

Vietnam' s government bond market in the year of 2013 – present and prospects

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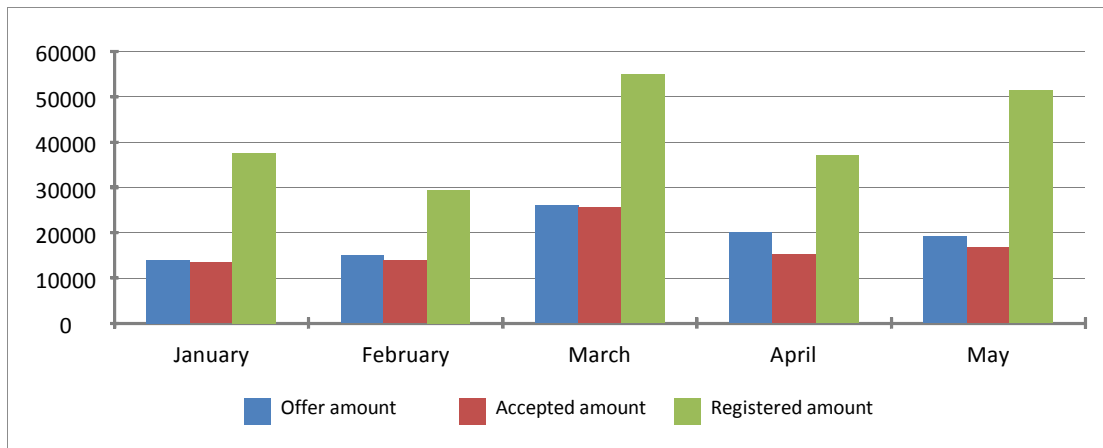
■ Vietnam' s government bond market in the first half of 2013

- Amid depressing economic conditions, government bond has been luring domestic customer into this safe investment channel. Though interest rate was expected to drop slightly in May 2013, the market showed significant absorption of all kinds of bonds. Investors are not only interested in short-termed bonds but also long-term one, in both government and governmental guaranteed bonds. Increase demand of bonds further lowers interest rate after the fall in first three months of 2013. Domestic investors kept strong demand of government bond whereas foreign investors started selling by the end of May.

■ Primary market

- Primary market seizes the interest of investors in both government and governmental guaranteed bonds. State treasury mobilized VND 19,600 billion (US\$ 0.93 billion) in VND 22,000 billion bond auction. Successful issuing ratio increased by 12% in comparison with last month to reach 89%. Winning yield decrease sharply by 0.82%, 0.93% and 0.67% to 6.55% p.a., 6.75% p.a. and 7.78% p.a. for 2 year-, 3 year- and 5 year-duration bonds, respectively. By the end of May, State treasury was able to mobilize VND 103,000 billion, accounting for 68.7% of the government adjusted plan.
- Regarding governmental guaranteed bonds, the first half of the year also witnessed successful issuance. Vietnam social policy bank mobilized VND 2400 billion (US\$0.11 billion) of VND 5000 billion (US\$0.24 billion) target issuing amount and Vietnam Development Bank mobilized VND 9637 billion (US\$0.46 billion) of VND13500 billion target. Winning yield was on the decline trend of the market and decreased by 0.6-0.8% per annum.

Primary Government Bond Bid Result (Billion VND)

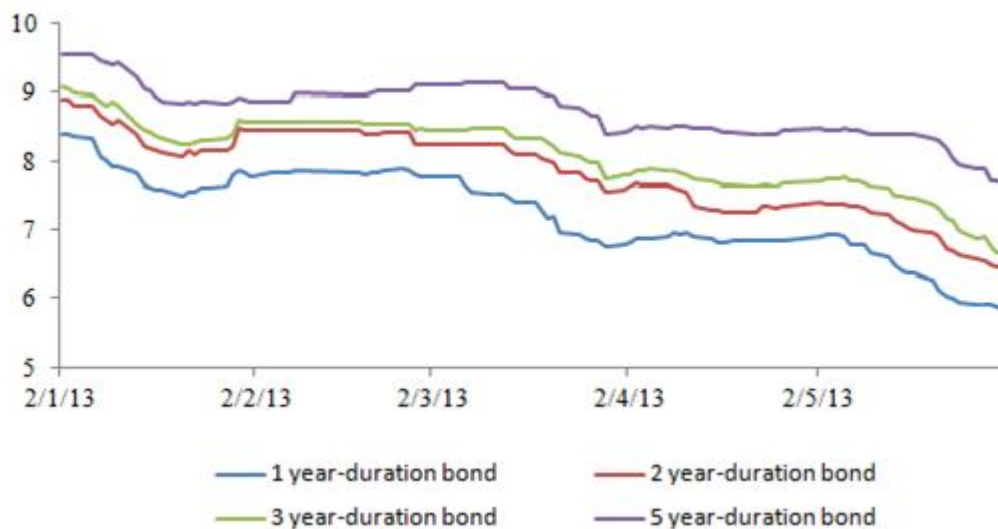


Source: HNX

■ Secondary market

- Secondary government bond market was on the same trend over the past five months of the year. Yield saw a sharp decrease in all duration and the yield curve simultaneously shifted down. By the end of May, yield stayed at 6.46% p.a., 6.68% p.a., and 7.7% p.a. for the duration of 2 year, 3 year, and 5 year respectively, after the fall of 0.93%, 1.04% and 0.75% in comparison with previous month. Details of yield movement of 1 year-, 2 year-, 3 year- and 5 year-duration bond can be seen in the chart.

Secondary bond market yield (%)



Source: VBMA

- Market liquidity was high. Total market transaction in May reached over VND 40,000 billion (US\$1.9 billion), increased by 17% in comparison with previous month. Foreign investors kept buying but at a much lower amount of VND 1,6000 billion, while their total net buy of April was 4,200 billion.
- Generally speaking, supply was high and demand increase sharply, pushing high market liquidity. Lower interest rate encouraged organizations to issue bond on primary market and investors decided to realize their profit, making good supply for the market. Nevertheless, bond demand was significant amid weak and un-altered macro-economic conditions:
 - (i) State Bank further lowered policy interest rate by 1%/year.
 - (ii) Capital cost was low and stable. Inter-bank interest rate decreased to the record low of the month.
 - (iii) Banking system liquidity was good due to good capital mobilization, low credit growth, unattractive alternative investment channels making government bonds a good choice.
 - (iv) The market was still pessimistic over the soon economic recovery, favoring safe and more liquid assets in their portfolio.

■ Market expectation for the last 7 months of 2013

- (Supply of government bond will be maintained, yet more diverse duration structure is needed for an attractive sale).
- According to 2013 issuance plan of State Treasury and State Bank of Vietnam, expected amount of bonds to be issued is VND 67,000 billion. Also, State Treasury has just increased its 2013 issuance plan by VND 20,000 billion, assuring high supply of the bond for the rest of the year, on average VND4000-5000 billion/week. Nevertheless, bond issued will mostly be of 5 year duration or above. In more details, VND 12,000 billion will be issued with 5-year duration and VND 4,000 billion will be issued for the duration of 10 and 15 years.
- An alter from long-term to short-term duration of 2-3 years will make the supply more attractive and help State Treasury fasten issuance process amid current low interest rate, which is highly possible scenario made by the State Treasury.
- Also, an expected issuance of Governmental Guaranteed Bonds, Provincial Government Bond of VND 50,000-60,000 billion to be added up for the rest of the year will provide the market with significant supply.

■ **Market demand for Government Bond remains significant.**

- Interest rate of Government bond has decrease significantly from 2% to 2.4% as of early this year, reaching expected inflation, therefore keeps investors more cautious. Nevertheless, supporting factors for holding and buying government bonds still remain, includes:
 - (i) Capital cost remains low, at around 5,5-6% p.a. for 1 year duration; banking system stays liquid.
 - (ii) Inflation is under control and expected to be at around 6%, lower than 6.5% the target of the Government.
 - (iii) The market's confidence on a soon economic recovery is low, safe and liquid assets such as Government bond are still on the preferred list.
 - (iv) Government bonds comes to maturity this month will reach VND12,000 billion, creating more demand on new bonds.

■ **Yield is expected to keep downward trend**

- According to demand-supply analysis above, government bond yield is expected to keep its downward trend in June, July and start picking up in later months. The ground for such behavior is that:
 - (i) Demand decreases due to increase of capital cost on par with interbank interest rate of VND;
 - (ii) Higher credit growth, lower capital mobilization, making banking system less liquid
 - (iii) Tendency of high consumption and inflation in year-end months
 - (iv) Government bonds comes to maturity in the later half is only 40% of the first half of 2013.
- In more details, yield is predicted to stay at 5.6%-6.3% p.a. for 2 year duration, 6.1%-6.5% p.a. for 3 year duration and 7.0-7.4% p.a. for 5 year duration in June. Afterward, it is expected to climb to 6.5% p.a. by the end of 3rd Quarter and to 7.5% p by the end of 2013.

References:

- Hanoi Stock Exchange website <http://www.hnx.vn>
- Vietnam Bond Market Association website <http://www.vbma.org.vn/vbma/>
- State Bank of Vietnam website. www.sbv.gov.vn/
- Bank for Investment and Development of Vietnam website. <http://bidv.com.vn/>