

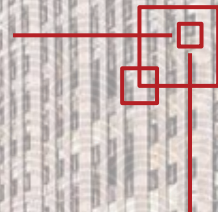


VBMA

Vietnam Bond Market Association

QUARTERLY REPORT

VIETNAM BOND MARKET
QUARTER 2.2023

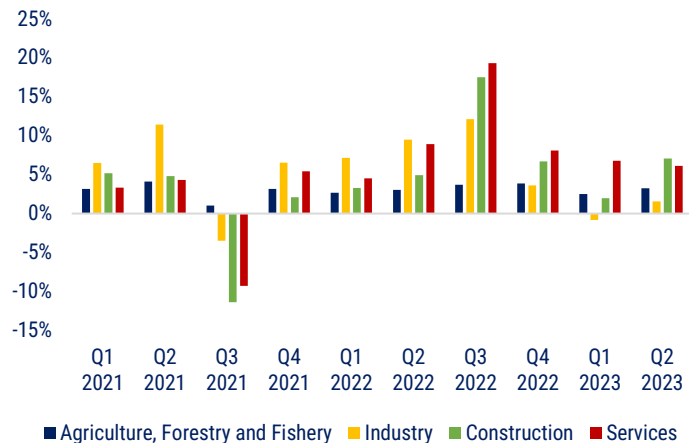


MARKET HIGHLIGHT

MACROECONOMIC OVERVIEW

Despite recent cool down of inflation, FED still gives signals of another round of hikes of about 0.5 percentage point in the rest of the year. Meanwhile, SBV is determined to ease the monetary policy with 4 rate cuts in 1H2023 to support the economy, widening the gap between interest rate of USD and VND and probably exerting more pressure to USDVND exchange rate in the future. Despite numerous monetary policy easing method, total credit in the economy is seeing the lowest growth rate since 2013.

GDP GROWTH RATE BY SECTORS



PRIMARY MARKET

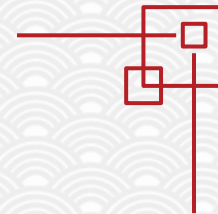
| ISSUING VALUE GOVERNMENT BOND | Q2/2023 | Q1/2023 | Q2/2022 | %Q/Q | %Y/Y | 6M 2023 | 6M 2022 | %Y/Y |
|----------------------------------|---------------|----------------|---------------|-------------|-------------|----------------|---------------|-------------|
| 3-year tenor | 0 | 0 | - | - | - | - | - | - |
| 5-year tenor | 16,599 | 4,950 | - | - | - | 21,549 | - | - |
| 7-year tenor | 0 | 950 | - | - | - | 950 | - | - |
| 10-year tenor | 23,472 | 47,127 | 13,000 | -50% | 81% | 70,599 | 31,642 | 123% |
| 15-year tenor | 32,662 | 47,891 | 13,605 | -32% | 140% | 80,553 | 26,555 | 203% |
| 20-year tenor | 549 | 1,000 | 580 | - | - | 1,549 | 2,265 | -32% |
| 30-year tenor | 1,737 | 2,955 | 620 | - | - | 4,692 | 8,625 | -46% |
| Total | 75,019 | 104,873 | 27,805 | -28% | 170% | 179,892 | 69,087 | 160% |

CORPORATE BOND

| ISSUING VALUE | Q2/2023 | Q1/2023 | Q2/2022 | %Q/Q | %Y/Y | 6M 2023 | 6M 2022 | %Y/Y |
|---------------|---------------|---------------|----------------|-------------|-------------|---------------|----------------|-------------|
| Private | 11,756 | 25,506 | 112,833 | -53% | -90% | 37,262 | 175,441 | -79% |
| Public | 2,000 | 3,521 | 300 | -43% | 1074% | 5,521 | 8,996 | -39% |
| Total | 13,756 | 29,027 | 113,133 | -52% | -88% | 42,783 | 184,437 | -77% |

SECONDARY MARKET

| TRADING VOLUME GOVERNMENT BOND | Q2/2023 | Q1/2023 | Q2/2022 | %Q/Q | %Y/Y | 6M 2023 | 6M 2022 | %Y/Y |
|-----------------------------------|----------------|----------------|----------------|------------|-------------|----------------|------------------|-------------|
| Outright | 267,821 | 188,490 | 292,785 | 42% | -9% | 456,311 | 763,347 | -40% |
| Repo | 150,324 | 103,365 | 237,410 | 45% | -37% | 253,689 | 521,844 | -51% |
| TOTAL | 418,145 | 291,855 | 530,195 | 43% | -21% | 710,000 | 1,285,191 | -45% |



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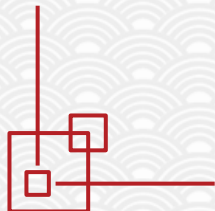
2. Secondary market

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**CORPORATE BOND
MARKET**

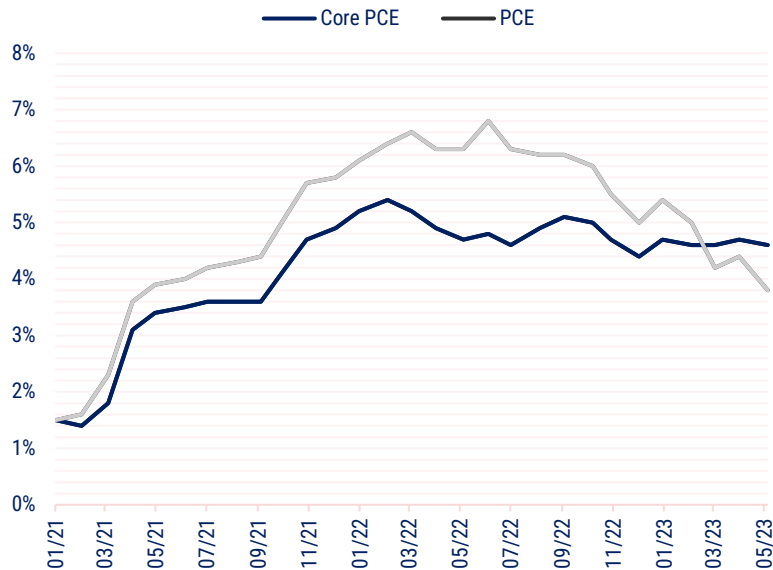
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01

MACROECONOMIC OVERVIEW

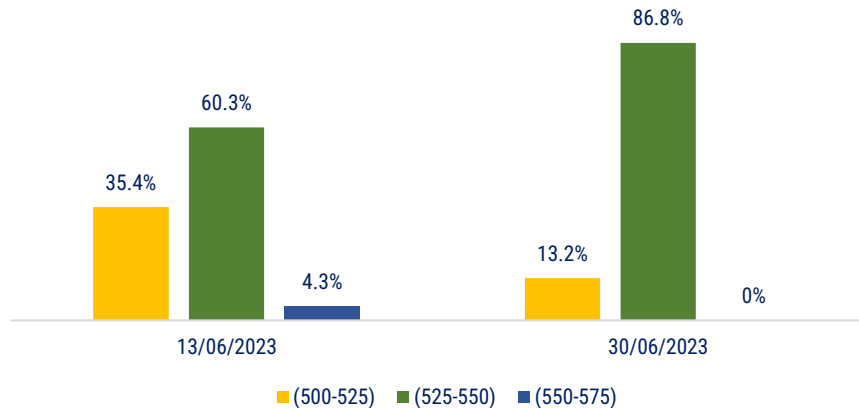
US Inflation by PCE and core PCE



Source: Investing

US inflation as measured by the core PCE and headline PCE indexes were flat and falling in recent months but still much higher than the 2% target, prompting Fed Chairman Jerome Powell to give clear signals about continuing to raise interest rates in 2023.

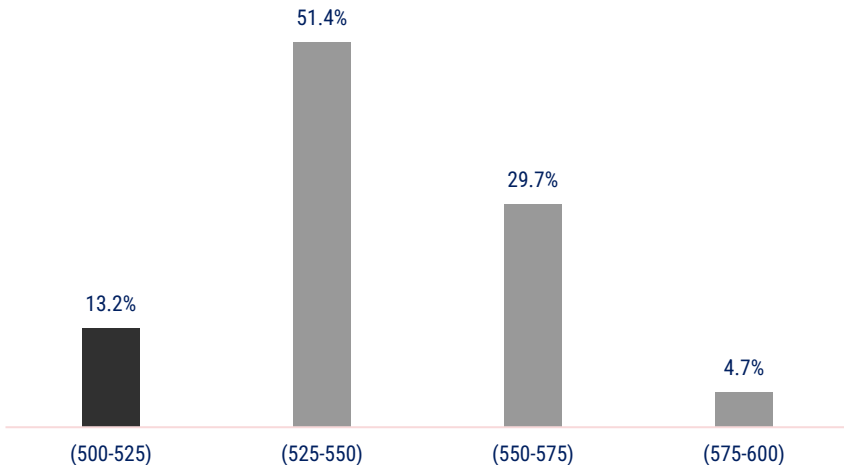
Market expectations on the Fed's policy rate at the meeting on July 26, 2023



Source: CME FED watch tool

Immediately after the Mr. Powell's speech following the Fed's meeting in June, the market reflected this expectation on the probability of policy rate for the next meeting on July 26. Specifically, the probability of keeping policy rate unchanged in the next meeting decreased from 35.4% to only 13.2%. The market is also expecting a 86% chance that the Fed will raise interest rates by about 0.25 percentage points in the upcoming meeting.

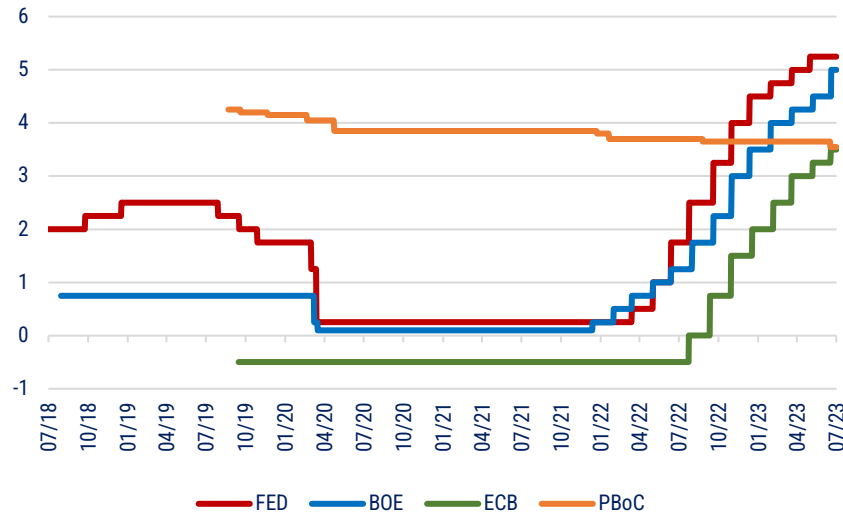
**Market expectations on the Fed's policy rate
- End of 2023**



Source: CME FED watch tool

For the end of 2023, the market is expecting a 51% probability that the Fed's policy rate will be in the 5.25% - 5.50% range, 25 bps higher than current levels, and a 29.7% probability for the range of 5.50% - 5.75%.

Policy rate of some major central banks

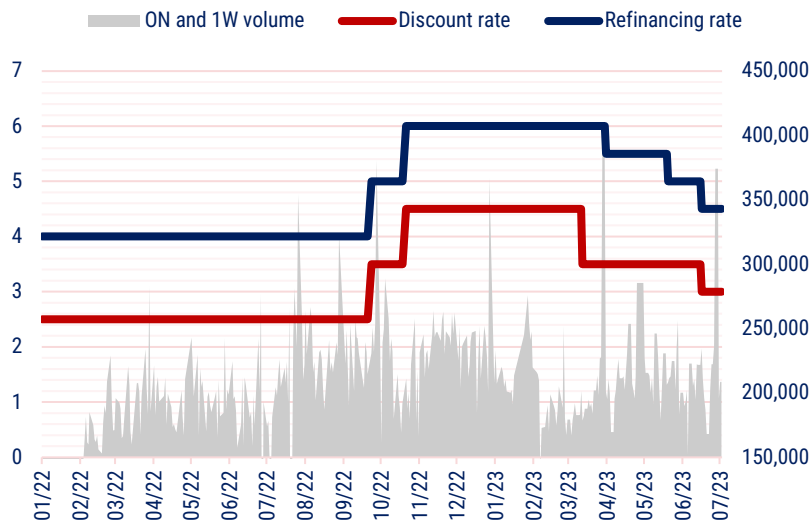


Sources: BOE, FED StLouis, ECB, CEIC

Apart from People's Bank of China (PBoC), the world's major central banks are unlikely to stop tightening in the near future.

Although the Bank of England (BoE) raised their policy rate to 5% on June 22, it is still significantly lower than the May inflation rate (7.9% YoY). Similarly, May inflation in Europe was 6.1% (YoY), higher than the ECB's policy rate by about 2.1 to 2.6 percentage points.

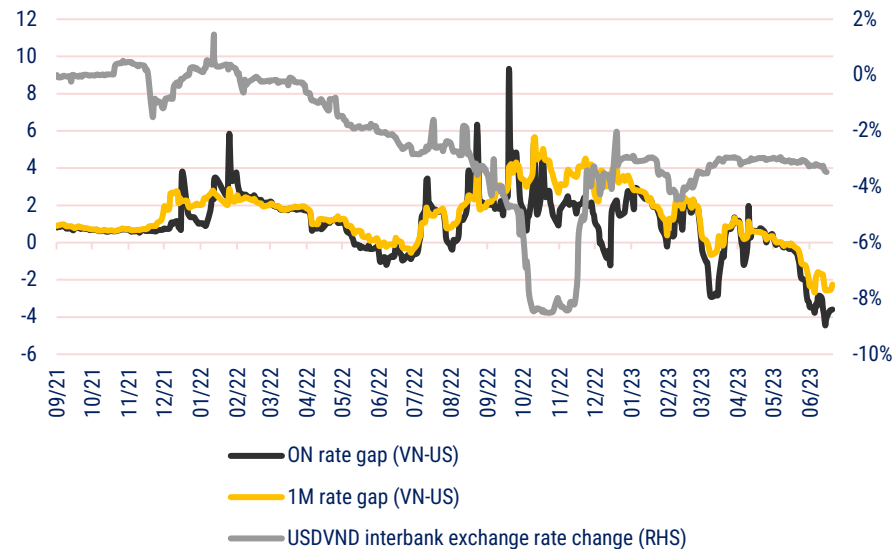
Market trading volume and Policy rate



Source: SBV

In Q2/2023, the SBV lowered the refinancing rate twice to support the economy and keep interbank liquidity abundant, which helps lower the cost of capital for credit institutions.

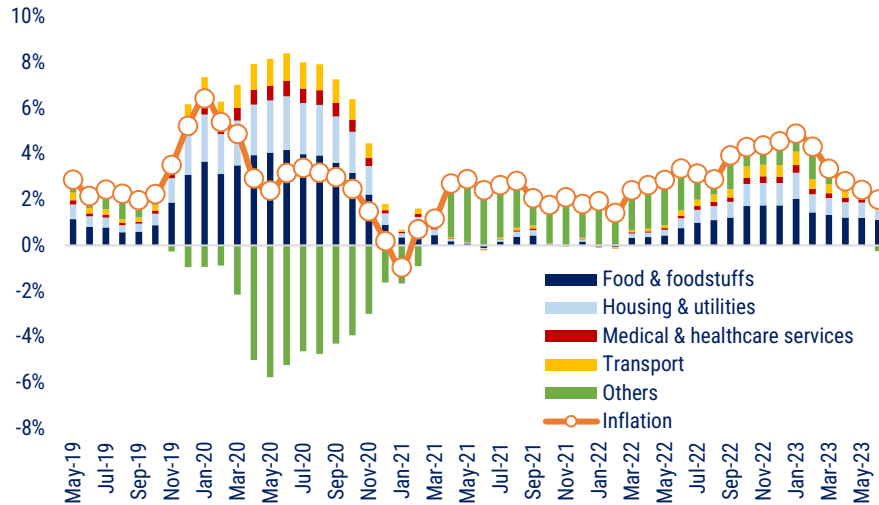
Interest rate gap and interbank exchange rate



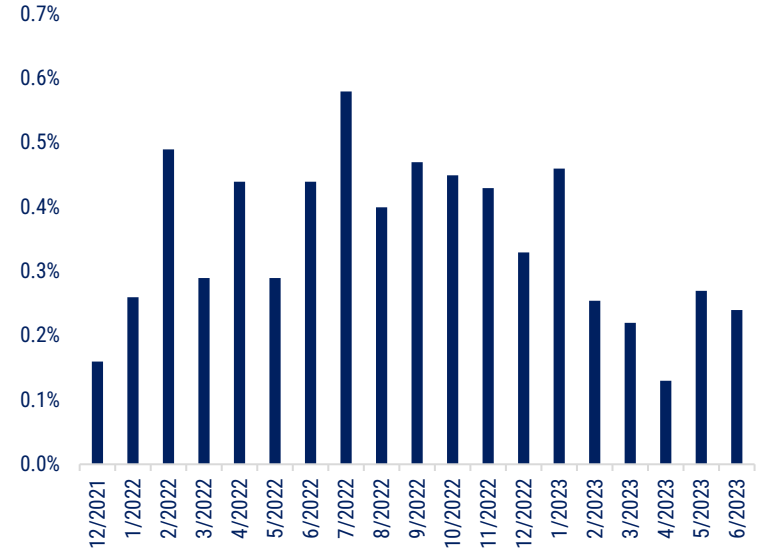
Source: VBMA

However, the fact that SBV lowered interest rates to support the economy has made the interest rate gap between VND and USD gradually fall to a deeply negative level, which can put pressure on the USD-VND exchange rate in the near term. In the first half of the year, the exchange rate is still supported by a trade surplus of about USD 12 billion and disbursed FDI equivalent to the same period last year.

Contribution to inflation

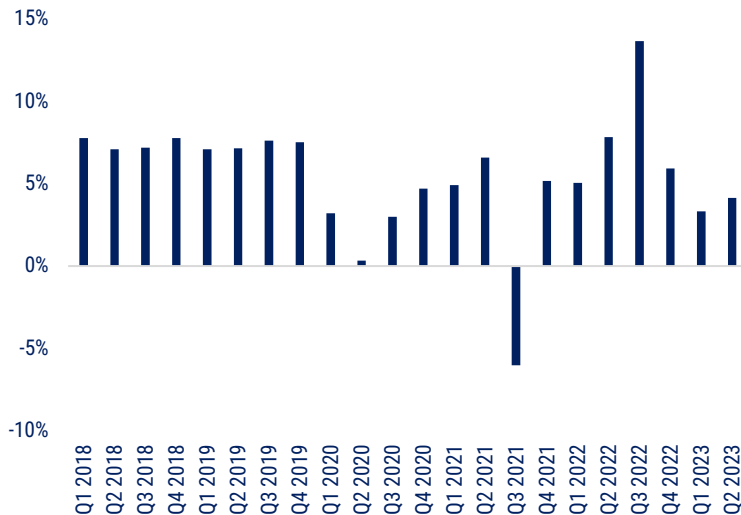


Core inflation(MoM)

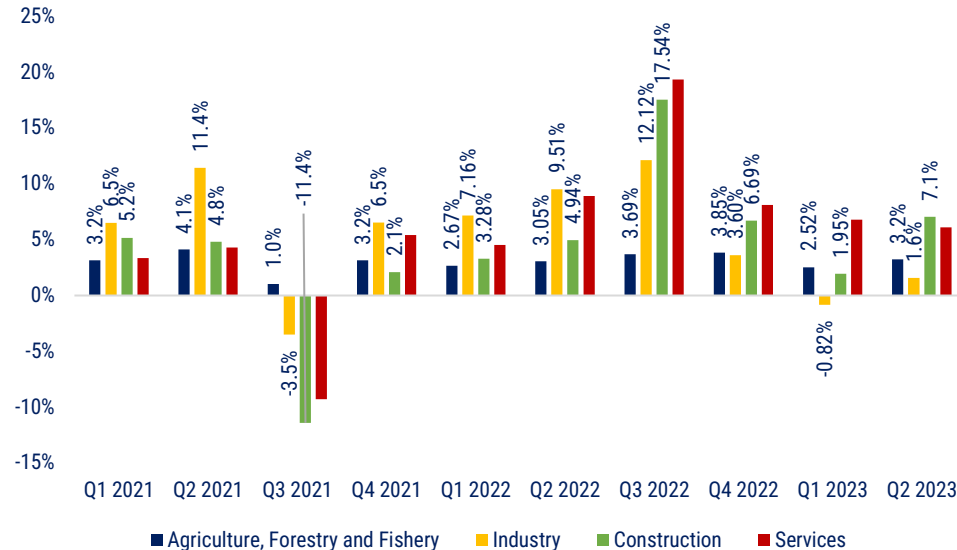


Headline inflation and core inflation in June were 2% (YoY) and 4.33% (YoY) respectively. On average, in the first 6 months, the consumer price index (CPI) increased by 3.29% and core inflation was 4.74% (YoY). Although the year-on-year inflation has continuously decreased and has returned to the pre-pandemic level, core inflation remains high above 4.5%. In the last 2 months, monthly core inflation is also higher than April when it increased by about 0.13%.

GDP GROWTH RATE (YoY)



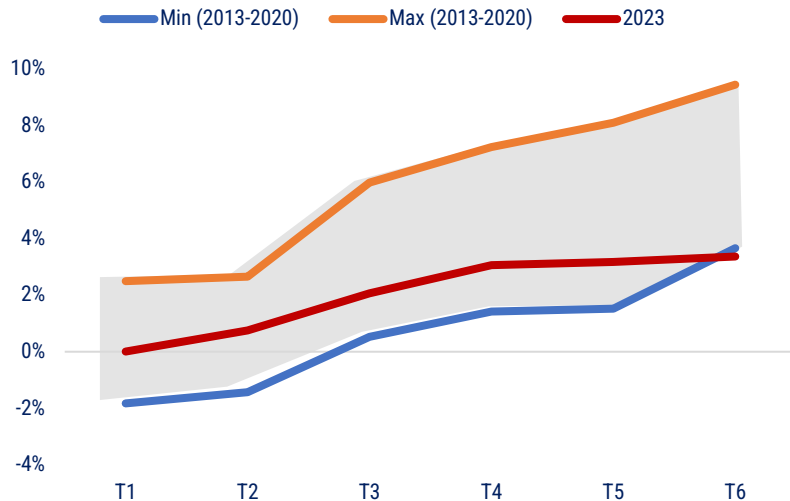
GDP GROWTH RATE BY SECTORS



GDP growth in Q2/2023 reached 4.14%, higher than 3.32% in Q1/2023. Average GDP growth in the last 6 months is 3.72%, lower than 6.2% as the government target of the first half of 2023 (according to Resolution 01/NQ-CP).

In Q2/2023, the construction sector grew by 7.1%, which was the second highest growth rate in the last two years, only lower than the Q3/2022 growth rate. For the second half of the year, new policies such as (1) reducing VAT from 10% to 8%, (2) increasing the base salary by about 20% and (3) the SBV's loosening monetary policy in Q2/2023 are expected to help the economy accelerate.

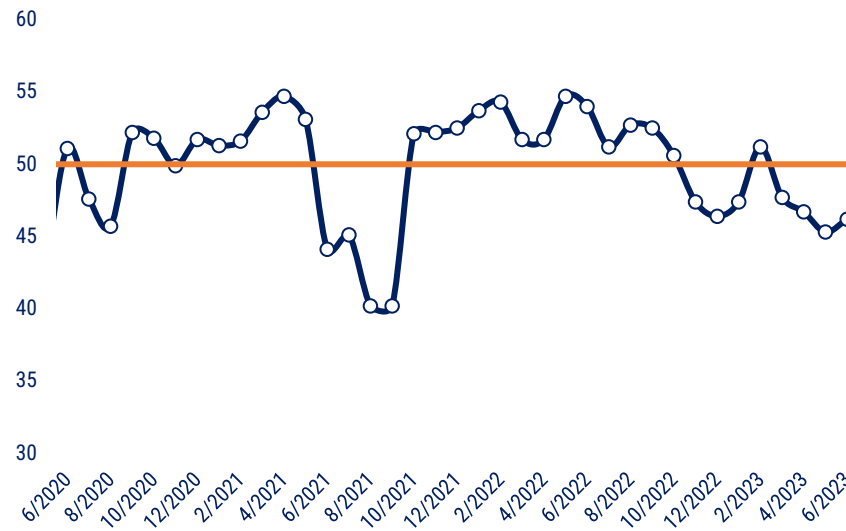
Historical and 2023 credit growth



Sources: SBV, VBMA

Although interest rates has generally decreased and liquidity in the interbank market became abundant, credit growth is still much lower than in recent years. Till the end of Q2/2023, total new credit balance increased by only 3.4% compared to the year-end level of 2022.

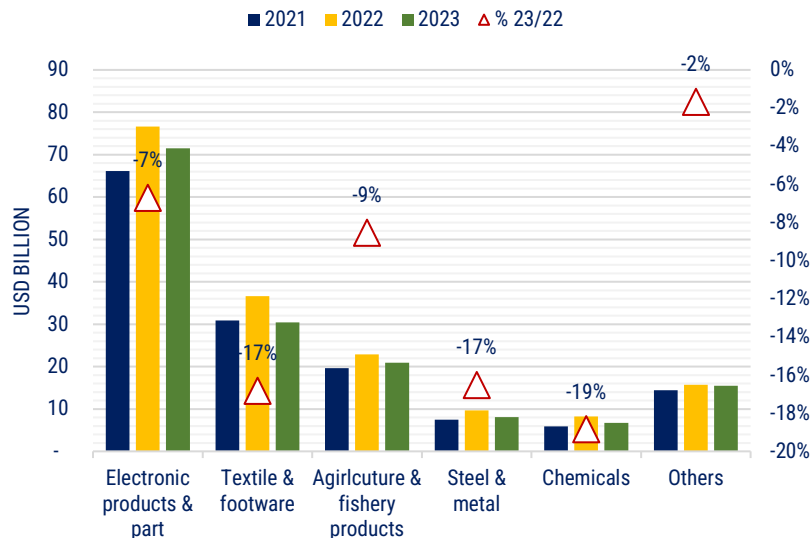
Manufacturing PMI



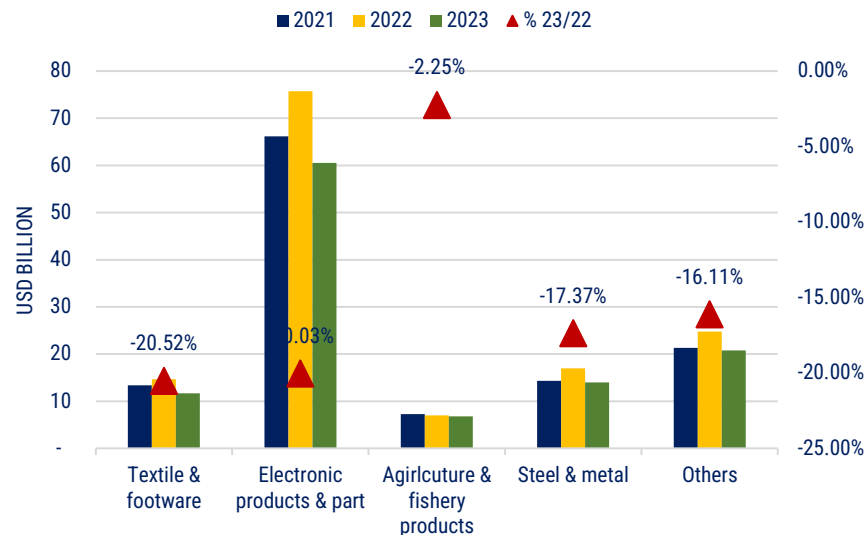
Source: IHS Markit

PMI in June reached 46.2 points, higher than 45.3 of the previous month but still deep in the contractionary zone. Key component indexes such as output and new export orders were 46.1 and 44.1, respectively, with no significant improvement compared to May 2023. Employment continued to decline compared to the last month when the index was only at 45.0 points. This sub-index has decreased for 4 consecutive months.

Export Value (first-half of the year)



Import Value (first-half of the year)



In June, export value was estimated at USD 29.3 billion and import value was about USD 26.71 billion, increased by 4.5% and 2.6% respectively compared to the previous month. Accumulated in the first half of the year, the total trade value is about USD 316 billion, decreased by 15.1% YoY, of which 6 months' exports reached USD 164.45 billion (-12.1% YoY) and imports reached USD 152.19 billion (-18.2%YoY). Trade balance in 6 months had a surplus of USD 12.26 billion.

02

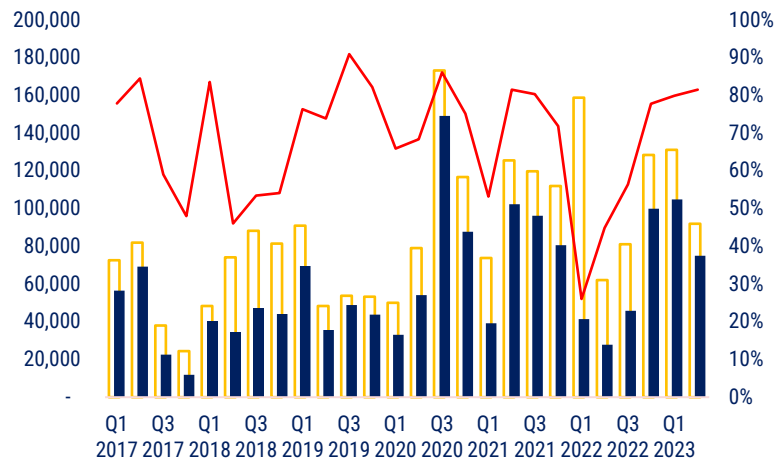
GOVERNMENT BOND MARKET

In Q2/2023, the State Treasury called for 44 auction sessions of Government bond with total offering value of VND 92,000 billion, in which winning value was VND 75,019 billion, winning rate was 81.5%. The total winning value since the beginning of the year reached 45% of this year's plan (VND 400,000 billion) and since early April reached 63% of the first quarter's plan (VND 120,000 billion). There was no government-guaranteed bond issuance in Q2.

| Q2/2023 | 5Y | 7Y | 10Y | 15Y | 20Y | 30Y | TOTAL |
|---------------------------|--------|-------|--------|--------|-------|-------|---------|
| Plan of Q2 | 15,000 | 2,000 | 45,000 | 53,000 | 2,000 | 3,000 | 120,000 |
| Issued value of Q2 | 16,599 | - | 23,472 | 32,662 | 549 | 1,737 | 75,019 |
| % completion | 111% | 0% | 52% | 62% | 27% | 58% | 63% |

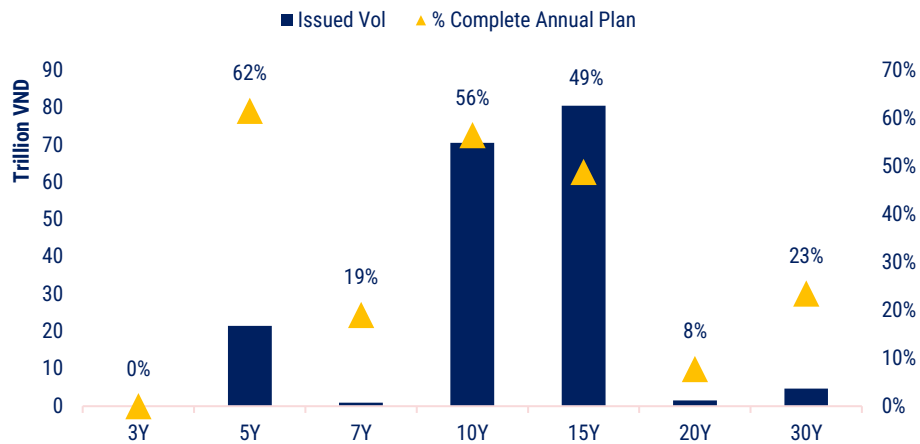
Unit: VND billion

Government Bond winning rate



Offering Value Bidded Value Winning ratio Source: HNX

Issued value by tenors

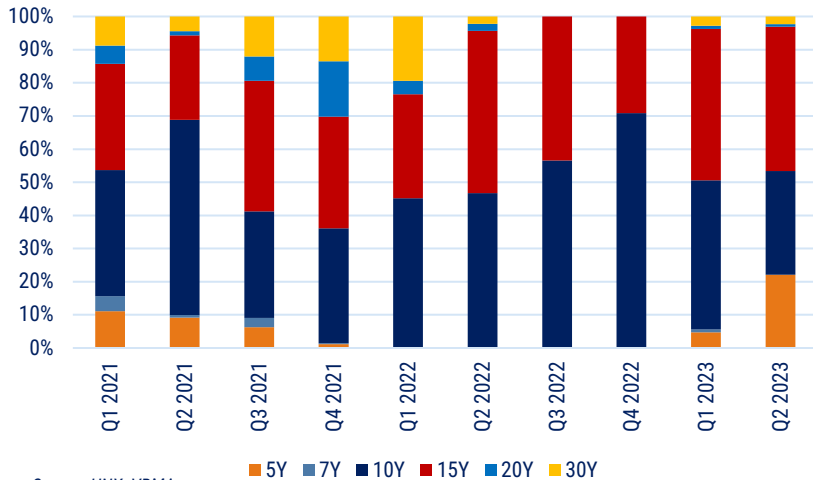


Source: HNX

In the second quarter of 2023, the 10-year and 15-year tenors continued to have the highest issuing value, 5-year tenor also jumped much higher than previous periods. Specifically, the issuing value of 5-year bonds was VND 16,599 billion, 10-year was VND 23,742 billion, 15-year was VND 32,662 billion, 20-year was VND 549 billion and 30-year was VND 1,737 billion. The VST did not call for auction 3-year and 7-year bonds.

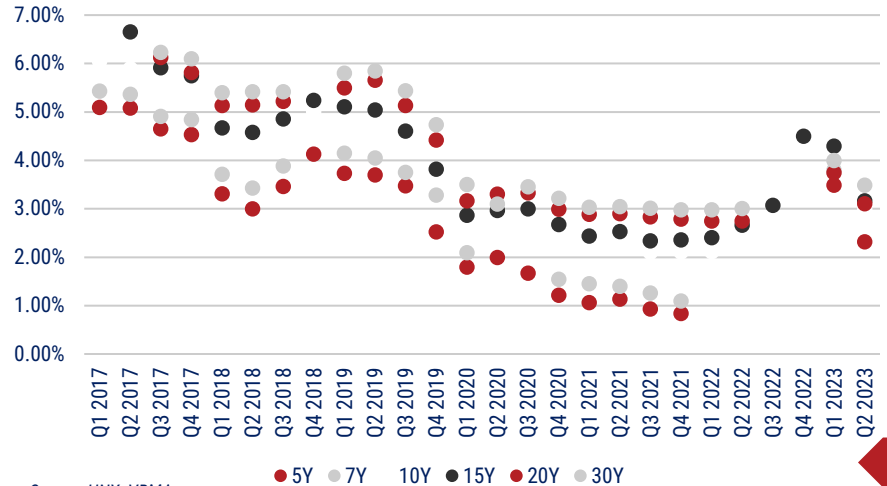
The average issuing interest rate in the second quarter of 2023 decreased sharply compared to the first quarter of 2023, down by more than 110 bps at tenors of 5, 10, 15 years and 50 64 bps at tenor 20, 30 years. In the quarter, the SBV continued to lower the policy rate twice, bringing the refinancing rate to 4.5%/year and the discount rate to 3%/year. The ceiling interest rate for term deposits from 1 month to 6 months also decreased to 4.75%/year.

Proportion of winning value by tenors



Source: HNX, VBMA

Average issuing rate by tenors

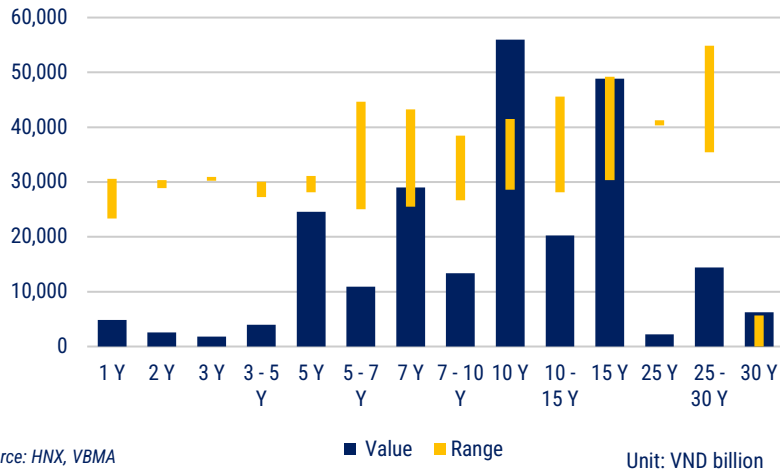


Source: HNX, VBMA

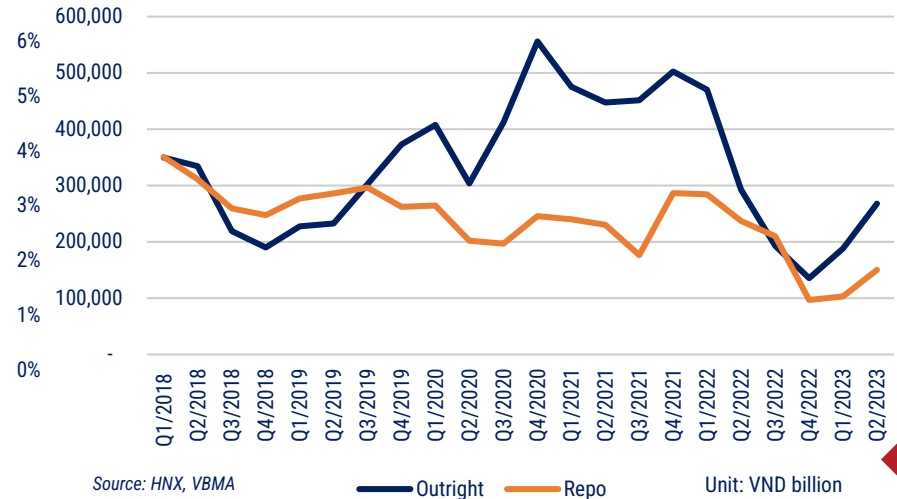
Total trading volume of Government and Government guaranteed bond Q2/2023: **VND 418,145 billion**
 In which, Outright trading volume: **VND 267,821 billion**
 Repo trading volume: **VND 150,324 billion**

Total Outright transaction value in Q2/2023 increased by 42% and Repo transaction increased by 45% compared to the previous quarter. The average daily transaction value of Outright and Repo transactions reached VND 4,058 billion/day (up 29% QoQ) and VND 2,278 billion dong/day (up 32% QoQ). Thanks to a series of loosening monetary policies of the State Bank, market liquidity has improved markedly compared to the end of last year. However, the transaction value was still much lower than the level in 2020 - 2021. Most of the Outright transactions are done in tenors from 5 years to 10 years, with the interest rate in the range of 2.81% - 4.9%. 14-day term accounts for the majority of Repo transaction value, with interest rate of about 2.97% - 4.5%.

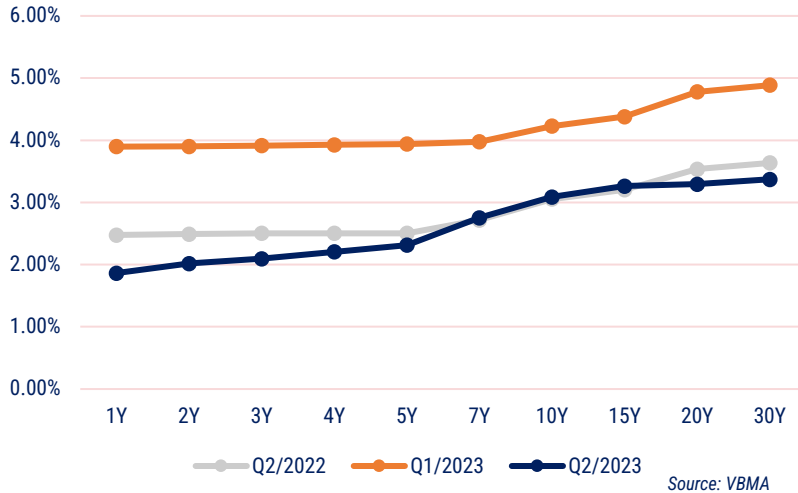
Trading value and yield range of Repo transactions by remaining tenors



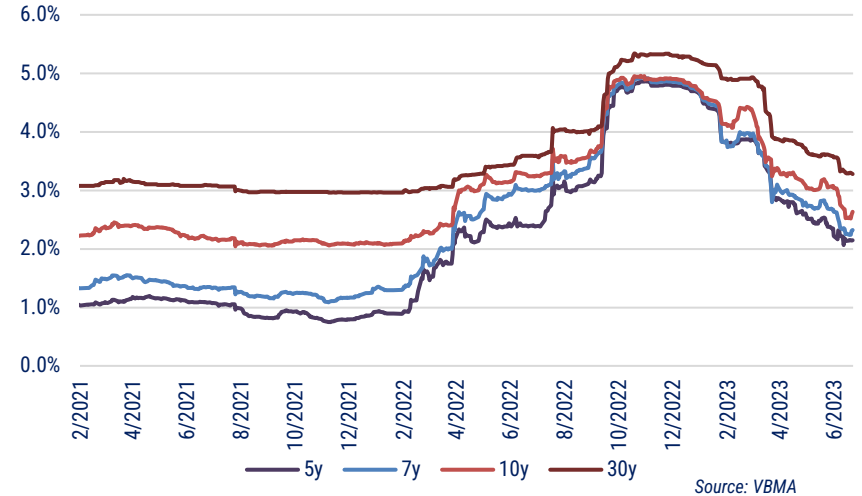
Trading value of outright and repo



VBMA Government Bond Yield Movement



G-bond yield – Secondary market



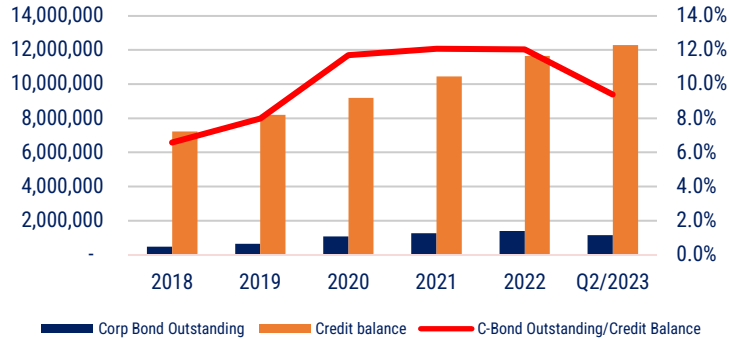
According to the VBMA Outright trading room, Government bond yields in the second quarter of 2023 went down across all tenors compared to the end of the first quarter of 2023, decreasing by 60 - 80 bps. The downward trend of interest rates has remained stable since the beginning of the year due to the SBV's loosening of monetary policy. Yield curve shape did not change much, flat for short tenors from 1 to 7 years and sloping up from 7 years.

Similar to government bonds trading yield, the interest rate of Repo trading (according to the VBMA Repo trading room) also dropped sharply at all tenors compared to the end of Q1/2023. In April, repo rates increased significantly to well above 5%/year for 2-week tenor. Then, rates went down in May and June.

03

CORPORATE BOND MARKET

Outstanding corporate bond and credit balance



(*)The figure of credit balance was published as of April 2022 Sources: HNX, SBV, VBMA
Vietnam Corporate Bond market size: ~11.79% of GDP (*)

The Vietnam corporate bond market size is much lower than that of other regional countries such as Malaysia (53.6% GDP), Thailand (26.1% GDP).

The outstanding value of corporate bond accounted for about 9.4% total Vietnam economy's credit balance, decreased by 2.6% compared to the end of 2022. Outstanding value of corporate bonds slumped significantly as new issuance was low while enterprises redeemed a large amount of bonds.

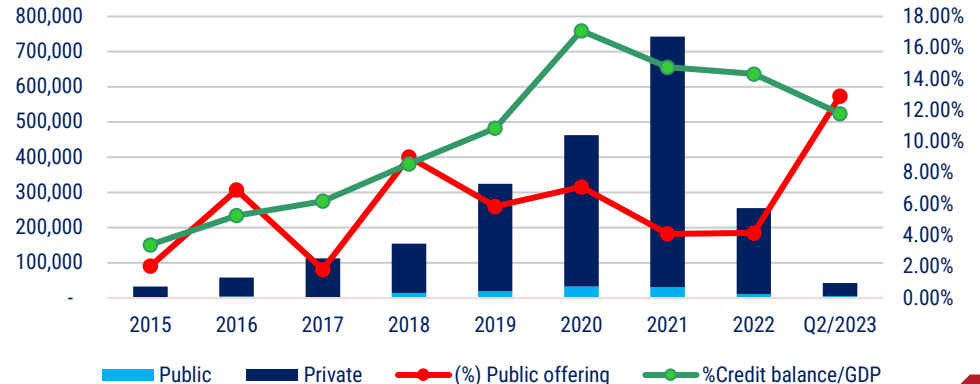
(*) According to data collected from HNX and GSO at the end of June, 2023.

Total domestic issuance value in Q2/2023:



In the second quarter of 2023, there was 1 public offering of corporate bond worth VND 2,000 billion, accounting for 14.5% of total issuing value; and 20 issuances under private placement worth VND 11,756 billion, accounting for 85.5%. Although regulations to improve the corporate bond market situation have been issued, the market was still relatively quiet as investor sentiment has not recovered after the turmoil last year.

Corporate bond public offering and private placement



(**) According to data published by HNX and SSC as of 31st June 2023

Sources: HNX, GSO, VBMA

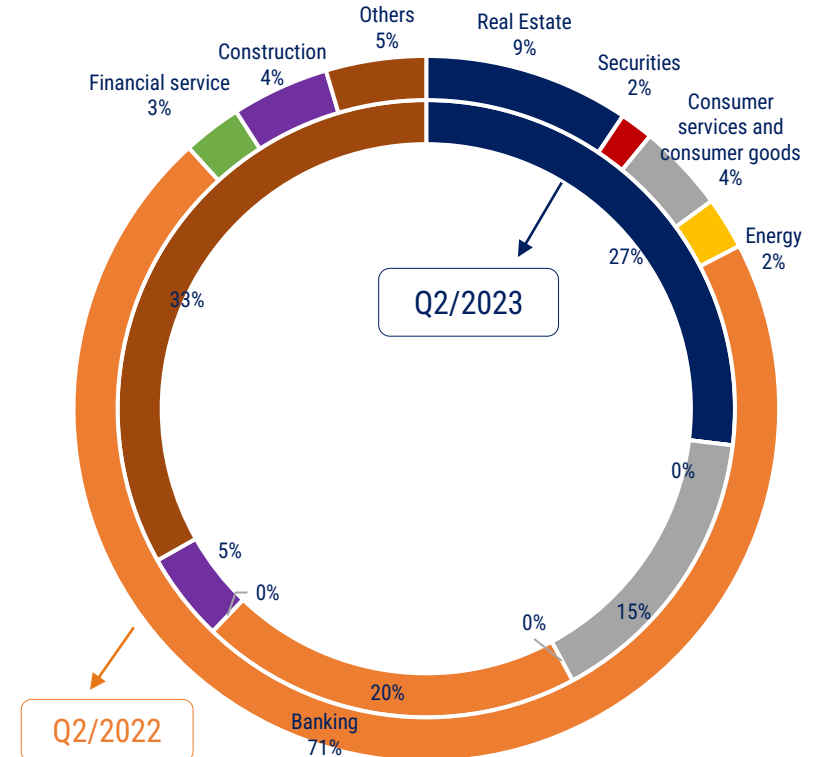
Proportion of issuing value by sectors

Unit: bil VND

| Sector | Q2/2023 | Q2/2022 | %Y/Y |
|-----------------------------|---------------|----------------|---------------|
| REAL ESTATE | 3,880 | 10,645 | -63.6% |
| SECURITIES | 300 | 1,728 | -82.6% |
| CONSUMER GOODS AND SERVICES | 2,200 | 4,575 | -51.9% |
| ENERGY | 0 | 2,700 | -100.00% |
| BANKING | 2,890 | 80,192 | -96.4% |
| FINANCE | 0 | 3,045 | -100.00% |
| CONSTRUCTION | 671 | 5,053 | -86.7% |
| OTHER | 4,786 | 5,195 | -7.9% |
| Total | 13,756 | 113,133 | -87.8% |

The corporate bond market did not improve much as the issuance value remain low, down 87.8% over the same period last year. Real estate contributed the most to the issuance value in the quarter with VND 3,880 billion, equivalent to 27%. Banking ranked second, issued 2,890 VND billion and accounted for 20%. Compared to the previous quarters, the issuance proportion of Real Estate and Banking groups decreased significantly. Out of the 21 issuances, 9 was secured, mainly by real estate.

In the second quarter, 41 enterprises announced late payment of bond interest and principal with the outstanding value of VND 36,512 billion. Enterprises have also successfully negotiated to extend the tenor of VND 46,318 billion of bonds, the extension period is usually 12 months.



Q2/2022

Q2/2023

Sources: HNX, VBMA

72% issuing bond had original tenors of 5 years or less

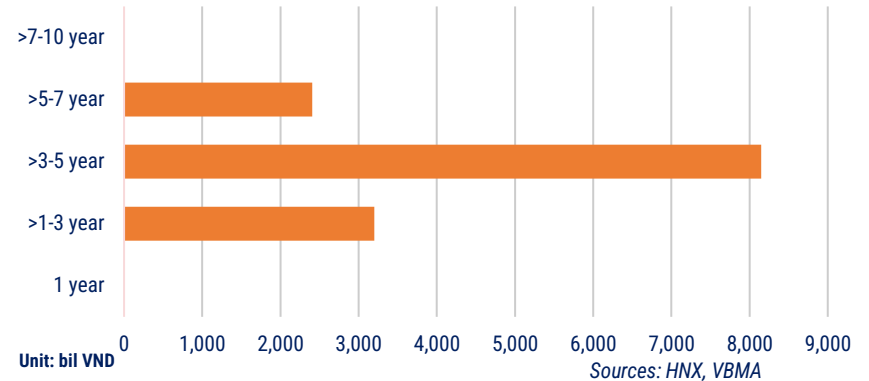
Average issuing coupon rate in Q1/2023: **10.04%/year**

Average issuing tenor in Q1/2023: **4.35 year**

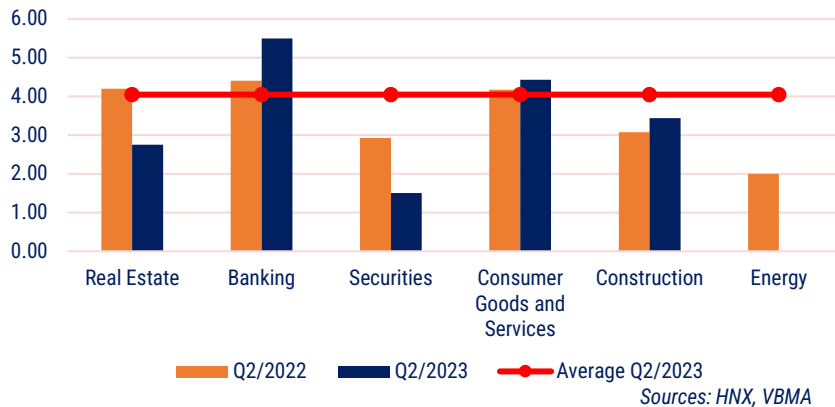
Issuing coupon rate was slightly lower in the second quarter of 2023 compared to the first quarter of 2023 from 10.55%/year to 10.04%/year. The decrease mainly came from the issuance rates of banking groups (from 10.7% down to 7.86%) while the coupon rates of other sectors such as real estate or consumer goods both increased. Compared to the same period last year, coupon rates increased in most groups by about 1% to 3%.

The average issuance tenor in the second quarter of 2023 edged up slightly compared to the same period last year, from 4.02 years to 4.35 years.

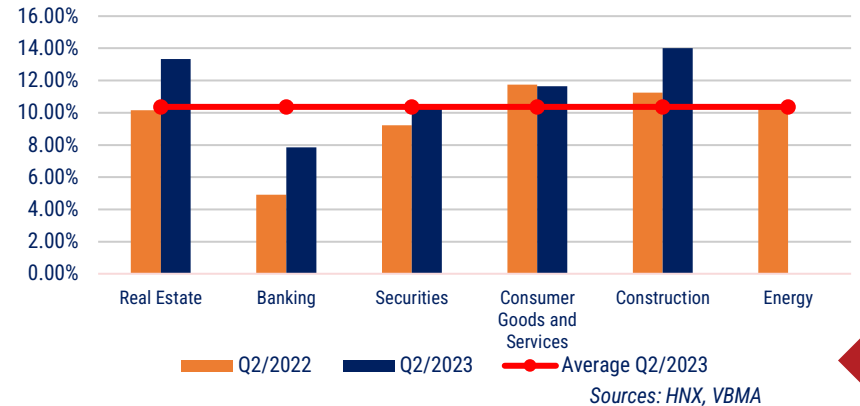
Issuing value by tenors



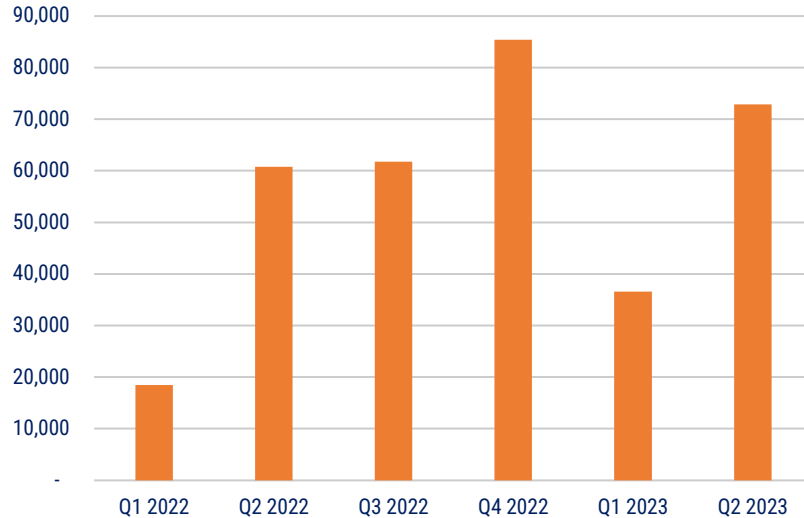
Average issuing value by tenors (year)



Average coupon rate



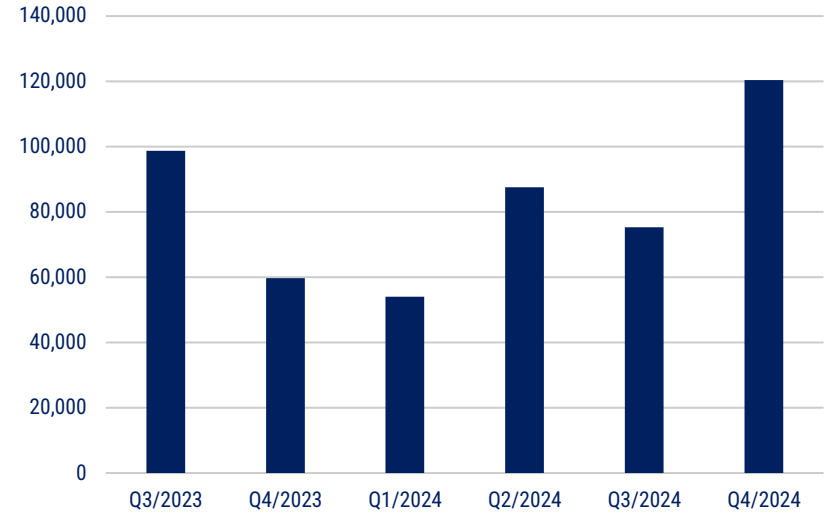
Total value of bonds redeemed before maturity



Unit: billion VND

Sources: HNX, VBMA

Corporate bond maturing value



Unit: billion VND

Sources: HNX, VBMA

In the second quarter of 2023, companies redeemed bonds worth VND 73,849 billion before maturity, up 22% over the same period in 2022. Most of the bonds was in the banking group (VND 53,713 billion, accounting for 73% of total redeemed value), equivalent to 11.7% of the outstanding bonds of this group. The bond maturing pressure in the third quarter of 2023 is relatively high with nearly VND 100 trillion, the issuers will need to reach an agreement to extend the bond tenor to avoid late payment of bond principal and interest as many businesses are still facing cash flow difficulties.



Thank you for reading VBMA's Quarterly Bond Market Report. For more information, please contact:

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