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Weekly Report

Romania

24 July 2012



Peripheral concern pushed the leu to historical low

Macroeconomics: CB survey points to an increase of industrial production in July and a slowdown of dynamics in constructions

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The Central Bank published its July survey regarding the evolution of industrial production and constructions. Expectations are that in July, industrial production will increase while perspectives in constructions deteriorate. In constructions, the dynamics is likely to lessen and respondents point at the difficulty in obtaining financing. However, the rhythm will come down from a very fast pace that was observed in Q2 2012: during this period, the industrial construction index was up by 16.4% YoY in April and 21.1% YoY in May. In industry, production will increase especially in manufacturing, while the transport and distribution of electric and thermal energy, gas, and hot water maintain the downtrend.

FX markets: the leu weakens further while the EC extends justice monitoring in Romania; historical low is hit

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The leu continued to hit lower levels against the euro last week, moving against the trend suggested by the evolution of the EUR/USD pair or its peers. To cool down the market, finance minister Florin Georgescu made a statement last Monday when he said that after the referendum the leu would appreciate again and the euro would fall below the 4.5 level against the leu. On Wednesday, the European Commission's report underlined that Romania had to stick to democracy and the rule of law and that it will continue to be monitored on this issue. The stake of this evaluation is Romania's membership in the Schengen zone, which has been delayed until now. Either way, the prospects are for the leu's depreciation given that besides domestic factors, risk coming from international environment is the highest: last week a Spanish region asked for aid and investors fear that Spain will ask a full-blown bailout. Greece's exit re-surfaced in talks even before the summer holiday ended and the word "exit" is not a taboo anymore.

Government securities: risk mode on

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The long end of the yield curve moved up last week so the marginal effect of the political risk on the risk premium persists. Only the short end of the curve moved lower, having reacted to lower interbanking rates. Given that the impeachment of the President is expected at the referendum, we are looking at a period when country risk premium is not likely to decrease. Also, as soon as the summer ends, talks of Greek exit and possibly other countries as well are likely to intensify, which will probably weigh on the country risk premium as well. Therefore, we believe that yields are not likely to come down in the near term. Last week, there was only one bond auction and the Finance Ministry sold only 185 mn RON in 2Y bonds, less than the planned amount of 650 mn RON as the required yields remained high. At least, it did not advance further compared to previous tenders: the average accepted yield stood at 5.98%.

MM: rates fell in the last week of observation period for required reserves

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Money market rates have fallen last week as we approached the end of the observation period for the required reserves. The repo amount decreased to 8.2 bn RON. We expect rates to climb back fast this week, especially since Spain's aid request heated the markets and the observation period for the required reserves ended.

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Macroeconomics: CB survey points to an increase of industrial production in July and a slowdown of dynamics in constructions

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
no data					
24 Jul	JUNE	M3 aggregate (y-o-y, %)			11,3
24 Jul	JUNE	Non -governmental loans (y-o-y, %)			9,4
24 Jul	JUNE	Non -governmental deposits (y-o-y, %)			11,8

The Central Bank published its July survey regarding the evolution of industrial production and constructions. Expectations are that in July, industrial production will increase while perspectives in constructions deteriorate. In constructions, the dynamics is likely to lessen and respondents point at the difficulty of obtaining financing. However, the rhythm will come down from a very fast pace that was observed in Q2 2012: during this period, the industrial construction index was up by 16.4% YoY in April and 21.1% YoY in May. In industry, production will increase especially in manufacturing, while the transport and distribution of electric and thermal energy, gas, and hot water maintain the downtrend. According to the survey, the uptrend in production envisages a longer than one month period. In the case of manufacturing, the production of transport equipment will be the driver, mainly due to a base effect coming from the fact that Dacia stopped production twice in June.

This week banking statistics data will be released.

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%	-6,8%	-5,2%	-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	-6,0	-6,4
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%*	1,0%	1,4%
Key interest rate (avg.)	8,6%	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	5,25%
Key interest rate (e.o.p.)	8,8%	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	5,25%
EUR/RON (avg.)	3,52	3,34	3,68	4,24	4,21	4,24	4,44	4,60
EUR/RON (e.o.p.)	3,38	3,61	3,99	4,23	4,28	4,32	4,50	4,59

Source: Eurostat, OTP Research

Note: * forecast;

FX markets: the leu weakens further while the EC extends justice monitoring in Romania

The leu continued to hit lower levels against the euro last week, moving against the trend suggested by the evolution of the EUR/USD pair or its peers: the Polish zloty, the Czech crown or the Hungarian forint. The bid-ask spread widened above the long-term average of 50 bps to 70 bps this Monday, pointing to more tension on the FX market. **To cool down the market, finance minister Florin Georgescu (who was First Vice Governor of the Central Bank before being appointed as minister) made a statement on Monday when he said that after the referendum the leu would appreciate again and the euro would fall below the 4.5 level against the leu.**

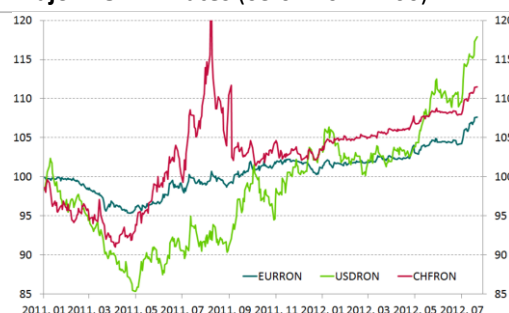
Due to the recent changes to legislation made by the current government, Romania has entered under the radar of EU officials and institutions concerned with the rule of law in Romania. **On Wednesday, the European Commission's report underlined that Romania had to stick to democracy and the rule of law and that it would continue to be monitored on this issue. The stake of this evaluation is Romania's membership in the Schengen zone, which has been delayed until now. EU officials stated that this is a step back for the country. While international feedback to the current events is negative, changes have been made to the referendum-related legislation on Wednesday, in line with the PM's assurances that the Constitutional Court decisions will be taken into consideration.** By this, a minimum turnout rule has been established and chances that the President will survive the vote increased because absence to the vote may render it invalid. **However, the latest survey (by CURS, reported by "Jurnalul National") shows that 61% of the electorate will show up to vote and that 66% will vote for the President to be ousted.** The percentage is not high enough to make the impeachment certain but support for Mr. Basescu is very low due to the previous austerity measures. **Either way, the prospects suggest the leu's depreciation given that besides domestic factors, risk coming from international environment is at its highest:** last week a Spanish region asked for aid and investors fear that Spain will ask a full-blown bailout. Greek exit re-entered in talks even before the summer holiday ended and the word "exit" is not a taboo anymore.

Last data: 19.07.2012

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,57	↑	0,79	↑ 5,83
USDRON	3,73	↑	0,15	↑ 11,81
CHFRON	3,81	↑	0,83	↑ 7,24
RONJPY	4,73	↑	0,94	↑ 9,38
RONPLN	1,10	↑	2,23	↑ 6,91
100HUFRON	1,61	↑	2,77	↑ 17,66
RONCZK	0,18	↑	0,73	↑ 6,77
RONRUB	0,12	↑	2,99	↑ 13,13
RONRSD	0,04	↓	-1,05	↓ -3,16
RONBGN	2,34	↑	0,80	↑ 6,07

Source: Reuters

Major RON FX rates (03.01.2011=100)



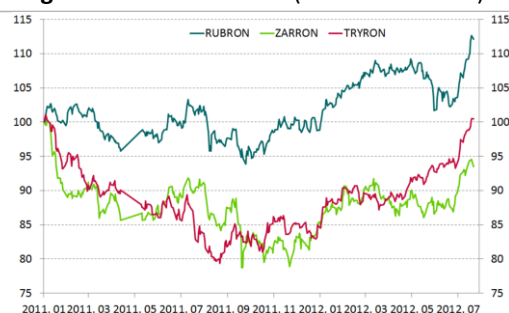
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



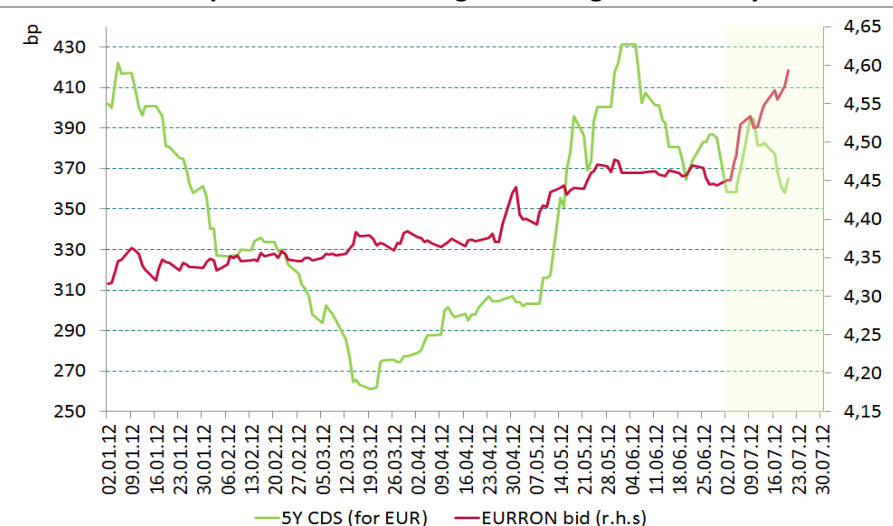
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



Sources: Reuters, OTP Research

Political turmoil pushes the leu on higher trading levels in July



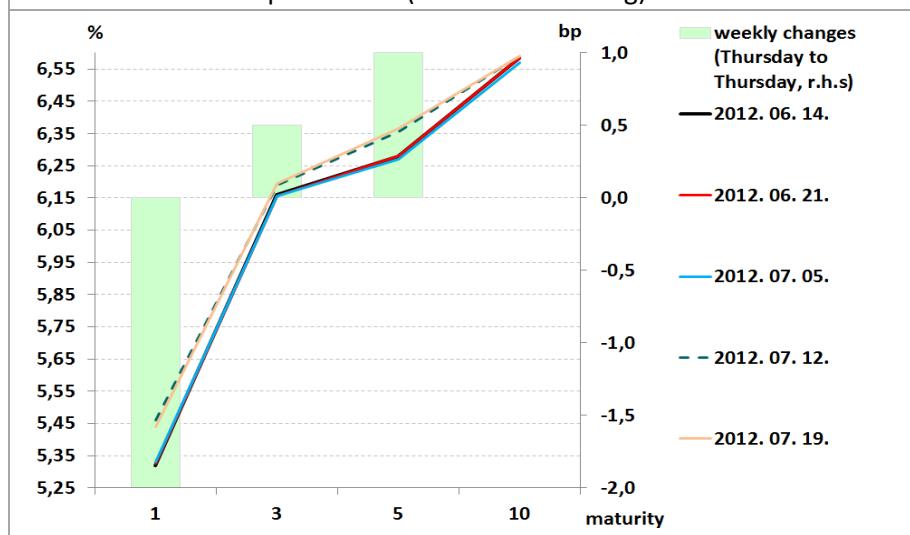
Sources: Reuters, OTP Research

Government securities: risk mode on

The long end of the yield curve moved up last week so the marginal effect of the political risk on the risk premium persists. Only the short end of the curve moved lower, having reacted to lower interbanking rates. The spread to German bunds continue to widen up to 619 bp (in the case of 3Y bonds). Given that the impeachment of the President is expected at the referendum, we are looking at a period when country risk premium is not likely to decrease. Also, as soon as the summer ends, talks of Greek exit and possibly pressure on other countries' yields are likely to intensify, which will probably weigh on the country risk premium as well.

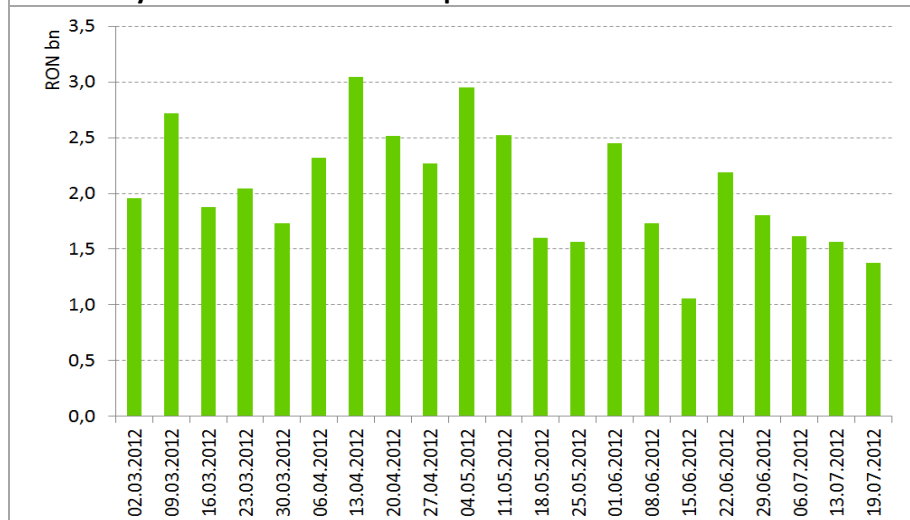
To continue, we have seen that non-residents sold 1bn RON of government securities in May when international tensions increased and the CDS went up abruptly. In May, non-residents held 9.3% of the RON-denominated securities. From the foreign investors' perspective, since the FX risk is becoming more significant, they may ask for higher yields for RON-denominated securities. Therefore, all of the above make us believe that yields are not likely to come down in the near term.

Yield curve over the past weeks (Central Bank fixing)



Sources: NBR, OTP Research

RON-denominated securities (avg. daily volume) traded on the secondary market declined in the past weeks



Sources: NBR, OTP Research
Note: the average for the current week does not include Friday;

Last data: 19.07.2012

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	5,26	↓ -2,5	↓ -100
12M	5,44	↓ -2,0	↓ -94
3Y	6,20	↑ 0,5	↓ -95
5Y	6,37	↑ 1,0	↓ -89
10Y	6,59	↔ 0,0	↓ -74

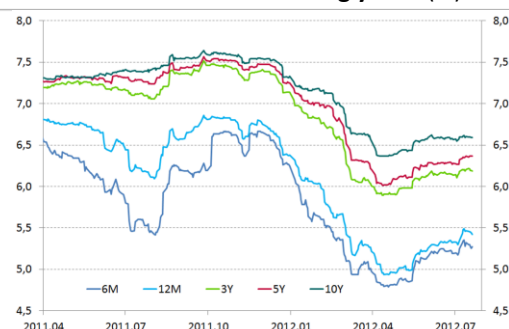
EUR GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6MRO0912DBE034	2,05	↓ -51,1	↓ -207
2YRO1013DBE014	3,87	↓ -23,0	↓ -146

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	619	↑ 3,1	↓ -68
GERROM 5Y	606	↑ 3,5	↓ -44
GERROM 10Y	534	↑ 3,1	↓ -17
3Y -5Y	17	↑ 0,5	↑ 6
5Y -10Y	23	↓ -1,0	↑ 15
3Y-10Y	40	↓ -0,5	↑ 21
FLY 3-5-10	5	↓ -1,5	↑ 8

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	315	↓ -22,3	↓ -57
5Y EURO	361	↓ -21,1	↓ -40

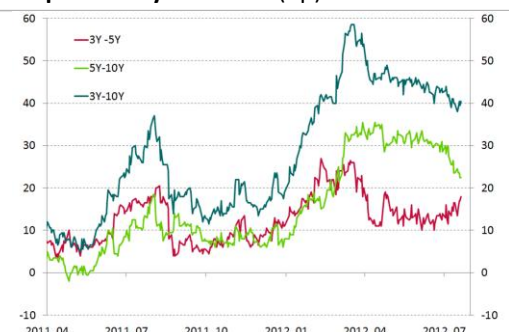
Source: Reuters

Central bank benchmark fixing yields (%)



Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)

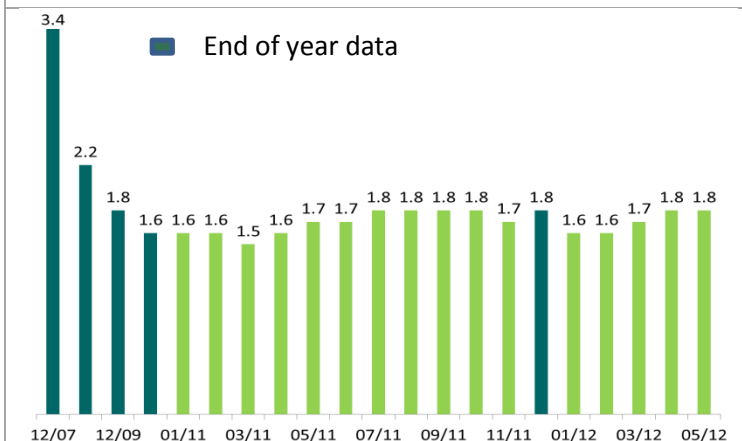


Sources: NBR, OTP Research

Auctions

Last week, there was only one bond auction and the Finance Ministry sold only 185 mn RON in 2Y bonds, less than the planned amount of 650 mn RON as the required yields remained high. At least, it did not advance further compared to previous tenders: the average accepted yield stood at 5.98%, almost unchanged compared to the previous bond auction earlier in July, when it stood at 5.97%. The bid-to-cover ratio was much higher this time, at 5.82 compared to 2.61, and the total amount subscribed was 1.1 bn RON versus 746 mn RON at the beginning of July.

Of the planned 2.3 bn RON planned to be sold in July, the Treasury sold only 1.6 bn RON due to the high yields. The element of surprise this month was the political risk, which pushed down bond prices.

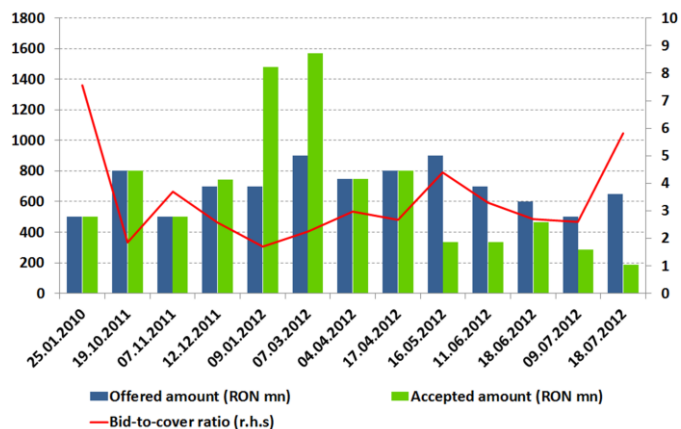
Average remaining maturity of treasuries remained unchanged in May


Source: Ministry of Finance, OTP Research
Note: it does not include the euro bonds

Results of last week's auctions

	RO1214DBN068
Offered amount (RON mn)	650
total bids (RON mn)	1075
accepted amount (RON mn)	185
average accepted yield (%)	5,98
coupon	5,85

Source: Ministry of Finance, OTP Research

2Y auctions data


Sources: NBR, OTP Research

The MinFin increased the weight of bonds issue in July

	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12
Planned targeted amount (RON bn)	4,5	5,0	5,0	4,3	3,8	3,5	2,3
% of bonds	33%	44%	54%	76%	80%	49%	69%

Source: Ministry of Finance, OTP Research

T-bills auction in July

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1213CTN0E9	09.07.2012	11.07.2012	10.06.2013	11	700.000.000

Source: Ministry of Finance, OTP Research

Bonds auctions in July

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1214DBN068	05.07.2012	09.07.2012	28.07.2014	2	5,85	500.000.000
RO1216DBN030	12.07.2012	16.07.2012	27.01.2016	4	5,75	400.000.000
RO1214DBN068	18.07.2012	18.07.2012	28.07.2014	2	5,85	650.000.000

Sources: Ministry of Finance, OTP Research

MM: rates fell in the last week of observation period for required reserves

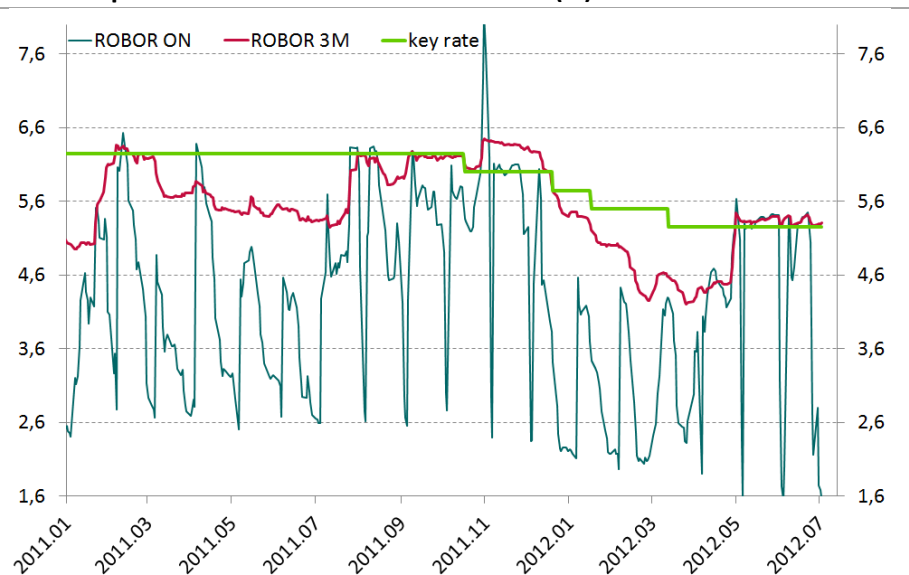
Money market rates have fallen last week as we approached the end of the observation period for the required reserves. The repo amount decreased to 8.2 bn RON. A similar level was last seen in May 2012. Interbanking deposits climbed again at higher level and the stock exceeded 4 bn last week after having fallen below 2 bn in the first week of July.

The EUR/RON cross currency basis swap quotations went down since the beginning of the year and in the case of the 1Y EUR/RON, it reached zero last week. We believe there are two reasons for this:

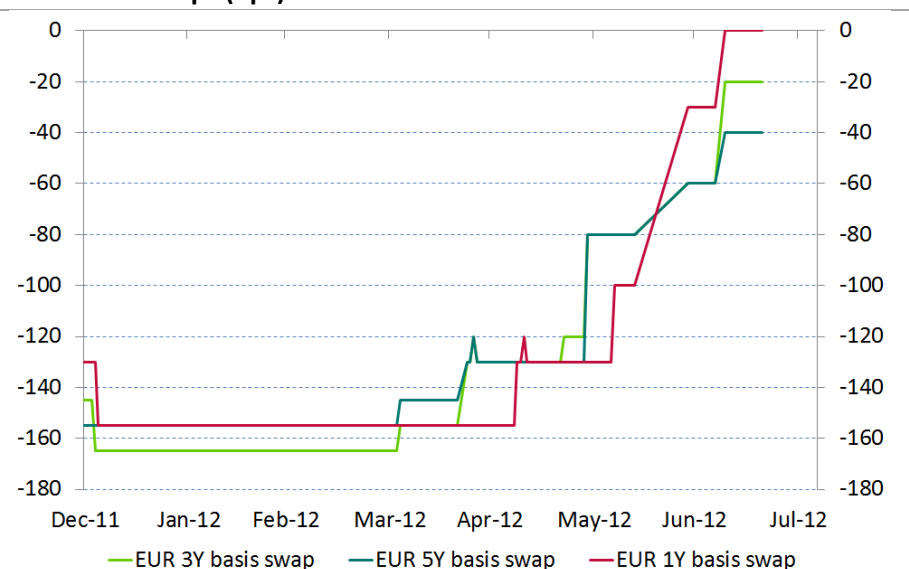
- the 3M ROBOR went back around the base rate level in June (5.35%) and July (5.33%) whereas it stood at 4.34% in April and 4.94% in May
- the leu liquidity environment has been tight in the past few months.

We expect rates to climb back fast this week, especially since Spain's aid request heated the markets and the observation period for the required reserves ended.

Most important MM instruments from 2011 (%)



EUR BASIS swaps (bps)



Last data: 19.07.2012

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	→ 0	↓ -75
ROBOR ON	1,58	→ -112	↓ -295
ROBOR 3M	5,31	↑ 2	↓ -74
ROBOR 6M	5,56	↑ 2	↓ -97
ROBOR 9M	5,56	↑ 2	↓ -105
ROBOR 1Y	5,61	↑ 5	↓ -105

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	8.218,3	-5427,6	1507,3

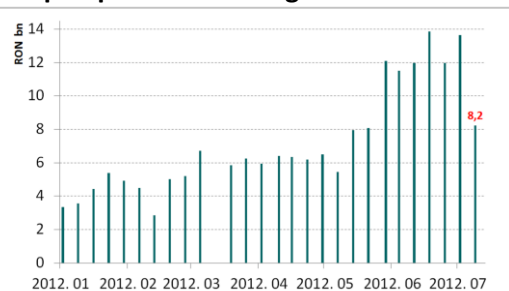
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.338,6	410,9	311,1

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USD RON 1W	22	↓ -5	↓ -3
USD RON 1M	157	↑ 5	↑ 7
USD RON 3M	411	↓ -20	↑ 165
EUR RON 1W	44	↑ 23	↑ 3
EUR RON 1M	197	↑ 22	↑ 52
EUR RON 3M	580	↑ 53	↑ 69

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EUR RON 1Y	0	→ 0	↑ 155
EUR RON 3Y	-20	→ 0	↑ 135
EUR RON 5Y	-40	→ 0	↑ 110

Source: Reuters

Repo operations during 2012



Sources: NBR, OTP Research

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