

Fixed-income Perspectives

Liquidity pressure temporarily eased ahead of Fed's decision

SBV turns to draw liquidity out

In the 37th week of 2022 (from 12th September to 18th September), SBV switched into liquidity withdrawal after consecutively pouring money into the banking system in three recent weeks. Specifically, SBV has significantly reduced the repo offering to VND4.94tn from VND64.43tn in the previous week, resulting in a net withdrawal of VND44.49tn via this channel. On the other hand, the central bank has newly offered a notable amount of VND4460tn to partly roll over the amount issued in July-middle, creating a net drawing of VND15.15tn from the banking system.

Interbank rates temporarily eased

Interbank rates generally reduced this week with a higher trading value, implying that liquidity providers have become more ready with this price base. Specifically, overnight (ON) interest rates on the last trading session of this week declined by 37basis points (bps) to 4.10%.

USDVND increases significantly

USDVND increases significantly followed by the rise of DXY. In general, the USDVND increased 0.50% compared with last week, the spot exchange rate peaked on Friday at 23,652. 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 3.47% 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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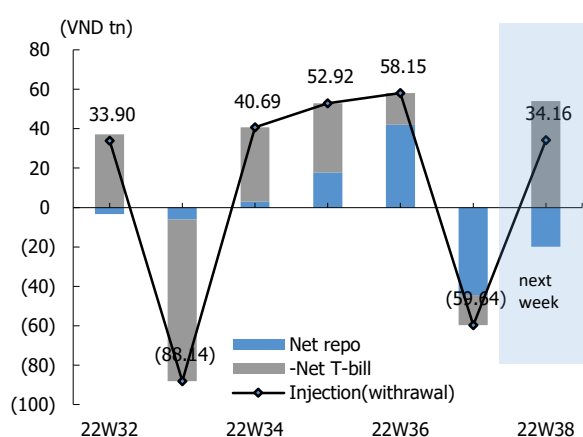
I. SBV turns to draw liquidity out

SBV reverses the liquidity support

In the 37th week of 2022 (from 12th September to 18th September), SBV switched into liquidity withdrawal after consecutively pouring money into the banking system in three recent weeks. Specifically, SBV has significantly reduced the repo offering to VND4.94tn from VND64.43tn in the previous week, resulting in a net withdrawal of VND44.49tn via this channel. On the other hand, the central bank has newly offered a notable amount of VND4460tn to partly roll over the amount issued in July-middle, creating a net drawing of VND15.15tn from the banking system. Regarding the funding cost development, SBV generally kept the floating discount rate and T-bill yield unchanged at 4.60% and 4.00% this week, primarily stabilizing the interbank rate in this interest rate corridor.

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 would be persistently 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 12, 2022 | September 19, 2022 | 7 | 1.00 | 4.60 |
| September 13, 2022 | September 20, 2022 | 7 | 1.00 | 4.60 |
| September 14, 2022 | September 21, 2022 | 7 | 1.00 | 4.60 |
| September 15, 2022 | September 22, 2022 | 7 | 0.94 | 4.60 |
| September 16, 2022 | September 23, 2022 | 7 | 1.00 | 4.60 |

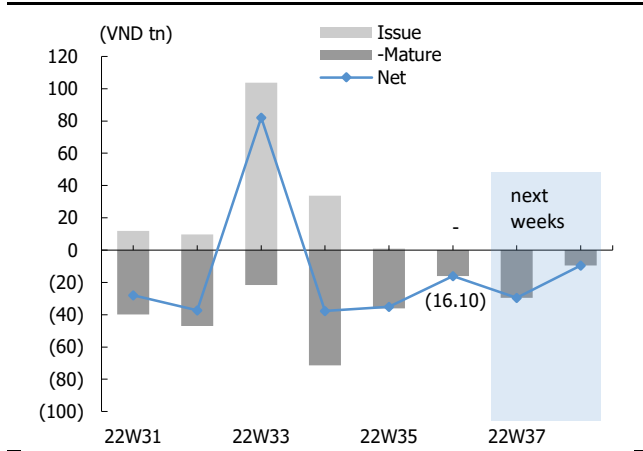
Source: SBV, Bloomberg, KIS

Table 3. Daily T-bill transactions of this week

| Issue date | Maturity date | Tenor (days) | Issued amount (VND tn) | Winning rate (%) |
|--------------------|--------------------|--------------|------------------------|------------------|
| September 14, 2022 | September 21, 2022 | 7 | 22.00 | 4.00 |
| September 15, 2022 | September 22, 2022 | 7 | 10.60 | 4.00 |
| September 16, 2022 | September 23, 2022 | 7 | 12.00 | 4.00 |

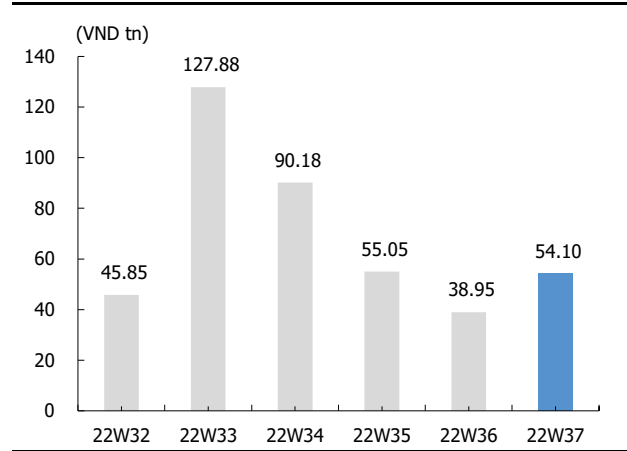
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



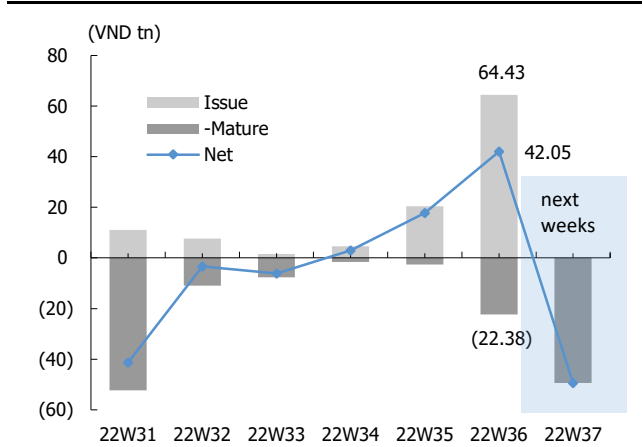
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



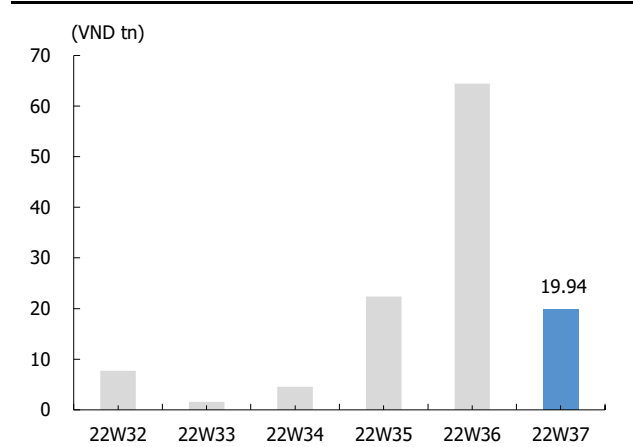
Source: SBV, Bloomberg, KIS

Figure 4. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding Repo by week

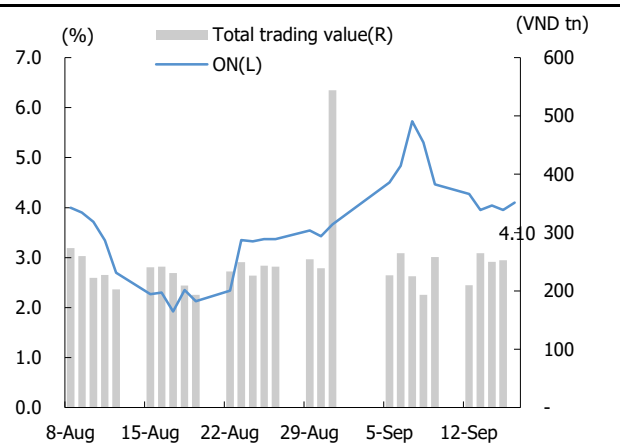


Source: SBV, Bloomberg, KIS

II. Interbank rates temporarily ease

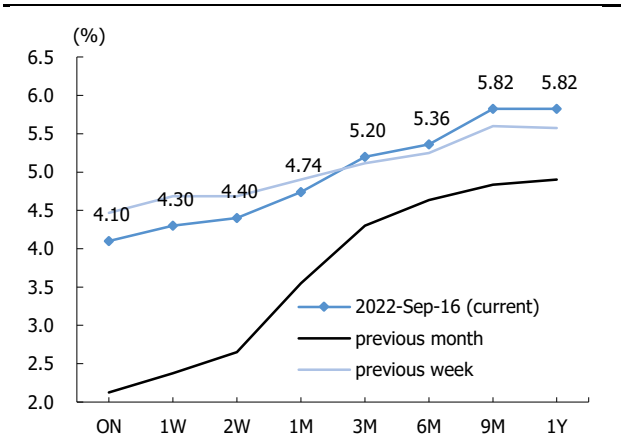
Interbank rates generally reduced this week with a higher trading value, implying that liquidity providers have become more ready with this price base. Specifically, overnight (ON) interest rates on the last trading session of this week declined by 37basis points (bps) to 4.10%. Similarly, 1-week and 2-week decreased by 38bps and 28bps compared to the last weekend to 4.30% and 4.40%, respectively. On the opposite direction, longer-term loans experienced increase as a front-run for Fed's decision next week. Accordingly, 3-month, 6-month, 9-year, and 1-year rose by 8bps, 11bps, 22bps, and 25bps to 5.20%, 5.36%, 5.82%, and 5.82% at this weekend. Trading value rose by 4.44% compared to the previous week to reach VND1,219.87tn this week.

Figure 6. Interbank daily transaction



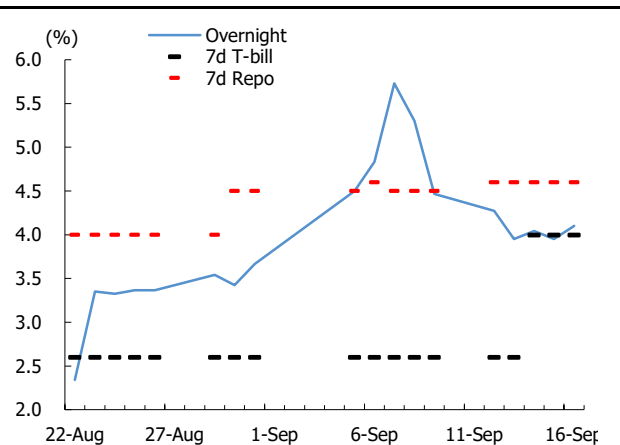
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



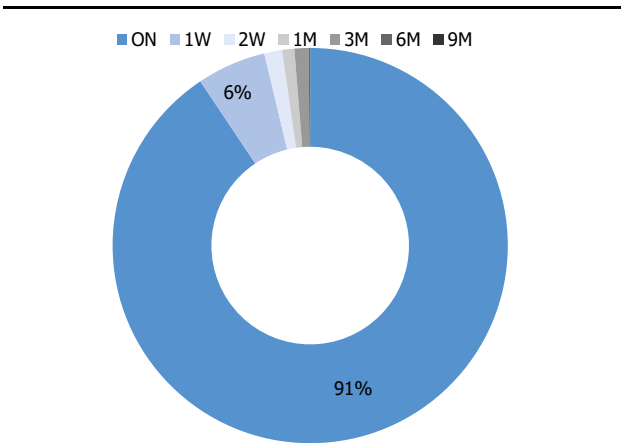
Source: SBV, Bloomberg, KIS

Figure 6. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 7. Interbank transaction structure



Source: SBV, Bloomberg, KIS

Regarding trading structure, money market traders kept focusing on the overnight tenor with a share of 90.6%, slightly reducing from 92.02% in the previous week.

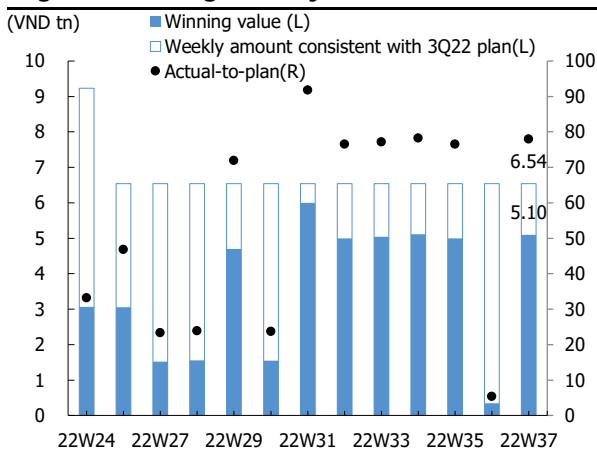
III. The G-bond auction returns favorable

The recovery in the G-bond 1st market returned

The government bond (G-bond) auction this week returned favorable after witnessing a failure due to the turbulence of the money market. Specifically, 37W22 recorded a winning amount of VND5.10tn (VND2.50tn for the 10-year tenor and VND2.60tn for the 15-year) from VND7.00tn offered by VST. This issuing amount equals 78.00% 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 VND107.58tn, accounting for 26.90% of the 2022 plan. 10-year and 15-year accepted yields for winners concurrently rose by 8basis points (bps) to 2.93% and 3.23%, respectively. Besides, the recovery of the G-bond auction caused the absorption rate to rebound to 72.85% this week. Investor’s interest in this fixed income instrument remained high when the bid-to-offer ratio rose notably to 1.41x this week.

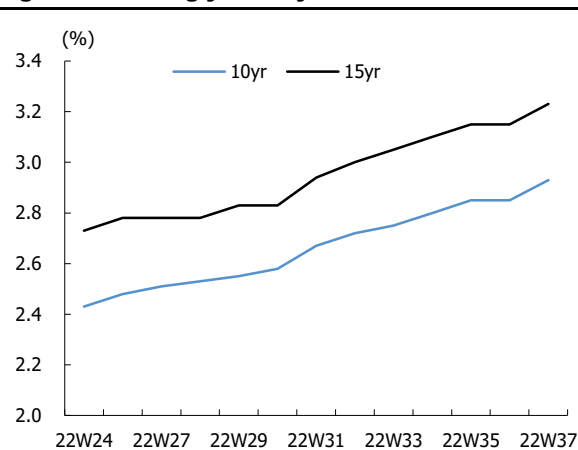
The G-bond auction has returned favorable due to resolved turbulence of the money market and more profitable offered yields. However, this recovery in the G-bond primary market was limited when the state budget was strongly surplus and the disbursement of public investment remained low. VST found no rush in financing activity through the G-bond issuing. Therefore, we predict that the offered yield would slightly increase to partly reflect upward pressure on the money market.

Figure 8. Winning value by month



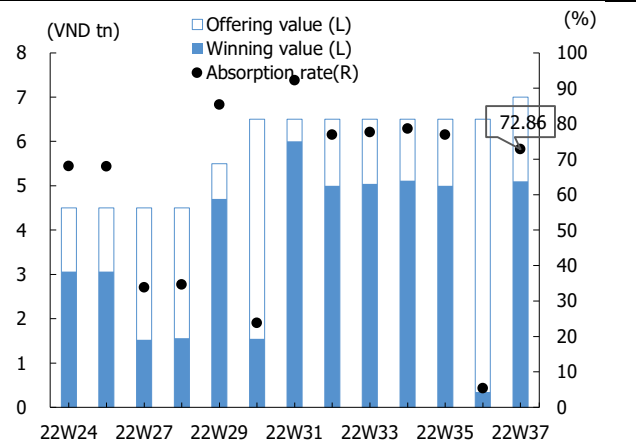
Source: HNX, KIS

Figure 9. Winning yields by week



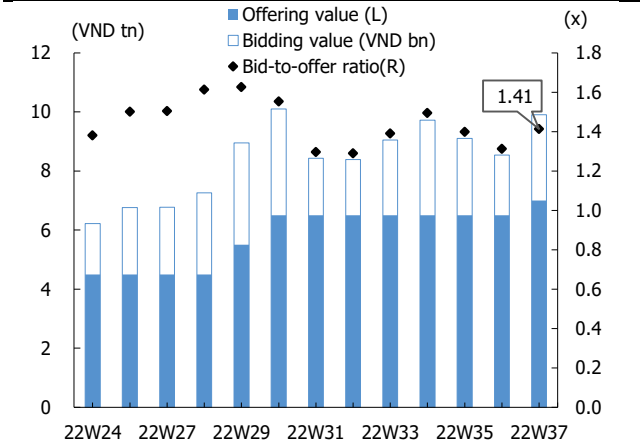
Source: HNX, KIS

Figure 10. Absorption ratio



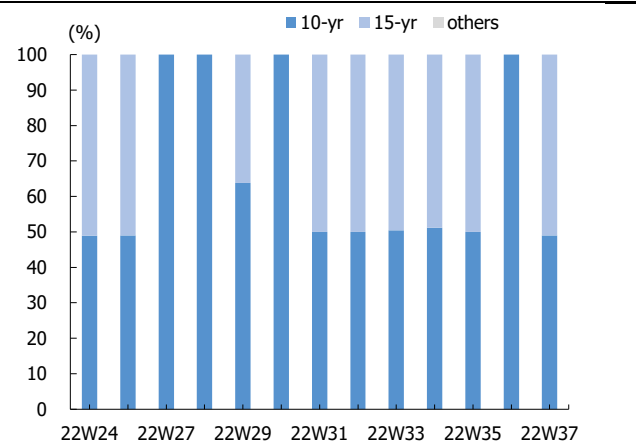
Source: HNX, KIS

Figure 11. Bid-to-offer ratio



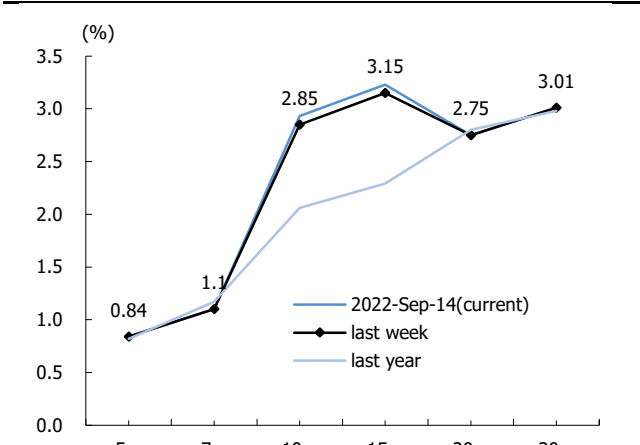
Source: HNX, KIS

Figure 12. Winning value by tenor



Source: HNX, KIS

Figure 13. Yield curve in primary market



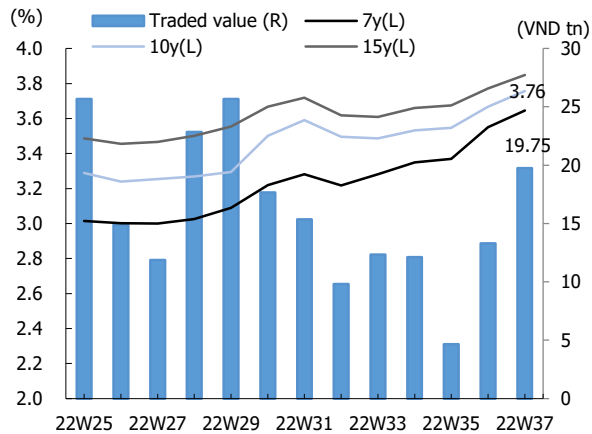
Source: HNX, KIS

IV. G-bond yields gain upward momentum

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

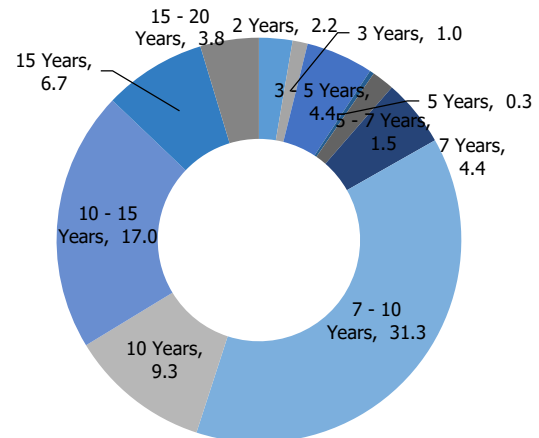
G-bond yields witnessed another week (37W22) of increase with a significantly higher trading volume, indicating a greater selling pressure ahead Fed's rate decision next week. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) notably increased by 10 basis points (bps), 9bps, and 8bps to reach 3.65%, 3.76%, and 3.85% this week, respectively. The weekly traded value reached VND19.75tn for five trading sessions, increasing by 48.50% 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 to 15 years with a joint portion of 69.51%.

Figure 14. G-bond trading value



Source: HNX, KIS

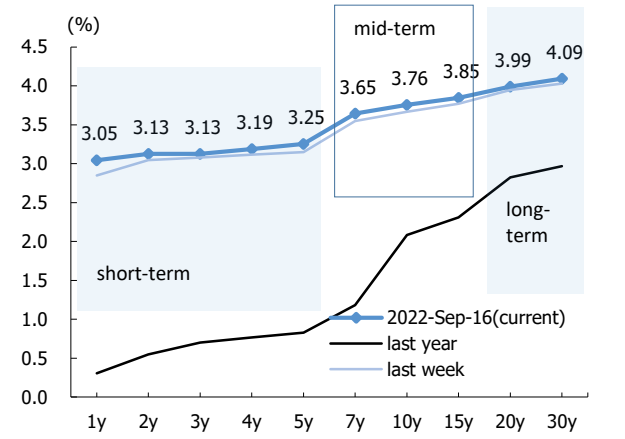
Figure 15. Trading value by tenor this week



Source: HNX, KIS

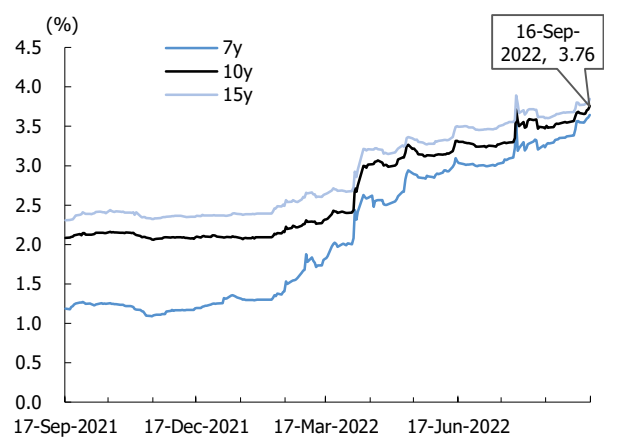
Although the yield curve upwardly shifted, its steepness was seemingly unchanged compared to the previous week under the recent development in this fixed income market concentrated evenly across tenors. Accordingly, mid-term tenors (7 to 15 years) rose by 9bps and short-term tenors (less than seven years) rose by 10bps, and long-term on average. Less notably, long-term tenors (from 20 years and above) recorded an increase of 5bps on average.

Figure 16. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 17. Historical daily government bond yield



Source: HNX, VBMA, KIS

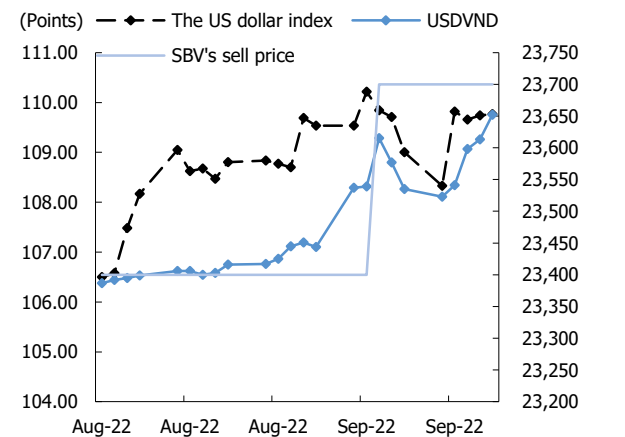
V. USDVND increases significantly

USDVND witnessed a dramatic advance

In comparison with last week's data, the USDVND increased followed by the rise of DXY. In general, the USDVND increased significantly by 0.50% compared with last week with a peak on Friday at VND23,652.

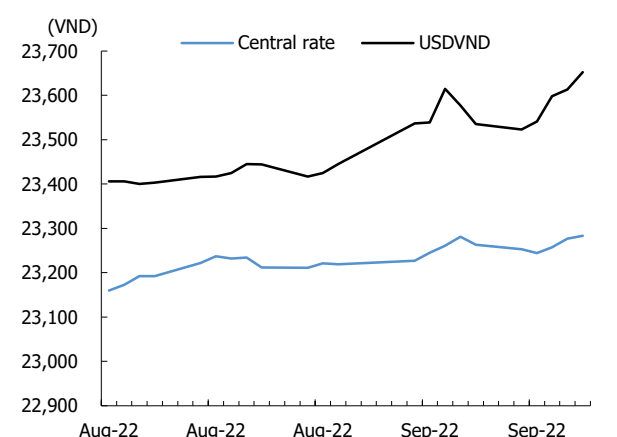
The upward momentum of USDVND was driven mostly by the dramatic rise of DXY. This week, DXY increased 0.70% WoW to nearly 110 points, hovering close to its highest levels in 20 years as investors were awaiting a big week for central bank decisions, headlined by the Federal Reserve which is expected to deliver another supersized rate hike to tame surging inflation. The DXY peaked at 109.76 points on Friday 16th September (20-year high). Higher-than-expected inflation numbers and solid economic data in the U.S this week cemented expectations that the Fed will tighten further, and markets are currently priced for a third straight 75 basis point increase, while some analysts are betting on a bigger full percentage point hike which is 100 basic point.

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



Source: SBV, Bloomberg

Figure 19. Central rate and USDVND in August



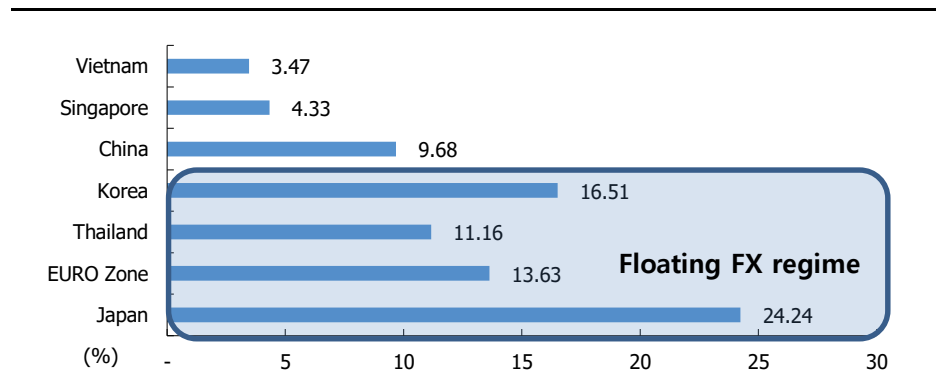
Source: SBV, Bloomberg

In the past week, the central rate increased by 20bps, from VND23,263 to VND23,283, the highest rate since 2021. Meanwhile, the exchange rate at

commercial banks at the end of the week also increased by 0.50% compared with last week, from VND23,535 to VND23,652.

In addition, SBV continued to set its selling price of the greenback at VND23,700. This is the third time that the State Bank has raised the selling price of VND. This move comes amid market concerns that the Fed will have a “hawkish” interest rates hike by 75 bps at the next September meeting, causing the USD to continue strong price increase. There was time that the DXY index rose over 15% YTD, causing VND to be under pressure of devaluation. 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 3.47% so far this year (YTD) thanks to the exchange rate stabilization policy of SBV while Singapore has fallen to around 4.33% (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 24.24% 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

**Glossary

- * Winning yield rate = each group's highest bidding rate, ~2.9%
- * Absorption rate = winning value / offering value, ~80%
- * Bid to offer ratio = offering value / bidding value, ~1.4x
- * DXY = U.S. Dollar Index, ~110
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~4%

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