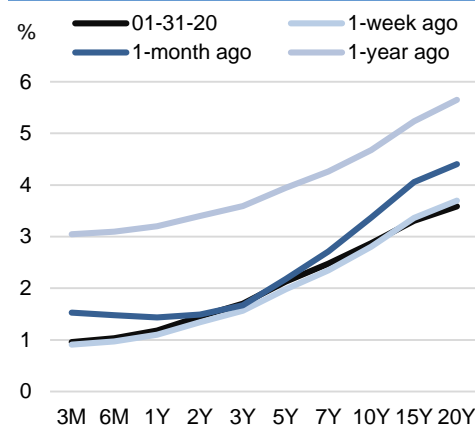


## Macro Indicators

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	Jan	Dec	Nov
CPI (% YoY)	6.43	5.23	3.52
IIP (% YoY)	-5.51	6.20	5.41
Export (% YoY)	-13.9*	10.15*	4.66
Import (% YoY)	-10.2*	10.98*	-0.87

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

## G-bond yield curve



Source: HNX, Bloomberg

## Overnight rate bounces back in Tet holiday

**SBV switches to withdraw liquidity by T-Bills.** In January 2020, SBV drained VND62.80trn out of the banking system through T-bill (VND25trn) and repo (VND37.8trn) channels, marking the second consecutive month of SBV withdrawal. In T-bill channel, from 20th January 2020, the central bank restarted to offer new T-bills with 91-day maturity to tighten liquidity from its counterparties. ([Page 2](#))

**Overnight rate bounces back in Tet holiday.** In January 2020, we saw opposite movements of short- and long-term interbank yields in the mix of temporary tightening signals from SBV and rising concerns related to coronavirus disease. Short-term interbank rates generally bounced back after hitting their lows in previous month as the SBV send temporary tightening signals by using 91-day T-bill offerings. ([Page 3](#))

**Bond yields records new two-year low.** In the primary market, according to data compiled by HNX, Vietnam State Treasury (VST) offered VND12.00trn and sold VND9.53trn of government bonds via 3 auction sessions in January 2020, declining respectively by 14.29% MoM and 3.37% MoM. Besides, absorption rate slightly increased to 79.4% from 70.1% in previous month. ([Page 5](#))

**Yield curve is shifted downward.** A recent coronavirus outbreak is considered a massive threat to the global economy. In a high of the pandemic in January, China decided to lockdown several major cities with a total of more than 60mn people, which the world has never seen before. As a consequence, most economic activities including trade, manufacturing, services, etc., got interrupted seriously and saw uncertainties in the near future. Following that, most economists around the globe have together put a negative view on global growth, and the world tends to prefer low-risk assets as government bonds. In our opinion, the Vietnam government bond yields continue to decrease in February but likely with a softer pace. In other words, the yield curve will likely be shifted downward and become flatter when the right tail of the yield curve (from 10-year to 20-year maturities) will move down faster. ([Page 6](#))

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### SBV switches to withdraw liquidity by T-Bills

In January 2020, SBV drained VND62.80trn out of the banking system through T-bill (VND25trn) and repo (VND37.8trn) channels, marking the second consecutive month of SBV withdrawal. In T-bill channel, from 20<sup>th</sup> January 2020, the central bank restarted to offer new T-bills with 91-day maturity to tighten liquidity from its counterparties. On the other hand, all previous repo contracts matured without any new offerings and brought an amount of VND37.8trn out of the banking system.

Fig 01. T-bill transaction

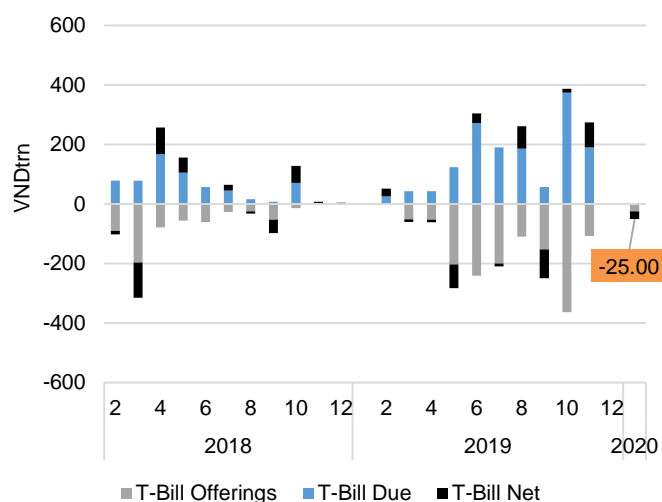
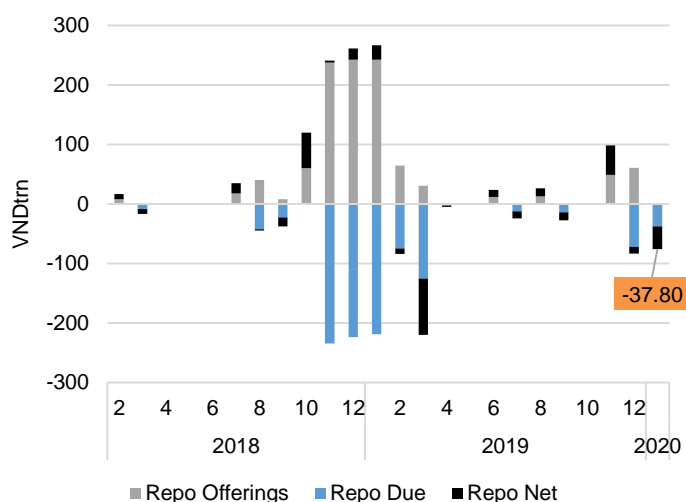
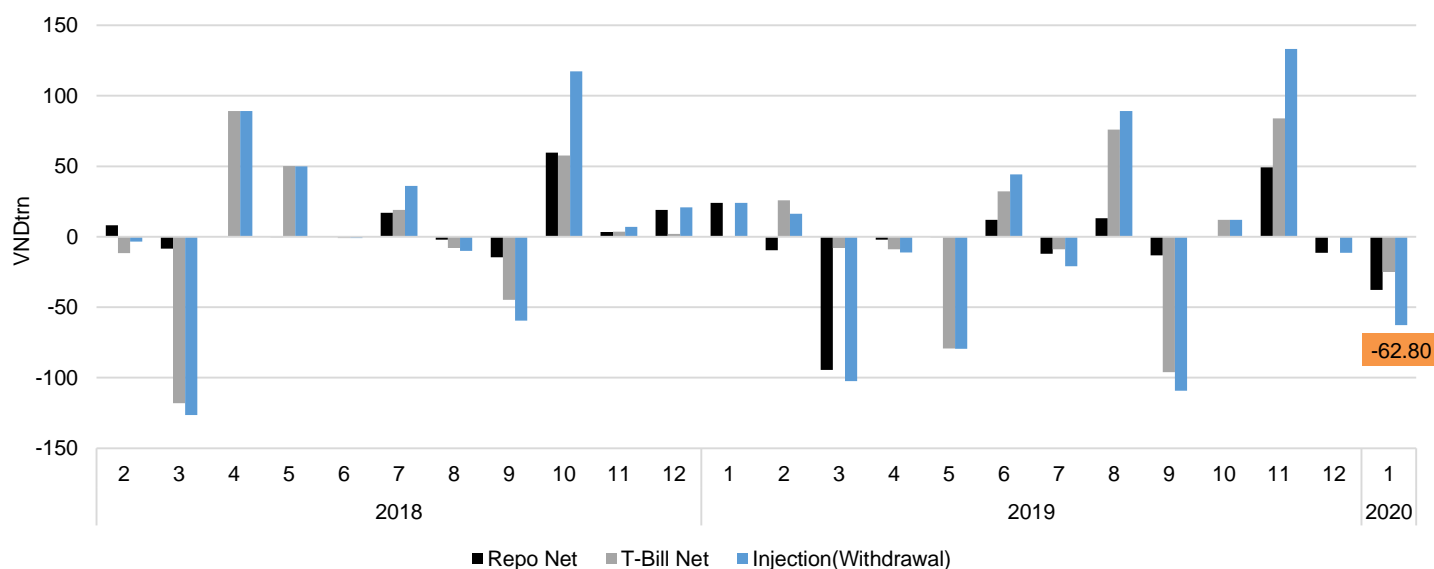


Fig 02. Repo transaction



Source: Bloomberg, SBV, and KIS

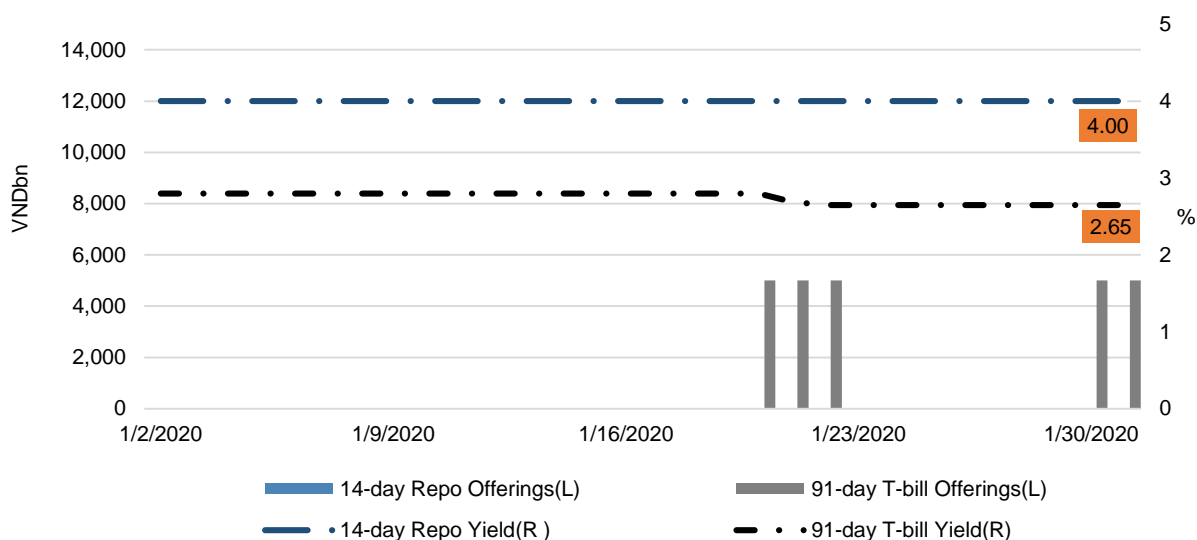
Fig 03. Injection (Withdrawal) in OMO



Source: Bloomberg, KIS, SBV

In January 2020, SBV started covering OMO transactions by using T-bill instrument with a 91-day tenor. SBV focused on draining liquidity via 91-day T-bills and halted offering new repo contracts by the end of the month. Besides, the annualized rate of the 91-day T-bill cumulatively declined by 15bps to post 2.65% at the end of this month.

**Fig 04. Daily OMO transaction in January 2020**



Source: Bloomberg, KIS, SBV

### Overnight rate bounces back in Tet holiday

In January 2020, we saw opposite movements of short- and long-term interbank yields in the mix of temporary tightening signals from SBV and rising concerns related to coronavirus disease. Short-term interbank rates generally bounced back after hitting their lows in previous month as the SBV send temporary tightening signals by using 91-day T-bill offerings. In detail, the overnight interbank rate soared to 3.08%, 165bps-higher than in December 2019, while 1-week yield also rose enormously by 100bps to post 3.29%. On the contrary, longer-term rates, such as 1-month, 3-month, moved in the opposite direction in the context of rising global risk associated with coronavirus disease. Specifically, 1-month and 3-month interbank rates decreased by 42bps and 93bps, posting 3.48% and 4.17% respectively.

Fig 05. Interbank transaction

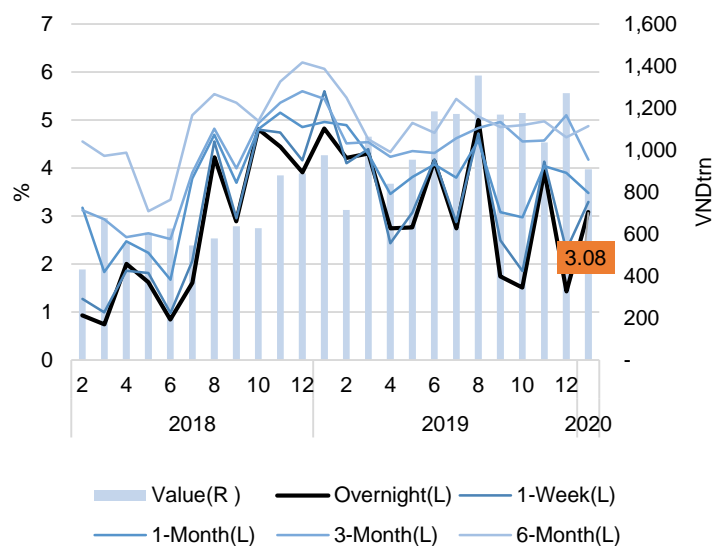
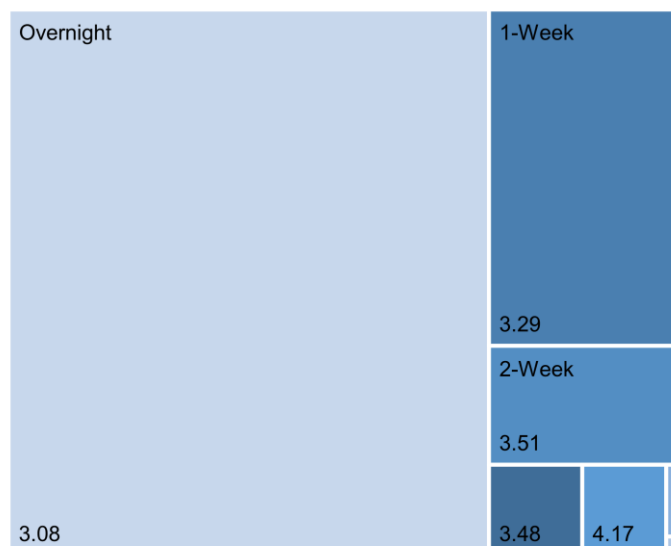


Fig 06. Interbank breakdown by tenor (% , annual rate)

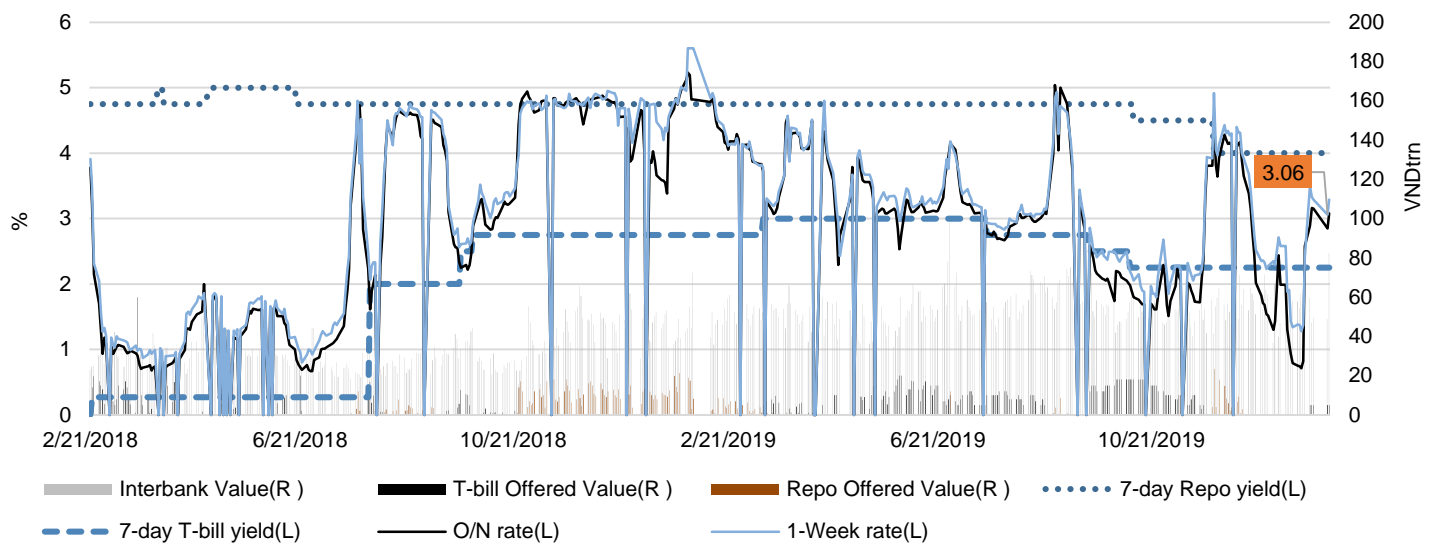


Source: Bloomberg, KIS,SBV

In value structure, total interbank transaction value tumbled by 22.6% MoM to VND908.6trn mostly because of the Tet holiday. In which, transaction concentrated on overnight tenor with VND649.37trn, accounting for 71.47% of total value. Besides, trading value on 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month posted VND159.73trn, VND56.43trn, VND20.97trn, VND18.85trn, VND2.57trn, and VND0.68trn, contributing 17.58%, 6.21%, 2.31%, 2.08%, 0.28%, and 0.08%, respectively.

On the daily chart, the overnight rate bounced back after crossing below the lower bound of interest rate corridor as SBV used T-bill instrument to drain the liquidity from banking system. Intuitively, the use of a longer-term (91-day) T-bill instead of 7-day or 14-day T-bill likely indicate a longer-term stance of SBV in draining liquidity of the banking system. Rising concerns related to the effect of 2019-nCoV on global growth put downward pressure on interbank yields, but the central bank’s tightening signals likely show the effort in stabilizing the policy rates in an appropriate interest rate corridor.

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

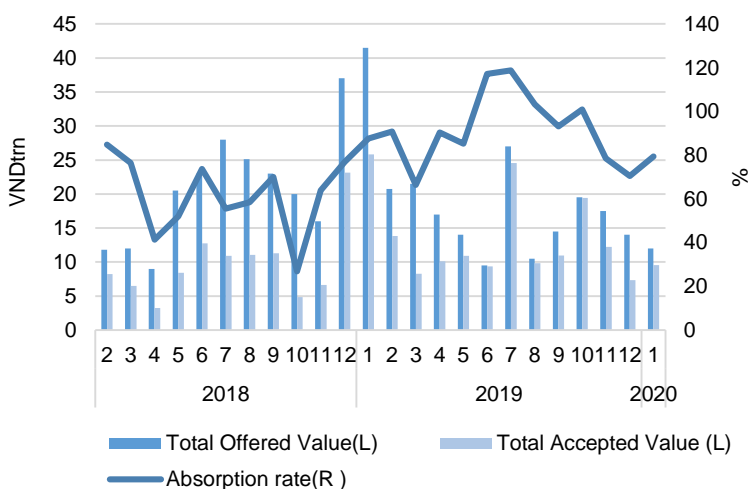


Source: Bloomberg, KIS,SBV

**Bond yields records new two-year low**

In the primary market, according to data compiled by HNX, Vietnam State Treasury (VST) offered VND12trn and sold VND9.53trn of government bonds via 3 auction sessions in January 2020, declining respectively by 14.29% MoM and 3.37% MoM. Besides, absorption rate slightly increased to 79.4% from 70.1% in previous month. In value structure, 15-year and 10-year bonds were the most traded instruments with transacted amounts of VND3.61trn and VND2.91trn, accounting for 34.80% and 34.80% of total value.

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 16.73% MoM to VND98.15trn in January 2020. In which, investors traded intensively on 10-year and 15-year tenors, with the trading amounts of VND31.20trn (accounting for 31.79%) and VND21.29trn (accounting for 21.69%), respectively. Government bond yields on most of tenors continued declining to hit two-year lows. At the end of January 2020, the government bond yields on 3-month, 1-year, 5-year, and 10-year posted 0.96%, 1.18%, 2.13%, and 2.87%, declining by 58bps, 26bps, 5bps and 49bps compared to December 2019, respectively.

Fig 10. Bond trading value and bond yields

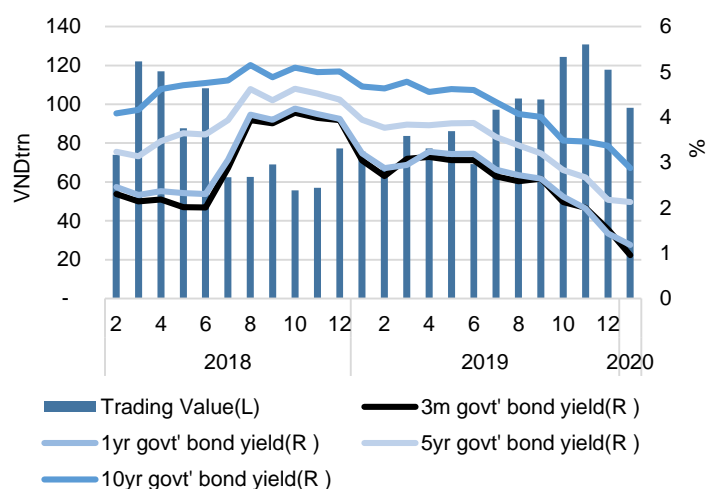
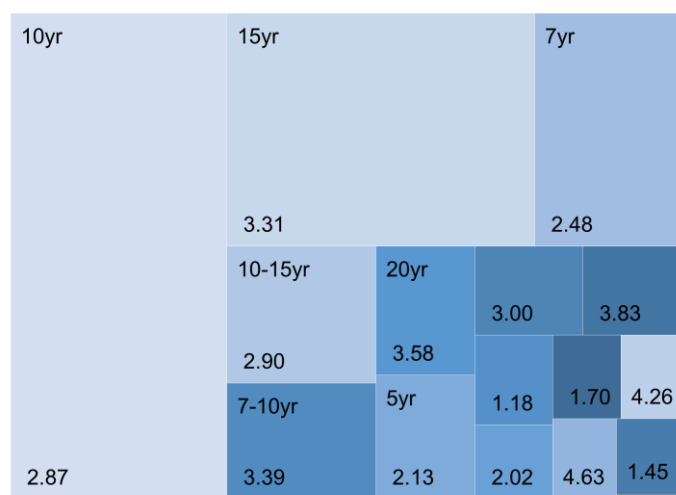


Fig 11. Trading breakdown by tenor (% , annual rate)



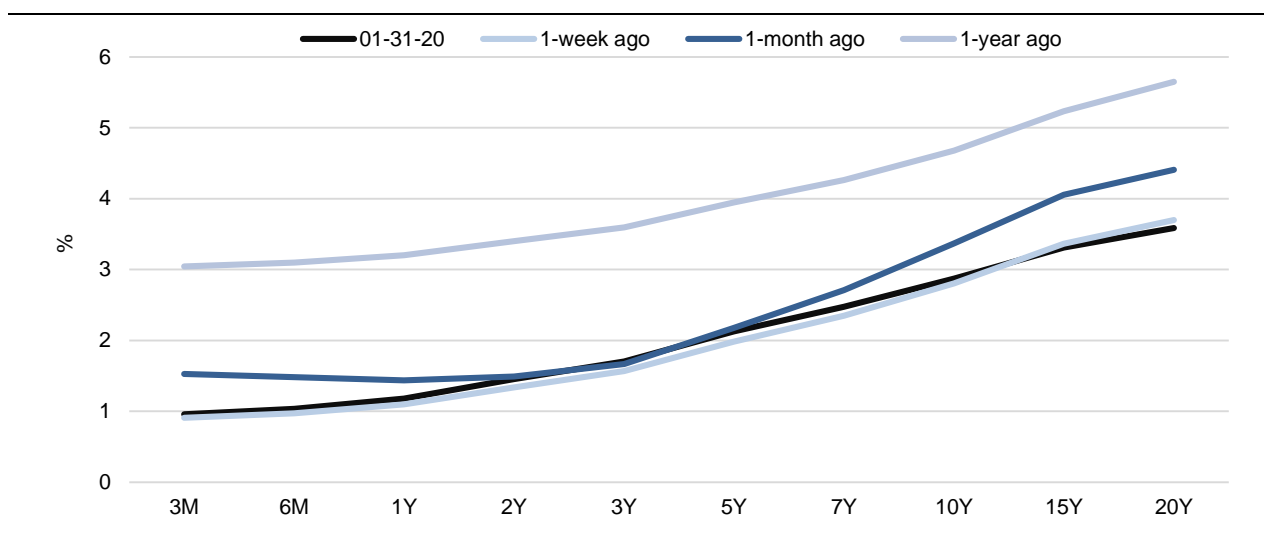
Source: Bloomberg, KIS, HNX

### Yield curve is shifted downward

In January 2020, the downward momentum of the short-end of the yield curve (3-month and 6-month government bond yields) continued to drive down those short-term yields further. Relatively compared to December 2019, the 3-month and 6-month yields decreased sharply by 57bps MoM and 45bps MoM to 0.96% and 1.03%, respectively. On the other side, we even saw a stronger reduction from the long-end of the curve when those 10-year, 15-year, and 20-year yields plummeted by 50bps, 75bps, and 82bps to 2.88%, 3.31%, and 3.59%, respectively. Meanwhile, the mid-term yields, including 2-year, 3-year, and 5-year, remained nearly unchanged compared to the previous month when posting 1.45%, 1.70%, and 2.13%, respectively. Reasons below may help explain partly the movement of the yield curve:

- We saw consistency in the movements of 3-month and 6-month government bond yields with those of 3-month and 6-month interbank interest rates. Looking back at a before-the-Lunar-New-Year period from December, the 3-month and 6-month interbank rates were going downward significantly due to ample liquidity in the banking system. As a result, this downward trend drove down the bond yields with comparable terms in the bond market.
- On the right tail of the yield curve, the plunges in those long-term yields were following the global trend. The 10-year government bond yields of the U.S., Japan, Europe Union, Germany, and some peers in ASEAN, including Thailand, Indonesia, and Malaysia, were decreasing during January. Furthermore, the exchange rate USDVND remained very stable in the month. Consequently, those factors pushed an immense downward pressure on the Vietnam long-term bond yields.

Fig 12. Yield curve



Source: Bloomberg, KIS, HNX

### PREDICTION:

*A recent coronavirus outbreak is considered a massive threat to the global economy. In a high of the pandemic in January, China decided to lockdown several major cities with a total of more than 60mn people, which the world has never seen before. As a consequence, most economic activities including trade, manufacturing, services, etc., got interrupted seriously and saw uncertainties in the near future. Following that, most economists around the globe have together put a negative view on global growth, and the world tends to prefer low-risk assets as government bonds.*

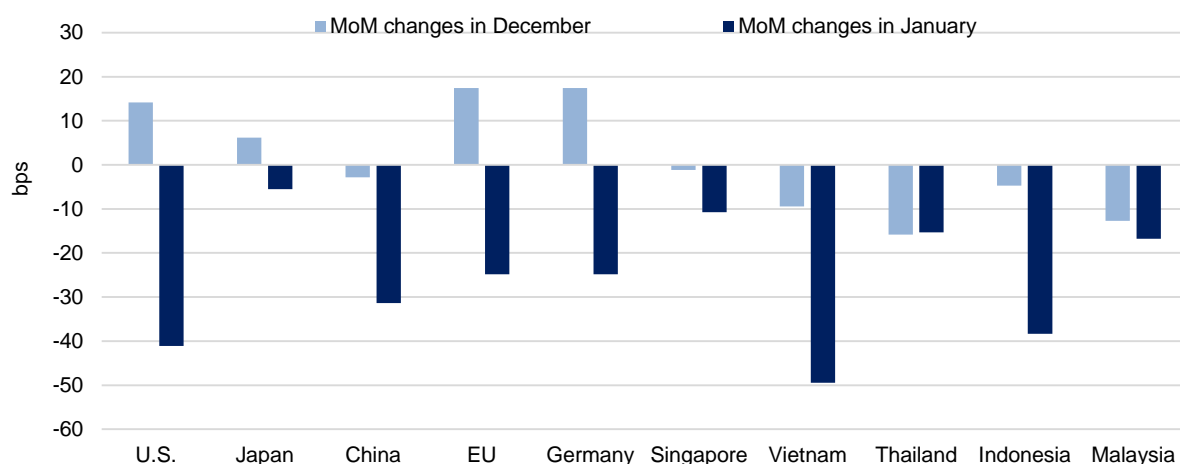
*Based on the available data of the 10-year government bond yields of several countries including the U.S., Europe Union, Germany, Japan, South Korea, and some*

China's neighbors as Vietnam, Thailand, Malaysia, and Indonesia, we saw sudden plunges in their bond yields from 22th – 23th January when China authorities began to lock down several cities near the central Wuhan.

Furthermore, from early February, the central banks of China and Vietnam have started to support businesses being affected by the epidemic. In the near term, when the economic impact of the virus outbreak becomes more clear, we expect the central banks to conduct further monetary easing to aid the economies, which in turn will put downward pressure on the interest rates and bond yields.

To summarize, we expect that the Vietnam government bond yields continue to decrease in February but likely with a softer pace. In other words, the yield curve will likely be shifted downward and become flatter when the right tail of the yield curve (from 10-year to 20-year maturities) will move down faster.

**Fig 13. Changes in 10-year government bond yield**



Source: Bloomberg, KIS, HNX



## Macro scorecard

	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	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)	2.41	3.54	2.95	2.68	6.23	5.33	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)	25.88	23.36	22.40	22.79	21.80	19.00	58.76	63.77	72.22	68.83	176.6	215.1	243.5	263.6
Import (USDbn)	22.45	21.75	22.50	22.34	22.80	19.10	57.09	63.68	67.14	66.51	175.0	213.2	236.7	254.4
Export growth (%)	10.41	10.68	7.33	4.66	10.15	-13.93	5.10	9.17	10.72	7.29	8.99	21.82	13.19	8.16
Import growth (%)	5.87	11.77	2.89	-0.87	10.98	-10.16	7.25	10.12	8.30	4.22	5.55	21.85	11.01	7.41
Inflation (% YoY)	2.26	1.98	2.24	3.52	5.23	6.43	2.63	2.66	2.23	2.79	2.66	3.53	3.54	2.79
USDVND	23,196	23,203	23,202	23,197	23,173	23,223	23,189	23,301	23,203	23,173	22,761	22,698	23,175	23,173
Credit growth (%)	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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