

Fixed-income Perspectives

A soft liquidity condition under SBV's easing stance

T-bill matured adds liquidity

In 21W23 (from 22 to 28 May), SBV added liquidity to the banking system via large T-bill matured amount along with small repos offering. Over the week, VND48.79tn was provided, mainly contributed by VND49.00tn of expired T-bill. Notably, SBV announced the third rate cut round taking effective from 25 May, where 1M to <6M ceiling deposit rate was lowered by 50bps to 5.00% and refinancing rate cut by 50bps to 5.00%, to support the economy given gloomy 1Q23 results.

Interbank rates slumped

Interbank rates slumped across tenors this week, potentially in response to a large injection and the third rate cut round released from SBV. Specifically, ON, 1W, and 2W slumped by 43bps, 46bps, and 47bps, respectively.

USDVND increases slightly

In the 21W23, the USDVND exchange rate increased by a trivial 0.05%, despite the DXY rising sharply by 0.98% to 104.21, its two-month high against other major currencies. The USD closed the week at VND23,481 on Friday. Notably, VCB's bid/ask, and the shadow market buying/selling price remained unchanged at VND23,290/23,660 and VND23,400/23,450, respectively.

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	23,633	23,471	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.

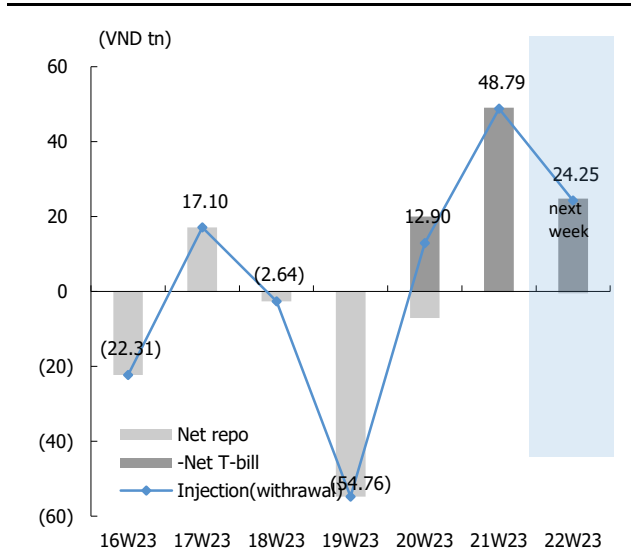
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I. T-bill matured adds liquidity

Easing stance should persist

In 21W23 (from 22 to 28 May), SBV added liquidity to the banking system via large T-bill matured amount along with small repos offering. Over the week, VND48.79tn was provided, mainly contributed by VND49.00tn of expired T-bill. Notably, SBV announced the third rate cut round taking effective from 25 May, where 1M to <6M ceiling deposit rate was lowered by 50bps to 5.00% and refinancing rate cut by 50bps to 5.00%, to support the economy given gloomy 1Q23 results. To enhance the performance of lending activities, we anticipate SBV to maintain easing stance by providing liquidity supports to its counterparties.

Figure 1. Net injection (withdrawal) of liquidity



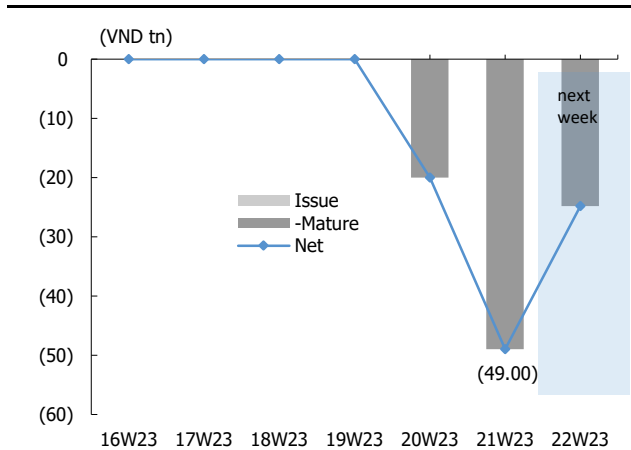
Source: SBV, Bloomberg, KIS

Table 1. Historical policy rate change

Effective date	Discount rate (%)	Refinancing rate (%)
May 25, 2023	3.5	5.0↓
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↓

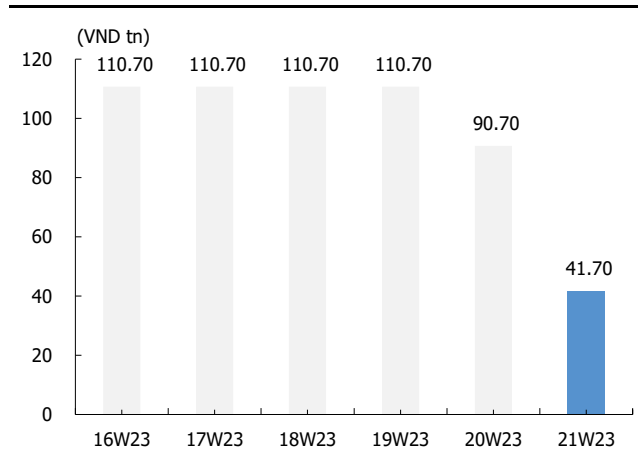
Source: SBV, Bloomberg, KIS

Figure 2. Issued T-bill by week



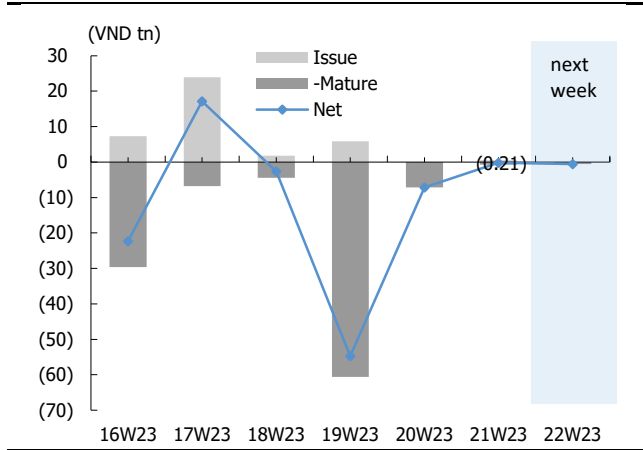
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



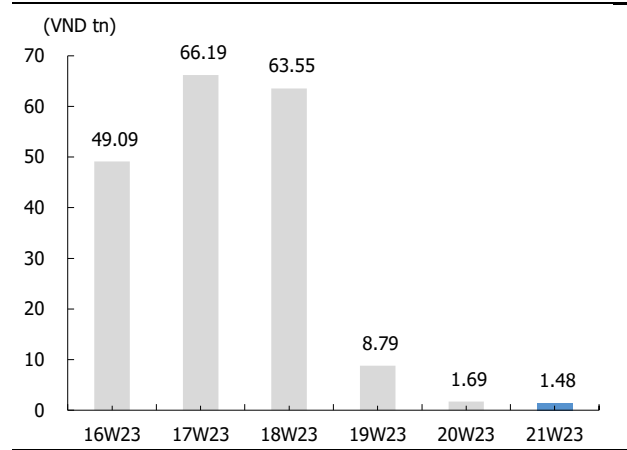
Source: SBV, Bloomberg, KIS

Figure 4. Issued repo by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



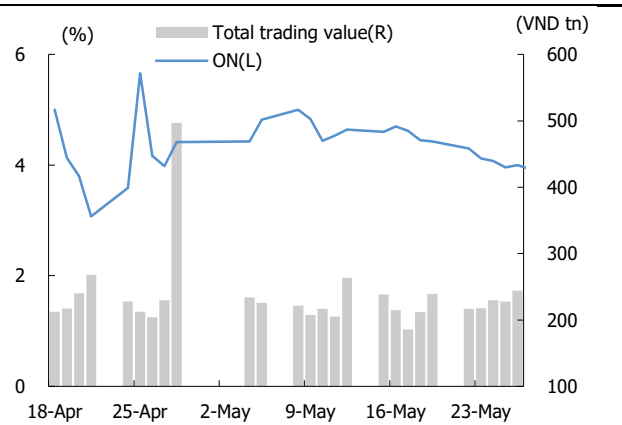
Source: SBV, Bloomberg, KIS

II. Interbank rates slumped

Interbank rates progress its downturn

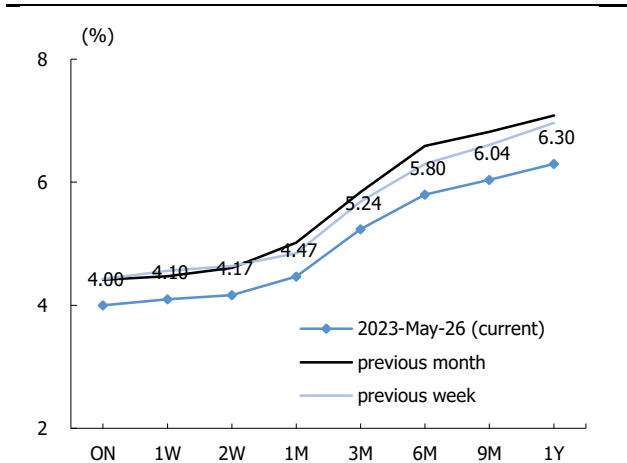
Interbank rates slumped across tenors this week, potentially in response to a large injection and the third rate cut round released from SBV. Specifically, ON, 1W, and 2W slumped by 43bps, 46bps, and 47bps, respectively. We expect interbank rates to progress their downturn further as SBV strengthens its easing stance via another policy rate cut and aggressively urges commercial banks to reduce lending rates.

Figure 6. Interbank daily transaction



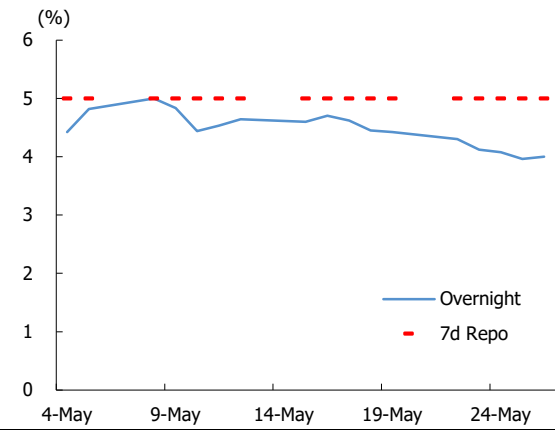
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



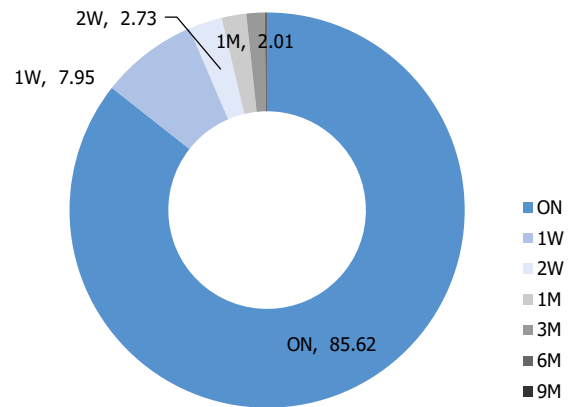
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



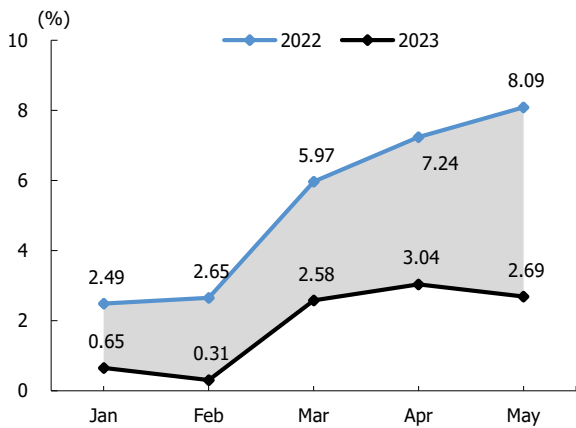
Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



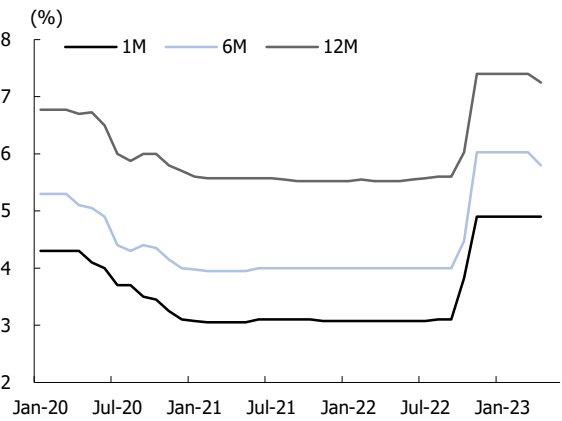
Source: SBV, Bloomberg, KIS

Figure 10. Credit growth by month



Source: SBV, Bloomberg, KIS
Data as of 27 April, 2023

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



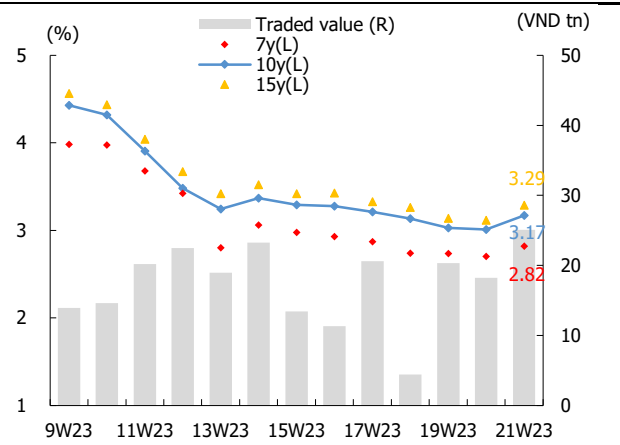
Source: Vietnambiz.vn, KIS

III. G-bond yields rebound

Trading yields rebound

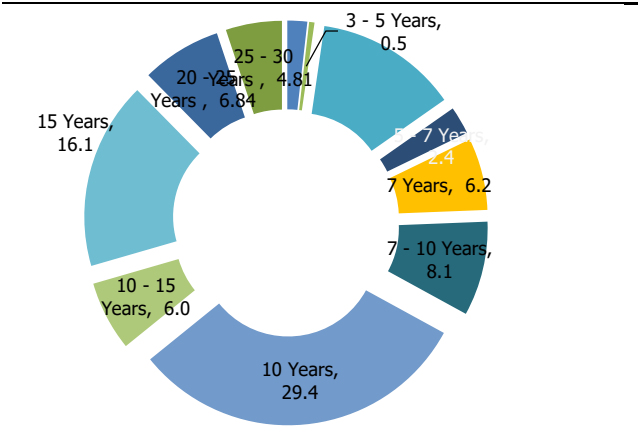
Government bond yields witnessed a rebound this week, reaching a three-week high. Specifically, the yields on 7-year, 10-year, and 15-year government bonds increased by 12bps, 16bps, and 17bps to 2.82%, 3.17% and 3.29%, respectively. Notably, the daily average trading value increased sharply by 37.75%, from VND3.64tn per day last week to VND5.02tn per day this week. A stronger U.S. dollar would make Vietnamese bonds less attractive to foreign investors, which could lead to lower prices and higher yields. Higher yields are also likely as investors demand a higher return on their investment to compensate for the increased risk.

Figure 12. G-bond trading value



Source: HNX, KIS

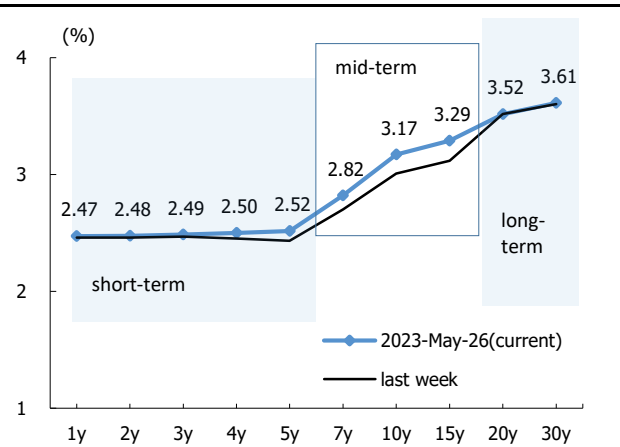
Figure 13. Trading value by tenor this week



Source: HNX, KIS

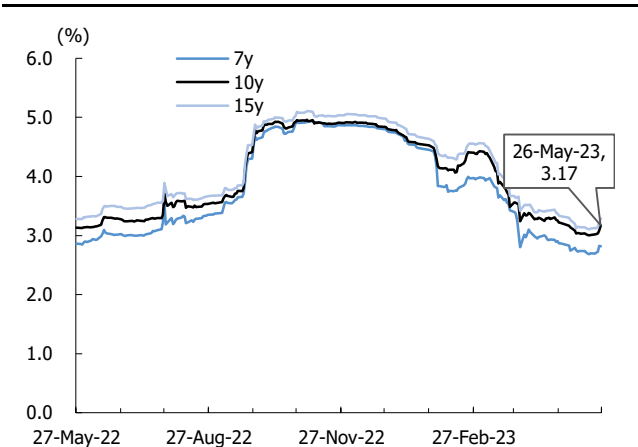
Regarding value structure, 65.87% of total government bond transactions were concentrated in bonds with tenors from 7 to 25 years. This week, the yield curve steepened sharply. This was mainly due to the strong increase in the yield of mid-term bonds (7 years to 15 years). The increase in the yield of mid-term bonds suggests that investors are expecting higher interest rates in the future. To be more specific, mid-term tenors (7 years to 15 years) and short-term (1 year to 5 years) rose by 15bps, and 4bps while the long-term (above 15 years) remained unchanged.

Figure 14. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 15. Historical daily government bond yield

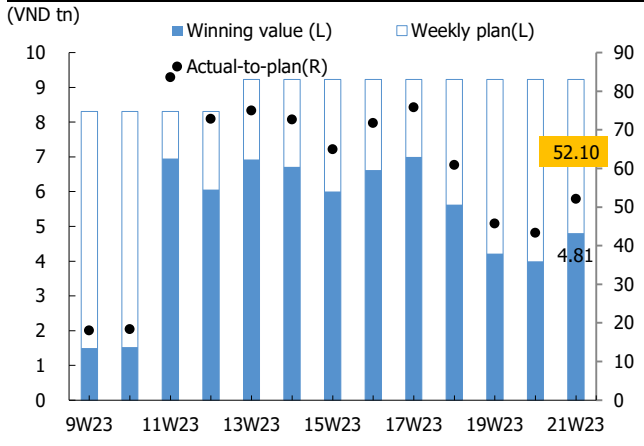


Source: HNX, VBMA, KIS

Winning yields unchanged

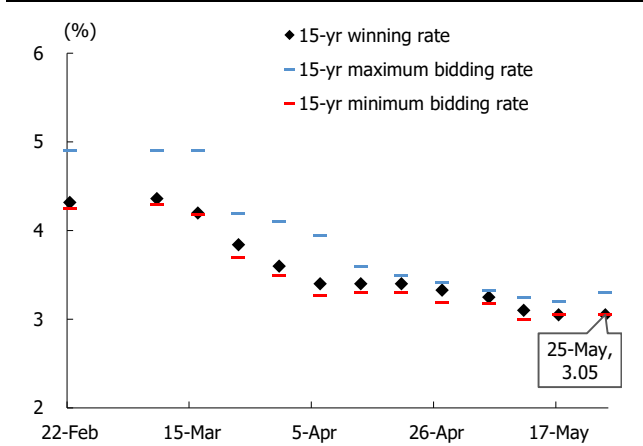
Regarding the development of G-bond issuance, the winning yields remained unchanged in almost tenors, recording the lowest level since September 2022. Specifically, winning yields for 5-year, 10-year, and 15-year tenors (the most issued tenors) are traded at 2.45%, 2.95%, and 3.05%, respectively. This week, the winning value increased sharply by 20.23%, posting at VND4.81tn compared to last week's data. Cumulatively, VST fulfilled 43.26% and 31.26% of the second quarter and annual plans.

Figure 16. Winning value by week



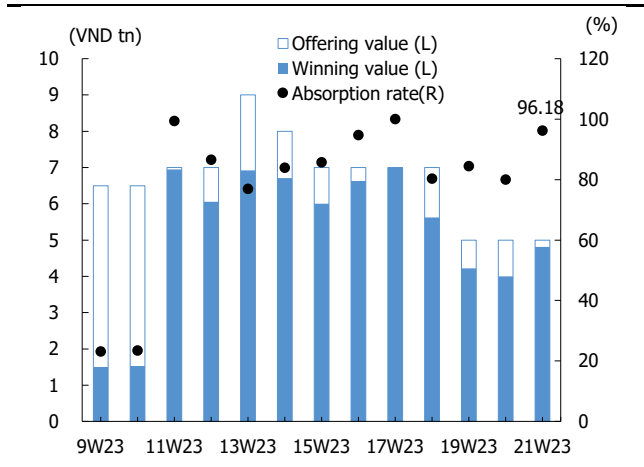
Source: HNX, KIS

Figure 17. Winning yields by week



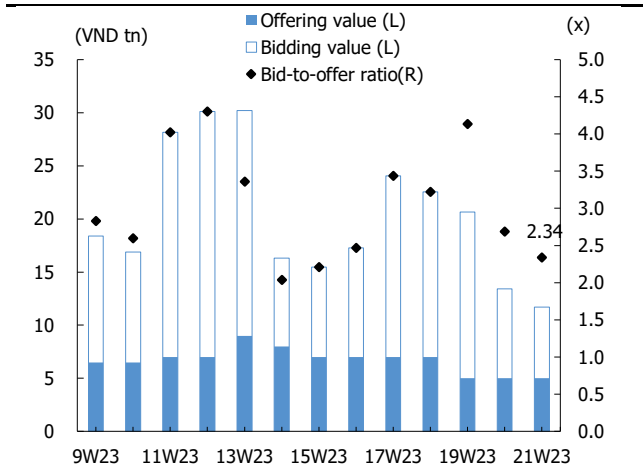
Source: HNX, KIS

Figure 18. Absorption ratio



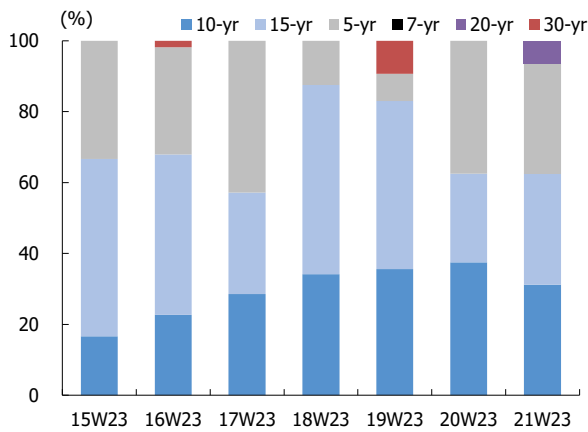
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



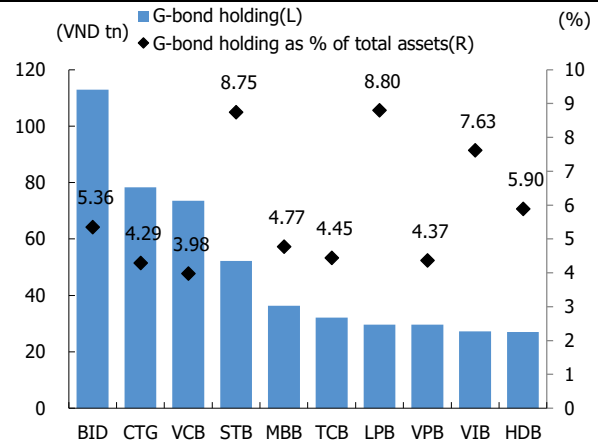
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

Figure 21. Top G-bond holding by bank as of 2Q23



Source: HNX, Company filings, KIS

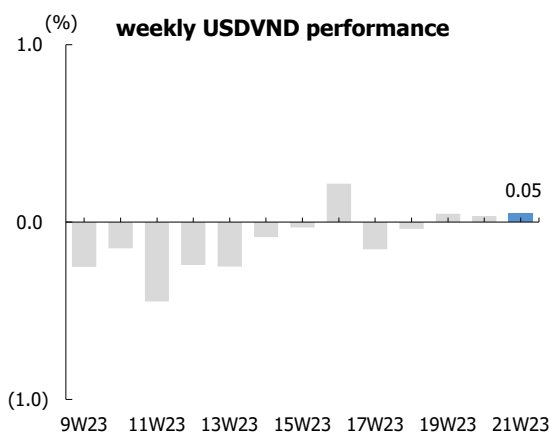
IV. USDVND increases slightly

**VND depreciated
this week**

In the 21W23, the USDVND exchange rate increased by a trivial 0.05%, despite the DXY rising sharply by 0.98% to 104.21, its two-month high against other major currencies. The USD closed the week at VND23,481 on Friday. Notably, VCB's bid/ask, and the shadow market buying/selling price remained unchanged at VND23,290/23,660 and VND23,400/23,450, respectively.

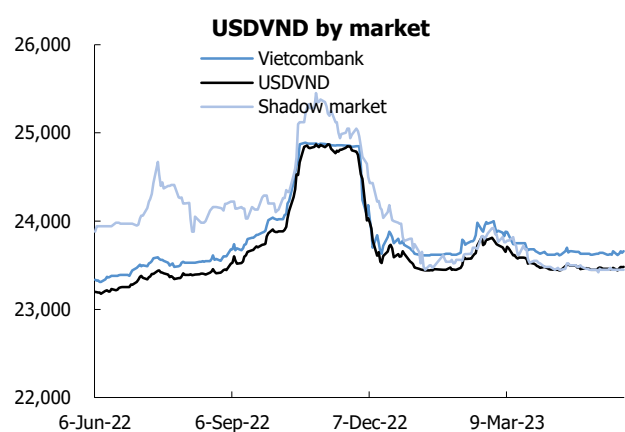
The USDVND exchange rate remained stable despite the strong appreciation of the dollar due to a number of factors that increased the supply of USD in Vietnam. Firstly, there was an abundant supply of USD coming from mergers and acquisitions (M&A), such as Sumitomo's acquisition of VPBank with an amount around USD1.5bn. Secondly, remittances surged again which enriched the USD inflow. Lastly, the trade surplus in 5M23 was USD9.8bn also provide a significant amount of USD for Vietnam.

Figure 22. Weekly USDVND performance



Source: SBV, Bloomberg

Figure 23. Historical USDVND by market



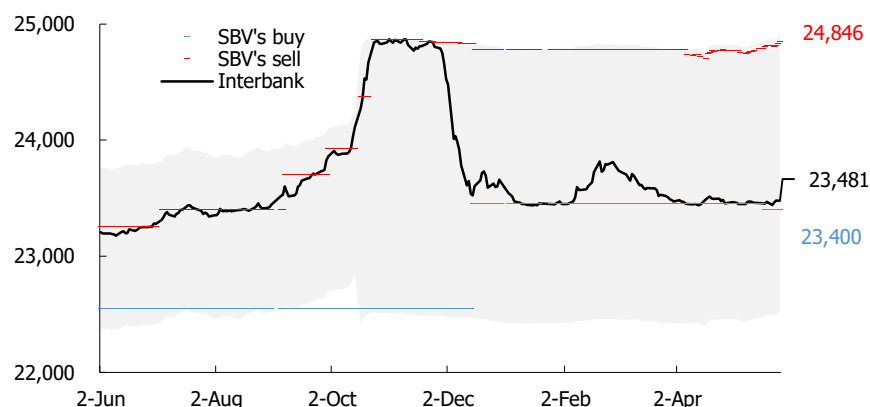
Source: SBV, Bloomberg, Fiinpro, tygiadola.net

This week, the State Bank of Vietnam (SBV) increased its selling price of USD by 31bps to VND23,711 while the USD buying price remained unchanged at VND23,400. As a result, the current USDVND exchange rate is lower than the buying price, so the SBV did not buy any USD this week. According to KIS's

estimate, the SBV has raised its foreign exchange reserves to approximately USD6bn.

As the U.S. dollar has been strengthening against other currencies recently, the movement of SBV by continuously increasing USD selling price is considered as a flexible response designed to prevent the devaluation of the Vietnamese dong at the moment. The USDVND exchange rate is likely to remain stable in the near term, thanks to the flexible monetary policies of the State Bank of Vietnam (SBV) as well as the signs of a decline in the DXY when the public debt ceiling is resolved.

Figure 24. SBV's movement



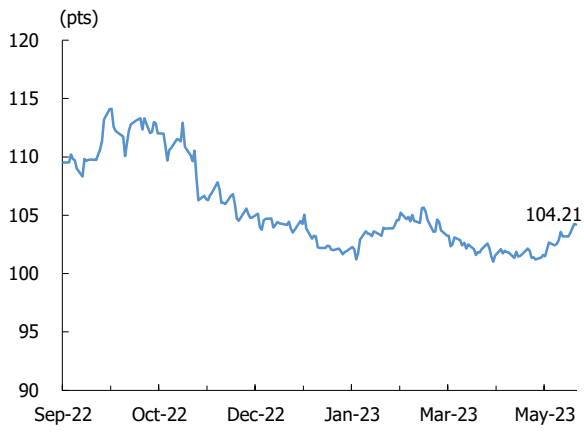
Source: SBV, Bloomberg, Fiiipro, KIS

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

The U.S Dollar strengthened against its major counterparts this past week, held near two-month highs above 104 by growing expectations that US interest rates could stay elevated for longer than previously anticipated. To be more specific, the Fed closely watched core PCE inflation data – unexpectedly ticked up in at 4.7% YoY vs 4.6% YoY in March, leading to speculations that the Federal Reserve will maintain its hawkish stance and keep rates elevated for an extended period. Moreover, personal spending rose more than expected, and durable goods orders unexpectedly increased. Meanwhile, it looked like the White House and Republicans narrowed the differences and the debt deal will likely be concluded before the deadline.

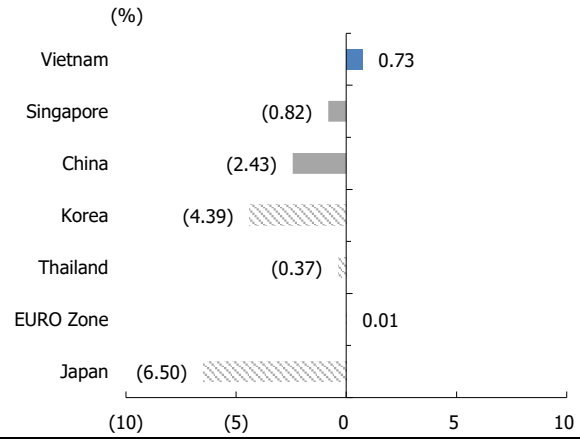
The appreciation of the greenback has slowed the appreciation of most currencies under our watch list since the beginning of the year. Specifically, Vietnam Dong (VND), and the Euro (EUR) had narrowed the appreciation level to 0.73%, and 0.01% YTD, respectively while the Chinese yuan (CNY) and Korean won (KRW) extended their depreciation to 2.43% and 4.39% YTD. Notably, the Japanese yen (JPY) witnessed the same trend by depreciating against the greenback by 6.50% YTD.

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

	23-Jan	23-Feb	23-Mar	23-April	23-May	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)	1.66	1.41	2.35	3.43	1.98	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	4,110
Unemployment rate (%)						2.32	2.28	2.32	2.25	2.25	2.48	3.22	2.32
Export (USD bn)	25.08	25.88	29.57	27.54	29.05	96.83	96.48	89.50	79.17	263.6	282.7	335.7	371.85
Import (USD bn)	21.48	23.58	28.92	26.03	26.81	97.58	90.71	85.07	75.10	254.4	263	331.1	360.65
Export growth (%)	(21.28)	10.97	(14.78)	(17.15)	(5.86)	21.02	17.22	(6.07)	(11.90)	8.16	7.02	18.74	10.61
Import growth (%)	(28.92)	(6.65)	(11.10)	(20.54)	(18.44)	15.72	8.12	(3.90)	(14.67)	7.41	3.81	25.9	8.35
Inflation (%)	4.89	4.31	3.35	2.81	2.43	2.96	3.32	4.41	4.18	2.79	3.24	1.84	3.15
USD/VND	23,449	23,785	23,471	23,465	23,477	23,139	23,712	23,633	23,471	23,173	23,126	22,790	23,650
Credit growth (%)	0.65	0.31	1.96	3.04	3.04	8.51	10.47	12.87	1.61	13.75	12.17	12.97	12.87
10Y gov't bond (%)	4.59	4.39	3.24	3.21	3.28	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, ~3.05%
- * Absorption rate = winning value / offering value, ~96.18%
- * Bid to offer ratio = offering value / bidding value, ~2.34
- * DXY = U.S. Dollar Index, ~104.21
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~3.77%

Appendix

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

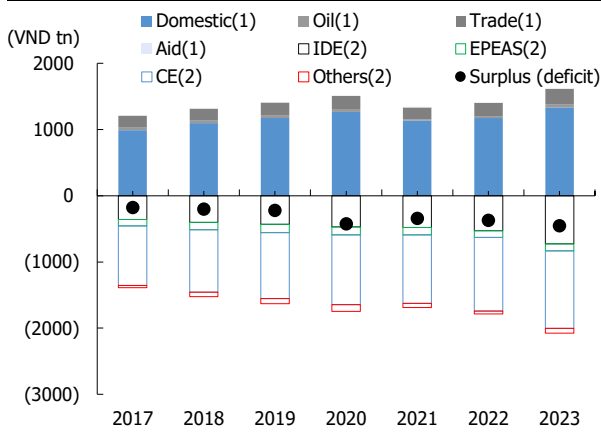
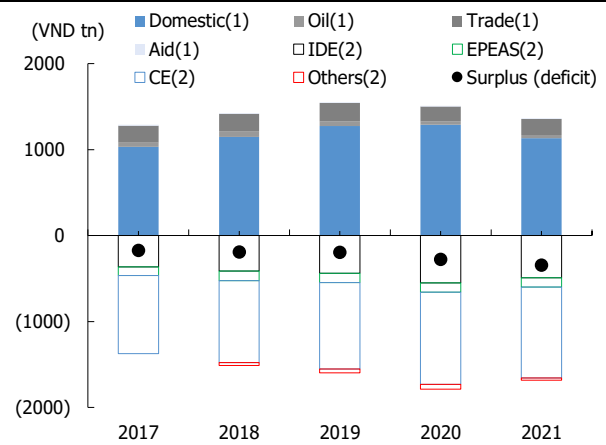


Figure 2. Vietnam's state budget by year: actual



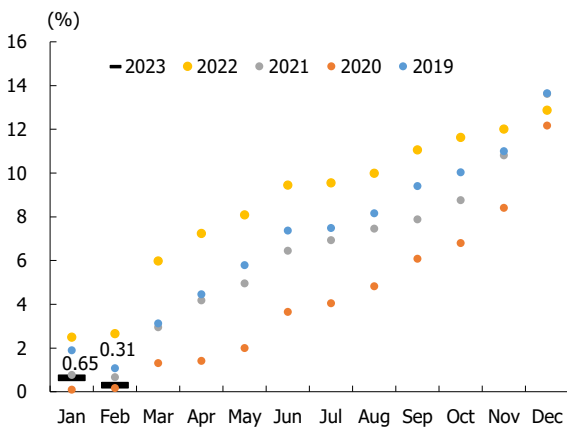
Source: MoF, SBV, KIS

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

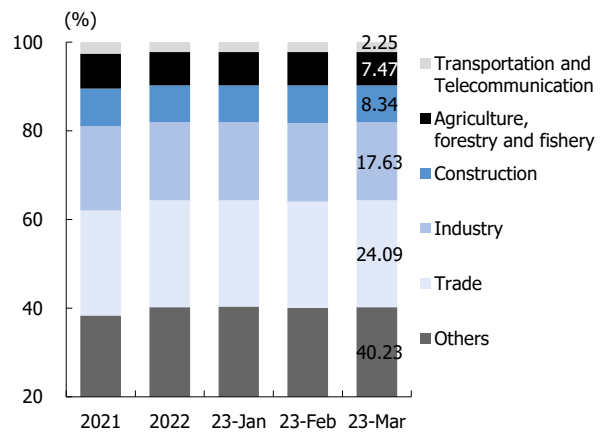
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



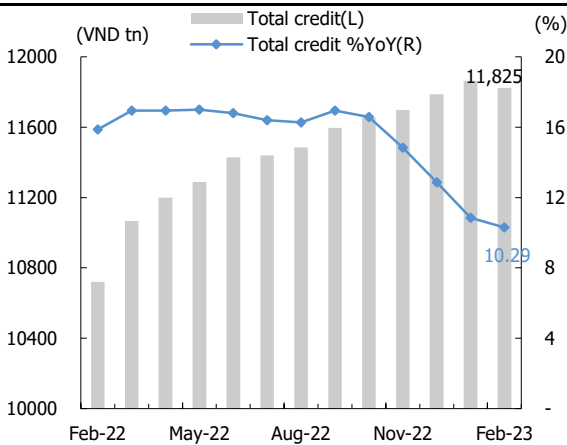
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



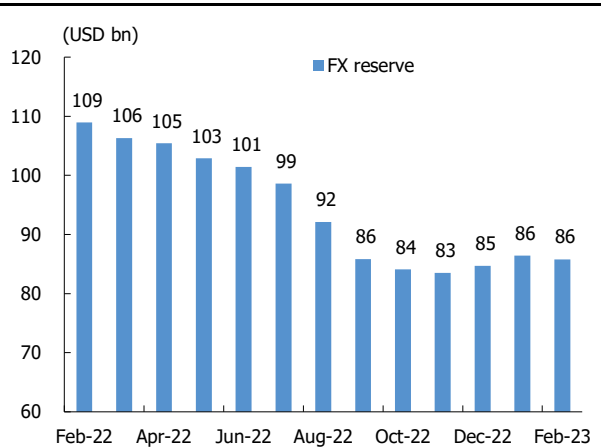
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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