

Fixed-income Perspectives

Little room for further increases in short-term rates

ON to return lower

The ON ticked up in April due to the high demand for short-term liquidity in the long holiday season and the rising credit activity. However, the SBV's dispatch 3029/NHNN-TTGSNH seems to partly slow this recovery, suggesting that the banking system's liquidity tends to be more excessive, and interbank rates accordingly would reduce next month. Furthermore, deposit rates generally remain stable at a low level, implying that commercial banks could mobilize capital with a low cost and loosen their liquidity pressure in the interbank market. According to these arguments, we predict that interbank rates tend to be lower in May.

Bond yields to face uncertainty ahead

In contrast to a quiet mood in early months of 2021, the primary government bond market started accelerating from both supply and demand sides with a rising yield environment. From our view, the recent increase in interbank rates may slow down or even reverse in May. This would reversely create downward pressure on short-term and medium-term G-bonds. On the other hand, the current long-term yields seem to be attractive to bond investors. Combining with a gloomy outlook for CPI, we expect long-term yields to remain around the current levels.

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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

Y Nguyen

Y.nt@kisvn.vn

Tuan Doan

Tuan.doan@kisvn.vn

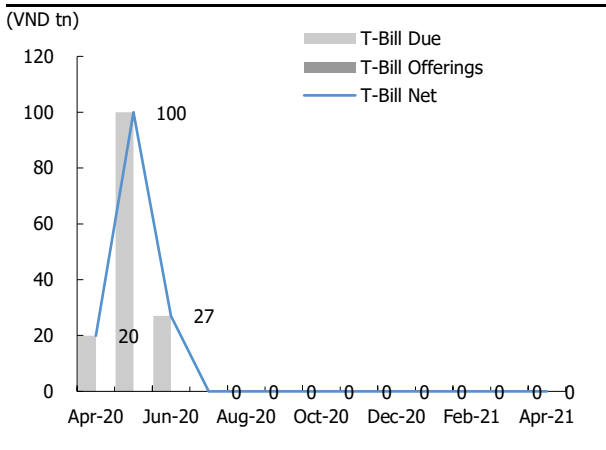
I. OMO records no transactions

OMO records no auction despite the seasonal demand

In April, open market operations remained inactive as upward pressure in the banking system's liquidity did not push interbank rates to exceed the repo rates.

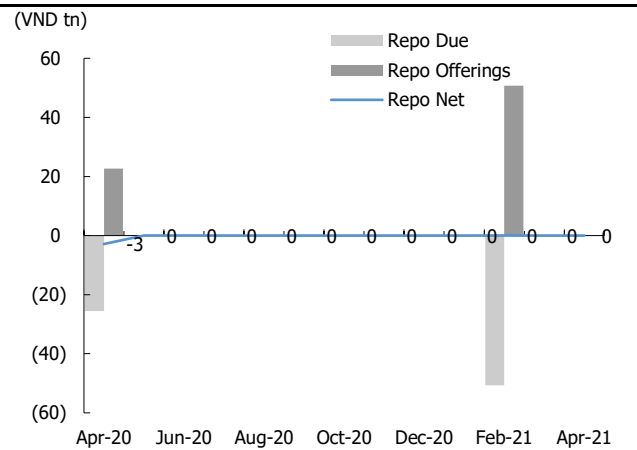
April recorded no transactions between SBV and its counterparties despite the interest rates in the interbank market gradually moved up at April-end. Indeed, SBV's current interest rate corridor is still effective when the interest rate applied for collateral loans to commercial banks kept staying at 2.50%, 160bps-higher than ON value at the end of this month. This situation indicates the liquidity status of the banking system remains stable, letting SBV hold its tools this time.

Figure 1. T-bill transaction



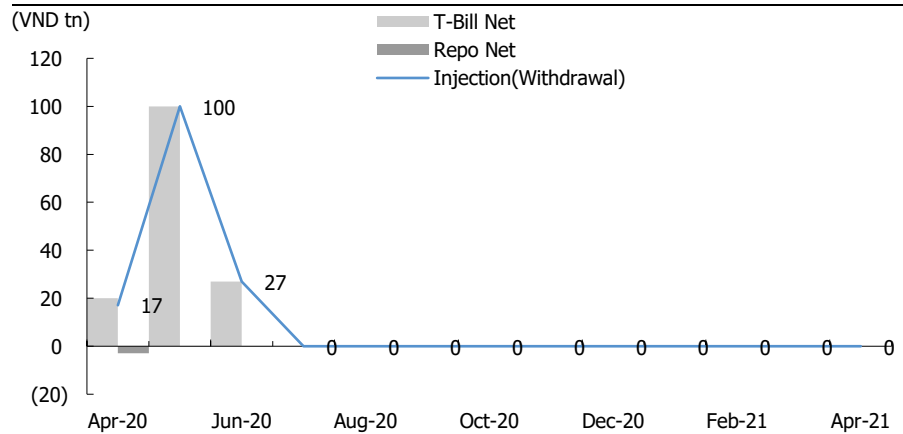
Source: Bloomberg, SBV, KIS

Figure 2. Repo transaction



Source: Bloomberg, SBV, KIS

Figure 3. Net Injection/Withdrawal



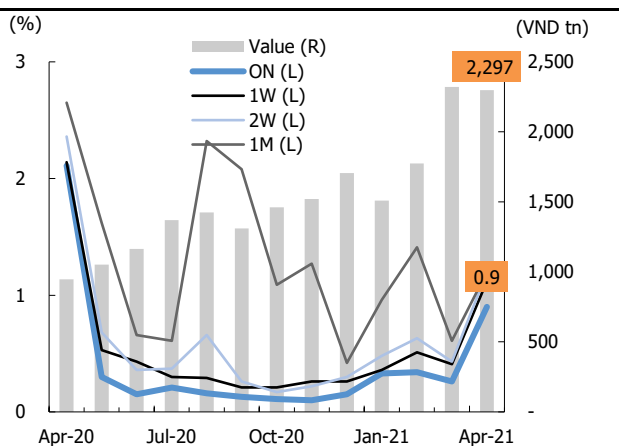
Source: Bloomberg, SBV, KIS

II. ON to return lower

April witnessed the ON ticked up in the context of the high demand for short-term liquidity in the long holiday season. Specifically, ON, 1-week, 2-week, and 1-month rates rose to 0.90%, 1.12%, 1.20%, and 1.20%, being 64bps-, 71bps-, 77bps- and 59bps-higher than respective rates in previous period. Longer-term rates, including 3-month, 6-month, slightly declined by 16bps and 29bps compared to March to post 1.51% and 2.49%, respectively.

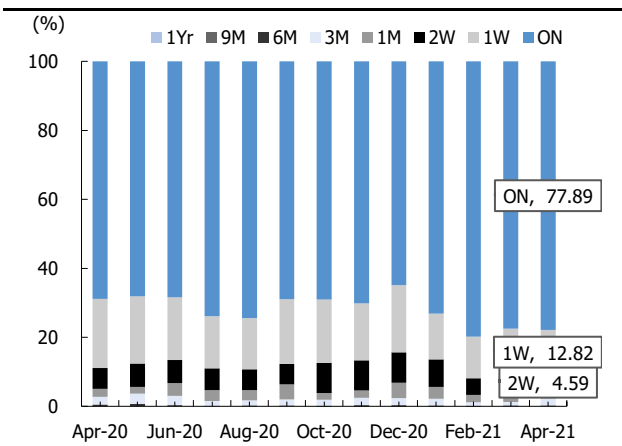
Given the general increase in interest rates of interbank loans, the total trading value appeared unchanged this month as posting VND2,297.28tn, slightly declining by 0.97% MoM. By trading structure, banks paid more attention to ON and 1-week loans as their shares increased relative to the remaining tenors. In detail, portions of ON and 1-week loans increased by 0.43% and 0.25%, climbing to 77.89% and 12.82%, while the total portion of remainders declined to 9.29% from 9.98% in March.

Figure 4. Interbank transaction



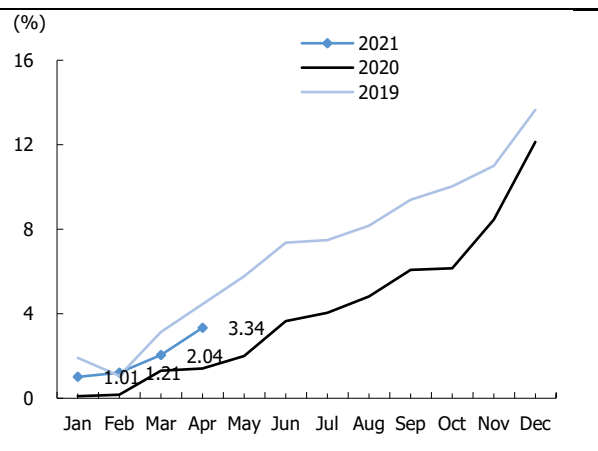
Source: Bloomberg, SBV, KIS

Figure 5. Interbank value by tenors



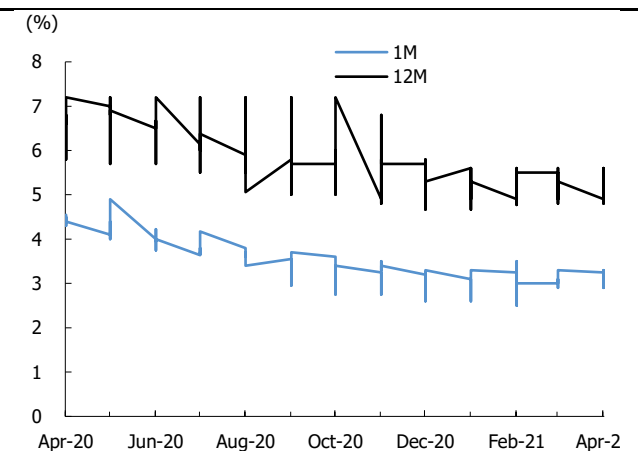
Source: Bloomberg, SBV, KIS

Figure 6. Credit growth by month-of-year



Source: Bloomberg, SBV, KIS

Figure 7. Historical deposit rates



Source: Bloomberg, SBV, KIS

PREDICTION:

The credit activities kept improving this month as the total outstanding loans increased by 3.34% YTD, much better than the same period last year. However, the SBV's dispatch 3029NHNN-TTGSNH seems to partly slow this recovery, suggesting that the banking system's liquidity tends to be more excessive, and interbank rates accordingly would reduce next month. Furthermore, deposit rates generally remain stable at a low level, implying that commercial banks could mobilize capital with a low cost and loosen their liquidity pressure in the interbank market. According to these arguments, we predict that interbank rates tend to be lower in May.

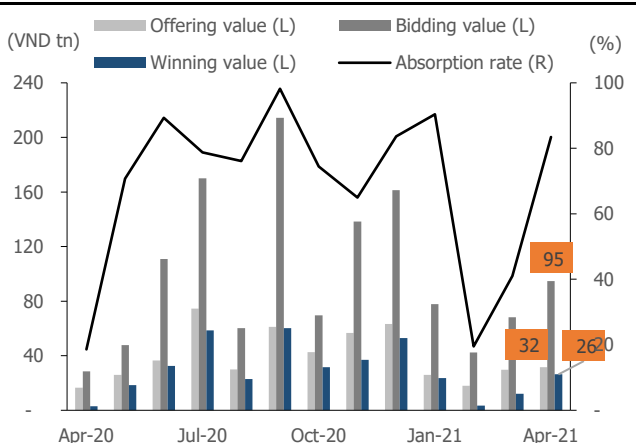
III. Bond yields to face uncertainty ahead

Higher bond yields lured bond investors

In contrast to a quiet mood in the early months of 2021, the primary government bond market started accelerating from both supply and demand sides. From the supply side, Vietnam Treasury offered a total of VND31.5tn G-bonds throughout 16 auction sessions, concentrating on 10-year and 15-year tenors. More noticeably, they offered more attractive yields to lure bond investors after continuing failure in the G-bond auction in March and April. Yields of most offered G-bonds, including 5-year, 10-year, and 15-year maturity, saw significant increases, by 6.5 bps, 10 bps, and 8.5 bps, which is derived from final auction results. More specifically, 5-year, 10-year, 15-year, 20-year, and 30-year G-bond yields were recorded at 1.15%, 2.36%, 2.56%, 2.89%, and 3.05%, respectively.

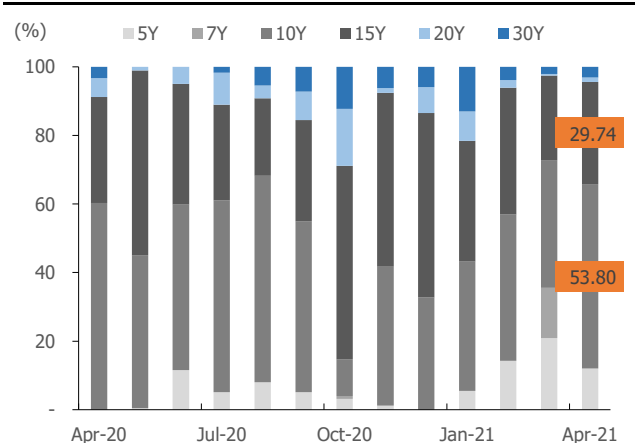
With higher yields being offered, G-bond demand also accelerated significantly compared to earlier months. All three indicators for G-bond demand, including the total registering value in the auction, the winning value also reached the highest levels in 2021. More specifically, the total registering value recorded up to USD94.59tn, increasing by 38.92% MoM, while the winning value also hit a 4-month high of VN26.30tn, rising by 115.70% MoM. As a result, the absorption ended at a 3-month high of 83.50%.

Figure 8. Government bond issuance



Source: HNX, KIS

Figure 9. Issuing value by tenor

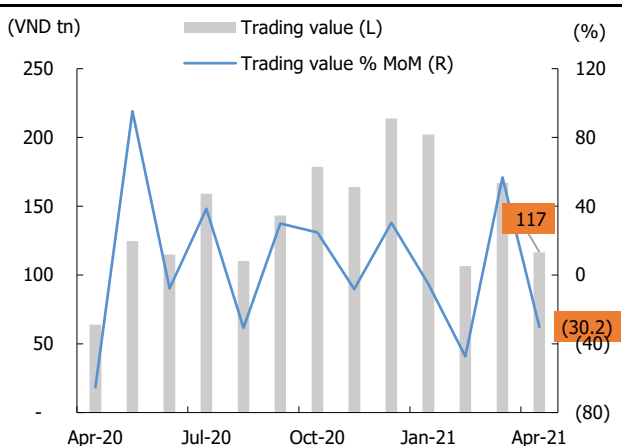


Source: HNX, KIS

G-bond trading activity slowed down to the second-lowest since September

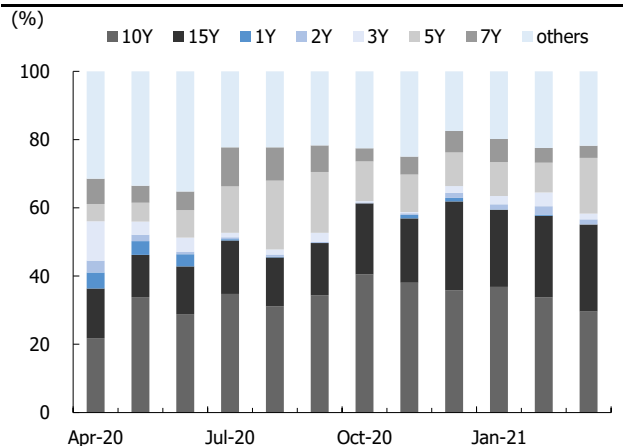
On the contrary to the primary market, trading activity in the secondary market was slowing down markedly as the trading value dropped to the second-lowest level since September 2020, at VND116.60tn and down by 30.2% MoM. The trading activity also concentrated on 10-year and 15-year G-bonds with 27.83% (VND32.45tn) and 15.44% (VND18.00tn) of total trading value, following by 5-year G-bond with 19.10% of total value (VND22.27tn). Shares of other tenors were insignificant. Compared to March, a slowdown in trading on 10-year and 15-year G-bonds was noticeable as those two G-bonds' trading value dropped by up to 34.28% and 57.88%.

Figure 10. Trading value



Source: HNX, KIS

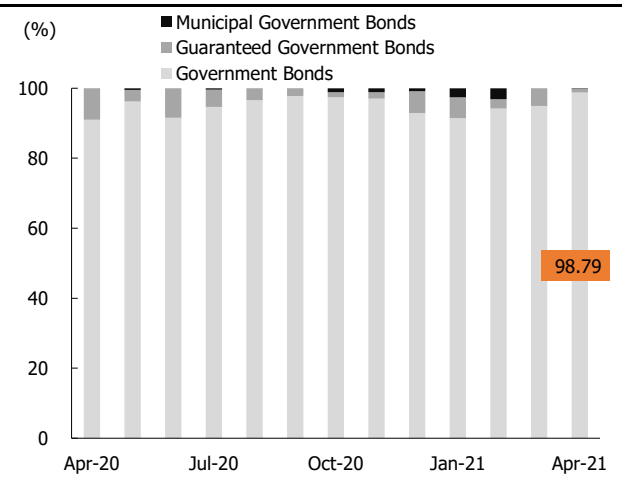
Figure 11. Trading value by tenor



Source: HNX, KIS

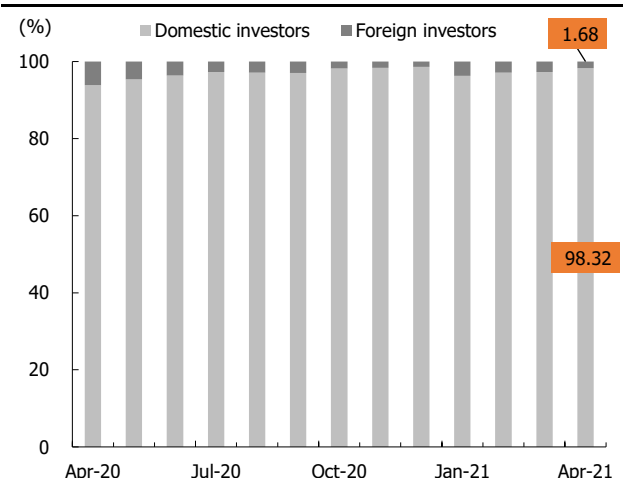
By bond type, 98.79% of the total trading value (VND113.22tn) were from government bonds, while government-guaranteed bonds accounted for just 1.16% (VND3.38tn) of total trading value. Regarding investor types, domestic investors made up 98.32% of total trading value, the remaining 1.68% was from foreign investors.

Figure 12. Trading value by bond type



Source: HNX, KIS

Figure 13. Trading value by investor



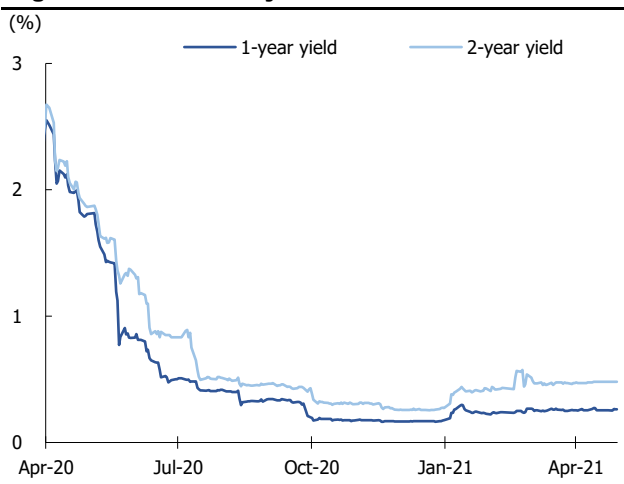
Source: HNX, KIS

Longer-term yields retreated to be lower

The G-bond yields recorded in the secondary market markedly diverged between short-term and long-term yields. With upward pressure transmitted from strongly increasing interbank rates, short-term and mid-term yields (which are found statistically correlated) also increased modestly in the month. 1-year and 2-year yields were up marginally by 0.8 bps and 1.0 bps to 0.26% and 0.48%. Poor liquidity in short-term 1-year and 2-year bonds made those corresponding yields not fully reflected the upward pressure. From our view, mid-term bonds from 3-year to 5-year is better to reflect that pressure. At April-end, yields from 3-year to 5-year saw a stronger upward pressure, resulted in increases by 3.3 bps, 5.8 bps, and 8.1 bps to 0.68%, 0.93%, and 1.18%, respectively.

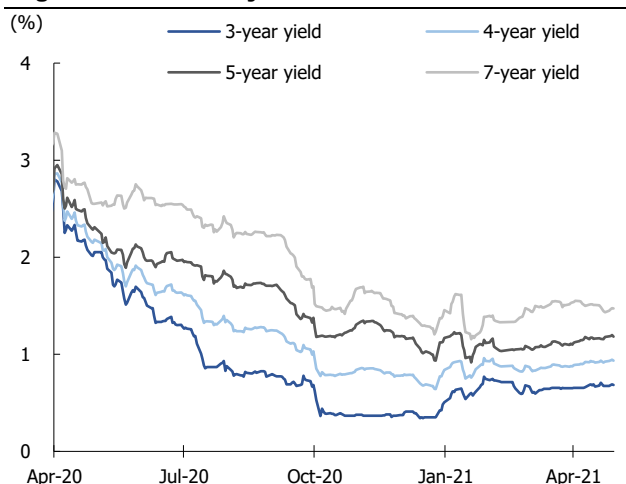
By contrast, increasing momentum on long-term G-bonds failed to extend in April. Yields from 7-year to 30-year tenors ended lower after increasing in two previous months. However, the decreasing magnitude was just modest. Combining with a large drop in trading activity on those long-term bonds, it seemingly showed uncertainty across bond investors' sentiment about the yield trend forwards. Specifically, 7-year, 10-year, 15-year, 20-year, and 30-year yields fell by 6.3 bps, 3.7 bps, 1.4 bps, 4.3 bps, and 7.5 bps, to 1.48%, 2.37%, 2.60%, 2.99%, and 3.11%, respectively.

Figure 14. Short-term yields



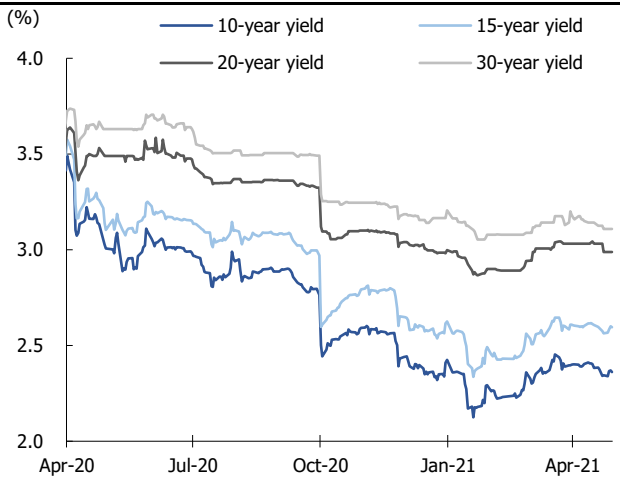
Source: HNX, VBMA, KIS

Figure 15. Mid-term yields



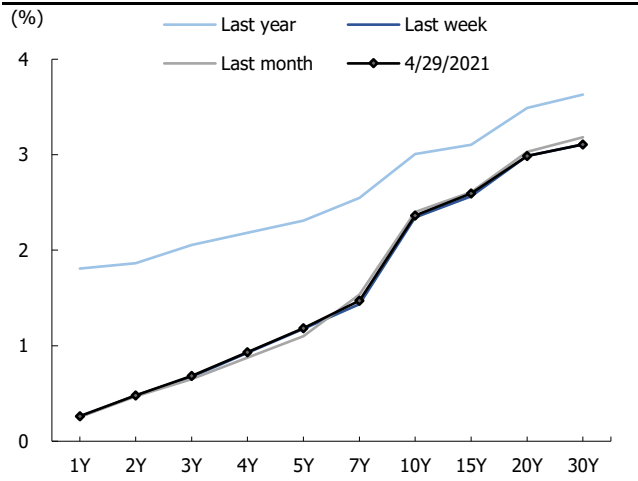
Source: HNX, VBMA, KIS

Figure 16. Long-term yields



Source: HNX, VBMA, KIS

Figure 17. G-bond yield curve



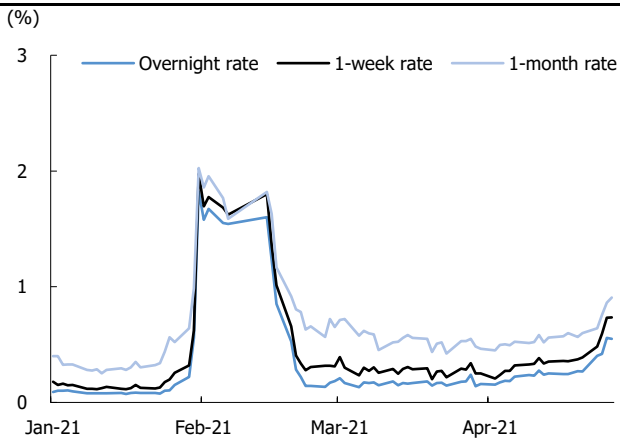
Source: HNX, VBMA, KIS

PREDICTION:

Two things should be taken into account in predicting the G-bond yields in the future. The first one is about that the recent increase in interbank rates may slow down or even reverse in May, explained in the second part. This would reversely create downward pressure on short-term and medium-term G-bonds.

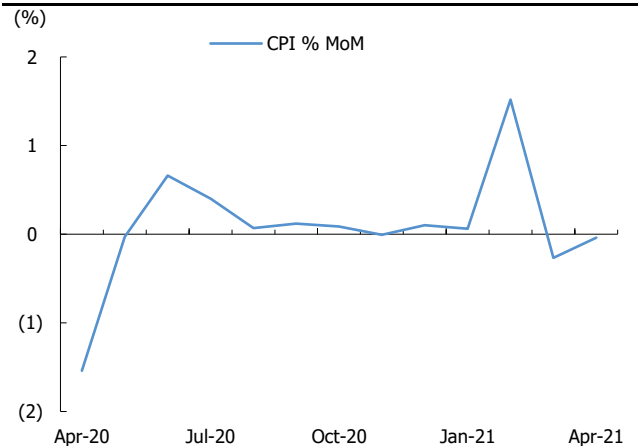
The second factor affecting the long-term yields would be inflation. However, the inflation outlook remained gloomy as CPI was dropping for the second month in April. There is also a lack of evidence to support the increase in CPI in the future, from our view. As a result, we expect long-term yields to remain at current levels or modestly lower in May.

Figure 18. Increasing short-term interbank rates



Source: HNX, KIS

Figure 19. Downward trend on CPI extends



Source: HNX, Bloomberg, KIS

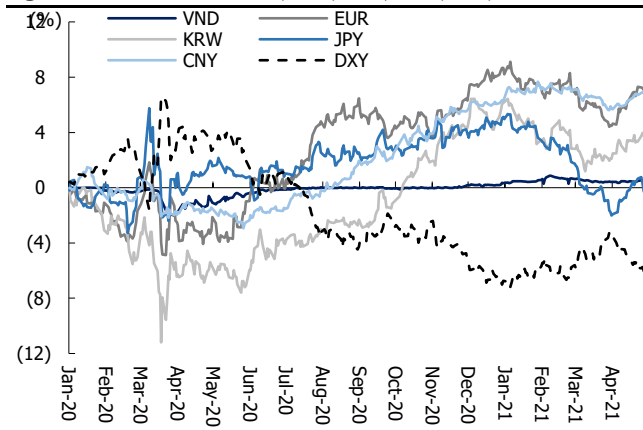
IV. USD retreats from a 3-month rally

A three-month rally in USD failed to continue

After being driven upward thanks to rising U.S. bond yields, this month a retracement from bond yields pushed USD back strongly. A rally since early 2021 saw a first stop in the year, and the decreasing magnitude was also noticeable. By April-end, USD retreated by about 2.03% compared to March.

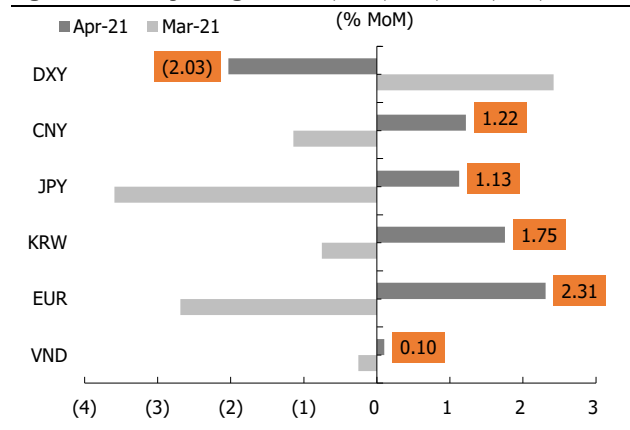
All currencies in our watchlist, by contrast, appreciated significantly from several-month loss. EUR saw the strongest increase of about 2.31% MoM among other currencies, following by a 1.75% MoM increase from KRW. To a lesser extent, CNY and also rebounded by 1.22% MoM and 1.13% MoM, respectively. VND also appreciated against the greenback, but the increase was just slightly, at 0.10% MoM. In average, these 5 currencies recovered by about 1.30% in the month, and the recovering pace reached a 5-month high.

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



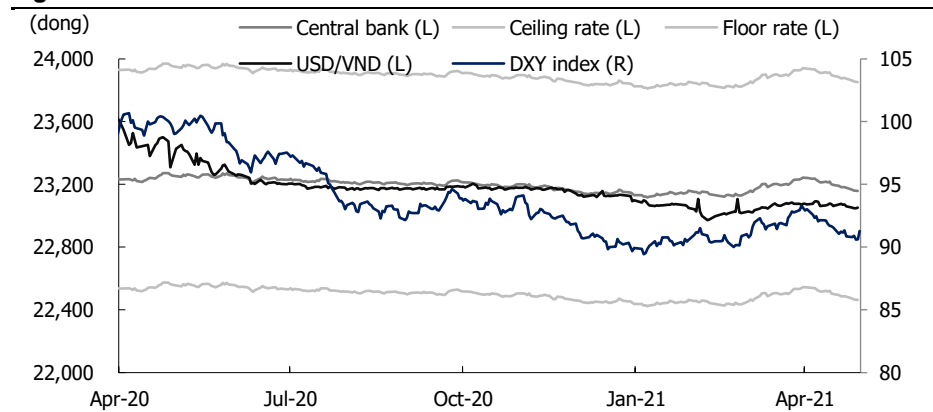
Source: Bloomberg, KIS

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)

	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	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	2.95	2.10	2.02	3.44	4.67	2.12	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	25.24	27.65	28.55	20.20	29.65	25.50	59.33	79.74	80.15	77.34	215.1	243.5	263.6	282.7
Import	24.69	27.91	26.46	20.66	28.46	27.00	57.41	69.02	76.86	75.32	213.2	236.7	254.4	263.0
Export growth	10.73	22.75	55.13	(3.77)	22.89	45.03	(6.81)	10.61	15.14	21.76	21.82	13.19	8.16	7.02
Import growth	15.69	24.51	41.32	9.75	28.48	45.77	(9.46)	3.74	16.43	26.17	21.85	11.01	7.41	3.81
Inflation	1.48	0.19	(0.97)	0.70	1.16	2.70	3.57	3.81	3.24	0.30	3.53	3.54	2.79	3.24
USD/VND	23,141	23,126	23,049	23,018	23,076	23,053	23,206	23,184	23,126	23,076	22,698	23,175	23,173	23,126
Credit growth	8.46	10.14					3.26	6.10	10.14		18.24	13.89	13.70	10.14
10Y gov't bond	2.26	2.01	2.03	2.13	2.37	2.36	3.07	2.65	2.01	2.01	5.14	5.07	3.37	2.01

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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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