

# Fixed-income Perspectives

## Short-term interest rates are steadily high

### SBV backs to inject liquidity

In the 39<sup>th</sup> week of 2022 (from 26<sup>th</sup> September to 2<sup>nd</sup> October), the banking system received a significant liquidity amount of VND43.10tn primarily from the maturing of previous T-bill contracts after rolling over half of that value on the new issuance of SBV. More specifically, SBV this week offered T-bill contracts with an amount of VND30.40tn to partly offset the previous matured amount of VND73.80tn, resulting in a net injection of VND30.40tn via this instrument.

### Interbank rates increase further

Interbank rates generally witnessed the second week of notable increase after SBV decided to raise several policy rates. Interest rates on interbank loans climbed up further with a higher trading value, implying that demand for liquidity in the money market has surged this week. Demand for liquidity assets to qualify regulatory ratios at the end of 3Q22 and SBV's robust stance of stable USDVND primarily attributed to the increase in interbank rate this week. Specifically, overnight (ON) interest rates on the last trading session of this week rose by 16basis points (bps) to 4.72%.

### USDVND increases significantly

USDVND witnessed a significant advance while the DXY was slowed down. In general, the USDVND increased 0.67% compared with last week, the spot exchange rate peaked on Thursday at 23,861. On September 30<sup>th</sup>, SBV has increased their selling rate of USD to 23,925. Currently, VND cumulatively depreciated by 4.18% compared with the U.S dollar.

### KIS leading economic index

	4Q21	1Q22	2Q22	3Q22	2020	2021	2022F
GDP (%)	5.22	5.03	7.72	13.67	2.91	2.58	7.50
Trade balance (USD bn)	5.38	1.50	(0.75)	5.78	19.86	4.00	6.00
CPI (%)	1.89	2.50	2.96	3.32	3.24	1.84	3.50
Discount rate (%)	2.50	2.50	2.50	3.50	2.50	2.50	2.50
USD/VND	22,787	22,900	23,139	23,712	23,252	22,936	23,200
US GDP (%)	6.90	(1.60)	NA	NA	(3.40)	5.60	NA
China GDP (%)	4.00	4.80	NA	NA	2.20	8.00	NA

Source: KIS

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**Y Nguyen**

Y.nt@kisvn.vn

**Nhan Tong**

nhan.tt@kisvn.vn

## I. SBV backs to inject liquidity

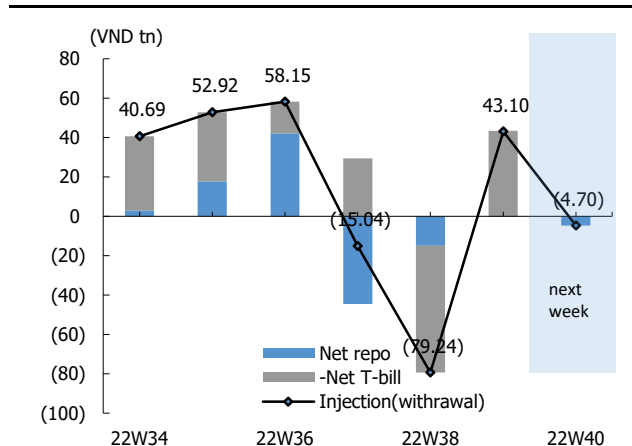
### **SBV pours liquidity into the banking system**

In the 39<sup>th</sup> week of 2022 (from 26<sup>th</sup> September to 2<sup>nd</sup> October), the banking system received a significant liquidity amount of VND43.10tn primarily from the maturing of previous T-bill contracts after rolling over half of that value on the new issuance of SBV. More specifically, SBV this week offered T-bill contracts with an amount of VND30.40tn to partly offset the previous matured amount of VND73.80tn, resulting in a net injection of VND30.40tn via this instrument. Besides, the central bank newly offered a modest repo amount of VND4.70tn to balance with the issuing of VND5.00tn in the previous week, resulting in a net withdrawal of VND0.30tn through this instrument.

SBV this week continued to focus on issuing T-bills to make the new interest rate corridor effective with an unchanged winning yield at 5.00% besides offering repo contracts with an increasingly higher rate. The floating discount rate of 7-day repo contracts has increased to 5.90% at the weekend from 5.60% on Monday.

We predict that Vietnam's monetary authority will continue to implement the OMO tool in the direction of raising money market funding costs, 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 26, 2022	October 3, 2022	7	1.00	5.60
September 27, 2022	October 4, 2022	7	1.00	5.70
September 28, 2022	October 5, 2022	7	1.00	5.70
September 29, 2022	October 6, 2022	7	0.70	5.70
September 30, 2022	October 7, 2022	7	1.00	5.90

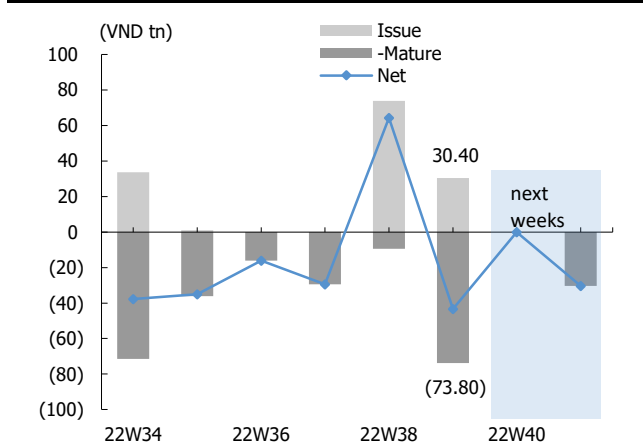
Source: SBV, Bloomberg, KIS

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

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
September 27, 2022	October 11, 2022	14	7.00	5.00
September 28, 2022	October 12, 2022	14	15.00	5.00
September 30, 2022	October 14, 2022	14	8.40	5.00

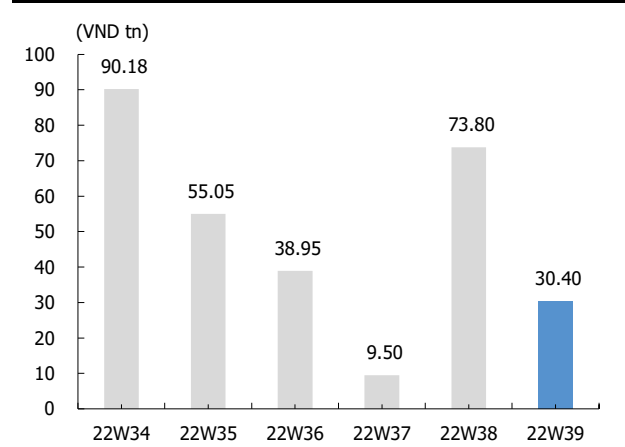
Source: SBV, Bloomberg, KIS

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



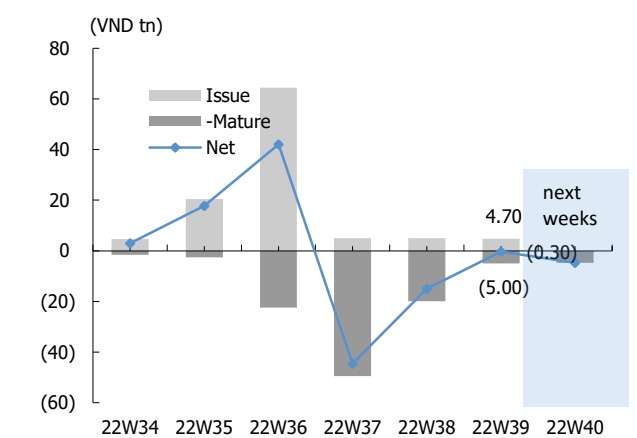
Source: SBV, Bloomberg, KIS

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



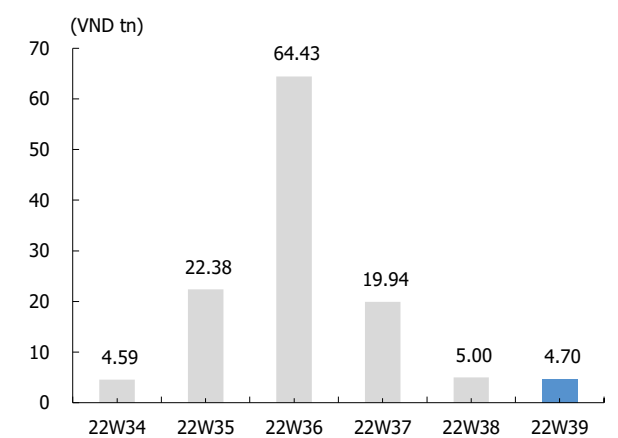
Source: SBV, Bloomberg, KIS

**Figure 4. Issued Repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding Repo by week**



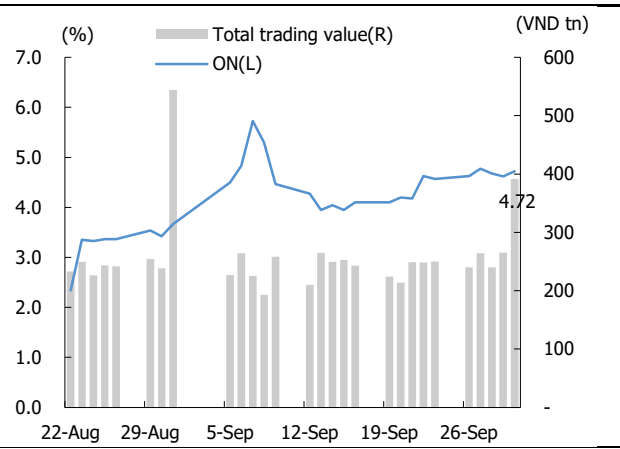
Source: SBV, Bloomberg, KIS

## II. Interbank rates increase further

Interbank rates generally witnessed the second week of notable increase after SBV decided to raise several policy rates. Interest rates on interbank loans climbed up further with a higher trading value, implying that demand for liquidity in the money market has surged this week. Demand for liquidity assets to qualify regulatory ratios at the end of 3Q22 and SBV's robust stance of stable USDVND primarily attributed to the increase in interbank rate this week. Specifically, overnight (ON) interest rates on the last trading session of this week rose by 16basis points (bps) to 4.72%. Similarly, 1-week, 2-week, and 3-month rose by 13bps, 17bps, and 13bps compared to the previous Friday to 4.90%, 4.97%, and 5.32%, respectively. More notably, 6-month and 9-month interest rates increased sharply by 23bps and 70bps, reaching 5.80% and 6.40%. In the opposite direction, 1-month slightly retreated by 3bps to 4.97%.

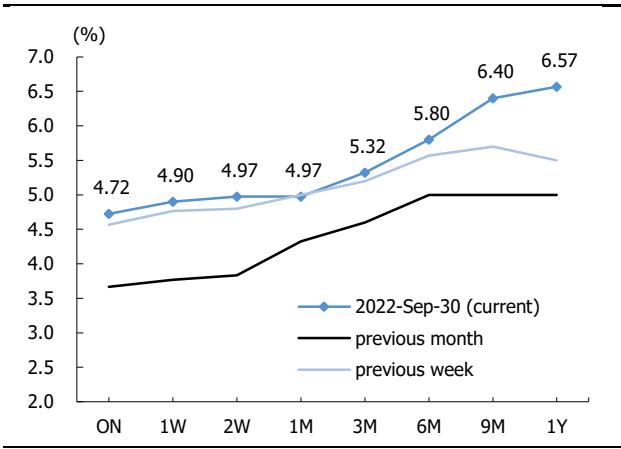
Trading value rose notably by 18.21% compared to the previous week to reach VND1,401.41tn this week, or around VND280.28tn per trading session. Regarding trading structure, money market traders kept focusing on the overnight tenor with a share of 91.82%, slightly increasing from 89.45% in the previous week.

**Figure 6. Interbank daily transaction**



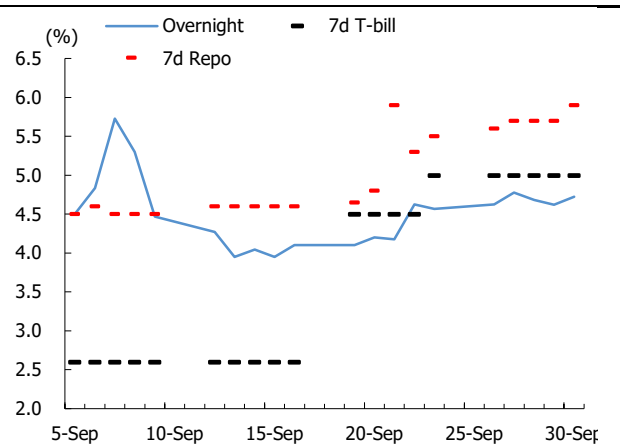
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



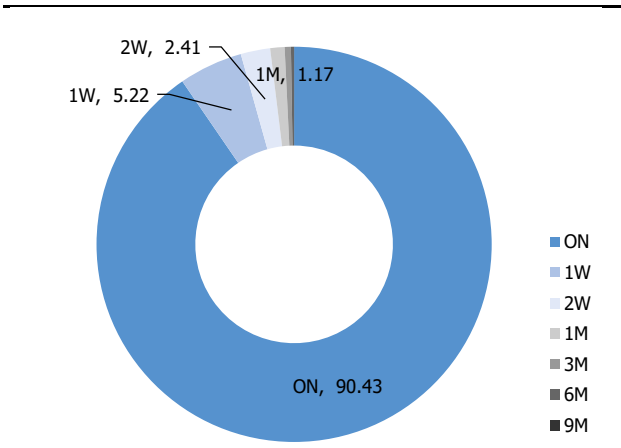
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

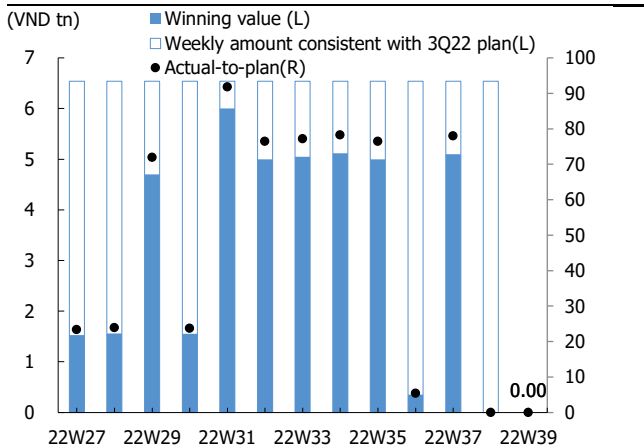
### III. The G-bond auction fails on low offered yields

**G-bond auction records failure amid the looming rate hike**

The government bond (G-bond) auction this week recorded one more failure amid G-bond yield in the secondary market witnessed another increase. Specifically, 39W22 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.

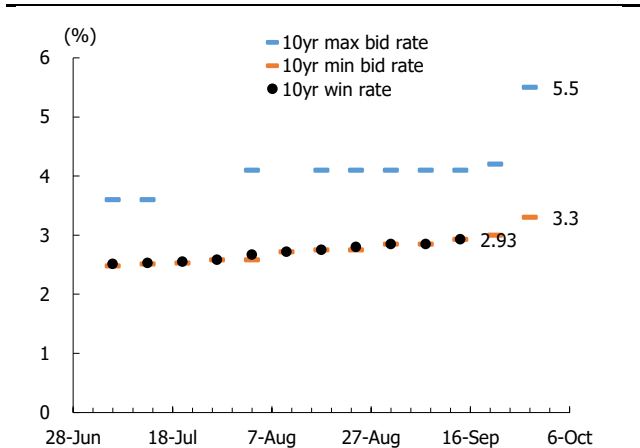
The failure of the G-bond auction was attributable to the low connection between the supply and demand sides. G-bond yields in the secondary market rose sharply this week under the interest rate surge in the money market after SBV's decision. Fixed income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding rates in the 1<sup>st</sup> market. However, the state budget remained surplus and the disbursement of public investment remained low, allowing VST remains its bargaining power. Although the bidding rates have increased following the recent development in the 2<sup>nd</sup> market, VST tends to accept the 10-year winning yield below 3%. Therefore, we predict that auction failure will continue until the money market returns stable.

**Figure 10. Winning value by month**



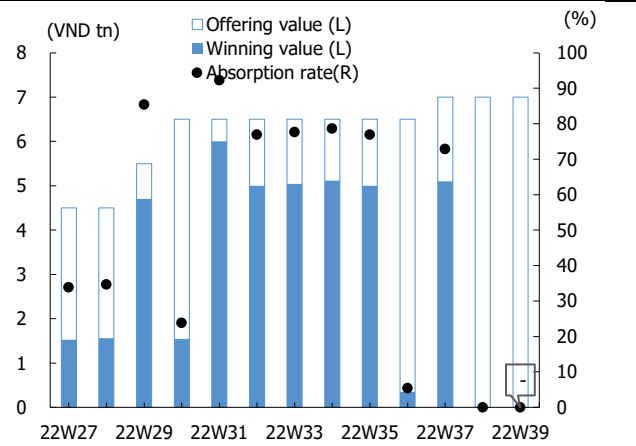
Source: HNX, KIS

**Figure 11. Winning yields by week**



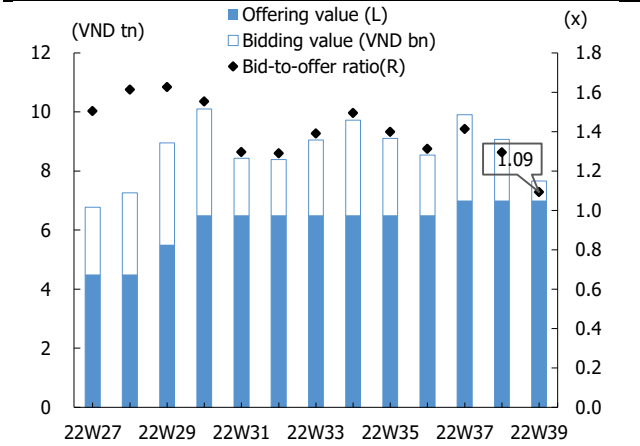
Source: HNX, KIS

**Figure 12. Absorption ratio**



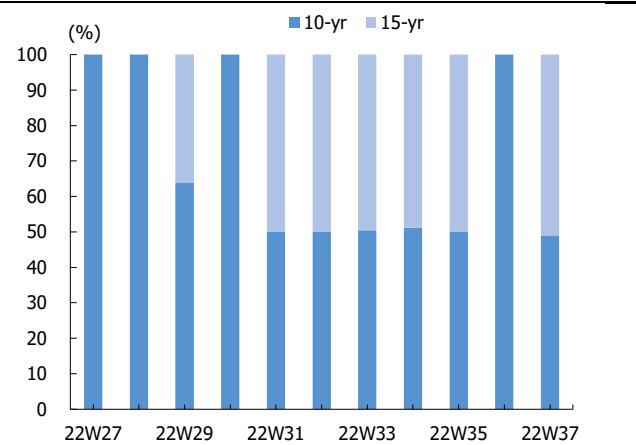
Source: HNX, KIS

**Figure 13. Bid-to-offer ratio**



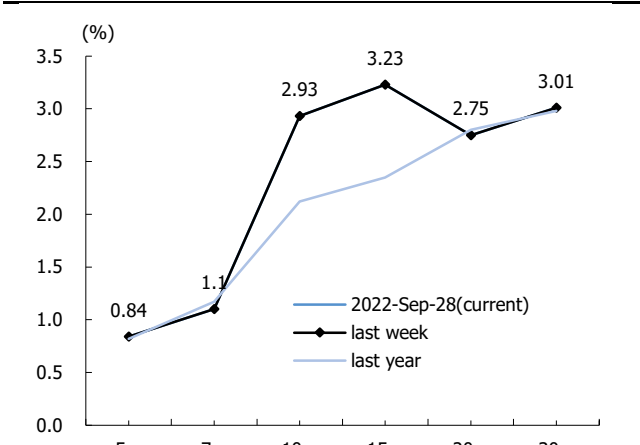
Source: HNX, KIS

**Figure 14. Winning value by tenor**



Source: HNX, KIS

**Figure 15. Yield curve in primary market**



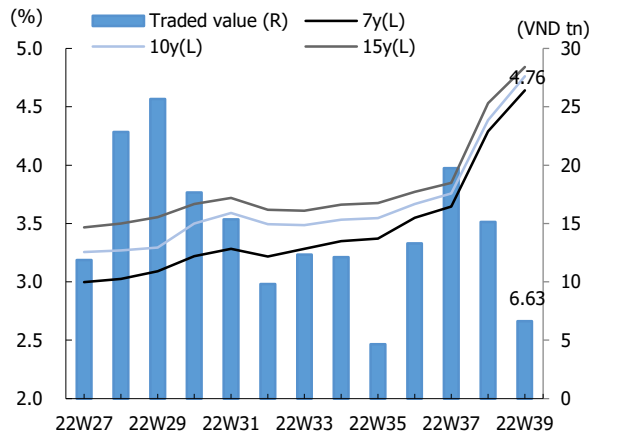
Source: HNX, KIS

## IV. A greater selling pressure on 2<sup>nd</sup> G-bond market

### ***G-bond 2<sup>nd</sup> market faces persistent selling pressure***

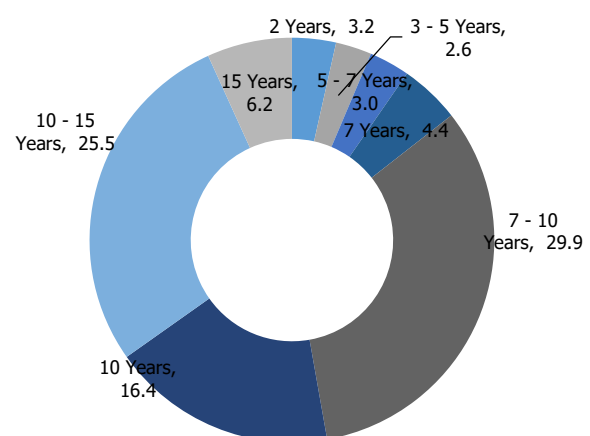
G-bond yields witnessed one more week of sharp increase with a much lower trading volume, implying that demand was weakening amid the higher funding costs in the money market. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) surged by 35 basis points (bps), 38bps, and 31bps to reach 4.64%, 4.76%, and 4.84% this week, respectively. The weekly traded value reached VND8.75tn for five trading sessions, declining by 42.23% compared to the previous week. Short-term loans in the money market have become more expensive as SBV continued to calibrate the OMO to raise the funding cost, mainly explaining the surge in G-bond yield this week. Regarding value structure, transactions continued focusing on tenors from 7 to 15 years with a joint portion of 82.30%.

**Figure 16. G-bond trading value**



Source: HNX, KIS

**Figure 17. Trading value by tenor this week**

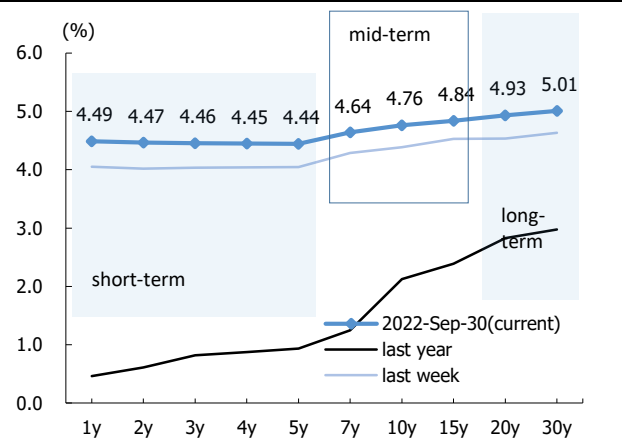


Source: HNX, KIS

The increase in G-bond yield occurred evenly across tenors, causing the steepness of the curve unchanged this week. Accordingly, short-term tenors (less than seven years), mid-term tenors (7 to 15 years), and long-term (above 15 years) increased by 42bps, 35bps, and 39bps on average this week, respectively.

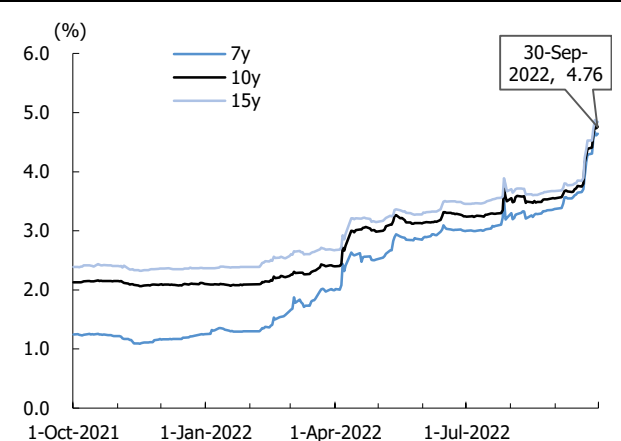


**Figure 18. G-bond yield curve**



Source: HNX, VBMA, KIS

**Figure 19. Historical daily government bond yield**



Source: HNX, VBMA, KIS

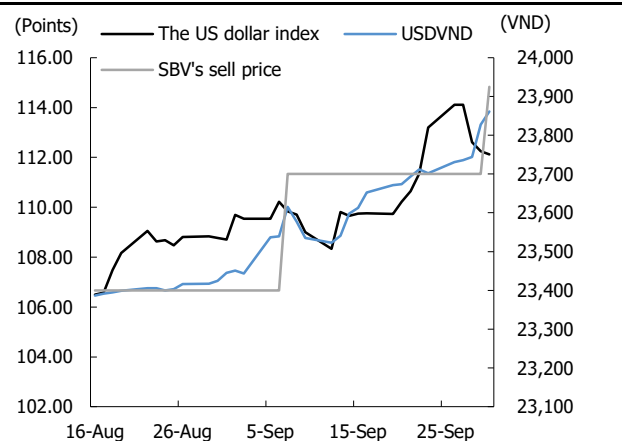
## V. USDVND increases significantly

### USDVND witnessed a dramatic advance

In comparison with last week's data, the USDVND witnessed a dramatic advance followed by the fall of DXY. In general, the USDVND increased significantly by 0.67% compared with last week with a peak on Friday at VND23,861.

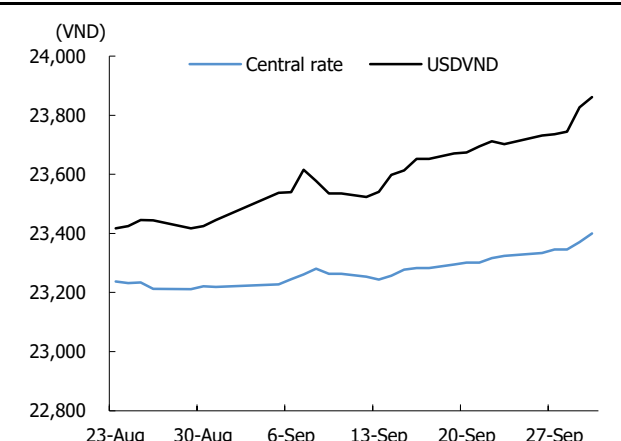
This week, DXY decreased 0.95% WoW to around 112 points due to some reasons as followed. Firstly, many central banks are making an effort to prevent their local currencies from depreciating against the U.S dollar. For instance, the European Central Bank (ECB), the Reserve Bank of Australia (RBA) had given a signal for another interest rate hike to tame inflation which putting pressure on DXY. Besides, China's central bank announced it would cut down foreign-currency reserve in order to lift up the yuan. China's central bank have also issued verbal warnings against speculating on the yuan and rose the cost of shorting the yuan. Lastly, economic data such as the number of applications for unemployment benefits in the U.S at the week ending of September 24th stood at 193,000, decreased sharply from 213,000 in the previous week and beat the forecast of 215,000.

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



Source: SBV, Bloomberg

**Figure 21. Daily Central rate and USDVND**

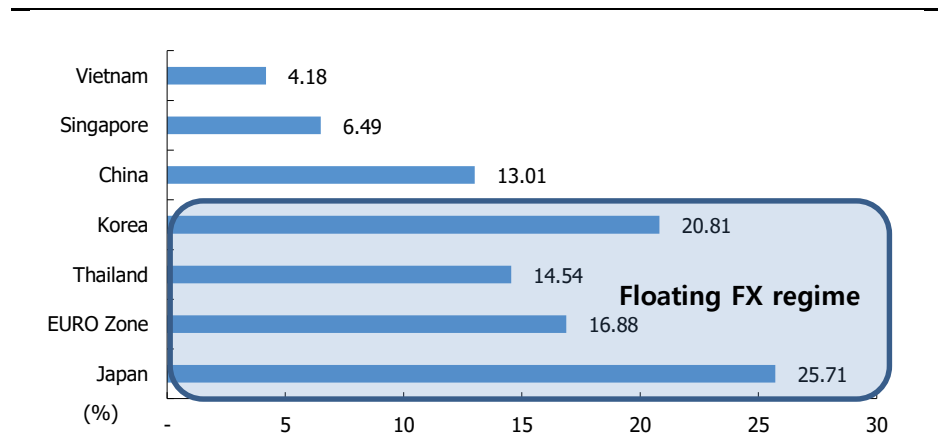


Source: SBV, Bloomberg

Last week, the central rate was lifted by 76bps, from VND23,324 to VND23,400, the highest rate since 2021. Meanwhile, the exchange rate at commercial banks at the end of the week also increased by 0.67% WoW, from VND23,702 to VND23,861.

In addition, SBV has increase its selling price of the greenback at VND23,925 on Friday 30th September. This is the fourth time this year that the State Bank has raised the selling price of USD. The action of SBV this time 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 4.18% so far this year (YTD) thanks to the exchange rate stabilization policy of SBV while Singapore has fallen to around 6.49% (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 25.71% (YTD) against the greenback followed by Korea and the Eurozone. The pound is getting a boost as the ECB gave the signal for another big rate to combat inflation last week.

## Macro scorecard

	22-May	22-Jun	22-Jul	22-Aug	22-Sep	4Q21	1Q22	2Q22	3Q22	2018	2019	2020	2021	22-May
Real GDP growth (%)						5.22	5.03	7.72	13.67	7.08	7.03	2.91	2.58	
Registered FDI (USD bn)	0.98	2.32	1.51	1.23	1.92	9.01	8.91	5.12	4.67	35.47	38.02	28.53	31.15	0.98
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)	30,480	32,650	30,323	33,380	29,940	95.26	86.01	96.83	96.48	243.5	263.6	282.7	335.7	30,480
Import (USD bn)	32,210	32,370	30,302	30,960	28,800	88.72	87.45	97.58	90.71	236.7	254.4	263	331.1	32,210
Export growth (%)	16.38	19.98	8.87	22.14	10.35	20.43	13.43	21.02	17.22	13.19	8.16	7.02	18.74	16.38
Import growth (%)	12.85	16.32	3.42	12.42	6.45	15.42	15.17	15.72	8.12	11.01	7.41	3.81	25.9	12.85
Inflation (%)	2.86	3.37	3.14	2.89	3.94	1.89	1.92	2.96	3.32	3.54	2.79	3.24	1.84	2.86
USD/VND	23,195	23,254	23,343	23,417	23,712	22,790	22,837	23,139	23,712	23,175	23,173	23,126	22,790	23,195
Credit growth (%)	7.62	8.51	9.14	9.62	10.47	12.97	4.13	8.51	10.47	10.77	13.75	12.17	12.97	7.62
10Y gov't bond (%)	3.25	3.38	3.50	3.37	4.39	2.11	2.40	3.38	4.39	5.07	3.37	2.01	2.11	3.25

Source: GSO, Bloomberg, FIA, IMF

## \*\*Glossary

- \* Winning yield rate = each group's highest bidding rate, NA
- \* Absorption rate = winning value / offering value, ~0%
- \* Bid to offer ratio = offering value / bidding value, ~1.09x
- \* DXY = U.S. Dollar Index, ~110
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~4.7%

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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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