

Fixed-income Perspectives

November: Interbank rates and G-bond yields to pick up

Interbank rates to surge

Interbank rates slid to 2020's record lows over most tenors while the transaction scale significantly declined compared to September. The slowdown in total credit partly explains the tendency of interbank rates in recent months. Due to our argument about the relationship between credit growth and interbank rates, recent movements of the interbank market, and the seasonality, we predict the ON rate to surge to 0.92% in November 2020.

Yields to rebound from historic lows

In October, demand for G-bonds decelerated markedly in the primary market under a current low-yield environment. Opposite to a slowdown in the primary market, trading activity in the secondary market accelerated to a 7-month high. Looking forward to November and December, in the scenario that lending activity picks up, we expect short-term (3-month to 2-year) and mid-term (3-year to 7-year) yields would jump up first and fast as those yields are staying at historically low levels and more sensitive to the banking liquidity.

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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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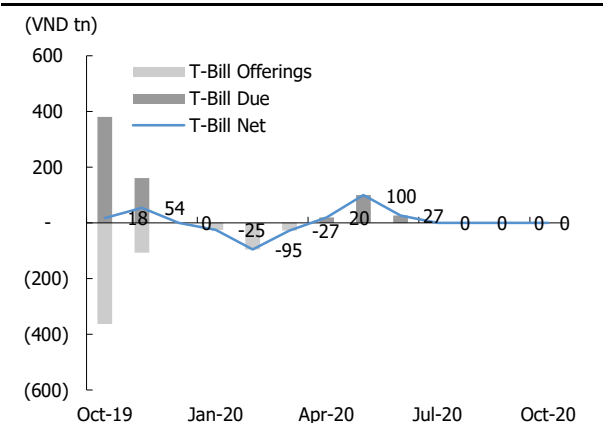
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I. OMO to excite

OMO remains silent

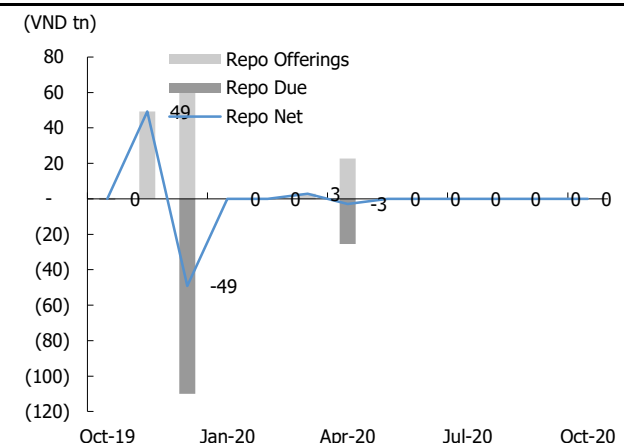
October witnessed the fourth consecutive month that SBV used neither the repo contract nor T-bill issuance for intervening in the reserve market. There are several reasons for and implications of SBV's current arrangements. First, the current development in the first lending market did not put any pressure 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



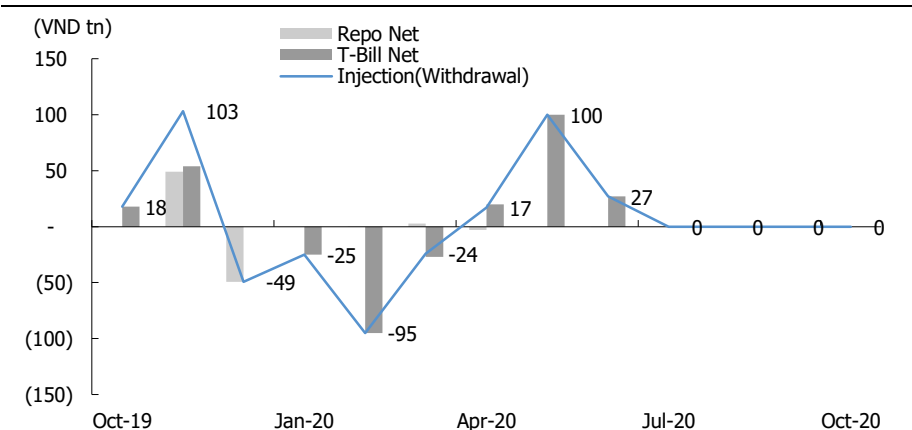
Source: Bloomberg, SBV, KIS

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 is expected to accelerate in the 2020-late and likely prompt the money market operations.

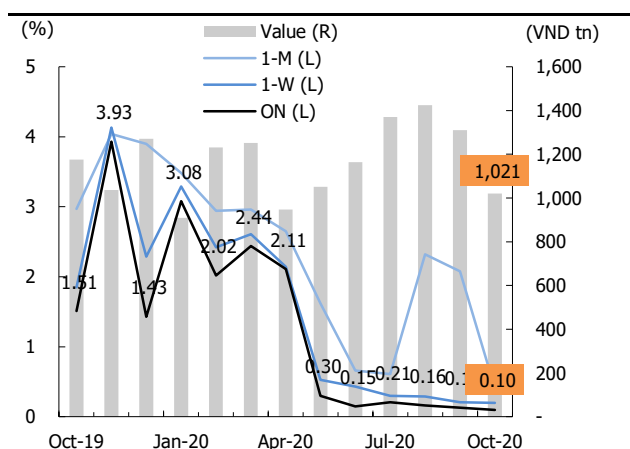
II. Interbank rates to surge

Interbank rates slid to 2020's record lows over most tenors while the transaction scale significantly declined compared to September. 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 slow the interbank borrowing demand.

Specifically, most of interbank rates witnessed reductions in this month except for 2-week rate. The overnight rate (ON) declined to 0.10%, 3bps-lower than previous month, while the 1-week, 1-month, 3-month, 6-month, and 9-month post 0.20%, 0.41%, 1.23%, 3.77%, and 3.38%, being 1bps, 167bps, 43bps, 78bps, and 104bps –lower than September, respectively. On the opposite, 2-week rate slightly rose by 1bps to 0.27%.

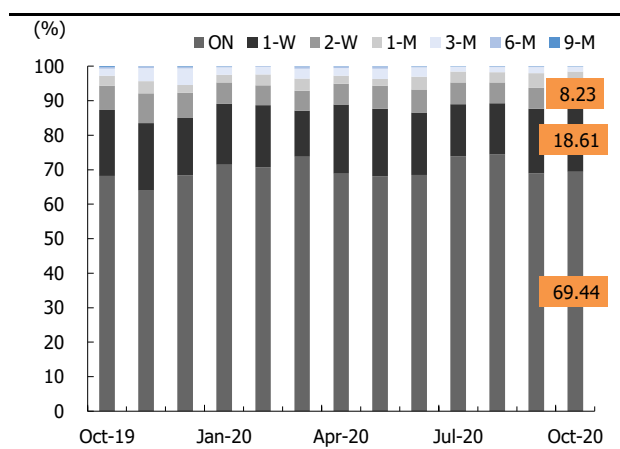
The total trading value deteriorated as tumbling by 22.05% MoM to post VND1,021tn and consequently marked the second reduction after a rising series of four months. By trading structure, transactions paid more attention on overnight loans as its trading share increased to 69.44% from 68.99%. Furthermore, trading portions of 1-week, 2-week, 1-month, 3-month, 6-month, and 9-month were 18.61%, 8.23%, 2.19%, 1.36%, 0.14%, and 0.02%, respectively. Compared to previous month, transactions tended to flow more into shorter-term loans.

Figure 4. Interbank transaction



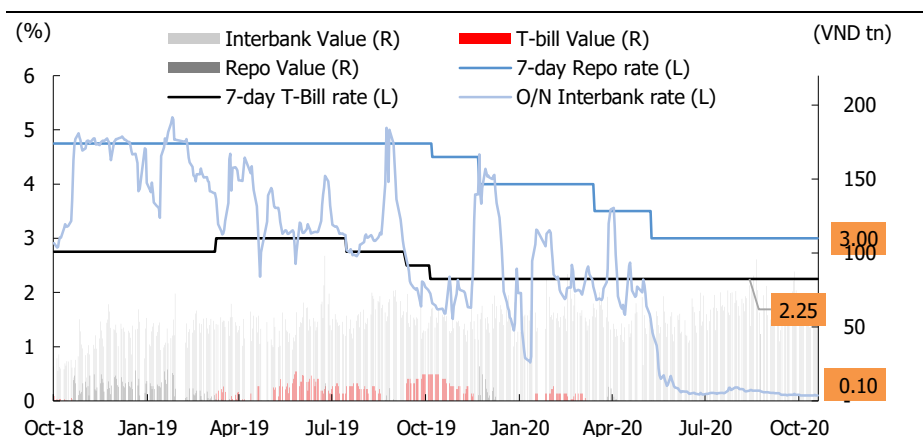
Source: Bloomberg, SBV, KIS

Figure 5. Interbank value by tenors



Source: Bloomberg, SBV, KIS

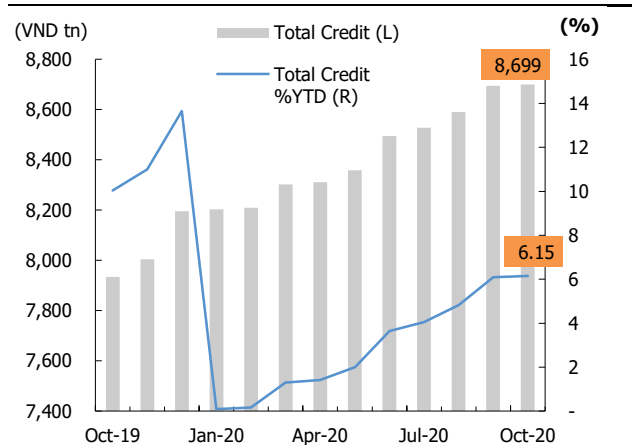
Figure 6. Daily 7-day T-bill, repo and interbank rates



Source: Bloomberg, SBV, KIS

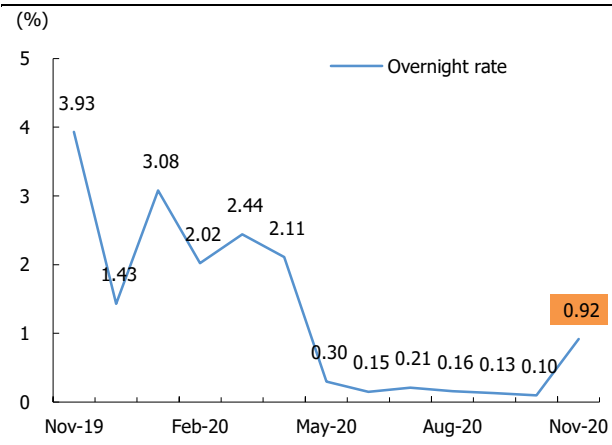
In association with OMO, it seemed that the interest rate corridor was no longer be effective in this period. In other words, it showed clearly that the SBV intended to maintain the interbank rates below the lower bound (which is 7-day T-bill rate). In the context of low interest, it is likely take time to shape a new interest rate corridor.

Figure 7. Total outstanding loans and credit growth



Source: Bloomberg, SBV, KIS

Figure 8. Overnight interbank rate forecast



Source: Bloomberg, SBV, KIS

PREDICTION:

According to our argument about the relationship between credit growth and interbank rates, recent movements of interbank market, and the seasonality, we predict the ON rate to surge to 0.92% in November 2020.

III. Yields to rebound from historic lows

Bidding activity slowed down as yields dropped further

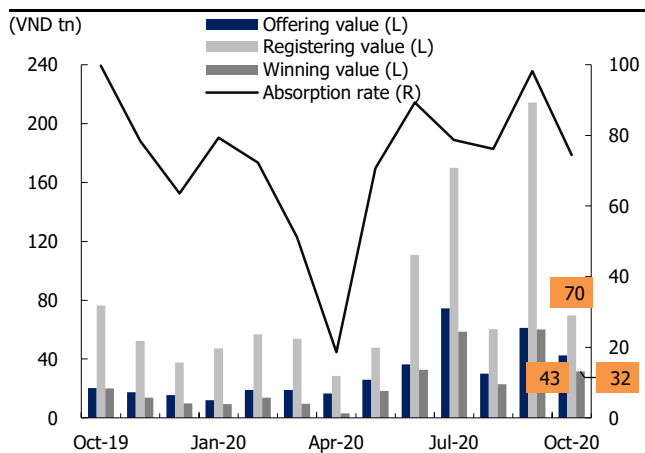
Demand for G-bonds decelerated markedly in the primary market under a current low-yield environment. Specifically, VND42.5tn was being offered in a total of 15 bidding sessions, reducing by 30.61% MoM. On the demand side, the bidding value plunged at a faster pace with only VND69.61tn in total, down by 67.53% MoM. The overall absorption rate also decelerated to a 5-month low of 74.45% as just VND31.64tn was successfully issued, down by 47.39% MoM.

Regarding issuing value by tenor, long-term G-bonds, including 10-year, 15-year, 20-year, and 30-year tenors, accounted for 96.05% of total issuance, about 10.81%, 56.33%, 16.64%, and 12.26%, respectively. The proportions of 5-year and 7-year G-bonds were insignificant, about 3.16% and 0.79%, respectively.

Most notably, G-bond yields reduced significantly across all tenors by 24 bps – 30 bps. More specifically, average G-bond yields with 5-year, 7-year, 10-year, 15-year, 20-year, and 30-year tenors posted 1.22% (-29.5 bps), 1.55%, 2.53% (-29.5 bps), 2.71% (-30.5 bps), 3.02% (-29 bps), and 3.25% (-24 bps), respectively.

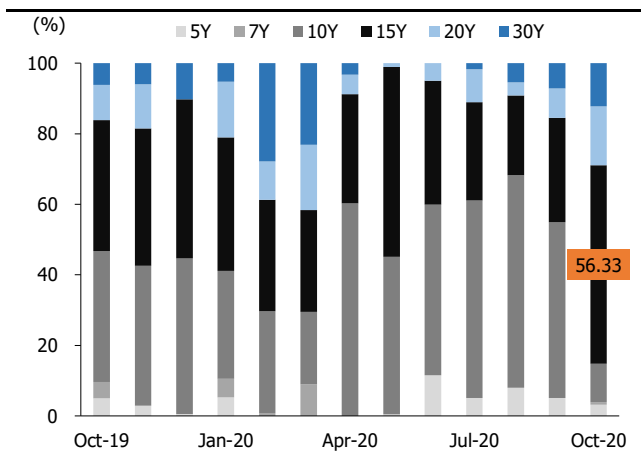
It seemed to be that the current low yields no longer remained as attractive as in the previous months, especially the absorption rates for mid-term 5-year and 7-year G-bonds recorded very low, at just 50% and 13%, respectively.

Figure 9. Government bond issuance



Source: HNX, KIS

Figure 10. Issuing value by tenor



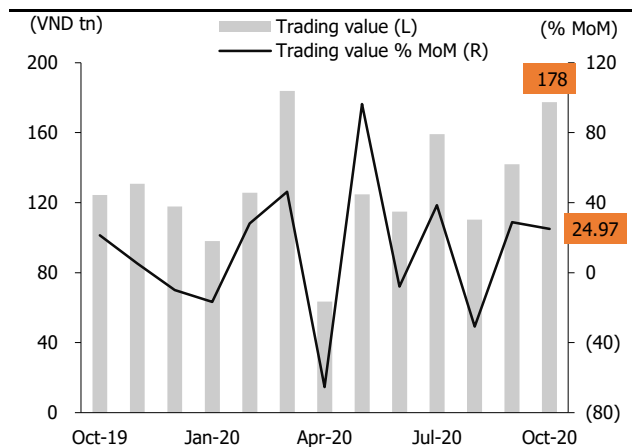
Source: HNX, KIS

Trading activity accelerated to a 7-month high

Opposite to a slowdown in the primary market, trading activity in the secondary market accelerated to a 7-month high of VND178tn, primarily concentrated on long-term 10-year and 15-year G-bonds with 40.48% (VND71.85tn) and 20.80% of the total (VND36.92tn), respectively. Trading shares of other tenors, including 2-year, 3-year, 5-year, and 7-year, declined, recording 0.36% (VND0.64tn), 0.30% (VND0.53tn), 11.66% (20.70%), and 3.84% of total (VND6.81tn), respectively.

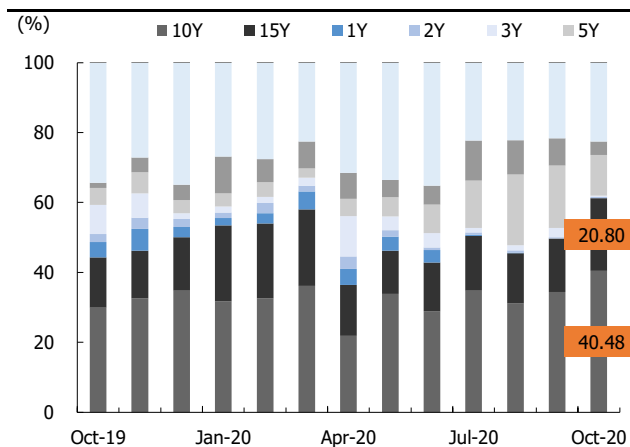
With a significantly high demand for long-term 10-year and 15-year G-bonds, the corresponding yields dropped sharply by 41.87 bps and 39.45 bps to 2.23% and 2.86%. 7-year and 20-year yields were also down significantly by 22.21 bps and 20.24 bps to 1.75% and 3.28%. 3-month and 6-month yields dropped by 17.86 bps and 7.79 bps to 0.39% and 0.44%, staying close to all-time low levels. Meanwhile, after plunging in September to even lower than shorter-term yields, 1-year, 2-year, and 3-year yields bounced back by 6.90 bps, 19.94 bps, and 19.10 bps to 0.56%, 0.78%, and 0.99%, respectively. 5-year yield remained unchanged at 1.39%.

Figure 11. Trading value



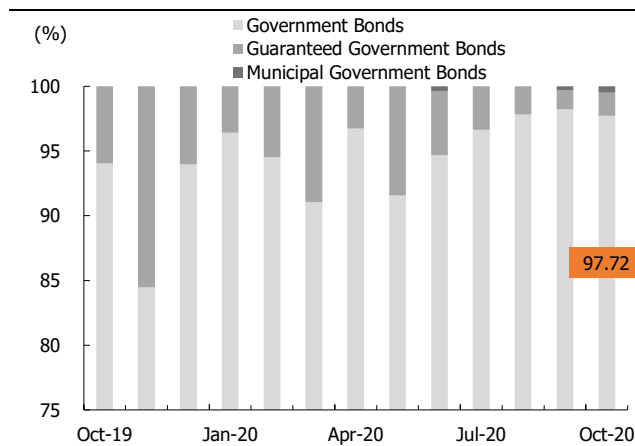
Source: Bloomberg, KIS, HNX

Figure 12. Trading value by tenor



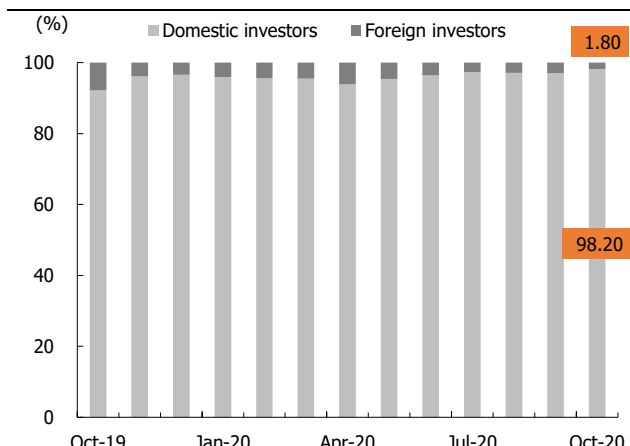
Source: Bloomberg, KIS, HNX

Figure 13. Trading value by bond types



Source: Bloomberg, KIS, HNX

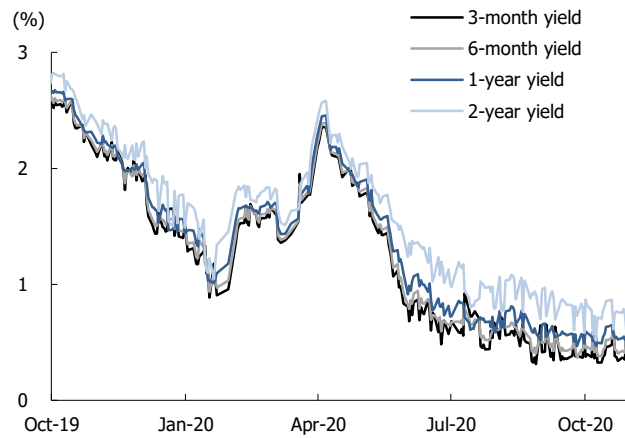
Figure 14. Trading value by investor



Source: Bloomberg, KIS, HNX

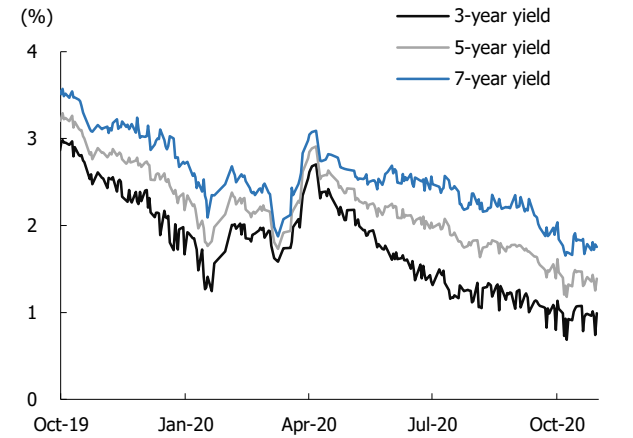
By bond type, government bonds were mostly being traded as their share made up 97.72% of the total trading value (VND173.47tn), the rest were from government-guaranteed bonds (VND3.15tn; 1.77%) and municipal government bonds (VND0.89tn; 0.50%). By investor type, domestic investors accounted for 98.20%, and foreign investors made up the remaining 1.80%.

Figure 15. Short-term yields



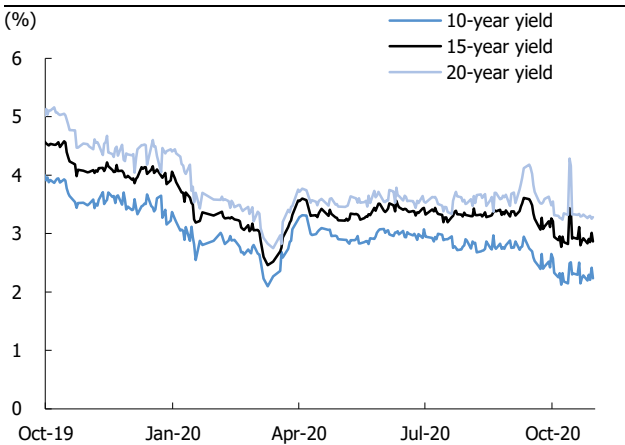
Source: Bloomberg, KIS, HNX

Figure 16. Mid-term yields



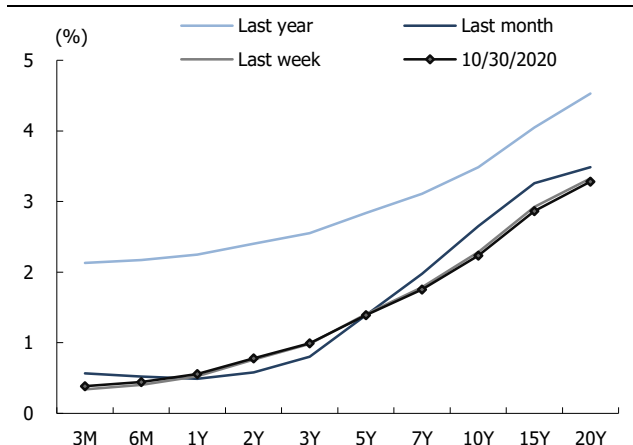
Source: Bloomberg, KIS, HNX

Figure 17. Long-term yields



Source: Bloomberg, KIS, HNX

Figure 18. G-bond yield curve



Source: Bloomberg, KIS, HNX

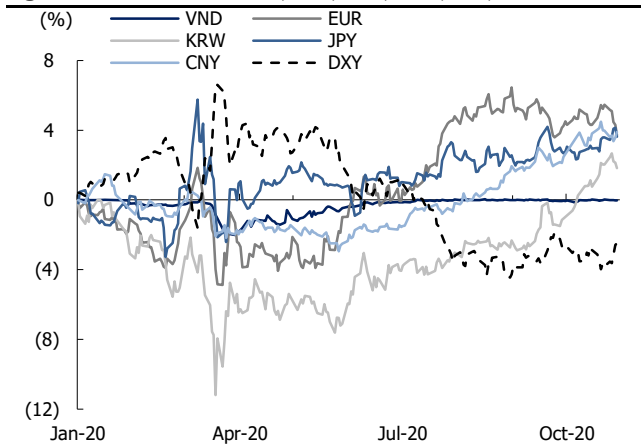
PREDICTION:

We expect the credit growth in November and December would accelerate as the economic activity tends to speed up in the last quarter. Thus, in the scenario that lending activity picking up, we expect short-term (3-month to 2-year) and mid-term (3-year to 7-year) yields would jump up first as those yields are staying at historically low levels and more sensitive to the banking liquidity. Long-term yields also face similar upward pressure but to a lesser extent.

IV. USD is strengthening under uncertainty

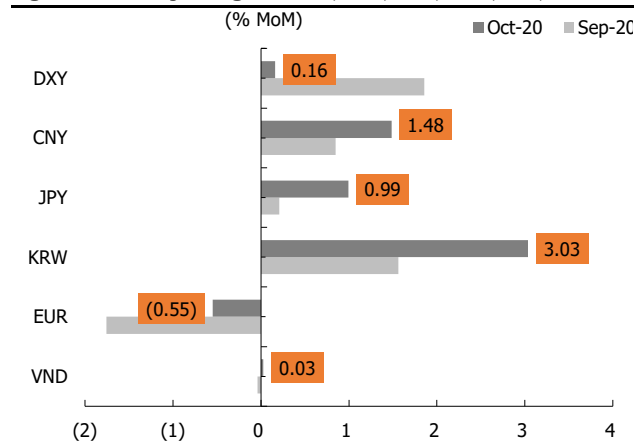
In October, USD continued to increase further but at a slow pace for the second month as the DXY index rose by 0.16% MoM. Interestingly, ASEAN currencies, including CNY, JPY, and especially KRW, appreciated strongly against the greenback by 1.48% MoM, 0.99% MoM, and 3.03% MoM, respectively, in which KRW and CNY recorded a 5-month straight increase of about 9.09% and 6.66% since the end of May. EUR continued to decline by 0.55% MoM under the subdued outlook for the European economy as the lockdown measure has been taken again by several countries to control the health crisis.

Figure 19. Movements of VND, USD, CNY, KRW, JPY, and EUR



Source: Bloomberg, KIS

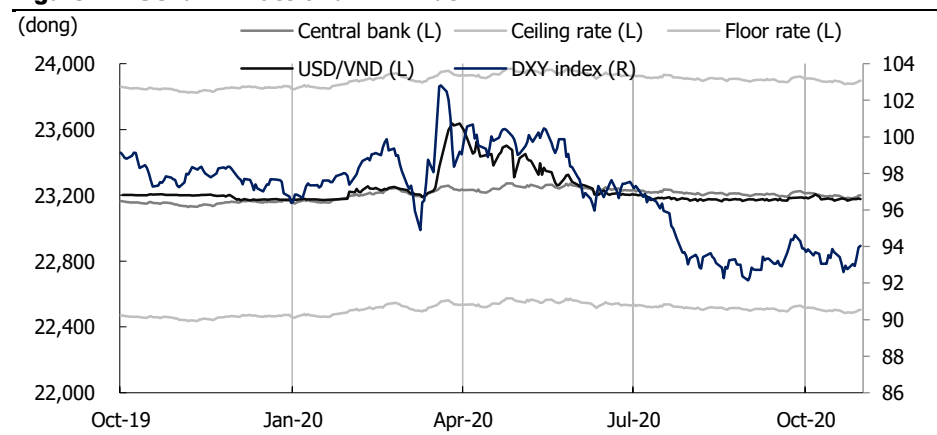
Figure 20. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR



Source: Bloomberg, KIS

Meanwhile, VND was nearly unchanged since May when it moved in a very tight range. By the end of October, VND was up about 0.03% MoM against USD, and the implied volatility in the month (standard deviation from its daily change) remained significantly low.

Figure 21. USD/VND rate and DXY index



Source: Bloomberg, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	4Q19	1Q20	2Q20	3Q20	2016	2017	2018	2019
Real GDP growth		0.36			2.62		6.97	3.82	0.36	2.62	6.21	6.81	7.08	7.03
Registered FDI	1.55	1.79	3.15	0.72	1.67	2.27	11.86	8.55	7.12	5.54	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	18.50	21.00	23.00	27.70	27.16	26.70	69.61	63.52	59.33	79.74	176.6	215.1	243.5	263.6
Import	19.40	20.50	22.00	22.72	24.20	24.50	66.02	59.69	57.41	69.02	175.0	213.2	236.7	254.4
Export growth	(15.50)	(2.00)	0.31	2.49	18.02	9.91	8.52	7.99	(6.82)	10.61	8.99	21.82	13.19	8.16
Import growth	(15.90)	5.16	(2.94)	2.85	11.63	10.05	3.45	4.06	(9.46)	3.74	5.55	21.85	11.01	7.41
Inflation	2.40	3.17	3.39	3.18	2.98	2.47	2.79	3.53	3.57	3.81	2.66	3.53	3.54	2.79
USD/VND	23,282	23,206	23,167	23,175	23,188	23,181	23,173	23,637	23,206	23,188	22,761	22,698	23,175	23,173
Credit growth	1.20	3.26	4.05	4.16	6.10		13.70	0.68	2.80	26.10	18.25	18.24	13.89	13.70
10Y gov't bond	3.07	3.07	2.88	2.88	2.52	2.21	3.37	3.24	3.07	2.52	6.23	5.14	5.07	3.37

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