

Fixed-income Perspectives

The thirst for short-term liquidity was unresolved

SBV drains liquidity with a lower repo offering

SBV made a slight drain of liquidity this week (from 1st August to 7th August), after two successive weeks of pouring money into the banking system, as the issued amount of 7-day repo contracts reduced significantly compared to the previous week. Specifically, SBV conducted five auction sessions this week with a total issued amount of VND11.00tn, VND35.00tn lower than the previous week.

Interbank rates refuse to revert

Interbank rates generally rose this week with a lower total traded value under the unresolved surge of short-term funding. Specifically, ON closed the 31st week by reaching the week-high of 4.18%, 86 basis points higher than the previous week, although it contracted significantly on the previous Friday after reaching the year-high.

USDVND increased slightly

The USDVND this week experienced an increase compared to last week while the US dollar index fluctuated. The dollar index continued to be supported after newly released data showed an unexpected increase in the US services industry in July. Vietnam was among the top three countries with the least depreciation against the USD so far this year when Vietnam's central bank decided to anchor the selling price of the USD at VND23,400 and increase the foreign currency sales to stabilize the exchange rate.

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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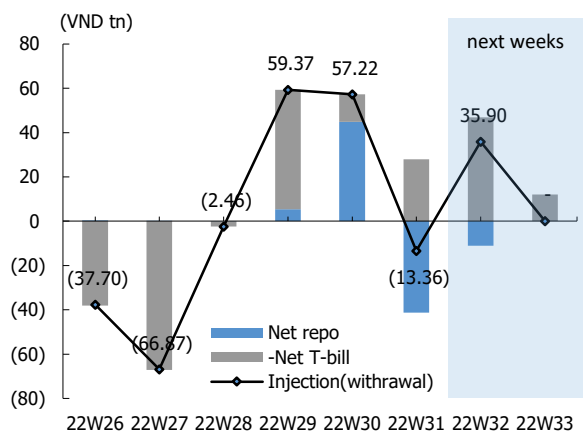
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I. SBV drains liquidity with a lower repo offering

SBV turns to drain the liquidity

SBV made a slight drain of liquidity this week (from 1st August to 7th August), after two successive weeks of pouring money into the banking system, as the issued amount of 7-day repo contracts reduced significantly compared to the previous week. Specifically, SBV conducted five auction sessions this week with a total issued amount of VND11.00tn, VND35.00tn lower than the previous week. On the other side, SBV offered a 14-day T-bill offering with an amount of VND12.00tn at 2.60%, much higher than two weeks ago. However, there is one bank participating in the SBV's auction, indicating that the absorption of T-bill or liquidity adequacy was a local phenomenon.

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

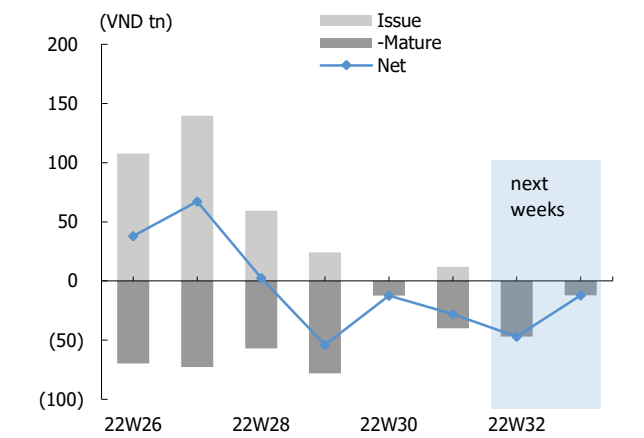
Because SBV just provided a limited short-term fund via OMO while interbank rates remained higher than the winning yields, we predict that the central bank is forming a new balance for the discount rate and a rate hike in the coming weeks is possible.

Table 1. Daily repo transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
August 1, 2022	August 8, 2022	7	3.00	3.80
August 2, 2022	August 9, 2022	7	3.00	4.00
August 3, 2022	August 10, 2022	7	2.00	4.10
August 4, 2022	August 11, 2022	7	1.00	4.20
August 5, 2022	August 12, 2022	7	2.00	4.50

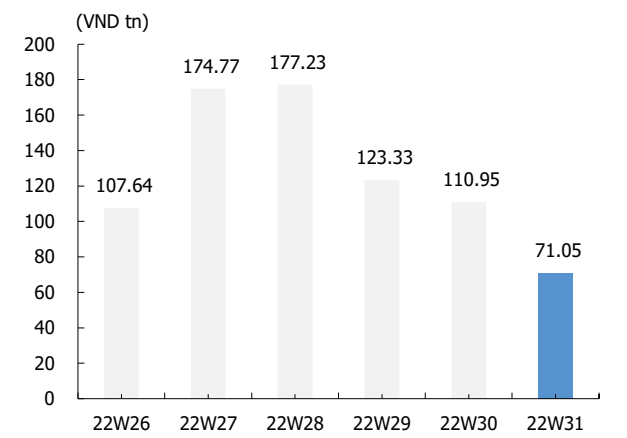
Source: SBV, Bloomberg, KIS

Figure 3. Issued T-bill by week



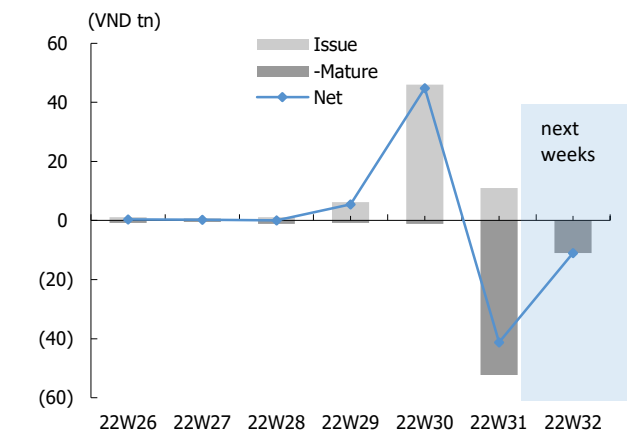
Source: SBV, Bloomberg, KIS

Figure 4. Outstanding T-bill by week



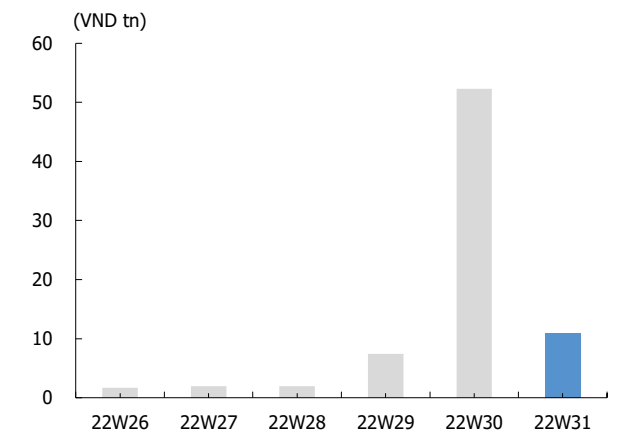
Source: SBV, Bloomberg, KIS

Figure 5. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 6. Outstanding Repo by week



Source: SBV, Bloomberg, KIS

Table 2. Daily T-bill transactions of this week

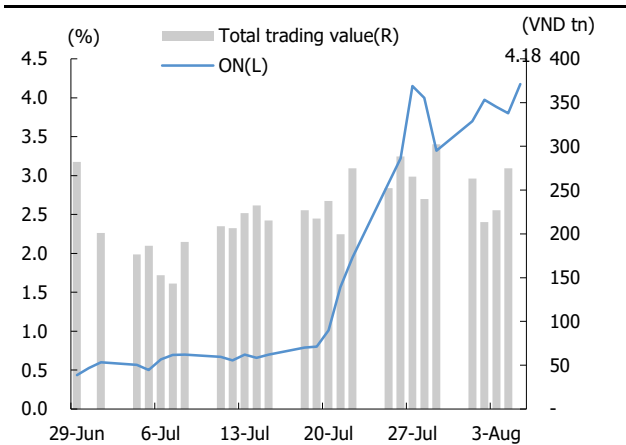
Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning yield (%)
August 4, 2022	August 18, 2022	14	12.00	2.60

Source: SBV, Bloomberg, KIS

II. Interbank rates refuse to revert

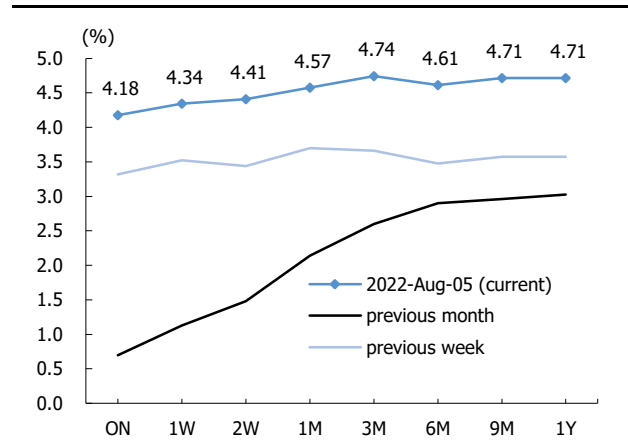
In this week (from 1st to 7th August 2022), interbank rates generally rose with a lower total traded value under the unresolved surge of short-term funding. Specifically, ON closed the 31st week by reaching the week-high of 4.18%, 86 basis points (bps) higher than the previous week, although it contracted significantly on the previous Friday (29th July) after reaching the year-high. The rate increase ran through the yield curve but the most contracted on the long end, implying that banks have borrowed more strongly on longer-term to prepare funds for future short-term loans. More specifically, interest rates for 1-week, 2-week, and 1-month rose by 82bps, 87bps, and 87bps while 3-month, 6-month, and 9-month made larger increases of 108bps, 114bps, and 114bps, respectively.

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.

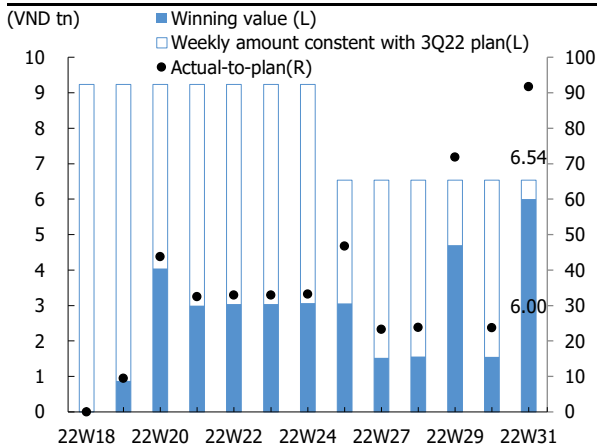
III. G-bond auction improves

Offering of government bond increases significantly

In the first week of August, the government bond (G-bond) auction witnessed notable change compared to recent weeks as the winning value rose significantly, indicating the possible improvement in the first market in the coming weeks. Specifically, VST successfully issued VND6.00tn of G-bond with VND3.00tn for 10-year tenor and VND3.00tn for 15-year tenor. This issued amount equals 91.76% of the weekly plan (we estimated from the 3Q22 plan of VND85.00tn released on [13th July 2022](#)) and resulted in a cumulative amount of VND82.00tn, accounting for 20.49% of the 2022 plan. The increase in winning amount coupled with improvement in auction property when the absorption rate rose to 92.31%, much higher than the previous week. Furthermore, winning yields have increased for all tenors this week. In more detail, 10-year and 15-year yields rose by nine basis points (bps) and 11bps compared to one week ago, reaching 2.67% and 2.94%, respectively.

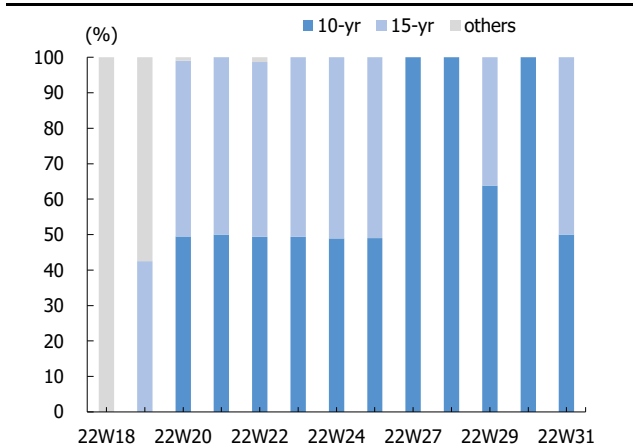
Although the improvement in the first G-bond market has occurred, the connection between sellers and buyers remained low when their determinants were still hold. On the supply side, the progress of state-financed projects generally remained low, implying low demand for finance. On the demand side, government 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.

Figure 9. Winning value by month



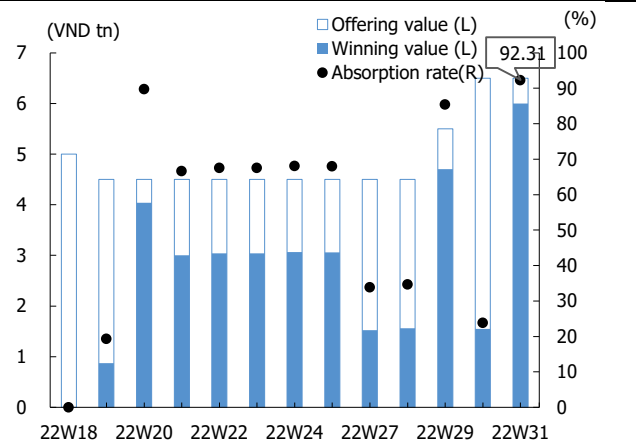
Source: HNX, KIS

Figure 10. Winning value by tenor



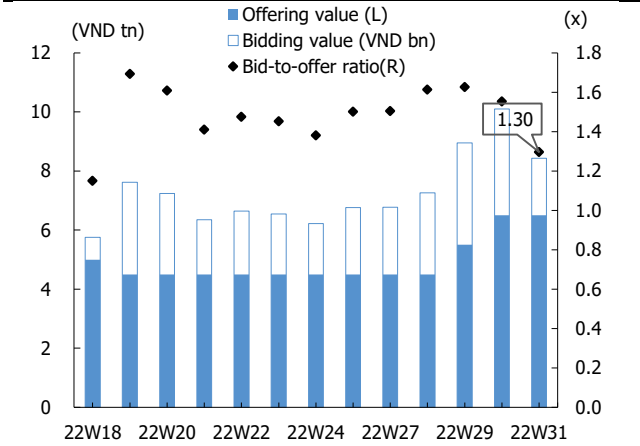
Source: HNX, KIS

Figure 11. Absorption ratio



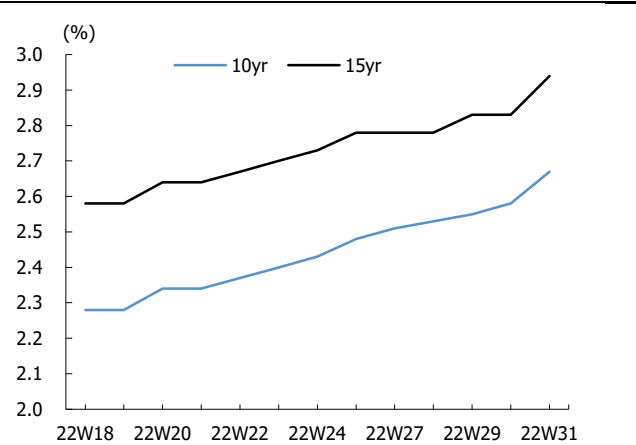
Source: HNX, KIS

Figure 12. Bid-to-offer ratio



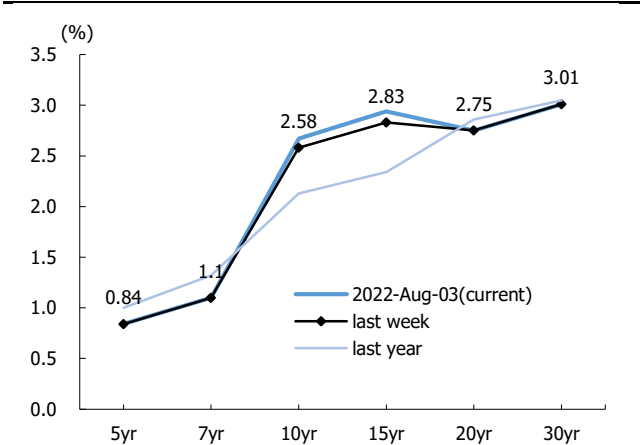
Source: HNX, KIS

Figure 13. 10yr winning yields by week



Source: HNX, KIS

Figure 14. Yield curve in primary market



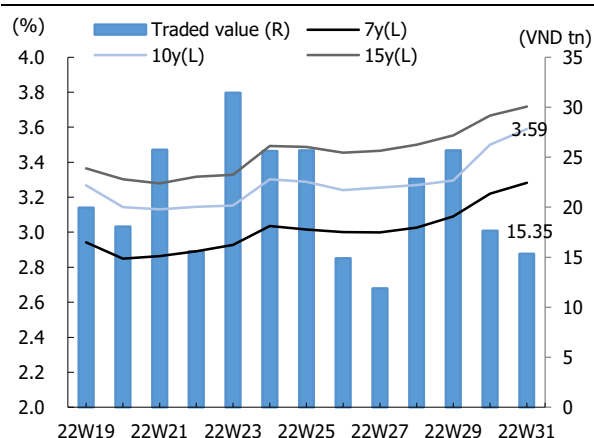
Source: HNX, KIS

IV. G-bond yield reaches new high

Higher G-bond yields amid tighter short-term liquidity

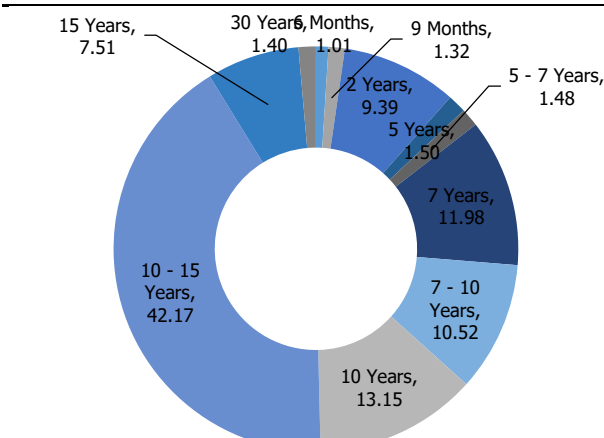
G-bond yields this week (31W22) generally increased further with a lower traded volume, suggesting that the development of the secondary government bond market was dominated by weaker demand. More specifically, yields of most-traded tenors, including 7-year, 10-year, and 15-year, climbed to new highs since the June-late. Accordingly, 7-year, 10-year, and 15-year yields rose by six basis points (bps), 9bps, and 5bps compared to the previous week, to 3.28%, 3.59%, and 3.72%, respectively. Tighter condition in the money market was likely the main reason for G-bond yields to increase further this week as investors could replace their trading G-bond holdings for interbank loans with more attractive interest rates. Regarding value structure, transactions continued focusing on tenors from 7 years to 15 years tenors with their joint portion of 85.33%.

Figure 15. G-bond trading value



Source: HNX, KIS

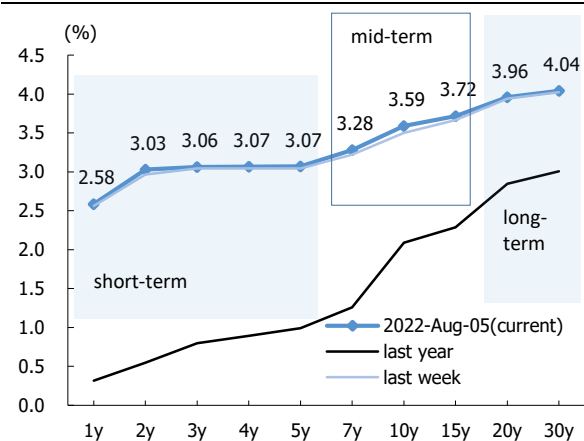
Figure 16. Trading value by tenor this week



Source: HNX, KIS

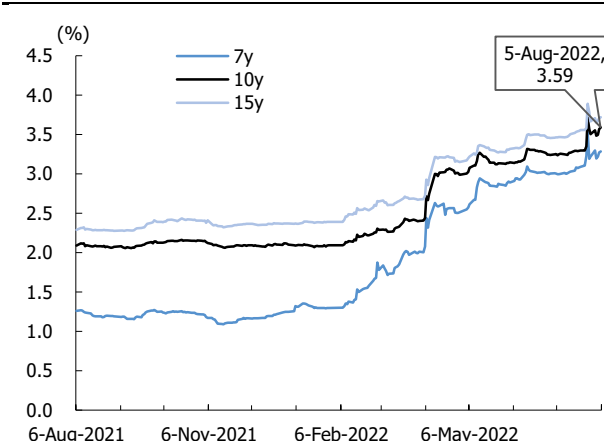
The yield curve became steeper this week when mid-term tenors tend to increase more than other. The average increases in yield for short-term (5 years or less) and long-term (20 years or above) were 3bps and 2bps while that for mid-term (7 years to 15 years) was 7bps.

Figure 17. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 18. Historical daily government bond yield



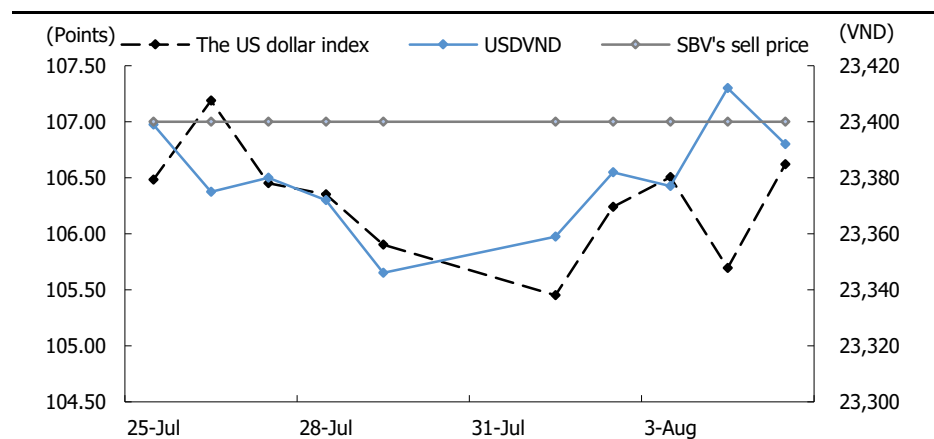
Source: HNX, VBMA, KIS

V. USDVND increased slightly

USDVND witnessed a slight increase

The USDVND this week experienced an increase compared to last week while the US dollar index (DXY) fluctuated. Generally, the DXY was 106.62 on Friday this week, 0.68% higher than that on the previous weekend. The DXY has regained its upward momentum this week after many consecutive falling sessions from last week. The dollar index continued to be supported after newly released data showed an unexpected increase in the US services industry in July. According to the Institute for Supply Management, their non-manufacturing PMI Index recovered in July, ending a three-month decline. Furthermore, data showed that U.S. employers hired far more workers than expected in July, the 19th straight month of payroll expansion, with the unemployment rate falling to a pre-pandemic low of 3.50%. These factors above support the view that the U.S economy remained strong, leading to the higher possibility that Fed would be more hawkish than expected in September.

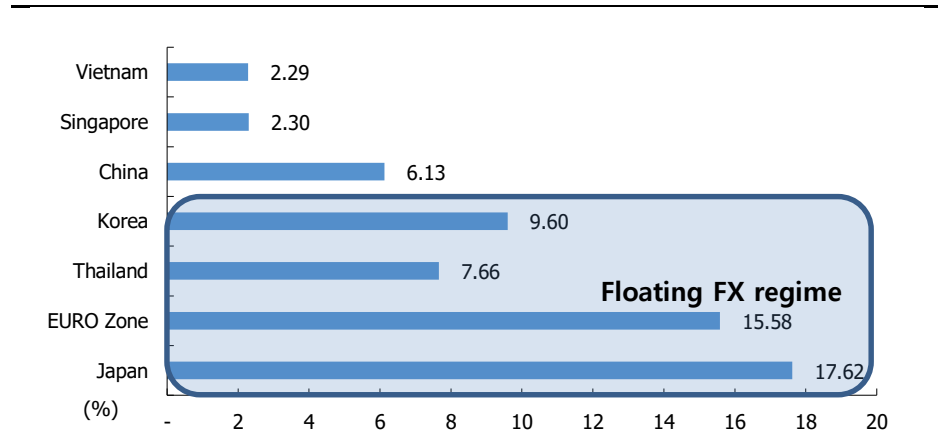
Figure 19. Daily USDVND and the U.S. dollar index



Source: Bloomberg, KIS

USDVND this week increased slightly even though the contraction was maintained throughout last week, following the contraction of DXY. Both DXY and USDVND rebounded slightly after some positive economic data about the U.S market released with traded prices of DXY and USDVND on Friday this week were around 106.62 (+0.68% WoW) and 23,392 (+0.20% WoW) respectively. In addition, stabilizing the USDVND exchange rate was likely the SBV's top priority currently as its selling price of the greenback was unchanged at 23,400.

Figure 20. YTD performance of local currencies



Source: Bloomberg, KIS

As can be observed that Vietnam was among the top three countries with the least depreciation against the USD at around 2.29% so far this year (YTD), because SBV decided to anchor the selling price of the US\$VND at 23,400 and increase the foreign currency sales to stabilize the exchange rate. In contrast, countries with the floating FX regime, such as Japan and European countries, depreciated sharply against the USD.

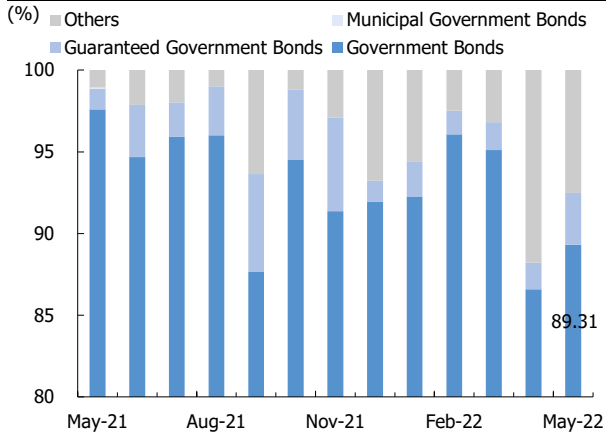
Macro scorecard

	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

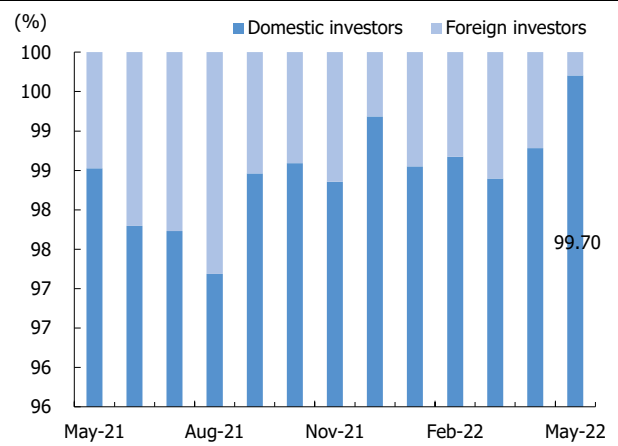
Appendix

Figure 21. Secondary government bond : trading value by bond type



Source: HNX, KIS

Figure 22. Secondary government bond: trading value by investor



Source: HNX, KIS

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