

Fixed-income Perspectives

Higher interest rates under the liquidity turmoil

Changeable OMO under the thirst of liquidity

In the 30th week of 2022, (from 25th to 31st July, 2022), SBV poured VND56.22tn into the banking system through the new issuing of repo contracts and maturing of previous T-bills, marking the second week that SBV providing liquidity to ease surging demand for short-term loans from its counterparties. Notably, SBV implicitly made a rate hike by switching the auction method from the fixed to the competitive interest rate framework, raising the winning rate from 2.50% to around 4.00%.

ON surged after a series of liquidity drain

In the 30th week of 2022 (from 25th to 31st July 2022), interbank rates surged, especially of short-dated tenors, with higher trading values, likely reflecting higher demand for short-term loans after a series of SBV's liquidity drain through open market operations. In more detail, ON spiked to 4.15%, 137 basis points higher than the previous week, before reducing to 3.32% in the last trading session of this week.

USDVND retreats under a lower DXY

The USDVND this week witnessed a decrease compared to last week as the US dollar index (DXY) weakened. In general, the DXY was 105.90 on Friday this week, 1.38% lower than that at the previous weekend. The reason behind the contraction of the greenback was since other central banks, especially the ECB, are willing to catch up with the Fed in the interest rate race to tackle escalating inflation.

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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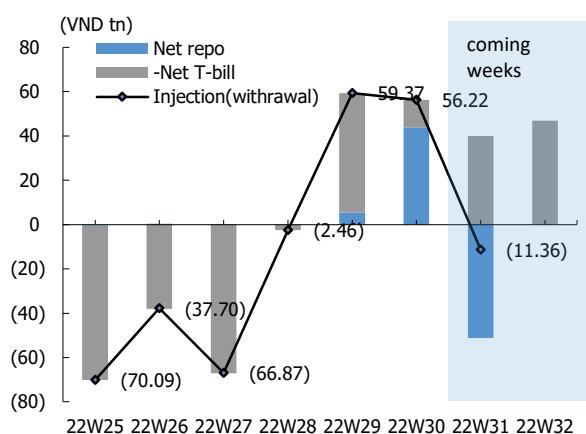
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I. Changeable OMO under the thirst of liquidity

SBV provides further liquidity to banks

In the 30th week of 2022, (from 25th to 31st July, 2022), SBV poured VND56.22tn into the banking system through the new issuing of repo contracts and maturing of previous T-bills, marking the second week that SBV providing liquidity to ease surging demand for short-term loans from its counterparties.

Figure 1. Net injection (withdrawal) of liquidity



Source: SBV, Bloomberg, KIS

Figure 2. Historical policy rate change

Effective date	Discount rate (%)	Refinancing rate (%)
March 26, 2013	6.0	10.0
May 13, 2013	5.0	7.0
March 18, 2014	4.5	6.5
July 10, 2017	4.3	6.3
September 16, 2019	4.0	6.0
March 17, 2020	3.5	5.0
May 13, 2020	3.0	4.5
October 1, 2020	2.5	4.0

Source: SBV, Bloomberg, KIS

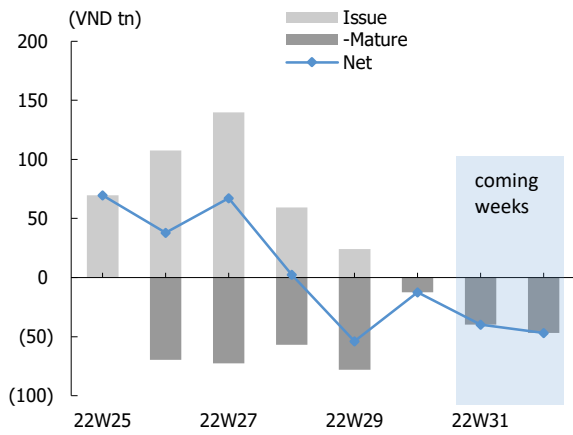
Although SBV's recent operations were opposite to each other, they remained consistent with the flexibility stance the central bank has mentioned before. Previously, SBV conducted T-bill auctions with increasing amounts to drain excess money from banks and partly reduce the spread of USD and VND interbank rates. However, the liquidity condition in the money market turned tight when overnight interbank rates exceeded the discount rate of 2.5%, causing SBV to issue repo contracts with large amounts to cool down the upward pressure on interbank rates. By concurrently issuing new 7-day repo contracts with a total amount of VND46.00tn and stopping the rollover of matured T-bills, SBV has provided significant liquidity to the banking system this week. Notably, SBV has changed the auction method from the fixed to the competitive interest rate framework, showing an implicit increase in the policy rate in the short term.

Table 1. Daily repo transactions of this week

Issue date	Maturity	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
July 25, 2022	August 1, 2022	7	10.00	2.50
July 26, 2022	August 2, 2022	7	15.00	3.80
July 27, 2022	August 3, 2022	7	15.00	3.90
July 28, 2022	August 4, 2022	7	5.00	4.00
July 29, 2022	August 5, 2022	7	1.00	4.30

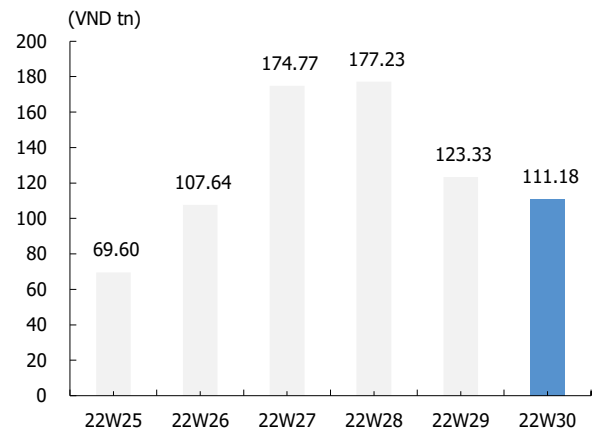
Source: SBV, Bloomberg, KIS

Figure 3. Issued T-bill by week



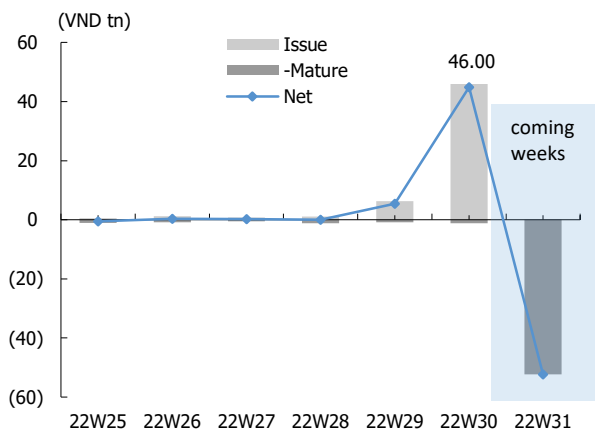
Source: SBV, Bloomberg, KIS

Figure 4. Outstanding T-bill by week



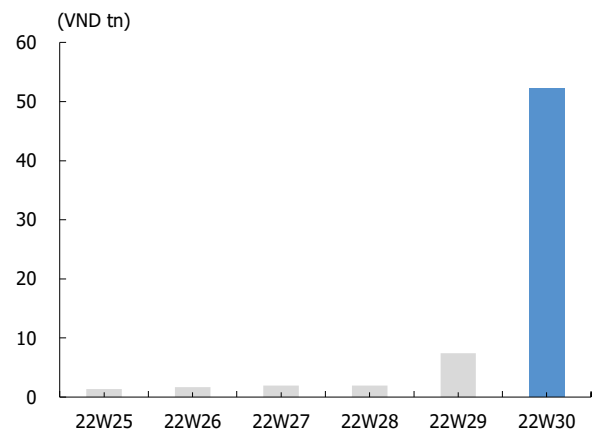
Source: SBV, Bloomberg, KIS

Figure 5. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 6. Outstanding Repo by week

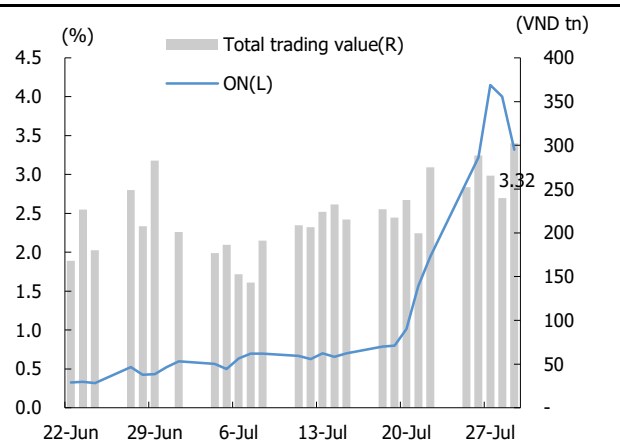


Source: SBV, Bloomberg, KIS

II. ON surged after a series of liquidity drain

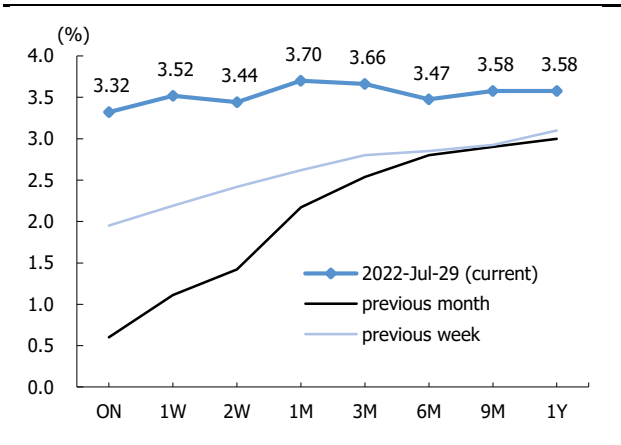
In the 30th week of 2022 (from 25th to 31st July 2022), interbank rates surged, especially of short-dated tenors, with higher trading values, likely reflecting higher demand for short-term loans after a series of SBV's liquidity drain through open market operations. In more detail, ON spiked to 4.15%, 137 basis points (bps) higher than the previous week, before reducing to 3.32% in the last trading session of this week. Similarly, 1-week, 2-week, and 1-month rose by 133bps, 102bps, and 108bps compared to the previous week, reaching 3.52%, 3.44%, and 3.70%, respectively. Longer-term loans, those with above 3-month tenor, recorded similar increases with smaller magnitudes (86bps for 3-month, 63bps for 6-month, and 65bps for 9-month), resulting in a flatter curve of interbank rates.

Figure 7. Interbank daily transaction



Source: SBV, KIS

Figure 8. Interbank bank curve



Source: SBV, KIS

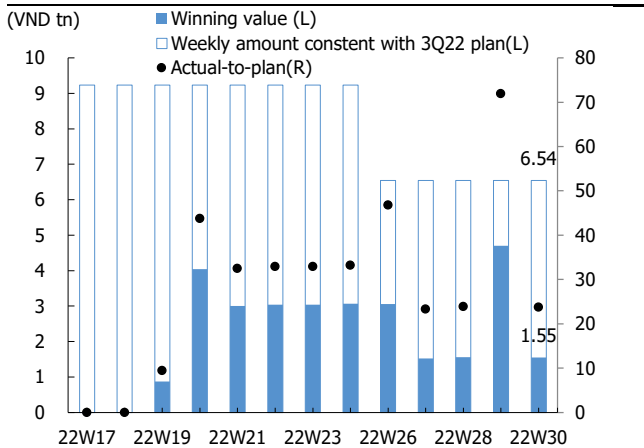
We assert that tighter liquidity, after a series of SBV's T-bill offerings, could be the main reason for the rate surge in the interbank market this week. Due to the limited credit room and the consequence of lower interbank rates of the dong relative to those of the greenback, SBV issued an extensive T-bill amount in the effort of lifting interest rates in the money market up and easing the upward pressure on USDVND. Accordingly, at the end of 28W22, the outstanding value of all issued bills reached VND177.23tn (around USD7.58bn at 23,400), equaling around 81% of the interbank traded value per day that week, raising the possibility of a rate surge as abnormal demand for short-term loans occurs.

III. G-bond auction result remains modest

Government bond offering remains low

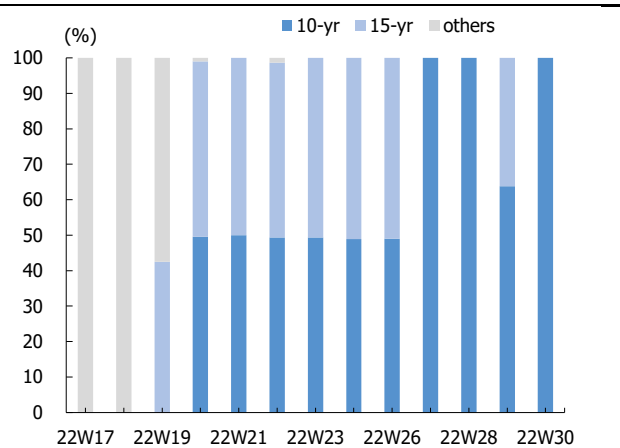
Government bond auctions in the primary market this week (from 25th to 31st July 2022) remained modest with an amount of VND1.55tn as the demand-supply imbalance was unsolved. In more detail, VST issued an amount of VND1.55tn been issued with 10-year tenor accounting 100% and the winning yield was 2.58%, three basis points (bps) higher than previous week. The persistent imbalance between issuers and investors was the main obstacle for the auctions to perform poorly. On the supply side, the progress of state-financed projects generally remained low, implying low demand for finance. On the demand side, government bond investors, including commercial banks and insurance companies, might require a more attractive price under the tendency of rate hikes dealing with the inflation spiral. Properties of auction results provide more detail about the sluggish development of government bonds in the first market. The winning amount this week was VND1.55tn, just equaling around 25% of the planned issue value per week, derived from the VST’s quarterly plan of 3Q22. This absorption was significantly lower than the previous weeks though winning yields recently have increased.

Figure 9. Winning value by month



Source: HNX, KIS

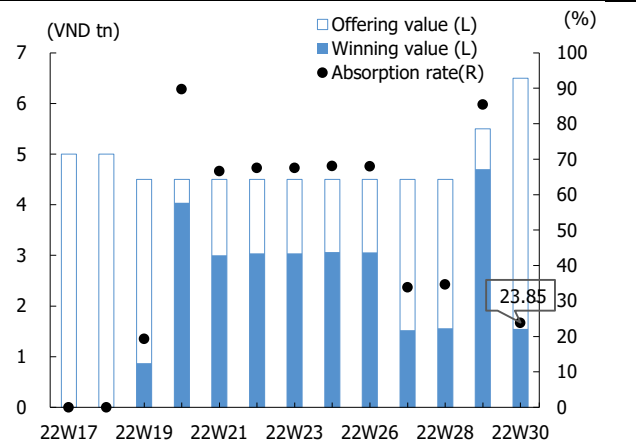
Figure 10. Winning value by tenor



Source: HNX, KIS

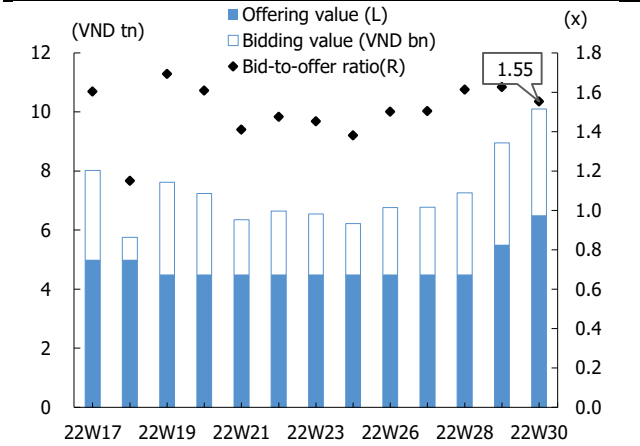
Besides, the bid-to-offer ratio reduced to 23.85% after rebounding in the 29th week of 2022 and the win-to-offer ratio also retreated to 1.55x, providing more information about a gloomy bond market in recent weeks.

Figure 11. Absorption ratio



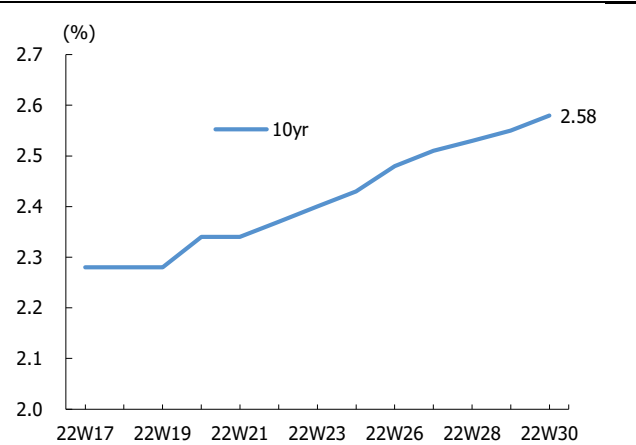
Source: HNX, KIS

Figure 12. Bid-to-offer ratio



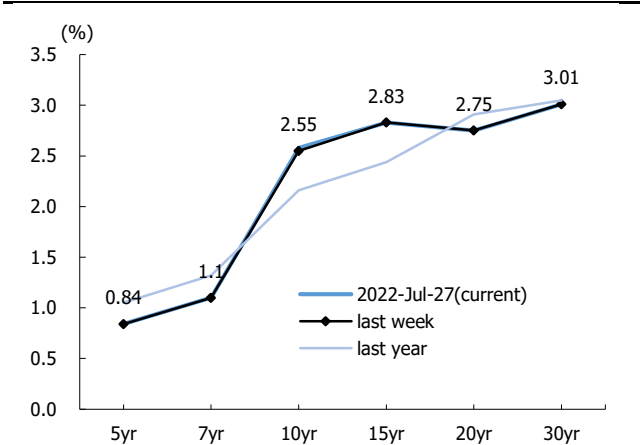
Source: HNX, KIS

Figure 13. 10yr winning yields by week



Source: HNX, KIS

Figure 14. Yield curve in primary market



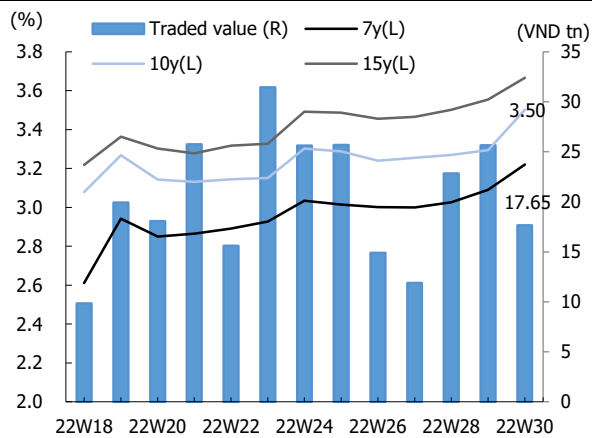
Source: HNX, KIS

IV. G-bond yield makes another uptick

Higher G-bond yields amid tighter short-term liquidity

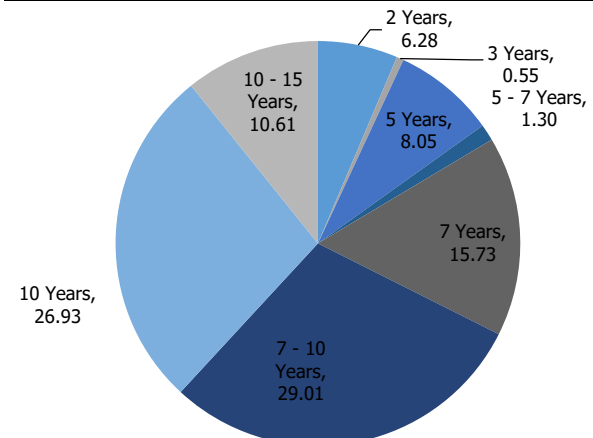
G-bond yields this week (30W22) increased further under the tighter liquidity condition in the money market, likely reflecting the spillover effect that investors could replace their trading G-bond holdings for interbank loans with more attractive interest rates. According to HNX, G-bond yields rose in this week across tenors with a smaller traded value than the previous week. In more detail, 7-year, 10-year, and 15-year yields increased by 13 basis points (bps), 21bps, and 11bps while the traded value declined by 31.22% WoW to VND17.65tn. Trading occurred largely on 7-year, 10-year, and 15-year tenors with a joint portion of 66.55%.

Figure 15. G-bond trading value



Source: HNX, KIS

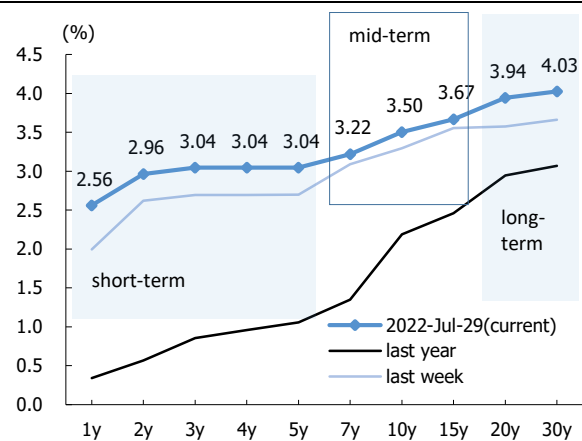
Figure 16. Trading value by tenor this week



Source: HNX, KIS

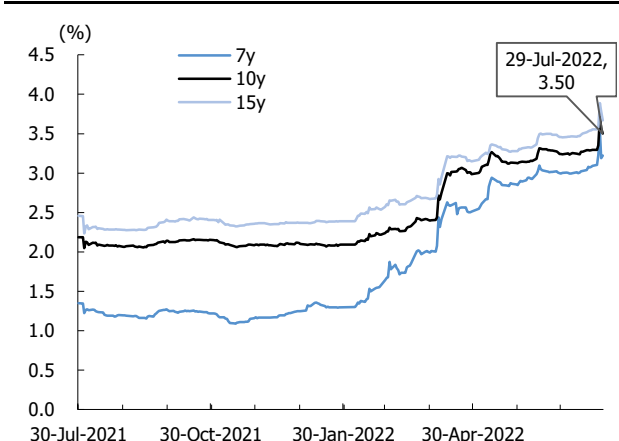
The yield curve became less steep when tenors with low liquidity tend to increase more than high liquidity ones. The average increases in yield for short-term (5 years or less) and long-term (20 years or above) were 39bps and 37bps while that for mid-term (7 years to 15 years) was just 15bps.

Figure 17. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 18. Historical daily government bond yield



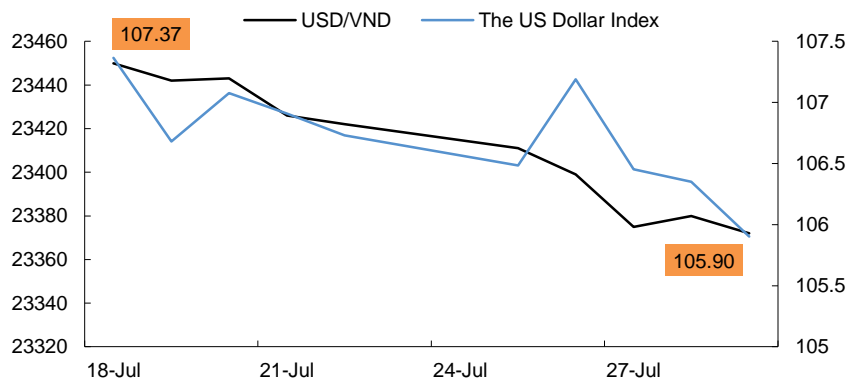
Source: HNX, VBMA, KIS

V. USDVND retreats under a lower DXY

USDVND under controlled of SBV

The USDVND this week witnessed a decrease compared to last week as the US dollar index (DXY) weakened. In general, the DXY was 105.90 on Friday this week, 1.38% lower than that at the previous weekend. The reason behind the contraction of the US Dollar index was since other central banks, especially the ECB, are showing a willingness to catch up with the Fed in the interest rate race to tackle escalating inflation. In addition, the central banks of Canada, the Philippines, Singapore, New Zealand, South Korea, etc. have similar policy orientations.

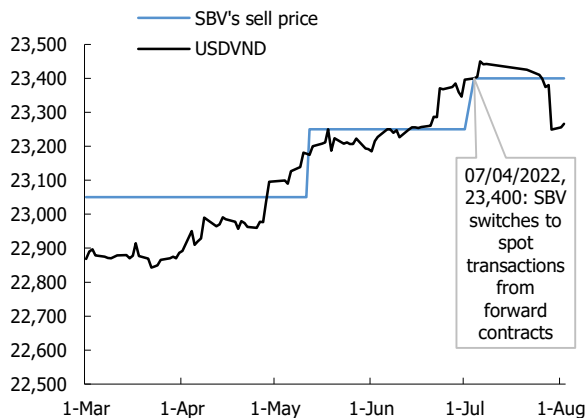
Figure 19. Daily USDVND and the U.S. dollar index



Source: Bloomberg, KIS

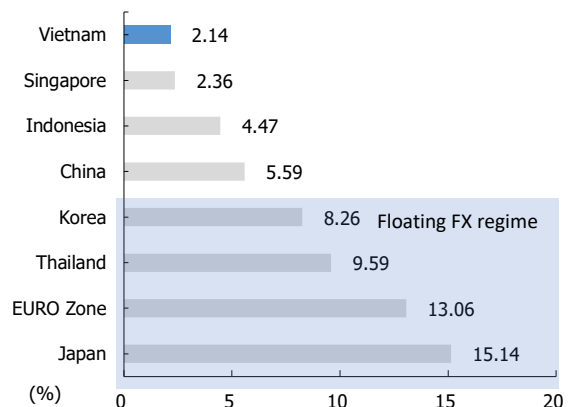
USDVND this week declined, after reaching the 2022 peak of 23,450 earlier, following the contraction of DXY. The trading price of the US Dollar Index and USDVND on Friday this week was around 105.9 (-0.77%) and 23,372 (-0.21%) compared with last week respectively. Besides, the stability of USDVND was maintained as SBV increased the frequency of selling foreign currency interventions, implying that the central bank was ready to supplement the foreign currency for eligible demand.

Figure 20. Historical spot USDVND and SBV's sell price



Source: Bloomberg, Fiinpro, KIS

Figure 21. YTD depreciation of local currencies



Source: Bloomberg, KIS

As can be observed that Vietnam was among top three countries with the least depreciation against the USD at around 2.14%. In addition, the current action of the SBV is not to let the dong depreciate further by anchoring steadily the selling price of the greenback at 23,400

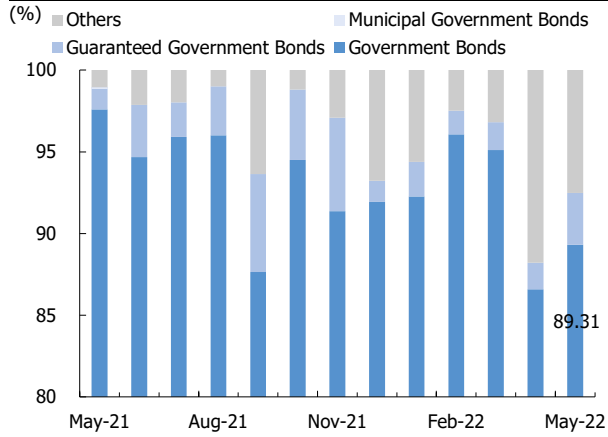
Macro scorecard

	22-Mar	22-Apr	22-May	22-Jun	22-Jul	3Q21	4Q21	1Q22	2Q22	2018	2019	2020	2021
Real GDP growth (%)						-6.02	5.22	5.03	7.72	7.08	7.03	2.91	2.58
Registered FDI (USD bn)	2.89	3.91	0.98	2.32	1.51	6.88	9.01	8.91	5.12	35.47	38.02	28.53	31.15
GDP per capita (USD)										3,202	3,398	3,521	3,725
Unemployment rate (%)										2.21	2.25	2.48	3.22
Export (USD bn)	34,061	33,258	30,480	32,650	30,323	82.12	95.26	86.01	96.83	243.5	263.6	282.7	335.7
Import (USD bn)	32,672	32,189	32,210	32,370	30,302	83.12	88.72	87.45	97.58	236.7	254.4	263	331.1
Export growth (%)	14.84	24.98	16.38	19.98	8.82	2.99	20.43	13.43	21.02	13.19	8.16	7.02	18.74
Import growth (%)	14.64	15.45	12.85	16.32	3.42	18.85	15.42	15.17	15.72	11.01	7.41	3.81	25.9
Inflation (%)	2.41	2.64	2.86	3.37	3.14	2.51	1.89	1.92	2.96	3.54	2.79	3.24	1.84
USD/VND	22,837	22,968	23,195	23,254	23,343	22,761	22,790	22,837	23,139	23,175	23,173	23,126	22,790
Credit growth (%)	4.13	6.37	7.62	8.51	9.14	7.88	12.97	4.13	8.51	10.77	13.75	12.17	12.97
10Y gov't bond (%)	2.46	3.11	3.25	3.38	3.50	2.14	2.11	2.40	3.24	5.07	3.37	2.01	2.11

Source: GSO, Bloomberg, FIA, IMF

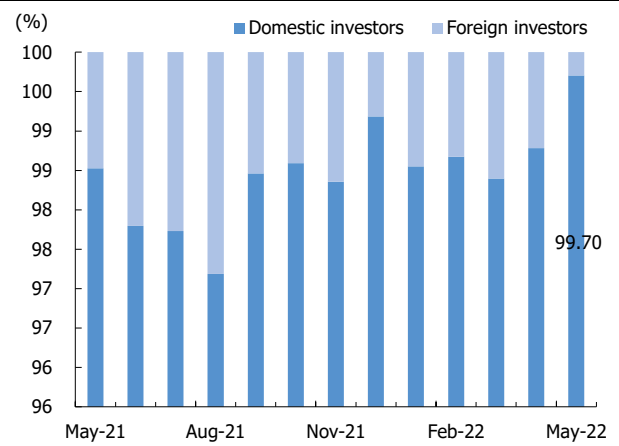
Appendix

Figure 22. Secondary government bond : trading value by bond type



Source: HNX, KIS

Figure 23. Secondary government bond: trading value by investor



Source: HNX, KIS

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