



Fixed Income Report

May 2020

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Macro Indicators (Month)	Apr	May
CPI (avg. % YoY)*	4.9	4.4
Retail Sales Growth % (real)*	-9.6	-8.6
Industrial Prod. Growth %*	1.8	1.0
USD/VND % YTD	1.1	0.5
(*): cumulative YoY		

Macro Forecasts	2019	2020F
GDP Growth %	7.0	4.7
CPI Avg % YoY	2.8	3.7

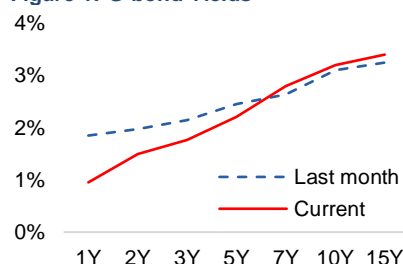
Policy Rates	2019	May 2020
Discount %	4.0	3.0
Refinancing %	6.0	4.5
Reverse Repo (OMO) %	4.0	3.0
Deposit Cap (<6mo) %	5.0	4.25

Latest G-Bond Auctions

Tenor	Winning rate	Apr	May
3Y	Not offered	N/A	N/A
5Y	18%	N/A	2.2
7Y	0%	N/A	N/A
10Y	49%	2.5	2.9
15Y	86%	2.9	3.1
20Y	40%	3.1	3.4
30Y	0%	3.1	N/A

Source: HNX

Figure 1: G-bond Yields



Source: Bloomberg (secondary market)

Record low interbank rates due to excess liquidity

Increased supply lifted primary market yields while excess liquidity further lowered short-term yields on the secondary market

- Total G-bond issuance jumped to VND18.4tn (USD793mn) vs only VND3.1tn (USD132mn) in April — with the winning rate surging to 70.7% from only 18.6% in April. As of the end of May, the Vietnam State Treasury (VST) had issued VND54tn (USD2.35bn) in 5M 2020, achieving only 20.1% of the FY2020 plan.
- The average daily trading value (ADTV) on the secondary market also rebounded 32% MoM to reach VND9.3tn (USD400mn) in May.
- In line with our expectation, the increased G-bond supply from the VST drove bond yields on the primary market up by 20-40 bps MoM, while abundant liquidity in the banking system lowered short-term yields of five years and under on the secondary market by 25-90 bps. Meanwhile, higher winning bond yields on the primary market lifted secondary market yields for longer tenors.
- We expect downward pressure on bond yields on secondary market to ease as only VND27tn/USD116bn of T-bills are coming due in June vs VND100tn/USD4.35bn in May. Additionally, a low issuance amount in 5M 2020 on the primary market and increasing public spending could continue to put some upward pressure on primary market yields.

Interbank rates dropped to the lowest level since October 2016 due to excess liquidity

- As of May 29, ON and 1W interbank rates dropped by nearly 170 bps MoM to 0.30% and 0.52%, respectively — the lowest levels since October 2016 and near record lows.
- Excess liquidity in the banking system has been driven by: (1) VND100tn (USD4.35bn) that was injected into the banking system via T-bills coming due in May; (2) low credit growth, which rose only 1.96% from the end of 2019 vs 5.74% in 5M; and (3) the SBV's policy rate cuts on May 13.

The dong strengthened in May

- After appreciating 0.9% in April, the dong strengthened by 0.6% in May, quoting at 23,282 vs the USD as of May 29 (depreciating 0.5% YTD). The recent appreciation of the dong was attributed to several factors, including: (1) the SBV announcing that it is ready to sell USD to support the FX market; (2) the recent sharp depreciation of the USD; and (3) the success of containing COVID-19 in Vietnam, which has driven positive sentiment on the FX market.
- We expect a continuing trade surplus, healthy FDI disbursement and resilient foreign reserves will support the dong — in addition to the SBV managing the exchange rate.

CDS spreads of Vietnam and regional markets dropped in May

- CDS spreads of Vietnam and regional markets declined sharply on improved containment of COVID-19. Vietnam's five-year sovereign CDS spreads dropped 60.8 bps MoM to 220 bps as of May 29.

Primary bond market

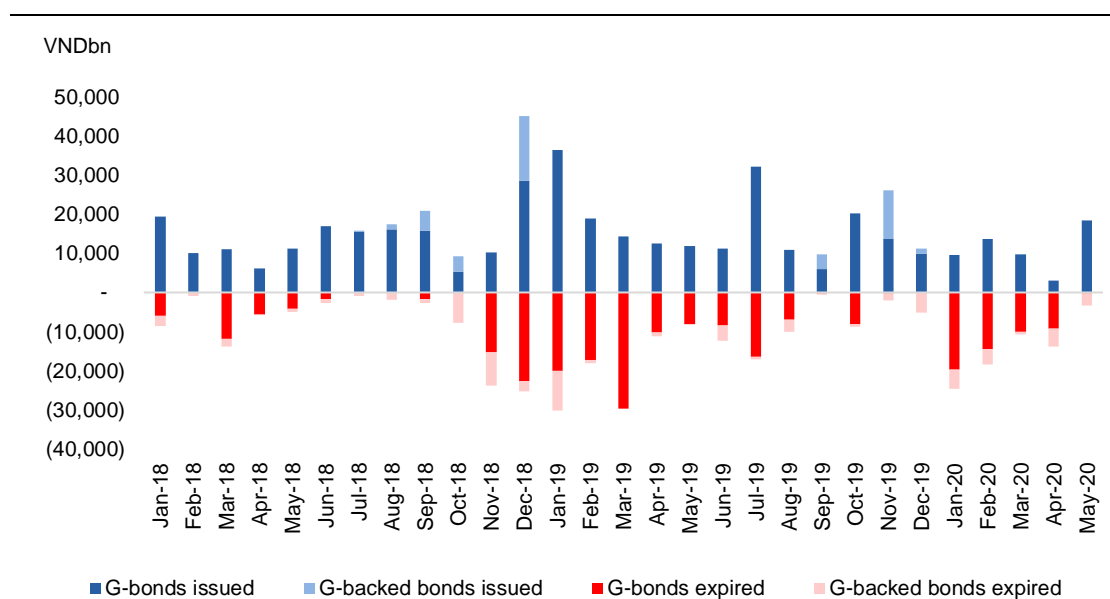
G-bond issuance rebounded strongly

Given a low G-bond issuance amount in 4M 2020 (VND36.1tn/USD1.6bn — or 14% of the annual plan), the VST raised the offered amount to VND26tn/USD1.1bn in May (+58% MoM). The high offered amount, in conjunction with excess liquidity in the banking system, drove the successful issuance amount to VND18.4tn (USD793mn) from only VND3.1tn (USD132mn) in April — with the winning rate rebounding to 70.7% from only 18.6% in April.

An increased supply of G-bonds also placed upward pressure on yields on the primary market, which was in line with our expectation cited in our [April 2020 Fixed Income Report](#). In the latest auctions, yields of 10Y and 15Y bonds, which accounted for 45% and 54% of total issuance amount in May, recorded at 2.5% (+40 bps MoM) and 3.1% (+22 bps MoM), respectively.

As of the end of May, the VST had issued VND54tn (USD2.35bn) in 5M 2020, achieving only 20.1% of the FY2020 plan.

Figure 2: Bond issuance and expiration



Source: Hanoi Stock Exchange (HNX), VCSC

Figure 3: G-bond issuance plan

<i>Unit: VND bn</i>	2020 target	YTD Issuance	YTD Issuance/Target
5-year	20,000	590	3.0%
7-year	15,000	1,480	9.9%
10-year	90,000	18,936	21.0%
15-year	100,000	21,592	21.6%
20-year	20,000	5,171	25.9%
30-year	15,000	6,674	44.5%
Total	260,000	54,443	20.9%
	Q1 2020 Target	Q1 Issuance	Q1 issuance/Target
5-year	5,000 - 6,000	500	10.0% - 8.3%
7-year	4,000 - 5,000	1,480	37.0% - 29.6%
10-year	14,000 - 7,000	8,879	63.4% - 126.8%
15-year	15,000 - 18,000	10,747	71.6% - 59.7%
20-year	7,000 - 8,000	4,801	68.6% - 60.0%
30-year	5,000 - 6,000	6,574	131.5% - 109.6%
Total	50,000 - 60,000	32,981	66.0% - 55.0%
	Q2 2020 Target	QTD Issuance	Q2 issuance/Target
5-year	3,000 - 4,000	90	3.0% - 2.3%
7-year	3,000 - 4,000	0	0.0%
10-year	22,000 - 25,000	10,057	45.7% - 40.2%
15-year	22,000 - 25,000	10,845	49.3% - 43.4%
20-year	5,000 - 6,000	370	7.4% - 6.2%
30-year	5,000 - 6,000	100	2.0% - 1.7%
Total	50,000 - 60,000	21,462	42.9% - 35.8%

Source: VST, HNX, VCSC

Figure 4: Auction results by week in the reviewed period
G-bonds:

<i>Unit: VND bn</i>	Tenor	Amount offered	Winning amount	Winning rate	Yield
Week ended May 8, 2020	5Y	500	90	18%	2.2%
	10Y	1,500	1,500	100%	2.6%
	15Y	1,500	1,500	100%	2.9%
	20Y	500	-	0%	
	Total	4,000	3,090	77%	
Week ended May 15, 2020	5Y	500	-	0%	
	7Y	500	-	0%	
	10Y	2,000	2,000	100%	2.8%
	15Y	3,000	2,395	80%	2.9%
	Total	6,000	4,395	73%	
Week ended May 22, 2020	5Y	1,000	-	0%	
	10Y	3,000	3,000	100%	2.8%
	15Y	3,000	3,000	100%	3.0%
	20Y	500	200	40%	3.4%
	Total	7,500	6,200	83%	
Week ended May 29, 2020	5Y	1,000	-	0%	
	10Y	3,500	1,707	49%	2.9%
	15Y	3,500	3,000	86%	3.1%
	30Y	500	-	0%	
	Total	8,500	4,707	55%	

Source: HNX, VCSC

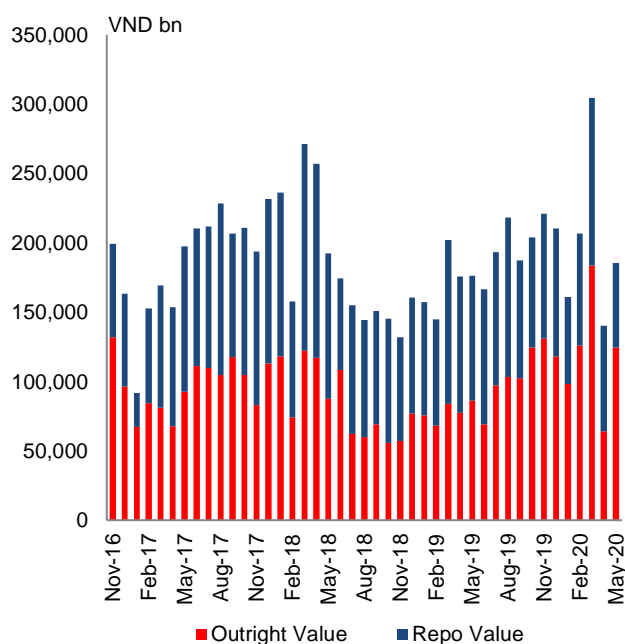
Secondary bond market

Short-term bond yields fell further, while long-term yields advanced

After falling to the lowest monthly level since December 2018 in April, the average daily trading value (ADTV) of outright and reverse repo transactions on the secondary market rebounded 32% MoM to reach VND9.3tn (USD400mn) in May. Of the total trading turnover, outright and repo value accounted for 67% and 33%, respectively.

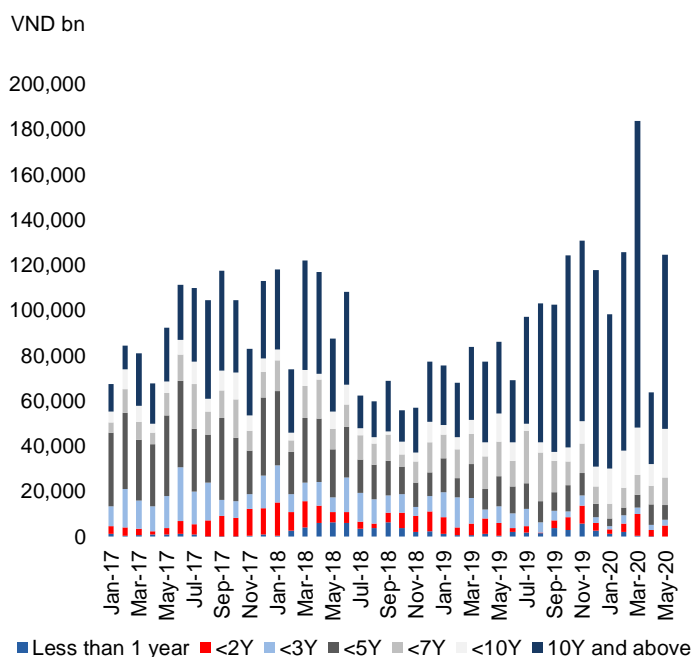
Abundant liquidity in the banking system caused by a large number of 91-day T-bills expired (VND100tn/USD4.3bn), and slow credit growth — as well as the SBV's interest rate cuts on May 13 — placed further downward pressure on short-term bond yields on the secondary market in May. Meanwhile, higher winning bond yields on the primary market — especially for long-term tenors — drove long-term yields on the secondary bond yields higher. As of the end of May, yields of 5Y tenors and under dropped 25-90 bps MoM, while yields of above-5Y tenors advanced by nine bps to 58 bps MoM.

Figure 5: Turnover by outright, repos



Source: HNX, VCSC

Figure 6: Secondary market turnover (outright)

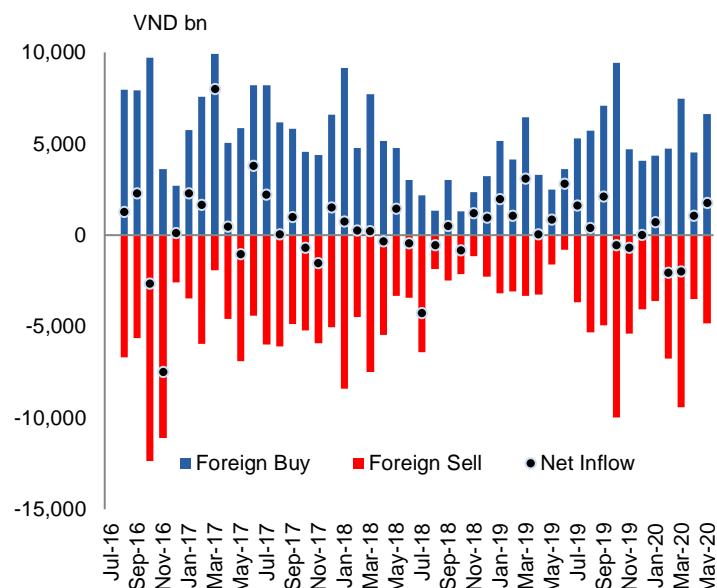


Source: HNX, VCSC

Net foreign inflows for the second consecutive month

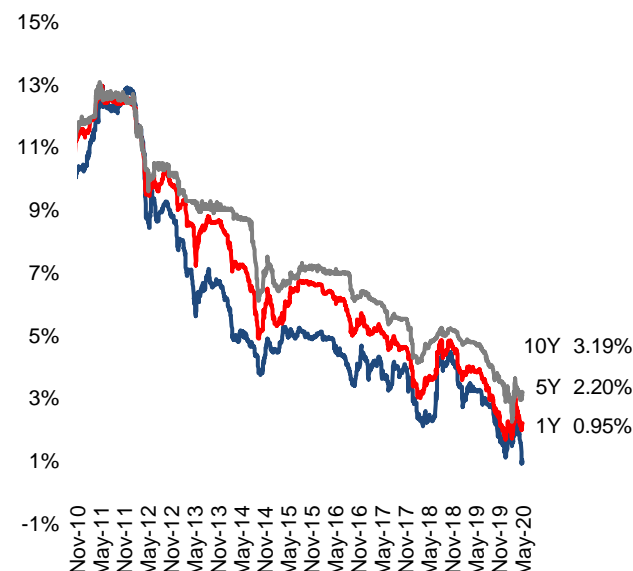
Foreign investors continued to net buy VND1.7tn (USD76.2mn) on the secondary market in May — the second consecutive month of net foreign inflows. In 5M 2020, foreign investors net sold VND460bn (USD19.8mn) vs VND7.1tn (USD306mn) in 5M 2019.

Figure 7: Foreign buying and selling



Source: HNX, VCSC

Figure 8: Government bond yields



Source: Bloomberg, VCSC

Bond market forecast

Downward pressure on bond yields to ease in June

Ample liquidity in the banking system due to slow credit growth — as well as a large amount of money to be released into the market via T-bills that are coming due — could further depress secondary market bond yields in June. However, we expect downward pressure to ease relative to May as only VND27tn/USD116bn of T-bills are coming due in June vs VND100tn/USD4.35bn in May. Additionally, a low amount of G-bond issuance on the primary market in 5M 2020 (completing only 20% of the annual plan) and increasing public spending could put some upward pressure on yields on the primary market.

Money market

Interbank rates dropped to the lowest level since October 2016 due to excess liquidity

Interbank interest rates dropped throughout the month due to excess liquidity in the banking system, which was attributed to:

- 1) VND100tn (USD4.35bn) that was injected to the banking system via T-bills coming due during May.
- 2) Low credit growth. According to the SBV, as of May 29, credit growth rose only 1.96% from the end of 2019. This figure is far below that recorded in previous years (5M 2019: 5.74%; 5M 2018: 6.22%)
- 3) The SBV's policy rate cuts on May 13 (the second time this year).

As of the end of May, ON, 1W and 2W interbank rates closed the month at 0.30% (-165 bps from the end of April), 0.52% (-168 bps) and 0.70% (-158 bps), respectively — the lowest levels recorded since October 2016.

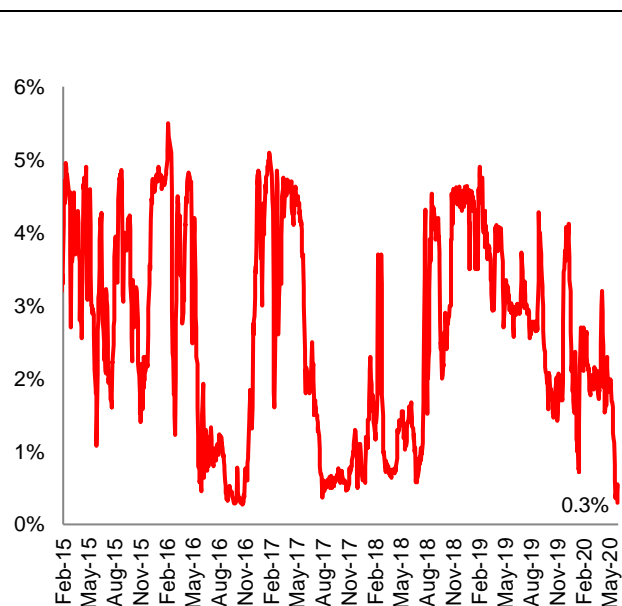
Interbank rates could fall further as (VND27tn/USD116bn) of T-bills will come due during the first half of June; however, this amount represents only about 25% of the amount that came due in May.

Figure 9: Interbank interest rates

(%)	ON	1W	2W	1M
March 31	2.04	2.18	2.32	2.60
April 30	1.95	2.18	2.28	2.35
May 31	0.30	0.52	0.70	1.20

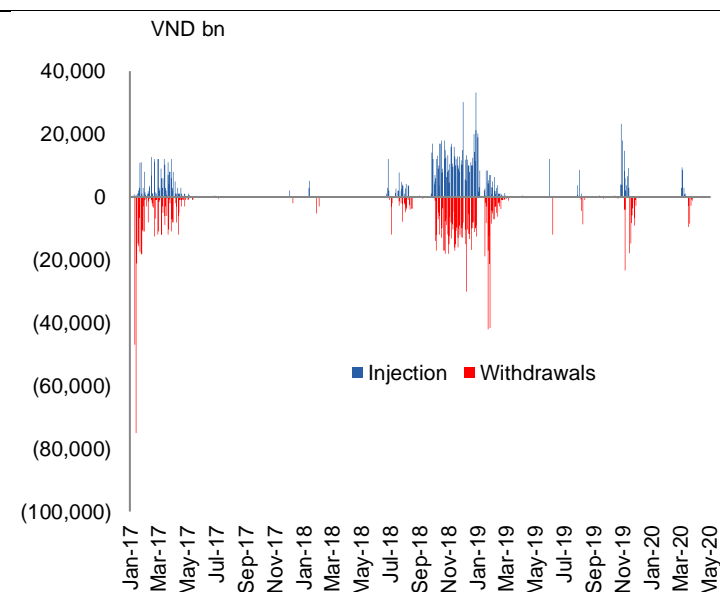
Source: Bloomberg, VCSC

Figure 10: Interbank overnight rate



Source: Bloomberg, VCSC

Figure 11: Reverse repos (OMO)



Source: Bloomberg, VCSC

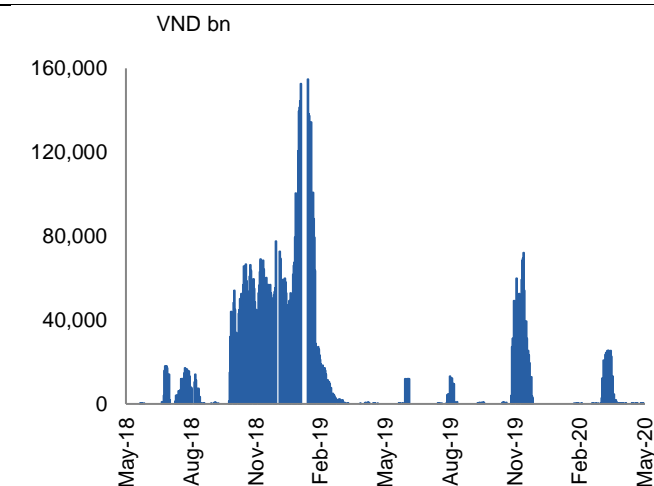
VND100tn (USD4.35bn) injected as T-bills came due

VND100tn (USD4.35bn) of T-bills that were issued in February came due in May. Meanwhile, VND5.0bn (USD220,000) of reverse repos were issued and expired during the month, leading to a net injection of VND100tn (USD4.35bn) in May.

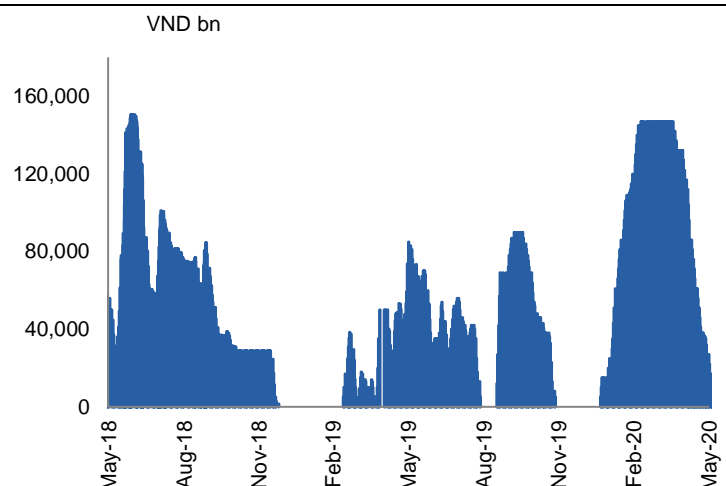
Figure 12: Net injections/withdrawals via reverse repos and T-bills

Unit: VND bn	Reverse repo		T-bill		Net
Week ending	Offering	Due	Offering	Due	Injection/(Withdrawal)
03-Apr-20	20,837.0	1.1	-	-	20,835.9
10-Apr-20	4,655.6	(0.0)	-	-	4,655.6
17-Apr-20	1.0	20,837.0	-	-	(20,836.0)
24-Apr-20	1.1	4,655.6	-	14,999.6	10,345.0
01-May-20	-	1.0	-	9,999.6	9,998.6
08-May-20	-	1.1	-	35,998.2	35,997.2
15-May-20	3.0	-	-	24,997.7	25,000.7
22-May-20	-	3.0	-	22,996.7	22,993.7
29-May-20	2.0	-	-	10,998.3	11,000.3

Source: Bloomberg, SBV, VCSC

Figure 13: Outstanding reverse repos (OMO)


Source: Bloomberg, VCSC

Figure 14: T-bills outstanding


Source: Bloomberg, VCSC

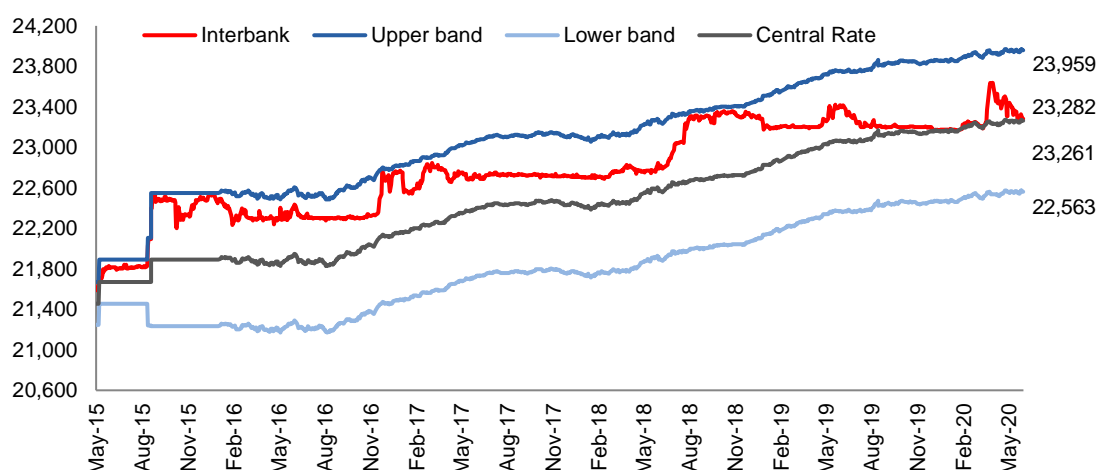
Foreign exchange rate

The dong strengthened further in May

After appreciating 0.9% in April, the dong continued to strengthen by 0.6% in May, quoting at 23,282 vs the USD as of May 29 (depreciated 0.5% YTD). The recent appreciation of the dong was attributed to several factors, including:

- 1) The SBV announced that it is ready to sell USD to support the FX market and reduced its selling price to 23,650 from 23,907, as quoted previously.
- 2) The recent sharp depreciation of the USD (Bloomberg's Dollar Index Spot dropped to 98.344 as of the end of May from its 39-month peak recorded on March 20).
- 3) The success of containing COVID-19 in Vietnam, which has driven positive sentiment on the FX market (FX traders may be anticipating stronger foreign inflows in upcoming months).

Figure 15: USD/VND exchange rate



Source: Bloomberg, VCSC

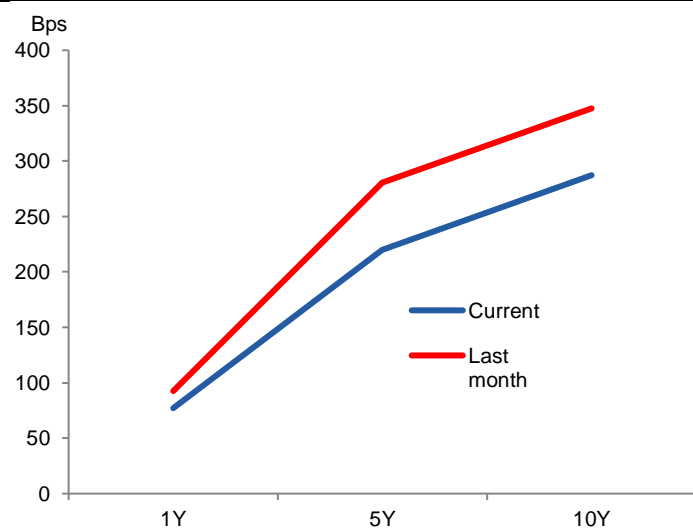
Outlook: We expect a continued trade surplus, healthy FDI disbursement and resilient foreign reserves will support the dong — in addition to the SBV in managing the exchange rate. However, the dong could still face depreciation pressure from decelerating exports due to diminishing global demand and/or the uncertain impact of COVID-19.

CDS Market

CDS spreads of Vietnam and regional markets dropped in May

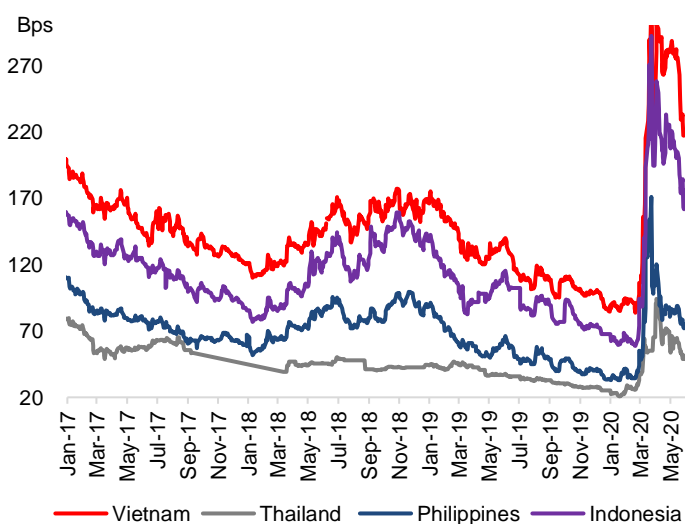
CDS spreads of Vietnam and regional markets declined from the second week of May toward the month-end due to the improved containment of COVID-19. Vietnam's five-year sovereign CDS spreads dropped 60.8 bps MoM to 220 bps as of May 29. Meanwhile, CDS spreads of Indonesia, Thailand and the Philippines also narrowed by 35.5 bps, 11.0 bps and 5.5 bps to 175.9 bps, 48.9 bps and 74.9 bps, respectively, in the same period.

Figure 15: Vietnam's credit default swap spreads



Source: Bloomberg, VCSC

Figure 16: Selected ASEAN 5Y CDS spreads



Source: Bloomberg, VCSC

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