

Fixed-Income Report

January/2019

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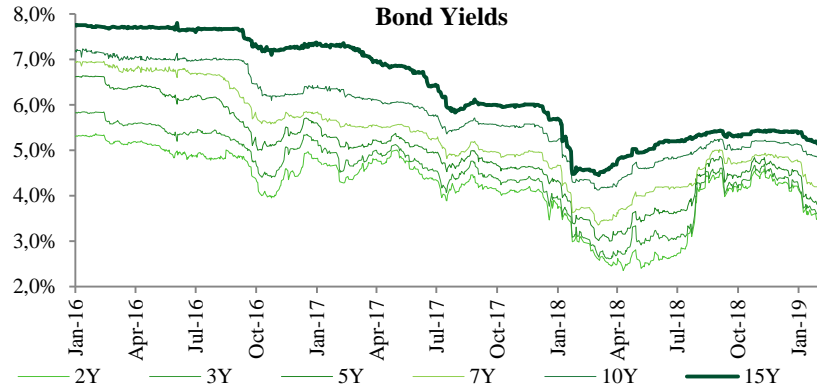
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Round-up



Source: Bloomberg, VCBS

- VND 36,344 bn (+28% mom, +87% yoy) worth of bond was mobilized. VND 157,438 billion (-2,04% mom) traded on the secondary market.
- Yield curve shifted downward and became steepened. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y ended January at 3.34% (-76 bps mom), 3.478% (-73.2 bps mom), 3.608% (-68.7 bps mom), 3.84% (-71.5 bps mom), 4.2% (-56.3 bps mom), 4.863% (-26.2 bps mom) and 5.183% (-23 bps mom) respectively.
- **Foreign bought VND 2,121 bn in bond market.**
- **Interbank rates were in high level almost all January due to seasonal factors.** In detail, at the end of January, interbank rate for ON-3M tenors were recorded at around 5%. However, note that, liquidity in money market immediately benefits from news that exchanges rates pressure cooled down.
- **SBV net injected VND 93,228 bn via OMO channel.**

VCBS Commentary February 2019

- In February, after Lunar new year, we expect that liquidity soon returned to the system and consequently may result in a downward force in bond yields especially for the short-ones, which are sensitive to liquidity matter.
- We believe that the stability of macroeconomics indexes were better-off notably exchange rates and inflation. Hence, we are expecting an abundant liquidity in banking system in the upcoming period. It shall help to tick down interbank rate from high threshold recorded from November. Meanwhile, for public investment we expect a surge in this investment only from 2H.2019

Bond Market

Primary Market

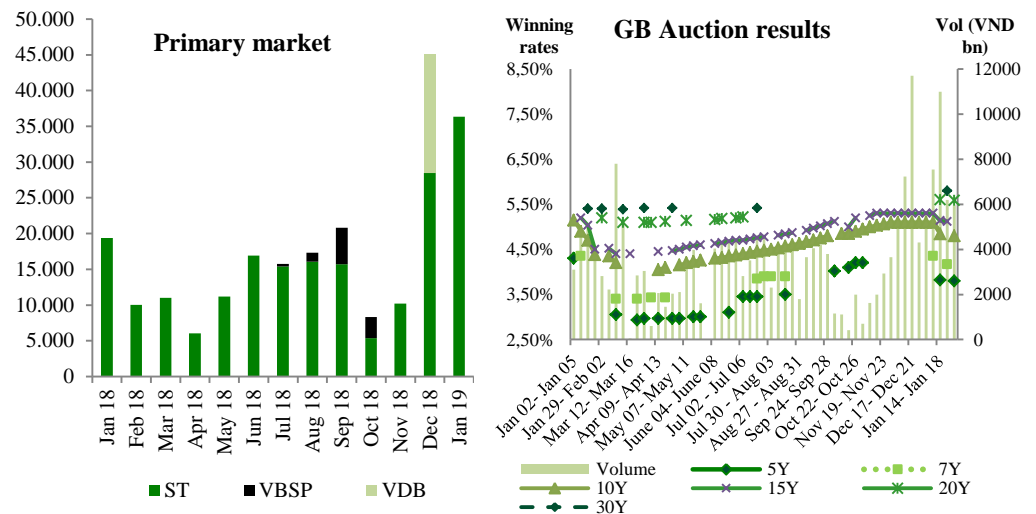
ST kept focused on mobilizing bonds in 10Y and 15Y.

VND 36,344 bn (+28% mom, +87% yoy) worth of bond was mobilized.

VND 36,344 bn (+28% mom, +87% yoy) worth of bond was mobilized in January from the State Treasury (ST). Therein, **ST kept focused on mobilizing bonds in 10Y and 15Y.** In detail, VND 2,500 bn; VND 1,350 bn; VND 17,150 bn; VND 14,000 bn; VND 949 bn and VND 395 bn were mobilized in 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenors, respectively.

Winning rates tended to decrease in January. The decrease level ranged from 2-30 bps this month. This may refer that market expect a downward force in bond market in upcoming period. Therefore, these days demand for bond was high. In January the register-offering ratio jumped to from 1.33 times in December to 3.48 times. Therein the average Winning-to-Offering ratio was also recorded high at 87.5%.

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



Source: HNX, VCBS

From the latest updates, the annual issuance plan for 2019 was VND 200,000 bn. We will keep updating plan for 2019 as well as Q1.2019. Note that in February, VND 12,233 bn worth of bond will mature (~10% amount of bond mature in 2019)

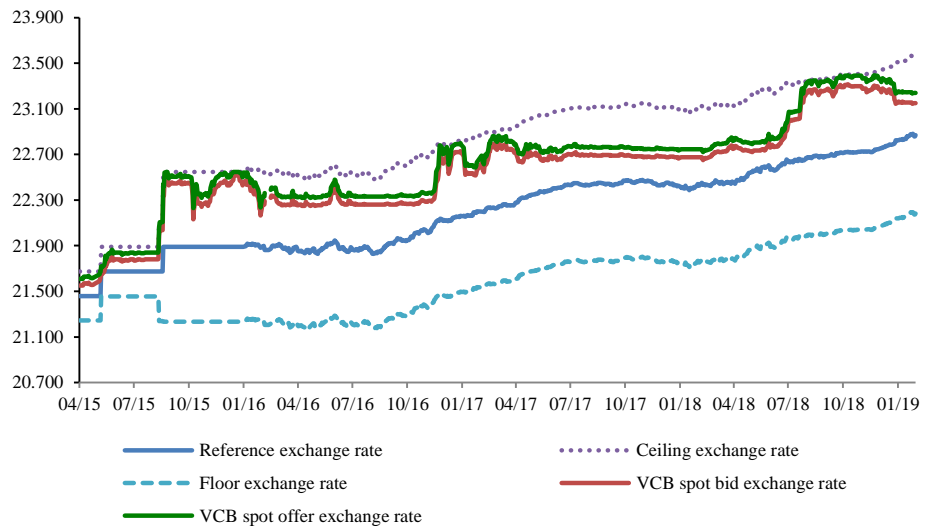
Macro updates:

- According to Nikkei, PMI in Vietnam reached 51.9 in January compared to 53.8 in December. Outputs and new orders this month grew at moderate pace though they still expand for the last 38 months. In addition GSO releases report on economic situation with same moderate growth of manufacturing subsector. In detail, index of industrial production (IIP) for the whole industry in January 2018 grew 7.9% over the similar period in 2017 while the same figure last year was 22.1%. With these figures we still anticipate that GDP growth in Q1.2019 shall vary from 6.2%-6.5%.
- CPI in January of 2019 increased by 0.1% compared to last month, which equivalent to an increase of 2.56% over the same period of 2017. Therein, main driver of CPI

growth was Food and beverage while transportation prevented CPI from increase this month. We believe consumer demand is usually high at this period due to seasonal factor of the festival seasons and it is a normal to have a high CPI level in the remaining of Q1. Therefore, till now we do not concern much about upward pressure on CPI.

- In a recent conference of Banking Industry, SBV has stated the credit growth target of the same figure of 2018 (~14%). With this figure, it can be indicated that SBV aimed at a sustainable credit growth instead of a fast-growing with a view to prolong the sustainability. Hence we still expect an active period for bond market in 1H.2019.
- Exchanges rates cooled down significantly thank to timely regulating approach from SBV. In detail, SBV successfully purchase USD 4 bn this month after raising USD buying price at SBV Operation center by VND 500 to VND 23,200 per USD. The gap between ceiling rate and exchange rates traded at commercial banks widened.

USD/VND Exchange rate



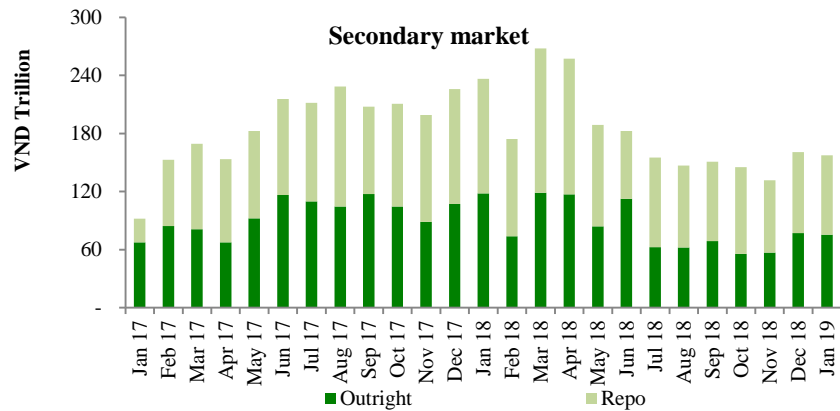
- In the latest meeting in January, FED did not raise interest rate and pledged that future moves will be done patiently and with an eye toward how economic conditions unfold. Meanwhile, 10Y US bond yield traded at ~2.7%- far from its peak~3.2% recorded in November.

Secondary Market

Market was still in laggard status. Yield curve became steepened in January.

VND 157,438 billion (-2,04% mom) traded on the secondary market.

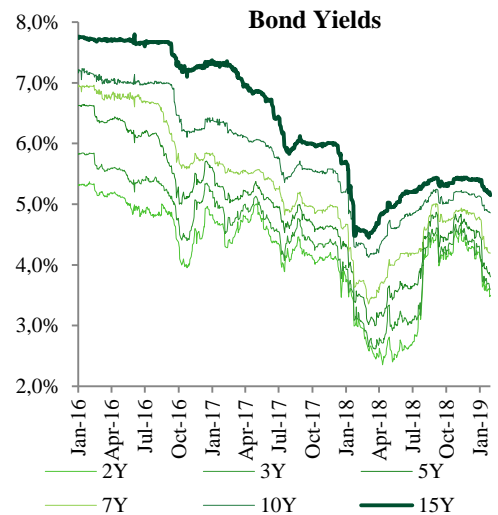
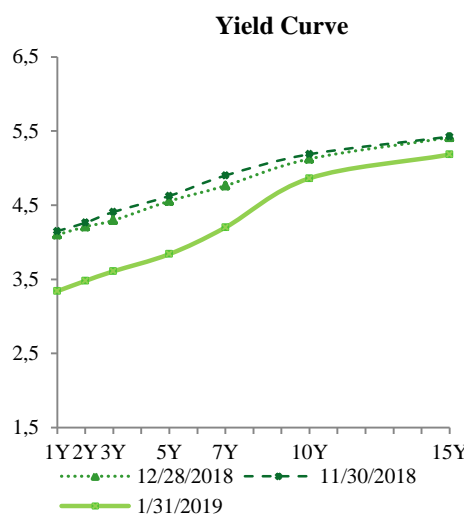
VND 157,438 billion (-2.04% mom) traded on the secondary market. In particular, both outright and repo keep decrease slightly this month recorded at VND75,609 billion (-2.05% mom, -36.04% yoy) and VND 89,825 billion (-2.05% mom,-30.7% yoy). From Issuer’s perspective, ST bond still dominated the market with more than 87% of outright trading value.



Source: HNX, VCBS

Yield curve shifted downward and became steepened. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y ended January at 3.34% (-76 bps mom), 3.478% (-73.2 bps mom), 3.608% (-68.7 bps mom), 3.84% (-71.5 bps mom), 4.2% (-56.3 bps mom), 4.863% (-26.2 bps mom) and 5.183% (-23 bps mom) respectively.

Although the seasonal factor still exist in January prior to Lunar New Year. Bond yield experienced a downward force due to some factor: (1) Pressure on exchanges rates released with consistent regulating approach from SBV. (2) Concern on high inflation also eased thanks to support news of lower level on crude oil price compared to the same period last year. (3) More patient approach from FED in term of interest –lifting procedure appeared to make market ‘s sentiment better-off .

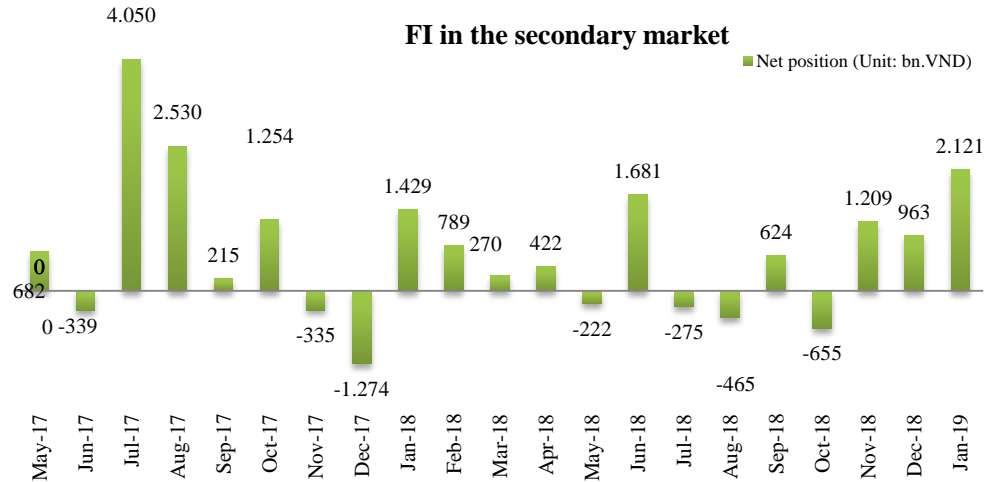


Source: Bloomberg, VCBS

In February, after Lunar new year, we expect that liquidity soon returned to the system and consequently may result in a downward force in bond yields. This is also the second phase, we mention in [Annual report for fixed income](#). Also we drew attention to some supportive news released right after the long break which are (1) SBV has purchased USD 4 bn so far in 2019 and (2) SBV is considering to reduce required reserve ratio for a certain amount. All of these are expected to help strengthen liquidity in banking system. Hence, we expect a downward force on bond yields especially for the short-ones, which are sensitive to liquidity matter.

Foreign bought VND 2,121 bn in bond market.

Foreign bought VND 2,121 bn in bond market. Given the historical data into consideration, we believe that this is the favorite time for foreign investors to build their portfolios especially the ones who are favors short-tenor.



Source: HNX, VCBS

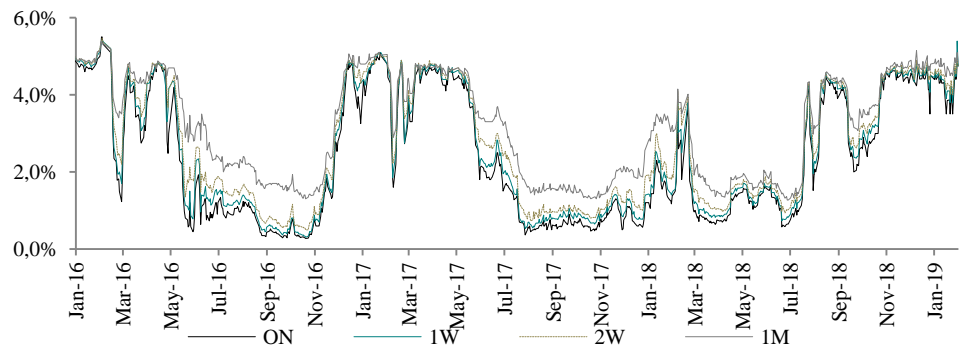
Although, Foreign disbursed more on the last 3 months. We do not speak highly chance that Foreign will soon be extraordinary active on the bond market taking the upward medium trend of US bond yields into consideration.

INTEREST RATE

Interbank Rates

Interbank rates were in high level almost all January due to seasonal factors.

Interbank rates were in high level almost all January due to seasonal factors. In detail, at the end of January, interbank rate for ON-3M tenors were recorded at around 5%. However, note that, liquidity in money market immediately benefits from news that exchanges rates pressure cooled down. We experience this phenomenal in the middle of January. Although it did not last long due to seasonal factor of Lunar new year.



Source: Bloomberg, VCBS

In February, we believe that the stability of macroeconomics indexes were better-off notably exchange rates and inflation. Hence, we are expecting an abundant liquidity in banking system in the upcoming period. It shall help to tick down interbank rate from high threshold recorded from November. Meanwhile, for public investment we expect a surge in this

investment only from 2H.2019.

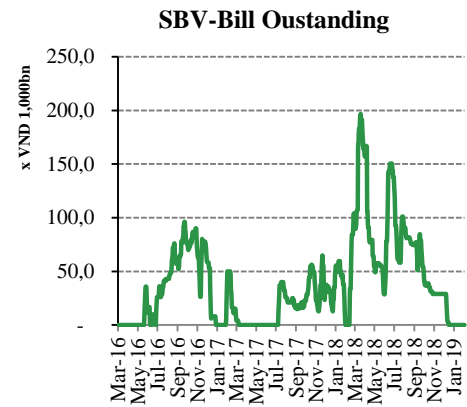
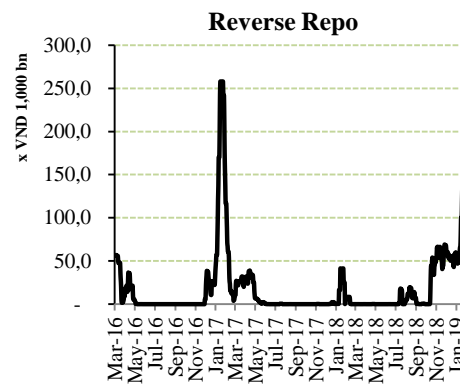
Open Market Operation

SBV net injected VND 93,228 bn via OMO channel.

SBV took full use of OMO to minimize seasonal factors

This year, **SBV took full use of OMO to minimize seasonal factors**. Therein, only about VND 184,000 bn due while more than VND 280,000 worth of reverse repo was newly offered.

Previously, there is rumor that SBV will raise OMO interest rate in Q1 of 2019. However, we believe that this was the very last approach SBV may consider taking. Till now, we do not foresee pressure for SBV to make it happen because liquidity shall rush back to money market when seasonal factors washed away.



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
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
Nov-18	10,220	N/A	N/A	5.1	5.3	N/A	N/A	0	0	0	10,220
Dec-18	28,450	N/A	N/A	5.1	5.3	N/A	N/A	16,545	0	0	44,995
Jan-19	36,344	3.8	4.17	4.8	5.12	5.59	5.8	0	0	0	36,344

Secondary Market

Month	Bonds		ST-bills		Total
	Outright	Repo	Outright	Repo	
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
Nov-18	56,834	74,806	-	-	131,640
Dec-18	77,194	83,527	-	-	160,721
Jan-19	75,609	81,829	-	-	157,438

Open Market Operation

Month	Reverse Repo				Outright (SBV Bills)			
	Due	Offer	Balance	Outstanding	Due	Offer	Balance	Outstanding
Jan-18	3,260	42,309	39,048	41,314	167,106	197,705	30,600	47,000
Feb-18	49,780	8,466	(41,314)	0	59,000	90,600	31,600	78,600
Mar-18	31	31	0	0	84,100	196,710	112,610	191,210
Apr-18	2	2	0	0	191,210	78,500	(112,630)	78,580
May-18	170	170	0	0	80,280	55,840	(24,440)	54,140
Jun-18	0	0	0	0	54,140	150,499	96,359	150,499
Jul-18	15,993	17,993	2,000	2,000	112,500	44,461	(68,039)	82,461
Aug-18	37,167	42,869	5,702	7,702	35,312	28,482	(6,830)	75,630
Sep-18	15,401	8,155	(7,246)	456	50,000	52,950	2,950	78,581
Oct-18	16,018	60,562	44,544	45,000	62,591	15,070	(47,521)	31,060
Nov-18	237,878	237,663	(215)	44,785	2,100	0	(2,100)	28,960
Dec-18	25,929	32,208	6,279	51,064	28,960	0	(28,960)	0
Jan-19	184,354	280,582	93,228	144,292	0	0	0	0

DISCLAIMER

This report is designed to provide updated information on the fixed-income, including bonds, interest rates, some other related. The VCBS analysts exert their best efforts to obtain the most accurate and timely information available from various sources, including information pertaining to market prices, yields and rates. All information stated in the report has been collected and assessed as carefully as possible.

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