trueFriend KIS Viet Nam Securities Corporation

Fixed-income

Monthly

3 Dec 2021

Fixed-income Perspectives

Fast economic recovery to pressure low-yield environment

Interbank rates to rise under tightening liquidity

Interbank rates in November witnessed a slight increase with a smaller trading value than the previous month. Under the ample liquidity environment in recent several months, we see that the slight increase in interbank rate seems to reflect upcoming higher demand at a modest extent for short-term funding. In the opposite direction, a favorable trade surplus combined with a minor increase in USDVND from SBV's quotation this month suggests the VND inflow into the banking system would be higher. According to these arguments, we predict interbank rates to increase slightly in the next month.

Bond yields to face pressure from record lows

More easing liquidity conditions were driving government bond demand in November, putting bond yields to new record lows. However, a fast pace of economic recovery in the early reopening may change domestic monetary conditions and the current super-low interest-rate environment in the near term. The upward pressure on yields is also fueled by a peak season of economic and credit activities in the end-2021 and early 2022 periods. From our view, this pressure could materialize to a sizeable bounceback in government bond yields in December.

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	5.94
Trade balance	3.29	2.82	(3.75)	(0.86)	10.42	19.01	1.77
CPI	1.38	0.30	2.67	2.16	5.23	3.24	2.41
Discount rate	3.00	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,252	23,076	23,020	22,761	23,231	23,255	23,246
US GDP	7.90	NA	NA	7.90	2.3	(5.70)	3.90
China GDP	6.00	NA	NA	6.00	6.10	1.80	8.00

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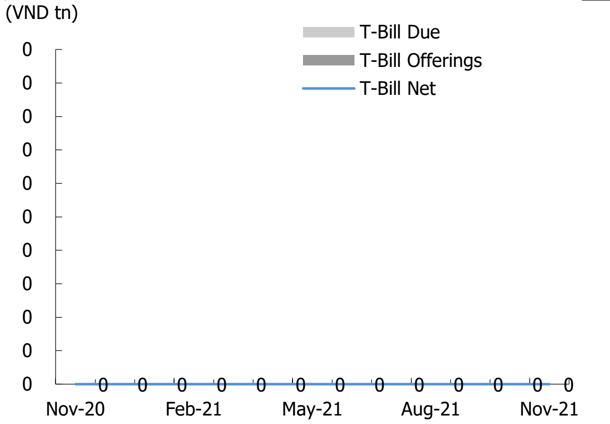
I. Stable liquidity holds OMO inactive

Open market recorded another empty

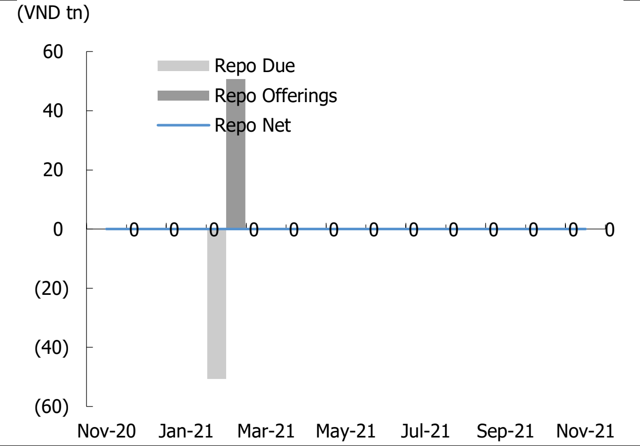
The liquidity remained stable in November with a low short-term rate was the main result for the central bank to keep their transactions in the open market with counterparties inactive.

Figure 1. T-bill transaction



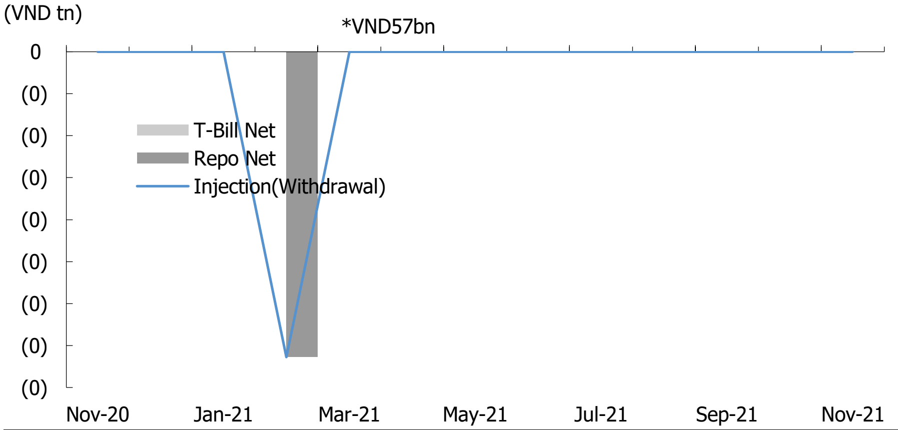
Source: Bloomberg, SBV, KIS

Figure 2. Repo transaction



Source: Bloomberg, SBV, KIS

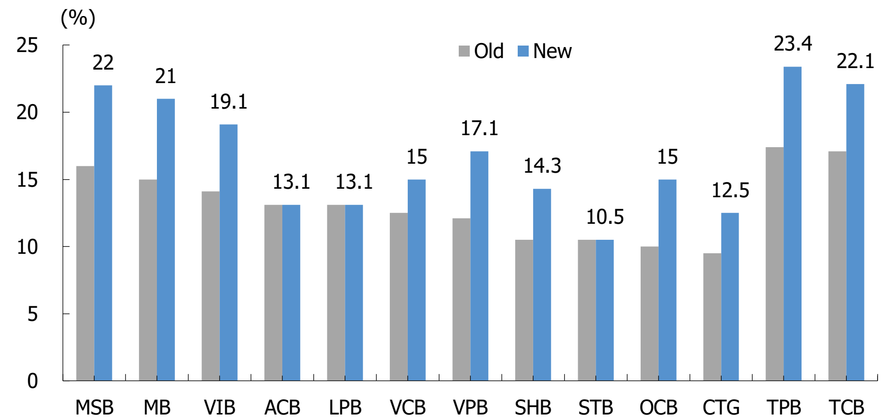
Figure 3. Net Injection/Withdrawal



Source: Bloomberg, SBV, KIS

Although rising inflation is one of SBV's concerns for the next year, SBV's monetary stance seems to remain accommodative, at least for the rest of 2021. In early November, SBV's governor, in the context of the rumor of another reduction in policy interest rate, mentioned a visible inflationary risk for 2022 and signaled that SBV would not decline the discount rate any further in 2021. However, in late November, SBV's actions re-confirmed its accommodative stance to support the recovery of domestic production in the reopening. Accordingly, the central bank approved several banks to significantly increase the credit quota in 2021 by 0%- 6% compared to their latest limits to facilitate the funding activities for domestic enterprises. This action indicates that SBV only would strictly consider the inflationary risk in the next year.

Figure 4. Expansion for 2021' credit rooms for commercial banks



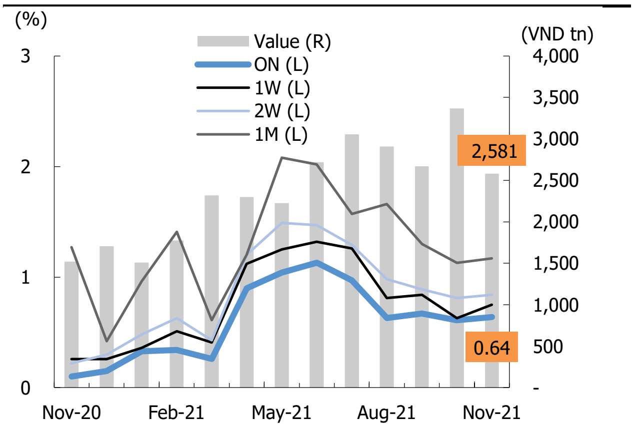
Source: KIS collects and compiles

II. Interbank rates to rise under tightening liquidity

Interbank rates in November witnessed a slight increase with a significantly smaller trading value than the previous month. It seems that the banking system upgraded somewhat their expectation of short-term funding costs toward a busier trading month in December. In detail, ON, 1-week, 2-week, 1-month, and 3-month rates rose by 3bps,12bps, 3bps, 4bps and 31bps, while longer-term tenors, including 6-month and 9-month, declined by 24bps and 2bps compared to end-October.

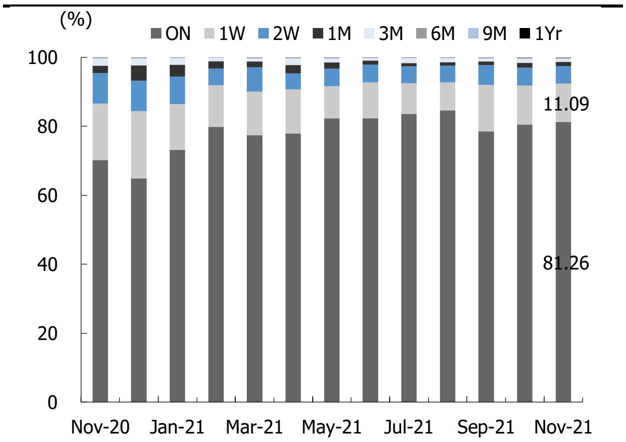
Given the general increase in interest rates, money market traders seem to hold their trades and wait to see more favorable deals in the next month. Therefore, the trading value in November reportedly dropped by 23.34% MoM to reach VND 2,097tn after peaking the year-high in the previous month. Trades concentrated more on ON loans when its relative share this month became larger than October and constituted 81.26 % of total trading value.

Figure 5. Interbank transaction



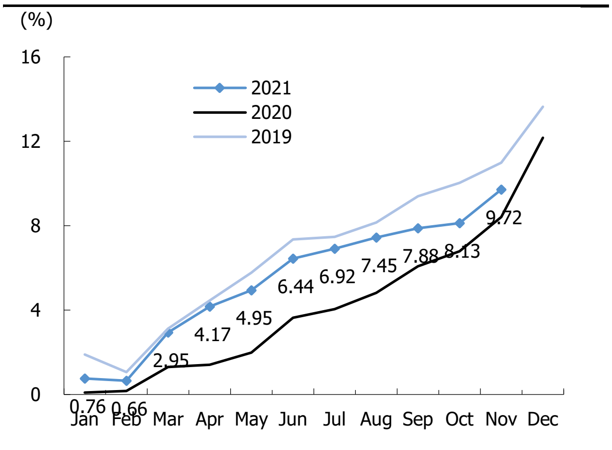
Source: Bloomberg, SBV, KIS

Figure 6. Interbank value by tenors



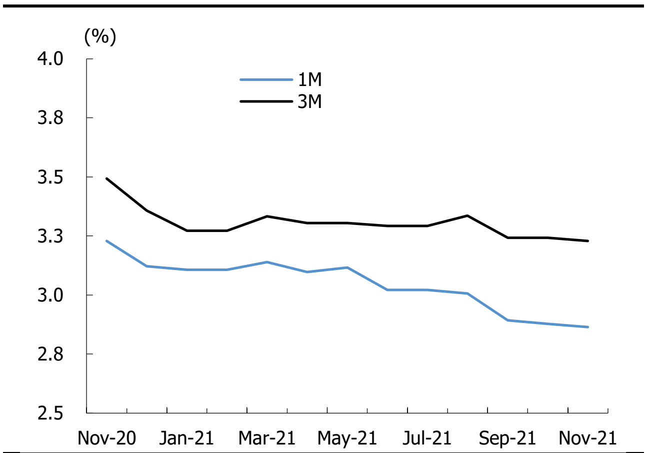
Source: Bloomberg, SBV, KIS

Figure 7. Credit growth by month-of-year



Source: Bloomberg, SBV, KIS

Figure 8. Historical deposit rates



Source: Bloomberg, SBV, KIS

PREDICTION:

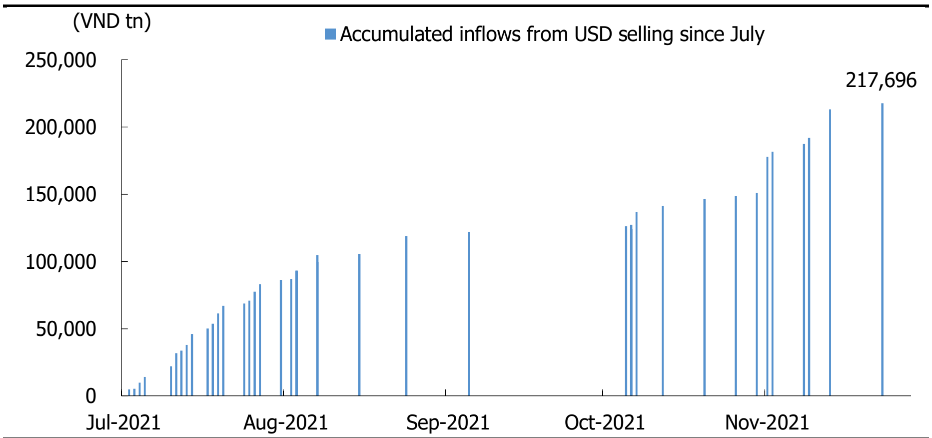
Under the ample liquidity environment in recent several months, we see that the slight increase in interbank rate seems to reflect upcoming higher demand at a modest extent for short-term funding. Banks frequently face more short-term liquidity pressure for their ratios to meet regulatory requirements in December. This pressure was easier to be seen in the time of strong acceleration in the first lending market. Moreover, average deposit rates with tenor less than 3-month lowered further at a slower pace, indicating that banks could not reduce their funding costs much more like two recent months. In the opposite direction, we see that more reported trade surplus combined with higher USDVND from SBV's quotation this month suggests an increase in VND inflow into the banking system. According to these arguments, we predict interbank rates to increase slightly in the next month.

III. Bond yields to face pressure from record lows

Demand for G-bonds quickly rebounded thanks to the surplus liquidity

Massive VND inflows into the banking system, through USD-selling operations, was flooding to the fixed-income markets and made a significant impact on government bond markets. We estimates that nearly VND70tn was newly added into the banking system only in November, and it is obvious that the fixed-income markets are temprorary shelters for the surplus liquidity. As a result, indicators for G-bond demand in both the primary and secondary G-bond markets showed that the demand was increasing considerably, and it translated to further downward pressure to G-bond yields.

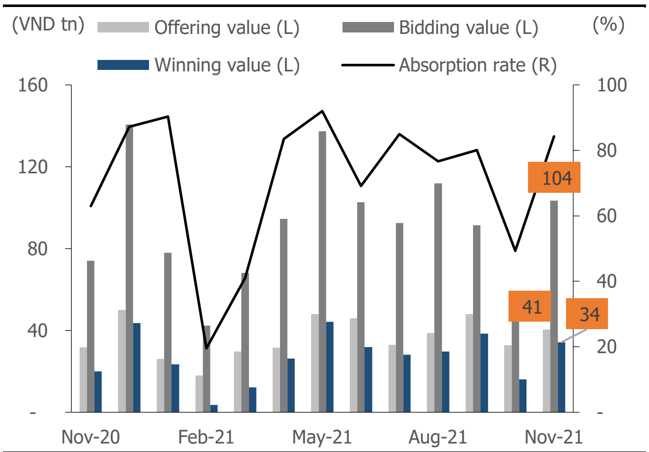
Figure 9. Massive VND inflows into the banking system from USD selling



Source: KIS collects and compiles

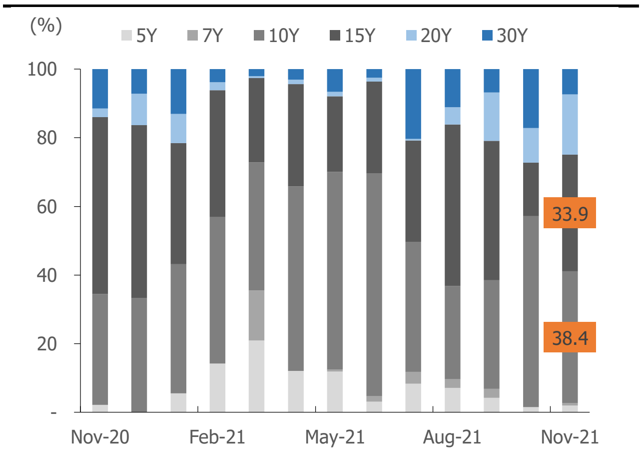
Going into details, in the primary government bond market, Vietnam State Treasury (VST) conducted a total of 16 auctions for government bonds in November with about VND40.5tn of G-bonds being offered, increasing 23.8% compared to the previous month. The offering of long-term G-bonds (with tenors greater than 10 years) were increasing markedly in the month, accounting for 90.1% of total G-bond offering, concentrating on 10-year bonds (VND14.5tn; 35.8%) and 15-year bonds (VND12.5tn; 30.9%). Auctions for mid-term G-bonds were limited in November with only VND3.0tn offering for 5-year bonds (7.4%) and VND1.0tn for 7-year bonds (2.5%).

Figure 10. Monthly government bond issuance



Source: HNX, KIS

Figure 11. Issuing value by tenors

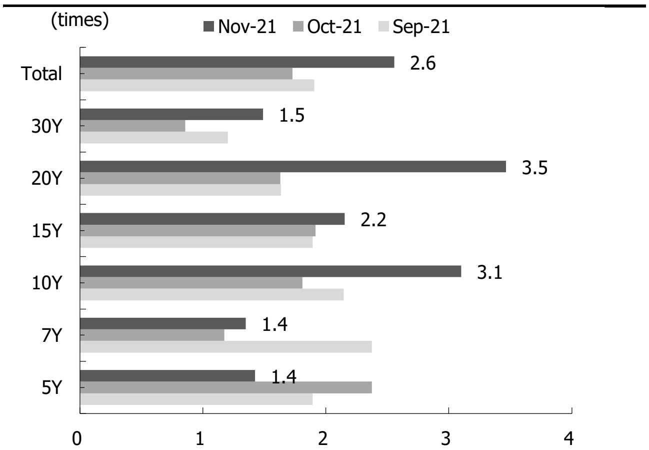


Source: HNX, KIS

Thanks to an increasingly surplus of VND inflows into the banking system, G-bond demand was picking up markedly in the month even when G-bond yields were around their record lows in the primary market. Data also showed that demand for long-term G-bonds was much stronger than mid-term ones. More specifically, total registering value for G-bonds reached VND103.5tn in November, surging by 82.9% from October, driving the bid-to-offer ratio to a 3-month high of about 2.6 times. The bid-to-offer ratio for each tenor also suggested that demand for 10-year, 20-year, and 30-year bonds was improving a lot faster than other tenors, while demand for mid-term 5-year and 7-year bonds remained subdued.

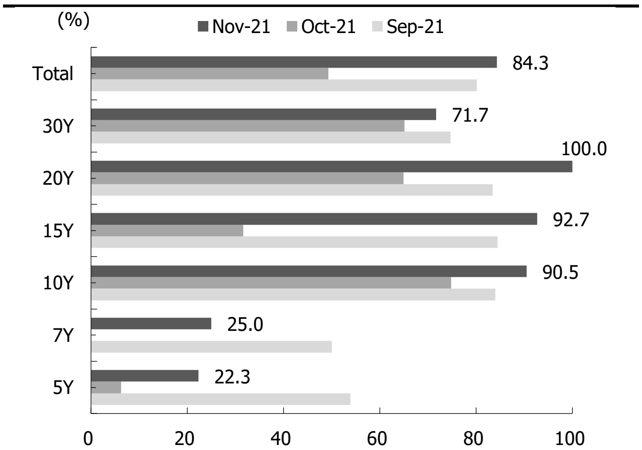
Increasing demand for G-bonds also resulted in more than VND34.1tn of G-bond issuance in the month, rockecting 111.4% from the previous month, driving the overall absorption ratio to a 4-month high of 84.3%. Absorption ratio for 10-year, 15-year, and 20-year bonds were approaching nearly 100%, by 90.5%, 92.7%, and 100%, while that for 30-year bond also remained high, at 71.7%. On the contrary, the results for mid-term bonds were dissaponting that only 25.0% of 7-year bond offering and 22.3% of 5-year bond offering were successfully issued.

Figure 12. Bid-to-offer ratio



Source: HNX, KIS

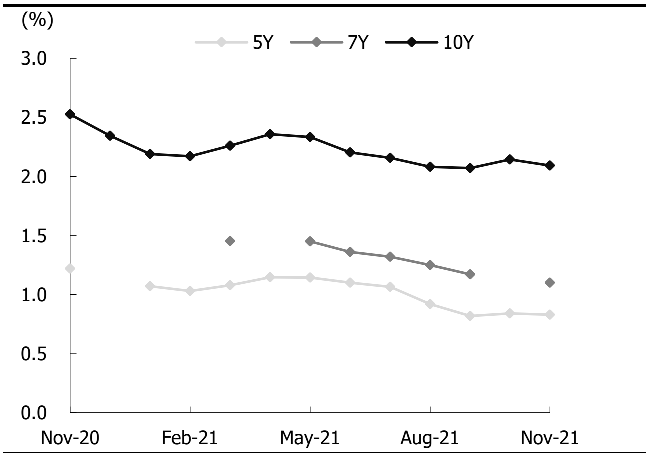
Figure 13. Absorption ratio by tenors



Source: HNX, KIS

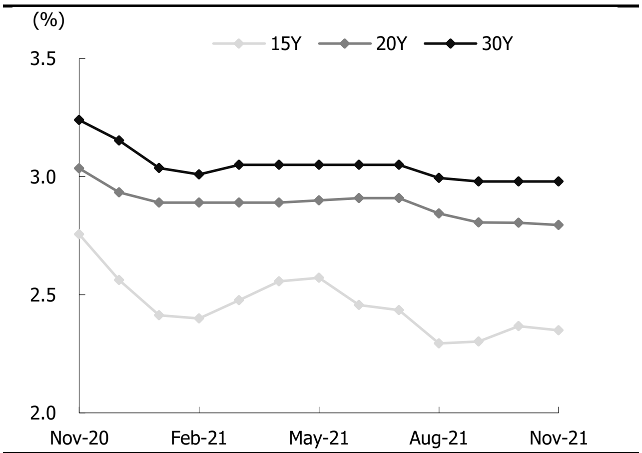
Improving demand put some downward pressure on G-bond yields, albeit modestly. According to the result from G-bond auctions, 10-year G-bond yields fell the most by 5 bps to about 2.09%, approximately their record lows. To a lesser extent, 15-year yield declined by 2 bps to 2.35%, while 5-year yield and 20-year yield went down by 1 bps to 0.83% and 2.80%, around their all-time lows. Meanwhile, yields for 7-year and 30-year bonds remained unchanged, at 1.10% and 2.98%, respectively.

Figure 14. Yields from 5-year to 10-year



Source: HNX, KIS

Figure 15. Yields with tenors greater than 10-years

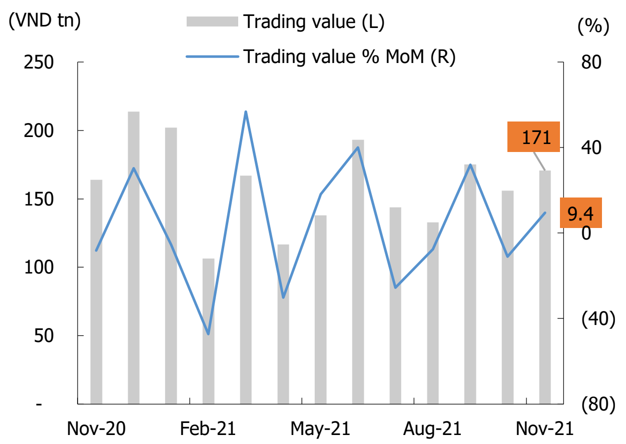


Source: HNX, KIS

Secondary market also saw increasing demand for G-bonds at record-low yields

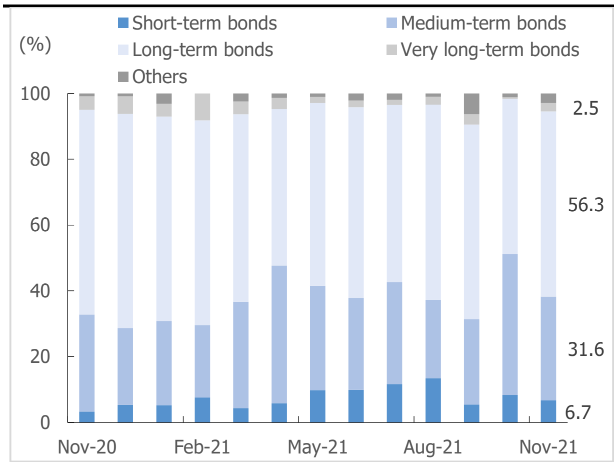
Similar to increasing demand for G-bond in the primary market, G-bond trading also started accelerating in the secondary market with the trading value reaching approximately the highest level since July, at VND170.6tn and increasing 9.4% from the previous month. The trading activity increasingly concentrated on long-term bonds (tenors from 10 years to less than 20 years), accounting for 56.3% of the total trading value. In contrast, trading on medium-term bonds (tenors from 5 years to less than 10 years) was slowing down after sharp correction in medium-term yields in October, to 31.6% of trading value.

Figure 16. Trading value



Source: HNX, KIS

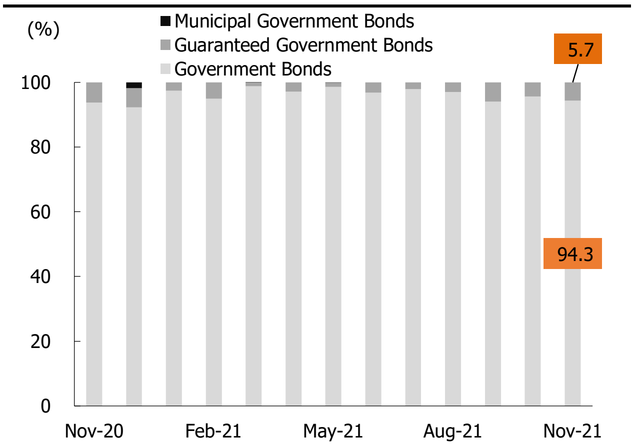
Figure 17. Trading value by tenor



Source: HNX, KIS
Note: Short-term bonds: tenors less than 5 years; Medium-term bonds: tenors from 5 years to less than 10 years: Long-term bonds: from 10 years to less than 20 years; Very long-term bonds: tenors greater than 20 years.

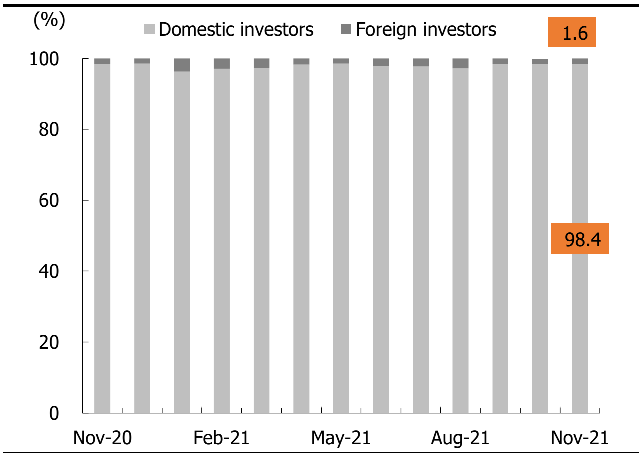
By bond type, 94.3% of the total trading value (VND160.9tn) was from the government bonds, while the remaining 5.7% (VND9.7tn) was from trading on government-guaranteed bonds. Regarding investor type, trading activity made by domestic investors took up to 98.4% of the trading value, and the rest 1.6% was coming from foreign investors.

Figure 18. Trading value by bond type



Source: HNX, KIS

Figure 19. Trading value by investor



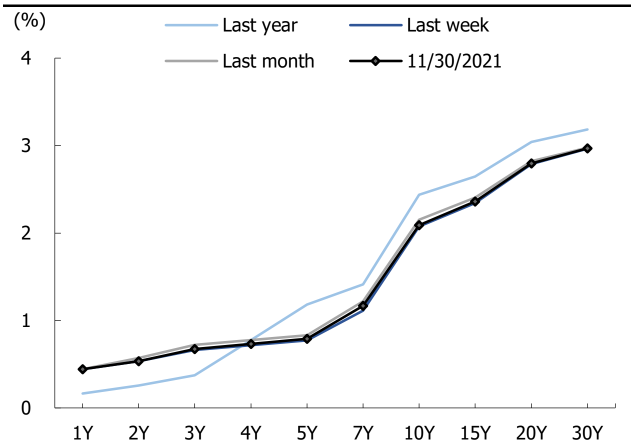
Source: HNX, KIS

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

G-bond yields in the secondary market also saw similar downward pressure under increasing demand for government bonds in the month. In particular, the whole yield curve was shifting downward, in which short-term, mid-term, and long-term yields corrected at a modest pace. From our view, an increasingly surplus of banking liquidity and muted inflation in the current period remained two major factors behind the correction of G-bond yields in the month.

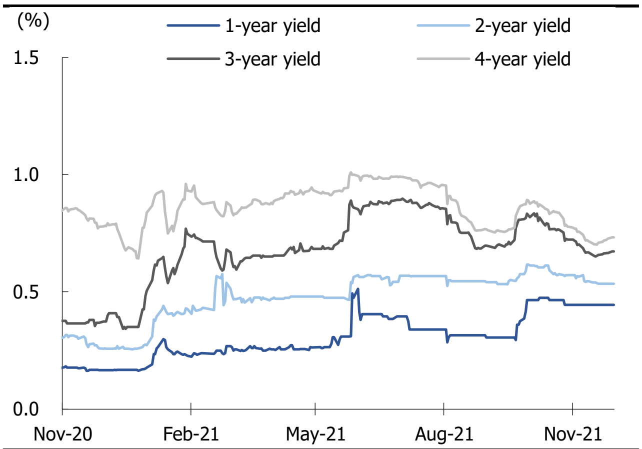
Short-term yields continued to drop for the second month in November, although the decreasing pace was not as trong as in the previous month. Particularly, 2-year, 3-year, and 4-year G-bond yields fell by 3.7 bps, 5.0 bps, and 4.6 bps to 0.53%, 0.67%, and 0.73%, in which 3-year and 4-year yields went back to their low levels in early 2021. 1-year yield remained almost unchanged, at 0.45%.

Figure 20. G-bond yield curve



Source: HNX, VBMA, KIS

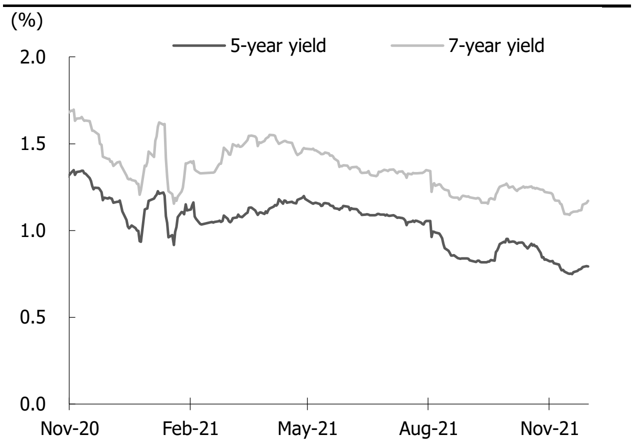
Figure 21. Short-term yields



Source: HNX, VBMA, KIS

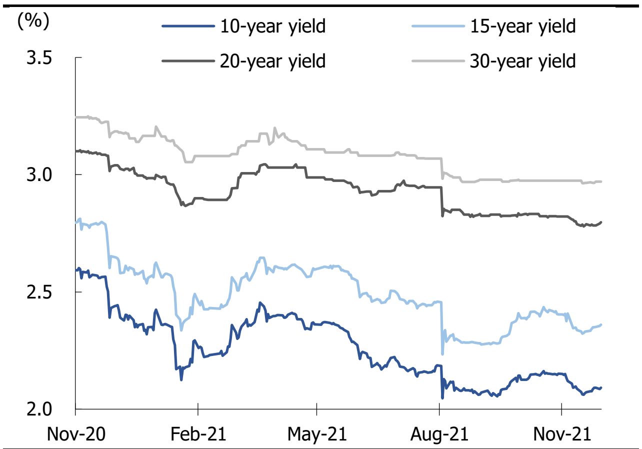
On the other hand, medium-term yields continued their downward trend for 6 over 7 recent months. Accordingly, 5-year and 7-year yields dropped further 4.1 bps and 5.0 bps to their new record lows, at 0.79% and 1.17%, respectively. Comparable downward pressure was also seen in long-term G-bond yields, in which yields from 10 years to 30 years re-tested their all-time lows, which were formed earlier in August. More specifically, 10-year and 15-year yields declined to 2.09% and 2.36%, down 6.1 bps and 4.4 bps from October. Besides, 20-year and 30-year yields even saw a more prolonged downward trend from April this year, declining for 7 over 8 recent months, and formed their new lows at 2.80% and 2.97%, down 2.4 bps and 0.5 bps from October.

Figure 22. Mid-term yields



Source: HNX, VBMA, KIS

Figure 23. Long-term yields

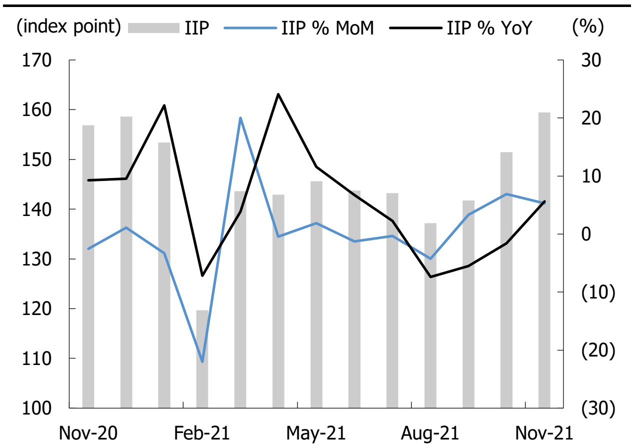


Source: HNX, VBMA, KIS

PREDICTION:

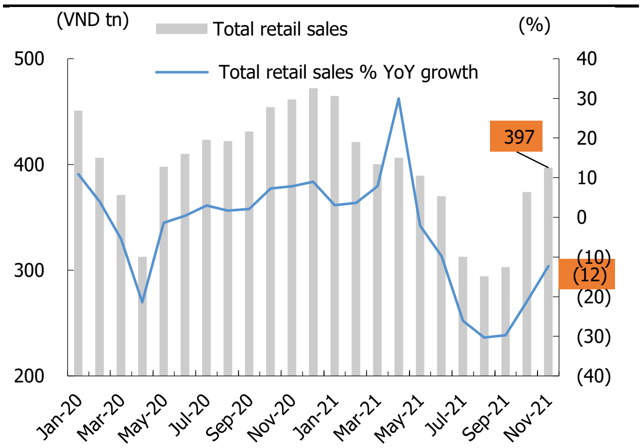
Recent developments in domestic economic conditions are pointing to possibly marked changes in domestic monetary conditions and the current super-low interest-rate environment in the near term. More specifically, the economy is now towards a broad-based and faster-than-expected economic recovery in the early reopening, from a quick recovery in the retail sector to a booming in the industrial sector. Inflation pressure is also gathering steam after months of remaining subdued.

Figure 24. Industrial growth keeps fast pace



Source: HNX, VBMA, KIS

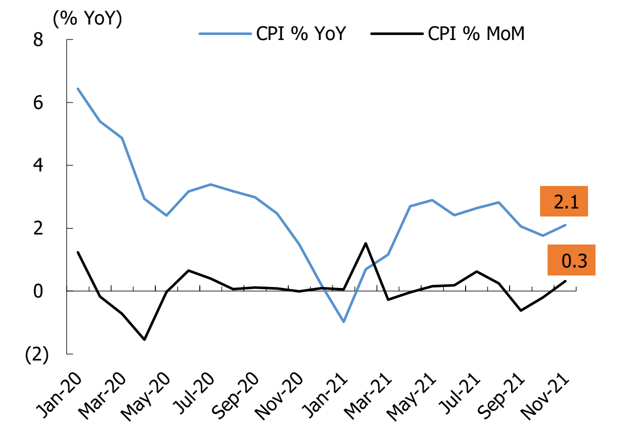
Figure 25. Retail sector also sees marked recovery



Source: HNX, VBMA, KIS

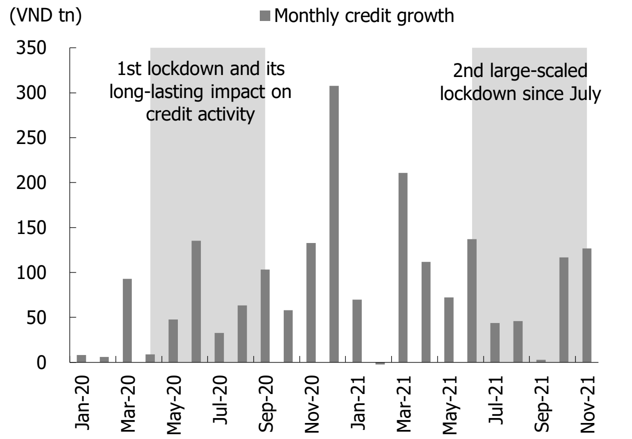
The upward pressure on yields is also fueled by a peak season of economic and credit activity in the end-year of 2021 and early 2022. It is most impressive that the total credit grew by up to 1.2% MoM and 1.3% MoM in October and November, which meant that there was nearly VND250tn being poured into the economy in just two first months of the reopening. If the credit activity in December is peaking at a pace that is similar to previous years, we believe that the banking liquidity would be more tightening up to a level that would be massive pressure on the front line of interest rates, interbank rates & government-bond yields.

Figure 26. Inflation increases at second-fastest pace since August last year



Source: HNX, VBMA, Bloomberg, KIS

Figure 27. Credit growth gains more momentum for the second month



Source: HNX, VBMA, KIS

Based on all the points above, we believe that upward pressure on G-bond yield levels would start to materialize from December.

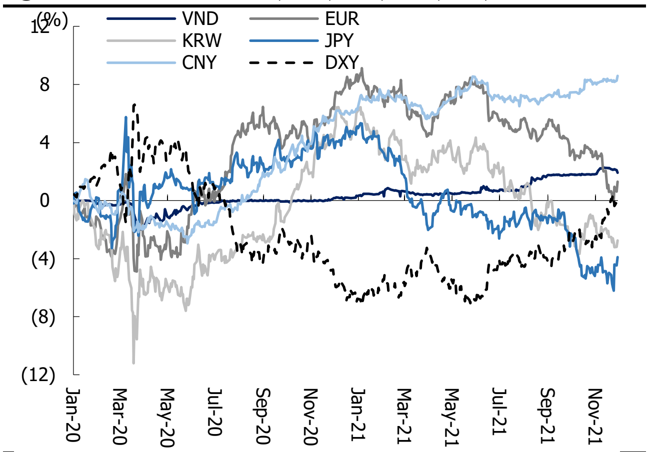
IV. Risk aversion pushes USD to 17-month high

USD is strengthening under global macro uncertainties

Global macro developments are heading into a next period with many uncertainties, in which a trend of tightening monetary conditions from central banks around the globe and serious concerns recently about the new COVID-19 variant Omicron weigh on the global economic prospect and investors confidence. Those developments are the underlying forces to drive the greenback growing to a high since the summer of last year. More specifically, the DXY index, a benchmark for USD value, saw one of the best performances in recent years in November, surging by 1.95% from October to the highest level since July last year.

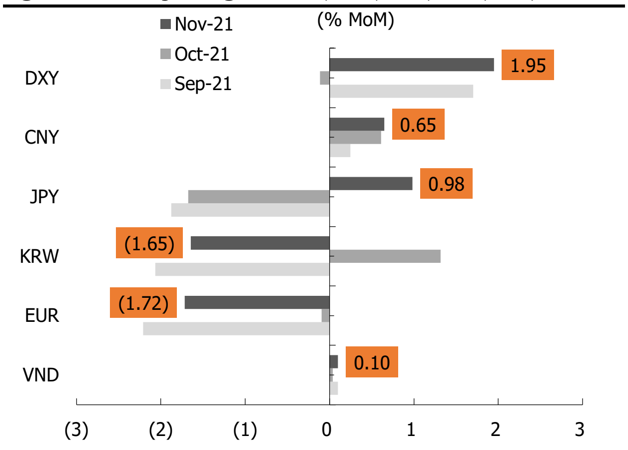
For five currencies in our watchlist, EUR and KRW were the ones that saw the most pressure from a strong greenback. EUR was plunging against USD for six straight months since June, lost 1.7% from October and about 6.8% in 6 months, while KRW also depreciated for 5 over 6 recent months, down by 1.7% MoM and 6.5% in 6 months. On the other side, JPY gained nearly 1% MoM against USD, followed by an increase of 0.65% MoM from CNY.

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



Source: Bloomberg, KIS

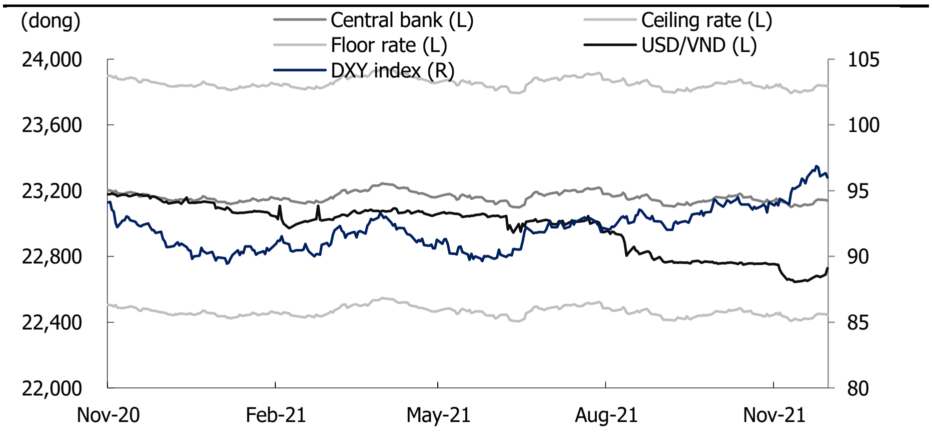
Figure 29. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR



Source: Bloomberg, KIS

Meanwhile, a recent SBV's action of lowering USD-purchasing price created upward pressure on VND, driving this currency to growth for 8 consecutive months. Accordingly, VND continued to rise slightly by 0.1% MoM, accumulating to an increase of 1.53% since April this year.

Figure 30. USD/VND rate and DXY index



Source: Bloomberg, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	4Q20	1Q21	2Q21	2Q21	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	1.28	1.45	2.40	3.02	1.59	2.73	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	27.20	27.87	27.23	27.00	27.30	29.90	80.15	78.40	79.95	82.09	215.1	243.5	263.6	282.7
Import	27.66	29.11	27.34	26.50	26.20	29.80	76.86	75.57	83.70	82.95	213.2	236.7	254.4	263.0
Export growth	20.56	12.03	(1.71)	(0.60)	0.15	18.53	15.14	23.42	34.74	2.95	21.82	13.19	8.16	7.02
Import growth	33.54	31.75	20.34	9.49	7.97	20.81	16.43	26.60	45.79	20.19	21.85	11.01	7.41	3.81
Inflation	2.41	2.64	1.79	2.06	1.77	2.10	3.24	0.30	2.67	2.16	3.53	3.54	2.79	3.24
USD/VND	23,020	22,947	22,784	22,761	22,752	22,729	23,126	23,076	23,020	22,761	22,698	23,175	23,173	23,126
Credit growth	6.44	6.92	7.40	7.54	8.72	9.27	10.14				18.24	13.89	13.70	10.14
10Y gov't bond	2.21	2.19	2.06	2.14	2.15	2.09	2.01	2.40	2.21	2.14	5.14	5.07	3.37	2.01

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