

VIETNAM MONEY MARKET AND BOND MARKET REPORT AUGUST 2026

**EXCHANGE RATES AND INTEREST
RATES AMIDST TIGHTENING GLOBAL
FINANCIAL MARKETS**

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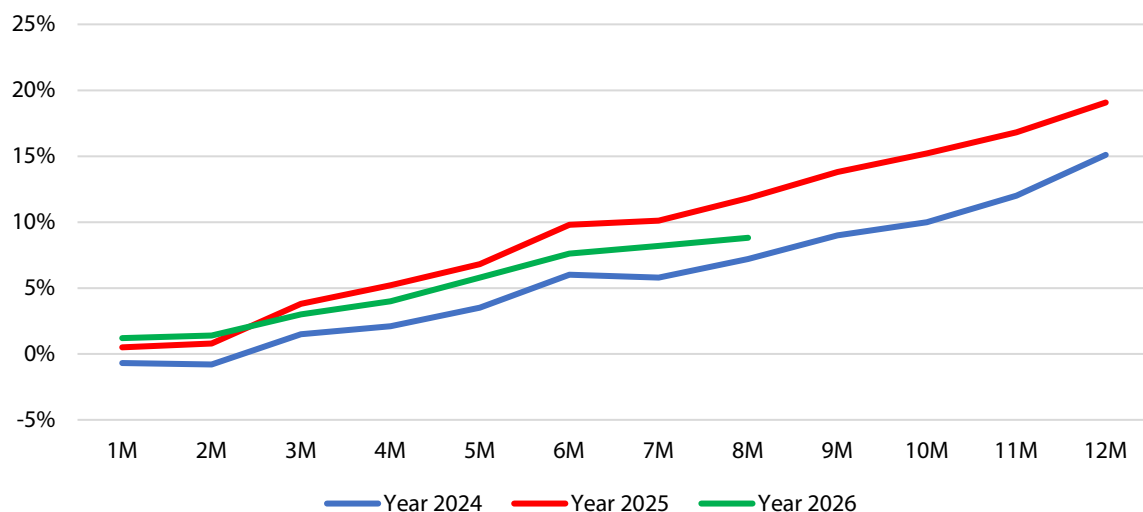
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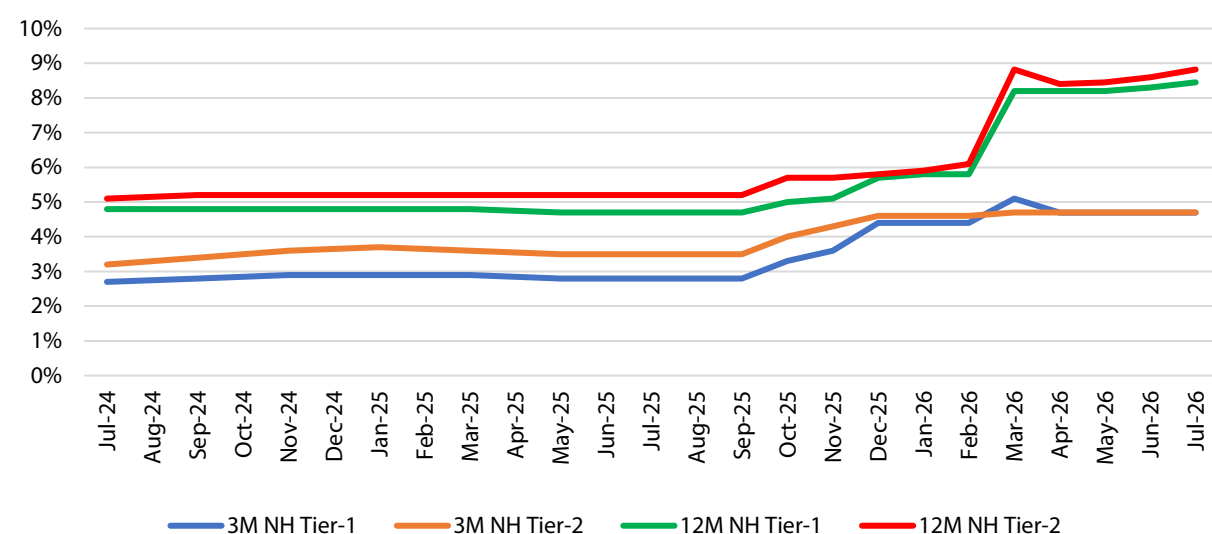
- The consequence of interest rates remaining at high levels for an extended period is that the pace of VND capital mobilization continued to improve and grew faster than credit growth in August. However, the gap between credit growth and mobilization remains consistent with the end of 2025, as high credit demand continues to exert pressure on interest rate levels.
- However, the issue becomes even more noteworthy when considering the shift in the maturity structure of funding. The cash flow returning to the system in a high-interest-rate environment not only increases costs but also shows a strong trend toward longer maturities. This has significant implications for banks' cost of funds. As the proportion of long-term funding increases, the actual cost of funds (COF) may be significantly higher than the level reflected solely by the average deposit interest rate.
- After two months of net withdrawal, the State Bank of Vietnam (SBV) injected liquidity via the OMO channel in August (the SBV made a net injection of over VND 64.7 trillion during the period). This brought the volume of OMO outstanding in the system to over VND 237.2 trillion (+38% compared to the end of July). The SBV's net injection helped the overnight interbank interest rate maintain a steady downward trend from the beginning of the month, even hitting a 1-month low of 1.2% on August 27. In addition to Treasury deposits, maintaining a reasonable level of OMO is necessary to stabilize interbank interest rates. In August, the increase in OMO volume was a positive sign, contributing to cooling down interbank interest rates. However, the instability of interbank interest rates is a point to note; therefore, the regulation of OMO volume in the coming time needs to be closely monitored.
- The decline of the USD, the VND-USD interest rate differential remaining in positive territory, and the sharp 97% reduction in the trade deficit in August compared to July helped the USD/VND exchange rate continue to cool down positively during the period, while the gap between domestic and world gold prices narrowed significantly, thereby contributing to reducing pressure on the foreign currency market. Although the domestic currency has maintained a relatively stable position recently, we believe there are still pressures on the exchange rate in the coming time as the USD is expected to continue to be supported by oil prices, amidst the still complex Middle East conflict. Additionally, the probability of the Fed raising interest rates this year remains present. Furthermore, risks from US tariff policies could also be a factor exerting pressure on the domestic exchange rate. Conversely, the VND is expected to continue to be supported by: (1) High domestic interest rates; (2) Positive FDI inflows; (3) Expectations that the trade deficit will gradually narrow toward the end of the year as the volume of input materials imported in the first months of the year is converted into goods when entering the peak production season.
- Although the free-market exchange rate is cooling down, the SBV still maintains room for the exchange rate to rise again: the regulatory body has gradually raised the central exchange rate (September 15, 2026: The SBV raised the central exchange rate to 25,617), to guard against the risk of a widening trade deficit and the possibility of the market repricing Fed policy in a more hawkish direction.
- In the short term, government bond (G-bond) yields are likely to move sideways to slightly increase, especially for 5-10 year tenors. Weak demand in the primary market could create certain pressure on yields. Besides, the trend of rising US Treasury yields and bonds in developed markets due to inflation and fiscal concerns could also affect domestic yield levels. Conversely, the State Bank of Vietnam still maintains a large volume of open market operations (OMO) outstanding, while short-term liquidity in the interbank market is relatively stable. These factors help limit pressure on yield levels, thus the probability of G-bond yields rising rapidly in the short term remains relatively low.
- Accumulated in the first 8 months of the year, the total value of corporate bonds issued reached VND 348,980 billion. Banks remain the largest issuer group, accounting for 54% of the total value, followed by real estate with 39%. While capital flows in the market are tilted toward banks, the real estate group faces significantly higher funding costs. The average coupon rate for bank bonds in August was about 8.7%/year, while real estate bonds reached 12.2%/year.
- The Fed is facing some of the most difficult choices in years regarding interest rate policy, with many constraints such as stabilizing US Treasury yields and market expectations. In the context that Vietnam's macro factors still have positive points such as the declining exchange rate, improved short-term liquidity, and good capital inflows, a "hawkish" shock from the Fed could cause short-term noise, but the possibility of it turning into a prolonged VND interest rate hike is not high. Nevertheless, given the persistently high global interest rate environment, the Ministry of Finance would face significant costs if raising capital through USD-denominated government bond issuances.

Credit growth by month (cumulative) in the 2024-2026 period



Source: SBV, RongViet Securities compiles

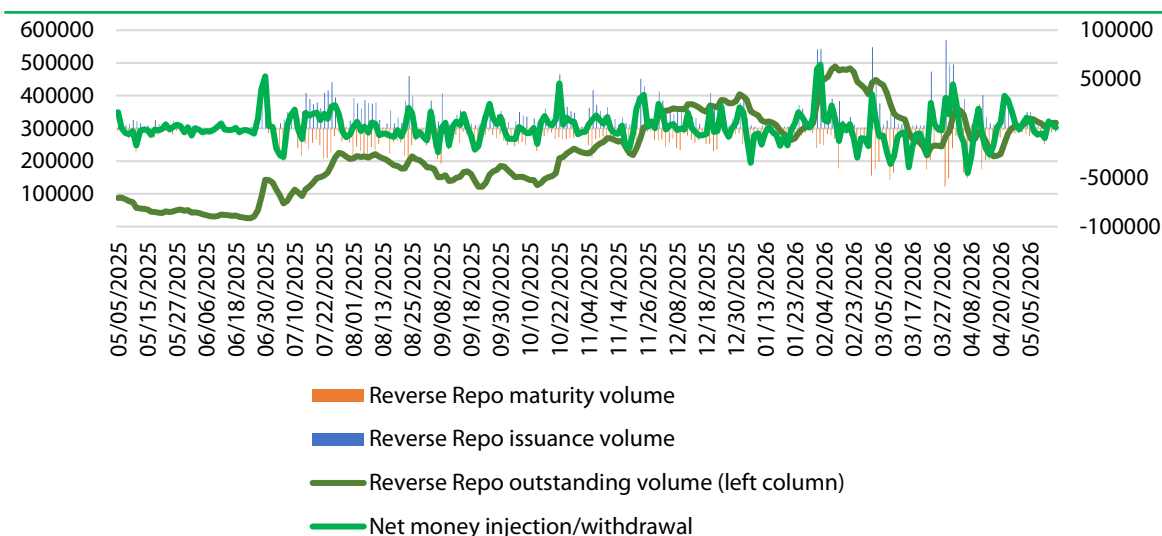
Deposit interest rate trends of banking groups



Source: SBV, RongViet Securities compiles

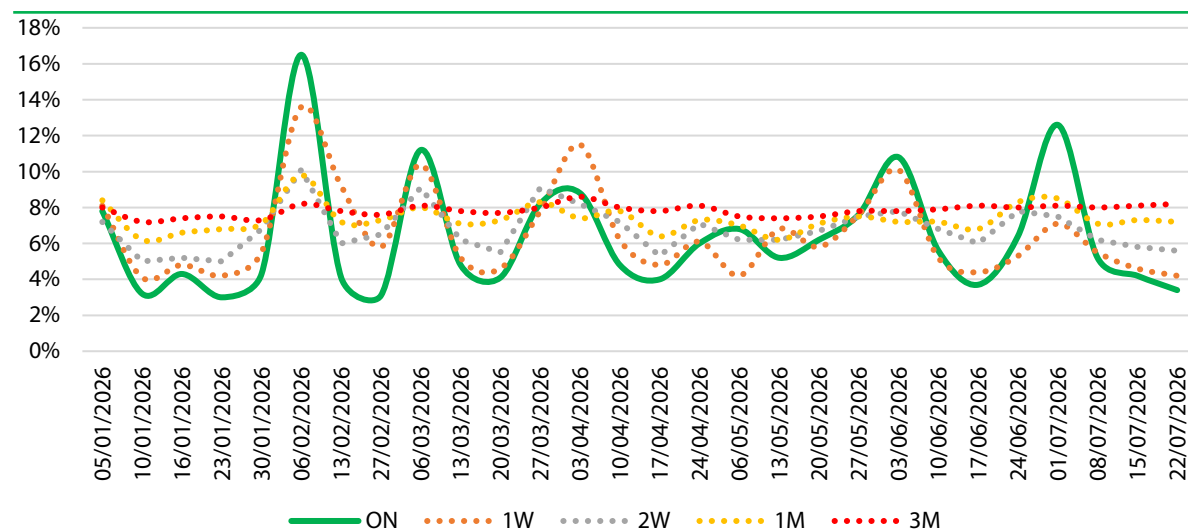
- The upward trend in deposit interest rates continued in August, with deposit rates adjusted with increases of 0.1 – 0.5 percentage points for 6-24 month tenors. Thanks to interest rates remaining at high levels, the pace of VND capital mobilization continued to improve and grew faster than credit growth in August (needs to be monitored in the coming time). As of August 20, total system credit outstanding increased by 0.2% compared to the end of July, while mobilization increased by 1%. However, the gap between credit growth and mobilization remains consistent with the end of 2025 in the context of high credit demand (especially for medium and long-term capital) and exerts pressure on interest rate levels.
- However, the issue becomes even more noteworthy when considering the shift in the maturity structure of funding. As we have analyzed, the cash flow returning to the system in a high-interest-rate environment not only increases costs but also has a **strong trend toward longer maturities**. This has significant implications for banks' cost of funds. As the proportion of long-term funding increases, the actual cost of funds (COF) may be significantly higher than the level reflected solely by the average deposit interest rate.
- Banks are therefore under pressure from both sides: on one hand, they must mobilize capital at higher costs and for longer maturities; on the other hand, they face demands to maintain or reduce lending rates. At the same time, the pressure to issue certificates of deposit (CDs) and credit institution bonds (FiBonds) continues to pull the funding structure toward longer maturities. As a result, short-term deposit sources are becoming increasingly important, but this supply depends significantly on cash flows from the State Treasury – a source of capital that banks cannot proactively control. In that context, the immediate issue to be considered is not necessarily a strong intervention in interest rate levels, but rather a broader mechanism for accessing and utilizing State Treasury deposits in the system.
- If this mechanism continues to be limited, while long-term capital is increasingly relatively abundant compared to increasingly scarce short-term capital, liquidity pressure will not only exist at long maturities but has the potential to spread to short maturities (deposit interest rates remain high for longer than expected and could spread to short maturities).

Developments in the open market in the 08/2025-08/2026 period (billion VND)



Source: SBV, RongViet Securities compiles

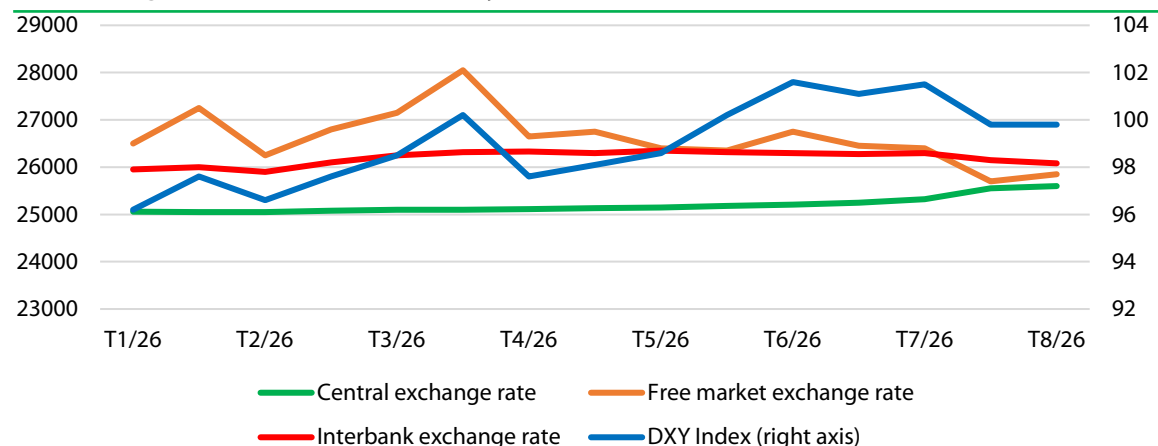
Interbank interest rates year-to-date



Source: SBV, RongViet Securities compiles

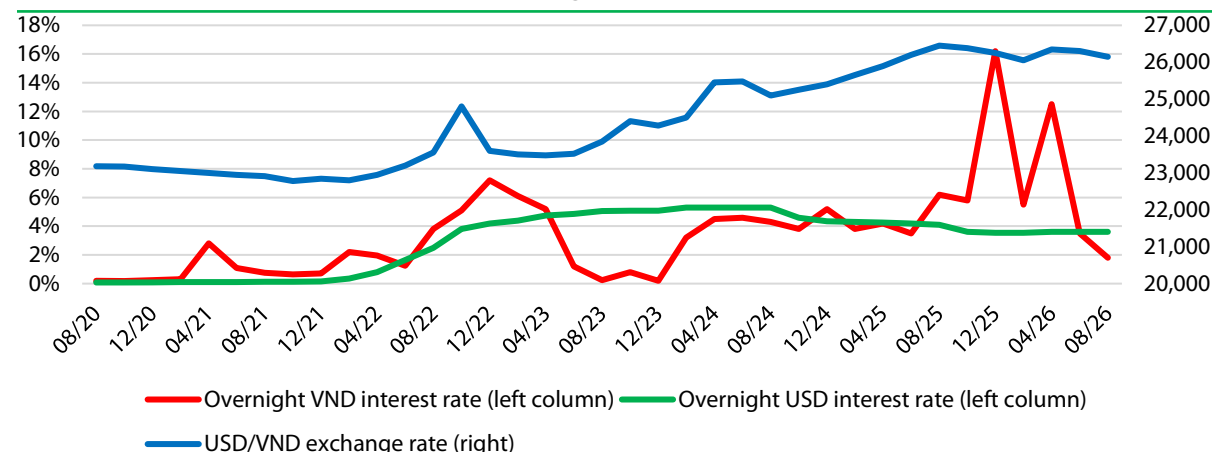
- After two months of net withdrawal, the SBV made a net injection in August. Specifically, during the period, the SBV injected nearly VND 232.7 trillion through the OMO channel (more than double compared to July), with tenors of 7-91 days and an interest rate of 4.5%. Meanwhile, the volume of maturing OMO reached nearly VND 168 trillion. Accordingly, the SBV made a net injection of over VND 64.7 trillion during the period. This brought the volume of OMO outstanding in the system to over VND 237.2 trillion (+38% compared to the end of July).
- The SBV's net injection helped the overnight interbank interest rate maintain a steady downward trend from the beginning of the month, even hitting a 1-month low of 1.2% on August 27. By the last day of the month, the overnight rate reversed and rose sharply to its highest level since the end of June at 7%. However, this increase is considered seasonal as liquidity pressure often tends to increase before long holidays. Data updated to September 4 shows that the overnight rate has cooled back down to 4.4%. For 1-week to 1-month tenors, interest rates at the end of August fluctuated between 6.8% - 7%. Meanwhile, the 6-month tenor ended the month at 8.05%.
- As analyzed in the previous report, in addition to Treasury deposits, maintaining a reasonable level of OMO is necessary to stabilize interbank interest rates. In August, the increase in OMO volume was a positive sign, contributing to cooling down interbank interest rates. However, the instability of interbank interest rates is a point to note; therefore, the regulation of OMO volume in the coming time needs to be closely monitored (maintain or increase the current OMO volume and extend the OMO tenor).

Exchange rate developments year-to-date



Source: SBV, RongViet Securities compiles

Interbank interest rate and exchange rate developments

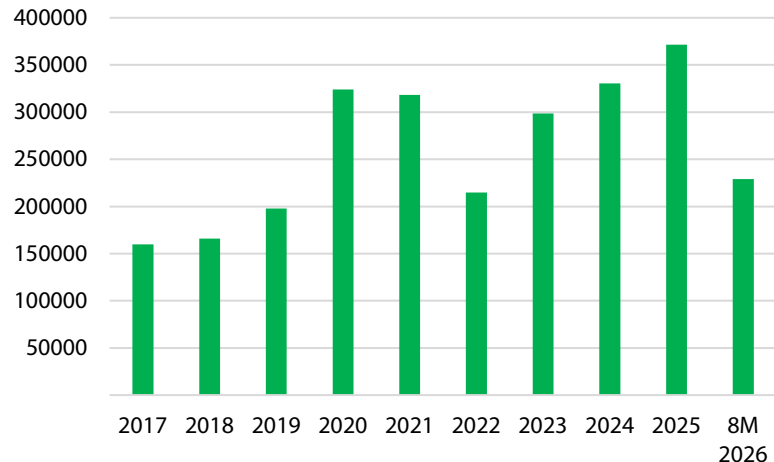


Source: SBV, RongViet Securities compiles

- The decline of the USD, the VND-USD interest rate differential remaining in positive territory, and the sharp 97% reduction in the trade deficit in August compared to July helped the USD/VND exchange rate continue to cool down positively during the period, while the gap between domestic and world gold prices narrowed significantly, reducing the incentive for unofficial gold imports - which requires free-market USD, thereby contributing to reducing pressure on the foreign currency market. Specifically, the interbank USD/VND exchange rate at the end of August was 26,083 VND/USD (-0.7% YTD) - down 0.8% compared to the end of July, marking the 4th consecutive month of decline. Along with that, the free-market exchange rate also fell sharply by 1.5% in the month to 25,875 VND/USD (-3.9% YTD).
- Although the domestic currency has maintained a relatively stable position recently, we believe there are still pressures on the exchange rate in the coming time as the USD is expected to continue to be supported by oil prices, as world oil prices in August rose back above \$90/barrel in the context of the still complex Middle East conflict. Additionally, the probability of the Fed raising interest rates this year remains present as employment data in August (just released on September 7) and CPI data (released on September 11) show that the US economy's resilience is quite good and inflation remains persistent, thereby reinforcing market expectations of a Fed rate hike. Furthermore, risks from US tariff policies could also be a factor exerting pressure on the domestic exchange rate.
- Conversely, the VND is expected to continue to be supported by: (1) High domestic interest rates; (2) Positive FDI inflows; (3) Expectations that the trade deficit will gradually narrow toward the end of the year as the volume of input materials imported in the first months of the year is converted into goods when entering the peak production season.
- Although the free-market exchange rate is cooling down, the SBV still maintains room for the exchange rate to rise again: the regulatory body has gradually raised the central exchange rate (September 15, 2026: The SBV raised the central exchange rate to 25,617), to guard against the risk of a widening trade deficit and the possibility of the market repricing Fed policy in a more hawkish direction.

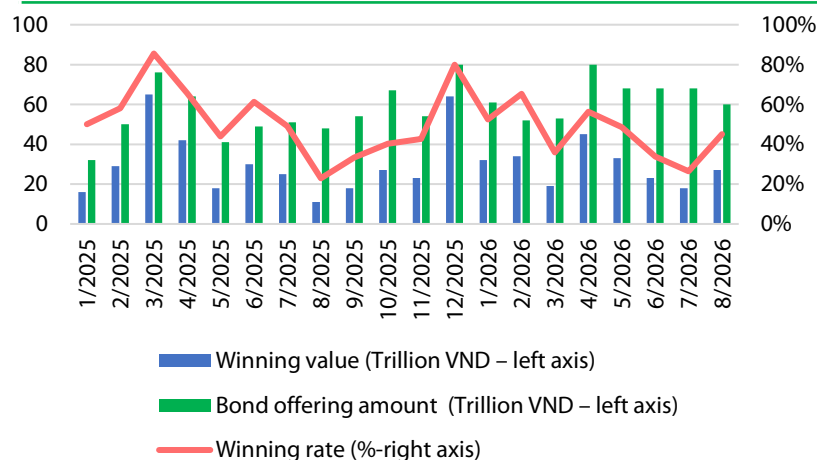
- The USD/VND exchange rate has fallen below 26,000, while foreign currency inflows continue to support, creating significantly more favorable conditions for domestic monetary policy. At the same time, short-term liquidity has shown signs of improvement, while imbalances in the system's funding tend to self-adjust over time (which may take longer than expected). In that context, if the Fed only sends a "hawkish" message instead of actually creating another strong rate hike, the current VND-USD interest rate differential may still be reflecting too much risk premium. Short-term risks still exist, but with the exchange rate and inflows being favorable, the possibility of an external shock turning into a prolonged market interest rate hike has relatively decreased. Therefore, it is difficult to expect long-term interest rates to fall sharply immediately, but the risk of interest rates continuing to rise has decreased significantly.
- If current conditions persist, a more reasonable trend for the end of the year is for interest rate levels to move sideways before forming room for a decline, rather than continuing to rise. In summary: the exchange rate is falling, inflows are supportive, short-term liquidity is less strained (public spending has improved, Treasury deposits continue to increase), and imbalances in the system tend to self-adjust. In that context, **a "hawkish" shock from the Fed** could still cause short-term noise, but the possibility of it turning into a prolonged VND interest rate hike is lower. Therefore, the reasonable scenario for the end of the year is not "sharp interest rate cuts," but rather that there is not much room left for interest rates to rise and space is gradually forming for interest rates to fall.
- However, the point to note here is that the interest rate reduction process will not be fast but could take place quite slowly due to the current structural problem on banks' balance sheets, despite much information about the SBV's support such as refinancing for commercial banks.

Value of G-bond issuance 2017-present (billion VND)



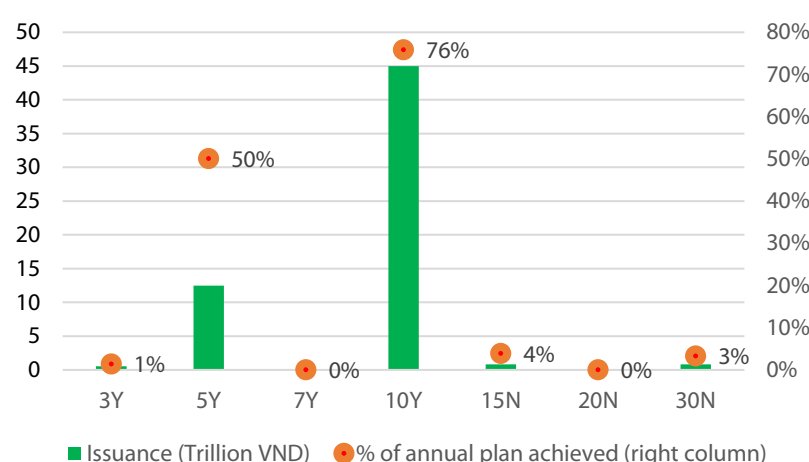
Source: HNX, RongViet Securities compiles

G-bond bid-to-cover ratio and winning ratio



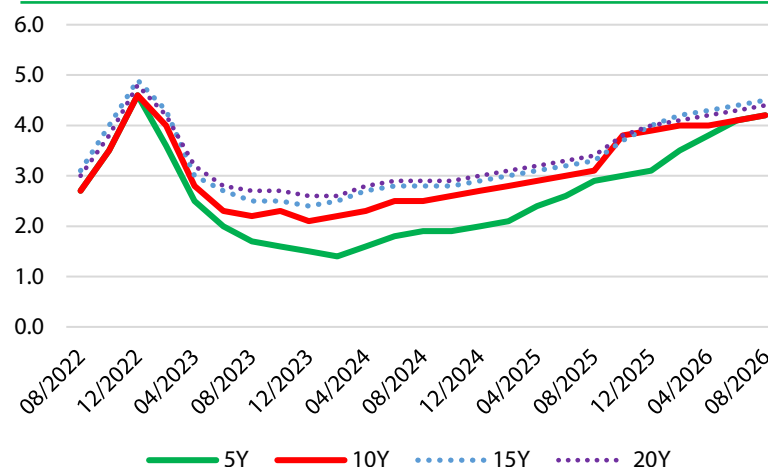
Source: HNX, RongViet Securities compiles

Value of G-bond issuance by tenor



Source: HNX, RongViet Securities compiles

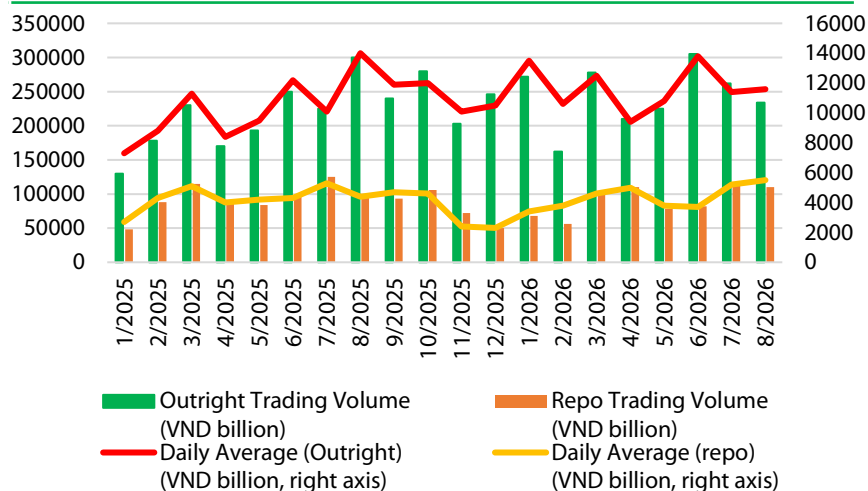
Primary market winning interest rates for some common tenors (%)



Source: HNX, RongViet Securities compiles

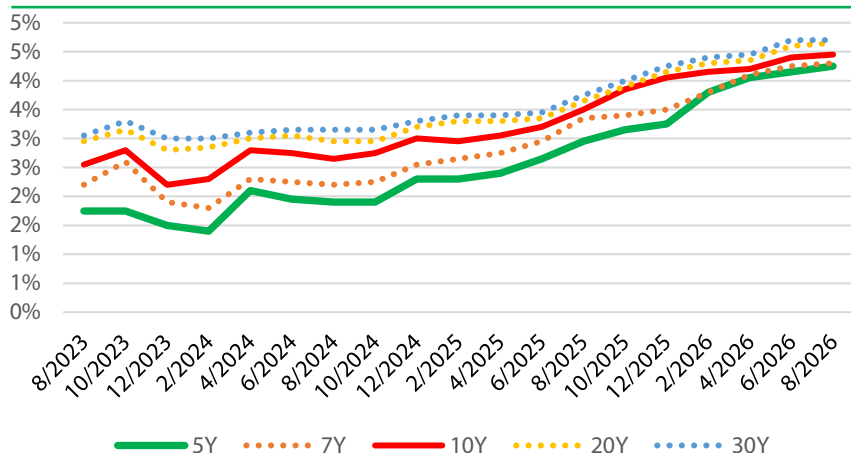
- In August 2026, the State Treasury held 20 auctions of government bonds with a total offering value of VND 60,000 billion, with a winning ratio of 46.3%.
- The State Treasury offered 3, 5, 10, 15, and 30-year tenors. Among them, the 5-year tenor accounted for 51.2% of the winning value, reaching VND 14,207 billion (winning/offering ratio reached 61.8%). The 10-year tenor won VND 12,950 billion (winning/offering ratio reached 44.7%), the 15-year tenor won VND 550 billion (ratio of 13.8%), and the 30-year tenor won VND 50 billion (ratio of 2.5%). The 3-year tenor did not win. The average issuance tenor in August was 7.58 years. The average winning interest rate reached 4.32%/year, an increase compared to 4.27% in July 2026.
- The total value of G-bonds issued through auctions in the first 8 months of 2026 was VND 228,921 billion, reaching 45.8% of the annual plan (VND 500,000 billion). In which, the value of G-bonds issued in Q3 reached 38.6% of the quarterly plan (VND 120,000 billion).
- In general, in the context that bank deposit interest rates remain high, the economy's credit capital demand remains large, and public investment disbursement has not increased too strongly, the demand for holding and issuing G-bonds has declined. Besides, G-bond yields remain low, contributing to making G-bonds less attractive.

G-bond trading value (billion VND)



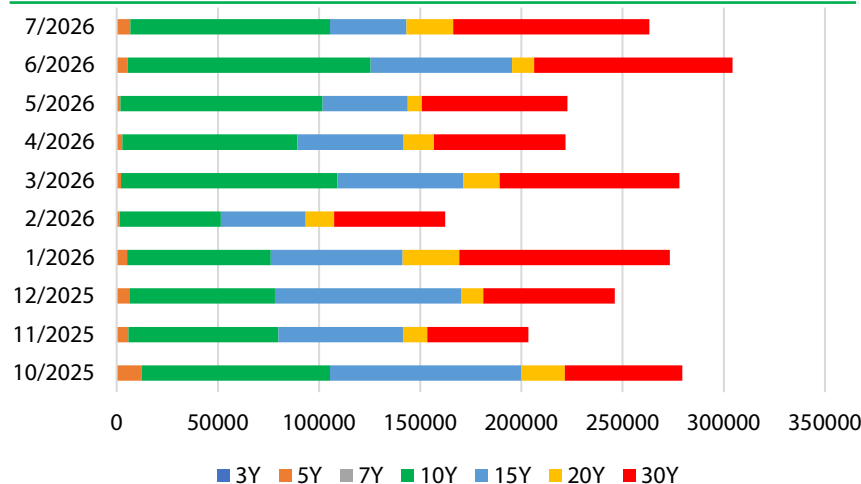
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G-bond yield developments by tenor



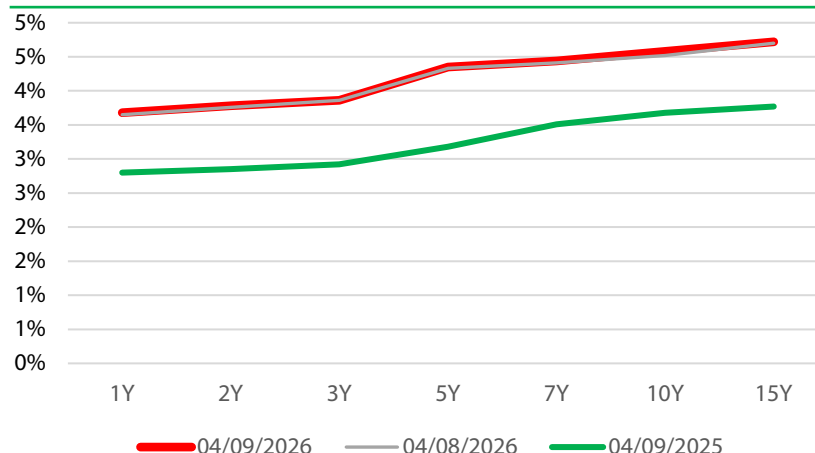
Source: HNX, RongViet Securities compiles

Trading value by tenor (billion VND)



Source: HNX, RongViet Securities compiles

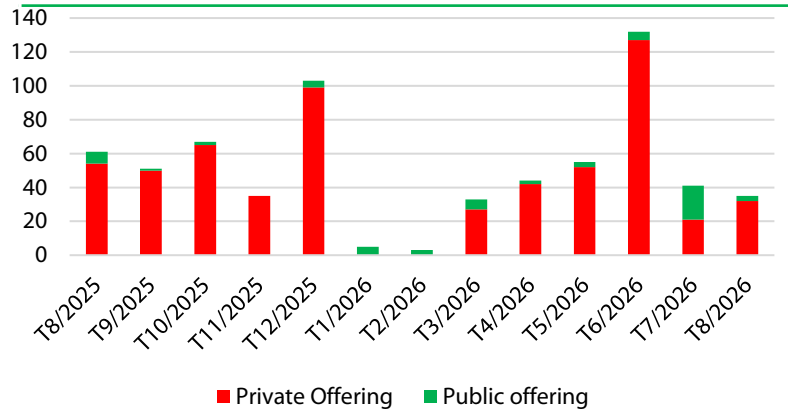
Yield curve at specific points in time



Source: HNX, RongViet Securities compiles

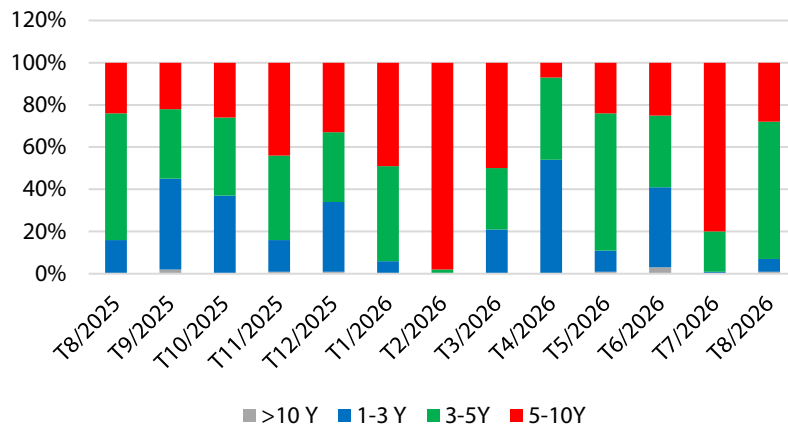
- Outright trading value was VND 233,808 billion (down 11.2% month-on-month) and Repo trading value was VND 109,759 billion (down 8.9% month-on-month).
- Average daily liquidity of Outright transactions was VND 11,690 billion and Repo transactions was VND 5,488 billion, down 11.2% and 8.9% respectively compared to the same period last month.
- Currently, the 10-year G-bond yield is at 4.57%/year, an increase of about 40 basis points since the beginning of 2026. This yield level is still significantly lower than about 10 years ago and relatively stable in the context of volatile yields in many international markets.
- In the short term, G-bond yields are likely to move sideways to slightly increase, especially for 5-10 year tenors. Weak demand in the primary market could create certain pressure on yields. Besides, the trend of rising US Treasury yields and bonds in developed markets due to inflation and fiscal concerns could also affect domestic yield levels.
- Conversely, the State Bank of Vietnam still maintains a large volume of open market operations (OMO) outstanding, while short-term liquidity in the interbank market is relatively stable. These factors help limit pressure on yield levels, thus the probability of G-bond yields rising rapidly in the short term remains relatively low.

Value of private and public corporate bond issuances (trillion VND)



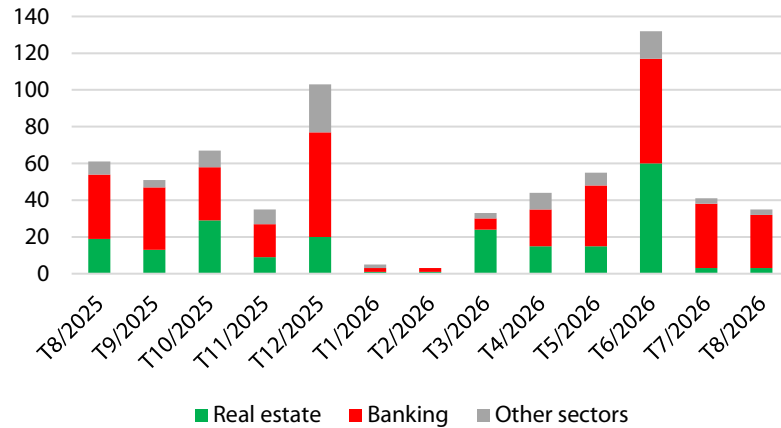
Source: HNX, RongViet Securities compiles

Maturity structure of newly issued corporate bonds by month



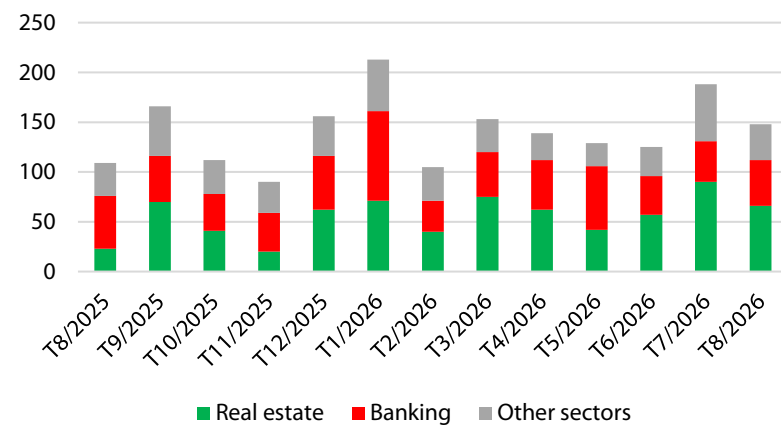
Source: HNX, RongViet Securities compiles

New issuance value by industry (trillion VND)



Source: HNX, RongViet Securities compiles

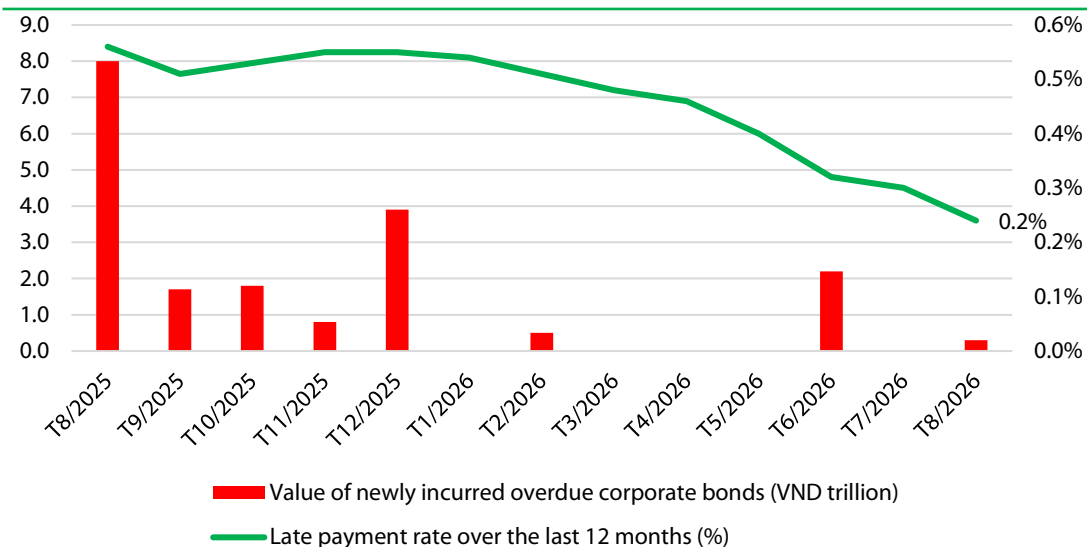
Corporate bond trading value on the secondary market by industry (trillion VND)



Source: HNX, RongViet Securities compiles

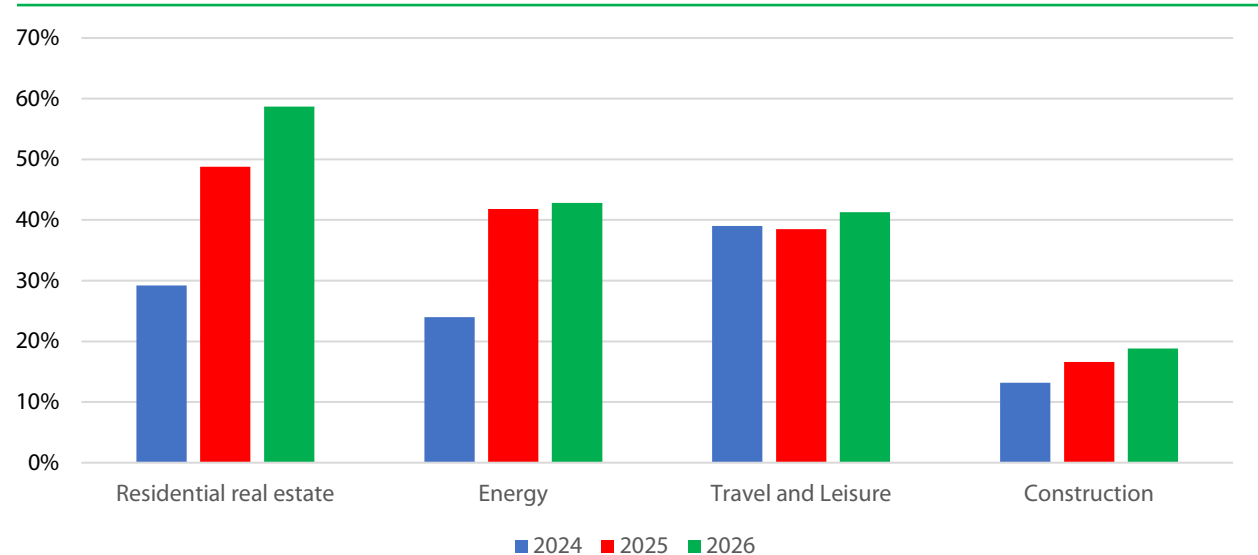
- As of August 28, 2026, the market recorded 33 corporate bond issuances in August, with a total value of VND 32,029 billion. In which, 25 private placements reached VND 25,629 billion and 8 public offerings reached VND 6,400 billion.
- Accumulated in the first 8 months of the year, the total value of corporate bonds issued reached VND 348,980 billion, including VND 295,942 billion in private placements and VND 53,038 billion in public offerings. Banks remain the largest issuer group, accounting for 54% of the total value, followed by real estate with 39% (In August, bonds issued by the banking group accounted for 82% of the total issuance value).
- Not only leading in issuance scale, banks also account for an overwhelming proportion of early bond buyback activities. Year-to-date, the total value of corporate bonds bought back early reached VND 199,172 billion, in which the banking group accounted for 87.6%, equivalent to VND 174,617 billion.
- While capital flows in the market are tilted toward banks, the real estate group faces significantly higher funding costs. The average coupon rate for bank bonds in August was about 8.7%/year, while real estate bonds reached 12.2%/year.

Value of newly incurred late corporate bond payments by month



Source: VBMA, RongViet Securities compiles

Recovery rate for late bonds by industry (%)



Source: VBMA, RongViet Securities compiles

- By the end of August, the total value of corporate bonds outstanding in the market reached over VND 1.49 quadrillion. By industry, Banking and Residential Real Estate continue to be the two largest pillars, with outstanding bond values of approximately VND 685 trillion and VND 446 trillion, respectively.
- Although the new issuance rate is significantly lower than that of banks, real estate remains the group under great pressure regarding bond obligations in the final months of the year. From now until the end of 2026, the total value of bonds due for payment is about VND 91,413 billion. In which, real estate accounts for VND 51,686 billion, equivalent to 56.5%, concentrated mainly in September and December. The banking group ranks second with VND 19,255 billion, equivalent to 21.1%.
- By the end of August, 90.2% of outstanding bonds were in normal status; 6.7% were late on interest payments and 3.1% were late on principal payments but had not yet been resolved. The late payment rate in the last 12 months decreased to 0.24%, from 0.30% the previous month. This development shows that credit quality in the bond market continues to show signs of improvement, but late payments still need to be monitored, especially in the context of real estate bonds maturing concentrated in the final months of the year.

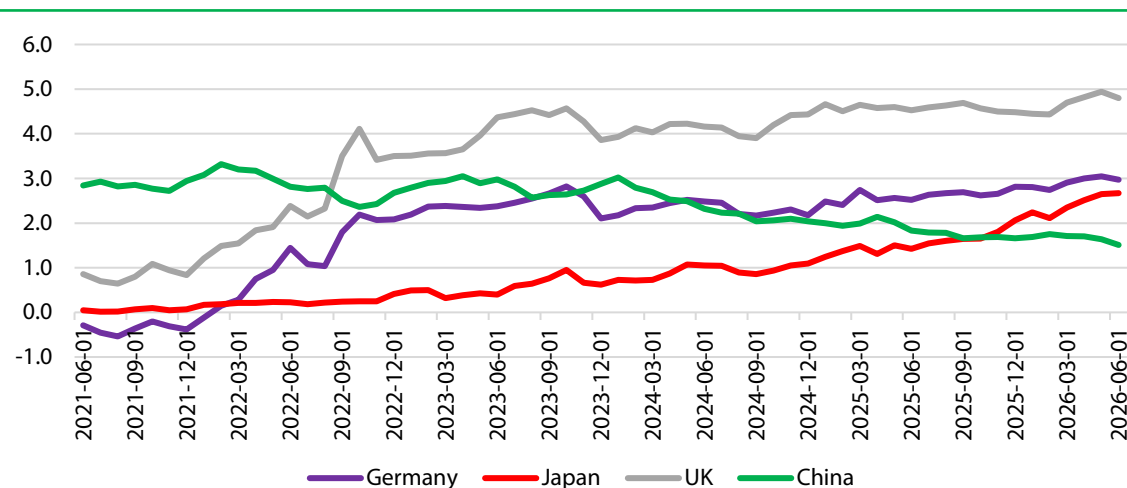
ISSUER	INDUSTRY	ISSUANCE VALUE (billion VND)	BOND CODE	ISSUANCE METHOD	ISSUANCE DATE	INTEREST RATE	TENOR (years)
VIETNAM PROSPERITY JOINT STOCK COMMERCIAL BANK	BANKING	1,600	VPB12606	PRIVATE	08/05/2026	8.8%/YEAR	3
JOINT STOCK COMMERCIAL BANK FOR FOREIGN TRADE OF VIETNAM	BANKING	2,000	VCB12606	PRIVATE	08/06/2026	12-MONTH VND DEPOSIT RATE (VCB, BIDV, CTG, AGRIBANK) + 2.1%/YEAR; IF NOT BOUGHT BACK: + 3.3%/YEAR (FROM YEAR 06)	10
JOINT STOCK COMMERCIAL BANK FOR INVESTMENT AND DEVELOPMENT OF VIETNAM	BANKING	150	BID12615	PRIVATE	08/05/2026	8%/YEAR	14
JOINT STOCK COMMERCIAL BANK FOR INVESTMENT AND DEVELOPMENT OF VIETNAM	BANKING	50	BID12614	PRIVATE	08/05/2026	24-MONTH VND DEPOSIT RATE (AGRIBANK, CTG, VCB, BIDV) + 2.2%/YEAR; IF NOT BOUGHT BACK: + 7.2%/YEAR (FROM PERIOD 06)	6
VIETNAM INTERNATIONAL JOINT STOCK COMMERCIAL BANK	BANKING	3,000	VIB12601	PRIVATE	08/04/2026	9%/YEAR	3
VINHOMES JOINT STOCK COMPANY	REAL ESTATE	2,000	VHM12615	PRIVATE	08/06/2026	FIRST 02 PERIODS: 12.5%/YEAR SUBSEQUENT PERIODS: BASE RATE + 2.0%/YEAR (MINIMUM 12.5%/YEAR)	3
TIEN PHONG JOINT STOCK COMMERCIAL BANK	BANKING	2,000	TPB12607	PRIVATE	08/03/2026	9.1%/YEAR	3
VIET A JOINT STOCK COMMERCIAL BANK	BANKING	600	TPVAB263301	PUBLIC	08/06/2026	12-MONTH VND DEPOSIT RATE (BIDV, CTG, AGRIBANK, VCB) + 3.5%/YEAR	7
HO CHI MINH CITY DEVELOPMENT JOINT STOCK COMMERCIAL BANK	BANKING	1,000	HDBL12610	PRIVATE	08/17/2026	8.9%/YEAR	3
MILITARY JOINT STOCK COMMERCIAL BANK	BANKING	200	MBBL12622	PRIVATE	08/14/2026	8.5%/YEAR	5
JOINT STOCK COMMERCIAL BANK FOR FOREIGN TRADE OF VIETNAM	BANKING	500	VCBL12608	PRIVATE	08/17/2026	12-MONTH VND DEPOSIT RATE (VCB, BIDV, CTG, AGRIBANK) + 1.97%/YEAR; IF NOT BOUGHT BACK: + 2.6%/YEAR (LAST 02 YEARS)	7

Source: HNX, RongViet Securities compiles

ISSUER	INDUSTRY	ISSUANCE VALUE (billion VND)	BOND CODE	ISSUANCE METHOD	ISSUANCE DATE	INTEREST RATE	TENOR (years)
JOINT STOCK COMMERCIAL BANK FOR INVESTMENT AND DEVELOPMENT OF VIETNAM	BANKING	100	BIDL12616	PRIVATE	08/10/2026	24-MONTH VND DEPOSIT RATE (AGRIBANK, CTG, VCB, BIDV) + 2.2%/YEAR; IF NOT BOUGHT BACK: + 7.2%/YEAR (FROM PERIOD 06)	6
VIETNAM INTERNATIONAL JOINT STOCK COMMERCIAL BANK	BANKING	2,000	VIBL12602	PRIVATE	08/11/2026	9.0%/YEAR	3
SAIGON - HANOI SECURITIES JOINT STOCK COMPANY	SECURITIES	456	SHSL12602	PRIVATE	08/14/2026	10.5%/YEAR	1
TANDOLAND JOINT STOCK COMPANY	REAL ESTATE	258	TDRL12603	PRIVATE	08/13/2026	FIRST 02 PERIODS: 13.0%/YEAR SUBSEQUENT PERIODS: BASE RATE + 5.1%/YEAR	5
JOINT STOCK COMMERCIAL BANK FOR FOREIGN TRADE OF VIETNAM	BANKING	150	VCBL12607	PRIVATE	08/10/2026	8.0%/YEAR	5
MML FARM NGHE AN COMPANY LIMITED	BANKING	500	FNACPO2631001	PUBLIC	08/13/2026	FIRST 02 PERIODS: 9.0%/YEAR SUBSEQUENT PERIODS: 12-MONTH VND DEPOSIT RATE (BIDV, VCB, CTG, AGRIBANK) + 3.2%/YEAR	5
MML FARM NGHE AN COMPANY LIMITED	BANKING	700	FNACPO2631002	PUBLIC	08/13/2026	FIRST 02 PERIODS: 9.0%/YEAR SUBSEQUENT PERIODS: 12-MONTH VND DEPOSIT RATE (BIDV, VCB, CTG, AGRIBANK) + 3.2%/YEAR	5
VINHOMES JOINT STOCK COMPANY	REAL ESTATE	1,000	VHML12616	PRIVATE	08/27/2026	FIRST 04 PERIODS: 11.0%/YEAR SUBSEQUENT PERIODS: BASE RATE + 5.1%/YEAR (MINIMUM 11.0%/YEAR, MAXIMUM 12.0%/YEAR)	2
HOME CREDIT VIETNAM COMPANY LIMITED	BANKING	600	HCVL12605	PRIVATE	08/21/2026	9.8%/YEAR	2
MILITARY JOINT STOCK COMMERCIAL BANK	BANKING	500	MBBL12623	PRIVATE	08/19/2026	12-MONTH VND DEPOSIT RATE (VCB, BIDV, CTG, AGRIBANK) + 3.1%/YEAR; IF NOT BOUGHT BACK: + 4.0%/YEAR (FROM YEAR 06)	6
HOME CREDIT VIETNAM COMPANY LIMITED	BANKING	200	HCVL12606	PRIVATE	08/24/2026	9.8%/YEAR	2

Source: HNX, RongViet Securities compiles

10-Year Government Bond Yields of some countries (%)



Source: Fred, RongViet Securities compiles

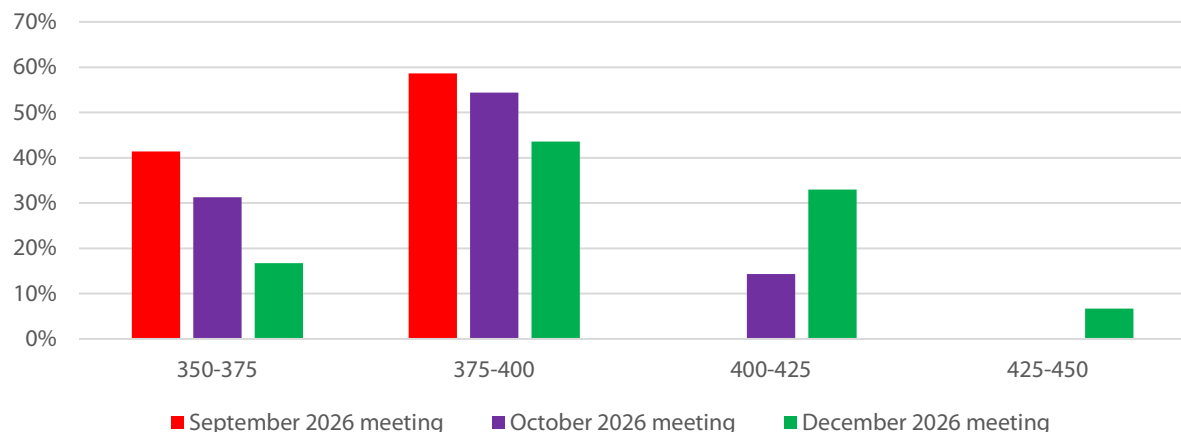
US 10-Year Government Bond Yield (%)



Source: Fred, RongViet Securities compiles

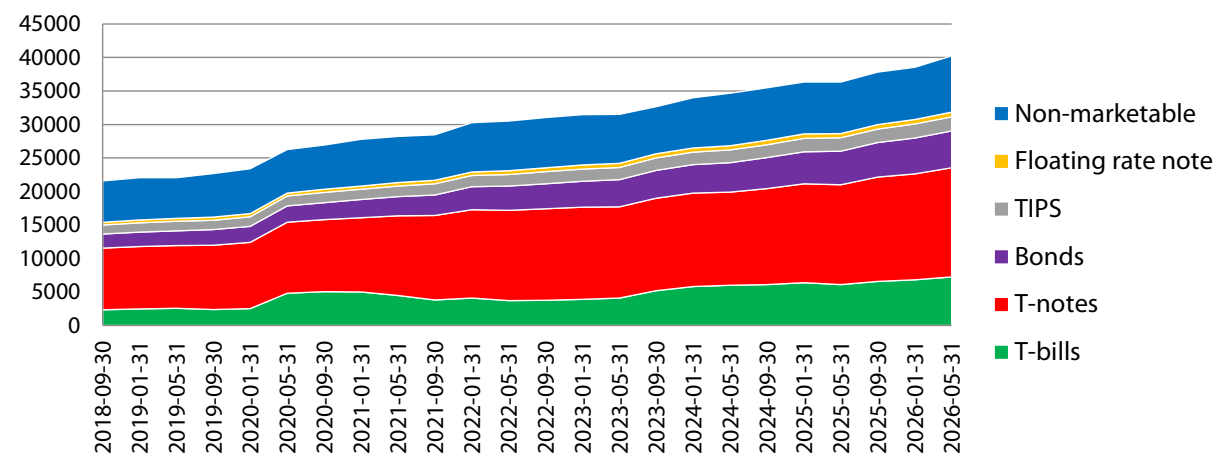
- Japan - one of the most important marginal buyers of the global fixed income market for many years - is showing signs of reversal. In the week ending August 22, Japanese investors net sold ¥1.98 trillion of long-term foreign bonds and ¥210.3 billion of short-term bills, equivalent to about ¥2.19 trillion in just one week. What is noteworthy is not just the scale of the capital flow, but the change in the mechanism behind it. As Japanese Government Bond (JGB) yields rise and the JPY carry trade gradually unwinds, the incentive for Japanese investors to continue holding international bonds becomes weaker. If the JPY carry unwind process (a headwind due to the Bank of Japan raising interest rates and the fact that Japan's interest rate hikes will continue) continues to take place on a large scale, Japan could shift from an important marginal buyer to a significant source of "repatriation flow" for the global bond market.
- China is another story. China has a very large amount of savings, low interest rates, and abundant liquidity (Chinese G-bond yields are very stable and low). In the context of trade wars and strategic competition, the PBoC does not have much incentive to continue increasing its holdings of US Treasuries (shifting to gold accumulation). This does not mean that China must dump US Treasuries; the greater risk is that China is no longer willing to absorb more long-term US Treasuries at the same pace as before.
- The Eurozone is another example of the inertia of inflation. Headline inflation in this region rose to 3.3%, the highest level in nearly three years, mainly due to pressure from energy, while core inflation fell slightly to 2.4%. This puts the ECB in a difficult situation. A response that is too weak could cause inflation expectations to become unanchored, but a response that is too strong could create unnecessary tightening for the economy. However, the ECB does not make decisions just because of energy prices. The 10-year German Government Bond has reached its highest level since 2011, while the UK and other European bond markets are also seeing yields rise sharply. This means that financial conditions have begun to tighten through the bond market even before the ECB implements more rate hikes. This is an important point: Central-bank tightening and market tightening are currently happening simultaneously.
- Therefore, the problem for US Treasuries today is not just liquidity. The US Treasury's Buyback program can improve market plumbing, but it cannot create foreign demand. If Japan continues to "repatriate" capital (a headwind from the JPY carry trade); China slows down the accumulation of US Treasuries; the ECB's tightening process has not stopped and US core inflation is still around 3.3%, the market will eventually have to self-adjust through: **a higher G-bond yield** (higher Treasury yields), a weaker USD, or the US domestic market having to absorb more US Treasuries (requiring a higher term premium) in the context of an increasing amount of US Treasuries.

Market expectations for the Fed's policy interest rate



Source: CME Fedwatch, RongViet Securities compiles

US Government debt structure (trillion Dollars)



Source: UST, RongViet Securities compiles

- On September 17, 2026, the Fed raised the federal funds rate by 25 basis points, bringing the target range to 3.75–4.00%—in line with market expectations. Furthermore, the "hawkish" tone adopted by Chairman Kevin Warsh—who projected at least one more rate hike this year—reinforces the view of a Fed monetary tightening cycle characterized by higher interest rates maintained for a longer period. The rate hike signals the Fed's readiness to act to control inflation and curb the government bond sell-off that has driven yields higher. Clarity regarding the policy response may be more significant than the specific rate level itself, especially given the greater uncertainty surrounding the monetary policy outlook (as the Fed limits its use of forward guidance).
- However, a Fed rate hike in the current environment could push US Treasury yields up across the entire maturity curve, complicating the challenge of stabilizing yields—as the US Treasury faces rising costs for both new debt issuance and refinancing. Additionally, the effectiveness of raising interest rates to address supply-side inflation warrants careful consideration.
- From another perspective, regarding Japan, if the Bank of Japan (BOJ) does not make a corresponding adjustment, the Fed's rate hike could widen the USD-JPY interest rate differential, thereby exerting further downward pressure on the yen. This pressure might prompt the Japanese Ministry of Finance to consider foreign exchange intervention. At the same time, if the BOJ raises rates or intervenes to support the yen, it could increase the risk of a contraction in "carry trade" positions—where investors borrow in yen to invest in higher-yielding assets. Under this scenario, capital repatriation or the sale of USD-denominated assets to purchase JPY could exert selling pressure on US Treasuries (UST) and support the yen. However, the magnitude and net impact on UST yields and the DXY index depend on the specific assets liquidated, the scale of transactions, and market demand for safe-haven assets. Furthermore, the Federal Reserve's interest rate policy should be considered alongside its balance sheet policy. Given the need to balance multiple objectives—such as controlling inflation and assisting the US Treasury in stabilizing government bond yields—the Fed might simultaneously raise interest rates and expand its balance sheet. This contrasts with the 2023–2025 period, characterized by rate cuts alongside balance sheet contraction.
- Amid Vietnam's positive macroeconomic backdrop—featuring a declining exchange rate, improved short-term liquidity, and robust capital inflows—a "hawkish" shock from the Fed could cause short-term volatility, though it is unlikely to trigger a prolonged rise in VND interest rates. Nevertheless, given the persistently high global interest rate environment, the Ministry of Finance would face significant costs if raising capital through USD-denominated government bond issuances.

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