

Fixed-income Perspectives

Tight liquidity condition on the short-lived imbalance

SBV enhances liquidity support

In the 15th week of 2023 (from 10 April to 16 April), SBV continued the chain of supporting the banking system, indicating a higher demand from its borrowers. Specifically, Vietnam's central bank increased its repo offerings in 7-day and 28-day terms to VND66.78, at a winning rate of 5%. As per T-bill transactions, this week recorded no transactions via this channel. Jointly, the banking system received VND65.79tn of liquidity support from the central bank this week.

Short-tenor interbank rates bound back further

15W23 witnessed a further bound back of interbank rate, attributable to the liquidity need for the upcoming holidays. Specifically, ON, 1W, 2W, 1M, and 3M increased by 36bps, 24bps, 8bps, 6bps, and 13bps to 5.13%, 5.12%, 5.13%, 5.31%, and 6.22% over the week. The average daily trading volume increased by 8.81% WoW to VND219.37tn from VND201.60tn last week.

USDVND calms

The dong moved insignificantly as being absorbed by SBV at its buying price. Over the week, USDVND fell modestly by 0.03% to 23,444, lengthening a depreciation streak to seven weeks. The US dollar strength index hasn't broken through the 1-year low level, settled the week at -0.53%.

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 enhances liquidity support

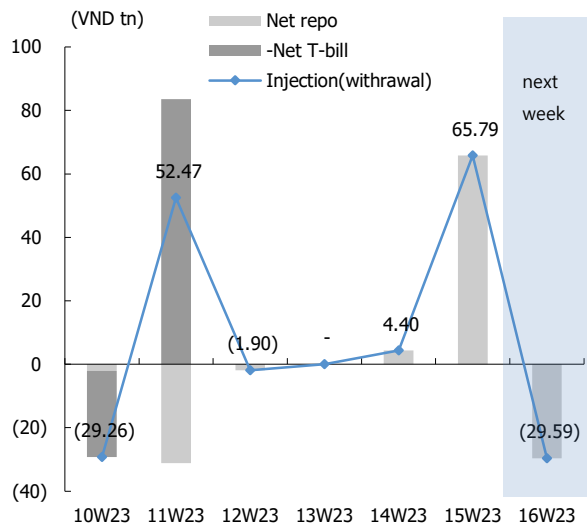
SBV backs to support its counterparties

In the 15th week of 2023 (from 10 April to 16 April), SBV continued the chain of supporting the banking system, indicating a higher demand from its borrowers. Specifically, Vietnam’s central bank increased its repo offerings in 7-day and 28-day terms to VND66.78, at a winning rate of 5%. As per T-bill transactions, this week recorded no transactions via this channel. Jointly, the banking system received VND65.79tn of liquidity support from the central bank this week.

In addition, the SBV also injected a significant amount of VND into the market through the purchase of USD to enrich the USD reserve. In fact, the USD inflow has been quite positive recently, coming from disbursed FDI inflows, trade balance surplus as well as USD inflows from M&A deals.

Demand for cash payment jumped before the long holidays, resulting in market liquidity being somewhat tenser, which explains SBV’s consistent injection of liquidity. Therefore, OMO transactions could be more active 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



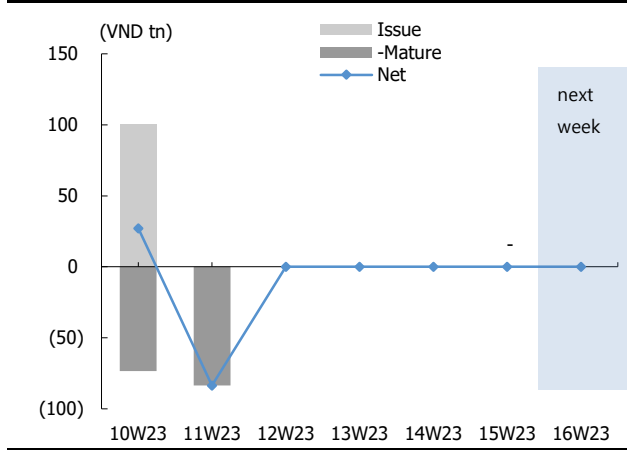
Source: SBV, Bloomberg, KIS

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↓

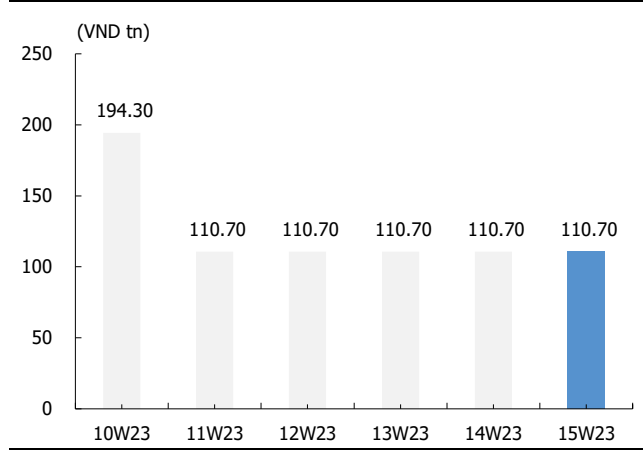
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



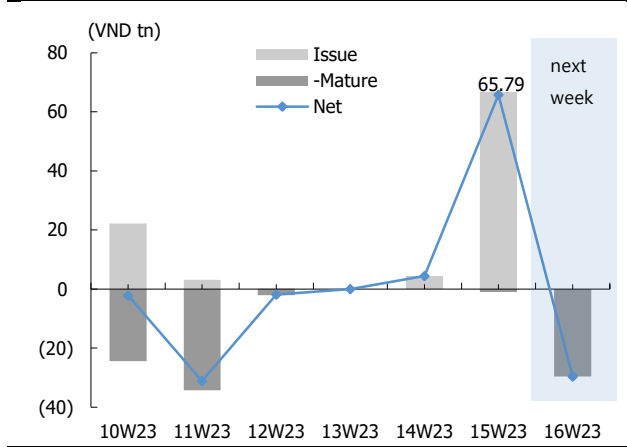
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



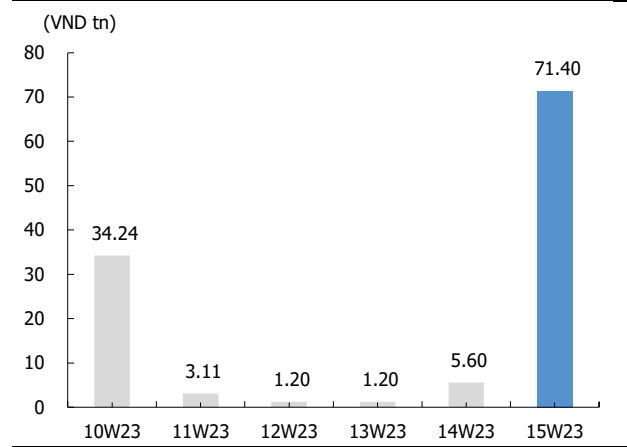
Source: SBV, Bloomberg, KIS

Figure 4. Issued repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



Source: SBV, Bloomberg, KIS

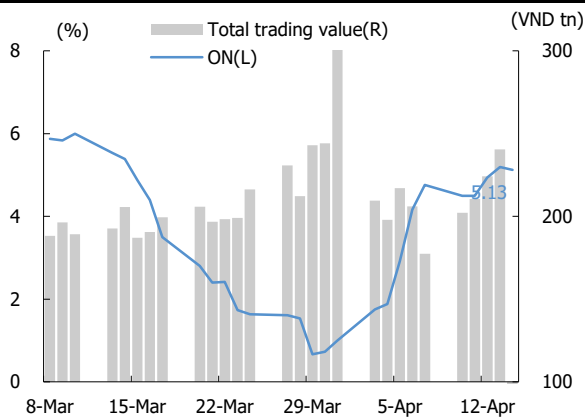
II. Short-tenors interbank rate bound back further

Interbank rates rebound further

15W23 witnessed a further bound back of interbank rate, attributable to the liquidity need for the upcoming holidays. Specifically, ON, 1W, 2W, 1M, and 3M increased by 36bps, 24bps, 8bps, 6bps, and 13bps to 5.13%, 5.12%, 5.13%, 5.31%, and 6.22% over the week. The average daily trading volume increased by 8.81% WoW to VND219.37tn from VND201.60tn last week.

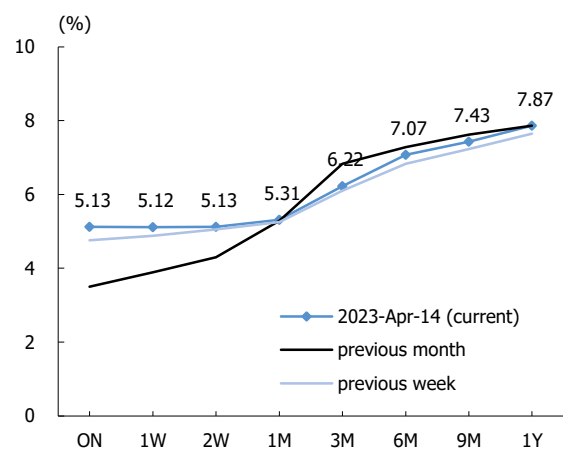
Notably, the rate escalation focused on 1W tenors to compensate for high liquidity needs during the upcoming long holidays. The share of 1W tenor increased from 6.45% last week to 7.31% this week and is expected to increase further next week – the week before the vacation.

Figure 6. Interbank daily transaction



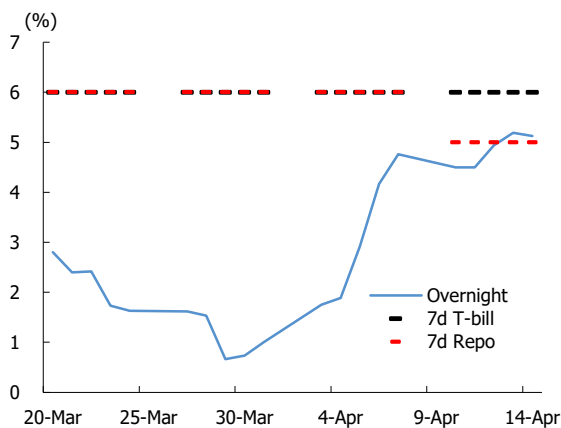
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



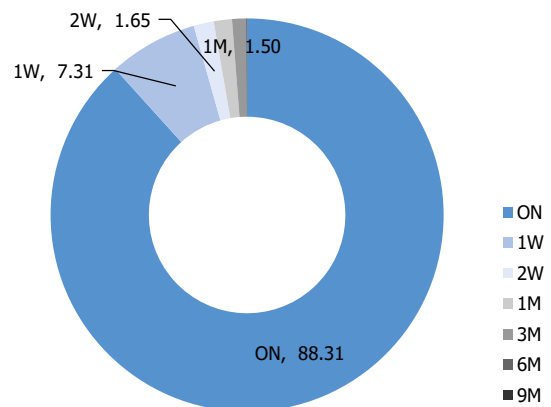
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



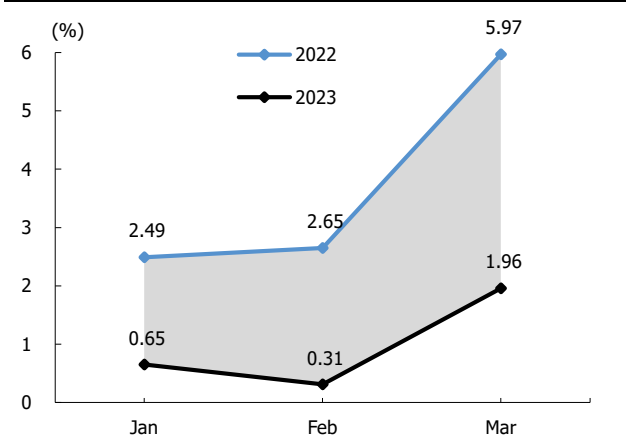
Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



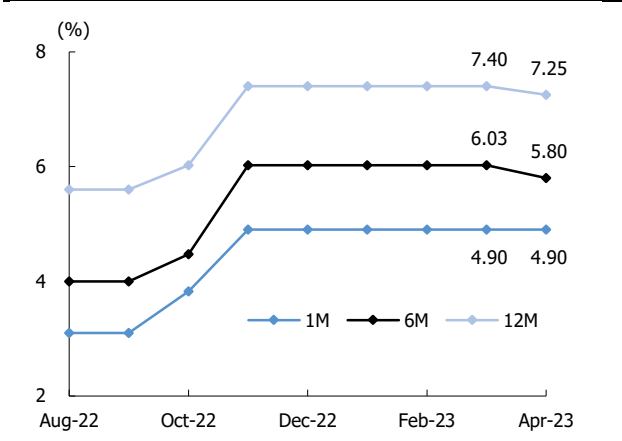
Source: SBV, Bloomberg, KIS

Figure 10. Credit growth by month



Source: SBV, Bloomberg, KIS

Figure 11. Average deposit rates among four state-owned banks



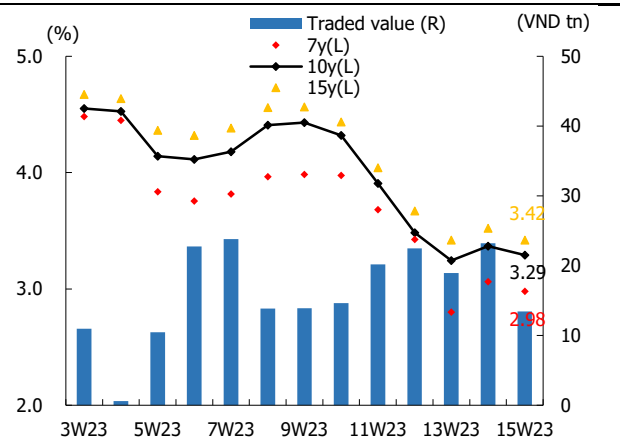
Source: Vietnambiz.vn, KIS

III. G-bond yields fall slightly

Trading volume remained high

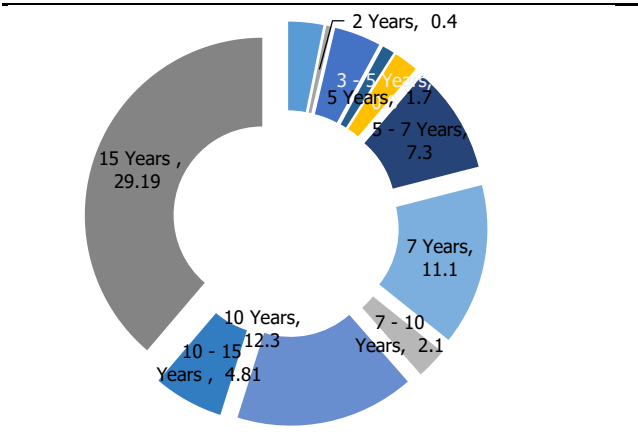
G-bond yields in the secondary market witnessed a slight fall as well as the volume declined sharply, indicating a weaker supply this week. Specifically, trading yields decreased by 8bps, 8bps, and 10bps for 7-year, 10-year, and 15-year tenors to 2.98%, 3.29%, and 3.42%, respectively. In addition, traded volume in 15W23 decreased significantly by 42.20% compared to last week's data, recording VND13.43tn.

Figure 12. G-bond trading value



Source: HNX, KIS

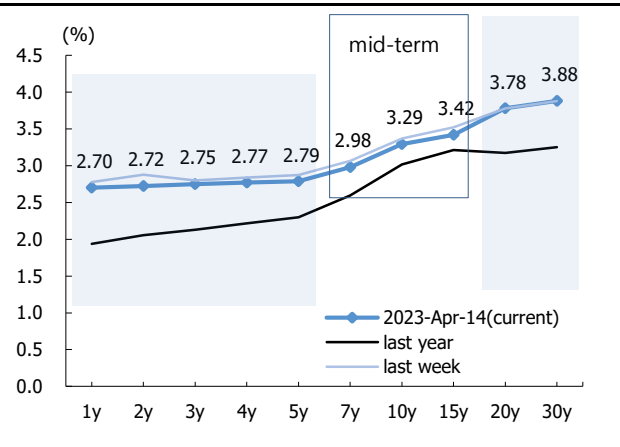
Figure 13. Trading value by tenor this week



Source: HNX, KIS

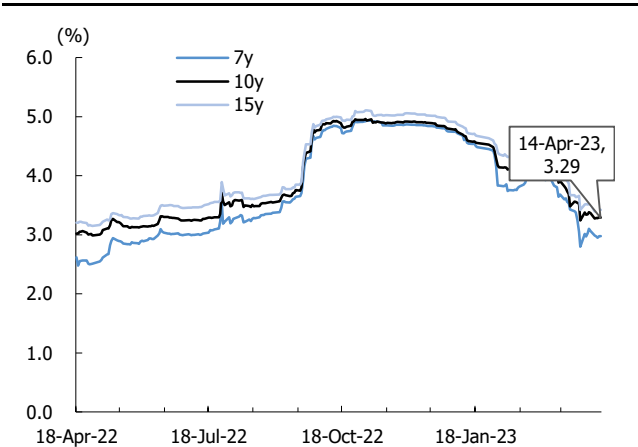
Regarding value structure, transactions kept concentrating on tenors from 7 to 15 years, with a joint portion of 59.47%. The yield curve became steeper compared with last week when both short-term and mid-term tenors decrease. The average decrease in yield for the short-term (1 year to 5 years) and mid-term (7 years to 15 years) were 9bps while that for the long-term remained unchanged.

Figure 14. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 15. Historical daily government bond yield

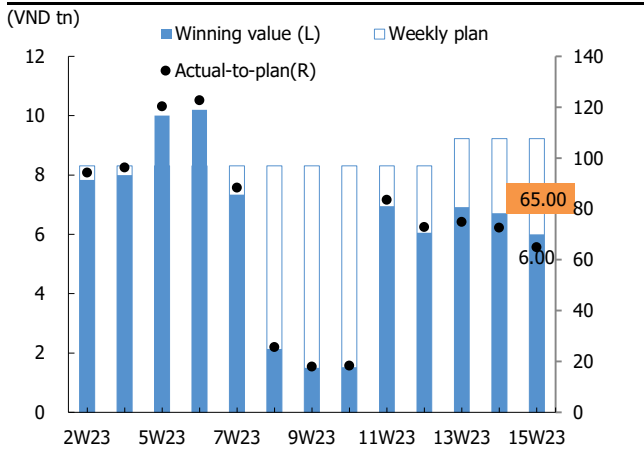


Source: HNX, VBMA, KIS

Regarding the development of G-bond issuance, the winning yields in the primary remained unchanged except for the winning yield of the 10-year tenor, decreasing by 2bps. Furthermore, inflation data released on 12th April showed that the annual inflation rate in the US slowed for a ninth consecutive period to 5%, lower than market consensus and the previous month, indicating the less hawkish move of FED in the next meeting in May. Thus, it is likely that the

winning yield might be eased in the upcoming weeks. A decline was seen in the winning value this week, standing at VND6.000tn or -10.59% lower than the previous week.

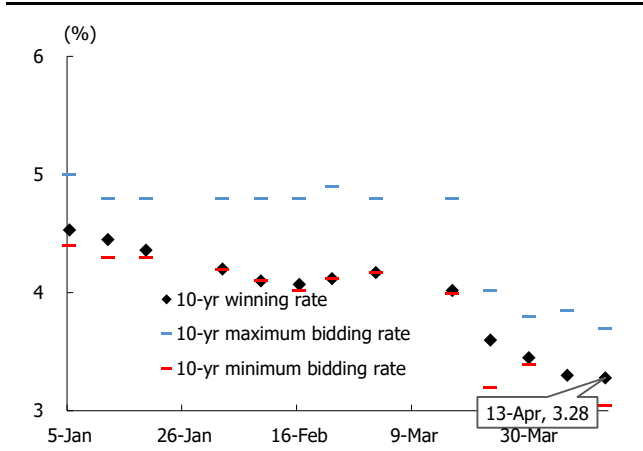
Figure 16. Winning value by week



Source: HNX, KIS

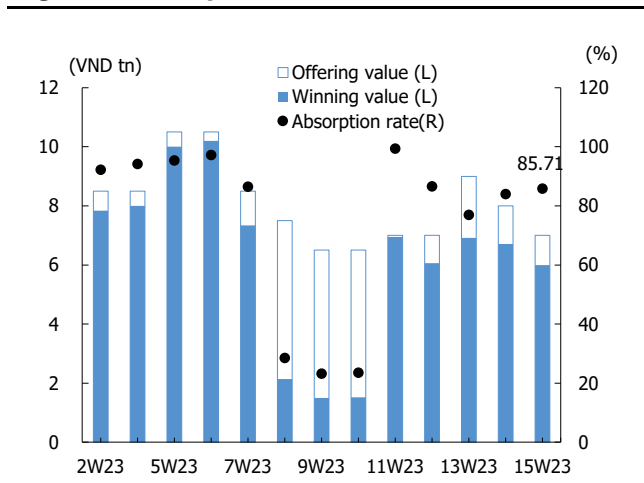
Note: 2Q23 G-bond issuance plan is estimated according to previous year's shares

Figure 17. Winning yields by week



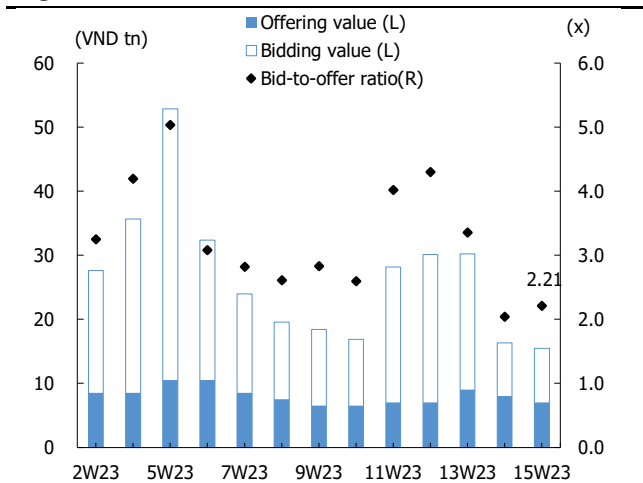
Source: HNX, KIS

Figure 18. Absorption ratio



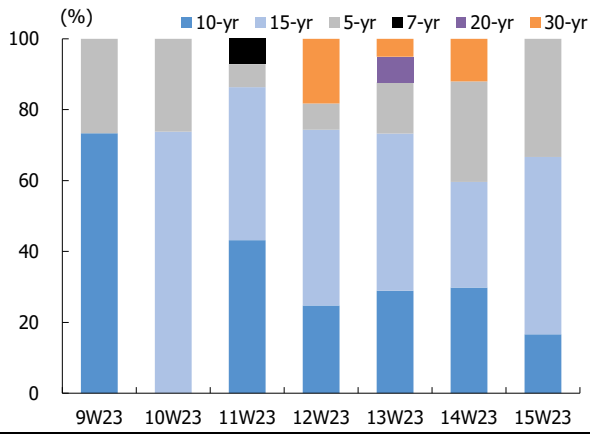
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



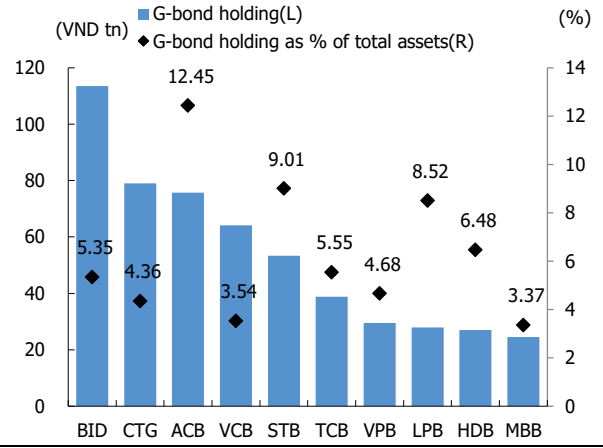
Source: HNX, KIS

Figure 20. Winning value by tenor



Source: HNX, KIS

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



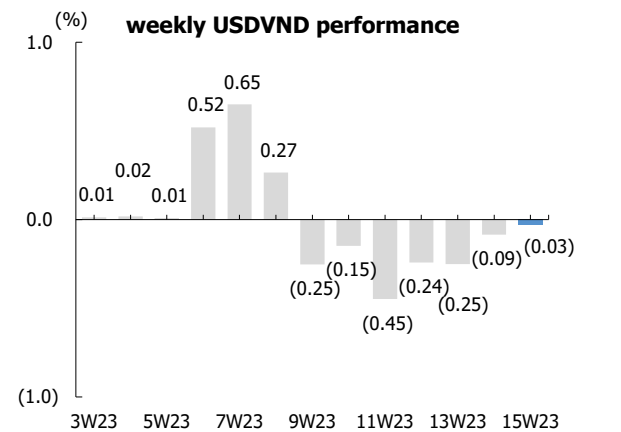
Source: HNX, Company filings, KIS

IV. US DVND calms

USD temporarily holds

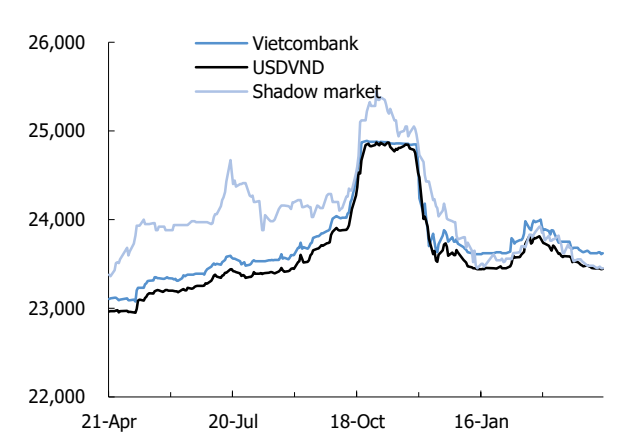
The dong moved insignificantly as being absorbed by SBV at its buying price. Over the week, US DVND fell modestly by 0.03% to 23,444, lengthening a depreciation streak to seven weeks. The US dollar strength index hasn't broken through the 1-year low level, settled the week at -0.53%. More notably compared to the 7-dong fall in the market rate, the shadow market buying/selling price changed by +20bps/-30bps to 23,400/23,450 while VCB sustained prices unchanged over the week at 23,250/23,620.

Figure 22. Weekly US DVND performance



Source: SBV, Bloomberg

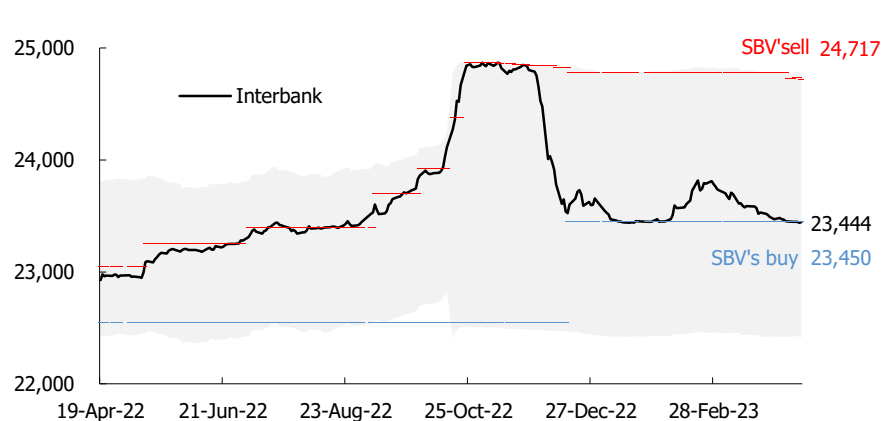
Figure 23. Historical US DVND by market



Source: SBV, Bloomberg, Fiinpro, tvgiadola.net

Following the adjustment last week, SBV further decreased its selling price by 16bps to 23,717 in accordance with the exchange rate falling. Notably, the market price broke through SBV's buying price and settled at 23,444, signifying a big inflow for foreign reserves. It is expected that the central bank would depress its buying price in the near-term, or await the upcoming US FOMC in May.

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 17th October, 2022).

The March U.S. inflation rate was unexpectedly low, cooled down to 0.1% MoM from 0.4% last month, or standing at 5% YoY compared to 5.2% in Feb. Even though the inflation has been cooling since the peak of 9.1% YoY in June-2022, the March FOMC minute shows a further 25bps hike in the upcoming meeting to achieve Fed's 2023 terminal rate plan. Over the week, DXY touched the 1-year low level and fluctuated in this support range, closing at -0.53% WoW.

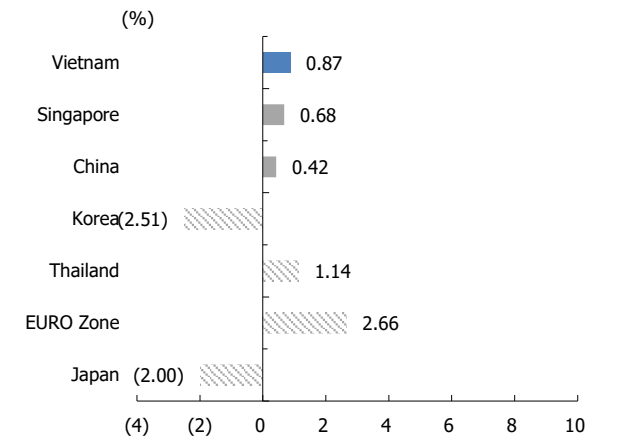
The weakening greenback this week extended the appreciation of most currencies under our watchlist since the beginning of the year. Specifically, SGD, THB, and EUR appreciated further over the week to 0.68%, 1.14%, and 2.66% YTD while KRW and JPY narrowed down their depreciation to 2.51% and 2% YTD, respectively.

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, ~3.28%
- * Absorption rate = winning value / offering value, ~85.71%
- * Bid to offer ratio = offering value / bidding value, ~2.21
- * DXY = U.S. Dollar Index, ~101.6
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~5.13%

Appendix

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

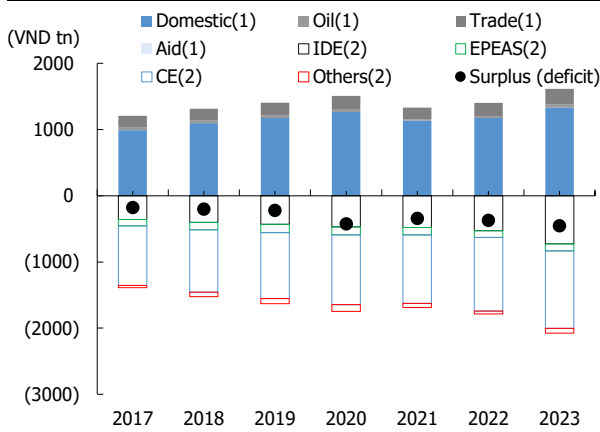
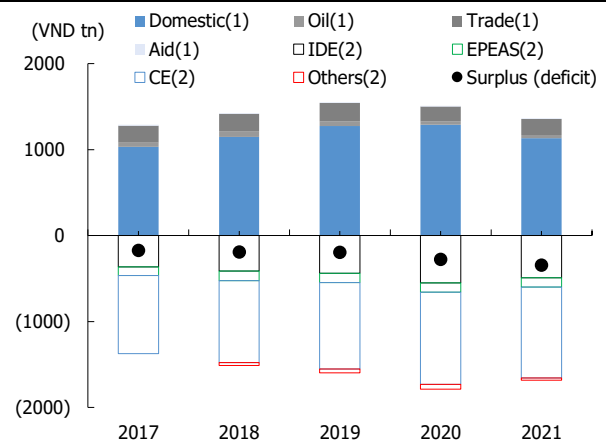


Figure 2. Vietnam's state budget by year: actual



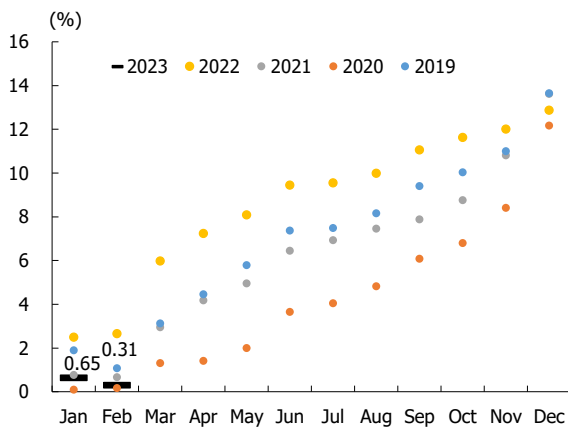
Source: MoF, SBV, KIS

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

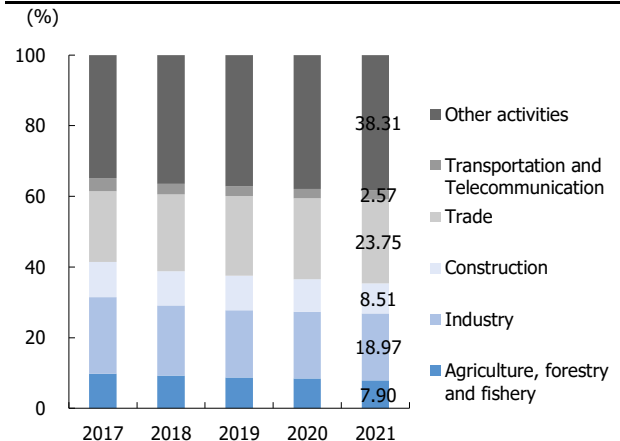
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



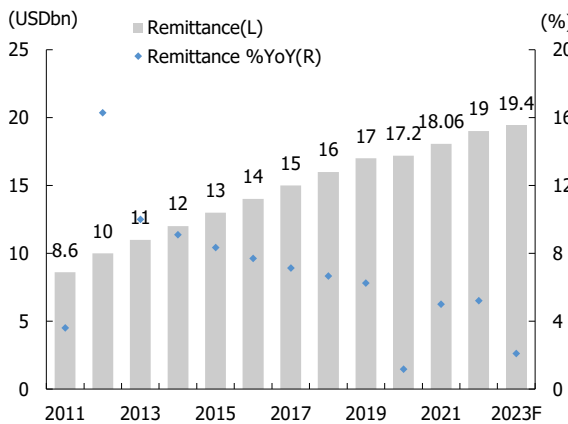
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



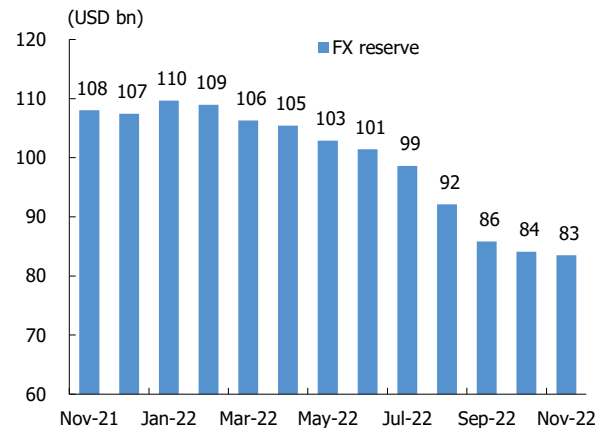
Source: SBV, KIS

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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