

Treasury Sales Team

Alina Elena Vrabioiu

+4021 307 58 17

alina.vrabioiu@otpbank.ro

Irina Ananiese

+4021 307 58 17

irina.ananiese@otpbank.ro

Tania Fantana

+4021 307 58 17

tania.fantana@otpbank.ro

Capital Markets Sales Team

Alexandru Ilisie

+4021 307 58 27

alexandru.ilisie@otpbank.ro

Teodor Alexandru Tibuleac

+4021 307 58 27

alexandru.tibuleac@otpbank.ro

Weekly Report

Romania

25 April 2012



Calm waters ahead of a potential storm; the FX and FI markets saw little volatility last week

Last week was a four-day working week in Romania due to Easter Holidays. Investors were in a “wait and see” mood, although risk perception was slightly deteriorated as shown by the increase in the CDS. However, unexpected events changed the path now, as we see that political turmoil weighs in Europe on top of the financial and economic issues. Consequently, reaction of Romanian assets is to be followed this week with emphasis on the government securities’ yields. Also, we look forward to the non-confidence motion against the current PM being voted on Friday.

Macroeconomics: looking forward to banking statistics for March (Page 3)

In the past week, there was no important macroeconomic data released. This week, we expect to see the banking statistics for March and the number of licenses for residential buildings.

FX markets: the RON remained flat in absence of macroeconomic data (Page 4-5)

In absence of new macro data and a significant deterioration of the risk perception, the RON remained flat last week against the euro. However, it started this week down as the international political and economic context caught a new shape. The Dutch PM resigned as he did not receive support for the planned deficit cuts. Also, the German and the entire Eurozone PMI (Purchasing Managers’ Index) dipped more than expected in April, reheating worries related to economic growth in Europe and to the sustainability of the targeted shrinking deficits. Not to lose sight of fundamentals, we believe that the drying of FDI and lower interest rates weakened the RON so far. Given that RON deposits rates have a downtrend, the RON’s appreciation perspectives reside in the resumption of FDI together with Romania’s settlement on an undisputed growth path, all of the above being related to eurozone’s evolution.

Government securities: market in the “wait and see” mode after Easter; yields up by maximum 4 bp (Page 6-7)

Last week had only four working days as on Monday there was the second day of the Orthodox Easter. Only one auction was held last week. The Treasury sold 625 mn RON in 5Y bonds at an average accepted yield of 6.14%. Since activity was weaker, we did not see much volatility in government securities’ pricing. We are under the impression that investors were in a “wait and see” mood even if risk perception worsened as we can see from the increase in the CDS. Although we may see small temporary jumps in yields, we believe that the trend from the primary market will be followed on the secondary market as well and this means lower expected yields in the short term because the Treasury has a good liquidity buffer: it will not accept higher yields and demand for the newly issued government securities is not likely to drop.

MM: the 6.4 bn RON repo was not enough to keep the ON rate low; ROBOR 3M was up 19bp (Page 8)

Although the Central Bank upped the 1W repo size last week by 478 mn RON, it was apparently not enough to keep the ON rate at low levels (i.e. 2-2.5%). Top hikes affected maturities up to 3M. The ON ROBOR jumped 121 bp while the 3M ROBOR gained 19bp. The mandatory reserves period ends this week so we see a fall in rates.

Chief Economist

Gergely Tardos
+36 1 374 7273
tardosg@otpbank.hu

FX/FI Strategist

Levente Pápa
+36 1 354 7490
papal@otpbank.hu

Macro Analysts

Gábor Dunai
+36 1 374 7272
dunaig@otpbank.hu

Győző Eppich
+36 1 374 7274
eppichgyo@otpbank.hu

Szilárd Kondora
+36 1 374 7275
kondorasz@otpbank.hu

Bálint Szaniszló
+36 1 374 7271
szaniszllob@otpbank.hu

Mihaela Neagu
+4021 307 58 64
mihaela.neagu@otpbank.ro

Rodion Lomivorotov
+7 495 783-5400 (2761)
r.lomivorotov@otpbank.ru

Sector Analyst

Piroska Szabó
+36 1 374 7276
szabopb@otpbank.hu

Dávid Rácz
+36 1 374 7270
raczd@otpbank.hu

Technical Analyst

András Salamon
+36 1 374 7225
salamona@otpbank.hu

Macroeconomics: looking forward to banking statistics for March

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
09 Apr	FEB	Households services turnover index (y-o-y, %)	-9,8		-0,7
09 Apr	FEB	Trade balance (EUR, mn)	511,7		-458,5
09 Apr	FEB	Exports (y-o-y, %)	-0,4		1,6
09 Apr	FEB	Imports (y-o-y,%)	2,2		8,3
10 Apr	FEB	Wholesale services turnover index (y-o-y,%)	4,9		5,9
10 Apr	MAR	Consumer price index (y-o-y,%)	2,4	2,4	2,6
10 Apr	FEB	Industrial Production Index (y-o-y, %)	-1,1		1,6
12 Apr	FEB	CA balance (EUR, mn)	-626,2		-37,3
12 Apr	FEB	net FDI (EUR, mn)	249,2		-7,8
12 Apr	FEB	External debt (bn EUR)	75,5		75,1
26 Apr	MAR	M3 aggregate (y-o-y, %)			9,9
26 Apr	MAR	Non -governmental loans (y-o-y, %)			7,6
26 Apr	MAR	Non -governmental deposits (y-o-y, %)			9,4
30 Apr	MAR	Licenses for residential buildings (y-o-y, %)			-12,4

In the past week, there was no important macroeconomic data released. This week, we expect to see the banking statistics for March and the number of licenses for residential buildings.

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	-6,9
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	4,34	4,27
EUR/RON (e.o.p.)	3,38	3,61	3,99	4,23	4,28	4,32	4,30	4,25

Source: Eurostat, OTP Research

Note:* OTP Research forecast

FX markets: the RON remained flat in absence of macroeconomic data

During the past week (17-20 April), no macroeconomic data was released. Also, there was no significant increase in risk perception, as Spain's bond auction had positive results. Therefore, it comes with no surprise that the RON remained flat against the euro.

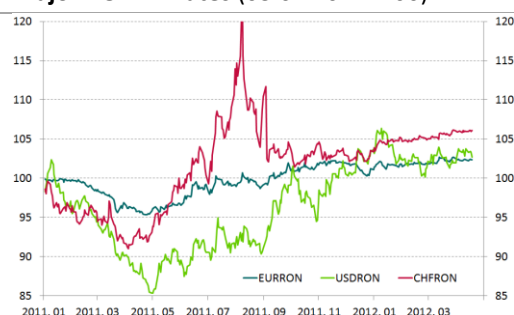
On Friday, we saw the euro strengthening against the dollar (by 1.1%), because of better-than-expected business sentiment indicator in Germany in April. This should have been followed by a strengthening of the RON on Monday but the the euro debt crisis was quickly reheated by the resignation of the Dutch Prime Minister and also by the negative news concerning the German PMI (Purchasing Managers' Index) in April. The latter showed that manufacturing is shrinking at the quickest pace in three years in April. As a consequence, the RON sank deeper against the euro on Monday.

Therefore, the international context increases again the risk premium attached to Romanian assets and fears of future depreciation of the RON push it lower now, in the absence of any other major data. Looking at the fundamentals, we see than RON's depreciation since 2008 is associated with lower foreign direct investment inflows and lower interest rates. Related to the first element, we could see that FX denominated loan flows dropped during recession as investors' funds dried. In what concerns the decline in interest rates, it naturally diminished investors' appetite as nominal rates went down and the medium-term growth prospects of the economy did not improve at the same time, on the contrary. The FX reserve that NBR is holding may prevent the RON from high volatility and consequently we do not see a high risk of depreciation of the RON in the short term. In what concerns the perspectives for appreciation, they are bound to the improvement of fundamentals, the most important being higher investment flows.

FX BID			
	Value	Weekly chg. (%)	YTD chg. (%)
EURRON	4,37	⇨ 0,00	⇧ 1,16
USDRON	3,31	⇩ -1,04	⇩ -0,04
CHFRON	3,64	⇧ 0,08	⇧ 2,31
RONJPY	4,06	⇩ -1,77	⇩ -5,88
RONPLN	1,04	⇩ -0,23	⇧ 1,11
100HUFRON	1,47	⇧ 0,24	⇧ 7,53
RONCZK	0,18	⇩ -1,18	⇧ 4,39
RONRUB	0,11	⇩ -0,54	⇧ 8,96
RONRSD	0,04	⇩ 0,00	⇧ 0,00
RONBGN	2,24	⇧ 0,03	⇧ 1,36

Source: Reuters

Major RON FX rates (03.01.2011=100)



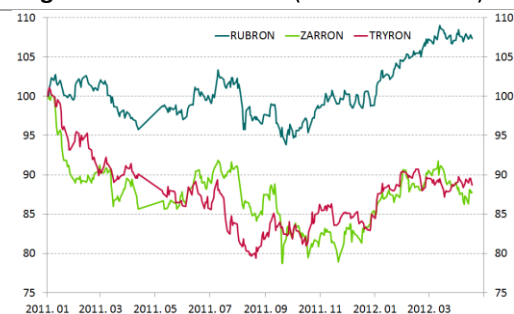
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



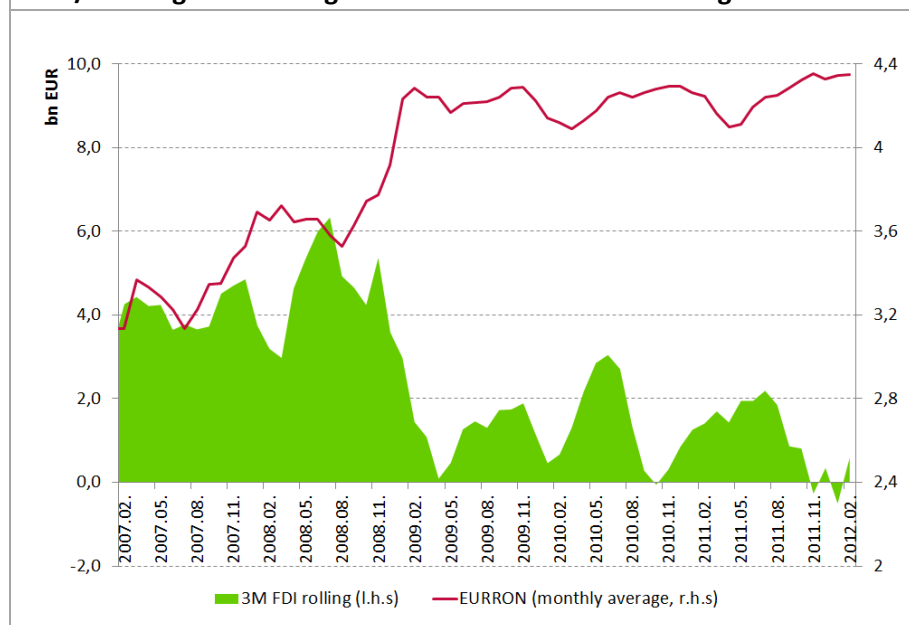
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



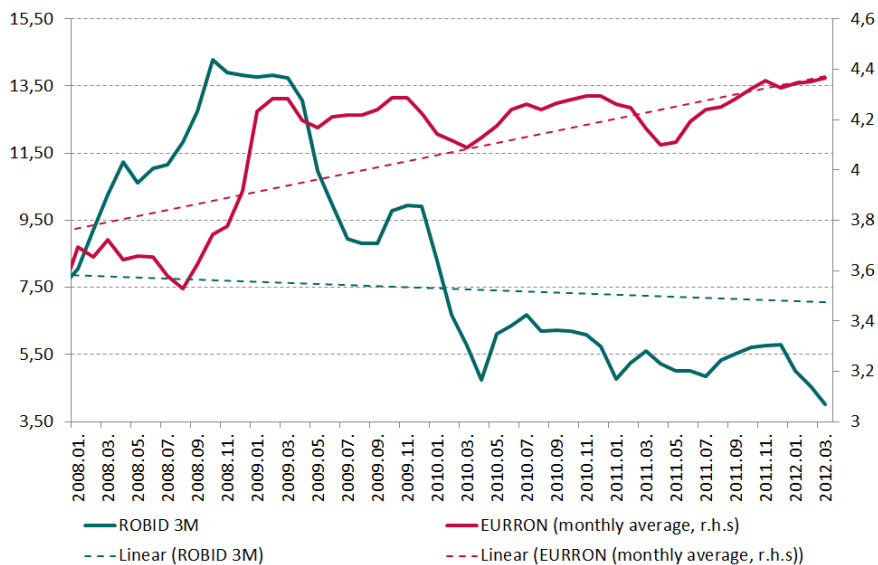
Sources: Reuters, OTP Research

EUR/RON higher as foreign direct investment dried during recession



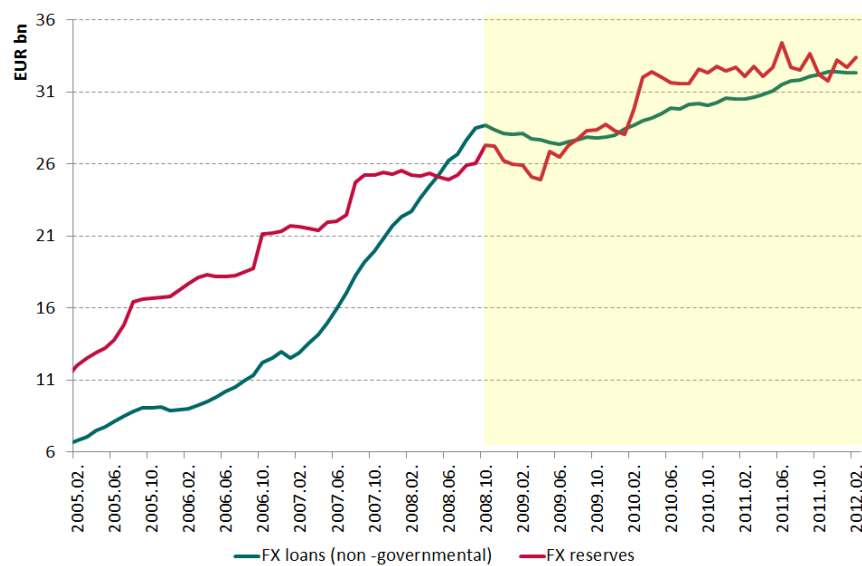
Sources: NBR, Reuters, OTP Research

EUR/RON higher (weaker RON) as the interest rates decline



Sources: Reuters, OTP Research

FX denominated loan flows dropped during the recession and the Central Bank has more FX reserves to smooth external shocks



Sources: NBR, Reuters, OTP Research

Government securities: market in the “wait and see” mode after Easter; yields up by maximum 4 bp

Last week had only four working days as on Monday there was the second day of the Orthodox Easter. Consequently, the total transaction amount on the secondary market was lower and the daily average was smaller as well. Since activity was weaker, we did not see much volatility in government securities' pricing. Only small variations in yields from -1bp to 4 bp for the RON denominated securities. The latter spike was seen in the yields of the 12M T-bills. We are under the impression that investors were in a “wait and see” mood even if risk perception worsened as we can see from the increase in the CDS. 3Y CDS (for euro contracts) were up by 5 bp while the 5Y gained only 3 bp. Also, the temporary significant jump in the money market rates was not mirrored in the government securities yields as the market believes in a further decline in RON interest rates. Also, the fact that the Treasury holds a good liquidity buffer (4M of funding needs), means that at the Finance Ministry auctions we will not see increased yields, on the contrary, and consequently this will influence the trend of the secondary market as well. The term premiums did not suffer major changes; the highest increase was noticed in the spread between 3Y and 10Y bond yields, of 2bp.

The euro-denominated government securities yields suffered some upward changes between 9bp (6M bill) to 27 bp (2Y bond).

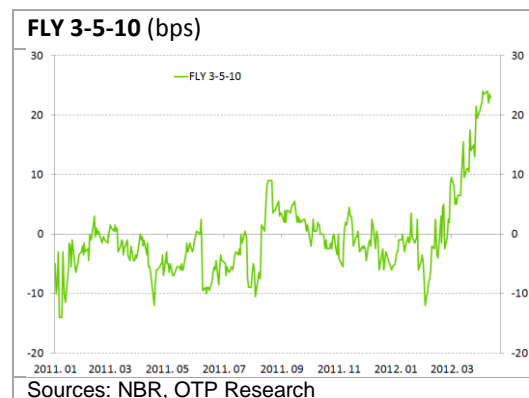
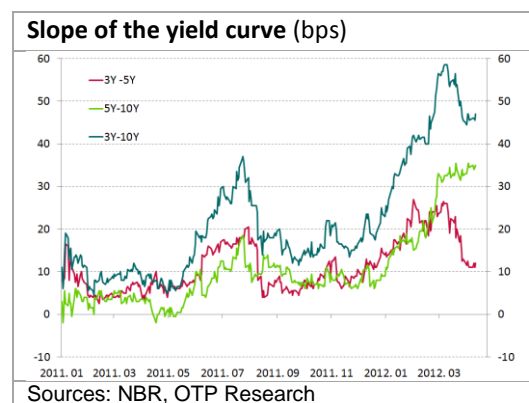
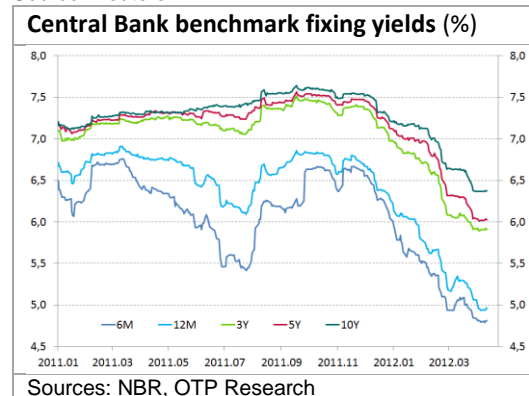
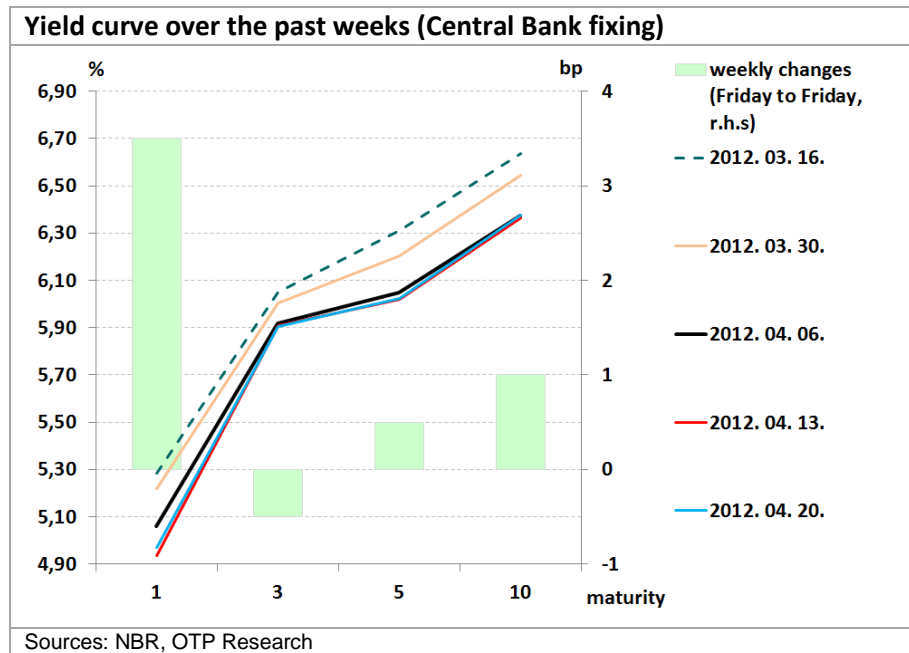
RON GOVERNMENT SECURITIES				
	Value		Weekly chg. (bp)	YTD chg. (bp)
6M	4,81	↑	1	↓ -144
12M	4,97	↑	4	↓ -141
3Y	5,91	↓	-1	↓ -124
5Y	6,03	↑	1	↓ -123
10Y	6,38	↑	1	↓ -96

EUR GOVERNMENT SECURITIES				
	Value		Weekly chg. (bp)	YTD chg. (bp)
6MRO0912DBE034	3,03	↑	27	↓ -108
2YRO1013DBE014	4,21	↑	9	↓ -112

SPREADS				
	Value (bp)		Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	567	↓	-1	↓ -120
GERROM 5Y	536	↑	1	↓ -114
GERROM 10Y	464	↑	1	↓ -87
3Y -5Y	12	↑	1	↑ 1
5Y -10Y	35	↑	0	↑ 27
3Y-10Y	47	↑	2	↑ 28
FLY 3-5-10	23	↓	-1	↑ 26

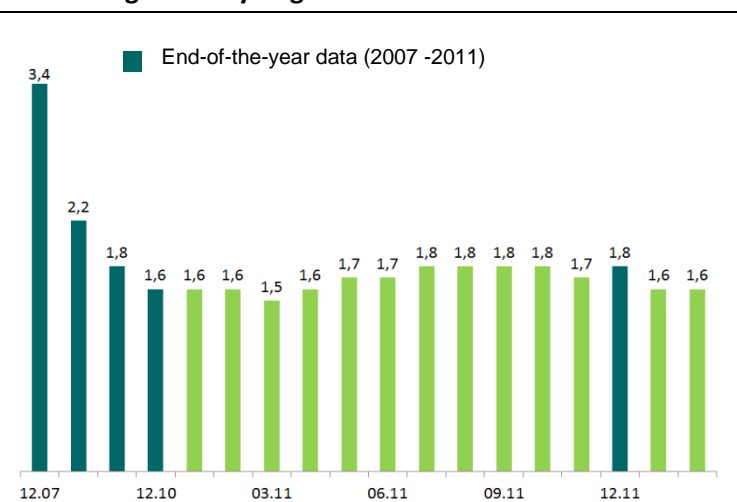
CDS MID SPREADS				
	Value (bp)		Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	264	↑	5	↓ -108
5Y EURO	300	↑	3	↓ -102

Source: Reuters

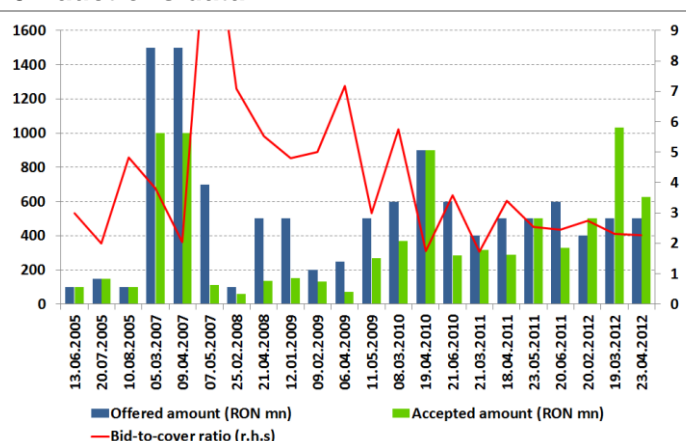


Auction results

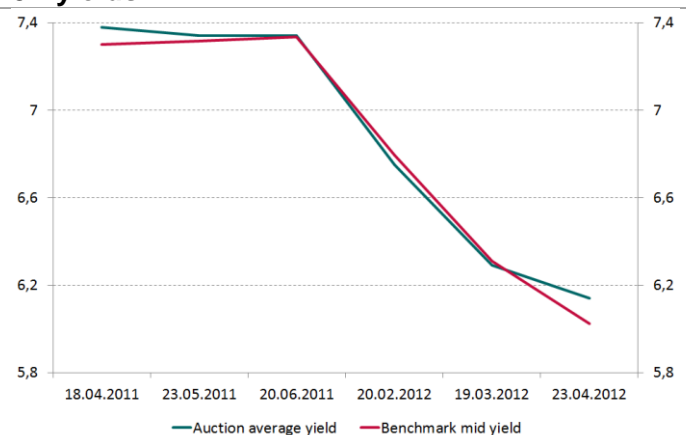
There was only one auction last week, on Thursday. The Finance Ministry planned to sell 500 mn RON in 5Y bonds but the final allotted amount was a bit higher: 625 mn RON. The demand was good, 2.84 times higher than the targeted sum, but not as high as the previous similar tender in mid-March, when it reached 4.8 times the targeted planned amount. In terms of yields, the average accepted yield stood at 6.14%, 15 bp lower than the one at previous similar tender. Since then, the Central Bank has cut the base rate by 25 bp starting on 30 March, so the difference in the yield only partly incorporates this decline.

Remaining maturity of government securities


Source: Ministry of Finance, OTP Research

5Y auctions data


Sources: NBR, Ministry of Finance, OTP Research

5Y yields


Sources: NBR, Ministry of Finance, OTP Research

T-Bills auction in April

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

Sources: Ministry of Finance, OTP Research

Bonds auction in April

ISIN	Auction	Settlement	Maturity	Years	Coupon %	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

Sources: NBR, Ministry of Finance, OTP Research

Summary of last week's auctions

	RO1217DBN046
Offered amount (RON mn)	500
total bids (RON mn)	1.419
accepted amount (RON mn)	625
average accepted yield (%)	6,14
coupon	5,9

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

MM: the 6.4 bn RON repo was not enough to keep the ON rate low; ROBOR 3M was up 19bp

Although the Central Bank upped the 1W repo size last week, to 6.4 bn RON, which represented an increase of 478 mn RON compared to the previous week, it was apparently not enough to keep the ON rate at low levels (i.e. 2%-2.5%). Top hikes affected maturities up to 3M. The ON ROBOR jumped 121 bp while the 3M ROBOR gained 19 bp. Outstanding interbank deposits stood close to the highest level this year. On Friday, they were at 6.4 bn RON, an increase of 702 mn RON compared to the previous week and 2.4 bn RON higher than at the end of the year. The interbank deposits naturally increase during the end of the period of the mandatory reserves' building which lasts until 23 of the month. Consequently, we should see a fall in the ON rate this week.

After few weeks of stagnation, we saw a change in the EUR-RON basis swap rate. The three-year euro – ron basis swap shrank by 10 bp to -155 bp, which makes it more expensive to borrow euro on the FX swap market.

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↓ -75
ROBOR ON	3,83	↑ 121	↓ -70
ROBOR 3M	4,42	↑ 19	↓ -163
ROBOR 6M	5,06	↑ 3	↓ -147
ROBOR 9M	5,17	↑ 2	↓ -144
ROBOR 1Y	5,24	↑ 1	↓ -142

REPO	
Value (mn RON)	Wly chg. (mn RON)
repo amount	6.411,1
	478,0

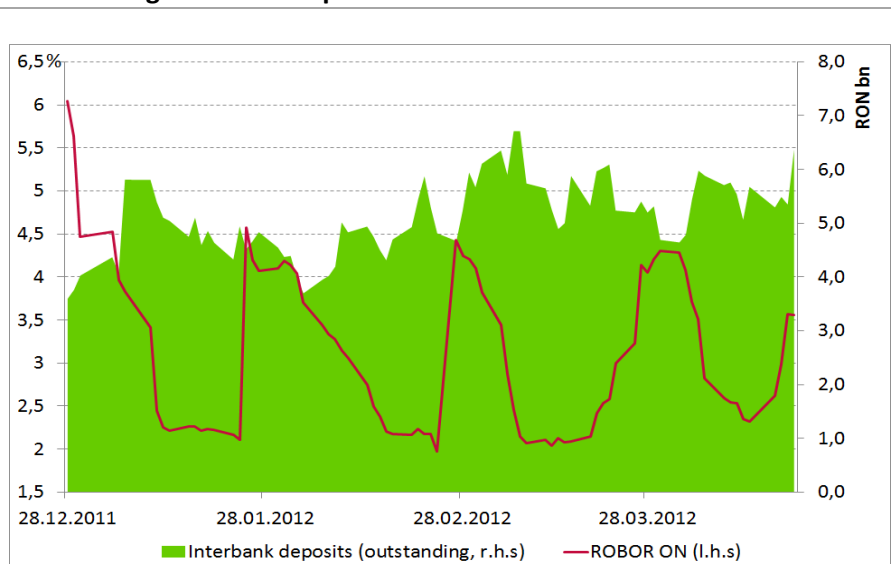
INTERBANK DEPOSITS		
Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	6.378,6	701,9
		2.351,1

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	23	↑ 19	↓ -1
USDRON 1M	67	↑ 5	↓ -82
USDRON 3M	193	↑ 9	↓ -54
EURRON 1W	37	↑ 26	↓ -4
EURRON 1M	153	↑ 20	↑ 8
EURRON 3M	421	↑ 29	↓ -90

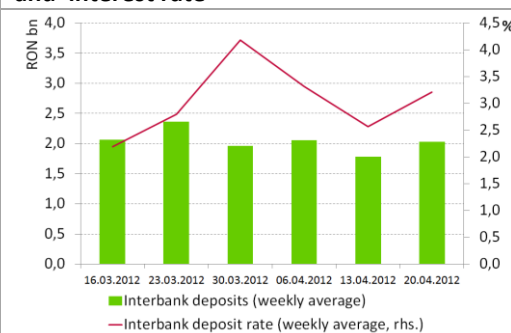
MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-155	↔ 0	↓ -25
EURRON 3Y	-155	↑ 10	↔ 0
EURRON 5Y	-145	↑ 10	↓ -25

Source: Reuters

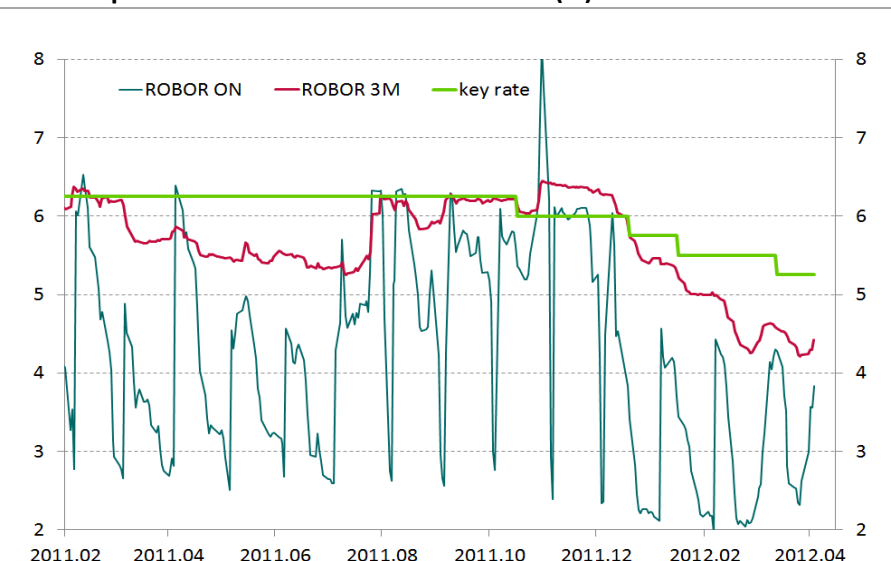
Outstanding interbank deposits and ROBOR ON



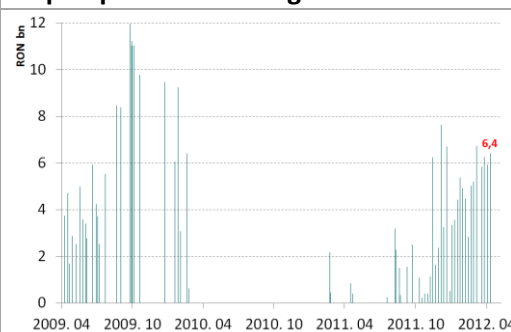
Average weekly interbank deposits (flow) and interest rate



Most important MM instruments from 2011 (%)



Repo operations during 2009 -2012



Disclaimer

OTP Bank Romania S.A. does not intend to present this document as an objective or independent explanation of the matters contained therein. This document a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication does not contain a comprehensive analysis of the described issues. This report is issued for information purposes only and should not be interpreted as a suggestion, an invitation or an offer to enter into any transaction, as an investment advice, and it does not constitute legal, tax or accounting advice. Also it is not and should not be considered a recommendation for investment in financial instruments according to C.N.V.M. Regulations no. 15/2006 and 32/2006.

Information herein reflects current market practices. Additional information may be available on request. This document is intended only for the direct and sole use of the selected customers of OTP Bank Romania S.A. Any form of reproduction or redistribution to any other person that the intended recipients, including publication in whole or in part for any purpose, must not be made without the express agreement of OTP Bank Romania S.A.

Although the information in this document has been prepared in good faith from sources which OTP Bank Romania S.A. believes to be reliable, we do not represent or warrant its accuracy and such information may be incomplete or condensed. The issuer of this report does not claim that the information presented herein is perfectly accurate or complete. However it is based on sources available to the public and widely believed to be reliable. Also the opinions and estimates presented herein reflect a professional subjective judgment at the original date of publication and are therefore subject to change thereafter without notice. Furthermore there can be no guarantees that any market developments will unfold as forecasted. Opinions and estimates constitute our judgment and are subject to change without notice.

OTP Bank Romania S.A. may have issued reports that are different or inconsistent with the information expressed within this report and is under no obligation to update or keep current the information contained herein.

OTP Bank Romania S.A. may hold a position or act as market maker in the financial instrument of any issuer discussed herein or act as advisor or lender to such issuer. This document is not intended to provide the basis for any evaluation of the financial instruments discussed herein. In particular, information in this document regarding any issue of new financial instruments should be regarded as indicative, preliminary and for illustrative purposes only, and evaluation of any such financial instruments should be made solely on the basis of information contained in the relevant offering circular and pricing supplement when available. OTP Bank Romania S.A. does not act as a fiduciary for or an advisor to any prospective purchaser of the financial instruments discussed herein and is not responsible for determining the legality or suitability of an investment in the financial instruments by any prospective purchaser.

This report is not intended to influence in any way or to be considered a substitute to research and advice centered on the specific investment objectives and constraints of the recipient (including tax concerns) therefore investors should obtain individual financial advice. Before purchasing or selling financial instruments or engaging investment services, please examine the prospectuses, regulations, terms, agreements, notices, fee letters, and any other relevant documents regarding financial instruments or investment services described herein in order to be capable of making a well-advised investment decision. Please refer to your competent adviser for advice on the risks, fees, taxes, potential losses and any other relevant conditions before you make your investment decision regarding financial instruments or investment services described herein. OTP Bank Romania S.A. in compliance with the applicable law, assumes no responsibility, obligation, warranty or guarantee whatsoever for any direct or indirect damage (including losses arising from investments), or for the costs or expenses, detrimental legal consequences or other sanctions (including punitive and consequential damage) sustained by any natural or legal person as a result of the purchase or sale of financial instruments or engaging investment services described herein, even if OTP Bank Romania S.A. was warned of the possibility of such occurrences.

Figures described herein refer to the past and past performance is not a reliable indicator of future results.

Please note that the Internet is not a secure environment and OTP Bank Romania S.A. does not accept any liability for any loss caused by the result of using this report in a form altered or delayed by the willful or accidental interception, corruption or virus infection.

All rights reserved – OTP Bank Romania S.A. (registered seat: Street Buzesti, no. 66-68, 1st sector Bucuresti, Romania; company registration number: 01-10-041585; authorized by the National Securities Commission – certificate no. 47/24.03.2009; for further information please refer to: <https://www.otpbank.ro/en>)

This document has been provided to the recipients upon their prior request. Your abovementioned permission may be withdrawn by an e-mail addressed to mihaela.neagu@otpbank.ro or a written mail addressed to OTP Bank Romania S.A., Buzesti Street, no. 66-68, 1st sector Bucuresti, Romania. Please refer to your name and e-mail address in both cases.