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Weekly Report

Romania

25 March 2013



The Cyprus story had an effect on the leu and bond yields but it is now fading away

Macroeconomics: In March, industrial production will maintain stable and constructions decline will end (NBR survey) (Page 3)

Last week, the Central Bank published the March survey for industry and constructions. The seasonally adjusted results showed that industrial production will maintain stable in March and that new orders and investment perspectives are moderately optimistic, pointing to a resumption in industrial production in the future. In constructions, the decline is expected to end.

FX markets: the Cypriot story kept headlines but the leu resisted fairly well (Page 4)

The leu weakened by 0.6% to the euro last week as the Cypriot story kept the headlines. However, the bond demand in France and Spain was healthy so overall we say that there was confidence in the resolution of the Cypriot crisis. By Monday, the Cyprus closed a deal with its international lenders to receive a bailout of 10 bn EUR and risk aversion eased and the euro strengthened against the dollar. The IMF officially agreed to extend the current stand by agreement until June 30. Another deal is expected to be signed after this one come to an end and its effect is mainly seen as positive. Also, after meeting the Q1 targeted debt sales, the Treasury is expected to start working on Q2 debt calendar soon. After being included in JP Morgan's emerging market bond index on 1st of March, Romanian bonds will be included in the Barclay's index as well. Consequently, there are chances that interest from foreigners for Romanian debt revives in April, especially since Romania has the IMF backing, yields are attractive in a regional comparison and the Cyprus story seems to be fading away. Until now, bond buying from non residents has been supportive for the leu.

Government securities: Steeper yield curve (Page 5-6)

The yield curve steepened last week, as the short end came down 12-15 bp while the long end moved up, especially the 10Y bonds (+11 bp). It is probable that some of the Cyprus related news triggered some sell off of Romanian bonds from foreigners'side given that the leu also weakened marginally against the euro. The 5Y CDS (euro) gained 5 bp on a weekly basis. The Treasury held 3 auctions last week and sold 1.5 bn RON.. The average yield for the 12M T-bills fell 27 bp to 5.02% compared to the one at a similar auction in March. The 7Y bond fell 79 bp to 5.61% compared to May 2012. Demand for the 12M T-bills was healthy. On Thursday, already bond yields had climbed on the secondary market and this was picked up by the primary market as well: the 10Y bond yield was 5.81%, 10 bp higher than in January 2013. As the money market rates started to go up again (maintenance period of the required reserves ended), we expect yields at the short end of the curve to adjust upwards this week.

MM: Repo size was insignificant last week (Page 7)

Liquidity improved significantly and only a small number of banks still have trouble accessing the needed funds on the interbanking market. The maintenance period of the required reserves ended last week and rates already moved up. The average ROBOR 3M lost 40 bp compared to February but it was slightly higher than the base rate. In our base scenario, we expect average monthly ROBOR 3M to further ease in the coming few months.

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Macroeconomics: In March, industrial production will maintain stable and constructions decline will end (NBR survey)

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
18- 22 March		no data			
26 Mar	Feb	Non -governmental loans (y-o-y, %)			0,3
26 Mar	Feb	Non -governmental deposits (y-o-y, %)			4,1
28 Mar	Feb	Licenses for residential buildings (y-o-y, %)			-2,2

Last week, the Central Bank published the March survey for industry and constructions. The seasonally adjusted results showed that **industrial production will maintain stable in March** and that new orders and investment perspectives are moderately optimistic, pointing to a resumption in industrial production in the future. In **constructions, the decline is expected to end.**

This week we expect February data for private loans and deposits.

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 Cypriot story kept headlines but the leu resisted fairly well

The leu weakened by 0.6% to the euro last week as the Cypriot story kept the headlines. Peer currencies gave up around 1% to the euro and the euro lost some 0.8% to the dollar. Although most of the first reactions were felt on the equities' market, other assets were much less under the recent spell. The 5Y CDS (euro) weakened insignificantly. The bond demand in France and Spain was healthy so overall we say that there was **confidence in the resolution of the Cypriot crisis**. ECB gave an ultimatum to Cyprus to reach a deal by Monday or else the emergency funds will be cut off. The response in Cyprus was quite rapid and on Friday, it appeared that Cyprus is moving on with solutions which put the euro in better shape against the dollar. **By Monday, the Cyprus closed a deal with its international lenders to receive a bailout of 10 bn EUR and risk aversion eased.** Also, the euro strengthened against the dollar.

The IMF officially agreed to extend the current stand by agreement until June 30. This extension is offered explicitly to allow the Romanian government to work on reducing arrears of central and local governments and making further steps in privatizing some state owned enterprises. Another deal is expected to be signed after this one come to an end and its effect is mainly seen as **positive**.

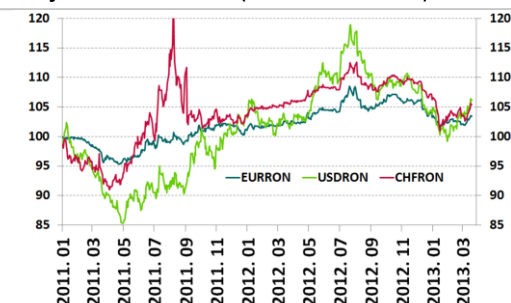
Also, after meeting the Q1 targeted debt sales, the Treasury is expected to start working on Q2 debt calendar soon. **After being included in JP Morgan's emerging market bond index on 1st of March, Romanian bonds will be included in the Barclay's index as well.** Consequently, there are chances that interest from foreigners for Romanian debt revives in April, especially since Romania has the IMF backing, yields are attractive in a regional comparison and the Cyprus story seems to be fading away. Until now, bond buying from non residents has been supportive for the leu.

Last data: 21.03.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,42	↑	0,57	↓ -0,58
USDRON	3,43	↑	1,46	↑ 1,76
CHFRON	3,62	↑	1,41	↓ -1,63
RONJPY	3,61	↑	2,70	↓ -6,93
RONPLN	1,05	↓	-0,27	↑ 15,28
100HUFRON	1,44	↓	-0,44	↓ -5,64
RONCZK	0,17	↓	-0,29	↓ -3,17
RONRUB	0,11	↑	0,62	↑ 0,45
RONRSD	0,04	↑	1,02	↑ 0,31
RONBGN	2,26	↑	0,62	↓ -0,49

Source: Reuters

Major RON FX rates (03.01.2011=100)



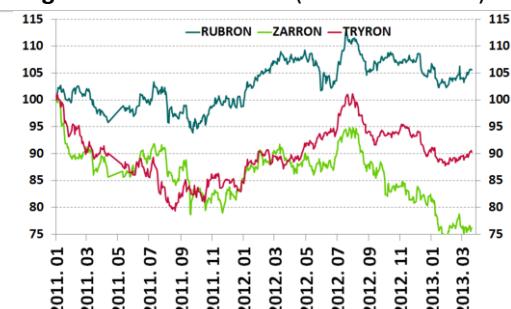
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



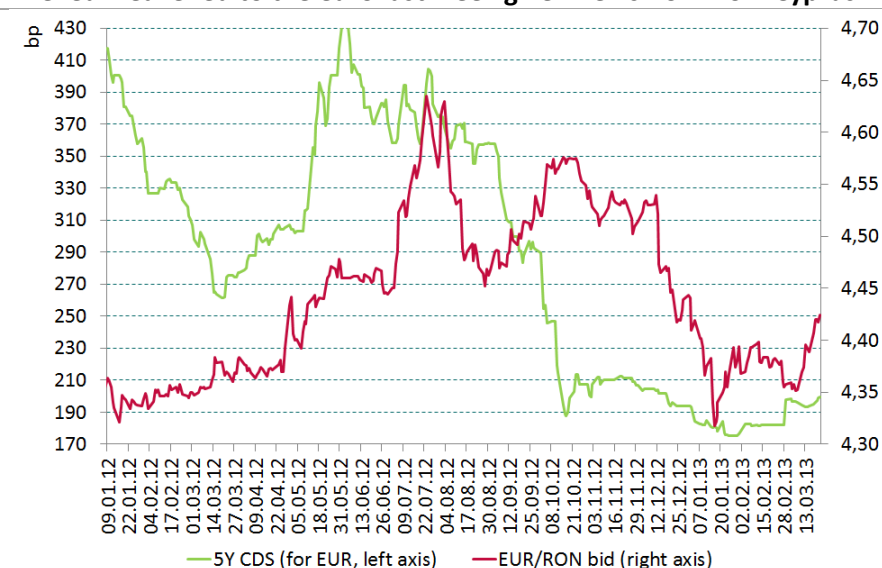
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



Sources: Reuters, OTP Research

The leu weakened to the euro last week given news flow from Cyprus



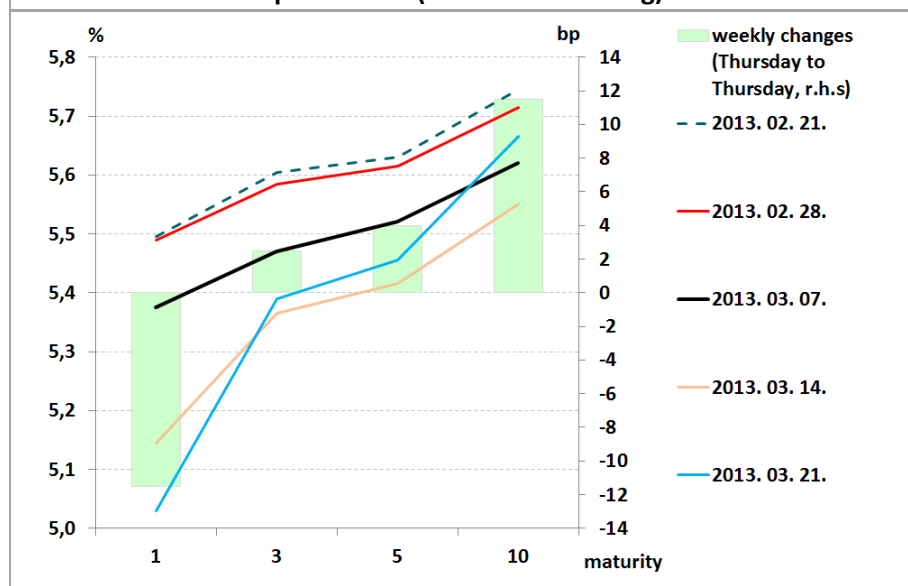
Sources: Reuters, OTP Research

Government securities: Steeper yield curve

The yield curve steepened last week, as the short end came down 12-15 bp while the long end moved up, especially the 10Y bonds (+11 bp). We attribute the movement at the long end to deteriorated risk perception that followed the Cyprus events and it is probable that some of the news triggered some sell off of Romanian bonds from foreigners' side given that the leu also weakened marginally against the euro. The 5Y CDS (euro) gained 5 bp on a weekly basis. The money market rates started to go up again this week, as the maintenance period of the required reserves ended so we expect yields at the short end of the curve to adjust upwards this week.

The Treasury held 3 auctions last week and sold 1.5 bn RON, thereby completing the target for Q1 2013. Overall sold amount stood at 18.4 bn RON. At last Monday's auctions the yield on the primary market continued to decline, in line with the secondary market trend. The average yield for the 12M T-bills fell 27 bp to 5.02% compared to the one at a similar auction in March. The 7Y bond fell 79 bp to 5.61% compared to May 2012. Demand for the 12M T-bills was healthy and bid to cover ratio stood at 3.3. On Thursday, already bond yields had climbed on the secondary market and this was picked up by the primary market as well: the 10Y bond yield was 5.81%, 10 bp higher than in January 2013. Demand was did not exhibit any weakening and bid to cover ratio was 1.8.

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 date	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: 21.03.2013

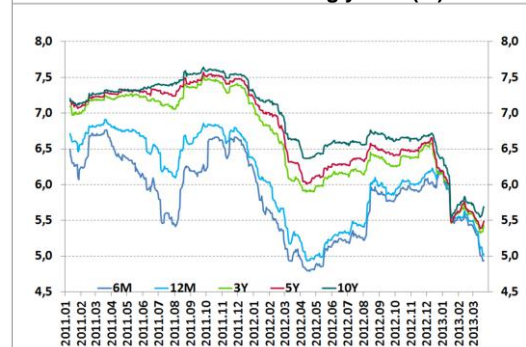
RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	4,93	↓ -15	↓ -125
12M	5,03	↓ -12	↓ -114
3Y	5,39	↑ 2	↓ -78
5Y	5,46	↑ 4	↓ -75
10Y	5,67	↑ 11	↓ -72

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	528	↑ 2	↓ -80
GERROM 5Y	501	↑ 4	↓ -79
GERROM 10Y	419	↑ 11	↓ -75
3Y -5Y	7	↑ 2	↑ 3
5Y -10Y	21	↑ 7	↑ 3
3Y-10Y	28	↑ 9	↑ 6
FLY 3-5-10	15	↑ 6	↑ 0

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	142	↑ 5	↑ 6
5Y EURO	199	↑ 5	↑ 5

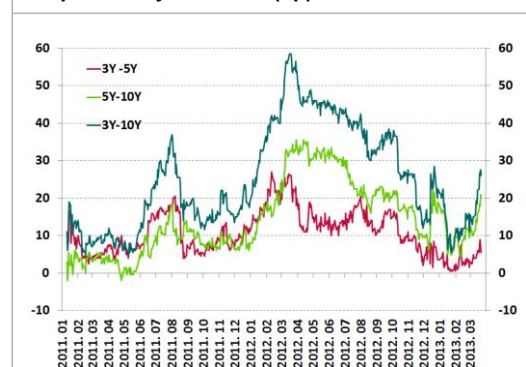
Source: Reuters

Central bank benchmark fixing yields (%)



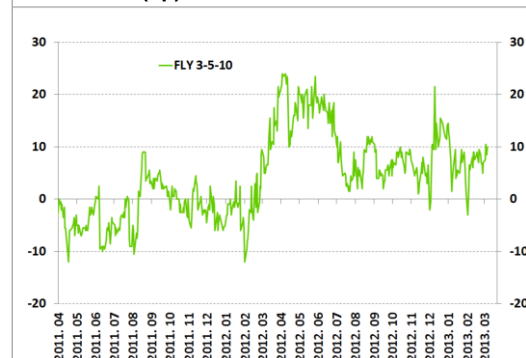
Sources: NBR, OTP Research

Slope of the yield curve (bp)

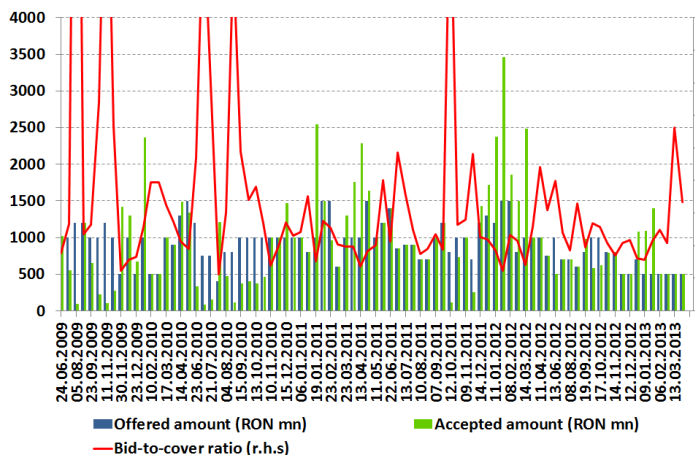


Sources: NBR, OTP Research

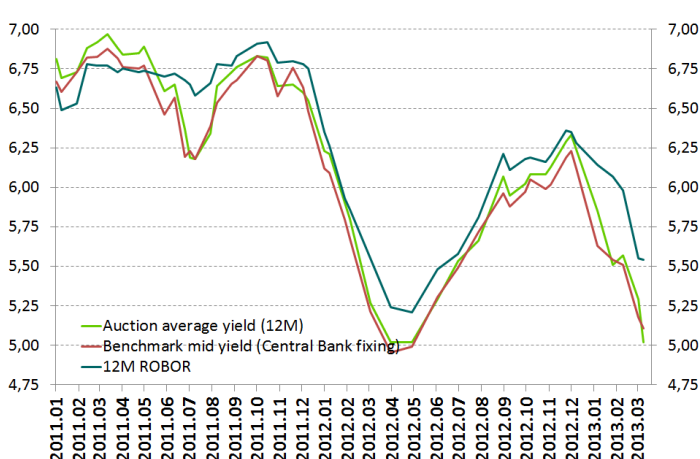
FLY 3-5-10 (bp)



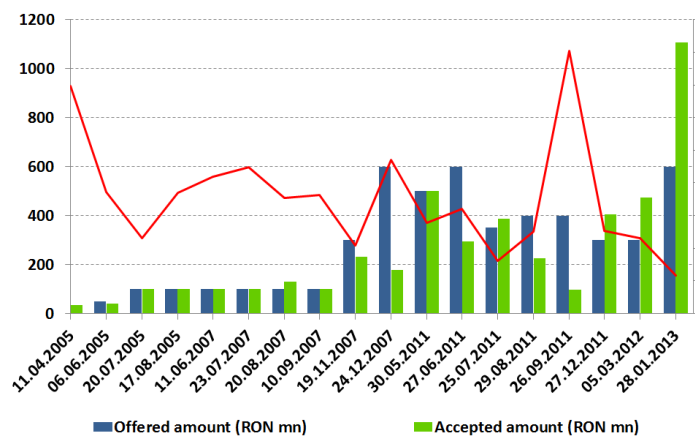
Sources: NBR, OTP Research

12M Auctions data


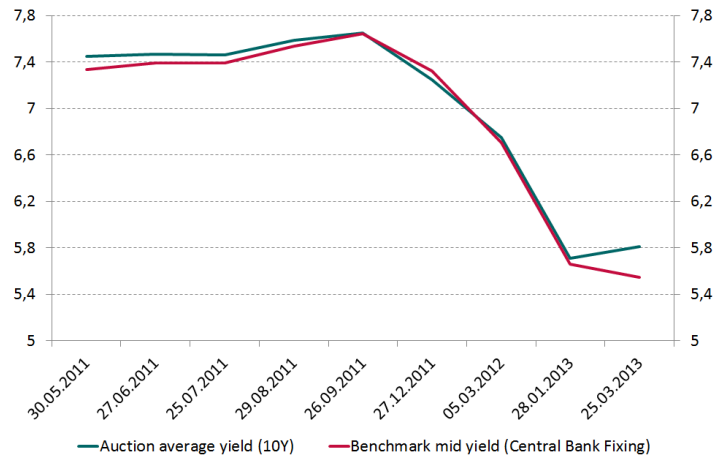
Sources: NBR, OTP Research

12M Interest rates


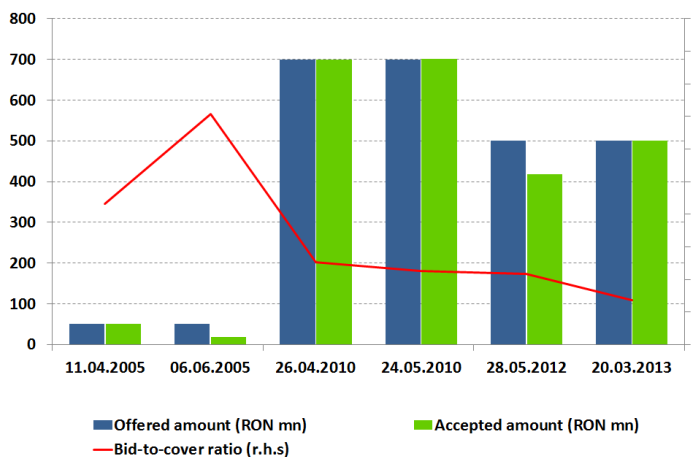
Sources: NBR, OTP Research

10Y Auctions data


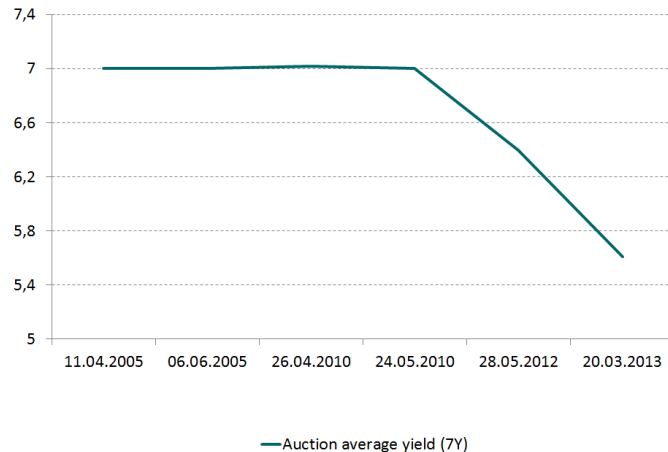
Sources: NBR, OTP Research

10Y Interest rate


Sources: NBR, OTP Research

7Y Auctions data


Sources: NBR, OTP Research

7Y Interest rate


Sources: NBR, OTP Research

Last week's auction results (RON denominated)

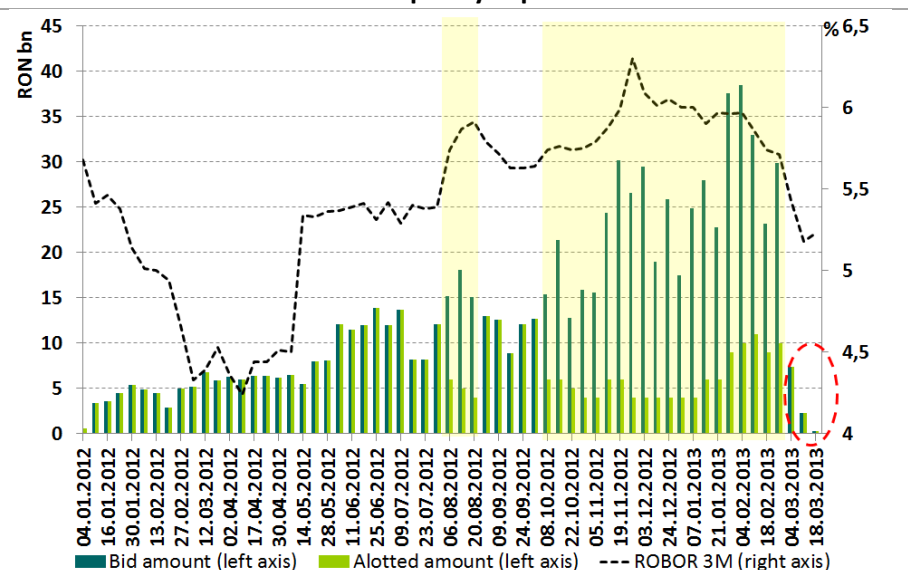
	RO1314CTN078	RO1320DBN022	RO1323DBN018
Offered amount (RON mn)	500	500	500
total bids (RON mn)	1670	687	908
accepted amount (RON mn)	500	500	500
average accepted yield (%)	5,02	0,00	5,81
coupon	-	5,75	5,85

Source: NBR, OTP Research

MM: Repo size was insignificant last week

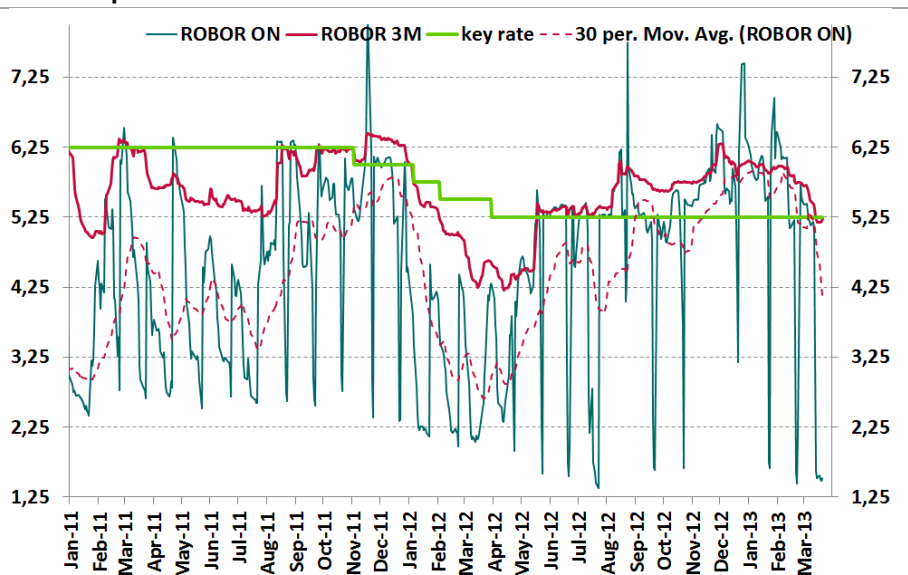
The Central Bank injected only 247 mn RON at the weekly repo to 2 banks and no cap was applied. The interest rate paid on the repo amounts is 5.25% whereas at the repo date, on the money market the 1W ROBOR stood at 2.82%. This shows that **liquidity improved significantly in general and that only a small number of banks still have trouble accessing the needed funds on the interbanking market**. The maintenance period of the required reserves ended last week and rates already moved up. The average ROBOR 3M lost 40 bp compared to February and it was slightly higher than the base rate. In our base scenario, we expect average monthly ROBOR 3M to further ease in the coming few months.

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: 21.03.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↔ 0
ROBOR ON	1,52	↓ -10	↓ -486
ROBOR 3M	5,23	↑ 2	↓ -80
ROBOR 6M	5,53	↑ 1	↓ -75
ROBOR 9M	5,54	↑ 1	↓ -74
ROBOR 1Y	5,54	↔ 0	↓ -77

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	247,4	-2057,4	- 3.747,9

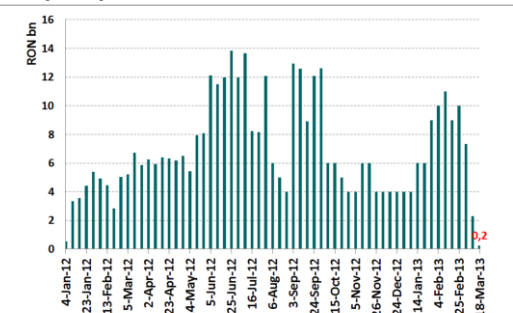
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2.775,6	159,2	-125,8

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	36	↑ 21	↑ 11
USDRON 1M	137	↑ 18	↓ -12
USDRON 3M	415	↑ 47	↑ 168
EURRON 1W	34	↑ 16	↓ -7
EURRON 1M	177	↑ 15	↑ 32
EURRON 3M	535	↓ -11	↑ 24

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

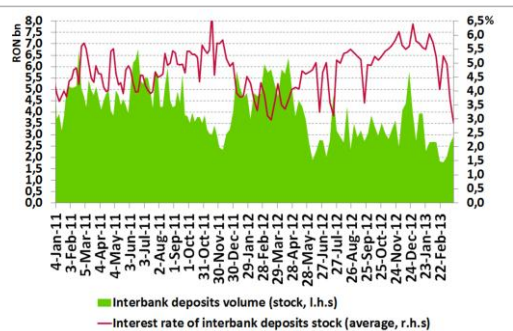
Source: Reuters

Repo operations since 2012



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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