

Fixed-income Perspectives

Rebalanced money market toward the economic update

No injection/withdrawal continues

In 25W23 (from 19 to 25 June), there was a continuation of quietness in OMO activities as no injection or withdrawal was observed. As previously anticipated by KIS, we anticipate that OMO activities will remain inactive in the upcoming weeks due to the prevailing abundance of liquidity. The outstanding amounts of T-bill and Repos remained unchanged from the previous week, with T-bill standing at VND0.00tn and Repos at VND0.29tn, respectively.

Interbank rates continue to hover at the year low

Interbank rates witnessed a slight uptick this week, but remained significantly low due to ample liquidity and subdued lending activities. Specifically, the rates for ON, 1W, and 2W tenors increased by 21bps, 26bps, and 15bps, reaching 0.95%, 1.23%, and 1.61% respectively. Lending activities remained weak, with credit growth reaching 3.36% YTD by 15 June, up slightly from 3.17% at the May-end.

USDVND cools down

During the past week, USDVND witnessed a fall of 0.04% compared to the previous week, posting at VND23,525 on Friday. On the contrary, the U.S Dollar index (DXY), which measures the value of the greenback relative to a basket of foreign currencies, jumped 0.65% from 102.12 to 102.9 this week, attributed to the hawkish outlook for two additional interest rate hikes this year following Powell's testimony.

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.

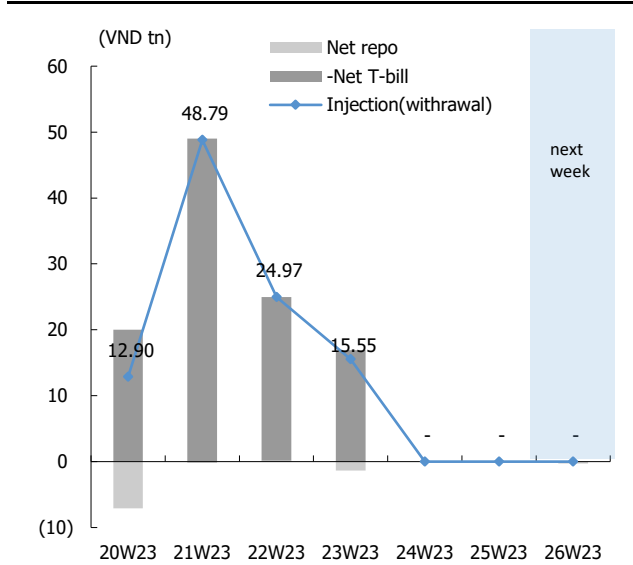
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I. No injection/withdrawal continues

OMO exhibit no activity

In 25W23 (from 19 to 25 June), there was a continuation of quietness in OMO activities as no injection or withdrawal was observed. As previously anticipated by KIS, we anticipate that OMO activities will remain inactive in the upcoming weeks due to the prevailing abundance of liquidity. The outstanding amounts of T-bill and Repos remained unchanged from the previous week, with T-bill standing at VND0.00tn and Repos at VND0.29tn, respectively.

Figure 1. Net injection (withdrawal) of liquidity



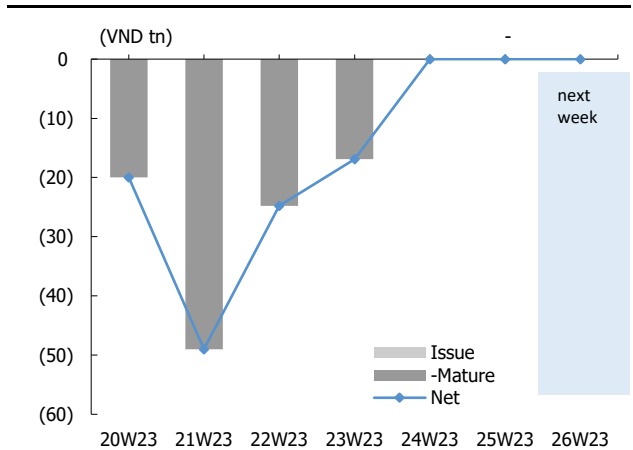
Source: SBV, Bloomberg, KIS

Table 1. Historical policy rate change

Effective date	Discount rate (%)	Refinancing rate (%)
June 23, 2023	3.0↓	4.5↓
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↓

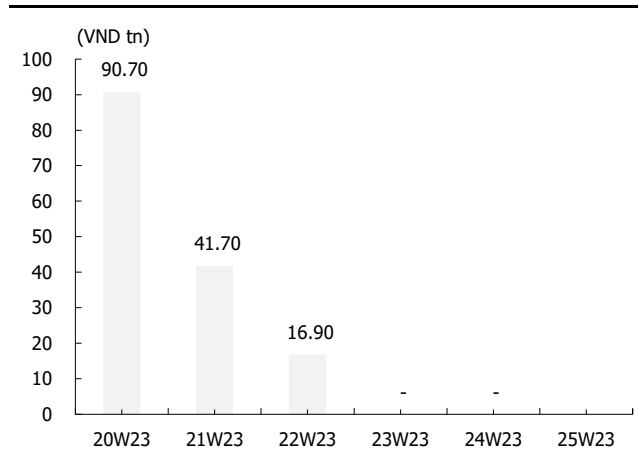
Source: SBV, Bloomberg, KIS

Figure 2. T-bill amount by week



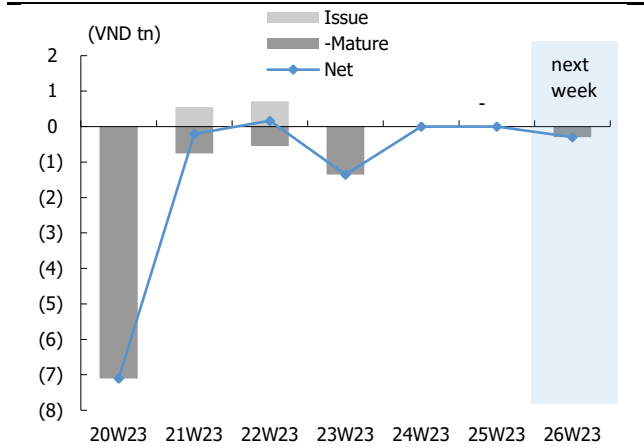
Source: SBV, Bloomberg, KIS

Figure 3. Outstanding T-bill by week



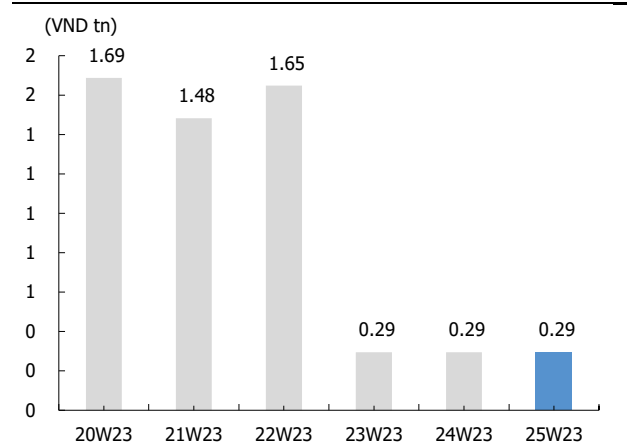
Source: SBV, Bloomberg, KIS

Figure 4. Repo amount by week



Source: SBV, Bloomberg, KIS

Figure 5. Outstanding repo by week



Source: SBV, Bloomberg, KIS

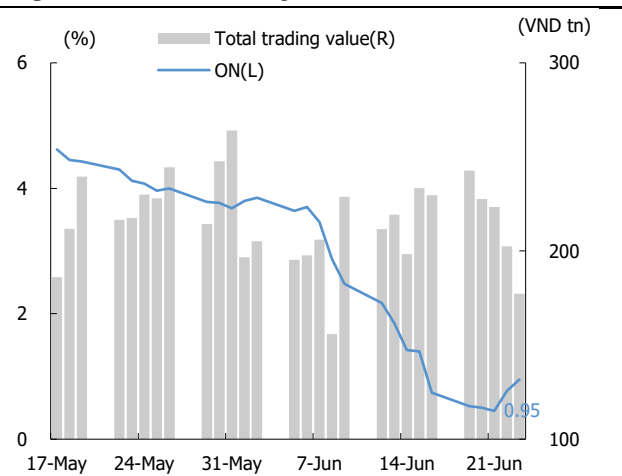
II. Interbank rates continue to hover at the year low

Interbank rates slightly rise

Interbank rates witnessed a slight uptick this week, but remained significantly low due to ample liquidity and subdued lending activities. Specifically, the rates for ON, 1W, and 2W tenors increased by 21bps, 26bps, and 15bps, reaching 0.95%, 1.23%, and 1.61% respectively. The average daily trading volume showed a marginal decline of -1.73% WoW.

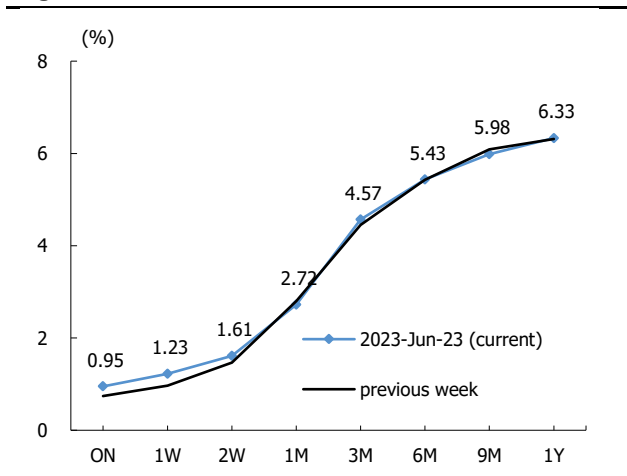
Lending activities remained weak, with credit growth reaching 3.36% YTD by 15 June, up slightly from 3.17% at the May-end. However, the credit growth lacks positive momentum as the SBV emphasized the importance of maintaining sound credit standards amidst the rising potential debt, despite the non-performing loans (NPL) on banks' balance sheets remaining below 3%. This cautious approach to ensure the stability of the banking system is also observed globally, with US policymakers considering a potential 20% increase in overall capital requirements for larger banks (total assets exceeding \$100 billion).

Figure 6. Interbank daily transaction



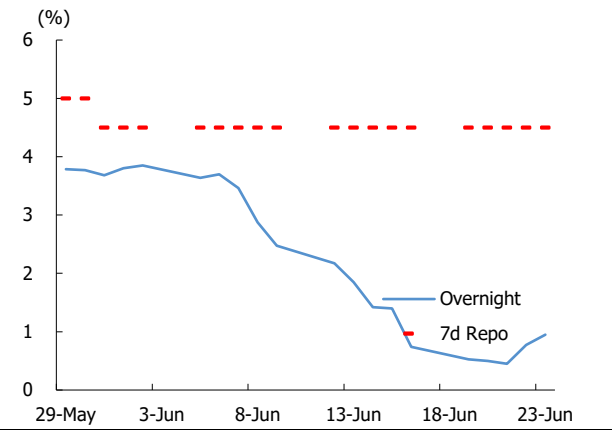
Source: SBV, Bloomberg, KIS

Figure 7. Interbank rate curve



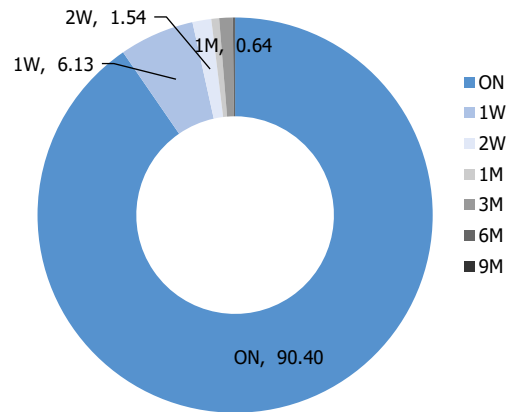
Source: SBV, Bloomberg, KIS

Figure 8. Interbank rate corridor



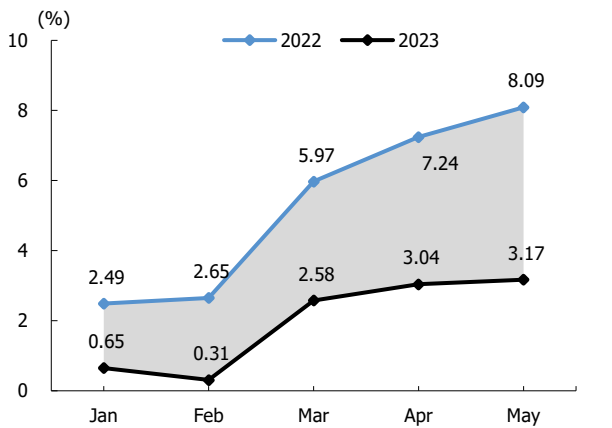
Source: SBV, Bloomberg, KIS

Figure 9. Interbank transaction structure



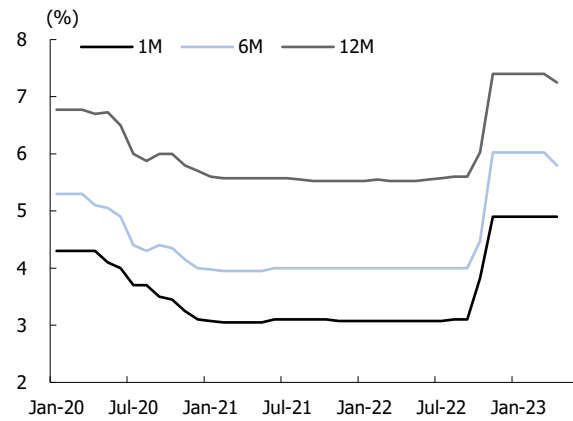
Source: SBV, Bloomberg, KIS

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

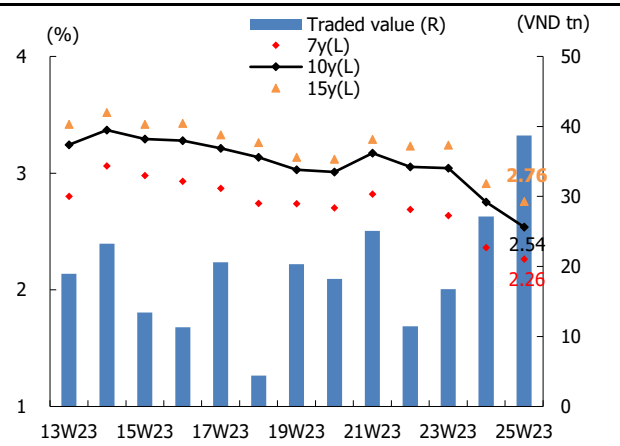
III. G-bond yields drop to new low

Trading yields hit new low

Government bond yields witnessed a fall, reaching a fresh record low this week. More specifically, 7-year, and 10-year, and 15-year G-bond yields dropped by 10bps, 22bps and 16bps, settling at 2.26%, 2.54% and 2.76%, respectively. Remarkably, the average daily trading value this week continued to surge by 42.60%, climbing from VND5.43tn per day in the previous week to VND7.74tn per day this week, marking a two-month high.

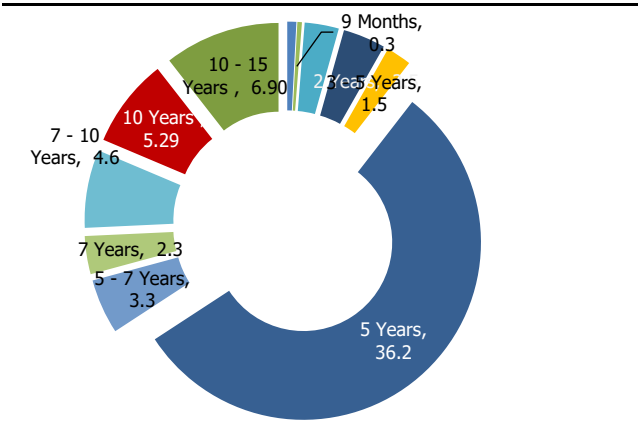
As aforementioned, the government is taking steps to stimulate economic growth by lowering interest rates to support businesses. However, the manufacturing sector continues to face challenges, as evidenced by a decline in the PMI from 46.7 in April to 45.3 in May. This indicates a worsening of business conditions and marks the third consecutive month of PMI decline. Consequently, credit growth is expected to remain slow in the near term, resulting in further reductions in yields. This situation arises because other investment options have not yet shown comparable effectiveness in terms of returns adjusted for risk.

Figure 12. G-bond trading value



Source: HNX, KIS

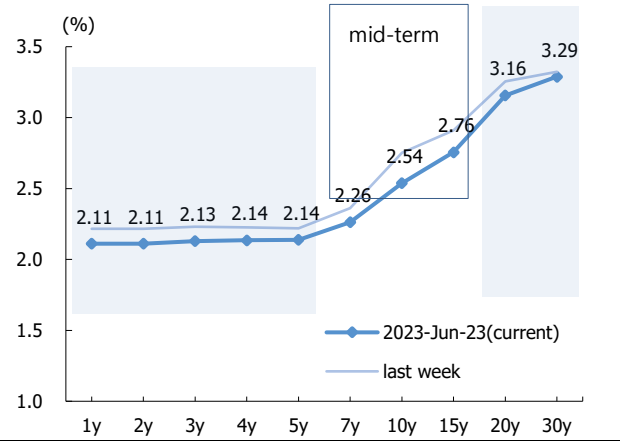
Figure 13. Trading value by tenor this week



Source: HNX, KIS

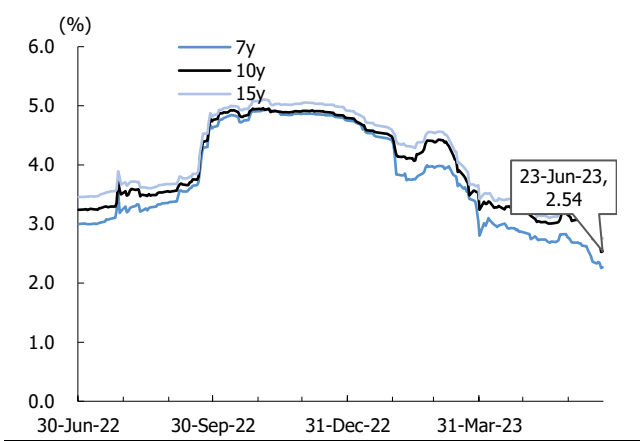
The proportion of bonds with tenors ranging from 7 to 20 years witnessed a fall this week, dropping from 76.18% last week to 51.83% this week. Moreover, the focus of trading shifted to 5-year tenor, accounting for 36.2% of the total this week. Notably, in the 25W23, a sharp fall was seen in the yield of mid-term bonds (7 years to 15 years) by 16bps. Additionally, short-term tenors (1 year to 5 years) and long-term (above 15 years) experienced a smaller decline by 10bps, and 7bps, respectively.

Figure 14. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 15. Historical daily government bond yield

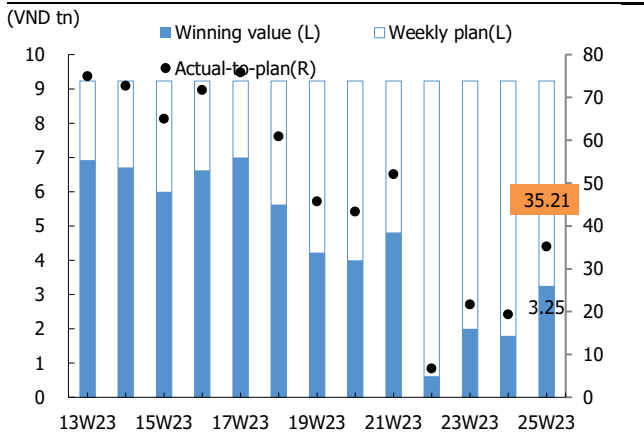


Source: HNX, VBMA, KIS

Winning yields decline

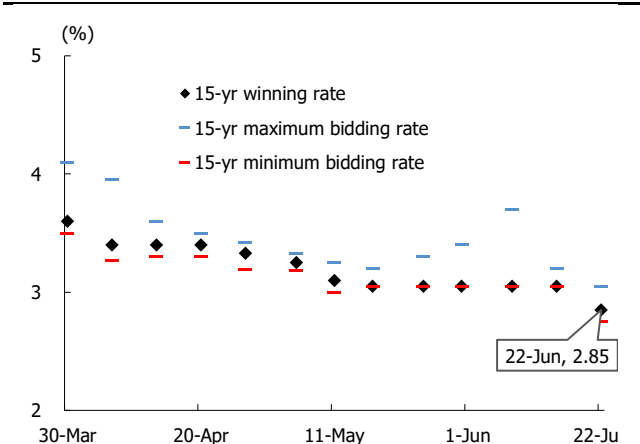
In terms of the development of G-bond issuance, the winning yields dropped to a new low this week. Specifically, winning yields for 5-year, 10-year, and 15-year tenors (the most issued tenors) are traded at 2.85% (down 20bps), 3.05% (a decline 15bps), and 2.75% (a drop of 30bps), respectively. This week, the winning value increased dramatically by 81.56%, posting at VND3.25tn compared to last week's data. Cumulatively, Vietnam State Treasury (VST) fulfilled 49.64% and 33.15% of the second quarter and annual plans.

Figure 16. Winning value by week



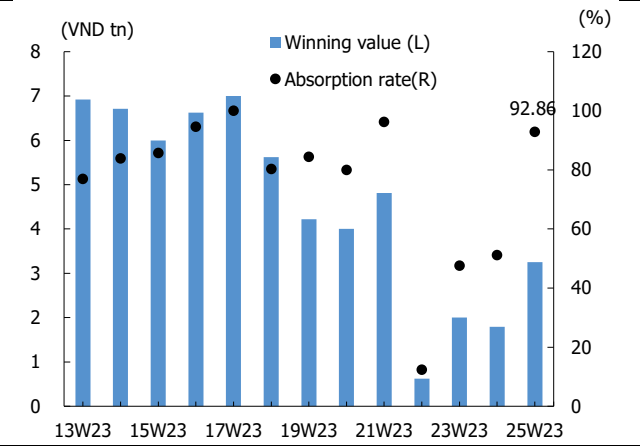
Source: HNX, KIS

Figure 17. Winning yields by week



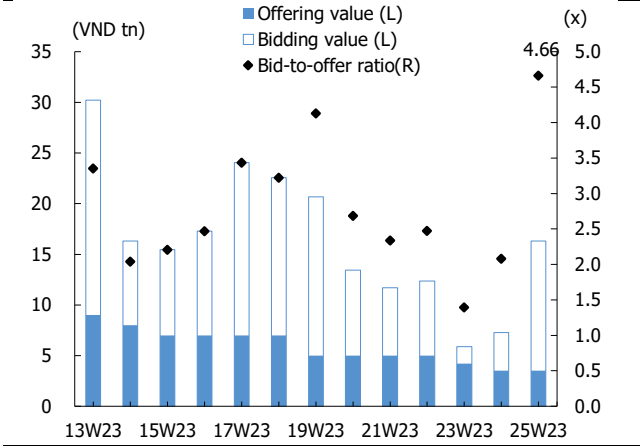
Source: HNX, KIS

Figure 18. Absorption ratio



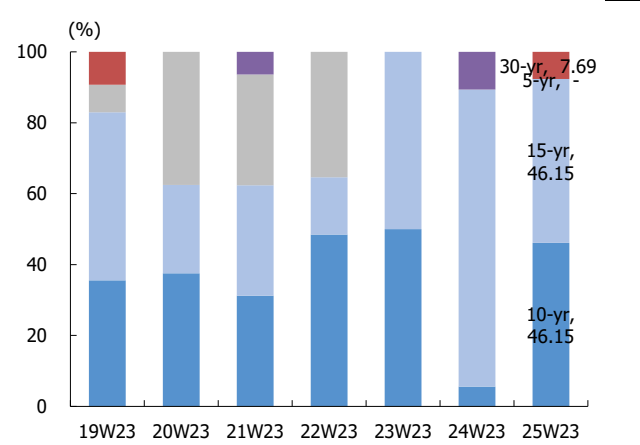
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



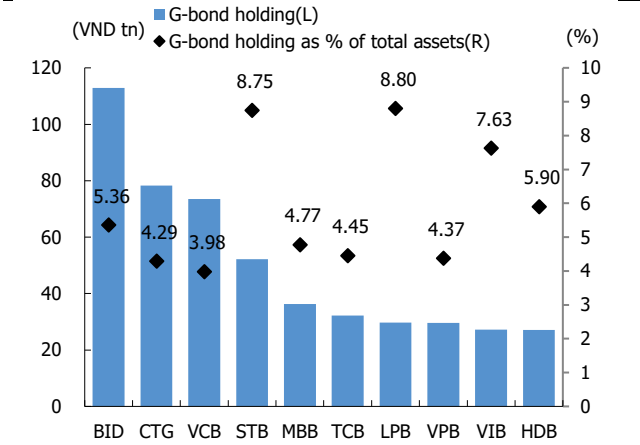
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

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



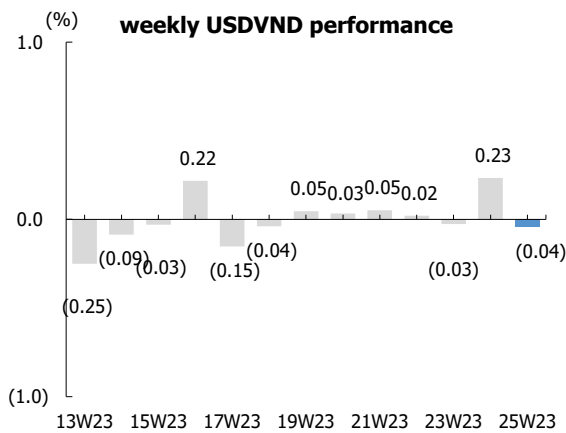
Source: HNX, Company filings, KIS

IV. USDVND cools down

USDVND declined this week

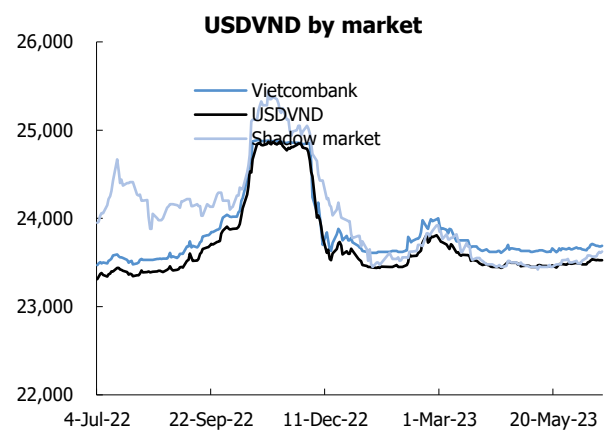
During the past week, USDVND witnessed a fall of 0.04% compared to the previous week, posting at VND23,525 on Friday. On the contrary, the U.S Dollar index (DXY), which measures the value of the greenback relative to a basket of foreign currencies, jumped 0.65% from 102.12 to 102.9 this week, attributed to the hawkish outlook for two additional interest rate hikes this year following Powell's testimony. Conspicuously, VCB's bid/ask veers the same downward trend while and the shadow market's bid/ask observed a significant increase. Specifically, VCB's bid/ask declined by 20 basis points (bps) and anchored at VND23,320/23,690, while the shadow market's bid/ask rose significantly by 60 bps, anchoring at VND23,574/23,5625.

Figure 22. Weekly USDVND performance



Source: SBV, Bloomberg

Figure 23. Historical USDVND by market

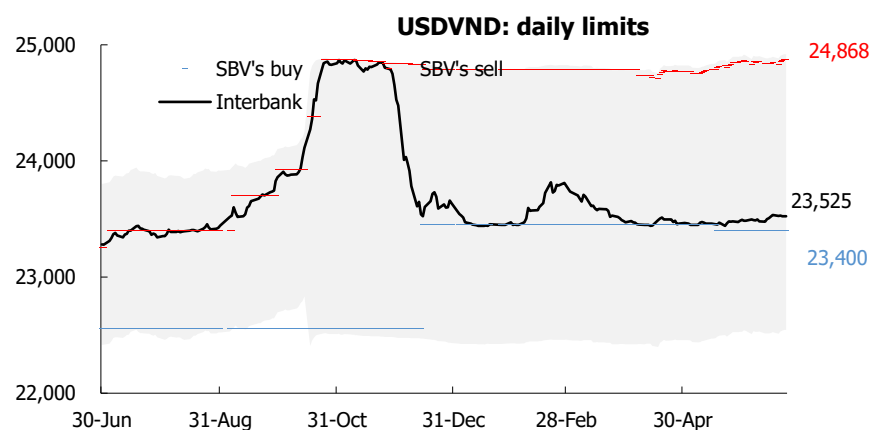


Source: SBV, Bloomberg, Fiinpro, tyqiadola.net

This week, the State Bank of Vietnam (SBV) has decided to increase the selling price of the greenback to VND24,868. This decision is regarded as a cautious measure to safeguard the value of the Vietnam dong following a hawkish stance from the Federal Reserve (FED). However, the USD buying price remained unchanged at VND23,400. It is anticipated that the USD selling price will continue to increase in upcoming weeks as a preventive measure against the USD outflow.

At the end of the week, the current exchange rate for USDVND is 125 bps higher than the buying price, resulting in no enrichment in USD from the SBV this week. Based on KIS's estimates, the SBV has raised its foreign exchange reserves to approximately USD6bn.

Figure 26. 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 sluggish lending activities during the first half of 2023 have resulted in the funding cost, such as the overnight (ON) rate, plummeting into the sub-1% range this week. As mentioned earlier, the ON rate dropped to 0.9%, significantly below the current Fed fund rate of 5.25%. This has increased the appeal of investing in U.S. assets, potentially causing capital to flow out of Vietnam and into the U.S. Consequently, this could exert downward pressure on the value of the Vietnam dong (VND). Additionally, the anticipated two additional interest rate hikes by the Federal Reserve later this year, potentially bringing the target Fed fund rate to 5.6%, could further impact the VND negatively.

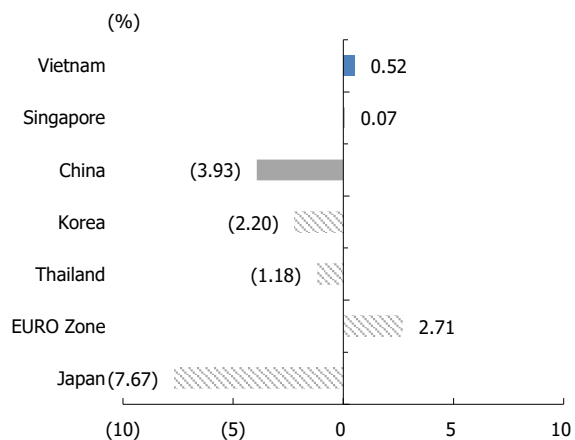
However, it is expected that the USDVND exchange rate will maintain stability in the near future. Firstly, the State Bank of Vietnam (SBV) has adopted flexible monetary policies aimed at stabilizing the exchange rate. Secondly, as aforementioned from previous reports, Vietnam this year received a significant USD inflow from 3 channels such as M&A activities, trade surplus and remittance inflow. Thus, Vietnam's government possesses sufficient resources to prevent the devaluation of the domestic currency.

Figure 27. Historical DXY



Source: SBV, Bloomberg

Figure 28. 2023 YTD performance of major currencies against USD



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

Among the currencies tracked by KIS, the Vietnamese Dong (VND) remains resilient, maintaining its strength relative to the greenback. In fact, it has appreciated by 0.52% year-to-date (YTD). Besides, the Euro dollar (EUR) continued to exhibit strength amid a hawkish view from ECB, with a YTD appreciation of 2.71% against the USD, double from last week. Following a jump in the DXY index during the previous week, the devaluation of currencies against the U.S dollar has been extended in several countries. Notably, China, Korea, and Thailand have extended their price drops to 3.93%, 2.20%, and 1.18%, respectively. Furthermore, Japan continued to extend the depreciation level to 7.67% YTD against the greenback.

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, ~2.85%
- * Absorption rate = winning value / offering value, ~92.86%
- * Bid to offer ratio = offering value / bidding value, ~4.66
- * DXY = U.S. Dollar Index, ~102.90
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~0.95%

Appendix

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

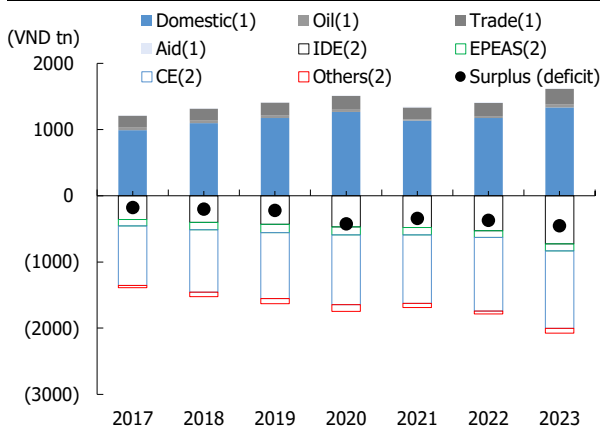
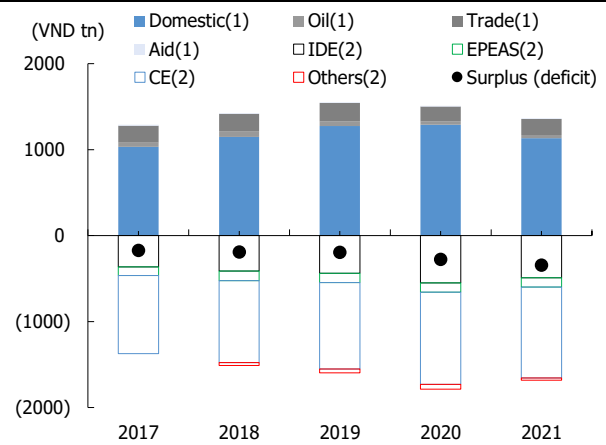


Figure 2. Vietnam's state budget by year: actual



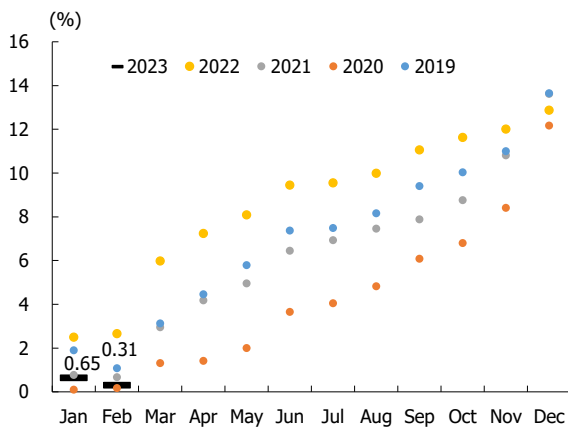
Source: MoF, SBV, KIS

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

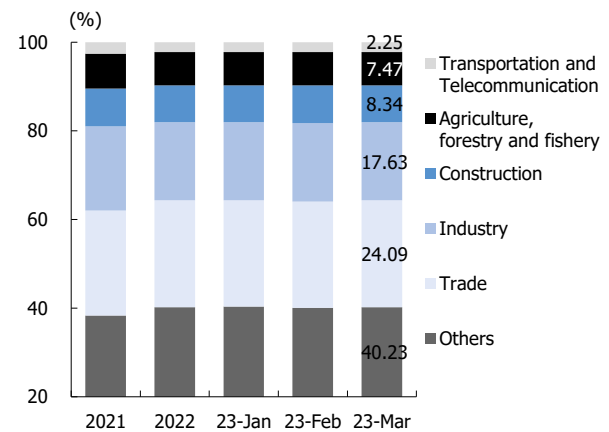
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



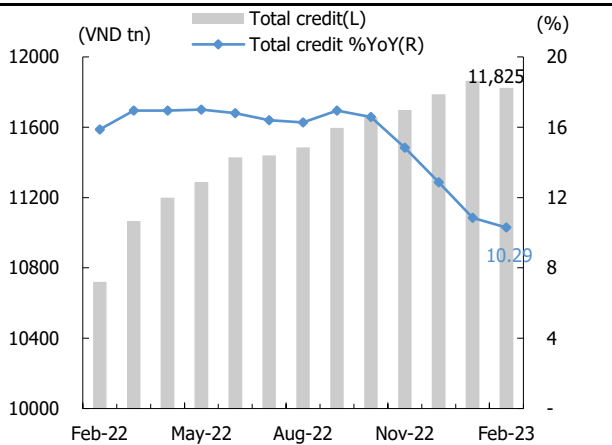
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



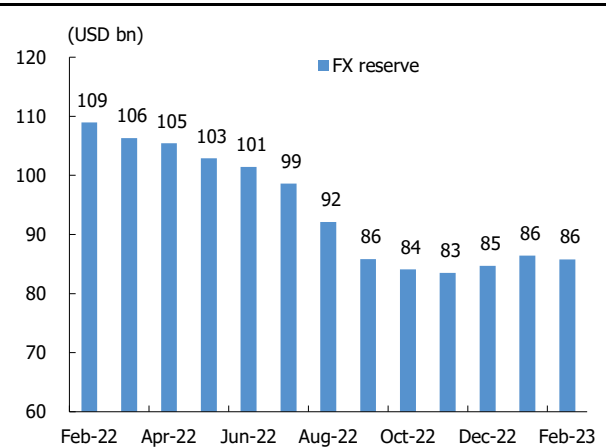
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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