

Fixed-income Perspectives

A stable money market at the year opening

SBV turns to offer liquidity

In the first week of 2022 (from 3 to 8 January), SBV turned to pour liquidity into the banking system with an aim to stabilize the money market right after the New Year holiday. Generally, an amount of VND13.13tn had been injected into the banking system as a huge amount of T-bill matured this week. Besides, the State Bank lowered the newly issued value of 7-day repo contracts compared with last week to VND21.99tn.

Interbank rates cool down on SBV's liquidity support

SBV strengthened its liquidity support on the first week of 2023 by lowering significantly the T-bill offering compared to the last week, causing interbank rates for most tenors to cool down. Generally, short-term rates such as 1-week and 2-week decreased slightly by 15bps, and 45bps to 5.32%, and 5.95% respectively. Similarly, longer-term loans also witnessed a decline. Accordingly, 1-month, 3-month and 6-month fell by 53bps, 17bs and 16bps to 7.00%, 8.03% and 8.37%, respectively. Conversely, over-night rate (ON) increased sharply by 252bps to 4.82%.

USDVND returns to decline

On weekly basis, 1W23 witnessed a fall in USDVND even though DXY slightly increased. Specifically, the USDVND fell by 0.68% WoW to VND23,472 while DXY gained 0.34% to 103.88 with a peak at 105.04. The DXY increased to 105.04 on Thursday and dropped to 103.88 on Friday after the U.S. economic indicators were released.

KIS leading economic index

	1Q22	2Q22	3Q22	4Q22	2020	2021	2022
GDP (%)	5.03	7.72	13.67	5.92	2.91	2.58	8.02
Trade balance (USD bn)	1.50	(0.75)	5.78	4.44	19.86	4.00	11.20
CPI (%)	2.50	2.96	3.32	4.41	3.24	1.84	3.15
Discount rate (%)	2.50	2.50	3.50	4.50	2.50	2.50	4.50
USD/VND	22,900	23,139	23,712	23,658	23,252	22,936	23,658
US GDP (%)	(1.60)	NA	NA	NA	(3.40)	5.60	NA
China GDP (%)	4.80	NA	NA	NA	2.20	8.00	NA

Source: KIS

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Research Dept.

researchdept@kisvn.vn

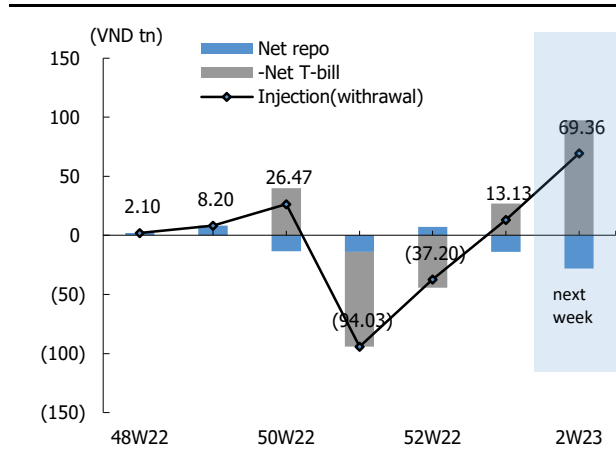
I. SBV turns to offer liquidity

SBV supports banking system after the New Year Holiday

In the first week of 2022 (from 3 to 8 January), SBV turned to pour liquidity into the banking system with an aim to stabilize the money market right after the New Year holiday. Generally, an amount of VND13.13tn had been injected into the banking system as a huge amount of T-bill matured this week. Besides, the State Bank lowered the newly issued value of 7-day repo contracts compared with last week to VND21.99tn.

To be more specific, SBV conducted four repo auction sessions this week with a total offering of VND21.99tn while there was VND35.91tn matured this week, causing a net withdrawal. Conversely, SBV offered a 7-day T-bill offering with an amount of VND77.35tn at the same yield compared with last week at 5.60%, the matured value of T-bills was significant at VND104.40tn, providing liquidity for its counterparties.

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↓

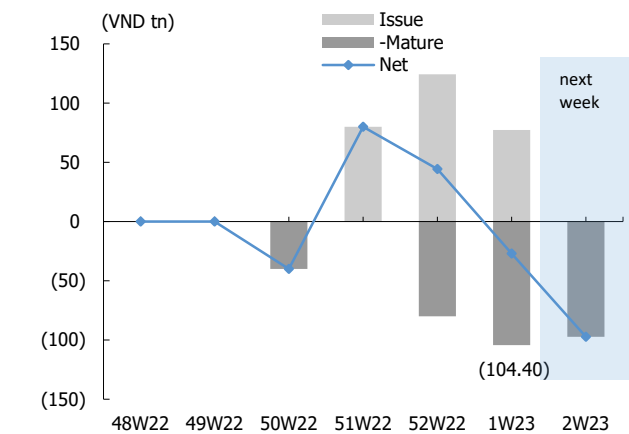
Source: SBV, Bloomberg, KIS

Table 2. Daily T-bill transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
3-Jan-23	10-Jan-23	7	17.35	6.00
4-Jan-23	11-Jan-23	7	15.00	5.70
5-Jan-23	12-Jan-23	7	20.00	5.30
6-Jan-23	13-Jan-23	7	25.00	5.50
Total		7	77.30	5.6

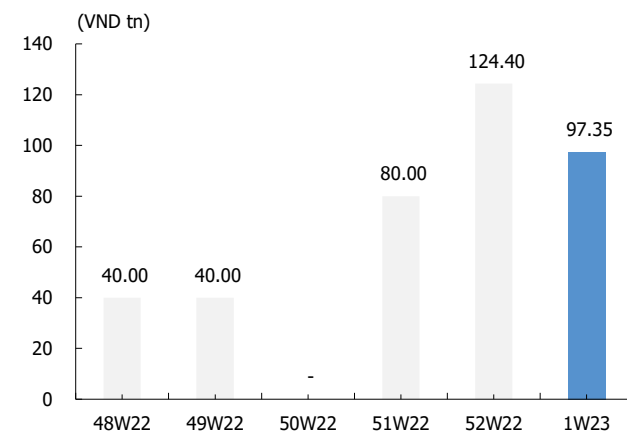
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



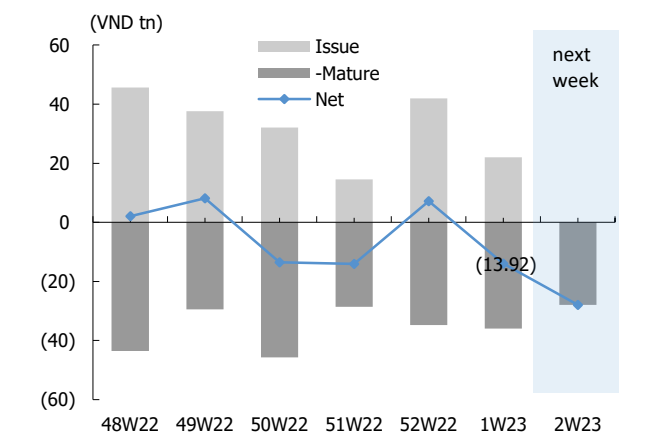
Source: SBV, Bloomberg, KIS

Table 3. Daily repo transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
3-Jan-23	10-Jan-23	7	4.18	6.00
4-Jan-23	11-Jan-23	7	5.08	6.00
5-Jan-23	12-Jan-23	7	5.73	6.00
6-Jan-23	13-Jan-23	7	7.00	6.00
Total		7	21.99	6.00

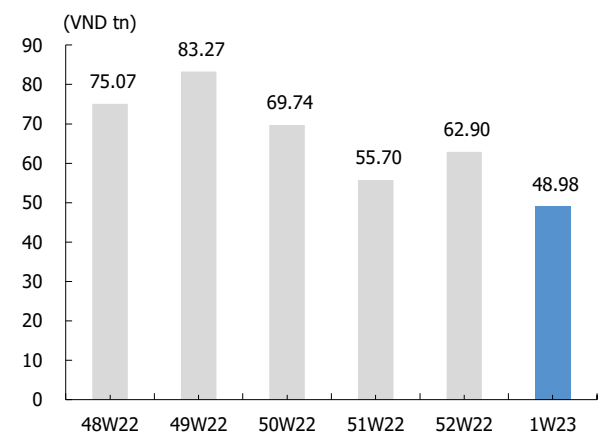
Source: SBV, Bloomberg, KIS

Figure 4. Issued repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



Source: SBV, Bloomberg, KIS

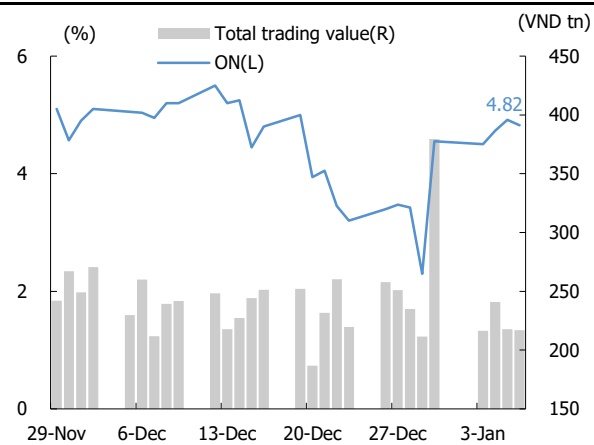
II. Interbank rates cool down on SBV's liquidity support

Interbank rates, for most tenors, reduced in 2023's first week

SBV strengthened its liquidity support on the first week of 2023 by lowering significantly the T-bill offering compared to the last week, causing interbank rates for most tenors to cool down. Generally, short-term rates such as 1-week and 2-week experienced a slight decline by 15bps, and 45bps to 5.32%, and 5.95% respectively. Similarly, longer-term loans also witnessed a decline. Accordingly, 1-month, 3-month and 6-month fell by 53bps, 17bps and 16bps to 7.00%, 8.03% and 8.37%, respectively. On the other hand, over-night rate (ON) increased sharply by 252bps to 4.82%.

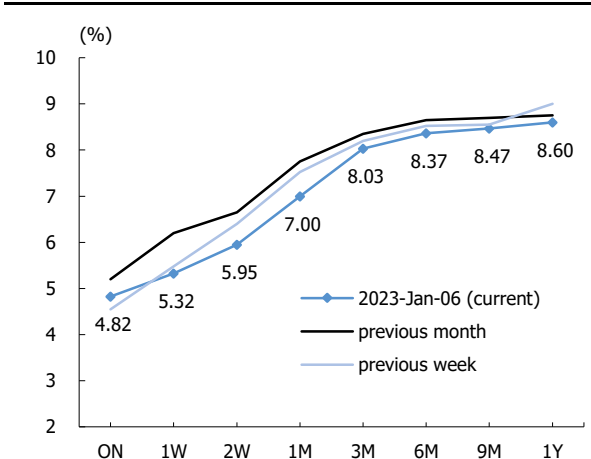
As can be observed that trading value per trading session this week decreased sharply by 16.45% compared with the previous week, posting VND223.070tn. In addition, although SBV was flexible in managing the liquidity condition of the whole banking system, it sustained the funding cost for OMO transactions at a high level to respond to future Fed's rate hikes. Hence, we expect that the interest rate will be persistently high in upcoming weeks.

Figure 6. Interbank daily transaction



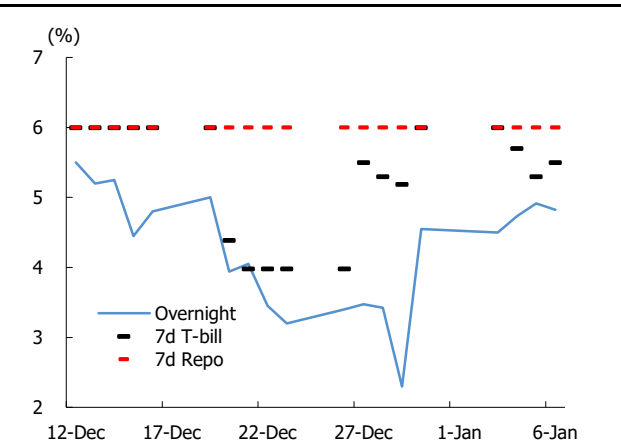
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



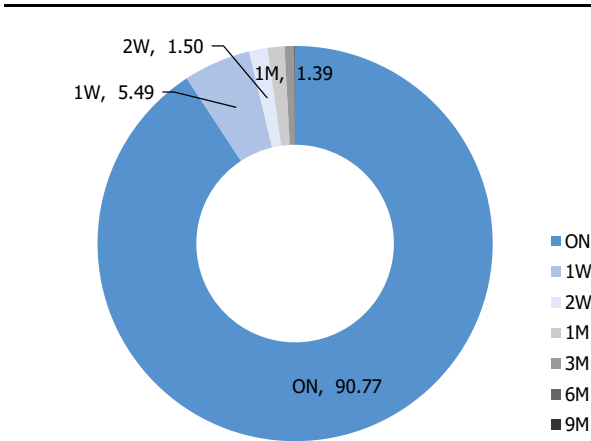
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KIS

III. G-bond winning value increase slightly

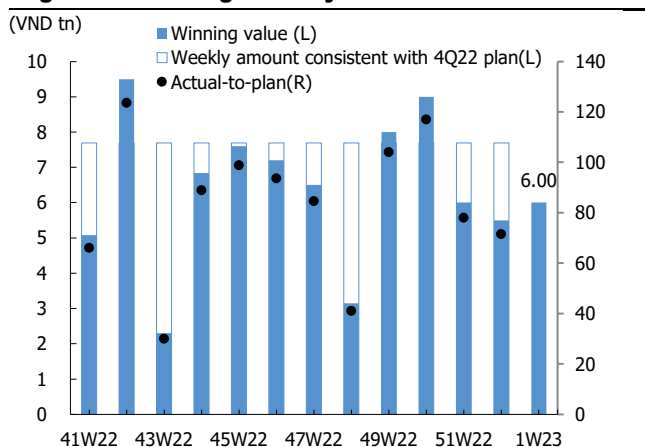
G-bond auction demonstrates a slight increment in the first week of the year
G-bond auction shows a slight reduction in the last week of the year

1W23 witnessed a modest increase in the G-bond winning value compared to the previous week. This increase was accompanied by a lower winning yield, indicating that the growing demand remained outweighed the supply side. Specifically, 1W23 recorded a winning amount of VND6.00tn (VND3.00tn for the 10-year tenor and VND3.00tn for the 15-year tenor) from the VND6.00tn offered by VST. The winning yields for 10-year and 15-year tenors were 4.53% and 4.73%, 12bps and 8bps lower than the last week.

Although the buying pressure was slightly relaxed this week, it remained significantly high and overshadowed the supply increment, consequently putting downward pressure on the winning yield. The bid-to-offer ratio this week decreased but prevailed significantly high at 4.30x compared to 5.12x last week. This provides more support for the attractiveness of the G-bond market in the first month of 2023.

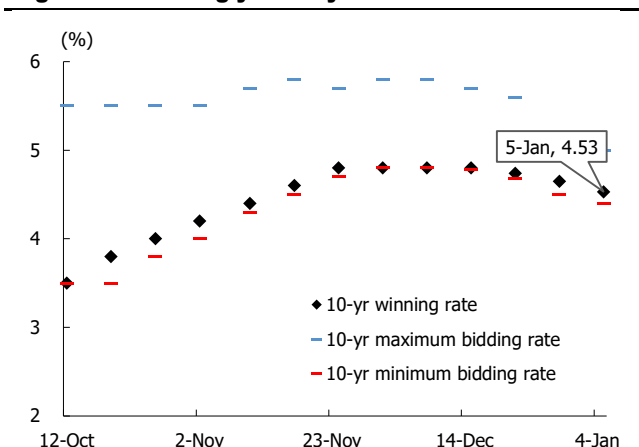
The new state budgeting for 2023 reflected an aggressive demand to fund the budget deficit, principal and interest payments. Specifically, the estimated government borrowing for 2023 fiscal year rose by 13.19% YoY to VND648.23tn from VND572.69 last year. As a result, we expect that MoF and its corresponding agencies will announce its G-bond auction plan for 2023 with a notable increase in the expected underwritten amount. Therefore, the decrease in G-bond yield will likely be limited. Moreover, to prevent capital outflow, SBV would pursue a stable premium between the effective fed fund rate and VNIBOR. Under the aforementioned rationale, we anticipated a rise in the G-bond yield over the coming weeks.

Figure 10. Winning value by month



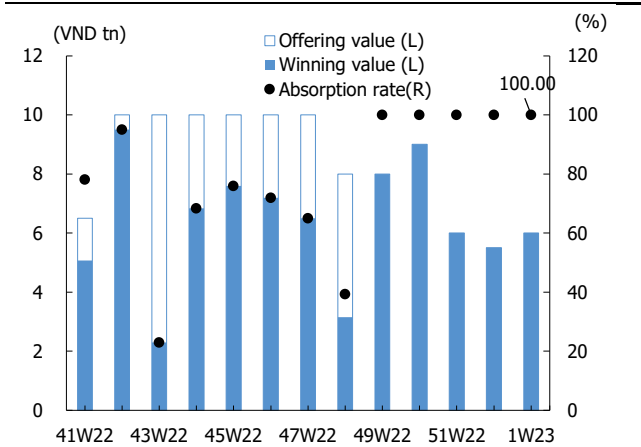
Source: HNX, KIS

Figure 11. Winning yields by week



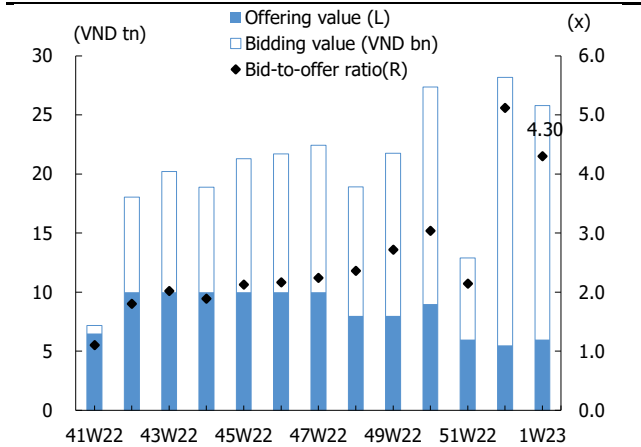
Source: HNX, KIS

Figure 12. Absorption ratio



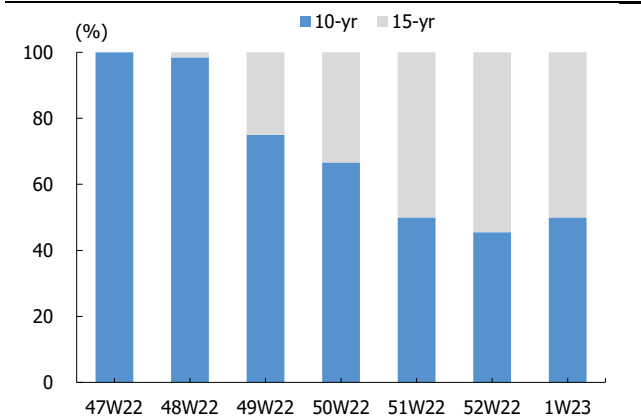
Source: HNX, KIS

Figure 13. Bid-to-offer ratio



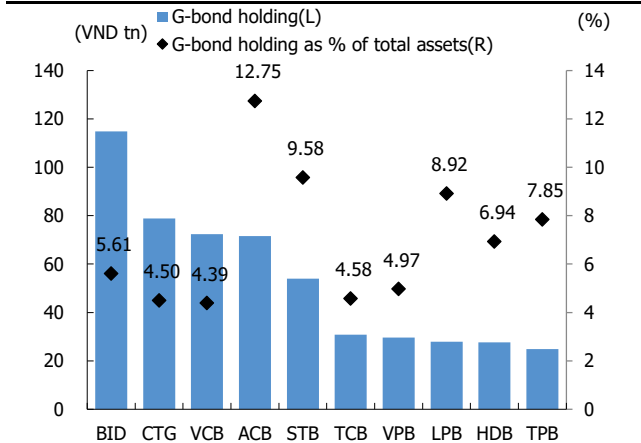
Source: HNX, KIS

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 reduction ticks further

G-bond trading volume reduced dramatically

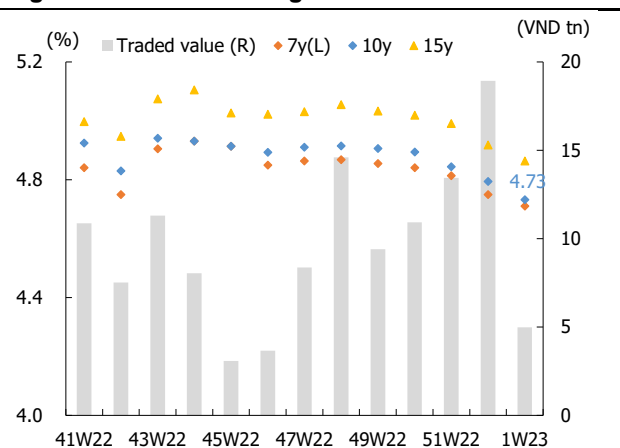
G-bond yields in the secondary market decreased for the third consecutive weeks with a significant drop in trading volume, indicating that incentives for supply side to trade in the first week of the year were fewer. In more detail, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) fell by 4bps, 6bps, and 5bps to 4.71%, 4.73%, and 4.86% this week, respectively. The weekly traded value hit a low at VND4.97tn for four trading sessions, 73.74% lower than last week.

The significant retrace back in trading volume could derive from the participants' incentive to maintain their portfolio structure at the beginning of this year after achieving it through active trading sessions in December last year. This is due to the fact that market participants usually haven't issued their 2023 plan yet this week, and the upcoming Tet holiday.

The liquidity stress in the money market softened for the recent few weeks, putting downward pressure on the G-bond yields as an alternative channel. The trading yields steadily continue decreasing five weeks in a row, indicating a minor excess demand. Furthermore, updated U.S. economic indicators signaled that Fed would be less hawkish in the February's meeting, indicating a stronger speculation for a lower G-bond yield environment for globe and Vietnam.

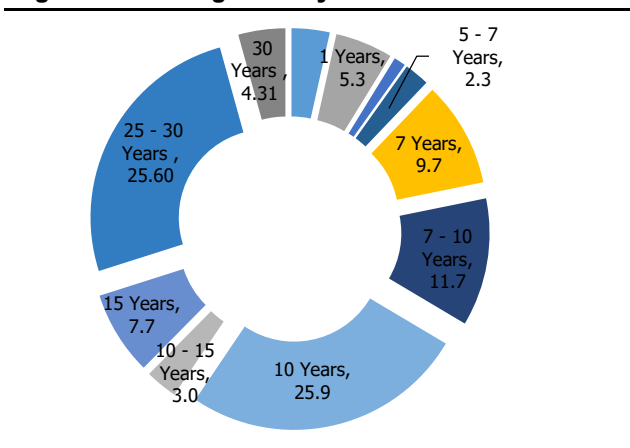
Regarding value structure, transactions continued focusing on tenors from 7 to 15 years, with a joint portion of 57.95%.

Figure 16. G-bond trading value



Source: HNX, KIS

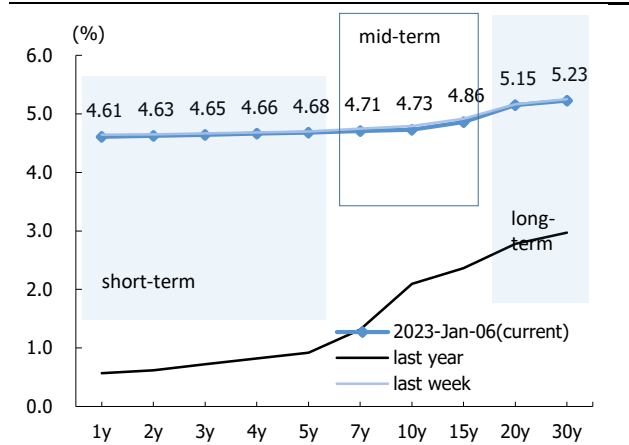
Figure 17. Trading value by tenor this week



Source: HNX, KIS

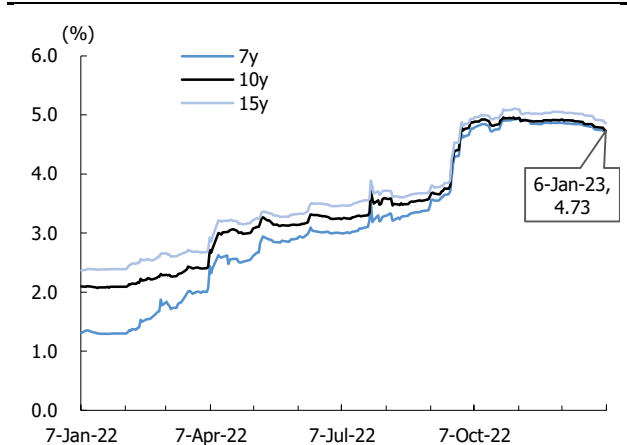
The shape of the yield curve was likely unchanged compared to last week, as the slight reduction in G-bond yield was distributed equally across tenors. Accordingly, short-term tenors (less than 7 years), mid-term (7 to 15 years), and long-term tenors (above 15 years) decreased modestly by 2bps, 5bps, and 2bps 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

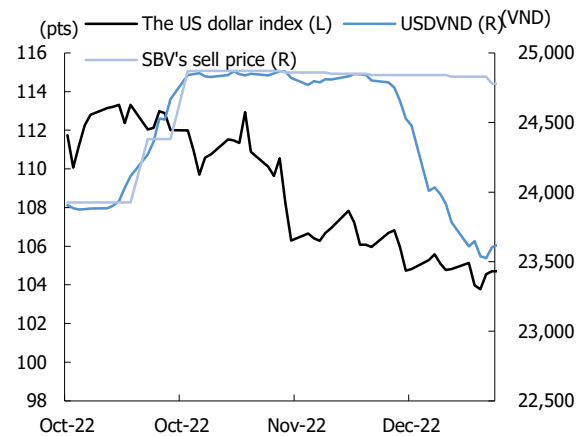
V. USDVND returns to decline

VND slightly appreciated against USD

On weekly basis, 1W23 witnessed a fall in USDVND even though DXY slightly increased. Specifically, the USDVND fell by 0.68% WoW to VND23,472 while DXY gained 0.34% to 103.88 with a peak at 105.04. The DXY increased to 105.04 on Thursday and dropped on Friday to 103.88 after the U.S. economic indicators were released.

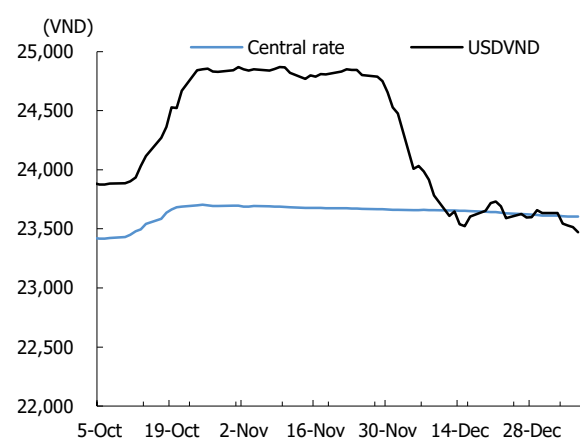
Regarding movements of the policymaker, SBV kept its selling price of the greenback unchanged this week at VND24,780, while decreasing slightly the central rate from 23,612 to 23,605.

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



Source: SBV, Bloomberg

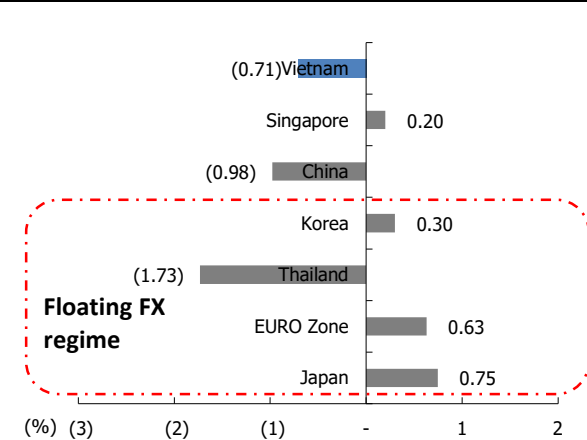
Figure 21. Daily Central rate and USDVND



Source: SBV, Bloomberg

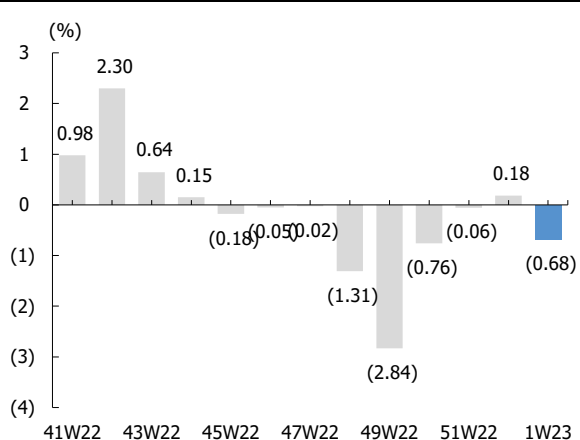
Over the first week of 2023, SGD, KRW, EUR, and JPY depreciated against the greenback by 20bps, 30bps, 63bps, and 75bps, respectively. In contrast, the highest value changes occurred in CNY and THB, where they appreciated against USD by 98bps and 173bps, respectively.

Figure 22. YTD performance of local currencies in 2023



Source: SBV, Bloomberg

Figure 23. Weekly performance of USDVND



Source: SBV, Bloomberg

Macro scorecard

	22-Aug	22-Sep	22-Oct	22-Nov	22-Dec	1Q22	2Q22	3Q22	4Q22	2019	2020	2021	2022
Real GDP growth (%)						5.03	7.72	13.67	5.92	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.23	1.92	2.05	2.67	2.58	8.91	5.12	4.67	8.96	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	
Unemployment rate (%)										2.25	2.48	3.22	
Export (USD bn)	33.38	29.94	30.27	29.50	29.66	86.01	96.83	96.48	89.50	263.6	282.7	335.7	371.85
Import (USD bn)	30.96	28.80	28.00	30.00	29.16	87.45	97.58	90.71	85.07	254.4	263	331.1	360.65
Export growth (%)	22.14	10.35	4.54	(7.40)	(13.96)	13.43	21.02	17.22	(6.07)	8.16	7.02	18.74	10.61
Import growth (%)	12.42	6.45	7.08	(2.04)	(8.14)	15.17	15.72	8.12	(3.90)	7.41	3.81	25.9	8.35
Inflation (%)	2.89	3.94	4.30	4.37	4.55	1.92	2.96	3.32	4.41	2.79	3.24	1.84	3.15
USD/VND	23,417	23,712	24,839	24,800	23,658	22,837	23,139	23,712	23,658	23,173	23,126	22,790	23,650
Credit growth (%)	9.62	10.47	11.50	11.50	12.87	4.13	8.51	10.47	12.87	13.75	12.17	12.97	12.87
10Y gov't bond (%)	3.37	4.39	4.95	4.91	5.08	2.40	3.38	4.39	5.08	3.37	2.01	2.11	5.08

Source: GSO, Bloomberg, FIA, IMF

**Glossary

- * Winning yield rate = each group's highest bidding rate, ~5.5%
- * Absorption rate = winning value / offering value, ~100%
- * Bid to offer ratio = offering value / bidding value, ~4.3
- * DXY = U.S. Dollar Index, ~103
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~4.8%

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VIET NAM

JAЕ HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)
KIS Vietnam Securities Corporation
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.
Fax: 8428 3821-6898

SOUTH KOREA

YEONG KEUN JOO, Managing Director, Head of International Business Division (ykjoo@truefriend.com, +822 3276 5157)
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320
Fax: 822 3276 5681~3
Telex: K2296

NEW YORK

DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)
Korea Investment & Securities America, Inc.
1350 Avenue of the Americas, Suite 1110
New York, NY 10019
Fax: 1 212 314 0699

HONG KONG

GREGORY KIM, Managing Director, Head of HK Sales (greg.kim@kisasia.com +852 2530 8915)
Korea Investment & Securities Asia, Ltd.
Suite 2220, Jardine House
1 Connaught Place, Central, Hong Kong
Fax: 852-2530-1516

SINGAPORE

ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasia.com.sg +65 6501 5602)
CHARLES AN, Sales (alex.jun@kisasia.com.sg +65 6501 5601)
Korea Investment & Securities Singapore Pte Ltd
1 Raffles Place, #43-04, One Raffles Place
Singapore 048616
Fax: 65 6501 5617

LONDON

Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)
Korea Investment & Securities Europe, Ltd.
2nd Floor, 35-39 Moorgate
London EC2R 6AR
Fax: 44-207-236-4811

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