Enterprises warned against exchange rate risks

Firms must consider measures on how to mitigate exchange rate risks such as forward and swap dealings in the face of the foreign exchange market undergoing sharp fluctuations, experts have noted.

Local firms should accept high costs to reach futures contracts so that they can make a certain amount of USD available for their business.

Economic expert Bui Quang Tin said that China is undergoing yuan depreciation as a response to the United States' trade policy triggered by escalating trade tensions between the two countries.

The analyst said China is predicted to continue devaluing the yuan, possibly by over 10 per cent.

Economists believe that the escalating trade war could lead to strong fluctuations in international foreign exchange markets, thus inevitably having an impact on exchange rates in Vietnam. Amid such a volatile forex market, domestic firms must keep an eye on solutions to prevent exchange rate risks, notably forward and swap transactions.

Economist Nguyen Tri Hieu said that the dollar prices set for future contracts normally stay higher than the current levels. The difference between current and future USD pricing is calculated on the basis of differences between interest rates in VND and USD. Currently, the annual interest rate for USD deposit is set at 0 per cent while that for long-term VND deposit ranges 7 – 8 per cent.

Indeed, a large number of businesses believe the State Bank of Vietnam (SBV) will stabilize exchange rates and take measures to avoid sharp increases in exchange rates. Even, many do not want to make forward transactions in order to handle exchange rate risks as they thought that the liquidity of foreign currencies get better.

This could pose a big threat to business operations as domestic exchange rates are likely to fluctuate strongly.

Hieu suggested that local firms should accept high costs to reach futures contracts so that they can make a certain amount of USD available for their business.

There have been many derivatives for both importers and exporters to handle exchange rate risks, notably forward, swap, and spot transactions which are widely provided by commercial banks.

"Upcoming developments in the US-China trade war are unpredictable. Hence, the SBV should flexibly regulate exchange rates and consider reasonable rates to harmonize the implementation of targets, especially those on maintaining macroeconomic stability and curbing inflation," said Hieu.

The Chinese currency could weaken to an exchange rate of 7 CNY to 1 USD over the next three months – potentially the weakest in the past decade, according to a newly released report on CNY prospects by global banking group Goldman Sachs.

This forecast comes from the belief that the CNY could depreciate as a result of the imbalance caused by the trade war with the US. Goldman said that CNY/USD exchange rates would stay at 7.05, 6.95 and 6.80 respectively over the next three, six, and 12 months, all increasing in comparison with the previous forecasts of 6.95, 6.65, and 6.65.

Source: VOV