

Fixed-income Perspectives

Widening interest rate spread puts pressure on the exchange rate

Stagnant money flow prolongs

In 26W23 (from 26 June to 2 July), there was a continuation of quietness in OMO activities as no new issuance observed. However, this week exhibit an insignificant withdrawal amount of VND0.29tn as the last repo expired, leaving completely empty T-bill and Repos outstanding amount.

Interbank rates hit new year-low

Interbank rates hit their lowest levels in two-year period (since April 2021), still due to prolonged abundant liquidity and subdued lending activities. The significant drops were seen in ON, 1W, and 2W tenors with 62bps, 26bps, and 15bps to 0.33%, 0.97%, and 1.47%, respectively. For the whole banking system by June 30, capital mobilization increased 3.99% YTD while credit edged up to 4.03% YTD from the low 3.17% last month, signifying a positive acceleration in credit performance this month.

USDVND rebounds strongly

During the past week, USDVND witnessed a 0.25% upswing in comparison to the previous week, posting at VND23,583 by the end of Friday. Besides, the U.S Dollar index (DXY), a gauge of the dollars' worth relative to a selection of international currencies, maintained its stability this week, showing no change compared to last week.

KIS leading economic index

	2Q22	3Q22	4Q22	1Q23	2020	2021	2022
GDP (%)	7.72	13.67	5.92	3.32	2.91	2.58	8.02
Trade balance (USD bn)	(0.75)	5.78	4.44	4.07	19.86	4.00	11.20
CPI (%)	2.96	3.32	4.41	4.18	3.24	1.84	3.15
Discount rate (%)	2.50	3.50	4.50	3.50	2.50	2.50	4.50
USD/VND	23,139	23,712	23,633	23,471	23,252	22,936	23,658
US GDP (%)	NA	NA	NA	NA	(3.40)	5.60	NA
China GDP (%)	0.4	3.9	2.9	NA	2.20	8.00	NA

Source: KIS

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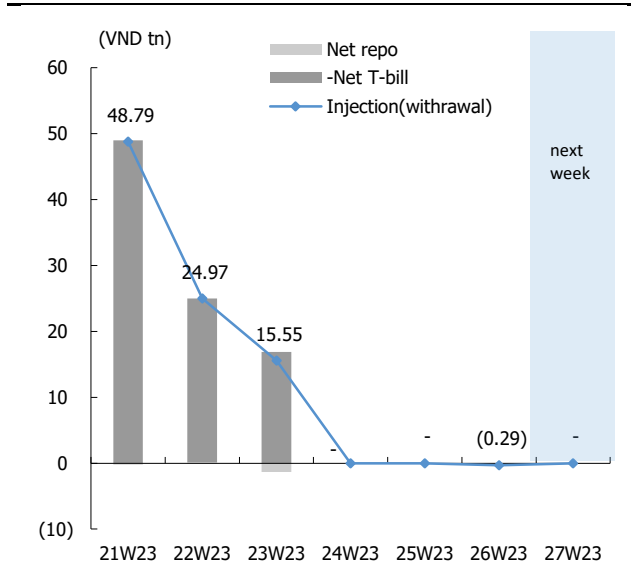
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I. Stagnant money flow prolongs

Silent OMO persists

In 26W23 (from 26 June to 2 July), there was a continuation of quietness in OMO activities as no new issuance observed. However, this week exhibit an insignificant withdrawal amount of VND0.29tn as the last repo expired, leaving completely empty T-bill and Repos outstanding amount. Regarding the accelerated VND depreciation (against USD) in recent days, we expect SBV will not use T-bill tools to alleviate FX pressure as it would contradict the government's monetary direction. Consequently, the silent OMO activities would prolong in the next few weeks till the July US FOMC decision revealed.

Figure 1. Net injection (withdrawal) of liquidity



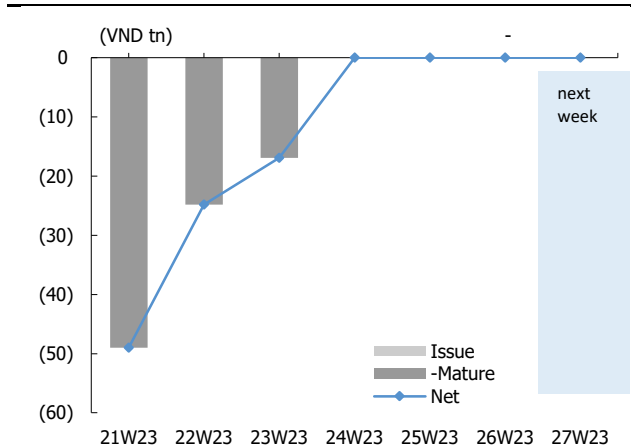
Source: SBV, Bloomberg, KIS

Table 1. Historical policy rate change

Effective date	Discount rate (%)	Refinancing rate (%)
June 23, 2023	3.0↓	4.5↓
May 25, 2023	3.5	5.0↓
April 3, 2023	3.5	5.5↓
March 15, 2023	3.5↓	6.0
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↓

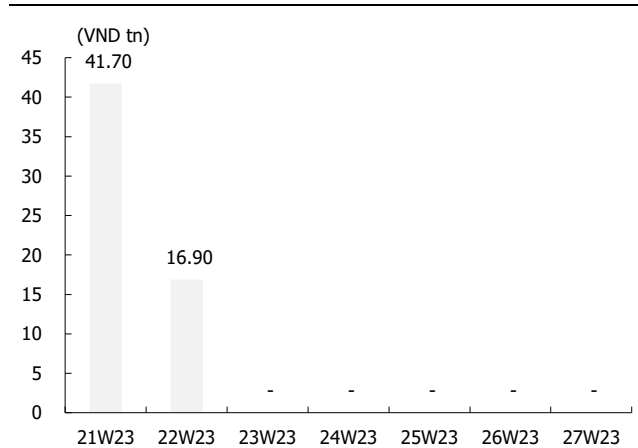
Source: SBV, Bloomberg, KIS

Figure 2. T-bill amount by week



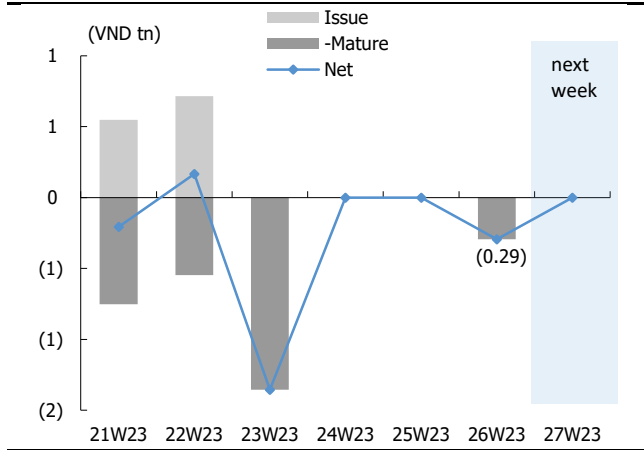
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



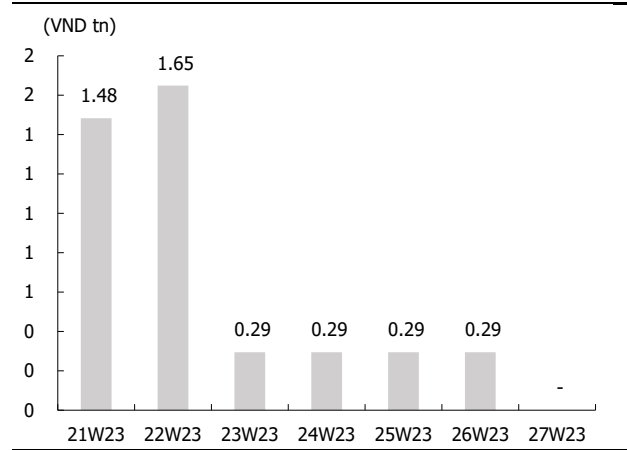
Source: SBV, Bloomberg, KIS

Figure 4. Repo amount by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



Source: SBV, Bloomberg, KIS

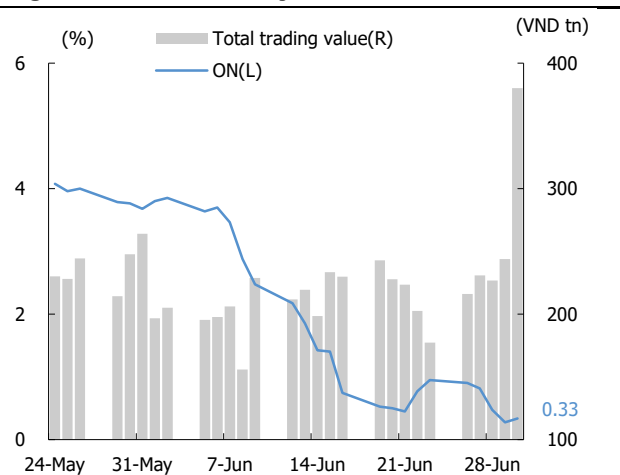
II. Interbank rates hit new year-low

Record low interbank rates reached

Interbank rates hit their lowest levels in two-year period (since April 2021), still due to prolonged abundant liquidity and subdued lending activities. The significant drops were seen in ON, 1W, and 2W tenors with 62bps, 26bps, and 15bps to 0.33%, 0.97%, and 1.47%, respectively. This ultra-low cost of funding contributed to a sharp increase in daily transaction volume, surging by 77.08% to VND380.23tn on Friday.

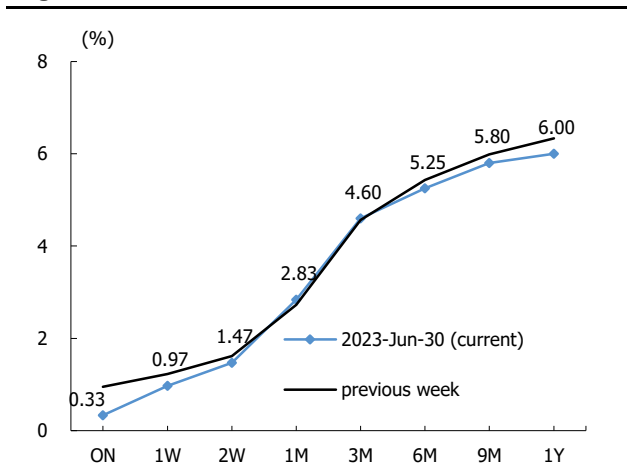
For the whole banking system by June 30, capital mobilization increased 3.99% YTD while credit edged up to 4.03% YTD from the low 3.17% last month, signifying a positive acceleration in credit performance this month. Despite this positive signal, the USD outflow from banking system intensified pressure on the exchange rate (USD mobilization -9.81% vs credit +13.68%). Moreover, the ON rate remaining below 1% for the past three weeks, simultaneously adding downward pressure on VND, incentivized money market traders staying in the long position of USD. Consequently, we anticipate that interbank rates and the exchange rate will exhibit volatility in the coming week.

Figure 6. Interbank daily transaction



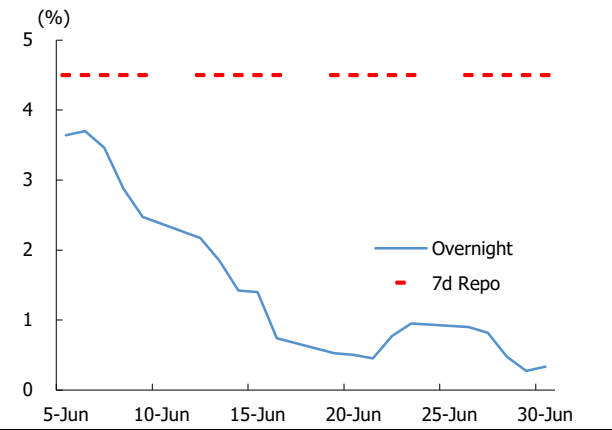
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



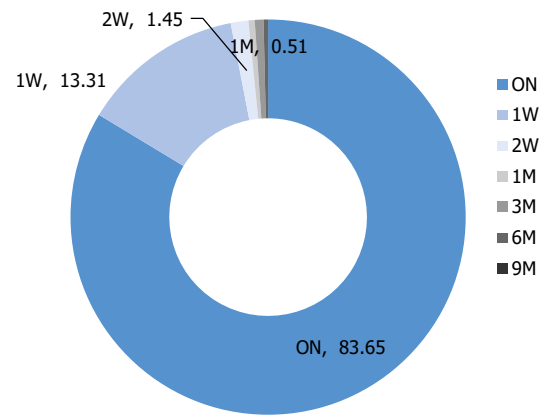
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



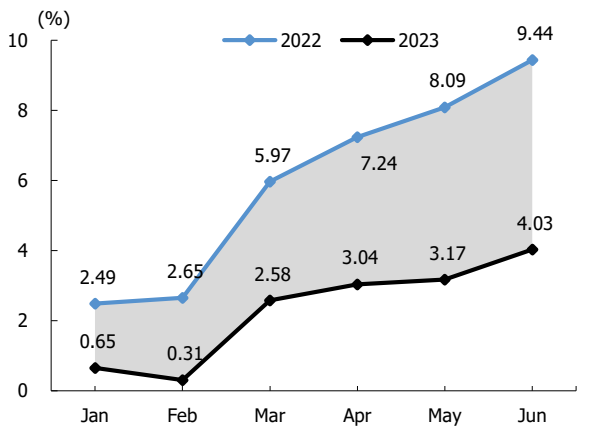
Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



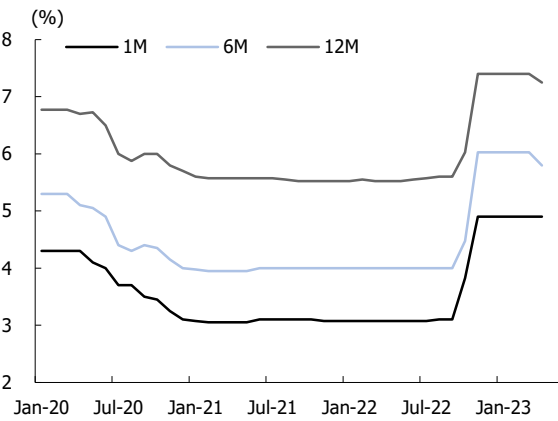
Source: SBV, Bloomberg, KIS

Figure 10. Credit growth by month



Source: SBV, Bloomberg, KIS
Data as of 15 June, 2023

Figure 11. Average deposit rates among four state-owned banks



Source: Vietnambiz.vn, KIS

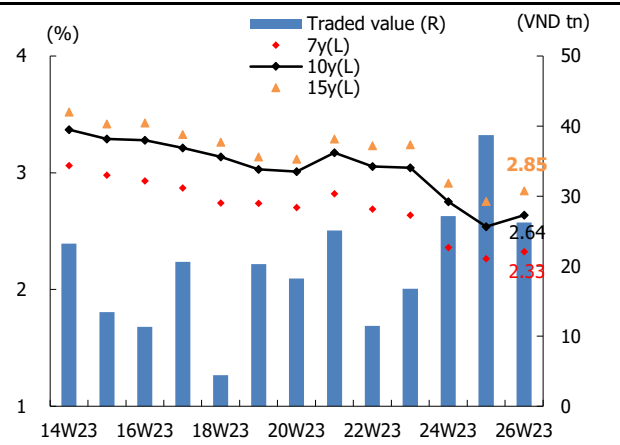
III. G-bond yields rebound from its lowest level

Trading yields rebound

In 26W23, Government bond yields witnessed a rebound, jumping from its recorded low. More specifically, 7-year, 10-year, and 15-year G-bond yields increased by 6bps, 10bps and 9bps, settling at 2.33%, 2.64% and 2.85%, respectively. Remarkably, the average daily trading value this week declined by 32.20%, falling from VND7.74tn per day in the previous week to VND5.25tn per day this week.

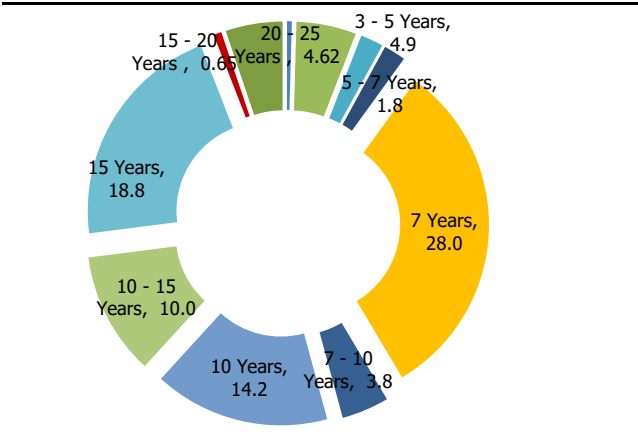
As mentioned before, the economy has remained fragile during the first half of 2023. Although Vietnam's GDP experienced a rebound in 2Q23, growing at a rate of 4.14% YoY, it appears challenging for the government to meet its initial growth target of 6.5%YoY. Moreover, the sluggish U.S. consumption and the PMI consistently falling below the no-change mark of 50.0 for the fourth consecutive month in June have contributed to a gloomy outlook for exports. Consequently, due to the lack of expansion in manufacturing activities, credit growth is expected to remain slow in the near future, resulting in further declines in yields. It is anticipated that G-bond yields will remain relatively stable within this lower range, with only minor fluctuations expected.

Figure 12. G-bond trading value



Source: HNX, KIS

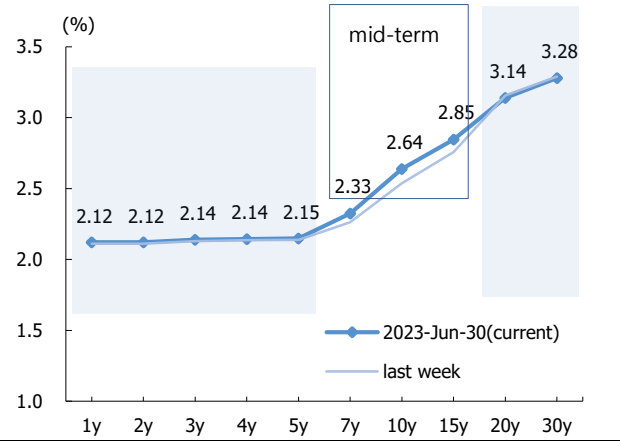
Figure 13. Trading value by tenor this week



Source: HNX, KIS

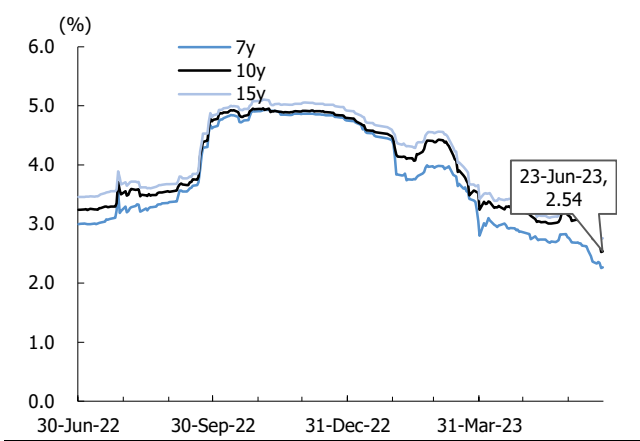
The proportion of bonds with tenors spanning from 7 to 20 years declined further, decreasing from 51.38% in the previous week to 45.34% this week. It is worth mentioning that during the 26th week of 2023, there was a slight uptick in the yield of mid-term bonds (ranging from 7 to 15 years) by 8bps. Similarly, short-term bonds (with tenors from 1 to 5 years) followed a similar trend to mid-term bonds but with a modest increase of 1bps. In contrast, long-term bond yields declined by 1 bps.

Figure 14. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 15. Historical daily government bond yield

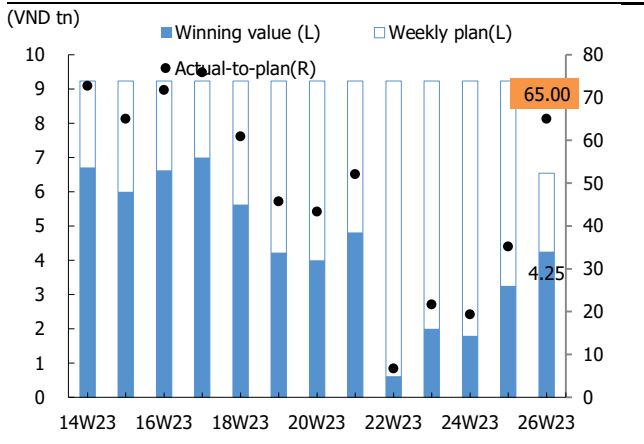


Source: HNX, VBMA, KIS

Winning yields rebound

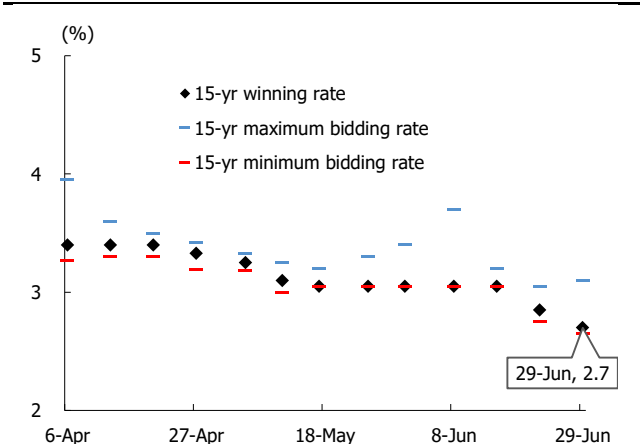
In terms of the development of G-bond issuance, the winning yields dropped to a new low this week. Specifically, winning yields for 5-year, 10-year, and 15-year tenors (the most issued tenors) are traded at 2.0% (down 40bps), 2.45% (a decline of 15bps), and 2.70% (a drop of 15bps), respectively. This week, the winning value increased by 30.77%, posting at VND4.25tn compared to last week's data. Cumulatively, Vietnam State Treasury (VST) fulfilled 5.00% and 34.21% of the third quarter and annual plans, respectively.

Figure 16. Winning value by week



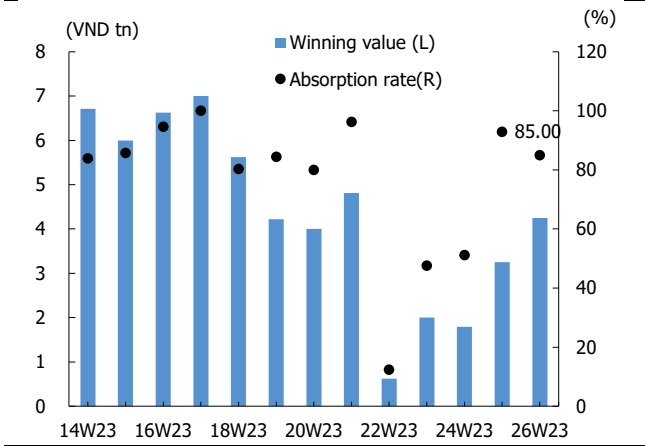
Source: HNX, KIS

Figure 17. Winning yields by week



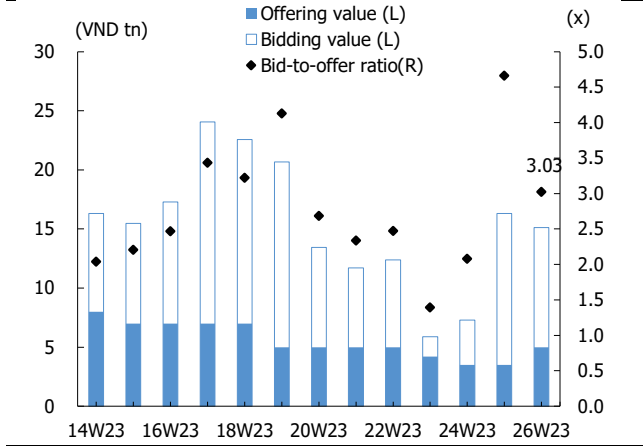
Source: HNX, KIS

Figure 18. Absorption ratio



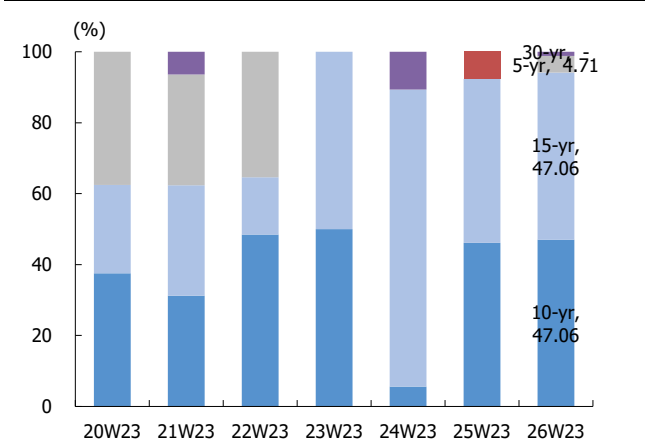
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



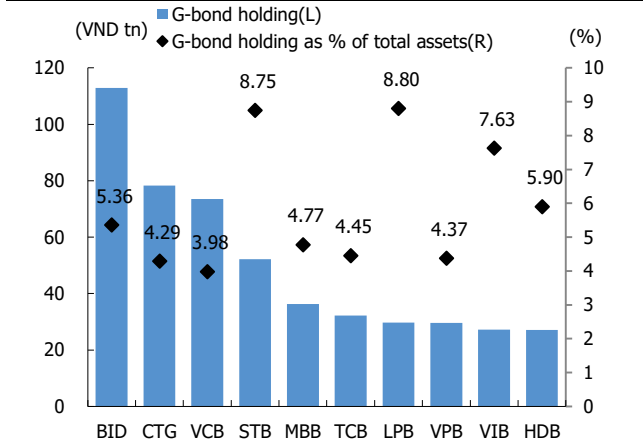
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

Figure 21. Top G-bond holding by bank as of 2Q23



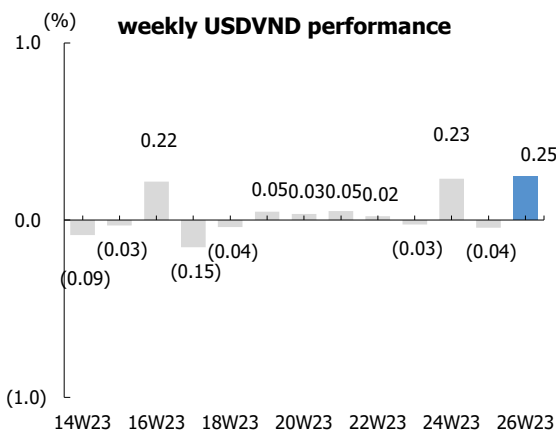
Source: HNX, Company filings, KIS

IV. USDVND rebounds strongly

USDVND jumps

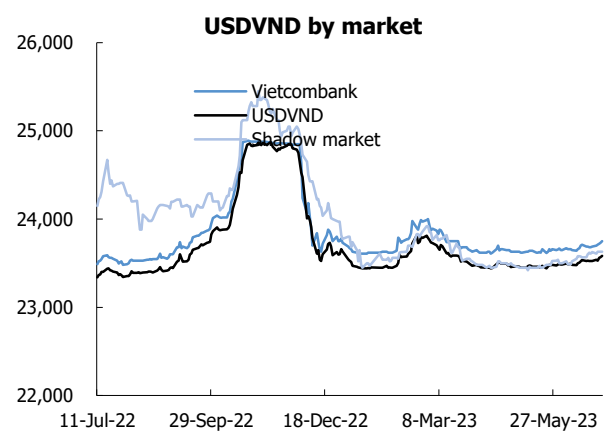
During the past week, USDVND witnessed a 0.25% upswing in comparison to the previous week, posting at VND23,583 by the end of Friday. Besides, the U.S Dollar index (DXY), a gauge of the dollars' worth relative to a selection of international currencies, maintained its stability this week, showing no change compared to last week. Conspicuously, VCB's bid/ask and the shadow market's bid/ask observed an increase. In particular, VCB's bid/ask rose sharply by 60 basis points (bps) and settled at VND23,380/23,750, while the shadow market's bid/ask saw a comparatively smaller increase of 5bps, anchoring at VND23,580/23,630.

Figure 22. Weekly USDVND performance



Source: SBV, Bloomberg

Figure 23. Historical USDVND by market

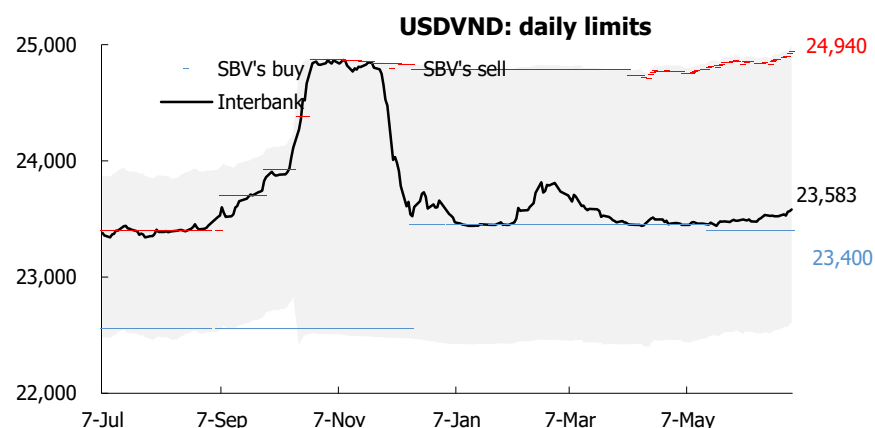


Source: SBV, Bloomberg, Fiiipro, tyqiadola.net

This week, the State Bank of Vietnam (SBV) has once again raised the selling price of the greenback to VND24,940. This move is seen as a precautionary step to safeguard the value of the Vietnam dong in response to a hawkish stance from the Federal Reserve (FED). However, the USD buying price remained unchanged at VND23,400. It is anticipated that the USD selling price will continue to increase in upcoming weeks as a preventive measure to address potential USD outflow.

At the end of the week, the USDVND exchange rate stands significantly higher at 183bps above the USD buying price, which means there was no increase in USD reserve from the SBV this week. Based on KIS's estimates, the SBV has augmented its foreign exchange reserves to approximately USD6bn.

Figure 26. SBV's movement



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

The sluggish lending activities during the first half of 2023 have resulted in the funding cost, such as the overnight (ON) rate, plummeting into the sub-1% range this week. As mentioned earlier, the ON rate dropped to 0.33%, significantly below the current Fed fund rate of 5.25%. This has made investing in U.S. assets more appealing, potentially causing capital to flow out of Vietnam and into the U.S. Consequently, this could exert downward pressure on the value of the Vietnam dong (VND). Additionally, the anticipated two additional interest rate hikes by the Federal Reserve later this year, potentially bringing the target Fed fund rate to 5.6%, could further impact the VND negatively.

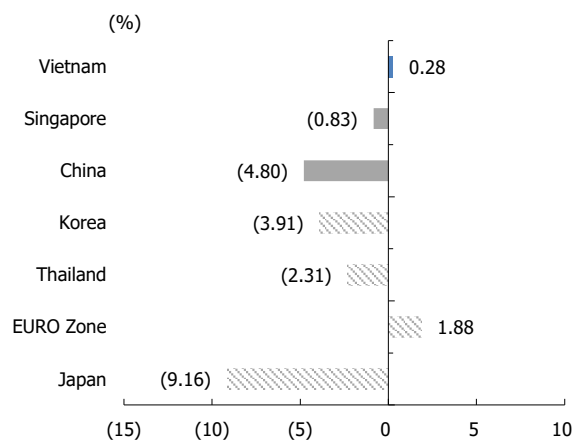
However, it is expected that the USDVND exchange rate will maintain stability in the near future. Firstly, the SBV has adopted flexible monetary policies aimed at stabilizing the exchange rate. Secondly, as aforementioned from previous reports, Vietnam this year received a significant USD inflow from 3 channels such as M&A activities, trade surplus and remittance inflow. Thus, Vietnam's government possesses sufficient resources to prevent the devaluation of the domestic currency.

Figure 27. Historical DXY



Source: SBV, Bloomberg

Figure 28. 2023 YTD performance of major currencies against USD



Source: SBV, Bloomberg
 Note: stripped bars represent countries following the floating FX regime.

Among the currencies tracked by KIS, the Vietnamese Dong (VND) remains resilient, maintaining its strength relative to the greenback. More specifically,

VND has exhibited a year-to-date (YTD) appreciation by 0.28% against the greenback, despite facing notably constrained from negative swap. Besides, the Euro dollar (EUR) has narrowed the YTD appreciation against the U.S dollar to 1.88%. In response to the chance for two more hike this year of FED, the devaluation of currencies against the U.S dollar has been extended in several countries. Notably, China, Korea, and Thailand have extended their price drops to 4.80%, 3.91%, and 2.31%, respectively. Furthermore, Japan continued to extended the depreciation level to 9.16% YTD against the greenback.

Macro scorecard

	23-Feb	23-Mar	23-April	23-May	23-Jun	3Q22	4Q22	1Q23	2Q23	2019	2020	2021	2022
Real GDP growth (%)						13.67	5.92	3.21	4.14	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.41	2.35	3.43	1.98	2.57	4.67	8.96	5.45	13.43	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	4,110
Unemployment rate (%)						2.28	2.32	2.25	2.25	2.25	2.48	3.22	2.32
Export (USD bn)	25.88	29.57	27.54	29.05	29.30	96.48	89.50	79.17	83.42	263.6	282.7	335.7	371.85
Import (USD bn)	23.58	28.92	26.03	26.81	26.71	90.71	85.07	75.10	76.01	254.4	263	331.1	360.65
Export growth (%)	10.97	(14.78)	(17.15)	(5.86)	(11.41)	17.22	(6.07)	(11.90)	(14.16)	8.16	7.02	18.74	10.61
Import growth (%)	(6.65)	(11.10)	(20.54)	(18.44)	(16.94)	8.12	(3.90)	(14.67)	(22.30)	7.41	3.81	25.9	8.35
Inflation (%)	4.31	3.35	2.81	2.43	2.00	3.32	4.41	4.18	2.41	2.79	3.24	1.84	3.15
USD/VND	23,785	23,471	23,465	23,477	23,525	23,712	23,633	23,471	23,525	23,173	23,126	22,790	23,650
Credit growth (%)	0.31	1.96	3.04	3.04	3.36	10.47	12.87	1.61	3.36	13.75	12.17	12.97	12.87
10Y gov't bond (%)	4.39	3.24	3.21	3.28	3.50	4.39	5.08	3.54	3.50	3.37	2.01	2.11	5.08

Source: GSO, Bloomberg, FIA, IMF

**Glossary

- * Winning yield rate = each group's highest bidding rate, ~2.70%
- * Absorption rate = winning value / offering value, ~85.00%
- * Bid to offer ratio = offering value / bidding value, ~3.03
- * DXY = U.S. Dollar Index, ~102.90
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~0.33%

Appendix

Figure 1. Vietnam's state budget by year: plan

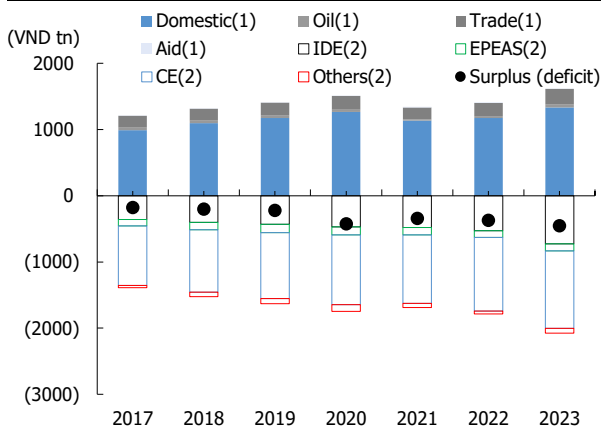
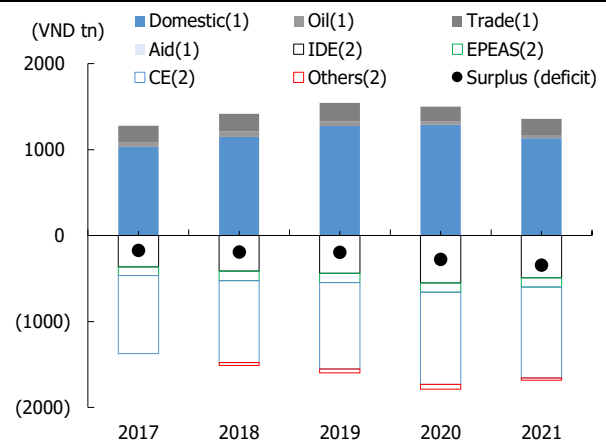


Figure 2. Vietnam's state budget by year: actual



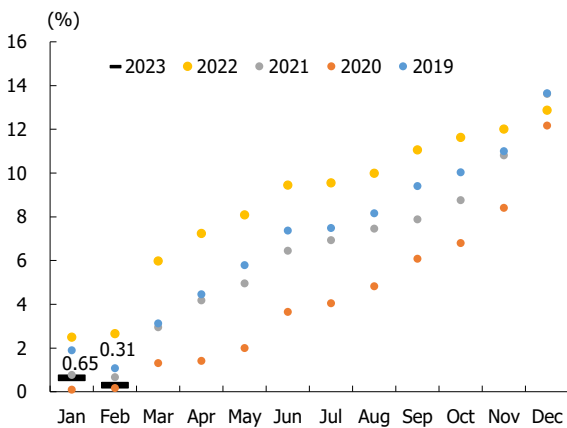
Source: MoF, SBV, KIS

Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.
IDE= Investment and development expenditures; EPEAS= Interest payment expenses & Aid spending; CE= Current expenditures

(1) indicates the item belongs to the revenue

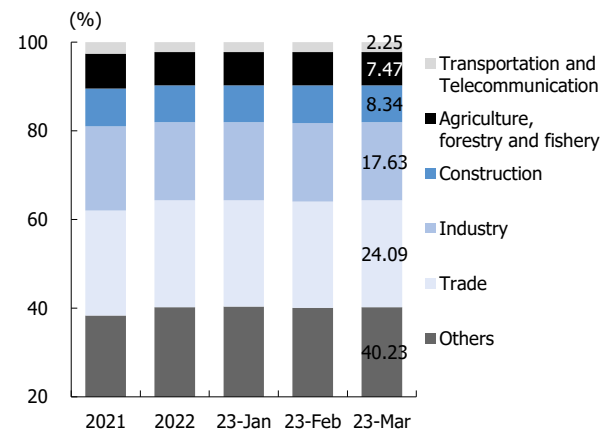
(2) indicates the item belongs to the expenditure and plotted as a negative number

Figure 3. Vietnam's total credit % YTD by month



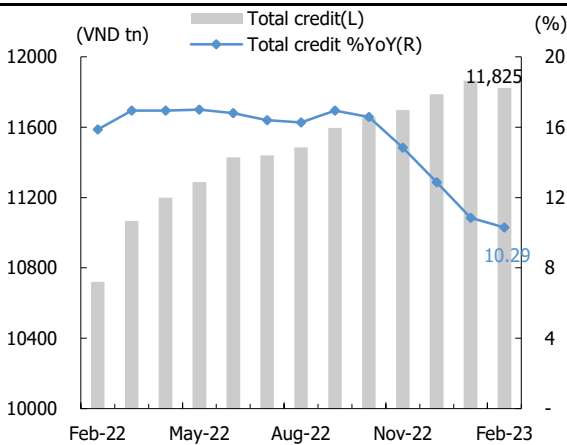
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



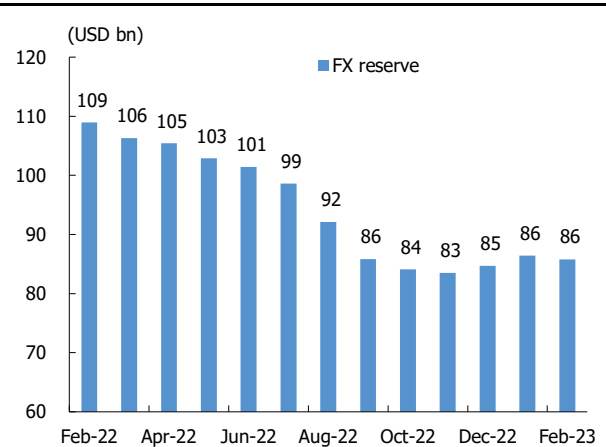
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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