

Fixed-income Perspectives

“Temporary liquidity withdrawal, not a trend”

SBV slightly drains liquidity

SBV reduced the magnitude of liquidity withdrawal significantly in this month. Also, we see that SBV used repo contracts to adjust the liquidity in short-term rather than expressed the stance of money-injection in longer-term. Hence, we predict the liquidity to remain stable in the next month.

The interbank yield downturn becomes weak

The overnight rate still moved in the interest rate corridor but more frequently lay around the lower bound. The low overnight interbank rate indicates an excess in liquidity in the banking system due to the risk of the pandemic. However, the reduction in trading value and SBV’s liquidity support (via repo instrument) likely predict a weak downturn in the interbank rate in next month.

Correction in G-bond yields

In April, the G-bond yield curve shifted downward for all tenors after a sharp re-bounce in March, showing modest corrections in the g-bond yields rather than any worrisome signs of the weak economy. Ample liquidity in the banking system and massive QE programs from major central banks are expected to put downward pressure on the g-bond yields with all tenors in May, and the former may make a greater impact on short-term yields.

KIS leading economic index

(% YoY)

Quarterly data	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20F
GDP growth	6.90	6.73	7.48	6.97	3.82	4.88
Disbursed FDI	6.19	10.91	4.92	5.30	(6.55)	3.64
Monthly data	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20F
CPI	5.23	6.43	5.40	4.87	2.93	3.15
IIP	6.20	(5.51)	23.71	5.41	(10.55)	(13.82)
Export	13.99	(17.00)	33.76	5.93	(3.50)	12.02
Import	8.56	(12.51)	26.08	4.71	(2.30)	9.50

Source: KIS

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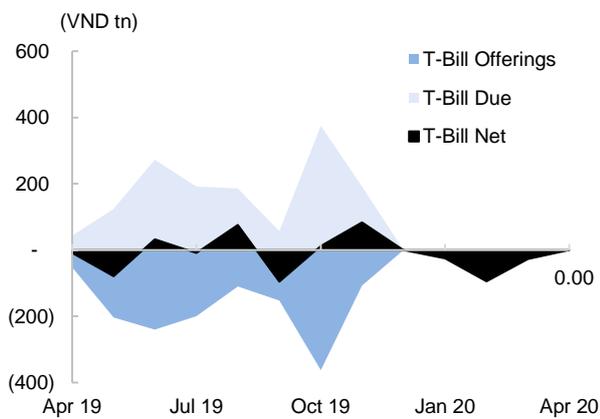
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I. SBV slightly drains liquidity

SBV decrease the withdrawal to VND2.86tn

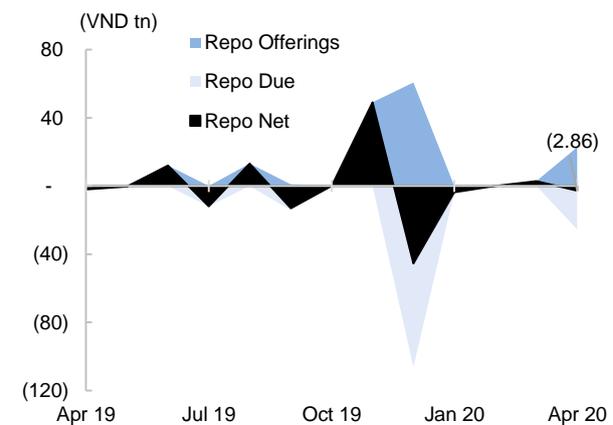
SBV retains using the repo instrument to adjust the liquidity in April 2020, but the magnitude of repo new issuance decreased quickly in the end of the month. Therefore, SBV slightly poured VND2.86tn out the banking system, marking the fifth consecutive month of withdrawal, through 7-day repo contracts (VND2.86tn) while kept omitting the T-bill channel. The net-withdrawal amount declined significantly compared to recent months.

Figure 1. T-bill transaction



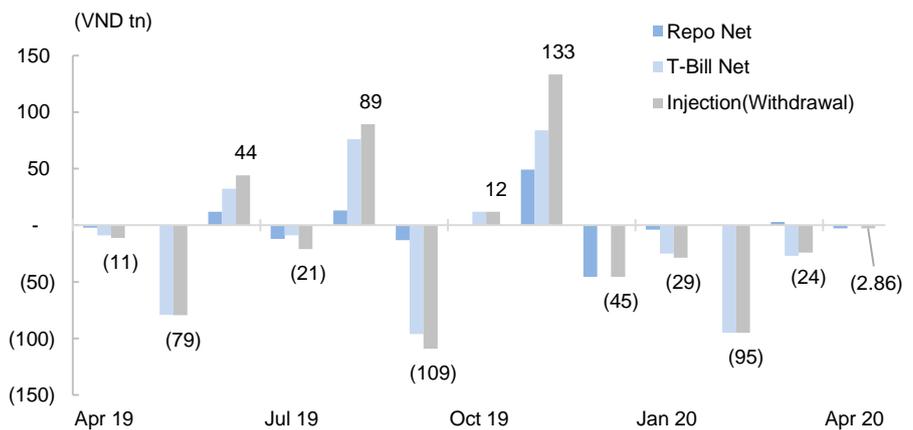
Source: Bloomberg, SBV, and KIS

Figure 2. Repo transaction



Source: Bloomberg, SBV, and KIS

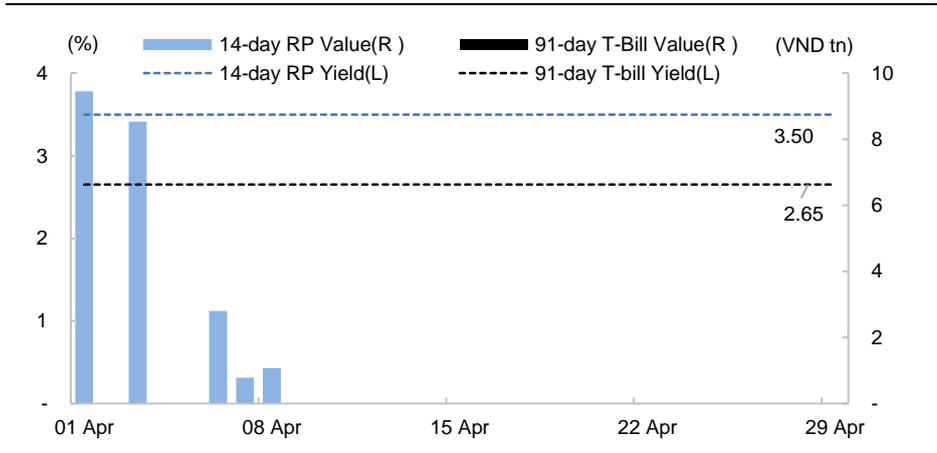
Figure 3. Injection (Withdrawal) in OMO



Source: Bloomberg, KIS, SBV

The daily chart of OMO transactions revealed the decreasing trend in using of repo contracts in April 2020. Issuance amounts were large in the first two weeks but declined nearly to zero at later weeks. The discount rate (repo rate) in the OMO market remained at 3.50% per annual according to 418/QĐ-NHNN 2020 decision while the 91-day T-bill rate unchanged at 2.65% per annual.

Figure 4. Daily OMO transaction in April 2020



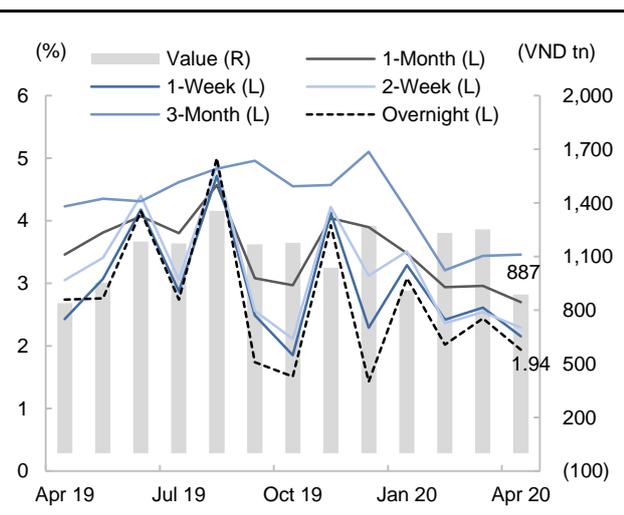
Source: Bloomberg, KIS, SBV

II. Interbank yields lower across various tenors

Overall downtrend in interbank yields

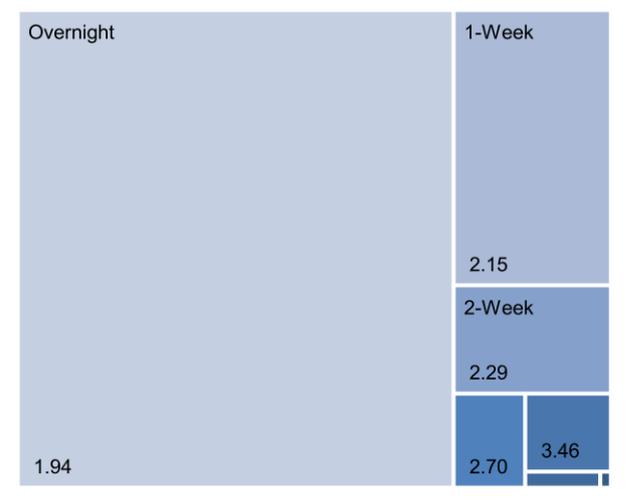
In April 2020, interbank transactions showed the overall downtrend in yields across tenors. The overnight rate declined by 50 basis points (bps), turning from 2.44% in the previous month to 1.94% in the current period. This move marked the fifth time the overnight rate tried to break the lower bound level at 2%. Also, the 1-week, 2-week, 1-month, and 6-month yields fell by 46bps, 25bps, 26bps, and 61bps to post 2.15%, 2.29%, 2.70%, and 3.83% respectively.

Figure 5. Interbank transaction



Source: Bloomberg, KIS, SBV

Figure 6. Interbank value by tenors (% , annual rate)

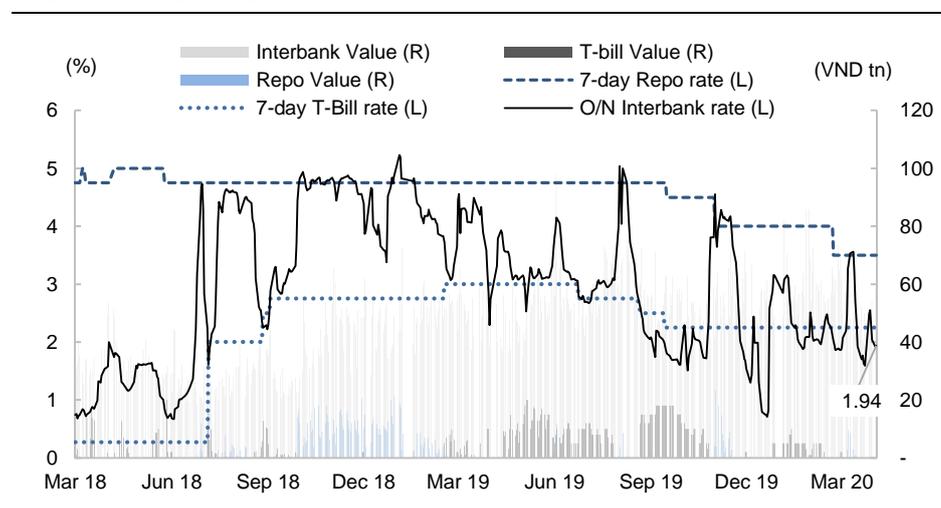


Source: Bloomberg, KIS, SBV

In value structure, total interbank transaction value declined by 29.13% MoM to VND886.81tn. In which, transaction concentrated on overnight tenor with VND651.38tn, accounting for 73.45% of the total value. Besides, trading value on 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month posted VND135.79tn, VND53.29tn, VND21.13tn, VND20.94tn, VND3.75tn, and VND0.54tn, contributing 15.31%, 6.01%, 2.38%, 2.36%, 0.42%, and 0.06%, respectively.

On the daily chart, the overnight rate still moved in the interest rate corridor but more frequently lay around the lower bound. The low overnight interbank rate indicates an excess in liquidity in the banking system due to the risk of a prolonged pandemic. However, the reduction in trading value and SBV's liquidity support (via repo instrument) likely predict a weak downturn in the interbank rate in next month.

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



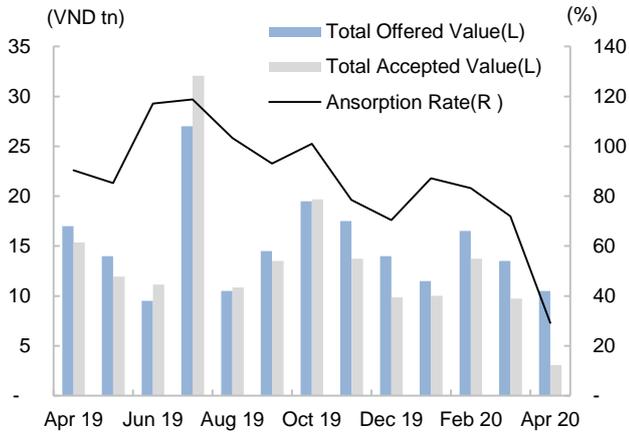
Source: Bloomberg, KIS, SBV

III. Bond yields return to downtrend

Government bond yields declined on most of tenors

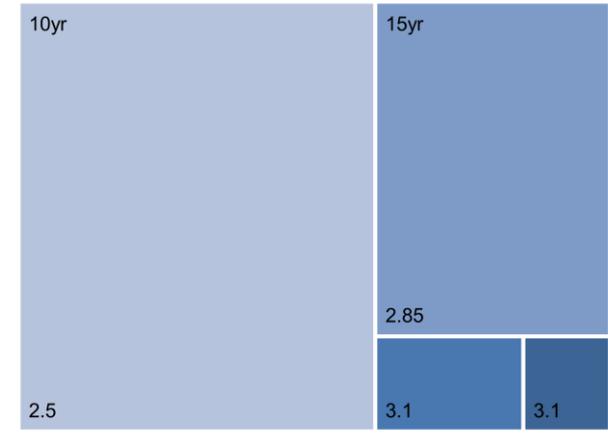
In the primary market, according to data compiled by HNX, Vietnam State Treasury (VST) offered VND16.50tn and sold VND3.07tn of government bonds via five auction sessions in April 2020, decreasing respectively by 2.94% MoM and 80.03% MoM. Besides, the absorption rate remarkably reduced to 18.61% from 72.01% in the previous month. In value structure, 10-year and 15-year bonds were the most traded instruments with transacted amounts of VND1.85tn and VND0.95, accounting for 60.26% and 30.94% of the total accepted value.

Figure 8. Government bond auction value



Source: Bloomberg, SBV, KIS

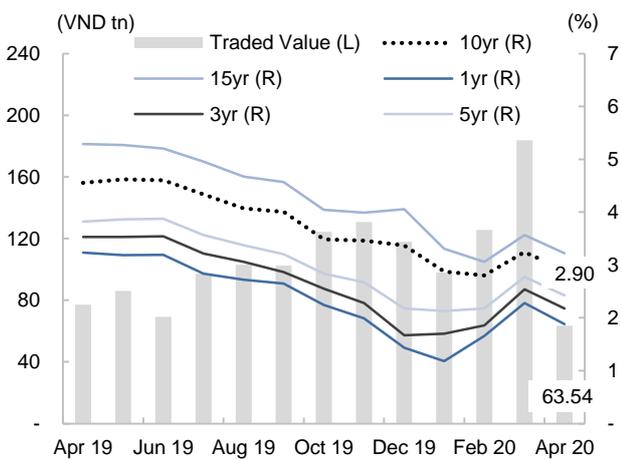
Figure 9. Auction value by tenor (% annual rate)



Source: Bloomberg, SBV, KIS

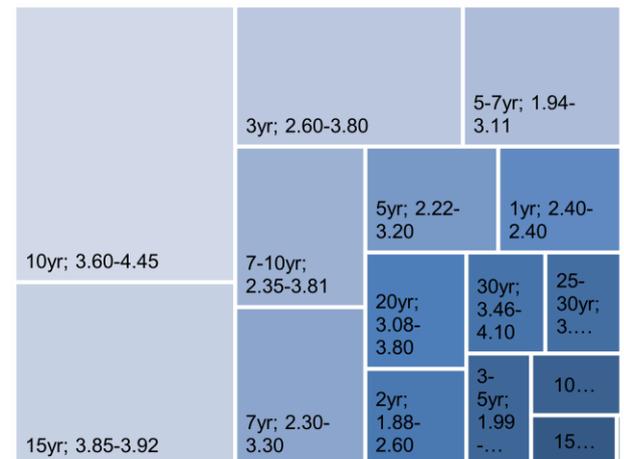
In the secondary market, the total bond traded value decreased significantly by 65.43% MoM to VND63.54tn in April 2020. By tenors, investors trade intensively on 10-year, 15-year, and 3-year with the trading amounts of VND13.88tn (accounting for 21.85%), VND9.24tn (accounting for 14.54%), and VND7.31tn (accounting for 11.50%) respectively. By bond types, transactions in the bond market concentrate in government bonds with a traded amount of VND61.47tn, accounting for 96.75% of total trading value. In contrast, the traded value on guaranteed government bonds was VND2.07tn, accounting for 3.25%. By investors, buy and sell transactions of domestic investors, and foreign investors were VND119.91tn and VND7.83tn, accounting for 93.87% and 7.83% of the total sale, respectively. Although the transaction value of foreigners declined by 52.81% MoM, their share increased materially to 6.13% from 4.51% in the previous month.

Figure 10. Bond trading value and bond yields



Source: Bloomberg, KIS, HNX

Figure 11. Values by tenors (% High-Low annual rate)

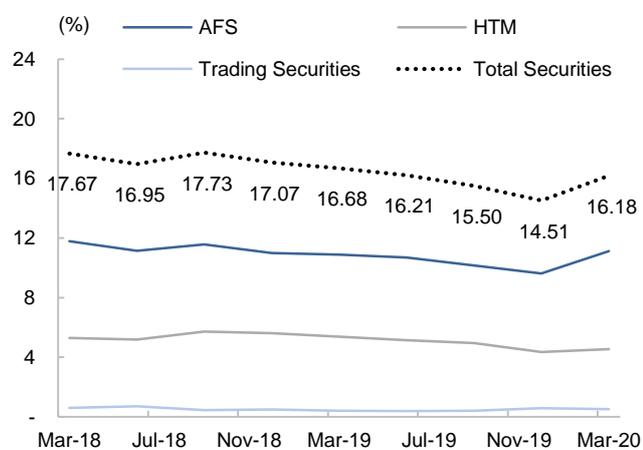


Source: Bloomberg, KIS, HNX

Government bond yields across most of the tenors return to the overall downturn after notably rebounding in March 2020. In detail, in April 2020-end, the government bond yields on 1-year, 3-year, 5-year, 10-year, and 15-year posted 1.88%, 2.18%, 2.43%, 2.90, and 3.22%, decreasing by 40bps, 36bps, 35bps, 34bps, and 34bps compared to the prior month, respectively. There are several reasons to explain for the reduction of bond yields in this period:

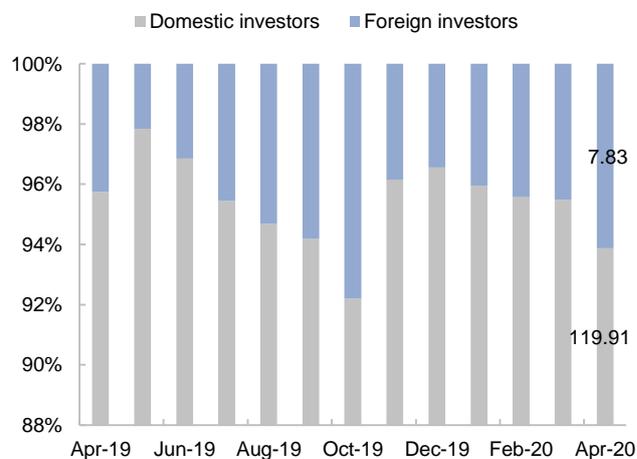
- CPI continued to move down, resulting from the fear of COVID-19, and investors generally require a lower compensation rate.
- The increase in the trading portion of foreigners drags the domestic bond market near to global bond market movements.
- Banks allocate more weight on safer assets, G-bonds. The ratio of the total value of securities-related items, including trading securities and investment securities (available-for-sale and hold-to-maturity securities items) to total assets averagely in the banking sector (including 18 listed commercial banks) increased from 14.51% in 4Q2019 to 16.18% in 1Q2020.
- The issuance amount of government bonds in the primary market declined sharply by 80.03% MoM in this month.

Figure 12. Securities-related items-to-total assets ratio



Source: Bloomberg, KIS, HNX

Figure 13. Values by investors



Source: Bloomberg, KIS, HNX

IV. Correction in G-bond yields

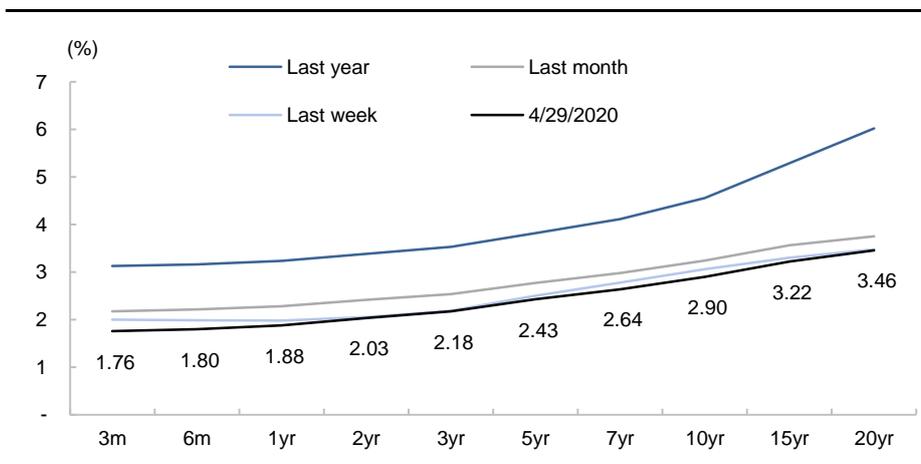
Yield curve shifted downward for all tenors

In April, the G-bond yield curve shifted downward for all tenors after a sharp rebound in March, showing modest corrections in the g-bond yields rather than any worrisome signs of the weak economy. In contrast to high uncertainties in the prior two months causing market panic in almost the global financial markets, the current situation of the pandemic has been somewhat controlled and predictable, which in turn helps bring stability into those markets.

According to the data from the Hanoi Stock Exchange, the g-bond yields with maturities less than or equal to 1-year adjusted considerably to a greater extent in the second half of the month, in line with the lending rates with comparable terms in the interbank market, resulted from ample liquidity in the banking system. Particularly, the 3-month, 6-month, and 1-year g-bond yields dropped by 42 basis points (bps), 41 bps, and 40 bps, to 3.13%, 3.16%, and 3.24%, respectively. Meanwhile, we saw the same movements of medium-term g-bond yields from 2-year, 3-year, 5-year, to 7-year, when those rates reduced modestly by 38 bps, 36 bps, 35 bps, and 34 bps to 2.05%, 2.19%, 2.50%, and 2.78%, respectively. A similar downward trend took place in the long-term g-bond yields with maturities from 10-year, 15-year to 20-year, particularly those yields dropped by 34 bps, 34 bps, and 29 bps to 2.90%, 3.22%, and 3.46%, respectively. Some explanations for the yield curve movement are as follows:

- From our viewpoint, a part of the downward pressure on the g-bond yields is due to the ample liquidity in the banking system as the current worsening business conditions have discouraged banks to issue new loans to the non-financial private sector, and the businesses, on the other hand, have seen fewer opportunities than the pre-crisis conditions. From the latest data, the total credit in 1Q20 only expanded by 1.1% YoY, compared to 2.28% in 1Q19. Without any significant intervention from the Vietnam state bank from April 6th, the abundant liquidity lowered the interest rates on the interbank market, and indirectly putting downward pressure on the short-term g-bond yields.
- On March 16th, SBV issued the Decision 418/QĐ-NHNN to lower official rates, including the re-financing rate, the re-discount rate, and the lending rate through the discount window, in order to bring down the lending rates of the commercial banks, which partly caused yields on the g-bonds to reduce systematically in the month.
- Furthermore, we believe easing monetary stances of major central banks recently have played a major role in shaping a low-yield environment for the global G-bond markets. For example, the U.S. Federal Reserve and the Bank of Japan announced massive purchasing programs of government notes and bonds since March, which help maintain their long-term bond yields at very low levels, about 0.6% for 10-year U.S. g-bond yield and 0% for 10-year Japan g-bond yield. The Europe central bank has also conducted similar purchasing program to maintain low-and-targeted levels of their long-term g-bond yields.

Figure 14. Yield curve



Source: Bloomberg, SBV, and KIS

PREDICTION:

With the information in hand in the current time, we expect the yield curve will continue to shift downward further in May. For short-term yields with maturity less or equal to 1-year, it is very likely that those yields will continuously be affected directly and indirectly by the ample liquidity on the banking system as a large amount of money will be poured back into banks in May when a series of 3-month repo contracts since late January will mature. Besides, monetary easing policies will likely continue to be preserved globally, thus it will put downward pressure on medium-and-long-term government yields.

Macro scorecard

(USD bn, USD, %, %YoY)

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	2Q19	3Q19	4Q19	1Q20	2016	2017	2018	2019
Real GDP growth							6.73	7.31	6.97	3.82	6.21	6.81	7.08	7.03
Registered FDI	2.68	6.23	5.33	1.14	2.08	(-0.22)	10.81	7.66	11.86	8.55	20.95	35.88	35.47	38.02
GDP per capita											2,172	2,353	2,551	2,730
Unemployment rate											2.33	2.21	2.21	2.25
Export	22.79	21.80	19.00	18.60	19.30	19.70	63.77	72.22	68.83	56.9	176.6	215.1	243.5	263.6
Import	22.34	22.80	19.10	18.50	18.60	20.40	63.68	67.14	66.51	56.2	175.0	213.2	236.7	254.4
Export growth	4.66	10.15	-13.93	33.76	5.93	(3.50)	9.17	10.72	7.29	-3.13	8.99	21.82	13.19	8.16
Import growth	-0.87	10.98	-10.16	26.08	4.71	(2.30)	10.12	8.30	4.22	-1.59	5.55	21.85	11.01	7.41
Inflation	3.52	5.23	6.43	5.40	4.87	2.93	2.66	2.23	2.79	3.53	2.66	3.53	3.54	2.79
USD/VND	23,197	23,173	23,223	23,231	23,637	23,309	23,301	23,203	23,173	23,637	22,761	22,698	23,175	23,173
Credit growth		13.70			0.68		7.36	9.40	13.70	0.68	18.25	18.24	13.89	13.70
10Y gov't bond	3.58	3.37	2.88	2.81	3.24	2.90	4.66	4.07	3.37	3.24	6.23	5.14	5.07	3.37

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