

Fixed-income Perspectives

Money market remains stable

SBV returns to support banking system

In the 47W22 (from 21 to 27 November), SBV returned to the net injection of liquidity to support the banking system after two consecutive weeks of withdrawing. Accordingly, Vietnam's central bank has offered value of repo contracts to VND29.41tn with a winning rate of 6% this week, resulting in a net injection of VND6.38tn. As per the T-bill transaction, there is no T-bill contracts this week. Jointly, SBV poured VND6.38tn to its counterparties this week.

Interbank rates significantly increase

In 47W22, the interbank rates witnessed a divergence over different terms after two consecutive weeks of net liquidity withdrawal of SBV. Specifically, the overnight (ON) interest rate and 1-week on the last trading session of this week increased by 24 basis points (bps) and 9bps to 5.38% and 5.82, respectively. On the contrary, longer-term loans witnessed modest reductions. On the contrary, 2-week, 1-month, 3-month, and 6-months witnessed a decline by 13bps, 53bps, 32bps, and 34bps compared to the previous week, falling to 6.18%, 6.50%, 7.45%, and 7.53%, respectively.

USDVND decreases slightly

In comparison with last week's data, the USDVND witnessed a slight decline followed by the significant decline of DXY. In general, the USDVND decreased by 0.02% compared with last week with a peak on Wednesday at VND24,849. This week, the VND has recovered slightly after 11 consecutive weeks of depreciating by appreciating 0.02%WoW. Furthermore, securing foreign exchange reserves and keeping VND from depreciating against the U.S. dollar is still a priority 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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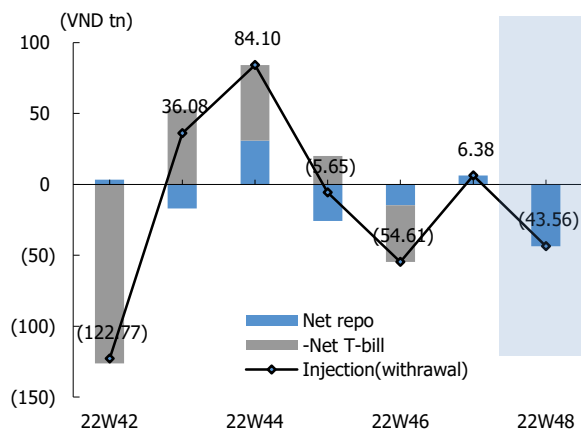
I. SBV returns to support banking system

SBV turns to net injection

In the 47W22 (from 21 to 27 November), SBV returned to the net injection of liquidity to support the banking system after two consecutive weeks of withdrawing. Accordingly, Vietnam's central bank has offered value of repo contracts to VND29.41tn with a winning rate of 6% this week, resulting in a net injection of VND6.38tn. As per the T-bill transaction, there is no T-bill contracts this week. Jointly, SBV poured VND6.38tn to its counterparties this week.

The past week has continued to confirm the trend of the exchange rate cooling down and reducing pressure quite clearly which create favorable conditions for the SBV to support liquidity system. 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 (%)
October 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↓

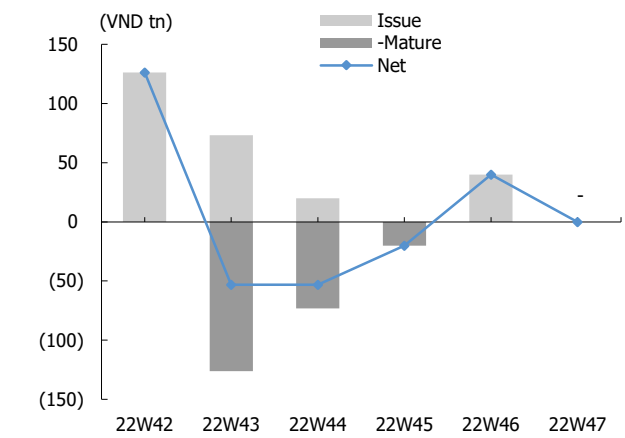
Source: SBV, Bloomberg, KIS

Table 2. Daily repo transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
21-Nov-22	5-Dec-22	14	6.78	6.00
22-Nov-22	6-Dec-22	14	11.32	6.00
23-Nov-22	7-Dec-22	14	4.83	6.00
24-Nov-22	8-Dec-22	14	2.90	6.00
25-Nov-22	9-Dec-22	14	3.58	6.00
Total		14	29.41	6.00

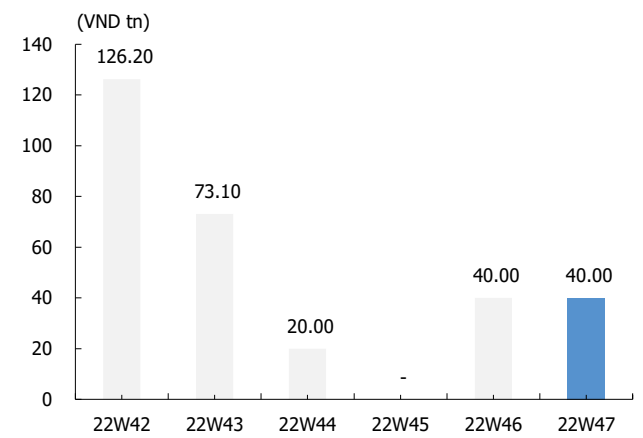
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



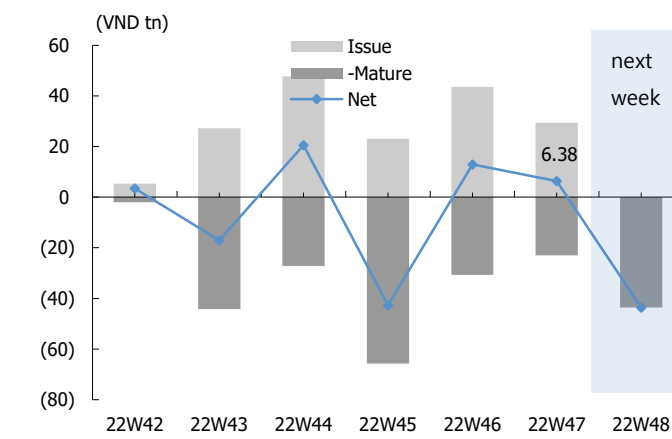
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



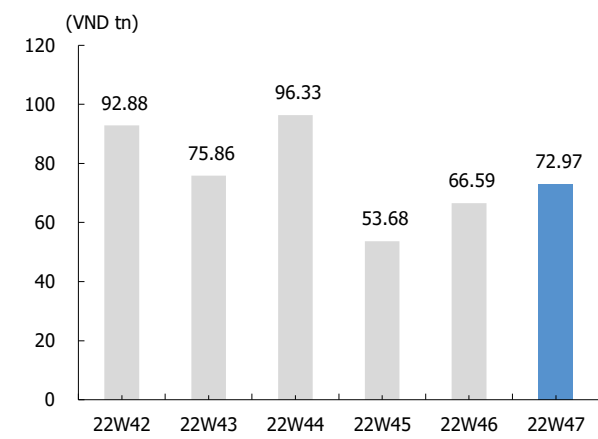
Source: SBV, Bloomberg, KIS

Figure 4. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding Repo by week



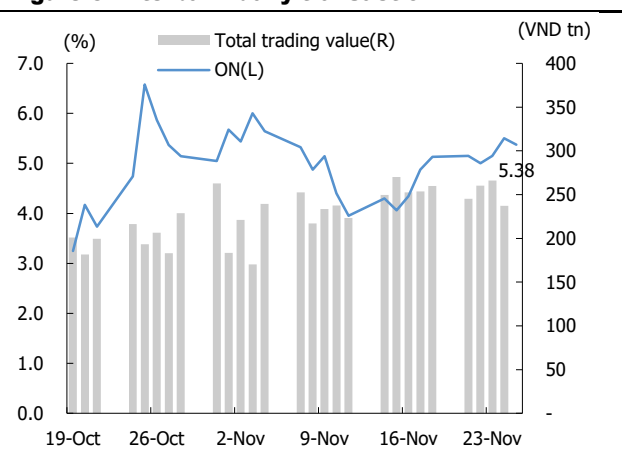
Source: SBV, Bloomberg, KIS

II. Interbank rates significantly increase

In 47W22, the interbank rates witnessed a divergence over different terms after two consecutive weeks of net liquidity withdrawal of SBV. Specifically, the overnight (ON) interest rate and 1-week on the last trading session of this week increased by 24 basis points (bps) and 9bps to 5.38% and 5.82, respectively. On the contrary, longer-term loans witnessed modest reductions. On the contrary, 2-week, 1-month, 3-month, and 6-months witnessed a decline by 13bps, 53bps, 32bps, and 34bps compared to the previous week, falling to 6.18%, 6.50%, 7.45%, and 7.53%, respectively.

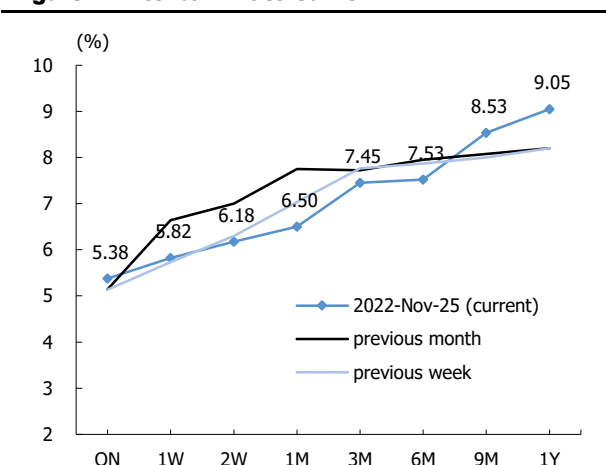
We anticipate that SBV's target is continue to maintain winning yields on T-bill and repo transactions at 6.00% in order to keep the FX market from a capital outflow. SBV continues to employ OMO transactions at high funding costs, meaning that the interbank rates will likely remain high next weeks.

Figure 6. Interbank daily transaction



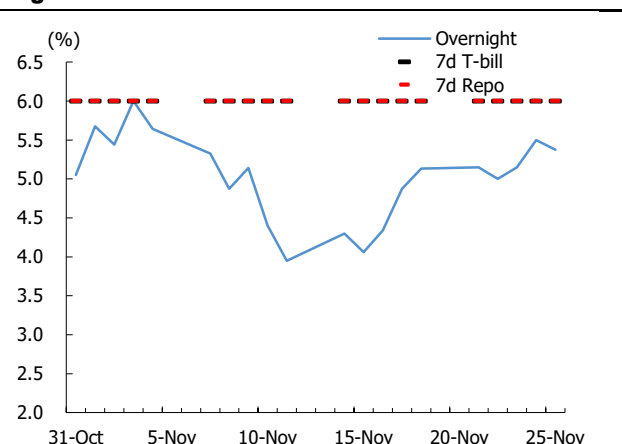
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



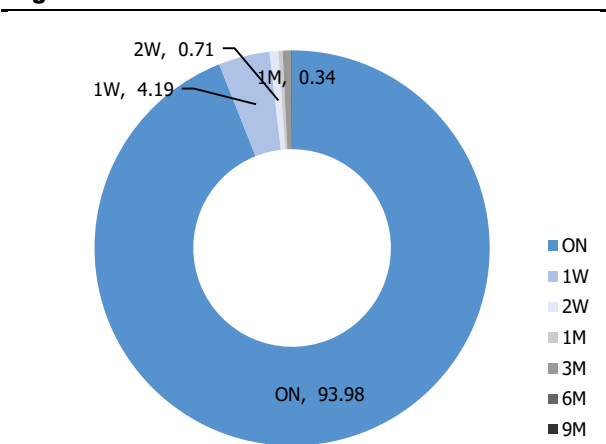
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KIS

III. G-bond auction result remains high

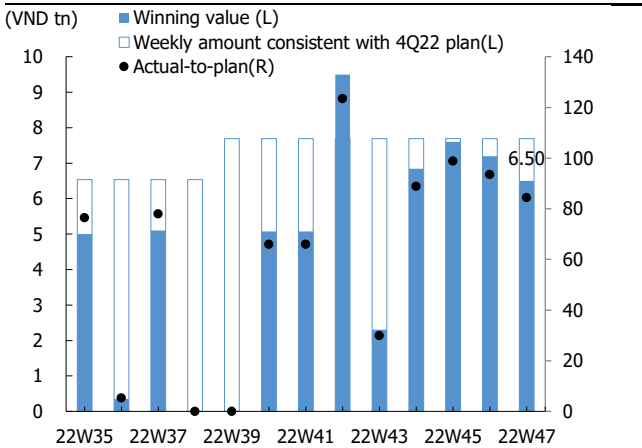
G-bond auction increases under extending supply side

This week, the recovery in the government bond (G-bond) auction extended with a stably high winning amount and an increasing yield. Specifically, 47W22 recorded a winning amount of VND6.50tn for the 10-year tenor from VND10.00tn offered by VST. 47W22's issuance led the cumulative amount for the whole year to increase to VND157.67tn, accounting for 39.42% 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 4.80%. Higher G-bond yields consequently attracted more investors as the bid-to-offer ratio this week has increased to 2.24 times.

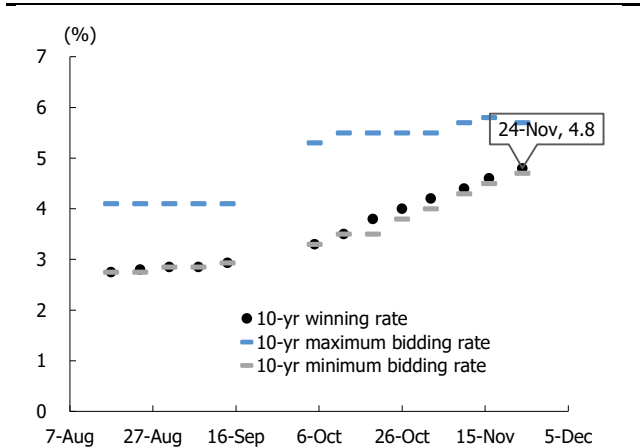
Although SBV sustained its liquidity support via OMO, the funding costs in the money market remained high, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding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



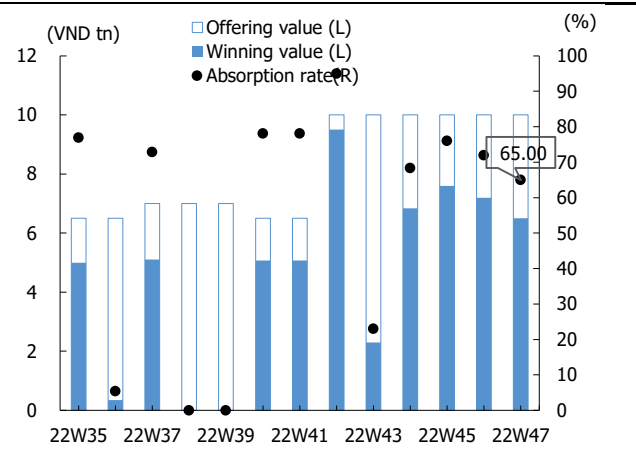
Source: HNX, KIS

Figure 11. Winning yields by week



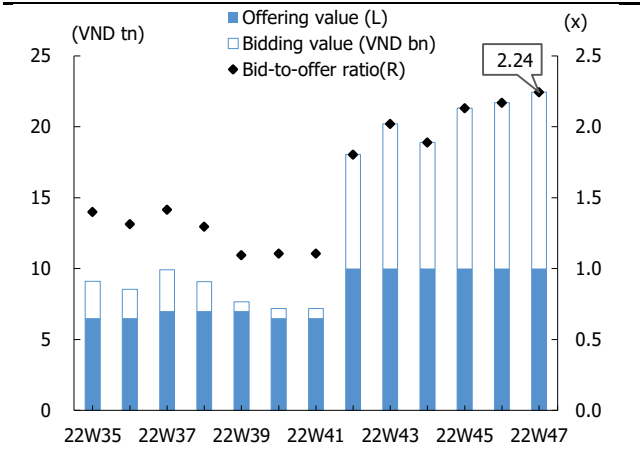
Source: HNX, KIS

Figure 12. Absorption ratio



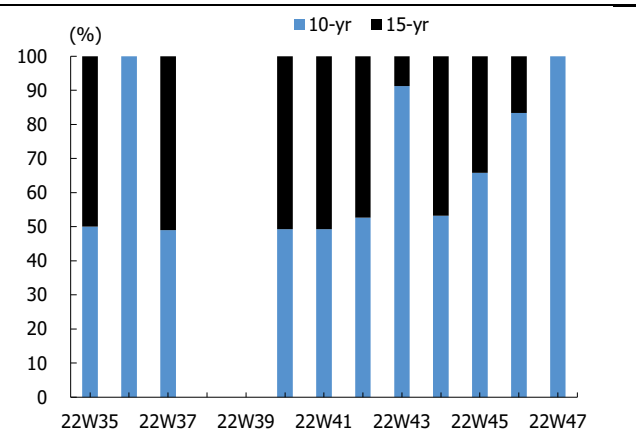
Source: HNX, KIS

Figure 13. Bid-to-offer ratio



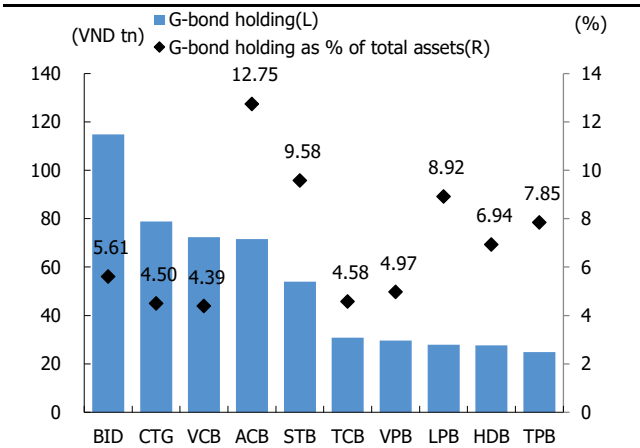
Source: HNX, KIS

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 yield remains balanced

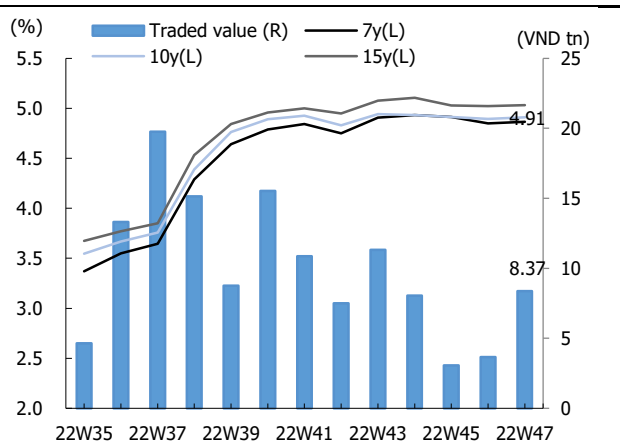
The selling pressure eased

G-bond yields were likely unchanged this week, although trading volume increased significantly, indicating a balance in the bargaining power between supply and demand when the money market was returning to stability. In more detail, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) rose by 1basis points (bps), 2bps, and 1bps to 4.86%, 4.91%, and 5.03% this week, respectively. The weekly traded value reached VND8.37tn for five trading sessions, 1.3 times higher than last week.

Although the liquidity condition in the money market has eased this week with a significantly higher trading volume compared to a few weeks ago, 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.

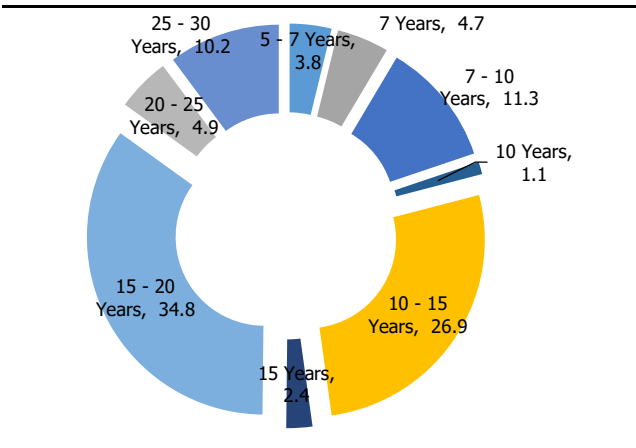
Regarding value structure, transactions continued focusing on tenors from 7 to 15 years, with a joint portion of 46.4%.

Figure 16. G-bond trading value



Source: HNX, KIS

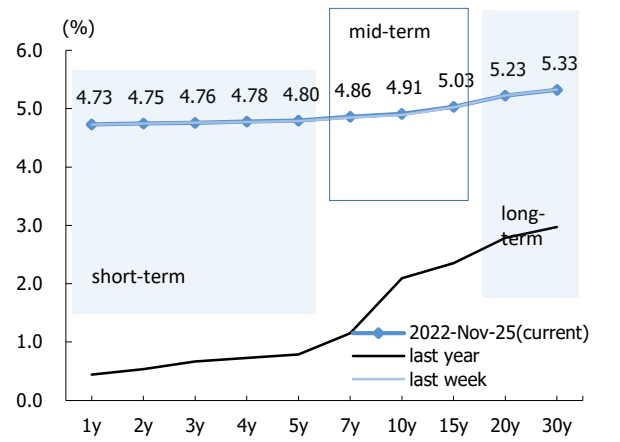
Figure 17. Trading value by tenor this week



Source: HNX, KIS

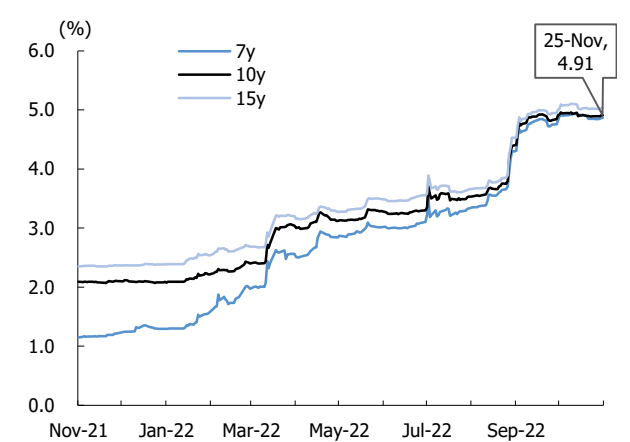
The shape of the yield curve was likely unchanged compared to last week as the G-bond yield tended to stay the same across tenors. Accordingly, short-term tenors (less than seven years) and long-term (above 15 years) were unchanged on average while mid-term tenors (7 to 15 years) increased by 1bps on average this week.

Figure 18. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 19. Historical daily government bond yield



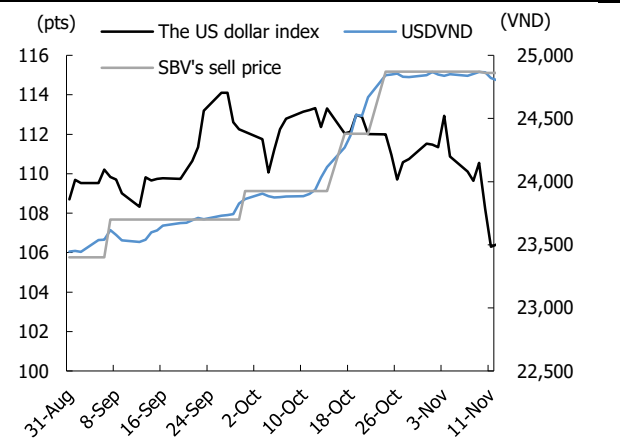
Source: HNX, VBMA, KIS

V. USDVND decreases slightly

USDVND decreases slightly

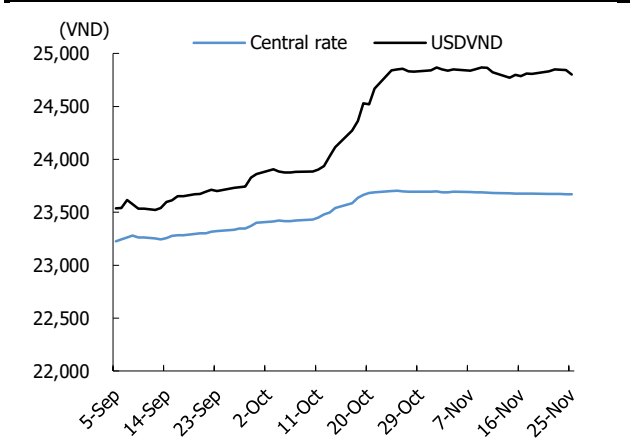
In comparison with last week's data, the USDVND witnessed a slight decline followed by the significant decline of DXY. In general, the USDVND decreased by 0.02% compared with last week with a peak on Wednesday at VND24,849. This week, DXY fell down dramatically by 0.91% WoW to around 105.96 points after minutes from FOMC released. Specifically, this Minutes reinforces the consensus of FOMC members on monetary policy that Mr. Powell said right after the meeting. Firstly, most Fed's member support a slow rate hike and the message is quite unanimous that a 0.5% increase in December is aimed at mitigating the risk of "over-tightening". Secondly, the highest interest rate (terminal rate) may be higher than previously forecast. DXY decreased dramatically right after the minutes was released and closed on Friday at 105.96 points.

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



Source: SBV, Bloomberg

Figure 21. Daily Central rate and USDVND

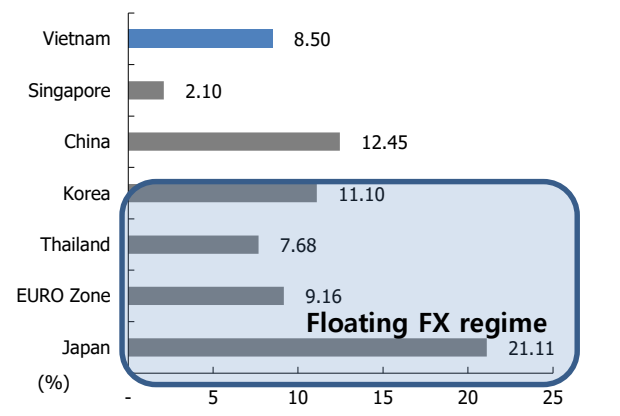


Source: SBV, Bloomberg

Last week, the central rate continued to decrease 6bps compared with last week, anchoring at VND23,669. Meanwhile, the interbank exchange rate at the end of the week also decreased slightly by 0.02% WoW, from VND24,808 to VND24,802.

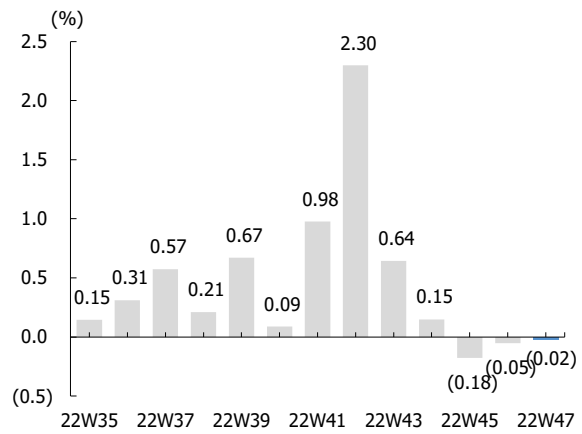
In addition, SBV has reduced its selling price of the greenback to VND23,840 for the third time after six consecutive time increase, (0.04%-lower compared with previous adjustment). This decision of the SBV took place in the context that the DXY index has dropped more than 5% from its 20-year peak which 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 47 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 21.11% (YTD) against the greenback followed by Korea’s won and Eurozone’s currency.

As per weekly performance, Vietnam Dong was appreciated 0.02% 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-Jul	22-Aug	22-Sep	22-Oct	22-Nov	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)	1.51	1.23	1.92	2.05	2.67	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)	30.32	33.38	29.94	30.27	29.50	95.26	86.01	96.83	96.48	243.5	263.6	282.7	335.7
Import (USD bn)	30.30	30.96	28.80	28.00	30.00	88.72	87.45	97.58	90.71	236.7	254.4	263	331.1
Export growth (%)	8.87	22.14	10.35	4.54	(7.40)	20.43	13.43	21.02	17.22	13.19	8.16	7.02	18.74
Import growth (%)	3.42	12.42	6.45	7.08	(2.04)	15.42	15.17	15.72	8.12	11.01	7.41	3.81	25.9
Inflation (%)	3.14	2.89	3.94	4.30	4.37	1.89	1.92	2.96	3.32	3.54	2.79	3.24	1.84
USD/VND	23,343	23,417	23,712	24,839	24,800	22,790	22,837	23,139	23,712	23,175	23,173	23,126	22,790
Credit growth (%)	9.14	9.62	10.47	11.50	11.50	12.97	4.13	8.51	10.47	10.77	13.75	12.17	12.97
10Y gov't bond (%)	3.50	3.37	4.39	4.95	4.91	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, ~4.8%
- * Absorption rate = winning value / offering value, ~65.0%
- * Bid to offer ratio = offering value / bidding value, ~2.24
- * DXY = U.S. Dollar Index, ~106
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~5.38%

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