MACROECONOMIC review

AUGUST/2011

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Romania

Europe, US, Japan, Asia:

Monthly inflation in Romania fell slightly in July

Inflation stood at 4.85% last month, down from 7.90% in June and the lowest rate since June 2010.
Annual inflation is expected to come down further in 2012, declining to approximately 3.5%. Meanwhile, it is only marginally above the central bank's upper target of 4.5%.
The latest figures come after members of the EC and IMF visited Bucharest to review the country's economic performance. The team concluded that Romania's economic growth programme was on track and the country was expected to grow by between 3.5% and 4% in 2012.
However, Romanian analysts continue to take a cautious view of the country's growth prospects.
Recent polls reflect public concern over the state of the country's finances. Results show that Romanians continue to be worried about inflation and a large proportion are not convinced that the economic revival in some areas of the world will be a long-term one.

Romanian GDP in 2011 Q2

Romania's economic growth slowed to 1.4 % on the year in the second quarter after a 1.7% growth in January-March, and was 0.2% up on the quarter. The second quarter year-on-year growth, published by the National Statistics Board (INS) as a flash estimate, was well above market's 0.8% forecast, but the quarterly growth was a touch below market expectations.
The statistics office said Romania's economy was 1.6% up on the year in January-June. Second quarter growth was seen slowing on an yearly and quarterly basis because of a deceleration in the growth pace of exports and a mixed evolution of industry in April-June, due to falling orders from western Europe -- Romania's main trading partner. The economy is expected to grow 1.5% this year.

Romania postpones sale of OMV Petrom stake

The Romanian Economy Minister has officially announced it will postpone the public offer for its stake of 9.84 percent in oil and gas company OMV Petrom, after investors have subscribed less than 80 percent of the available shares, which was the threshold to make the offer successful. The public offer was started with a maximum price of RON 0.46 per share, while mid through the process, the Romanian Government established RON 0.37 as the minimum price per share in the public offer. This meant that the state wanted to raise at least EUR 438 million for the stake it sells in OMV Petrom; The intermediaries proposed a minimum price of RON 0.33 per share, 13 percent under the exchange quotation of the shares at that time, but the Government didn't agree with this value.
A consortium led by investment bank Renaissance Capital started the public offer, which consisted of two tranches, 15 percent for retail buyers, and 85 percent for institutional buyers. The offer would have been successful if 80 percent of the shares had been subscribed at a price determined according to the prospect. The public offering started on July 11 and ended on July 22.

The minister has announced, in a statement sent to the Bucharest Stock Exchange, where OMV Petrom's shares are floating, that it will monitor the market evolution and decides on the best moment to re-start the sale of its 9.84 percent share stake in the oil and gas company.
The Romanian state owns a 20.64 percent package in OMV Petrom. Austrian OMV is the majority shareholder in the company. Fondul Proprietatea owns a 20.11 percent stake, the European Bank for Reconstruction and Development, some 2.03 percent, while 6.21 percent are free floating on the BSE. The company posted a turnover of EUR 4.421 billion in 2010, while its profit before taxes stood at EUR 709 million.
OMV Petrom grew its sales by 23 percent in the first half of this year, compared to the same period of last year, reaching EUR 2.4 billion. The company' sales grew by 20 percent, to EUR 1 billion, in the second quarter of this year, compared to the second quarter of 2010.

Swiss National Bank takes measures against strong Swiss franc

In the first week of August, when markets were increasing the CHF appreciation, the SNB has issued a statement, considering the Swiss franc to be massively overvalued.

(press release of August the 3rd)

"This current strength of the Swiss franc is threatening the development of the economy and increasing the downside risks to price stability in Switzerland. The SNB will not tolerate a continual tightening of monetary conditions and is therefore taking measures against the strong Swiss franc. Effective immediately, the SNB is aiming for a three-month Libor as close to zero as possible, narrowing the target range for the three-month Libor from 0.00–0.75% to 0.00– 0.25%. At the same time, it will very significantly increase the supply of liquidity to the Swiss franc money market over the next few days. It intends to expand banks' sight deposits at the SNB from currently around CHF 30 billion to CHF 80 billion. Consequently, with immediate effect, the SNB will no longer renew repos and SNB Bills that fall due and will repurchase outstanding SNB Bills, until the desired level of sight deposits has been reached.

Since the SNB's last quarterly monetary policy assessment, the global economic outlook has worsened. At the same time the appreciation of the Swiss franc has accelerated sharply during the last few weeks. Consequently, the outlook for the Swiss economy has deteriorated substantially.

The SNB is keeping a close watch on developments on the foreign exchange market and will take further measures against the strength of the Swiss franc if necessary."

Only few days later, on August 9th the CHF has recorded a historical low, almost reaching the parity on euro (1.0075 EUR/CHF) and 0.70676 USD/CHF.

One week later, on August 10th, SNB announced new measures to weaken the Swiss franc.

(press release of August the 10th)

"The substantial rise in risk aversion on the international financial markets has further intensified the overvaluation of the Swiss franc in the last few days. In the light of these developments, the Swiss National Bank (SNB) is taking additional measures against the strength of the Swiss franc. It will again significantly increase the supply of liquidity to the Swiss franc money market. The SNB aims to rapidly expand banks' sight deposits at the SNB from currently CHF 80 billion to CHF 120 billion.

To accelerate the increase in Swiss franc liquidity, the SNB will additionally conduct foreign exchange swap transactions. The foreign exchange swap is a monetary policy instrument which the SNB uses to create Swiss franc liquidity. It was last employed in autumn 2008.

The massive overvaluation of the Swiss franc poses a threat to the development of the economy in Switzerland and has further increased the downside risks to price stability. The SNB is keeping a close watch on developments on the foreign exchange market and on financial markets. If necessary, it will take further measures against the strength of the Swiss franc."

After concrete actions and interventions (only in the forward markets, no intervention detected in the spot market till now), the Swiss franc finally has started to depreciate, both against euro and US dollar.
Still doubts and questions remain on the CHF status, according to analysts, any bad news and development in the Europe debt crisis and US economy fueling the restart of the CHF appreciation, against any penalty from the SNB (negative interest rates included).

After another week, on August the 17th, SNB has announced new measures.
(press release of August the 10th)
" The measures taken thus far by the Swiss National Bank (SNB) against the strength of the Swiss franc are having an impact. Nevertheless, the Swiss franc remains massively overvalued. The SNB has therefore decided to expand again significantly the supply of liquidity to the Swiss franc money market. In so doing, it is increasing the downward pressure on money market interest rates with a view to further weakening the Swiss franc exchange rate. With immediate effect, it aims to expand banks' sight deposits at the SNB further, from CHF 120 billion to CHF 200 billion. In order to achieve this new target level as quickly as possible, it will continue to repurchase outstanding SNB Bills and to employ foreign exchange swaps. Furthermore, the SNB reiterates that it will, if necessary, take further measures against the strength of the Swiss franc."

As a conclusion of the August CHF evolution, we can say that markets/investors have acted more prudent after SNB has stepped in. Libor rates fell into negative for short maturities, liquidity of the EUR/CHF pair decreased.
Except the effective actions from SNB, discussions regarding a currency peg and a target level for EUR/CHF also influenced investors' positions, favoring a EUR/CHF retreat. More intervention is expected, especially by the Swiss exporters, bankers and public. In the same time, the Swiss public opinion intensifies request to public authorities to act on a weakening of the Swiss franc, which started to negatively affect the Swiss economy. Recent polls in Switzerland revealed that a high majority of Swiss population are backing SNB in any action which will decrease the CHF appreciation.

The end of August marked a new appreciation of the CHF, due to bad news coming from the US and Europe: over lasting fear of new fall into recession in US, Greek and PIIGS problems.

BREAKING NEWS!!!
Swiss National Bank sets minimum exchange rate at CHF 1.20 per euro
(press release of September the 6th)
"The current massive overvaluation of the Swiss franc poses an acute threat to the Swiss economy and carries the risk of a deflationary development.
The Swiss National Bank (SNB) is therefore aiming for a substantial and sustained weakening of the Swiss franc. With immediate effect, it will no longer tolerate a EUR/CHF exchange rate below the minimum rate of CHF 1.20. The SNB will enforce this minimum rate with the utmost determination and is prepared to buy foreign currency in unlimited quantities.
Even at a rate of CHF 1.20 per euro, the Swiss franc is still high and should continue to weaken over time. If the economic outlook and deflationary risks so require, the SNB will take further measures."

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