KB Securities VIETNAM

FIRST TO MARKET

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Vietnam Credit Default Swaps

Off April highs but still at elevated levels

Vietnam government CDS still at elevated levels despite cooling off from April highs

— Vietnam's CDS rates have fallen to 217 basis points after peaking at over 300 basis points at the end of March and 275 levels in April. This compares to the lows seen prior to the coronavirus when the instruments were trading at 70 basis points in mid-February. That said, global concerns on emerging markets, still nascent export recovery and the struggling tourism sector are still keeping CDS rates at elevated levels despite Vietnam's success in containing the coronavirus. Rates remain at levels last seen in the first half of 2016 when Vietnam's CDS rates rose due to global/China recession fears, CNY depreciation, rate hikes from the Fed and plummeting oil prices.

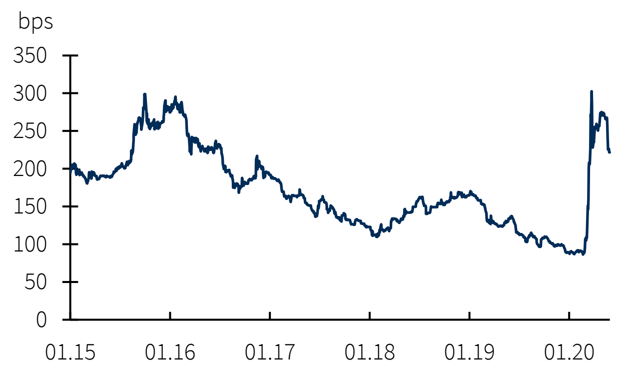
Emerging market currencies also indicate easing risk conditions after peaking in April

— Most emerging market currencies have also come off recent peaks after sizable capital outflows from risky assets sparked sharp depreciations since the start of the year. Most notably, harder hit emerging market currencies have all managed to reverse losses since the start of the year including: 1) Brazilian Real up 10% after falling as much as 46%; 2) Turkish Lira up 6% after falling 21%; 3) South African Rand up 9% after falling 36%; and 4) Russian Ruble up 13% after falling 30%. In the Asian hemisphere, the Indonesian Rupiah is up 11% after falling 20% and the Indian Rupee is up 1% after falling 8%.

Vietnam's CDS rates should continue to trend down and support the recovery in equities

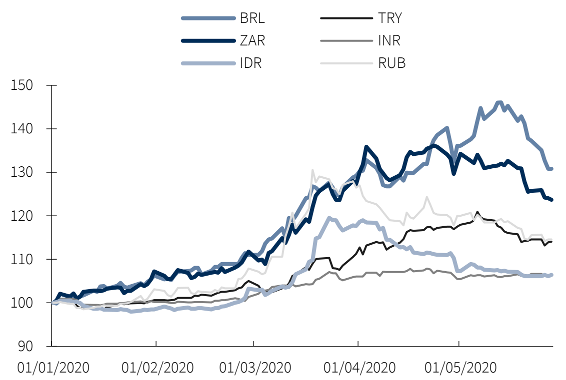
— Although CDS rates do not have a direct correlation to the stock market, the downward trend in CDS has inevitably underpinned April's rebound in equities. Lower CDS rates not only indicated reduced sovereign risk, but have also signaled slowing capital outflows from foreign selling and currency stability. With Vietnam now one of the first countries moving to the post-COVID-19 recovery period, we expect Vietnam's CDS rates to continue to head lower and eventually signal the return of overseas capital, including registered FDI and foreign portfolio investments.

Fig 1. Vietnam – 5-year CDS rates, Jan 15–May 20 (basis points)



Source: Thompson Reuters, KB Securities Vietnam

Fig 2. Emerging markets – Foreign exchange rates (indexed returns), Jan 20–May 20



Source: Bloomberg, KB Securities Vietnam

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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