

Fixed-Income Report

April/2017

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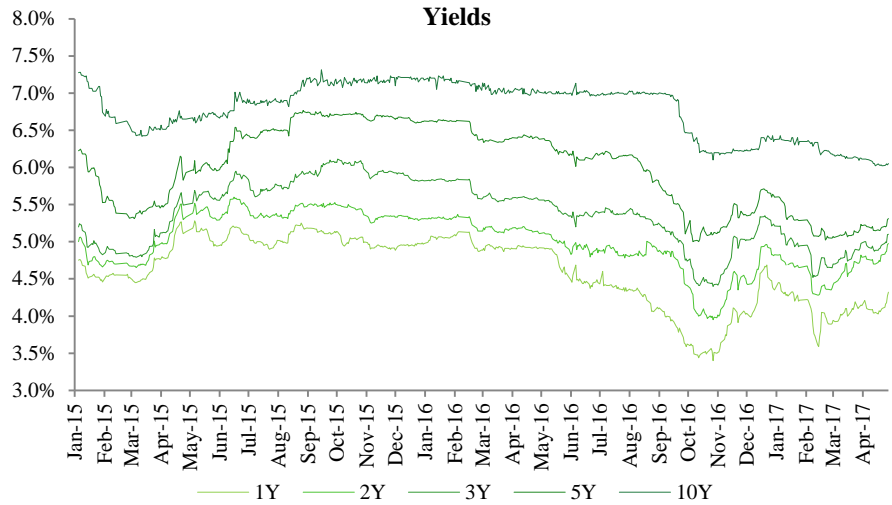
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Round-up

**High demand on 30Y bond on primary market
Yield curve became flattened in April**



Source: Bloomberg, VCBS

- VND 25,083 bn (-23.96% mom, -17.24% yoy) worth of bond was mobilized in April. VND 153,580 bn (-9.34% mom, +54.52% yoy) was traded on the secondary market
- Interest rate curve become flatter in April because the short-term bond interest rate rose whereas long-term bond interest rate declined. According to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y and 10Y bond yields posted at 4.32% (+18bps mom); 4.967% (+18.4bps mom); 5.1% (+11.8 bps mom); 5.31% (+9.4 bps mom); 5.536 (+2.4 bps mom) and 6.05% (-5 bps mom).
- During May, we believe that the profitable opportunities will become rare as bond yield will fluctuate in a tight band.
- The foreign investors net buy VND 682 bn in the April.
- Interbank rate decrease slightly in April however still hovered at a high rate. Specifically, at the end of April, interest rates of from overnight to 3-month tenor were recorded at 4.38%; 4.58%; 4.655%; 4.6% and 4.7%, respectively. In May, we assess there will have not many surprised factors which might strong affect to interbank rate.
- SBV net withdrew VND1,000 bn via OMO channel.

Bond Market

Primary Market

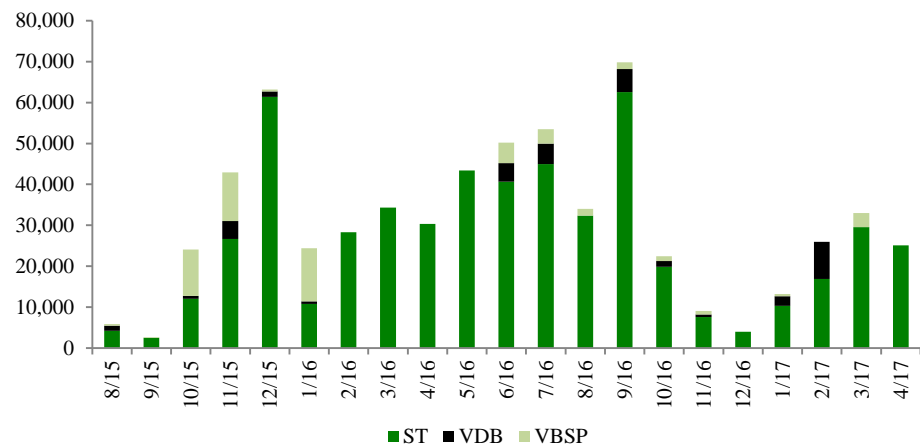
The primary market recorded active trading

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VND 25,083 bn (-23.96% mom, -17.24% yoy) worth of bond was mobilized in April from the State Treasury (ST). Specifically, ST mobilized VND 3,050 bn; VND 1,970 bn; VND 3,900 bn; VND 3,250 bn, VND 3,830 bn and VND 9,083 bn of worth bond of 5Y, 7Y, 10Y, 15Y, 20Y and 30Y, respectively.

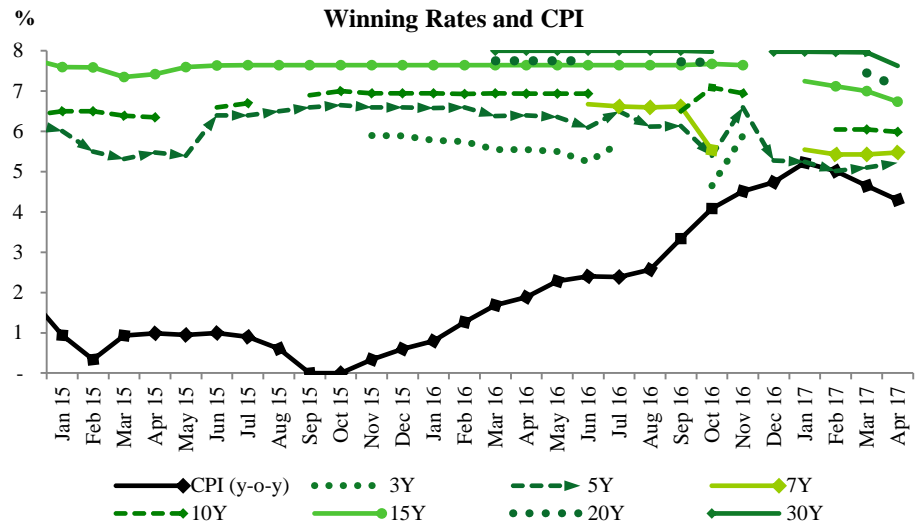
Meanwhile, Vietnam Bank for special purpose (VBSP) and Vietnam Development Bank (VDB) did not mobilize bond in April.

The bond demand was still high, which was the same status recorded in Q1. Demand was phenomenally high for long-term bond. Registering-to-Offering ratio touched 2.62 times and Winning-to-Offering posted at 89.1%.



Source: HNX, VCBS

Winning rate was recorded 5.22% (+12bps); 5.48% (+3bps); 5.99 (-6bps); 6.74% (-11bps); 7.1 (-35bps) and 7.63 (-27bps) with 5Y, 7Y, 10Y, 15Y, 20Y and 30Y, respectively. While winning rate of 5Y, 7Y bonds ticked up slightly, yield quoted for 30Y bonds declined deeply and rapidly in April due to phenomenal demand of this type. The downward force in long-term bond winning rates even spread to 20Y tenor.



Source: HNX, VCBS

ST-Bond issuance plan updates Q2.2017:

On 25th Apr, the Ministry of Finance (MOF) released the issuance plan in the Q2.2017 with total planned volume VND 66,000 bn.

The mobilization of 5Y bond appeared to run into difficulty. Because the 5Y bond’s interest rate is unattractive compare to the other bond type, market participant seemed to rush for 30Y bonds. In April, ST took full use of 30Y winning rate ticking down significantly and high demand in this type to issue 30Y bond. In detail, 90% of Quarterly issued plan has been completed. We believe that if demand is high for 30Y bond, ST will keep issue 30Y bond regardless of exceeding issuance plan. On the contrary, although winning rates for 5Y pressed higher lately, total amount of 5Y bond successfully issued was pretty low in comparison with the plan. Accordingly, the issuance plan of VND 20,000 bn worth of 5Y bond appears to be out of reach.

Tenor	2017 Issuance plan	Issued in Q1	Issue plan in Q2	Issued in Apr	% completion in Q1	% completion of annual plan
<1Y	18,000					0.0%
2Y-3Y	10,000				0.0%	0.0%
5Y	80,300	13,556	20,000	3,050	15.3%	20.7%
7Y	25,000	12,585	10,000	1,970	19.7%	58.2%
10Y	5,000	2,236	8,000	3,900	48.8%	122.7%
15Y	20,000	9,853	10,000	3,250	32.5%	65.5%
20Y	10,000	7,150	8,000	3,850	48.1%	110.0%
30Y	15,000	11,117	10,000	9,083	90.8%	134.7%
Total	183,300	56,497	66,000	25,103	38.0%	44.5%

Source: VCBS, MOF

Macro updates:

- According to data from Nikkei, Vietnam PMI reached 54.1 points in April, slightly down from March's threshold of 54.6 points. However, it still showed a better-off in

manufacturing sector health. This growing figure can be put down to an increase in overseas orders. As mentioned in previous reports, this evolution can be explained by seasonal factors as some FDI enterprises enter the new production cycle with new product lines. However, we have not seen the spillover to other parts of the economy. Accordingly, the slowdown signal in the domestic economy, which has been recorded in Q1, will not be washed away, in the context of dwindle in mining sector.

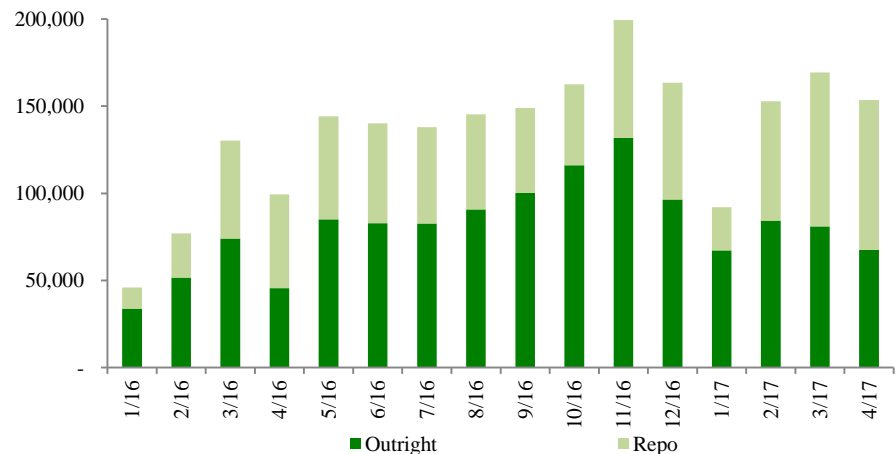
- Consumption Price Index (CPI) in April is unchanged compared to previous month, which equal to an increase of 4.3% yoy. This figure resulted from of adverse effect from groups contributing to the index. Specifically, the upward effect from healthcare service price increasing was offset due to lower Food price and the fact Gasoline ticked down earlier this April.
- In another context, Fed decided to keep the base rate at 0.75-1% in the monetary policy meeting in May. Fed did not show too much concern for the decelerating growth in Q1 as they consider the slow-down was a temporary event. Meanwhile, the target inflation of 2% was still within reach. In general, decisions made in the meeting were quite similar to market expectations about process and frequency of interest-rate lifting given previously. Therefore, we believe that this news would have neutral effects on indices.

Secondary Market

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

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VND 153,580 bn (-9.34% mom, +54.52% yoy) was traded on the secondary market. Specifically, the value of outright reached VND 67,609 bn (-16.5% mom) while the repo value fell slightly to VND 85,970 bn (-2.68% mom). Nevertheless, repo value at this month still high compare to the same period of the last year. In light of outright activities, the contribution of short-term, medium-term and long-term bonds was 30.6%, 48.5% and 20.9% respectively. ST-Bond was the most liquid, making over 93.8% of the total outright value.

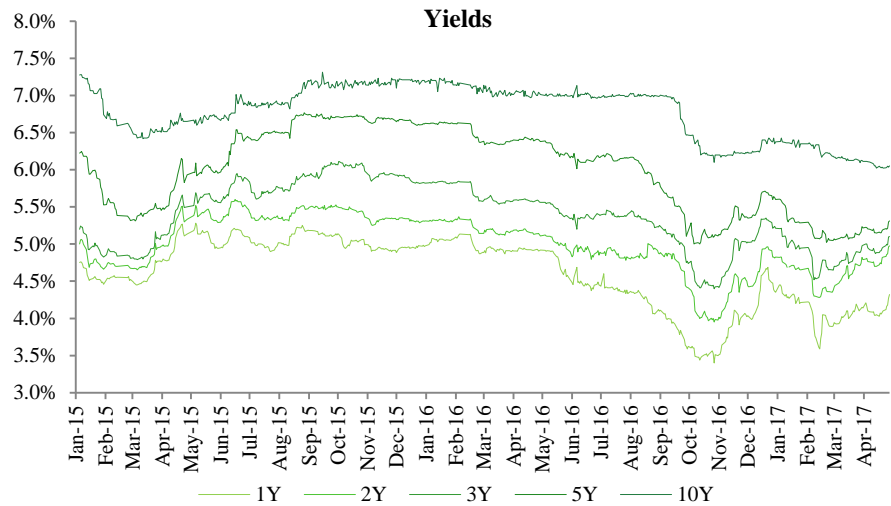


Source: HNX, VCBS

Interest rate curve become flatter in April because the short-term bond interest rate rose whereas long-term bond interest rate declined. According to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y and 10Y bond yields posted at **4.32% (+18bps mom)**; **4.967% (+18.4bps mom)**; **5.1% (+11.8 bps mom)**; **5.31% (+9.4 bps mom)**; **5.536 (+2.4 bps mom)** and **6.05% (-5 bps mom)**

mom).

The bond yield decrease slightly in the first half of April in all tenors. However, after that, in the rest of the month, while above 10Y bond yield fell continuously, the short-term bond yields pick up. Consequently, yield curve become flatter.

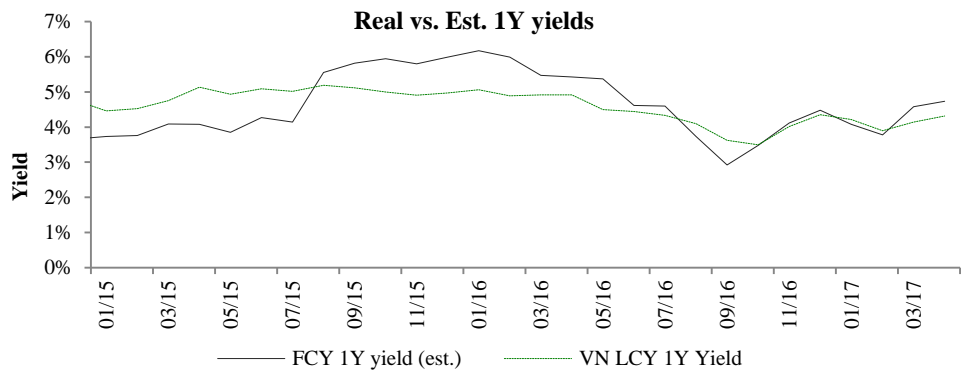


Source: Bloomberg, VCBS

During May, taking into consideration that FED did not raise interest rate in May's FOMC meeting and there will be no unexpected event in the worldwide market, we believe that the profitable opportunities will become rare as bond yield will fluctuate in a tight band.

In April, the gap between expected and real yield of 1Y Vietnam bond is expanded.

In April, the gap between expected and real yield of 1Y Vietnam bond is expanded compare to the global market. The comparative attractiveness of Vietnam decreased considerably. Therefore, the risk of net withdrawal inflow will be higher as FED will soon raise interest rate twice or more this year.



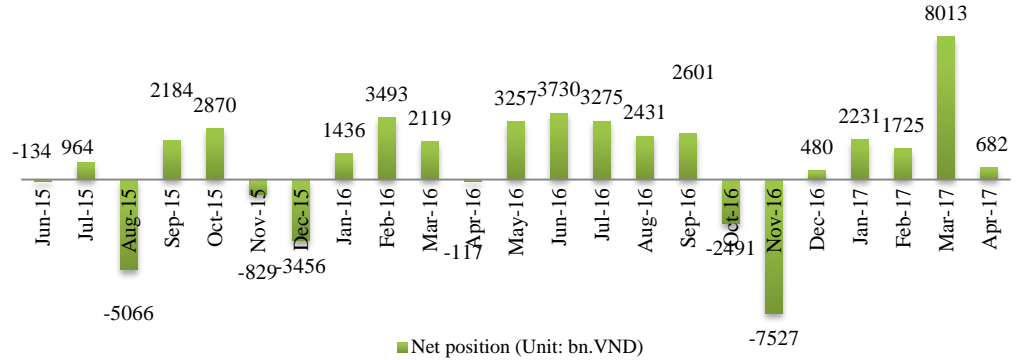
Source: Bloomberg, VCBS

Foreign investors net buy VND682 bn, marking the fifth month net-buy in consecutive.

The foreign investors net buy VND 682 bn in the April, extended their net-bought value recorded from the beginning of the year. Foreign investors still favor 2Y bond as buying over 900 bn volume of 2Y bond sold to them in April. However, foreign investors are no longer increasing net buy dramatically as the March. We assess net buy trend of foreign in the short

term (2Y) bond still maintain when the bond demand still exists. Nevertheless, we anticipate that net buying and selling volume, will no longer recorded a phenomenal activity this year.

FI in the secondary market



Source: HNX, VCBS

INTEREST RATE

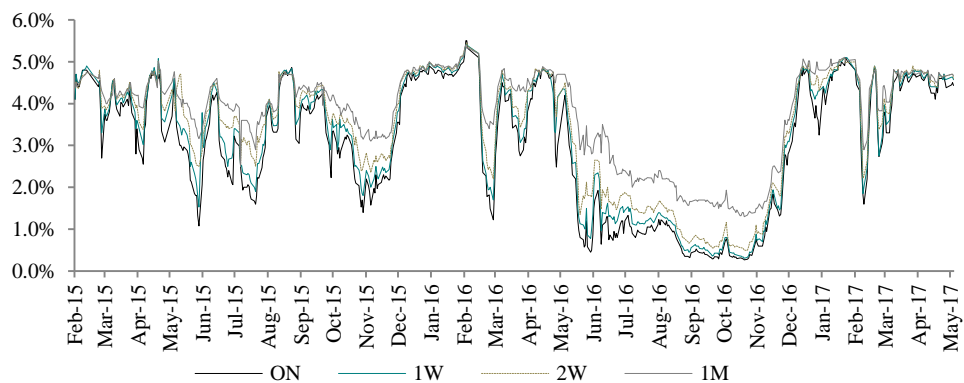
Interbank Rates

Interbank rate decrease slightly in April however still hovered at a high rate.

Interbank rate decrease slightly in April however still hovered at a high rate.

After adjustment of exchange rate of State Bank of Vietnam (SBV), liquidity in banking system was more abundant, helping interbank interest rate temporary decline to around 4% in overnight interest rate. However, this is just short-term effect and cannot last long. Interbank interest rate jump quickly back to pretty high rate. Specifically, at the end of April, interest rates of from overnight to 3-month tenor were recorded at 4.38%; 4.58%; 4.655%; 4.6% and 4.7%, respectively.

In May, we assess there will have not many surprised factors which might strong affect to interbank rate. However, on the verge of the monetary policy meeting of FED in June, interbank rate may bear upward force as a second interest lifting may be executed. Additionally, compare to the same period of the last year, liquidity in banking system was no longer abundant as it was last year. Therefore, it is unlikely that interbank rate will tick down strongly one way or another.

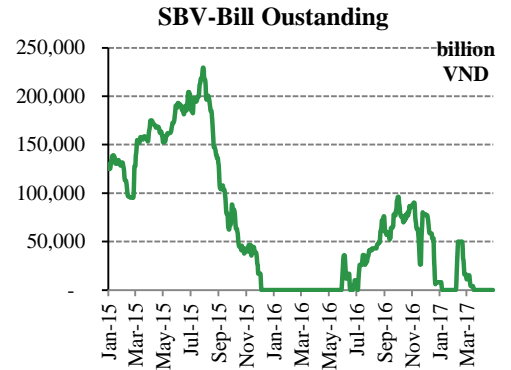
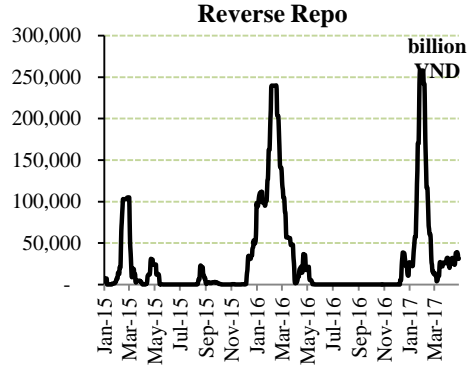


Source: Bloomberg, VCBS

Open Market Operation

SBV net withdrew VND 1,000 bn via OMO channel.

SBV net withdrew VND 1,000 bn via OMO channel. After unpredictable approach in the first quarter, SBV is quite consistent in managing open market activity via reverse repo with constant interest rate of 5% with 7 days of tenor. Specifically, in April, VND 122,023 bn reverse repo matured while SBV only issued VND 121,023 bn. Thus, in the upcoming period, we assume that there will be no unexpected even, which may lead to a certain change in SBV’s managing policy. Accordingly, open market operations will be steady with not so many interest rate fluctuation recorded .



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
Mar-17	29,588	N/A	5.1	5.43	6.05	7.0	7.65	7.9	0	3,400	0	32,988
Apr-17	25,083	N/A	5.22	5.48	5.99	6.74	7.1	7.63	0	0	0	25,083

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
Mar-17	81,061	88,344	-	-	169,897
Apr-17	67,609	85,970	-	-	153,579

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
Mar-17	73,181	92,404	18,859	32,000	22,100	6,100	(16,000)	0
Apr-17	122,023	121,023	(1,000)	31,000	0	0	0	0

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