

Fixed-Income Report

July 16th – 20th/2018

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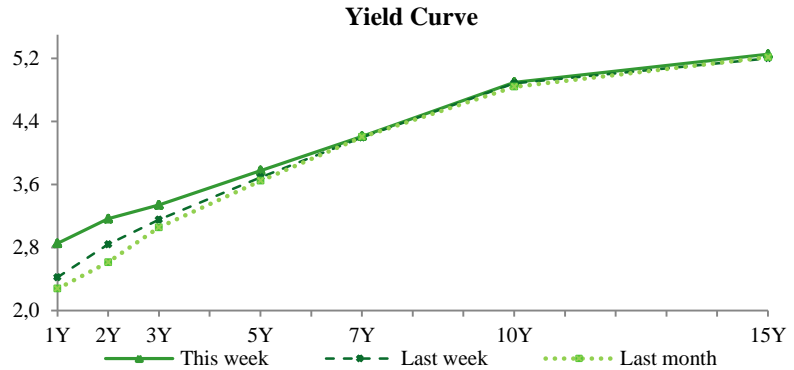
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Round-up

**Gap between primary and secondary market shrink.
Yield curve shifted upward and became flattened.
Interbank rate pressed higher this week.**



Source: Bloomberg, VCBS

- VND 4,600 bn was mobilized this week. VND 35,725 bn (-0.65% wow) was traded on the secondary market.
- Yield curve shifted upward and became flat because short-term bond yields headed up higher. According to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y bond yields posted 2.85% (+43 bps), 3.163% (+32.5 bps), 3.338% (+18.8 bps), 3.775% (+8.7 bps), 4.208% (+1.3 bps), 4.895% (+1.2 bps), and 5.25% (+5 bps) respectively..
- Interbank rate pressed higher considerably. In details, ON – 3M rates respectively posted at 2.767%, 2.9%, 3.033%, 3.767% and 4.2% according to Bloomberg data.
- Foreign investors net sold roughly VND 300 bn this week two week in consecutive.
- SBV injected VND32,193 bn via OMO channel.

VCBS Commentary July 23th – July 27th

- Gaps between primary and secondary market still remains though shrinks because winning rate at 5Y and 7Y tenors increased in turn in the last two weeks. With these movements, we believe that, the bond mobilized in upcoming weeks will speed up.
- In the upcoming weeks, we believe that the upward force on bond yield still remained. Even, the long-term bond yields shall tick up more than the short-ones because rising concern around macroeconomic indexes such as inflation and exchange rates cannot be easily released at least till the end of Q3/2018.
- With the assumption that upward force on exchange rate still remained in the short-term, it is likely that interbank rates will rather edge up instead of cooling down.

Bond Market

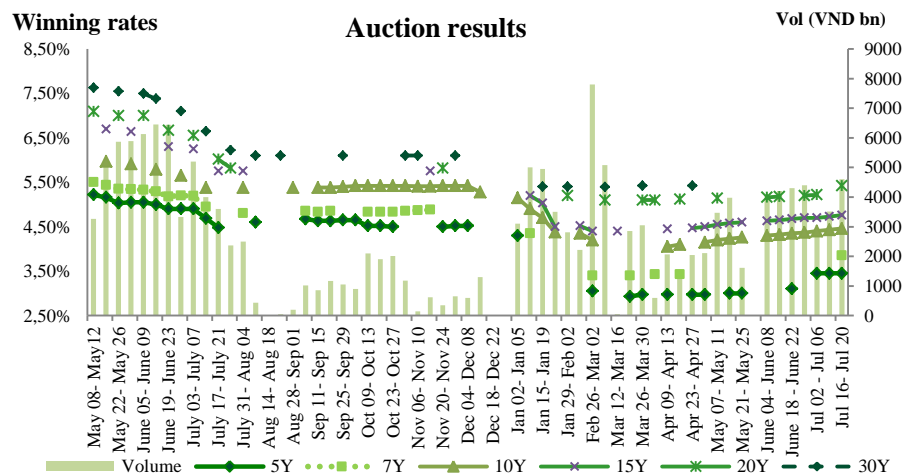
Primary Market

Winning rates climbed up significantly at 5Y tenor.

VND 4,600 bn was mobilized this week.

VND **4,600** bn was mobilized this week. State Treasury continued to offer tenors of 5Y, 7Y, 10Y, 15Y, 20Y and 30Y and issued for all tenors except 20Y. The winning yield sharply increased for 7Y tenor (+42 bps) while made no change for tenor 5Y and 30Y and small increase for tenor 10Y (+3 bps) and 15Y (+3 bps). It is noted that the latest successful session for tenor of 7Y and 30Y was 18 Apr 2018 and 25 Apr 2018 respectively. The registered to offering amount ratio for tenors was 5.75, 2.60, 2.48, 2.43, 1.20 and 0.60 and the winning to offering amount ratio for tenor 5Y, 7Y, 10Y, 15Y, 20Y and 30Y was 1.00, 0.10, 0.60, 0.40 and 0.10 respectively. Total winning amount for tenor 5Y, 7Y, 10Y, 15Y, 20Y and 30Y was VND 1,000 bn, VND 50 bn, VND 1,200 bn, VND 800bn and VND 50 bn.

VBSP mobilize VND 200bn at 5Y tenor. VDB did not mobilize bond this week.



Source: HNX, VCBS

Next week, ST planned to issue VND 2,000 bn at 5Y, 10Y and 15Y plus VND 500 at each tenor 7Y, 20Y and 30Y. Gaps between primary and secondary market still remains though shrinks because winning rate at 5Y and 7Y tenors increased in turn in the last two weeks. With these movements, we believe that, the bond mobilized in upcoming weeks will speed up.

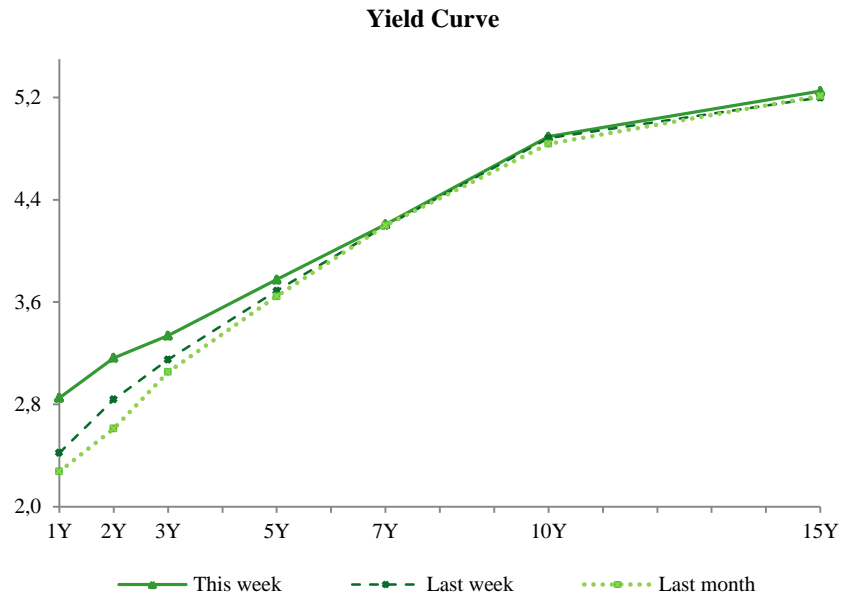
Secondary Market

Market is still lackluster due to lack of supportive information.

VND 35,725 bn (-0.65% wow) was traded on the secondary market.

VND **35,725 bn (-0.65% wow)** was traded on the secondary market. Outright and repo values were at VND 14,733 bn and VND 20,992 bn respectively. Therein, both outright and repo activities remained at a low level especially outright. Therein regarding outright, ST-Bond kept dominating trading volume with 91%. Remarkably, **this week a large proportion of bond trading (66%) belonged to short-term bond (below 5Y tenors).**

Yield curve shifted upward and became flat because short-term bond yields headed up higher. According to Bloomberg data, 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y bond yields posted 2.85% (+43 bps), 3.163% (+32.5 bps), 3.338% (+18.8 bps), 3.775% (+8.7 bps), 4.208% (+1.3 bps), 4.895% (+1.2 bps), and 5.25% (+5 bps) respectively.



Source: Bloomberg, VCBS

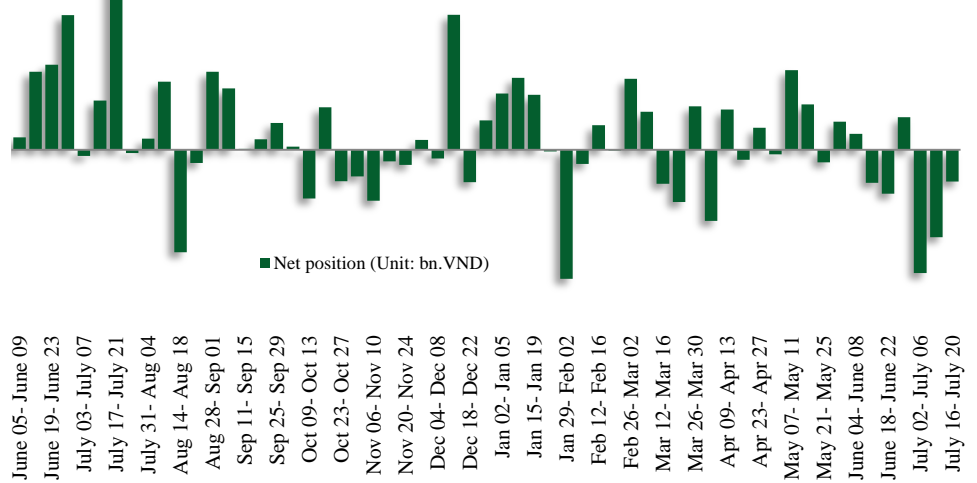
The upward force on bond yields can be put down to some factors. Firstly, in the last two week, winning rates for 5Y and 7Y increased considerably. This means that ST now willing to accept a slightly higher winning rate for the short-term bond. On the other hand, on money market, interbank rate also pressed higher significantly. Hence, short-term bond yields, which are sensitive to money market movement, ticked up strongly.

In the upcoming weeks, as mentioned in [Fixed Income report 1H.2018](#), we believe that the upward force on bond yield still remained. Even, the long-term bond yields shall tick up more than the short-ones because rising concern around macroeconomic indexes such as inflation and exchange rates cannot be easily released at least till the end of Q3/2018

Foreign investors net sold roughly VND 370 bn this week, marking the third week selling in consecutive.

Foreign investors net sold roughly VND 370 bn this week, marking the third week selling in consecutive. This week, besides buying small amount 25Y-30Y bonds, other tenors recorded were sold by the foreign. During the period bond market was sensitive to macroeconomics indexes, the foreign activities is projected to be quiet.

Foreign Investment in the secondary market 2017-2018



Source: HNX, VCBS

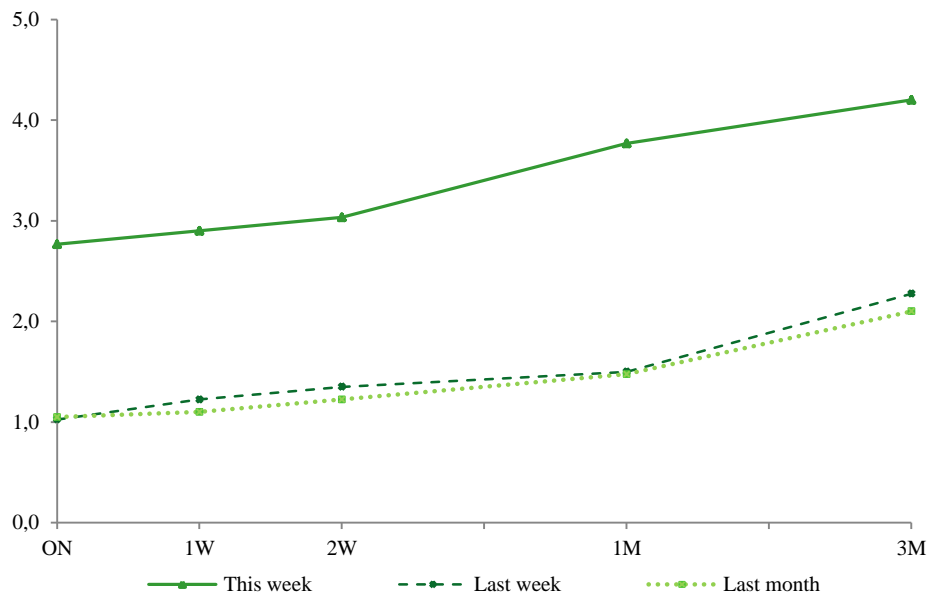
INTEREST RATE

Interbank Rates

Interbank rate pressed higher considerably.

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Interbank rates



Source: Bloomberg, VCBS

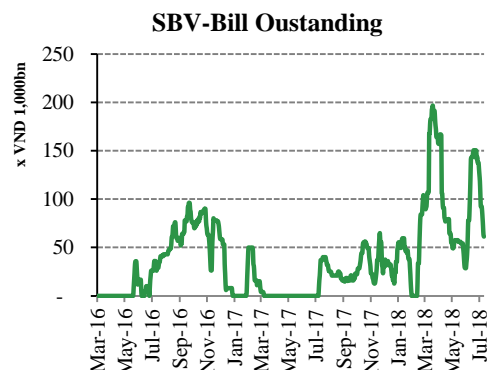
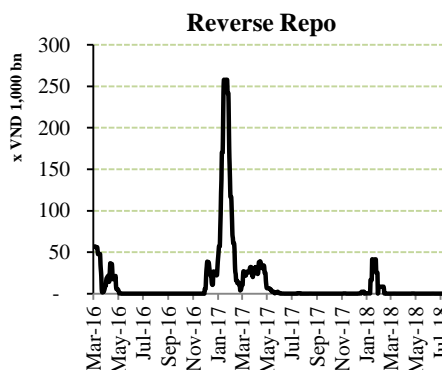
SBV raised the reference rate on July 23rd with 2-way buy-sells of VND 22,700 and VND 23,273 respectively, increased by VND268 on the July 21st session. Also, this session also recorded a 16 dong reduction of the reference rate compared to the previous session. This is the latest move of the State Bank following a downward quote of SBV operations center's reference exchange rate at 23,050 VND/ USD (July 3rd). Note that all demand at low price has been met especially for credit institutions with negative FX position. Hence, a large amount of foreign currencies are added to the market. **We think that from regulator's viewpoint, today's adjustment level is quite appropriate; aiming to ensure the smooth operation based on the market mechanism and minimize arbitrage opportunities.** In addition, as mentioned in the [macroeconomic report for the first 6 months](#), although the pressure on the exchange rate in the short term still exists, we believe that that with the existing resources, the SBV can keep VND devaluation around 2% - 2.5% for 2018 - significantly lower than other countries in the region.

It can be clearly seen that higher interbank rates these days also helped to dampen exchange rates risks as the negative swap between USD and VND on money market was narrowed. With the assumption that upward force on exchange rate still remained in the short-term, it is likely that interbank rates will rather edge up instead of cooling down.

Open Market Operation

SBV injected VND 32,193 bn via OMO channel.

SBV injected VND 32,193 bn via OMO channel. This week there was VND 31,200 bn worth SBV –Bills matured while no bill newly offered since 13th July. SBV still support liquidity in banking system. Remarkably, in 20th July, SBV did 7 days repo activities, which worth VND 993 bn. During these days, SBV tended to injected resources to the market to balance VND amount, which has been withdrawn during their selling foreign currencies.



Source: Bloomberg, VCBS

END.

APPENDICES

Bond Auctions

| Auction date | Tenor | Offering volume | Registering volume | Winning volume | Register to Offering Ratio | Winning rate (%) | Winning/Offering | Issuer |
|---|-------|-----------------|--------------------|----------------|----------------------------|------------------|------------------|--------|
| ST bills | | | | | | | | |
| Government and government-backed bonds | | | | | | | | |
| 18-Jul-18 | 5Y | 1,300 | 6,350 | 1,300 | 4.88 | 3.45 | 100.00% | ST |
| 18-Jul-18 | 7Y | 500 | 1,300 | 50 | 2.60 | 3.85 | 10.00% | ST |
| 18-Jul-18 | 20Y | 500 | 600 | - | 1.20 | 0 | 0.00% | ST |
| 18-Jul-18 | 10Y | 2,600 | 5,550 | 1,800 | 2.13 | 4.46 | 69.23% | ST |
| 18-Jul-18 | 30Y | 500 | 300 | 50 | 0.60 | 5.42 | 10.00% | ST |
| 18-Jul-18 | 15Y | 2,600 | 5,450 | 1,400 | 2.10 | 4.76 | 53.85% | ST |
| 16-Jul-18 | 5Y | 1,000 | 700 | 200 | 0.70 | 4.05 | 20.00% | VBSP |
| 16-Jul-18 | 10Y | 500 | 600 | - | 1.20 | 0 | 0.00% | VBSP |
| 16-Jul-18 | 15Y | 500 | 200 | - | 0.40 | 0 | 0.00% | VBSP |

Secondary Market

| Issuer | Week 09-13 July | | Week 16-20 July | |
|--------------------------|-----------------|-------------|-----------------|-------------|
| | Value | Value share | Value | Value share |
| Outright | 15,690 | 98.25% | 13,439 | 91.22% |
| | 113 | 0.71% | 1,033 | 7.01% |
| | 167 | 1.05% | 261 | 1.77% |
| | - | 0.00% | - | 0.00% |
| Repo | 15,970 | 100.00% | 14,733 | 100.00% |
| Outright | 19,988 | 53.08% | 20,992 | 49.13% |
| Repo | 17,669 | 46.92% | 21,732 | 50.87% |
| Subtotal (3) | 37,657 | 100.00% | 42,724 | 100.00% |
| ST bills | - | - | - | - |
| | - | - | - | - |
| | - | - | - | - |
| Total (1)+(2)+(3) | 53,627 | | 57,457 | |

Open Market Operation

| Date | Due | Reverse Repo | | | Outright (SBV Bills) | | | |
|--------------------|----------|--------------|------------|-------------|----------------------|----------|-----------------|---------------|
| | | Offer | Balance | Outstanding | Due | Offer | Balance | Outstanding |
| 03/19-03/23 | 20 | 0 | (20) | 0 | 0 | 76,110 | 76,110 | 182,710 |
| 03/26-03/30 | 0 | 0 | 0 | 0 | 5,500 | 14,000 | 8,500 | 191,210 |
| 04/02-04/06 | 0 | 2 | 0 | 2 | 43,000 | 15,700 | (27,300) | 163,910 |
| 04/09-04/13 | 0 | 0 | 0 | 0 | 58,100 | 60,980 | 2,880 | 166,790 |
| 04/16-04/20 | 0 | 0 | 0 | 0 | 76,110 | 200 | (75,910) | 90,880 |
| 04/23-04/27 | 0 | 0 | 0 | 0 | 14,000 | 1,700 | (12,300) | 78,580 |
| 05/01-05/05 | 0 | 170 | 170 | 0 | 15,700 | 1,700 | (14,000) | 64,580 |
| 05/07-05/11 | 170 | 0 | (170) | 0 | 60,980 | 45,740 | (15,240) | 49,340 |
| 05/14-05/18 | 0 | 0 | 0 | 0 | 200 | 8,400 | 8,200 | 57,540 |
| 05/21-05/25 | 0 | 0 | 0 | 0 | 1,700 | 0 | (1,700) | 55,840 |
| 05/28-06/01 | 0 | 0 | 0 | 0 | 1,700 | 0 | (1,700) | 54,140 |
| 06/04-06/08 | 0 | 0 | 0 | 0 | 45,740 | 20,300 | (25,440) | 28,700 |
| 06/11-06/15 | 0 | 0 | 0 | 0 | 8,400 | 57,800 | 49,400 | 78,100 |
| 06/18-06/22 | 0 | 0 | 0 | 0 | 0 | 65,100 | 65,100 | 143,200 |
| 06/25-06/29 | 0 | 19 | 0 | 19 | 0 | 7,300 | 7,300 | 150,499 |
| 07/02-07/06 | 0 | 0 | 0 | 0 | 20,300 | 7,510 | (12,790) | 137,709 |
| 07/09-07/13 | 0 | 0 | 0 | 0 | 55,800 | 10,571 | (45,229) | 92,480 |
| 07/16-07/20 | 0 | 993 | 993 | 993 | 31,200 | 0 | (31,200) | 61,281 |

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