

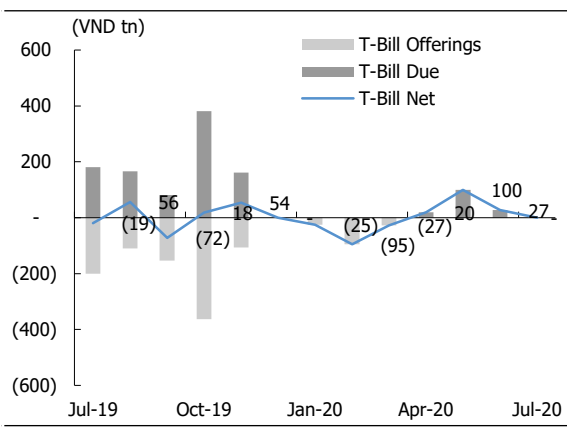
# AUGUST FIXED INCOME VIEW

## Excess liquidity flows to G-bond markets

### OMO Market

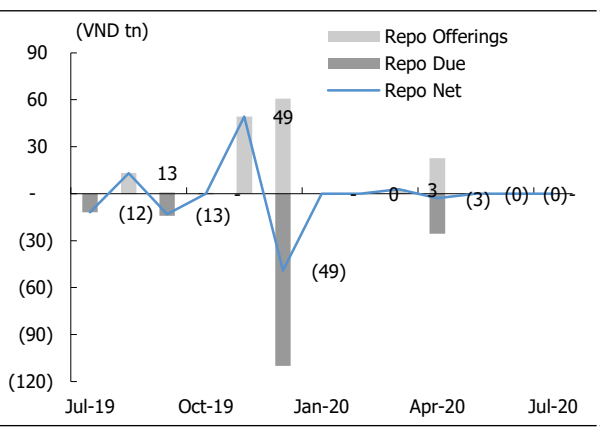
Transaction in the OMO market remained silent in July 2020. SBV conducted only two auction sessions to offer a trivial amount of repo contracts at VND7.36bn. We argue that OMO's silence will remain in the next month to wait for signals from the first lending markets.

T-bill transaction



Source: Bloomberg, SBV, KIS

Repo transaction



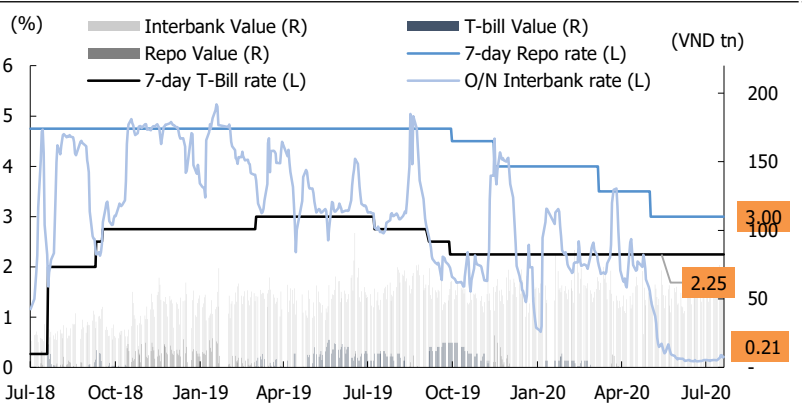
Source: Bloomberg, SBV, KIS

### Interbank market

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.

Total trading value  
**1,370**  
VNDtn  
(+17.7% MoM)

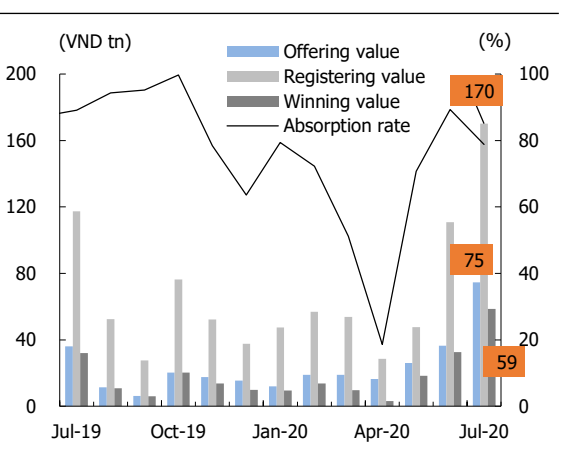
Daily 7-day T-bill, repo and interbank rates



Source: Bloomberg, SBV, KIS

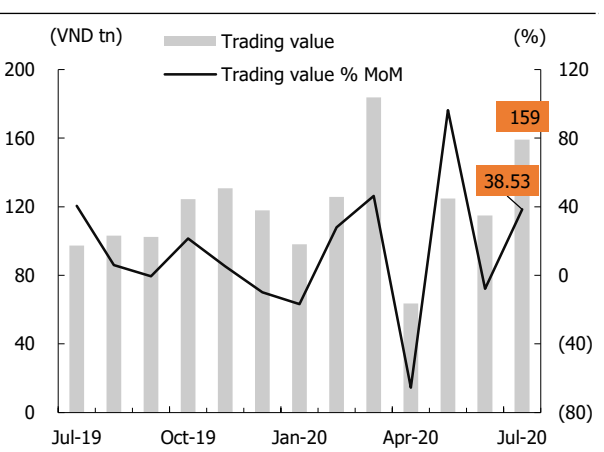
### G-bond market

Government bond issuance



Source: Bloomberg, SBV, KIS

Trading value

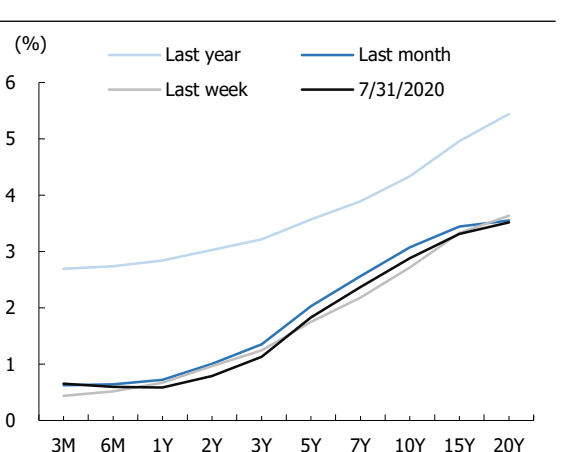


Source: Bloomberg, KIS, HNX

In July, participants from both buy and sell sides were rushing to take actions in the G-bond bidding session.

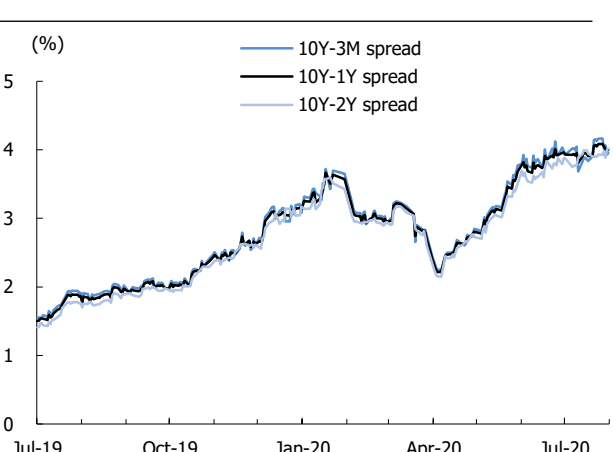
Trading activity was also accelerating in the secondary market, mostly concentrated on medium- and long-term bonds from 5-year to 15-year.

Yield curve



Source: Bloomberg, KIS, HNX

Bond yield spread

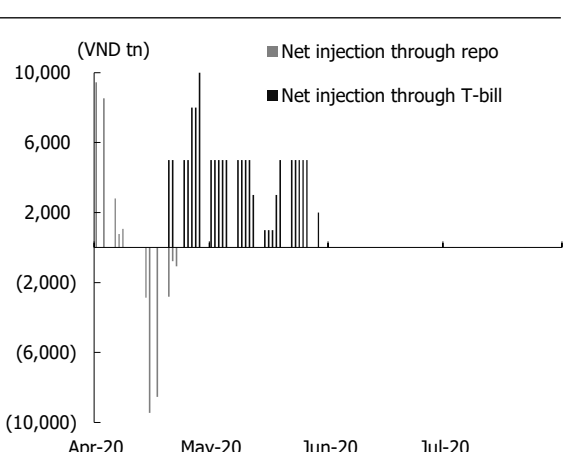


Source: Bloomberg, HNX, KIS

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.

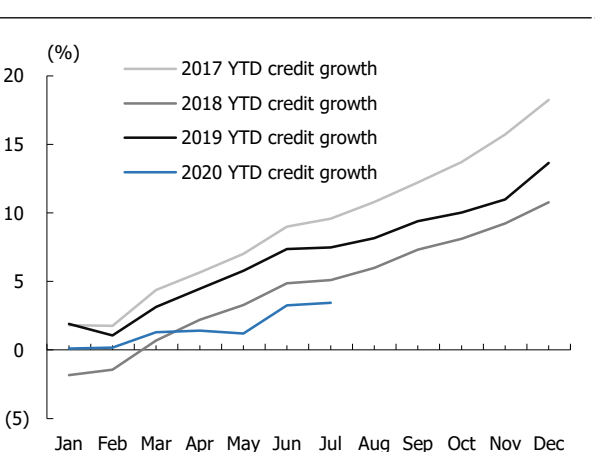
Furthermore, as expected earlier, with further reductions in short-term yields, the spread among short-term and longer-term yields were seemingly attractive bond investors looking for other alternative investments.

Increasing supply in liquidity



Source: Bloomberg, KIS, HNX

Demand for loans decreasing



Source: Bloomberg, KIS, HNX

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. 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.