

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

11 March 2013



Money market rates and yields fell last week

Macroeconomics: Retail trade starts high in January (+4.3% MoM)

(Page 3-4)

What seems to have offered a strong support to annual GDP growth in Q4 is the extraordinary hike reported by the IT and communications branch (+42% YoY). Looking at the gross value added, only services was the driver of the the marginal growth in 2012, whereas constructions (+0% YoY), industry (-2.1% YoY) and agriculture (-21.2% YoY) had no positive contribution. Without agriculture, which is a volatile component, growth would have been 1.8% YoY in 2012 due to services and net taxes. The strong monthly uptake of non-food trade (+6.9 % MoM in January) signals that consumer confidence is improved and households may be ready to make longer term buying decisions.

FX markets: The leu remained almost flat last week (Page 5)

The leu remained almost flat last week and it did not react to the removal of the liquidity cap by the Central Bank (and the injected amount was anyway lower than in the previous week). Interest for the Romanian bonds remained high, but the Treasury has sold to a great extent the targeted amount for Q1 2013. So from this point of view, support for the leu from bonds' buying side (by non –residents) may be limited in the short term.

Government securities: The yield curve is shifting down (Page 6-7)

Government securities yields continued to drop last week up to 12 bp (as of Thursday), in line with the decline seen by the money market rates. We believe there is more potential for yields to decline, given that we still expect money market rates to adjust downwards. The Treasury sold the plan amount in bonds last week: 500 mn RON of bonds with 35M residual maturity. Demand was healthy and bid to cover ratio stood at 4.19. The average accepted yield was 5.49%, which 24 bp lower than a similar issue in Mid February this year. The bond was one of the 3 ISINs comprised in the JP Morgan's emerging market index. The Treasury's planned amount of debt sales for March is 3 bn RON and this week it targets 1 bn RON in 12M T-bills and 2Y bonds.

MM: The Central Bank removed the liquidity cap (Page 8-9)

The Central Bank stopped capping liquidity at the weekly repo auction for the first time since October 2012. ROBOR rates fell 5 to 26 bp (as of Thursday, w-o-w). Liquidity conditions are continuously improving: in February, the volume of Lombard loans was 1.4 bn RON compared to 5.1 bn RON in January. Deposits placed with NBR increased as well, from 6.6 bn RON in January to 8.4 bn RON in February. ROBOR 3M is declining as well, but it is still higher than the base rate of 5.25%. Average interest rates for new loans in RON are higher by 1% than the minimum recorded last year of 9.6% in April, according to the latest data (January 2013). Meanwhile, the average rate for new deposits is around 5.4%, 30 bp higher than in April last year, when minimum average deposit rates were recorded.

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

szaniszlób@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

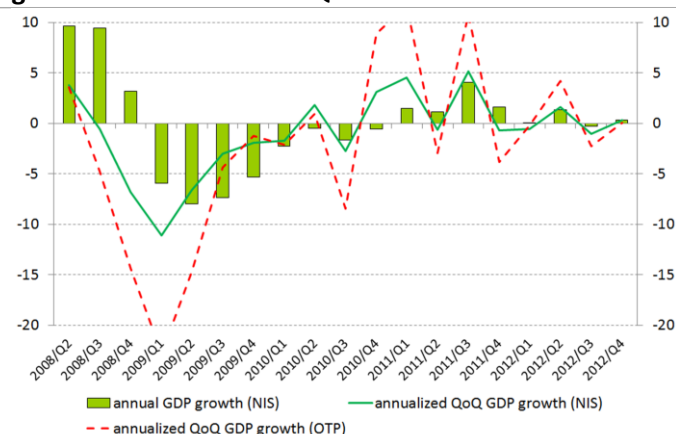
Macroeconomics: Retail trade starts high in January (+4.3% MoM)

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
04 Mar	Jan	Producer Price Index (YoY, %)	5,7		4,9
05 Mar	Jan	Retail trade turnover index (y-o-y, %)	2,8		-4,1
06 Mar	Q4 2012	Final consumption (Y-o-Y, %)	1,0		-0,5
07 Mar	Jan	Net wage growth rate (y-o-y, %)	5,5		5,8
11 Mar	Jan	Industrial trade turnover index (y-o-y, %)	5,2		-3,5
11 Mar	Jan	Index value of new orders in manufacturing (y-o-y, %)	-7,4		-0,9
12 Mar	Jan	Construction works index (y-o-y, %)			-10,7
12 Mar	Jan	Exports (y-o-y, %)			-4,9
12 Mar	Jan	Imports (y-o-y, %)			-7,9
12 Mar	Feb	Consumer price index (y-o-y, %)			6,0
13 Mar	Jan	Industrial Production Index (y-o-y, %)			-2,2
14 Mar	Jan	CA balance (EUR mn, YTD)			-5039,4

Detailed GDP Q4 data showed that annual growth rate stood at 0.3% YoY (gross data) and quarterly evolution was +0.1% QoQ (seasonally adjusted) in Q4. Overall GDP growth in 2012 was revised up to 0.3% YoY against the preliminary 0.2% YoY and nominal GDP amounted to 587.5 bn RON. **What seems to have offered a strong support to annual GDP growth in Q4 is the extraordinary hike reported by the IT and communications branch (+42% YoY)** followed by the *professional, scientific & technical activities & activities of administrative and support services* (+9.9% YoY). Looking at the gross value added, only services was the driver of the the marginal growth in 2012, whereas constructions (+0% YoY), industry (-2.1% YoY) and agriculture (-21.2% YoY) had no positive contribution. Without agriculture, which is a volatile component, growth would have been 1.8% YoY in 2012 driven by services and net taxes.

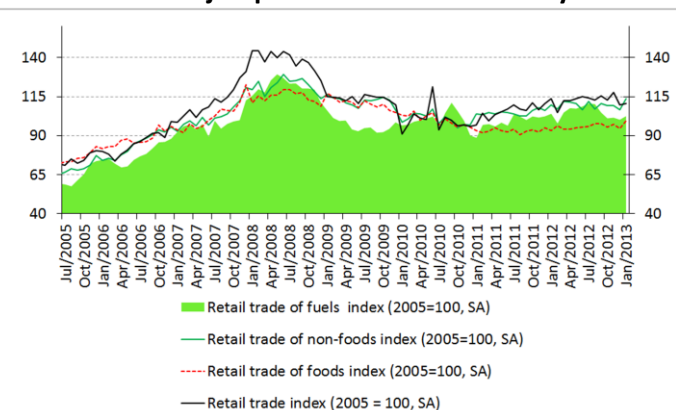
Retail trade advanced by 2.8% YoY in January (+4.3% MoM seasonally adjusted). Main drivers of the annual hike were the **food sales (+4% YoY)**, while non-food sales remained almost flat and fuels sales dropped 1.3% YoY. **Most encouraging though was the strong monthly uptake of non-food trade (+6.9 % MoM) which signals consumer confidence is improved** and households may be ready to make longer term buying decisions.

In Q4 2012, the IT & C rose 42% YoY; annual GDP growth was 0.3% YoY in Q4



Source: NIS, OTP Research

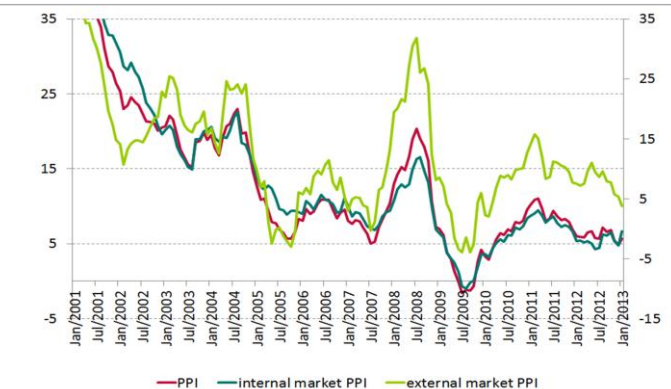
Non-food trade jumped 6.9% MoM in January



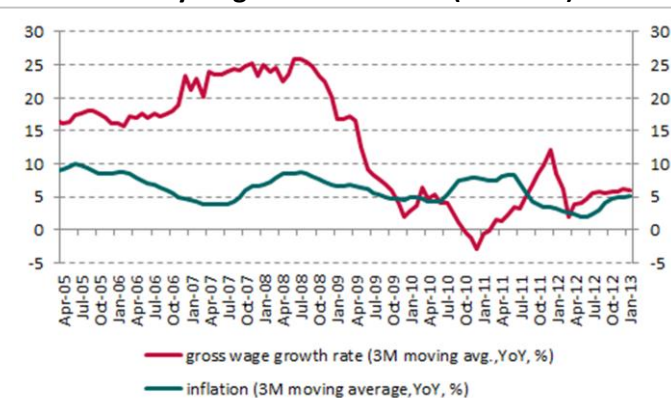
Source: NIS, OTP Research

In January, the producer price index rose by 5.7% YoY compared to 4.9% YoY. The hike was driven by prices on the domestic market (+6.7% YoY) while on the external market, the pace was much lower, +3.8% YoY.

The net monthly wage increased by 5.5% YoY in January, to 1548 RON but the real wage suffered a decline of 0.4% YoY. Gross monthly wage stood at 2138 RON.

Producer price index rose in January due to prices on the local market


Source: NIS, OTP Research

Gross monthly wage was 2138 RON (+5.7 YoY)


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

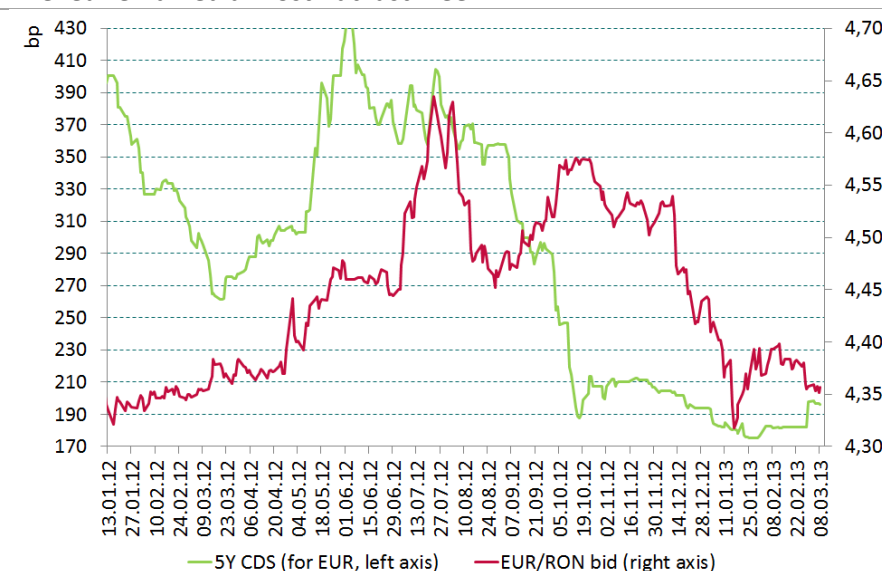
Source: Eurostat, NBR, OTP Research

Note: * under revision

FX markets: The leu remained almost flat last week

The leu remained almost flat last week and it did not react to the removal of the liquidity cap by the Central Bank (and the injected amount was anyway lower than in the previous week). Interest for the Romanian bonds remained high, but the Treasury has sold to a great extent the targeted amount for Q1 2013, between 18-20 bn RON (it actually sold 16.4 bn RON and the auctions left for this month do not comprise any of the 3 ISINs which are part of the JM Morgan's emerging market bond index, like the ISIN auctioned last Thursday). So from this point of view, support for the leu from bonds' buying side (by non – residents) may be limited in the short term. In the short term, a factor that may worsen investors' perception of the region could be the political situation in Italy. Uncertainty regarding the political outlook in Italy is the reason for which Fitch has downgraded Italy's sovereign rating. We expect the leu to weaken marginally in the short term and look forward to Q2 planned debt sales.

The leu remained almost flat last week



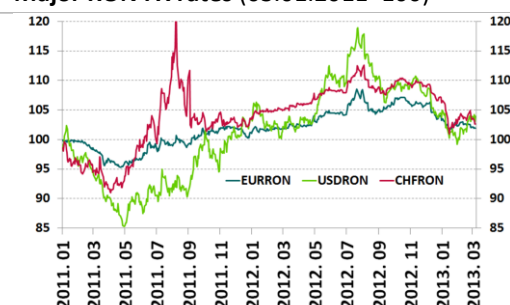
Sources: Reuters, OTP Research

Last data: 07.03.2013

FX BID				
	Value	Weekly chg. (%)	YTD chg. (%)	
EURRON	4,35	↓ -0,08	↓ -2,06	
USDRON	3,32	↓ -0,47	↓ -1,40	
CHFRON	3,52	↓ -1,11	↓ -4,27	
RONJPY	3,50	↓ -2,80	↓ -9,80	
RONPLN	1,04	↓ -0,57	↑ 14,10	
100HUFRON	1,46	↓ -1,09	↓ -4,35	
RONCZK	0,17	↑ 0,77	↓ -3,39	
RONRUB	0,11	↓ -0,63	↓ -1,91	
RONRSD	0,04	↓ -0,29	↓ -1,50	
RONBGN	2,22	↓ -0,04	↓ -2,05	

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)



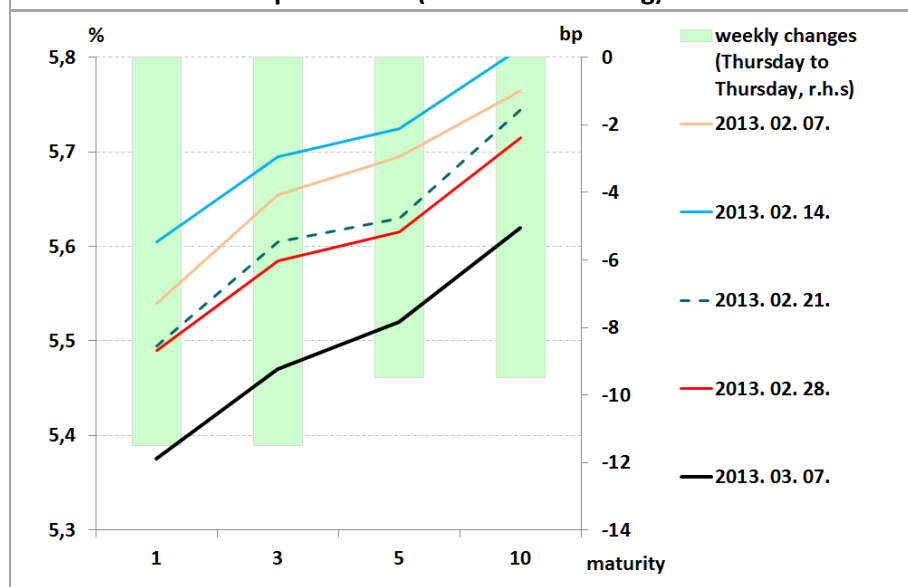
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Government securities: The yield curve is shifting down

Government securities yields continued to drop last week up to 12 bp (as of Thursday), in line with the decline seen by the money market rates. We believe there is more potential for yields to decline, given that we still expect money market rates to adjust downwards.

The Treasury sold the plan amount in bonds last week: 500 mn RON of bonds with 35M residual maturity. Demand was healthy and bid to cover ratio stood at 4.19. The average accepted yield was 5.49%, which 24 bp lower than a similar issue in Mid February this year. The bond was one of the 3 ISINs comprised in the JP Morgan's emerging market index. The Treasury's planned amount of debt sales for March is 3 bn RON and this week it targets 1 bn RON in 12M T-bills and 2Y bonds.

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

T-Bills auction in March (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN060	11.03.2013	13.03.2013	12.03.2014	12	500.000.000
RO1314CTN078	18.03.2013	20.03.2013	19.03.2014	12	500.000.000

Source: Ministry of Finance, OTP Research

Bonds auctions in March (in RON)

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1216DBN030	07.03.2013	11.03.2013	27.01.2016	4	5,75	500.000.000
RO1214DBN068	14.03.2013	18.03.2013	28.07.2014	2	5,85	500.000.000
RO1320DBN022	18.03.2013	20.03.2013	29.04.2020	7	5,75	500.000.000
RO1323DBN018	21.03.2013	25.03.2013	26.04.2023	10	5,85	500.000.000

Sources: Ministry of Finance, OTP Research

Last data: 07.03.2013

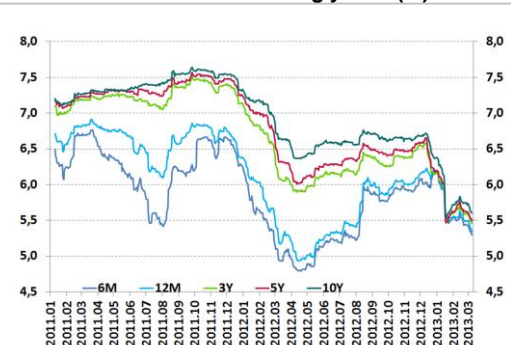
RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	5,33	↓ -11	↓ -86	
12M	5,38	↓ -12	↓ -79	
3Y	5,47	↓ -12	↓ -70	
5Y	5,52	↓ -10	↓ -68	
10Y	5,62	↓ -9	↓ -76	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	537	↓ -12	↓ -71	
GERROM 5Y	508	↓ -10	↓ -72	
GERROM 10Y	417	↓ -9	↓ -78	
3Y -5Y	5	↑ 2	↑ 1	
5Y -10Y	10	↑ 0	↓ -8	
3Y-10Y	15	↑ 2	↓ -6	
FLY 3-5-10	5	↓ -2	↓ -9	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	140	↓ -2	↑ 4	
5Y EURO	197	↓ -2	↑ 2	

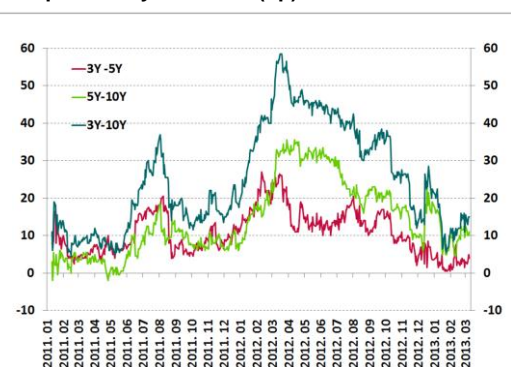
Source: Reuters

Central bank benchmark fixing yields (%)



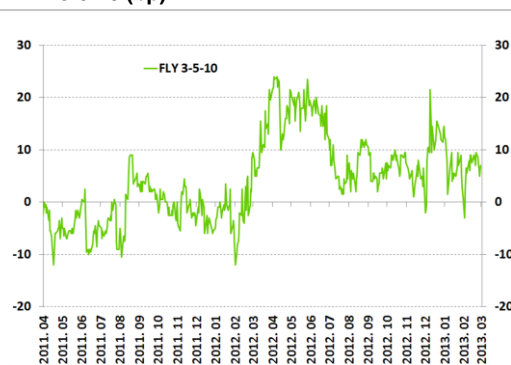
Sources: NBR, OTP Research

Slope of the yield curve (bp)

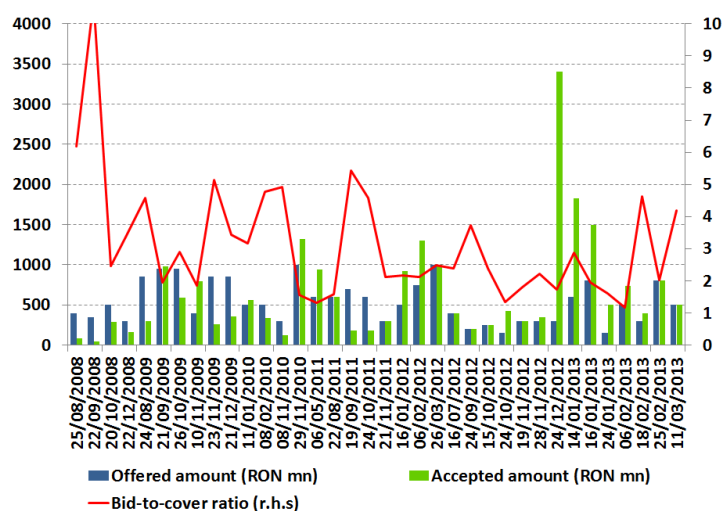


Sources: NBR, OTP Research

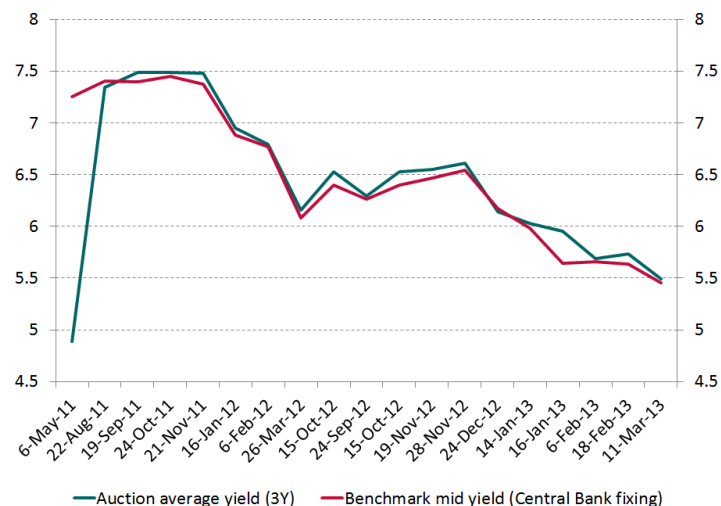
FLY 3-5-10 (bp)



Sources: NBR, OTP Research

3Y Auctions data


Sources: NBR, OTP Research

3Y Interest rates


Sources: NBR, OTP Research

Last week's auction results (RON denominated)

	RO1216DBN030
Offered amount (RON mn)	500
total bids (RON mn)	2094
accepted amount (RON mn)	500
average accepted yield (%)	5.49
coupon	5.75

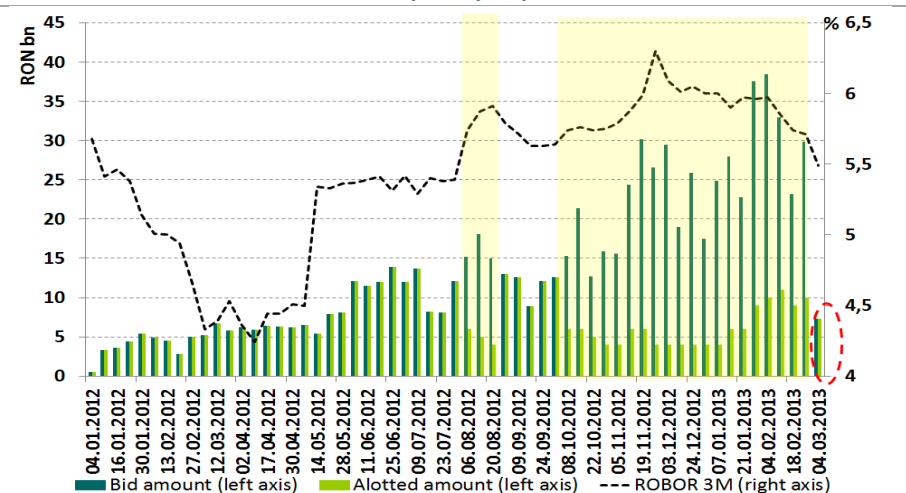
Source: NBR, OTP Research

MM: The Central Bank removed the liquidity cap

The Central Bank stopped capping liquidity at the weekly repo auction for the first time since October 2012. The repo injection was 7.3 bn RON, lower by 2.6 bn compared to the previous week. ROBOR rates fell 5 to 26 bp (ROBOR ON). **Liquidity conditions are continuously improving:** in February, the volume of Lombard loans was 1.4 bn RON compared to 5.1 bn RON in January. Deposits placed with NBR increased as well, from 6.6 bn RON in January to 8.4 bn RON in February. **ROBOR 3M is declining as well, but it is still higher than the base rate of 5.25%.** Average interest rates for new loans in RON are higher by 1% than the minimum recorded last year of 9.6% in April, according to the latest data (January 2013). Meanwhile, the average rate for new deposits is around 5.4%, 30 bp higher than in April last year, when minimum average deposit rates were recorded.

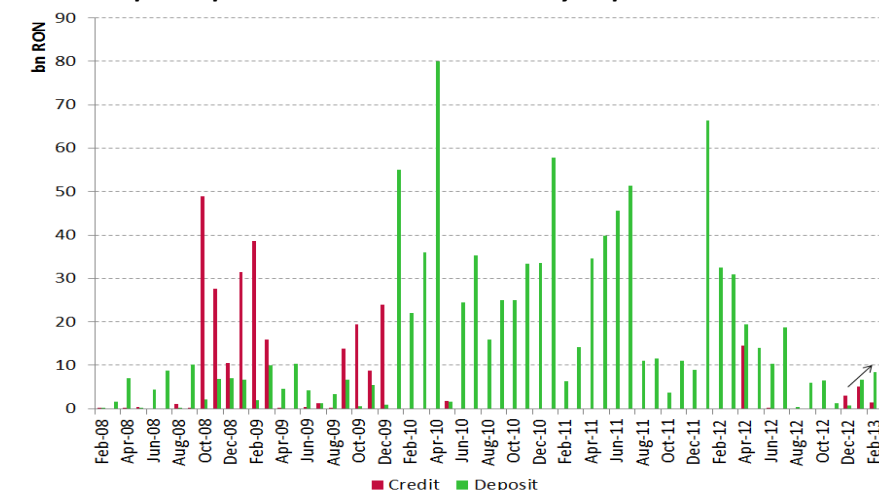
This week, February inflation data will be released and we will see whether Core2 adjusted inflation is in line with Central's Bank expectations: the CB expects it to fall from 3.3% YoY at December 2012 to 2.9% in March 2013. After remaining unchanged for 3 months October-December 2012, it fell to 3.2% YoY in January. As inflation expectations improved, the CB started injecting more liquidity into the banking system in February.

The Central Bank removed the liquidity cap that started in October 2012



Standing facilities granted by the National Bank of Romania

The ON deposits placed with NBR continuously improved since December



Last data: 07.03.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5.25	0	0
ROBOR ON	5.19	-26	-119
ROBOR 3M	5.56	-15	-47
ROBOR 6M	5.85	-6	-43
ROBOR 9M	5.87	-4	-41
ROBOR 1Y	5.86	-5	-45

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	7.332,9	-2661,2	3.337,6

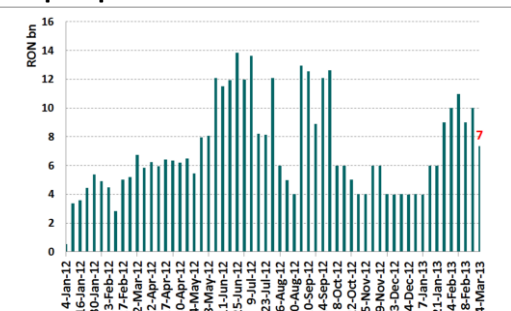
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2.012,9	-179,1	-888,5

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	31	-1	7
USDRON 1M	140	-5	-9
USDRON 3M	375	4	129
EURRON 1W	33	-11	-8
EURRON 1M	188	27	43
EURRON 3M	559	-19	49

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-90	0	65
EURRON 3Y	-75	0	80
EURRON 5Y	-75	0	75

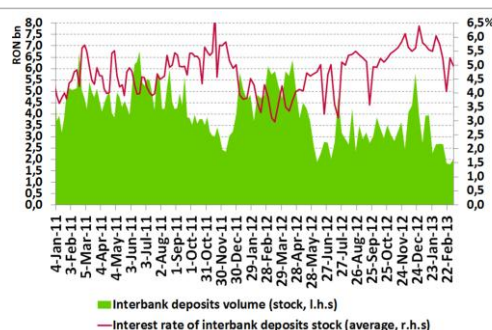
Source: Reuters

Repo operations since 2012



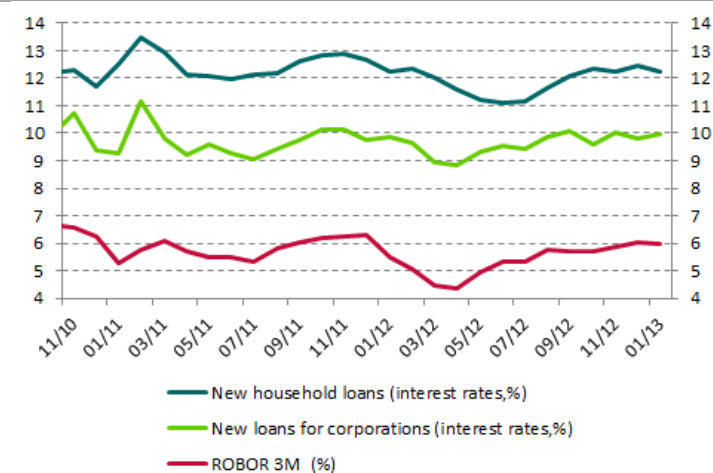
Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



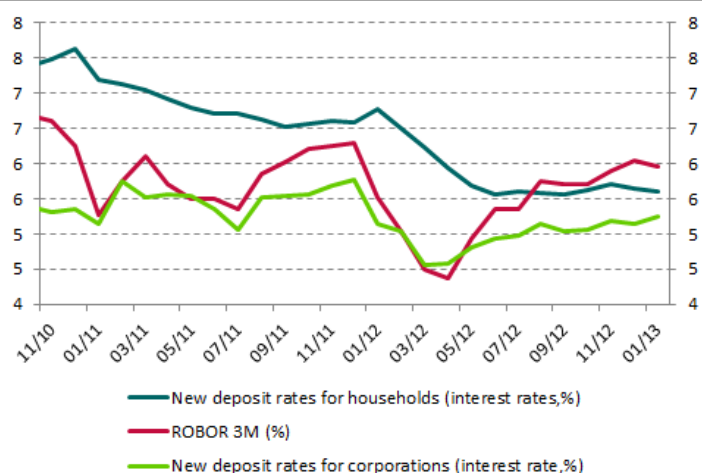
Sources: NBR, OTP Research

Average households new loans interest rate was 12.2% in January 2013



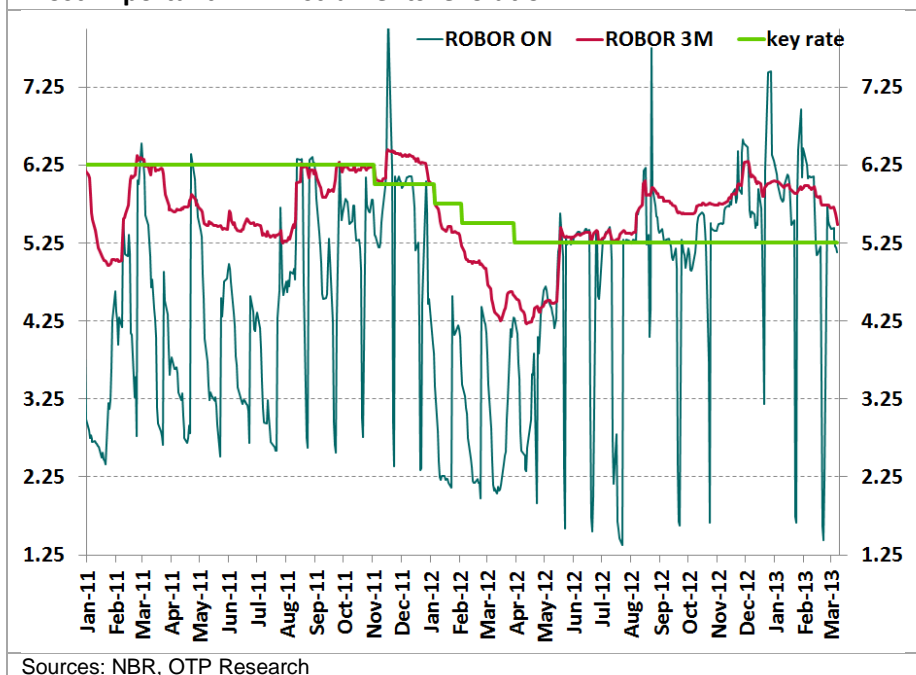
Sources: NBR, OTP Research

The average interest rate for new households' deposits was 5.6% in January 2013



Sources: NBR, OTP Research

Most important MM instruments' evolution



Sources: NBR, OTP Research

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