

Fixed-income Perspectives

Chance to interest rate rise adds up slowly

ON to gradually move up

Interbank rates in March returned to previous low levels with a multiple-month high trading value, confirming that the notable shortage in February-early was just seasonal. The credit growth this month posted 2.04%, higher than the previous estimate of 1.7%. Along with the COVID19 control was going brighter, SBV's officials recently upgraded their economic outlook and correspondingly indicated that the credit activities would be going better than forecasted at the beginning of the year. However, interbank and deposit rates generally kept staying low, suggesting that the liquidity in the banking system was persistently abundant. Therefore, it will take time for the interbank market to reverse the existing super-low rate environment.

Loosening upward pressure on bond yields

Primary and secondary G-bond markets remained subdued in March with increasing medium-and-long-term bond yields and low investment and trading activities. It seems investors become more cautious and play a "wait-and-see" strategy, waiting for a clearer picture in the coming months. In our view, upward pressure on bond yields is loosening at the present, and G-bond yields would likely remain in a tight range with low volatility in April.

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KIS leading economic index

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

	1Q20	2Q20	3Q20	4Q20	2019	2020	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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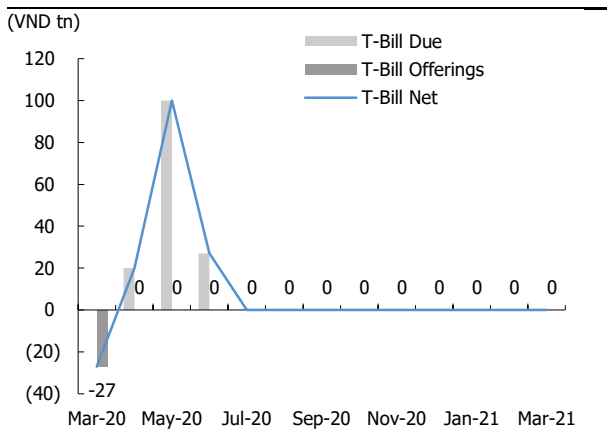
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I. OMO: the silence backs

OMO records no auction

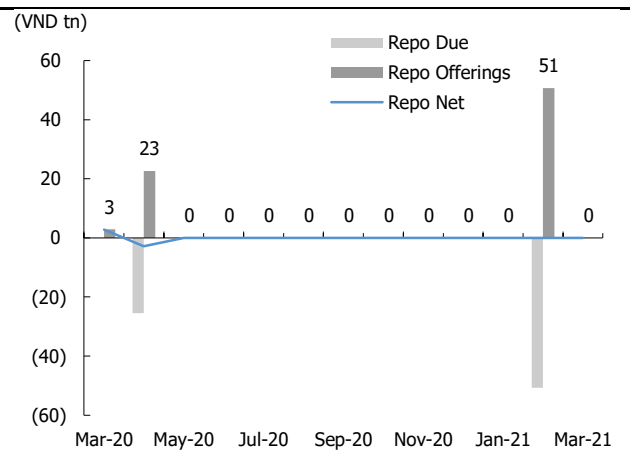
OMO trading this month returned to its familiar silence, after a noisy February, as SBV did not intervene in the liquidity of the banking system. Vietnam's central bank took back its tools when the short-term fluctuation in the liquidity transacted between commercial banks disappeared. Specifically, after issuing 7-day and 14-day repo contracts with a total value of VND50.73tn in February-begin, there was no more transaction recorded this month when the interbank overnight rate (ON) returned low following the seasonal hike in previous month.

Figure 1. T-bill transaction



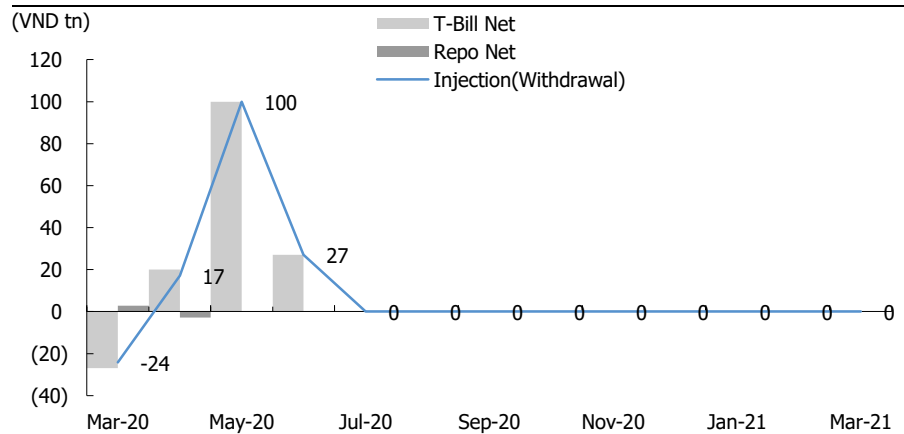
Source: Bloomberg, SBV, KIS

Figure 2. Repo transaction



Source: Bloomberg, SBV, KIS

Figure 3. Net Injection/Withdrawal



Source: Bloomberg, SBV, KIS

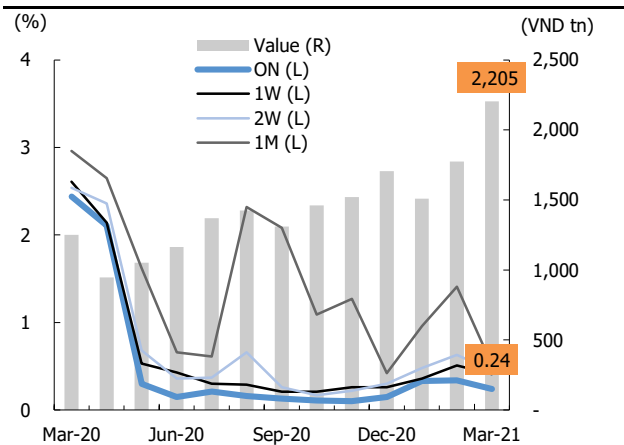
II. ON to gradually move up

Transactions in Vietnam interbank market in March reflected an inherent excessive in the liquidity among commercial banks in the pandemic era as interest rates returned to previous low levels with a multiple-month high trading value, confirming that the notable shortage in February-early was just seasonal.

Specifically, ON, 1-week, 2-week, and 1-month rates declined to 0.24%, 0.41%, 0.45%, and 1.52%, being 10bps-, 10bps-, 18bps- and 89bps-lower than respective rates in February 2021. Longer-term rates, including 3-month, 6-month, and 9-month, also moved down as decreasing by 76bps-, 1bps, and 124bps compared to the previous period to post 1.42%, 3.09%, and 4.03%, respectively.

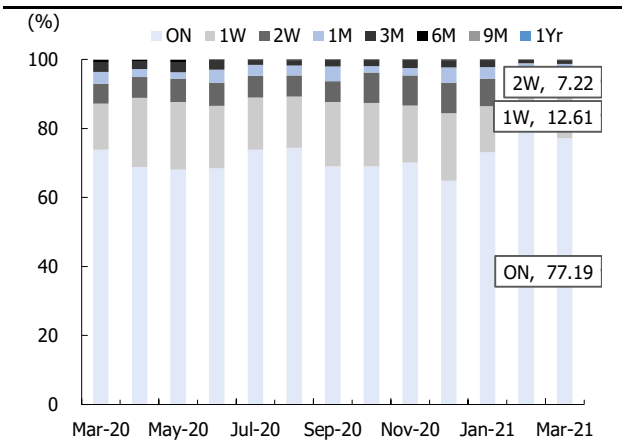
In the context of a general decline in interest rate of interbank loan, the total trading value enhanced the downtrend this month as posting VND2,205.03tn, which is 24.29%-higher compared to the previous month. By trading structure, banks paid more attention on 1-week and 2-week loans as they increased those shares higher relative to ON. In detail, trading shares of 1-week and 2-week slightly rose to 12.61% and 7.22% from 12.06% and 4.85% in February, respectively, while share of ON shrunk to 73.13% from 79.83%. Besides, trading portions of remainders changed trivially.

Figure 4. Interbank transaction



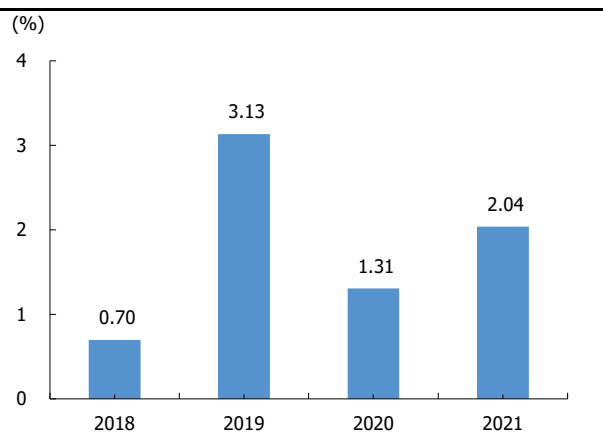
Source: Bloomberg, SBV, KIS

Figure 5. Interbank value by tenors



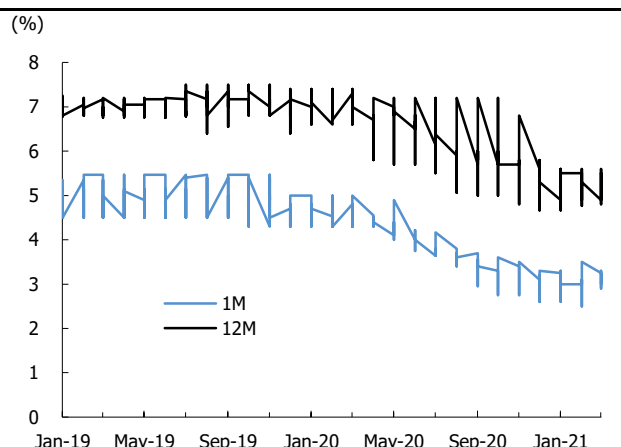
Source: Bloomberg, SBV, KIS

Figure 6. Credit growth by month-of-year



Source: Bloomberg, SBV, KIS

Figure 7. Historical deposit rates



Source: Bloomberg, SBV, KIS

PREDICTION:

The credit growth in March posted 2.04%, higher than the previous estimate of 1.7%. Along with the COVID19 control was going brighter, SBV’s officials recently upgraded their economic outlook and indicated that the total loan value of the banking industry could rise by 12% YTD, fairly higher compared to what estimated at the beginning of the year. However, interbank and deposit rates generally kept staying low, suggesting that the liquidity in the banking system was persistently abundant. Therefore, it will take time for the interbank market to reverse the existing super-low rate environment.

III. Loosening upward pressure on bond yields

Demand for G-bonds remained subdued in G-bond auctions

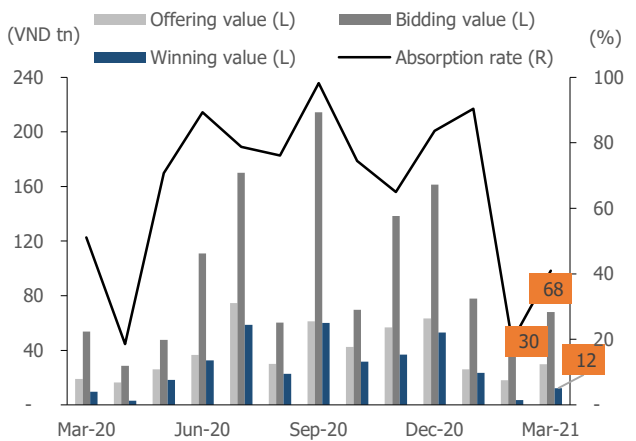
Based on results of G-bond auctions during March, investors on the primary G-bond markets became more cautious, playing a “wait-and-see” strategy and waiting for a clearer picture in coming months. The upward pressure on the G-bond yields was observable throughout the month but became softened by late March.

Overall, all three criteria, including offering, bidding, and matching values, bounced strongly compared to February. However, those amounts were still significantly lower than pre-Tet levels, especially if we compare it to the third and fourth quarters of last year.

In more detail, during 21 G-bond auction sessions in March, the Vietnam State Treasury (VST) offered a total of VND29.75tn G-bonds from 5-year to 30-year maturity, a 3-month high and up by 65.28% MoM. The bidding value also raised to VND68.09tn, equal to a 60.89% MoM increase. Finally, there was just a VND12.19tn amount successfully issued by the end month, which is the second-lowest in 11 months. The absorption rate also recorded a second low since May last year, at 41%.

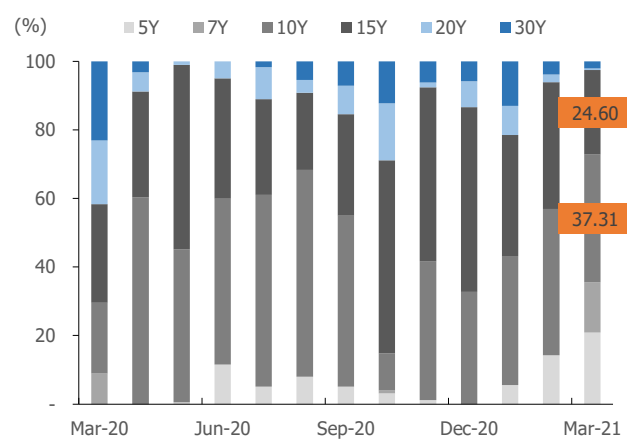
Furthermore, G-bond yields for most tenors fell modestly by from 4 bps to 9 bps, in which long-term yields (equal or greater than 10-year maturity) saw relatively stronger pressure than medium-term yields. More specifically, 5-year, 7-year, 10-year, 15-year, 20-year, and 30-year G-bond yields were recorded at 1.08%, 1.46%, 2.26%, 2.48%, 2.89%, and 3.05%, respectively.

Figure 8. Government bond issuance



Source: HNX, KIS

Figure 9. Issuing value by tenor



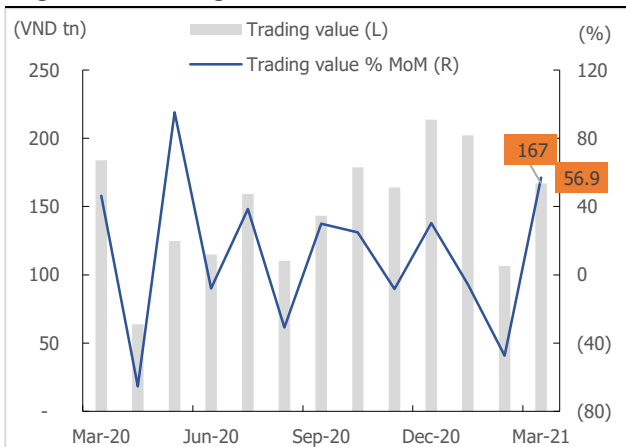
Source: HNX, KIS

G-bond trading rebounded but remained lower than pre-Tet level

Similar to the primary market, trading activity on the G-bond secondary market also rebounded considerably from a low in the previous month. Total trading value was recorded VND167.01tn, increasing by 56.9% MoM.

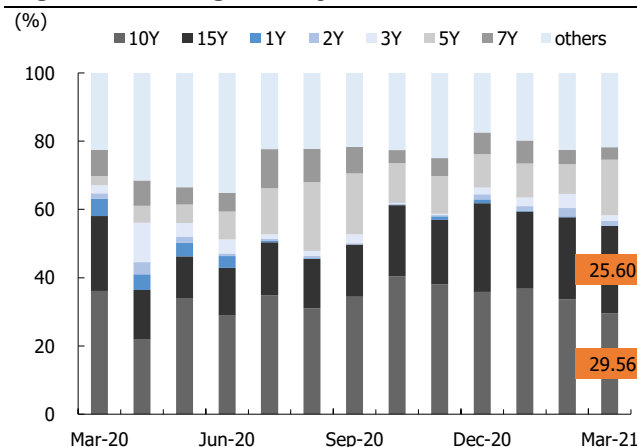
By tenors, 10-year and 15-year G-bonds trading accounted for 29.56% (VND49.37tn) and 25.60% (VND42.75tn) of total trading value. It is also noticing that trading on 5-year G-bonds made up 16.29% of total value (VND27.21tn), nearly 3 times larger than in February. Meanwhile, the trading value for other tenors was insignificant.

Figure 10. Trading value



Source: HNX, KIS

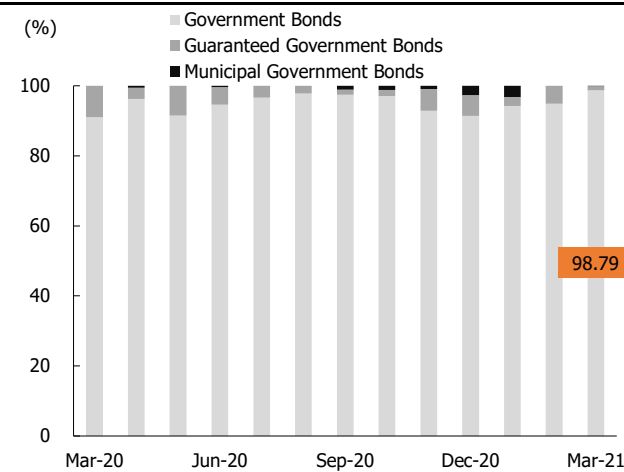
Figure 11. Trading value by tenor



Source: HNX, KIS

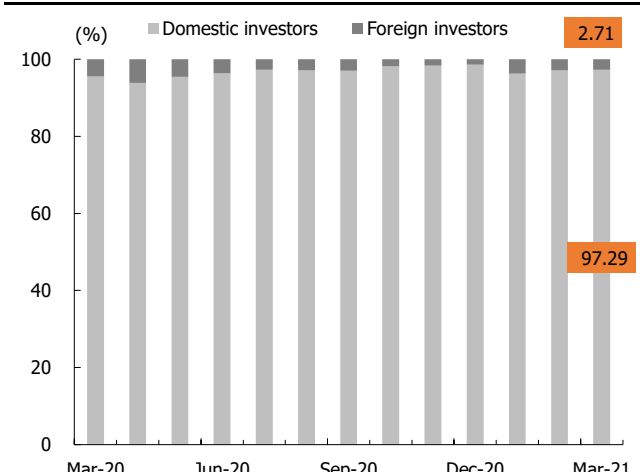
By bond type, 98.79% of the total trading value (VND164.99tn) were from government bonds, while government-guaranteed bonds and municipal bonds accounted for just 1.16% (VND1.94tn) and 0.04% (VND0.07tn) of total trading value. Regarding investor types, domestic investors made up 97.29% of total trading value, the remaining 2.71% was from foreign investors.

Figure 12. Trading value by bond type



Source: HNX, KIS

Figure 13. Trading value by investor



Source: HNX, KIS

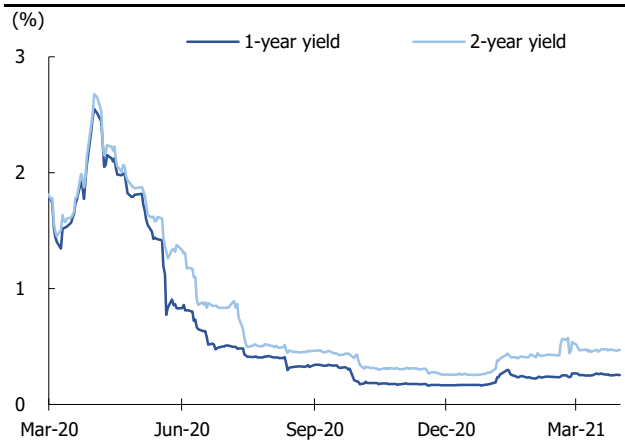
Upward pressure continued to weigh on long-term yields

The upward pressure continued to weigh on long-term G-bond yields in March, while this pressure was diminishing for short-term yields thanks to lessening liquidity pressure in the banking system. As a result, there was a divergence in the yield curve movement in the month. While the left tail of the yield curve (short-term yields) was shifting downward, while the right tail (representing longer-term yields) was moving upward.

Regarding the yield curve left tail, 1-year and 2-year yields fell by 1.3 bps and 6.9 bps to 0.26% and 0.47%. Meanwhile, 3-year and 4-year yields also dropped by 3.0 bps and 0.8 bps to 0.65% and 0.88%. The drop in the short-term yields is mainly impacted by improving liquidity conditions in the banking system and lowering short-term interbank rates. In contrast, the impact of the more easing banking liquidity was insignificant for 5-year and 7-year yields as those yields climbed modestly by 1.5 bps and 5.8 bps to 1.10% and 1.54%.

In contrast, long-term G-bond yields, including 10-year, 15-year, 20-year, and 30-year yields, moved up further for the 2nd month straight, continuing the upward momentum from February. 20-year and 30-year yields went up the most by up to 8.9 bps and 9.5 bps to 3.03% and 3.18%. To a lesser extent, 10-year and 15-year yields rose by 4.0 bps and 4.7 bps to 2.40% and 2.61%, respectively.

Figure 14. Short-term yields



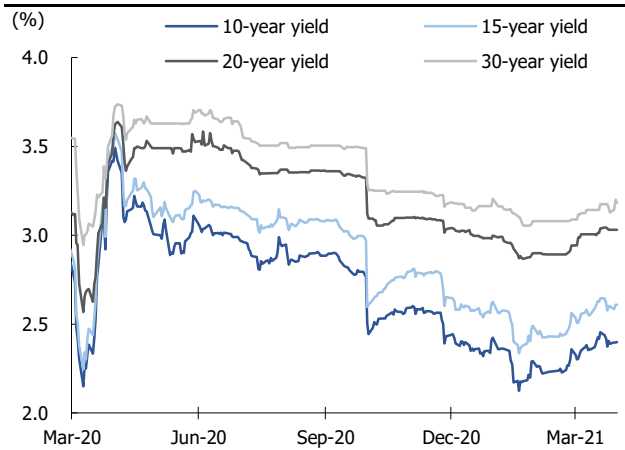
Source: HNX, VBMA, KIS

Figure 15. Mid-term yields



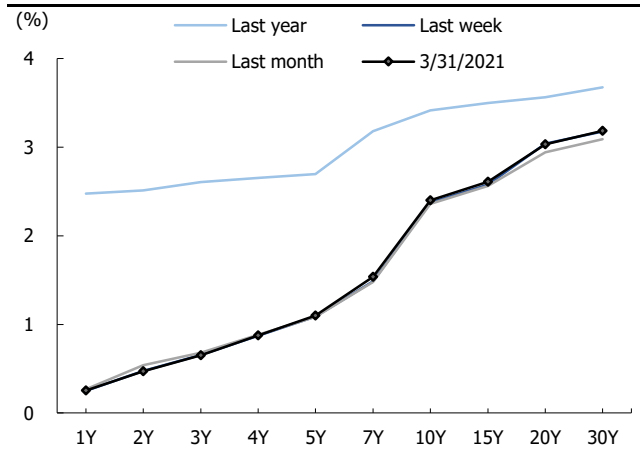
Source: HNX, VBMA, KIS

Figure 16. Long-term yields



Source: HNX, VBMA, KIS

Figure 17. G-bond yield curve



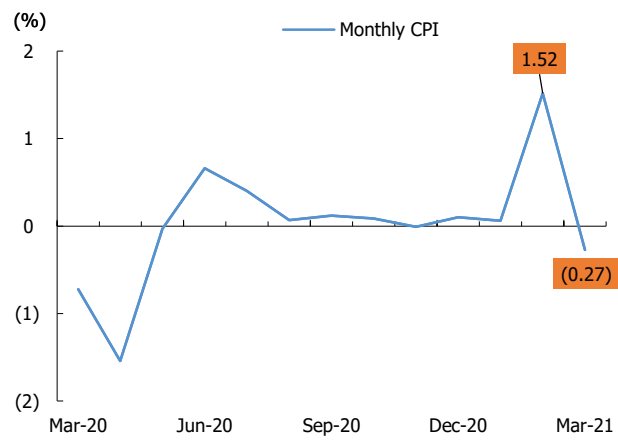
Source: HNX, VBMA, KIS

PREDICTION:

In the previous report, we mentioned about four upward pressure on G-bond yields in the near term. This includes high inflation expectation, increasing supply of G-bonds at the end of the 1st quarter, tightening banking liquidity due to imbalance in deposit-lending banking activity, and risk-seeking investors' appetite. However, the impacts of the first two factors are diminishing as inflation is losing upward momentum and 2Q21 G-bond issuance is yet disclosed. However, from the latest update for 1Q21 banking activity from SBV, credit growth relatively outpacing deposit growth would make banking liquidity become thinner, which would discourage banks' demand for G-bonds at current low-yield levels.

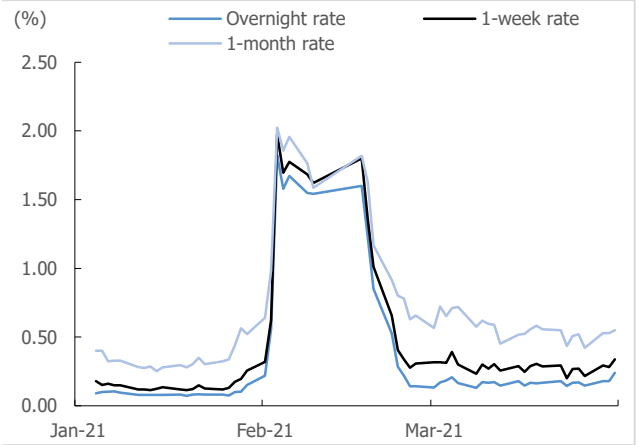
From our view, investors would likely hold their cautious sentiment on the G-bond markets in April. G-bond yields would remain in a tight range with low volatility, while G-bond trading in the primary and secondary markets would continue to be subdued.

Figure 18. Reversal of CPI upward trend



Source: HNX, KIS

Figure 19. Short-term interbank rates



Source: HNX, Bloomberg, KIS

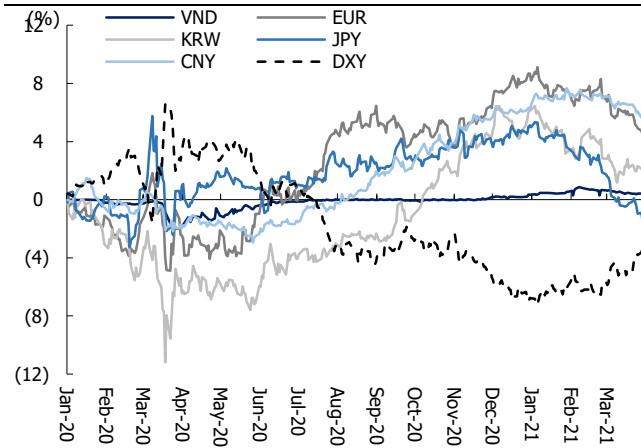
IV. USD rallies to a 5-month high

Rising U.S. bond yield drives USD recovery to a 5-month high

Being driven by a rising U.S. bond yield and faster-than-expected U.S. economic recovery, USD upward trend continued for the 3rd month with recovery pace reaching the fastest in 21 months. By March-end, USD index surged by about 2.42% MoM to a 5-month high of 93.13. The remarkable increase in USD put strong upward pressure on all currencies in our watchlist and VND as well. Interestingly, 5 watchlist currencies, including CNY, JPY, KRW, EUR, and VND, loss by 1.69% MoM in average against the greenback. This is the worst performance in nearly three years since June 2018.

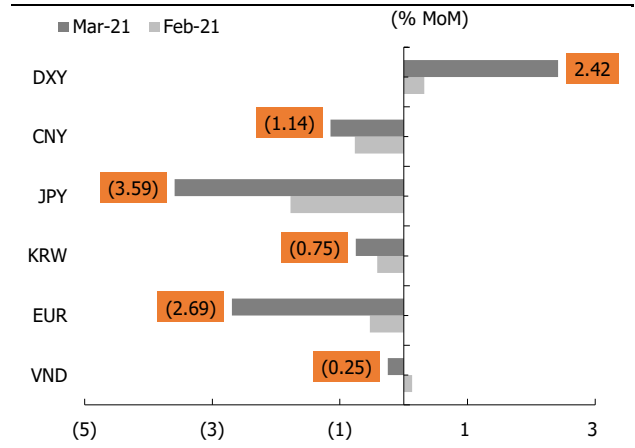
More specifically, JPY, EUR, and KRW continued to depreciate against USD for the third month, in which JPY and KRW saw the biggest drops in 34 months and 52 months, by 2.69% MoM and 3.59% MoM, following by a 0.75% MoM decrease in EUR. CNY also fell for the second month with a decreasing pace hitting a 19-month high, by 1.14% MoM. VND also saw the biggest loss in 1-year, by 0.25% MoM, after increasing in 5 months.

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



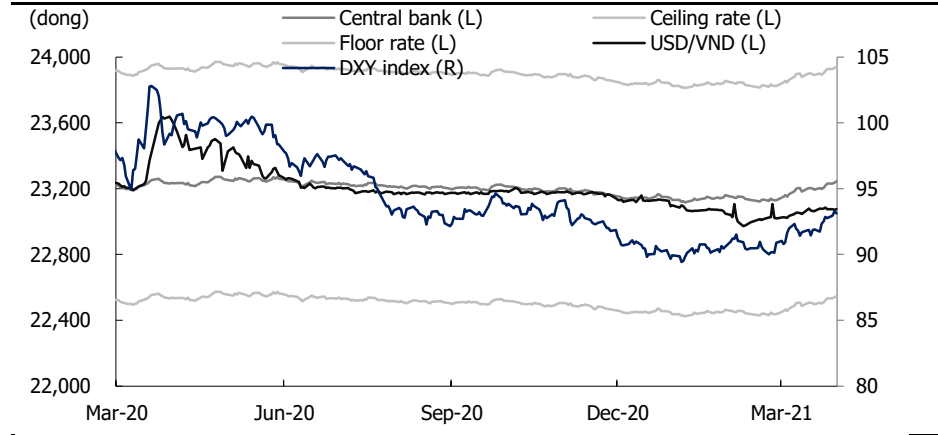
Source: Bloomberg, KIS

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)

	Oct-20	Nov-20	Dec-20	Jan-20	Feb-20	Mar-20	2Q20	3Q20	4Q20	1Q21	2017	2018	2019	2020
Real GDP growth			4.48			4.48	0.36	2.62	4.48	4.48	6.81	7.08	7.03	2.91
Registered FDI	2.27	2.95	2.10	2.02	3.44	4.67	7.12	5.54	7.32	10.13	35.88	35.47	38.02	28.53
GDP per capita											2,353	2,551	2,730	
Unemployment rate											2.21	2.21	2.25	2.48
Export	27.26	25.24	27.65	28.55	20.20	28.60	59.33	79.74	80.15	77.34	215.1	243.5	263.6	282.7
Import	24.27	24.69	27.91	26.46	20.66	28.20	57.41	69.02	76.86	75.32	213.2	236.7	254.4	263.0
Export growth	12.21	10.73	22.75	55.13	(3.77)	18.53	(6.81)	10.61	15.14	21.76	21.82	13.19	8.16	7.02
Import growth	9.00	15.69	24.51	41.32	9.75	27.32	(9.46)	3.74	16.43	26.17	21.85	11.01	7.41	3.81
Inflation	2.47	1.48	0.19	(0.97)	0.70	1.16	3.57	3.81	3.24	0.30	3.53	3.54	2.79	3.24
USD/VND	23,181	23,141	23,126	23,049	23,018	23,076	23,206	23,184	23,126	23,076	22,698	23,175	23,173	23,126
Credit growth	6.15	8.46	10.14				3.26	6.10	10.14		18.24	13.89	13.70	10.14
10Y gov't bond	2.21	2.26	2.01	2.03	2.13	2.37	3.07	2.65	2.01	2.01	5.14	5.07	3.37	2.01

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