

# Fixed-income Perspectives

## Rise in fixed-income rates to reverse

### ON rate to retreat

The ON rate made a slightly increase in May when the credit activity improved further. However, deposit rates generally remain stable at a low level, implying that commercial banks could mobilize capital at a low cost and loosen their liquidity pressure in the interbank market. Furthermore, the deposit of Vietnam state treasury successfully auctioned and seems to provide more significant short-term liquidity for the banking system, indicating that the interbank rates would return to a lower level in June.

### High demand to pressure on G-bond yields

Statistics in May showed that G-bond investment activity was getting very excited in the month and marked May as the best month for the G-bond primary market in 2021. "What happened in May will likely continue to happen in June" is our forecast for G-bond yields for the next month. Demand for G-bond yields in both the primary market and secondary market will likely remain strong in June as banks have to absorb a proportion of VND33tn expired G-bonds. For that reason, we expect mid-and-long-term yields to drop further in June.

## Contents

I. OMO records no transactions .....	1
II. Interbank liquidity to ease .....	2
III. High demand to pressure on G-bond yields ....	3
IV. Fears of inflation pressure on USD .....	7
<b>Macro scorecard .....</b>	<b>9</b>

## 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**

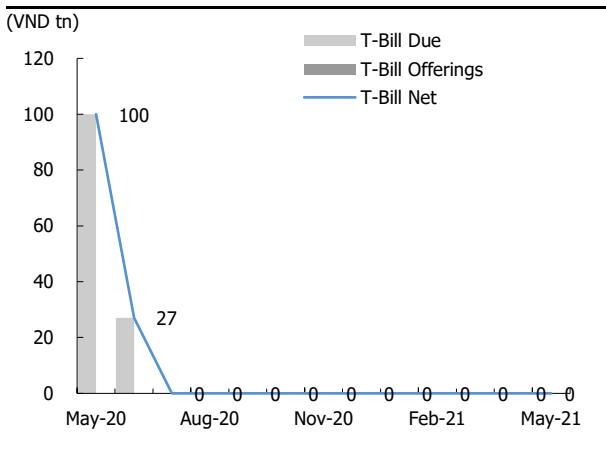
Tuan.doan@kisvn.vn

# I. OMO records no transactions

**No transaction recorded in the OMO**

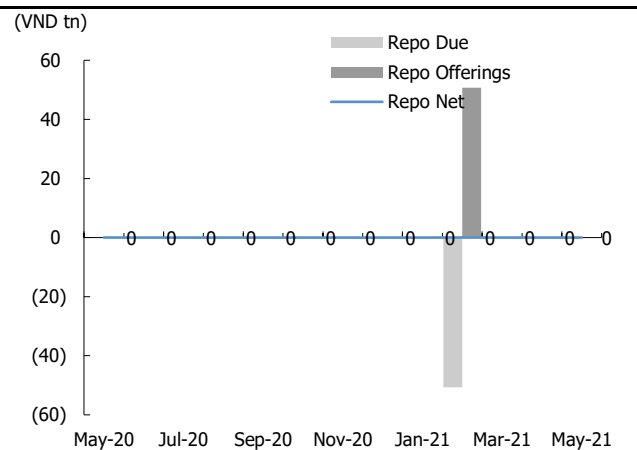
**In May, SBV sustains its monetary stance this month in the context of the temporarily high inflation and the complicated COVID19 within the country.** This month recorded no transactions between SBV and its counterparties despite the interest rates in the interbank market gradually moved up at April-end. 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**



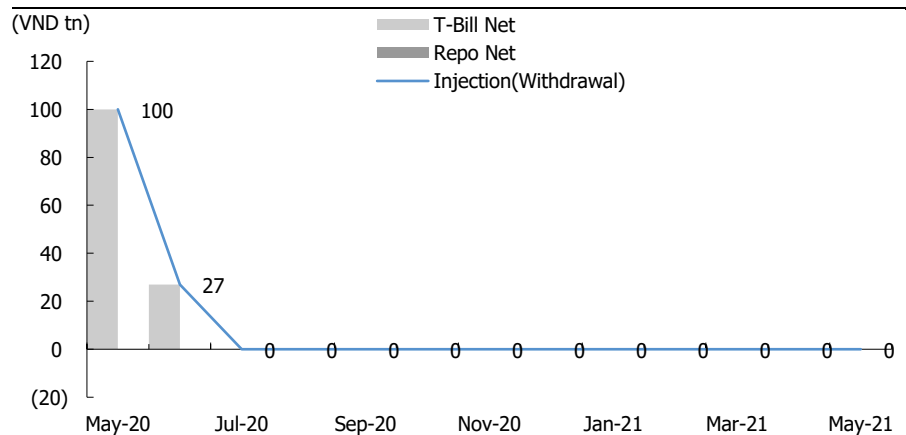
Source: Bloomberg, SBV, KIS

**Figure 2. Repo transaction**



Source: Bloomberg, SBV, KIS

**Figure 3. Net Injection/Withdrawal**



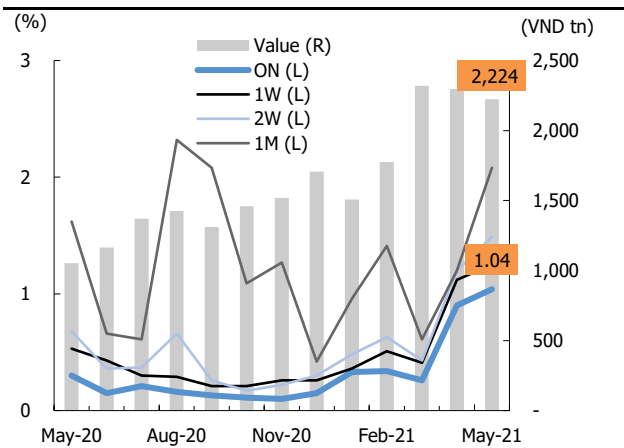
Source: Bloomberg, SBV, KIS

## II. Interbank liquidity to ease

Interbank rates in May recorded one more increase month, providing more evidence that the super-low interest rate environment existing in the pandemic era would be over. Lending costs for loans generally increase for all tenors except for the 9-month. Specifically, ON, 1-week, 2-week, 1-month, 3-month, and 6-month rates rose to 1.04%, 1.25%, 1.49%, 2.08%, 1.63%, and 3.00%, being 14bps-, 13bps-, 29bps-, 88bps-, 12bps-, and 51bps-higher than respective rates in previous period. 9-month rates slightly declined by 27bps compared to April to post 3.13%.

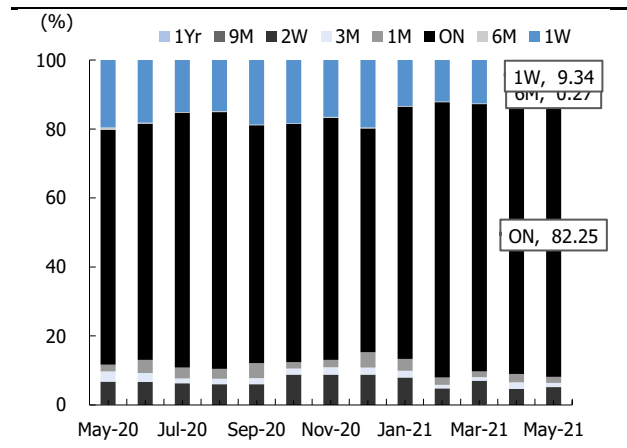
Given the general increase in interest rates of interbank loans, the total trading value made a slight reduction this month as posting VND2,224.18tn, declining by 3.18% MoM. Banks paid more attention to ON loans in the trading structure as their share increased relative to the remaining tenors. In detail, portions of ON increased by 4.36%, climbing to 82.25%, while portions of 1-week reduced from 12.82% in April to 9.34% this month.

**Figure 4. Interbank transaction**



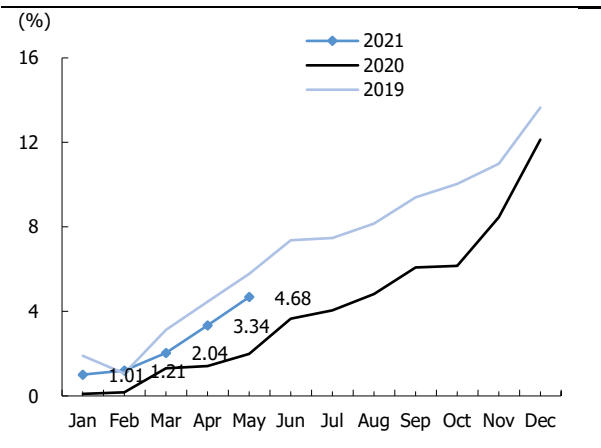
Source: Bloomberg, SBV, KIS

**Figure 5. Interbank value by tenors**



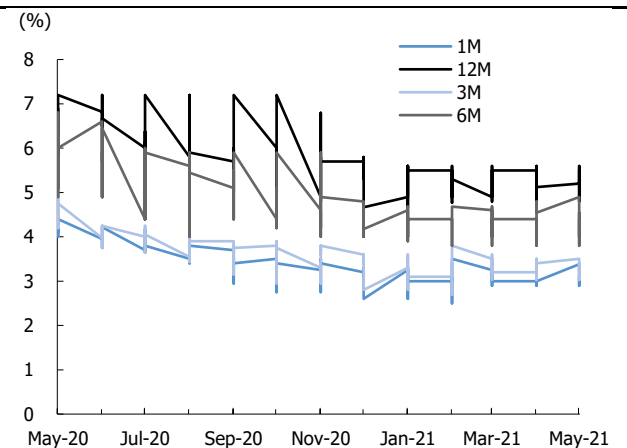
Source: Bloomberg, SBV, KIS

**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 4.68% YTD, much better than the same period last year. However, deposit rates generally remain stable at a low level, implying that commercial banks could mobilize capital at a low cost and loosen their liquidity pressure in the interbank market. Furthermore, the deposit of Vietnam state treasury successfully auctioned and seems to provide more significant short-term liquidity for the banking system, indicating that the interbank rates would return to a lower level in June.

## III. High demand to pressure on G-bond yields

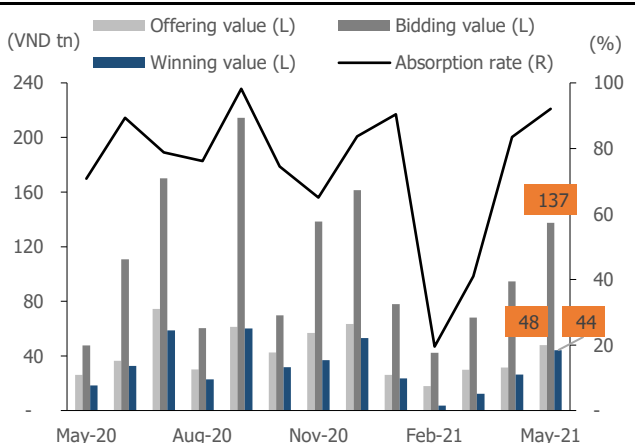
### May record the best month for government-bond auction in 2021

Statistics in May showed that G-bond investment activity was getting very excited in the month and marked May as the best month for the G-bond primary market in 2021. Throughout 16 auction sessions, Vietnam State Treasury offered a total of VND48tn G-bonds from 5-year to 30-year tenors (+ 52.38% MoM), which is the highest level in 2021 and concentrate primarily on long-term 10-year and 15-year tenors (with nearly 80% of the total). Total offers on 10-year and 15-year G-bond reached an 8-month high and a 5-month high, at VND26.5tn (+ 85.96% MoM) and VND11.0tn (+ 10.0% MoM), respectively.

From the demand side, bidding value also climbed to above VND100tn for the first time in 2021, to VND137.4tn (+ 45.25% MoM). But most notably, the auction result illustrated strong demand for G-bond in the month as over 90% of total G-bond offers were absorbed, driving the G-bond issuing up to VND44.2tn (+ 67.98% MoM) and the absorption rate to 92.1%.

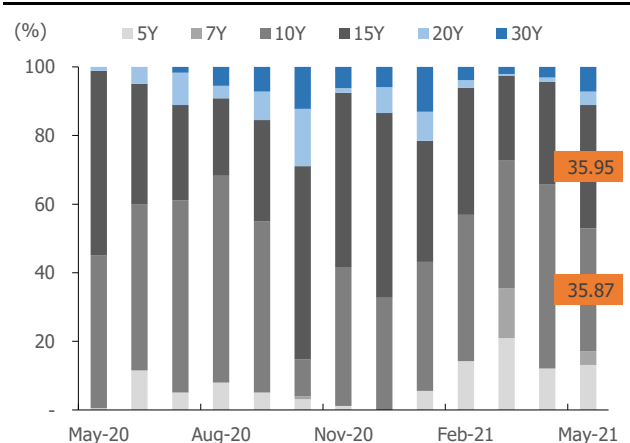
G-bond yields in the primary market were captured with small changes. Yields on 5-year, 15-year, 20-year, and 30-year tenors remained unchanged from last month, at 1.15%, 2.57%, 2.90%, and 3.05%. Only 10-year yield dropped modestly by 4bps to 2.32%.

Figure 8. Government bond issuance



Source: HNX, KIS

Figure 9. Issuing value by tenor

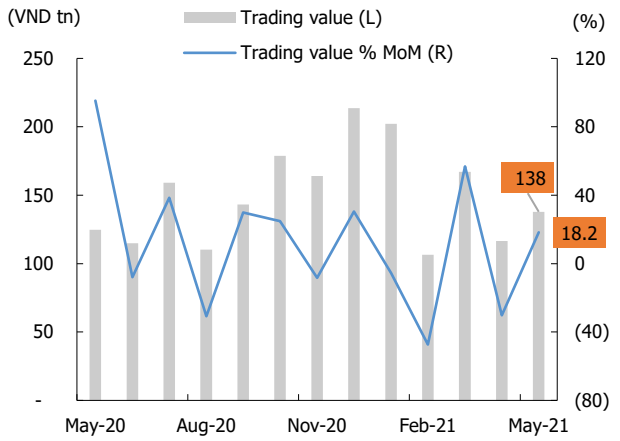


Source: HNX, KIS

**G-bond trading rebounded with demand for 10-year and 15-year G-bonds increasing**

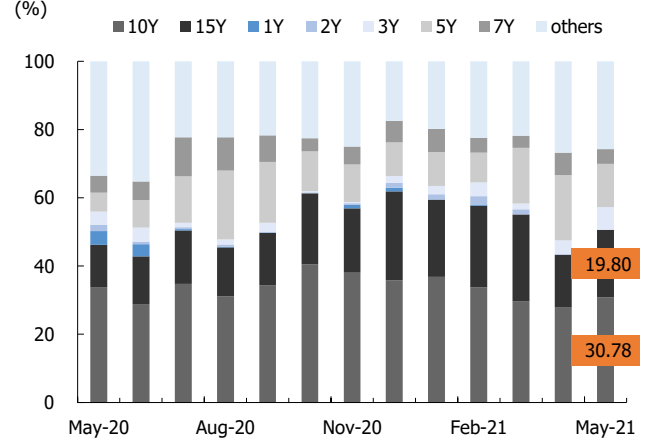
G-bond trading activity in the secondary market also saw an increasing demand in the month, although the increasing pace was relatively lower than the primary market. Total trading value rose modestly to VND137.9tn, up by 18.2% MoM. More than half of the total trading value was from long-term 10-year and 15-year G-bonds, by 30.8% (VND42.4tn) and 19.8% (VND27.3tn). Trading value on 5-year dropped somewhat to VND17.5tn, accounting for 12.7% of the total. Trading in other tenors remained insignificant.

**Figure 10. Trading value**



Source: HNX, KIS

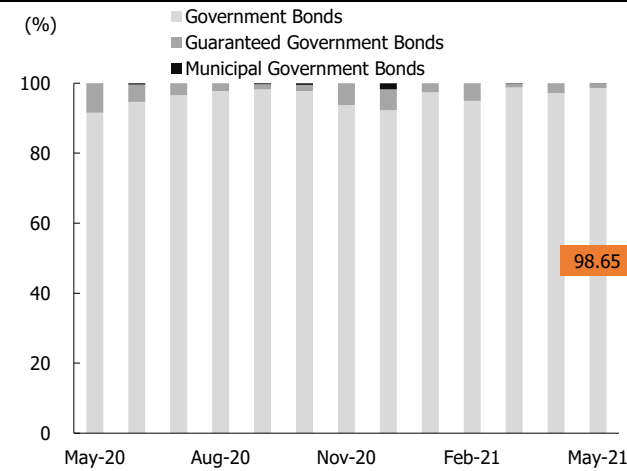
**Figure 11. Trading value by tenor**



Source: HNX, KIS

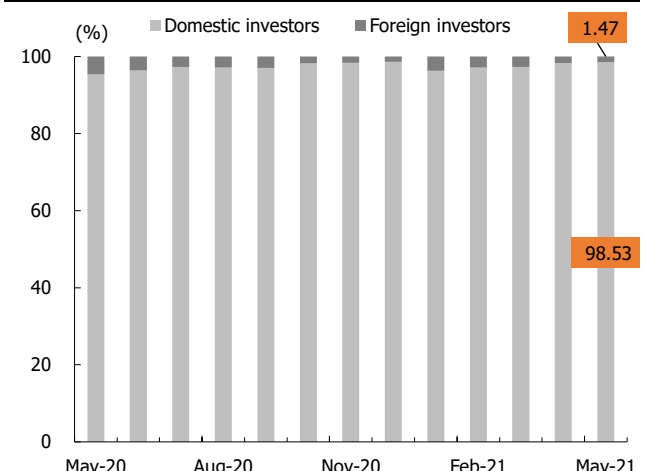
By bond type, 98.79% of the total trading value (VND136.0tn) was from government bonds, while government-guaranteed bonds and municipal bonds accounted for just 1.25% (VND1.7tn) and 0.10% (VND0.1n) of total trading value. Regarding investor types, domestic investors made up 98.53% of total trading value, the remaining 1.47% was from foreign investors.

**Figure 12. Trading value by bond type**



Source: HNX, KIS

**Figure 13. Trading value by investor**



Source: HNX, KIS

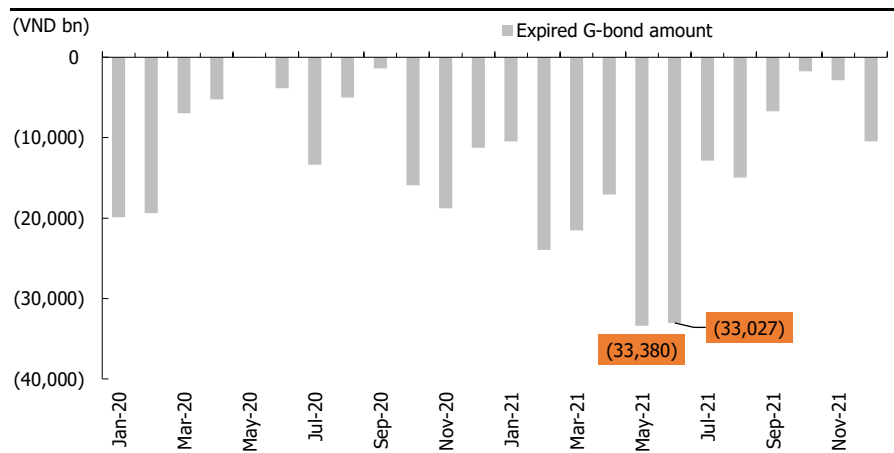
**Increasing demand put downward pressure on mid-and-long-term G-bond yields**

The G-bond yield curve in May significantly diverged among the left tail and right tail of the curve. The left-tail curve derived from yields with tenors from 1 year to less than 5 years moved upward considerably, while the right-tail one with longer-term yields shifted downward in the month. Reasons behind differences in G-bond yield movements were that different forces were moving short-term and mid-and-long-term yields in the month.

On the left tail, short-term yields faced strongly upward pressure from increasing interbank rates and G-bond-backed repo rates. 1-year, 2-year, and 3-year yields went up significantly by 25 bps, 9 bps, and 17 bps, to 0.51%, 0.57%, and 0.85%, which were the highest levels in about a year for the 1-year yield and 9 months for 2-year and 3-year yields. To a lesser extent, the 4-year yield also reached a high since October last year, up by 6 bps to about 1.0%.

On the other side, strong demand for G-bond yields put significant downward pressure on mid-and-long-term yields. From our view, a few factors are probably driving demand for G-bonds. The first thing that must be mentioned that the expired amount of outstanding G-bonds in May and June are huge, by more than VND66tn from our estimate. This means the banking system has to absorb a proportional amount of G-bonds in both the primary and secondary markets to ensure their capital ratios. The same pressure for purchasing bonds exists as several banks will scale up their capital levels in the near term (1 or 2 months), and purchasing bonds are necessary for the required capital ratios that we mentioned.

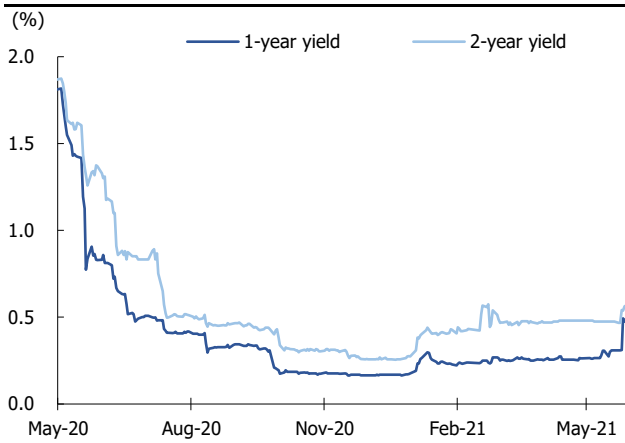
**Figure 14. Estimated monthly expired G-bond amount**



Source: HNX, KIS

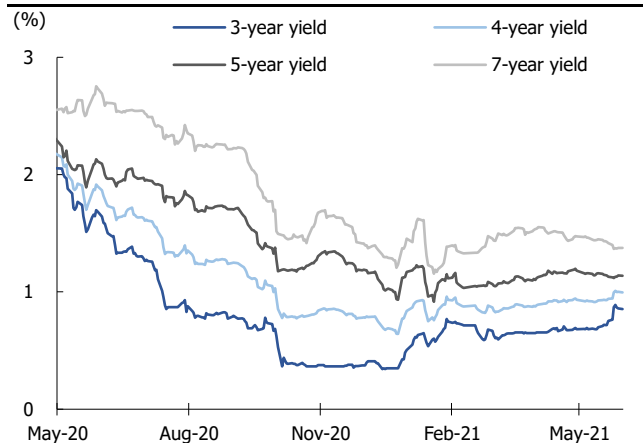
As a result, mid-term 5-year and 7-year yields fell somewhat in the month by 5 bps and 10 bps to 1.14% and 1.37%. Similarly, corrections in 10-year and 15-year yields were seen clearly in May as 10-year and 15-year yields fell by 9 bps and 5 bps to 2.70% and 2.55%, respectively. 20-year yield also dropped about 4 bps to 2.95%, while 30-year yield remained nearly unchanged at 3.09%.

**Figure 15. Short-term yields**



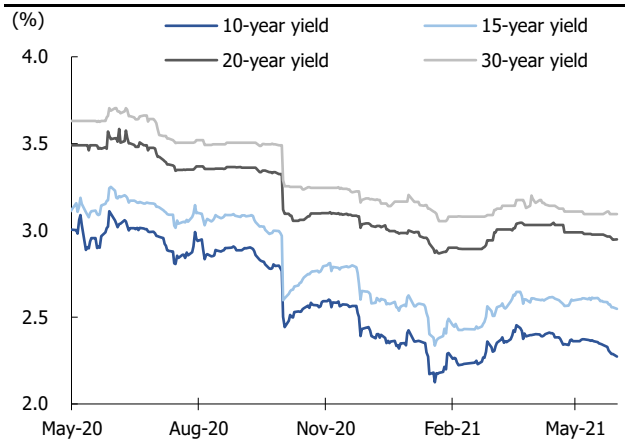
Source: HNX, VBMA, KIS

**Figure 16. Mid-term yields**



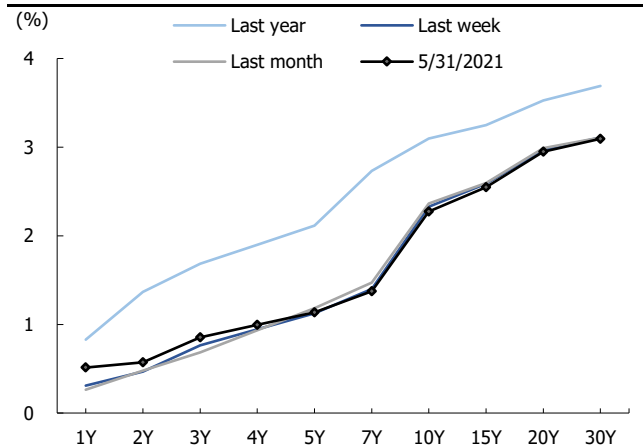
Source: HNX, VBMA, KIS

**Figure 17. Long-term yields**



Source: HNX, VBMA, KIS

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



Source: HNX, VBMA, KIS

**PREDICTION:**

“What happened in May will likely continue to happen in June” is our forecast for G-bond yields for the next month. As shown above, demand for G-bond yields in both the primary market and secondary market will likely remain strong in June as banks have to absorb a proportion of VND33tn expired G-bonds. Mid-term and long-term G-bonds (with tenors greater than 5 years, especially 10-year and 15-year G-bonds with high liquidity) would likely receive massive inflows from that. For that reason, we expect mid-and-long-term yields to drop further in June.

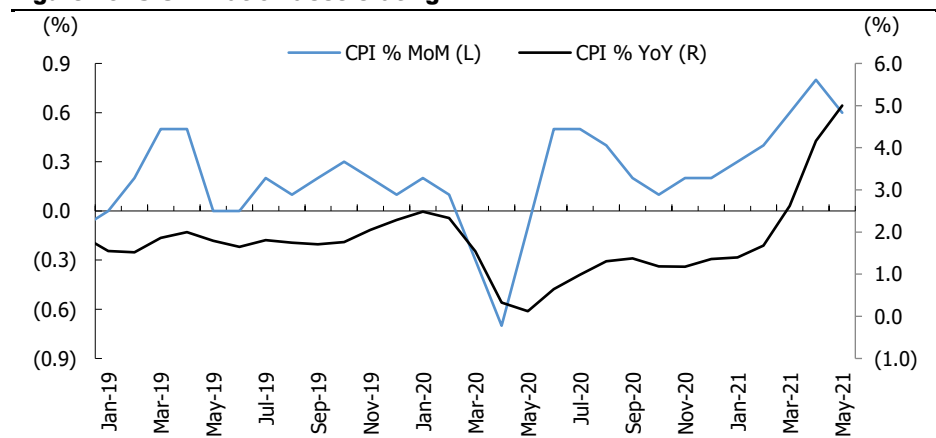
Besides, short-term yields, which are primarily driven by the interbank rate movements, are expected to retreat lower in June-end, based on our forecast that the interbank rates would likely be adjusted lower in the near term under improved banking liquidity.

## IV. Fears of inflation pressure on USD

### ***U.S. inflation acceleration puts pressure on USD***

A very accommodative policy stance from the U.S. Federal Reserve and a decade record peak in U.S. inflation are putting considerable pressure on USD value. In several commentaries in FOMC's meeting and other events recently, U.S. central bank authorities implied to let inflation running in the short-term, while U.S. CPI in May is forecast to continue increasing for the 12 consecutive months, and more specifically, at a fast pace. As a result, USD recorded a strong correction for the second month, down by 1.62% MoM by May-end.

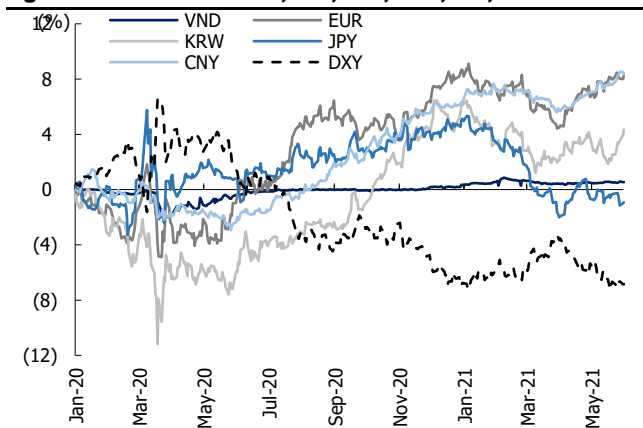
**Figure 19. U.S. inflation accelerating**



Source: Bloomberg, KIS

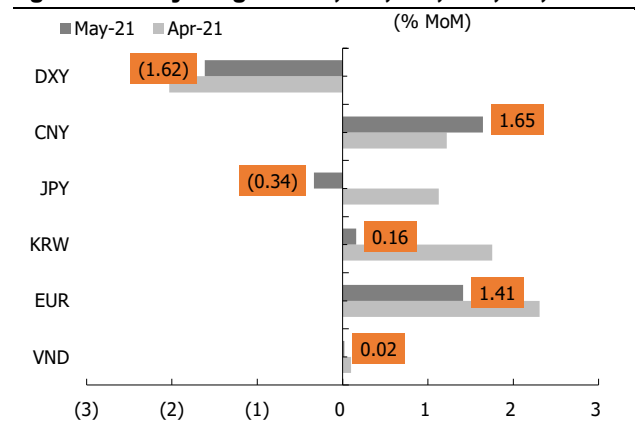
Four over five currencies in our watchlist, whose countries are large trade partners with Vietnam and VND as well, saw appreciation against the greenback. Most notably, CNY and EUR appreciated the most against the USD by 1.65% and 1.41%, and the upward momentum for these two currencies was considerable in April and May. To a lesser extent, KRW increased by 0.16%, which also set a two-month recovery, while VND remained nearly unchanged to USD. By contrast, JPY recorded a depreciation against USD for four over five months in 2021, down by 0.34%.

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



Source: Bloomberg, KIS

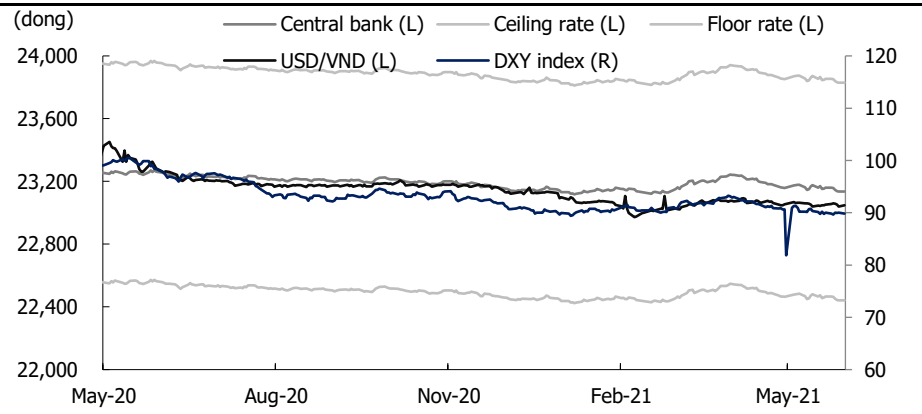
**Figure 21. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR**



Source: Bloomberg, KIS



**Figure 22. USD/VND rate and DXY index**



Source: Bloomberg, KIS

## Macro scorecard

(USD bn, USD, %, % YoY)

	Dec-20	Jan-20	Feb-20	Mar-20	Apr-20	May-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	2.10	2.02	3.44	4.67	2.12	1.74	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	27.65	28.55	20.20	29.65	26.55	26.00	59.33	79.74	80.15	77.34	215.1	243.5	263.6	282.7
Import	27.91	26.46	20.66	28.46	27.78	28.00	57.41	69.02	76.86	75.32	213.2	236.7	254.4	263.0
Export growth	22.75	55.13	(3.77)	22.89	51.00	35.51	(6.81)	10.61	15.14	21.76	21.82	13.19	8.16	7.02
Import growth	24.51	41.32	9.75	28.48	49.95	54.05	(9.46)	3.74	16.43	26.17	21.85	11.01	7.41	3.81
Inflation	0.19	(0.97)	0.70	1.16	1.16	2.90	3.57	3.81	3.24	0.30	3.53	3.54	2.79	3.24
USD/VND	23,126	23,049	23,018	23,076	23,053	23,048	23,206	23,184	23,126	23,076	22,698	23,175	23,173	23,126
Credit growth	10.14						3.26	6.10	10.14		18.24	13.89	13.70	10.14
10Y gov't bond	2.01	2.03	2.13	2.40	2.36	2.27	3.07	2.65	2.01	2.01	5.14	5.07	3.37	2.01

## Global Disclaimer

### ■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

### ■ Country-specific disclaimer

**United States:** This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

**United Kingdom:** This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

**Hong Kong:** This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

**Singapore:** This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

#### **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

---

This report has been prepared by KIS Vietnam Securities Corp. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional investors who are expected to make their own investment decisions without undue reliance on this report and the company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is not intended for the use of private investors.

Copyright © 2020 KIS Vietnam Securities Corp. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp.