

Fixed-income Perspectives

Short-term liquidity pressure eases

ON's drop accelerates

Interbank rates on short-term loans (2-week and below) accelerated their downturns with a slight decrease in total traded value, implying that liquidity demand in the money market has eased. Specifically, ON, 1-week, and 2-week rates dropped by 71bps, 78bps, and 50bps to 1.37%, 1.58%, and 2.03%. Although the gap between credit growth and deposit growth in the whole banking system increased this month, demand for funds to meet regulatory ratios generally was lower than March. This eased the liquidity pressure in this month and partly contributed for reductions in short-term interbank rates.

Yields rise amid a weak demand

According to HNX, there were four auction sessions of government bonds in April with a total winning amount of VND4.62tn, declining by 82.43% YoY and accounting for 1.16% of the 2022-plan of VND400tn approved by the National Assembly. April figures in the primary market show a lower-than-expected development of offering and consuming government debt securities. In the secondary market, HNX's statistics showed that government bond yields in April increased strongly with a lower traded value, implying that demand was weaker than last month. The selling pressure of government bonds was significant in most-traded tenors including, 10 years, 15 years, and seven years, with an average decrease of 56pts while the remaining tenors averagely decreased by 43-45pts compared to March-end.

KIS leading economic index

(USD bn, %, % QoQ, % YoY)

	1Q21	2Q21	3Q21	4Q21	2019	2020	2021F
GDP	4.48	6.61	(6.02)	2.58	7.02	2.91	2.58
Trade balance	2.82	(3.75)	(1.00)	5.22	10.42	19.01	4.61
CPI	0.30	2.67	2.16	1.89	5.23	3.24	1.84
Discount rate	3.00	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,076	23,020	22,761	22,790	23,231	23,255	22,790
US GDP	NA	NA	7.90	NA	2.29	(3.41)	5.97
China GDP	NA	NA	6.00	NA	5.95	2.34	8.02

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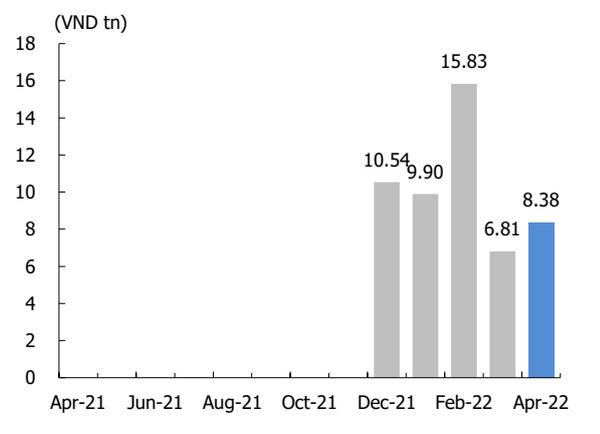
I. SBV extends its support

The central bank extends its support of short-term liquidity

In April, SBV extended its support of short-term funding to the money market by using 14-day repo contracts with a total value of VND8.38tn in the context of the high credit growth from the beginning of this year.

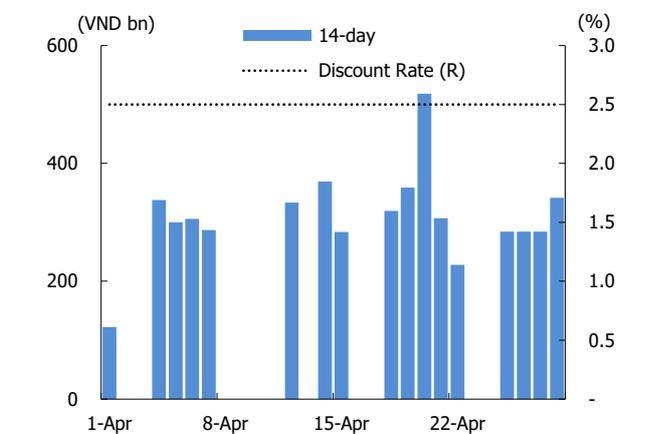
The daily OMO issuance was consistently high and seemed to be a continuation of the offering started at the end of March, implying that the support of the SBV could last through the next month as the short-term liquidity problems of several counterparties remain. Despite the consistent offering, SBV still holds the discount rate at 2.50%, reflecting its effort to keep the short-term funding cost low.

Figure 1. Repo issuance by month



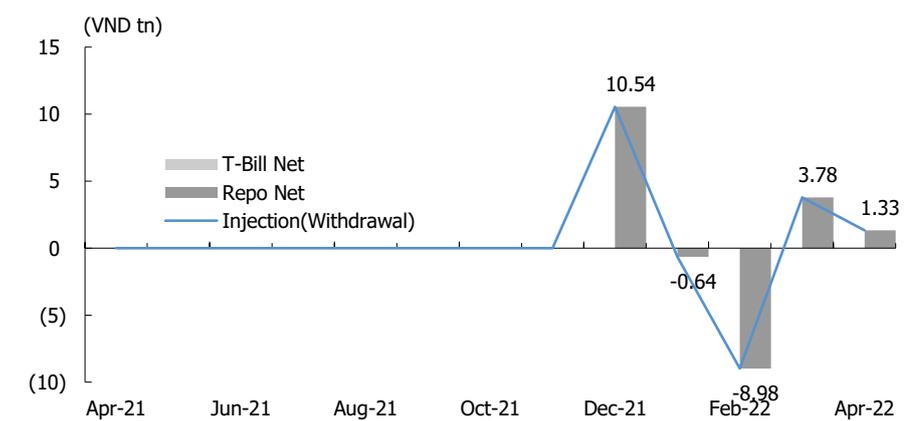
Source: SBV, Bloomberg, KIS

Figure 2. Repo transaction by day



Source: SBV, Bloomberg, KIS

Figure 3. Net Injection/Withdrawal



Source: SBV, Bloomberg, KIS

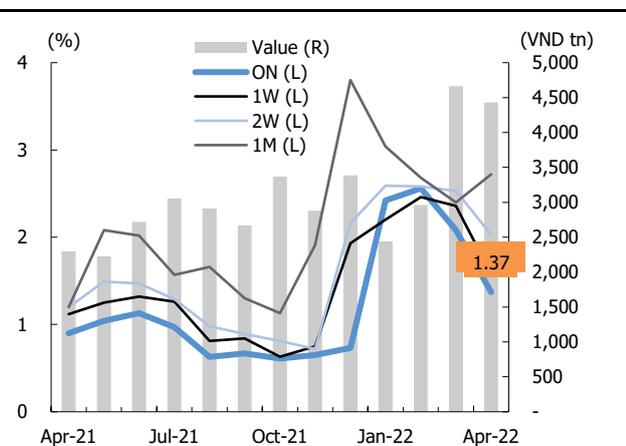
Regarding the monetary stance in 2022, although the government mentioned several monetary policy solutions in the program of socio-economic recovery and development, its contribution in bringing the economy back to normalcy is limited. According to SBV's governor, the conduction of monetary policy in 2022 would be flexible due to the limited space and the central bank would dynamically inject or eject money based on the economic condition due to its short-term nature. In detail, the government proposed to lower the lending rate 0.5% - 1.0% per year in the 2022-2023 period and to retain the extension of the

loan's payment period and the debt classification to COVID-19-affected enterprises. Global commodities prices have soared recently and put upward pressure on inflation, raising concern for SBV to adjust monetary policies to limit the negative impact and meet the government's target of 4%. However, current inflation was attributable to the cost-push phenomena while domestic demand remained weak. Thus, fiscal policies were more feasible in curbing the external shocks than those in the monetary framework. Given those clues, we predict that SBV could be active in the money market to stabilize the short-term liquidity of the banking system rather than increasing the policy rate to respond to the expectedly high inflation.

II. ON's drop accelerates

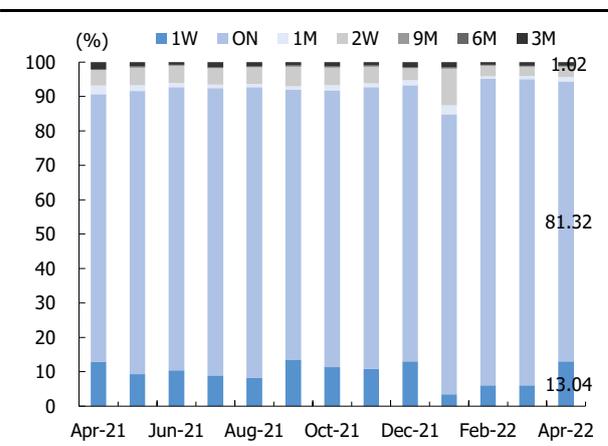
Interbank rates on short-term loans (2-week and below) accelerated their downturns with a slight decrease in total traded value, implying that liquidity demand in the money market has eased. Specifically, ON, 1-week, and 2-week rates dropped by 71bps, 78bps, and 50bps to 1.37%, 1.58%, and 2.03%. Their reduction magnitudes were 23bps-, 68bps-, and 45bps-larger than those in March. Traded value slightly decreased by 4.98% MoM to VND4,430.31tn this month. Banks kept focusing on short-lived tenors in the transaction structure, with the proportion of ON and 1-week loans unchanged at around 81.32% and 13.04% of the total trading value, respectively.

Figure 4. Interbank transaction



Source: SBV, KIS

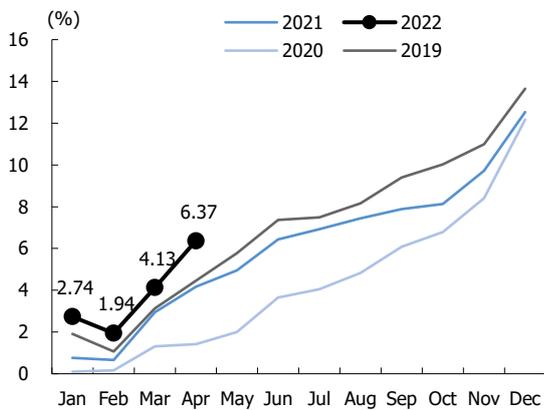
Figure 5. Interbank value by tenors



Source: SBV, KIS

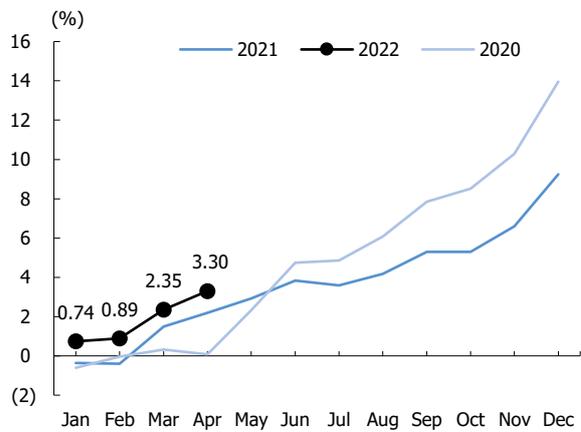
Although the gap between credit growth and deposit growth in the whole banking system increased this month, demand for funds to meet regulatory ratios generally was lower than March. This eased the liquidity pressure in this month and partly contributed for reductions in short-term interbank rates.

Figure 6. Credit growth by month



Source: SBV, KIS

Figure 7. Deposit growth by month



Source: SBV, KIS

III. Yields rise amid a weak demand

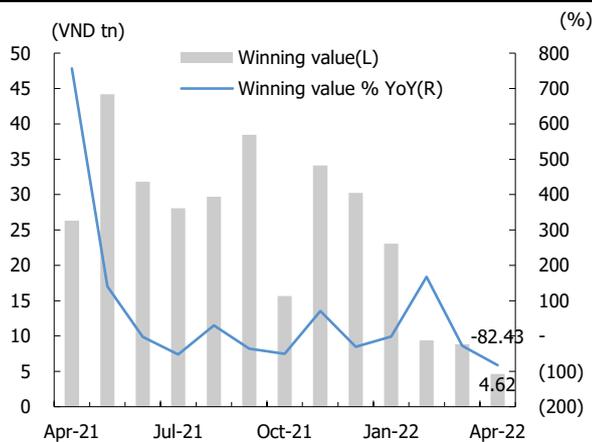
Banks lose appetite for G-bonds under tightening interest rate conditions

Primary government bond market:

According to HNX, there were four auction sessions of government bonds in April with a total winning amount of VND4.62tn, declining by 82.43% YoY and accounting for 1.16% of the 2022-plan of VND400tn approved by the National Assembly. 10-year and 15-year, the two most traded tenors in the secondary market, still account for the most portions in total issuing value this month at 43.29%.

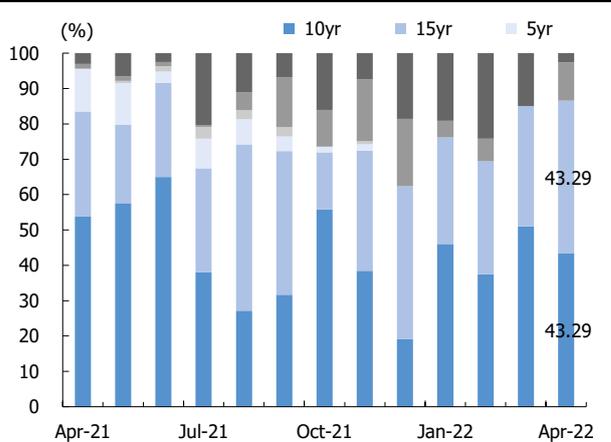
Regarding the issuance status from the beginning of 2022, the total value of government bonds sold to investors was VND46.772bn, accounting for just 3.85% and 11.48% of quarterly and annual targets, respectively. April figures in the primary market show a lower-than-expected development of offering and consuming government debt securities.

Figure 8. Winning value by month



Source: HNX, KIS

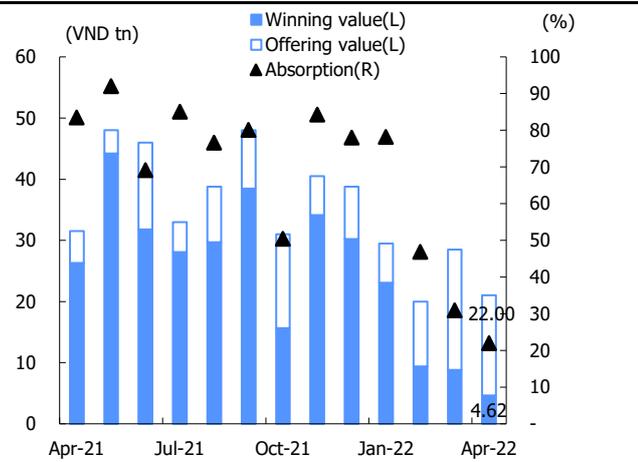
Figure 9. Winning value by tenor



Source: HNX, KIS

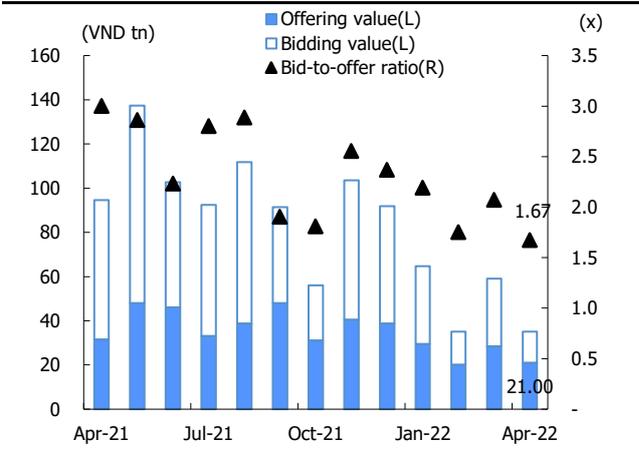
Furthermore, bidding and absorption aspects provide more details of the gloomy bond market in recent months. Bid-to-offer and win-to-offer ratios reduced further to reach 2022-lows at 1.67x and 22.00% respectively, partly reflecting that investors were not willing to participate at the current high interest rate.

Figure 10. Absorption ratio



Source: HNX, KIS

Figure 11. Bid-to-offer ratio



Source: HNX, KIS

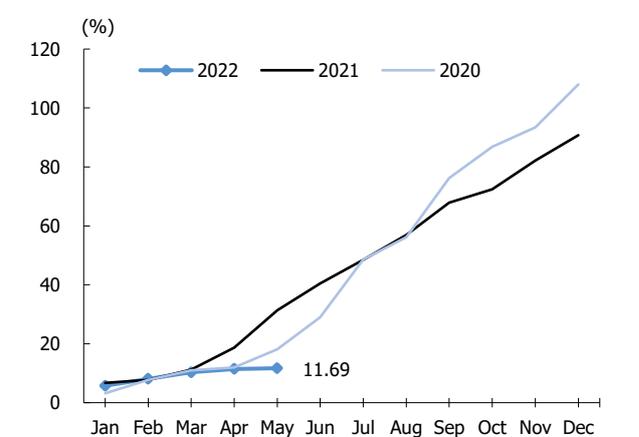
On the supply side, the speed of disbursement of public investment was lower than both plan and the same period last year, although the government employed several relevant policies to accelerate the progresses of projects under the post-pandemic economic development and recovery program. A slower-than-expected disbursement partly reduced the demand for issuing government bonds for financing the state budget.

Figure 12. Quarterly government bond issuance plan

Period	Quarterly plan (VND bn)	% YoY	Annual plan (VND bn)
1Q21	100,000	81.82	455,000
2Q21	100,000	53.85	455,000
3Q21	120,000	(7.69)	455,000
4Q21	135,000	89.34	455,000
1Q22	105,000	5.00	400,000
2Q22	120,000	20.00	400,000
3Q22			400,000
4Q22			400,000

Source: HNX, KIS

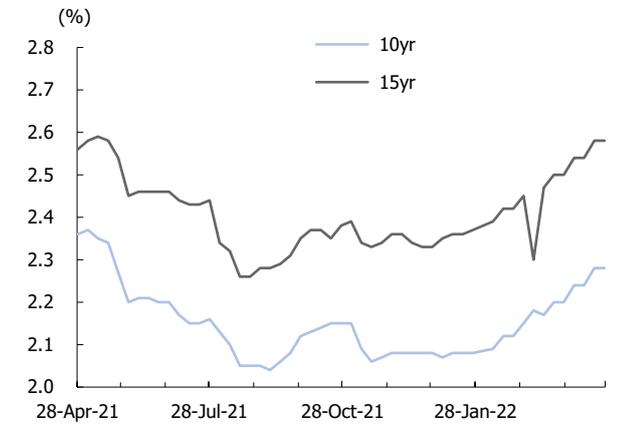
Figure 13. Actual-to-plan issuance by year



Source: HNX, KIS

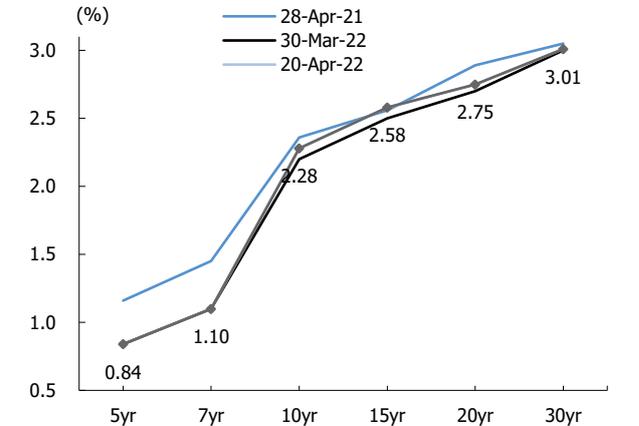
On the demand side, outstanding loans accelerated in April, lowering the availability of funds for investing in bonds. In addition, deposit rates tended to be higher, rising costs for government bond investments and making them less attractive.

Figure 14. Winning yield by tenor



Source: HNX, KIS

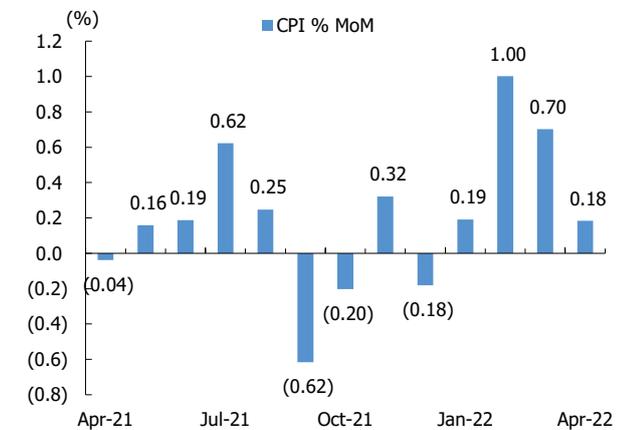
Figure 15. Yield curve in primary market



Source: HNX, KIS

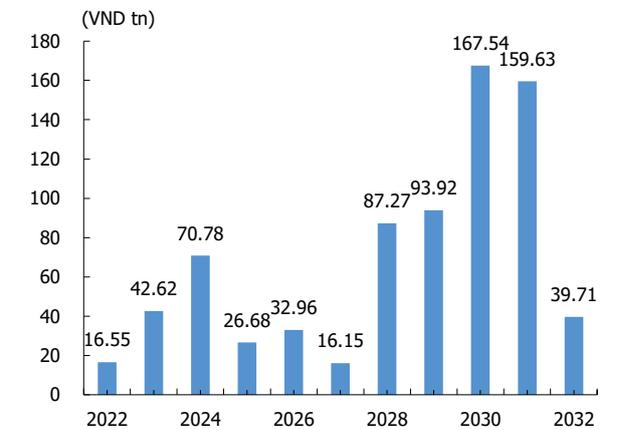
Although the primary bond market continued to be gloomy in April, winning yields generally were higher than those in March, partly reflecting the more sizeable decline from the demand side. Inflationary pressures increased, under the surge of global commodity prices, causing long-term investors to require a higher interest premium for holding government bonds. In addition, the maturity value of previous issuances in the coming months will continue to remain low, making rollover demand of commercial banks and insurance companies limited.

Figure 16. CPI by month



Source: HNX, KIS

Figure 17. Maturity value by year



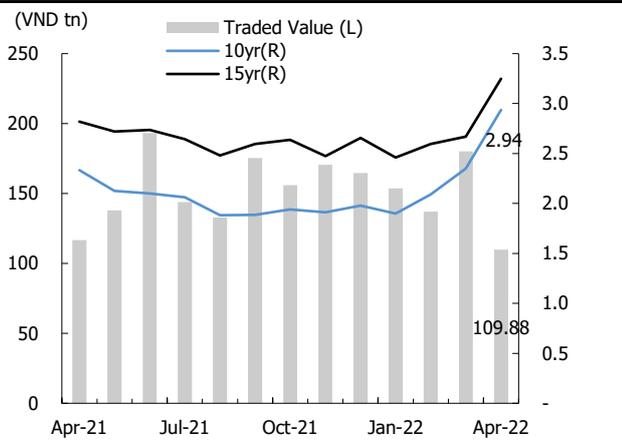
Source: HNX, KIS

Trading activity slowed down when yields rose further

Secondary government bond market:

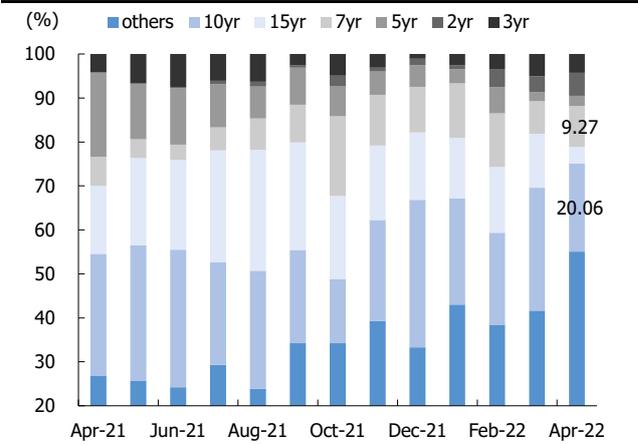
HNX's statistics showed that government bond yields in April increased strongly with a lower traded value, implying that demand was weaker than last month. More specifically, the 10-year yield reached 2.94% at the end of this month, 59pts-higher than March's level while the traded value significantly decreased by 38.96% MoM. The selling pressure of government bonds was significant in most-traded tenors including, 10 years, 15 years, and seven years, with an average decrease of 56pts while the remaining tenors averagely decreased by 43-45pts compared to March-end.

Figure 18. G-bond trading value



Source: HNX, KIS

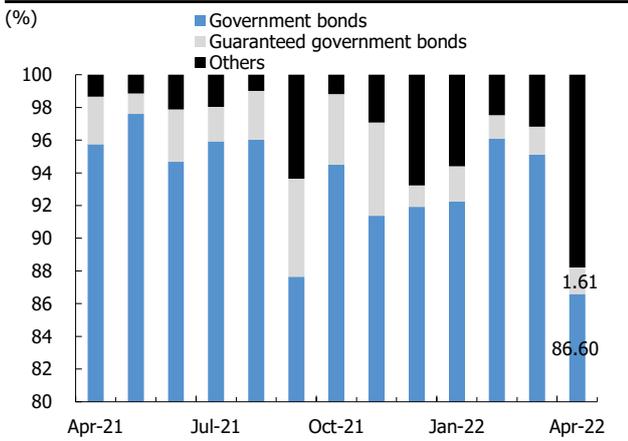
Figure 19. Trading value by tenor



Source: HNX, KIS

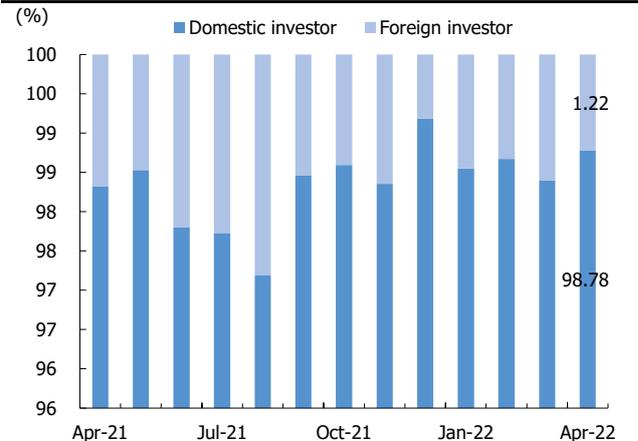
By bond type, 86.60% of the total trading value (VND95.15tn) was from the government bonds, while the remaining 1.61% (VND1.77tn) was from trading on government-guaranteed bonds. Regarding investor type, a trading activity made by domestic investors took up to 98.78% of the trading value, and the rest 1.22% was coming from foreign investors.

Figure 20. Trading value by bond type



Source: HNX, KIS

Figure 21. Trading value by investor

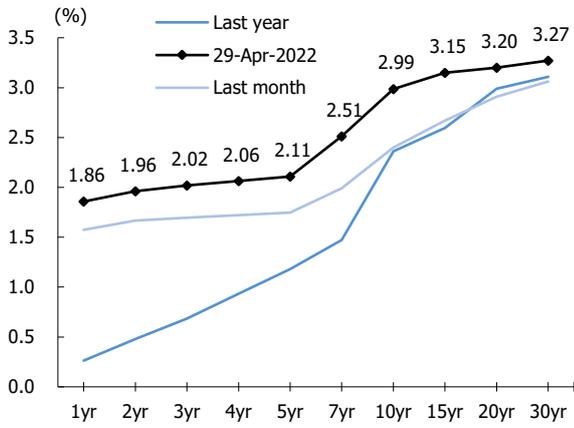


Source: HNX, KIS

Improved liquidity condition in money market loosen pressure on short-term bonds.

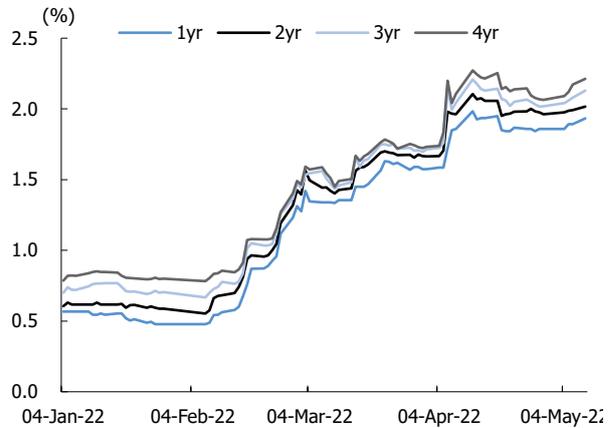
Although the yield curve shifted upwardly in April, the pattern seems to reverse compared to the previous month. Specifically, upward pressure focused more on the higher terms (from 7 years) while increases in shorter terms (equal or less than 5 years) were less aggressive. This development was attributable to the easing condition on the money market where interbank rates generally reduced this month.

Figure 22. G-bond yield curve



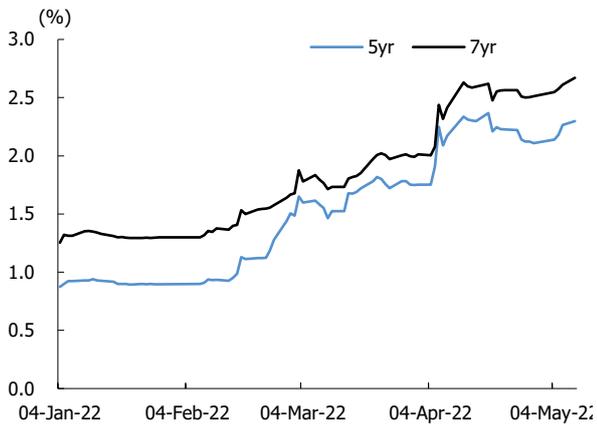
Source: HNX, VBMA, KIS

Figure 23. Short-term yields



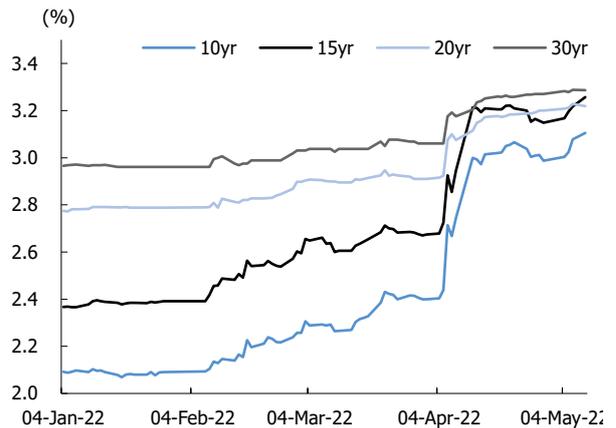
Source: HNX, VBMA, KIS

Figure 24. Medium-term yields



Source: HNX, VBMA, KIS

Figure 25. Long-term yields



Source: HNX, VBMA, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	21-Nov	21-Dec	22-Jan	22-Feb	22-Mar	22-Apr	2Q21	3Q21	4Q21	1Q22	2018	2019	2020	2021
Real GDP growth		5.22			5.03		6.61	-6.02	5.22	5.03	7.08	7.03	2.91	2.58
Registered FDI	3.02	1.59	2.73	4.69	2.1	2.89	5.14	6.88	9.01	8.91	35.47	38.02	28.53	31.15
GDP per capita											3,202	3,398	3,521	3,725
Unemployment rate		3.56			2.46		2.62	3.98	3.56	2.46	2.21	2.25	2.48	3.22
Export	31.87	34.52	30.84	22.95	34.061	33.258	79.95	82.12	95.26	86.01	243.5	263.6	282.7	335.7
Import	30.61	31.98	29.45	25.28	32.672	32.189	83.7	83.12	88.72	87.45	236.7	254.4	263	331.1
Export growth	26.27	24.82	8.05	13.22	14.86	25.27	34.74	2.99	20.43	9.71	13.19	8.16	7.02	18.74
Import growth	23.96	14.59	11.3	21.86	14.81	15.89	45.79	18.85	15.42	15.72	11.01	7.41	3.81	25.9
Inflation	2.1	1.81	1.94	1.68	2.41	2.64	2.67	2.51	1.89	1.92	3.54	2.79	3.24	1.84
USD/VND	22,729	22,790	22,663	22,820	22,837	22,968	23,020	22,761	22,790	22,837	23,175	23,173	23,126	22,790
Credit growth	10.1	12.97	2.74	1.82	4.13	6.37	6.44	7.88	12.97	4.13	10.77	13.75	12.17	12.97
10Y gov't bond	2.09	2.11	2.09	2.24	2.40	2.99	2.21	2.14	2.11	2.40	5.07	3.37	2.01	2.11

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