

Fixed-Income Report

February/2018

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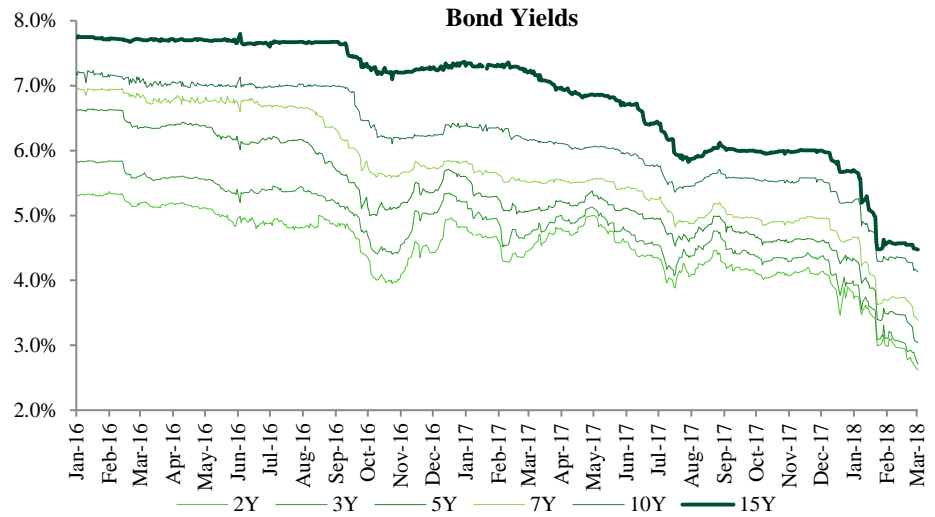
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Round-up

**Strong demand in primary market right after holiday.
Yield curve became steeper.
Interbank rates settled at a low level.**



Source: Bloomberg, VCBS

■ **VND10,015 bn (-48.28% mom, -61.37% yoy) worth of bond was mobilized. VND 174,258 billion (-26.27% mom, +13.97% yoy) traded on the secondary market.**

■ **Yield curve became steeper** because short-term bond yield decrease more. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y ended February at 2.548% (-34 bps mom), 2.738% (-32.4 bps mom), 2.888% (-25.4 bps mom), 3.275% (-15.5 bps mom), 3.6% (-7 bps mom), 4.273% (-2.7 bps mom), 4.55% (4 bps mom) respectively. **In March, from fundamental factor of macro economy and banking system, it is unlikely that bond yield will tick up strong.** We speak highly chance that bond yields will move in narrow band with a downward trend. The most liquidity sector will kept moving gradually to longer tenors.

■ **Foreign bought VND 270 bn in bond market.**

■ **Right after the holiday, Interbank rates pulled back to a low level. No liquidity shortage found in the system.** In March, it is unlikely that liquidity tension will show up. However, we also draw attention to some factors in March such as (1) the procedure of public disbursement funds as we expect that these activities may be boosted due to problems solved in document. (2) The Fed meeting in 20 & 21 March and its minutes, which gave out direction of interest lifting procedure and their views on how US economy is doing.

■ **SBV net withdrew VND 31,702 bn via OMO channel.**

Bond Market

Primary Market

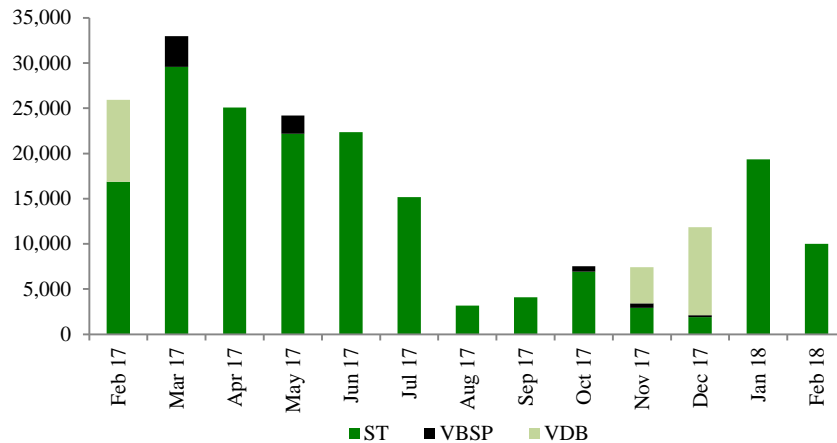
Demand for bonds returned strong right after Lunar New Year.

VND10,015 bn (-48.28% mom, -61.37% yoy) worth of bond was mobilized.

VND10,015 bn (-48.28% mom, -61.37% yoy) worth of bond was mobilized in February from the State Treasury (ST). In detail, VND 1950 bn; VND 1,950 bn; VND 3,800 bn; VND and VND 2,315 bn were mobilized in 5Y, 7Y, 10Y and 15Y tenors, respectively.

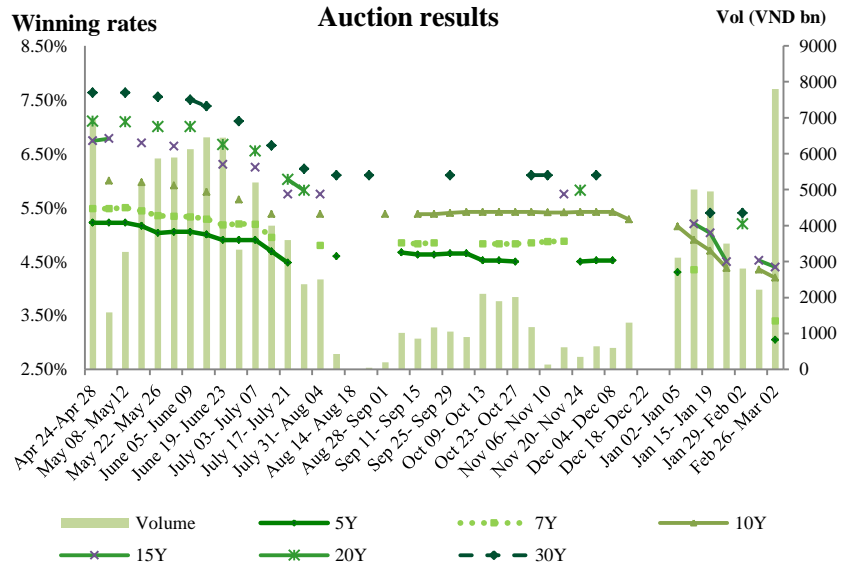
Meanwhile, the Vietnam Development Bank (VDB) and Vietnam Bank for Social Policies (VBSP) did not mobilize bonds this month.

Generally, demand for bond returned right after Tet holiday. In February the register-offering ratio decreased slightly to from 4.3 times in January to 3.7 times. Therein the average Winning-to-Offering ratio was also pulled back at 84.9%. From demand side, commercial banks kept dominated market and they were also the main driver in downward winning rates trend. This month there were only two auctions and no 20Y, 30Y bond offered.



Source: HNX, VCBS

In detail, winning rates plummeted and made a new low. At the end of February, winning rates posted at 3.05% (-125 bps mom); 3.4% (-95 bps mom); 4.2% (-18 bps mom) and 4.4% (-12 bps mom) for 5Y, 7Y, 10Y and 15Y respectively.



Source: HNX, VCBS

ST-Bond issuance plan updates in 2018:

On 26th February, 2018, Ministry of Finance has officially report the issuance plan for 2018 as followed:

Tenor	2018 Plan	% of 2018 plan (*)	% of 2017 real Issued amount	Q1.2018 plan	Issued in Jan and Feb	% completion Q1 plan
Below 5Y	20,000					
5Y	30,000	16.7%	23.4%	5,000	3,900	78.0%
7Y	36,000	20.0%	21.7%	5,000	4,950	99.0%
10Y	37,000	20.6%	12.3%	11,000	9,455	86.0%
15Y	32,000	17.8%	13.4%	11,000	6,315	57.4%
20Y	20,000	11.1%	11.8%	5,000	1,500	30.0%
30Y	25,000	13.9%	17.4%	8,000	3,260	40.8%
Total	200,000			45,000	29,380	65.3%

(*)Exclude plan for bonds mature in less than 5Y plan

Source: VCBS, MOF.

It can be clearly seen that the issuance plan is higher than last year and State treasury shall take full use of favorable condition in the market so as to issue bond. Besides, the plan also left room for bond with tenors less than 5Y in case there are difficulties in issuing long-term bonds. When we compare the real proportion of 2017 bond issued to this year plan, it can be clearly seen that more 10Y and 15Y bond is planned to issue while lower proportion of 30Y & 5Y bond realized.

For the remaining of Q1, we believe that demand for bond still remains. Even, winning rates may keep pressing lower or moving marginally downward. Hence, the winning-to-offering ratio shall be high in March.

Macro updates:

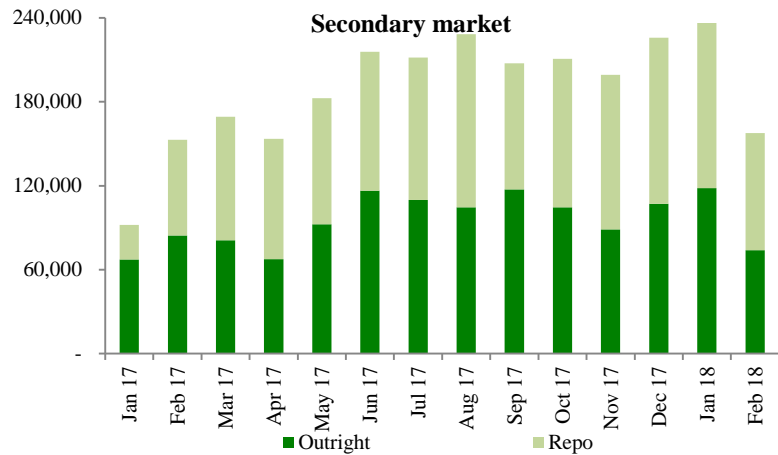
- Vietnam PMI index slightly increased from 53.4 in January to 53.5 in February. Production growth accelerates amid improving client demand. Additionally, output growth was at ten month high in February. In accordance to this, manufacturing index reported by GSO was positive. In detail, index of industrial production (IIP) for the whole industry in first two months 2018 grew 15.02% over the similar period in 2017 (this figure last year was only 2.4%). In the industrial sector, the manufacturing grew by 17.7%, contributed 13.2 percentage points to the general growth rate; the power generation and distribution climbed by 11.2%, contributed 1 percentage points; the mining and quarrying went up by 5.7%. These figures support our argument in previous report that GDP in Q1.2018 shall be higher than the same period at year and projected to be 5.6% to 5.7%
- CPI in February increased by 0.73% mom, which equivalent to an increase by 3.15% yoy. Although CPI increased sharply in the past month, it did not exceed much the previous forecast of 0.6% -0.7% mom. At the same time, this increase was largely due to seasonal factor of Lunar New Year holidays. These days, there was phenomenal demand for goods and services. Consequently, all group in CPI basket reported growth leading by food & foodstuff and Transportation. Therefore, as seasonal factors no longer exist in March, CPI is unlikely to tick up high next month. At the moment, risks from high CPI was still minimal when it comes to bond market
- According to NFSC, the credit growth in the first two months of 2018 was 1% ytd (including corporate loans and corporate bond investment). It should be noted that this figure in 2016 and 2017 were 0.8% and 1.6% respectively. Till now, it can be clearly seen that demand for credit was not high. Hence, resources shall remain in bond market.
- In worldwide market, 10Y US government bond yield are fluctuating in a tight band after reaching new high in February.

Secondary Market

High repo value due to low level of interbank rate.

VND 174,258 billion (-26.27% mom, +13.97% yoy) traded on the secondary market.

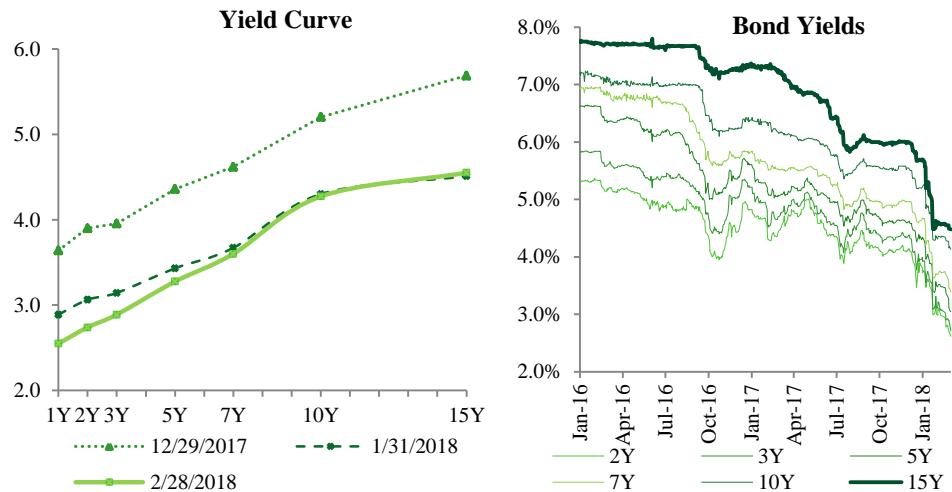
VND 174,258 billion (-26.27% mom, +13.97% yoy) traded on the secondary market. In particular, outright trading value, recorded at VND 73,892 billion (-37.49% mom) due to a day-off in Lunar new year. Repo transaction value settled stable at a high level, recorded at VND 100,365 billion (-15.03% mom, +46% yoy). This figure indicated that liquidity in banking system is still ample. When it comes to tenors in outright activities, bond which matures in the next 5 year accounted for roughly 52% trading value. Noticeably, trading value of bond mature in at least 10Y from now still contribute 25%. From Issuer's perspective, ST bond still dominated the market with more than 91% of outright trading value.



Source: HNX, VCBS

Yield curve became steeper because short-term bond yield decrease more. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y ended February at 2.548% (-34 bps mom), 2.738% (-32.4 bps mom), 2.888% (-25.4 bps mom), 3.275% (-15.5 bps mom), 3.6% (-7 bps mom), 4.273% (-2.7 bps mom), 4.55% (4 bps mom) respectively.

As mentioned in previous report, demand was high after the holiday because customers' free cash on hand returned to the system. Consequently, almost all downward force in bond yields realized after the holiday and showed up first and foremost on short tenors. Local commercial banks still dominated the market thank to low-cost resources from interbank market.

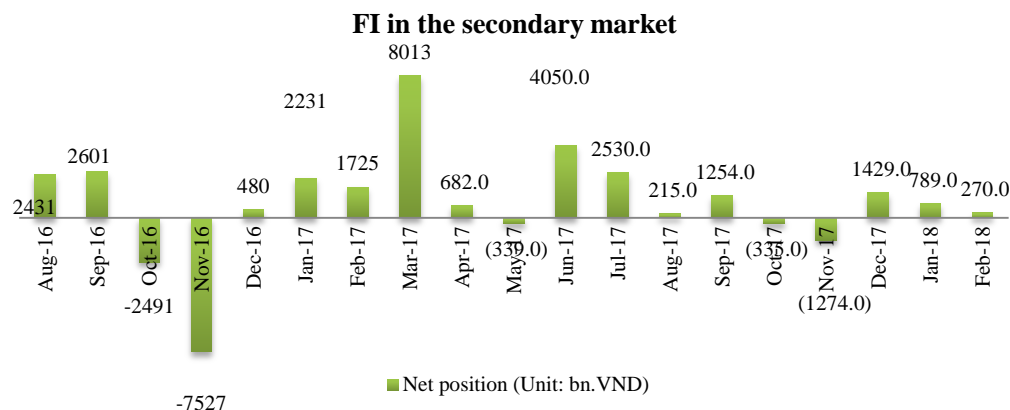


Source: Bloomberg, VCBS

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Foreign bought VND 270 bn in bond market.

Foreign bought VND 270 bn in bond market. Therein, foreign focused on less than 3Y tenors. During this period, foreign investors almost have no incentives to purchase large amount of VND government bond regarding lower comparative advantage of VND compared to USD.



Source: HNX, VCBS

At the present, with the downward trend on the bond yield remained, we believe that foreign will not disburse much on the bond market.

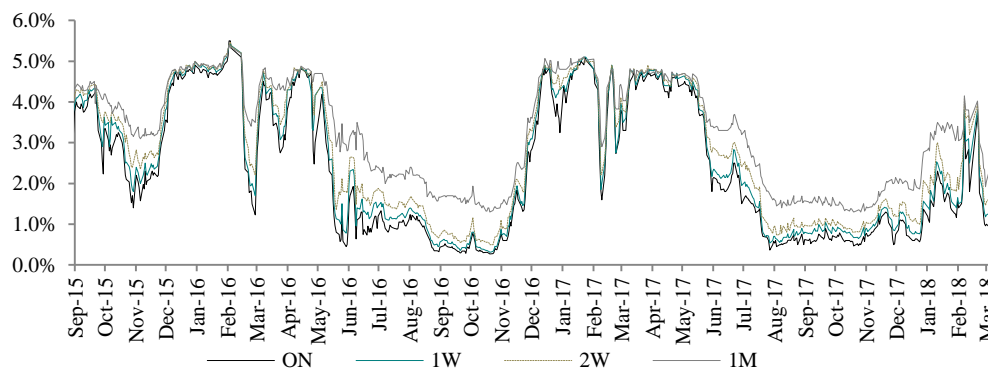
INTEREST RATE

Interbank Rates

Right after the holiday, Interbank rates pulled back to a low level. No liquidity shortage found in the system.

Right after the holiday, Interbank rates pulled back to a low level. No liquidity shortage found in the system. Only prior to Lunar new year, Interbank rates rise to around 4%. However, after the holiday, interbank rates got back to normal level. Interbank rate for ON-3M tenors were recorded at 1%, 1.225%, 1.55%, 2.05% and 2.95%.

In February, the liquidity of the banking system was not under too much pressure. We think that there are some factors to support this status: (1) Foreign reserve of Vietnam Feb set a new record of more than USD 60 bn, which means a huge amount of local currency pumped into the system. (2) IPO and state divestments were still on track. Therefore, indirect inflows still remained in the market.



Source: Bloomberg, VCBS

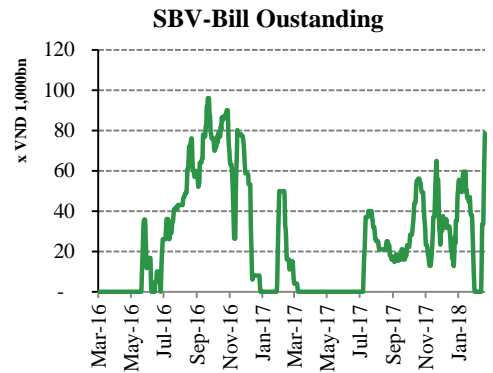
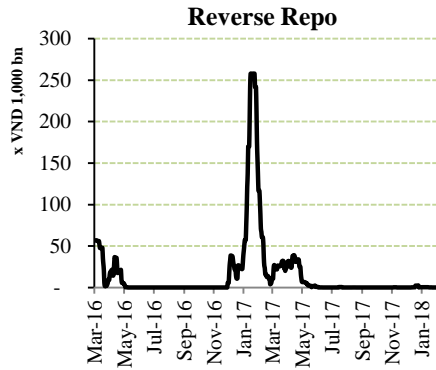
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Open Market Operation

SBV net withdrew VND 31,702 bn via OMO channel.

Normally around Lunar New Year, a liquidity tense in banking system shall occur and need SBV to join in to regulate the market with OMO operation through reverse repo. **However, things was different this year due to the fact that no shortage happened and SBV did not need to use OMO.** Instead, SBV actively withdrew money from the system at the same time they purchase USD for Foreign reserves. In detail, **SBV net withdrew VND 31,702 bn via OMO channel.**



Source: Bloomberg, VCBS

END.

APPENDICES

Primary Market

Month	ST Bond							VDB	VBSP	Other	
	Issued Volume	5 Y	7Y	10Y	15Y	20Y	30Y	Issued Volume	Issued Volume	Issued Volume	Issued Volume
17-Feb	16,877	5.02	5.55	6.05	7.12	N/A	7.97	9,050	0	0	25,927
17-Mar	29,588	5.1	5.43	6.05	7	7.65	7.9	0	3,400	0	32,988
17-Apr	25,083	5.22	5.48	5.99	6.74	7.1	7.63	0	0	0	25,083
17-May	23,836	5.05	5.34	5.91	6.64	7	7.55	0	2,020	0	23,836
17-Jun	22,348	4.9	5.19	5.65	6.25	6.55	7.1	0	0	0	22,348
17-Jul	15,170	4.48	4.8	5.38	5.75	5.82	6.22	0	0	0	15,170
17-Aug	3,179	4.6	4.8	5.38	5.75	N/A	6.1	0	0	0	3,179
17-Sep	4,086	4.65	4.85	5.4	N/A	N/A	6.1	0	0	0	4,086
17-Oct	6,910	4.5	4.85	5.42	N/A	N/A	N/A	0	600	0	7,510
17-Nov	2,931	4.52	4.88	5.42	5.75	5.82	6.1	4,000	500	0	7,431
17-Dec	1,900	4.52	N/A	5.28	N/A	N/A	N/A	9,745	208	0	11,853
18-Jan	19,365	4.3	4.35	4.38	4.5	5.2	5.4	0	0	0	19,365
18-Feb	10,015	3.05	3.4	4.2	4.4	N/A	N/A	0	0	0	10,015

Secondary Market

Month	Bonds		ST-bills		Total
	Outright	Repo	Outright	Repo	
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
May-17	92,439	90,118	-	-	182,557
June-17	116,510	99,280	-	-	215,790
July-17	109,831	101,694	-	-	211,525
Aug-17	104,593	112,190	-	-	216,783
Sep-17	117,431	90,153	-	-	207,584
Oct-17	104,614	106,158	-	-	210,772
Nov-17	88,676	110,552	-	-	199,228
17-Dec	107,063	118,739	-	-	225,802
18-Jan	118,223	118,127	-	-	236,350
18-Feb	73,893	100,365	-	-	174,285

Open Market Operation

Month	Reverse Repo				Outright (SBV Bills)			
	Due	Offer	Balance	Outstanding	Due	Offer	Balance	Outstanding
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
May-17	51,145	24,459	(29,686)	1,314	0	0	0	0
June-17	2,766	1,452	(1,314)	0	0	0	0	0
July-17	0	506	506	506	45,000	85,000	40,000	40,000
Aug-17	0	0	0	0	125,996	110,997	(15,000)	25,000
Sep-17	0	0	0	0	78,425	69,424	-9,000	16,000
Oct-17	0	0	0	0	75,299	113,300	38,000	54,000
Nov-17	223	223	0	0	72,205	83,105	10,900	64,900
17-Dec	169	2,435	2,266	2,266	159,441	110,941	-48,500	16,400
18-Jan	3,260	1,096	(2,164)	102	167,106	197,705	30,600	47,000
18-Feb	102	0	(102)	0	59,000	90,600	31,600	78,600

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