

# Fixed-income Perspectives

## The money market is on the way to return stable

### SBV strengthens the liquidity injection

In the 41<sup>st</sup> week of 2022 (from 10<sup>th</sup> to 16<sup>th</sup> October), SBV continued to pour liquidity into the banking system for the third consecutive week to resolve the money market stress. Accordingly, SBV has sharply increased repo offering to VND89.45tn from VND41.69tn last week, resulting in a net inflow of VND47.76tn to its counterparties this week. As per the T-bill transaction, 41W22 recorded no new offering while witnessing a notable maturity of VND30.40tn, adding significant liquidity to the banking system.

### Interbank rates decline on SBV's liquidity support

SBV strengthened its liquidity support this week with much more repo offerings, mainly causing interbank rates to decrease sharply. Generally, the interest rate on interbank loans declined sharply with a much lower trading value, indicating that borrowing demand for short-term loans was easing.

### USDVND increases dramatically

USDVND witnessed a significant advance followed by the rise of DXY. In general, the USDVND increased by 0.98% compared with last week with a peak on Friday at VND24,115. SBV has continued to keep their selling rate of USD to 23,925 to stabilize the exchange rate and prevent the VND from depreciating against the U.S dollar. Currently, VND cumulatively depreciated by 5.56% compared with the U.S dollar.

### KIS leading economic index

	4Q21	1Q22	2Q22	3Q22	2020	2021	2022F
GDP (%)	5.22	5.03	7.72	13.67	2.91	2.58	8.50
Trade balance (USD bn)	5.38	1.50	(0.75)	5.78	19.86	4.00	7.71
CPI (%)	1.89	2.50	2.96	3.32	3.24	1.84	3.30
Discount rate (%)	2.50	2.50	2.50	3.50	2.50	2.50	4.00
USD/VND	22,787	22,900	23,139	23,712	23,252	22,936	24,500
US GDP (%)	6.90	(1.60)	NA	NA	(3.40)	5.60	NA
China GDP (%)	4.00	4.80	NA	NA	2.20	8.00	NA

Source: KIS

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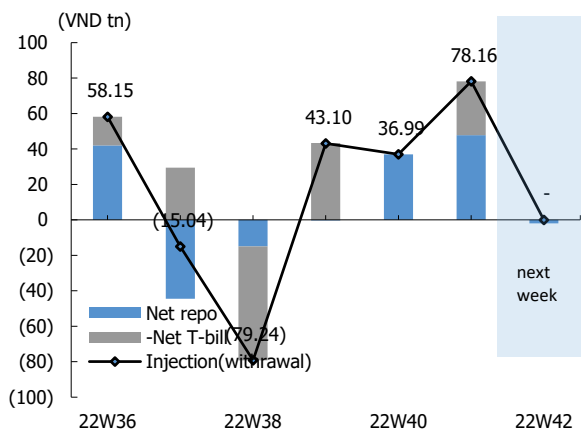
# I. SBV strengthens the liquidity injection

**SBV pours liquidity in third consecutive weeks into the banking system**

In the 41<sup>st</sup> week of 2022 (from 10<sup>th</sup> to 16<sup>th</sup> October), SBV continued to pour liquidity into the banking system for the third consecutive week to resolve the money market stress. Accordingly, SBV has sharply increased repo offering with multiple terms, including 7-, 14-, and 28-day, to VND89.45tn from VND41.69tn last week, resulting in a net inflow of VND47.76tn to its counterparties this week. As per the T-bill transaction, 41W22 recorded no new offering while witnessing a notable maturity of VND30.40tn, adding significant liquidity to the banking system.

This week, stabilizing the liquidity condition in the banking system is still SBV’s top priority. The winning interest rate notably declined to 5.00% from around 6.0% last week, indicating that SBV was firmly implementing monetary tools to prevent the banking system from liquidity shocks. Hence, we predict that the central bank could pay more attention to the liquidity condition with more money injections.

**Figure 1. Net injection (withdrawal) of liquidity**



Source: SBV, Bloomberg, KIS

**Table 1. Historical policy rate change**

Effective date	Discount rate (%)	Refinancing rate (%)
September 23, 2022	3.5↑	5.0↑
October 1, 2020	2.5↓	4.0↓
May 13, 2020	3.0↓	4.5↓
March 17, 2020	3.5↓	5.0↓
September 16, 2019	4.0↓	6.0↓
July 10, 2017	4.3↓	6.3↓
March 18, 2014	4.5↓	6.5↓
May 13, 2013	5.0↓	7.0↓

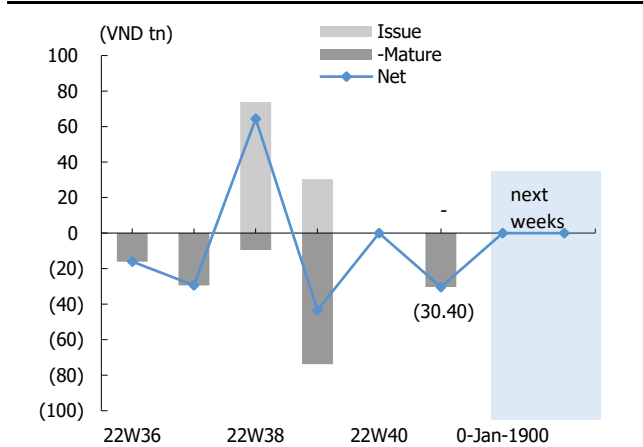
Source: SBV, Bloomberg, KIS

**Table 2. Daily repo transactions of this week**

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
10-Oct-2022	24-Oct-2022	14	15.00	5.50
10-Oct-2022	7-Nov-2022	28	6.68	5.00
11-Oct-2022	25-Oct-2022	14	4.09	5.00
11-Oct-2022	8-Nov-2022	28	22.00	5.00
12-Oct-2022	26-Oct-2022	14	6.67	5.00
12-Oct-2022	9-Nov-2022	28	20.00	5.00
13-Oct-2022	20-Oct-2022	7	0.64	5.00
13-Oct-2022	27-Oct-2022	14	10.00	5.00
14-Oct-2022	21-Oct-2022	7	1.32	5.00
14-Oct-2022	28-Oct-2022	14	3.06	5.00

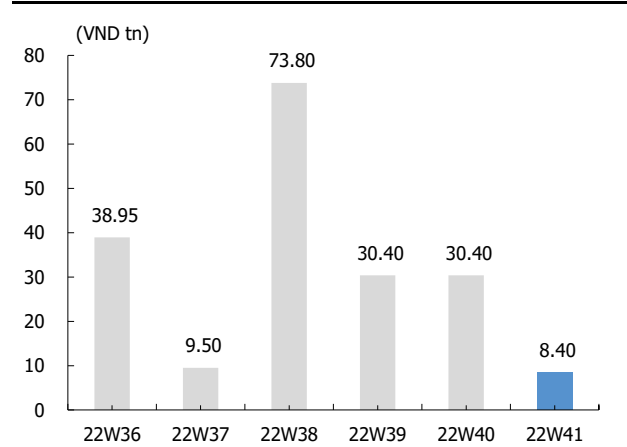
Source: SBV, Bloomberg, KIS

**Figure 2. Issued T-bill by week**



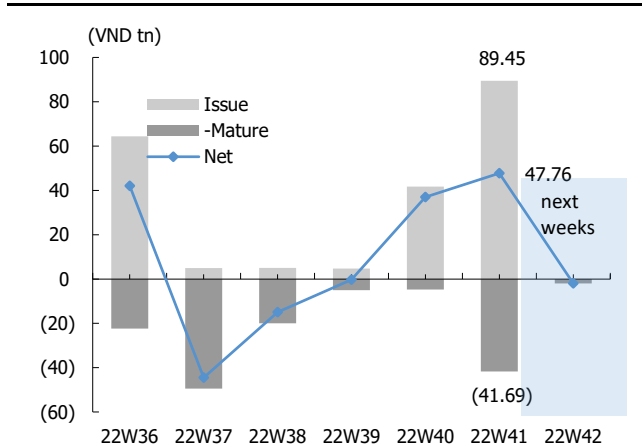
Source: SBV, Bloomberg, KIS

**Figure 3. Outstanding T-bill by week**



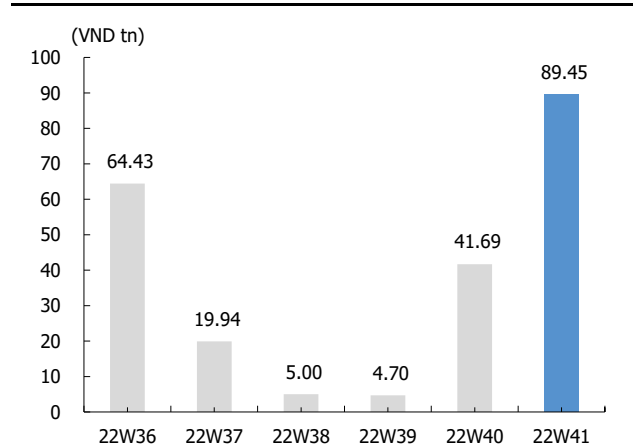
Source: SBV, Bloomberg, KIS

**Figure 4. Issued Repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding Repo by week**



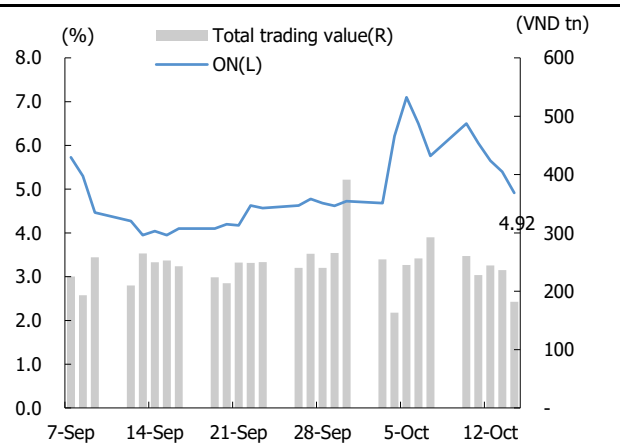
Source: SBV, Bloomberg, KIS

## II. Interbank rates decline on SBV's liquidity support

SBV strengthened its liquidity support this week with much more repo offerings, mainly causing interbank rates to decrease sharply. Generally, the interest rate on interbank loans was lower while transaction value reduced significantly, indicating that suppliers tend to require a higher interest rate to compensate for liquidity risk at this moment.

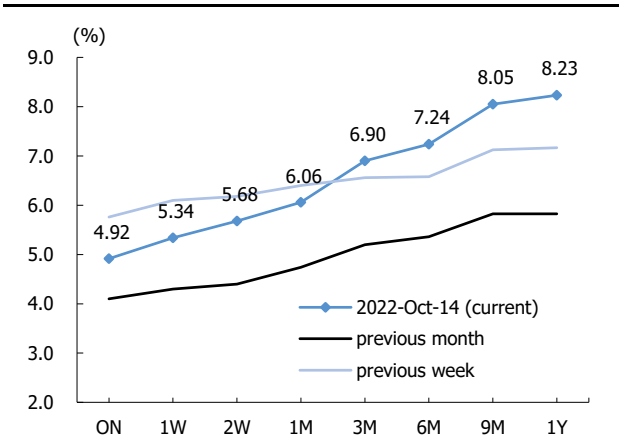
Specifically, overnight (ON) interest rates on the last trading session of this week decreased by 84basis points (bps) to 4.92%. Besides, 1-week, 2-week, and 1-month witnessed the same trend which declined by 76bps, 50bps, and 36bps while the 3-month increased 34bps compared to the previous Friday to 5.34%. The movement of longer-term loans was less notable when 6-month and 9-month interest rates increased by 93bps and 107bps, reaching 7.24% and 8.05%, respectively. Trading value declined slightly by 5.07% compared to the previous week to reach VND1,150.72tn this week, or around VND230.15tn per trading session.

**Figure 6. Interbank daily transaction**



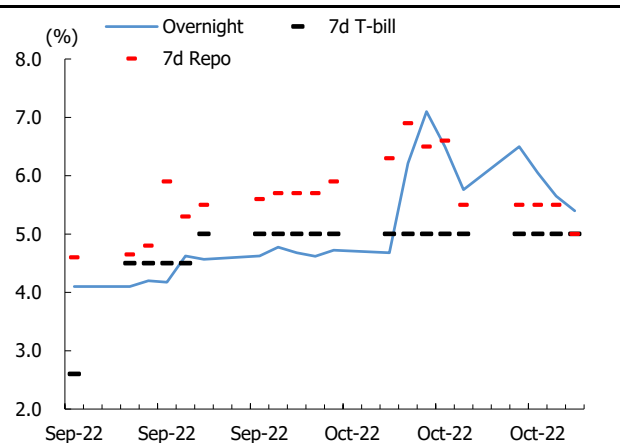
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



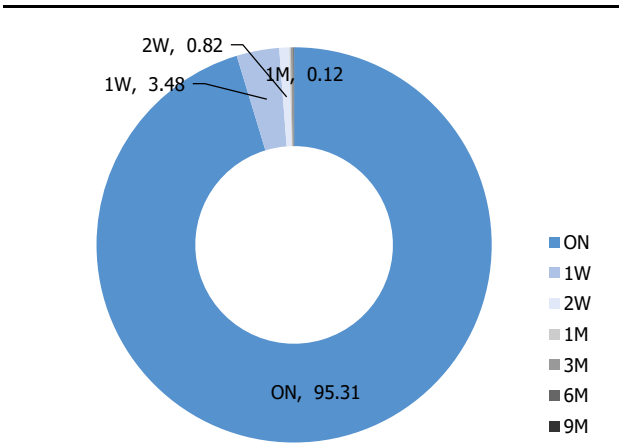
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

### III. Higher offered yields sustain G-bond auction success

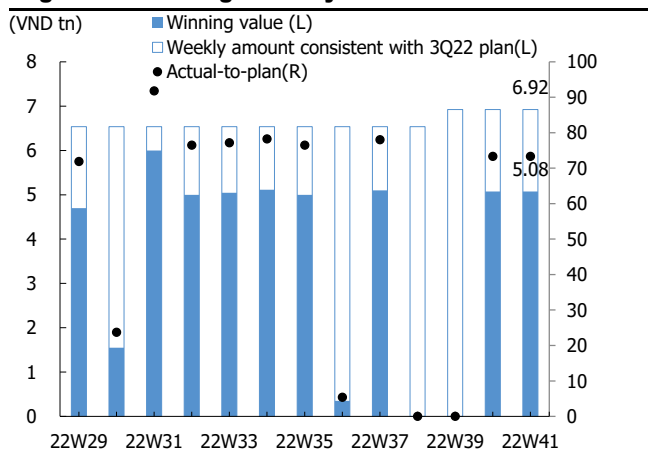
#### G-bond auction remains successful

This week, the government bond (G-bond) auction remained successful when the offered yields rose further, indicating that this fixed-income instrument has become more attractive to investors. Specifically, 41W22 recorded a winning amount of VND5.08tn (VND2.50tn for the 10-year tenor and VND2.58tn for the 15-year tenor) from VND6.50tn offered by VST. 41W22's issuance equals 73.31% of the weekly plan, estimated from the 4Q22 target of VND90.00tn, and resulted in a cumulative amount of VND117.73tn, accounting for 29.43% of the 2022 plan.

Offered yields in the primary G-bond market have increased further under the recent development of the secondary market, mainly contributing to the improvement in the auction result. The interest rate for the 10-year tenor rose by 20basis points (bps) compared to last week, reaching 3.50% and steadily surpassing the anchoring level of 3.0%. Similarly, the 15-year G-bond yield increased by 20bps to 3.80% this week.

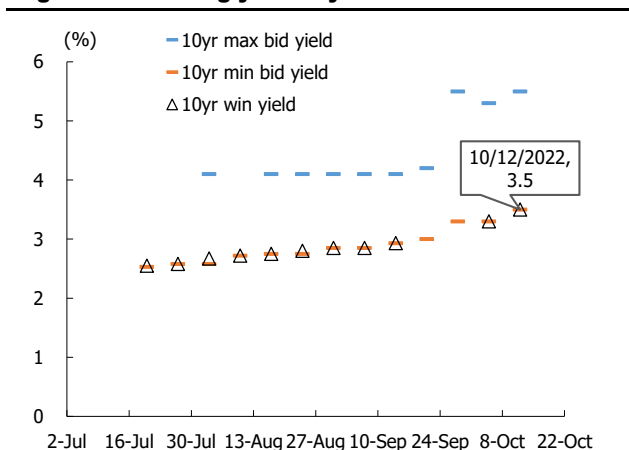
The liquidity condition in the money market has become tighter this week after the arrestment of parties related to VTP, one of Vietnam's top real estate developers, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding rates in the primary market. VST has gradually lifted the 10-year winning yield to regain investors' attention. Therefore, we predict the G-bond auction could be successful further in the coming weeks, especially when the liquidity condition in the money market returns stable.

Figure 10. Winning value by month



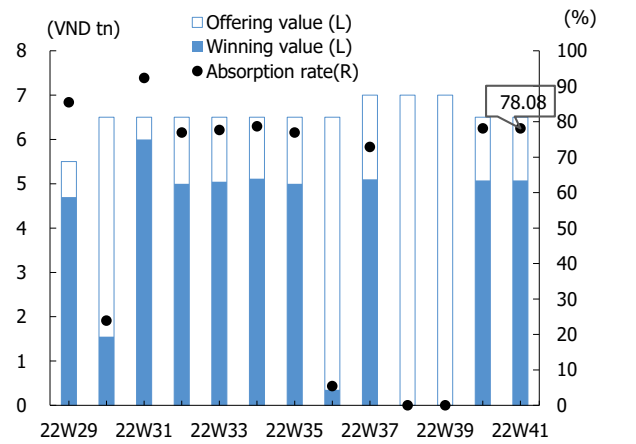
Source: HNX, KIS

Figure 11. Winning yields by week



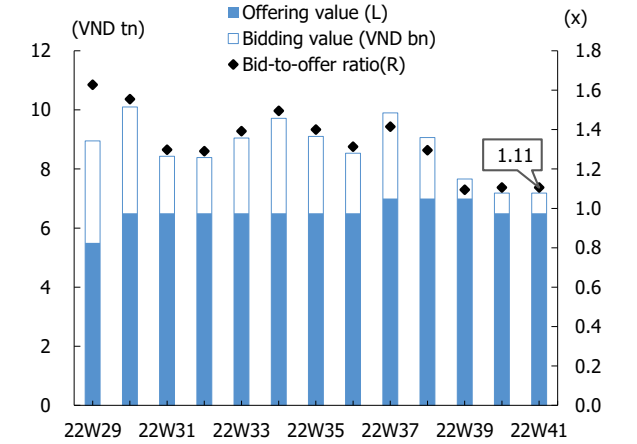
Source: HNX, KIS

**Figure 12. Absorption ratio**



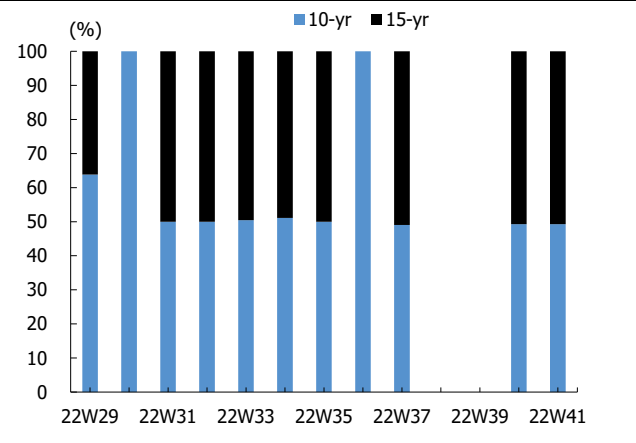
Source: HNX, KIS

**Figure 13. Bid-to-offer ratio**



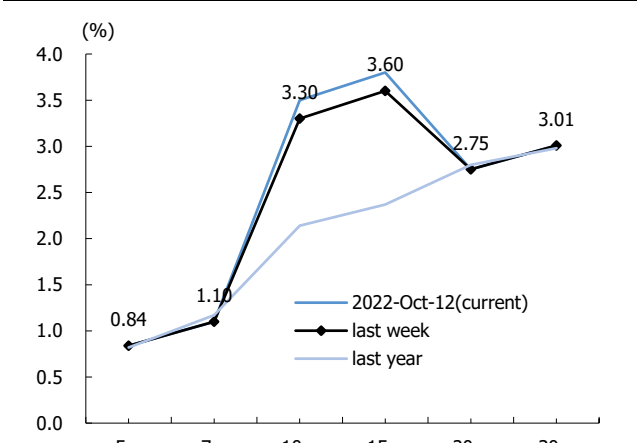
Source: HNX, KIS

**Figure 14. Winning value by tenor**



Source: HNX, KIS

**Figure 15. Yield curve in primary market**



Source: HNX, KIS

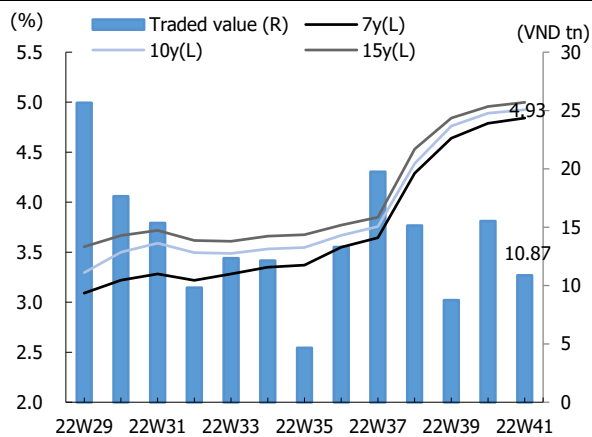
## IV. The selling pressure in 2<sup>nd</sup> G-bond market eases

### The selling pressure of G-bond in 2<sup>nd</sup> market eases

The G-bond yield slowed down this week with a significantly lower trading volume, indicating that selling pressure eased while buyers remained hesitant in making investment decisions for this fixed-income instrument. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) rose by 4basis points (bps), 4bps, and 4bps to reach 4.84%, 4.93%, and 5.00% this week, respectively.

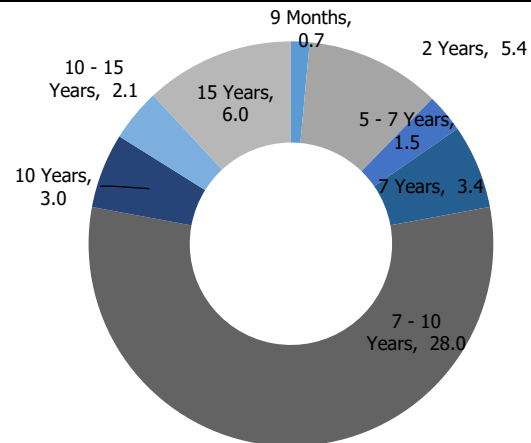
The weekly traded value reached VND10.87tn for five trading sessions, declining by 30.00% compared to the previous week. Short-term loans in the money market have become less expensive as SBV re-directed its open market transactions to resolve the liquidity shortage, mainly explaining the slowdown in G-bond yield this week. Regarding value structure, transactions continued focusing on tenors from 7 to 15 years with a joint portion of 42.40%.

**Figure 16. G-bond trading value**



Source: HNX, KIS

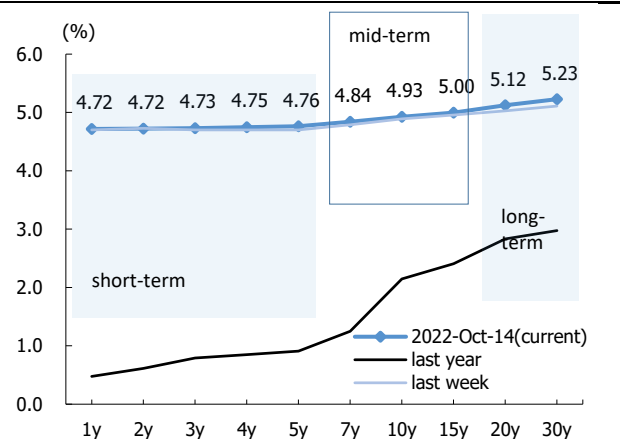
**Figure 17. Trading value by tenor this week**



Source: HNX, KIS

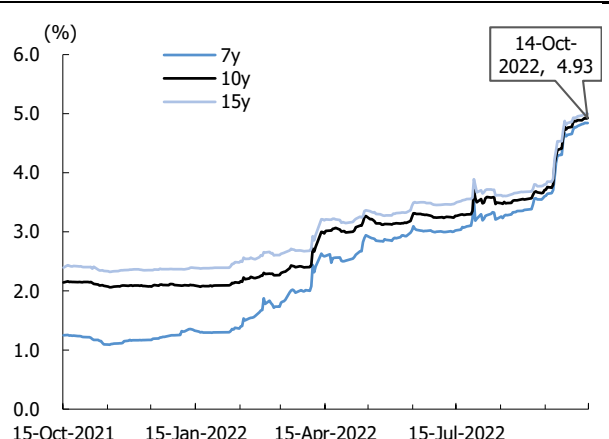
The increase in G-bond yield tended to focus on the short end, causing the curve to be less steep this week. Accordingly, short-term tenors (less than seven years), mid-term tenors (7 to 15 years), and long-term (above 15 years) increased by 3bps, 4bps, and 11bps on average this week, respectively.

**Figure 18. G-bond yield curve**



Source: HNX, VBMA, KIS

**Figure 19. Historical daily government bond yield**



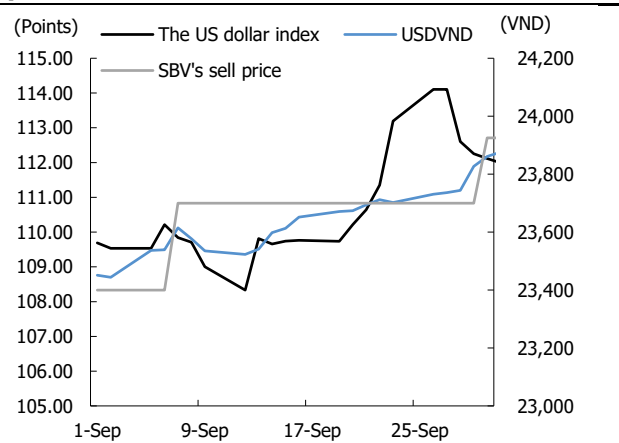
Source: HNX, VBMA, KIS

## V. USDVND increases dramatically

### USDVND witnessed a significant advance

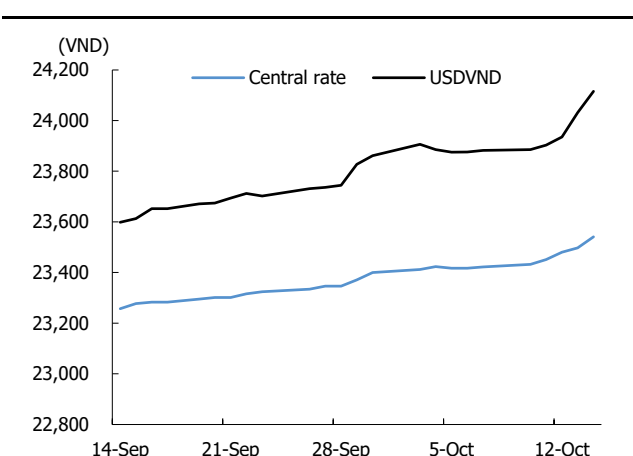
In comparison with last week's data, the USDVND witnessed a significant advance followed by the rise of DXY. In general, the USDVND increased by 0.98% compared with last week with a peak on Friday at VND24,115. This week, DXY increased 0.46% WoW to over 113 points due to higher-than-expected inflation data. Specifically, the annual core-inflation rate in the US accelerated to 6.6% in September of 2022, the highest since 1982 from 6.3% in the previous month and above market forecasts of 6.5%. Besides, core-inflation (%MoM) increased 0.6% beating the forecast of 0.5% rise. Rising costs for housing, food, and medical care contributed the most to September's monthly increase. The data showed that the Fed's interest rate hike just has a little impact on controlling the inflation. After the data released, the DXY witnessed a rebound as investors are betting the Fed will keep their hawkish policy to combat inflation. According to the CME Fed-Watch tool, 81.3% investors think that Fed will increase 75bps on November while 18.7% investors are betting that Fed will increase the rate aggressively to 100bps.

**Figure 20. Daily USDVND, DXY and SBV's selling price**



Source: SBV, Bloomberg

**Figure 21. Daily Central rate and USDVND**



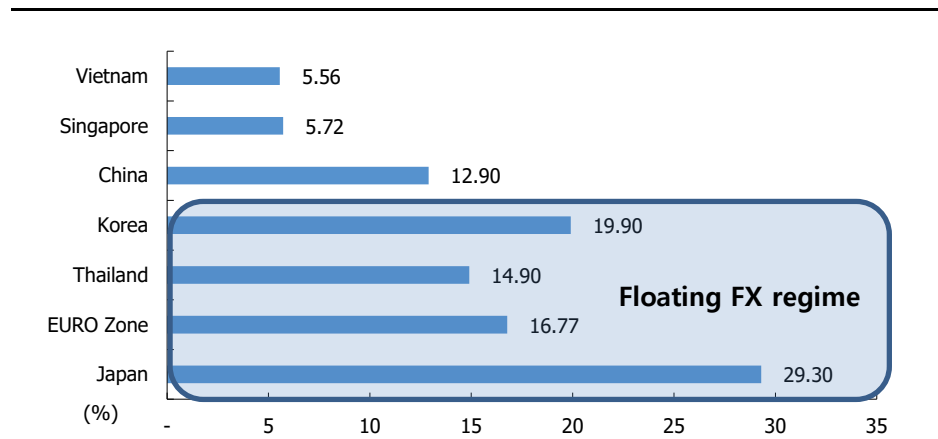
Source: SBV, Bloomberg

Last week, the central rate was lifted significantly by 119bps, from VND23,422 to VND23,541. Meanwhile, the exchange rate at commercial banks at the end of the week also increased dramatically by 0.98% WoW, from VND23,882 to VND24,115.

In addition, SBV has continued to keep its selling price of the greenback at VND23,925 (0.95%-higher compared with previous adjustment). This is the fourth time this year that the State Bank has raised the selling price of USD. The action of SBV this time shows the determination to stabilize the exchange rate and prevent the VND from depreciating against the U.S dollar.



**Figure 22. YTD performance of local currencies**



Source: Bloomberg, KIS

Last week, Vietnam was depreciated around 5.56% so far this year (YTD) against the greenback. However, Vietnam continued to maintained its position as the nation with the least depreciation against the U.S. dollar while China has dropped to around 12.90% (YTD). In contrast, countries with the floating FX regime, such as Japan and European nations, experienced a severe depreciation against the U.S. dollar. Last week, Japan was depreciated roughly 29.30% (YTD) against the greenback followed by Korea and the Eurozone.

## Macro scorecard

	22-May	22-Jun	22-Jul	22-Aug	22-Sep	4Q21	1Q22	2Q22	3Q22	2018	2019	2020	2021
Real GDP growth (%)						5.22	5.03	7.72	13.67	7.08	7.03	2.91	2.58
Registered FDI (USD bn)	0.98	2.32	1.51	1.23	1.92	9.01	8.91	5.12	4.67	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)	30.48	32.65	30.32	33.38	29.94	95.26	86.01	96.83	96.48	243.5	263.6	282.7	335.7
Import (USD bn)	32.21	32.37	30.30	30.96	28.80	88.72	87.45	97.58	90.71	236.7	254.4	263	331.1
Export growth (%)	16.38	19.98	8.87	22.14	10.35	20.43	13.43	21.02	17.22	13.19	8.16	7.02	18.74
Import growth (%)	12.85	16.32	3.42	12.42	6.45	15.42	15.17	15.72	8.12	11.01	7.41	3.81	25.9
Inflation (%)	2.86	3.37	3.14	2.89	3.94	1.89	1.92	2.96	3.32	3.54	2.79	3.24	1.84
USD/VND	23,195	23,254	23,343	23,417	23,712	22,790	22,837	23,139	23,712	23,175	23,173	23,126	22,790
Credit growth (%)	7.62	8.51	9.14	9.62	10.47	12.97	4.13	8.51	10.47	10.77	13.75	12.17	12.97
10Y gov't bond (%)	3.25	3.38	3.50	3.37	4.39	2.11	2.40	3.38	4.39	5.07	3.37	2.01	2.11

Source: GSO, Bloomberg, FIA, IMF

## \*\*Glossary

- \* Winning yield rate = each group's highest bidding rate, ~3.5%
- \* Absorption rate = winning value / offering value, ~78%
- \* Bid to offer ratio = offering value / bidding value, ~1.1x
- \* DXY = U.S. Dollar Index, ~113
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~4.92%

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