

# Fixed-income Perspectives

## Excess liquidity flows to G-bond markets

### OMO remains silent

Transaction in the OMO market remained silent in July 2020. SBV conducted only two auction sessions to offer a trivial amount of repo contracts at USD7.36bn. We argue that OMO's silence will remain in the next month to wait for signals from the first lending markets.

### Interbank rates to change slightly

Interbank rates continued staying low, along with the increase in trading value in July 2020. Such interbank tendency was mainly attributed to weak demand in the first lending market. We use the credit growth- interbank rates linkage and recent movements of the interbank market to predict that the ON rate will increase by 30bps to 0.51% in August 2020.

### G-bond issuance sets a record high

In July, participants from both buy and sell sides were rushing to take actions in the G-bond bidding sessions as G-bond issuance set a record high. High demand for G-bond drives its yields down to low levels both in the primary and secondary markets. Looking forward to August, we expect the downward transmission from short-term yields to longer-term yields to continue to materialize.

### 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	0.57	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

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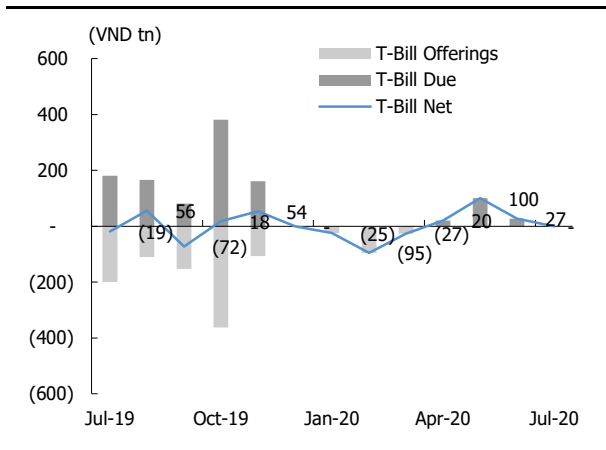
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# I. OMO remains silent

## OMO remains silent

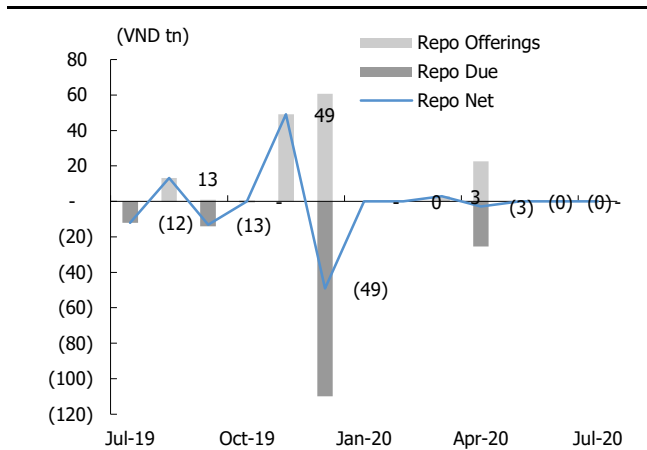
Transaction in the OMO market remained silent in July 2020. SBV conduct only two auction sessions to offer a trivia amount of repo contracts at USD7.36bn. Such offerings serve as payments for expired repos settled in seven days ago. Consequently, SBV did not intervene in the liquidity of the banking system in this month.

**Figure 1. T-bill transaction**



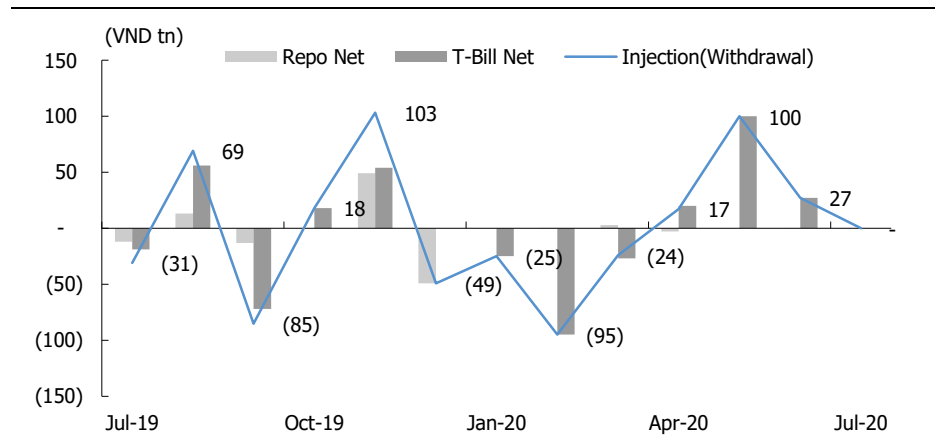
Source: Bloomberg, SBV, KIS

**Figure 2. Repo transaction**



Source: Bloomberg, SBV, KIS

**Figure 3. Net Injection/Withdrawal**



Source: Bloomberg, SBV, KIS

We argue that OMO's silence will remain in the next month to wait for signals from lending markets.

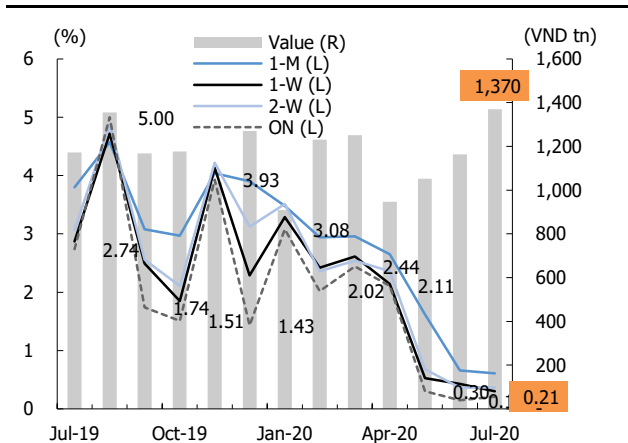
## II. Interbank rates to change slightly

### **Excess liquidity drove down the interbank rates to historical lows**

Interbank rates continued staying low, along with the increase in trading value in July 2020. The overnight rate (ON) rebound somewhat to 0.21%, 6bps-higher than the all-time low in the previous month. Interest rates on the remaining tenors also change modestly compared to June. The 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month spot at 0.3%, 0.37%, 0.61%, 2.71%, 3.31%, and 4.60%, changing by -13bps, 1bps, -5bps, 41bps, -38bps, and -22bps compared to last month.

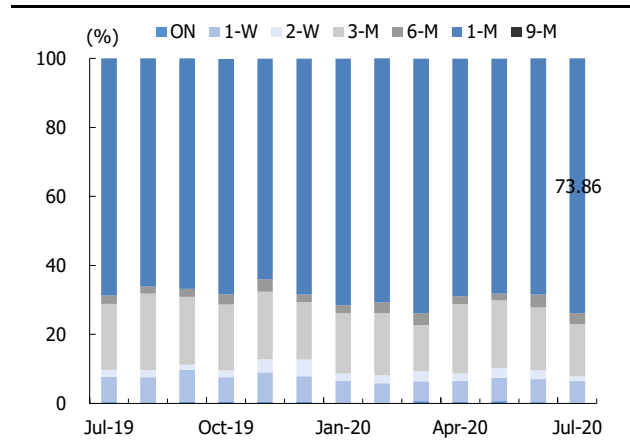
The total trading value increased by 17.70% MoM to post VND1,369.87tn and consequently marked the third consecutive month of increase. By trading structure, transactions kept focusing on overnight loans, which accounted for 73.86% of total trading value. Furthermore, trading shares of 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month were 15.13%, 6.31%, 3.12%, 1.40%, 0.16%, and 0.02%.

**Figure 4. Interbank transaction**



Source: Bloomberg, SBV, KIS

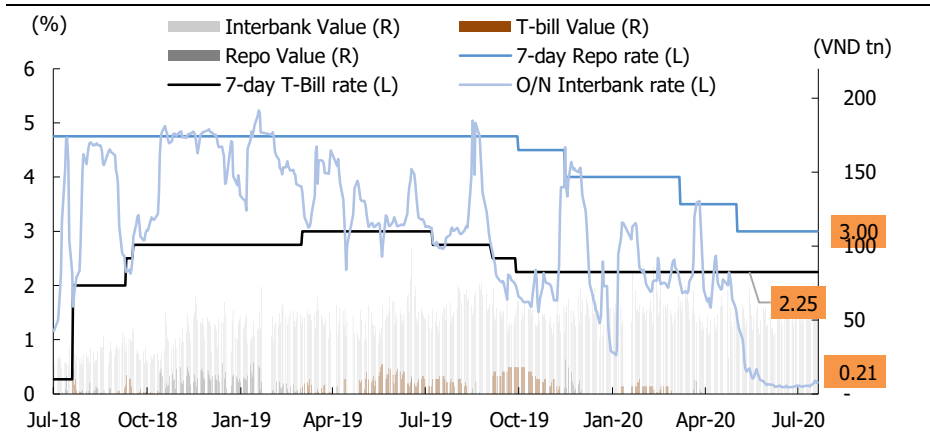
**Figure 5. Interbank value by tenors (annual rate)**



Source: Bloomberg, SBV, KIS

Slowdowns in outstanding loans partly explain the tendency of interbank rates in recent months. We argue that borrowers were worrying about the economic prospect and weakened demand for loans, and this situation turns into weak demand in the interbank market.

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



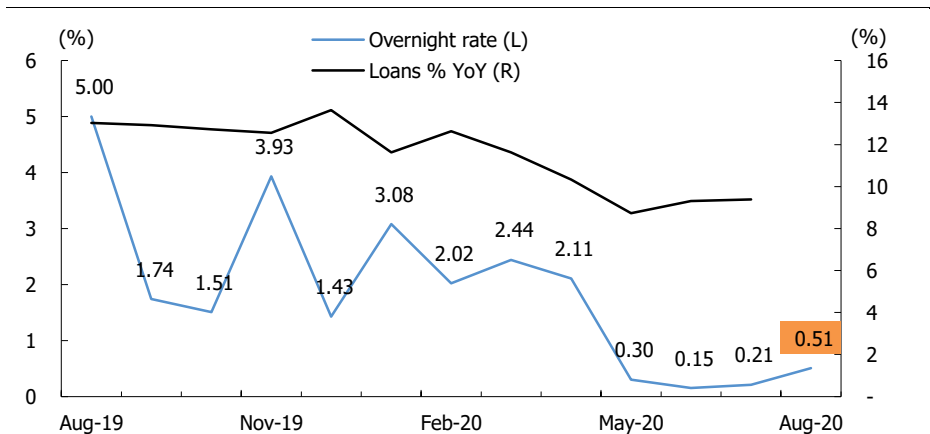
Source: Bloomberg, SBV, KIS

In association with OMO, 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.

**PREDICTION:**

According to our argument about the relationship between credit growth and interbank rates and recent movements of interbank market, we predict that the ON rate will increase by 30bps to post 0.51% in August 2020.

**Figure 7. Overnight interbank rates August 2020 Prediction**



Source: Bloomberg, SBV, KIS

### III. G-bond issuance sets a record high

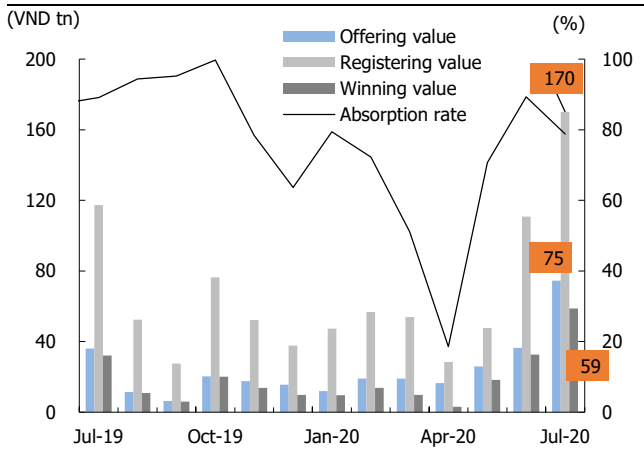
**Government accelerated long-term bond issuance**

In July, participants from both buy and sell sides were rushing to take actions in the G-bond bidding session. All criteria, including offering value, registering value and winning value, set record highs, and the buy side seemed to take a more aggressive play in the market.

According to HNX, a total of VND74.5tn government bonds was being offered in July, more than double from the previous high in June, while the bidding value reached to VND170.1tn, which is the highest level so far. As a result, VND58.7 was successfully issued during the month, which was more than a total of 3 prior months. On the other side, the winning yields remained relatively low with increasing issuing value, in which the yields for 5-year and 10-year lowered by 12.5 bps and 13 bps to about 1.82% and 2.87%, while those for 15-year and 20-year were up by 23 bps and 6.5 bps to 3.37% and 3.5%.

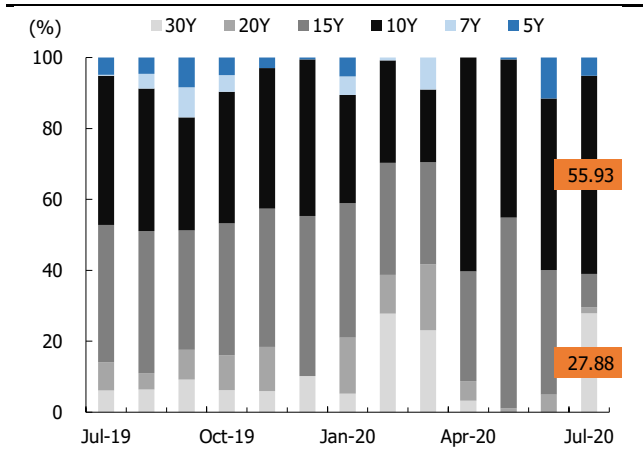
Regarding to issuing value, long-term bonds, including 10-year, 15-year, and 30-year, were being issued the most at VND32.8tn, VND5.5tn, and VND16.4tn, equivalent to 55.93%, 9.37%, and 27.88% of total, respectively.

**Figure 8. Government bond issuance**



Source: Bloomberg, HNX, KIS

**Figure 9. Issuing value by tenor**



Source: Bloomberg, HNX, KIS

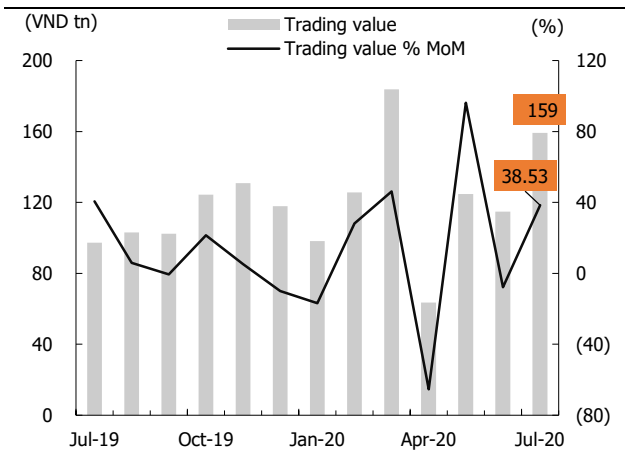
Similar to bidding activities skyrocketing in the primary market, trading activity was also accelerating in the secondary market. Specifically, in the month, the trading value reached a 4-month high of VND159.18tn, up by 38.53% MoM. Meanwhile, the medium-and-long-term bond yields fell considerably, indicating that investors' appetite for those G-bonds was increasingly high.

Regarding to maturity, the trading activities mostly concentrated on medium-and-long-term bonds from 5-year to 15-year as their shares accumulatively accounted for more than 75% of total value. In particular, 5-year, 7-year, 10-year, and 15-year bonds accounted for 13.58% (VND21.62tn), 11.44%

(VND18.21tn), 34.80% (VND55.39tn), and 15.62% of the total (VND24.86tn), respectively.

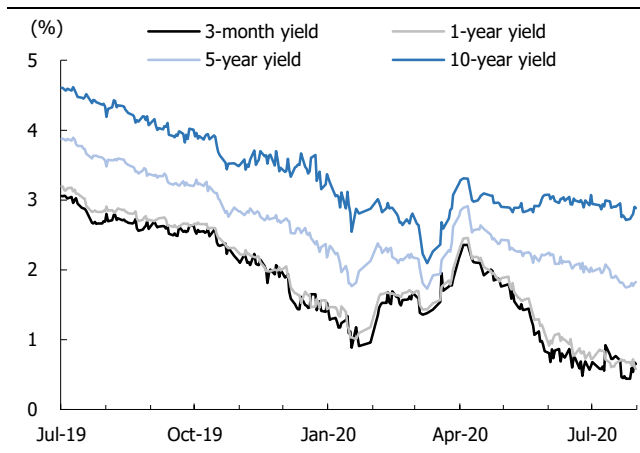
By bond type, government bonds were mostly being traded as their share made up 96.63% of total trading value (VND153.82tn), the rest of 3.37% was from government-guaranteed bonds (VND5.36tn). By investor type, domestic investors accounted for 97.30%, and foreign investors made up the remaining 2.70%.

**Figure 10. Trading value**



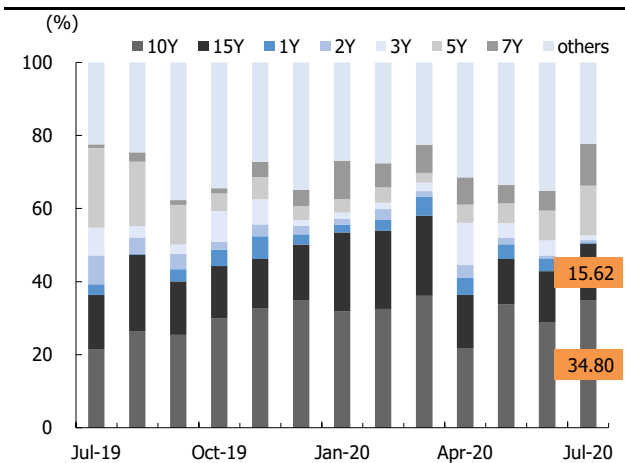
Source: Bloomberg, KIS, HNX

**Figure 11. G-bond yields**



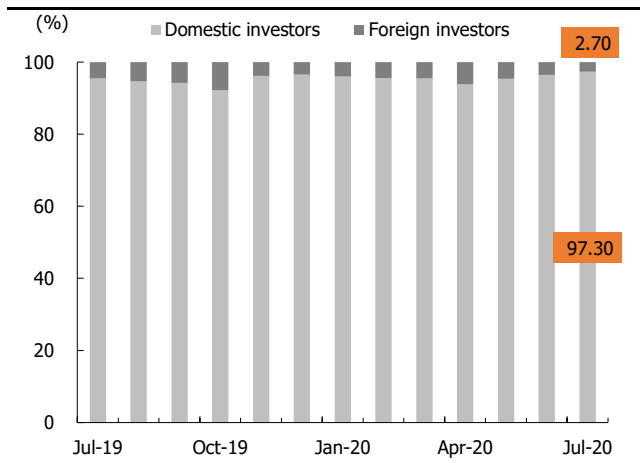
Source: Bloomberg, KIS, HNX

**Figure 12. Trading value by tenor**



Source: Bloomberg, KIS, HNX

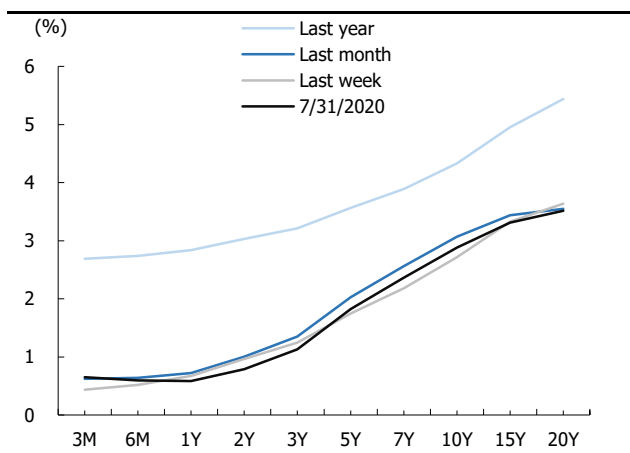
**Figure 13. Trading value by investor**



Source: Bloomberg, KIS, HNX

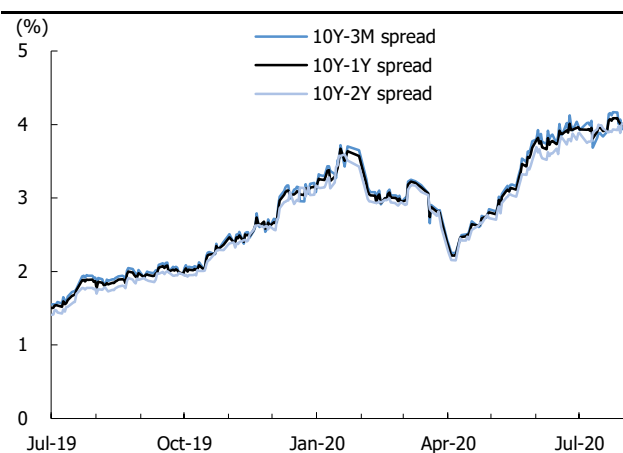
In July, the G-bond yield curve continued to shift downward across all tenors, except for the 3-month yield. Accordingly, all yields from 3-month to 5-year continued to drop to their all-time lows. Especially, those yields with less than 2-year maturities were relatively close to a zero limit. In particular, the 6-month, 1-year, 2-year, 3-year, and 5-year yields were adjusted downward by 4.4 bps, 13.9 bps, 21.4 bps, 22.2 bps, and 20.4 bps to just 0.60%, 0.59%, 0.79%, 1.13%, and 1.83%, while the 3-month yield was up by just 2.83 bps to 0.65%, respectively.

**Figure 14. Yield curve**



Source: Bloomberg, KIS, HNX

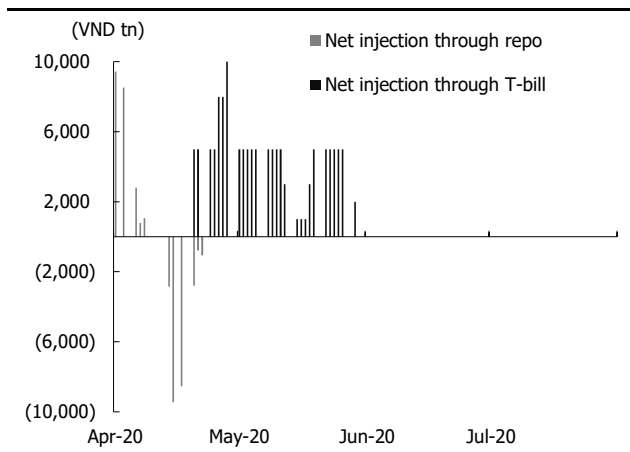
**Figure 15. Bond yield spread**



Source: Bloomberg, KIS, HNX

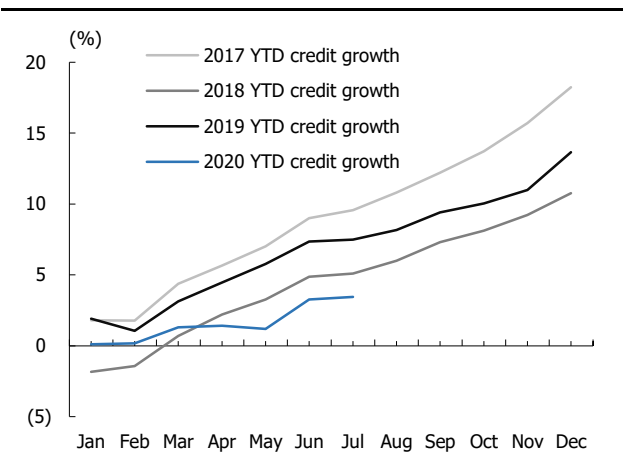
Furthermore, as expected earlier, with further reductions in short-term yields, the spread among short-term and longer-term yields were seemingly attractive bond investors looking for other alternative investments. In other words, deep plunges in short-term yields in previous months, which were already close to the limit down, were eventually transmitted to longer-term yields. Particularly, the 7-year, 10-year, 15-year, and 20-year reduced by 19.8 bps, 19.1 bps, 13.0 bps, and 3.2 bps to 2.37%, 2.88%, 3.31%, and 3.52%, respectively.

**Figure 16. Liquidity supply increasing**



Source: Bloomberg, KIS, HNX

**Figure 17. Demand for loans decreasing**



Source: Bloomberg, KIS, SBV

**PREDICTION:**

The downward transmission from short-term yields to longer-term yields in the month showed evidence that the imbalance in demand-supply liquidity in the banking system has yet to be changed when the SBV's operations on the OMO market remained quiet and banks' lending activity has yet to pick up.

From our perspectives, this downward transmission will continue to transmit further to longer-term yields, particularly to 7-year, 10-year, and 15-year yields in the next month. We do not expect short-term yields from 3-month to 3-year to plunge further as space for further reductions in those yields are getting limited.

## Macro scorecard

(USD bn, USD, %, % YoY)

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	3Q19	4Q19	1Q20	2Q20	2016	2017	2018	2019
Real GDP growth		3.82			0.36		7.31	6.97	3.82	0.36	6.21	6.81	7.08	7.03
Registered FDI	1.14	2.08	3.78	1.55	1.79	3.15	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	18.60	24.13	17.58	19.19	22.57	23.00	72.22	68.83	56.9	59.2	176.6	215.1	243.5	263.6
Import	18.58	22.15	18.52	18.18	20.71	22.00	67.14	66.51	56.2	60.3	175.0	213.2	236.7	254.4
Export growth	33.76	5.93	(13.98)	(12.41)	5.31	0.31	10.72	7.29	(3.13)	(5.31)	8.99	21.82	13.19	8.16
Import growth	26.61	4.71	(11.77)	(21.64)	6.25	(2.94)	8.30	4.22	(1.59)	(7.17)	5.55	21.85	11.01	7.41
Inflation	5.40	4.87	2.93	2.40	3.17	3.39	2.23	2.79	3.53	3.57	2.66	3.53	3.54	2.79
VND/USD	23,231	23,637	23,309	23,282	23,206	23,167	23,203	23,173	23,637	23,206	22,761	22,698	23,175	23,173
Credit growth	0.17	1.30	1.42	1.20	3.26		9.40	13.70	0.68	2.80	18.25	18.24	13.89	13.70
10Y gov't bond	2.81	3.24	2.90	3.07	3.07	2.88	4.07	3.37	3.24	3.07	6.23	5.14	5.07	3.37



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