

Fixed-income Perspectives

All eyes on the FX market

SBV reverses OMO direction

In the 42nd week of 2022 (from 17th to 23rd October), SBV switched into liquidity withdrawal after consecutively pouring money into the banking system in three recent weeks. Accordingly, SBV has sharply offered T-bill with a notable amount of VND126.20tn last week, resulting in a net withdrawal of VND122.77tn via this channel. As per repo transaction, SBV significantly lowered the offering value from VND89.45tn to VND5.39tn, resulting in a net injection of VND3.43tn through this instrument.

Interbank rates slide further

Interbank rates significantly reduced this week with a lower trading value under the SBV's intervention during past three weeks, implying that liquidity stress has been solved. Specifically, overnight (ON) interest rates on the last trading session of this week declined by 118 basis points (bps) to 3.73%. Similarly, 1-week and 2-week decreased by 67bps and 61bps compared to the last weekend to 4.67% and 5.07%, respectively. On the opposite direction, long-term loans such as 3-month and 6-month witnessed a rise to 7.40% and 7.73%, respectively.

USDVND increases dramatically

In comparison with last week's data, the USDVND witnessed a significant advance while the DXY fell down. In general, the USDVND increased by 2.30% compared with last week with a peak on Friday at VND24,669. On Monday 17th October, SBV has raised its selling price of the greenback at VND24,380 (1.90%-higher compared with previous adjustment). This is the fifth time this year that the State Bank has raised the selling price of USD. At this time, stabilizing the exchange rate and prevent the VND from depreciating against the U.S dollar was the top priority of SBV.

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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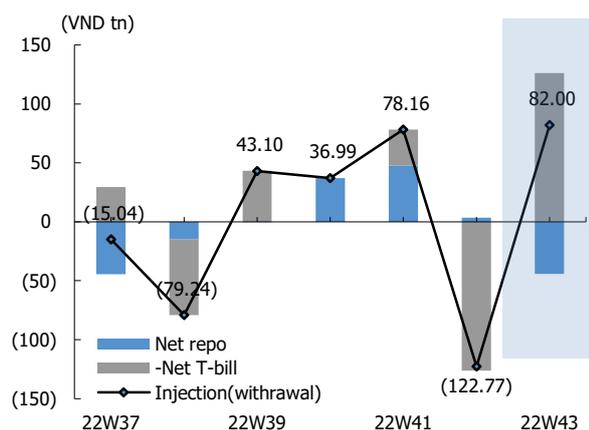
I. SBV reverses OMO direction

SBV switched into liquidity withdrawal

In the 42nd week of 2022 (from 17th to 23rd October), SBV switched into liquidity withdrawal after consecutively pouring money into the banking system in three recent weeks. Accordingly, SBV has sharply offered T-bill with a notable amount of VND126.20tn last week, resulting in a net withdrawal of VND122.77tn via this channel. As per the repo transaction, SBV significantly lowered the offering value from VND89.45tn to VND5.39tn, resulting in a net injection of VND3.43tn through this instrument.

This week, the money withdrawal of SBV was attributable to two reasons. Firstly, it seems that the liquidity stress in the banking system has now been resolved thanks to SBV's support during the past 3 weeks. Secondly, the pressure on the USD/VND exchange rate was growing, causing SBV to increase interbank interest rates in order to stabilize the exchange rate. Hence, we predict that the central bank could pay more attention to the liquidity condition with more money withdrawals in the next few weeks.

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 (%)
17-Oct-2022	24-Oct-2022	7	1.82	5.00
19-Oct-2022	26-Oct-2022	7	0.57	5.00
20-Oct-2022	27-Oct-2022	7	1.00	5.00
21-Oct-2022	28-Oct-2022	7	2.00	5.00

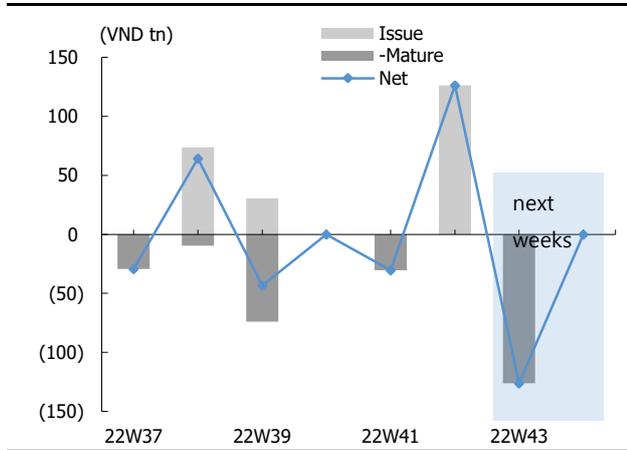
Source: SBV, Bloomberg, KIS

Table 3. Daily T-bill transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
18-Oct-2022	25-Oct-2022	7	30.00	4.00
19-Oct-2022	26-Oct-2022	7	50.00	3.98
19-Oct-2022	26-Oct-2022	7	10.00	5.00
20-Oct-2022	27-Oct-2022	7	20.00	5.00
21-Oct-2022	28-Oct-2022	7	16.20	5.00

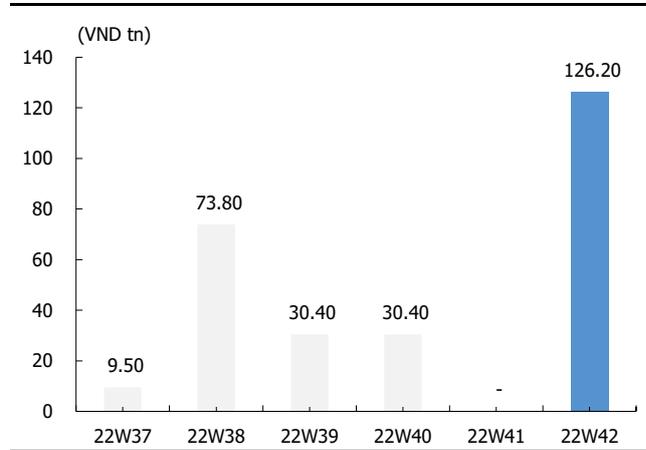
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



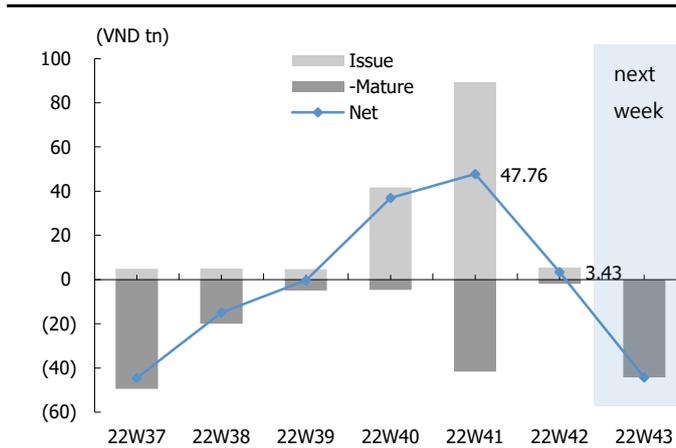
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



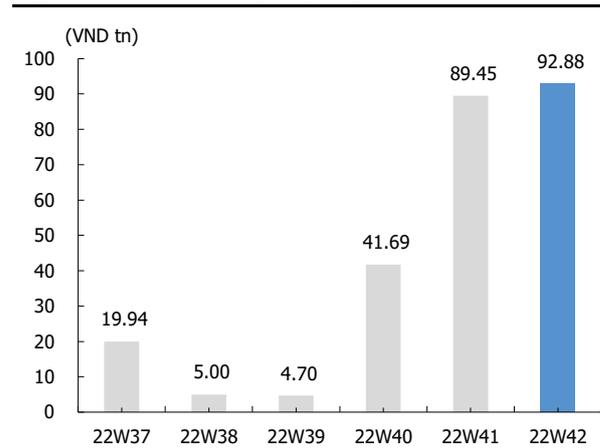
Source: SBV, Bloomberg, KIS

Figure 4. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding Repo by week



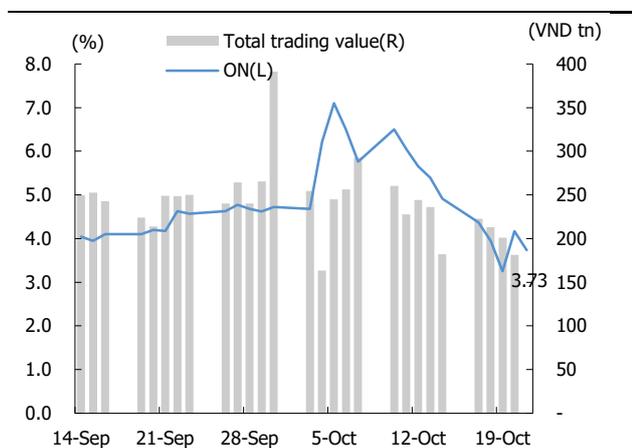
Source: SBV, Bloomberg, KIS

II. Interbank rates slide further

Interbank rates significantly reduced this week with a lower trading value under the SBV's intervention during past three weeks, implying that liquidity stress has been solved. Specifically, overnight (ON) interest rates on the last trading session of this week declined by 118 basis points (bps) to 3.73%. Similarly, 1-week and 2-week decreased by 67bps and 61bps compared to the last weekend to 4.67% and 5.07%, respectively. On the opposite direction, long-term loans such as 3-month and 6-month witnessed a rise to 7.40% and 7.73%, respectively.

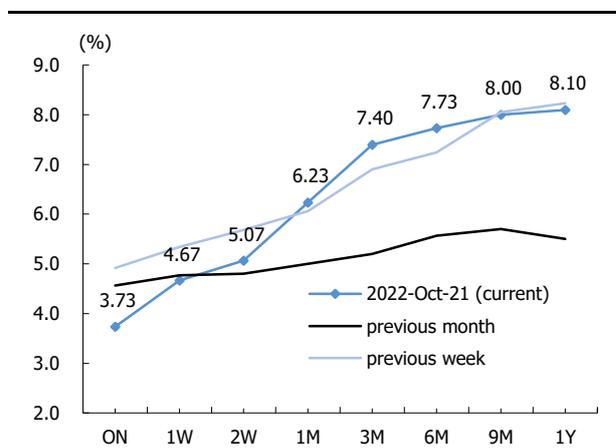
However, as can be observed that SBV has massively offered T-bill contracts with higher winning yields, it is likely that the interest rate will increase again next week.

Figure 6. Interbank daily transaction



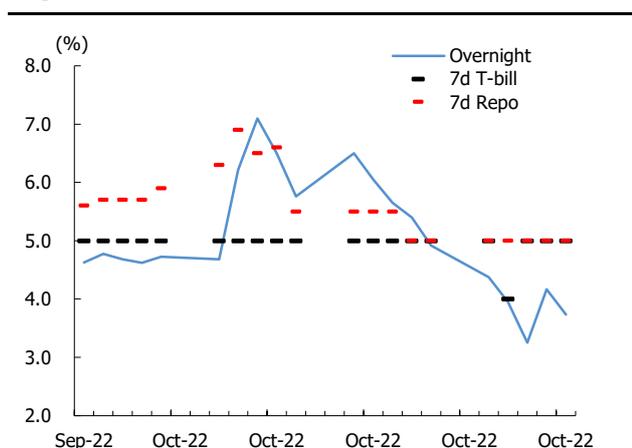
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



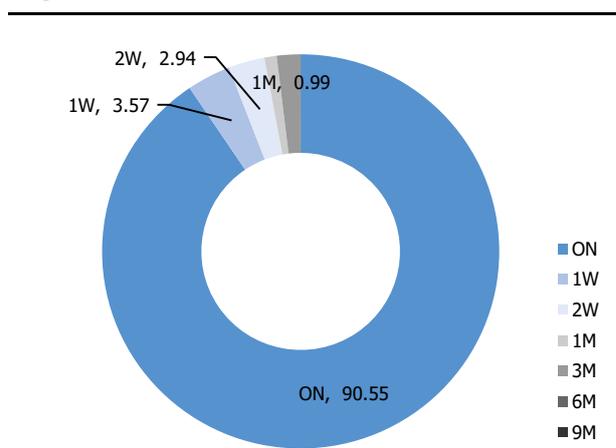
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KIS

III. G-bond auction remains successful

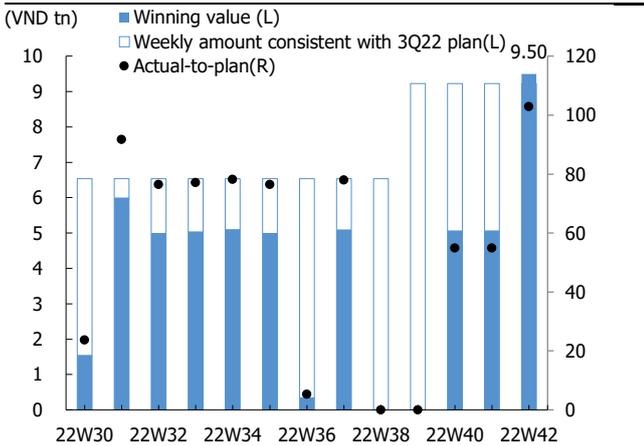
G-bond auction remains successful

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, 42W22 recorded a winning amount of VND9.50tn (VND5.00tn for the 10-year tenor and VND4.50tn for the 15-year tenor) from VND10.00tn offered by VST. 42W22's issuance resulted in a cumulative amount of VND127.23tn, accounting for 31.81% 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 30basis points (bps) compared to last week, reaching 3.80% and steadily surpassing the anchoring level of 3.0%. Similarly, the 15-year G-bond yield increased by 30bps to 4.10% this week.

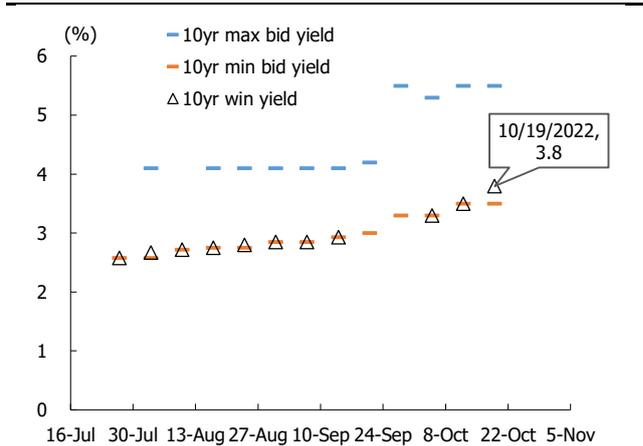
The liquidity condition in the money market has become tighter this week after the arrestment of parties related to VTP, one of Vietnam's top real estate developers, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity 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



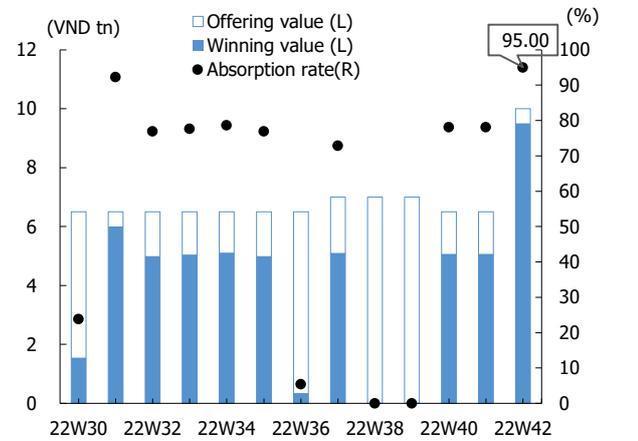
Source: HNX, KIS

Figure 11. Winning yields by week



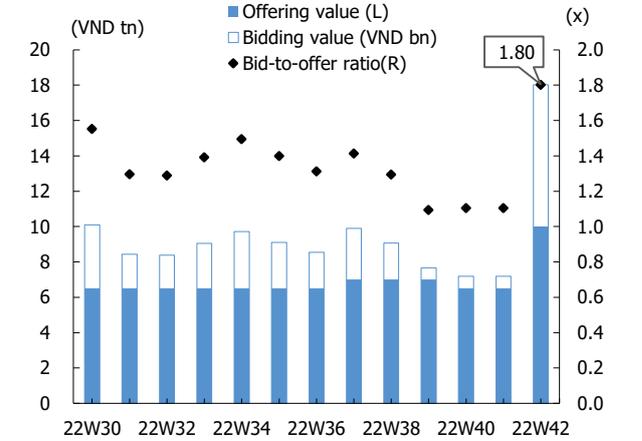
Source: HNX, KIS

Figure 12. Absorption ratio



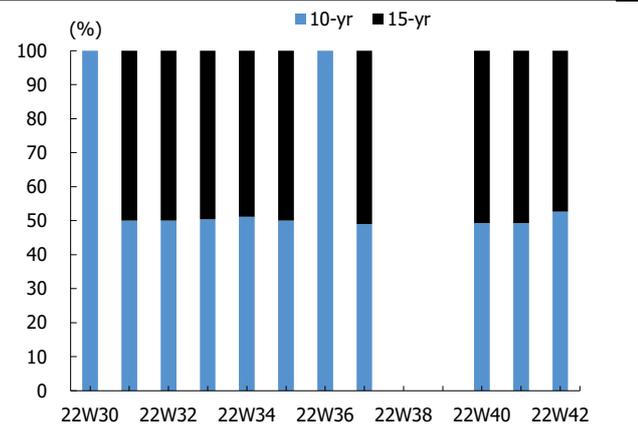
Source: HNX, KIS

Figure 13. Bid-to-offer ratio



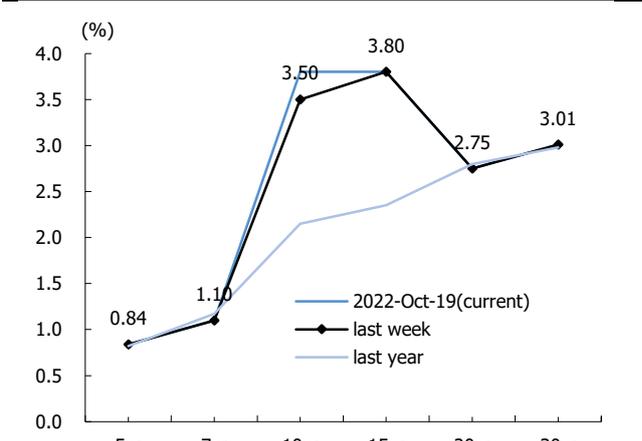
Source: HNX, KIS

Figure 14. Winning value by tenor



Source: HNX, KIS

Figure 15. Yield curve in primary market



Source: HNX, KIS

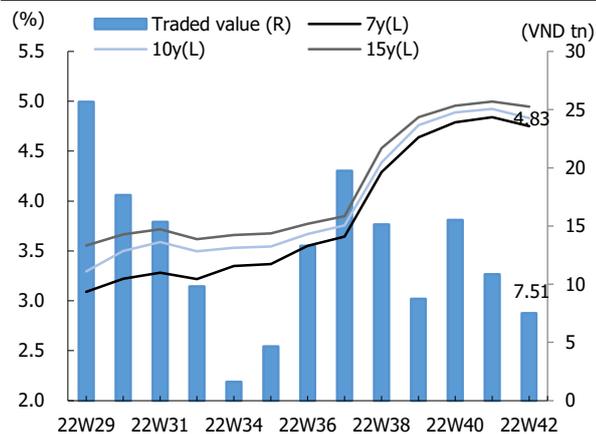
IV. G-bond yields slightly reduce

The selling pressure of G-bond in 2nd market eases

G-bond yield in the secondary market reduced for the first time after ten consecutive weeks of raising, mainly attributed to the easing money market with lower interbank rates this week. Besides, trading volume reduced further under lower yields, indicating that holders were likely not eager to lower their holdings at this time. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) rose by 9basis points (bps), 9bps, and 5bps to reach 4.75%, 4.83%, and 4.95% this week, respectively.

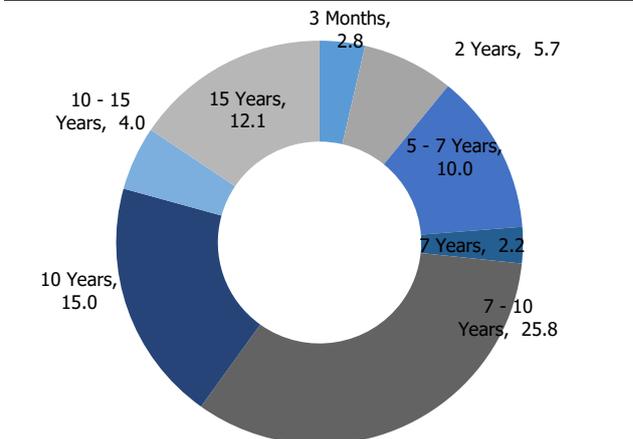
The weekly traded value reached VND7.51tn for five trading sessions, declining by 20.41% compared to the previous week. Short-term loans in the money market have become less expensive as SBV re-directed its open market transactions to resolve the liquidity shortage, mainly explaining the reduction in G-bond yield this week. Regarding value structure, transactions continued focusing on tenors from 7 to 15 years with a joint portion of 59.10%.

Figure 16. G-bond trading value



Source: HNX, KIS

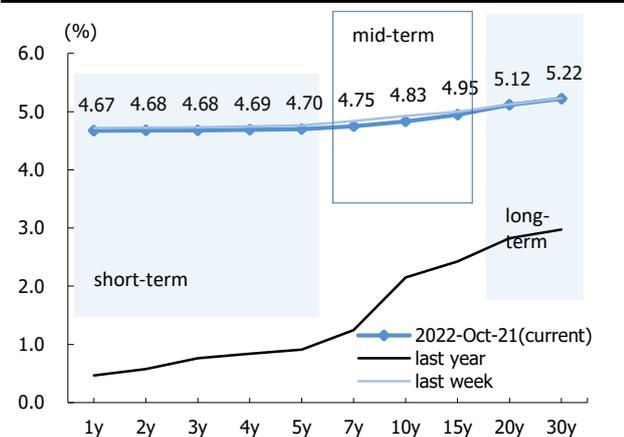
Figure 17. Trading value by tenor this week



Source: HNX, KIS

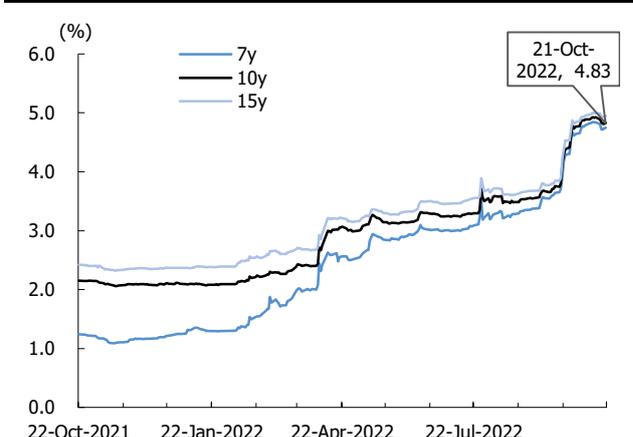
The increase in G-bond yields tends to focus more on the mid-term tenors, causing a more flat yield curve this week. Accordingly, short-term tenors (less than seven years), mid-term tenors (7 to 15 years), and long-term (above 15 years) increased by 6bps, 4bps, and 1bps on average this week, respectively.

Figure 18. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 19. Historical daily government bond yield



Source: HNX, VBMA, KIS

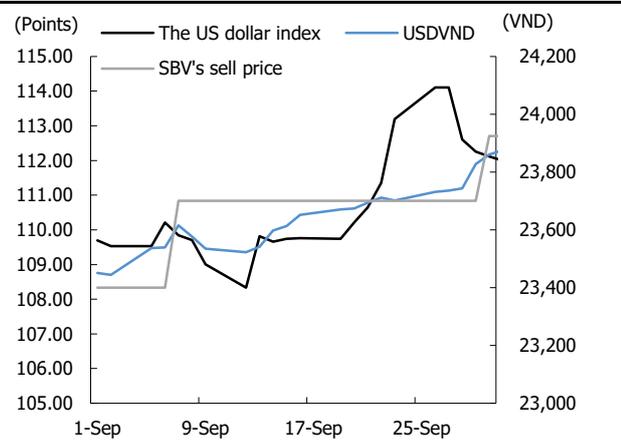
V. USDVND increases dramatically

USDVND witnessed a significant advance

In comparison with last week's data, the USDVND witnessed a significant advance while the DXY fell down. In general, the USDVND increased by 2.30% compared with last week with a peak on Friday at VND24,669.

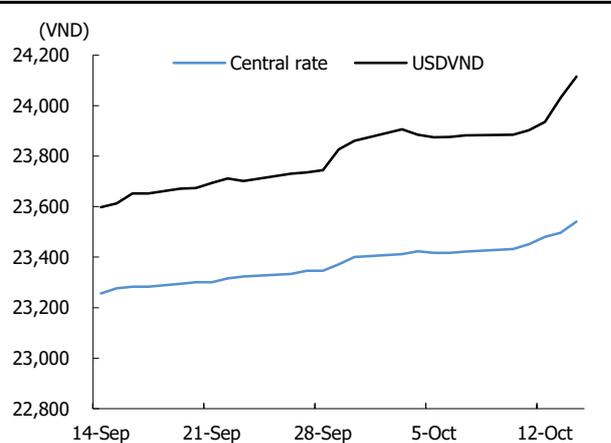
This week, DXY decreased 0.46% WoW to around 112 hovering near its lowest levels in almost three weeks, pressured by growing expectations that the U.S. Federal Reserve would slow the pace of interest rate hikes soon. Specifically, San Francisco Federal Reserve President Mary Daly gave sign that it's time to slow down the pace of interest rate hike during her speech on Friday 21st October. The DXY immediately fell from 113 zone to around after that speech. It is likely that the DXY will continue to fall down next week.

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



Source: SBV, Bloomberg

Figure 21. Daily Central rate and USDVND

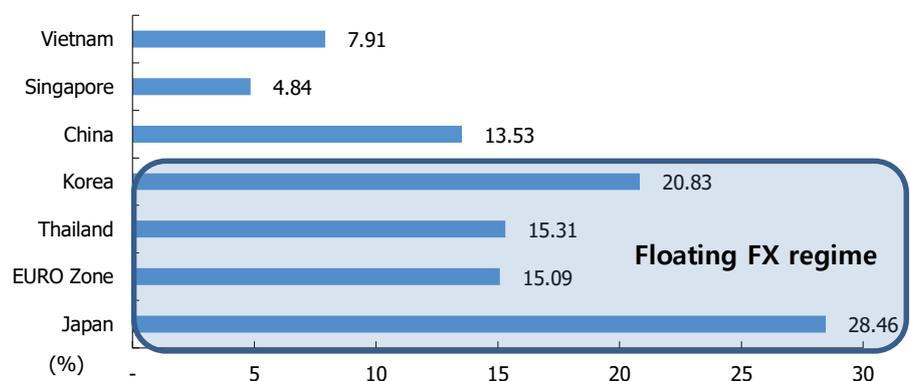


Source: SBV, Bloomberg

Last week, the central rate was lifted significantly by 149bps, from VND23,541 to VND23,688. Meanwhile, the exchange rate at commercial banks at the end of the week also increased dramatically by 2.30% WoW, from VND24,115 to VND24,669.

In addition, on Monday 17th October, SBV has raised its selling price of the greenback at VND24,380 (1.90%-higher compared with previous adjustment). This is the fifth time this year that the State Bank has raised the selling price of USD. At this time, stabilizing the exchange rate and prevent the VND from depreciating against the U.S dollar was the top priority of SBV.

Figure 22. YTD performance of local currencies



Source: Bloomberg, KIS

In 42nd week of 2022, this is the first time that the VND has depreciated sharply against the USD within a week which is nearly 2%. Specifically, Vietnam dong depreciated by 7.91% so far this year (YTD) and lost its position as the nation with the least depreciation against the U.S. dollar. Besides, countries with the floating FX regime, such as Japan and European nations, experienced a severe depreciation against the U.S. dollar. Last week, JPY depreciated roughly 28.46% (YTD) against the greenback followed by Korea's won and the Eurozone's currency.

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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