

Fixed-income Perspectives

Short-term debt instruments to see greater upward pressure

Interbank rates to rise

In December, the interbank market witnessed divergence in moves of short-term (below one month) and longer-term (one month and above) rates as the former tended to rebound, while the latter declined to hit their new lows in 2020. The rebound in short-term rates is attributable to the natural lower bound as these rates stayed near to zero, while the reduction tendency in longer-term rates likely reflects market expectation about a loan market with a lack of demand from domestic consumption and investment in the future. Looking forward, due to recent movements of the interbank market and the seasonality, we predict the ON rate to rise in January 2020.

G-bond trading surges to record high

In December, G-bond trading value reached a new peak, while yields at most tenors set all-time lows. This showed a huge amount of money continued floating around the G-bond market without any signs of stopping. Looking ahead, a phenomenal bank-loan growth in December surely put massive upward pressure on short-term yields in January.

SBV to draw a lower-limit range for VND

Under a weakening USD environment, VND continued to set a new high since July 2018. From our forecast, a recent change from SBV's foreign exchange reserve management will set a lower limit range between 22,850 – 23,125 for the FX rate in six months ahead.

KIS leading economic index

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

	1Q20	2Q20	3Q20	4Q20F	2019	2020F	2021F
GDP	3.82	0.36	2.62	4.48	7.02	2.91	5.94
Trade balance	3.82	1.92	10.72	2.54	10.42	19.01	1.77
CPI	4.87	3.17	2.98	0.19	5.23	3.24	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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Y Nguyen

Y.nt@kisvn.vn

Tuan Doan

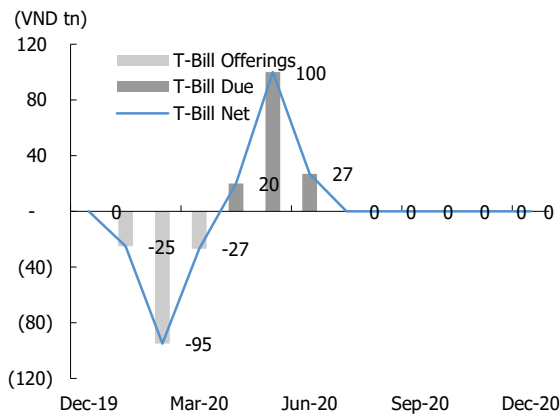
Tuan.doan@kisvn.vn

I. OMO sustains inactive

OMO remains silent

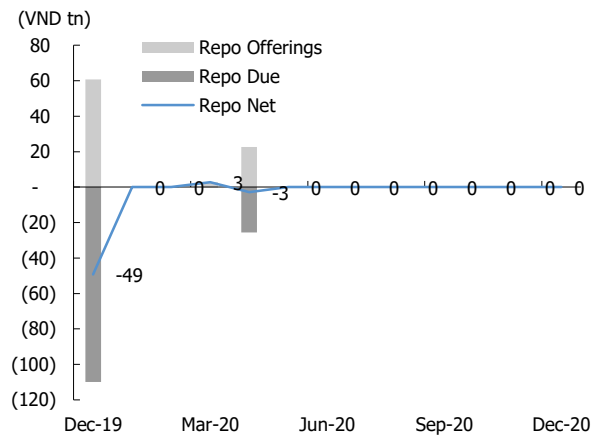
Money market witnessed one more month with lack of open market operations from SBV, marking the sixth month in the series starting from June 2020. The central bank continued holding their tools when it used neither the repo contract nor T-bill issuance for intervening in the money market. There are several reasons for and implications of SBV's current arrangements. First, lack of consumption and investment domestic demand discouraged activities in the first lending market and there is no significant upward pressure on reserve market. 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



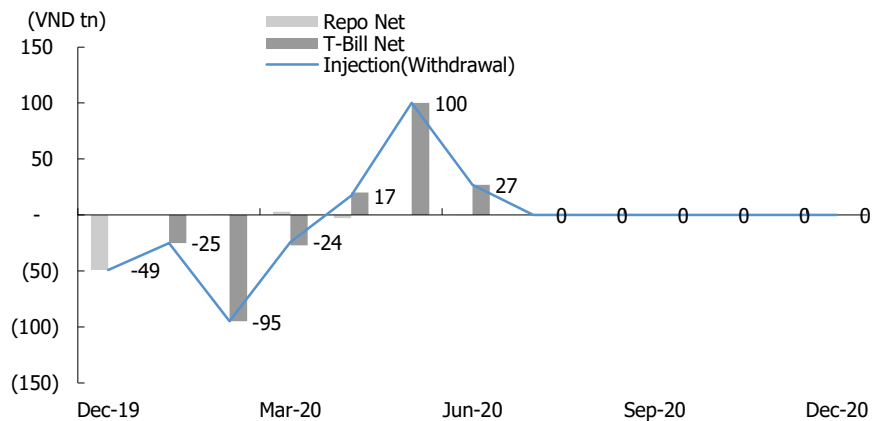
Source: Bloomberg, SBV, KIS

Figure 2. Repo transaction



Source: Bloomberg, SBV, KIS

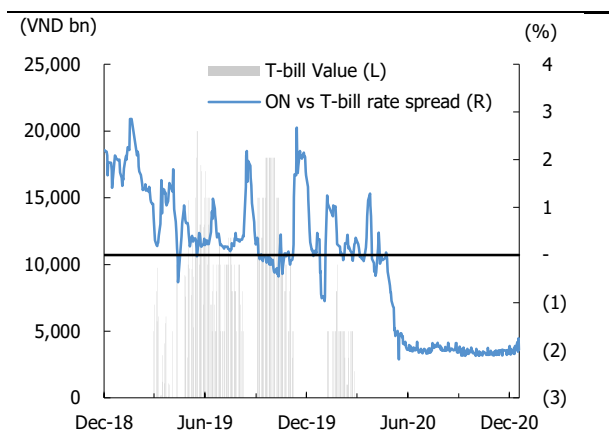
Figure 3. Net Injection/Withdrawal



Source: Bloomberg, SBV, KIS

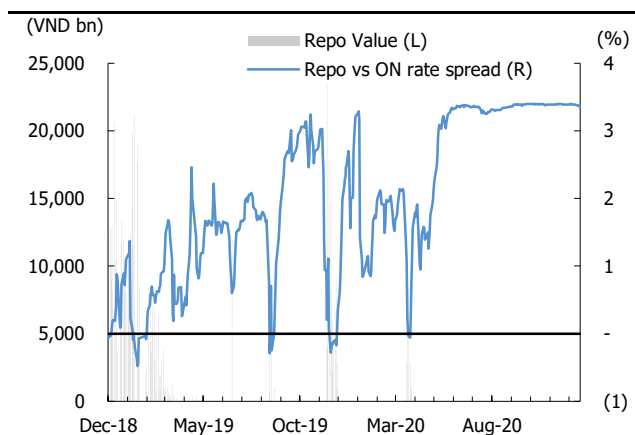
PREDICTION:

Figure 4. ON vs T-bill rate spread and T-bill issuance



Source: Bloomberg, SBV, KIS

Figure 5. Repo vs ON rate spread and repo issuance



Source: Bloomberg, SBV, KIS

Total outstanding loans accelerated significantly in recent month of 2020-end, indicating an upward momentum in first lending market in beginning of the next year. A strong growth in credit is likely to put upward pressure on reserve and hike interest rates. Hence, we predict OMO to be more active with repo contracts in the next months.

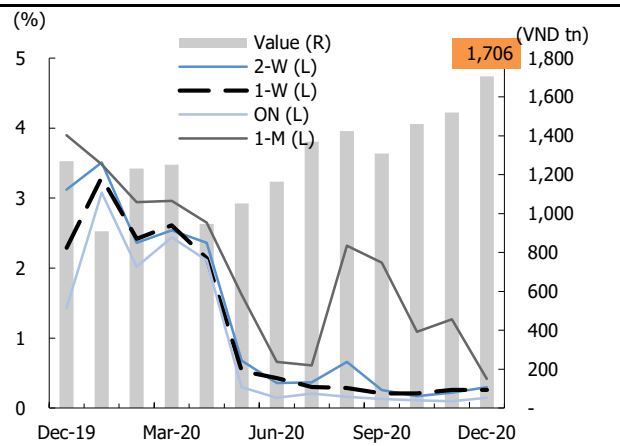
II. Interbank rates to rise

In December, interbank market witnessed divergence in moves of short-term (below 1 month) and longer-term (1-month and above) rates as the former tended to rebound, while the latter declined to hit their new lows in 2020. The rebound in short-term rates is attributable to the natural lower bound as these rates stayed near to zero, while the reduction tendency in longer-term rates likely reflects market expectation about a loan market with lack of demand from domestic consumption and investment in near future.

Specifically, short-term rates tended to rise compared to November as the overnight (ON) and 2-week rates rose to 0.15% and 0.30%, being 5bps- and 8bps-higher than the previous rates at November-end. On the other hand, longer-term rates generally declined from the end of previous month. The one-month, three-month, six-month, and nine-month declined by 85-, 8-, 39-, and 25-bps to post 0.42%, 2.33%, 3.44%, and 3.08% in December.

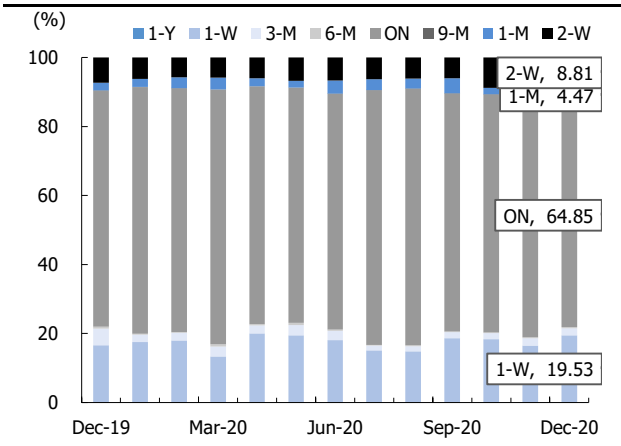
The total trading value recorded one more increase this month as reaching VND1,706.21tn, rising by 12.28% MoM and marked the fourth consecutive rising month. By trading structure, investors switched to trade more on 1-week, 2-week, and 1-month loans and less on ON one. In detail, trading shares of 1-week, 2-week, and 1-month increased to 19.53%, 8.81%, and 4.47% from 16.47%, 8.77%, and 2.14% in previous month, while share of ON declined considerably from 70.16% to 64.58%. Besides, trading portions of remainders changed trivially. Compared to the previous month, transactions tended to flow more into longer-term loans.

Figure 6. Interbank transaction



Source: Bloomberg, SBV, KIS

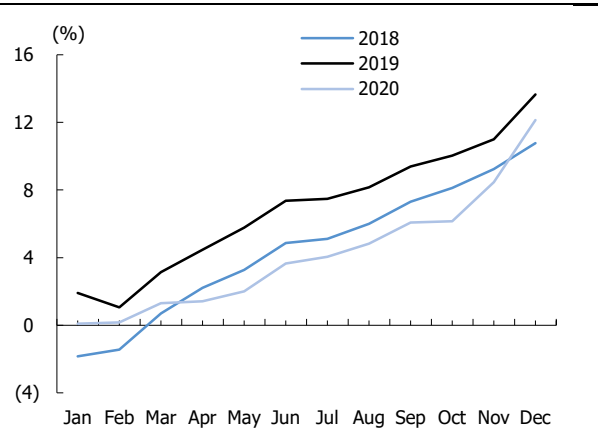
Figure 7. Interbank value by tenors



Source: Bloomberg, SBV, KIS

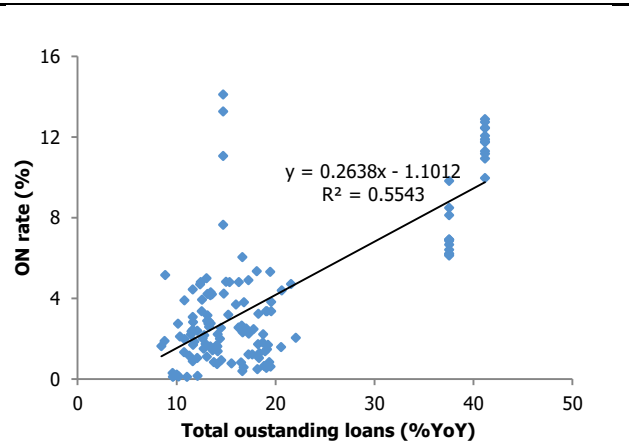
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Figure 8. Credit growth by month-of-year



Source: Bloomberg, SBV, KIS

Figure 9. ON rate and credit growth relationship



Source: Bloomberg, SBV, KIS

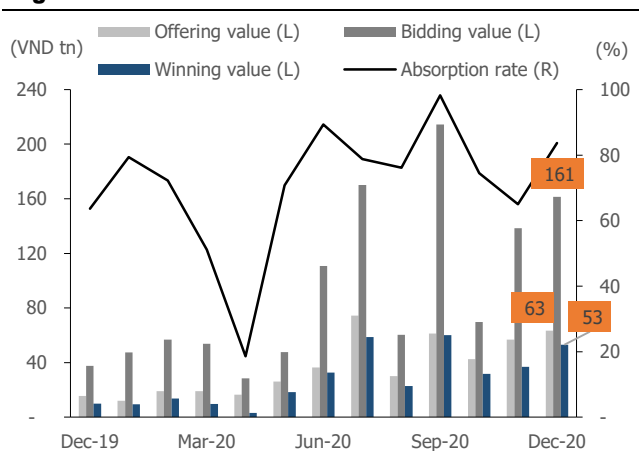
According to our argument about the relationship between credit growth and interbank rates, recent movements of interbank market, and the seasonality, we predict the ON rate to rise in January 2020.

III. G-bond trading surges to record high

Demand for long-term G-bonds increased markedly

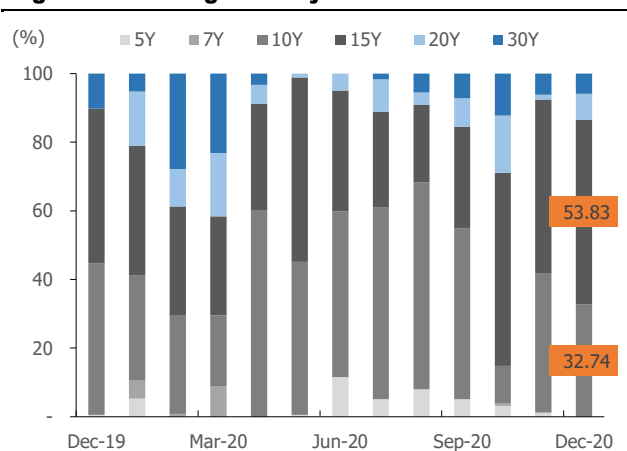
In December, during 25 bidding sessions, the Vietnam State Treasury (VST) offered a total of VND63.33tn, increasing by 11.59% MoM to a 3-month high. The total amount registered in those auctions was also at a 3-month high of VND161.45tn, up by 16.70% MoM. Finally, about VND52.99tn was successfully issued with an absorption rate of 83.68%, which was also at the highest since October. Noticeably, there was no offer for 5-year and 7-year G-bonds recorded in the month.

Figure 10. Government bond issuance



Source: HNX, KIS

Figure 11. Issuing value by tenor



Source: HNX, KIS

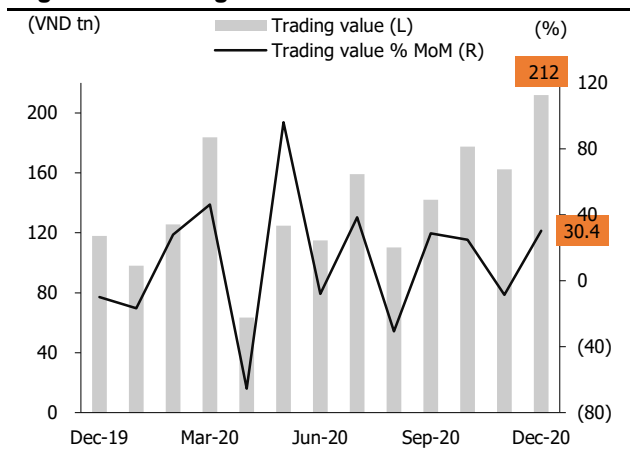
Besides, G-bond yields continued to decrease markedly in the primary market, in which the 10-year, 15-year, 20-year, and 30-year yields dropped by 16.5 bps, 18.5 bps, 10 bps, and 8.5 bps to 2.35%, 2.56%, 2.94%, and 3.16%, respectively.

Regarding issuing value by tenor, only 10-year, 15-year, 20-year, and 30-year G-bonds were issued in the month, in which 10-year and 15-year bonds accounted for 32.74% and 53.83% of the total, respectively. 20-year and 30-year G-bonds made up the remaining 7.55% and 5.88% of the total.

G-bond trading reached an all-time high in the secondary market

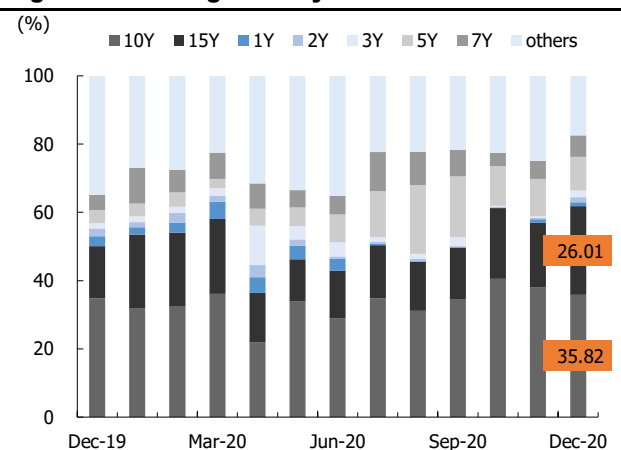
Trading value in the secondary market reached a record high of VND211.9tn in December, up by 30.4% from the previous month, in which long-term bonds (with maturities greater than 10 years) saw the most increase compared to other tenors. Particularly, 10-year and 15-year G-bonds accounted for 35.82% (VND75.9tn) and 26.01% (VND55.1tn) of the total amount. Mid-term bonds, including 3-year, 5-year, and 7-year G-bonds, made up 1.96% (VND4.2tn), 9.84% (VND20.9tn), and 6.34% (VND13.4tn), respectively. Trading amounts of G-bonds with 1-year and 2-year remaining maturities composed of just 1.09% (VND2.3tn) and 1.51% (VND3.2tn).

Figure 12. Trading value



Source: Bloomberg, KIS, HNX

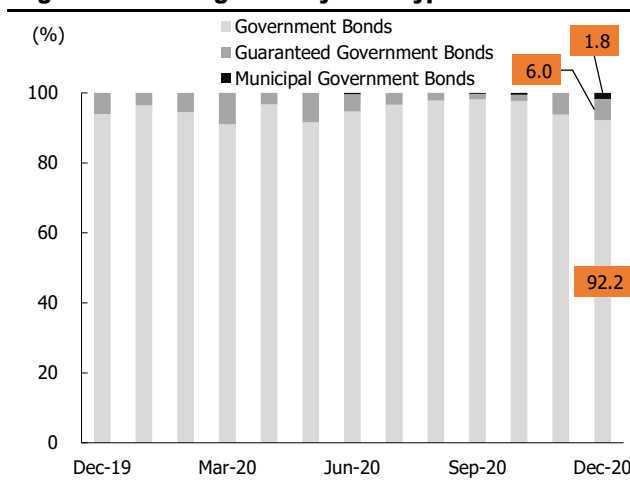
Figure 13. Trading value by tenor



Source: Bloomberg, KIS, HNX

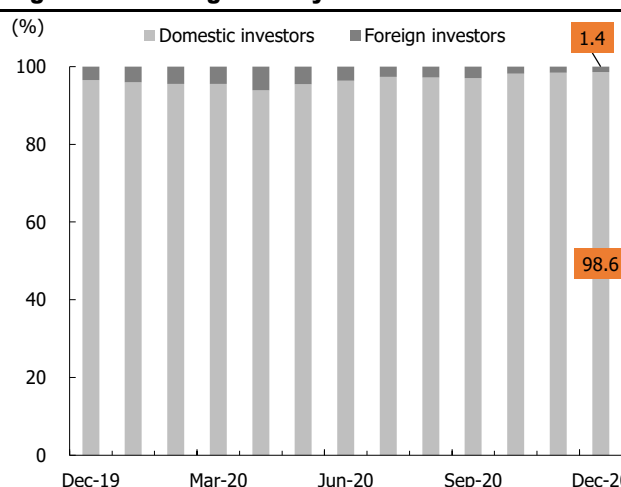
By bond type, 92.24% of the total trading value (VND195.4tn) were from government bonds, while government-guaranteed bonds and municipal government bonds took the remaining 5.98% (VND12.7tn) and 1.77% (VND3.8tn), respectively.

Figure 14. Trading value by bond types



Source: Bloomberg, KIS, HNX

Figure 15. Trading value by investor



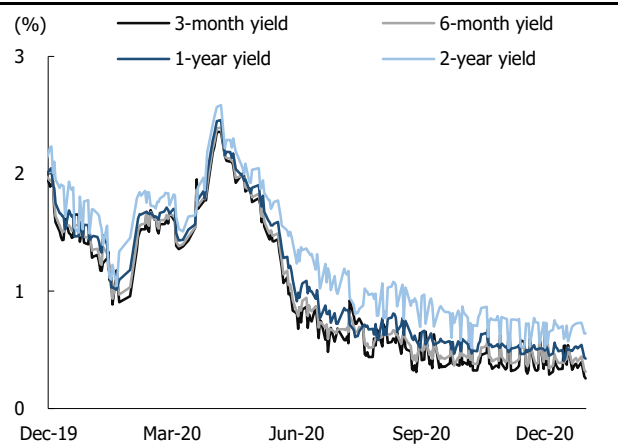
Source: Bloomberg, KIS, HNX

The yield curve continued shifting downward

In the month, the whole yield curve was shifted downward with yields for all tenors declined at a modest pace. The downward pressure was slightly stronger on the mid and long-term bonds (from 5-year to 30-year) compared to short-term ones (less than 5-year).

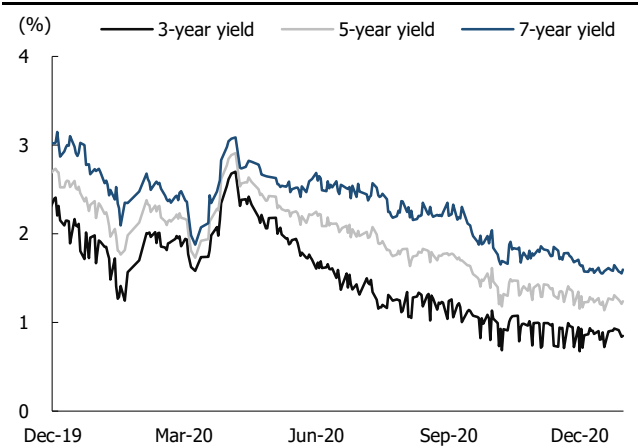
More specifically, for short-term remaining maturities, 3-month, 6-month, 1-year, and 2-year yields continued to drop by 8.0 bps, 8.2 bps, 8.5 bps, and 9.1 bps to just 0.26%, 0.31%, 0.43%, and 0.64%, respectively. Regarding mid-term maturities, 3-year, 5-year, and 7-year G-bond yields continued to set up new record lows of 0.85%, 1.24%, and 1.59%, declining by 9.7 bps, 10.6 bps, and 11.2 bps, respectively. Similarly, long-term G-bonds also found their new lows, in which 10-year, 15-year, and 20-year G-bonds dropped to 2.07%, 2.69%, and 3.13%, by 11.6 bps, 11.22 bps, and 9.5 bps, respectively.

Figure 16. Short-term yields



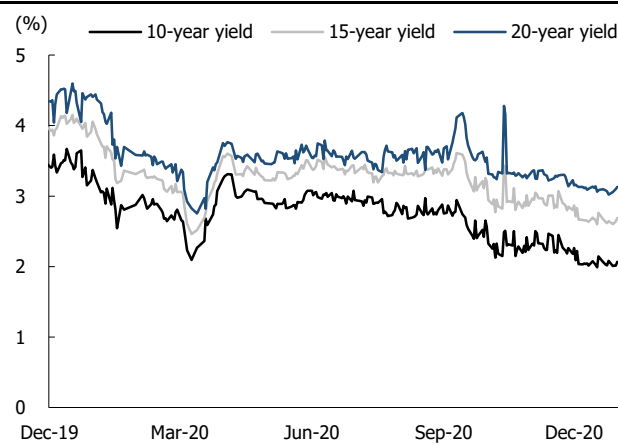
Source: Bloomberg, KIS, HNX

Figure 17. Mid-term yields



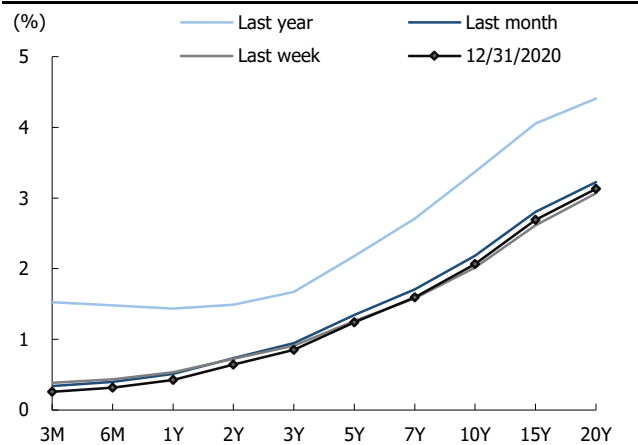
Source: Bloomberg, KIS, HNX

Figure 18. Long-term yields



Source: Bloomberg, KIS, HNX

Figure 19. G-bond yield curve



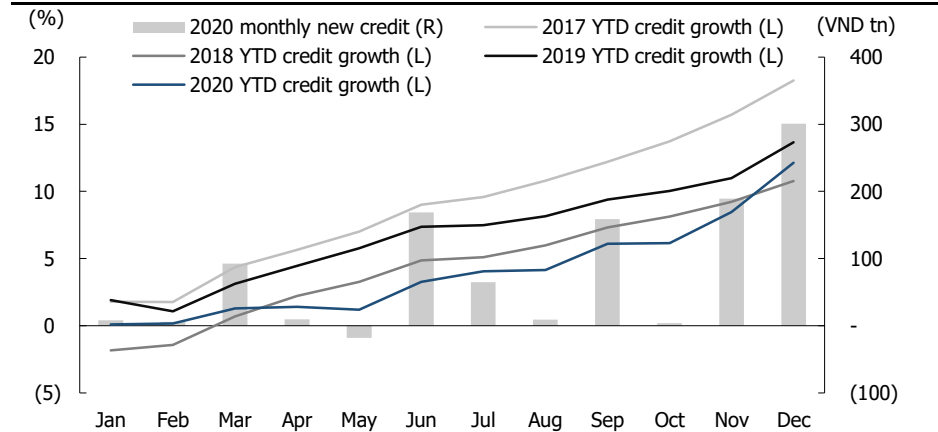
Source: Bloomberg, KIS, HNX

PREDICTION:

It is worth noticing that the acceleration of credit growth in December was phenomenal. Within 1-month, the credit growth increased from 8.46% YTD in November to 12.13% YTD in December, which was the biggest jump in the 2017-2020 period. In absolute numbers, more than VND300tn loans were made in the last month, and more impressively about VND163tn credit was recorded in the last ten days. This means the liquidity in the banking system has been becoming more and more tightened.

Thus, the increasing momentum of the lending activity will put great upward pressure on the short-term G-bond yields. The pressure on the longer-term bonds would likely remain insignificant.

Figure 20. Credit growth 2017-2020



Source: SBV, KIS

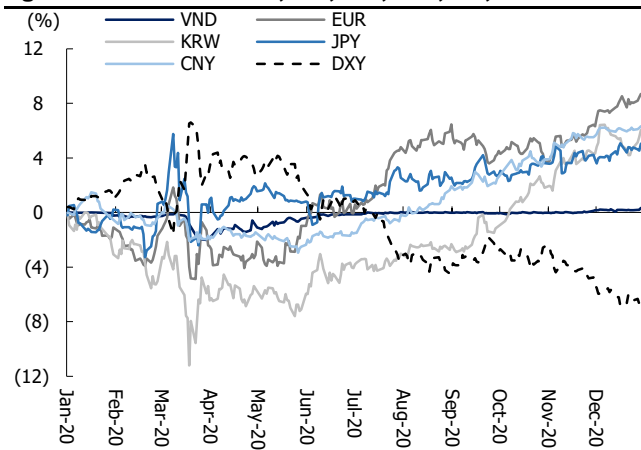
IV. SBV to draw a lower-limit range for VND

Weak USD put pressure on other currencies

In December, USD continued to decline at a fast pace, by 2.15% MoM, to a 32-month low as investors tended to run away from safe-haven assets. A plunge in USD leads to noticeable increases in other currencies in our watchlist.

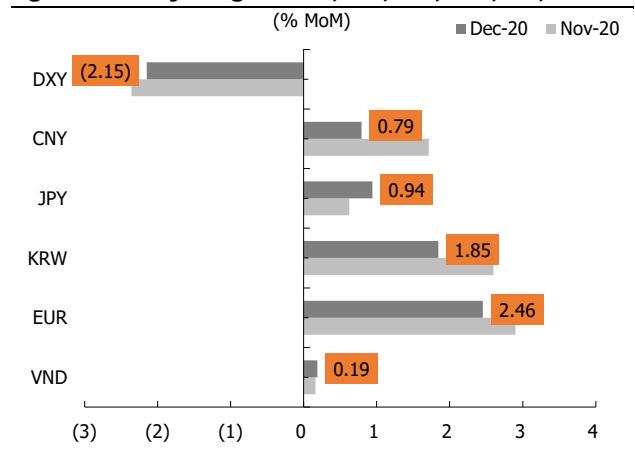
Increases of KRW and CNY against USD continued for the seventh month, by 1.85% MoM and 0.79% MoM in December, respectively. Meanwhile, following a large increase in the previous month, EUR kept increasing by 2.46% MoM to the highest level in more than 2.5 years since April 2018. JPY even saw a 4-year high against USD when rising by 0.94% MoM. Lastly, VND continued to set a new high since July 2018, increasing by 0.16% MoM.

Figure 21. Movements of VND, USD, CNY, KRW, JPY, and EUR



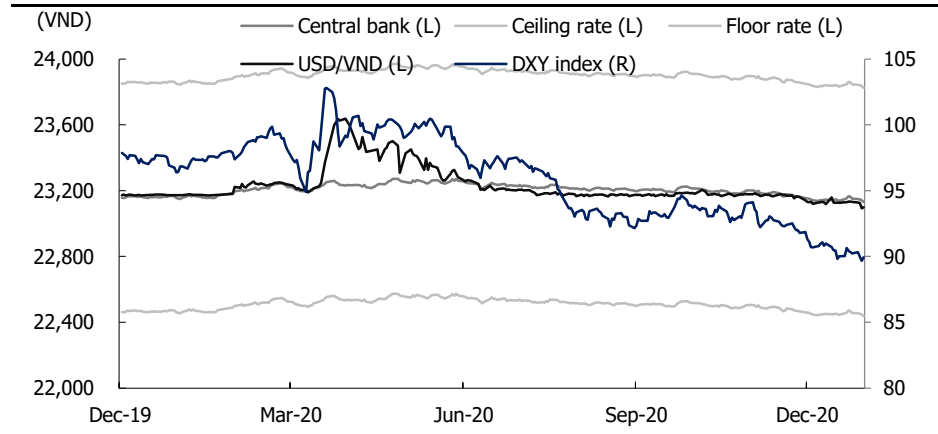
Source: Bloomberg, KIS

Figure 22. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR



Source: Bloomberg, KIS

Figure 23. USD/VND rate and DXY index

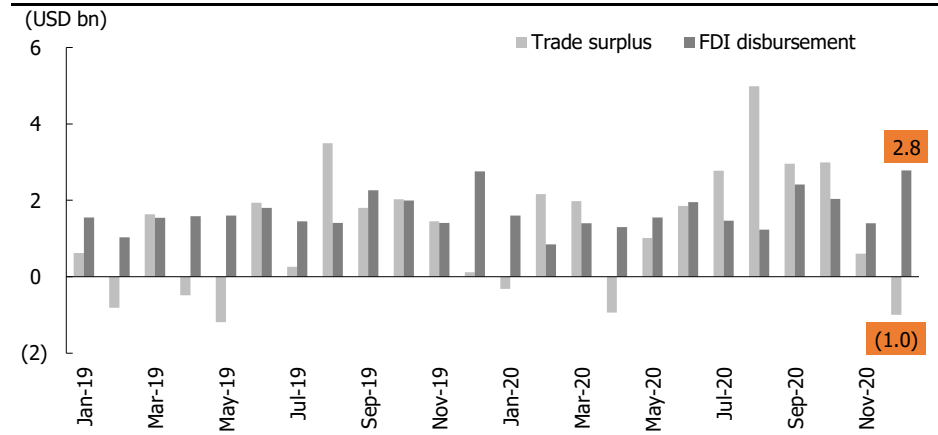


Source: Bloomberg, KIS

PREDICTION:

From our view, a recent change from SBV’s foreign exchange reserve management, in which purchasing USD in the spot market will be replaced by a 6-month buying forward contract at 23,125, makes a major impact on the FX rate in 1H20. From our forecast, if taking into account the 6-month interbank rate, a lower limit range for the FX market in the 6-month period would be between 22,850 – 23,125. On the other hand, upward pressure from a weakening U.S. dollar and increasing USD supply would remain on VND in January.

Figure 24. Increasing USD supply in Vietnam FX market



Source: Bloomberg, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	1Q20	2Q20	3Q20	4Q20	2017	2018	2019	2020
Real GDP growth			2.62			4.48	3.82	0.36	2.62	4.48	6.81	7.08	7.03	2.91
Registered FDI	3.15	0.72	1.67	2.27	2.95	2.10	8.55	7.12	5.54	7.32	35.88	35.47	38.02	28.53
GDP per capita											2,353	2,551	2,730	
Unemployment rate							2.22	2.73	2.50	2.37	2.21	2.21	2.25	2.48
Export	23.00	27.70	27.16	27.26	25.24	26.50	63.52	59.33	79.74	79.00	215.1	243.5	263.6	263.6
Import	22.00	22.72	24.20	24.27	24.69	27.50	59.69	57.41	69.02	76.46	213.2	236.7	254.4	254.4
Export growth	8.47	7.14	16.57	12.21	10.73	17.63	7.99	(6.82)	10.61	13.48	21.82	13.19	8.16	8.16
Import growth	(2.52)	1.58	12.58	9.00	15.69	22.70	4.03	(9.46)	3.74	15.81	21.85	11.01	7.41	7.41
Inflation	3.39	3.18	2.98	2.47	1.48	0.19	3.53	3.57	3.81	3.24	3.53	3.54	2.79	2.79
USD/VND	23,167	23,175	23,188	23,181	23,141	23,126	23,637	23,206	23,184	23,126	22,698	23,175	23,173	23,173
Credit growth	4.05	4.16	6.10	6.15	8.46	10.14	1.30	3.26	6.10	10.14	18.24	13.89	13.70	13.70
10Y gov't bond	2.88	2.88	2.52	2.21	2.26	2.01	3.24	3.07	2.65	2.01	5.14	5.07	3.37	3.37

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VIET NAM

JAE HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)
KIS Vietnam Securities Corporation
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.
Fax: 8428 3821-6898

SOUTH KOREA

YEONG KEUN JOO, Managing Director, Head of International Business Division (ykjoo@truefriend.com, +822 3276 5157)
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320
Fax: 822 3276 5681~3
Telex: K2296

NEW YORK

DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)
Korea Investment & Securities America, Inc.
1350 Avenue of the Americas, Suite 1110
New York, NY 10019
Fax: 1 212 314 0699

HONG KONG

GREGORY KIM, Managing Director, Head of HK Sales (greg.kim @kisasia.com +852 2530 8915)
Korea Investment & Securities Asia, Ltd.
Suite 2220, Jardine House
1 Connaught Place, Central, Hong Kong
Fax: 852-2530-1516

SINGAPORE

ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasia.com.sg +65 6501 5602)
CHARLES AN, Sales (alex.jun@kisasia.com.sg +65 6501 5601)
Korea Investment & Securities Singapore Pte Ltd
1 Raffles Place, #43-04, One Raffles Place
Singapore 048616
Fax: 65 6501 5617

LONDON

Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)
Korea Investment & Securities Europe, Ltd.
2nd Floor, 35-39 Moorgate
London EC2R 6AR
Fax: 44-207-236-4811

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