MACRO INSIGHTS: US YIELDS HIT A 19-YEAR HIGH - PRESSURE SPILLS OVER TO VIETNAM

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- The 10-year US Treasury yield (UST10Y) rose to 5.18%, its highest since July 2007, while the DXY climbed above 101. On 16/09, the Fed raised rates by 25 bps to 3.75-4.00%, going against the easing expectations that followed Mr. Warsh taking office. The decision is justified as oil prices are rising again, inflation has stayed above target for more than five years and the US economy remains resilient.
- More fundamentally, the US Treasury market is facing a supply-demand imbalance. A budget deficit of about USD 2 trillion and USD 10 trillion of debt maturing over the next 12 months are creating heavy supply pressure, while China's holdings have fallen to their lowest since 2008. PHS expects the Fed to hike once more in 2026, to 4.00-4.25%, and the UST10Y is likely to hover in the 5.0-5.5% range.
- Domestically, inflation is approaching the 4.5% target ceiling, and government bond yields have risen across the curve. Heavy Q4 issuance and public investment funding needs will keep pushing yields higher. The exchange rate remains the biggest buffer. However, if inflows fall short of expectations, pressure on the exchange rate will build, and the SBV may have to raise the OMO rate above 5%.
- For equities, GDP growth prospects and the market upgrade are the main supports in the short term. Over the medium to long term, however, the VN-Index risks a correction to the 1,600-1,650.
- US yields can only cool if oil prices fall as the Iran conflict eases, bringing inflation down, and if the US reaches a broader deal with China that restores demand for US Treasuries.

1. US yields climb to a 19-year high

On 16/09, the FOMC voted unanimously (12-0) to raise the policy rate by 25 bps to 3.75-4.00%, the Fed's first hike since July 2023. The dot plot sent an even more hawkish signal: the median rate for end-2026 was raised to 4.1% (implying one more hike), while end-2027 was kept at 4.1% instead of the 3.6% projected in June. As a result, the **UST10Y jumped to 5.18% on 24/09 - its highest since July 2007**; the 30-year yield rose to 5.47% and the 2-year to 4.87%.

This is the complete opposite of what markets - and we - expected just a few months ago. When Kevin Warsh took office as Fed Chair (22/05), markets were pricing in a rate-cutting cycle, or at least flat rates. That view was reinforced as US-Iran tensions eased after the ceasefire of 08/04 and a preliminary peace agreement: flows through the Strait of Hormuz gradually recovered, and Brent briefly fell to USD 73.7/barrel in late June, the lowest since the conflict broke out. The US bond market regained confidence, with the UST10Y easing from around 4.7-4.8% to below 4.4%.

However, low oil prices lasted only about two weeks. The US resumed airstrikes on Iran (08/07) and reinstated oil sanctions, and by September the conflict had spread to tankers in Hormuz. Brent returned to USD 104.7/barrel and the UST10Y rose almost 80 bps in one go. At the same time, the DXY climbed from around 98.8 in early September to above 101 (24/09), its highest in nearly two months, as markets bet on further Fed tightening.