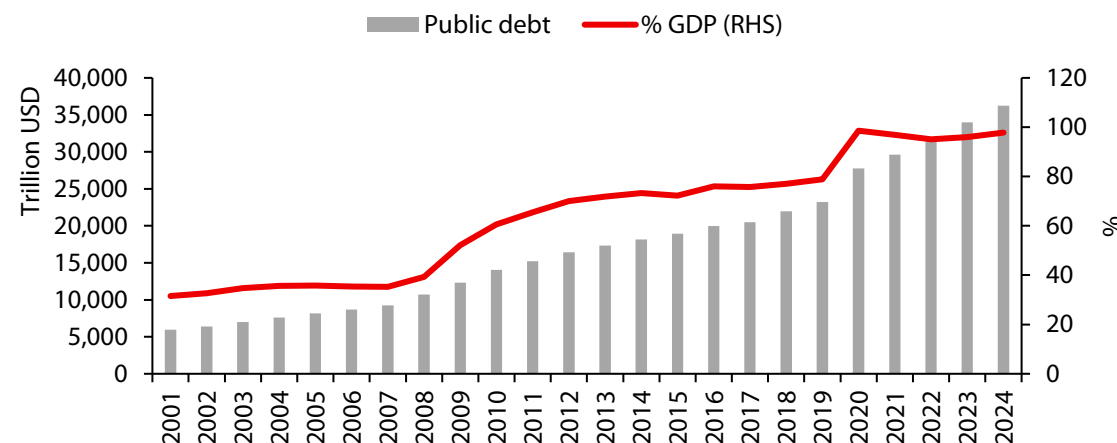
- ⇒ There is no denying the significant benefits that a strong USD has brought to US **However, this privilege also comes with its downsides, which have gradually become more apparent over time.**
- ⇒ The consequences of the "exorbitant privilege" provided by the US dollar are now closely tied to the political discourse during the Trump 2.0 era.
- ⇒ Trump's tariff policy may be a deliberate plan aimed at changing the global free trade and financial system that the US itself established, based on the privilege the USD has granted the US for over a century.

**Figure 14: US trade balance (2000–2024)**



Source: Bloomberg, RongViet Securities

**Figure 15: US public debt (2001–2024)**

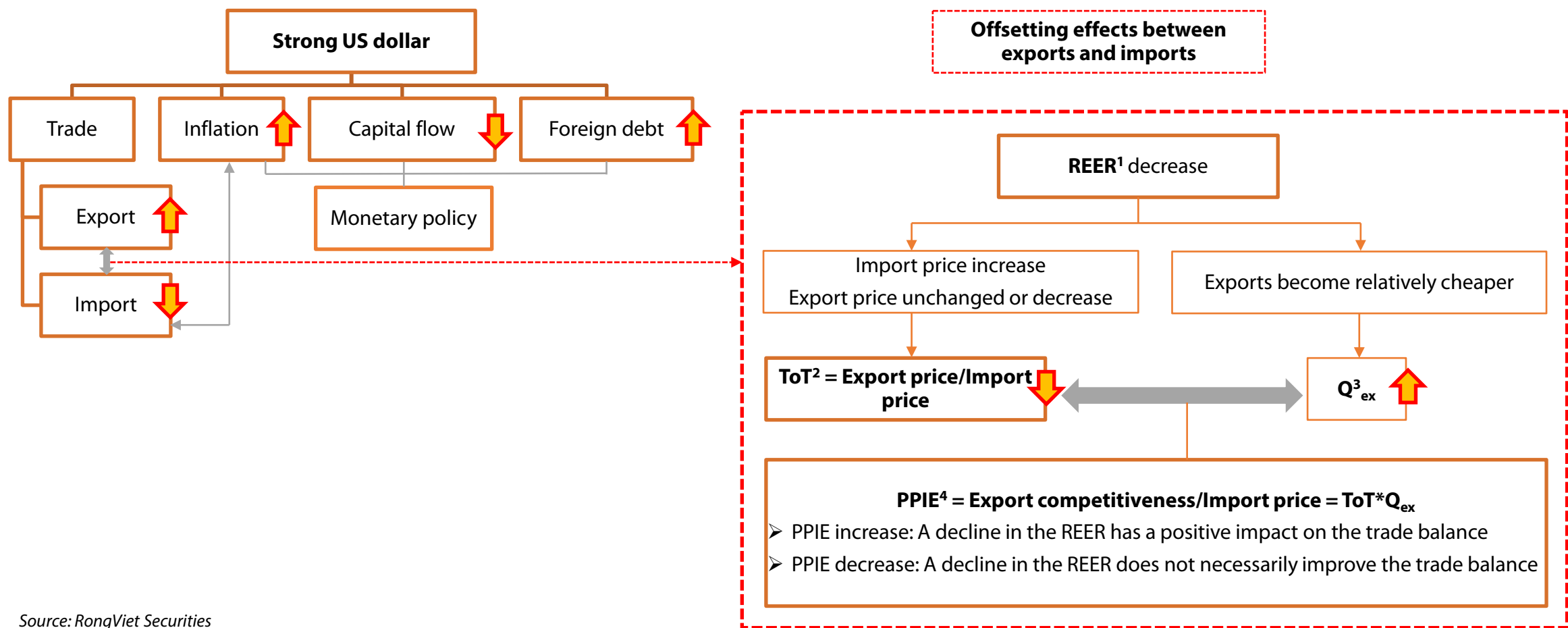


Source: Bloomberg, RongViet Securities

**A strong or weak US dollar** brings both advantages and disadvantages, what matters is that each country understands the transmission mechanisms to formulate appropriate policies and protect its economy from the unpredictable volatility of the world's reserve currency.

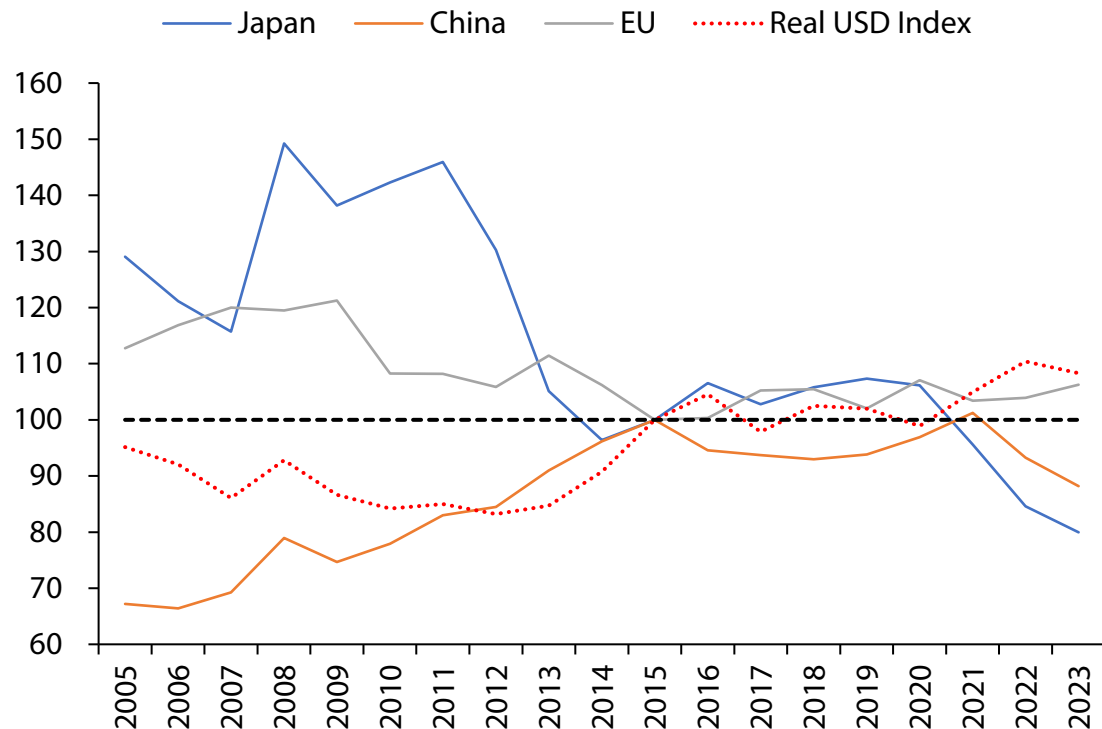
- A strong US dollar has a positive impact on the trade balance of China and developing countries in Asia, while its effect on the trade balances of Japan and Europe is relatively insignificant.
- A stronger dollar increases energy import costs for Europe and Japan, pushing up inflation in both the EU and Japan. In contrast, inflation in Asian economies has remained relatively well-controlled during periods of US dollar strength. This can be attributed to prudent monetary policy, subdued consumer demand and slow post-pandemic recovery, as well as government measures to control prices.
- Fed rate hikes are typically accompanied by US dollar appreciation, which puts capital outflow pressure on emerging market bond markets. Unlike the bond market, capital outflows from Asian emerging equity markets (excluding China) tend to occur more frequently, resulting in a less clear relationship between equity flows and Fed policy or the strength of the US dollar.
- The correlation between bond flows and US dollar strength has generally been higher than that observed for equity flows.
- The burden of foreign currency debt due to a stronger US dollar has been gradually easing in developing and emerging Asian markets. However, interest payment pressures remain closely correlated with US dollar movements.

**Figure 16: Impact of a strong US dollar**



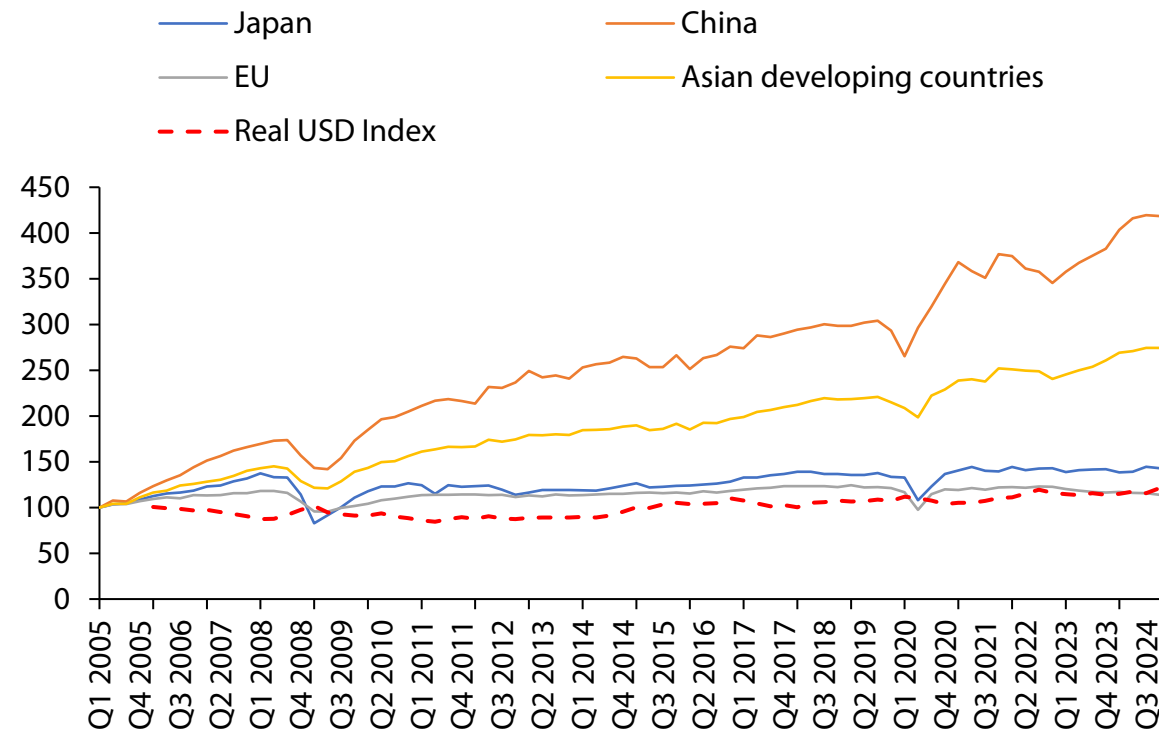
Source: RongViet Securities  
 REER<sup>1</sup>: Real Effective Exchange Rate  
 ToT<sup>2</sup>: Term of Trade  
 Q<sup>3</sup><sub>ex</sub>: Export Volume  
 PPIE<sup>3</sup>: Purchasing Power Index of Exports

**Figure 17: Real effective exchange rate (REER) (2015 = 100)**



Source: UNCTAD, FRED, RongViet Securities

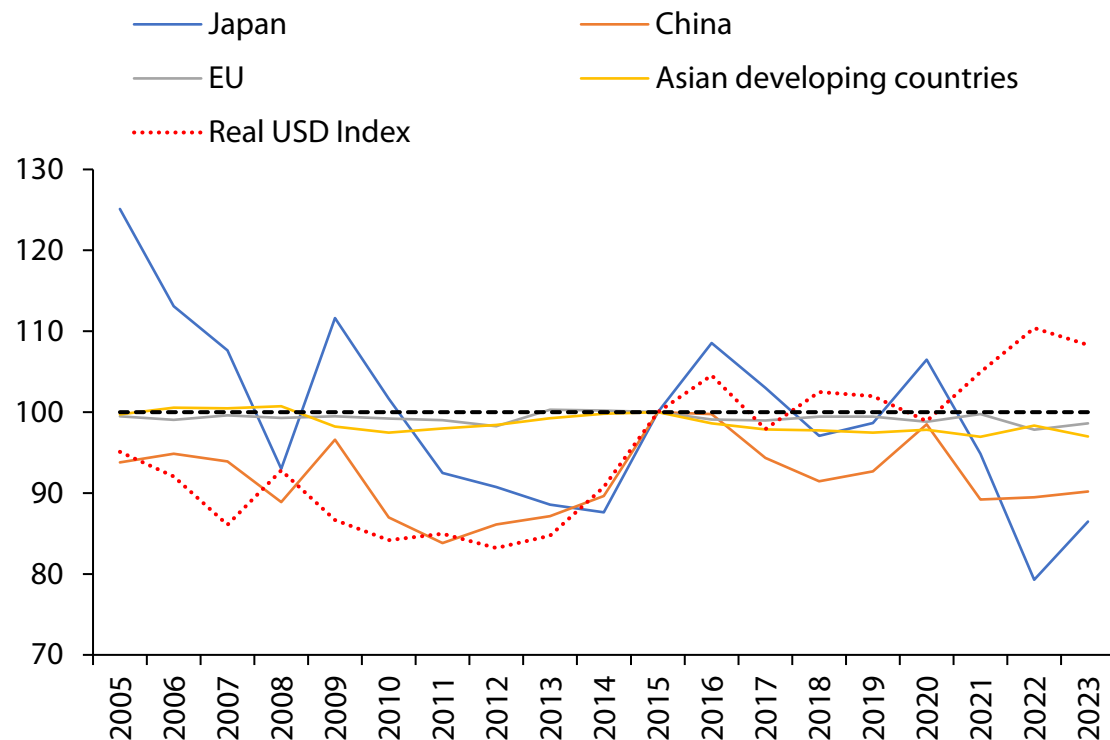
**Figure 18: Export volume (2005 = 100)**



Source: UNCTAD, FRED, RongViet Securities

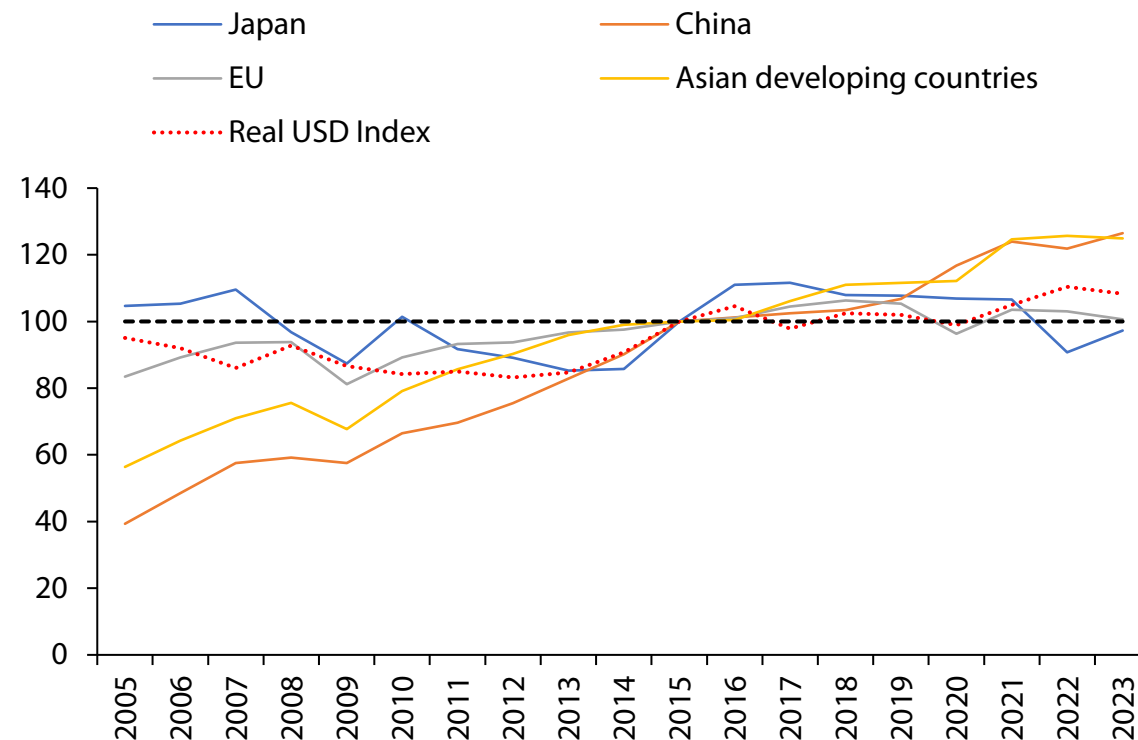
- The real effective exchange rate (REER) of Japan and Europe has declined, while China's REER has increased compared to 2005. However, by 2023, China's REER remains below the 2015 base level of 100, indicating a downward trend in China's REER as the real USD index rises in 2015-2023.
- Between 2005 and 2024, export volumes from China and developing Asian countries have grown significantly faster than those of Japan and Europe. This suggests that **the impact of REER decline on export performance varies across countries.**

**Figure 19: Terms of trade (ToT) ratio (2015 = 100)**



Source: UNCTAD, FRED, RongViet Securities

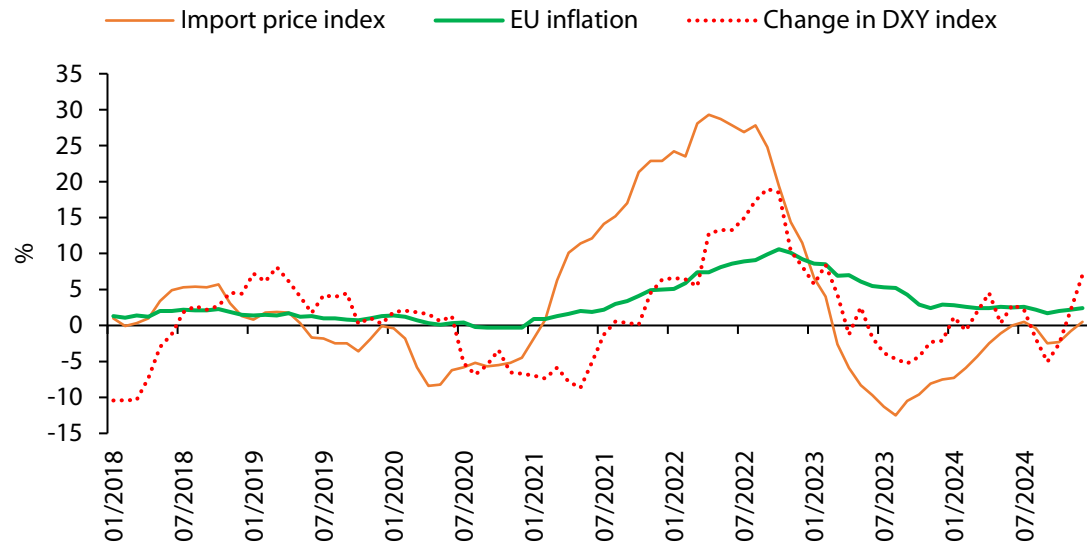
**Figure 20: Export purchasing power index (PPIE) (2015 = 100)**



Source: UNCTAD, FRED, RongViet Securities

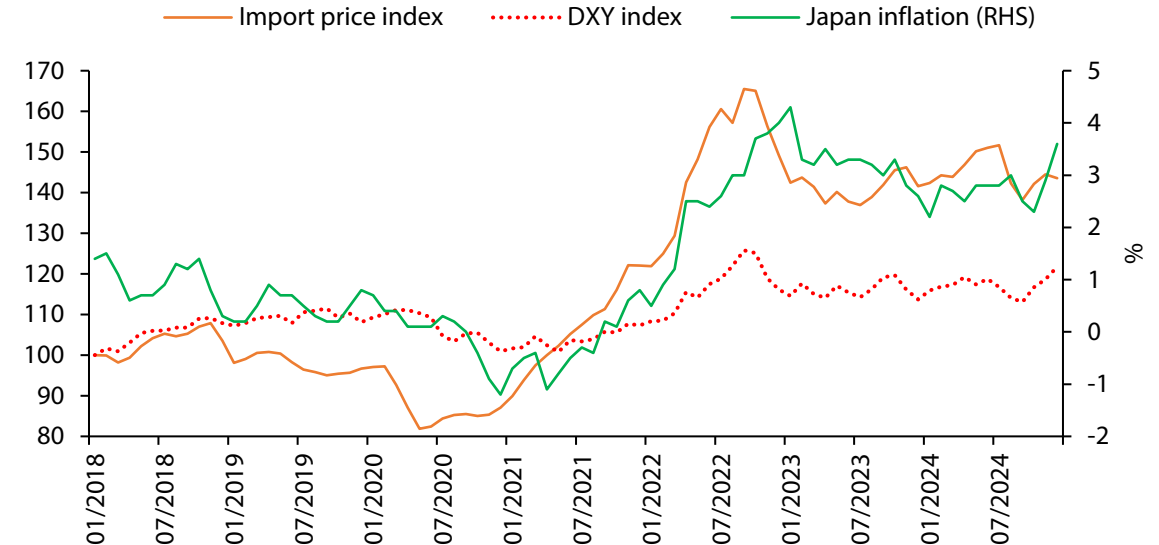
- The impact of a strong US dollar on Japan's import prices has been so significant that the country's export purchasing power index showed no improvement and even declined slightly during 2005–2023. In contrast, the export purchasing power index for China and developing Asian countries improved over this period.
- This indicates that **a strong US dollar has had a positive effect on the trade balance of China and developing Asian economies, while its impact on the trade balances of Japan and Europe has been limited.**

**Figure 21: Changes in import price index and inflation in the EU region**



Source: Bloomberg, RongViet Securities

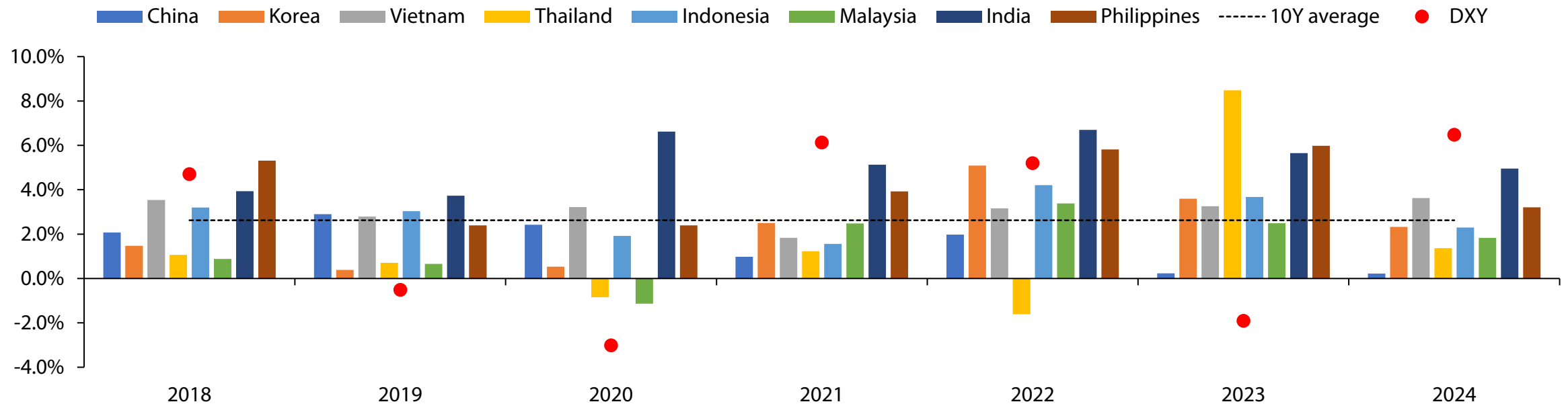
**Figure 22: Import price index and inflation in Japan**



Source: Bloomberg, RongViet Securities

- **A strong US dollar increases the global cost of USD-denominated commodities**, especially energy and raw materials, placing significant upward pressure on the import price index in Europe and Japan, and driving inflation higher in both the EU and Japan.
- **Approximately 70% of Japan's import value is denominated in US dollars, making the country highly vulnerable to pass-through inflation.** According to research by Gopinath (2015), a 10% appreciation of the US dollar against the Japanese yen leads to a 9% increase in Japan's import prices after eight quarters.

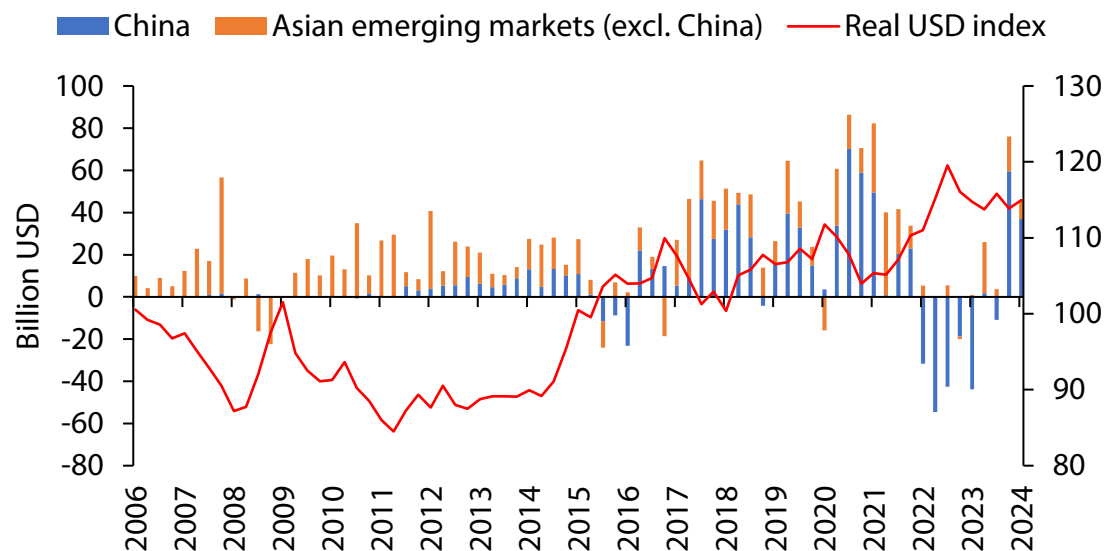
**Figure 23: Inflation in selected Asian countries in relation to changes in DXY index**



Source: Bloomberg, RongViet Securities

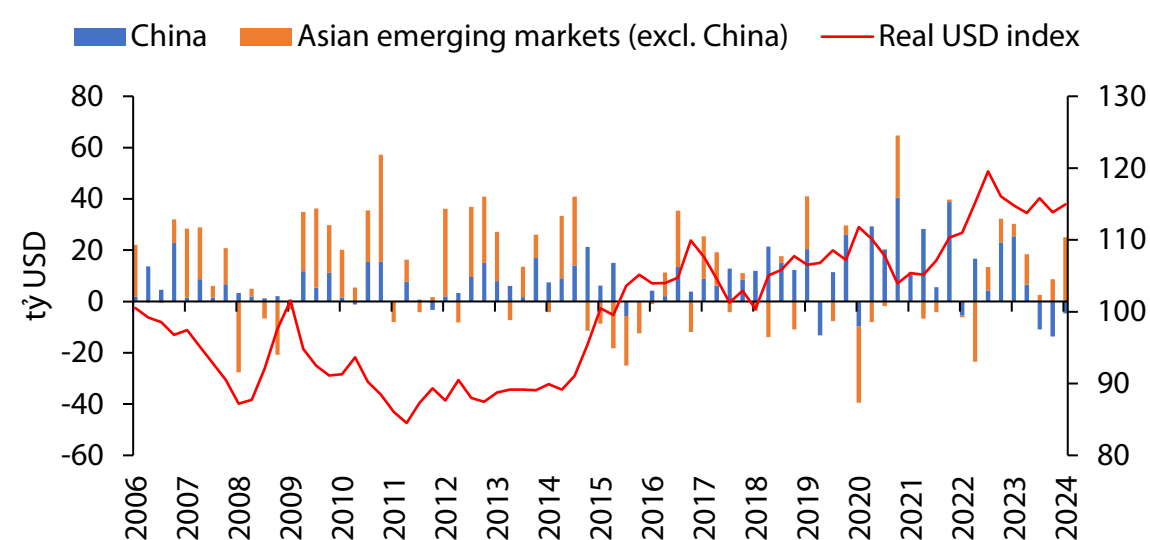
- The lack of import price index data for Asian countries makes it more difficult to directly assess the impact of a strong US dollar on their inflation, compared to Japan and the EU. However, when observing the relationship between DXY movements and inflation in these economies during 2018–2024, it is evident that **inflation in Asian countries has been relatively well-controlled during periods of US dollar appreciation.**
- This could be attributed to prudent monetary policy, weakened consumer demand and slow post-pandemic recovery, as well as government measures to control prices—for example, electricity subsidies in Thailand, reductions in environmental protection taxes on fuel in Vietnam, and rice price stabilization in Indonesia, among others.

**Figure 24: Portfolio investment flows into local bond markets and the real USD index**



Source: BIS, RongViet Securities

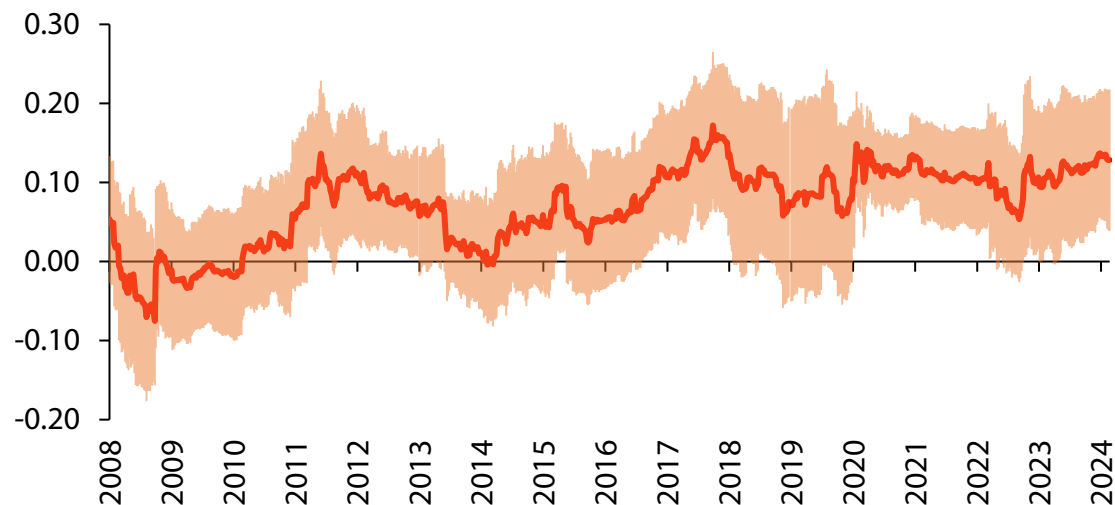
**Figure 25: Portfolio investment flows into equity markets and the real USD index**



Source: BIS, RongViet Securities

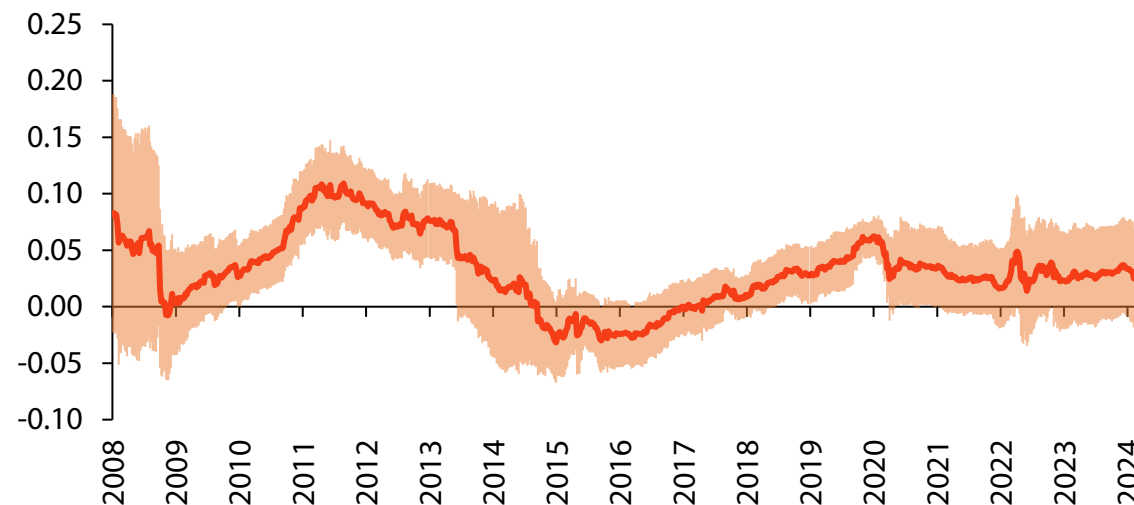
- During 2006–2023, capital inflows into emerging market bond markets showed a gradual upward trend, especially in China during 2017–2021. Significant net outflows occurred in 2015–2016 as the Fed began normalizing interest rates and shrinking its balance sheet for the first time since the 2008 financial crisis, as well as in 2022 when surging US inflation prompted further Fed rate hikes. In general, the **Fed rate increases are typically accompanied by US dollar strength, creating outflow pressures on emerging market bond markets.**
- In contrast, capital outflows from Asian emerging equity markets (excluding China) have occurred more frequently, resulting in a less clear correlation between equity flows and Fed policy or US dollar strength. **Investment flows continued into China's equity market for an extended period before a sharp reversal in late 2023, likely driven more by underwhelming economic developments in China itself rather than the impact of a strong US dollar.**

**Figure 26: Correlation between the US dollar and local bond markets in emerging economies**



Source: BIS, RongViet Securities, orange area: 95% confidence interval

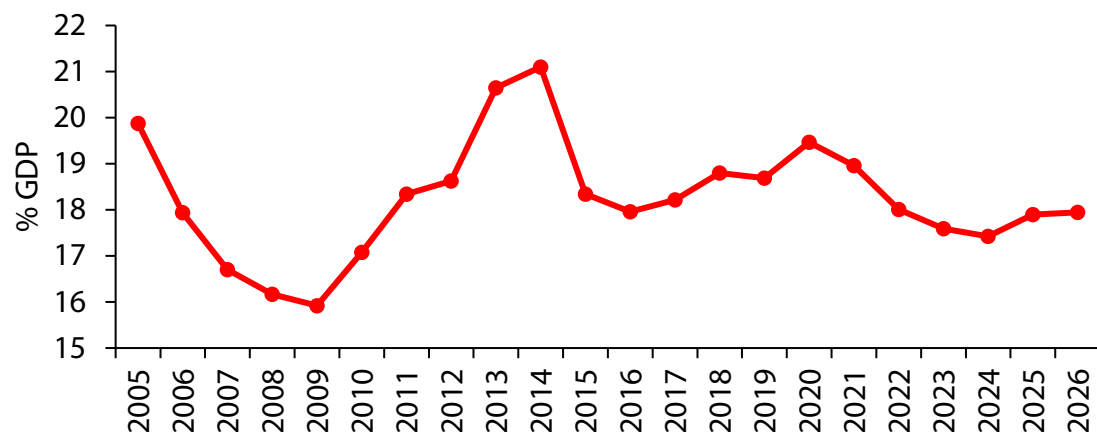
**Figure 27: Correlation between the US dollar and equity markets in emerging economies**



Source: BIS, RongViet Securities, orange area: 95% confidence interval

- **The correlation coefficients between portfolio investment flows into emerging markets and US dollar strength have generally increased over time.** Following the global financial crisis, the correlation between local-currency bond and equity flows and the strength of the US dollar rose, peaking around 2011–2012 before dropping sharply to near zero in 2013–2014. Since the 2014 trough, these coefficients have been on the rise as investors have increased their allocations to emerging market bonds and equities (BIS, 2024).
- **Nevertheless, as noted in the previous slide, the correlation between bond flows and US dollar strength has generally been higher than that observed for equity flows.**

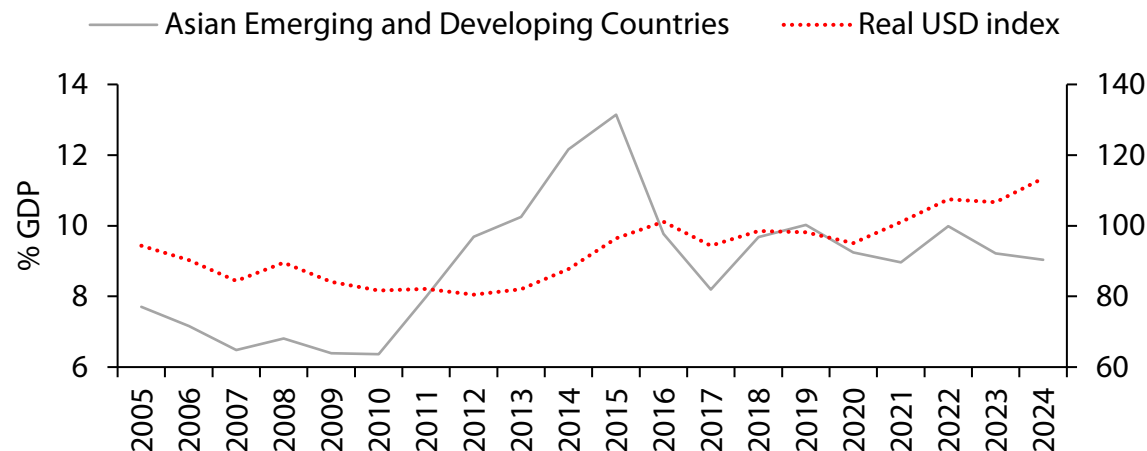
**Figure 28: External debt/GDP ratio of developing Asian countries**



Source: IMF, RongViet Securities

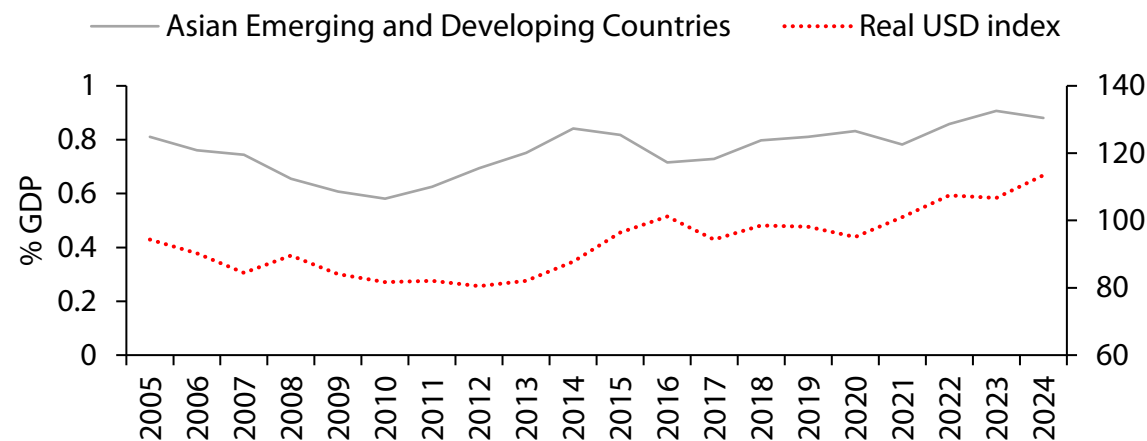
- The external debt-to-GDP ratio of developing Asian countries peaked in 2014. Although it increased during the Covid-19 period, it has been on a downward trend since then. **USD-denominated debt accounts for 60% of these economies' total external debt.**
- The external debt service-to-GDP ratio has risen sharply since the 2008 financial crisis, in line with the recovery of the US dollar. However, it is notable that **debt service obligations have not changed significantly during the recent USD appreciation cycle.**
- Meanwhile, the figure on external interest payment-to-GDP shows that **interest payment pressure has consistently moved in line with the US dollar trend.**

**Figure 29: External debt service/GDP ratio**



Source: IMF, RongViet Securities

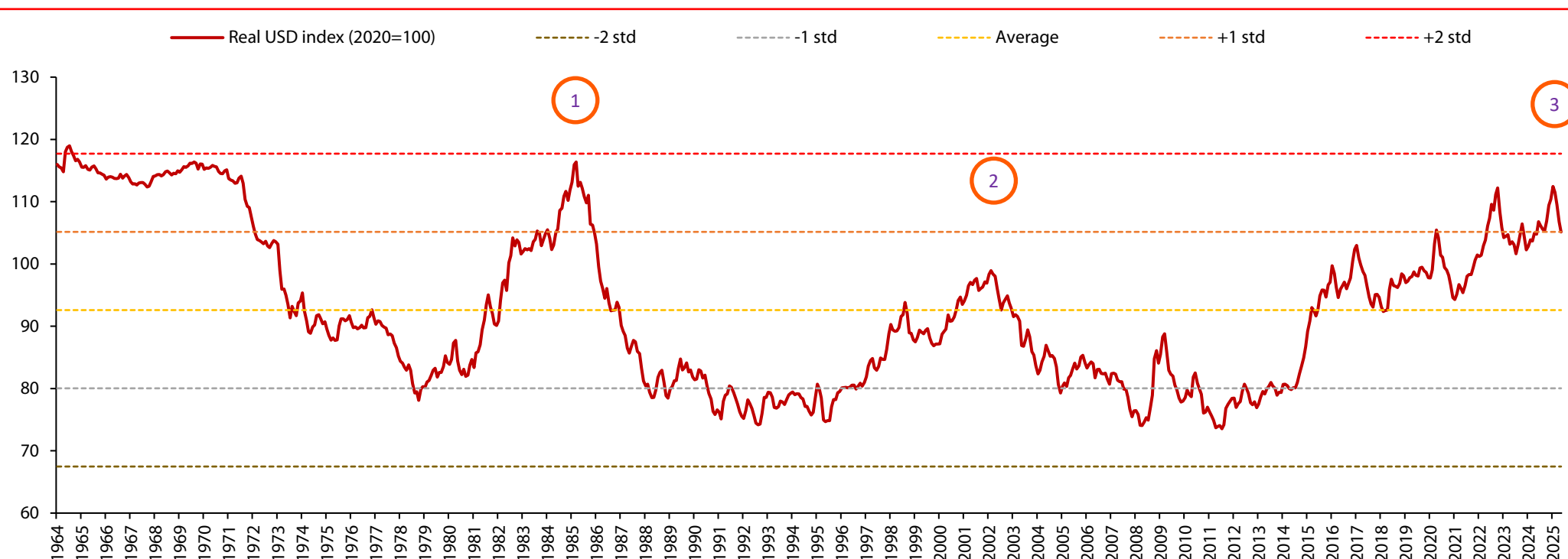
**Figure 30: External interest payment/GDP ratio**



Source: IMF, RongViet Securities

- **The US dollar is currently trading near the peak of its third major appreciation cycle.** Although the US dollar index has seen a sharp correction recently—driven by policy uncertainty around tariffs and concerns over the sustainability of US public debt, which have shaken confidence—the dollar remains well above its historical average.
- **The traditional “dollar smile” framework has become outdated,** as depreciation pressures on the US dollar can now emerge both during periods of low growth/recession and heightened geopolitical tensions.
- **In the short term, the factors affecting the US dollar outlook are relatively balanced.** The sharp decline in the dollar over the past three months can be largely explained by a reassessment of the outlook for the US economy and financial markets, rather than an imminent threat to the dollar’s dominance in global finance.
- **In the baseline scenario, the dollar would stabilize or decline to its historical average, while maintaining its special role.** However, the Trump administration’s unconventional approach across a range of policy areas could do some longer-term damage to confidence in the US as a safe haven, erode some of the dollar’s role, and accelerate the search for alternatives.
- **In the long term, the dollar’s strength may weaken** due to the unsustainable trajectory of US public debt and the trend toward reserve diversification among major central banks. In addition, the pace of de-dollarization is accelerating amid intensifying geopolitical tensions and growing competition among global trade payment systems.

**Figure 31: US Dollar Performance**



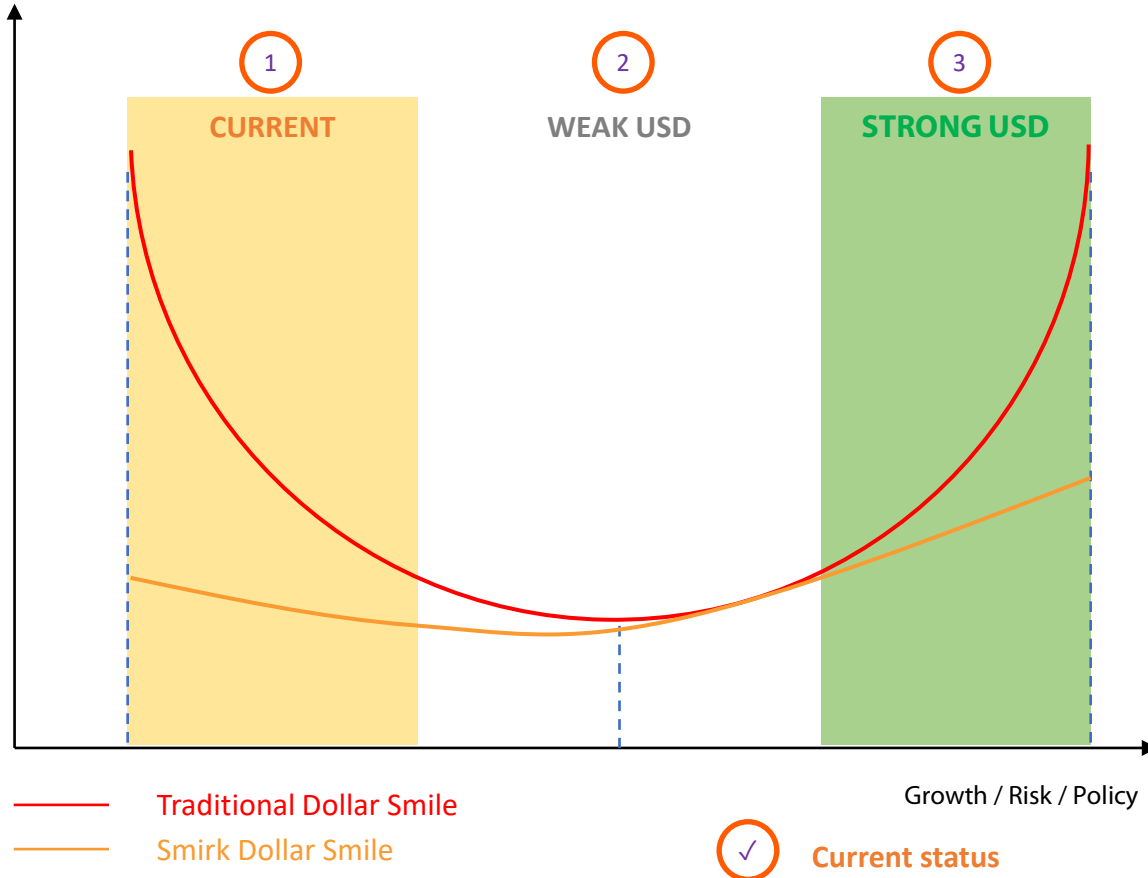
Source: BIS, RongViet Securities

- **The US dollar is currently trading near the peak of its third major appreciation cycle.** Although the dollar index has recently experienced a sharp correction, driven by tariff policy and concerns over unsustainable US public debt, which have undermined confidence, the dollar remains well above its historical average.

- **The traditional framework often used to explain the outlook for the US dollar is the “Dollar Smile” theory:**
  1. When economic growth is weak or the economy is in recession, or when geopolitical tensions rise, the USD strengthens as a safe-haven asset.
  2. When global growth is strong, the USD weakens as capital flows into emerging markets.
  3. When US growth outperforms, the USD strengthens again as investment flows return to the US.
- However, **the traditional “Dollar Smile” has become obsolete**, as depreciation pressures on the dollar can now emerge during both periods of weak growth/recession and heightened geopolitical risks, due to several factors:
  1. Investors have poured money into US equities and bonds since the 2008 financial crisis, especially into Big Tech. At present, when risk aversion rises due to geopolitics or recession concerns, capital may flow out of the US.
  2. Much of the investment into the US is unhedged for currency risk. In volatile markets, broad asset sell-offs can create depreciation pressure on the USD, as seen with Taiwanese investors in May 2025.
  3. With US interest rates higher, carry trade activity has involved borrowing in low-yield currencies to invest in US assets. When funding costs rise, such as when the BoJ raised rates in August 2024, unwinding of carry trades can also weigh on the USD.
  4. US Treasuries are no longer seen as a reliable risk-hedging tool, given the unsustainable trajectory of US public debt.
  5. Confidence in the USD is further undermined by policy uncertainty (e.g., tariff policy), prompting major central banks to diversify their reserve assets.

[See the next slide](#) for how the traditional “Dollar Smile” has evolved into a “smirk Dollar Smile” (JP. Morgan, 2024) and for a discussion of the short- and long-term factors shaping the outlook for the USD.

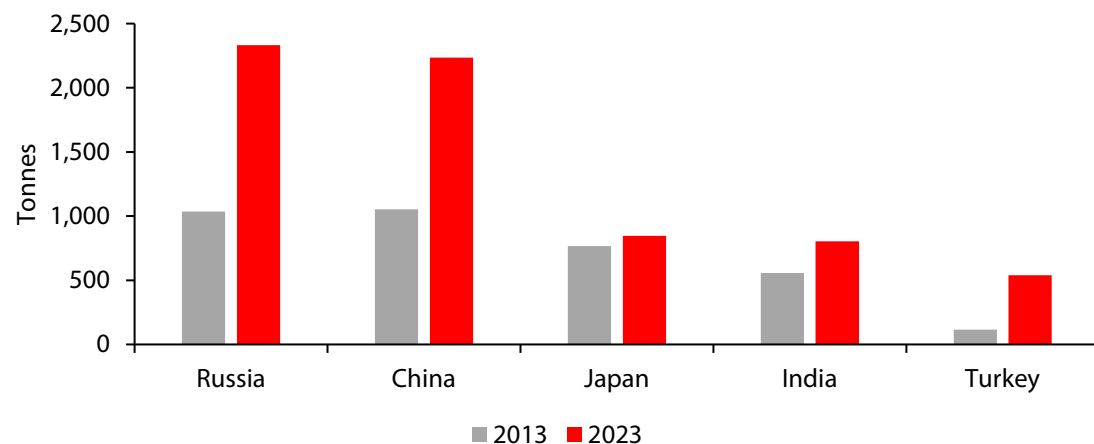
US Dollar performance



|                                                  |                   | STRONG | WEAK |
|--------------------------------------------------|-------------------|--------|------|
| <b>Growth</b>                                    |                   |        |      |
| • US growth outperforms other economies          | Short term        | ✓      |      |
| • US economic growth slows                       | Short term        |        | ✓    |
| <b>Risk</b>                                      |                   |        |      |
| • Global economic recession                      | Short term        | ✓      |      |
| • Escalating geopolitical tensions               | Short/Medium term | ✓      |      |
| <b>Policy</b>                                    |                   |        |      |
| • Tariff policies                                | Short term        |        | ✓    |
| • Fed rate cuts                                  | Short term        |        | ✓    |
| • Fed maintains high interest rates              | Short term        | ✓      |      |
| • Rising US public debt                          | Long term         |        | ✓    |
| • Reserve diversification by major central banks | Long term         |        | ✓    |

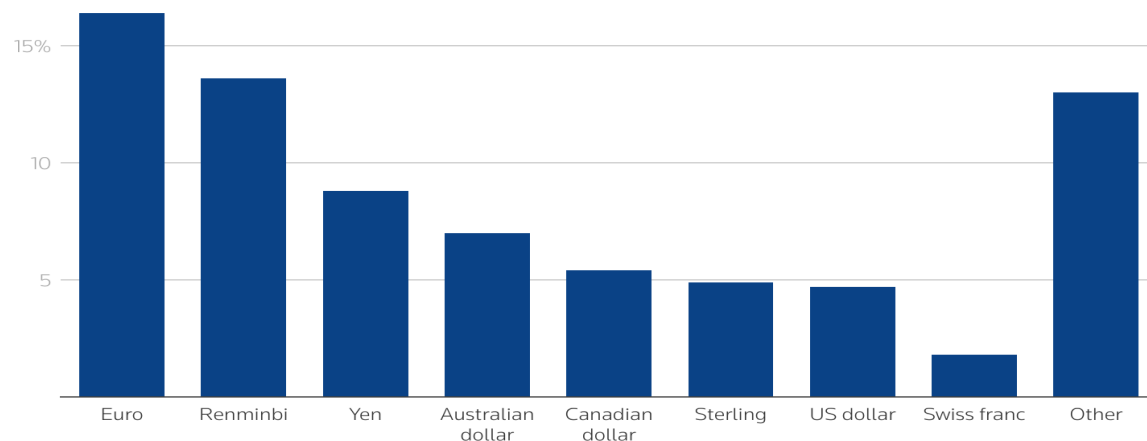
- **In the short term, the factors influencing the outlook for the US dollar are relatively balanced.**
- **In the long term, the dollar's strength may weaken** due to the unsustainable path of US public debt and the trend toward reserve diversification by major central banks ([see slide 27](#)). Additionally, the de-dollarization trend is accelerating amid escalating geopolitical tensions and increased competition among global trade payment systems ([see slides 28–29 for details](#)).

**Figure 32: Central banks increase gold reserves to reduce dependence on the US dollar**



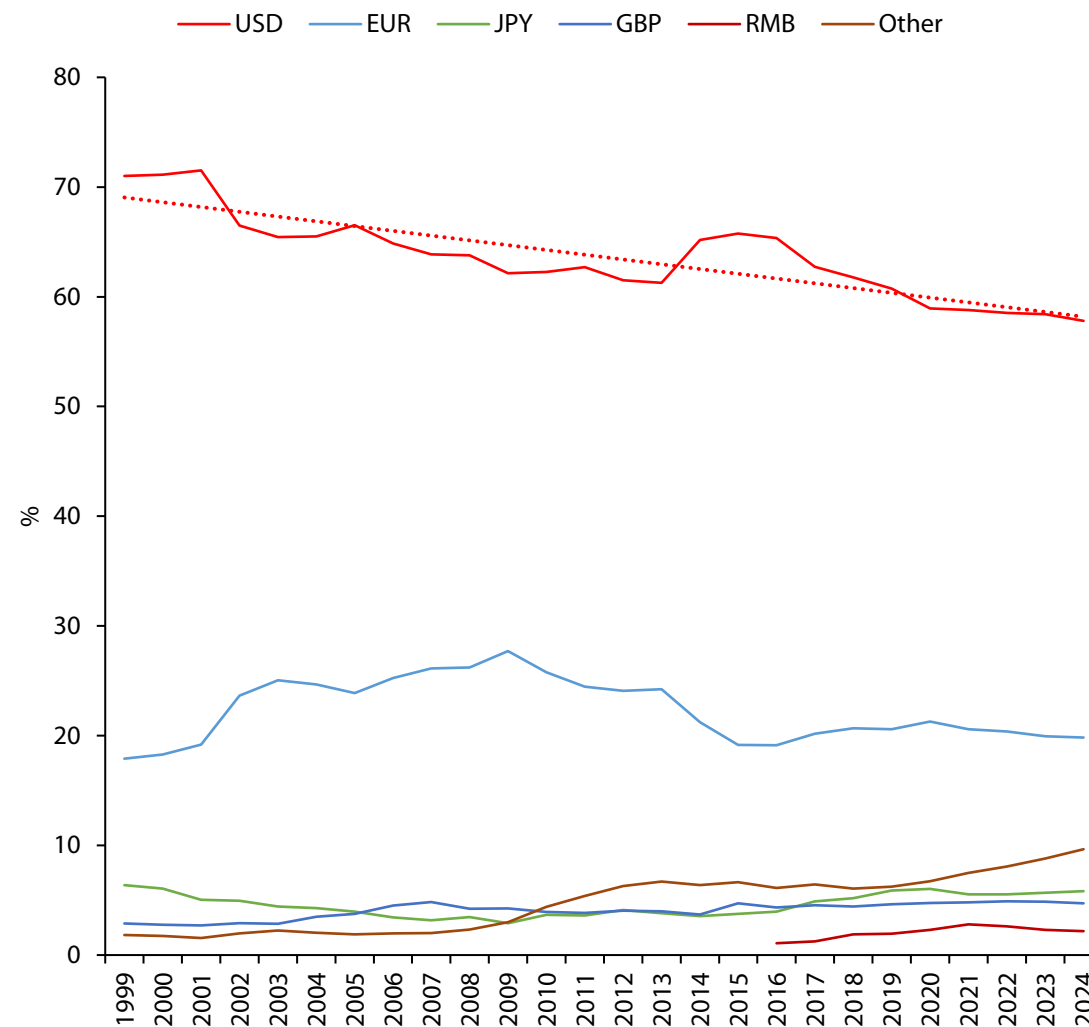
Source: HSBC, RongViet Securities

**Figure 33: Currencies central banks plan to increase holdings of over the next 1–2 years**



Source: OMFIF, RongViet Securities

**Figure 34: Global share of US dollar reserves declining over time**



Source: IMF, RongViet Securities

| DE-DOLLARIZATION EFFORTS  | INTERPRETATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gold and other currencies | <p><b>The trend toward reserve diversification is accelerating amid heightened geopolitical uncertainty.</b> According to a World Gold Council (WGC) survey, 29% of central banks plan to increase their gold reserves in the next 12 months—the highest level since 2018. Russia and China are leading this trend, with gold reserves reaching 2,333 and 2,235 tonnes, respectively, by the end of 2023—both double their 2013 levels.</p> <p><b>The BRICS common currency: political ambition, practical challenge.</b> BRICS countries are studying the potential for a joint currency to boost intra-bloc trade and limit the role of the US dollar. However, significant differences in development levels and policy priorities among members present major obstacles to realizing this initiative.</p> <p><b>Reserve allocations are shifting toward “non-traditional” currencies.</b> While the USD, EUR, and JPY have not attracted new inflows, a portion of reserves is moving into CAD, AUD, and CNY. These currencies represent stable economies with strong trade links to the US and are viewed as neutral options amid intensifying strategic competition.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| New payment systems       | <p><b>China is developing its Cross-Border Interbank Payment System (CIPS) to compete with the US-dominated SWIFT network.</b></p> <p>Launched in 2015 with support from the People’s Bank of China, CIPS provides clearing and settlement services for cross-border transactions in Chinese yuan (CNY). The system aims to create an independent payment infrastructure, reduce reliance on SWIFT, and promote the use of the renminbi in international trade. As of the end of 2024, CIPS had connected 168 direct participants and 1,461 indirect participants across 119 countries, processing an average of 25,900 transactions per day with a total daily value of about 482.6 billion CNY (~USD 67.03 billion).</p> <p>Despite its expansion, CIPS remains much smaller than SWIFT, which connects over 11,000 financial institutions worldwide and processes more than 42 million transactions daily. Currently, over 80% of CIPS transactions still rely on the SWIFT’s messaging services, highlighting a degree of dependence and indicating that further development is needed for full independence.</p> <p>China has signed more than 40 bilateral currency swap agreements, with 29 currently active and totaling over 4 trillion CNY, in an effort to promote the use of the Chinese yuan in international trade.</p> <p>Following Western sanctions, Russia has shifted to using local and alternative currencies in trade transactions. As of June 2023, over 80% of transactions between Russia and China were settled in rubles and yuan. Russia has also developed the System for Transfer of Financial Messages (SPFS) as a SWIFT alternative, aiming to ensure uninterrupted financial transactions despite sanctions.</p> |

## DE-DOLLARIZATION EFFORTS

## INTERPRETATION

**Central Bank Digital Currencies (CBDCs):** As of September 2024, 134 countries—accounting for 98% of global GDP—are exploring or developing CBDCs, with 44 countries having reached the pilot phase. China is the frontrunner with its e-CNY project, which has been piloted on a large scale and reached a total transaction value of nearly 7 trillion yuan (equivalent to USD 987 billion) in 2024. The European Central Bank (ECB) has also launched its digital euro project.

- Cross-border CBDC initiatives—such as mBridge, connecting China, Thailand, the UAE, and Hong Kong—are facilitating direct payments between countries without the need for USD as an intermediary.

### Cryptocurrencies such as Bitcoin:

In 2024, Russia mined over 53,000 Bitcoins—worth around USD 3.5 billion—for use in international transactions and to mitigate the impact of sanctions. Russia is also moving to legalize and regulate the use of cryptocurrencies for cross-border payments, enabling businesses to transact without relying on the US dollar. Iran has developed a cryptocurrency based on the rial since 2018, using it for import-export transactions to bypass sanctions and restrictions of the international financial system.

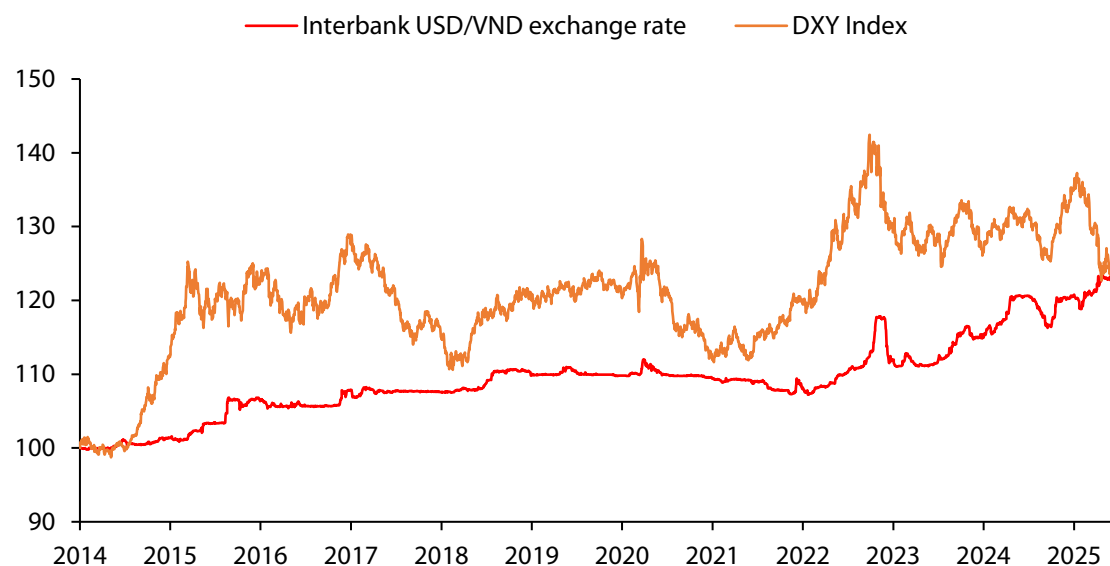
China has piloted its e-CNY on a large scale, with total transaction value reaching nearly 7 trillion yuan (approximately USD 987 billion) in 2024.

- However, cryptocurrencies like Bitcoin remain highly volatile, making them difficult to use as a stable means of payment. In addition, many countries lack clear regulations on cryptocurrency use, exposing participants to legal risks. The deployment and management of cryptocurrencies also require advanced technological infrastructure and security, which poses a challenge for many nations.

## Cryptocurrencies

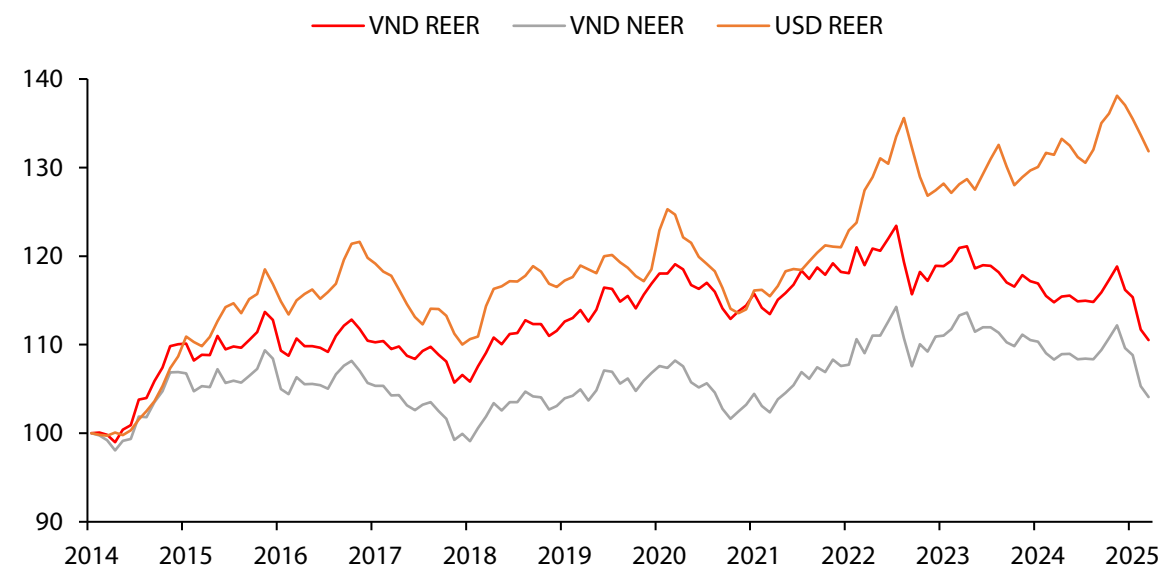
- **VND typically comes under depreciation pressure during periods of USD appreciation, and tends to remain stable or appreciate modestly when the USD weakens.** In 2025, despite a decline in the DXY index, VND still faces depreciation pressure, although this remains within the control of the SBV.
- From a real effective exchange rate (REER) perspective, VND has depreciated significantly compared to the general weakening trend of the USD since the second half of 2022. This suggests that **any depreciation pressure on VND in an upcoming USD downcycle would likely be moderate, barring major endogenous shocks** (such as the SCB event in 2022) **or exogenous shocks** (for example, higher-than-expected tariffs leading to shifts in investment flows).
- Regarding the transmission channels of a strong USD to Vietnam's macro environment, we observe that **a strong USD can positively affect the trade balance.** While a stronger dollar exerts negative effects on inflation, foreign currency debt repayment pressure, and capital flows, **inflation risks and external debt repayment have been relatively well contained** in recent years. Conversely, **the risk of net foreign capital outflows has been increasing.**
- Historical data show that sharp, unexpected depreciations of VND—when not adequately priced in—tend to have a negative impact on the VNIndex (as seen in 2011 and 2022). In contrast, moderate or anticipated fluctuations in VND generally serve as a positive factor for the VNIndex.
- At present, we **believe a wider exchange rate band (+/-5%) and the SBV's willingness to allow a controlled depreciation of VND will provide positive guidance for investor sentiment.** Only unforeseen currency shocks are likely to act as a significant negative driver for the stock market.
- Foreign currency revenue accounts for just 6–7% of the total revenue of VNIndex constituents, with only 52 out of 318 listed companies regularly and materially exposed to currency risk. This indicates that **exchange rates affect macroeconomic variables more fundamentally, whereas their impact on the stock market is predominantly psychological.**
- Our preliminary analysis—though not exhaustive—of the exchange rate sensitivity of companies frequently recording FX gains or losses suggests that **VND depreciation shows a positive correlation with the software technology, transportation, and banking sectors, but a negative correlation with real estate, healthcare, and utilities.** The correlations in software, transportation, and utilities may be partly explained by fundamental factors; for the other sectors, we do not find convincing evidence or sufficient data to draw strong conclusions.

**Figure 35: Interbank USD/VND FX rate and DXY index (2014 = 100)**



Source: Bloomberg, RongViet Securities

**Figure 36: REER & NEER of the VND (2014 = 100)**

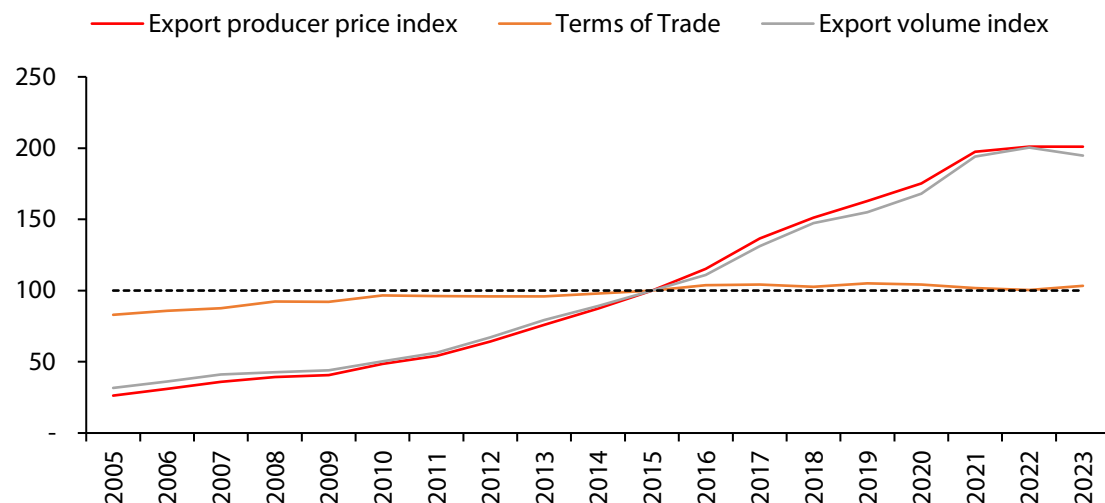


Source: Bloomberg, RongViet Securities

- The DXY index<sup>1</sup> has experienced multiple up and down cycles since 2014. As shown in Figure 35, periods of DXY appreciation typically create depreciation pressure on VND. Conversely, when the DXY declines, VND tends to remain stable or appreciate slightly. In 2025, despite a decrease in the DXY index, VND continues to face depreciation pressure, though this remains within the control band managed by the SBV ([see also Appendix: the SBV's exchange rate management mechanism – page 38](#)).
- In addition to the regularly monitored variables of USD/VND exchange rate and DXY index, VND REER generally moves in line with USD REER. Since 2H2022, however, the VND REER and USD REER have increasingly diverged, reflecting the reality that VND has depreciated significantly compared to the weakening trend of the USD. It is estimated that VND has cumulatively depreciated by approximately 15% over the period 2022–2025.

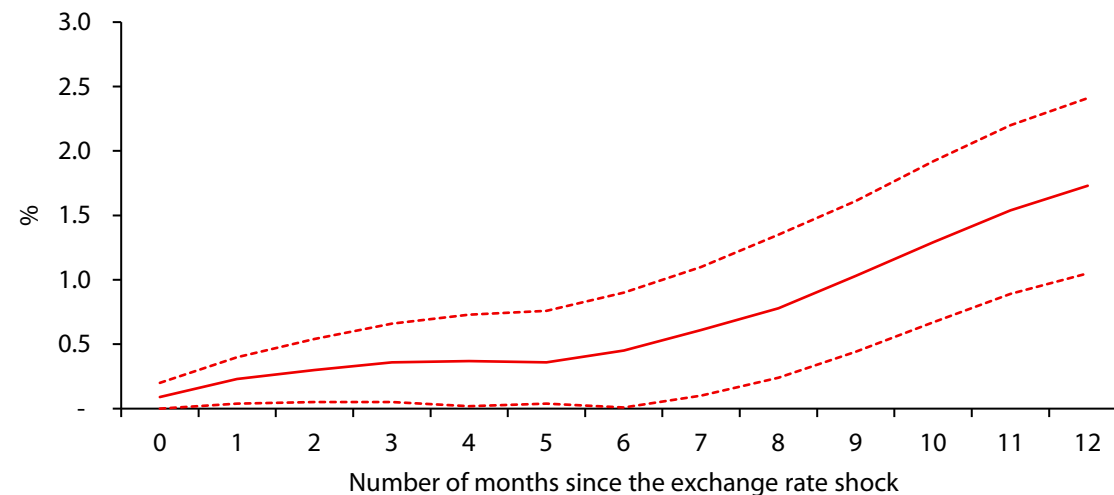
<sup>1</sup> The DXY index measures the strength of the US dollar against a basket of six major currencies: EUR, JPY, GBP, CAD, SEK, and CHF, with respective weights of 57.6%, 13.6%, 11.9%, 9.1%, 4.2%, and 3.6%.

**Figure 37: Changes in Vietnam's export volume, ToT, and PPIE**



Source: UNCTAD, RongViet Securities

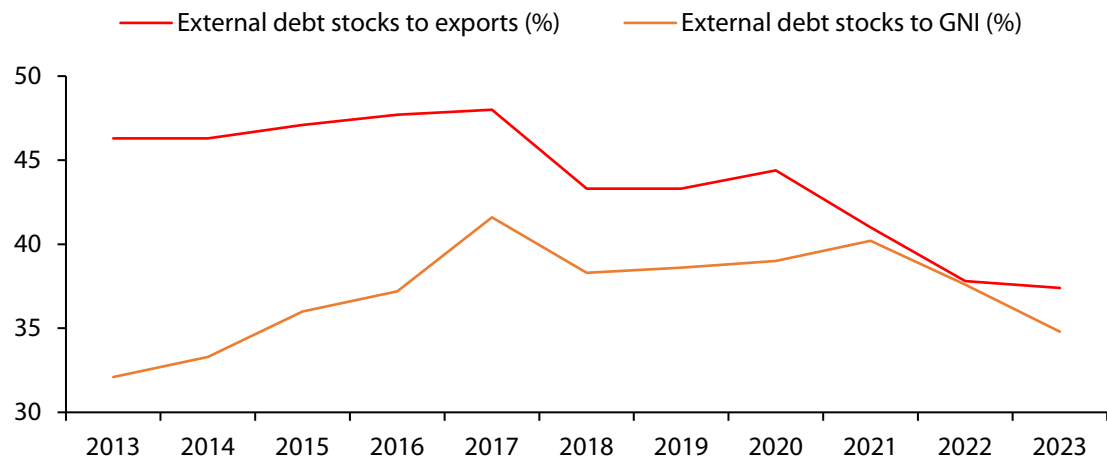
**Figure 38: Impact of a 10% VND depreciation on inflation**



Source: IMF (2023), RongViet Securities, dashed line: 95% confidence interval of the estimate

- During 2005–2023, Vietnam's terms of trade (ToT), the ratio between export and import prices remained largely unchanged, while export volume increased significantly. This suggests that **depreciation of VND against the USD may have been one of the positive drivers of Vietnam's export growth and trade balance.**
- According to IMF estimates, **a 10% depreciation of VND would raise inflation by an additional 1.7% over the following 12 months.** In the period 2022–2025, VND depreciated by 15%, while Vietnam's CPI increased by approximately 10.4%. The average annual inflation rate was 3.3%, which remained below the government's target.

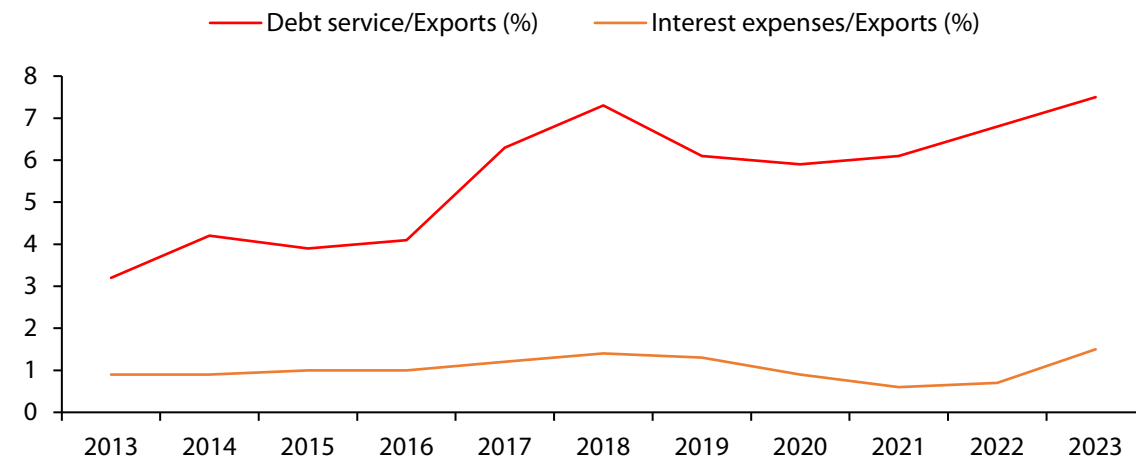
**Figure 39: Vietnam's external debt**



Source: WB, RongViet Securities

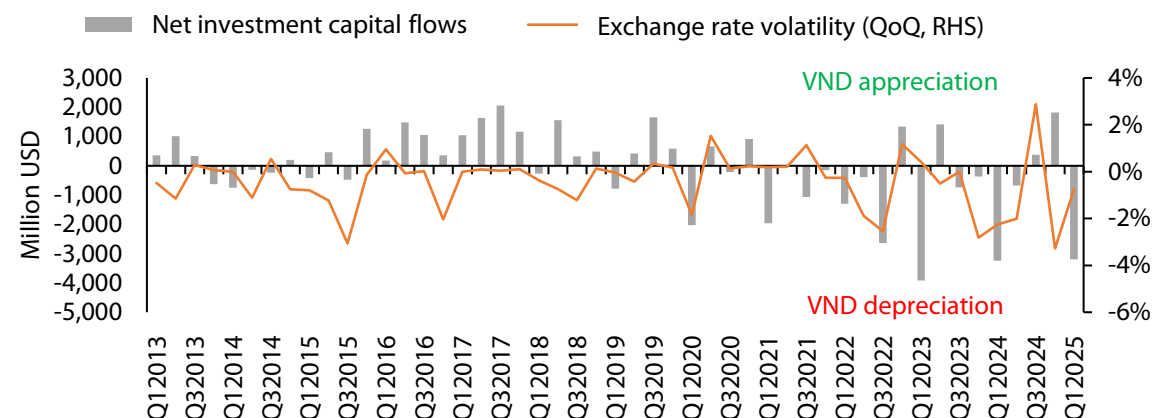
- **Vietnam's external debt has gradually declined** since 2017. However, **debt service obligations and external borrowing costs began to rise again in 2023**, reflecting increased exchange rate pressures on the country's foreign debt.
- **Net capital outflow pressure from both direct and portfolio investment has also been rising since 2020**, with **greater frequency and larger scale**. This trend often coincides with episodes of sharp depreciation pressure on VND.

**Figure 40: Debt service obligations and external interest expenses**



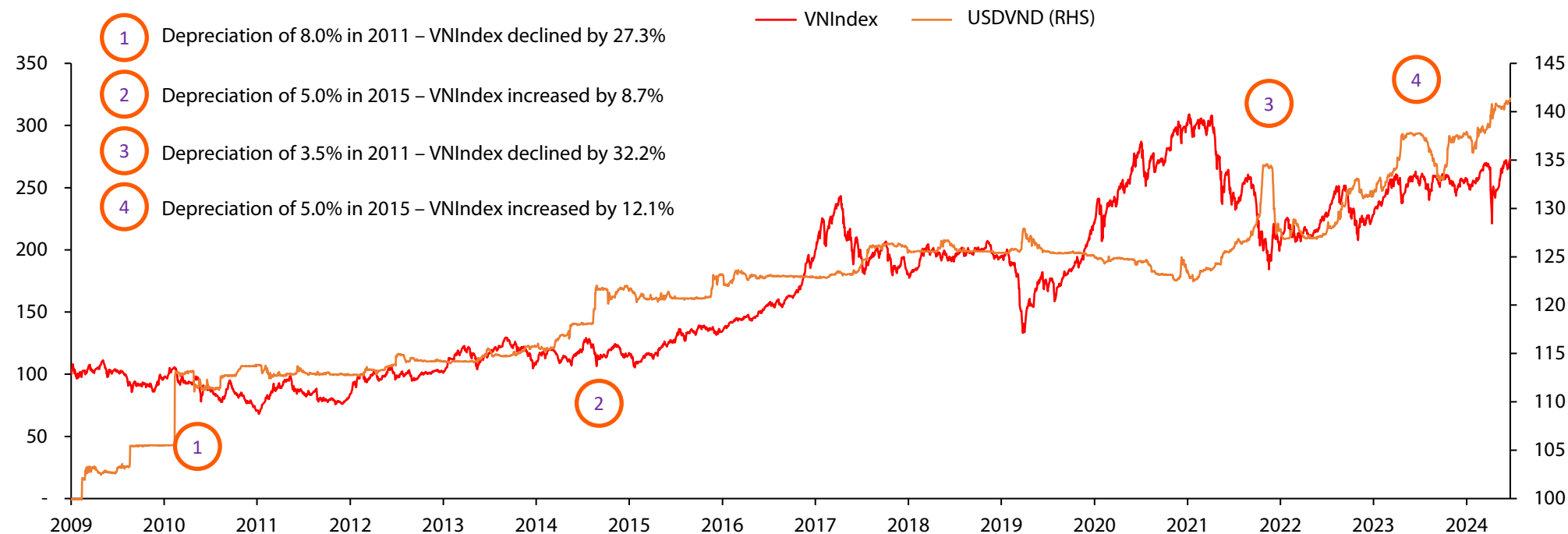
Source: WB, RongViet Securities

**Figure 41: Net investment capital flows**



Source: SBV, VCB, RongViet Securities

**Figure 42: Correlation between VNIndex and USD/VND exchange rate**



Source: Bloomberg, RongViet Securities

- Historical data show that periods of sharp, **unexpected VND depreciation, when not anticipated by the market, have a negative impact on the VNIndex** (as seen in 2011 and 2022). In contrast, **moderate or well-forecasted movements in VND, whether appreciation or depreciation within a narrow band, tend to be positive for the VNIndex.**
- At present, we believe that **a wider exchange rate band (+/-5%) and the SBV's willingness to allow a controlled depreciation of VND will provide positive guidance for investor sentiment.** Only unforeseen exchange rate shocks are likely to act as a significant negative driver for the stock market.

**Figure 43: Sector correlation coefficients with exchange rates<sup>1</sup> – Selected companies frequently reporting Fx gains/losses<sup>2</sup> ([See also slide 36 for further assessment](#))**

| Sector                                       | Correlation | FX gains      | FX losses |
|----------------------------------------------|-------------|---------------|-----------|
| Real Estate Management & Development         | -0.7        |               | NVL, VIC  |
| Health Care Equipment & Services             | -0.5        |               | VMD       |
| Utilities                                    | -0.5        | GAS           | POW, PGV  |
| Food, Beverage & Tobacco                     | -0.4        | MSN, PAN, VHC | HAG       |
| Materials                                    | -0.2        | DGC, HSG, AAA |           |
| Consumer Durables & Apparel                  | 0.1         | MSH           | STK       |
| Energy                                       | 0.3         | PLX, PVT      | PVD       |
| Consumer Discretionary Distribution & Retail | 0.3         | MWG           |           |
| Technology Hardware & Equipment              | 0.4         | DGW           |           |
| Financial Services                           | 0.4         |               | VND, VCI  |
| Capital Goods                                | 0.4         | VPG           | REE, GEX  |
| Banking                                      | 0.7         | MSB, VCB, EIB |           |
| Transportation                               | 0.7         | VJC           | GMD       |
| Software & Services                          | 0.8         | FPT           |           |

Source: RongViet Securities

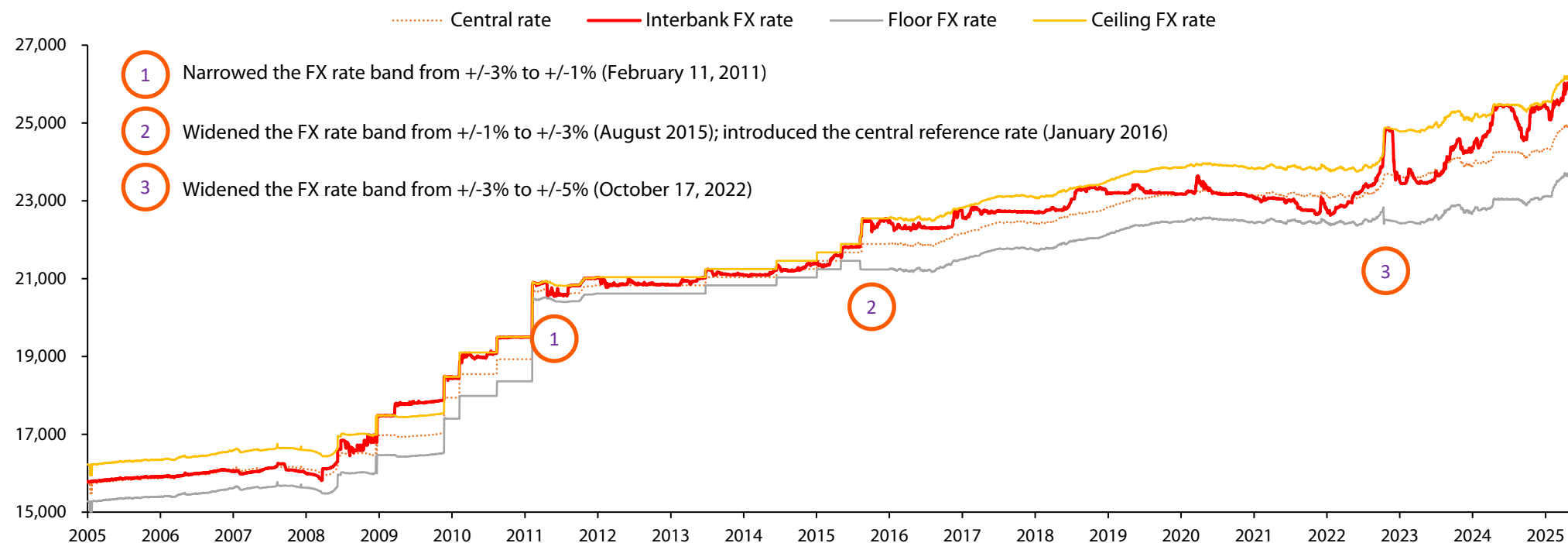
<sup>1</sup> We filtered for stocks that recorded FX gains/losses during 2020–2024 based on the ratio of FX gains/losses to revenue. We then recalculated the sector index using this subset and calculated the correlation coefficient with the USD/VND exchange rate, using 2020 as the base year.

<sup>2</sup> Companies within the filtered group that recorded frequent and material FX gains/losses during 2020–2024.

- **The software technology sector, represented by FPT, shows the highest and most positive correlation with the exchange rate;** FPT's average foreign revenue share reached 46% during 2022–2024, mainly driven by software export activities.
- **The transportation sector also exhibits a positive correlation with the exchange rate, with key representatives including VJC and GMD.**
  - VJC frequently records FX gains, likely due to revenue from international transportation and aircraft sales & leaseback activities; as of the end of 2024, US dollar-denominated debt accounted for only about 12% of VJC's total debt.
  - GMD does not have USD-denominated debt; its foreign currency transactions are primarily related to collecting payments from shipping lines, and the company employs currency risk hedging, making the impact of VND depreciation on its performance negligible.
- Although **the banking and real estate sectors show high correlation with the exchange rate, we have not found compelling evidence** from the business operations of companies in these sectors that VND depreciation delivers either positive or negative effects.
- We have also **found no convincing evidence of a negative correlation between the healthcare sector and the exchange rate.**
- **The negative correlation between the utilities sector and the exchange rate may stem from foreign currency borrowings** (e.g., POW, PVG), while GAS frequently records FX gains due to revenues and costs being denominated in USD.
- Notably, **the correlation for the consumer staples sector, represented by textiles and garments, is nearly zero.** This may be attributed to the effective currency risk hedging strategies adopted by companies in this sector.

| PRIVILEGES                                 | INTERPRETATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Easy deficit financing                     | As the world’s primary reserve currency, the US is able to issue debt in US dollars to finance fiscal deficits without concern for exchange rate risk or a lack of buyers. This privilege allows the US to borrow at low cost and sustain high levels of government spending.                                                                                                                                                                                                  |
| Trade imbalances                           | The persistent US trade deficit has led other countries—especially China and Japan—to accumulate large USD reserves, creating a relationship of mutual dependence: these countries rely on the US market for their exports, while the US relies on their capital to finance its deficits.                                                                                                                                                                                      |
| Exchange rate and interest rate volatility | Excessive US debt issuance can lead to inflation and higher interest rates, creating pressure on other economies—particularly emerging markets with high levels of USD-denominated debt.                                                                                                                                                                                                                                                                                       |
| Financial system risks                     | Dependence on the US dollar makes the global financial system vulnerable to economic and political shocks originating in the United States.                                                                                                                                                                                                                                                                                                                                    |
| USD as a tool for sanctions                | The US froze USD 5 billion in assets belonging to Russia’s central bank to prevent the country from using the world’s reserve currency to support the ruble (Maizland & Berman, 2024). Furthermore, around USD 350 billion—half of Russia’s total foreign exchange reserves—has been frozen (British Broadcasting Corporation, 2024).                                                                                                                                          |
|                                            | Major Russian banks have also been banned and removed from the SWIFT interbank financial messaging system, which handles most international money and securities transfers (Seth, 2023).                                                                                                                                                                                                                                                                                       |
|                                            | Since March 2022, the US has imposed a full ban on Russian crude oil and coal imports, and has encouraged other major economies, including the European Union, to ban seaborne imports of Russian crude. The US and its G7 allies have also implemented a price cap on Russian crude to limit the country’s energy export revenues.                                                                                                                                            |
|                                            | <p>The US Department of Commerce has further restricted exports of high-tech products—including aircraft equipment and semiconductors—to limit Russia’s military capabilities. Additionally, some Western countries have banned the export of technologies that could be used in weapons production.</p> <p>➤ The US Treasury estimates that these sanctions have reduced Russia’s economic growth by 5% over the past two years (British Broadcasting Corporation, 2024).</p> |

**Figure 44: Evolution of USD/VND exchange rate management**



Source: NHNN, RongViet Securities

- **Vietnam operates a managed floating exchange rate regime.**
- SBV announces a central reference rate, which is determined based on the weighted average interbank exchange rate, the movements of major international currencies (those of countries with significant trade, borrowing, repayment, or investment relations with Vietnam), macroeconomic and monetary balances, and in line with the SBV's monetary policy objectives.
- At the same time, the SBV adjusts the exchange rate band in response to market fluctuations, typically during periods of heightened depreciation pressure on VND. The current trading band is +/-5%. In addition, the SBV intervenes in the foreign exchange market using its reserves, both through spot and forward transactions, to stabilize the exchange rate as needed.

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