

# Fixed-income Perspectives

## Demand for G-bonds sets record high

### OMO to excite

September witnessed the third consecutive month that SBV used neither the repo contract nor T-bill issuance for intervening in the reserve market due to a sluggish lending market. We predict OMO to accelerate because of recent SBV's rate cut and the acceleration of the credit growth in the late half of this month.

### Interbank rates to increase slightly

Interbank rates continued staying low while the trading value slightly decreased from the one-year high recorded in last month. A slowdown in lending activity 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 in recent months.

### Demand for G-bonds sets record high

In September, demand for Vietnam G-bonds was rocketing to an all-time high with abundant liquidity flooding the primary G-bond market. Meanwhile, the yield curve by end-September was flattening with mid- and long-term yields dropping faster than those short-term yields. Looking forward to October, it is likely excess liquidity will put further downward pressure on G-bonds from 5-year to 15-year tenors.

### KIS leading economic index

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

	1Q20	2Q20	3Q20	4Q20F	2019	2020F	2021F
GDP	3.82	0.36	2.62	5.03	7.02	2.50	5.94
Trade balance	1.73	0.57	7.41	5.06	10.42	7.94	1.77
CPI	4.87	3.17	3.81	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	23,206	23,188	23,252	23,231	23,255	23,246
US GDP	(4.80)	(34.20)	NA	7.90	2.3	(5.70)	3.90
China GDP	(6.80)	1.10	NA	6.00	6.10	1.80	8.00

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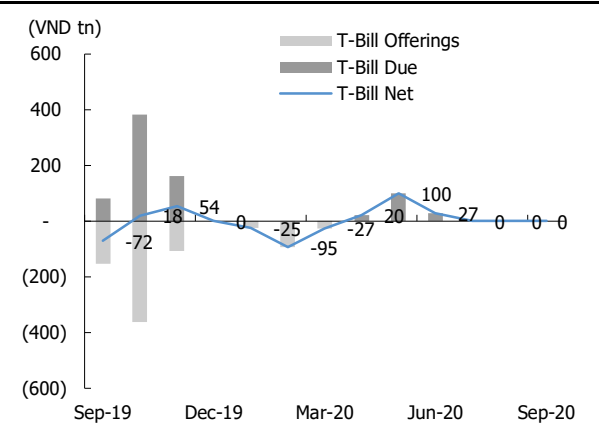
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# I. OMO to excite

## OMO remains silent

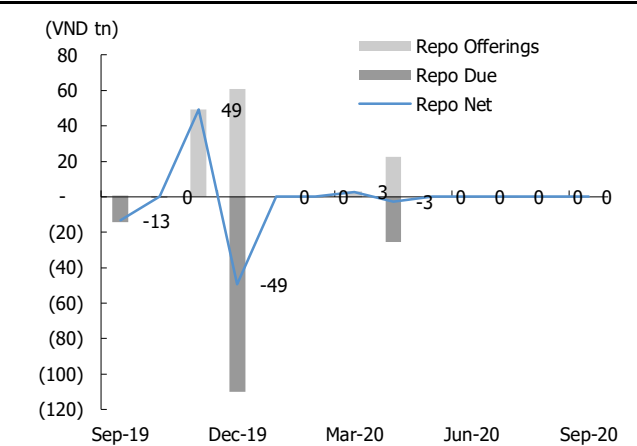
September witnessed the third consecutive month that SBV used neither the repo contract nor T-bill issuance for intervening in the reserve market. There are several reasons for and implications of SBV's current arrangements. First, the current development in the first lending market did not put any pressure on yield and liquidity availability in the interbank market in the context of a virus-related uncertainty in business conditions. Second, the ON interbank rate stays near zero, 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**



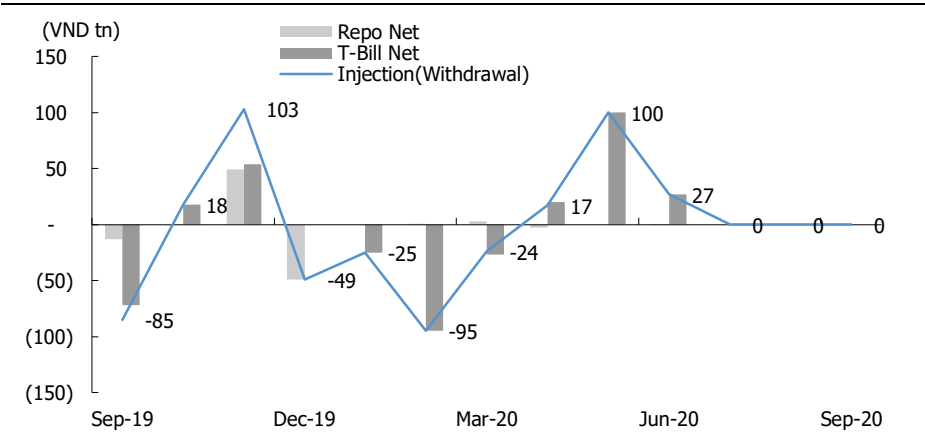
Source: Bloomberg, SBV, KIS

**Figure 2. Repo transaction**



Source: Bloomberg, SBV, KIS

**Figure 3. Net Injection/Withdrawal**



Source: Bloomberg, SBV, KIS

## PREDICTION:

We saw some moves that will likely excite OMO transactions in the next month.

- First, SBV's conducted one more policy rate-cut on 1st October to intentionally keep interest rates at a low base.
- The credit growth accelerated considerably in the late half of September and reflect partly improving business conditions.

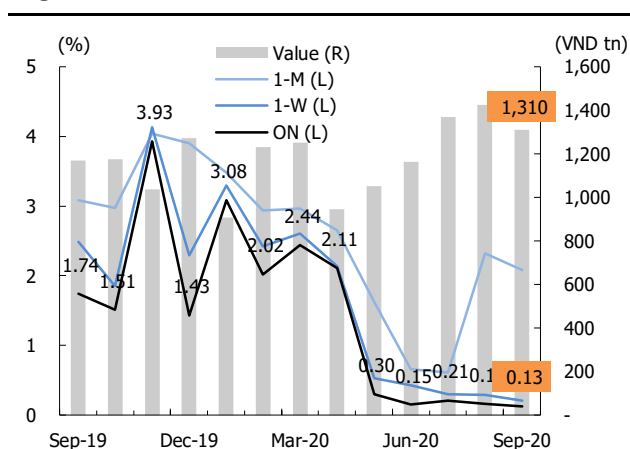
## II. Interbank rates to increase

Interbank rates with short-term tenors continued staying low while longer-term rates rebounded after hitting lows. Regarding the market scale, the trading value slightly decreased from the one-year high last month. The slowdown in total credit partly explains 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 weak.

Short-term interest rates (tenors below six months) continued to lower this month. In detail, the overnight rate (ON) declined to 0.13%, 3bps-lower than August. Also, the 1-week, 2-week, 1-month, and 3-month stood at 0.21%, 0.26%, 2.08%, and 1.66%, being lower than 8bps, 40bps, 24bps and 120bps compared to last month. On the contrary, rates on longer-terms, such as the 6-month and 9-month, rebounded as increasing by 115bps and 100bps to post 4.55% and 4.42%, respectively.

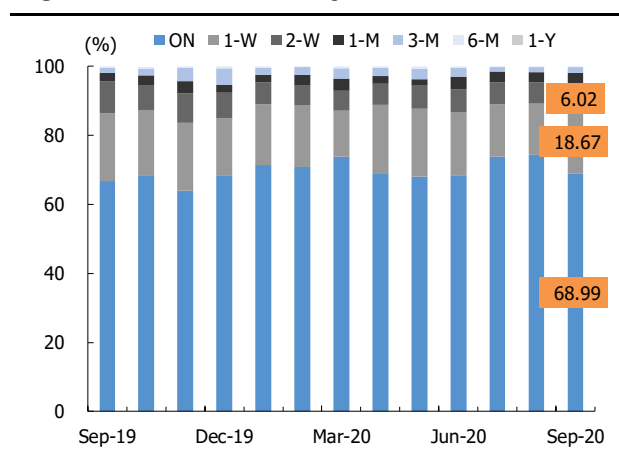
The total trading value slightly decreased by 8.07% MoM to post VND1,310tn and consequently marked the first adjustment after a rising series of four months. By trading structure, transactions kept concentrating on overnight loans, consisting of 68.99% of total trading value. Furthermore, trading shares of 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month were 18.67%, 6.02%, 4.33%, 1.77%, 0.20%, and 0.03%, respectively. Compared to August, transactions also tended to move more into longer-term loans.

**Figure 4. Interbank transaction**



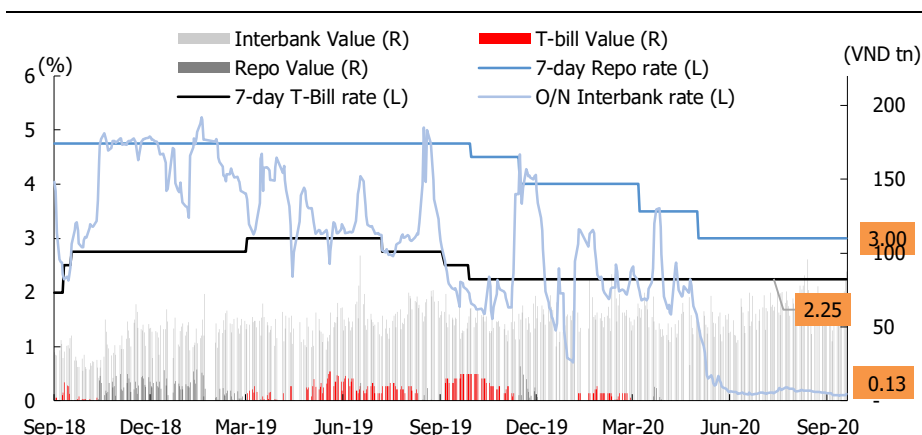
Source: Bloomberg, SBV, KIS

**Figure 5. Interbank value by tenors**



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 slightly increase in the next month.

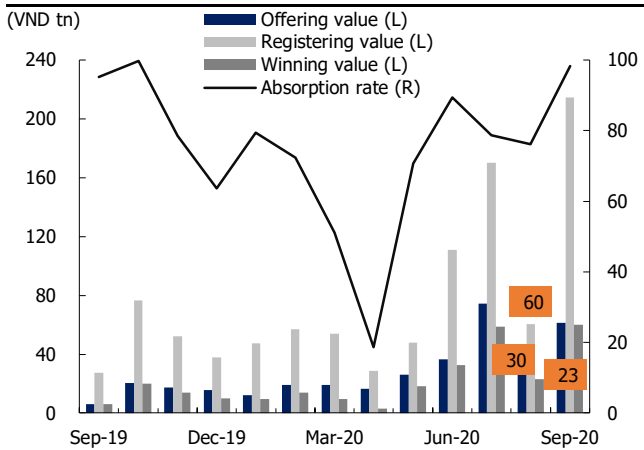
### III. Demand for G-bonds sets record high

***Bidding activity reached an all-time high***

In September, throughout a total of 22 bidding sessions, there were about VND61.25tn of G-bonds being offered in the primary market (+104.17% MoM). Most notably, demand for Vietnam G-bonds was rocketing to an all-time high VND214.38tn (+255.65% MoM). As a result, about VND60.14tn of G-bonds was successfully issued at an absorption rate of 98.19% (+163.20% MoM). The winning yields remained stable for most tenors, in which the 10-year, 15-year, 20-year, and 30-year recorded 1.71%, 2.86%, 3.04%, 3.34%, and 3.50%, respectively. It is worth noticing that those G-bond yields remained highly stable since May, which may imply that there is limited room for a further decline in those yields in the near term. Oppositely, the average 5-year yield dropped by about 20 bps to 1.52%.

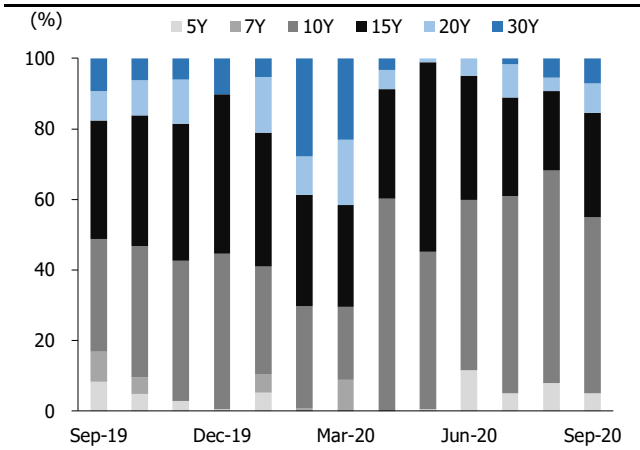
Regarding issuing value by tenor, 10-year and 15-year G-bonds were being issued the most by VND30.00tn and VND17.78tn, accounting for 49.88% and 29.57% of the total. Besides, the issuing values for 20-year, 30-year, and 5-year G-bonds recorded VND5.00tn (8.31%), VND4.31tn (7.16%), and VND3.05tn (5.07%), respectively.

**Figure 7. Government bond issuance**



Source: HNX, KIS

**Figure 8. Issuing value by tenor**

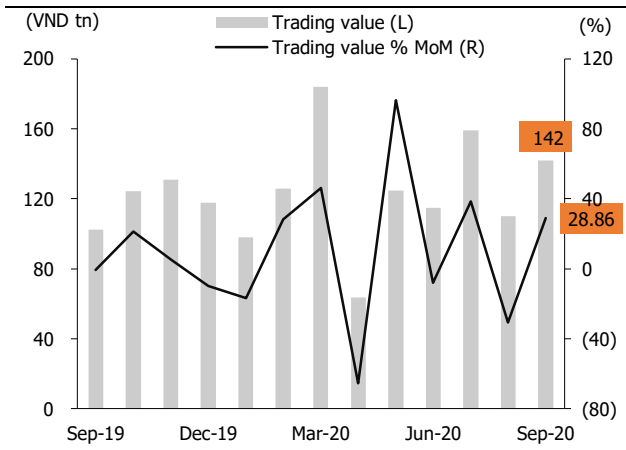


Source: HNX, KIS

**Trading activity accelerated in the secondary market**

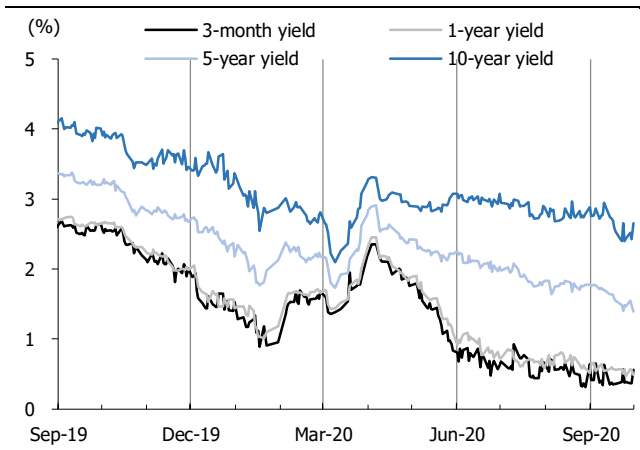
Similarly, trading activity in the secondary market was also accelerating in the month, recording VND142tn (+28.86% MoM), while yields were adjusted in all tenors, in which mid-term and long-term yields (from 3-year to 10-year) corrected most significantly. In details, 3-year, 5-year, 7-year, and 10-year yields declined by 24 bps, 38.7 bps, 37.5 bps, and 22.8 bps, to 0.80%, 1.39%, 1.98%, and 2.65%, respectively. Short-term yields, including 3-month, 6-month, 1-year and 2-year yields, dropped slightly to 0.56% (-8 bps), 0.52% (-4.5 bps), 0.49% (-3 bps), and 0.58% (-11.7 bps), while very long-term yields (15-year and 20-year) remained stable at 3.26% and 3.48%, respectively.

**Figure 9. Trading value**



Source: Bloomberg, KIS, HNX

**Figure 10. G-bond yields**

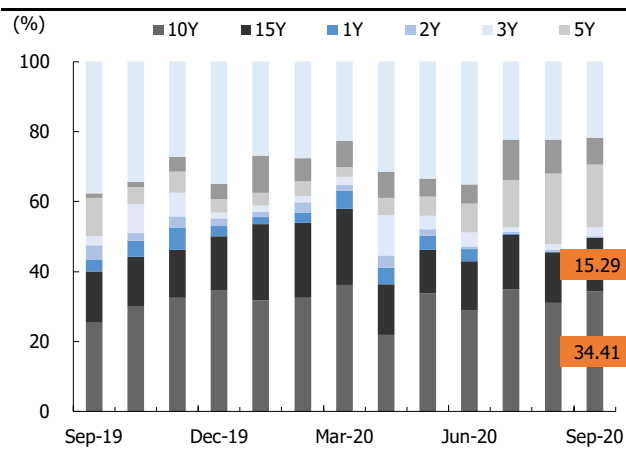


Source: Bloomberg, KIS, HNX

Besides, trading activity mainly concentrated on 5-year to 15-year G-bonds with a total share of 75.33%. Particularly, 5-year, 7-year, 10-year, and 15-year G-bonds accounted for 17.58% (VND25.36tn), 7.78% (VND11.05tn), 34.41% (VND48.88tn), and 15.29% (VND21.72tn), respectively.

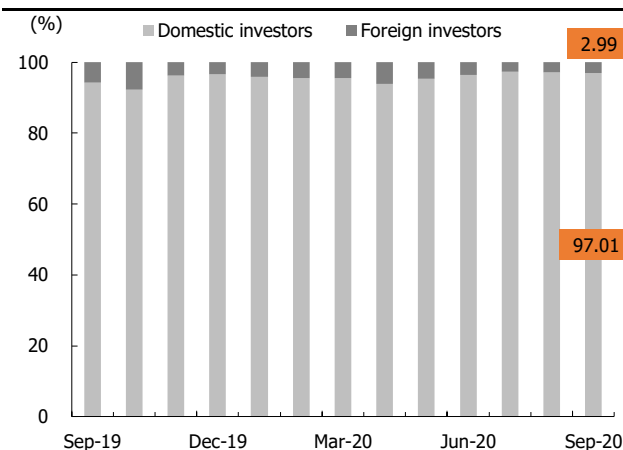
By bond type, government bonds were mostly being traded as their share made up 98.21% of the total trading value (VND139.51tn), the rest were from government-guaranteed bonds (VND2.12tn; 1.49%) and municipal government bonds (VND0.42tn; 0.30%). By investor type, domestic investors accounted for 97.01%, and foreign investors made up the remaining 2.99%.

**Figure 11. Trading value by tenor**



Source: Bloomberg, KIS, HNX

**Figure 12. Trading value by investor**

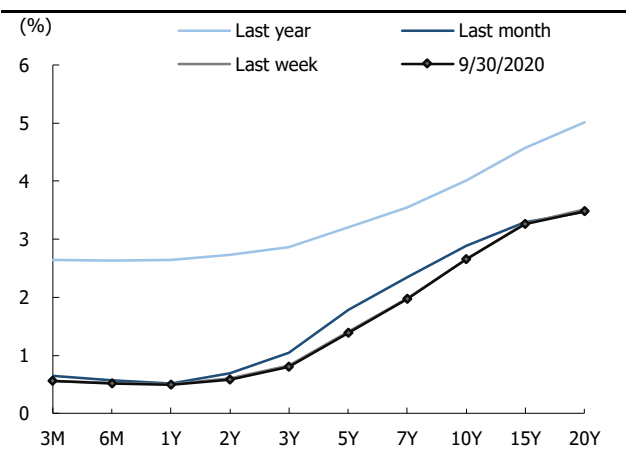


Source: Bloomberg, KIS, HNX

**Yield curve was flattening with mid- and long-term yields dropping faster**

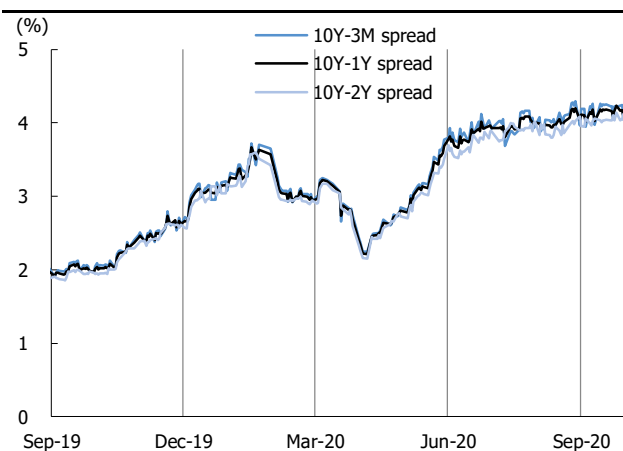
The G-bond yield curve in the month shifted downward from left tail to right tail, most clearly between 3-year and 10-year yields. Compared to August, it is clear that the yield curve was flattening significantly by end-September. As already mentioned in early-August, the downward transmission from short-term yields to longer-term yields was happening in September. With limited room for a further decline in short-term G-bond yields (from 3-month to 2-year) as those yields were approaching a zero bound, longer-term yields (3-year to 15-year) this time went down significantly under downward pressure caused by abundant liquidity.

**Figure 13. Yield curve**



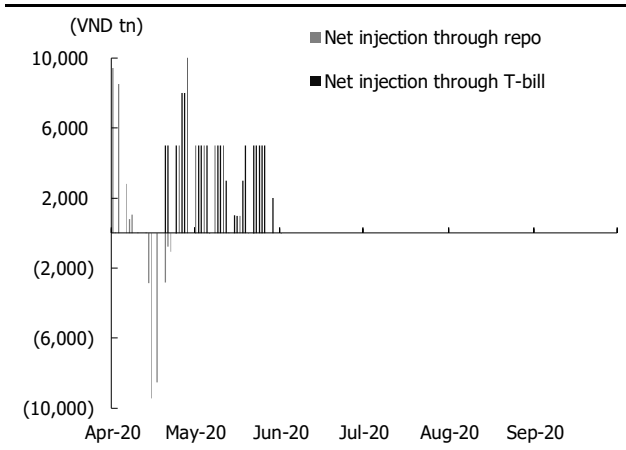
Source: Bloomberg, KIS, HNX

**Figure 14. Bond yield spread**



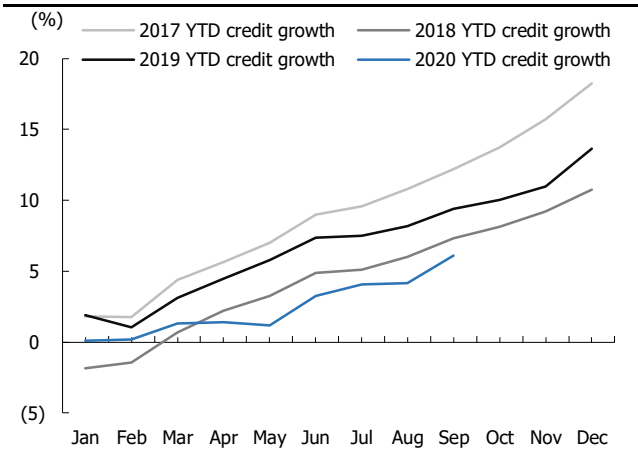
Source: Bloomberg, KIS, HNX

**Figure 15. Liquidity supply increasing**



Source: Bloomberg, KIS, HNX

**Figure 16. Demand for loans decreasing**



Source: Bloomberg, KIS, SBV

The credit growth reached 6.1% YTD as of 2<sup>nd</sup> Oct 2020.

**PREDICTION:**

By end-September, yields from 3-month to 3-year were at historically low-levels, approaching a zero limit (less than 1%). Looking at the yield curves by end-August and end-September, when the yields reached near to a zero-bound, it is unlikely to see a further drop in those yields in the near term.

At the time being, credit growth shows little signs of improvement in the last quarter of 2020. In this case, it is likely excess liquidity will put further downward pressure on G-bonds from 5-year to 15-year tenors in October.

## Macro scorecard

(USD bn, USD, %, % YoY)

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	3Q19	4Q19	1Q20	2Q20	2016	2017	2018	2019
Real GDP growth							7.31	6.97	3.82	0.36	6.21	6.81	7.08	7.03
Registered FDI	3.78	1.55	1.79	3.15	0.72	2.62	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	17.60	18.50	21.00	23.00	27.70	27.50	72.22	68.83	56.9	59.2	176.6	215.1	243.5	263.6
Import	18.52	19.40	20.50	22.00	22.72	24.00	67.14	66.51	56.2	60.3	175.0	213.2	236.7	254.4
Export growth	(19.98)	(15.50)	(2.00)	0.31	2.49	18.02	10.72	7.29	(3.13)	(5.31)	8.99	21.82	13.19	8.16
Import growth	(11.77)	(15.90)	5.16	(2.94)	2.85	11.63	8.30	4.22	(1.59)	(7.17)	5.55	21.85	11.01	7.41
Inflation	2.93	2.40	3.17	3.39	3.18	2.98	2.23	2.79	3.53	3.57	2.66	3.53	3.54	2.79
VND/USD	23,309	23,282	23,206	23,167	23,175	23,188	23,203	23,173	23,637	23,206	22,761	22,698	23,175	23,173
Credit growth	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	2.90	3.07	3.07	2.88	2.88	2.65	4.07	3.37	3.24	3.07	6.23	5.14	5.07	3.37



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