

Fixed-income Perspectives

Short-term interbank rates gather upward momentum

SBV extends bill offering

In 40W23 (from 2 to 8 October), the State Bank of Vietnam (SBV) persisted in draining liquidity from its counterparties by offering 28-day bills totalling VND46.90tn. However, the liquidity withdrawal this week was less aggressive than the previous week. Consequently, SBV has withdrawn around VND140.70tn from the banking system. 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.

Interbank rates witness a surge

This week, the interest rates witnessed a surge 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 85 basis point (bps), 95bps, and 90bps to 1.00%, 1.25%, and 1.40%, respectively.

USDVND rebounds

USDVND rebounded by 0.35% WoW or 84bps this week after one-week cooling down thanks to SBV bill offerings. Nevertheless, the rising economic uncertainties and geopolitical risks are increasing the attractiveness of the greenback as a safe haven, partially contributing to the uprising of USDVND. Following 84bps increase in USDVND, VCB adjusted upwardly their bid/ask prices by 90/90bps to 24,180/24,500 while a more notably movement was seen in the shadow market, by 130/100bps to 24,500/24,550.

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Vietnam economic indicators

	23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep	Corr. ¹
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

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

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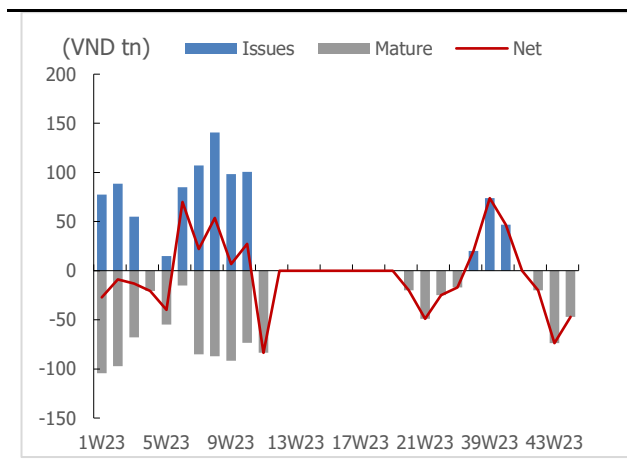
I. SBV extends bill offering

SBV withdrawal from its counterparties

In 40W23 (from 2 to 8 October), the State Bank of Vietnam (SBV) persisted in draining liquidity from its counterparties by offering 28-day bills totalling VND46.90tn. However, the liquidity withdrawal this week was less aggressive than the previous week. Consequently, in the last three weeks, SBV has withdrawn around VND140.70tn from the banking system.

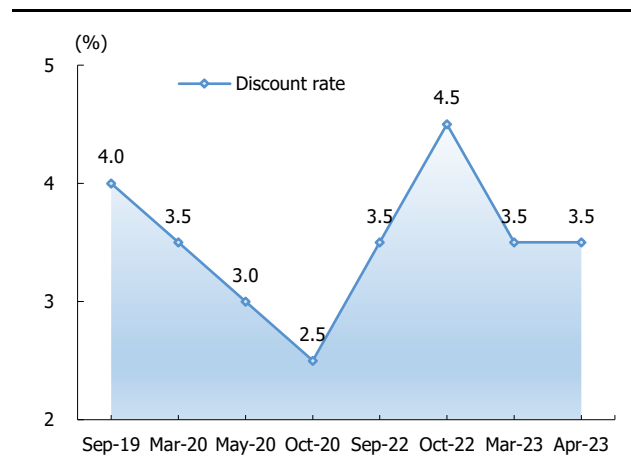
In general, the SBV's issuance of bills serves as a monetary policy instrument, to manage short-term liquidity conditions within the system. The primary goal of the SBV is to absorb market liquidity in order to alleviate short-term pressure related to exchange rate speculation. It is expected that SBV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



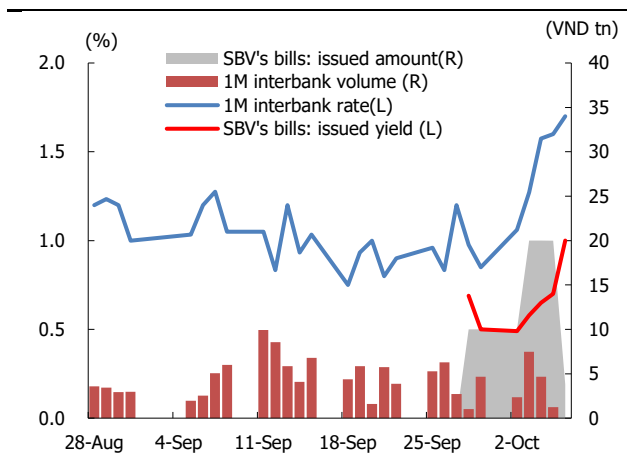
Source: SBV, Bloomberg, KIS

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 (%)
2-Oct-23	30-Oct-23	28	6.90	1.00
3-Oct-23	31-Oct-23	28	10.00	1.18
4-Oct-23	1-Nov-23	28	10.00	1.30
5-Oct-23	2-Nov-23	28	10.00	1.30
6-Oct-23	3-Nov-23	28	10.00	1.28
Total		28	46.90	1.20

Source: SBV, Bloomberg, KIS

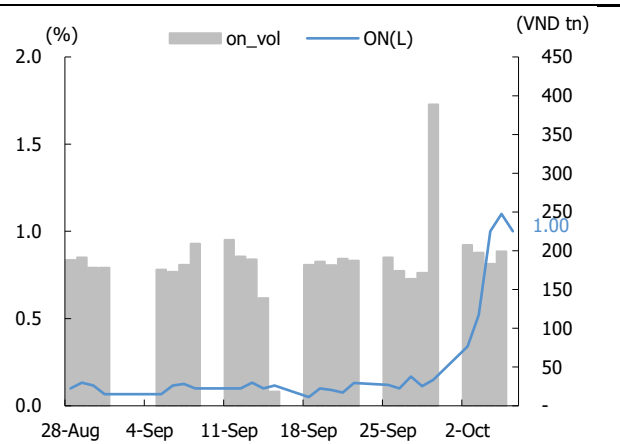
II. Interbank rates witness a surge

Interbank rates rebound

This week, the interest rates witnessed a surge 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 85 basis point (bps), 95bps, and 90bps to 1.00%, 1.25%, and 1.40%, respectively.

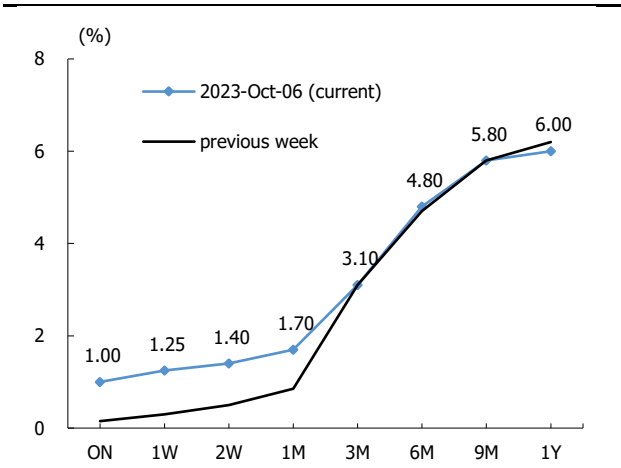
According to latest data from GSO, credit growth by September 29 reached 6.92%, still lower to the same period last year when it stood at 10.54%. While there was an improvement in credit growth compared to the previous month, it still remained significantly lower than the same period the previous year. Additionally, the GDP growth in the third quarter of 2023 was reported at 5.33%, slightly higher than the second quarter but still far from reaching the 2023 target of 6%. Inflation stood at around 3.17%, which is below the government's inflation target of 4.5%. Consequently, it is expected that the State Bank of Vietnam (SBV) will maintain its easing monetary policy to boost the economy. It is anticipated that the SBV will continue its efforts to reduce liquidity, with the goal of increasing the overnight (ON) rate and narrowing the gap between the USD and VND to stabilize the ongoing USD/VND exchange rate.

Figure 4. Interbank daily transaction



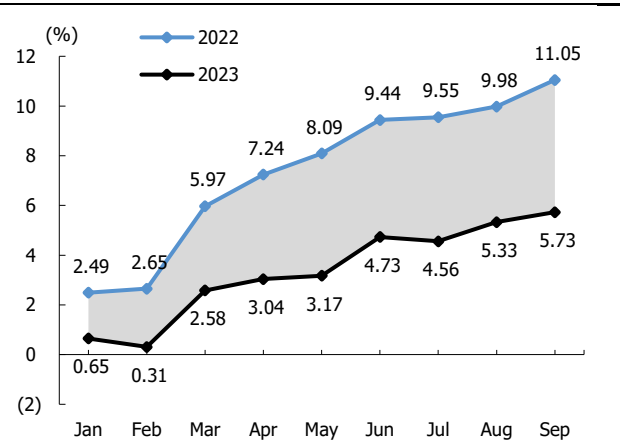
Source: SBV, Bloomberg, KISVN

Figure 5. Interbank rate curve



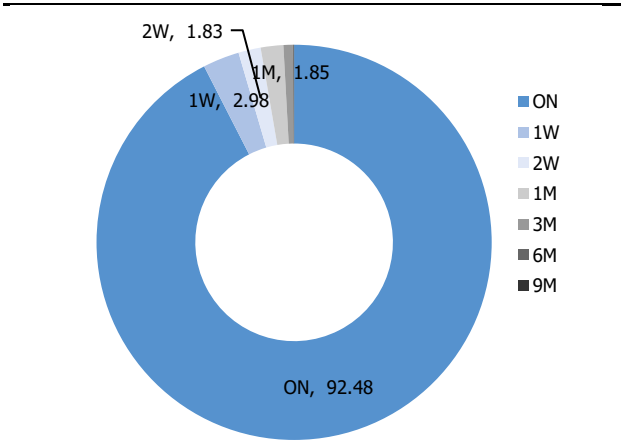
Source: SBV, Bloomberg, KISVN

Figure 6. Credit growth by month



Source: SBV, Bloomberg, KISVN

Figure 7. Interbank transaction structure



Source: SBV, Bloomberg, KISVN

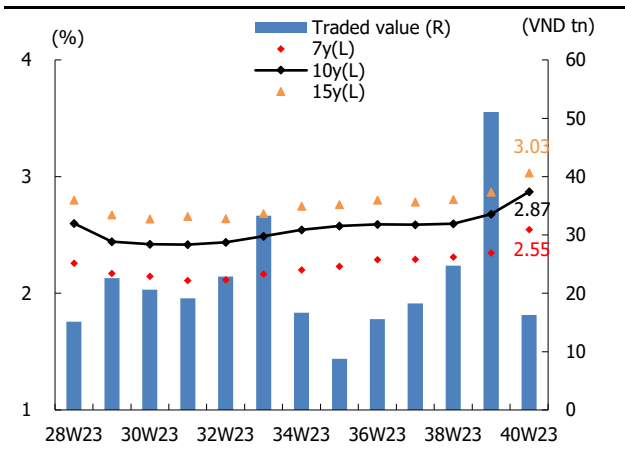
III. G-bond yields surge

Traders are betting on yields rise

In 40W23, trading G-bond yields surged dramatically given the global G-bond yields rising while the newly issuance Vietnam G-bond yields remained unchanged. Specifically, trading yields for 7-year, 10-year, and 15-year tenors surged by 20bps, 19bps, and 16bps – the most significant movement observed since it hit the lowest point. This yield rising was accompanied with a lower than four-week average trading volume, potentially implying the traders are cautious about the possibility of rising G-bond yields.

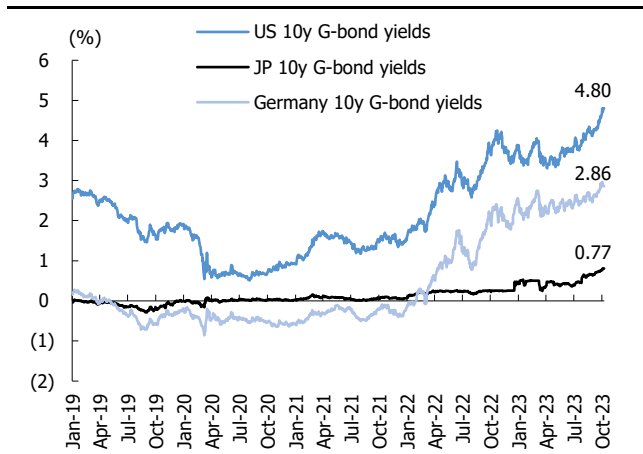
Looking into global bond market, the G-bond yields all are rising, hitting a new decade high as the market anticipated a “higher for longer” interest rate environment in response to stickier inflation given the “friend-shoring” trends and rising geopolitical risks. On the Vietnam yield-curve, the more notable pickup was seen in medium (7 to 15 years) and long (above 15 years) terms, reflecting the higher “term premium” required for unexpected surprises.

Figure 8. G-bond trading value



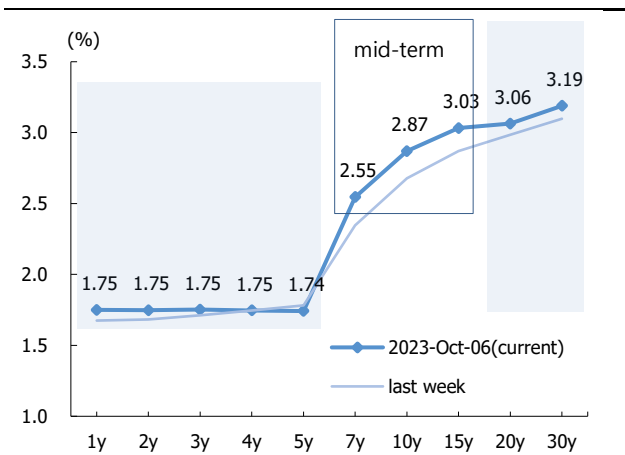
Source: HNX, KIS

Figure 9. G-bond yields: Major developed economies



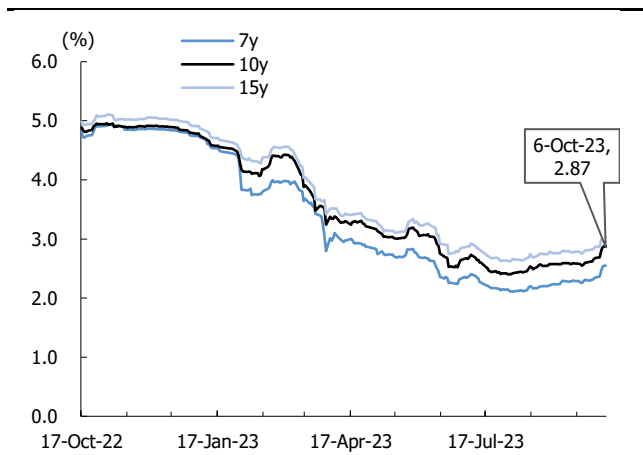
Source: Bloomberg, KIS

Figure 10. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 11. Historical daily government bond yield

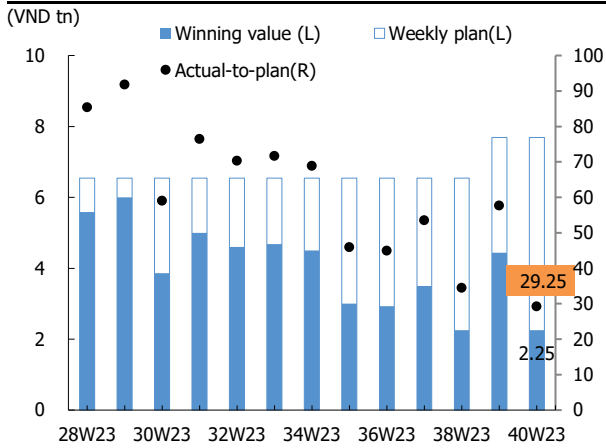


Source: HNX, VBMA, KIS

Winning yields hold unchanged

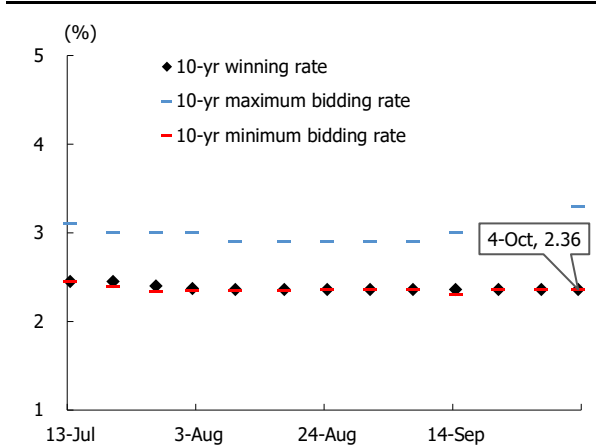
In G-bond issuance, the winning persisted for the last two months at 2.36% and 2.59% for 10-year and 15-year tenors, sustaining the cheap funding cost environment. Notably, both the bid-to-offer and absorption rates fell significantly to 0.97 and 39.13%, implying higher yields required by the buyers given SBV withdrew VND140.00tn from the banking liquidity.

Figure 16. Winning value by week



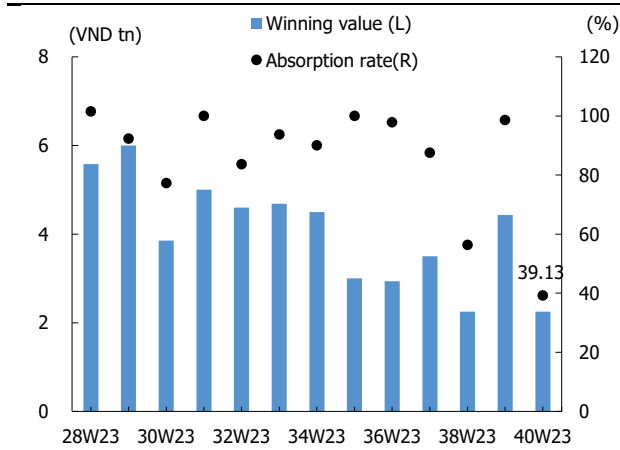
Source: HNX, KIS

Figure 17. Winning yields by week



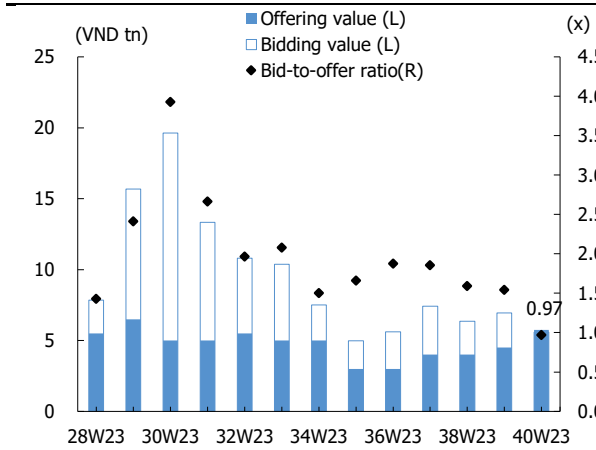
Source: HNX, KIS

Figure 18. Absorption ratio



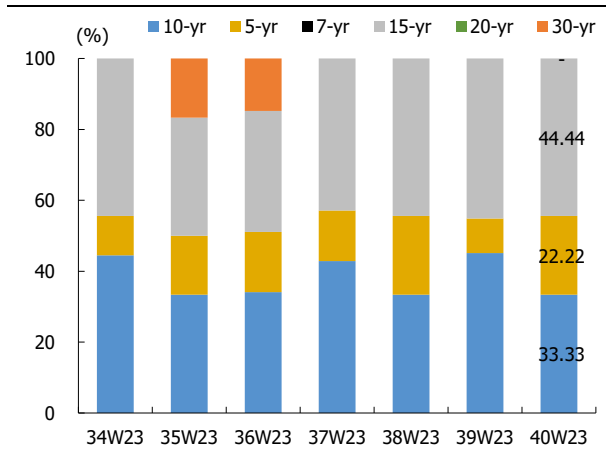
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



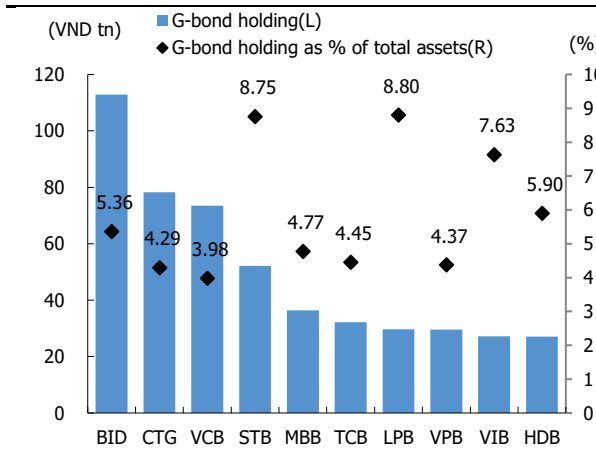
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

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



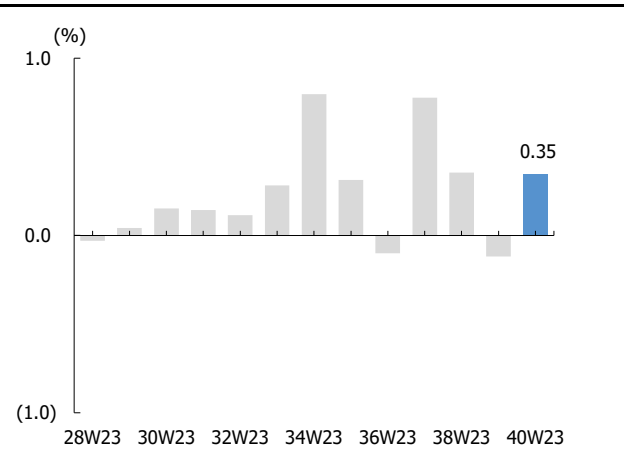
Source: HNX, FiiPro, KIS

IV. USDVND rebounds

USDVND rebounded by 0.35% WoW or 84bps this week after one-week cooling down thanks to SBV bill offerings. Nevertheless, the rising economic uncertainties and geopolitical risks are increasing the attractiveness of the greenback as a safe haven, partially contributing to the uprising of USDVND. Following 84bps increase in USDVND, VCB adjusted upwardly their bid/ask prices by 90/90bps to 24,180/24,500 while a more notably movement was seen in the shadow market, by 130/100bps to 24,500/24,550.

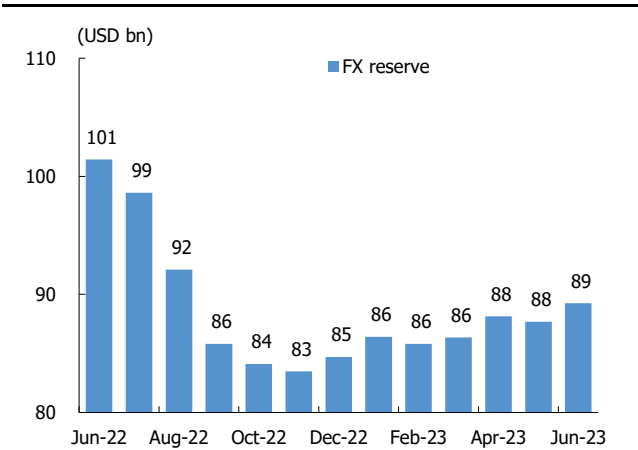
After two with offering bills, SBV has withdrew VND140.00tn from around VND170.00 excessive reserve (CITAD) of commercial banks at SBV, but the cooling impact on USDVND was limited. Also, we estimated the current foreign reserve of SBV is about USD89.00bn, up USD6.00bn YTD, still much lower than the peak of USD101.00bn in June 2022. Therefore, we expect that SBV would prioritize the exchange rate control over the interest rate side at the moment, given the depositing rate in Big Four banks is approaching the cheapest price in the pandemic, at 5.30% for 12-month tenor.

Figure 22. Weekly USDVND performance



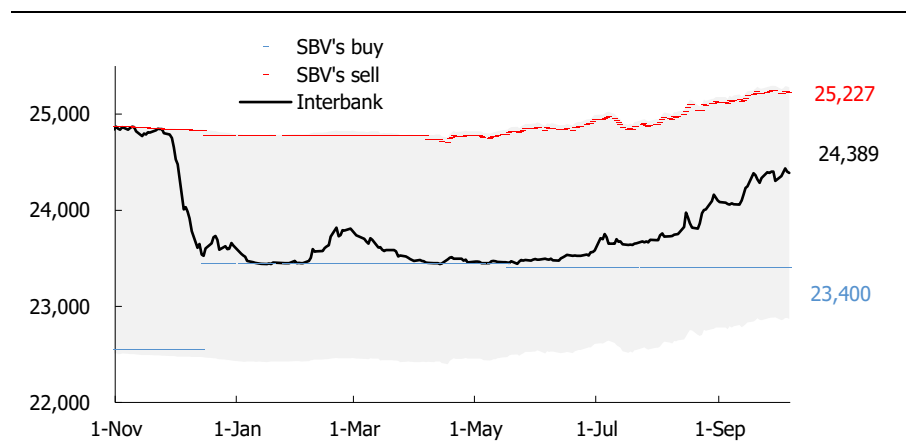
Source: SBV, Bloomberg

Figure 23. Vietnam's FX reserve



Source: Bloomberg, 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).

The dollar strength index barely moved over the week, hanging high at 106.04pts, further depressed most other currencies. By the end of the week, CNY, KRW, THB, EUR, and JPY all widened their depreciation against USD to 5.42%, 6.20%, 6.43%, 1.14%, and 12.20% YTD.

Figure 25. Historical DXY



Source: SBV, Bloomberg

Figure 26. Weekly performance of some currencies

	Regime	37W23	38W23	39W23	40W23
USDVND	Managed floating	0.78	0.35	-0.12	0.35
USDJPY	Floating	-0.15	0.12	0.07	-0.08
USDTHB	Floating	0.01	0.35	0.67	-0.03
USDKRW	Floating	1.08	-0.52	0.81	0.95
USDSGD	Basket-band-crawl	-0.93	0.32	-0.01	0.00
USDCNY	Managed floating	0.83	0.54	1.12	1.68
USDEUR	Floating	0.40	0.04	0.76	-0.12

Source: SBV, Bloomberg

Note: Green = appreciation; yellow = appreciate at slower pace; red = depreciation.

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, ~3.90%
- * Absorption rate = winning value / offering value, ~39.13%
- * Bid to offer ratio = offering value / bidding value, ~0.97
- * DXY = U.S. Dollar Index, ~106.04
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~1.00%

Appendix

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

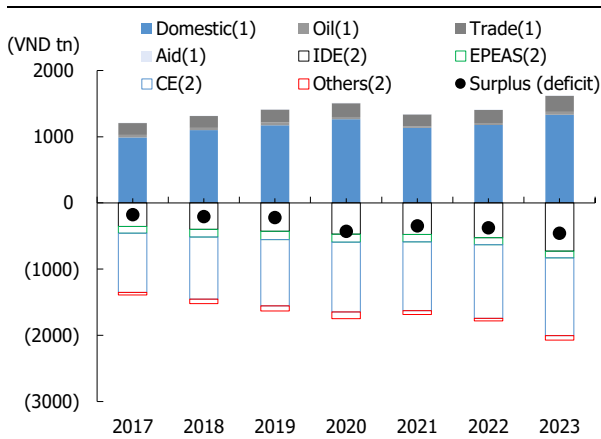
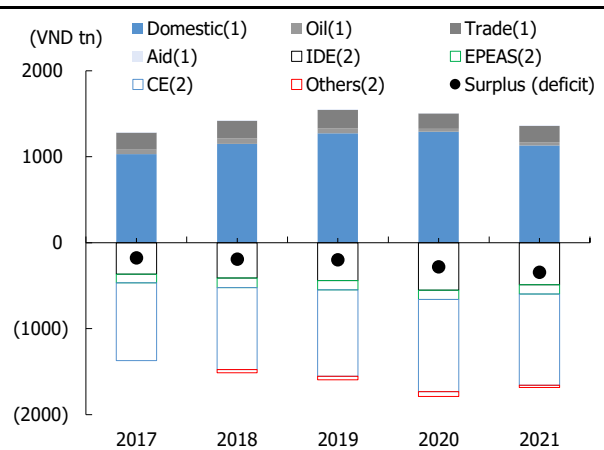


Figure 2. Vietnam's state budget by year: actual



Source: MoF, SBV, KIS

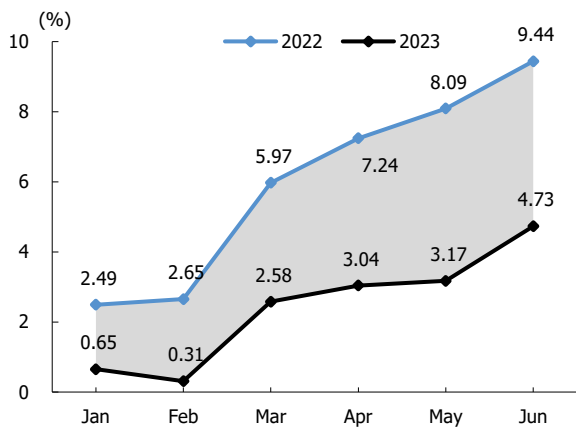
Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.

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

(1) indicates the item belongs to the revenue

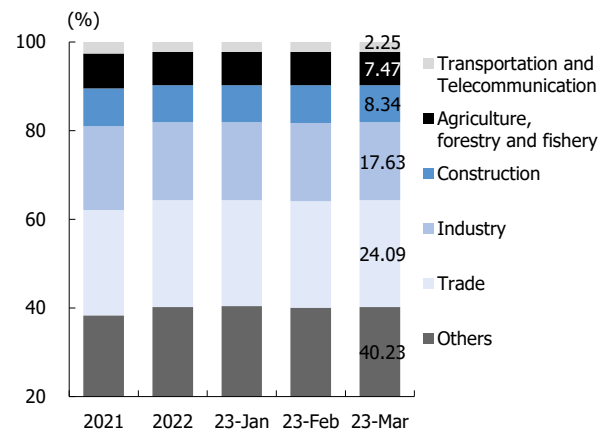
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



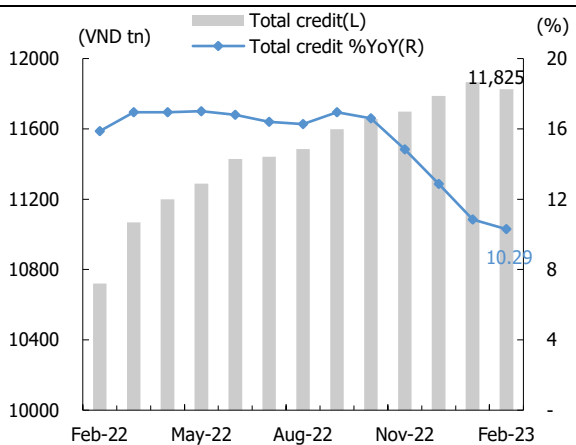
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



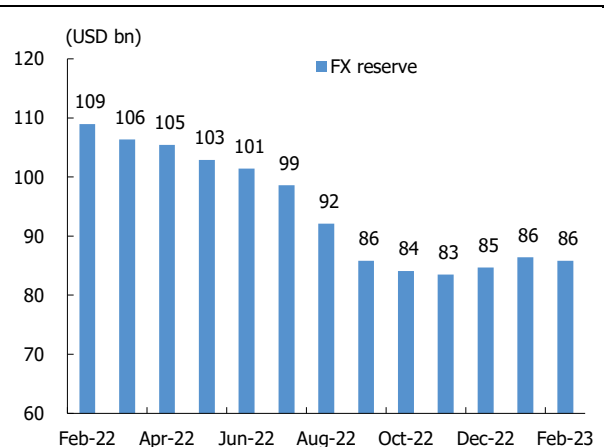
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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