

Fixed-income Perspectives

A soft liquidity condition lowers money market funding costs

SBV switches to a net withdrawal

In 6W23 (from 6 to 12 February), SBV backs to net withdrawal after five consecutive weeks of supporting the banking system. Specifically, a sharp increase in T-bill offerings was seen this week while SBV lowered the new offering of repo contracts. In addition, SBV returned to offer T-bill with a notable amount of VND85.00tn, while an amount of VND15.00tn matured, creating a net withdrawal of VND70.00tn from the banking system. On the other hand, the central bank newly offered repo contracts with a modest amount of VND8.41tn compared to the matured value of VND80.82tn, resulted in a net withdrawal of VND72.41tn from the banking system. Jointly, this week SBV drained liquidity from its counterparties with a significant amount of VND142.41tn.

Interbank rates reduce in short tenors

Interbank rate this week reduced in almost short tenors, indicating that market liquidity is quite abundant and it will not create great pressure on interest rates at the moment. Specifically, short-term rates such as overnight (ON), 1-week and 2-week, experienced a significant decrease by 92bps, 78bps, and 68bps to 5.00%, 5.44%, and 5.98%, respectively. Conversely, interbank rates jumped slightly among almost long tenors. To be more specific, a slight increase was seen in 3-month, and 9-month tenors from 8.00% to 8.10%, and 8.43% to 8.45%, respectively.

Trading G-bond yields keep declining

G-bond yields in the secondary market fell, similar to the decline in the primary market, for the third month. Remarkably, the trading volume in 6W23 amplified to VND22.74tn, equaling 2.17x of last week, implying the abnormal excessive demand in the secondary G-bond market. Portfolio reallocation and speculation purposes could be the drivers for this volume surge.

KIS leading economic index

	1Q22	2Q22	3Q22	4Q22	2020	2021	2022
GDP (%)	5.03	7.72	13.67	5.92	2.91	2.58	8.02
Trade balance (USD bn)	1.50	(0.75)	5.78	4.44	19.86	4.00	11.20
CPI (%)	2.50	2.96	3.32	4.41	3.24	1.84	3.15
Discount rate (%)	2.50	2.50	3.50	4.50	2.50	2.50	4.50
USD/VND	22,900	23,139	23,712	23,658	23,252	22,936	23,658
US GDP (%)	(1.60)	NA	NA	NA	(3.40)	5.60	NA
China GDP (%)	4.80	0.4	3.9	2.9	2.20	8.00	NA

Source: KIS

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Research Dept.

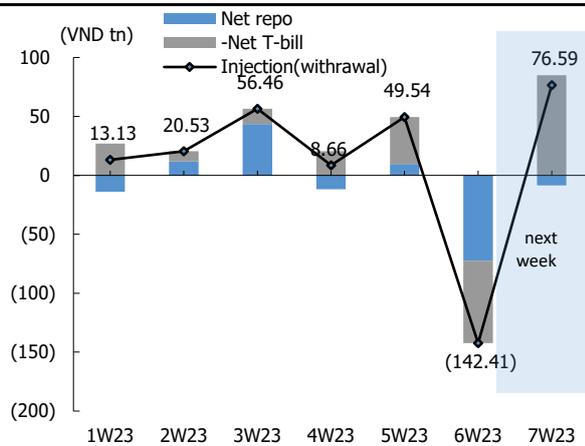
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I. SBV switches to a net withdrawal

A significant amount of net withdrawal this week

In 6W23 (from 6 to 12 February), SBV backs to net withdrawal after five consecutive weeks of supporting the banking system. Specifically, this week recorded a sharp increase in T-bill offerings, while SBV lowered the new offering of repo contracts. In addition, SBV returned to offer T-bill with a notable amount of VND85.00tn, while an amount of VND15.00tn matured, creating a net withdrawal of VND70.00tn from the banking system. On the other hand, the central bank newly offered repo contracts with a modest amount of VND8.41tn compared to the matured value of VND80.82tn, resulting in a net withdrawal of VND72.41tn from the banking system. Jointly, this week SBV drained liquidity from its counterparties with a significant amount of VND142.41tn.

Figure 1. Net injection (withdrawal) of liquidity



Source: SBV, Bloomberg, KIS

Table 1. Historical policy rate change

Effective date	Discount rate (%)	Refinancing rate (%)
October 25, 2022	4.5↑	6.0↑
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

SBV withdrew money from the banking system for the first time in 2023 by increasing significantly the T-bill offering with a lowering winning rate, likely indicating a weaker demand for liquidity. Slower economic activities in manufacturing and real estate sectors were attributable to weak demand for borrowings, leading to a soft liquidity condition. Besides, USDVND responded mildly to the latest Fed's rate hike decision, providing SBV the chance to pilot an acceptable decline in money market funding cost. Hence, the future development in the FX market will suggest SBV's stance in the next few weeks.

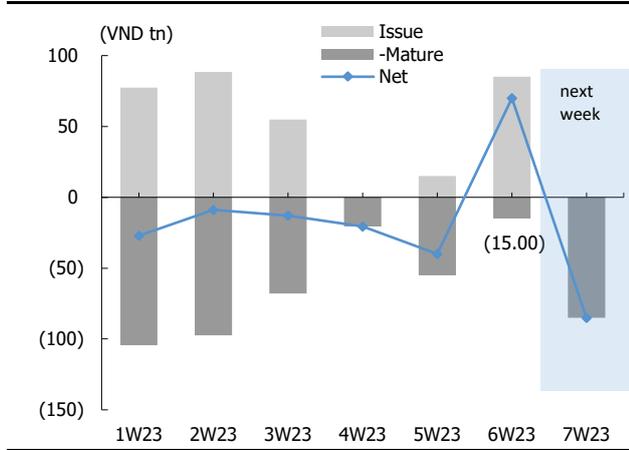
Table 2. Daily T-bill transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
6-Feb-23	13-Feb-23	7	10.00	5.49
7-Feb-23	14-Feb-23	7	10.00	5.29
8-Feb-23	15-Feb-23	7	20.00	5.00
9-Feb-23	16-Feb-23	7	25.00	4.88
10-Feb-23	17-Feb-23	7	20.00	4.55
Total		7¹	85.00	5²

Source: SBV, Bloomberg, KIS

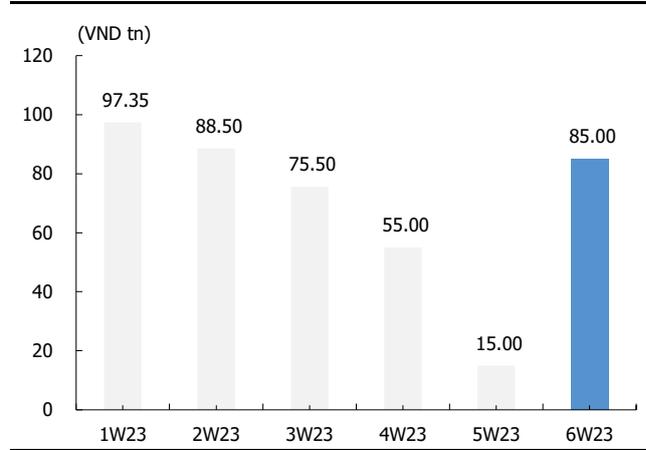
¹ value-weighted average tenor; ² value-weighted average winning rate

Figure 2. Issued T-bill by week



Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



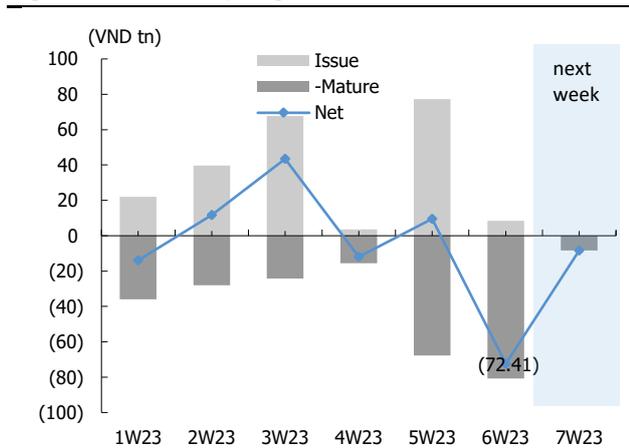
Source: SBV, Bloomberg, KIS

Table 3. Daily repo transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
6-Feb-23	13-Feb-23	7	2.48	6.00
7-Feb-23	14-Feb-23	7	3.18	6.00
8-Feb-23	15-Feb-23	7	1.08	6.00
9-Feb-23	16-Feb-23	7	1.66	6.00
Total		7¹	8.41	6.00²

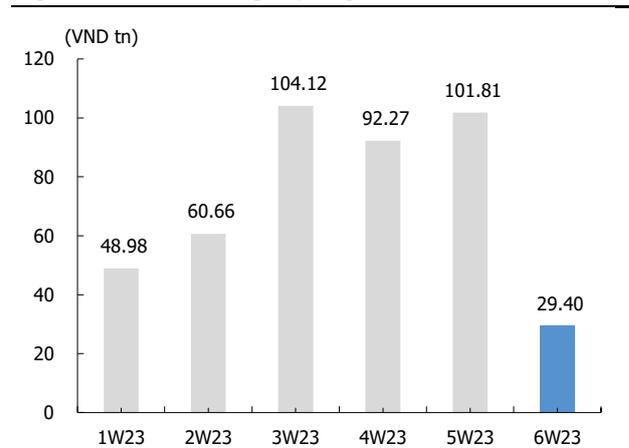
Source: SBV, Bloomberg, KIS
¹ value-weighted average tenor; ² value-weighted average winning rate

Figure 4. Issued repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



Source: SBV, Bloomberg, KIS

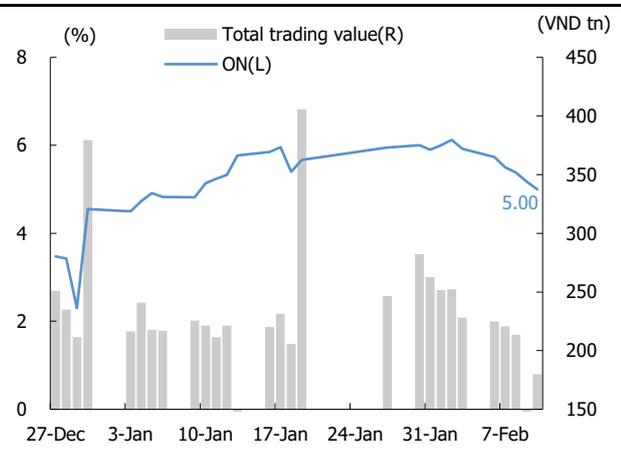
II. Interbank rates reduce in short tenors

Interbank rates reduced in short tenors

Interbank rate reduced in almost short tenors this week, indicating that market liquidity is quite abundant under slow economic activities, especially in manufacturing and real estate sectors. Specifically, short-term rates such as overnight (ON), 1-week, and 2-week, experienced a significant decrease by 92bps, 78bps, and 68bps to 5.00%, 5.44%, and 5.98%, respectively. Conversely, interbank rates jumped slightly among almost long tenors. To be more specific, a slight increase was seen in 3-month, and 9-month tenors from 8.00% to 8.10%, and 8.43% to 8.45%, respectively.

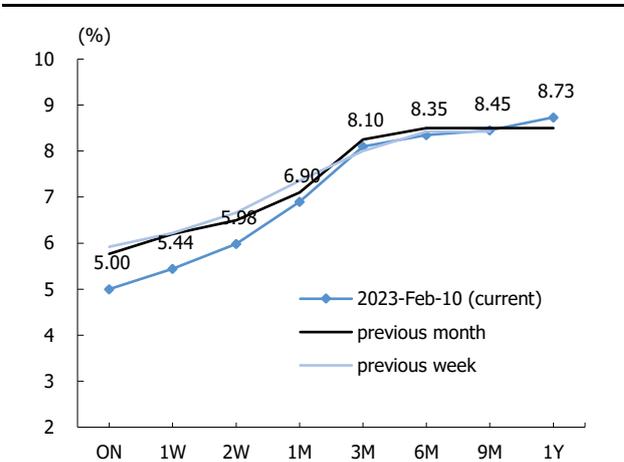
As can be observed that the trading value per session this week dropped slightly by 3.72%, posting VND245.920tn. In addition, SBV gradually lowered the T-bill winning rate, allowing interest rates in the money market to become cheap further.

Figure 6. Interbank daily transaction



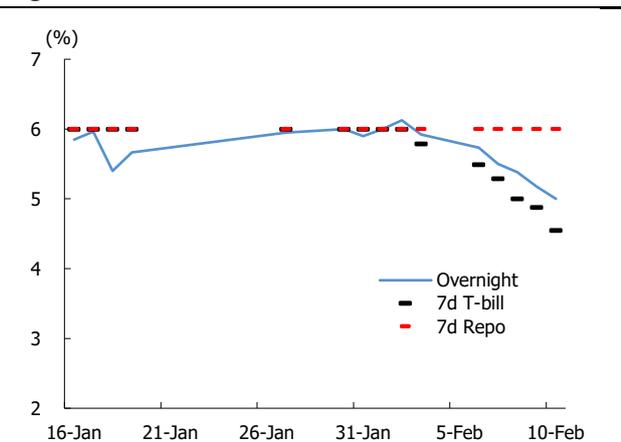
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



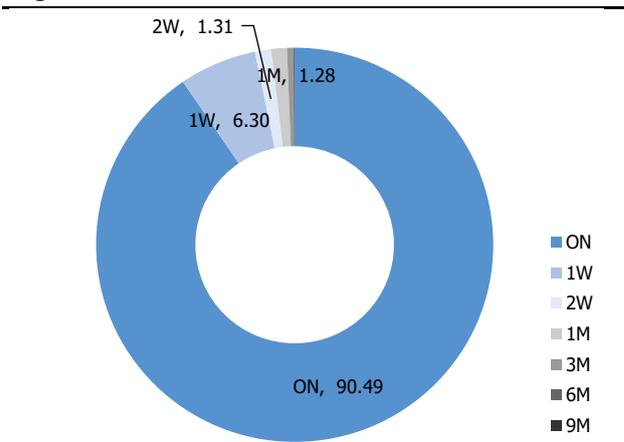
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KIS

III. G-bond winning value remains high

Winning yield progresses its downturn

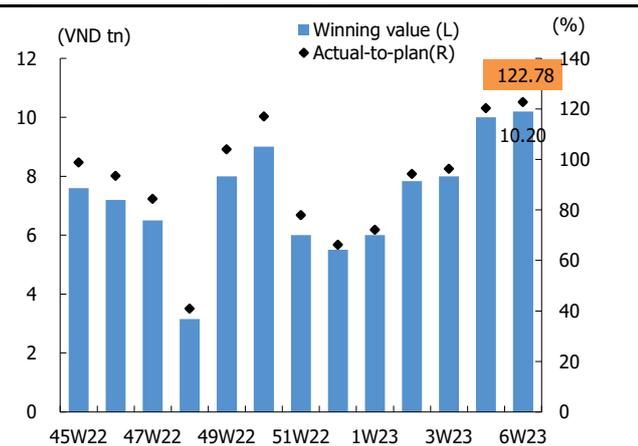
6W23 recorded a high G-bond winning value similar to last week, standing at VND10.20tn. This enormous volume was fueled by the excessive demand resulting from the soft liquidity condition in the banking system and the government's capital-raising need.

Specifically, this week reported a winning amount of VND10.20tn (VND0.20tn for the 7-year tenor, VND5.00tn for the 10-year tenor, and VND5.00tn for the 15-year tenor) from VND10.50tn offered, achieving 56.11% and 38.92% of February and 1Q23 plan, respectively. Notably, for the first time in 2023, a 7-year G-bond was successfully absorbed by auction participants, but only at 40% of the offered amount. Continuing its downward trend, the winning yield for 10-year and 15-year tenors were 4.1% and 4.3%, 10bps and 10bps lower than the previous week. Besides, the absorption and bid-to-offer ratios stayed high at 97.14% and 3.05x.

Similar to last week, the actual-to-plan ratio of G-bond issuance remained high at 122.78%, showing a favorable condition in capital raising for the state budget, leaving more room for VST to adjust the G-bond issuance plan up. The 2023 bond issuance plan remained unchanged compared to 2022 at VND400tn even though the investment and development expenditures hiked by 38.12% YoY, implying the issuance plan could be further adjusted as the slow disbursement progress of provinces forces capital raising to be flexible.

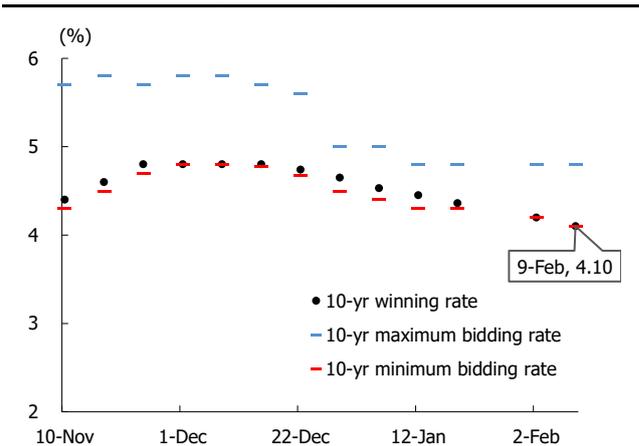
The winning yields for 10-year tenors progressed its downturn, standing at 4.1%, after peaking at 4.8% in mid-December 2022 and returning to its 4% level since the end-October 2022. It is expected that SBV will progress further to follow a low-interest rate environment, suggesting that G-bond yields could decline until the exchange rate is significantly affected.

Figure 10. Winning value by week



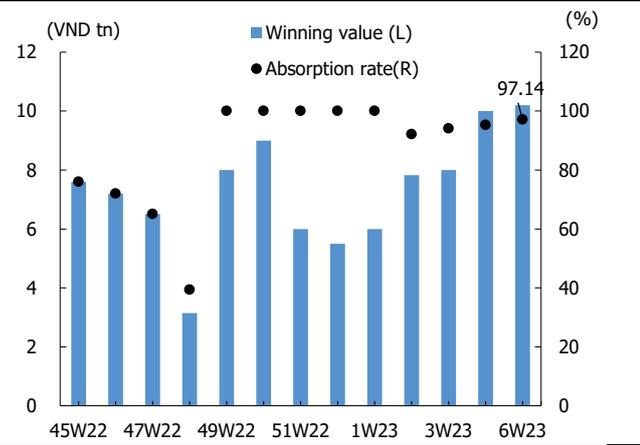
Source: HNX, KIS

Figure 11. Winning yields by week



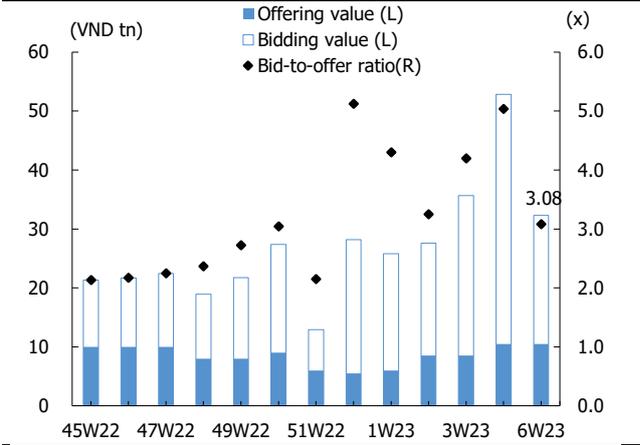
Source: HNX, KIS

Figure 12. Absorption ratio



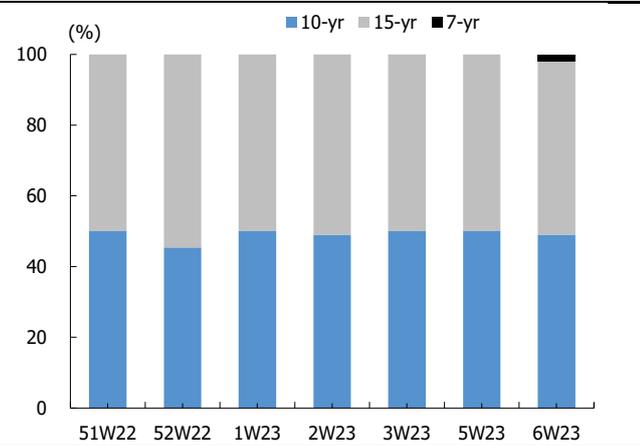
Source: HNX, KIS

Figure 13. Bid-to-offer ratio



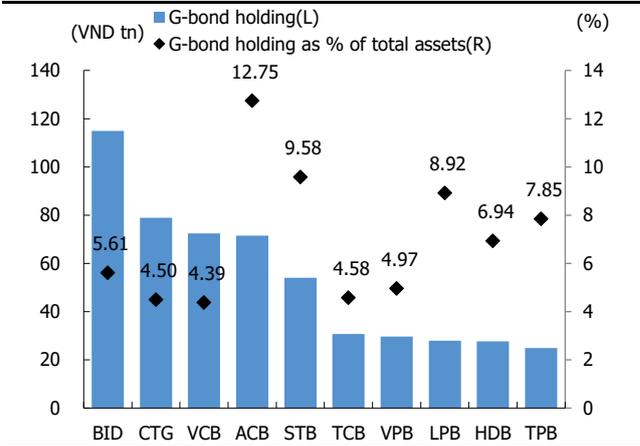
Source: HNX, KIS

Figure 14. Winning value by tenor



Source: HNX, KIS

Figure 15. Top G-bond holding by bank as of 4Q22



Source: HNX, Company filings, KIS

IV. Trading G-bond yields keep declining

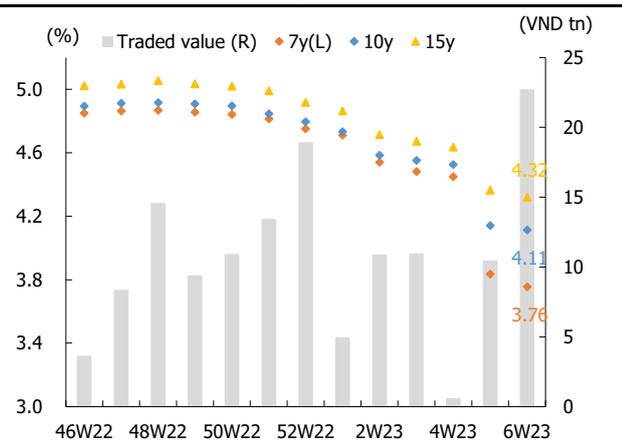
G-bond trading volume breached

G-bond yields in the secondary market fell, similar to the movement in the primary market, for the third month. Remarkably, the trading volume in 6W23 amplified to VND22.74tn, equaling 2.17x of last week, implying the abnormal excessive demand in the secondary G-bond market.

In more detail, following the downturn in the primary market, trading yields kept declining by 8bps, 3bps, and 4bps for 7-year, 10-year, and 15-year tenors (mostly traded tenors), respectively.

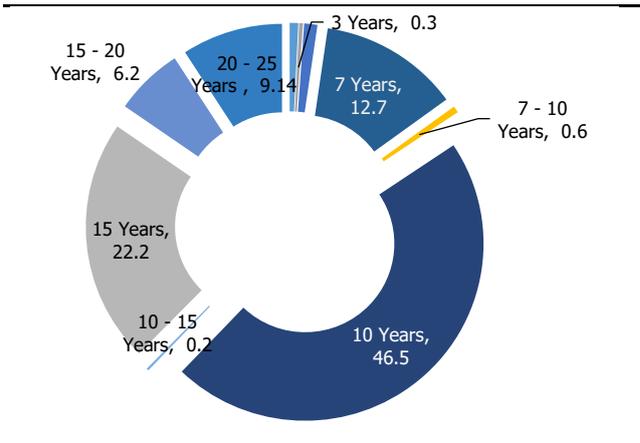
Portfolio reallocation and speculation purposes could be the drivers for the yield decline. As an alternative to the credit channel, G-bond possibly received more attention from fixed-income investors under the low borrowing demand. Specifically, accounting for over 21% of the total loan balance of the economy, real estate is struggling and leaving abundant undistributed capital, shifting capital allocation toward the G-bond channel. Another stimulation for enormous trading volume could be the speculation incentives for a lower G-bond yield environment in Vietnam, encouraging participants to restore their holdings. Regarding value structure, transactions kept concentrating on tenors from 7 to 15 years, with a joint portion of 82.26%.

Figure 16. G-bond trading value



Source: HNX, KIS

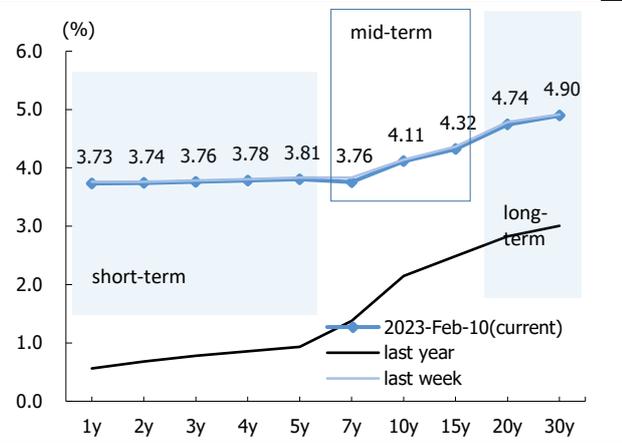
Figure 17. Trading value by tenor this week



Source: HNX, KIS

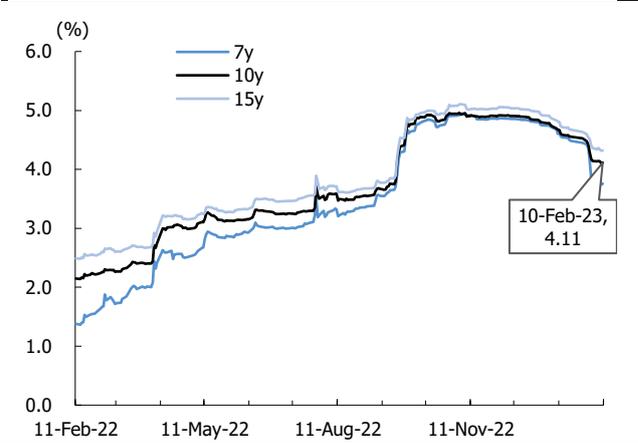
The shape of the yield curve was likely unchanged compared to last week, as the reduction in G-bond yield was distributed equally across tenors. Accordingly, short-term tenors (less than 7 years), mid-term (7 to 15 years), and long-term tenors (above 15 years) decreased slightly by 2bps, 5bps, and 3bps on average this week.

Figure 18. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 19. Historical daily government bond yield



Source: HNX, VBMA, KIS

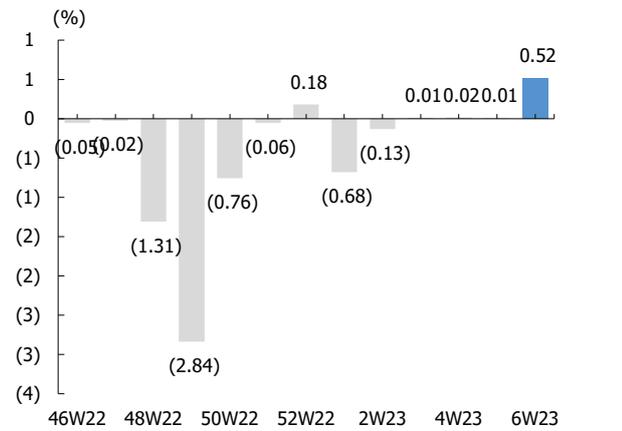
V. USDVND gained slightly

VND return to depreciate against USD

After three weeks of stabilization, 6W23 witnessed a gain in USDVND, followed by a slight increase in DXY compared to last week. Specifically, USDVND gained modestly by 0.52% WoW to VND23,572, while DXY increased by 0.69% to 103.63.

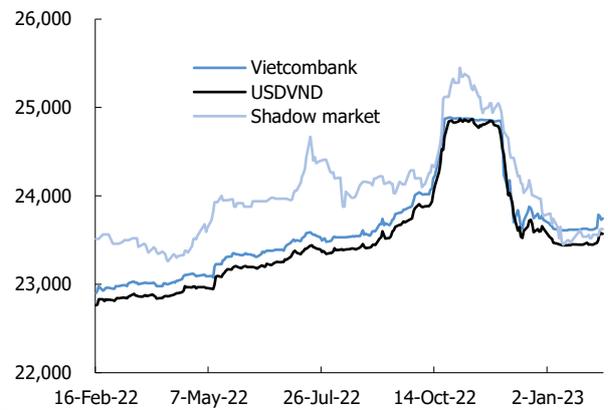
Similarly, VCB increased its bid and ask price by 125 dong to VND23,405 and VND23,745, while it climbed less notably in the shadow market by 65 dong to VND23,575 and VND23,625, respectively. We expect USDVND to rebound further when SBV tends to interest rates for VND loans in the money market.

Figure 20. Weekly USDVND performance



Source: SBV, Bloomberg

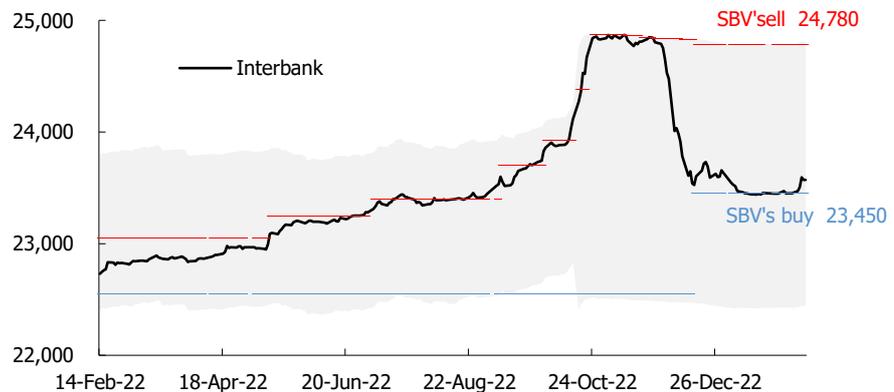
Figure 21. Historical USDVND by market



Source: SBV, Bloomberg, Fiinpro, tvgiadola.net

Regarding movements of the policymaker, SBV sustained the trading band at 5% and raised the reference rate by 20 dong to VND23,626 in exchange for one U.S dollar while maintaining the selling and buying prices unchanged for the last six weeks at VND24,780 and VND23,450, respectively.

Figure 22. SBV's movement



Source: SBV, Bloomberg, Fiinpro, KIS

Note: shaded region is the daily trading band. The effective trading band is +/- 5% (the effective date is 17th October, 2022).

DXY bounced back from its 9-month floor by 0.69% to 103.63 this week, likely due to the still-tight U.S. labor market, proved by the recent U.S. initial jobless claim. Accordingly, the number of Americans filing for unemployment benefits rose insignificantly to 196 thousand in January from 183 thousand last month, and slightly above the market expectation of 190 thousand. Combined with the FED's hawkish tone in last week's FOMC meeting, the market expects more room for further FED hawkish movement.

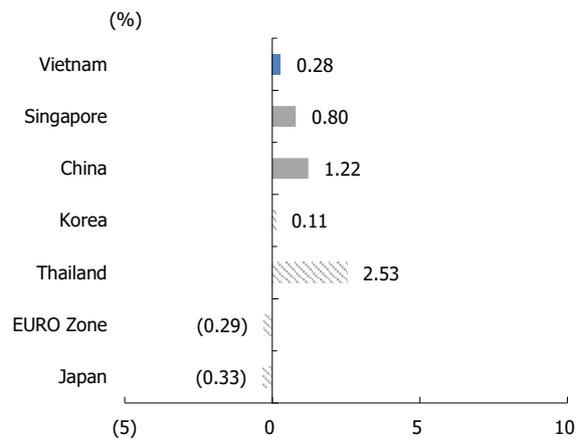
The above reasons led to the appreciation of the U.S. dollar, narrowing down its YTD losses against currencies in our watchlist. Specifically, THB remained its appreciation at 2.53% YTD, while SGD, CNY, and KRW narrowed to 0.80%, 1.22%, and 0.11%, respectively. In contrast, JPY widened its depreciation to -0.33% while EUR turned to -0.29% YTD against USD.

Figure 23. Historical DXY



Source: SBV, Bloomberg

Figure 24. 2023 YTD performance of major currencies against USD



Source: SBV, Bloomberg

Note: stripped bars represent countries following the floating FX regime.

Macro scorecard

	22-Sep	22-Oct	22-Nov	22-Dec	23-Jan	1Q22	2Q22	3Q22	4Q22	2019	2020	2021	2022
Real GDP growth (%)						5.03	7.72	13.67	5.92	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.92	2.05	2.67	2.58	1.66	8.91	5.12	4.67	8.96	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	
Unemployment rate (%)										2.25	2.48	3.22	
Export (USD bn)	29.94	30.27	29.50	29.66	25.08	86.01	96.83	96.48	89.50	263.6	282.7	335.7	371.85
Import (USD bn)	28.80	28.00	30.00	29.16	21.48	87.45	97.58	90.71	85.07	254.4	263	331.1	360.65
Export growth (%)	10.35	4.54	(7.40)	(13.96)	(21.28)	13.43	21.02	17.22	(6.07)	8.16	7.02	18.74	10.61
Import growth (%)	6.45	7.08	(2.04)	(8.14)	(28.92)	15.17	15.72	8.12	(3.90)	7.41	3.81	25.9	8.35
Inflation (%)	3.94	4.30	4.37	4.55	4.89	1.92	2.96	3.32	4.41	2.79	3.24	1.84	3.15
USD/VND	23,712	24,839	24,800	23,658	23,449	22,837	23,139	23,712	23,658	23,173	23,126	22,790	23,650
Credit growth (%)	10.47	11.50	11.50	12.87	NA	4.13	8.51	10.47	12.87	13.75	12.17	12.97	12.87
10Y gov't bond (%)	4.39	4.95	4.91	5.08	4.59	2.40	3.38	4.39	5.08	3.37	2.01	2.11	5.08

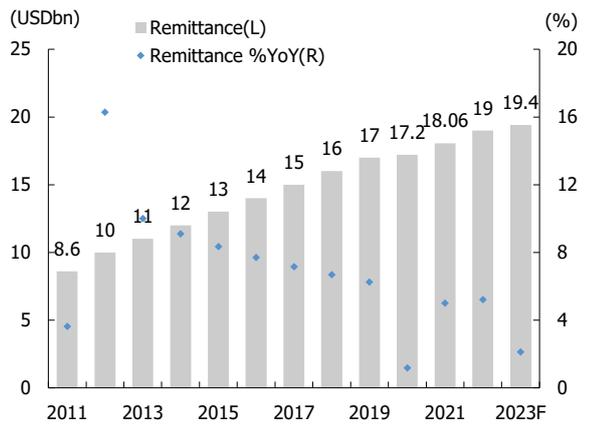
Source: GSO, Bloomberg, FIA, IMF

**Glossary

- * Winning yield rate = each group's highest bidding rate, ~4.10%
- * Absorption rate = winning value / offering value, ~97.14%
- * Bid to offer ratio = offering value / bidding value, ~3.08
- * DXY = U.S. Dollar Index, ~103.6
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~5.00%

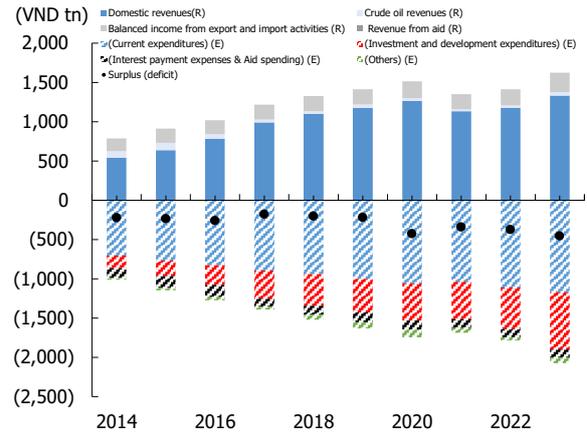
Appendix

Figure 25. Vietnam's remittance over years



Source: Worldbank, KNOMAD, KIS

Figure 26. Vietnam's state budget plan over years



Source: MoF, SBV

R indicates a component of revenues. E indicates a component of expenditures

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