

# Fixed-income Perspectives

## USDVND declines on SBV's OMO practices

### SBV continues its withdrawal chain

In 39W23 (from 25 September to 1 October), the State Bank of Vietnam (SBV) persisted in draining liquidity from its counterparties by offering 28-day bills totaling VND73.80tn. The liquidity withdrawal this week was almost four times greater than the previous week. Therefore, over the past two weeks, SBV has drained VND93.80tn from the system. In general, the State Bank's objective is to absorb excess liquidity in the market, and primarily to alleviate short-term pressure from exchange rate speculation.

### Interbank rates bottom out

This week, the interest rates witnessed several changes in response to SBV's bill offerings. To elaborate, the most actively traded tenors, such as overnight (ON), 1W and 2W saw an uptick of 2 basis point (bps), 5bps, and 1bps to 0.15%, 0.30%, and 0.50%, respectively. It is anticipated that the SBV will continue its efforts to reduce liquidity, aiming to increase the overnight (ON) rate, narrowing the gap between the USD and VND to stabilize the ongoing USD/VND exchange rate.

### USDVND cools down following SBV's bill offerings

SBV returned to withdraw excessive money from the banking system from last week via bill offerings to push interbank rate up, consequently reducing pressure on USDVND. In response to nearly VND94.00tn withdrawal amount, USDVND cooled down by 0.12% WoW or 29bps down, despite the dollar strength rising by 0.56% WoW. We expect SBV to further offer bills as USDVND upward pressure remained and USD inflow from export activities has yet come.

### Vietnam economic indicators

	23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep	Corr. <sup>1</sup>
Disbursed FDI %YoY	1.7	0.6	0.9	3.2	23.6	7.0	0.06
Retail sales %YoY	11.7	8.1	6.7	6.9	6.9	7.5	-0.13
Export %YoY	-17.1	-6.0	-10.8	-3.0	-7.3	5.3	-0.03
Import %YoY	-20.5	-17.8	-17.1	-9.8	-8.1	2.6	0.02
Trade balance (USDbn)	1.5	2.2	2.6	2.2	3.8	2.3	-0.01
CPI %MoM	-0.3	0.0	0.3	0.5	0.9	1.1	-0.02
Credit %YoY	9.7	9.1	9.3	9.0	6.5	8.3	-0.05
USDVND %MoM	-0.1	0.1	0.4	0.4	1.7	1.0	-0.37
PMI (pts)	46.7	45.3	46.2	48.7	50.5	49.7	-0.16
VNINDEX return (%)	-1.5	2.5	4.2	9.2	0.1	-5.7	1.00

Source: SBV, GSO, Bloomberg, KIS

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

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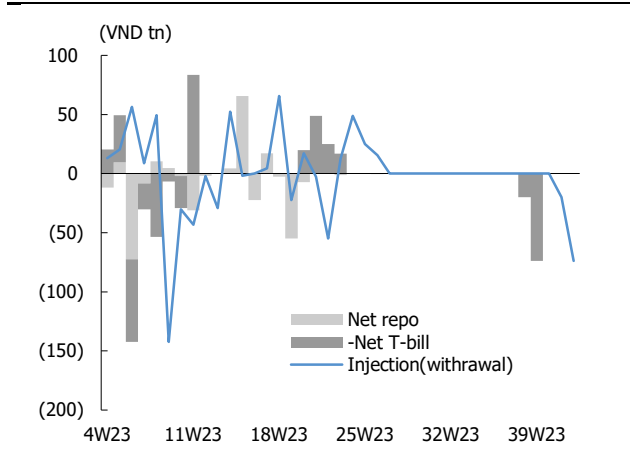
# I. SBV continues its withdrawal chain

## SBV withdrawal from its counterparties

In 39W23 (from 25 September to 1 October), the State Bank of Vietnam (SBV) persisted in draining liquidity from its counterparties by offering 28-day bills totaling VND73.80tn. The liquidity withdrawal this week was almost four times greater than the previous week. Therefore, over the past two weeks, SBV has drained VND93.80tn from the system.

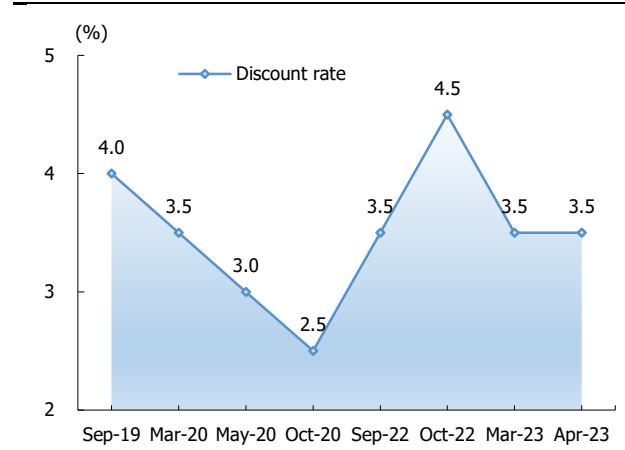
In general, the SBV's issuance of bills serves as a monetary policy instrument, to manage short-term liquidity conditions within the system. The primary goal of the SBV is to absorb market liquidity in order to alleviate short-term pressure related to exchange rate speculation. It is expected that SBV will persist in issuing bills in the coming weeks to alleviate the hot exchange rate and ample liquidity within the banking system.

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



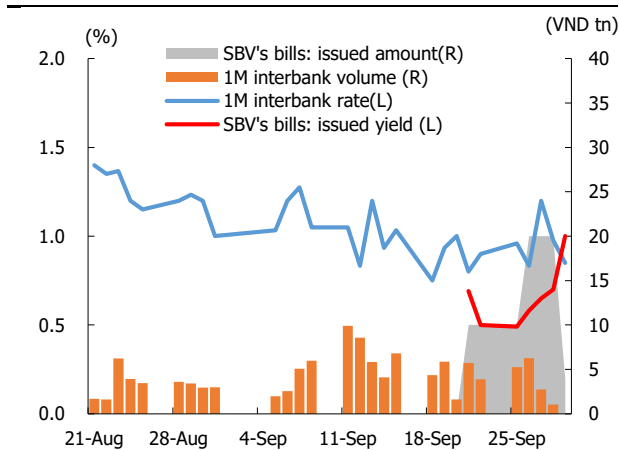
Source: SBV, Bloomberg, KIS

**Table 1. Historical policy rate**



Source: SBV, Bloomberg, KIS

**Figure 2. Bill issuance over days**



Source: SBV, Bloomberg, KIS

**Figure 3. Bill issuance: detail information**

Issue date	Maturity date	Tenor (days)	Amount (VNDtn)	Yield (%)
25-Sep-23	23-Oct-23	28	10.00	0.49
26-Sep-23	24-Oct-23	28	20.00	0.58
27-Sep-23	25-Oct-23	28	20.00	0.65
28-Sep-23	26-Oct-23	28	20.00	0.70
29-Sep-23	27-Oct-23	28	3.80	1.00
<b>Total</b>		28	73.80	0.64

Source: SBV, Bloomberg, KIS

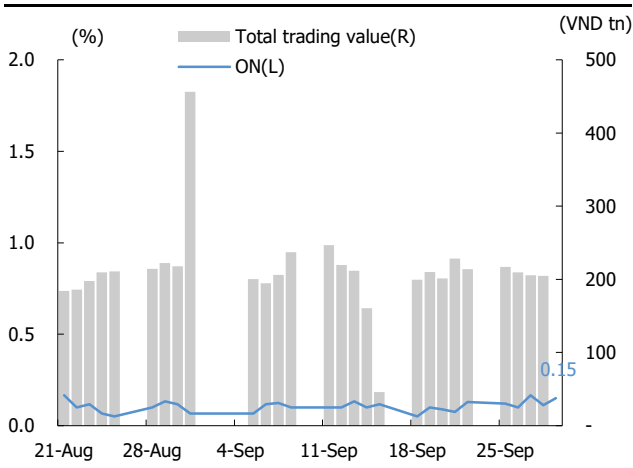
## II. Interbank rates bottom out

### ON remains at low level

This week, the interest rates witnessed several changes in response to SBV's bill offerings. To elaborate, the most actively traded tenors, such as overnight (ON), 1W and 2W saw an uptick of 2 basis point (bps), 5bps, and 1bps to 0.15%, 0.30%, and 0.50%, respectively.

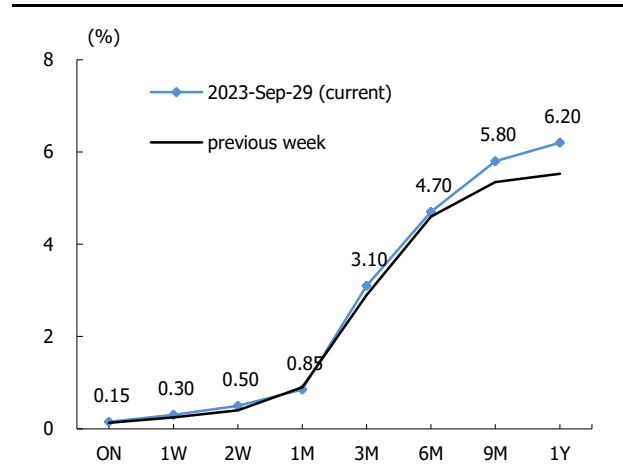
According to latest data from GSO, credit growth by September 20 reached 5.73%, in contrast to the same period last year when it stood at 10.54%. While there was an improvement in credit growth compared to the previous month, it still remained significantly lower than the same period the previous year. Furthermore, the 3Q23 GDP growth posted 5.33%, slightly higher than second quarter but still long way to reach the target of 6% in 2023. Furthermore, inflation was around 3.17% (below the government's inflation target). Thus, it is expected that the SBV will maintain easing monetary policy to stimulate the economy. It is anticipated that the SBV will continue its efforts to reduce liquidity, aiming to increase the overnight (ON) rate, narrowing the gap between the USD and VND to stabilize the ongoing USD/VND exchange rate.

**Figure 4. Interbank daily transaction**



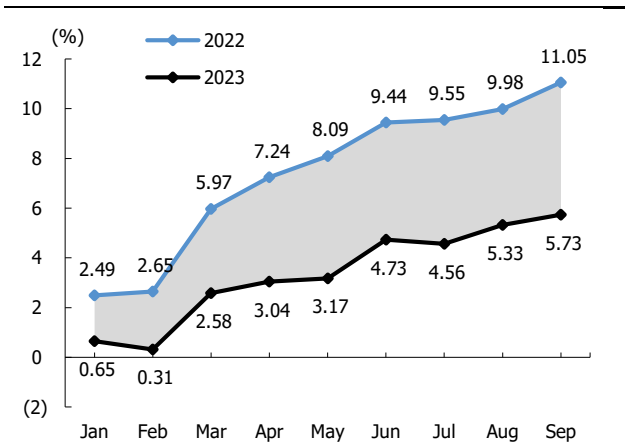
Source: SBV, Bloomberg, KISVN

**Figure 5. Interbank rate curve**



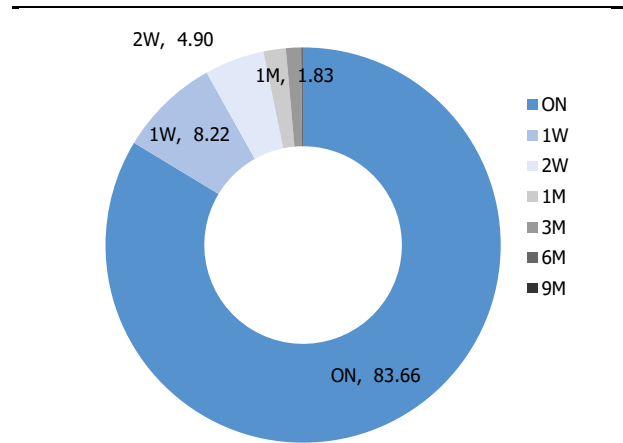
Source: SBV, Bloomberg, KISVN

**Figure 6. Credit growth by month**



Source: SBV, Bloomberg, KISVN

**Figure 7. Interbank transaction structure**



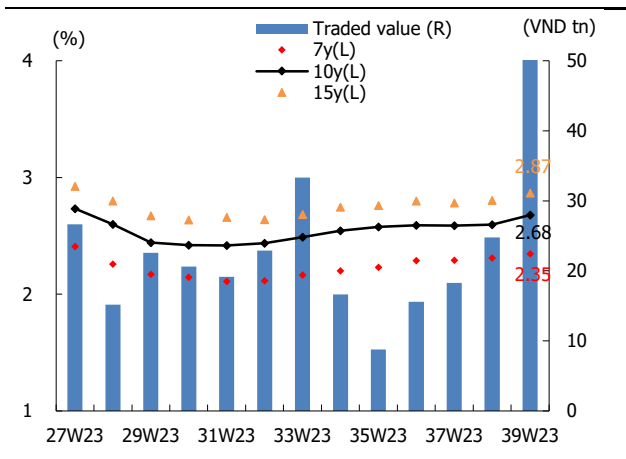
Source: SBV, Bloomberg, KISVN

### III. G-bond yields rise again

**Traders are betting on yields rise**

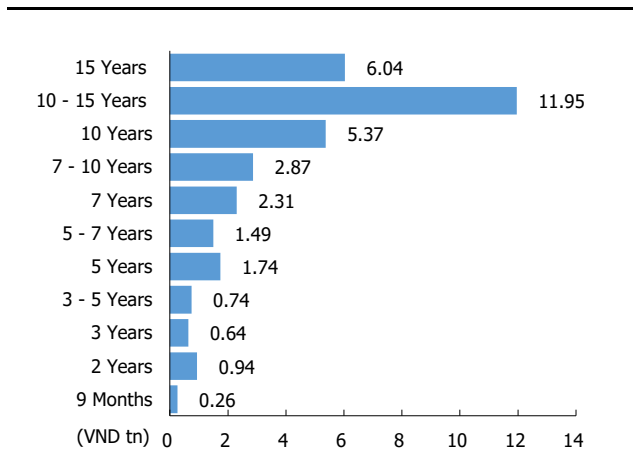
In 39W23, the week that SBV returned to offer bills, G-bond trading yields edged up moderately with a doubled trading volume, implying traders are betting on G-bond yields rise. If this bet came true, this would further support the ideas that SBV reverses their monetary policy, following the bills offers in recent days. On contrast, we consider SBV's bill offer mainly to address USD/VND pressure, but not a reversal monetary policy movement. Over the week, G-bond trading yields rose moderately by 4bps, 8bps, 6bps in 7-year, 10-year, and 15-year tenors while that of primary market remained unchanged for the last two months.

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



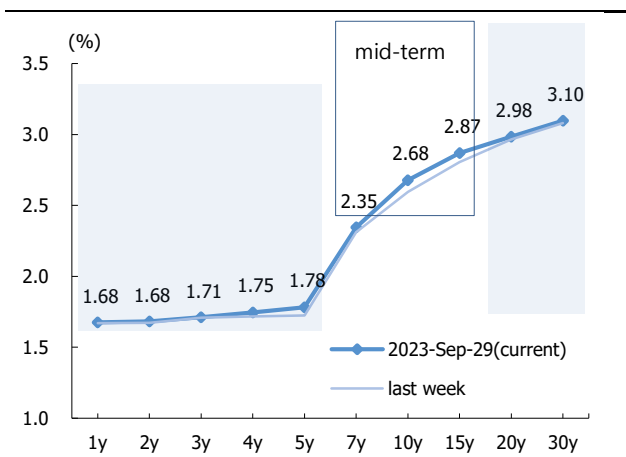
Source: HNX, KIS

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



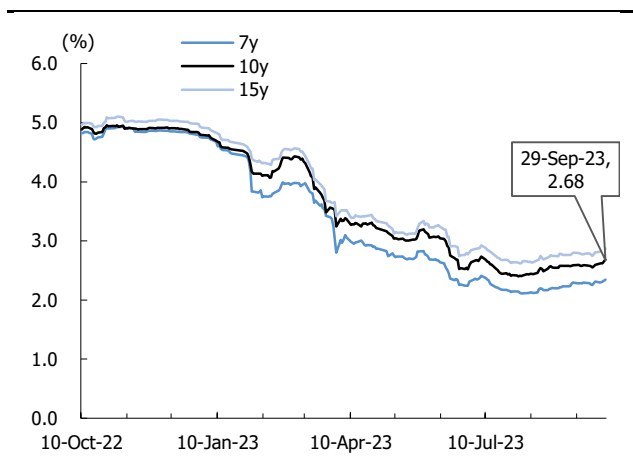
Source: HNX, KIS

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



Source: HNX, VBMA, KIS

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

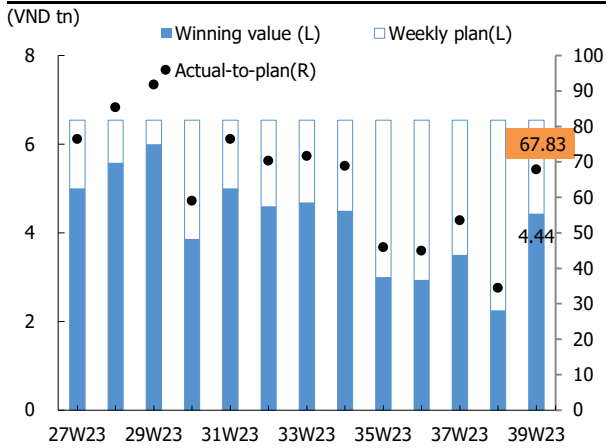


Source: HNX, VBMA, KIS

**Winning yields maintain solid**

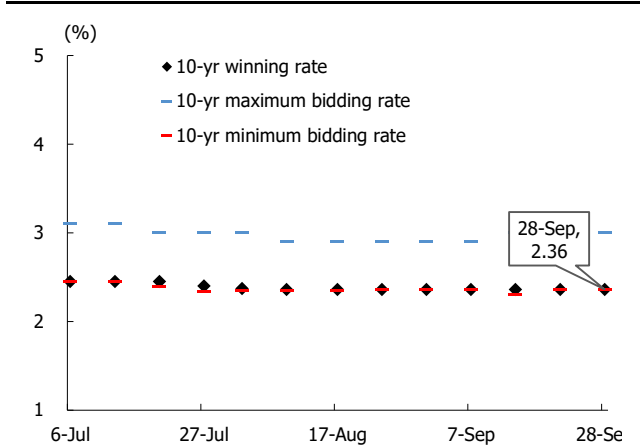
In G-bond issuance, the winning persisted for the last two months at 2.36% and 2.59% for 10-year and 15-year tenors, sustaining the cheap funding cost environment. However, the actual issuance progress lagged, culminating in 70.34% of the 3Q23 plan and 47.79% of the yearly objective.

**Figure 16. Winning value by week**



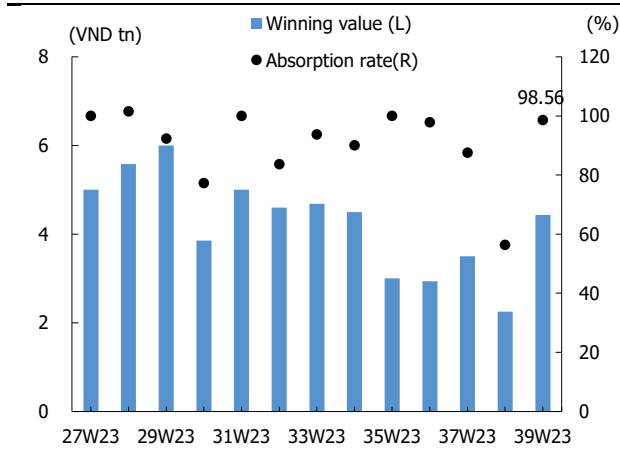
Source: HNX, KIS

**Figure 17. Winning yields by week**



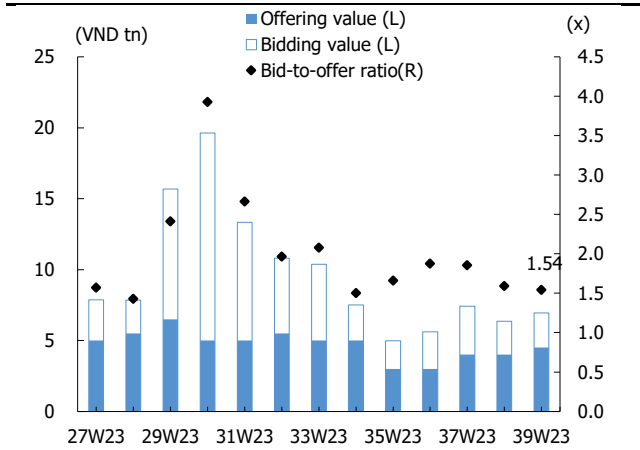
Source: HNX, KIS

**Figure 18. Absorption ratio**



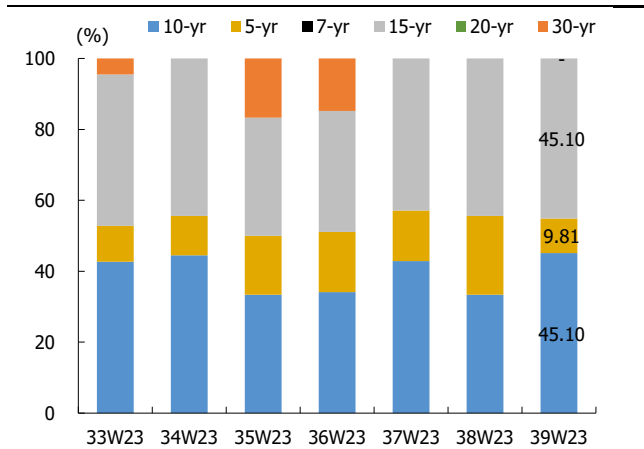
Source: HNX, KIS

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



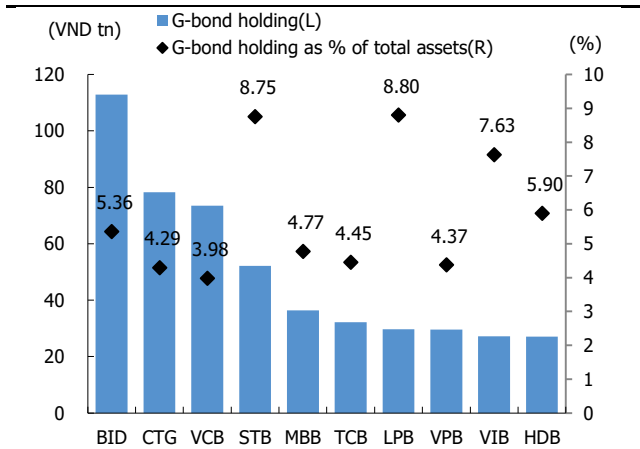
Source: HNX, KIS

**Figure 20. Winning yields by week**



Source: HNX, KIS

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



Source: HNX, FiiPro, KIS

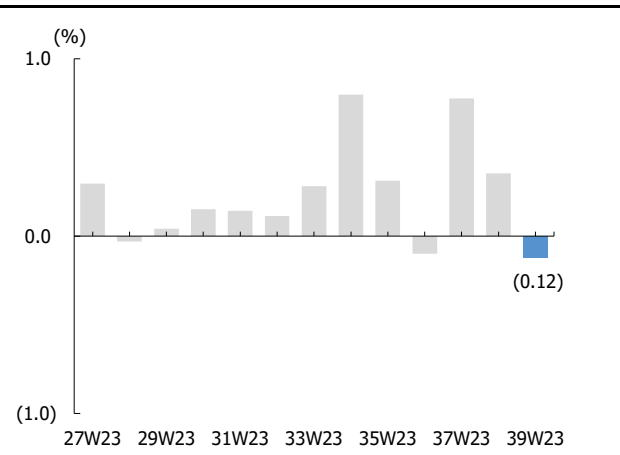
## IV. USDVND cools down following SBV's bill offerings

### USDVND retraces slightly

SBV returned to withdraw excessive money from the banking system from last week via bill offerings to push interbank rate up, consequently reducing pressure on USDVND. In response to nearly VND94.00tn withdrawal amount, USDVND cooled down by 0.12% WoW or 29bps down, despite the dollar strength rising by 0.56% WoW. We expect SBV to further offer bills as USDVND upward pressure remained and USD inflow from export activities has yet come.

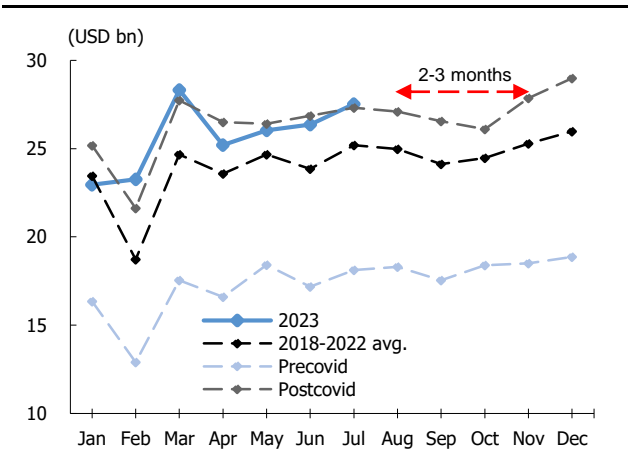
Following 29bps fall in USDVND, VCB curtailed its bid/ask prices by 70/70bps to 24,090/24,460 while the shadow market oppositely raised these prices by 90/100bps to 24,370/24,450, implying increasing speculative activities. Continuously, SBV kept raising its selling price by 30bps to 25,243.

Figure 22. Weekly USDVND performance



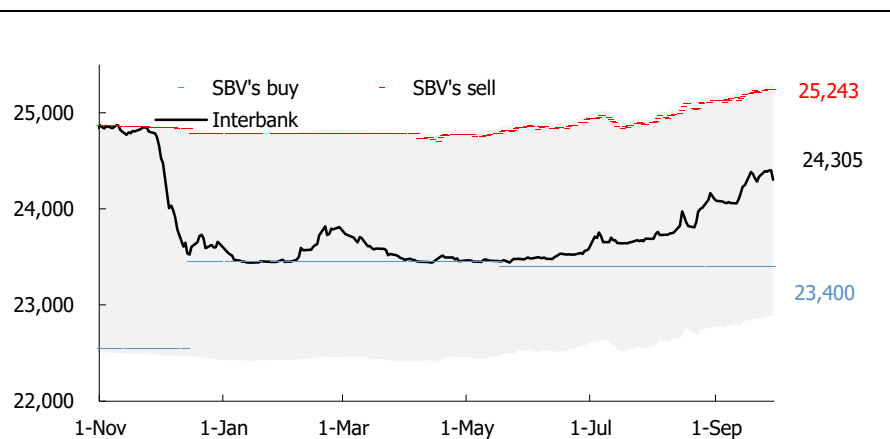
Source: SBV, Bloomberg

Figure 23. USD demand and import activities



Source: SBV, KIS

Figure 24. SBV's movement

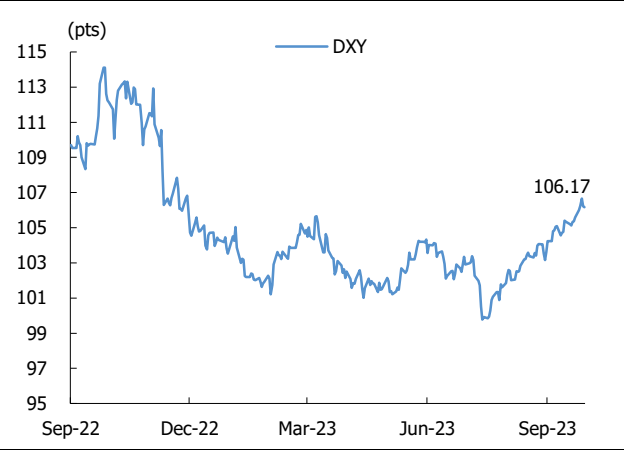


Source: SBV, Bloomberg, Fiiipro, KIS

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

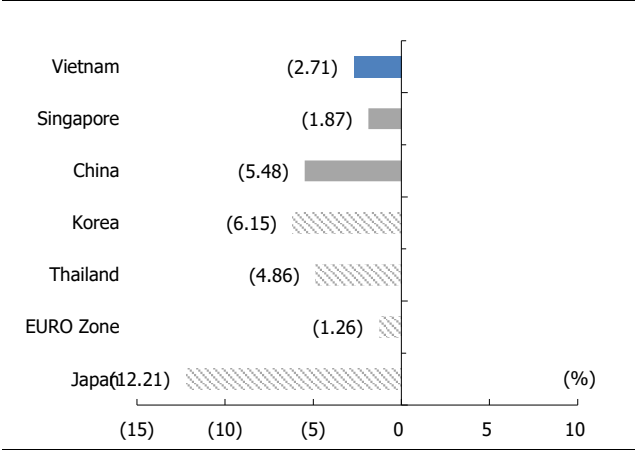
The US inflation indicator – August PCE unexpectedly rebounded for the second months to 3.48% YoY due to rising commodities prices, further supporting the next Fed rate hike in November FOMC meeting. As a result, DXY continued strengthening, settling the week of 0.56% WoW gain or 106.17. Consequently, all currencies under our watchlist further depreciated against USD over last week.

**Figure 25. Historical DXY**



Source: SBV, Bloomberg

**Figure 26. 2023 YTD performance of major currencies against USD**



Source: SBV, Bloomberg

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

## Macro scorecard

	23-May	23-Jun	23-Jul	23-Aug	23-Sep	4Q22	1Q23	2Q23	3Q23	2019	2020	2021	2022
Real GDP growth (%)						5.92	3.21	4.14	5.33	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.98	2.57	2.81	1.91	2.06	8.96	5.45	7.98	6.78	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	4,110
Unemployment rate (%)						2.32	2.25	2.25	2.25	2.25	2.48	3.22	2.32
Export (USD bn)	29.05	29.30	29.68	32.37	31.41	89.50	79.17	83.42	94.62	263.6	282.7	335.7	371.85
Import (USD bn)	26.81	26.71	27.53	28.55	29.12	85.07	75.10	76.01	86.02	254.4	263	331.1	360.65
Export growth (%)	(5.86)	(11.41)	(3.47)	(7.60)	4.57	(6.07)	(11.90)	(14.16)	(1.25)	8.16	7.02	18.74	10.61
Import growth (%)	(18.44)	(16.94)	(9.92)	(8.26)	2.57	(3.90)	(14.67)	(22.30)	(4.50)	7.41	3.81	25.9	8.35
Inflation (%)	2.43	2.00	2.06	2.96	3.66	4.41	4.18	2.41	2.89	2.79	3.24	1.84	3.15
USD/VND	23,493	23,583	23,688	24,135	24,300	23,633	23,471	23,583	24,300	23,173	23,126	22,790	23,650
Credit growth (%)	3.04	4.73	4.56	4.78	5.56	12.87	1.61	3.36	5.56	13.75	12.17	12.97	12.87
10Y gov't bond (%)	3.28	3.50	2.41	2.58	2.60	5.08	3.54	3.50	2.60	3.37	2.01	2.11	5.08

Source: GSO, Bloomberg, FIA, IMF

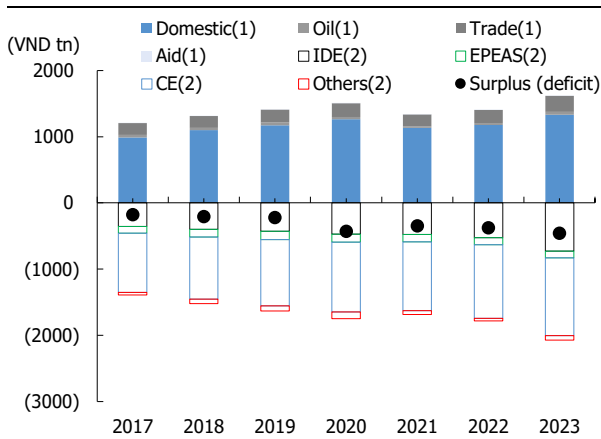
### \*\*Glossary

- \* Winning yield rate = each group's highest bidding rate, ~3.00%
- \* Absorption rate = winning value / offering value, ~67.83%
- \* Bid to offer ratio = offering value / bidding value, ~1.54
- \* DXY = U.S. Dollar Index, ~106.17
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~0.13%

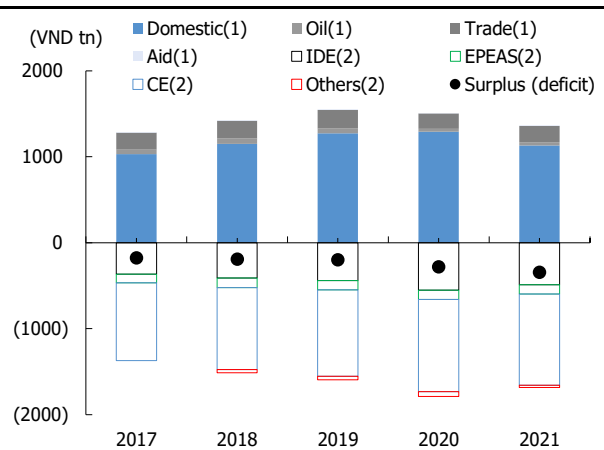


## Appendix

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



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



Source: MoF, SBV, KIS

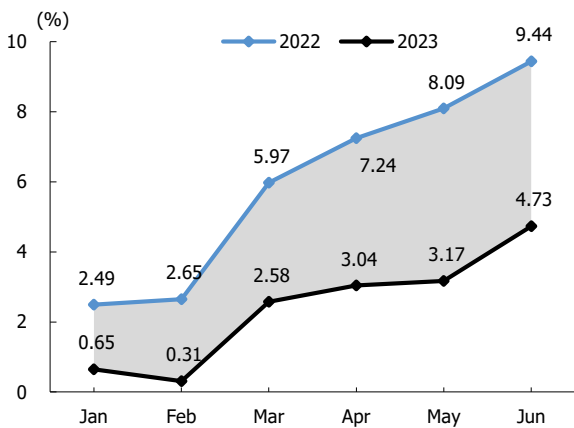
Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.

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

(1) indicates the item belongs to the revenue

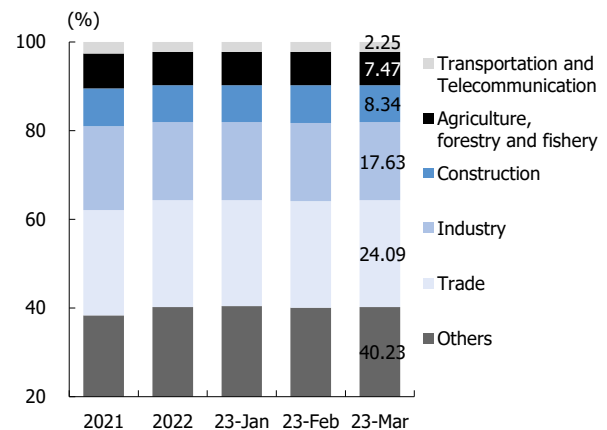
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



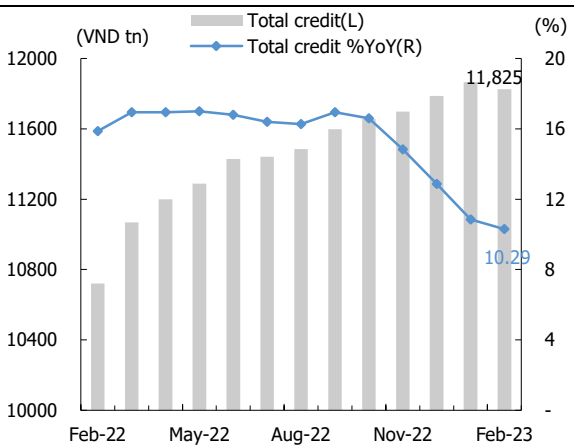
Source: SBV, KIS

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



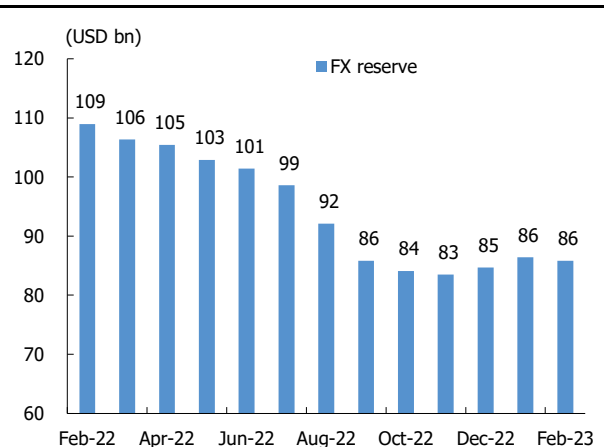
Source: SBV, KIS

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



Source: SBV, KIS

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



Source: IMF, Bloomberg, KIS

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