

VIETNAM AMID NEW WAVES OF TARIFFS

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- Persistently high inflation and a strong labor market led the Fed to hold interest rates steady for the fifth consecutive time at its July meeting, despite ongoing and intense pressure from President Trump. We believe the Fed will resume rate cuts at the September meeting, likely lowering rates by 0.25% to a range of 4.00–4.25%.
- On August 1, 2025, President Trump signed an executive order introducing a revised retaliatory tariff schedule targeting U.S. trade partners, replacing the previous tariff list. The new tariff rates range from 10% to 40%, with most rates lowered compared to the earlier version.
- We believe 20% tariff rate assigned to Vietnam is a noteworthy outcome compared to the initial 46% rate, despite being slightly higher than that of some regional peers. This is due to: (1) relatively minor differences in tariff rates among countries, (2) recent VND depreciation, which has partially offset impacts of higher tariffs, and (3) strong penetration of Vietnamese goods into non-U.S. markets.
- USD/VND remains under pressure amid SBV's loose monetary policy, currently trading around 26,250. We expect it to stay within 26,100–26,300 in short term and ease to 25,900–26,000 by year-end, driven by stronger foreign currency inflows (FDI, capital markets) and the end of peak import demand.
- Deposit rates are expected to remain stable around 4.6–5.0%, while interbank rates will likely stay elevated at 4.5–5.5%.

1. Fed holds interest rates steady for the 5th consecutive time

Despite strong pressure from President Trump, Fed kept interest rates unchanged at 4.25–4.50% during its late-July meeting. In the post-meeting statement, FOMC noted that while economic growth slowed in 1H2025, the labor market remained strong and inflation increased. Fed reaffirmed its commitment to achieving full employment and returning inflation, measured by the PCE index, to 2% target. With June's PCE reading exceeding expectations (2.6% vs. 2.5%) and staying above 2% threshold, a rate cut is unlikely to happen as soon as markets had previously expected.

Several notable points from this FED meeting:

(1) Two Board of Governors' members—Michelle Bowman and Christopher Waller—voted against consensus decision. Unlike regional Federal Reserve Bank presidents (only 4 out of 11 vote each year on a rotating basis), Board of Governors' members and New York Fed President—hold permanent voting rights. This is the first time since 1993 that multiple Fed governors dissented in one meeting. Bowman and Waller are both seen as potential successors to Chair Powell, whose term ends in May 2026.

(2) Speaking after the meeting, when asked about the possibility of a rate cut in September, Chair Powell gave no specific commitment. He stated that the Fed would monitor upcoming economic data ahead of the next meeting, including two jobs reports and two CPI releases—both of which could face upward pressure due to the implementation of new tariffs and the recent rise in oil prices.