

Fixed-Income Report

May.2020 report

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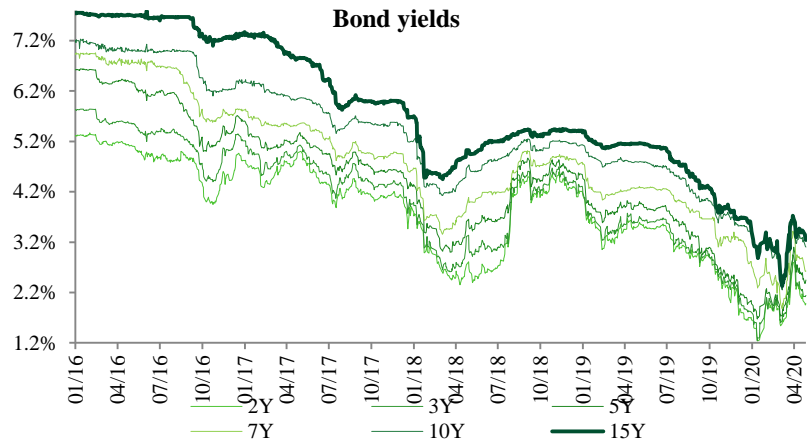
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Round-up



Source: Bloomberg, VCBS

■ VND 18,392 bn (+499.1% mom) was mobilized on primary market. VND 181,719 bn (+29.7% mom) were traded on the secondary market.

■ The yield curve became steeper, bond yields for short-tenors decreased sharply while bond yields for long-tenors inched up. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y end February 2020 at 0.95% (-89.5 bps mom), 1.49% (-48.8 bps mom), 1.76% (-38.7 bps mom), 2.20% (-25.0 bps mom), 2.79% (+16.4 bps mom), 3.19% (+9.4 bps mom), 3.39% (+15.2 bps mom), respectively.

■ Foreign net sold VND 1,768 billion this month.

■ Abundant liquidity in the interbank market, the downtrend dominated on interbank rates. Accordingly, interest rates have fallen to the lowest level in the last 3 years. At the end of May, ON-3M interest rates were recorded at 0.41%, 0.63%, 0.82%, 1.33% and 2.46%, respectively.

■ SBV net injected VND 99.991 bn via OMO channel.

VCBS Commentary

■ Yield curve is expected to move downwards due to the following key factors: (1) Vietnam's macro-economic prospects are stable, (2) Abundant liquidity on the interbank, (3) The unput cost of banks may decrease significantly as deposit rates decline at all tenors.

■ Liquidity in the interbank market is expected to be abundant in June; Interbank interest rates continued to be maintained at the current low levels.

BOND MARKETS

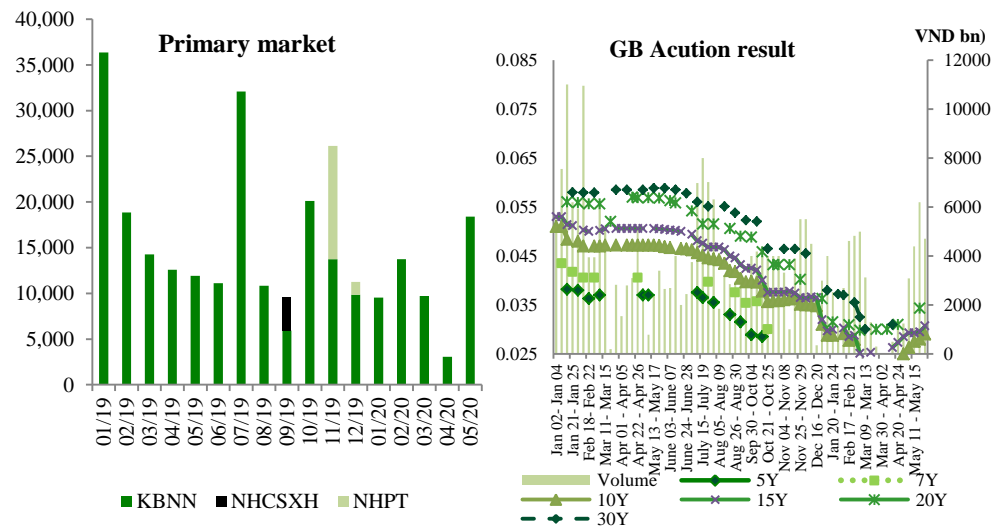
Primary Market

Winning volume focused on 10Y & 15Y tenors.

VND 18,392 bn (+499.1% mom) worth of bonds were mobilized.

VND 18,392 bn (+499.1% mom) worth of bonds were mobilized in May. In detail, VND 90 bn; 8,207 bn; 9,895 bn and 200 bn were mobilized in 5Y, 10Y, 15Y and 20Y tenors, respectively. The auction for 7Y and 30Y tenors was not successful. Register-to-offering rate increased slightly from 1.73 times to 1.83 this month. Winning-to-offering rate robust 70.74% while the figure was only 18.61% last month. 5Y, 10Y, 15Y and 20Y tenor winning rates posted at 2.20%, 2.90% (+40 bps mom), 3.07% (+22 bps mom), 3.43% (+33 bps mom).

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



Source: HNX, VCBS

State Treasury issuance plan updated:

In 5 months, VND 54,443 bn worth of bonds were mobilized as 20.9% of 2020 plan, winning volume focused on 10Y and 15Y tenors. The detailed plan is listed below.

Tenor	Q2.2020 Plan	2020 Plan	Issued in M5.2020	Issued in M4,5.2020	Issued in 5M.2020	%Complete Q2.2020	%Complete 2020
5Y	3,000 – 4,000	20,000	90	90	590	2.3% - 3.0%	2.9%
7Y	3,000 – 4,000	15,000	0	0	1,480	0.0%	9.9%
10Y	22,000 – 25,000	90,000	8,207	10,057	18,936	40.2% - 45.7%	21.0%
15Y	22,000 – 25,000	100,000	9,895	10,845	21,592	43.4% - 49.3%	21.6%
20Y	5,000 – 6,000	20,000	200	370	5,171	6.2% - 7.4%	25.9%
30Y	5,000 – 6,000	15,000	0	100	6,674	1.7% - 2.0%	44.5%
Total	60,000 – 70,000	260,000	18,392	21,462	54,443	30.7% - 35.8%	20.9%

Source: MOF, VCBS Research

Macro updates:

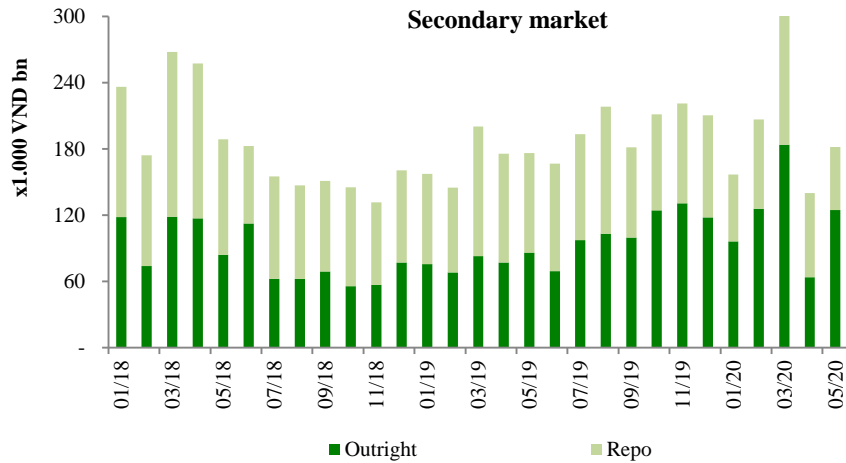
- According to HIS Markit data, Vietnam's PMI reached 42.7 points, up 10 points from the record low of 9 years in April. PMI increased due to the control of the Covid-19 epidemic, production output outlook will be more positive. However, the concern of the second wave is the main factor that made PMI in May unable to rebound considerably. **Accordingly, VCBS forecasts that GDP growth in Q2 will reach 3.3% - 3.6%.**
- CPI in May decreased by 0.03% compared to the previous month mainly due to the impact of gasoline prices falling at the end of April. In contrast, food price level is relatively high and unlikely to drop sharply in the next month, given that demand will gradually recover. **Thus, inflation in June is expected to increase by 0.2% - 0.3% mom, equivalent to an increase of 2.7% - 2.8% yoy.**
- On 12/5/2020, the State Bank decided to adjust the interest rates. Accordingly, the refinancing interest rate decreased from 5.0%/year to 4.5%/year; Rediscount interest rate decreased from 3.5%/year to 3.0%/year; overnight lending interest rate in inter-bank electronic payment decreased from 6.0%/year to 5.5%/year; offering interest rate of valuable papers through open market operations decreased from 3.5%/year to 3.0%/year. In the context of the complicated Covid-19 epidemic movement, the lowering interest rate action is an important policy with the direction of maintaining liquidity and supporting economic growth, in line with the tendency of easing monetary policy in the world.
- Exchange rates on free market as well as exchange rates at commercial banks have favorable movements. In detail, the exchange rates at commercial banks reached 23,190 VND/USD (-0.47% mom, +0.35% ytd) at the end of May. The Covid-19 epidemic was strongly controlled and prevented and the messages from the State Bank created positive sentiment. In such a context, VCBS forecasts that the exchange rate will fluctuate not more than 2% for the whole 2020.
- Geopolitical instabilities have escalated around the world, contrary to developments stabilizing from the domestic market. Concerns about tensions between the US and China after China passed security laws with Hong Kong, though the US has no plans to withdraw from the trade deal yet. Accordingly, VCBS maintains the view that it would be difficult to end the trade war soon, thereby impacting the sentiment.

Secondary market

Market liquidity increased slightly in May.

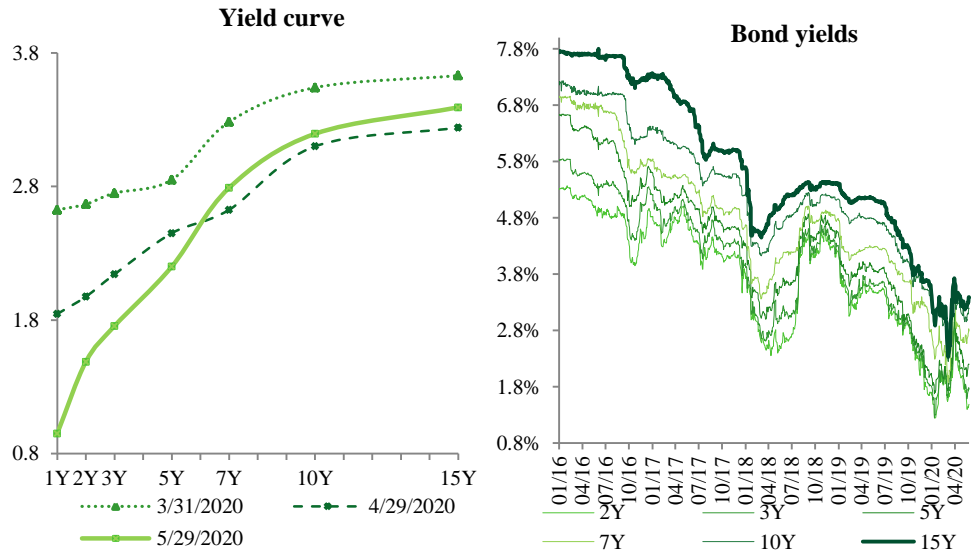
VND 181,719 bn (+29.68% mom) traded on the secondary market.

VND 181,719 bn (+29.68% mom) traded on the secondary market. Market liquidity increased considerably compared to the previous month. Therein, outright and repo value traded recorded at VND 124,715 bn and VND 57,004 bn, respectively.



Source: HNX, VCBS

The yield curve became steeper, bond yields for short-tenors decreased sharply while bond yields for long-tenors inched up. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y end February 2020 at 0.95% (-89.5 bps mom), 1.49% (-48.8 bps mom), 1.76% (-38.7 bps mom), 2.20% (-25.0 bps mom), 2.79% (+16.4 bps mom), 3.19% (+9.4 bps mom), 3.39% (+15.2 bps mom), respectively.



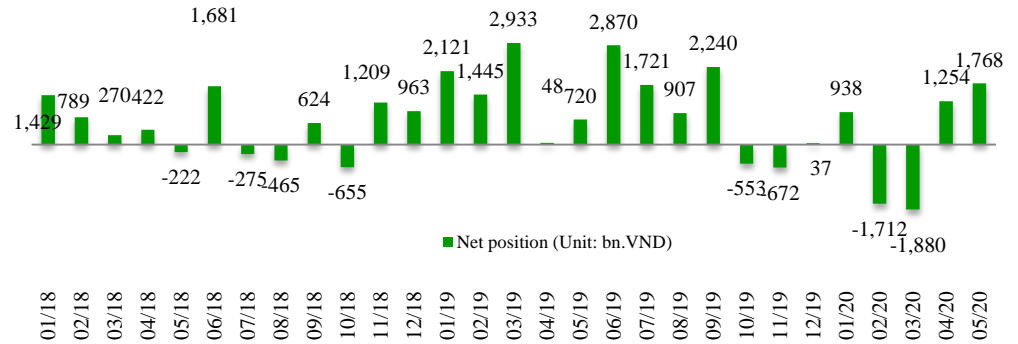
Source: Bloomberg, VCBS

Government bond yield curve is forecast to shift downwards due to following factors: (1) Liquidity in the interbank market is the key factor affecting bond yields. (2) Meanwhile, input cost of banks may decrease significantly as deposit rates have been reduced at all tenors. (3) The outlook as well as the downtrend of inflation can be seen more obviously. Accordingly, VCBS forecasts inflation of 3.0% - 3.5%, below than 4% of target this year. (4) In the world market, temporary concerns are being focused on geopolitical instabilities as well as US-China trade tensions. Meanwhile, stable macroeconomic developments in Vietnam have always been a bright spot, creating positive beliefs for members in the market as well as attracting foreign capital inflows.

Foreign investors net bought VND 1,768 billion this month

Foreign investors net bought VND 1,768 billion this month, focused on short-term tenors (<5 years).

Foreign investment in the secondary market 2018-2020



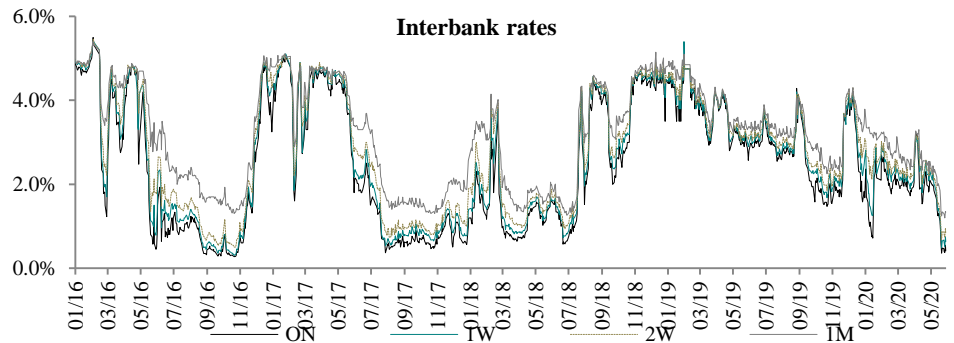
Source: HNX, VCBS

INTEREST RATE

Interbank Rates

Abundant liquidity in the interbank market, the downtrend dominated on interbank rates.

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Source: Bloomberg, VCBS

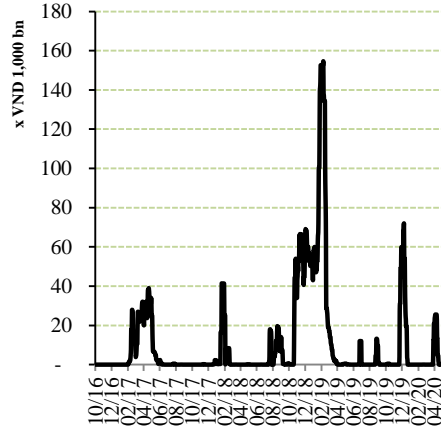
Abundant liquidity is expected to be remained in the interbank market; interbank rates continued to remain at low level thanks to supportive factors: (1) The exchange rates are forecasted to have favorable movements, given that government control and prevent disease drastically. (2) Credit recorded a modest increase when this figure reached only 1.32% ytd until May 15, showing that credit output is still quite limited. (3) The volume of matured bills will be one of the main factors supporting liquidity. Accordingly, VND 26,997 billion of 91-day bills will mature in June. (4) Public investment from the beginning of the year to May 15 reached 103.8 trillion VND, equaling 22.1% of the plan. The figures for public disbursement improved compared to the same period last year (19.2%). Public disbursement is being promoted, however, we are not too concerned about the amount of State Treasury money withdrawn from the system because the amount of money will soon return to the system in various channels.

Open market operation

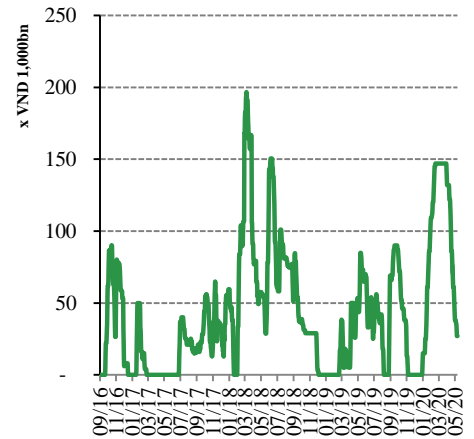
SBV net injected VND 99.991 bn via OMO channel.

SBV net injected VND 99.991 bn via OMO channel. The 91-day bills issued from the end of January continued to be matured in May, which is the main factor supporting the abundant liquidity in the interbank market.

Reverse Repo



SBV-bill outstanding



Source: Bloomberg, VCBS

APPENDICES

Primary Market

Month	St Bond							VDB	VBSP	Volmue	
	Issued Volume	5Y	7Y	10Y	15Y	20Y	30Y	Issued Volume	Issued Volume	Issued Volume	Issued Volume
04/19	12.576	N/A	4,05	4,72	5,06	5,69	5,85	0	0	0	12.576
05/19	11.936	3,70	N/A	4,69	5,04	5,68	5,88	0	0	0	11.936
06/19	11.132	N/A	N/A	4,64	5,00	5,58	5,78	0	0	0	11.132
07/19	32.081	3,55	3,97	4,44	4,68	5,15	5,51	0	0	0	29.081
08/19	10.848	3,30	3,75	4,18	4,46	5,06	5,38	0	0	0	10.848
09/19	9.950	2,89	3,54	3,98	4,25	4,88	5,23	0	3.702	0	13.652
10/19	20.190	2,85	3,00	3,58	3,76	4,32	4,65	0	0	0	10.190
11/19	13.729	2,37	3,00	3,51	3,65	4,02	4,61	12.397	0	0	26.126
12/19	9.858	2,00	N/A	3,48	3,65	N/A	4,55	1.400	0	0	11.258
01/20	9.526	1,80	2,24	2,88	3,00	3,15	3,80	9.526	0	0	9.526
02/20	13.734	N/A	2,24	2,79	2,88	3,09	3,55	13.734	0	0	13.734
03/20	9.721	N/A	1,90	2,18	2,53	3,00	3,00	9.721	0	0	9.721
04/20	3.070	N/A	N/A	2,50	2,85	3,10	3,10	3.070	0	0	3.070
05/20	18.392	2,20	N/A	2,90	3,07	3,43	N/A	18.392	0	0	18.392
04/19	12.576	N/A	4,05	4,72	5,06	5,69	5,85	0	0	0	12.576
05/19	11.936	3,70	N/A	4,69	5,04	5,68	5,88	0	0	0	11.936

Secondary Market

Month	Bonds		ST-bills		Total
	Outright	Repo	Outright	Repo	
04/19	77.210	98.480	-	-	175.690
05/19	86.163	90.162	-	-	176.325
06/19	69.201	97.371	-	-	166.572
07/19	97.267	96.210	-	-	193.477
08/19	103.053	115.342	-	-	218.395
09/19	99.661	81.694	-	-	181.355
10/19	124.405	86.923	-	-	211.328
11/19	130.835	177.147	-	-	307.982
12/19	117.869	92.618	-	-	210.487
01/20	96.169	60.524	-	-	156.693
02/20	125.714	81.108	-	-	206.822
03/20	183.792	120.943	-	-	304.736
04/20	63.868	76.265	-	-	140.133
05/20	124.715	57.004	-	-	181.719

Open Market Operation

Month	Reverse Repo				Outright			
	Due	Offer	Balance	Outstanding	Due	Offer	Balance	Outstanding
04/19	1.830	501	(1.329)	306	37.101	82.199	45.098	49.998
05/19	918	612	(306)	-	168.330	203.131	34.800	84.799
06/19	21	12.021	12.000	12.000	288.046	236.246	(51.800)	32.999
07/19	12.000	-	(12.000)	-	9.830	199.994	22.999	55.999
08/19	-	13.134	13.134	13.134	25.960	114.997	(55.999)	-
09/19	14.122	988	(13.134)	-	3.000	149.993	68.997	68.997
10/19	-	-	-	-	92.994	68.996	(23.998)	53.997
11/19	-	49,179	49,179	49,179	160,989	106,992	(53,997)	-
12/19	103,292	54,113	(49,179)	-	-	-	-	-
01/20	-	-	-	-	-	24,999	24,999	24,999
02/20	21	21	-	-	-	94,991	94,991	119,990
03/20	1	2,878	2,877	2,877	-	26,997	26,997	146,987
04/20	25,512	22,637	(2,875)	2	19,999	-	(19,999)	131,987
05/20	5	5	-	2	99,991	-	(99,991)	26,997

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