

Fixed-Income Report

February/2017

In this issue

- Round up
- Bond market
- Interest rates

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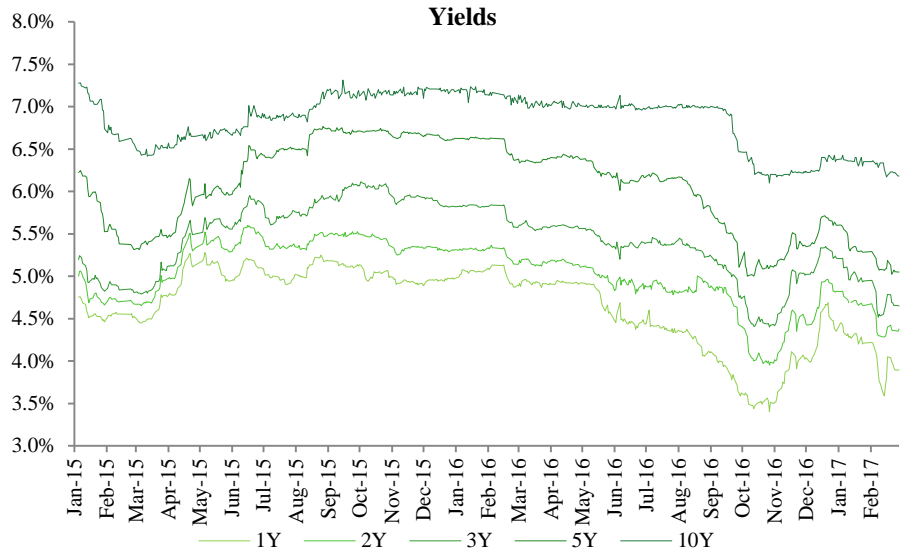
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Round-up

**Active trading in secondary market.
Yields pressed lower.**



Source: Bloomberg, VCBS

■ VND 25,927bn (+198.68% mom, -45.96% yoy) worth of bond was mobilized. VND152,879 bn (+66.27% mom, +98.71% yoy) was traded on the secondary market. Winning rates posted at 5.02% (-23 bps); 5.44% (-11 bps); 6.05 (-90 bps); 7.12% (-13 bps); 7.97 (-1 bps) for 5Y, 7Y, 10Y, 15Y and 30Y

■ **Yields pressed lower in February.** According to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y and 10Y bond yields posted at 3.9% (-31.3 bps mom), 4.378% (-27.5 bps mom), 4.65% (-29.5 bps mom), 5.048% (-23.7 bps mom), 5.53% (-13.2 bps mom) and 6.18% (-17 bps mom) respectively. In March, bond yields shall bear a slight upward force in the first half of March and then move sideways.

■ **Foreign investors net buy VND 1,725 bn in February.**

■ Interbank rates fluctuated strongly in February. ON-3M rates posted at 3.25%; 3.55%; 3.8%; 4.4% and 4.467% according to Bloomberg data. In March, after the seasonal effect washed away, we believe that the band of interbank rate shall be tightened. Nevertheless, taking exchange rate risk into consideration, the interbank rate will bear an upward force

■ **SBV net withdraw VND260,800 bn via OMO channel.**

Bond Market

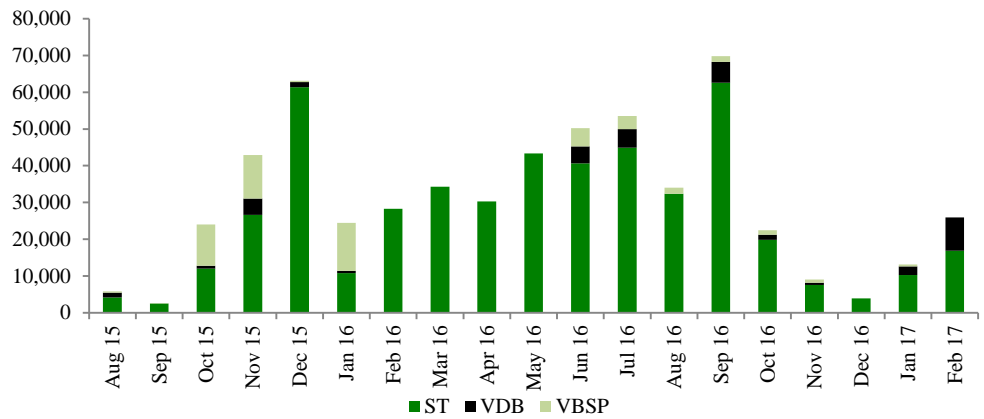
Primary Market

Winning volume decreased

VND25,927 bn (+198.68% mom, -45.96% yoy) worth of bond was mobilized.

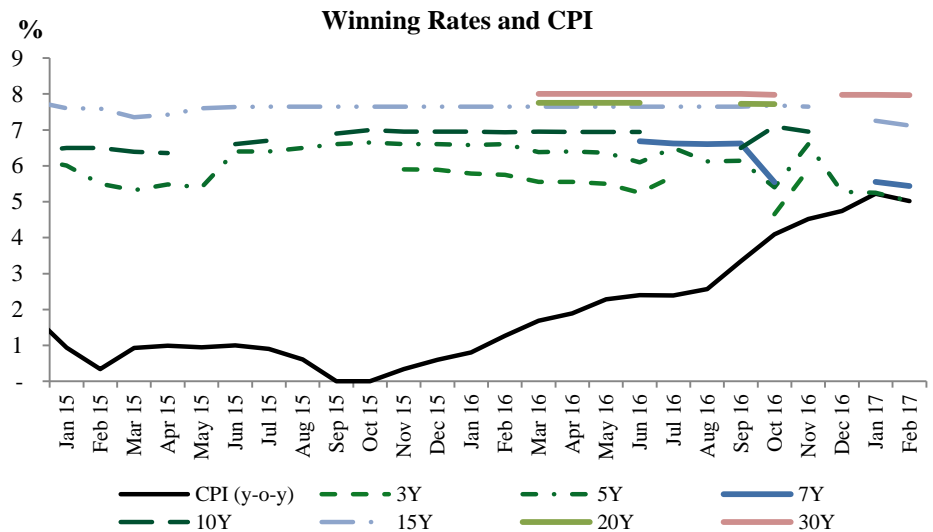
VND 25,927bn (+198.68% mom, -45.96% yoy) worth of bond was mobilized in February. The amount came from the State Treasury (ST) and Vietnam Development Bank (VDB). In light of ST bond, VND 16,877 bn was mobilized in 5Y, 7Y, 10Y, 15Y and 30Y with the volume of VND6,742 bn, VND5,100, VND1,2550 bn, VND1,950 bn, and VND1,835 bn respectively. Noticeably, the amount of bond mobilized by VDB surged compared to last month and the same period last year, recorded at VND 9,000 bn. Meanwhile, VPBS did not mobilize fund in February.

Bond demand was better-off in Feb as the average Registering-to-Offering ratio posted at 256% while the average Winning-to-Offering ratio was recorded at 87,3%.



Source: HNX, VCBS

Winning rates posted at 5.02% (-23 bps); 5.44% (-11 bps); 6.05 (-90 bps); 7.12% (-13 bps); 7.97 (-1 bps) for 5Y, 7Y, 10Y, 15Y and 30Y. Note that ST last issued 10Y bond in Nov 2016. Winning rates gradually ticked down in the last two months. At the same time, ST winning volume shed compared to the same period last year, which indicated that they did not rush to mobilize fund at all cost. Accordingly, we believe that this movement will last at least till the end of Q1 or even in the first half of 2017.



Source: HNX, VCBS

Macro updates:

- According to data from Nikkei, **Vietnam's PMI rose sharply to 54.2 points from 51.9 points in January.** This figure also marked the biggest improvement of business conditions in 21 months. Output, the number of new orders grew faster while companies also increased sharply their inventories. This development coincided with imports' growth in February amid after Lunar New Year, enterprises often started new production cycle with large import demand. Although this movement needs more time to be observed, the PMI's surge in the early months of the year generated positive expectations for domestic production in 2017.
- CPI in February hike 0.23% mom, which equivalent the growth of 5.02% yoy. The driver of upward force was the remain effect of Lunar New Year and an increase in gasoline price and gas
- As reported by Markit and Caixin, **China's PMI reached 51.7 points in February - inched slightly compared to 51 points in January.** Amid both output and new orders increased by the effect from the Lunar New Year holiday, the improvement of the China's PMI was partly predicted. However, this figure continued to consolidate the stable trend from the world's second largest economy, especially when compared to the same period last year.
- FED's monetary policy meeting in February **once again confirmed stronger rate hikes in 2017** with positive signals from the economy. However, FED officials also drew their attention and the caution to the President Donald Trump's economic plans. Therefore, **we believe that the orientation of Fed monetary policy will only be clear from FOMC in March or even May one.**

ST-Bond issuance plan updates Q1.2017:

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 VND 250,000 bn to VND 183,300 bn. According to our calculation, the actual need for new

bond issuance shall be about VND 240,000 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 options. 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.

Tenor	2017 Issuance plan	Q.1 plan	Issued in Jan & Feb	% completion in Q1
<1Y	18,000			
2Y-3Y	10,000	3,000		0.0%
5Y	80,300	30,000	10,326	34.4%
7Y	25,000	10,000	5,880	58.8%
10Y	5,000	3,000	1,250	41.7%
15Y	20,000	8,000	4,003	50.0%
20Y	10,000	5,000	3,250	65.0%
30Y	15,000	6,000	2,200	36.7%
Total	183,300	65,000	26,909	41.4%

Source: VCBS

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.

In the first two months, the completion rate of issued plan in Q1 was high at 7Y, 15Y and 20Y. For the other tenors, the progress was rather slow. Given that (1) primary market was not too active in the first two months and (2) the official issuance plan settled at a low level, it is unlikely that St will achieve issuance plan in Q1 because they do no rush to mobilize fund. Meanwhile, when it comes to buy side, we believe that there may not be phenomenal demand occurs in the market because the amount of bond matured in March is VND 13,130 bn, which is 52% lower than Feb's figure.

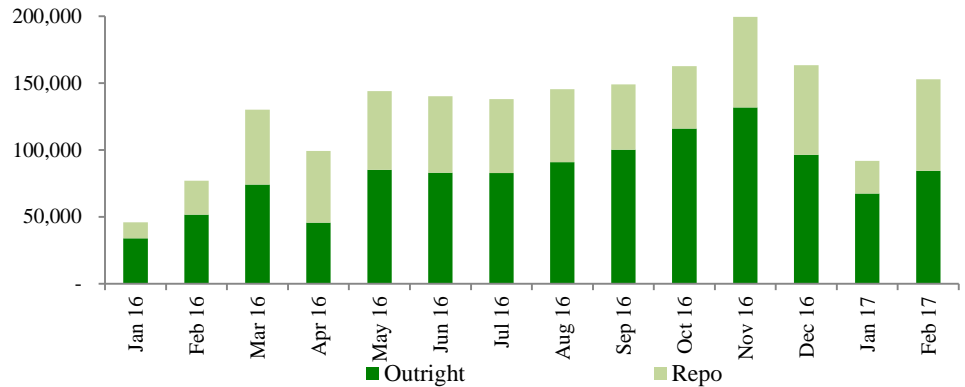
Secondary Market

Trading volume pressed higher in both outright and repo activities. Yields inched down.

VND152,879 bn (+66.27% mom, +98.71% yoy) was traded on the secondary market

VND152,879 bn (+66.27% mom, +98.71% yoy) was traded on the secondary market. In detail, Outright values were recorded at VND84,327 bn (+25.2% mom) while repo activities jumped to VND68.570 bn (+178.7% mom). In light of outright activities, short-term activities contributed the most trading value by 65%. The contribution medium-term and long-term bonds followed by 13.5%, 25% and 10% respectively. ST-Bond was the most liquid, making

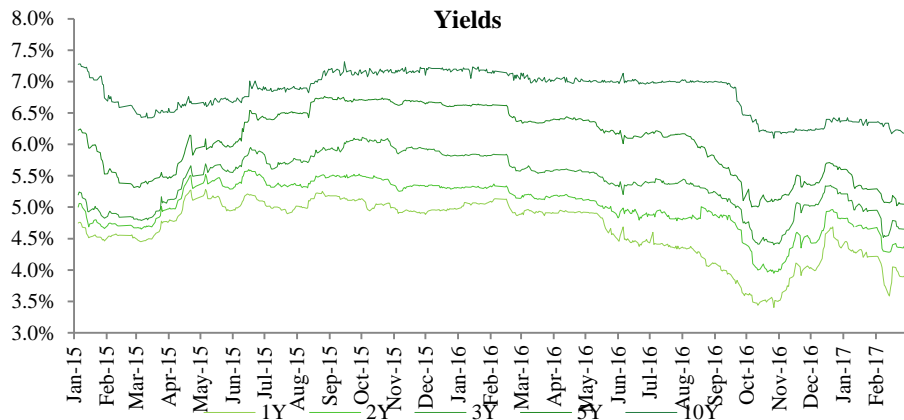
over 93.8% of the total outright value. For repo activity, after liquidity tense period due to seasonal effect of Lunar new year, repo rate ticked down roughly 1%. However, repo rate still hovered at a relatively high level compared to same period last year and stayed closed to interbank rate's movement. The phenomenal active trading in repo activity was put down to some reasons: (1) the large amount of VND50.000 bn SBV bill was issued right after Lunar new year; (2) Credit activity boosted in some banks in the first two months. (3) Financial institutions purchased foreign currencies with a view to minimizing their exposure to exchange rate risk. All these things resulted in a less ample liquidity compared to the same period last year.



Source: HNX, VCBS

Yields pressed lower in February. According to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y and 10Y bond yields posted at 3.9% (-31.3 bps mom), 4.378% (-27.5 bps mom), 4.65% (-29.5 bps mom), 5.048% (-23.7 bps mom), 5.53% (-13.2 bps mom) and 6.18% (-17 bps mom) respectively.

Bond yields decreased significantly in the first half of the month and rebounded later as exchange rate and interbank rate heated up. Therein, short-term bond yield was the most volatile bonds due to their sensitiveness to interbank rate. The difference between 5Y and 10Y bond was widened.



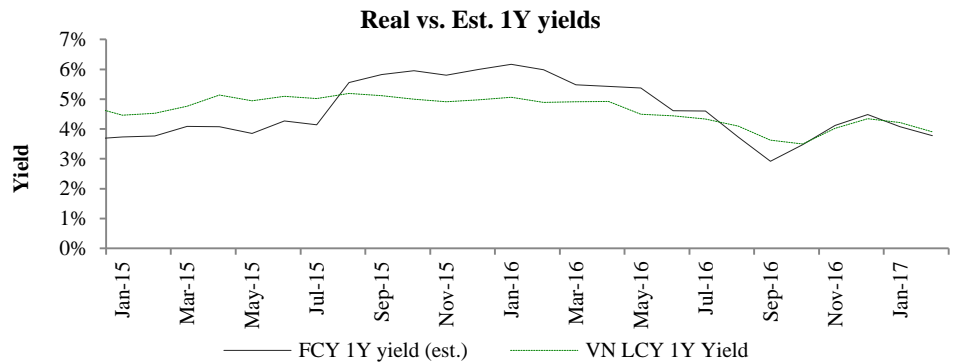
Source: Bloomberg, VCBS

We believe that bond market will not be active in the first half of March. Prudent approach shall be in priority as investors are breath-taking for FOMC meeting. Therefore,

bond yield shall bear a slight upward force. Meanwhile, the movement of bond market later on will strongly depend on the result of FOMC in March and the reaction of SBV in response to foreign currencies speculative sentiment. However, with the assumption that FED will not hike interest rate right in March, bond yield is anticipated to fluctuate in a tight band. We believe that the yield in short-term tenors will keep recording a stronger fluctuation compared to medium and long tenors. In addition, the difference between 5Y and 10Y tenor bond yield will shrink again.

The gap between est. and real VGB 1Y yield was minimal.

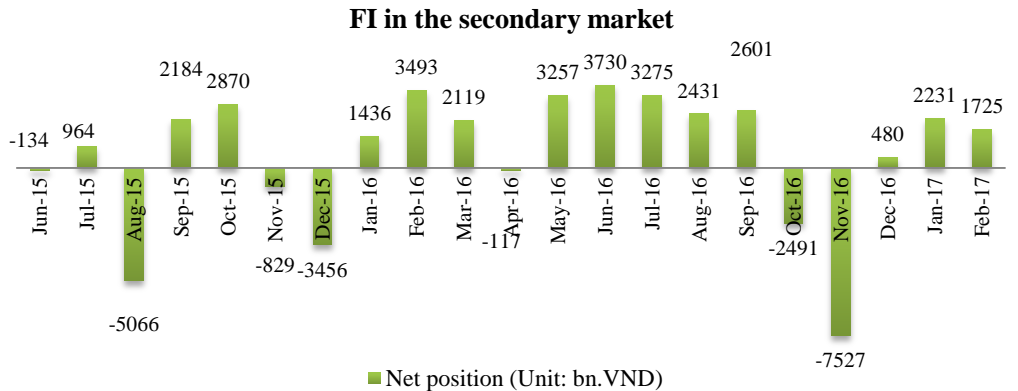
The gap between real 1Y LCY yield and the expected value was narrowed. Consequently, the relative attractiveness of Vietnamese bond was minimal. Accordingly, there is likelihood that the scale of inflow in the market will be narrowed because FED may raise interest rate soon.



Source: Bloomberg, VCBS

Foreign investors net buy VND1,725 bn in February extended their net-buy position from Jan.

Foreign investors net buy VND 1,725 bn in February and extended their net buy position from the beginning of 2017. However, their disbursement appeared to halt at the end of the month when exchange rate risks heated up. In detail, though slightly cooling down at the end of February, the ask price normally settled at 22,800 VND/USD, which equivalent to a 1% higher than Jan's figures. We believe that as exchange rate risk still remained, the fund flow from the foreign may dwindle. Hence, FI may not record an extra ordinary move in March as they did in the first two months of the year.



Source: HNX, VCBS

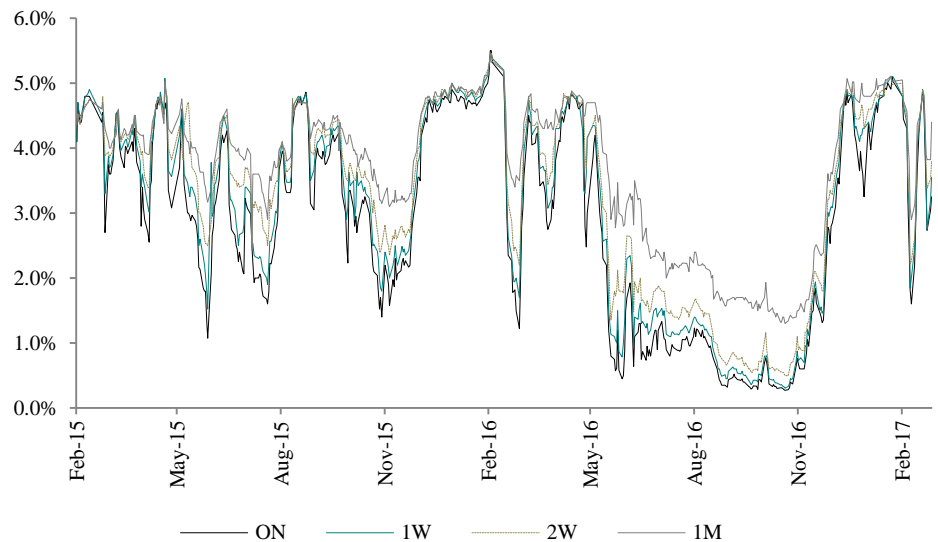
INTEREST RATE

Interbank Rates

Interbank rates fluctuated strongly in February.

Interbank rates fluctuated strongly in February. After Lunar new year, Interbank rate soon pressed low to roughly 2% thank to cash available on hand returned to the system. Nevertheless, the fact that a large amount of SBV’s reverse repo came to due and SBV issued bill right after Holiday resulted in a short-term tense in banking liquidity. At the end of the month, interbank gradually regained balance. However, interbank rate still settled at a high level at the end of February because credit activity was pushed up at some banks in the first two months of 2017. In details, ON-3M rates posted at 3.25%; 3.55%; 3.8%; 4.4% and 4.467% according to Bloomberg data.

In March, after the seasonal effect washed away, we believe that the band of Interbank rate shall be tightened. Nevertheless, taking exchange rate risk into consideration, the interbank rate will bear an upward force.

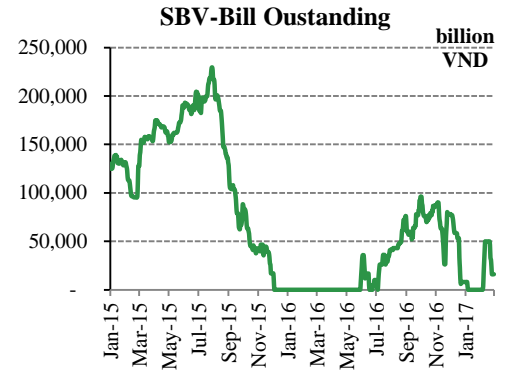
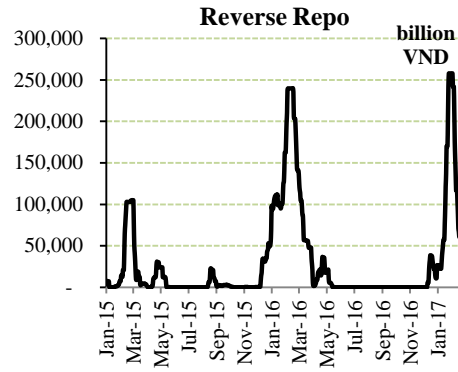


Source: Bloomberg, VCBS

Open Market Operation

SBV net withdraw VND260,800 bn via OMO channel.

SBV issued VND49,990 bn worth of Bill right after Lunar new year. These bills together with a large amount of reverse repo matured in February made up a VND260,800 bn net withdrawal via OMO channel. Repo rate was stable at 5%. Meanwhile, SBV slightly ticked up SBV bill rates from 1.75% recorded earlier in Feb to 1.9% and 2.5% respectively for 7 days and 14 days tenors. We believe that in the future, SBV will flexibly operate market in the context of exchange rate risk still remained.



Source: Bloomberg, VCBS

END.

APPENDICES

Primary Market

Month	Issued Volume	ST							VDB	VBSP	Other	Issued Volume
		3Y	5 Y	7Y	10Y	15Y	20Y	30Y	Issued Volume	Issued Volume	Issued Volume	
Mar-16	34,298	5.55	6.38	N/A	6.95	7.65	7.75	8	0	0	0	34,298
Apr-16	30,308	5.55	6.4	N/A	6.94	7.65	7.75	8	0	0	0	30,308
May-16	43,370	5.5	6.36	N/A	6.94	7.65	7.75	8	0	0	0	43,370
Jun-16	40,682	5.25	6.1	N/A	6.94	7.65	7.75	8	4,550	5,000	0	50,232
Jul-16	44,945	5.7	6.5	6.68	N/A	7.65	N/A	8	5,000	3,550	0	22,652
Aug-16	32,406	N/A	6.12	6.62	N/A	7.65	N/A	8		1,590	0	33,996
Sep-16	62,594	N/A	6.14	6.6	6.5	7.65	7.73	8	5,626	1,600	500	70,320
Oct-16	19,886	4.65	5.4	6.62	7.09	7.68	7.72	7.98	1,350	1,229	0	22,465
Nov-16	7,587	5.9	6.6	5.54	6.95	7.65	N/A	N/A	600	874	0	9,061
Dec-16	3,956	N/A	5.28	N/A	N/A	N/A	N/A	7.98	0	0	0	3,956
Jan-17	10,302	N/A	5.25	N/A	N/A	7.25	7.7	7.98	2,350	530	0	13,182
Feb-17	16,877	N/A	5.02	5.55	6.05	7.12	N/A	7.97	9,050	0	0	25,927

Secondary Market

Month	Bonds		ST-bills		Total
	Outright	Repo	Outright	Repo	
Feb-16	51,621	25,323	-	-	76,944
Mar-16	74,122	56,032	-	-	130,154
Apr-16	45,629	53,703	-	-	99,332
May-16	85,040	59,072	-	-	144,112
Jun-16	82,889	57,337	-	-	140,226
Jul-16	82,642	55,384	-	-	138,026
Aug-16	90,800	54,516	-	-	145,316
Sep-16	100,287	48,754	-	-	149,041
Oct-16	116,030	46,556	-	-	162,586
Nov-16	131,850	67,637	-	-	199,487
Dec-16	96,380	67,032	-	-	163,412
Jan-17	67,355	24,603	-	-	91,958
Feb-17	84,327	68,570	-	-	152,897

Open Market Operation

Month	Reverse Repo				Outright (SBV Bills)			
	Due	Offer	Balance	Outstanding	Due	Offer	Balance	Outstanding
Mar-16	143,535	13,254	-130,281	5,632	0	0	0	0
Apr-16	55,332	69,179	13,847	19,479	0	0	0	0
May-16	24,819	5,351	-19,468	11	0	15,998	15,998	15,998
Jun-16	11	0	0	0	40,697	34,698	-5,999	9,999
Jul-16	0	0	0	0	45,999	76,999	31,000	41,000
Aug-16	0	0	0	0	94,999	129,998	35,000	75,999
Sep-16	0	0	0	0	139,999	159,998	20,000	95,999
Oct-16	0	0	0	0	172,999	163,000	-9,999	86,000
Nov-16	0	0	0	0	141,889	133,999	-7,890	78,110
Dec-16	42,285	68,840	26,556	26,556	78,110	8,000	-70,110	8,000
Jan-17	63,315	294,701	231,385	257,941	8,000	0	-8,000	0
Feb-17	289,736	44,937	-244,800	13,141	49,900	65,900	16,000	16,000

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