



# **Economic & Bond Commentary**

**October 18, 2016**

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**Mr. Vi Phuc Tran**

**10/10/2016 – 10/14/2016**

## MARKET OVERVIEW

Singapore Central Bank made a daring move of keeping the borrowing rate unchanged after an annualized 4.1% decline in Q3 2016 GDP. Despite the global perceptions of a possible recession (Manufacturing industry also fell 17.4% Q3 2016), Singapore officials was confident and rather calm regarding 2017 prospects. Another quarter of declined GDP and Singapore would be textbook defined to be in a recession and downgrade overall regional attractiveness. Until then, more observations needed and a hedging position in the scenario of lower Singapore borrowing rate is advised.

After another FOMC speech, the market quantitated a November rate rise (6 days before election) to be 17%, and December rate hike to be 66%. As Janet Yellen is still dovish as ever, those who are in favor of a rate rise find themselves lack of data support (the CPI, Unemployment statistics are still diverged). A case of November hike can only happen after a series of outstanding economic performance statistics (which is unlikely). December hike though may sound more likely, still uncertain. Bear in mind that if FED stay dovish even in the December meeting (going against the 66%), the market would react more violently than a hawkish case. After all, investors tend to overreact toward bad news and uncertainties.

Most recent submission for Money Market Management came up with 2 new targets: The new suggested approach of controlling interest rate is to align a reasonable & affordable gap between depositing & lending rates instead of the traditional "inflation oriented" control. At the very least, such approach would ensure banking sector stability as the stress of operational costs would be reduced. The second target is to lower Vietnam's interest rate down to regional level. The actual implementation is yet to be quantitated, we can still expect an overall reduced interest rate in medium term.

Shorter term bonds traded for less last week, whilst 30yr bonds kept being the best seller of 5.8tln VND sold (5.2tln last week). 7.98% Yield was viewed as sufficient for the long term economic stability and risk perceptions.

For this week, the Treasury continues selling long-term bonds with VND 1 tln of 10Y VGB and VND 1 tln of 15Y bond. Considering the current SBV's bill outstanding of VND 78 tln, the issuances might go fluently in the coming weeks despite to the recent accelerated credit growth.

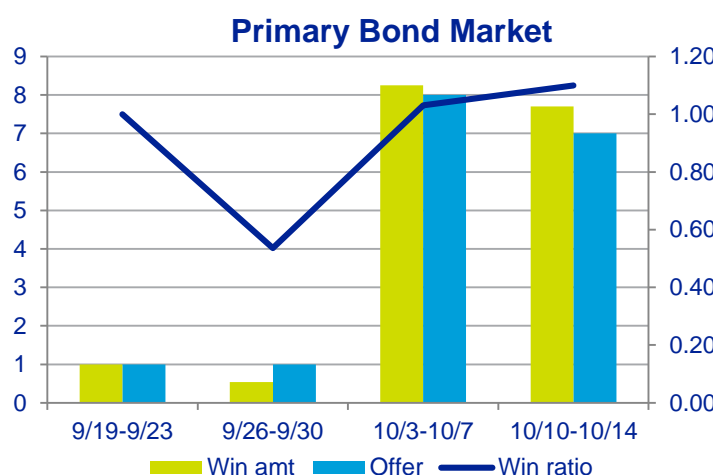
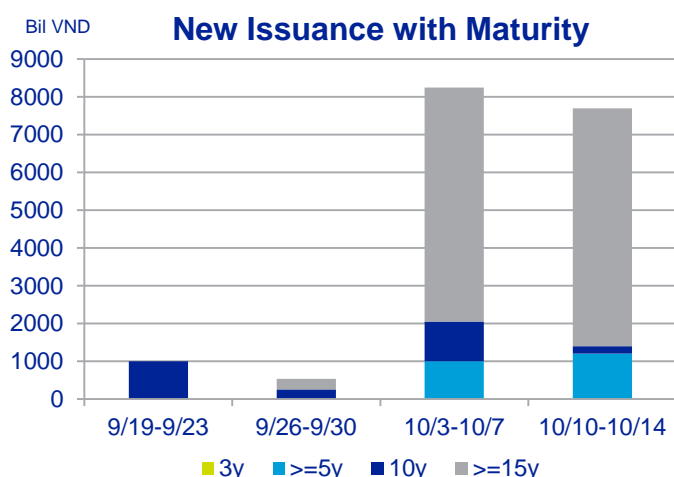
As interbank rate is at their record low, a slight increase in upcoming weeks is expected as credit growth has been accelerated, and will be most strongly in the last quarter to meet 2016 target. Changes in longer term rates would be less significant however due to fundamental drive factors.

On the Forex market, upward adjustment on USD/VND will be a moderate one for the rest of the year, even if FED choose to raise the rate in November, the 1,5% spread is sufficient to absorb any possible upward shocks.

Gold price kept falling, down to \$1251/ ounce on Friday, this might be an opportunity to enter long positions for hedging purposes.

## VGB-GGB MARKET

### PRIMARY BOND MARKET



Source: HNX, ACBS

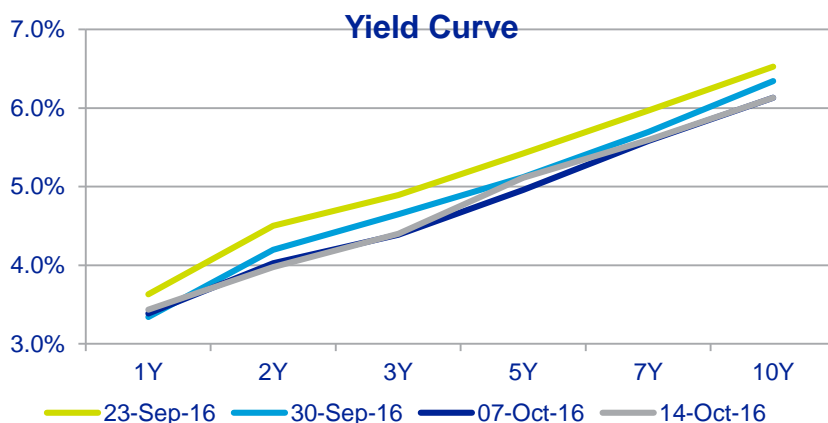
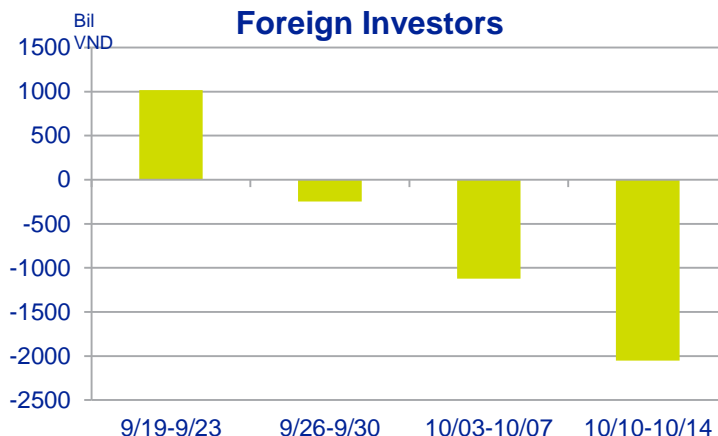
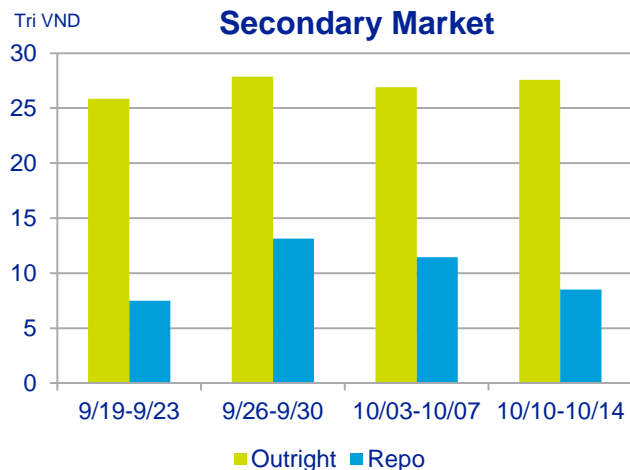
Shorter term bonds traded less last week, whilst 30yr bonds kept being the best seller of 5.8tln VND sold (5.2tln last week). 7.98% Yield was viewed sufficient for the long term economic stability and risks

For this week, the Treasury continues selling long-term bond with VND 1 tln of 10Y VGB and VND 1 tln of 15Y bond. Considering the current SBV's bill outstanding of VND 78 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	20/10/2016	15/09/2031	15
State Treasury	1,000,000,000,000	20/10/2016	06/10/2026	10
The Vietnam Development Bank	3,350,000,000,000	19/10/2016	19/10/2021	5
Vietnam Bank for Social Policies	500,000,000,000	18/10/2016	18/10/2026	10
Vietnam Bank for Social Policies	774,000,000,000	18/10/2016	18/10/2031	15

## SECONDARY BOND MARKET

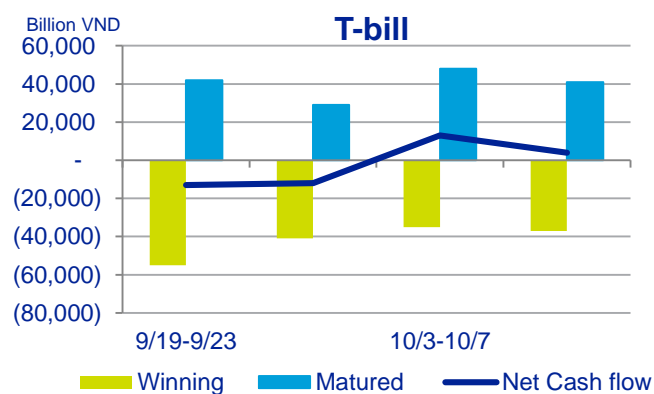
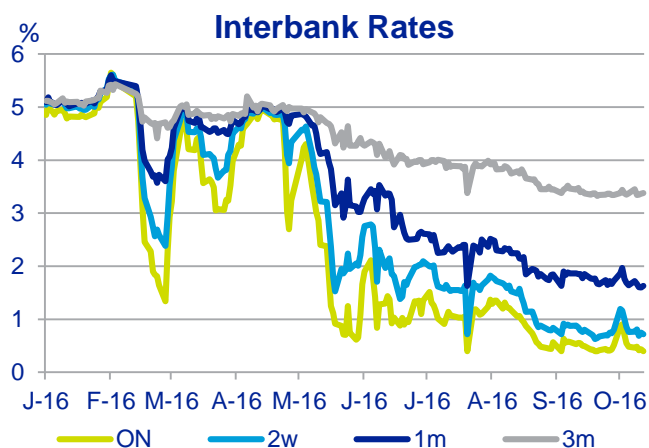


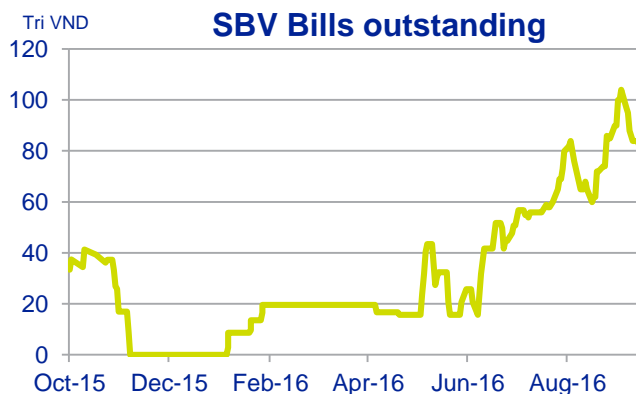
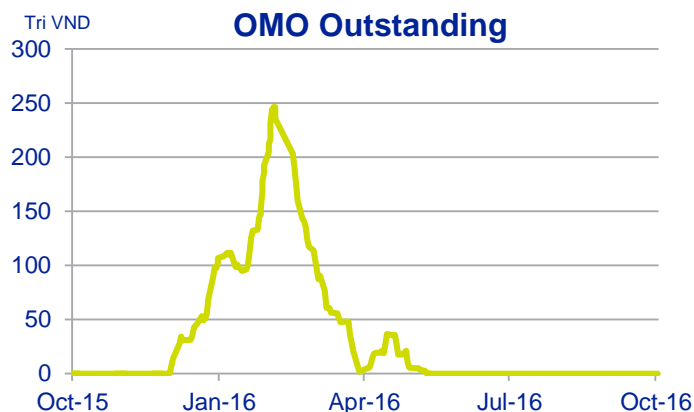
Source: HNX, VBMA, ACBS

Foreign investors withdrew from secondary market for 2.0 tln. Total transaction level was not heavily affected due to strong domestic support.

Apart from a slight increase in 5y and 1y term yield, nothing much has changed from last week.

## MONEY MARKET



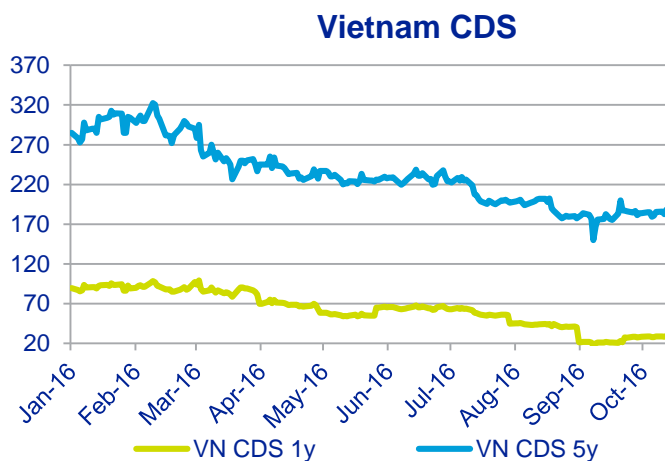
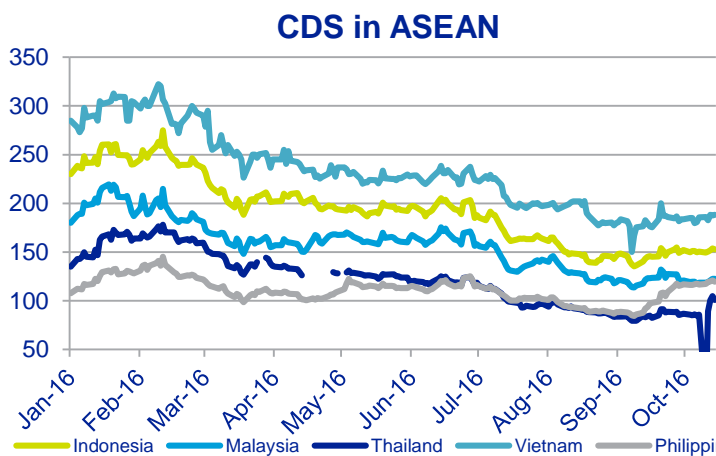


Source: ACBS, Bloomberg

Outstanding SBV dropped to 78tln, the economy's absorption of funds redundancy is continuously improved, we are expecting a slight increase of interbank rates in the upcoming weeks.

## OTHER MARKETS

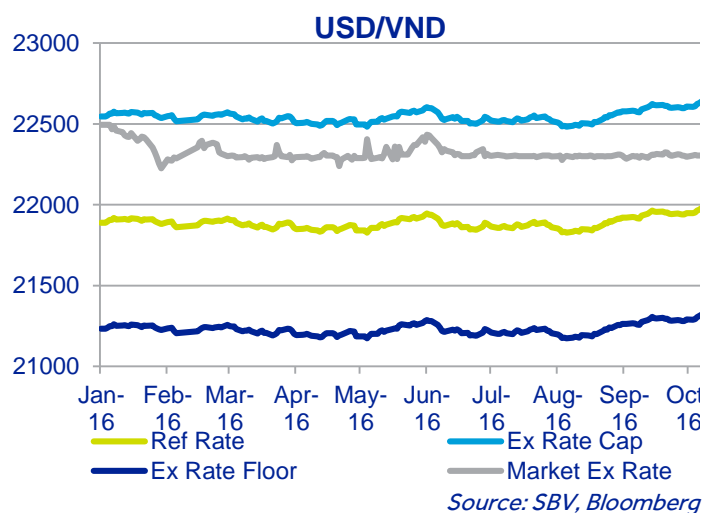
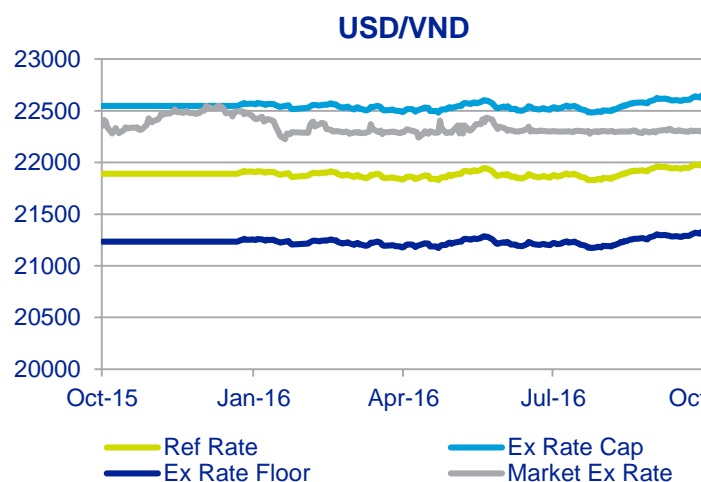
### SOVEREIGN CDS



Source: Bloomberg

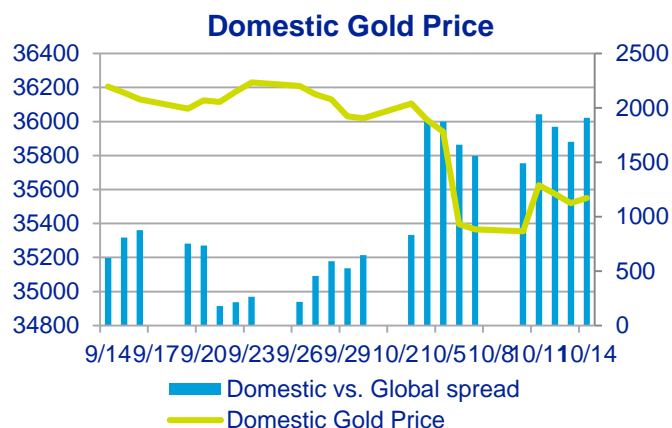
Joining Philippines in the downward credit rating trend, Thailand postponed their activities in the Royal Funeral Ceremony, a recovery within a few weeks is foreseeable.

## FOREX MARKET



On the Forex market, upward adjustment on USD/VND will be a moderate one for the rest of the year, even if FED choose to raise the rate in November, the 1,5% spread is sufficient to absorb any possible upward shocks.

## GOLD MARKET



Source: Bloomberg, ACB.

Gold price kept falling, down to \$1251/ ounce on Friday, this might be an opportunity to enter long positions for hedging purposes.

## APPENDIX

FX rate	USD		EUR		JPY	
Date	Bid	Ask	Bid	Ask	Bid	Ask
10/14/2016	22,270	22,340	24,437.25	24,729.82	211.61	215.66
10/13/2016	22,270	22,340	24,379.40	24,689.49	211.65	215.70
10/12/2017	22,260	22,330	24,453.91	24,746.68	212.34	216.40
10/11/2017	22,260	22,330	24,622.12	24,916.91	211.52	215.57
10/10/2018	22,265	22,335	24,770.43	25,066.99	213.49	217.58

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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