



# **Economic & Bond Commentary**

**October 11, 2016**

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**Mrs. Anh Le**

**10/03/2016 – 10/07/2016**

## MARKET OVERVIEW

With relieved inflation pressures, the SBV's monetary policies seems to be slightly loosened this week. The SBV's bill outstanding dropped from VND 103 tln to VND 83 tln in just a week and released VND 20 tln to circulation. With this, the interbank interest rate continued decreasing. However, credit growth might have increased steeply in last few weeks and absorbed well redundant funds. Along with adjusted VGB issuance plan which increased by VND 30 tln to VND 281 tln, there is good chance for interbank interest rates to increase slightly in the coming weeks.

According to the SBV, the credit growth might reach 21.82% in 2016, equivalent to 7.37% in Q4/2016. With this, the credit growth might have reached 14.45% in 9M2016, remarkably higher than 10.46% published by the GSO. Even though there might be data mismatch, this still indicates fastened credit growth recorded in last few weeks. With this, the current liquidity redundancy is expected to be well absorbed in the coming weeks and the interbank rate might increase slightly as a result. The longer term rates, especially deposit interest rates and lending interest rates, however, might not increase remarkably from the current level.

For longer term perspective, banks are now buying 30Y VGB at yield 7.98% with the confidence that we have not seen for years. The MOF might take this chance to issue more long-term bond to restructure its debt duration portfolio. Foreign investors are taking profit but this might be temporary as Vietnam is still offering best yields among similar markets. With this, we expect long-term yields to continue decreasing in the coming time.

Regarding forex market, the USD/ VND reference rate further increased but the banks' bids and offers somewhat unchanged. Given the published foreign currency reserve of US\$ 41 bln and the current weak USD policy, the USD/VND is expected to be quite stable in the coming weeks. The biggest risk at this moment is possibility that FED will hike its rate by 2 Nov 2016. However, spread between the ceiling rate and the bank bid of 1.5% is sufficient to absorb the expected shocks, if any. Hence, we do not expect any forex market big adjustment in the rest of this year.

Outside the borders, global markets had an eventful week. Gold price slumped through 4 months support level, down to \$1.258/ ounce from speculations that FED will implement a rate hike. Controversially, there are recommendations for a strategic buying opportunity at \$1250 (Goldman Sachs Inc.) as demands for hedging still remains. Given the mass confusions from central bank's statements and plans, this is worth considering. For the meantime, domestic gold market is under a \$70 international- domestic price spread.

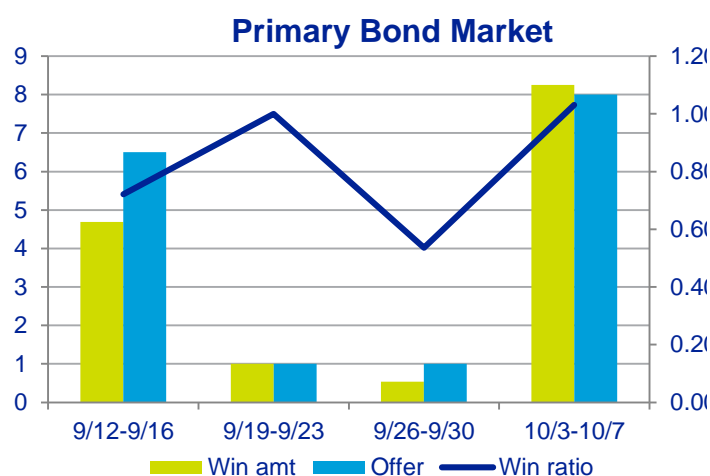
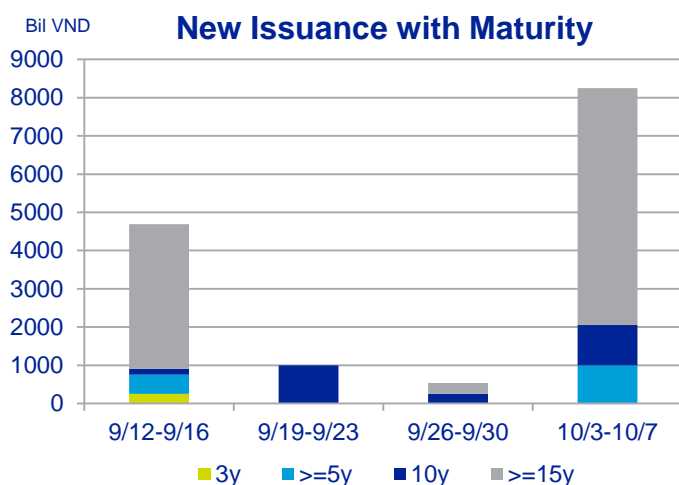
Another confusion was the 2 minutes crash of the GBP against major currencies. Already at its lowest level since Brexit referendum, a 4.2% drop within 2 minutes without a reasonable economic explanation has further increased market negative looks for England, the sterling has not yet recovered from the crash since then. It is debating of whether there will be a Hard Brexit or a less painful one. The outlook for Eurozone thus dimmed.

Russia announced their readiness to join the oil production cap agreement from OPEC, oil price surged for 3% afterwards. The actual implementation however is 2017, and requires other oil exporters (US, China, etc) to cooperate for oil price to be firmly stabilized. Regardless, energy market is on the bull for the short term.

With all this, the peak season has come. We wish you a good trading week.

## VGB-GGB MARKET

### PRIMARY BOND MARKET



Source: HNX, ACBS

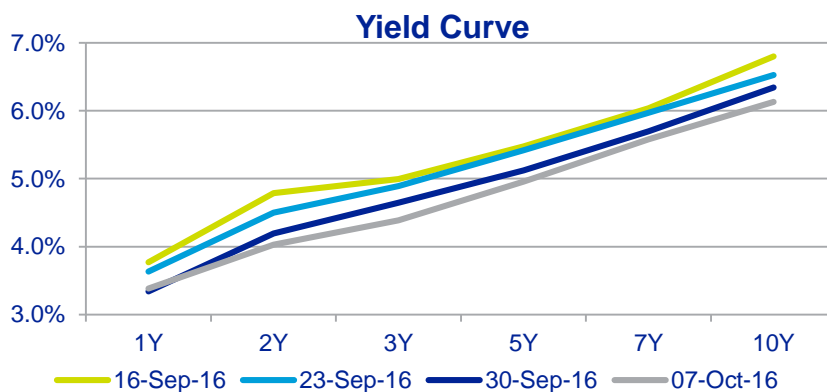
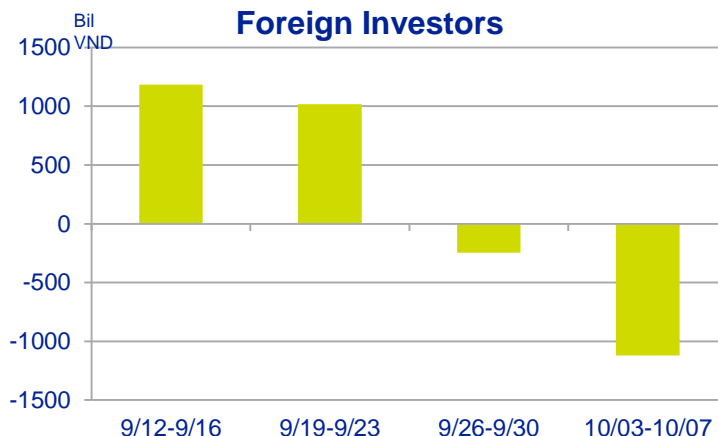
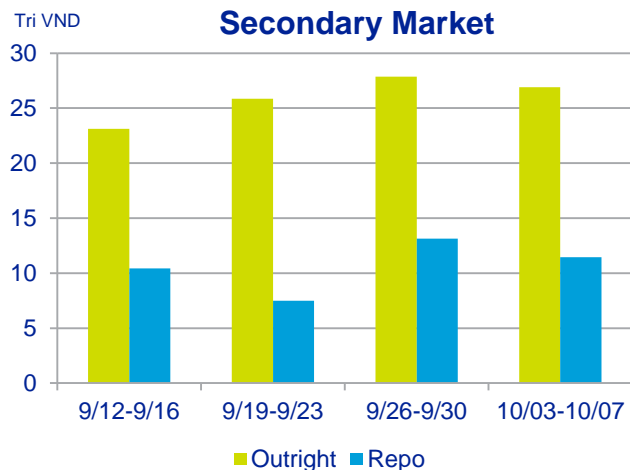
Primary market recovered and traded for 8,2tln last week. 30yr term bond overwhelmingly purchased for 5.2tln compare to individual 1tln of other terms. Despite to recent signals of increasing short-term interest rates, successful issuances of extremely long-term bond indicate banks' confidence in the long-term macroeconomic stability. The winning yield of 7.98% for 30Y VGB is considered by banks as enough to compensate for extremely long-term risks.

For this week, the Treasury continues selling long-term bond with VND 1 tln of 7Y VGB and VND 4.5 tln of 30Y bond. Considering the current SBV's bill outstanding of VND 83 tln, the issuances might go fluently in the coming weeks despite to the recent accelerated credit growth.

### Bond Issuance Schedule This Week

10/10/2016-10/14/2016				
Issuer	Offer Amount	Issue Date	Maturity	Tenor
State Treasury	1,000,000,000,000	13/10/2016	08/09/2023	7
State Treasury	4,500,000,000,000	13/10/2016	13/10/2046	30
Vietnam Bank for Social Policies	500,000,000,000	11/10/2016	11/10/2026	10
Vietnam Bank for Social Policies	500,000,000,000	11/10/2016	11/10/2021	5
Vietnam Bank for Social Policies	500,000,000,000	11/10/2016	11/10/2031	15

## SECONDARY BOND MARKET

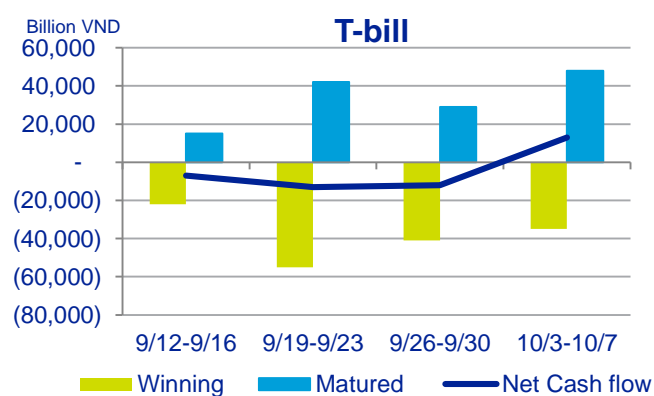
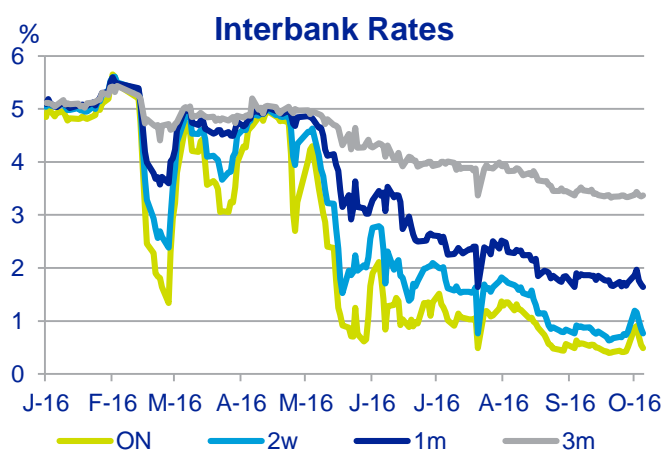


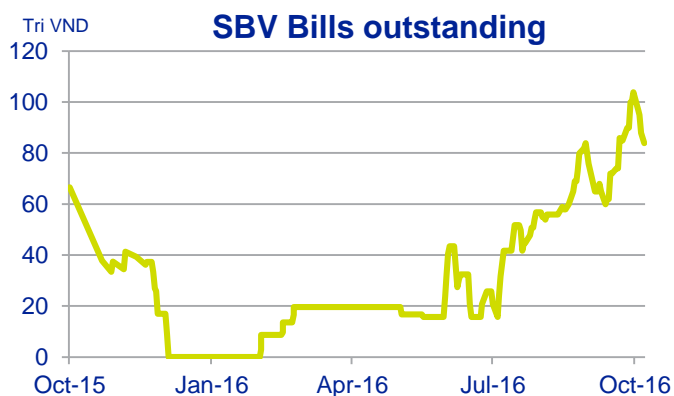
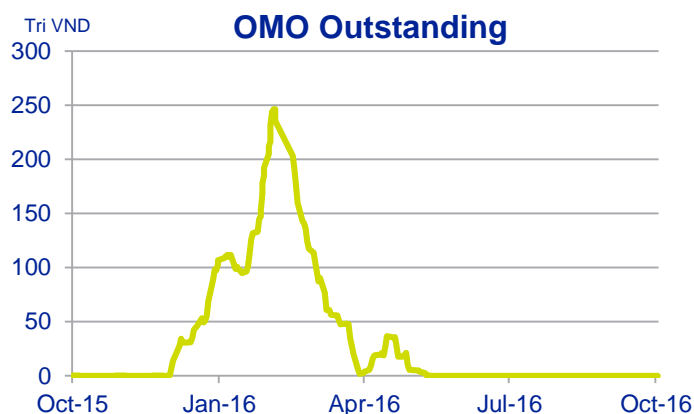
Source: HNX, VBMA, ACBS

Foreign investors withdrew from secondary market for 1.1 tln. Total transaction level was not heavily affected due to strong domestic support.

Yields are still declining, further on medium and long term bonds.

## MONEY MARKET





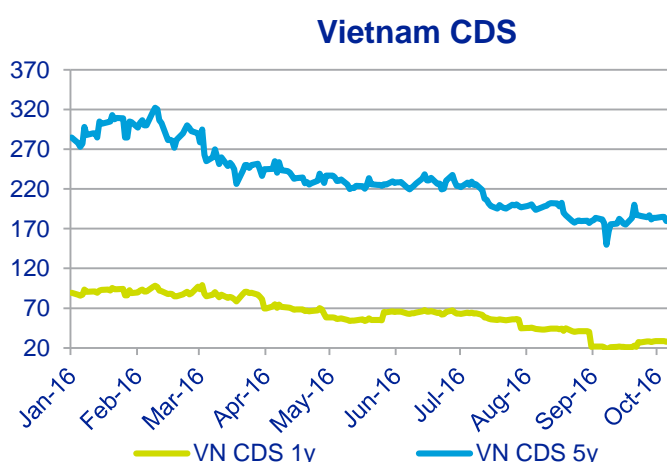
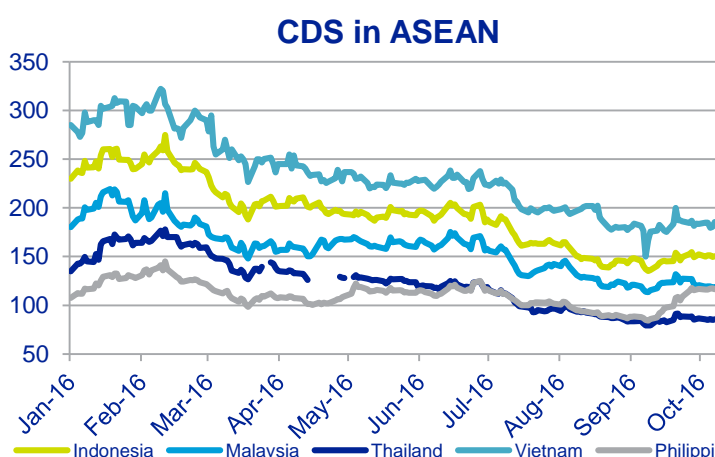
Source: ACBS, Bloomberg

The OM outstanding decreased steeply last week after peaking at VND 103 tln last week and indicated that the economy's fund absorption has improved in last few days. The SBV actively loosened the money supply by lowering the bill's rate to only 0.4% for 2W term.

According to the SBV, the credit growth might reach 21.82% in 2016, equivalent to 7.37% in Q4/2016. With this, the credit growth might have reached 14.45% in 9M2016, remarkably higher than 10.46% published by the GSO. Even though there might be data mismatch, this still indicates fastened credit growth recorded in last few weeks. With this, the current liquidity redundancy is expected to be well absorbed in the coming weeks and the interbank rate might increase slightly. The longer term rates, especially deposit interest rates and lending interest rates, however, might not increase remarkably from the current level.

## OTHER MARKETS

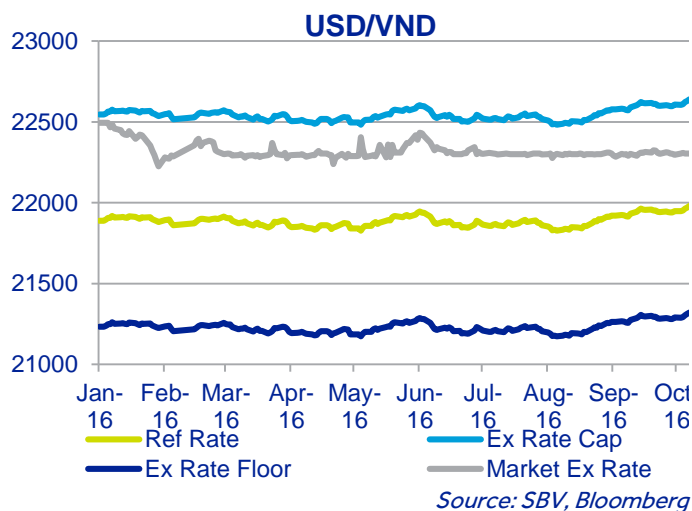
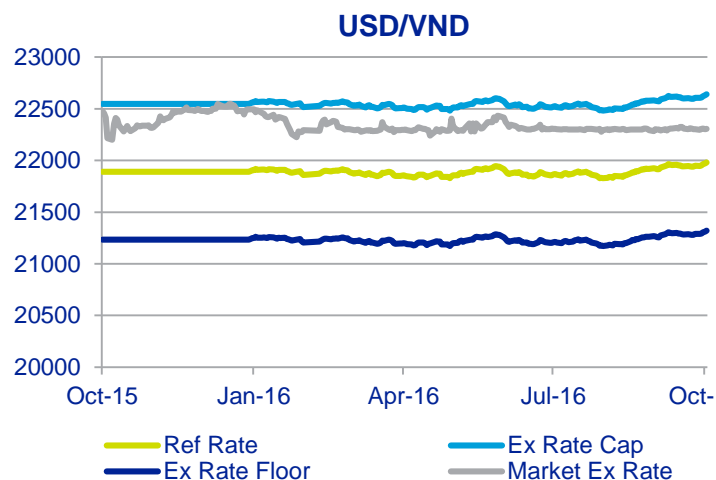
### SOVEREIGN CDS



Source: Bloomberg

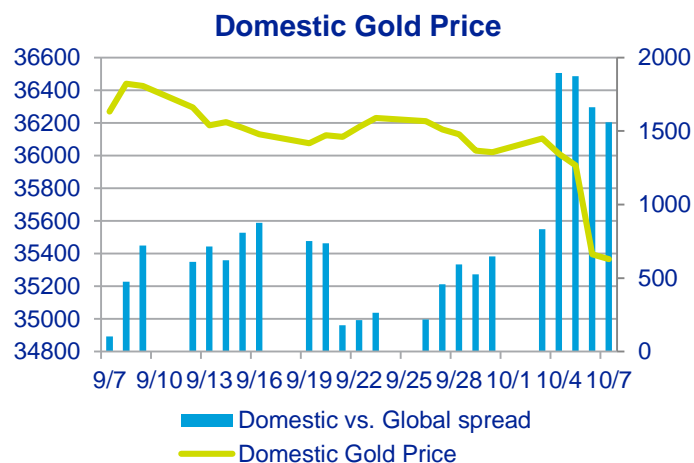
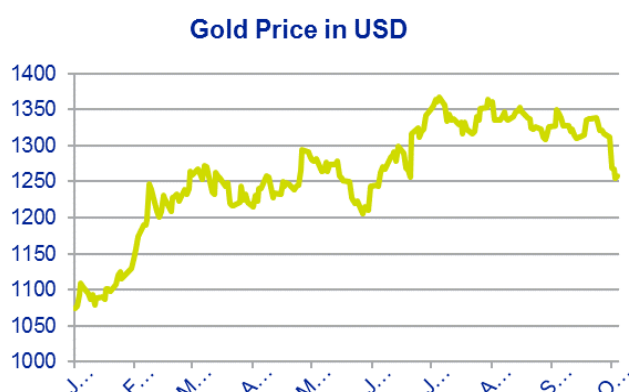
Nothing much has changed, except from Philippines, their president is causing concerns from drug extermination – alike possible policies and unpredictable public remarks.

## FOREX MARKET



USD/ VND reference rate further increased but the banks' bids and offers somewhat unchanged. Given the published foreign currency reserve of US\$ 41 bln and the current weak USD policy, the USD/VND is expected to be quite stable in the coming weeks. The biggest risk at this moment is possibility that FED will hike its rate by 2 Nov 2016. However, spread between the ceiling rate and the bank bid of 1.5% is sufficient to absorb the expected shocks, if any. Hence, we do not expect any forex market big adjustment in the rest of this year.

## GOLD MARKET



Source: Bloomberg, ACB.

Spot gold price slumped to its 4months low level, whilst domestic price plunged for at least \$30/ ounce. Domestic vs Global price spread increased dramatically. Speculators might consider buying spot gold around \$1250.

## APPENDIX

FX rate	USD		EUR		JPY	
Date	Bid	Ask	Bid	Ask	Bid	Ask
10/07/2016	22,270	22,340	24,629.86	24,924.74	211.85	215.91
10/06/2016	22,270	22,340	24,793.00	25,090.00	212.55	216.62
10/05/2016	22,270	22,340	24,857.89	25,155.50	213.85	217.94
10/04/2016	22,265	22,335	24,729.49	25,025.56	214.71	218.82
10/03/2016	22,265	22,335	24,857.89	25,155.50	216.91	221.06

Source: Vietcombank

Deposit Interest Rate	2 weeks	1 month	3 months	6 months	1 year	2 years
10/7/2016	1%	4.60%	5.0%	5.60%	6.20%	6.50%

Source: ACB

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