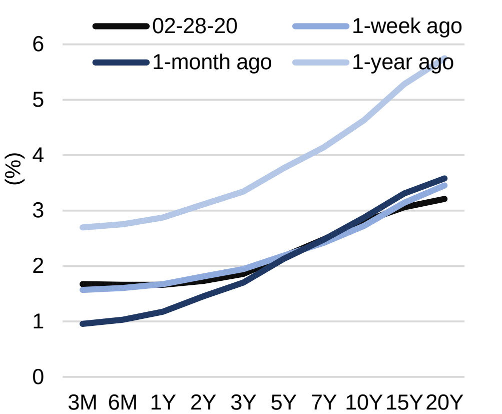
true friend KIS Viet Nam Securities Corporation

## 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** | **Feb** | **Jan** | **Dec** |
| CPI (% YoY) | 5.40 | 6.43 | 5.23 |
| IIP (% YoY) | 23.71 | -5.51 | 6.20 |
| Export (% YoY) | 33.76* | -13.9* | 10.15* |
| Import (% YoY) | 26.08* | -10.2* | 10.98* |

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

## G-bond yield curve




*Source: HNX, Bloomberg*

# SBV keeps withdrawing liquidity

**SBV keeps withdrawing liquidity.** SBV extended to drain the banking system liquidity in the context of global easing race to mitigate the “COVID-19” economic impact. In February 2020, SBV drained VND94.96tn out of the banking system through T-bill (VND94.99tn) while injected a trivial amount (VND0.03tn) via repo channels, marking the third consecutive month of SBV withdrawal. (Page 2)

**Interbank yields lower across all tenors.** In February 2020, interbank transactions showed the overall downtrend in yields across tenors. The overnight rate declined the most by 106 basis points (bps), turning from 3.08% in the previous month to 2.02% in the current period. The curve downward-shift of interbank rates in the combination with increasing trading value (35.51% MoM) are likely to reflect the excess in the liquidity of the interbank market. (Page 3)

**Bond yields slightly rebound.** In the primary market, according to data compiled by HNX, Vietnam State Treasury (VST) offered VND16.50tn and sold VND13.73tn of government bonds via 3 auction sessions in February 2020, increasing respectively by 43.48% MoM and 36.98% MoM. In secondary market, G-bond yields on most of the tenors slightly rebounded after hitting two-year lows. High inflation was likely the reason to slightly adjust the bond rates to up in this period in the context of a persistent downtrend, resulting from the fear of COVID-19. (Page 5)

**Long-term government bond becomes a shelter for investors under the fierce storm “COVID-19”.** In February, the downward trend of global long-term bond yields continued to be mainstream in the bond market. In the midst of the supposedly worst pandemic in the 21st century, the long-term government bond is considered as an emergency medicine for investors to fight against the rapidly spreading outbreak. From our viewpoint, the combined effects of the recent escalation of the outbreak in Europe & the U.S and the further easing monetary policies of major central banks will intensify the downward pressure on the global long-term G-bond yields in March. (Page 6)

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## SBV extends to drain the liquidity

SBV extends to drain the banking system liquidity in the context of global easing race to mitigate the "COVID-19" economic impact. In February 2020, SBV poured VND94.96tn away the banking system through T-bill (VND94.99tn) while injected a trivial amount (VND0.03tn) via repo channels, marking the third consecutive month of SBV withdrawal. In detail, the central bank continued to offer new T-bills with maturity of 91-day to tighten liquidity from its counterparties. Beside, SBV offered a new repo contract with a trivia amount at VND0.03tn to the banking system.

**Fig 01. T-bill transaction**

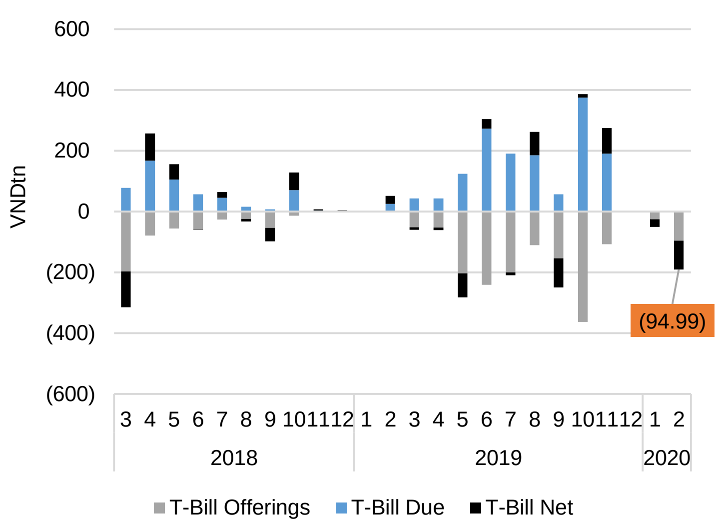
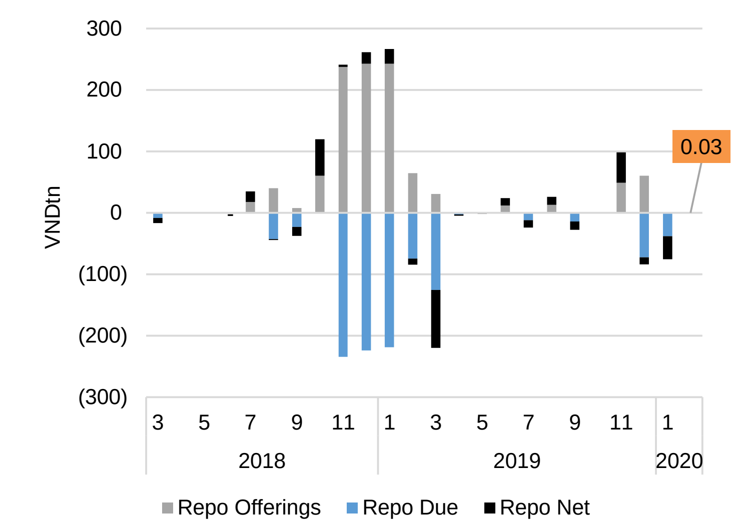
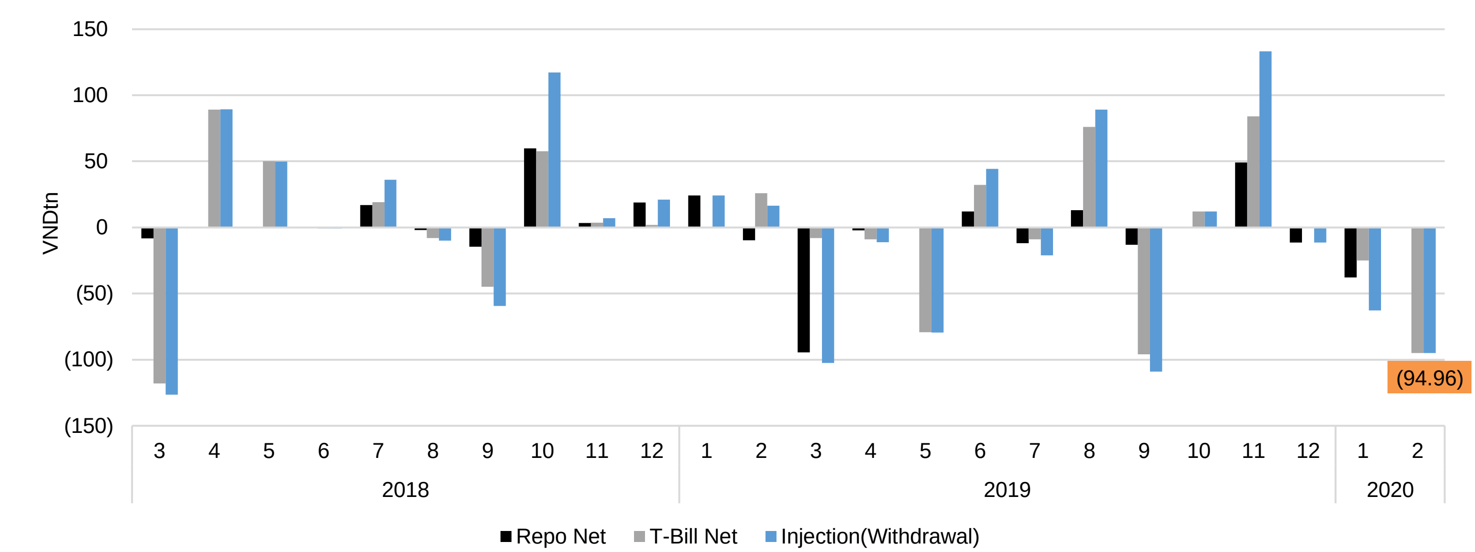



**Fig 02. Repo transaction**




*Source: Bloomberg, SBV, and KIS*

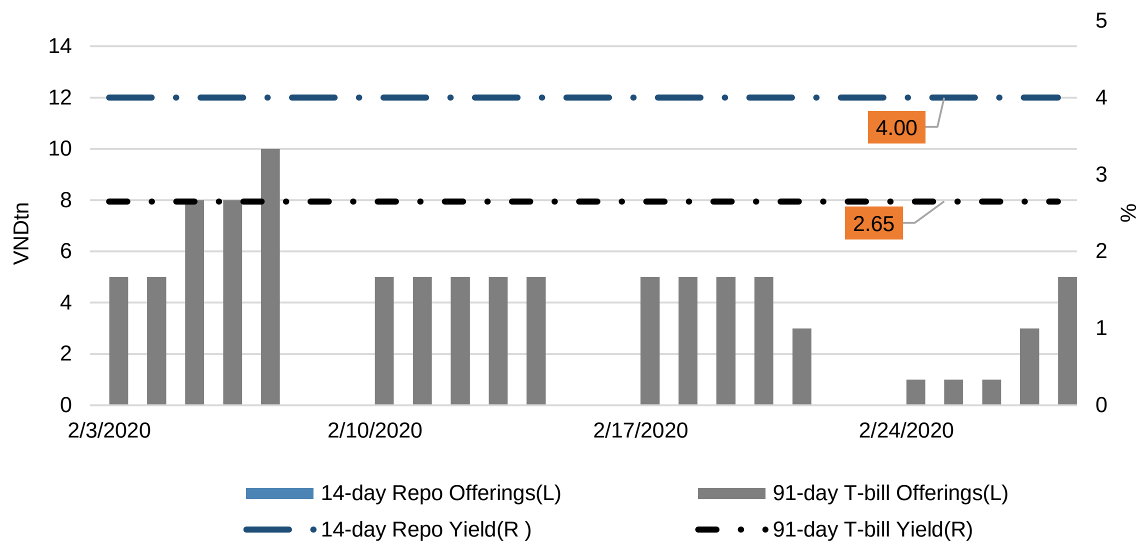
**Fig 03. Injection (Withdrawal) in OMO**




*Source: Bloomberg, KIS,SBV*

In terms of daily transactions, SBV maintained covering OMO transactions by using the T-bill instrument with a 91-day tenor like January 2020. The new issuance value tended to be slower over weeks due to the increasing complexity of the epidemic. Besides, the annualized yield of the 91-day T-bill was unchanged compared to the end-of- prior month at 2.65%.

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




*Source: Bloomberg, KIS, SBV*

## Interbank yields lower across all tenors

In February 2020, interbank transactions showed the overall downtrend in yields across tenors. The overnight rate declined the most by 106 basis points (bps), turning from 3.08% in the previous month to 2.02% in the current period. This move marked the fourth time the overnight rate tried to break the lower bound level at 2%. Also, the 1-week, 1-month, 3-month, and 6-month yields fell by 87bps, 54bps, 96bps, and 65bps to post 2.42%, 2.94%, 3.21%, and 4.22% respectively. The curve downward-shift of interbank rates in the combination with increasing trading value (35.51% MoM) are likely to reflect the excess in the liquidity of the interbank market.

**Fig 05. Interbank transaction**

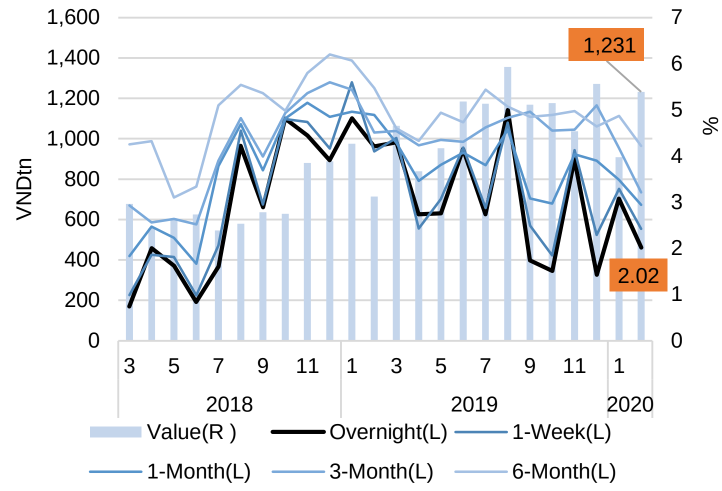
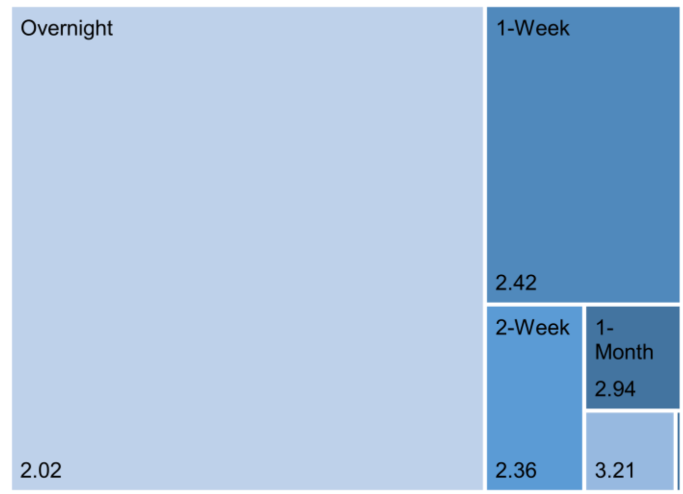



**Fig 06. Interbank breakdown by tenor (%, annual rate)**

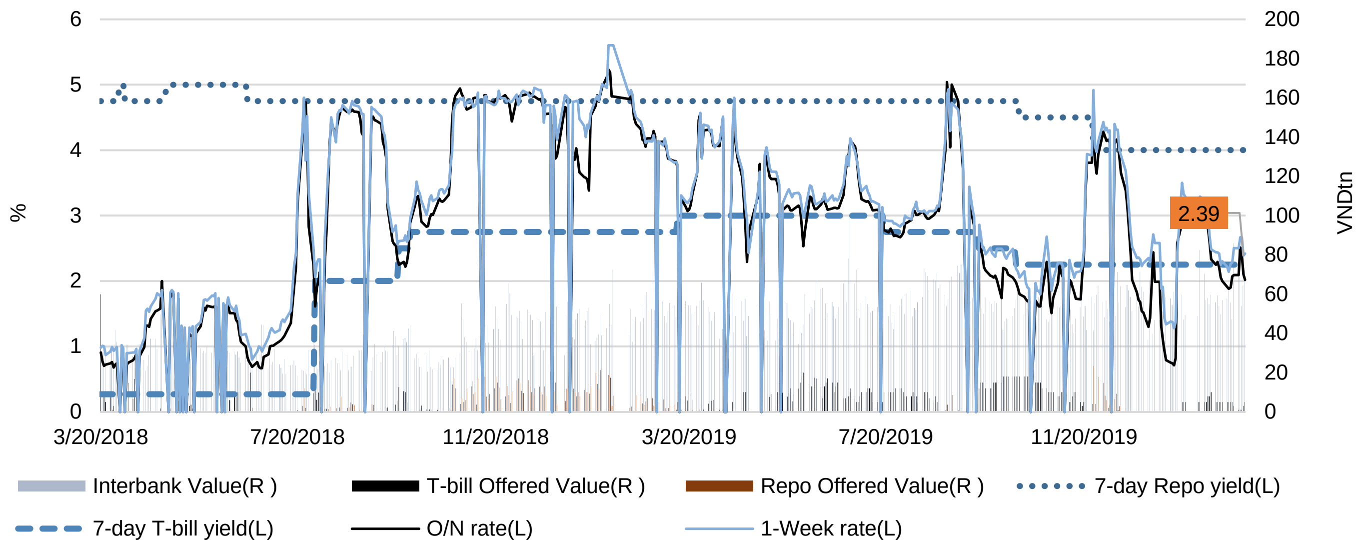



*Source: Bloomberg, KIS,SBV*

In value structure, total interbank transaction value rose by 35.51% MoM to VND1,231.24tn. In which, transaction concentrated on overnight tenor with VND870.93tn, accounting for 70.74% of total value. Besides, trading value on 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month posted VND221.50tn, VND70.14tn, VND38.89tn, VND27.91tn, VND1.74tn, and VND0.13tn, contributing 17.99%, 5.70%, 3.16%, 2.27%, 0.14%, and 0.01%, 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 COVID-19 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 slightly rebound

In the primary market, according to data compiled by HNX, Vietnam State Treasury (VST) offered VND16.50tn and sold VND13.73tn of government bonds via 3 auction sessions in February 2020, increasing respectively by 43.48% MoM and 36.98% MoM. Besides, absorption rate slightly decreased to 83.20% from 87.20% in previous month. In value structure, 15-year, 10-year and 30-year bonds were the most traded instruments with transacted amounts of VND4.33tn, VND3.97 and VND3.82tn, accounting for 31.56%, 28.88% and 27.84% of total accepted value.

**Fig 08. Government bond auction value**

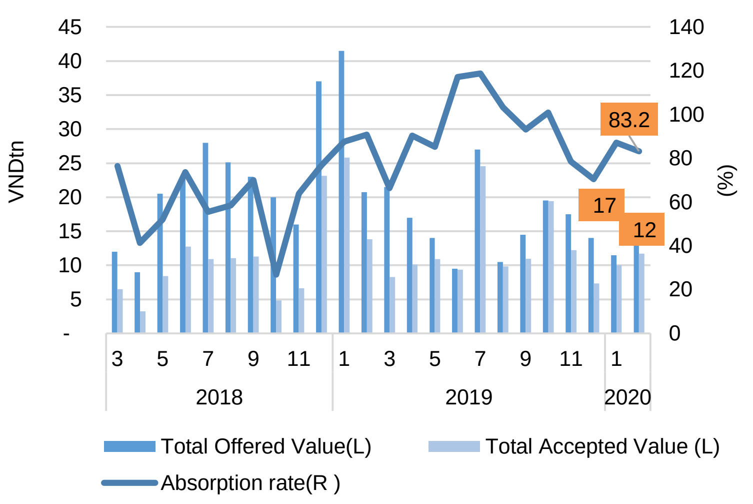
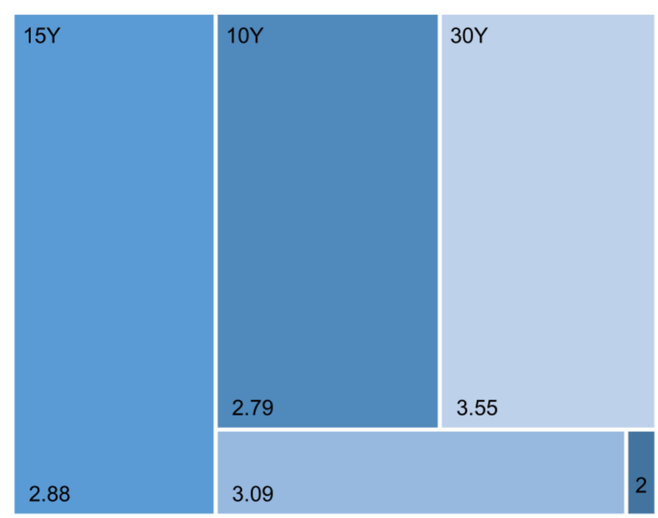



**Fig 09. Auction value by tenor (%, annual rate)**




*Source: Bloomberg, KIS,SBV*

In the secondary market, the total bond traded value rose by 28.09% MoM to VND125.74tn in February 2020. In which, investors trade intensively on 10-year and 15-year tenors, with the trading amounts of VND40.92tn (accounting for 32.55%) and VND26.98tn (accounting for 21.46%), respectively. Government bond yields on most of the tenors slightly rebounded after hitting two-year lows. Specifically, in February 2020-end, the government bond yields on 3-month, 1-year, 3-year, and 5-year posted 1.67%, 1.66%, 1.86%, and 2.18%, increasing by 72bps, 48bps, 16bps, and 5bps compared to January 2020, respectively. High inflation was likely the reason to slightly adjust the bond rates to up in this period in the context of a persistent downtrend, resulting from the fear of COVID-19.

**Fig 10. Bond trading value and bond yields**

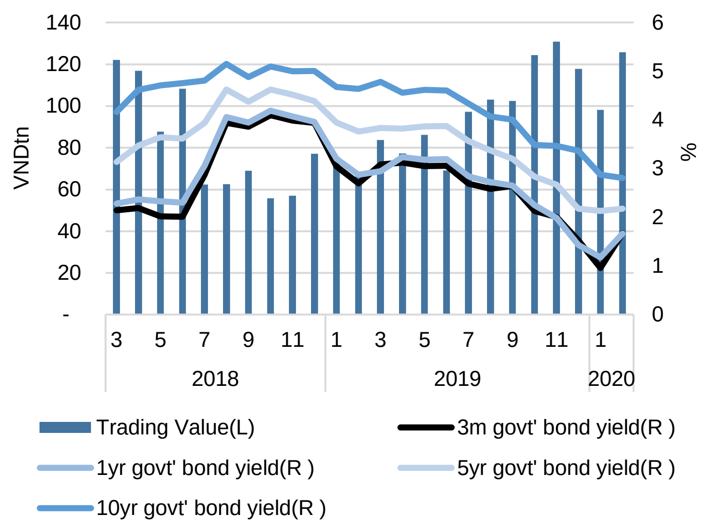
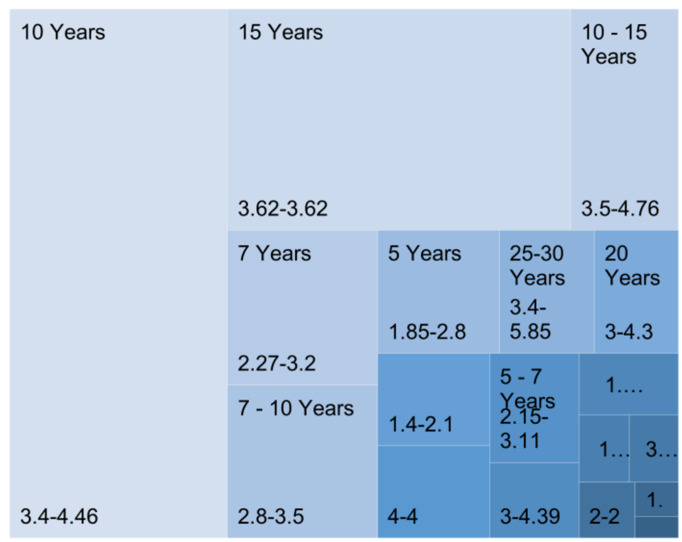



**Fig 11. Trading breakdown by tenor (%, annual rate)**




*Source: Bloomberg, KIS,HNX*

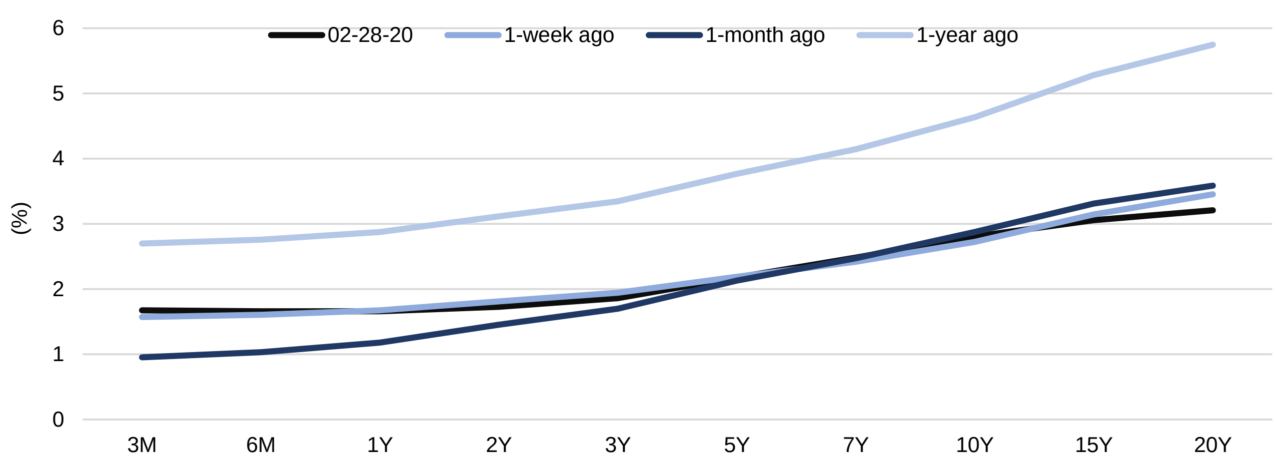
## Long-term government bond becomes a shelter for investors under the fierce storm "COVID-19"

In February, a downward trend of global long-term bond yields continued to be mainstream in the bond market. In the midst of the supposedly worst pandemic in the 21st century, the long-term government bond is considered an emergency medicine for investors to fight against the rapidly spreading outbreak.

In a month-over-month basis, in February, government bond yields with long-term maturity (from 10-year to 20-year) all tumbled to nearly their all-time lows. Of which, the yields of 10-year, 15-year, and 20-year government bonds slashed by approximately 7 basis points (bps), 25 bps, and 38 bps, reaching 2.81%, 3.06%, and 3.21%, respectively. On the contrary, the short-term yields (from 3-month & 6-month to 1-year) surprisingly went up to 1.67%, 1.66%, and 1.66%, equivalent to increases of 72 bps, 63 bps, and 48 bps, respectively. Regarding a medium term, yields with maturities of 5-year and 7-year remained roughly unchanged, increasing by just 5 bps and 1 bps, posting 2.18% and 2.48%, respectively. Reasons below may help explain partly the movement of the yield curve.

- Upward movements on the short-term yields in the secondary bond market, specifically 3-month and 6-month yields, were likely linked with other money market instruments, including treasury bills and repo contracts, in the OMO market. In February, the central bank intensely used a 3-month Treasury Bill with a rate of 2.65% to tighten the liquidity in the banking system. As a result, the more attractive interest rate of the 3-month T-bill put massively upward pressure on the 3-month and 6-month yields, which were significantly lower.
- On the right tail of the yield curve, the economic fallout of the coronavirus is the main reason for driving down the long-term government bond yields globally in the month. Vietnam is not an exception. 10-year, 15-year, and 20-year Vietnam bond yields have been on the way reaching their historic lows like its peers, and there is no sign of when the downward trend is going to stop, so is the spread of the deadly virus globally.

**Fig 12. Yield curve**




*Source: Bloomberg, KIS,HNX*

**PREDICTION:**

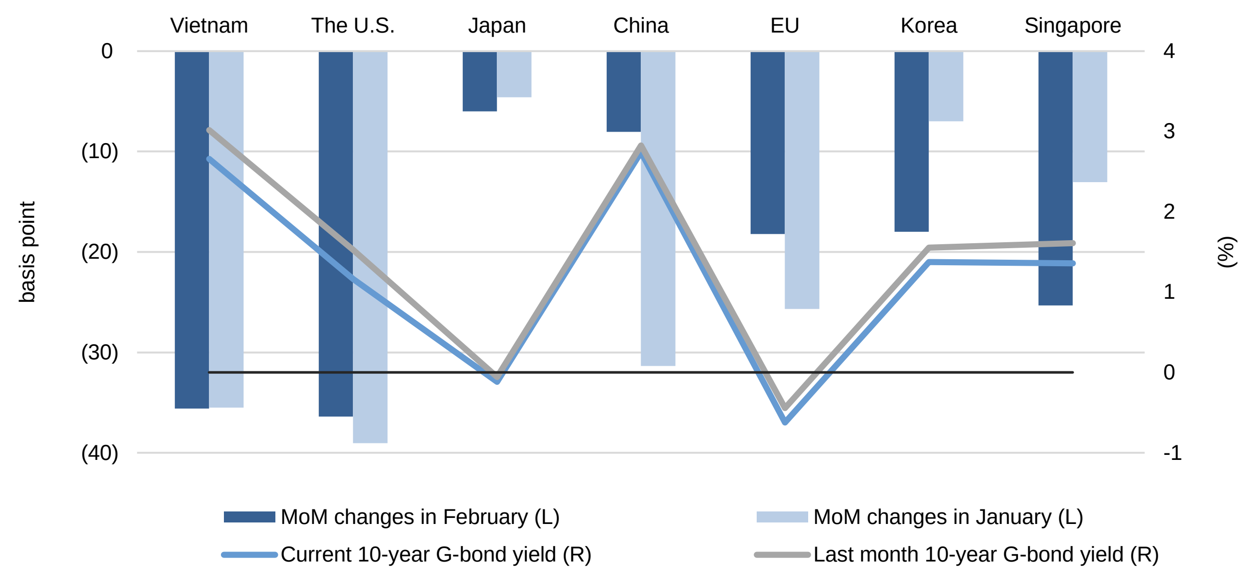
Our view remains the same as in the previous report in January that the COVID-19 has become the biggest threat of the global economy so far. As the way we see it economically, the outbreak is rapidly spreading to every corner of the world economy, from manufacturing & service sectors to the global trade. In other words, most economic activities are stagnant under the current business condition when confidence from investors to consumers in the market becomes fragile.

Based on the data of the 10-year government bond yields in major countries, including the U.S., Europe Union, Japan, China, Korean, etc., it seems that the long-term yields have reacted very quickly to the escalation of the outbreak. In the first two-third of February, those yields remained somewhat stable with small changes, then dropping sharply from 21st February when the number of COVID-19 new cases has been accelerating in Italy, Korea, and Iran.

From our perspectives, two following events would likely be the main themes of the global bond market in March 2020. Firstly, recent coronavirus crises in the Europe region and the United States have been not reflected yet in the data in February when they have just become more severe in early March. Secondly, the U.S. Federal Reserve surprisingly made an emergency cut of 50 bps to its fed fund rate in response to the economic fallout of the epidemic on 6th March. We expect further easing monetary policies to come from the European central bank and the Fed in March. These combined effects will intensify the downward pressure on the global long-term yields.

Based on these points above, we expect that the Vietnam long-term yields will see deeper plunges in the month, while the short-term yields will also decline due to recent drops in 3-month and 6-month interest rates in the interbank market. In other words, the yield curve will be shifted downward in both right and left tails.

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




*Source: Bloomberg, KIS,HNX*

## Macro scorecard

| | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-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 (USD bn) | 3.54 | 2.95 | 2.68 | 6.23 | 5.33 | 1.14 | 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 (USD bn) | 23.36 | 22.40 | 22.79 | 21.80 | 19.00 | 18.60 | 58.76 | 63.77 | 72.22 | 68.83 | 176.6 | 215.1 | 243.5 | 263.6 |
| Import (USD bn) | 21.75 | 22.50 | 22.34 | 22.80 | 19.10 | 18.50 | 57.09 | 63.68 | 67.14 | 66.51 | 175.0 | 213.2 | 236.7 | 254.4 |
| Export growth (%) | 10.68 | 7.33 | 4.66 | 10.15 | -13.93 | 33.76 | 5.10 | 9.17 | 10.72 | 7.29 | 8.99 | 21.82 | 13.19 | 8.16 |
| Import growth (%) | 11.77 | 2.89 | -0.87 | 10.98 | -10.16 | 26.08 | 7.25 | 10.12 | 8.30 | 4.22 | 5.55 | 21.85 | 11.01 | 7.41 |
| Inflation (% YoY) | 1.98 | 2.24 | 3.52 | 5.23 | 6.43 | 5.40 | 2.63 | 2.66 | 2.23 | 2.79 | 2.66 | 3.53 | 3.54 | 2.79 |
| USD/VND | 23,203 | 23,202 | 23,197 | 23,173 | 23,223 | 23,231 | 23,189 | 23,301 | 23,203 | 23,173 | 22,761 | 22,698 | 23,175 | 23,173 |
| Credit growth (%) | 9.40 | | | 13.70 | | | 3.13 | 7.36 | 9.40 | 13.70 | 18.25 | 18.24 | 13.89 | 13.70 |
| 10Y gov't bond (%) | 4.07 | 3.70 | 3.58 | 3.37 | 2.88 | 2.81 | 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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