



Economic & Bond Commentary

October 25, 2016

Mr. Vi Phuc Tran

10/17/2016 – 10/21/2016

MARKET OVERVIEW

Reported from the Second Parliament Meeting on October 20th, credit growth achieved 11,24% (9 months 2016). Most Credit Institutions lowered their rates within 0.5% to 1.5% range, with the addition of prioritized sectors and start up loans of 1% to 2%. On the same meeting, GDP growth for 2017 has been targeted at 6.7% with budget deficit not to exceed 3.5% of total GDP. Other economic targets are kept unchanged from 2016, the Parliament seems to be confident regarding the future economic prospects. Another positive reward would be in the case of such GDP and budget deficit target are met, government debt to GDP ratio would be reduced to below 50% by the end of 2017.

Upon the bond market, even though the issued bond amount has been reduced, the attractiveness of longer term bonds is undeniable, all of the 10, 15 and 20yr notes issued last week was completely purchased (total amount for 3 tln). This states that credit institutions are positive regarding the longer term outlook, interest rates are expected to be moderately low. Thus the winning yield for longer term bonds has been slightly reduced since their previous issues. 1yr term yield slightly increased on the other hand, stating that short term seasonal rally of interest rate might be underway.

Since the beginning of October, USD/ VND rate has increased 80 points (20-30 points since last week), which is considered a cyclical movement in preparation for the peak season. Because the green note has not made any major movements recently, we are sufficiently prepared for any coming shocks from the Election and rate hikes (if any).

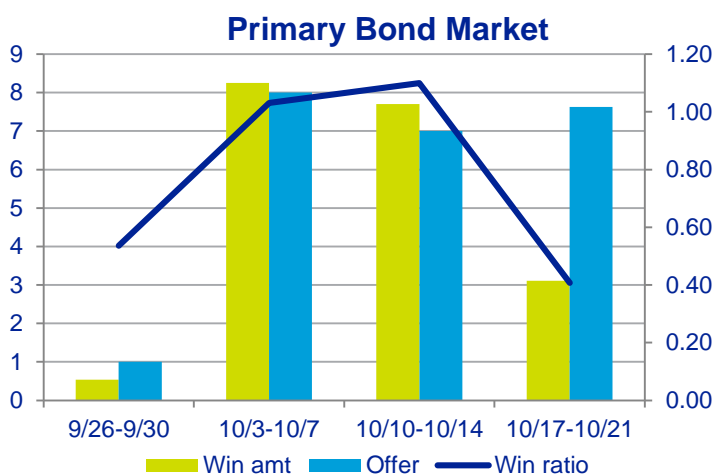
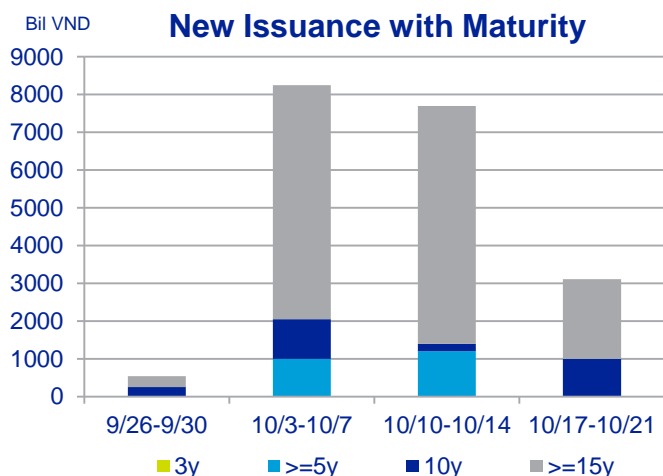
Beyond the border is a fiesta of commodity markets. Coal price has recently touched \$100 per ton (the highest since 2012), reason due to China cutting their production level. This creates tension upon energy price and steel production cost. Along with booming mass production of steel from China in the past months, we are expecting steel manufacturer's profit margin to be narrowed globally. More cost and lower selling price

From the Oil & Gas perspective, it seems that the OPEC Agreement is having its hard time as Iraq filed their request of exemption from production limit, joining the precedents of Iran, Nigeria & Libya. More and more exemptions mean less effective the agreement will become, if it is not already threatened by non OPEC members such as US or Russia. Ultimately, when there are not enough producers to hold the production limit, oil price would collapse. There are no points keeping your production limited while other producers are at their maximum capacities, taking your market shares.

Gold recovered moderately up to \$1266/ ounce as in October 21st, with the coming US Election, possible Fed rate hike and OPEC agreement glooming prospect, perhaps it would be wise to hold a minor long position. The current price provides fair risk/ reward ratio for after all.

VGB-GGB MARKET

PRIMARY BOND MARKET



Source: HNX, ACBS

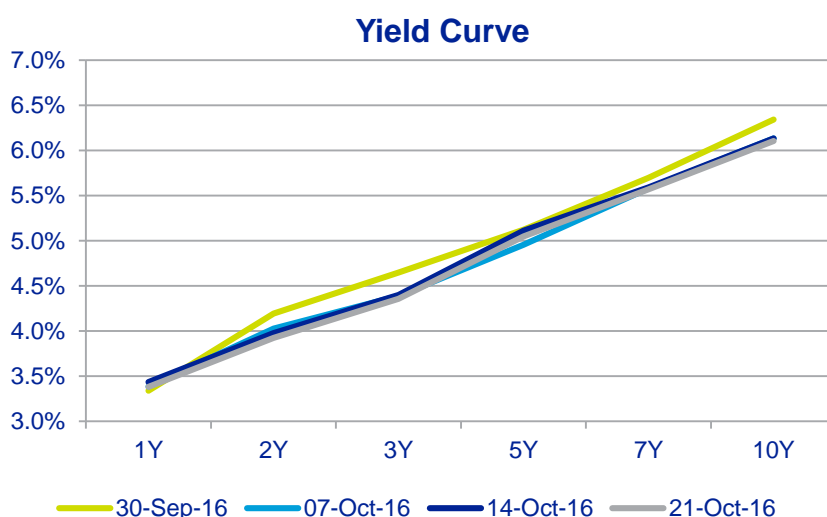
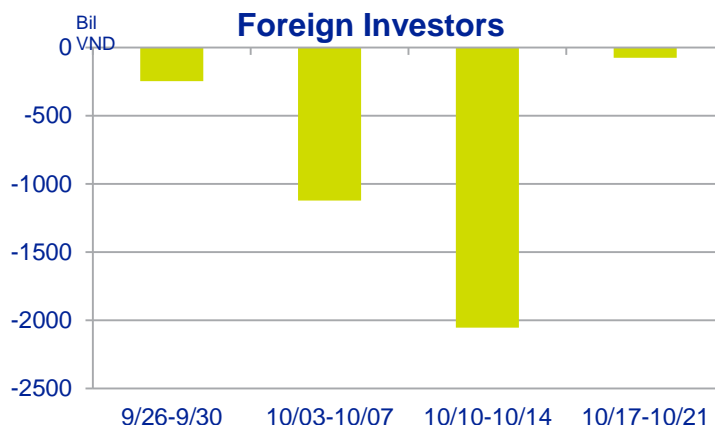
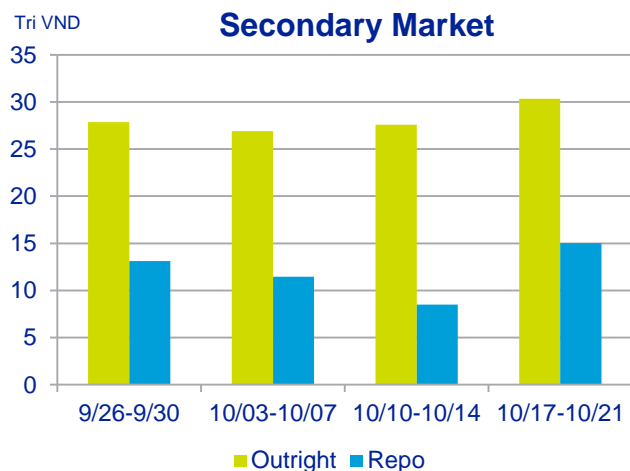
Longer term bonds dominated the market last week and completely absorbed, the issued amount drop down to 3tln from 5 tln last week, we are at 96% of 2016 issuance target.

Regardless of picked up credit growth, we are expecting a full purchase for next week VGB, 7yr and 30yr term. Outstanding T bill reached 90tln on Oct 24th, the market still has more room to take in.

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	10/27/2016	09/08/2023	7
State Treasury	1,000,000,000,000	10/27/2016	10/13/2046	30
Vietnam Bank for Social Policies	500,000,000,000	10/25/2016	10/25/2026	10
Vietnam Bank for Social Policies	674,000,000,000	10/25/2016	10/25/2031	15

SECONDARY BOND MARKET

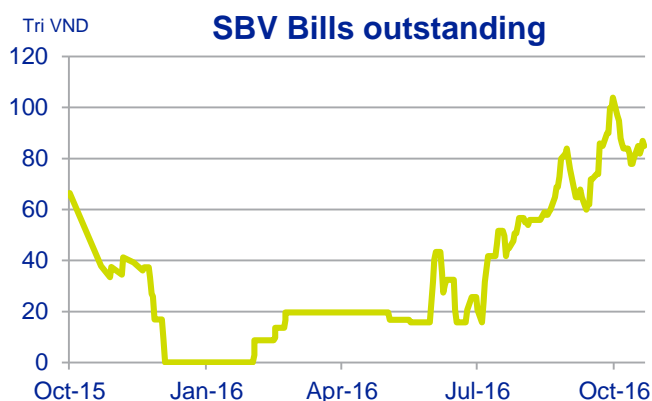
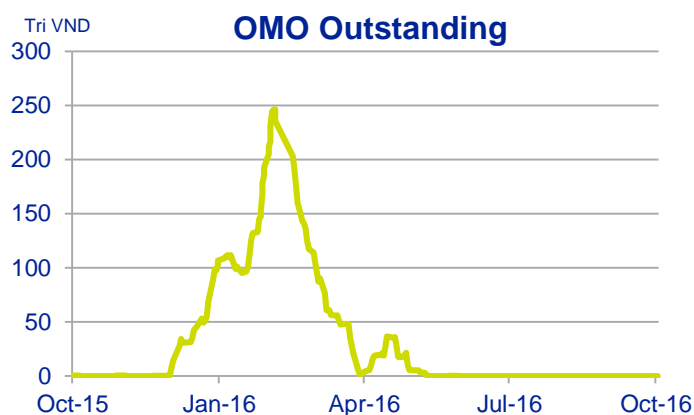
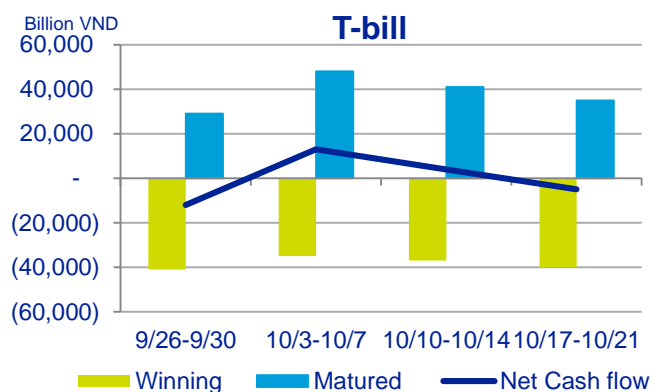
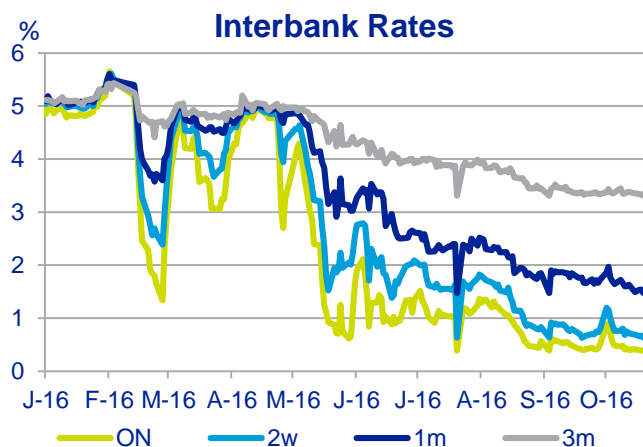


Source: HNX, VBMA, ACBS

Domestic investors kept being the main supports for secondary market, as foreign investor still selling though not as strongly as previous weeks.

The Yield curve became flatter since the start of October, mainly due to the attractiveness of longer term bonds that pushed down their yields.

MONEY MARKET

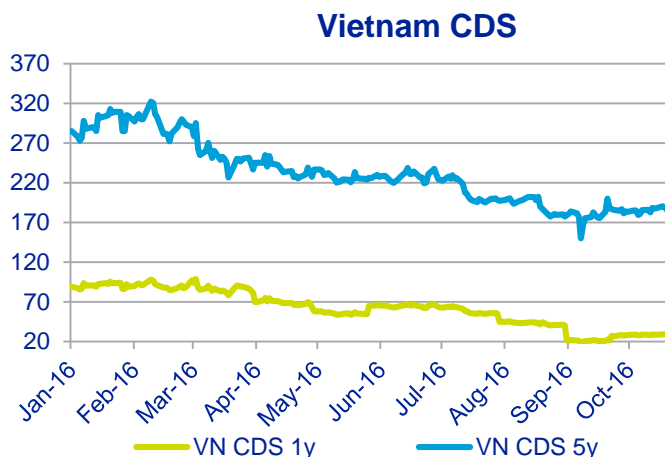
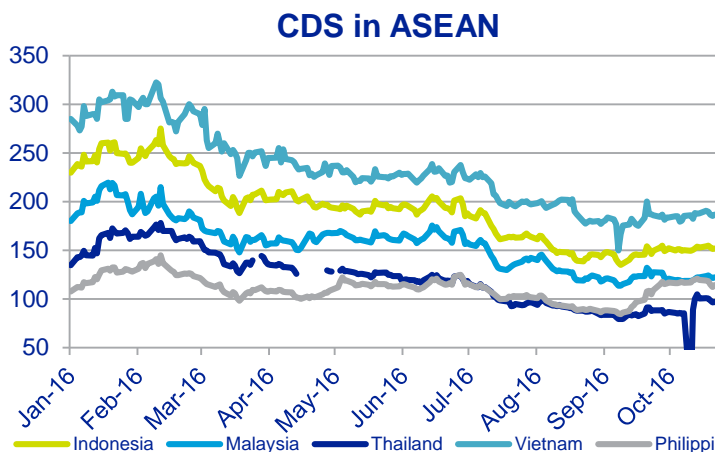


Source: ACBS, Bloomberg

Outstanding SBV recovered to 90tln, 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

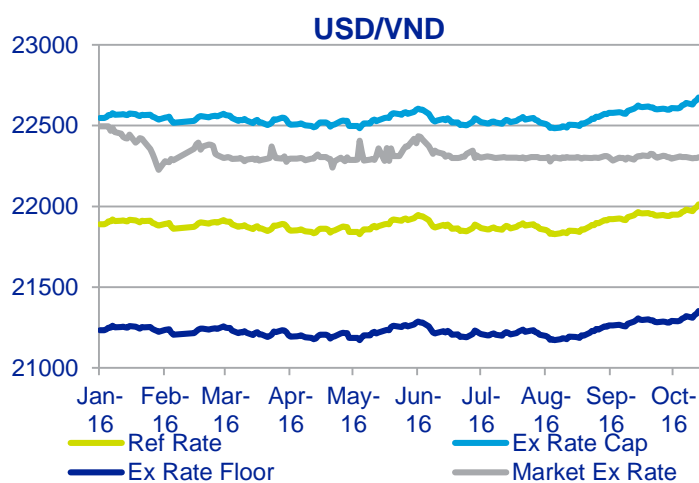
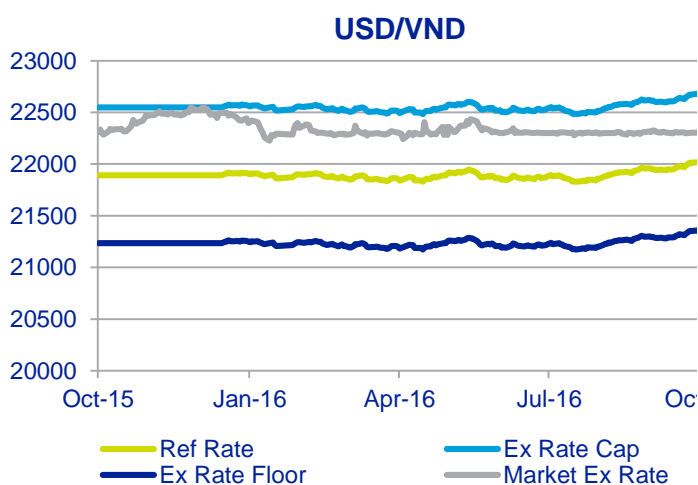
SOVEREIGN CDS



Source: Bloomberg

From the CDS perspective, the whole ASEAN region has been moderately attractive for the past few weeks, no major movements occurred.

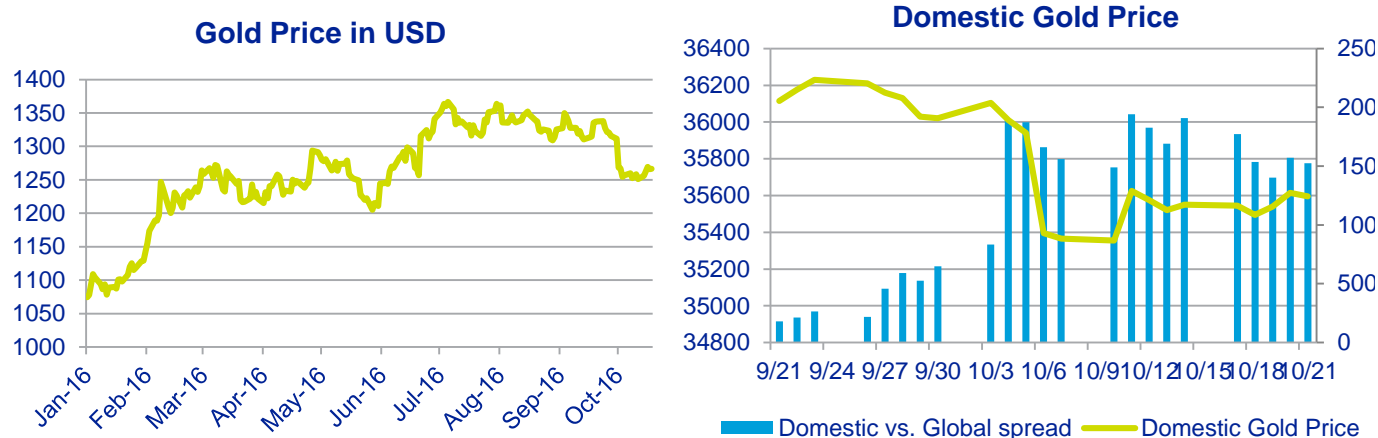
FOREX MARKET



Source: SBV, Bloomberg

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GOLD MARKET



Source: Bloomberg, ACB.

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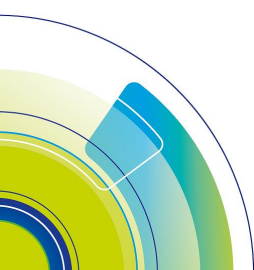
APPENDIX

FX rate	USD		EUR		JPY	
Date	Bid	Ask	Bid	Ask	Bid	Ask
10/21/16	22,275	22,345	24,177.00	24,466.45	211.27	215.31
10/20/16	22,270	22,340	24,286.70	24,577.47	211.87	215.93
10/19/16	22,275	22,345	24,347.51	24,639.00	212.64	216.71
10/18/16	22,275	22,345	24,405.08	24,697.27	211.80	215.85
10/17/16	22,270	22,340	24,284.49	24,575.23	211.00	215.04

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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