

## 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

# Weekly Report

## Romania

4 February 2013



## Unemployment has decreased continuously in H1 2012 but consumers remained cautious

### Macroeconomics: Retail trade fell by 4.3 %YoY in December and January's prospects are negative as the ESI index shows (Page 3-4)

The unemployment rate has been dropping continuously in the past 6M, from 7.3% in June whereas at the EU level an upward trend has been noticed. Unfortunately, consumers remained cautious as the retail trade figures in Q4 2012 show. Through the entire quarter, the index has dropped on a seasonally adjusted basis by 2% QoQ. In December, retail trade fell by 3.2% MoM (seasonally adjusted) and by 4.3% YoY. The major adjustment was made to non-food goods (-6.3% YoY). Prospects for January are not good either, as the economic sentiment index has dropped compared to December. We expect retail trade to pick up in Q1 2013, especially given that an increase in pensions is also scheduled. The number of residential buildings 'licences dropped 14.2 % YoY in December, pointing that recovery of the real estate market is still far away.

### FX markets: 700 mn EUR is due to the IMF in February (Page 5)

The leu lost 0.6% in a week to the euro (on Thursday), as the Central Bank increased the repo size and gave clear signs of easing liquidity conditions. The Central Bank seems to prefer more relaxed liquidity conditions, taking advantage of the fact that the leu is at a more comfortable level. This week, the Treasury will sell more Romanian debt and 2 of the ISINs will be included in the JP Morgan's emerging markets bonds index. This can strengthen the RON temporarily around auction dates but ultimately we believe the leu is not up for appreciation in the coming few weeks as the CB has stepped up repo size and bonds' price appreciation in the future is much lower compared to January's evolution. Additionally, Romania has to pay around 700 mn EUR in principal and interest rates to the IMF during 1-6 February 2013.

### Government securities: The Treasury plans to sell 3.7 bn RON in February after it has sold 11.4 bn RON in January (Page 6)

Government securities' yields have been rising during last week up to 11 bp (in the case of 10Y bonds), in line with the temporary hike of the MM rates. During last week there were no bond auctions. Given that we expect liquidity conditions to ease compared to recent levels, we believe we will see declines in the government securities' yields, especially short term. The Treasury planned to sell 3.7 bn RON in debt in February, after having sold 11.4 bn RON in January. This months' planned sales are unlikely to be comparable with January, given that the targeted amount for the Q1 2013 is 18- 20 bn RON.

### MM: CB raised repo size to 9 bn RON; it is expected to keep base rate at 5.25% (Page 7-8)

The Central Bank hiked the repo size to 9 bn RON which is the highest since the CB started to cap the repo amount in October 2012. The total bids were at record levels 37.5 bn RON (please see the graph below). We believe the MM rates will start easing gradually and that the Central Bank will hold the base rate at 5.25% on 5<sup>th</sup> February at the Board's meeting on monetary policy issues.

#### 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

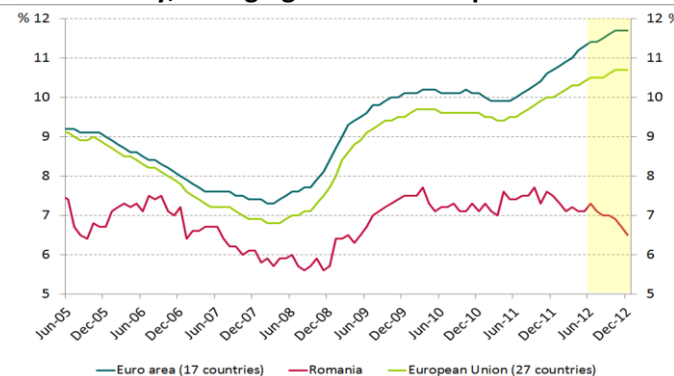
Macroeconomics: Retail trade fell by 4.3 %YoY in December and January’s prospects are negative as the ESI index shows

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
28 Jan	Dec	Licenses for residential buildings (y-o-y, %)	-14,2		-5,2
01 Feb	Jan	FX reserves (bn EUR)	31,5		31,2
01 Feb	Dec	ILO unemployment (%)	6,5		6,7
01 Feb	Dec	Retail trade turnover index (y-o-y, %)	-4,4		3,0
04 Feb	Dec	Producer Price Index (YoY, %)			5,4
06 Feb	Dec	Net wage growth rate (y-o-y, %)			5,6
06 Feb	Dec	Industrial trade turnover index (y-o-y, %)			4,6
06 Feb	Dec	Index value of new orders in manufacturing (y-o-y, %)			-10,4
07 Feb	Dec	Construction works index (y-o-y, %)			1,4
08 Feb	Dec	Industrial Production Index (y-o-y, %)			-1,0

The ILO unemployment rate was 6.5% (seasonally adjusted) in December 2012, down by 0.2% compared to the previous month (6.7%). **The unemployment rate has been dropping continuously in the past 6M**, from 7.3% in June whereas at the EU level an upward trend has been noticed. **Unfortunately, consumers remained cautious as the retail trade figures in Q4 2012 show.**

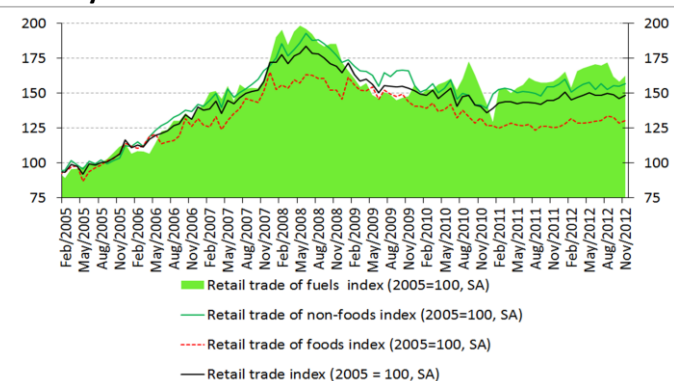
**In December, retail trade fell by 3.2% MoM (seasonally adjusted) and by 4.3% YoY. The major adjustment was made to non-food goods (-6.3% YoY) which have an income elastic demand, followed by fuels trade (-5.3% YoY). Therefore, it looks that consumer ‘confidence remained weak**, although in December, state employee’s wages have been raised by 7.4% (the actual raise to be cashed in as of January 2013). Through the entire quarter, the index has dropped on a seasonally adjusted basis by 2% QoQ. Moreover, **prospects for January are not good either, as the economic sentiment index has dropped compared to December**, especially due to the worsened expectations in the retail trade and services. Meanwhile, at the EU level ESI improved, albeit remaining below its long term average. **We expect retail trade to pick up in Q1 2013, especially given that an increase in pensions is also scheduled.**

The unemployment rate has been falling in H2 2012 continuously, diverging from the European trend



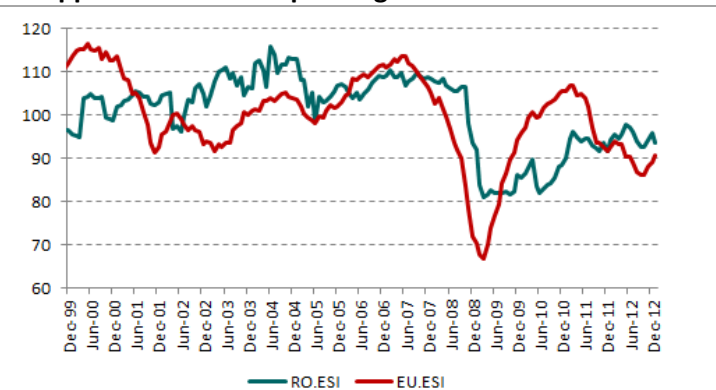
Source: Eurostat, OTP Research

Retail trade fell by 3.2% MoM (seasonally adjusted) and by 4.3% YoY



Source: NIS, OTP Research

The Economic Sentiment Index fell in January in Romania, as opposed to the European figure



Source: Eurostat, OTP Research

Residential buildings’ licenses fell by 14.2% YoY in Dec 2012; the real estate market is far from recovery



Source: NIS, OTP Research

**Medium-term macroeconomic forecast**

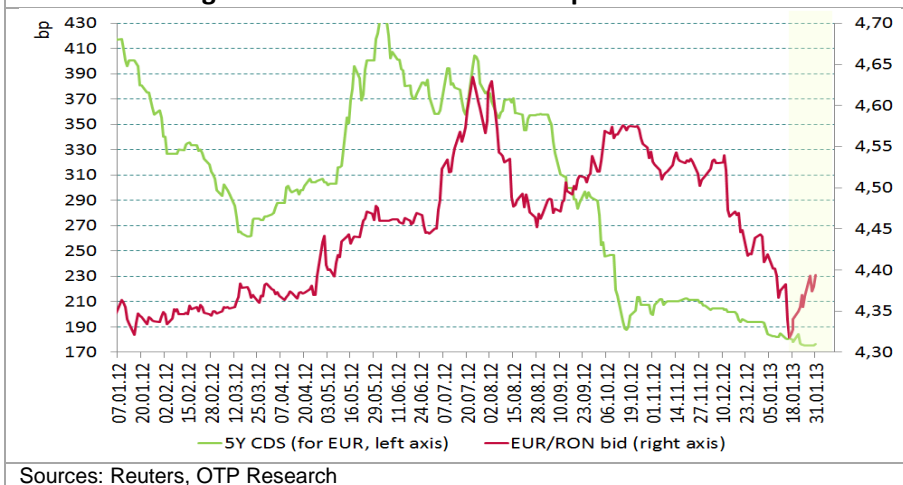
Main macroeconomic indicators	Fact						Forecast	
	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP	7,9%	6,3%	7,3%	-6,6%	-1,1%	2,2%	0,0%	1,5%
Households consumption expenditure	12,9%	12,0%	9,0%	-10,4%	-0,2%	1,2%	0,8%	2,0%
Government consumption	-11,5%	2,5%	6,2%	9,5%	-13,7%	-0,3%	-1,4%	1,5%
Gross fixed capital formation	19,9%	30,3%	15,6%	-28,1%	-1,8%	7,3%	11,0%	5,2%
Exports	10,4%	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	-0,4%
Imports	22,6%	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,2%	1,6%
Consumer prices (avg.)	6,6%	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,1%
Budget Balance (GDP%, ESA 95)	-2,2%	-2,9%	-5,7%	-9,0%	-6,8%	-5,5%	-3,6%	-3,3%
Public debt (GDP %)	12,4%	12,8%	13,4%	23,6%	30,5%	33,3%	35,0%	36,6%
CA balance (% GDP)	-10,5%	-13,4%	-11,6%	-4,2%	-4,4%	-4,6%	-4,4%	-4,6%
CA balance (bn EUR)	-10,2	-16,8	-16,2	-4,9	-5,5	-6,0	-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, NBR, OTP Research

**FX markets: 700 mn EUR is due to the IMF in February**

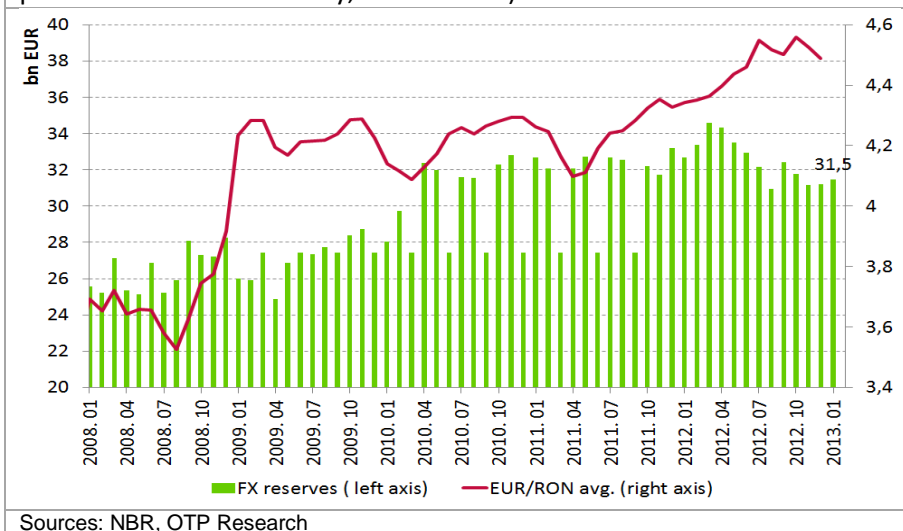
The leu lost 0.6% in a week (on Thursday) to the euro, as the Central Bank increased the repo size and gave clear signs of easing liquidity conditions. Also, there was no auction last week which could have attracted at least some interest in Romanian bonds. This week will be eventful as the Treasury planned to sell another 1.5 bn RON in bills and bonds on Monday and Thursday. Two of the ISINs are of more interest to foreigners as well, as they will be included in the JP Morgan's emerging market index as of March 2013. However due to bonds' price rally this year, the potential for appreciation is lower than a month ago, which also means that interest from non residents may have decreased (as the last auctions revealed as well). Also, the Central Bank seems to prefer more relaxed liquidity conditions, taking advantage that the leu is at a more comfortable level. Furthermore, Romania has to pay around 700 mn EUR in principal and interest rates to the IMF during 1-6 February 2013 (and payments to the IMF will take place almost each month, adding up to ~5 bn EUR this year). **Given the above, we believe the leu is not up for appreciation in the coming few weeks even if we see temporary gains around auction dates.**

**The leu is falling after the CB increased the repo size**



Sources: Reuters, OTP Research

**The FX reserve rose by ~ 250 mn EUR in January; during 1-6 February Romania has to repay ~700 mn EUR to the IMF (part of the total FX public debt due in February, 863 mn EUR)**



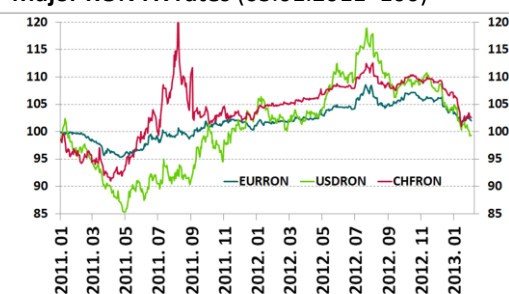
Sources: NBR, OTP Research

Last data: 31.01.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,38	↑	0,59	↓ -1,40
USDRON	3,23	↓	-0,85	↓ -4,11
CHFRON	3,54	↑	1,13	↓ -3,61
RONJPY	3,53	↓	-2,11	↓ -9,12
RONPLN	1,04	↑	0,47	↑ 14,21
100HUFRON	1,50	↑	1,60	↓ -1,71
RONCZK	0,17	↑	0,41	↓ -3,50
RONRUB	0,11	↓	-0,78	↓ -2,45
RONRSD	0,04	↑	0,86	↓ -0,17
RONBGN	2,24	↑	0,67	↓ -1,34

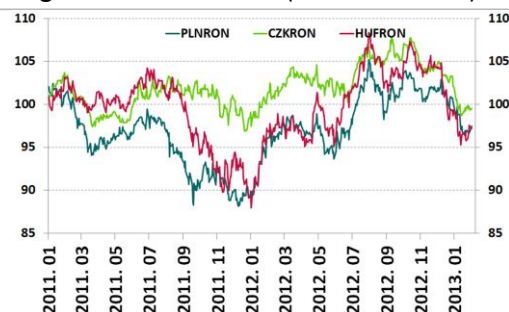
Source: Reuters

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



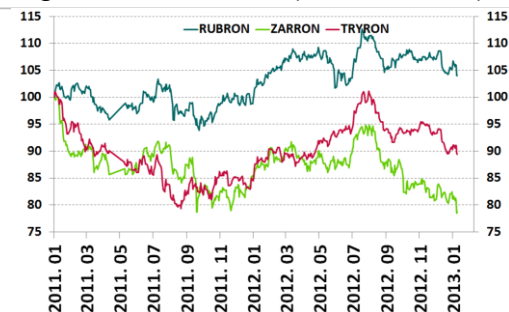
Sources: Reuters, OTP Research

**Regional RON FX rates I. (03.01.2011=100)**



Sources: Reuters, OTP Research

**Regional RON FX rates II. (03.01.2011=100)**



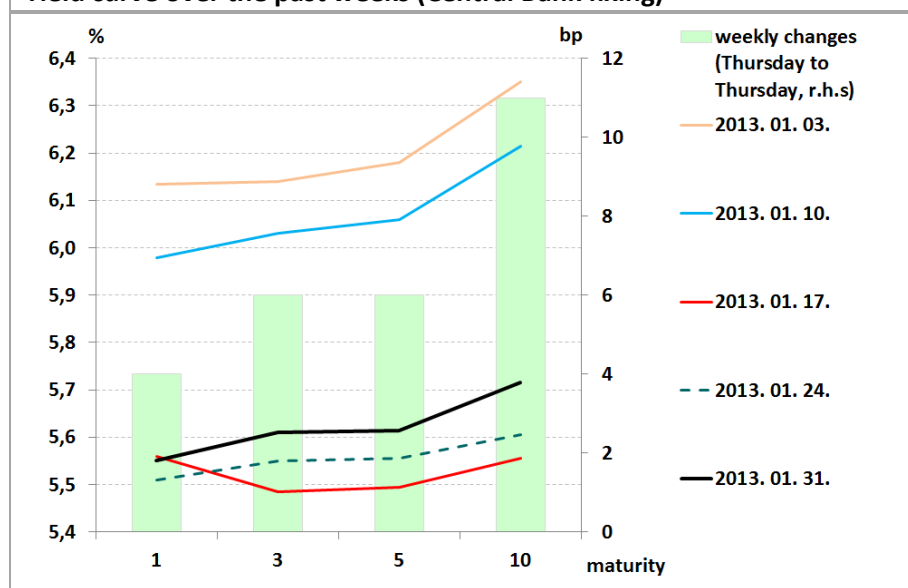
Sources: Reuters, OTP Research

## Government securities: The Treasury plans to sell 3.7 bn RON in February after it has sold 11.4 bn RON in January

Government securities' yields have been rising during last week up to 11 bp (in the case of 10Y bonds), in line with the temporary hike of the MM rates. During last week there were no bond auctions. **Given that we expect liquidity conditions to ease compared to recent levels, we believe we will see declines in the government securities' yields, especially short term.**

**The Treasury planned to sell 3.7 bn RON in debt in February**, after having sold 11.4 bn RON in January. Most of the planned sales are in bonds (2.7 bn RON) with a maturity of 2 up to 5 years. Looking at the structure of the current debt issued (as of October 2012), 49% were bonds up to 5Y and they seem to be most preferred by non resident investors as well, especially after the inclusion of Romanian bonds (**DBN073, DBN030, DBN046**), in the **JP Morgan emerging market bonds index**. All of the above ISINs are included in this months' planned sales but the total sales are unlikely to be comparable with January, given that the targeted amount for the Q1 2013 is 18- 20 bn RON.

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



Source: NBR, OTP Research

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

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN045	04.02.2013	06.02.2013	05.02.2014	12	500.000.000
RO1314CTN052	18.02.2013	20.02.2013	19.02.2014	12	500.000.000

Source: Ministry of Finance, OTP Research

### Bonds auctions in February (in RON)

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1215DBN073	04.02.2013	06.02.2013	26.10.2015	3	5,80	500.000.000
RO1217DBN046	07.02.2013	11.02.2013	26.07.2017	5	5,90	500.000.000
RO1214DBN068	11.02.2013	13.02.2013	28.07.2014	2	5,85	600.000.000
RO1216DBN030	14.02.2013	18.02.2013	27.01.2016	4	5,75	300.000.000
RO1116DBN024	21.02.2013	25.02.2013	30.04.2016	5	6,00	800.000.000

Sources: Ministry of Finance, OTP Research

Last data: 31.01.2013

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	5,55	↑ 8	↓ -64	
12M	5,55	↑ 4	↓ -62	
3Y	5,61	↑ 6	↓ -56	
5Y	5,62	↑ 6	↓ -59	
10Y	5,72	↑ 11	↓ -67	

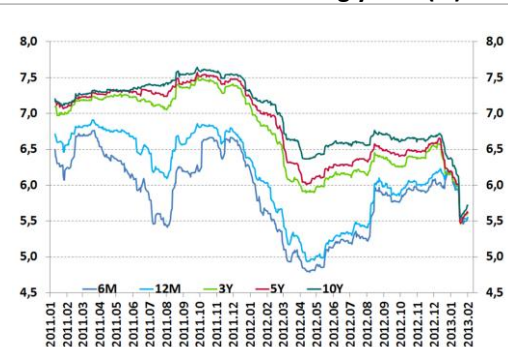
SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	536	↑ 6	↓ -72	
GERROM 5Y	500	↑ 6	↓ -80	
GERROM 10Y	416	↑ 11	↓ -79	
3Y -5Y	0	↑ 0	↓ -3	
5Y -10Y	10	↑ 5	↓ -8	
3Y-10Y	11	↑ 5	↓ -11	
FLY 3-5-10	9	↑ 5	↓ -5	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	118	↑ 0	↓ -18	
5Y EURO	176	↑ 0	↓ -18	

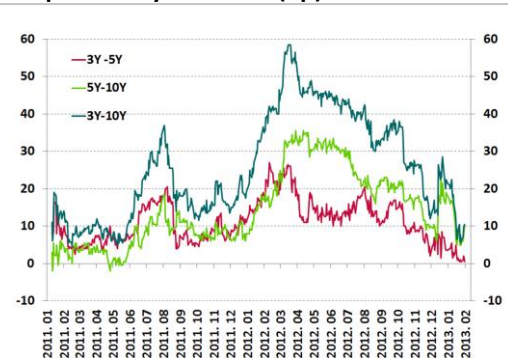
Source: Reuters

### Central bank benchmark fixing yields (%)



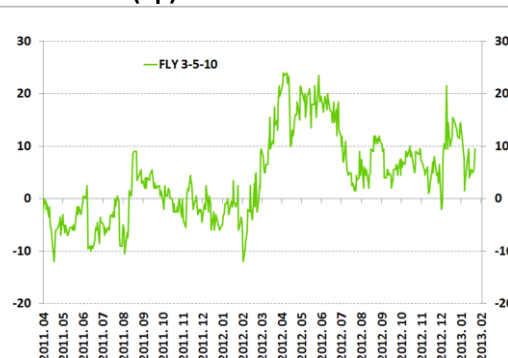
Sources: NBR, OTP Research

### Slope of the yield curve (bp)



Sources: NBR, OTP Research

### FLY 3-5-10 (bp)

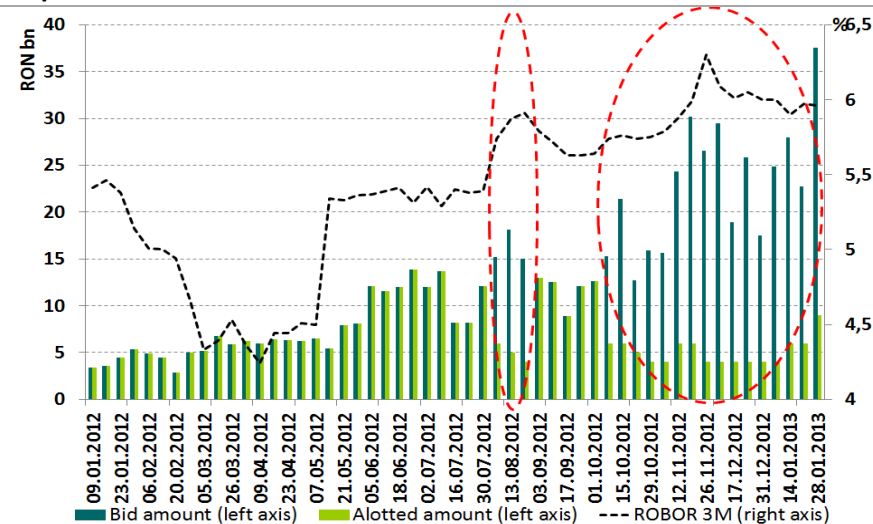


Sources: NBR, OTP Research

## MM: CB raised repo size to 9 bn RON; it is expected to keep base rate at 5.25%

The Central Bank hiked the repo size to 9 bn RON which is the highest since the CB started to cap the repo amount in October 2012. The total bids were at record levels 37.5 bn RON (please see the graph below). We believe the MM rates will start easing gradually, despite the fact that we have seen some hikes by the end of last week. We believe the hikes are temporary and mostly due to companies paying the quarterly taxes.

**Repo size was hiked to 9 bn RON on record total bids of 37.5 bn RON**



Sources: NBR, OTP Research

The Central Bank will hold a **Board meeting on monetary policy issues on 5th February this week** and the broad market consensus and our estimations as well is that the CB will maintain the base rate at 5.25%. The peak of inflation was already expected by the CB in Q2 2013 and on top of this, the new Fiscal Code increases unexpectedly the excises for tobacco and beer as of 1<sup>st</sup> April. These two items made up to 6.8% of the consumption basket last year. The hike will add up to monthly inflation earlier in April and will be transmitted to the annual inflation in Q2 2013. However, the CB calculated higher Core2 inflation for Q4 2012, of 3.7% YoY compared to the actual 3.5% YoY. Therefore, the estimation of 5.6% YoY inflation in Q2 2013 may have been upwards biased but with the new excises' hikes as of April, the effect could be netted out. Until now, the CB has proved to prefer managing liquidity using the weekly operations (instead of raising the base rate), to prevent that leu's depreciation take its toll on inflation. Looking at the recently published Dec 2012 interest rates, it seems that the liquidity cap impacted only new loans interest rates in RON, whereas the impact on the deposit rates is not noticeable (Please see the graphs below). The effect of the monetary policy on the lending interest rates is under the radar of the CB, which has been arguing for quite a while in favour of RON denominated loans.

Last data: 31.01.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↔ 0
ROBOR ON	6,46	↑ 63	↓ 8
ROBOR 3M	5,96	↑ 8	↓ -7
ROBOR 6M	6,06	↓ -1	↓ -22
ROBOR 9M	6,06	↓ -1	↓ -22
ROBOR 1Y	6,07	↓ -1	↓ -24

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	8.990,4	2993,8	4.995,1

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2.663,2	389,7	-238,2

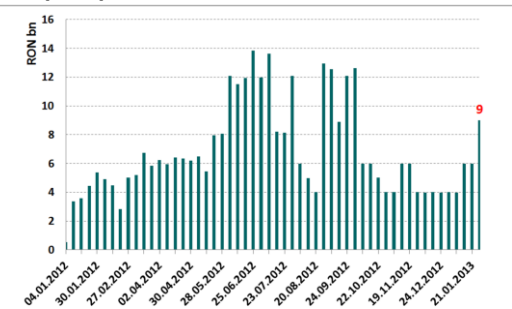
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USD RON 1W	32	↓ -5	↑ 7
USD RON 1M	146	↓ -9	↓ -3
USD RON 3M	408	↑ 8	↑ 162
EUR RON 1W	43	↑ 6	↑ 2
EUR RON 1M	195	↑ 37	↑ 50
EUR RON 3M	599	↑ 7	↑ 88

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

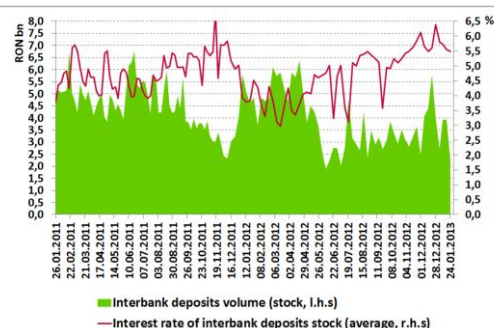
Source: Reuters

**Repo operations since 2012**



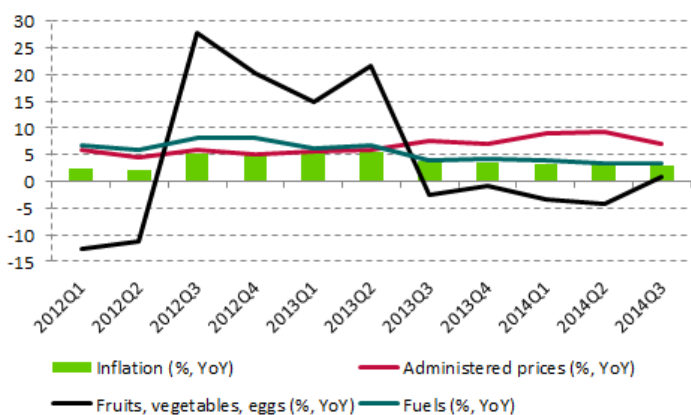
Sources: NBR, OTP Research

**Interbank deposits stock and average interest rate**



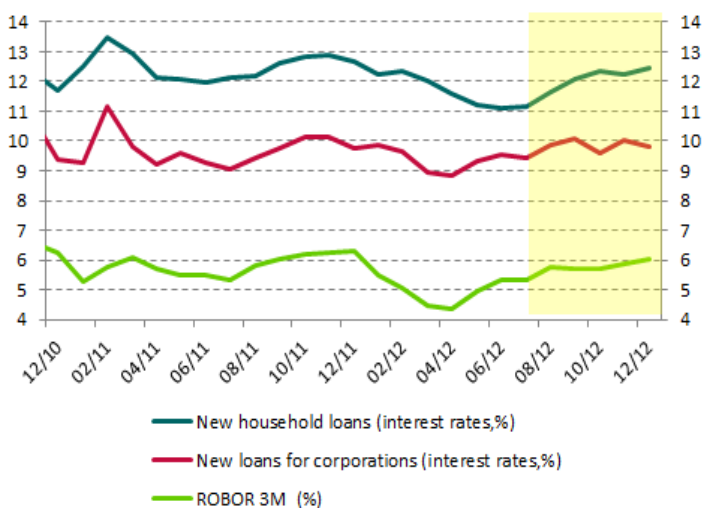
Sources: NBR, OTP Research

**The Central Bank expects the main impact to inflation rate to come from foods 'prices in H1 2013**



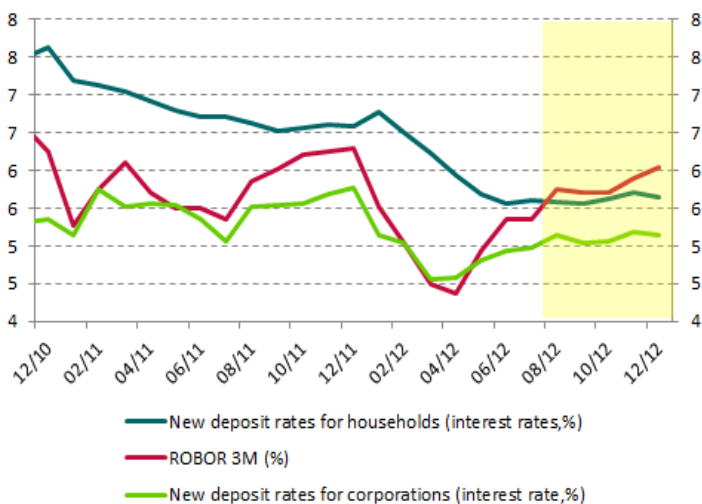
Sources: NBR, OTP Research

**The effect of the liquidity cap was seen on new RON loans' interest rates**



Sources: NBR, OTP Research

**The effect of the liquidity cap was not noticeable in the case of deposits' interest rates**



Sources: NBR, OTP Research

**Most important MM instruments' evolution**



Sources: NBR, OTP Research



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