true friend KIS Viet Nam Securities Corporation

**Fixed-income**
Weekly

**28 Aug 2023**

# Fixed-income Perspectives

## USDVND skyrocketed

### OMO inactive for third consecutive months

During the period of 34W23 (from 21 to 27 August), the open market remained quiet, with no new activity for the third consecutive month. This is due to the ample liquidity in the market and government easing stance, which is intended to promote economic expansion. SBV this week issued another policy to facilitate lending to the private sector. More specifically, the central bank released Circular No. 10/2023/TT-NHNN dated 23/08/2023 on suspending the effectiveness of clauses 8, 9, and 10 of Article 8 of Circular No. 39/2016/TT-NHNN. Such clauses previously aimed to prevent commercial banks from granting loans for activities considered as bearing high risks.

### The overnight rate sticks to its record low

Interbank rates this week continued to stick to its low level, with most tenors edging down from last week. Specifically, most traded tenors – overnight (ON), 1W, and 2W decreased by 10bps, 18bps, and 25bps to 0.05%, 0.13%, and 0.25%, respectively, nearly zero-free benchmark. It is expected that the interbank rates will likely to jump in upcoming months when government's urge for economic growth taking effective.

### USDVND skyrocketed

USDVND experienced a substantial 0.80% surge throughout the week, reaching 24,010 dongs. This remarkable increase was likely triggered by heightened demand for USD forward long position contracts and a stronger dollar following Powell's hawkish speech. Specifically, both VCB and the shadow market adjusted their bid/ask prices upwards by 180 dongs to 23,780/23,150 and 23,860/24,060, respectively.

**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**




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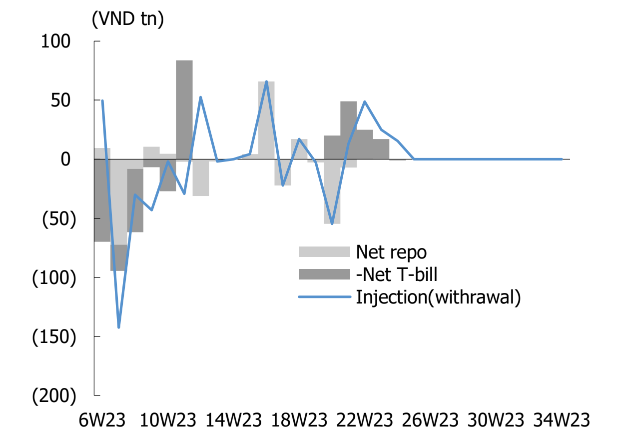
# I. OMO inactive for third consecutive months

***OMO tranquil pattern persist***

During the period of 34W23 (from 21 to 27 August), the open market remained quiet, with no new activity for the third consecutive month. This is due to the ample liquidity in the market and the government's easing stance, which is intended to promote economic expansion.

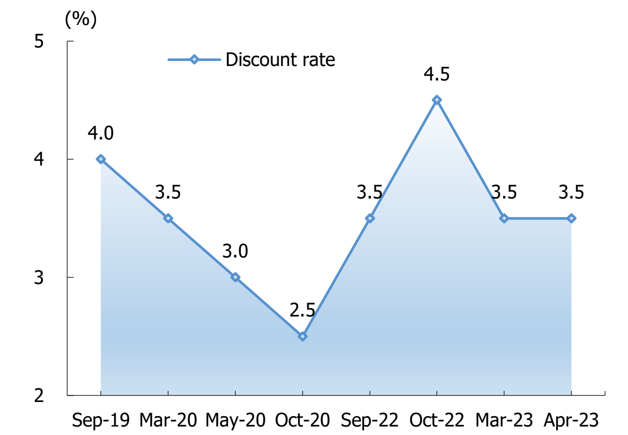
In addition, in alignment with the government's call for economic re-acceleration, SBV this week issued another policy to facilitate lending to the private sector. More specifically, the central bank released Circular No. 10/2023/TT-NHNN dated 23/08/2023 on suspending the effectiveness of clauses 8, 9, and 10 of Article 8 of Circular No. 39/2016/TT-NHNN. Such clauses previously aimed to prevent commercial banks from granting loans for activities considered as bearing high risks. We expect SBV's decision to ease a few requirements for borrowers, especially in the real estate business, and improve credit performance for the next months.

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



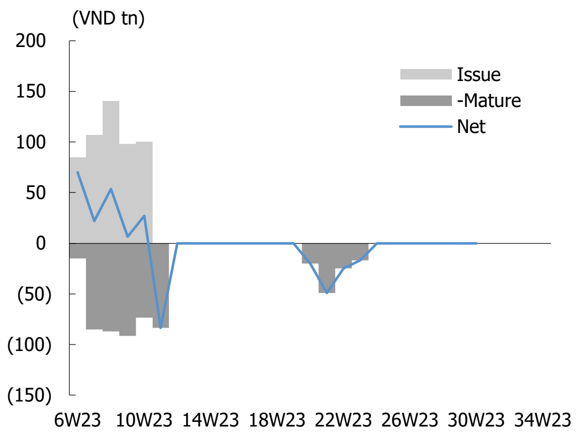

Source: SBV, Bloomberg, KIS

**Table 1. Historical policy rate**



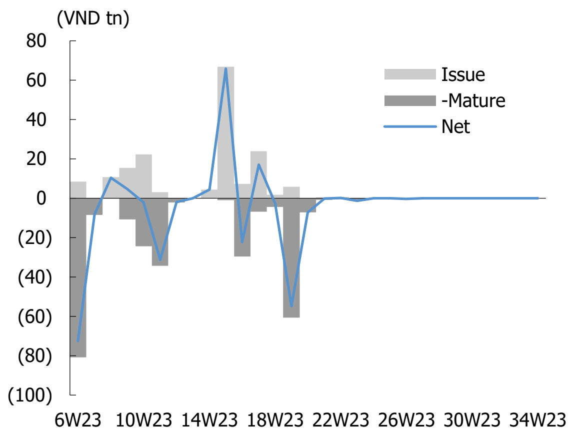

Source: SBV, Bloomberg, KIS

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




Source: SBV, Bloomberg, KIS

**Figure 3. Repo amount by week**




Source: SBV, Bloomberg, KIS

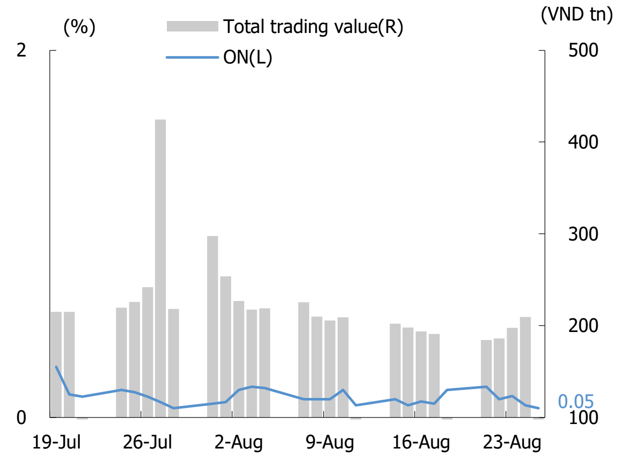
## II. The overnight rate fluctuated at its record low

***ON remains at low level***

Interbank rates this week continued to stick to its low level, with most tenors edging down from last week. Specifically, most traded tenors – overnight (ON), 1W, and 2W decreased by 10bps, 18bps, and 25bps to 0.05%, 0.13%, and 0.25%, respectively, nearly zero-free benchmark.

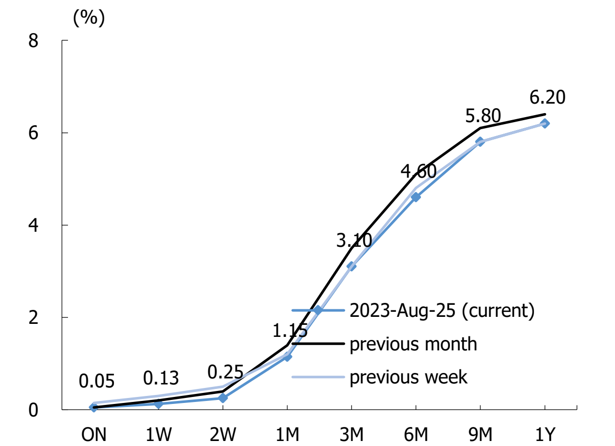
As aforementioned, credit growth in July witnessed a negative growth. Thus, focus on promoting credit growth and enhancing the access to credit capital for businesses and individuals in the remaining months of the year would be the main mission for SBV. It is expected that the interbank rates will likely to jump in upcoming months and government's urge might take effective.

**Figure 4. Interbank daily transaction**



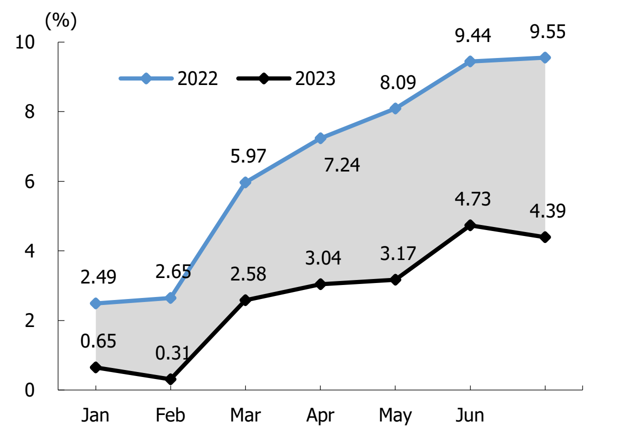

Source: SBV, Bloomberg, KISVN

**Figure 5. Interbank rate curve**



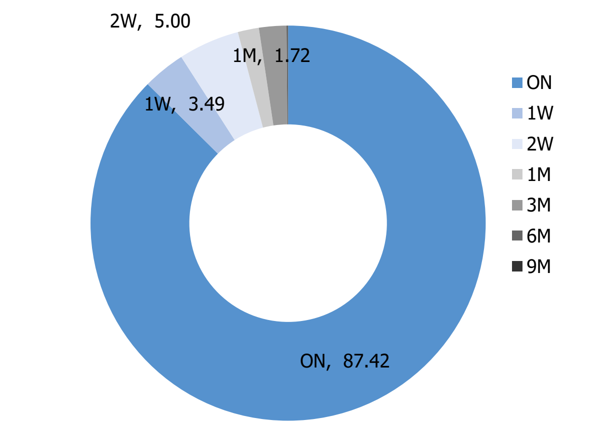

Source: SBV, Bloomberg, KISVN

**Figure 6. Credit growth by month**




Source: SBV, Bloomberg, KISVN

**Figure 7. Interbank transaction structure**



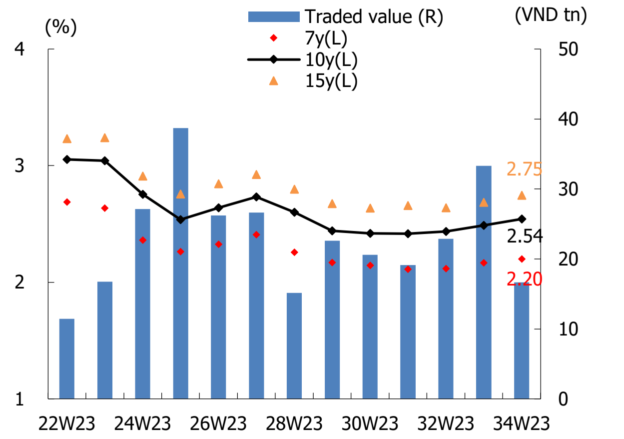

Source: SBV, Bloomberg, KISVN

# III. G-bond yields slightly pickup

***Trading yields rebound for the third week***

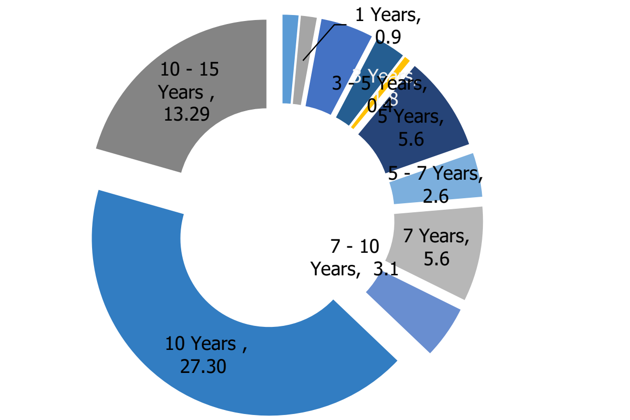
Similar to the last week, in 34W23, the G-bond trading yields edged up for the third consecutive week while the yields stayed unaltered in the primary market. Specifically, the trading yields for 7-year, 10-year, and 15-year tenors slightly uptick by 3bps, 6bps, and 6bps to 2.20%, 2.54%, and 2.75%, respectively. Regarding the yield curve, the medium terms (7 to 15 years) picked up by 5bps while short-term (1 to 5 years) and long-term (above 15 years) tenors remained unchanged.

**Figure 8. G-bond trading value**




*Source: HNX, KIS*

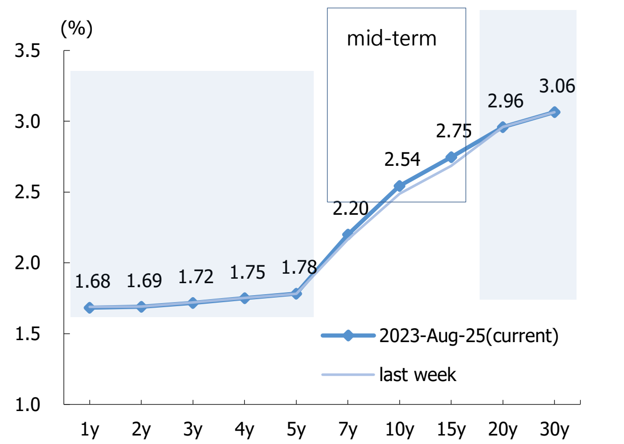
**Figure 9. Trading value by tenor this week**




*Source: HNX, KIS*

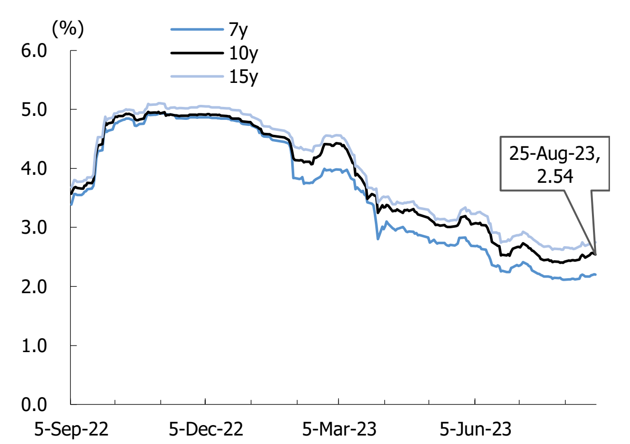
The yield curve fell in short-tenor (1 to 5 years) by 4bps while remained unchanged in medium (7 to 15 years) and the long-tenor (above 15 years).

**Figure 10. G-bond trading yield curve**




*Source: HNX, VBMA, KIS*

**Figure 11. Historical daily government bond yield**

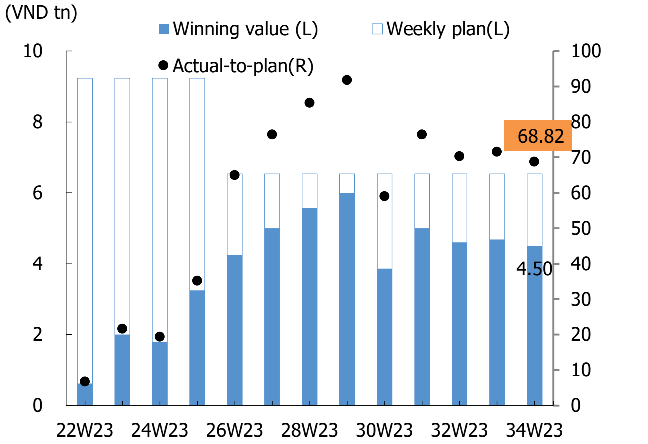



*Source: HNX, VBMA, KIS*

***Winning yields see no change***

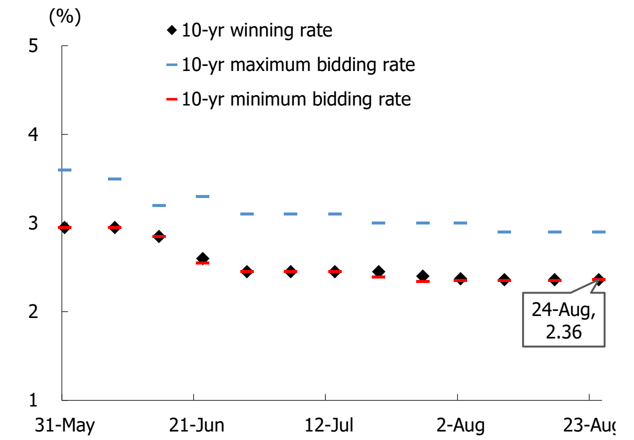
Regarding G-bond issuance, the winning yields remained steady at their low levels of 2.36% and 2.59% for the 10-year and 15-year maturities. The weekly issuance volume fell short of the targeted plan but similar to the recent weeks, representing 68.82% or VND6.54tn. In cumulative terms, the total issuance reached 43.76% and 51.38% of the 3rd quarter and the full-year 2023 plans, respectively.

**Figure 16. Winning value by week**



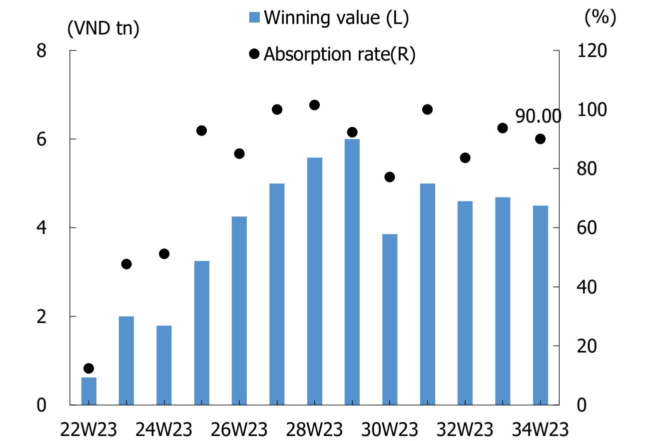

*Source: HNX, KIS*

**Figure 17. Winning yields by week**



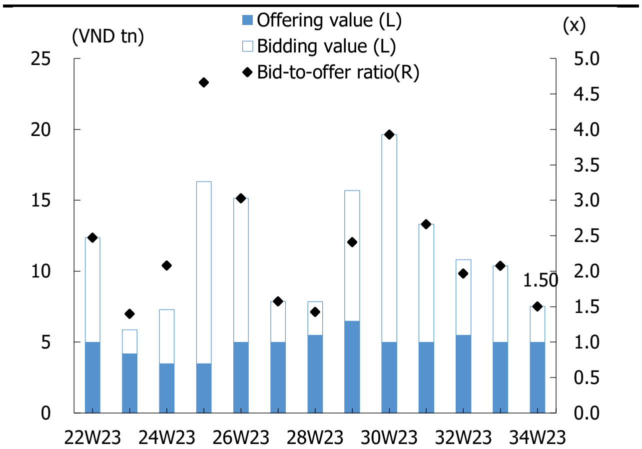

*Source: HNX, KIS*

**Figure 18. Absorption ratio**



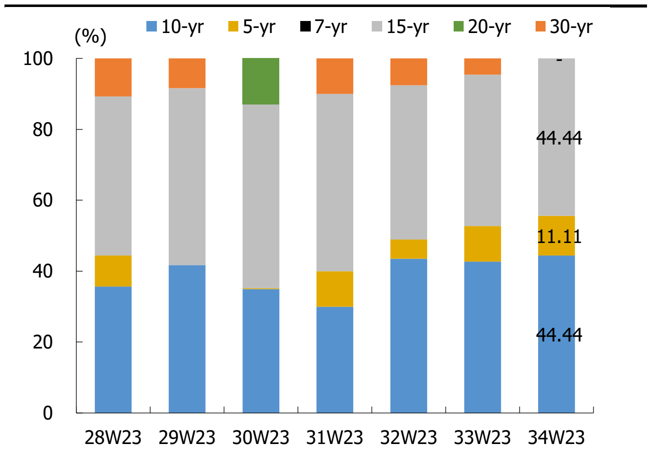

*Source: HNX, KIS*

**Figure 19. Bid-to-offer ratio**



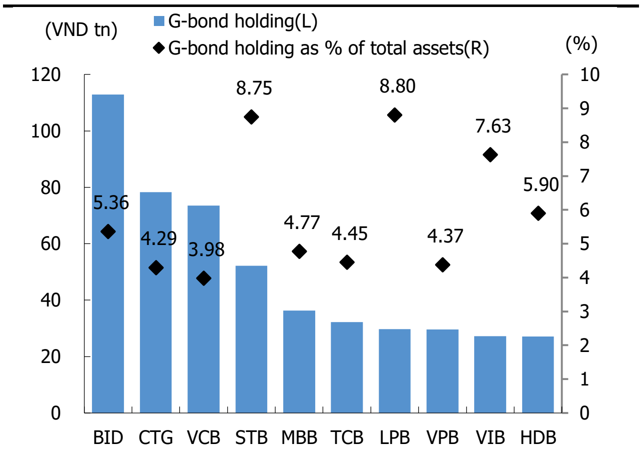

*Source: HNX, KIS*

**Figure 20. Winning yields by week**




*Source: HNX, KIS*

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



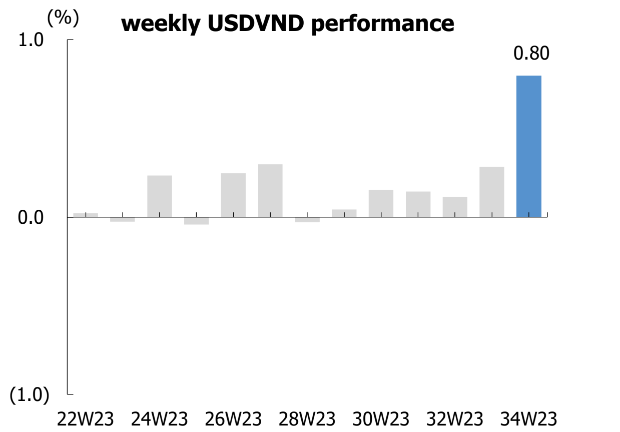

*Source: HNX, FiinPro, KIS*

# IV. USDVND skyrocketed

***USDVND reaches one-year high***

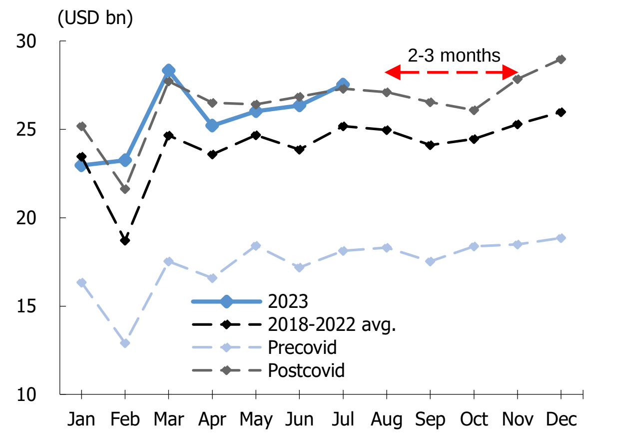
USDVND experienced a substantial 0.80% surge throughout the week, reaching 24,010 dongs. This remarkable increase was likely triggered by heightened demand for USD forward long position contracts and a stronger dollar following Powell's hawkish speech. Specifically, both VCB and the shadow market adjusted their bid/ask prices upwards by 180 dongs to 23,780/23,150 and 23,860/24,060, respectively. Despite this surge, SBV slightly lowered its selling price by 4bps to 23,942, while keeping its buying price unchanged at 23,400.

**Figure 22. Weekly USDVND performance**



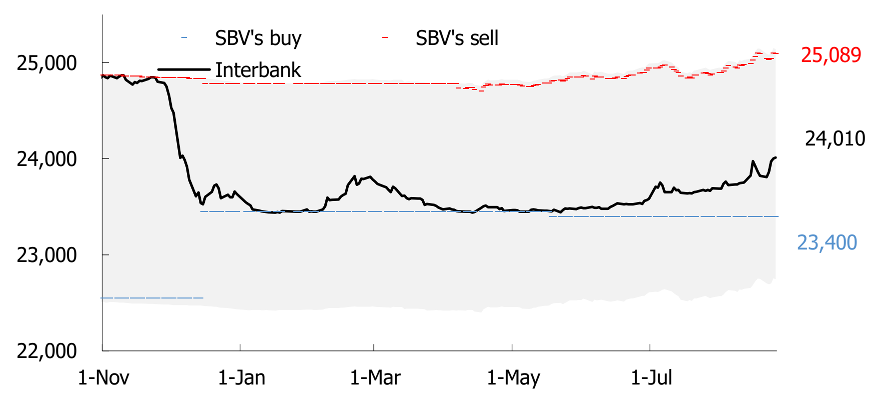

Source: SBV, Bloomberg

**Figure 23. USD demand and export activities**




Source: SBV, KIS

**Figure 26. 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 17 October, 2022).*

The notable uptick in demand for USD forward contracts' long positions (with tenors of 2 to 3 months) from corporations, which aligns with the peak importing season in November and December (Figure 23), could potentially explain this week's surge in USDVND. Furthermore, during the annual Jackson Hole meeting, Federal Reserve Chair Jerome Powell adopted a hawkish stance in his speech, implying a commitment to a "higher rate for longer." This contributed to the likelihood of a 25bps rate hike in the November FOMC meeting rising from 38.00% to 51.00% over the week. This shift partially accounts for the 0.68%

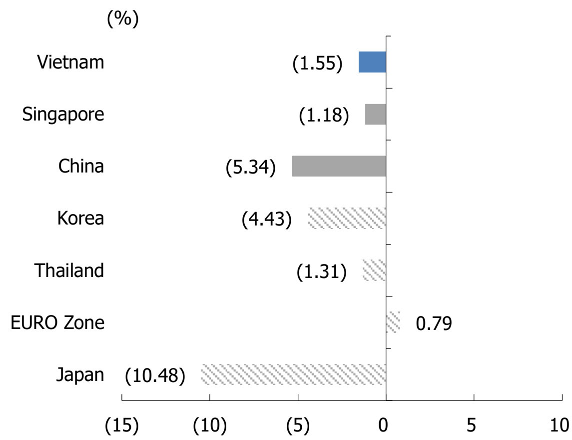
WoW strengthening of the dollar and consequently, the USDVND surge witnessed during this period.

As DXY strengthened, most currencies under our watchlist depreciated against the greenback over the week. CNY and JPY deepened their depreciation further to -5.34% and -10.48% YTD while EUR narrowed down its appreciation to 0.79%. In contrast, SGD, KRW, and THB regained against USD, settling at -1.18%, -4.43%, and -1.31% YTD.

**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.*

## 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, ~2.95%
* Absorption rate = winning value / offering value, ~90.00%
* Bid to offer ratio = offering value / bidding value, ~1.50
* DXY = U.S. Dollar Index, ~104.08
* 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**

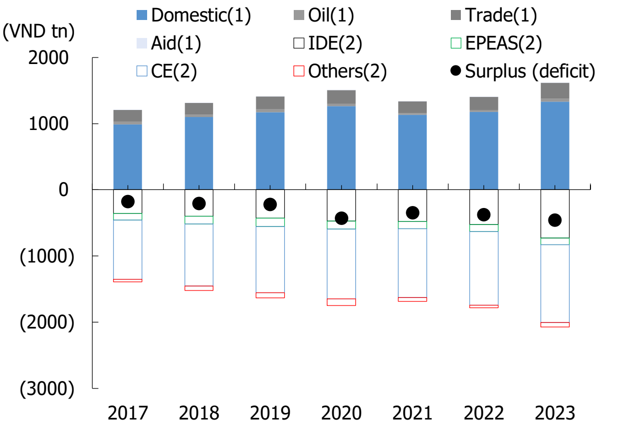
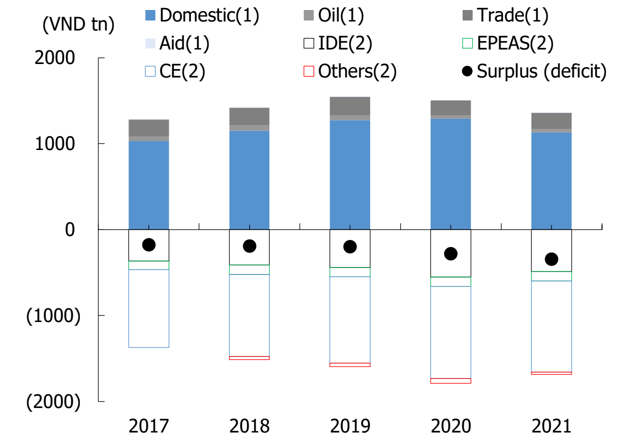
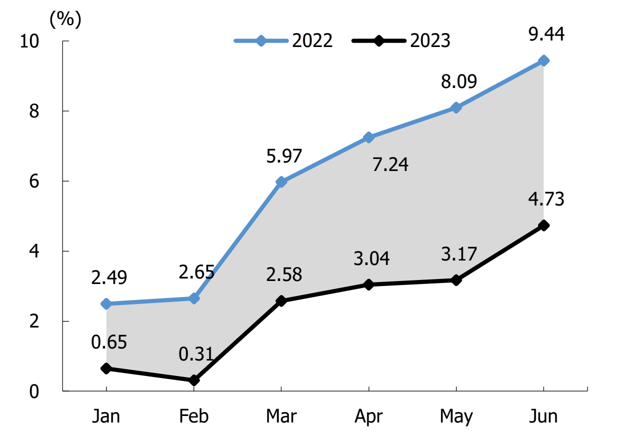



**Figure 2. Vietnam's state budget by year: actual**



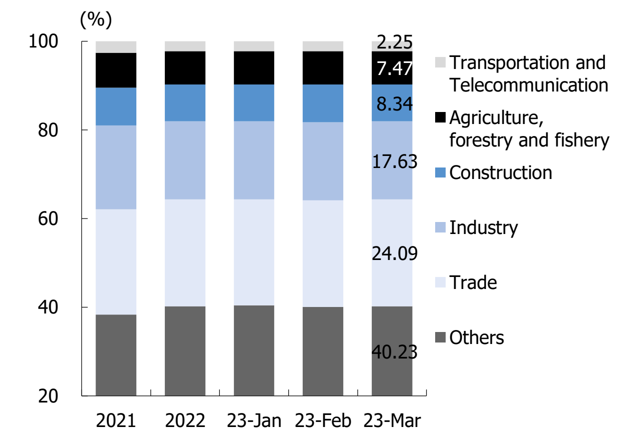

*Source: MoF, SBV, KIS*
*Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.*
*IDE= Investment and development expenditures; EPEAS= Interest payment expenses & Aid spending; CE= Current expenditures*
*(1) indicates the 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**



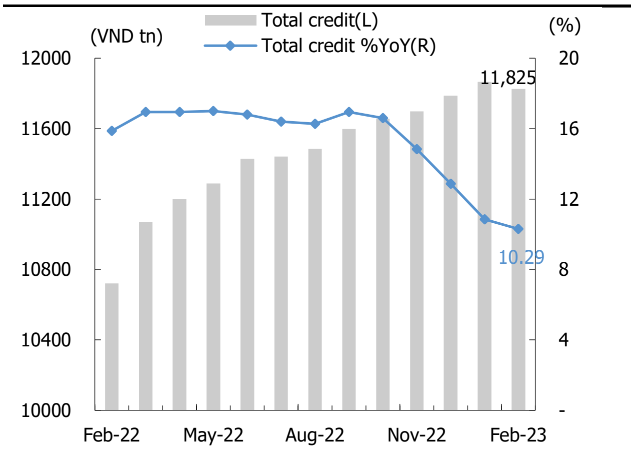

*Source: SBV, KIS*

**Figure 4. Vietnam's total credit by sector**



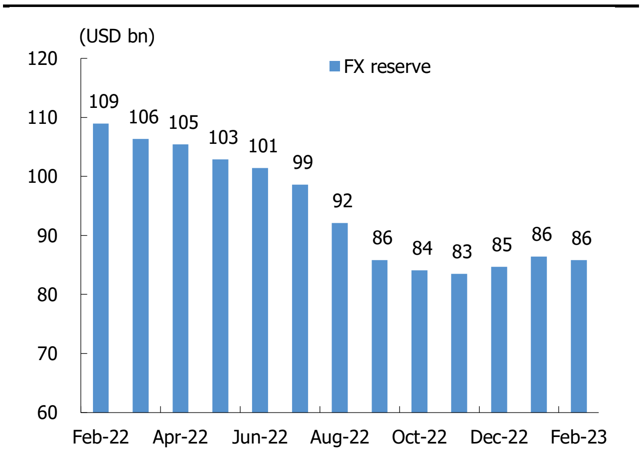

*Source: SBV, KIS*

**Figure 5. Historical Vietnam's credit**




*Source: SBV, KIS*

**Figure 6. Historical Vietnam's FX reserve**




*Source: IMF, Bloomberg, KIS*

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