true friend KIS Viet Nam Securities Corporation

Economic Indicators

The interest and importance of economic indicators are increasing due to the U.S. FED's interest rate hike this year. Accordingly, the KIS Research Center aims to help investors understand by preparing reports that introduce major global economic indicators, starting with the U.S market. We hope that this report will be helpful in understanding global economic indicators centered on the U.S.

The Federal Funds Rate

The inflation is going to be high and remain higher, that means the neutral rate in the economy is also going to be higher because the price of goods are going up. When the rate goes up it will directly affect monetary and financial conditions, which in turn have a bearing on critical aspects of the broader economy including employment, growth, and inflation.

The Federal Funds Rate overview

The Federal Funds Rate (Fed rate) is the rate at which commercial banks borrow and lend their excess reserves to each other overnight.
The federal funds rate affects monetary and financial conditions, which in turn have a bearing on critical aspects of the broader economy including employment, growth, and inflation.

Description of the FED Board

The FOMC meets in Washington eight times a year and has twelve members: the seven members of the Board of Governors, the President of the Federal Reserve Bank of New York, and four of the other Reserve Bank Presidents, who serve in rotation.
The president of the Federal Reserve Bank of New York and members of the Board of Governors are permanent voting members.

How is the Federal Funds Rate used?

When inflation is too high, the Federal Reserve typically raises interest rates to slow the economy and bring inflation down. When inflation is too low, the Federal Reserve typically lowers interest rates to stimulate the economy and to move inflation higher. Every time the Fed increases or lowers its target rate, it could create high volatility in the market.

Fed ‘dot plot’ for 2022

The Fed's Dot Plot outlines policymakers' outlook for where interest rates will be in the future, represented by dots. Each dot on the chart represents the committee members' predictions. The market is divided into two opinions regarding the FED rate hike which are 4% and 5%. The Fed meeting decision will be released on 21st September 2.00pm U.S time; 22nd September 1.00am VN time and all analysts and investors are watching is closely to decide an appropriate strategy.

Economic Indicators

14 Sep 2022

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Latest economic indicators

The Philadelphia Manufacturing index	14th September 2022
The U.S CPI	9th September 2002
Unemployment Rate & Non-farm payroll	31st August 2022

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I. The Federal Funds Rate overview

DEFINITION

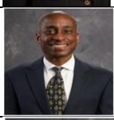
- The term federal funds rate refers to the target interest rate set by the Federal Open Market Committee (FOMC). This target is the rate at which commercial banks borrow and lend their excess reserves to each other overnight.
- The FOMC, which is the policymaking body of the Federal Reserve System, meets eight times a year
    - 1st time: January 25-26
    - 2nd time: March 15-16*
    - 3rd time: May 3-4
    - 4th time: June 14-15*
    - 5th time: July 26-27
    - 6th time: September 20-21*
    - 7th time: November 1-2
    - 8th time: December 13-14*
- The meeting is held to set the target federal funds rate, which is part of its monetary policy. This is used to help promote economic growth.
- The Fed Funds rate is also known as the benchmark interest rate that influences how much consumers pay to borrow and how much they're paid to save, rippling through to influence yields on certificates of deposit (CDs) and savings accounts to credit card rates and home equity lines of credit (HELOCs).

WHY IT IS IMPORTANT

- The federal funds rate affects monetary and financial conditions, which in turn have a bearing on critical aspects of the broader economy including employment, growth, and inflation.
- The rate also influences short-term interest rates, albeit indirectly, for everything from home and auto loans to credit cards, as lenders often set their rates based on the prime lending rate.
- Market participants will be keeping an eye on analysts' predictions of the data ahead of their release.
- Every time the Fed increases or lowers its target rate, it could create huge volatility in the market.

II. Description of the FED Board

The Fed’s FOMC (Federal Open Market Committee) has primary responsibility for conducting monetary policy. The FOMC meets in Washington eight times a year and has twelve members: the seven members of the Board of Governors, the President of the Federal Reserve Bank of New York, and four of the other Reserve Bank Presidents, who serve in rotation. The remaining Reserve Bank Presidents contribute to the Committee’s discussions and deliberations. Members can decide in those meetings whether they will adjust the Fed's monetary policy, including raising or lowering interest rates depending on the current economic situation.

1		Jerome H. Powell	Chair
2		Lael Brainard	Vice Chair
3		Michael S. Barr	Vice Chair for Supervision
4		Michelle W. Bowman	Board of Governors
5		Lisa D. Cook	Board of Governors
6		Philip N. Jefferson	Board of Governors
7		Christopher J. Waller	Board of Governors
8		John C. Williams	President of Federal Reserve Bank of New York
9		Loretta J. Mester	President of Federal Reserve Bank of Cleveland
10		Esther L. George	President of Federal Reserve Bank of Kansas City

11		Susan M. Collins	President and Chief Executive Officer Federal Reserve Bank of Boston
12		James Bullard	President of Federal Reserve Bank of St. Louis

Source:FOMC, KIS

In addition, the Directors of each Reserve Bank contribute to monetary policy by making recommendations about the appropriate discount rate, which are subject to final approval by the Governors.

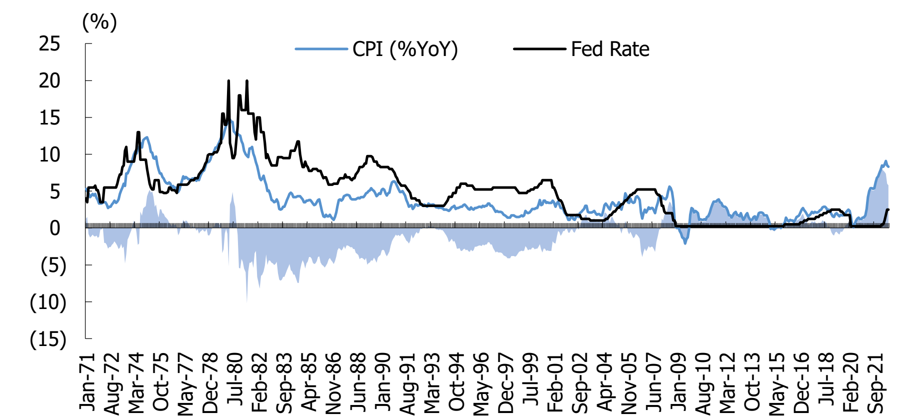
All the members have 14 years to serve for the Federal Bank Reserve. One term begins every two years, on the first day of February. A member who serves a full term may not be reappointed. A member who completes an unexpired portion of a term may be reappointed. All terms end on their statutory date regardless of the date on which the member is sworn into office.

The Chairman and the Vice Chairman of the Board are named by the President from among the members and are confirmed by the Senate. They serve a term of four years. A member's term on the Board is not affected by his or her status as Chairman or Vice Chairman.

As noted, the president of the Federal Reserve Bank of New York and members of the Board of Governors are permanent voting members.

III. How is Federal Funds Rate used?

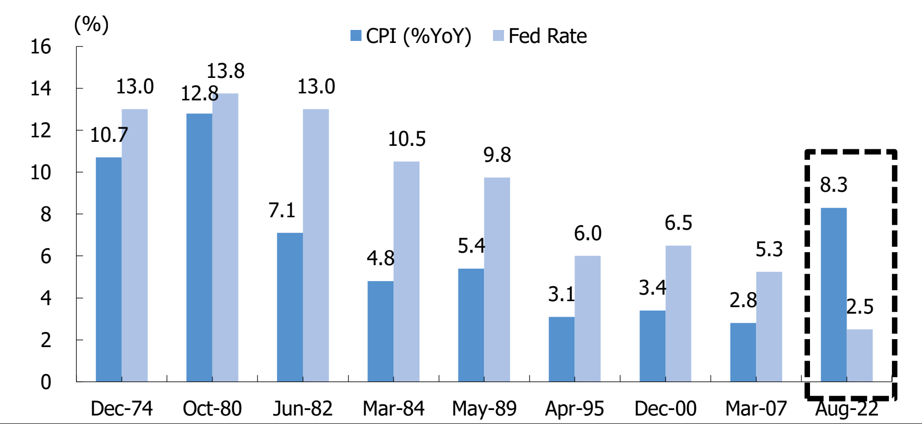
Figure 1. The U.S CPI (%YoY) and Fed Rate from 1971 to 8M2022



Source: Bloomberg, KIS

As can be observed that both July 1980 and February 1982 witnessed the highest FED rate at 20%. Similarly, the CPI rate also peaked in the same period (July 1980) at 15%. Over the period of 33 years, a similar trend was seen in the FED rate and CPI.

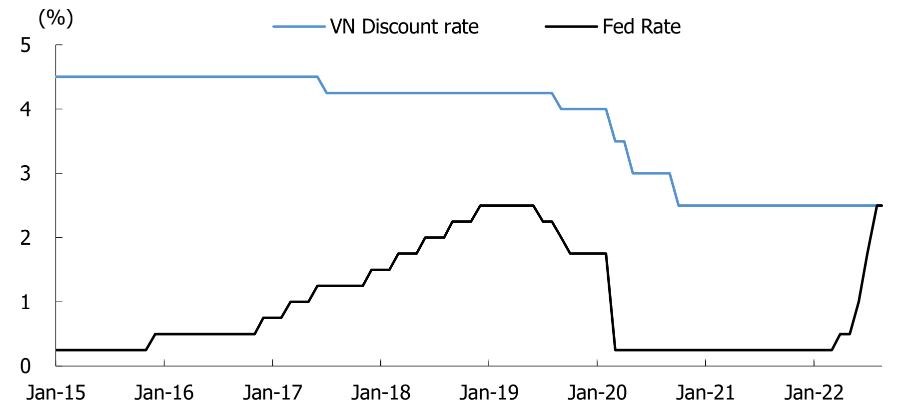
Figure 2. Historical data of Peak Inflation period of the U.S



Source: Bloomberg, KIS

However, the Federal was misjudged the inflation at this time. For instance, they thought that this time was just temporary inflation due to a supply bottleneck of a war between Ukraine and Russia. After all, all the data economic data showed that the U.S government was wrong, which is why at this time we can see the fed rate at the moment is just around 2.5% while the inflation rate is 8.3%.

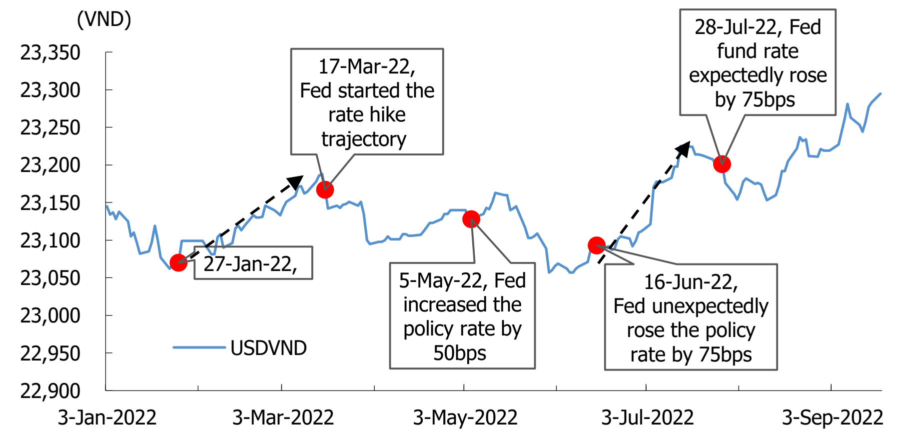
Figure 3. Fed Effective Rate and VN SBV Rate in 2022



Source: Bloomberg, KIS

Both Vietnam and the U.S have their own money policies. In 2022, Vietnam is trying to decrease their policy rate while the policy rate of the U.S witnessed an opposite trend. The two countries both adjusted their rate down during period 2020- 2021 due to the pandemic. After that, the rate of SBV remained stable at 2.5% due to the strong economic health. On the contrary, by misjudging the inflation situation, Fed has to raise their policy interest to combat inflation.

Figure 4. USDVND and Fed Fund Rate in 2022



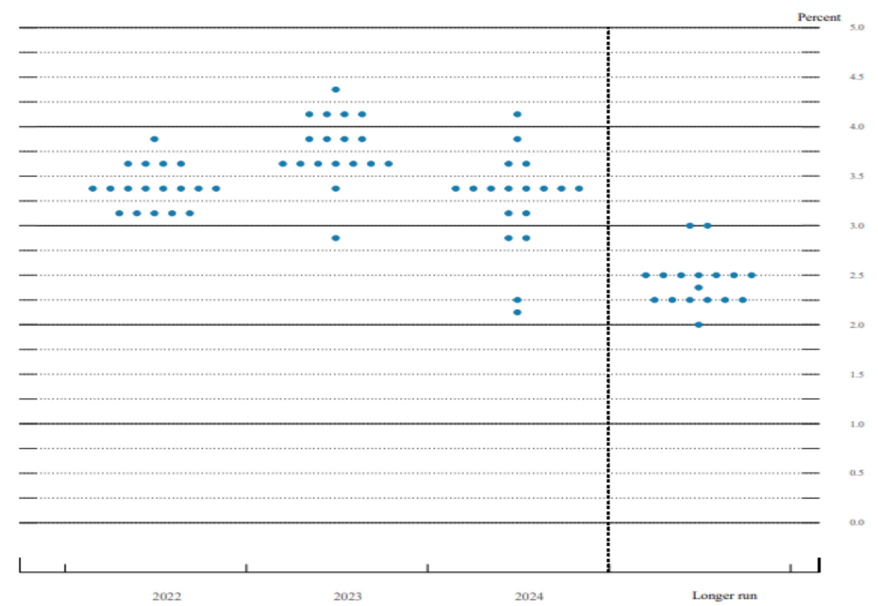
Source: Bloomberg, KIS

The Fed fund rate increased, causing the interest rate spread between VND and USD to narrow and turn negative at some periods. With SBV's stable exchange rate policy, the Fed maintains interest rates for a long time, increasing the profitability of interest rate arbitrage. This leads to pressure to increase USDVND and capital outflow.

IV. Fed's "dot plot" for 2022

The Fed's Dot Plot outlines policymakers' outlook for where interest rates will be in the future, represented by dots. Each dot on the chart represents the committee members' predictions. The next "dot plot" plan will be released on on 21st September 2.00pm U.S time; 22nd September 1.00am VN time.

Figure 5. Dot pot of Fed in June 2022



Source: Federal Reserve Projection Materials , KIS

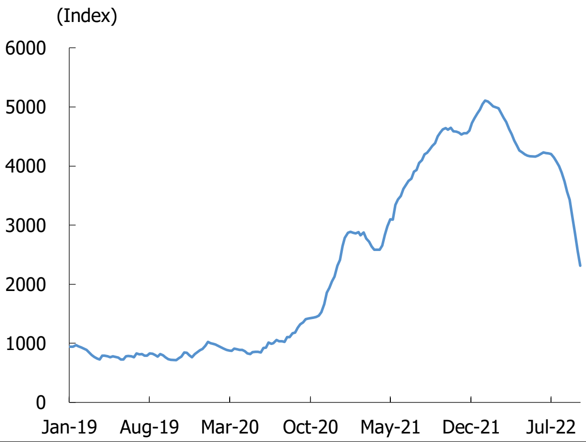
According to the Fed's projection in June, the median year-end projection for the federal funds rate moved up to 3.4%. However, higher-than-expected CPI data in August last week cemented expectations that the Fed will tighten further.

The market is divided into two opinions regarding the FED rate hike.

Figure 6. WTI price from January 2019

Source: Bloomberg, KIS

Figure 7. Shanghai Containerized Freight index from January 2019



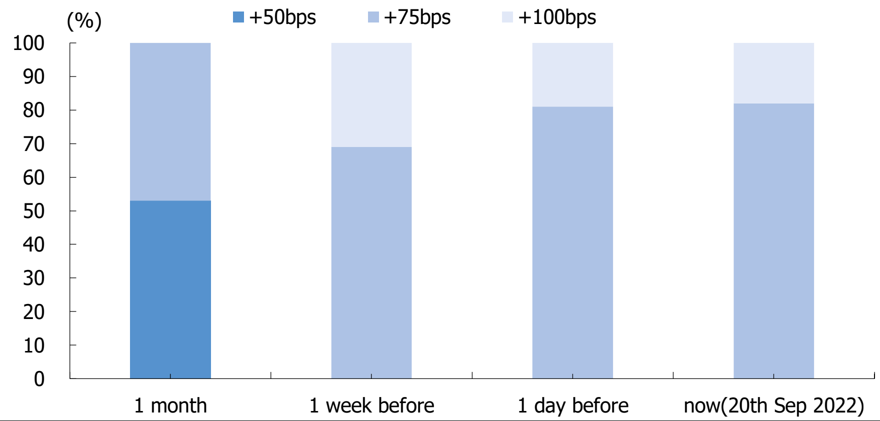
Source: SBV, Bloomberg, KIS

First, if the Fed's target is 4%, 75bps is appropriate this time. There are several pieces of evidence to support this. In particular, international oil prices fell (29% from the peak in March 2022 on a WTI basis), and the Shanghai Container Freight Index (SCFI Comprehensive Index), which was a bottleneck in global logistics, also fell by about 50% from its peak.

Second, if the Fed's target is 5%, 100bps is appropriate. However, most of them are cautious in that it could be the cause of the global economic downturn. Media such as the WSI use the strong phrase "Markets keep making the same mistake about inflation", emphasizing the need for a quick and strong impression.

No one knows the future. As mentioned above, it is the first time that such a large 'Disparity' and 'Time Gap' have been seen between the US inflation rate and the FED rate in the past. For this reason, we believe that it is something that investors in the securities market should always pay close attention to as to how inflation and interest rate hikes will proceed in the future.

Figure 8. Fed watch monitor



Source:CME,KIS

According to CME Group, 82% of investor think that Fed will increase 75bps while 18% people think it should be 100bps. The Fed meeting decision will be released on 21st September 2.00pm U.S time; 22nd September 1.00am VN time and all analysts and investors are watching is closely to decide an appropriate strategy.

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