

## 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

6 August 2012



## The referendum results are still debated putting pressure on the leu

### Macroeconomics: Retail trade declined in June (-1.1% MoM); unemployment rate marginally down at 7.6% (Page 3-4)

Retail trade growth rate decelerated in June to 3.9% YoY (-1.1% MoM, seasonally adjusted data) from 5.9% YoY (1.1 MoM, SA) in May. The main driver was the trade with non-foods which fell into the negative territory both on annual and monthly basis: -0.1% YoY and -3.3% MoM (SA). This shows that households are cutting back on investments and in general cut expenses on goods with higher elasticity of demand. Industrial producer prices hike eased in June to 5.8% YoY from 6.7% YoY in May. Both domestic and external market prices growth rate weakened. The ILO unemployment rate slowed down in June to 7.6% (seasonally adjusted data) from 7.7% in May.

### FX markets: the leu subdued by political events (Page 5)

The leu was subdued by political events last week. The results of the referendum showed that 8.4 mn voters exercised their right to vote and 7.4 mn voted for the impeachment, 943 thousand were against and 112 thousand votes were invalid. Based on this participation number and a total of 18.3 mn persons that should be the size of the electorate, the Central Election Bureau announced on Wednesday that 46.2% of the electorate voted at the referendum, therefore the minimum turnout of 50% plus 1 was not met. However, the size of the electorate is being disputed and the Constitutional Court is yet to decide on the validity of the referendum, until 31<sup>st</sup> August. The entire process pressures the leu, adding to other risk factors: the budget deficit for 2012 and 2013 and the international context. Even if there is still room for Central Bank intervention on the FX market (as the CB Governor stated) interventions may become more targeted which means that leu's volatility against the euro could increase. Meanwhile, the biggest external risks have not manifested yet (no exit from the euro zone).

### Government securities: yields went down last week (Page 6-7)

Government securities yields dropped last week (Thursday to Thursday) up to 4 bp, in line with lower CDS quotations (-30 bp in the case of the 3Y CDS). Most likely the decline in the CDS was associated with the positive mood witnessed by foreign investors, at news that the ECB will step up its bond buying program, thereby releasing tensions on European bond markets. An IMF mission is currently in Romania for the sixth evaluation of the standby agreement. On 13th August they will deliver the conclusions of the evaluation and probably announce a reduction of the GDP forecast and the corresponding changes to the budget deficit. The Treasury plans to sell 2.5 bn RON in August, out of which the majority (1.9 bn RON) are T-bills, given the rise in borrowing cost.

### MM: The Central Bank held the base rate at 5.25% (Page 8)

Money market rates fell marginally last week, after the Central Bank increased the weekly size of the repo operation by 3.9 bn RON to 12.1 bn RON. The stock of interbank deposits fell back to lower levels. The CB held the base rate unchanged at 5.25% last week, as it was broadly expected and did not change the required reserve ratio either. The main argument for this decision is still the heated international environment and the impact that the flight of capital has on the exchange rate. The Governor cited some sources for capital flight such as selling of RON denominated treasuries by the non residents and the fact that parent banks do not renew their credit lines to the Romanian subsidiaries.

#### 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  
kondoras@otpbank.hu

**Bálint Szaniszló**  
+36 1 374 7271  
szaniszl@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

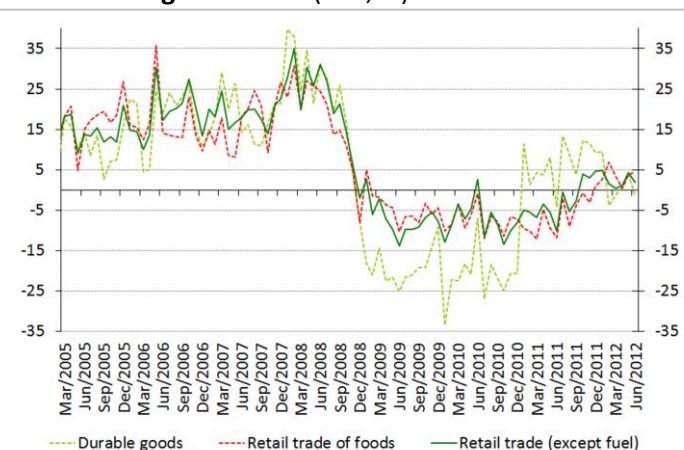
#### Technical Analyst

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

**Macroeconomics: Retail trade declined in June (-1.1% MoM); unemployment rate marginally down at 7.6%**

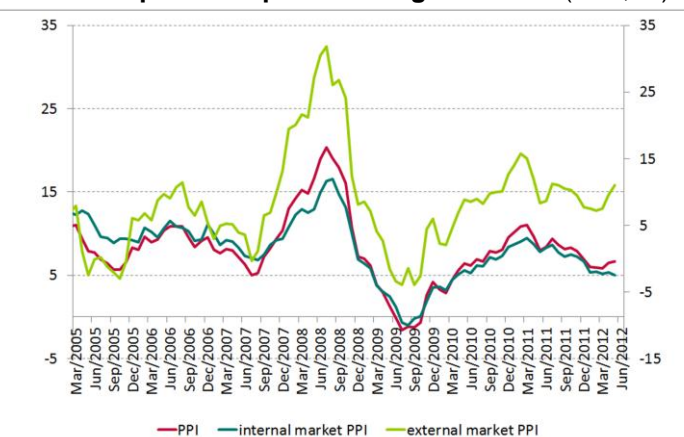
PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
30 Jul	JUNE	Licenses for residential buildings (y-o-y, %)	-5,6	2,0
31 Jul	JUNE	ILO unemployment rate (% , seasonally adjusted)	7,6	7,7
01 Aug	JULY	FX reserves (bn EUR)	32,1	33,0
01 Aug	AUG	Base rate decision (%)	5,25	5,25
02 Aug	JUNE	Retail trade turnover index (y-o-y, %)	3,9	5,9
02 Aug	JUNE	Industrial production price indices (y-o-y, %)	5,8	6,7
06 Aug	JUNE	Net wage growth rate ( y-o-y, %)		4,9
08 Aug	JUNE	Construction works index (y-o-y, %)		21,1
09 Aug	JUNE	Exports (y-o-y, %)		3,9
09 Aug	JUNE	Imports (y-o-y, %)		-1,9
09 Aug	JUNE	Index value of new orders in manufacturing (y-o-y, %)		3,7
10 Aug	JUNE	Wholesale services turnover index (y-o-y, %)		7,1
10 Aug	JUNE	Households services turnover index (y-o-y, %)		-2,2
10 Aug	JULY	Consumer price index (y-o-y, %)		2,0

**Retail trade growth rate decelerated in June to 3.9% YoY (-1.1% MoM, seasonally adjusted data) from 5.9% YoY (1.1 MoM, SA) in May.** The main driver was the trade with non-foods which fell into the negative territory both on annual and monthly basis: -0.1% YoY and -3.3% MoM (SA). **This shows that households are cutting back on investments and in general cut expenses on goods with higher elasticity of demand, whereas food and fuel consumption maintained an uptrend.** Fuels trade advanced by 10.2% YoY (+1.1% MoM, SA) and foods trade accelerated compared to the previous month: +4.4% YoY (+0.8% MoM, SA) in June, compared to 3.7% YoY (+0.3% MoM, SA) in May.

**Retail trade growth rate (YoY, %)**


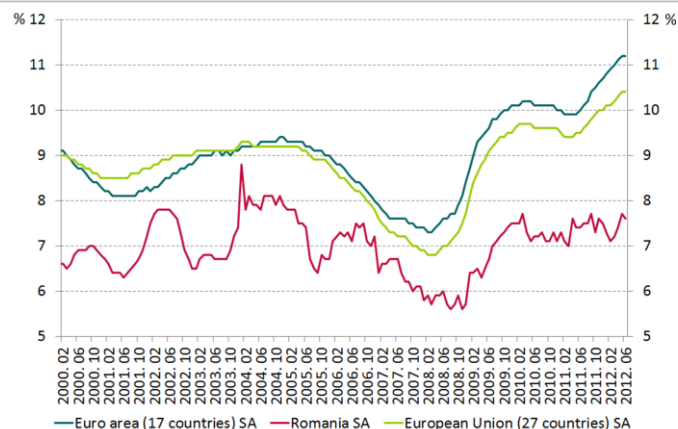
Source : NIS, OTP Research  
Note: in house seasonally adjusted data

**Industrial producer prices hike eased in June to 5.8% YoY from 6.7% YoY in May. Both domestic and external market prices growth rate weakened:** +4.3% YoY (domestic) and +9.5% YoY (external). On large industrial groups, the top increase was noticed in the energetic industry (+7.6%), followed by non –durable consumer goods (+5.6% YoY), capital goods (+4.6% YoY), intermediary goods (+4.6% YoY) and durable consumer goods (+4.1% YoY).

**Industrial producer price index growth rate (YoY, %)**


Source : NIS, OTP Research

**The ILO unemployment rate slowed down in June to 7.6% (seasonally adjusted data) from 7.7% in May.** At the EU level, the unemployment remained at historical highs: 11.2% (EU17).

**Unemployment (YoY)**


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%	-6,8%	-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: \*under revision; \*\* forecast



FX markets: the leu subdued by political events

The leu was subdued by political events last week. The results of the referendum showed that 8.4 mn voters exercised their right to vote and 7.4 mn voted for the impeachment, 943 thousand were against and 112 thousand votes were invalid. Based on this participation number and a total of 18.3 mn persons that should be the size of the electorate, the Central Election Bureau announced on Wednesday that 46.2% of the electorate voted at the referendum, therefore the minimum turnout of 50% plus 1 was not met. However, the Constitutional Court is responsible for the validation of the referendum and the ruling has been postponed to 31<sup>st</sup> August, following allegations made by the USL according to which the size of the electorate based on which the percentages have been calculated is not correct. **The entire process pressures the leu, adding to other risk factors such as: the budget deficit for 2012 and 2013 and the international context.**

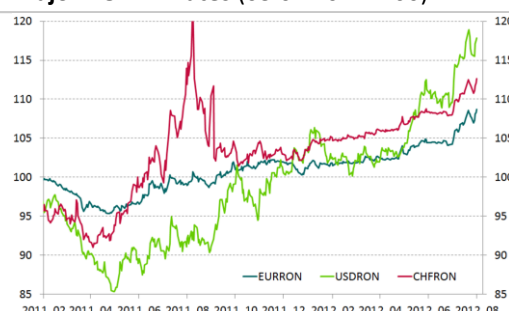
Given the risks above mentioned for the leu, we are also looking at the FX reserves which have been strong until now, but in 2013 and 2014 Romania has to make payments to the IMF of around 5bn EUR each year and currently the FX reserves amount to 32.1 bn EUR. Romania already announced the intention to tap the international bond markets again in Q3 2012 but in November 2012 it has to make another payment to the IMF of around 800 mn EUR. Also, these bonds issues could become more expensive if external risks intensify, therefore a cheaper alternative would be to draw money from the current stand by agreement with the IMF and this would imply a significant change of fiscal parameters for Romania. **Therefore, even if there is still room for Central Bank intervention on the FX market (as the CB Governor stated) interventions may become more targeted which means that leu's volatility against the euro could increase. Meanwhile, the biggest external risks have not manifested yet (no exit from the euro zone).**

Last data: 02.08.2012

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,62	↑	0,41	↑ 7,02
USDRON	3,79	↑	0,93	↑ 13,77
CHFRON	3,85	↑	0,23	↑ 8,22
RONJPY	4,85	↑	1,12	↑ 11,96
RONPLN	1,12	↑	0,76	↑ 8,72
100HUFRON	1,64	↑	1,30	↑ 20,07
RONCZK	0,18	↑	0,22	↑ 8,19
RONRUB	0,12	↑	0,09	↑ 12,28
RONRSD	0,04	↑	0,30	↓ -2,92
RONBGN	2,36	↑	0,35	↑ 7,16

Source: Reuters

Major RON FX rates (03.01.2011=100)



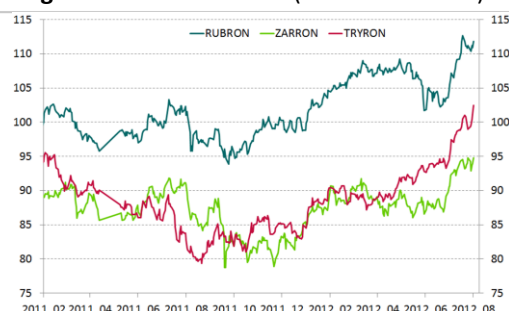
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



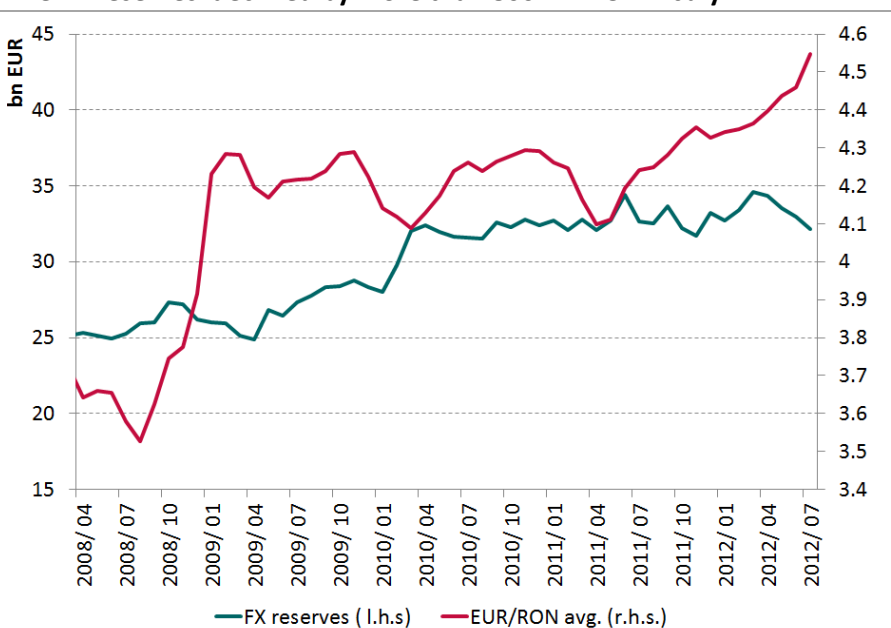
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



Sources: Reuters, OTP Research

The FX reserves declined by more than 800 mn EUR in July



Sources: NBR, OTP Research

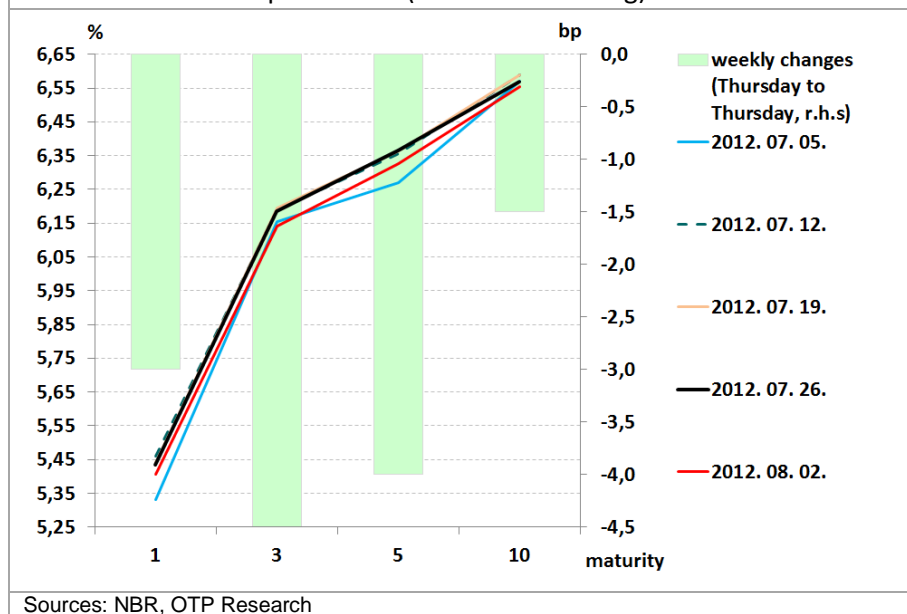
## Government securities: yields went down last week

**Government securities yields dropped last week (Thursday to Thursday) up to 4 bp**, in line with lower CDS quotations (-30 bp in the case of the 3Y CDS). Most likely the decline in the CDS was associated with the positive mood witnessed by foreign investors, at news that the ECB will step up its bond buying program, thereby releasing tensions on European bond markets. Spread to German bunds headed downwards as well. Meanwhile, **the amount of RON denominated securities traded on the secondary market marked an increase, for the second consecutive week after we have seen it decline since the end of June. The term premium widened as shown by the 3Y-5Y/5Y-10Y/3Y-10Y spreads.**

**An IMF mission is currently in Romania for the sixth evaluation of the stand by agreement. On 13<sup>th</sup> August they will deliver the conclusions of the evaluation and probably announce a reduction of the GDP forecast and the corresponding changes to the budget deficit.** We look forward to this evaluation as the continued political tensions put discussions into a new perspective and the **feed back from the IMF is closely watched by investors and rating agencies.**

**The Treasury announced the August calendar for governments securities issue. It plans to sell 2.5 bn RON, out of which the majority (1.9 bn RON) are T-bills, given the rise in borrowing cost.**

Yield curve over the past weeks (Central Bank fixing)



Last data: 02.08.2012

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	5,22	↓ -4,0	↓ -103
12M	5,41	↓ -3,0	↓ -98
3Y	6,14	↓ -4,5	↓ -100
5Y	6,33	↓ -4,0	↓ -93
10Y	6,56	↓ -1,5	↓ -78

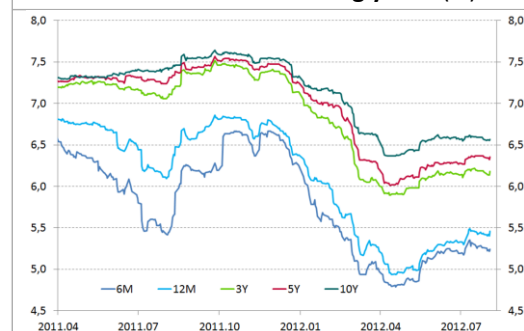
SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	612	↓ -6,3	↓ -74
GERROM 5Y	598	↓ -5,9	↓ -52
GERROM 10Y	524	↓ -6,5	↓ -27
3Y -5Y	19	↑ 0,5	↑ 8
5Y -10Y	23	↑ 2,5	↑ 15
3Y-10Y	42	↑ 3,0	↑ 23
FLY 3-5-10	5	↑ 2,0	↑ 8

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	321	↓ -29,8	↓ -50
5Y EURO	372	↓ -28,2	↓ -30

Source: Reuters

Central bank benchmark fixing yields (%)



Sources: NBR, OTP Research

Slope of the yield curve (bp)

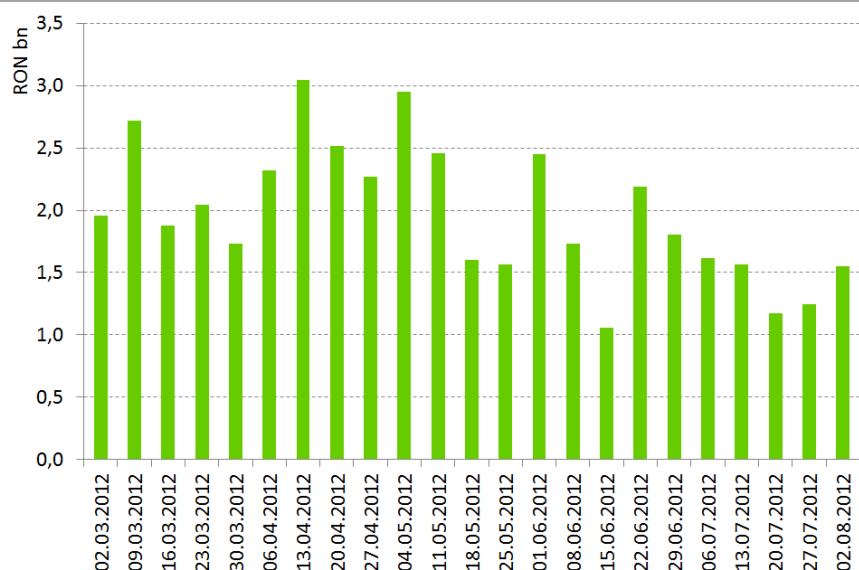


Sources: NBR, OTP Research

FLY 3-5-10 (bp)

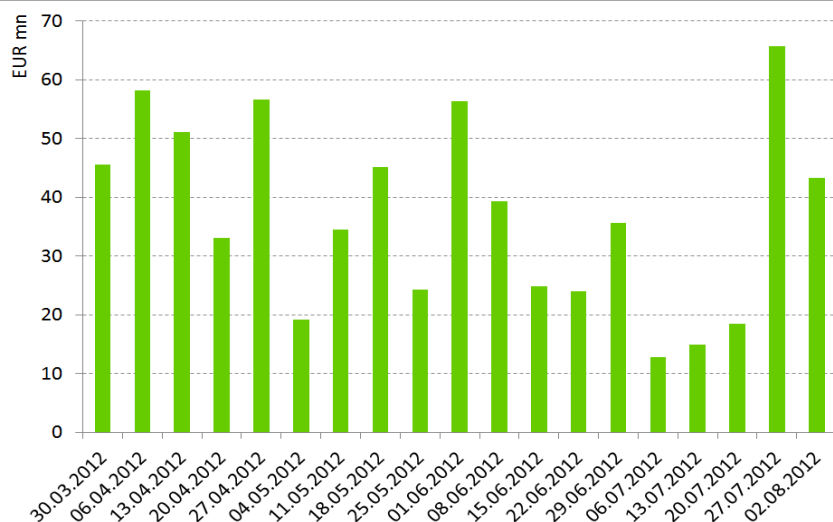


Sources: NBR, OTP Research

**RON denominated securities (avg. daily volume) traded on the secondary market increased last week**


Sources: NBR, OTP Research

Note: the average for the current week does not include Friday;

**EUR denominated securities (avg. daily volume) traded on the secondary market declined last week**


Sources: NBR, OTP Research

Note: the average for the current week does not include Friday;

**The MinFin decreased the weight of bonds issue in August**

	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12
Planned targeted amount (RON bn)	4,5	5,0	5,0	4,3	3,8	3,5	2,3	2,5
% of bonds	33%	44%	54%	76%	80%	49%	69%	24%

Source: Ministry of Finance, OTP Research

**T –bills auction in August**

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1213CTN0F6	06.08.2012	08.08.2012	07.08.2013	12	700.000.000
RO1213CTN0G4	13.08.2012	16.08.2012	24.04.2013	8	700.000.000
RO1213CTN0H2	20.08.2012	22.08.2012	21.08.2013	12	500.000.000

Source: Ministry of Finance, OTP Research

**Bonds auctions in August**

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1214DBN068	09.08.2012	13.08.2012	28.07.2014	2	5,85	400.000.000
RO1216DBN030	23.08.2012	27.08.2012	27.01.2016	4	5,75	200.000.000

Sources: Ministry of Finance, OTP Research



MM: The Central Bank held the base rate at 5.25%

Money market rates fell marginally last week, after the Central Bank increased the weekly size of the repo operation by 3.9 bn RON to 12.1 bn RON. The stock of interbank deposits fell back to lower levels and it went down by 570 mn RON on a weekly basis. The EUR/RON cross currency basis swap quotations increased again last week, which means that borrowing euro on the FX swap market has become more expensive and therefore tension on the money markets resumed growth.

The Central Bank held the base rate unchanged at 5.25% last week, as it was broadly expected and did not change the required reserve ratio either. As it has explained until now, the main argument for this decision is still the heated international environment which forces the CB to be cautious, given the impact that the flight of capital has on the exchange rate and therefore on inflation. The Governor cited some sources for capital flight such as selling of RON denominated treasuries by the non residents and the fact that parent banks do not renew their credit lines to the Romanian subsidiaries. By maintaining the current base rate, a further depreciation of the leu due to the decrease on money market rates was avoided. Since there are no expectations that the international turmoil will cool off in the immediate period, the CB most likely will maintain a cautious stance in the future as well. The next monetary policy meeting will be held on 27<sup>th</sup> of September when we expect that negotiations at the EU level regarding a possible intervention by the ECB to be intensely debated which means that risk aversion towards Romanian assets will maintain at relatively high levels, with negative impact on the liquidity in the banking system.

Last data: 02.08.2012

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↓ -75
ROBOR ON	5,25	↓ -1	↑ 72
ROBOR 3M	5,38	↔ 0	↓ -67
ROBOR 6M	5,58	↓ -3	↓ -95
ROBOR 9M	5,59	↓ -3	↓ -102
ROBOR 1Y	5,64	↓ -1	↓ -102

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	12.079,1	3928,9	5368,1

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2.596,1	-569,6	-1431,4

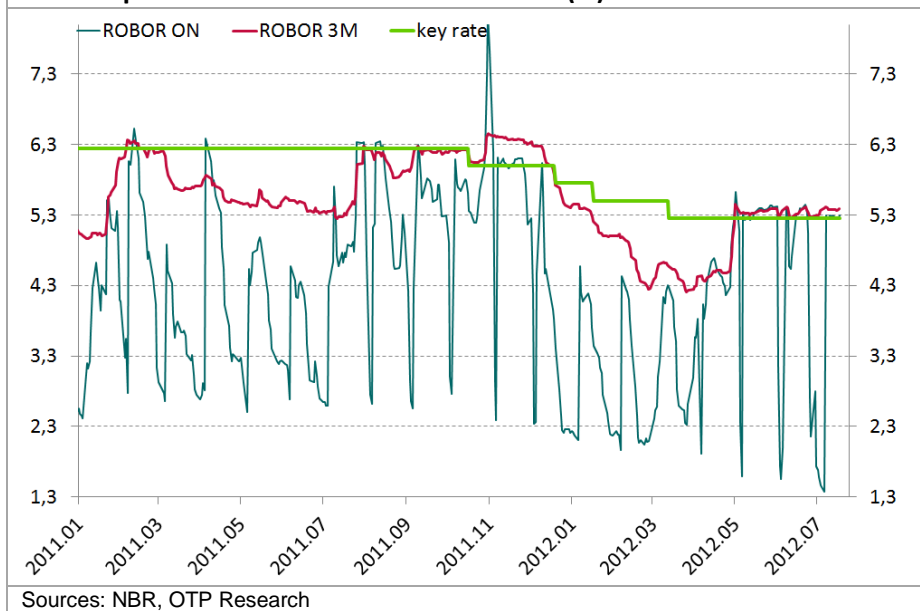
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	35	↓ -2	↑ 11
USDRON 1M	161	↑ 6	↑ 11
USDRON 3M	422	↓ -23	↑ 176
EURRON 1W	46	↑ 1	↑ 6
EURRON 1M	200	↓ 0	↑ 55
EURRON 3M	579	↓ -11	↑ 68

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-60	↓ -60	↑ 95
EURRON 3Y	-60	↓ -25	↑ 95
EURRON 5Y	-55	↓ -10	↑ 95

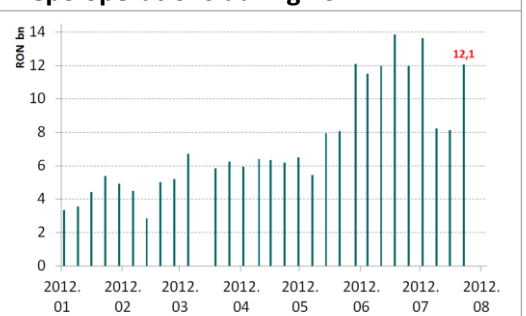
Source: Reuters

Most important MM instruments from 2011 (%)



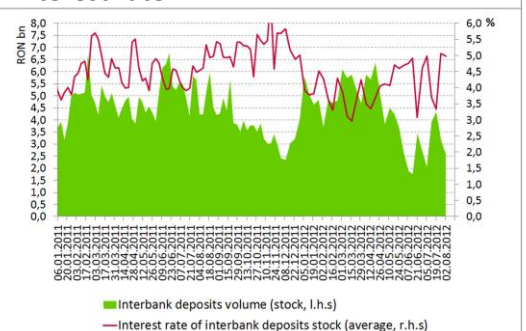
Sources: NBR, OTP Research

Repo operations during 2012



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research



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