

# Fixed-income Perspectives

## Easing liquidity condition in the money market

### SBV lowers liquidity support

In the 45<sup>th</sup> week of 2022 (from 7 to 13 November), SBV turned into liquidity withdrawing after two consecutive week of pouring liquidity to support the banking system. Accordingly, Vietnam's central bank has decreased the offering value of repo contracts to VND23.03tn this week, resulting in a net withdrawal of VND42.65tn. As per T-bill transaction, SBV has not issues any T-bill this week while VND20.00tn T-bills last week matured. Jointly, SBV's withdrawal a total amount of VND22.65bn this week.

### Interbank rates volatility reduces

In 45W22, the interbank rates witnessed a divergence over different terms after two consecutive weeks of net liquidity injection of SBV. The overnight (ON) interest rate, 1-week and 2week decreased by 169 basis points (bps), 108bps and 91bps compared to the last weekend to 3.95, 5.10% and 5.73%, respectively. On the contrary, longer-term loans such as 1-month, 3-month, and 6-months experienced a moderate increase of 14bps, 68bps, and 77bps compared to the previous week, reaching 7.00%, 7.80%, and 7.95%, respectively.

### USDVND witnesses a positive sign

In comparison with last week's data, the USDVND witnessed a slight decrease followed by the dramatic fall down of DXY. In general, the USDVND decreased by 0.12% compared with last week with a peak on Wednesday at VND24,869. This week, the VND has recovered slightly after 11 consecutive weeks of depreciating by appreciated 0.18%WoW. Furthermore, securing foreign exchange reserves and keeping VND from depreciating against the U.S. dollar is still an urgent task of SBV at this time.

### 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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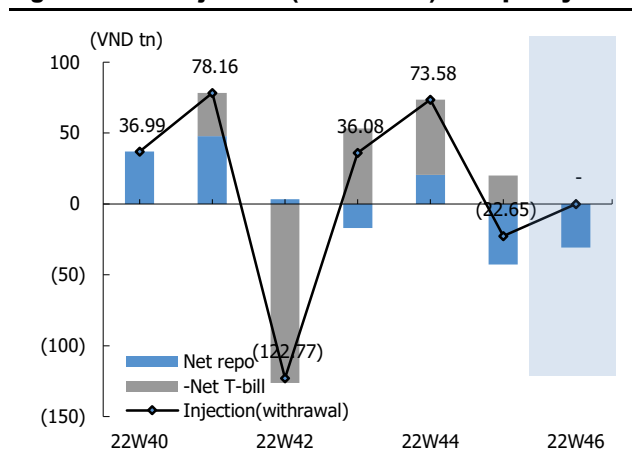
## I. SBV lowers liquidity support

### SBV turns to liquidity withdrawal

In the 45<sup>th</sup> week of 2022 (from 7 to 13 November), SBV turned into liquidity withdrawing after two consecutive week of pouring liquidity to support the banking system. Accordingly, Vietnam's central bank has decreased the offering value of repo contracts to VND23.03tn this week, resulting in a net withdrawal of VND42.65tn. As per T-bill transaction, SBV has not issues any T-bill this week while VND20.00tn T-bills last week matured. Jointly, SBV's withdrawal a total amount of VND22.65bn this week.

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↓

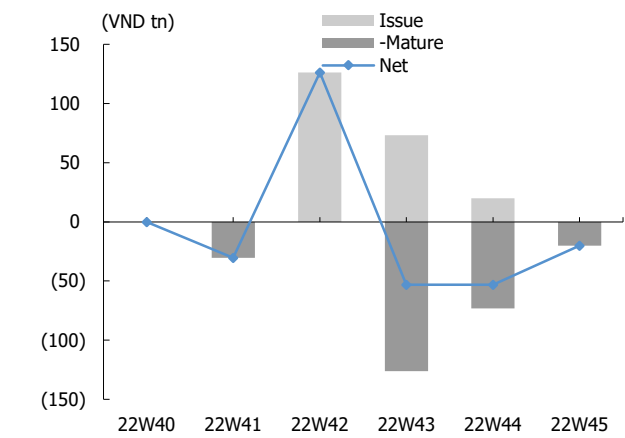
Source: SBV, Bloomberg, KIS

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

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
7-Nov-22	21-Nov-22	14	6.15	6.00
8-Nov-22	22-Nov-22	14	8.75	6.00
9-Nov-22	23-Nov-22	14	4.80	6.00
10-Nov-22	24-Nov-22	14	0.87	6.00
11-Nov-22	25-Nov-22	14	2.46	6.00

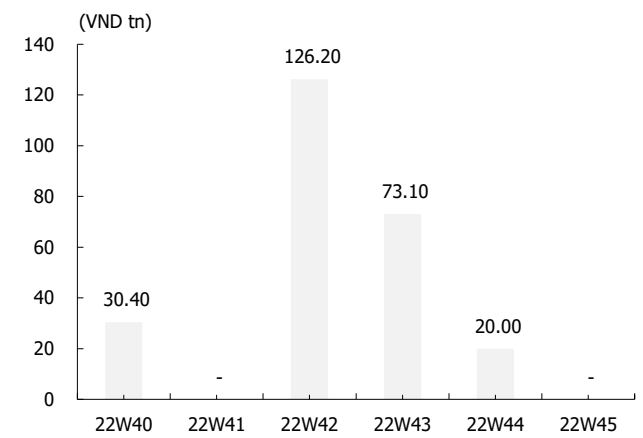
Source: SBV, Bloomberg, KIS

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



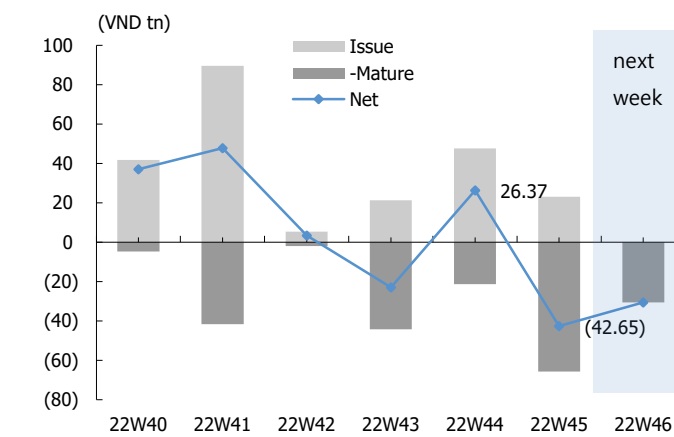
Source: SBV, Bloomberg, KIS

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



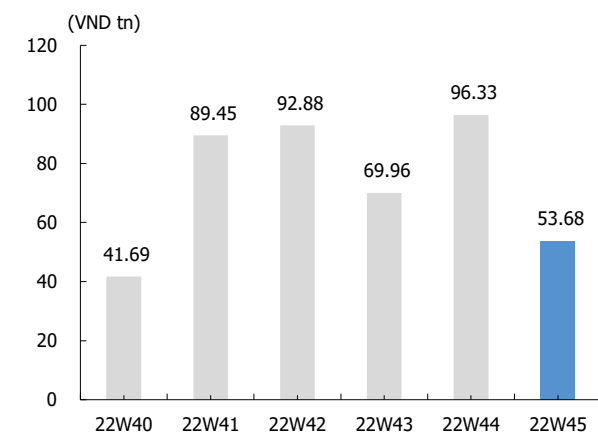
Source: SBV, Bloomberg, KIS

**Figure 4. Issued Repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding Repo by week**



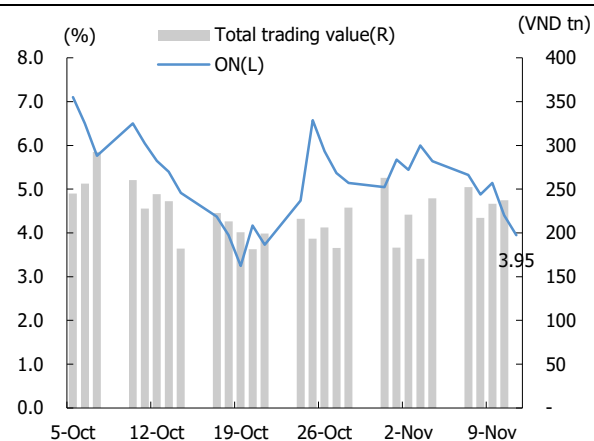
Source: SBV, Bloomberg, KIS

## II. Interbank rates significantly reduce

In 45W22, the interbank rates witnessed a divergence over different terms after two consecutive weeks of net liquidity injection of SBV. Specifically, the overnight (ON) interest rate on the last trading session of this week decreased by 169 basis points (bps) to 3.95%. Besides, 1-week and 2-week also decreased notably by 108bps and 91bps compared to the last weekend to 5.10% and 5.73%, respectively. On the contrary, longer-term loans such as 1-month, 3-month, and 6-months experienced a moderate increase of 14bps, 68bps, and 77bps compared to the previous week, reaching 7.00%, 7.80%, and 7.95%, respectively.

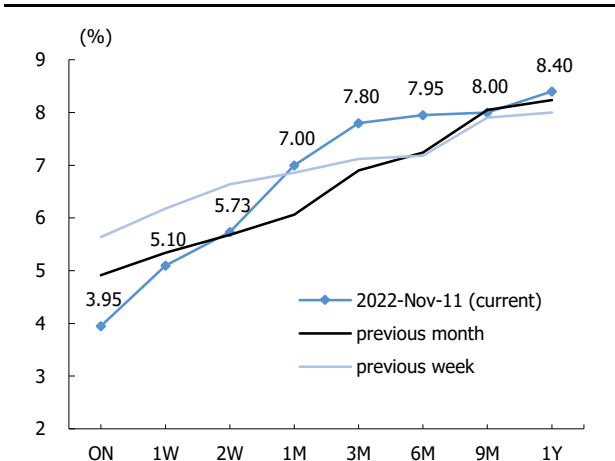
We predict that SBV's top priority is to anchor the funding cost in the money market at a high level, by keeping winning yields of T-bill and repo transactions to 6.00%, to limit the FX market from the capital outflow. This week witnessed a net withdrawal which means that the interbank rates will be steadily high next week.

**Figure 6. Interbank daily transaction**



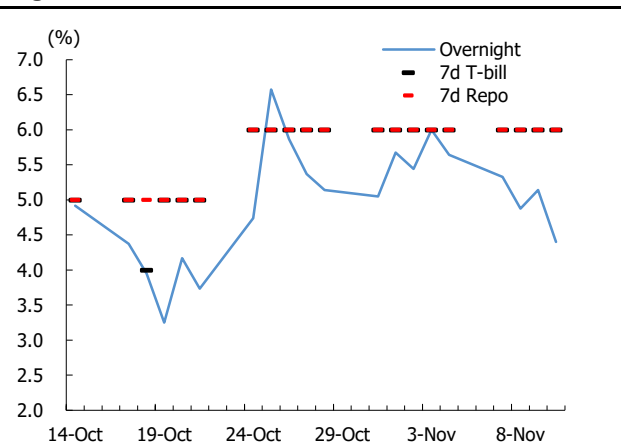
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



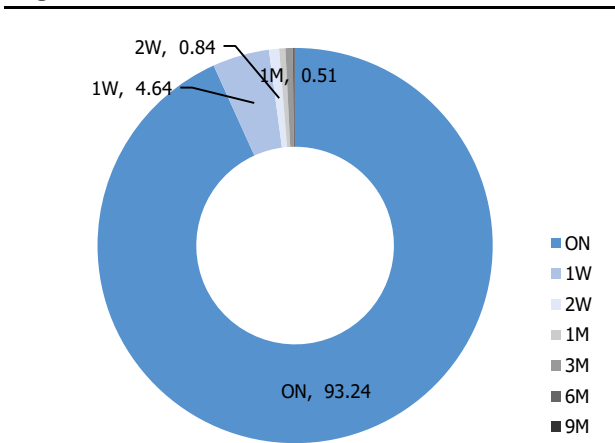
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

### III. Higher yield attracts G-bond auction participants

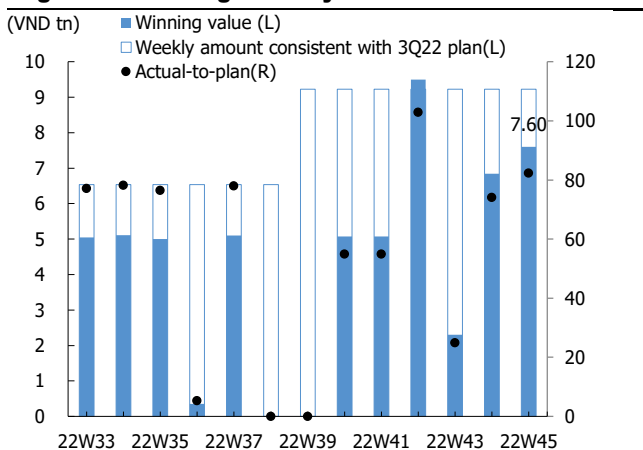
#### G-bond auction increases under extending supply side

This week, the government bond (G-bond) auction remained successful, with an increasing winning amount and a higher yield, suggesting that the supply side was extending. Specifically, 45W22 recorded a winning amount of VND7.60tn (VND5.00tn for the 10-year tenor and VND2.60tn for the 15-year tenor) from VND10.00tn offered by VST. 45W22's issuance resulted in a cumulative amount of VND143.97tn, accounting for 35.99% 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 4.40%. Similarly, the winning yield of the 15-year tenor rose by 30bps to 4.70% this week. Higher G-bond yields consequently attracted more investors as the bid-to-offer ratio this week has increased to 2.13 times.

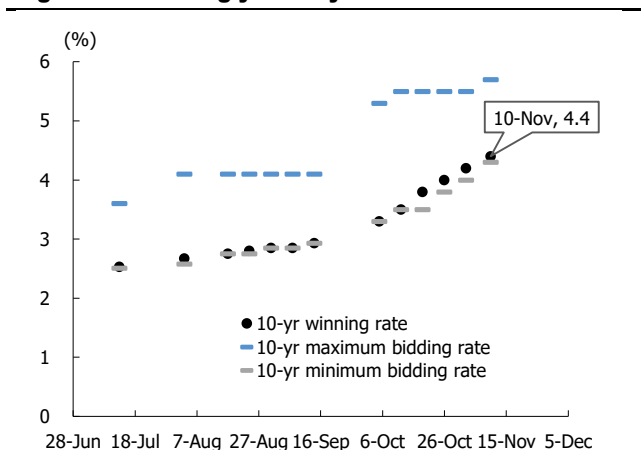
Although SBV sustained its liquidity support via OMO, the funding costs in the money market remained high, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding 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**



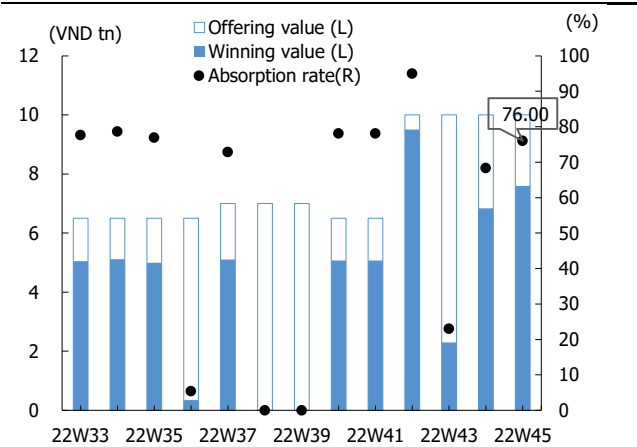
Source: HNX, KIS

**Figure 11. Winning yields by week**



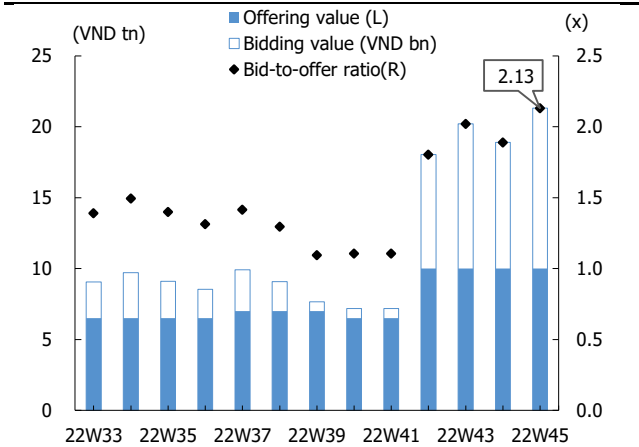
Source: HNX, KIS

**Figure 12. Absorption ratio**



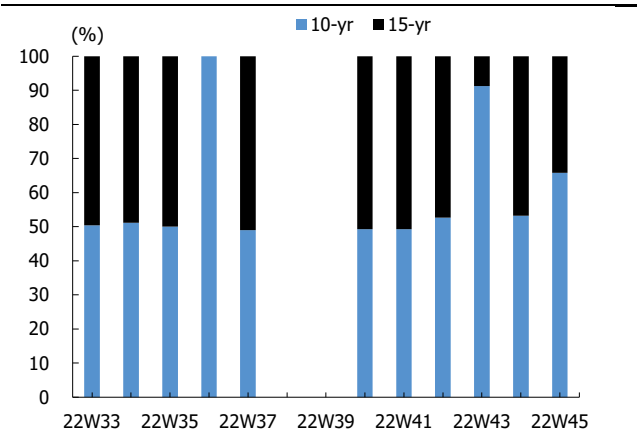
Source: HNX, KIS

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



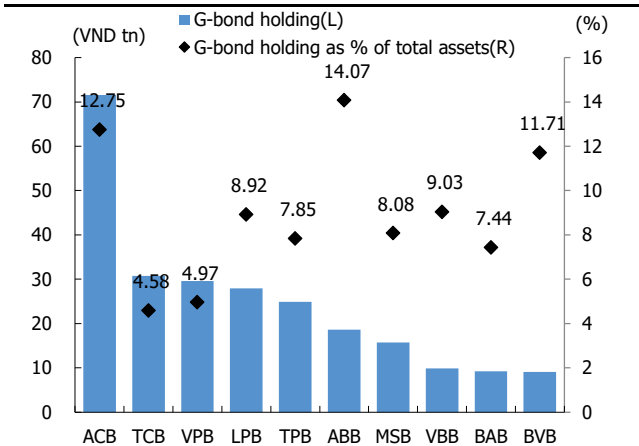
Source: HNX, KIS

**Figure 14. Winning value by tenor**



Source: HNX, KIS

**Figure 15. Top G-bond holding by bank as of 3Q22**



Source: HNX, Company filings, KIS

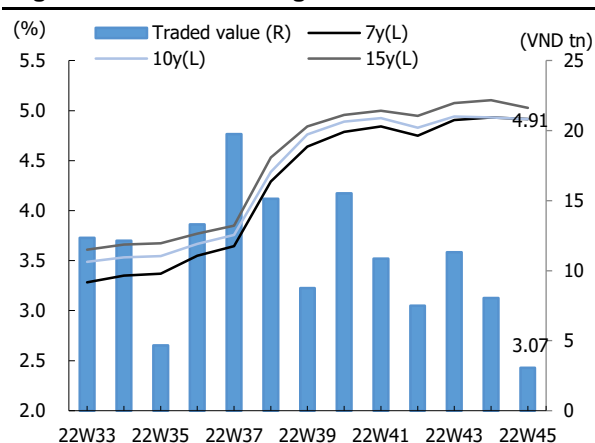
## IV. G-bond sell pressure eases

### The selling pressure eased

G-bond yields in the secondary market reduced slightly with a much lower trading volume, indicating a soft selling pressure this week. In more detail, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) declined modestly by 2basis points (bps), 2bps, and 8bps to 4.91%, 4.91%, and 5.03% this week, respectively. The weekly traded value reached VND3.07tn for five trading sessions, significantly decreasing by 61.85% compared to the previous week.

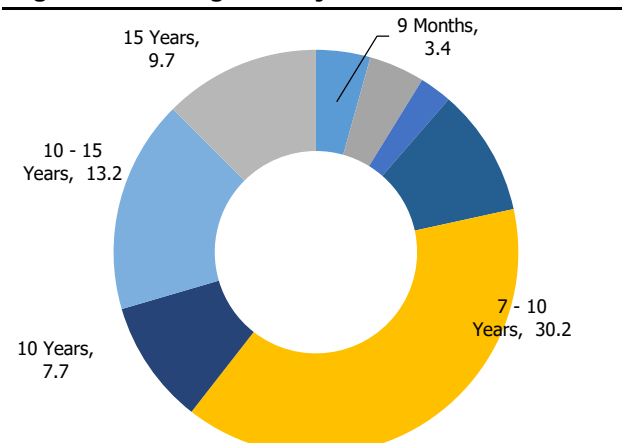
The liquidity condition in the money market has eased this week with lower interbank rates and higher trading volume, mainly contributing to calm fixed-income investors. Short-term loans in the money market have become less expensive as money markets regained confidence after a few weeks of SCB's resolution. Furthermore, 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 68.8%.

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



Source: HNX, KIS

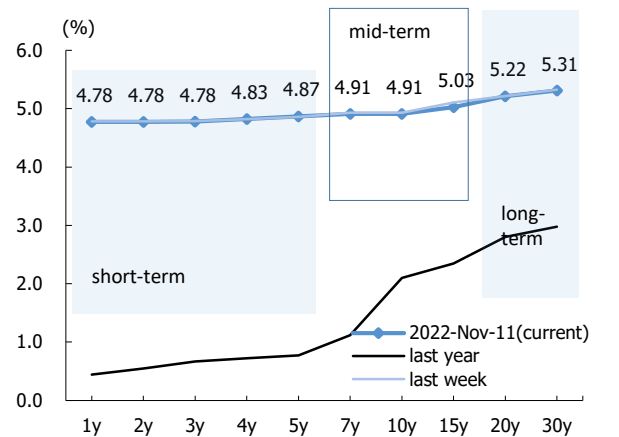
**Figure 17. Trading value by tenor this week**



Source: HNX, KIS

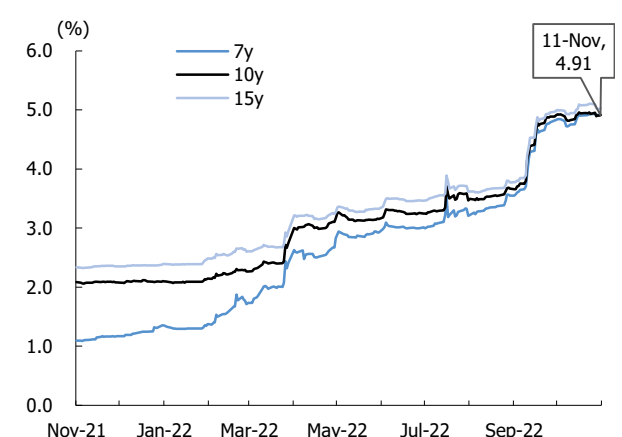
The shape of the yield curve was likely unchanged compared to last week as the G-bond yield experienced trivial changes across tenors. Accordingly, short-term tenors (less than seven years), mid-term tenors (7 to 15 years), and long-term (above 15 years) decreased by 1bps, 4bps, and 1bps on average this week, respectively.

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



Source: HNX, VBMA, KIS

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



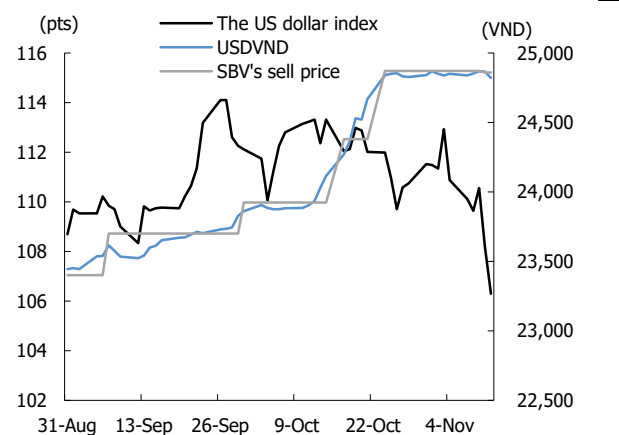
Source: HNX, VBMA, KIS

## V. USDVND witnesses a positive sign

### USDVND decreases slightly

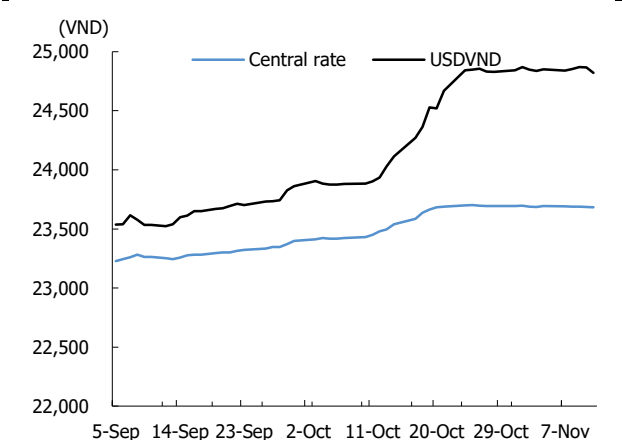
In comparison with last week's data, the USDVND witnessed a slight decrease followed by the dramatic fall down of DXY. In general, the USDVND decreased by 0.12% compared with last week with a peak on Wednesday at VND24,869. This week, DXY decreased sharply by 4.14% WoW to around 106 zone due to positive sign of economic data. Specifically, on 10<sup>th</sup> November, the U.S. Bureau of Labor Statistics released the annual inflation rate data in October which increased 7.7%YoY, the lowest since January, and below forecasts of 8%. Besides, the annual core-CPI, which excludes food and energy, advanced 6.3% YoY in October 2022, after rising at a 40-year high of 6.6% in September and also beat the market expectations of 6.5%. The two positive indicators above give investors a hope that FED will slow-down interest hike in the next meeting on December.

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



Source: SBV, Bloomberg

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



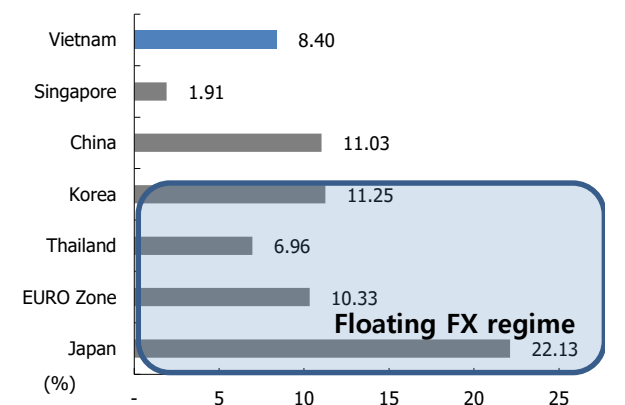
Source: SBV, Bloomberg



Last week, the central rate decreased 10bps compared with last week, anchoring at VND23,683. Meanwhile, the interbank exchange rate at the end of the week also decreased slightly by 0.12% WoW, from VND24,851 to VND24,821.

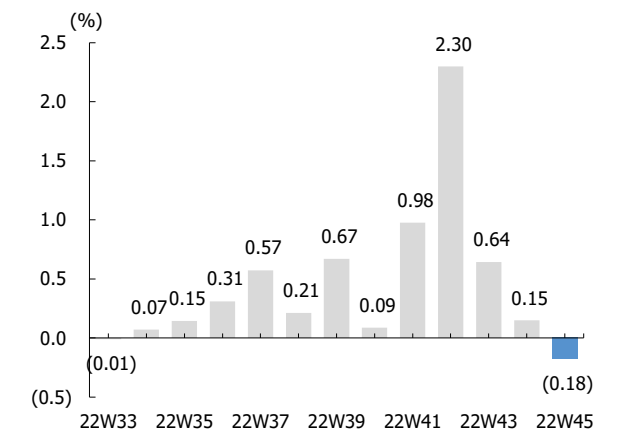
In addition, SBV has reduced its selling price of the greenback to VND23,860 for the first time after six consecutive time increase, (0.04%-lower compared with previous adjustment). As can be known that the VND is still under pressure to be depreciated against the USD. Furthermore, securing foreign exchange 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 45<sup>th</sup> week, Vietnam was depreciated around 8.40% so far this year (YTD) against the greenback, making it the first recovery week after 11 consecutive weeks of depreciating against the U.S. dollar. It seems that SBV's intervention is effective 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, the fall-down of DXY resulted in the recovery of many currencies. For instance, JPY depreciated roughly 22.13% (YTD) against the greenback followed by Korea's won and Eurozone's currency.

As per weekly performance, Vietnam Dong was appreciated 0.18% 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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