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Weekly Report

Romania

9 April 2013



GDP growth was revised to +0.7 YoY in 2012

Macroeconomics: Retail trade dropped 2% MoM in February; the ILO unemployment rate marginally up to 6.7%; new industrial orders climbed 17% YoY (Page 3-5)

Last week revealed a mixed bag of data. 2012 GDP growth was revised upwards from +0.3% to +0.7% YoY. In February, retail trade fell by 1.9% (MoM, seasonally adjusted) coming after the previous month significant uptake of 4.2% MoM. The most important adjustment was noticed in the fuels trade (-4.8% MoM). The potential for a 15% cut in public employees' number triggers a negative signal for retail sales and households' consumption increase estimated for 2013 in our base scenario. The unemployment rate stood at 6.7% in February, after it had been continuously declining since March 2012. Also, a few companies announced more layoffs (Mechel, Oltchim). In February, gross wages rose by 5.7% and the minimum gross wage was increased from 700 RON to 750 RON. Finally, industrial sales and new orders rose significantly in February: +13.7% YoY and +17% YoY, respectively.

FX markets: The leu marginally up (Page 6)

The leu moved slightly up against the euro last week, in line with its peers. The euro gained 1.3% to the dollar after a batch of negative US macro data was released last week. In most of the world's largest economies, the monetary policies are easing or maintained soft. Emerging markets in Europe are also loosening monetary policy: in Poland, the key rate has been reduced several times this year to 3.25% and in Hungary it was cut down as well to the current 5%. In the Czech Republic, the discount rate is nearly zero. The National Bank of Romania is also taking measures to improve liquidity, but the pace is relatively slower. For the moment, we see this context as being marginally supportive for the leu and the move made by Bank of Japan has improved investors' mood around the world.

Government securities: The yield curve shifted down (Page 7- 8)

Last week, the government securities yields lost 3 to 6 bp, especially at the short end of the curve. As liquidity up to one week is abundant, government securities yields are still under downward pressure. Last week, the Treasury sold the planned 400 mn RON in bonds with a residual maturity of 5.7 years at the average accepted yield of 5.5%. In the beginning of February, it had sold bonds with a residual maturity of 4.4 years at the average accepted yield of 5.79%. Last week, demand was healthy and bid to cover ratio stood at 3.7. In April, the Treasury plans to sell 2.5 bn RON in bonds, lower than redemptions.

MM: Abundant liquidity up to 1 week (Page 9-10)

Liquidity up to one week is abundant and ROBOR rates up to one week dropped on Friday below 2.6% (ROBOR 1W). At this Monday's repo banks asked only 178 mn RON, much less than the 2.2 bn RON bid last week. In response to improved liquidity conditions, the average deposit interest rates in RON for clients dropped by 14 bp and loan interest rates by 11 bp in February to 5.26% and 10.5% respectively. Year to date, ROBOR 3M declined ~120 bp and we do not see much left room for downward adjustment.

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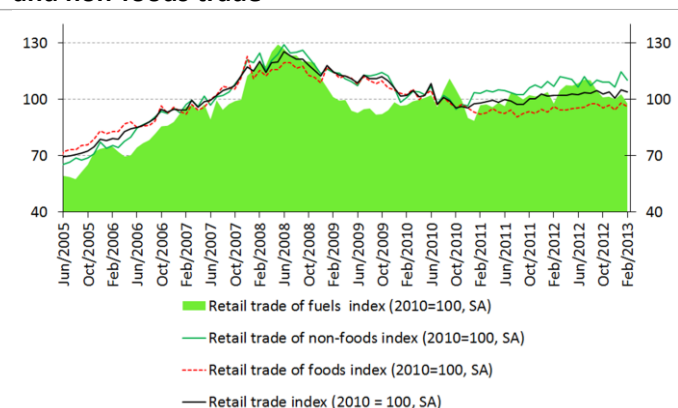
Macroeconomics: Retail trade dropped 2% MoM in February; the ILO unemployment rate marginally up to 6.7%; new industrial orders climbed 17% YoY

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
01 Apr	Mar	FX reserves (bn EUR)	32,2		32,2
02 Apr	Feb	ILO unemployment (seasonally adjusted, %)	6,7		6,6
02 Apr	Feb	Producer Price Index (y-o-y, %)	5,4		5,7
02 Apr	Feb	Retail trade turnover index (y-o-y, %)	1,8		3,0
04 Apr	Feb	Net wage growth rate (y-o-y, %)	5,5		5,5
05 Apr	Feb	Industrial trade turnover index (y-o-y, %)	13,7		5,3
05 Apr	Feb	Index value of new orders in manufacturing (y-o-y, %)	17,1		-7,6
08 Apr	Feb	Construction works index (y-o-y, %)	-1,9		-9,1
09 Apr	Feb	Industrial Production Index (y-o-y, %)	6,8		6,0
09 Apr	Feb	Exports (y-o-y, %)			6,1
09 Apr	Feb	Imports (y-o-y, %)			1,3
10 Apr	Mar	Consumer price index (y-o-y, %)			5,7

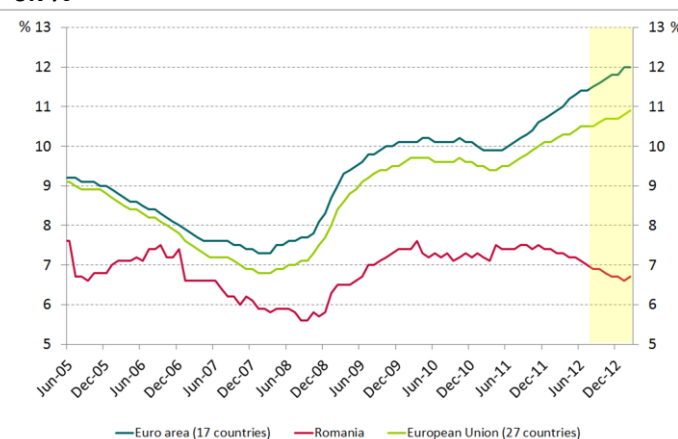
The 2012 GDP figure was revised from +0.3% to +0.7% YoY. Also, Q4 GDP growth was revised from +0.3% YoY to +1.1% YoY. The industry's contribution to GDP growth in 2012 was only -0.3% instead of the previous -0.6% YoY.

Retail trade moved up by 1.8% YoY in February compared to the more consistent jump in January (+3% YoY). The monthly dynamics based on seasonally adjusted data shows a decline of 1.9% (MoM, seasonally adjusted) coming after the previous month significant uptake of 4.2% MoM. In February, the most important adjustment was noticed in the fuels trade (-4.8% MoM), followed by non-foods (-3.7%). Foods trade posted the lowest retreat of -1.5% MoM. Households therefore adjusted less the consumption of necessity goods compared to the rest. The marginal increase in unemployment rate in February adds to the picture. However, the monthly average retail trade volume is higher than in Q4 2012 so until now, retail trade likely to positively contribute to GDP growth in Q1 2013. Unfortunately, the potential for a 15% cut in public employees' number triggers a negative signal for retail sales and households' consumption increase estimated for 2013 in our base scenario.

The ILO unemployment rate stood at 6.7% in February, after it had been continuously declining since March 2012. The number of the unemployed is estimated to have risen by 2% in February according to the seasonally adjusted data. The quarterly data for Q4 2012 showed that the active population was 9.9 mn persons and occupied population was 9.2 mn, out of which the unemployed were 684 thousand. There were 6.2 mn employees. On the downside, few companies announced more layoffs: the steel plant Mechel (around 500) and the state-controlled chemical plant Olchim (between 1000-1300 employees). Also, according to the finance minister, a 15% cut in the public employees' number could be in the cards as well.

Retail trade slid 2% MoM in February driven by fuels and non-foods trade


Source: NIS, OTP Research

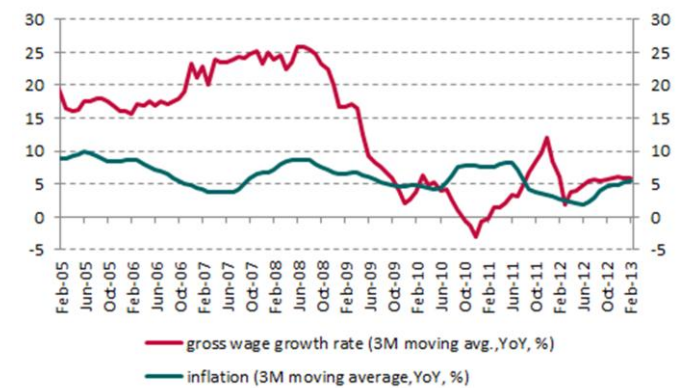
ILO unemployment rate marginally up in February 6.7%


Source: NIS, OTP Research

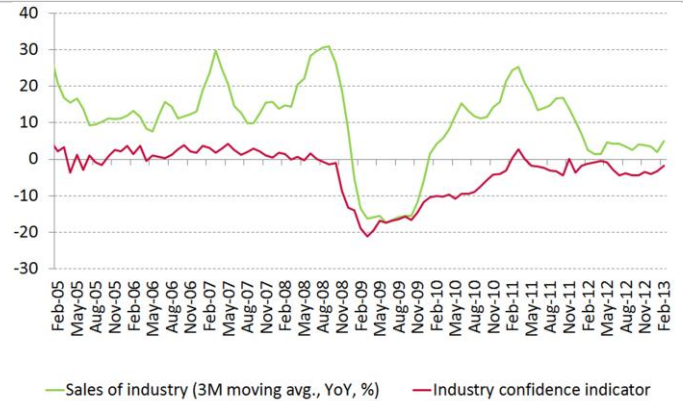
In February, the **gross average wage** stood at 2144 RON (net 1553 RON) and it **rose by 5.7% YoY** (the net rose 5.5% YoY). **The minimum gross wage was hiked from 700 RON to 750 RON as of 1st of February** and a second hike of 50 RON is expected in July.

Industrial turnover rose by 13.7% YoY and industrial new orders saw an uptake of 17% YoY in February. The sales figure was driven up by the capital goods (+23.8% YoY), intermediate goods (+15.5% YoY) and durable consumer goods (+15.1% YoY). Almost the same industrial groups led the increase in new orders as well: the capital goods rose the most (+28.8 %YoY), followed by the durable consumer goods (+25.2% YoY). **The new orders index is a leading indicator and the substantial growth figure is encouraging in the longer term.**

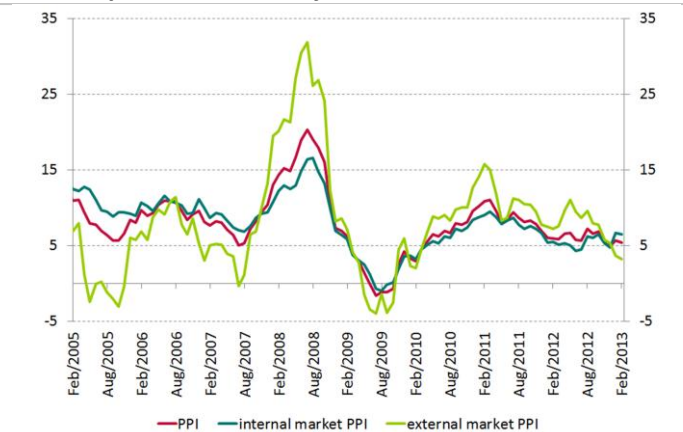
Producer price index was 5.4% YoY in February, lower than 5.7% YoY in January. The price increase on external markets (+3.2% YoY) decelerated more than the one on domestic market (+6.5% YoY).

Gross wage growth rate remained at 5.7% YoY in February; average gross wage was 2144 RON


Source: NIS, OTP Research

Industrial turnover index rose by 13.7% YoY in February


Source: NIS, European Commission, OTP Research

Producer price index driven down by the external market prices in February


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 marginally up

The leu moved slightly up against the euro last week, in line with some of its peers (the Polish zloty and the Hungarian forint). The euro gained 1.3% to the dollar. The strenghtening of the euro and the marginal improvement of risk parameters such as the 5Y CDS (euro) are relative: we do not see improvement in fundamentals in the eurozone. Rather, the the euro's strenghtening to the dollar last week came after the release of weaker than expected macroeconomic data in the US: non-manufacturing activity index and non-farm payrolls in March came out weaker than expected. Also, at the monetary policy meeting, ECB's Mario Draghi emphasized that the case of Cyprus was not a model for future banking crisis resolutions and stated that the ECB stood ready to do more to help the economy grow.

As we watch the US and the euro-zone still struggling to move forward and Central Banks keeping monetary policy loose, another game changing move is made in one of the largest economies in the world: Bank of Japan announced that the monetary base will nearly double by 2014. In addition, at the ECB's meeting last week, the market increased its expectations of a further base rate cut. Basically, in most of the world's largest economies, the monetary policies are easing or maintained soft. Emerging markets in Europe are also loosening monetary policy: in Poland, the key rate has been reduced several times this year to 3.25%, in Hungary it has been cut down as well to the current 5%. In the Czech Republic, the discount rate is nearly zero. The National Bank of Romania is also taking measures to improve liquidity, but the the pace is relatively slow. For the moment, we see this context as being marginally supportive for the leu and the announcement made by Bank of Japan has improved investors' mood around the world.

Last data: 5.04.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,41	↓	-0,11	↓ -0,74
USDRON	3,39	↓	-1,45	↑ 0,81
CHFRON	3,63	↑	0,12	↓ -1,24
RONJPY	3,48	↓	-4,78	↓ -10,31
RONPLN	1,06	↑	0,37	↑ 15,81
100HUFRON	1,47	↑	1,82	↓ -3,15
RONCZK	0,17	↓	-0,29	↓ -3,45
RONRUB	0,11	↓	-2,78	↓ -2,22
RONRSD	0,04	↓	-0,07	↓ -0,10
RONBGN	2,25	↓	-0,09	↓ -0,72

Source: Reuters

Major RON FX rates (03.01.2011=100)



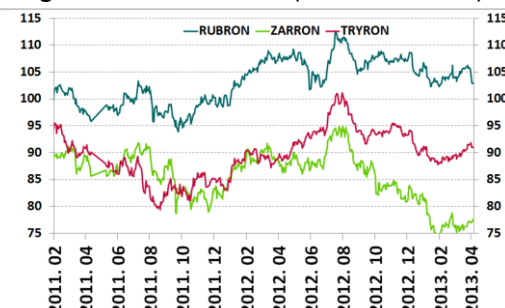
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



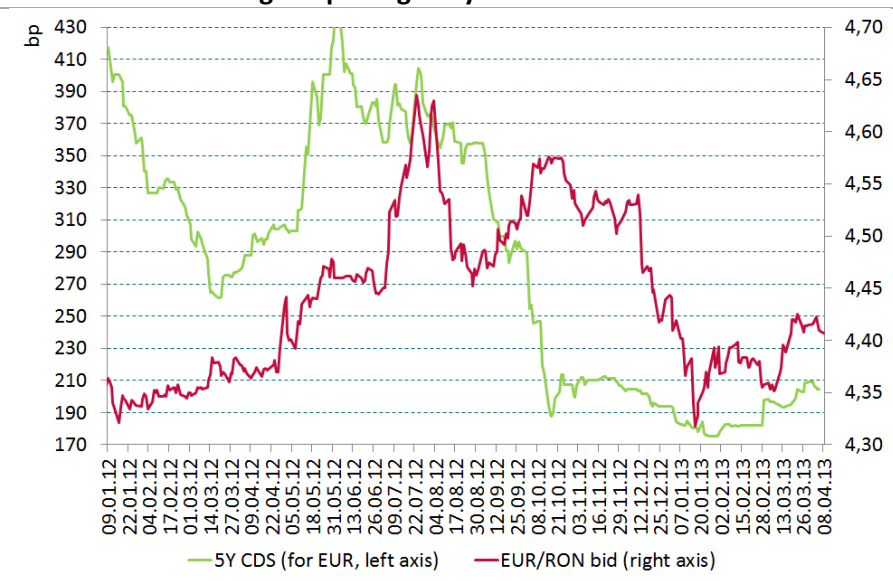
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



Sources: Reuters, OTP Research

Last week the leu edged up marginally



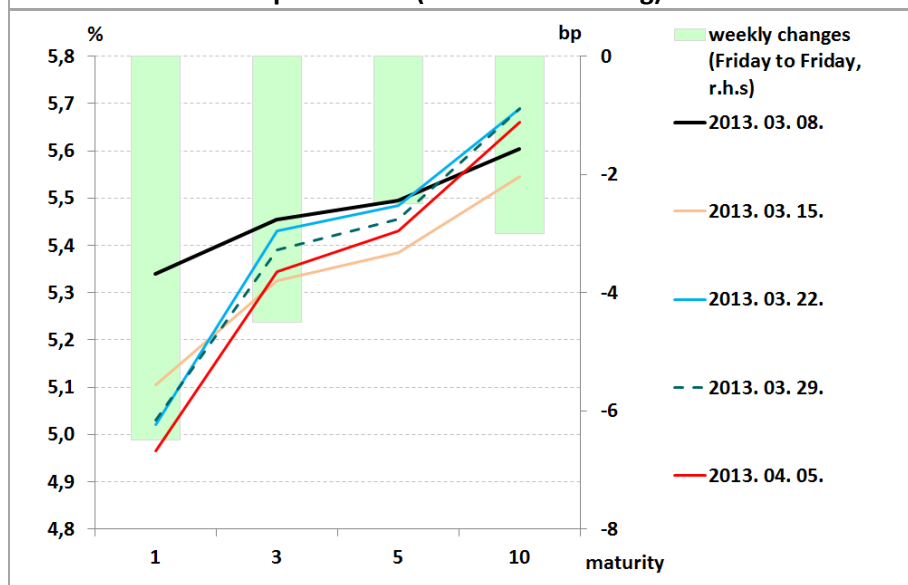
Sources: Reuters, OTP Research

Government securities: The yield curve shifted down

Last week, the government securities yields lost 3 to 6 bp, especially at the short end of the curve. As liquidity up to one week is abundant, government securities yields are still under downward pressure.

Last week, the Treasury sold the planned 400 mn RON in bonds with a residual maturity of 5.7 years at the average accepted yield of 5.5%. In the beginning of February, it had sold bonds with a residual maturity of 4.4 years at the average accepted yield of 5.79%. Last week, demand was healthy and bid to cover ratio stood at 3.7. In April, the Treasury plans to sell 2.5 bn RON in bonds, lower than redemptions.

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

Bond auctions in April (in RON)

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (RON)
RO1318DBN034	04.04.2013	08.04.2013	28.11.2018	5	5,60	400.000.000
RO1214DBN027	08.04.2013	10.04.2013	23.04.2014	2	5,95	600.000.000
RO1320DBN022	15.04.2013	17.04.2013	29.04.2020	7	5,75	300.000.000
RO1318DBN034	18.04.2013	22.04.2013	28.11.2018	5	5,60	500.000.000
RO1216DBN030	22.04.2013	24.04.2013	27.01.2016	4	5,75	300.000.000
RO1323DBN018	25.04.2013	29.04.2013	26.04.2023	10	5,85	400.000.000

Source: Ministry of Finance, OTP Research

Bond auctions in April (in EUR)

ISIN	Auction	Settlement	Maturity	Years	Cupon %	Indicative target amount (EUR)
RO1316DBE011	11.04.2013	15.04.2013	26.02.2016	3	3,25	200.000.000

Sources: Ministry of Finance, OTP Research

Last data: 5.04.2013

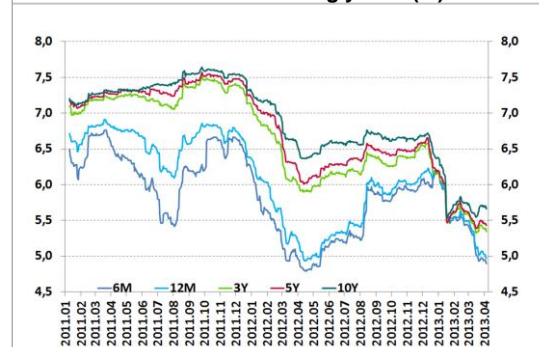
RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	4,90	↓ -4	↓ -129
12M	4,97	↓ -6	↓ -120
3Y	5,35	↓ -5	↓ -82
5Y	5,43	↓ -3	↓ -77
10Y	5,66	↓ -3	↓ -72

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	532	↓ -5	↓ -76
GERROM 5Y	514	↓ -3	↓ -66
GERROM 10Y	439	↓ -3	↓ -56
3Y -5Y	9	↑ 2	↑ 5
5Y -10Y	23	↓ 0	↑ 5
3Y-10Y	32	↑ 2	↑ 10
FLY 3-5-10	15	↓ -2	↑ 0

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	149	↓ -5	↑ 13
5Y EURO	204	↓ -5	↑ 10

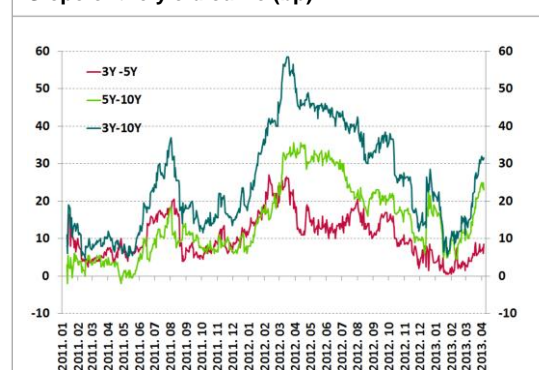
Source: Reuters

Central bank benchmark fixing yields (%)



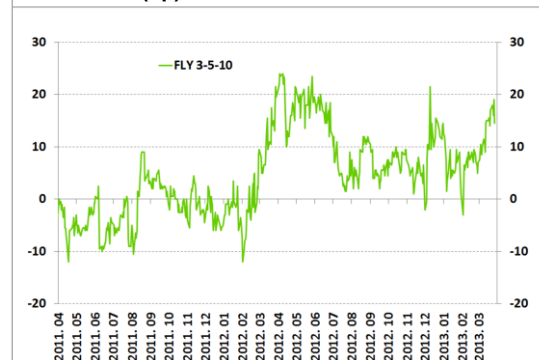
Sources: NBR, OTP Research

Slope of the yield curve (bp)

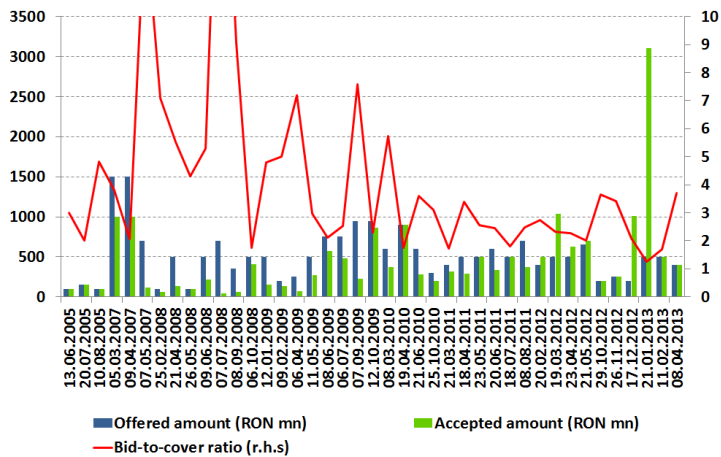


Sources: NBR, OTP Research

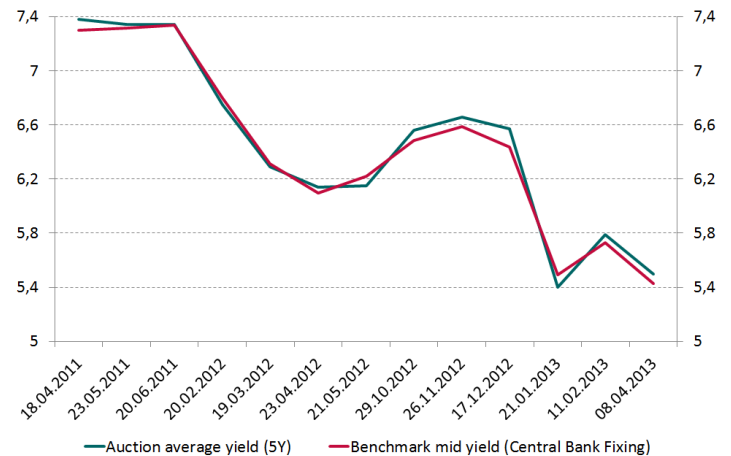
FLY 3-5-10 (bp)



Sources: NBR, OTP Research

5Y Auctions data


Sources: NBR, OTP Research

5Y Interest rate


Sources: NBR, OTP Research

Last week's auction results (RON denominated)

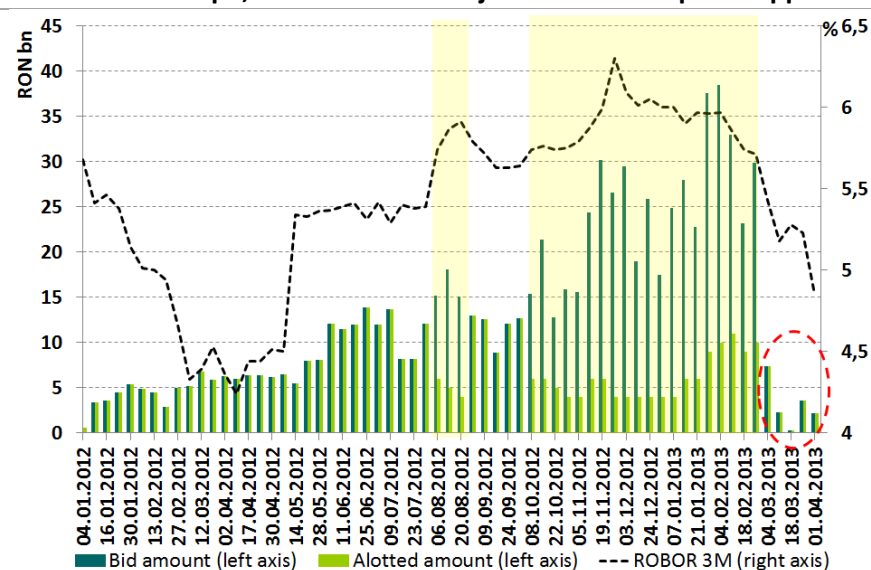
	RO1318DBN034
Offered amount (RON mn)	400
total bids (RON mn)	1482
accepted amount (RON mn)	400
average accepted yield (%)	5,50
coupon	5,60

Source: NBR, OTP Research

MM: Abundant liquidity up to 1 week

Liquidity up to one week is abundant and ROBOR rates up to one week dropped on Friday below 2.6% (ROBOR 1W). At this Monday's repo banks asked only 178 mn RON, much less than the 2.2 bn RON bid last week. The CB stopped capping liquidity in March and had higher allocation rates since February when there was a visible improvement in the average ROBOR ON. In March, the bid amount at the weekly repo dropped 9 times on average to 3.3 bn RON/week. In response to improved liquidity conditions, the average deposit interest rates in RON for banking clients dropped by 14 bp and loan interest rates by 11 bp in February to 5.26% and 10.5% respectively. **Year to date, ROBOR 3M declined ~120 bp and we do not see much left room for downward adjustment.**

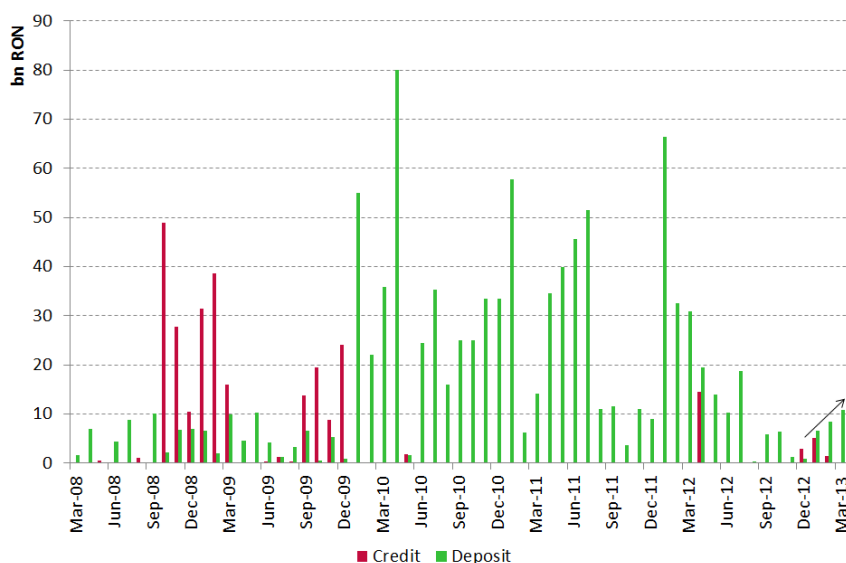
At last week's repo, 2.2 bn RON was injected and no cap was applied



Sources: NBR, OTP Research

Standing facilities granted by the National Bank of Romania

The ON deposits placed with NBR continuously improved since December



Sources: NBR, OTP Research

Last data: 5.04.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5.25	↔ 0	↔ 0
ROBOR ON	1.65	↓ -342	↓ -473
ROBOR 3M	4.85	↓ -35	↓ -118
ROBOR 6M	5.28	↓ -21	↓ -100
ROBOR 9M	5.30	↓ -21	↓ -98
ROBOR 1Y	5.30	↓ -21	↓ -101

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	2.199,4	-1.331,80	- 1.795,9

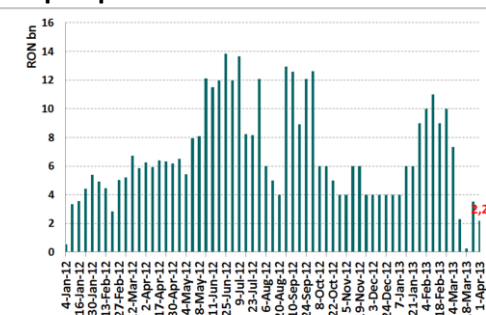
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.045,2	512,0	143,8

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USD RON 1W	15	↓ -17	↓ -10
USD RON 1M	116	↓ -20	↓ -33
USD RON 3M	414	↑ 34	↑ 167
EUR RON 1W	20	↓ -9	↓ -20
EUR RON 1M	119	↓ -58	↓ -26
EUR RON 3M	491	↓ -45	↓ -19

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

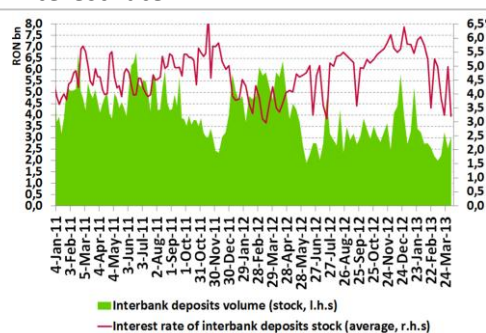
Source: Reuters

Repo operations since 2012



Sources: NBR, OTP Research

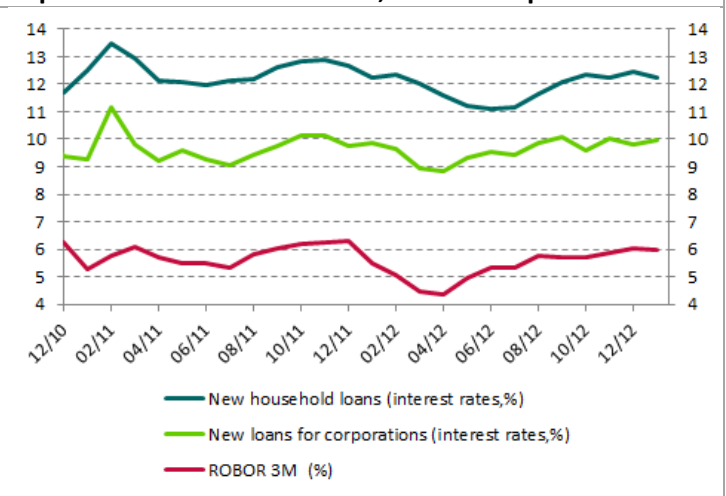
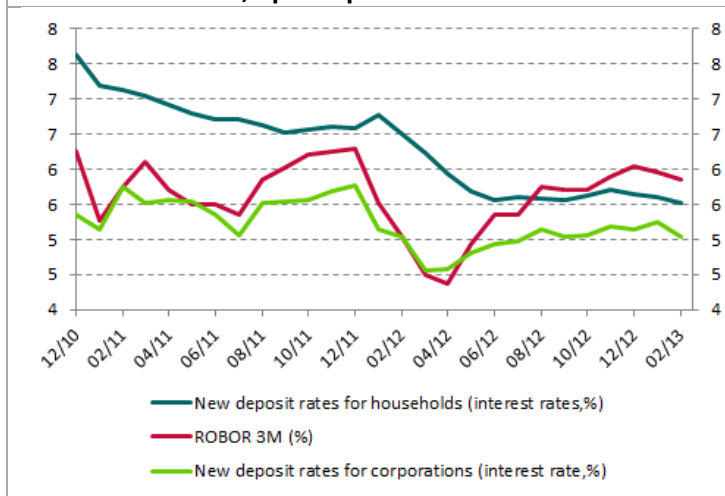
Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

The average households new loans interest rate was 12.6% in Feb 2013, up 40 bp since Jan 2013

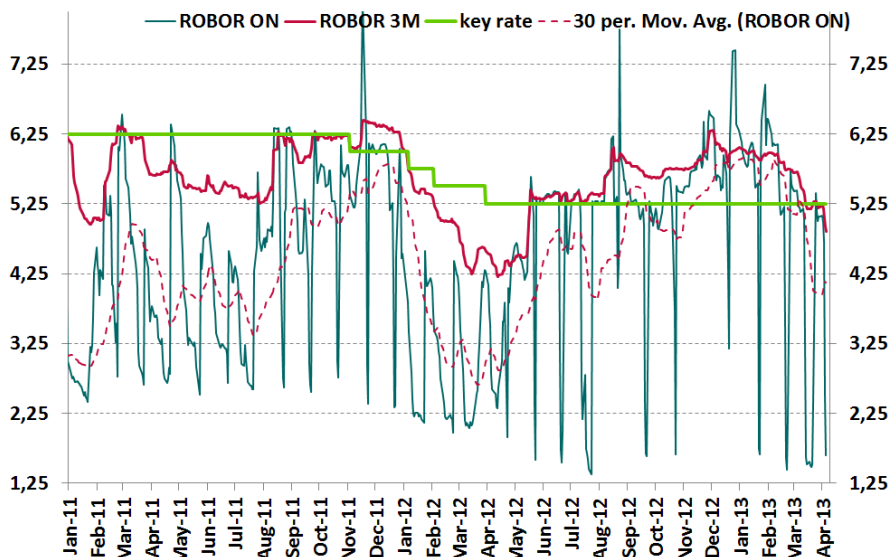
The average interest rate for new households' deposits was 5.5% in Feb 2013, down 10 bp since Jan 2013



Sources: NBR, OTP Research

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Most important MM instruments' evolution



Sources: NBR, OTP Research

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