

Money 360

June 2022

July 12, 2022

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Associate – Macro

HIGHLIGHTS

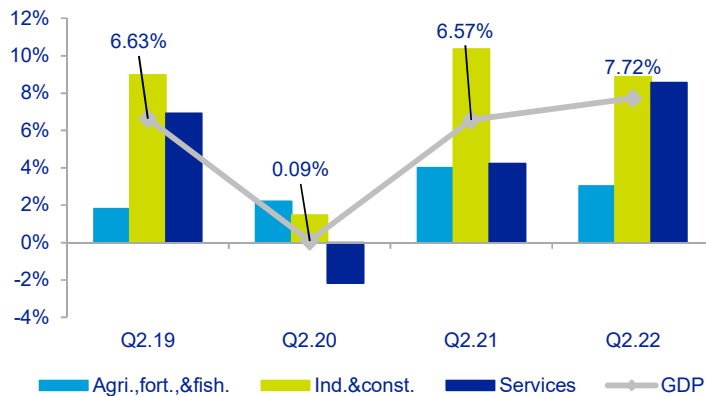
- **Government Bond Issuances in the first half of 2022 have fulfilled only 17.3% of the annual plan** with 10Y and 15Y tenors attracting the vast majority of interest. We expect that the VST will have to ramp up issuances in upcoming months of 2022 to push disbursement of public investment and increase offering rates, especially short-term rates, as current unattractive yields are failing to attract investor interest.
- **Secondary market yields stabilized** after surging in April driven by rising credit growth and pressure of rising interest rates globally. But we continue to hold expectation that yields in the secondary market could increase slightly in range of 0.5-1% in upcoming months of 2022 due to rising interest rate globally caused by surging inflation.
- **We expect banking system liquidity will stabilize and even contract in 2H2022** as the current liquidity in the banking system might reduce caused by surging credit growth as production and services businesses will continue to need capital to resume their operations. As a result, we expect that **interbank rates may increase 1-1.5%** in upcoming months of 2022.
- **The USD/VND rates continued to depreciate in June 2022** compared with last months and same period last year mainly due to upward pressure of rate hikes by major central banks. **Overall, we expected that VND might depreciate as high as 2-2.5% for FY2022** which will be around 23.400 – 23.500VND/USD.

Macro Update

Vietnam posts strongest economic growth in 2Q2022 in over a decade

Vietnam's economy posted exceptionally strong growth figures in the second quarter, with 2Q GDP coming in at 7.72% growth YoY, the highest rate since 2011, and 1H GDP growth hitting 6.4%.

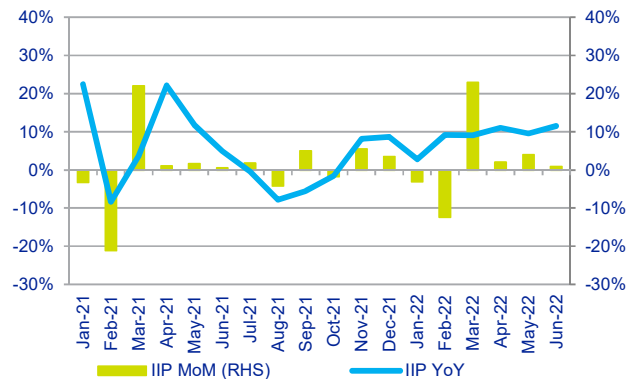
GDP Growth Quaterly



IIP recorded a positive growth rate of 10.83% YoY 2Q

Industrial activities continued to post strong figures, in which IIP recorded a positive growth rate of 10.83% YoY 2Q2022 (vs +12.37% YoY in 2Q2021). Furthermore, the PMI continued to show signs recovery in three consecutive months in 2Q2022 (April – 51.7, May – 54.7, June – 54).

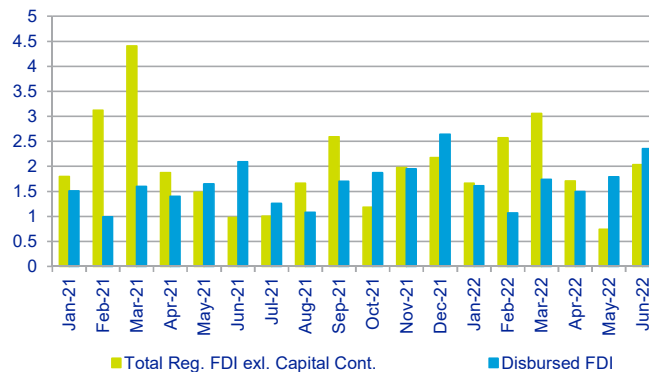
IIP Monthly



Disbursed FDI up 9.7% YoY in 2Q

Disbursed FDI remained strong in 2Q2022 (+9.7% YoY vs +7.1% YoY in 2Q2021) as travel restrictions eased and industrial activities continued to recover and accelerate. Even though registered FDI in 2Q2022 increased just 3.22% YoY, (vs -22% YoY in 2Q2021) we are optimistic FDI inflows in the future will remain strong as Vietnam continues to be an attractive investment destination for FDI firms.

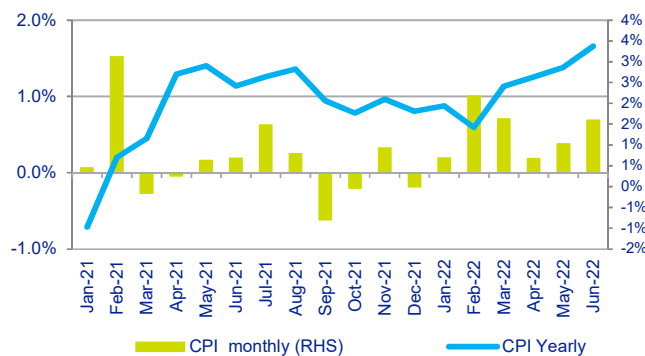
Bil USD **FDI Monthly**



Average inflation creeping up to 2.44% in 6M2022, but remains under control

Last but not least, Consumer Price Index (CPI) 2Q2022 increased 2.96% YoY, a little on the high side due to rising gasoline prices, but average inflation rate in 6M2022 still remain 2.44% YoY and far below government's target 4% and remained under control.

CPI



Primary risks to Vietnam's economic growth remain exogenous

There are several exogenous risk factors which may bring uncertainties to Vietnam's economic growth prospects in upcoming months of 2022, which include:

- (1) The FED and other major central banks continue to hike rates. According to the Financial Times, central banks are raising rates rapidly in the most widespread tightening of monetary policy for more than two decades, with a total of more than 60 rate hikes from various central banks in the past three months;
- (2) Quantitative Tightening program of the US FED;
- (3) prolonged geopolitical tensions between Russia and Ukraine, which have lead to surging oil and food prices;
- (4) China still continues to pursue zero-COVID-19 strategy with mass testing and lockdowns when cases surged; and
- (5) surging inflation globally.

H2 GDP growth expected to increase as industrial and service activities continue to show strength

However, despite fears that these events could slow Vietnam's growth prospects in the upcoming quarters of 2022, we still maintain our expectation that GDP growth rate will gradually recover in the last three quarters of 2022, supported by:

- (1) the continuing recovery of all industrial activities which will push activities from FDI sector in term of investment and export;
- (2) Vietnam emerged as a substitute manufacturing center to cover output losses caused by the zero-COVID-19 strategy in China; and
- (3) the strong recovery of service sectors, after relaxing all COVID-19 related restrictions on service businesses, coming from (1) improvement of domestic consumption, (2) reopening international tourism and (3) normalization of transportation of goods help push trading activities especially export from FDI sector.

Government stimulus plans expected to further support growth

Furthermore, the fiscal and monetary stimulus package, worth VND337tn (VND291tn for fiscal package and VND46tn for monetary package), to support the socio-economic recovery and development program after the impact of the COVID-19 pandemic will be disbursed starting in 2Q2022, along with over VND337tn (of total VND530tn) of Capital under State Budget needed to disbursed toward the year end of 2022, which will push socio-economic recovery in the last two quarters of 2022.

Overall, we upgraded our view that Vietnam's economy will grow in range between 7.1% - 10.4% YoY in 2H2022 and 6.8% - 8.5% YoY in 2022.

VGB-GGB MARKET

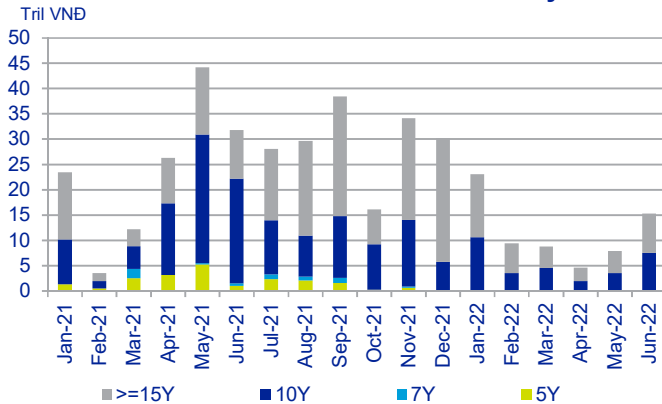
PRIMARY BOND MARKET

G-Bond issuances ticked up slightly from May with interest primarily in 10Y and 15Y tenors

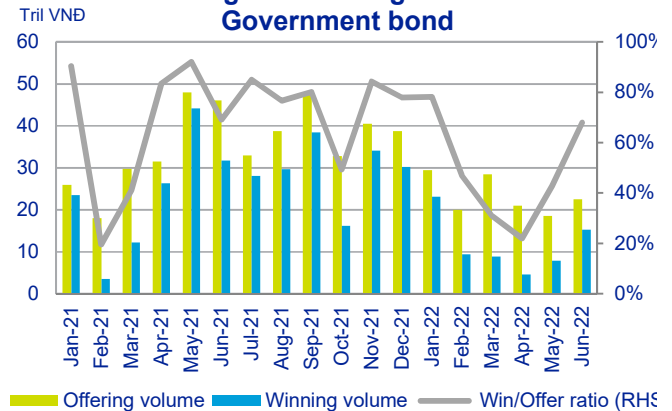
Total G-bonds issued in June 2022 reached VND15.3tn (vs VND31.8tn in June 2021). Winning yields of all mid-terms slightly increased during June, but due to high bidding rate and no winning value in June, short- and long-term yield remained the same compared with last month mainly due to low winning value caused by low and unattractive offering rate. The winning rate of all terms reached 68% in June 2022 (slightly increased from 43% in May 2022). In addition, winning value continued to decrease by 52% compared with June 2021.

10Y and 15Y attracted investor's attention in June 2022 which accounted for 49% and 50% of the total issuance amount respectively, and winning rate reached 75% and 77% respectively.

New G-Bond Issuance with Maturity



Offering and winning volume of Government bond



Source: HNX, ACBS

Bond Yields in the primary market						
	5Y	7Y	10Y	15Y	20Y	30Y
End of June 2022	0.76%	1.10%	2.37%	2.67%	2.75%	3.01%
vs May 2022	0.76%	1.10%	2.34%	2.58%	2.75%	3.01%
vs June 2021	1.10%	1.36%	2.20%	2.45%	2.91%	3.05%

YTD issuances remain far behind pace to complete annual target

By the end of June, the VST only issued VND27.8tn and VND69.1tn of G-bonds in 2Q2022 and 2022 respectively,

fulfilling only 23.2% of 2Q2021's issuance plan (VND120tn) and 17.3% of 2022's issuance plan (VND400tn).

Government Bond Issuance Plan

VND Bn	2Q2022 Target	QTD Issuance	QTD Issuance/Target	2022 Target	2022 YTD Issuance	2022 YTD Issuance/Target
5-year	10,000	0	0.0%	30,000	0	0.0%
7-year	5,000	-	0.0%	15,000	0	0.0%
10-year	45,000	13,000	28.9%	140,000	31,642	22.6%
15-year	35,000	13,605	38.9%	150,000	26,555	17.7%
20-year	10,000	580	5.8%	30,000	2,265	7.6%
30-year	15,000	620	4.1%	35,000	8,625	24.6%
Total	120,000	27,805	23.2%	400,000	69,087	17.3%

Issuances and yields expected to increase in H2

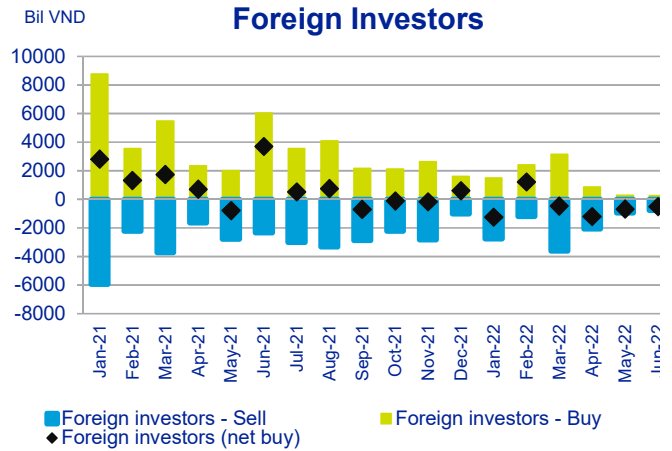
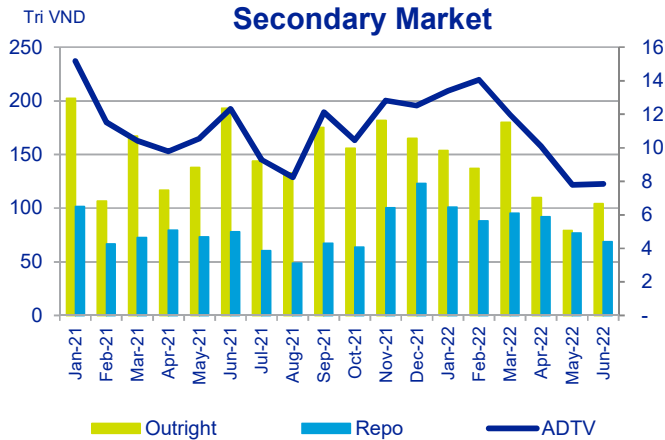
ANALYST COMMENT: We expect that the VST will have to ramp up issuances in upcoming months of 2022 as the government needs to push disbursement of public investment and finance their fiscal and monetary stimulus package, which was planned to disburse starting in 2H2022, in order to boost economic development after end of COVID-19 outbreak. In addition, VST also needs to increase offering rates especially short-term rates to increase winning rate of issuance which was currently low due to unattractive low yields.

SECONDARY BOND MARKET

Secondary trading values increased 11% MoM, while foreign investors continued to be net sellers

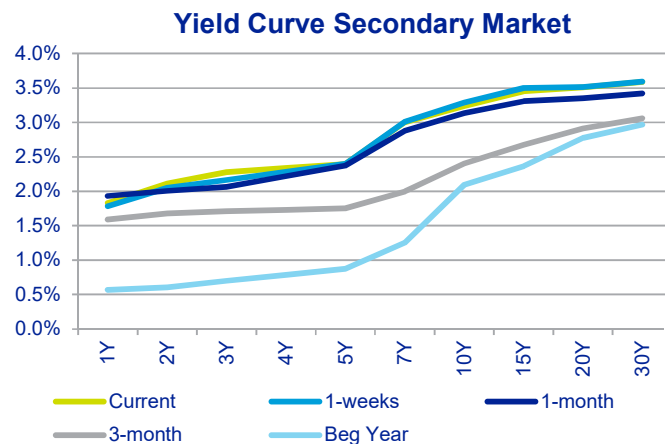
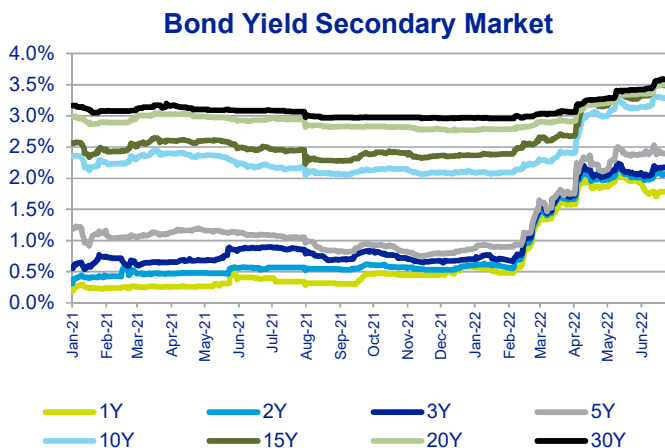
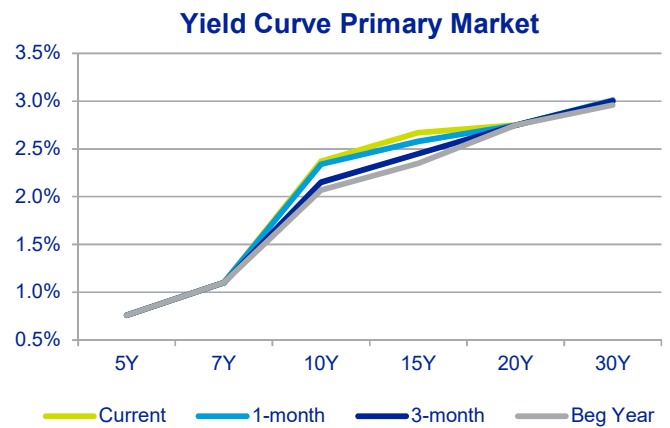
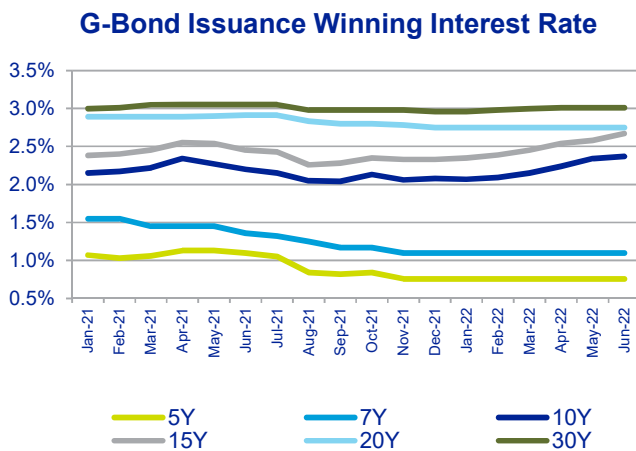
Total trading value of outright and repos in the secondary market in June 2022 increased 10.8% compared with last month, reaching VND172.6tn and with the average daily trading value (ADTV) reaching VND7.8tn (+0.7% MoM). Of the total trading value in the secondary market, outright transactions accounted for 51% and ADTV of outright increased 20% MoM to VND4.7tn. Of the total trading volume in the secondary market, repo transactions accounted for 49%.

Foreign investors trading position recorded a net sell of VND503bn in June 2022, the cumulative net sell since start of 2022 increased to VND2.8tn.



Source: HNX, ACBS

Yield Curve



Source: HNX, VBMA, ACBS

Secondary yields starting to increase in tenors >1Y

Primary bond yields remained almost the same during June 2022 compared with same period last year. In addition, bond yields in the secondary market during June increased slightly and stabilized compared to last month thanks to an abundance liquidity in banking system.

Bond Yields in the primary market										
	5Y	7Y	10Y	15Y	20Y	30Y				
End of June 2022	0.76%	1.10%	2.37%	2.67%	2.75%	3.01%				
+/- MoM (bps)	0	0	3	9	0	0				
Bond Yields in the secondary market										
	1Y	2Y	3Y	4Y	5Y	7Y	10Y	15Y	20Y	30Y
End of June 2022	1.80%	2.11%	2.28%	2.34%	2.39%	2.99%	3.24%	3.46%	3.51%	3.59%
+/- MoM (bps)	-15	10	21	12	2	15	12	18	16	17

Expectations are for yields in the secondary market to increase in the second half of 2022

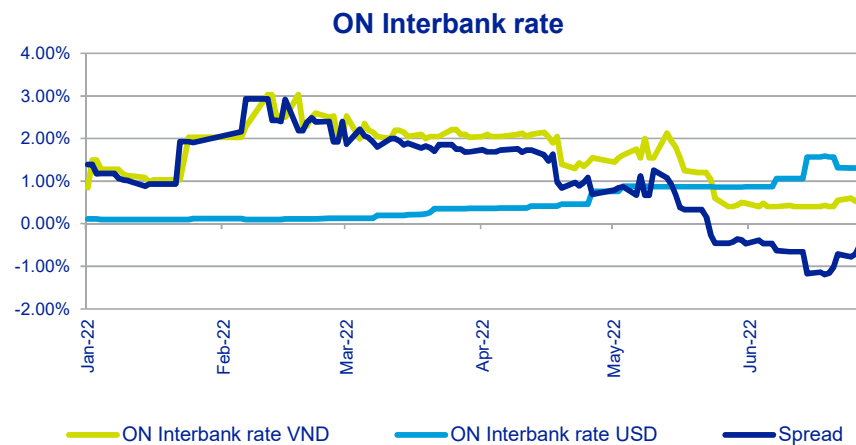
ANALYST COMMENT: In our opinion, the VST will need ramp up issuances in upcoming quarters of 2022 if the VST wants to fulfill their 2022's issuance plan. In addition, VST need to increase their offering yield in order to attract more investors, as winning value of bond issuance recently was low compared with total registering value due to high bidding rates but low offering rates from VST.

In the secondary market yields stabilized after surging in April driven by rising credit growth and pressure of rising interest rates globally. But we continue to hold expectation that yields in the secondary market could increase slightly in range of 0.5-1% in upcoming months of 2022 due to rising interest rate globally caused by surging inflation.

MONEY MARKET

Abundant liquidity in the banking system as most banks have reached their credit growth quota

The short-term interbank rates decline from mid-May throughout June mainly due to an abundance of liquidity in banking system caused by most banks have reached their credit growth quota & are waiting for SBV to approve new credit growth quota. However, long-term interbank rate continued to increase slightly throughout June as banks continue to expect lower liquidity in longer terms (more than 3 months) cause by surging credit need as production and services businesses will continue to need capital to resume their operations.

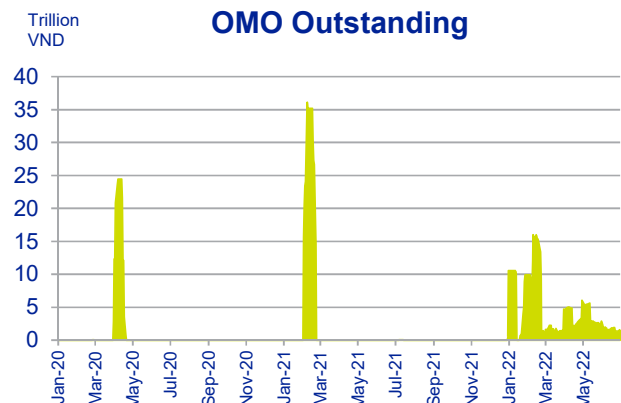
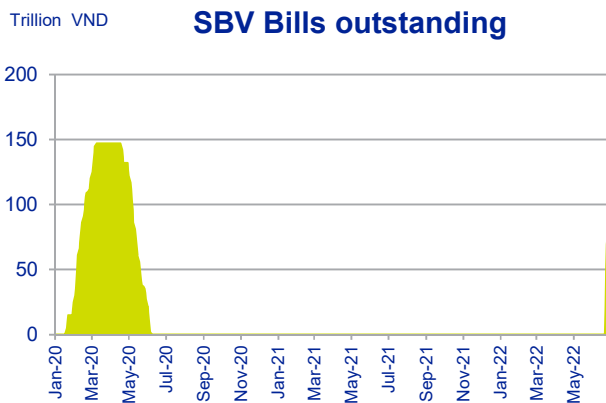
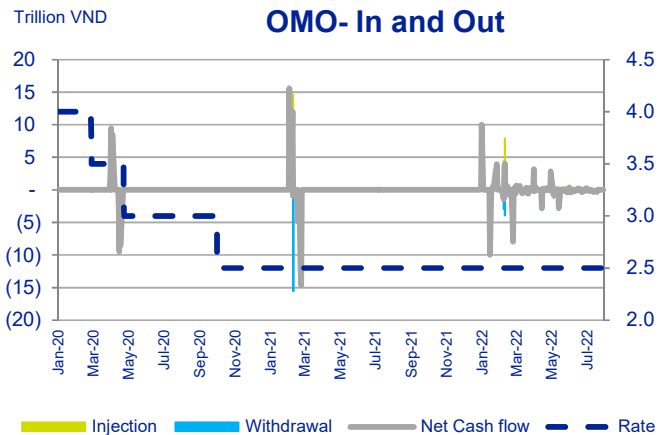
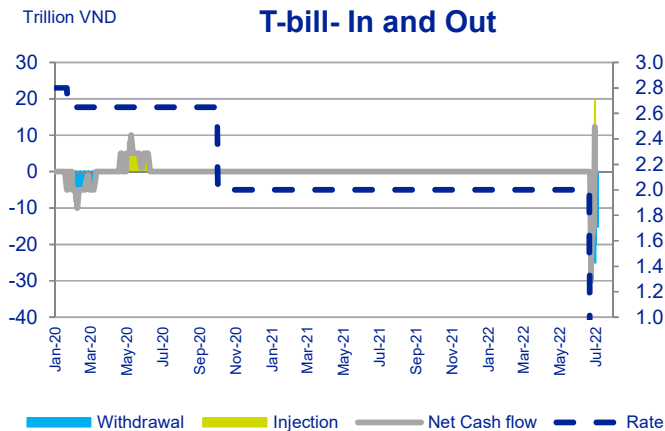
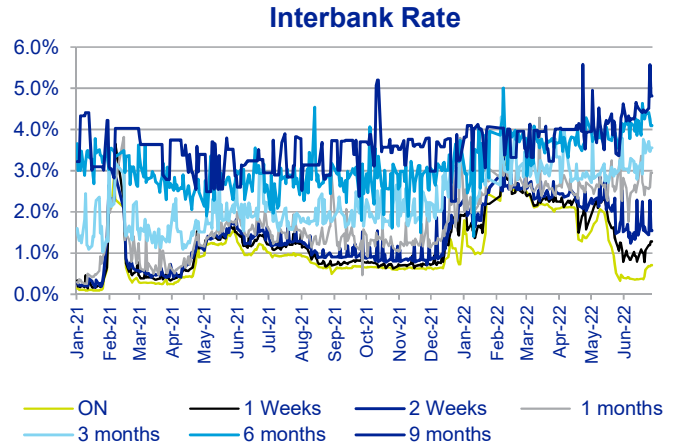
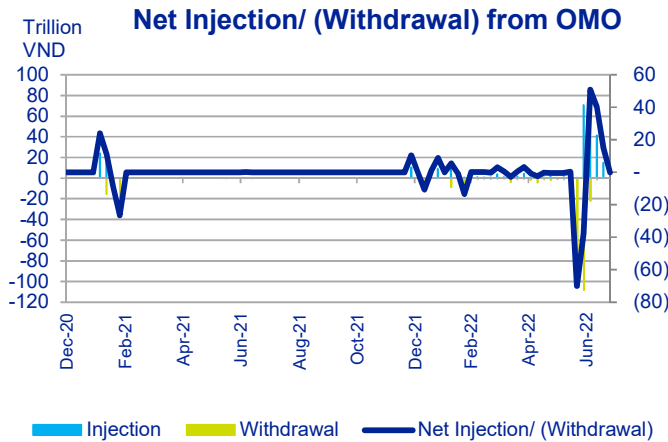


Source: SBV, ACBS

	Interbank Rate						
	ON	1 Weeks	2 Weeks	1 months	3 months	6 months	9 months
Average of June 2022	0.46%	1.01%	1.67%	2.57%	3.26%	4.15%	4.49%
+/- MoM (bps)	-96	-86	-51	-11	28	31	45

The SBV has reengaged with the T-bill channel after a 2 year absence

We note that SBV has also restarted T-bills channel again, after 2 years. This move also signaled banking liquidity was surplus and SBV have to use this tool to help pull out more money out of banking system. In addition, in our opinion, SBV has to restart this channel in order to raise the VND interbank interest rate, especially short-term once (ON, 1w, 2w and 1M), which is lower than the USD interbank interest rate and are putting upward pressure on VND/USD exchange rate recently which was also under pressure of recent rate hikes by major central banks (FED & BOE).



Source: SBV, ACBS

Current ample liquidity in the banking sector expected to tighten in 2H 2022 when credit quotas increased by the SBV

ANALYST COMMENT:

We expect banking system liquidity will stabilize and even contract in 2H2022 as the current liquidity is the banking system might reduce caused by surging credit growth as production and services businesses will continue to need capital to resume their

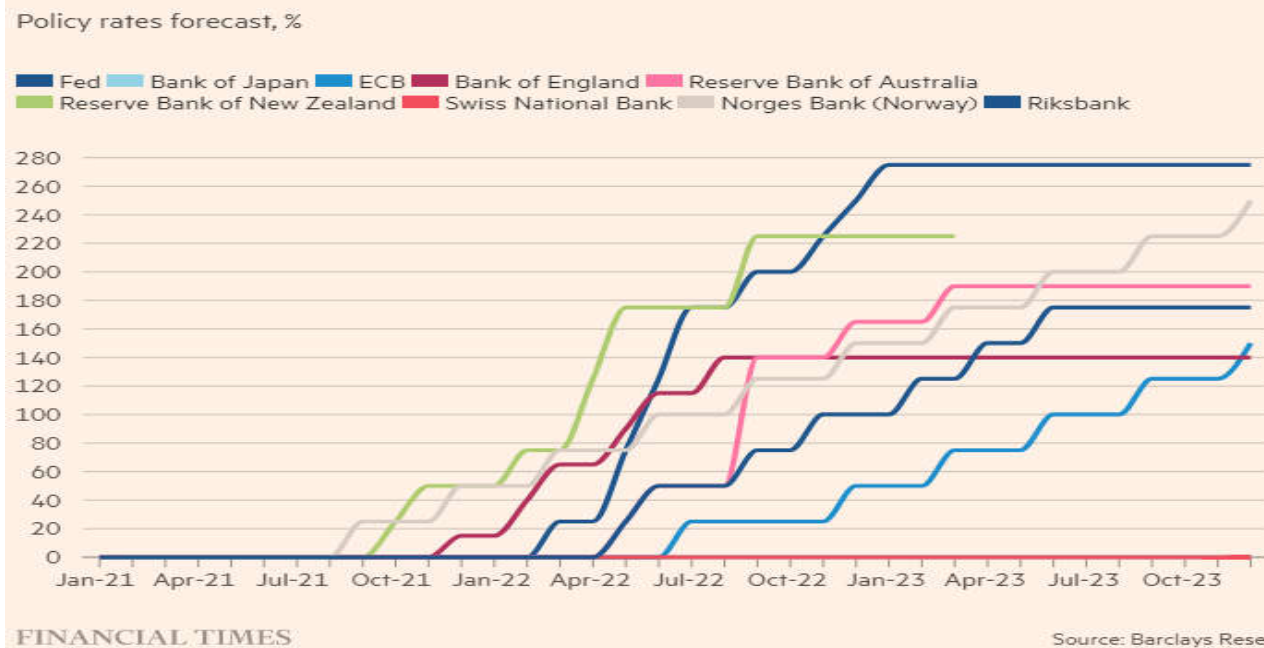
operations. As a result, we expect that **interbank rates may increase 1-1.5%** in upcoming months of 2022 due to:

- (1) credit growth continued to surge (most banks have reached its credit growth quota approved at the beginning of 2022) as production and services business will continued to return to normal thanks to the Government's effective living-with-COVID-19 strategy against the COVID-19 pandemic. In addition, up until 30 June 2022, credit growth (+9.35% YTD) are currently outgrow capital mobilization by credit institutions (+4.51% YTD) which also put upward pressure on our interbank rate and policy interest rate;
- (2) SBV will have to approved new credit growth quota for banks as late as the end of 3Q2022, which will intensify the liquidity issues in upcoming months to cover lost time due to waiting for credit growth quota's approval; and
- (3) rate hikes are expected to continue throughout next year as over 16 major central banks around the world, especially US (FED), UK (BOE) and EU (ECB), are likely to raise interest rates toward yearend of 2023 (Picture below). Markets also expect an increase in policy rates by at least 100bps by the end of this year or early next year in the EU, Canada, Australia and New Zealand. Those pressure will in turn put upward pressure on our interbank rate and policy interest rate.

Expected further rate hikes at central banks throughout the world to put pressure on the SBV to increase key policy rates before year end

In addition, we upgrade slightly our expectation that our **key policy interest rates** might gradually **increase between 50bps – 75bps** toward year-end.

With the trend expected to continue throughout next year

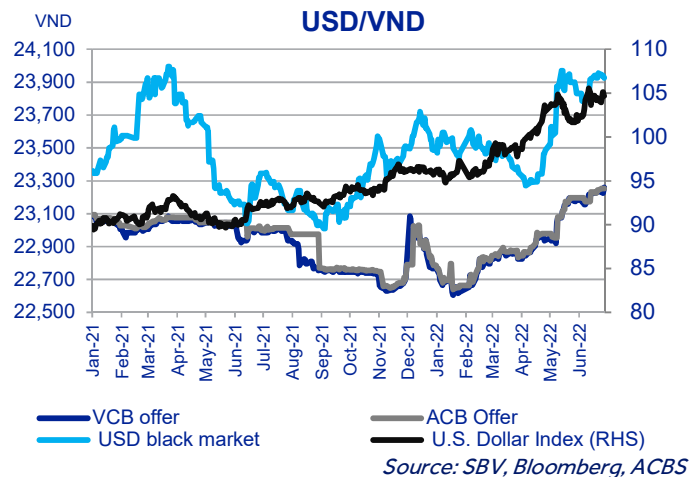
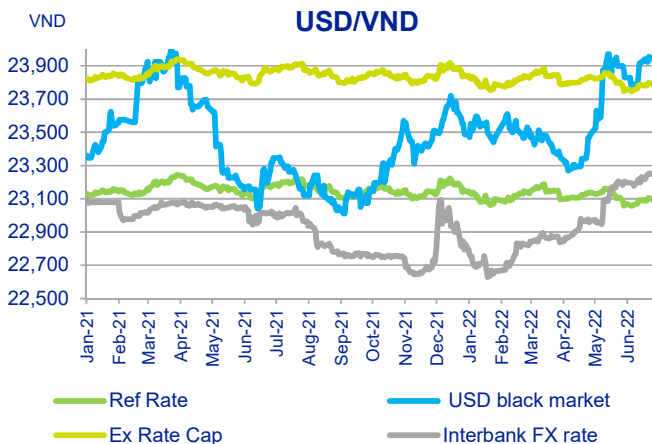


OTHER MARKETS

FOREX MARKET

The VND under pressure from central bank rate hikes globally

The USD/VND interbank exchange rate and USD/VND exchange rate in black market continued to depreciate in June 2022 compared with last months and same period last year mainly due to upward pressure of rate hikes by major central banks. As the end of June 2022, USD/VND exchange rate of the market stood at VND23,282 (+0.39% MoM, +1.19% YoY and +2.00% YTD). In addition, USD/VND exchange rate in black market also depreciated significantly to VND23,925 (+0.21 % MoM and +2.59% YoY).



Domestic macro factors continue to positively support the VND

ANALYST COMMENT:

Factors which will help VND in general (in banking system and in black market) reclaim its strength and stabilized in upcoming months of 2022, include:

- (1) Inflation remained low and under control below 4%;
- (2) Exports, which is the country's key economic growth driver, will remain strong as manufacturing activities gradually recovered and is expected to continue its upward trajectory given the recovery of the global economy. Vietnam emerged as a substitute manufacturing center to cover loss output causing by zero-COVID-19 strategy of China. In addition, our trading activities continued to be solid as total export-import turnover in 6M2022 reached USD371.2bn (+16.8% YoY) and our balance of trade remained surplus (USD710mn);
- (3) FDI inflows disbursement grew strongly in 6M2022 (+8.9% YoY) and FDI registered recovered after several months contracted (+107.7% YoY in June 2022); and
- (4) Abundant foreign reserves (stood at around USD112bn at the end of 1Q2022, and our rumor calculation that Fx reserves could be currently around USD100bn).

External headwinds from global central banker's raising rates and implementing QT to fight inflation putting downward pressure on the VND

However, potential risks which will continued to depreciate VND in the upcoming months of 2022 include:

- (1) The US FED and other major central banks such as ECB are planning to raise interest rate in other to combat with rising inflation. According to a Financial Times, a newspaper, central banks are raising rates rapidly in the most widespread tightening of monetary policy for more than two decades, with total more than 60 increases of various central banks in the past three months. In addition, rate hikes are expected to continue throughout next year as over 16 major central banks around the world, especially US (FED) and UK (BOE), are likely to raise interest rates toward yearend of 2023. Markets also expect an increase in policy rates by at least 100bps by the end of this year or early next year in the EU, Canada, Australia and New Zealand. Those pressure will put upward pressure on our foreign exchange rate if SBV don't increased policy interest rate;
- (2) FED announce its Quantitative Tightening program in FOMC meeting in 4-5 May 2022, FED will begin allowing its Federal Reserve's securities holding to decline in June 2022 at an initial combined monthly pace of USD47.5bn (USD30bn per month for Treasury securities and USD17.5bn for agency debt and agency mortgage-backed securities) and stepping up over three months to USD95bn (USD30bn per month for Treasury securities and USD35bn for agency debt and agency mortgage-backed securities). With this plan, FED expected to reduce around USD400bn of its balance sheet by the end of 2022. In addition, ECB also plans to follow FED with its Quantitative Tightening program. Those events will affect VND strength in upcoming months;
- (3) China still continues to pursue a zero-COVID-19 strategy with mass testing and lockdowns when cases surge. This strategy could cause another major disruption to global supply chains and further inflate shipping costs, which in turn could hinder our trading activities and may put another depreciation pressure on foreign exchange rate in upcoming months.

Overall, we expected that VND might depreciate as high as 2-2.5% for FY2022 which will be around **23.400 – 23.500VND/USD**.

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