

# Fixed-income Perspectives

## Stable money market heading to the Fed's rate decision

### SBV adds liquidity with longer term

In the 49W22 (from 5 to 11 December), SBV continued to provide liquidity into the banking system, making three consecutive weeks of injection. Accordingly, Vietnam's central bank this week has offered the value of repo contracts to VND37.6tn with a winning rate of 6% for 14-day terms, resulting in a net injection of VND8.20tn. Furthermore, started from 7 Dec, SBV pumped VND3.00bn each day with 3-month terms. As per the T-bill transaction, there is no T-bill contracts this week. Jointly, SBV poured VND8.20tn to its counterparties through open market operations this week.

### Interbank transactions comeback

Interbank rates generally rose slightly this week after SBV's intervention during the past three weeks. Specifically, the overnight (ON) interest rate on the last trading session of this week increased by 10 basis points (bps) to 5.20%. Besides, 1week, and 1-month witnessed an increase by 10bps, and 35bps to 6.20%, 7.75%, respectively. More notably, long-term loans such as 3-month, 6-month, and 1-year witnessed a rise to 8.35%, 8.65%, and 7.90% respectively.

### USDVND pressure has been eased

In the 49W22, a dramatic decline was seen in the USDVND followed by the rise of DXY compared with last week's data. In general, the USDVND fell by 2.84% compared with last week with a peak Tuesday at VND24,033. In comparison with last week's data, DXY experienced a slight recovery by 0.08% WoW to around 104.82 points after negative economic data released.

### 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

### Contents

I. SBV adds liquidity with longer term.....	1
II. Interbank transactions comeback.....	3
III. G-bond winning value increases notably.....	4
IV. Trading G-bond records modest changes .....	6
V. USDVND pressure has been eased.....	7
Macro scorecard .....	9

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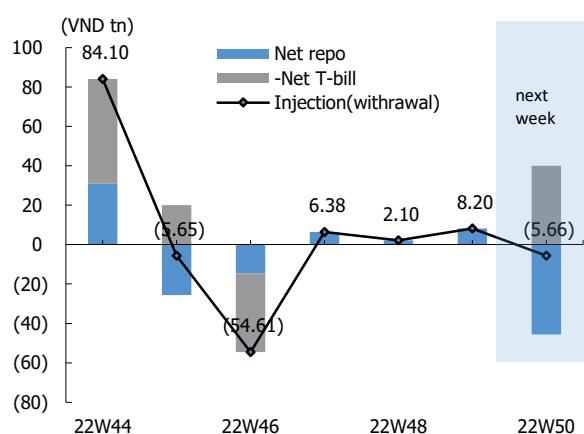
## I. SBV adds liquidity with longer term

### SBV continues to net injection

In the 49W22 (from 5 to 11 December), SBV continued to provide liquidity into the banking system, making three consecutive weeks of injection. Accordingly, Vietnam's central bank this week has offered the value of repo contracts to VND37.6tn with a winning rate of 6% for 14-day terms, resulting in a net injection of VND8.20tn. Furthermore, started from 7 Dec, SBV pumped VND3.00bn each day with 3-month terms. Thus banks can use this source until the end of Feb 2023 to ensure demand for cash settlements on Tet holiday. As per the T-bill transaction, there is no T-bill contracts this week. Jointly, SBV poured VND8.20tn 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↓

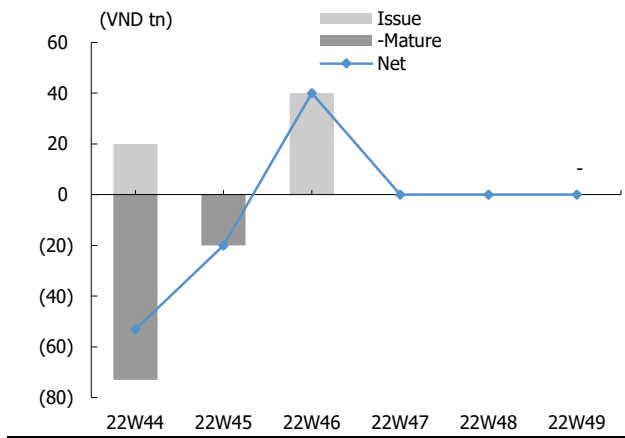
Source: SBV, Bloomberg, KIS

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

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
5-Dec-22	19-Dec-22	14	9.09	6.00
6-Dec-22	20-Dec-22	14	11.35	6.00
7-Dec-22	21-Dec-22	14	4.03	6.00
7-Dec-22	8-Mar-23	91	3.00	6.33
8-Dec-22	22-Dec-22	14	0.53	6.00
8-Dec-22	9-Mar-23	91	3.00	6.80
9-Dec-22	23-Dec-22	14	3.61	6.00
9-Dec-22	10-Mar-23	91	3.00	6.80
<b>Total</b>		<b>22.25</b>	<b>37.60</b>	<b>6.04</b>

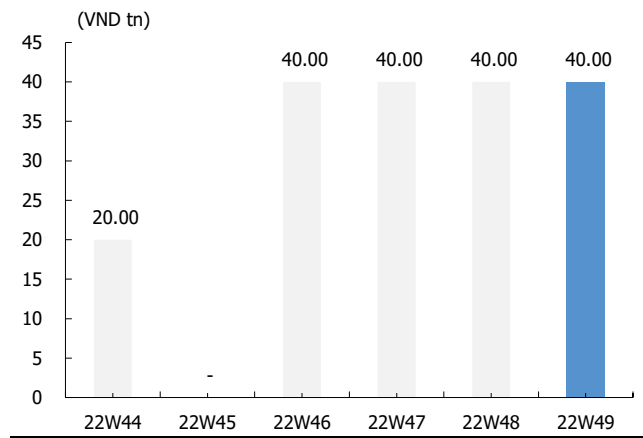
Source: SBV, Bloomberg, KIS

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



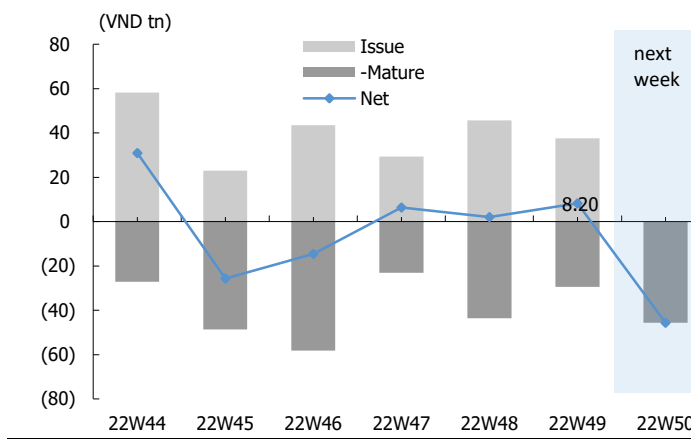
Source: SBV, Bloomberg, KIS

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



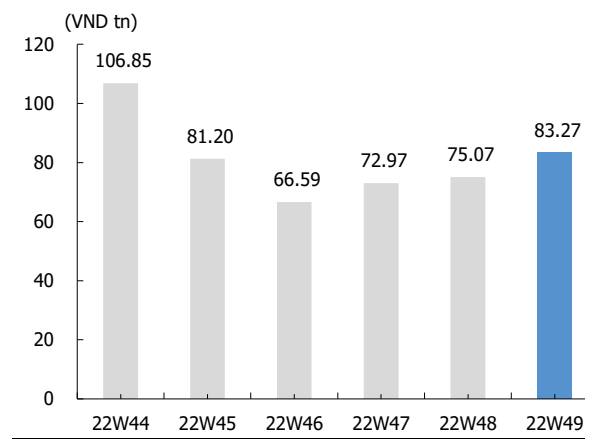
Source: SBV, Bloomberg, KIS

**Figure 4. Issued Repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding Repo by week**

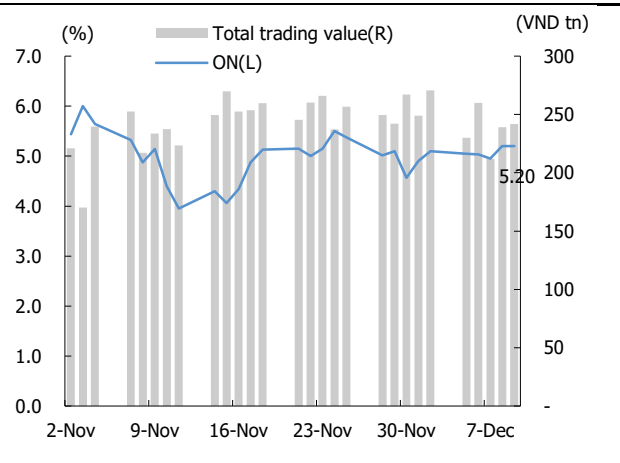


Source: SBV, Bloomberg, KIS

## II. Interbank transactions comeback

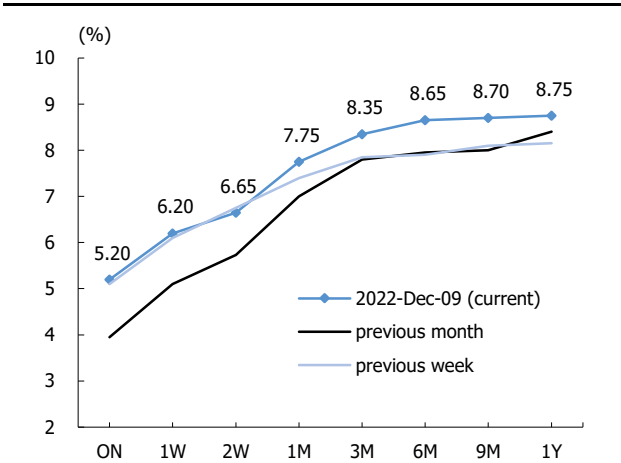
Interbank rates generally rose slightly this week after SBV's intervention during the past three weeks. Specifically, the overnight (ON) interest rate on the last trading session of this week increased by 10 basis points (bps) to 5.20%. Besides, 1week, and 1-month witnessed an increase by 10bps, and 35bps to 6.20%, 7.75%, respectively. More notably, long-term loans such as 3-month, 6-month, and 1-year witnessed a rise to 8.35%, 8.65%, 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**



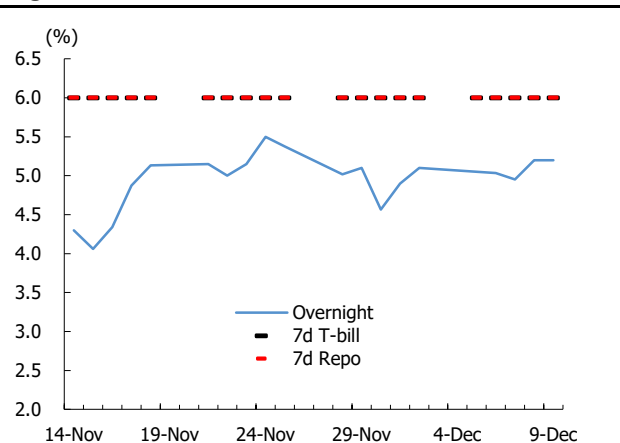
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



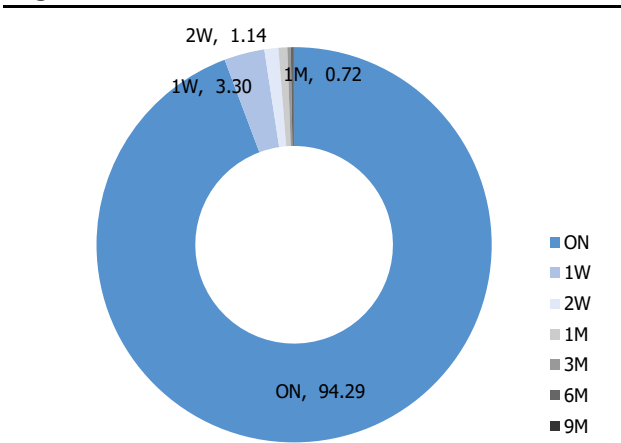
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

### III. G-bond winning value increases notably

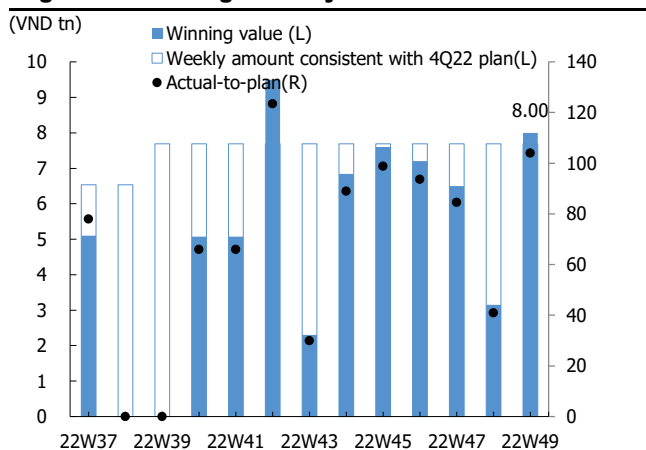
#### G-bond winning amount rose notably

The recovery in the performance of the government bond (G-bond) auction was gaining momentum this week with a notably high winning value despite the accepted yield being generally unchanged compared to the last week, indicating that supply and demand sides were expanding at a balanced pace. Specifically, 49W22 recorded a winning amount of VND8.00tn (VND6.00tn for the 10-year tenor and VND2.00tn for the 15-year tenor) from VND8.00tn offered by VST. 49W22's issuance led the cumulative amount for the whole year to increase to VND168.82tn, accounting for 42.21% of the 2022 plan. The winning yields for 10-year and 15-year tenors were 4.80% and 4.90%, similar to the last week.

The selling pressure in the secondary G-bond market has softened, with an unchanged yield and notably lower trading volume than last week. Although the yield spread between primary and secondary markets for the same tenor remained large, the demand for assets with high quality to qualify regulatory ratios in the banking system seems high and primarily was attributable to the high winning amount this week. The bid-to-offer ratio this week has surged to 2.72x from 2.36x last week, providing more support for the attractiveness of the G-bond market in the last month of 2022.

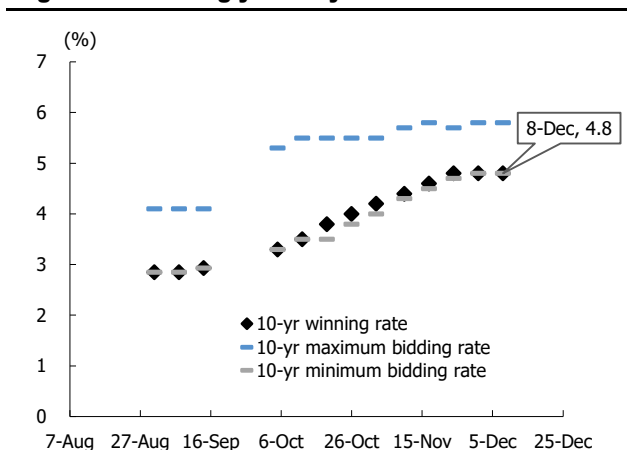
Although SBV sustained its liquidity support via OMO, the funding costs in the money market remained high, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding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



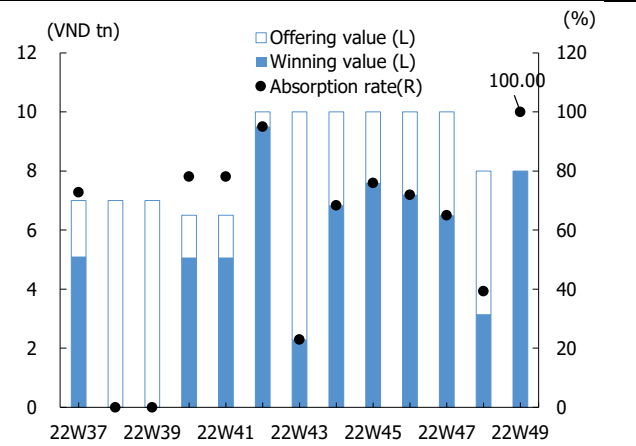
Source: HNX, KIS

Figure 11. Winning yields by week



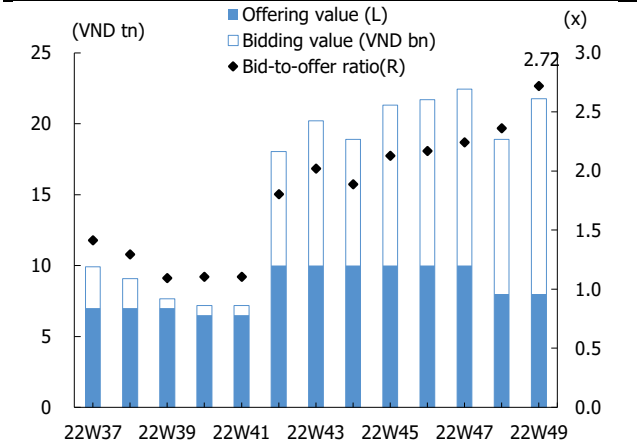
Source: HNX, KIS

**Figure 12. Absorption ratio**



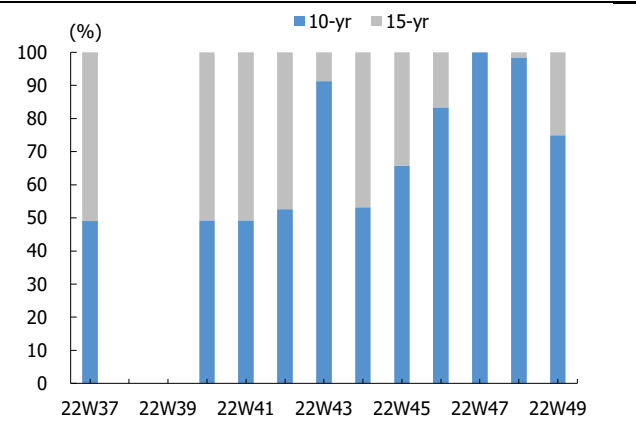
Source: HNX, KIS

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



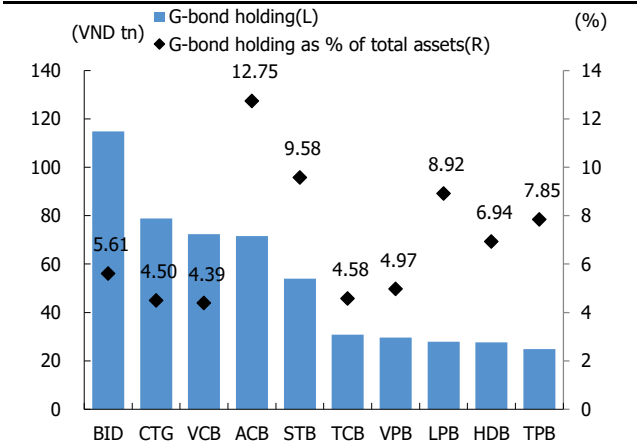
Source: HNX, KIS

**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 modest changes

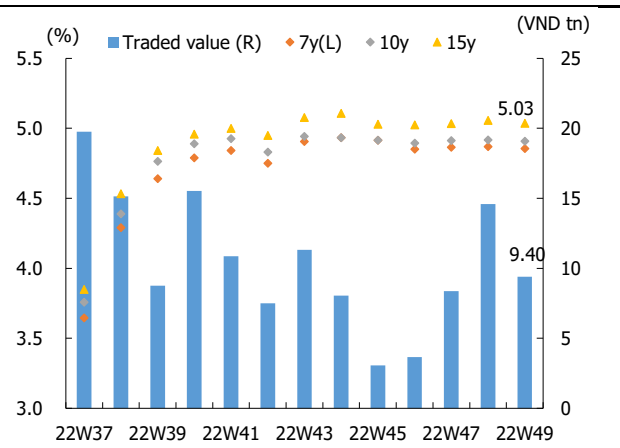
### G-bond trading volume rose significantly

The secondary G-bond market remained stable for the fourth consecutive week with a trivial change in yield, suggesting a balance between supply and demand when the money market became stable. In more detail, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) insignificantly declined by 1basis points (bps), 1bps, and 2bps to 4.86%, 4.91%, and 5.03% this week, respectively. The weekly traded value reached VND9.40tn for five trading sessions, 35.62% lower than last week.

Although the liquidity condition in the money market has eased this week with a significantly higher trading volume than 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.

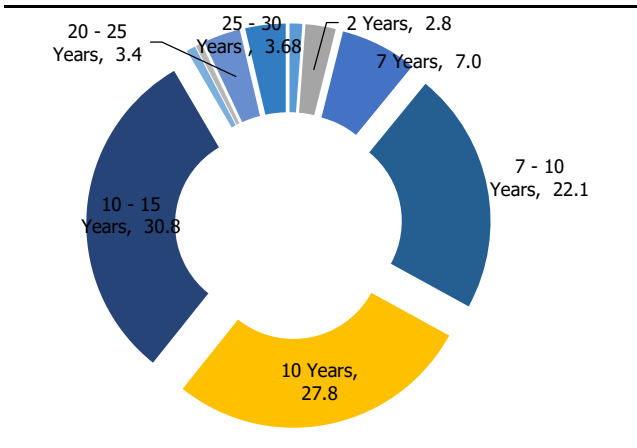
Regarding value structure, transactions continued focusing on tenors from 7 to 15 years, with a joint portion of 81.39%.

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



Source: HNX, KIS

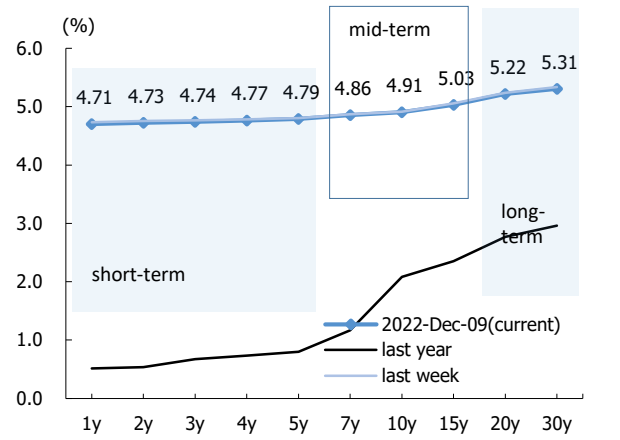
**Figure 17. Trading value by tenor this week**



Source: HNX, KIS

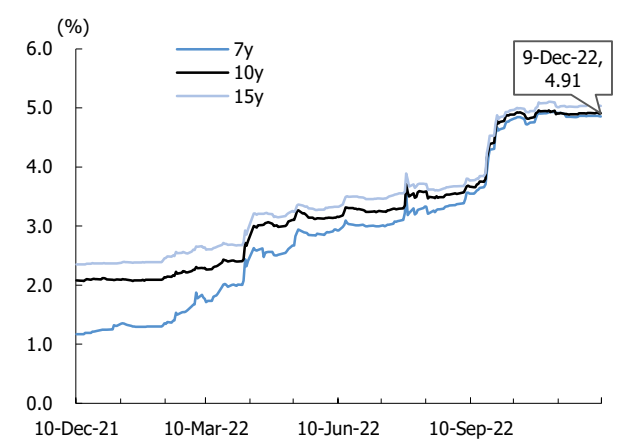
The shape of the yield curve was likely unchanged compared to last week, as the G-bond yield generally stayed the same across tenors. Accordingly, short-term tenors (less than seven years), mid-term tenors (7 to 15 years), and long-term (above 15 years) decreased modestly by 2bps, 1bps, and 3bps on average this week.

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



Source: HNX, VBMA, KIS

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



Source: HNX, VBMA, KIS

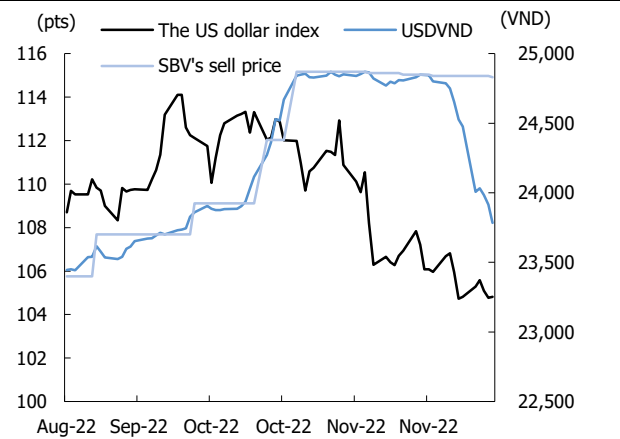
## V. USDVND pressure has been eased

### USDVND pressure eased

In the 49W22, a dramatic decline was seen in the USDVND followed by the rise of DXY compared with last week's data. In general, the USDVND fell by 2.84% compared with last week with a peak Tuesday at VND24,033.

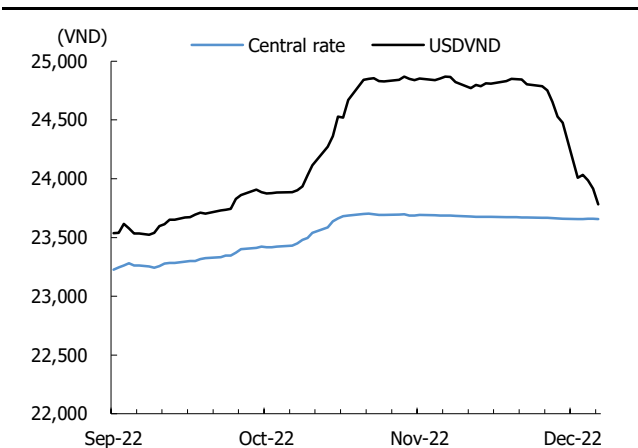
In comparison with last week's data, DXY experienced a slight recovery by 0.08% WoW to around 104.82 points after negative economic data released. Specifically, the Producer Price Index (PPI) for final demand in the U.S. rose 0.3% MoM in November, the same as an upwardly revised 0.3% increase in October and above market forecasts of 0.2%. Thus, this raised a concern on the FED's plan in long-term on interest rate hike which acted as a catalyst for the rise of DXY this week.

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



Source: SBV, Bloomberg

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



Source: SBV, Bloomberg

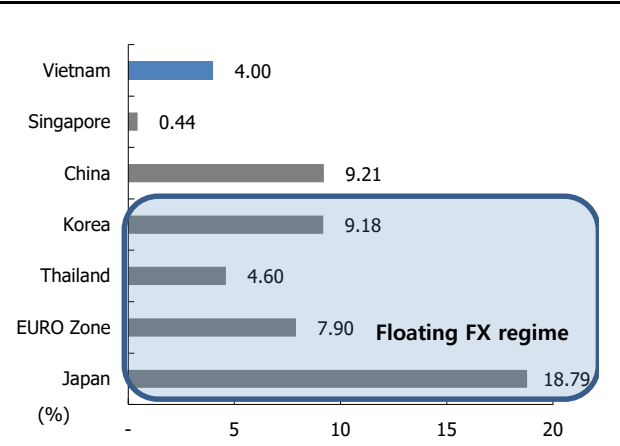
Last week, SBV continue to decline the central rate by 3bps compared with last week, anchoring at VND23,657. Meanwhile, the interbank exchange rate at the



end of the week decreased significantly by 2.84% WoW, from VND24,477 to VND23,783.

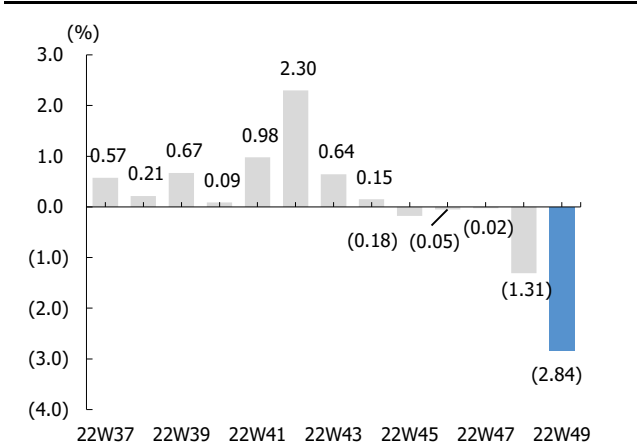
Furthermore, SBV decided to adjust its selling price of the greenback to VND24,830 for the fourth time after six consecutive time increases, 0.4% lower than the previous adjustment. We believe that there will be no strong pressure on the Vietnam Dong until the end of 2022 due to some reasons as follows. Firstly, the Fed slows down the interest rate increase, making interest rate pressure not as great as in the previous period. Secondly, the U.S. Dollar Index falling is the general trend after peaking at the end of September. In addition, 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 49 week of 2022, Vietnam dong narrowed its depreciation against the U.S. dollar by just around 4.00% so far this year (YTD). Specifically, this is the fifth time in a row that the Vietnam Dong appreciated against the greenback.

It seems that SBV’s intervention is effective to prevent the depreciation of Vietnam Dong. Besides, the recent recovery of the greenback has put some pressure on other currencies. Specifically, Japan and European nations were depreciated slightly this week. For instance, JPY depreciated roughly 18.79% (YTD) against the greenback followed by Korea’s won with 9.18% and Eurozone’s currency with 7.90%.

As per weekly performance, Vietnam Dong appreciated 2.84% compared with last week’s data. It indicates 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, ~100%
- \* Bid to offer ratio = offering value / bidding value, ~2.72
- \* DXY = U.S. Dollar Index, ~105
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~5.20%

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