

# Fixed-income Perspectives

## Long-term yields to see a reversal

### Interbank rates to fluctuate

In February, the interbank market witnessed the most volatility in the pandemic era as the overnight rate (ON) made a sharp move from the super-low base, lasting around five months, to the peak at 2.83% before returning to 0.34% at month-end. In our opinion, the increase in deposit withdrawal due to the Tet holiday and the abundant USD inflow from trade activities were potential explanations for the current move in the lending market between commercial banks. The ending of the Tet holiday indicates the diminish of seasonal demand in interbank market, resulting in the decrease in interbank rates. However, vaccination warms up the economic activities, including the lending market, and suggests the interbank rate to become more volatile in the next period.

### Long-term yields to see a reversal

February witnessed a lack of investors' interest in government bond auctions in the primary market as the absorption rate plunged to the lowest level since April, at just 20%. Ongoing developments in the fixed-income markets and rising inflation are supporting a reversal of G-bond yields from current record lows. From our perspective, the yield curve would continue moving upward, and the long-term yields (greater than 10-year maturity) would see stronger upward pressure in March.

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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	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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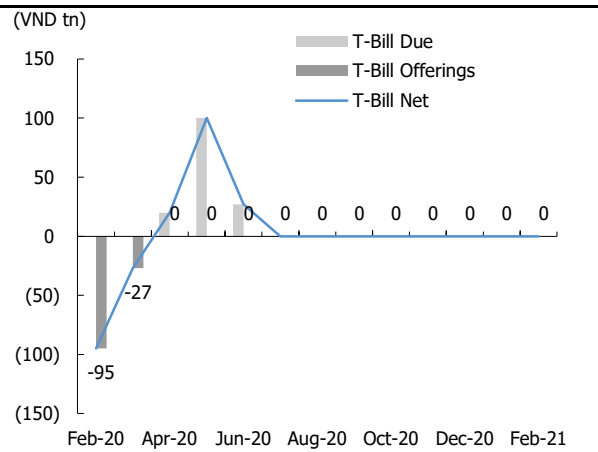
# I. OMO to active

## Tet excites OMO

SBV has intervened the liquidity of the banking system by issuing repo contracts as interbank rates seasonally increased.

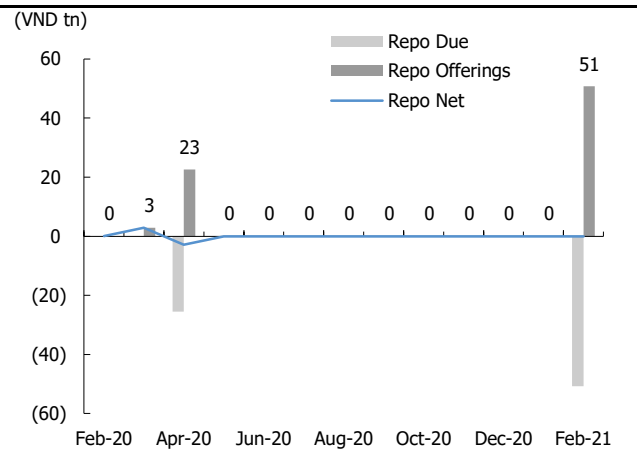
SBV has re-activated its open market operations after a streak of seven months to deal with the temporary liquidity pressure in the banking system due to the Tet holiday. Specifically, the central banks issued 7-day and 14-day repo contracts with a total amount of VND50.73tn, which concentrate in February-begin as the overnight rate (ON) increased sharply from the low at 0.6% to the high at 2.86%, exceeding 34 basis points (bps) compared to the existing policy discount rate.

**Figure 1. T-bill transaction**



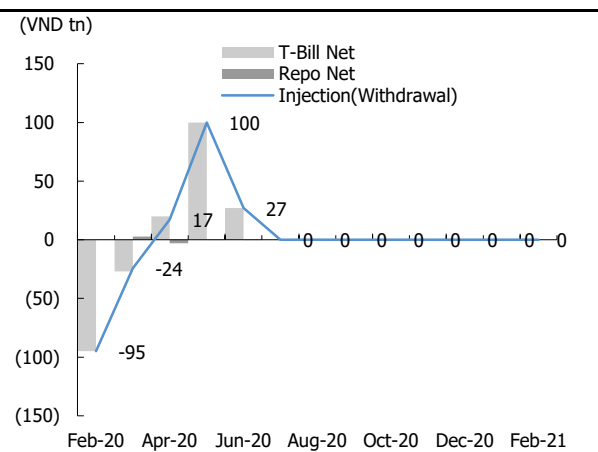
Source: Bloomberg, SBV, KIS

**Figure 2. Repo transaction**



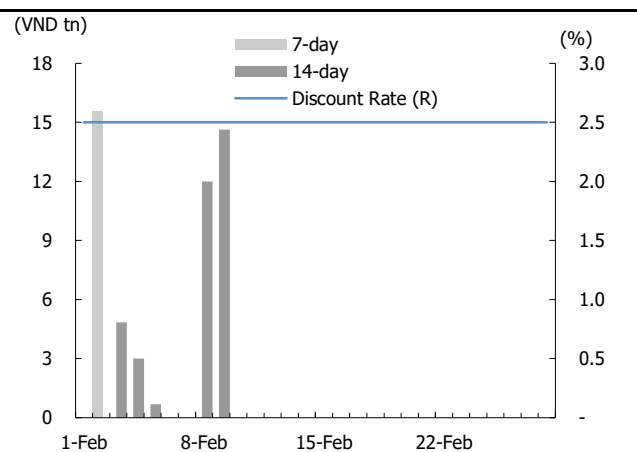
Source: Bloomberg, SBV, KIS

**Figure 3. OMO injection/withdrawal**



Source: Bloomberg, SBV, KIS

**Figure 4. OMO transactions in February**



Source: Bloomberg, SBV, KIS

## PREDICTION:

Economic activities tend to be warmer as vaccinations speed up, resulting in an improvement in the lending market. We predict OMO to be more active in line with movements of the lending and the deposit markets.

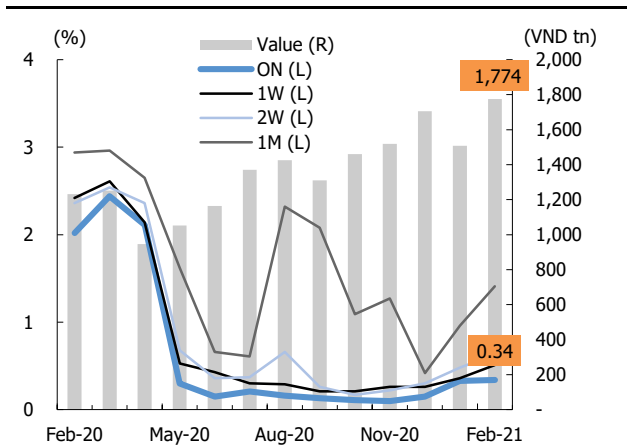
## II. Interbank rates to fluctuate

In February, the interbank market witnessed the most volatility in the pandemic era as the overnight rate (ON) made a sharp move from the super-low base, lasting around five months, to the peak at 2.83% before returning to 0.34% at month-end. In our opinion, the increase in deposit withdrawal due to the Tet holiday and the abundant USD inflow from trade activities were potential explanations for the current move in the lending market between commercial banks.

Specifically, ON, 1-week, 2-week, and 1-month rates rose to 0.34%, 0.51%, 0.63%, and 1.41%, being 1bps-, 15bps-, 15bps- and 45bps-higher than the previous rates in the first month of 2021. Longer-term rates, including 3-month and 9-month, generally moved more sharply as increasing by 107bps- and 101bps compared to the previous period to post 2.18% and 4.03%, respectively. 6-month was the exception from the common trend when its rate reduced by 11bps, posting 3.10% at February-end.

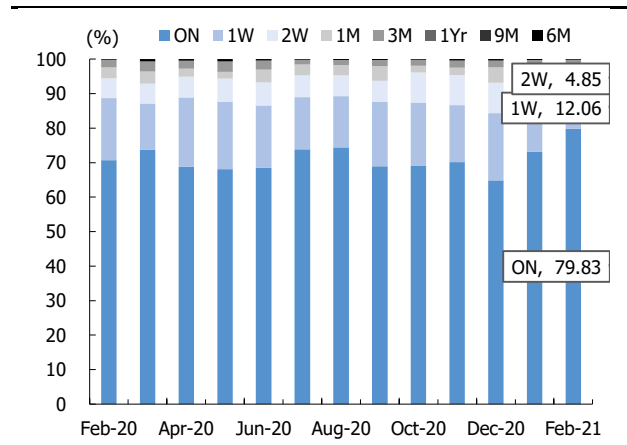
In the context of temporary hike in interbank rate, the total trading value also recorded an increase this month as posting VND1,774.10tn, which is 17.59%-higher compared to the previous month. By trading structure, investors returned to trade more on ON loans to solve the short-term liquidity demand. In detail, trading shares of 1-week, 2-week, and 1-month slightly declined to 12.06%, 4.85%, and 2.31% from 13.30%, 7.97%, and 3.14% in January, while share of ON increased considerably from 73.13% to 79.83%. Besides, trading portions of remainders changed trivially.

**Figure 5. Interbank transaction**



Source: Bloomberg, SBV, KIS

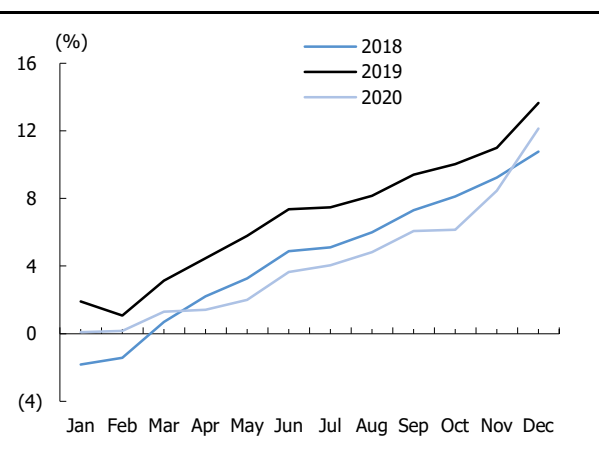
**Figure 6. Interbank value by tenors**



Source: Bloomberg, SBV, KIS

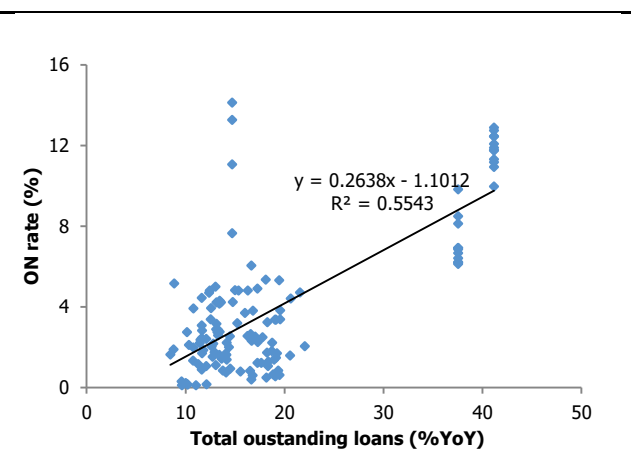
**PREDICTION:**

**Figure 7. Credit growth by month-of-year**



Source: Bloomberg, SBV, KIS

**Figure 8. ON rate and credit growth relationship**



Source: Bloomberg, SBV, KIS

The ending of the Tet holiday indicates the diminish of seasonal demand interbank market, resulting in the decrease in interbank rates. However, vaccination warms up the economic activities, including the lending market, and suggests the interbank rate to become more volatile in the next period.

### III. Long-term yields to see a reversal

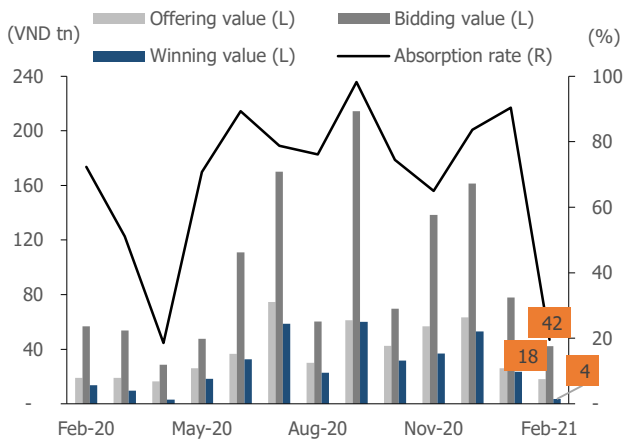
**Primary bond market freezes during Tet holiday**

During February with a long Tet holiday, the Vietnam State Treasury (VST) offered just VND18tn G-bonds, a 10-month low and down by 30.77% MoM, throughout 11 auctions. With a lack of bidding sessions, the bidding activity also declined significantly by 45.69% MoM to VND42.32tn. A result also showed a slackening demand in G-bonds under a low-yield environment and high cash-demand period when only VND3.52tn G-bonds was successfully issued, down by 85.04% MoM. The absorption rate recorded the lowest level since April, at just 20%, with a failure from 10-year, 15-year, 20-year, and 30-year G-bond auctions.

G-bond yields recorded in those auctions remained nearly unchanged from January, at record lows for all tenors. More specifically, 5-year, 10-year, 15-year, 20-year, and 30-year yields were recorded at 1.03%, 2.17%, 2.40%, 2.89%, and 3.01%, respectively.

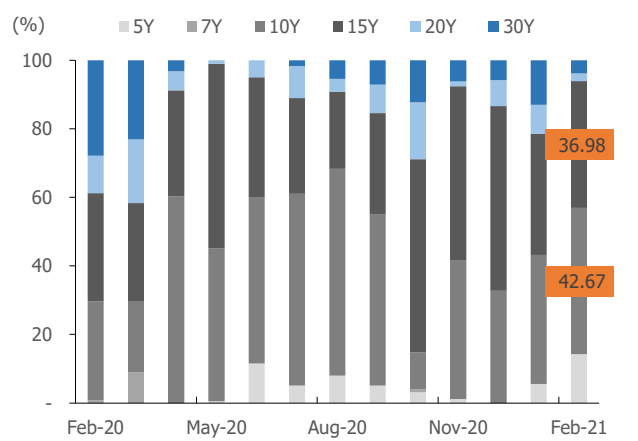
Regarding issuing value by tenor, 10-year and 15-year G-bonds accounted for nearly 80% of total issuing value, by 42.67% (VND1.5tn) and 35.80% (VND1.3tn), following by 5-year G-bond with 14.22% (VND0.5tn). 20-year and 3-year G-bonds made up just 2.28% (VND0.08tn) and 3.84% (VND0.14tn), respectively.

**Figure 9. Government bond issuance**



Source: HNX, KIS

**Figure 10. Issuing value by tenor**



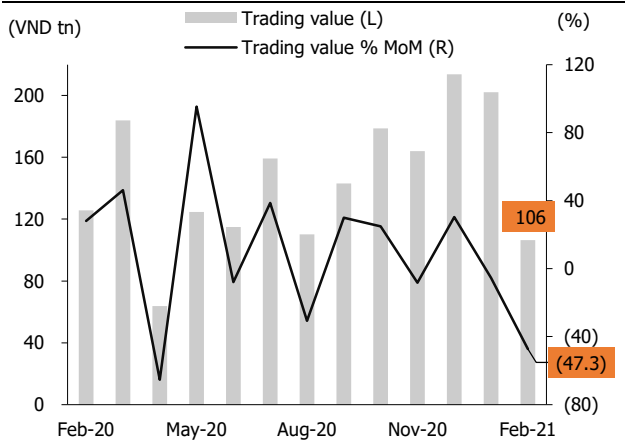
Source: HNX, KIS

**G-bond trading plunged to 10-month low**

From a record high in December, the G-bond trading recorded a second-month decrease when plunging by 47.3% MoM to just VND106.47tn. A strong decreasing pace in the trading value combined with increasing G-bond yields raised our concerns that whether investors were losing interest in G-bonds under a current low-yield environment.

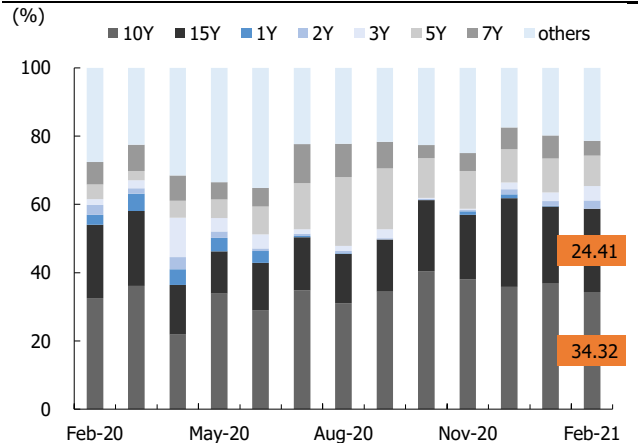
By tenors, 10-year and 15-year G-bonds trading accounted for 34.42% (VND36.54tn) and 24.41% (VND25.99tn) of total trading value. Mid-term bonds with 3-year, 5-year, and 7-year remaining maturities shared small contributions to the total, about 4.16% (VND4.43tn), 8.93% (VND9.50tn), and 4.31% (VND4.59tn), respectively.

**Figure 11. Trading value**



Source: Bloomberg, KIS, HNX

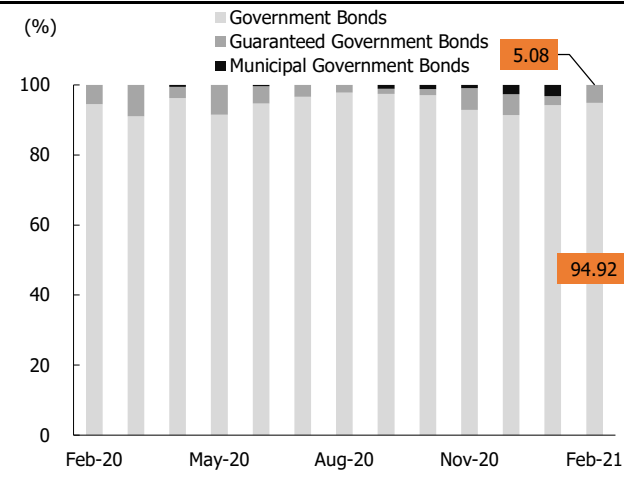
**Figure 12. Trading value by tenor**



Source: Bloomberg, KIS, HNX

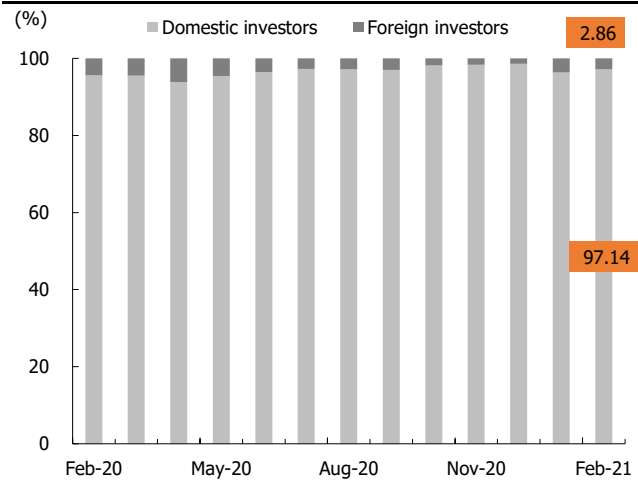
By bond type, 94.92% of the total trading value (VND101.06tn) were from government bonds, while the remaining 5.08% was from government-guaranteed bond trading. Regarding trading by investor, 97.14% of total trading value was by domestic investors, and foreign investors made up just 2.86%.

**Figure 13. Trading value by bond type**



Source: Bloomberg, KIS, HNX

**Figure 14. Trading value by investor**



Source: Bloomberg, KIS, HNX

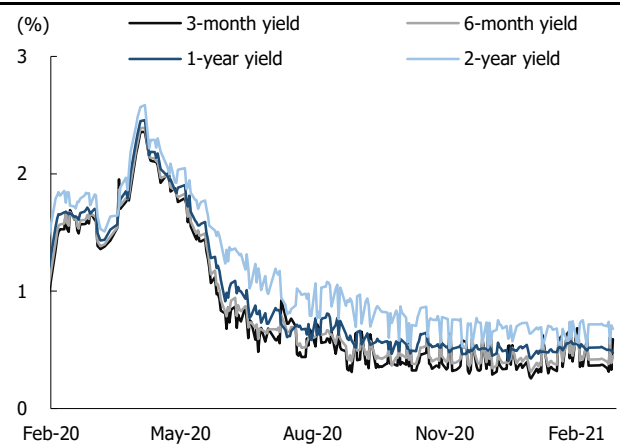
**Long-term yields increased for the first time since June**

The upward pressure on the G-bond yields becomes more and more significant in the first months of 2021 as liquidity in the banking system has been relatively more tightening than in late-2020 and inflation picking up.

From the left tail of the yield curve, 3-month yields went up the most by 19 bps to 0.59%, following a surge in short-term interbank rates. Meanwhile, other short-term yields, including 6-month, 1-year, and 2-year yields just dropped slightly by 0.51 bps, 7.62 bps, and 6.57 bps, to 0.45%, 0.48%, and 0.68%. The signal from mid-term yields was unclear when 3-year, 5-year, and 7-year yields changed marginally by – 3.01 bps, 3.44 bps, and 7.60 bps to 0.90%, 1.32%, and 1.68%, respectively.

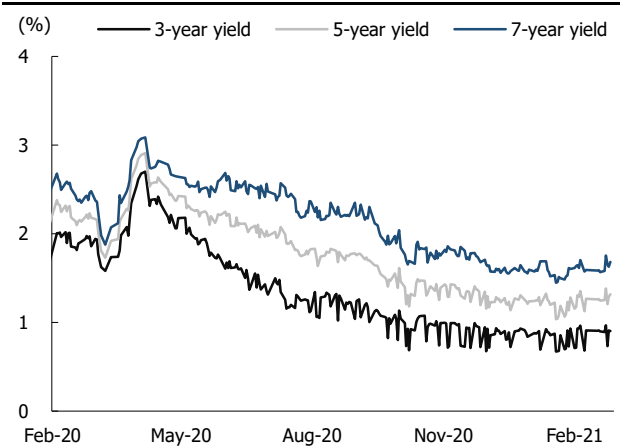
On the right tail, 10-year and 15-year yields saw month-over-month increases for the first time since May although the increases were just modest. More specifically, 10-year and 15-year yields were up by 9.99 bps and 7.67 bps to 2.13% and 2.68%, while 20-year yield also moved up to 3.04% or by 3.20 bps, respectively.

**Figure 15. Short-term yields**



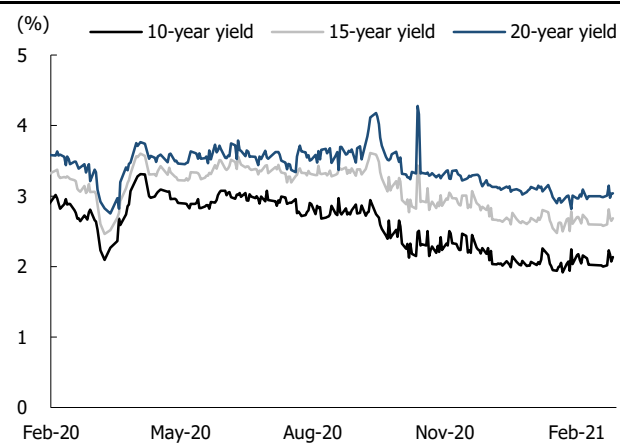
Source: Bloomberg, KIS, HNX

**Figure 16. Mid-term yields**



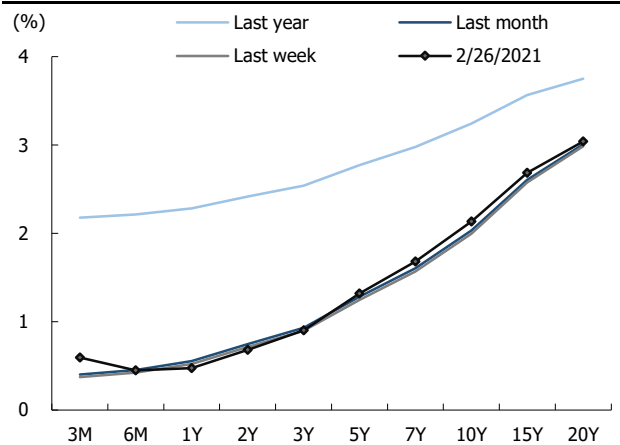
Source: Bloomberg, KIS, HNX

**Figure 17. Long-term yields**



Source: Bloomberg, KIS, HNX

**Figure 18. G-bond yield curve**

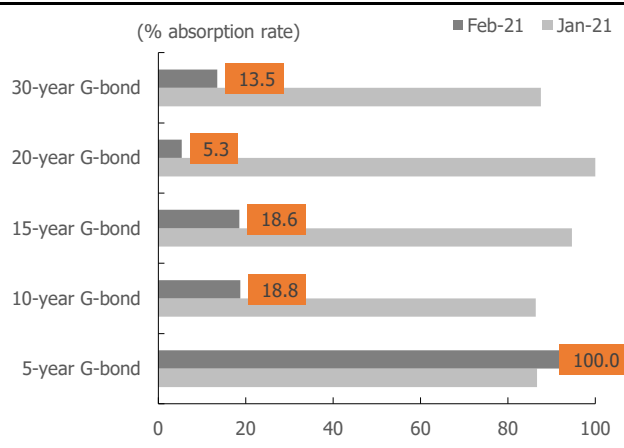


Source: Bloomberg, KIS, HNX

**PREDICTION:**

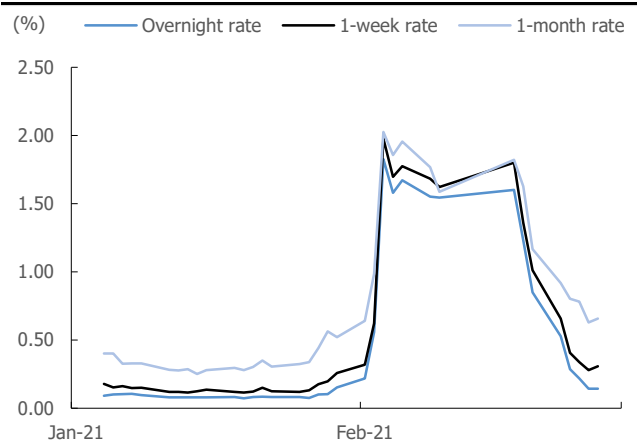
Following a recent surge in global G-bond yields, Vietnam G-bond yields also faced a similar situation. Firstly, as the economic activity continues on normalization, investment capital was flying from G-bonds to riskier asset classes. It can be seen that the absorption rates for all tenors were considerably low in February. Furthermore, the lending activity in the first credit market starts picking up from November, causing the liquidity conditions in the banking system more tightening than before. As a result, short-term interbank rates are moving far from near-zero levels. Thirdly, Vietnam inflation will likely continue going up due to pressure from energy prices, which is the enemy of a low-yield environment. Finally, based on the 1Q21 bond issuance plan from the Ministry of Finance, nearly VND60tn G-bonds would be offered in March under a currently decreasing demand, which would put more upward pressure on G-bond yields in the primary market.

**Figure 19. Absorption rates by tenors**



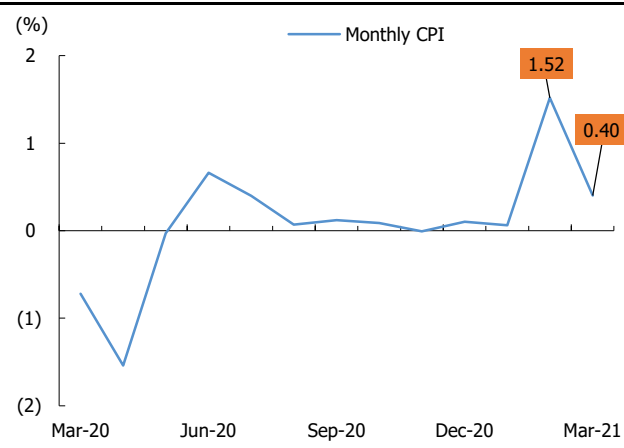
Source: HNX, KIS

**Figure 20. Short-term interbank rates**



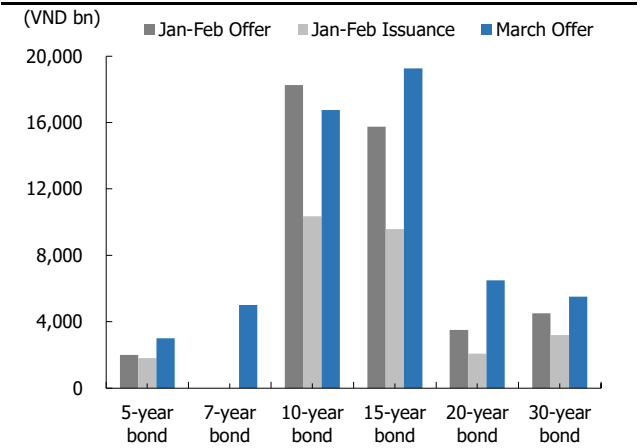
Source: HNX, Bloomberg, KIS

**Figure 21. CPI Forecast in March**



Source: GSO, KIS

**Figure 22. 1Q21 G-bond issuance/completion**



Source: Bloomberg, KIS, HNX

From those points above, we expect that the yield curve would continue moving upward, and the long-term yields (greater than 10-year maturity) would see stronger upward pressure.



## IV. USD strengthens under rising bond yield

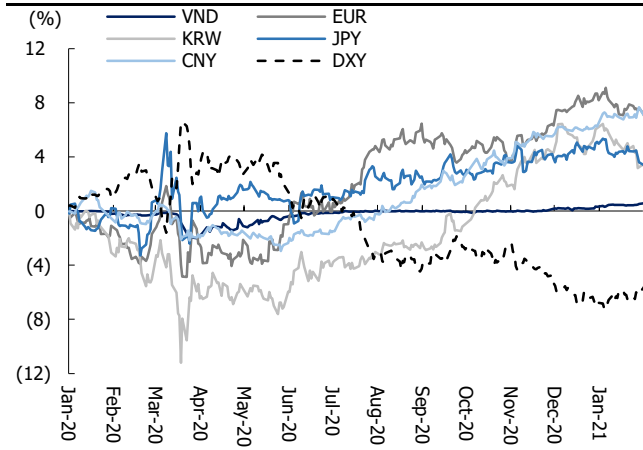
### Rising U.S. bond yields support USD rebound

In February, USD continued its rebound for the second month, driven by a rise in the U.S. bond yields. By the end-February, the U.S. dollar benchmark, the DXY index, climbed to 90.8 and appreciated by 0.32% MoM. Being affected by increasing U.S. dollar strength, all other currencies in our watchlist were underperforming against the greenback, excluding VND.

More details, JPY, EUR, and KRW continued to depreciate against USD for two months straight. While JPY posted a big drop of 1.77% MoM, EUR and KRW fell by 0.53% MoM and 0.41% MoM, respectively. Furthermore, CNY also saw the first drop of 0.77% MoM after an eight-month increasing streak.

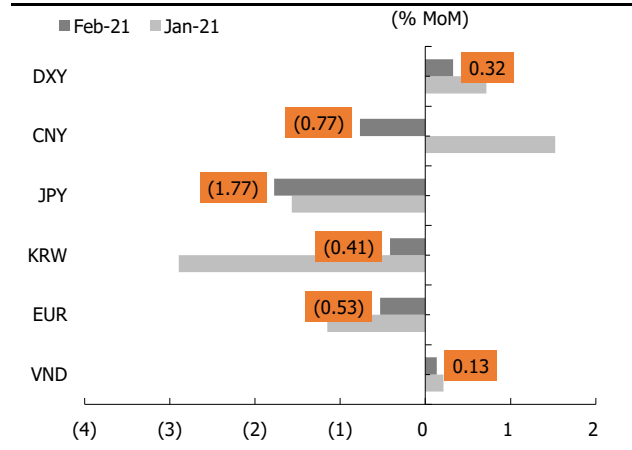
Since the Vietnam State Bank (SBV) changed its USD-purchasing mechanism from spot trade to 6-month forward contracts, VND continuously appreciated against USD, although the increase was just slightly. In the month, VND continued its 5-month gaining streak when growing 0.13% MoM.

Figure 23. Movements of VND, USD, CNY, KRW, JPY, and EUR



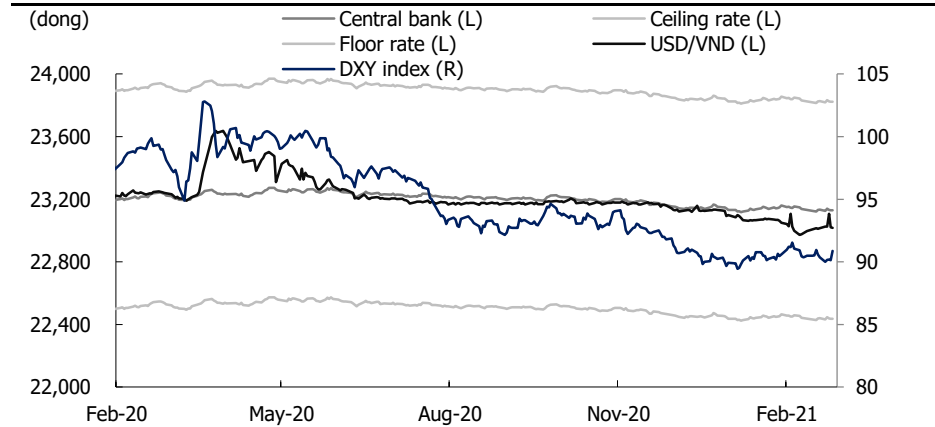
Source: Bloomberg, KIS

Figure 24 Monthly changes in VND, USD, CNY, KRW, JPY, and EUR



Source: Bloomberg, KIS

Figure 25. USD/VND rate and DXY index



Source: Bloomberg, KIS

## Macro scorecard

(USD bn, USD, %, % YoY)

	Sep-20	Oct-20	Nov-20	Dec-20	Jan-20	Feb-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	1.67	2.27	2.95	2.10	2.02	3.44	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	27.16	27.26	25.24	27.65	28.55	20.00	63.52	59.33	79.74	79.00	215.1	243.5	263.6	263.6
Import	24.20	24.27	24.69	27.91	26.46	20.80	59.69	57.41	69.02	76.46	213.2	236.7	254.4	254.4
Export growth	16.57	12.21	10.73	22.75	55.13	(4.70)	7.99	(6.82)	10.61	13.48	21.82	13.19	8.16	8.16
Import growth	12.58	9.00	15.69	24.51	41.32	10.51	4.03	(9.46)	3.74	15.81	21.85	11.01	7.41	7.41
Inflation	2.98	2.47	1.48	0.19	(0.97)	0.70	3.53	3.57	3.81	3.24	3.53	3.54	2.79	2.79
USD/VND	23,188	23,181	23,141	23,126	23,049	23,018	23,637	23,206	23,184	23,126	22,698	23,175	23,173	23,173
Credit growth	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	2.52	2.21	2.26	2.01	2.03	2.13	3.24	3.07	2.65	2.01	5.14	5.07	3.37	3.37

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