

Fixed-Income Report

Aug.2019 report

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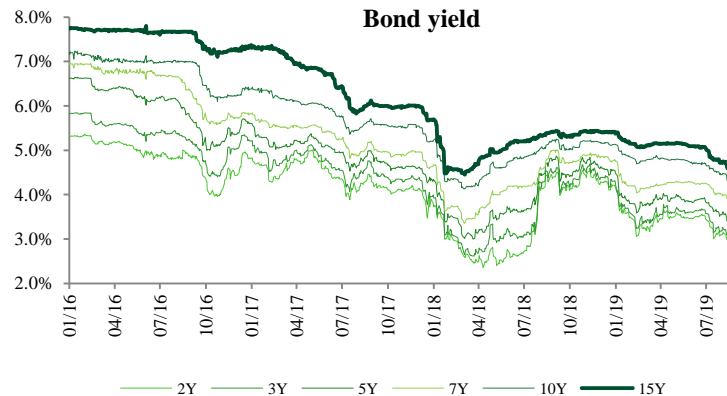
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Round-up



Source: Bloomberg, VCBS

- VND 10,848 bn was mobilized on primary market. VND 218,395 bn (+12.88% mom) were traded on the secondary market in August 2019.
- Yield curve shifted downward with bond yields decreased mostly on long-tenors (>10 years). According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y end August 2019 at 2.80% (-17.5 bps mom), 2.90% (-16.5 bps mom), 3.00% (-14.7 bps mom), 3.318% (-19.5 bps mom), 3.79% (-22.5 bps mom), 4.17% (-29.5 bps mom), 4.49% (-24 bps mom), respectively.
- Foreign net bought VND 612 billion this month.
- After being stable almost time, interbank rates increased sharply due to abnormal liquidity demand at the end of the month. At the end of August, interbank rate for ON-3M tenors were recorded at 4.125%, 4.113%, 4.15%, 4.075% and 4.3%.
- SBV net withdrew VND 69.132 bn via OMO channel.

VCBS Commentary

- VCBS anticipate that the upward pressure will dominate on bond yields in the context of escalating uncertainties. In particular, upward pressure shall mainly be recorded in long-tenors while cost of capital is higher, especially after these tenors have declined strongly. Short-term bond yield level may be more stable as these tenors are sensitive to interbank rates. Therefore, yield curve is expected to move upward, long-term bond yields are under more pressure than short tenors.
- In September, interbank interest rate level is expected to move sideways, less likely to decline strongly while the SBV's orientation to direct banks' safety ratios closer to international standards, which may put certain pressures on the system. However, this only shows a higher cost of capital and does not mean there is a possibility of tensional liquidity.

BOND MARKETS

Primary Market

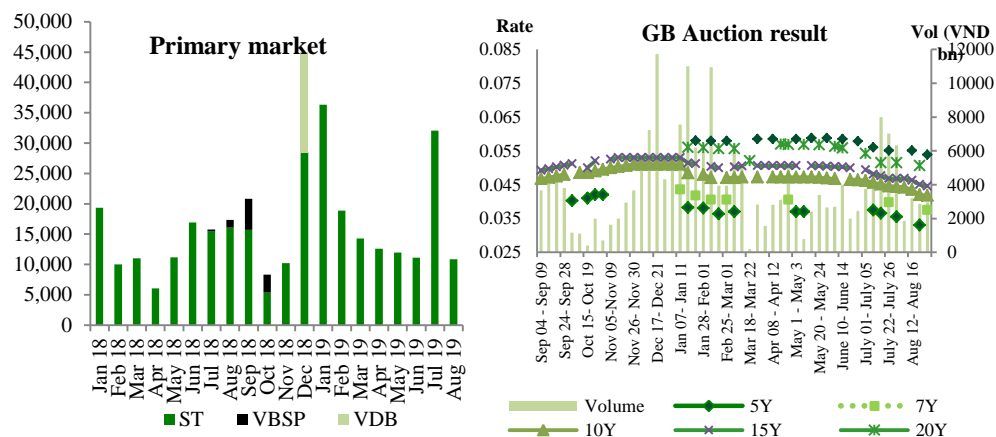
Wining voulume focused on 10Y & 15Y tenors.

VND 10,848 bn (-66.19% mom) worth of bonds were mobilized.

VND 10,848 bn (-66.19% mom, -21.16% yoy) worth of bonds were mobilized in August. In detail, VND 500 bn; 540 bn; 4,354 bn; 4,350 bn; 500 bn and 649 bn were mobilized in 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenors, respectively. Register-to-offering rate increased from 3.5 times last month to 4.6 times this month. Winning-to-offering rate jumped to 94% from 89% last month.

Winning rates decreased remarkably in August. Therein, 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenor winning rates posted at 3.30% (-25 bps mom), 3.75% (-19 bps mom), 4.18% (-26 bps mom), 4.46% (-22 bps mom), 5.06% (-9 bps mom), 5.38% (-13 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 Tresury issuance plan updated:

In 8 months, VND 148,042 bn worth of bonds were mobilized as 56.9% of 2019 plan, wining volume focused on 10Y and 15Y tenors. On 15th August, State Tresury officially released issuance plan for Q3.2019 with the total volume of VND 70,000 bn. The detailed plan is listed below.

Tenor	2019 Plan	Q3. 2019 Plan	Issued in 8M.2019	Issued in M8.2019	% completed 2019	% completed Q3.2019
5Y	40,000	4,000	6,306	500	15.8%	51.3%
7Y	30,000	2,000	4,100	450	13.7%	27.5%
10Y	70,000	27,000	61,186	4,354	87.4%	66.1%
15Y	78,000	26,000	58,358	4,350	74.8%	64.4%
20Y	20,000	6,000	10,142	500	50.7%	50.9%
30Y	22,000	5,000	7,950	694	36.1%	53.3%
Total	260,000	70,000	148,042	10,848	56.9%	61.3%

Source:MOF, VCBS Research

Macro updates:

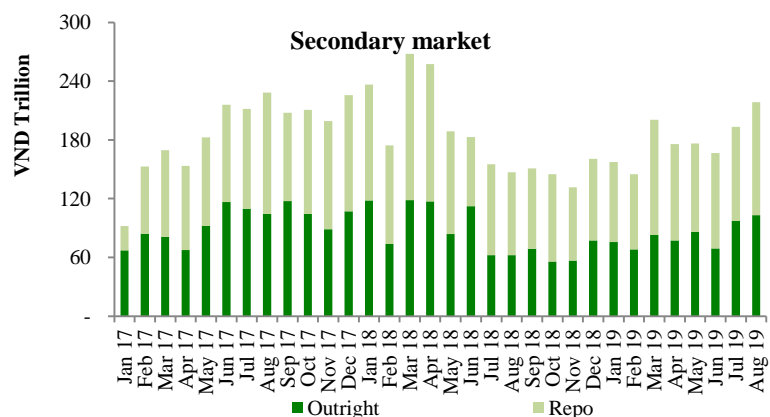
- According to Nikkei, PMI in Vietnam decreased from 52.6 points in July to 51.4 points in August, the lowest figure in the last 6 months. Therein, the manufacturing sector is located in the growth area for the 45th consecutive months - over 50 points. However, the number of new orders increased slowly due to lower customer demand affecting manufacturing sector in the context of escalating US-China trade tensions.
- CPI in August 2019 increased by 0.28% compared to last month, which equivalent to an increase of 2.26% over the same period of 2018. Therein, the main reason was the increase in the medicine and medical services, educational groups. Inflation was under controlled in the first 8 months, the lowest level in the last 3 years, but it is still forecasted to rise again due to the increase in medical and educational services.
- US-China trade tension continues to escalate when China retaliated by imposing a 5% to 10% tax on USD 75 billion of US goods including items such as soybeans, airplanes and cars. Shortly thereafter, US President Donald Trump raised the additional tax of USD 250 billion goods to 30% instead of 25%, imposing a tariff of 15% instead of 10% for USD 300 billion goods. Although the two sides have left the possibility of negotiations, it is difficult to expect positive movements in the short term.
- USD/CNY exchange rate continued to rise to 7.1567 - the highest figure in more than 10 years. The pressure on the exchange rate in the context of instability is predictable for a small economy as Vietnam. The devaluation of CNY will definitely cause some pressures on the USD/VND exchange rate, however, VCBS maintains the view that the exchange rate may bear certain pressures around major events and depreciation of VND on the central exchange rate may will not exceed 2% for the whole year 2019.

Secondary market

Market liquidity increased remarkably in August.

VND 218,395 bn (+12.88% mom) traded on the secondary market.

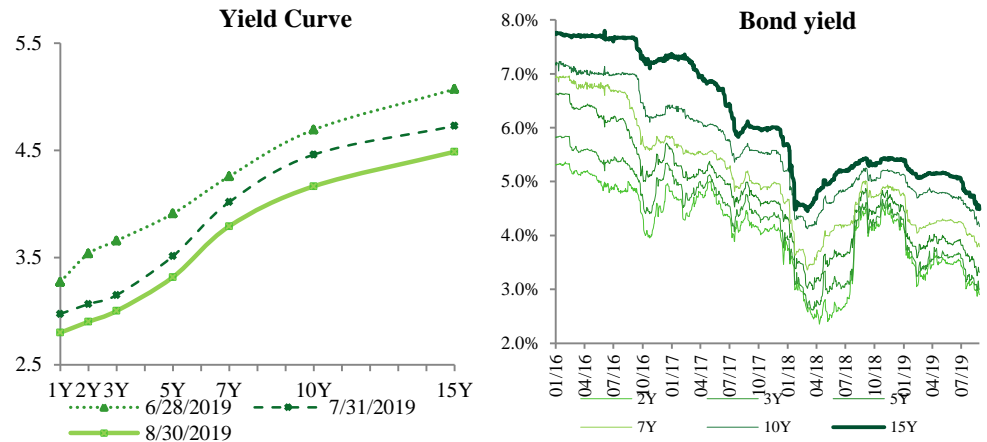
VND 218,395 bn (+12.88% mom) traded on the secondary market. Market liquidity increased considerably compared to the previous month due to repo trading volume. Therein, outright and repo value traded recorded at VND 103,053 bn (+5.95% mom) and VND 115,342 bn (+19.89% mom), respectively.



Source: HNX, VCBS

Yield curve shifted downward with bond yields decreased mostly on long-tenors (>10 years). According to Bloomberg statistics, yields for 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y end August 2019 at 2.80% (-17.5 bps mom), 2.90% (-16.5 bps mom), 3.00% (-14.7 bps mom), 3.318% (-19.5 bps mom), 3.79% (-22.5 bps mom), 4.17% (-29.5 bps mom), 4.49% (-24 bps mom), respectively.

Bond yields decreased considerably in August deprived from some main reasons: (i) Inflation in first 8 months was lowest in the last 3 years; (ii) No pressure exchange rate; (iii) Foreign direct investment continued to prosper.



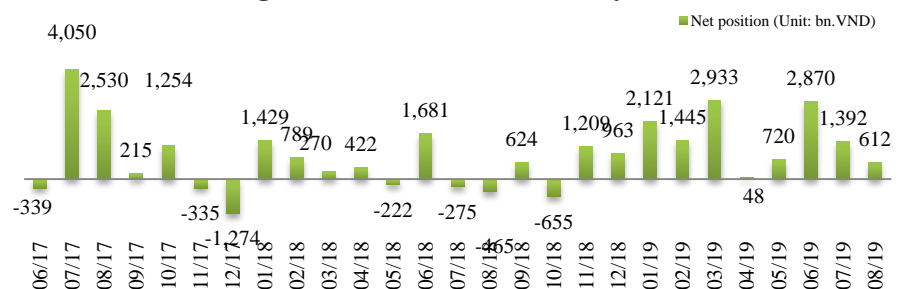
Source: Bloomberg, VCBS

VCBS anticipate that the upward pressure will dominate on bond yields in the context of escalating uncertainties and US-China trade tension might not end up soon. In particular, upward pressure shall mainly be recorded in long-tenors while cost of capital is higher, especially after these tenors have declined strongly. Short-term bond yield level may be more stable as these tenors are sensitive to interbank rates. Therefore, yield curve is expected to move upward, long-term bond yields are under more pressure than short tenors.

Foreign investors net bought VND 612 billion this month

Foreign investors net bought VND 612 billion this month. Foreign investors extended their net bought position to 10 consecutive months, focused on short-term tenors (<5 years). However, the total net buying volume is less likely large as in the last two months. In our opinions, bond yields have declined strongly in recent months; therefore, the attractiveness of Vietnam bond yields has decreased significantly.

Foreign investment in the secondary market 2018-2019



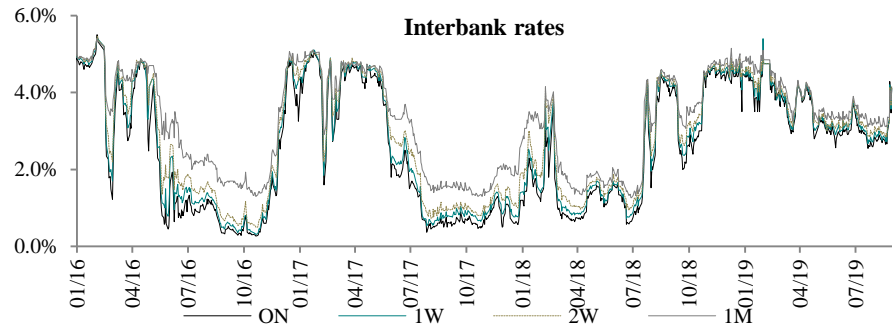
Source: HNX, VCBS

INTEREST RATE

Interbank Rates

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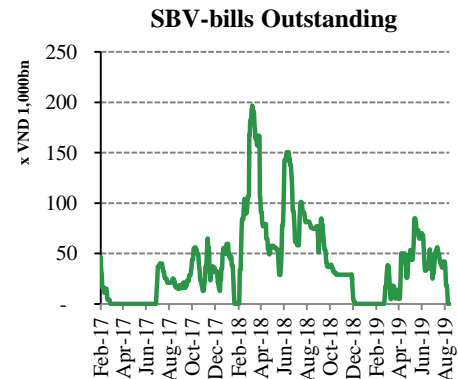
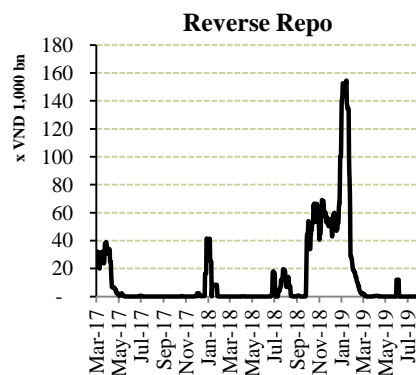
Source: Bloomberg, VCBS

In September, interbank interest rate level is expected to move sideways, less likely to decline strongly in the context of the SBV's orientation to direct banks' safety ratios closer to international standards, which may put certain pressures on the system. However, this only shows a higher cost of capital and does not mean there is a possibility of tensional liquidity. Specifically, abundant liquidity shall be recored in September due to the following supportive factors: (1) The tensional liquidity in the end of August may be affected by the abnormal demand of some commercial banks to ensure capital adequacy ratio. (2) Disbursement of public investment in recent months has not prospered. Specifically, public investment from the beginning of the year to August 15 reached VND 144.5 trillion, equaling 33.7% of the plan, lower than the figure of the same period last year - 41.6%. (3) Credit growth is forecasted to be similar to 2018, ensuring risk control and liquidity support.

Open market operation

SBV net withdrew VND 69.132 bn via OMO channel.

SBV net withdrew VND 69.132 bn via OMO channel. From August 22, the State Bank stopped issuing Treasury bills to withdraw money, and offered VND 13,134 billion Reverse Repo at 7-day terms.



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
08/18	16,060	3.5	3,9	4.63	4.87	N/A	N/A	0	0	0	16,080
09/18	15,700	3.5	3,9	4.8	5.07	5.22	5.42	0	5,100	0	20,800
10/18	5,366	4.2	N/A	4.95	5.2	N/A	N/A	0	2,940	0	8,306
11/18	10,220	N/A	N/A	5.1	5.3	N/A	N/A	0	0	0	10,220
12/18	28,450	N/A	N/A	5.1	5.3	N/A	N/A	16,545	0	0	44,995
01/19	36,344	3.8	4.17	4.8	5.12	5.59	5.80	0	0	0	36,344
02/19	18,850	3.63	4.05	4.7	5.00	5.56	5.79	0	0	0	18,850
03/19	14,275	3.70	N/A	4.72	5.06	5.20	5.85	0	0	0	14,275
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	3.7	N/A	4.69	5.004	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	29,081	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

Secondary Market

Month	Bonds		St-bills		Total
	Outright	Repo	Outright	Repo	
08/18	62,332	84,661	-	-	146,993
09/18	68,966	81,990	-	-	150,956
10/18	55,760	89,321	-	-	145,081
11/18	56,834	74,806	-	-	131,640
12/18	77,194	83,527	-	-	160,721
01/19	75,609	81,829	-	-	157,438
02/19	68,127	76,721	-	-	144,848
03/19	82,809	117,631	-	-	200,440
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

Open Market Operation

Month	Reverse Repo				Outright			
	Due	Offer	Balance	Outstanding	Due	Offer	Balance	Outstanding
08/18	37,167	42,869	5,702	7,702	35,312	28,482	(6,830)	75,630
09/18	15,401	8,155	(7,246)	456	50,000	52,950	2,950	78,581
10/18	16,018	60,562	44,544	45,000	62,591	15,070	(47,521)	31,060
11/18	237,878	237,663	(215)	44,785	2,100	0	(2,100)	28,960
12/18	25,929	32,208	6,279	51,064	28,960	0	(28,960)	0
01/19	184,354	280,582	93,228	144,292	0	0	0	0
02/19	188,097	64,776	(123,321)	20,972	0	0	0	0
03/19	50,248	30,911	(19,337)	1,635	54,499	59,399	4,900	4,900
04/19	1,830	501	(1,329)	306	37,101	82,199	45,098	49,998
05/19	918	612	(306)	0	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)	-

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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