

# Fixed-income Perspectives

## SBV offers liquidity to shield money market from turbulence

### SBV offers liquidity to calm the money market

In the 40<sup>th</sup> week of 2022 (from 3<sup>rd</sup> to 9<sup>th</sup> October), SBV continued pouring liquidity into the banking system for the second consecutive week to shield the money market from concerns related to the potential withdrawal of depositors in a troubled commercial bank. Accordingly, SBV has significantly increased the new offering of 7-day repo contracts to VND41.69tn from VND4.70tn last week, resulting in a net inflow of VND36.99tn to its counterparties this week.

### Interbank rates surge on vulnerable liquidity

Interbank market became turbulent this week when overnight interest rate rose dramatically in the beginning of the week and retreated later after SBV aggressively injected liquidity to the banking system through repo contracts with notably lower yields. Generally, interest rate on interbank loans were higher while transaction value reduced significantly, indicating that suppliers tend to require a higher interest rate to compensate for liquidity risk at this moment.

### USDVND increases slightly

USDVND witnessed a slight advance followed by the rise of DXY. In general, the USDVND increased 0.09% compared with last week, the spot exchange rate peaked on Monday at 23,906. SBV has continued to keep their selling rate of USD to 23,925 to stabilize the exchange rate and prevent the VND from depreciating against the U.S dollar. Currently, VND cumulatively depreciated by 4.44% 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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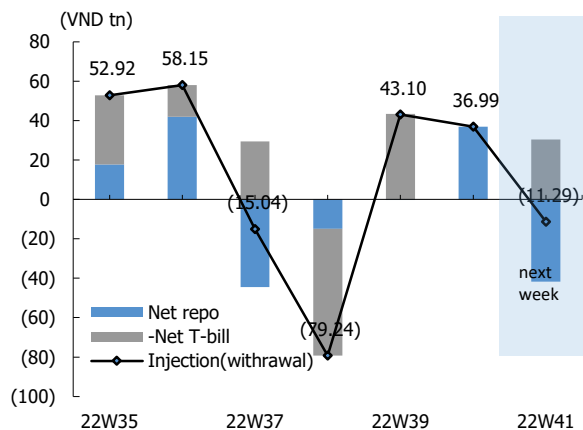
# I. SBV offers liquidity to calm the money market

## SBV pours liquidity in two consecutive weeks into the banking system

In the 40<sup>th</sup> week of 2022 (from 3<sup>rd</sup> to 9<sup>th</sup> October), SBV continued pouring liquidity into the banking system for the second consecutive week to shield the money market from concerns related to the potential withdrawal of depositors in a troubled commercial bank. Accordingly, SBV has significantly increased the new offering of 7-day repo contracts to VND41.69tn from VND4.70tn last week, resulting in a net inflow of VND36.99tn to its counterparties this week. Besides, this week recorded no T-bill transactions when the liquidity condition seemed tight, keeping the outstanding amount of T-bills unchanged at VND30.40tn.

SBV this week seemed to manage its OMO transactions to stabilize the liquidity condition in the banking system. Although the competitive interest rate surged to 6.90% on Tuesday, it quickly retreated to 5.50% with an increase in repo offering value, indicating that SBV was firmly implementing monetary tools to prevent the banking system from liquidity shocks. Hence, we predict that the central bank could pay more attention to the liquidity condition with more money injections.

**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↓                 |

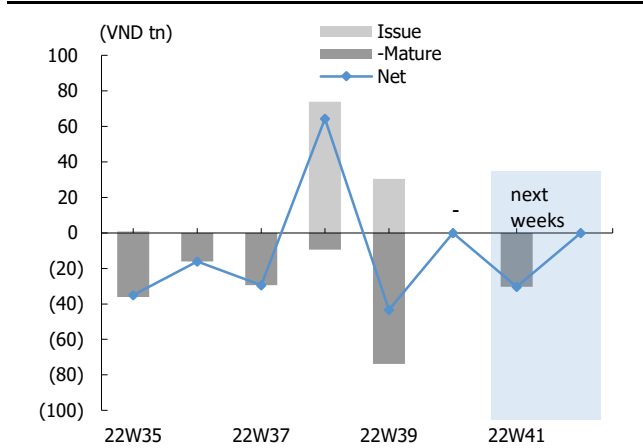
Source: SBV, Bloomberg, KIS

**Table 2. Daily repo transactions of this week**

| Issue date | Maturity date | Tenor (days) | Issued amount (VND tn) | Winning rate (%) |
|------------|---------------|--------------|------------------------|------------------|
| 3-Oct-2022 | 10-Oct-2022   | 7            | 3.00                   | 6.30             |
| 4-Oct-2022 | 11-Oct-2022   | 7            | 12.00                  | 6.90             |
| 5-Oct-2022 | 12-Oct-2022   | 7            | 20.00                  | 6.50             |
| 6-Oct-2022 | 13-Oct-2022   | 7            | 2.92                   | 6.60             |
| 7-Oct-2022 | 14-Oct-2022   | 7            | 3.77                   | 5.50             |

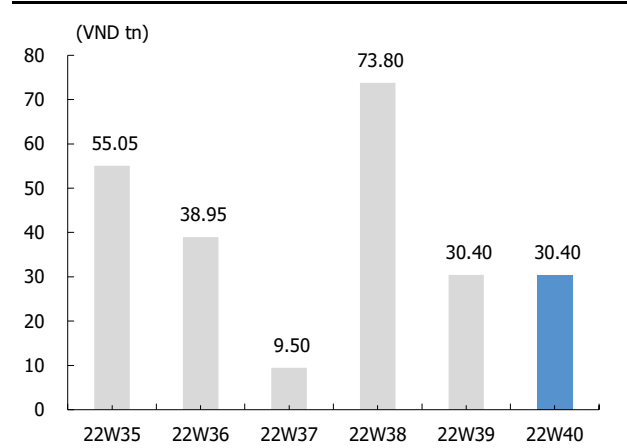
Source: SBV, Bloomberg, KIS

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



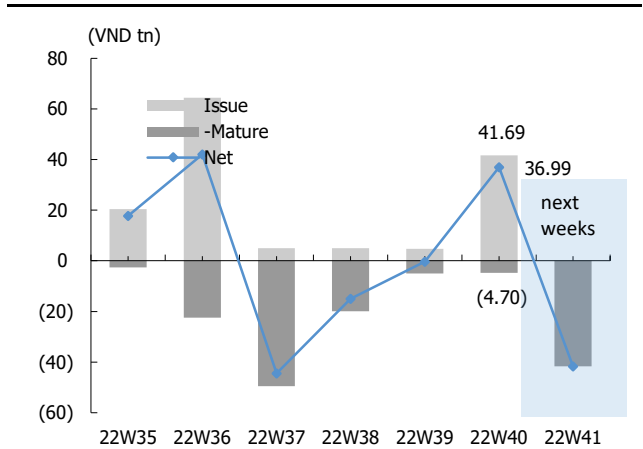
Source: SBV, Bloomberg, KIS

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



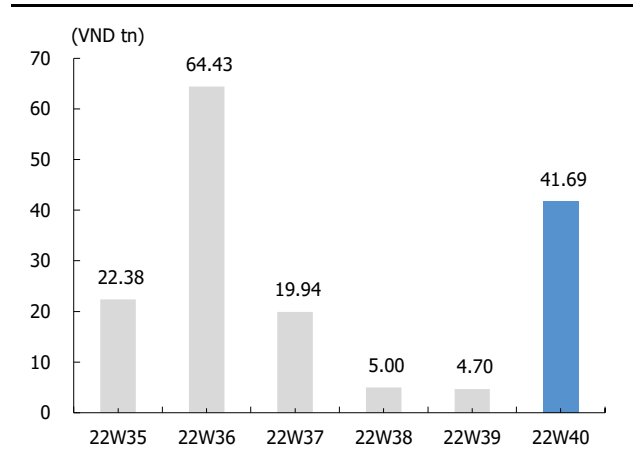
Source: SBV, Bloomberg, KIS

**Figure 4. Issued Repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding Repo by week**



Source: SBV, Bloomberg, KIS

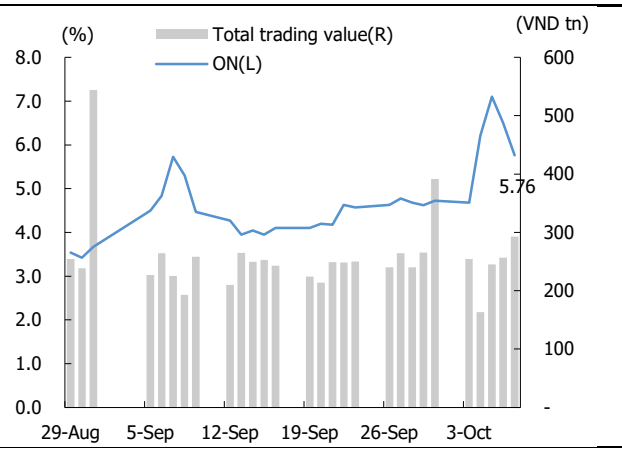
## II. Interbank rates surge on vulnerable liquidity

Interbank market became turbulent this week when overnight interest rate rose dramatically in the beginning of the week and retreated later after SBV aggressively injected liquidity to the banking system through repo contracts with notably lower yields. Generally, interest rate on interbank loans were higher while transaction value reduced significantly, indicating that suppliers tend to require a higher interest rate to compensate for liquidity risk at this moment.

Specifically, overnight (ON) interest rates on the last trading session of this week rose by 104basis points (bps) to 5.76%. More notably, 1-week, 2-week, 1-month, and 3-month rose by 120bps, 120bps, 143bps, and 124bps compared to the previous Friday to 6.10%, 6.18%, 6.40%, and 6.56%, respectively. The movement of longer-term loans was less notable when 6-month and 9-month interest rates increased by 78bps and 72bps, reaching 6.58% and 7.13%, respectively.

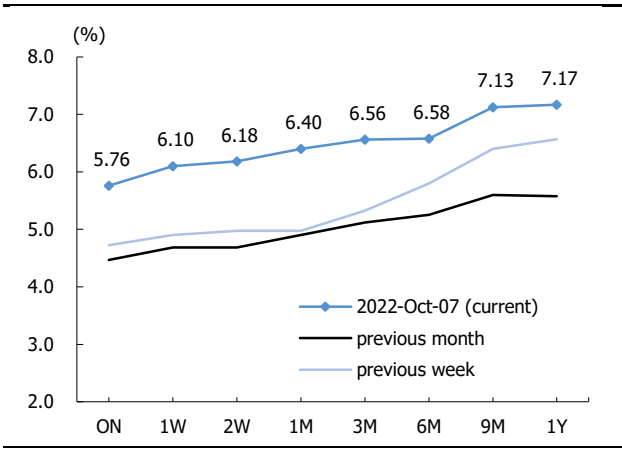
Trading value declined significantly by 13.51% compared to the previous week to reach VND1,212.12tn this week, or around VND242.42tn per trading session. Regarding trading structure, money market traders kept focusing on the overnight tenor with a share of 94.56%, slightly increasing from 91.82% in the previous week.

**Figure 6. Interbank daily transaction**



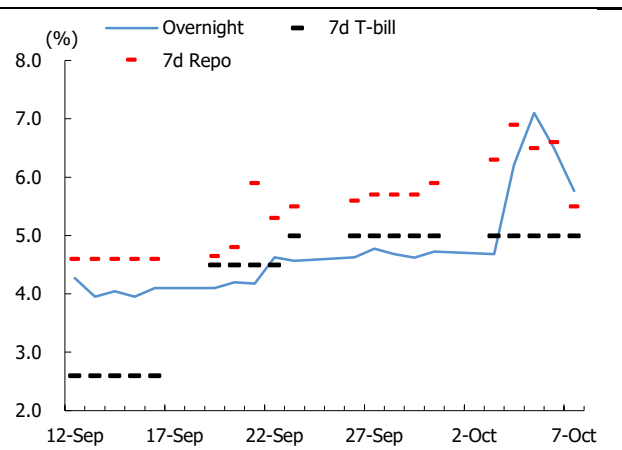
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



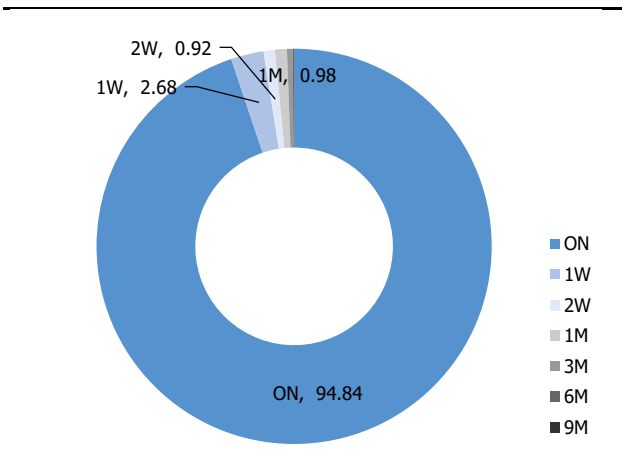
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

### III. Higher G-bond yields favors auction result

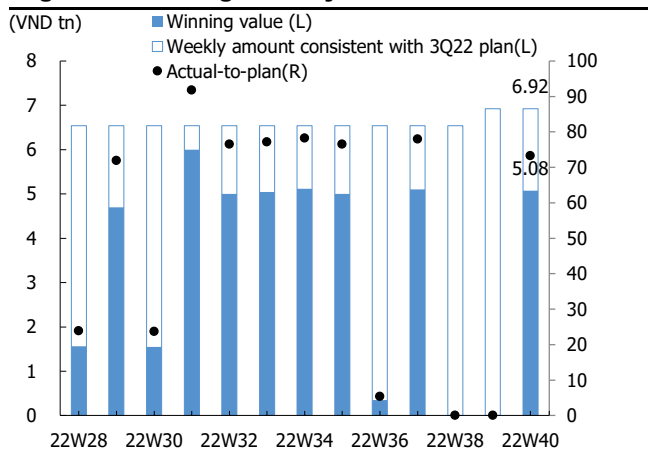
#### G-bond auction records failure amid the looming rate hike

This week, the government bond (G-bond) auction returned favorable when the offered yield increased, making this fixed-income asset more attractive to investors. Specifically, 40W22 recorded a winning amount of VND5.08tn (VND2.50tn for the 10-year tenor and VND2.58tn for the 15-year tenor) from VND6.50tn offered by VST. 40W22's issuance equals 73.31% of the weekly plan, estimated from the 4Q22 target of VND90.00tn, and resulted in a cumulative amount of VND112.66tn, accounting for 28.16% of the 2022 plan.

Offered yields in the primary G-bond market rose notably under the recent development of the secondary market, improving the auction result. The interest rate for the 10-year tenor rose by 37basis points (bps) compared to the latest one, marking the first time it surpassed the 3.0% level this year. Similarly, the 15-year G-bond yield increased by 37bps to 3.60% this week.

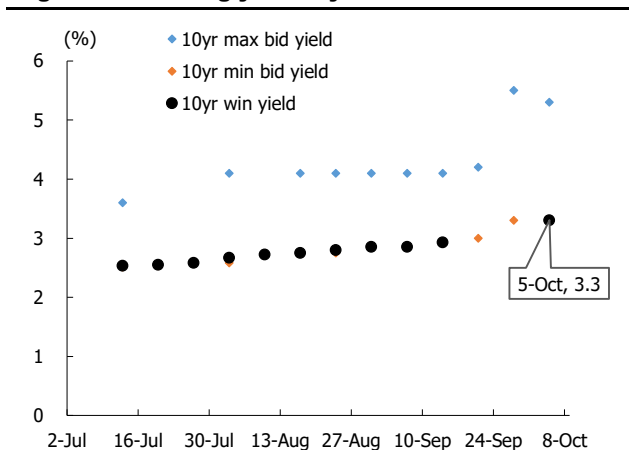
G-bond yields in the secondary market witnessed another sharp increase this week when the interbank market became turbulent. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding rates in the 1<sup>st</sup> market. However, VST lifted the 10-year winning yield to 3.30% for the first time this year to bring investors' attention back. Therefore, we predict G-bond auction could record a more notable winning amount in the coming weeks.

Figure 10. Winning value by month



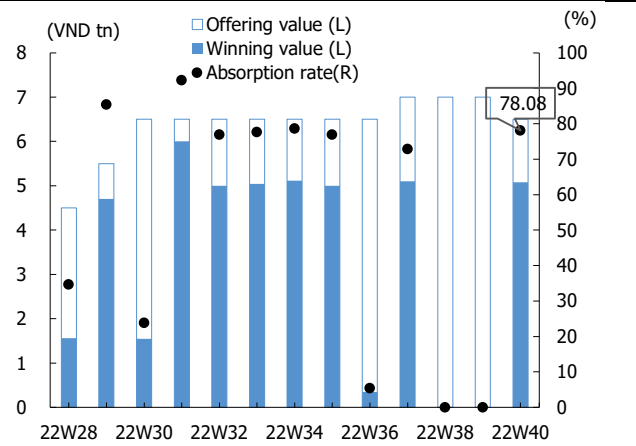
Source: HNX, KIS

Figure 11. Winning yields by week



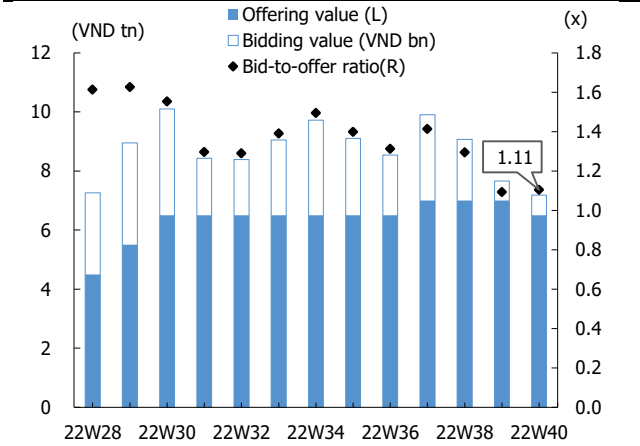
Source: HNX, KIS

**Figure 12. Absorption ratio**



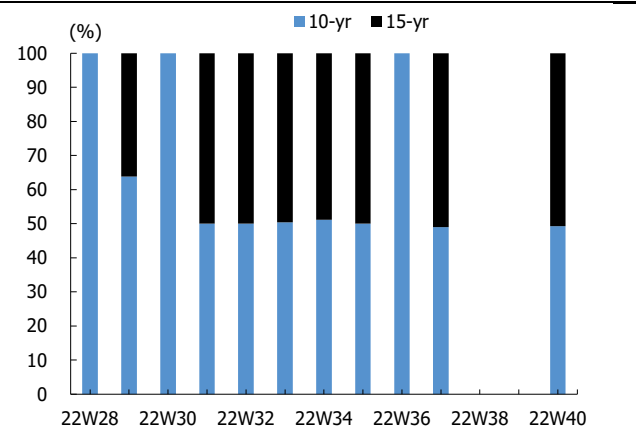
Source: HNX, KIS

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



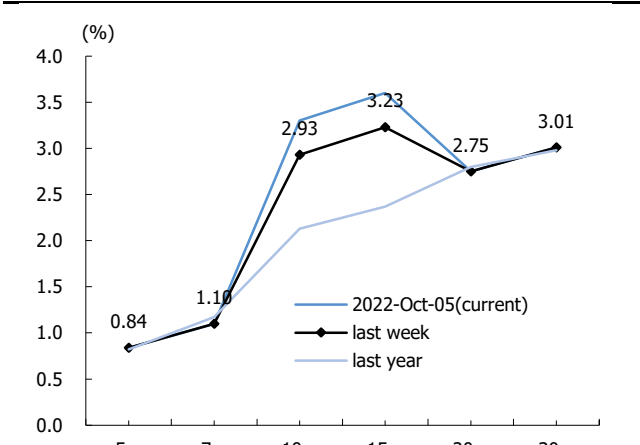
Source: HNX, KIS

**Figure 14. Winning value by tenor**



Source: HNX, KIS

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



Source: HNX, KIS

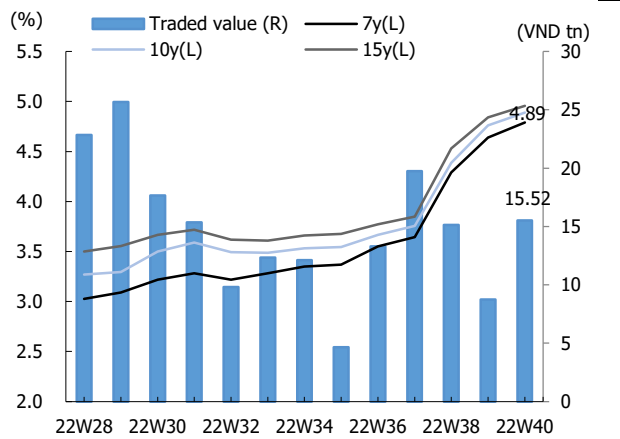
## IV. Higher sell pressure in 2<sup>nd</sup> G-bond market

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

G-bond yields rose further this week with a higher trading volume, indicating supply has extended amid the raising funding costs in the money market. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) surged by 15basis points (bps), 13bps, and 12bps to reach 4.79%, 4.89%, and 4.96% this week, respectively.

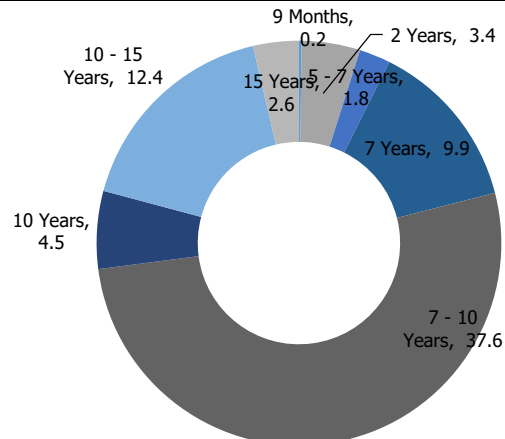
The weekly traded value reached VND15.52tn for five trading sessions, increasing by 77.46% compared to the previous week. Short-term loans in the money market have become more expensive as SBV continued to calibrate the OMO to raise the funding cost, mainly explaining the surge in G-bond yield this week. Regarding value structure, transactions continued focusing on tenors from 7 to 15 years with a joint portion of 67.00%.

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



Source: HNX, KIS

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

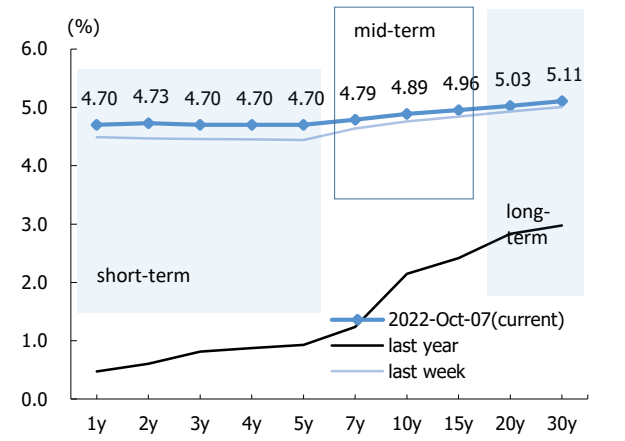


Source: HNX, KIS

The increase in G-bond yield tended to focus on the short-end, causing the curve to be less steep 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 24bps, 13bps, and 10bps on average this week, respectively.

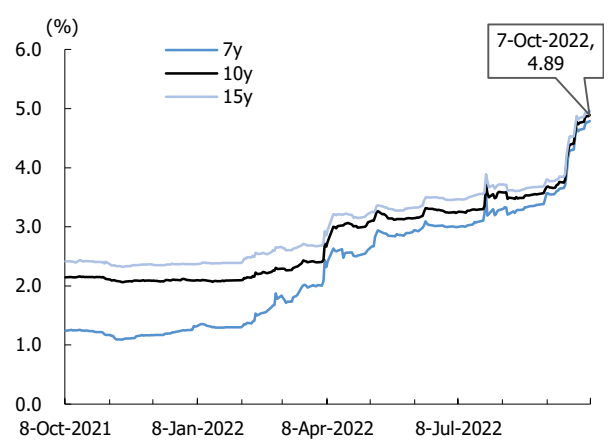


**Figure 18. G-bond yield curve**



Source: HNX, VBMA, KIS

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



Source: HNX, VBMA, KIS

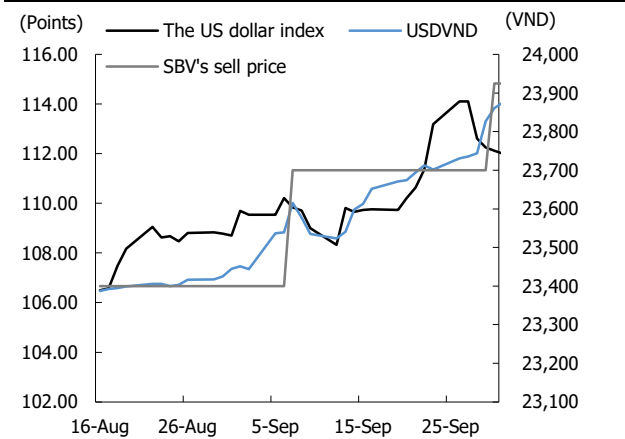
## V. USDVND increases slightly

### USDVND witnessed a slight advance

In comparison with last week's data, the USDVND witnessed a slight advance followed by the rise of DXY. In general, the USDVND increased slightly by 0.09% compared with last week with a peak on Monday at VND23,906.

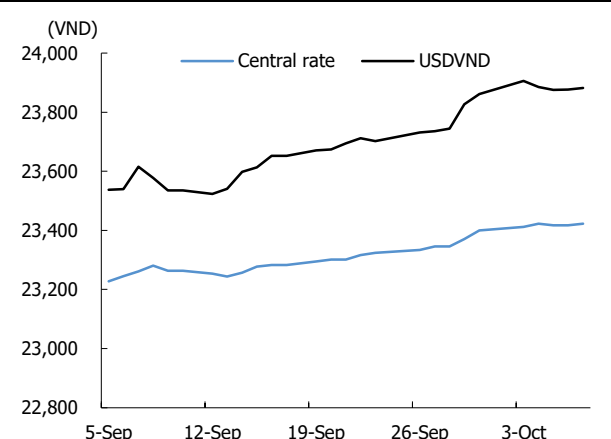
This week, DXY increased 0.60% WoW to around 113 points due to some economic data which related to labor market. Specifically, total nonfarm payroll employment increased by 263,000 in September, and the unemployment rate edged down to 3.5 percent. Therefore, the data indicated that the Fed's interest rate hike just has a little impact on the job market. After the data released, the DXY witnessed a rebound as investors are betting the Fed will keep their hawkish policy to combat inflation. According to Fed's projection released in September, the Fed funds rate will reach to around 4.4 percent and the current Fed rate is from 3% to 3.25% which means that there will be two more significant interest hike in November and December.

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



Source: SBV, Bloomberg

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

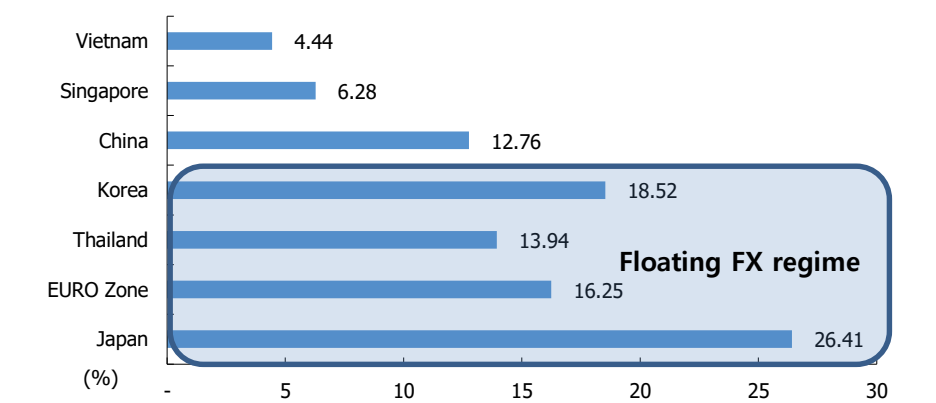


Source: SBV, Bloomberg

Last week, the central rate was lifted by 22bps, from VND23,400 to VND23,422, the highest rate since 2021. Meanwhile, the exchange rate at commercial banks at the end of the week also increased by 0.09% WoW, from VND23,861 to VND23,882.

In addition, SBV has continued to keep its selling price of the greenback at VND23,925 (0.95%-higher compared with previous adjustment). 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 maintain its position as the nation with the least depreciation against the U.S. dollar at around 4.44% so far this year (YTD) while Singapore has dropped to around 6.28% (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 26.41% (YTD) against the greenback followed by Korea and the Eurozone.

## 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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