

# Fixed-income Perspectives

## Money market participants regain confidence

### SBV continues to withdraw money

In the 46W2022, SBV continued to take money out of the banking system for the second consecutive week. Accordingly, Vietnam's central bank has increased the offering value of repo contracts to VND43.56tn with a winning rate of 6% this week, resulting in a net injection of VND12.91tn. As per the T-bill transaction, SBV newly issued T-bill contracts this week with a total amount of VND40.00tn. Jointly, SBV withdrew VND27.09bn from its counterparties this week.

### Interbank rates significantly increase

In 46W22, 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 2-week increased by 118 basis points (bps), 68bps and 57bps compared to the last weekend to 5.13%, 5.73% and 6.30%, respectively. On the contrary, longer-term loans such as 3-month, 6-month, and 1-year experienced a modest decrease of 3bps, 8bps, and 20bps compared to the previous week, reaching 7.77%, 7.87%, and 8.20%, respectively.

### USDVND shows a recovery

In comparison with last week's data, the USDVND witnessed a slight decline followed by the modest rise of DXY. In general, the USDVND decreased by 0.05% compared with last week with a peak on Thursday at VND24,810. This week, the VND has recovered slightly after 11 consecutive weeks of depreciating by appreciated 0.05%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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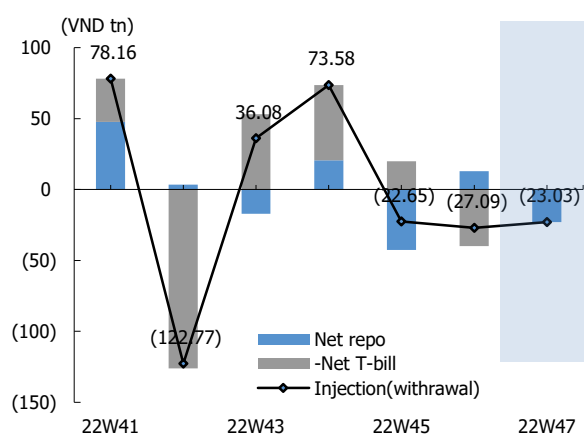
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## I. SBV continues to withdraw money

### SBV continues to liquidity withdrawal

In the 46W22, SBV continued to take money out of the banking system for the second consecutive week due to the easing liquidity condition in the money market. SBV likely aimed to remain the interest rate spread between the dong and the greenback large enough to limit the capital outflow. Therefore, the central bank tends to calibrate the OMO transactions to keep short-term funding costs at the desired level. Accordingly, Vietnam's central bank has increased the offering value of repo contracts to VND43.56tn with a winning rate of 6% this week, resulting in a net injection of VND12.91tn. As per the T-bill transaction, SBV newly issued T-bill contracts this week with a total amount of VND40.00tn. Jointly, SBV withdrew VND27.09bn from its counterparties this week. Vietnam's monetary authority will likely implement the OMO transactions with a high funding cost to support liquidity for its counterparties and to limit USD outflow from the growing demand for carry-trade activities. Therefore, it is anticipated that winning yields for T-bill and repo contracts provided to commercial banks will remain high over the next few 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 (%)
14-Nov-22	28-Nov-22	14	6.47	6.00
15-Nov-22	29-Nov-22	14	9.27	6.00
16-Nov-22	30-Nov-22	14	12.07	6.00
17-Nov-22	1-Dec-22	14	7.88	6.00
18-Nov-22	2-Dec-22	14	7.88	6.00

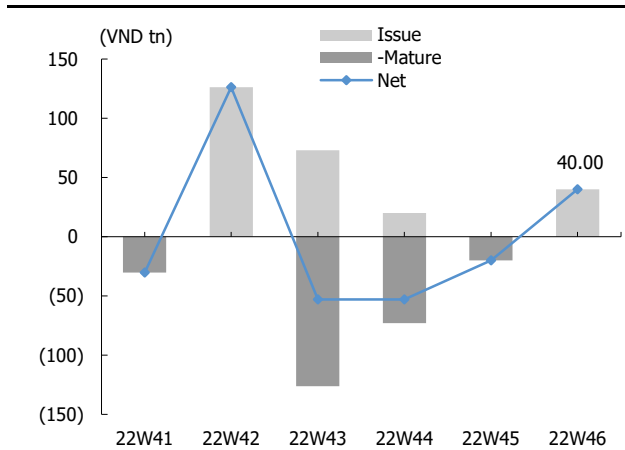
Source: SBV, Bloomberg, KIS

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

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
15-Nov	13-Dec	28	20.00	6.00
16-Nov	14-Dec	28	10.00	5.80
17-Nov	15-Dec	28	5.00	5.49
18-Nov	16-Dec	28	5.00	4.50

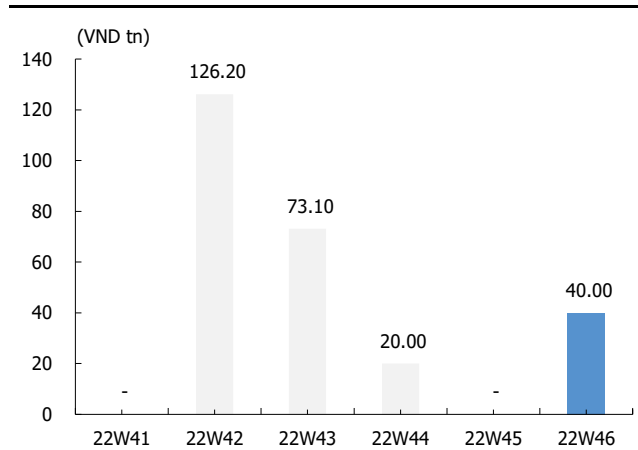
Source: SBV, Bloomberg, KIS

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



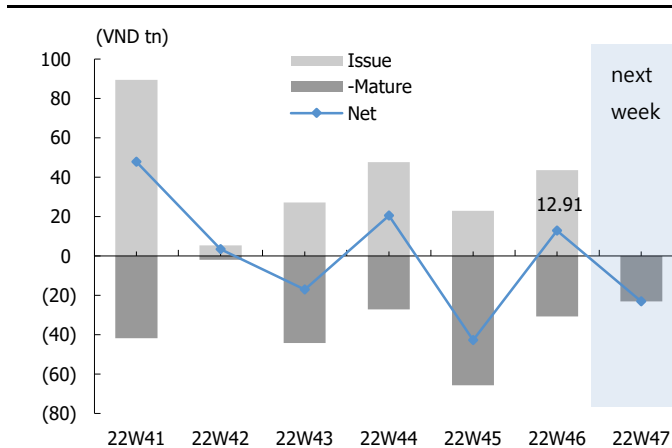
Source: SBV, Bloomberg, KIS

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



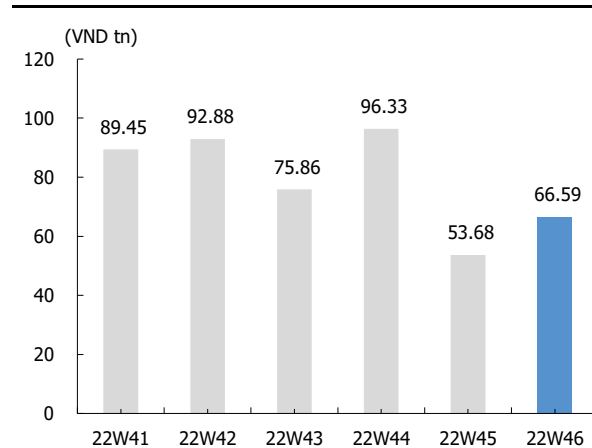
Source: SBV, Bloomberg, KIS

**Figure 4. Issued Repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding Repo by week**



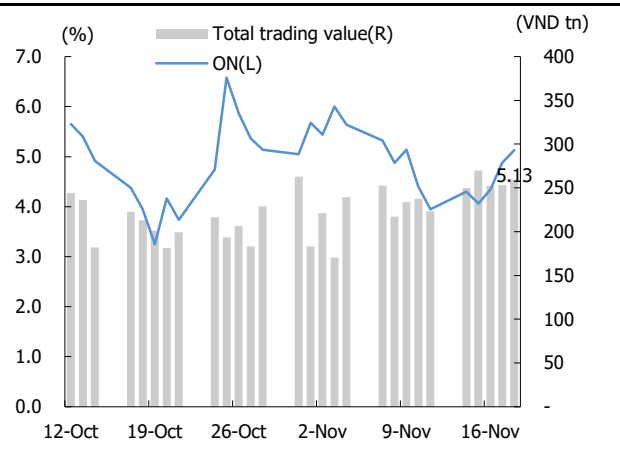
Source: SBV, Bloomberg, KIS

## II. Interbank rates significantly increase

In 46W22, 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 increased by 118 basis points (bps) to 5.13%. Besides, 1-week and 2-week also rose significantly by 68bps and 57bps compared to the last weekend to 5.73% and 6.30%, respectively. On the contrary, longer-term loans witnessed modest reductions. 3-month, 6-months, and 1-year declined by 3bps, 8bps, and 20bps compared to the previous week, falling to 7.77%, 7.87%, and 8.20%, respectively.

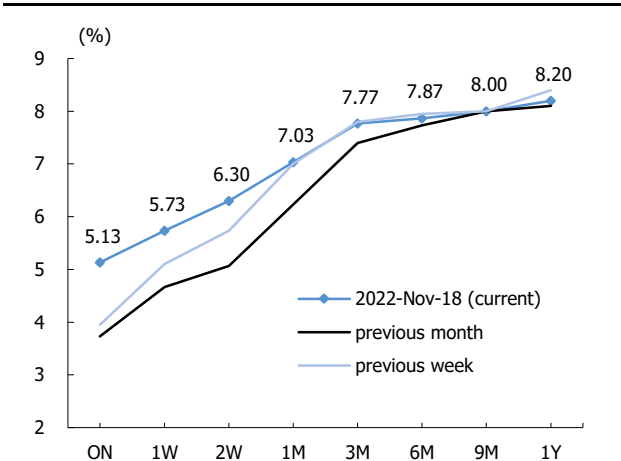
We anticipate that SBV's first aim is to maintain winning yields on T-bill and repo transactions at 6.00% in order to keep the FX market from a capital outflow. This week continues to witness a net withdrawal, meaning that the interbank rates is likely to be high next weeks.

**Figure 6. Interbank daily transaction**



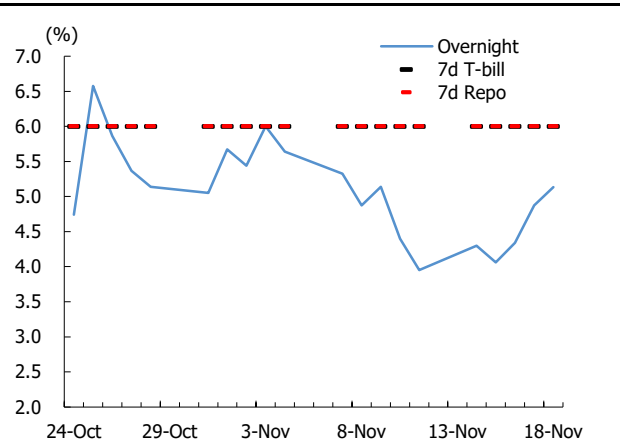
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



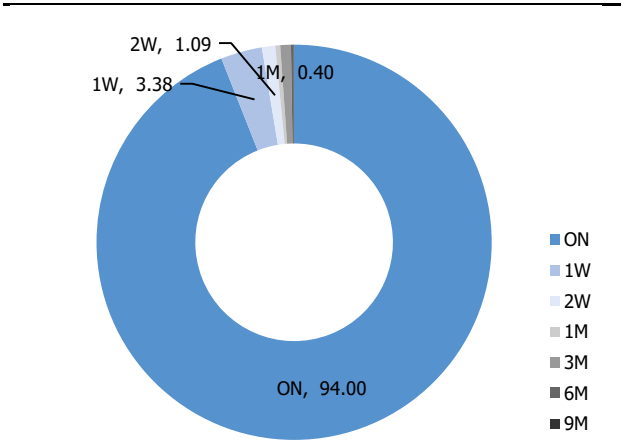
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

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

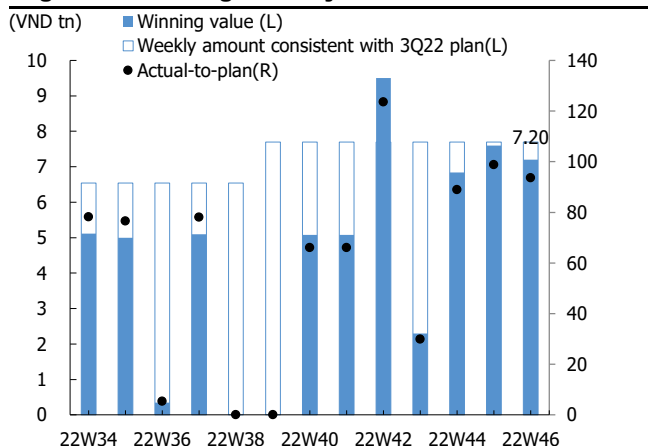
#### G-bond auction increases under extending supply side

This week, the government bond (G-bond) auction remained favorable, with a notable winning amount and a higher yield, strengthening the recovery momentum in 4Q22. Specifically, 46W22 recorded a winning amount of VND7.20tn (VND6.00tn for the 10-year tenor and VND1.20tn for the 15-year tenor) from VND10.00tn offered by VST. 46W22's issuance led the cumulative amount for the whole year to increase to VND151.17tn, accounting for 37.79% of the 2022 plan.

The selling pressure in the secondary G-bond market has softened, with an unchanged yield compared to last week. However, the yield spread for the same tenor remained large, mainly contributing to the yield increase in the auction. Accordingly, the interest rate for the 10-year tenor rose by 20basis points (bps) compared to last week, reaching 4.60%. Similarly, the winning yield of the 15-year tenor rose by 20bps to 4.90% this week. Higher G-bond yields consequently attracted more investors as the bid-to-offer ratio this week has increased to 2.17 times.

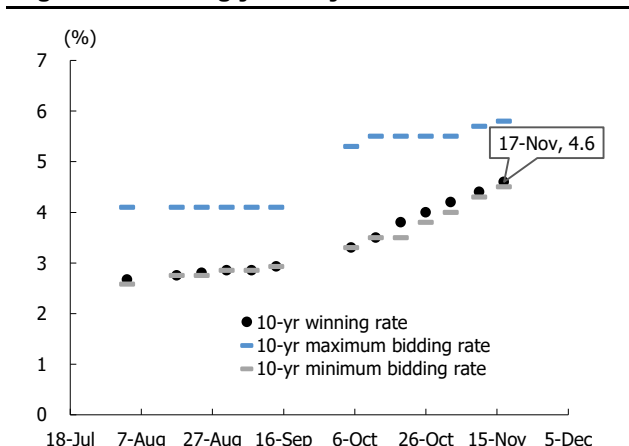
Although SBV sustained its liquidity support via OMO, the funding costs in the money market remained high, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding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



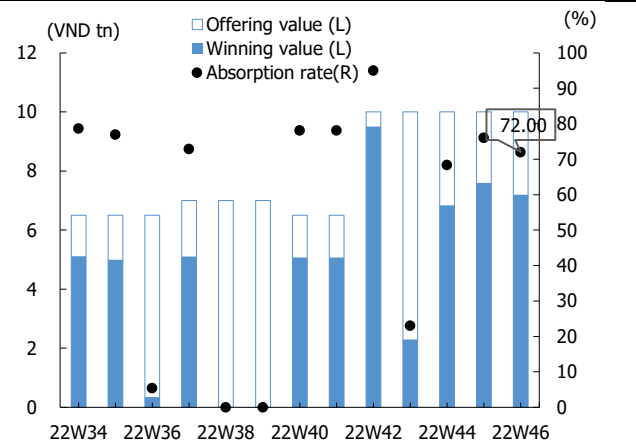
Source: HNX, KIS

**Figure 11. Winning yields by week**



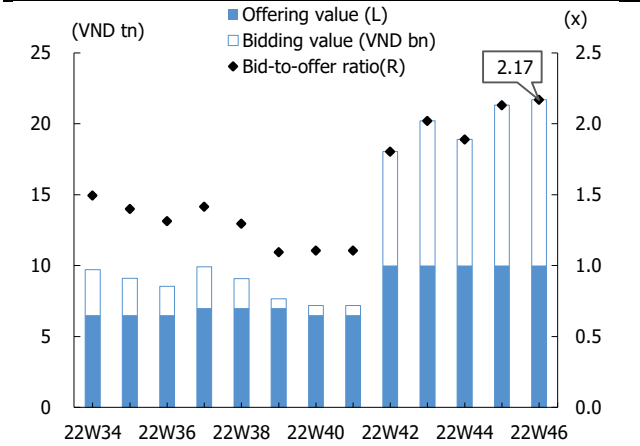
Source: HNX, KIS

**Figure 12. Absorption ratio**



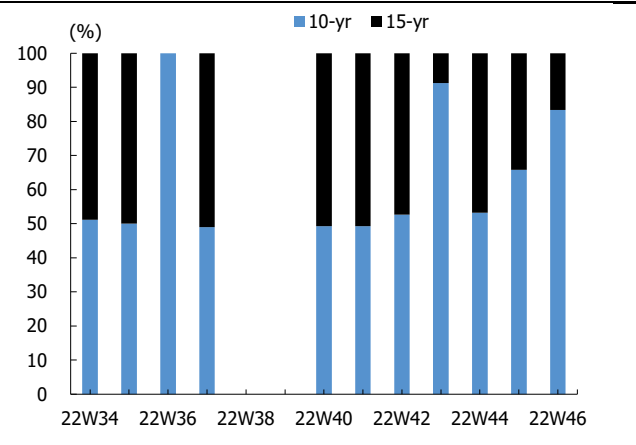
Source: HNX, KIS

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



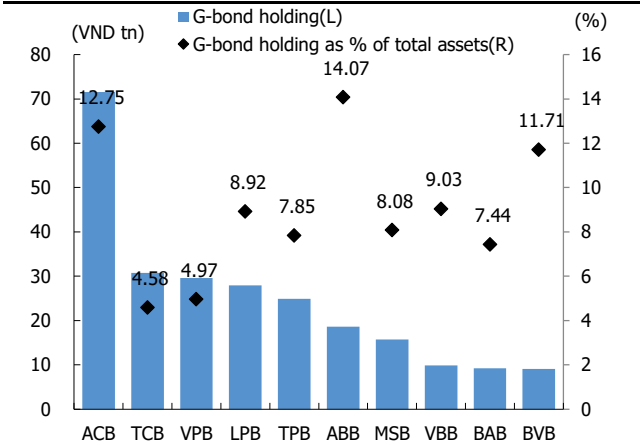
Source: HNX, KIS

**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

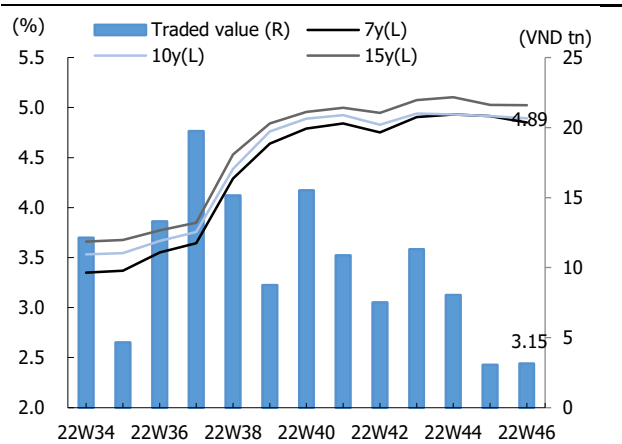
## IV. Trading G-bond yields reduce slightly

### The selling pressure eased

G-bond yields in the secondary market reduced slightly this week with a higher trading volume, indicating an extending demand for fixed-income instruments under the easing liquidity condition in the money market. In more detail, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) declined by 6basis points (bps), 2bps, and 1bps to 4.85%, 4.89%, and 5.02% this week, respectively. The weekly traded value reached VND3.65tn for five trading sessions, increasing by 19.05% compared to the previous week.

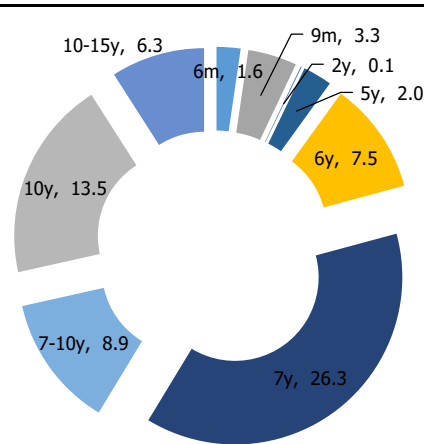
Although the liquidity condition in the money market has eased this week with a significantly higher trading volume, interbank rates remained high as the monetary authority sustained the OMO transactions with a base of high winning yields. However, demand for G-bond holdings seems to recover in the last months of the year to ensure the balance sheet quality. Furthermore, the probability of another SBV rate hike would reduce as the USD outflow was easing. Hence, selling pressure in the secondary G-bond market generally relaxed. Regarding value structure, transactions continued focusing on tenors from 7 to 15 years, with a joint portion of 67.7%.

Figure 16. G-bond trading value



Source: HNX, KIS

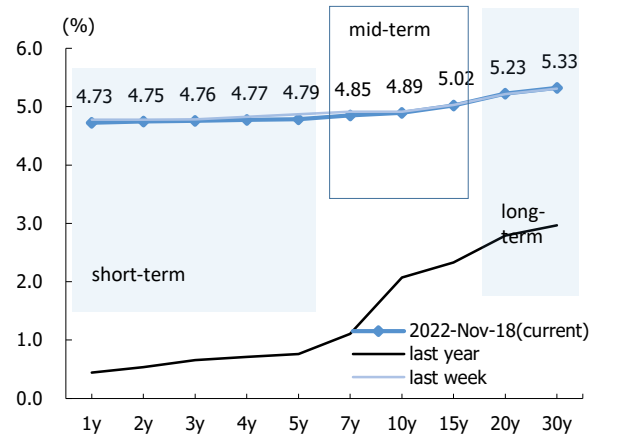
Figure 17. Trading value by tenor this week



Source: HNX, KIS

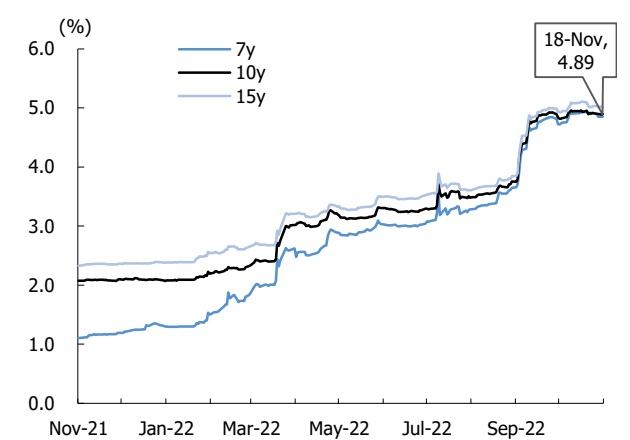
The shape of the yield curve was likely unchanged compared to last week as the G-bond yield experienced the decline evenly across tenors. Accordingly, short-term tenors (less than seven years), mid-term tenors (7 to 15 years), and long-term (above 15 years) decreased by 5bps, 3bps, and 1bps on average this week, respectively.

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



Source: HNX, VBMA, KIS

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



Source: HNX, VBMA, KIS

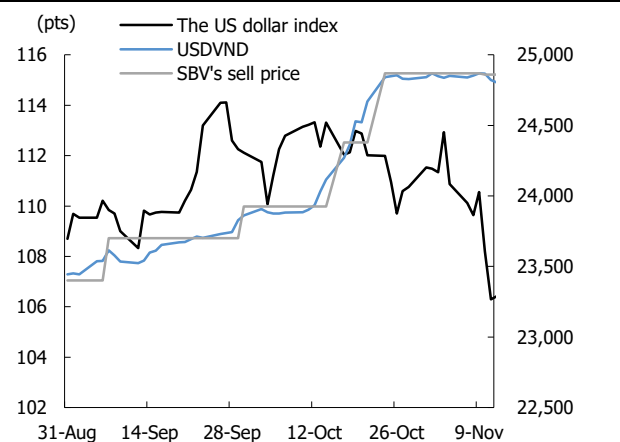
## V. USDVND shows a recovery

### USDVND decreases slightly

In comparison with last week's data, the USDVND witnessed a slight decline followed by the modest rise of DXY. In general, the USDVND decreased by 0.05% compared with last week with a peak on Thursday at VND24,810.

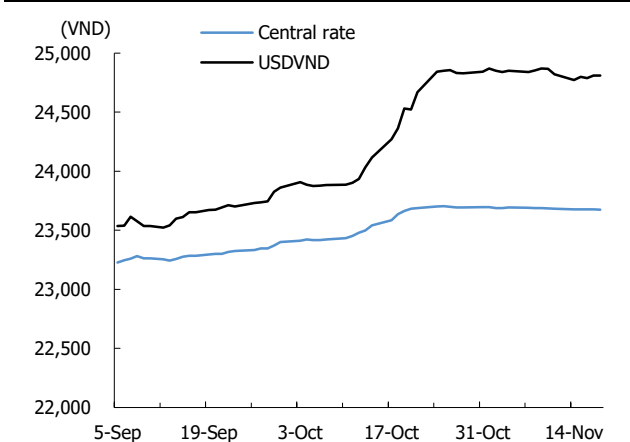
This week, DXY bounced back slightly by 0.60% WoW to around 107 zone after a dramatic fall last week. Specifically, on 17 November, St. Louis Fed President James Bullard did mention about the benchmark interest rate may be increased as high as 7% to combat inflation which means that interest rates have not yet reached a level that could be justified as sufficiently restrictive. The talk of St. Louis President had made some impact on the rise of DXY. For instance, right after that speech, the DXY increased dramatically and peaked on Friday at 106.93 points.

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



Source: SBV, Bloomberg

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



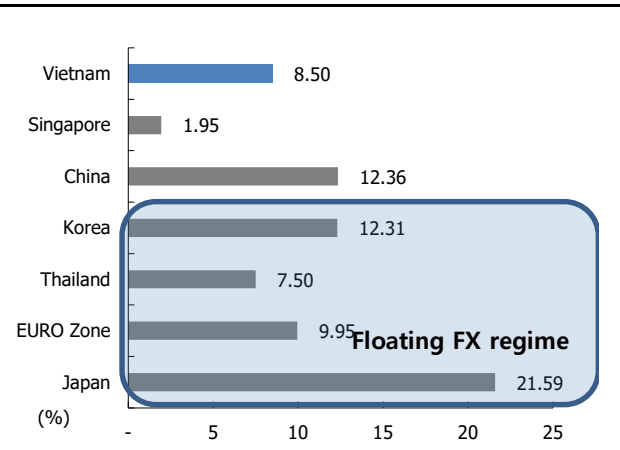
Source: SBV, Bloomberg



Last week, the central rate decreased 8bps compared with last week, anchoring at VND23,675. Meanwhile, the interbank exchange rate at the end of the week also decreased slightly by 0.05% WoW, from VND24,821 to VND24,808.

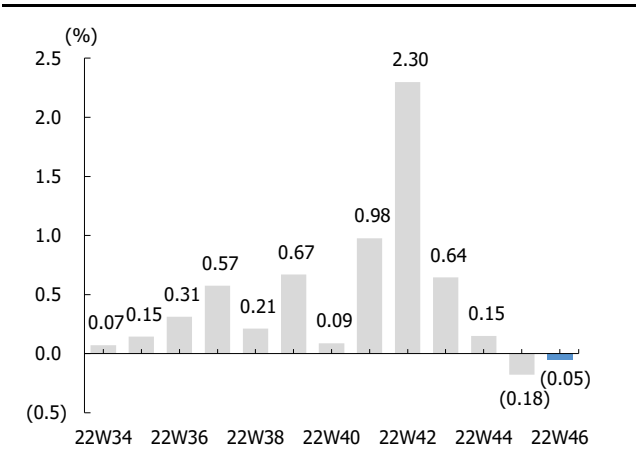
Furthermore, SBV has reduced its selling price of the greenback to VND23,850 for the second time after six consecutive time increase, (0.04%-lower compared with previous adjustment). This decision of the SBV took place in the context that the DXY index has dropped more than 5% from its 20-year peak which eased the pressure on Vietnam Dong. However, if the U.S. inflation has not backed to the 2% target, there is still a possibility that the Fed will continue to raise interest rates in the upcoming meeting, thereby putting pressure on Vietnam Dong. 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 46 week, Vietnam was depreciated around 8.50% so far this year (YTD) against the greenback, prolonging Vietnam Dong’s recovery momentum 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. Besides, the recent weakening of the dollar has eased pressure on other currencies. Countries with the floating FX regime, such as Japan and European nations witnessed a slow-down in depreciating against the U.S. dollar. For instance, JPY depreciated roughly 21.59% (YTD) against the greenback followed by Korea’s won and Eurozone’s currency.

As per weekly performance, Vietnam Dong was appreciated 0.05% 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, ~4.6%
- \* Absorption rate = winning value / offering value, ~72.0%
- \* Bid to offer ratio = offering value / bidding value, ~2.17
- \* DXY = U.S. Dollar Index, ~107
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~5.13%

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