

# Fixed-income Perspectives

## Interest rates to stay longer in the declining trend

### Interbank rates to stay low

Interbank rates generally reduced in October with an impressive trading value, likely reflecting an increase in supply. The reduction in short-term rates partially reflected the easing demand for liquidity related to meeting regulatory requirements at the 3Q21 quarter-end. Banks tend to offer more liquidity following the quarter-end months. Furthermore, deposit rates continued remaining low as a manifestation of the abundant liquidity in the banking system and added more downward pressure on interest rates in the interbank market. We predict interbank rates to remain low in November when the government conducts fiscal support to affected employees, and the deposit rates continue to stay low.

### Economic conditions to favor lower yields

In a time of many uncertainties in global and domestic macro developments, bond investors were staying cautious with G-bond demand plunging at an unusually pace during October. On the other side, bond yields remained at considerably low levels. Looking forward to the remaining of 2021, we remain of our view that monetary conditions continue to be accommodative in the coming months, supported by an easing monetary stance of SBV and weak economic recovery. A combination of low inflation, uneven rebound in the services sector (the main private consumption channel), and surplus banking liquidity would further support a low yield environment.

### KIS leading economic index

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

	4Q20	1Q21	2Q21	3Q21	2019	2020	2021F
GDP	4.48	4.48	6.61	(6.17)	7.02	2.91	3.80
Trade balance	3.29	2.82	(3.75)	(0.86)	10.42	19.01	1.27
CPI	1.38	0.30	2.67	2.16	5.23	3.24	2.05
Discount rate	2.50	2.50	2.50	2.50	4.00	2.50	2.50
VND/USD	23,252	23,076	23,020	22,761	23,231	23,255	23,246
US GDP	7.90	NA	NA	7.90	2.30	(3.40)	6.00
China GDP	6.00	NA	NA	6.00	6.10	2.30	8.00

Source: KIS

### Contents

I. Silent OMO under stable liquidity .....	1
II. Interbank rates to stay low .....	2
III. Economic conditions to favor lower yields.....	3
IV. VND increases for seven straight months .....	8
<b>Macro scorecard .....</b>	<b>10</b>

**Y Nguyen**

Y.nt@kisvn.vn

**Tuan Doan**

Tuan.doan@kisvn.vn

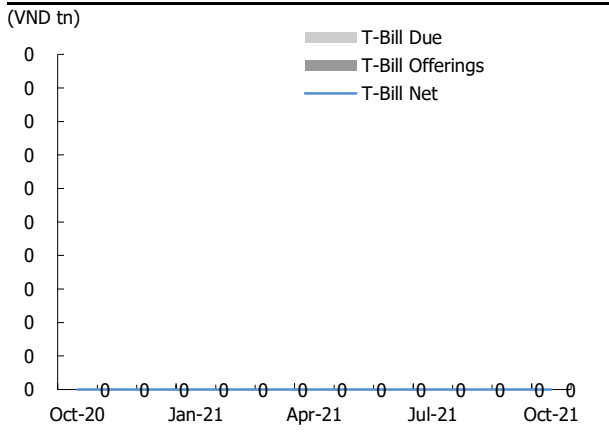
## I. Silent OMO under stable liquidity

### **No transaction recorded in the OMO**

Given an excessive liquidity in the banking system, OMO in October continued record no transaction between the central bank and its counterparties. The super-low interest rate environment generally remained this month, when short-term borrowing cost on the interbank market has declined slightly. Therefore, the OMO remained silent in the absence of short-term liquidity pressures. The current interest rate corridor is still effective when the interest rate applied for collateral loans to commercial banks was unchanged at 2.50%, and the overnight rate nearly stayed at the zero level.

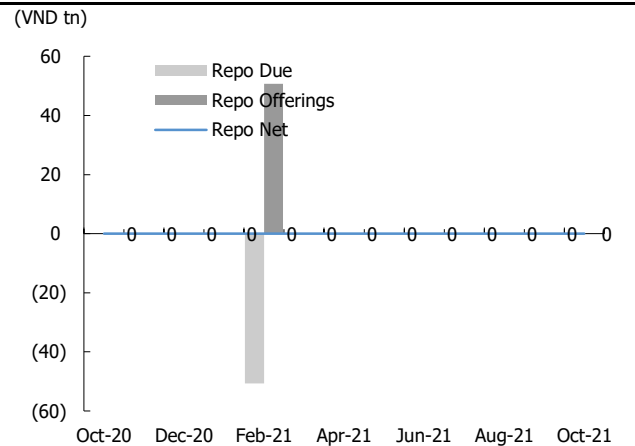
Hochiminh city authority re-opened and eased restrictions on 1st October significantly, giving hope for economic activities to return partly to normal. However, enterprises seem to put their new production plans aside and wait to see how the re-opening of the city would be going. Therefore, the financing demand in the first lending market would remain modest, and the short-term liquidity would remain abundant. Hence, we predict that the monetary stance in the next month continued to follow accommodation with the administrative style to prompt commercial banks to share the financial burden with COVID19-affected victims to see how successful the re-opening would be.

**Figure 1. T-bill transaction**



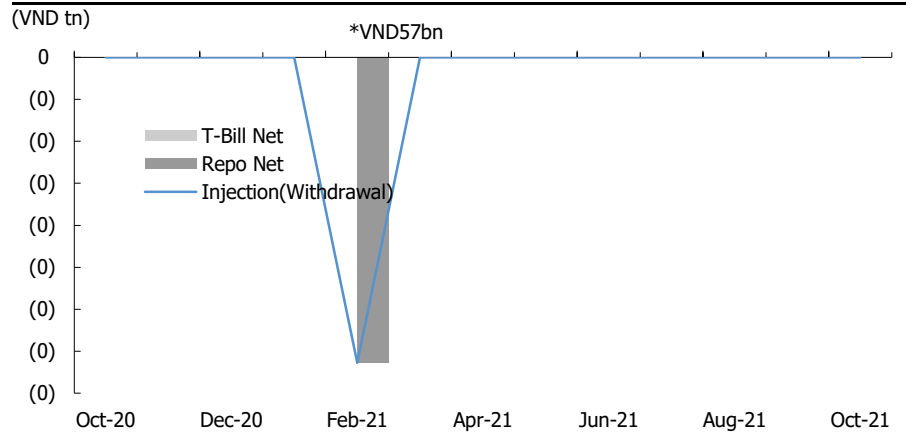
Source: Bloomberg, SBV, KIS

**Figure 2. Repo transaction**



Source: Bloomberg, SBV, KIS

**Figure 3. Net Injection/Withdrawal**



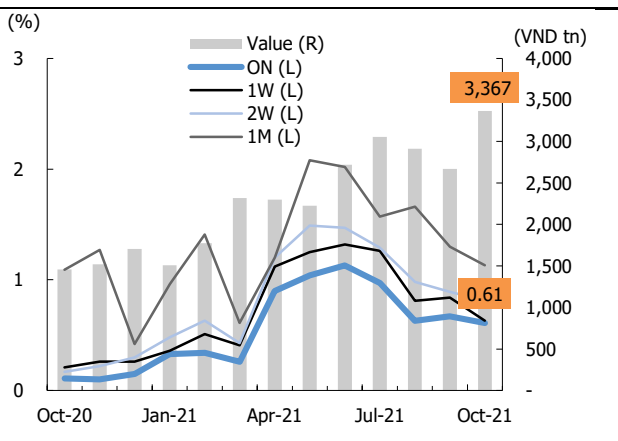
Source: Bloomberg, SBV, KIS

## II. Interbank rates to stay low

Interbank rates generally reduced in October with an impressive trading value, likely reflecting an increase in supply. In detail, ON, 1-week, 2-week and 1-month declined by 6bps, 21bps, 8bps and 17bps, while longer-term tenors, including 3-month and 6-month, rose by 11bps and 136bps compared to end-September. The reduction in short-term rates partially reflected the easing demand for liquidity related to meeting regulatory requirements at the 3Q21 quarter-end. Banks tend to offer more liquidity following the quarter-end months. Furthermore, deposit rates continued remaining low as a manifestation of the abundant liquidity in the banking system and added more downward pressure on interest rates in the interbank market.

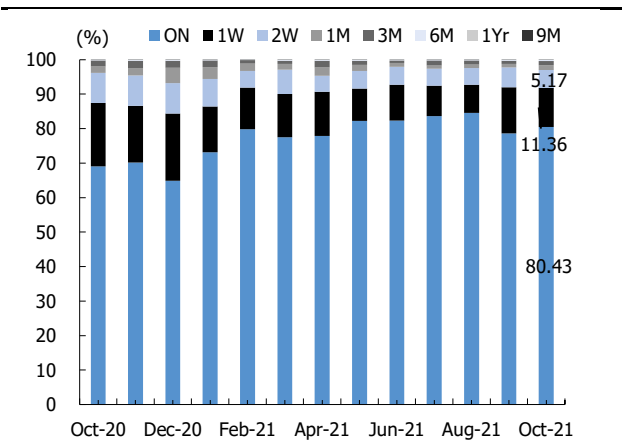
Given the general reduction in interest rates this month, the total trading value climbed to the year-high. The total trading value in October was VND3,366.84tn, 26.16%-higher than September. ON loans increased the attention to commercial banks when its share became more significant relative to the remaining tenors and constituted 80.43 % of total trading value.

**Figure 4. Interbank transaction**



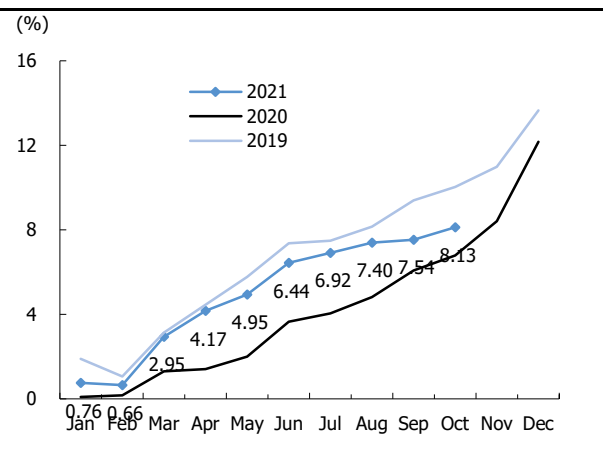
Source: Bloomberg, SBV, KIS

**Figure 5. Interbank value by tenors**



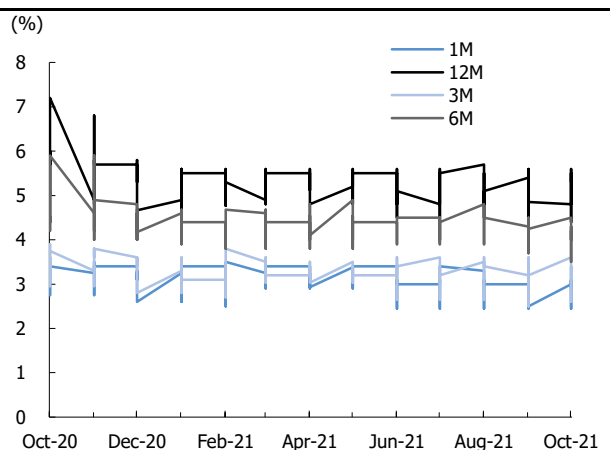
Source: Bloomberg, SBV, KIS

**Figure 6. Credit growth by month-of-year**



Source: Bloomberg, SBV, KIS

**Figure 7. Historical deposit rates**



Source: Bloomberg, SBV, KIS

**PREDICTION:**

We predict interbank rates to remain low in November when the government conducts fiscal support to affected employees, and the deposit rates continue to stay low. The decision was expected to inject more liquidity into the banking system. Besides, although Hochiminh city and several southern provinces decided to re-open primarily economic activities on 1st October, the business condition remained uncertain, implying that the production would take several months to operate like the pre-pandemic period entirely. Lending demand, therefore, would not incur any significant change and put downward pressure on the interbank rates in the next month.

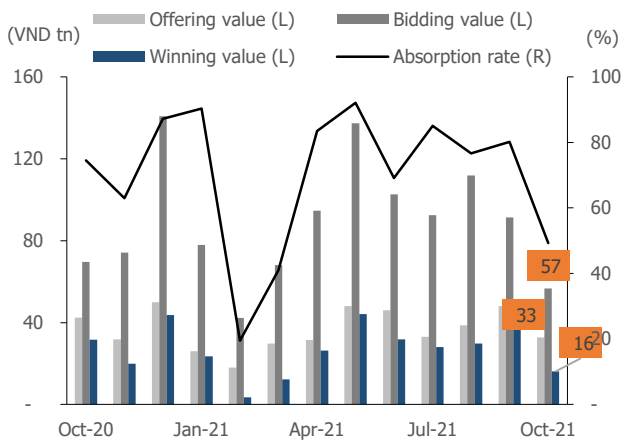
**III. Economic conditions to favor lower yields**

***Investors' appetite was waning for government bonds at record-low yields***

In October, developments in the government bond markets were unusual in a time of uncertainty from global and domestic macro developments. First of all, G-bond auctions in the primary market were suddenly failed in the month, although banking-liquidity indicators remained stable and healthy and winning yields were more attractive than from previous months. From our view, there was a significant mismatch between Treasury's offering yields at record lows and market appetite for more attractive yields, resulting in those failed auctions. On the other hand, rebound in G-bond yields in September in the secondary market was short-lived, about a month, before short-term and mid-term yields were plunging back to around their record lows.

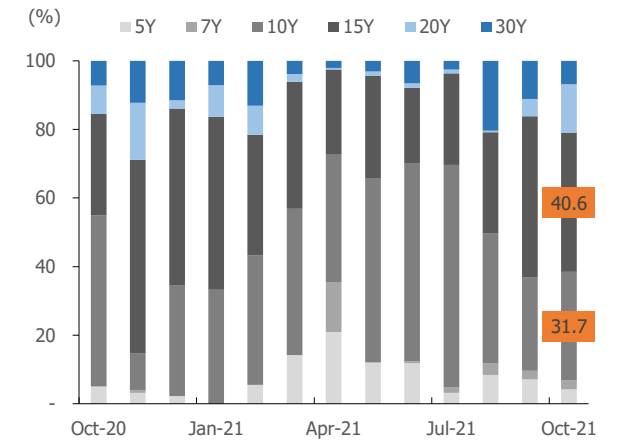
Going into details, in the primary bond market, a total of 18 auctions for government bonds were taking place in the first month of the fourth quarter with about VND32.75tn G-bonds being offered, down by 31.8% compared to previous month. A slowdown in G-bond offering was normally occurring in the beginning of a quarter when G-bond issuance plan was yet to be revealed. Long-term G-bonds with tenors from 10-year to 30-year accounted for about 81.7%, and the remaining 18.3% comprised of mid-term bonds with 5-year and 7-year tenors.

**Figure 8. Monthly government bond issuance**



Source: HNX, KIS

**Figure 9. Issuing value by tenors**

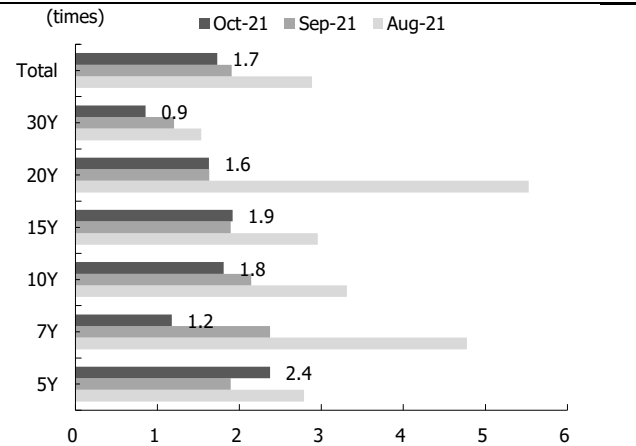


Source: HNX, KIS

From the demand side, some indicators showed that the bidding activity was slowing down significantly compared to the previous period, which means bond investors seemed to be cautious at the current record-low yield levels. Particularly, the total bidding value dropped to 38.1% MoM to VND56.61tn, translating to a bid-to-offer ratio to a one-year low of 1.73 times. Furthermore, G-bond demand for 7-year, 10-year, and 30-year, was decreasing more than other tenors and unusually low compared to the previous period.

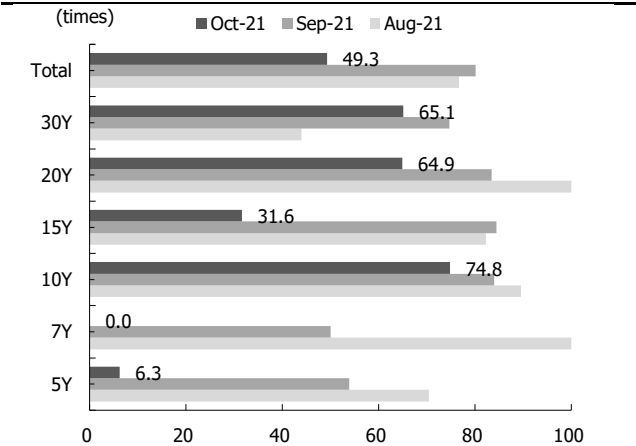
Under weakened demand in G-bond auctions, only VND16.15tn were successfully issued in the month, down 58.0% MoM. Therefore, the absorption ratio was dropping to the lowest level since March, at 49.3%. Mid-term G-bond auctions for 5-year and 7-year tenors were completely failed with their absorption rates posting only 6.3% (VND0.25tn) and 0.0%. The absorption rate for 15-year G-bonds was also considerably low, at 31.6%, while the absorption for 10-year, 20-year, and 30-year bonds were above 60%. As a result, 98.5% of total issuance in October was long-term G-bonds, while 1.5% left was 5-year G-bonds.

**Figure 10. Bid-to-offer ratio**



Source: HNX, KIS

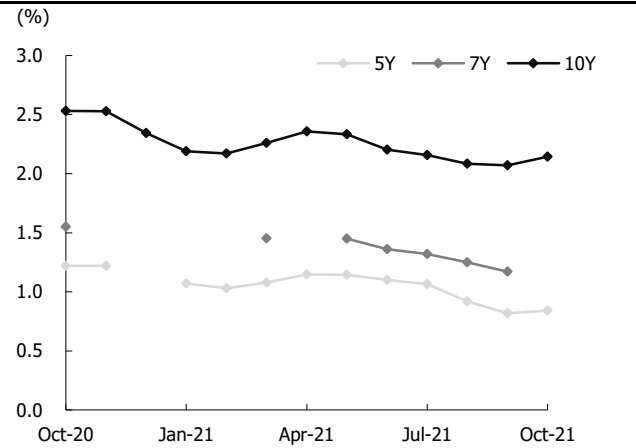
**Figure 11. Absorption ratio by tenors**



Source: HNX, KIS

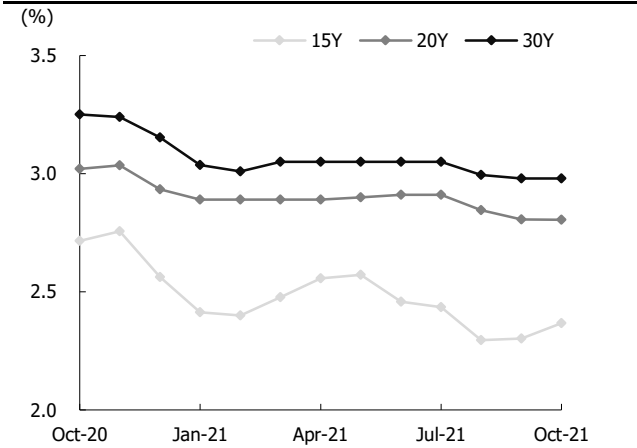
According to results from G-bond auctions, winning yields were increasing for most tenors, to a greater extent for long-term yields. More specifically, 10-year and 15-year yields increased markedly by 7.2 bps and 6.6 bps to 2.14% and 2.37%. Yields on other long-term bonds, including 20-year and 30-year, remained unchanged at 2.82% and 2.90%. On the other hand, 5-year yield rebounded slightly by 2 bps to 0.84%, while there was no record on 7-year yield.

**Figure 12. Yields from 5-year to 10-year**



Source: HNX, KIS

**Figure 13. Yields with tenors greater than 10-years**

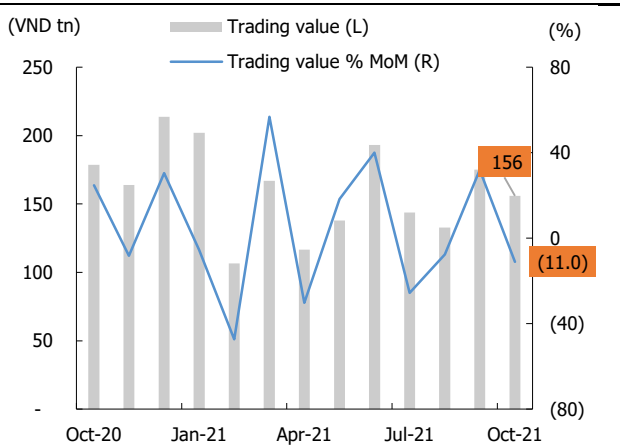


Source: HNX, KIS

**G-bond trading was slowing down with yields lowering further in October**

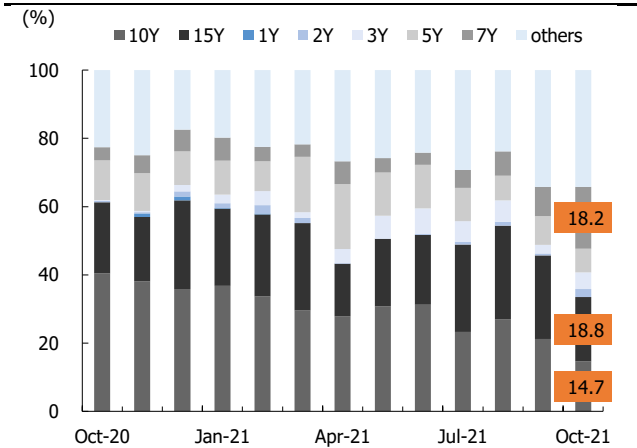
In the secondary market, G-bond trading was slowing down by 11.0% from the previous month, posting VND155.9tn in trading value. Trading activity was increasing on mid-term bonds with its trading share about 42.9%, the highest level on record, while trading on long-term bonds accounted for 47.6%. About only 9.5% of trading activity was on short-term bonds.

**Figure 14. Trading value**



Source: HNX, KIS

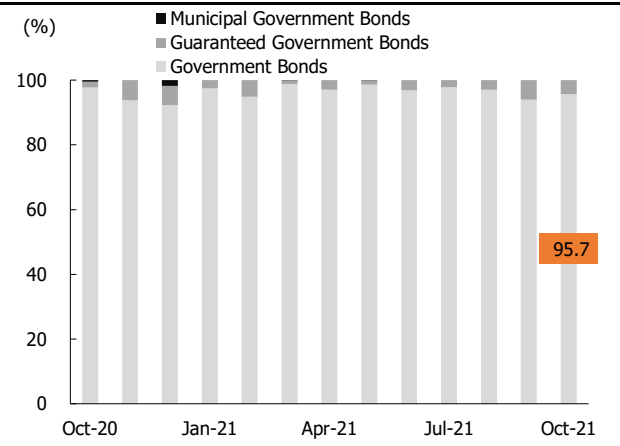
**Figure 15. Trading value by tenor**



Source: HNX, KIS

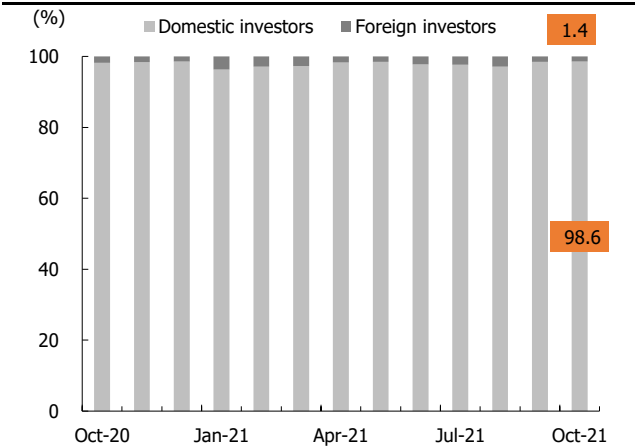
By bond type, 95.7% of the total trading value (VND149.2tn) was from the government bonds, while the remaining 4.3% was from trading on government-guaranteed bonds. Regarding investor type, trading activity made by domestic investors took up to 98.6% of the trading value, and the rest 1.4% was coming from foreign investors.

**Figure 16. Trading value by bond type**



Source: HNX, KIS

**Figure 17. Trading value by investor**



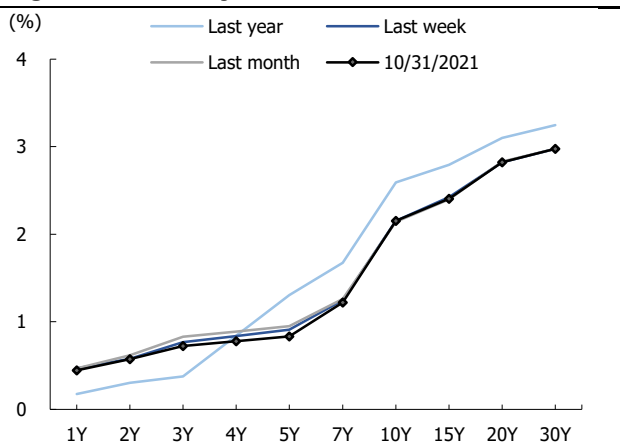
Source: HNX, KIS

**Short-term and mid-term yields backed to record lows**

In the secondary market, yields continued to back into the declining trend after a short-lived rebound, with short-term and mid-term yields seeing the most downward pressure, dragging those yields back to nearly their record lows. Two primary factors supported for further reduction in bond yields in the month: (1) inflation-measured CPI and core CPI continued to be subdued in the early reopening with no significant price pressure on most areas; (2) low interbank interest rates were also signaling that banking liquidity remained surplus.

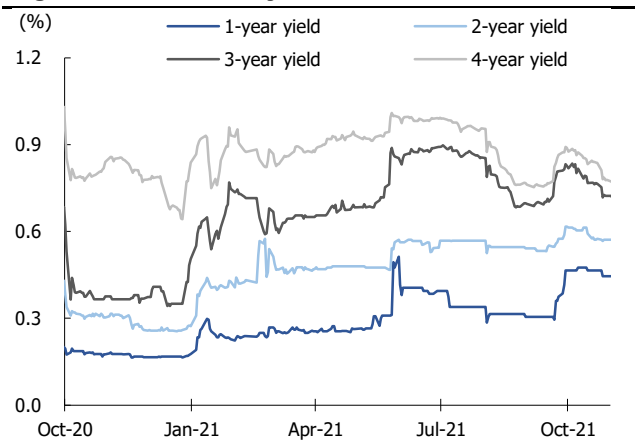
To be more specific, the left tail of the yield curve, comprising of short-term and mid-term yields, was shifting downward markedly, while its right tail with long-term yields remained stable. Regarding short-term yields, 3-year and 4-year yields saw the most downward pressure when declining by 10.4 bps and 11.1 bps to 0.72% and 0.78%, around their record lows. 2-year yield also dropped 4.6 bps to only 0.57%, while 1-year yield fell 2 bps to 0.45%, sticking to stable and low interbank interest rate movement.

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



Source: HNX, VBMA, KIS

**Figure 19. Short-term yields**

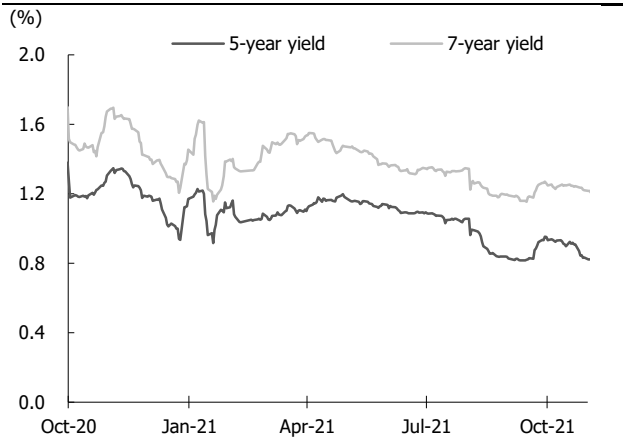


Source: HNX, VBMA, KIS

Meanwhile, for mid-term yields, 5-year yield fell sharply by two-digit points, down 11.8 bps to 0.83%. To a lesser extent, 7-year yield also lowered by 3.9 bps 1.22%. Regarding long-term yield levels, those yields remained highly

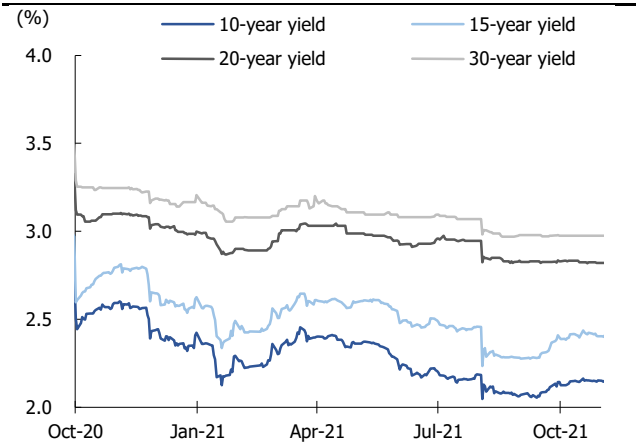
stable during the month, almost unchanged for 10-year, 15-year, 20-year, and 30-year tenors, at 2.15%, 2.49%, 2.82%, and 2.98%, respectively.

**Figure 20. Mid-term yields**



Source: HNX, VBMA, KIS

**Figure 21. Long-term yields**

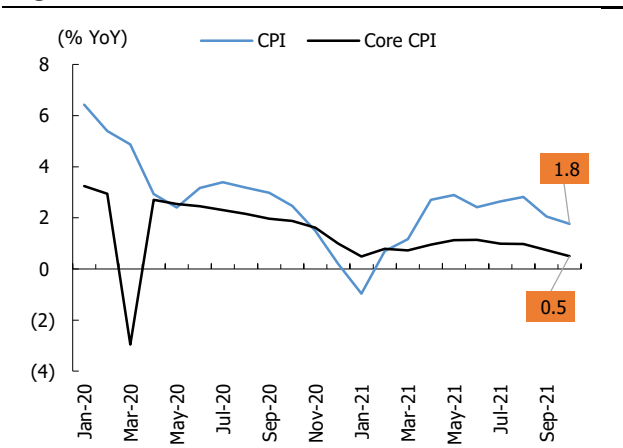


Source: HNX, VBMA, KIS

**PREDICTION:**

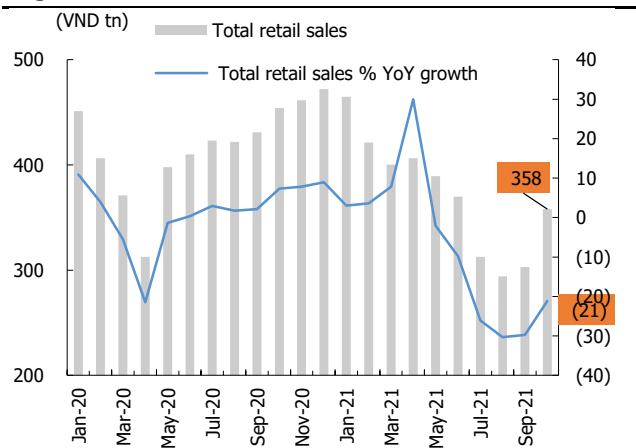
We remain of our view that monetary conditions continue to be accommodative in the coming months, supported by an easing monetary stance of SBV and underlying weak economic conditions. A combination of low inflation, uneven rebound in the services sector (the main private consumption channel), and surplus banking liquidity would further support a low yield environment in the last months of 2021, although credit activity started accelerating on the other side.

**Figure 22. Inflation remains subdued**



Source: GSO, KIS

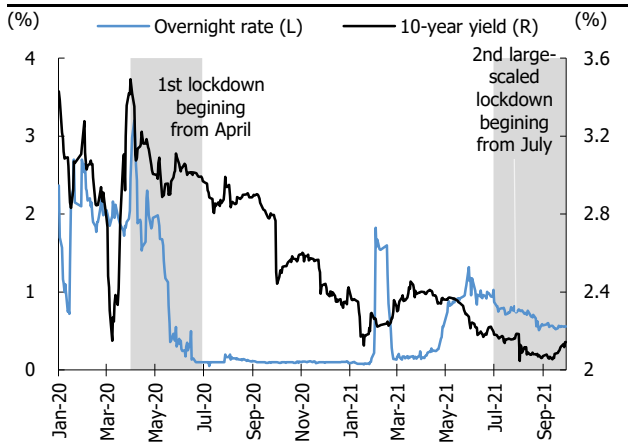
**Figure 23. Uneven rebound in services sector**



Source: GSO, KIS

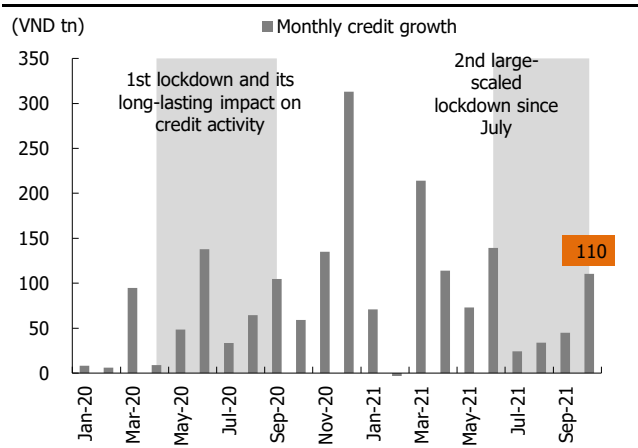


**Figure 24. Interbank rate maintains low**



Source: HNX, VBMA, Bloomberg, KIS

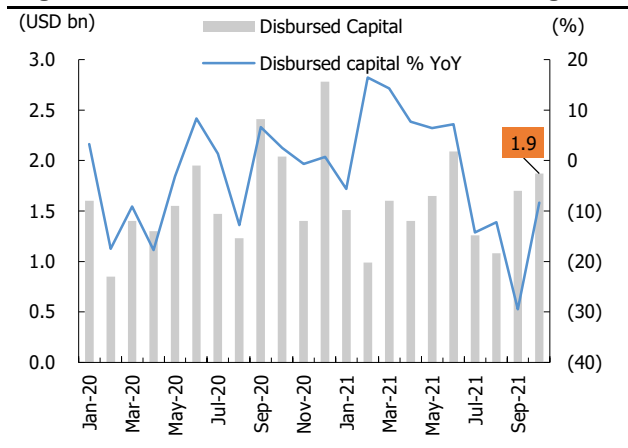
**Figure 25. Credit activity starts picking up**



Source: SBV, KIS

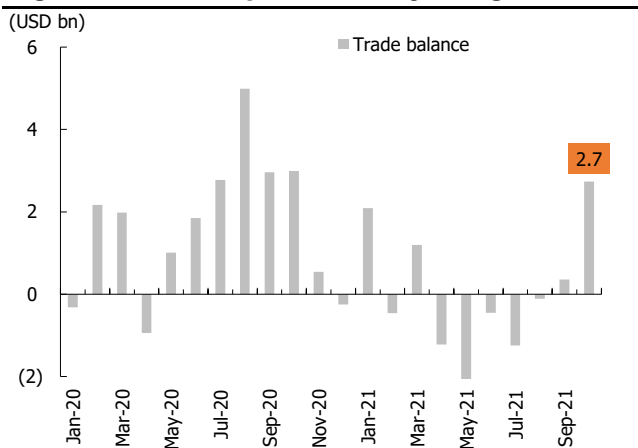
Besides, a new factor, massive USD inflows from FDI disbursement and trade surplus, would also play a role in further easing banking liquidity conditions. As a main player absorbing USD inflows, SBV would pour trillions of VND back into the banking system, and FI markets would be a shelter for it temporary.

**Figure 26. FDI disbursement start accelerating**



Source: GSO, KIS

**Figure 27. Trade surplus reaches a year high**



Source: GSO, VN Customs, KIS

Therefore, we remain of our view that the declining trend in G-bond yields would continue in the remaining months of 2021.

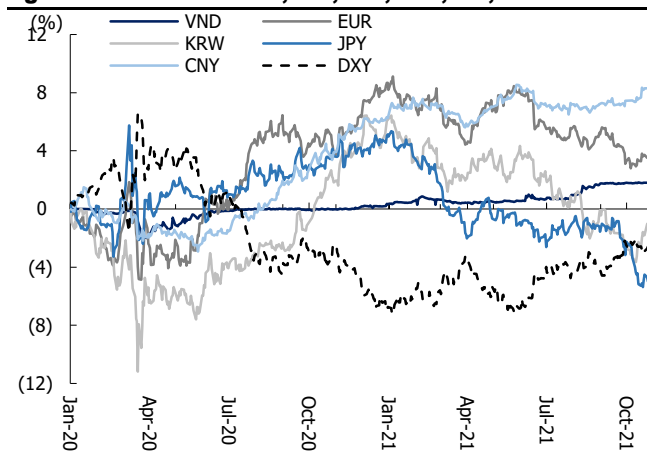
## IV. VND increases for seven straight months

**VND extended its gaining streak for the seven months straight**

As U.S. Federal Reserve is counting down final days before starting tapering process and tightening ultra-accommodative monetary conditions, magnified by surging inflation conditions, it is putting more and more upward pressure on U.S. bond yields, and the greenback is benefiting from this development. In October, USD was anchoring around its highest level in more than a year, ending at 94.1 index point and down slightly by 0.1%.

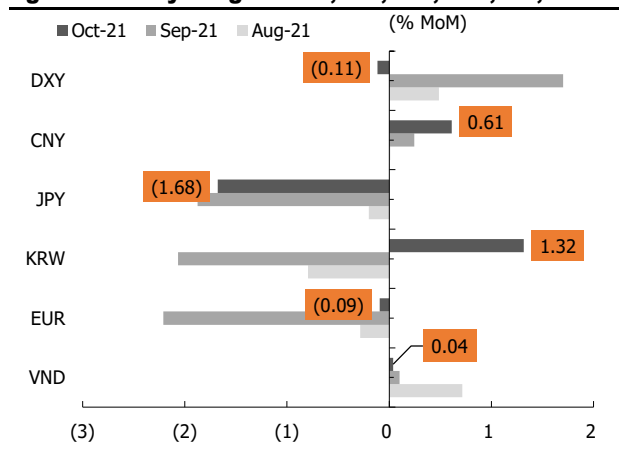
For four currencies in our watchlist, JPY was the worst performer in the month when losing 1.68% against the greenback, the second month decreasing more than 1.5% and the third month reduction since July. Meanwhile, EUR also extended its loss against USD for 5 consecutive months, although the decreasing pace limited to just 0.11% from last month. On the other side, a four-month reduction in KRW was stopped with a marked rebound of 1.32% MoM, while CNY continued its increase for the third month, by 0.61%.

**Figure 28. Movements of VND, USD, CNY, KRW, JPY, and EUR**



Source: Bloomberg, KIS

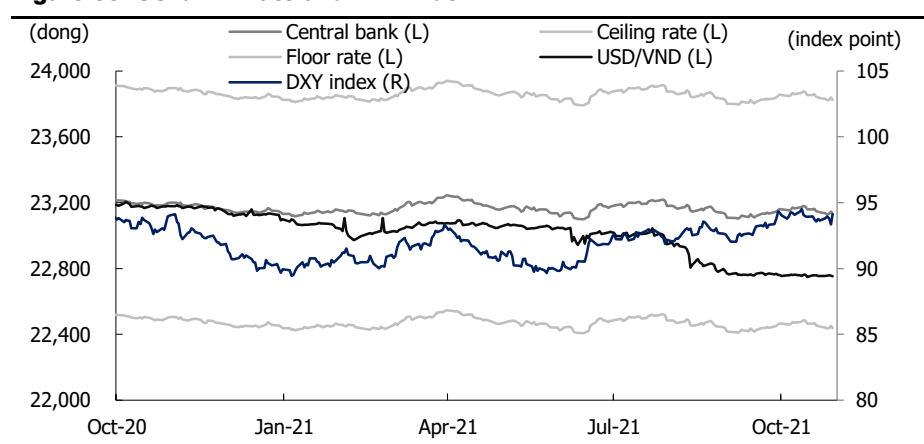
**Figure 29. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR**



Source: Bloomberg, KIS

Meanwhile, VND continued to stay in the increase territory for the 7 months straight, the longest gaining streak on record. However, the increase was considerably limited, by 0.04% MoM, accumulating to a 1.42% gain against USD since April.

**Figure 30. USD/VND rate and DXY index**



Source: Bloomberg, KIS

## Macro scorecard

(USD bn, USD, %, % YoY)

	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	4Q20	1Q21	2Q21	3Q21	2017	2018	2019	2020
Real GDP growth		6.61			(6.17)		4.48	4.65	6.61	(6.17)	6.81	7.08	7.03	2.91
Registered FDI	1.74	1.28	1.45	2.40	3.02	1.59	7.32	10.13	5.14	6.88	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	26.19	27.20	27.87	27.23	27.00	27.30	80.15	78.40	79.95	82.09	215.1	243.5	263.6	282.7
Import	28.27	27.66	29.11	27.34	26.50	26.20	76.86	75.57	83.70	82.95	213.2	236.7	254.4	263.0
Export growth	36.52	20.56	12.03	(1.71)	(0.60)	0.15	15.14	23.42	34.74	2.95	21.82	13.19	8.16	7.02
Import growth	55.52	33.54	31.75	20.34	9.49	7.97	16.43	26.60	45.79	20.19	21.85	11.01	7.41	3.81
Inflation	2.90	2.41	2.64	1.79	2.06	1.77	3.24	0.30	2.67	2.16	3.53	3.54	2.79	3.24
USD/VND	23,048	23,020	22,947	22,784	22,761	22,752	23,126	23,076	23,020	22,761	22,698	23,175	23,173	23,126
Credit growth	4.95	6.44	6.92	7.40	7.54	8.14	10.14	2.95	6.44	7.54	18.24	13.89	13.70	10.14
10Y gov't bond	2.27	2.21	2.19	2.06	2.14	2.15	2.01	2.40	2.21	2.14	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.