

Fixed-income Perspectives

SBV provides more easing signals

SBV cuts policy rates twice a month

In the 13th week of 2023 (from 27 March to 2 April), abundant liquidity with low interbank rates made commercial banks not participate in OMO transactions. Specifically, this week recorded no transaction via OMO channel in both Repo and T-bill transaction. Besides, outstanding volume on T-bills channel remained at VND110.7tn while on Repo recorded at VND1.2tn. Notably, State Bank of Vietnam (SBV) has reduced several policy rates, which take effect on April 3, 2023 as follows. Accordingly, the refinancing rate is lowered to 5.5%p.a, decreasing by 50bps compared to its previous value.

Long-tenor interest rates rebound

The interbank rate in 13W23 witnessed a divergence between short and long tenors. Specifically, short tenors such as overnight (ON), and 2-week decreased by 63bps, and 12bps to 1.00%, and 2.46%, respectively. Taking long tenors into consideration, the interest rates on 3-month, 6-month, and 9-month loans experienced a significant jump by 48bps, 101bps, and 80bps to 6.55%, 7.72%, and 7.97%, respectively.

G-bond yields dip further

Sharing the same downward movements, the trading yields in the secondary market dipped more excessively than in the primary market while the volume sustained at a high level. Specifically, 13W23 recorded a slight fall of 15.75% in volume over the week, standing high at VND18.95tn. The active trading activities in recent weeks could be incentivized by the SBV's strong will in rate cutting and calmed international fears.

KIS leading economic index

	2Q22	3Q22	4Q22	1Q23	2020	2021	2022
GDP (%)	7.72	13.67	5.92	3.32	2.91	2.58	8.02
Trade balance (USD bn)	(0.75)	5.78	4.44	4.07	19.86	4.00	11.20
CPI (%)	2.96	3.32	4.41	4.18	3.24	1.84	3.15
Discount rate (%)	2.50	3.50	4.50	3.50	2.50	2.50	4.50
USD/VND	23,139	23,712	23,658	23,480	23,252	22,936	23,658
US GDP (%)	NA	NA	NA	NA	(3.40)	5.60	NA
China GDP (%)	0.4	3.9	2.9	NA	2.20	8.00	NA

Source: KIS

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I. SBV cuts policy rates twice a month

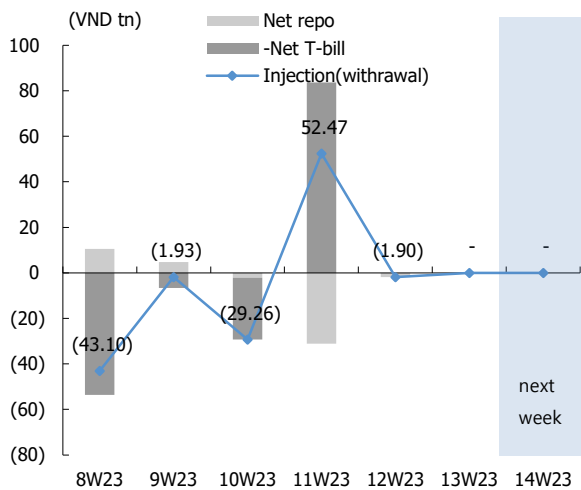
No transactions in OMO this week

In the 13th week of 2023 (from 27 March to 2 April), abundant liquidity with low interbank rates made commercial banks not participate in OMO transactions. Specifically, this week recorded no transaction via the OMO channel in both Repo and T-bill transactions. Besides, the outstanding volume on the T-bills channel remained at VND110.7tn while on Repo recorded at VND1.2tn.

Notably, the State Bank of Vietnam (SBV) has reduced several policy rates, which take effect on April 3, 2023, as follows. Accordingly, the refinancing rate was lowered to 5.5%p.a, decreasing by 50bps compared to its previous value. Besides, the central bank reduced maximum deposit rates for <1m tenors (terms of less than one month) and <6m tenors (tenors of from 1 month to less than six months) to 0.5%p.a and 5.5%p.a, respectively. This is the second time SBV has cut the key interest rates in March 2023 to support domestic entities in resolving economic difficulties.

The silent transaction in the OMO channel this week resulted mostly from ample liquidity in the banking system due to low credit demand. In addition, the OMO winning rate offered by Vietnam’s central bank is much higher than interbank rates, causing commercial banks to be more likely to borrow from each other to compensate for liquidity instead of borrowing from the State Bank. Therefore, we predict that OMO transactions would remain silent more in the upcoming weeks.

Figure 1. Net injection (withdrawal) of liquidity



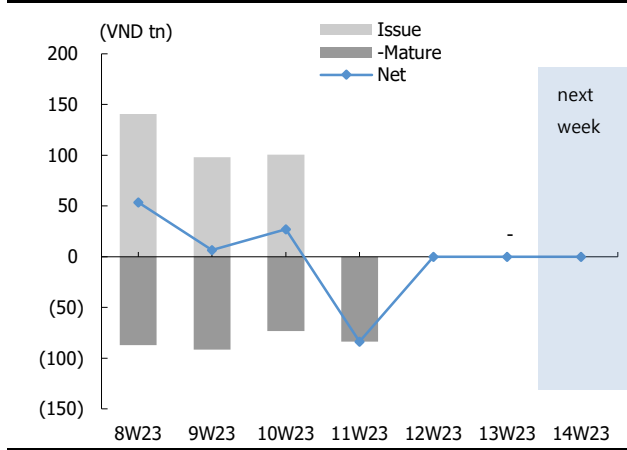
Source: SBV, Bloomberg, KIS

Table 1. Historical policy rate change

Effective date	Discount rate (%)	Refinancing rate (%)
April 3, 2023	3.5	5.5↓
March 15, 2023	3.5↓	6.0
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↓

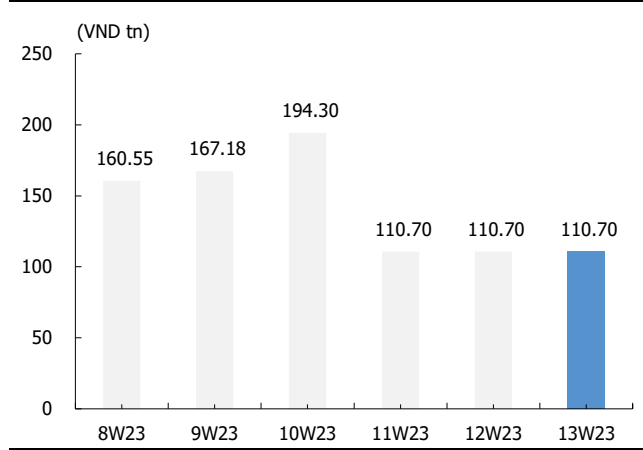
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



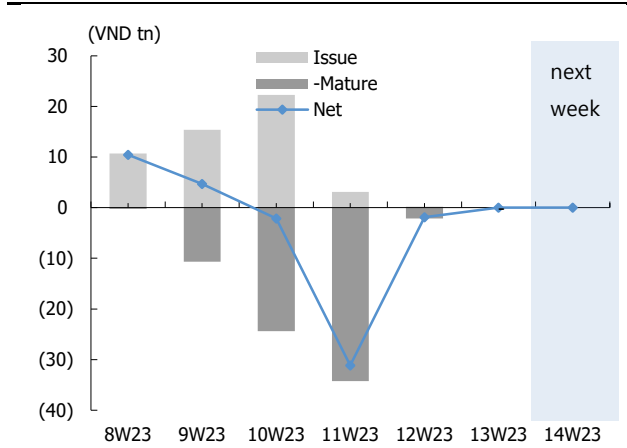
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



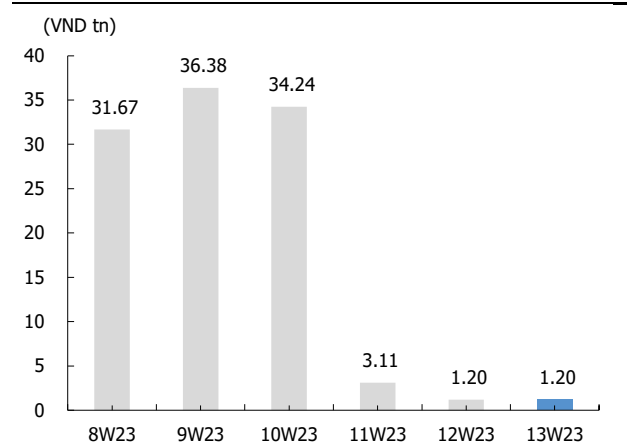
Source: SBV, Bloomberg, KIS

Figure 4. Issued repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



Source: SBV, Bloomberg, KIS

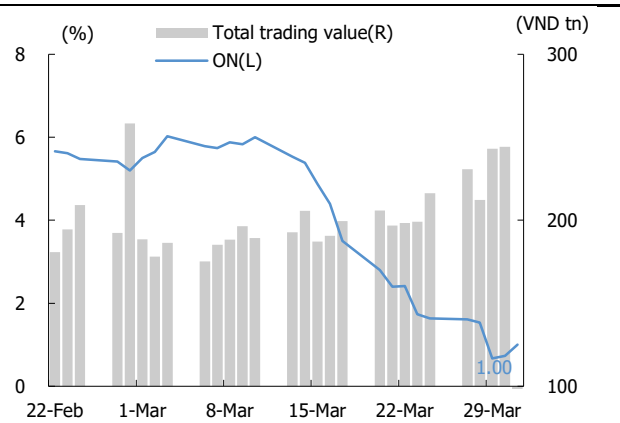
II. Long-tenor interest rates rebound

Interbank rates diverge between short and long tenors

The interbank rate in 13W23 witnessed a divergence between short and long tenors. Specifically, short tenors such as overnight (ON), and 2-week decreased by 63bps, and 12bps to 1.00%, and 2.46%, respectively. Taking long tenors into consideration, the interest rates on 3-month, 6-month, and 9-month loans experienced a significant jump by 48bps, 101bps, and 80bps to 6.55%, 7.72%, and 7.97%, respectively.

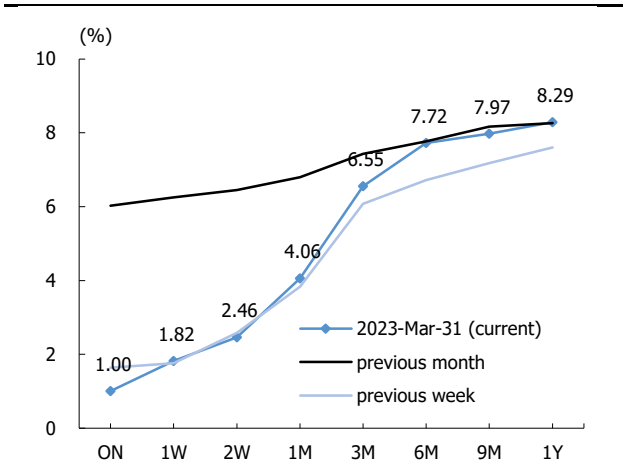
In the first quarter of 2023, the credit growth of the whole economy was estimated at around 2.06%, 391bps lower compared to the same period last year. Weak global demand led to the lack of orders for domestic enterprises in the manufacturing sector, resulting in lower credit demand for production expansion. The situation in the first lending market is hard to reverse soon, suggesting that the interbank rates, especially for short tenors, would be low more.

Figure 6. Interbank daily transaction



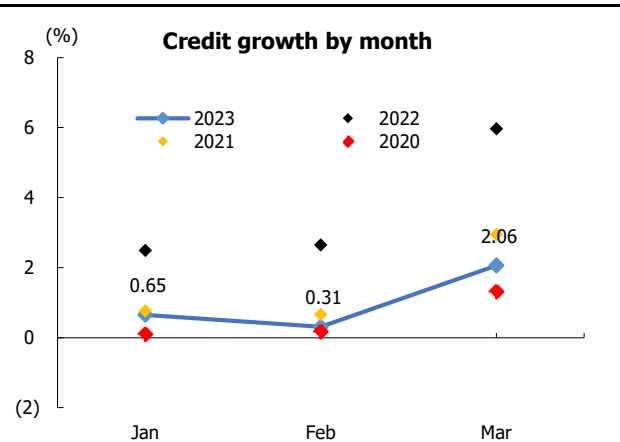
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



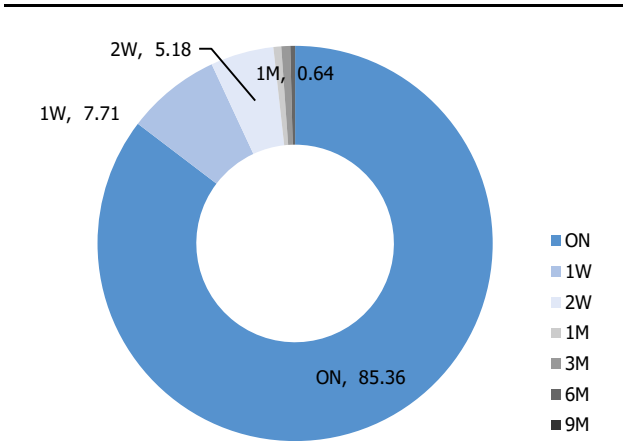
Source: SBV, Bloomberg, KIS

Figure 7. Credit growth



Source: SBV, Bloomberg, KIS

Figure 8. Interbank transaction structure



Source: SBV, Bloomberg, KIS

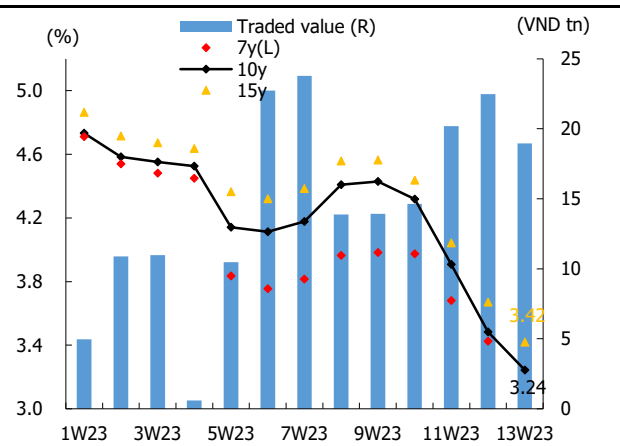
III. G-bond yields dip further

Trading volume remained high

Sharing the same downward movements, the trading yields in the secondary market dipped more excessively than in the primary market while the volume sustained at a high level. Specifically, trading yields slumped aggressively this week by 63bps, 24bps, and 25bps for 7-year, 10-year, and 15-year tenors to 2.80%, 3.24%, and 3.42%, respectively. Besides, 13W23 recorded a slight fall of 15.75% in volume over the week, standing high at VND18.95tn. The active trading activities in recent weeks could be incentivized by the SBV's strong will in rate cutting and calmed international fears.

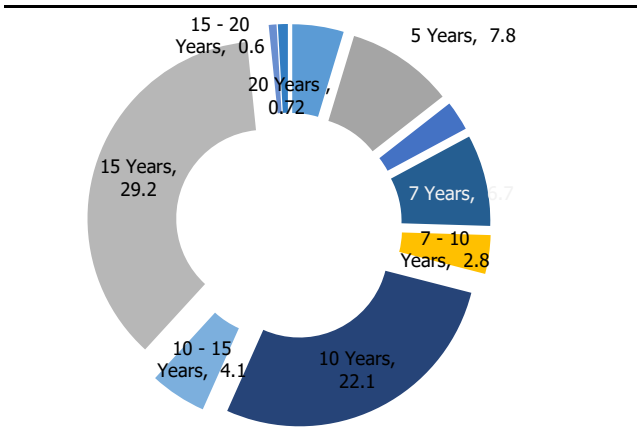
Following the rate cut in the primary market issued two weeks ago, this week SBV announced rate reductions in the secondary market to support economic growth after a decade-lowest 1Q GDP growth (excluding 1Q20, 2Q20, and 3Q21 impacted by Covid-19). Specifically, SBV boldly reduced the below-6M-term-deposit rate ceiling by 50ppts to 5.5% p.a. and the maximum short-term lending rate for specific sectors by 50ppts to 4.5% p.a. We expected that SBV would reduce the interest rate further until the exchange rate pressure restored, resulting in lower G-bond yields.

Figure 9. G-bond trading value



Source: HNX, KIS

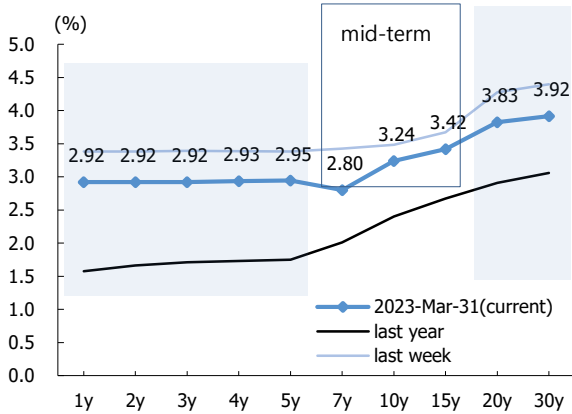
Figure 10. Trading value by tenor this week



Source: HNX, KIS

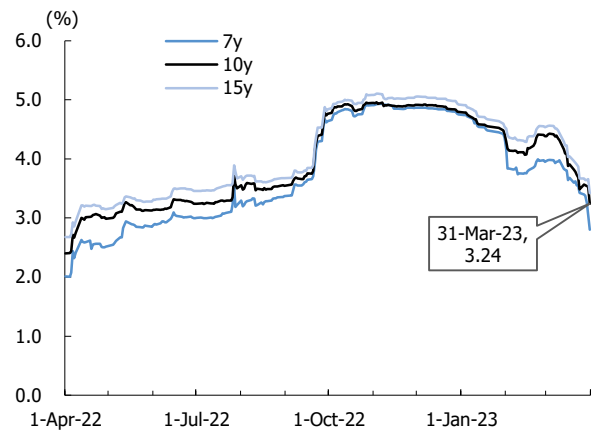
Regarding value structure, transactions kept concentrating on tenors from 7 to 15 years, with a joint portion of 64.91%. The yield curve's shape stayed the same over the week despite a lighter reduction in mid-term tenors. Accordingly, short-term (less than 7 years) and long-term (above 15 years) fell significantly by 46bps and 47bps while mid-term (7 to 15 years) reduced less notably by 37bps, respectively.

Figure 11. G-bond trading yield curve



Source: HNX, VBMA, KIS

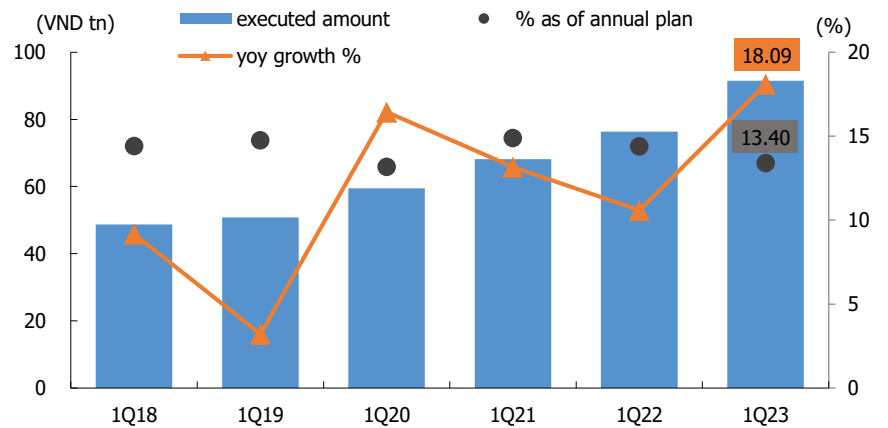
Figure 12. Historical daily government bond yield



Source: HNX, VBMA, KIS

According to MPI, the public investment executed amount for 1Q23 increased by 18.09% yoy to VND91.50tn, achieving 13.40% of the annual plan which was slightly lower than in previous years. This is expected to maintain its robust growth with the government's drastic direction to boost demand and spill over to other sectors. Regarding GDP growth, to achieve 6.5% yoy as of plan the average growth of the next three quarters must accomplish 7.45% yoy given the low 1Q23 figure at 3.32%. An improvement in 2Q23 is expected but the main growth should be witnessed in the second half of the year as the interest reduction has a time lag to take effect.

Figure 13. Public investment executed quarterly



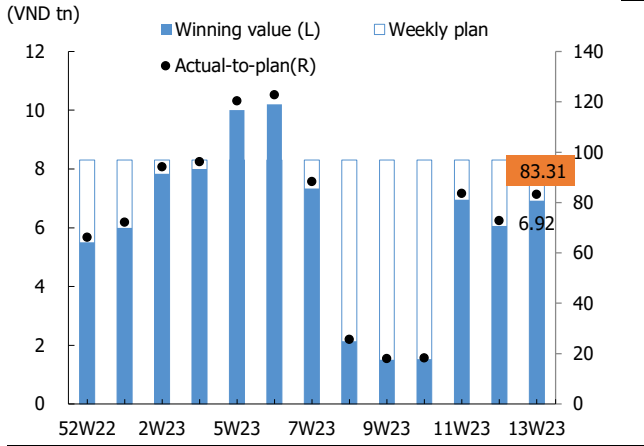
Source: GSO, KIS

Winning yields expand their falling

Regarding the development of G-bond issuance, the winning yields in the primary market progressed its aggressive downturn further for the third week. Specifically, falls by 37bps, 15bps, and 24bps in 5-year, 10-year, and 15-year tenors, respectively. Also, the lower-than-expected U.S. March core PCE lessens the Fed's tendency to raise interest rates unexpectedly, and the continuous depreciation of the USD over the last five weeks places more support on the easing stance of SBV.

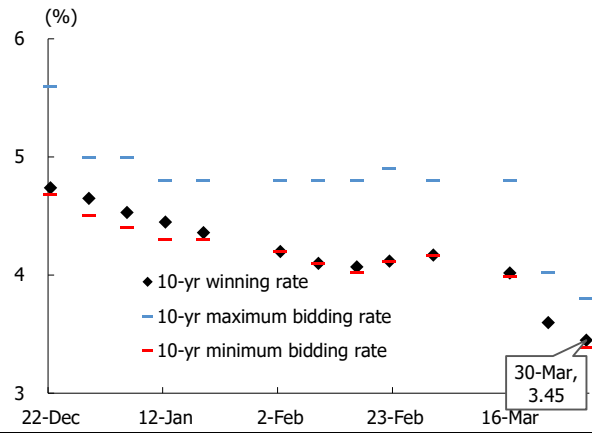
The winning amount was stabilized for the third week, standing at VND6.932tn or 14.30% higher than last week. Cumulatively, VST achieved 74.04% and 19.99% of the first quarter and annual plan.

Figure 14. Winning value by week



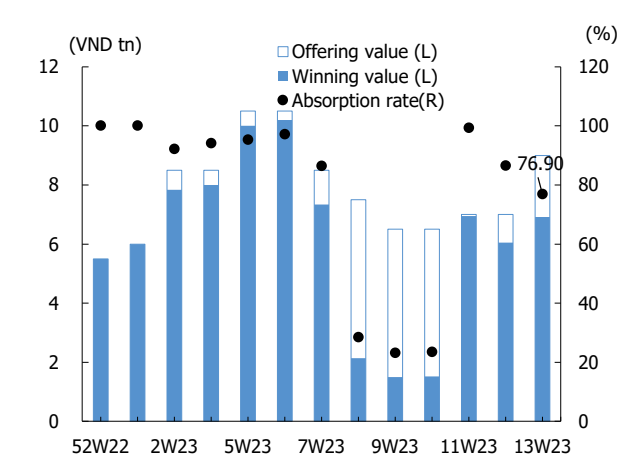
Source: HNX, KIS

Figure 15. Winning yields by week



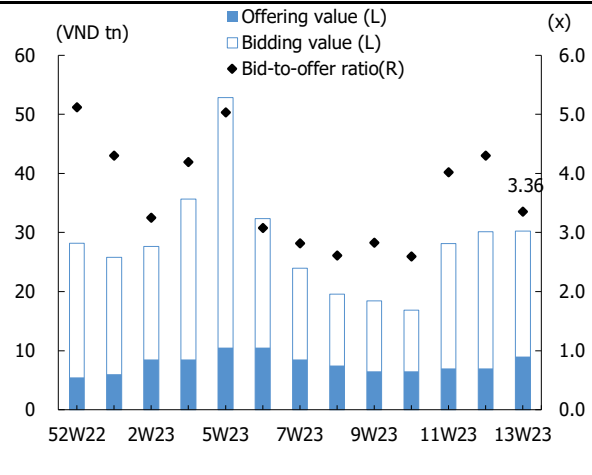
Source: HNX, KIS

Figure 16. Absorption ratio



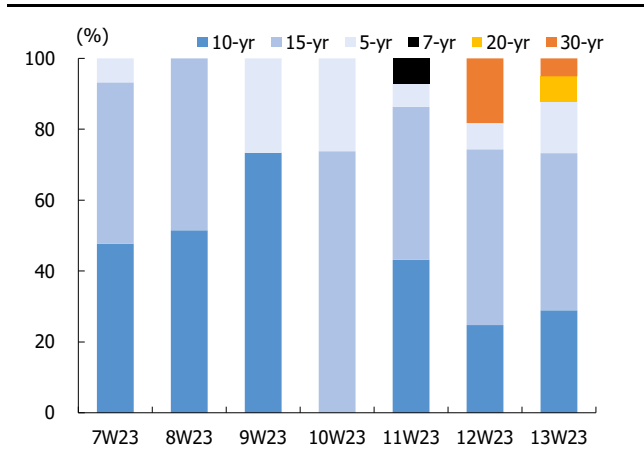
Source: HNX, KIS

Figure 17. Bid-to-offer ratio



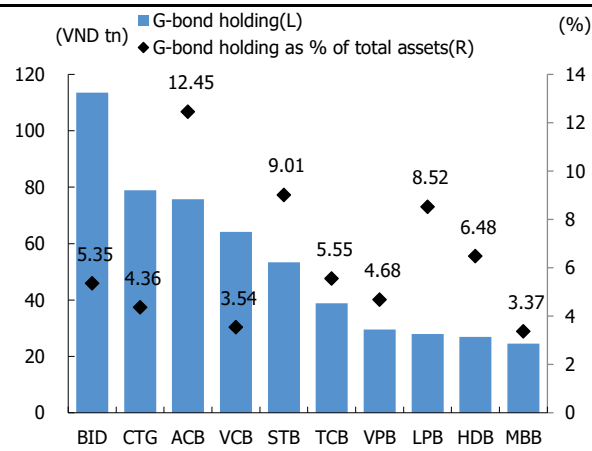
Source: HNX, KIS

Figure 18. Winning value by tenor



Source: HNX, KIS

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



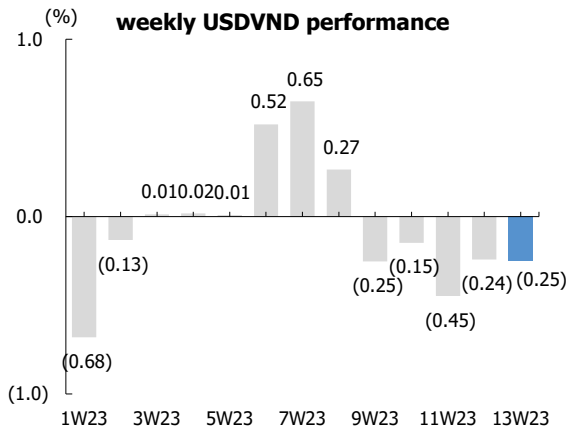
Source: HNX, Company filings, KIS

IV. USDVND carries on its downturn

VND safeguards its value successfully

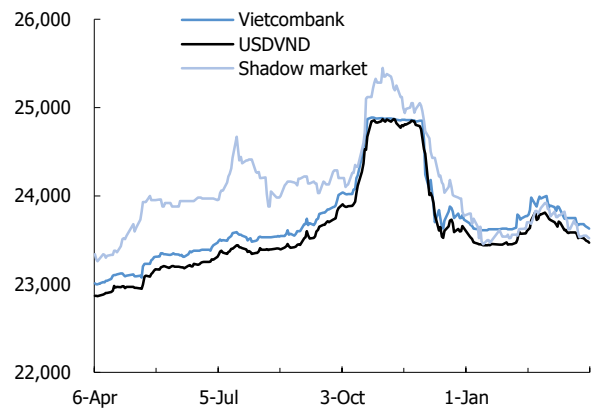
Despite the negative interest rate gap with USD extended for the second week, VND has successfully defended its value with a 0.25% WoW depreciation of the greenback, accompanied by a 0.59% fall of DXY. Specifically, the price for one greenback slipped by 59bps to VND23,471 over the week. With a similar magnitude, VCB discounted the USD bidding/asking price further by 50/50bps to 23,260/23,630 while the shadow market reduced its selling price less notably by 10bps to VND23,520 and sustained the buying quote at VND23,480.

Figure 20. Weekly USDVND performance



Source: SBV, Bloomberg

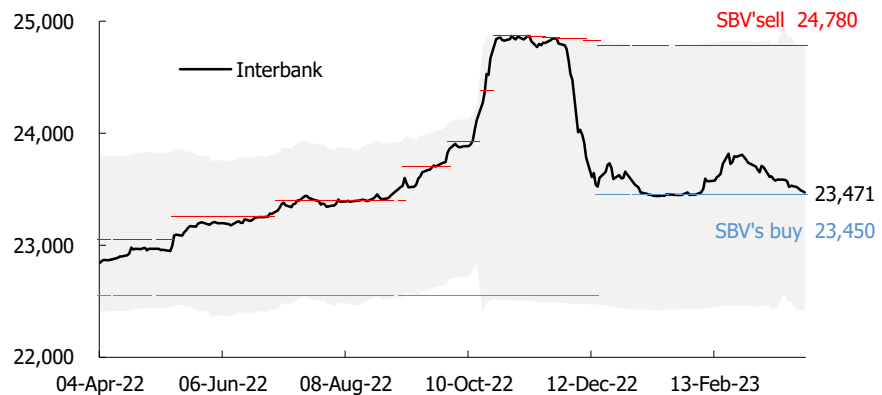
Figure 21. Historical USDVND by market



Source: SBV, Bloomberg, Fiiipro, tviadola.net

Regarding movements of the policymaker, SBV sustained the central rate at VND23,600 as the exchange rate is well-controlled thanks to the trade surplus of \$4.10bn and FDI capital disbursed of \$4.32bn for 1Q23. Since the beginning of this year, SBV has kept selling/buying unchanged at 24,780/23,450. Notably, the current exchange rate was only 21bps above SBV's buying price, showing no pressure on the exchange rate, leaving more headroom for the central bank to prioritize economic growth.

Figure 22. SBV's movement



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

Over the week, the dollar strength index further dipped by 0.25% to 102.5 and was falling toward the 1-year lowest point at 101.2. The lower-than-expected March core PCE and unexpected rise in jobless claims spurred some bets that Fed will have limited headroom to keep raising interest rates, especially risking a potential banking crisis. Remarkably, China and Brazil ditched the US dollar for trade payment by paying with their own currencies this week. In more detail, China and Brazil are the largest members of BRICS which contributed 25.5% of global output, according to IMF. At the same time, Saudi Arabia is interested in joining BRICS and considering accepting yuan for oil sales instead of dollars. Those post threats on the petrodollar system in particular and the greenback's dominant role in global finance in general. Yet, the world is heading to a multipolar system.

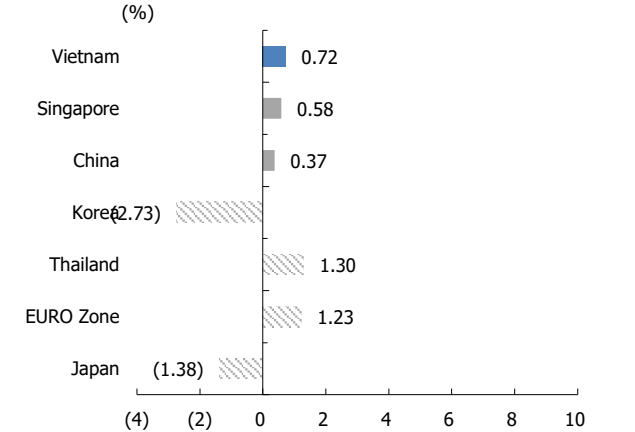
Over the first quarter, most Asian currencies were trading higher as the increasing bets that Fed's will taper its hawkish stance. Specifically, SGD, CNY, THB, and EUR gained 0.58%, 0.37%, 1.30%, and 1.23% since the beginning of the year. In contrast, KRW and JPY depreciated by 2.73% and 1.38% against the greenback.

Figure 23. Historical DXY



Source: SBV, Bloomberg

Figure 24. 2023 YTD performance of major currencies against USD



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

Macro scorecard

	22-Nov	22-Dec	23-Jan	23-Feb	23-Mar	2Q22	3Q22	4Q22	1Q23	2019	2020	2021	2022
Real GDP growth (%)						7.72	13.67	5.92	3.21	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	2.67	2.58	1.66	1.41	2.35	5.12	4.67	8.96	5.45	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)	29.50	29.66	25.08	25.88	29.57	96.83	96.48	89.50	79.17	263.6	282.7	335.7	371.85
Import (USD bn)	30.00	29.16	21.48	23.58	28.92	97.58	90.71	85.07	75.10	254.4	263	331.1	360.65
Export growth (%)	(7.40)	(13.96)	(21.28)	10.97	(14.78)	21.02	17.22	(6.07)	(11.90)	8.16	7.02	18.74	10.61
Import growth (%)	(2.04)	(8.14)	(28.92)	(6.65)	(11.10)	15.72	8.12	(3.90)	(14.67)	7.41	3.81	25.9	8.35
Inflation (%)	4.37	4.55	4.89	4.31	3.35	2.96	3.32	4.41	4.18	2.79	3.24	1.84	3.15
USD/VND	24,800	23,658	23,449	23,780	23,480	23,139	23,712	23,658	23,480	23,173	23,126	22,790	23,650
Credit growth (%)	11.50	12.87	NA	NA	NA	8.51	10.47	12.87	1.61	13.75	12.17	12.97	12.87
10Y gov't bond (%)	4.91	5.08	4.59	4.39	3.54	3.38	4.39	5.08	3.54	3.37	2.01	2.11	5.08

Source: GSO, Bloomberg, FIA, IMF

**Glossary

- * Winning yield rate = each group's highest bidding rate, ~4.2%
- * Absorption rate = winning value / offering value, ~76.90%
- * Bid to offer ratio = offering value / bidding value, ~3.36
- * DXY = U.S. Dollar Index, ~102.5
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~1.0%

Appendix

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

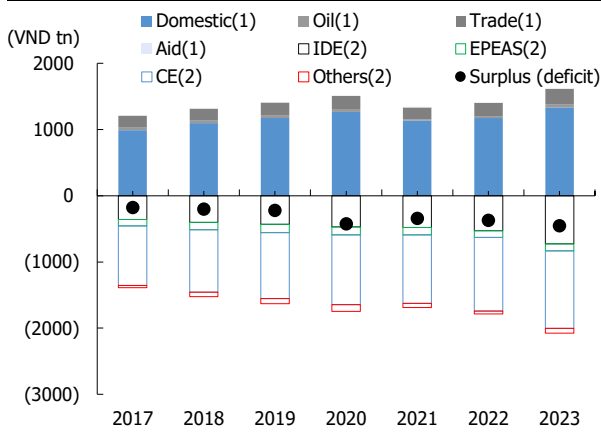
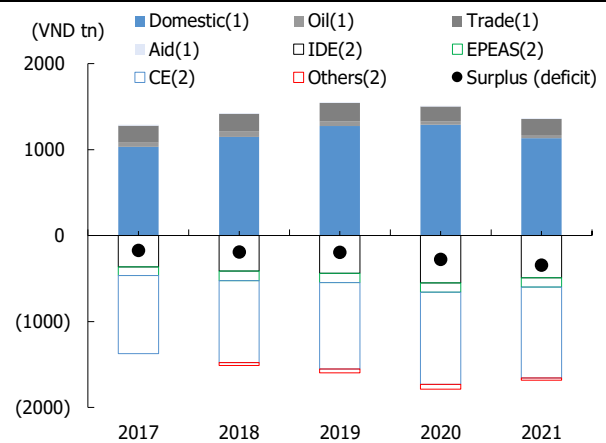


Figure 2. Vietnam's state budget by year: actual



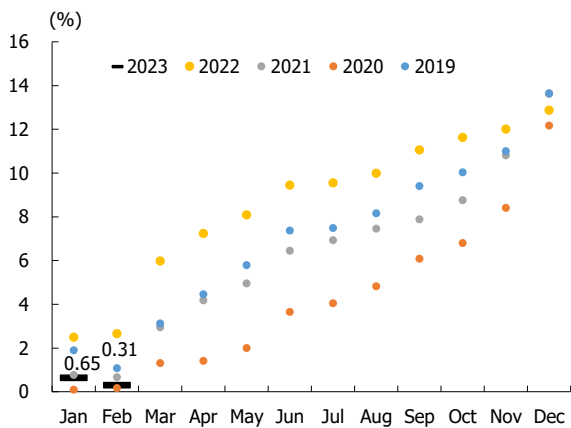
Source: MoF, SBV, KIS

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

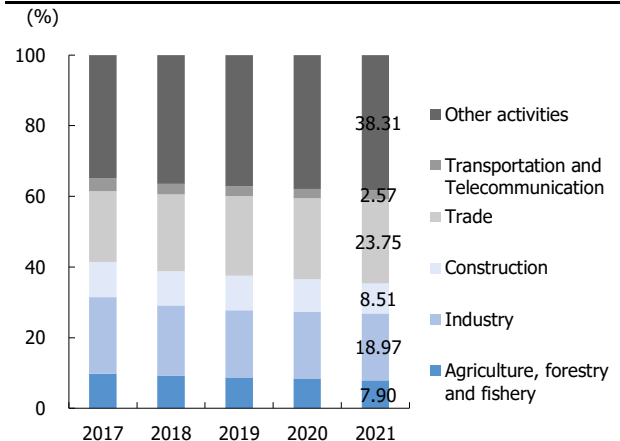
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



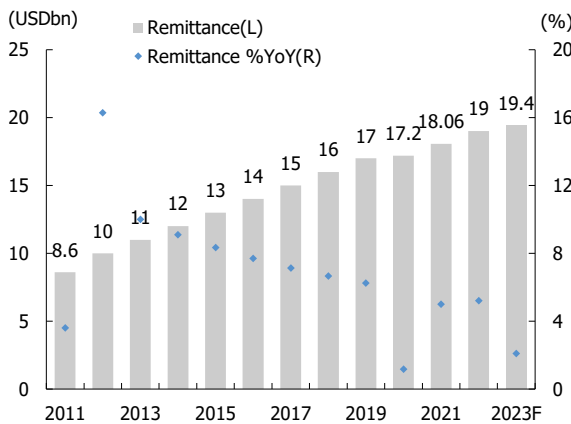
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



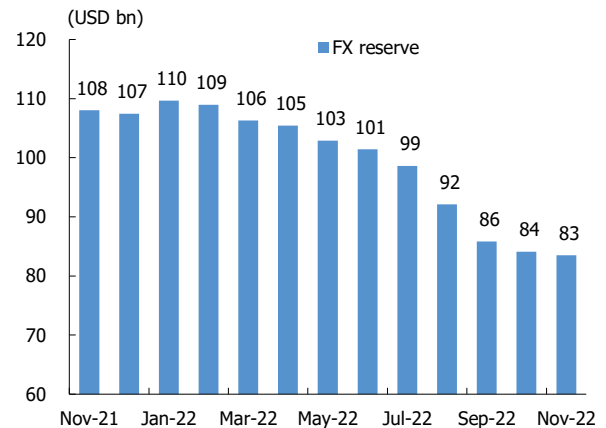
Source: SBV, KIS

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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