

# Fixed-income Perspectives

## Strong upward pressure on short-term fixed-income rates

### Interbank rates to rise

In January, interbank market witnessed divergence in moves of short-term (1 month and below) and longer-term (above 1-month) rates as the former tended to rebound, while the latter declined to hit their new lows. The rebound in short-term rates is attributable to the natural lower bound as these rates stayed near to zero and liquidity shortage in Tet season, 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. Looking ahead to February, due to recent movements of the interbank market and the seasonality, we predict the ON rate to rise.

### Short-term yields break downward trend

Thanks to the lending activity accelerating in 2020-end and high demand for cash just before the New Year's period, the downward trend of the G-bond yield curve saw a short-term reversal for the first time in several months. From our perspective, the seasonal effect would continue to heighten in February, especially in weeks before and after the Lunar New Year. As a result, we expect that the short-term yields would continue to increase higher, while long-term yields would either remain low or keep falling modestly.

### 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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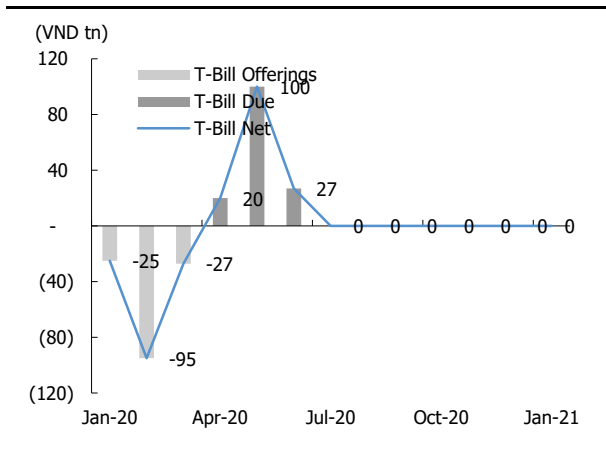
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# I. OMO to active

## OMO remains silent

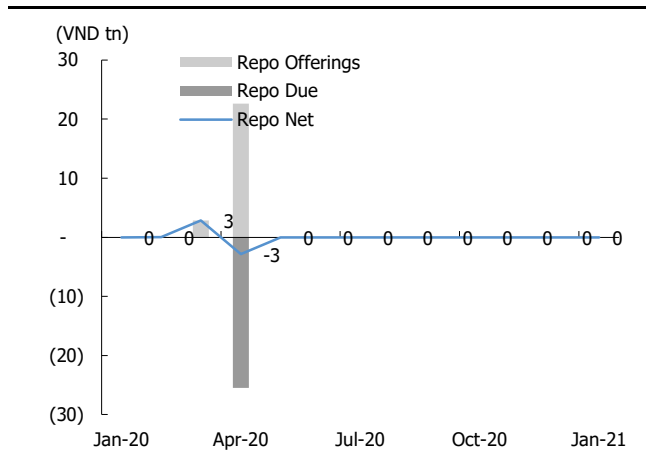
SBV's figures showed that the money market experienced the seventh consecutive month without any open market transactions in the context of super-low interest rate environment and weak demand on spending and investment. In the first month of 2021, the central bank continued holding their tools when it used neither the repo contract nor T-bill issuance for intervening the liquidity in banking system. 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**



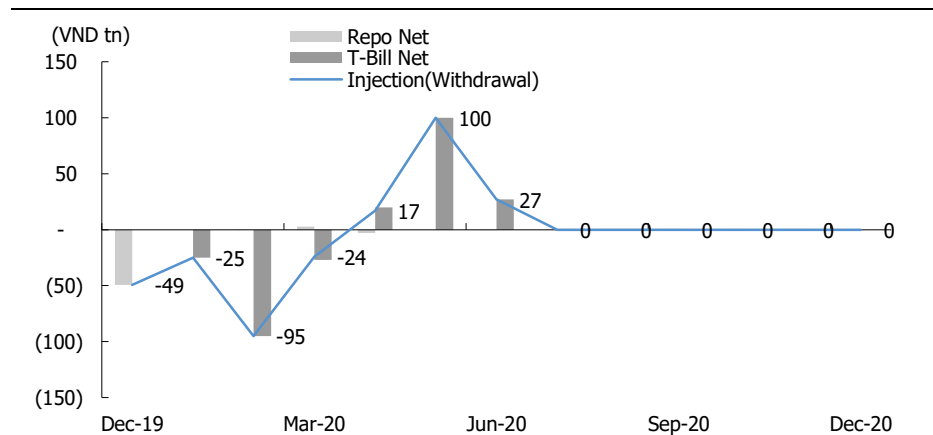
Source: Bloomberg, SBV, KIS

**Figure 2. Repo transaction**



Source: Bloomberg, SBV, KIS

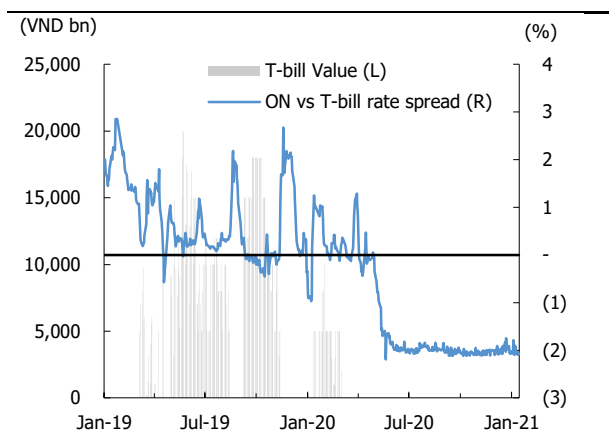
**Figure 3. Net Injection/Withdrawal**



Source: Bloomberg, SBV, KIS

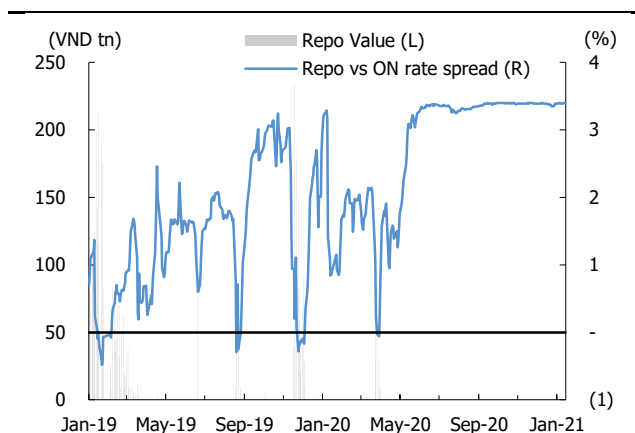
## PREDICTION:

**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. In addition, Tet season is likely to hike temporarily deposit withdrawal and cause liquidity shortage in banking system. Hence, we predict OMO to be more active with repo contracts in the next months.

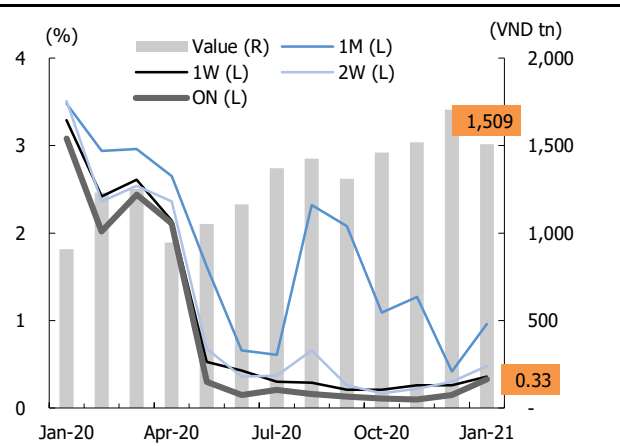
## II. Interbank rates to rise

In January, interbank market witnessed divergence in moves of short-term (1 month and below) and longer-term (above 1-month) rates as the former tended to rebound, while the latter declined to hit their new lows. The rebound in short-term rates is attributable to the natural lower bound as these rates stayed near to zero and liquidity shortage in Tet season, 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 previous month as the overnight (ON), 1-week, 2-week, and 1-month rates rose to 0.33%, 0.36%, 0.48%, and 0.96%, being 18bps-, 10bps-, 18bps- and 54bps-higher than the previous rates at December 2020. On the other hand, longer-term rates generally declined from the end of previous month. The 3-month, 6-month, and 9-month declined by 122-, 23-, 39-, and 6-bps to post 1.11%, 3.21%, and 3.02% in this period.

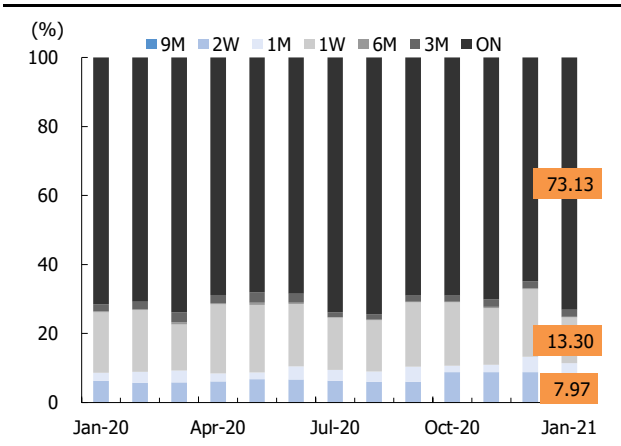
The total trading value recorded a reduction this month after hitting the 2020-peak as posting VND1,508.69tn and decreasing by 11.58% MoM. By trading structure, investors returned to trade more on ON loans to solve the short-term liquidity demand. In detail, trading shares of 1-week, 2-week, and 1-month declined to 13.30%, 7.97%, and 3.41% from 19.53%, 8.81%, and 4.47% in previous month, while share of ON increased considerably from 64.58% to 73.13%. Besides, trading portions of remainders changed trivially.

**Figure 6. Interbank transaction**



Source: Bloomberg, SBV, KIS

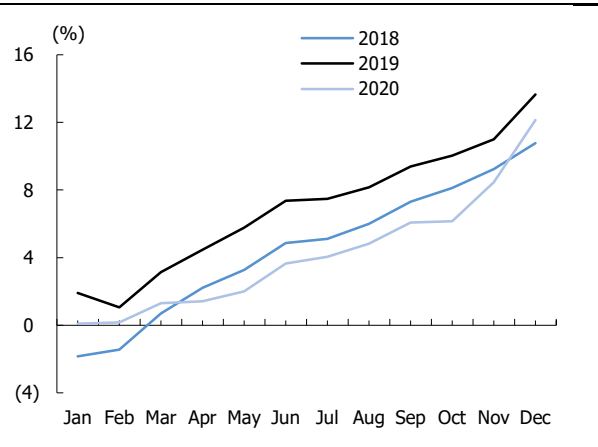
**Figure 7. Interbank value by tenors**



Source: Bloomberg, SBV, KIS

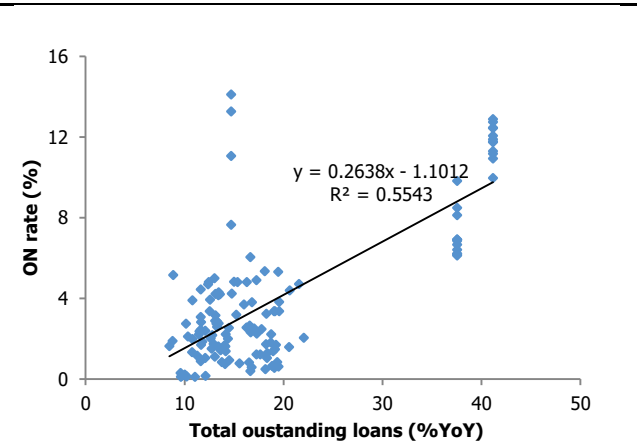
**PREDICTION:**

**Figure 8. Credit growth by month-of-year**



Source: Bloomberg, SBV, KIS

**Figure 9. ON rate and credit growth relationship**



Source: Bloomberg, SBV, KIS

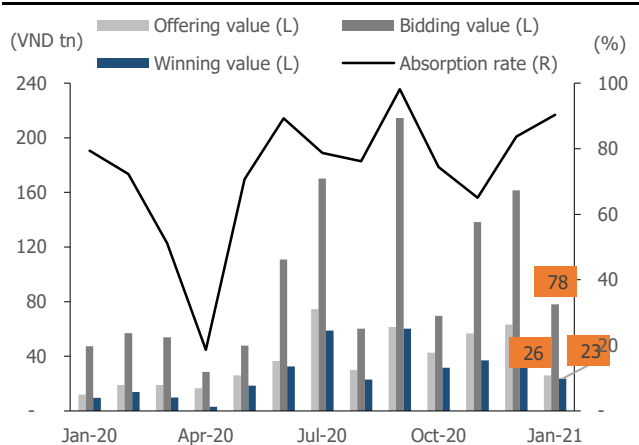
According to our argument about the relationship between credit growth and interbank rates, recent movements of interbank market, and the Tet seasonality, we predict the ON rate to rise in February 2020.

### III. Short-term yields break downward trend

#### ***G-bond issuance was slowing down in early 2021***

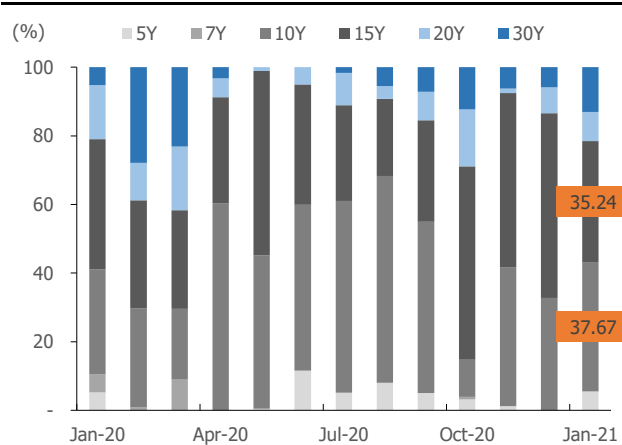
In January, the Vietnam State Treasury (VST) conducted just 12 bidding sessions and offered a total of VND26tn government bonds, down by 58.9% from December. From the demand side, the registered value also dropped by 51.7% MoM to VND77.9tn, mainly due to fewer auctions. It is noticing that the absorption rate climbed to a 4-month high, reaching 90.37%.

**Figure 10. Government bond issuance**



Source: HNX, KIS

**Figure 11. Issuing value by tenor**



Source: HNX, KIS

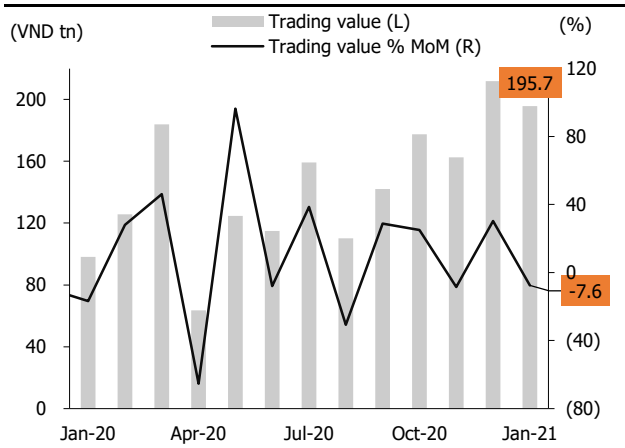
The G-bond yields in the primary market also declined modestly at all tenors, in which 5-year, 10-year, 15-year, 20-year, and 30-year yields dropped by 15bps, 15bps, 13bps, 4.5 bps, and 10.5 bps to 1.07%, 2.20%, 2.43%, 2.89%, and 3.05%.

Regarding issuing value by tenor, 10-year, 15-year, 20-year, and 30-year G-bonds accounted for 37.67% (VND8.85tn), 35.24% (VND8.28tn), 8.51% (VND2.00tn), and 13.04% (VND3.07tn) of the total issuance, while 5-year G-bonds contributed just 5.53% (VND1.30tn), respectively.

#### ***G-bond trading in the secondary market also dropped from record high***

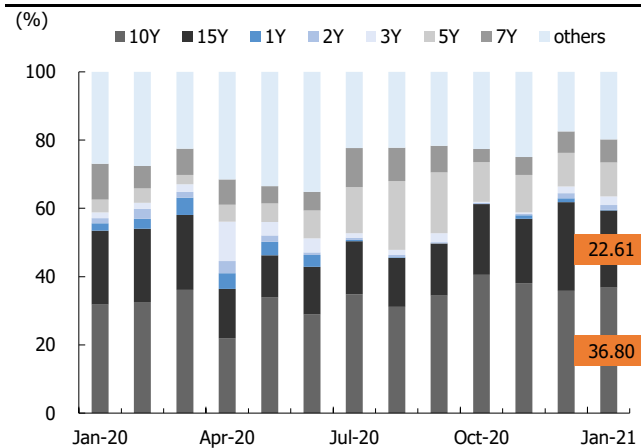
After reaching an all-time peak in the prior month, G-bond trading in the secondary market was slowing down somewhat in January, declining by 7.6% MoM to VND195.7tn. Trading values of 10-year and 15-year G-bonds accounted for the majority, by 36.8% (VND72.0tn) and 22.61% of the total (VND44.3tn), respectively. Mid-term bonds, including 3-year, 5-year, and 7-year G-bonds made up 2.50% (VND4.9tn), 9.95% (VND19.5tn), and 6.76% of the total (VND13.2tn), respectively. Contributions of short-term G-bonds with maturity from 1-year to 2-year were just minor, at about 0.17% (VND0.3tn) and 1.44% of the total (VND2.8tn).

**Figure 12. Trading value**



Source: Bloomberg, KIS, HNX

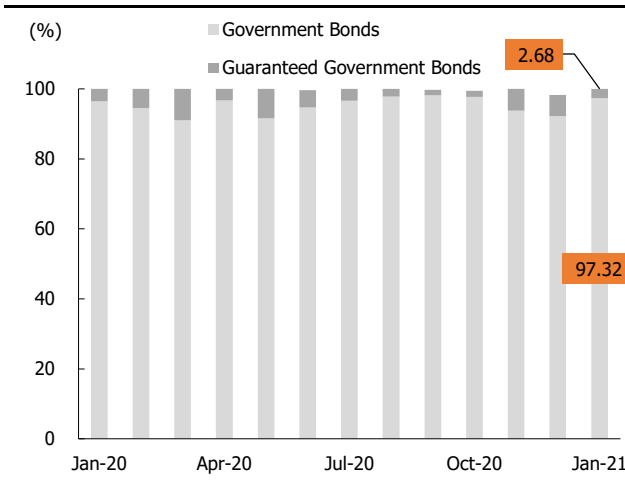
**Figure 13. Trading value by tenor**



Source: Bloomberg, KIS, HNX

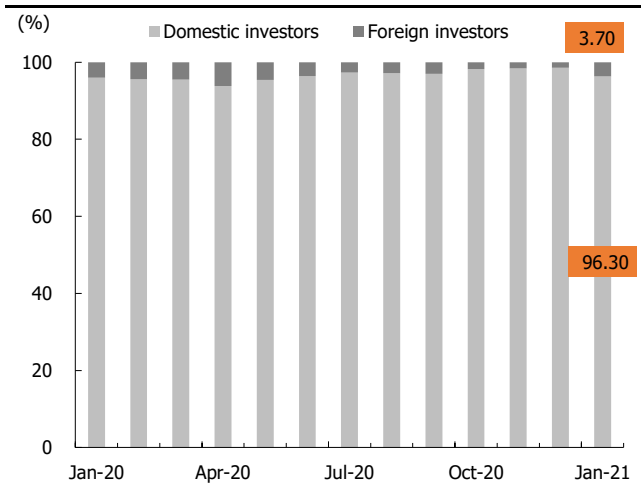
By bond type, 97.3% of the total trading value (VND190.5tn) were from government bonds, while the remaining 2.7% was from government-guaranteed bond trading. Regarding trading by investor, 96.3% of total trading value was by domestic investors, and foreign investors made up just 3.7%.

**Figure 14. Trading value by bond type**



Source: Bloomberg, KIS, HNX

**Figure 15. Trading value by investor**



Source: Bloomberg, KIS, HNX

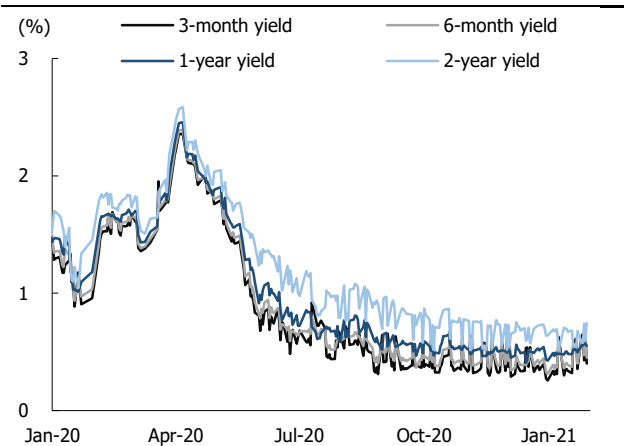
**The yield curve is steepening with upward pressure on short-term yields**

The yield curve in the month was changing significantly rather than just going downward in prior months. Short-term yields were facing tremendous upward pressure from liquidity tightening in the Tet's period. The pressure was seen clearly in short-term G-bond yields with maturity less than 5 years. On the contrary, demand on long-term G-bonds remained high as those long-term yields (with maturity greater than 10 years) continued to drop further.

More specifically, short-term 3-month, 6-month, 1-year, and 2-year yields jumped markedly by 14.3 bps, 13.7 bps, 12.5 bps, and 10.3 bps to 0.4%, 0.45%, 0.45%, and 0.75%, respectively. Regarding mid-term G-bonds, 5-year and 7-year were up slightly by 4.4 bps and 1.0 bps to 1.28% and 1.60%. On the other hand, long-term 10-year, 15-year, and 20-year yields dropped further by 3.2 bps, 8.4 bps, and 12.1 bps to 2.03%, 2.61%, and 3.01%. It should be also noticed

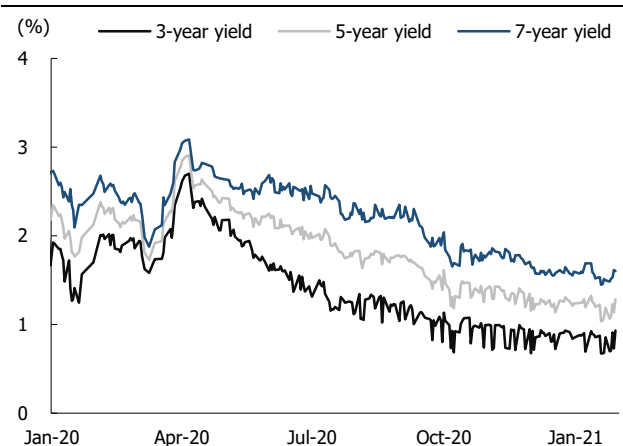
that the long-term yields also saw upward pressure by late-January due to lack of liquidity in the banking system.

**Figure 16. Short-term yields**



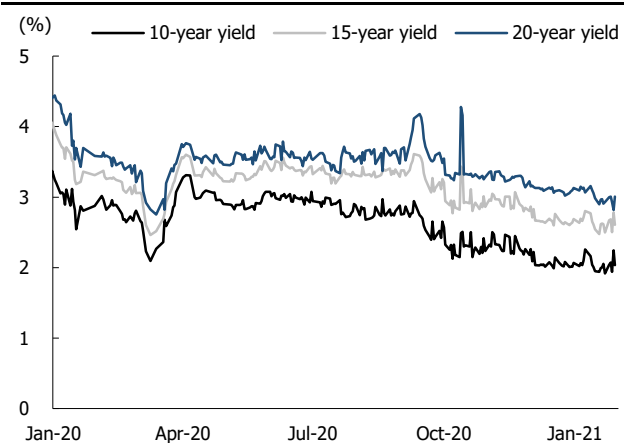
Source: Bloomberg, KIS, HNX

**Figure 17. Mid-term yields**



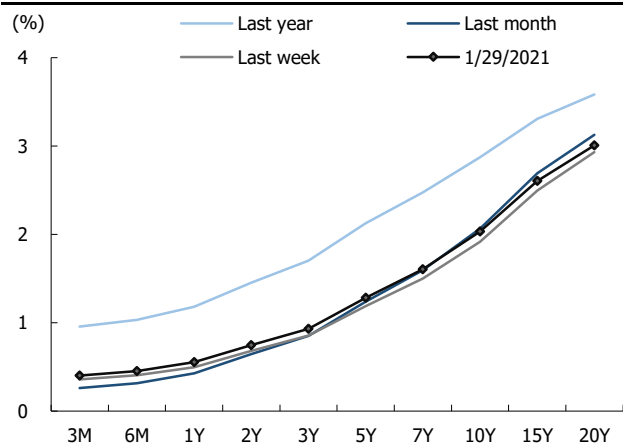
Source: Bloomberg, KIS, HNX

**Figure 18. Long-term yields**



Source: Bloomberg, KIS, HNX

**Figure 19. G-bond yield curve**



Source: Bloomberg, KIS, HNX

**PREDICTION:**

Thanks to the lending activity accelerating in 2020-end and high demand for cash just before the New Year's period, the downward trend of the G-bond yield curve saw a short-term reversal for the first time in several months.

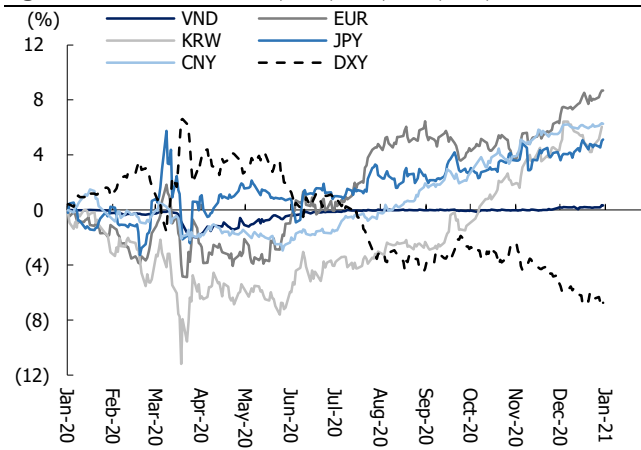
From our perspective, the seasonal effect would continue to heighten in February, especially in weeks before and after the Lunar New Year. As a result, we expect that the short-term yields would continue to increase higher, while long-term yields would either remain low or keep falling modestly.

## IV. USD heads for recovery from a trough

### Strong U.S. dollar put pressure on other currencies

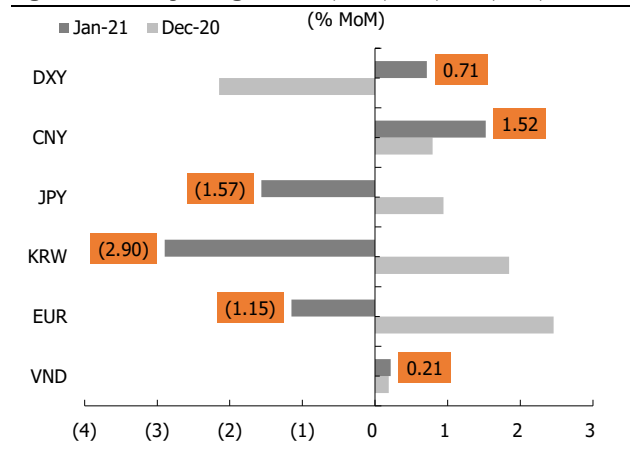
In January, the U.S. dollar backs into positive territory after plunging in the two previous months. By the end-January, the U.S. dollar benchmark, the DXY index, was recorded at 90.6 and appreciated by 0.71% MoM from a 32-month low in December. The stronger greenback put significant upward pressure on other currencies in our watchlist. More details, after several-month upward continuation since June, both KRW and JPY saw strong declines of 2.9% MoM and 1.6% MoM by month-end. Similarly, EUR depreciated by 1.15% MoM after strong increases in November and December. On the other side, CNY continued to rise by 1.52% MoM for an eight-month straight, while VND saw the strongest increase in 6 months, by 0.21% MoM.

Figure 20. Movements of VND, USD, CNY, KRW, JPY, and EUR



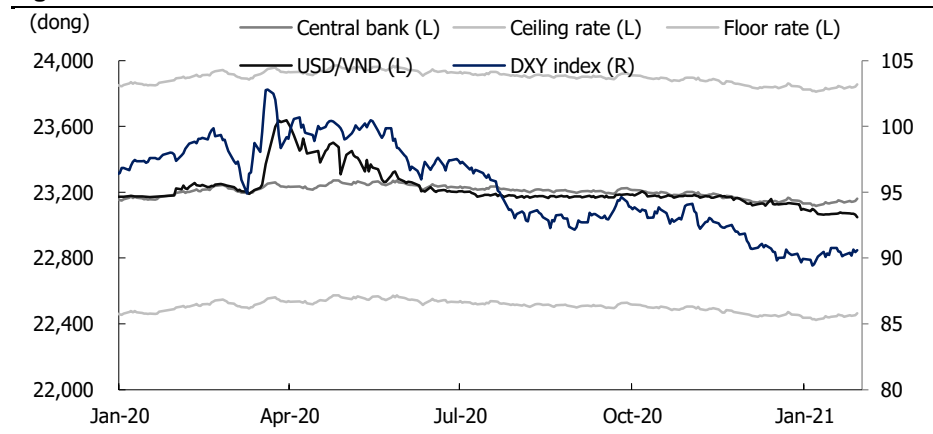
Source: Bloomberg, KIS

Figure 21. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR



Source: Bloomberg, KIS

Figure 22. USD/VND rate and DXY index



Source: Bloomberg, KIS



## Macro scorecard

(USD bn, USD, %, % YoY)

	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	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	0.72	1.67	2.27	2.95	2.10	2.02	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	27.70	27.16	27.26	25.24	26.50	27.70	63.52	59.33	79.74	79.00	215.1	243.5	263.6	263.6
Import	22.72	24.20	24.27	24.69	27.50	26.40	59.69	57.41	69.02	76.46	213.2	236.7	254.4	254.4
Export growth	7.14	16.57	12.21	10.73	17.63	50.53	7.99	(6.82)	10.61	13.48	21.82	13.19	8.16	8.16
Import growth	1.58	12.58	9.00	15.69	22.70	41.00	4.03	(9.46)	3.74	15.81	21.85	11.01	7.41	7.41
Inflation	3.18	2.98	2.47	1.48	0.19	(0.97)	3.53	3.57	3.81	3.24	3.53	3.54	2.79	2.79
USD/VND	23,175	23,188	23,181	23,141	23,126	23,049	23,637	23,206	23,184	23,126	22,698	23,175	23,173	23,173
Credit growth	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	2.52	2.21	2.26	2.01	2.03	3.24	3.07	2.65	2.01	5.14	5.07	3.37	3.37

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