

Fixed-income Perspectives

Surplus liquidity spreads into fixed-income markets

SBV further enhances liquidity conditions

In June, the accommodative monetary policy of Vietnam's central bank became much clearer not only by administrative orders but also from its operation in the open market as they continued to pour abundant liquidity into the banking system intentionally.

Interbank rates plunge to low records

The impact of the excess liquidity on the interbank rates was further exaggerated due to a strong positive "inaction" effect of SBV's open market operations. From our perspective, the interbank rates will likely continue to reduce in July but with a slower pace as there is less room for further reduction in the overnight and 1-week rates.

Excess liquidity drives down bond yields

Excess liquidity resulted from SBV's easing policy and muted lending activities was the main factor driving down the bond yields in June. We expect that this downward pressure will remain in July as interbank rates almost reached limit down.

KIS leading economic index

(USD bn, %, % QoQ, % YoY)

	1Q20	2Q20	3Q20F	4Q20F	2019	2020F	2021F
GDP	3.82	0.36	4.15	5.03	7.02	4.32	5.94
Trade balance	1.73	3.98	5.72	5.06	10.42	7.94	1.77
CPI	4.87	3.17	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	23,637	23,206	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

Contents

I. SBV further improves liquidity conditions	1
II. Interbank rates plunge to low records	2
III. Excess liquidity drives down bond yields	3
Macro scorecard	7

Y Nguyen

y.nt@kisvn.vn

Tuan Doan

Tuan.doan@kisvn.vn

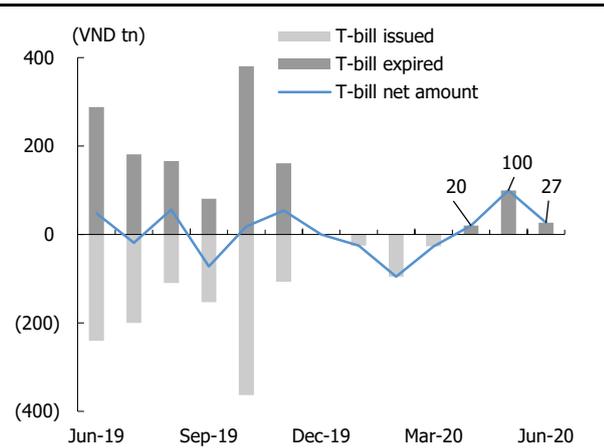
I. SBV further improves liquidity conditions

The banking system was overflowing with excess liquidity

In June, the accommodative monetary policy of Vietnam’s central bank became much clearer not only by administrative orders but also from its operation in the open market as they continued to pour abundant liquidity into the banking system intentionally for the third straight month.

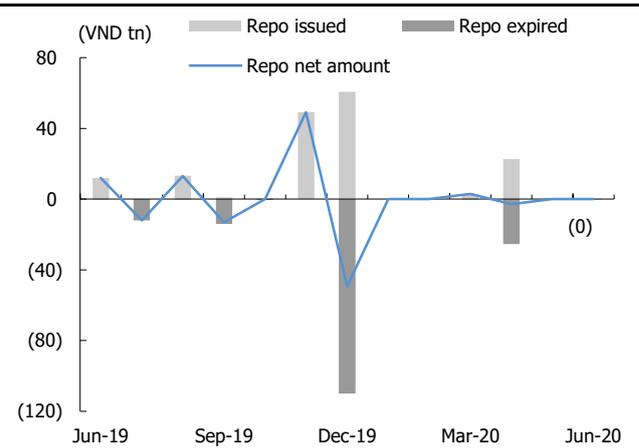
More specifically, June witnessed no operation from the SBV on the OMO market, while the banking system received nearly VND27tn from a series of 91-day Treasury Bill expired. Accumulatively, throughout the 2nd quarter of 2020, a total of VND144tn was poured back into the banking system, especially in May and June. Besides, from early April, repo transactions were rarely used by commercial banks as they might borrow on the interbank market at relatively lower borrowing costs.

Figure 1. T-bill transaction



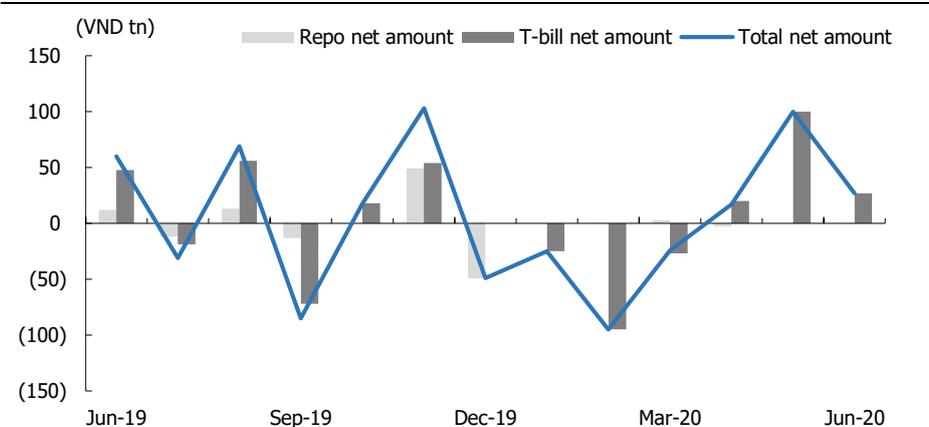
Source: Bloomberg, SBV, KIS

Figure 2. Repo transaction



Source: Bloomberg, SBV, KIS

Figure 3. Net Injection/Withdrawal



Source: Bloomberg, SBV, KIS

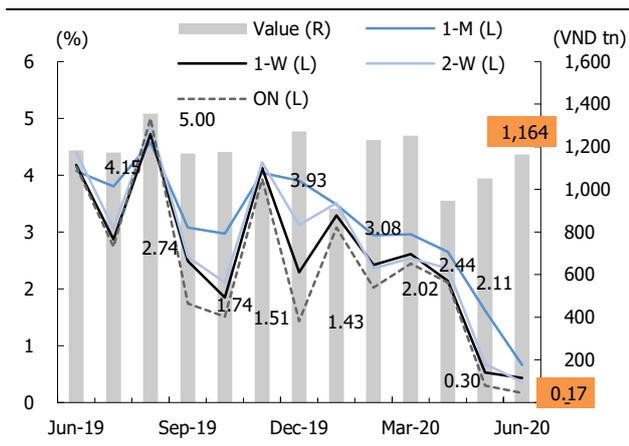
II. Interbank rates plunge to low records

Excess liquidity drove down the interbank rates to historical lows

The impact of the excess liquidity on the interbank rates was further exaggerated due to a strong positive “inaction” effect of SBV’s open market operations. In other words, in order to support banks, the state bank intended to maintain the interbank rates at extraordinary low levels by pouring thousands of billions back to the banking system.

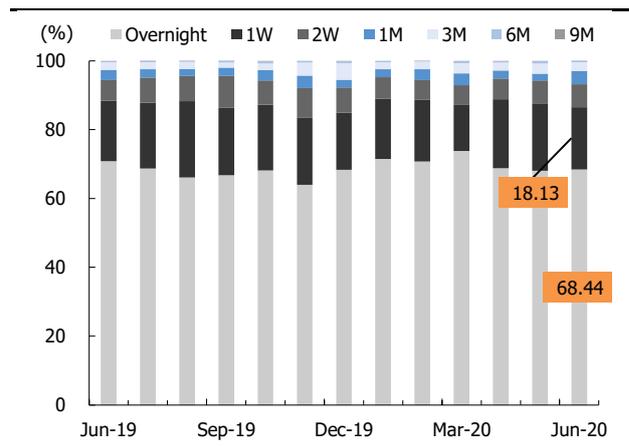
As a result, the interbank rates further plummeted to record lows, especially the overnight and 1-week rates stayed near zero. In particular, the overnight rate fell to just 0.17% by the end of June or 13 basis point (bps) lower than in May. Similarly, the 1-week and 2-week rates reduced by 10 bps and 32 bps to 0.43% and 0.36%. The 1-month and 3-month rates saw largest reductions when plunging by 96 bps and 40 bps to 0.66% and 2.30%, respectively. Finally, the interbank rates with 6-month and 9-month tenors fell slightly by 0.13% and 0.04%, posting 3.69% and 4.82%, respectively.

Figure 4. Interbank transaction



Source: Bloomberg, SBV, KIS

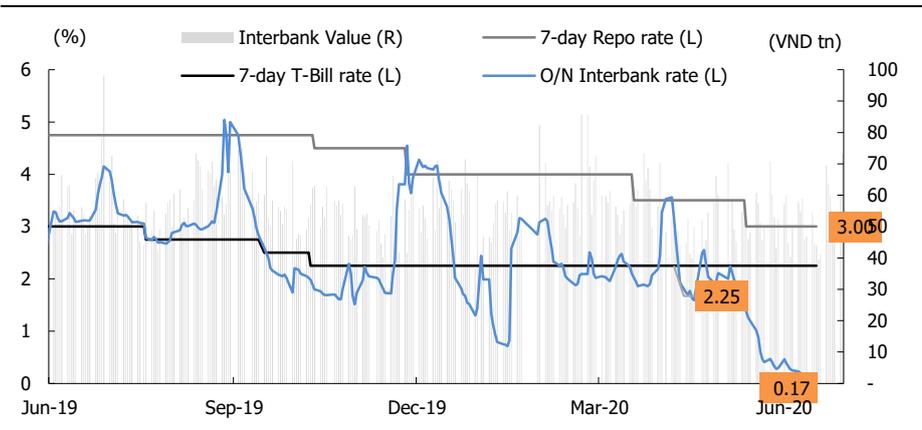
Figure 5. Interbank value by tenors (annual rate)



Source: Bloomberg, SBV, KIS

In the month, banks were taking more advantages from a very-low borrowing cost environment as the trading value continued to increase by 10.65% mom, reaching VND1,164tn, in which overnight, 1-week, and 2-week lending made up 93.23% of total. More detail, the trading values at overnight, 1-week, and 2-week terms were VND796.5tn, VND211.0tn, and VND77.5tn, respectively. Besides, the 1-month trading value surged by 124% mom to VND43.9tn as its lending rate reduced the most.

Figure 6. Daily 7-day T-bill, repo and interbank rates



Source: Bloomberg, SBV, KIS

From the chart above, it seemed that the interest rate corridor was no longer be effective in this period. In other words, it showed clearly that the SBV intended to maintain the interbank rates below the lower bound (which is 7-day T-bill rate). It may be worth asking that when it will lead to a further lending rate cut to the whole economy.

From our perspective, the interbank rates will likely continue to reduce but with a slower pace as there is less room for further reduction in the overnight and 1-week rates. Additionally, banks may switch to lending with longer terms such as 1-month and 3-month with more attractive rates, which may drive down these rates in July.

III. Excess liquidity drives down bond yields

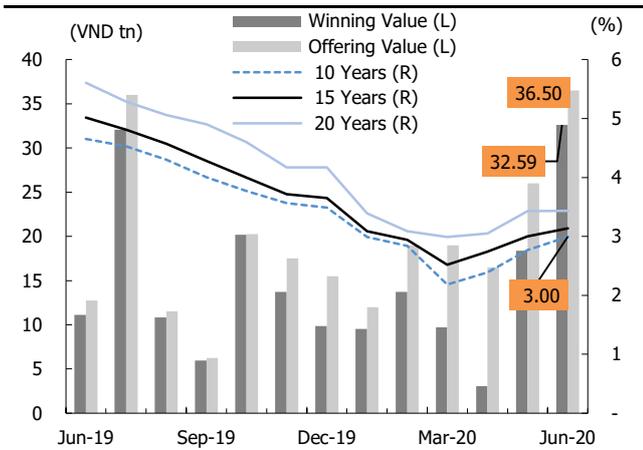
Government accelerated long-term bond issuance

June was an ideal time for the government to speed up the government-bond issuance plan as government bond yields remained at attractively low levels in the secondary market.

According to the latest data from HNX, during the month, Vietnam State Treasury (VST) offered a total amount of VND36.50tn, up by 40.38% mom, and more than VND32.59tn was successfully issued, surging 77.21% mom. While the absorption ratio was impressively high at 89.30%, the winning yields increased but modestly, in which the yields for 10-year, 15-year, and 20-year bonds were higher by 23bps, 13.5bps, and 0.5bps, and that for 5-year bond dropped by 25.5bps, respectively. All those above indicated that there has been a significant increase in investors' appetite for government bonds.

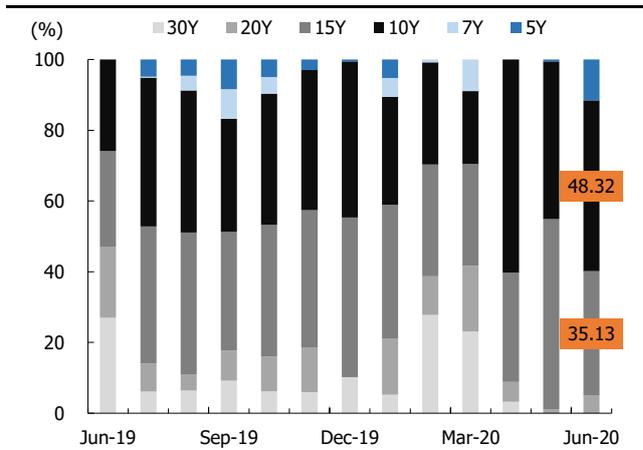
Regarding issuing value, the 10-year and 15-year government bonds were to be issued the most by VND15.75tn and VND11.45tn, or 48.32% and 35.13% of the total, respectively.

Figure 7. Government bond issuance



Source: Bloomberg, SBV, KIS

Figure 8. Issuing value by tenor

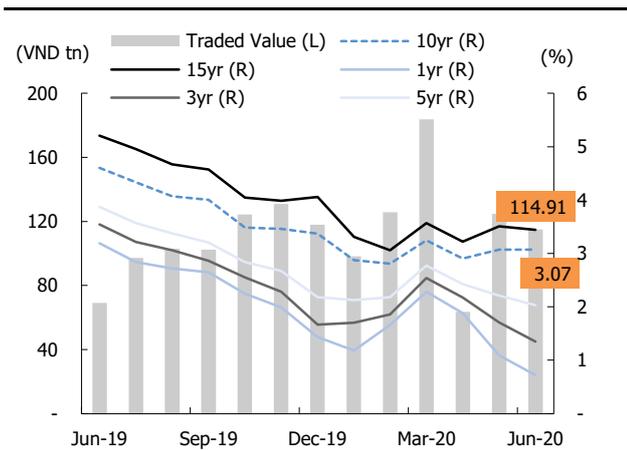


Source: Bloomberg, SBV, KIS

On the opposite, in the government-bond secondary market, trading activity slowed down but modestly by -7.87% mom or VND114.991tn in total trading value. Trading transactions mostly concentrated on medium-term and long-term maturity, in which bonds with remaining maturity from 7 years to 10 years accounted for 46.98% of total trading value (VND53.98tn), 16.80% for 5-to-7-year bonds (VND19.31tn), 20.44% for 10-to-15-year bonds (VND23.48tn), respectively.

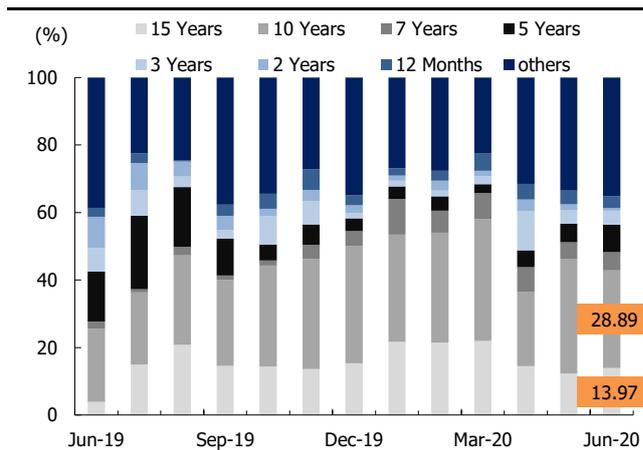
By bond type, government bonds accounted for 94.69% of total trading value (VND108.80tn), following by guaranteed government bonds with 4.95% (VND5.69tn) and municipal government bonds with 0.36% (VND0.42tn). Besides, regarding investor type, domestic investors accounted for 96.39% of total, the rest of 3.61% was from foreign investors.

Figure 9. Bond trading value and bond yields



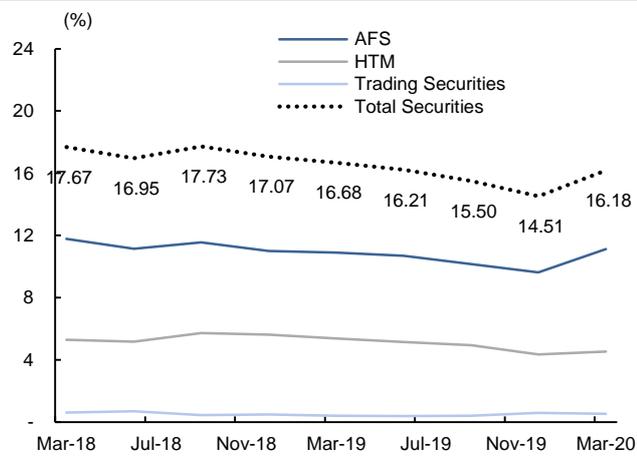
Source: Bloomberg, KIS, HNX

Figure 10. Trading value by tenor



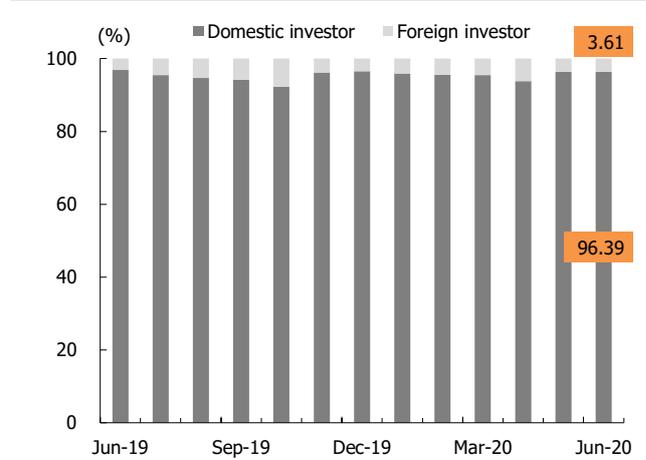
Source: Bloomberg, KIS, HNX

Figure 11. Securities-related items-to-total assets ratio



Source: Bloomberg, KIS, HNX

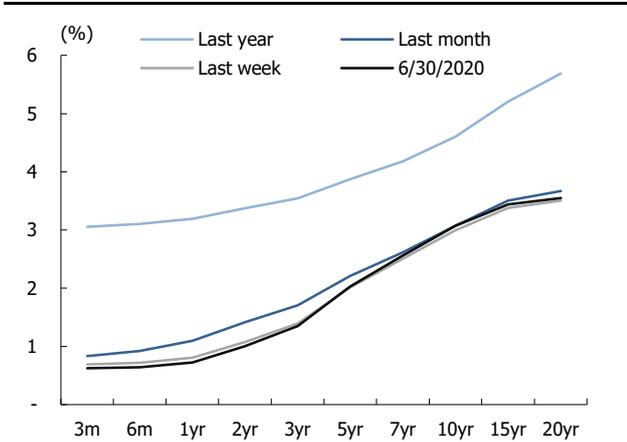
Figure 12. Trading value by investor



Source: Bloomberg, KIS, HNX

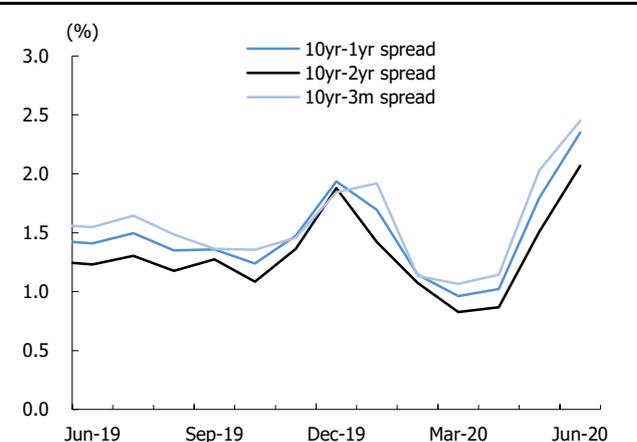
The government bond yield curve was shifted downward in the month at all tenors, and the short-term yields dropped significantly faster than the longer-term ones. In numbers, 1-year, 2-year, and 3-year yields slumped 37bps, 41bps, and 36bps to 0.72%, 1.01%, and 1.35%, while 3-month and 6-month yields reduced by 21bps and 28bps to 0.63% and 0.64%, respectively. Meanwhile, 7-year, 10-year, 15-year and 20-year yields went down slightly by just 5bps, 0bps, 7bps, and 12bps to 2.56%, 3.07%, 3.44%, and 3.55%, respectively.

Figure 13. Yield curve



Source: Bloomberg, KIS, HNX

Figure 14. Bond yield spread



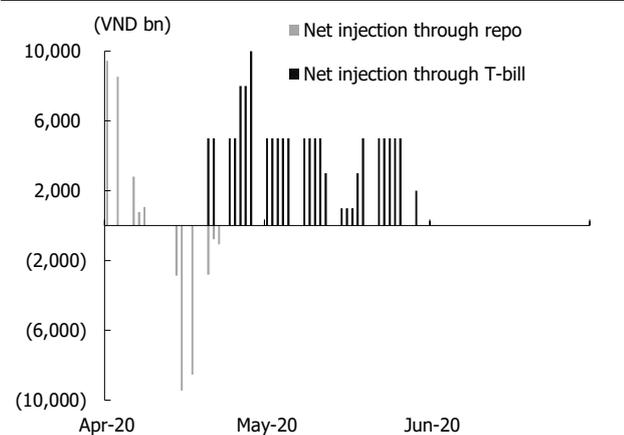
Source: Bloomberg, KIS, HNX

In the time that the economy has been on fast recovery after the short-lived crisis, the government bond yields further plunging may be considered misleading. In our opinion, this phenomenon was resulted from major changes in SBV's policy and also its operation in the open market recently.

On the supply side, the state bank has not made any significant operation on the open market to counterbalance nearly VND150tn liquidity flowing into the banking system as a series of 91-day T-bills expired, causing short-term interbank rates drop to record low levels. Oppositely, from the demand side, the credit flow in the economy has faced tremendous strains since the start of the

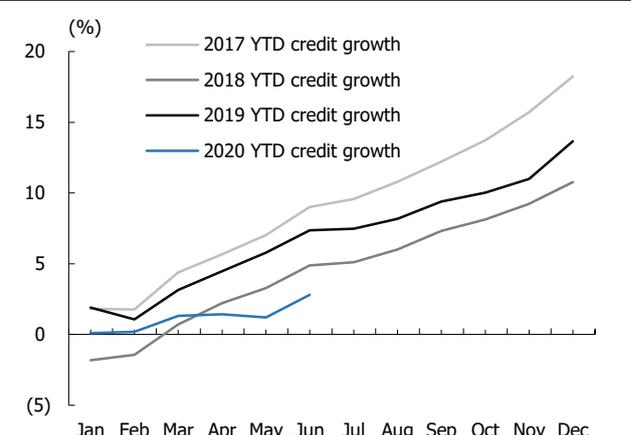
pandemic, as data showed that businesses are not ready to access credit at the going lending rates. This imbalance eventually leads to a huge increase in banks' demand for government bonds, particularly in bonds with short and medium maturities.

Figure 15. Liquidity supply increasing



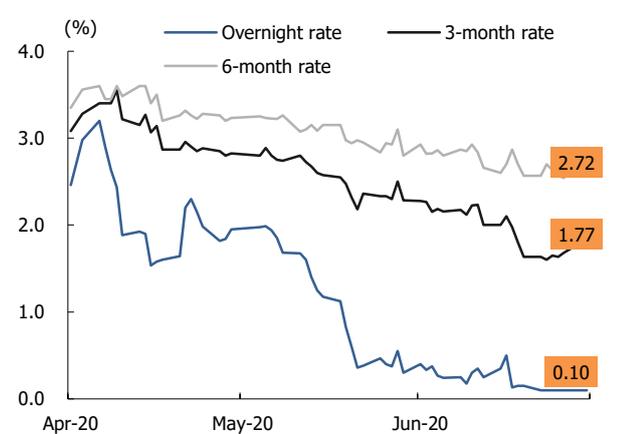
Source: Bloomberg, KIS, HNX

Figure 16. Demand for loans decreasing



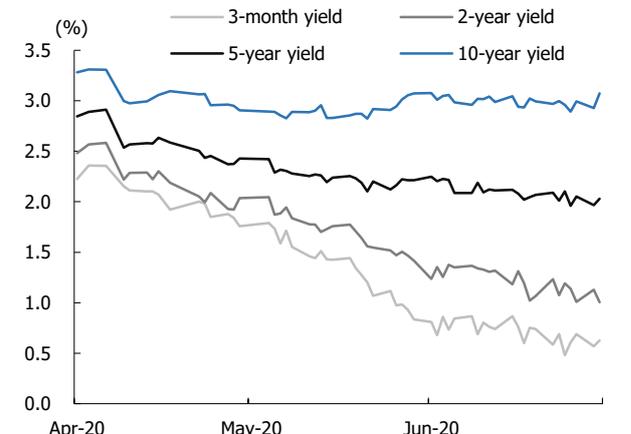
Source: Bloomberg, KIS, HNX

Figure 17. Interbank rates



Source: Bloomberg, KIS, HNX

Figure 18. Short, medium, and long-term yields



Source: Bloomberg, KIS, HNX

PREDICTION:

Two points should be noticed that: (1) there is no room for a further reduction in the overnight interbank rate as it already reached 0%; (2) lending activities accelerated in June, reaching 2.8% YTD as of 30th June from 1.2% in May. While the former refers that part of excess liquidity will continue to flow into the government bond market, which in turn puts further downward pressure on government bond yields, the latter gives an early signal that demand for the demand for borrowing is likely to rebound soon, which may shift the yield curve upward. However, we believe the first one will make a greater impact on the bond yields. In other words, the yields with short and medium maturities may go down further in July.

Macro scorecard

(USD bn, USD, %, % YoY)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	3Q19	4Q19	1Q20	2Q20	2016	2017	2018	2019
Real GDP growth			3.82				7.31	6.97	3.82	0.36	6.21	6.81	7.08	7.03
Registered FDI	5.33	1.14	2.08	3.78	1.55	1.79	7.66	11.86	8.55	7.12	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	19.00	18.60	19.30	17.60	18.50	21.00	72.22	68.83	56.9	59.2	176.6	215.1	243.5	263.6
Import	19.10	18.50	18.60	18.52	19.40	20.50	67.14	66.51	56.2	60.3	175.0	213.2	236.7	254.4
Export growth	(13.93)	33.76	5.93	(19.98)	(15.50)	(2.00)	10.72	7.29	(3.13)	(5.31)	8.99	21.82	13.19	8.16
Import growth	(10.16)	26.08	4.71	(11.77)	(15.90)	5.16	8.30	4.22	(1.59)	(7.17)	5.55	21.85	11.01	7.41
Inflation	6.43	5.40	4.87	2.93	2.40	3.17	2.23	2.79	3.53	3.57	2.66	3.53	3.54	2.79
VND/USD	23,223	23,231	23,637	23,309	23,282	23,206	23,203	23,173	23,637	23,206	22,761	22,698	23,175	23,173
Credit growth	0.10	0.17	1.30	1.42	1.20	2.80	9.40	13.70	0.68	2.80	18.25	18.24	13.89	13.70
10Y gov't bond	2.88	2.81	3.24	2.90	3.07	3.07	4.07	3.37	3.24	3.07	6.23	5.14	5.07	3.37

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VIET NAM

JAE HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)
KIS Vietnam Securities Corporation
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.
Fax: 8428 3821-6898

SOUTH KOREA

YEONG KEUN JOO, Managing Director, Head of International Business Division (yjkoo@truefriend.com, +822 3276 5157)
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320
Fax: 822 3276 5681~3
Telex: K2296

NEW YORK

DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)
Korea Investment & Securities America, Inc.
1350 Avenue of the Americas, Suite 1110
New York, NY 10019
Fax: 1 212 314 0699

HONG KONG

DAN SONG, Managing Director, Head of HK Sales (dan.song@kisasia.com +852 2530 8914)
GREGORY KIM, Sales (greg.kim@kisasia.com, +822 2530 8915)
Korea Investment & Securities Asia, Ltd.
Suite 2220, Jardine House
1 Connaught Place, Central, Hong Kong
Fax: 852-2530-1516

SINGAPORE

ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasia.com.sg +65 6501 5602)
CHARLES AN, Sales (alex.jun@kisasia.com.sg +65 6501 5601)
Korea Investment & Securities Singapore Pte Ltd
1 Raffles Place, #43-04, One Raffles Place
Singapore 048616
Fax: 65 6501 5617

LONDON

Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)
Korea Investment & Securities Europe, Ltd.
2nd Floor, 35-39 Moorgate
London EC2R 6AR
Fax: 44-207-236-4811

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