

Fixed-Income Report

Q1.2019 report

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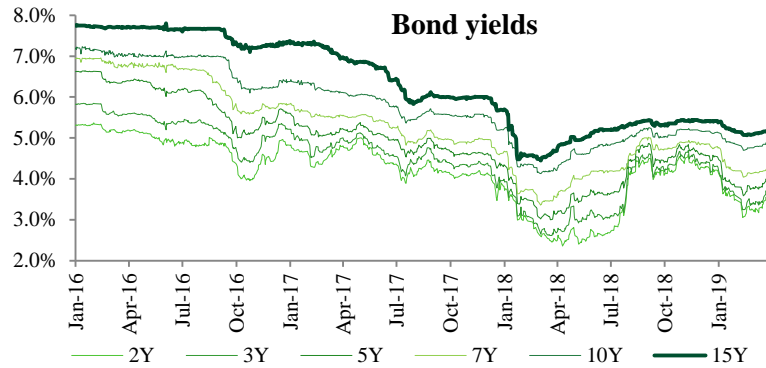
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Round-up



Source: Bloomberg, VCBS compile

■ VND 69.469 billion (+9,36% qoq) worth of shares were mobilized on primary market, VND 503.026 billion (+15% qoq, -26% yoy) were traded on the secondary market in Q1.2019.

■ Yield curve becomes steeper and moves downward in the context of short-term bond yields declined sharply. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y ended Q1.2019 at 3.257% (-84.3 bps qoq), 3.373% (-83.7 bps qoq), 3.508% (-78.7 bps qoq), 3.878% (-67.7 bps qoq), 4.2% (56.3 bps qoq), 4.825% (-30 bps qoq), 5.148% (-26.5 bps qoq).

■ Foreign net bought VND 3,792 billion.

■ Interbank rates gradually decreased in Q1, however rebounded at the end of March. Interbank rate for ON-3M tenors were recorded at 4.15%, 4.183%, 4.217%, 4.317% and 4.433% respectively.

■ SBV net withdrew VND 58,000 bn via OMO channel on Q1.2019.

VCBS Commentary

■ We believe that bond yields may fluctuate in a tight band or decrease slightly in Q2: (1) domestic macro-economic indicators in this period are more positive than expected (2) Banking system liquidity is plentiful, accompanied by interbank interest rate mainly dropped in the quarter and (3) cautious approach from FED to the roadmap of raising interest rates seemed to positively impact investors' sentiment.

■ Until the beginning of April, we believe that interbank rates still have rooms to decrease in Q2. However, news of draft amendment of Circular 36 changes our view considerably because the stricter safety ratio, the more resources credit institution will need. The expected result from this will be higher level of interest rate both in interbanks rates and deposit rates. In the short-term, we do not exclude chance that there may be certain concern on this draft.

BOND MARKETS

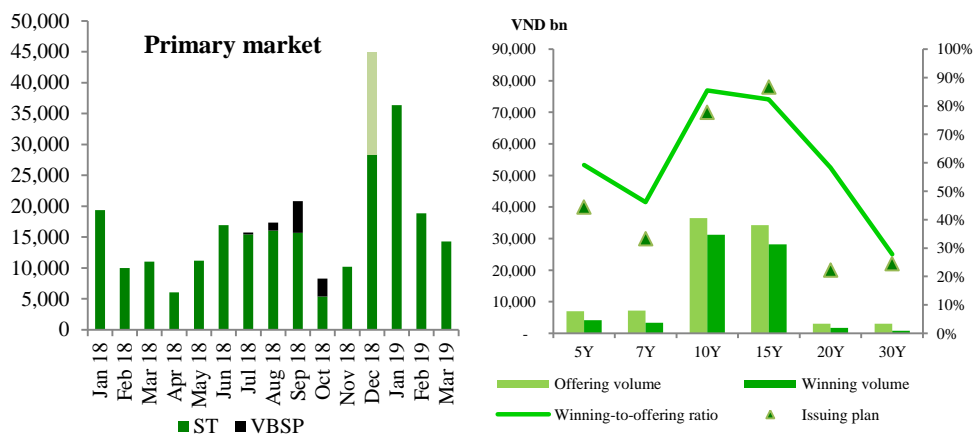
Primary Market

10 and 15 year tenor bonds were mostly mobilized

VND 69,469 billion (+9,36% qoq) worth of bonds were mobilized

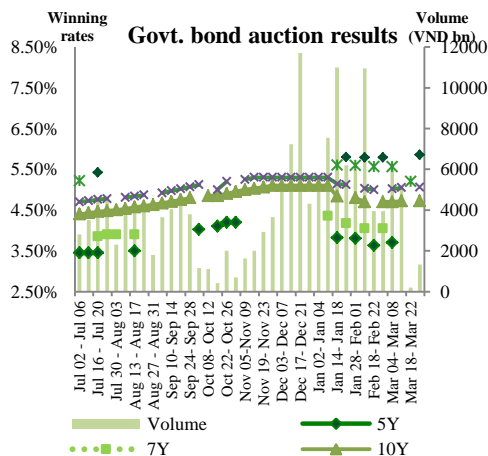
VND 69,469 billion (+9.36% qoq) worth of bonds were mobilized in Q1.2019 from the State Treasury (ST), fulfilling 95% of the plan of issuing government bonds for the State Budget in Q1. In detail, VND 4,150 bn; VND 3,350 bn; VND 31,180 bn; VND 28,205 bn; VND 1,749 bn and VND 835 bn were mobilized in 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenors, respectively. Winning-to-offering rate reached 76.34%.

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



Source: HNX, VCBS compile

Winning interest rates decreased significantly in almost all tenors this quarter. Specifically, the winning interest rates were recorded at 3.70% (-12 bps); 4.05% (-30 bps); 4.72% (-38 bps); 5.06% (-24 bps); 5.20% (-40 bps) and 5.85% (+5 bps) for 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenors. In Q1.2019, 10Y and 15Y terms continue to be the tenors with the highest winning volume and all exceeded the Q1.2019 plan.



| Term | 2019 plan | Q1.2019 plan | Issued in Q1.2019 | % plan |
|-------------|----------------|---------------|-------------------|--------------|
| 5Y | 40,000 | 7,000 | 4,150 | 59.3% |
| 7Y | 30,000 | 5,500 | 3,350 | 60.9% |
| 10Y | 70,000 | 30,000 | 31,180 | 103.9% |
| 15Y | 78,000 | 26,000 | 28,205 | 108.5% |
| 20Y | 20,000 | 3,000 | 1,748 | 58.3% |
| 30Y | 22,000 | 2,000 | 835 | 41.8% |
| Tổng | 260,000 | 73,500 | 69,468 | 94.5% |

Source: HNX, VCBS compile

Updates on domestic and foreign macroeconomic situations:

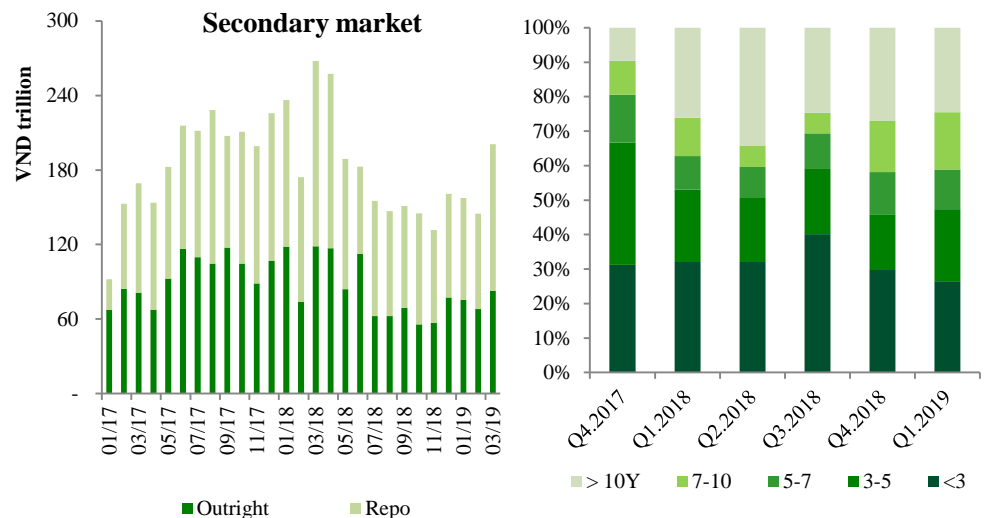
- On March 29th, the General Statistics Office (GSO) released the socio – economic statistics of the first 3 months of 2019. Accordingly, GDP in Q1.2019 is expected to growth by 6.79% over the same period. Although this figure is lower than Q1.2018, this is still higher than the period between 2009 – 2017. The main growth driver of the economy on Q1.2019 was the processing and manufacturing industry with an increase of 12.35%. Along with that, consumer demand continued to grow, shown by the total retail sales of goods and consumer service revenue in the first quarter increased by 12% over the same period. VCBS continues to assess the GDP growth data will continue to be the bright spot for 2019 with GDP growth in the first half of the year expected to fluctuate between 6.75% - 6.87%.
- In March, the CPI declined by 0.21% comparing to the last month, equivalent to the increase of 2.69% comparing to the same period in 2018. In particular, the effect of increasing electricity prices, gasoline prices has been neutralized from the decline in pork prices. VCBS rated the target inflation of 4% for the whole 2019 is feasible. Although inflation has been well controlled in the first quarter, the Government will still need to maintain the operating method as in April, the increase in electricity and gasoline prices is expected to be the main factor that pushes the CPI up in April as well as in Q2.2019.
- Credit growth in the first 3 months (as of March 25th, 2019) reached 2.28% (lower than 2.78% in the same period last year). The State Bank of Vietnam (SBV) expressed its transparency with the target of credit growth at a reasonable level, concentrating resources on handling bad debts. Deposit and lending interest rates remained stable in the quarter; adjustments in deposit rates at banks were local and not representative for the whole system.
- Meanwhile, in the March monetary policy meeting, FED left interest rates unchanged and signaled little appetite for raising them again in the near future. This helps to minimize the possibility that capital inflows will gradually shift away from the frontier and emerging markets at least in this year.
- On Friday (March 22nd), the yield of 10-year US Government bond was officially 0.01% lower than the yield of 3Y US Government bond for more than 10 years since the 2007 – 2008 economic recession. In general, the direct cause of this movement is the strong demand to seek safe assets of EU investment funds after the underperforming economic data of Europe and concerns about the coming economic recession in this area. It is noteworthy that according to the statistics over the past 60 years (since the end of the Second World War), whenever the yield curve is reversed, it is always followed by a recession of one or several major economic locals in the world. In the short term, the risk of declining when the Vietnamese stock market movement is synchronized with the world stock market is still very large. However, in the longer term, Vietnam is still one of the attractive destinations with foreign investment flows thanks to a stable political environment and a good growth economy.
- After the tension of the foreign exchange market in the end 2018, since the beginning of the year, the SBV has continuously bought foreign currency to raise foreign exchange reserves. The exchange rate at commercial banks did not change much in Q1.2019 around VND 23,250 per USD. Along with positive news from FED's

movements, along with the assumption of investment capital flow into Vietnam will be maintained. VCBS expects that the VND depreciation in 2019 will not exceed 2% instead of 3% as mentioned in the previous reports.

VND 503.026 billion (+15% qoq, -26% yoy) were traded on the secondary market

Secondary market
Market liquidity remained high

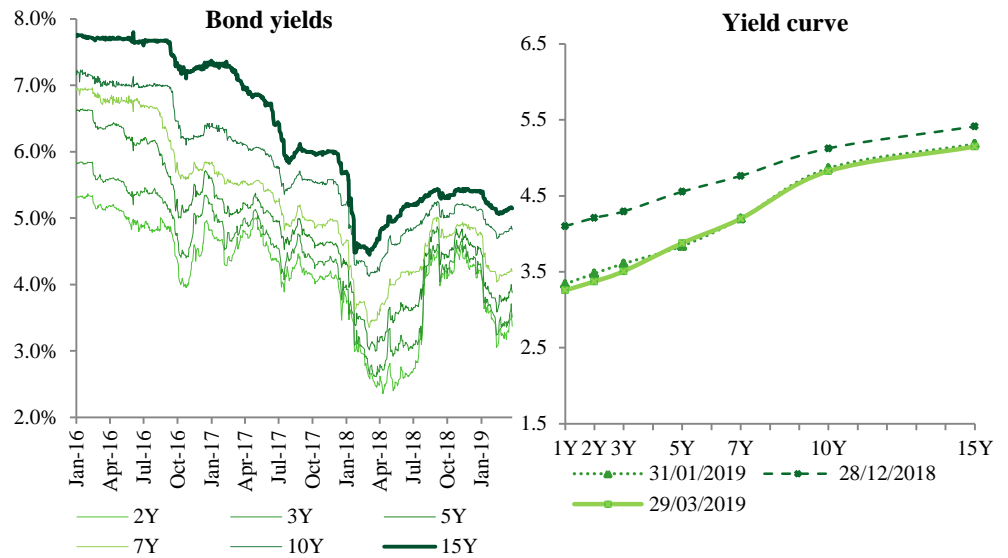
VND 503.026 billion (+15% qoq, -26% yoy) were traded on the secondary market. Average trading volume strongly increased 29% to VND 8,673 bn per session. For outright, value traded recorded at VND 226.545 bn (+19% qoq) while that of repo reached VND 276.481 billion (+12% qoq). Short term bonds (<5 years) accounted for 47% of the total trading value. This was followed by bonds traded at longer terms of more than 10 years (nearly 25%).



Source: HNX, VCBS compile

Yield curve becomes steeper and moves downward in the context of short-term bond yields declined sharply. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y tenors ended Q1.2019 at 3.257% (-84.3 bps qoq), 3.373% (-83.7 bps qoq), 3.508% (-78.7 bps qoq), 3.878% (-67.7 bps qoq), 4.2% (56.3 bps qoq), 4.825% (-30 bps qoq), 5.148% (-26.5 bps qoq).

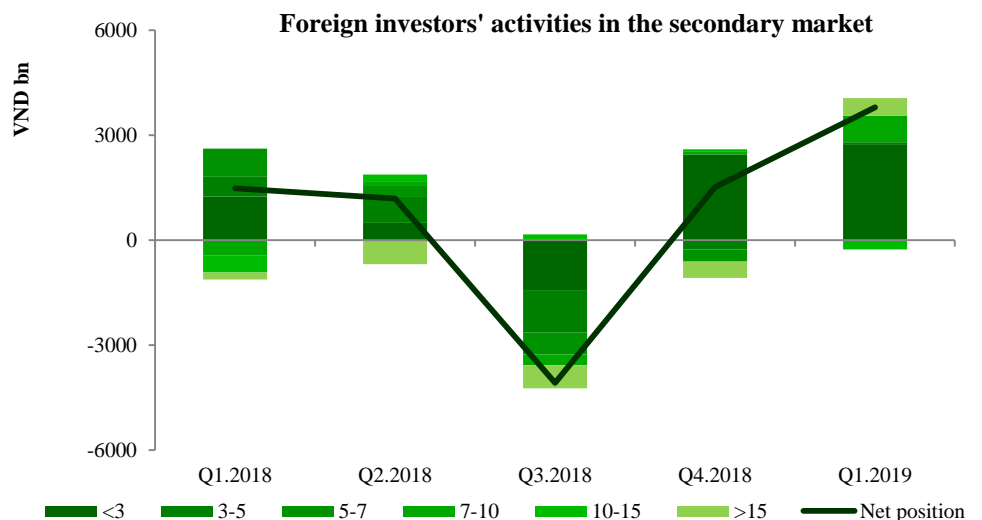
We believe that bond yields may fluctuate in a tight band or decrease slightly in Q2: (1) domestic macro-economic indicators in this period are more positive than expected: (i) GDP growth rate is still high; (ii) Inflation is well-controlled within 4%; (iii) No pressure on exchange rates recorded in Q1. Along with that, (2) Banking system liquidity is plentiful, accompanied by interbank interest rate mainly dropped in the quarter and (3) cautious approach from FED to the roadmap of raising interest rates seemed to positively impact investors' sentiment.



We believe that bond yields may fluctuate in a tight band or decrease slightly with the following argument: (1) Interbank rates still have room to decline (2) Expectations of market members are also more optimistic as FED may not increase interest this year (3) The pressure of exchange rate is not too stressful and the domestic macroeconomic situation remains stable.

Foreign net bought VND 3,792 billion on most terms.

Foreign net bought VND 3,792 billion on most terms. Q1.2019 was recorded as the period when foreign investors were net buyers in order to restructure their portfolio. Specifically, short term (<3 years) has the highest net buying value of VND 2,745 billion. Besides, FED keeps interest rates unchanged also is also good news that may explain net bought value on the market.

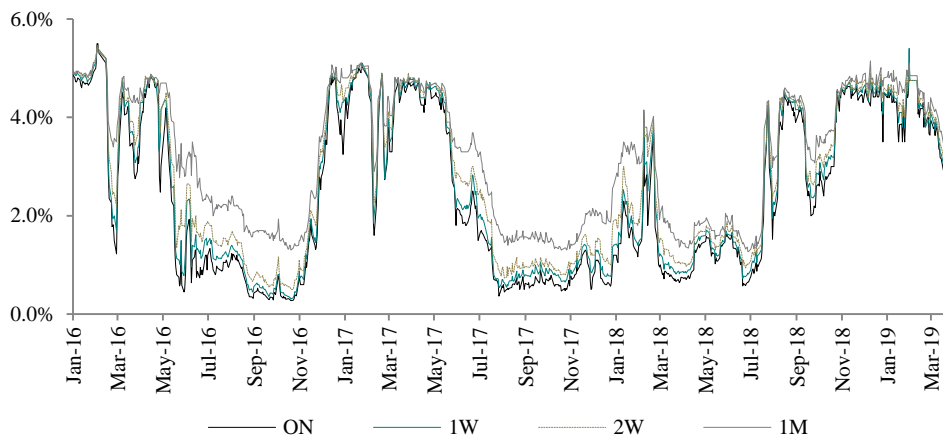


Interest rates

Interbank rates

Interbank rates decreased in Q1.2019

Interbank rates decreased in Q1.2019 after seasonal factor came to an end. In particular, interbank rates declined sharply from the beginning of January; however, at the end of March, there were signs of increasing again at all terms. We believe that the cause may stem from some banks to ensure that they meet safety ratio regulated by State Bank. Interbank rates for ON-3M tenors were recorded at 4.15%, 4.183%, 4.217%, 4.317% and 4.433% respectively.



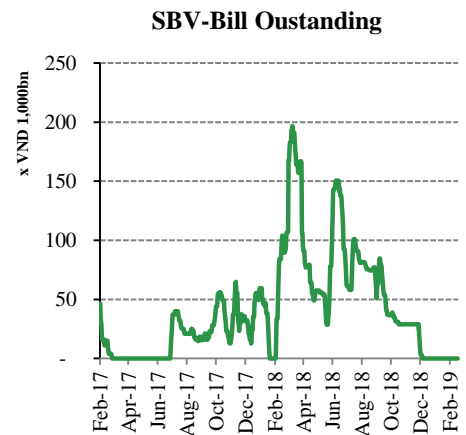
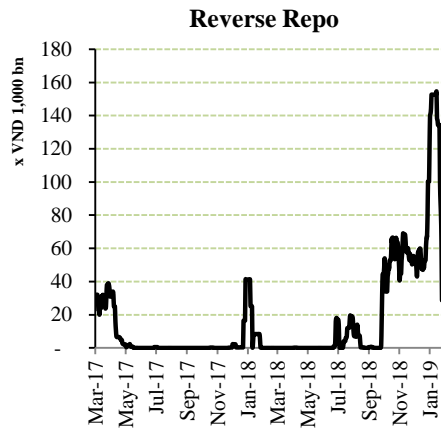
Source: Bloomberg, VCBS compile

Until the beginning of April, we believe that interbank rates still have rooms to decrease in Q2.2019 based on these factors: The increase in the last quarter is likely to be only a moment when banks need to secure resources to meet safe ratios, before April 01st, 2019 when the SBV starts to classify financial institutions according to Circular 52/2018. (2) Liquidity was plentiful when the amount of Government bonds maturing mainly in the first half of the year reached VND 92,495 billion (equivalent to 77% of the total volume matured in 2019). (3) Public investment reached VND 33.5 trillion, equal to 7.8% of annual plan, which indicates that public investment is still behind the schedule. Although some measures are carrying out so as to fix this, there is likelihood that investment can only surge in the second half of 2019. (4) The SBV has favorable conditions for foreign exchange reserves, creating abundant liquidity in the market. (5) Credit growth is forecasted to grow at the same level compared to 2018, ensuring risk control and supporting economic growth (forecasted to reach 14% for the whole 2019).

However, news of draft amendment of Circular 36 changes our view considerably because the stricter safety ratio, the more resources credit institution will need. The expected result from this will be higher level of interest rate both in interbanks rates and deposit rates. In the short-term, we do not exclude chance that there may be certain concern on this draft.

SBV net withdrew VND 58,000 bn via OMO channel on Q1.2019. **Open market operations**

SBV net withdrew VND 58,000 bn via OMO channel in Q1.2019. Previously, there were concerns that the SBV might have to raise Reverse Repo rates. However, these concerns have gradually been eliminated, and it is unlikely that SBV will increase rate applied to repo activities. In Q1.2019, the SBV has used the appropriate OMO tool to regulate interest rates on the interbank market. Even so, from March 13th, SBV issued 7-day T - bills, 3% interest rate to absorb surplus liquidity after buying foreign currency reserves.



Source: Bloomberg, VCBS compile

END.

APPENDICES
Primary Market

| Month | ST Bond | | | | | | | VDB | VBSP | Other | Total Issued Volume |
|----------------|---------------|-------------|------------|-------------|-------------|-------------|-------------|---------------|---------------|---------------|---------------------|
| | Issued Volume | 5 Y | 7Y | 10Y | 15Y | 20Y | 30Y | Issued Volume | Issued Volume | Issued Volume | |
| 02/2018 | 10.015 | 3,05 | 3,4 | 4,2 | 4,4 | N/A | N/A | 0 | 0 | 0 | 10.015 |
| 03/2018 | 11.028 | 2,97 | 3,43 | N/A | 4,4 | 5,1 | 5,42 | 0 | 0 | 0 | 11.028 |
| 04/2018 | 6.055 | 2,97 | 3,43 | 4,1 | 4,47 | 5,12 | 5,42 | 0 | 0 | 0 | 6.055 |
| 05/2018 | 11.178 | 3 | N/A | 4,26 | 4,6 | 5,14 | N/A | 0 | 0 | 0 | 11.178 |
| 06/2018 | 16.940 | 3,1 | N/A | 4,37 | 4,7 | 5,2 | N/A | 0 | 0 | 0 | 16.940 |
| 07/2018 | 15.420 | 3,45 | 3,9 | 4,48 | 4,78 | 5,22 | 5,42 | 0 | 350 | 0 | 15.770 |
| 08/2018 | 16.060 | 3,5 | 3,9 | 4,63 | 4,87 | N/A | N/A | 0 | 0 | 0 | 16.080 |
| 09/2018 | 15.700 | N/A | N/A | 4,8 | 5,07 | 5,22 | 5,42 | 0 | 0 | 0 | 15.700 |
| 10/2018 | 5.366 | 4,2 | N/A | 4,95 | 5,2 | N/A | N/A | 0 | 0 | 0 | 5.366 |
| 11/2018 | 10.220 | N/A | N/A | 5,1 | 5,3 | N/A | N/A | 0 | 0 | 0 | 10.220 |
| 12/2018 | 28.450 | N/A | N/A | 5,1 | 5,3 | N/A | N/A | 0 | 0 | 0 | 28.450 |
| 01/2019 | 36.344 | 3,8 | 4,17 | 4,8 | 5,12 | 5,59 | 5,8 | 0 | 0 | 0 | 36.344 |
| 02/2019 | 18.850 | 3,63 | 4,05 | 4,70 | 5,00 | 5,56 | 5,79 | 0 | 0 | 0 | 18.850 |
| 03/2019 | 12.775 | 3,70 | N/A | 4,72 | 5,06 | 5,20 | 5,85 | 0 | 0 | 0 | 12.775 |

Secondary Market

| Month | Bonds | | ST-bills | | Total |
|----------------|---------------|----------------|----------|------|----------------|
| | Outright | Repo | Outright | Repo | |
| 01/2018 | 118.223 | 118.127 | - | - | 236.350 |
| 02/2018 | 73.893 | 100.365 | - | - | 174.285 |
| 03/2018 | 118.614 | 149.163 | - | - | 267.777 |
| 04/2018 | 117.127 | 140.244 | - | - | 257.371 |
| 05/2018 | 83.940 | 104.896 | - | - | 188.836 |
| 06/2018 | 112.344 | 70.399 | - | - | 182.733 |
| 07/2018 | 62.423 | 92.597 | - | - | 155.020 |
| 08/2018 | 62.332 | 84.661 | - | - | 146.993 |
| 09/2018 | 68.966 | 81.990 | - | - | 150.956 |
| 10/2018 | 55.760 | 89.321 | - | - | 145.081 |
| 11/2018 | 56.834 | 74.806 | - | - | 131.640 |
| 12/2018 | 77.194 | 83.527 | - | - | 160.721 |
| 01/2019 | 75.609 | 81.829 | - | - | 157.438 |
| 02/2019 | 68.127 | 76.721 | - | - | 144.848 |
| 03/2019 | 82,809 | 117,931 | - | - | 200,740 |

Open Market Operation

| Date | Reverse Repo | | | | Outright (SBV Bills) | | | |
|----------------|---------------|---------------|-----------------|--------------|----------------------|---------------|--------------|--------------|
| | Due | Offer | Balance | Outstanding | Due | Offer | Balance | Outstanding |
| 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 | - | - | - | 45,000 | - | - | - | 31,060 |
| 11/2018 | - | - | - | 44,785 | - | - | - | 28,960 |
| 12/2018 | - | - | - | 51,064 | - | - | - | - |
| 01/2019 | 187,354 | 280,582 | 93,228 | 144,292 | - | - | - | - |
| 02/2019 | 188,097 | 64,776 | (123,321) | 20,972 | - | - | - | - |
| 03/2019 | 50,248 | 30,911 | (19,337) | 1,635 | 54,499 | 59,399 | 4,900 | 4,900 |

DISCLAIMER

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