Fixed-Income Report

Q3/2018

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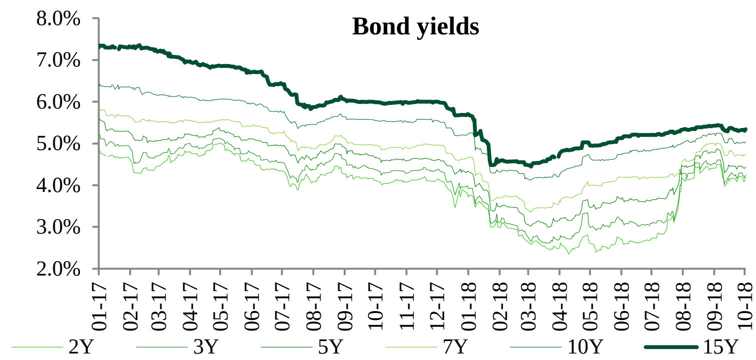
Highlights



Source: Bloomberg, VCBS

- VND 53,910 billion (+ 57.76% qoq) of bonds was mobilized in the third quarter from the State Treasury and the Bank for Social Policies. VND 452,969 billion (-30% yoy) traded on the secondary market.
- The yield curve becomes flatter and shifted upward considerably in the context of short term bond yields increased sharply. According to Bloomberg, yields on 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y terms ended Q3.2018 at 4.088% (+175 bps qoq), 4.205% (+151.7 bps qoq), 4.278% (+121.5 bps qoq), 4.458% (+80.8 bps ytd), 4.725% (+57 bps qoq), 5.013% (+18.8 bps qoq), 5.3% (+10 bps qoq) respectively.
- Foreigners were net sellers of more than VND 4,000 billion in almost all tenors.
- Interbank rates remained high. The cost of capital in the monetary market increased relatively over the same period. At the end of September, overnight rates for 3 months were recorded at 2.6%; 2.867%; 3.1%; 3.633% and 4.25%.
- SBV injected VND 5,500 billion through open market operations in Q3.

VCBS commentary In Q4.2018

- In Q4, pressures to increase yields are becoming clearer. (1) The US-China trade tension may continue to escalate in the coming time. (2) FED is expected to continue raising interest rates again by the end of this year. (3) The expectations of market participants become more cautious when potential gain are relatively lower than the risks investors shall bear once enter the market.
- In Q4, the interbank rates are less likely to decrease. Instead, seasonal factor at the end of the year may result in higher rate in money market. Thus, in the last quarter, the interbank rates will continue to be higher than that in the same period last year.

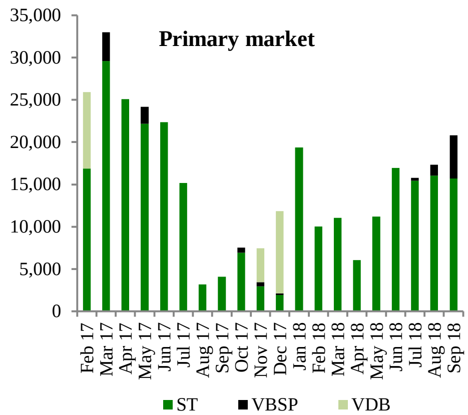
BOND MARKET

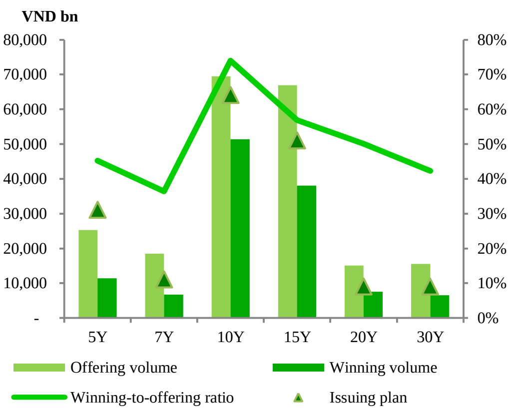
Primary Market

10 and 15 - year terms continued to be the most mobilized terms.

VND 53,910 billion (+ 57.76% qoq) of bonds was mobilized

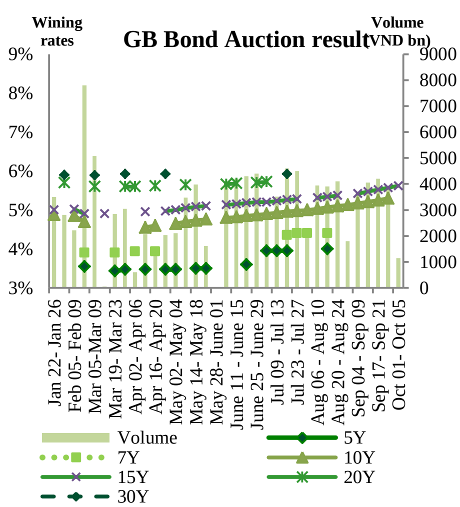
VND 53,910 billion (+ 57.76% qoq) of bonds was mobilized in Q3 from the State Treasury and the Bank for Social Policies. Specifically, the State Treasury raised VND 2,250bn; VND 460 bn; VND 26,250 bn; VND 17,870 bn; VND 300 bn and VND 50 bn bonds at 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenors. Winning-to-offering rate reached 53.46%.





Source: HNX, VCBS

In Q3, the winning rate increased significantly in short tenors. Specifically, the winning interest rate was recorded at 3.5% (+40 bps); 3.9% (+47 bps); 4.8% (+43 bps); 5.07% (+37 bps); 5.22% (+2 bps) and 5.42% (+9 bps) for 5Y, 7Y, 10Y, 15Y, 20Y and 30Y. In Q3, the 10Y and 15Y were the ones with high volume mobilized. The gap between the primary and secondary markets remained high, especially in short terms.



Term	2018 plan (adjusted)	Issued 9T.2018	% of completion plan
5Y	31.000	11.434	36,9%
7Y	11.000	6.710	61,0%
10Y	64.000	51.400	80,3%
15Y	51.000	38.079	74,7%
20Y	9.000	7.565	84,1%
30Y	9.000	.573	73,0%
Total	175.000	121.761	69,6%

Source: HNX, VCBS

Social Policy Bank of Vietnam called for a large volume of bonds in Q3 and successfully mobilized VND 6,730 bn (~ 24% of the total offering volume) at 3Y, 5Y and 15Y. Vietnam

Development Bank does not mobilize bonds in Q3.

Macro updates in Q3.2018:

- The General Statistics Office (GSO) informed the socio-economic situation in the first 9 months of 2018. In particular, GDP in Q3 is estimated to grow 6.88% over the same period last year; GDP in 9M.2018 is estimated to grow increase 6.98% - the highest level since 2011. In the overall economic growth, the agriculture, forestry and fishery sector increased by 3.65%, contributing 8.8% on general growth; Industrial and construction sector increased by 8.89%, contributing 48.7%; The service sector increased by 6.89%, contributing 42.5%. VCBS still remain the same view for GDP growth in 2018 shall be around from 6.9% -7.1%, which exceeds the target of the Government.

- CPI growth yoy continued to settle below 4%. In detail, CPI in September increased 0.59% mom, equivalent to a 3.98% increase yoy. The main factors that led to price change last month were education services and transportation. Core inflation in September 2018 ticked up 0.14% over the previous month, which equivalent to a growth of 1.61% yoy. VCBS estimates inflation target of 4% throughout 2018 is within reach. However, this implies that more upward pressure on CPI will show up in 2019.

- On the foreign exchange market, exchange rates on the free market as well as exchange rates at commercial banks showed signs of cooling down significantly. We have not changed our view that with the existing resources and the clear message about the direction of governance, the SBV can keep the central rate depreciated around 2% - 2.5% for 2018 - significantly lower than other countries in the region. Meanwhile, at times of stress, exchange rates at commercial banks may trade at the ceiling level within the 3% band that has been regulated against the central rate. It should be noted that the SBV may continue to use the OMO rates as an administrative tool to support the stabilization of the exchange rate.

- Deposit growth in 9 months reached 9.15%; Credit growth reached 9.52% (lower than the figure of 10.08% in the same period last year). In the first week of October, some major commercial banks have raised interest rates in short terms with a rise of 20 points. Thus, after two recent adjustments, deposit rates at large banks have risen by about 50 basis points, in line with the rates raised by small commercial banks in the previous months. This move, in our opinion, is to maintain the level of competition in deposit mobilization in the context of the need for deposit mobilization, which is projected to increase with seasonality effects at the end of the year. However, we think that after the seasonal effect passes through mobilizing interest rates will stabilize again.

- In contrast to the gradual recovery of the domestic market, US-China trade tensions continued to escalate in Q3. In response to these developments, the People Bank of China (PBoC) on October 07th announced a sharp cut in its reserve requirement to inject liquidity into the financial system, thereby lowering lending rates in the context of concerns about the negative impact on economic growth from the escalating trade war with the United States. These measures have officially come into effect since October 15th.

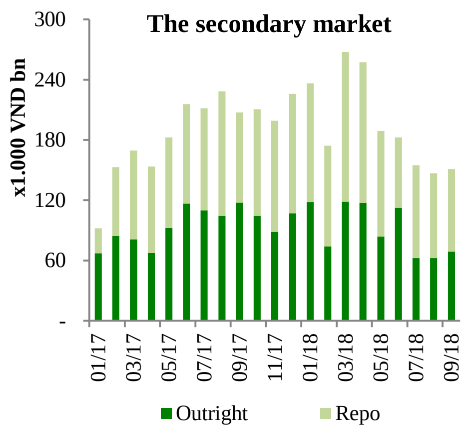
- Meanwhile, at the monetary policy meeting in September, FED decided to raise the basic interest rate by 0.25% to around 2 - 2.25% and more likely to have one more rate increasing later this year. At the same time, FED raised its growth prospects for 2018 from 2.8% to 3.1%; while forecast for growth in 2019 is about 2.5% - higher than the 2.4% given earlier. 10Y US bond yield also surged above 3.2%, creating a negative sentiment in the US stock market.

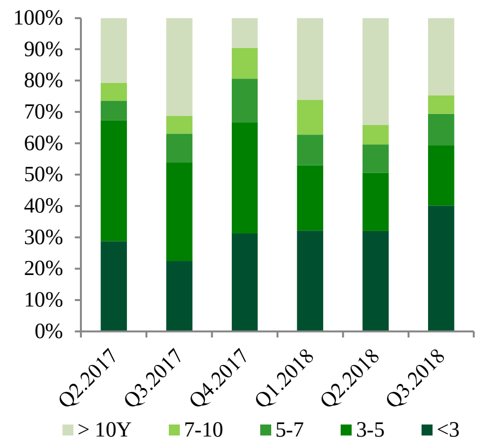
Secondary market

VND 452,969 billion (-28% qoq, -30% yoy) traded on the secondary market.

Trading value continued to decline. Yields increased sharply especially in short terms. Psychological precaution prevailed.

VND 452,969 billion (-28% qoq, -30% yoy) traded on the secondary market. The outright trading value reached VND 193,721 billion (-38% qoq) while the repo value also decreased to VND 259,248 billion (-18% qoq). Short-term bonds (<5 years) accounted for nearly 60% of total outright trading. Bonds traded at longer maturities over 10 years (25%).

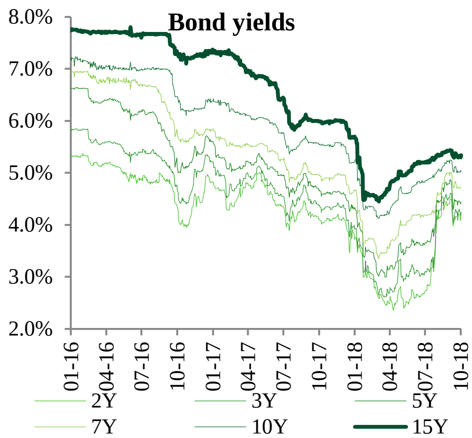


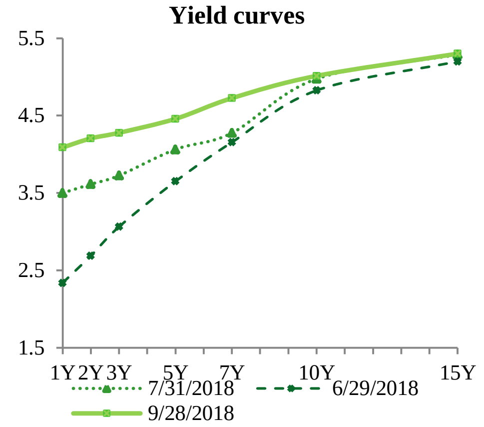


Source: HNX, VCBS Research

The yield curve becomes flatter and shifted upward considerably in the context of short term bond yields increased strongly. According to Bloomberg, yields on 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y terms ended Q3.2018 at 4.088% (+175 bps qoq), 4.205% (+151.7 bps qoq), 4.278% (+121.5 bps qoq), 4.458% (+80.8 bps ytd), 4.725% (+57 bps qoq), 5.013% (+18.8 bps qoq), 5.3% (+10 bps qoq) respectively.

The reasons for the pressure to increase bond yields are quite similar to the previous period: Specifically, (1) domestic macroeconomic indicators in this period are no longer expected to be positive. (i) although inflation, cooled in the last two months, it is important that government remained administrative effort consistently, especially in response with unpredictable factors such as world commodity prices as well as prices of food and foodstuffs; (ii) Exchange rate at no longer ticked up significantly though still settled at a high level; Besides this, (2) the US – China trade tensions continue to escalate; and (3) The liquidity of the banking system is not so abundant, coupled with the higher interbank interest rates than that of the previous period, also dominates the short-term bond yields.





Source: Bloomberg, VCBS Research

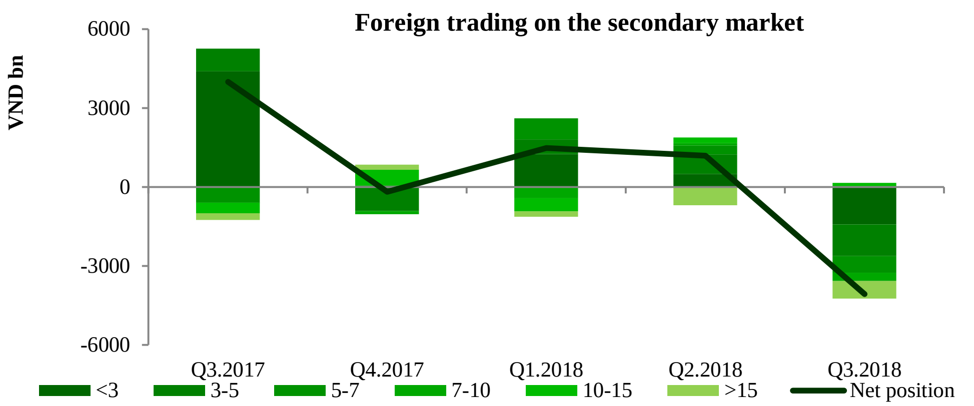
In Q4, even though macroeconomic indicators like inflation and exchange rate have shown signs of cooling down as we expected in the previous reports, uncertainty factors still exist at a considerable level, making the positive effects on the bond market is less likely to happen. Meanwhile, pressures to increase yields are becoming more apparent given that (1) The US - China trade tension may continue to escalate in the coming time. (2) FED is expected to continue raising interest rates again by the end of this year. (3) The expectations of market participants become more cautious when the potential gain are relatively lower than the risks investors shall bear once enter the market. Accompanying that, **the closer to the end of the year, especially December, the higher pressure on bond yields will overwhelm and dominate the market.**

On the other hand, the factor can temporarily relieve pressure on yields (if any) of high probability related to new foreign currency flows to the market.

In summary, we believe that in the fourth quarter, pressure to increase yield will still occupy the mainstream in the fourth quarter.

Foreigners were net sellers of more than VND 4,000 billion in most terms.

Foreigners were net sellers of more than VND 4,000 billion in most terms. As mentioned in the previous reports, we think that foreign investors will continue trading in the next months when the incentive to return to the market remains unclear.



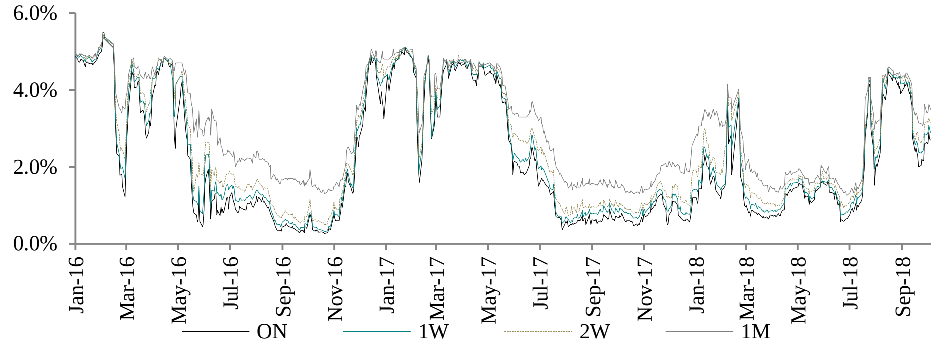
Source: HNX, VCBS Research

Interest rates

The interbank rates remained high. The cost of capital in the money market increased relatively over the same period.

Interbank rates

The interbank interest rate increased in the third quarter recorded a higher level than the previous quarter after SBV's moves. Specifically, at the end of September, interest rates for overnight terms to 3 months were recorded at 2.6%; 2.867%; 3.1%; 3.633% and 4.25%.



Source: Bloomberg, VCBS Research

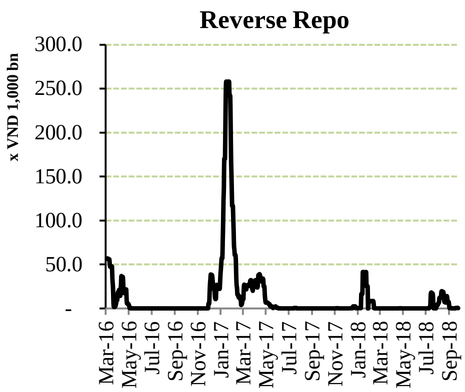
The interbank rates have remained high in recent years, in our opinion, stemming from the measures taken by the State Bank of Vietnam to relieve some pressure on the exchange rate and stabilize inflation. Accordingly, in the market although the liquidity is not so abundant, there is no record of shortages given that (1) Public investment disbursement figures, although slightly increased, it is not large enough. (2) Credit growth will continue to be lower than 2017 (14% -15% forecast for 2018), especially after the SBV's 04th directive is issued with the important content "Do not consider and adjust credit growth targets (except for special cases, such as some commercial banks involved in restructuring in 2018 for weak CIs)".

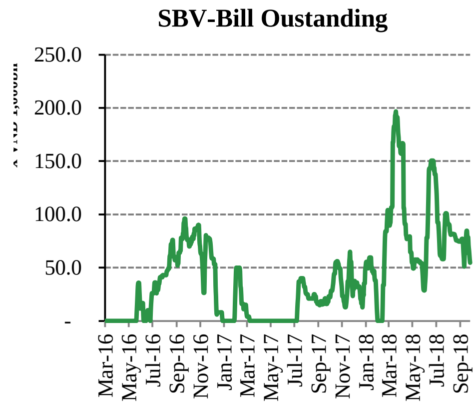
In the fourth quarter, with forecasts of uncertainty factors not stabilizing, the SBV will still need consistent measures as experienced in Q3, the interbank rates is less likely to decrease. Instead, Seasonal factor at the end of the year may result in higher rate in money market. **Thus, in Q4, the interbank rates will continue to be higher than that in the same period last year.**

The SBV net injected VND 5,500 billion through open market operations in Q3.

The Open market operations

The SBV net injected VND 5,500 billion through open market operations in Q3. In the third quarter, the SBV used open market tools to regulate interest rates on the interbank market. Specifically, the SBV issues 91-day, 140-day notes at high interest rates (3.75% for 140-day notes). Although after August 07th, the State Bank stopped issuing bonds with a term of 140 days, interest rates for selling activities remained high at a specific seven-day (2.75%) and term of 14 days (3%). Although we raise the interest rates on short selling, we do not appreciate the possibility that the SBV will move similar with term buy. Instead, the scenario with a high probability is that the SBV will continue to hold 4.75% for term buy and flexible use of open market operations tools to support system liquidity in some cases: (1) liquidity stress caused by seasonal factors or (2) the State Bank conducts forex trading activities in accordance with the market demand.





Source: Bloomberg, VCBS Research

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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
Aug-17	3,179	4.6	4.8	5.38	5.75	N/A	6.1	0	0	0	3,179
Sep-17	4,086	4.65	4.85	5.4	N/A	N/A	6.1	0	0	0	4,086
Oct-17	6,910	4.5	4.85	5.42	N/A	N/A	N/A	0	600	0	7,510
Nov-17	2,931	4.52	4.88	5.42	5.75	5.82	6.1	4,000	500	0	7,431
Dec-17	1,900	4.52	N/A	5.28	N/A	N/A	N/A	9,745	208	0	11,853
Jan-18	19,365	4.3	4.35	4.38	4.5	5.2	5.4	0	0	0	19,365
Feb-18	10,015	3.05	3.4	4.2	4.4	N/A	N/A	0	0	0	10,015
Mar-18	11,028	2.97	3.43	N/A	4.4	5.1	5.42	0	0	0	11,028
Apr-18	6,055	2.97	3.43	4.1	4.47	5.12	5.42	0	0	0	6,055
May-18	11,178	3	N/A	4.26	4.6	5.14	N/A	0	0	0	11,178
Jun-18	16,940	3.1	N/A	4.37	4.7	5.2	N/A	0	0	0	16,940
Jul-18	15,420	3.45	3.9	4.48	4.78	5.22	5.42	0	350	0	15,770
Aug-18	16,060	3.5	3.9	4.63	4.87	N/A	N/A	0	0	0	16,080
Sep-18	**15,700**	**3.5**	**3.9**	**4.8**	**5.07**	**5.22**	**5.42**	**0**	**5,100**	**0**	**20,800**

Secondary Market

	Bonds		ST-bills		Total
Month	Outright	Repo	Outright	Repo	
Jul-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
Dec-17	107,063	118,739	-	-	225,802
Jan-18	118,223	118,127	-	-	236,350
Feb-18	73,893	100,365	-	-	174,285
Mar-18	118,614	149,163	-	-	267,777
Apr-18	117,127	140,244	-	-	257,371
May-18	83,940	104,896	-	-	188,836
Jun-18	112,344	70,399	-	-	182,733
Jul-18	62,423	92,597	-	-	155,020
Aug-18	62,332	84,661	-	-	146,993
Sep-18	**68,966**	**81,990**	**-**	**-**	**150,956**

Open Market Operation

Month	Reverse Repo				Outright (SBV Bills)			
	Due	Offer		Due	Offer		Due	Offer
06/2017	2,766	1,452	-1,314	0	0	0	0	0
07/2017	0	506	506	506	45,000	85,000	40,000	40,000
08/2017	0	0	0	0	125,996	110,997	-15,000	25,000
09/2017	0	0	0	0	78,425	69,424	-9,000	16,000
10/2017	0	0	0	0	75,299	113,300	38,000	54,000
11/2017	223	223	0	0	72,205	83,105	10,900	64,900
12/2017	169	2,435	2,266	2,266	159,441	110,941	-48,500	16,400
01/2018	3,260	42,309	39,048	41,314	167,106	197,705	30,600	47,000
02/2018	49,780	8,466	-41,314	0	59,000	90,600	31,600	78,600
03/2018	31	31	0	0	84,100	196,710	112,610	191,210
04/2018	2	2	0	0	191,210	78,500	-112,630	78,580
05/2018	170	170	0	0	80,280	55,840	-24,440	54,140
06/2018	0	0	0	0	54,140	150,499	96,359	150,499
07/2018	15,993	17,993	2,000	2,000	112,500	44,461	-68,039	82,461
08/2018	37,167	42,869	5,702	7,702	35,312	28,482	-6,830	75,630
09/2018	**15,401**	**8,155**	**-7,246**	**456**	**50,000**	**52,950**	**2,950**	**78,581**

DISCLAIMER

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