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Weekly Report

Romania

11 April 2012

February business cycle indicators deteriorated, pointing at negative GDP growth in Q1

Fresh high-frequency indicators released by the National Statistics Institute for February are strongly in the negative territory; therefore real GDP growth rate will most likely be negative. The latest Reuters poll indicates a -0.2% QoQ growth rate for Q1 2012. Both internal and external demand remains low. This means that the data does not support further increases in state employees' wages, which is currently subject to heated discussions.

Macroeconomics: in February, industrial turnover and new orders were down; only constructions up (Page 3-5)

February industry-related statistics pointed to further decline. The industrial turnover index fell by 1.7% YoY, the gross data shows. This is the lowest rhythm since 2009 when the economy contracted significantly (-6.6% YoY). New orders data indicate that the rhythm of industrial turnover will not pick up fast: for two consecutive months our in-house seasonally adjusted data point to decreases, which will span on future production and sales as well. Retail trade statistics show that households' demand was still low. Only goods with low elasticity of demand saw increases in sales: food good sales went up on a monthly basis while durables saw a sharp drop. Constructions index presented the only positive news: sustained by non-residential and civil engineering works, constructions advanced by 1.7 (MoM, seasonally adjusted data).

FX markets: the RON appreciated last week due to seasonal effects and also supported by constructions' dynamics (Page 6)

The RON had an interesting time last week. It appreciated by 0.34% against the euro while general investor sentiment on the international markets was gloomy. The week was dominated by the renewed worries about Spain's debt, after it failed in selling the planned amount of debt. This weakened the euro and consequently, the RON should have taken a hit as well. However, when constructions data was released on Friday, the RON started to appreciate.

Government securities: yields continued to decline by up to 18 bps for the 1-10Y maturity range (Page 7-8)

Last week, tensions related to the debt crisis in Europe intensified as Spain managed to sell less debt than expected. Consequently, its bond yields rose. Given the international environment, we saw a significant increase in the country risk premium. This affected mostly the short end of the yield curve, which moved up (6M T-bills yield gained 23 bps, while the 1Y bond yields dipped by 18 bps). There were two bond auctions last week: 2Y and 4Y bonds. The Treasury sold RON 2.3 bn in total and the demand was higher for the 4Y bonds.

MM: rates continued to fall between 9-17 bps for the 3M-12M maturities, following higher repo amount (Page 9-10)

MM rates continued to fall between 9-17 bps for the 3M-12M maturities last week. The central bank injected RON 6.3 bn at Monday's repo, a relatively higher amount compared to the week before when the RON 5.8 bn injection was apparently not enough and ROBOR ON jumped more than 100 bps.

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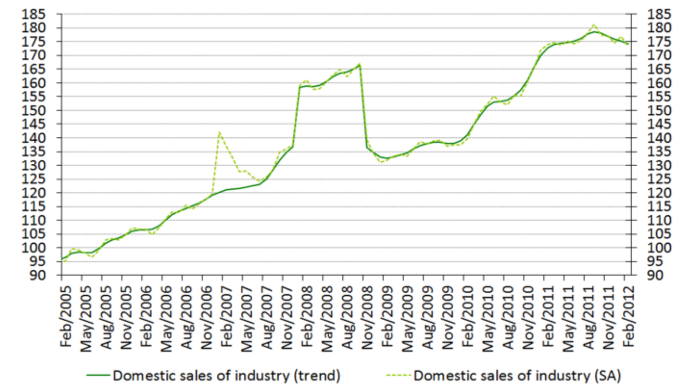
Macroeconomics: in February, industrial turnover and new orders were down; only constructions up

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
02 Apr	FEB	ILO unemployment rate (%)	7,1		7,2
02 Apr	MAR	FX reserves (bn EUR)	34,6		33,4
03 Apr	FEB	Turnover in retail trade (y-o-y, %)	1,3		8,8
03 Apr	FEB	Industrial production price indices (m-o-m, %)	0,8		0,6
04 Apr	FEB	Net wage growth rate (m-o-m, %)	0,3		-8,5
06 Apr	FEB	Industrial trade turnover index (y-o-y, %)	-1,7		4,4
06 Apr	FEB	Construction works index (y-o-y, %)	7,4		3,1
06 Apr	FEB	Index value of new orders in manufacturing (y-o-y, %)	-0,8		-1,7
09 Apr	FEB	Households services turnover index (y-o-y, %)			-1,5
09 Apr	FEB	Trade balance (EUR, mn)			-462,8
09 Apr	FEB	Exports (y-o-y, %)			1,4
09 Apr	FEB	Imports (y-o-y,%)			8,2
10 Apr	FEB	Wholesale services turnover index (y-o-y,%)			4,8
10 Apr	MAR	Consumer price index (y-o-y,%)			2,6
10 Apr	FEB	Industrial Production Index (y-o-y, %)			1,2
12 Apr	FEB	CA balance (EUR, mn)			-37,0
12 Apr	FEB	net FDI (EUR, mn)			24,0
12 Apr	FEB	External debt (bn EUR)			75,1

February industrial turnover data points to a decrease of -1.7% YoY on gross data, which is the slowest pace since 2009 when the economy posted a large GDP fall (-6.6%). In-house seasonally adjusted data indicates a monthly drop of -2% MoM. Looking at the split on large industrial groups, we see that the annual dynamics was mainly driven by two categories: the intermediary goods industry and the capital goods industry. The latter is procyclical, increasing when the industry is booming, and falling when the reverse is true. The data shows that the demand is weak and that prospects for the coming months are not better either: new industrial orders' growth rhythm continues to be fragile. Our in-house seasonally adjusted data exhibits a fall on a monthly basis and the past three months' dynamics have been negative on average. This affects production with a lag, therefore Q2 industrial production figures will be impacted too.

The increase in production prices does not help either. In February, the monthly jump was 0.8% MoM, more significant for the external market (+1.1% MoM). The production prices for the domestic market were up by 0.6% MoM. The source of the increases was, as expected, the energy industry goods (+1.9% MoM), followed by the non-durable consumer goods (+0.5%) and intermediary goods (+0.3% MoM). Capital goods industry did not incorporate the price increases as we already saw from the turnover dynamics that demand is weak.

Industrial turnover index (2005=100)



Source: Eurostat, OTP Research

New orders in manufacturing (2005=100)

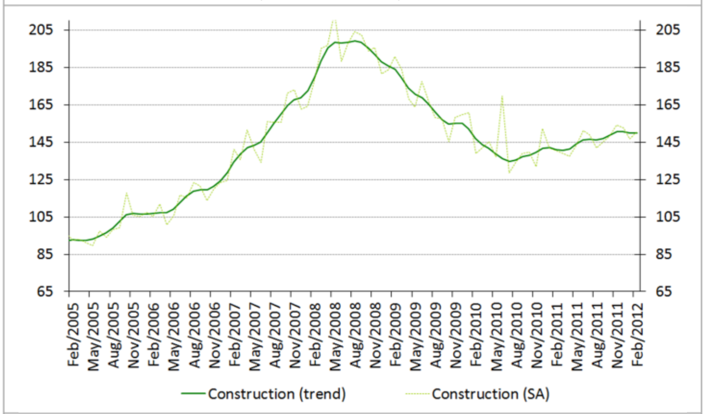
Source: Eurostat, OTP Research

Retail trade figures of February are disappointing as well: households' demand is fragile as only the sales of goods with low elasticity of demand increased in February, according to seasonally adjusted data. Therefore, the retail trade of foods advanced by 2.9% MoM (seasonally adjusted data). By comparison, the durable goods decreased significantly: -7.7% MoM (seasonally adjusted data). Fuels trade was also down by more than 7% MoM. Due to these influences, retail trade slump amounted to 2.5% MoM.

The only business cycle indicator to provide some hope that recovery is still within reach was the construction index. In February, constructions exibited a strong advance: +1.7% MoM (seasonally adjusted), stemming from new construction works (+6% MoM) but as well from maintainance and current repairs (+14.6% MoM). However, the capital repairs index was down by 10.2% MoM. As we can see from the graph, the upward trend in constructions started in mid-2010. Most of the works are non-residential buildings and engineering. The market for residential buildings is still down and consequently residential constructions' growth rhythm is deeply in the negative area, with the number of residential building licences continuously falling, and no sign of recovery yet.

Net nominal wage was RON 1,472 in February, only 0.3% higher than in January, when it had dropped by 8.5% MoM due to the seasonal effect. On an annual basis, net nominal wage is higher by 4.1% YoY and the corresponding increase in real wage is 1.5% YoY but the monthly dynamics of the real wage are slightly negative, -0.3% MoM respectively while in the previous month the slump was much higher: -8.8% MoM. The dynamics of the real wages in January are in line with the weak household demand that resulted from retail trade figures in February. Moreover, given that real wages' pace was still on the downtrend in February, we can expect lower figures for retail trade in March as well, especially since the other financing sources like loans go chiefly to mortgages and consumer loan flows are low.

Construction index (2005 = 100)



Source: Eurostat, OTP Research

Retail trade growth rate (annualized)

Source: Eurostat, OTP Research

Retail trade index (2005=100)

Source: Eurostat, OTP Research

Medium-term macroeconomic forecast

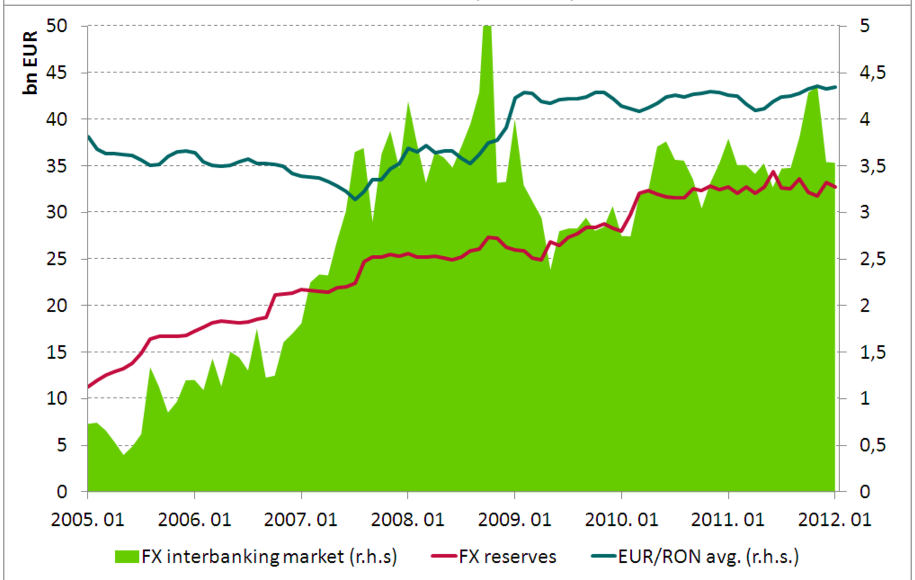
Main macroeconomic indicators	Fact						Forecast	
	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP	7,9%	6,3%	7,3%	-6,6%	-1,6%	2,5%	**1,4%**	**2,8%**
Final consumption of households	12,9%	12,0%	9,0%	-10,4%	-0,4%	1,4%	**2,3%**	**2,9%**
Households consumption expenditure	12,7%	11,9%	9,0%	-10,1%	-0,4%	1,3%		
Government consumption	-11,5%	2,5%	6,2%	9,5%	-10,0%	-3,4%	**-0,7%**	**1,7%**
Gross fixed capital formation	19,9%	30,3%	15,6%	-28,1%	-2,1%	6,3%	**5,2%**	**6,2%**
Exports	10,4%	7,8%	8,3%	-6,4%	14,0%	9,9%	**3,3%**	**8,4%**
Imports	22,6%	27,3%	7,9%	-20,5%	11,9%	10,5%	**4,2%**	**8,8%**
Consumer prices (avg.)	6,6%	4,8%	7,8%	5,6%	6,1%	5,8%	**3,5%**	**3,0%**
Budget Balance (GDP%, ESA 95)	-2,2%	-2,9%	-5,7%	-9,0%	-6,9%	-4,3%*	**-3,6%**	**-3,3%**
Public debt (GDP %)	12,4%	12,8%	13,4%	23,6%	31,0%	33,3%	**35,3%**	**36,7%**
CA balance (% GDP)	-10,5%	-13,4%	-11,6%	-4,2%	-4,4%	-4,2%	**-4,4%**	**-4,6%**
CA balance (bn EUR)	-10,2	-16,8	-16,2	-4,9	-5,5	-5,7	**-6,2**	**-7,1**
Unemployment	7,3%	6,4%	5,8%	6,9%	7,3%	7,4%	**6,8%**	**6,6%**
Nominal wage growth	18,4%	21,8%	26,1%	4,8%	3,1%	6,5%	**4,5%**	**4,4%**
Real wage growth	9,0%	14,7%	16,5%	-1,5%	-3,7%	0,5%	**0,3%**	**1,4%**
Key interest rate (avg.)	8,6%	7,5%	9,7%	9,1%	6,5%	6,2%	**5,1%**	**4,6%**
Key interest rate (e.o.p.)	8,8%	7,5%	10,3%	8,0%	6,3%	6,0%	**5,0%**	**4,5%**
EUR/RON (avg.)	3,52	3,34	3,68	4,24	4,21	4,24	**4,30**	**4,17**
EUR/RON (e.o.p.)	3,38	3,61	3,99	4,23	4,28	4,32	**4,20**	**4,14**

Source: Eurostat, OTP Research
*: OTP Research forecast

FX markets: RON appreciated last week due to seasonal effects and also supported by constructions' dynamics

The RON had an interesting time last week. It appreciated by 0.34% against the euro while general investor sentiment on the international markets was gloomy. The week was dominated by the renewed worries about Spain's debt, after it failed in selling the planned amount of debt. This weakened the euro and consequently, the RON should have taken a hit as well. We can see this increased risk aversion to Romanian assets as the 3Y and 5Y CDS (in EUR) rose by 9-10 bps. Moving further, the macroeconomic indicators for February paint a gloomy picture as the retail trade index, industrial turnover index and the new industrial orders index all saw declines in February. However, the market already expects the Q1 2012 GDP data to be close to 0% or slightly in the negative territory. Moreover, we saw construction figures in the positive territory in February, which gives hopes for the future as well, that construction will sustain GDP growth this year. In fact, the RON appreciated on Friday when construction data was released. Moving on, it may be true that we witness a seasonal effect as well, given the Easter period when workers' remittances increase and given the low volumes on the FX interbanking market, even smaller inflows can move the RON. According to the NBR, the FX interbanking transactions' volume stood at EUR 36.4 bn in March, higher than in February, but much lower than Sep-Nov 2011 levels.

FX interbank market and FX reserves (bn EUR)

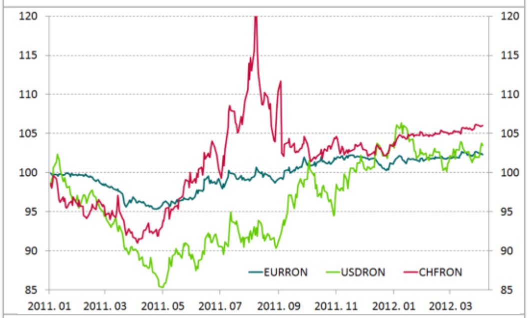


Sources: NBR, OTP Research

FX BID	Value		Weekly chg. (%)		YTD chg. (%)
EURRON	4,37	⇩	-0,34	⇧	1,21
USDRON	3,34	⇧	1,48	⇧	0,41
CHFRON	3,64	⇩	-0,13	⇧	2,33
RONJPY	4,08	⇧	2,95	⇩	-6,15
RONPLN	1,05	⇩	-0,43	⇧	1,81
100HUFRON	1,47	⇩	-1,24	⇧	8,01
RONCZK	0,18	⇨	0,00	⇧	5,23
RONRUB	0,11	⇧	0,56	⇧	9,82
RONRSD	0,04	⇩	0,00	⇧	0,00
RONBGN	2,23	⇩	-0,38	⇧	1,38

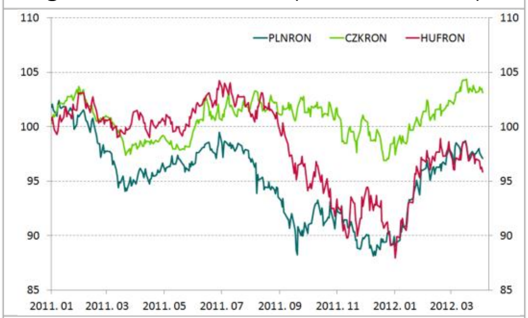
Source: Reuters

Major RON FX rates (03.01.2011=100)



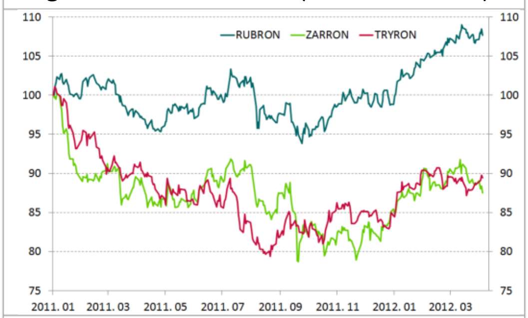
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



Sources: Reuters, OTP Research

Government securities: yields continued to decline by up to 18 bps for the 1-10Y maturity range

Last week, tensions related to the debt crisis in Europe intensified as Spain could sell less debt than expected. Consequently, its bond yields rose. Given the international environment, we saw significant increase in the country risk premium as the 3Y-5Y CDS advanced by 9-10 bps (whereas up to now it had been on a downtrend). The increased risk aversion spans on a short horizon, so only short-term securities' yields were affected. We can see this also looking at the 3Y-5Y/ 5Y-10Y/3Y-10Y spreads, which went up, especially the latter.

We expect further declines in yields, in line with lower real rates, especially up to June. Also, the lack of pressure due to a good liquidity buffer built by the Treasury will keep rates down in the coming months. Because of the structure of the auctions announced for April (higher weight of bonds in total amount) and probably for the months to come, we will see an increased liquidity in government bonds. The appetite for longer maturities is high both on the supply and on the demand sides. Therefore, we expect yields on the long end curve to fall at a relatively faster pace than until now.

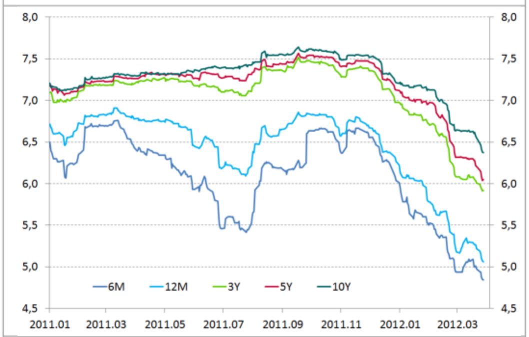
GOVERNMENT SECURITIES	Value	Weekly chg. (bp)	YTD chg. (bp)
6M	5,29	22	-109
12M	5,05	-2	-132
3Y	6,03	0	-112
5Y	6,05	-10	-122
10Y	6,35	-18	-98
SPREADS	**Value (bp)**	**Weekly chg. (bp)**	**YTD chg. (bp)**
GERROM 3Y	576	7	-111
GERROM 5Y	534	-1	-119
GERROM 10Y	455	-13	-95
3Y -5Y	2	10	11
5Y -10Y	30	8	-25
3Y-10Y	32	18	-14
FLY 3-5-10	28	2	35
CDS MID SPREADS	**Value (bp)**	**Weekly chg. (bp)**	**YTD chg. (bp)**
3Y EURO	250	9	-122
5Y EURO	288	10	-114

Source: Reuters

Yield curve over the past weeks (Central Bank fixing)

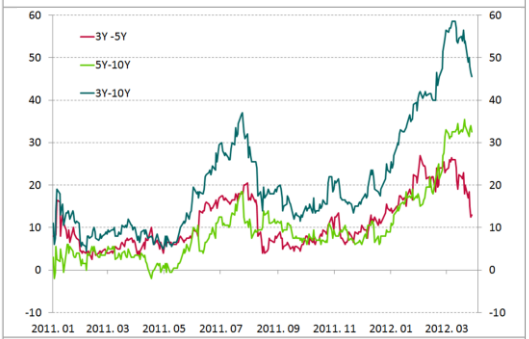
Sources: NBR, OTP Research

NBR benchmark yields (%)



Sources: NBR, OTP Research

Slope of the yield curve (bps)



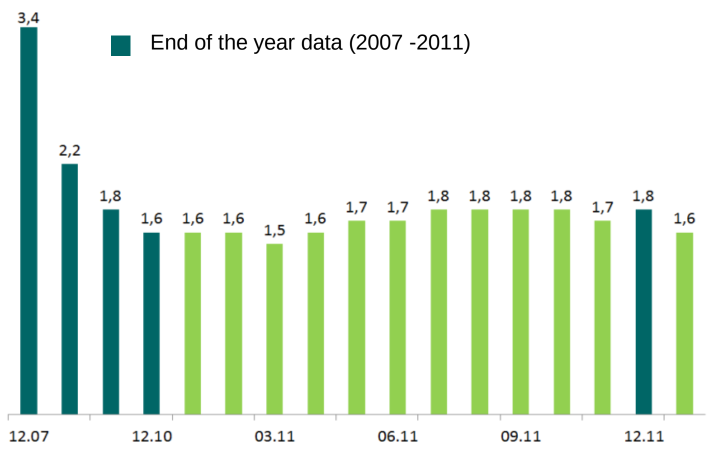
Sources: NBR, OTP Research

Auction results

Last week there were two auctions for 2Y and 4Y bonds. At Monday's auction, the Finance Ministry managed to sell only the planned amount of RON 750 mn in 2Y bonds, but the total demand was much higher: total bids stood at RON 2.2 bn. The average accepted yield was 5.6%, lower by 39 bps than the one at the previous tender held in early March. The lower yield priced in the cut in the base rate at the end of March.

The second auction on Thursday targeted an amount of 1bn RON but total bids were 2.7 times higher. The bid-to-cover ratio was 1.8, relatively lower than at previous similar auctions. The average accepted yield stood at 6.06%, lower by 23bps than the similar tender in mid March. Up to now, the Ministry of Finance sold RON 28.4 bn in bonds, out of which it used RON 10.8 bn to roll over maturing debt in Q1 2012. The structure of announced auctions puts a higher weight on bonds than in the previous months, as the Treasury is trying to increase the average remaining maturity which was 1.6 years in January, according to the Finance Ministry's calculations.

Remaining maturity of government securities



Source: Ministry of Finance, OTP Research

T -bills

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1213CTN0A7	09.04.2012	11.04.2012	10.04.2013	12	1.000.000.000

Source: Ministry of Finance, OTP Research

Bonds

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1214DBN027	02.04.2012	04.04.2012	23.04.2014	2	5,95	750.000.000
RO1216DBN030	05.04.2012	09.04.2012	27.01.2016	4	5,75	1.000.000.000
RO1214DBN027	12.04.2012	17.04.2012	23.04.2014	2	5,95	800.000.000
RO1217DBN046	19.04.2012	23.04.2012	26.07.2017	5	5,9	500.000.000
RO1227DBN011	26.04.2012	30.04.2012	26.07.2027	15	5,8	200.000.000

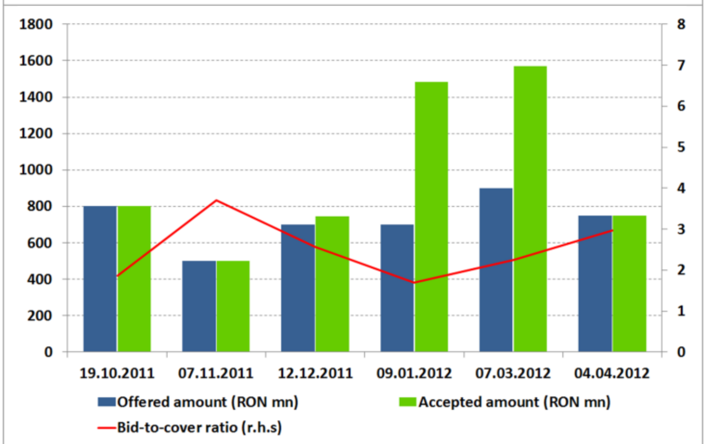
Source: Ministry of Finance, OTP Research

T-Bills in RON, monthly maturity schedule (mn RON)

Q1 2012		Q2 2012		Q3 2012		Q4 2012	
ian.12	4.341,4	apr.12	4.391,3	iul.12	3.715,5	oct.12	4.474,5
feb.12	2.459,0	mai.12	4.029,7	aug.12	1.902,3	nov.12	2.675,9
mar.12	4.012,1	iun.12	3.275,2	sep.12	3.052,5	dec.12	1.713,4

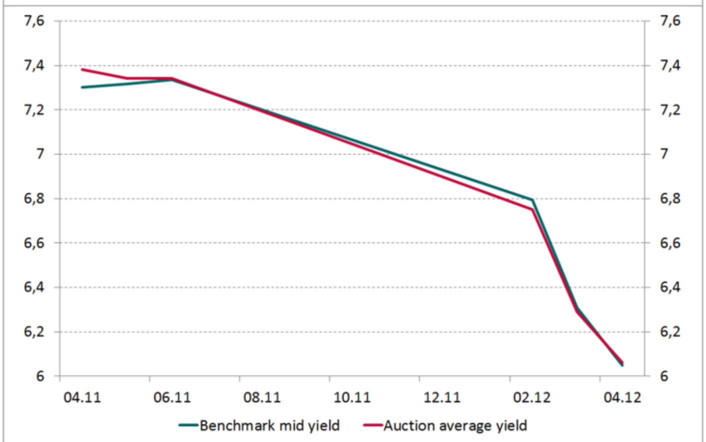
Sources: Ministry of Finance, OTP Research

2Y auctions data



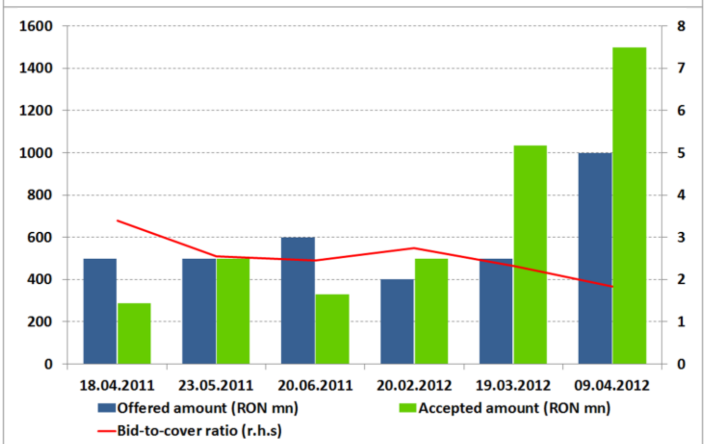
Sources: NBR, Ministry of Finance, OTP Research

5Y interest rates



Sources: NBR, Ministry of Finance, OTP Research

5Y auctions data



Sources: NBR, Ministry of Finance, OTP Research

Summary of last week's auctions

	RO1214DBN027	RO1214DBN027
Offered amount (RON mn)	750	1.000
total bids (RON mn)	2.230	2.753
accepted amount (RON mn)	750	1.500
average accepted yield (%)	5,60	6,06
coupon	6,0	5,8

Source: Ministry of Finance, OTP Research

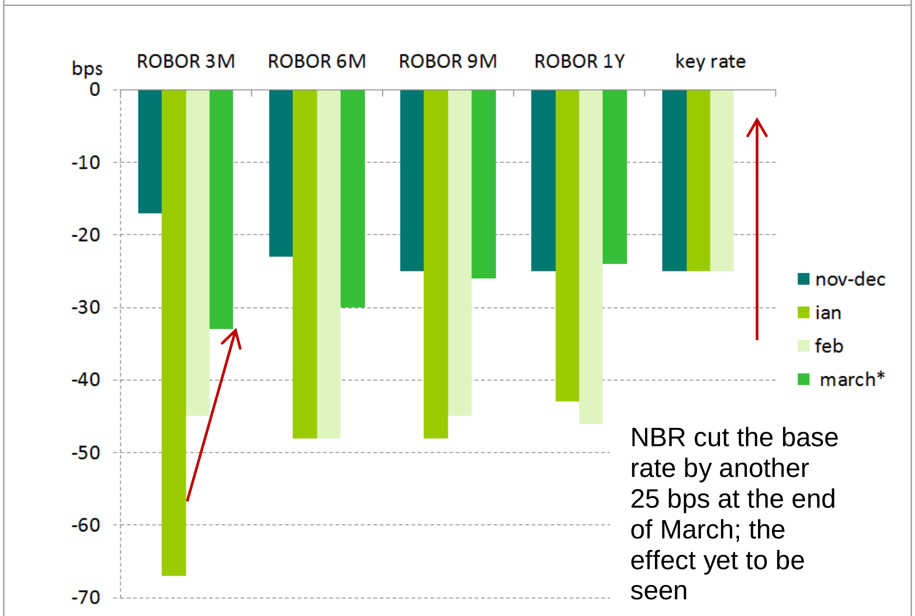
MM: rates continued to fall between 9-17 bps for the 3M-12M maturities following higher repo amount

MM rates continued to fall by 9-17 bps for the 3M-12M maturities last week after the Central Bank operated a higher liquidity injection compared to the week before. The overall downtrend we see in MM rates was achieved following four base rate cuts started last November and sustained through "adequate liquidity" conditions as the Central Bank calls them in its press releases after each Monetary Policy decision.

This year only, the cumulative cuts amount to 75 bps but all the maturities dropped far more, between 131 bps (1Y) and 194 bps (ROBOR ON). The weekly liquidity injections operated by the Central Bank are between RON 5-6 bn. The repo operations started in August last year, when the worries about the Greek debt repayment started to take shape. During the last week of March, we saw a weekly decline in repo amount of RON 900 mn. This pushed up the ON rate significantly (by more than 100 bps). However, the next week NBR upped the size of the repo by RON 400 mn and the ON rate fell back 169 bps, to 2.59%.

Looking at how the transmission of the base rate cut occurred until now (every 25 bps base rate cut starting with January triggered a much larger drop in MM rates, especially ROBOR3M), we expect 3M/6M rates to lose some 10-20 bps until the next base rate cut, expected by the end of June, as long as no external shock appears and that NBR continues to practice a similar management of liquidity.

Transmission of the base rate cuts

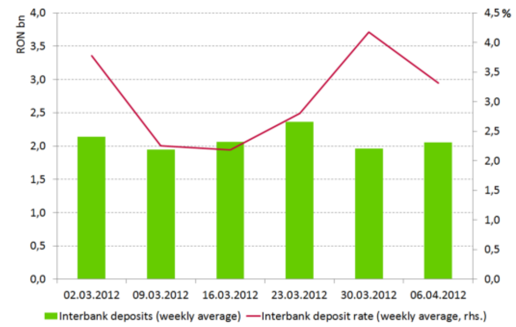


Sources: Reuters, NBR, OTP Research
Note: * we did not show the 25 bps cut starting with 30th March

MID INTEREST RATE DERIVATIVES	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	0	-75
ROBOR ON	2,59	-169	-194
ROBOR 3M	4,40	-17	-165
ROBOR 6M	5,10	-11	-143
ROBOR 9M	5,25	-9	-136
ROBOR 1Y	5,35	-12	-131
REPO	**Value (mn RON)**	**Wly chg. (mn RON)**	
repo amount	6.254,9	405,4	
INTERBANK DEPOSITS	**Value (mn RON)**	**Wly chg. (mn RON)**	**YTD chg. (mn RON)**
outstanding	5.881,7	1.192,9	1.854,2
MID SWAP POINTS	**Value (bp)**	**Weekly chg. (bp)**	**YTD chg. (bp)**
USDRON 1W	4	-14	-21
USDRON 1M	59	-53	-90
USDRON 3M	181	-1	-66
EURRON 1W	4	-16	-36
EURRON 1M	61	-86	-84
EURRON 3M	188	-223	-322
MID EUR BASIS SWAPS	**Value (bp)**	**Weekly chg. (bp)**	**YTD chg. (bp)**
EURRON 1Y	-155	0	-25
EURRON 3Y	-165	0	-10
EURRON 5Y	-155	0	-35

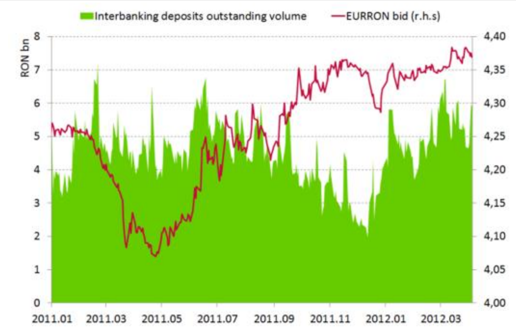
Source: Reuters

New interbank deposits (flow), last 6 weeks



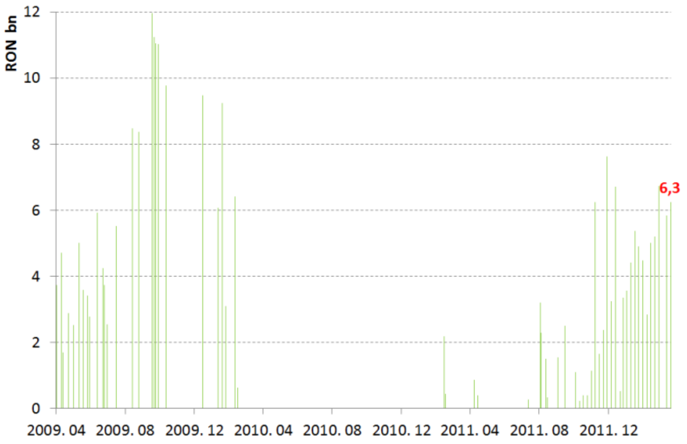
Sources: NBR, OTP Research

Interbank deposits (stock) and EURRON (bid)



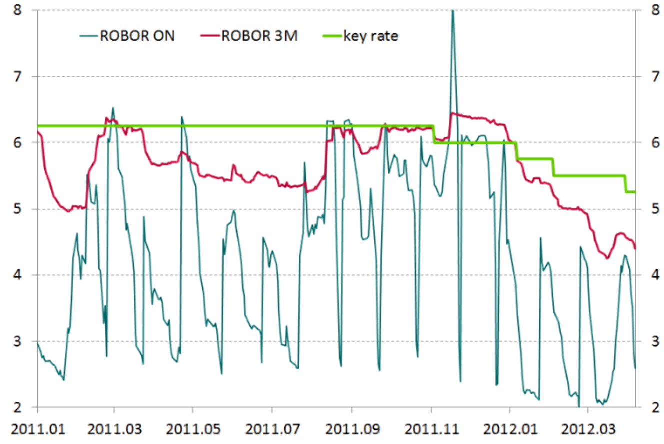
Sources: NBR, OTP Research

Repo operations during 2009 -2012



Sources: NBR, OTP Research

Most important MM instruments from 2011 (%)



Sources: NBR, OTP Research

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