

Fixed-income Perspectives

The gloomy lending prolongs super-low interest rates

SBV holds OMO inactive

In 30W23 (from 21 to 27 July), the money flow via OMO (Open market operations) remained stagnant for 2 months, with no issuance of T-bills or Repos recorded. The current OMO situation can be attributed to the ample liquidity and the government's easing stance. As aforementioned in previous reports, abundant liquidity remained unsolved while money withdrawal will contradict the government's easing stance, therefore subdued OMO will persist till a noticeable boost in lending activities occurs.

The overnight rate sticks to the low

Interbank rates recorded the cheapest price since July-2020 as new banks' bond issuance intensifies current excessive liquidity and the government requires more dovish actions from SBV. Specifically, most traded tenors – overnight (ON), 1W, and 2W decline slightly by 6bps, 8bps, and 3bps to almost negligible level at 0.05%, 0.08%, and 0.03%, respectively. Thus, the 25bps increase in July has resulted in a spread of approximately 500bps between the (ON) and the Fed's fund rate.

USDVND edges up

During the 30th week of 2023, the USD experienced a moderate appreciation of 0.15% WoW or 36 basis points against the VND, reaching VND23,688 by Friday. This upward trend was mirrored in the DXY, which inched up by 0.69% WoW to 101.62 points, attributed to the outperforming 2Q23 US GDP growth. In response to the market price movements, both VCB and the shadow market raised their bid/ask USDVND prices by 30/30bps and 20/40bps to 23,490/23,860 and 23,630/23,700.

Vietnam economic indicators

	23-Feb	23-Mar	23-Apr	23-May	23-Jun	23-Jul	Corr. ¹
Disbursed FDI %YoY	12.4	2.0	1.7	0.6	0.9	3.2	0.07
Retail sales %YoY	15.5	11.5	11.7	8.1	6.7	7.1	-0.13
Export %YoY	11.0	-14.8	-17.1	-6.0	-10.8	-3.0	-0.03
Import %YoY	-6.7	-11.1	-20.5	-17.8	-17.1	-9.8	0.03
Trade balance (USDbn)	2.3	0.6	1.5	2.2	2.6	2.2	-0.01
CPI %MoM	0.5	-0.2	-0.3	0.0	0.3	0.5	-0.01
Credit %YoY	12.2	10.5	9.7	9.1	8.5	8.6	-0.04
USDVND %MoM	1.4	-1.3	-0.1	0.1	0.4	0.3	-0.37
PMI (pts)	51.2	47.7	46.7	45.3	46.2	48.7	-0.16
VNINDEX return (%)	-7.7	4.0	-1.4	2.6	4.4	9.3	1.00

Source: SBV, GSO, Bloomberg, KIS

¹ Correlation to VNINDEX's monthly return; ² Bloomberg estimates

Green = acceleration; yellow = deceleration; red = contraction.

Contents

I. SBV holds OMO inactive	1
II. The overnight rate sticks to the low	2
III. G-bond yields hit new low	4
IV. USDVND edges up.....	6
Macro scorecard	8
Appendix	9

Research Dept.

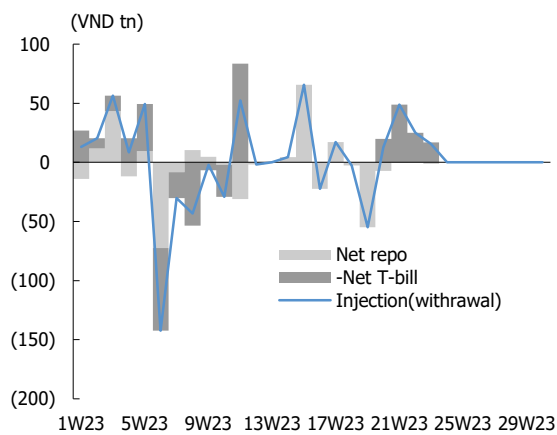
researchdept@kisvn.vn

I. SBV holds OMO inactive

No liquidity support needed

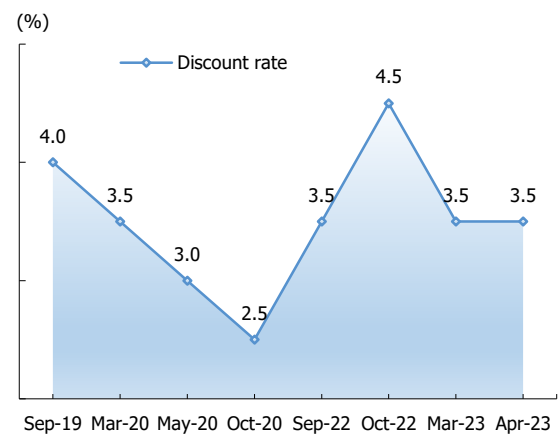
In 30W23 (from 21 to 27 July), the money flow via OMO (Open market operations) remained stagnant for two months, with no issuance of T-bills or Repos recorded. The current OMO situation was attributable to the ample liquidity and the government's easing stance. On one hand, interbank rates for various tenors stuck to their lows in the last week, reflecting the persistently abundant liquidity of the banking system. On the other hand, the government showed a strong will in renewing the economic acceleration through public investments, fiscal support, and FDI attracting, T-bill issuance would contradict shared efforts. Therefore, we expect subdued OMO will persist till the lending performance improves significantly.

Figure 1. Net injection (withdrawal) of liquidity



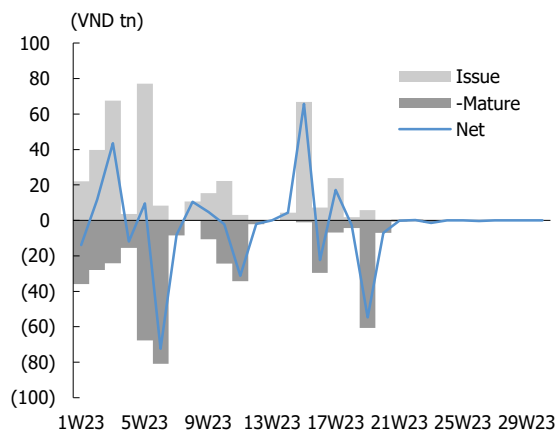
Source: SBV, Bloomberg, KIS

Table 1. Historical policy rate



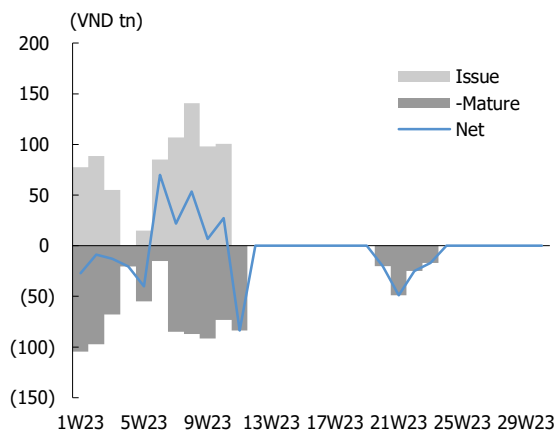
Source: SBV, Bloomberg, KIS

Figure 2. T-bill amount by week



Source: SBV, Bloomberg, KIS

Figure 3. Repo amount by week



Source: SBV, Bloomberg, KIS

II. The overnight rate sticks to the low

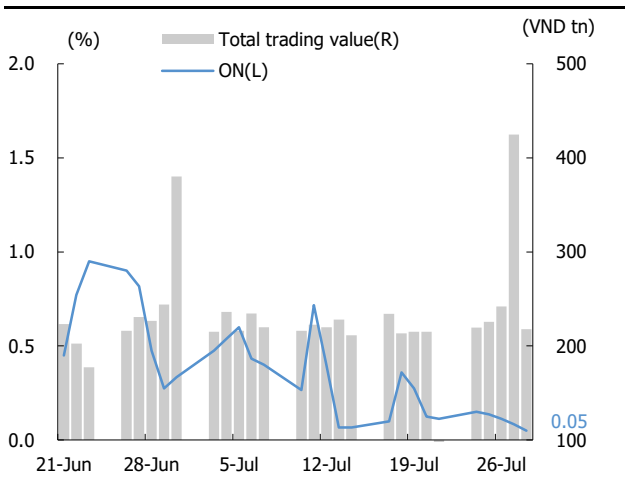
ON stays at the low

Interbank rates recorded the cheapest price since July-2020 as new banks' bond issuance intensifies current excessive liquidity and the government requires more dovish actions from SBV. Specifically, most traded tenors – overnight (ON), 1W, and 2W decline slightly by 6bps, 8bps, and 3bps to almost negligible level at 0.05%, 0.08%, and 0.03%, respectively. Thus, the 25bps increase in July has resulted in a spread of approximately 500bps between the (ON) and the Fed's fund rate.

As aforementioned in previous report, bank recently has issued bonds particularly with longer-term tenors of 2-10 years, aiming to manage the loan-to-deposit ratio (LDR) and prevent any potential future surges. Additionally, the Vietnam State Treasury deposit, which contributes to the denominator of the LDR, is planned to decrease from 50% to 40% by the end of 2023. However, due to poor lending performance, the additional funds from these bond issuances have not been fully absorbed by borrowers. This has led to an escalation of the current excessive liquidity conditions, exerting downward pressure on interbank rates.

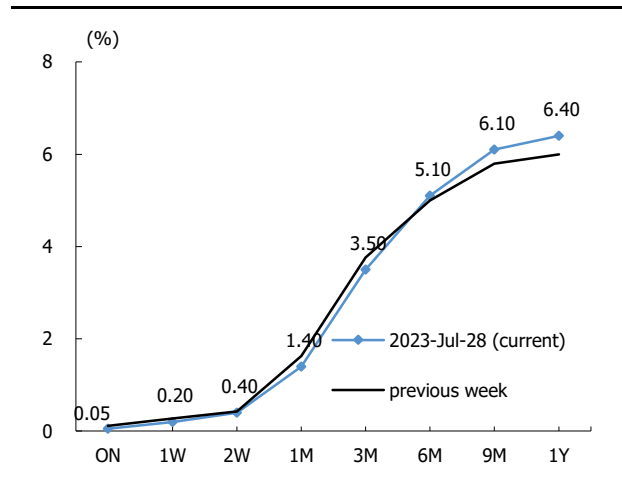
It is expected that interbank rates will rebound but remain below 1% for overnight (ON) rates in the upcoming weeks.

Figure 6. Interbank daily transaction



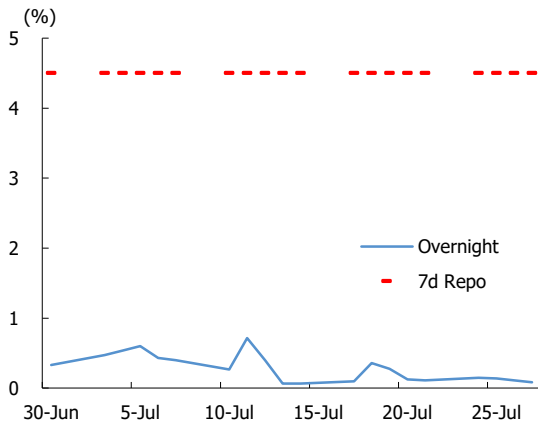
Source: SBV, Bloomberg, KISVN

Figure 7. Interbank rate curve



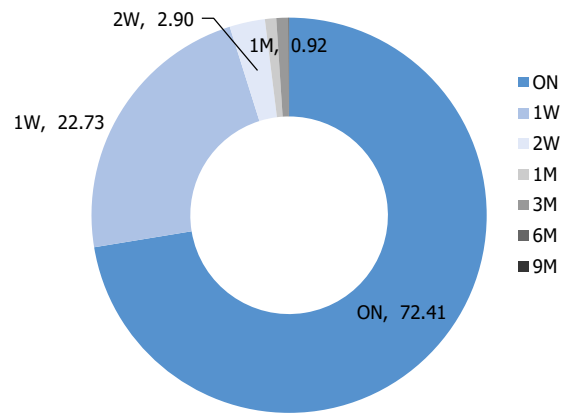
Source: SBV, Bloomberg, KISVN

Figure 8. Interbank rate corridor



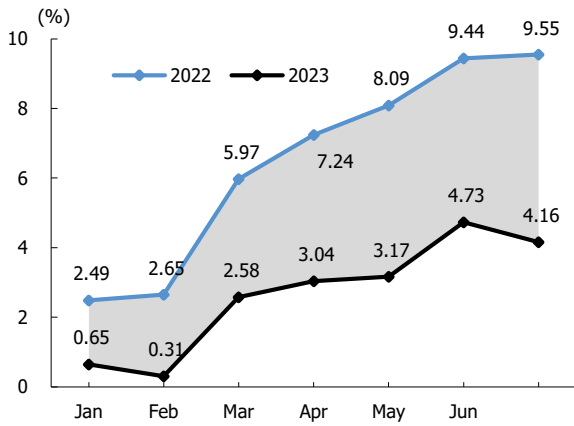
Source: SBV, Bloomberg, KISVN

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KISVN

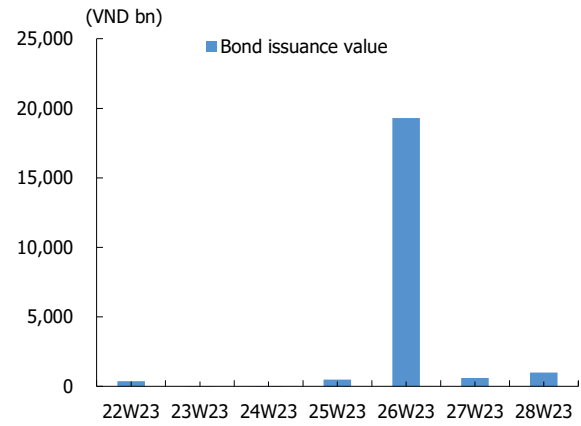
Figure 10. Credit growth by month



Source: SBV, Bloomberg, KISVN

Data as of 30 June 2023

Figure 11. Banks' bond issuance in 2023



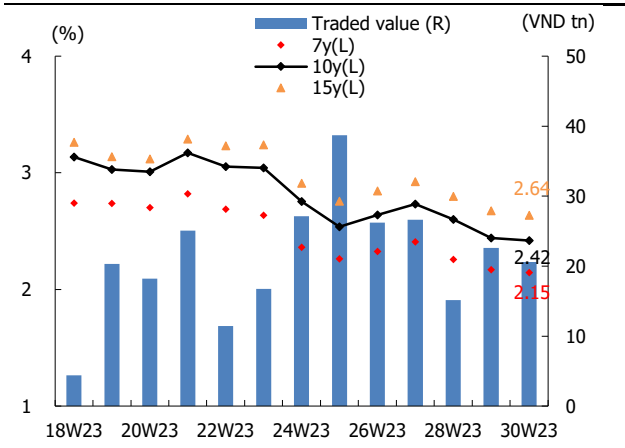
Source: Fiiipro, KISVN

III. G-bond yields hit new low

**Trading yields
downwardly
progress**

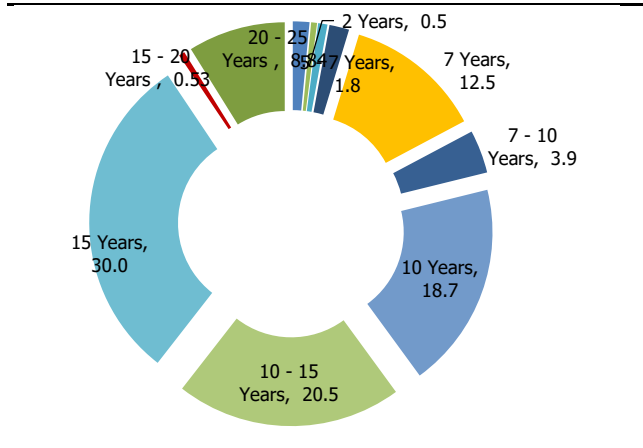
In the 30th week of 2023, G-bond trading yields reached a new one-year low, reflecting a downward trend consistent with the prevailing falling interest rate environment, mirroring similar movements in the primary market. Specifically, the 7-year, 10-year, and 15-year G-bond yields saw reductions of 2 basis points (bps), 2 bps, and 4 bps, settling at 2.15%, 2.42%, and 2.64%, respectively. Concurrently, trading volume experienced a slight decline of 8.77% WoW, amounting to VND 20.6tn.

Figure 12. G-bond trading value



Source: HNX, KIS

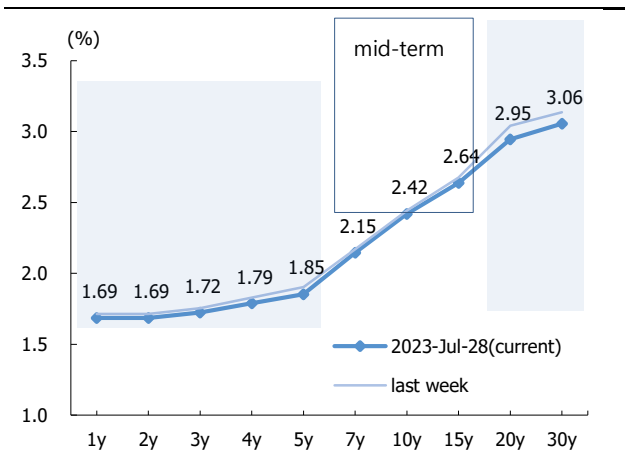
Figure 13. Trading value by tenor this week



Source: HNX, KIS

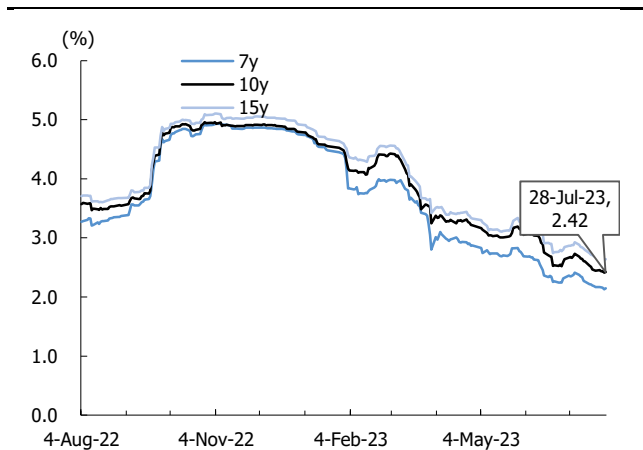
The majority of transactions continued to concentrate on tenors ranging from 7 to 15 years, making up a combined portion of 87.80% of total activity. The yield curve exhibited a marginal downward shift, with the most significant decline observed in long-term tenors, potentially reflecting a long-term expectation of a low interest rate environment. Precisely, long-term tenors (above 15 years) decreased moderately by 9 bps, while short-term (1 to 5 years) and medium-term tenors (7 to 15 years) saw smaller declines of 4 bps and 3 bps, respectively.

Figure 14. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 15. Historical daily government bond yield



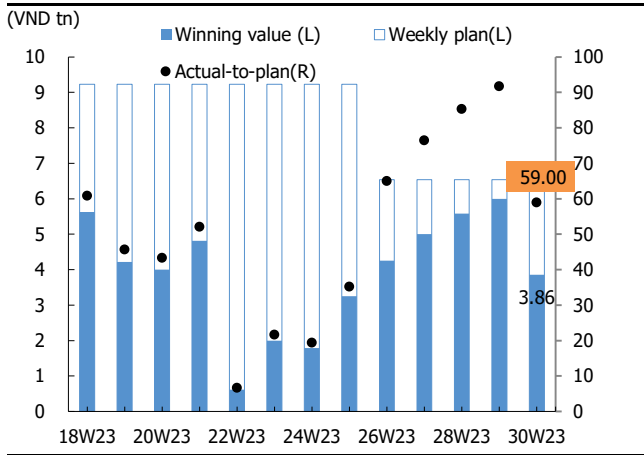
Source: HNX, VBMA, KIS

**Winning yields
establish new
floor**

Concerning G-bond issuance, winning yields for the 10-year new issuance tenor hit a new one-year low at 2.40%, 5 bps lower than the previous week. However, the winning amount this week decreased to VND 3.86 trillion, fulfilling only 59.00%

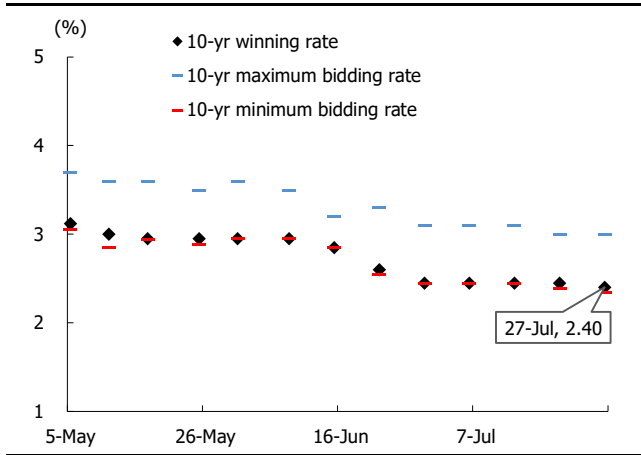
of the weekly plan. Cumulatively, the Vietnam State Treasury (VST) achieved 42.56% and 39.06% of the quarter and annual plan, respectively. The below-target issuance performance aligns with the disbursed public investment from the national budget and state budget expenses for 7 months, standing at 41.30% and 46.10%, respectively.

Figure 16. Winning value by week



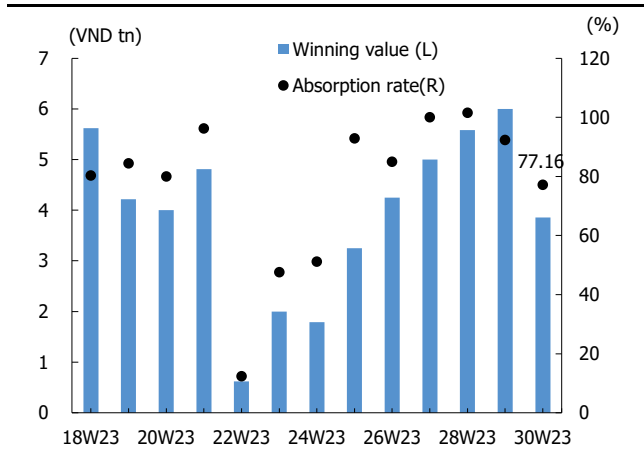
Source: HNX, KIS

Figure 17. Winning yields by week



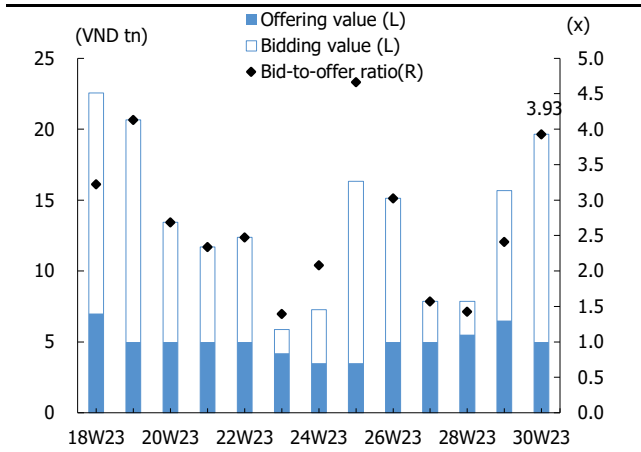
Source: HNX, KIS

Figure 18. Absorption ratio



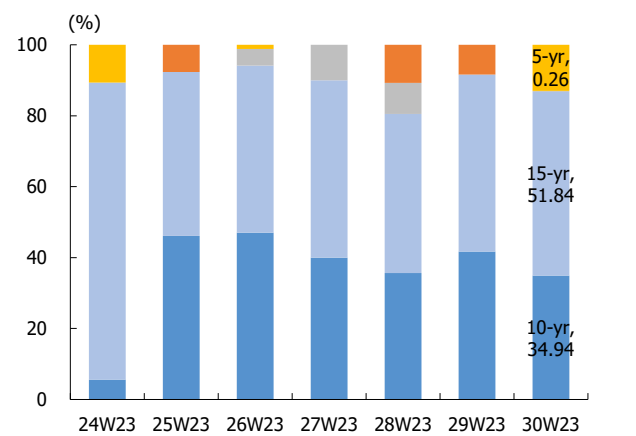
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



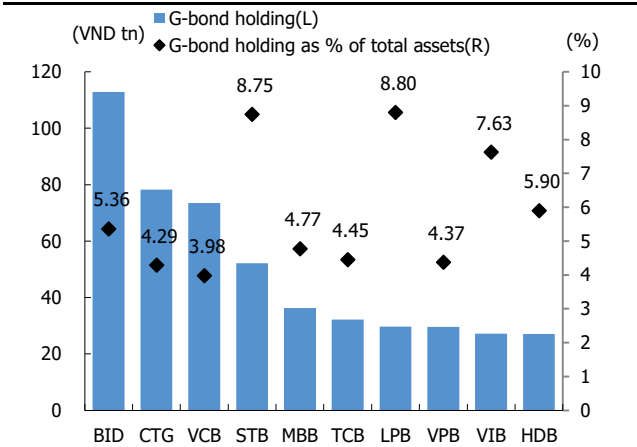
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

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



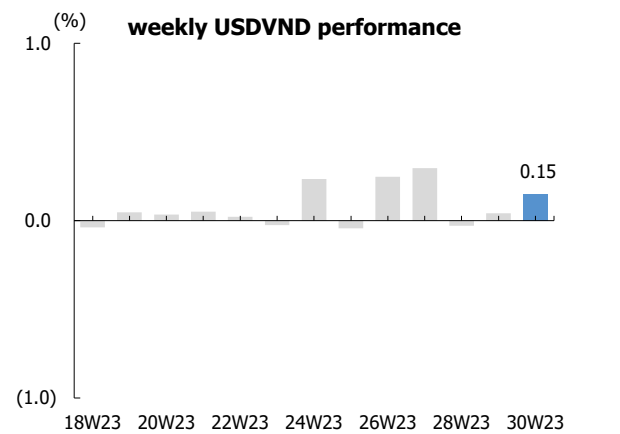
Source: HNX, FiiPro, KIS

IV. USDVND edges up

USDVND elevates

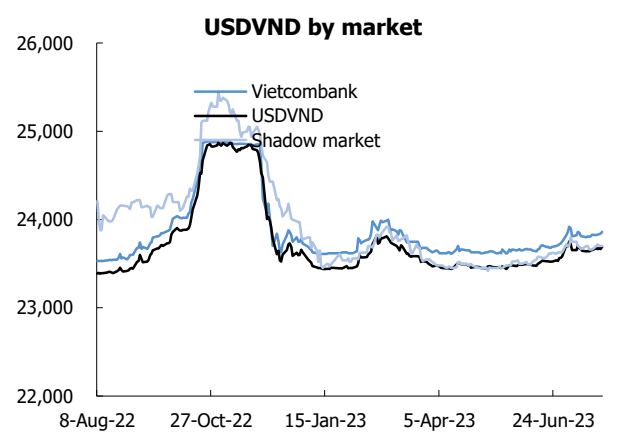
During the 30th week of 2023, the USD experienced a significant appreciation of 0.15% WoW or 36 basis points against the VND, reaching VND23,688 by Friday. This upward trend was mirrored in the DXY, which inched up by 0.69% WoW to 101.62 points, attributed to the outperforming 2Q23 US GDP growth. In response to the market price movements, both VCB and the shadow market raised their bid/ask USDVND prices by 30/30bps and 20/40bps to 23,490/23,860 and 23,630/23,700.

Figure 22. Weekly USDVND performance



Source: SBV, Bloomberg

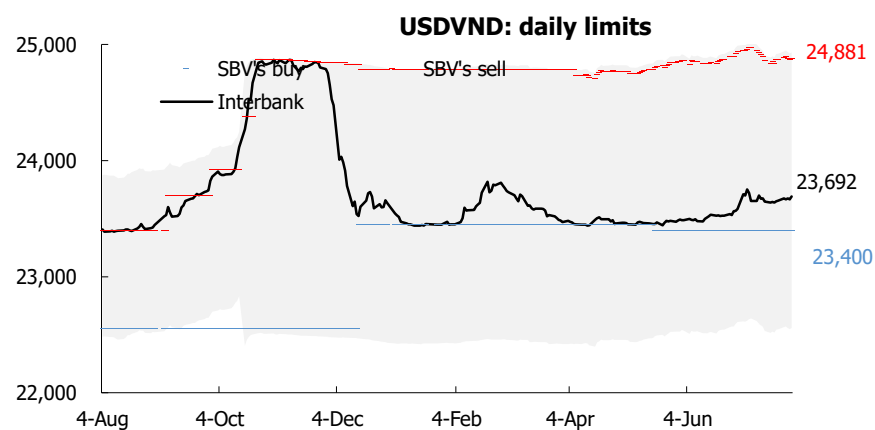
Figure 23. Historical USDVND by market



Source: SBV, Bloomberg, FiiPro, tvgiadola.net

The State Bank of Vietnam (SBV) also adjusted its selling price, raising it by 11 basis points to VND24,881, while keeping the buying price unchanged. Considering significant USD inflows and the approaching end-stage of the Fed tightening cycle, we predict the VND to depreciate against the USD by no more than 1% this year. Contributing factors include a trade surplus of USD2.15bn in July, USD1.56bn in FDI disbursed, substantial capital selling to foreign investors from VCB, VPB, HNG, SHB, and other private M&A deals.

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).

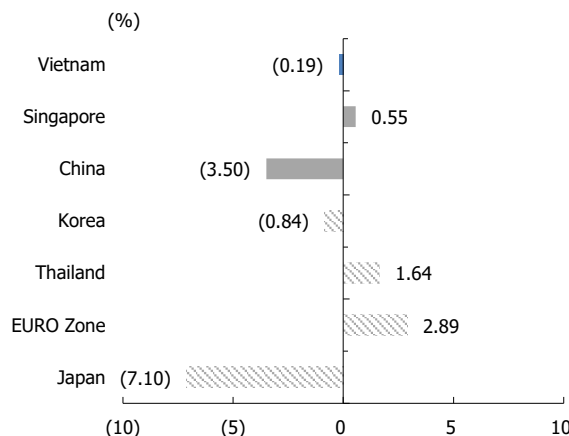
On the global scale, the Fed is expected to conclude its rate-hiking cycle with a 25 basis points increase, setting the fed fund rate at 525-550 basis points, responding to easing inflation. Meanwhile, in the Euro Zone, July inflation cooled down to 5.30% YoY from 5.50% the previous month. Despite this, the ECB raised its rates by an additional 25 basis points, mirroring the earlier moves by the Fed at the beginning of the year. In contrast, China and Japan announced their intentions to maintain their easing policies. Overall, major countries either completed their tightening cycle or adopted easing stances, relieving depreciation pressure on the VND, given Vietnam's commitment to reducing interest rates.

Figure 27. Historical DXY



Source: SBV, Bloomberg

Figure 28. 2023 YTD performance of major currencies against USD



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

The strengthening US dollar this week dragged down YTD performance of all currencies under our watchlist. As a result of easing stance, CNY and JPY heavily depreciated by 3.50% and 7.10% YTD. KRW modestly fell by 0.84% since the beginning of the year. In contrast, SGD, THB, and EUR gained 0.55%, 1.64%, and 2.89% YTD against the greenback.

Macro scorecard

	23-Mar	23-April	23-May	23-Jun	23-Jul	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)	2.35	3.43	1.98	2.57	2.81	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)	29.57	27.54	29.05	29.30	29.68	96.48	89.50	79.17	83.42	263.6	282.7	335.7	371.85
Import (USD bn)	28.92	26.03	26.81	26.71	27.53	90.71	85.07	75.10	76.01	254.4	263	331.1	360.65
Export growth (%)	(14.78)	(17.15)	(5.86)	(11.41)	(3.47)	17.22	(6.07)	(11.90)	(14.16)	8.16	7.02	18.74	10.61
Import growth (%)	(11.10)	(20.54)	(18.44)	(16.94)	(9.92)	8.12	(3.90)	(14.67)	(22.30)	7.41	3.81	25.9	8.35
Inflation (%)	3.35	2.81	2.43	2.00	2.06	3.32	4.41	4.18	2.41	2.79	3.24	1.84	3.15
USD/VND	23,471	23,459	23,493	23,583	23,688	23,712	23,633	23,471	23,583	23,173	23,126	22,790	23,650
Credit growth (%)	1.96	3.04	3.04	3.36	3.79	10.47	12.87	1.61	3.36	13.75	12.17	12.97	12.87
10Y gov't bond (%)	3.24	3.21	3.28	3.50	2.41	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, ~2.85%
- * Absorption rate = winning value / offering value, ~77.16%
- * Bid to offer ratio = offering value / bidding value, ~3.93
- * DXY = U.S. Dollar Index, ~101.62
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~0.05%

Appendix

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

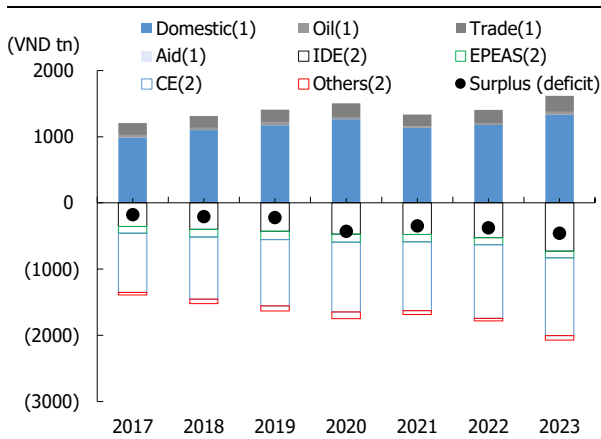
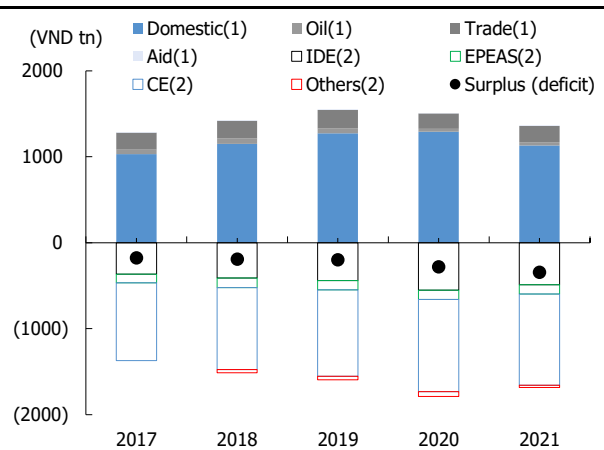


Figure 2. Vietnam's state budget by year: actual



Source: MoF, SBV, KIS

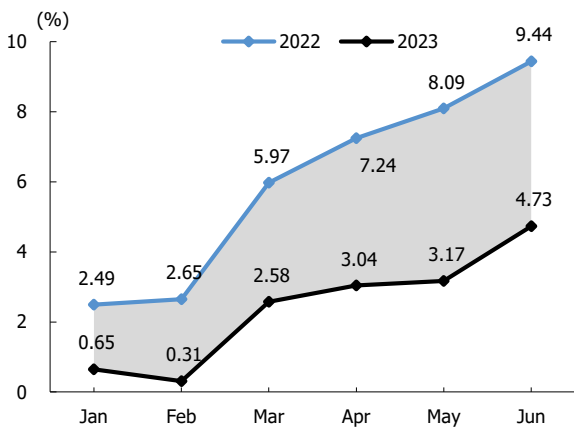
Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.

IDE= Investment and development expenditures; EPEAS= Interest payment expenses & Aid spending; CE= Current expenditures

(1) indicates the item belongs to the revenue

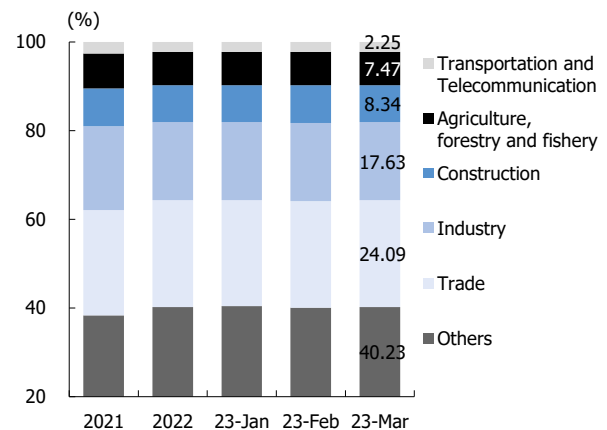
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



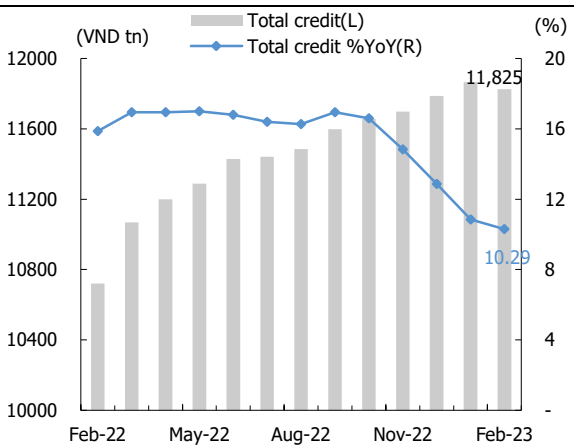
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



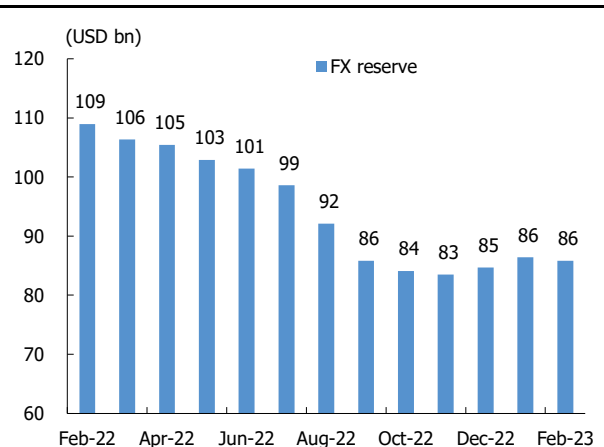
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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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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