

# Fixed-income Perspectives

## Money turns more expensive under the global hawkish tendency

### SBV lowers T-bill offering

In the 34<sup>th</sup> week of 2022 (from 22<sup>nd</sup> August to 28<sup>th</sup> August), SBV continued to simultaneously offer repo and T-bill contracts to manage interbank transactions trade at a higher price under the global tendency of the rate hike. Specifically, the central bank injected VND37.70tn via the T-bill channel and VND2.99tn via the repo channel into the banking system this week, respectively.

### Interbank rates rebound sharply

It seems that participants in the interbank market this week tend to hurry up their funding activities for short-dated loans under stricter signals from the central banks of increasing prices of money market transactions. Specifically, ON, 1-week, and 2-week interest rates on Friday rose by 124basis points (bps), 133bps, and 132bps compared to the previous weekend, reaching 3.37%, 3.70%, and 3.97%, respectively.

### USDVND rose slightly

USDVND witnessed a slight increase following a significant rise in the DXY. In general, the USDVND increased 0.03% compared with last week, the spot peaked on Wednesday at VND23,455, the highest level since the end of April 2020. Stabilizing the USDVND exchange rate was likely the SBV's top priority as its selling price of the greenback remained the same at 23,400 for over a month. Currently, VND cumulatively depreciated by 2.40% compared with the U.S dollar.

### 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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**Y Nguyen**

Y.nt@kisvn.vn

**Nhan Tong**

nhan.tt@kisvn.vn

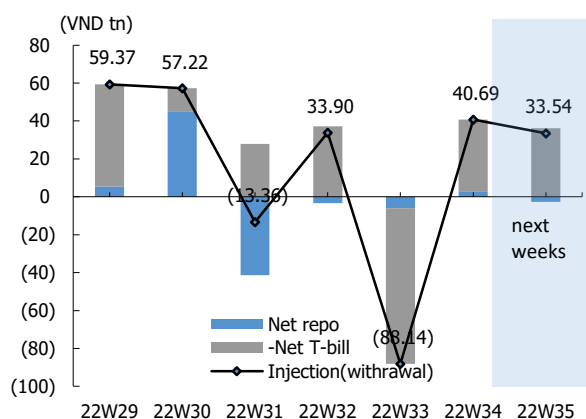
## I. SBV lowers T-bill offering

**SBV turns into liquidity injection with a significantly higher rate**

In the 34<sup>th</sup> week of 2022 (from 22<sup>nd</sup> August to 28<sup>th</sup> August), SBV continued to simultaneously offer repo and T-bill contracts to manage interbank transactions trade at a higher price under the global tendency of the rate hike. Specifically, SBV lowered the offering of T-bill to VND33.73tn from VND94.43tn last week, resulting in a net injection of VND37.70tn this week through this instrument. Regarding repo transactions, SBV issued an amount of VND4.59tn to partially absorb the maturity of VND1.60tn this week, resulting in a net liquidity inflow of VND2.99tn into the banking system. Jointly, SBV injected a total amount of VND40.69tn through open market operations this week. Notably, SBV has increased winning yields of T-bill and repo transactions this week to 2.60-4.00% and 4.00% from 2.60% and 3.50% in the previous week, implicitly putting upward pressure on costs of short-dated loans in the money market.

It seems that Vietnam's monetary authority was implementing the OMO tools to increase short-term funding costs in the money market, mitigating the USD outflow as the result of growing demand for carry trade activities and assets shifting. Therefore, winning yields for T-bill and repo contracts offering to SBV's counterparties could remain high in next weeks.

**Figure 1. Net injection (withdrawal) of liquidity**



Source: SBV, Bloomberg, KIS

**Table 1. 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

**Table 2. Daily repo transactions of this week**

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
August 22, 2022	August 29, 2022	7	1.00	4.00
August 23, 2022	August 30, 2022	7	0.82	4.00
August 24, 2022	August 31, 2022	7	0.77	4.00
August 25, 2022	September 8, 2022	14	1.00	4.10
August 26, 2022	September 9, 2022	14	1.00	4.00

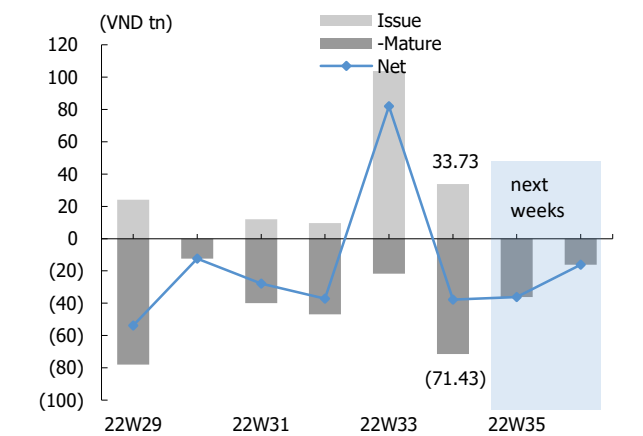
Source: SBV, Bloomberg, KIS

**Table 3. Daily T-bill transactions of this week**

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning yield (%)
August 22, 2022	August 29, 2022	7	2.00	2.60
August 22, 2022	September 19, 2022	28	0.50	3.45
August 23, 2022	August 30, 2022	7	1.00	2.60
August 23, 2022	September 20, 2022	28	4.00	3.45
August 24, 2022	August 31, 2022	7	5.13	2.60
August 24, 2022	September 21, 2022	28	5.00	3.45
August 25, 2022	September 8, 2022	14	6.10	3.44
August 26, 2022	September 9, 2022	14	10.00	4.00

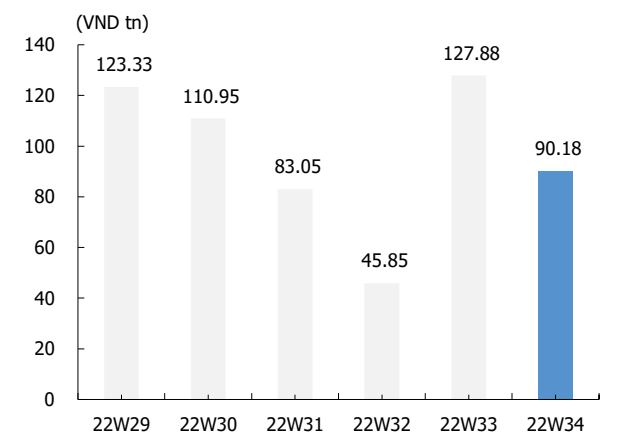
Source: SBV, Bloomberg, KIS

**Figure 2. Issued T-bill by week**



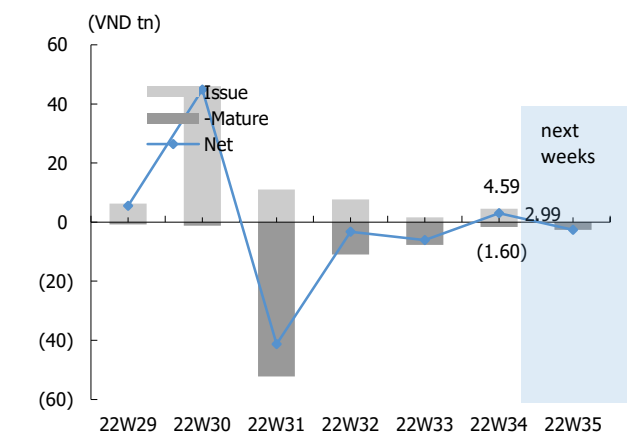
Source: SBV, Bloomberg, KIS

**Figure 3. Outstanding T-bill by week**



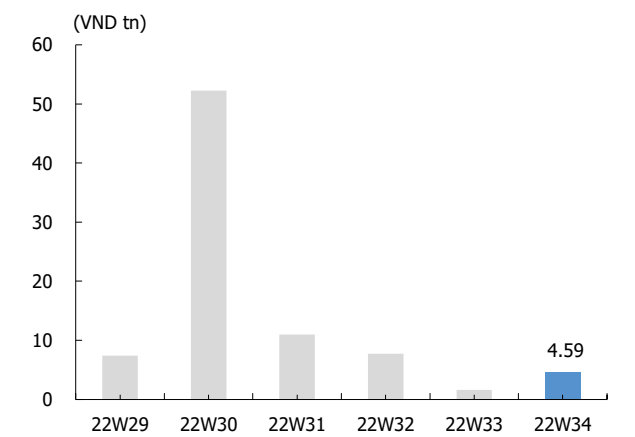
Source: SBV, Bloomberg, KIS

**Figure 4. Issued Repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding Repo by week**

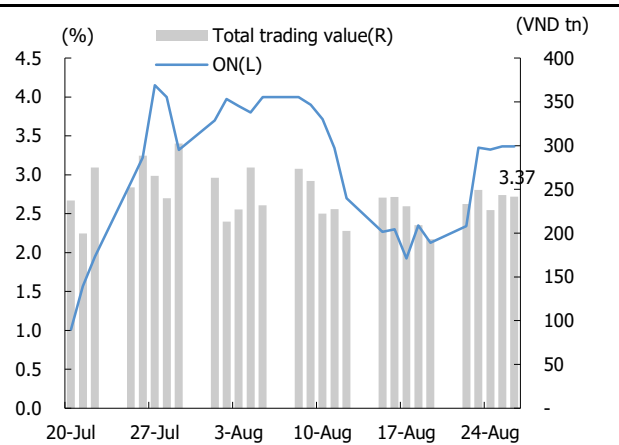


Source: SBV, Bloomberg, KIS

## II. Interbank rates rebound sharply

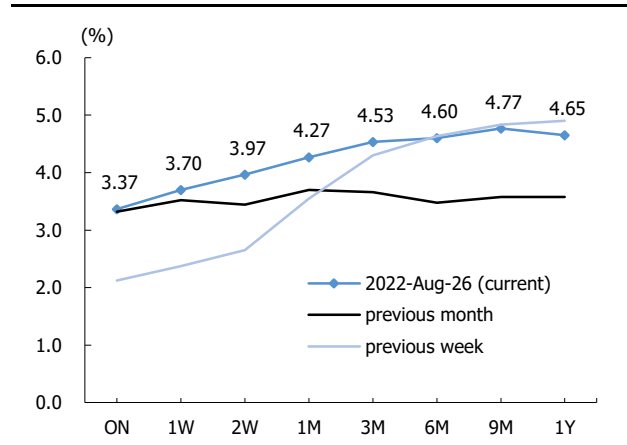
It seems that participants in the interbank market this week (from 22<sup>nd</sup> to 28<sup>th</sup> August 2022) tend to hurry up their funding activities for short-dated loans under stricter signals from the central banks of increasing prices of money market transactions. Accordingly, interbank rates primarily rose with a higher traded value, implying that demand for short-term liquidity has expanded. Specifically, ON, 1-week, and 2-week interest rates on Friday rose by 124basis points (bps), 133bps, and 132bps compared to the previous weekend, reaching 3.37%, 3.70%, and 3.97%, respectively. Longer-term interest rates witnessed slighter increases as 1-month and 3-month just rose by 72bps and 23bps. 6-month and 9-month interest rates even declined slightly by 3bps and 7bps this week. Consequently, the interbank yield curve has become less steep as the short-end already caught up with the increase of the long-end in the previous week.

**Figure 6. Interbank daily transaction**



Source: SBV, Bloomberg, KIS

**Figure 7. Interbank bank curve**



Source: SBV, Bloomberg, KIS

Regarding trading structure, transactions kept focusing on the most short-lived tenors with ON, 1-week, and 2-week loans jointly accounting for 97.11% of traded value in the interbank market.

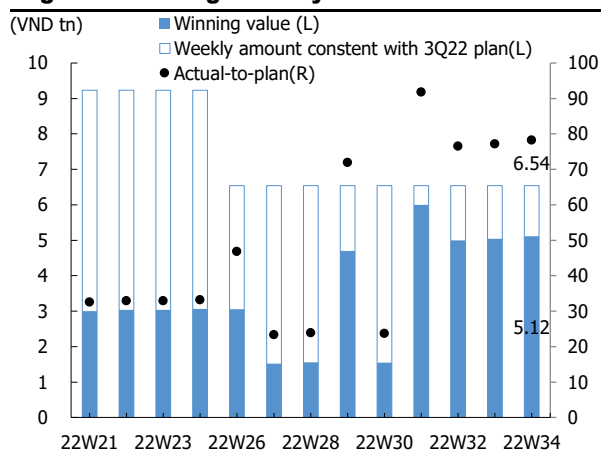
### III. Improvement in G-bond auction extends

#### G-bond offering was improving

Government auction this week (34<sup>th</sup> week) remained favorable with a persistently high winning amount, indicating the supply for this fixed income instrument has expanded. Specifically, VST successfully issued VND5.12tn of G-bond with VND2.62tn for 10-year tenor and VND2.50tn for 15-year tenor. This issued amount equals 78.23% of the weekly plan (we estimated from the 3Q22 plan of VND85.00tn released on [13<sup>th</sup> July 2022](#)) and resulted in a cumulative amount of VND97.13tn, accounting for 24.28% of the 2022 plan. Winning yields made another uptick when 10-year and 15-year tenors simultaneously rose by five basis points (bps) to 2.75% and 3.05%, respectively.

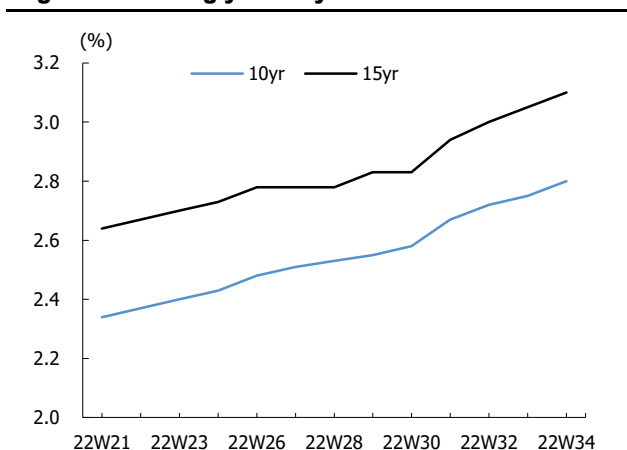
We believe that a higher yield environment under recent signals from the government of accelerating the public investment disbursement could be the main reason to attract investors in the G-bond primary market. Furthermore, 34W22's auction result showed that the first G-bond market was improving via some aspects. First, although the winning amount was just similar to the previous week, it was significantly higher than several weeks before August and therefore resulted in higher absorb rates. Second, bidding values in recent August's weeks were generally higher than before, indicating the investors paid more attention to those fixed income assets. Therefore, bid-to-offer ratio was not much lower than previous weeks although offering values have increased significantly.

**Figure 8. Winning value by month**



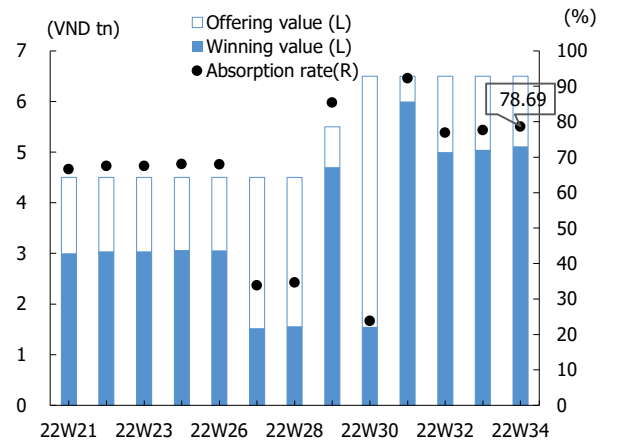
Source: HNX, KIS

**Figure 9. Winning yields by week**



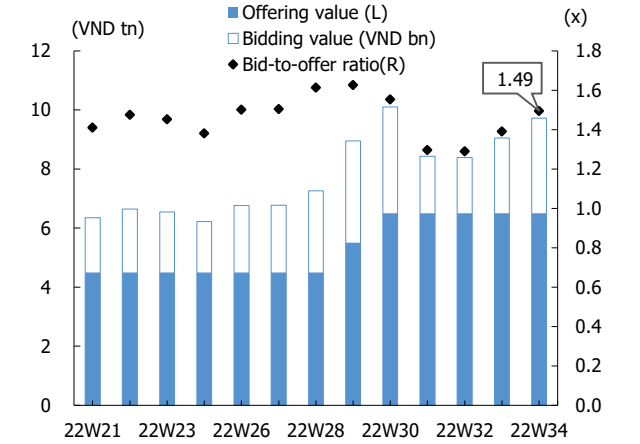
Source: HNX, KIS

**Figure 10. Absorption ratio**



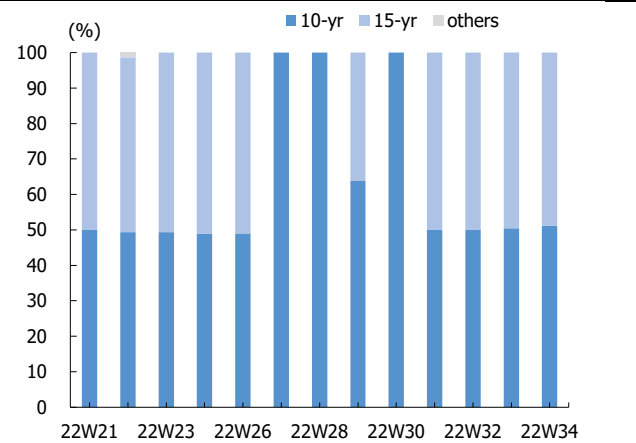
Source: HNX, KIS

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



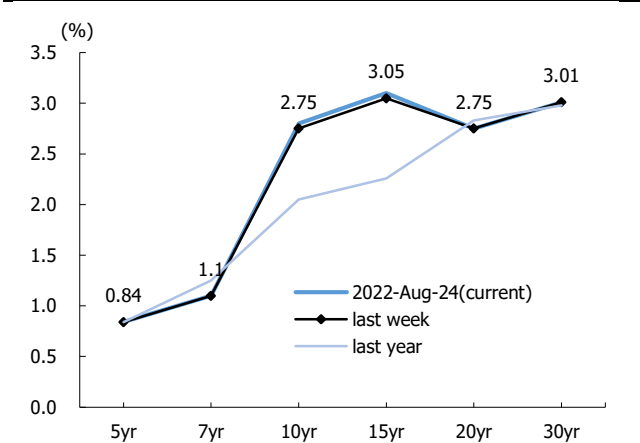
Source: HNX, KIS

**Figure 12. Winning value by tenor**



Source: HNX, KIS

**Figure 13. Yield curve in primary market**



Source: HNX, KIS

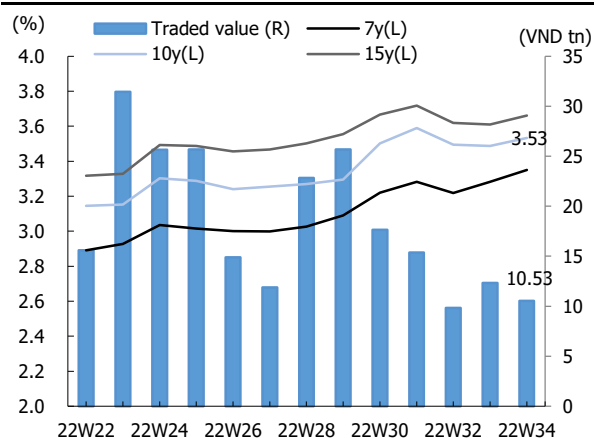
## IV. G-bond yields raise amid higher funding costs

### G-bond yields returned to increase

G-bond yields generally rose with a lower traded volume this week (22W34), indicating that investors were losing their appetite for trading activities of this fixed income instrument. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) rose by five basis points (bps), 5bps, and 7bps, reaching 3.35%, 3.53%, and 3.66% this week, respectively. The traded value returned to lower with an amount of VND10.53tn (equivalent to VND2.11tn per trading day), reducing by 14.66% compared to the previous week.

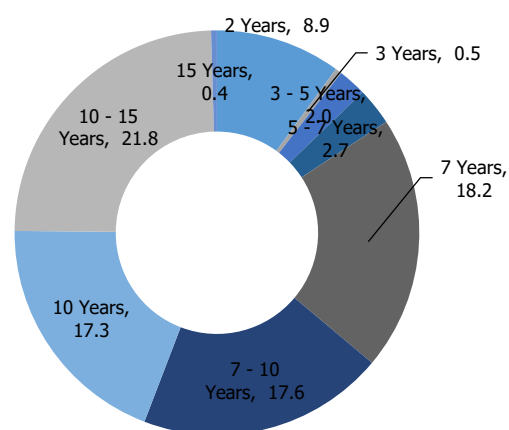
Short-term loans in the money market have become more expensive as SBV conducted its OMO transactions more strictly, primarily attributable to the development of the secondary G-bond market this week. Regarding value structure, transactions continued focusing on tenors from 7 years to 15 years with their joint portion of 75.30%.

Figure 14. G-bond trading value



Source: HNX, KIS

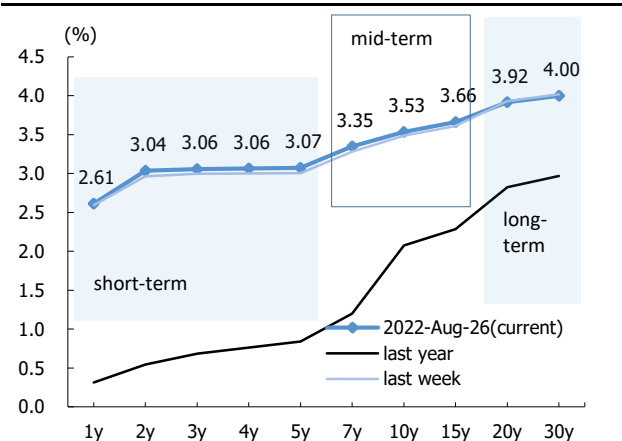
Figure 15. Trading value by tenor this week



Source: HNX, KIS

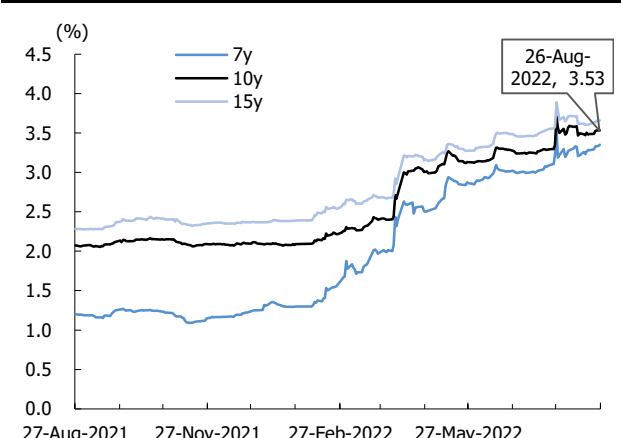
Regarding the yield curve, the steepness was mostly unchanged this week when the fluctuation in the short-end and the long-end were similar. Short-term tenors (less than seven years) rose by 7bps on average compared to 33W22 and mid-term tenors (from seven to ten years) rose by 6bps on average.

Figure 16. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 17. Historical daily government bond yield



Source: HNX, VBMA, KIS

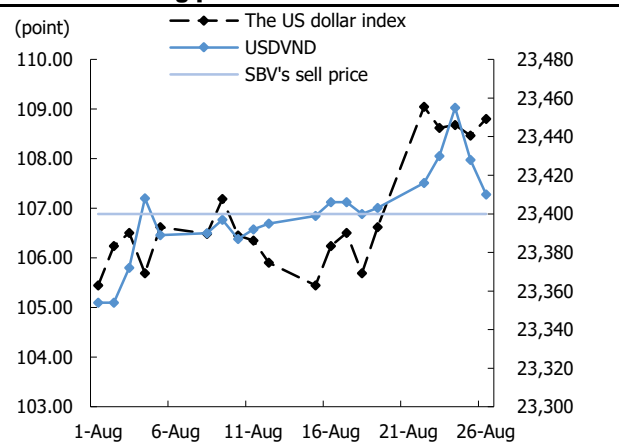
## V. USDVND rose slightly

### USDVND witnessed a slight advance

In comparison with last week's data, the USDVND witnessed a slight increase followed by a significant rise in the DXY. In general, the USDVND increased 0.03% compared with last week with a peak on Wednesday at VND23,455, the highest level since the end of April 2020.

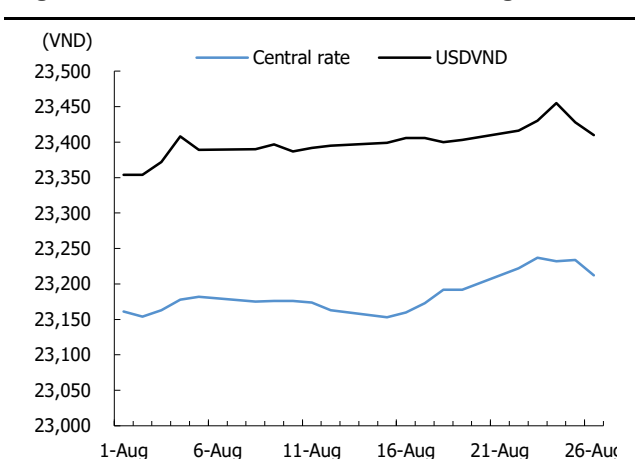
The upward momentum of USDVND was driven mostly by the dramatic rise of DXY. This week, DXY increased 2.05% WoW, and peaked at 109 point on Wednesday 24th August, after Federal Reserve chairman Jerome Powell signaled that higher for longer interest rates would be needed to rein in inflation. It is likely that Fed will continue to raise rates aggressively – possibly by 75 bps at the September FOMC meeting.

**Figure 18. Daily USDVND, DXY and SBV's central rate and selling price**



Source: SBV, Bloomberg

**Figure 19. Central rate and USDVND in August**



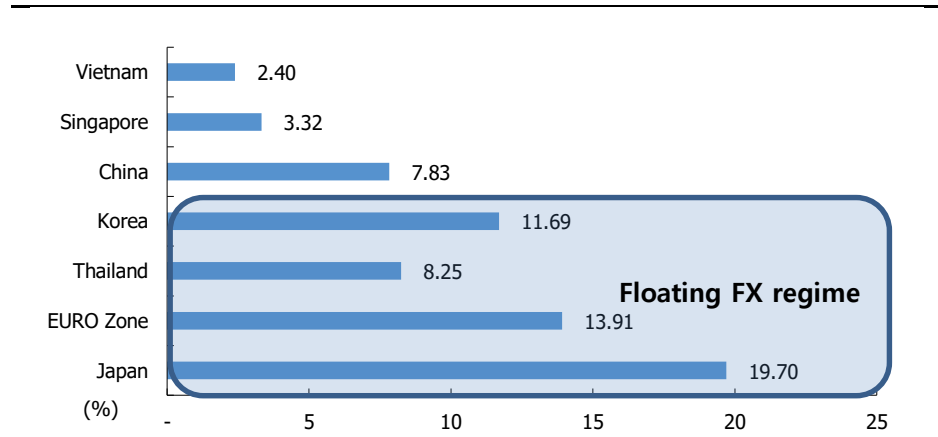
Source: SBV, Bloomberg

In the past week, the central rate increased by VND20, from VND23,192 VND to VND23,212. Meanwhile, the exchange rate at commercial banks at the end of the week also increased by VND7, from VND23,403 to VND23,410. On Friday, the spot rate was stabilized at VND23,410. Overall, the spot this week were traded above the selling price of SBV.

In addition, stabilizing the USDVND exchange rate was likely the SBV's top priority currently as its selling price of the greenback remained the same at VND 23,400 for over a month.



**Figure 20. YTD performance of local currencies**



Source: Bloomberg, KIS

As can be observed that Vietnam continued to be the least depreciated country by the U.S dollar at around 2.40% so far this year (YTD) while Singapore was around 3.32%(YTD). In contrast, countries with the floating FX regime, such as Japan and European countries, depreciated sharply against the USD. Last week, Japan was the most affected against the U.S dollar followed by the Eurozone and Korea.

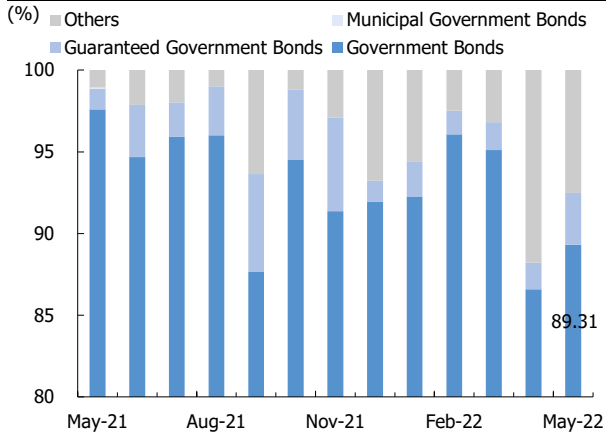
## Macro scorecard

	22-Mar	22-Apr	22-May	22-Jun	22-Jul	22-Aug	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	1.23	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	33,380	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	30,960	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	8.87	22.14	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	12.42	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	2.89	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	23,417	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	9.62	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	3.37	2.14	2.11	2.40	3.24	5.07	3.37	2.01	2.11

Source: GSO, Bloomberg, FIA, IMF

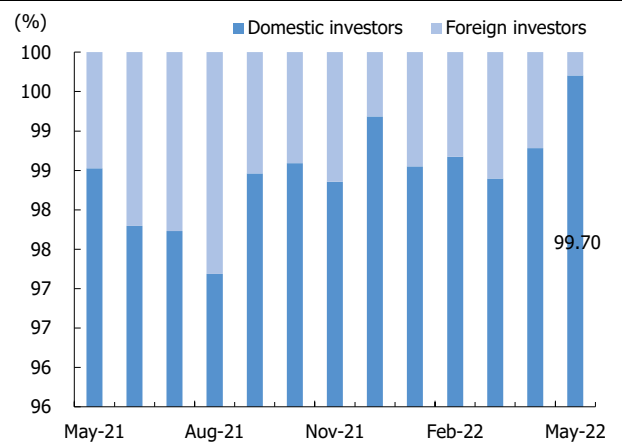
## Appendix

**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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#### **VIET NAM**

JAE HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)  
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)  
KIS Vietnam Securities Corporation  
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.  
Fax: 8428 3821-6898

#### **SOUTH KOREA**

YEONG KEUN JOO, Managing Director, Head of International Business Division (ykjoo@truefriend.com, +822 3276 5157)  
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)  
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea  
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320  
Fax: 822 3276 5681~3  
Telex: K2296

#### **NEW YORK**

DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)  
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)  
Korea Investment & Securities America, Inc.  
1350 Avenue of the Americas, Suite 1110  
New York, NY 10019  
Fax: 1 212 314 0699

#### **HONG KONG**

GREGORY KIM, Managing Director, Head of HK Sales (greg.kim @kisasia.com +852 2530 8915)  
Korea Investment & Securities Asia, Ltd.  
Suite 2220, Jardine House  
1 Connaught Place, Central, Hong Kong  
Fax: 852-2530-1516

#### **SINGAPORE**

ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasia.com.sg +65 6501 5602)  
CHARLES AN, Sales (alex.jun@kisasia.com.sg +65 6501 5601)  
Korea Investment & Securities Singapore Pte Ltd  
1 Raffles Place, #43-04, One Raffles Place  
Singapore 048616  
Fax: 65 6501 5617

#### **LONDON**

Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)  
Korea Investment & Securities Europe, Ltd.  
2nd Floor, 35-39 Moorgate  
London EC2R 6AR  
Fax: 44-207-236-4811

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