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Weekly Report

Romania

28 November 2012



Interest rates and treasuries' yields on the rise; the leu is holding up for the moment

Macroeconomics: Central Bank survey points to lower growth of industrial production in November, compared to the expected hike in October (Page 3)

Last week, the Central Bank released its survey regarding expectations about industrial production and constructions in November. Results show that the industrial production will slow down its growth rhythm after it has been reported to be expected to grow in October. The loss of rhythm is mainly due to a weakening of external demand. In constructions, the survey points to a deterioration both on gross data and seasonally adjusted data. Also, in both sectors the survey points to layoffs, especially in constructions (according to seasonally adjusted data as well).

FX markets: The leu remains strong for the moment (Page 4-5)

The EUR/RON remained stable last week and depreciation pressures persisted but they were counterbalanced by good news in Europe. For the moment, the leu is holding up pretty well, considering exclusively the combined effect of monetary policy actions and of the fiscal policy. However, depreciation pressures are strong and NBR's firepower is not unlimited.

Government securities: Treasuries' yields rose up to 7 bp (Page 6-7)

Last week, yields continued to go up between 3-7 bp. We expect a continuation of upside pressure on interest rates due to the persistence of the liquidity cap. Therefore, treasuries' yields are likely to continue to climb. Last week, there were two auctions. The Treasury sold 407 mn RON in 2Y bonds and 250 mn RON in 5Y bonds. The average accepted yields were higher by 8-10 bp compared to the ones recorded at the similar previous tenders.

MM: Rates climbed up to 14 bp in a week (Page 8)

Last week, the Central Bank maintained the weekly injection at 6 bn RON, same as the previous week, but the total amount bid by banks surged further to this year's peak: 30 bn RON. This week, the injection declined by 2 bn RON. It was the 8th consecutive week since the CB has capped liquidity. The ON ROBOR (daily average) climbed from 5.1% in October to 5.7% in November and 3M ROBOR from 5.7% to 5.8% during the same period. Since short term risks for the leu and consequently upside pressures on inflation are still a going concern, we expect MM rates pressure to continue in the near term.

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Macroeconomics: Central Bank survey points to lower growth of industrial production in November, compared to the expected hike in October

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
12 Nov	Oct	Consumer price index (y-o-y, %)	5	5	5,3
12 Nov	Sep	CA balance (EUR mn, YTD)	-3671		-3123
15 Nov	Q3 2012	Flash GDP growth rate (q-o-q, %, seasonally adjusted)	-0,5	-0,30	0,5
26 Nov	Oct	M3 aggregate (y-o-y, %)	6,2		5,7
26 Nov	Oct	Non -governmental loans (y-o-y, %)	4,1		4,2
26 Nov	Oct	Non -governmental deposits (y-o-y, %)	8,5		7,3

Last week, the **Central Bank** released its survey regarding expectations about industrial production and constructions in November. Results show that the industrial production will slow down its growth rhythm after it has been reported to be expected to climb in October. The loss of rhythm is mainly due to a weakening of external demand. In constructions, the survey points to a deterioration both on gross data and seasonally adjusted data. Also, in both sectors the survey points to layoffs, especially in constructions (according to seasonally adjusted data as well).

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%	4,1%	4,5%	4,4%
Real wage growth	9,0%	14,7%	16,5%	-1,5%	-3,7%	-1,9%	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

** under revision

FX markets: The leu remains strong for the moment

The EUR/RON remained stable last week and depreciation pressures persisted but they were counterbalanced by good news in Europe. Leu's peers had strengthened against the euro (the Hungarian Forint, the Polish Zloty and the Czech Crown). Also, the euro moved up against the dollar by 1.8% on positive sentiment about the Greek bailout and also as a result of a surprise improvement of German business sentiment in November.

Factors that are positive for the leu in the short term:

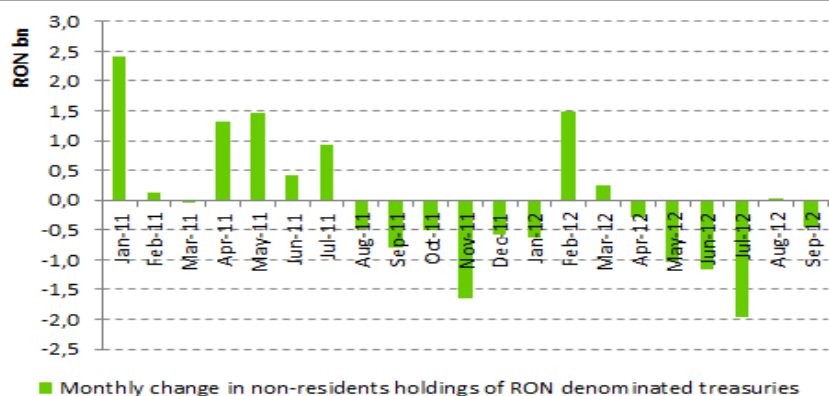
- Central Bank maintains liquidity cap
- Marginal improvement of the investors' sentiment related to Greece receiving the bailout package
- Increased FX inflow during holidays from Romanians working abroad
- Renewal of the IMF deal (estimated for February, initially expected in January)
- Increasing the amounts of issued foreign debt.

Factors that are negative for the leu in the short term:

- Potential post election (after 9th Dec) surprises deriving from power play between USL and the President
- Non residents further reducing their exposure on RON denominated government securities (as we saw happening until September)
- Deteriorated risk perception in the eurozone with effect on emerging countries as well, in relation to Spain's refusal to ask for a bailout yet
- Lower FDI.

For the moment, the leu is holding up pretty well, considering exclusively the combined effect of monetary policy actions and of the fiscal policy. However, depreciation pressures are strong and NBR's firepower is not unlimited.

Non-residents sold 3.8 bn RON in treasuries during the first 9M



Sources: the Ministry of Finance, OTP Research

Last data: 23.11.2012

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,53	↓	0,00	↑ 4,89
USDRON	3,49	↓	-1,83	↑ 4,83
CHFRON	3,76	↑	0,08	↑ 5,96
RONJPY	4,24	↓	-3,11	↓ -2,09
RONPLN	1,10	↑	1,38	↑ 6,85
100HUFRON	1,60	↑	0,62	↑ 17,18
RONCZK	0,18	↑	0,68	↑ 6,00
RONRUB	0,11	↑	0,26	↑ 8,74
RONRSD	0,04	↑	0,26	↑ 0,41
RONBGN	2,32	↑	0,03	↑ 5,13

Source: Reuters

Major RON FX rates (03.01.2011=100)



Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



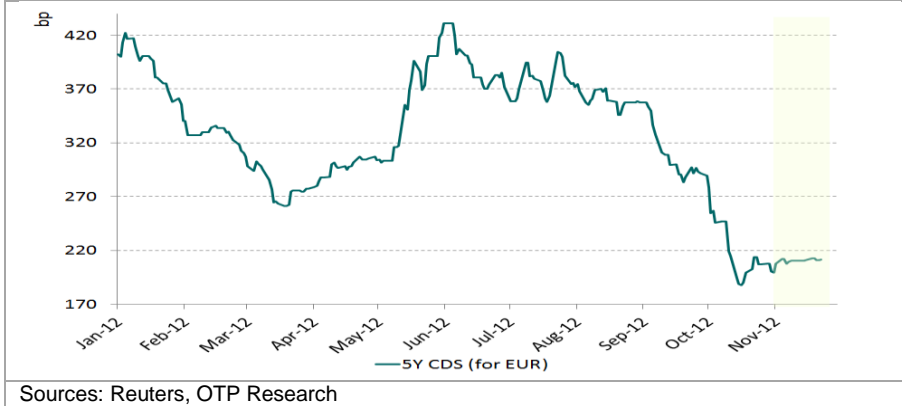
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)

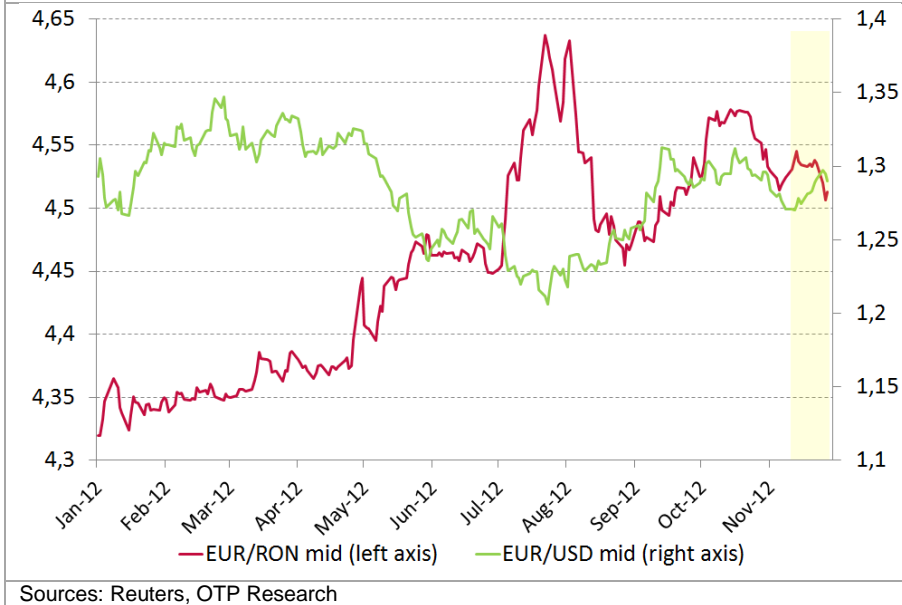


Sources: Reuters, OTP Research

CDS remained relatively unchanged in the past two weeks



The Leu has picked up on the positive note that pushed the euro higher against the dollar this week

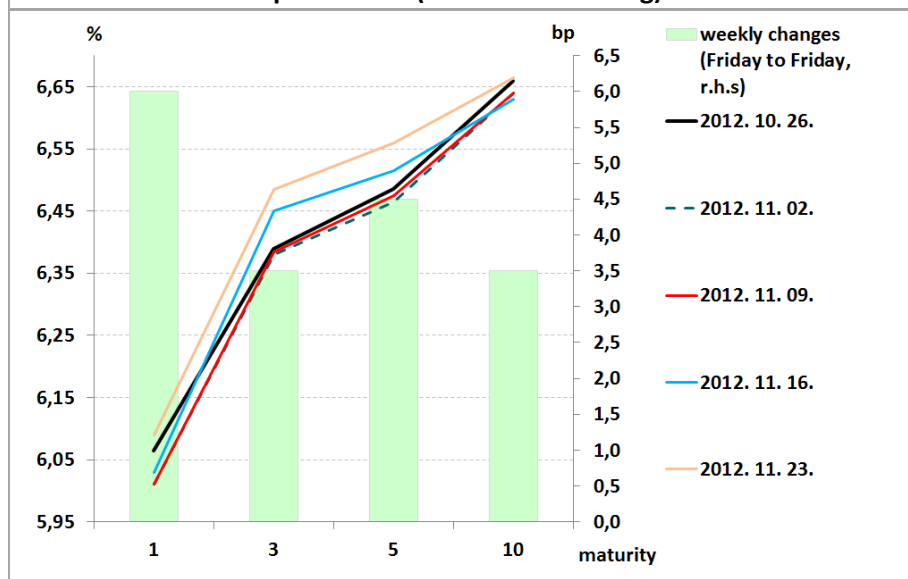


Government securities: Treasuries' yields rose up to 7 bp

Last week, yields continued to go up between 3-7 bp. We expect a continuation of upside pressure on interest rates due to the persistence of the liquidity cap. Therefore, treasuries' yields are likely to continue to climb.

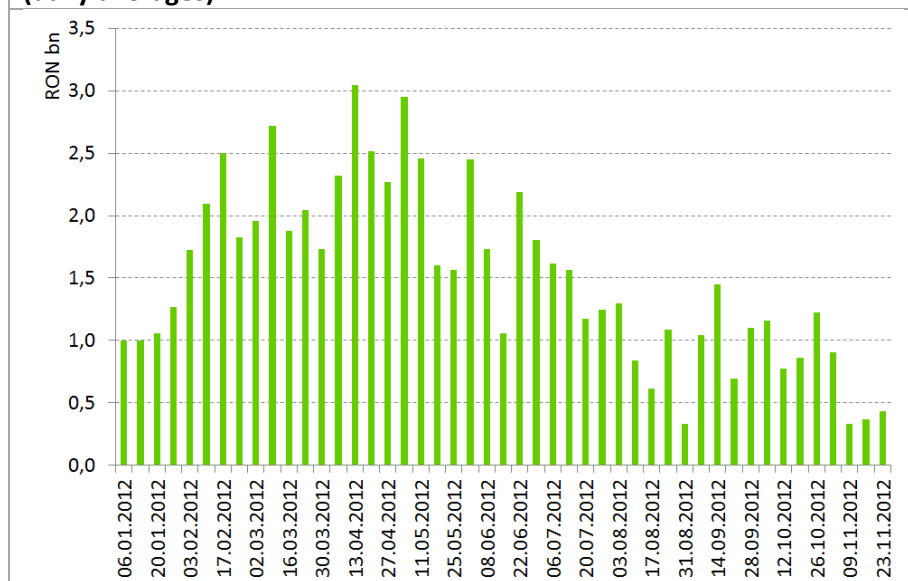
Earlier this month (13th November), the Central Bank allowed banks to bring an unlimited number of issues as collateral at the weekly repo operations. However, as the liquidity injected at the repo has been capped since 8th October (and also in August for three weeks), transactions on the secondary market for government securities have had a lower volume compared to the beginning of the year.

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

Transaction on the secondary market with RON denominated securities (daily averages)



Sources: NBR, OTP Research

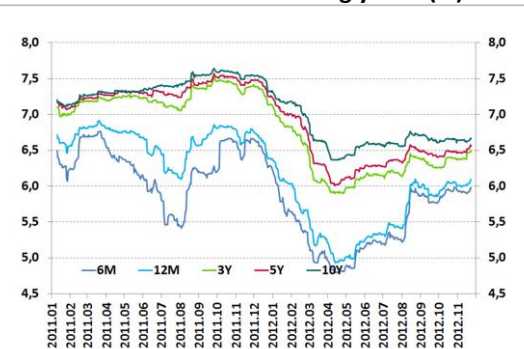
Note: the secondary market without NBR; the amounts are daily averages of each week

Last data: 23.11.2012

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	5,97	↑ 7,0	↓ -28	
12M	6,09	↑ 6,0	↓ -29	
3Y	6,49	↑ 3,5	↓ -66	
5Y	6,56	↑ 4,5	↓ -69	
10Y	6,67	↑ 3,5	↓ -67	
SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	648	↑ 3,5	↓ -39	
GERROM 5Y	622	↑ 4,5	↓ -28	
GERROM 10Y	534	↑ 3,5	↓ -17	
3Y-5Y	8	↑ 1,0	↓ -3	
5Y-10Y	11	↓ -1,0	↑ 2	
3Y-10Y	18	↔ 0,0	↓ -1	
FLY 3-5-10	3	↓ -2,0	↑ 6	
CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	154	↑ 0,3	↓ -217	
5Y EURO	211	↑ 0,2	↓ -191	

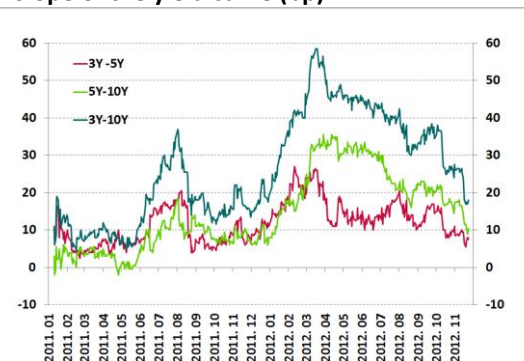
Source: Reuters

Central bank benchmark fixing yields (%)



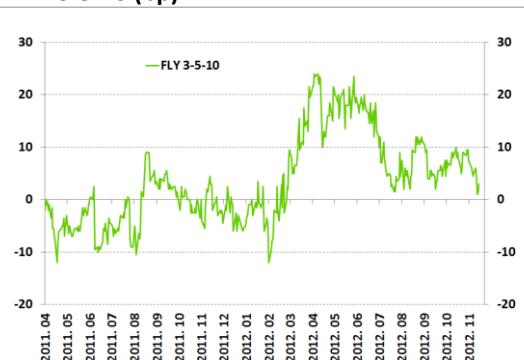
Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)



Sources: NBR, OTP Research

Auctions

Last week, there were two auctions. The Treasury sold 407 mn RON in 2Y bonds and 250 mn RON in 5Y bonds. The average accepted yields were higher by 8-10 bp compared to the ones recorded at the similar previous tenders. The average accepted yields for the 2Y bonds was 6.42% compared to 6.34% recorded earlier in November. The bid to cover ratio stood at 1.8. The average accepted yield for the 5Y bonds was 6.66%.

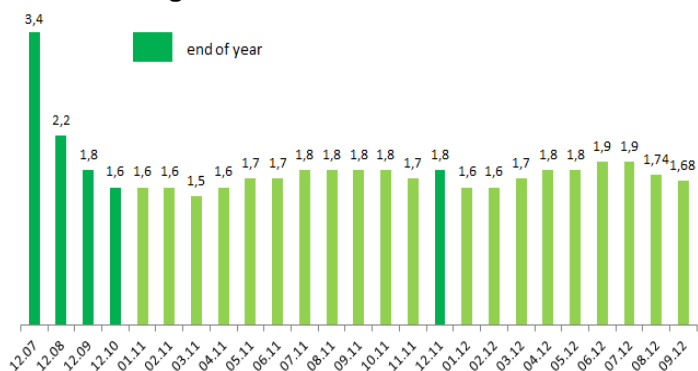
Year to date (last week included), during weekly auctions, the Treasury has sold 49.7 mn RON in government securities and redemptions stood at 40.4 bn RON (November included). Also, the Treasury sold 763 mn EUR in euro denominated bonds.

Last week's auction results (RON denominated)

	RO1214DBN068	RO1217DBN046
Offered amount (RON mn)	500	250
total bids (RON mn)	737	856
accepted amount (RON mn)	407	250
average accepted yield (%)	6.42	6.66
coupon	5,85	5,00

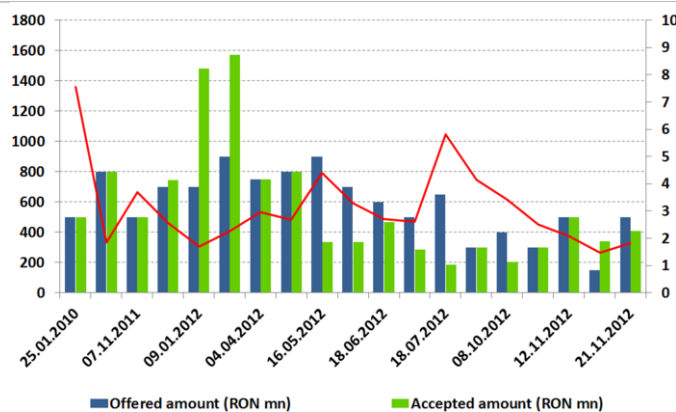
Source: NBR, OTP Research

Average remaining maturity of the existing RON denominated government securities



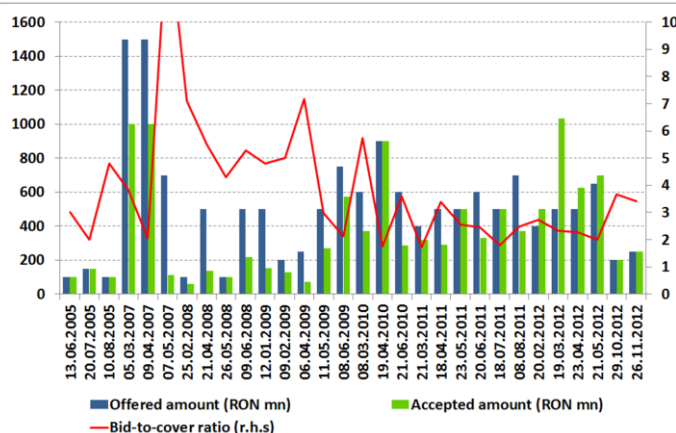
Source: The Ministry of Finance, OTP Research

2Y Auctions data



Sources: NBR, OTP Research

5Y Auctions data



Sources: NBR, OTP Research

T-bills auction in November (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1213CTN0P5	05.11.2012	07.11.2012	06.11.2013	12	800.000.000
RO1213CTN0Q3	12.11.2012	14.11.2012	13.11.2013	12	800.000.000

Source: Ministry of Finance, OTP Research

Bonds auctions in November (in RON)

ISIN	Auction	Settlement	Maturity	Years	Coupon %	Indicative target amount (RON)
RO1214DBN068	08.11.2012	12.11.2012	28.07.2014	2	5,85	500.000.000
RO1215DBN073	15.11.2012	19.11.2012	26.10.2015	3	5,80	300.000.000
RO1214DBN068	19.11.2012	21.11.2012	28.07.2014	2	5,85	500.000.000
RO1217DBN046	22.11.2012	26.11.2012	26.07.2017	5	5,90	250.000.000
RO1215DBN073	26.11.2012	28.11.2012	26.10.2015	3	5,80	300.000.000
RO1227DBN011	26.11.2012	28.11.2012	26.07.2027	15	5,80	100.000.000

Sources: Ministry of Finance, OTP Research

Bonds auctions in November (in EUR)

ISIN	Auction	Settlement	Maturity	Years	Coupon %	Indicative target amount (EUR)
RO1114DBE010	16.11.2012	20.11.2012	06.05.2014	3	4,50	150.000.000

Sources: Ministry of Finance, OTP Research

MM: Rates climbed up to 14 bp in a week

Last week, MM rates continued to move up and climbed between 5 to 14 bp on a weekly basis. **The Central Bank maintained the weekly injection at 6 bn RON last week and the total amount bid by banks surged further to this year's peak: 30 bn RON.** This week, the injected amount was lower by 2 bn RON. **It is the 8th consecutive week since the CB has capped liquidity.** Usually, during the last week of the maintenance period for the required reserves (RR), MM rates tend drop. However, this month, pressure on the MM rates continued to increase until the last days of the maintenance period for the RR. **The ON ROBOR (daily average) climbed from 5.1% in October to 5.7% in November and 3M ROBOR from 5.7% to 5.8% during the same period.** The next Board Meeting on monetary policy issues will be held on 7th January and Central Bank representatives have openly stated their preference for liquidity cap instead of cutting the base rate. **Since short term risks for the leu and consequently upside pressures on inflation are still a going concern, we expect MM rates pressure to continue in the near term.**

Last data: 23.11.2012

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	0	-75
ROBOR ON	5,94	6	141
ROBOR 3M	6,01	14	-4
ROBOR 6M	6,20	8	-33
ROBOR 9M	6,21	5	-40
ROBOR 1Y	6,25	5	-41

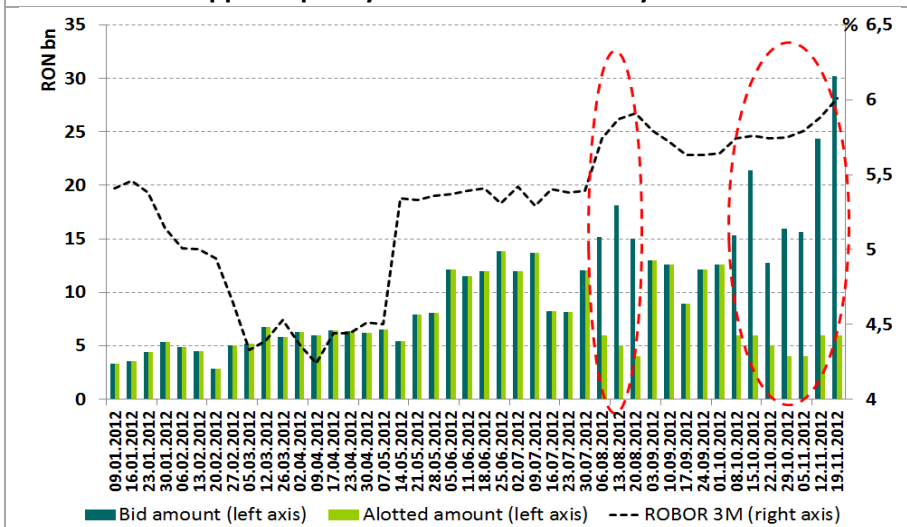
REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	5.994,7	-4,3	716,3

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.638,2	411,0	-389,3

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	35	6	10
USDRON 1M	149	-7	0
USDRON 3M	427	-15	180
EURRON 1W	38	2	-3
EURRON 1M	154	1	9
EURRON 3M	611	2	100

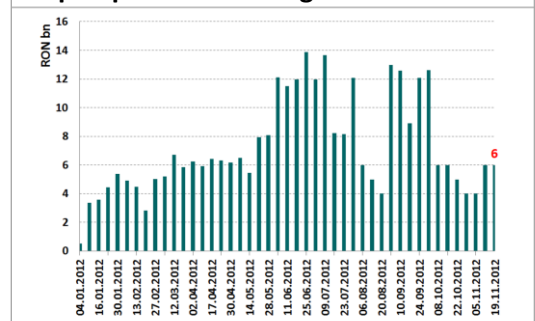
Source: Reuters

Central Bank capped liquidity the second time this year



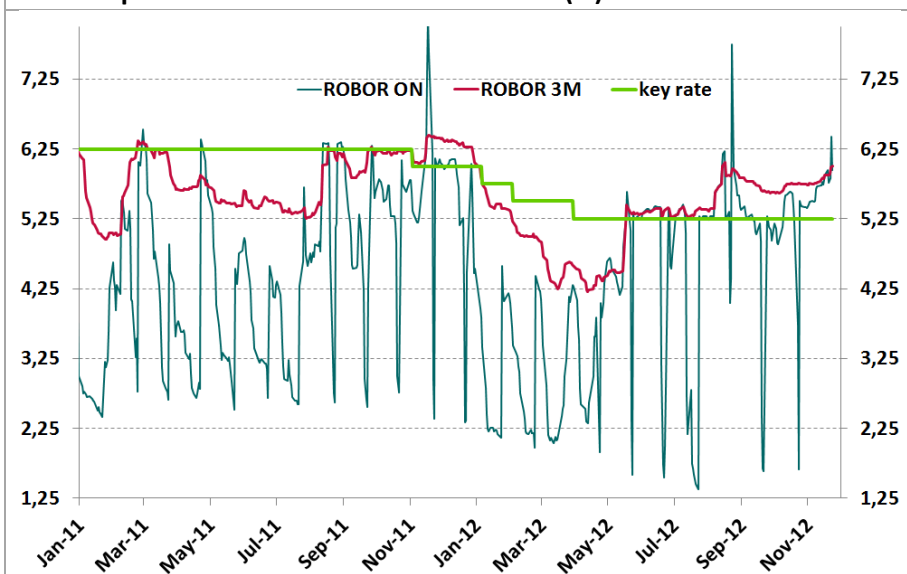
Sources: NBR, OTP Research

Repo operations during 2012



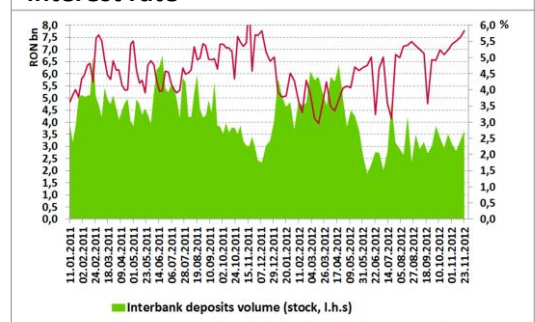
Sources: NBR, OTP Research

Most important MM instruments from 2011 (%)



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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