

Fixed-income Perspectives

Strict liquidity condition under a long holiday

SBV adds liquidity before the long holiday

In the 35th week of 2022 (from 29th August to 4th September), SBV mainly offered liquidity to the banking system through T-bill and repo instruments to ensure meeting the demand for cash settlements during a long holiday. Specifically, the central bank injected VND33.73tn via the T-bill channel and VND17.79tn via the repo channel into the banking system this week, respectively.

Interbank rates increase further

Interbank rates witnessed another increase this week amid a long holiday ahead and the firm stance of the central bank on rising funding costs in the money market. Specifically, ON interest rates on the last trading session of this week (Wednesday) sharply rose by 30bps to 3.67% when the effective maturity in the holiday would be longer than usual. Less notably, 1-week, 1-month, and 3-month rose by 7bps, 6bps, and 7bps to 3.77%, 4.32%, and 4.60%.

USDVND witnessed a slight advance

USDVND witnessed a slight increase following a significant rise in the DXY. In general, the USDVND increased 0.12% compared with last week, the spot exchange rate peaked on Thursday at 23,451. 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 2.58% 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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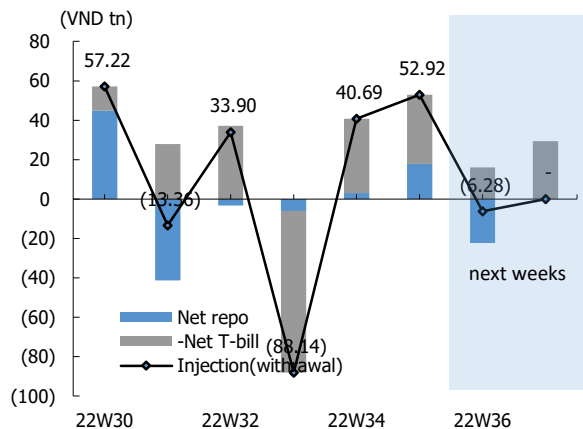
I. SBV adds liquidity before the long holiday

SBV provides more liquidity before a long holiday

In the 35th week of 2022 (from 29th August to 4th September), SBV mainly offered liquidity to the banking system through T-bill and repo instruments to ensure meeting the demand for cash settlements during a long holiday. Specifically, SBV lowered the offering of T-bill to VND1.00tn from VND33.73tn last week, resulting in a net injection of VND33.54tn this week through this tool. Regarding repo transactions, SBV rose the issued amount from VND2.99tn to VND20.38tn this week, resulting in a net liquidity inflow of VND17.79tn into the banking system. Jointly, SBV injected a total amount of VND52.92tn through open market operations this week. Regarding the funding cost development, SBV slightly increased the floating discount rate by 50 basis points (bps) to 4.50% for the 7-day contracts while keeping the winning T-bill yield unchanged at 4.00%.

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 from the growing demand for carry-trade activities. Therefore, winning yields for T-bill and repo contracts offered to SBV’s counterparties could remain high in the coming 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 29, 2022	September 5, 2022	7	0.42	4.00
August 30, 2022	September 6, 2022	7	9.95	4.50
August 31, 2022	September 7, 2022	7	10.00	4.50

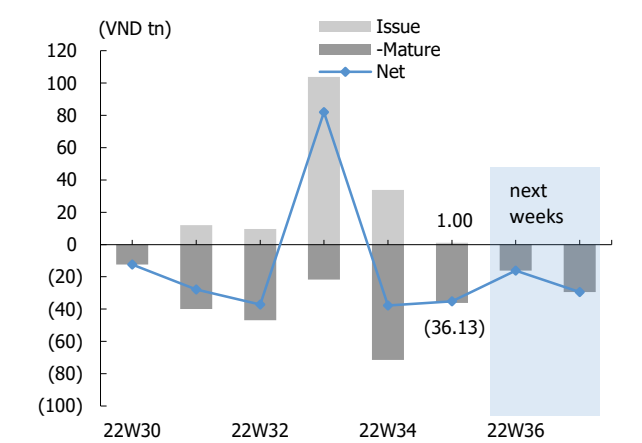
Source: SBV, Bloomberg, KIS

Table 3. Daily T-bill transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning yield (%)
August 29, 2022	September 12, 2022	14	1.00	4.00

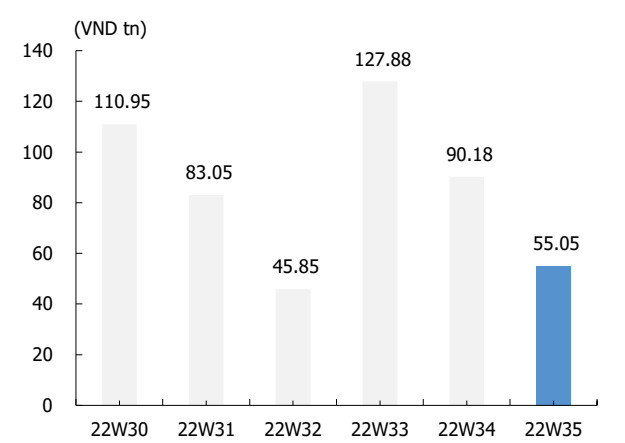
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



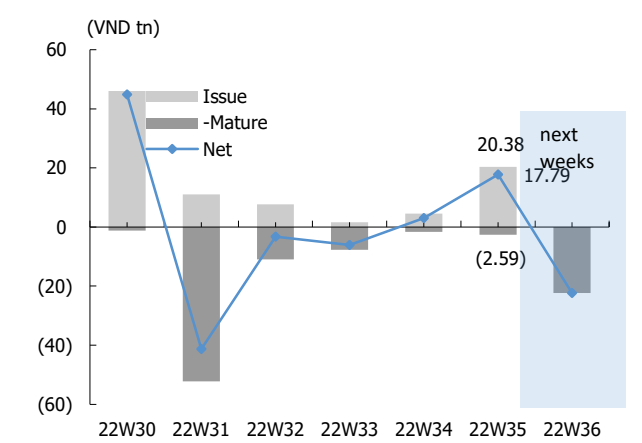
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



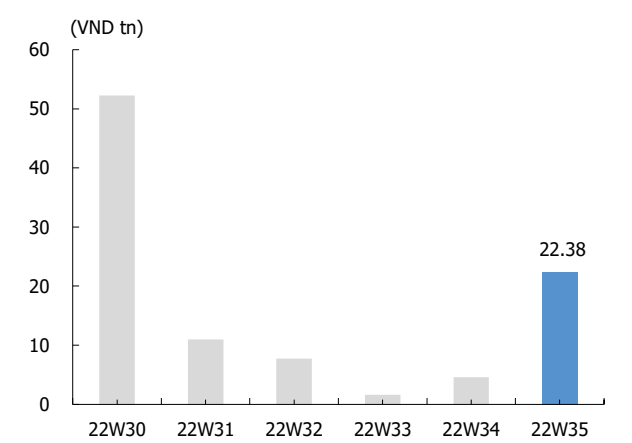
Source: SBV, Bloomberg, KIS

Figure 4. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding Repo by week

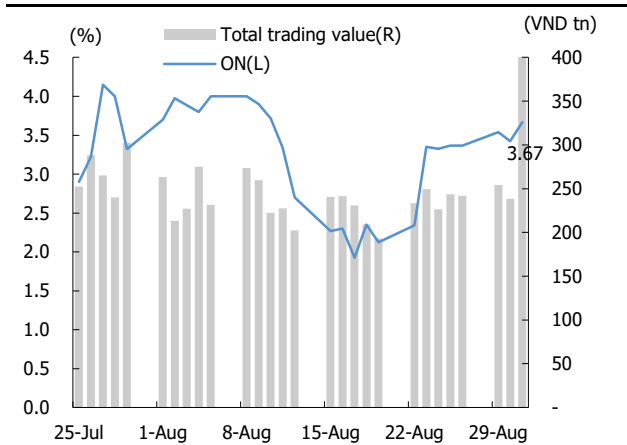


Source: SBV, Bloomberg, KIS

II. Interbank rates increase further

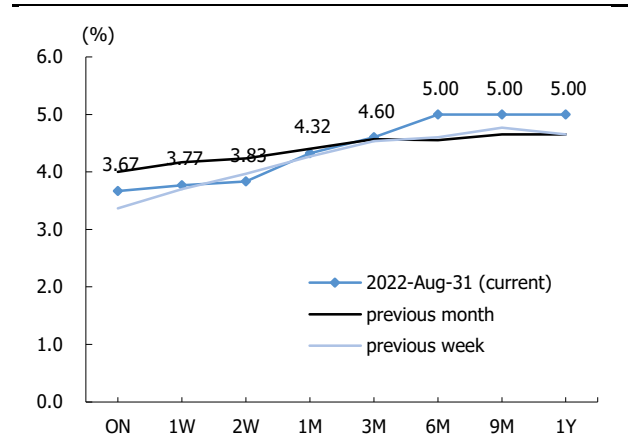
Interbank rates witnessed another increase this week amid a long holiday ahead and the firm stance of the central bank on rising funding costs in the money market. Accordingly, interbank rates primarily rose with a higher traded value, implying that demand for short-term liquidity expanded further. Specifically, ON interest rates on the last trading session of this week (Wednesday) sharply rose by 30basis points (bps) to 3.67% as the effective maturity in the holiday would be longer than usual. Less notably, 1-week, 1-month, and 3-month rose by 7bps, 6bps, and 7bps to 3.77%, 4.32%, and 4.60%. On the minor side, 2-week reduced by 13bps to 3.83% this week. Longer-term interest rates experienced more notable increases as 6-month and 9-month rose by 40bps and 23bps, likely indicating that the money market participants were speculating on the policy rate hike that shifts the interbank curve upward significantly.

Figure 6. Interbank daily transaction



Source: SBV, Bloomberg, KIS

Figure 7. Interbank bank curve



Source: SBV, Bloomberg, KIS

Regarding trading structure, money market traders switched their focus on the 1-week tenor to ensure liquidity for the long holiday and consequently increased the share of 1-week loans to 34.74% this week.

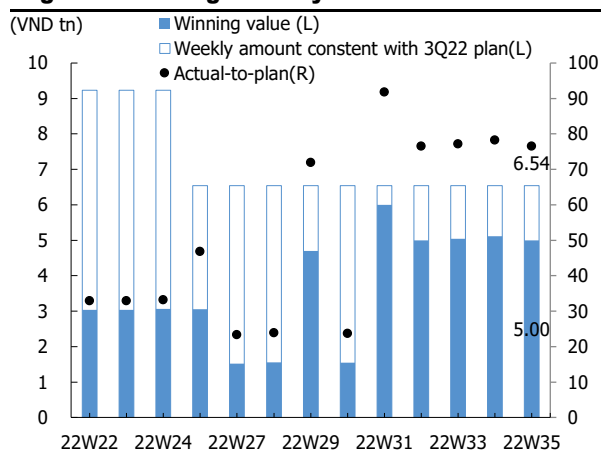
III. G-bond auction forms a new normal

G-bond auction improved further

The G-bond auction this week (35th week) was gaining recovery momentum as its winning amount remained high. Specifically, VST successfully issued VND5.00tn of G-bond with VND2.50tn for 10-year tenor and VND2.50tn for 15-year tenor. This issuing amount equals 76.47% 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 VND102.13tn, accounting for 25.53% of the 2022 plan. Winning yields made another uptick when 10-year and 15-year tenors simultaneously rose by five basis points (bps) to 2.85% and 3.15%, respectively.

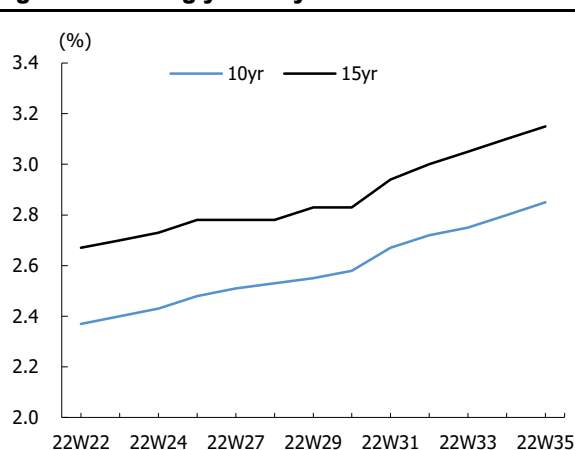
We believe that a higher yield environment under recent signals from the government of accelerating the public investment disbursement could be the main reason to attract investors in the G-bond primary market. Furthermore, 35W22's auction result showed that the first G-bond market was improving in some aspects. First, although the winning amount was similar to the previous week, it was significantly higher than several weeks before August and resulted in higher absorb rates. Second, bidding values in recent weeks in August were generally higher than before, indicating that investors paid more attention to those fixed income assets. Therefore, the bid-to-offer ratio was not much lower than in previous weeks despite offering values having increased significantly.

Figure 8. Winning value by month



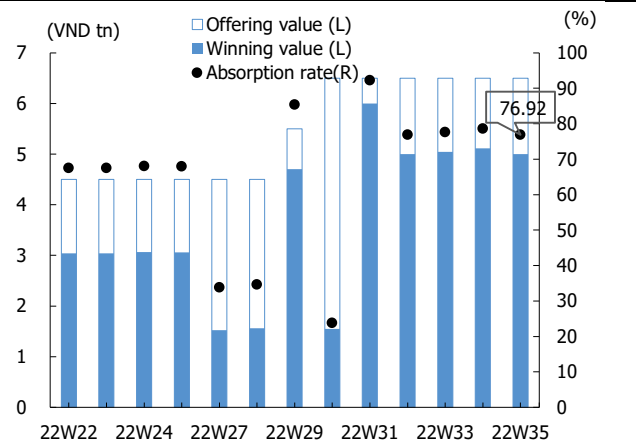
Source: HNX, KIS

Figure 9. Winning yields by week



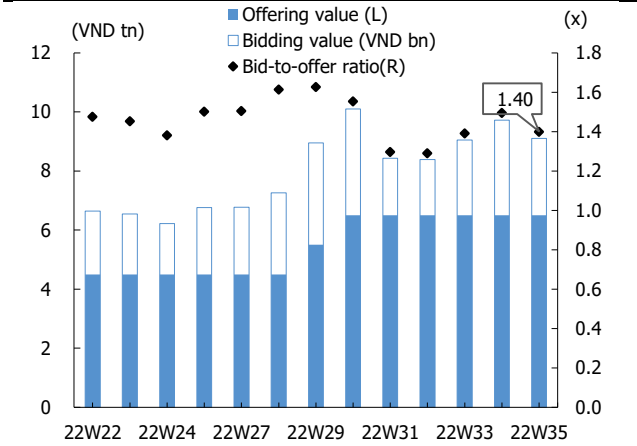
Source: HNX, KIS

Figure 10. Absorption ratio



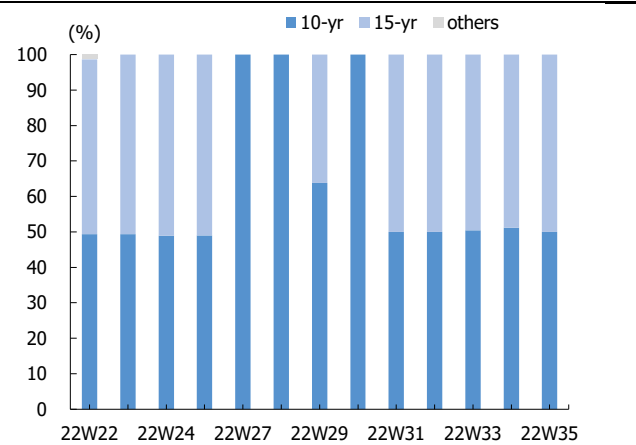
Source: HNX, KIS

Figure 11. Bid-to-offer ratio



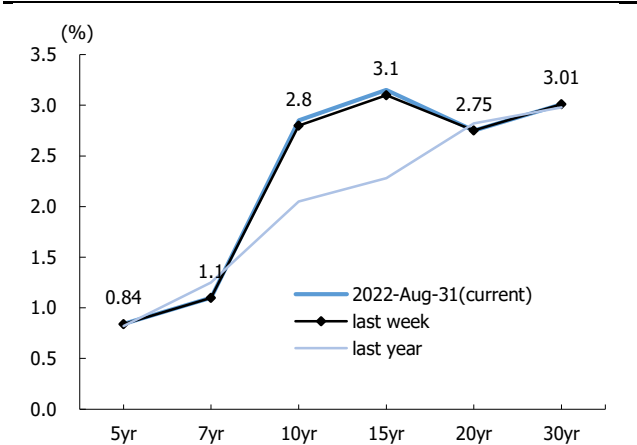
Source: HNX, KIS

Figure 12. Winning value by tenor



Source: HNX, KIS

Figure 13. Yield curve in primary market



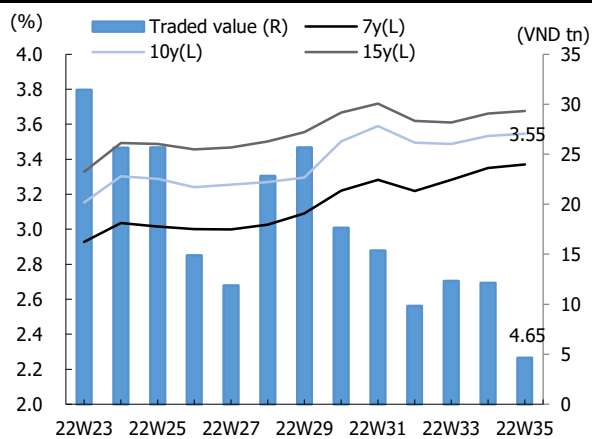
Source: HNX, KIS

IV. G-bond transactions in the 2nd market remained low

A modest G-bond trading before the holiday

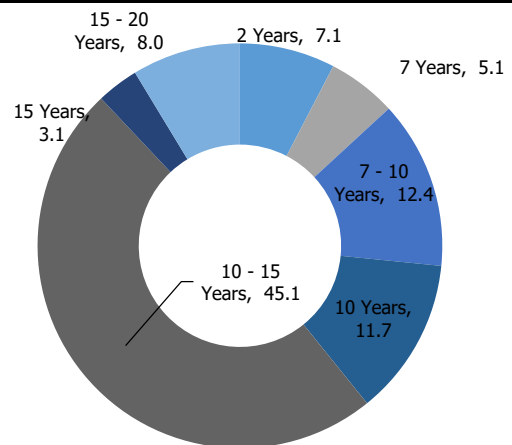
G-bond yields generally witnessed another slight increase with a lower traded volume this week (35W22), indicating that investors were losing their appetite for trading activities of this fixed income instrument. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) rose by just two basis points (bps), 1bps, and 1bps to reach 3.37%, 3.55%, and 3.66% this week, respectively. The weekly traded value just recorded a modest amount of VND4.65tn this week due to fewer trading sessions and the average traded value per day was also 37.08%-lower than 34W22. 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 to 15 years with a joint portion of 77.40%.

Figure 14. G-bond trading value



Source: HNX, KIS

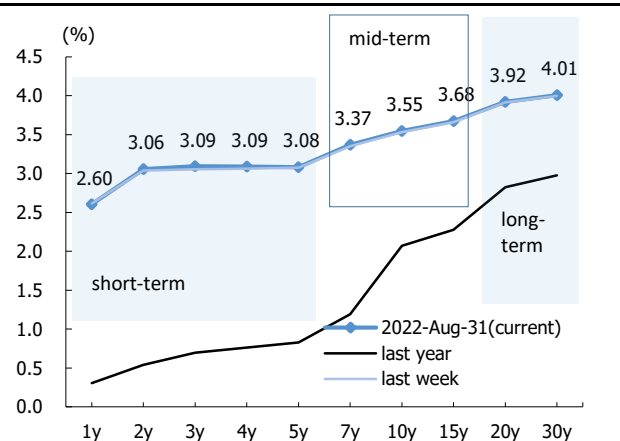
Figure 15. Trading value by tenor this week



Source: HNX, KIS

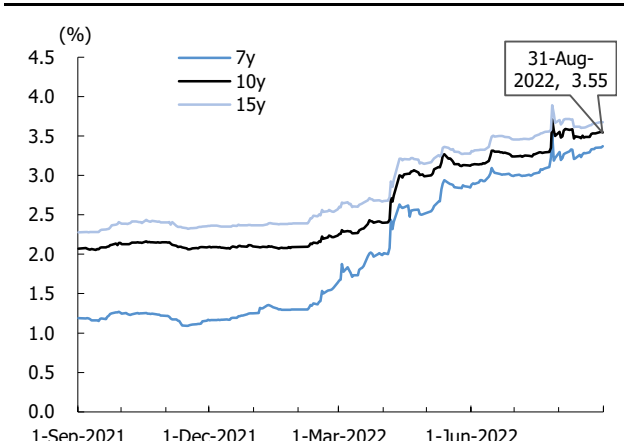
Regarding the yield curve, the steepness was mostly unchanged this week when the fluctuation in the short-end and the long-end were similar. Short-term tenors (less than seven years) and mid-term tenors (from seven to ten years) simultaneously rose by 2bps on average.

Figure 16. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 17. Historical daily government bond yield



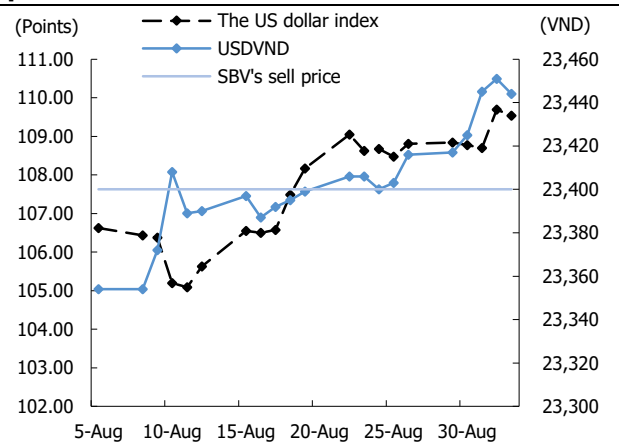
Source: HNX, VBMA, KIS

V. USDVND witnessed a slight advance

USDVND witnessed a slight advance

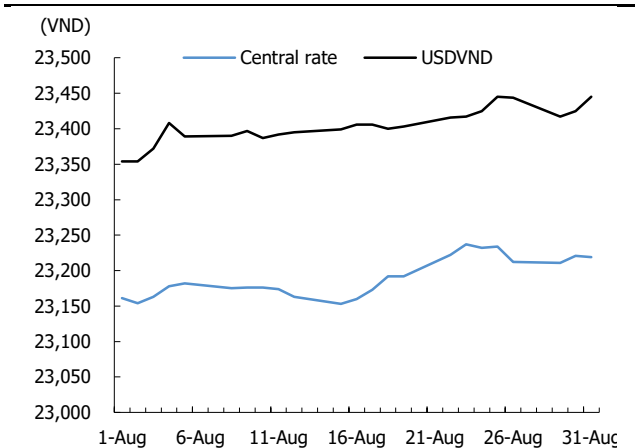
In comparison with last week's data, the USDVND witnessed a slight increase followed by a significant rise in the DXY. In general, the USDVND increased 0.12% compared with last week with a peak on Thursday at VND23,451. The upward momentum of USDVND was driven mostly by the dramatic rise of DXY. This week, DXY increased 0.67% WoW, and peaked at 109.69 points on Thursday 1st September (20-year high) as the latest fallout from Europe's worsening energy crisis heightened recessionary risks in the region, prompting investors to rush for the safety of the dollar. In addition, moderating U.S. jobs growth failed to allay fears about the Federal Reserve's "hawkish" plan to combat inflation, with markets currently priced for another 75 basis points (bps) rate rise this month.

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



Source: SBV, Bloomberg

Figure 19. Central rate and USDVND in August

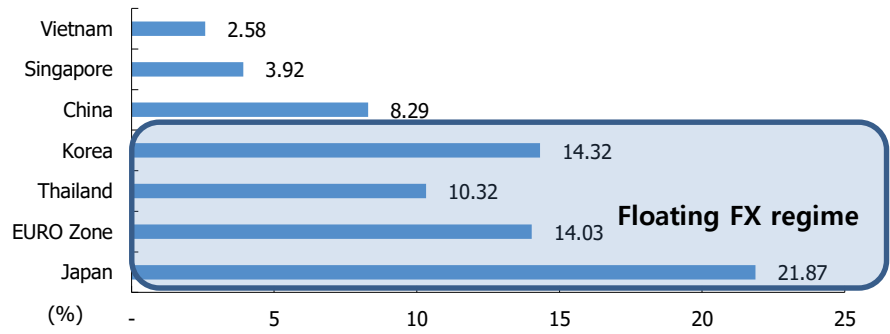


Source: SBV, Bloomberg

In the past week, the central rate increased by 7bps, from VND23,212 to VND23,219. Meanwhile, the exchange rate at commercial banks at the end of the week also increased by 0.12% compared with last week, from VND23,416 to VND23,444. In general, the spot exchange rate of USDVND this week continued to be 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 2.58% so far this year (YTD) thanks to the exchange rate stabilization policy of SBV while Singapore was around 3.92%(YTD). In contrast, countries with the floating FX regime, such as Japan and European nations, experienced a severe depreciation against the U.S. dollar. Last week, Japan was depreciated roughly 21.87% against the USD followed by the Eurozone and Korea.

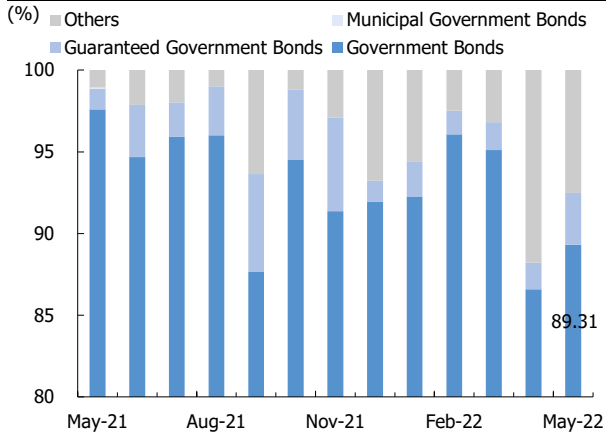
Macro scorecard

	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

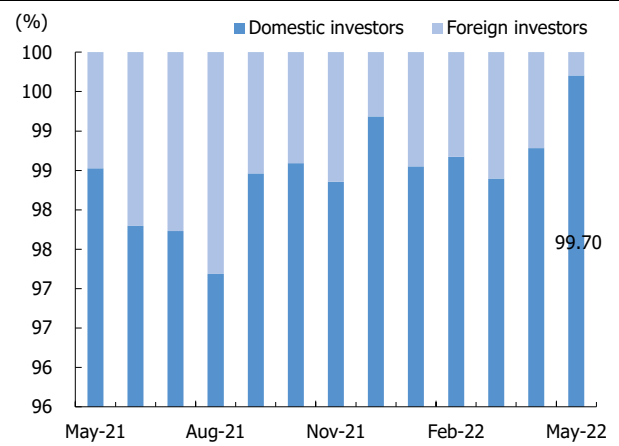
Appendix

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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