

Fixed-income Perspectives

SBV enhances the liquidity support on a long Tet ahead

SBV enhances the liquidity injection

In the third week of 2022 (from 16 to 19 January), SBV continued to support liquidity for its counterparties to calibrate the liquidity supply right before the Lunar New Year holiday. Accordingly, through a sharp increase in repo offering and lower T-bill issuing, SBV provided VND56.46tn to the banking system. As per the future situation, we predict that SBV will flexibly manage its OMO tool to bring the liquidity condition in the money market stable after Tet. On the other hand, it seems that Vietnam's monetary authority will sustain short-term funding costs at a high level to secure the dong's attractiveness heading to the February FOMC meeting.

Interbank rates diverge before Tet

Interbank rates this week witnessed a divergence between long and short tenors, attributable to short-term high liquidity demand right before the Lunar new year. Specifically, 1-week, and 2-week rose by 34bps, 15bps, and 28bps, while 6-month and 9-month declined by 40bps and 25bps, respectively.

USDVND kept unchanged

3W23 witnessed a swing in USDVND, followed by a modest DXY fall compared to last week. Specifically, USDVND gained slightly by 0.06% WoW to VND23,454, while DXY diminished by 0.13% to 102.06. Similarly, asking quotes for retail customers from Vietcombank and in the grey market increased slightly with the same amount. For the future situation, Fed will provide more rate hikes soon in February FOMC, reducing the interest rate spread between the dong and USD. Furthermore, remittance inflow could be lower after Tet. Hence, we predict USDVND to rebound in the coming weeks.

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	0.4	3.9	2.9	2.20	8.00	NA

Source: KIS

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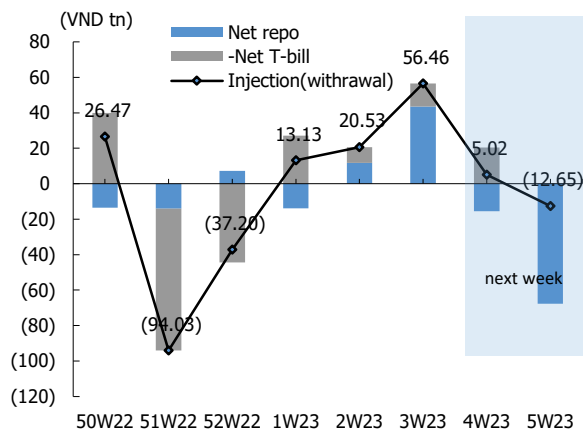
I. SBV enhances the liquidity injection

SBV pours more money into the banking system

In the third week of 2022 (from 16 to 19 January), SBV continued to support liquidity for its counterparties to calibrate the liquidity supply right before the Lunar New Year holiday. Accordingly, a sharp increase in repo offering was seen last week with a 14-day tenor from VND39.67tn to VND67.65tn, resulting in a net inflow of VND43.46tn to its counterparties this week. As per the T-bill transaction, this week recorded an issuing amount of VND55.00tn while a notable amount of VND68.00tn matured, adding VND13.00tn to the banking system. Jointly, the banking system this week received a significant amount of VND56.46tn liquidity support.

Demand for cash payment jumped dramatically before the Tet holiday, resulting in market liquidity being somewhat tenser, which explains SBV's consistent injection of liquidity. As per the future situation, we predict that SBV will flexibly manage its OMO tool to bring the liquidity condition in the money market stable after Tet. On the other hand, it seems that Vietnam's monetary authority will sustain short-term funding costs in the money market at a high level to secure the dong's attractiveness heading to the February FOMC meeting.

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

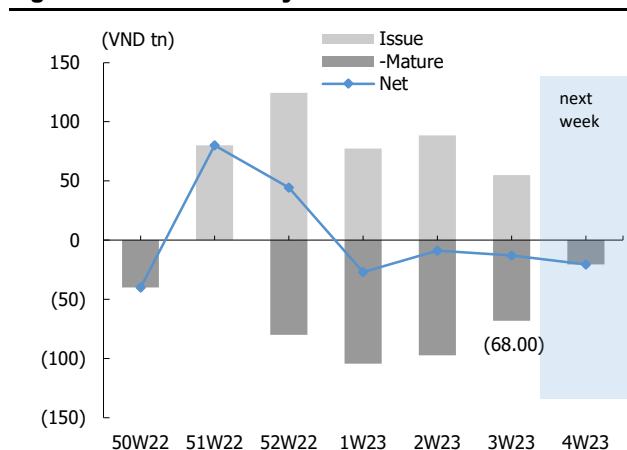
Table 2. Daily T-bill transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
16-Jan-23	30-Jan-23	14	15.00	6.00
17-Jan-23	31-Jan-23	14	15.00	5.80
18-Jan-23	1-Feb-23	14	25.00	5.70
Total		14	55.0	5.80**

Source: SBV, Bloomberg, KIS

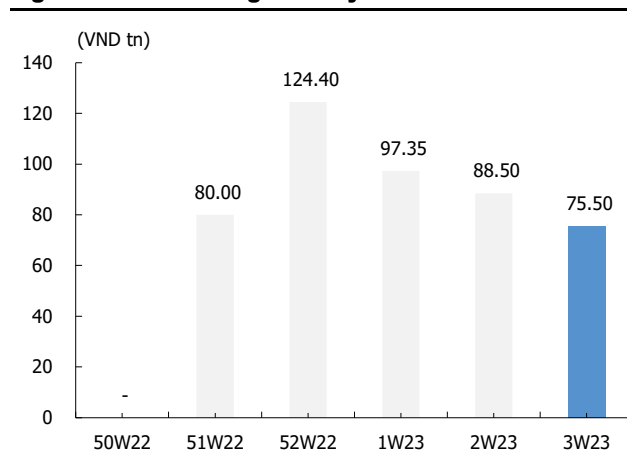
* value-weighted average tenor; ** value-weighted average winning rate

Figure 2. Issued T-bill by week



Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



Source: SBV, Bloomberg, KIS

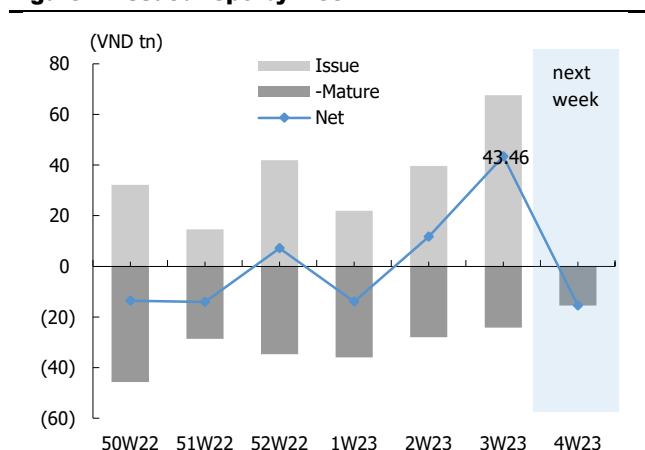
Table 3. Daily repo transactions of this week

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
16-Jan-23	30-Jan-23	14	17.08	6.00
17-Jan-23	31-Jan-23	14	26.88	6.00
18-Jan-23	1-Feb-23	14	12.33	6.00
19-Jan-23	2-Feb-23	14	11.36	6.00
Total		14	67.65	6.00**

Source: SBV, Bloomberg, KIS

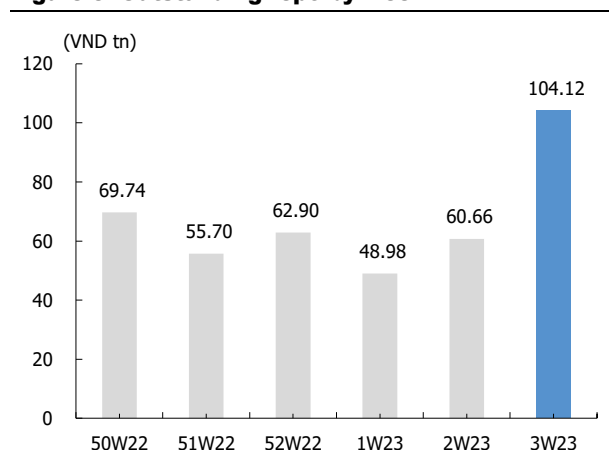
* value-weighted average tenor; ** value-weighted average winning rate

Figure 4. Issued repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



Source: SBV, Bloomberg, KIS

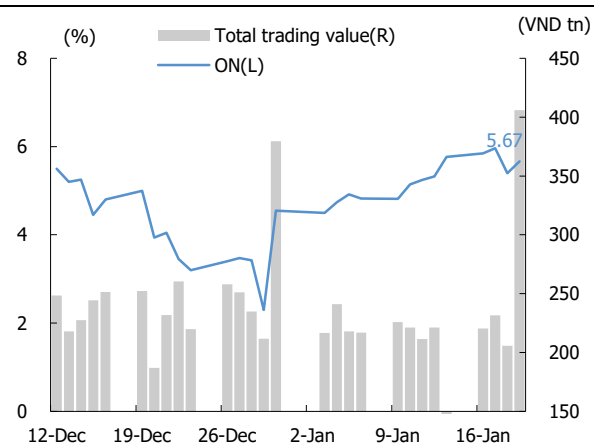
II. Interbank rates diverge before Tet

Interbank rates witnessed a divergence

Interbank rates this week witnessed a divergence between long and short tenors, attributable to short-term high liquidity demand right before the Lunar new year. Specifically, short-term rates such as overnight (ON), 1-week, and 2-week experienced a slight increase by 34bps, 15bps, and 28bps to 5.67%, 5.80%, and 6.40%, respectively. Conversely, interbank rates decline among almost long tenors. To be more specific, a slight decrease was seen in 6-month and 9-month tenors from 8.50% to 8.10% and 8.50% to 8.20%, respectively. Similarly, 1-month and 3-month also fell 22bps and 35bps to 7.10% and 7.95%, respectively.

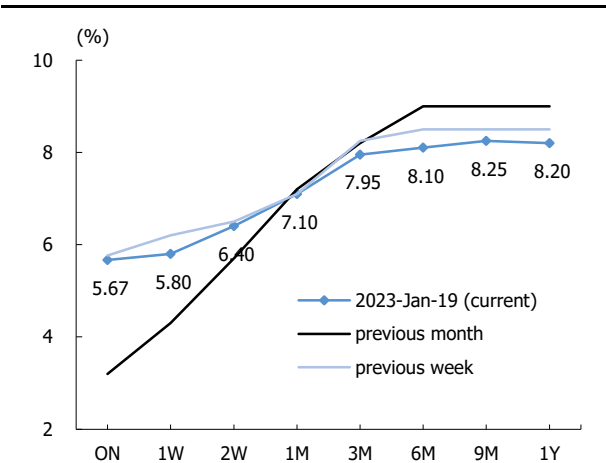
As can be observed that the trading value per session this week increased sharply by 51.11% compared with the previous week, posting VND265.865tn. In addition, although SBV was flexible in managing the liquidity condition of the whole banking system, it sustained the funding cost for OMO transactions at a high level to respond to future Fed rate hikes. Hence, we expect interbank rates to remain high in the upcoming weeks.

Figure 6. Interbank daily transaction



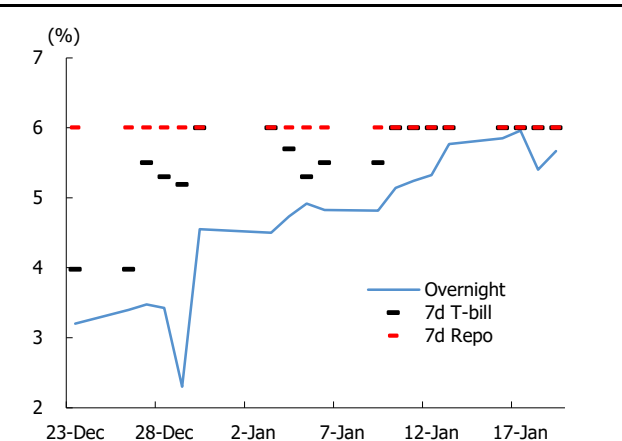
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



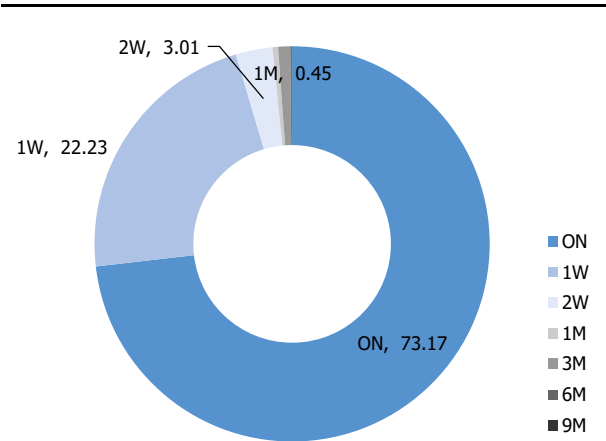
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KIS

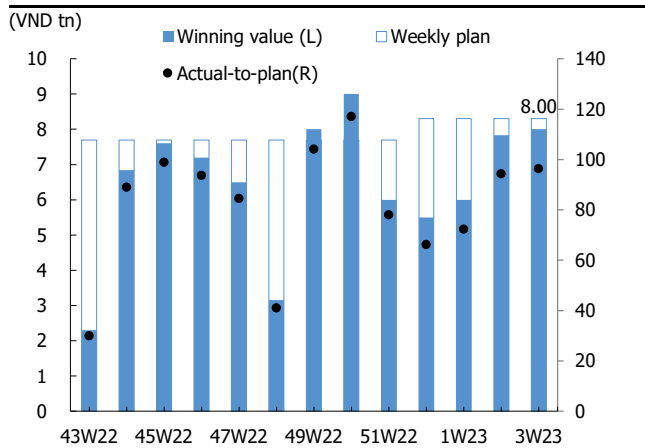
III. G-bond winning value increases slightly

Winning yield continues its downturn

The week before the Tet holiday witnessed a slight increase in the G-bond winning value compared to the previous week. This increase was accompanied by a lower winning yield, indicating that the demand continues to overwhelm supply. In more detail, 3W23 recorded a winning amount of VND8.00tn (VND4.00tn for the 10-year tenor and VND4.00tn for the 15-year tenor) from the VND8.50tn offered, achieving 96.40% weekly plan and 5.46% annual plan, respectively. The winning yields for 10-year and 15-year tenors were 4.36% and 4.56%, 9bps and 11bps lower than the last week. Notably, VST started calling for bids back for a 7-year tenor since the last offer in September 2022 with an exploration volume of VND0.50tn.

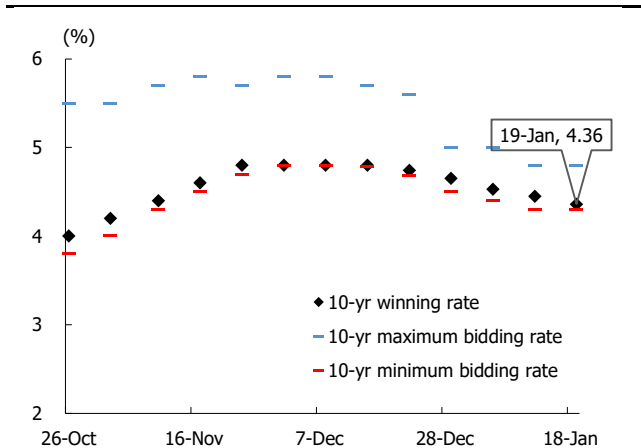
The bid-to-offer ratio increased to 4.20x from 3.25x after two declining weeks. The winning yield kept declining in a row of six weeks to 4.36% for the 10-year tenor, attributable to the relaxation in the upcoming February FED rate hike, where nearly 99% of investors expect a slower increase of 25bps. Notably, the VST G-bond issuance plan for 2023 remained unchanged compared to 2022 at VND400tn. We considered this to be a relatively conservative movement as the 2023 state budget for investment and development expenditures surged by 38.12%YoY to VND726.68tn. Overall, we expect that the winning yield will slip further while the G-bond offering value will maintain at this volume.

Figure 10. Winning value by week



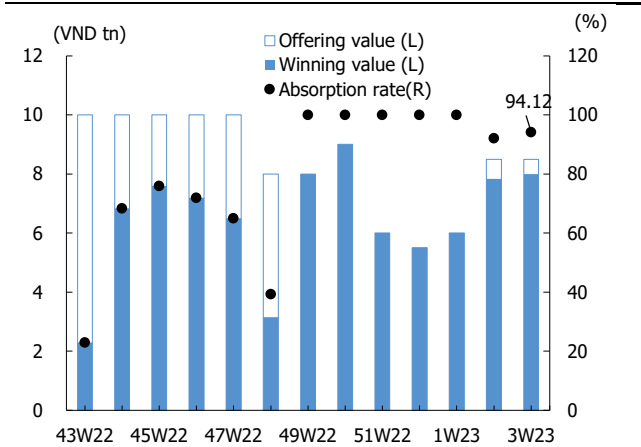
Source: HNX, KIS

Figure 11. Winning yields by week



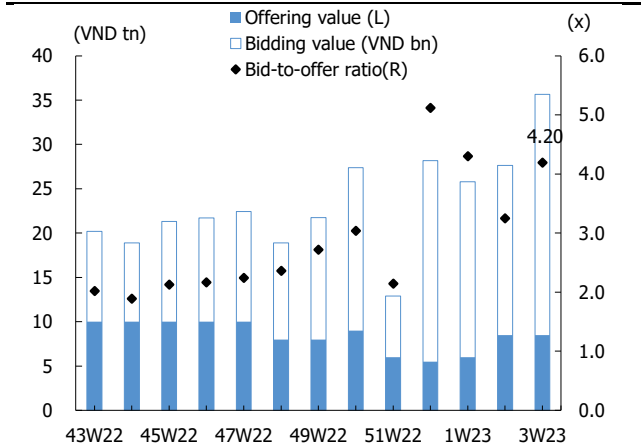
Source: HNX, KIS

Figure 12. Absorption ratio



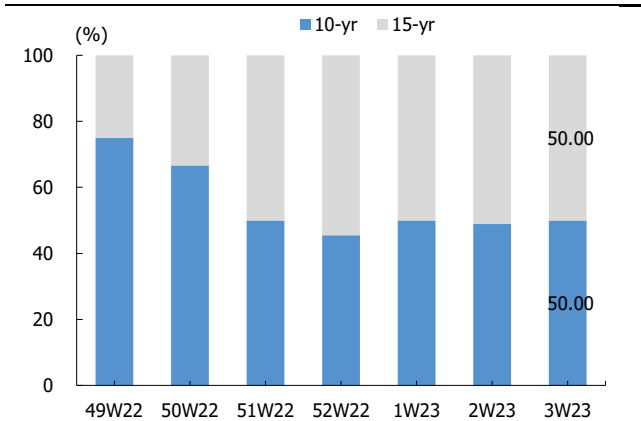
Source: HNX, KIS

Figure 13. Bid-to-offer ratio



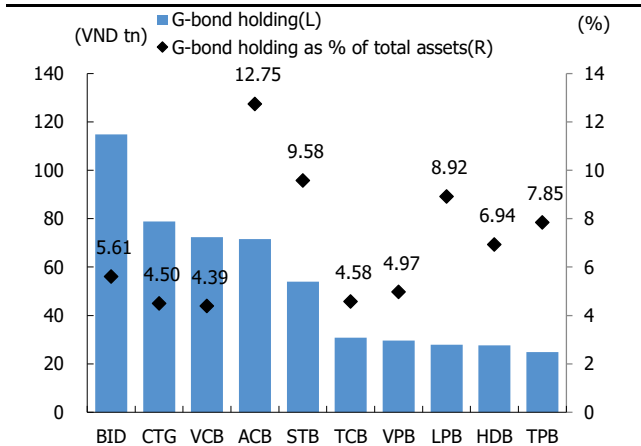
Source: HNX, KIS

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

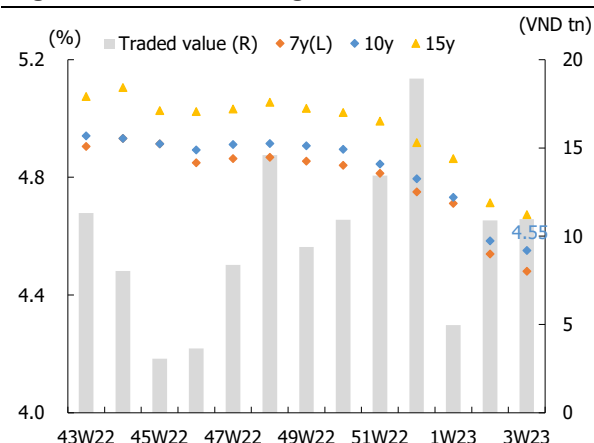
IV. Trading G-bond yields slip further

G-bond trading volume remained unchanged

G-bond yields in the secondary market continued decreasing for the fifth consecutive week with a similar weekly volume for four trading sessions. On average, daily trading volume increased moderately, signifying the return of investors' confidence due to the less "hawkish" FED. In more detail, yields on 7-year, 10-year, and 15-year tenors (most traded tenors) modestly fell by 6bps, 3bps, and 4bps to 4.48%, 4.55%, and 4.67% this week, respectively. The weekly traded value rose slightly to VND10.98tn from VND10.89tn last week.

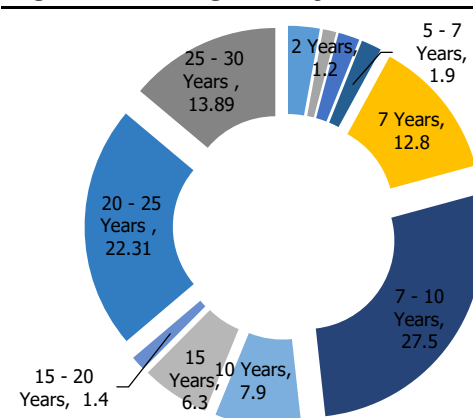
Thanks to the enhancement in liquidity support from SBV, the money market's liquidity remained eased, putting downward pressure on the G-bond yields as a substitute channel. Furthermore, according to recent bright U.S. economic indicators, investors mostly betted a 25bps rate hike in February's meeting, lower than the previous increase of 50bps, indicating more speculation for a lower G-bond yield environment for the globe and Vietnam, encouraging market participants to be more confident in restoring their trading positions. The trading yields continued decreasing seven weeks in a row, in line with the declining winning rate in the primary market. Regarding value structure, transactions kept concentrating on tenors from 7 to 15 years, with a joint portion of 54.5%.

Figure 16. G-bond trading value



Source: HNX, KIS

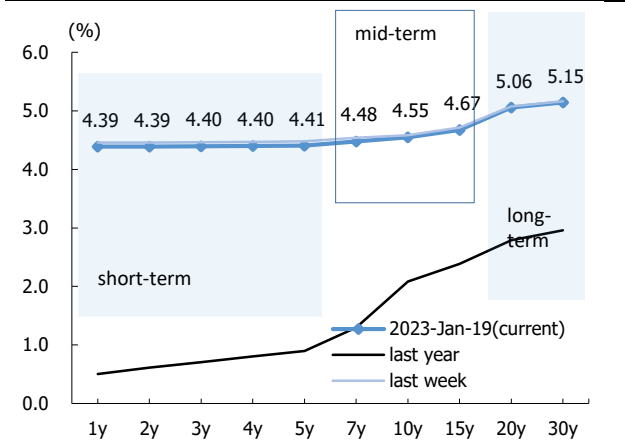
Figure 17. Trading value by tenor this week



Source: HNX, KIS

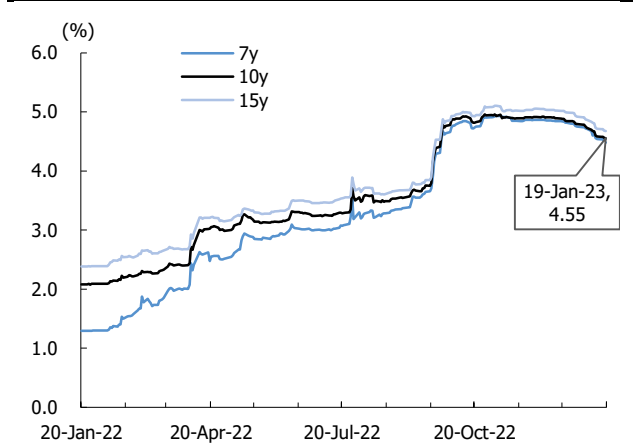
The shape of the yield curve was likely unchanged compared to last week, as the reduction in G-bond yield was distributed equally across tenors. Accordingly, short-term tenors (less than 7 years), mid-term (7 to 15 years), and long-term tenors (above 15 years) decreased slightly by 7bps, 4bps, and 2bps on average this week.

Figure 18. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 19. Historical daily government bond yield



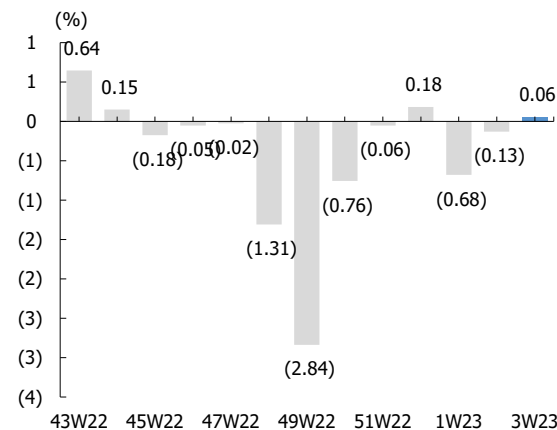
Source: HNX, VBMA, KIS

V. USDVND kept unchanged

VND stayed unchanged against USD

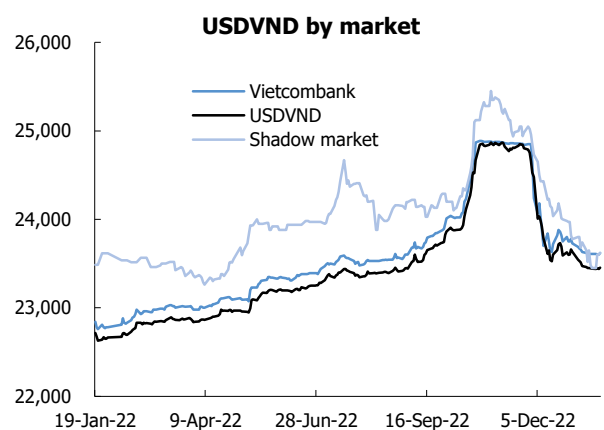
3W23 witnessed a swing in USDVND, followed by a modest DXY fall compared to last week. Specifically, USDVND gained slightly by 0.06% WoW to VND23,454, while DXY diminished by 0.13% to 102.06. Similarly, asking quotes for retail customers from Vietcombank and in the grey market increased slightly with the same amount.

Figure 20. Weekly USDVND performance



Source: SBV, Bloomberg

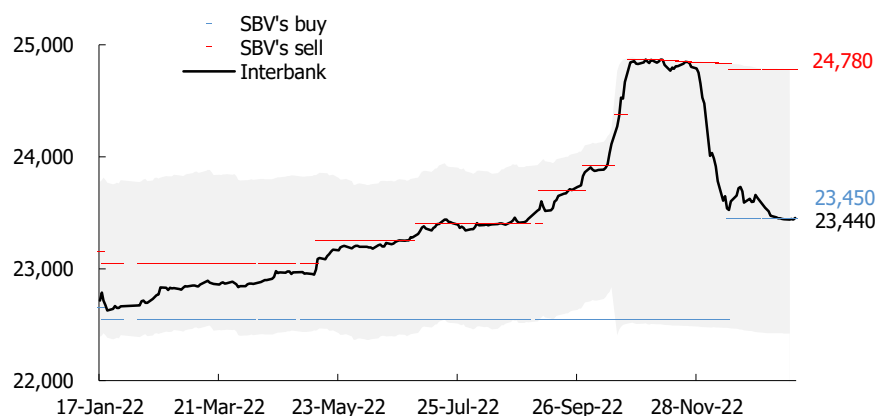
Figure 21. Historical USDVND by market



Source: SBV, Bloomberg, Fiinpro, tvgiadaola.net

Regarding movements of the policymaker, SBV sustains the trading band at 5% and almost kept the reference rate unchanged under the swing of USDVND. Specifically, SBV kept USDVND selling and buying prices unchanged for the last five weeks at VND24,780 and VND23,450 in exchange for one U.S. dollar, respectively. Notably, after one year diverged away from the SBV buying price, the interbank rate this week was traded around SBV's buying price, closing the week at VND23,454 per USD. Furthermore, the FX remittance could run off after the Tet season, potentially supporting the appreciation of the USD.

Figure 2. SBV's movement



Source: SBV, Bloomberg, Fiinpro, KIS

Note: shaded region is the daily trading band. The effective trading band is +/- 5% (the effective date is 17th October, 2022).

The dollar index swung to its eight months lowest level at around 102.00 and unsuccessfully broke this support level. Specifically, DXY this week dropped by 0.13% to 102.06. Following the U.S. economic indicators released last week, the U.S. retail sales for December 2022 also supported a less hawkish tendency for FED's movement. In detail, the retail sales declined 1.1% MoM and were worse than the consensus of a 0.8% fall, suggesting a smaller room for further FED rate hikes as it hurts the economy. According to CME, money markets are now pricing nearly 99% that FED's rate hike in February would be 25bps. As a result, the dollar weakened across the currency board.

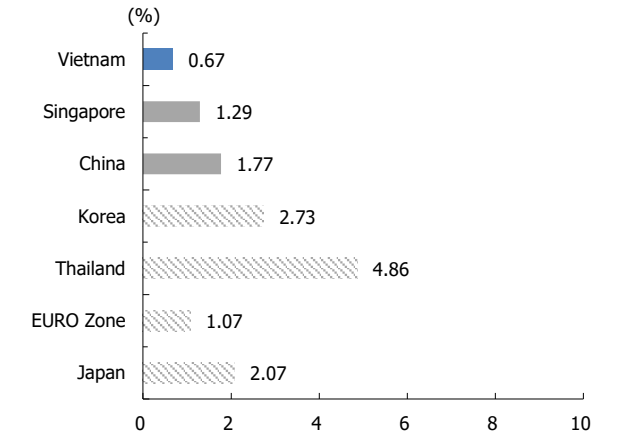
Thanks to the weakening of the U.S. dollar, all foreign currencies under our watch appreciated against the greenback. Specifically, THB gained strongly by 4.86% YTD, while SGD, CNY, KRW, EUR, and JPY rose less notably by 1.29%, 1.77%, 2.73%, 1.03%, and 2.07%, respectively.

Figure 22. Historical DXY



Source: SBV, Bloomberg

Figure 23. 2023 YTD performance of major currencies against USD



Source: SBV, Bloomberg

Note: striped bars represent countries following the floating FX regime.

Macro scorecard

	22-Sep	22-Oct	22-Nov	22-Dec	23-Jan	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)	1.92	2.05	2.67	2.58	1.66	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)	29.94	30.27	29.50	29.66	25.08	86.01	96.83	96.48	89.50	263.6	282.7	335.7	371.85
Import (USD bn)	28.80	28.00	30.00	29.16	21.48	87.45	97.58	90.71	85.07	254.4	263	331.1	360.65
Export growth (%)	10.35	4.54	(7.40)	(13.96)	(21.28)	13.43	21.02	17.22	(6.07)	8.16	7.02	18.74	10.61
Import growth (%)	6.45	7.08	(2.04)	(8.14)	(28.92)	15.17	15.72	8.12	(3.90)	7.41	3.81	25.9	8.35
Inflation (%)	3.94	4.30	4.37	4.55	4.89	1.92	2.96	3.32	4.41	2.79	3.24	1.84	3.15
USD/VND	23,712	24,839	24,800	23,658	23,449	22,837	23,139	23,712	23,658	23,173	23,126	22,790	23,650
Credit growth (%)	10.47	11.50	11.50	12.87	NA	4.13	8.51	10.47	12.87	13.75	12.17	12.97	12.87
10Y gov't bond (%)	4.39	4.95	4.91	5.08	4.59	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, ~4.36%
- * Absorption rate = winning value / offering value, ~94.12%
- * Bid to offer ratio = offering value / bidding value, ~4.20
- * DXY = U.S. Dollar Index, ~102
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~5.67%

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