

Money 360

July 2022

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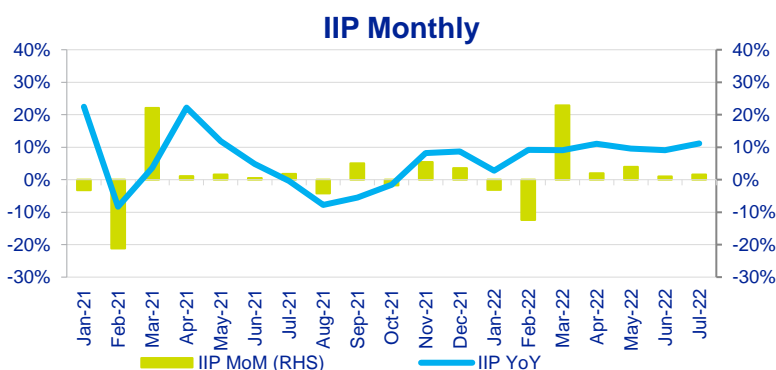
HIGHLIGHTS

- **Government Bond Issuances in 7M2022 have fulfilled only 19.6% 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 and increase offering rates as current unattractive yields are failing to attract investor interest.
- **Secondary market yields surged as pressure coming from FOMC meeting in July.** We continue to hold expectation that yields in the secondary market could increase in the range of 0.5-1% in upcoming months of 2022 due to rising interest rate globally caused by surging inflation.
- **We expect that maintaining low interbank interest rates will be tough for the SBV** as they need to maintain a gap between the USD and VND interbank interest rates in order to support VND/USD exchange rate and surging credit needs when the SBV approves remaining credit growth quotas in the banking sector.
- **The USD/VND rates continued to depreciate in July 2022** compared with last months and last year. **Overall, we expect that the VND might depreciate as high as 2-2.5% for FY2022** which will be around 23.400 – 23.500VND/USD.

Macro Update

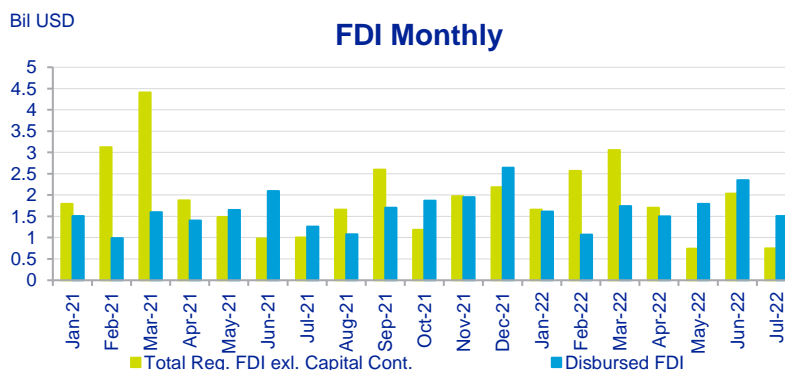
IIP recorded a positive growth rate of 8.8% YoY 7M22

Industrial activities continued to post strong figures, in which IIP recorded a positive growth rate of 11.2% YoY in July 2022 and 8.8% YoY in 7M2022 (vs -0.3% YoY in July 2021 and +7.9% YoY in 7M21). Furthermore, the PMI July 2022 continued to be in expansionary territory, posted 51.2, but signaled a softer improvement.



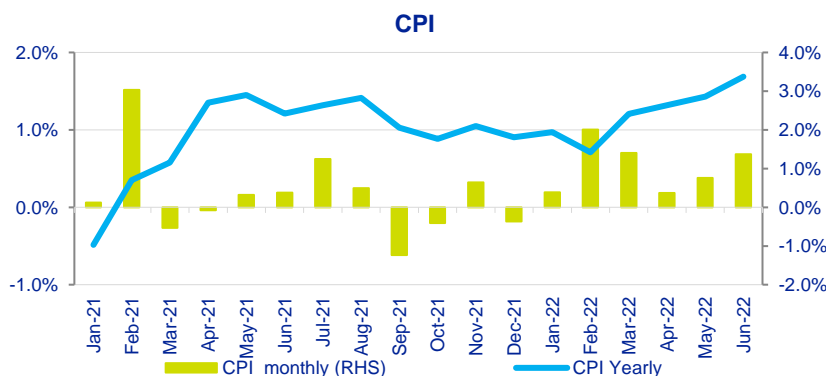
Disbursed FDI up 10.2% YoY in 7M22

Disbursed FDI remained strong in 7M2022 (+10.2% YoY vs +3.8% YoY in 7M21) as travel restrictions eased and industrial activities continued to recover and accelerate. Even though registered FDI in 7M2022 decreased 14.7% YoY, (vs +3.5% YoY in 7M21) we are optimistic FDI inflows in the future will remain strong as Vietnam continues to be an attractive investment destination for FDI firms.



Average inflation creeping up to 2.54% in 7M22, but remains under control

Last but not least, Consumer Price Index (CPI) July 2022 increased 3.14% YoY, a little on the high side due to sustain high gasoline prices, but the average inflation rate in 7M2022 hit 2.54% YoY and far below government's target 4% and remained under control.



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;
2. Recession risks grow, especially in US and EU as US technically fall into recession with GDP declined for two consecutive quarters and gas & energy crisis following the recent disruption of Russian natural gas supplies through the Nord Stream 1 pipeline in EU.
3. Prolonged geopolitical tensions between Russia and Ukraine, which have lead to sustained high oil and food prices;
4. China continues to pursue its zero-COVID-19 strategy with mass testing and lockdowns when cases surge; 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 maintain our expectation that GDP growth rate will gradually recover in the last two quarters of 2022, supported by:

1. The continuing recovery of all industrial activities (IIP increased 11.2% YoY in July 22 and 8.8% YoY in 7M22), 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 the service sector, after relaxing all COVID-19 related restrictions on service businesses, coming from (1) improvement of domestic consumption (total retail sales of goods and services July 22 increased 42.63% YoY and 7M22 increased 16% YoY), (2) reopening international tourism (retail sales of travelling services July 22 increased 34x YoY and 7M22 increased 3x YoY) 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 started disbursement in 2Q2022, along with over VND292tn (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 maintain 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

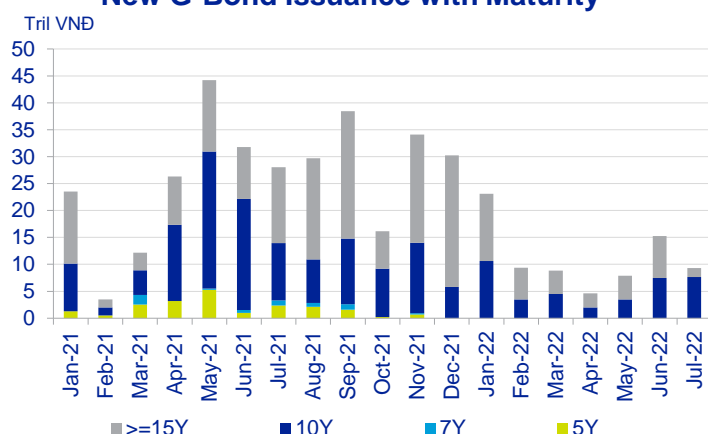
PRIMARY BOND MARKET

G-Bond issuances declined slightly from June with interest primarily in 10Y and 15Y tenors

Total G-bonds issued in July 2022 reached VND9.3tn (vs VND28tn in July 2021). Winning yields of all mid-terms slightly increased during July, but due to high bidding rates and no winning values in July, 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 45% in July 2022 (slightly decreased from 68% in June 2022). In addition, winning value continued to decrease by 67% compared with July 2021.

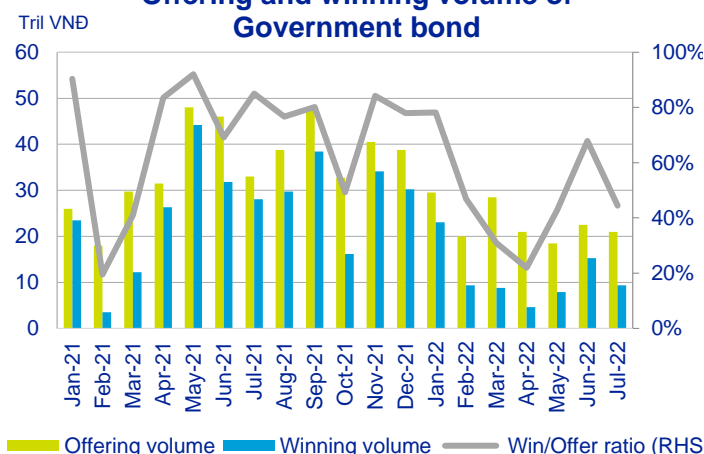
10Y and 15Y attracted investor's attention in July 2022 which accounted for 82% and 18% of the total issuance amount respectively, and winning rate reached 76% and 19% respectively.

New G-Bond Issuance with Maturity



Source: HNX, ACBS

Offering and winning volume of Government bond



Source: HNX, ACBS

Bond Yields in the primary market

	5Y	7Y	10Y	15Y	20Y	30Y
End of July 2022	0.76%	1.10%	2.37%	2.67%	2.75%	3.01%
vs June 2022	0.76%	1.10%	2.34%	2.58%	2.75%	3.01%
vs July 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 July, the VST only issued VND9.3tn and VND78.4tn of G-bonds in 3Q2022 and 2022 respectively, fulfilling only 11% of 3Q2022's issuance plan (VND85tn) and 19.6% of 2022's issuance plan (VND400tn).

Government Bond Issuance Plan

VND Bn	3Q2022 Target	QTD Issuance	QTD Issuance/Target	2022 Target	2022 YTD Issuance	2022 YTD Issuance/Target
5-year	5,000	0	0.0%	30,000	0	0.0%
7-year	5,000	0	0.0%	15,000	0	0.0%

10-year	30,000	7,635	25.5%	140,000	39,277	28.1%
15-year	35,000	1,700	4.9%	150,000	28,255	18.8%
20-year	5,000	0	0.0%	30,000	2,265	7.6%
30-year	5,000	0	0.0%	35,000	8,625	24.6%
Total	85,000	27,805	11.0%	400,000	78,422	19.6%

Issuances and yields expected to increase in H2

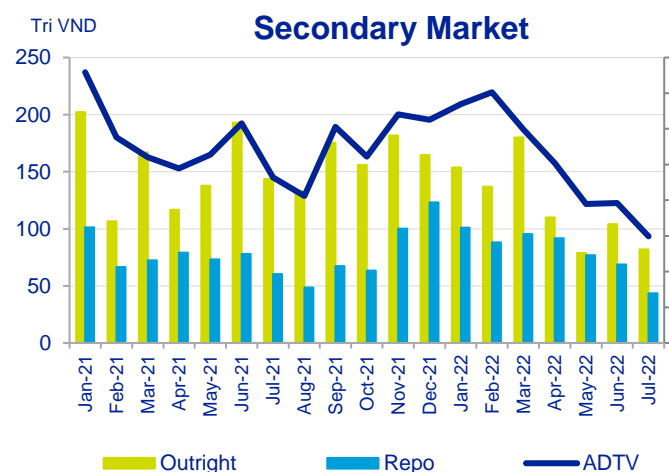
ANALYST COMMENT: We expect that the VST will have to ramp up issuances in upcoming months of 2022 as the government needs to push disbursement of public investment and finance their fiscal and monetary stimulus package, which was planned to disburse starting in 2H2022, in order to boost economic development 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

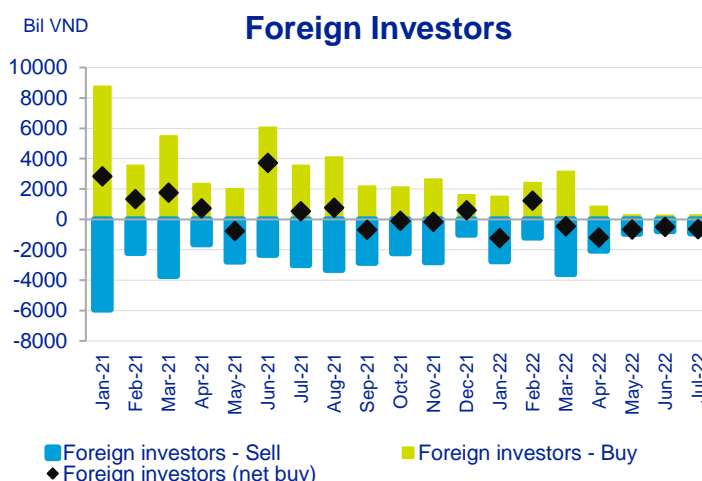
Secondary trading values decreased over 27% MoM, while foreign investors continued to be net sellers

Total trading value of outright and repos in the secondary market in July 2022 decreased 27.3% compared with last month, reaching VND125.5tn and with the average daily trading value (ADTV) reaching VND5.9tn (-23.8% MoM). Of the total trading value in the secondary market, outright transactions accounted for 65% and ADTV of outright decreased 17% MoM to VND3.9tn. Of the total trading volume in the secondary market, repo transactions accounted for 35%.

Foreign investors trading position recorded a net sell of VND642bn in July 2022, the cumulative net sell since start of 2022 increased to VND3.5tn.



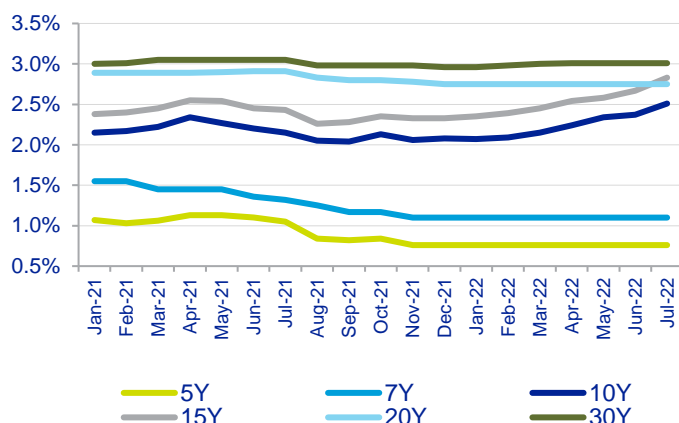
Source: HNX, ACBS



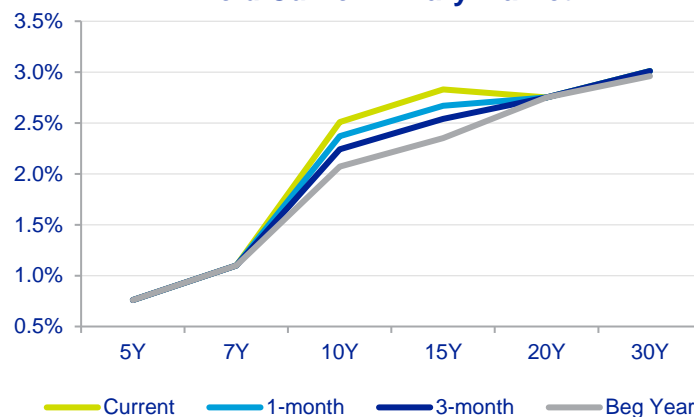
Source: HNX, ACBS

Yield Curve

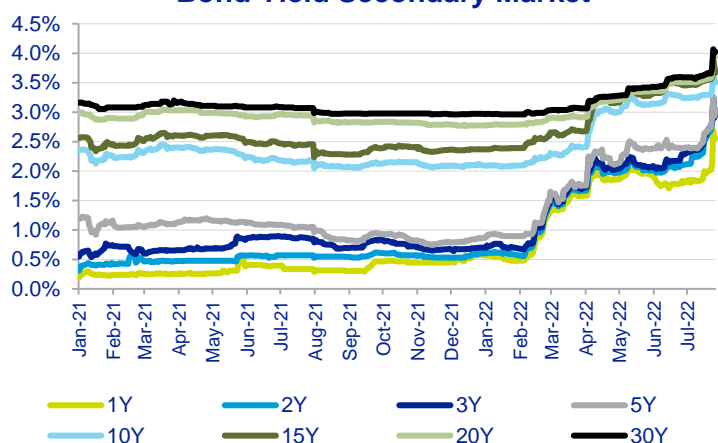
G-Bond Issuance Winning Interest Rate



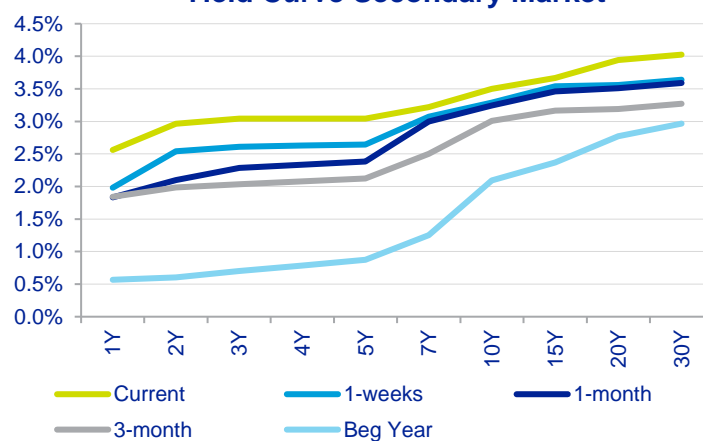
Yield Curve Primary Market



Bond Yield Secondary Market



Yield Curve Secondary Market



Secondary yields surged on pressures from the FOMC meetings in July

Primary bond yields (except 10Y and 15Y) remained almost the same during July 2022 compared with same period last year mainly due to low winning value caused by low and unattractive offering rate.

Besides that, bond yields in the secondary market during July surged as rate hike pressures from the FOMC meetings on July 26-27.

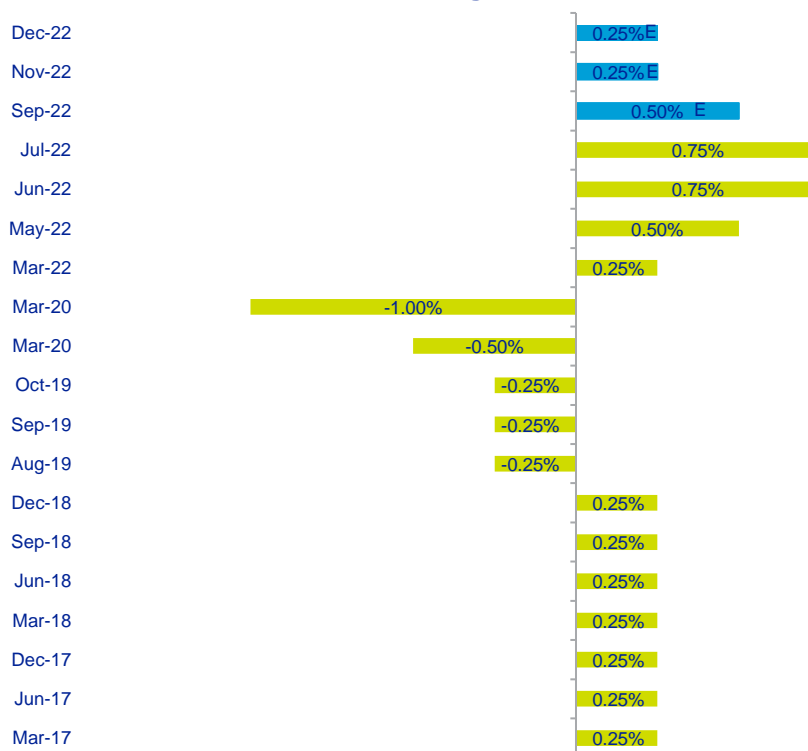
Bond Yields in the primary market										
	5Y	7Y	10Y	15Y	20Y	30Y				
End of July 2022	0.76%	1.10%	2.51%	2.83%	2.75%	3.01%				
+/- MoM (bps)	0	0	3	9	0	0				
Bond Yields in the secondary market										
	1Y	2Y	3Y	4Y	5Y	7Y	10Y	15Y	20Y	30Y
End of July 2022	2.56%	2.96%	3.04%	3.04%	3.04%	3.22%	3.50%	3.67%	3.94%	4.03%
+/- MoM (bps)	77	85	76	71	66	23	26	21	43	44

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 be more attractive to investors as current interest rates are high globally. Furthermore, VST have just issued 19.6% of 2022's issuance plan (VND400tn), so VST are under pressure to carry out remaining plan (around VND321tn) in the last five months especially when government needs to push disbursement of public investment in 2H2022.

In the secondary market yields continued to surge as pressure from FOMC meeting on 26-27 July. We continue to hold expectation that yields in the secondary market could increase in the range of 0.5-1% in upcoming months of 2022 due to rising interest rate globally caused by surging inflation and pressure of expected three rate hikes of 25-50bps each towards the year end 2022.

The Fed's changes to FFR since 2017

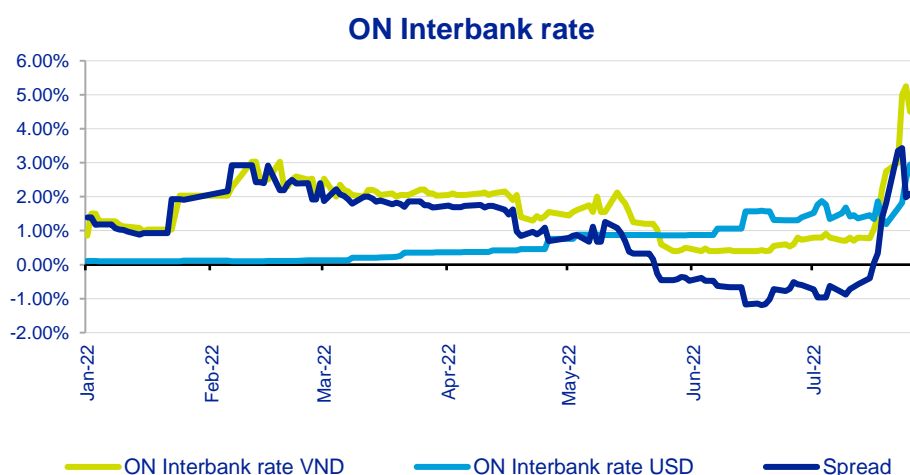


MONEY MARKET

Reengaging the T-bills channel helped closing the interest rate gap between the USD and VND interbank interest rate and in turn stabilized the exchange rate

After reengaging on the T-bills channel in late June, the SBV has used this channel to withdraw over VND400tn from the system, resulting in the total net withdrew from this channel combine with reverse repo OMO (matured) from 21 June through 21 July reaching VND177tn. In addition, we estimate that the SBV has sold over USD13bn YTD from foreign exchange reserve, and over USD7bn in June alone, which indirectly withdrew over VND300tn YTD and over VND164tn in June alone from the system. After reducing the liquidity in system, interbank rates surge dramatically in July, especially starting mid-July.

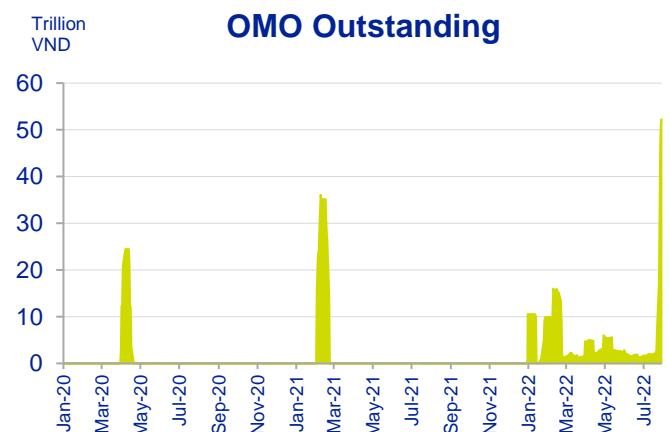
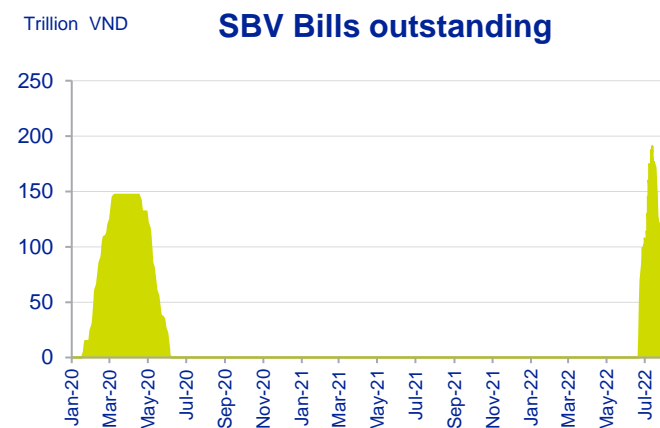
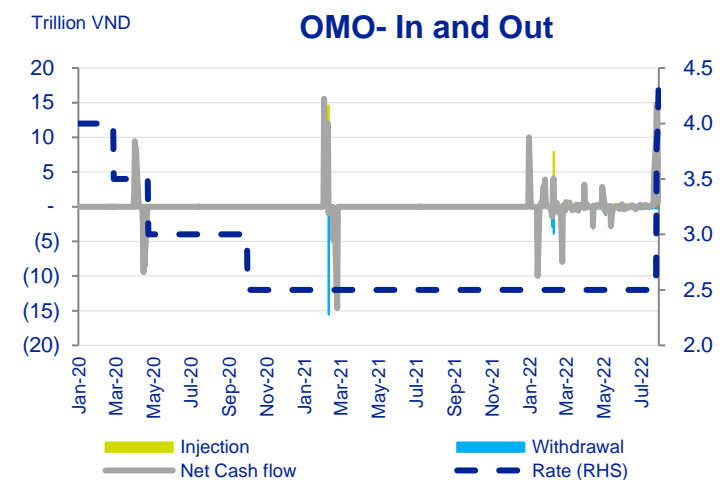
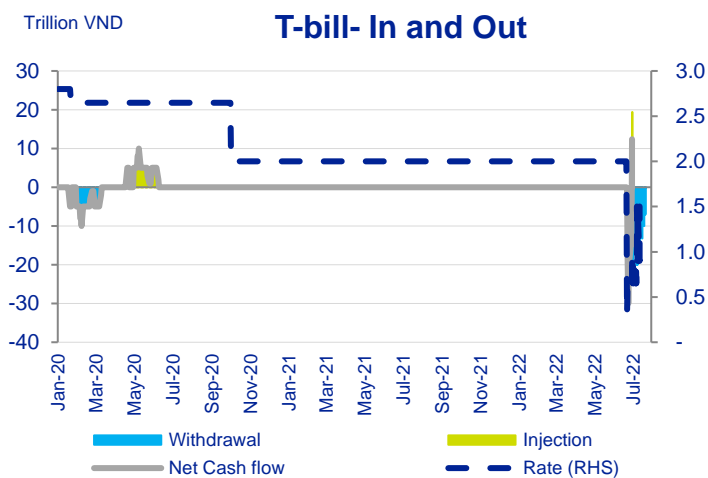
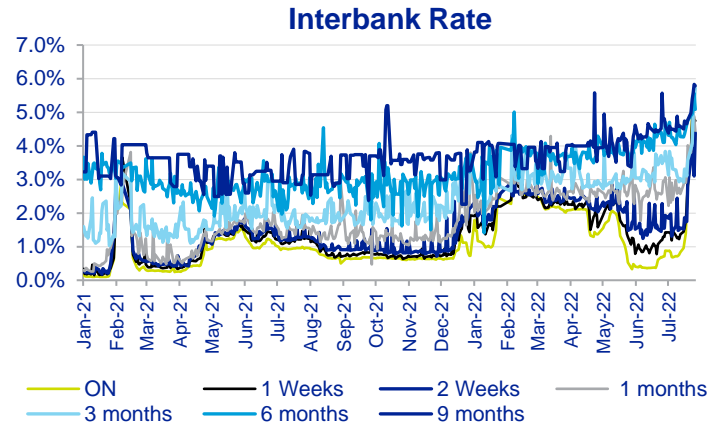
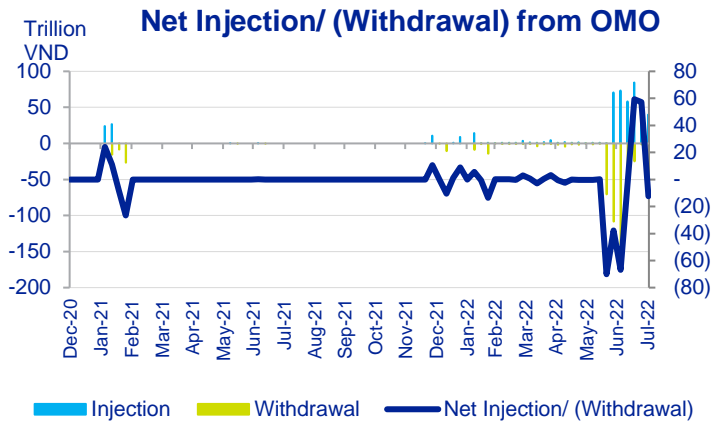
As we expected in our last report in June, the recent SBV moves are likely aimed at closing the negative interest rate gap between the VND and USD interbank interest rate on the interbank market, helped stabilize the exchange rate and the foreign exchange market as a whole.



Source: SBV, ACBS

	Interbank Rate						
	ON	1 Weeks	2 Weeks	1 months	3 months	6 months	9 months
Average of July 2022	1.89%	2.27%	2.27%	3.23%	3.66%	4.59%	4.81%
+/- MoM (bps)	143	126	59	65	39	44	32
End of July 2022	4.19%	4.75%	4.39%	4.45%	5.72%	5.08%	5.79%
+/- MoM (bps)	348	346	284	150	216	98	98

After reengaging in the T-bills channel to reduce liquidity in interbank market, VND liquidity in the interbank market was under greater pressure and the SBV have to stop using T-Bills and started injecting liquidity through Open Market Operation (OMO) facilities to ease liquidity constraints.



Source: SBV, ACBS

ANALYST COMMENT:

Keeping interbank interest rates low would be tough for the SBV as they have to keep gap between the USD and VND interbank interest rate positive in order to support VND/USD exchange rate and

We expect that maintaining low interest rates would be tough for SBV as the FED might have another three rate hikes towards the year end, which will put pressure on VND/USD exchange rate and the SBV will have to keep gap between the VND and USD interbank interest rate positive in order to support VND/USD exchange rate.

In addition, as most banks have reached their credit growth quota & are waiting for SBV to approve remaining credit growth quota, banks continue to expect lower liquidity in

surging credit needs after the SBV approves remaining credit growth quota

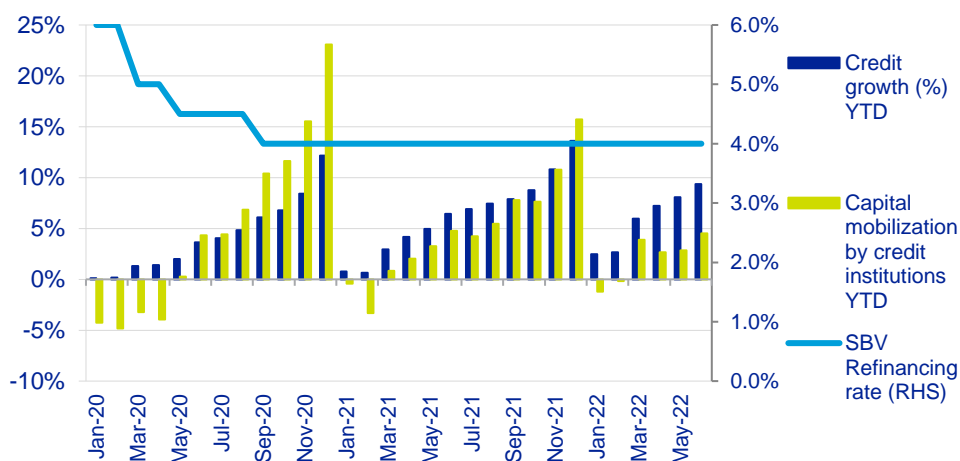
We expect banking system liquidity might not be as good condition in 2H2022, and interbank rates may remain at this current high in upcoming months of 2022

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

the longer term caused by surging credit needs (as production and services businesses will continue to need capital to resume their operations especially toward yearend) when the SBV approves remaining credit growth quota.

As a result, we expect banking system liquidity might not be as good condition in 2H2022, especially after remaining credit growth quota approved, as there might be a reduction of liquidity in the banking system due to surging credit growth in conjunction with supporting the VND from SBV. We also expect that **interbank rates may remain at this current high** level in the 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) has outgrown capital mobilization by credit institutions (+4.51% YTD,) which also put upward pressure on our interbank rate and policy interest rate;



- (2) The SBV will have to approve remaining credit growth quotas 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;
- (3) Interest rate hikes are expected to continue throughout the end of the year as over 16 major central banks around the world, especially US (FED) and UK (BOE), have indicated. Moving to 2023, we expect that while inflationary pressures will remain in the early parts of the year, if the actions of central banks have the intended effects and inflation is brought under control, we could see easing monetary policies emerging in the second half as encouraging economic growth will return to the forefront of policy makers minds. However, toward yearend 2022, those pressure will continue to put upward pressure on our interbank rate and policy interest rate; and
- (4) SBV intended to keep gap between the VND and USD interbank interest rate positive in order to support VND/USD exchange rate, so with Fed Fund Rates continuing to be high and higher toward the year end, we don't expect SBV will lower interbank rates much in upcoming months.

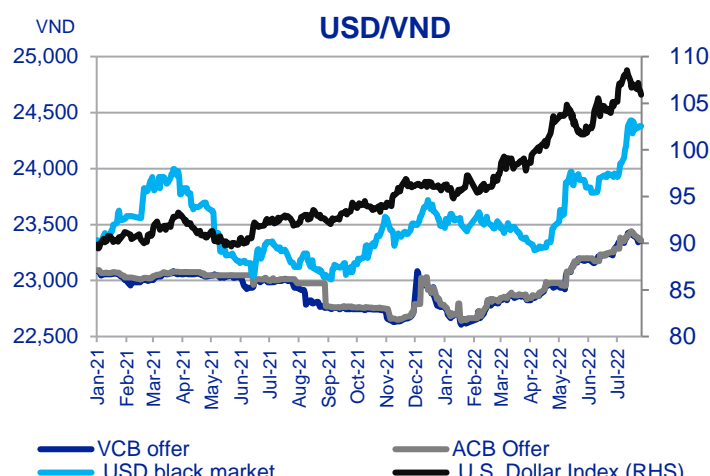
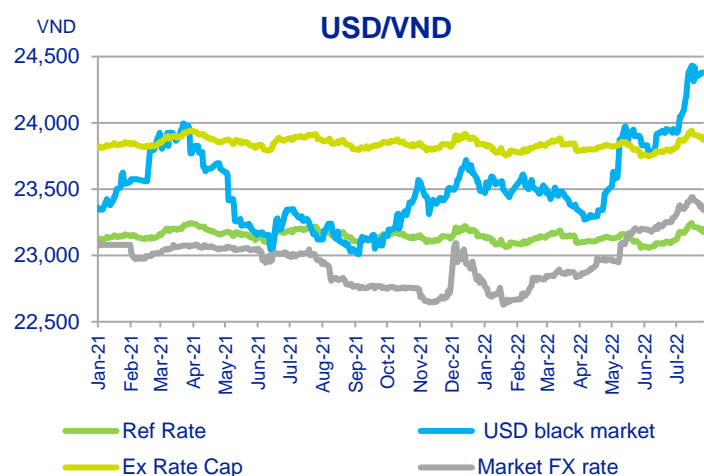
In addition, we maintain our expectation that our **key policy interest rates** might gradually **increase between 50bps – 75bps** toward year-end.

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 July 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 July 2022, USD/VND exchange rate of the market stood at VND23,343 (+0.26% MoM, +1.65% YoY and +2.26% YTD). In addition, USD/VND exchange rate in black market also depreciated significantly to VND24,380 (+1.90 % MoM and +5.45% YoY).



Source: SBV, Bloomberg, ACBS

ANALYST COMMENT:

Domestic macro factors and continue to positively support the VND along with actions by the SBV

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 remaining low and under control below 4%;
- (2) Exports, which are the country's key economic growth driver, will remain strong as manufacturing activities gradually recover and are expected to continue their 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 7M2022 reached USD431.9bn (+15.1% YoY) and our balance of trade remained surplus (USD764mn);
- (3) FDI inflows disbursement grew strongly in 7M2022 (+10.2% YoY);
- (4) Support from the SBV to keep the positive gap between the VND and USD interbank interest rate positive in order to support VND/USD exchange rate in conjunction with abundant foreign reserves (stood at around USD110bn at the end of 1Q2022, however there has been speculation that c. USD12bn have been sold by the SBV, putting current reserves at an estimated USD98bn).

External headwinds from global central banker's raising rates and implementing QT to fight inflation

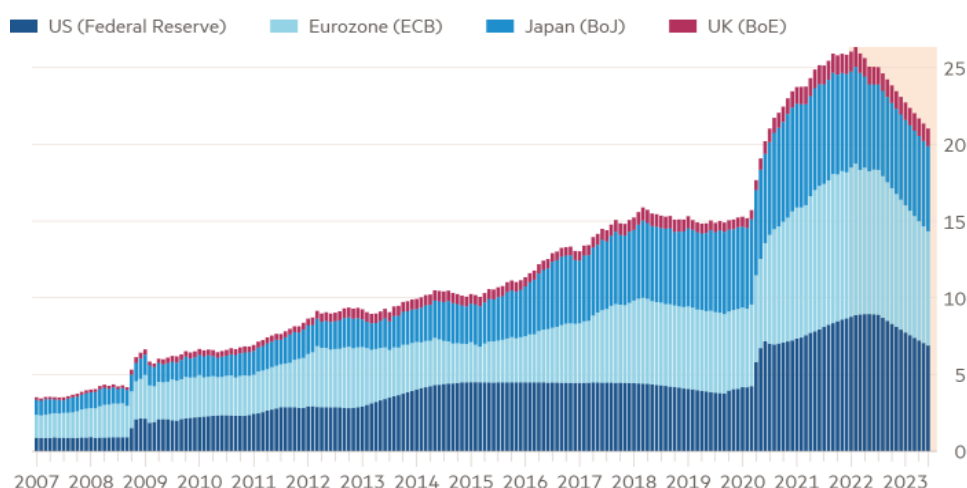
However, potential risks which could support depreciation of the VND in the upcoming months of 2022 include:

putting downward pressure on the VND

- (1) Interest rate hikes are expected to continue throughout the end of the year as over 16 major central banks around the world, especially US (FED) and UK (BOE), have indicated. Moving to 2023, we expect that while inflationary pressures will remain in the early parts of the year, if the actions of central banks have the intended effects and inflation is brought under control, we could see easing monetary policies emerging in the second half as encouraging economic growth will return to the forefront of policy makers minds;
- (2) FED, along with BOE and ECB are stopping reinvesting maturing assets and starting to sell assets on their balance sheet (also known as Quantitative Tightening program). The FED expected to reduce around USD400bn of its balance sheet by the end of 2022. ECB and BOE also plans to follow FED. Morgan Stanley estimated that the balance sheets of the heaviest-hitting central banks will shrink by roughly USD4tn by the end of next year. Those events will affect VND strength in upcoming months;

The balance sheets of central banks are set to shrink

Assets (\$tn)



China zero-COVID-19 strategy and recession risks in US and EU also putting downward pressure on the VND

- (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; and
- (4) Recession risks grow, especially in US and EU as US technically fall into recession with GDP declined for two consecutive quarters and gas & energy crisis following the recent disruption of Russian natural gas supplies through the Nord Stream 1 pipeline in EU. The effects of low performance from US's and EU's economy could weigh on our export activities which is the country's key economic growth driver.

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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