

Fixed-income Perspectives

Renewed USDVND increase heads to FOMC

Ample liquidity resulted in silent OMO activities

During the period of 37W23 (from 11 to 15 September), the ample liquidity within the banking system persisted, and there was no activity observed in both T-bill and Repo transaction in the open market channel (OMO). We anticipated that the silent OMO will persist till the lending performance improves significantly.

Interbank rates hover at lows

Interbank rates this week continued to stick to its low level, indicating the lower liquidity demand from borrowers. Specifically, most traded tenors – overnight (ON) increased slightly by 2bps to 0.12% while 1W, and 2W declined by 3bps, and 10bps to 0.25%, and 0.40%, respectively, hovering near the zero-free rate benchmark. According to the SBV's official, credit growth by August 29 had only reached 5.33%, in contrast to the end of 2022 when it stood at 9.87%. We anticipate that the primary lending market may exert upward pressure on interbank rates in the forthcoming months.

USDVND resurged

USDVND resurged after one week of cooling down, establishing a new 10-month high at 24,248 or 187bps rally over the week. This increase was fueled by arbitrage activities based on persistently negative swap spread and the upcoming peak import season. Accordingly, VCB bid/ask rose by 165/165bps to 24,055/24,425, while quotes in the shadow market increased less notably by 80/80bps to 24,180/24,260. Continuously, SBV moved its selling price upward by 45bps to 25,187.

Vietnam economic indicators

	23-Mar	23-Apr	23-May	23-Jun	23-Jul	23-Aug	Corr. ¹
Disbursed FDI %YoY	2.0	1.7	0.6	0.9	3.2	23.6	0.06
Retail sales %YoY	11.5	11.7	8.1	6.7	6.9	7.6	-0.13
Export %YoY	-14.4	-16.2	-9.1	-10.8	-2.2	-7.6	-0.03
Import %YoY	-13.3	-23.1	-20.6	-17.9	-11.6	-8.3	0.02
Trade balance (USDbn)	1.4	2.7	2.0	3.1	3.1	3.8	-0.01
CPI %MoM	-0.2	-0.3	0.0	0.3	0.5	0.9	-0.02
Credit %YoY	10.5	9.7	9.1	8.5	9.0	8.7	-0.05
USDVND %MoM	-1.3	-0.1	0.1	0.4	0.4	1.4	-0.37
PMI (pts)	47.7	46.7	45.3	46.2	48.7	50.5	-0.16
VNINDEX return (%)	4.0	-1.4	2.6	4.4	9.3	-3.0	1.00

Source: SBV, GSO, Bloomberg, KIS

¹ Correlation to VNINDEX's monthly return; ² Bloomberg estimates
Green = acceleration; yellow = deceleration; red = contraction.

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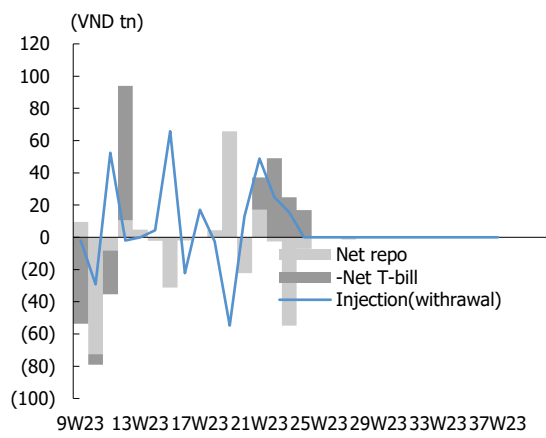
I. Ample liquidity resulted in silent OMO activities

OMO tranquil pattern persist

During the period of 37W23 (from 11 to 15 September), the ample liquidity within the banking system persisted, and there was no activity observed in both T-bill and Repo transaction in the open market channel (OMO).

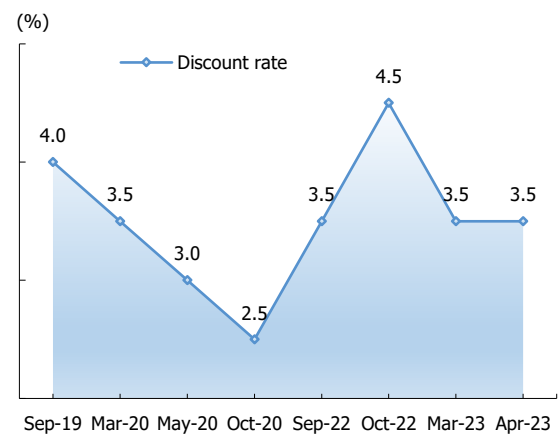
In general, the State Bank of Vietnam (SBV) persists in its direction to lower lending interest rates as a means of aiding businesses. Consequently, a prerequisite for reducing lending interest rates is to also lower deposit interest rates. We anticipated that the silent OMO will persist till the lending performance improves significantly.

Figure 1. Net injection (withdrawal) of liquidity



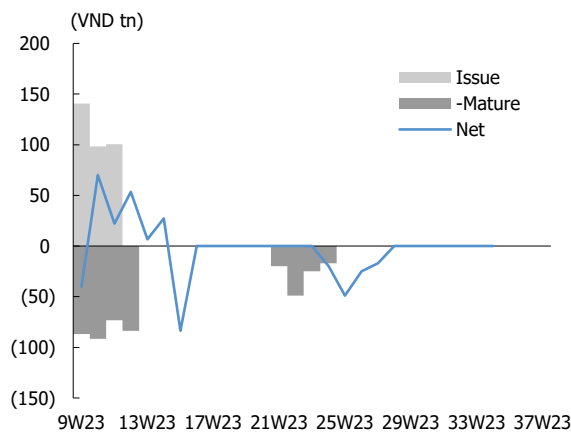
Source: SBV, Bloomberg, KIS

Table 1. Historical policy rate



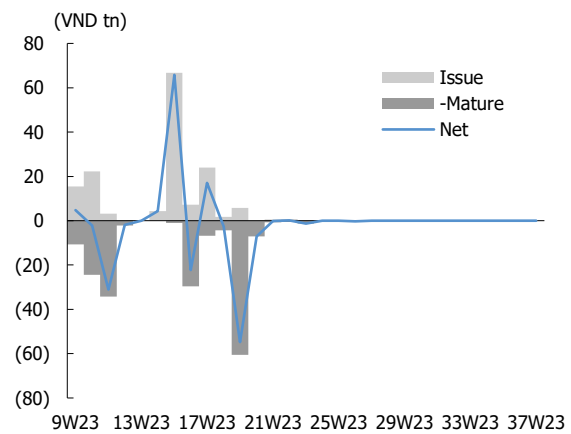
Source: SBV, Bloomberg, KIS

Figure 2. T-bill amount by week



Source: SBV, Bloomberg, KIS

Figure 3. Repo amount by week



Source: SBV, Bloomberg, KIS

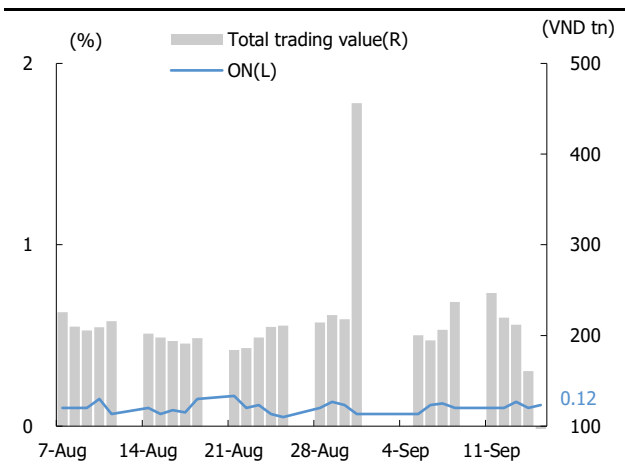
II. Interbank rates hover at lows

ON remains at low level

Interbank rates this week continued to stick to its low level, indicating the lower liquidity demand from borrowers. Specifically, most traded tenors – overnight (ON) increased slightly by 2bps to 0.12% while 1W, and 2W declined by 3bps, and 10bps to 0.25%, and 0.40%, respectively, hovering near the zero-free rate benchmark.

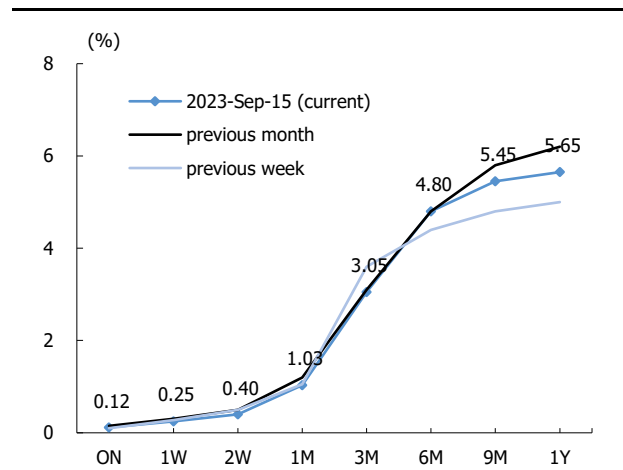
According to the SBV, credit growth by August 29 had only reached 5.33%, in contrast to the end of 2022 when it stood at 9.87%. While there was an improvement in credit growth compared to the previous month, it still remained significantly lower than the same period the previous year. Consequently, it appears that the lending performance of the entire banking system is poised to continue improving throughout the remaining months of 2023, particularly as the influence of government policies aimed at stimulating economic activities becomes more pronounced. We anticipate that this development in the primary lending market may exert upward pressure on interbank rates in the forthcoming months.

Figure 4. Interbank daily transaction



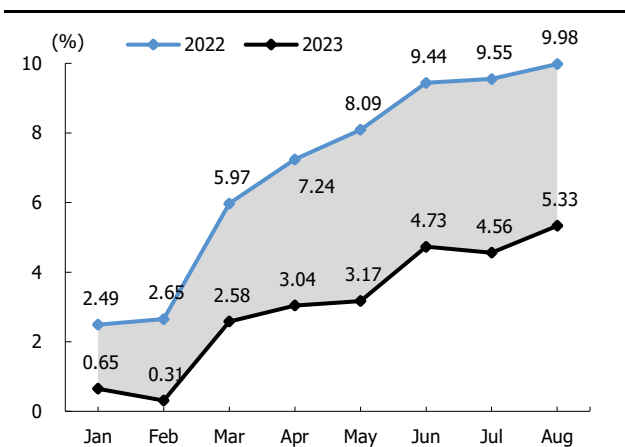
Source: SBV, Bloomberg, KISVN

Figure 5. Interbank rate curve



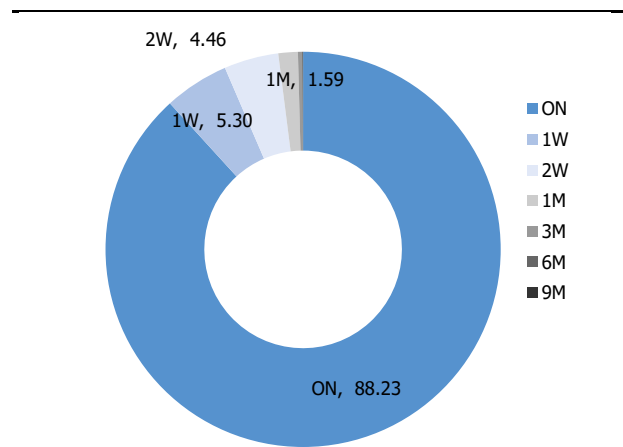
Source: SBV, Bloomberg, KISVN

Figure 6. Credit growth by month



Source: SBV, Bloomberg, KISVN

Figure 7. Interbank transaction structure



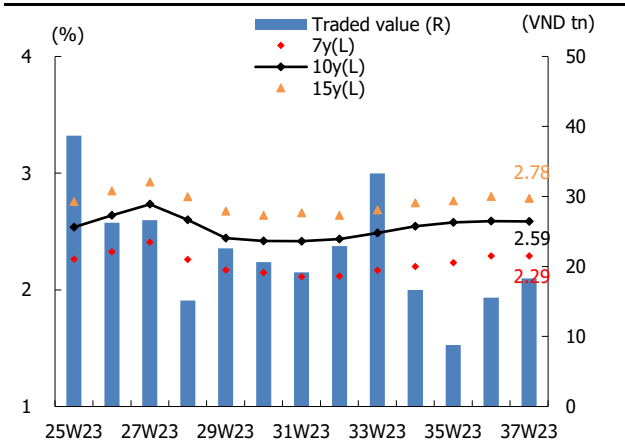
Source: SBV, Bloomberg, KISVN

III. G-bond yields stabilizes

Trading yields stabilizes following five weeks gaining

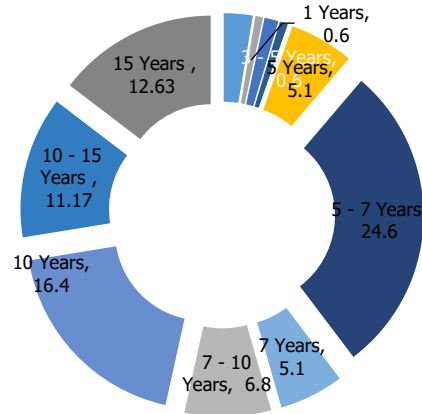
37W23 saw a stabilization of G-bond yields in both primary and secondary market. Specifically, trading yields witnessed a modest fall by 2bps in 15-year tenors while that of 7-year and 10-year stayed unchanged, marking at 2.29%, 2.59%, and 2.78%, respectively. The trading volume was improved by 17.37% WoW, standing at VND18.28tn. As a result, the yield curve shape remained similar to last week.

Figure 8. G-bond trading value



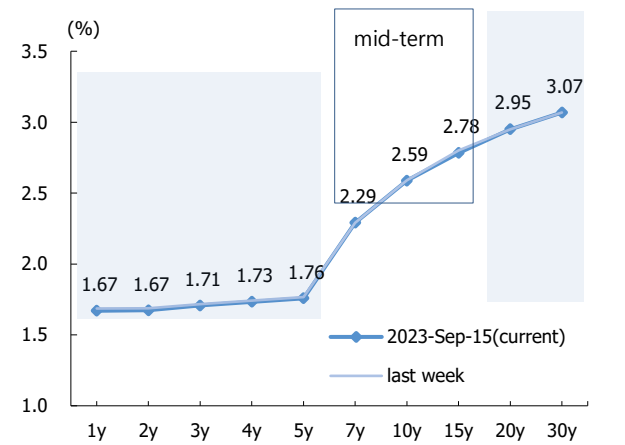
Source: HNX, KIS

Figure 9. Trading value by tenor this week



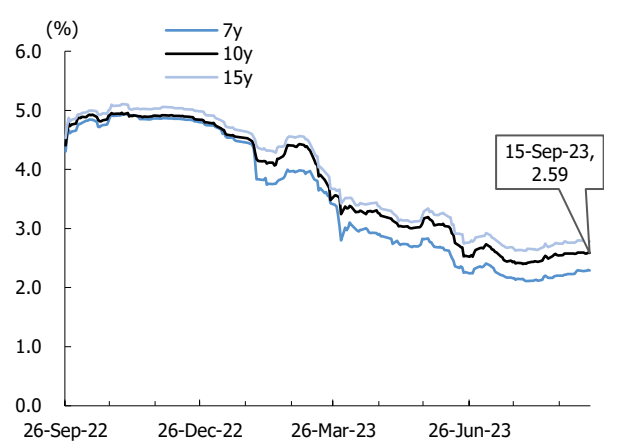
Source: HNX, KIS

Figure 10. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 11. Historical daily government bond yield

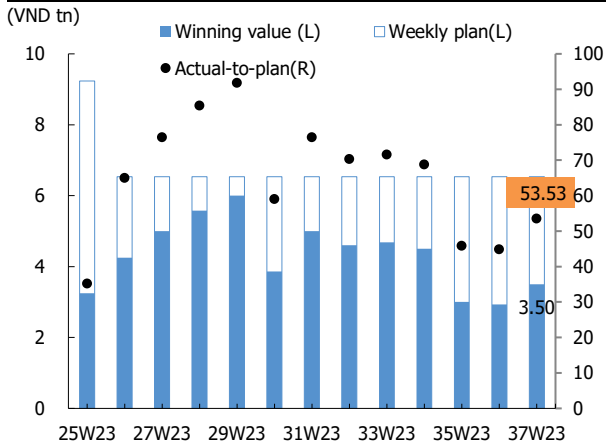


Source: HNX, VBMA, KIS

Winning yields persisted

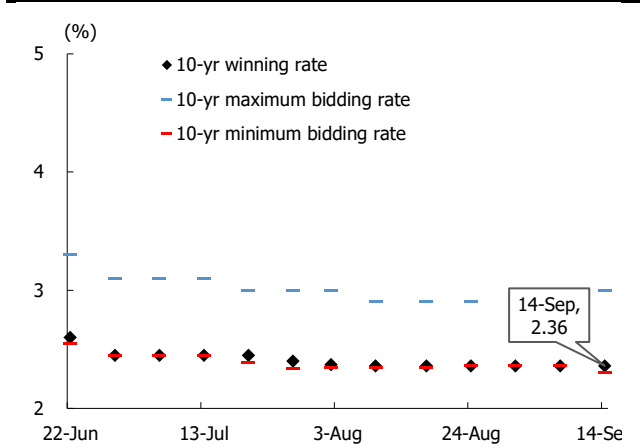
Concerning the issuance of G-bonds, the winning yields remained stable, maintaining their low positions at 2.36% and 2.59% for the 10-year and 15-year tenors, respectively. The ratio of actual issuance to the planned amount saw a minor increase to 53.33% from the previous week's 44.89%. When looking at the cumulative figures, the amount issued fulfilled 46.11% of the annual plan and 62.48% of the third-quarter plan.

Figure 16. Winning value by week



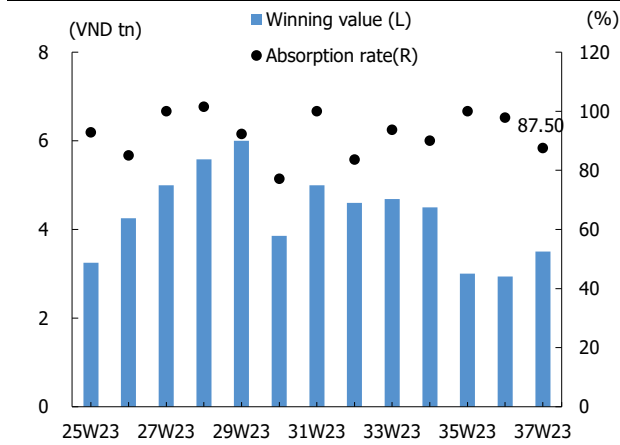
Source: HNX, KIS

Figure 17. Winning yields by week



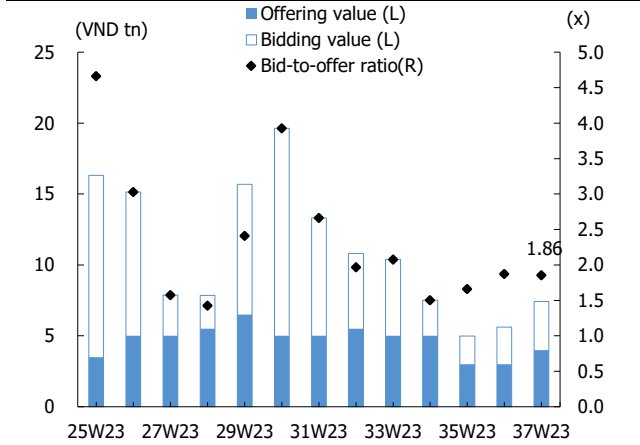
Source: HNX, KIS

Figure 18. Absorption ratio



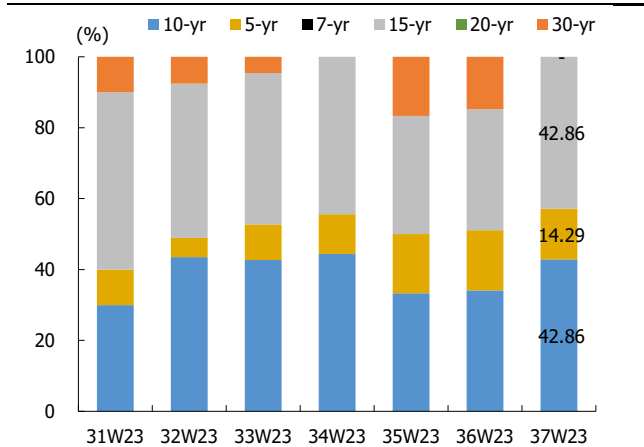
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



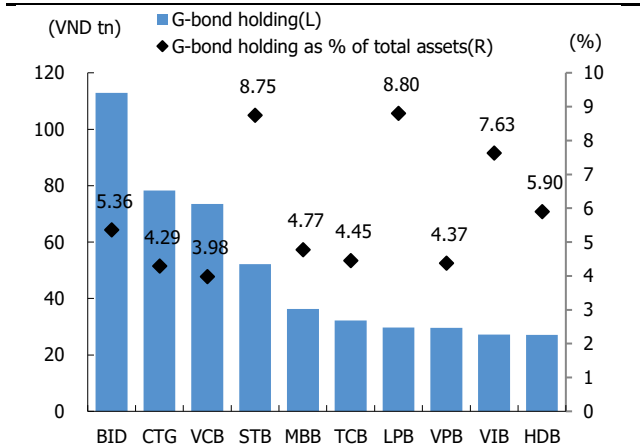
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

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



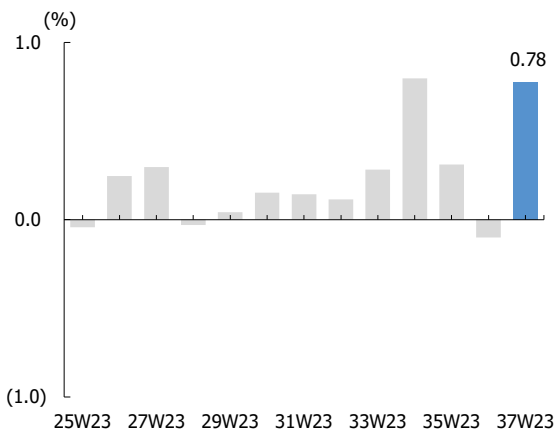
Source: HNX, FiiPro, KIS

IV. USDVND resurged

USDVND hits 10-month high

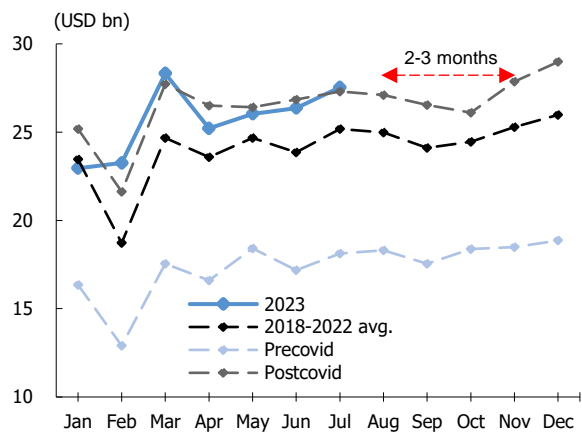
USDVND resurged after one week cooled down, established a new 10-month high at 24,248 or 187bps rally over the week. This surge was fueled by the intensified negative USD – VND interest spread due to more “hawkish” Fed, FX traders arbitrage activities, and peak importing season. Accordingly, VCB raised their bid/ask price by 165/165bps to 24,055/24,425 while it was less notable in the shadow market, by 80/80bps to 24,180/24,260. Continuously, SBV moved its selling price upwardly by 45bps to 25,187.

Figure 22. Weekly USDVND performance



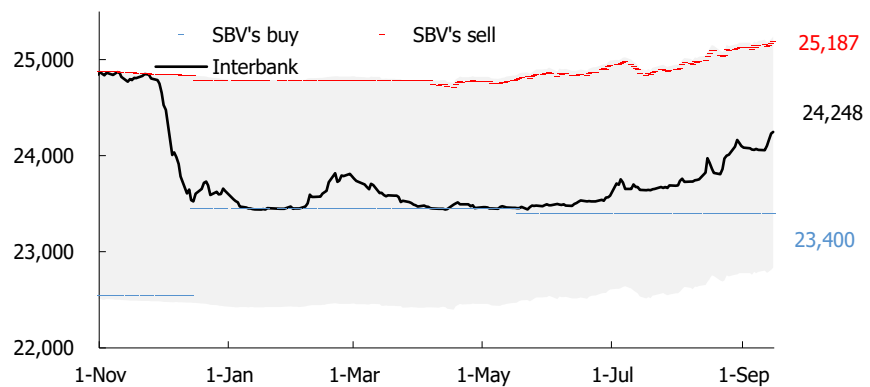
Source: SBV, Bloomberg

Figure 23. USD demand and import activities



Source: SBV, KIS

Figure 24. SBV's movement



Source: SBV, Bloomberg, Fiinpro, KIS

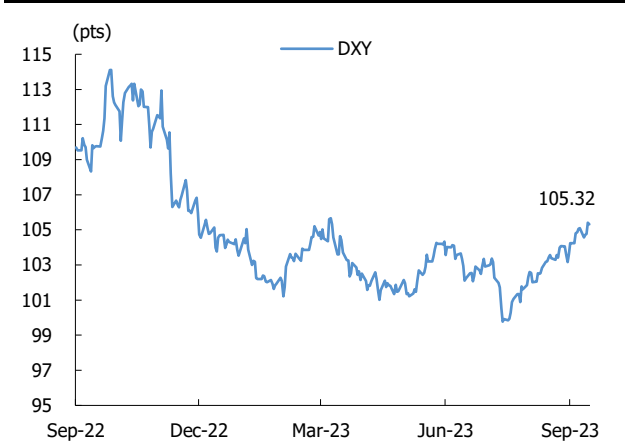
Note: shaded region is the daily trading band. The effective trading band is +/- 5% (the effective date is 17 October, 2022).

Over the week, the DXY hit seven-month high at 105.32, continued its rebound with the support from more “hawkish” Fed as US August inflation surpassed expectations. Furthermore, ECB recent 25bps hike signalled the end of hiking cycle, driving down G-bond yields in EU zone, increasing attractiveness of US G-bond. Those events led to the stronger the greenback. Besides, the prolonged negative interest spread between USD and VND incentivized carry trade activities of FX traders, along with seasonal high USD demand for importing needs, mostly explained the USDVND surge this week. We expected

that if the exchange rate pressure prolonged, some unofficial actions would be taken to released the speculated USD amount to the market.

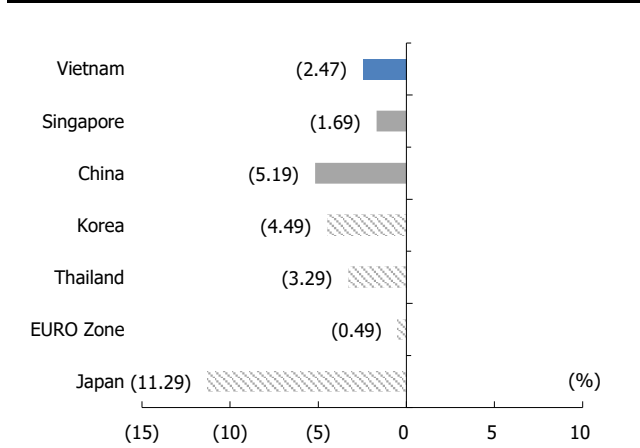
Currencies under our watchlist had diverged movements against USD over the week. The appreciations were seen in SGD, CNY, KRW, and JPY while the opposite movements were recognized in THB and EUR.

Figure 25. Historical DXY



Source: SBV, Bloomberg

Figure 26. 2023 YTD performance of major currencies against USD



Source: SBV, Bloomberg

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

Macro scorecard

	23-April	23-May	23-Jun	23-Jul	23-Aug	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)	3.43	1.98	2.57	2.81	1.91	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)	27.54	29.05	29.30	29.68	32.37	96.48	89.50	79.17	83.42	263.6	282.7	335.7	371.85
Import (USD bn)	26.03	26.81	26.71	27.53	28.55	90.71	85.07	75.10	76.01	254.4	263	331.1	360.65
Export growth (%)	(17.15)	(5.86)	(11.41)	(3.47)	(7.60)	17.22	(6.07)	(11.90)	(14.16)	8.16	7.02	18.74	10.61
Import growth (%)	(20.54)	(18.44)	(16.94)	(9.92)	(8.26)	8.12	(3.90)	(14.67)	(22.30)	7.41	3.81	25.9	8.35
Inflation (%)	2.81	2.43	2.00	2.06	2.96	3.32	4.41	4.18	2.41	2.79	3.24	1.84	3.15
USD/VND	23,459	23,493	23,583	23,688	24,135	23,712	23,633	23,471	23,583	23,173	23,126	22,790	23,650
Credit growth (%)	3.04	3.04	4.73	4.56	5.03	10.47	12.87	1.61	3.36	13.75	12.17	12.97	12.87
10Y gov't bond (%)	3.21	3.28	3.50	2.41	2.58	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, ~3.15%
- * Absorption rate = winning value / offering value, ~87.50%
- * Bid to offer ratio = offering value / bidding value, ~1.86
- * DXY = U.S. Dollar Index, ~105.32
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~0.12%

Appendix

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

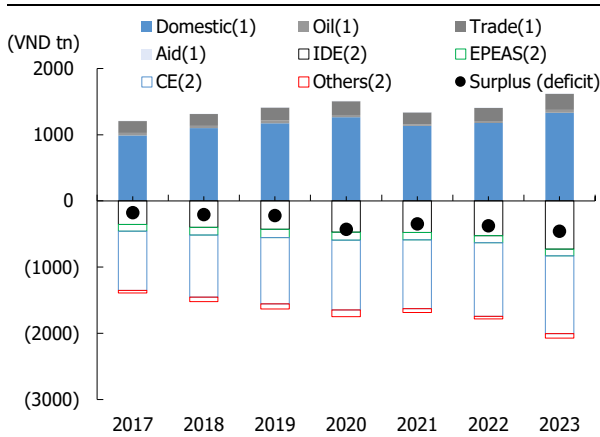
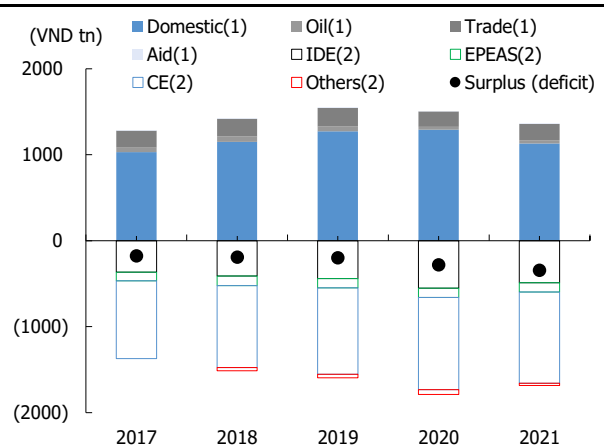


Figure 2. Vietnam's state budget by year: actual



Source: MoF, SBV, KIS

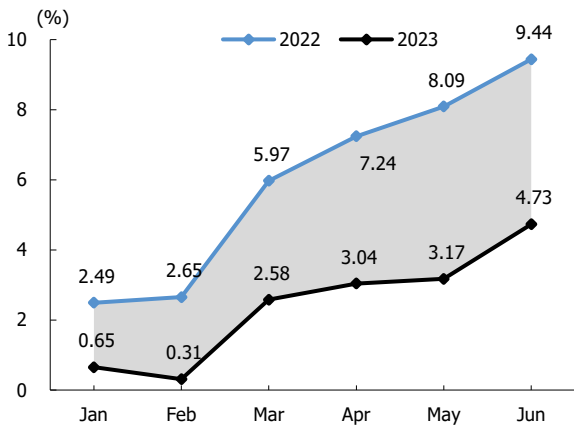
Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.

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

(1) indicates the item belongs to the revenue

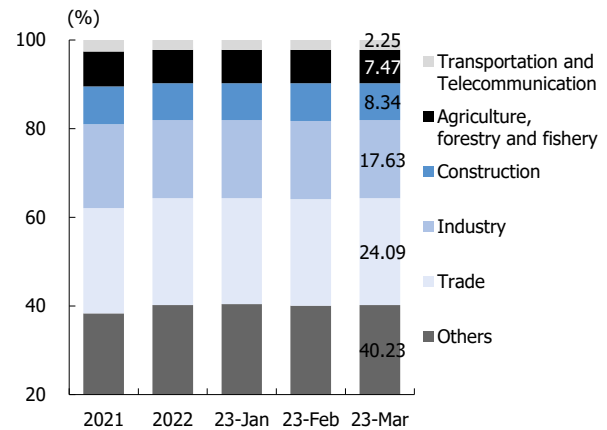
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



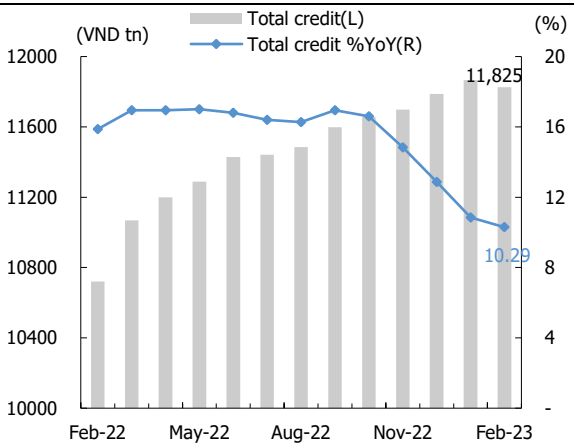
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



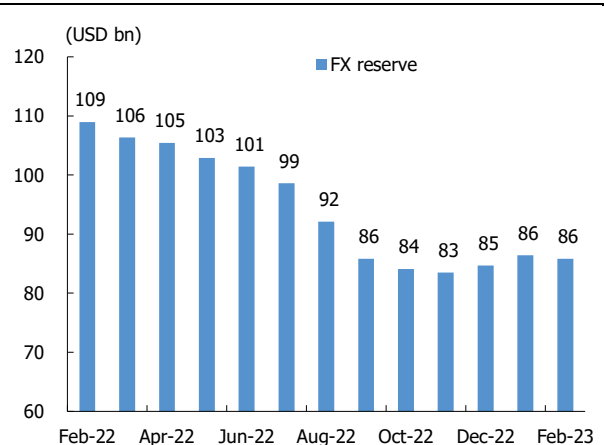
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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