

Fixed-income Perspectives

Liquidity condition turns tight amid the solid USDVND upturn

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 rallies

USDVND rallied further by 0.38% WoW or 94 dong to 24,543, despite the interbank liquidity condition turns tight, partially limiting carry trade activities. The contributed factors to this rally remained similar to our last week comments, due to rising need for haven assets and prolonged negative interest rate gap between USD-VND. On the market, VCB raised its bid/ask price by 85/85bps to 24,330/24,700, while the price on the shadow market was mixed, moved by (20)/10bps to 24,550/24,630.

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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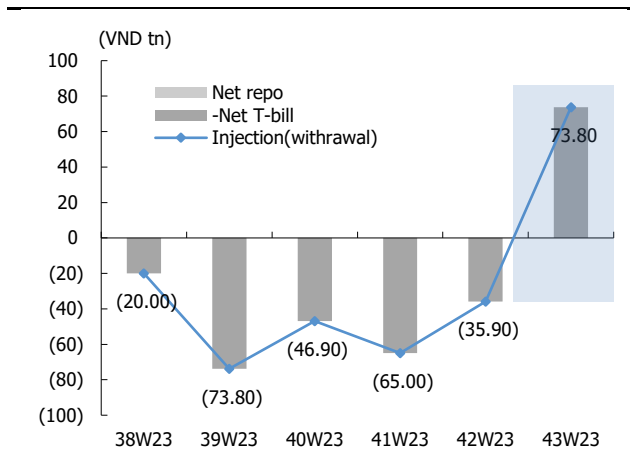
I. SBV prolonged the draining liquidity chain

SBV withdrawal from its counterparties

In the week 42 (from 16 to 22 October), the State Bank of Vietnam (SBV) continued its strategy of reducing liquidity from its financial counterparts by offering 28-day bills totalling VND55.90tn. This approach appeared to be less aggressive compared to the previous week. Specifically, the amount of bills issued in the last two days was notably lower, at approximately VND5.90tn, in contrast to the VND20.00tn offered on Monday. Consequently, over the past month, the SBV conducted 22 consecutive sessions of bill issuance, amounting to a total of VND241.60tn. In addition, SBV's VND73.80tn bills issued one-month ago starts to mature next week.

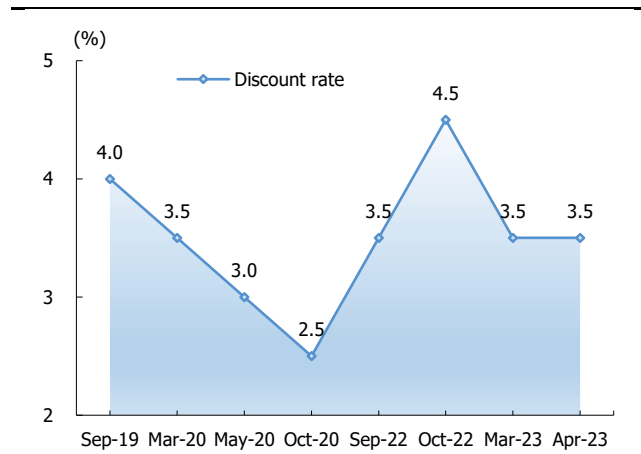
The actions taken by SBV in open market operations (OMO) next week may reveal the central bank's approach to maintaining the stability of the exchange rate. If SBV decides to issue a larger amount of new bills, it could indicate their commitment to stabilizing the USD/VND exchange rate, even if this decision leads to increased funding costs in the money market.

Figure 1. Net injection (withdrawal) of liquidity



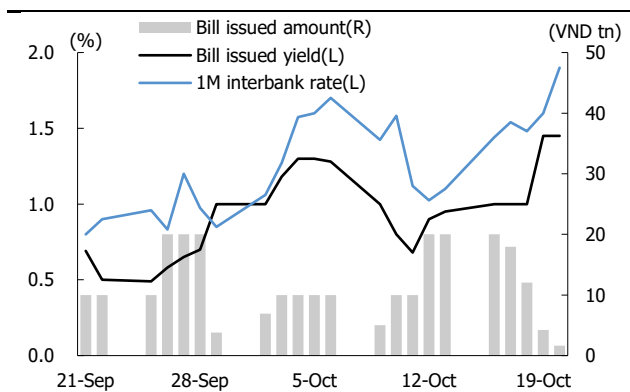
Source: SBV, Bloomberg, KIS

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 (%)
16-Oct-23	13-Nov-23	28	20.00	1.00
17-Oct-23	14-Nov-23	28	17.95	1.00
18-Oct-23	15-Nov-23	28	12.05	1.00
19-Oct-23	16-Nov-23	28	4.25	1.45
20-Oct-23	17-Nov-23	28	1.65	1.45
Total		28	55.90	1.00

Source: SBV, Bloomberg, KIS

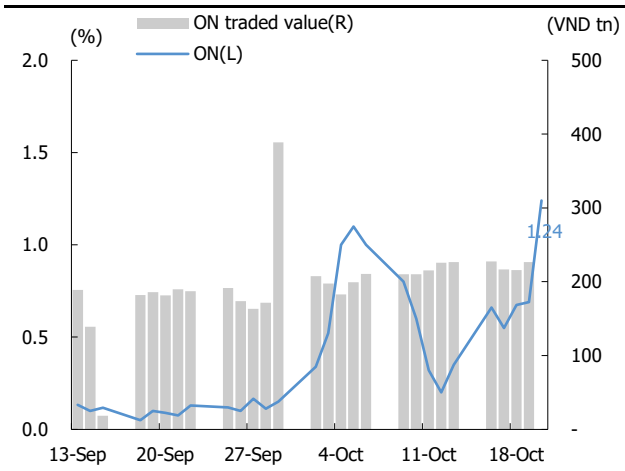
II. Interbank rates rebound sharply

Interbank rates experienced a fall

Following a rise at the beginning of October, interbank interest rates this week saw a substantial surge. To elaborate, the most actively traded tenors, such as overnight (ON), 1W and 2W saw an increase of 89 basis point (bps), 97bps, and 95bps to 1.24%, 1.40%, and 1.55%, respectively.

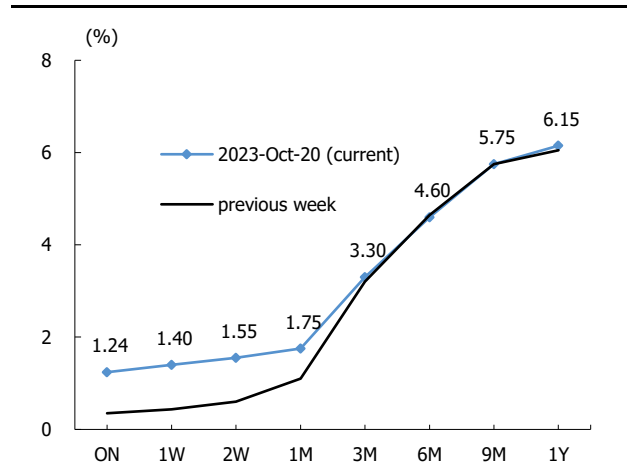
Given the recent rebound in the interbank this week, it is likely that the State Bank of Vietnam (SBV) will continue to issue bills but with a more restrained approach. This adjustment is aimed at curbing the overnight interbank interest rate increase, thereby reducing the gap between the USD and VND rates. Ultimately, this measure is intended to stabilize the ongoing USD/VND exchange rate.

Figure 4. Interbank daily transaction



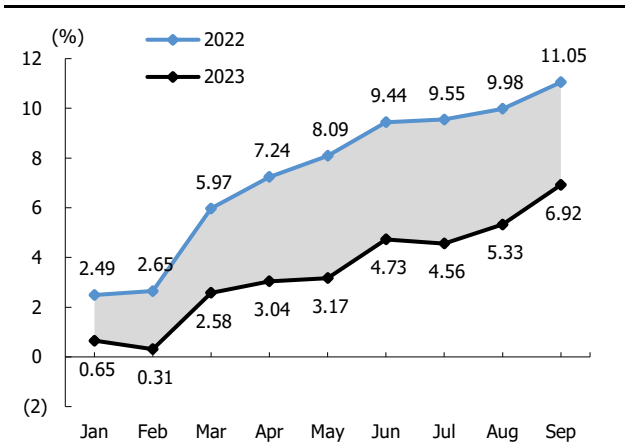
Source: SBV, Bloomberg, KISVN

Figure 5. Interbank rate curve



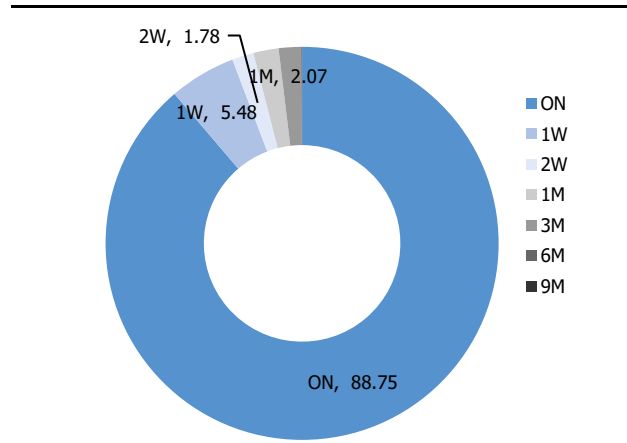
Source: SBV, Bloomberg, KISVN

Figure 6. Credit growth by month



Source: SBV, Bloomberg, KISVN

Figure 7. Interbank transaction structure



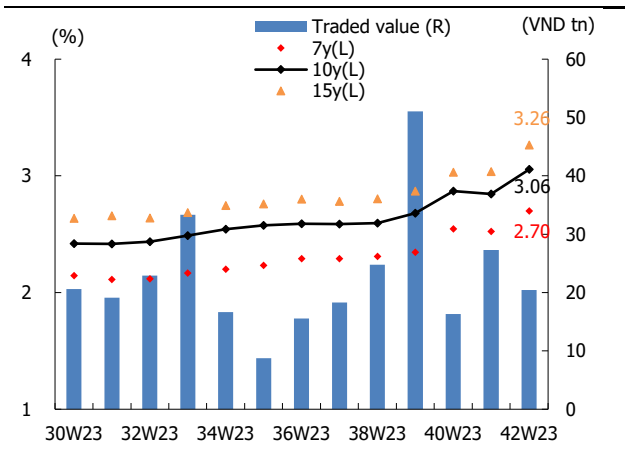
Source: SBV, Bloomberg, KISVN

III. G-bond yields soar

Long and mid tenor yields soar

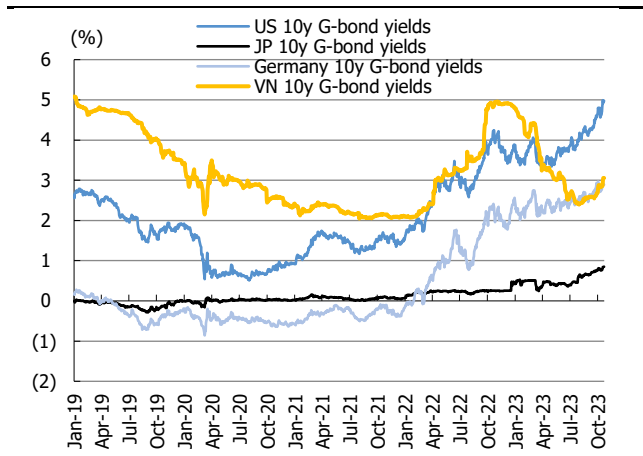
During week 42W23, G-bond yields in the trading market exhibited a remarkable surge after a brief pause in the preceding week. This surge coincided with a consecutive two-week uptick in winning yields. The spike in trading yields likely signifies market expectations of higher future yields, prompting increased selling activities. Notably, the surge in yields shares similarities with the trend observed in advanced economies, as outlined in our recent report, "[Global Yield Surge: Implications for Vietnam](#)". This yield surge was particularly pronounced in the mid-term (7 to 15 years) and long-term (over 15 years) tenors, with increases of 20bps and 16bps, respectively, while the short-term tenor (1 to 5 years) experienced a more modest uptick of 2bps.

Figure 8. G-bond trading value



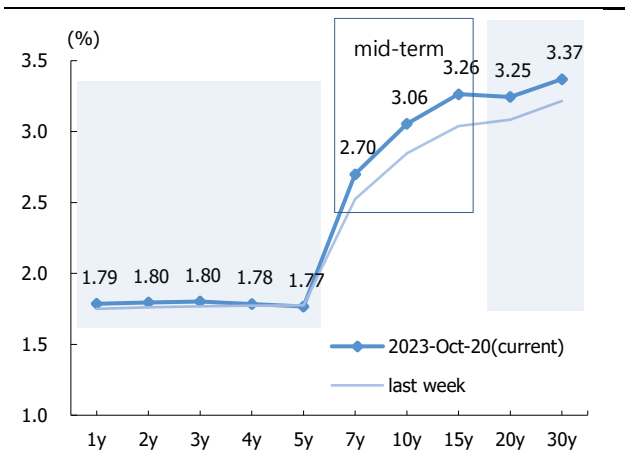
Source: HNX, KIS

Figure 9. G-bond yields: Major developed economies



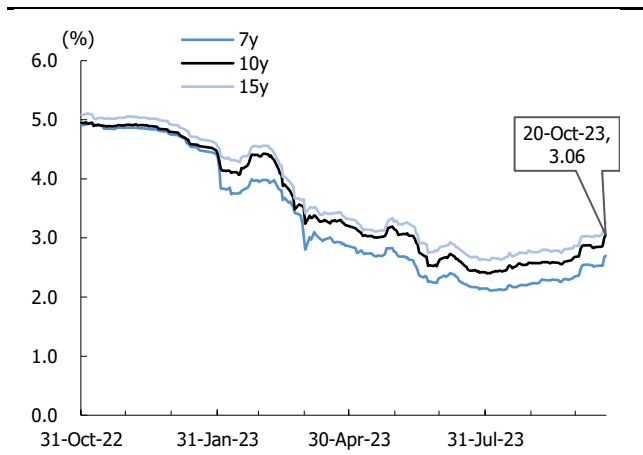
Source: Bloomberg, KIS

Figure 10. G-bond trading yield curve



Source: HNX, VBMA, KIS

Figure 11. Historical daily government bond yield

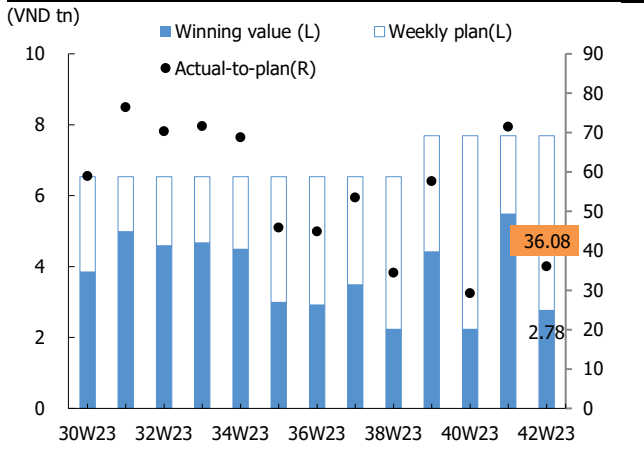


Source: HNX, VBMA, KIS

Winning yields edge up for the second week

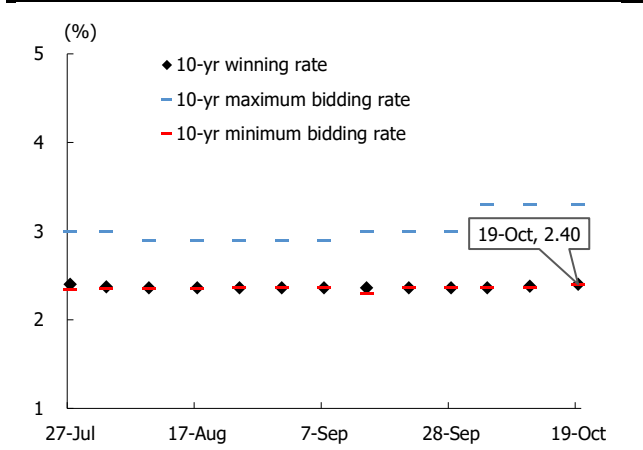
Concurrently, newly issued G-bond yields inched up by 2bps for the second consecutive week, signaling a consensus for higher returns among both buyers and sellers. However, this increase was relatively weak compared to the surge in the secondary trading market. Despite the uptick in yield, the absorption rate was lower than the previous week, settling at 55.50%. Additionally, the bid-to-offer ratio remained at a relatively low level.

Figure 16. Winning value by week



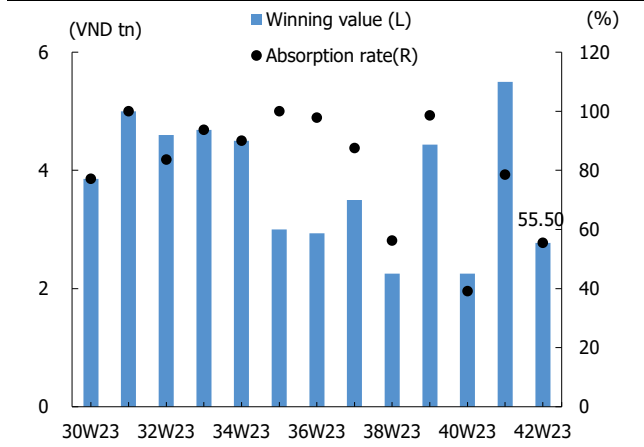
Source: HNX, KIS

Figure 17. Winning yields by week



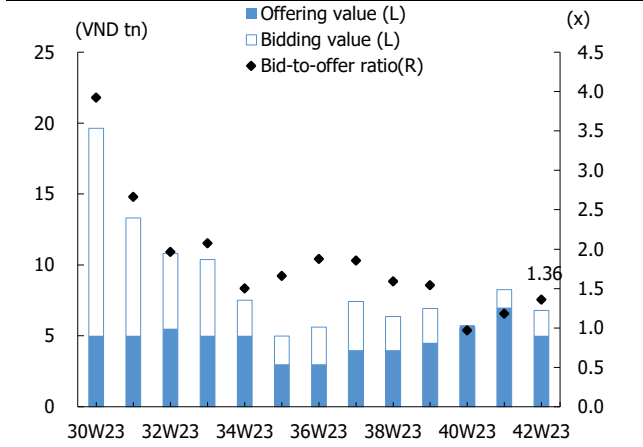
Source: HNX, KIS

Figure 18. Absorption ratio



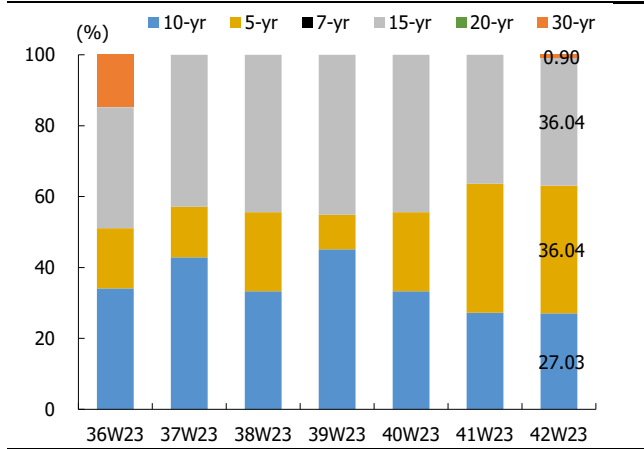
Source: HNX, KIS

Figure 19. Bid-to-offer ratio



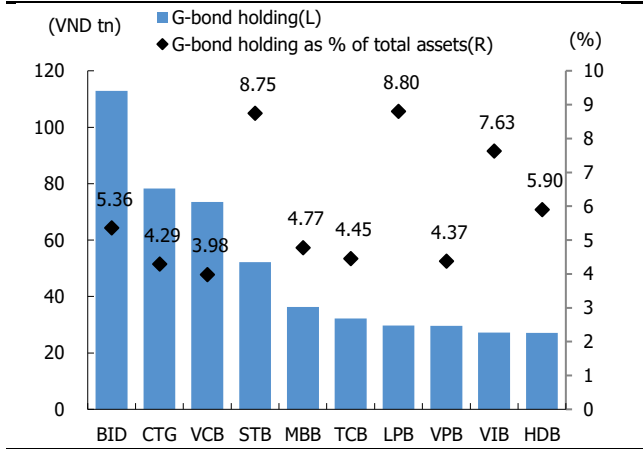
Source: HNX, KIS

Figure 20. Winning yields by week



Source: HNX, KIS

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

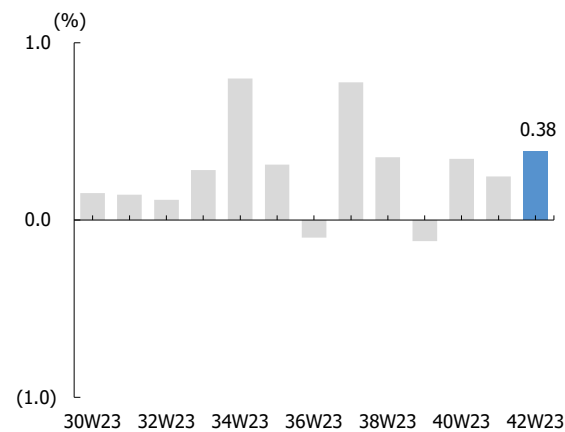


Source: HNX, FiiPro, KIS

IV. USDVND rallies

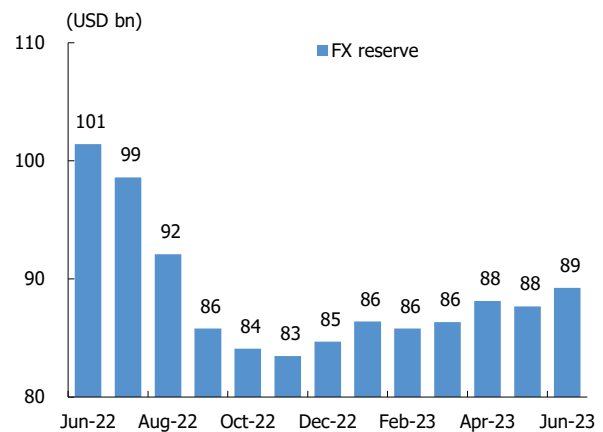
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Figure 22. Weekly USDVND performance



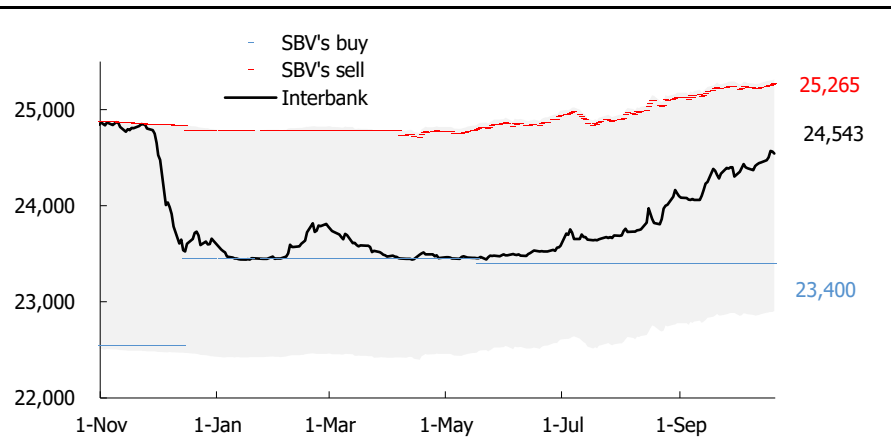
Source: SBV, Bloomberg

Figure 23. Vietnam's FX reserve



Source: Bloomberg, KIS

Figure 24. SBV's movement

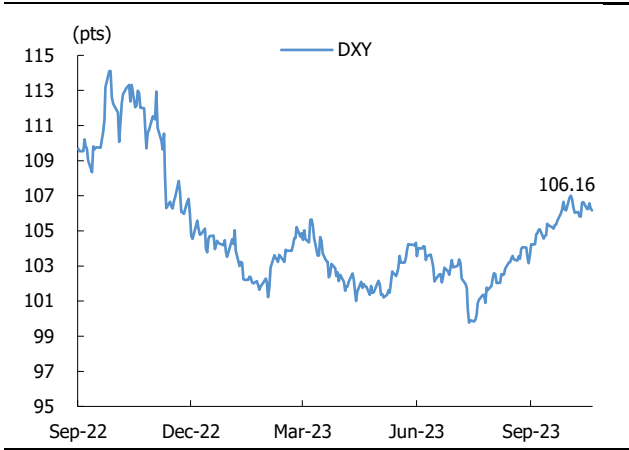


Source: SBV, Bloomberg, Fiiipro, KIS

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

Over the week, the dollar strength index was slightly cooled down by 0.45% WoW due to the rising opinion among Fed's governors that considering US G-bond hiking is a substitution for a rate hike. But DXY still hangs at high level -106.16. Almost currencies under our watchlist further depreciated against USD over the week, except EUR.

Figure 25. Historical DXY



Source: SBV, Bloomberg

Figure 26. Weekly performance of USD against some currencies

	Regime	40W23	41W23	42W23	YTD
USDVND	Managed floating	0.35	0.25	0.38	3.78
USDJPY	Floating	-0.03	0.17	0.19	14.28
USDTHB	Floating	1.68	-2.28	0.93	5.40
USDKRW	Floating	0.04	0.00	0.18	6.81
USDSGD	Basket-band-crawl	-0.08	0.31	0.23	2.40
USDCNY	Managed floating	0.00	0.10	0.14	6.04
USDEUR	Floating	-0.12	0.72	-0.79	1.11

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, ~3.50%
- * Absorption rate = winning value / offering value, ~55.50%
- * Bid to offer ratio = offering value / bidding value, ~1.36
- * DXY = U.S. Dollar Index, ~106.16
- * OMO = Open market operation
- * Tenor = due for payment
- * ON = overnight interbank interest rate, ~1.24 %

Appendix

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

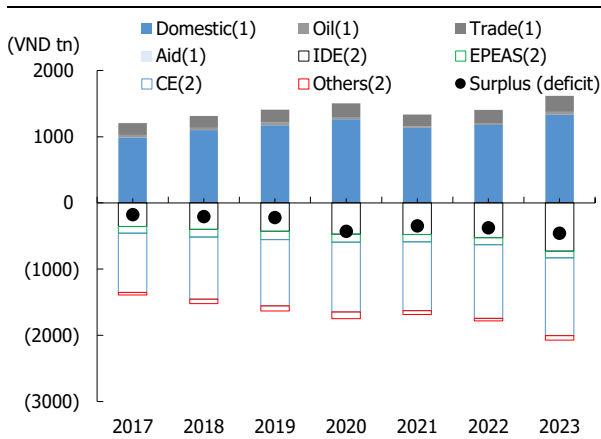
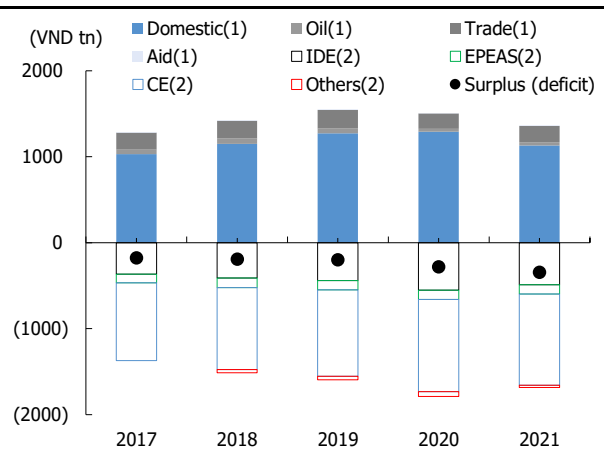


Figure 2. Vietnam's state budget by year: actual



Source: MoF, SBV, KIS

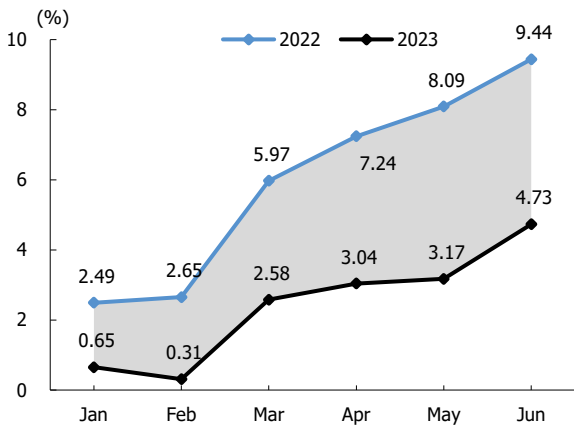
Domestic= Domestic revenues; Oil= Crude oil revenues; Trade= Balanced income from export and import activities; Aid= Revenue from aid.

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

(1) indicates the item belongs to the revenue

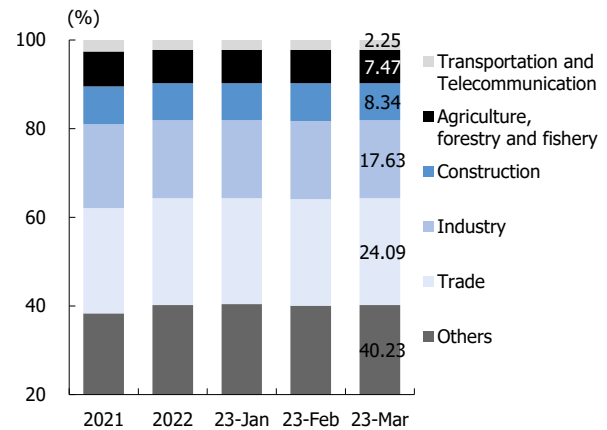
(2) indicates the item belongs to the expenditure and plotted as a negative number

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



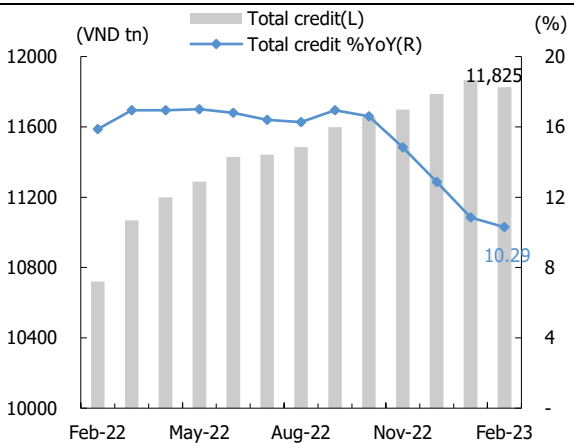
Source: SBV, KIS

Figure 4. Vietnam's total credit by sector



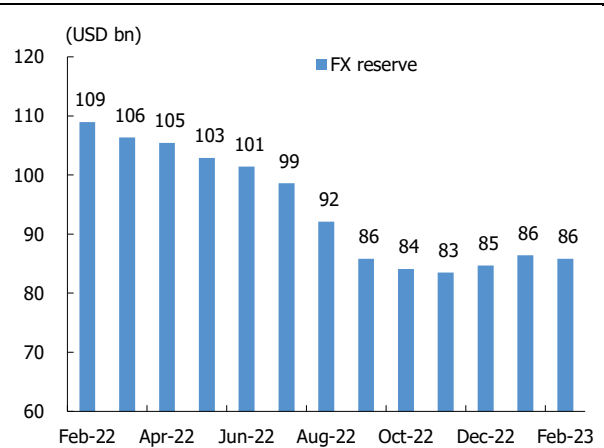
Source: SBV, KIS

Figure 5. Historical Vietnam's credit



Source: SBV, KIS

Figure 6. Historical Vietnam's FX reserve



Source: IMF, Bloomberg, KIS

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