

# Fixed-income Perspectives

## SBV shows prudence on a more hawkish Fed

### SBV drains liquidity continuously

In 8W23 (from 20 to 26 February), SBV mainly offered T-bill to drain liquidity from its counterparties amid lower demand from borrowers. It seems that SBV aimed to keep the interest rate spread between the Dong and the greenback large enough to limit the capital outflow before the next Fed meeting on 21 March. Jointly, SBV withdrew VND43.10bn from its counterparties this week.

### Interbank rates increase in short-tenors

In 8W23, the interbank rate increased mostly in short tenors, indicating the market liquidity was limited due to three consecutive weeks of withdrawal by SBV, which may put pressure on deposit and lending rates in the residential market. Specifically, short-term rates, such as overnight (ON), 1-week, and 2-week, experienced a sharp increase by 107bps, 82bps, and 70bps to 5.47%, 5.70%, and 6.03%, respectively. Conversely, interbank rates declined among long tenors. To be more specific, a slight fall was seen in 3-month, 6-month, and 9-month tenors from 7.55% to 7.53%, 8.10% to 7.80%, and 8.30% to 8.17%, respectively.

### Trading G-bond yields rebound

G-bond yields in the secondary market rebounded in 8W23 with a lower volume, implying less willingness to buy from market participants. Specifically, the trading volume slumped by 41.67% this week to VND13.88tn. We expected that the yields in both primary and secondary markets would have hit their bottoms under the continuing monetary tightening and inflation pressure from other major central banks.

### 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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**Research Dept.**

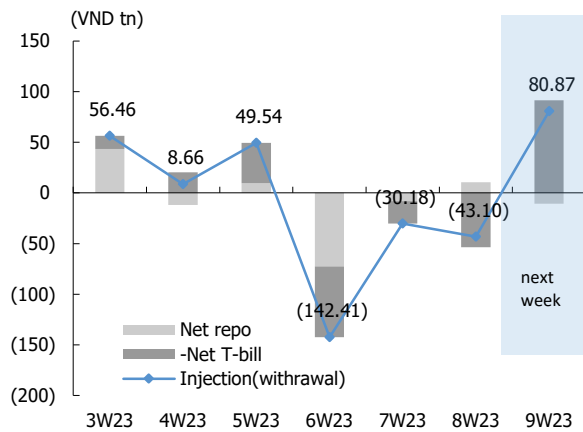
researchdept@kisvn.vn

# I. SBV drains liquidity continuously

## SBV continued to drain liquidity

In 8W23 (from 20 to 26 February), SBV mainly offered T-bill to drain liquidity from its counterparties amid lower demand from borrowers in the first lending market. It seems that SBV aimed to keep the interest rate spread between the Dong and the greenback large enough to limit the capital outflow before the next Fed meeting on 21 March. Therefore, the central bank tends to calibrate the OMO transactions to keep short-term funding costs at the desired level. Accordingly, SBV newly issued T-bill contracts this week with a significant amount of VND140.50tn in 7-day and 91-day tenors with a higher winning yield. As per the repo transaction, Vietnam's central bank has increased the offering value to VND10.68tn with a winning rate of 6% this week, resulting in a net injection of VND10.45tn. Consequently, SBV withdrew VND43.10bn from its counterparties this week.

**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**

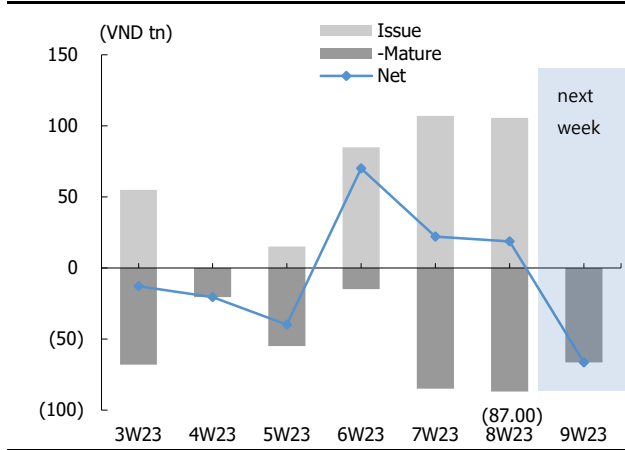
Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
20-Feb-23	27-Feb-23	7	25.00	5.00
20-Feb-23	22-May-23	91	10.00	5.60
21-Feb-23	28-Feb-23	7	20.70	6.00
21-Feb-23	23-May-23	91	10.00	6.00
22-Feb-23	1-Mar-23	7	8.75	6.00
22-Feb-23	24-May-23	91	10.00	5.90
23-Feb-23	2-Mar-23	7	12.10	6.00
23-Feb-23	25-May-23	91	9.00	6.00
24-Feb-23	3-Mar-23	7	25.00	6.00
24-Feb-23	26-May-23	91	10.00	6.00
<b>Total</b>		<b>36.3<sup>1</sup></b>	<b>140.50</b>	<b>5.8<sup>2</sup></b>

Source: SBV, Bloomberg, KIS

<sup>1</sup> value-weighted average tenor; <sup>2</sup> value-weighted average winning rate

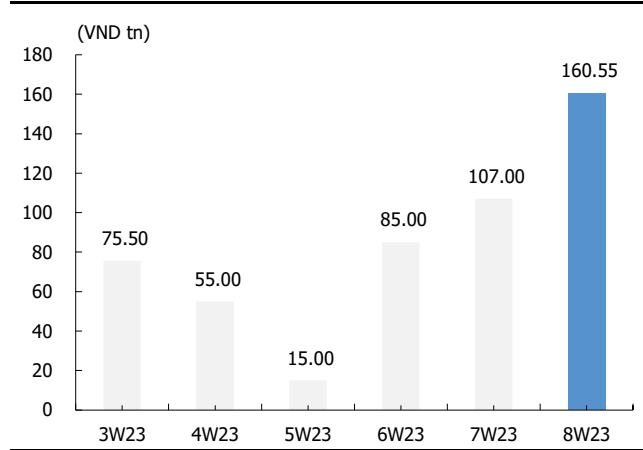
Vietnam's monetary authority tends to hold the funding costs in the money market at a high level, although the liquidity condition has become soft, to stabilize the exchange rate. Therefore, we expect winning yields for T-bill and repo contracts provided to commercial banks to remain high over the next few weeks.

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



Source: SBV, Bloomberg, KIS

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



Source: SBV, Bloomberg, KIS

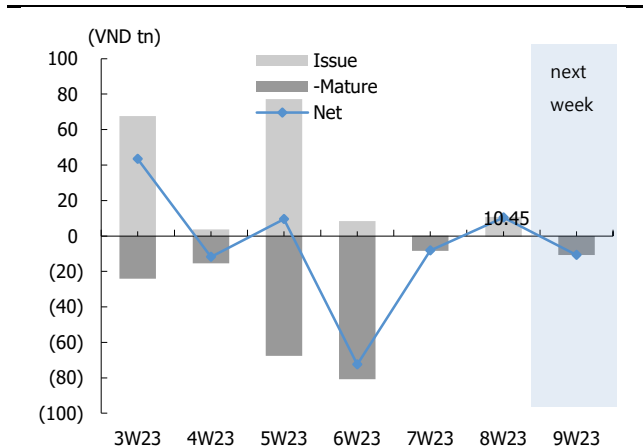
**Table 3. Daily repo transactions of this week**

Issue date	Maturity date	Tenor (days)	Issued amount (VND tn)	Winning rate (%)
21-Feb-23	28-Feb-23	7	0.63	6.00
22-Feb-23	1-Mar-23	7	6.00	6.00
23-Feb-23	2-Mar-23	7	3.50	6.00
24-Feb-23	3-Mar-23	7	0.55	6.00
<b>Total</b>		<b>7<sup>1</sup></b>	<b>10.68</b>	<b>6.00<sup>2</sup></b>

Source: SBV, Bloomberg, KIS

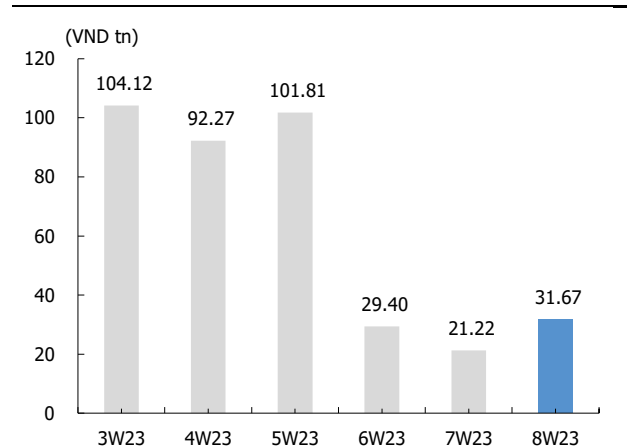
<sup>1</sup> value-weighted average tenor; <sup>2</sup> value-weighted average winning rate

**Figure 4. Issued repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding repo by week**



Source: SBV, Bloomberg, KIS

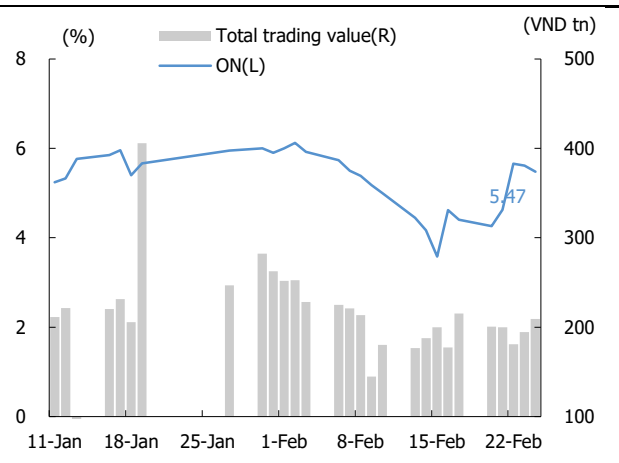
## II. Interbank rates increase in short-tenors

### Interbank rates jumped in short tenors

In 8W23, the interbank rate rose mostly in short tenors, indicating the market liquidity was limited due to three consecutive weeks of withdrawal by SBV, which may put pressure on deposit and lending rates in the residential market. Specifically, short-term rates, such as overnight (ON), 1-week, and 2-week, experienced a sharp increase by 107bps, 82bps, and 70bps to 5.47%, 5.70%, and 6.03%, respectively. Conversely, interbank rates declined among long tenors. To be more specific, interest rate on 3-month, 6-month, and 9-month loans reduced by 2bps, 30bps, and 13bps to 7.53%, 7.80%, and 8.17%, respectively.

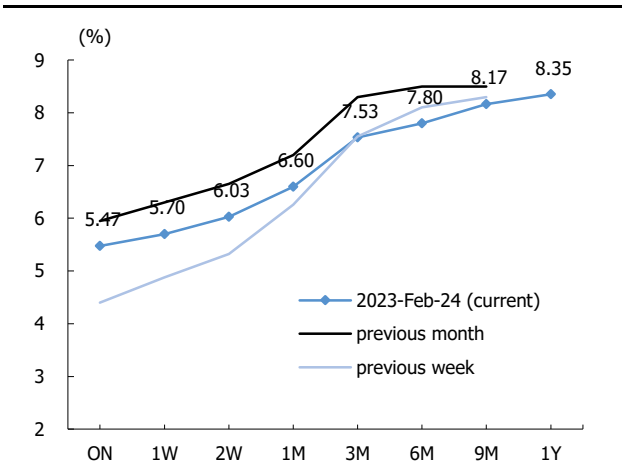
SBV raised T-bill's winning yield to 6% in the last trading sessions this week after USDVND increased for the third consecutive week, likely causing the rebound in the overnight interbank rate. Although liquidity demand was easing under the slowing lending activities, especially in real estate and manufacturing sectors, SBV consecutively withdrew money even with longer-term T-bill contracts suggesting that the monetary authority was anchoring more on the objective of FX stability. We, therefore, expect Vietnam's interbank rates to remain high until Fed's monetary stance becomes less hawkish.

**Figure 6. Interbank daily transaction**



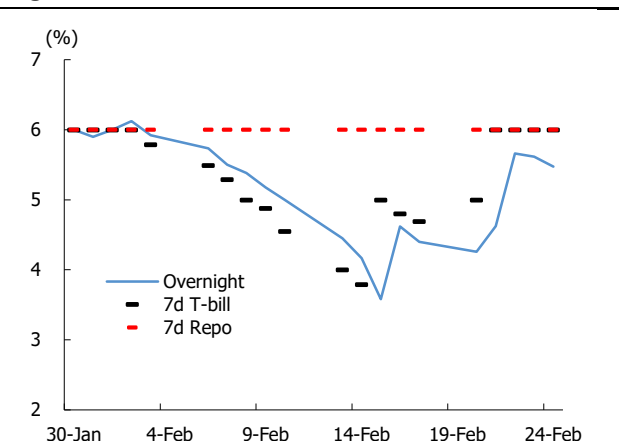
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**

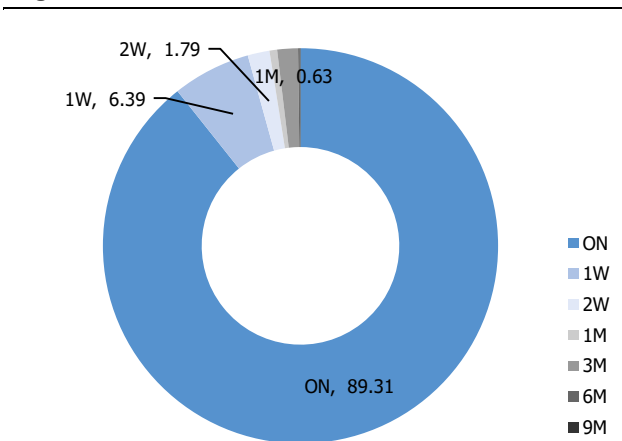


Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



**Figure 9. Interbank transaction structure**



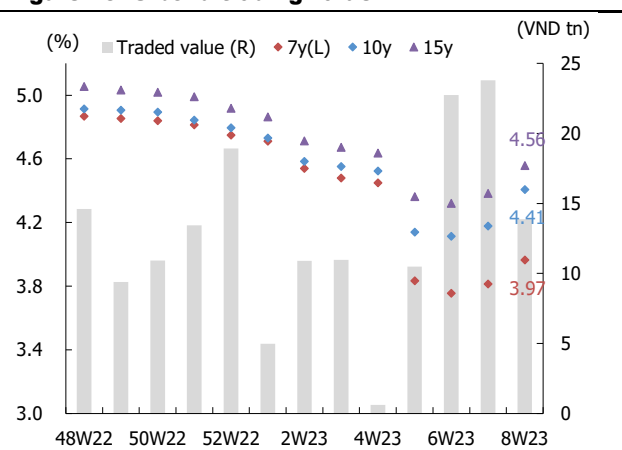
### III. Trading G-bond yields rebound

**G-bond trading volume tumbled**

G-bond yields in the secondary market rebounded in 8W23 with a lower volume, implying less willingness to buy from market participants. Specifically, trading yields rose by 15bps, 23bps, and 17bps for 7-year, 10-year, and 15-year tenors to 3.97%, 4.41%, and 4.56%, respectively. The trading volume slumped by 41.67% this week to VND13.88tn or VND2.78tn per trading day.

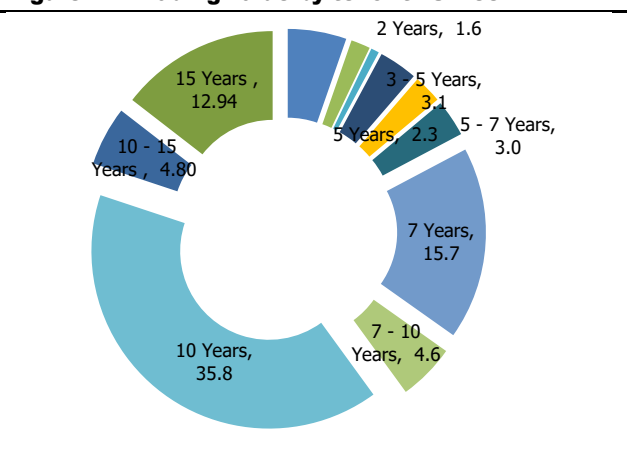
The notable rebound in trading yield this week was attributable to the potential increase in the target fed fund rate to 525-550bps by June, following the recent release of U.S. core CPE and FOMC minutes. We expected that the yields in both primary and secondary markets would have hit their bottoms under the continuing monetary tightening and inflation pressure from other major central banks. Regarding value structure, transactions kept concentrating on tenors from 7 to 15 years, with a joint portion of 73.78%.

**Figure 10. G-bond trading value**



Source: HNX, KIS

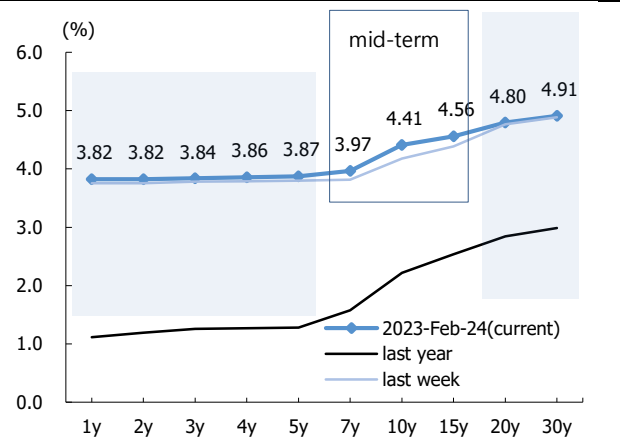
**Figure 11. Trading value by tenor this week**



Source: HNX, KIS

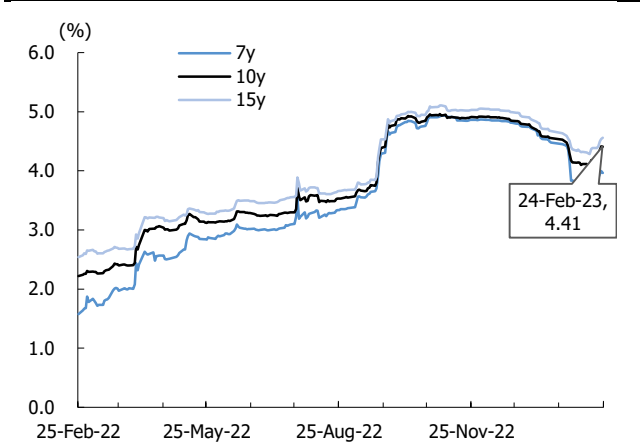
The yield curve's shape tended to hike in the middle, as the rise in G-bond yields dominated in the mid-term tenors. Accordingly, mid-term tenors (7 to 15 years) rose moderately by 18bps on average. Less notably, short-term (less than 7 years) and long-term tenors (above 15 years) dropped by 6bps and 3bps, respectively.

**Figure 12. G-bond trading yield curve**



Source: HNX, VBMA, KIS

**Figure 13. Historical daily government bond yield**

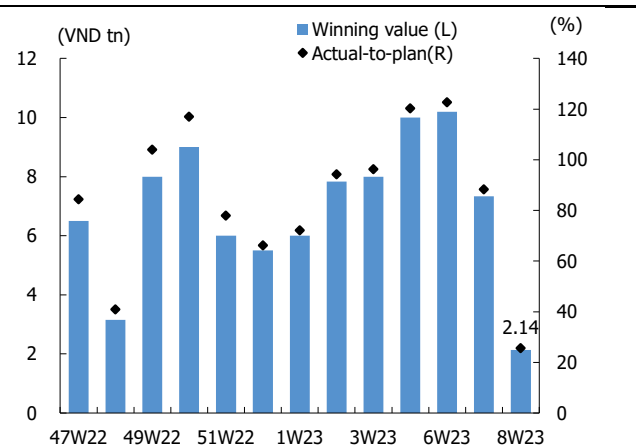


Source: HNX, VBMA, KIS

**Winning yield rebounded**

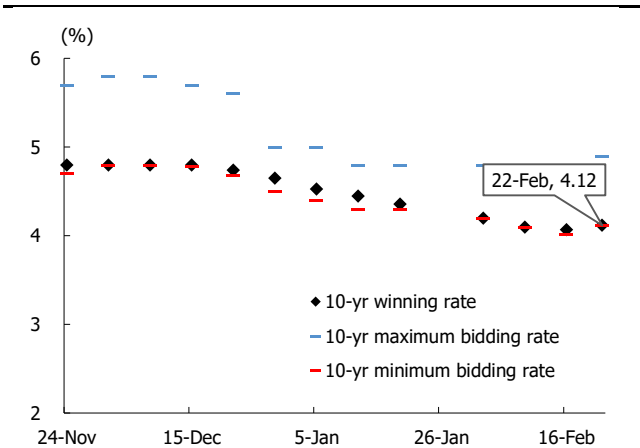
Regarding the development of G-bond issuance, 8W23 witnessed a remarkable drop in G-bond winning value, followed by the first bounce back in winning yields since December 2022. In more detail, the winning value fell dramatically by 70.91% to VND2.14tn, achieving only 25.70% of the weekly plan. About winning yields, the 10-year and 15-year yields were 4.12% and 4.32%, 5bps- and 5bps- higher than the previous week. The yields rebounded for the first time after two and a half months of falling signifies no room left for further interest support as the USD and VND interest gap turned negative last week. Notably, the absorption ratio hit the lowest level over the last four months at 28.47%, and the bid-to-offer ratio was significantly lower, implying higher returns demanded from auction participants. Cumulatively, VST achieved 47.69% and 12.88% of the quarter and annual plans.

**Figure 14. Winning value by week**



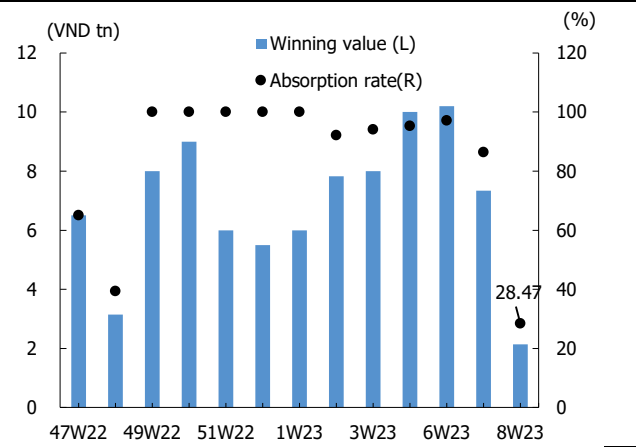
Source: HNX, KIS

**Figure 15. Winning yields by week**



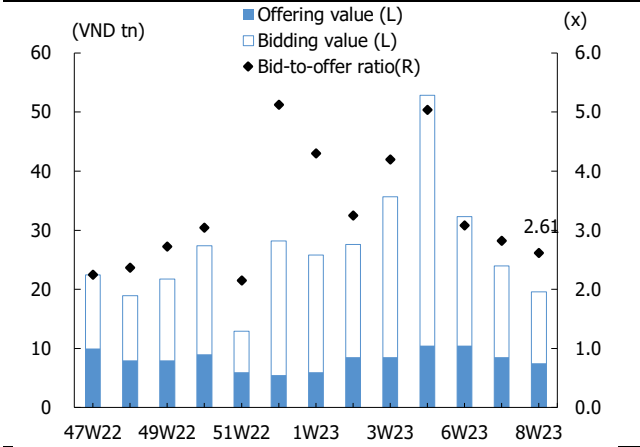
Source: HNX, KIS

**Figure 16. Absorption ratio**



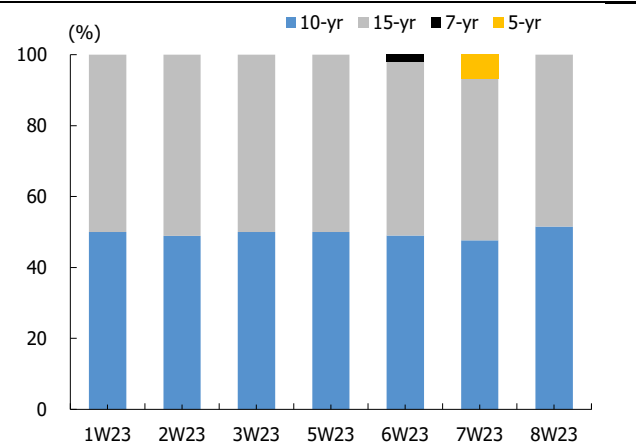
Source: HNX, KIS

**Figure 17. Bid-to-offer ratio**



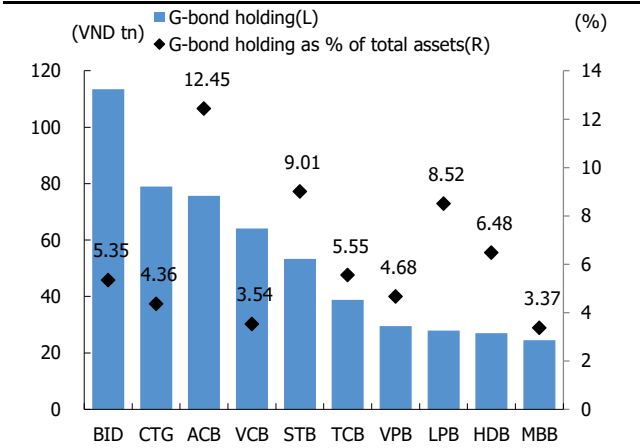
Source: HNX, KIS

**Figure 18. Winning value by tenor**



Source: HNX, KIS

**Figure 19. Top G-bond holding by bank as of 4Q22**



Source: HNX, Company filings, KIS

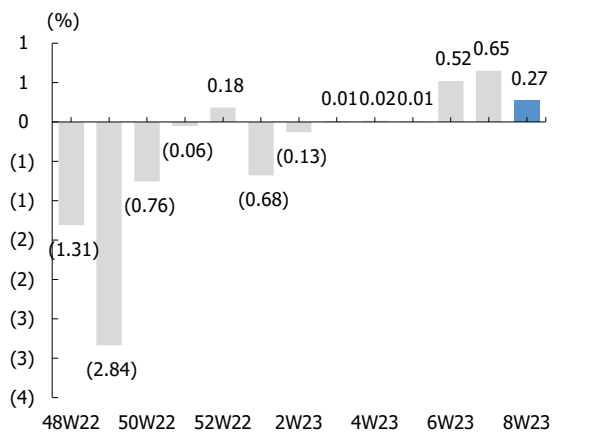
## IV. USDVND continues its upturn

### The dong depreciated further

The dong depreciated for the third week against the U.S. dollar, followed by a modest increase in DXY compared to last week. Specifically, USVDND gained 0.27% WoW to VND23,788 while DXY elevated by 1.30% to 105.21 over the last week.

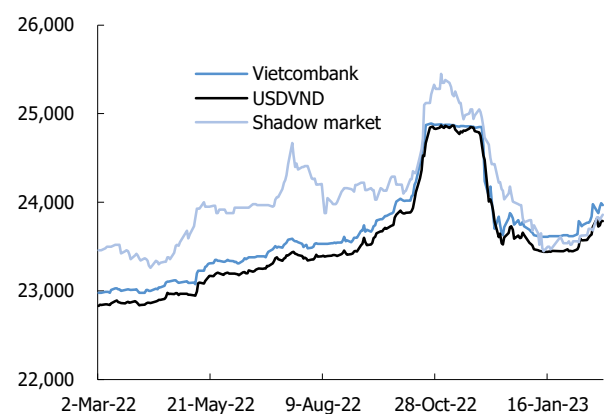
Similarly, the buying and selling price in the shadow market escalated by 175 dong to VND23,810 and VND23,860 for one greenback. In the opposite movement, VCB lowered its bid and ask quotes by 10 dongs to VND23,600 and VND23,970, respectively.

**Figure 20. Weekly USVDND performance**



Source: SBV, Bloomberg

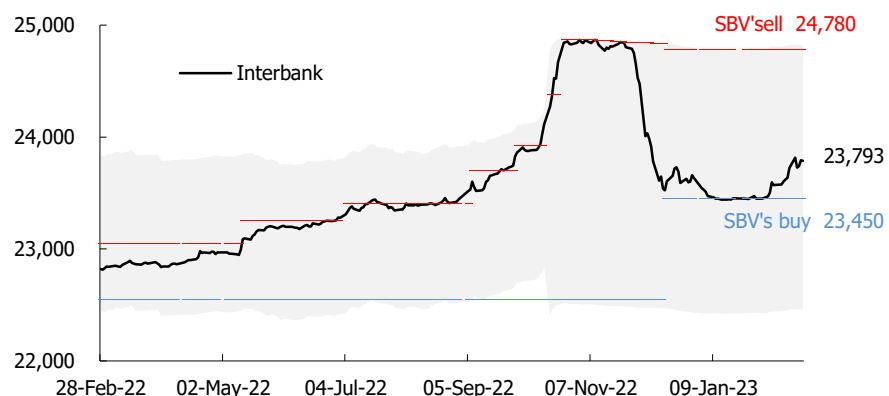
**Figure 21. Historical USVDND by market**



Source: SBV, Bloomberg, Fiinpro, [tvgiadola.net](http://tvgiadola.net)

Regarding movements of the policymaker, SBV raised the central rate insignificantly by 3 dongs, less notable than the surge of 63 dongs in USVDND to VND23,788 in exchange for one USD while maintaining the selling and buying prices unchanged for the last seven weeks at VND24,780 and VND23,450, respectively. The gap between the market price and SBV's buying price was widened and consequently created difficulty for the central bank to restore the foreign exchange reserve.

**Figure 22. 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 17<sup>th</sup> October, 2022).



We expected the upward pressure on the exchange rate to ease as the impact of higher-than-expected U.S. PCE and hawkish FOMC minutes seemed fully incorporated. Core PCE peaked at 0.6% MoM since August 2022, surpassing the market estimates of 0.4%. Along with the hawkish tone in FOMC minutes, the market raised its inclination toward a 75bps hike till June from roughly 60% last week to 80% this week. However, the rising interbank interest rates have reverted the VND-USD spread to positive, leading to less profitable arbitrage activities and reducing pressure on USDVND.

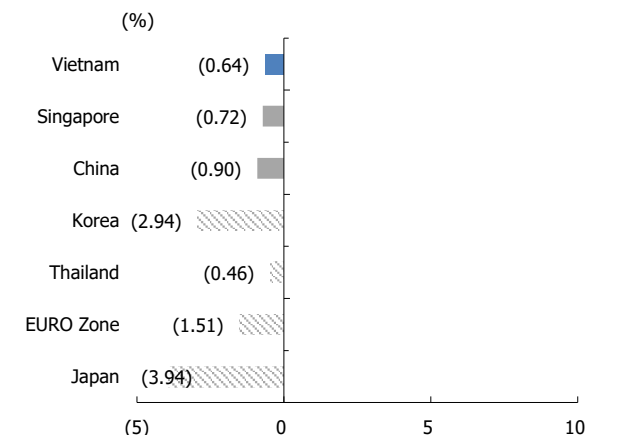
In addition, DXY kept recovering and gained strongly by 1.30% to 105.21 this week, widening the depreciation across some currencies in our watchlist. Specifically, JPY, KRW, and EUR depreciated notably by 3.94%, 2.94%, and 1,51% YTD against USD, while SGD, CNY, and THB saw less value reduction by 0.72%, 0.90%, and 0.46%, accordingly.

**Figure 23. Historical DXY**



Source: SBV, Bloomberg

**Figure 24. 2023 YTD performance of major currencies against USD**



Source: SBV, Bloomberg  
 Note: striped bars represent countries following the floating FX regime.

## Macro scorecard

	22-Oct	22-Nov	22-Dec	23-Jan	23-Feb	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)	2.05	2.67	2.58	1.66	1.41	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)	30.27	29.50	29.66	25.08	25.88	86.01	96.83	96.48	89.50	263.6	282.7	335.7	371.85
Import (USD bn)	28.00	30.00	29.16	21.48	23.58	87.45	97.58	90.71	85.07	254.4	263	331.1	360.65
Export growth (%)	4.54	(7.40)	(13.96)	(21.28)	10.97	13.43	21.02	17.22	(6.07)	8.16	7.02	18.74	10.61
Import growth (%)	7.08	(2.04)	(8.14)	(28.92)	(6.65)	15.17	15.72	8.12	(3.90)	7.41	3.81	25.9	8.35
Inflation (%)	4.30	4.37	4.55	4.89	4.31	1.92	2.96	3.32	4.41	2.79	3.24	1.84	3.15
USD/VND	24,839	24,800	23,658	23,449	23,780	22,837	23,139	23,712	23,658	23,173	23,126	22,790	23,650
Credit growth (%)	11.50	11.50	12.87	NA	NA	4.13	8.51	10.47	12.87	13.75	12.17	12.97	12.87
10Y gov't bond (%)	4.95	4.91	5.08	4.59	4.39	2.40	3.38	4.39	5.08	3.37	2.01	2.11	5.08

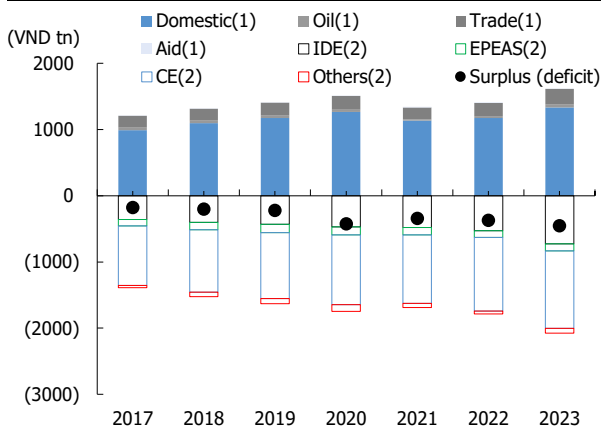
Source: GSO, Bloomberg, FIA, IMF

## \*\*Glossary

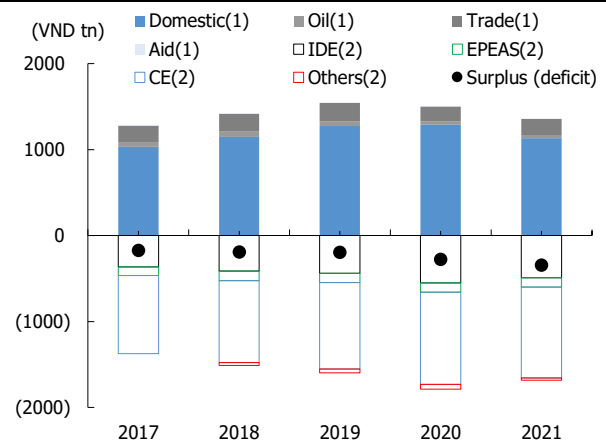
- \* Winning yield rate = each group's highest bidding rate, ~4.12%
- \* Absorption rate = winning value / offering value, ~28.47%
- \* Bid to offer ratio = offering value / bidding value, ~2.61
- \* DXY = U.S. Dollar Index, ~105.2
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~5.47%

## Appendix

**Figure 1. Vietnam's state budget by year: plan**



**Figure 2. Vietnam's state budget by year: actual**



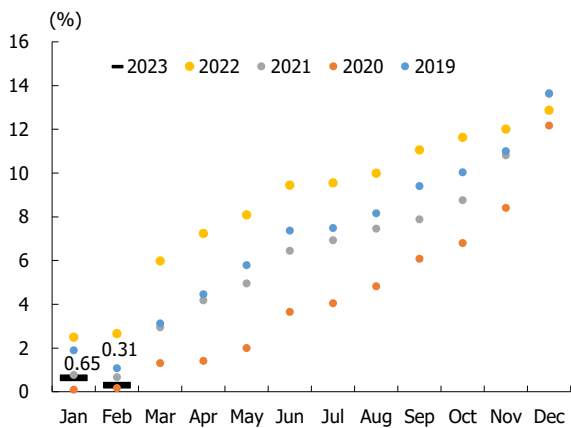
Source: MoF, SBV, KIS

Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.  
IDE= Investment and development expenditures; EPEAS= Interest payment expenses & Aid spending; CE= Current expenditures

(1) indicates the item belongs to the revenue

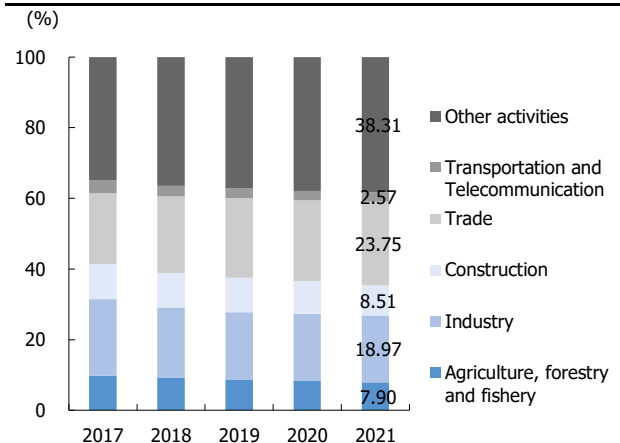
(2) indicates the item belongs to the expenditure and plotted as a negative number

**Figure 3. Vietnam's total credit % YTD by month**



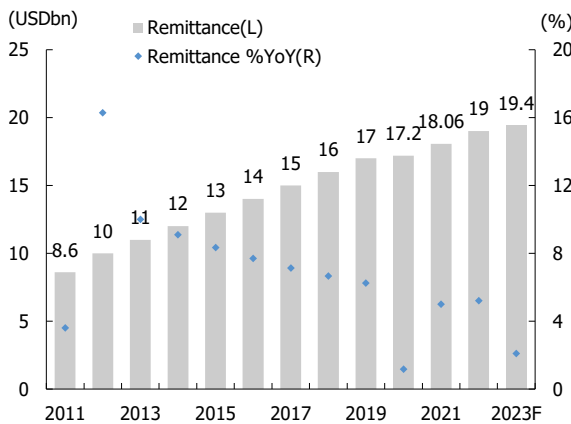
Source: SBV, KIS

**Figure 4. Vietnam's total credit by sector**



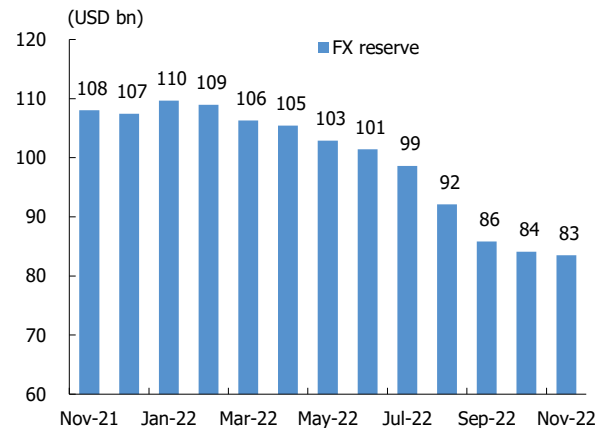
Source: SBV, KIS

**Figure 5. Vietnam's remittance over years**



Source: Worldbank, KNOMAD, KIS

**Figure 6. Historical Vietnam's FX reserve**



Source: IMF, Bloomberg, KIS

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#### **VIET NAM**

JAE 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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