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# **Fixed income market review**

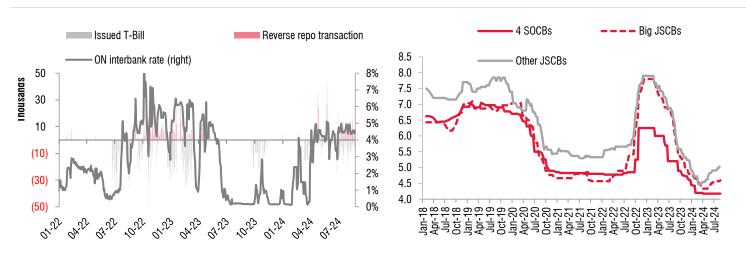
Lower SBV-bill rate

Last week, activities in the open market operations were balanced, with a slight net addition (VND 1.3 tn). In detail, the SBV issued VND 38.4 tn worth of 7-day reverse repos to pair with VND 50.9 tn having expired. At the same time, there were only VND 22 tn of 14-day SBV-bills issued, out of VND 35.75 tn expired. Interestingly, the SBV-bill rate was lowered twice, to 4.15% from 4.25% previously, reflecting lower exchange rate pressure vis a vis the USD.

For interbank rates, the overnight rate remained in a tight band of 4.4% - 4.6% for most of the week. For this week, the month-end liquidity rebalancing might again impact overall liquidity, and therefore could weigh on interbank rates.

### Interbank interest rates, Open market transactions

### 12- month deposit rates for corporations



Source: SBV, Bloomberg, SSI Research Source: SBV, Bloomberg, SSI Research



### **Government bond market**

The STV accelerated in issuing bonds in the primary market

Last week, the State Treasury of Vietnam (STV) lowered its offering value to VND 15 tn worth (-13% WoW), and focus was again on the 10Y (VND 9 tn) and 15Y (VND 5 tn). Investors bought up 72.5% on offer, largely due to weaker demand from the 10Y (81% subscription rate) and 15Y (65%). Yields were all unchanged, staying at 1.95% for 5Y, 2.71% for 10Y, 2.90% for 15Y and 2.98% for 20Y. Regarding the 3Q24 issuance plan, the STV is on track to achieve 49.1% in total.

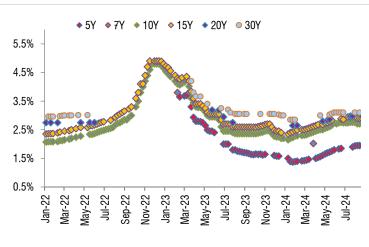
In the secondary market, bond yields declined marginally by 1-2 bps reflecting the recent SBV move. The week closed as follows: 1Y (1.86%, -2 bps WoW); 3Y (1.90%; -1 bps); 5Y (1.95%, -1 bps); 10Y (2.72%, unch.); 15Y (2.90%, unch.); 20Y (3.10%, -2 bps); and 30Y (3.18%, -1 bps). Average daily trading value was volatile, and improved to VND 12.1 tn (+22.0% WoW), mostly from outright transactions. Foreigners in the secondary bond market had another active week, having net purchased VND 447 bn.

#### Last week: STV Issuance results

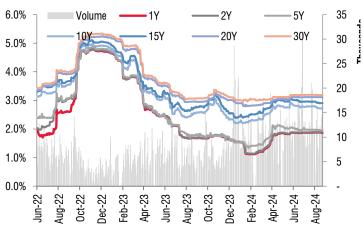
Auction date	Issuer	Tenure (year)	Offered Volume (VND bn)	Registered Volume (VND bn)	Winning volume (VND bn)	Registered yield (% pa)	Winning yield (% pa)	+/- bps	Bid-to- coverage	Winning ratio
21/08/2024	STV	5	500	1,110	310	1.9 - 1.98	1.95%	0	2.22	0.62
21/08/2024	STV	10	9,000	8,531	7,270	2.65 - 3	2.71%	0	0.95	0.81
21/08/2024	STV	15	5,000	3,900	3,250	2.88 - 2.95	2.90%	0	0.78	0.65
21/08/2024	STV	20	500	250	50	2.98 - 3.1	2.98%	0	0.50	0.10
	Total		15,000	13,791	10,880				0.92	<b>72.5</b> %

Source: HNX, and SSI Research

### Winning yield of STV bonds



### STV bond yields on secondary market



Source: HNX, VBMA, SSI Research Source: HNX, VBMA, SSI Research

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#### This week's issuance plan

Auction Date	Issuance Date	Maturity Date	Issuance Method	Issuer	Tenure (Year)	Volume (VND bn)
28-Aug-24	29-Aug-24	20-Jun-29	Auction	STV	5	500
28-Aug-24	29-Aug-24	15-Aug-34	Auction	STV	10	7,000
28-Aug-24	29-Aug-24	22-Aug-39	Auction	STV	15	4,000
28-Aug-24	29-Aug-24	25-Jul-44	Auction	STV	20	500

Source: HNX, and SSI Research

# **Update on inflation**

The Ministry of Industry and Trade (MoIT) in its latest note has forecasted that August CPI might come in at 0.2% MoM. This is markedly lower than the July print of 0.48%, and could translate into 3.7% YoY – a slide from 4.4% YoY in July. If this materializes, it could very well clear up some concern over the possibility of a surge in inflation after the public sector salary hike. Primary sources of weaker inflation in August are expected from gasoline (which declined by -4.5% MoM in August) and pork prices (-3.5% MoM).

This tentatively confirms our in-house expectation of a muted impact from the recent salary hike, though it could also mean that domestic consumption overall is still weak, and in need of more time to rebound. To recall, the latest public sector salary hikes might be equivalent to a sizeable fiscal policy stimulus amounting to around 8.5% of FY2024 GDP, and most of the funding for this salary hike is well prepared (by the salary reform fund mentioned in a recent previous wrap), so impacts to M2 might be small.

Our forecast that the country's average headline inflation will be around 4.2% for 2024 while the upper-bound could be as much as 4.5%. Our forecast range is predicated upon the assumption there will be a 5% electricity hike before the year comes to an end. Still, the baseline forecast is lower than the government's 4.5% target for inflation this year. Please note that the GSO is planning to recalibrate the basket weight for CPI components this year, but at the moment there are no hints as to when this might be.

# **Update on the draft revision of Securities Law**

Focus on the market last week is the release of the much anticipated draft by the Ministry of Finance (MoF) on a law amending several investment-related laws (<u>link</u>), in which the key proposed changes to the Securities Law caught the most attention. Overall, we got quite mixed signals from the draft, with a new setup mechanism for the central counterparty (CCP) and the liberalization of investment requirements for public funds, but at the same time a more conservative approach towards securities private and public placement issuance, for both equities and bonds.

The draft introduces crucial steps towards addressing the prefunding issue by effectively organizing and implementing securities transaction clearing and settlement activities under the central clearing counterparty mechanism. In short, commercial banks and foreign bank branches will be permitted to clear and settle transactions in both the cash and derivative markets. Previously, eligibility to qualify as clearing members in the cash market was ambiguous. The Vietnam Securities Depository Corporation (VSDC) will be authorized to establish a separate legal entity (i.e. subsidiary) to implement the central clearing counterparty mechanism. This measure is designed to mitigate potential risks to the financial stability of the VSDC.

Regarding the liberalization of investment requirements for public funds, the draft extends the investment limit for public funds from 10% to 15% of total assets under management in one company, and total weights from 30% to 35% for companies under the public funds ecosystem.

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On the other hand, some of the more restrictive elements of the draft proposes another requirement for an entity to qualify as being a professional investor, applicable to both institutionals and individuals alike. Interestingly, in terms of private placement issuance, it suggests to raise the lock-up period for professional investors to 3 years (from 1 year currently) for equities, and stipulates that only institutional-grade professional investors are permitted to participate in the primary bond market.

On the Non-Prefunding Solution (NPS) in late July, the SSC released the 3rd version of the draft circular offering NPS - a quick fix to meet FTSE Russell's EM upgrade requirements and we expect its approval by the end of September. Non-prefunding solution (NPS) is basically payment support provided by brokers, allowing foreign institutional investors to buy equities on T+0 and get funded on T+1 to T+2. Given the regulation fix, NPS will be executed by the end of this year. This timing could allow FTSE Russell to recognize Vietnam's improvements in September 2024 reclassification announcement. After that, FTSE Russell might take around 6 months to gather investor feedback, making September 2025 a likely timeline for the EM upgrade.

### The week ahead

In politics, focus is likely to be upon the National Assembly extraordinary meeting, where deputies might approve various top government posts (including the Deputy Prime Minister and/or Minister(s). In economics,

August economic indicators will be out next Thursday, and it seems that it will be positive given the fact that early reading for exports or inflation looks in line with the encouraging trend witnessed in June and July.



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#### RATING

Buy: Expected to provide price gains of at least 10 percentage points greater than the market over next 12 months

Outperform: Expected to provide price gains of up to 10 percentage points greater than the market over next 12 months.

Market Perform: Expected to provide price gains similar to the market over next 12 months.

Underperform: Expected to provide price gains of up to 10 percentage points less than the market over next 12 months.

Sell: Expected to provide price gains of at least 10 percentage points less than the market over next 12 months

In some cases, the recommendation based on 1Y return could be re-adjusted by the analysts after considering a number of market factors that could have impact on the stock price in the short and medium term.

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