

Fixed-income Perspectives

SBV's rate cut decision was transmitting

The silence in OMO transaction

The OMO market witnessed a month of lack of transactions. The silence in open market operation may indicate a switch in SBV's monetary stance after a long path of tightening, starting from 2019-end.

Interbank yields slump

The overnight rate slumped to the nearly-all-time-low at 0.30% after SBV declared to reduce policy rates. Although it seems to a little chance for the overnight rate to hit the zero level, the interbank funding cost will continue to state at a low level. The phenomenon will persist until SBV conducts T-bill auctions to absorb the excess liquidity of commercial banks.

Bond yields diverge

Transaction in May 2020 shows the divergence in moves of short- and long- term bond yields. Short-term yields continued to decline, quickly reflecting the policy rate cut, while longer-term yields tend to rise because of the increase in VST's issuance amount.

KIS leading economic index

(USD bn, %, % qoq, % yoy)

	1Q20	2Q20F	3Q20F	4Q20F	2019	2020F	2021F
GDP	3.82	3.93	4.15	5.03	7.02	4.32	5.94
Trade balance	1.73	(4.56)	5.72	5.06	10.42	7.94	1.77
CPI	4.87	4.65	3.61	3.09	5.23	3.09	2.41
Discount rate	3.50	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,264	23,248	23,256	23,252	23,231	23,255	23,246
US GDP	(4.80)	(34.20)	15.00	7.90	2.3	(5.70)	3.90
China GDP	(6.80)	1.10	5.00	6.00	6.10	1.80	8.00

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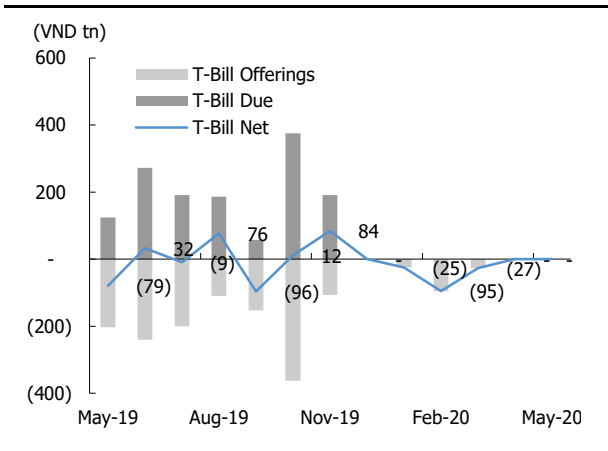
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I. The silence in OMO transaction

SBV seems to stop the tightening path

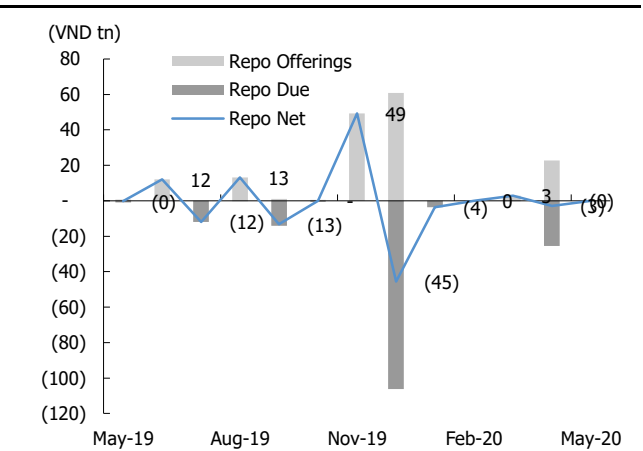
The OMO market witnessed a month of lack of transactions as SBV conducted just three sessions (out of 25 trading days) to offer repo contracts with trivial amounts at VND5.00 bn. The silence in open market operation may indicate a switch in SBV's monetary stance after a long path of tightening, starting from 2019-end. Besides, the discount rate in the OMO market (repo rate) was adjusted to 3.00% per annual (p.a) according to 418/QĐ-NHNN 2020 decision while the 7-day T-bill rate unchanged at 2.25% p.a.

Fig 1. T-bill transaction



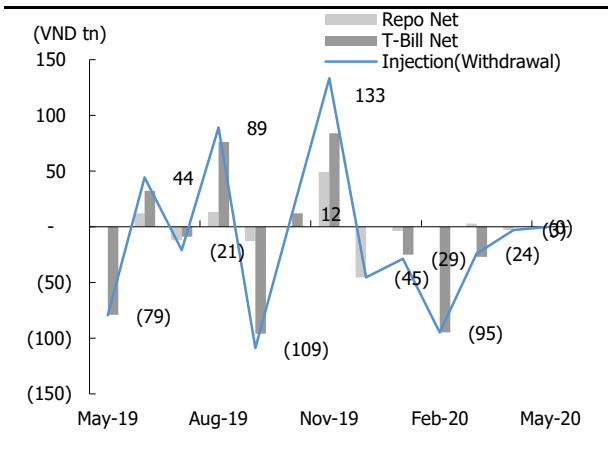
Source: Bloomberg, SBV, KIS

Fig 2. Repo transaction



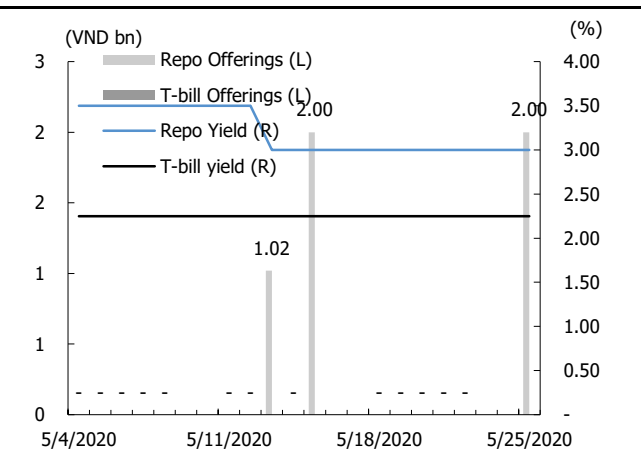
Source: Bloomberg, SBV, KIS

Fig 3. Injection (Withdrawal) in OMO



Source: Bloomberg, SBV, KIS

Fig 4. Daily OMO transaction in May 2020



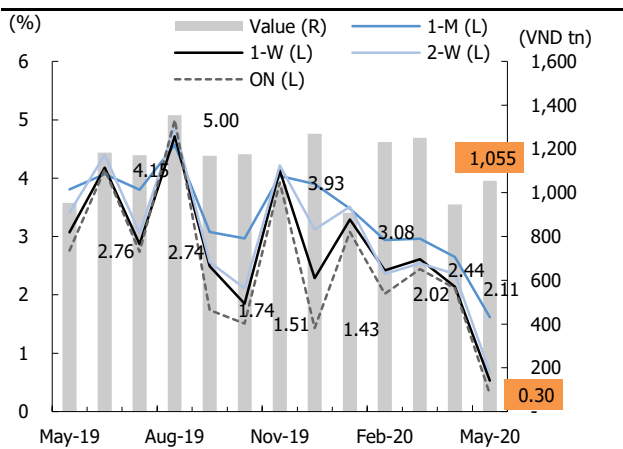
Source: Bloomberg, SBV, KIS

II. Interbank yields slump

Overall downtrend in interbank yields

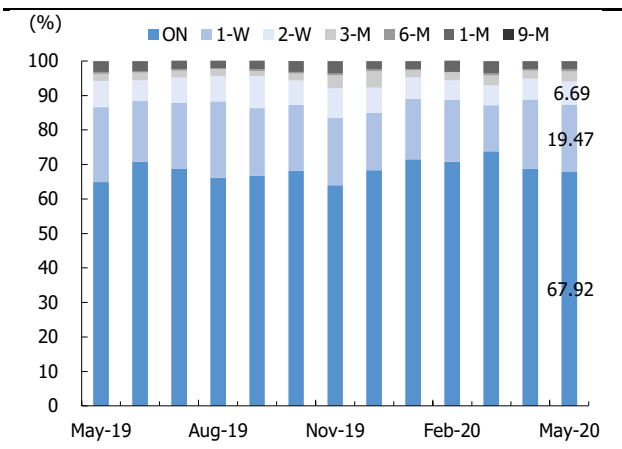
Interbank yields slumped overall tenors in May 2020 after SBV declared to reduce the policy rates. Specifically, the overnight rate moved to the nearly-all-time-low at 0.30% by decreasing by 170 basis points (bps) compared to the previous month while these others also record their lowest values in 5 recent years. In May-end, the interest rate of 1-week, 2-week, 1-month, and 3-month interbank loans were 0.53%, 0.68%, 1.62%, and 2.70% and decreased by 161 bps, 168 bps, 103 bps, and 152 bps compared to April, respectively.

Fig 5. Interbank transaction



Source: Bloomberg, SBV, KIS

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

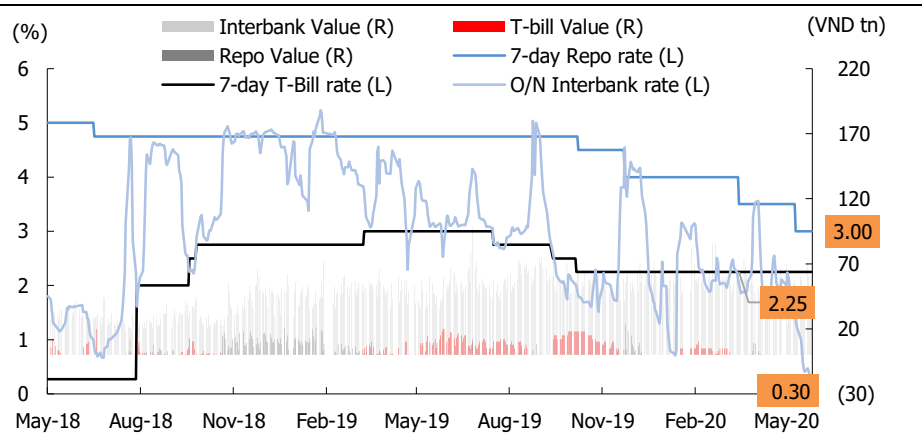


Source: Bloomberg, SBV, KIS

In value structure, total interbank transaction value rose by 11.41% mom to VND1,054.81 tn. By tenors, transaction concentrated on the overnight instrument with VND716.47 tn, accounting for 67.92% of the total value. Besides, trading value on 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month posted VND205.42 tn, VND70.53 tn, VND23.68 tn, VND31.01 tn, VND6.77 tn, and VND0.96 tn, contributing 19.47%, 6.69%, 2.24%, 2.94%, 0.64%, and 0.09%, respectively.

On the daily chart, the overnight rate crossed the lower bound of the recent interest rate corridor. The low overnight interbank rate reflects the liquidity excess in the banking system and the rate-decline direction from SBV. Although it seems to a little chance for the overnight rate to hit the zero, it will continue to state at a low level. The phenomenon will persist until SBV conducts T-bill auctions to absorb the excess liquidity of commercial banks.

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



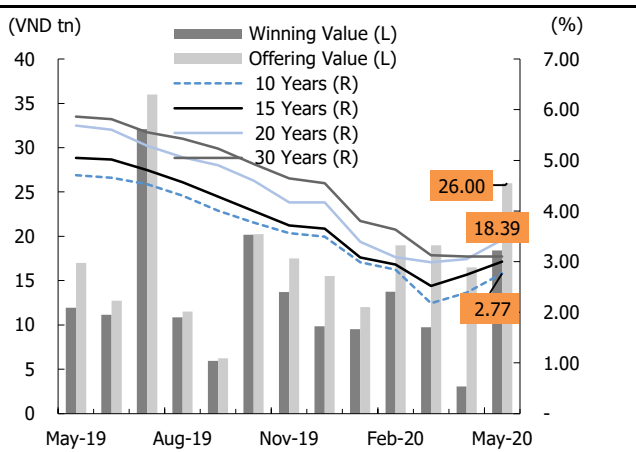
Source: Bloomberg, SBV, KIS

III. Bond yields diverge

Government bond yields diverged over tenors

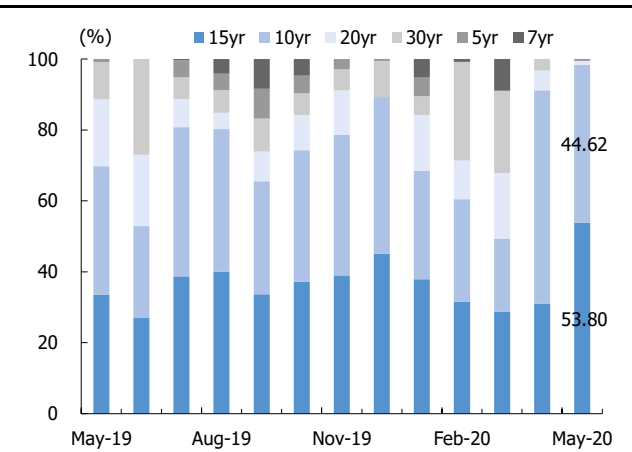
In the primary market, according to data compiled by HNX, Vietnam State Treasury (VST) offered VND26.00 tn and sold VND18.39 tn of government bonds via four auction sessions in May 2020, increasing respectively by 2.94% mom and 80.03% mom. Hence, the absorption rate bounced back to 70.74% after recording an abnormal-low level at 18.61% in the previous month. In value structure, trading values concentrated on 10-year and 15-year bonds with transacted amounts of VND8.21 tn and VND9.90 tn, accounting for 44.62% and 53.80% of the total accepted value.

Fig 8. Government bond auction value



Source: Bloomberg, SBV, KIS

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

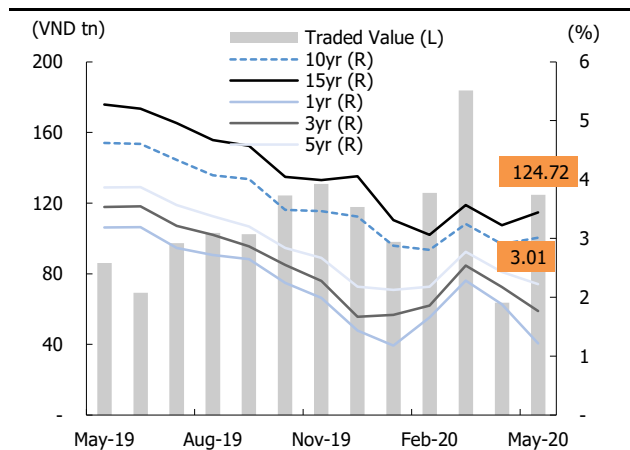


Source: Bloomberg, SBV, KIS

In the secondary market, the total bond traded value post VND124.72 tn in May 2020, nearly doubling compared the previous month. By tenors, investors trade intensively on 10-year, 15-year, 5-year, and 7-year with the trading amounts of VND42.21 tn (accounting for 33.84%), VND15.42 tn (accounting for 12.36%), VND6.83tn (accounting for 5.47%), and VND6.25 tn (accounting for 5.01%) respectively.

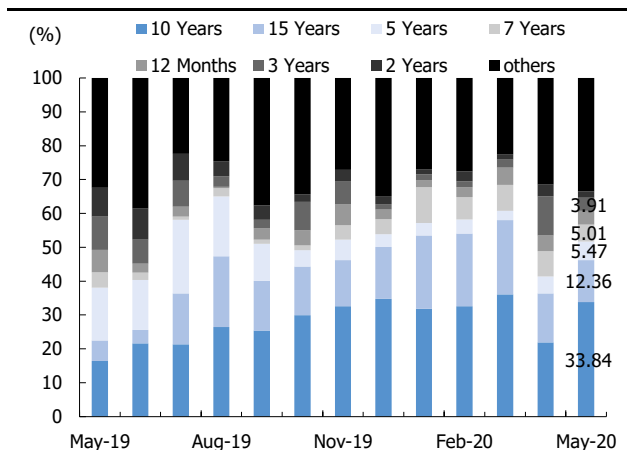
By bond types, transactions in the bond market concentrate in government bonds with a traded amount of VND114.20 tn, accounting for 91.57% of total trading value. Besides, the traded value on guaranteed government bonds was VND10.52 tn, accounting for 8.43%. By investors, total (buy plus sell) transactions of domestic investors, and foreign investors were VND237.94 tn and VND11.46 tn, accounting for 95.41% and 4.59% of the total sale, respectively.

Fig 10. Bond trading value and bond yields



Source: Bloomberg, KIS, HNX

Fig 11. Values by tenors (% share)

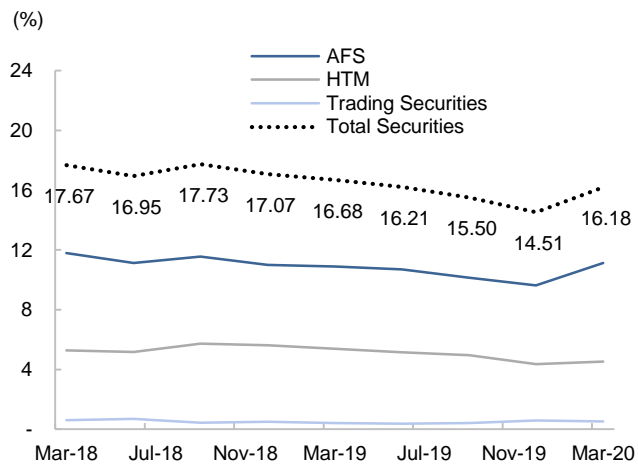


Source: Bloomberg, KIS, HNX

Transaction in May 2020 shows the divergence in moves of short- and long-term bond yields. In detail, in month-end, the government bond yields on tenors, shorter than 10-year, such as 3-month, 6-month, 1-year, 3-year, and 5-year continued to decrease by 78 bps, 74 bps, 67 bps, 41 bps, and 21 bps compared to the prior month, respectively. Meanwhile, yields on long-term such as 10-year, 15-year, and 20-year tend to adjust the downturn by increasing by 11 bps, 22 bps, and 19 bps, respectively. There are several reasons to explain the phenomenon:

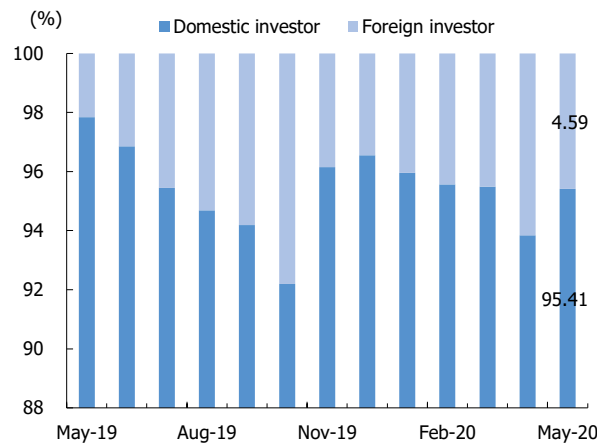
- CPI continued to move down, resulting from the fear of COVID-19, and investors generally require a lower compensation rate in the short-term.
- The 418/QĐ-NHNN 2020 decision adjusted the policy rate to 3.00% per annual and partly expressed the mandate's intention to lower short-term rates.
- Banks continued to put more weight on safer assets, G-bonds instead of short-term loans. 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.
- VST increased the issuance amount of government bonds, especially of longer-term bonds, in the primary market and meaningful cool down the downward momentum of 10-year, 15-year bond yields.

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



Source: Bloomberg, KIS, HNX

Fig 13. Values by investors



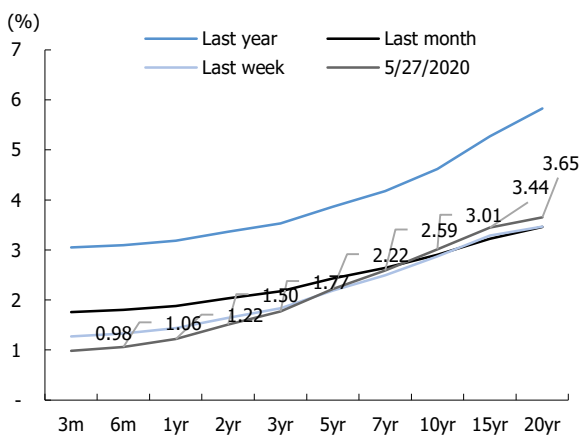
Source: Bloomberg, KIS, HNX

IV. Yield spreads rebound

Yield curve shifted downward for all tenors

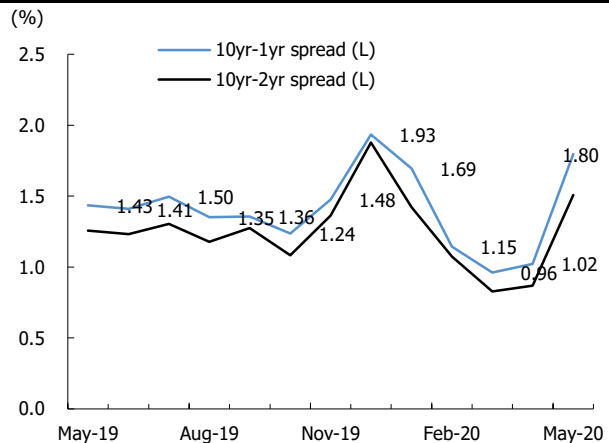
In May 2020-end, the yield curve generally became steeper as yield spreads such as 10-year-minus-1-year and 10-year-minus-2-year rebounded to 1.80% and 1.51% respectively. There were several reasons supporting for the increases in yield spreads.

Fig 14. Yield curve



Source: Bloomberg, KIS, HNX

Fig 15. Bond yield spread



Source: Bloomberg, KIS, HNX

- The yields on longer-tenors tend to be more persistent than peers on lower-terms. Consequently, yield spread seems sensitive to short-term movements.
- The reductions in policy rate and upper limit of short-term deposit rate lower market expectation about the short-term rates and hence widen the yield spread. Also, issuance value on long-term bonds such as 10-year, 15-year increased and put significantly upward pressure on respective yields.

- CPI decelerate the downward momentum as economic activities partly recovered and also put downward pressure on short-term rates.

Macro scorecard

(USD bn, USD, %, % yoy)

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	2Q19	3Q19	4Q19	1Q20	2016	2017	2018	2019
Real GDP growth	7.03			3.82			6.73	7.31	6.97	3.82	6.21	6.81	7.08	7.03
Registered FDI	6.23	5.33	1.14	2.08	3.75	1.59	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	21.80	19.00	18.60	19.30	17.60	18.50	63.77	72.22	68.83	56.9	176.6	215.1	243.5	263.6
Import	22.80	19.10	18.50	18.60	18.52	19.40	63.68	67.14	66.51	56.2	175.0	213.2	236.7	254.4
Export growth	10.15	(13.93)	33.76	5.93	(19.98)	(15.50)	9.17	10.72	7.29	(3.13)	8.99	21.82	13.19	8.16
Import growth	10.98	(10.16)	26.08	4.71	(11.77)	(15.90)	10.12	8.30	4.22	(1.59)	5.55	21.85	11.01	7.41
Inflation	5.23	6.43	5.40	4.87	2.93	2.40	2.66	2.23	2.79	3.53	2.66	3.53	3.54	2.79
VND/USD	23,173	23,223	23,231	23,637	23,309	23,282	23,301	23,203	23,173	23,637	22,761	22,698	23,175	23,173
Credit growth	13.70	0.10	0.17	1.30	1.42	1.20	7.36	9.40	13.70	0.68	18.25	18.24	13.89	13.70
10Y gov't bond	3.37	2.88	2.81	3.24	2.90	3.07	4.66	4.07	3.37	3.24	6.23	5.14	5.07	3.37

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