

## 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

18 January 2013



## Bond yields fell at record lows

### Macroeconomics: the CA shrank by 19% YoY during the first 11M

(Page 3)

The 11M current account deficit stood at 4.245 mn EUR, down by 19% YoY. However, the trade gap expanded marginally from 6520 mn EUR in January- November 2011 to 6588 mn EUR during the same period this year. The CA's dynamics is mainly explained by reduction of the income deficit (by 707 mn EUR) and also by the increase in the services' surplus (+263 mn EUR) and current transfers (+86 mn EUR). Net foreign investments continue to be at low levels (1440 mn EUR), although higher by 2.7% YoY. They financed the 34% of CA deficit, slightly more than the share recorded during the first 10M.

### FX markets: The leu appreciated further but pace tends to slow down

(Page 4)

The leu gained another 1% against the euro this week and it is 2.7% stronger since the beginning of the year. NBR official Cristian Popa stated that it is trading near its "fair value" which we interpret to be a comfortable level from the view point of NBR, thereby the central bank may not welcome further significant appreciation and it has raised the repo size by 2 bn RON. However, the inclusion of Romanian government bonds in the JP Morgan emerging market index makes Romanian bonds attractive. Therefore, further interest in Romanian assets is expected in the future as well but probably amounts sold will be lower, as yields already fell significantly (5.4% for the 5Y bonds). Of the indicative amount of 18- 20 bn RON to be sold in Q1 2013 in government securities, 8-10 bn RON has yet to be sold and part of this will likely go to non residents as well.

### Government securities: Bond prices rally after JP Morgan included Romanian bonds in its emerging market index

(Page 5-6)

This week, yields have fallen by up to 66 bp. On one hand, the CB injected more liquidity (+2 bn RON compared to the previous week) at Monday's repo (although maintaining the cap) and on the other hand, JP Morgan announced that starting on 1st March, Romanian bonds are eligible for entry in its emerging market bond index. Earlier in November 2012, Barclays made a similar announcement, to include Romanian debt in its emerging market bond index starting on 31st March 2013. There were 3 auctions this week and the Treasury managed to sell 6 bn RON in 12M, 3Y and 5Y bonds. Yields continued to drop by 8 -117 bp.

### MM: The repo size was raised by 2 bn RON this week

(Page 7)

The repo size was raised from 4 bn RON to 6 bn RON this week and the allocation rate climbed from 16% to 21.4%. Since NBR started to cap liquidity the second time, the size of the allocated repo amount varied between 4 and 6 bn RON. Last time the repo size was 6 bn RON was on 19<sup>th</sup> November. In the few days after the cap, the ON rate did not fall by much despite the increased repo size. However, the ON rate tends to decrease towards the end of maintenance period for the required reserves. The maintenance period will end next Wednesday on 23<sup>rd</sup> January.

#### 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: the CA shrank by 19% YoY during the first 11M**

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
18 Jan	Nov	CA balance (EUR mn, YTD)	-4245		-4342
24 Jan	Dec	M3 aggregate (y-o-y, %)			5,4
24 Jan	Dec	Non -governmental loans (y-o-y, %)			2,3
24 Jan	Dec	Non -governmental deposits (y-o-y, %)			7,7

The 11M current account deficit stood at 4.245 mn EUR, down by 19% YoY. However, the trade gap expanded marginally from 6520 mn EUR in January- November 2011 to 6588 mn EUR during the same period this year. The CA's dynamics is mainly explained by reduction of the income deficit (by 707 mn EUR) and also by the increase in the services' surplus (+263 mn EUR) and current transfers (+86 mn EUR). **Net foreign investments continue to be at low levels (1440 mn EUR), although higher by 2.7% YoY.** They financed the 34% of CA deficit, slightly more than the share recorded during the first 10M.

Next week, banking statistics data for December will become available.

**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%	0,0%	1,5%
Households consumption expenditure	12,9%	12,0%	9,0%	-10,4%	-0,4%	1,4%	0,8%	2,0%
Government consumption	-11,5%	2,5%	6,2%	9,5%	-10,0%	-3,4%	-1,4%	1,5%
Gross fixed capital formation	19,9%	30,3%	15,6%	-28,1%	-2,1%	6,3%	11,0%	5,2%
Exports	10,4%	7,8%	8,3%	-6,4%	14,0%	9,9%	-3,0%	-0,4%
Imports	22,6%	27,3%	7,9%	-20,5%	11,9%	10,5%	-0,2%	1,6%
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

### FX markets: The leu appreciated further but pace tends to slow down

The leu gained another 1% against the euro this week and it is 2.7% stronger since the beginning of the year. NBR official Cristian Popa stated that it is trading near its “fair value” which we interpret to be a comfortable level from the view point of NBR, thereby the central bank may not welcome further significant appreciation and it has raised the repo size by 2 bn RON. However, the inclusion of Romanian government bonds in the JP Morgan emerging market index makes Romanian bonds attractive. Therefore, further interest in Romanian assets is expected in the future as well but probably amounts sold will be lower, as yields already fell significantly (5.4% for the 5Y bonds). **Of the indicative amount of 18- 20 bn RON to be sold in Q1 2013 in government securities, 8-10 bn RON has yet to be sold and part of this will likely go to non residents as well.**

In what regards the expected euro flows for this year we mention the following:

- Starting in February, payments to the IMF will happen almost every month totaling 5 bn EUR (please see the table bellow)
- 1.8 bn euro denominated bonds come due this year: August (450 mn EUR) and November (1.3 bn EUR); on the other hand, the Treasury plans to issue debt totaling 2.5 bn EUR
- The state has yet to sell stakes in some state owned companies which were overdue since last year and which were a priority according to the last published IMF report; we envisage Transgaz, Romgaz, Hidroelectrica and Nuclearelectrica with a total estimated value of combined stakes for sale at around 700-800 mn EUR; part of this will likely go to non residents
- EU funds ( in 2012, structural funds and cohesion funds payments amounted to 1.1 bn EUR whereas EU funds for agriculture (PNDR) amounted to 1.1 bn EUR as well).
- FDI (in 2012, during the first 11M, net FDI were at 1.44 bn EUR)

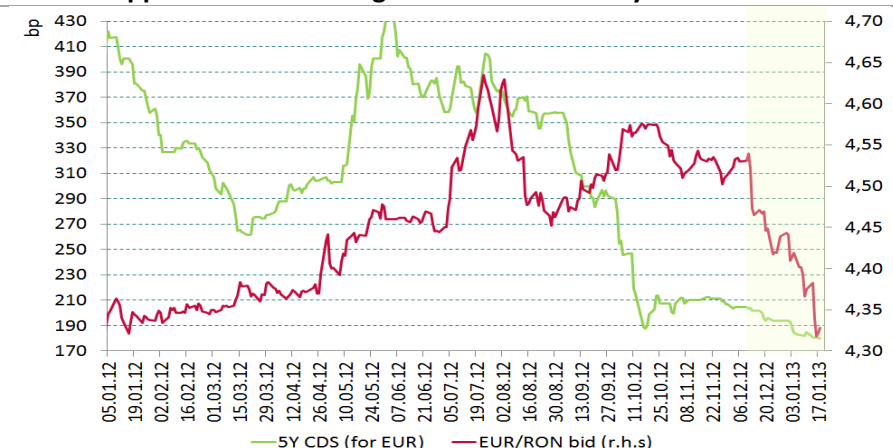
#### 2013 Calendar of payments to the IMF (EUR mn)

1-6 Feb	22-Mar	30 Apr-6 May	23 May	21 June	1-6 Aug	23-Aug	23-Sep	7-Oct	1-6 Nov	22-Nov	23-27 Dec
716	247	704	313	247	695	313	247	111	682	313	358

Source: IMF, OTP Research

Note: 1 XDR= 1,15227 EUR

#### The leu appreciated further against the EUR but rhythm is lower



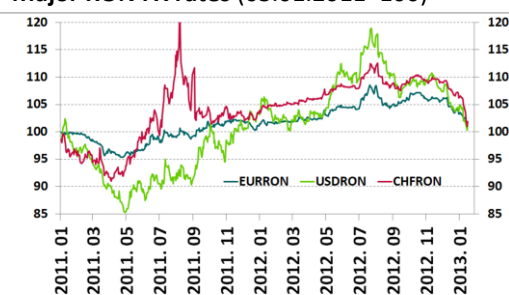
Sources: Reuters, OTP Research

Last data: 17.01.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,32	↓	-1,00	↓ -2,71
USDRON	3,23	↓	-1,72	↓ -4,00
CHFRON	3,46	↓	-3,69	↓ -5,79
RONJPY	3,59	↓	-3,28	↓ -7,33
RONPLN	1,05	↓	-1,39	↑ 15,09
100HUFRON	1,48	↓	-0,36	↓ -2,82
RONCZK	0,17	↓	-0,71	↓ -4,47
RONRUB	0,11	↓	-1,73	↓ -2,81
RONRSD	0,04	↓	-1,16	↓ -2,56
RONBGN	2,21	↓	-0,99	↓ -2,71

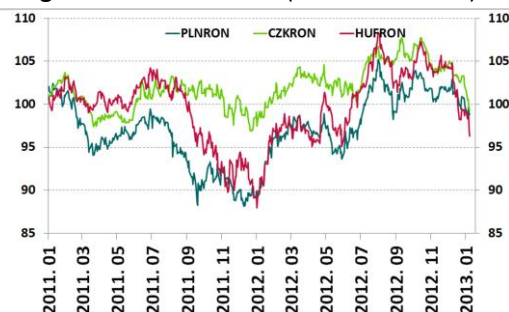
Source: Reuters

#### Major RON FX rates (03.01.2011=100)



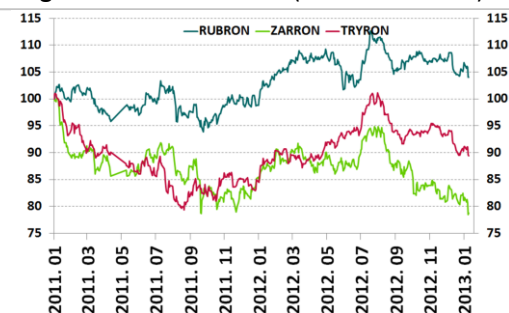
Sources: Reuters, OTP Research

#### 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



### Government securities: Bond prices rally after JP Morgan included Romanian bonds in its emerging market index

This week, yields have fallen by up to 66 bp. On one hand, the CB injected more liquidity (+2 bn RON compared to the previous week) at Monday's repo (although maintaining the cap) and on the other hand, JP Morgan announced that starting on 1<sup>st</sup> March, Romanian bonds are eligible for entry in its emerging market bond index. Earlier in November 2012, Barclays made a similar announcement, to include Romanian debt in its emerging market bond index starting on 31<sup>st</sup> March 2013. The announcement pushed up bond prices and further gains are expected. The weight in JPMorgan's index is estimated at 0.54 %. The weight in Barclay's index is 0.7%.

This year, Romania sold 10 bn RON already (4 bn RON more than January's redemptions) and the prospective amount for Q1 2013 is between 18-20 bn RON. Total redemptions in Q1 2013 are 15 bn RON.

Last data: 17.01.2013

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	5,54	↓ -40	↓	-60
12M	5,56	↓ -42	↓	-57
3Y	5,49	↓ -55	↓	-66
5Y	5,50	↓ -57	↓	-69
10Y	5,56	↓ -66	↓	-80

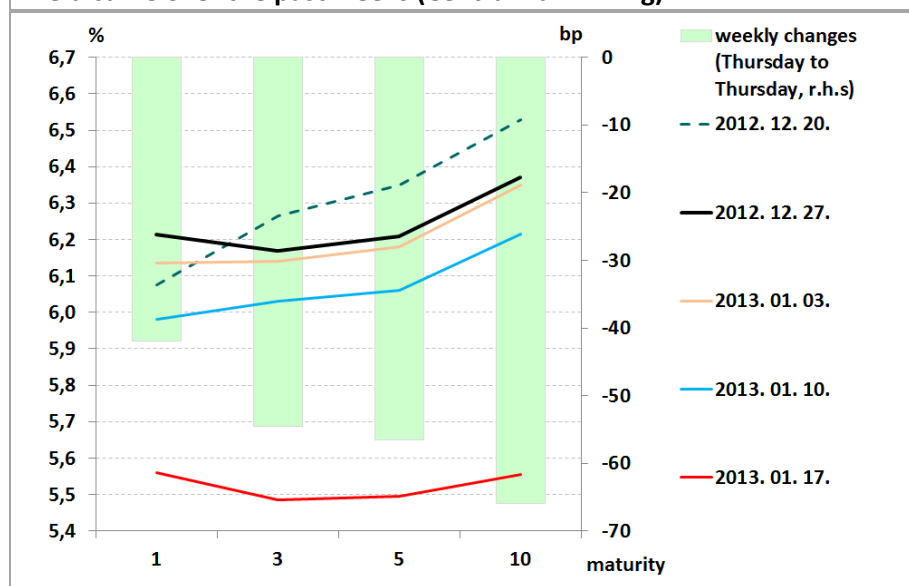
  

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	530	↓ -55	↓	-75
GERROM 5Y	498	↓ -57	↓	-80
GERROM 10Y	401	↓ -66	↓	-90
3Y -5Y	1	↓ -2	↓	-3
5Y -10Y	6	↓ -9	↓	-11
3Y-10Y	7	↓ -12	↓	-14
FLY 3-5-10	5	↓ -7	↓	-8

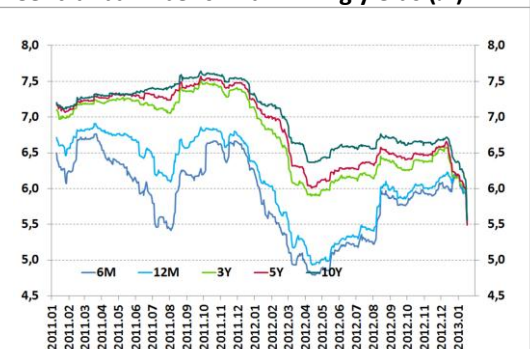
  

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	122	↓ -1	↓	-13
5Y EURO	180	↓ -2	↓	-14

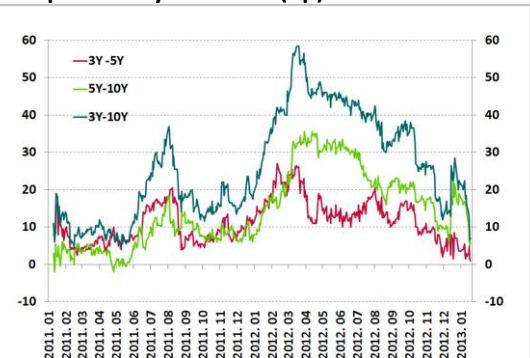
Source: Reuters

**Yield curve over the past weeks (Central Bank fixing)**


Source: NBR, OTP Research

**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

There were 3 auctions this week and the Treasury managed to sell 6 bn RON in 12M, 3Y and 5Y bonds. Yields continued to drop by 8 -117 bp. The most spectacular fall in yield was seen on Thursday, in the case of the 5Y bonds (-117bp) which have seen very good demand: total bids were 3.9 bn RON, 8 times higher than the offered demand. The average accepted yield stood at 5.4% while the highest accepted yield stood at 5.55%. **Interest for Romanian bonds surged after JP Morgan's announcement that they will include the Romanian government bonds in their emerging market bond index.**

On Monday's auctions the Treasury sold 2.9 bn RON in 12M T-bills and 3Y bonds. The average accepted yield stood at 5.85%, which is 21 bp lower than last week's auction. The average accepted yield for the 3Y bonds was 5.95%, 8 bp lower than last week.

The Treasury is succesful in extending the average remaining maturity of the existing debt (which was 1.7 years in October 2012, without counting the eurobonds). **The Head of Treasury announced that the Treasury will try to sell 10Y and 15Y bonds quarterly, alternatively in the last decade of the month** (Ziarul Financiar) so next month we may see an issue for 15Y bonds as well.

### This week's auction results (RON denominated)

	RO1215DBN073	RO1314CTN029	RO1217DBN046
Offered amount (RON mn)	800	500	500
total bids (RON mn)	2936	2998	3935
accepted amount (RON mn)	1500	1396	3106
average accepted yield (%)	5,95	5,85	5,40
coupon	5,80	-	5,90

Source: NBR, OTP Research

### T-Bills auction in January (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN011	07.01.2013	09.01.2013	08.01.2014	12	500.000.000
RO1314CTN029	14.01.2013	16.01.2013	15.01.2014	12	500.000.000
RO1313CTN039	21.01.2013	23.01.2013	24.07.2013	6	300.000.000

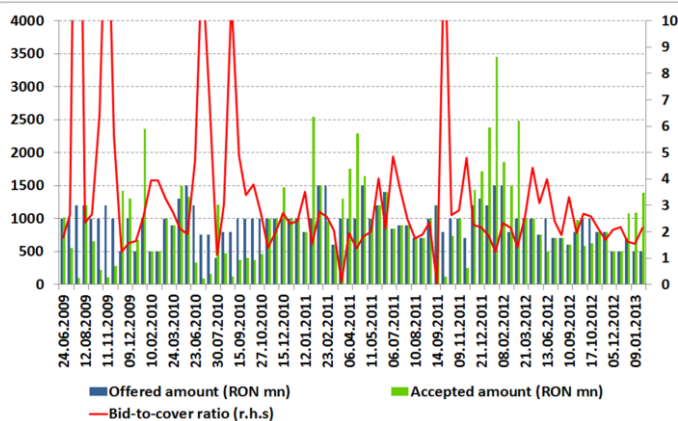
Source: Ministry of Finance, OTP Research

### Bonds auctions in January (in RON)

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1214DBN068	07.01.2013	09.01.2013	28.07.2014	2	5,85	800.000.000
RO1216DBN030	10.01.2013	14.01.2013	27.01.2016	4	5,75	600.000.000
RO1215DBN073	14.01.2013	16.01.2013	26.10.2015	3	5,80	800.000.000
RO1217DBN046	17.01.2013	21.01.2013	26.07.2017	5	5,90	500.000.000
RO1323DBN018	24.01.2013	28.01.2013	26.04.2023	10	5,85	600.000.000

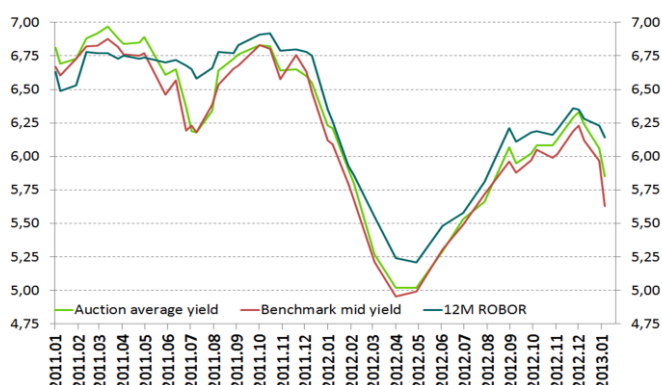
Sources: Ministry of Finance, OTP Research

### 12M Auctions data



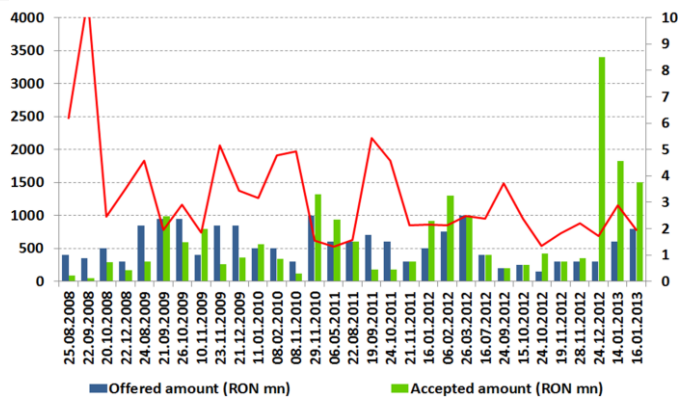
Sources: NBR, OTP Research

### 12M Interest rates



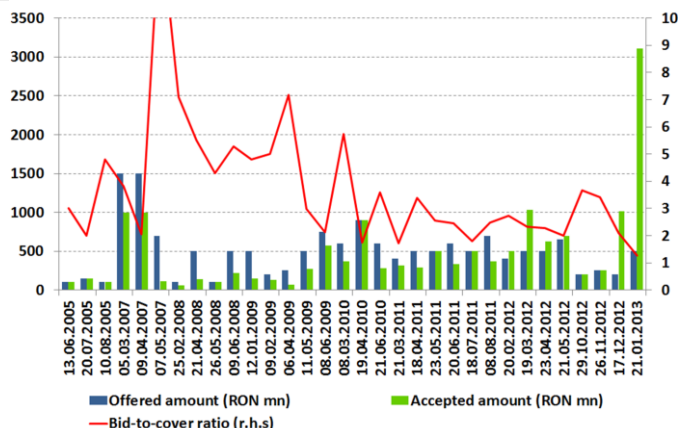
Sources: NBR, OTP Research

### 3Y Auctions data



Sources: NBR, OTP Research

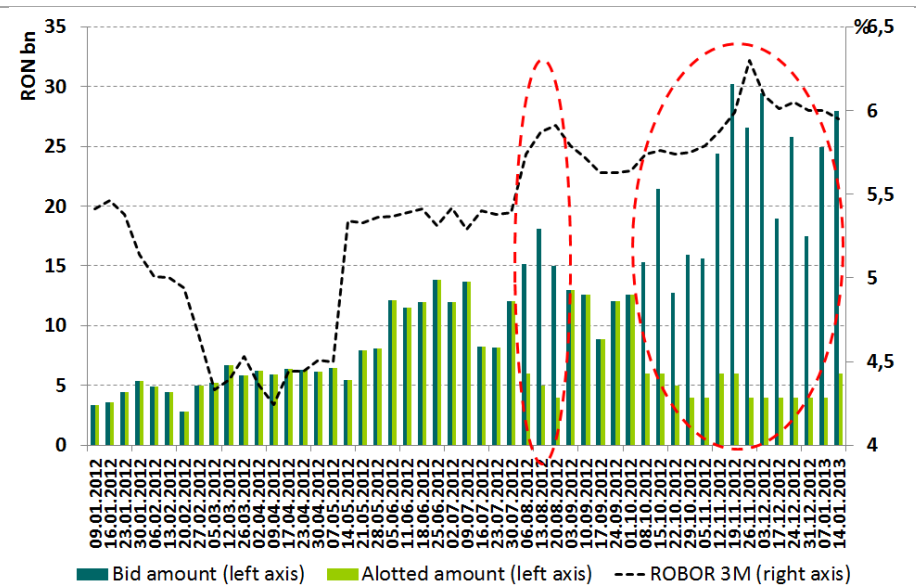
### 5Y Auctions data



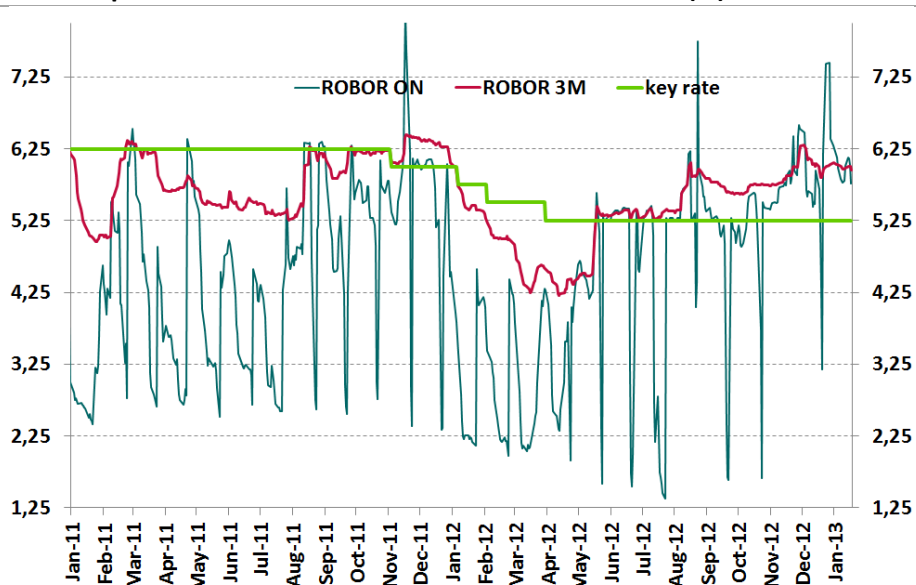
Source: NBR, OTP Research

**MM: The repo size was raised by 2 bn RON this week**

The repo size was raised from 4 bn RON to 6 bn RON this week and the allocation rate climbed from 16% to 21.4%. Since NBR started to cap liquidity the second time, the size of the allocated repo amount varied between 4 and 6 bn RON. Last time the repo size was 6 bn RON was on 19<sup>th</sup> November. In the few days after the cap, the ON rate did not fall by much despite the increased repo size. However, the ON rate tends to decrease towards the end of maintenance period for the required reserves. The maintenance period will end next Wednesday on 23<sup>rd</sup> January.

**Liquidity cap was maintained but the repo amount was raised by 2 bn RON**


Sources: NBR, OTP Research

**Most important MM instruments' evolution since 2012 (%)**


Sources: NBR, OTP Research

Last data: 17.01.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↔ 0
ROBOR ON	5,76	↓ -4	↓ -62
ROBOR 3M	5,95	↓ -1	↓ -8
ROBOR 6M	6,10	↓ -10	↓ -18
ROBOR 9M	6,10	↓ -12	↓ -18
ROBOR 1Y	6,10	↓ -15	↓ -21

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	5.998,7	2005,6	2.003,4

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.932,3	4,2	1030,9

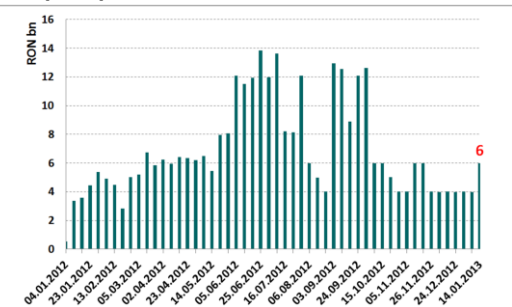
  

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	34	↓ -11	↑ 9
USDRON 1M	140	↓ -17	↓ -10
USDRON 3M	423	↑ 40	↑ 176
EURRON 1W	6	↓ -29	↓ -35
EURRON 1M	188	↑ 36	↑ 42
EURRON 3M	567	↓ -44	↑ 57

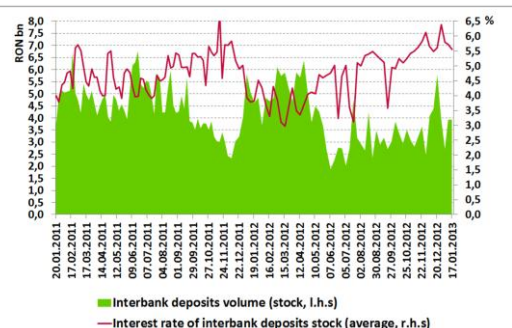
  

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-70	↔ 0	↑ 85
EURRON 3Y	-70	↔ 0	↑ 85
EURRON 5Y	-70	↔ 0	↑ 80

Source: Reuters

**Repo operations since 2012**


Sources: NBR, OTP Research

**Interbank deposits stock and average interest rate**


Sources: NBR, OTP Research



## 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 NSC Regulations no. 32/2006 and 15/2006.

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 written 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 centred 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.

Investments in financial instruments carry a certain degree of risk (fluctuation of share prices, uncertainty of dividend, yields and / or profits, exchange rate fluctuations, etc.). The capital invested is not guaranteed, investment gains, usually assumed proportionate to risk, and past performance of financial instruments is not a guarantee for future performance.

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 wilful or accidental interception, corruption or virus infection.

All rights reserved – OTP Bank Romania S.A. (registered seat: Street Buzesti, no. 66-68, 1st district Bucharest, Romania; company registration number: 01-10-041585; NBR registration no RB-PJR-40-028/1999, registered in the NSC Register under no. PJR01INCR/400017 according to registration certificate 188/28.09.2009; 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](mailto:mihaela.neagu@otpbank.ro) or a written mail addressed to OTP Bank Romania S.A , Buzesti Street, no. 66-68, 1st district, Bucharest, Romania. Please refer to your name and e-mail address in both cases.