

Viet Nam

Yield Movements

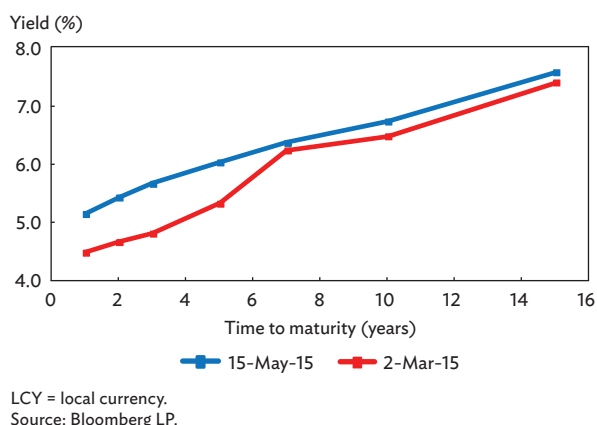
Between 2 March and 15 May, local currency (LCY) government bond yields in Viet Nam rose for all tenors, with an average increase of 51 basis points (bps) (Figure 1). The largest increases came at the short-end and in the belly of the curve, with bond yields rising between 66 bps and 85 bps for tenors of 5 years or less. Yields for tenor of 7 years or more rose between 13 bps and 25 bps. As a result, the yield spread between the 2-year and 10-year tenors narrowed to 130 bps on 15 May from 181 bps on 2 March.

Lower demand for bonds pushed up yields at the short-end of the curve as most investors chose to hold onto their funds ahead of an anticipated devaluation of the Vietnamese dong. In May, the State Bank of Viet Nam (SBV) devalued the dong to boost exports and economic growth.

Treasury auctions fell short of their targets in April and May. Banks, who are the largest holders of government bonds, had little new appetite for bonds between end-December and end-April, instead choosing to allocate their funds to support lending activities on the back of rising credit growth.

Economic growth in Viet Nam slowed in 1Q15 to 6.0% year-on-year (y-o-y) from 7.0% y-o-y in 4Q14. Inflation has remained benign thus far in 2015, registering less than 1.0% y-o-y in January–April.

**Figure 1: Viet Nam's Benchmark Yield Curve—
LCY Government Bonds**



Size and Composition

The outstanding size of Viet Nam's LCY bond market reached VND915.1 trillion (US\$42 billion) at end-March on growth of 5.1% quarter-on-quarter (q-o-q) and 22.9% y-o-y (Table 1). The strong growth rates were driven by a low base effect.

Government Bonds. The stock of LCY government bonds continued to expand in 1Q15, rising to VND901.5 trillion at end-March on growth of 5.2% q-o-q and 23.1% y-o-y. Much of the growth came from increases in the stock of central bank bills, or SBV bills, which grew 17.8% q-o-q in 1Q15. Treasury bonds also contributed to growth,

Table 1: Size and Composition of the LCY Bond Market in Viet Nam

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	VND	US\$	VND	US\$	VND	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	744,589	35	870,245	41	915,061	42	23.0	17.8	5.1	22.9
Government	732,069	35	856,713	40	901,529	42	23.9	20.0	5.2	23.1
Treasury Bonds	373,960	18	504,165	24	529,769	25	11.0	20.4	5.1	41.7
Central Bank Bonds	147,004	7	134,396	6	158,357	7	281.8	30.3	17.8	7.7
State-Owned Enterprise Bonds	211,104	10	218,153	10	213,404	10	(2.0)	12.9	(2.2)	1.1
Corporate	12,520	0.6	13,532	0.6	13,532	0.6	(12.6)	(43.1)	0.0	8.1

(-) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Bloomberg LP end-of-period LCY–US\$ rates are used.

2. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bloomberg LP.

rising 5.1% q-o-q. In contrast, the stock of state-owned enterprise bonds slipped 2.2% q-o-q.

Of total government bond issuance in 1Q15, nearly 70% were new issues of SBV bills. Gross issuance of SBV bills in 1Q15 was, however, lower on both a q-o-q and y-o-y basis. On the other hand, new Treasury bond and other government bond issues more than doubled on a q-o-q basis, rising 112.6%; meanwhile, such issues fell on a y-o-y basis by 35.8%.

Corporate Bonds. The total LCY corporate bond stock was unchanged at VND13.5 trillion at end-March as there were no new corporate bond issues in 1Q15. A total of 10 firms comprised the entire corporate bond sector of Viet Nam (**Table 2**). The largest issues were Asia Commercial Joint Stock Bank and Techcom Bank with outstanding bonds of VND3.0 trillion each. They were followed by Masan Consumer Holdings with outstanding bonds of VND2.1 trillion.

Policy, Institutional, and Regulatory Developments

Viet Nam to Launch Derivatives Market

On 5 May, Viet Nam issued a decree providing a legal framework and investment guidelines for a derivatives market. The target date for the market's launch is 2016. Under the decree, both individuals and institutions, except for some businesses, will be allowed to invest in derivatives. The derivatives will be listed on the Viet Nam's stock exchange and will initially only include stock indices and government bond futures.

SBV Devalues Dong for Second Time in 2015

On 7 May, the SBV devalued the Vietnamese dong by 1% to a reference rate of VND21,673 per US\$1. It marked the second time this year that the Vietnamese dong has been devalued. The move was made to enhance export competitiveness and boost economic growth.

Table 2: Corporate Issuers of LCY Corporate Bonds in Viet Nam

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (VND billion)	LCY Bonds (US\$ billion)			
1.	Asia Commercial Joint Stock Bank	3,000.00	0.14	No	Yes	Finance
2.	Techcom Bank	3,000.00	0.14	No	No	Finance
3.	Masan Consumer Holdings	2,100.00	0.10	No	No	Food
4.	HAGL JSC	1,980.00	0.09	No	Yes	Real Estate
5.	Ho Chi Minh City Infrastructure	1,081.85	0.05	No	Yes	Infrastructure
6.	Vincom	1,000.00	0.05	No	Yes	Real Estate
7.	Ocean Group	980.00	0.05	No	Yes	Consulting Services
8.	Binh Chanh Construction	150.00	0.01	No	Yes	Building and Construction
9.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
10.	Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
Total LCY Corporate Issuers		13,531.8	0.63			

LCY = local currency.

Notes:

1. Data as of end-March 2015.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg data.