true friend KIS Viet Nam Securities Corporation

Fixed-income
Monthly

24 Mar 2022

Fixed-income Perspectives

Intensified stress in short-term rates spreads into Fixed-income markets

Interbank rates decelerate

Interbank rates in February have decelerated with a higher total trading value amid the meaningful liquidity support from the central bank. Accordingly, the ON rate exceeded the SBV's discount rate of 2.5% by 6 basis points (bps) and was 14bps-higher than January. Besides, the upward pressure spread to the 1-week loan and pushed the interest rate of this tenor to 2.46%, 26bps-higher than one in the previous month. We see that deceleration in credit activities could be a reason for the recent development in the money market. In February, the total outstanding loans rose by 1.94% YTD, 0.8 percent points lower than January. A lower credit growth might loosen modestly upward pressure on lending rates and interbank rates this month.

Stress in money markets spreads into bonds

The early months of 2022 witnessed a big shift in the overall interest rate conditions across the fixed-income markets, including the bond markets, from around record-low levels on the way back to pre-pandemic levels. More specifically, long-lasting tightening liquidity pressure in the interbank market was spreading to the G-bond market visibly, further reducing investors' demand for G-bonds and pressuring on yields. Short-term & medium-term yields were suffering heavily from the liquidity pressure, while highly-stable long-term yields also signaled to pick up. From our view, the upward pressure would continue to intensify in the last month of 1Q22 before easing out in 2Q22, when some short-term pressure on interbank liquidity would be fading out.

KIS leading economic index (USD bn, %, % QoQ, % YoY)

	1Q21	2Q21	3Q21	4Q21	2019	2020	2021F
GDP	4.48	6.61	(6.02)	2.58	7.02	2.91	2.58
Trade balance	2.82	(3.75)	(1.00)	5.22	10.42	19.01	4.61
CPI	0.30	2.67	2.16	1.89	5.23	3.24	1.84
Discount rate	3.00	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,076	23,020	22,761	22,790	23,231	23,255	22,790
US GDP	NA	NA	7.90	NA	2.29	(3.41)	5.97
China GDP	NA	NA	6.00	NA	5.95	2.34	8.02

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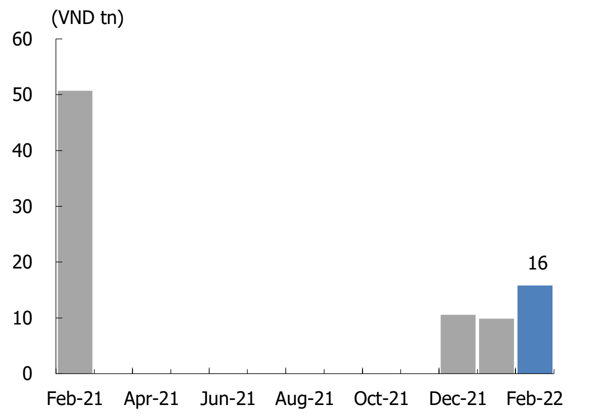
I. SBV lowers repo offering

Liquidity pressure has eased

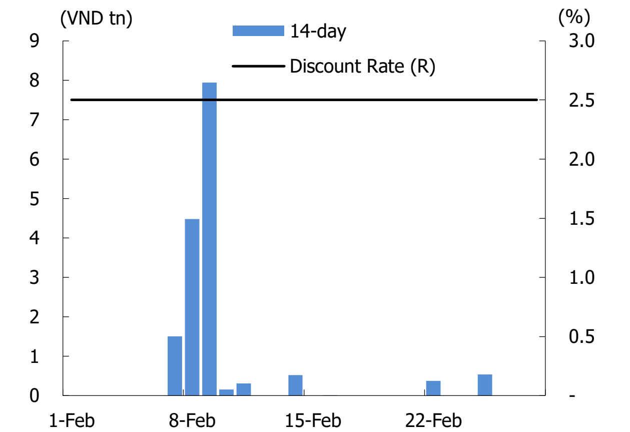
In February, SBV issued 14-day repo contracts with a total value of VND15.83tn to its counterparties which focuses on the early days of the month. This offering could be seen as the result of the remaining demand for short-term funding in January. However, the banking system's liquidity seems to be improved as SBV has gradually declined its offerings, with the total offered amount in February smaller than the due amount. Thus, SBV made a net withdrawal of USD8.97tn this month.

Figure 1. Repo transaction by month



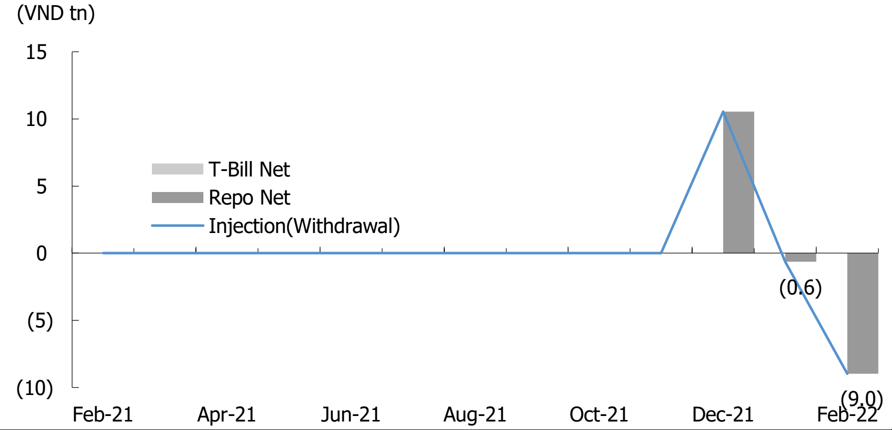
Source: SBV, Bloomberg, KIS

Figure 2. Repo transaction by day



Source: SBV, Bloomberg, KIS

Figure 3. Net Injection/Withdrawal



Source: SBV, Bloomberg KIS

Regarding the monetary stance in 2022, although the government mentioned several monetary policy solutions in the program of socio-economic recovery and development, its contribution in bringing the economy back to normalcy is limited. According to SBV's governor, the conduction of monetary policy in 2022 would be flexible due to the limited space and the central bank would dynamically inject or eject money based on the economic condition due to its short-term nature. In detail, the government proposed to lower the lending rate 0.5%-1% per year in the 2022-2023 period and to retain the extension of the

loan's payment period and the debt classification to COVID-19-affected enterprises.
Global commodities have soared recently and put upward pressure on inflation, raising concern for SBV to adjust monetary policies to limit the negative impact and meet the government's target of 4%. However, current inflation was attributable to the cost-push phenomena while domestic demand remained weak. Thus, fiscal policies were more feasible in curbing the external shocks than those in the monetary framework. Given those glues, we predict that SBV could be active in the money market to stabilize the short-term liquidity of the banking system rather than increasing the policy rate to respond to the expectedly high inflation.

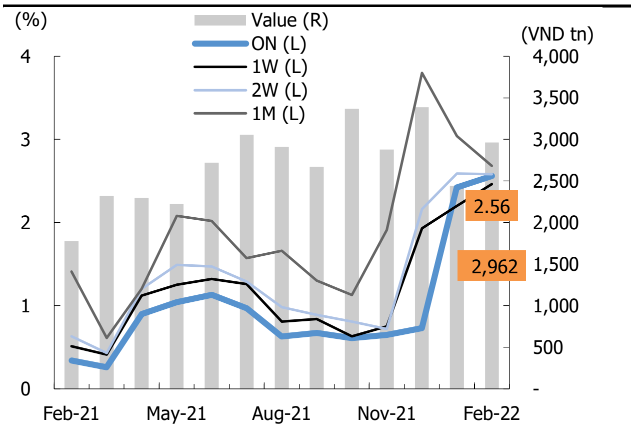
II. Interbank rates decelerate

Interbank rates in February have decelerated with a higher total trading value amid the meaningful liquidity support from the central bank. Accordingly, the ON rate exceeded the SBV's discount rate of 2.5% by 6 basis points (bps) and was 14bps-higher than January. Besides, the upward pressure spread to the 1-week loan and pushed the interest rate of this tenor to 2.46%, 26bps-higher than one in the previous month.

Pressure on longer-term tenors, such as 2-week and 1-month, have declined. Accordingly, 2-week and 1-month rates decreased by 1bps and 36bps compared to January to reach 2.58% and 2.68%, respectively. Given decelerating pressure on liquidity and SBV's support, the total trading value rose notably by 21.27% MoM to VND2,637.05tn this month. Banks increased their focus on short-lived tenors in the transaction structure, with the proportion of ON loans rising to 89.02% of the total trading value from 81.39% in January. The trading share of 1-week lending also increased from 3.42% to 6.09%.

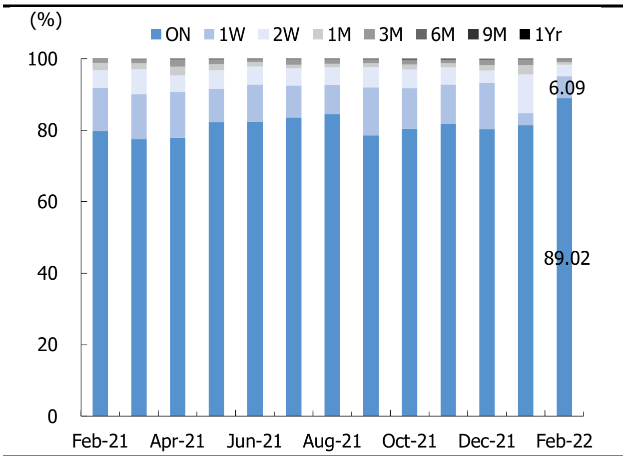
We see that deceleration in credit activities could be a reason for the recent development in the money market. In February, the total outstanding loans rose by 1.94% YTD, 0.8 percent points lower than January. A lower credit growth might loosen modestly upward pressure on lending rates and interbank rates this month.

Figure 4. Interbank transaction



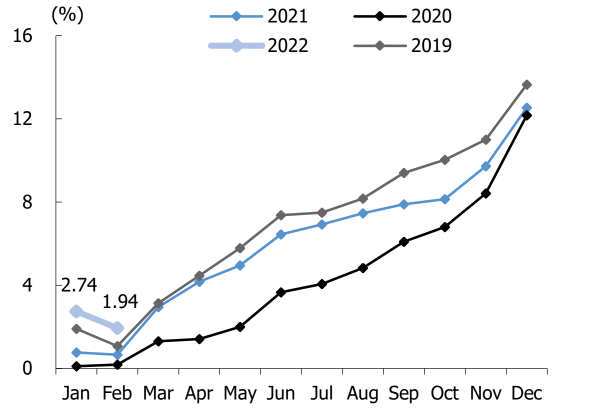
Source:SBV, KIS

Figure 5. Interbank value by tenors



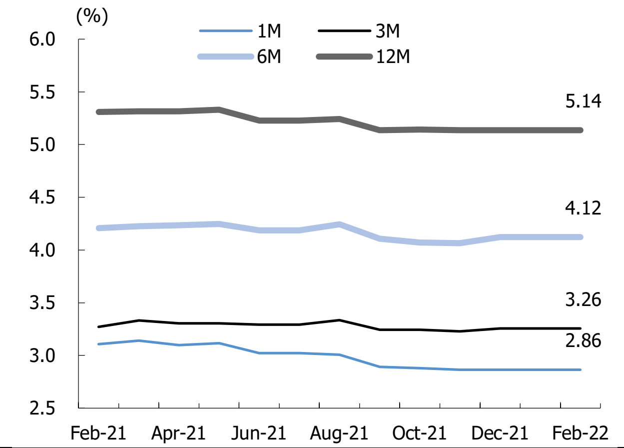
Source: SBV, KIS

Figure 6. Credit growth by month-of-year



Source: SBV, KIS

Figure 7. Historical deposit rates



Source: KIS

III. Stress in money markets spreads into bonds

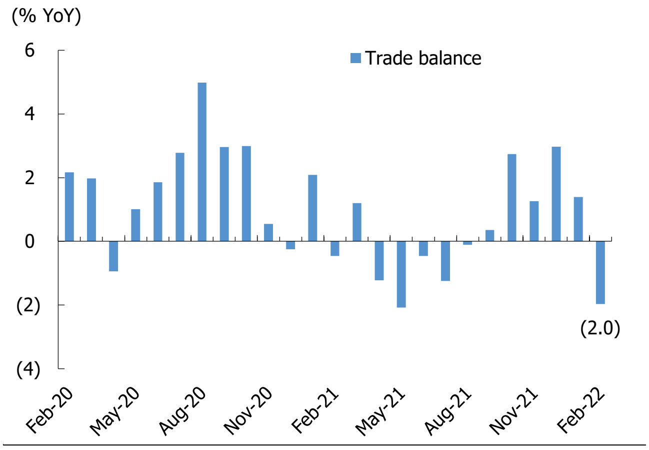
Review on Fixed-income developments in February:

Overall interest rate conditions are tightening further in the early reopening

The early months of 2022 witnessed a big shift in the overall interest rate conditions across the fixed-income markets from around record-low levels on the way back to pre-pandemic levels under a fast-changing environment due to following reasons: (1) widening imbalance in credit-deposit in the early reopening; (2) insufficient money supply to support easing interest-rate environment; (3) higher inflation expectations under surging energy prices; (4) global sentiment towards faster-than-expected tightening monetary conditions.

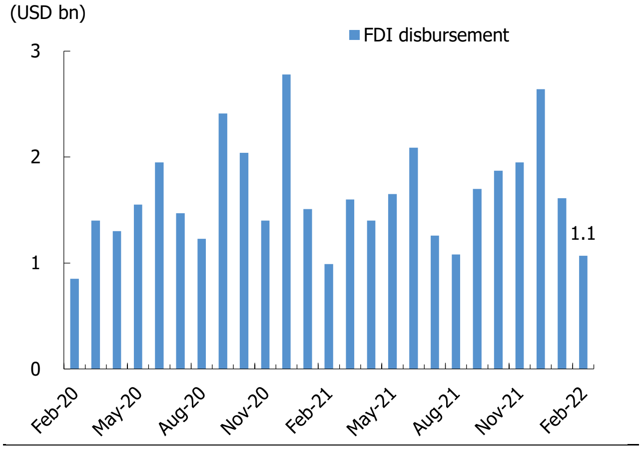
In our view, the nature of some of the above problems is characterized as short-lived rather than long-lasting, including the second and third problems. For the 2nd problem of "insufficient VND money supply", the lack of VND supply in banking system liquidity in the reopening stage is due to subdued USD inflows into the economy, caused by trade deficit & low FDI disbursement in 2M22. We believe that USD inflows from these activities will eventually rebound in 2Q22 after the seasonality of low investment activity & low exporting in the early months will pass. Besides, the government is expected to start accelerating investment in 2Q22, which would inject a large amount of VND inflows into the banking system and the economy. For the 3rd problem of "higher inflation outlook", the latest support for reducing the environmental protection tax for petroleum will significantly reduce pressure on inflation and public inflation expectation in the coming months.

Figure 8. Trade turns deficit in 2M22



Source: HNX, KIS

Figure 9. FDI disbursement also slows down due to the seasonality



Source: HNX, KIS

On the contrary, the 1st problem of "widening imbalance in credit - deposit" and the 4th problem of "ongoing global trend of aggressive tightening monetary conditions" will continue to put massive pressure on the low interest-rate environment and the G-bond yields

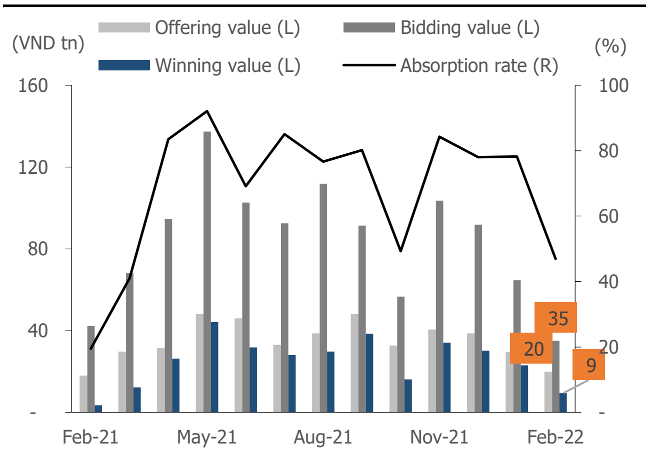
Primary government bond market:

Banks lose appetite for G-bonds under tightening interest rate conditions

For developments in the primary G-bond market in February, long-lasting tightening liquidity pressure in the interbank market spreads intoto the bond markets, reducing investors' demand for G-bonds and pressuring on yields.

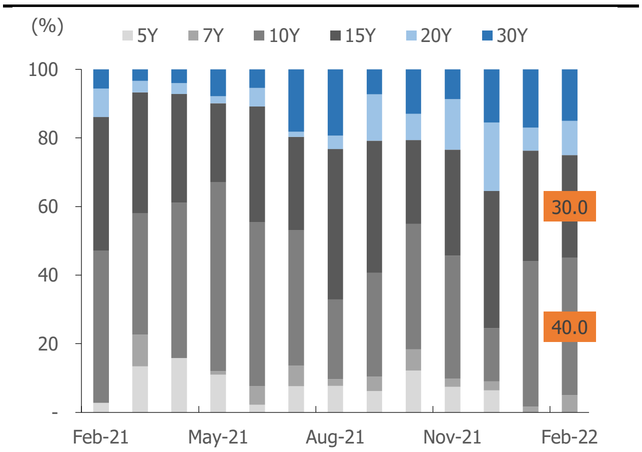
During 12 G-bond auctions in the month, Vietnam's State Treasury (VST) offered only VND20tn of G-bonds (-32.2% MoM), concentrating majorly on long-term bonds (95% of total offering). More specifically, 10-year and 15-year G-bond offerings accounted for 40% (VND8.0tn) and 30% (VND6.0tn) of total offering, followed by 20-year bonds (VND2.0tn; 10% share) and 30-year bonds (VND3tn; 15% share). For medium-term G-bonds, only 7-year bonds were offered by VND1.0tn or 5% of total, while there was the second month without any offerings for 5-year G-bonds.

Figure 10. Monthly government bond issuance



Source: HNX, KIS

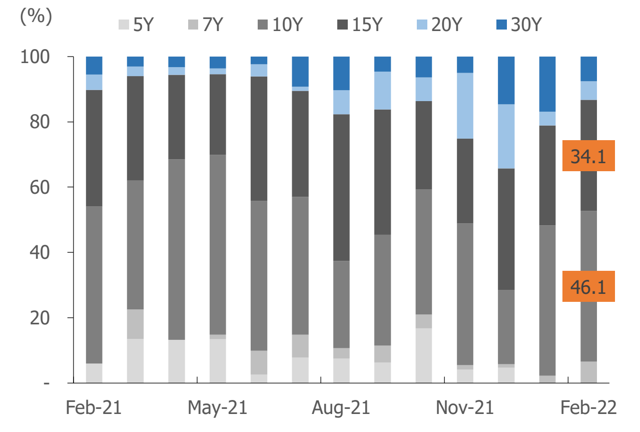
Figure 11. Offering value by tenors



Source: HNX, KIS

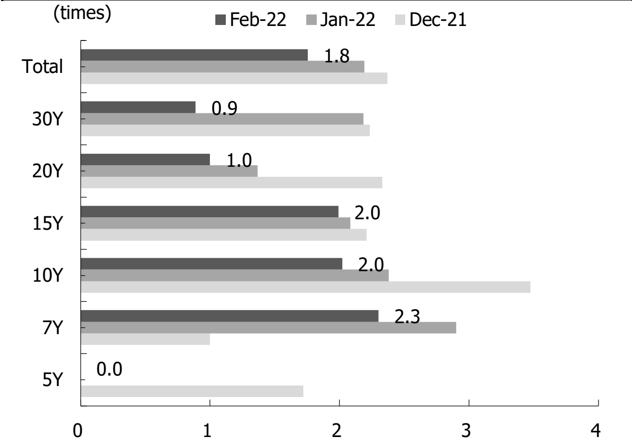
On the demand side, the demand for G-bonds continued to decline at a broad base since December last year, with the reduction pace accelerating. Specifically, the total bidding amount posted only VND35.1tn in the month (-45.7% MoM), dropping to the lowest level since April 2020. The overall bid-to-offer ratio also plummeted to a 16-month low of just 1.75 times, in which plunging demand was observed in both medium-term and long-term G-bonds. It is interesting to see the pressure was eventually spreading to highly-stable demand for long-term G-bonds.

Figure 12. Registering value by tenors



Source: HNX, KIS

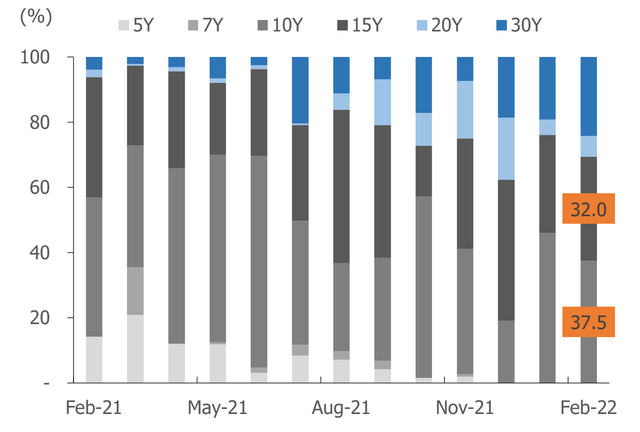
Figure 13. Bid-to-offer ratio by tenors



Source: HNX, KIS

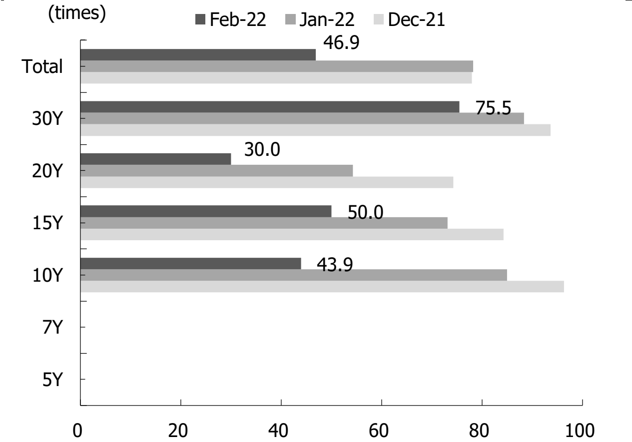
The result for G-bond auctions in the month were also disappointing, showing increasing concerns from G-bond investors at the present. Only about VND9.4tn of G-bonds were successfully issued in the month, the lowest level in a year, equivalent to a subdued absorption level of 46.9%. Notably, the auctions for medium-term G-bonds (5-year and 7-year terms) all failed completely in the last 3 months, while the absorption rate of long-term G-bonds (including 10-year, 20-year, and 30-year tenors, except 30-year bonds) all of a sudden fell below 50%.

Figure 14. Issuing value by tenors



Source: HNX, KIS

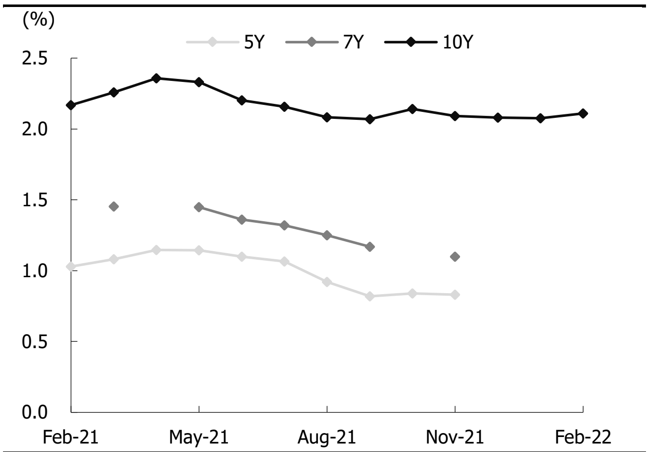
Figure 15. The absorption rates by tenors



Source: HNX, KIS

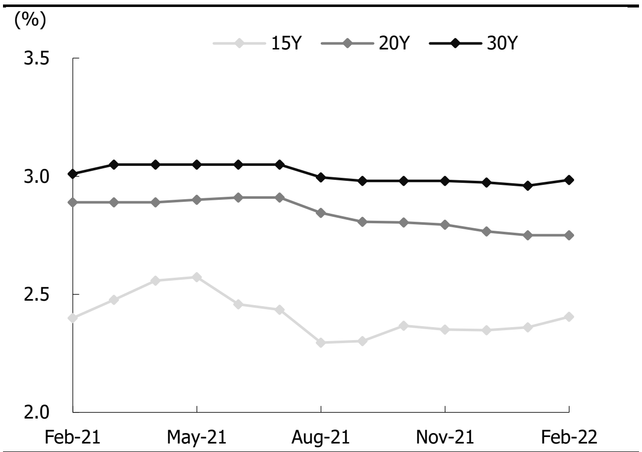
Under intensified upward pressure, the G-bond yields in the primary market also started moving upward. Specifically, 10-year, 15-year, and 30-year yields increased by 3 bps, 5 bps, and 3 bps to 2.11%, 2.41%, and 2.99%, while the 20-year yield remained unchanged at 2.75%, respectively.

Figure 16. Yields from 5-year to 10-year



Source: HNX, KIS

Figure 17. Yields with tenors greater than 10-years



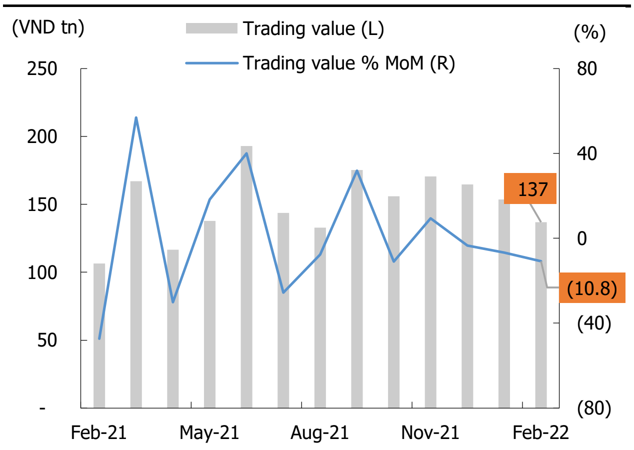
Source: HNX, KIS

Secondary government bond market:

Trading activity slowed down for a third consecutive month

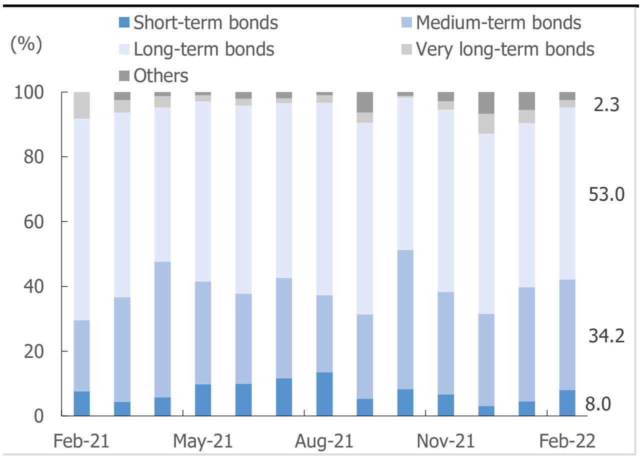
Government bond trading on the secondary market also cooled down for the third consecutive month with the total trading value down 10.8% MoM to a 6-month low of VND137.0tn. Trading activities slowed down somewhat on medium-term and long-term G-bonds, while short-term G-bonds (with terms less than 5 years) were traded more actively than the previous month. noticeable increase. Trading on long-term and medium-term G-bonds continued to account for the majority share than other tenors, at 53.0% and 34.2% of total trading value, respectively.

Figure 18. G-bond trading value



Source: HNX, KIS

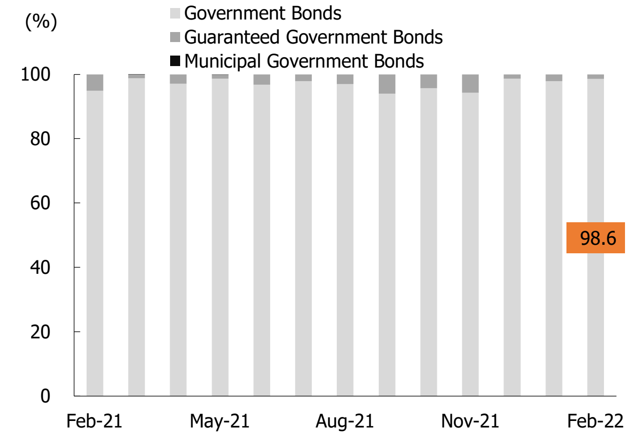
Figure 19. Trading value by tenor



Source: HNX, KIS
Note: Short-term bonds: tenors less than 5 years; Medium-term bonds: tenors from 5 years to less than 10 years: Long-term bonds: from 10 years to less than 20 years; Very long-term bonds: tenors greater than 20 years.

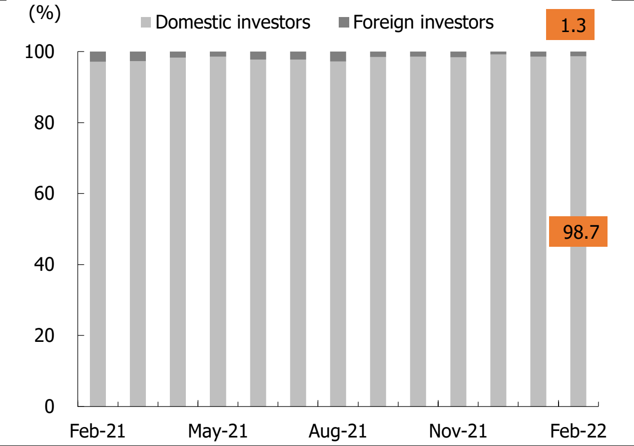
By bond type, 98.6% of the total trading value (VND135.0tn) was from the government bonds, while the remaining 1.4% (VND2.0tn) was from trading on government-guaranteed bonds. Regarding investor type, a trading activity made by domestic investors took up to 98.7% of the trading value, and the rest 1.3% was coming from foreign investors.

Figure 20. Trading value by bond type



Source: HNX, KIS

Figure 21. Trading value by investor



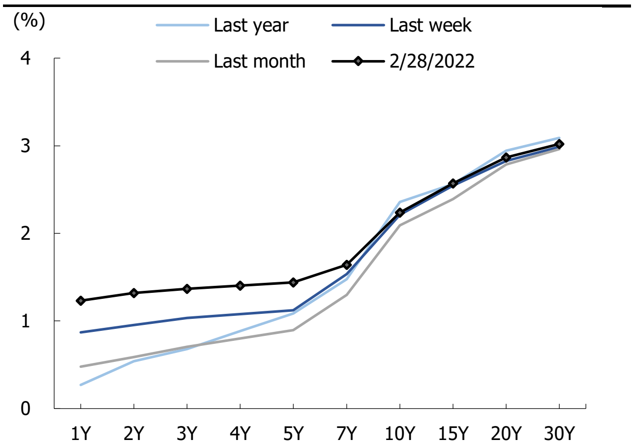
Source: HNX, KIS

Pressure from surging short-term interest rates spreads to the right tail of G-bond yield curve

It is seen that a sudden surge in the interbank interest rates to a new higher range, even the Tet's seasonality was ended, was the biggest pressure for G-bond yields in February. As a result, the G-bond yield curve was shifted upward considerably in all terms. Focusing on the yield curve's shape, the slope between long-term & short-term and between long-term & medium-term were more flattening, signaling that the shorter-maturity yields were under more pressure of surging interbank rates than by other factors.

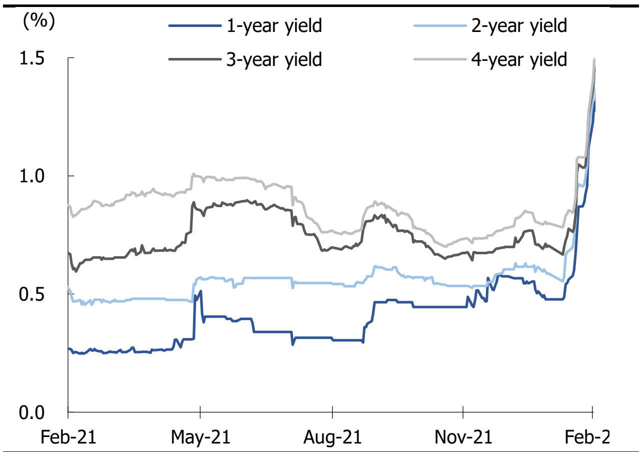
Specifically, yields on the shortest maturities were most affected during this tightening-liquidity period. 1-year and 2-year G-bonds were hit the hardest, with their yields surging by 75.2 bps and 73.2 bps to 1.23% and 1.32%, above the pre-pandemic levels. To a lesser extent, 3-year and 4-year yields also jumped up by 66.1 bps and 60.3 bps to 1.36% and 1.40%, respectively.

Figure 22. G-bond yield curve



Source: HNX, VBMA, KIS

Figure 23. Short-term yields

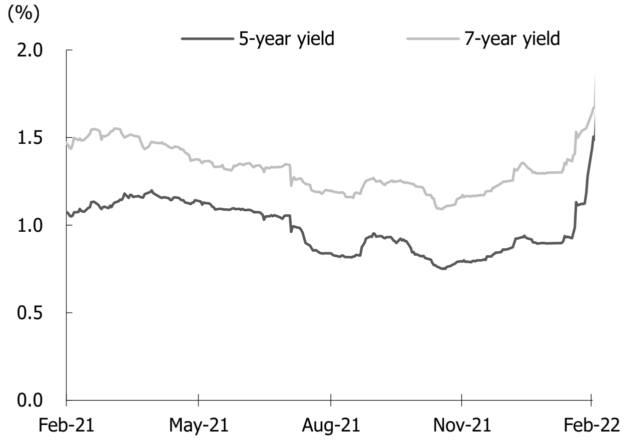


Source: HNX, VBMA, KIS

On the other side, yields on medium-term terms, including 5-year and 7-year tenors, also spiked 54.5 bps and 34.2 bps to 1.44% and 1.64%, reaching approximately the highest levels since 4Q20.

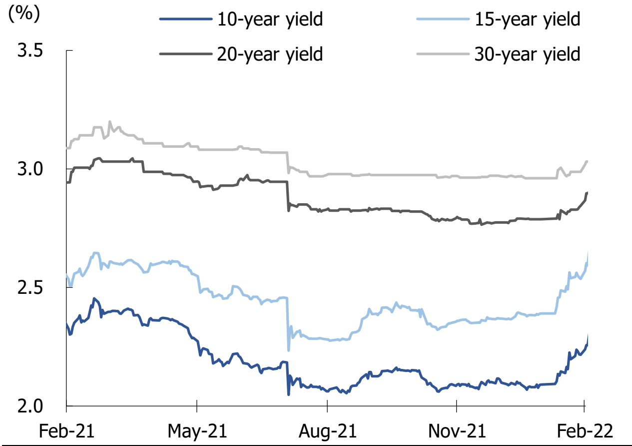
Some of the upward pressure to G-bond yields were more short-lived than long-lasting, so the long-term yields were less impacted than other shorter terms. However, the pressure was still significant. On average, the long-term yields (including 10-year, 15-year, 20-year, and 30-year tenors) saw the second-largest increase in more than 3 years, only less than in March 2020. More specifically, long-term 10-year and 15-year yields climbed14.8 bps and 18.0 bps to 2.24% and 2.57%. The pressure on 20-year and 30-year yields was less significant, up by 8.0 bps and 5.8 bps to 2.87% and 3.02%, respectively.

Figure 24. Medium-term yields



Source: HNX, VBMA, KIS

Figure 25. Long-term yields



Source: HNX, VBMA, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	1Q21	2Q21	3Q21	4Q21	2018	2019	2020	2021
Real GDP growth	(6.02)			5.22			4.65	6.61	(6.02)	5.22	7.08	7.03	2.91	2.58
Registered FDI	3.02	1.59	2.73	4.69	2.10	2.89	10.13	5.14	6.88	9.01	35.47	38.02	28.53	31.15
GDP per capita											2,457	2,604	2,656	
Unemployment rate	3.98			3.56			2.42	2.62	3.98	3.56	2.21	2.25	2.48	3.22
Export	27.01	28.87	31.87	34.52	30.84	22.95	78.40	79.95	82.12	95.26	243.5	263.6	282.7	335.7
Import	26.67	26.13	30.61	31.98	29.45	25.28	75.57	83.70	83.12	88.72	236.7	254.4	263.0	331.1
Export growth	(0.50)	5.94	26.27	24.82	8.05	13.22	23.42	34.74	2.99	20.43	13.19	8.16	7.02	18.74
Import growth	10.17	7.69	23.96	14.59	11.30	21.86	26.60	45.79	18.85	15.42	11.01	7.41	3.81	25.90
Inflation	2.06	1.77	2.10	1.81	1.94	1.68	0.30	2.67	2.51	1.89	3.54	2.79	3.24	1.84
USD/VND	22,761	22,752	22,729	22,790	22,663	22,820	23,076	23,020	22,761	22,790	23,175	23,173	23,126	22,790
Credit growth	7.88	8.76	10.10	12.97	2.74	1.82	2.95	6.44	7.88	12.97	10.77	13.75	12.17	12.97
10Y gov't bond	2.14	2.15	2.09	2.11	2.09	2.24	2.40	2.21	2.14	2.11	5.07	3.37	2.01	2.11

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