

**Fixed-Income Report**

**Q1.2017**

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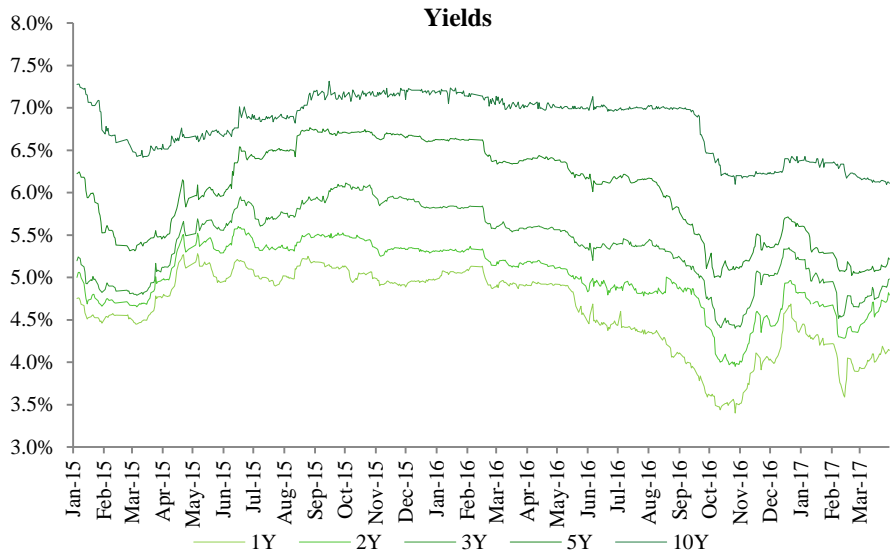
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**Round-up**

**Bond mobilized in primary market pressed higher.  
Active trading in secondary market thank to repo activities.  
Yields curve shifted downward and became flattened.**



Source: Bloomberg, VCBS

■ In Q1.2017, VND72,097 bn (+113.09% qoq, -32.38% yoy) worth of bond was mobilized from ST, VDB and VBSP. VND414,261bn (-21.61% qoq, +63.74% yoy) was traded on the secondary market.

■ **Yields pressed lower in Q1.2017. At the end of Q1**, according to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y and 10Y bond yields posted at 4.14% (-21 bps qoq); 4,792% (-3,3 bps qoq); 4,982% (-23.1 bps qoq); 5,216% (-38.4 bps qoq); 5.56% (-25.3 bps qoq) and 6.11% (-26.5 bps qoq) respectively.

■ Foreign investors net buy VND11,993 bn in Q1.2017. FIs may extend their net buy position in Q2.2017.

■ **At the end of Q1.2017 interbank rates hovered at a high level**, ON-3M rates posted at 4.633%; 4.75%; 4.8%; 4.731% and 4.714% according to Bloomberg data. However, in Q2, VCBS anticipate that interbank rate shall cool down in the upcoming period.

■ **In Q1, SBV net injected VND13,444 bn via OMO channel.**

■ We believe that in April bond yields tend to tick down slightly as upward pressure on bond yield was temporarily cooled down at least in the short term. Investment opportunities may show up at the beginning of Q2.2017 and then gradually shrink at the of the quarter.

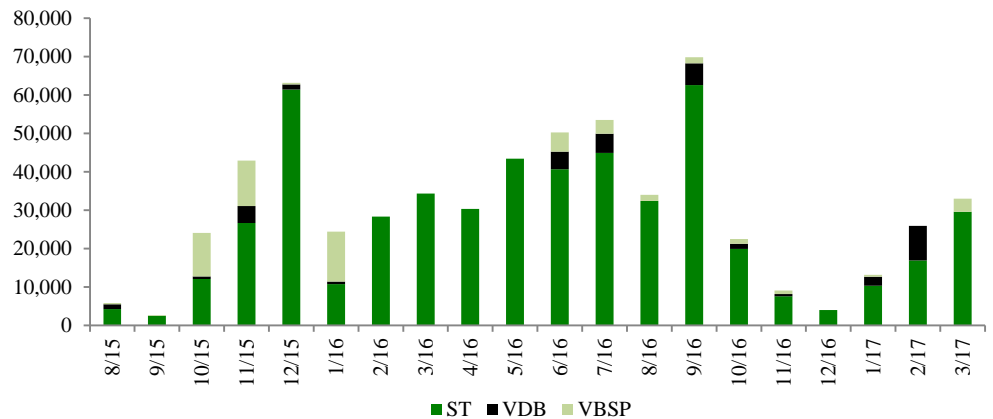
**Bond Market**

**Primary Market**

**Winning volume decreased**

**In Q1, VND72.097 bn (+113.09% qoq, -32.28% yoy) worth of bond was mobilized.**

VND 32,988 bn (+27.23% mom) worth of bond was mobilized in March from State Treasury (ST) and Vietnam Bank for Social policies (VBSP). In light of ST bond, VND 29,588 bn was mobilized in 5Y, 7Y, 10Y, 15Y, 20Y and 30Y with the volume of VND3,320 bn, VND6,705, VND986 bn, VND5,850 bn, VND3,900 bn and VND8,917 bn respectively. After not mobilizing fund in Feb, VBPS successfully issued VND3,400 bn. Meanwhile, VDB did not mobilize fund in March. The average Registering-to-Offering ratio posted at 256% while the average Winning-to-Offering ratio was recorded at 83.87%, which was slightly lower than February.



Source: HNX, VCBS

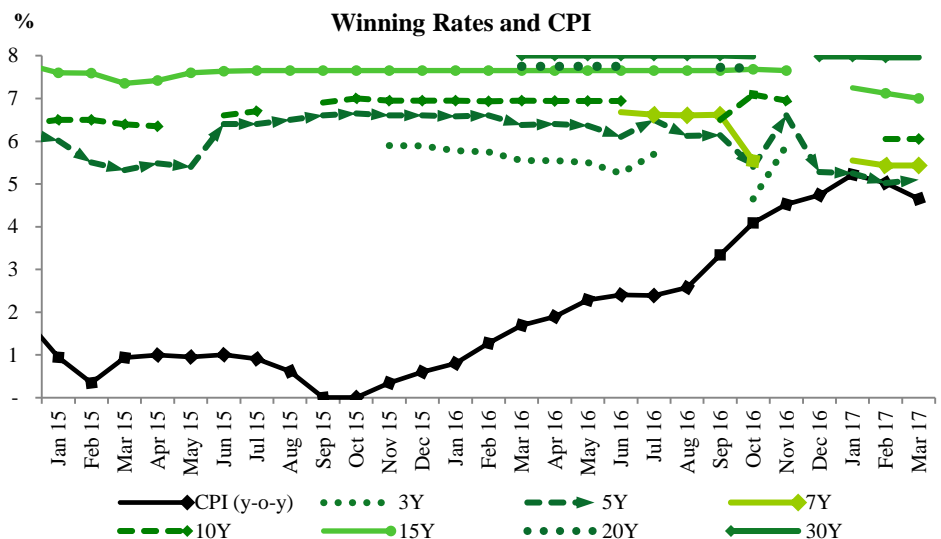
In Q1.2017, VND72,097 bn (+113.09% qoq, -32.38% yoy) worth of bond was mobilized from ST, VDB, VBSP. In light of ST bond, VND 56,497 bn was mobilized in 5Y, 7Y, 10Y, 15Y, 20Y and 30Y. ST completed 86.9% issue plan in Q1.2017, which equivalent to 30.8% annual issue plan. Noticeable, ST had to tick up winning rate for 5Y bond so as to raise the attractiveness of this bond because the issuance of this type run into difficulty especially at the end of Q1. However, the completion ratio of issuing this bond was still low compared to the target. Meanwhile, for long-term bond, the issuance volume though much lower than short-term bond, seemed to attract well to investors. Even, ¾ issuance plan of 30Y bond has been completed in Q1. (For more detail, please take a look at the below table). At the same time, VDB and VBPS successfully mobilized VND11,400 bn and VND 4,200 bn in Q1 respectively. Bond demand was clearly better-off compared to Q4.2016 as Registering-to-Offering ratio posted at 228% while the average Winning-to-Offering ratio was recorded at 74.11%, which was much higher than Q4.2016 figures of 141% and 52% respectively).

Tenor	2017 Issuance plan	Q.1 plan	Issued in Q1	% completion in Q1	% completion of annual plan
<1Y	18,000				0.0%
2Y-3Y	10,000	3,000		0.0%	0.0%
5Y	80,300	30,000	13,556	45.2%	16.9%
7Y	25,000	10,000	12,585	125.9%	50.3%
10Y	5,000	3,000	2,236	74.5%	44.7%
15Y	20,000	8,000	9,853	123.2%	49.3%
20Y	10,000	5,000	7,150	143.0%	71.5%
30Y	15,000	6,000	11,117	185.3%	74.1%
<b>Total</b>	<b>183,300</b>	<b>65,000</b>	<b>56,497</b>	<b>86.9%</b>	<b>30.8%</b>

Source: HNX, VCBS

With the movement recorded in Q1.2017, we assume that there may be 2 options: (1) ST may have to tick up winning rate in 5Y once again with a view to rising mobilization volume. Meanwhile, given that demand for long-term bond was quite well as its winning rates was still relatively attractive compared to short-term bond, (2) it is likely that issuance body will raise issuance plan for long-term bond. The probability for this option is high as this option goes the same direction with the target of picking up average bond mobilized tenors.

At the end of Q1, winning rates posted at 5.1% (-18 bps); 5.43% (-2 bps); 6.05 (-90 bps); 6.85% (-13 bps); 7.45 (-26 bps) and 7.9% (-8 bps) for 5Y, 7Y, 10Y, 15Y, 20Y and 30Y. Winning rates gradually ticked down in the last two months. At the same time, issue volume pressed lower considerably compared to the same period last year, which indicated that ST did not rush to mobilize fund at all cost. This movement may still last in Q2.2017.



Source: HNX, VCBS

**Macro updates:**

- According to data from Nikkei, Vietnam's PMI rose to 54.6 in March compared to 54.2 in February, marking the strongest improvement in business conditions since

May 2015. The number of new orders continued to increase sharply while the output growth rate reached the highest level in the last 22 months. This situation could be explained by the seasonal factors when some FDI enterprises entered the new production cycle with new product lines. However, the significant advance only focused in a number of large corporations, and it is unlikely to offset the deceleration in the rest of the economy.

- According to data from GSO, **GDP growth in Q1.2017 only reached 5.1% yoy, the lowest number in 3 years.** The recovery in agriculture, forestry, fisheries and services was not able to compensate for the slow growth of the industry area with decline in the mining industry and the deceleration of the manufacturing. Although the market did not react negatively to this information, we believe the slowdown of GDP growth is a potential risk for the market in the latter part of 2017. In addition, this fact may be unfavorable factor to issuing corporate bond procedure.
- CPI in March hike 0.21% mom, which equivalent the growth of 4,61% growth in Q1 and +4.65% yoy. Therein, after the seasonal factor of Lunar new year, CPI growth cooled down in March. The main driver of the upward force was an increase in health care service.
- **In the March monetary policy meeting, FED officially raised the federal funds rate by 0.25% to 0.75%-1%.** Although this did not create a large influence on the global stock markets because the previous expectations were on the right track. However, the above result together with the messages from FED officials is opening **the scenario of stronger interest rate hikes in 2017 and 2018.** Therefore, withdrawing trend from frontier and emerging markets will likely to exist. In addition, the strengthening trend of the USD along with the tightening policy of the Federal Reserve will be a major factor putting the considerable pressure on the exchange rate and interest rate in the coming time.
- The disbursement of public sector fell short of expectation. In detail, expenditures for development in Q1.2017 reached VND 32,600 bn, completed only 9.1% annual plan, and considerably lower than VND 40,100 bn recorded the same period last year.
- On 11th April, SBV adjusted the exchange rates, which were applied to transactions with commercial bank. In detail, the ask price was raised from 22,575 VND/USD to 22,675 VND/USD, which equivalent a 4% increase. We believe that this action was an active administrative approach from SBV in the context of stability status was reported after the latest FED's lifting interest in March. This action help SBV to enlarge foreign reserve resources as well as hedge to vulnerable exchange rate risk especially at the end of the year. In addition, this helps to create abundant in banking liquidity at least in the short-term.

## Secondary Market

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

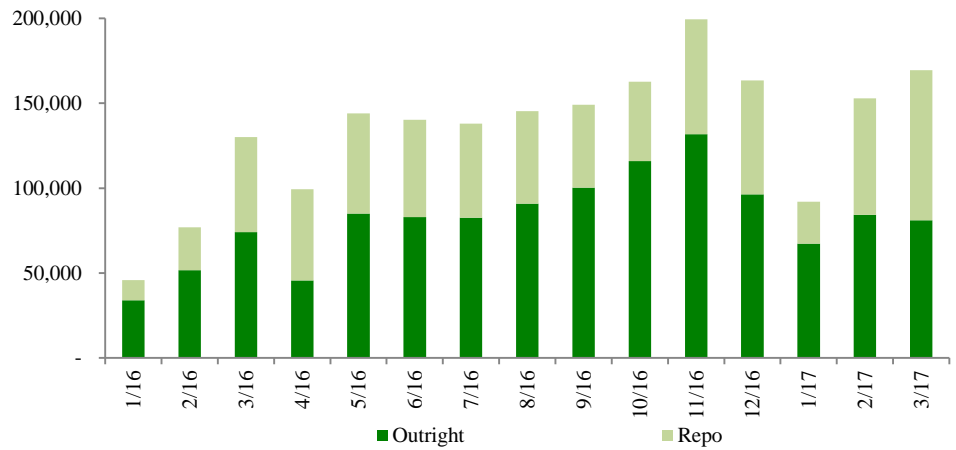
**VND414,261 bn (-21.61% qoq, +63.74% yoy) was traded on the secondary market.**

**In March, VND169,405 bn (+10.8% mom,+29.95% yoy)** was traded on the secondary market. In detail, Outright values were recorded at VND81,061 bn (-3.87% mom) while repo activities jumped to VND88,344 bn (+28.84% mom). The contribution of short-term, medium-term and long-term bonds recorded at 29%, 42% and 29% respectively.

During Q1, VND414,261bn (-21.61% qoq, +63.74% yoy) was traded on the secondary

**market.** In detail, Outright values were recorded at VND232,743 bn (+8.98% qoq) while repo activities jumped to VND175.194 bn (+2.99% qoq). In light of outright activities, short-term activities contributed 33% of trading volume. The contribution medium-term and long-term bonds was 44% and 23% respectively.

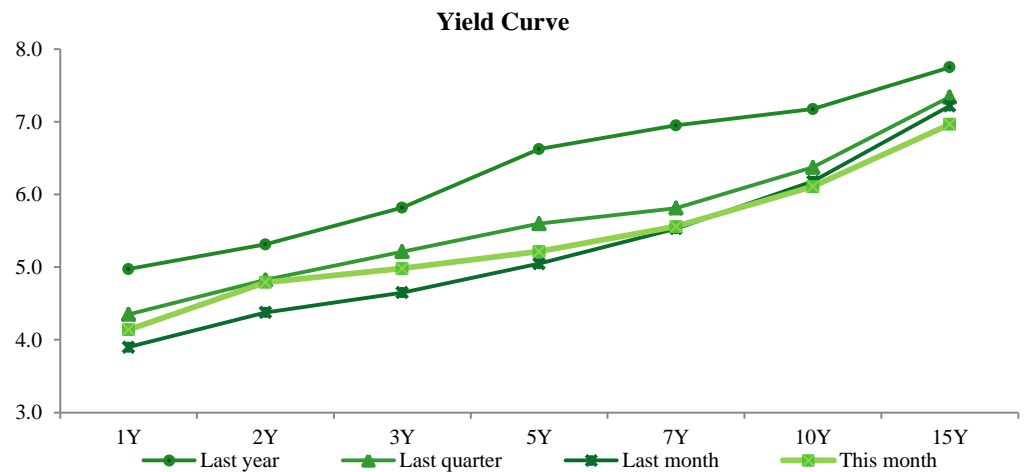
Except for the reasons, which were mentioned in Fixed income report Feb 2017, we believe that active trading in repo activity in March was mainly due to less abundant liquidity in banking system



Source: HNX, VCBS

**Yield curve tended to flatten.**

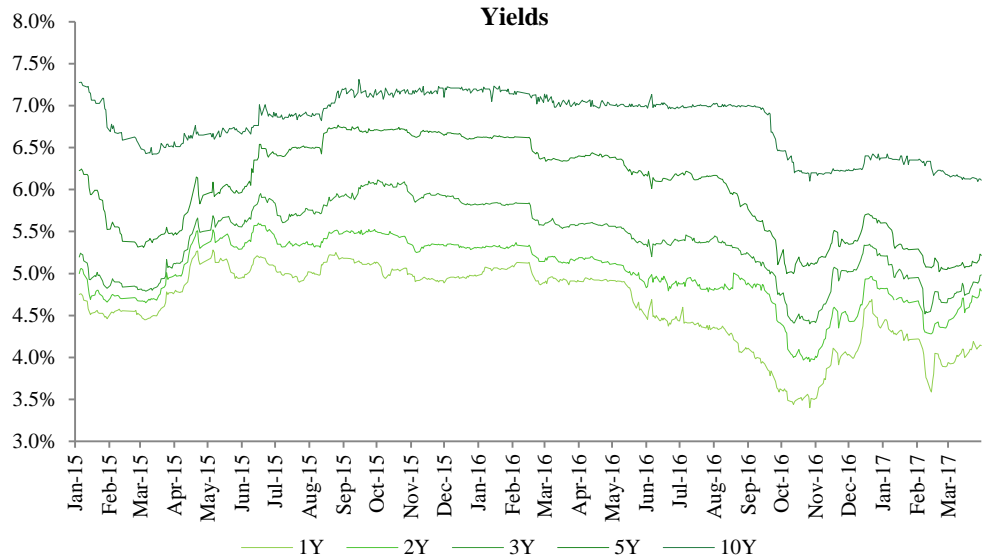
In Q1.2017, yield curve moved downward and became more flattened. Noticeably, 2Y bond yields tick up considerably in March. Accordingly, we believe that 2Y bond yield may bear downward pressure in the upcoming period.



Source: Bloomberg, VCBS

**Yields pressed lower in Q1.2017.** At the end of Q1, according to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y and 10Y bond yields posted at 4.14% (-21 bps qoq); 4.792% (-3.3 bps qoq); 4.982% (-23.1 bps qoq); 5.216% (-38.4 bps qoq); 5.56% (-25.3 bps qoq) and 6.11% (-26.5 bps qoq) respectively. After heading lower considerably in Jan and Feb, interest rate tended to approach its previous trough before bounced back in March. The gap between 2Y bond and

3Y or 5Y bond was narrowed. Meanwhile, 10Y bond yield were not vulnerable to seasonal factor and therefore shifted sideways down in Q1. Consequently, the widening gap between 10Y bond yield and other types of bonds, which was formed in the first two months, was narrowed in March.

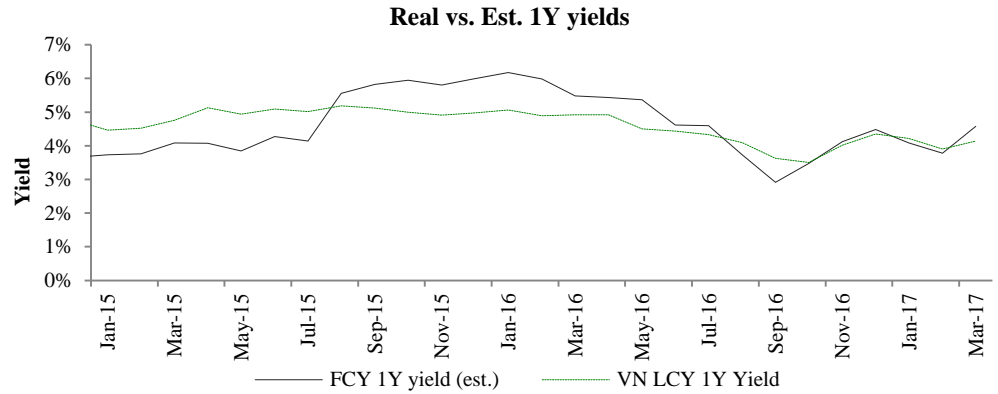


Source: Bloomberg, VCBS

We believe that in **April bond yields tend to tick down slightly** as upward pressure on bond yield was temporarily cooled down at least in the short term. The argument to support this idea is that: SBV still has room to flexibly manage and stabilize interest rate and there was no shortage in liquidity of top commercial banks. However, at the end of Q2, exchange rate risk may once again heat up especially prior to FOMC in May and remarkably in June because more US macroeconomics indexes will be available. Consequently, speculative sentiment may show up at that period and create pressure on banking liquidity. To sum up, we believe that investment opportunities may show up at the beginning of Q2.2017 and then gradually shrink at the of the quarter.

**The gap between est. and real VGB 1Y yield was widened in March. We anticipate that the different may be widened in the upcoming period.**

The gap between real 1Y LCY yield and the expected value was once again widened in March. We put this movement down to the fact that FED has raised interest rate twice in the last 4 months. It can be clearly seen that the relative attractiveness of Vietnamese bond pulled back. This phenomenal may be clearer in medium and long-term



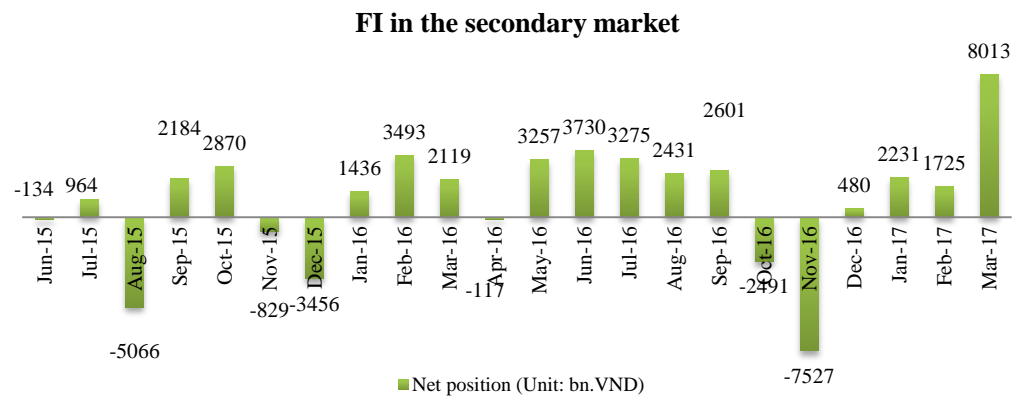
Source: Bloomberg, VCBS

**Foreign investors net buy VND11,993 bn in Q1.2017. FIs may extend their net buy position in Q2.2017.**

In March, foreign extended their net bought in secondary market. Even, foreign recorded phenomenal net-bought value of more than VND8,000 bn. In total, FIs bought VND 11,993 bn in secondary market through outright activities. It was considered a good factor to the market. Therein, they favor 2Y bond, 15Y and 3Y bond with the net-bought value of VND 4,616 bn, VND 1,962 bn and VND 1,433 bn respectively.

Noticeably, FIs strongly bought in the secondary market after FOMC in March. It can be concluded that FIs get themselves back to the market after FED decided to raise interest rates twice in the last four months as the risk assessment procedure ended. The idea to support this argument is that foreign focused on short-term bond 2Y-3Y bond, which were also their favorite taste previously. Besides, FIs also favored 15Y bond in this period. We do not exclude chance that foreign insurance companies were interest in this type of bond.

In Q2, with the assumption that there will be no unexpected events in global market and exchange rates remained stable, we expect that foreign still keep their net-bought value at least in the first half of the Quarter. At the same time, taking historical data into consideration, VCBS realizes that a strong fluctuation of yield curve shall be recorded following a strong net bought or net-sold by FIs. Therefore, we believe that investors should keep track closely.



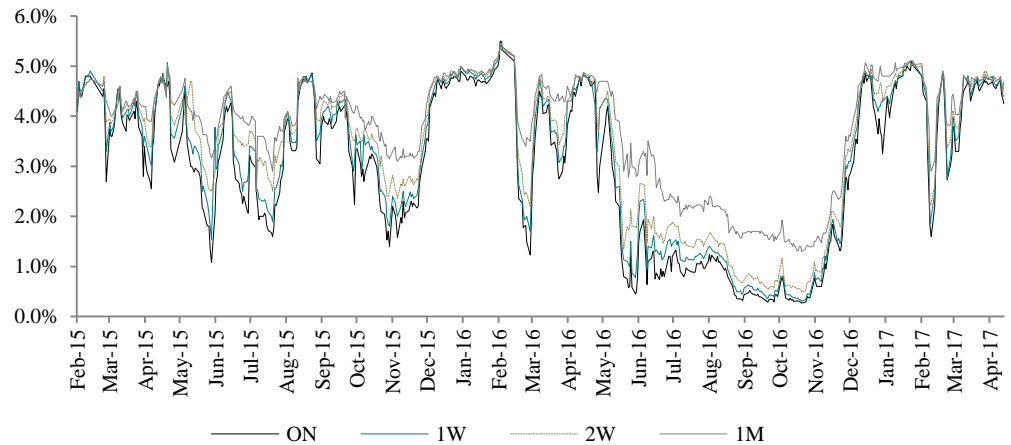
Source: HNX, VCBS

**INTEREST RATE**

**Interbank Rates**

**After the seasonal factor went away, interbank rate hovered at a high level, which indicated that liquidity in banking system was no longer abundant.**

Interbank rates was under strong upward pressure prior to Tet holiday, pressed lower in a short period of time before rebounded and hovered a high level. Compared to the same to the period last year, the pressure on interbank rate came as no surprise. However, the fact that interbank hovered at a high level was not considered a good signal as it indicated that **liquidity in banking system was no longer abundant** In details, ON-3M rates posted at 4.633%; 4.75%; 4.8%; 4.731% and 4.714% according to Bloomberg data.



Source: Bloomberg, VCBS

Recently, some small-sized commercial banks decided to issues CD (Certificate of deposit) with high interest rate level to serve some specific purposes. Therein, one of those purposes was solving tension in liquidity. This fact resulted in interbank rate settling at a high level compared to the same period last year (We should bear in mind that normally after Tet holiday liquidity in banking system tended to be abundant as free cash on hand usually returned to the system). If interest rate keeps hovering at a high level, the bond market shall bear negative impact. However, in Q2, **VCBS anticipate that interbank rate shall cool down in the upcoming period** as the shortage in liquidity did not happen in Tier 1 banks and SBV still has policy room available to actively administrate the market and banking liquidity in the context of stable exchange rate. The stable exchange rate shall remain at least in the short-term as FED decided to lift up interest rate in March.

Nevertheless, in the second half of the year, we believe that the bond market may become dovish due to some worldwide risk. Therein, we are concern about the procedure of FED lifting up interest rate and chance that USD getting stronger because it may create negative impact on liquidity in banking system as well as the interbank rates level.

**Open Market Operation**

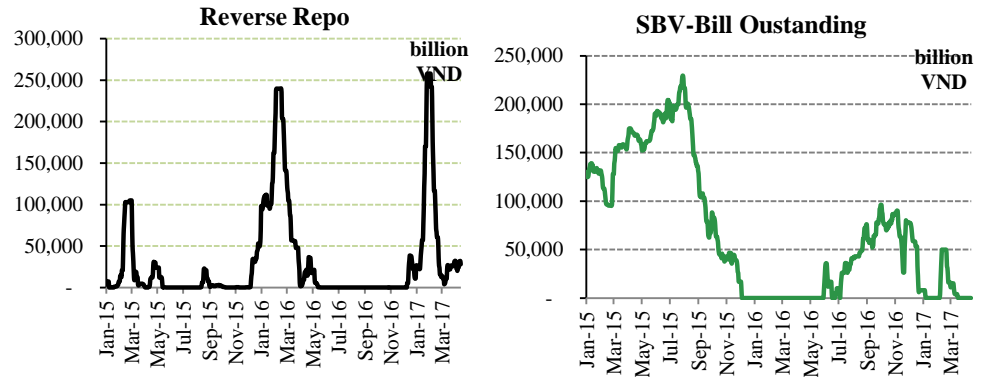
**In Q1, SBV net injected VND13,444 bn via OMO channel.**

In March, the State Bank of Vietnam (SBV) pumped VND 34,859 billion through OMO channel. In Q1, the SBV net withdrew VND13,444 bn. To answer seasonal liquidity demand, SBV issued a large amount of reverse repo in January. However, just after the Lunar New Year, the SBV unexpectedly issued VND49,990 billion worth of bills with interest rate of 1.75%. This amount of bills along with the large amount of Reverse repo expired, caused the



net withdrawal of the State Bank through OMO increasing sharply in February. In the rest of Q1, the State Bank has made reasonable policy adjustments through OMO channel. Accordingly, in March, the SBV almost did not issue bills and did all OMO activities Reverse Repo with a stable 5% interest rate.

We think that at the present SBV is quite consistent using OMO channel through reverse repo with a fixed interest rate of 5%. Accordingly, assuming pressure on the exchange rate and interest rates not so hot in the second quarter, the SBV will not have much incentive to change operating policies.



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
<b>Mar-17</b>	<b>29,588</b>	<b>N/A</b>	<b>5.1</b>	<b>5.43</b>	<b>6.05</b>	<b>7.0</b>	<b>7.65</b>	<b>7.9</b>	<b>0</b>	<b>3,400</b>	<b>0</b>	<b>32,988</b>

### 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
<b>Mar-17</b>	<b>81,061</b>	<b>88,344</b>	-	-	<b>169,897</b>

### 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
<b>Mar-17</b>	<b>73,181</b>	<b>92,404</b>	<b>18,859</b>	<b>32,000</b>	<b>22,100</b>	<b>6,100</b>	<b>(16,000)</b>	<b>0</b>

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