



Economic & Bond Commentary

August 30, 2016

Ms. Anh Le

08/22/2016 – 08/26/2016

MARKET OVERVIEW

The GSO has published its 8M2016 social economic reports with highlighted information. Firstly, the IIP (Index of Industrial Production) signaled positively increasing by 7.3% y.o.y in August and 6.9% y.o.y in 8M2016. The growth was good but not impressive as the mining sector, especially Oil & gas exploitation, recorded big negative growth of 5.1% (oil & gas exploitation shrank by 12.3) and pulled down the growth. The Manufacturing continued maintain good growth but the growth remained below that of 8M2015. Along with weak recovery of Agriculture sector, GDP growth is expected to be improved from H1/2016 level but might still be quite weak, about 5.8-5.9% in 9M2016 and around 6.2% for the whole year. On the spending side, retail revenue and investment also gave signals of slower aggregated demand growth. This growth might disappoint the government but is still quite decent given the current global slow growth.

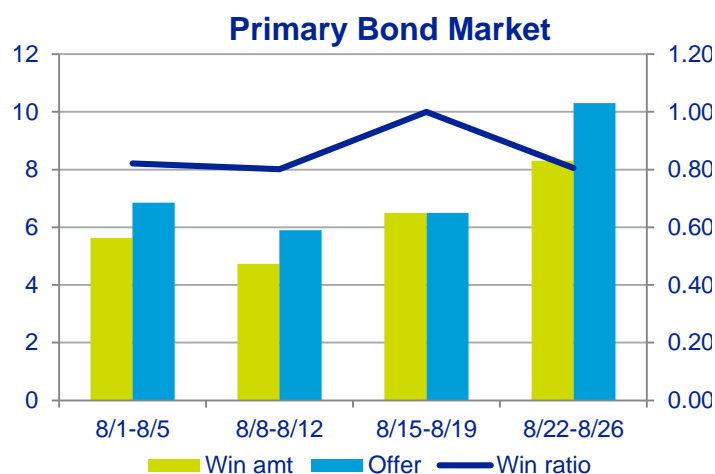
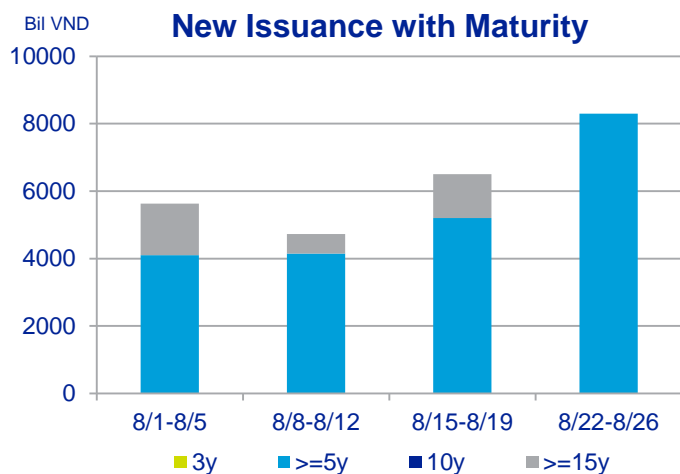
Beside relatively weak GDP growth, other economic data was quite positive. CPI growth was 0.1% in August on adjusted healthcare service fees and 2.58% YTD. With weaker commodity price outlook, the government goals of controlling inflation at 5% or lower has become achievable and make it easier for the SBV to lower interest rate. FDI disbursement reached US\$ 9.8 bln in 8M2016, increasing 8.9% y.o.y while FDI registration showed improvements in both quantity (increasing 7.7% y.o.y) and quality (with more FDI registration in manufacturing fields). The trade balance of goods recorded a decent surplus of US\$ 2.45 bln in 8M2016 (in comparison with US\$ 3.6 bln deficit recorded in 8M2015). With all these, we have no reason to worry about VND valuation at this moment.

For longer term perspective, the new government is now very confident on macroeconomic stability. In the new guideline for banking sector toward 2020, along with other goals, the target lending interest rate was as low as 5%. Even though this target is quite ambitious given the current interest rate levels, but given the current strong balance sheet of the central banks, low commodity price risks and speed of cleaning NPL, we consider this as achievable. Hence, our long-term outlook for VGB is still very bullish, especially for longer term bond.

For shorter term view, despite strong foreign sales recorded in both VGB and equity market, foreign capital flowing to Vietnam remains strong at this moment. The SBV might still have to buy green note not to let VND get stronger. The SBV bill outstanding is at record high of VND 80 tln. Short-term interbank rate at record low and bond yields are decreasing. It seems to us that the interest rate surge which is expected for the current peak season might not come and we are having H2/2016 calmer than we had expected earlier.

VGB-GGB MARKET

PRIMARY BOND MARKET



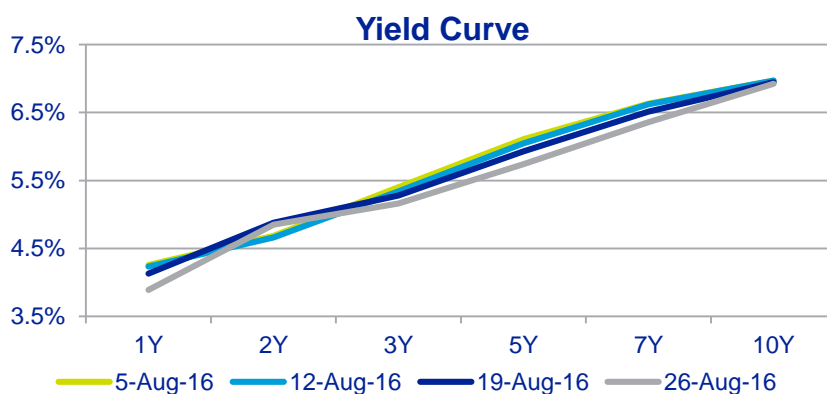
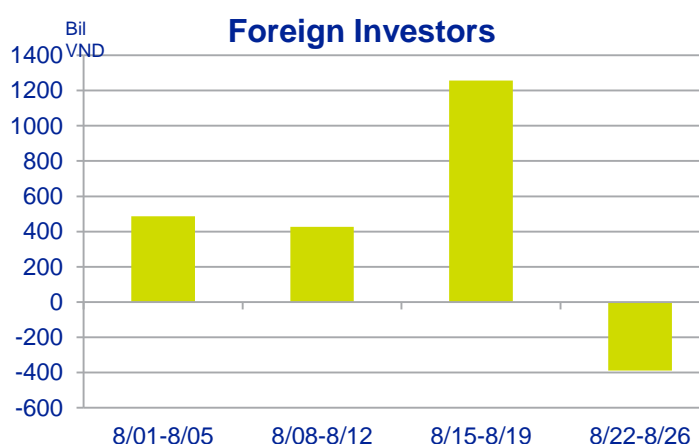
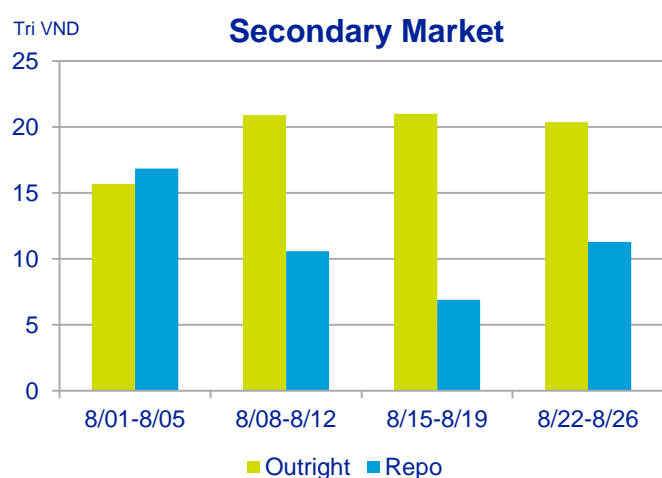
Source: HNX, ACBS

VND 8.3tn of VGB was issued last week, and the market absorbed mostly the short-term ones (less than 10Y). The 20Y VGB and 10Y above VBS bonds was left unsold. Treasury's duration conversion program was yet to be published. The sustained increase in issuance amount follows by the raise of low duration notes absorption suggests a larger market excess liquidity on top of the ample existing amount.

Bond Issuance Schedule This Week

08/22/2016-08/26/2016				
Issuer	Offer Amount	Issue Date	Maturity	Tenor
State Treasury	3,000,000,000,000	01/09/2016	25/08/2023	7
State Treasury	3,000,000,000,000	01/09/2016	01/09/2021	5
State Treasury	1,000,000,000,000	01/09/2016	09/06/2046	30
Vietnam Bank for Social Policies	200,000,000,000	30/08/2016	30/08/2026	10
Vietnam Bank for Social Policies	500,000,000,000	30/08/2016	30/08/2021	5
Vietnam Bank for Social Policies	300,000,000,000	30/08/2016	30/08/2031	15

SECONDARY BOND MARKET

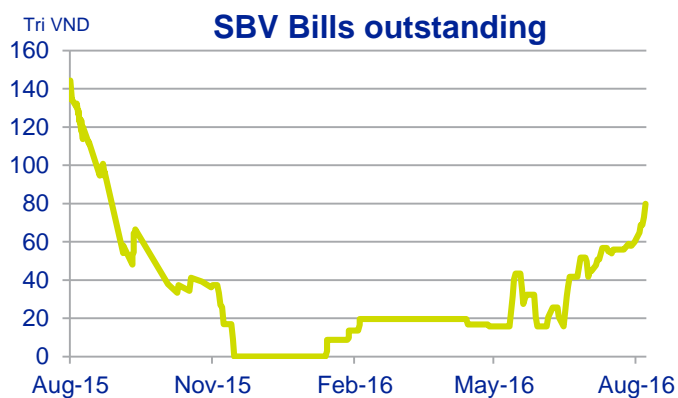
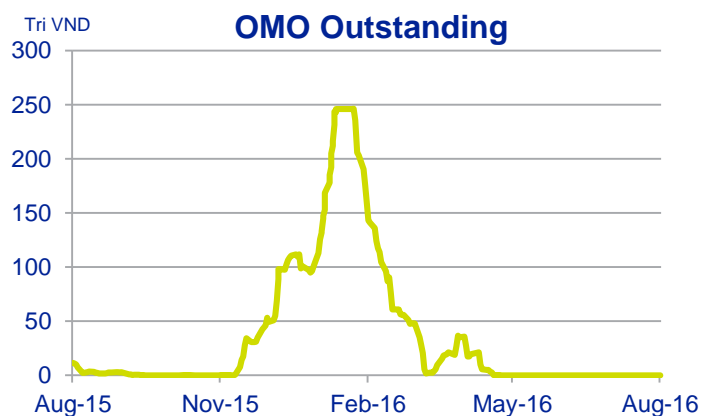
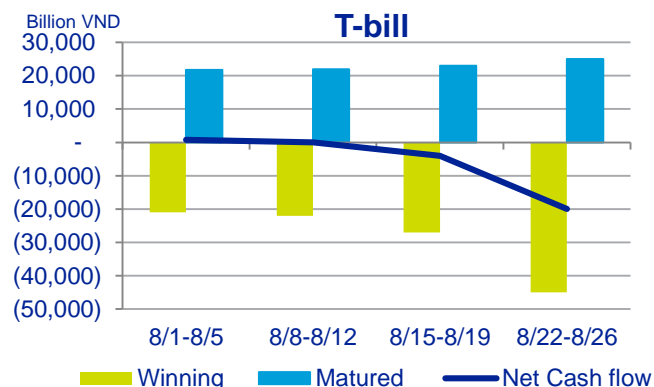
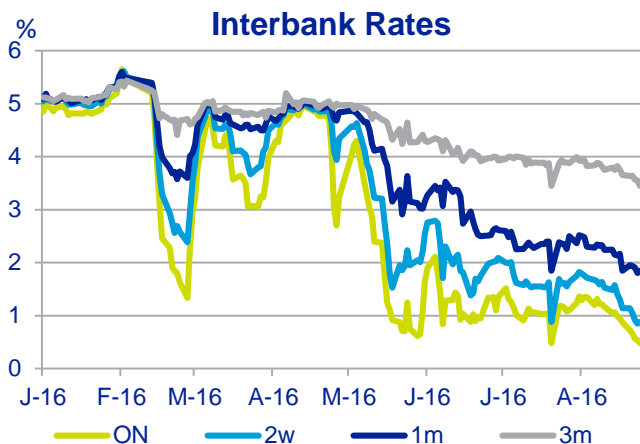


Source: HNX, VBMA, ACBS

Foreign investor funds experienced a net outflow from the bond market last week because of less attractive yields. The traded amount on both primary and secondary market was held steady by mostly domestic demands.

Significantly, the yields kept their declining trend throughout the weeks of August, which then further signal an excess of liquidity.

MONEY MARKET



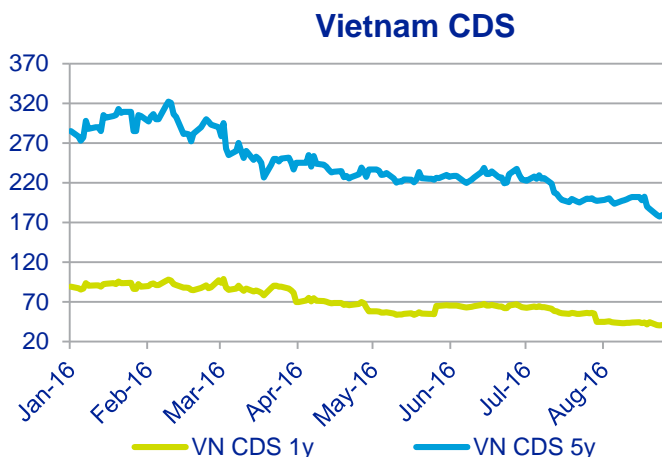
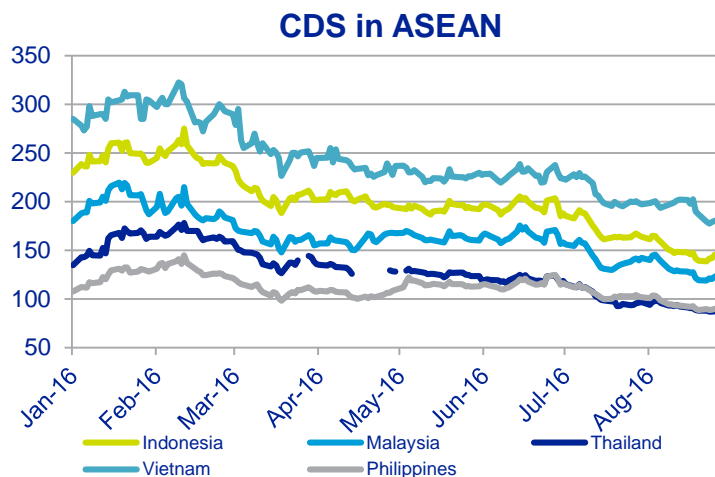
Source: ACBS, Bloomberg

Interbank rate fell considerably last week, down to the record low of 2016. There was also a significant increase in both cash outflow and outstanding SBV bills. The healthy market liquidity reserves are sufficient to offset the market money shortage if there is any.

Additionally, the most recent CPI suggests that inflationary risk was unlikely visible. The scenario of any rate hike apart from seasonal factor seems improbable in the short term.

OTHER MARKETS

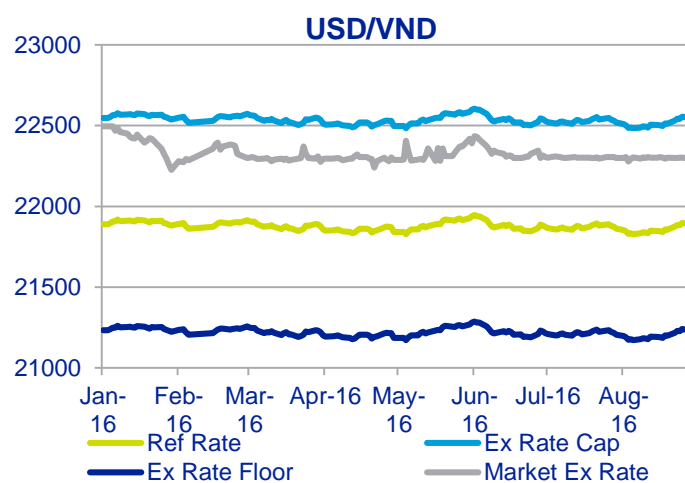
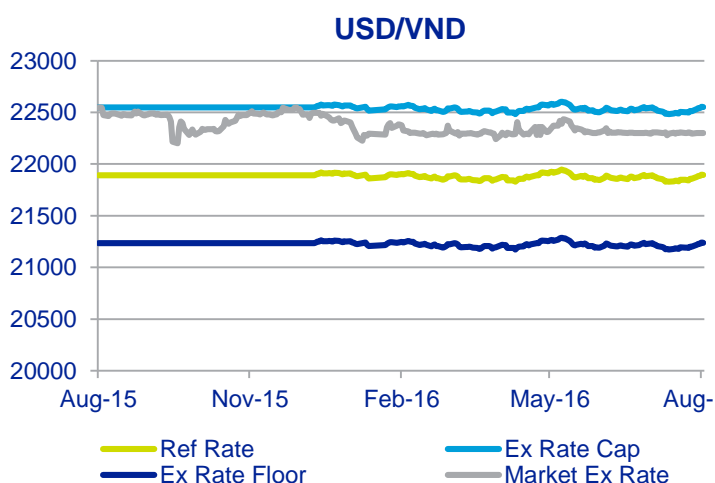
SOVEREIGN CDS



Source: Bloomberg

No significant changes on CDS market last week, Vietnam and the ASEAN credits moved sideways, with slight increases on Malaysia and Indonesia.

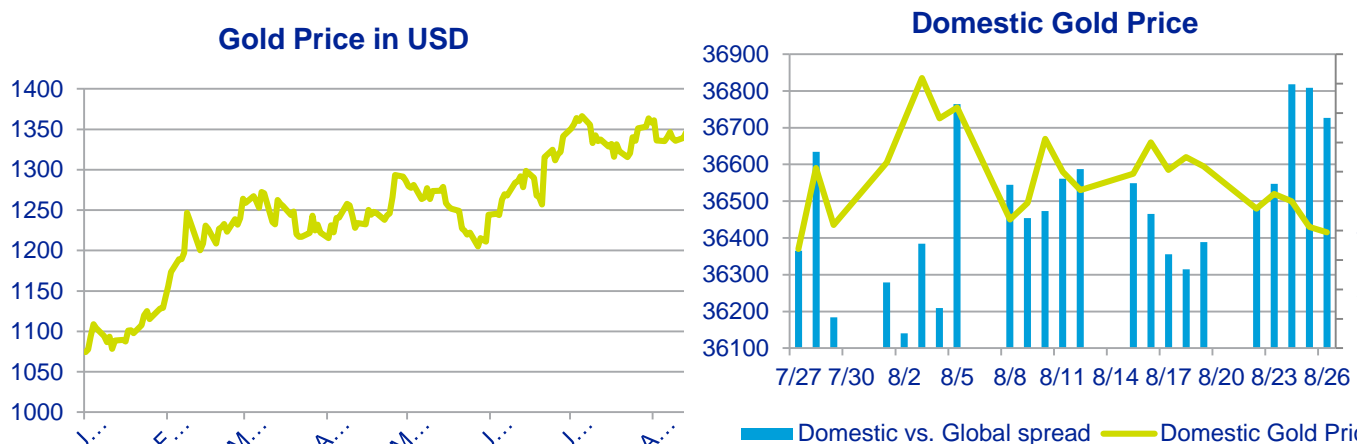
FOREX MARKET



Source: SBV, Bloomberg

The USD/VND increased slightly last week. The spread between USD/VND market rate and ceiling exchange rate was thus widened, risks from the global USD fluctuations hence decreased in preparation for the sooner or later FED rate rise.

GOLD MARKET



Source: Bloomberg, ACB.

Gold price fell slightly last week due to the global expectations of FED rate hike. If such scenario were to happen, gold price would inevitably fall for short term. However, global long term uncertainties would support gold demand.

APPENDIX

FX rate	USD		EUR		JPY	
Date	Bid	Ask	Bid	Ask	Bid	Ask
22/08/2016	22,260	22,330	24,998.41	25,297.70	218.29	222.46
23/08/2016	22,260	22,330	25,115.72	25,416.42	219.73	223.93
24/08/2016	22,260	22,330	24,956.36	25,255.14	219.42	223.62
25/08/2016	22,260	22,330	24,947.50	25,246.18	218.83	223.01
26/08/2016	22,265	22,335	25,018.48	25,318.00	218.91	223.09

Source: Vietcombank

Deposit Interest Rate	2 weeks	1 month	3 months	6 months	1 year	2 years
7/12/2016	1%	4.60%	4.90%	5.50%	6.20%	6.50%

Source: ACB

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