

Fixed-income Perspectives

Cheap funding cost endures under excessive liquidity

One-month muted money flow pasts

In 27W23 (from 3 to 9 July), the silent money flow has been lasting for one month with empty outstanding T-bill and Repos, coupling with no new issuance observed. We maintain our view that the silent OMO market will persist for the next few weeks till the July US FOMC decision is revealed to tackle the credit performance and FX pressure increasing.

Interbank rates hover at the three-year low

Interbank rates hover at its three-year low levels as abundant liquidity persists and easing liquidity condition despite accelerated lending activities recorded in June. In a collective effort, 25 banks have announced plans to increase their capital by around 26%, which will help alleviate the liquidity ratio and contribute to the overall increase in market liquidity. This, in turn, puts downward pressure on interbank rates. As a result, the most traded tenor – ON slightly edged up by 7bps to 0.40% while 1W and 2W dropped by 25bps, and 37bps to 0.72% and 1.10%, respectively.

USDVND surges

During the past week, USDVND witnessed a 0.30% upswing in comparison to the previous week, posting at VND23,653 by the end of Friday. Besides, the U.S Dollar index (DXY), a gauge of the dollars' worth relative to a selection of international currencies, witnessed a sharp decline by 0.62%, settling at 102.28pts. It is expected that the USD selling price will continue to rise in the coming weeks as a preventive measure against potential USD outflows.

KIS leading economic index

	3Q22	4Q22	1Q23	2Q23	2020	2021	2022
GDP (%)	13.67	5.92	3.32	4.14	2.91	2.58	8.02
Trade balance (USD bn)	5.78	4.44	4.07	7.41	19.86	4.00	11.20
CPI (%)	3.32	4.41	4.18	2.41	3.24	1.84	3.15
Discount rate (%)	3.50	4.50	3.50	3.00	2.50	2.50	4.50
USD/VND	23,712	23,658	23,480	23,567	23,252	22,936	23,658
US GDP (% yoy)	NA	NA	NA	NA	(3.40)	5.60	NA
China GDP (% yoy)	NA	NA	NA	NA	2.20	8.00	NA

Source: KIS

Contents

I. One-month muted money flow pasts	1
II. Interbank rates hover at three-year low....	2
III. G-bond yields extend the growth	4
IV. USDVND surges	7
Macro scorecard.....	10
Appendix	11

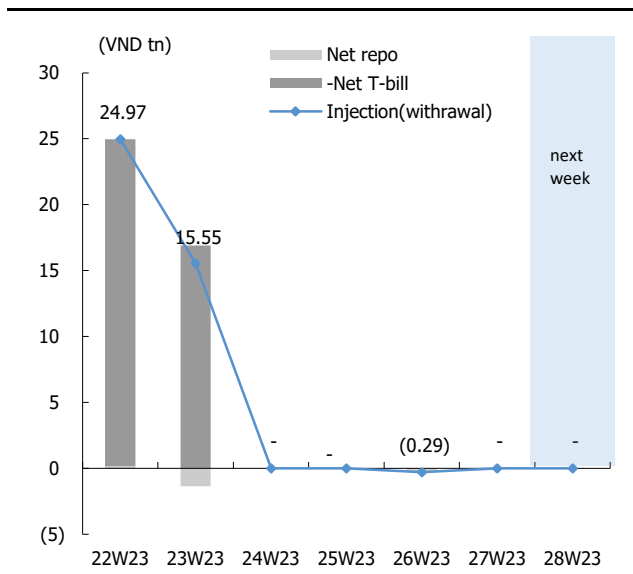
Research Dept.
researchdept@kisvn.vn

I. One-month muted money flow pasts

Excessive liquidity persists

In 27W23 (from 3 to 9 July), the silent money flow has been lasting for one month with empty outstanding T-bill and Repos, coupling with no new issuance observed. As we mentioned earlier, the current subdued lending performance is not due to liquidity crunch but rather borrowers' credit quality and demand, therefore the current situation does not necessitate liquidity support through OMO tools. Hence, we maintain our view that the silent OMO market will persist for the next few weeks till the July US FOMC decision is revealed to tackle the credit performance and FX pressure increasing.

Figure 1. Net injection (withdrawal) of liquidity



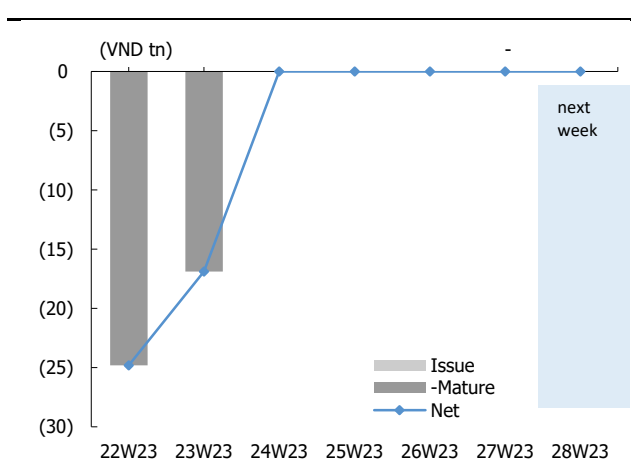
Source: SBV, Bloomberg, KISVN

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↓

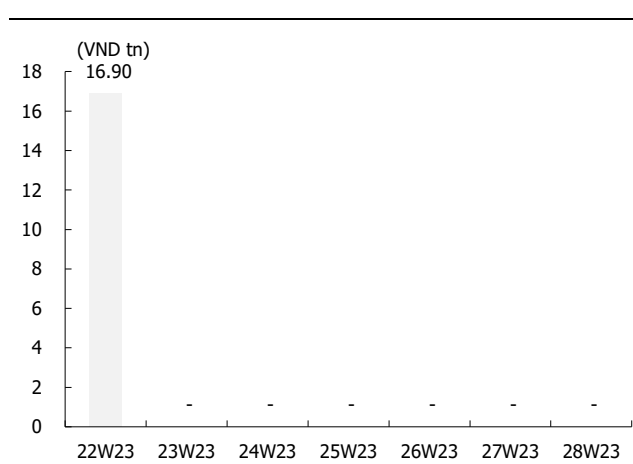
Source: SBV, Bloomberg, KISVN

Figure 2. T-bill amount by week



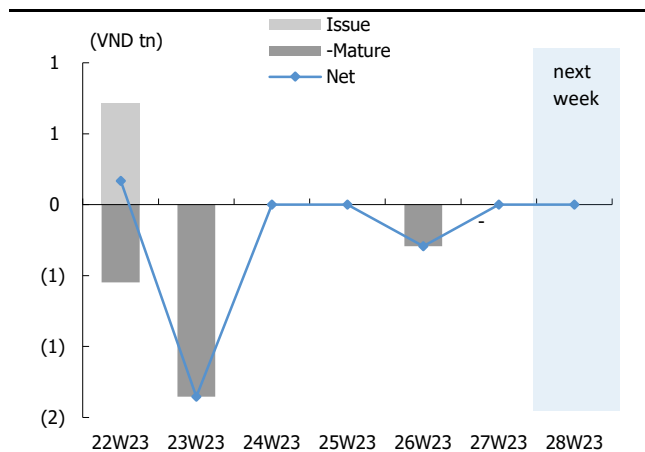
Source: SBV, Bloomberg, KISVN

Figure 3. Outstanding T-bill by week



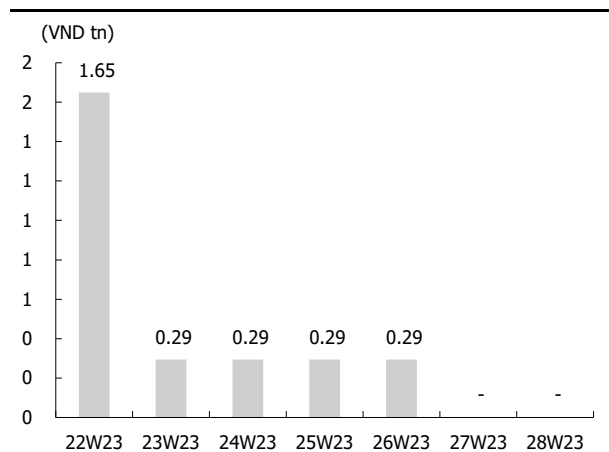
Source: SBV, Bloomberg, KISVN

Figure 4. Repo amount by week



Source: SBV, Bloomberg, KISVN

Figure 5. Outstanding repo by week



Source: SBV, Bloomberg, KISVN

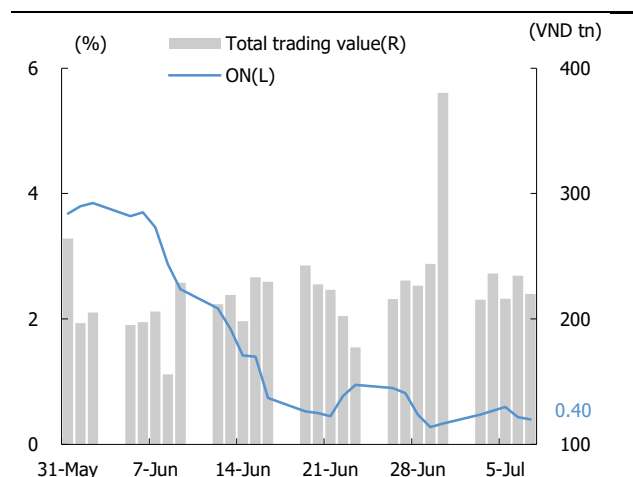
II. Interbank rates hover at three-year low

Liquidity ratio eased as banks' capital raised

Interbank rates hover at its three-year low levels as abundant liquidity persists and easing liquidity condition despite accelerated lending activities recorded in June. In a collective effort, 25 banks have announced plans to increase their capital by around 26%, which will help alleviate the liquidity ratio and contribute to the overall increase in market liquidity. This, in turn, puts downward pressure on interbank rates. As a result, the most traded tenor – ON slightly edged up by 7bps to 0.40% while 1W and 2W dropped by 25bps, and 37bps to 0.72% and 1.10%, respectively.

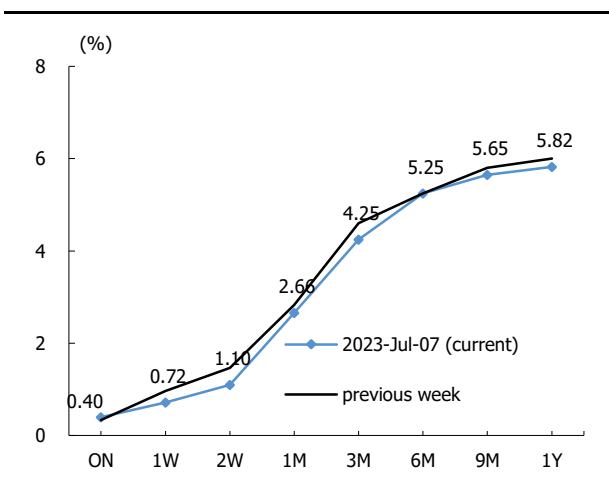
The significant growth in credit by June 30, reaching 4.73% compared to 3.17% the previous month, indicates the effectiveness of the government's credit support measures. Although the credit performance for the first half of 2023 has been poor, the State Bank of Vietnam (SBV) remains optimistic about achieving its 2023 growth target of around 14%, slightly lower than the initial range of 14% - 15%. Notably, the negative VND-USD interbank rates materialized in the strong depreciation of VND this week. We anticipate that interbank rates will continue to hover at these low levels as the abundant liquidity in the market takes time to be addressed.

Figure 6. Interbank daily transaction



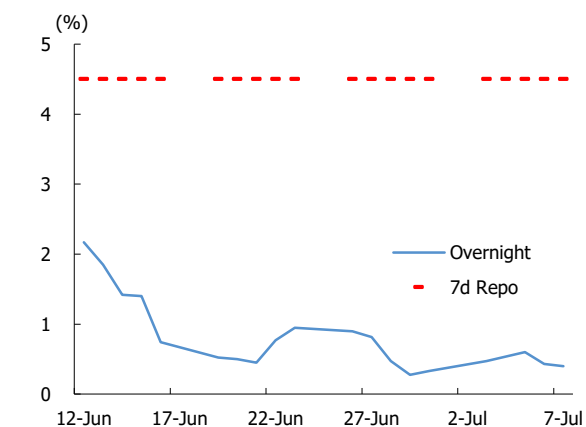
Source: SBV, Bloomberg, KISVN

Figure 7. Interbank rate curve



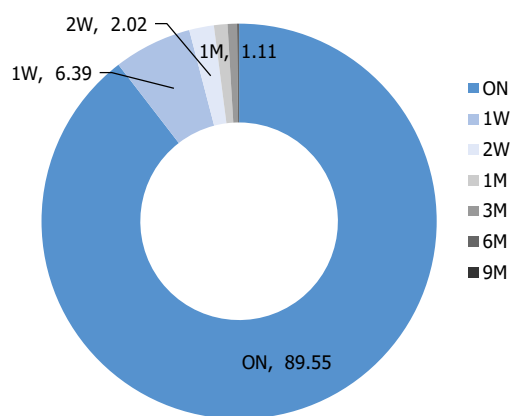
Source: SBV, Bloomberg, KISVN

Figure 8. Interbank rate corridor



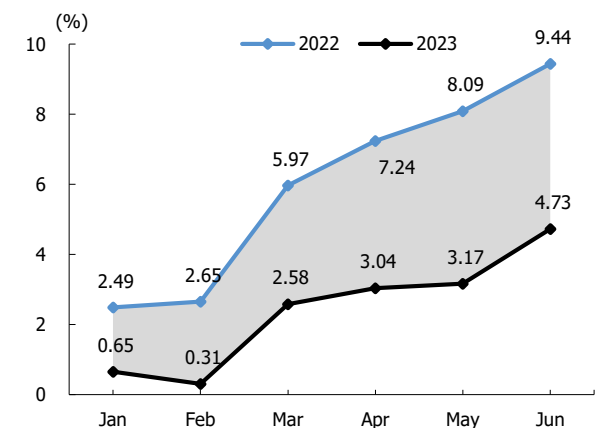
Source: SBV, Bloomberg, KISVN

Figure 9. Interbank transaction structure



Source: SBV, Bloomberg, KISVN

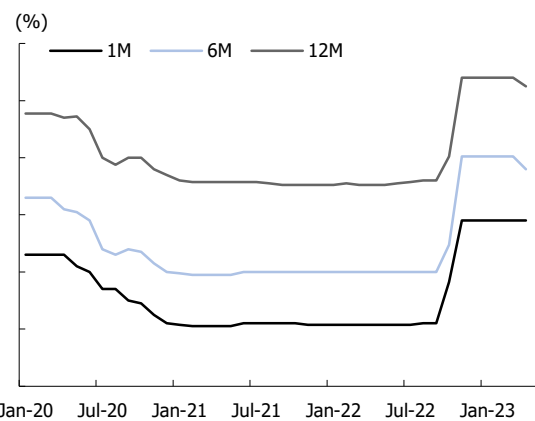
Figure 10. Credit growth by month



Source: SBV, Bloomberg, KISVN

Data as of 30 June, 2023

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



Source: Vietnambiz.vn, KISVN

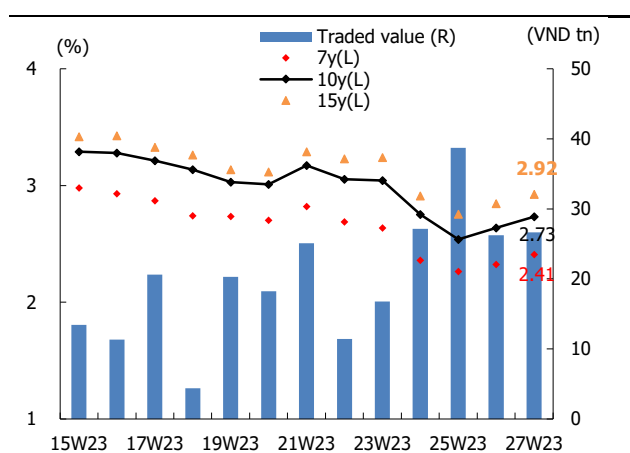
III. G-bond yields extend the growth

Trading yields rebound

In 27W23, Government bond yields witnessed a rebound, making three consecutive week of increasing. More specifically, 7-year, and 10-year, and 15-year G-bond yields increased by 8bps, 10bps and 8bps, settling at 2.41%, 2.73% and 2.92%, respectively. Besides, the average daily trading value this week jumped modestly by 1.46%, increasing from VND5.25tn per day in the previous week to VND5.33tn per day this week.

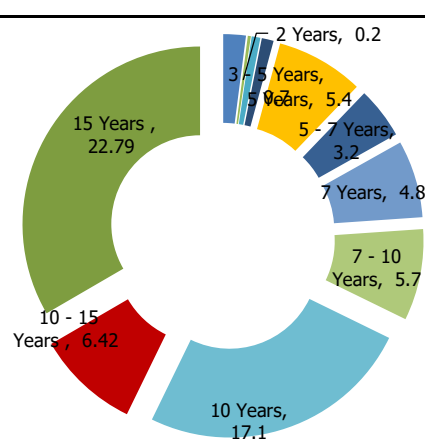
As aforementioned, the economy has remained fragile during the first half of 2023 due to sluggish demand from both internal and external. However, credit growth is expected to recover in the near future thanks to government's credit support measures. It is anticipated that G-bond yields will increase in upcoming months.

Figure 12. G-bond trading value



Source: HNX, KIS

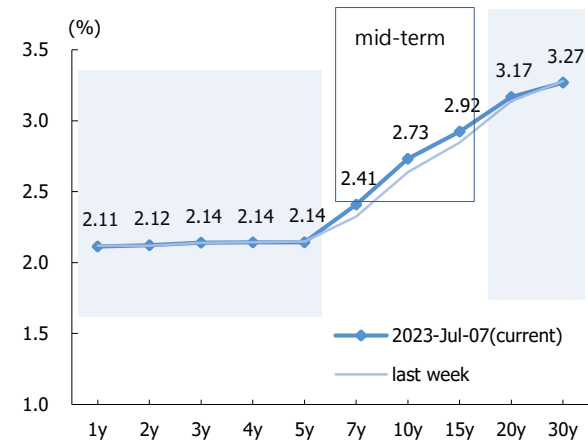
Figure 13. Trading value by tenor this week



Source: HNX, KIS

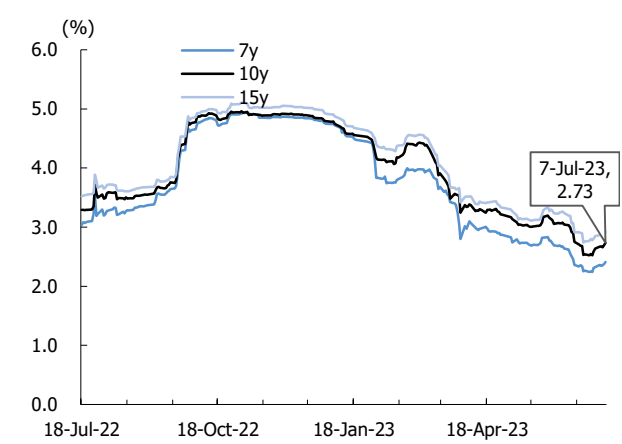
The proportion of bonds with tenors spanning from 7 to 15 years jumped further, reaching 56.75% this week. It is worth mentioning that during the 27th week of 2023, there was a significant increase in the yield of mid-term bonds (ranging from 7 to 15 years) by 9bps. Similarly, long-term bonds (with tenors above 15 years) followed a similar trend to mid-term bonds but with a modest increase of 1bps. Meanwhile, short-term bond remained unchanged compared to last week's data.

Figure 14. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 15. Historical daily government bond yield

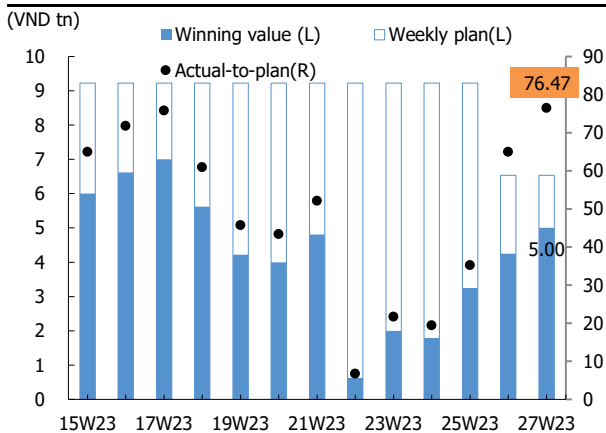


Source: HNX, VBMA, KIS

Winning yields rebound

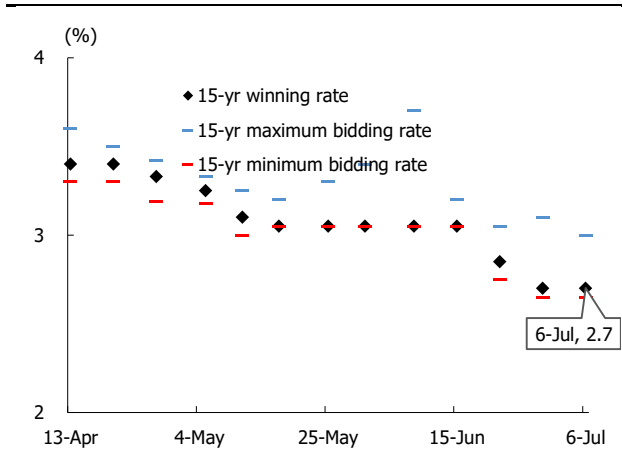
In terms of the development of G-bond issuance, the winning yields remained unchanged this week. Specifically, winning yields for 5-year, 10-year, and 15-year tenors (the most issued tenors) are traded at 2.0%, 2.45%, and 2.70%, respectively. This week, the winning value increased by 17.65%, posting at VND5.00tn compared to last week's data. Cumulatively, Vietnam State Treasury (VST) fulfilled 10.88% and 35.46% of the third quarter and annual plans, respectively.

Figure 16. Winning value by week



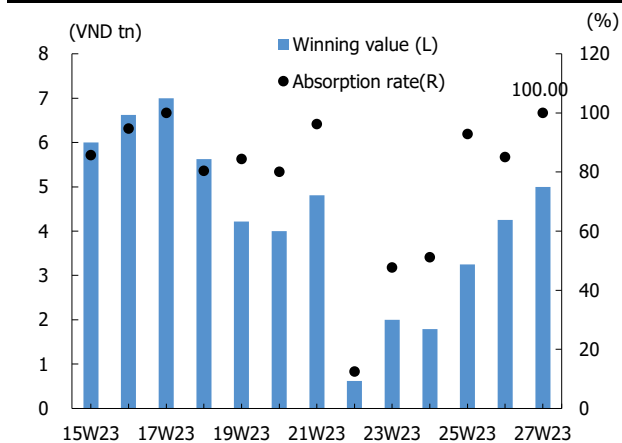
Source: HNX, KIS

Figure 17. Winning yields by week



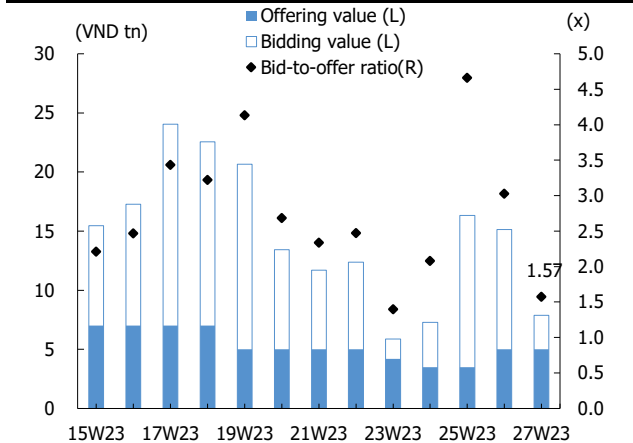
Source: HNX, KIS

Figure 18. Absorption ratio



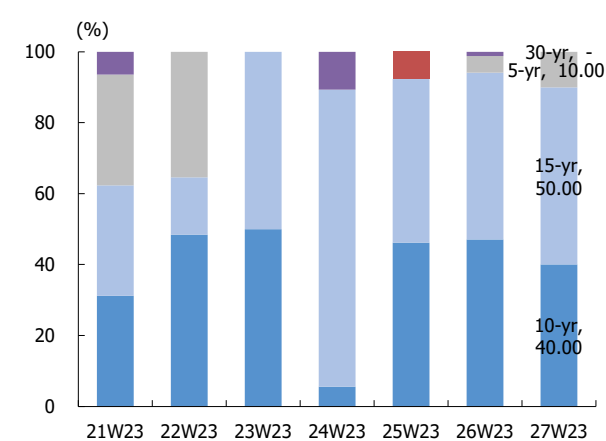
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



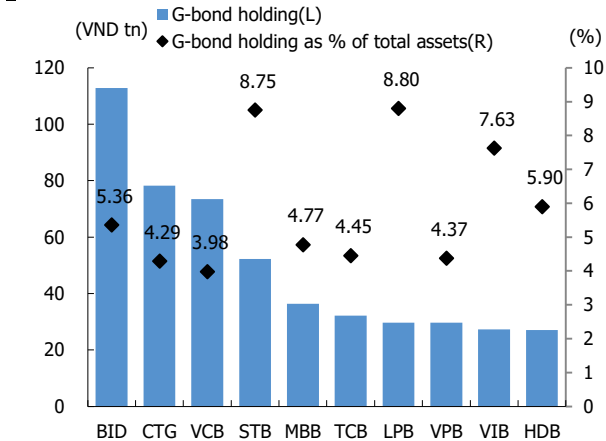
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

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



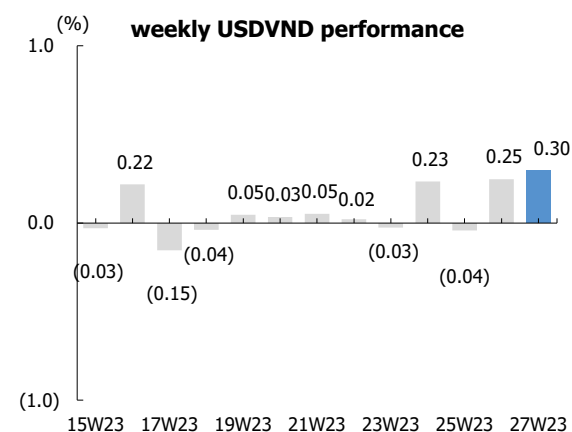
Source: HNX, Company filings, KIS

IV. USDVND surges

USDVND jumps

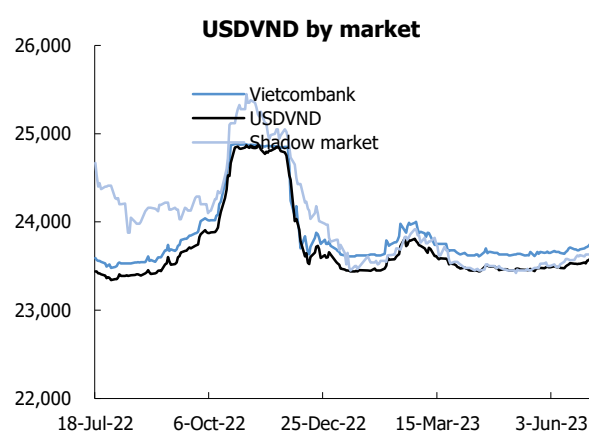
During the past week, USDVND witnessed a 0.30% upswing in comparison to the previous week, posting at VND23,653 by the end of Friday. Besides, the U.S Dollar index (DXY), a gauge of the dollars' worth relative to a selection of international currencies, witnessed a sharp decline by 0.62%, settling at 102.28pts. Notably, VCB's bid/ask and the shadow market's bid/ask observed an increase. In particular, VCB's bid/ask rose sharply by 60 basis points (bps) and settled at VND23,440/23,810, while the shadow market's bid/ask remained unchanged, anchoring at VND23,580/23,630.

Figure 22. Weekly USDVND performance



Source: SBV, Bloomberg

Figure 23. Historical USDVND by market

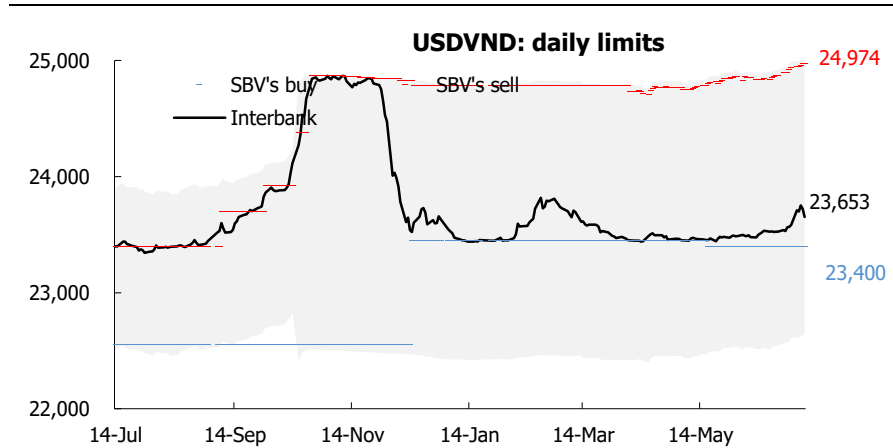


Source: SBV, Bloomberg, Fiinpro, tygiadola.net

This week, the State Bank of Vietnam (SBV) continued to lift the selling price of the greenback to VND24,974, 34bps higher than previous week. This move is seen as a precautionary step to safeguard the value of the Vietnam dong in response to a hawkish stance from the Federal Reserve (FED). The USD buying price, on the other hand, remained unchanged at VND23,400. It is expected that the USD selling price will continue to rise in the coming weeks as a preventive measure against potential USD outflows.

At the end of the week, the USDVND exchange rate stand significantly higher at 253bps above the USD buying price, which means there was no increase in USD reserve from the SBV this week. Based on KIS's estimates, the SBV has augmented 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 0.4%, significantly below the current Fed fund rate of 5.25%. This has made investing in U.S. assets more appealing, 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.

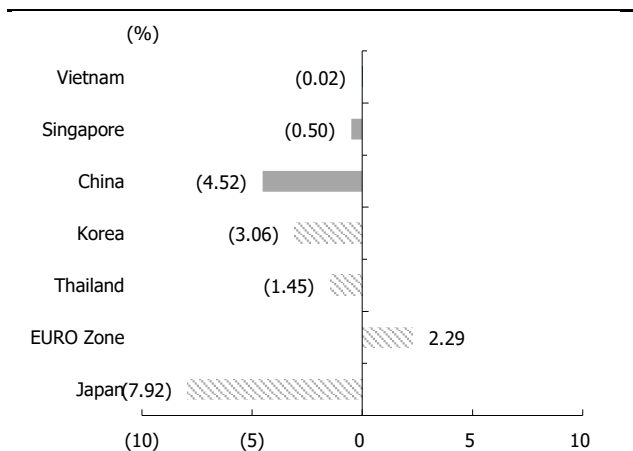
However, it is expected that the USDVND exchange rate will maintain stability in the near future. Firstly, the SBV has adopted flexible monetary policies aimed at stabilizing the exchange rate. Secondly, as aforementioned from previous reports, Vietnam this year received a significant USD inflow from 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: stripped bars represent countries following the floating FX regime.

Among the currencies tracked by KIS, just only Euro (EUR) remains resilient this week, maintaining its strength relative to the greenback by appreciating 2.29% against the U.S dollar. Besides, VND has depreciated 0.02%YTD for the first time in 2023 due to facing notably constrained from negative swap. In response to the fall of the DXY this week, the devaluation of currencies against the U.S dollar has been narrowed in several countries. Notably, China, Korea, and Thailand have extended their price drops to 4.52%, 3.06%, and 1.45%, respectively. Furthermore, Japan also narrowed the depreciation level to 7.92% YTD against the greenback.

Macro scorecard

	23-Feb	23-Mar	23-April	23-May	23-Jun	3Q22	4Q22	1Q23	2Q23	2019	2020	2021	2022
Real GDP growth (%)						13.67	5.92	3.21	4.14	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.41	2.35	3.43	1.98	2.57	4.67	8.96	5.45	13.43	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	4,110
Unemployment rate (%)						2.28	2.32	2.25	2.25	2.25	2.48	3.22	2.32
Export (USD bn)	25.88	29.57	27.54	29.05	29.30	96.48	89.50	79.17	83.42	263.6	282.7	335.7	371.85
Import (USD bn)	23.58	28.92	26.03	26.81	26.71	90.71	85.07	75.10	76.01	254.4	263	331.1	360.65
Export growth (%)	10.97	(14.78)	(17.15)	(5.86)	(11.41)	17.22	(6.07)	(11.90)	(14.16)	8.16	7.02	18.74	10.61
Import growth (%)	(6.65)	(11.10)	(20.54)	(18.44)	(16.94)	8.12	(3.90)	(14.67)	(22.30)	7.41	3.81	25.9	8.35
Inflation (%)	4.31	3.35	2.81	2.43	2.00	3.32	4.41	4.18	2.41	2.79	3.24	1.84	3.15
USD/VND	23,785	23,471	23,465	23,477	23,525	23,712	23,633	23,471	23,525	23,173	23,126	22,790	23,650
Credit growth (%)	0.31	1.96	3.04	3.04	3.36	10.47	12.87	1.61	3.36	13.75	12.17	12.97	12.87
10Y gov't bond (%)	4.39	3.24	3.21	3.28	3.50	4.39	5.08	3.54	3.50	3.37	2.01	2.11	5.08

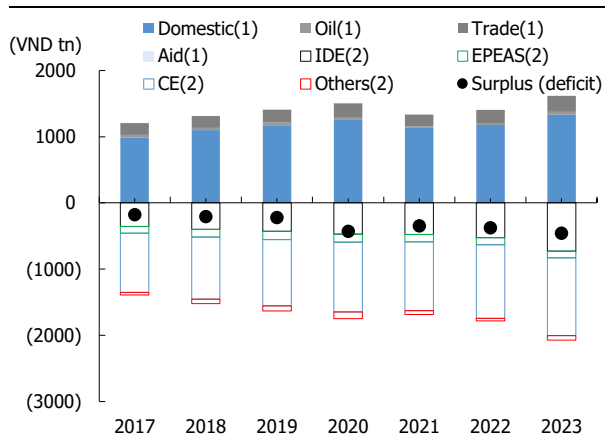
Source: GSO, Bloomberg, FIA, IMF

**Glossary

- * Winning yield rate = each group's highest bidding rate, ~2.70%
- * Absorption rate = winning value / offering value, ~100%
- * Bid to offer ratio = offering value / bidding value, ~1.57
- * DXY = U.S. Dollar Index, ~102.28
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~0.40%

Appendix

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



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 2. Vietnam's state budget by year: actual

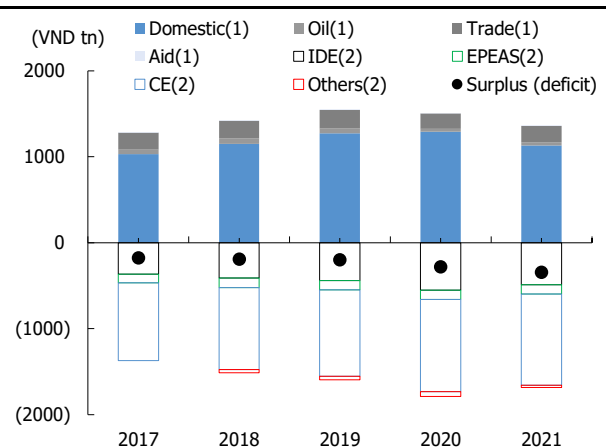
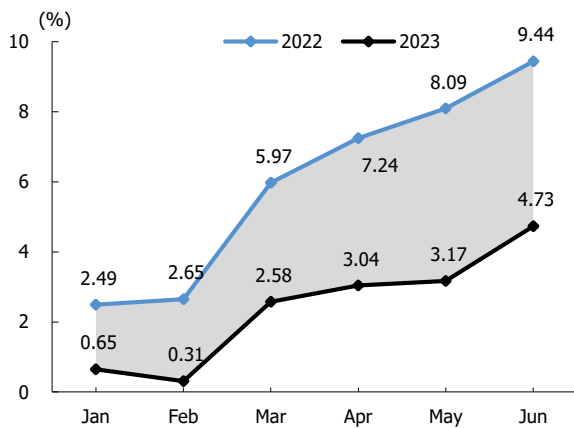
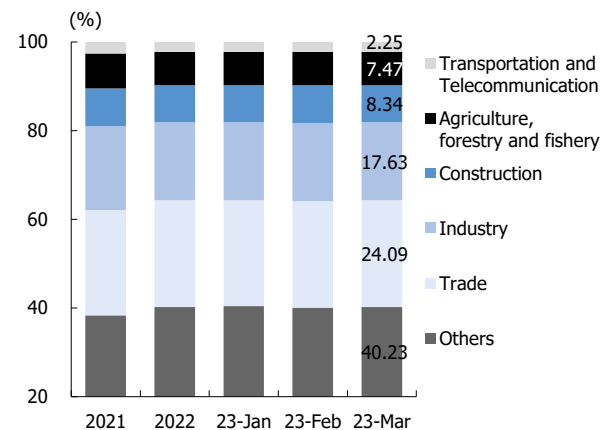


Figure 3. Vietnam's total credit % YTD by month



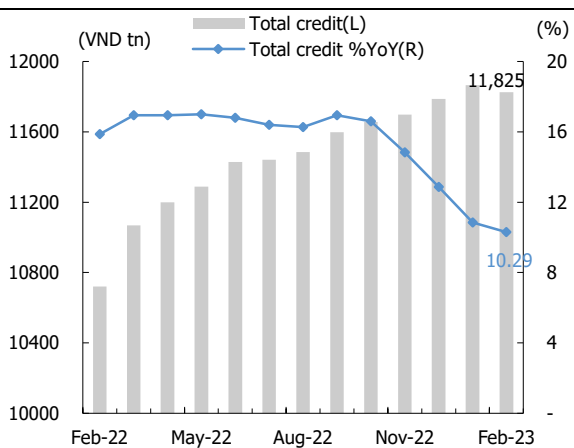
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



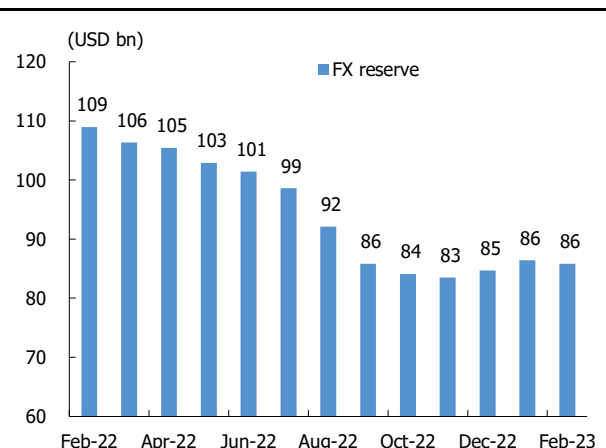
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2023 KIS Vietnam Securities Corp. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp.



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

This report has been prepared by KIS Vietnam Securities Corp. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional investors who are expected to make their own investment decisions without undue reliance on this report and the company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is not intended for the use of private investors.

Copyright © 2020 KIS Vietnam Securities Corp. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp.