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Weekly Report

Romania

18 March 2013



Inflation slowed down in February; money market rates and yields continued to fall last week

Macroeconomics: Inflation slows down in February; January's macro data is encouraging except for construction (Page 3-5)

In January, the current account had a surplus of 466 mn EUR due to current transfers (+557 mn EUR). This compares to a CA deficit of 25 mn EUR last year. The trade balance (goods and services) deficit shrank from 403 mn in January 2012 to only 11 mn EUR in January 2013 as we have seen imports falling especially in Q4 2012. Looking at the financing side, net FDI was 95 mn EUR compared to 12 mn EUR last year. Portfolio investments amounted to 1.9 bn EUR due to foreigners' interest in Romanian bonds mainly. January's macro data is mainly positive: industrial production up 5.7%, exports advanced by 6.1% and retail trade advanced by 2.8% YoY. Constructions declined by 11% YoY due to the lower pace of infrastructure works.

FX markets: The leu weakened, on lower interest rates (Page 6)

The leu gave up 0.9% to the euro last week as interest rates eased significantly. Also, the size of the debt sales at the Treasury's auctions was rather small compared to previous dates when foreigners could tap higher amounts of Romanian debt. The news of the deal made by Cyprus this week-end pushed the leu lower against the euro as risk perception deteriorated. In exchange for a bailout deal, Cyprus agreed to tax bank deposits. To this deteriorated risk perception which makes investors more cautious when investing in the region, it adds the current low rate environment which is not supportive for the leu in the short term. This week money market rates are likely to remain low, as it is the last week of the maintenance of the required reserves.

Government securities: Yields are still falling (Page 7-8)

Government securities' yields posted another round of decline last week and lost between 7 to 25 bp, especially at the low end of the curve as money market rates fell down significantly. Given that the week ahead money market rates are likely to remain low, yields could come down further. The Treasury sold the planned amount in 12M T-bills and 2Y bonds of 1 bn RON last week. The 2Y bonds sold at an average accepted yield of 5.18%, 65 bp lower than the previous similar tender in Mid February. Demand was healthy and bid to cover ratio was 4.7. The 12M T-bills had an average accepted yield of 5.29%, 28 bp lower than the previous similar tender at the end of February.

MM: Core inflation declined in February (Page 8-9)

The liquidity injected by the Central Bank was 2.3 bn RON last week, lower by 5 bn RON compared to the previous week. There was no liquidity cap and money market rates fell further. Inflation data for February was released and Core 2 adjusted inflation (CPI excluding administered prices, volatile items, tobacco and alcohol) continued to decline to 3.1% YoY from 3.2% YoY in January. This confirms the trend outlined by the Central Bank for Q1 2013. The CB expects it to fall to 2.9% YoY in March. This supports expectations of a base rate cut in the future, but this is likely to happen after headline inflation has settled to a lower level.

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Macroeconomics: Inflation slowed down in February; January's macro data is encouraging except for construction

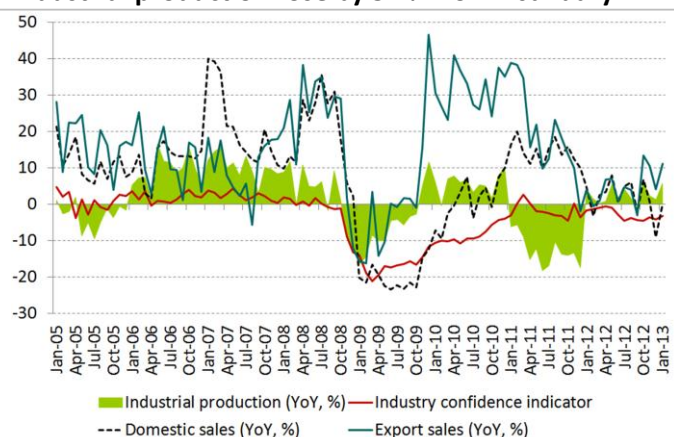
	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
11 Mar	Jan	Industrial trade turnover index (y-o-y, %)	5,2		-4,0
12 Mar	Jan	Construction works index (y-o-y, %)	-11,1		-10,2
12 Mar	Jan	Exports (y-o-y, %)	6,1		-4,9
12 Mar	Jan	Imports (y-o-y, %)	1,3		-7,9
12 Mar	Feb	Consumer price index (y-o-y, %)	5,7		6,0
13 Mar	Jan	Industrial Production Index (y-o-y, %)	5,7		1,3
14 Mar	Jan	CA balance (EUR mn, YTD)	465,5		-5039,4
no data					

Industrial production rose by 5.7% YoY and +0.3% MoM (seasonally adjusted) in January. According to the industrial confidence indicator, industry should continue to advance in February as well. However, new orders dropped by 7.4% YoY which tempers our optimism.

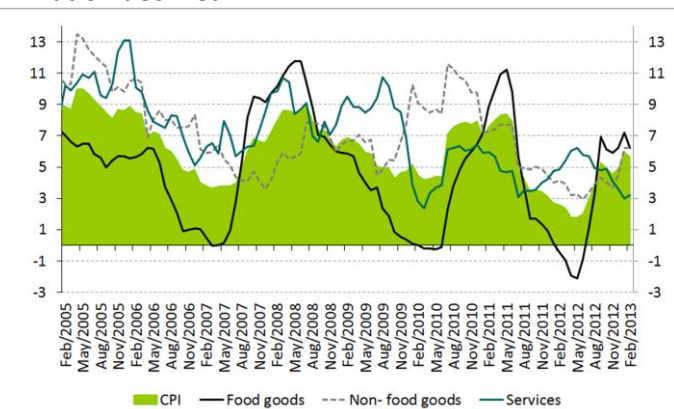
Inflation fell to 5.7% YoY in February from 6% YoY in January. This was due to the **decline in food inflation** from 7.2% YoY in January to 6.2% YoY in February while non-foods inflation remained unchanged at 6.2% YoY. The 12M rolling inflation is just below 4%. The peak of inflation is seen in H1 2013.

In January, the current account had a surplus of 466 mn EUR due to current transfers (+557 mn EUR). This compares to a CA deficit of 25 mn EUR last year. The trade balance (goods and services) deficit shrank from 403 mn in January 2012 to only 11 mn EUR in January 2013 as we have seen imports falling especially in Q4 2012. Also, the current transfers were higher by 68 mn EUR or 14% YoY. Looking at the split between transfers to the public administration and other sectors (mainly remittances) we notice that transfers to public administration were higher by 18% YoY and to the other sectors by 8% YoY. For 2013, the targeted EU funds absorption is 11.2 bn RON (~2.5 bn EUR) higher than the actual 2012 disbursements from EU of 8 bn RON (1.8 bn EUR).

Looking at the financing side, net FDI was 95 mn EUR compared to 12 mn EUR last year. Portfolio investments amounted to 1.9 bn EUR due to foreigners' interest in Romanian bonds mainly.

Industrial production rose by 5.7% YoY in January


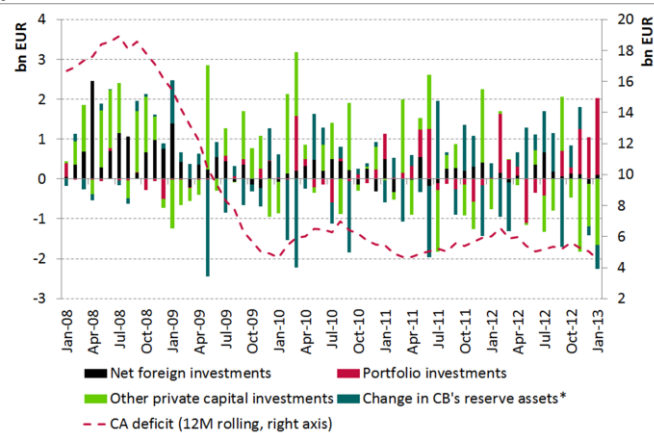
Source: NIS, OTP Research

Inflation dropped to 5.7% YoY in February as food inflation declined


Source: NIS, OTP Research

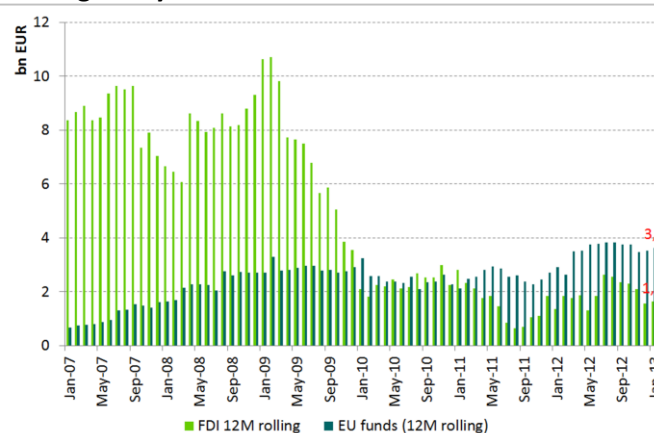
In January, construction activity was down by 11.2% YoY and 2.3% (MoM, seasonally adjusted). The annual dynamics has been most impacted by the lower rhythm posted by civil engineering (infrastructure works), but the monthly evolution was negative exclusively due to non-residential constructions (i.e offices) which declined abruptly (-26% MoM, seasonally adjusted). This contrasts with the speed seen in Q4 2012. The residential and civil engineering segments were up by 5.2% MoM and 3.2% MoM, respectively. For February, prospects in construction activity are not improving.

In January, Romania had a CA surplus of 466 mn EUR; portfolio investments were 1.9 bn EUR



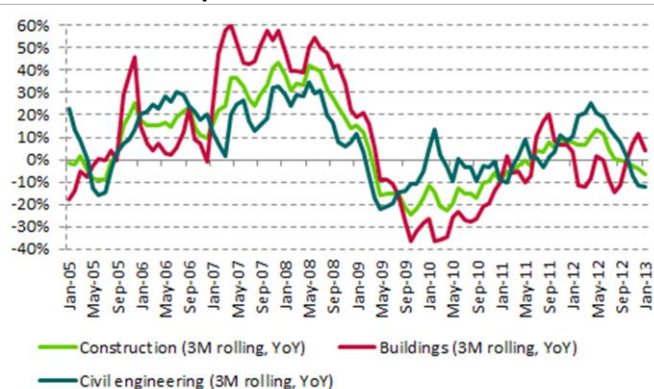
Source: NBR, OTP Research
Note: * „-„ increase/ „+„ decrease

Net FDI stood at 95 mn EUR and the 12M rolling FDI was higher by 21% YoY



Source: NBR, OTP Research

Slowdown in infrastructure works is dragging down construction output on an annual basis



Source: NIS, OTP Research

Medium-term macroeconomic forecast

Main macroeconomic indicators	Fact						Forecast	
	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP	6,3%	7,3%	-6,6%	-1,1%	2,2%	0,3%	1,5%	2,6%
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	0,6%	1,6%	2,5%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,8%	2,2%	1,5%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,0%	0,9%	6,6%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,2%	-0,4%	3,2%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-1,3%	-0,3%	3,2%
Consumer prices (avg.)	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,3%	3,2%
Budget Balance (GDP%, ESA 95)	-2,9%	-5,7%	-9,0%	-6,8%	-5,5%	-3%*	-3,0%	-2,8%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	33,4%	34,7%*	35,8%	36,3%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-3,8%	-3,5%	-4,0%
CA balance (bn EUR)	-16,7	-16,2	-4,9	-5,5	-5,9	-5,0	-4,9	-6,1
Unemployment	6,4%	5,8%	6,9%	7,3%	7,4%	7,1%	6,9%	6,5%
Nominal wage growth	21,8%	26,1%	4,8%	3,1%	4,1%	4,6%	5,0%	6,2%
Real wage growth	14,7%	16,5%	-1,5%	-3,7%	-1,9%	1,2%	0,7%	2,9%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	5,25%	4,63%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	5,25%	4,50%
EUR/RON (avg.)	3,34	3,68	4,24	4,21	4,24	4,46	4,44	4,38
EUR/RON (e.o.p.)	3,61	3,99	4,23	4,28	4,32	4,43	4,41	4,34

Source: Eurostat, NBR, OTP Research

Note: * forecast

FX markets: The leu weakened, on lower interest rates

The leu gave up 0.9% to the euro last week as interest rates eased significantly. Also, the size of the debt sales at the Treasury's auctions was rather small compared to previous dates when foreigners could tap higher amounts of Romanian debt.

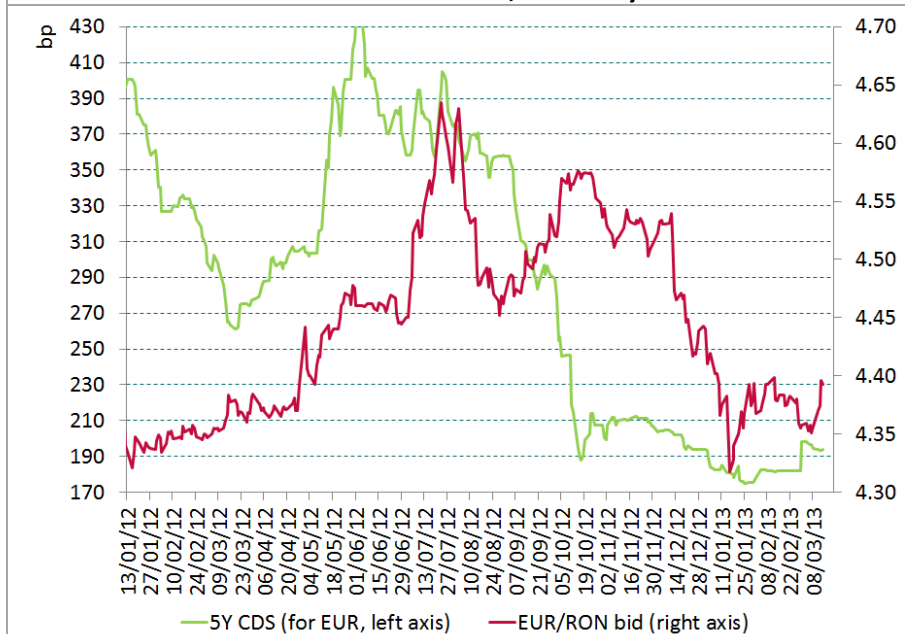
The news of the deal made by Cyprus this week-end pushed the leu lower against the euro as risk perception deteriorated. In exchange for a bailout deal, Cyprus agreed to tax bank deposits. To this deteriorated risk perception which makes investors more cautious when investing in the region, it adds the current low rate environment which is not supportive for the leu in the short term. This week money market rates are likely to remain low, as it is the last week of the maintenance of the required reserves.

Last data: 14.03.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,39	↑	0,94	↓ -1,14
USDRON	3,38	↑	1,71	↑ 0,29
CHFRON	3,57	↑	1,33	↓ -2,99
RONJPY	3,52	↑	0,47	↓ -9,37
RONPLN	1,06	↑	1,31	↑ 15,60
100HUFRON	1,44	↓	-0,92	↓ -5,23
RONCZK	0,17	↑	0,53	↓ -2,88
RONRUB	0,11	↑	1,78	↓ -0,16
RONRSD	0,04	↑	0,80	↓ -0,71
RONBGN	2,25	↑	0,97	↓ -1,10

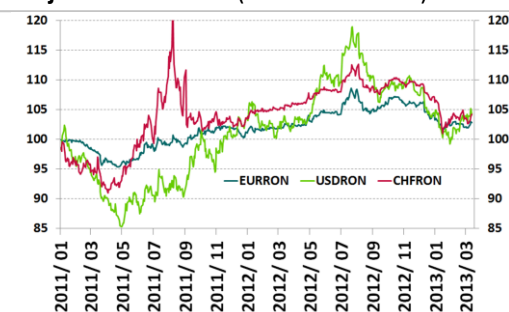
Source: Reuters

The leu weakened to the euro last week, as money market rates eased



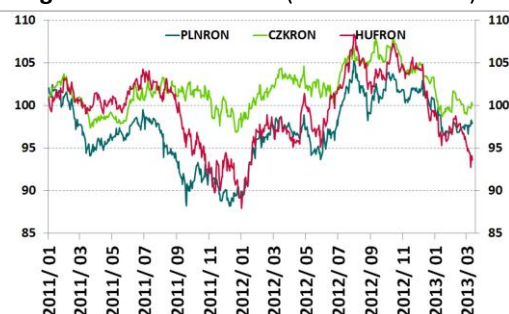
Sources: Reuters, OTP Research

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)

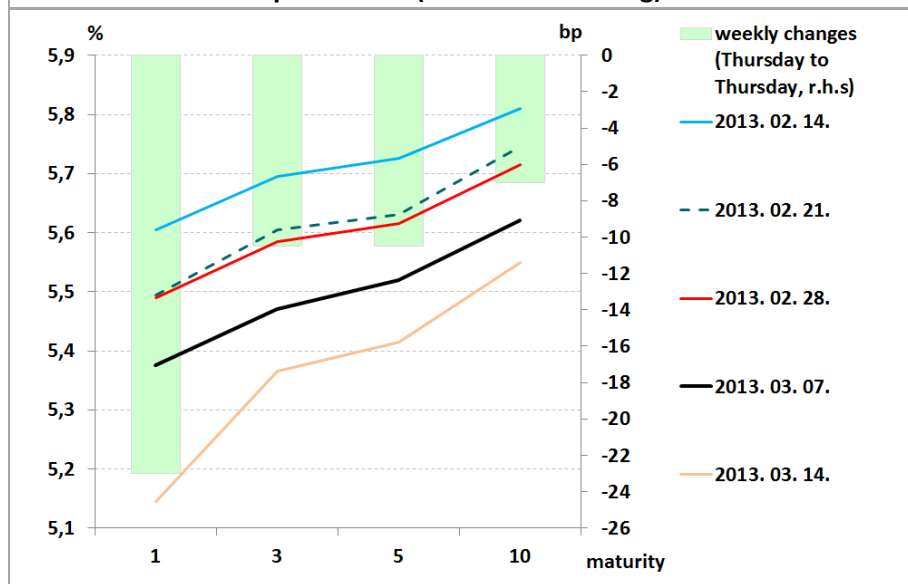


Sources: Reuters, OTP Research

Government securities: Yields are still falling

Government securities' yields posted another round of decline the last week and lost between 7 to 25 bp, especially at the low end of the curve as money market rates fell down significantly. Given that the week ahead money market rates are likely to remain low, yields could come down further.

The Treasury sold the planned amount in 12M T-bills and 2Y bonds of 1 bn RON last week. **The 2Y bonds sold at an average accepted yield of 5.18%, 65 bp lower than the previous similar tender in Mid February. Demand was healthy and bid to cover ratio was 4.7.** The 12M T-bills had an average accepted yield of 5.29%, 28 bp lower than the previous similar tender at the end of February. Year to date, the Treasury sold 18 bn RON in RON denominated debt, including today's sales. The Chief of Treasury stated that country's financing needs for 2013 are 70 bn RON so even if a large part has been covered so far, a significant part has yet to be sold. Currently, Romania still has a stand by agreement with the IMF which should have expired in March but it has been extended by 3 months. The government's intention is to sign a new agreement but terms are unknown.

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

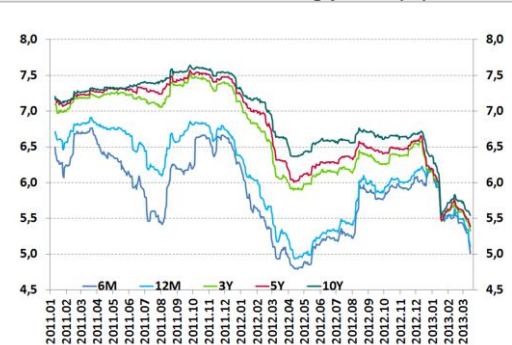
Last data: 14.03.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	5,08	↓ -25	↓ -111
12M	5,15	↓ -23	↓ -102
3Y	5,37	↓ -11	↓ -80
5Y	5,42	↓ -11	↓ -79
10Y	5,55	↓ -7	↓ -83

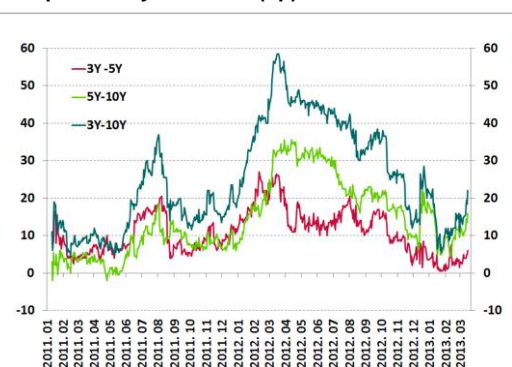
SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	523	↓ -11	↓ -85
GERROM 5Y	493	↓ -10	↓ -87
GERROM 10Y	407	↓ -7	↓ -87
3Y -5Y	5	→ 0	↑ 1
5Y -10Y	14	↑ 4	↓ -4
3Y-10Y	19	↑ 4	↓ -3
FLY 3-5-10	9	↑ 4	↓ -6

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	137	↓ -2	↑ 1
5Y EURO	194	↓ -2	↓ 0

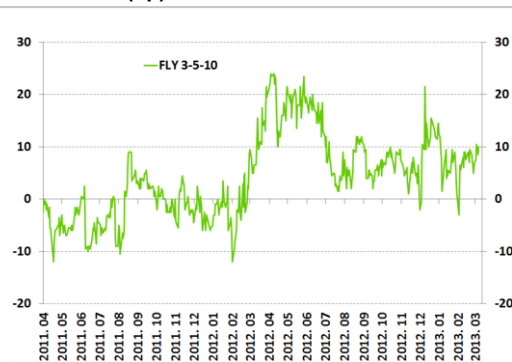
Source: Reuters

Central bank benchmark fixing yields (%)


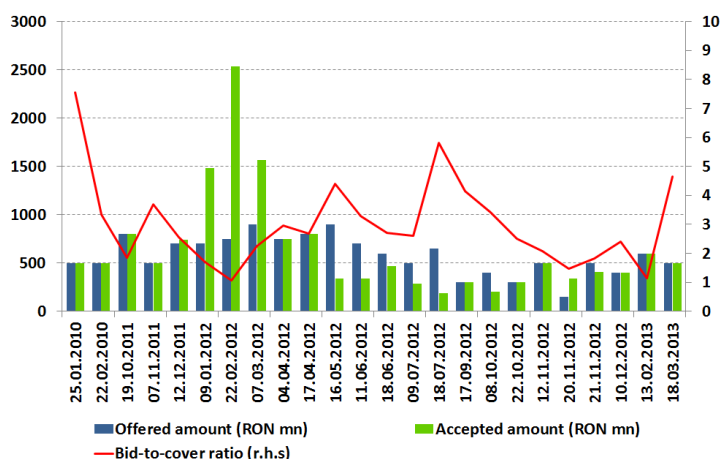
Sources: NBR, OTP Research

Slope of the yield curve (bp)


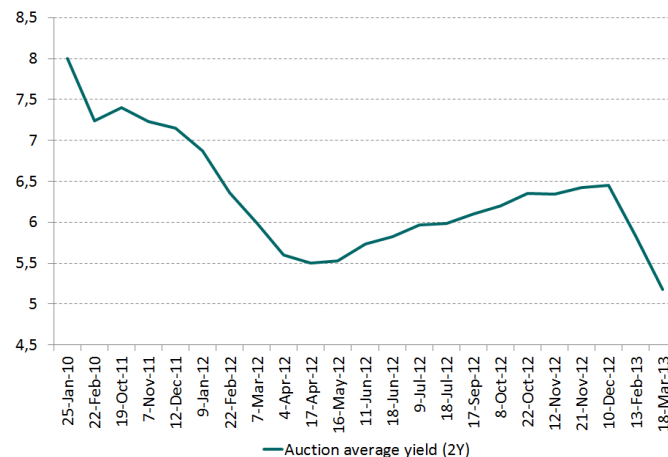
Sources: NBR, OTP Research

FLY 3-5-10 (bp)


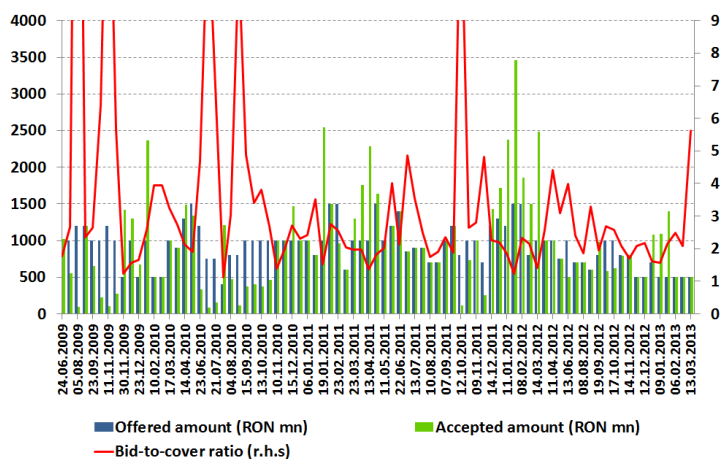
Sources: NBR, OTP Research

2Y Auctions data


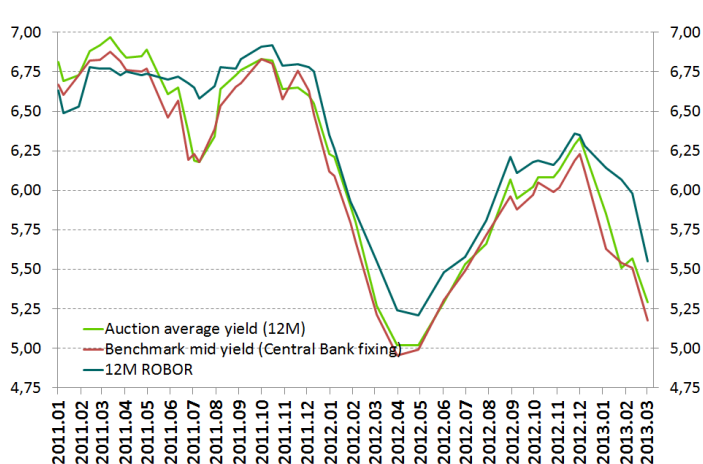
Sources: NBR, OTP Research

2Y Interest rates


Sources: NBR, OTP Research

12M Auctions data


Sources: NBR, OTP Research

12M Interest rates


Sources: NBR, OTP Research

Last week's auction results (RON denominated)

	RO1314CTN060	RO1214DBN068
Offered amount (RON mn)	500	500
total bids (RON mn)	2 811,1	2 331,9
accepted amount (RON mn)	500	500
average accepted yield (%)	5,29	5,18
coupon	-	5,85

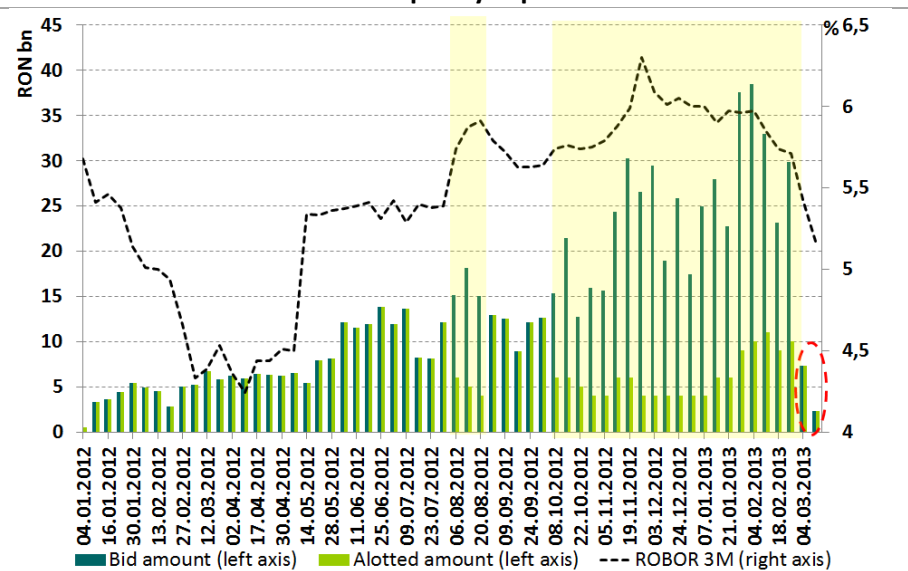
Source: NBR, OTP Research

MM: Core inflation declined in February

The liquidity injected by the Central Bank was 2.3 bn RON last week, lower by 5 bn RON compared to the previous week. There was no liquidity cap and money market rates fell further. ROBOR ON dropped below 2% by the end of last week, proving that liquidity conditions are good. This usually happens in the last week of the maintenance of the required reserves period, when there are no tensions on the money markets.

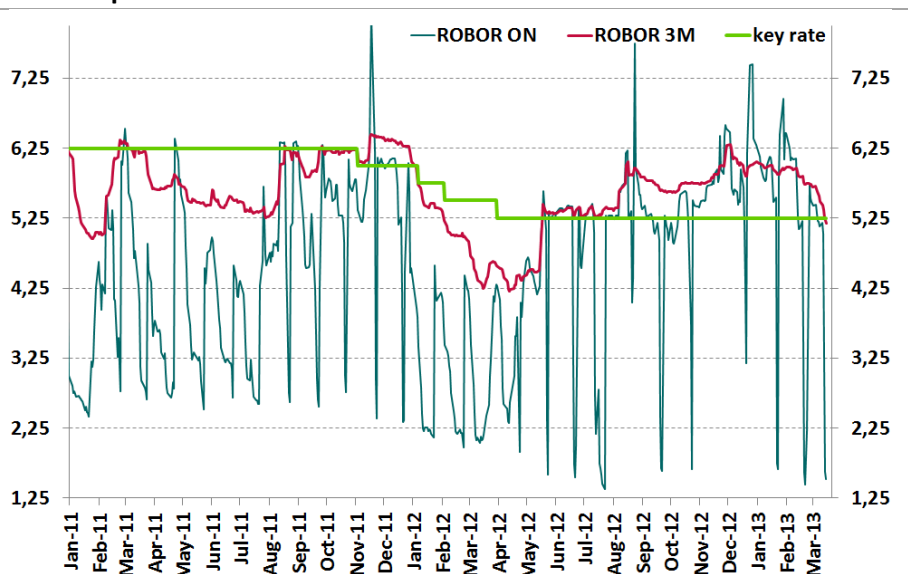
Inflation data for February was released and Core 2 adjusted inflation (CPI excluding administered prices, volatile items, tobacco and alcohol) continued to decline to 3.1% YoY from 3.2% YoY in January. This confirms the trend outlined by the Central Bank for Q1 2013. The CB expects it to fall to 2.9% YoY in March. **This supports expectations of a base rate cut in the future**, but this is likely to happen after headline inflation has settled to a lower level.

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



Sources: NBR, OTP Research

Most important MM instruments' evolution



Sources: NBR, OTP Research

Last data: 14.03.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↔ 0
ROBOR ON	1,62	↘ -361	↘ -476
ROBOR 3M	5,21	↘ -35	↘ -82
ROBOR 6M	5,52	↘ -33	↘ -76
ROBOR 9M	5,53	↘ -34	↘ -75
ROBOR 1Y	5,54	↘ -32	↘ -77

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	2.304,8	-5028,1	- 1.690,5

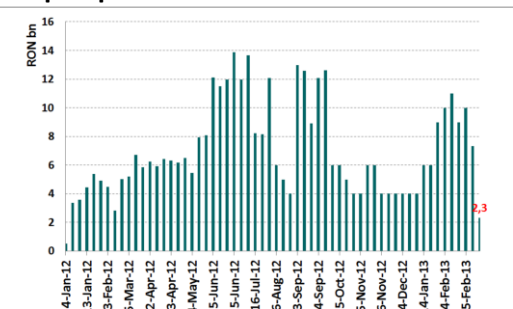
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2.616,4	603,5	-285,0

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	15	↘ -16	↘ -10
USDRON 1M	120	↘ -21	↘ -30
USDRON 3M	367	↘ -8	↘ 121
EURRON 1W	18	↘ -15	↘ -23
EURRON 1M	162	↘ -26	↘ 17
EURRON 3M	545	↘ -14	↘ 35

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

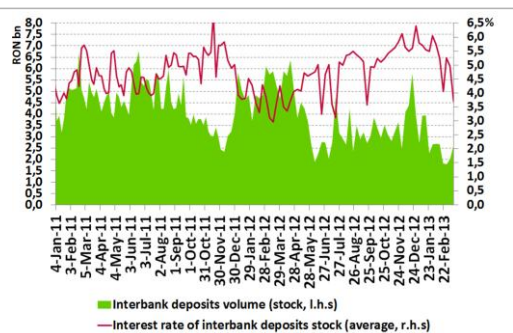
Source: Reuters

Repo operations since 2012



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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