



MONTHLY REVIEW – November 2022

General Market
Commentary

The bond market continued deteriorating in Nov, hitting a low at mid-month. The stock market experienced significant margin calls, and the corporate bonds that were secured by shares came under enormous pressure, which resulted in technical defaults. Liquidity was squeezed, causing a credit crunch, and investors finally lost patience. Not only was trading in OTC bonds completely frozen, listed bonds from decent credit issuers were also dumped at yields of 20-35%. This resulted in significant redemptions by public bond funds. Within a period of just one week (8-17Nov), the total AUM of these funds fell by more than 30%, and fund managers had to sell off their listed bonds to meet liquidity needs. The NAV/share of many funds dropped by 1-22%, which had never happened to bond funds before. The total AUM of local bond funds dropped more than 50% compared to 7 Oct.

In the money market, the o/n rate cooled down to around 5% after peaking at 11-12% in Oct, from 4-5% in Sep. However, this was mainly caused by the strengthening VND and the surplus liquidity of good banks, which did not have any remaining available lending quotas. The VND recovered 0.8% following the trend of the DXY in the global market as it dropped 5% during the month. This created some room for Vietnam's central bank (the SBV) to consider easing the credit limits.

Vietnam Government
Bond Market

The Vietnam State Treasury (VST) has kept the primary issuance plan for 2022 unchanged, with the target of issuing VND 400trn of Government bonds (VGBs). Of that, the target for 1Q22 was VND 105trn; for 2Q22, VND 120trn; for 3Q22, VND 85trn; and for 4Q2022, VND 100trn; focusing on 10- and 15-year tenors. There were ten VGB auctions in Nov (+11%), with an issued amount of VND 31.3trn for the month and 165.5trn ytd. VGB issuance accelerated to VND 31trn in the primary market. This was +61% vs last month and nearly three times the monthly average of 9M2022. Although increasing compared to end-Oct, total newly issued VGBs was at only 41% of the full-year target by end-Nov. Still, in the context of the contracting money market, this is the only good signal that was seen in Oct-Nov. This outcome reflects the overall acceptance of increasing interest rates on VGBs. Although they only changed marginally during Nov, primary VGB rates rose 70 bps on the 10-year VGB and 50 bps on the 15-year tenors compared to two months ago.

The yield curve was virtually flat in Nov, with all tenors in the narrow range of 4.99-5.29%. The gap between primary and secondary yields narrowed significantly to around 30 bps, down from 100 bps at end-Oct and 170 bps in 3Q.

In contrast to the improvement in the primary market, daily trading volume in the secondary market declined significantly to only VND 29.2trn (-35% vs last month) and down 70% compared to the monthly average for 9M2022. This was the lowest level of the last five years. On the other hand, repos increased slightly to VND 30.6trn (+7% vs last month), indicating short-term liquidity was still stagnant in the money market. The average daily trading value of outright transactions for the month was just VND 1.3trn. VGBs >10 years were the most traded tenors, at a value of VND 28trn, or 95% of the total outright transactions. In term of yields, secondary yields declined marginally by 1-9 bps, the same move as the primary market.

VGB PRIMARY ISSUED vs ISSUANCE PLAN

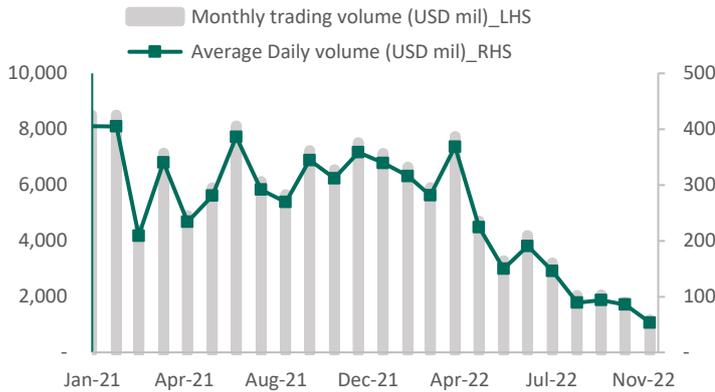
Tenor	Issuance Plan Q4-2022 (VND bn)	Issuance Plan FY 2022 (VND bn)	Issued Value in Nov 2022 (VND bn)	Cumulative Issued Value Current Quarter (VND bn)	Cumulative Issued Value YTD (VND bn)	% Completion of Quarter Plan	% Completion of FY 2022 Plan
5-year	3,000	30,000	-	-	-	0%	0%
7-year	2,000	15,000	-	-	-	0%	0%
10-year	60,000	140,000	24,240	33,840	91,312	56%	65%
15-year	30,000	150,000	7,050	16,900	63,320	56%	42%
20-year	2,000	30,000	-	-	2,265	0%	8%
30-year	3,000	35,000	-	-	8,625	0%	25%
Total	100,000	400,000	31,290	50,740	165,522	51%	41%

Source: HNX/VBMA

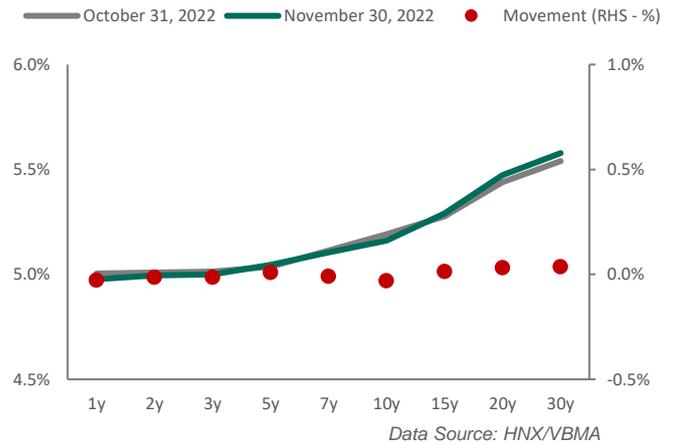


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VGB OUTRIGHT TRADING VALUE



VGB SECONDARY MARKET YIELD CURVE



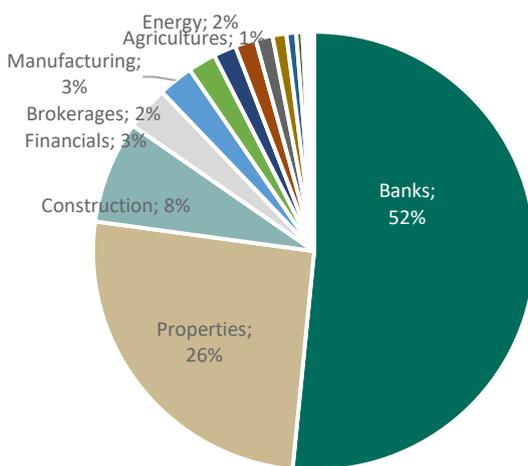
Vietnam Corporate Bond Market

Nov was the most extraordinary month ever in the corporate bond market. Bonds that were secured by shares came under enormous pressure, which caused technical defaults. There was a credit crunch when liquidity was squeezed and investors lost patience. Not only were OTC bonds frozen without any transactions, listed bonds from decent credit issuers were also dumped at high yields. The situation spread to mature bonds, of which there were VND 40.7trn. Some issuers successfully restructured their bonds by extending the maturities, paying back bonds through real estate contracts, topping up collateral with land, asking for waivers on cross default terms, etc.

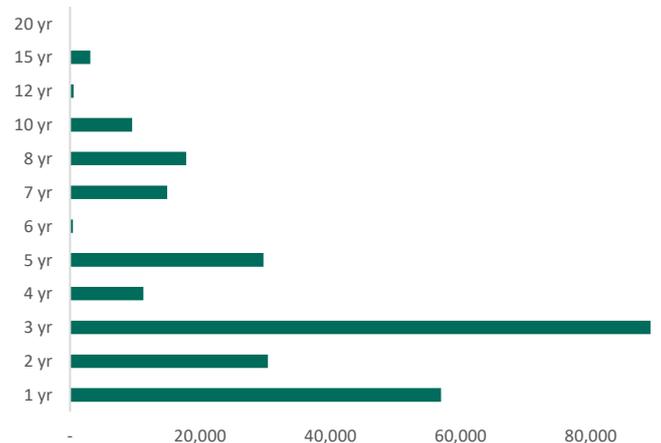
There was only one corporate bond issued in Nov. It was from City Auto Company, for only VND 50bn. Contrary to the situation in 2020-21 when the bond market grew by more than 50% each year, in 2022 ytd, new issuance sank by 60% compared to last year. The struggle was not only from the supply side but also from demand. Vietnam's corporate bond market is very young and had grown too fast. Both the legal framework and investors' knowledge were not prepared for such fast growth.

Ytd, there have been 421 issuances with a total value of VND 264.5trn.

CORPORATE BOND – PRIMARY ISSUANCE BY ISSUER YTD



CORPORATE BOND – PRIMARY ISSUANCE YTD



Source: HNX/VBMA

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NEWS UPDATE

From Apr 2022, after the Tan Hoang Minh, FLC, etc., events, the Government has enacted many measures to rectify issues in the capital markets, with a focus on dealing with insider transactions, the private placement of bonds, and investor protection. On 16 Sep, Decree 65/2022, substituting and amending Decree 53/2020 on private bond placement, was released. We believe that in the long run, investors, especially retail ones, will benefit from this campaign to enhance the transparency, formalisation and professionalism of the market. This should lead to an improved capital market in the future.

On 8 Oct 2022, local and international media published news about charges being brought against Mrs. Truong My Lan, the chairwoman of Van Thinh Phat (VTP) Group, along with her three assistants, on allegations of fraud in the issuance and distribution of bonds. VTP is one of biggest property developers in HCMC, with many large property holdings in prime locations.

Since this is a group of private companies, none of the local funds of Dragon Capital Vietnam (including open-ended funds, pension funds, and ETFs) have any exposure to this company or related ones. Our two bond funds, DCIP and DCBF, currently have 70-90% NAV invested in bonds issued by public companies. Of that, 80-90% of the corporate bonds are listed or public bonds. We apply credit analysis and internal rating methodologies to classify and filter the credit risk. Based on that, the credit risk is managed and diversified at a reasonable level.

During Nov, there were a huge redemptions of public bond funds. Within a period of only one week (8-17 Nov), the total AUM of these funds dropped more than 30%. Almost all fund managers had to sell off their listed bonds to service liquidity needs. NAV/share dropped in the range of 1-22%, which had never happened before to bond funds. Compared to 7 Oct, the total AUM of local bond funds dropped by more than 50%. Our bond funds were affected by some -1.3% to -2.7% of NAVPS. Our priority is maintaining liquidity needs to meet redemptions from investors. We share your loss by waiving the redemption fee in the next few months.

We are grateful for your confidence in our funds and we will continue to do our best to serve investors' interests.

We are monitoring the situation very closely and will keep you informed of any developments.

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