

Fixed-income Perspectives

Easing liquidity condition in the money market reduces interest rates

SBV backs to add liquidity

In the 32nd week (from 8th August to 14th August), an amount of VND33.90tn had been injected into the banking system as a significant T-bill amount matured this week. Besides, SBV lowered the newly issued value of 7-day repo contracts relative to the previous week, resulting in the net withdrawal of VND3.30tn through this instrument.

Interbank rates retreat

In this week (from 8th to 14th August 2022), interbank rates generally retreated with a lower traded volume, indicating an easing in demand for the short-dated loans in the money market. Specifically, the overnight rate closed the 32nd week at 2.97%, 103 basis points lower than the previous weekend, after approaching the 4% level for the second time since July-late.

USDVND remained stable

The USDVND this week remained stable compared to last week while the US dollar index (DXY) fell significantly. The dollar index dropped dramatically after the July CPI was lower than forecasted. Vietnam was still among the top three countries with the least depreciation against the USD so far this year when Vietnam's central bank decided to anchor the selling price of the USD at VND23,400 and increase the foreign currency sales to stabilize the exchange rate.

KIS leading economic index

	2Q21	3Q21	4Q21	1Q22	2019	2020	2021
GDP (%)	6.61	(6.02)	2.58	5.03	7.02	2.91	2.58
Trade balance (USD bn)	(3.75)	(1.00)	5.22	0.82	10.42	19.01	4.61
CPI (%)	2.67	2.16	1.89	1.93	5.23	3.24	1.84
Discount rate (%)	3.00	3.00	3.00	3.00	4.00	3.00	3.00
USD/VND	23,020	22,761	22,790	22,870	23,231	23,255	22,790
US GDP (%)	NA	7.90	NA	NA	2.29	(3.41)	5.97
China GDP (%)	NA	6.00	NA	NA	5.95	2.34	8.02

Source: KIS

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Y Nguyen

Y.nt@kisvn.vn

Nhan Tong

nhan.tt@kisvn.vn

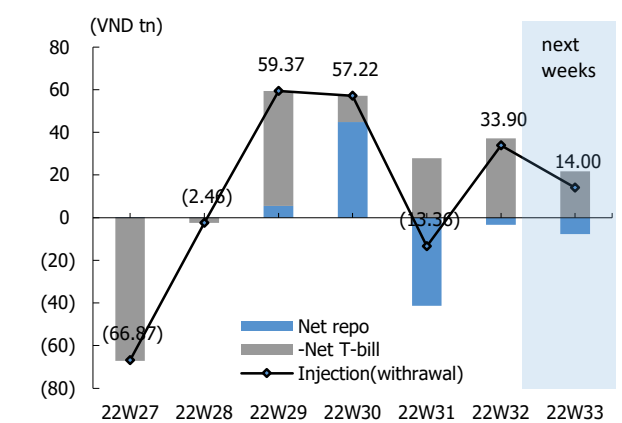
I. SBV backs to add liquidity

SBV backs to add liquidity

In the 32nd week (from 8th August to 14th August), an amount of VND33.90tn had been injected into the banking system as a significant T-bill amount matured this week. Besides, SBV lowered the newly issued value of 7-day repo contracts relative to the previous week, resulting in the net withdrawal of VND3.30tn through this instrument.

In more detail, SBV conducted five auction sessions this week with a total offering of VND7.70tn while there was VND11.00tn matured this week, causing a net withdrawal. The yield method for all auction sessions remained floating and winning yields ranged between 3.80% and 4.40%. On the other hand, although SBV just implemented one T-bill auction session this week with an offered amount of VND9.70tn and an accepted yield of 2.6%, the matured value of T-bills was significant at VND46.90tn, providing liquidity for money market members.

Figure 1. Net injection (withdrawal) of liquidity



Source: SBV, Bloomberg, KIS

Figure 2. Historical policy rate change

Effective date	Discount rate (%)	Refinancing rate (%)
March 26, 2013	6.0	10.0
May 13, 2013	5.0	7.0
March 18, 2014	4.5	6.5
July 10, 2017	4.3	6.3
September 16, 2019	4.0	6.0
March 17, 2020	3.5	5.0
May 13, 2020	3.0	4.5
October 1, 2020	2.5	4.0

Source: SBV, Bloomberg, KIS

Table 1. Daily repo transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
August 8, 2022	August 15, 2022	7	3.00	4.40
August 9, 2022	August 16, 2022	7	3.00	4.40
August 10, 2022	August 17, 2022	7	1.00	3.80
August 11, 2022	August 18, 2022	7	0.34	4.00
August 12, 2022	August 19, 2022	7	0.36	3.80

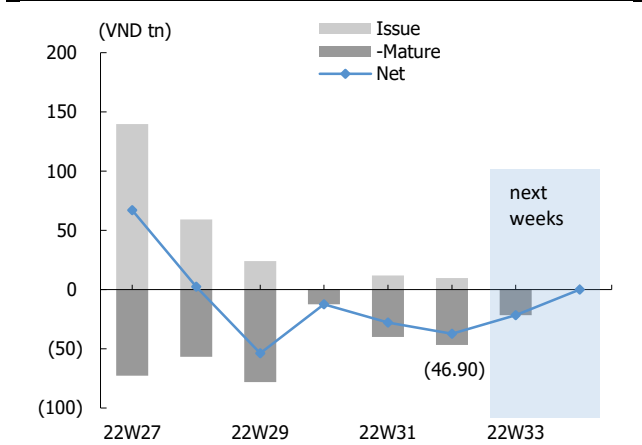
Source: SBV, Bloomberg, KIS

Table 2. Daily T-bill transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning yield (%)
August 12, 2022	August 19, 2022	7	9.70	2.60

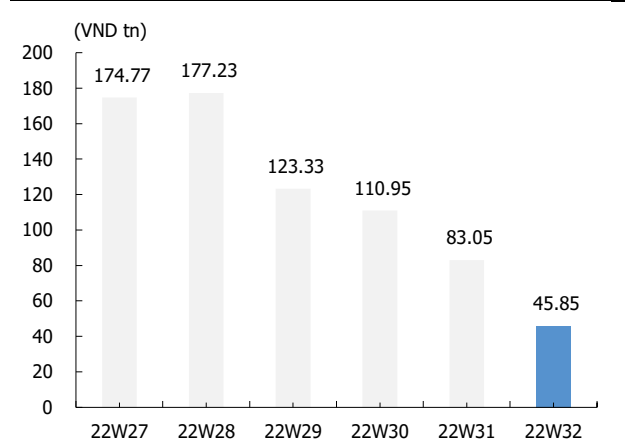
Source: SBV, Bloomberg, KIS

Figure 3. Issued T-bill by week



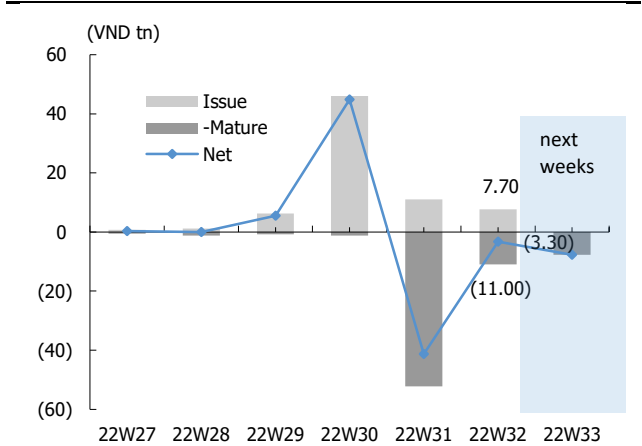
Source: SBV, Bloomberg, KIS

Figure 4. Outstanding T-bill by week



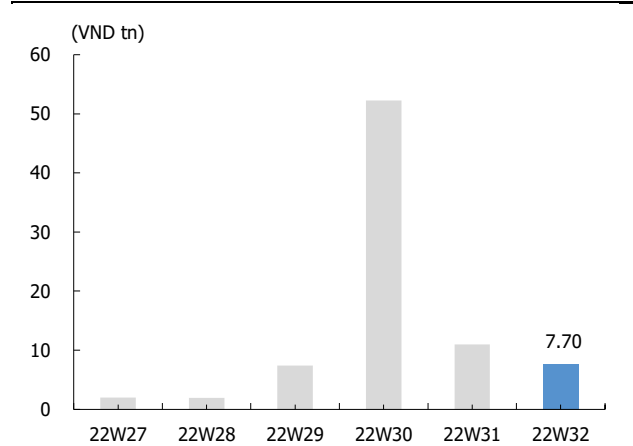
Source: SBV, Bloomberg, KIS

Figure 5. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 6. Outstanding Repo by week

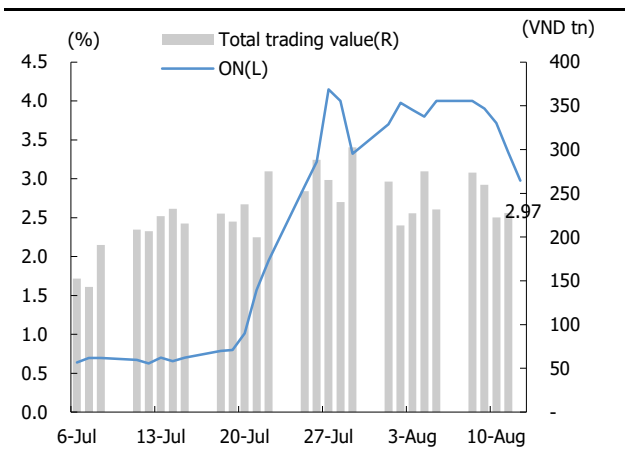


Source: SBV, Bloomberg, KIS

II. Interbank rates retreat

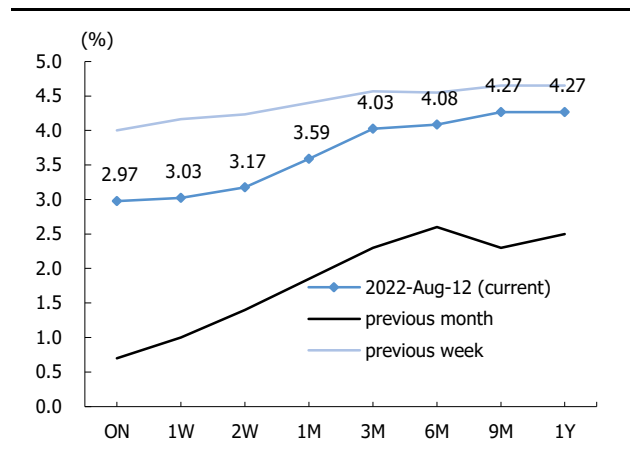
In this week (from 8th to 14th August 2022), interbank rates generally retreated with a lower traded volume, indicating an easing in demand for the short-dated loans in the money market. Specifically, the overnight rate (ON) closed the 32nd week at 2.97%, 103 basis points (bps) lower than the previous weekend, after approaching the 4% level for the second time since July-late. The short-end of the interbank curve declined more than the long-end. Interest rates on loans with a tenor less than one month declined by 108bps while those on loans with a tenor equal to or greater than one month declined by 55bps.

Figure 7. Interbank daily transaction



Source: SBV, Bloomberg, KIS

Figure 8. Interbank bank curve



Source: SBV, Bloomberg, KIS

Interbank rates tend to reduce this week partly due to the significant maturity of T-bills and cheaper alternative resource from the open market. ON decreased sharply as SBV seemed to anchor the floating discount rate around 4% this week while VND46.90tn of T-bills matured this week providing meaningful liquidity for the banking system.

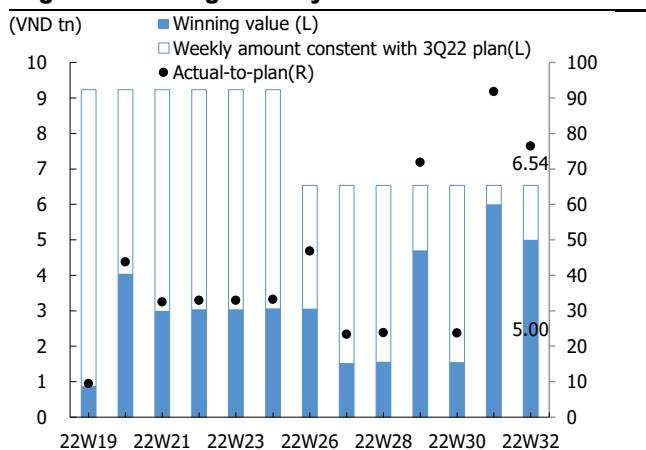
III. G-bond auction remains favorable amid a higher yield

Offering of government bond increases significantly

Government auction this week (32nd week) witnessed a slight reduction in winning amount with a higher yield compared to the previous week, indicating a weaker demand for this fixed income instrument. However, looking broader, 32W22's issued value was significantly higher relative to several weeks ago, indicating an improvement in the G-bond primary market in August. Specifically, VST successfully issued VND5.00tn of G-bond with VND2.50tn for 10-year tenor and VND2.50tn for 15-year tenor. This issued amount equals around 76.5% of the weekly plan (we estimated from the 3Q22 plan of VND85.00tn released on [13th July 2022](#)) and resulted in a cumulative amount of VND87.00tn, accounting for 21.74% of the 2022 plan. Winning yields witnessed another increase with those for 10-year and 15-year tenors were 2.72% and 3.00%, increasing by 5bps and 6bps, respectively. Auction properties became less favorable under a lower scale of issuance with absorption rate and bid-to-offer ratio reduced to 76.93% and 1.29x from 91.76% and 1.30x, respectively.

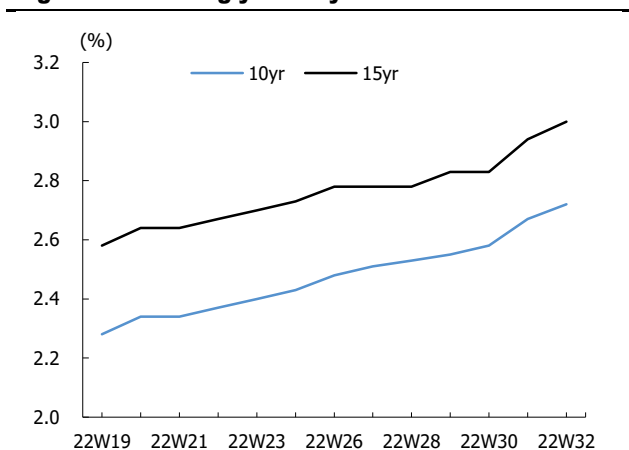
Although the improvement in the first G-bond market has occurred, the connection between sellers and buyers remained low when their determinants were still hold. On the supply side, the progress of state-financed projects generally remained low, implying low demand for finance. On the demand side, government bond investors, including commercial banks and insurance companies, might require a more attractive price under the tendency of rate hikes dealing with the inflation spiral.

Figure 9. Winning value by month



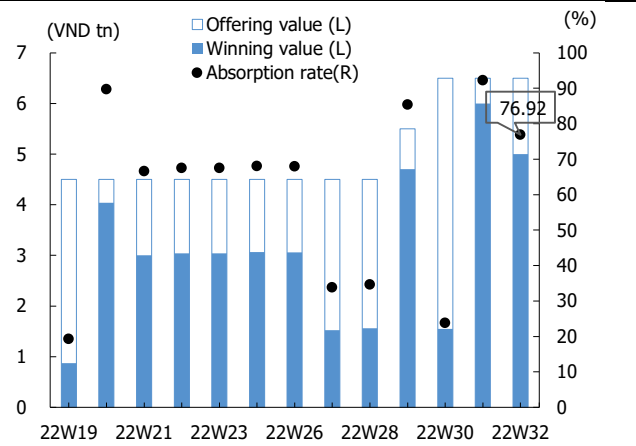
Source: HNX, KIS

Figure 10. Winning yields by week



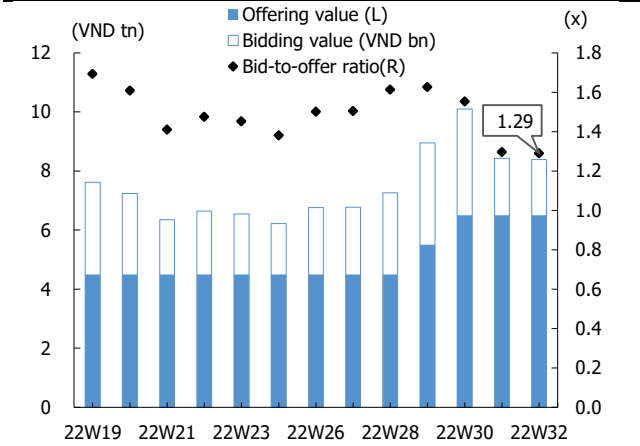
Source: HNX, KIS

Figure 11. Absorption ratio



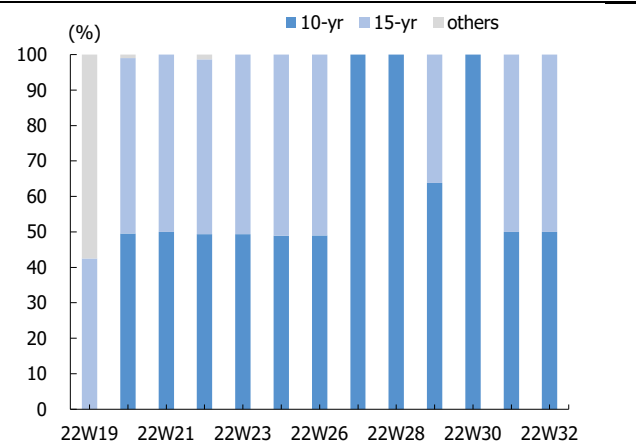
Source: HNX, KIS

Figure 12. Bid-to-offer ratio



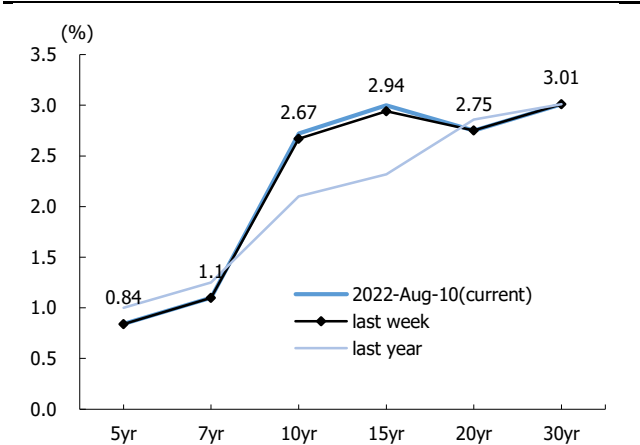
Source: HNX, KIS

Figure 13. Winning value by tenor



Source: HNX, KIS

Figure 14. Yield curve in primary market



Source: HNX, KIS

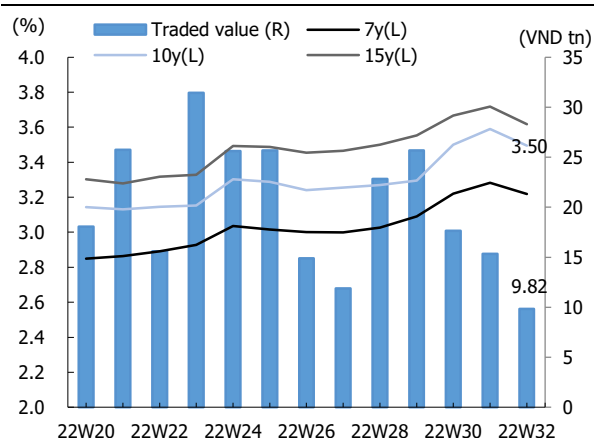
IV. G-bond yields reduce

Lower G-bond yields when interbank rates reduced

G-bond yields this week (32W22) generally contracted when liquidity pressure in the money market has eased. However, traded value lowered further, indicating that G-bond buyers in the secondary market remained cautious. More specifically, yields on 7-year, 10-year, and 15-year tenors declined by six basis points (bps), 9bps, and 10bps to 3.22%, 3.50%, and 3.62% after reaching year-highs in the previous week. Traded value continued decreasing this week with an amount of VND9.82tn, equivalent to VND1.96tn per trading session and 36.03% lower than the previous week.

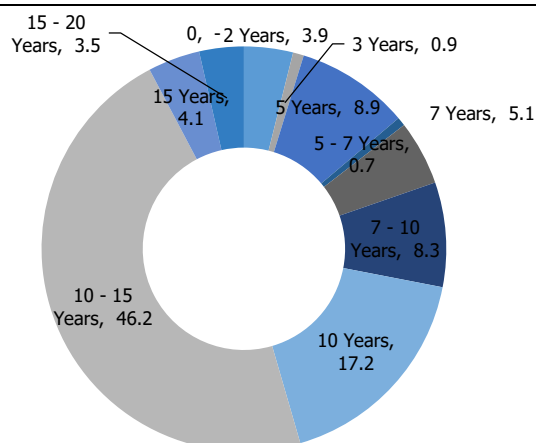
Liquidity condition in the money market has loosen, easing upward pressure on interbank rates and mainly attributing for the reduction of G-bond yields this week. Regarding value structure, transactions continued focusing on tenors from 7 years to 15 years tenors with their joint portion of 80.90%.

Figure 15. G-bond trading value



Source: HNX, KIS

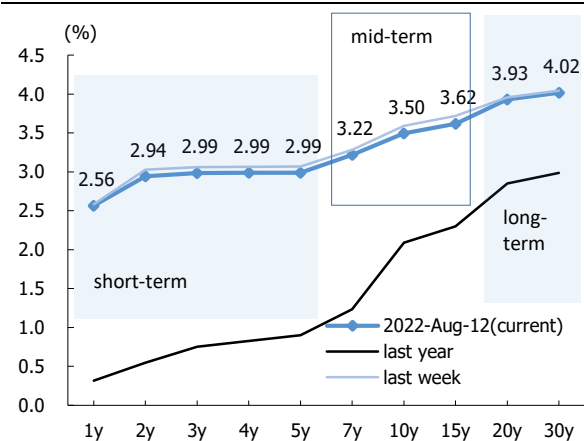
Figure 16. Trading value by tenor this week



Source: HNX, KIS

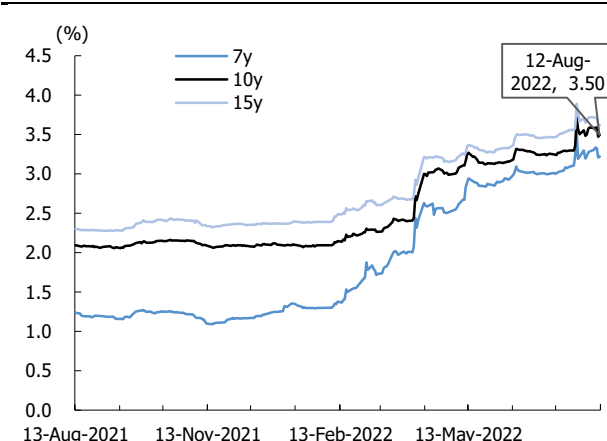
The steepness of the yield curve seems unchanged this week when the general reduction occurred evenly across tenors. Short-term tenors (less than seven years) reduced by 7bps on average compared to 31W22 and mid-term tenors (from seven to ten years) similarly reduced by 9bps on average.

Figure 17. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 18. Historical daily government bond yield



Source: HNX, VBMA, KIS

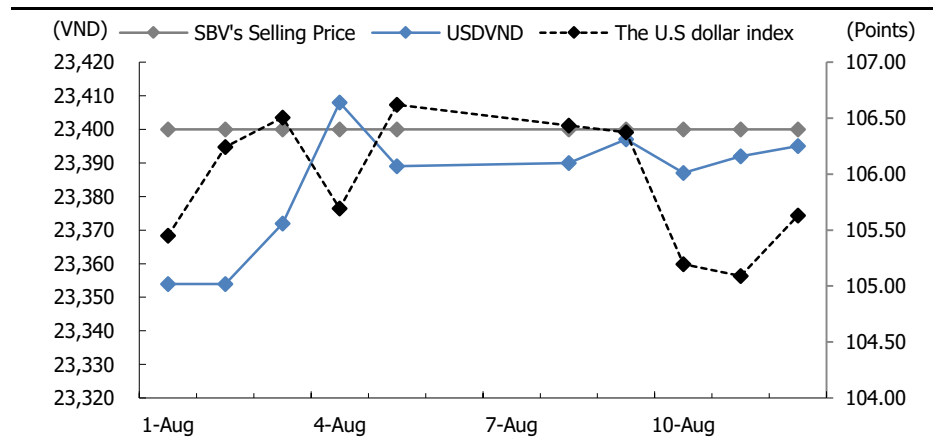
V. USDVND remained stable

USDVND unchanged followed by the fall of the DXY

The USDVND this week remained stable compared to last week while the US dollar index (DXY) fell significantly. In general, the DXY was 105.63 on Friday this week, 0.93% lower than that on the previous weekend.

In the first two-day trading session this week, the DXY fell slightly ahead of the inflation data released on August 10th, then it dropped dramatically after the July CPI was lower than forecasted. The greenback's decline lasted for the whole week, before recovering slightly on Friday, as investors weighed a series of "hawkish" views from the representatives of the Fed. Specifically, San Francisco Federal Reserve Bank President Mary Daly indicated that Fed is open to the possibility of a 75 basis point increase again in September. According to Reuters, traders are pricing in a 42.5% chance of a 75bp Fed hike and a 57.5% chance of a 50bp hike in September.

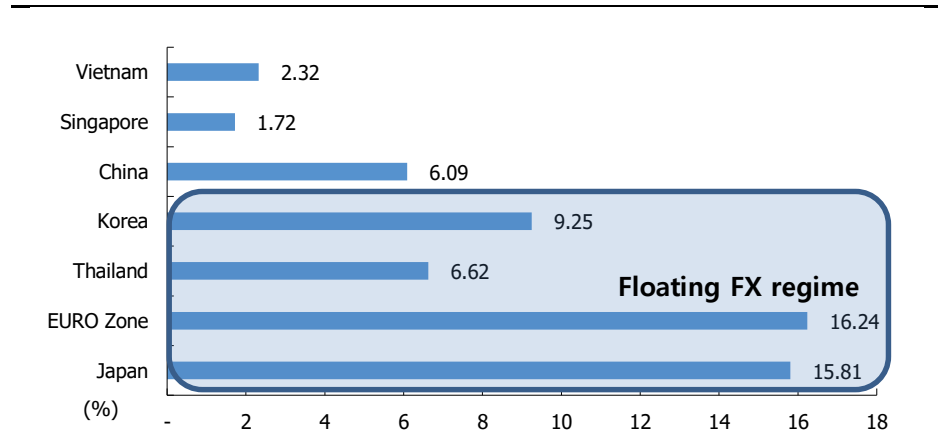
Figure 19. Daily USDVND and the U.S. dollar index



Source: Bloomberg, KIS

DXY and USDVND on Friday this week were around 105.63 (-0.93% WoW) and 23,395 (+0.03% WoW) respectively. The central rate of VND versus USD on Friday 12th was VND23,153, 0.13% lower than that compared with Friday last week. In addition, stabilizing the USDVND exchange rate was likely the SBV's top priority currently as its selling price of the greenback remained the same at 23,400 for over four consecutive weeks.

Figure 20. YTD performance of local currencies



Source: Bloomberg, KIS

As can be observed that Singapore has surpassed Vietnam to become the least affected country by the dollar at around 1.72% so far this year (YTD) while Vietnam was around 2.32%(YTD). Currently, SBV continued to keep anchoring the selling price of the USDVND at 23,400 and increasing the foreign currency sales to stabilize the exchange rate. In contrast, countries with the floating FX regime, such as Japan and European countries, depreciated sharply against the USD. Last week, Euro Zone was the most affected against the U.S dollar followed by Japan.

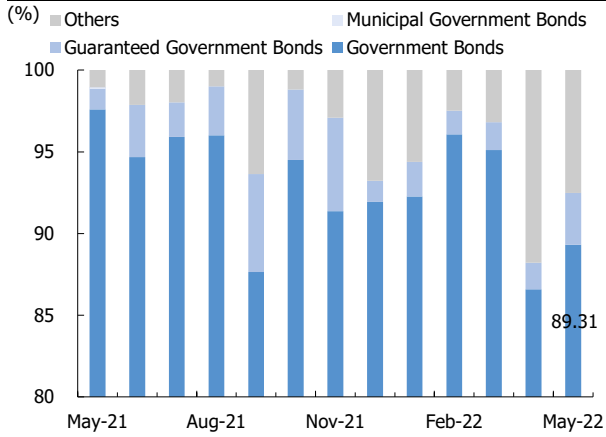
Macro scorecard

	22-Mar	22-Apr	22-May	22-Jun	22-Jul	3Q21	4Q21	1Q22	2Q22	2018	2019	2020	2021
Real GDP growth (%)						-6.02	5.22	5.03	7.72	7.08	7.03	2.91	2.58
Registered FDI (USD bn)	2.89	3.91	0.98	2.32	1.51	6.88	9.01	8.91	5.12	35.47	38.02	28.53	31.15
GDP per capita (USD)										3,202	3,398	3,521	3,725
Unemployment rate (%)										2.21	2.25	2.48	3.22
Export (USD bn)	34,061	33,258	30,480	32,650	30,323	82.12	95.26	86.01	96.83	243.5	263.6	282.7	335.7
Import (USD bn)	32,672	32,189	32,210	32,370	30,302	83.12	88.72	87.45	97.58	236.7	254.4	263	331.1
Export growth (%)	14.84	24.98	16.38	19.98	8.82	2.99	20.43	13.43	21.02	13.19	8.16	7.02	18.74
Import growth (%)	14.64	15.45	12.85	16.32	3.42	18.85	15.42	15.17	15.72	11.01	7.41	3.81	25.9
Inflation (%)	2.41	2.64	2.86	3.37	3.14	2.51	1.89	1.92	2.96	3.54	2.79	3.24	1.84
USD/VND	22,837	22,968	23,195	23,254	23,343	22,761	22,790	22,837	23,139	23,175	23,173	23,126	22,790
Credit growth (%)	4.13	6.37	7.62	8.51	9.14	7.88	12.97	4.13	8.51	10.77	13.75	12.17	12.97
10Y gov't bond (%)	2.46	3.11	3.25	3.38	3.50	2.14	2.11	2.40	3.24	5.07	3.37	2.01	2.11

Source: GSO, Bloomberg, FIA, IMF

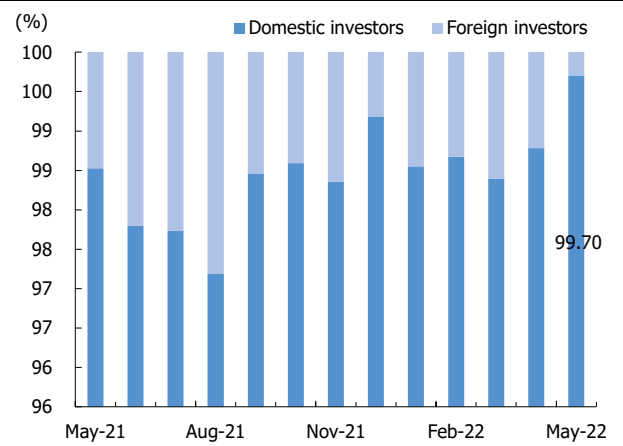
Appendix

Figure 21. Secondary government bond : trading value by bond type



Source: HNX, KIS

Figure 22. Secondary government bond: trading value by investor



Source: HNX, KIS

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VIET NAM

JAE HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)
KIS Vietnam Securities Corporation
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.
Fax: 8428 3821-6898

SOUTH KOREA

YEONG KEUN JOO, Managing Director, Head of International Business Division (ykjoo@truefriend.com, +822 3276 5157)
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320
Fax: 822 3276 5681~3
Telex: K2296

NEW YORK

DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)
Korea Investment & Securities America, Inc.
1350 Avenue of the Americas, Suite 1110
New York, NY 10019
Fax: 1 212 314 0699

HONG KONG

GREGORY KIM, Managing Director, Head of HK Sales (greg.kim @kisasia.com +852 2530 8915)
Korea Investment & Securities Asia, Ltd.
Suite 2220, Jardine House
1 Connaught Place, Central, Hong Kong
Fax: 852-2530-1516

SINGAPORE

ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasia.com.sg +65 6501 5602)
CHARLES AN, Sales (alex.jun@kisasia.com.sg +65 6501 5601)
Korea Investment & Securities Singapore Pte Ltd
1 Raffles Place, #43-04, One Raffles Place
Singapore 048616
Fax: 65 6501 5617

LONDON

Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)
Korea Investment & Securities Europe, Ltd.
2nd Floor, 35-39 Moorgate
London EC2R 6AR
Fax: 44-207-236-4811

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