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Weekly Report

Romania

02 October 2012



“Stability” is the word of the day; the CB keeps the base rate unchanged and IMF sees Romania on track

Macroeconomics: Non- governmental loans increased by 5.7% YoY in August; deposits were up by 8.8% YoY (Page 3-4)

August banking statistics growth rate came lower than in July, but especially on the lending side (FX loans are more than 60% of total nongovernmental loans) there was a strong FX effect: in August, the leu depreciated by 5.6% YoY compared to July when the impact was much higher on the FX loans side, as depreciation stood at 7.7% YoY. The annual growth rate of non-governmental loans stood at 5.7% YoY in August compared to 7.2% YoY in July. We notice a pickup in RON lending but otherwise, looking at overall loan flows, according to our in house seasonally adjusted data, lending flows were weaker in August than in the previous months and this trend is especially visible in the corporate loans segment.

FX markets: external markets are driving leu’s evolution (Page 5-7)

As NBR removed the liquidity cap on the weekly repo injections in September and the political scene has calmed down, there were no major domestic influence on the leu’s evolution. The drivers that pushed it lower against the euro were external, connected mainly to growth expectations in the eurozone which will take its toll on the Romanian economy as well. Looking in the coming months, depreciation pressure remains for the period ahead since we do not expect a major modification in FDI inflows or interest rates change.

Government securities: yield curve shifted slightly down (Page 8-9)

Since NBR quited the liquidity cap in September, yields have fallen on average by 10 bp. In absence of another liquidity cap from NBR and another international event that could increase risk aversion towards European markets in general, we expect that ROBOR ON rate will marginally fall further on average in October so this could shift the yield curve further lower. However, the market does not expect a significant cut in the base rate in the near future that could depress yields to a greater extent. In what concerns country’s rating perspectives are good. The IMF released the 6th review of the stand by agreement last week and the evaluation said that Romania is on track with its targets, except for the issue of local and general government arrears. The 8M cash budget deficit remained unchanged at 1.2%. The Finance Ministry planned to sell 4.2 bn RON in T-bills and bonds in October and 150 mn EUR in 4Y bonds. Among the RON denominated bond issues are 2Y, 3Y and 5Y bonds.

MM: CB maintained the base rate at 5.25%, citing rising inflation due to food prices and leu’s depreciation (Page 10-11)

The NBR maintained the base rate at 5.25% as expected admitting that short term inflation perspectives have deteriorated due to the impact coming from domestic and international food prices and the leu’s depreciation. Reuters’ poll for the end of the year is at 4% YoY. The above factors are going to influence prices next year as well, when inflation target is at 2.5%, lower than this year’s 3%. Even if it stands to miss its inflation target next year, NBR will probably leave the base rate unchanged as well, in a try to balance its objectives regarding price stability and financial stability.

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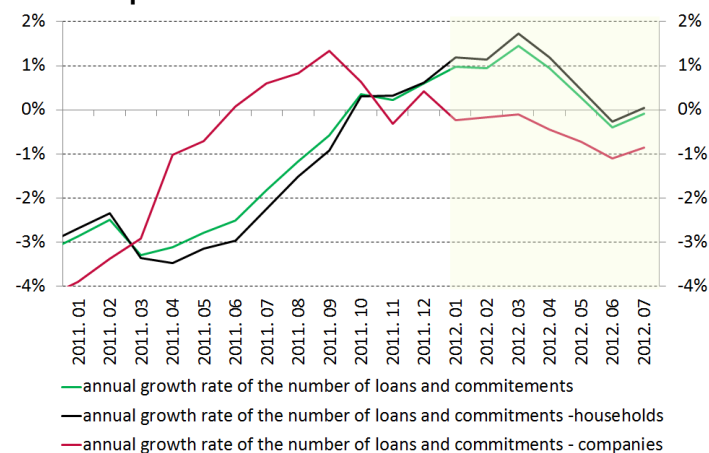
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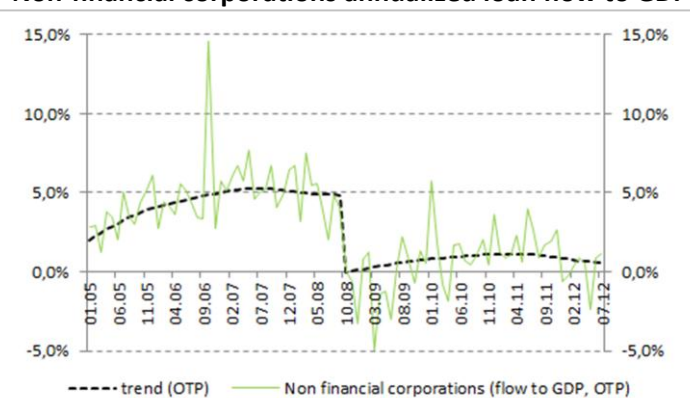
Macroeconomics: Non-governmental loans increased by 5.7% YoY in August; deposits were up by 8.8% YoY

PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
25 Sep	Aug	M3 aggregate (y-o-y, %)	7,2	8,3
25 Sep	Aug	Non -governmental loans (y-o-y, %)	5,7	7,2
25 Sep	Aug	Non -governmental deposits (y-o-y, %)	8,8	9,9
27 Sep		Base rate decision (%)	5,25	5,25
28 Sep	Aug	Licenses for residential buildings (y-o-y, %)	-8,1	-0,7
01 Oct	Aug	ILO unemployment rate (% , seasonally adjusted)	7,1	7,0
02 Oct	Aug	Retail trade turnover index (y-o-y, %)	4,9	4,8
02 Oct	Aug	Producer Price Index(y-o-y,%)	7,2	5,7
05 Oct	Aug	Net wage growth rate (y-o-y, %)		5,9

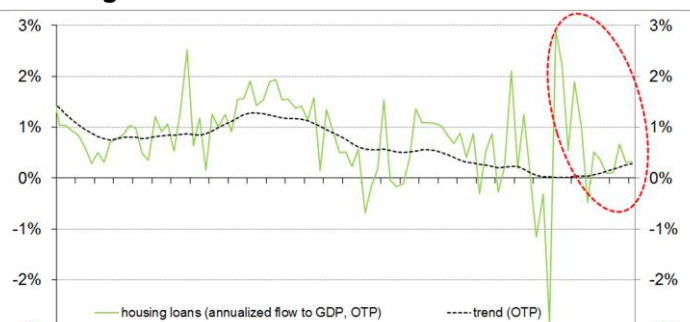
August banking statistics growth rate came lower than in July, but especially on the lending side (FX loans are more than 60% of total nongovernmental loans) there was a strong FX effect: in August, the leu depreciated by 5.6% YoY compared to July when the impact was much higher on the FX loans side, as depreciation stood at 7.7% YoY. The annual growth rate of non-governmental loans stood at 5.7% YoY in August compared to 7.2% YoY in July. We notice a pickup in RON lending but otherwise, looking at overall loan flows, according to our in house seasonally adjusted data, lending flows were weaker in August than in the previous months and this trend is especially visible in the corporate loans segment. Domestic figures look much better than in the euro area where the annual growth rate of loans to corporations is still negative, as a result of continued uncertainty, despite the fact that the ECB cut the base rate to 0.75% from 1% in July.

Loan demand weakened further in Q3 compared to first two quarters


Source : NBR, OTP Research

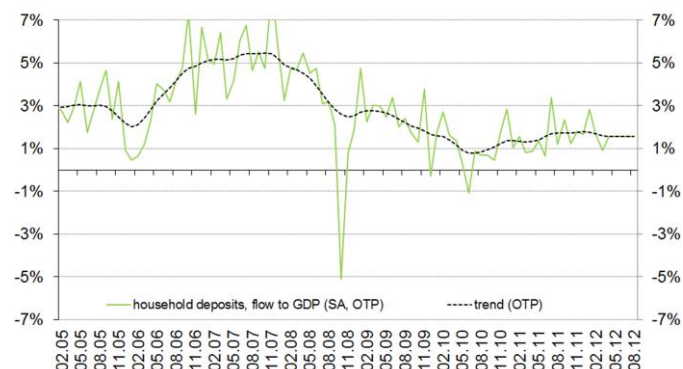
Non-financial corporations annualized loan flow to GDP


Source : NBR, OTP Research

Housing annualized loan flow to GDP


Source : NBR, OTP Research

Private loans growth rate fell to 5.7% YoY in August from 7.2% YoY in July. Corporations continue to be the main receiver of banks' financing and the annual growth figure stands at 8% YoY compared to only 3.1% YoY in case of households. **The most preferred maturity seems to be shorter than one year, in the case of corporations,** followed by long term loans (maturity longer than 5 years). The medium term business forecast is the most difficult to make and probably businesses mostly extend their working capital lines while others, which are already well established on the market and have a good credit history afford to make longer term investments as well. In the case of households, mortgage loans are the driver while consumer lending continues to be very low. **Mortgages in local currency have seen the highest annual advance since 2010 at 8.6% YoY in August,** being the third consecutive month when we noticed an advance.

Household deposits, annualized flow to GDP


Source : NBR, OTP Research

Non-governmental deposits were up 8.8% YoY in August, supported by households deposits (+11% YoY) while companies added only 5.3% YoY. From our in house seasonally adjusted data we see a stabilization of monthly deposit flows in case of households and a marginal deterioration in the case of companies.

Residential business licenses continued to fall in August: -8.1% YoY. Of the total, 70% are assigned to rural areas.

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%	0,9%	1,9%
Actual individual consumption of households	10,6%	10,5%	8,9%	-9,1%	-0,3%	0,7%	1,7%	1,8%
Households consumption expenditure	12,9%	12,0%	9,0%	-10,4%	-0,4%	1,4%	1,8%	1,8%
Government consumption	-11,5%	2,5%	6,2%	9,5%	-10,0%	-3,4%	-0,5%	1,1%
Gross fixed capital formation	19,9%	30,3%	15,6%	-28,1%	-2,1%	6,3%	9,9%	4,6%
Exports	10,4%	7,8%	8,3%	-6,4%	14,0%	9,9%	0,0%	7,1%
Imports	22,6%	27,3%	7,9%	-20,5%	11,9%	10,5%	1,3%	7,1%
Consumer prices (avg.)	6,6%	4,8%	7,8%	5,6%	6,1%	5,8%	3,0%	4,1%
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%	35,0%	36,6%
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	-6,1	-6,6
Unemployment	7,3%	6,4%	5,8%	6,9%	7,3%	7,4%	7,1%	6,9%
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%*	1,5%	0,3%
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	4,45	4,47
EUR/RON (e.o.p.)	3,38	3,61	3,99	4,23	4,28	4,32	4,50	4,43

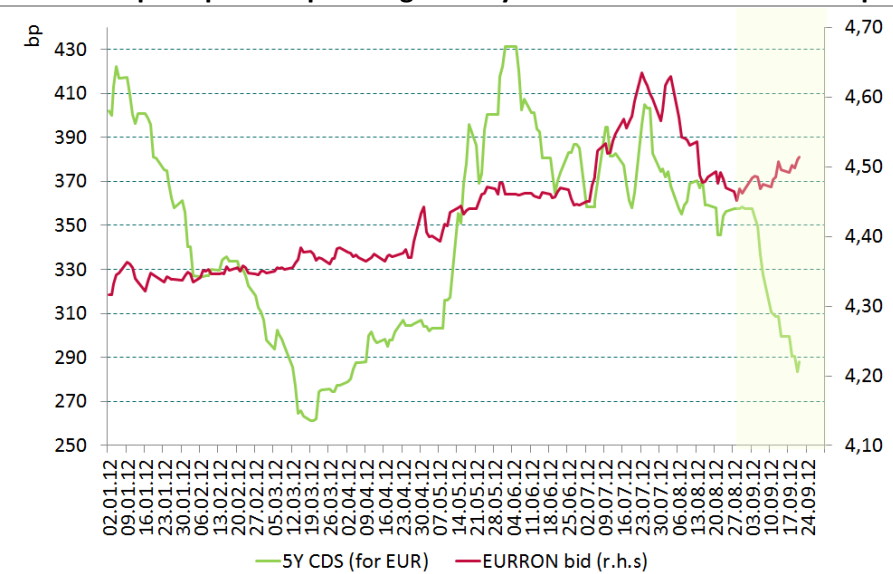
Source: Eurostat, OTP Research

Note: * forecast

FX markets: external markets are driving leu's evolution

As NBR removed the liquidity cap on the weekly repo injections in September and the political scene has calmed down, there were no major domestic influence on the leu's evolution. The drivers that pushed it lower against the euro were external, connected mainly to growth expectations in the eurozone which will take its toll on the Romanian economy as well.

As NBR removed the liquidity cap, the leu marginally depreciated while credit risk perception improved gradually on ECB announcement in Sep



Sources: Reuters, OTP Research

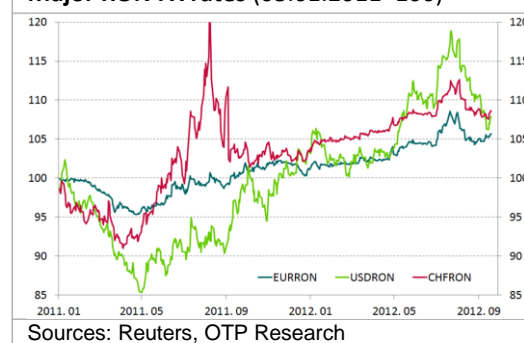
Post 2009 when the crisis hit Romania the hardest, FDI decreased significantly and this resulted in leu's depreciation. Also, RON interest rates started to decline as seen in the graph below which put more pressure on the currency. Temporarily leu appreciated as speculative capital entered the country. For example, RON appreciated in the first half of 2011 when we concomitantly saw high investment portfolio inflows. The Finance Ministry reported that non residents' holdings increased by 5.7 bn RON in H1 2011. Since then, they dropped to 4.7 bn RON in July 2012 (please see the graphs below) which induced volatility and leu depreciated in the context of political tensions in the local scene. Looking in the future, depreciation pressure remains for the period ahead since we do not expect a major modification of any of the above mentioned drivers.

Last data: 27.09.2012

FX BID				
	Value	Weekly chg. (%)	YTD chg. (%)	
EURRON	4,52	↑ 0,14	↑ 4,54	
USDRON	3,50	↑ 0,58	↑ 4,99	
CHFRON	3,73	↑ 0,20	↑ 5,09	
RONJPY	4,50	↑ 1,34	↑ 4,08	
RONPLN	1,09	↑ 0,55	↑ 6,02	
100HUFRON	1,59	↓ -0,26	↑ 16,25	
RONCZK	0,18	↓ -0,39	↑ 6,77	
RONRUB	0,11	↑ 1,37	↑ 9,09	
RONRSD	0,04	↑ 0,44	↓ -2,42	
RONBGN	2,31	↑ 0,17	↑ 4,78	

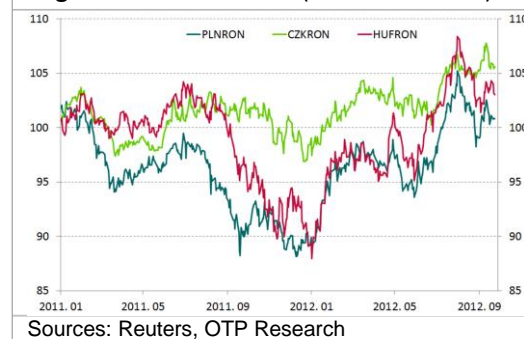
Source: Reuters

Major RON FX rates (03.01.2011=100)



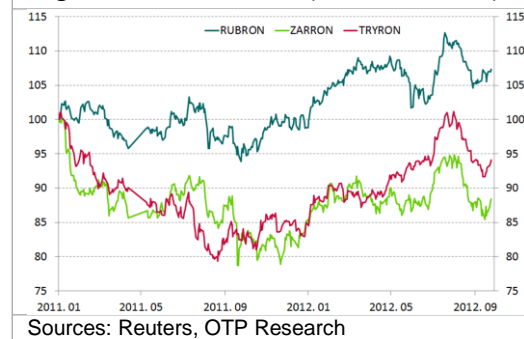
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



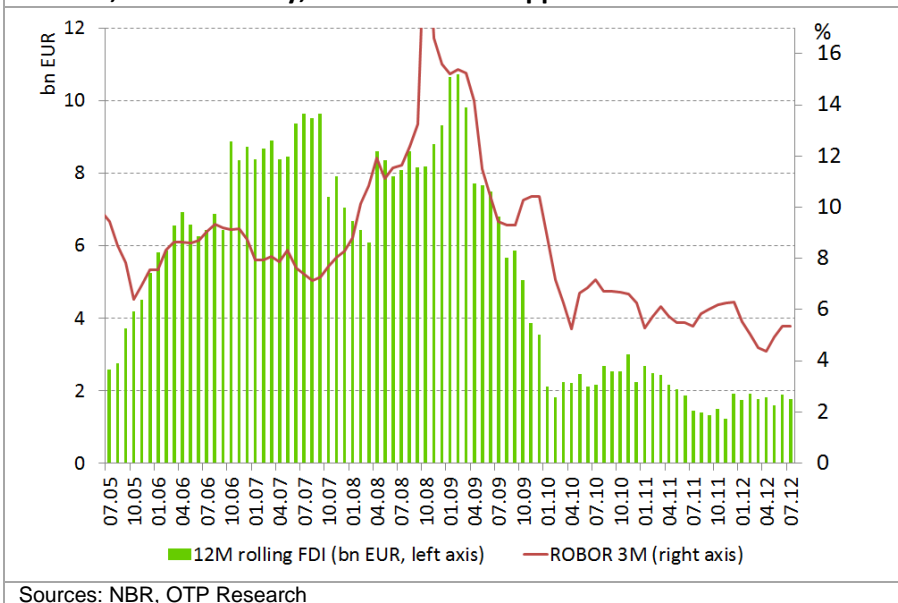
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)

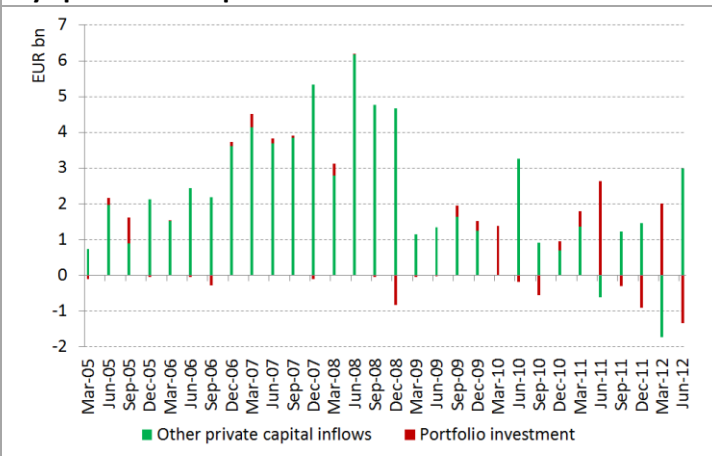


Sources: Reuters, OTP Research

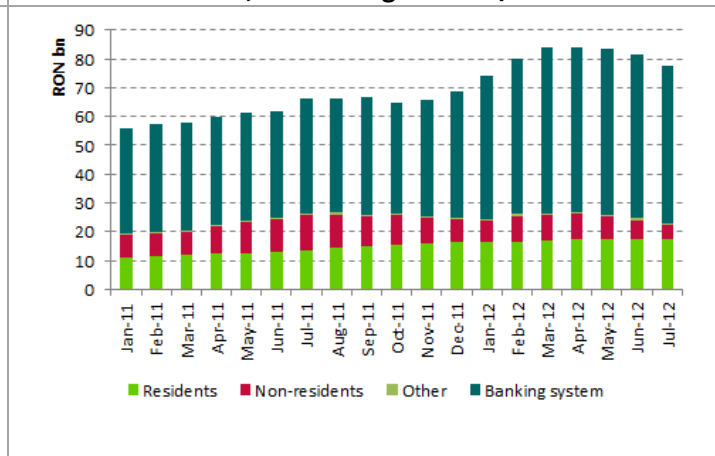
On the financing side of the CA, FDI still very low compared to the peak of 2008; concomitantly, interest rates dropped



After 2009, the CA deficit was funded to a large extent by speculative capital



Non-residents holdings of government securities in RON have been volatile, influencing the EUR/RON rate



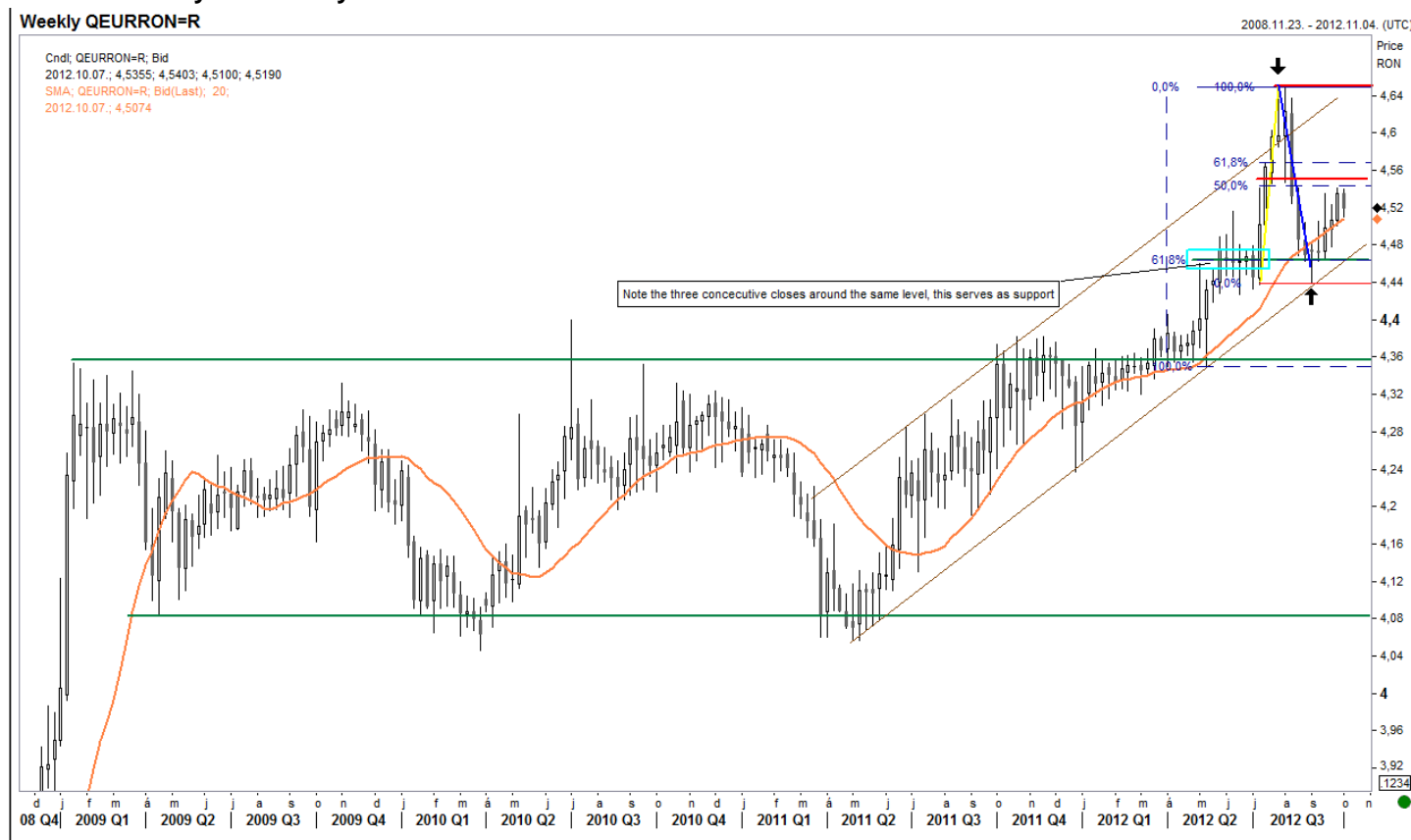
Technical Analysis of the EUR/RON weekly chart

After breaking out from the multi-year bracket formed between approximately 4.08 and 4.36, the cross arrived quickly at the measured move target calculated from the width of the bracket. It formed a long upper shadowed weekly hammer candle there; after confirming this signal, the pair moved sharply lower all the way back to the strong support found slightly above 4.46. This way it formed two comparable paced waves moving in opposing directions between 4.46 and 4.65; these often set the boundaries of a new trading range.

It formed a lower shadowed hammer candle in early September, and is moving higher since the confirmation of the signal (weekly close above the high of the hammer). I am watching very closely the momentum characteristics of this advance, because a slower paced up move is likely to form some kind of reversal pattern. This would invalidate my theory that a range-bound trading is coming. I see overhead resistance at 4.55 (this was the neckline of the double top pattern formed on the daily chart); above this level, the next resistance is found at 4.57. These are the levels where bears should show their strength.

Short-term trend	→	range
Long-term trend	↑	up
Secondary resistance		4,57
Primary resistance		4,55
Primary support		4,5050
Secondary support		4,46

Technical Analysis: Weekly chart of EUR/RON

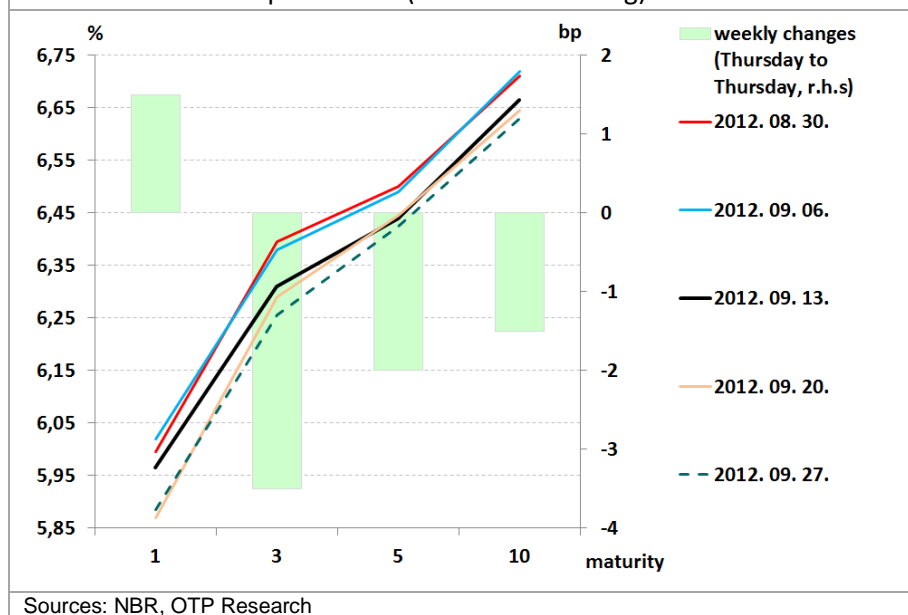


Sources: Reuters, OTP Research

Government securities: yield curve shifted slightly down

Since NBR quited the liquidity cap in September, yields have fallen on average by 10 bp. Last week, the yield curve moved down and the long end of the curve shifted the most. The 3Y bond yields were down by 3 bp. In absence of another liquidity cap from NBR and another international event that could increase risk aversion towards European markets in general, we expect that ROBOR ON rate will marginally fall further on average in October so this could shift the yield curve further. However, the market does not expect a significant cut in the base rate in the near future that could depress yields to a greater extent.

Yield curve over the past weeks (Central Bank fixing)



The IMF released the 6th review of the stand by agreement last week and the evaluation said that Romania is on track with its targets, except for the issue of local and general government arrears. The IMF cut the growth perspectives for Romania to 0.9% YoY in August, from 1.5% YoY previously. Nevertheless, the reimbursing capacity maintains strong and the amount available for Romania to draw from the IMF is now at 3.2 bn EUR. In July, the public debt stood at 34.5% of the GDP according to EU methodology.

Last data: 27.09.2012

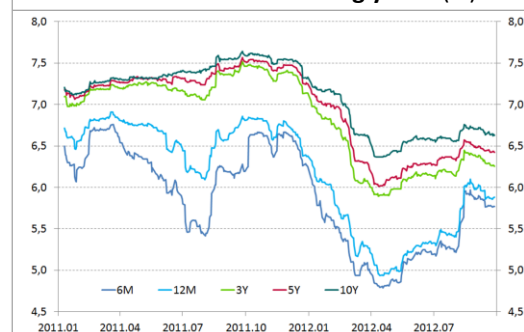
RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	5,77	↓ -0,5	↓ -48
12M	5,89	↑ 1,5	↓ -50
3Y	6,26	↓ -3,5	↓ -89
5Y	6,43	↓ -2,0	↓ -82
10Y	6,63	↓ -1,5	↓ -70

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	612	↓ -0,6	↓ -75
GERROM 5Y	584	↑ 2,6	↓ -66
GERROM 10Y	505	↑ 1,9	↓ -46
3Y -5Y	17	↑ 1,5	↑ 6
5Y -10Y	20	↑ 0,5	↑ 12
3Y-10Y	38	↑ 2,0	↑ 19
FLY 3-5-10	3	↓ -1,0	↑ 6

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	241	↑ 13,5	↓ -130
5Y EURO	296	↑ 13,0	↓ -106

Source: Reuters

Central bank benchmark fixing yields (%)

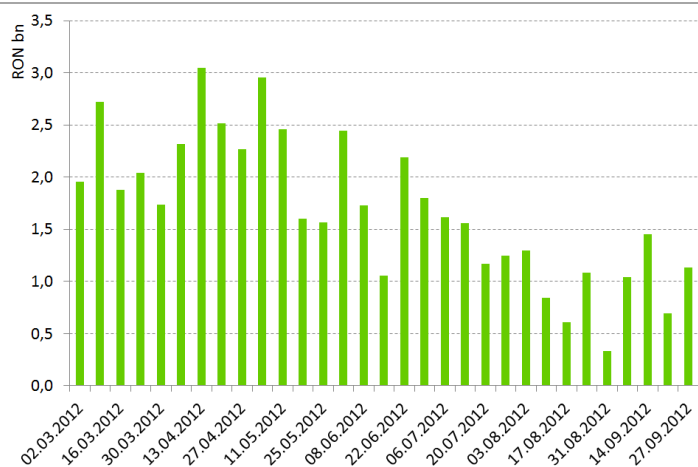


Slope of the yield curve (bp)



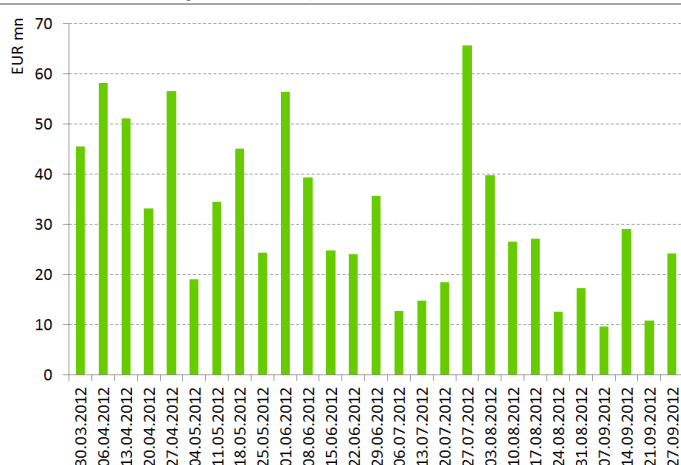
FLY 3-5-10 (bp)



RON denominated securities (avg. daily volume) traded on the secondary market (without NBR)


Sources: NBR, OTP Research

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

EUR denominated securities (avg. daily volume) traded on the secondary market (without NBR)


Sources: NBR, OTP Research

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

T –bills auction in October

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1213CTN0M2	01.10.2012	03.10.2012	03.04.2013	6	1.000.000.000
RO1213CTN0N0	08.10.2012	10.10.2012	11.09.2013	11	1.000.000.000
RO1213CTN0O8	15.10.2012	17.10.2012	23.09.2013	11	1.000.000.000

Source: Ministry of Finance, OTP Research

Bonds auctions in October

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1214DBN068	04.10.2012	08.10.2012	28.07.2014	2	5,85	400.000.000
RO1215DBN073	11.10.2012	15.10.2012	26.10.2015	3	5,80	250.000.000
RO1214DBN068	18.10.2012	22.10.2012	28.07.2014	2	5,85	300.000.000
RO1217DBN046	25.10.2012	29.10.2012	26.07.2017	5	5,90	200.000.000

Sources: Ministry of Finance, OTP Research

Euro –denominated bonds

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (EUR)
RO1115DBE025	22.10.2012	24.10.2012	29.07.2015	4	4,70	150.000.000

Sources: Ministry of Finance, OTP Research

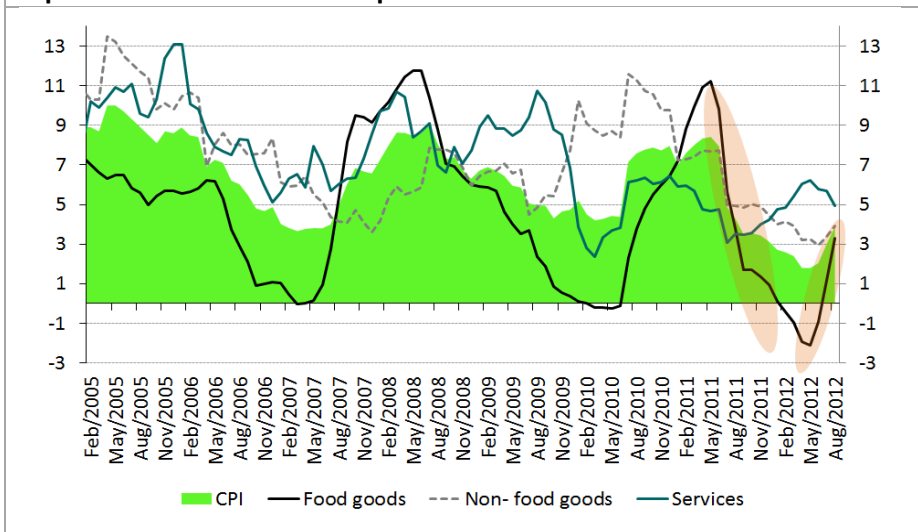
Auctions

The Finance Ministry planned to sell 4.2 bn RON in T-bills and bonds in October and 150 mn EUR in 4Y bonds. Among the RON denominated bond issues are 2Y, 3Y and 5Y bonds. Last time it tried to sell 5Y bonds it was in May just before the international environment caught flames from the Greek exit issue and yields jumped. The average accepted yield was 6.15%. After selling 750 mn EUR in 2018 eurobonds earlier in September, at a better than expected yield of 5.1%, Romania is planning to issue 150 mn EUR in euro denominated 4Y bonds in October.

MM: CB maintained the base rate at 5.25%, citing rising inflation due to food prices and leu's depreciation

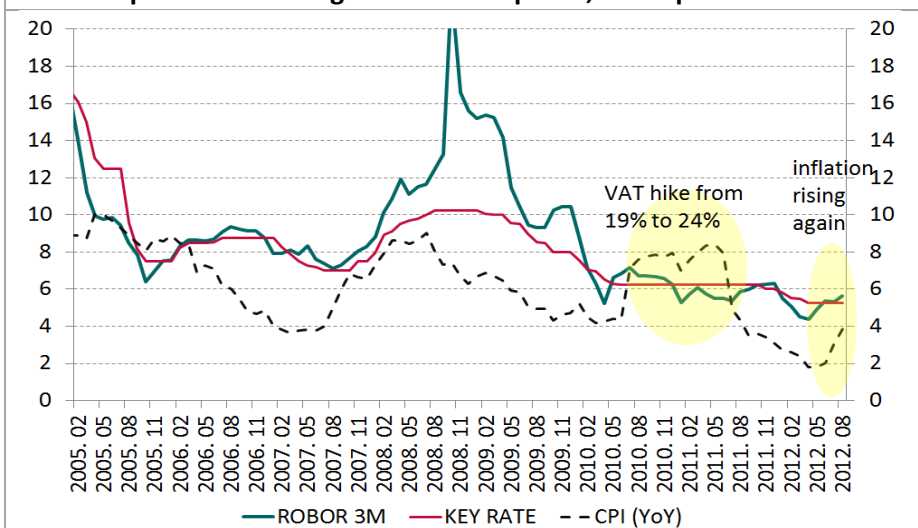
The NBR maintained the base rate at 5.25% as expected admitting that short term inflation perspectives have deteriorated due to the impact coming from domestic and international food prices and the leu's depreciation. Most notable driver according to the Central Bank are the volatile prices (vegetables, eggs, fuels). Food prices make up to 37% of the consumption basket and drought has driven them up, adding to the existing base effect (monthly deflation in Q3 2011 due to the very good agricultural year). The currency's depreciation has taken its toll on the Core2 adjusted inflation (CPI excluding volatile items, administered prices, alcohol and tobacco). It stood at 2.6% YoY in August, up from 2.3% YoY in July. Reuters' poll for the end of the year is at 4% YoY. The above factors are going to influence prices next year as well, when inflation target is at 2.5%, lower than this year's 3%. **Even if it stands to miss its inflation target next year, NBR will probably leave the base rate unchanged as well**, in a try to balance its objectives regarding price stability and financial stability.

Food price inflation major driver for expected inflation rise; foods represent 37% of the consumption basket



Sources: NBR, OTP Research

Inflation pressure reemerge due to food prices, leu depreciation



Sources: NBR, OTP Research

Last data: 27.09.2012

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	0	-75
ROBOR ON	5,09	341	56
ROBOR 3M	5,62	-2	-43
ROBOR 6M	6,04	1	-49
ROBOR 9M	6,08	0	-53
ROBOR 1Y	6,12	0	-54

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	12.082,5	3183,7	5371,5

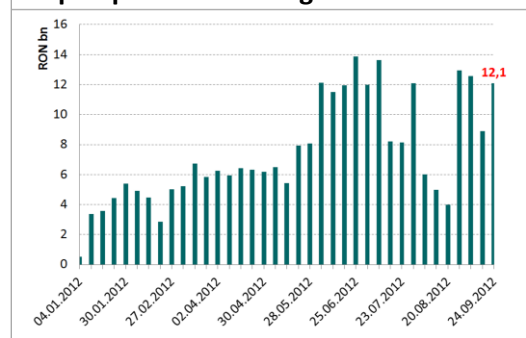
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.211,6	709,8	-815,9

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	31	-2	6
USDRON 1M	150	4	1
USDRON 3M	403	-10	157
EURRON 1W	45	13	4
EURRON 1M	201	13	56
EURRON 3M	619	90	108

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-75	0	80
EURRON 3Y	-75	0	80
EURRON 5Y	-75	0	75

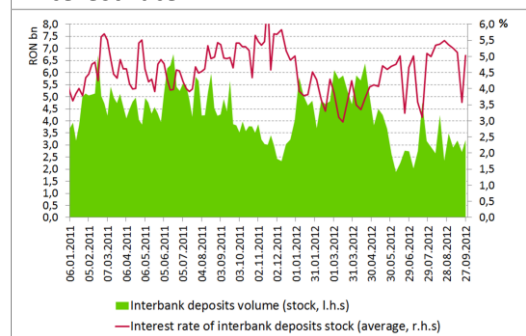
Source: Reuters

Repo operations during 2012



Sources: NBR, OTP Research

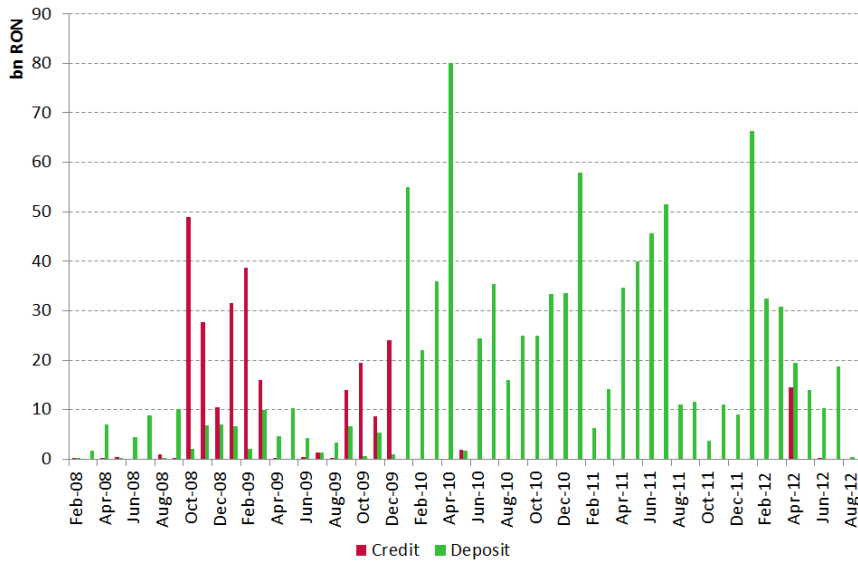
Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

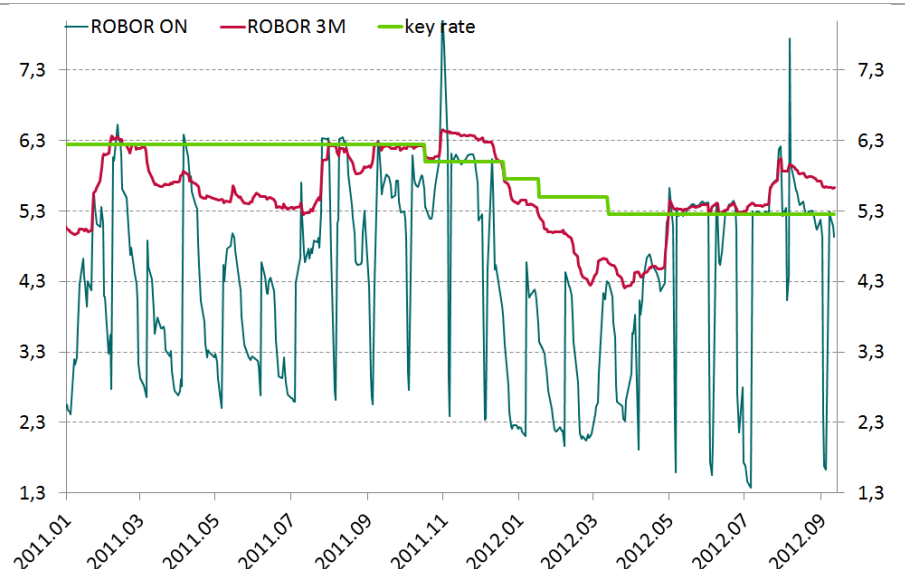
Since the NBR removed the liquidity cap in September, interest rates started to decline again: ROBOR ON was at 5.6% (avg.) in August and it fell to 4.7% in September as the weekly liquidity injections moved up from an average of 5bn RON in August to 11.6 bn RON in September. As a result of the liquidity cap, banks held virtually no ON deposits with the NBR in August. **If no cap is applied and in absence of a major event that would raise risk aversion, we expect rates to continue to fall marginally in the coming months.** In July, ROBOR ON stood at 4.1% (avg.), lower than in September (4.7%, avg.).

Permanent facilities at The Central Bank. Deposits rose in July, as repo volume increased



Sources: NBR, OTP Research

Most important MM instruments from 2011 (%)



Sources: NBR, OTP Research

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