

Fixed-Income Report

August.2020

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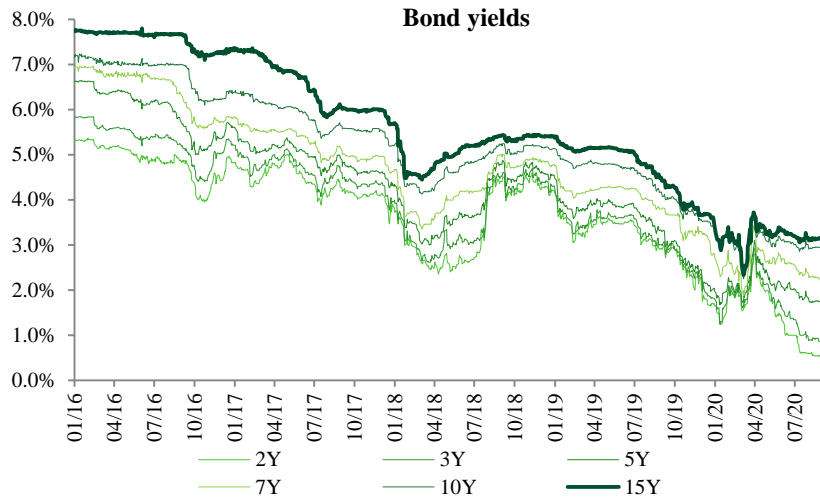
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Round-up



Source: Bloomberg, VCBS

■ VND 18,392 bn (-61.1% mom) was mobilized on primary market. VND 175,839 bn (-25.5% mom) were traded on the secondary market.

■ Yield curve became steeper and shifted downwards. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y end August 2020 at 0.45% (-6.4 bps mom), 0.55% (-5.5 bps mom), 0.86% (-13.8 bps mom), 1.74% (-11.8 bps mom), 2.25% (-15.8 bps mom), 2.94% (-6.60 bps mom), 3.14% (-3.00 bps mom), respectively.

■ Foreign net sold VND 485 billion this month.

■ Abundant liquidity enhanced downtrend force on interbank rates. Accordingly, interest rates have fallen to the lowest level. At the end of August, ON-3M interest rates were recorded at 0.15%, 0.23%, 0.31%, 0.38% and 1.39%, respectively.

■ No intervention needed as abundant liquidity recorded.

VCBS Commentary

■ Downward trend should be maintained on bond yields in September. However, the volatility may be higher when any contrastable information, especially risks presenting at significant levels can pull the yields back quickly and strongly.

■ Interbank rates are likely to stay at the current low levels thanks to abundant liquidity in the money market.

BOND MARKETS

Primary Market

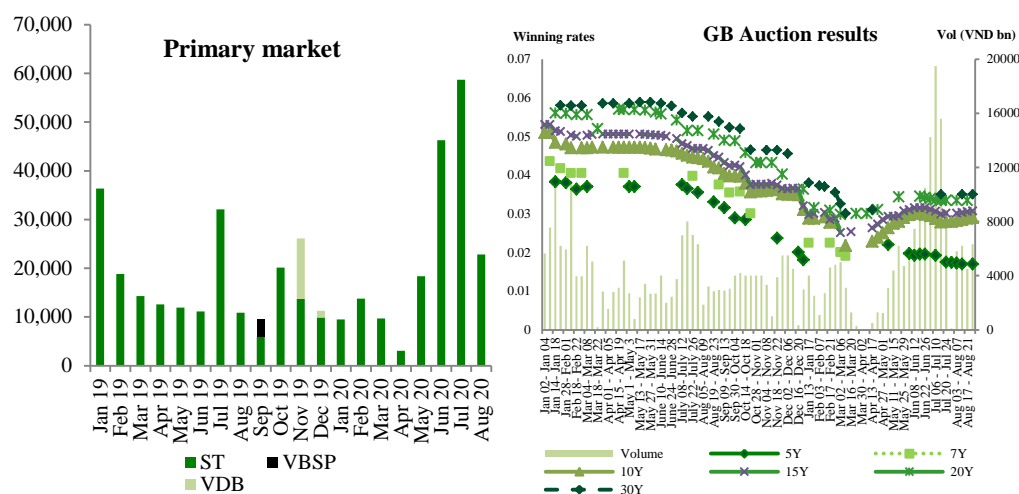
Primary market is less active in August.

VND 22,580 bn (-61.1% mom) worth of bonds were mobilized.

VND 18,392 bn (-61.1% mom) worth of bonds were mobilized in August. In detail, VND 1.825 bn; 13,775 bn; 5,150 bn; 850 bn and 1.250 bn were mobilized in 5Y, 10Y, 15Y, 20Y and 30Y tenors, respectively. ST did not call for 7Y tenor this month.

Winning rates for short-tenors inched down while winning rates for long-tenors increased slightly compared to the previous month. In detail, winning rates for 5Y, 10Y, 15Y and 20Y tenor winning rates posted at 1.70% (-04 bps), 2.90% (+10 bps mom), 3.07% (+06 bps mom), 3.34% (0 bps mom) and 3.50% (0 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 8M.2020, VND 168,275 billion of bonds was mobilized as 64.8% of 2020 plan. In the context that credit institutions always prioritize investment channels for government bonds; at the same time, we did not recognize that the State Treasury was under pressure to issue bonds, VCBS maintained the view that the annual issuance plan is feasible.

Tenor	Q3.2020 Plan	2020 Plan	Issued in M7,8.2020	Issued in 8M.2020	% Complete Q3.2020	% Complete 2020
5Y	7,000	20,000	4,825	9,180	68.9%	45.9%
7Y	3,000	15,000	0	1,480	0.0%	9.9%
10Y	65,000	90,000	46,589	81,275	71.7%	90.3%
15Y	40,000	100,000	21,507	54,549	53.8%	54.5%
20Y	10,000	20,000	6,350	13,150	63.5%	65.8%
30Y	5,000	15,000	2,250	8,924	45.0%	59.5%
Total	130,000	260,000	81,521	168,558	62.7%	64.8%

Source: MOF, VCBS Research

Macro updates:

- According to IHS Markit, production decreases for the second month running. In detail, PMI fell to 45.7 in August from 47.6 in July. The decline in outputs and reduction in employment was recorded due to the negative impact of the second-wave pandemic. Nevertheless, active measures from the Government partially minimize the damage. Consequently, the Index for Industrial Production increased by 3.5% mom in August.
- CPI in August 2020 increased by 0.07% compared to the previous month, corresponding to a decrease of 0.12% compared to December 2019 and increased by 3.18% over the same period last year with the increase evenly distributed among food and foodstuffs, Education and Transportation. The average consumer price index in 8 months of 2020 increased by 3.96% over the same period last year. CPI in September forecast to increase 0.15% - 0.2% mom, mainly contributed by the food and foodstuffs and education group, corresponding to an increase of 3% - 3.4% yoy. Accordingly, the average consumer price index tends to decrease gradually.
- The reference exchange rate was at 23,200 VND/USD, ticking down 13 dong from the previous month's level. In the meantime, exchange rate at commercial banks hovered steadily around 23,270 in the context of weaker greenbacks. From the domestic resource, a huge amount of trade surplus and strong disbursement from the FDI sector shall support SBV measures to stabilize the exchange rate. In such a context, VCBS forecasts that the exchange rate will fluctuate not more than 2% for the whole 2020.
- State Bank of Vietnam issued Circular No.08 amending and supplementing some articles of Circular No.22 prescribing prudential limits and ratios for operations of foreign bank branches. This Circular delays the tightening of short-term capital for medium and long-term loans by one year. This approach sends a consistent signal about the flexible monetary policy to support the economy to bounce back from the pandemic. In the market, deposit rates at all tenors decrease 5-10 basis points. For the whole year 2020, VCBS projects that deposit rates shall pull back 70-100 basis points. Although the deposit rate decreases, we believe that commercial banks will not run into difficulty mobilizing funds, regarding the common sense of a save investment during an uncertain period. At the same time demand for lending shrinks due to pandemic.
- During the virtual meeting Jackson Hole, Fed official announce the first time adjustment monetary policy framework since 2012. In detail, the inflation target is adjusted from 2% to an average inflation targeting 2%. This secures a longer period of expansionary monetary policy to maximize employment and stabilize the financial system. In the short-term, this message has a minor impact on Vietnam's fixed income market.
- At the end of August, the US Treasury Department has determined that Vietnam depressed its currency by 4,7% in 2019. This announcement goes along with the Trump administration says it will allow companies to pursue tariffs against foreign competitors if they can show those rivals have benefited from currency manipulation in their countries as a form of government subsidy. In reality, there is a probability for a currency to be determined as undervalued but not meet the Treasury test for manipulation due to differences in methodologies. Due to this event, there is a certain concern about the chance that Vietnam is labeled as currency manipulating. Nevertheless, we believe that with bilateral consultations, Vietnam authority shall be

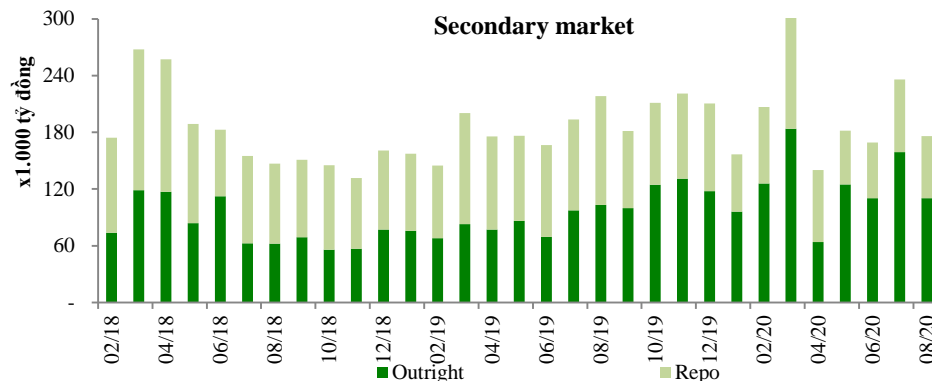
able to correct the situation and secure Vietnam out of the list of currency manipulation countries in the official result released this October.

Secondary market

Market liquidity decreased considerably in May.

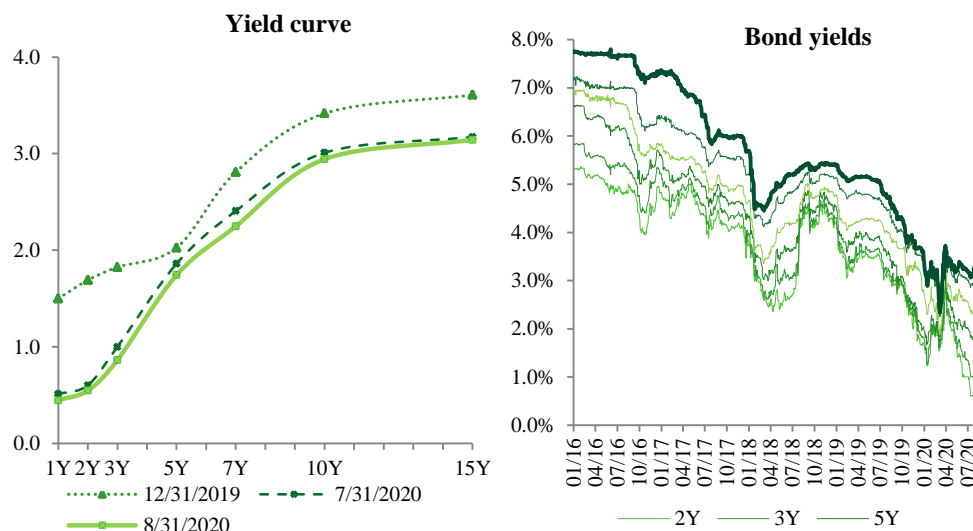
VND 175,839 bn (-25.5% mom) traded on the secondary market.

VND 175,839 bn (-25.5% mom) traded on the secondary market. Market liquidity decreased considerably compared to the previous month. Therein, outright and repo value traded recorded at VND 110,228 bn (-30.8% mom) and VND 65,611 bn (-14.5% mom), respectively.



Source: HNX, VCBS

Yield curve became steeper and shifted downwards. According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y end August 2020 at 0.45% (-6.4 bps mom), 0.55% (-5.5 bps mom), 0.86% (-13.8 bps mom), 1.74% (-11.8 bps mom), 2.25% (-15.8 bps mom), 2.94% (-6.60 bps mom), 3.14% (-3.00 bps mom), respectively.



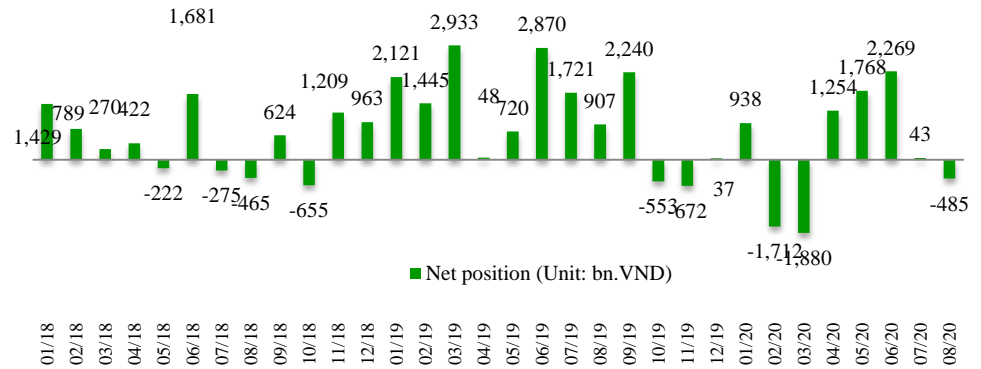
Source: Bloomberg, VCBS

Downward trend should be maintained on bond yields in September thanks to factors: Abundant liquidity will enhance low rates on the interbank. The downward trend of deposit interest rates are likely to reduce the input cost of capital, which is the basis for investors to hold and trade bonds with lower yields. However, it should be noted that the volatility may be higher when any contrastable information, especially risks presenting at significant levels

can pull the yields back quickly and strongly.

Foreign investors net sold VND 485 billion this month Foreign investors net sold VND 485 billion this month, focused on medium tenors (5-7 years).

Foreign investment in the secondary market 2018-2020

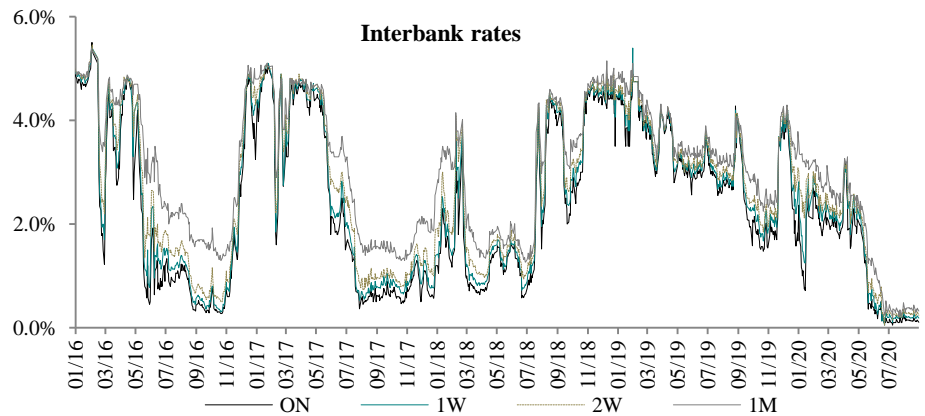


Source: HNX, VCBS

INTEREST RATE

Interbank Rates

Abundant liquidity enhanced downtrend force on interbank rates. Abundant liquidity enhanced downtrend force on interbank rates. Accordingly, interest rates have fallen to the lowest level. At the end of August, ON-3M interest rates were recorded at 0.15%, 0.23%, 0.31%, 0.38% and 1.39%, respectively.



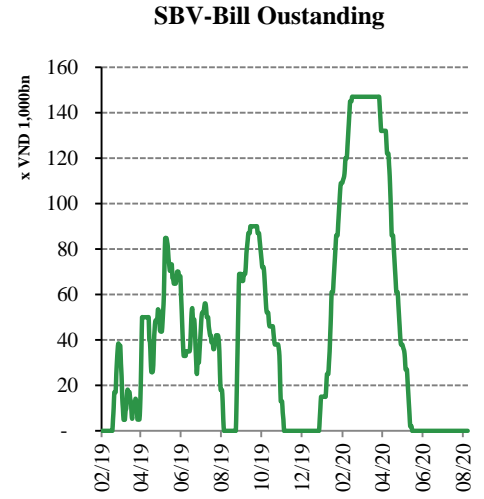
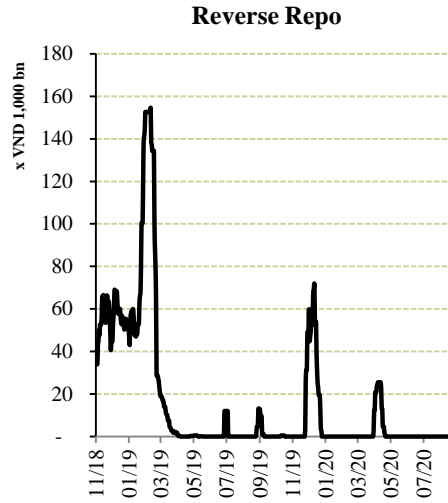
Source: Bloomberg, VCBS

Liquidity is expected to be abundant, which is the basis to maintain the current low levels: (1) Credit demand is affected by Covid-19, which is forecasted to be under 10% for the whole year, much lower than the figure of 13-14% in previous years. (2) The exchange rate is expected to have favorable movements in the context that Vietnam shows drastic moves in pandemic control and prevention. At the same time, with the goal of macroeconomic stability, Vietnam continues to be a bright country to attract foreign investment. (3) The public disbursement process is being accelerated, however, we are not worried about the amount of money withdrawn from the State Treasury as it will soon return to the banking system.

Open market operation

No intervention needed as abundant liquidity recorded.

Auguts saw no new transaction via the OMO channel. The outstanding amount of repo and T-bill stood at VND 0 bn. SBV has not made any significant changes in the open market for the last 3 months.



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
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
06/20	32.594	1,92	N/A	3,01	3,15	3,45	N/A	0	0	0	32.594
07/20	58.671	1,74	N/A	2,80	3,01	3,34	3,50	0	0	0	58.671
08/20	22.580	1,70	N/A	2,90	3,07	3,34	3,50	0	0	0	22.580

Secondary Market

Month	Bonds		ST-bills		Total
	Outright	Repo	Outright	Repo	
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
06/20	110.425	58.958	-	-	169.383
07/20	159.225	76.755	-	-	235.950
08/20	110.228	65.611	-	-	175.839

Open Market Operation

Month	Reverse Repo				Outright			
	Due	Offer	Balance	Outstanding	Due	Offer	Balance	Outstanding
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
06/20	2	-	(2)	-	26,997	-	(26,997)	-
07/20	7	7	-	-	-	-	-	-
08/20	-	-	-	-	-	-	-	-

DISCLAIMER

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