

Fixed-income Perspectives

Vietnam's money market in a time of high funding costs

SBV sustains the liquidity support

In the 44th week of 2022 (from 31 October to 6 November), SBV continued to pour liquidity into the banking system to solve the short-term funding stress. Accordingly, Vietnam's central bank has raised the offering value of repo contracts to VND47.65tn this week, resulting in a net injection of VND26.37tn. As per T-bill contraction, SBV newly offered an amount of VND20.00tn this week to roll over a part of the matured amount, resulting in a net injection of VND53.10tn via this instrument. Total this week, the banking system received a significant liquidity amount of VND79.47tn.

Interbank rates volatility reduces

After witnessing a week of the extreme dynamic of up and down, interbank rates in 22W44 generally became less volatile as SBV's implementation of OMO transactions was transmitting. Specifically, overnight (ON) interest rate on the last trading session of this week increased by 86 basis points (bps) to 5.99%. longer-term loans such as 1-month, 3-month, and 6-months also witnessed a moderate decrease of 64bps, 35bps, and 51bps compared to the previous week.

USDVND increases slightly

In comparison with last week's data, the USDVND witnessed a slight increase followed by the rise of DXY. In general, the USDVND increased by 0.09% compared with last week with a peak on Tuesday at VND24,869. It can be seen that in recent weeks, the VND has continuously been depreciated against the U.S dollar for 11 consecutive weeks. Furthermore, securing foreign exchange reserves and keeping VND from depreciating against the U.S. dollar is still an urgent task 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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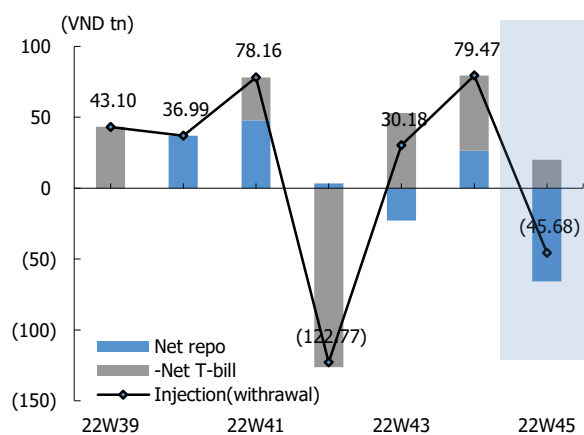
I. SBV sustains the liquidity support

SBV sustains the liquidity injection

In the 44th week of 2022 (from 31 October to 6 November), SBV continued to pour liquidity into the banking system to solve the short-term funding stress. Accordingly, Vietnam's central bank has raised the offering value of repo contracts to VND47.65tn this week, resulting in a net injection of VND26.37tn. As per T-bill transaction, SBV newly offered an amount of VND20.00tn this week to roll over a part of the matured amount, resulting in a net injection of VND53.10tn via this instrument. Total this week, the banking system received a significant liquidity amount of VND79.47tn.

It seems that Vietnam's monetary authority will continue to implement the OMO transactions with a high funding cost to support liquidity for its counterparties as well as to simultaneously limit USD outflow from the growing demand for carry-trade activities. Therefore, winning yields for T-bill and repo contracts offered to commercial banks are expected to be steadily 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 25, 2022	4.5↑	6.0↑
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

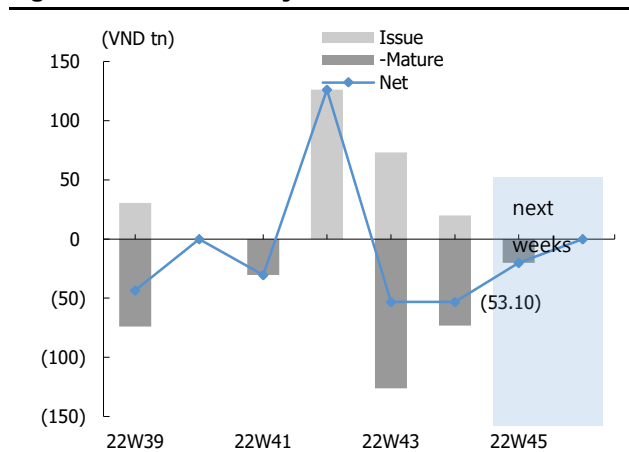
Source: SBV, Bloomberg, KIS

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

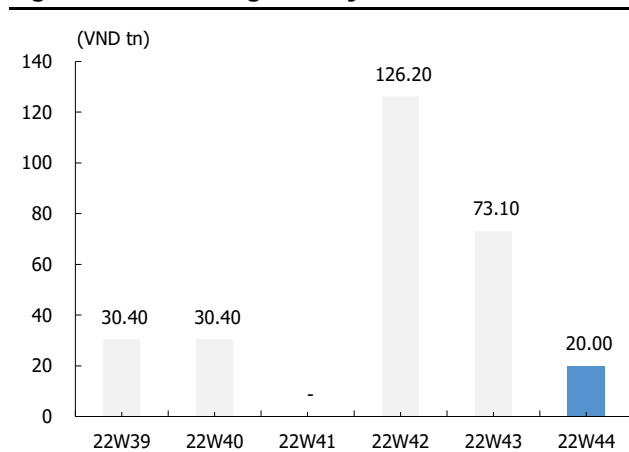
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



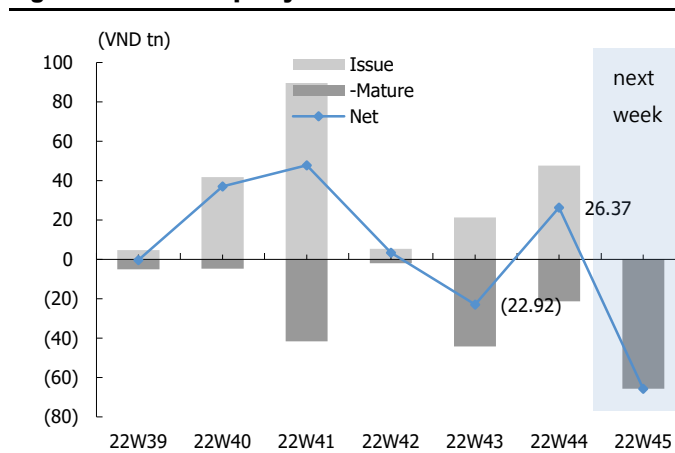
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



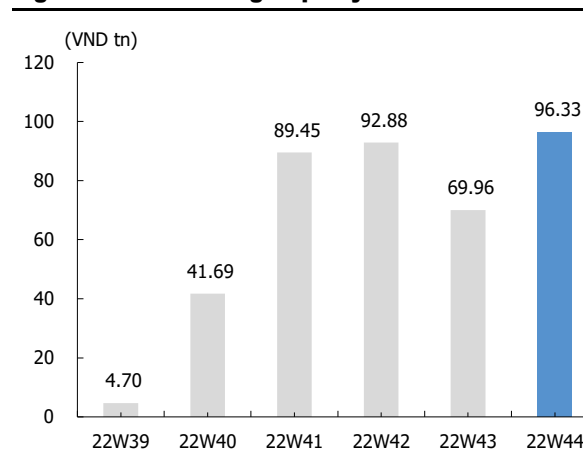
Source: SBV, Bloomberg, KIS

Figure 4. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding Repo by week



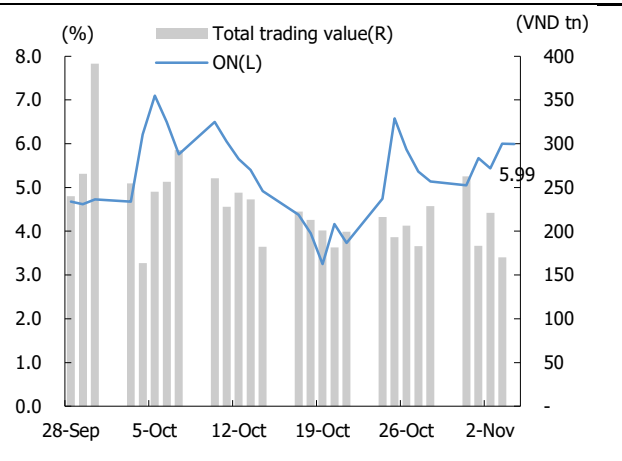
Source: SBV, Bloomberg, KIS

II. Interbank rates volatility reduce

After witnessing a week of the extreme dynamic of up and down, interbank rates in 22W44 generally became less volatile as SBV's implementation of OMO transactions was transmitting. Specifically, overnight (ON) interest rate on the last trading session of this week increased by 86 basis points (bps) to 5.99%, convergent to the level SBV applying to its repo and T-bill transactions. On the contrary, 1-week and 2-week decreased slightly by 15bps and 20bps compared to the last weekend to 6.49% and 6.80%, respectively. More notably, longer-term loans such as 1-month, 3-month, and 6-months also witnessed a moderate decrease of 64bps, 35bps, and 51bps compared to the previous week, falling to 7.11%, 7.38%, and 7.43%, respectively.

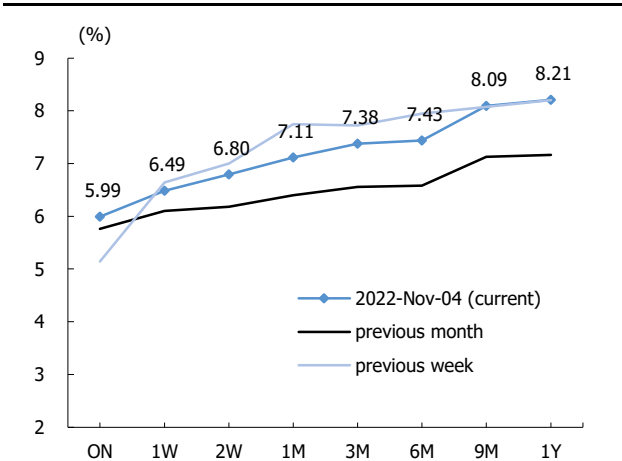
It seems that SBV would like to anchor the funding cost in the money market at a high level, by increasing winning yields of T-bill and repo transactions to 6.00%, to limit the FX market from capital outflow. Therefore, we predict that the interbank rates will be steadily high next weeks.

Figure 6. Interbank daily transaction



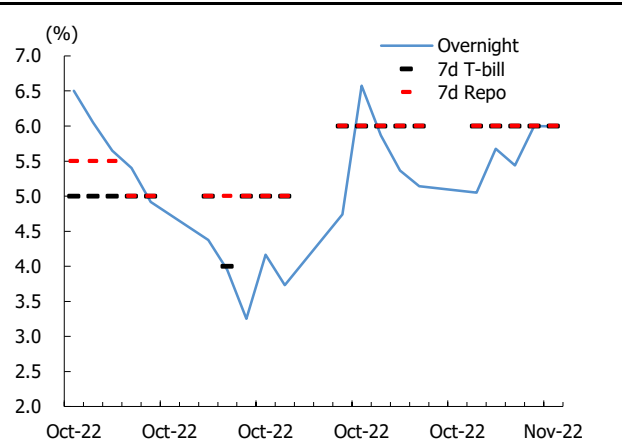
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



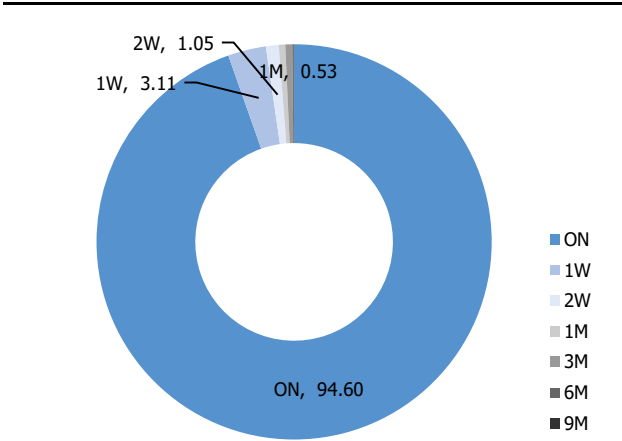
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KIS

III. G-bond auction records higher winning value

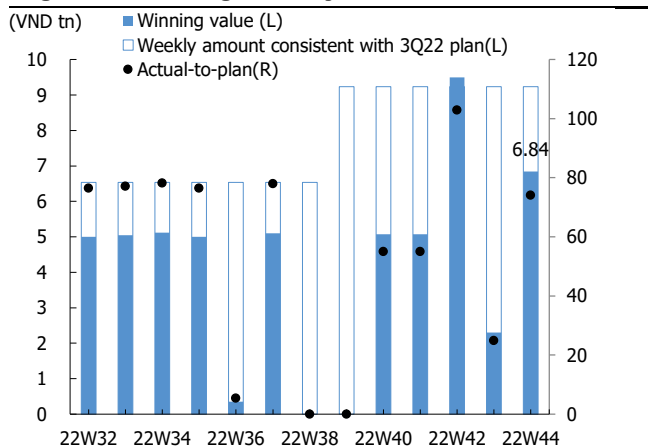
G-bond auction increases as investors seem require more safe assets

This week, the government bond (G-bond) auction remained successful, with an increasing winning amount and a higher yield, indicating that the supply side seems to ease further. Specifically, 44W22 recorded a winning amount of VND6.84tn (VND3.64tn for the 10-year tenor and VND3.20tn for the 15-year tenor) from VND10.00tn offered by VST. 44W22's issuance resulted in a cumulative amount of VND136.37tn, accounting for 34.09% of the 2022 plan.

Persistent selling pressure in the secondary G-bond market under the tight liquidity condition in the broad money market primarily contributed to high yields in the auction result. The interest rate for the 10-year tenor rose by 20basis points (bps) compared to last week, reaching 4.20% and steadily surpassing the anchoring level of 3.0%. Similarly, the winning yield of the 15-year tenor rose by 30bps to 4.40% this week.

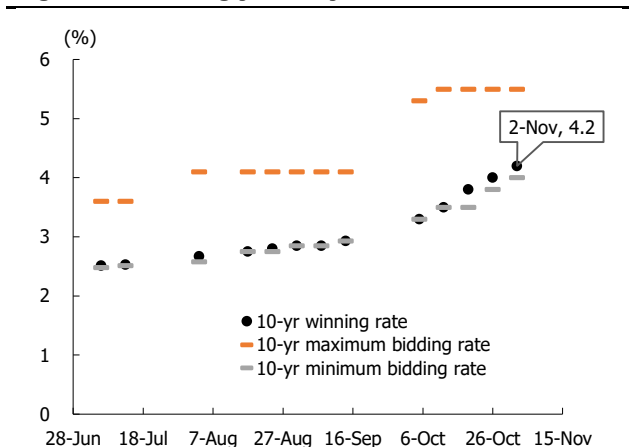
Although SBV sustained its liquidity support via OMO, the funding costs in the money market remained high, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding rates in the primary market. Although VST has gradually lifted the 10-year winning yield to regain investors' attention, the increase was limited. Therefore, we predict the G-bond auction could be successful further but with a modest amount in the coming weeks.

Figure 10. Winning value by month



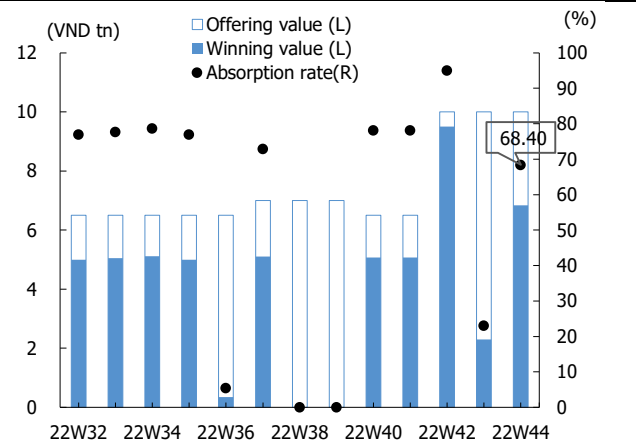
Source: HNX, KIS

Figure 11. Winning yields by week



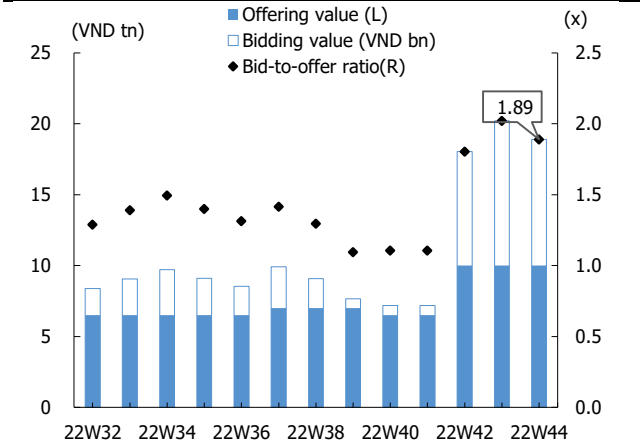
Source: HNX, KIS

Figure 12. Absorption ratio



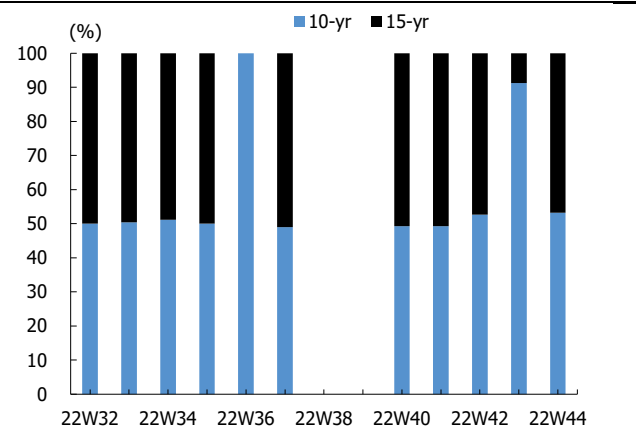
Source: HNX, KIS

Figure 13. Bid-to-offer ratio



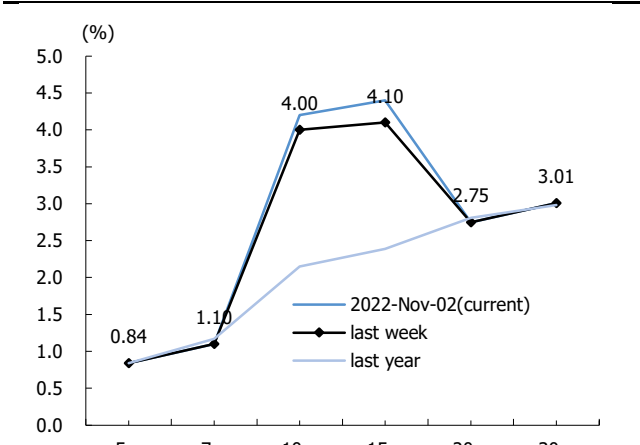
Source: HNX, KIS

Figure 14. Winning value by tenor



Source: HNX, KIS

Figure 15. Yield curve in primary market



Source: HNX, KIS

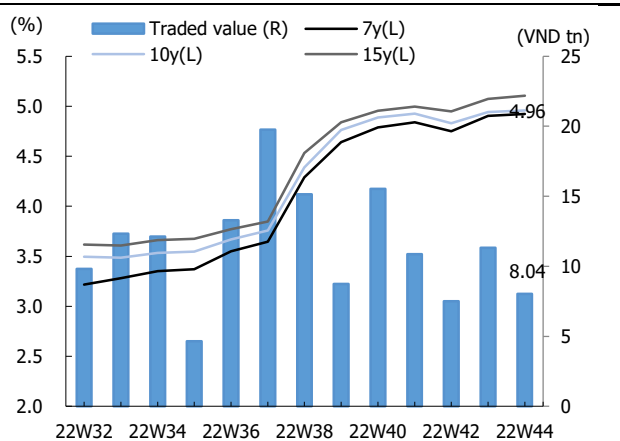
IV. G-bond sell pressure relaxes

The selling pressure returns

G-bond yields in the secondary market rose slightly with a much lower trading volume, suggesting that selling pressure likely eased this week. Specifically, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) rose modestly by 2basis points (bps), 2bps, and 3bps to reach 4.92%, 4.96%, and 5.11% this week, respectively.

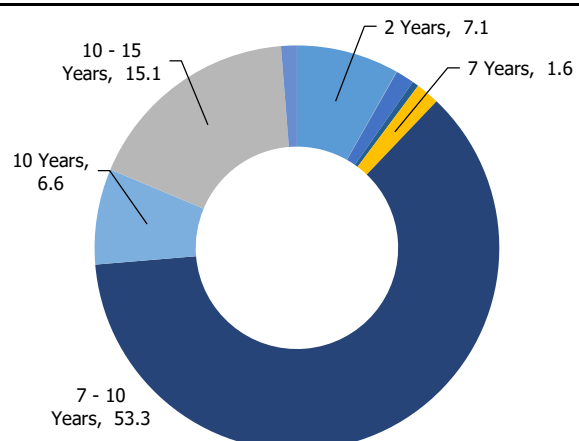
The weekly traded value reached VND8.04tn for five trading sessions, significantly decreasing by 28.97% compared to the previous week. Short-term loans in the money market have become more expensive as SBV managed open market transactions with higher yields, mainly explaining the rebound in G-bond yield this week. Investor sentiment in the fixed-income market seemed calm despite the Fed's rate hike of 75bps on Wednesday this week. This mild reaction of Vietnam's government bond to the change in fed fund rates was attributable to the previous 100bps increase in Vietnam's policy rates. Regarding value structure, transactions continued focusing on tenors from 7 to 15 years with a joint portion of 76.10%.

Figure 16. G-bond trading value



Source: HNX, KIS

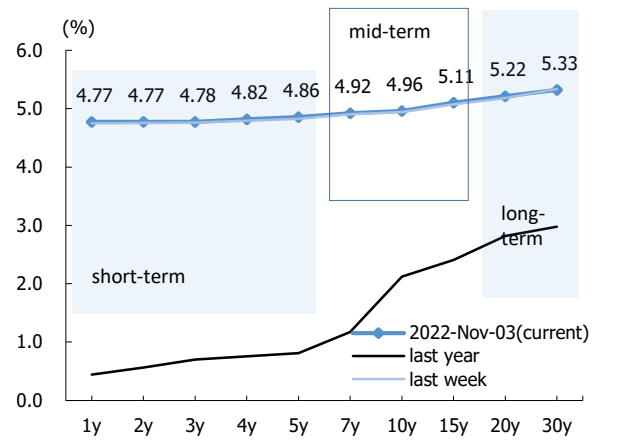
Figure 17. Trading value by tenor this week



Source: HNX, KIS

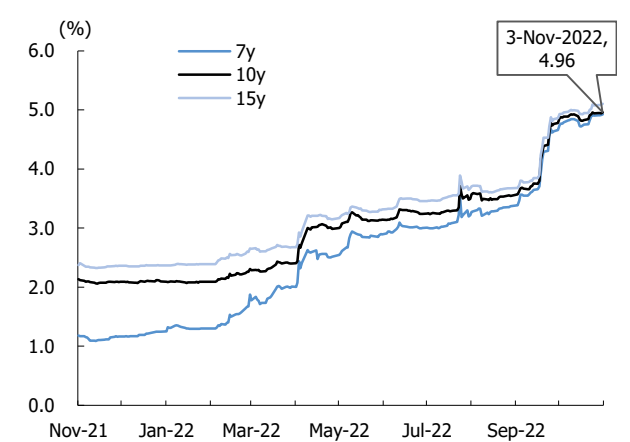
The shape of the yield curve was likely unchanged compared to last week as the increase in yield distributed evenly across tenors. Accordingly, short-term tenors (less than seven years), mid-term tenors (7 to 15 years), and long-term (above 15 years) increased by 2bps, 2bps, and 1bps on average this week, respectively.

Figure 18. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 19. Historical daily government bond yield



Source: HNX, VBMA, KIS

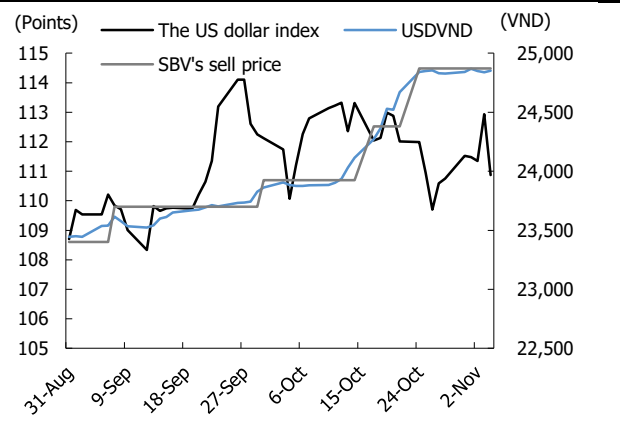
V. USDVND increases slightly

USDVND increases slightly

In comparison with last week's data, the USDVND witnessed a slight increase followed by the rise of DXY. In general, the USDVND increased by 0.09% compared with last week with a peak on Tuesday at VND24,869.

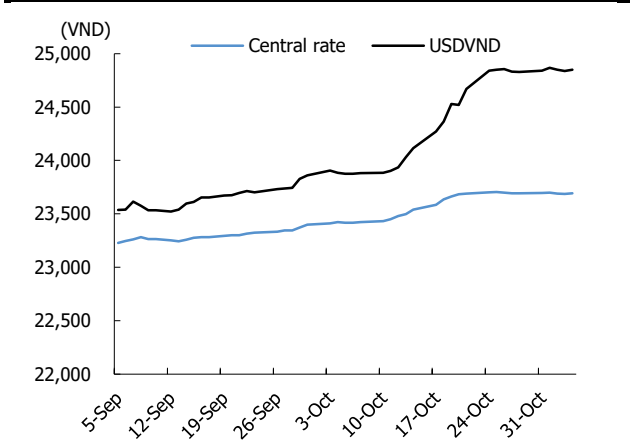
This week, DXY increased 0.11% WoW to around 111 zone due to Fed's hawkish interest hike. Specifically, on 2nd November, the Federal Reserve decided to increase the interest rate by 0.75%, making the current target rate reach to 375-400bps. However, the upward momentum of the DXY cooled down resulted from the rise of unemployment rate in October. In detail, the unemployment rate of the U.S. in October was 3.7%, higher than previous month and beat the marker consensus at 3.6%, meaning that the Fed's tightening policies have had certain impacts on businesses which might resulted in "FED's Pivot".

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



Source: SBV, Bloomberg

Figure 21. Daily Central rate and USDVND

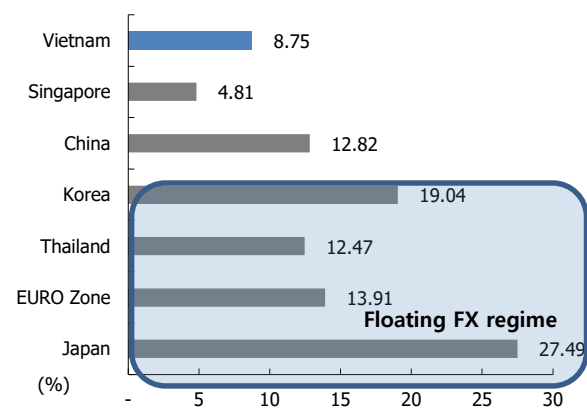


Source: SBV, Bloomberg

Last week, the central rate remained unchanged, anchoring at VND23,688. Meanwhile, the interbank exchange rate at the end of the week also increased slightly by 0.09% WoW, from VND24,828 to VND24,851.

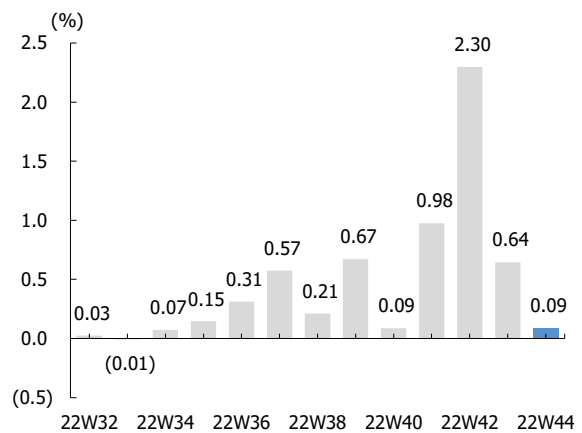
In addition, SBV has continued to keep its selling price of the greenback at VND23,870, (2.01%-higher compared with previous adjustment). As can be known that the VND is still under pressure to be depreciated against the USD. Furthermore, securing foreign exchange reserves and keeping VND from depreciating against the U.S. dollar is still an urgent task of SBV.

Figure 22. YTD performance of local currencies



Source: SBV, Bloomberg

Figure 23. Weekly performance of USDVND



Source: SBV, Bloomberg

In the 44th 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 for 11 consecutive weeks. 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 27.49% (YTD) against the greenback followed by Korea's won and Eurozone's currency.

As per weekly performance, Vietnam Dong was depreciated 0.09% compared with last week data. It shows that the recent interventions of SBV by raising policy rate and selling rate of the USD have worked effectively.

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, ~4.2%
- * Absorption rate = winning value / offering value, ~68.4%
- * Bid to offer ratio = offering value / bidding value, ~1.89
- * DXY = U.S. Dollar Index, ~113
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~5.99%

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