

# Fixed-income Perspectives

## Liquidity condition in the money market remains stable

### SBV returns to add liquidity

In the 48W22 (from November 28 to December 2), SBV continued to provide liquidity into the banking system. Accordingly, Vietnam's central bank this week has increased offered value of repo contracts to VND45.66tn with a winning rate of 6% this week, resulting in a net injection of VND2.10tn. As per the T-bill transaction, there is no T-bill contracts this week. Jointly, SBV poured VND2.10tn to its counterparties through open market operations this week.

### Interbank trading value remains stable

Interbank rates generally rose this week after SBV's intervention during the past two weeks. Specifically, the overnight (ON) interest rate on the last trading session of this week decreased by 28 basis points (bps) to 5.10%. On the contrary, 1week, and 2-week witnessed an increase by 28bps, and 57bps to 6.10%, 6.75%, respectively. More notably, long-term loans such as 3-month, 6-month witnessed a rise to 7.85%, and 7.90% respectively

### USDVND pressure has been eased

The USDVND witnessed a dramatic fall followed by the significant decline of DXY compared with last week's data. Generally, the USDVND declined by 1.31% compared with last week with a peak on the first day of the week at VND24,788. This week, the VND has recovered significantly by appreciating 1.31%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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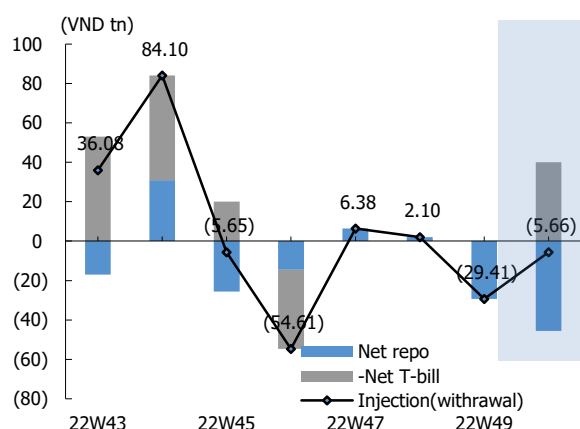
## I. SBV returns to add liquidity

### SBV continues to net injection

In the 48W22 (from November 28 to December 2), SBV continued to provide liquidity into the banking system. Accordingly, Vietnam's central bank this week has increased offered value of repo contracts to VND45.66tn with a winning rate of 6% this week, resulting in a net injection of VND2.10tn. As per the T-bill transaction, there is no T-bill contracts this week. Jointly, SBV poured VND2.10tn to its counterparties through open market operations this week.

We predict that 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, winning yields for T-bill and repo contracts offered to SBV's counterparties would be persistently 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 (%)
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↓

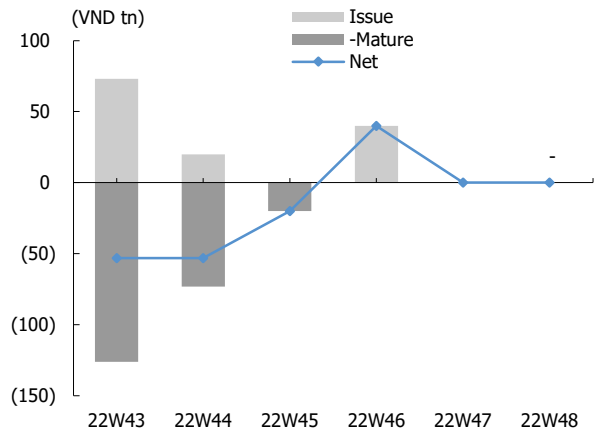
Source: SBV, Bloomberg, KIS

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

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
28-Nov-22	12-Dec-22	14	6.25	6.00
29-Nov-22	13-Dec-22	14	7.98	6.00
30-Nov-22	14-Dec-22	14	11.61	6.00
1-Dec-22	15-Dec-22	14	11.00	6.00
2-Dec-22	16-Dec-22	14	8.82	6.00
<b>Total</b>		<b>14</b>	<b>45.66</b>	<b>6.00</b>

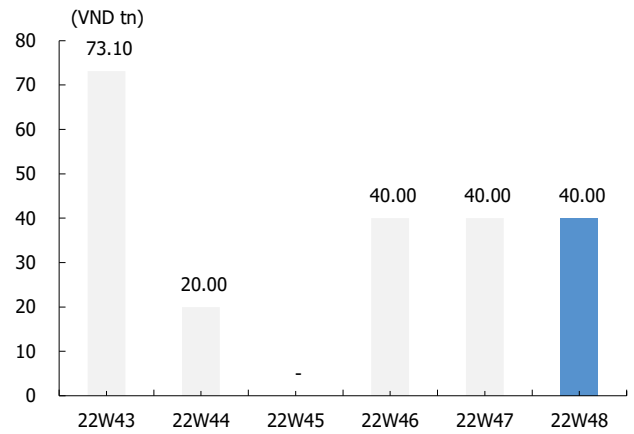
Source: SBV, Bloomberg, KIS

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



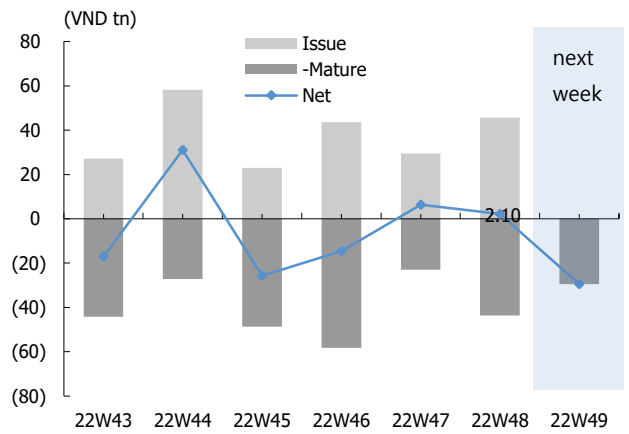
Source: SBV, Bloomberg, KIS

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



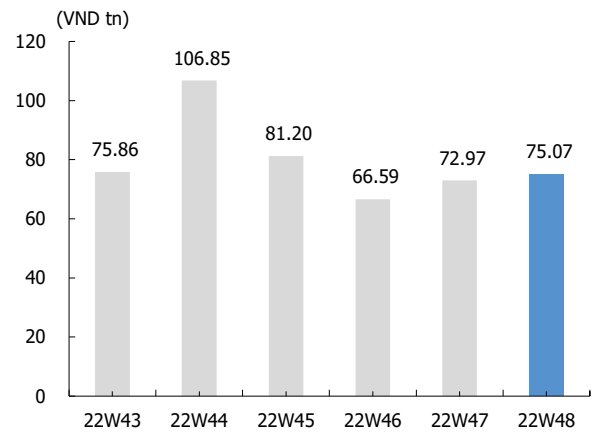
Source: SBV, Bloomberg, KIS

**Figure 4. Issued Repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding Repo by week**



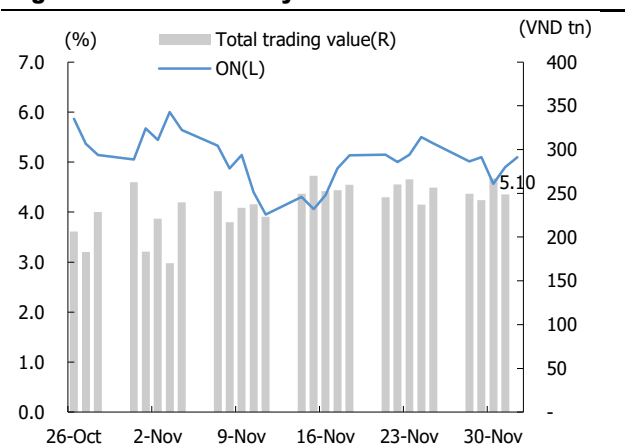
Source: SBV, Bloomberg, KIS

## II. Interbank trading value remains stable

Interbank rates generally rose this week after SBV's intervention during the past two weeks. Specifically, the overnight (ON) interest rate on the last trading session of this week decreased by 28 basis points (bps) to 5.10%. On the contrary, 1week, and 2-week witnessed an increase by 28bps, and 57bps to 6.10%, 6.75%, respectively. More notably, long-term loans such as 3-month, 6-month witnessed a rise to 7.85%, and 7.90% respectively.

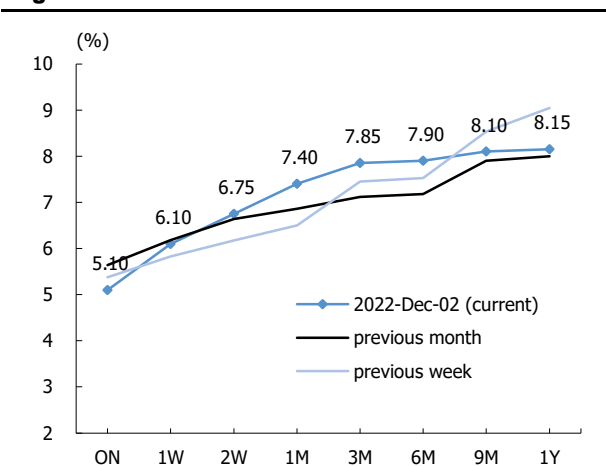
We anticipate that SBV's top priority is to anchor the funding cost in the money market at a high level, by keeping winning yields of T-bill and repo transactions to 6.00%, to limit the FX market from the capital outflow. SBV continues to employ OMO transactions at high funding costs, meaning that the interbank rates will likely remain high next weeks.

**Figure 6. Interbank daily transaction**



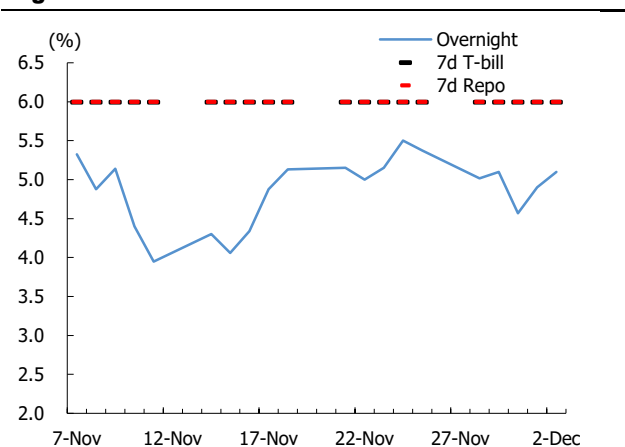
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



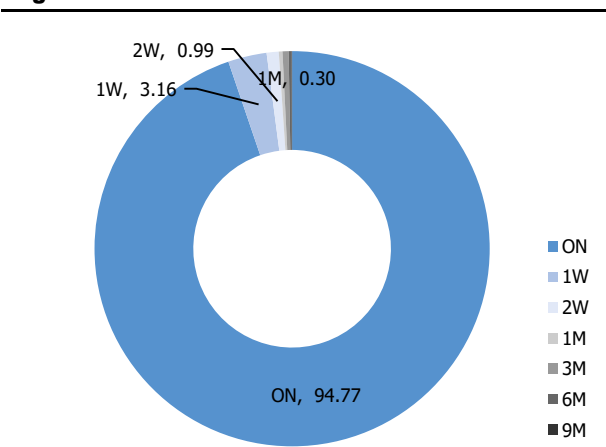
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

### III. G-bond auction result reduces on the lower yield

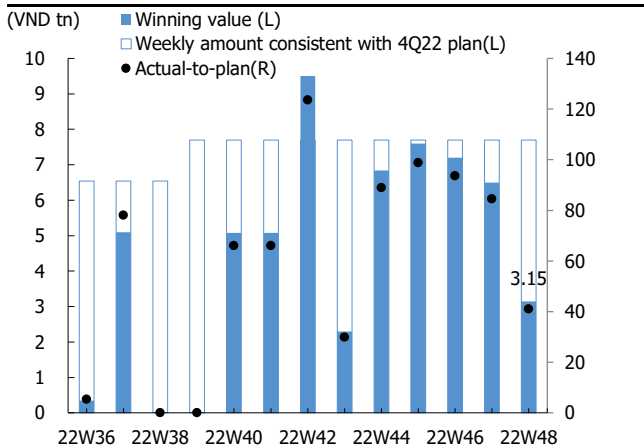
#### G-bond auction increases under extending supply side

The recovery in the government bond (G-bond) auction halted this week with a slight change in yield and significantly lower winning value, indicating that the supply side retreated. Specifically, 48W22 recorded a winning amount of VND3.15tn (VND3.10tn for the 10-year tenor and VND0.05tn for the 15-year tenor) from VND8.00tn offered by VST. 48W22's issuance led the cumulative amount for the whole year to increase to VND160.82tn, accounting for 40.21% of the 2022 plan.

The selling pressure in the secondary G-bond market has softened, with an unchanged yield and notably higher trading volume than last week. However, the yield spread between primary and secondary markets for the same tenor remained large, providing fixed-income investors more bargaining power in the auction. Hence, the winning value for the 10-year tenor dropped sharply when the accepted yield kept unchanged at 4.80%. Besides, the G-bond auction remained attractive to investors as the bid-to-offer ratio this week has increased to 2.36 times.

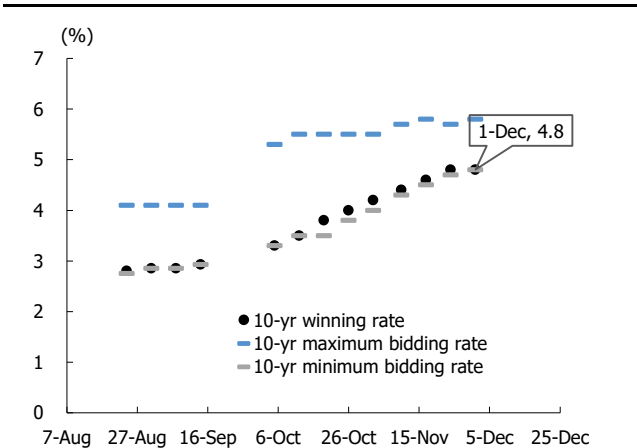
Although SBV sustained its liquidity support via OMO, the funding costs in the money market remained high, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding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



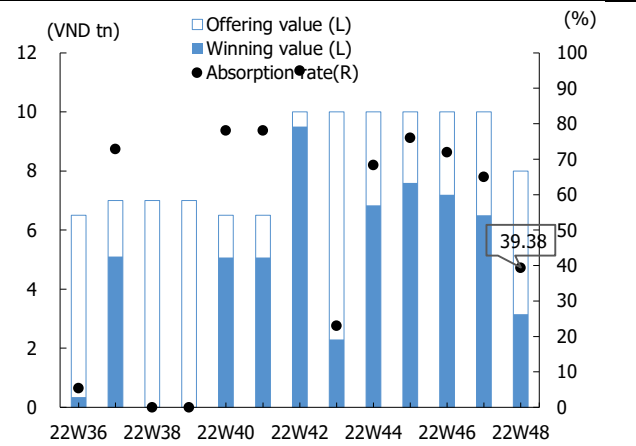
Source: HNX, KIS

**Figure 11. Winning yields by week**



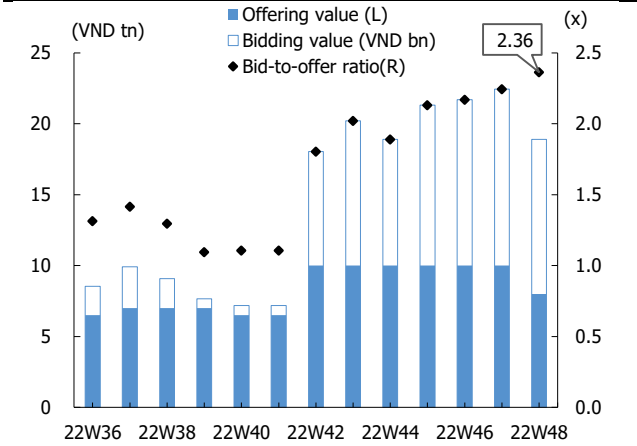
Source: HNX, KIS

**Figure 12. Absorption ratio**



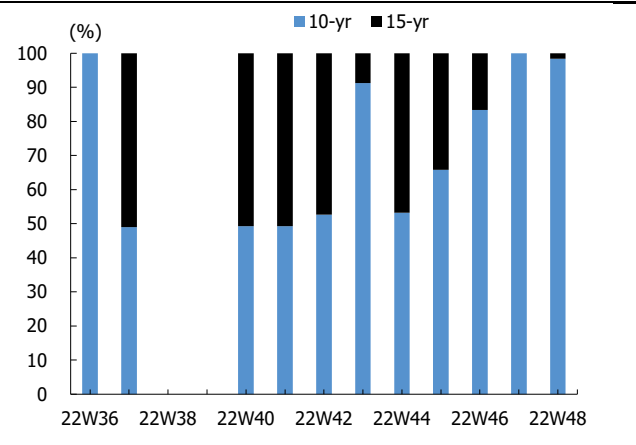
Source: HNX, KIS

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



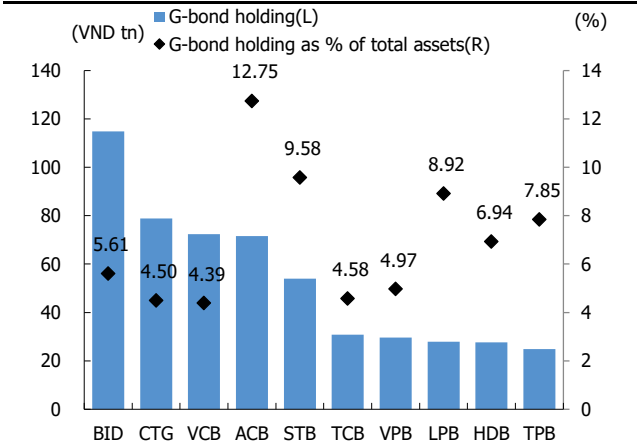
Source: HNX, KIS

**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 records recovered volume

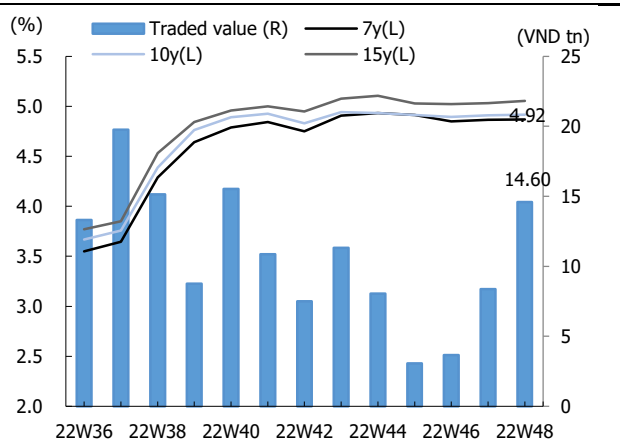
### G-bond trading volume rose significantly

The secondary G-bond market continued witnessing a sharp increase in trading volume, although yields were likely unchanged, suggesting a balance between supply and demand when the money market became more stable. In more detail, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) rose by 1basis points (bps), 1bps, and 2bps to 4.87%, 4.92%, and 5.06% this week, respectively. The weekly traded value reached VND14.60tn for five trading sessions, 74.29% 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.

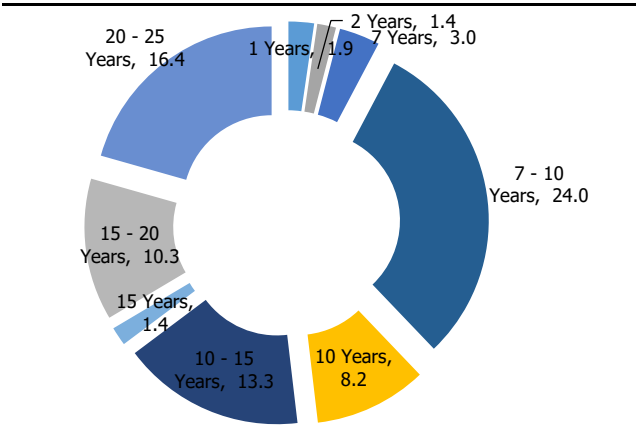
Regarding value structure, transactions continued focusing on tenors from 7 to 15 years, with a joint portion of 49.8%.

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



Source: HNX, KIS

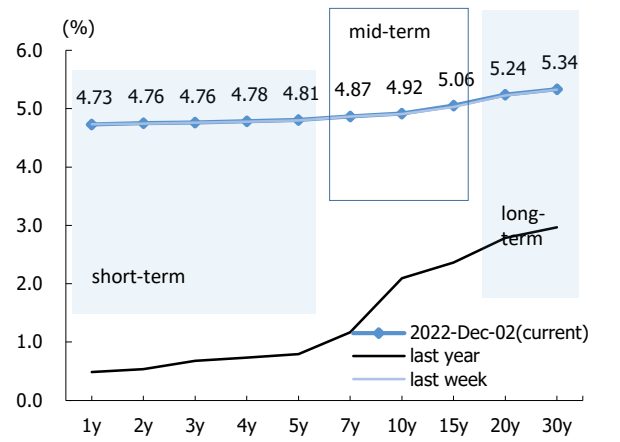
**Figure 17. Trading value by tenor this week**



Source: HNX, KIS

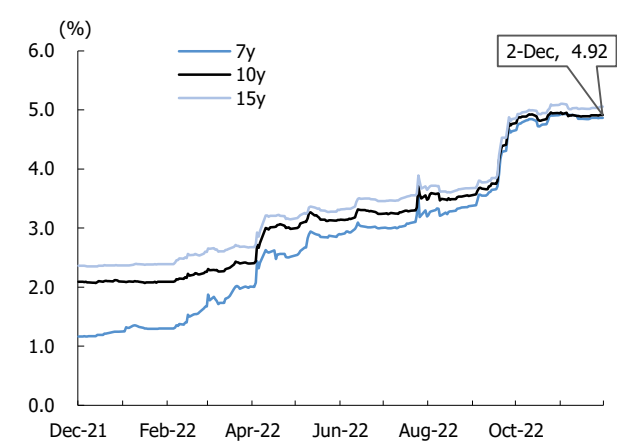
The shape of the yield curve was likely unchanged compared to last week, as the G-bond yield tended to stay the same across tenors. Accordingly, short-term tenors (less than seven years), mid-term tenors (7 to 15 years), and long-term tenors (above 15 years) both increased modestly by 1bps on average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

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



Source: HNX, VBMA, KIS

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



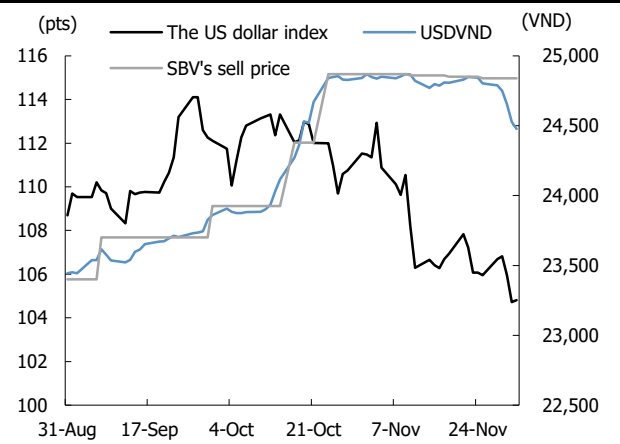
Source: HNX, VBMA, KIS

## V. USDVND pressure has been eased

### USDVND pressure eased

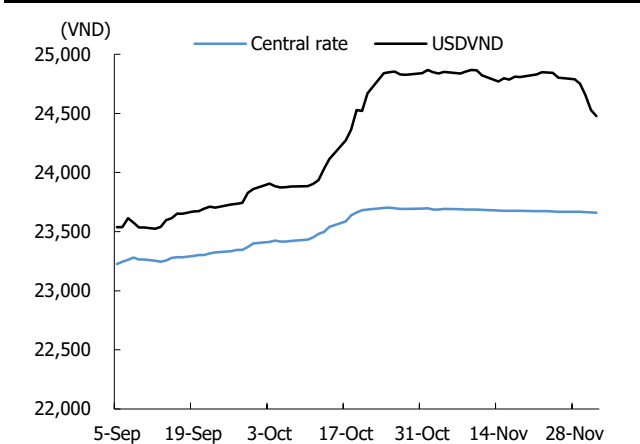
The USDVND witnessed a dramatic fall followed by the significant decline of DXY compared with last week's data. Generally, the USDVND declined by 1.31% compared with last week with a peak on the first day of the week at VND24,788. In comparison with last week data, DXY fell down dramatically by 1.08% WoW to around 104.81 points after Fed Chair Powell's speech on interest rate hikes in December. Specifically, Federal Reserve Chairman Jerome Powell confirmed on November 30 that smaller interest rate increases are likely ahead even as he sees progress in the fight against inflation as largely inadequate. Besides, the number of job openings in the United States dropped by 353,000 to 10.3 million in October of 2022, roughly in line with market expectations, and suggesting demand for workers started moderating amid a softer economic outlook. DXY decreased dramatically right after the speech and closed on Friday at 104.81 points.

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



Source: SBV, Bloomberg

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



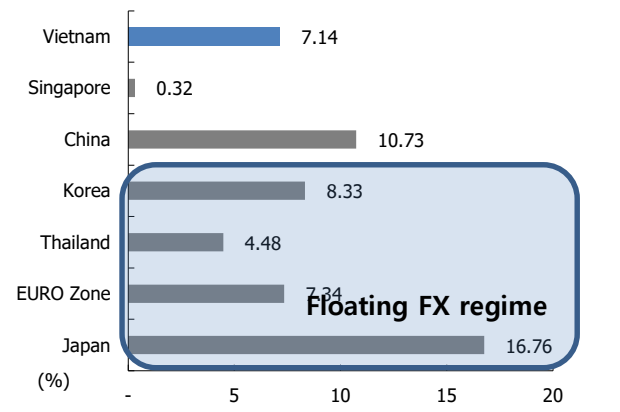
Source: SBV, Bloomberg



Last week, SBV continue to decline the central rate 9bps compared with last week, anchoring at VND23,660. Meanwhile, the interbank exchange rate at the end of the week decreased significantly by 1.31% WoW, from VND24,802 to VND24,477.

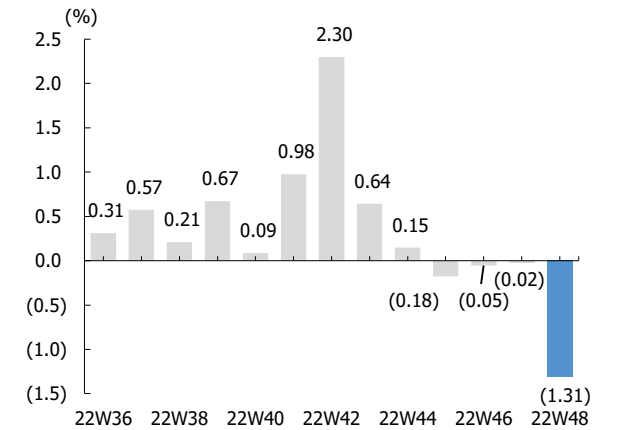
In addition, SBV continued to keep its selling price of the greenback at VND23,840. This decision of the SBV took place in the context that the DXY index has dropped more than 5% from its 20-year peak which eased the pressure on Vietnam Dong. However, if the U.S. inflation has not backed to the 2% target, 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 USD/VND**



Source: SBV, Bloomberg

In the 48 week, Vietnam dong was depreciated around 7.14% 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 greenback has eased pressure on other currencies. Specifically, Japan and European nations witnessed a slow-down in depreciating against the U.S. dollar. For instance, JPY depreciated roughly 16.76% (YTD) against the greenback followed by Korea's won and Eurozone's currency.

As per weekly performance, Vietnam Dong was appreciated 1.31% 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, ~39.38%
- \* Bid to offer ratio = offering value / bidding value, ~2.36
- \* DXY = U.S. Dollar Index, ~105
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~5.38%

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