

# Fixed-income Perspectives

## Vietnam money market prepares for Fed's November decision

### SBV supports liquidity with a higher cost

In the 43<sup>rd</sup> week of 2022 (from 24 to 30 October), SBV returned to the net injection of liquidity into the banking system, one week before FOMC's November meeting. As per open market transactions, SBV lowered its offering amount of T-bill contracts to VND73.10tn this week, resulting in a net injection of VND53.10tn via this channel. On the other hand, SBV significantly raised the offering value of repo contracts from VND5.39tn to VND21.28tn, resulting in a net withdrawal of VND22.92tn through this instrument.

### Interbank rates re-surge

Interbank rates increased sharply with a lower trading value, indicating a weaker supply side this week. Specifically, overnight (ON) interest rates on the last trading session of this week increased by 141 basis points (bps) to 5.14%. Similarly, 1-week and 2-week increased significantly by 197bps and 193bps compared to the last weekend to 6.64% and 7.00%, respectively. Less notably, longer-term loans such as 9-month and 1-year experienced slight increases of 7bps and 10bps, reaching 7.95% and 8.05%, respectively.

### USDVND witnesses an advance

In comparison with last week's data, the USDVND witnessed a slight advance while the DXY fell down. In general, the USDVND increased by 0.64% compared with last week with a peak on Wednesday at VND24,855. On Monday 24<sup>th</sup> October, SBV has raised its selling price of the greenback at VND24,870 (2.01%-higher compared with previous adjustment). This is the sixth time this year that the State Bank has raised the selling price of USD. At this time, stabilizing the exchange rate to prevent the VND from depreciating against the U.S dollar was the top priority of SBV.

### KIS leading economic index

	4Q21	1Q22	2Q22	3Q22	2020	2021	2022F
GDP (%)	5.22	5.03	7.72	13.67	2.91	2.58	8.50
Trade balance (USD bn)	5.38	1.50	(0.75)	5.78	19.86	4.00	7.71
CPI (%)	1.89	2.50	2.96	3.32	3.24	1.84	3.30
Discount rate (%)	2.50	2.50	2.50	3.50	2.50	2.50	4.00
USD/VND	22,787	22,900	23,139	23,712	23,252	22,936	24,500
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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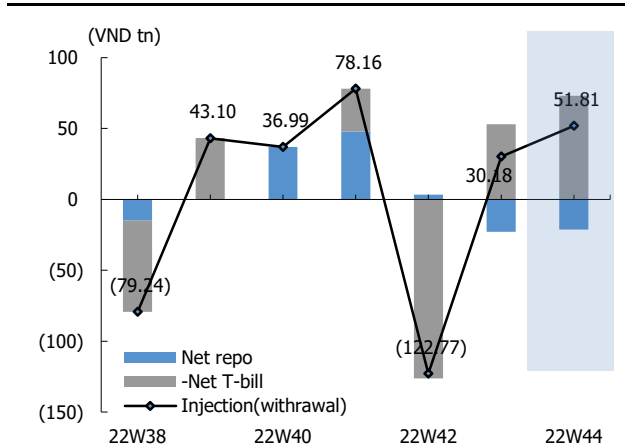
## I. SBV supports liquidity with a higher cost

### SBV backs to the liquidity injection

In the 43rd week of 2022 (from 24 to 30 October), SBV returned to the net injection of liquidity into the banking system, one week before FOMC's November meeting. Notably, Vietnam's central bank announced raising several policy rates as follows. Specifically, discount and refinancing rates would be 4.50% and 6.00% from 24th October, increasing by 100bps for each compared to their previous values. Besides, the overnight rate for the inter-bank electronic payments and the interest rate of loans to finance short-term balances in the clearing transactions between the SBV and the commercial banks increased from 6.0% to 7.0% p.a.

As per open market transactions, SBV lowered its offering amount of T-bill contracts to VND73.10tn this week, resulting in a net injection of VND53.10tn via this channel. On the other hand, SBV significantly raised the offering value of repo contracts from VND5.39tn to VND21.28tn, resulting in a net withdrawal of VND22.92tn through this instrument.

**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**

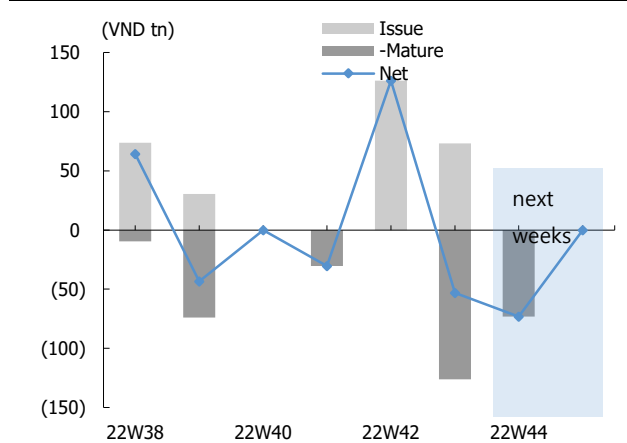
Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
24-Oct-22	31-Oct-22	7	2.00	6.00
25-Oct-22	01-Nov-22	7	9.00	6.00
27-Oct-22	03-Nov-22	7	5.00	6.00
28-Oct-22	04-Nov-22	7	5.28	6.00

Source: SBV, Bloomberg, KIS

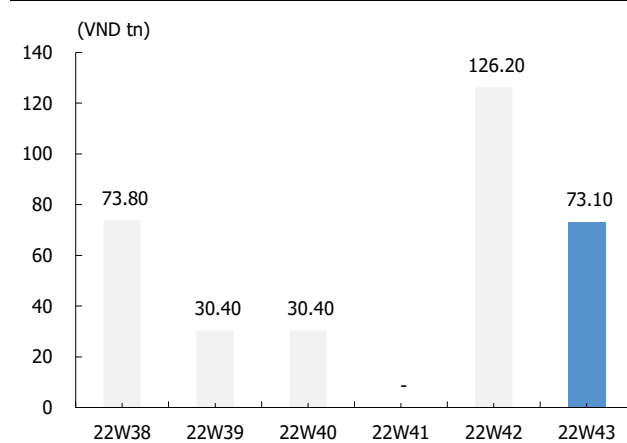
**Table 3. Daily T-bill transactions of this week**

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
24-Oct-22	31-Oct-22	7	6.10	6.00
25-Oct-22	01-Nov-22	7	7.00	6.00
26-Oct-22	02-Nov-22	7	30.00	6.00
27-Oct-22	03-Nov-22	7	10.00	6.00
28-Oct-22	04-Nov-22	7	20.00	6.00

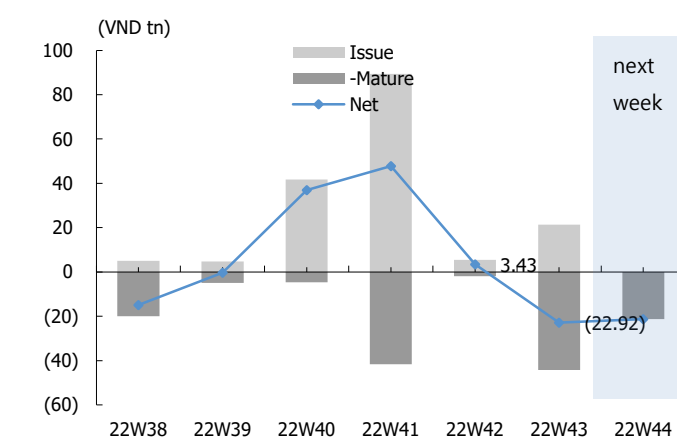
Source: SBV, Bloomberg, KIS

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

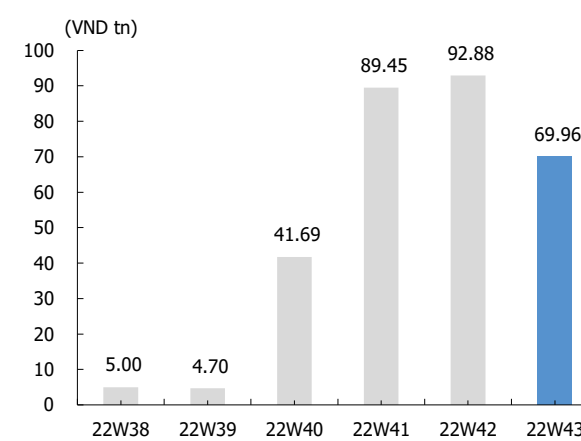
Source: SBV, Bloomberg, KIS

**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**

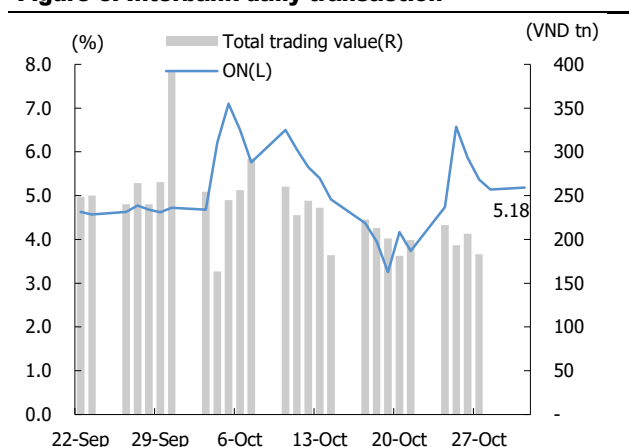
Source: SBV, Bloomberg, KIS

## II. Interbank rates re-surge

Interbank rates increased sharply with a lower trading value, indicating a weaker supply side this week. Specifically, overnight (ON) interest rates on the last trading session of this week increased by 141 basis points (bps) to 5.14%. Similarly, 1-week and 2-week increased significantly by 197bps and 193bps compared to the last weekend to 6.64% and 7.00%, respectively. Less notably, longer-term loans such as 9-month and 1-year experienced slight increases of 7bps and 10bps, reaching 7.95% and 8.05%, respectively.

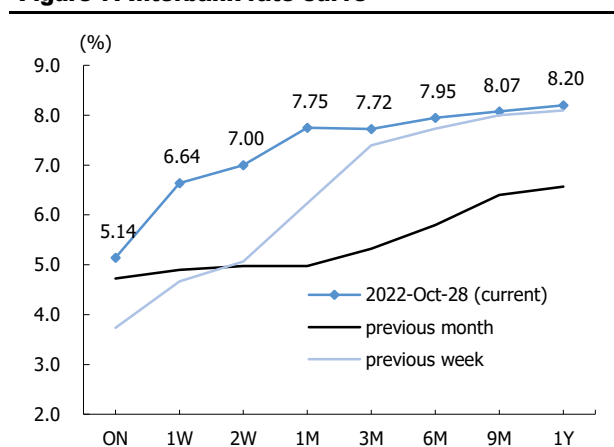
It seems that SBV would like to anchor the funding cost in the money market at a high level, by increasing winning yields of T-bill and repo transactions to 6.00%, to limit the FX market from extreme reactions to Fed's decision. Hence, we predict that the interbank rates will remain high next week.

**Figure 6. Interbank daily transaction**



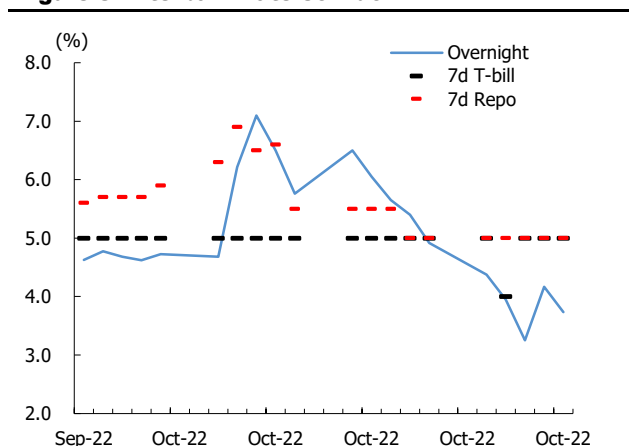
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



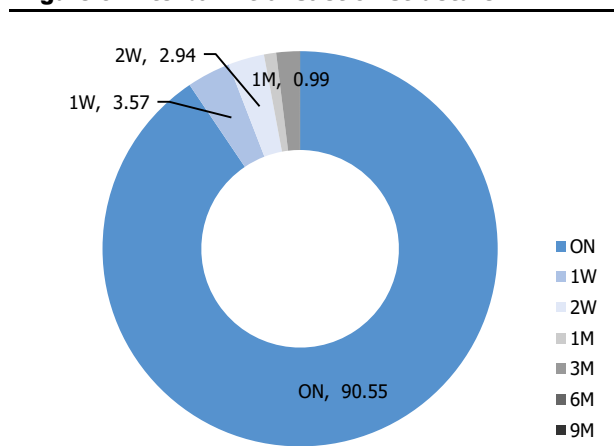
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

### III. Widen yield spread reduces G-bond auction result

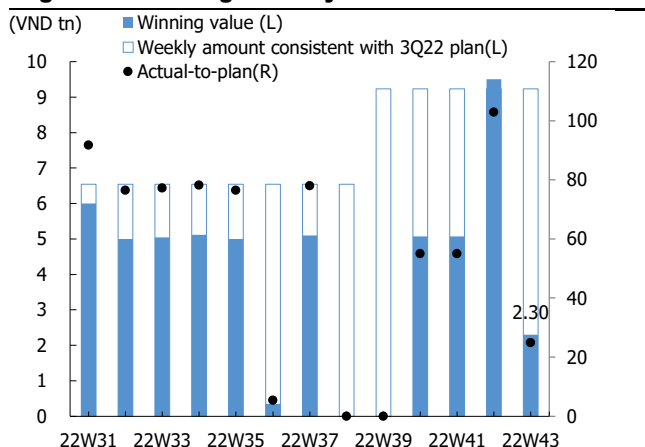
#### **G-bond auction remains successful**

This week, the government bond (G-bond) auction remained successful. However, the trading yield for a 15-year tenor in the secondary market has increased significantly while the offered yield for the same tenor in the primary market was likely unchanged, resulting in a lower winning amount in the auction. Specifically, 43W22 recorded a winning amount of VND2.30tn (VND2.10tn for the 10-year tenor and VND0.20tn for the 15-year tenor) from VND10.00tn offered by VST. 43W22's issuance resulted in a cumulative amount of VND129.52tn, accounting for 32.38% of the 2022 plan.

Offered yields in the primary G-bond market have increased further under the recent development of the secondary market, mainly contributing to the improvement in the auction result. The interest rate for the 10-year tenor rose by 20basis points (bps) compared to last week, reaching 4.00% and steadily surpassing the anchoring level of 3.0%. However, the winning yield of the 15-year tenor kept unchanged at 4.10%, widening the spread to that in the secondary market and mainly explaining the lower winning amount for this tenor.

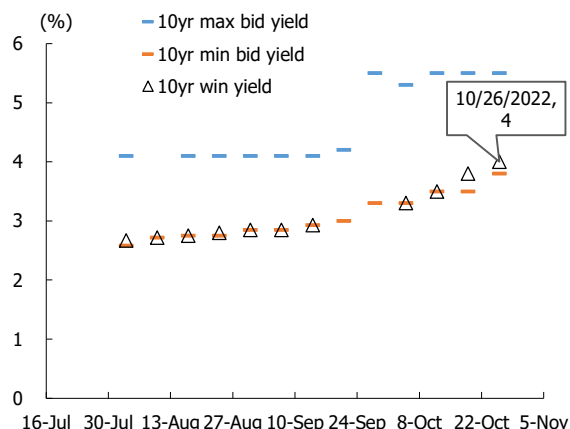
The funding costs in the money market has increased significantly this week as SBV implemented open market transactions with a higher yield than last week, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding rates in the primary market. VST has gradually lifted the 10-year winning yield to regain investors' attention. Therefore, we predict the G-bond auction could be successful further in the coming weeks, especially when the liquidity condition in the money market returns stable.

**Figure 10. Winning value by month**



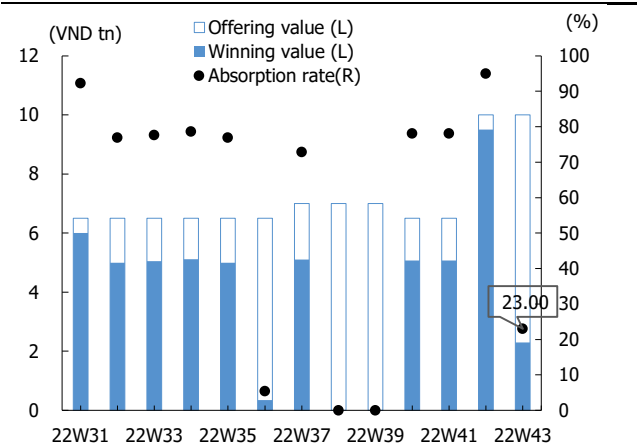
Source: HNX, KIS

**Figure 11. Winning yields by week**



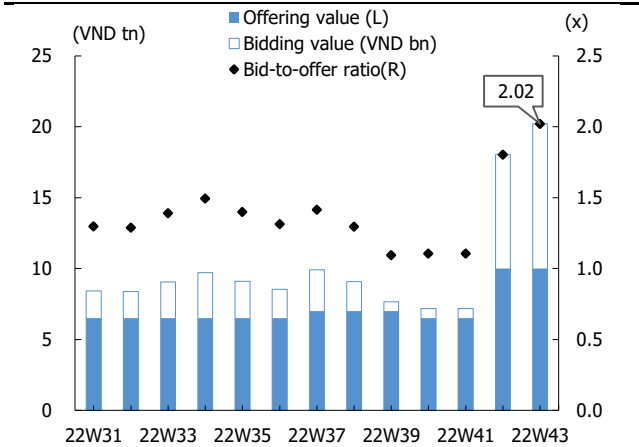
Source: HNX, KIS

**Figure 12. Absorption ratio**



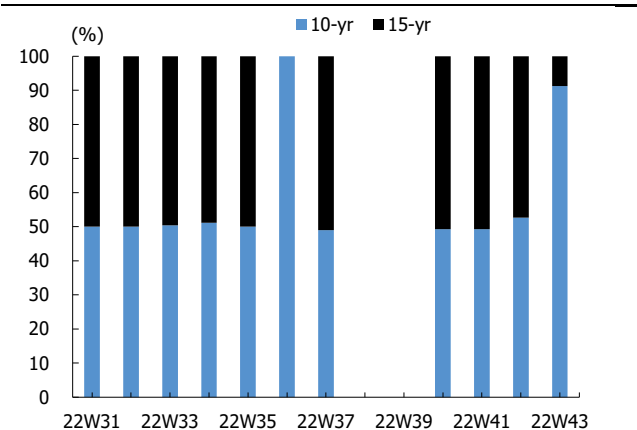
Source: HNX, KIS

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



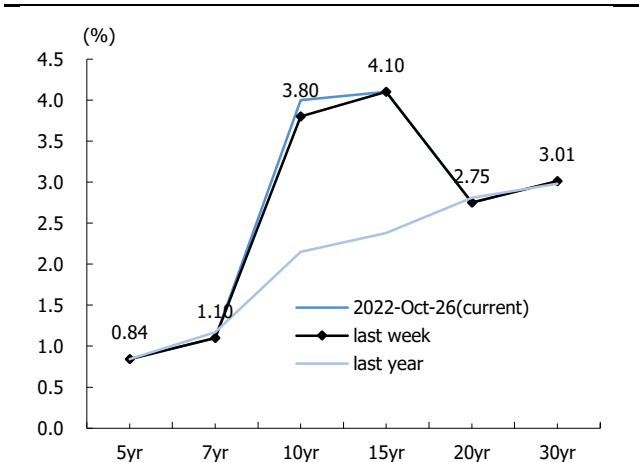
Source: HNX, KIS

**Figure 14. Winning value by tenor**



Source: HNX, KIS

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



Source: HNX, KIS

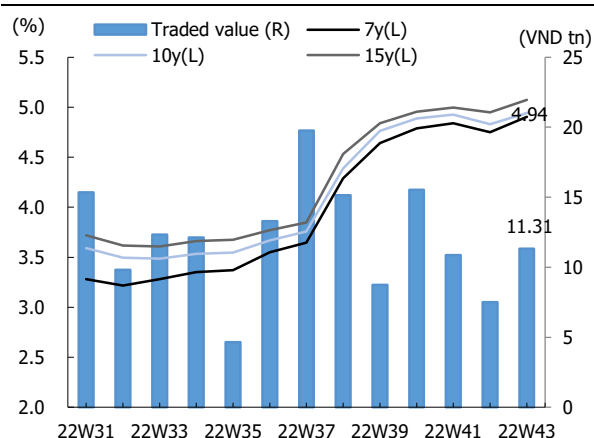
## IV. Trading G-bond yields rebound

### The selling pressure returns

G-bond yield in the secondary market climbed to the new year-high after easing last week with a higher trading volume, indicating the return of selling force when the funding cost the money market has surged. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) rose by 16basis points (bps), 11bps, and 13bps to reach 4.91%, 4.94%, and 5.08% this week, respectively.

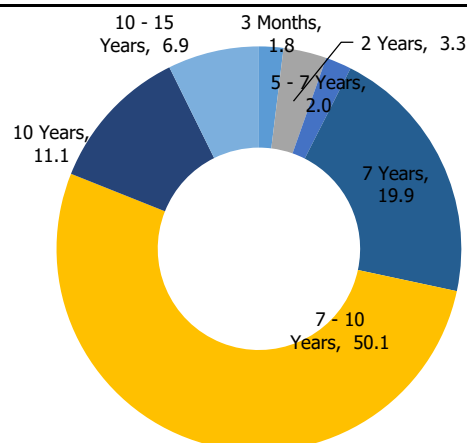
The weekly traded value reached VND11.31tn for five trading sessions, increasing by 50.68% compared to the previous week. Short-term loans in the money market have become more expensive as SBV managed open market transactions with higher yields, mainly explaining the rebound in G-bond yield this week. Regarding value structure, transactions continued focusing on tenors from 7 to 15 years with a joint portion of 88.00%.

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



Source: HNX, KIS

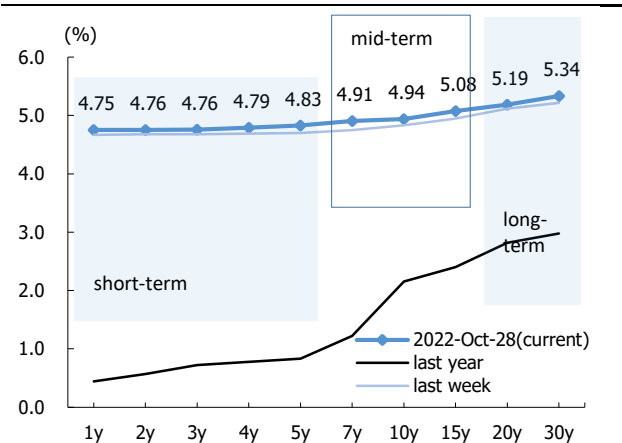
**Figure 17. Trading value by tenor this week**



Source: HNX, KIS

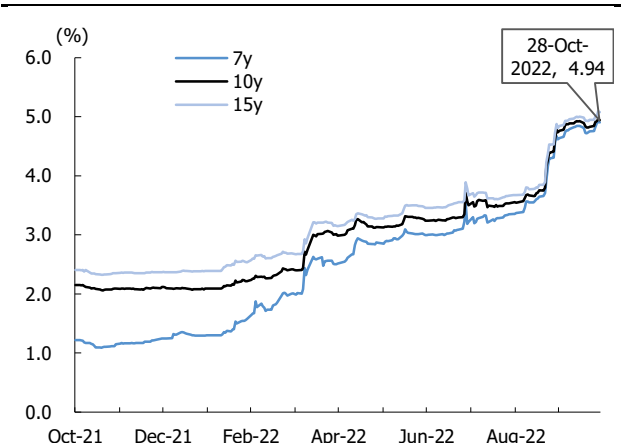
The increase in G-bond yields tends to focus more on the mid-term tenors, causing a more flat yield curve this week. Accordingly, short-term tenors (less than seven years), mid-term tenors (7 to 15 years), and long-term (above 15 years) increased by 9bps, 13bps, and 9bps on average this week, respectively.

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



Source: HNX, VBMA, KIS

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



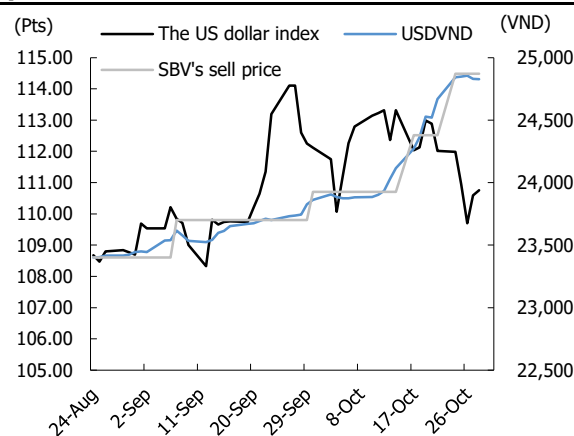
Source: HNX, VBMA, KIS

## V. USDVND witnesses an advance

### USDVND witnessed a significant advance

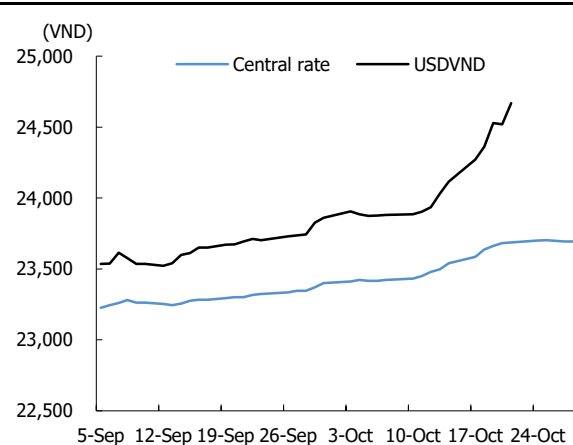
In comparison with last week's data, the USDVND witnessed a slight increase followed by the fall of DXY. In general, the USDVND increased by 0.64% compared with last week with a peak on Wednesday at VND24,855. This week, DXY decreased 1.12% WoW to around 110 zone due to lower-than-expected inflation data. Specifically, the annual core-PCE, which is the Federal Reserve's preferred gauge of inflation, rose to 5.1% in October of 2022, below the market expectations of 5.2%. This figure indicating that price pressures remain elevated, but are growing at a slower pace than earlier in the year which shows a positive development for the U.S. central bank. The DXY experienced a decline as investors are betting the Fed will change their policy from "hawkish" to "dovish" due to softer-than-expected core PCE Inflation. According to the CME Fed-Watch tool, 83.5% investors think that Fed will increase 75bps on November while 16.5% investors are betting that Fed will increase the rate softly to 50bps.

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



Source: SBV, Bloomberg

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



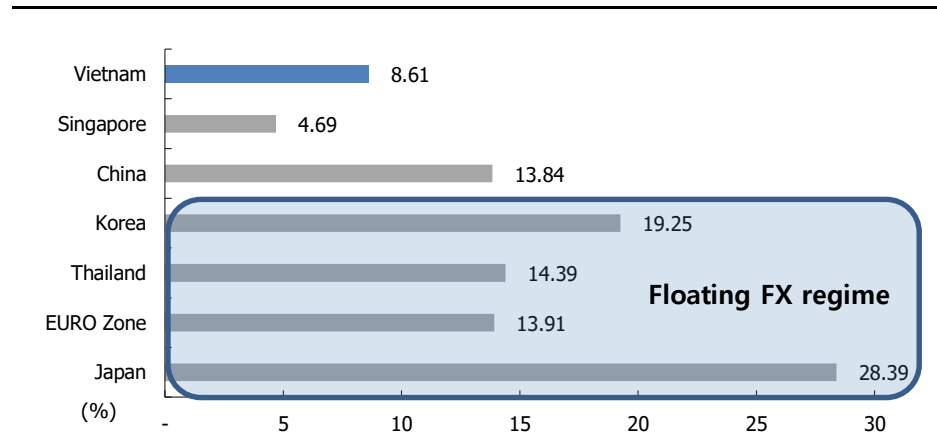
Source: SBV, Bloomberg

Last week, the central rate was lifted slightly by 5bps, from VND23,688 to VND23,693. Meanwhile, the interbank exchange rate between at the end of the week also increased slightly by 0.68% WoW, from VND24,669 to VND24,828.

In addition, SBV has continued to increase its selling price of the greenback at VND23,870, (2.01%-higher compared with previous adjustment). This is the sixth time this year that the State Bank has raised the selling price of USD. As can be known that the VND is still under pressure to be depreciated against the USD. The decision to raise the selling price of USD took place at the same time as the decision to raise the policy rate showing the will to maintain foreign exchange reserves of the SBV and to prevent the VND from depreciating against the U.S dollar.



**Figure 22. YTD performance of local currencies**



Source: Bloomberg, KIS

In the 43rd week, Vietnam was depreciated around 8.61% so far this year (YTD) against the greenback. It can be seen that in recent weeks, the VND has continuously been depreciated against the U.S dollar. This is the reason why SBV's intervention is necessary to prevent the depreciation of Vietnam Dong. Furthermore, countries with the floating FX regime, such as Japan and European nations, experienced a severe depreciation against the U.S. dollar. Last week, JPY depreciated roughly 28.39% (YTD) against the greenback followed by Korea's won and Thailand's currency.

## Macro scorecard

	22-Jun	22-Jul	22-Aug	22-Sep	22-Oct	4Q21	1Q22	2Q22	3Q22	2018	2019	2020	2021
Real GDP growth (%)						5.22	5.03	7.72	13.67	7.08	7.03	2.91	2.58
Registered FDI (USD bn)	2.32	1.51	1.23	1.92	2.05	9.01	8.91	5.12	4.67	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)	32.65	30.32	33.38	29.94	30.27	95.26	86.01	96.83	96.48	243.5	263.6	282.7	335.7
Import (USD bn)	32.37	30.30	30.96	28.80	28.00	88.72	87.45	97.58	90.71	236.7	254.4	263	331.1
Export growth (%)	19.98	8.87	22.14	10.35	4.54	20.43	13.43	21.02	17.22	13.19	8.16	7.02	18.74
Import growth (%)	16.32	3.42	12.42	6.45	7.08	15.42	15.17	15.72	8.12	11.01	7.41	3.81	25.9
Inflation (%)	3.37	3.14	2.89	3.94	4.30	1.89	1.92	2.96	3.32	3.54	2.79	3.24	1.84
USD/VND	23,254	23,343	23,417	23,712	24,839	22,790	22,837	23,139	23,712	23,175	23,173	23,126	22,790
Credit growth (%)	8.51	9.14	9.62	10.47	11.38	12.97	4.13	8.51	10.47	10.77	13.75	12.17	12.97
10Y gov't bond (%)	3.38	3.50	3.37	4.39	4.95	2.11	2.40	3.38	4.39	5.07	3.37	2.01	2.11

Source: GSO, Bloomberg, FIA, IMF

## \*\*Glossary

- \* Winning yield rate = each group's highest bidding rate, ~3.5%
- \* Absorption rate = winning value / offering value, ~78%
- \* Bid to offer ratio = offering value / bidding value, ~1.1x
- \* DXY = U.S. Dollar Index, ~113
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~4.92%

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