

Fixed-Income Report

October 2018

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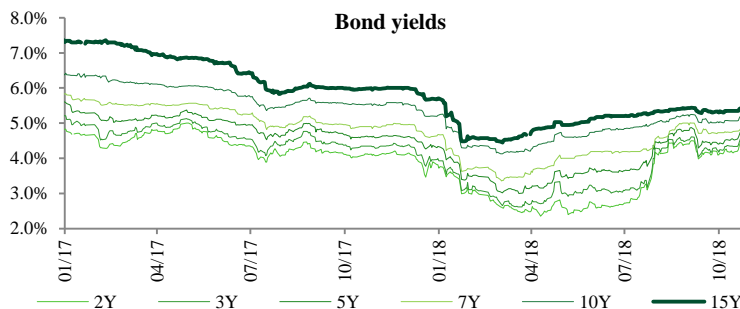
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Highlights



Source: Bloomberg, VCBS

■ VND 8,360 billion (-60% mom) of bonds was mobilized from the State Treasury and the Bank for Social Policy. VND 43,081 billion (-4% mom, -31% yoy) traded on the secondary market.

■ The yield curve shifted upward slightly as yields in all terms increased. According to Bloomberg, 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y bond yields ended October at 4.363% (+27.5 bps mom); 4.483% (+27.8 bps mom); 4.543% (+26.5 bps mom); 4.75% (+29.2 bps mom); 4.9% (+17.5 bps mom); 5.213% (+20 bps mom) and 5.425% (+12.5 bps mom).

■ **Foreigners were net sellers of VND 655 billion in October, when there was no favorable information for them to return to the market.**

■ **The interbank rates remained high. The cost of capital in the monetary market remained high and increased relatively over the same period.** At the end of October, according to Bloomberg statistics, interest rates for overnight terms to 3 months were recorded at 4.4%; 4.48%; 4.52%; 4.5% and 4.6% respectively.

■ **The SBV net injected more than VND 92 trillion via OMO.**

VCBS commentary

■ We note that the upward pressure on bond yields is still prevailing at all maturities. The positive points could affect the market, if any, will only happen when liquidity in the interbank market plentiful again. However, we did not speak highly that chance.

■ **As we approach the end of the year, seasonal effects will prevent interest rates in the interbank market from ticking down. The decrease level (if any) shall be modest. In addition, there has been a consistent signal of the SBV to continue to use the market interest rate tool as part of its measures to achieve exchange rate target.** Therefore, in case no huge inflow realized in the market, we predict that liquidity tense may happen due to seasonal factor.

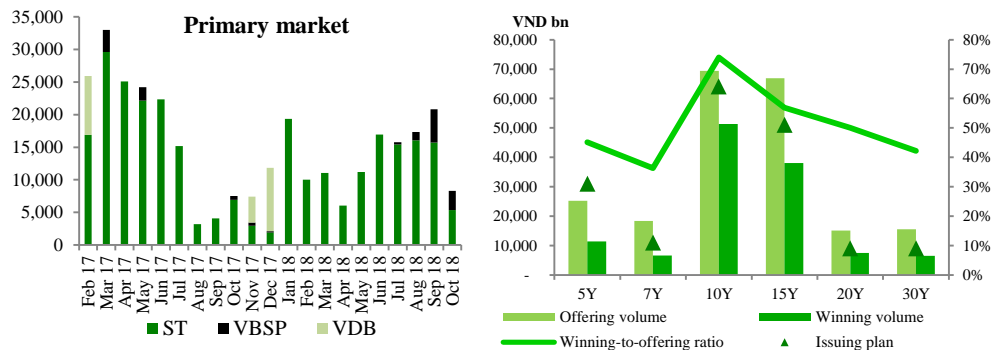
BOND MARKET

Primary Market

The 10Y and 15Y terms were mostly mobilized.

VND 8,306 billion (-60% mom) of bonds was mobilized

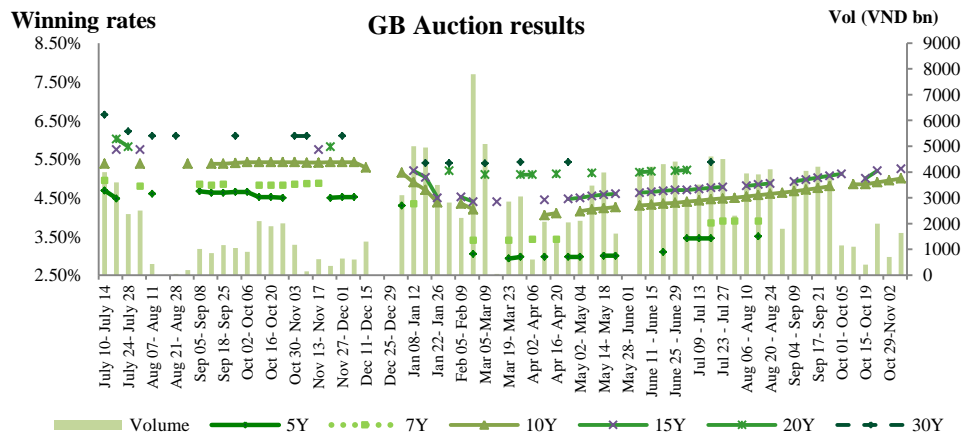
VND 8,306 billion (-60% mom) of bonds mobilized in October from the State Treasury (SBV) and Vietnam Bank for Social Policies (VBSP). Specifically, the State Treasury mobilized VND 975 billion; VND 2,666 billion and VND 1,725 billion of bonds at 5Y, 10Y and 15Y terms.



Source: HNX, VCBS

The winning rates increased slightly in all tenors, especially the 5Y term. Specifically, the winning rate was recorded at 4.2% (+70 bps); 4.95% (+15 bps) and 5.2% (+13 bps) for 5Y, 10Y and 15Y. In October, the 10Y and 15Y terms continued to be the most successful tenor mobilized. The difference between the primary and secondary markets has narrowed considerably at the 5Y term.

VBSP called for VND 5,430 billion worth of bonds in October. However, only VND 2,940 billion was successfully raised in short terms of 5Y and 15Y. Vietnam Development Bank (VDB) did not mobilize bonds in October.



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 October.2018:

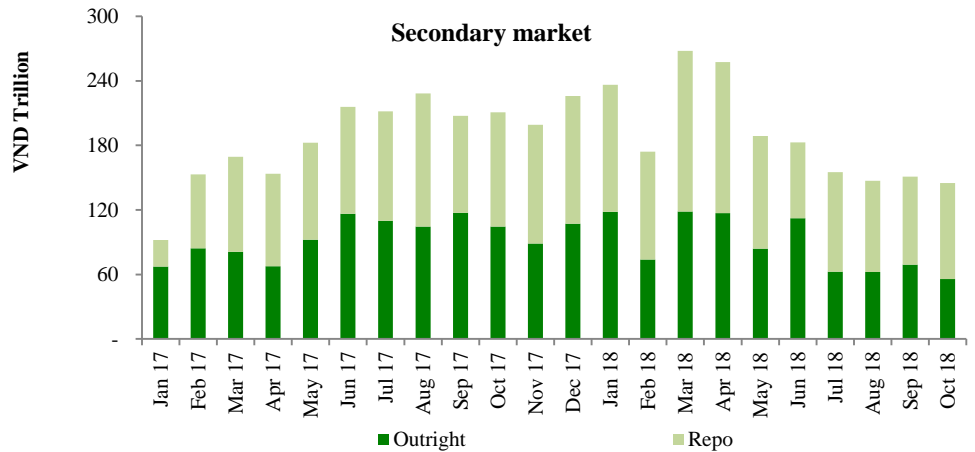
- According to Nikkei statistics, Vietnam's PMI rose to 53.9 from 51.5 in September, showing a positive expansion of production. This data coincides with the socio-economic situation in 10M, according to GSO data. Specifically, the industrial production index in the first 10 months increased by 11.2% - maintain high growth rate. Of which, the manufacturing and processing industry grew by 12.7%. **GDP growth in the fourth quarter is forecasted to be over 7% and thus bring the GDP growth rate in 2018 to approximately 7%.**
- CPI growth rates over the same period last year remained below 4%. Specifically, CPI in September increased 0.33% mom, corresponding to an increase of 3.89% over the same period. The factors that led to the increase in price indexes in the past month were education, traffic and food & foodstuff. Core inflation in October 2018 increased 0.13% over the previous month and increased 1.67% ytd. CPI in November is forecasted to decrease 0.1%, respectively 3.65% yoy as gasoline and food prices cooled down. **CPI for the whole 2018 is forecasted to increase by 3.54% - 3.65% over the end of 2017, corresponding to an average CPI of ~ 3.63%. CPI growth rate below 4% for 2018 is feasible.** However, a target of 4% inflation for 2019 shall be more challenging.
- The deposit and lending rates at commercial banks remained stable in October. VCBS forecasts that the interest rate will stabilize when the exchange rates cool down. It is unlikely that deposit rates will continue to increase in the last two months of 2018 is not high.
- In October, exchange rates at commercial banks always remained high and traded nowhere far from the central bank's central rate. The SBV continued to sell large amounts of foreign currency to meet market demand. With that, SBV provided liquidity support via OMO. With the recent developments, the SBV is still showing consistency and determination of keeping the VND devaluation at a reasonable level compared to other regional countries in 2018 with many measures including both interest rates.
- The CNY's exchange rate fell to the lowest level since May 2008, close to the key psychology of 7 CNY per USD. In addition, the risk of withdrawing from the world's second-largest economy also increased as data on foreign currency demand hit record highs in October and sentiment shifted from China to avoid the impact of the tensions. When the tensions are predicted to be premature and can produce medium-term impacts,
- Meanwhile, at the meeting of monetary policy in November, the FED decided to keep the basic interest rate at 2% - 2.25% and it is likely that there will be one more interest –lifting to go in December's FOMC.

Secondary market

Trading value continued to decline. Bond yields kept ticking up in October.

VND 145.081 billion (-4% mom, -31% yoy) were traded in the secondary market.

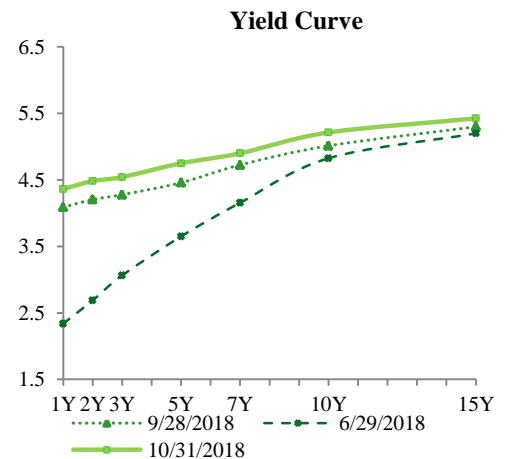
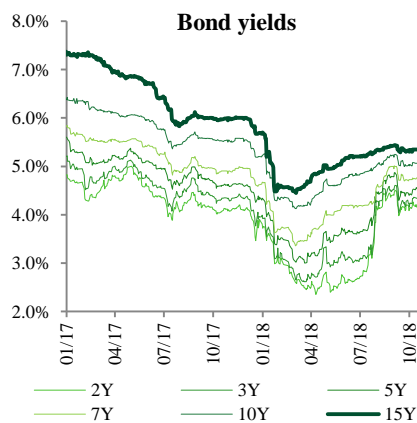
VND 145,081 billion (-4% mom, -31% yoy) traded on the secondary market. In particular, the outright trading value reached VND 55,760 billion (-19% MoM) while the repo price slightly increased compared to September to VND89,213 billion (+ 8.9% MoM). Short-term bonds (<5 years) accounted for nearly 58% of total outright trading followed by long-term bond over 10 years (13%).



Source: HNX, VCBS Research

The yield curve shifted upward slightly as yields in all terms increased. According to Bloomberg, 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y bond yields ended October at 4.363% (+27.5 bps mom); 4.483% (+27.8 bps mom); 4.543% (+26.5 bps mom); 4.75% (+29.2 bps mom); 4.9% (+17.5 bps mom); 5.213% (+20 bps mom) and 5.425% (+12.5 bps mom).

In particular, although the momentum of yield has declined significantly compared to Q3, the upward pressure on bond yields can be explained by several factors: Specifically, (1) Although, inflation have settled blow 4% threshold for the last three month, it should be noted that market expectation for Inflation in 2019 at the moment is at higher level regarding uncertainties of higher commodities price and smaller room of postponing an increase in public services (2) The exchange rates quoted at commercial bank though no longer increased strongly, still traded nowhere far from ceiling rates. Therefore, SBV still have to use interest rate in money market as a useful tool to achieve the exchange rate targets. (3) US-China tensions are not merely about trade issues and consequently may last in medium term or even long term.



Source: Bloomberg, VCBS Research

During the remaining time of the year, uncertainties still exist given that (1) The US-China trade tension may continue to escalate in the coming time as tariff measures may be imposed more. (2) One more interest lifting is on the table for December's FOMC. This will

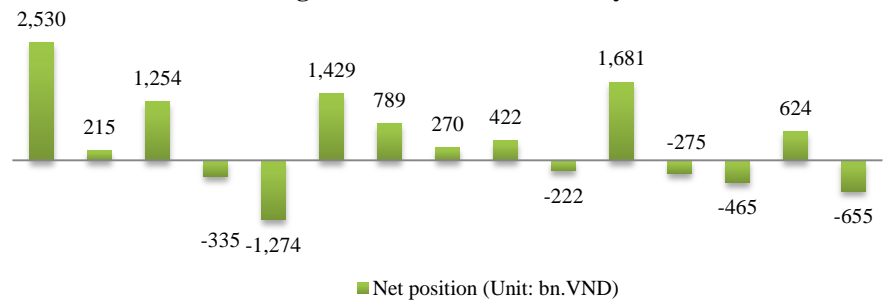
accompany by a medium-term upward trend in yields on US Treasuries. (3) Additionally, the seasonal effect normally occurs at the end of the year shall prevent bond yield from decrease especially when market players are consensus about a more cautious scenario for the remains in 2018 and even extends to 2019.

With all of these factors, we note that the upward pressure on bond yields is still prevailing at all maturities. The positive points could affect the market, if any, will only happen when liquidity in the interbank market plentiful again. However, we did not speak highly that chance.

Foreigners were net sellers of VND 655 billion in October, when there was no favorable information for them to return to the market.

Foreign investors were net sellers of VND 655 billion in October. As mentioned in the previous reports, we think that foreign investors will continue to trade in the coming months as the incentive to return to the market is still unclear.

Foreign investors in the secondary market



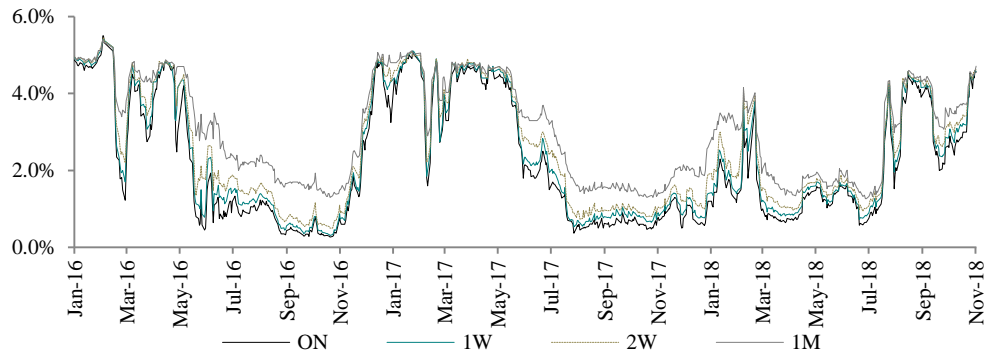
Source: HNX, VCBS Research

Interest rates

The interbank rates remained high. The cost of capital in the monetary market pushed higher over the same period.

Interbank rates

The interbank interest rate increase in October remained high after the SBV's move to ease the pressure on the exchange rate. Specifically, at the end of October, according to Bloomberg statistics, interest rates for overnight terms to 3 months were recorded at 4.4%; 4.48%; 4.52%; 4.5% and 4.6% respectively.



Source: Bloomberg, VCBS Research

The interbank rates have been maintained at a high level recently, in our view, stemming from the SBV's measures to ease exchange rate pressures and stabilize inflation in the recent period. Accordingly, although the liquidity is not so abundant, there is no shortage as (1) the disbursement of public investment, though slightly increased, is insufficient. (2) Credit growth is expected to be lower than 2017, especially after Directive No.04 of SBV in August.

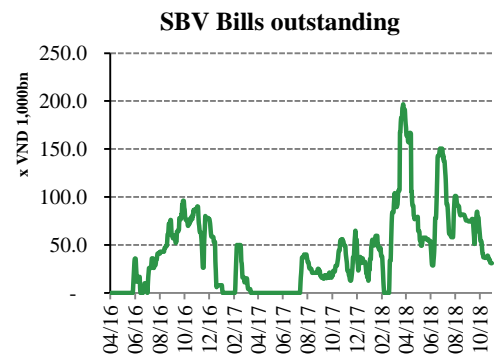
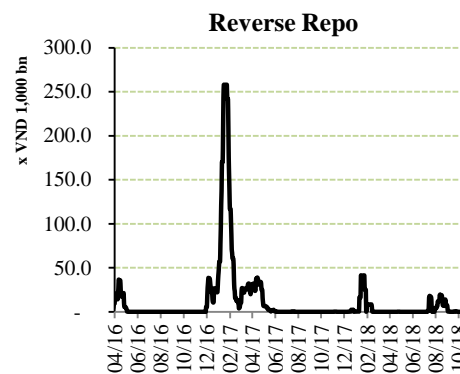
As we approach the end of the year, seasonal effects will prevent interest rates in the interbank market from ticking down. The decrease level (if any) shall be modest. In addition, there has been a consistent signal of the SBV to continue to use the market interest rate tool as part of its measures to achieve exchange rate target. Therefore, in case no huge inflow realized in the market, we predict that liquidity tense may happen due to seasonal factor.

The SBV net injected more than VND 92 trillion through open market operations.

The Open market operations

The SBV net injected more than VND 92 trillion through open market operations. In October, open market operations were seen as a factor supporting smoothly liquidity of the system after SBV's foreign currency selling activities. For the outright activities, VND 62.591 billion of bills matured. At the same time, the issuance of new bills reached VND 15,070 billion at 7-day and 14-day with interest rates of 2.75% and 3%, respectively. Notably, interest rates for 7-day and 14-day terms have been revised up by 25 percentage points compared to September.

Liquidity has shown signs of deterioration in recent months, when the State Bank began to carry out term buy activities to support liquidity system. Specifically in October, the State Bank of Vietnam (SBV) has carried out repo activities with a value of over VND 52,658 billion at 7-day term at 4.75% interest rate. However, unlike SBV bills, we do not appreciate the possibility that the SBV will raise OMO rates for Repo activities when it still has more policy room to manage and achieve policy targets.



Source: Bloomberg, VCBS Research

End.

APPENDICES

Primary Market

Month	Issued Volume	ST Bond						VDB	VBSP	Other	
		5 Y	7Y	10Y	15Y	20Y	30Y	Issued Volume	Issued Volume	Issued Volume	Issued Volume
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
Oct-18	5,366	4.2	N/A	4.95	5.2	N/A	N/A	0	2,940	0	8,306

Secondary Market

Month	Bonds		ST-bills		Total
	Outright	Repo	Outright	Repo	
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
Oct-18	55,760	89,321	-	-	145,081

Open Market Operation

Month	Reverse Repo				Outright (SBV Bills)			
	Due	Offer	Due	Offer	Due	Offer	Due	Offer
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
10/2018	16,018	60,562	44,544	45,000	62,591	15,070	(47,521)	31,060

DISCLAIMER

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