

Fixed-income Perspectives

SBV persistently offers bills on USDVND escalation

SBV continued draining liquidity chain

In 41W23 (from 9 to 15 October), the State Bank of Vietnam (SBV) persisted in draining liquidity from its counterparties by offering 28-day bills totaling VND65.00tn, showing a more assertive approach compared to the prior week. Consequently, over the last month, SBV has conducted 17 successive sessions of bill issuance, with a total volume of VND 205,70tn.

Interbank rates witness a fall

Following a rise at the beginning of October, interbank interest rates this week experienced a significant decline. To elaborate, the most actively traded tenors, such as overnight (ON), 1W and 2W saw a decrease of 65 basis point (bps), 82bps, and 80bps to 0.35%, 0.43%, and 0.60%, respectively.

USDVND escalates

USDVND extended its rally by 0.25%WoW or 60 dong this week despite SBV has doubled its bill offering to VND20.00 per session on last Thursday and Friday, totaling up to VND205.70tn since the first call. The rising US G-bond yields created a safe haven for investors amid uncertain economic growth and rising geopolitical risks, increasing USD demand. Along with prolonged negative USD-VND interest rate gap, the greenback further strengthened against the dong. Similar to the rise of 60 dong in the interbank market, VCB raised its bid/ask price by 65/65bps to 24,245/24,615 and the shadow market settled up by 70/70bps to 24,570/24,620.

Vietnam economic indicators

	23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep	Corr. ¹
Disbursed FDI %YoY	1.7	0.6	0.9	3.2	23.6	7.0	0.06
Retail sales %YoY	11.7	8.1	6.7	6.9	6.9	7.5	-0.13
Export %YoY	-17.1	-6.0	-10.8	-3.0	-7.3	5.3	-0.03
Import %YoY	-20.5	-17.8	-17.1	-9.8	-8.1	2.6	0.02
Trade balance (USDbn)	1.5	2.2	2.6	2.2	3.8	2.3	-0.01
CPI %MoM	-0.3	0.0	0.3	0.5	0.9	1.1	-0.02
Credit %YoY	9.7	9.1	9.3	9.0	6.5	8.3	-0.05
USDVND %MoM	-0.1	0.1	0.4	0.4	1.7	1.0	-0.37
PMI (pts)	46.7	45.3	46.2	48.7	50.5	49.7	-0.16
VNINDEX return (%)	-1.5	2.5	4.2	9.2	0.1	-5.7	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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Research Dept.

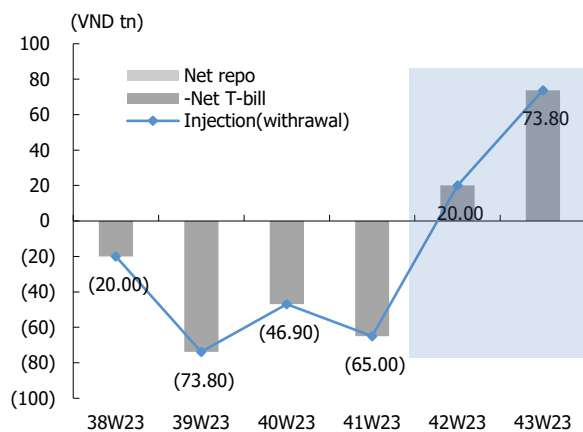
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I. SBV continued draining liquidity chain

SBV withdrawal from its counterparties

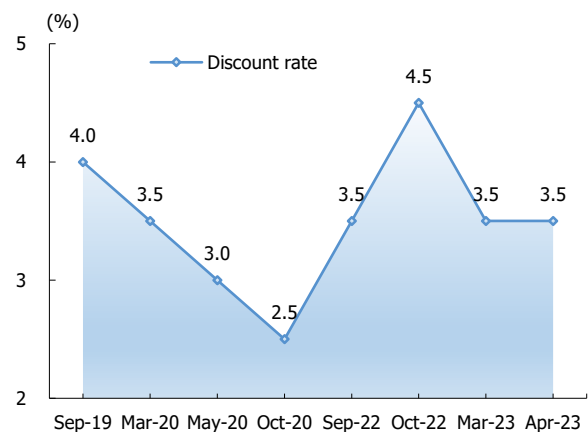
In 41W23 (from 9 to 15 October), the State Bank of Vietnam (SBV) persisted in draining liquidity from its counterparties by offering 28-day bills totalling VND65.00tn, showing a more assertive approach compared to the prior week. Consequently, over the last month, SBV has conducted 17 successive sessions of bill issuance, with a total volume of VND 205,70tn. SBV's VND20.00tn bills issued one-month ago starts to mature next week and a significant amount of VND73.80tn will be matured in the week of 43. The actions taken by SBV in open market operations (OMO) next week may reveal the central bank's approach to maintaining the stability of the exchange rate. If SBV decides to issue a larger amount of new bills, it could indicate their commitment to stabilizing the USD/VND exchange rate, even if this decision leads to increased funding costs in the money market.

Figure 1. Net injection (withdrawal) of liquidity



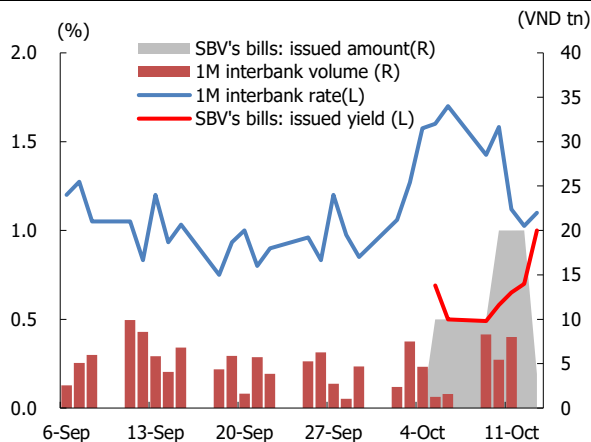
Source: SBV, Bloomberg, KIS

Table 1. Historical policy rate



Source: SBV, Bloomberg, KIS

Figure 2. Bill issuance over days



Source: SBV, Bloomberg, KIS

Figure 3. Bill issuance: detail information

Issue date	Maturity date	Tenor (days)	Amount (VNDtn)	Yield (%)
9-Oct-23	6-Nov-23	28	5.00	1.00
10-Oct-23	7-Nov-23	28	10.00	0.80
11-Oct-23	8-Nov-23	28	10.00	0.68
12-Oct-23	9-Nov-23	28	20.00	0.90
13-Oct-23	10-Nov-23	28	20.00	0.95
Total		28	65.00	0.90

Source: SBV, Bloomberg, KIS

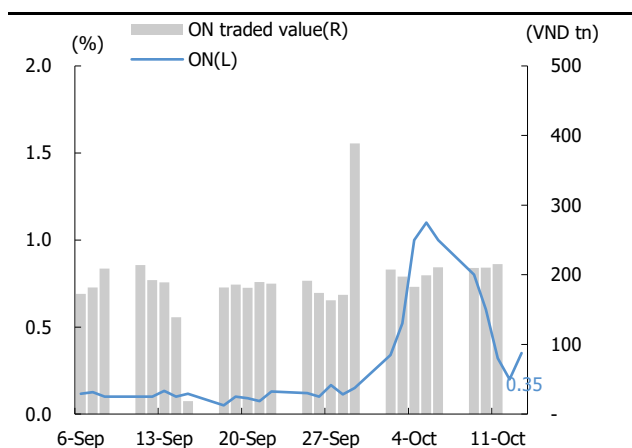
II. Interbank rates witness a fall

Interbank rates experienced a fall

Following a rise at the beginning of October, interbank interest rates this week experienced a significant decline. To elaborate, the most actively traded tenors, such as overnight (ON), 1W and 2W saw a decrease of 65 basis point (bps), 82bps, and 80bps to 0.35%, 0.43%, and 0.60%, respectively.

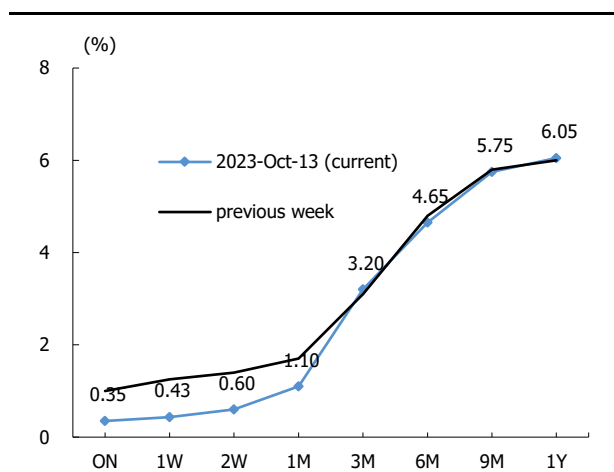
In the context of interbank drop sharply this week, it's likely that SBV will persist in issuing bills to manage short-term liquidity in the system. Subsequently, there is an anticipation that this action will lead to an increase in overnight interbank interest rates, contributing to narrow the gap between the USD and VND. This, in turn, is aimed at stabilizing the ongoing USD/VND exchange rate.

Figure 4. Interbank daily transaction



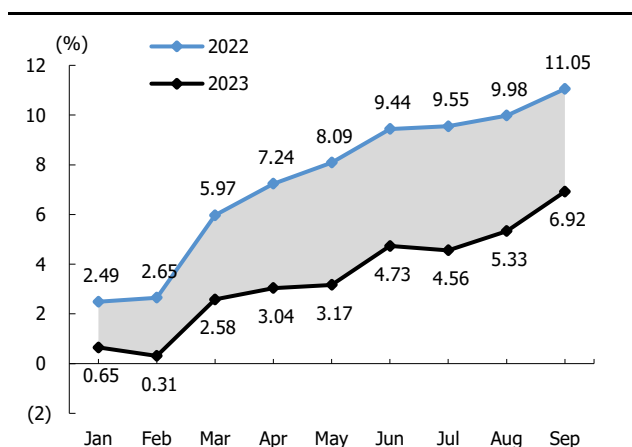
Source: SBV, Bloomberg, KISVN

Figure 5. Interbank rate curve



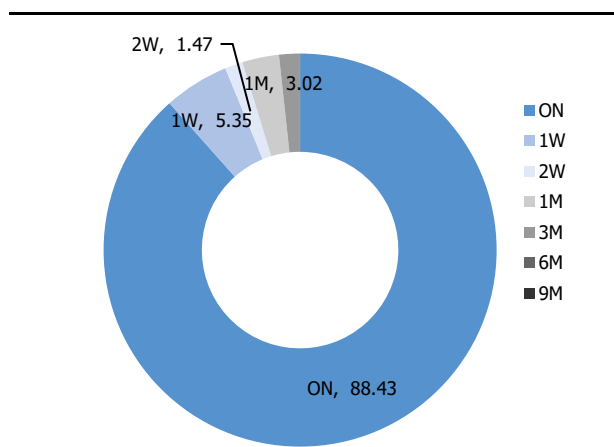
Source: SBV, Bloomberg, KISVN

Figure 6. Credit growth by month



Source: SBV, Bloomberg, KISVN

Figure 7. Interbank transaction structure

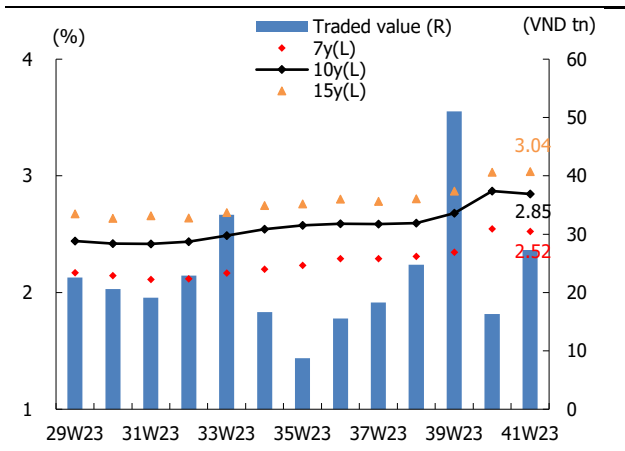


Source: SBV, Bloomberg, KISVN

III. G-bond yields rise halted

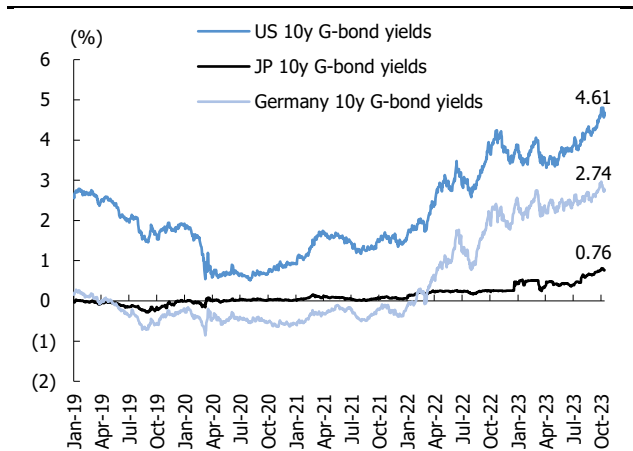
In 41W23, trading G-bond yields dropped slightly, halted its rally over the last two months while the newly issued yields rose for the first time since August. Specifically, trading yields for 7-year, 10-year, and 15-year tenors fell by 2bps, 2bps, and 1bps to 2.52%, 2.85%, and 3.04%. On the global market, the 10-year G-bond yields of US, Japan, and Germany slightly fell over the week, potentially signifying a higher demand for safe assets amid rising geopolitical risks. In terms of Vietnam yield curve, it stayed relatively unchanged compared to last week, with a slight 2bps rise in short-term (1 to 5 years) and long-term (above 15 years), while 1bps fall was recognized in the mid-term (7 to 15 years) tenor.

Figure 8. G-bond trading value



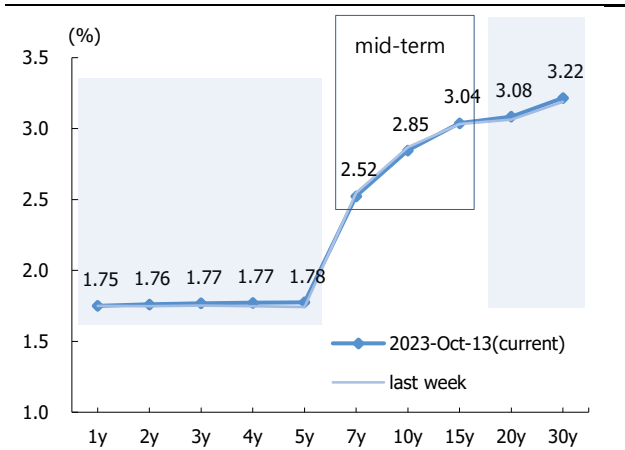
Source: HNX, KIS

Figure 9. G-bond yields: Major developed economies



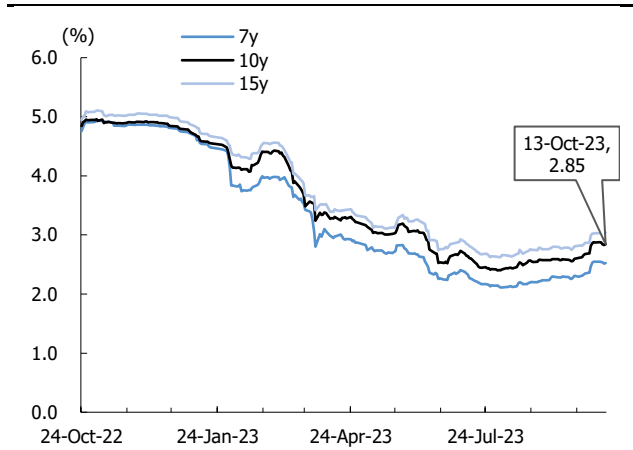
Source: Bloomberg, KIS

Figure 10. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 11. Historical daily government bond yield

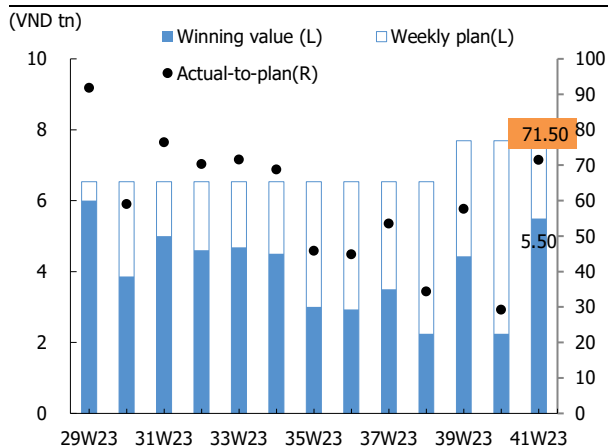


Source: HNX, VBMA, KIS

Winning yields rose after two-month at floor

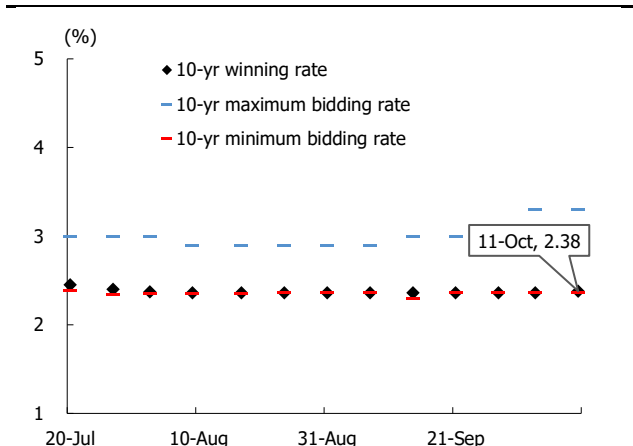
Significantly, the recent G-bond issuances observed an initial uptick in yields, breaking a two-month period of stability at the floor level. This adjustment appears to enhance bond attractiveness to investors, particularly considering the prolonged period of low winning values and bid-to-offer ratio. In precise figures, the winning yields experienced a marginal 2 basis points increase for both 10-year and 15-year tenures, reaching 2.38% and 2.61% respectively. This shift was accompanied by a notable surge of 44.44% in the total winning value, amounting to VND5.50tn within the week.

Figure 16. Winning value by week



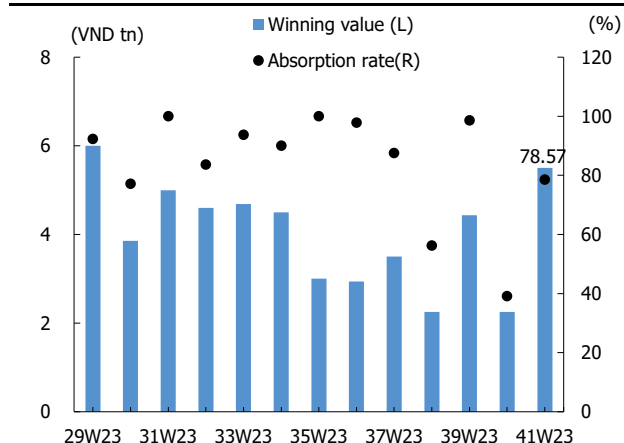
Source: HNX, KIS

Figure 17. Winning yields by week



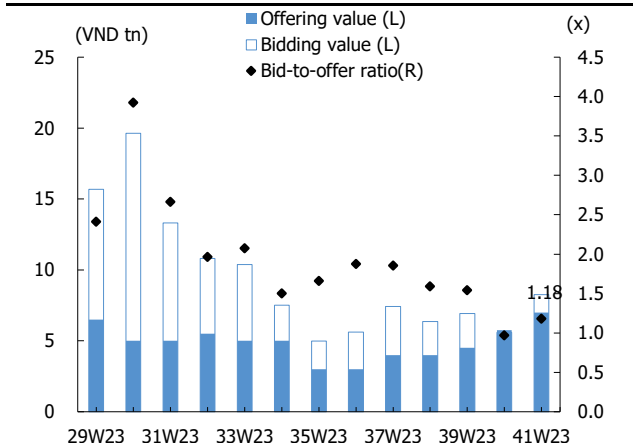
Source: HNX, KIS

Figure 18. Absorption ratio



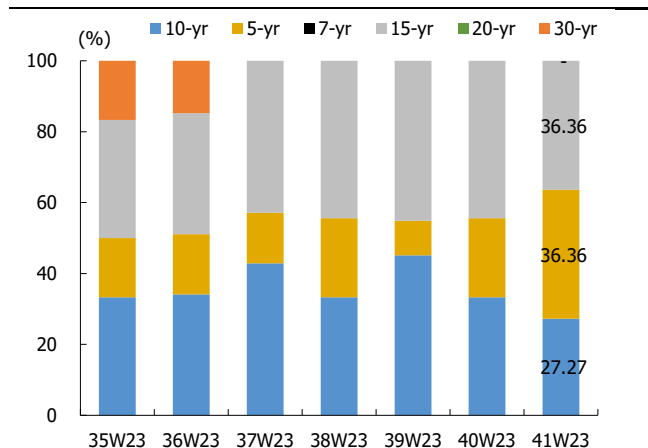
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



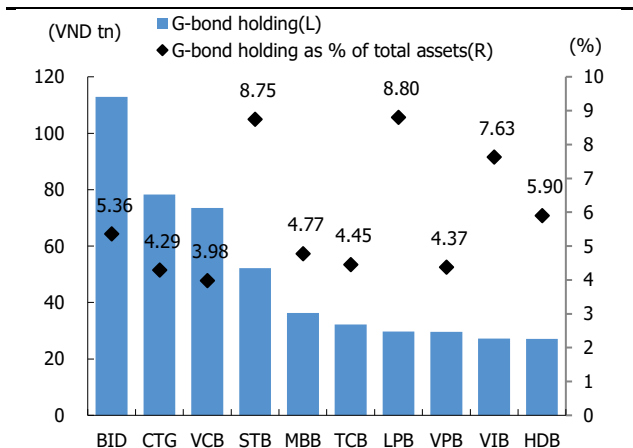
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

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

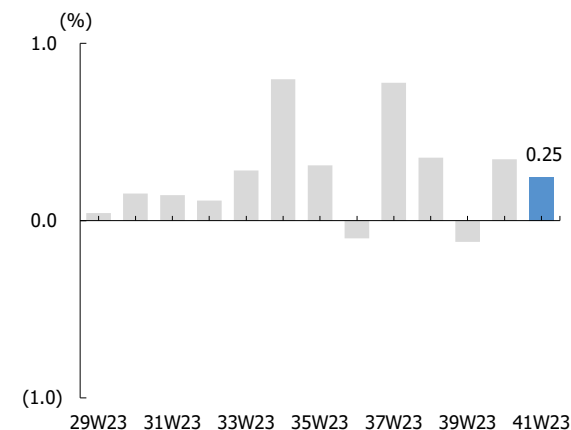


Source: HNX, FiiPro, KIS

IV. USDVND escalates

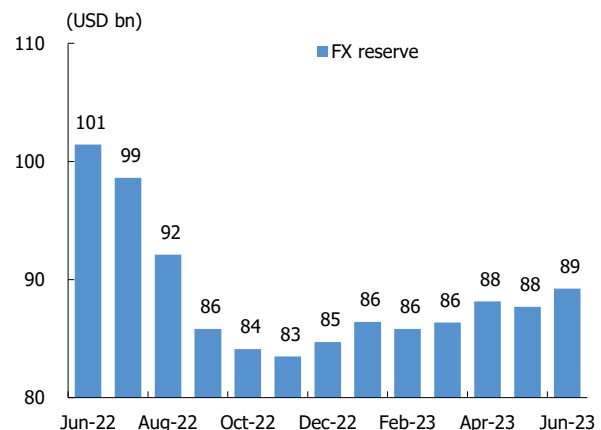
USDVND extended its rally by 0.25%WoW or 60bps this week despite SBV has doubled its bill offering to VND20.00 per session on last Thursday and Friday, totaling up to VND205.70tn since the first call. The rising US G-bond yields created a safe haven for investors amid uncertain economic growth and rising geopolitical risks, increasing USD demand. Along with prolonged negative USD-VND interest rate gap, the greenback further strengthened against the dong. Similar to the rise of 60 dong, VCB raised its bid/ask price by 65/65bps to 24,245/24,615 while the shadow market settled up by 70/70bps to 24,570/24,620.

Figure 22. Weekly USDVND performance



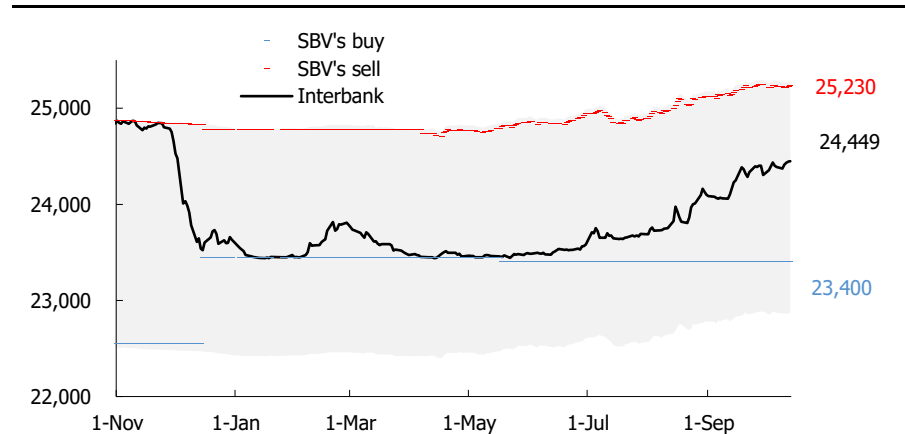
Source: SBV, Bloomberg

Figure 23. Vietnam's FX reserve



Source: Bloomberg, KIS

Figure 24. SBV's movement



Source: SBV, Bloomberg, Finpro, KIS

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

The increase in US G-bond yields is being viewed as a potential substitute to a rate hike by the Federal Reserve's governors. If these elevated yields primarily signify investors' reduced risk appetite rather than indicating stronger economic expansion, this suggests tighter financial conditions, aiding in controlling inflation and reducing the necessity for an additional rate hike. Presently, a significant majority of investors (93.50%) are anticipating a pause during the November FOMC meeting. Should this pause materialize, it would maintain the current negative USD-VND interest rate gap, providing the Vietnamese authorities with more time to address the escalating USDVND situation. Despite

the diminished likelihood of a rate hike in November, the DXY index surged by a notable 0.57% WoW, reaching 106.65 points.

Over the week, USD appreciated against most currencies except THB. Specifically, USD gained against JPY, SGD, CNY, and EUR by 0.17%, 0.31%, 0.10%, and 0.72% WoW.

Figure 25. Historical DXY



Source: SBV, Bloomberg

Figure 26. Weekly performance of USD against some currencies

	Regime	39W23	40W23	41W23	YTD
USDVND	Managed floating	-0.12	0.35	0.25	3.39
USDJPY	Floating	0.67	-0.03	0.17	14.07
USDTHB	Floating	1.12	1.68	-2.28	4.59
USDKRW	Floating	0.95	0.04	0.00	6.61
USDSGD	Basket-band-crawl	0.07	-0.08	0.31	2.23
USDCNY	Managed floating	-0.01	0.00	0.10	5.88
USDEUR	Floating	0.76	-0.12	0.72	1.89

Source: SBV, Bloomberg

Note: Green = appreciation; yellow = appreciate at slower pace; red = depreciation.

Macro scorecard

	23-May	23-Jun	23-Jul	23-Aug	23-Sep	4Q22	1Q23	2Q23	3Q23	2019	2020	2021	2022
Real GDP growth (%)						5.92	3.21	4.14	5.33	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.98	2.57	2.81	1.91	2.06	8.96	5.45	7.98	6.78	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	4,110
Unemployment rate (%)						2.32	2.25	2.25	2.25	2.25	2.48	3.22	2.32
Export (USD bn)	29.05	29.30	29.68	32.37	31.41	89.50	79.17	83.42	94.62	263.6	282.7	335.7	371.85
Import (USD bn)	26.81	26.71	27.53	28.55	29.12	85.07	75.10	76.01	86.02	254.4	263	331.1	360.65
Export growth (%)	(5.86)	(11.41)	(3.47)	(7.60)	4.57	(6.07)	(11.90)	(14.16)	(1.25)	8.16	7.02	18.74	10.61
Import growth (%)	(18.44)	(16.94)	(9.92)	(8.26)	2.57	(3.90)	(14.67)	(22.30)	(4.50)	7.41	3.81	25.9	8.35
Inflation (%)	2.43	2.00	2.06	2.96	3.66	4.41	4.18	2.41	2.89	2.79	3.24	1.84	3.15
USD/VND	23,493	23,583	23,688	24,135	24,300	23,633	23,471	23,583	24,300	23,173	23,126	22,790	23,650
Credit growth (%)	3.04	4.73	4.56	4.78	5.56	12.87	1.61	3.36	5.56	13.75	12.17	12.97	12.87
10Y gov't bond (%)	3.28	3.50	2.41	2.58	2.60	5.08	3.54	3.50	2.60	3.37	2.01	2.11	5.08

Source: GSO, Bloomberg, FIA, IMF

**Glossary

- * Winning yield rate = each group's highest bidding rate, ~3.60%
- * Absorption rate = winning value / offering value, ~78.57%
- * Bid to offer ratio = offering value / bidding value, ~1.16
- * DXY = U.S. Dollar Index, ~106.04
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~0.35%

Appendix

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

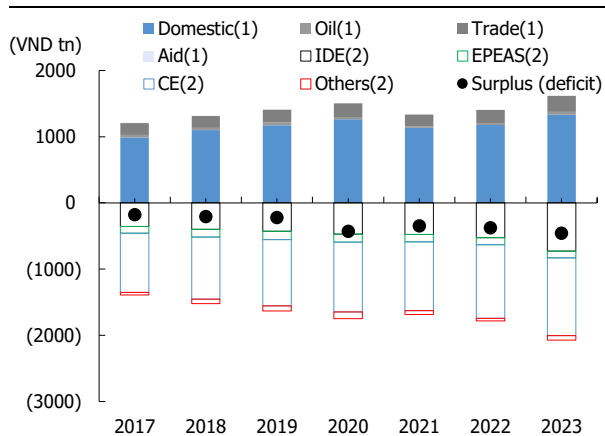
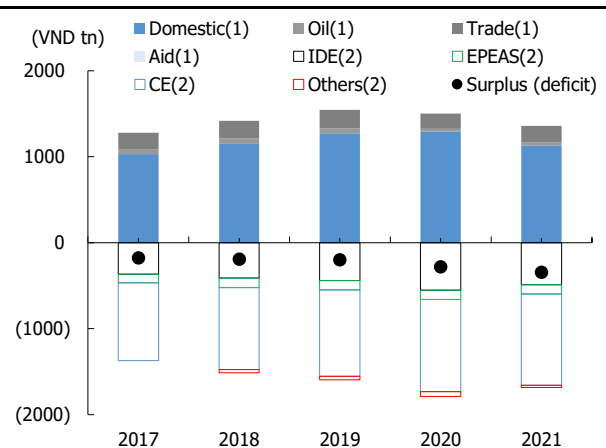


Figure 2. Vietnam's state budget by year: actual



Source: MoF, SBV, KIS

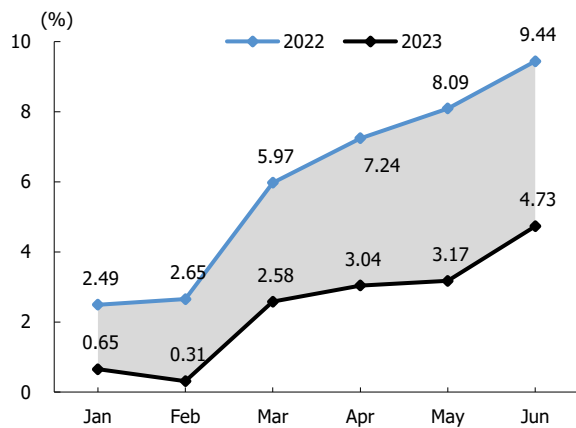
Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.

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

(1) indicates the item belongs to the revenue

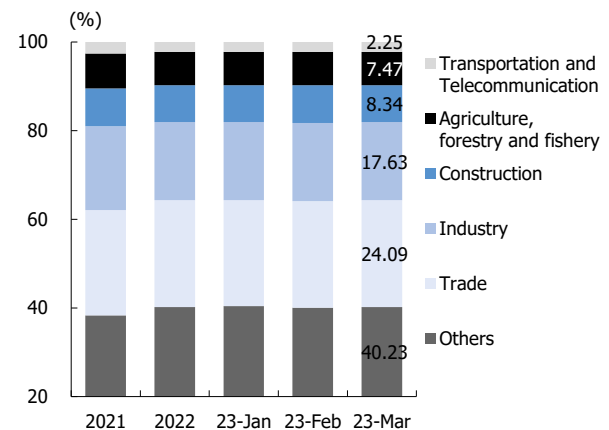
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



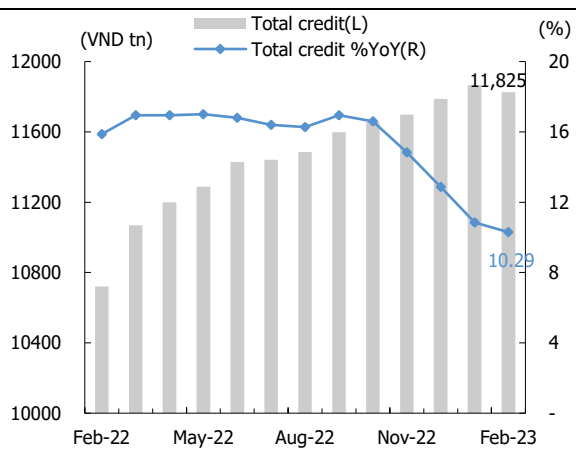
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



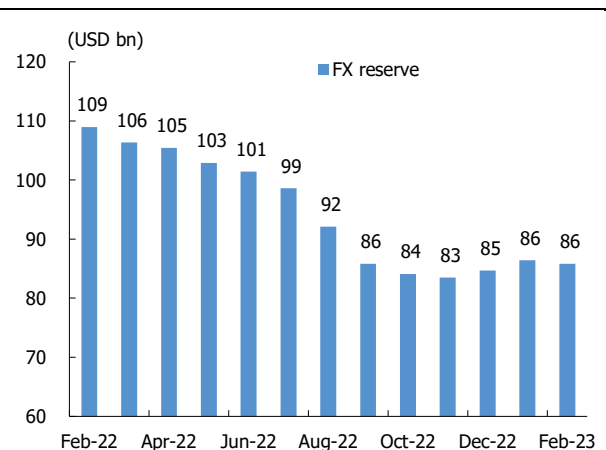
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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