

Fixed-income Perspectives

SBV weights more on exchange rate stability

SBV backs to drain liquidity

In 38W23 (from 18 to 24 September), the State Bank of Vietnam (SBV) resumed its practice of offering bills with a maturity period of 28 days, totaling VND20.00tn. This action was taken following six months of maintaining a stance of silence in Open Market Operations (OMO). In general, the State Bank's objective is to absorb excess liquidity in the market, and primarily to alleviate short-term pressure from exchange rate speculation.

Interbank rates anchor at lows

This week, despite the SBV offering bills to reduce liquidity, interbank rates remained consistently low, signifying a diminished need for liquidity among borrowers. More specifically, the most actively traded tenors, such as overnight (ON), saw a minor uptick of 1 basis point (bps) to 0.13%, while the rates for 1-week and 2-week tenors remained unchanged at around 0.25% and 0.40%, respectively

USDVND surges further

USDVND maintained its upward trajectory throughout the week, reaching a fresh 10-month peak at 24,334, marking an 86bps rally. The surge in USDVND was further propelled by the Federal Reserve's forward guidance of a prolonged "higher for longer" fed fund rate, prompting FX traders to engage in arbitrage activities. In response, SBV reintroduced bill offerings, aiming to narrow the negative USD-VND interest spread and alleviate excessive liquidity within the banking system. A substantial offering of bills (approximately VND150.00tn) could materially drive up the interbank rate, alleviating the upward pressure on USDVND.

Vietnam economic indicators

	23-Mar	23-Apr	23-May	23-Jun	23-Jul	23-Aug	Corr. ¹
Disbursed FDI %YoY	2.0	1.7	0.6	0.9	3.2	23.6	0.06
Retail sales %YoY	11.5	11.7	8.1	6.7	6.9	7.6	-0.13
Export %YoY	-14.4	-16.2	-9.1	-10.8	-2.2	-7.6	-0.03
Import %YoY	-13.3	-23.1	-20.6	-17.9	-11.6	-8.3	0.02
Trade balance (USDbn)	1.4	2.7	2.0	3.1	3.1	3.8	-0.01
CPI %MoM	-0.2	-0.3	0.0	0.3	0.5	0.9	-0.02
Credit %YoY	10.5	9.7	9.1	8.5	9.0	8.7	-0.05
USDVND %MoM	-1.3	-0.1	0.1	0.4	0.4	1.4	-0.37
PMI (pts)	47.7	46.7	45.3	46.2	48.7	50.5	-0.16
VNINDEX return (%)	4.0	-1.4	2.6	4.4	9.3	-3.0	1.00

Source: SBV, GSO, Bloomberg, KIS

¹ Correlation to VNINDEX's monthly return; ² Bloomberg estimates
Green = acceleration; yellow = deceleration; red = contraction.

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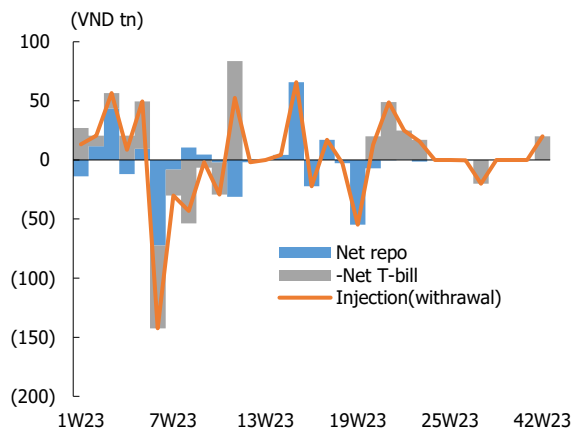
I. SBV backs to drain liquidity

SBV withdrawal from its counterparties

In 38W23 (from 18 to 24 September), the State Bank of Vietnam (SBV) resumed its practice of offering Treasury bills with a maturity period of 28 days, totalling VND20.00tn. This action was taken following six months of maintaining a stance of silence in Open Market Operations (OMO).

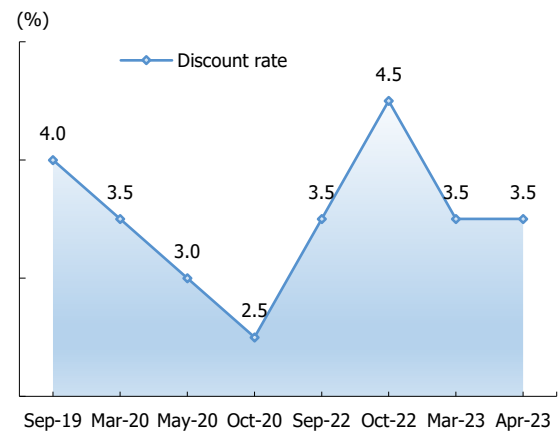
In general, the State Bank's objective is to absorb excess liquidity in the market, and primarily to alleviate short-term pressure from exchange rate speculation. It's important to emphasize that the withdrawal amount, in comparison to the second half of 2022, should not be excessive to avoid causing liquidity stress in second market and to minimize its impact on interest rates in the first market. Furthermore, it's worth highlighting that the issuance of forward bills is a strategy to temporarily withdraw VND from circulation, with plans to reinject these funds after their maturity.

Figure 1. Net injection (withdrawal) of liquidity



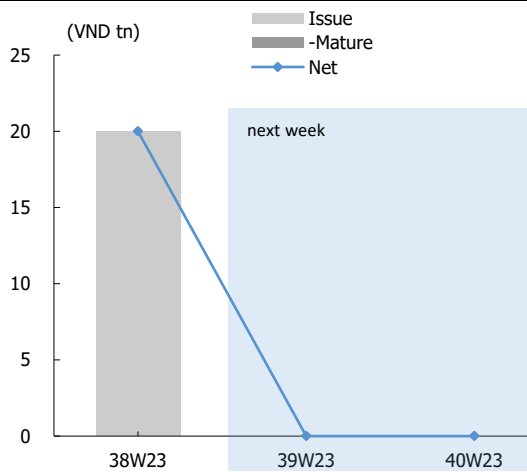
Source: SBV, Bloomberg, KIS

Table 1. Historical policy rate



Source: SBV, Bloomberg, KIS

Figure 2. Bill amount by week



Source: SBV, Bloomberg, KIS

Figure 3. Bill issuance: detail information

Issue date	Maturity date	Tenor (days)	Amount (VND tn)	Yield (%)
21-Sep-23	19-Oct-23	28	10.00	0.69
22-Sep-23	20-Oct-23	28	10.00	0.50
Total		28	20.00	0.59

Source: SBV, Bloomberg, KIS

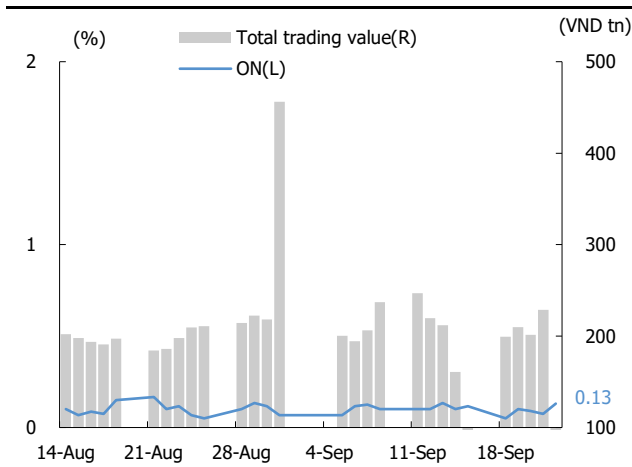
II. Interbank rates anchor at lows

ON remains at low level

This week, despite the SBV offering bills to reduce liquidity, interbank rates remained consistently low, signifying a diminished need for liquidity among borrowers. More specifically, the most actively traded tenors, such as overnight (ON), saw a minor uptick of 1 basis point (bps) to 0.13%, while the rates for 1-week and 2-week tenors remained unchanged at around 0.25% and 0.40%, respectively.

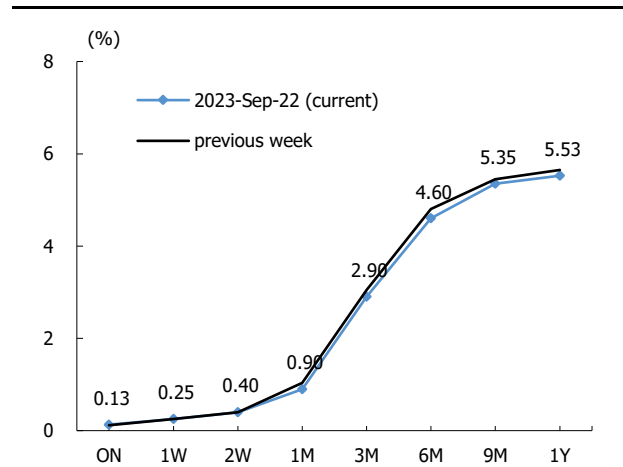
According to the SBV, credit growth by August 29 had only reached 5.33%, in contrast to the end of 2022 when it stood at 9.87%. While there was an improvement in credit growth compared to the previous month, it still remained significantly lower than the same period the previous year. Given the current situation of GDP growth not experiencing a significant improvement and inflation remaining well within control (below the government's inflation target), we do not anticipate the likelihood of the SBV implementing a monetary policy reversal at the moment. Instead, the SBV is expected to prudently maintain its current accommodative monetary policy to stimulate the economy. It is anticipated that the SBV will continue its efforts to reduce liquidity, aiming to increase the overnight (ON) rate, narrowing the gap between the USD and VND to stabilize the ongoing USD/VND exchange rate.

Figure 4. Interbank daily transaction



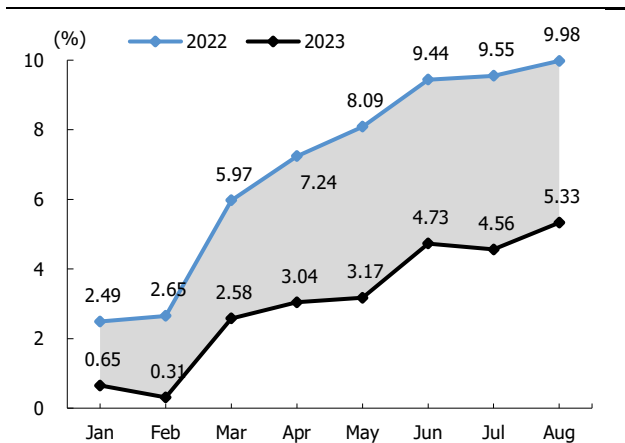
Source: SBV, Bloomberg, KISVN

Figure 5. Interbank rate curve



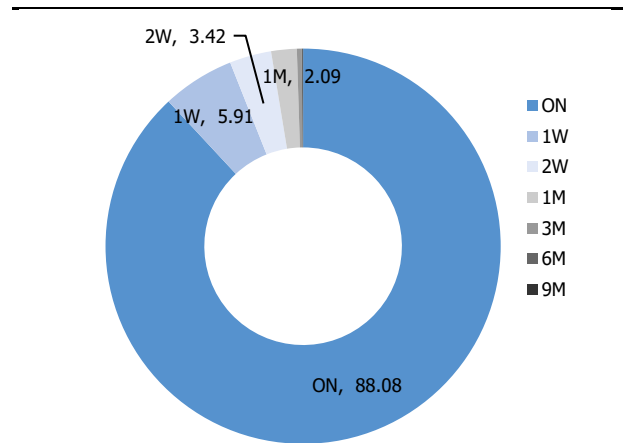
Source: SBV, Bloomberg, KISVN

Figure 6. Credit growth by month



Source: SBV, Bloomberg, KISVN

Figure 7. Interbank transaction structure



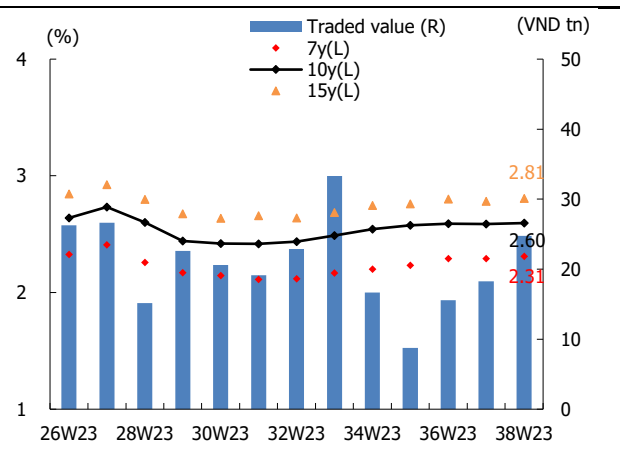
Source: SBV, Bloomberg, KISVN

III. G-bond yields stabilize

Trading yields stabilizes further

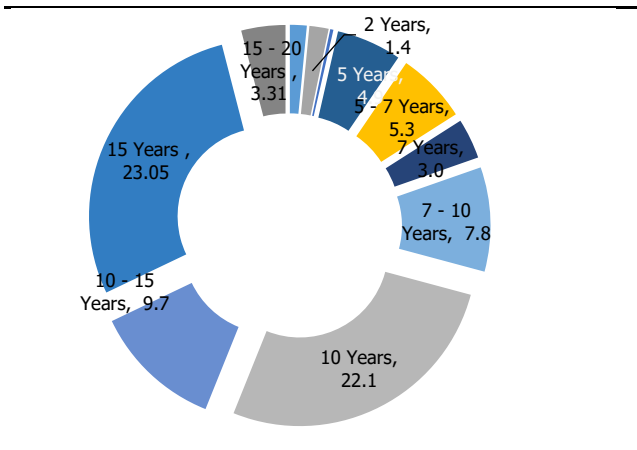
In 38W23, trading G-bond yields modestly edged up while it remained unchanged in the primary market. Specifically, trading yields slightly increased by 2bps, 1bps, and 2bps in 7-year, 10-year, and 15-tenors. The trading volume continued its recover, expanded by 35.46% WoW to VN24.76tn. As a result, the yield curve shape remained similar to last week.

Figure 8. G-bond trading value



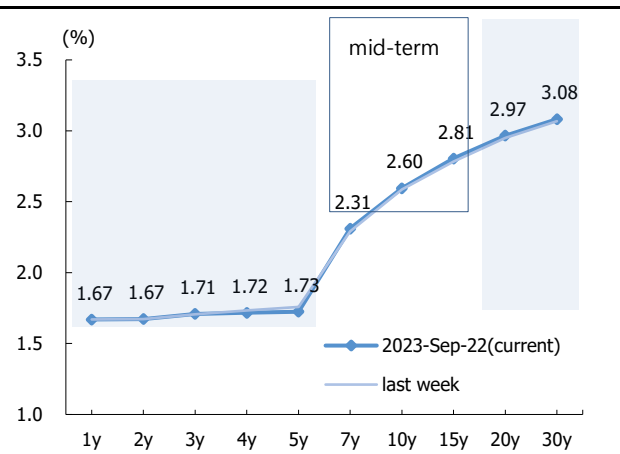
Source: HNX, KIS

Figure 9. Trading value by tenor this week



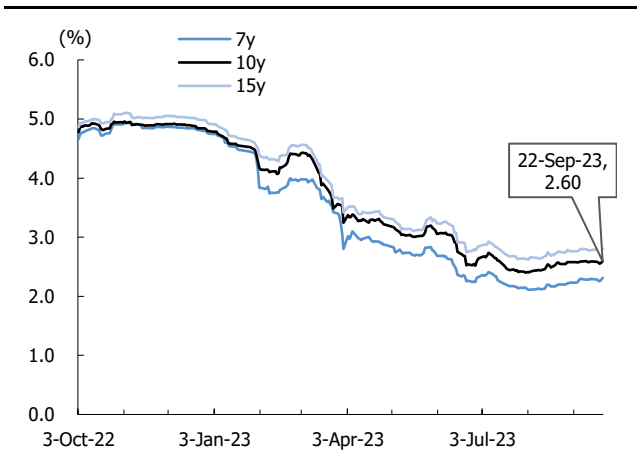
Source: HNX, KIS

Figure 10. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 11. Historical daily government bond yield

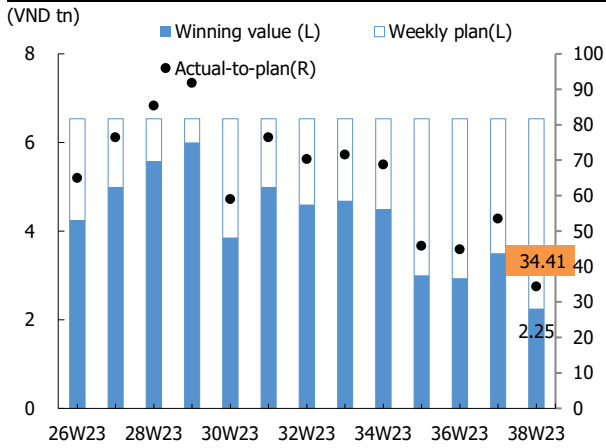


Source: HNX, VBMA, KIS

Winning yields hold steady

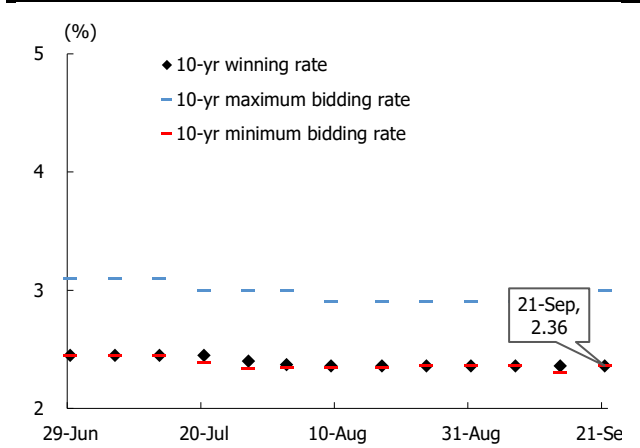
In G-bond issuance, the winning yields held steady at 2.36% and 2.59% for the 10-year and 15-year tenors. The actual issuance relative to the planned amount significantly dropped to 34.41% from 53.53% the prior week. Cumulatively, the issued amount met 46.68% of the annual plan and 65.13% of the third-quarter plan.

Figure 16. Winning value by week



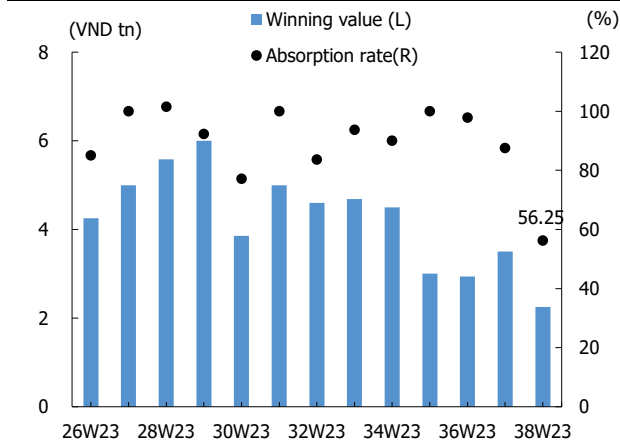
Source: HNX, KIS

Figure 17. Winning yields by week



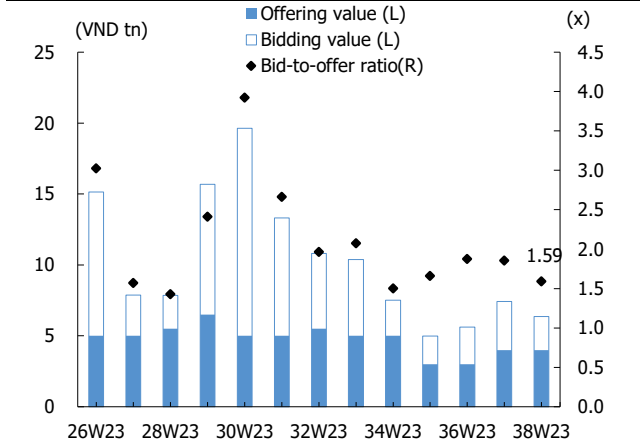
Source: HNX, KIS

Figure 18. Absorption ratio



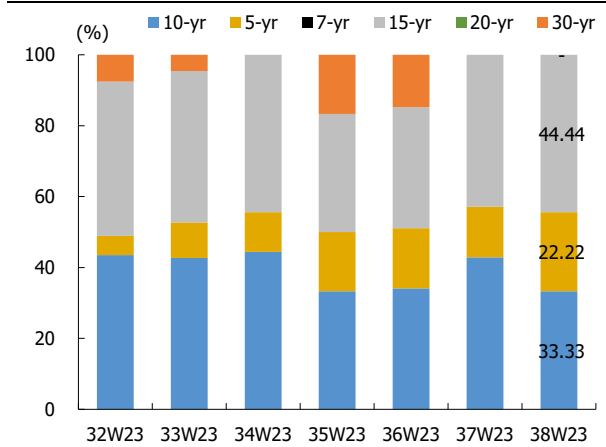
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



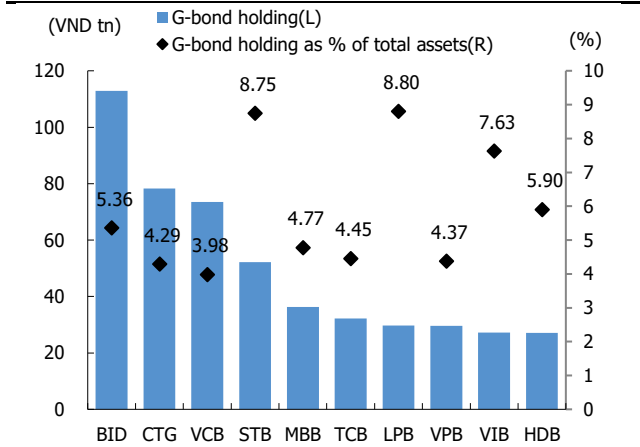
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

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



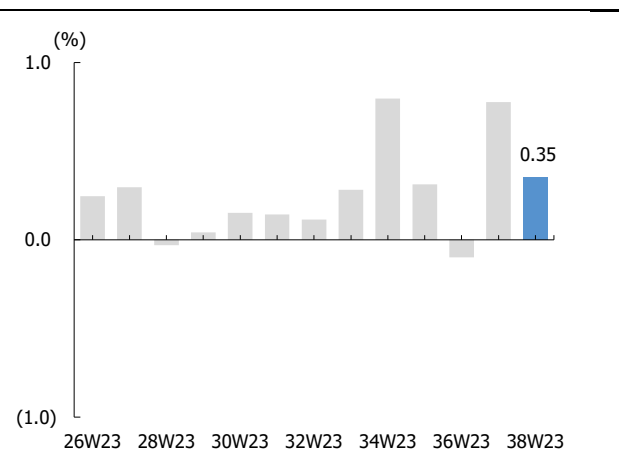
Source: HNX, FiiPro, KIS

IV. USDVND surges further

**USDVND reaches
10-month high amid
Fed's rate
projections**

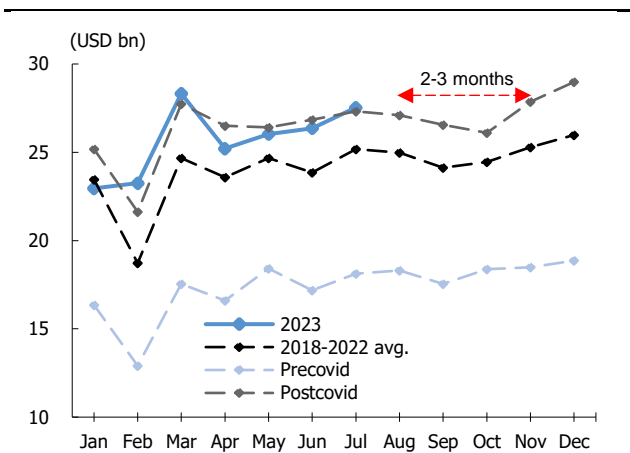
USDVND maintained its upward trajectory throughout the week, reaching a fresh 10-month peak at 24,334, marking an 86bps rally. The surge in USDVND was further propelled by the Federal Reserve's forward guidance of a prolonged "higher for longer" fed fund rate, prompting FX traders to engage in arbitrage activities. Consequently, VCB adjusted their bid/ask price, elevating it by 105/105 bps to 24,160/24,530. Similarly, prices in the shadow market saw an increase of 100/90 bps to 24,280/24,350. In response, SBV reintroduced bill offerings, aiming to narrow the negative USD-VND interest spread and alleviate excessive liquidity within the banking system. A substantial offering of bills (approximately VND150.00tn) could materially drive up the interbank rate, alleviating the upward pressure on USDVND.

Figure 22. Weekly USDVND performance



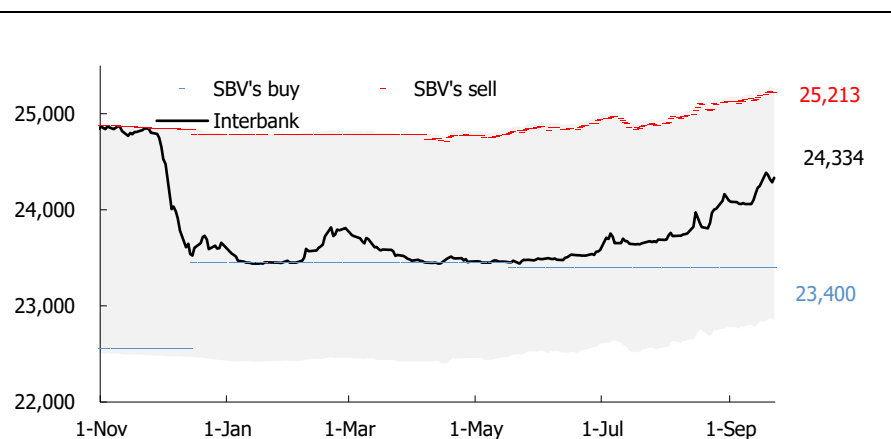
Source: SBV, Bloomberg

Figure 23. USD demand and import activities



Source: SBV, KIS

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).

On September 20, 2023, the Federal Reserve increased its median projection for the fed fund rate by 50bps for both 2024 and 2025, setting it at 5.10% and 3.90%, respectively. This adjustment was accompanied by an improved outlook for real GDP in 2023 and 2024. Supported by strong 2Q23 US GDP and a robust labor market, coupled with the likely conclusion of the ECB hiking cycle, these

factors led to a strengthening of the dollar index (DXY), which settled the week at +0.25% WoW or 105.58 points. Consequently, the Vietnamese dong and most other currencies experienced further depreciation against the dollar.

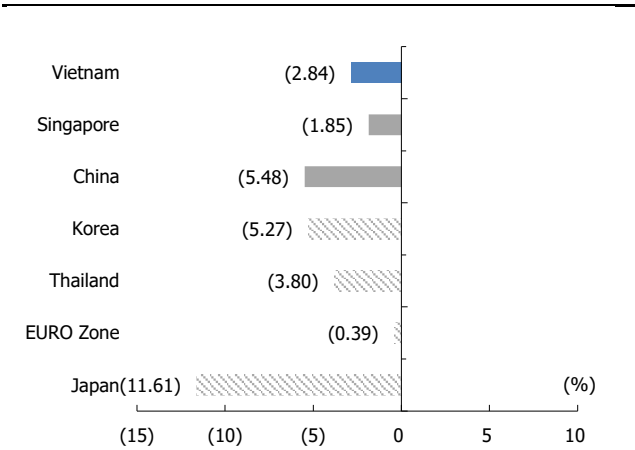
Over the week, most of currencies in our watchlist depreciated further against USD, except EUR. Specifically, SGD, CNY, KRW, THB, and JPY closed the week at -1.85%, -5.48%, -5.27%, -3.80%, -11.61% YTD against the greenback. In contrast, EUR narrowed down its depreciation by 10bps to -0.39% YTD.

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.

Macro scorecard

	23-April	23-May	23-Jun	23-Jul	23-Aug	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)	3.43	1.98	2.57	2.81	1.91	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)	27.54	29.05	29.30	29.68	32.37	96.48	89.50	79.17	83.42	263.6	282.7	335.7	371.85
Import (USD bn)	26.03	26.81	26.71	27.53	28.55	90.71	85.07	75.10	76.01	254.4	263	331.1	360.65
Export growth (%)	(17.15)	(5.86)	(11.41)	(3.47)	(7.60)	17.22	(6.07)	(11.90)	(14.16)	8.16	7.02	18.74	10.61
Import growth (%)	(20.54)	(18.44)	(16.94)	(9.92)	(8.26)	8.12	(3.90)	(14.67)	(22.30)	7.41	3.81	25.9	8.35
Inflation (%)	2.81	2.43	2.00	2.06	2.96	3.32	4.41	4.18	2.41	2.79	3.24	1.84	3.15
USD/VND	23,459	23,493	23,583	23,688	24,135	23,712	23,633	23,471	23,583	23,173	23,126	22,790	23,650
Credit growth (%)	3.04	3.04	4.73	4.56	5.03	10.47	12.87	1.61	3.36	13.75	12.17	12.97	12.87
10Y gov't bond (%)	3.21	3.28	3.50	2.41	2.58	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, ~3.20%
- * Absorption rate = winning value / offering value, ~56.25%
- * Bid to offer ratio = offering value / bidding value, ~1.59
- * DXY = U.S. Dollar Index, ~105.58
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~0.13%

Appendix

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

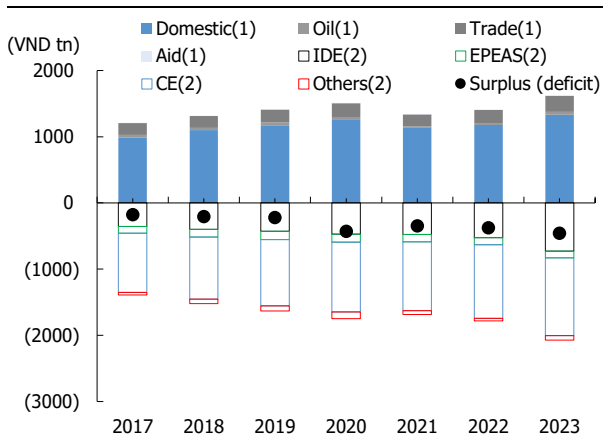
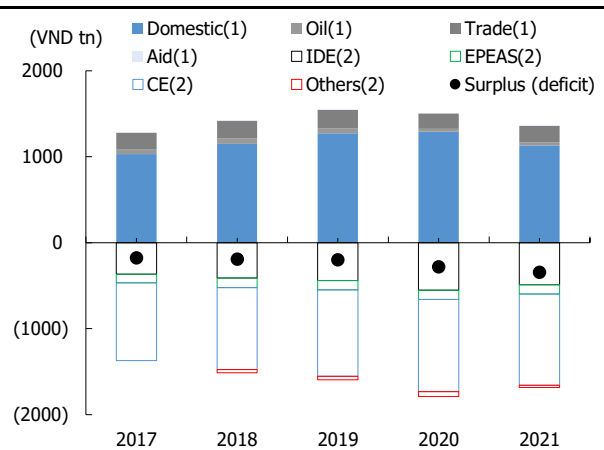


Figure 2. Vietnam's state budget by year: actual



Source: MoF, SBV, KIS

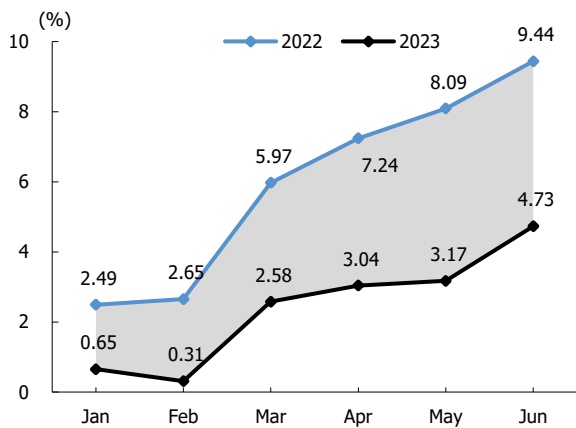
Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.

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

(1) indicates the item belongs to the revenue

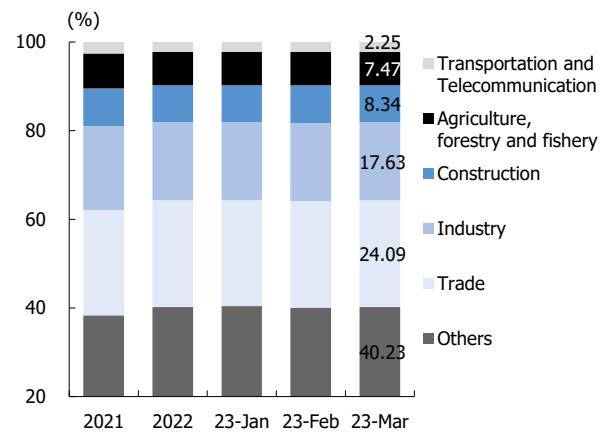
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



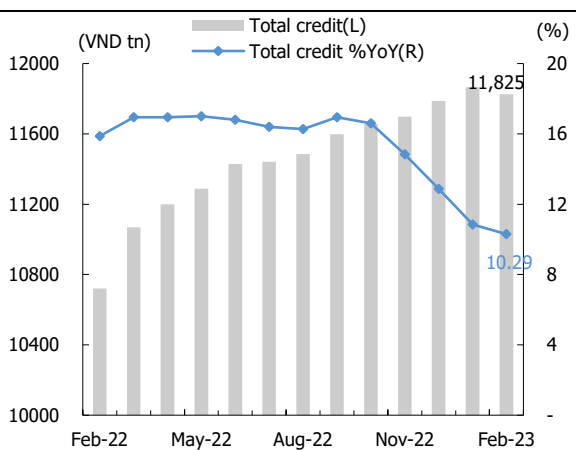
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



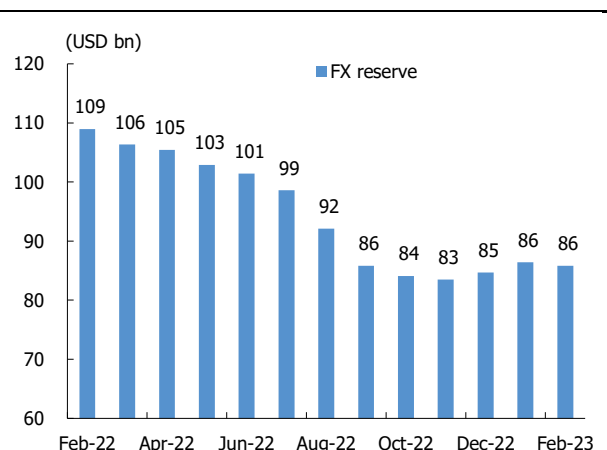
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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