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MONEY MARKET

INTEREST RATES

Interbank interest rates increased sharply during the recent two weeks. Banking liquidity remained good. The SBV selected ten commercial banks to apply Basel II step by step.

Interbank interest rates rose rapidly in first half of August owing to higher demand in some banks. Banking liquidity remained good. Currently, the interest rates reached 3.4% for the ON, 3.6% for the one week and 3.6% for the one month.

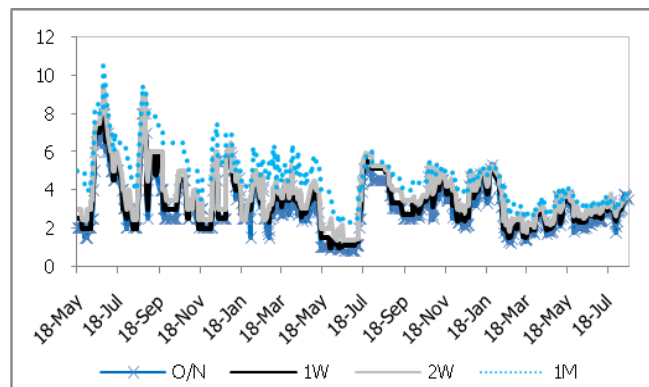
Ten banks selected to apply Basel II includes Vietcombank, Vietinbank, BIDV, MB, Sacombank, Techcombank, ACB, VPBank, VIB and Maritime Bank. It is expected that in 2018, 10 banks will complete the process of Basel II application. After that, Basel II will be implemented in other banks. It will take a long time and great efforts to implement Basel II in Vietnam because the banking system is just in the initial stages of development. However this decision showed the SBV's attempts to improve quality of bank's operations and to enhance risk management.

July CPI was officially reported to rise by 0.23% MoM and 4.94% YoY. However, CPI is expected to increase more strongly in the rest of the year due to the government's plan to raise prices of several public goods and bad weather which can affect agricultural production negatively. As a result, high inflation would be an obstacle to decrease interest rates further in the coming time.

Key interest rates

| Rates | Before | Present |
|-------------------------|--------|---------|
| Basic | 9% | 9% |
| Refinancing | 7% | 6.5% |
| Discounting | 5% | 4.5% |
| Ceiling of deposit rate | 7% | 6% |
| OMO rate | 5.5% | 5% |

Chart 1: Interbank interest rates in VND (%)



Source: MB & SBV

Abbreviations

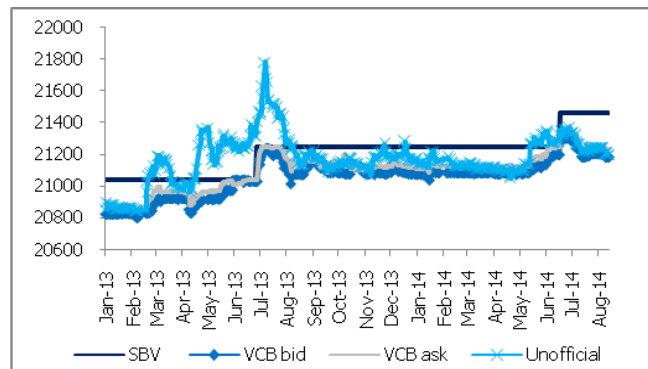
- CDS: Credit Default Swap
- HNX: Hanoi Stock Exchange
- MoF: Ministry of Finance
- NDF: Non-deliverable forward
- OMO: Open Market Operations
- ON: Overnight
- SBV: State Bank of Vietnam
- ST: State Treasury
- MBS: MB Securities
- USD: United States dollar
- VCB: Vietcombank
- VDB: Vietnam Development Bank
- VGB: Vietnam Government Bond
- VNBSP: Vietnam bank for Social Policies
- VND: Vietnam Dong

VND/USD EXCHANGE RATE

Forex market remained gloomy in the first half of August with low liquidity. The VND/USD tended to decrease slightly.

The forex market was inactive in the recent two weeks. The interbank VND/USD rates varied around 21,180-21,230, dropping by 20 basis points over the end of July. Benchmark interbank rate of the SBV stood at 21,246 and bid-ask rates were at 21,200-21,400. Unofficial rates remained about 21,185-21,205. There is no information about the SBV's buying foreign reserves although USD depreciated in August. The VND/USD rates are forecasted to be steady in the coming months thanks to trade surplus so far this year and high foreign reserves.

Chart 2: VND/USD exchange rate



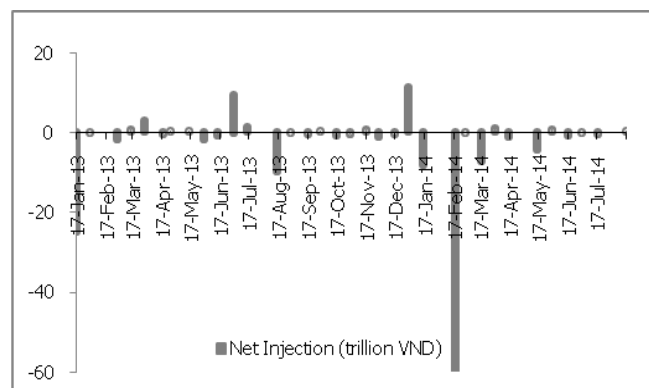
Source: MB, MBS

OPEN MARKET OPERATIONS

The SBV net injected money via repos and SBV bills in OMO when some banks needed more short term money in the first half of August.

In the last two weeks, the SBV net injected slightly about VND 305 billion via repos. Besides, the number of the SBV's bills issued fell strongly in comparison to the end of July, reaching VND 13.8 trillion. Whereas, about VND 25.2 trillion of SBV bills matured. Therefore, the SBV net injected about VND 11.5 trillion via OMO and bills in the last two weeks. Because credit growth often increases more rapidly in the end of the year, we expect that the SBV will net inject money or reduce withdrawing via OMO and bills in the coming time.

Chart 3: OMO net injection (trillion VND)



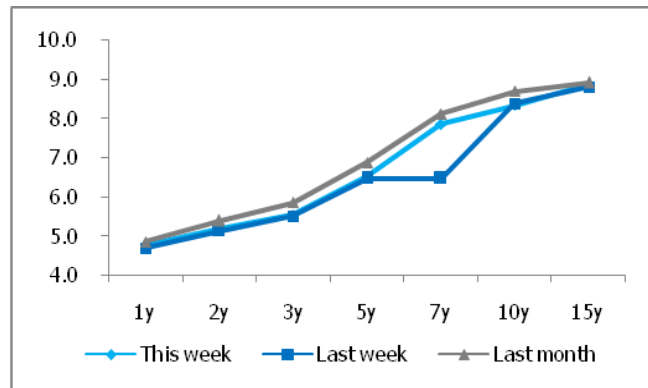
Source: Bloomberg

BOND MARKET

Bond market remained active in August although the successful ratios of VGBs auctions did not reach 100% as they were in July.

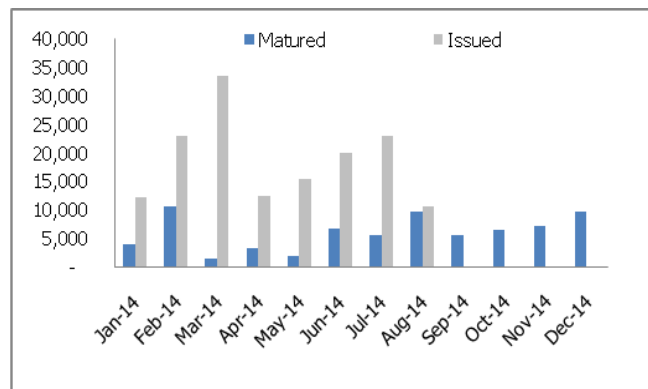
Bid to ask ratio for 2-10 year tenors stood around 2 times, showing continuing high demand for VGBs. From that, about VND 10.59 trillion of VGBs were successfully issued in the recent two weeks with the successful ratios of 89%. Besides, VND 200 billion of government guaranteed bonds were issued. Hanoi State Treasury also issued successfully VND 2.22 trillion of bonds. Bond interest rates kept dropping slightly as compared to them in July. Specifically, the rates varied around 5.08-5.48% for 2-3 year bonds and about 6.46% for 5 year bonds. Bond interest rates are expected to be stable or drop slightly in the coming time due to lower VGBs' supply.

Chart 4: VGB yield curve (%)



Source: Bloomberg

Chart 5: Monthly issued VGBs (VND1,000 bn)



Source: MBS, Bloomberg

Domestic Open Market Operations

Table 1: Recent SBV bill auctions

| Issued Date | Maturity | Winning amount | Winning IR (%) | Matured date |
|-------------|----------|----------------|----------------|--------------|
| 8/15/2014 | 91 | 2676 | 3.9 | 11/14/2014 |
| 8/15/2014 | 56 | 0 | 0 | 10/10/2014 |
| 8/15/2014 | 28 | 220 | 3 | 9/12/2014 |
| 8/14/2014 | 91 | 1337 | 3.9 | 11/13/2014 |
| 8/14/2014 | 56 | 0 | 0 | 10/9/2014 |
| 8/14/2014 | 28 | 200 | 3 | 9/11/2014 |
| 8/13/2014 | 91 | 495 | 3.9 | 11/12/2014 |
| 8/13/2014 | 56 | 0 | 0 | 10/8/2014 |
| 8/13/2014 | 28 | 269 | 3 | 9/10/2014 |
| 8/12/2014 | 91 | 1000 | 3.9 | 11/11/2014 |
| 8/12/2014 | 56 | 995 | 3.3 | 10/7/2014 |
| 8/11/2014 | 91 | 1000 | 3.9 | 11/10/2014 |
| 8/11/2014 | 56 | 0 | 0 | 10/6/2014 |
| 8/11/2014 | 28 | 349 | 3 | 9/8/2014 |
| 8/8/2014 | 91 | 396 | 3.85 | 11/7/2014 |
| 8/8/2014 | 56 | 0 | 0 | 10/3/2014 |

| | | | | |
|----------|----|------|-----|------------|
| 8/8/2014 | 28 | 150 | 3 | 9/5/2014 |
| 8/7/2014 | 91 | 941 | 3.9 | 11/6/2014 |
| 8/7/2014 | 56 | 0 | 0 | 10/2/2014 |
| 8/7/2014 | 28 | 150 | 3 | 9/4/2014 |
| 8/6/2014 | 91 | 1000 | 3.9 | 11/5/2014 |
| 8/6/2014 | 56 | 0 | 0 | 10/1/2014 |
| 8/6/2014 | 28 | 249 | 3 | 9/3/2014 |
| 8/5/2014 | 91 | 1000 | 3.9 | 11/4/2014 |
| 8/5/2014 | 56 | 0 | 0 | 9/30/2014 |
| 8/4/2014 | 91 | 218 | 3.9 | 11/3/2014 |
| 8/4/2014 | 56 | 0 | 0 | 9/29/2014 |
| 8/4/2014 | 28 | 200 | 3 | 9/1/2014 |
| 8/1/2014 | 91 | 1000 | 3.9 | 10/31/2014 |
| 8/1/2014 | 56 | 0 | 0 | 9/26/2014 |
| 8/1/2014 | 28 | 0 | 0 | 8/29/2014 |

Source: Bloomberg

Domestic bond market

Table 2: Recent VGB auction on HNX

| Issue date | Bond type | Tenor | Winning Volume | Winning IR (%) | Bid Volume |
|------------|-----------|-------|----------------|----------------|------------|
| 15/08/2014 | VBSP | 5 | 0 | 0 | 500 |
| 15/08/2014 | VBSP | 3 | 200 | 6 | 500 |
| 15/08/2014 | VGBs (HN) | 5 | 2,220 | 7.26 | 3,000 |
| 13/08/2014 | VGBs | 5 | 2,000 | 6.46 | 2,000 |
| 13/08/2014 | VGBs | 2 | 1,000 | 5.08 | 1,000 |
| 13/08/2014 | VGBs | 3 | 1,590 | 5.48 | 3,000 |
| 7/8/2014 | VGBs | 10 | 3,000 | 8 | 3,000 |
| 7/8/2014 | VGBs | 5 | 3,000 | 6.4 | 3,000 |

Source: HNX

Table 3: Bond Auctions Schedule on HNX

| Issue date | Issuer | Tenor | Issuance type | Bond type | Volume | Auction date |
|------------|----------------|-------|---------------|------------|--------|--------------|
| 25/08/2014 | State Treasury | 3 | Large Batch | VGBs | 3000 | 21/08/2014 |
| 25/08/2014 | State Treasury | 5 | Large Batch | VGBs | 2000 | 21/08/2014 |
| 19/08/2014 | Hanoi | 5 | First time | Local bond | 3000 | 15/08/2014 |
| 19/08/2014 | VBSP | 3 | First time | Guaranteed | 500 | 15/08/2014 |
| 19/08/2014 | VBSP | 5 | First time | Guaranteed | 500 | 15/08/2014 |

Source: HNX

Table 4: Outright transactions on HNX

| Date | Remain-ing tenor | Code | Price (VND) | Yield (%) | Volume | Value (VND bn) |
|------------|------------------|-----------|-------------|-----------|-----------|----------------|
| 18/08/2014 | 2 | TD1416063 | 101,398 | 5.0997 | 2,000,000 | 209 |
| 18/08/2014 | 3 | TD1419082 | 105,957 | 6.32 | 500,000 | 55 |
| 18/08/2014 | 3 | TD1318021 | 110,810 | 5.7001 | 500,000 | 58 |
| 18/08/2014 | 3 | TD1417078 | 101,714 | 5.43 | 500,000 | 51 |
| 18/08/2014 | 3 | TD1417074 | 101,947 | 5.4501 | 500,000 | 52 |
| 14/08/2014 | 2 | TD1416066 | 100,694 | 5.0598 | 1,500,000 | 153 |
| 14/08/2014 | 2 | HCMB13260 | 87,625 | 15.8123 | 2,700,000 | 256 |
| 14/08/2014 | 2 | TD1116019 | 108,644 | 5.0402 | 500,000 | 57 |
| 14/08/2014 | 2 | TD1316019 | 104,946 | 5.16 | 200,000 | 22 |
| 14/08/2014 | 2 | TD1416062 | 102,083 | 5.0003 | 500,000 | 53 |
| 13/08/2014 | 2 | TD1417071 | 104,284 | 5.2502 | 3,000,000 | 325 |
| 13/08/2014 | 2 | TD1316019 | 104,867 | 5.1998 | 600,000 | 67 |
| 13/08/2014 | 10 | TD1424092 | 105,126 | 7.92 | 500,000 | 53 |
| 13/08/2014 | 3 | TD1217036 | 112,766 | 5.5 | 500,000 | 58 |
| 13/08/2014 | 3 | TD1417076 | 101,539 | 5.4501 | 1,500,000 | 155 |
| 12/8/2014 | 2 | TD1316016 | 103,964 | 5.1 | 1,000,000 | 106 |
| 12/8/2014 | 2 | TD1316017 | 102,571 | 5.1498 | 500,000 | 52 |
| 12/8/2014 | 2 | TD1417071 | 104,358 | 5.2201 | 2,000,000 | 217 |
| 12/8/2014 | 2 | TD1416062 | 102,090 | 5.0002 | 500,000 | 53 |
| 12/8/2014 | 2 | TD1416062 | 102,090 | 5.0002 | 500,000 | 53 |
| 11/8/2014 | 2 | TD1416066 | 100,813 | 4.9901 | 1,000,000 | 102 |
| 11/8/2014 | 2 | TD1416066 | 100,681 | 5.0698 | 1,000,000 | 102 |
| 11/8/2014 | 2 | TD1217002 | 115,415 | 5.2002 | 1,000,000 | 122 |
| 11/8/2014 | 3 | TD1217016 | 113,603 | 5.4499 | 100,000 | 12 |
| 11/8/2014 | 3 | TD1417078 | 101,938 | 5.3502 | 500,000 | 51 |
| 8/8/2014 | 2 | TD1416062 | 102,229 | 4.9103 | 500,000 | 53 |
| 8/8/2014 | 2 | HCMB13260 | 105,788 | 5.8501 | 2,000,000 | 226 |
| 8/8/2014 | 2 | TD1316019 | 105,204 | 5.0498 | 500,000 | 56 |
| 8/8/2014 | 2 | TD1116046 | 112,852 | 5.0098 | 500,000 | 57 |
| 8/8/2014 | 2 | TD1316019 | 105,182 | 5.0601 | 500,000 | 56 |
| 7/8/2014 | 2 | TD1316014 | 105,120 | 4.9602 | 500,000 | 54 |

| | | | | | | |
|----------|---|-----------|---------|--------|-----------|-----|
| 7/8/2014 | 2 | TD1316014 | 105,105 | 4.9698 | 1,000,000 | 108 |
| 7/8/2014 | 2 | TD1416062 | 102,153 | 4.9699 | 1,000,000 | 105 |
| 7/8/2014 | 2 | TD1416065 | 100,966 | 4.97 | 500,000 | 51 |
| 7/8/2014 | 2 | TD1316014 | 105,136 | 4.9501 | 500,000 | 54 |
| 6/8/2014 | 2 | TD1116040 | 112,591 | 5.0499 | 500,000 | 57 |
| 6/8/2014 | 2 | TD1416062 | 102,186 | 4.9502 | 500,000 | 53 |
| 6/8/2014 | 2 | TD1116046 | 112,847 | 5.0501 | 500,000 | 57 |
| 6/8/2014 | 2 | TD1116040 | 112,495 | 5.0999 | 500,000 | 57 |
| 6/8/2014 | 2 | TD1316016 | 104,086 | 5.0501 | 500,000 | 53 |
| 5/8/2014 | 2 | TD1416063 | 101,506 | 5.0498 | 500,000 | 52 |
| 5/8/2014 | 2 | TD1416062 | 101,999 | 5.0801 | 500,000 | 53 |
| 5/8/2014 | 2 | TD1116046 | 112,768 | 5.0999 | 500,000 | 57 |
| 5/8/2014 | 2 | TD1416066 | 100,721 | 5.0501 | 500,000 | 51 |
| 5/8/2014 | 2 | TD1316018 | 103,417 | 5.0999 | 500,000 | 52 |

Source: HNX

Regional Bond Market

Table 5: Local government bond yields in August 2014

| | 1Y | 2Y | 3Y | 5Y | 7Y | 10Y |
|-------------|--------|--------|--------|--------|--------|--------|
| USA | | 0.4074 | 0.8591 | 1.5361 | 1.9888 | 2.3397 |
| Singapore | | 2.35 | | 1.26 | | 2.35 |
| Vietnam | 4.775 | 5.2 | 5.5 | 6.5 | 8 | 8.65 |
| Indonesia | 7.062 | 8.224 | 7.726 | 8.006 | 8.174 | 8.224 |
| Malaysia | 3.17 | 3.904 | 3.482 | 3.698 | 3.806 | 3.904 |
| Philippines | 2.0438 | 4.3271 | 3.275 | 4.3062 | 4.0521 | 4.3271 |
| Japan | 0.053 | 0.503 | 0.089 | 0.153 | 0.263 | 0.503 |
| Hong Kong | | 1.947 | 0.692 | 1.292 | 1.622 | 1.947 |

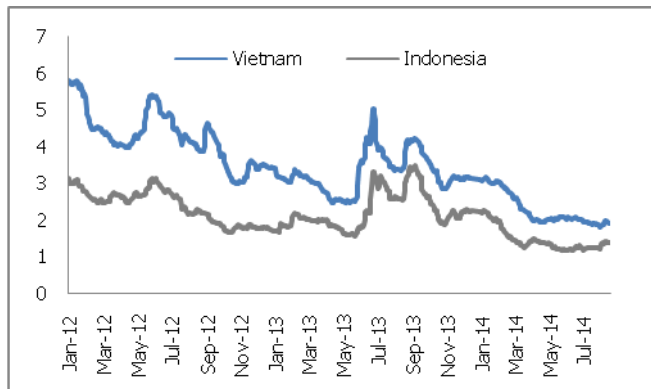
Source: Bloomberg

Chart 6: VN 5 years CDS



Source: Bloomberg

Chart 7: Yield of international government bonds issued in 2005 (%)



Source: Bloomberg

PRODUCT

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