KB Securities VIETNAM

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Money Market News

Overnight rates drop on excess liquidity before Tet

Interbank overnight rates the lowest since July 2018

— Interbank overnight rates dropped sharply by 100bps on January 9th–10th to the lowest level since July 2018 at 1.0% as the SBV provides ample liquidity into the Tet holiday season. This continues the downward trend in interbank cash rates for the past month after peaking at around 4% in mid-December 2019. The spread between VND and USD short-term rates remains negative.

— The SBV continues to err on the side of caution to avoid any tight liquidity conditions into the holiday season. Open market operations (OMO) are conducted offering 14-28-day reverse repos at 4.0% but are seeing no bids and there are no SBV-bill sales scheduled (Reverse Repo and SBV-bill balances remain at zero).

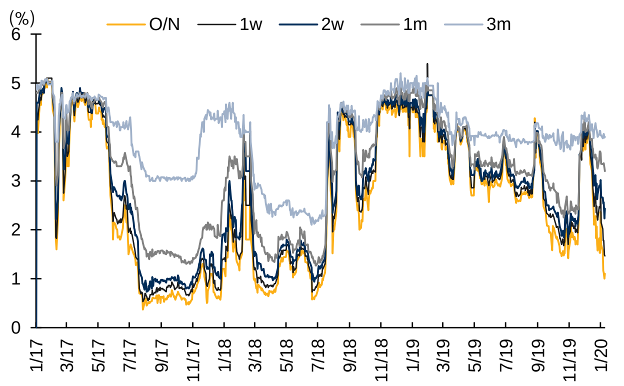
— The sharp decline in interbank rates and excess liquidity conditions are most likely explained by SBV purchases of USD to soak up the strong inflow of remittances.

Credit spreads on government bonds also tighten over the past 10 days

— Yields on Vietnamese government bonds (VGBs) across all tenors dropped sharply over the past 10 days leading to tight credit spreads. According to ADB data, Vietnam's 10-year sovereign traded as low as 3.11% or down more than 30bps since year-end. This compares regional peers of 3.28% for Malaysia and 3.08% for China despite Vietnam having a much lower credit rating.

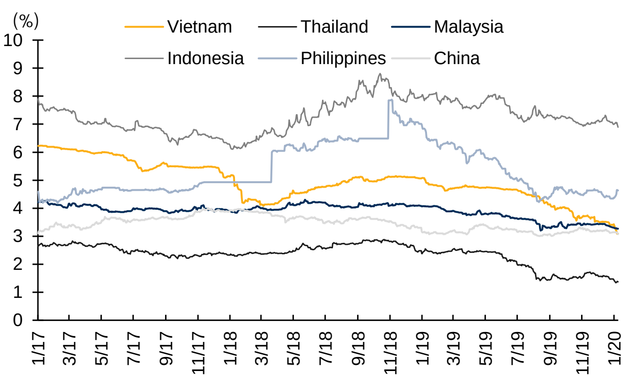
— Government bond yields have continuously fallen over the past few years and we attribute this to: 1) less supply as net new issuances fell by 25% or VND80 trillion in 2019 amid slow public investment (disbursement of public investment was only 62% of plan as of December 15, 2019); and 2) strong demand for Vietnamese government bonds (VGBs) given limited supply at only 28% of GDP as of September 2019 according to the Ministry of Finance despite the steady & growing appetite from foreign investors, banks and insurance companies. Moreover, excess system liquidity has increased the holdings of government bonds among local financial institutions, contributing to the further push down in rates.

Fig 1. Interbank rate movement



Source: Bloomberg, KBSV

Fig 2. Government bond yields in region



Source: Bloomberg, KBSV

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Investment ratings & definitions

Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market