

Fixed-income Perspectives

SBV withdrawals money with FX stability on the aim

SBV turns to net withdrawal

In the 51W22 (from 19 to 23 December), SBV turned to take money out of the banking system after four consecutive weeks of net injection due to easing liquidity condition in the money market. Specifically, Vietnam's central bank this week has decreased the offered value of repo contracts to VND14.57tn from VND32.13tn last week with a winning rate of 6.00%, resulting in a net withdrawal of VND14.03tn. As per the T-bill transaction, SBV newly issued T-bill contracts this week with a total amount of VND80.00tn. Jointly, SBV withdrew VND94.03bn from its counterparties this week.

Interbank rates witness a divergence

Interbank rates witnessed a divergence this week. Specifically, overnight (ON) interest rates on the last trading session of this week declined significantly by 160basis points (bps) to 3.20%. In addition, 1-week and 2-week decreased by 100bps and 23bps compared to the last weekend to 4.30% and 5.70%, respectively. Conversely, longer-term loans experienced a significant increase. Accordingly, 3-month, 6-month, and 9-month rose by 92bps, 130bps, 165bps and 63bps to 8.20%, 9.00%, and 9.00% respectively at this weekend.

USDVND remains stable

In the 51W22, USDVND decreases slightly followed by the fall of DXY compared with last week's data. In general, the USDVND fell by 0.06% compared with last week with a peak Tuesday at VND23,731.

In comparison with last week's data, DXY experienced a slight decrease by 0.37% WoW to around 104.31 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

Contents

I. SBV turns to net withdrawal	1
II. Interbank rates witness a divergence	3
III. G-bond winning value decreases notably	4
IV. Trading G-bond yields keep stable	6
V. USDVND remains stable	7
Macro scorecard	9

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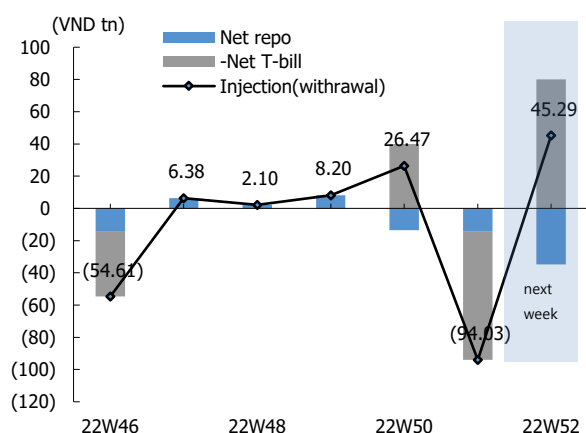
I. SBV turns to net withdrawal

SBV turns to net withdrawal

In the 51W22 (from 19 to 23 December), SBV turned to take money out of the banking system after four consecutive weeks of net injection due to easing liquidity condition in the money market. Specifically, Vietnam's central bank this week has decreased the offered value of repo contracts to VND14.57tn from VND32.13tn last week with a winning rate of 6.00%, resulting in a net withdrawal of VND14.03tn. As per the T-bill transaction, SBV newly issued T-bill contracts this week with a total amount of VND80.00tn to respond to the interbank rate decline. Jointly, SBV withdrew VND94.03bn from its counterparties this week.

The offering of the T-bills this week likely indicates the consistency in SBV's stance in stabilizing the liquidity condition with a meaningfully high funding cost to avoid the USD outflow from carry-trade activities. We can see the new T-bill winning yield as the lower bound of the interest rate corridor to keep the overnight interest rate stable for the next few weeks. Therefore, we predict that SBV will provide more T-bill contracts for the next few weeks to lift the interbank rates higher.

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↓

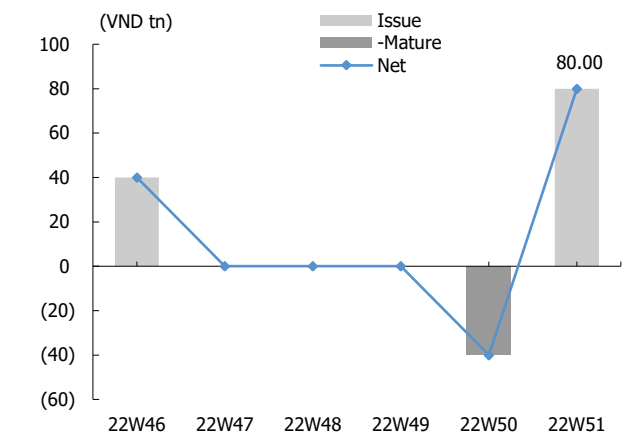
Source: SBV, Bloomberg, KIS

Table 2. Daily T-bill transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
20-Dec-22	27-Dec-22	7	20.00	4.39
21-Dec-22	28-Dec-22	7	20.00	3.98
22-Dec-22	29-Dec-22	7	20.00	3.98
23-Dec-22	30-Dec-22	7	20.00	3.98
Total		7.00	80.00	4.08

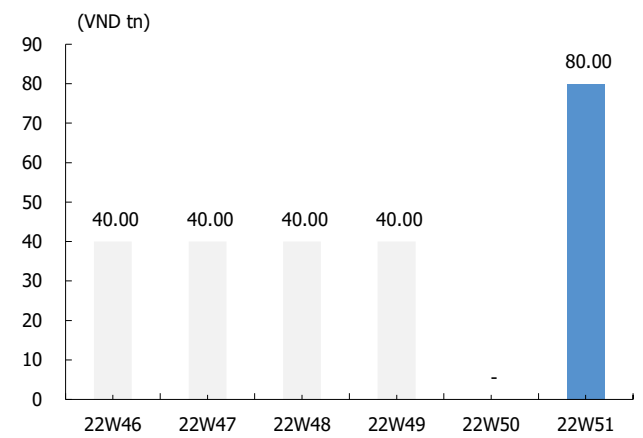
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



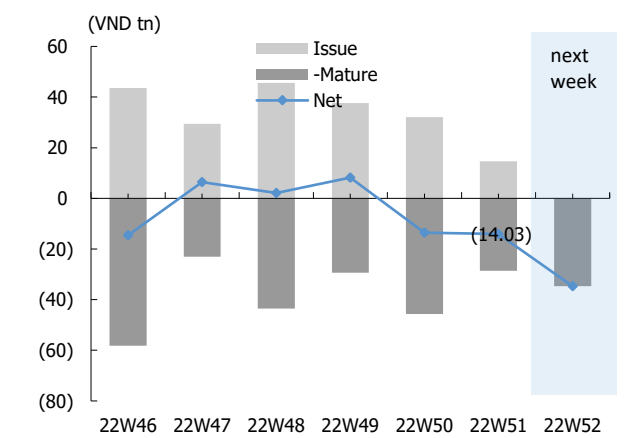
Source: SBV, Bloomberg, KIS

Table 3. Daily repo transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
19-Dec-22	26-Dec-22	7	4.03	6.00
20-Dec-22	27-Dec-22	7	4.96	6.00
21-Dec-22	28-Dec-22	7	2.22	6.00
22-Dec-22	29-Dec-22	7	2.92	6.00
23-Dec-22	30-Dec-22	7	0.44	6.00
Total		7.00	14.57	6.00

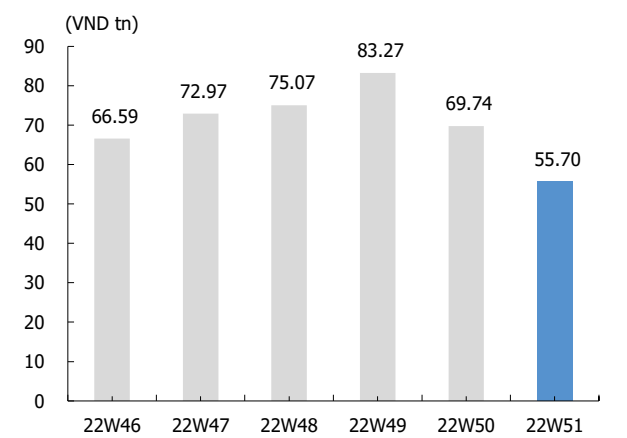
Source: SBV, Bloomberg, KIS

Figure 4. Issued repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



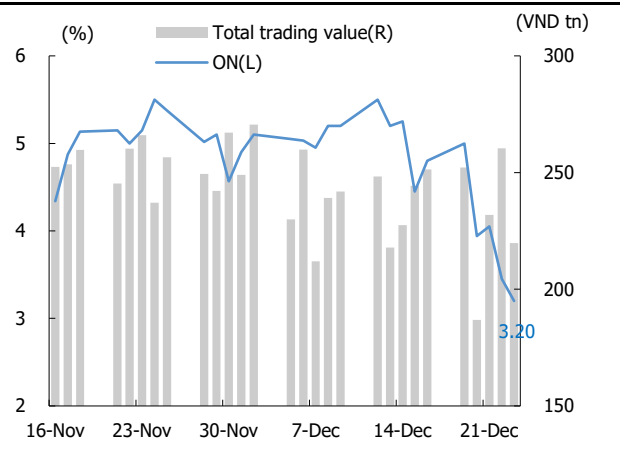
Source: SBV, Bloomberg, KIS

II. Interbank rates witness a divergence

Interbank rates reduced significantly this week with a lower trading value, implying a weaker demand side this week. Specifically, overnight (ON) interest rates on the last trading session of this week declined significantly by 160basis points (bps) to 3.20%. In addition, 1-week and 2-week decreased by 100bps and 23bps compared to the last weekend to 4.30% and 5.70%, respectively.

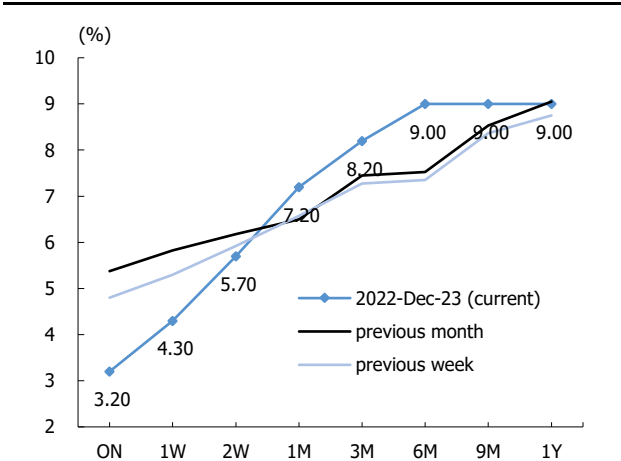
Conversely, longer-term loans experienced a significant increase. Accordingly, 3-month, 6-month, and 9-month rose by 92bps, 130bps, 165bps and 63bps to 8.20%, 9.00%, and 9.00% respectively at this weekend. Trading value rose by 3.20% compared to the previous week to reach VND1,189.26tn this week. However, as can be observed that SBV has massively offered T-bill contracts with higher winning yields, it is likely that the interest rate will increase again next week.

Figure 6. Interbank daily transaction



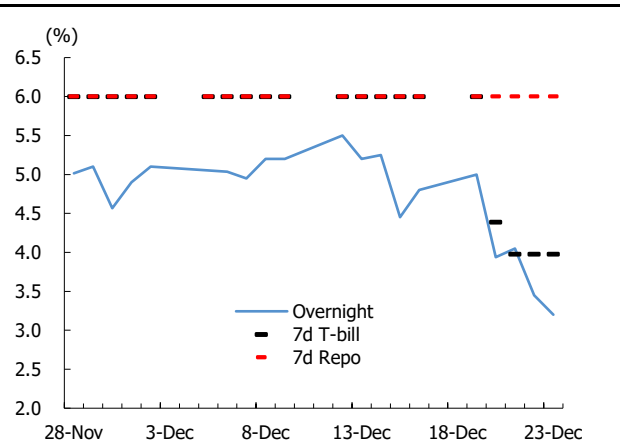
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



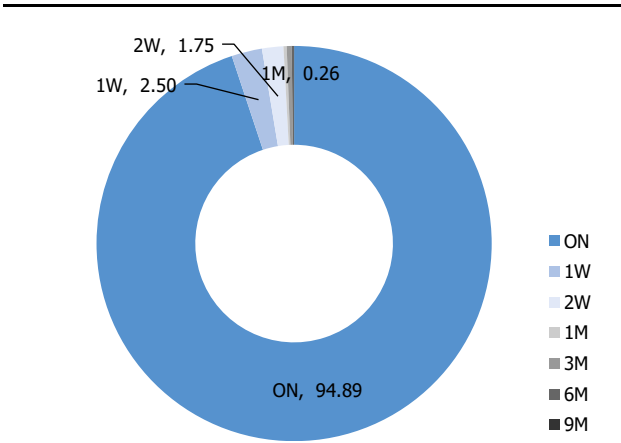
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KIS

III. G-bond winning value decreases notably

G-bond winning amount reversed to decrease

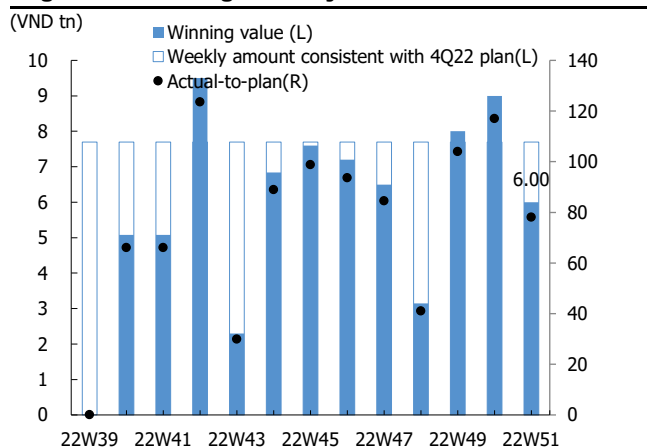
The government bond auction has ended its recovery in the last two weeks with a significant drop in winning value and a slightly lower accepted yield compared to the previous week. This reversal happens due to the limited supply despite the growing demand from buyers.

Specifically, 51W22 recorded a winning amount of VND6.00tn (VND3.00tn for the 10-year tenor and VND3.00tn for the 15-year tenor) from VND6.00tn offered by VST. 51W22's issuance led the cumulative amount for the whole year to increase to VND183.82tn, accounting for 45.96% of the 2022 plan. The winning yields for 10-year and 15-year tenors were 4.74% and 4.89%, 6bps and 1bps lower than the last week.

The selling pressure in the secondary G-bond market seemed softened as the winning yield and overnight rate reduced. 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 demand surge this week. The bid-to-offer ratio this week has surged to 5.20x from 3.04x last week, providing more support for the attractiveness of the G-bond market in the last month of 2022.

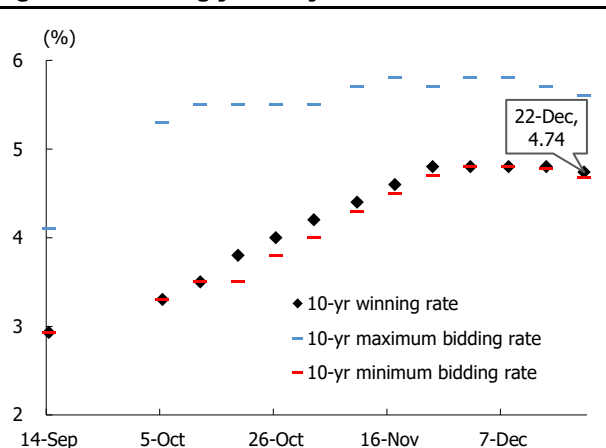
SBV returns to withdraw liquidity via OMO after four consecutive weeks of injecting by a net withdrawal of VND94.03tn at 3.98% and 4.39% yields to drive the interbank rate up in need of preventing capital outflow as a more 75bps rate hike in fed fund rate for 2023 was widely expected. This is in response to the sharp drop in overnight rate to 3.2% from 4.8% last week. 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



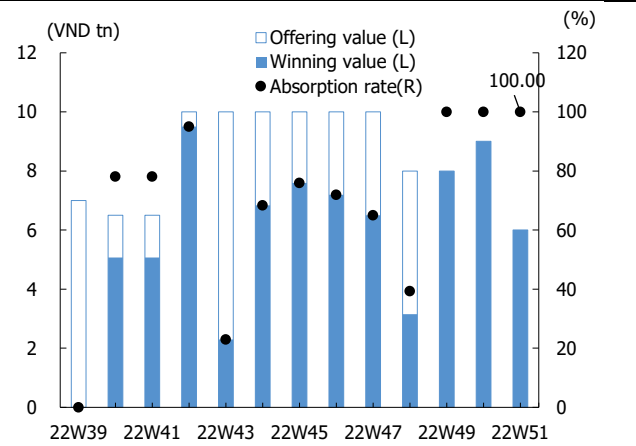
Source: HNX, KIS

Figure 11. Winning yields by week



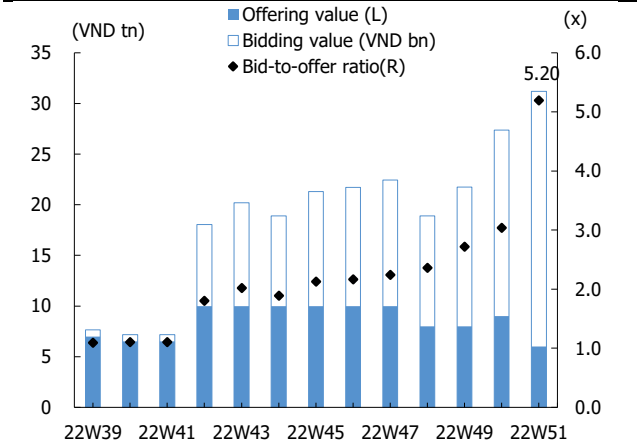
Source: HNX, KIS

Figure 12. Absorption ratio



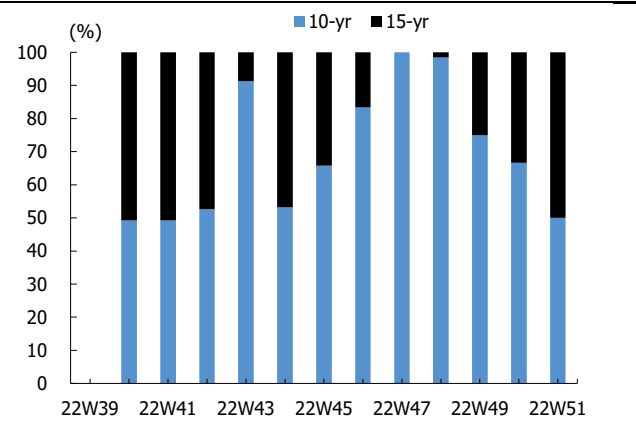
Source: HNX, KIS

Figure 13. Bid-to-offer ratio



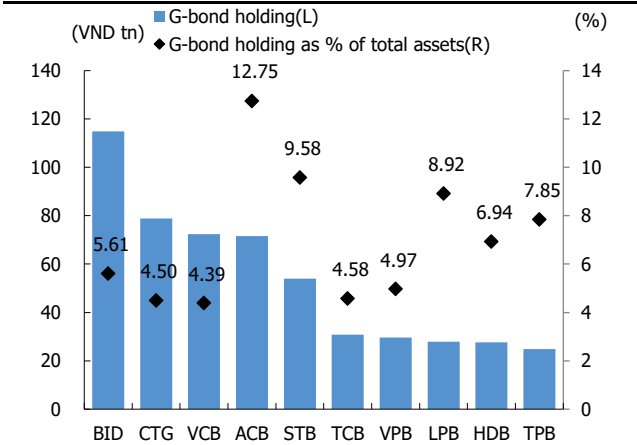
Source: HNX, KIS

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

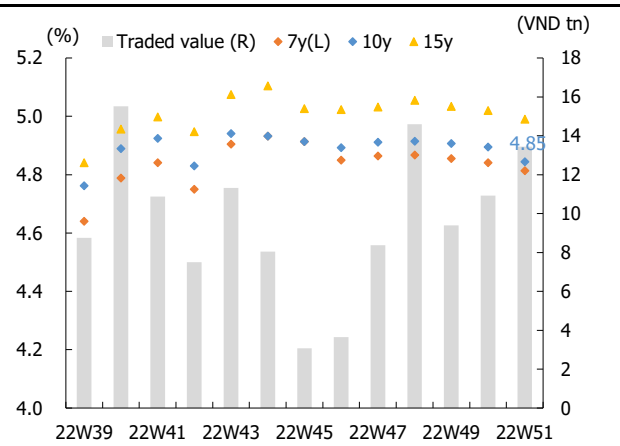
G-bond trading volume rose significantly

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) fell by 3bps, 5bps, and 3bps to 4.81%, 4.85%, and 4.99% this week, respectively. The weekly traded value reached VND13.44tn for five trading sessions, 23.08% 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, the interbank rate increased for 1-month and above tenors while decreasing in overnight, 1-week, and 2-week maturities. 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.

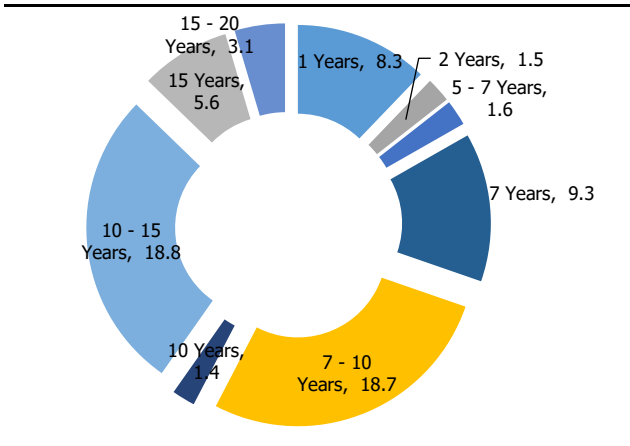
Regarding value structure, transactions continued focusing on tenors from 7 to 15 years, with a joint portion of 53.80%.

Figure 16. G-bond trading value



Source: HNX, KIS

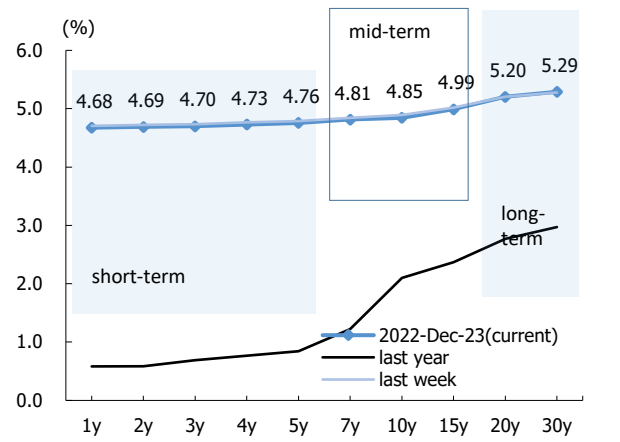
Figure 17. Trading value by tenor this week



Source: HNX, KIS

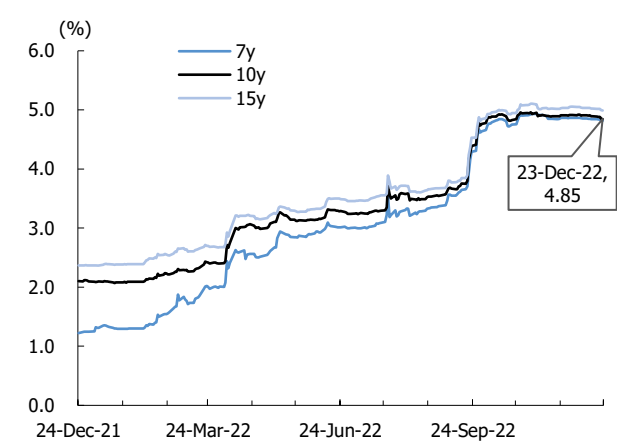
The shape of the yield curve was likely unchanged compared to last week, as the G-bond yield generally stayed the same across tenors. Accordingly, short-term tenors (less than 7 years) and mid-term (7 to 15 years) decreased modestly by 3bps and 4bps on average this week, while long-term tenors (above 15 years) kept unchanged.

Figure 18. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 19. Historical daily government bond yield



Source: HNX, VBMA, KIS

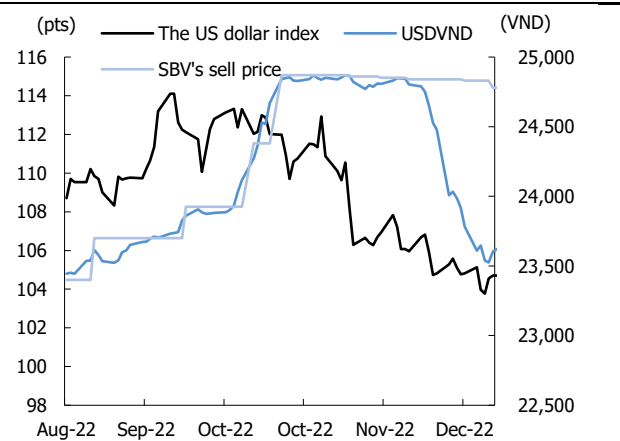
V. USDVND remains stable

USDVND remains stable

In the 51W22, USDVND remained stable followed by the fall of DXY compared with last week's data. In general, the USDVND fell by 0.06% compared with last week with a peak Wednesday at VND23,731.

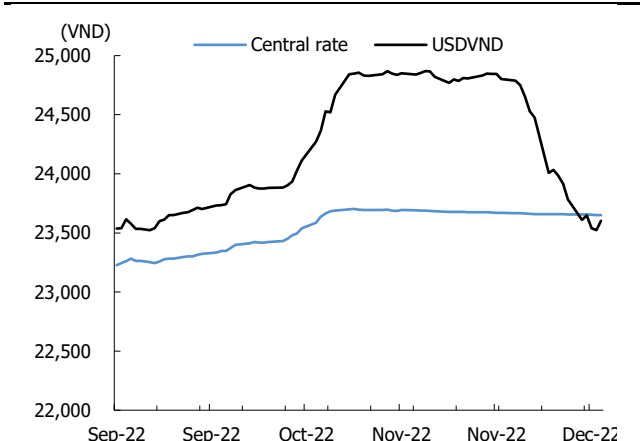
In comparison with last week's data, DXY witnessed a slight decline by 0.37% WoW to around 104.31 points after inflation's data released. Accordingly, the personal consumption expenditure (PCE) index has begun to show signs of cooling down by increased 5.5% year-on-year in November of 2022, the least since October of 2021 and below 6.1% in October. This inflation's data was resulted in the fall of DXY.

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



Source: SBV, Bloomberg

Figure 21. Daily Central rate and USDVND

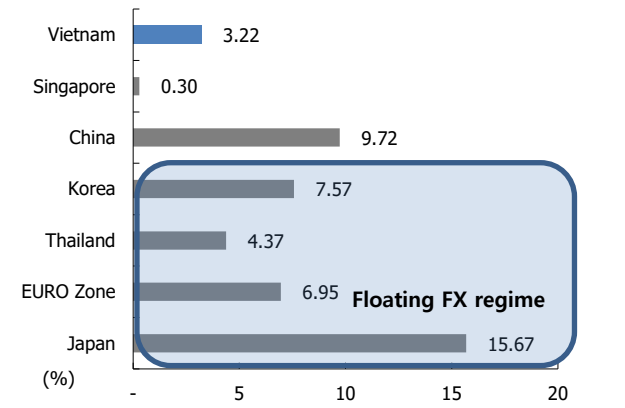


Source: SBV, Bloomberg

Last week, SBV continue to decline the central rate significantly by 19bps compared with last week, anchoring at VND23,631. Meanwhile, the interbank exchange rate at the end of the week decreased slightly by 0.06% WoW, from VND23,603 to VND23,590.

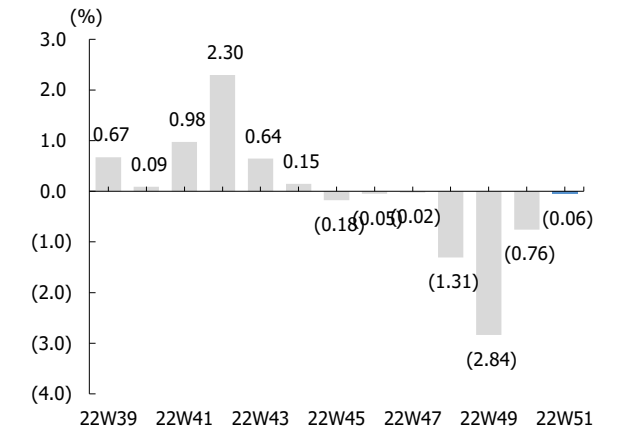
Furthermore, SBV decided to keep its selling price of the greenback at VND24,780. We believe that there will be no strong pressure on the Vietnam Dong until the end of 2022. In addition, securing foreign exchange reserves and keeping VND from depreciating against the U.S. dollar is still a priority of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

Figure 22. YTD performance of local currencies



Source: SBV, Bloomberg

Figure 23. Weekly performance of USDVND



Source: SBV, Bloomberg

In the 51 week of 2022, Vietnam dong continued to narrow its depreciation against the U.S. dollar by just around 3.22% so far this year (YTD). Specifically, this is the seventh week 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 fall of the greenback has acted as a catalyst for the appreciation of other currencies. Specifically, Japan and European nations narrowed its depreciation significantly this week. For instance, JPY depreciated roughly 15.67% (YTD) against the greenback followed by Korea's won with 7.57% and Eurozone's currency with 6.95%.

As per weekly performance, Vietnam Dong appreciated 0.06% 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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