

Fixed-income Perspectives

Super low-rate environment may reverse soon

Interbank rates to rise

In November, short-term interbank rates such as overnight, one-week, two-week surrounded their previous lows while other longer-term rates such as one-month, three-month recorded rebounds compared to October. We argue that the loan market's recent progress remains short-term rates low, while rebounds in longer-term rates seem to reflect the expected excitement in 2020-end. We model the relationship between credit growth and interbank rates, recent interbank market movements, and seasonality, and predict the ON rate to surge to 0.80% in December 2020.

Low bond yields to come to an end

November data from the G-bond auctions showed that investors found less interest in G-bonds, especially with a maturity of less than 10 years, when yields remained at historic low levels. As credit growth starts accelerating in November, we remain our view that liquidity of the banking system would not be as easing as before, then it would put more upward pressure on the G-bond yields in December and January.

VND to jump up from recent USD sell-off

A recent USD sell-off in November put massive upward pressure on other currencies, including VND. A notable increase in the month may give an early signal that VND would be adjusted more upward in the case that USD continues to depreciate and USD supply remains more and more abundant.

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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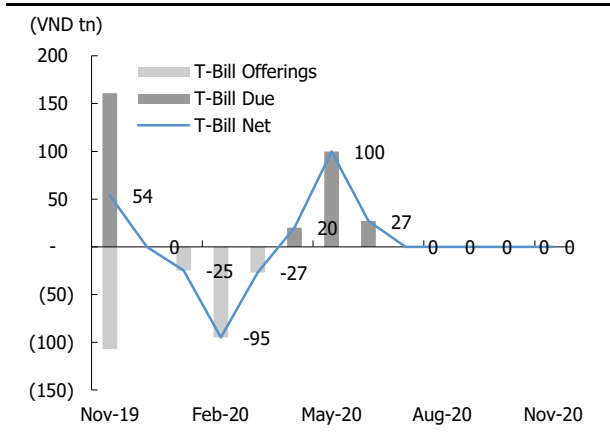
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I. OMO to move

OMO remains silent

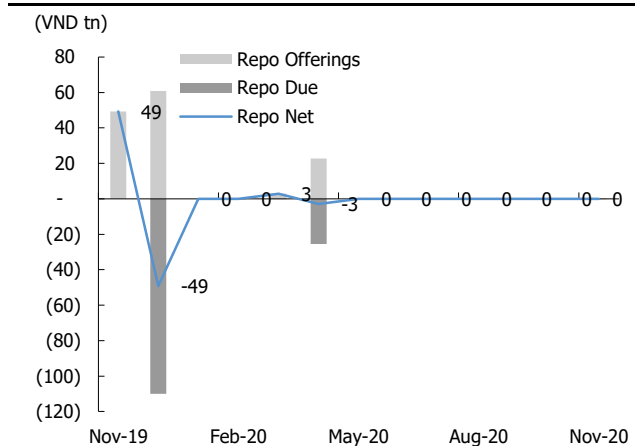
SBV continued balancing the reserve market liquidity when it used neither the repo contract nor T-bill issuance for intervening in the money market. There are several reasons for and implications of SBV's current arrangements. First, there is no upward pressure on yield and liquidity availability in the interbank market due to the current sluggishness in the first lending 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, the inflation rate was under control over recent months and allows the authority to ease their measures for stabilizing the overall price. Therefore, the issuance of T-bill to intentionally pull the interbank rate up was redundant.

Figure 1. T-bill transaction



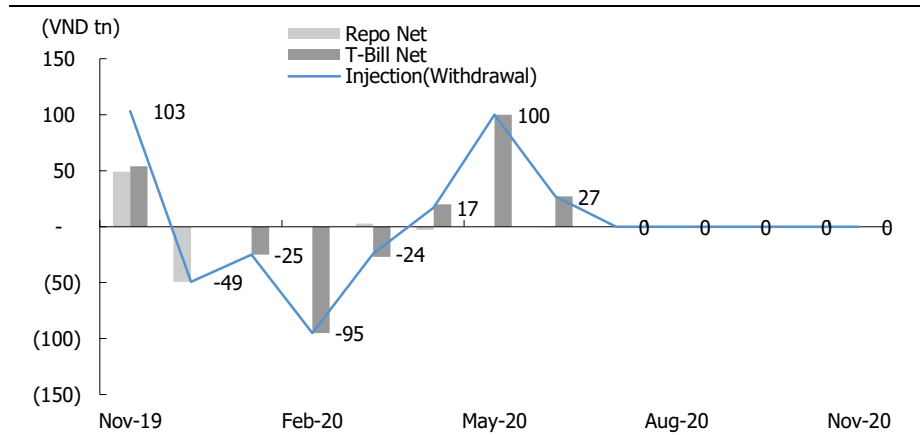
Source: Bloomberg, SBV, KIS

Figure 2. Repo transaction



Source: Bloomberg, SBV, KIS

Figure 3. Net Injection/Withdrawal



Source: Bloomberg, SBV, KIS

PREDICTION:

We expect the credit growth to accelerate in the December and likely prompt the money market operations.

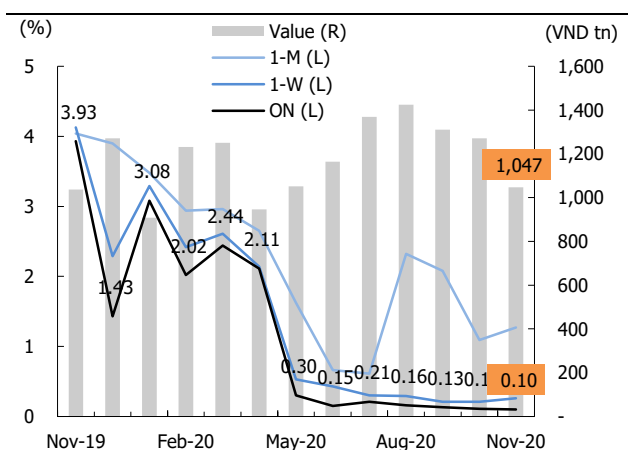
II. Interbank rates to rise

In November, short-term rates such as overnight, one-week, two-week surrounded their previous lows while other longer-term rates such as one-month, three-month recorded rebounds compared to October. We argue that the current sluggishness in the first lending market remains short-term rates low, while rebounds in longer-term rates seem to reflect the expected excitement in 2020-end.

Specifically, short-term rates slightly changed compared to October lows. The overnight rate (ON) declined to 0.10%, 1bps-lower than the previous month, while 1-week and 2-week posted 0.26% and 0.22%, being both 5bps-lower than October. On the other hand, longer-term rates generally rebounded from the recent bottoms. The one-month, three-month, and six-month rose by 18-, 63-, and 98-bps to post 1.27%, 2.41%, and 3.83%.

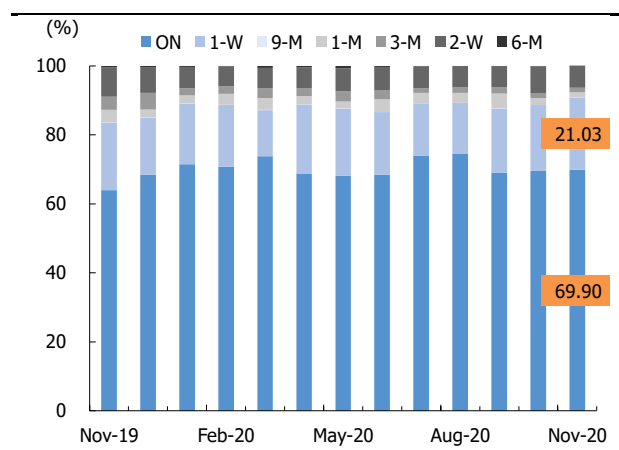
The total trading value recorded one more reduction this month as declining by 17.57% MoM to post VND1,047.27tn and consequently marked the third consecutive decrease after a rising series of four months. By trading structure, transactions focused more weight on short-term loans such as overnight, one-week, and two-week as their trading shares increased to 69.90% and 21.03% from 69.53% and 19.09%, respectively. On contrary, trading portions of 2-week, 1-month, 3-month, 6-month, and 9-month declined to 6.29%, 1.46%, 1.27%, 0.04%, and 0.01%, respectively. Compared to the previous month, transactions tended to flow more into shorter-term loans.

Figure 4. Interbank transaction



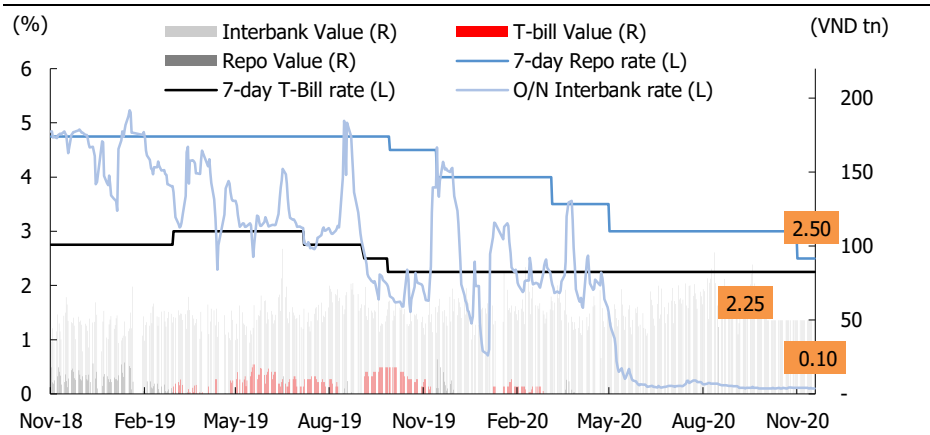
Source: Bloomberg, SBV, KIS

Figure 5. Interbank value by tenors



Source: Bloomberg, SBV, KIS

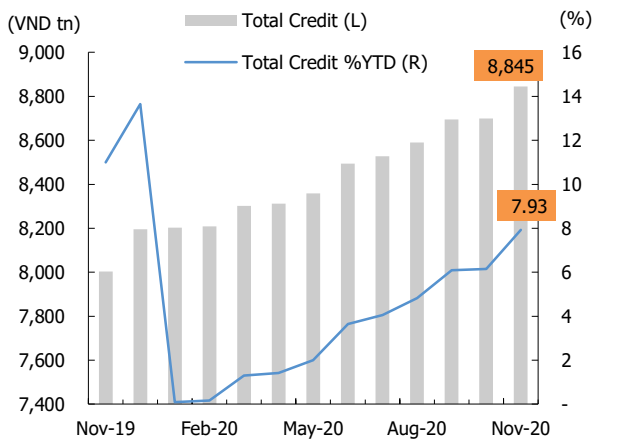
Figure 6. Daily 7-day T-bill, repo and interbank rates



Source: Bloomberg, SBV, KIS

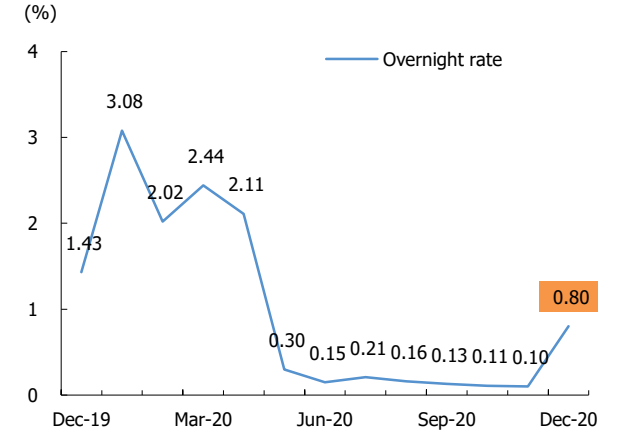
In association with OMO, it seemed that the interest rate corridor was no longer be effective in this period. In other words, it showed clearly that the SBV intended to maintain the interbank rates below the lower bound (which is 7-day T-bill rate). In the context of low interest, it is likely take time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

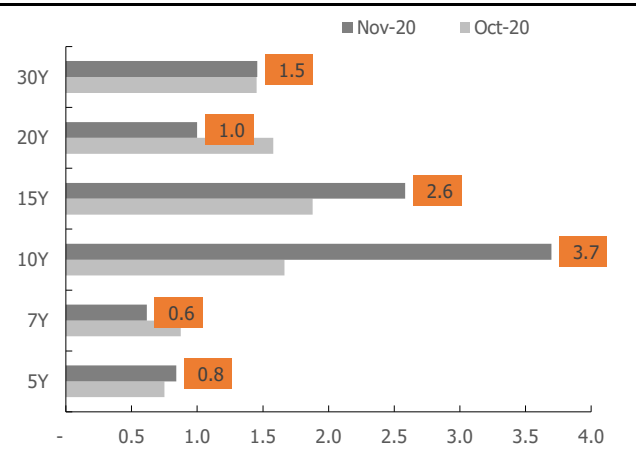
According to our argument about the relationship between credit growth and interbank rates, recent movements of interbank market, and the seasonality, we predict the ON rate to surge to 0.80% in December 2020.

III. Low bond yields to come to an end

Demand for mid-term G-bonds plunged down

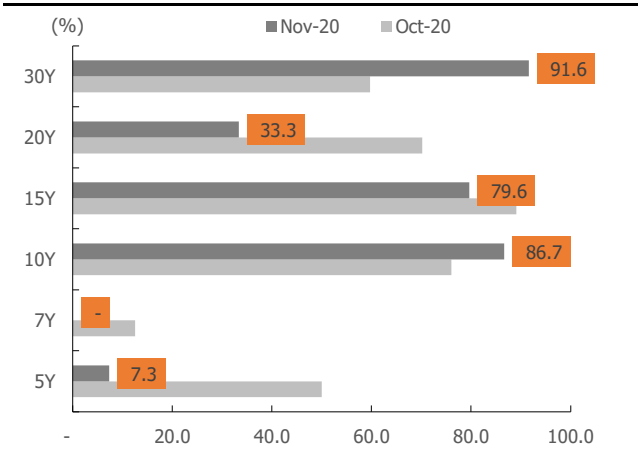
In November, data showed that investors found less interest in mid-term G-bonds (less than 10 years of maturity) when their yields remained at historic low levels. On the contrary, liquidity continued to flow to longer-term G-bonds (from 10-year to 30-year) as the bidding value and the absorption ratios for those G-bonds were high.

Figure 9. Bid-to-offer ratio



Source: HNX, KIS
Bid-to-offer ratio: Bidding value over offering value

Figure 10. Absorption ratio

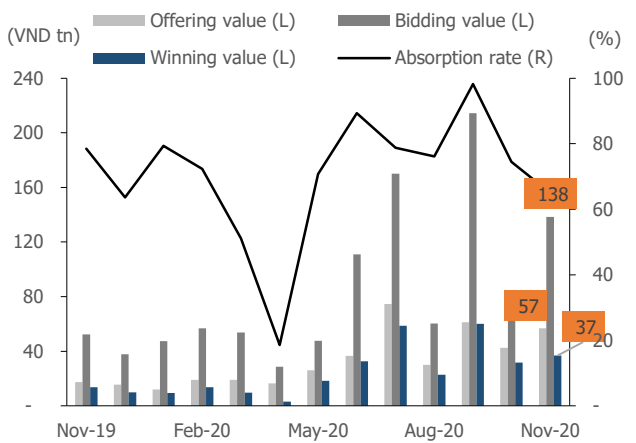


Source: HNX, KIS
Absorption ratio: Issuing value over offering value

More specifically, there was VND56.75tn offered throughout a total of 26 bidding sessions, increasing by 33.53% MoM. The bidding value recorded for all terms was also at a high of VND138.35tn, up by 98.73% compared to October. However, only VND36.90tn was successfully issued by month-end as 5-year and 7-year G-bond bidding failed with just VND440bn issued over VND12tn offered. As a result, the absorption rate recorded a 7-month low of just 65.02%.

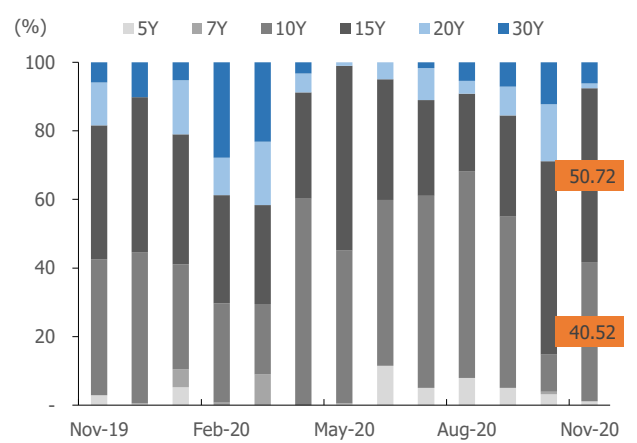
Besides, 5-year, 10-year, 15-year, 20-year, and 25-year average winning yields recorded at 1.22%, 2.52%, 2.75%, 3.04%, and 3.24%, respectively, unchanged from October.

Figure 11. Government bond issuance



Source: HNX, KIS

Figure 12. Issuing value by tenor



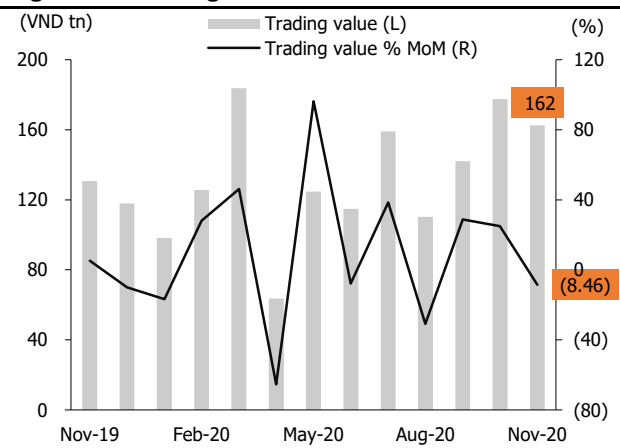
Source: HNX, KIS

Regarding issuing value by tenor, 10-year and 15-year G-bonds accounted for 91.25% of total issuance or 40.52% and 50.72% by each, respectively. 30-year G-bond made up another 6.21% share, while shares of 5-year and 20-year G-bonds remained insignificant, at 1.19% and 1.36% of the total, respectively.

G-bonds remained attractive in the secondary market

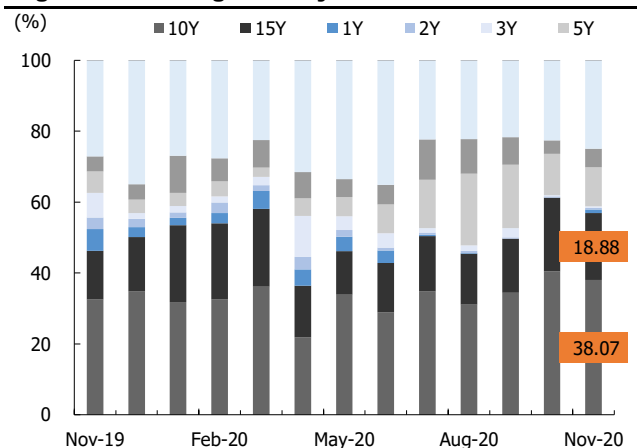
The G-bond secondary market continued to be exciting as the trading value reached the second-highest of VND162tn since March, although slowing down moderately by 8.46% MoM. Long-term G-bonds, including 10-year and 15-year, were being traded the most with 38.07% of the total (VND61.87tn) and 18.88% of the total (VND30.67tn), respectively. Mid-term G-bonds with 5-year and 7-year tenors accounted for 11.02% (VND17.91tn) and 5.24% (VND8.52tn) of the total, while short-term 1-year, 2-year, and 3-year G-bonds made up a very small part, of 0.99%, 0.45%, and 0.38% of the total, respectively.

Figure 13. Trading value



Source: Bloomberg, KIS, HNX

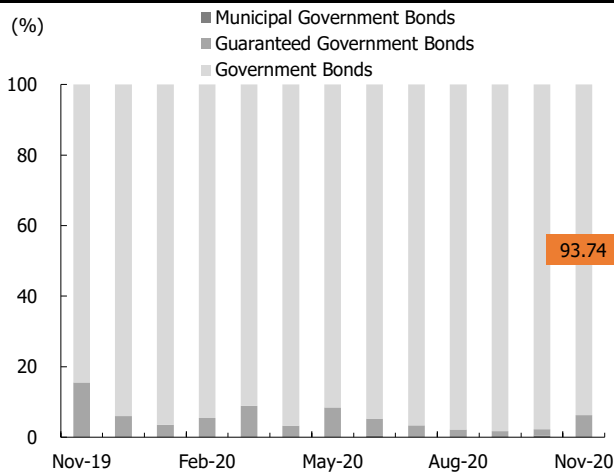
Figure 14. Trading value by tenor



Source: Bloomberg, KIS, HNX

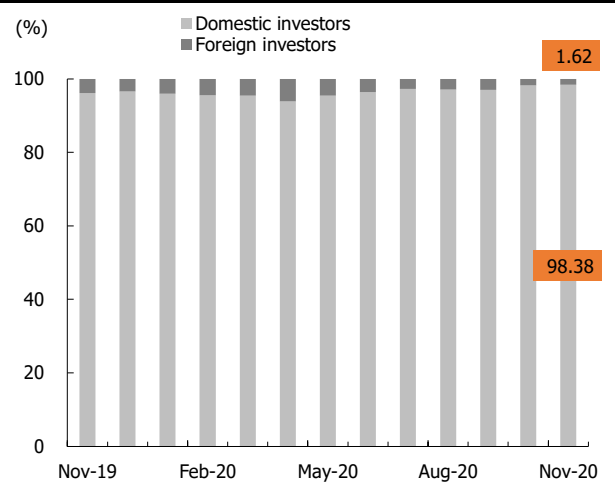
By bond type, government bonds were mostly traded when accounting for about 93.74% of the total trading value (VND152.33tn), the rest were from government-guaranteed bonds (VND10.17tn; 6.26%). By investor type, domestic investors accounted for 98.38%, and foreign investors made up the remaining 1.62%.

Figure 15. Trading value by bond types



Source: Bloomberg, KIS, HNX

Figure 16. Trading value by investor

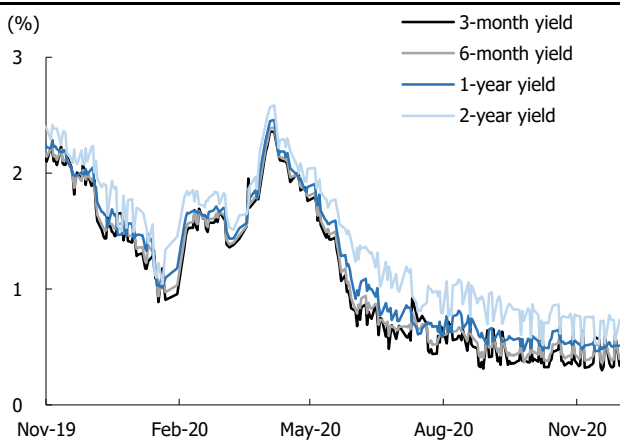


Source: Bloomberg, KIS, HNX

Downward pressure on yields was getting limited

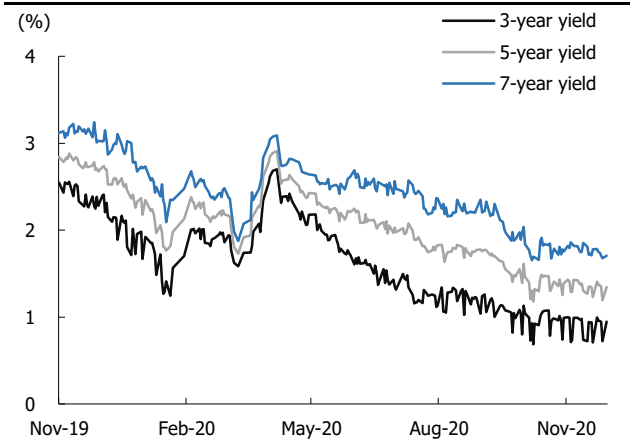
Based on the G-bond yield curve, it is clear that the G-bond yields were considerably stable throughout the month. In other words, the downward momentum was getting limited as yields for almost tenors remained at historically low levels. More specifically, short-term yields, including 3-month, 6-month, 1-year, and 2-year remaining maturity, dropped slightly by 4.8 bps, 4.8 bps, and 4.7 bps to 0.34%, 0.40%, and 0.51%, respectively. Mid-term 3-year, 5-year, and 7-year were also lowered by 4.6 bps, 4.5 bps, and 4.6 bps to 0.95%, 1.34%, and 1.71%, respectively. Similarly, long-term 10-year, 15-year, and 20-year G-bond yields went down marginally by 5.3 bps, 6.0 bps, and 5.9 bps to 2.18%, 2.80%, and 3.22%, respectively.

Figure 17. Short-term yields



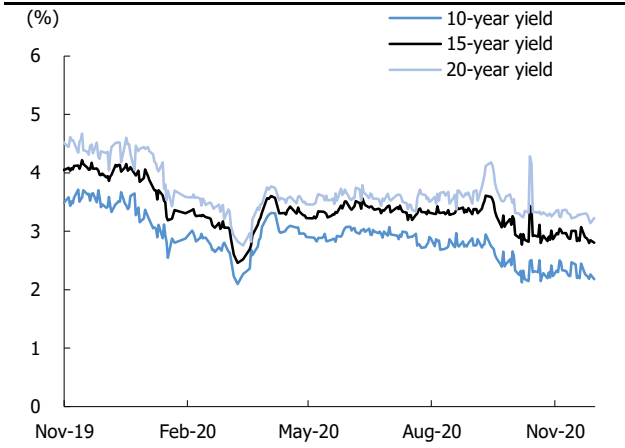
Source: Bloomberg, KIS, HNX

Figure 18. Mid-term yields



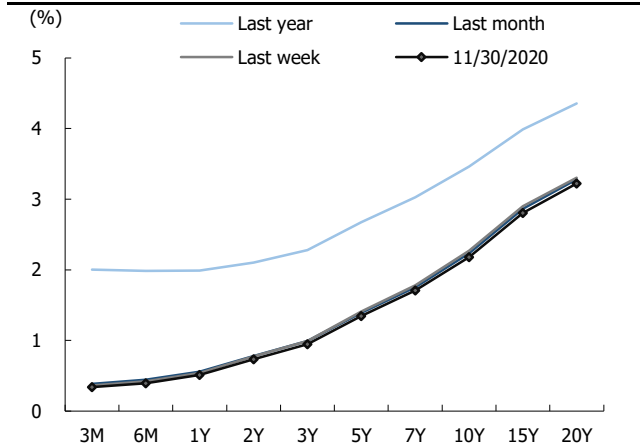
Source: Bloomberg, KIS, HNX

Figure 19. Long-term yields



Source: Bloomberg, KIS, HNX

Figure 20. G-bond yield curve



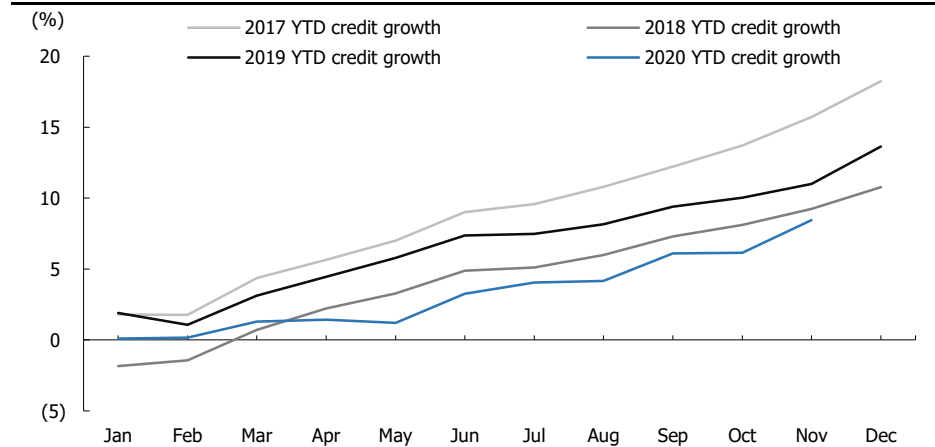
Source: Bloomberg, KIS, HNX

PREDICTION:

As expected earlier, November and December would see the credit growth jumping up thanks to high season economic activity. Only during November, credit growth accelerated by 2.31% from 6.15% YTD in October to 8.46% YTD, which was the highest pace since November 2019. To be linked with weak demand in the primary bond market, it may give an early signal that super low-yield environment may not last long in the near term.

We remain our view that liquidity of the banking system would not be as easing as before, then it would put more upward pressure on the G-bond yields in December and January.

Figure 21. Credit growth 2017-2020



Source: SBV, KIS

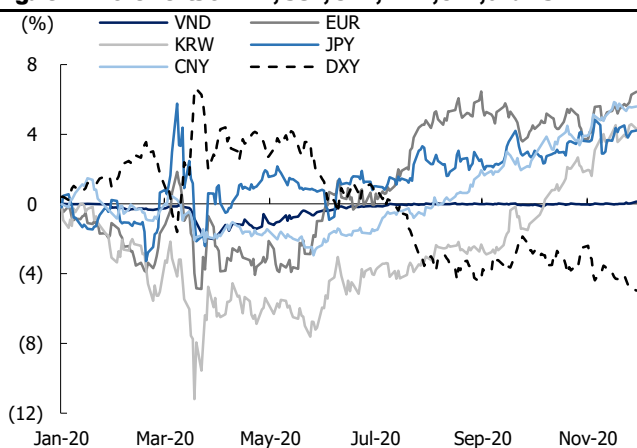
IV. VND to jump up from recent USD sell-off

Weak USD put pressure on other currencies

As the COVID-19 vaccine has soon come true globally, a safe-haven USD is no longer a haven place for global investors anymore. From a recent sell-off in November, USD saw the biggest drop of 2.36% MoM since July, erasing a two-month bounce back from September. Moreover, USD value, measured by the DXY index, plunged to a two-and-half-year low of 91.87 by end-November.

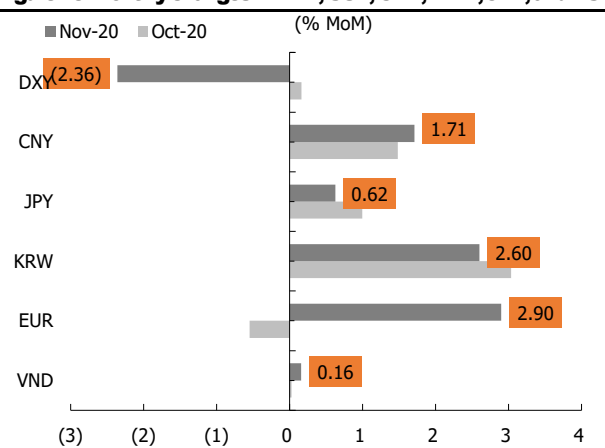
Under strong upward pressure from a weak USD environment, all currencies in our watchlist (our major trading partners) appreciated against the greenback to various extents. Notably, November witnessed the sixth-straight month increases of KRW and CNY against USD, up by 2.60% MoM and 1.71% MoM. A recent downward trend of EUR also ended with a strong upturn of 2.90% MoM. Besides, JPY was up by 0.62% MoM for the third consecutive month.

Figure 22. Movements of VND, USD, CNY, KRW, JPY, and EUR



Source: Bloomberg, KIS

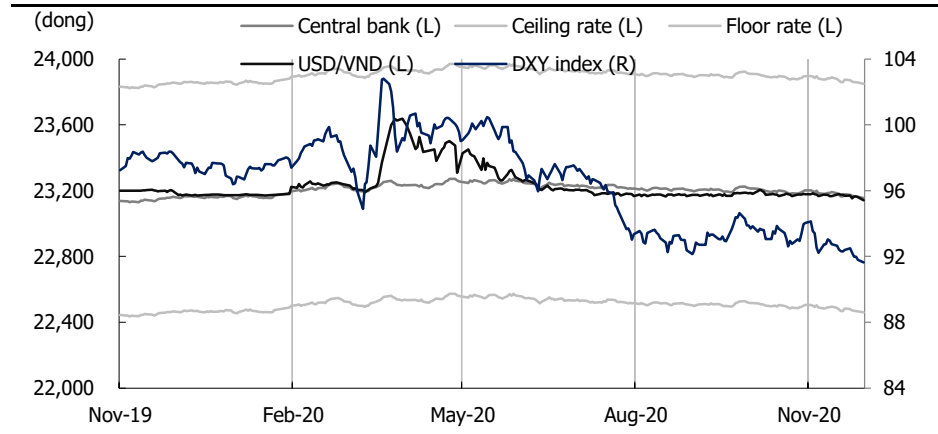
Figure 23. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR



Source: Bloomberg, KIS

Meanwhile, VND also reached the highest level since July 2018 under upward pressure from a weakening U.S. dollar, increasing by 0.16%. was eventually adjusted upward in the month under upward pressure from a weakening U.S. dollar, increasing moderately by 0.16% MoM. VND also reached the highest level since July 2018.

Figure 24. USD/VND rate and DXY index

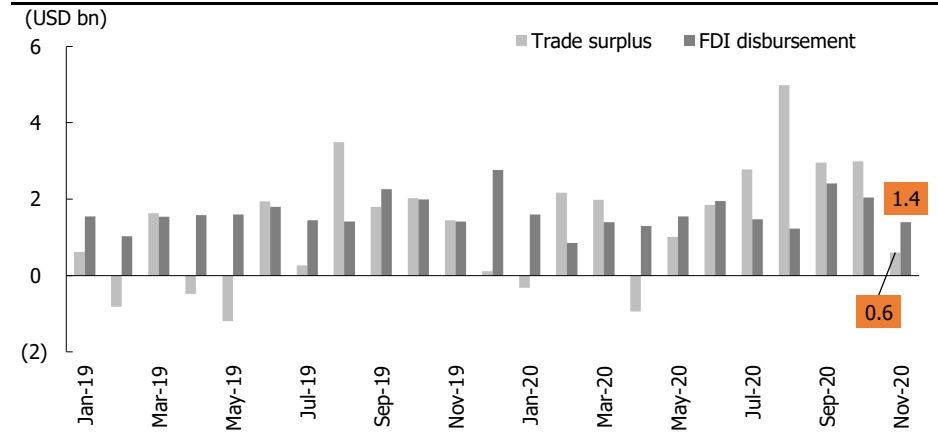


Source: Bloomberg, KIS

PREDICTION:

With unlimited demand for purchasing USD from SBV, VND remained highly stable for several months even under pressure from weak U.S. dollar and excess USD supply from foreign investment and a record trade surplus. However, a notable increase in the month may give an early signal that VND would be adjusted more upward in the case that USD continues to depreciate and USD supply remains more and more abundant.

Figure 25. Increasing USD supply in Vietnam FX market



Source: Bloomberg, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-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	1.79	3.15	0.72	1.67	2.27	2.92	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	21.00	23.00	27.70	27.16	27.26	24.80	69.61	63.52	59.33	79.74	176.6	215.1	243.5	263.6
Import	20.50	22.00	22.72	24.20	24.27	24.20	66.02	59.69	57.41	69.02	175.0	213.2	236.7	254.4
Export growth	(2.00)	0.31	2.49	18.02	12.22	8.81	8.52	7.99	(6.82)	10.61	8.99	21.82	13.19	8.16
Import growth	5.16	(2.94)	2.85	11.63	9.00	13.38	3.45	4.06	(9.46)	3.74	5.55	21.85	11.01	7.41
Inflation	3.17	3.39	3.18	2.98	2.47	1.48	2.79	3.53	3.57	3.81	2.66	3.53	3.54	2.79
USD/VND	23,206	23,167	23,175	23,188	23,181	23,141	23,173	23,637	23,206	23,188	22,761	22,698	23,175	23,173
Credit growth	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	2.88	2.88	2.52	2.21	2.26	3.37	3.24	3.07	2.52	6.23	5.14	5.07	3.37

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