

Fixed-income Perspectives

Thinner liquidity after the long holiday

SBV strengthens the liquidity injection

In the 36th week of 2022 (from 5th September to 11th September), SBV continued to provide liquidity to the banking system with a greater magnitude after the long holiday. Specifically, SBV has increased the repo offering dramatically with an amount of VND64.43tn from VND20.38tn in the previous week, resulting in a net injection of VND42.05tn via this channel. Besides, SBV this week halted the rollover of previous T-bill contracts, resulting in a net liquidity inflow of VND16.10tn into the banking system. Jointly, SBV injected a total amount of VND58.15tn through open market operations this week.

A turbulent interbank after the long holiday

Interbank transactions in 36W22 became turbulent after a long holiday when interbank rates soared in the first days of this week before falling back sharply on the weekend. Generally, interbank rates significantly rose this week with a lower traded value, implying that liquidity supply has become thinner. Specifically, overnight interest rates on the last trading session of this week sharply rose by 80basis points to 4.47%.

USDVND increases strongly

USDVND witnessed a dramatic increase while the DXY was slowed down. In general, the USDVND increased 0.70% compared with last week, the spot exchange rate peaked on Wednesday at 23,615. Stabilizing the USDVND exchange rate was likely the SBV's top priority as its selling price of the greenback has been increased to VND23,700 on Wednesday 7th September. Currently, VND cumulatively depreciated by 2.90% 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

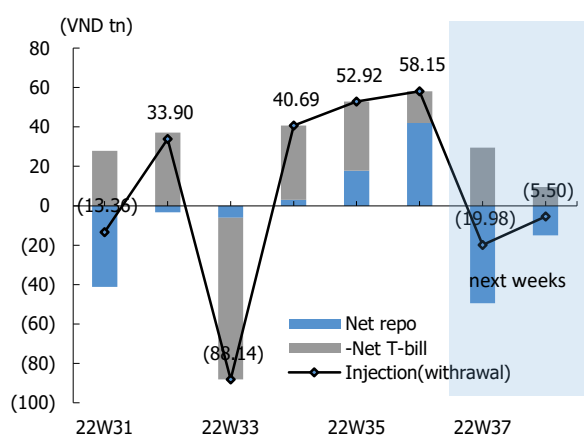
I. SBV strengthens the liquidity injection

SBV widens the liquidity injection after a long holiday

In the 36th week of 2022 (from 5th September to 11th September), SBV continued to provide liquidity to the banking system with a greater magnitude after the long holiday. Specifically, SBV has increased dramatically the repo offering with an amount of VND64.43tn from VND20.38tn in the previous week, resulting in a net injection of VND42.05tn via this channel. Besides, SBV this week halted the rollover of previous T-bill contracts, resulting in a net liquidity inflow of VND16.10tn into the banking system. Jointly, SBV injected a total amount of VND58.15tn through open market operations this week. Regarding the funding cost development, SBV generally kept the floating discount rate unchanged at 4.50% for the 7-day contracts although the central banks occasionally raised it up to 4.60% in the Tuesday trading session.

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

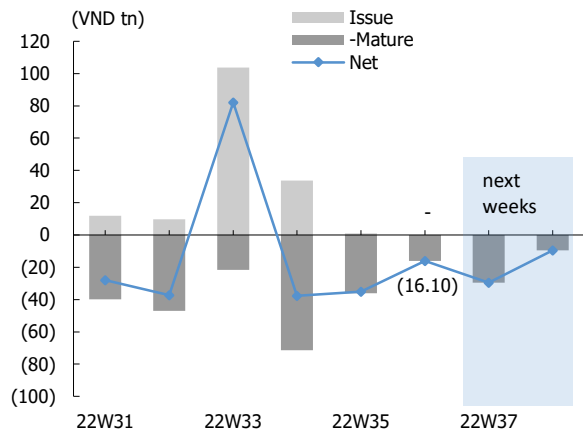
Source: SBV, Bloomberg, KIS

Table 2. Daily repo transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
September 5, 2022	September 12, 2022	7	15.00	4.50
September 6, 2022	September 13, 2022	7	15.00	4.60
September 7, 2022	September 14, 2022	7	13.72	4.50
September 7, 2022	September 21, 2022	14	15.00	4.65
September 8, 2022	September 15, 2022	7	4.71	4.50

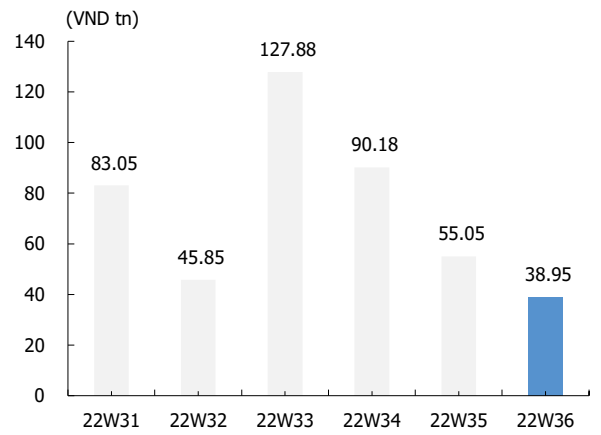
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



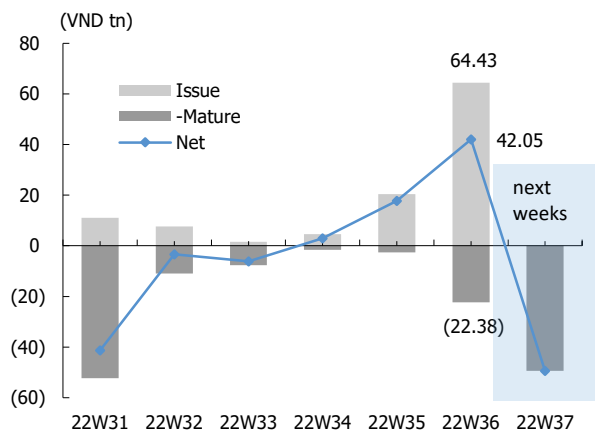
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



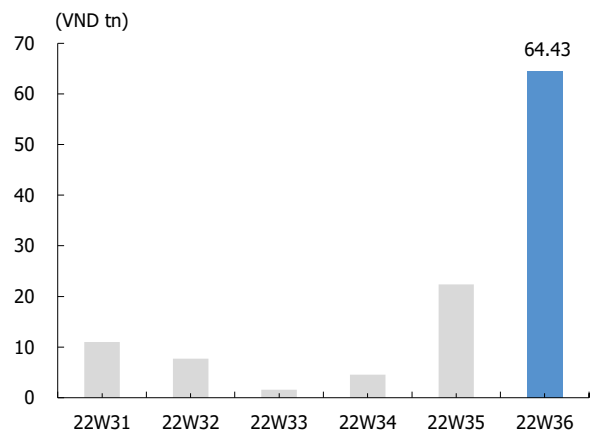
Source: SBV, Bloomberg, KIS

Figure 4. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding Repo by week



Source: SBV, Bloomberg, KIS

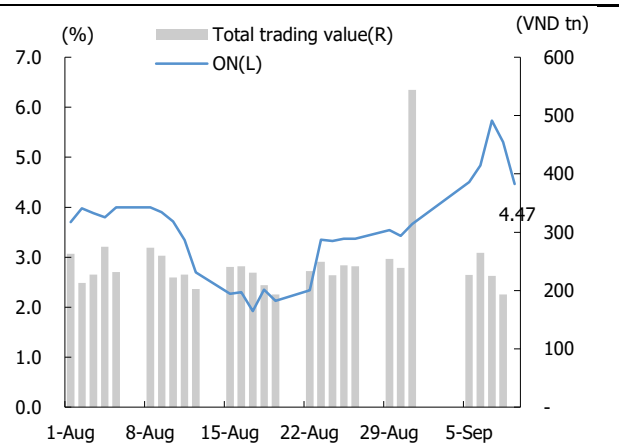
II. A turbulent interbank after the long holiday

Interbank transactions in 36W22 became turbulent after a long holiday when interbank rates soared in the first days of this week before falling back sharply on the weekend. Generally, interbank rates significantly rose this week with a lower traded value, implying that liquidity supply has become thinner.

Specifically, overnight (ON) interest rates on the last trading session of this week sharply rose by 80basis points (bps) to 4.47%. Similarly, 1-week and 2-week faced dramatic upward pressure when increasing by 92bps and 85bps compared to the last weekend to 4.68% and 4.68%, respectively. In a less notably way, interest rates on 1-month, 3-month, 6-month, 9-year, and 1-year rose by 58bps, 52bps, 25bps, 60bps, and 57bps to 4.90%, 5.12%, 5.25%, 5.60%, and 5.57% at this weekend.

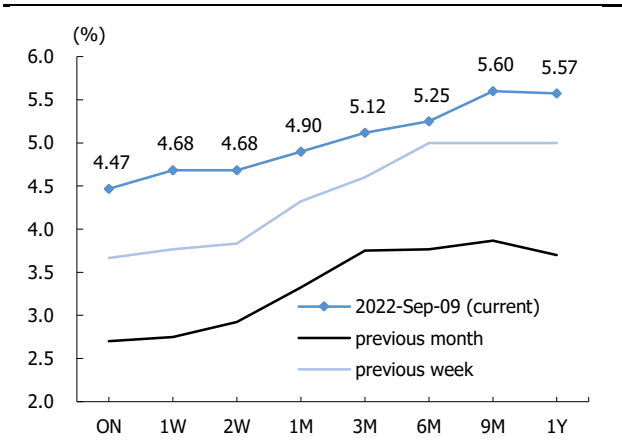
Trading value reduced by 12.26% compared to the previous week to reach VND909.83tn this week. The reduction was even more significant if considering transactions on daily basis. Accordingly, this week recorded an amount of VND181.97tn per trading session, lower by 47.35% compared to the daily traded value in 35W22.

Figure 6. Interbank daily transaction



Source: SBV, Bloomberg, KIS

Figure 7. Interbank bank curve



Source: SBV, Bloomberg, KIS

Regarding trading structure, money market traders returned to focus on the overnight tenor, resulting in an increase in share from 62.20% in the previous week to 91.13% this week.

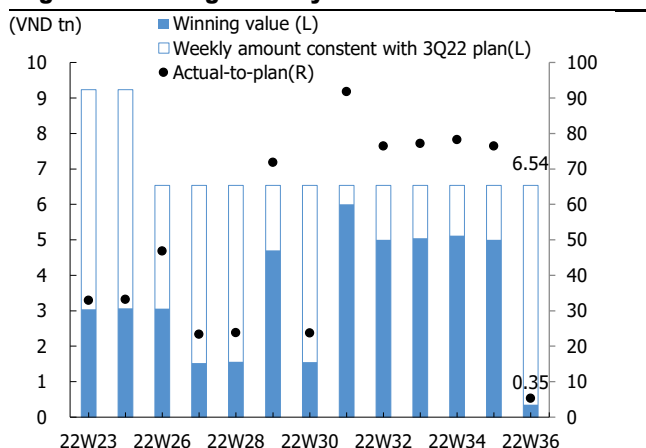
III. The recovery of the G-bond auction halts

The improvement in the G-bond 1st market halts

Government bond auction this week recorded a failure amid the turbulence of the money market after experiencing a recovery in five consecutive weeks. Specifically, 36W22 just recorded a trivial winning amount of VND0.35tn for the 10-year tenor from VND6.50tn offered by VST. This issuing amount equals 5.35% 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 VND102.48tn, accounting for 25.62% of the 2022 plan. Accepted yield for winners held unchanged at 2.58%. Also, the auction failure dragged the absorption rate to the multi-week low at 5.38% this week. Despite the unfavorable development, investor's interest in this fixed income instrument remained acceptable when the bid-to-offer ratio reduced slightly to 1.31x this week.

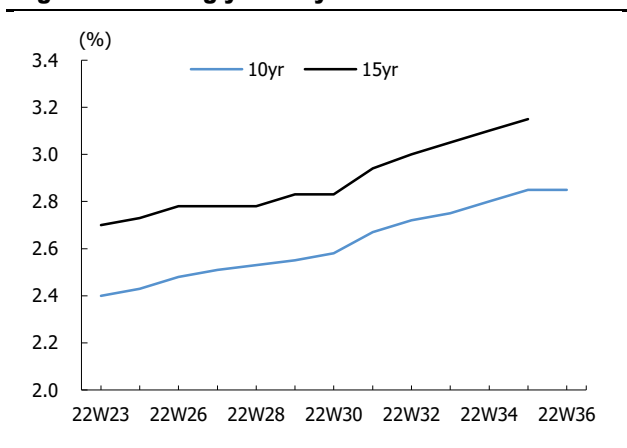
We believe that the turbulence in the money market was the main reason for the auction failure this week. Under the soared interbank rate after a long holiday, commercial banks likely prioritize their attention and resources to resolve funding shortages and consequently limited G-bond investing. Furthermore, given the unchanged G-bond yield from VST's offering in the first market, the interest rate spread between this instrument and interbank loans was significantly large. Banks were hard to find the attractiveness of this fixed income asset at this time. Therefore, we predict that the G-bond auction will be favorable again in the next few weeks as the liquidity disorder in the money market is over.

Figure 8. Winning value by month



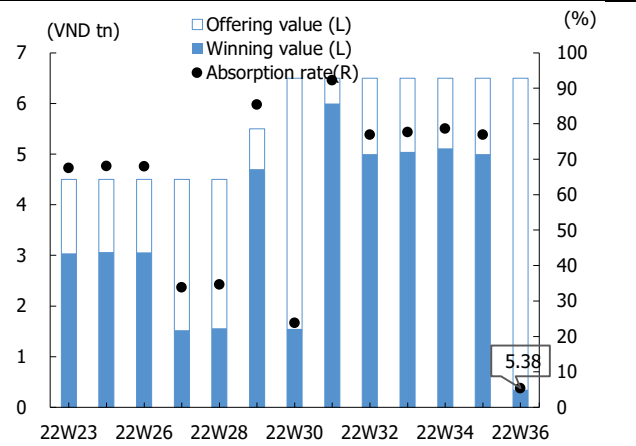
Source: HNX, KIS

Figure 9. Winning yields by week



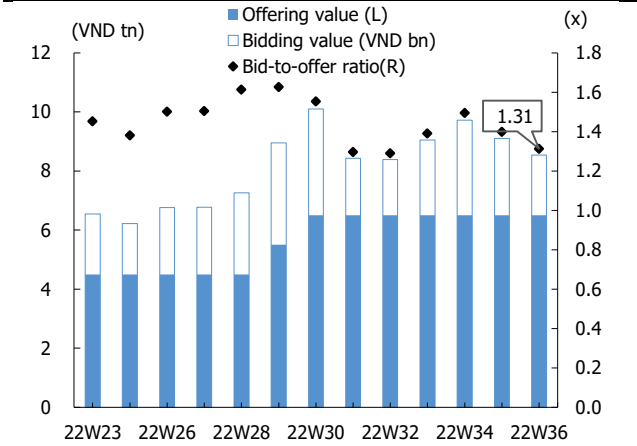
Source: HNX, KIS

Figure 10. Absorption ratio



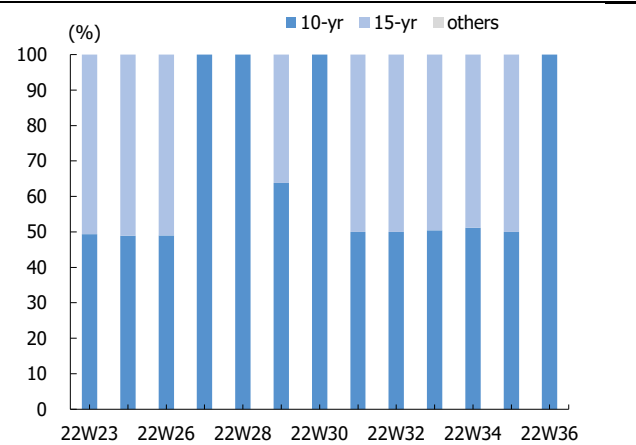
Source: HNX, KIS

Figure 11. Bid-to-offer ratio



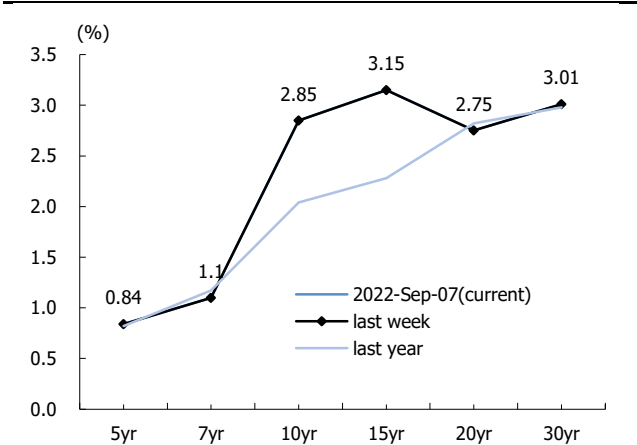
Source: HNX, KIS

Figure 12. Winning value by tenor



Source: HNX, KIS

Figure 13. Yield curve in primary market



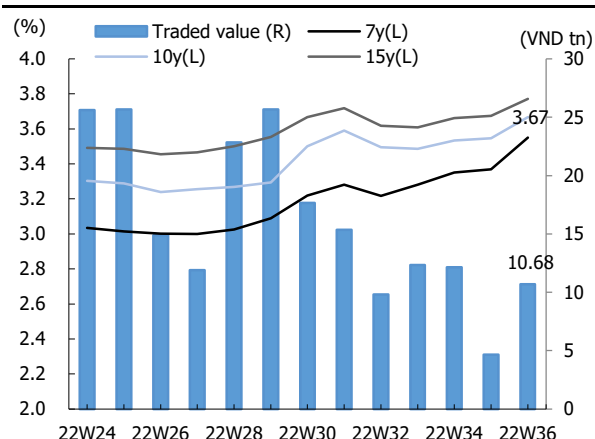
Source: HNX, KIS

IV. G-bond yields increased notably

A greater selling pressure in the G-bond 2nd market

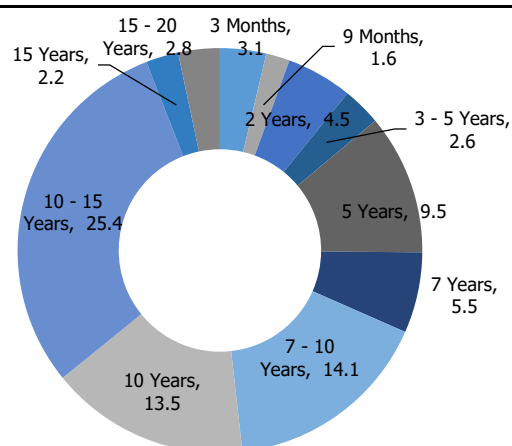
G-bond yields rose sharply this week (36W22) with higher trading volume, indicating a greater selling pressure amid the money market turbulence the post-holiday. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) notably increased by 18 basis points (bps), 12bps, and 10bps to reach 3.55%, 3.67%, and 3.77% this week, respectively. The weekly traded value reached VND13.30tn, nearly tripling the amount of the previous week due to a higher number of trading sessions. On daily basis, 36W22 recorded an average of VND2.66tn per trading session, increasing by 71.54% WoW. 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 60.80%.

Figure 14. G-bond trading value



Source: HNX, KIS

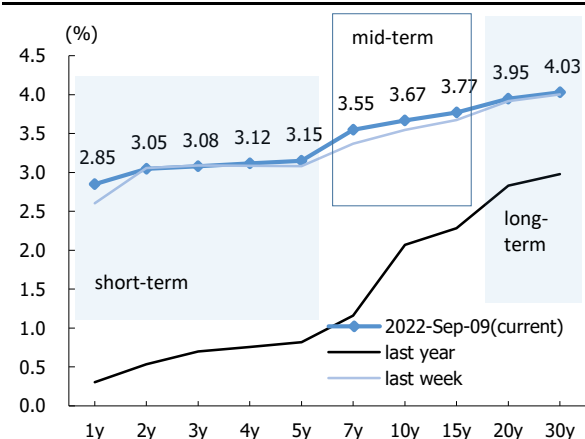
Figure 15. Trading value by tenor this week



Source: HNX, KIS

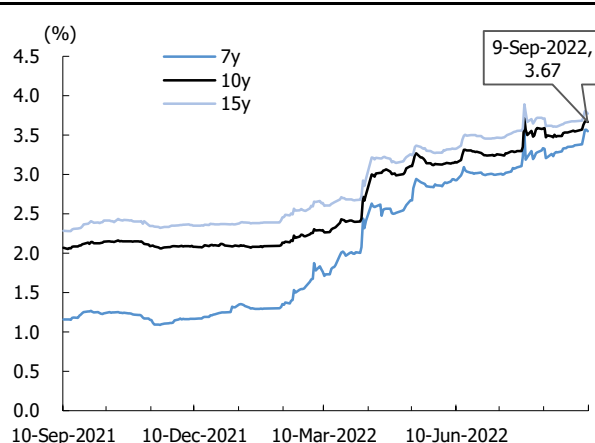
Regarding the yield curve, the steepness was slightly steeper than the previous week under the recent development in this fixed income market concentrated on mid-term tenors (from 7 to 15 years). This group rose by 13bps on average while short-term tenors (less than seven years) and long-term tenors (from 20 years and above) recorded less notable increases of 6bps and 3bps on average.

Figure 16. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 17. Historical daily government bond yield



Source: HNX, VBMA, KIS

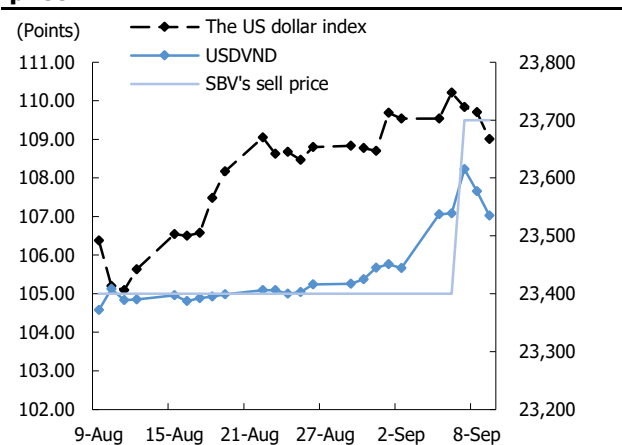
V. USDVND increases strongly

USDVND witnessed a dramatic advance

In comparison with last week's data, the USDVND witnessed a surge while the DXY was slowed down. In general, the USDVND increased dramatically by 0.70% compared with last week with a peak on Wednesday at VND23,615.

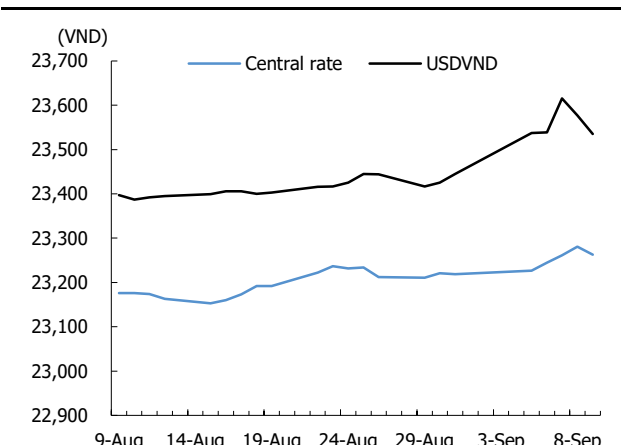
The upward momentum of USDVND was driven mostly by the dramatic rise of DXY. This week, DXY decreased 0.48% WoW as an increasingly hawkish outlook on European Central Bank policy weighed on the greenback. There was time the DXY peaked at 110.21 points on Tuesday 6th September (20-year high). Meanwhile, investors are currently preparing for a key U.S. inflation reading that could influence the Federal Reserve's rate hike plans. The U.S. CPI due for release on Tuesday 13th September is expected to ease from 8.5% in July to 8.1% in August year-over-year, and a surprise to the upside could drive a fresh dollar rally as it would support further tightening from the Fed.

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



Source: SBV, Bloomberg

Figure 19. Central rate and USDVND in August

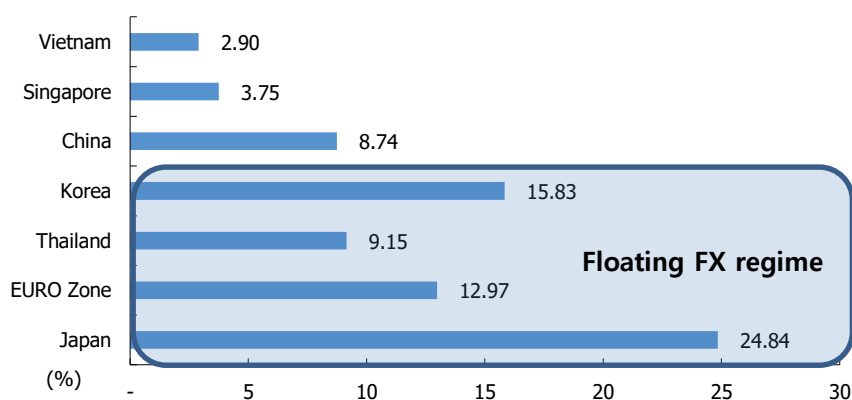


Source: SBV, Bloomberg

In the past week, the central rate increased by 44bps, from VND23,219 to VND23,263, the highest rate since 2021. Meanwhile, the exchange rate at commercial banks at the end of the week also increased by 0.70% compared with last week, from VND23,444 to VND23,535.

In addition, SBV has just increased its selling price of the greenback from VND23,400 on Wednesday 7th September, 1.28% higher than the previous adjustment. The action of SBV shows the determination to stabilize the exchange rate and prevent the VND from depreciating against the U.S dollar.

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 2.90% so far this year (YTD) thanks to the exchange rate stabilization policy of SBV while Singapore has fallen to around 3.75% (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 24.84% against the USD followed by the Korea and Eurozone.

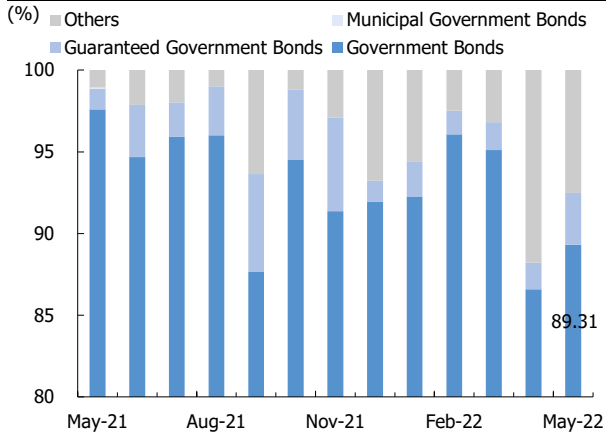
Macro scorecard

	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

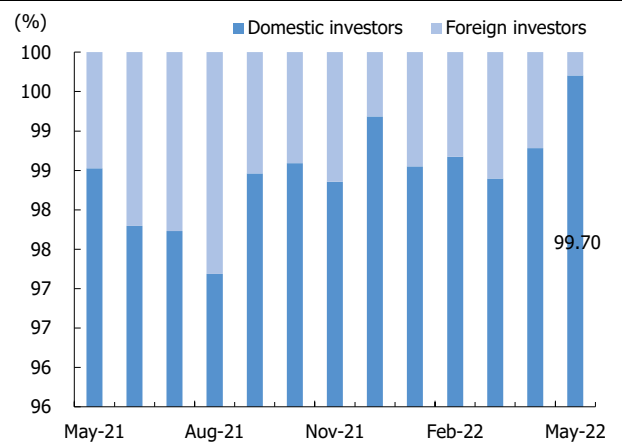
Appendix

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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