

Fixed-income Perspectives

Slowdown in G-bond markets

No activity in OMO

SBV used neither the repo contract nor T-bill issuance for intervening in the reserve market in August. The current development in the first lending market and natural lower bound of overnight funding costs were probable reasons for recent SBV's arrangement. We argue that OMO's silence will remain in the next month to wait for signals from lending markets.

Interbank rates to change slightly

Interbank rates continued staying low while the trading value slightly decrease from the one-year high last month. Slowdown in total credit partly explain the tendency of interbank rates in recent months. 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 stay as the same level as few recent months.

Slowdown in G-bond markets

In August, participants from both buy and sell sides were acting less aggressively in August compared to previous months, especially from the buy side. Excess liquidity remained the main factor moving the bond yields although slowing down significantly from the high record in July. Looking forward, if credit growth started accelerating in the near term, the yield curve would likely be shifted upward, and the right tail (longer-term yields from 10-year to 30-year) would see a more significant change.

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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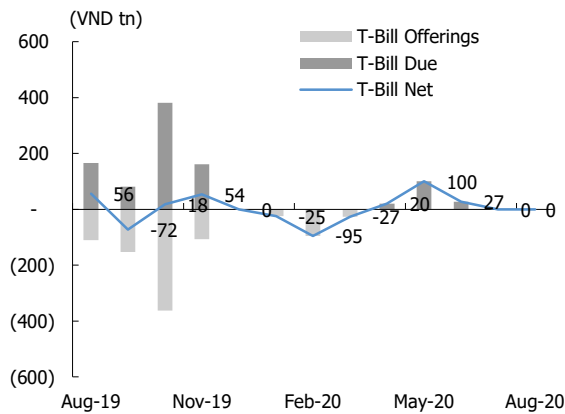
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I. No activity in OMO

OMO remains silent

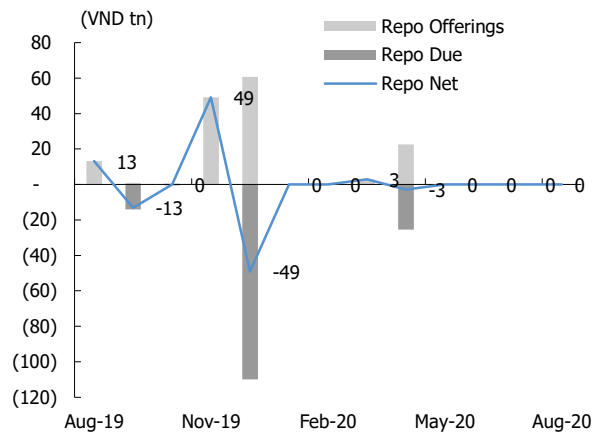
SBV used neither the repo contract nor T-bill issuance for intervening in the reserve market in August. There are several reasons for and implications of SBV's current arrangements. First, the current development in the first lending market is acceptable in the context of a virus-related uncertainty in business conditions. Commercial banks were not in the race to fill up the gap between existing and target credit growths. Hence, there are no reasons for the central bank to pour more liquidity into a full-of-cash banking system. Second, the ON interbank rate stays near zero, which is the natural lower bound of overnight funding costs. Moreover, a low interbank rate did not put too much upward pressure on inflation over recent months. Therefore, the issuance of T-bill to intentionally pull interbank rate up was redundant.

Figure 1. T-bill transaction



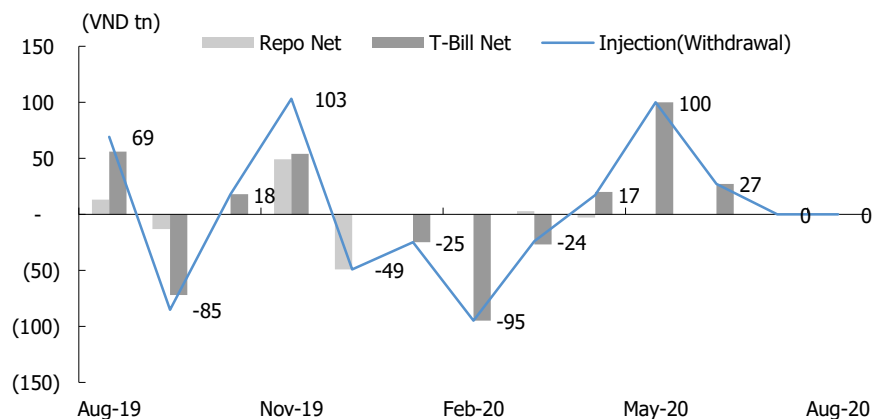
Source: Bloomberg, SBV, KIS

Figure 2. Repo transaction



Source: Bloomberg, SBV, KIS

Figure 3. Net Injection/Withdrawal



Source: Bloomberg, SBV, KIS

PREDICTION:

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

II. Interbank rates to stay low

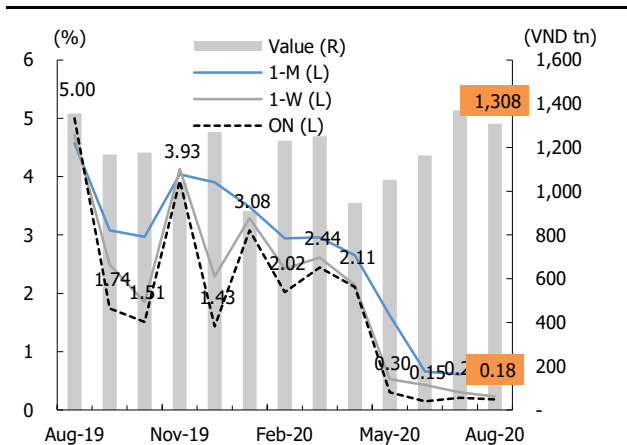
Excess liquidity keeps lowering interbank rates

Interbank rates continued staying low while the trading value slightly decrease from the one-year high last month. Slowdown in total credit partly explain the tendency of interbank rates in recent months. We argue that borrowers were worrying about the economic prospect, and this situation induces interbank borrowing demand to weak.

Specifically, the overnight rate (ON) declined to 0.18%, 3bps-lower than July 2020. Interest rates on other tenors, except 2-week and 1-month, also became lower compared to previous month. The 1-week, 3-month, 6-month, and 9-month stood at 0.23%, 1.83%, 3.14%, and 3.50%, lower than 7bps, 88bps, 17bps and 110bps compared to last month. The 2-week and 1-month, in the minority, moved in the opposite direction as increasing by 12bps and 21bps to post 0.49% and 0.82%, respectively.

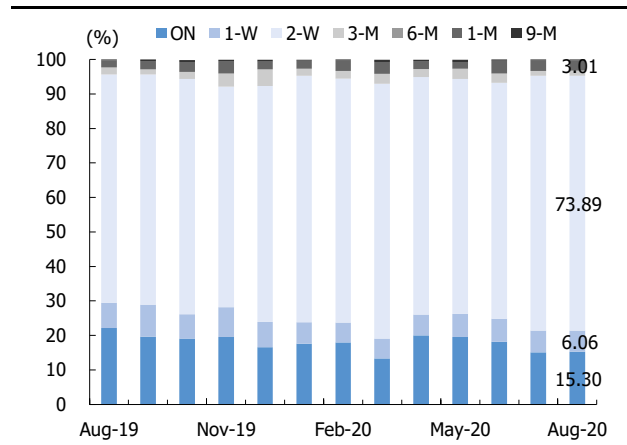
The total trading value slightly decreased by 4.50% MoM to post VND1,308tn and consequently marked the first adjustment after a rising series of three months. By trading structure, transactions kept concentrating on overnight loans, which accounted for 73.89% of total trading value. Furthermore, trading shares of 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month were 15.30%, 6.06%, 3.01%, 1.50%, 0.22%, and 0.01%, respectively.

Figure 4. Interbank transaction



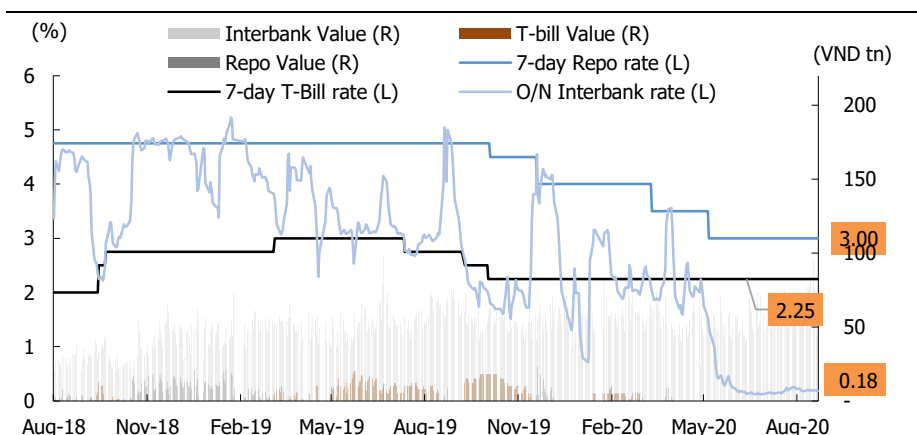
Source: Bloomberg, SBV, KIS

Figure 5. Interbank value by tenors (annual rate)



Source: Bloomberg, SBV, KIS

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). In the context of low interest, it is likely take time to shape a new interest rate corridor.

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 stay as the same level as few recent months.

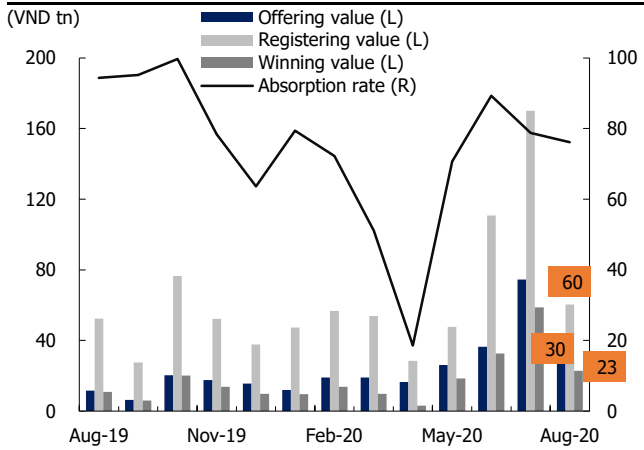
III. Slowdown in G-bond markets

Bidding activity slows down in G-bond auctions

In the primary G-bond market, participants from both buy and sell sides were acting less aggressively in August compared to previous months, especially from the buy side. According to HNX, there was VND30.0tn was being offered in August, just about 40% of July's level, while the bidding value dropped by 65% mom to about VND60.3tn. As a result, VND22.85tn was successfully issued, down by 61.05% mom. The winning yields remained relatively stable for all tenors compared to July's levels, in which the 5-year, 10-year, 15-year, 20-year, and 25-year recorded 1.71%, 2.86%, 3.04%, 3.34%, and 3.50%, respectively.

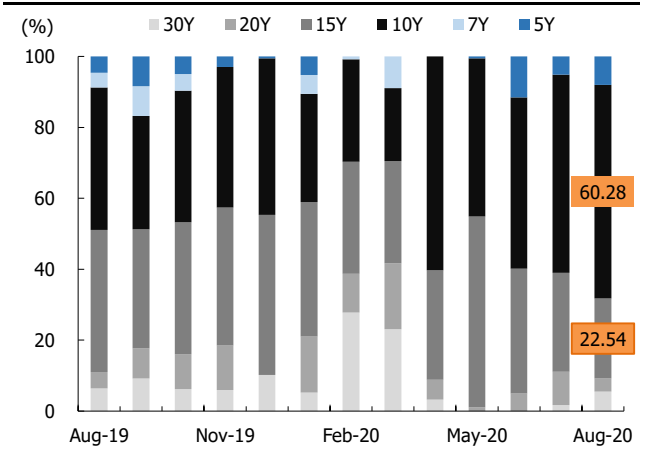
Regarding issuing value, 10-year and 15-year G-bonds were being issued the most by VND13.78tn and VND5.15tn, accounting for 60.28% and 22.54% of the total. Besides, 5-year, 20-year, and 30-year reached VND1.83tn (7.99%), VND0.85tn (3.72%), and VND1.25tn (5.47%), respectively.

Figure 7. Government bond issuance



Source: Bloomberg, HNX, KIS

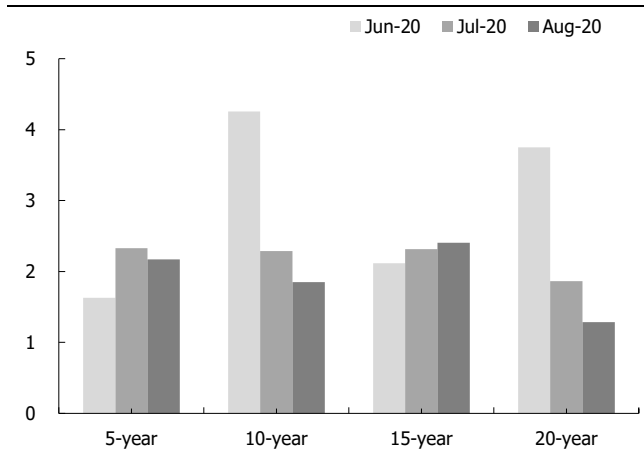
Figure 8. Issuing value by tenor



Source: Bloomberg, HNX, KIS

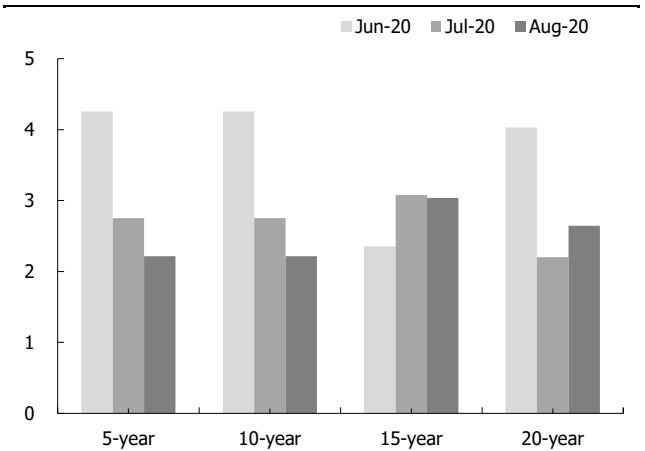
Part of the reason for a slowdown in the primary market was due to lack of a number of G-bond auction in the month. Besides, there was also lack of interests on G-bonds from the market participants under prevailing low yields. More specifically, bid-to-offer ratio and absorption ratio for G-bonds in some tenors were diminishing since June.

Figure 9. Bid-to-cover ratio



Source: Bloomberg, HNX, KIS

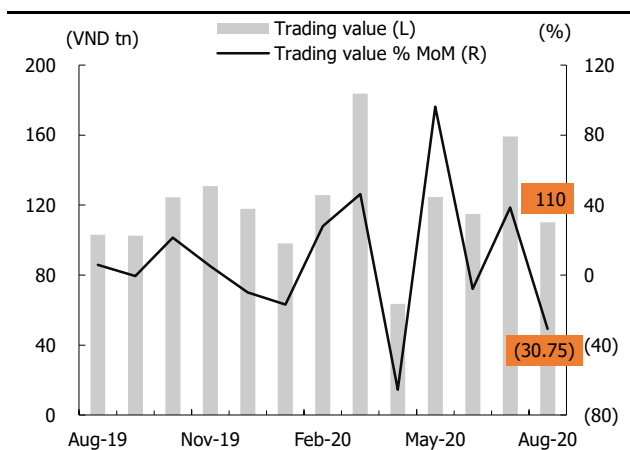
Figure 10. Absorption ratio



Source: Bloomberg, HNX, KIS

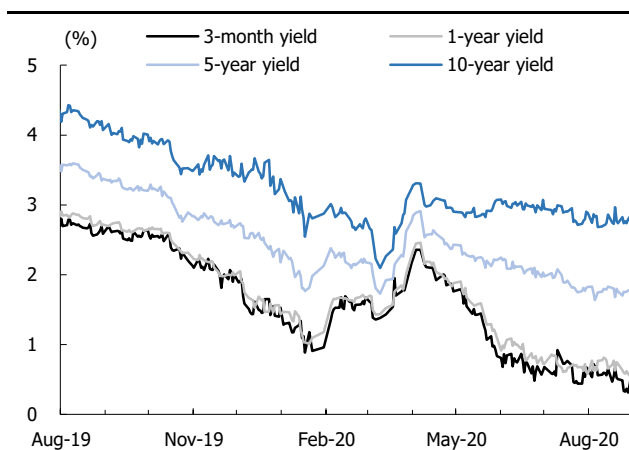
Similarly, trading activity in the secondary market was also decelerating in August, with yields remaining stable by month-end for most tenors. Specifically, in the month, the trading value was relatively low of just VND110.23tn compared to the previous period, down by 30.75% mom. Bond yields also dropped but modestly in all tenors, in which medium-term bonds from 1-year, 2-year, 3-year, to 5-year adjusted the most by 6.5 bps, 9.4 bps, 9.0 bps, and 4.9 bps to 2.72%, 2.89%, 3.06%, and 3.38%, respectively. Changes in short-term yields (3-month to 6-month) and long-term yields (greater than 7 years) were insignificant.

Figure 11. Trading value



Source: Bloomberg, KIS, HNX

Figure 12. G-bond yields

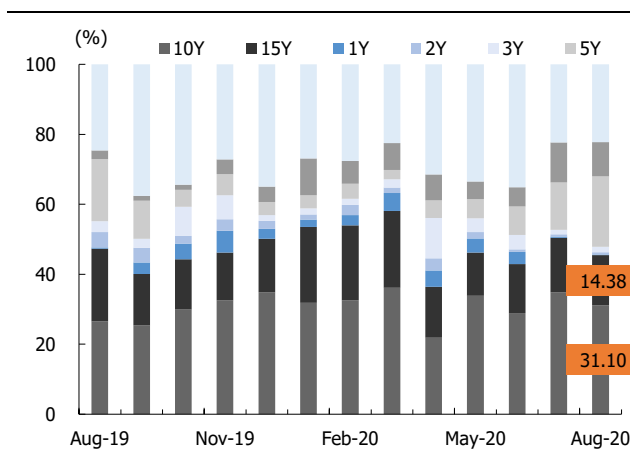


Source: Bloomberg, KIS, HNX

Trading activity also concentrated on G-bonds with maturities from 5-year to 15-year with their accumulative shares greater than 75%. Particularly, trading value of 5-year, 7-year, 10-year, and 15-year G-bonds accounted for 20.18% of the total (VND22.24tn), 9.78% (VND10.78tn), 31.10% (VND34.28tn), and 14.38% (VND15.85tn), respectively.

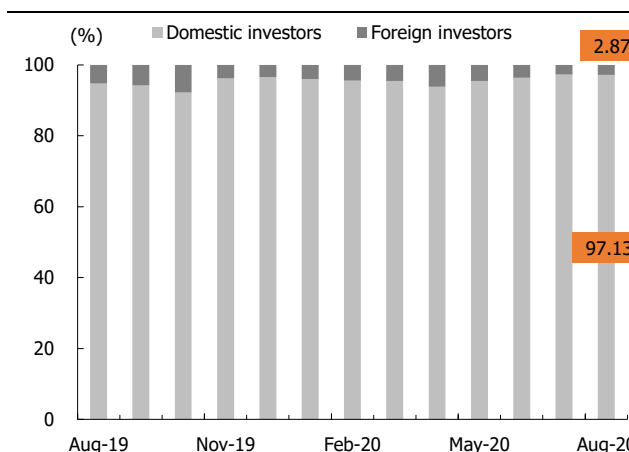
By bond type, government bonds were mostly being traded as their share made up 97.82% of total trading value (VND107.83tn), the rest of 2.18% was from government-guaranteed bonds (VND2.40tn). By investor type, domestic investors accounted for 97.13%, and foreign investors made up the remaining 2.87%.

Figure 13. Trading value by tenor



Source: Bloomberg, KIS, HNX

Figure 14. Trading value by investor

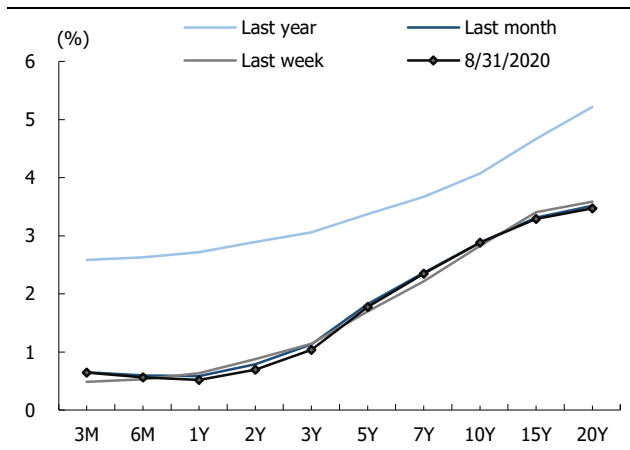


Source: Bloomberg, KIS, HNX

In the month, the G-bond yield curve continued to shift downward across all tenors, but the downward pressure was stronger on the left tail (short-term yields), albeit just modest. More specifically, 3-month, 6-month, 1-year, 2-year, and 3-year yields dropped by 0.89 bps, 3.21 bps, 6.58 bps, 9.40 bps, and 8.97 bps to 0.64%, 0.57%, 0.52%, 0.70%, and 1.04%. Besides, those short-term yields were approaching a zero bound, which means there would be left room for them to reduce further in the near term. The downward trend on longer-term yields was insignificant as 5-year, 7-year, 10-year, 15-year, and 20-year yields

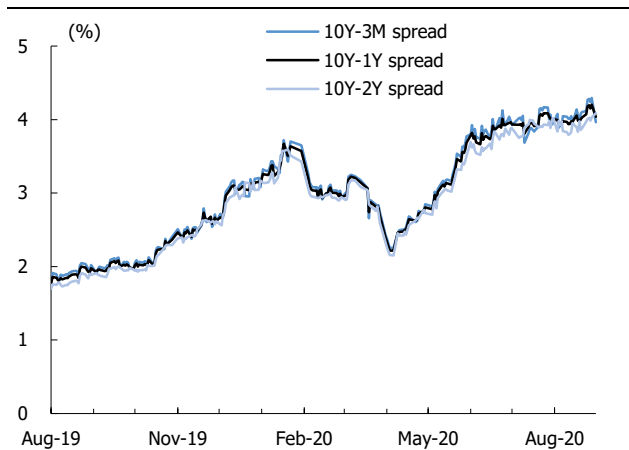
were down by 4.91 bps, 1.56 bps, 0.11 bps, 2.05 bps, and 4.24 bps to 1.78%, 2.35%, 2.88%, 3.29%, 3.47%, respectively.

Figure 15. Yield curve



Source: Bloomberg, KIS, HNX

Figure 16. Bond yield spread

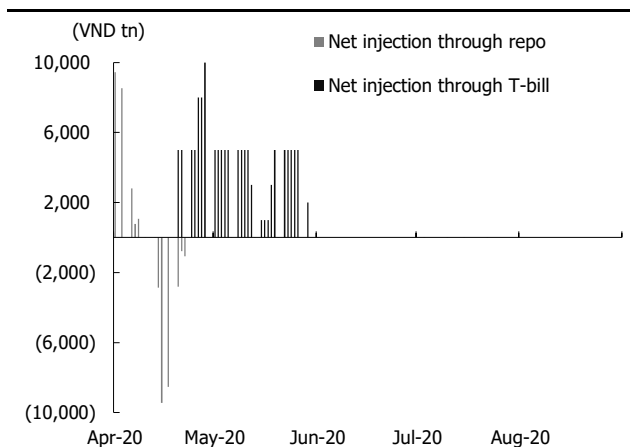


Source: Bloomberg, KIS, HNX

In August, excess liquidity in the banking system remained the main factor moving the bond yields as G-bonds demand in the primary market and secondary market was still relatively high although reducing sharply from the high record in July.

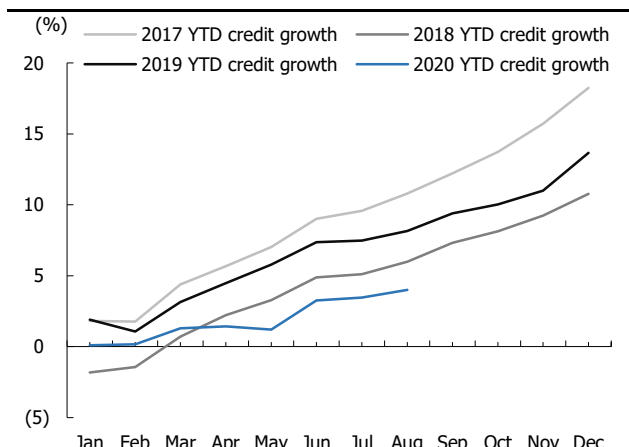
But, this raises a possibility that part of the excess liquidity was being withdrawn out of the banking system. Recently, a source related SBV revealed credit growth by end-August was greater than 4%, which means there could be more than VND45tn were out of banking liquidity in August. All of these arguments indicate that the situation for the G-bond yields may change in the near term if the credit growth starts picking up.

Figure 17. Liquidity supply increasing



Source: Bloomberg, KIS, HNX

Figure 18. Demand for loans decreasing



Source: Bloomberg, KIS, SBV

PREDICTION:

From our view, the actions of demand-side participants are signaling a change in investors' interests on the G-bonds under the prevailing low yields. Yields although went down slightly in the month, the deceleration in the bidding activity in the primary market and the trading activity in the secondary market was showing a clearer picture that investors' appetite for G-bonds is not as high as in July.

In a scenario that credit growth accelerates in the near term, the yield curve would likely be shifted upward, and it is also likely that the right tail (longer-term yields from 10-year to 30-year) would see a more significant change.

Macro scorecard

(USD bn, USD, %, % YoY)

	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-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	2.08	3.78	1.55	1.79	3.15	0.72	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	19.30	17.60	18.50	21.00	23.00	26.50	72.22	68.83	56.9	59.2	176.6	215.1	243.5	263.6
Import	18.60	18.52	19.40	20.50	22.00	23.00	67.14	66.51	56.2	60.3	175.0	213.2	236.7	254.4
Export growth	5.93	(19.98)	(15.50)	(2.00)	0.31	2.49	10.72	7.29	(3.13)	(5.31)	8.99	21.82	13.19	8.16
Import growth	4.71	(11.77)	(15.90)	5.16	(2.94)	2.85	8.30	4.22	(1.59)	(7.17)	5.55	21.85	11.01	7.41
Inflation	4.87	2.93	2.40	3.17	3.39	3.18	2.23	2.79	3.53	3.57	2.66	3.53	3.54	2.79
VND/USD	23,637	23,309	23,282	23,206	23,167	23,175	23,203	23,173	23,637	23,206	22,761	22,698	23,175	23,173
Credit growth	1.30	1.42	1.20	2.80	3.45		9.40	13.70	0.68	2.80	18.25	18.24	13.89	13.70
10Y gov't bond	3.24	2.90	3.07	3.07	2.88	2.88	4.07	3.37	3.24	3.07	6.23	5.14	5.07	3.37

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