

# Fixed-income Perspectives

## Short-term costs temporarily return cheaper

### SBV locally offers liquidity

In May, SBV continued to offer 14-day repo contracts of VND5.75tn, 31.40%-lower than April's issued value, to support a few liquidity-troubled counterparties. A lower injection this month resulted in a net withdrawal of VND3.16tn when previous offerings came into expired, implying the liquidity pressure in the banking system was easing.

### ON hits the year-low

Interbank rates in May dropped strongly to year-lows with a slight reduction in traded value, implying that demand has become lower. Specifically, ON, 1-week, and 2-week (most short-dated tenors) reduced sharply by 104 basis points (bps), 32bps, and 31bps to 0.33%, 1.26%, and 1.72%, respectively. This is the first time in 2022 that the ON rate traded below the 1%. In the opposite direction, 1-month and 2-month rates rose by 59bps and 29bps to post 3.31% and 3.26%, respectively. The total traded value in this period was VND4,248.08tn, decreasing slightly by 4.11% compared to April.

### Sluggish auction amid higher yields

May witnessed the sluggish transaction in the primary market under the divergent opinion between supply and demand sides. According to HNX, the total winning amount in May was VND7.91tn, declining by 82.10% YoY and accounting for 1.98% 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 44.25% and 48.93%, respectively.

### KIS leading economic index

	2Q21	3Q21	4Q21	1Q22	2019	2020	2021
GDP (%)	6.61	(6.02)	2.58	5.03	7.02	2.91	2.58
Trade balance (USD bn)	(3.75)	(1.00)	5.22	0.82	10.42	19.01	4.61
CPI (%)	2.67	2.16	1.89	1.93	5.23	3.24	1.84
Discount rate (%)	3.00	3.00	3.00	3.00	4.00	3.00	3.00
USD/VND	23,020	22,761	22,790	22,870	23,231	23,255	22,790
US GDP (%)	NA	7.90	NA	NA	2.29	(3.41)	5.97
China GDP (%)	NA	6.00	NA	NA	5.95	2.34	8.02

Source: KIS

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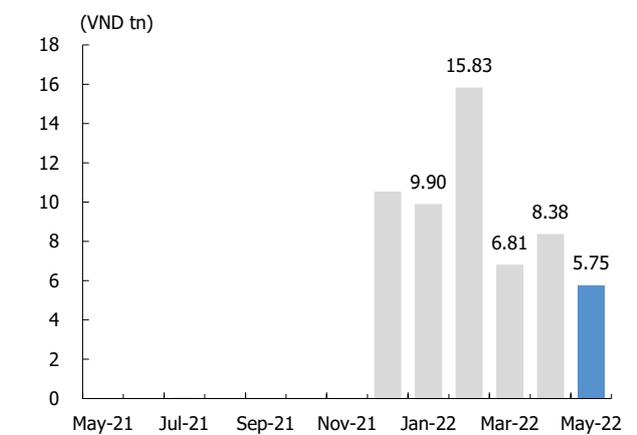
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# I. SBV locally offers liquidity

**SBV keeps injecting liquidity with a smaller magnitude**

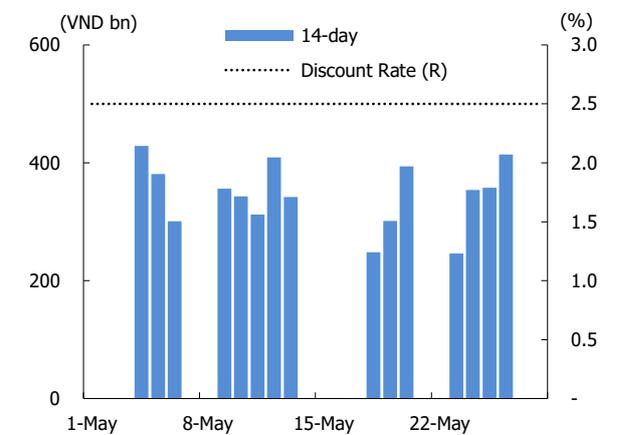
In May, SBV continued to offer 14-day repo contracts of VND5.75tn, 31.40% lower than April's issued value, to support a few liquidity-troubled counterparties. A lower injection this month resulted in a net withdrawal of VND3.16tn when previous offerings came into expired, implying the liquidity pressure in the banking system was easing. The decreasing offering of the central bank, via open market operations, was attributable to the shift in short-term liquidity conditions in the interbank market when the overnight rate has not yet traded closely at 2.50% of the discount rate.

**Figure 1. Repo issuance by month**



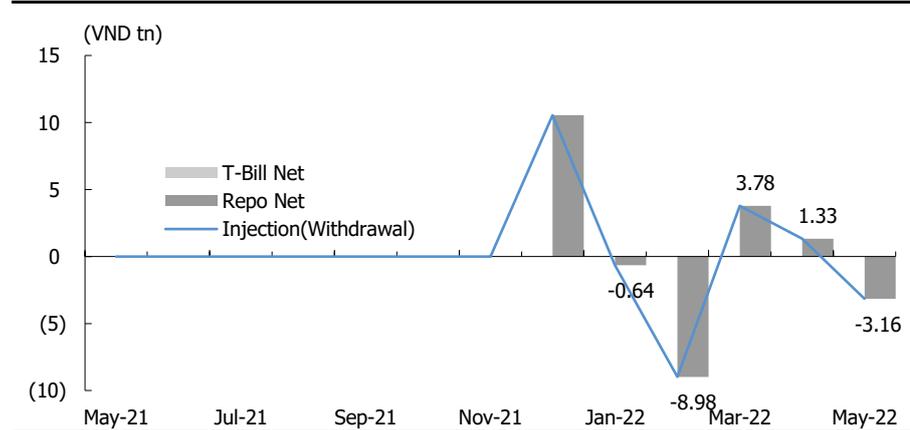
Source: SBV, Bloomberg, KIS

**Figure 2. Repo transaction by day**



Source: SBV, Bloomberg, KIS

**Figure 3. Net Injection/Withdrawal**



Source: SBV, Bloomberg, KIS

In 1H22, SBV mainly concentrated on the stability of the banking system with stricter monitoring of credit quality while playing a limited role in the program of socio-economic recovery and development. Given unexpectedly high credit growth, SBV has delayed the extension of credit rooms for banks hitting quota and restricted lending activities from sensitive sectors, including securities and real estate. This movement aims to preserve the safety of the whole banking system from potential risks.

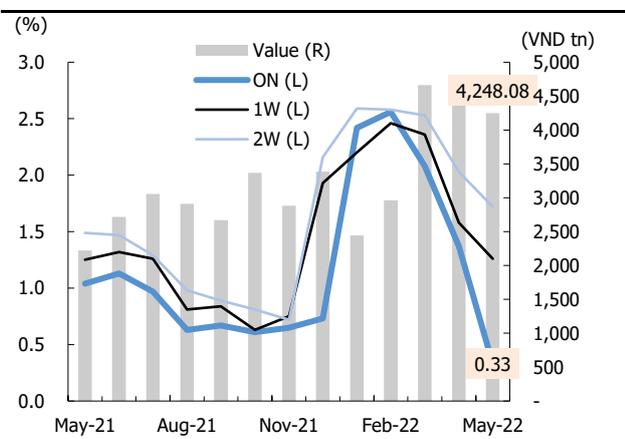
However, we predict that monetary policy in the rest of 2022 could be more

easing based on several reasons. First, the government recently issued Decree 31/2022/ND-CP on supporting 2% interest rates from the state budget for loans of enterprises, business households, and co-operatives. We forecast that the policy would lower the cost of funding and affect positively the credit growth of the banking system. Hence, SBV would likely approve more room for banks to deploy the support package. Second, inflation was still under control, providing space for the central bank to follow easing monetary policy to encourage domestic consumption. Furthermore, although prices of global commodities generally remain high, fiscal policy was more appropriate in dealing with the cost-push inflation than monetary policy. Third, domestic consumption was still on the recovery path and could be a key element driving economic growth in the second half.

## II. ON hits the year-low

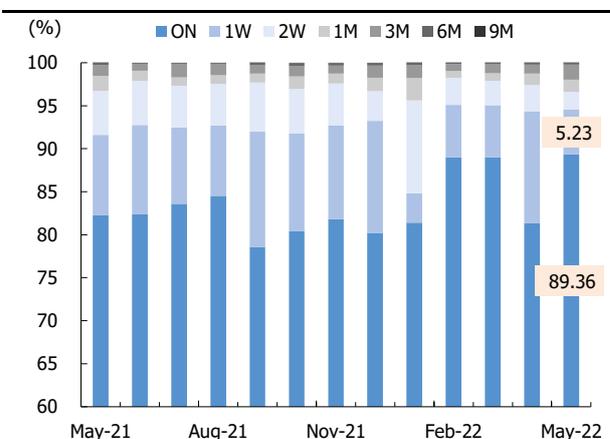
Interbank rates in May dropped strongly to year-lows with a slight reduction in traded value, implying that demand has become lower. Specifically, ON, 1-week, and 2-week (most short-dated tenors) reduced sharply by 104 basis points (bps), 32bps, and 31bps to 0.33%, 1.26%, and 1.72%, respectively. This is the first time in 2022 that the ON rate traded below the 1%. In the opposite direction, 1-month and 2-month rates rose by 59bps and 29bps to post 3.31% and 3.26%, respectively. The total traded value in this period was VND4,248.08tn, decreasing slightly by 4.11% compared to April.

**Figure 4. Interbank transaction**



Source: SBV, KIS

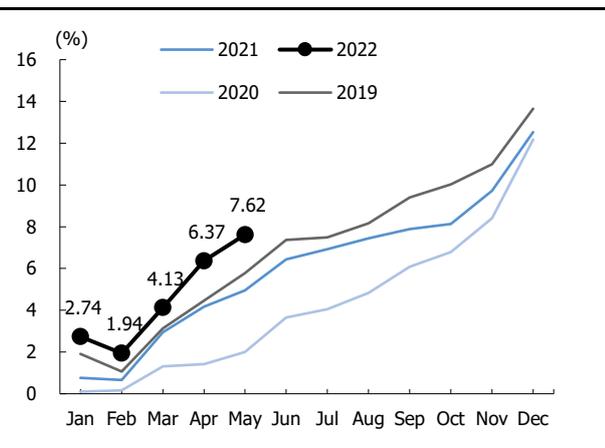
**Figure 5. Interbank value by tenors**



Source: SBV, KIS

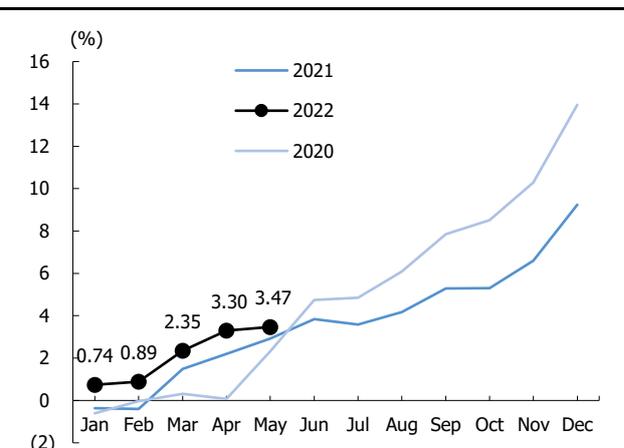
We assert that SBV's control of credit quality could be the reason for ON to continue significantly drop this month. We see that the traded value in interbank market has surged with much higher funding costs from March under surprised increase in borrowing activities in the first lending market. This development was attributable to the funding shortage when deposit growth was far lower than the credit growth. Commercial banks tend to rely more on borrowing in the money market, resulting in a consistently high in recent months. However, the SBV's tightening policy prevents the upward momentum of credit growth, partly causing the previous-settled funding redundant and reduce the rollover demand. Therefore, interest rates on loans with short-dated tenors witnessed most reductions this month.

**Figure 6. Credit growth by month**



Source: SBV, KIS

**Figure 7. Deposit growth by month**



Source: SBV, KIS

Although interest rate were facing sharp reduction, we predict that it would increase soon due to liquidity demand for regulatory ratios, the settlement of previous FX forward contracts, and potential growth in the first lending market. First, deposits continued growing less than credit in May, generally resulting in a higher loan-to-deposit ratio (LDR) for the whole banking system. Banks, therefore, would increase their fund-seeking activities to meet SBV’s requirements. Second, SBV increased the selling price of USDVND by 200pts to 23,250 dong for one dollar, causing the spot USDVND to exceed the previous USDVND selling price of 22,050. Banks would require more funds to exercise their in-the-money forward contracts, adding upward pressure on the money market. Third, although it was unclear whether SBV would extend credit rooms for banks or not, it was worth noting that the unexpectedly high credit growth, which resulted from pent-up demand for lending over two years of the pandemic, would create liquidity pressure in the money market.

### III. Sluggish auction amid higher yields

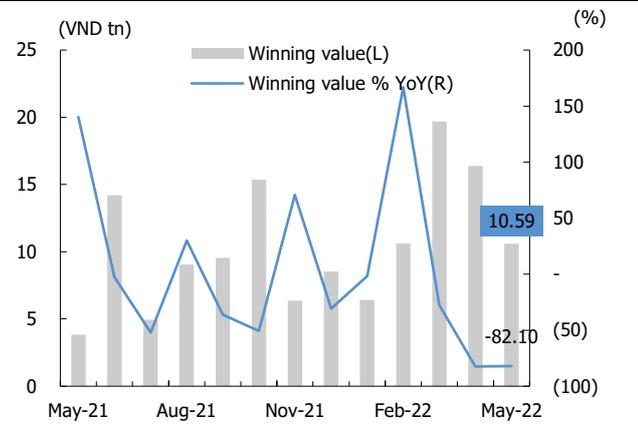
#### Primary government bond market:

May witnessed the sluggish transaction in the primary market under the divergent opinion between supply and demand sides. According to HNX, there were four auction sessions of government bonds in May with a total winning amount of VND7.91tn, declining by 82.10% YoY and accounting for 1.98% 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 44.25% and 48.93%, respectively.

Regarding the issuance status from the beginning of 2022, the total value of government bonds sold to investors was VND53.81tn, accounting for just 10.44% and 13.45% of quarterly and annual targets, respectively. May figures in the primary market show lower-than-expected offering and consuming of government debt instruments.

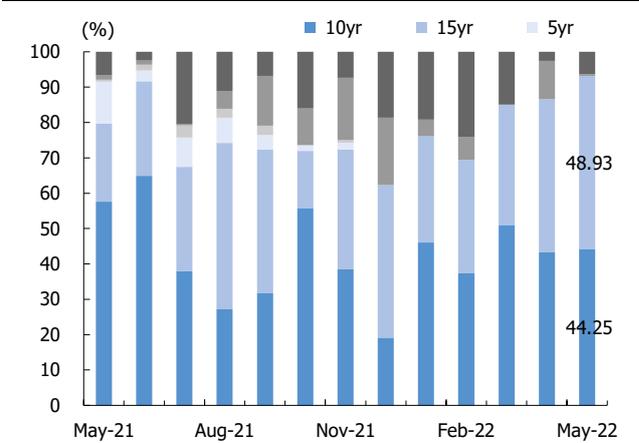
**Banks lose appetite for G-bonds under tightening interest rate conditions**

**Figure 8. Winning value by month**



Source: HNX, KIS

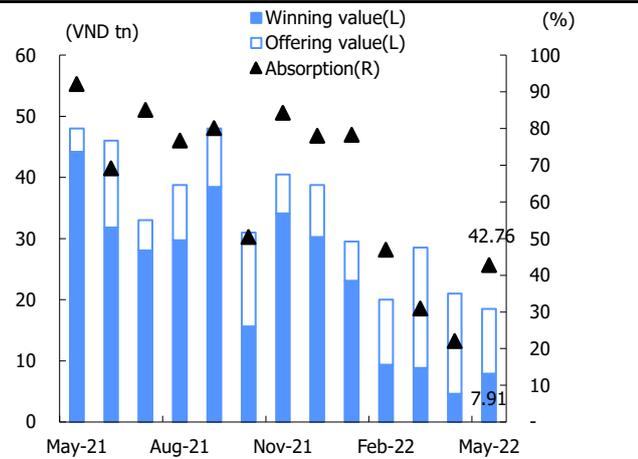
**Figure 9. Winning value by tenor**



Source: HNX, KIS

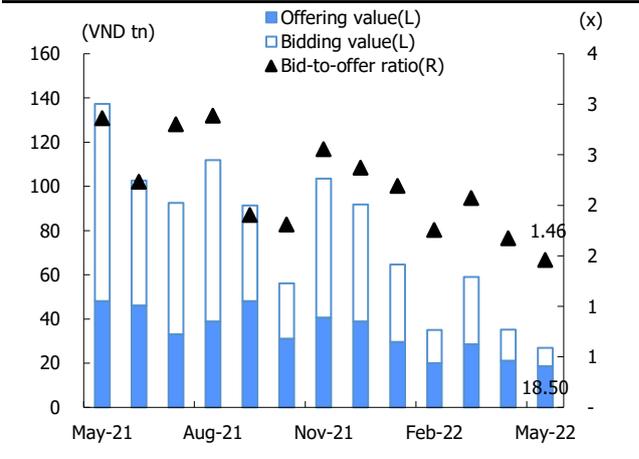
Furthermore, bidding and absorption aspects provide more details of the gloomy bond market in recent months. Bid-to-offer ratio rebounded from the year-low with a higher offered yield, while win-to-offer ratios reduced further to reach 2022-lows at 1.46x, partly reflecting that investors were expecting a more favorable yield.

**Figure 10. Absorption ratio**



Source: HNX, KIS

**Figure 11. Bid-to-offer ratio**



Source: HNX, KIS

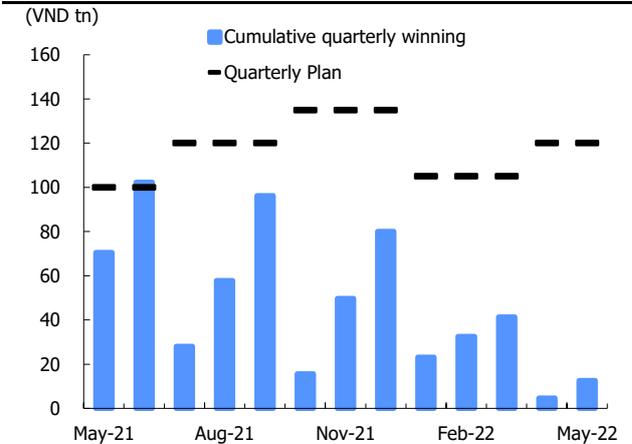
On the supply side, the speed of disbursement of public investment was lower-than-expected, although the government has introduced several measures to accelerate the progress of public projects under the post-pandemic economic development and recovery program. The underperformed disbursement partly reduced 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

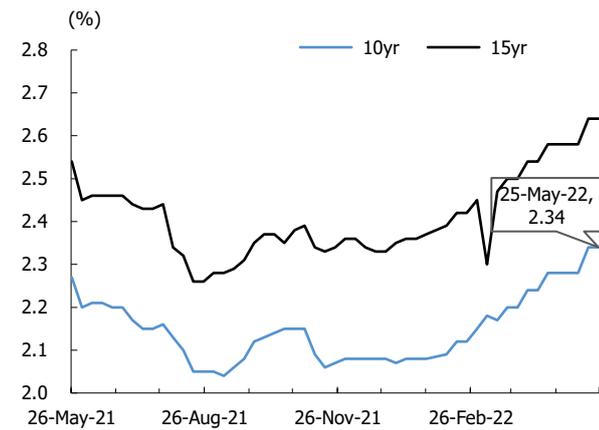
**Figure 13. Actual-to-plan issuance by year**



Source: HNX, MoF, KIS

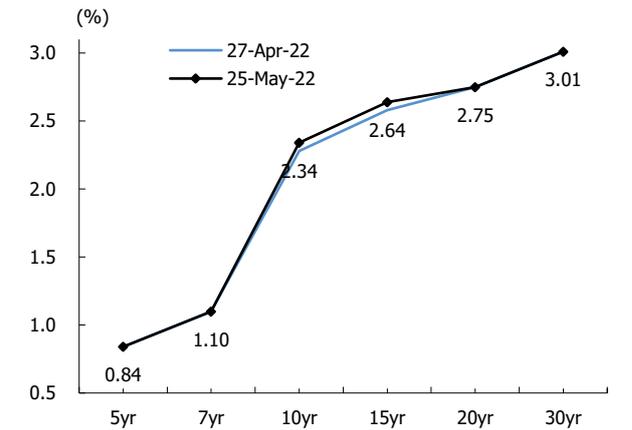
On the demand side, outstanding loans accelerated in May, lowering the fund availability for investing in bonds. In addition, deposit rates tended to be higher, rising costs for government bond investments and making them less attractive.

**Figure 14. Winning yields of 10yr and 15yr govt bond**



Source: HNX, KIS

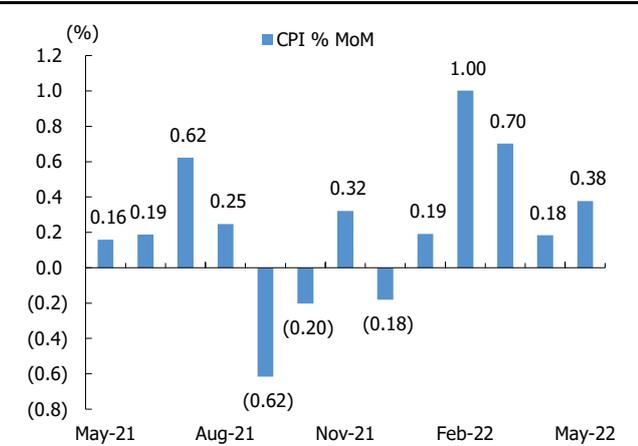
**Figure 15. Yield curve in primary market**



Source: HNX, KIS

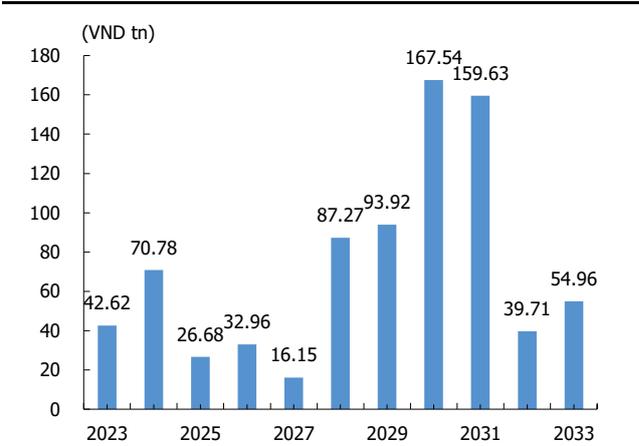
Although the primary bond market continued to be gloomy in May, winning yields were higher than in April. This increase partly reflects the more sizeable decline from the demand side. Inflationary pressures increased, under the surge of global commodity prices, causing long-term investors to require a higher interest premium for holding government bonds. Besides, U.S. government bond yields have increased sharply under the fear of inflation, resulting in a higher cost of offshore borrowing. Banks, therefore, could require a higher yield for their more expensive investments. In addition, the maturity value of previous issuances in the coming months will continue to remain low, making the rollover demand of commercial banks and insurance companies limited.

**Figure 16. CPI by month**



Source: HNX, KIS

**Figure 17. Maturity value by year**



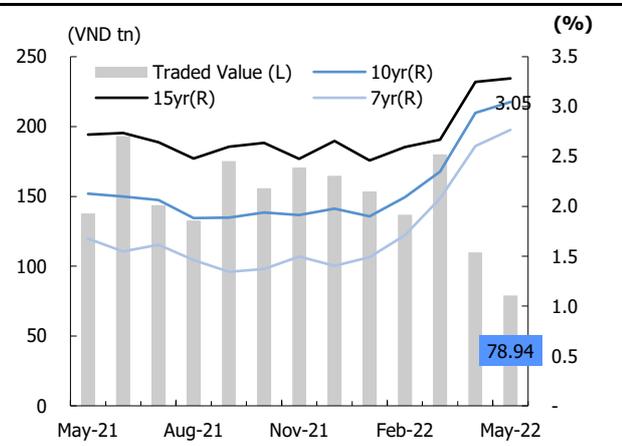
Source: HNX, KIS

**Secondary government bond market:**

**Selling pressure has eased with a lower traded value**

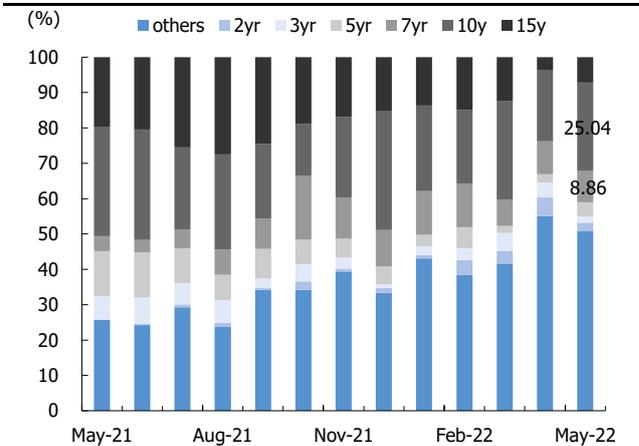
Government bond yields in May slowed down with a significantly lower traded value, implying that selling pressure has eased. Specifically, the 10-year yield was 3.05% this month, 11 basis points (bps)-higher than the end of April, while traded value reduced by 28.16% MoM to hit the year-low. Re-accelerating inflation, Fed hike rate, and softer short-term funding costs were attributable to the current development of government bond yields in the secondary market.

**Figure 18. G-bond trading value**



Source: HNX, KIS

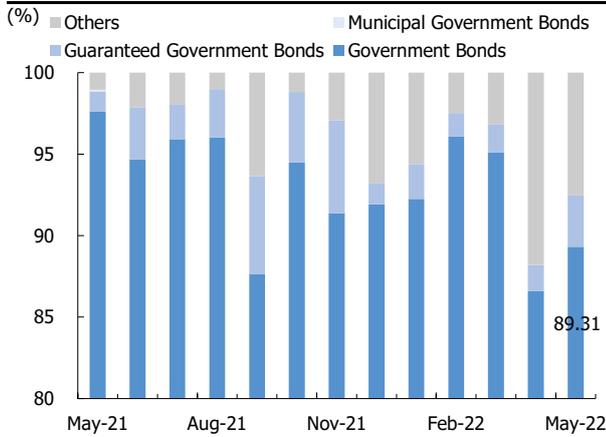
**Figure 19. Trading value by tenor**



Source: HNX, KIS

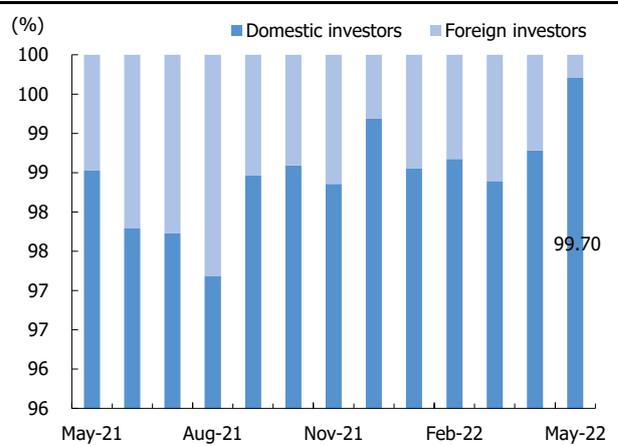
By bond type, 89.31% of the total trading value (VND70.50tn) was from the government bonds, while 3.17% (VND2.50tn) was from trading on government-guaranteed bonds. Regarding investor type, a trading activity made by domestic investors took up to 99.70% of the trading value, and the rest of 0.30% was coming from foreign investors.

**Figure 20. Trading value by bond type**



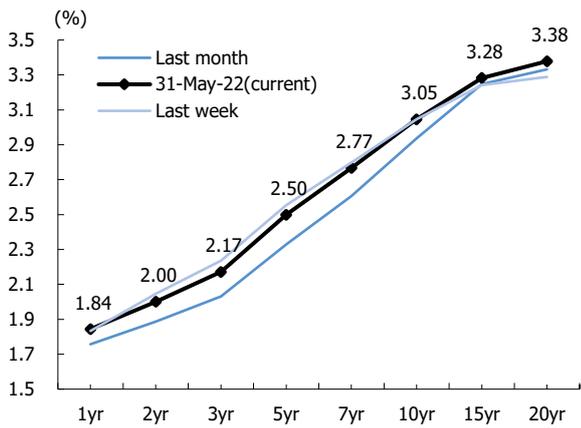
Source: HNX, KIS

**Figure 21. Trading value by investor**



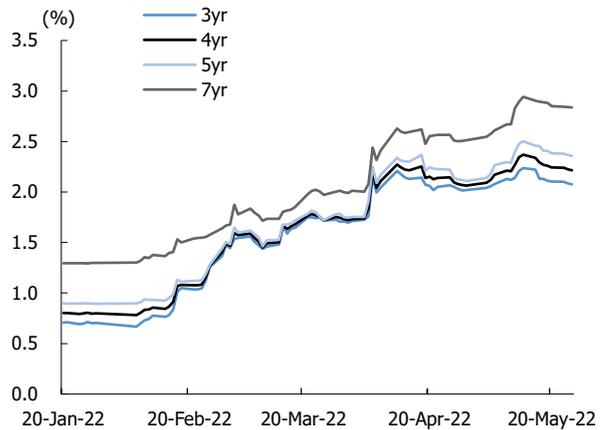
Source: HNX, KIS

**Figure 22. G-bond yield curve**



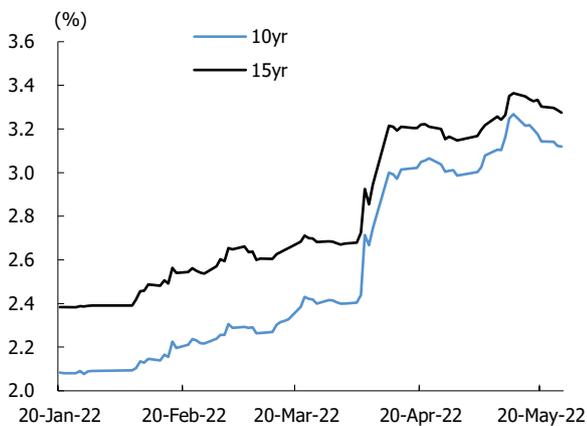
Source: HNX, VBMA, KIS

**Figure 23. Short-term yields**



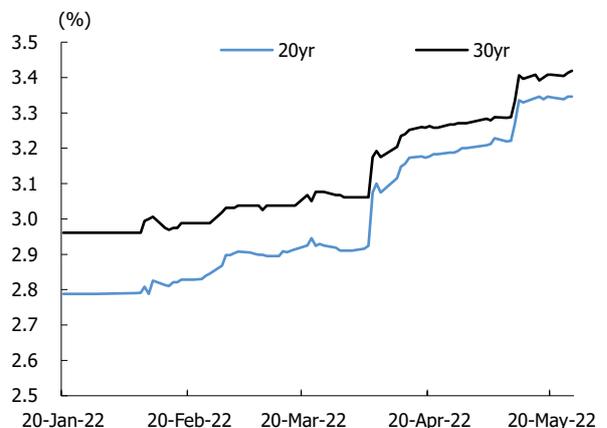
Source: HNX, VBMA, KIS

**Figure 24. Medium-term yields**



Source: HNX, VBMA, KIS

**Figure 25. Long-term yields**



Source: HNX, VBMA, KIS

## Macro scorecard

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	2Q21	3Q21	4Q21	1Q22	2018	2019	2020	2021
Real GDP growth (%)						6.61	-6.02	5.22	5.03	7.08	7.03	2.91	2.58
Registered FDI (USD bn)	2.10	2.89	3.91	1.91	0.98	5.14	6.88	9.01	8.91	35.47	38.02	28.53	31.15
GDP per capita (USD)										3,202	3,398	3,521	3,725
Unemployment rate (%)						2.62	3.98	3.56	2.46	2.21	2.25	2.48	3.22
Export (USD bn)	30.84	22.95	34.06	33.26	30.48	79.95	82.12	95.26	86.01	243.5	263.6	282.7	335.7
Import (USD bn)	29.45	25.28	32.67	32.19	32.21	83.7	83.12	88.72	87.45	236.7	254.4	263	331.1
Export growth (%)	8.05	13.22	14.86	25.27	16.37	34.74	2.99	20.43	9.71	13.19	8.16	7.02	18.74
Import growth (%)	11.30	21.86	14.81	15.89	13.95	45.79	18.85	15.42	15.72	11.01	7.41	3.81	25.9
Inflation (%)	1.94	1.68	2.41	2.64	2.86	2.67	2.51	1.89	1.92	3.54	2.79	3.24	1.84
USD/VND	22,663	22,820	22,870	23,095	23,188	23,020	22,761	22,790	22,837	23,175	23,173	23,126	22,790
Credit growth (%)	2.74	1.82	4.13	6.37	7.02	6.44	7.88	12.97	4.13	10.77	13.75	12.17	12.97
10Y gov't bond (%)	2.09	2.24	2.41	3.05	3.13	2.21	2.14	2.11	2.40	5.07	3.37	2.01	2.11

Source: GSO, Bloomberg, FIA, IMF

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