

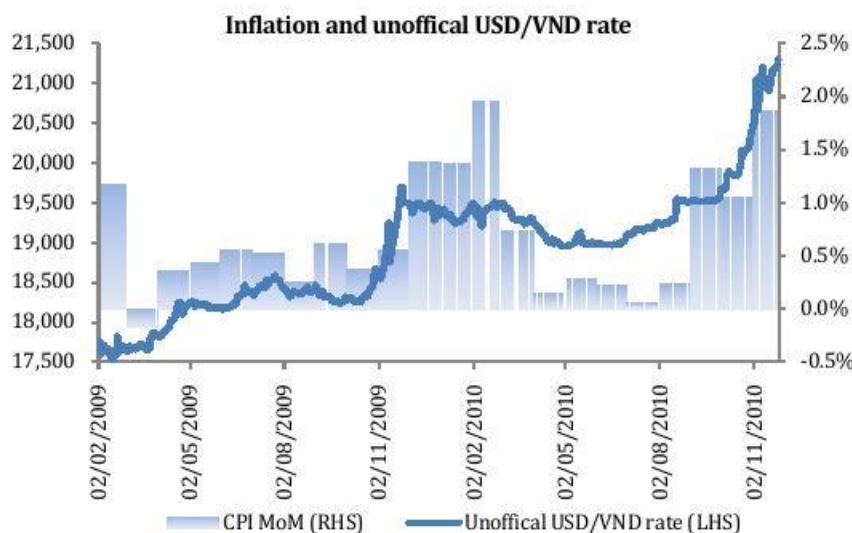
## Weekly update on Vietnam bond market

Volume 25 ♦ November 26<sup>th</sup> 2010

### Bond yields on the upside in response to rising inflation

#### Weekly round-up

- Bond prices fell as inflation came out much higher than expected. The Government bond yield curve rose by 10 bps in average, in a market which remained very quiet again this week. Besides repo deals, only a few transactions of short-dated bonds were registered on the secondary market.
- The large offered volume of very short-term liquidity by the central bank has enabled the front-end of the interbank rate curve to improve this week. The ON rate fell to 9 – 9.5% while the 1W rate stabilized to 10-10.5%. However, rates on longer maturities remained on the upside, increasing by 35bps in average, pointing out the relative illiquidity in longer-than-1W tenor. We have observed that the SBV has pursued its net cash withdrawal, taking back VND15tn over the past 8 days (it injected previously VND21tn to support banks liquidity).
- Inflation has quickened in November to its highest pace in 20 months (+11.1% y-o-y). Now that 2010 will very likely show a double-digit inflation in Vietnam, it raises the question whether this will foreshadow a viscous cycle where higher inflation will lead to a weaker Dong or not. To ensure the stability of the local currency, curbing inflation is the key. If the GoV wants to reach its 2011 inflation target of 7%, it will have to tighten its monetary further. The Dollar/Dong exchange rate hovered all the week around VND21,300.



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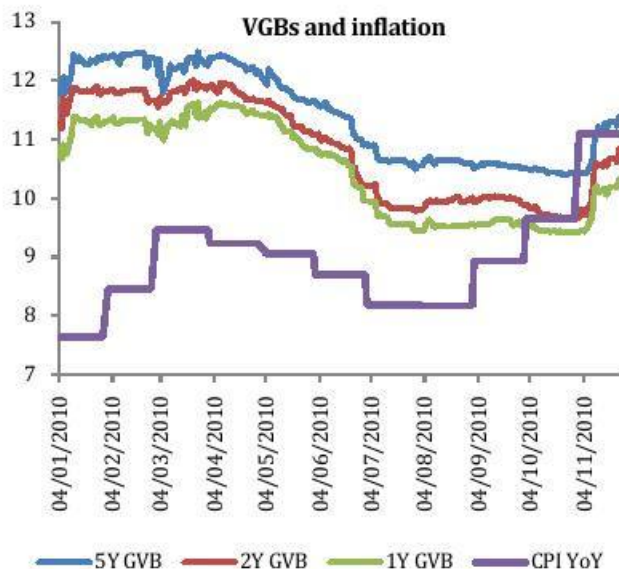
## Bond market

### Government bond

#### Inflation to support bond yields

A higher inflation is naturally implying that bond holders are going to require higher yields on future GVBs auctions. Thus, the rising inflation, which is likely to endure toward the lunar New Year, represents an undeniable source of upward pressure on yields. Recent primary market auction results are also speaking for an increase in offered rates. Moreover, in terms of real rates, given the current pace of inflation on a y-o-y basis (+11.1%), current yields are offering a negative return. If today it looks pretty obvious that the State Treasury needs to adjust offered yields on the future auctions, SBS, however, is not convinced that the State Treasury is in a hurry to make adjustments as it has already achieved its 2010 issuance target.

As a consequence, SBS still believes that the primary bond market will remain lackluster till year end.



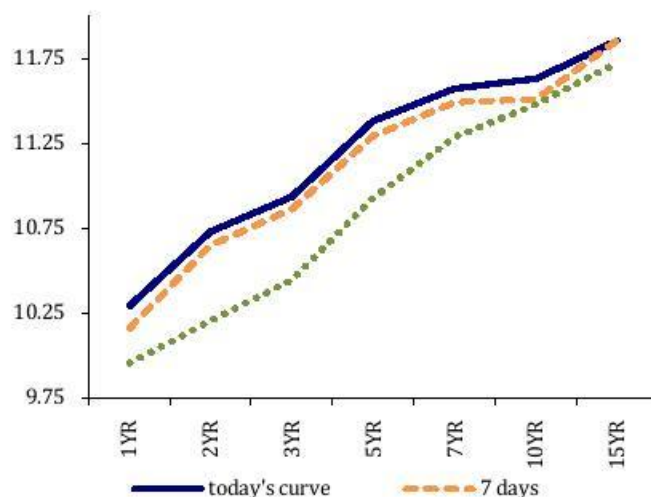
Source: SBS, Bloomberg

#### Yields on the upside

Bond yields have increased by 10 bps in a market still characterized by the prevalence of repo deals over 'real

trades'. With liquidity remaining an issue due to a relatively tensed interbank market, banks are still inclined to borrow bonds rather than buying them. The short-end of the curve is trading at 10.3-11%, the belly around 11.5% while longer maturities are quoting 12%. The secondary bond market turnover totaled VND2,170bn, down 20% from previous week.

Government Bonds Yield Curve



Source: SBS, Bloomberg

#### Foreign investors: still on the sidelines

Since the beginning of the fourth quarter, foreign investors have been less active in the bond market as (i) the currency risk embedded in local bonds has increased substantially (ii) their interest for the current bond market might be limited because most of the deals aren't 'real trades'. Foreign banks might have less liquidity amongst issues, explaining why a majority of the repo deals are made by domestic financial institutions. Average foreign participation over the last month fell below 8%.





Source: Hanoi Stock Exchange, SBS

## Corporate bond

### Vinacomin stepped back

Vietnam National Coal, Mineral Industries Holding Corp (Vinacomin) has taken the decision to delay the bonds sale due to 'poor market conditions'. Vinacomin was targeting a minimum of US\$500mn issuance of 10Y dollar-denominated bonds, with a coupon of 7.25% attached to those bonds according to Bloomberg.

Vinacomin is at least the third Asian company to postpone a dollar-denominated bond sale this week amid growing concern over Europe's debt crisis.

However, in our point of view, we reckon that Vinacomin's decision was possibly linked to the Vinashin's ambiguity. Vinashin recently asked Credit Suisse to negotiate with foreign creditors to extend the debt (the first tranche of the US\$600M amounting to US\$60mn & interest due in December to December 20, 2011. But according to the Financial Times 'renegotiating the Credit Suisse loan would require unanimous creditor support, which might be hard to achieve given the limited time frame and the widely held nature of the debt'.

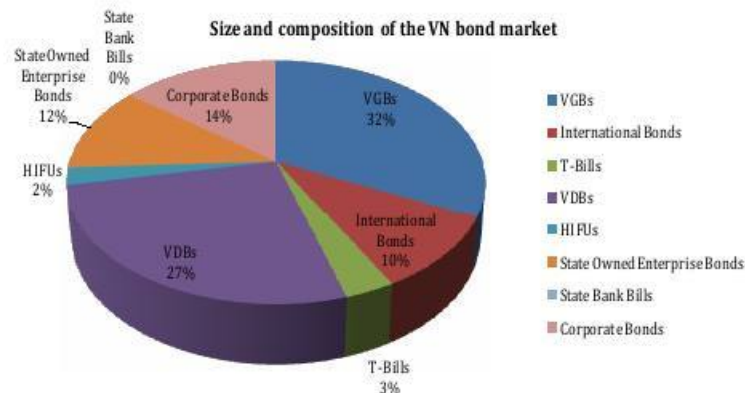
This is clearly not a good development for Vietnam and its access to international debt markets. There is no choice but to accept that the foreign investor's confidence is at very low level for the time being.

### Corporate bond market this week

We recently observed several examples of successful fund raising through bonds issuance to private foreign partners.

Last week, Ho Chi Minh City Infrastructure Investment JSC (HOSE: CII), signed an agreement to sell US\$25M (plus an additional option of US\$15M) of 2Y convertible bonds to Goldman Sachs Investment Partners. The dollar-denominated bonds will carry a 4% coupon and an option to convert bonds into shares after one year at VND43,500/share. Masan Group Corporation (HOSE: MSN) also announced the signature of a US\$30M convertible loan with Goldman Sachs. The U.S. Dollar denominated convertible loan will have a semi-annual coupon payment of 2% for the first two years with a step up to 4% in year 3 and 6% for the remaining term of the loan.

This week, Asia Commercial Bank (HASTC: ACB) said it would raise VND3tn of 10Y bonds in November 2011. Vinavico Mining and Construction Investment Joint Stock Co (HASTC: CTM) will seek the approval of its shareholders to issue VND110bn of convertible bonds.



Source: Bloomberg, SBS

<sup>1</sup> <http://www.ft.com/cms/s/0/cb71fd40-f6fc-11df-8feb-00144feab49a.html#axzz169vm8GIB>

## Corporate Bond Auction Schedule on OTC Market

Offering Company	Ticker	Auction Date	Type of Bond	Collateral	Tenor	Offering Value (VND Bn)	Coupon
Vinavico	CTM	Q4 2010	convertible	n.a.	n.a.	110	n.a.
PetroVietnam Finance	PVF	Q4 2010	convertible	n.a.	1Y	2000	conversion ratio 1:10
Orient Bank		Q4 2010	n.a.	n.a.	LT	2000	n.a.
Asia Commercial Bank	ACB	Nov-11	n.a.	n.a.	10Y	3000 (+3000 in \$ + 3000 in VND next year)	n.a.
Western Bank		Q4 2010	n.a.	n.a.	LT	500	n.a.
VungTau Real Estate and Construction JSC	VCR	Q4 2010	n.a.	n.a.	<5Y	400	n.a.
PetroVietnam Insurance Corporation	PVI	Q4 2010	convertible	n.a.	n.a.	1500	n.a.
Ho Chi Minh City Infrastructure Investment JSC	CII	November	Convertible International bonds / VND bonds	n.a.	2Y / 5Y	\$25 million + VND71.08	4% in USD, 13% in VND. conversion price @ VND43500
FPT Corporation	FPT	Q4 2010	n.a.	n.a.	n.a.	2000	n.a.
VINACOMIN		pending	International bonds	Gov Guaranteed	10Y	\$500 million	n.a.
VPBank	Not listed	Q4 2010	Fix-to-Float	n.a.	3Y	350	12% then average 12-month deposit interest rates of BIDV, VCB, AGB and VIB + 1%
Alphanam	ALP	Q4 2010	Convertible	n.a.	3Y	200	15%
Tan Tao Industrial Park Corporation	ITA	2011	n.a.	n.a.	n.a.	500	n.a.
Saigon Hanoi Securities JSC	SHS	Q4 2010	n.a.	unsecured	1Y	250	14%
SongDa Industry Trade	STP	Q4 2010	Convertible	n.a.	1Y	175	n.a.
Development Investment Construction JSC	DIG	Q4 2010	n.a.	n.a.	3Y	1500	n.a.
Thanh Long Securities		Q4 2010	Fix-to-Float	n.a.	1Y	500	11.7% p.a for the first three months then 3 month rate + 3.7%
VNDirect		Q4 2010	Convertible	n.a.	2Y	500	n.a.
Dabaco Vietnam Corp	DBC	Q4 2010	Convertible	n.a.	2Y	254.7	10% conversion ratio 1:10
Hoa Sen Group	HSG	Q4	Fix-to-Float	n.a.	3Y	1000	n.a.
Southeast Asia Hamico Export JSC	KSD	Q4 2010	Convertible	n.a.	n.a.	63.12	8%
Vinh Son-Song Hinh Hydropower JSC		Q4 2010	n.a.	n.a.	5Y	1000	n.a.
Vipco Petroleum Transportation	VIP	Q4 2010	n.a.	n.a.	3Y	300	14.5% then 12M deposit interest rates of BIDV, VCB, VIB and Agribank + 3.5%
Quoc Cuong Gia Lai JSC	QCG	October	Convertible	n.a.	2Y	800	15%
General Materials Biochemistry Fertilizer JSC	HSI	2010	n.a.	n.a.	2Y	200	n.a.
Vietcombank	VCB	2010	Float	n.a.	>= 2Y	5000 (4600 in \$ US equivalent and 400 in VND)	n.a.
Phu Nhuan Jewelry	PNJ	2010	Convertible	n.a.	1Y	100	-

Source: SBS

n.a.: Not Available

## Latest Corporate bond issuances

Latest Corporate Bond Auction Results on OTC Market

Offering Company	Ticker	Issue Date	Maturity Date	Type of Bond	Collateral	Tenor	Offering Value (VND Bn)	Coupon
Gemadep Corp	GMD	22-Nov-10	22-Nov-11	Convertible	n.a.	1Y	397	conversion price VND42,000
Sacombank Securities	SBS	15-Nov-10	15-Nov-11	Bullet	n.a.	1Y	100	14.5%
Duc Long Gia Lai Group	DLG	1-Nov-10	1-Nov-12	Convertible	n.a.	2Y	213	13% conversion ratio 10:1
Song Da Thang Long	STL	1-Nov-10	1-Nov-13	Fix-to-Float Bond	n.a.	3Y	500	Fixed rate then 12 month deposit rate + 4.5%
HAGL Group	HAG	1-Nov-10	1-Nov-13	Convertible	n.a.	3Y	530	15.2% then 12-month saving rate of BIDV, VCB, Agribank and VIB + 4.2%
An Giang Coffee	AGC	21-Oct-10	21-Oct-11	convertible	n.a.	1Y	100	10% if non-convertible/conversion ratio 1:6
Vipco Petroleum Transportation	VIP	18-Oct-10	18-Oct-13	Fix-to-Float Bond	n.a.	3Y	30	Fixed rate then 12 month deposit rate + 3.5%
Vietinbank	CTG	5-Oct-10	10-May-12	Fix-to-Float Bond	n.a.	2Y	4,095	11.19% then 12-month savings interest rates of BIDV, Vietcombank and VietinBank +1.3%
Song Da Finance JSC	Not Listed	30-Sep-10	30-Sep-13	Fix-to-Float Bond	n.a.	3Y	500	13.5% then 12-month savings rates of VCB, VIB, BIDV and AGB + 2.75%
Vinafco	VFC	30-Sep-10	30-Sep-11	Convertible/Private Placement	n.a.	1Y	150	8% conversion ratio 1:10
Sacombank Securities	SBS	30-Sep-10	30-Sep-11	Bullet	n.a.	1Y	200	14.5%
Sacombank Securities	SBS	22-Sep-10	22-Sep-11	Bullet	n.a.	1Y	400	13.0%
Thu Duc Housing	TDH	4-Nov-10	4-Nov-13	Convertible	n.a.	3Y	600	7%



## Bond trading during the week

### Bond Price and trading data

Bond code	Bond Type	Tenor	Maturity Date	Maturity Type	Coupon	Volume	Clean price	Yield	Trading value (VND Bn)	Trading date
CP4A3104	Gvt Bond	9Y	7/30/2019	Bullet	9.00	1,000,000	88.867	11.04	91.73	11/22/2010
TD1013057	Gvt Bond	3Y	7/6/2013	Bullet	9.80	500,000	97.380	10.95	50.57	11/22/2010
TP4A3404	Gvt Bond	9Y	8/9/2019	Bullet	9.00	400,000	88.852	11.04	36.59	11/22/2010
QH061141	Gvt Bond	1Y	12/20/2011	Bullet	8.50	800,000	98.778	9.72	85.32	11/22/2010
CP4_1004	Gvt Bond	9Y	7/30/2019	Bullet	9.00	1,000,000	88.867	11.04	91.73	11/22/2010
TB1013040	Gvt Bond	2Y	5/13/2013	Bullet	11.25	1,000,000	100.162	11.10	106.14	11/22/2010
TB1015043	Gvt Bond	5Y	5/27/2015	Bullet	11.20	1,500,000	103.338	10.20	163.34	11/23/2010
TD1015050	Gvt Bond	5Y	6/21/2015	Bullet	10.95	2,500,000	102.507	10.20	267.97	11/23/2010
CPD1015026	Gvt Bond	4Y	4/19/2015	Bullet	11.50	1,000,000	104.298	10.20	111.20	11/23/2010
TD1015044	Gvt Bond	5Y	6/1/2015	Bullet	11.33	2,000,000	103.798	10.20	218.52	11/23/2010
CPB1012010	Gvt Bond	1Y	3/10/2012	Bullet	12.00	1,200,000	101.482	10.60	132.04	11/24/2010
CPB0811046	Gvt Bond	1Y	9/17/2011	Bullet	15.50	500,000	103.650	10.42	53.29	11/24/2010
TB1015043	Gvt Bond	5Y	5/27/2015	Bullet	11.20	1,500,000	103.335	10.20	163.43	11/25/2010
TD1015050	Gvt Bond	5Y	6/21/2015	Bullet	10.95	2,500,000	102.504	10.20	268.11	11/25/2010
CPD1015026	Gvt Bond	4Y	4/19/2015	Bullet	11.50	1,000,000	104.294	10.20	111.26	11/25/2010
TD1015044	Gvt Bond	5Y	6/1/2015	Bullet	11.33	2,000,000	103.794	10.20	218.64	11/25/2010
<b>Total Trading Volume</b>						<b>20,400,000</b>			<b>2,169.85</b>	
							<i>US\$ million equivalent</i>		<i>\$113.60</i>	

Source: Hanoi Stock Exchange

### Most recent Government Bond Auction Results

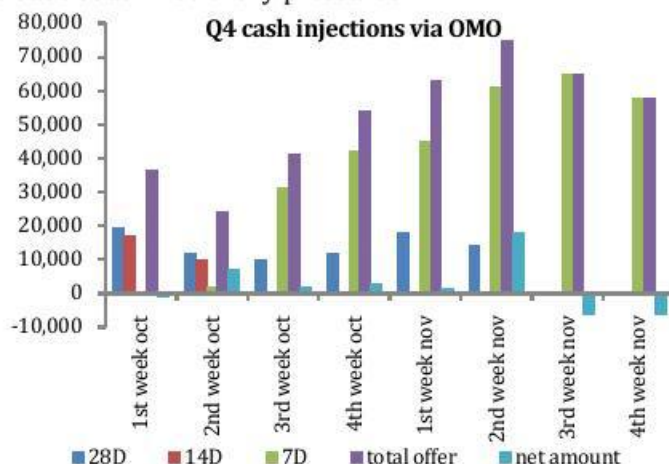
Bidding Date	Tenor	Volume offered (VND Bn)	Volume Registered (VND Bn)	Winning Volume (VND Bn)	Interest Spread bidded	Ceiling rate	Bid to Cover Ratio	Winning / Offered ratio	Nb of Bidders
18-Nov-10	3Y	1,000	-	-	0	9.50%	0.00	0%	0
18-Nov-10	5Y	1,000	-	-	0	10.00%	0.00	0%	0
18-Nov-10	10Y	1,000	34	-	11.00-11.50%	10.50%	0.03	0%	1
<b>TOTAL</b>		<b>3,000</b>	<b>34</b>	<b>-</b>					
<i>US\$ million equivalent</i>		<i>\$153.85</i>		<i>\$0.00</i>					

Source: Hanoi Stock Exchange, Reuters

## Interest rate environment

### Towards a continuation of the monetary policy tightening

Rates on the interbank market have confirmed, this week, their stabilization. With ON rate now hovering around 9 – 9.5%, 1W to 1M rates ranging between 10-11.5% while longer tenors are trading between 12 and 13% we can say that the pressure eased as quickly as it mounted. We believe that this faster than expected recovery even surprised the SBV which was ready to inject more money as well as to re-open the 14-day window at OMO. This is a windfall for the SBV which can pursue its tightening of the monetary policy. All in all, out of the VND18tn of net injections the SBV has already withdrawn VND15tn (9tn last week, 6tn this week). Thus, the SBV will likely only resort to the very short-term window to pump liquidity into the banking system, progressively reducing offered volumes as it remains very cautious about inflationary pressures.

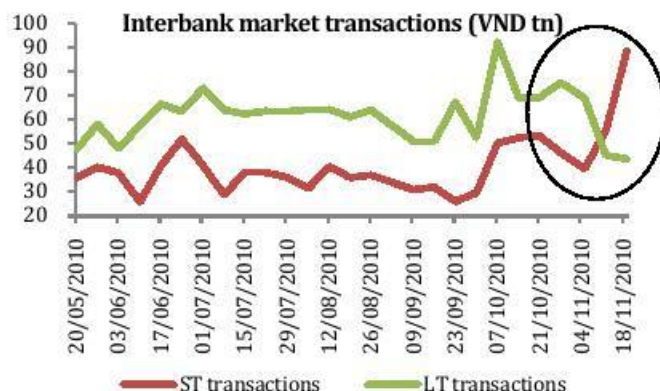


Source: Bloomberg

### The interbank market: limited to short-term transactions

With short-term interbank transactions (ON and one week) accounting for 67% and 86% of the total transactions respectively in VND and USD, the interbank market is still not running on a 'normal mode'. By pouring huge amounts of short-term liquidity, the SBV only dealt with very short-term funding issues amongst the banking system. Nonetheless, transactions of terms of 1M and above remain rare, pointing out deepest concerns with

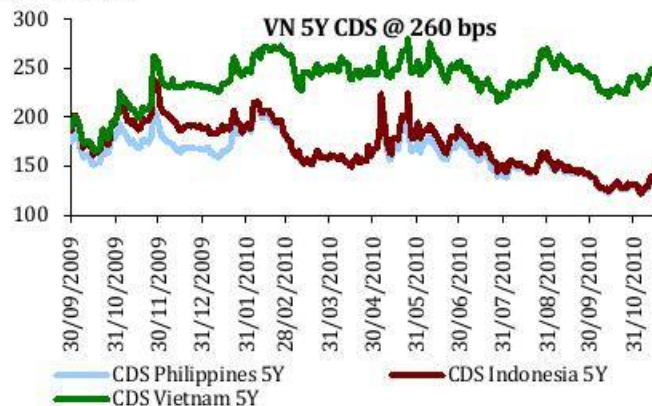
the smallest banks being able to roll over their funding need only on a short-term basis. VND transactions increased by 31% (w-o-w), reaching VND132tn. This is clearly highlighting the current very high level of liquidity needs from financial institutions. In the meantime, banks have reduced their bids at OMO from an average of VND250bn for the first two weeks of November to approximately 100bn last week. We believe that the interbank market will remain under pressure for a while and we can't rule out further disruption, especially in case of a new hike of the base rate.



Source: SBS, Bloomberg

### The risk appetite continued to wane

European peripheral government bond markets came under heavy pressure again this week, with 10-year spreads to Bunds and CDS blowing out to record levels. This has clearly driven Southeast-Asian CDS higher, Vietnam 5Y CDS rising to 260 bps, a two-and-a-half month high.



Source: SBS, Bloomberg



## Forex market

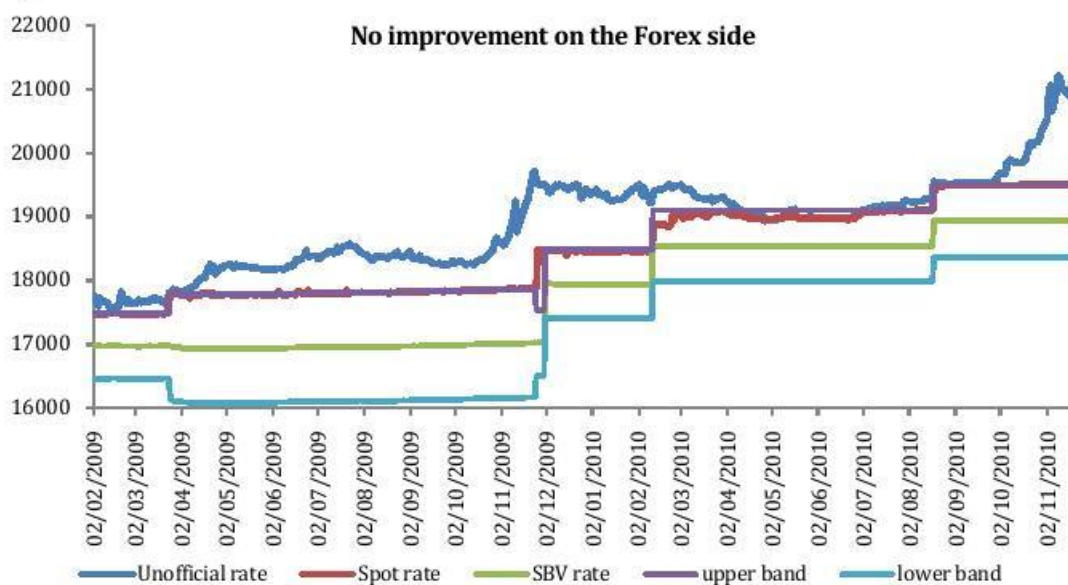
The high inflation figure for November (+1.86% m-o-m or +9.58% y-t-d) could put the Dong under a huge strain one more time. The trade deficit won't help the Dong either, even if we can consider November's figures as pretty much on line with the recent pace of US\$1bn deficit/month.

The pressure on the local currency started to mount early this week, right after the release of the estimated CPI figures for Hanoi and Ho Chi Minh City (+1.93% and 1.73% from October, respectively). The Dollar/Dong exchange rate jumped by VND150 to stabilize around VND21,300, leading to a spread between unofficial and official markets as wide as 9%.

We still noticed huge transactions of USD on the inter-bank market, above US\$3bn of market value for the third consecutive week, pointing out to existing tensions amongst banks despite possible USD injections (US\$100 to 200M?) from the SBV.

If we look at NDFs contracts to gauge the sentiment of the market toward the Dong, we observed this week no improvement whatsoever. Nonetheless, if the market's view is still pretty negative, once again NDFs prices increased less than black market rates, making SBS believe that the real value of the Dong is closer to VND20,500.

NDF Levels		Weekly variation in VND	Depreciation
USD/VND Spot	19,500	-	
Unofficial USD/VND	21,320	170	
NDF 1M	21,275	445	9.1%
NDF 3M	21,307	97	9.3%
NDF 6M	21,779	99	11.7%
NDF 12M	22,766	136	16.7%



Source: SBS, Bloomberg

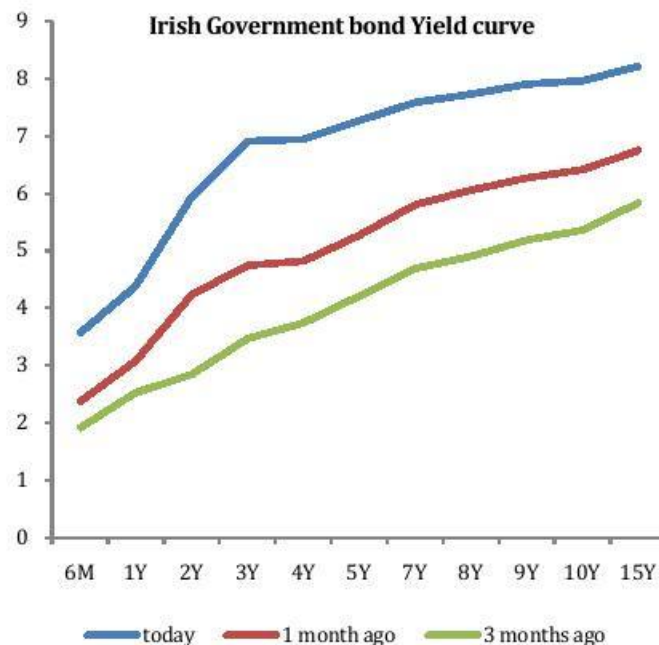


## Global bond market

### Ireland to be bailed-out

Ireland officially sought international aid this week on fears that serious issues amongst banks could possibly lead to the collapse of the banking sector. The safety package is estimated between €80bn and €100bn and will help Ireland to avoid selling bonds at a high cost. These measures should bring back stability in the short-term but it will take more time to restore market's confidence. Irish banks were under a huge funding strain, borrowing from the ECB in October up to €130bn, representing just over a quarter of the ECB's outstanding money market operations. In addition, it is now clear that the Irish Central Bank has increased its lending to Ireland's domestic financial sector by a further €20bn in the last two months, on top of the ECB's financing. We should see a short-term rally, European sovereign bonds being likely to drop.

reign debt widened to 104bps, its highest level in almost two years.

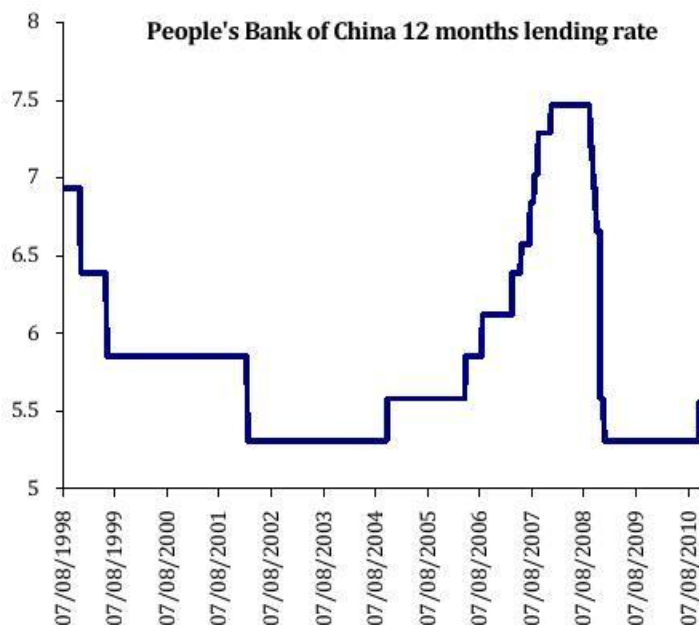


Source: SBS, Bloomberg

### China in a 'fighting inflation' mode

We noticed over the last couple weeks an unexpected turn in sentiment and rhetoric from PBOC's officials on the back of series of positive economic data surprises. We believe that Officials are trying to rein in the money supply as dollar inflows are still spurring into Asian countries.

On November 19<sup>th</sup>, the PBOC increased for the second time this month the RRR (Reserve Requirement Ratio) by 50 bps to 18%. All in all, this was the fifth increase in the amount of deposits that lenders are required to set aside this year. This latest tightening followed a 25 basis-point increase in benchmark deposit and lending rates on Oct. 19, the first in almost three years. The market is now clearly expecting a move on the base rates as well as several further adjustments on the RRR. Indeed, fears of more interest rate hikes, which have yet to materialize, have been responsible for the more than 10% plunge in Chinese equities and bond sell-off in recent days. According to Bloomberg, the premium of Chinese corporate bonds over sove-



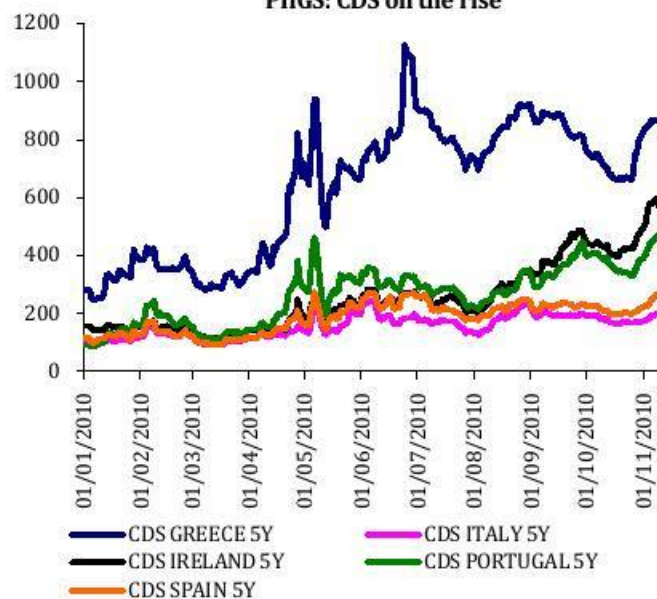
Source: SBS, Bloomberg

## WORLD BOND MARKETS

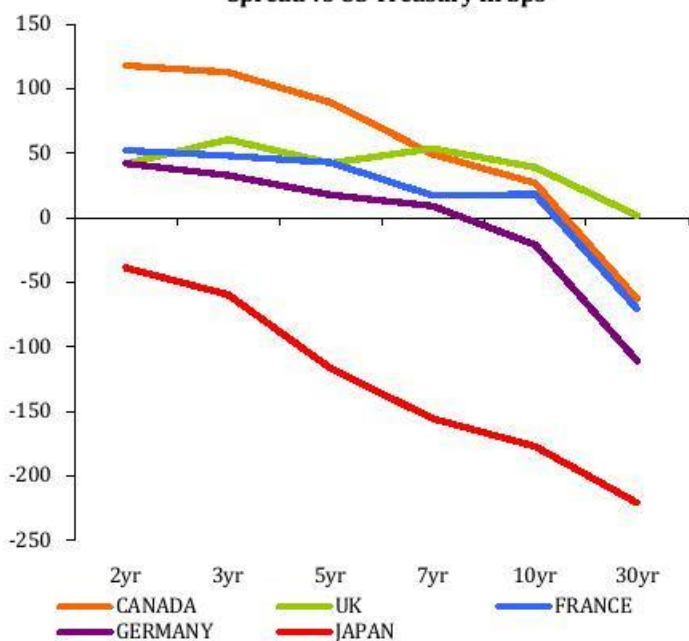
GVT BONDS YIELD		2Yr	3Yr	5Yr	7Yr	10Yr	30Yr
	US TREASURY	0.54	0.79	1.57	2.24	2.91	4.28
	CANADA	1.72	1.92	2.46	2.73	3.18	3.64
	UK	0.96	1.40	1.99	2.78	3.31	4.29
	FRANCE	1.06	1.28	2.00	2.42	3.10	3.57
	GERMANY	0.96	1.12	1.75	2.33	2.70	3.17
	JAPAN	0.16	0.20	0.41	0.69	1.15	2.07
	AUSTRALIA	4.97	5.13	5.26	5.41	5.51	n.a
SPREAD VS US T		2yr	3yr	5yr	7yr	10yr	30yr
	CANADA	118	113	90	49	27	-63
	UK	42	61	42	54	39	2
	FRANCE	53	48	43	17	18	-71
	GERMANY	42	33	18	9	-21	-111
	JAPAN	-38	-59	-116	-155	-177	-221
	AUSTRALIA	443	434	369	317	259	n.a

Source: Bloomberg, SBS

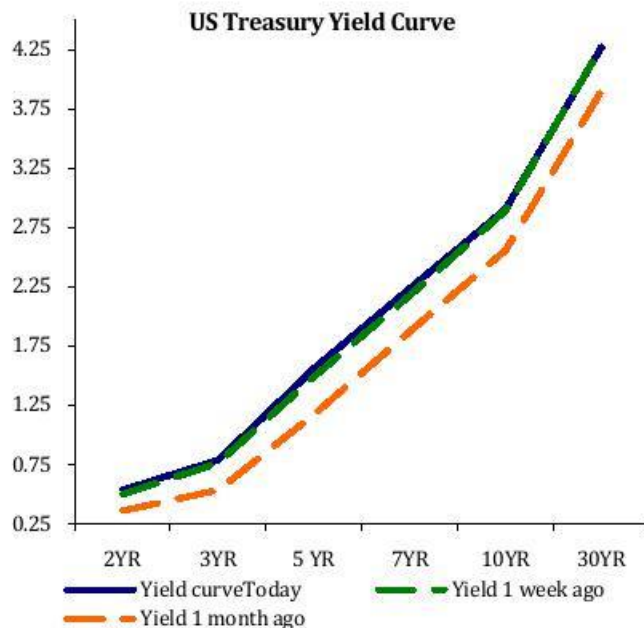
## PIIGS: CDS on the rise



## Spread vs US Treasury in bps



## US Treasury Yield Curve





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