

Fixed-income Perspectives

Easing liquidity demand under the persistent SBV's OMO implementation

SBV adds liquidity with longer term

In the 50W22 (from 12 to 18 December), SBV continued pouring liquidity into the banking system for the fourth consecutive week to ensure demand for cash settlement near Tet holiday. Although Vietnam's central bank this week has decreased the offered value of repo contracts to VND32.13tn from VND37.60tn last week and consequently resulted in a net withdrawal of VND13.53tn via this instrument, VND40.00tn of previous T-bill contracts expired, providing a net injection of VND26.47tn into the banking system.

Interbank rates ease

Interbank rates decreased slightly this week after SBV's intervention. Specifically, the overnight (ON) interest rate on the last trading session of this week decreased by 40 basis points (bps) to 4.80%. Besides, 1-week, and 2-week witnessed a decline by 90bps, and 72bps to 5.30%, 5.93%, respectively. More notably, long-term loans such as 3-month, 6-month, and 9-month witnessed a fall to 7.28%, 7.35%, and 8.37% respectively.

USDVND pressure continue to ease

In the 50W22, 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 0.76% compared with last week with a peak Tuesday at VND23,647. In comparison with last week's data, DXY experienced a slight decrease by 0.10% WoW to around 104.70 points after inflation's 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

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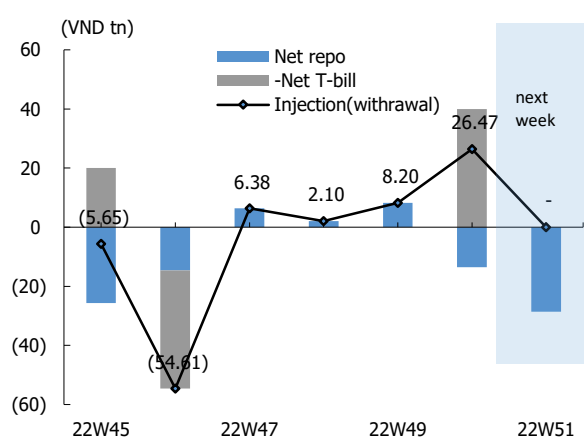
I. SBV adds liquidity with longer term

SBV continues to net injection

In the 50W22 (from 12 to 18 December), SBV continued pouring liquidity into the banking system for the for consecutive week to ensure demand for cash settlement near Tet holiday. Specifically, Vietnam's central bank this week has decreased the offered value of repo contracts to VND32.13tn from VND37.60tn last week, resulting in a net withdrawal of VND13.53tn. Furthermore, SBV continued to pump VND3.00bn each day with 3-month terms except Friday. Thus banks can use this source until the end of Feb 2023. As per the T-bill transaction, there is no T-bill contracts this week. Totally, SBV poured VND26.47tn 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↓

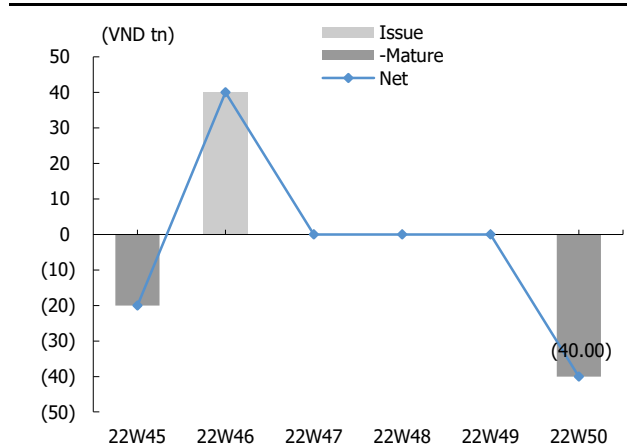
Source: SBV, Bloomberg, KIS

Table 2. Daily repo transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
12-Dec-22	26-Dec-22	14	2.18	6.00
12-Dec-22	13-Mar-23	91	2.99	7.00
13-Dec-22	27-Dec-22	14	4.65	6.00
13-Dec-22	14-Mar-23	91	3.00	6.40
14-Dec-22	28-Dec-22	14	4.31	6.00
14-Dec-22	15-Mar-23	91	3.00	6.50
15-Dec-22	29-Dec-22	14	2.99	6.00
15-Dec-22	16-Mar-23	91	3.00	6.40
16-Dec-22	30-Dec-22	14	6.00	6.00
Total		52.55	32.13	7.64

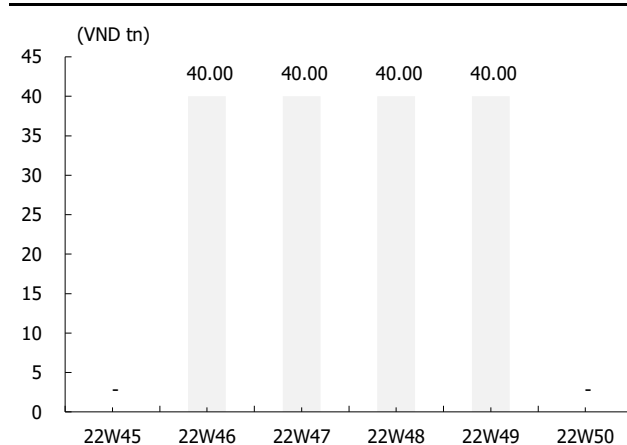
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



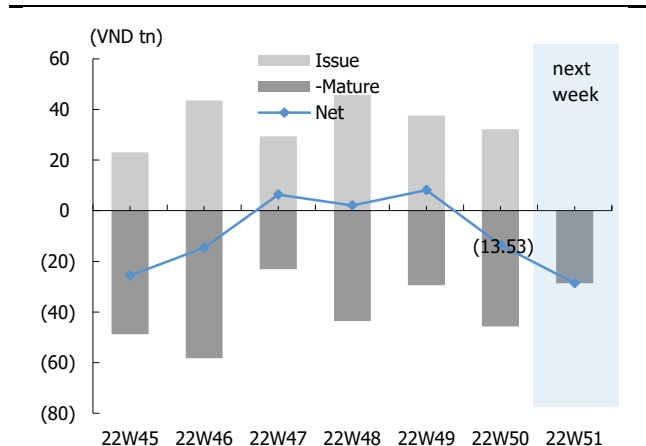
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



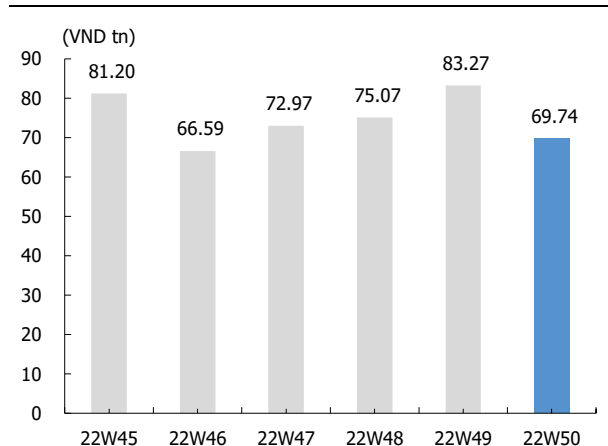
Source: SBV, Bloomberg, KIS

Figure 4. Issued Repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding Repo by week

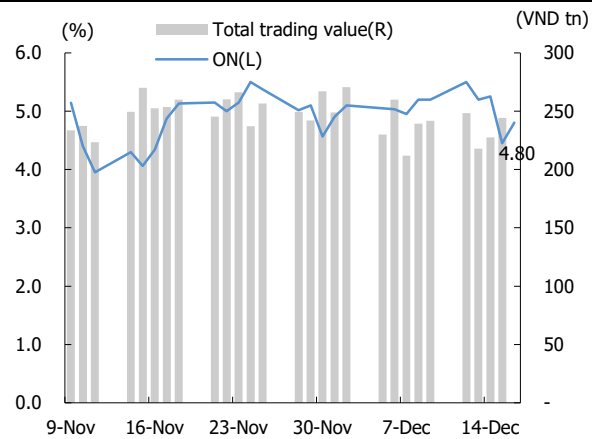


Source: SBV, Bloomberg, KIS

II. Interbank rates ease

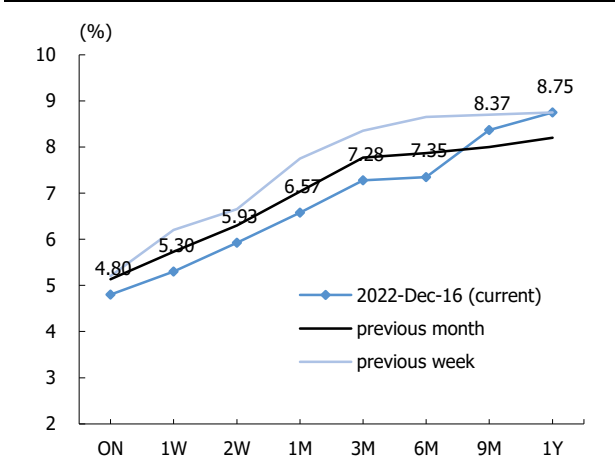
Interbank rates generally reduced this week with a higher trading value, implying that liquidity providers have become more ready with this price base. Specifically, overnight (ON) interest rates on the last trading session of this week declined by 40basis points (bps) to 4.80%. In addition, 1-week and 2-week decreased by 90bps and 72bps compared to the last weekend to 5.30% and 5.93%, respectively. More notably, longer-term loans experienced a significant decline. Accordingly, 3-month, 6-month, and 9-month decreased by 108bps, 130bps, and 33bps to 7.28%, 7.35%, and 8.37% at this weekend. Trading value rose by 4.80% compared to the previous week to reach VND1,189.26tn this week.

Figure 6. Interbank daily transaction



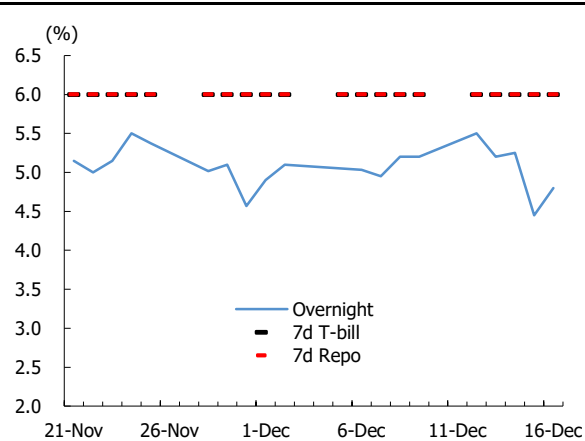
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



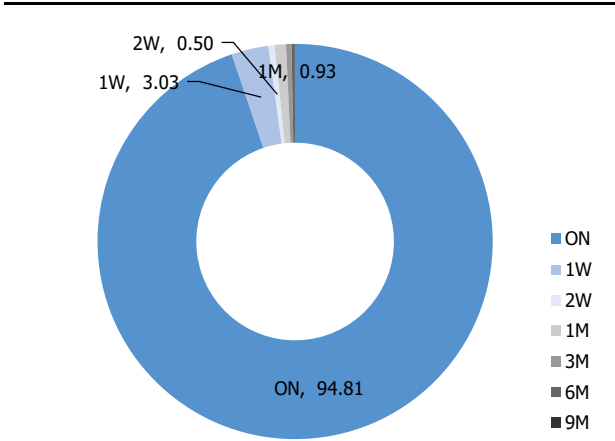
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KIS

III. G-bond winning value increases notably

G-bond winning amount increased further

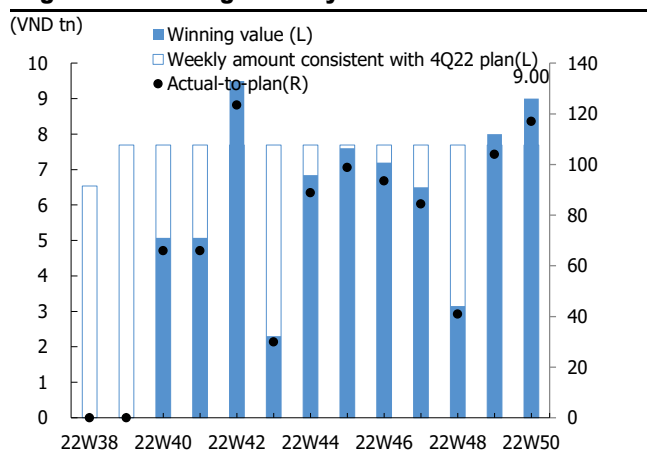
The recovery in the government bond (G-bond) auction has strengthened this week with a significantly higher winning value despite the accepted yield being generally unchanged compared to the last week, indicating that supply and demand sides were expanding at a balanced pace.

Specifically, 50W22 recorded a winning amount of VND9.00tn (VND6.00tn for the 10-year tenor and VND3.00tn for the 15-year tenor) from VND9.00tn offered by VST. 50W22's issuance led the cumulative amount for the whole year to increase to VND177.82tn, accounting for 44.46% 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 3.04x from 2.72x last week, providing more support for the attractiveness of the G-bond market in the last month of 2022.

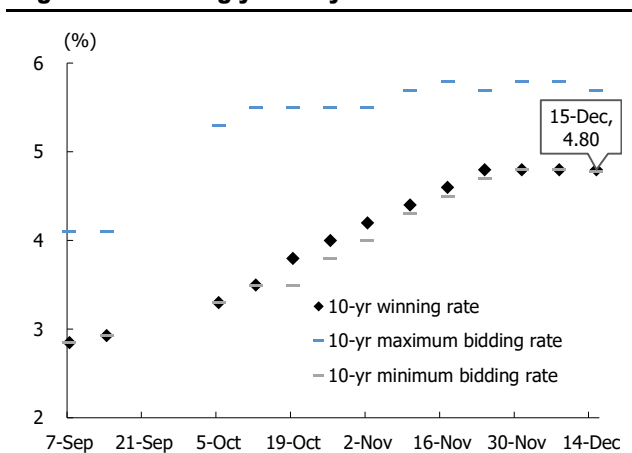
Although SBV sustained its liquidity support via OMO, the funding costs in the money market remained high, transmitting upward pressure to the secondary G-bond market. Hence, fixed-income investors can easily buy G-bond with the same maturity at more attractive prices and consequently put higher bidding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



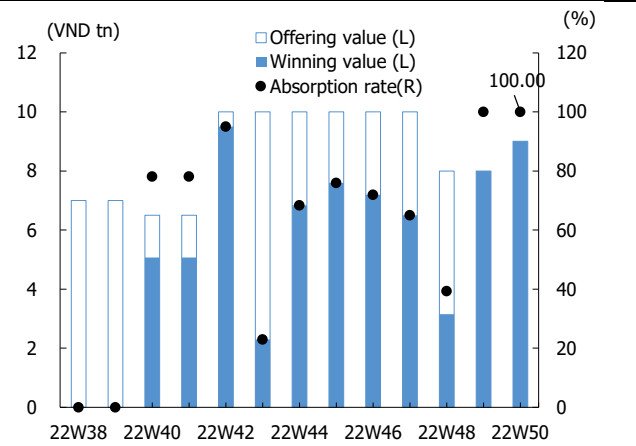
Source: HNX, KIS

Figure 11. Winning yields by week



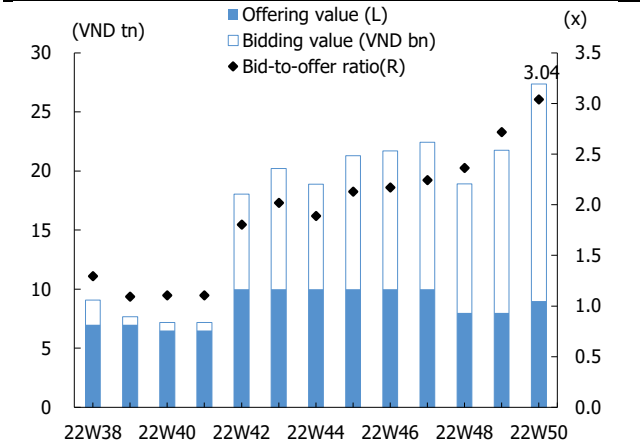
Source: HNX, KIS

Figure 12. Absorption ratio



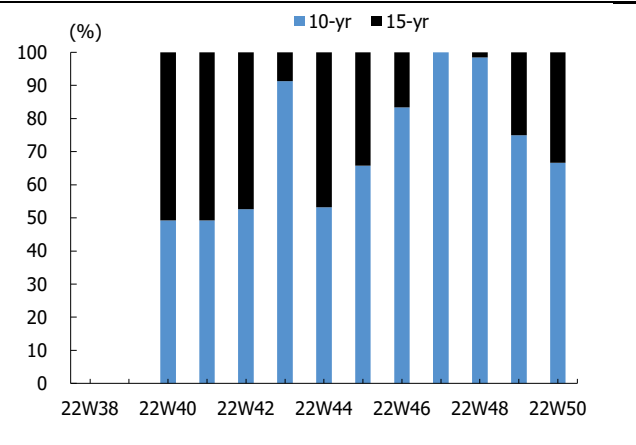
Source: HNX, KIS

Figure 13. Bid-to-offer ratio



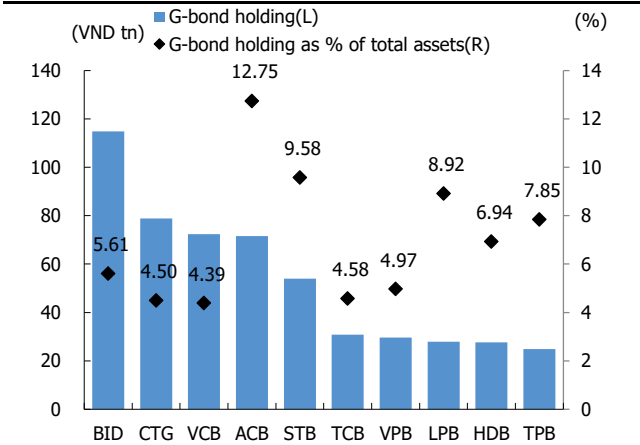
Source: HNX, KIS

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 yields keep stable

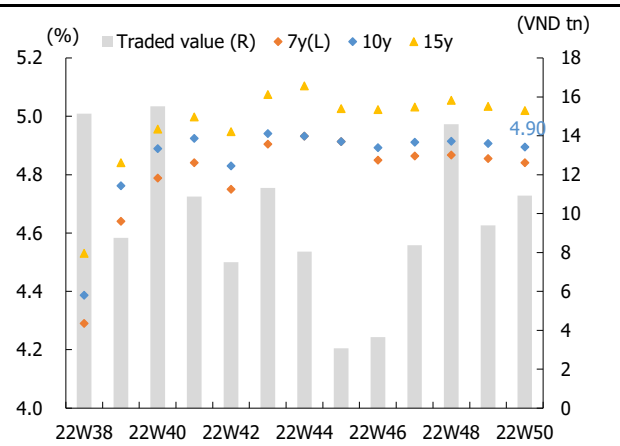
G-bond trading volume rose significantly

Conditions in the secondary G-bond market remained stable for the fifth consecutive week with an increased trading volume while yields were unchanged, indicating that supply and demand were equally expanding when the money market remained stable. In more detail, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) both insignificantly declined by 1basis points (bps) to 4.84%, 4.90%, and 5.02% this week, respectively. The weekly traded value reached VND10.92tn for five trading sessions, 16.26%-higher 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.

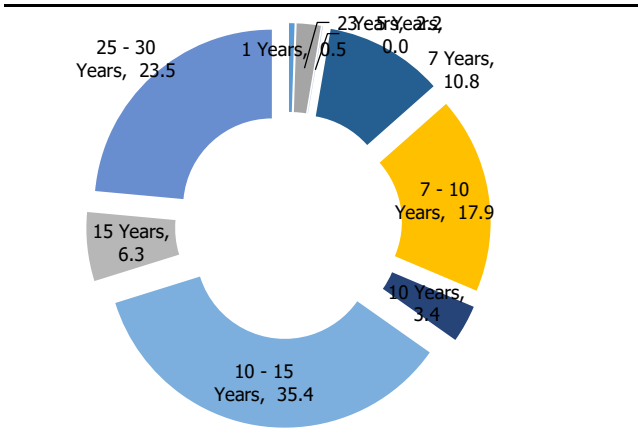
Regarding value structure, transactions continued focusing on tenors from 7 to 15 years, with a joint portion of 73.70%.

Figure 16. G-bond trading value



Source: HNX, KIS

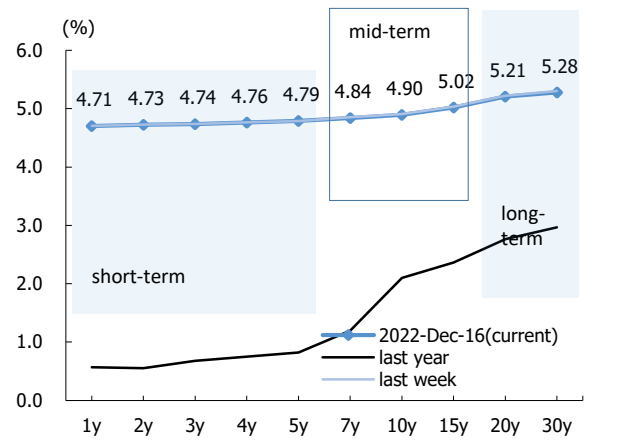
Figure 17. Trading value by tenor this week



Source: HNX, KIS

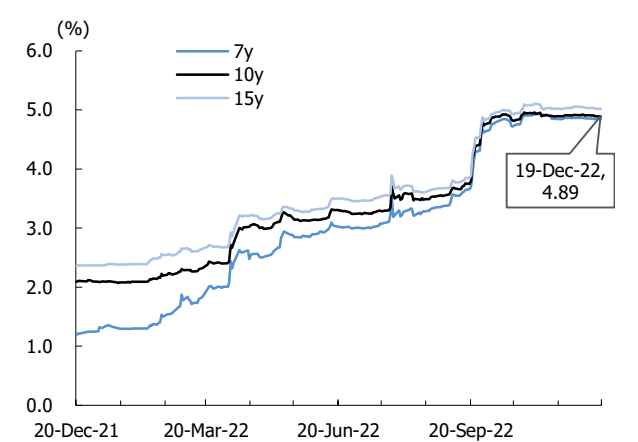
The shape of the yield curve was likely unchanged compared to last week, as the G-bond yield generally stayed the same across tenors. Accordingly, mid-term tenors (7 to 15 years) and long-term (above 15 years) decreased modestly by 1bps and 2bps on average this week, while short-term tenors (less than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

Figure 18. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 19. Historical daily government bond yield



Source: HNX, VBMA, KIS

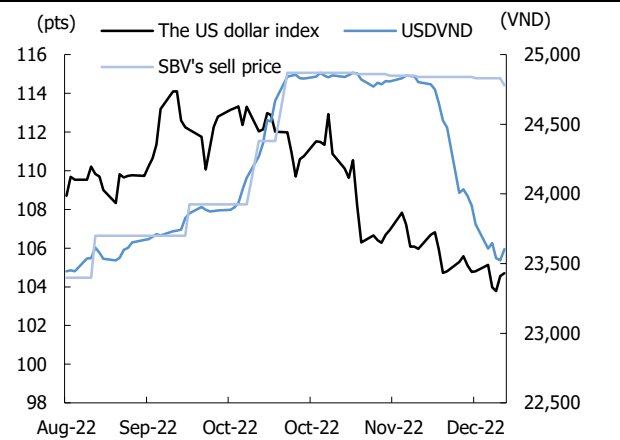
V. USDVND pressure continue to ease

USDVND pressure eased

In the 50W22, a slight decline was seen in the USDVND followed by the fall of DXY compared with last week's data. In general, the USDVND fell by 0.76% compared with last week with a peak Tuesday at VND23,647.

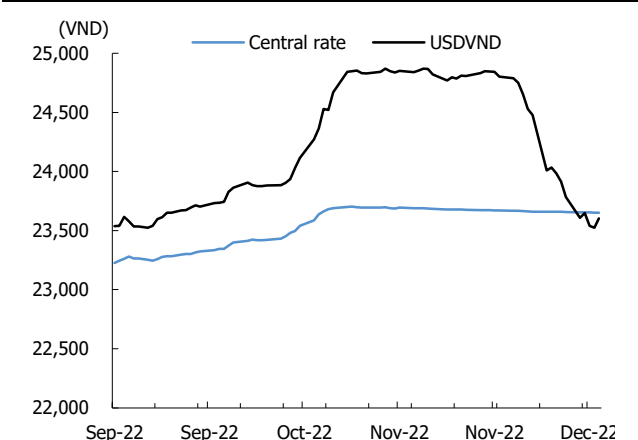
In comparison with last week's data, DXY experienced a slight decrease by 0.10% WoW to around 104.70 points after inflation's data released. Specifically, the annual inflation rate in the US slowed for a fifth straight month to 7.1% in November of 2022, the lowest since December last year, and below forecasts of 7.3%. However, based on the Fed's minutes, it indicated interest rates will reach 5.1% next year, 4.1% in 2024, and 3.1% in 2025, a higher level than previously indicated. This news somehow prevented the fall momentum of DXY.

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



Source: SBV, Bloomberg

Figure 21. Daily Central rate and USDVND

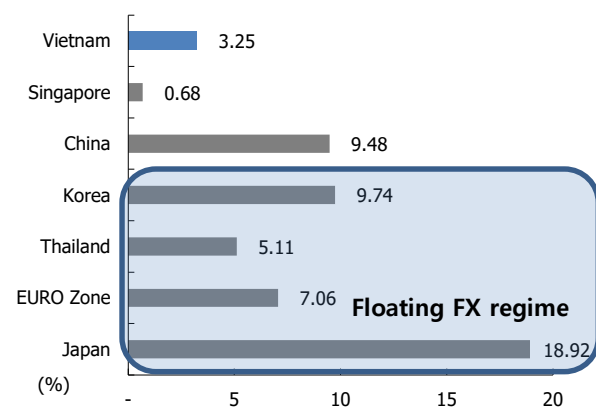


Source: SBV, Bloomberg

Last week, SBV continue to decline the central rate by 7bps compared with last week, anchoring at VND23,650. Meanwhile, the interbank exchange rate at the end of the week decreased slightly by 0.76% WoW, from VND23,783 to VND23,603.

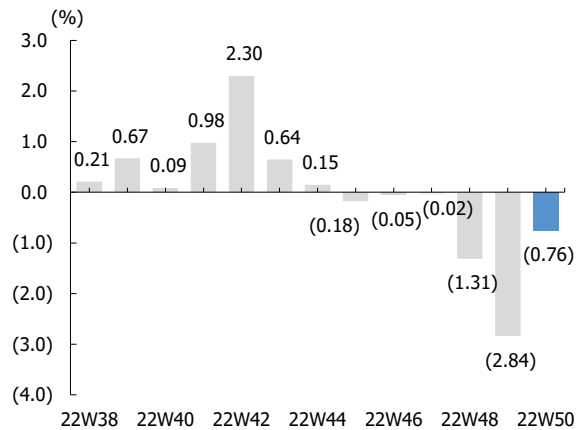
Furthermore, SBV decided to adjust its selling price of the greenback to VND24,780 for the fifth time, 0.2% lower than the previous adjustment. We believe that there will be no strong pressure on the Vietnam Dong until the end of 2022. In addition, securing foreign exchange reserves and keeping VND from depreciating against the U.S. dollar is still a priority of SBV.

Figure 22. YTD performance of local currencies



Source: SBV, Bloomberg

Figure 23. Weekly performance of USDVND



Source: SBV, Bloomberg

In the 50 week of 2022, Vietnam dong continued to narrow its depreciation against the U.S. dollar by just around 3.25% so far this year (YTD). Specifically, this is the sixth 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 18.92% (YTD) against the greenback followed by Korea’s won with 9.74% and Eurozone’s currency with 7.06%.

As per weekly performance, Vietnam Dong appreciated 0.76% 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, ~3.04
- * DXY = U.S. Dollar Index, ~105
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~4.80%

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