

Fixed-income Perspectives

An ample liquidity condition on the T-bill maturity

T-bill matured adds liquidity

22W23 (from 29 May to 9 June), SBV added liquidity to the banking system via a large T-bill matured amount while Repo offering remained insignificant. Approximately VND24.97tn was injected into the banking system during the week to support the effectiveness of the rate cut, primarily through the maturity of VND24.80tn in T-bills. Similar to the second rate cut in early April, the winning rate of repo contracts dropped by 50bps to 4.50% this week after the third round was released.

Interbank rates continue its downturn

During the 22W23 period, interbank rates experienced a moderate decline as a result of sequential injections by the SBV. Specifically, the rates for ON, 1W, and 2W decreased by 15bps, 10bps, and 5bps to reach 3.85%, 4.00%, and 4.11%, respectively. The average daily trading volume remained similar to the previous week at VND225.61tn.

USDVND jumps slightly

In the 22W23, the USDVND exchange rate increased by a trivial 0.02%, making four consecutive weeks of depreciation against the U.S dollar. However, the DXY this week decreased slightly by 0.18% to 104.02, still fluctuated within its two-month high against other major currencies. The USDVND closed the week at VND23,486 on Friday, 5bps higher compared to last week's data.

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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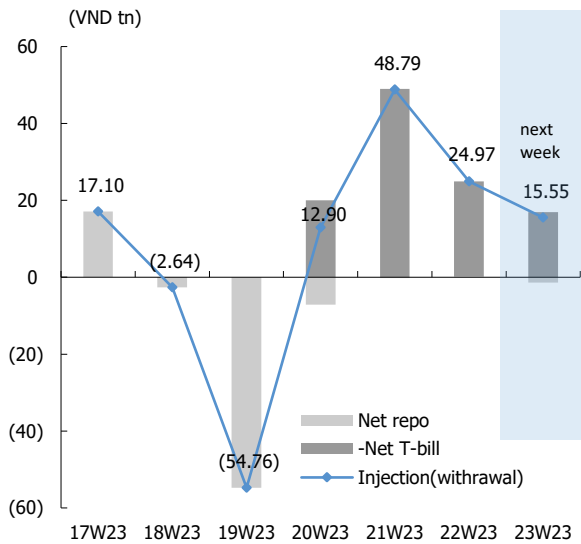
I. T-bill matured adds liquidity

Repos rate drops

22W23 (from 29 May to 9 June), SBV added liquidity to the banking system via large T-bill matured amount while Repo offering remained insignificant. Approximately VND24.97tn was injected into the banking system during the week to support the effectiveness of the rate cut, primarily through the maturity of VND24.80tn in T-bills. Similar to the second rate cut in early April, the winning rate of repo contracts dropped by 50bps to 4.50% this week after the third round was released. The easing stance is likely to be maintained to stimulate lending activities and enhance overall performance.

For the next week, we predict that the central bank could be cautious with no OMO transactions heading to June's Fed decision before taking more steps on the easing path.

Figure 1. Net injection (withdrawal) of liquidity



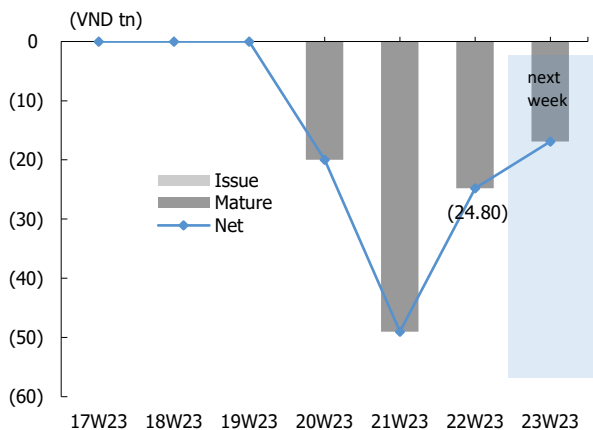
Source: SBV, Bloomberg, KIS

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↓

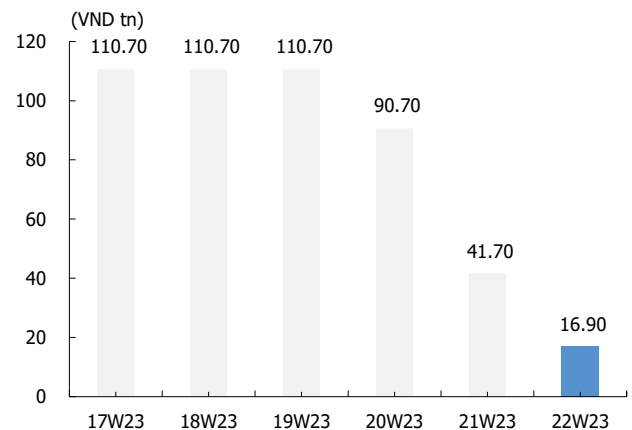
Source: SBV, Bloomberg, KIS

Figure 2. T-bill amount by week



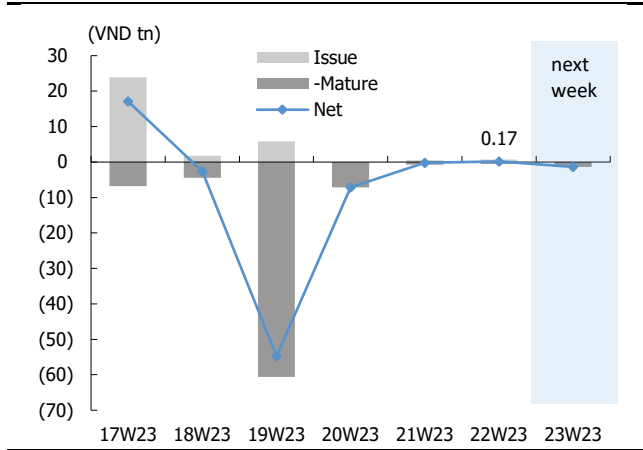
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



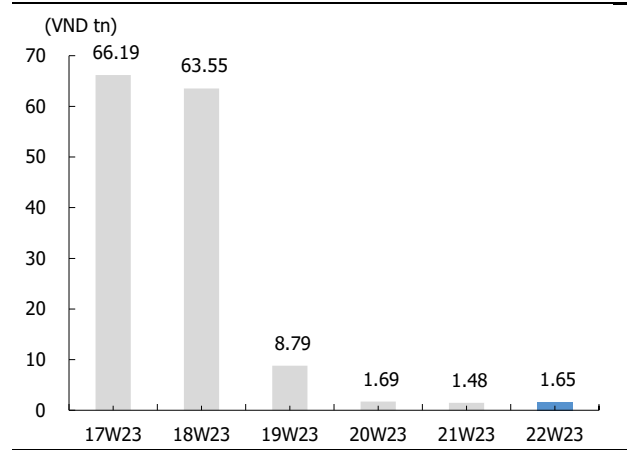
Source: SBV, Bloomberg, KIS

Figure 4. Repo amount by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



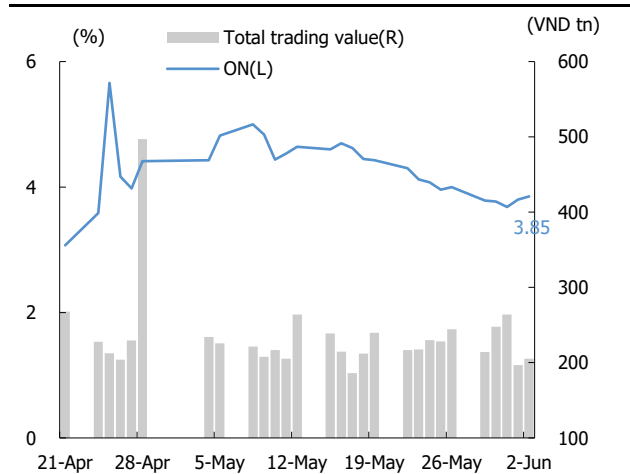
Source: SBV, Bloomberg, KIS

II. Interbank rates continue its downturn

Interbank rates fell less notably

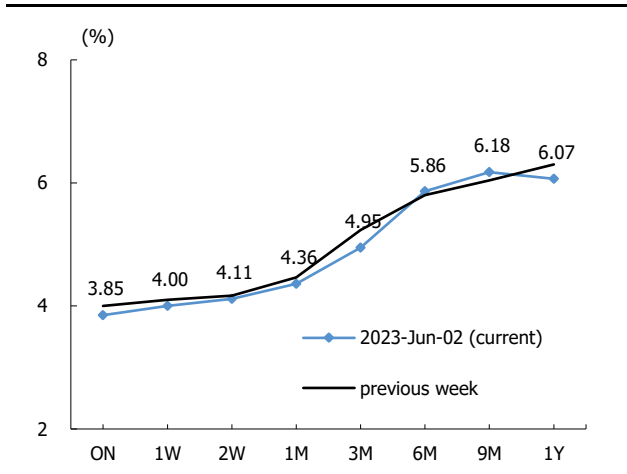
During the 22W23 period, interbank rates experienced a moderate decline as a result of sequential injections by the SBV. Specifically, the rates for ON, 1W, and 2W decreased by 15bps, 10bps, and 5bps to reach 3.85%, 4.00%, and 4.11%, respectively. The average daily trading volume remained similar to the previous week at VND225.61tn. We expect interbank rates will remain at this low level in response to the remaining maturity of T-bills in the next week.

Figure 6. Interbank daily transaction



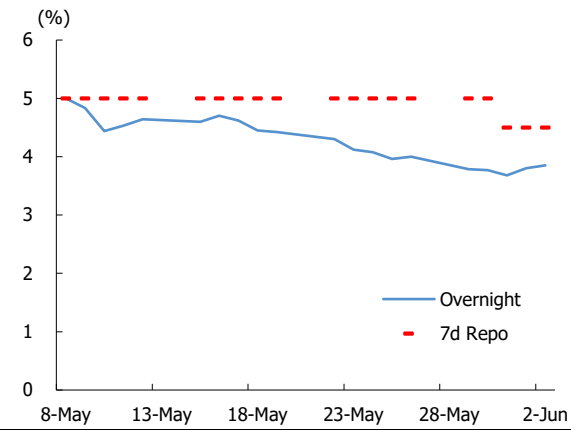
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



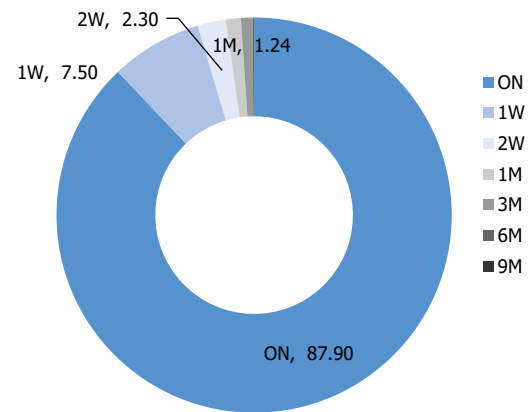
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



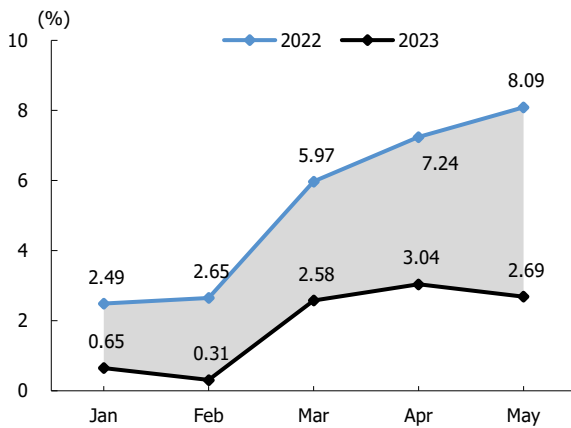
Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



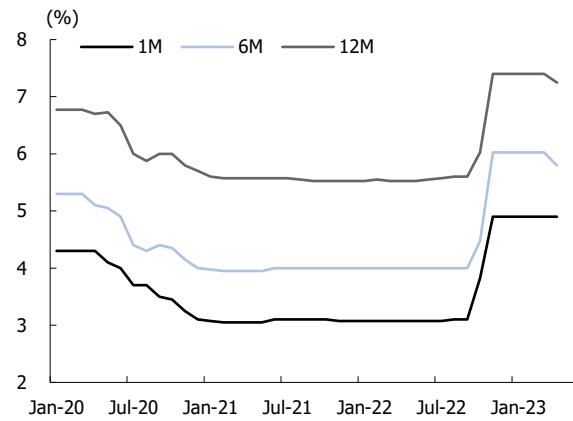
Source: SBV, Bloomberg, KIS

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

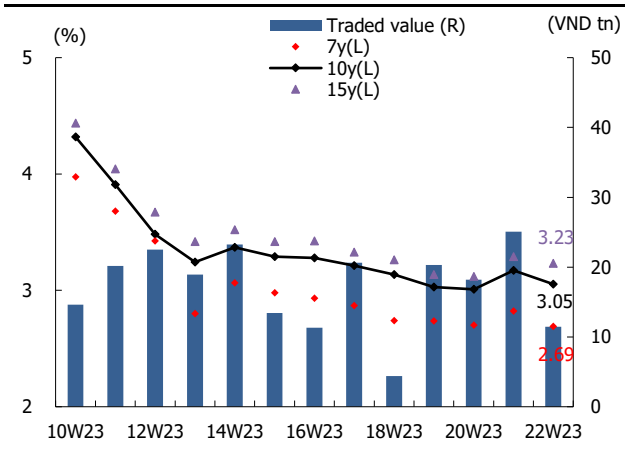
III. G-bond yield regains reduction

Trading yields fall

In 22W23, yields on government bond generally returned to the decline after rebounding in the last week. Specifically, 7-year, 10-year, and 15-year G-bond yields decreased by 13bps, 12bps, and 6bps to 2.69%, 3.05% and 3.23%, respectively. Notably, the average daily trading value this week fell sharply by more than half, from VND5.02 trillion per day last week to VND2.29 trillion per day this week.

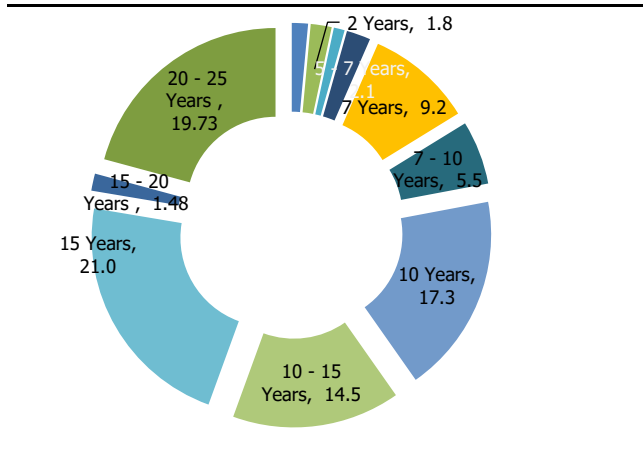
The government are taking steps to boost economic growth, including lowering interest rates to support businesses. However, manufacturing is still facing challenges, as evidenced by the fact that the PMI fell to 45.3 in May from 46.7 in April, making three consecutive months that the PMI has declined, signaling a worsening of business conditions. As a result, credit growth is expected to remain subdued in the near term, resulted in yields falling further, as alternative investment channels have not yet proven to be as effective in terms of risk-adjusted returns.

Figure 12. G-bond trading value



Source: HNX, KIS

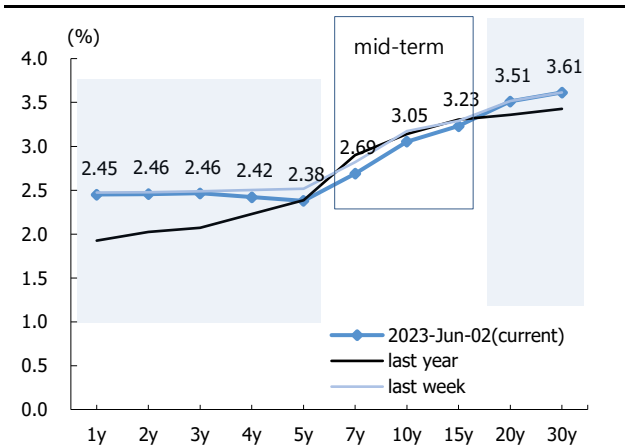
Figure 13. Trading value by tenor this week



Source: HNX, KIS

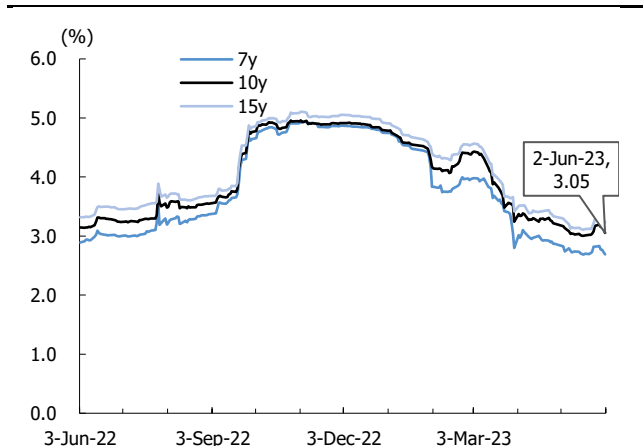
Regarding value structure, 64.08% of total government bond transactions were concentrated in bonds with tenors from 7 to 20 years. This week, the yield curve become less steep mainly due to the fall in the yield of mid-term bonds (7 years to 15 years). To be more specific, mid-term tenors (7 years to 15 years) and short-term (1 year to 5 years) decrease by 10bps, and 6bps 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

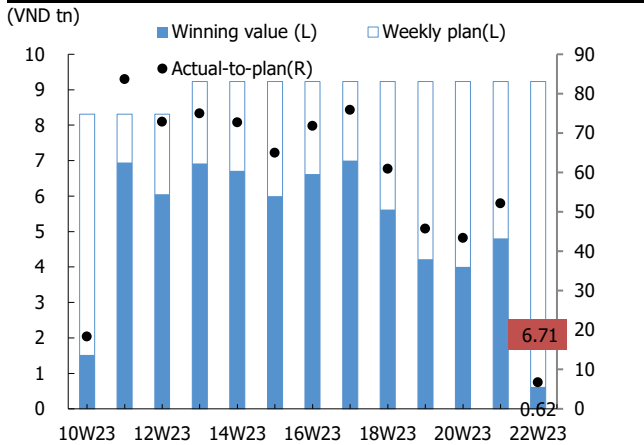


Source: HNX, VBMA, KIS

Winning yields unchanged

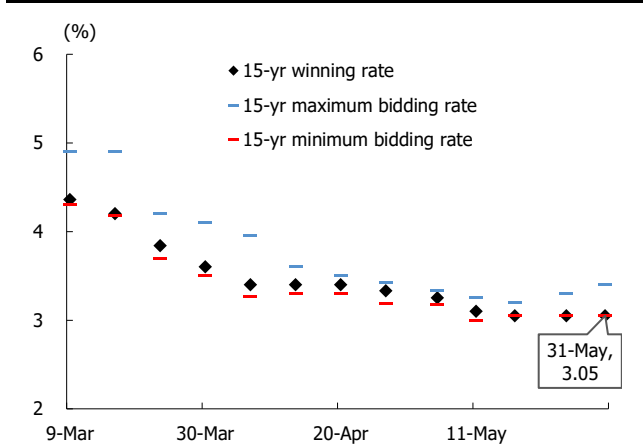
Regarding the development of G-bond issuance, the winning yields remained unchanged in almost tenors, recording the lowest level since September 2022. Specifically, winning yields for 5-year, 10-year, and 15-year tenors (the most issued tenors) are traded at 2.45%, 2.95%, and 3.05%, respectively. This week, the winning value declined significantly by 87.13%, posting at VND0.62tn compared to last week's data. Cumulatively, VST fulfilled 43.77% and 31.39% of the second quarter and annual plans.

Figure 16. Winning value by week



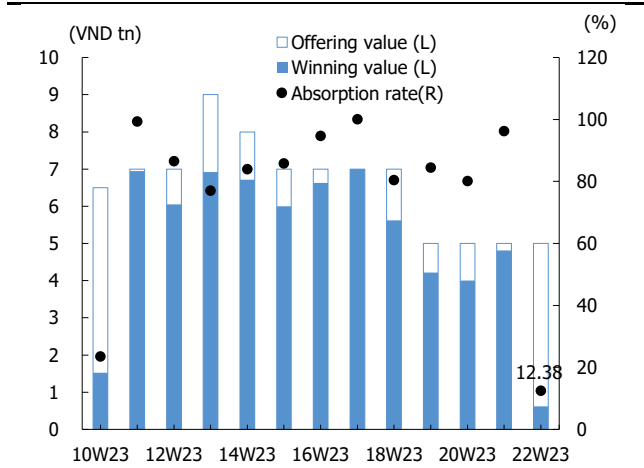
Source: HNX, KIS

Figure 17. Winning yields by week



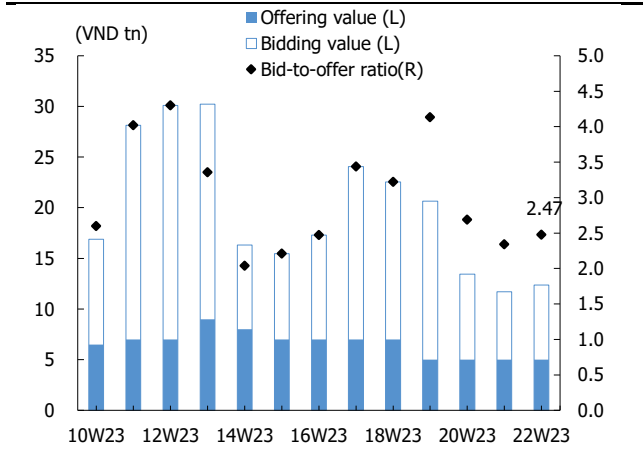
Source: HNX, KIS

Figure 18. Absorption ratio



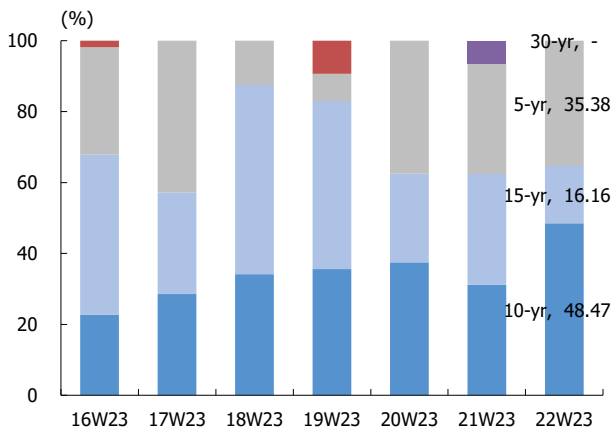
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



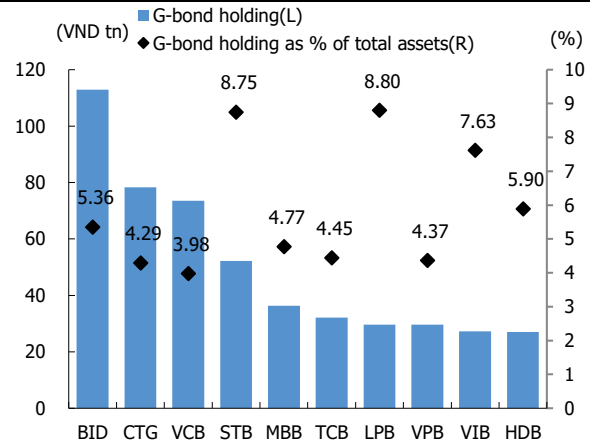
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

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



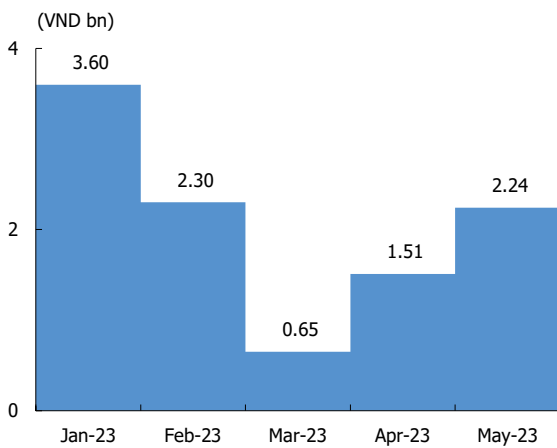
Source: HNX, Company filings, KIS

IV. USDVND jumps slightly

VND depreciated this week

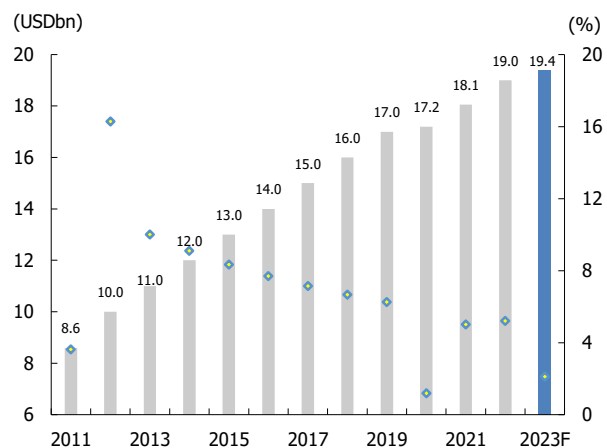
In the 22W23, the USDVND exchange rate increased by a trivial 0.02%, making four consecutive weeks of depreciation against the U.S dollar. However, the DXY this week decreased slightly by 0.18% to 104.02, still fluctuated within its two-month high against other major currencies. The USDVND closed the week at VND23,486 on Friday, 5bps higher compared to last week's data. Notably, VCB's bid/ask declined by 10bps to VND23,280/23,650.

Figure 22. Trade balance of Vietnam in 5M23



Source: GSO, Bloomberg

Figure 23. Historical USDVND by market



Source: World Bank, KNOMAD, KIS

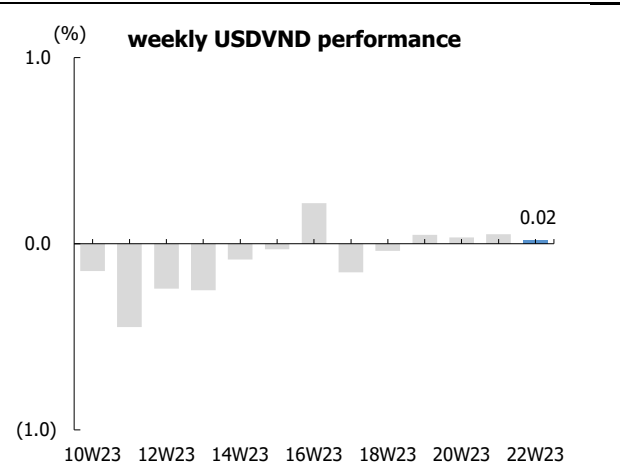
Despite the strong appreciation of the U.S dollar, the USDVND still remained stable due to a number of factors that increased the supply of USD.

- **Mergers and acquisitions activities (M&A):** On January 2023, Japanese financial giant Sumitomo Mitsui Financial Group (SMFG) acquired a 15% stake in Vietnam's VPBank for USD1.5bn. This was the largest M&A deal in Vietnam's history and it injected a significant amount of USD into the Vietnamese economy.
- **Remittances:** remittances are expected to increase in 2023. The Global Knowledge Partnership on Migration and Development (KNOMAD)

forecasts that remittances will reach USD19.3bn, up from USD19.0bn in 2022. This increase in remittances will lead to an increase in the supply of USD in Vietnam.

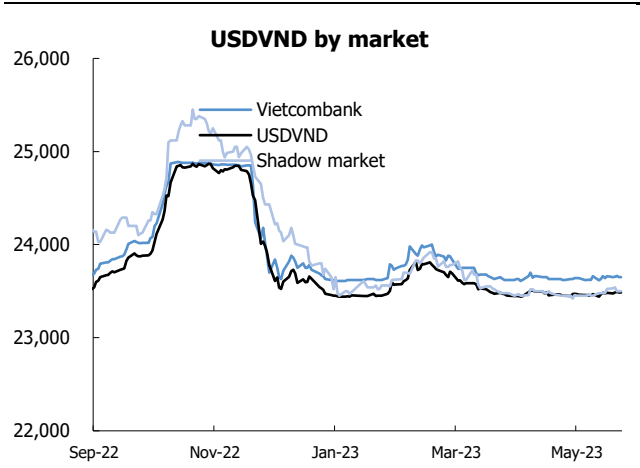
- Trade surplus: Vietnam's exports exceeded its imports by USD10.3bn in the first five months of 2023. This trade surplus resulted in an additional supply of USD in the country

Figure 24. Weekly USDVND performance



Source: SBV, Bloomberg

Figure 25. Historical USDVND by market

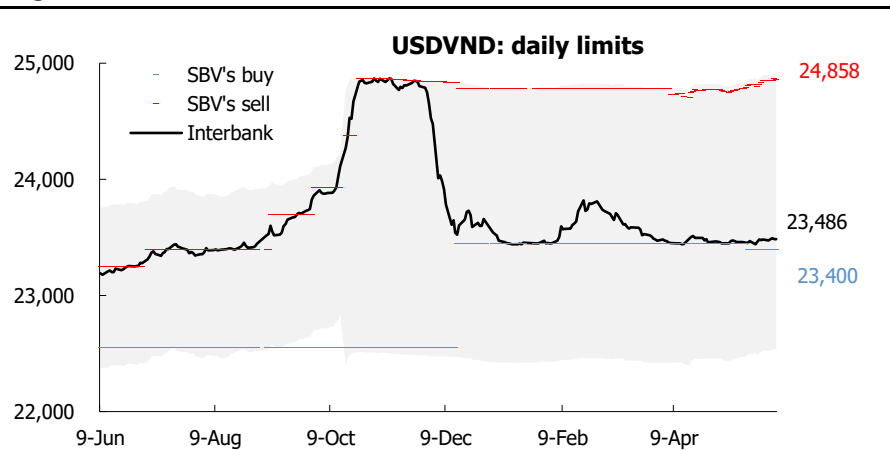


Source: SBV, Bloomberg, Fiinpro, tygiadola.net

This week, SBV continued to increase its selling price of USD by 12bps to VND24,858 while the USD buying price remained unchanged at VND23,400. As a result, the current USDVND exchange rate is higher 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.

The recent strengthening of the US dollar against other currencies has led to the State Bank of Vietnam (SBV) increasing the selling price of USD in an effort to prevent the VND from depreciating. Thus, the USDVND exchange rate is likely to remain stable in the near term, thanks to the SBV's flexible monetary policies and the potential decline in the DXY when the public debt ceiling is resolved and the weakening labor market.

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 October, 2022).

The U.S. dollar index (DXY) has been anchored at 104 points, the highest in two months. However, there is evidence that the DXY is about to enter a corrective trend.

Firstly, the contraction in the U.S. manufacturing sector continued to accelerate in May, as indicated by the decline of the ISM Manufacturing PMI from 47.1 in April to 46.9. This reading falls below the market's anticipated level of 47.

Secondly, U.S. job growth accelerated in May, but a surge in the unemployment rate to a seven-month high of 3.7% suggested that labor market conditions were easing, which could give the Federal Reserve cover to skip an interest rate hike this month. According to CME FED-watch tool, as of 3 June 2023, there is a 77% chance that Fed will keep the current interest target range while 23% probability that FED will increase 25bps more in the next June meeting.

A potential correction in the DXY, would be a positive development for the global economy. A weaker dollar would make imports cheaper for Vietnamese consumers and businesses, boosting economic growth.

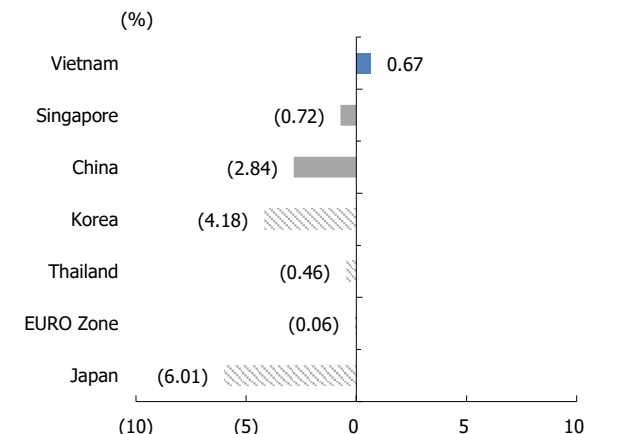
However, the upcoming inflation data released on June 13 will be a key factor in the Fed's decision in June's meeting. If inflation is higher than expected, the Fed may raise interest rates more aggressively than expected in an effort to bring inflation down. This would likely lead to a stronger dollar, as investors would seek out the safety of the U.S. assets.

Figure 25. Historical DXY



Source: SBV, Bloomberg

Figure 26. 2023 YTD performance of major currencies against USD



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

The strengthening of the greenback recently has slowed the appreciation and extend the devaluation of most currencies under our watch list since the beginning of the year. Specifically, Vietnam Dong (VND) is the only currency in our currencies watch-list that has remained strong and has not depreciated much against the US dollar by appreciating 0.67%YTD. Japan and South Korea, which follow a floating FX regime, have experienced the most significant devaluation of their currencies against the US dollar by 6.01% YTD and 4.18% YTD, respectively. Besides, the Euro (EUR) has depreciated by 0.06%YTD against the USD

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, ~12.38%
- * Bid to offer ratio = offering value / bidding value, ~2.47
- * DXY = U.S. Dollar Index, ~104.02
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~3.85%

Appendix

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

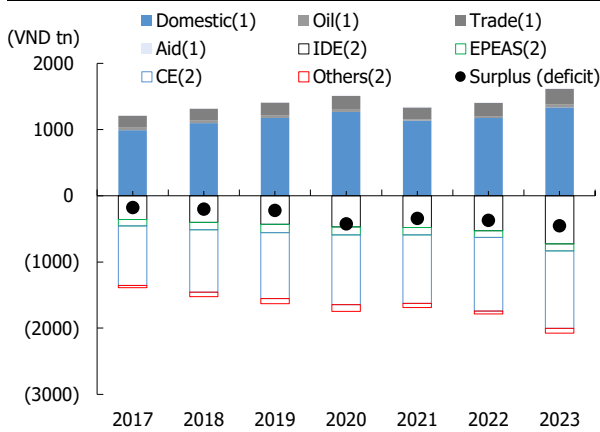
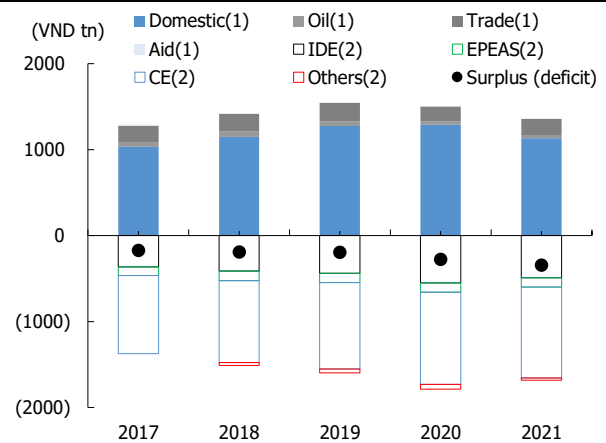


Figure 2. Vietnam's state budget by year: actual



Source: MoF, SBV, KIS

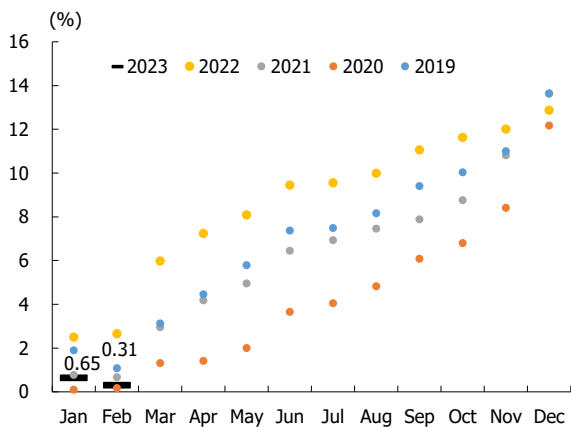
Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.

IDE= Investment and development expenditures; EPEAS= Interest payment expenses & Aid spending; CE= Current expenditures

(1) indicates the item belongs to the revenue

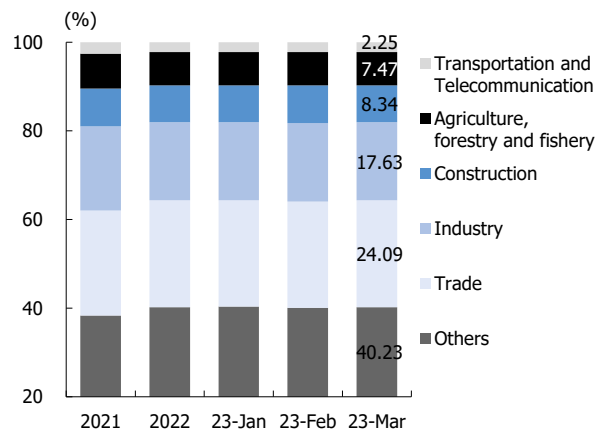
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



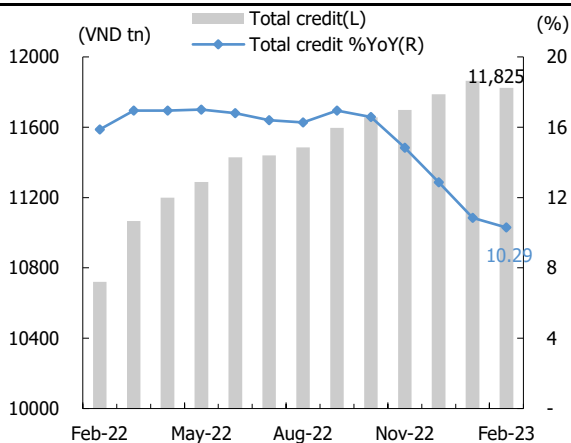
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



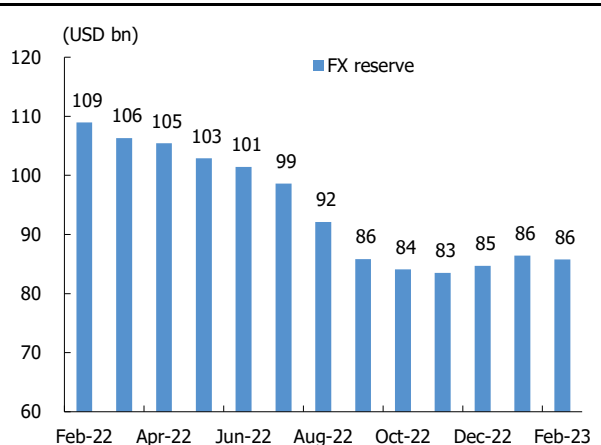
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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