

# Fixed-income Perspectives

## Interest rate reversal in the early stage

### SBV slightly injects money

In the 14th week of 2023 (from 3 April to 9 April), SBV backed to support the banking system with a modest amount, and few participants joint its auctions, likely indicating a short-lived liquidity shortage from its counterparties. Specifically, Vietnam's central bank conducted two auctions this week with a total offering of VND4.40tn, a 28-day term, and a winning rate of 5% (50bps lower than last week). As per T-bill transactions, this week recorded no transactions via this channel. Jointly, the banking system received VND4.40tn of liquidity support from the central bank. Besides, SBV enriched its USD reserve when interbank USDVND crossed the selling price of VND23,450, meaning an amount of VND was injected into the banking system.

### Short-tenors bound back to normalization

The interbank market put an end to the three weeks streak of negative interest gap between VND and USD after the first release of the rate cut from SBV. Generally, the interbank rate curve has restored its shape to the pre-rate cut period with a dramatic bounce back in short-tenors and a moderate fall in long-tenors. Specifically, ON, 1W, 2W, and 1M surged significantly by 376bps, 306bps, 259bps, and 119bps to 3.76%, 3.06%, 2.59%, and 1.19% over the week.

### USDVND dips further

The upside from the back-to-positive interest gap between VND and USD has been offset by the SBV's buying price at 23,450, limiting the appreciation of the dong against the greenback with the weekly settlement at 23,451. Specifically, USDVND dipped further by 0.09% WoW, accompanied by a 0.40% fall of DXY over the week.

### 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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**Research Dept.**

researchdept@kisvn.vn

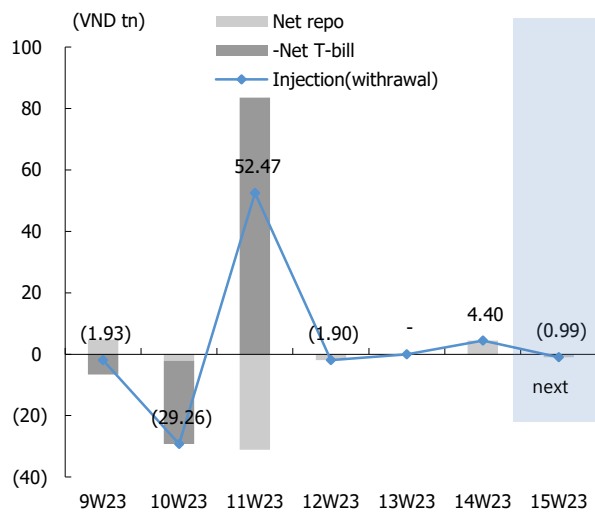
# I. SBV slightly injects money

## SBV backs to support its counterparties

In the 14th week of 2023 (from 3 April to 9 April), SBV backed to support the banking system with a modest amount, and few participants joint its auctions, likely indicating a short-lived liquidity shortage from its counterparties. Specifically, Vietnam’s central bank conducted two auctions this week with a total offering of VND4.40tn, a 28-day term, and a winning rate of 5% (50bps lower than last week). As per T-bill transactions, this week recorded no transactions via this channel. Jointly, the banking system received VND4.40tn of liquidity support from the central bank. Besides, SBV enriched its USD reserve when interbank USDVND crossed the selling price of VND23,450, meaning an amount of VND was injected into the banking system.

The active transaction in the OMO channel this week showed that the banking system was a bit strained. However, the yield curve remained flat, reflecting the market’s assessment of liquidity shortfalls as temporary. Therefore, OMO transactions could be silent in the upcoming weeks. 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 and prepare for the upcoming long holiday cash demand.

**Figure 1. Net injection (withdrawal) of liquidity**



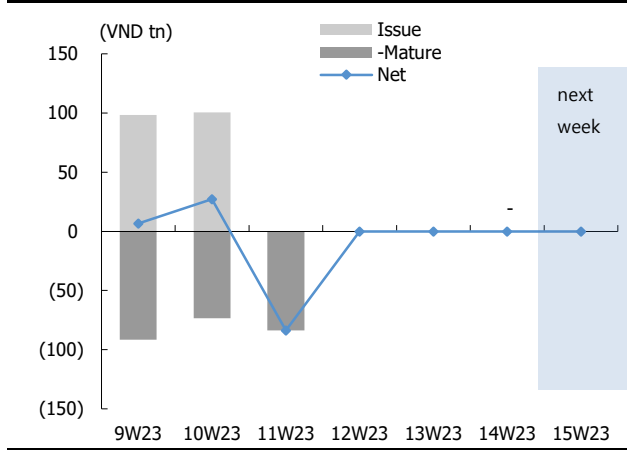
Source: SBV, Bloomberg, KIS

**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↓

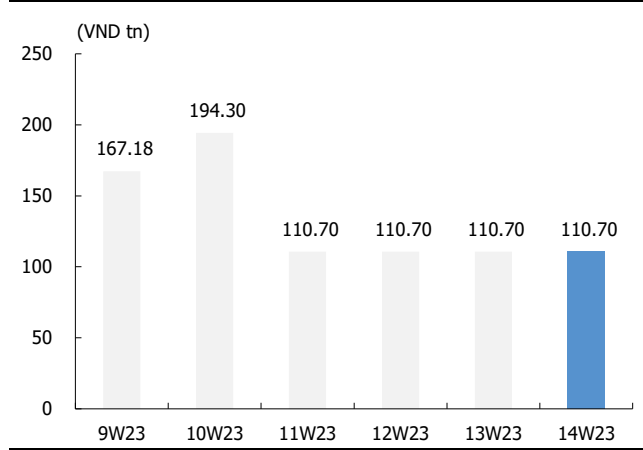
Source: SBV, Bloomberg, KIS

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



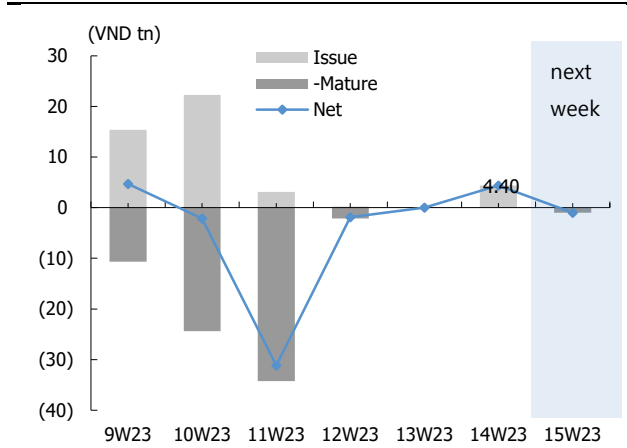
Source: SBV, Bloomberg, KIS

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



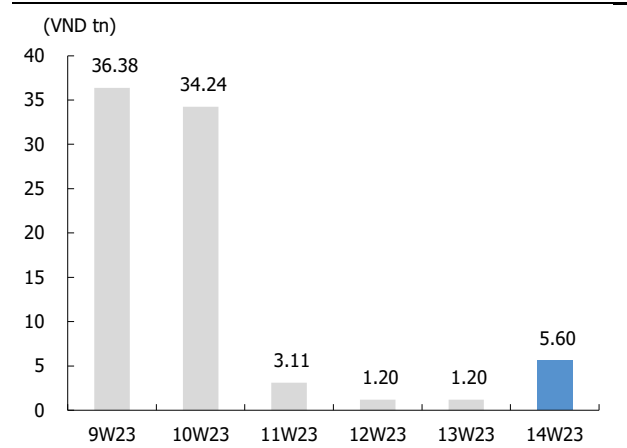
Source: SBV, Bloomberg, KIS

**Figure 4. Issued repo by week**



Source: SBV, Bloomberg, KIS

**Figure 5. Outstanding repo by week**



Source: SBV, Bloomberg, KIS

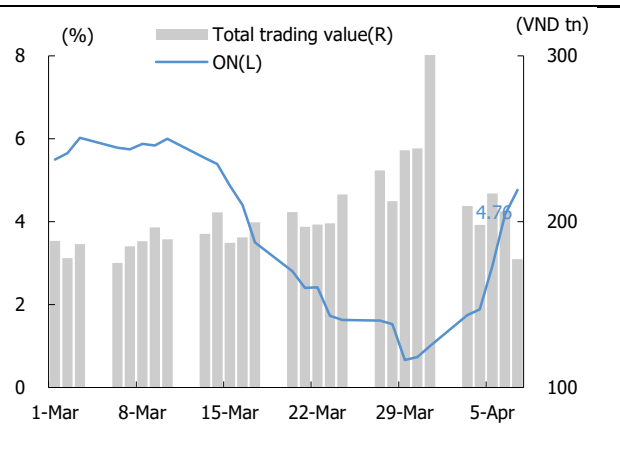
## II. Short-tenors sharply rebound

### Negative interest gaps end

The interbank market ended the three weeks streak of negative interest gap between VND and USD after the first release of the rate cut from SBV. Generally, the interbank rate curve has restored its shape to the pre-rate cut period with a dramatic bounce back in short-tenors and a moderate fall in long-tenors. Specifically, ON, 1W, 2W, and 1M surged significantly by 376bps, 306bps, 259bps, and 119bps to 3.76%, 3.06%, 2.59%, and 1.19% over the week.

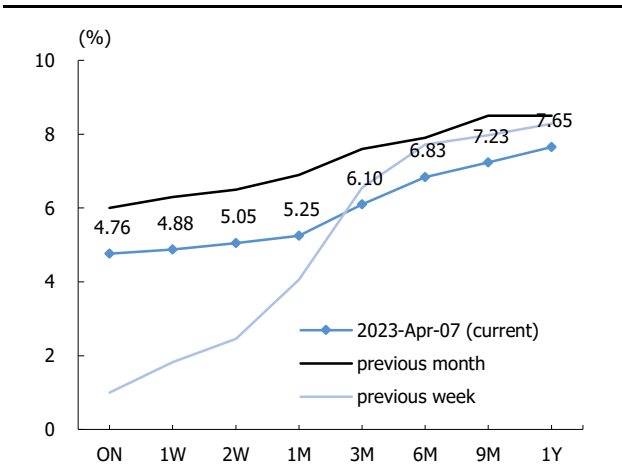
The unexpected change in SBV's monetary policy stance with two consecutive rounds of rate cuts over the last few weeks could temporarily create a mismatch between depositors and the commercial banks in renewing the interest rates, leading to a liquidity shortfall in the banking system and shooting overnight interbank rate this week.

**Figure 6. Interbank daily transaction**



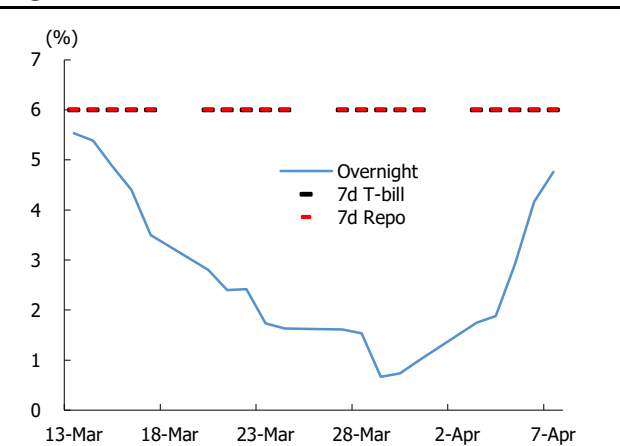
Source: SBV, Bloomberg, KIS

**Figure 7. Interbank rate curve**



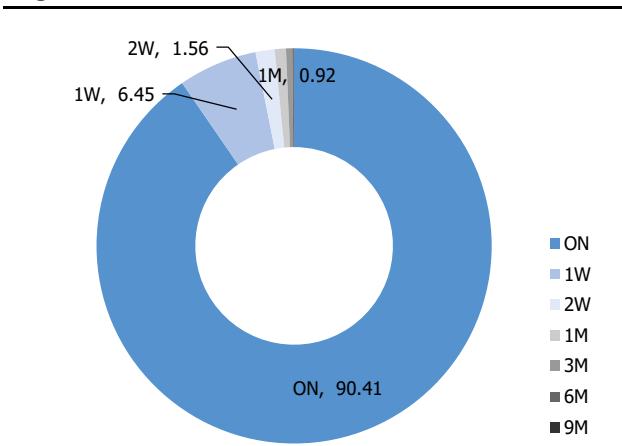
Source: SBV, Bloomberg, KIS

**Figure 8. Interbank rate corridor**



Source: SBV, Bloomberg, KIS

**Figure 9. Interbank transaction structure**



Source: SBV, Bloomberg, KIS

In compliance with SBV's rate cut will, the four state-owned banks (SOBs) have reduced their deposit rate by 23bps and 15bps for 6-month and 12-month tenors in April, respectively.

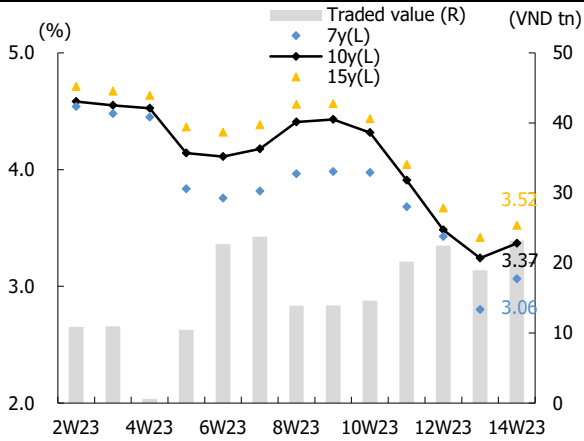


### III. G-bond yields rebound

**Trading volume remained high**

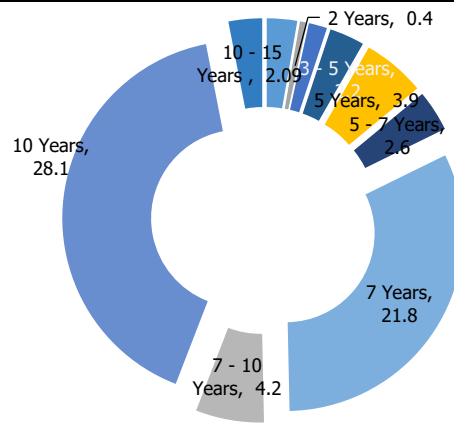
G-bond yields in the secondary market witnessed a jump with the volume sustained at a high level. Specifically, trading yields increased slightly this week by 26bps, 13bps, and 10bps for 7-year, 10-year, and 15-year tenors to 3.06%, 3.37%, and 3.52%, respectively. In addition, traded volume in 14W23 rise by 22.62% compared to last week's data, standing high at VND23.23tn. The active trading activities in recent weeks could be incentivized by the SBV's strong will in rate cutting and calmed international fears.

**Figure 12. G-bond trading value**



Source: HNX, KIS

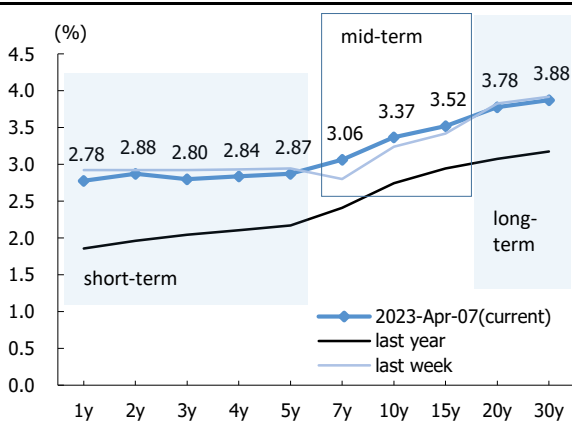
**Figure 13. Trading value by tenor this week**



Source: HNX, KIS

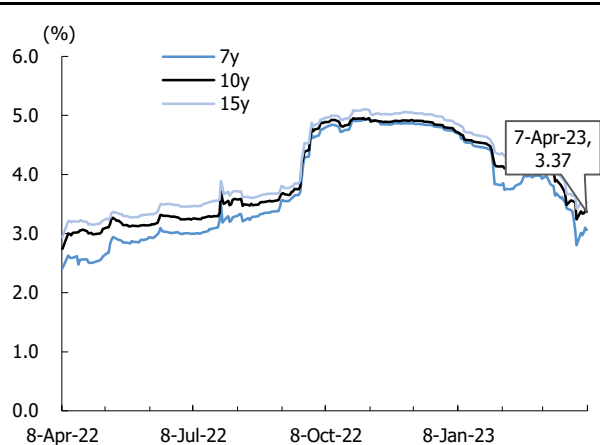
Regarding value structure, transactions kept concentrating on tenors from 7 to 15 years, with a joint portion of 71.41%. The yield curve became steeper this week when mid-term tenors tend to increase more than other. The average increases in yield for mid-term (7 years to 15 years) were 16bps while that for short-term (1 years to 5 years) and long-term (20 years to 30 years) decreased by 10bps and 5bps respectively.

**Figure 14. G-bond trading yield curve**



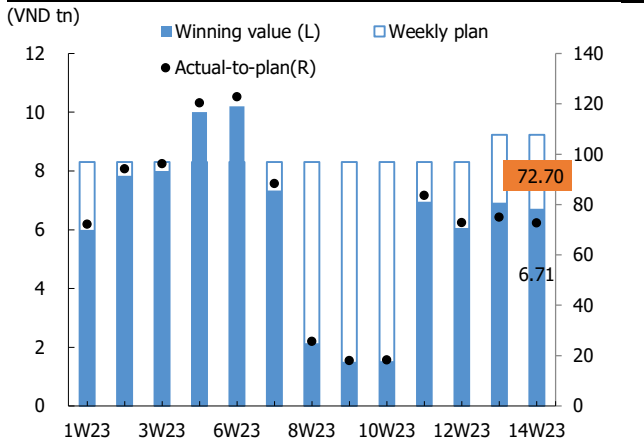
Source: HNX, VBMA, KIS

**Figure 15. Historical daily government bond yield**



Source: HNX, VBMA, KIS

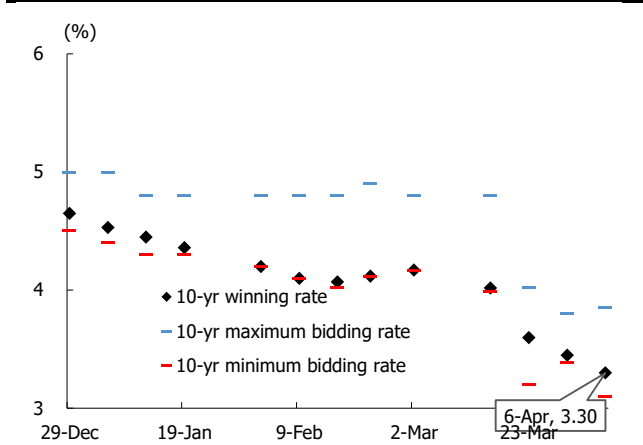
**Figure 16. Winning value by week**



Source: HNX, KIS

Note: 2Q23 G-bond issuance plan is estimated according to previous year's shares

**Figure 17. Winning yields by week**

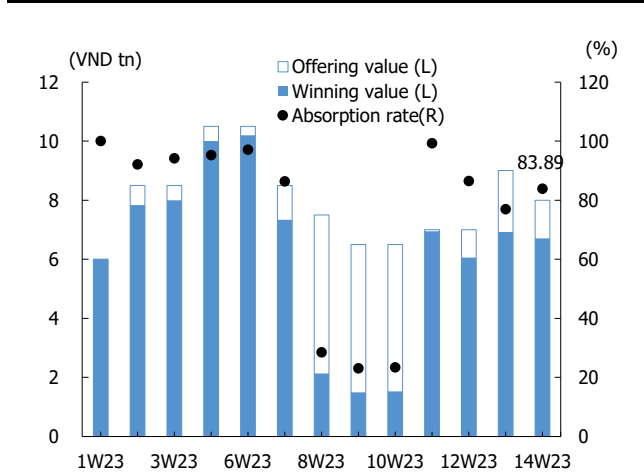


Source: HNX, KIS

Regarding the development of G-bond issuance, the winning yields in the primary continued to fall, making a fourth consecutive week of decline. Specifically, a fall was seen in 5-year, 10-year, and 15-year tenors by 13bps, 15bps, and 20bps, respectively. Also, labor market data released on 7 April showed that the U.S. unemployment rate in March was 3.5%, lower than market consensus and the previous month, indicating that the labor market is still tight resulting in Fed's hawkish move in the next meeting. Thus, it is likely that the winning yield might face some pressure in the upcoming weeks.

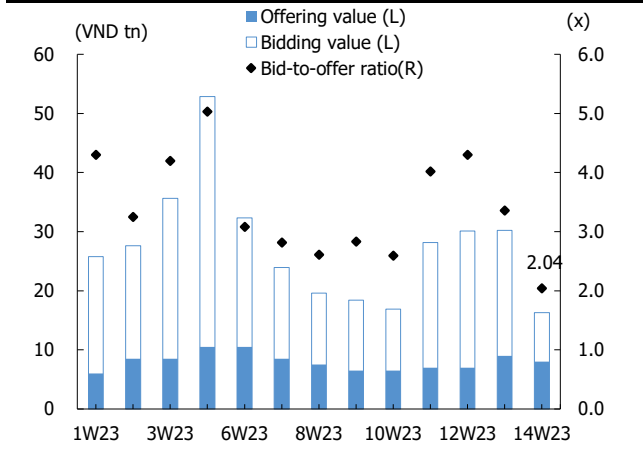
The winning amount was stabilized for the third week, standing at VND6.711tn or 3.03% lower than the previous week.

**Figure 18. Absorption ratio**



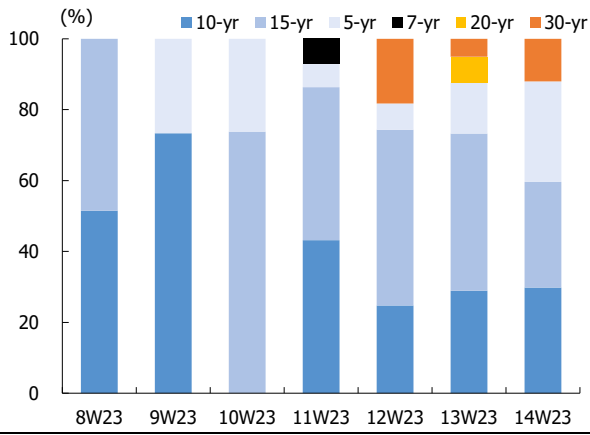
Source: HNX, KIS

**Figure 19. Bid-to-offer ratio**



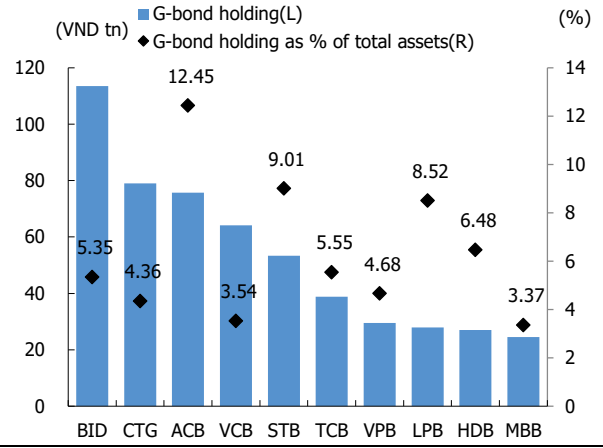
Source: HNX, KIS

**Figure 20. Winning value by tenor**



Source: HNX, KIS

**Figure 21. Top G-bond holding by bank as of 4Q22**



Source: HNX, Company filings, KIS

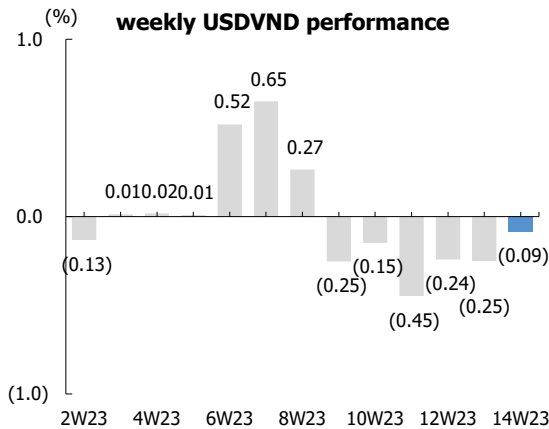


## IV. USDVND dips further

### VND keeps strengthening

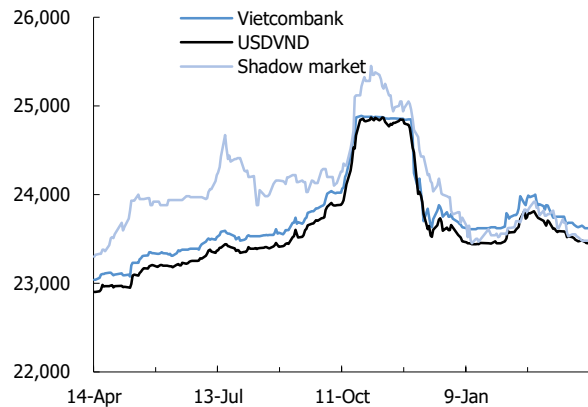
The upside from the back-to-positive interest gap between VND and USD has been offset by the SBV's buying price at 23,450, limiting the appreciation of the dong against the greenback with the weekly settlement at 23,451. Specifically, USDVND dipped further by 0.09% WoW, accompanied by a 0.40% fall of DXY over the week. Less notably compared to 20 dong fall in the market rate, VCB depressed its bidding/asking prices by 10bps/10bps to 23,250/23,620 while it slumped in the shadow market by 100bps/40bps to 23,380/23,480.

Figure 22. Weekly USDVND performance



Source: SBV, Bloomberg

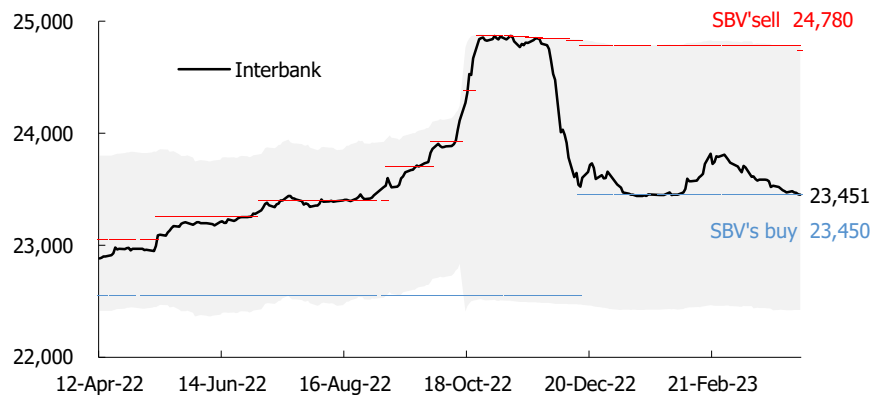
Figure 23. Historical USDVND by market



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

Notably, the exchange rate's upper and lower bands have been sustained since 4Q22 even though the external pressure has been eased from January. This week, SBV reduced its selling price by 47bps showing its confidence in FX control while keeping the buying price unchanged. Accordingly, SBV should be able to build up the foreign reserves over the week as the market price touched the lower band. Oppositely, the authority raised the central rate insignificantly by 3bps to 23,603 over the week.

Figure 24. 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).

The U.S. labor market witnessed a divergence this week in the job opening numbers and the unemployment rate. On Tuesday, the market lowered the chance of an upcoming Fed hike according to the below-expectation job openings. This was unwound by an unexpected fall in the unemployment rate from 3.6% in February to 3.5% this month as the labor force participation rate edged up by 0.1% to 62.6%. Over the week, the market raised the bet on a 25bps hike in the upcoming May FOMC to 71.15%. Additionally, the slowdown in core PCE along with lower unemployment put a divergence on Fed's moves.

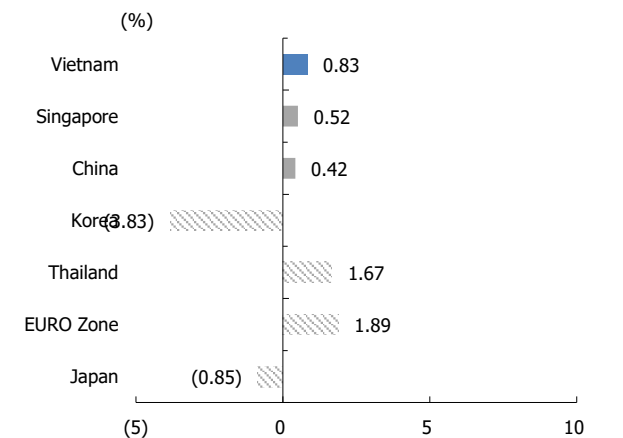
The weakening greenback this week extended the appreciation of most currencies under our watchlist since the beginning of the year. Specifically, CNY, THB, EUR, and JPY gained over the week, ending at 0.42%, 1.67%, 1.89%, and -0.85% YTD while SGD slightly fell to 0.52% YTD. Notably, KRW kept heavily depreciating, settling down the week at -2.83% YTD against the USD.

**Figure 25. Historical DXY**



Source: SBV, Bloomberg

**Figure 26. 2023 YTD performance of major currencies against USD**



Source: SBV, Bloomberg  
 Note: striped 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

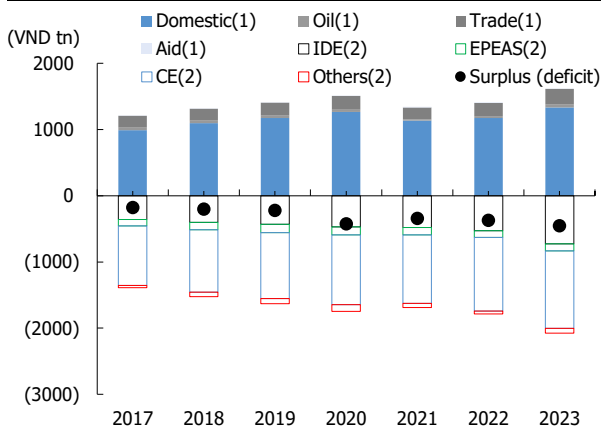
Source: GSO, Bloomberg, FIA, IMF

## \*\*Glossary

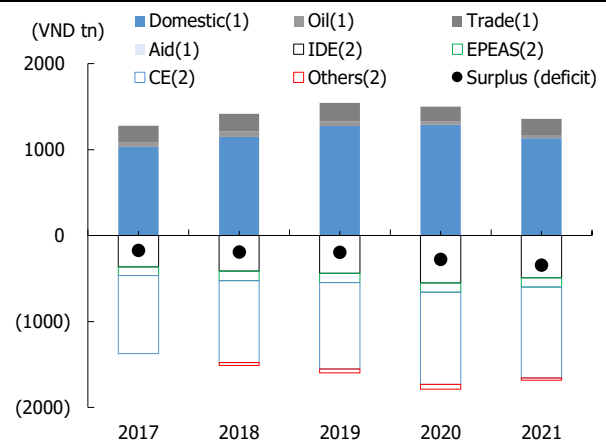
- \* Winning yield rate = each group's highest bidding rate, ~3.52%
- \* Absorption rate = winning value / offering value, ~83.89%
- \* Bid to offer ratio = offering value / bidding value, ~2.04
- \* DXY = U.S. Dollar Index, ~102.1
- \* OMO = Open market operation
- \* Tenor = due for payment
- \* ON = overnight interbank interest rate, ~4.76%

## Appendix

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



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



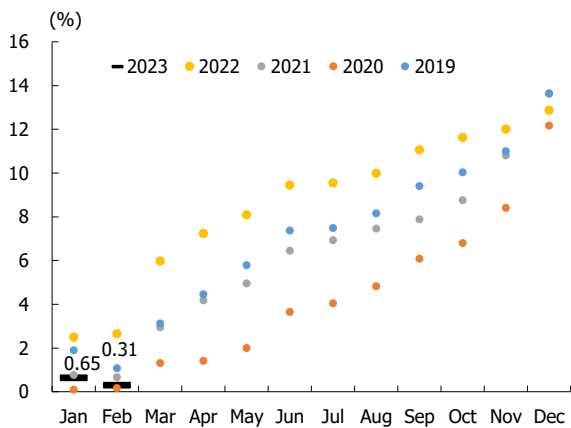
Source: MoF, SBV, KIS

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

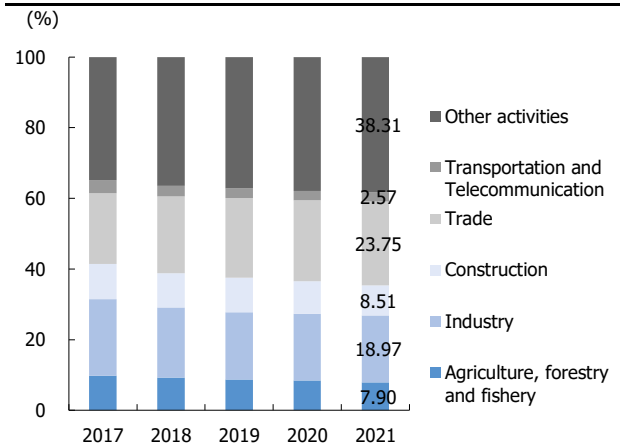
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



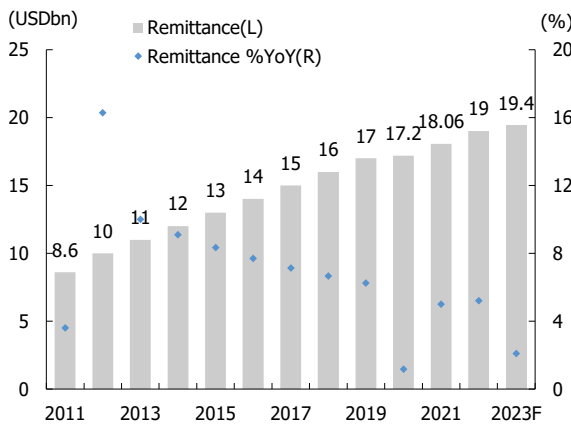
Source: SBV, KIS

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



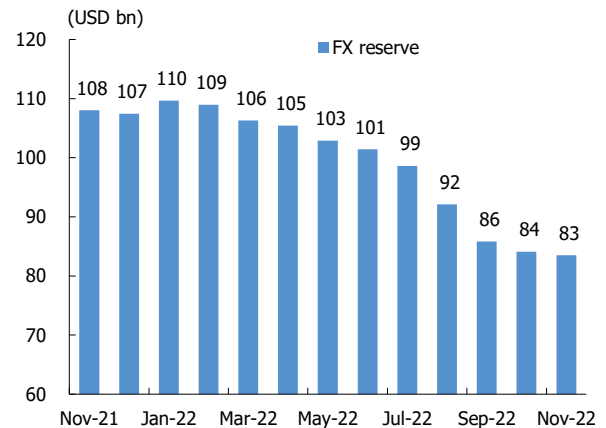
Source: SBV, KIS

**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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