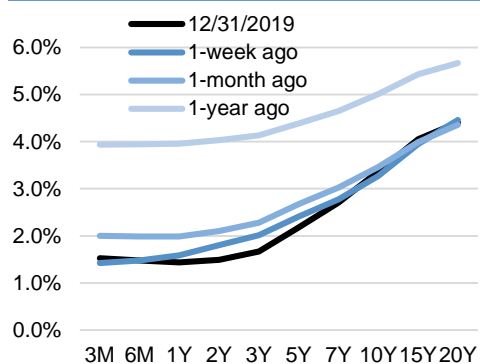


## Macro Indicators

Quarterly data	4Q19	3Q19	2Q19
GDP growth (% YoY)	6.97	7.31	6.73
Disbursed FDI (USDbn)	6.16	5.12	4.98
Monthly data	Dec	Nov	Oct
CPI (% YoY)	5.23	3.52	2.24
IIP (% YoY)	6.20	5.41	9.20
Export (% YoY)	10.15*	4.66	7.33
Import (% YoY)	10.98*	-0.87	2.89

Source: GSO, Nikkei, IHS Markit, Bloomberg, FIA. \* GSO estimate.

## G-bond yield curve



Source: HNX, Bloomberg

## SBV drains liquidity as interbank rates plunge

**SBV withdraws liquidity from banking system.** In December, SBV drained VND46.4trn out of the banking system through repo channel as the central bank only offered VND60.8trn repo with 14-day maturity to partly absorb VND107.1trn of due repo amount. Also, there are no T-bill auctions held in this month. ([Page 2](#))

**Overnight rate plunges to new 2019 low.** In December 2019, short-term interbank rates declined notably as longer-term rates were less sensitive. In detail, the overnight interbank rate plunged to hit the new 2019-low at 1.43% from 3.93% in the previous month. This rate had been more volatile by the end of 2019 and fluctuated continuously from the lower band to the upper band of 2%-4.5% interest rate corridor. ([Page 3](#))

**Bond yields records new 2019 low.** In the primary market, according to data compiled by HNX, Vietnam State Treasury (VST) offered VND15.5trn and sold VND10.9trn (including VND2.5trn additional amount accepted) of government bonds via 3 auction sessions in December 2019, declining respectively by 11.43% MoM and 20.91% MoM. Besides, absorption rate continued decreasing to 70.1% from 78.5% in previous month in line with the decrease in trading value. ([Page 5](#))

**Yield curve is flattening.** At the end of December, 1-year and 2-year government bond yields posted 1.44% and 1.49%, declining 55bps MoM and 61bps MoM, while 3M and 6M bond yields reached 1.53% and 1.48%, lowering 48bps MoM and 50bps MoM, respectively. The mid-term (1-year, 2-year) bond yields moved down faster than those on shorter-term bonds. This phenomenon likely indicated the market expectation for short-term government bond yields to decrease in the coming time. ([Page 6](#))

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### SBV withdraws liquidity from banking system

In December, SBV drained VND46.4trn out of the banking system through repo channel as the central bank only offered VND60.8trn repo with 14-day maturity to partly absorb VND107.1trn of due repo amount. Also, there are no T-bill auctions held in this month.

Fig 01. T-bill transaction

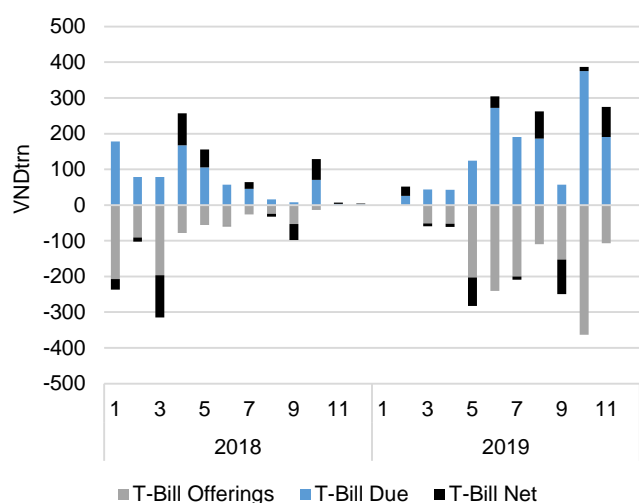
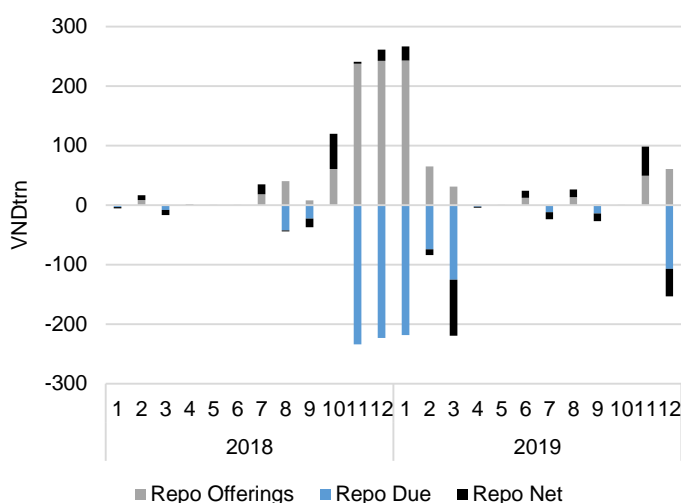
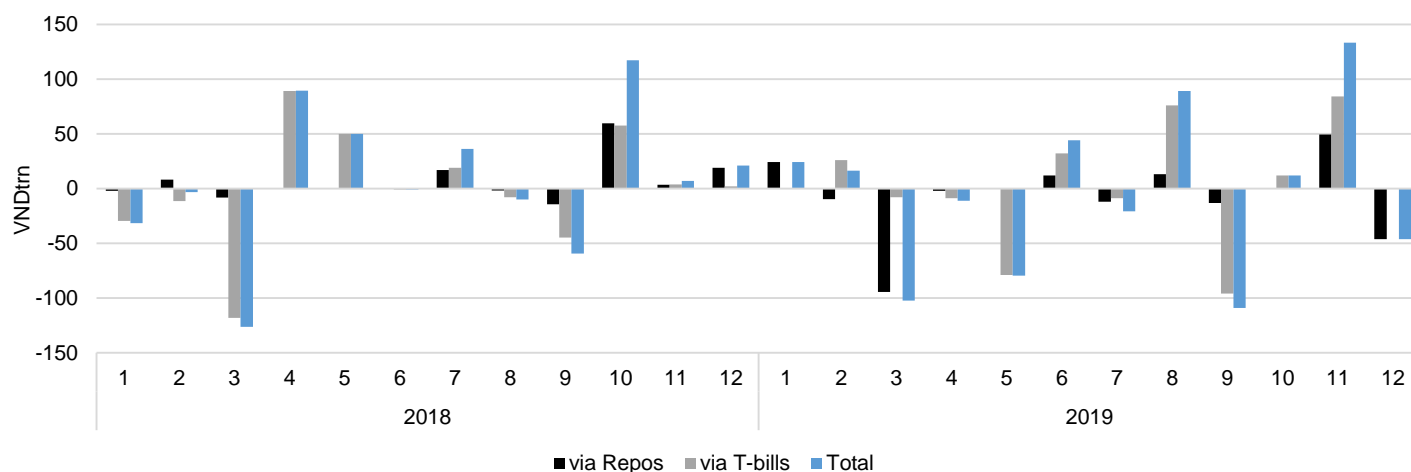


Fig 02. Repo transaction



Source: Bloomberg, SBV, and KIS

Fig 03. Injection (Withdrawal) in OMO

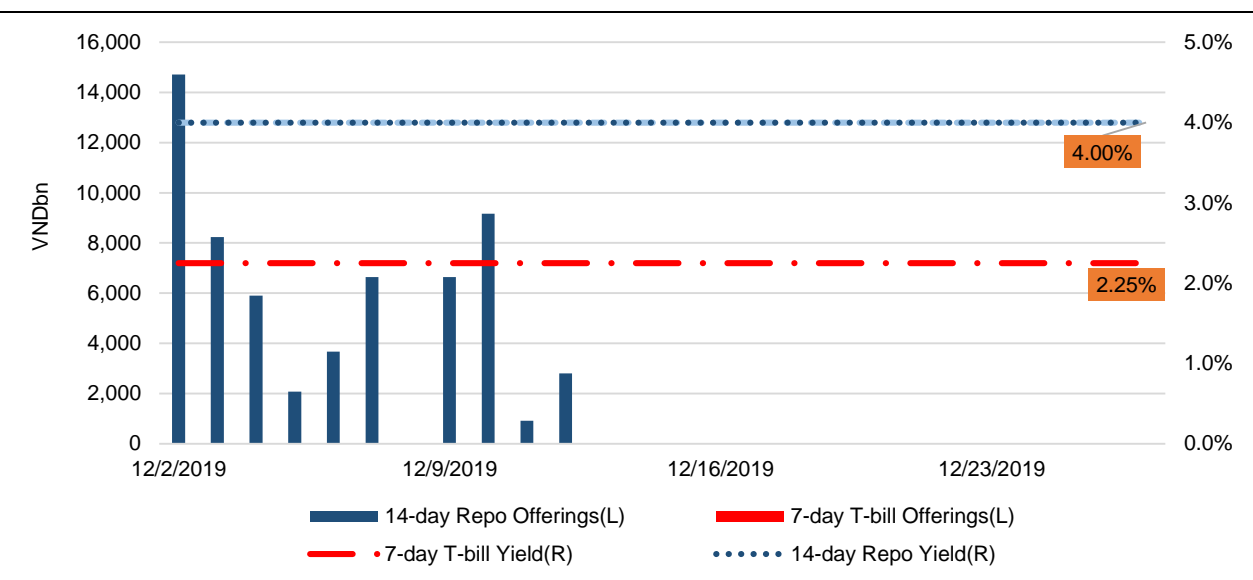


Source: Bloomberg, KIS, SBV

During December, SBV conducted OMO market by using only repo instrument with a 14-day tenor. SBV concentrated on injecting liquidity in the beginning of December 2019 using 14-day repos but did not offer new repo contracts by the end of the month. Therefore, the due value of prior and current-month repos overwhelmed the new

repos issued at the end of the month. Besides, the annualized rate of the 14-day repo was unchanged this month at 4.00%.

**Fig 04. Daily OMO transaction in December 2019**

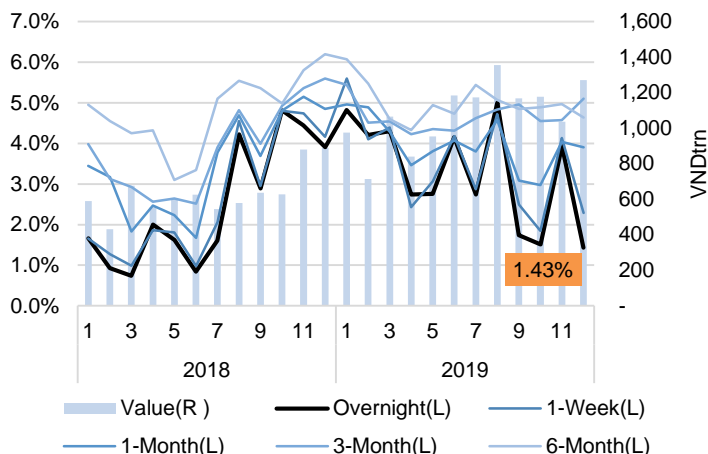


Source: Bloomberg, KIS, SBV

### Overnight rate plunges to new 2019 low

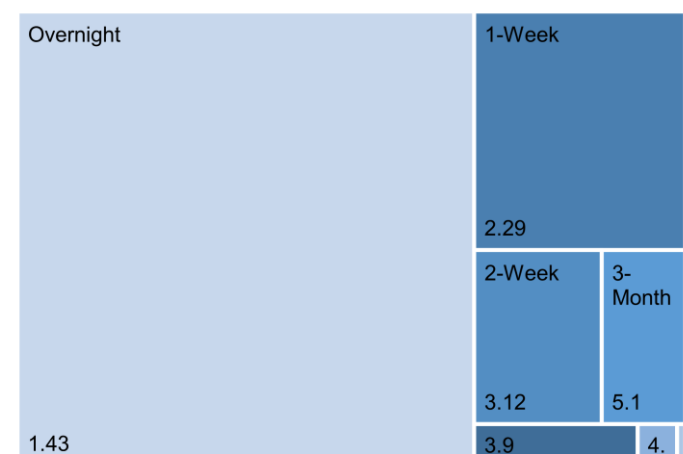
In December 2019, short-term interbank rates declined notably as longer-term rates were less sensitive. In detail, the overnight interbank rate plunged to hit the new 2019-low at 1.43% from 3.93% in the previous month. This rate had been more volatile by the end of 2019 and fluctuated continuously from the lower band to the upper band of 2% - 4.5% interest rate corridor. Besides, interest rate on other interbank loans with tenors 1-week, 2-week, and 1-month also decreased significantly to 2.29% (-184bps), 3.12% (-110bps), and 3.9% (-14bps), respectively. On the contrary, interbank rates on longer-term loans were less volatile. Specifically, interbank loans with 3-month and 9-month increased to 5.1% (+53bps) and 5.86% (+116bps), respectively, while 6-month loans decreased to 4.64% (-33bps).

Fig 05. Interbank transaction



Source: Bloomberg, KIS, SBV

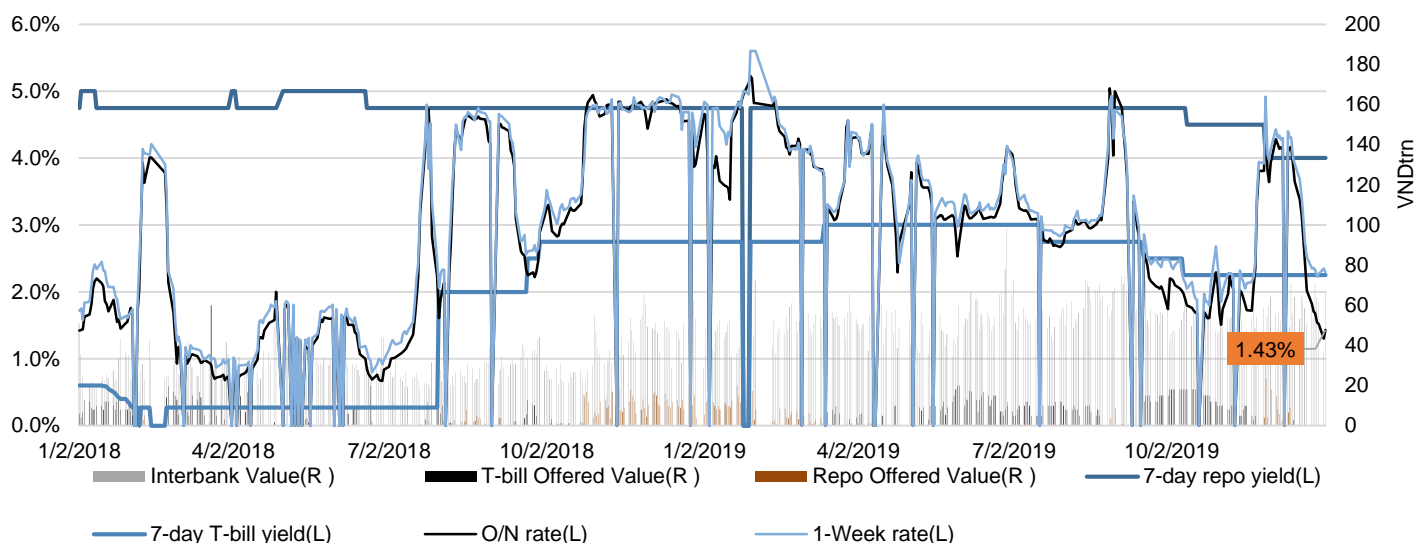
Fig 06. Interbank breakdown by tenor (% annual rate)



In value structure, total interbank transaction value rose sharply by 22.6% MoM to VND1,270.1trn. In which, transaction concentrated on overnight tenor with VND868.8trn, accounting for 68.37% of total value. Besides, trading value on 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month posted VND211.1trn, VND93.1trn, VND28.4trn, VND61.0trn, VND6.8trn, and VND1.4trn, contributing 16.61%, 7.33%, 2.24%, 4.80%, 0.54%, and 0.11%, respectively.

On the daily chart, although overnight rate has crossed below the lower bound of interest rate corridor, SBV has not used the T-bill instrument to drain the liquidity from banking system yet. Intuitively, capital increases and high demand on short-term lending of state-owned commercial banks are appropriate reasons to push the liquidity of banking system up and put downward-pressure on interbank rates. However, the delay in using T-bill instrument of SBV to drain liquidity from the banking system probably indicates an increase in liquidity demand due to Tet’s holiday effect in the coming weeks.

Fig 07. Daily 7-day T-bill, repo and interbank rates

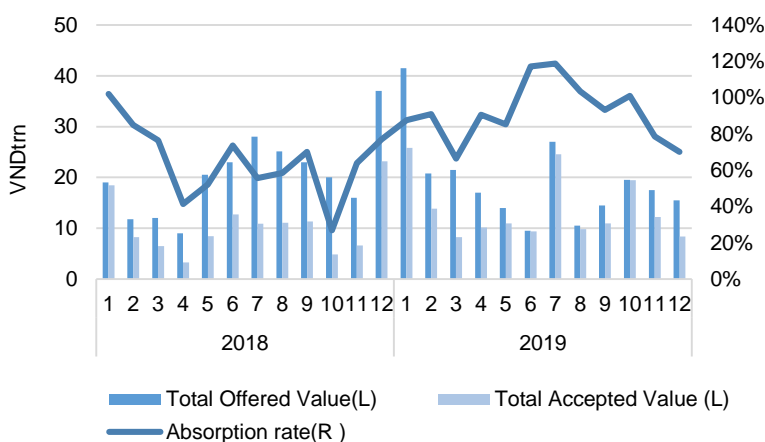


Source: Bloomberg, KIS, SBV

### Bond yields records new 2019 low

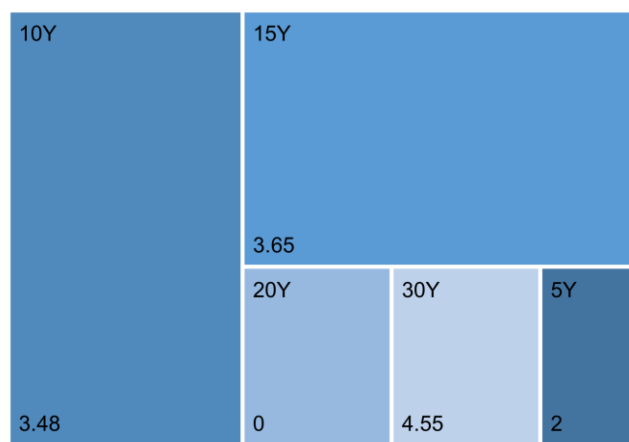
In the primary market, according to data compiled by HNX, Vietnam State Treasury (VST) offered VND15.5trn and sold VND10.9trn (including VND2.5trn additional amount accepted) of government bonds via 3 auction sessions in December 2019, declining respectively by 11.43% MoM and 20.91% MoM. Besides, absorption rate continued decreasing to 70.1% from 78.5% in previous month in line with the decrease in trading value. In value structure, 10-year and 15-year bonds were the most traded instruments with transacted amounts of VND4.35trn and VND4.45trn, accounting for 40.06% and 40.98% of total value. For whole 2019, VST sold VND208.6trn, fulfilling 74.51% of the annual government bond issuance plan.

Fig 08. Government bond auction value



Source: Bloomberg, KIS, SBV

Fig 09. Auction value by tenor (% , annual rate)



In the secondary market, total bond trading value decreased by 9.91% MoM to VND117.9trn in December after hitting 2019 peak in November, as government bond yields generally continued to move down. In which, investors traded intensively on 10-year and 15-year tenors, with the trading amounts of VND41.0trn (accounting for 34.79%) and VND18.0trn (accounting for 15.30%), respectively. Government bond yields on most of tenors continued declining to hit 2019 lows. At the end of December, the government bond yields on 3-month, 1-year, 5-year, and 10-year posted 1.53%, 1.44%, 2.18%, and 3.37%, declining by 48bps, 55bps, 49bps and 9bps compared to November, respectively.

Fig 10. Bond trading value and bond yields

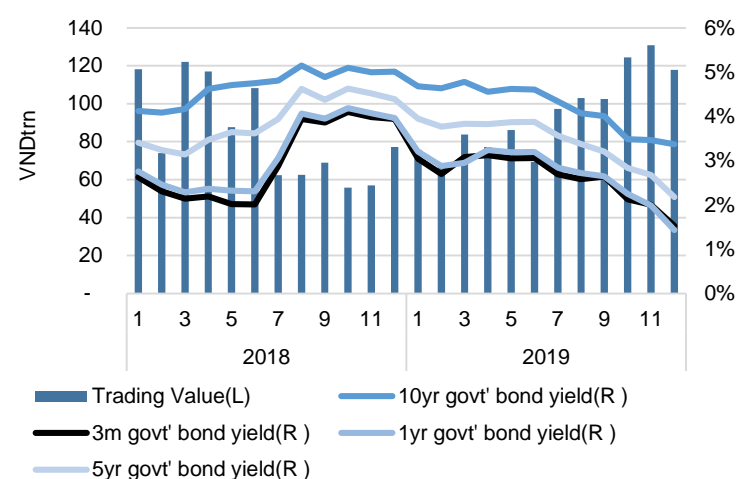
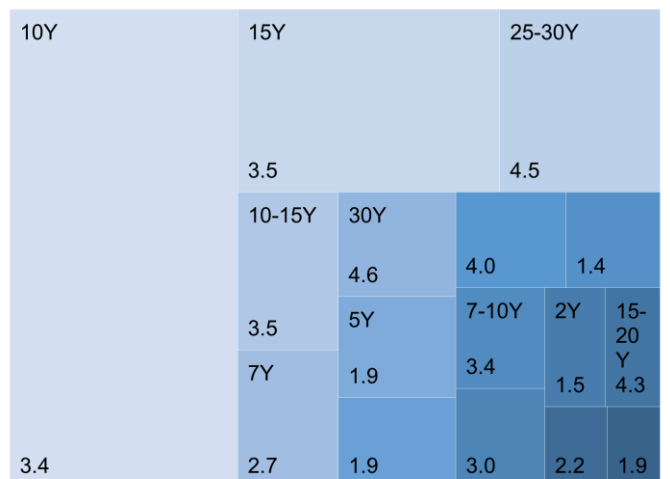


Fig 11. Trading breakdown by tenor (% , annual rate)



Source: Bloomberg, KIS, HNX

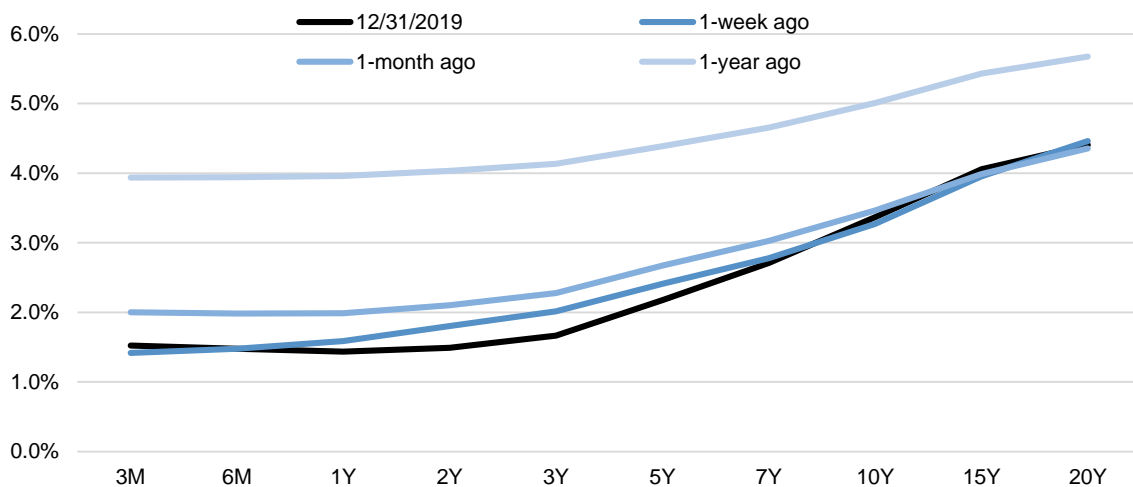
### Yield curve is flattening

At the end of December, 1-year and 2-year government bond yields posted 1.44% and 1.49%, declining 55bps MoM and 61bps MoM, while 3M and 6M bond yields reached 1.53% and 1.48%, lowering 48bps MoM and 50bps MoM, respectively. The mid-term (1-year, 2-year) bond yields moved down faster than those on shorter-term bonds. This phenomenon likely indicated the market expectation for short-term government bond yields to decrease in the coming time. There are some suitable reasons to explain the current bond yield expectation:

- Lower inflation pressure in 2020. Inflation rate posted 2.79% in 2019, 45bps lower than 3.24% in 2018 and much far away from the Government target of 4%, indicating a low inflation rate expectation in 2020. As a result, market participants are likely to require a lower bond yield rate for lower inflation compensation.
- The easing race of central banks in advanced economies. Policy rates in some advanced economies continued to decrease to stimulate their economic growth

in 2019, and these easing monetary stances are likely to extend in 2020. As a result, decreases in global interest rates, in the context of a highly stable USDVND exchange rate, put downward pressure on Vietnam government bond yields.

**Fig 10. Yield curve**



Source: Bloomberg, KIS, HNX

## Macro scorecard

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	1Q19	2Q19	3Q19	4Q19	2016	2017	2018	2019
Real GDP growth (%)							6.82	6.73	7.31	7.31	6.21	6.81	7.08	6.80
Registered FDI (USDbn)	1.75	2.41	3.54	2.95	2.68	6.23	10.09	10.81	7.66	11.86	20.95	35.88	35.47	38.02
GDP per capita (USD)											2,172	2,353	2,551	2,730
Unemployment rate (%)											2.33	2.21	2.21	2.25
Export (USDbn)	22.98	25.88	23.36	22.40	22.79	21.80	58.76	63.77	72.22	68.83	176.6	215.1	243.5	263.6
Import (USDbn)	22.94	22.45	21.75	22.50	22.34	22.80	57.09	63.68	67.14	66.51	175.0	213.2	236.7	254.4
Export growth (%)	11.10	10.41	10.68	7.33	4.66	10.15	5.10	9.17	10.72	7.29	8.99	21.82	13.19	8.16
Import growth (%)	7.53	5.87	11.77	2.89	-0.87	10.98	7.25	10.12	8.30	4.22	5.55	21.85	11.01	7.41
Inflation (% YoY)	2.44	2.26	1.98	2.48	3.25	2.79	2.63	2.66	2.23	2.79	2.66	3.53	3.54	2.79
USDVND	23,205	23,196	23,203	23,202	23,197	23,173	23,189	23,301	23,203	23,173	22,761	22,698	23,175	23,173
Credit growth (%)	7.48	8.16	9.40			13.70	3.13	7.36	9.40	13.70	18.25	18.24	13.89	13.70
10yr government bond (%)	4.69	4.87	4.07	3.70	3.58	3.37	4.78	4.66	4.07	3.37	6.23	5.14	5.07	3.37

Source: GSO, Bloomberg, FIA, IMF



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