

Fixed-Income Report

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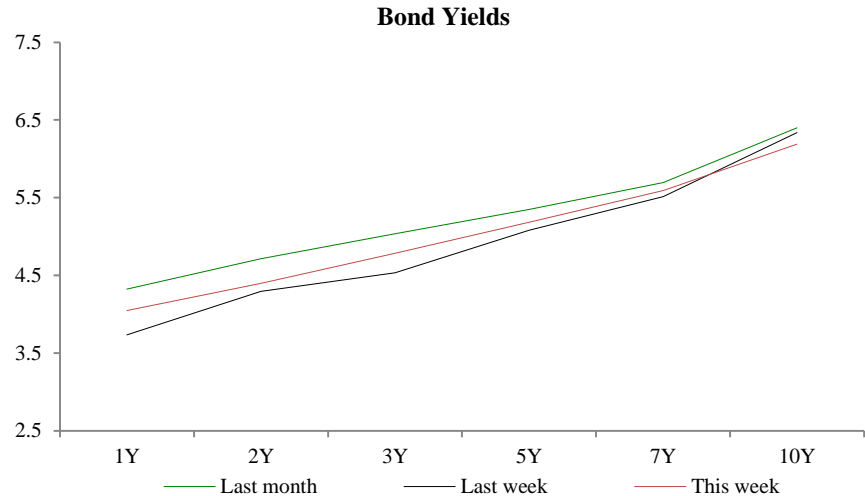
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Round-up

Primary market was dovish last week. Trading volume increased significantly in secondary market. Yield curve bounced back.



Source: Bloomberg, VCBS

■ VND7,570 bn (-30% wow) worth of bond was issued by ST and VDB. VND34,268bn (+51.82% wow) was traded on the secondary market

■ **Interbank rates rebounded strongly after just one week heading low** The upward shift resulted from (1) a VND70,023 bn worth of reverse repo matured this week. Moreover, (2) last week, banks appeared to push up purchasing foreign currencies activity with a view to minimizing their exposure to exchange rate risk as exchange rate heated up this week.

■ Next week, we believe that the gaining momentum in interbank rates still remains. SBV net-withdrew VND55,995 bn via OMO channels last week.

■ **Yield curve moved upward considerably.** According to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y and 10Y bond yields posted at 4.05% (+31.3bps), 4.4% (+10.5 bps), 4.768% (+25.4 bps), 5.184% (+10.4 bps), 5.59% (+7.8 bps) and 6.19% (-14.8 bps) respectively.

■ **Next week yield curve shall shift upward slightly as (1) in the short-term the pressure on exchange rate has not come to an end yet; (2) Liquidity may keep tense status temporarily.**

Bond Market

Primary Market

The amount of bond issued slumped regardless of a large amount of bond matured.

VND7,570 bn (-30% wow) worth of bond was issued.

VND7,570 bn (-30% wow) worth of bond was issued. In details, the State Treasury issued VND4,070 bn, and the remaining VND3,500 bn belonged to VDB this week. The average registering-to-offering ratio posted at 207.12%. However the winning-to-offering ratio was only 71.41%. Note that, the amount of bond matured in this week was VND9,920 bn.

For ST-Bond, 5Y, 10Y and 30Y winning rates stayed at 5.02% (-23 bps); 6.05% (-5 bps) and 7.97% (-0 bps) respectively. Note that, the 10Y bond was last mobilized in last November.

For VDB-Bond, 5Y, 10Y and 15Y winning rates located at 5.39% (-6 bps); 6.65% (-5 bps) and 7.65% (-2 bps) respectively.

Primary market was dovish compared to last week. Although the registered volume outweighed the offering quantity, the winning to offering ratio pressed down significantly. On the other hand, winning rates suffered a setback, which indicated that issuer did not rush to mobilize fund.

Update on 2017 ST-Bond Issuance Plan:

On 17th Feb, the State Treasury released a formal document detailing issuance plan for ST bond in 2017. Surprisingly, the final plan is different from HNX's preliminary information announced in Jan 2017. In particular, the total planned issuance amount was reduced from VND250,000 bn to VND183,300 bn. According to our calculation, the actual need for new bond issuance shall be about VND240,000 bn. This figured is calculated based on the total of funding to make up for this year budget deficit and funding needed for principle and interest payment of outstanding bond, minus total funding may be available through foreign support.

Therefore, we believe that the difference between the issuance plan and actual issuance need can be made up by some different option. Therein, we speak highly chance that the State Treasury will increase the issuance plan throughout the year as funding need arise and/or as market demand (similar to what they did in 2016). In any cases, this approved plan implied that the State treasury currently is under little pressure to issue bond this year. Therefore, we believe that there still room for the winning rate in primary market to press lower or at least stay stable rather than tick up.

When it comes to bond issuance tenor, we can observe some differences:

- This is the first time State Treasury has planned to issue bond which matured in less than 1Y after two consecutive years not issuing this type.
- Except for 20Y bond, the issuance plans for the other tenors pull back significantly. Therein, a plunge is recorded in 5Y, 10Y and 15Y bond.
- If there is not any change to Q1.2017 issuance plan then the amount of bond planned to issue in Q1 accounted for 35,46% of 2017's plan. In case, State Treasury do not raise issuance plan, there will be downward force on bond yield in secondary market later this year as demand for bond always exists.

Tenor	2016 Amended plan	2017 Issuance plan	Q1.2017 plan
<1Y	0	18,000	
2Y-3Y	25,000	10,000	3,000
5Y	157,000	80,300	30,000
7Y	30,000	25,000	10,000
10Y	9,000	5,000	3,000
15Y	35,000	20,000	8,000
20Y	5,000	10,000	5,000
30Y	20,000	15,000	6,000
Total	281,000	183,300	65,000

Secondary Market

Trading volume pressed higher dramatically due to repo activity. Yield curve shift upward.

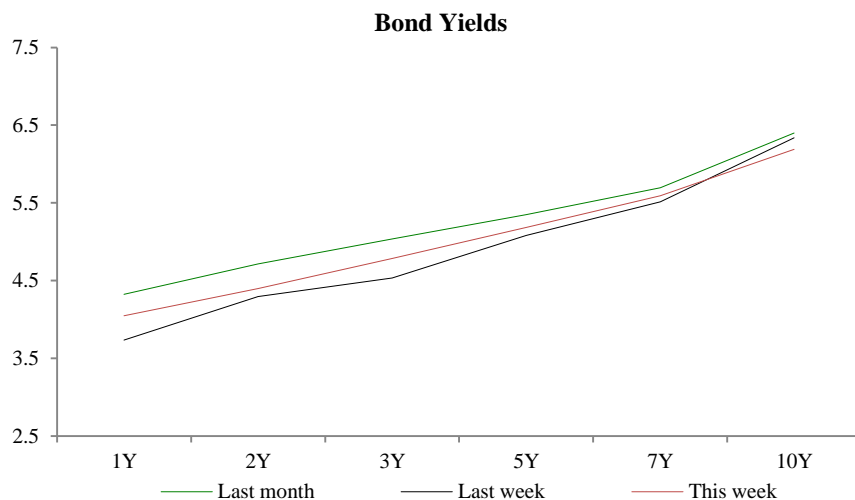
VND50,093 bn (+41,86% wow) was traded on the secondary market

VND50,093 bn (+41,86% wow) was traded on the secondary market. Outright and repo values were at VND21,917bn and VND28,176 bn respectively. For outright activity, ST-Bond contributed almost all trading volume with 95.8% while the rest belonged to VDB bonds. Although repo activity boosted roughly 2.5 times compared to last week, repo rates were quite stable, ranging between 2.0% - 4.6% for 2w – 1m tenors, which indicate higher demand for liquidity in the secondary market.

Yield curve moved upward considerably. According to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y and 10Y bond yields posted at 4.05% (+31.3bps), 4.4% (+10.5 bps), 4.768% (+25.4 bps), 5.184% (+10.4 bps), 5.59% (+7.8 bps) and 6.19% (-14.8 bps) respectively.

Notably, yield curve shifted upward last week following a dramatic downward shift last week. While the yield in long tenors (above 10 years) pulled back slightly, yields in the remaining tenors especially the short-one forged ahead.

Next week yield curve shall shift upward slightly as (1) in the short-term the pressure on exchange rate has not come to an end yet; (2) Liquidity may keep tense status temporally.



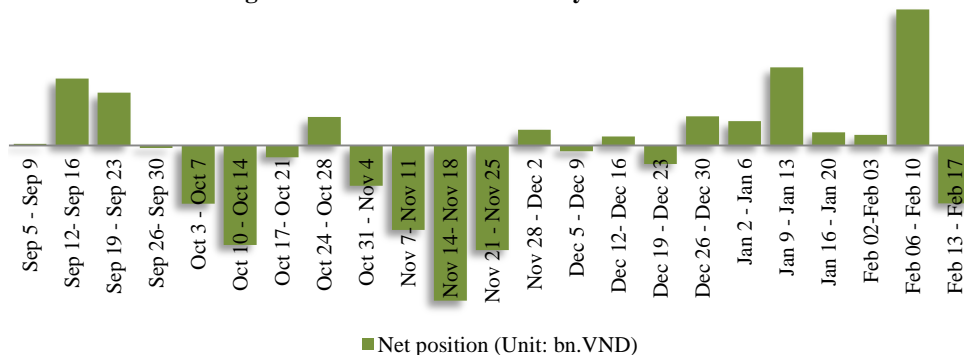
Source: Bloomberg, VCBS

Foreign investors net sold VND1,113 bn this week.

Foreign investors net sold VND1,113 bn this week. Almost all tenors were sold out by the foreign especially 25-30 tenor and 1Y. However, FIs somehow kept showing their favor for 7Y-10Y bond.

This is the first week in 2017, a net-sold value has been recorded by FI investors. We believe that exchange rate heated up last week partially affected the FIs' sentiment. Consequently, FI appeared to restructure their portfolio with a view to reassess risks.

Foreign Investment in the secondary market 2016-2017



Source: HNX, VCBS

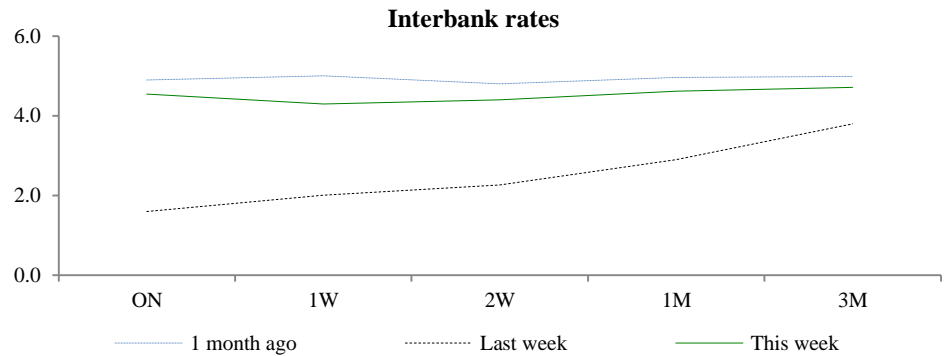
INTEREST RATE

Interbank Rates

Interbank rates rebounded strongly. Interbank rates rebounded strongly after just one week heading low. In details, ON – 3M rates respectively posted at 4.4%, 4.3%, 4.4%, 4.47% and 4.55%, according to Bloomberg data. The upward shift resulted from (1) a VND70,023 bn worth of reverse repo matured this week. Moreover, (2) banks appeared to push up purchasing foreign currencies activity with a view to minimizing their exposure to exchange rate risk as

exchange rate heated up this week.

Next week, we believe that the gaining momentum in interbank rates still remains. The reasons to support idea are that: (1) Another VND 50,000 bn worth of reverse repo will mature next week. Therefore we may experience the same movement next week because (2) the exchange rate has not to cool down yet and may become spotlight once speculative sentiment rises up. However, from the administrator’s viewpoint, we believe that SBV shall manage and stabilize foreign exchange market as well as liquidity in the system with a necessary approach. Consequently, the ON rates shall not exceed far the level of 5%.

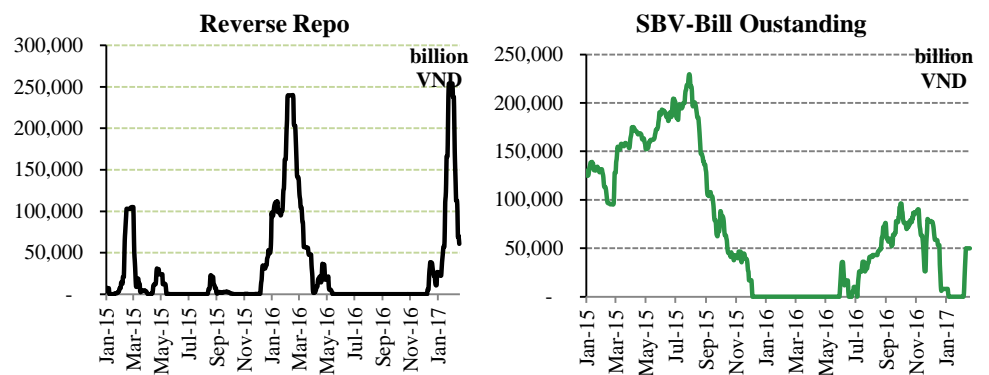


Source: Bloomberg, VCBS

Open Market Operation

SBV net withdrew VND55,995 bn last week.

SBV net-withdrew VND55,995 bn via OMO channels last week. The amount came from repo activity only. For repo, VND73,947 bn was due while only VND17,953 bn was newly offered. The fact that SBV bills was issued right after Lunar new year last week, surprised market participants. Therefore, we will keep track closely to SBV’s movement as liquidity in the system no longer ample in the short-term.



Source: Bloomberg, VCBS

END.

APPENDICES

Bond Auctions

Auction date	Tenor	Offering volume	Registering volume	Winning volume	Ceiling rate (%)	Winning rate (%)	Winning/Offering	No. of bidders	Issuer
ST bills									
Government and government-backed bonds									
16-Feb-17	10Y	1000	3651	950	0	6.05	26.02%	13	ST
16-Feb-17	5Y	3000	6751	1800	0	5.02	26.66%	18	ST
16-Feb-17	30Y	2000	1471.1593	1020.1593	0	7.97	69.34%	6	ST
14-Feb-17	10Y	1500	3900	1500	0	6.65	38.46%	5	VDB
14-Feb-17	5Y	1500	4500	1500	0	5.39	33.33%	6	VDB
14-Feb-17	15Y	500	1166.5	500	0	7.63	42.86%	5	VDB

Secondary Market

Issuer	Week 06-10 Feb		Week 13-17 Feb	
	Value	Value share	Value	Value share
Outright				
ST	22,397	97.14%	20,997	95.8%
VDB	660	2.86%	920	4.2%
VBSP	-	0.00%	-	0.00%
Others	-	0.00%	-	0.00%
<i>Subtotal (1)</i>	23,057	100.00%	21,917	100.00%
Repo				
Repo	11,210	60.00%	28,175	82.23%
Reserve Repo	7,474	40.00%	6,089	17.77%
<i>Subtotal (2)</i>	18,684	100.00%	34,264	100.00%
ST bills				
Outright	-	-	-	-
Repo	-	-	-	-
<i>Subtotal (3)</i>	-	-	-	-
Total (1)+(2)+(3)	41,741		56,163	

Open Market Operation

Date	Due	Reverse Repo			Outright (SBV Bills)			
		Offer	Balance	Outstanding	Due	Offer	Balance	Outstanding
01/09-10/13	23,342	57,138	33,796	57,138	0	0	0	0
01/16-01/20	0	112,955	12,955	170,093	0	0	0	0
01/23-01/27	15,412	103,260	87,848	257,941	0	0	0	0
01/30-02/03	16,105	0	(16,105)	241,836	0	0	0	0
02/06-02/10	126,987	1,843	(125,144)	116,692	0	49,900	49,900	49,900
02/13-02/17	73,947	17,953	(55,995)	60,698	0	0	0	49,900

DISCLAIMER

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