

Fixed-Income Report

Q1.2020

In this issue

- Round up
- Bond market
- Interest rates

Dang Khanh Linh

+84 24 3936 6990 (ext. 182)

dklinh@vcbs.com.vn

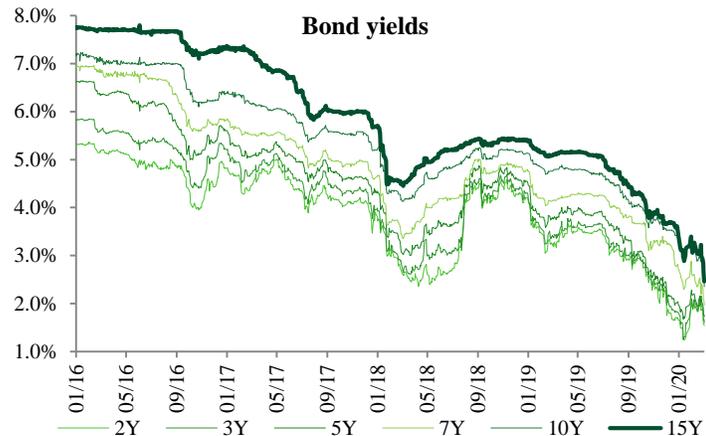
See Disclaimer at Page 12

Macroeconomic, Fixed-Income,
Financial and Corporation
Information updated at

www.vcbs.com.vn/vn/Services/AnalysisResearch

VCBS Bloomberg Page: <VCBS><go>

Round-up



Source: Bloomberg

■ In Q1.2020, VND 32,981 bn (-35.93% qoq, -52.52% yoy) worth of bond was mobilized. VND 668,251 bn (+3.95% qoq, +32.93% yoy) was traded on secondary market.

■ Yield curve became flatten and shifted upward considerably, bond yields for short-term tenors increased more than long-term tenors. According to Bloomberg, yields on 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y terms ended Q1.2020 at 2.625% (+112.5 bps ytd), 2.667% (+97.7 bps ytd), 2.75% (+92.5 bps ytd), 2.85% (+82.5 bps ytd), 3.283% (+47.5 bps ytd), 3.54% (+12.4 bps ytd), 3.63% (+2.2 bps ytd), respectively.

■ The foreign investors net sold VND 2,654 bn in Q1.2020.

■ After experiencing upward pressure at the end of January, interbank rates remained at a stable level. In details, at the end of Q1.2020, ON-3M rates posted at 2.04%, 2.18%, 2.32%, 2.61% and 3.08%.

■ SBV net withdrew VND 54,329 bn in Q1.2020 via OMO channel.

VCBS Commentary

■ The downward force is expected to dominate the bond market in Q2 based on supportive factors: (1) Stable interbank liquidity. (2) Inflation will be controlled in upcoming months. (3) The amount of matured government bonds remains at relatively high level. (4) Market's sentiment is less pessimistic given that the government still shows drastic actions in preventing the disease and supporting the economy.

■ Interbank rates are expected to decrease in the second quarter based on the following factors: (1) The movements of VND/USD exchange rate may gradually stabilize in the next quarters. (2) Credit growth is unlikely to be improved strongly in Q2. (3) The flexible, active and appropriate movements of the State Bank will support and maintain stable liquidity in the market.

Bond Market

Primary market

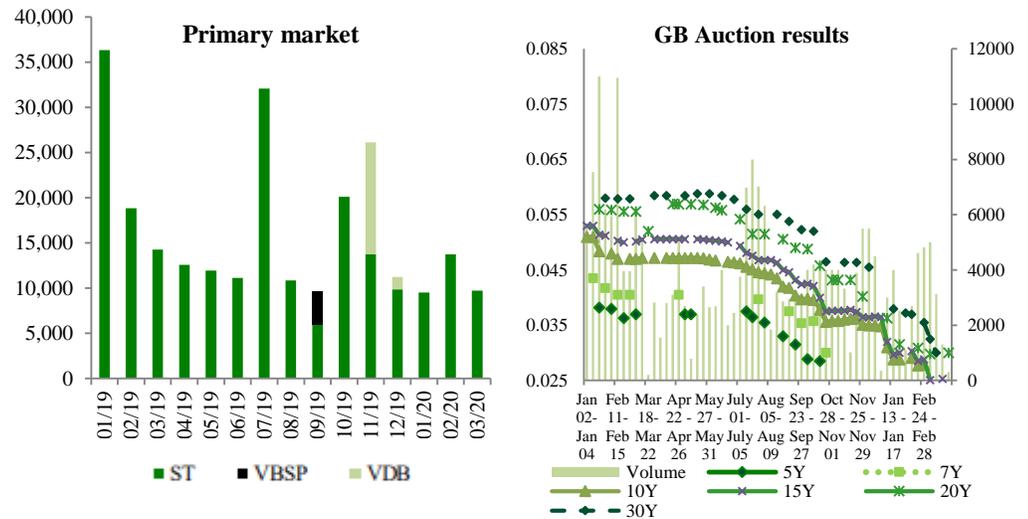
Winning volume focused on long-term tenors.

In Q1.2020, VND 32,581 bn (-35.93% qoq, -52.52% yoy) worth of bond was mobilized.

In Q1.2020, VND 32,981 bn (-35.93% qoq, -52.52% yoy) worth of bond was mobilized from the State Treasury (ST) and Vietnam Bank for Social Policies (VBSP). In detail, VND 500 bn; 1,480 bn; 8,879 bn; 10,747 bn; 4,801 bn and 6,574 bn were mobilized in 5Y, 7Y, 10Y, 15Y, 20Y and 30Y tenors, respectively.

Winning rates decreased sharply in Q1.2020. In particular, winning rates for 5Y, 7Y, 10Y, 15Y, 20Y and 30Y stood at 1.80% (0 bps ytd); 1.90% (-34 bps ytd); 2.18% (-92 bps ytd); 2.53% (-67 bps ytd); 3.00% (-63 bps ytd) and 3.00% (-80 bps), respectively.

Besides, VBSP and VDB did not mobilize bonds in the first quarter.



Source: HNX, VCBS

State Treasury issuance plan updated:

In the first quarter, VND 32,981 bn worth of bonds were mobilized as 55% - 66% of Q1.2020 plan, winning volume focused on 10Y & 15Y tenors. On 27/03, ST has issued 2020 plan, the detailed plan is listed below:

Tenor	2020 Plan	Q1. 2020 Plan	Issued in Q1. 2020	% completion Q1.2020 plan	% completion 2020 plan
5Y	20,000	5,000 – 6,000	500	8.3% - 10.0%	25.0%
7Y	15,000	4,000 – 5,000	1,480	29.6% - 37.0%	9.9%
10Y	90,000	14,000 – 17,000	8,879	52.2% - 63.4%	9.9%
15Y	100,000	15,000 – 18,000	10,747	59.7% - 71.6%	10.7%
20Y	20,000	7,000 – 8,000	4,801	60.0% - 68.6%	24.0%
30Y	15,000	5,000 – 6,000	6,574	109.6% - 131.5%	43.8%
Total	260,000	50,000 – 60,000	32,981	55.0% - 66.0%	12.7%

Source: HNX, VCBS

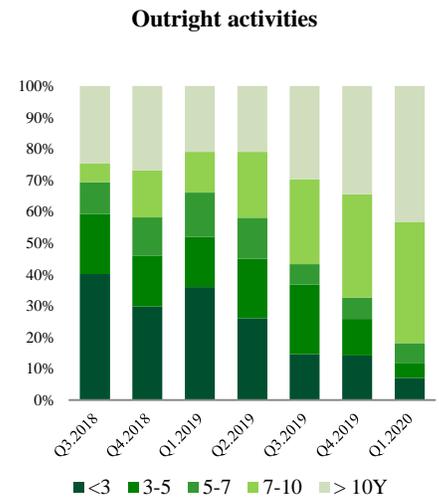
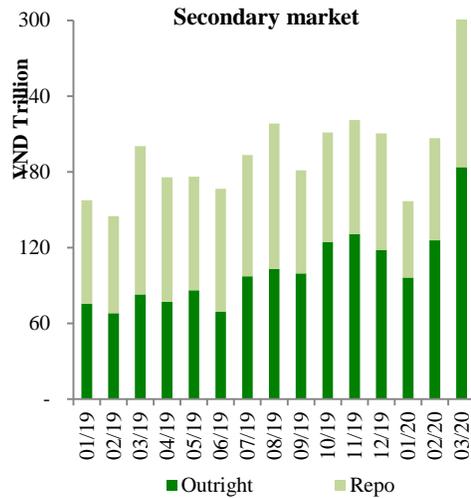
Macro updates:

- The General Statistics Office has released socio-economic data in the first 3 months of 2020. In particular, the gross domestic product (GDP) in Q1.2020 increased by 3.82% yoy due to the effect of Covid-19 epidemic. Due to the impact of the epidemic, we expect that GDP may increase by 3.5% - 3.7% yoy in Q2 due to interrupted operations, and consumer demand is also most reduced. However, the Government still shows drastic actions to prevent and control the situation and support the economy, so GDP is expected to recover from Q4. Thus, VCBS forecasts that growth in 2020 may reach 4.4% - 4.9%.
- The average consumer price index in Q1.2020 increased by 5.56% yoy. CPI increased compared to the same period last year mainly due to the increasing demand for food and foodstuffs. Besides, the reduction in gasoline prices and the demand for travel and tourism affected by the Covid-19 epidemic have contributed to curbing inflation. In the context of the measures are implemented to prevent the disease, we expect inflation to be controlled at 3.4% - 3.9% for the whole 2020.
- On March 16, the SBV decided to lower interest rates. Accordingly, the refinancing interest rate decreased from 6.0%/year to 5.0%/year; rediscount interest rate decreased from 4.0%/year to 3.5%/year; overnight lending interest rate in inter-bank electronic payment decreased from 7.0%/year to 6.0%/year; offering interest rate of valuable papers through open market operations decreased from 4.0%/year to 3.5%/year. In the context of the complicated movements of the Covid-19 epidemic, the move to lower interest rates is an important message with a view to support economic growth, while maintaining and stabilizing the value of VND at an appropriate level.
- In the context that the Covid-19 epidemic continued to spread and negatively affected the macro economy, the Fed twice announced emergency cutting interest rate (0% - 0.25%). In addition, FED used several tools to support liquidity and the economy such as applying quantitative easing program, lowering the discount interest rates, allowing currency swaps with 5 central banks.
- Central exchange rate increased by VND 85 from 23,150 VND/USD at the beginning of the year and reached 23,235 VND/USD on March 31. Meanwhile, exchange rate at commercial banks is 23,500 VND/USD, corresponding to an increase of 1.69% ytd. Given that Covid-19 epidemic continued to spread around the world, participants have a tendency to invest in safe-haven assets, and USD was considered as one of such assets. With the existing resources and the clear message of the operating direction, the State Bank of Vietnam can keep the central exchange rate down by 1% for 2020 - significantly lower than other countries in the area.

Secondary Market

Trading volume are recorded at a high level.

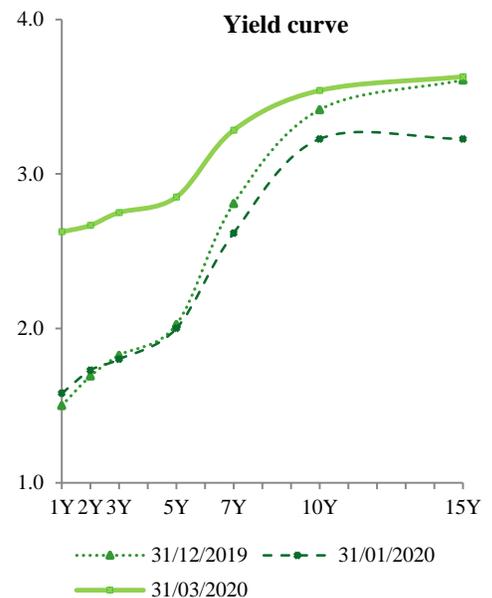
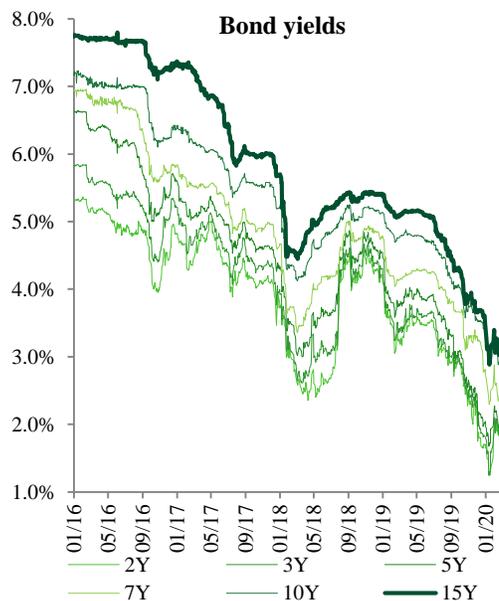
VND 668,251 bn (+3.95% qoq, +32.93% yoy) was traded on secondary market. **668,251 bn (+3.95% qoq, +32.93% yoy) was traded on secondary market in Q1.2020.** Average trading volume each session was VND 11,326 bn. In detail, outright values increased to VND 405,676 bn (+8.72% qoq) while repo activities decreased slightly to VND 262,575 bn (-2.67% qoq). Meanwhile, transactions at long tenors (> 10Y) have surged (43.32%).



Source: HNX, VCBS

Yield curve became flatten and shifted upward considerably, bond yields for short-term tenors increased more than long-term tenors. According to Bloomberg, yields on 1Y, 2Y, 3Y, 5Y, 7Y, 10Y and 15Y terms ended Q1.2020 at 2.625% (+112.5 bps ytd), 2.667% (+97.7 bps ytd), 2.75% (+92.5 bps ytd), 2.85% (+82.5 bps ytd), 3.283% (+47.5 bps ytd), 3.54% (+12.4 bps ytd), 3.63% (+2.2 bps ytd), respectively.

Upward pressure dominated bond yields due to several factors: (1) economic growth affected by Covid-19 epidemic; (2) the exchange rate at the end of Q1 was experiencing upward pressure. In addition, (3) interbank rates surged and (3) investor sentiment was more cautious given that complicated Covid-19 outbreak affecting almost all sectors and businesses. Furthermore, participants reacted sensitively to the negative information, especially when government bond yields have fallen sharply in recent months.



Source: Bloomberg, VCBS

Downward force is expected to dominate the government bond market in Q2 thank to the following supportive factors:

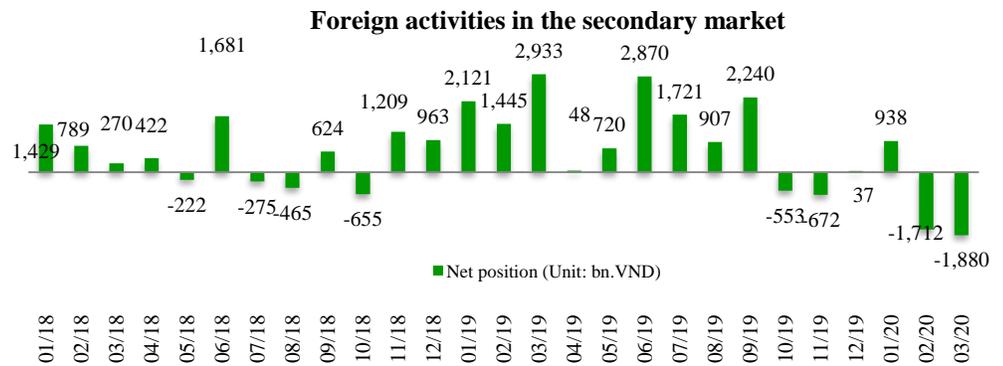
- (1) Interbank liquidity is abundant, interest rates are likely to have room to decline in the next months, and more details will be discussed below.
- (2) Inflation is expected to decline in the upcoming months given that: (i) the level of petrol prices is forecast to remain at a low level; (ii) the demand for culture, entertainment and tourism may continue to decrease more and there is no sign of improvement; and (iii) drastic actions to prevent complicated movements of the disease and support the economy.
- (3) Bond investment demand are expected to be sustained as the amount of matured government bonds is projected at VND 22.989 billion in Q2.2020, which is equal to 16.4% of the total amount of matured bonds in 2020.
- (4) Expectations of market members are less pessimistic in the context that Vietnam is effectively preventing and regulating the Covid-19 epidemic.

Thus, macroeconomic data and market expectations are supporting the bond yields that may witness a decline in the second quarter.

The foreign investors net sold VND 2,654 bn in Q1.2020

The foreign investors net sold VND 2,654 bn. In our opinion, the movements of exchange rate are key factors in foreign activities. In the context of economic growth affected by the Covid-19 epidemic, investors tend to invest in safe assets like the USD. Therefore, the market saw a quiet period when foreign investors need time to reassess risks. In addition, the easing of monetary policy of several central banks is also an element should be considered when investing assets of developing countries.

Although the trading volume of foreign investors is not large compared to the whole market, the transactions of foreign investors were visible as the strong buy/sell periods appear to precede a high volatility of bond yields.



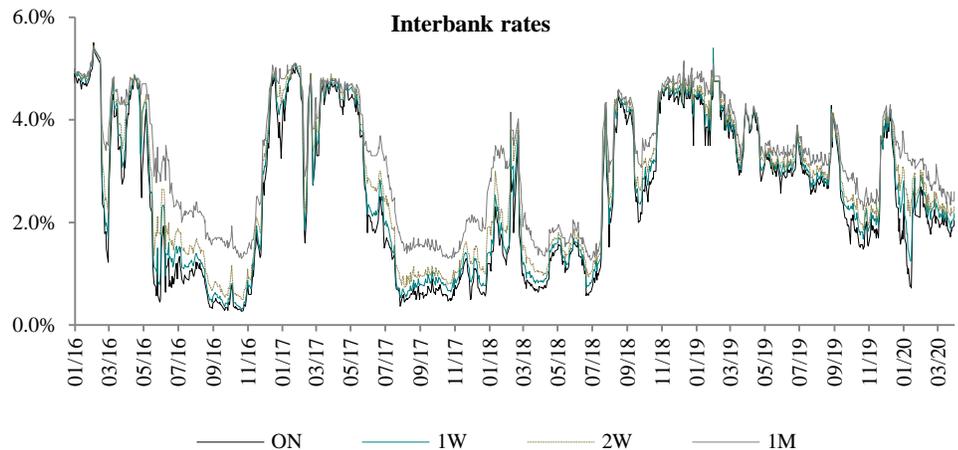
Source: HNX, VCBS

INTEREST RATE

Interbank Rates

After experiencing upward pressure at the end of January, interbank rates remained at a stable level.

After experiencing upward pressure at the end of January, interbank rates remained at a stable level. In details, at the end of Q1.2020, ON-3M rates posted at 2.04%, 2.18%, 2.32%, 2.61% and 3.08%.



Source: Bloomberg, VCBS

In Q2.2020, the interbank market is forecasted to have stable liquidity, interbank rates are likely to decline based on the following factors:

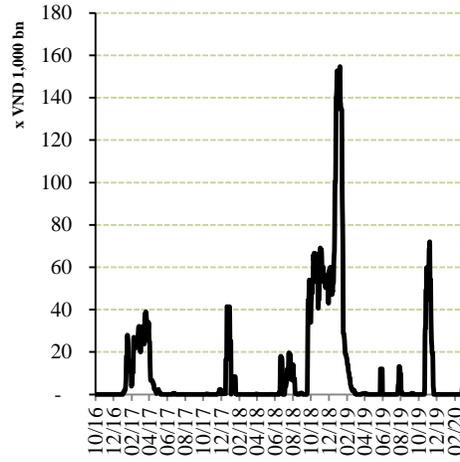
- (1) After being under upward pressure in the second half of Q1, the movements of USD/VND exchange rates may gradually stabilize: We assess that volatility is only momentary, particularly when the government has effectively regulated and prevented epidemics, creating a more optimistic perception for market members, as well as expectations to sustain the investment inflow. In addition, with the State Bank's constructive and rational management and abundant foreign reserves, the exchange rate is expected to be less volatile this year.
- (2) The impact of Covid-19 epidemic caused disruption of business operations, leading to a credit demand of just 0.68% in the first quarter, recording the lowest level for 6 years. Accordingly, we conclude that credit growth in Q2 may hardly be enhanced in the context of complicated epidemic movements.
- (3) The active and flexible management is expected to be demonstrated in the upcoming months. Accordingly, the SBV may use harmonized instruments to support and maintain stable liquidity in the market.
- (4) Liquidity will be abundant given that the amount of matured Government bonds in the first half of the year reached VND 80,248 billion (equivalent to 57.2% of the total matured volume in 2020).
- (5) The public disbursement is expected to be enhanced in the upcoming time. However, we are not too concerned about the amount of State Treasury money being removed from the system, as the money will soon return to the economy and banking system in various forms.

Open Market Operation

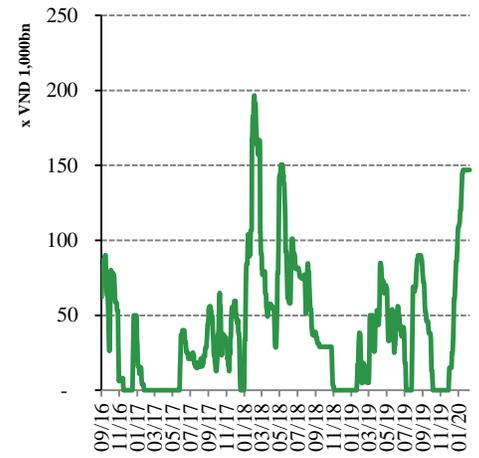
SBV net withdrew VND 54,329 bn in Q1.2020

The SBV net withdrew VND 54,329 billion through open market operations in Q1. In the first quarter, the SBV used OMO to regulate interbank rates. In detail, repo rate was reduced from 4.00% to 3.5% on March 16. Meanwhile, from January 20, the State Bank withdrew a large amount of money via issuing 91-day T-bill at 2.65% - 2.8%/year.

Reverse Repo



SBV-Bill Outstanding



Source: Bloomberg, VCBS

End.

APPENDICES

Primary Market

Month	ST Bond							VDB	VBSP	Other	
	Issued Volume	5 Y	7Y	10Y	15Y	20Y	30Y	Issued Volume	Issued Volume	Issued Volume	Issued Volume
04/19	12.576	N/A	4,05	4,72	5,06	5,69	5,85	0	0	0	12.576
05/19	11.936	3,70	N/A	4,69	5,04	5,68	5,88	0	0	0	11.936
06/19	11.132	N/A	N/A	4,64	5,00	5,58	5,78	0	0	0	11.132
07/19	32.081	3,55	3,97	4,44	4,68	5,15	5,51	0	0	0	29.081
08/19	10.848	3,30	3,75	4,18	4,46	5,06	5,38	0	0	0	10.848
09/19	9.950	2,89	3,54	3,98	4,25	4,88	5,23	0	3.702	0	13.652
10/19	20.190	2,85	3,00	3,58	3,76	4,32	4,65	0	0	0	10.190
11/19	13.729	2,37	3,00	3,51	3,65	4,02	4,61	12.397	0	0	26.126
12/19	9.858	2,00	N/A	3,48	3,65	N/A	4,55	1.400	0	0	11.258
01/20	9.526	1,80	2,24	2,88	3,00	3,15	3,80	9.526	0	0	9.526
02/20	13.734	N/A	2,24	2,79	2,88	3,09	3,55	13.734	0	0	13.734
03/20	9.721	N/A	1,90	2,18	2,53	3,00	3,00	0	0	0	9.721

Secondary Market

Month	Bonds		ST-bills		Total
	Outright	Repo	Outright	Repo	
04/19	77.210	98.480	-	-	175.690
05/19	86.163	90.162	-	-	176.325
06/19	69.201	97.371	-	-	166.572
07/19	97.267	96.210	-	-	193.477
08/19	103.053	115.342	-	-	218.395
09/19	99.661	81.694	-	-	181.355
10/19	124.405	86.923	-	-	211.328
11/19	130.835	177.147	-	-	307.982
12/19	117.869	92.618	-	-	210.487
01/20	96.169	60.524	-	-	156.693
02/20	125.714	81.108	-	-	206.822
03/20	183.792	120,943	-	-	304.736

Open Market Operation

Month	Reverse Repo				Outright (SBV Bills)			
	Due	Offer	Balance	Outstanding	Due	Offer	Balance	Outstanding
04/19	1.830	501	(1.329)	306	37.101	82.199	45.098	49.998
05/19	918	612	(306)	-	168.330	203.131	34.800	84.799
06/19	21	12.021	12.000	12.000	288.046	236.246	(51.800)	32.999
07/19	12.000	-	(12,000)	-	9.830	199.994	22.999	55.999
08/19	-	13.134	13.134	13.134	25.960	114.997	(55.999)	-
09/19	14.122	988	(13.134)	-	3.000	149.993	68.997	68.997
10/19	497	497	-	-	-	344.981	-	53.997
11/19	-	49.179	49.179	-	17.000	106.992	(53.997)	-
12/19	103.292	54.113	(49.179)	-	74.600	-	-	-
01/20	187.354	280.582	93.228	-	-	-	-	24.999
02/20	188.118	64.797	(123.321)	-	-	-	-	119.990
03/20	50.250	33.790	(16.460)	2.877	54.499	59.399	4.900	146.987

DISCLAIMER

This report is designed to provide updated information on the fixed-income, including bonds, interest rates, some other related. The VCBS analysts exert their best efforts to obtain the most accurate and timely information available from various sources, including information pertaining to market prices, yields and rates. All information stated in the report has been collected and assessed as carefully as possible.

It must be stressed that all opinions, judgments, estimations and projections in this report represent independent views of the analyst at the date of publication. Therefore, this report should be best considered a reference and indicative only. It is not an offer or advice to buy or sell or any actions related to any assets. VCBS and/or Departments of VCBS as well as any affiliate of VCBS or affiliate that VCBS belongs to or is related to (hereafter, VCBS), provide no warranty or undertaking of any kind in respect to the information and materials found on, or linked to the report and no obligation to update the information after the report was released. VCBS does not bear any responsibility for the accuracy of the material posted or the information contained therein, or for any consequences arising from its use, and does not invite or accept reliance being placed on any materials or information so provided.

This report may not be copied, reproduced, published or redistributed for any purpose without the written permission of an authorized representative of VCBS. Please cite sources when quoting. Copyright 2012 Vietcombank Securities Company. All rights reserved.

CONTACT INFORMATION

Tran Minh Hoang

Head of Research

tmhoang@vcbs.com.vn

Dang Khanh Linh

Fixed Income Analyst

dklinh@vcbs.com.vn

VIETCOMBANK SECURITIES COMPANY

<http://www.vcbs.com.vn>

Ha Noi Headquarter	Floor 12th & 17th, Vietcombank Tower, 198 Tran Quang Khai Street, Hoan Kiem District, Hanoi Tel: (84-4)-39366990 ext: 140/143/144/149/150/151
Ho Chi Minh Branch	Floor 1 st and 7 th , Green Star Building, 70 Pham Ngoc Thach Street, Ward 6, District No. 3, Ho Chi Minh City Tel: (84-8)-3820 8116
Da Nang Branch	Floor 12 th , 135 Nguyen Van Linh Street, Thanh Khe District, Da Nang City Tel: (84-511)-3888991 ext: 801/802
Nam Sai Gon Transaction Unit	Lawrence Sting Building, 801 Nguyen Luong Bang Street, Phu My Hung Urban Zone, District No. 7, Ho Chi Minh City Tel: (84-8)-54136573
Giang Vo Transaction Unit	Floor 1 st , Building C4 Giang Vo, Giang Vo Ward, Ba Dinh District, Hanoi Tel: (84-4)-37265551
Can Tho Representative Office	Floor 1 st , Vietcombank Can Tho Building, 7 Hoa Binh Avenue, Ninh Kieu District, Can Tho City Tel: (84-710)-3750888
Vung Tau Representative Office	Floor 1st, 27 Le Loi Street, Vung Tau City, Ba Ria - Vung Tau Province Tel: (84-64)-3513974/75/76/77/78
An Giang Representative Office	Floor 7th, Vietcombank An Giang Tower, 30-32 Hai Ba Trung., My Long Ward, Long Xuyen City, An Giang Province Tel: (84-76)-3949843
Dong Nai Representative Office	1st & 2nd Floor, 79 Hung Dao Vuong, Ward Trung Dung, Bien Hoa City, Dong Nai Province. Tel: (84-61)-3918815
Hai Phong Representative Office	Floor 2 nd , 11 Hoang Dieu Street, Minh Khai Ward, Hong Bang District, Hai Phong City Tel: (+84-31) 382 1630
Binh Duong Representative Office	Floor 3th, 516 Cach Mang Thang Tam Street, Phu Cuong Ward, Thu Dau Mot City, Binh Duong Province. Tel: (+84-650) 3855 771