

# Fixed-income Perspectives

## SBV withdraws money on the early USDVND increase

### SBV continues to net withdrawal

In the last week of 2022 (from 26 to 30 December), SBV continued the chain of net withdrawal due to easing liquidity conditions in the money market. Specifically, Vietnam's central bank conducted five auctions this week with a total issued amount of VND41.91tn with a winning rate of 6.00%, resulting in a net injection of VND7.20tn. On the other side, SBV newly issued T-bill contracts this week with a total amount of VND124.40tn to respond to the interbank rate decline. Jointly, SBV withdrew VND37.20bn from its counterparties this week.

### Interbank rates rebound significantly

Interbank rates witnessed a rebound this week. Specifically, overnight (ON) interest rates this week increased significantly by 135 basis points (bps) to 4.55%. In addition, 1-week and 2-week rose by 117bps and 70bps compared to the last weekend to 5.47% and 6.40%, respectively. Conversely, longer-term loans experienced a significant decrease. Accordingly, 3-month, and 6-month fell 48bps, and 45bps to 8.52%, and 8.55% respectively at this weekend.

### USDVND increases in the last week of the year

In the 52W22, USDVND increases slightly followed by the fall of DXY compared with last week's data. In general, the USDVND jumped by 0.18% compared with last week with a peak Tuesday at VND23,658.

In comparison with last week's data, DXY experienced a slight decrease by 0.37% WoW to around 103.52 points.

### 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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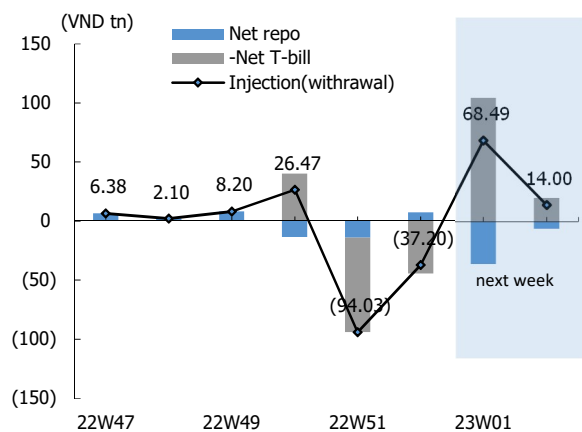
## I. SBV continues to net withdrawal

### SBV continues to net withdrawal

In the last week of 2022 (from 26 to 30 December), SBV continued the chain of net withdrawal, making two consecutive weeks of taking money out of the banking system due to easing liquidity conditions in the money market. Specifically, Vietnam's central bank conducted five auctions this week with a total issued amount of VND41.91tn, VND27.34tn lower than last week with a winning rate of 6.00%, resulting in a net injection of VND7.20tn. On the other side, SBV newly issued T-bill contracts this week with a total amount of VND124.40tn to respond to the interbank rate decline. Jointly, SBV withdrew VND37.20bn 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. Therefore, winning yields for T-bill and repo contracts offered to SBV's counterparties could remain high in the next few 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↓

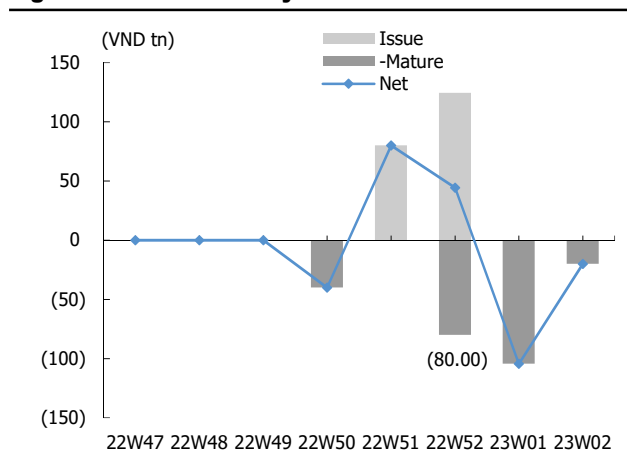
Source: SBV, Bloomberg, KIS

**Table 2. Daily T-bill transactions of this week**

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
26-Dec-22	9-Jan-23	14	20.00	6.00
27-Dec-22	3-Jan-23	7	20.00	5.50
28-Dec-22	4-Jan-23	7	30.00	5.30
29-Dec-22	5-Jan-23	7	30.00	5.19
30-Dec-22	6-Jan-23	7	24.40	6.00
<b>Total</b>		<b>8.1</b>	<b>124.4</b>	<b>5.6</b>

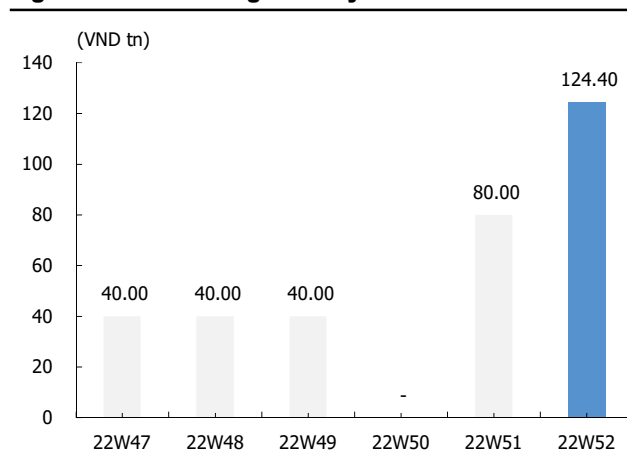
Source: SBV, Bloomberg, KIS

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



Source: SBV, Bloomberg, KIS

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



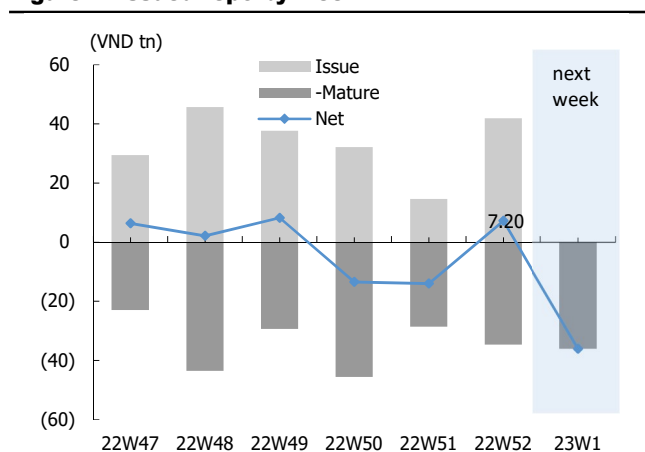
Source: SBV, Bloomberg, KIS

**Table 3. Daily repo transactions of this week**

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
26-Dec-22	9-Jan-23	14	6.00	6.00
27-Dec-22	3-Jan-23	7	3.46	6.00
28-Dec-22	4-Jan-23	7	6.67	6.00
29-Dec-22	5-Jan-23	7	8.41	6.00
30-Dec-22	6-Jan-23	7	17.37	6.00
<b>Total</b>		<b>8.00</b>	<b>41.91</b>	<b>6.00</b>

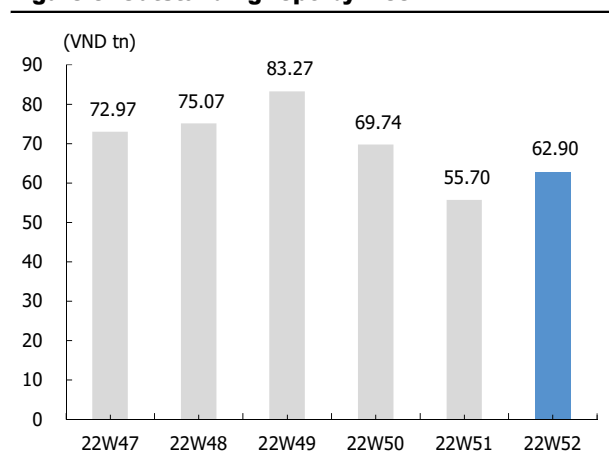
Source: SBV, Bloomberg, KIS

**Figure 4. Issued repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding repo by week**



Source: SBV, Bloomberg, KIS

## II. Interbank rates rebound significantly

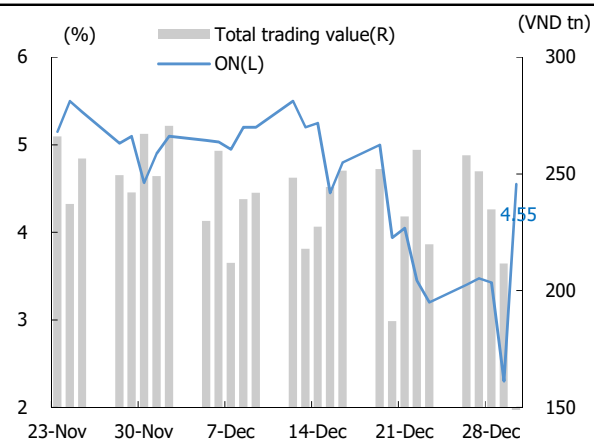
### Interest rates rebound

A sharp increase was seen in interbank rates this week, implying a higher demand from participants in the interbank market. Specifically, overnight (ON) interest rates on the last trading session of this week increased significantly by 135 basis points (bps) to 4.55%. In addition, 1-week and 2-week also witnessed an increase by 117bps and 70bps compared to the last weekend to 5.47% and 6.40%, respectively.

Conversely, longer-term loans experienced a slight decrease. Accordingly, 3-month and 6-month fell by 48bps, and 45bps to 8.52%, and 8.55%, respectively this weekend. Average trading value rose by 3.77% compared with the previous week's data.

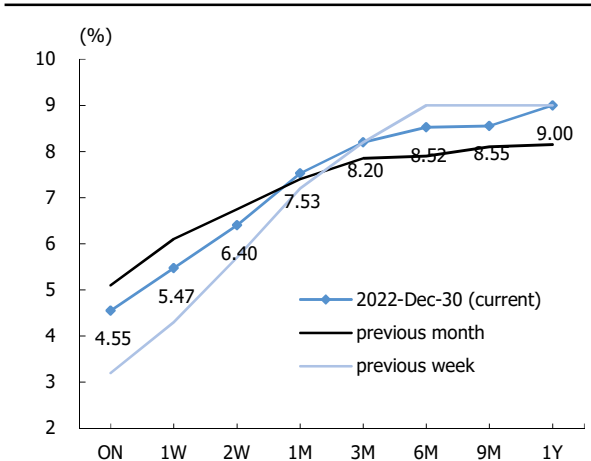
However, as can be observed that SBV has massively offered T-bill contracts with higher winning yields, it is likely that the interest rate will increase again next week.

**Figure 6. Interbank daily transaction**



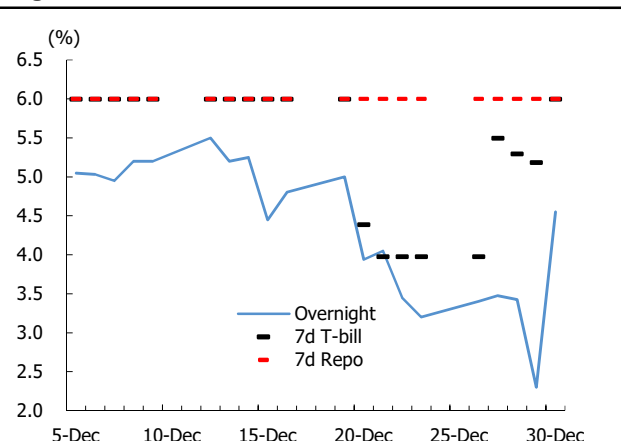
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



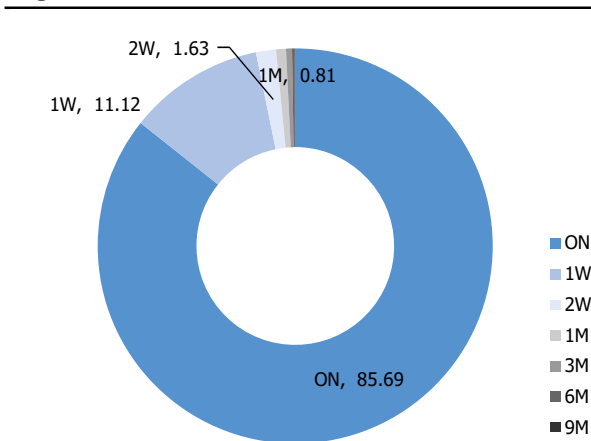
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

### III. G-bond winning value decreases slightly

#### ***G-bond auction shows a slight reduction in the last week of the year***

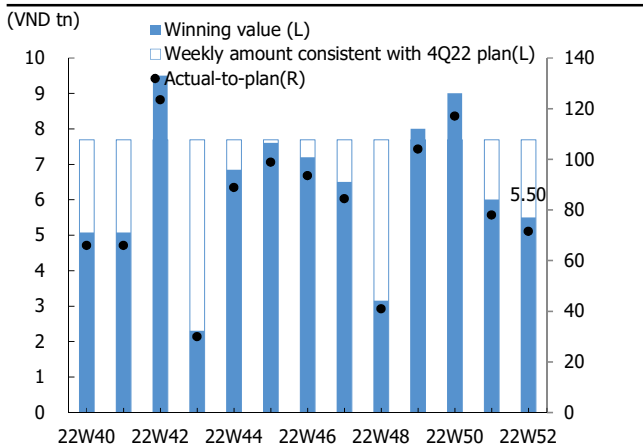
52W22 witnessed a modest decrease in the G-bond winning value compared to the previous week after peaking at 50W22. This reduction was accompanied by a lower winning yield, indicating a limited supply in the last week of the fiscal year despite the growing demand from buyers.

Specifically, 52W22 recorded a winning amount of VND5.50tn (VND2.50tn for the 10-year tenor and VND3.00tn for the 15-year tenor) from VND5.50tn offered by VST. 52W22's issuance led the cumulative amount for the whole year to increase to VND189.32tn, accounting for 47.33% of the 2022 plan. The winning yields for 10-year and 15-year tenors were 4.65% and 4.80%, 9bps and 9bps lower than the last week.

The buying pressure in the secondary G-bond market seemed magnified and drove down the winning yields. 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 5.12x from 2.15x last week, providing more support for the attractiveness of the G-bond market in the last month of 2022.

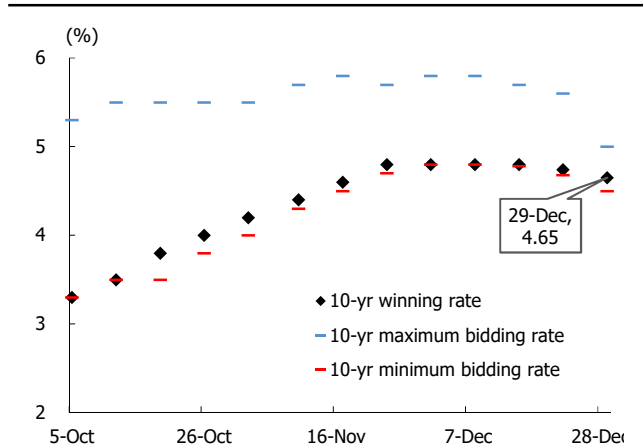
The new state budgeting for 2023 shows an aggressive demand for funding to meet the budget deficit, interest, and principal payments. We expect that MoF and its corresponding agencies will announce its G-bond auction plan for 2023 with a notable increase in expected winning value. Therefore, the decrease in G-bond yield will likely be limited. Furthermore, SBV's recent implementations in OMO likely signal that the monetary authority is pursuing a stable premium between the effective fed fund rate and VNIBOR to avoid the USD outflow, meaning that the interest rate in the money market could remain high. Under the above arguments, we expected the G-bond yield to advance in the next few weeks.

**Figure 10. Winning value by month**



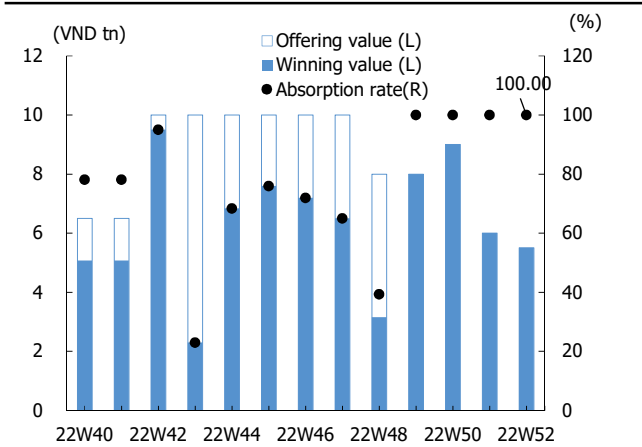
Source: HNX, KIS

**Figure 11. Winning yields by week**



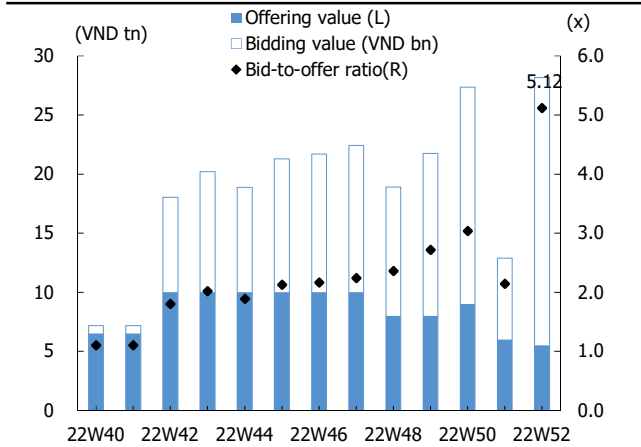
Source: HNX, KIS

**Figure 12. Absorption ratio**



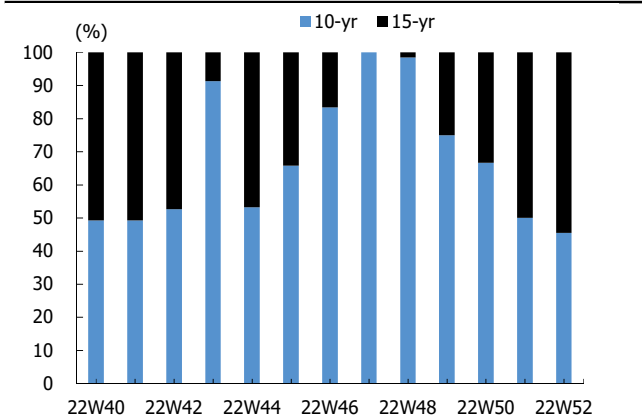
Source: HNX, KIS

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



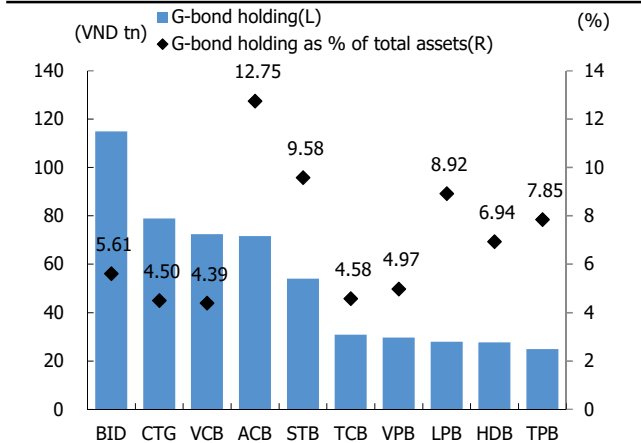
Source: HNX, KIS

**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

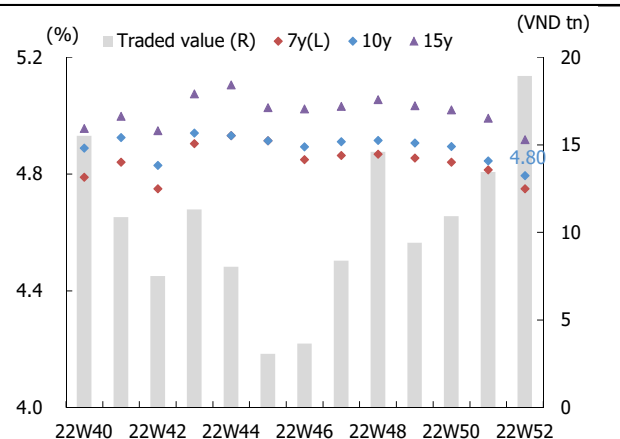
### G-bond trading volume rose significantly

The secondary G-bond market continued witnessing a sharp increase in trading volume, although yields declined slightly, 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 6bps, 5bps, and 7bps to 4.75%, 4.80%, and 4.92% this week, respectively. The weekly traded value peaked at VND18.934tn for five trading sessions, 40.85% higher than last week.

Interbank rates have softened for the recent few weeks, putting downward pressure on the G-bond yields as an alternative channel. Furthermore, demand for G-bond holdings seems to recover in the last months of the year to ensure the balance sheet quality, and 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.

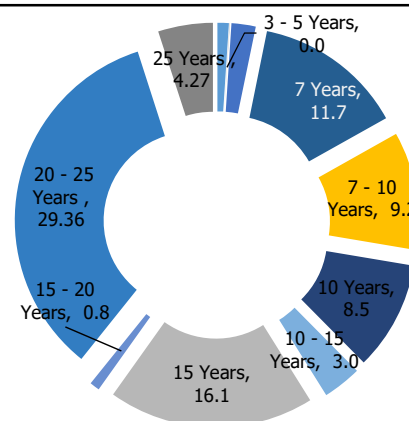
Regarding value structure, transactions continued focusing on tenors from 7 to 15 years, with a joint portion of 48.50%.

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



Source: HNX, KIS

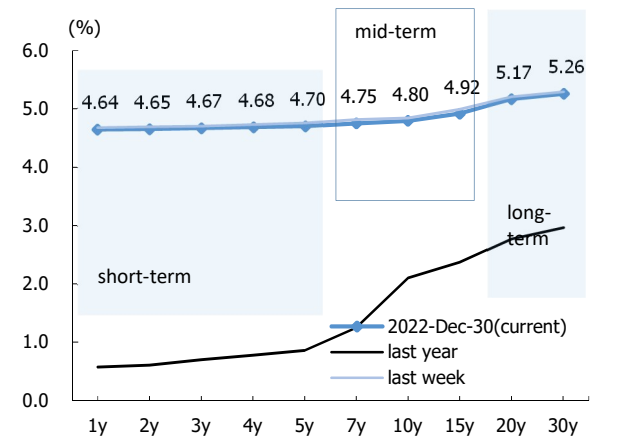
**Figure 17. Trading value by tenor this week**



Source: HNX, KIS

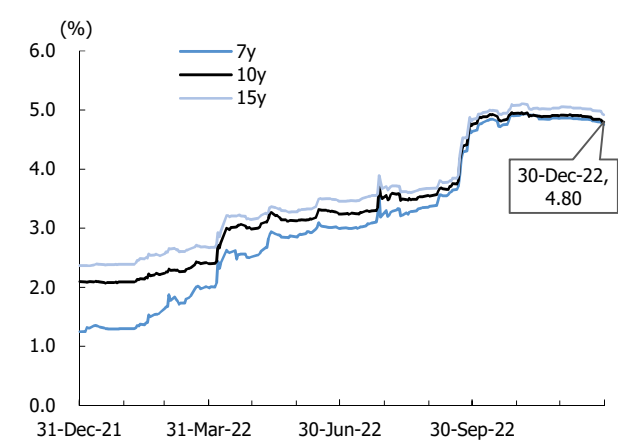
The shape of the yield curve was likely unchanged compared to last week, as the slight reduction in G-bond yield was distributed equally across tenors. Accordingly, short-term tenors (less than 7 years), mid-term (7 to 15 years), and long-term tenors (above 15 years) decreased modestly by 3bps, 6bps, and 4bps 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



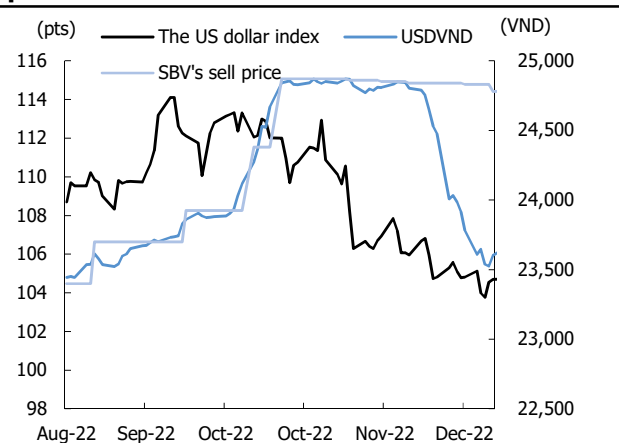
## V. USDVND increases in the last week of the year

### USDVND remains stable

In the 52W22, USDVND witnessed a rise followed by the fall of DXY compared with last week's data. In general, the USDVND rose by 0.18% compared with last week with a peak on Thursday at VND23,658.

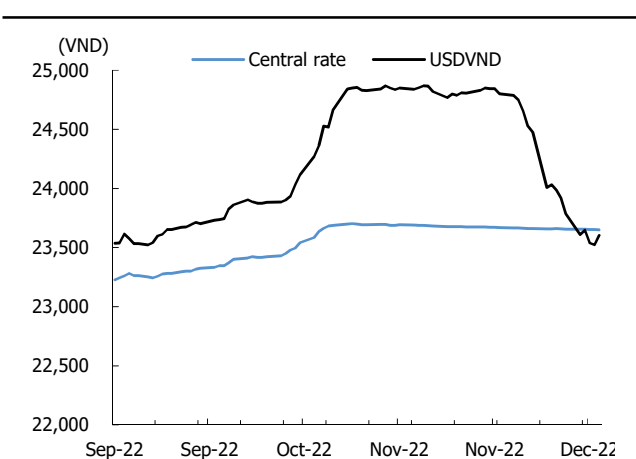
In comparison with last week's data, a sharp decline was seen in DXY by 0.76% WoW to around 103.52 points, the lowest since June due to some reasons as follows. First of all, market participants are betting that the Federal Reserve's (Fed) "hawkish" was drawing nearer to its end. Secondly, the weakness in the eurozone manufacturing sector may have bottomed out as supply chains recover and inflationary pressures ease. Accordingly, the S&P Global Purchasing Managers' Index (PMI) for the euro-zone rose to 47.8 in December from 47.1 in November. Finally, both the euro and the pound were supported by a series of rate hikes by the European Central Bank (ECB) and the Bank of England (BoE) as they were also trying to bring down their soaring currencies. These reasons above resulted in the fall of DXY this week.

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



Source: SBV, Bloomberg

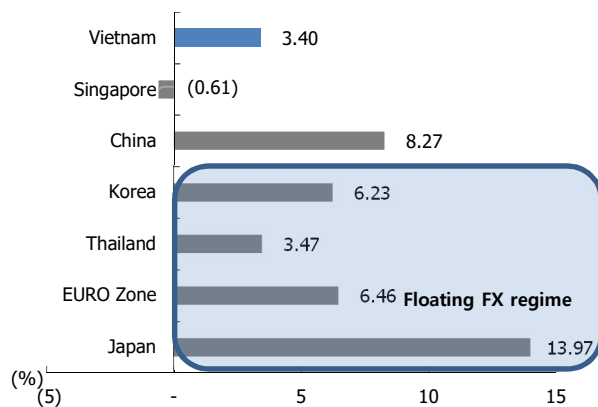
**Figure 21. Daily Central rate and USDVND**



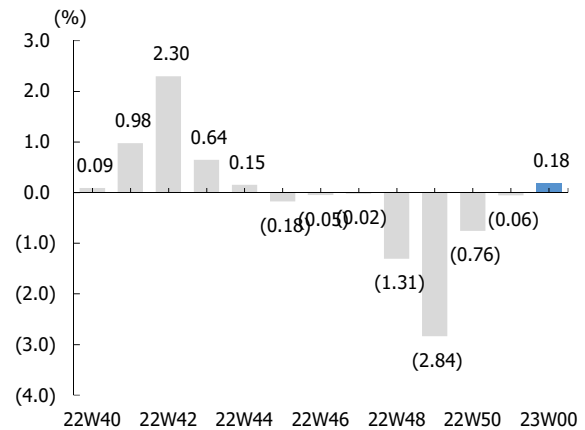
Source: SBV, Bloomberg

Last week, SBV continue to decline the central rate sharply by 19bps compared with last week, anchoring at VND23,612. Meanwhile, the interbank exchange rate at the end of the week increased slightly by 0.18% WoW, from VND23,590 to VND23,633.

Furthermore, SBV decided to keep its selling price of the greenback at VND24,780. 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 52nd week of 2022, after seven consecutive weeks of appreciation against the U.S. dollar, the Vietnam dong witnessed a slight depreciation against the greenback by around 0.18% compared with last week. In general, the year 2022 closed with the exchange rate increasing by about 3.4%, the exchange rate pressure has decreased significantly since the end of November 2022.

As can be seen that the recent fall of the greenback combined with the interest rate hike from both ECB and BoE have 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 13.97% (YTD) against the greenback followed by Eurozone's currency with 6.46% and Korea's won with 6.23%.

As per weekly performance, Vietnam Dong depreciated 0.18% 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-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, ~5.50%
- \* Absorption rate = winning value / offering value, ~100%
- \* Bid to offer ratio = offering value / bidding value, ~5.12
- \* DXY = U.S. Dollar Index, ~103
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~4.55%

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