

Fixed-income Perspectives

SBV decides to raise policy rates

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In the 38th week of 2022 (from 19th September to 25th September), SBV tightened the liquidity condition in the banking system in the week that FOMC would release its monetary policy decision. Notably, Vietnam's central bank announced raising in several policy rates first time since 2012 on Thursday after the Fed's decision of 100 basis points (bps) rate hike. Specifically, discount and refinancing rates would be 3.50% and 5.00% from 23rd September, increasing by 100bps for each compared to their previous values. Besides, caps for deposits with tenor below 1 month and below 6 months rose by 30bps and 100bps to 0.5% and 5.0% per annual, respectively.

Higher interbank rates in FOMC's week

Interbank rates generally rose this week, especially after the announcement from SBV that the central bank would increase its policy rates first time since 2012. Higher interbank interest rates with a lower trading value implies that liquidity provision became tighter after SBV used the new interest corridor to signal money market traders that short-term funding costs would be persistently expensive. Specifically, overnight (ON) interest rates on the last trading session of this week rose by 47basis points (bps) to 4.57%.

USDVND increases slightly

USDVND witnessed a slight advance 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 23,712. Currently, VND cumulatively depreciated by 3.69% 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 decides to raise policy rates

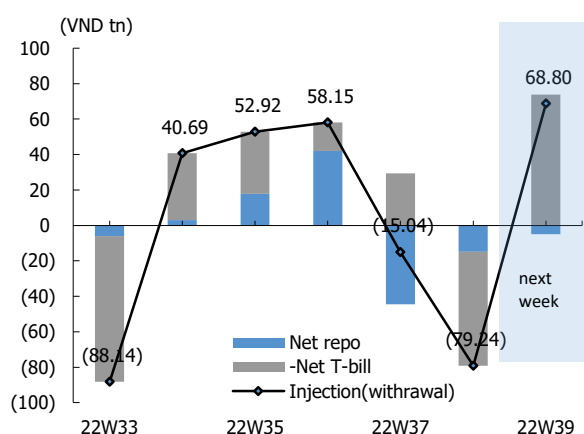
SBV strengthens the liquidity drain in response to Fed's decision

In the 38th week of 2022 (from 19th September to 25th September), SBV tightened the liquidity condition in the banking system in the week that FOMC would release its monetary policy decision. Notably, Vietnam's central bank announced raising in several policy rates first time since 2012 after the Fed's decision of 100 basis points (bps) rate hike. Specifically, discount and refinancing rates would be 3.50% and 5.00% from 23rd September, increasing by 100bps for each compared to their previous values. Besides, caps for deposits with tenor below 1 month and below 6 months rose by 30bps and 100bps to 0.5% and 5.0% per annual, respectively.

To make the new interest rate corridor effective, SBV this week offered a significant amount of T-bill and lowered the new offering of repo contracts with higher interest rates. Accordingly, SBV returned to offer T-bill with a notable amount of VND73.80tn, resulting in a net withdrawal of VND64.30tn via this channel. On the other hand, the central bank newly offered repo contracts with a modest amount of VND5.00tn compared to the matured value of VND19.94tn, creating a net drawing of VND14.94tn from the banking system. Regarding the funding cost development, SBV rose the 7-day floating discount rate and T-bill yield to 5.50% and 5.00% at this weekend, 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 (%)
September 23, 2022	3.5↑	5.0↑
October 1, 2020	2.5↓	4.0↓
May 13, 2020	3.0↓	4.5↓
March 17, 2020	3.5↓	5.0↓
September 16, 2019	4.0↓	6.0↓
July 10, 2017	4.3↓	6.3↓
March 18, 2014	4.5↓	6.5↓
May 13, 2013	5.0↓	7.0↓

Source: SBV, Bloomberg, KIS

Table 2. Daily repo transactions of this week

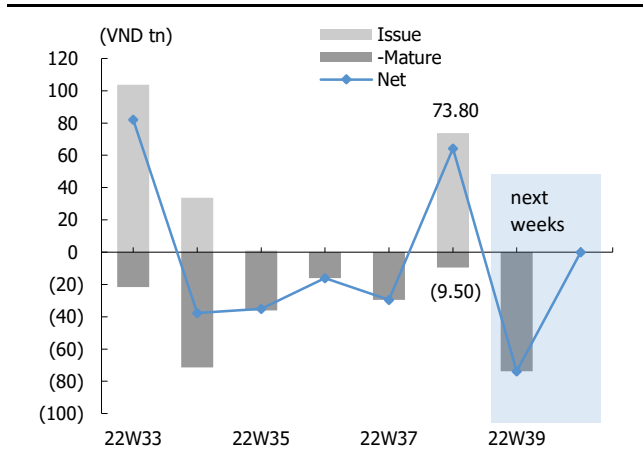
Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
September 19, 2022	September 26, 2022	7	1.00	4.65
September 20, 2022	September 27, 2022	7	1.00	4.80
September 21, 2022	September 28, 2022	7	1.00	5.90
September 22, 2022	September 29, 2022	7	1.00	5.30
September 23, 2022	September 30, 2022	7	1.00	5.50

Source: SBV, Bloomberg, KIS

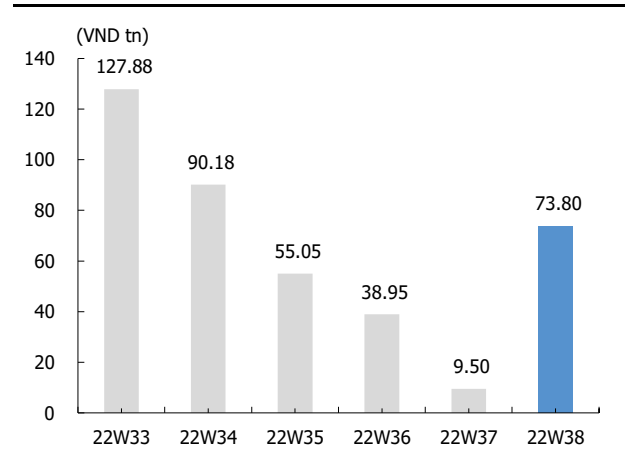
Table 3. Daily T-bill transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
September 19, 2022	September 26, 2022	7	14.20	4.50
September 20, 2022	September 27, 2022	7	14.60	4.50
September 21, 2022	September 28, 2022	7	25.00	4.50
September 22, 2022	September 29, 2022	7	12.00	4.50
September 23, 2022	September 30, 2022	7	8.00	5.00

Source: SBV, Bloomberg, KIS

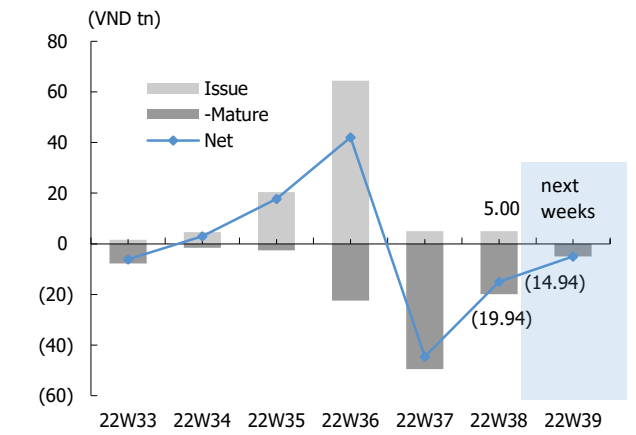
Figure 2. Issued T-bill by week

Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week

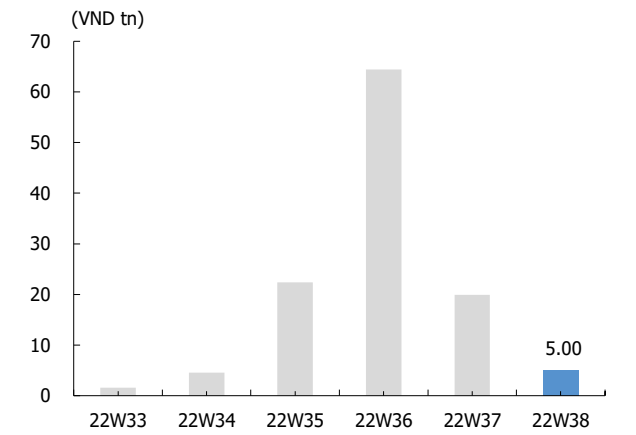
Source: SBV, Bloomberg, KIS

Figure 4. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding Repo by week

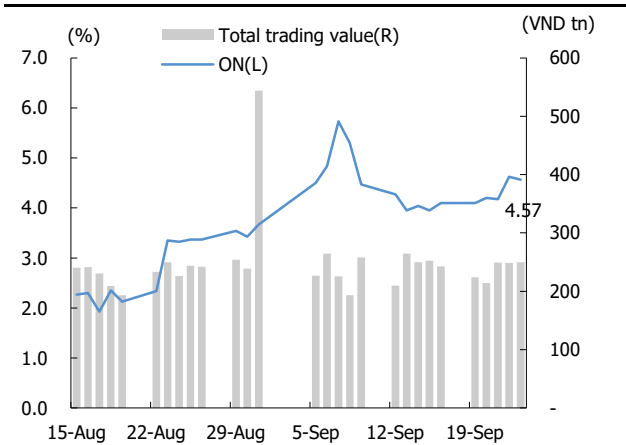


Source: SBV, Bloomberg, KIS

II. Higher interbank rates in FOMC's week

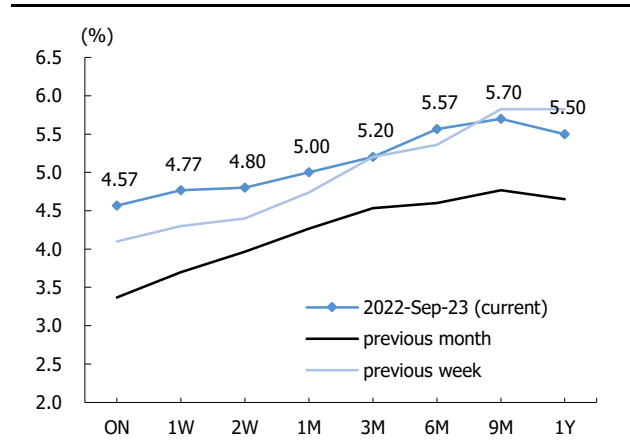
Interbank rates generally rose this week, especially after the announcement from SBV that the central bank would increase its policy rates first time since 2012. Higher interbank interest rates with a lower trading value imply that liquidity provision became tighter after SBV used the new interest corridor to signal money market traders that short-term funding costs would be persistently expensive. Specifically, overnight (ON) interest rates on the last trading session of this week rose by 47basis points (bps) to 4.57%. Similarly, 1-week, 2-week, 1-month, and 6-month increased by 47bps, 40bps, 26bps, and 21bps compared to the last weekend to 4.77%, 4.80%, 5.00%, and 5.20%, respectively. In the opposite direction, longer-term loans experienced declines with 9-year and 1-year reduced by 13bps and 32bps, posting 5.70% and 5.50% this weekend, respectively. Trading value slightly reduced by 2.81% compared to the previous week to reach VND1,185.52tn this week. Regarding trading structure, money market traders kept focusing on the overnight tenor with a share of 89.45%, slightly reducing from 90.62% in the previous week.

Figure 6. Interbank daily transaction



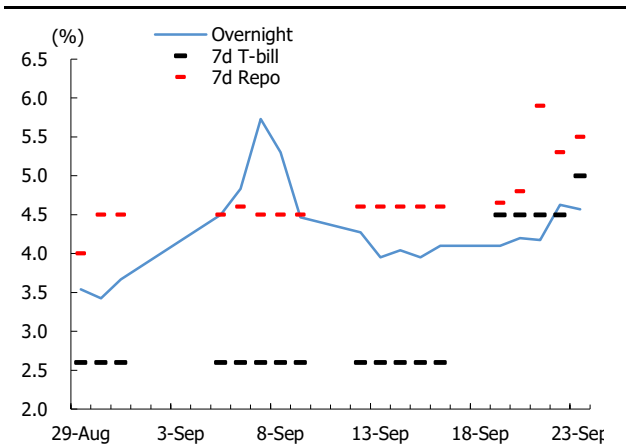
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



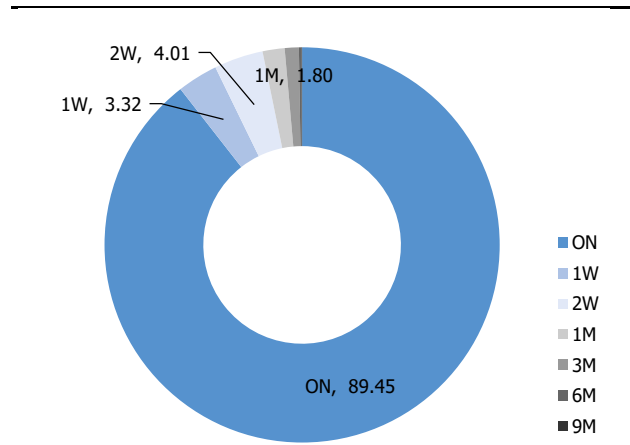
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



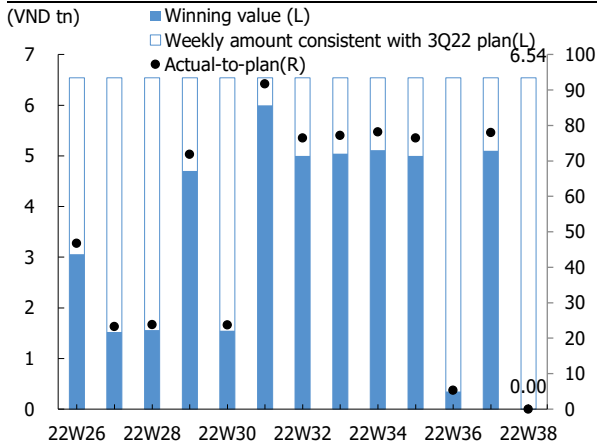
Source: SBV, Bloomberg, KIS

III. The G-bond auction records failure

G-bond auction records failure amid surged yields in secondary market

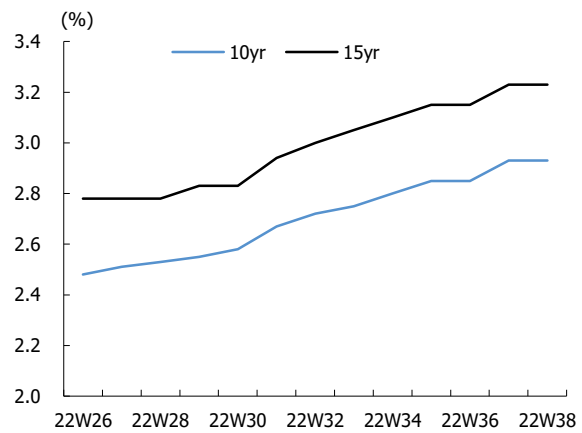
The government bond (G-bond) auction this week recorded a failure amid surged G-bond yield in the secondary market. Specifically, 38W22 recorded a zero winning amount from VND7.00tn offered by VST. This failure resulted in an unchanged cumulative amount of VND107.58tn, accounting for 26.90% of the 2022 plan. 10-year and 15-year accepted yields for winners concurrently rose by 8basis points (bps) to 2.93% and 3.23%, respectively. Besides, bid-to-offer reduced to multiple-week low at 1.30x, reflecting lower attention of investors for primary market as G-bond prices in the 2nd market were much cheaper. Under the new interest rate base in the money market, G-bond auction would be hard to return successful as recent weeks. Investors might require higher winning yields to compensate for higher funding costs. However, state budget remained surplus and the disbursement of public investment remained low, causing 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 10. Winning value by month



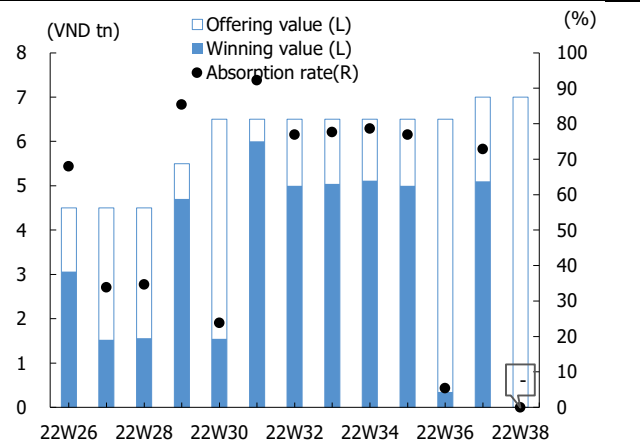
Source: HNX, KIS

Figure 11. Winning yields by week



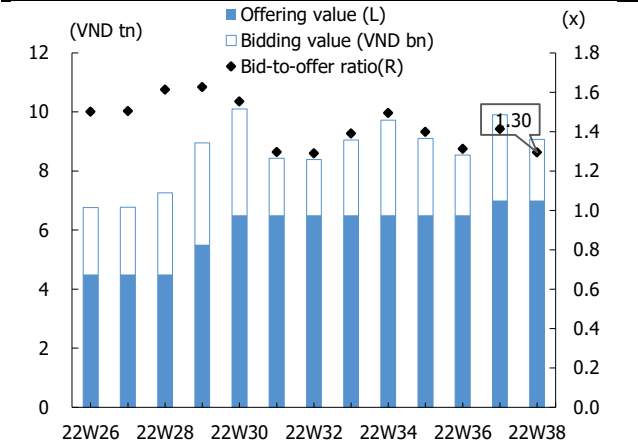
Source: HNX, KIS

Figure 12. Absorption ratio



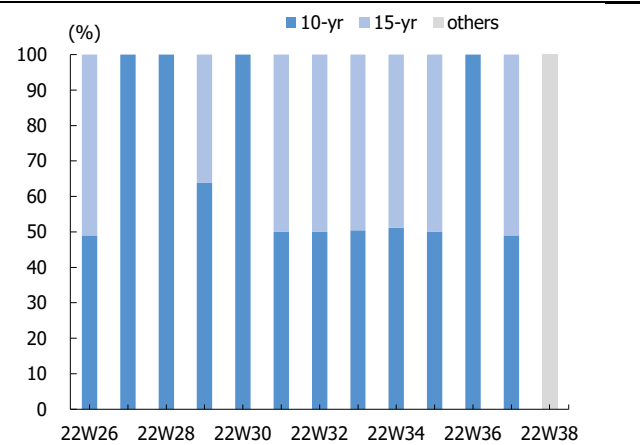
Source: HNX, KIS

Figure 13. Bid-to-offer ratio



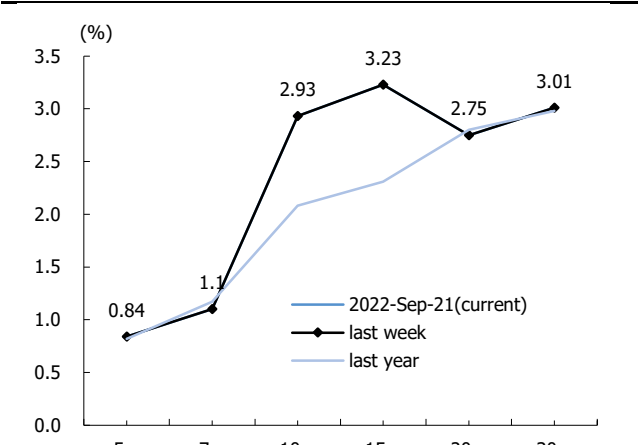
Source: HNX, KIS

Figure 14. Winning value by tenor



Source: HNX, KIS

Figure 15. Yield curve in primary market



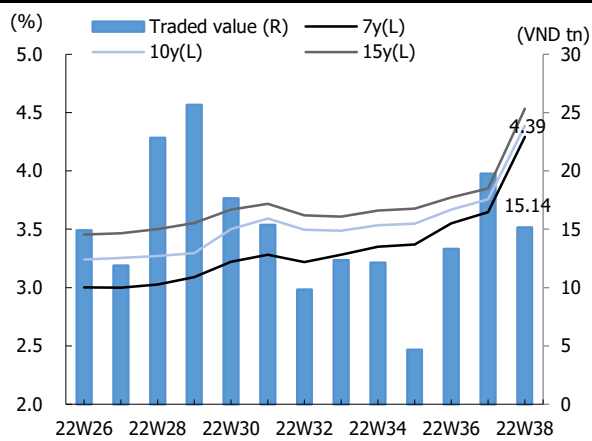
Source: HNX, KIS

IV. G-bond yields surge to SBV's decision

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

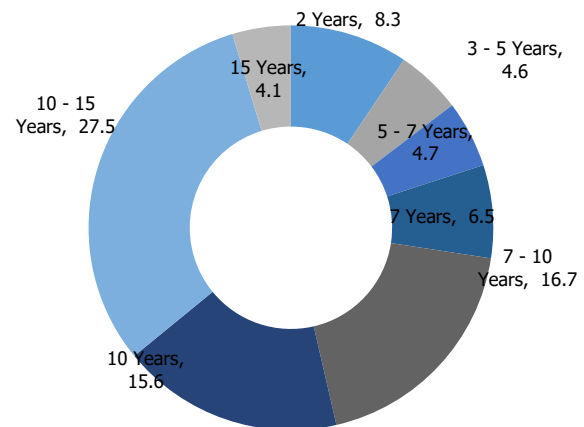
G-bond yields made a strong increase this week (38W22) with a lower trading volume, implying that demand was reducing as SBV raised in several policy rates and consequently signaled that money market interest rates could be persistently high in this year. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) notably surged by 65 basis points (bps), 63bps, and 68bps to reach 4.29%, 4.39%, and 4.53% this week, respectively. The weekly traded value reached VND19.75tn for five trading sessions, declining by 23.33% 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 70.30%.

Figure 16. G-bond trading value



Source: HNX, KIS

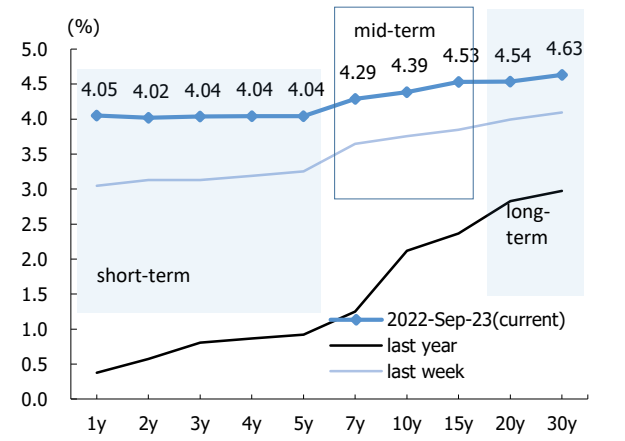
Figure 17. Trading value by tenor this week



Source: HNX, KIS

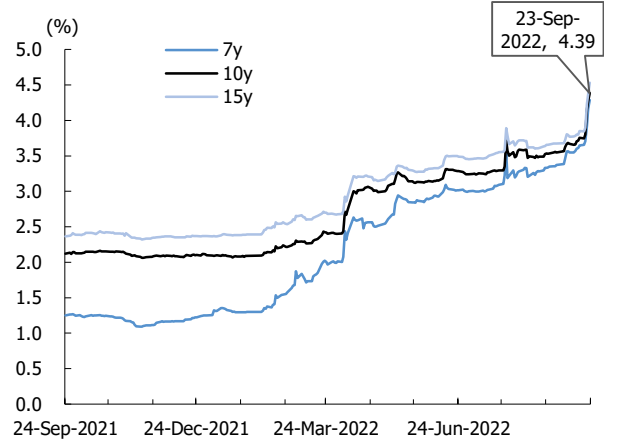
The increase in G-bond yield focused more on the short-end, resulting in a flatter yield curve this week. Accordingly, short-term tenors (less than seven years) made the most extreme movement by increasing by 89bps while mid-term tenors (7 to 15 years) and long-term (above 15 years) developed less notably by increasing by 65bps and 54bps on average, respectively.

Figure 18. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 19. Historical daily government bond yield



Source: HNX, VBMA, KIS

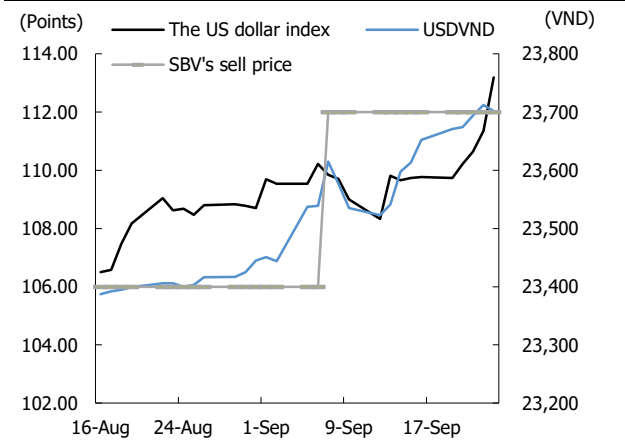
V. USDVND increases slightly

USDVND witnessed a slight advance

In comparison with last week's data, the USDVND witnessed an increase followed by the dramatic rise of DXY. In general, the USDVND increased slightly by 0.21% compared with last week with a peak on Thursday at VND23,712.

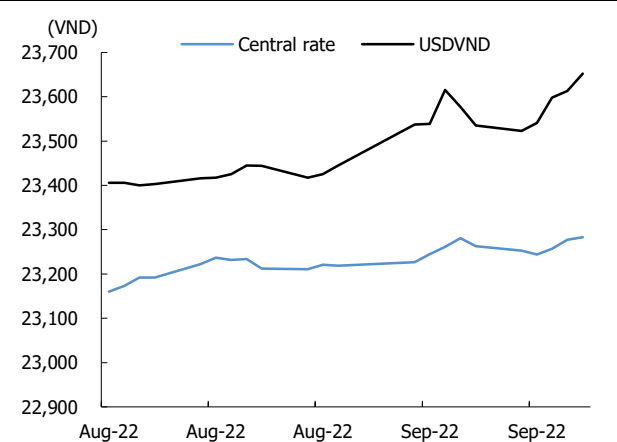
The upward momentum of USDVND was driven mostly by the dramatic rise of DXY. This week, DXY increased 3.12% WoW to over 113 points, lifted by the Federal Reserve's "hawkish" plan to stamp out inflation and escalating risk of a global recession. The DXY peaked at 113.19 points on Friday 23rd September (20-year high). All hopes for a soft-landing were dashed last week when the Fed hiked interest rates by 75 basis points for the third time and predicted that rates would peak at 4.6% next year with no reductions until 2024. The dollar also benefited from haven demand as global economic uncertainties prompted investors to rush for the greenback's safety.

Figure 20. Daily USDVND, DXY and SBV's selling price



Source: SBV, Bloomberg

Figure 21. Daily Central rate and USDVND

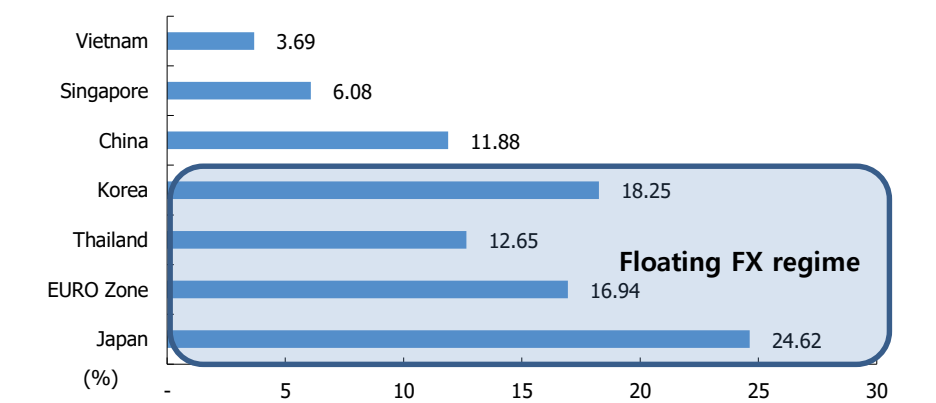


Source: SBV, Bloomberg

The central rate increased dramatically by 41bps compared with last week, from VND23,283 to VND23,324, the highest rate since 2021. Meanwhile, the exchange rate at commercial banks at the end of the week also increased by 0.21% WoW, from VND23,652 to VND23,702.

In addition, SBV continued to set its selling price of the greenback at VND23,700. There was time that the DXY index rose over 19% 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 22. YTD performance of local currencies



Source: Bloomberg, KIS

Last week, Vietnam continued to be the least depreciated country by the U.S dollar at around 3.69% so far this year (YTD) thanks to the exchange rate stabilization policy of SBV while Singapore has fallen to around 6.08% (YTD). In contrast, nations 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 24.62% (YTD) against the greenback followed by Korea and the 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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