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Weekly Report

Romania

16 April 2013



The leu continues to gain traction

Macroeconomics: Exports rose 10% YoY in February; inflation fell to 5.3% YoY in March (Page 3-4)

In February, Romania had the smallest trade deficit in the past 10 years. Exports growth rate was encouraging, 10% YoY, the second consecutive month of significant uptake. Imports rose by 1.3% YoY in February. Industrial production figure was also good news: in February, production volume saw a 6.8% YoY hike. In the month, the progress was +1% MoM and it was driven exclusively by the capital goods production (+5% MoM, seasonally adjusted). Constructions fell by 1.9% YoY in February and the decline is softer than in January when numbers showed a contraction of 9.1% YoY. In the month, constructions were up 5% MoM (seasonally adjusted data) supported by the extraordinary hike of the residential segment (+24.9% MoM) and the civil engineering (+8.8% MoM). In March, expectations are for a pickup in constructions activity. Inflation rate dropped to 5.3% YoY in March from 5.7% YoY in February, as food inflation eased.

FX markets: The leu is strengthening (Page 5)

The leu gained another 0.7% to the euro last week, in line with its peers. The Polish Zloty has moved up 1.4% against the euro and the Hungarian Forint by 1.3%. Also, the euro strengthened nearly 1% to the dollar last week. However, a batch of negative data related to the prospects of the euro-zone and the global economy pushed the euro down against the dollar this Monday. This did not have a similar impact on European emerging market currencies such as the leu and its peers which remain under a positive spell. We believe the current appreciation of the leu is still driven by volatile portfolio investments.

Government securities: Yields dropped up to 8 bp last week (Page 6- 7)

In line with the continued decline of the money market rates, the yield curve shifted down last week as well. The comfortable position that the Treasury has continues to put downward pressure on yields: it looks like the Treasury is following the calendar of planned issues in RON which are relatively low (only 2.5 bn RON in April) and demand is rich. Last week, there were two auctions: one for 12M T-bills and one for 3Y euro denominated bonds. The average accepted yield was 4.99% for the 12M T-bills. At the second auction of the week, the Treasury sold 581 mn EUR in 3Y denominated bonds at an average accepted yield of 2.9%, lower than the previous 3.14% in January this year. The Treasury has sold 1.3 bn RON in April and the scheduled amount is 2.5 bn RON. For Q2, the Chief of Treasury was quoted saying that the plan is to sell around 10-12 bn RON, much less than in Q1 2013 (18.4 bn RON).

MM Short term liquidity persists (Page 8)

Short term liquidity continues to thrive. Last Friday, ROBOR rates up to one week were lower than 2.15% (ROBOR 1W included). This week too, the Central Bank injected only 178 mn RON at the weekly repo, just like last week, to only 2 banks. The maintenance period of required reserves ends on 23rd April so short term rates are expected to remain low during this period. The government announced that it would pay the public employees in advance, by the end of April instead of the beginning of May and this too should be supportive for liquidity conditions this month.

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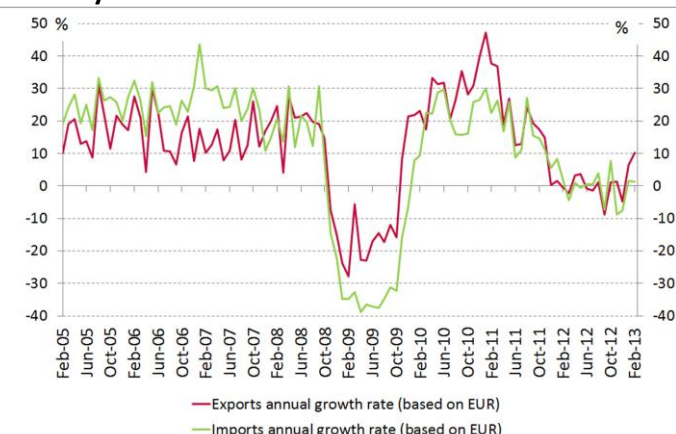
Macroeconomics: Exports rose 10% YoY in February; inflation fell to 5.3% YoY in March

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
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, %)	10,1		6,4
09 Apr	Feb	Imports (y-o-y, %)	1,3		1,6
10 Apr	Mar	Consumer price index (y-o-y, %)	5,3		5,7
15 Apr	Feb	CA balance (EUR mn, YTD)	327		391

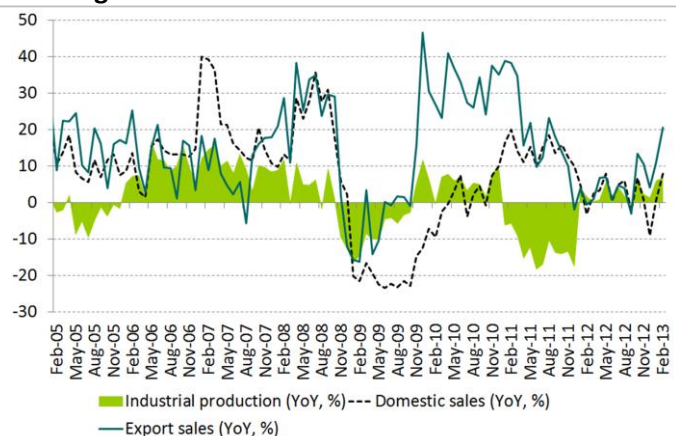
In February, Romania had the smallest trade deficit in the past 10 years. **Exports growth rate is encouraging, 10% YoY, the second consecutive month of significant uptake.** In January, they were up 6.4% YoY. This performance comes after a disappointing year, when the weakness of the European economy slowed down Romanian exports which were mostly intra EU (71% as of February). Imports rose by 1.3% YoY in February, slightly less than in January (+1.6% YoY). Imports' dynamics is significantly improved compared to the last two months of 2012 when average monthly fall was 8% YoY.

Industrial production figure was also good news: **in February, production volume saw a 6.8% YoY hike.** In the month, the progress was +1% MoM and it was driven exclusively by the **capital goods production (+5% MoM, seasonally adjusted).** This segment is showing a good evolution both in production, sales and new orders, in February. Therefore, it is likely that **demand from companies has marginally improved** and they have made investment decisions, renewing their capital base, probably also in anticipation of improved future cash flow. The Central Bank survey shows that **production managers expect a stabilization of production in March and also stronger volumes in the long term.**

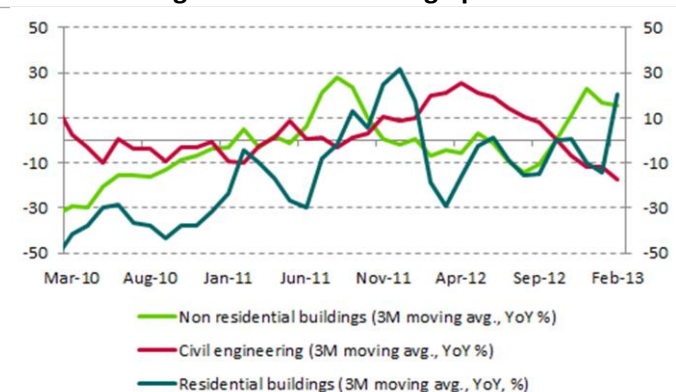
Constructions fell by 1.9% YoY in February and the decline is softer than in January when numbers showed a contraction of 9.1% YoY. **In the month, constructions were up 5% MoM (seasonally adjusted data) supported by the extraordinary hike of the residential segment (+24.9% MoM) and the civil engineering (+8.8% MoM).** The January figure showed an increase as well in residential constructions volume (seasonally adjusted). Only the non-residential segment contracted in February (-5.5% MoM). The monthly data is in line with the survey published by the Central Bank which indicated a negative evolution in constructions in February. **In March, expectations are for a pickup in activity.**

Exports rose by 10% YoY in February, more than in January


Source: NIS, OTP Research

Industrial production up 6.8% YoY in February; strong sales figure as well


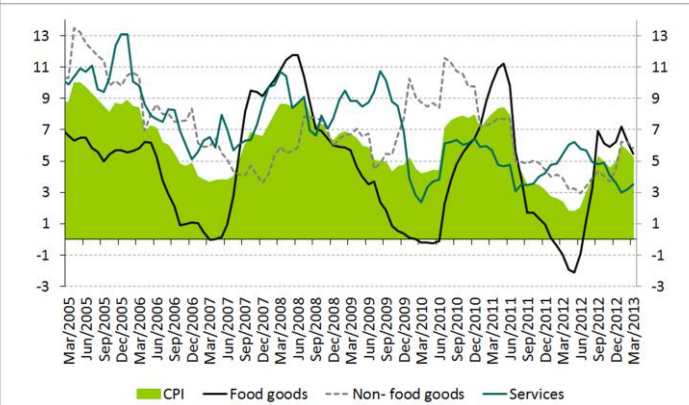
NIS, OTP Research

Construction figure is still weak (-1.9% YoY); the residential segment showed strong uptake


Source: NIS, OTP Research

Inflation rate dropped to 5.3% YoY in March from 5.7% YoY in February. The decline was mainly due to the slowdown in food inflation to 5.5% YoY from 6.2% YoY in February. **Both headline inflation and Core2 adjusted inflation came close to the Central Bank's estimate for March** which was 5.2% YoY in the case of headline inflation and 2.9% YoY for Core 2 adjusted inflation.

Inflation falls to 5.3% YoY in March, as food inflation eases



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 is strenghtening

The leu gained another 0.7% to the euro last week, in line with its peers. The Polish Zloty has moved up 1.4% against the euro and the Hungarian Forint by 1.3%. Also, the euro strenghtened nearly 1% to the dollar last week. The relaxed risk perception towards riskier European assets was triggered by the recent stimulus announcement made by the Bank of Japan.

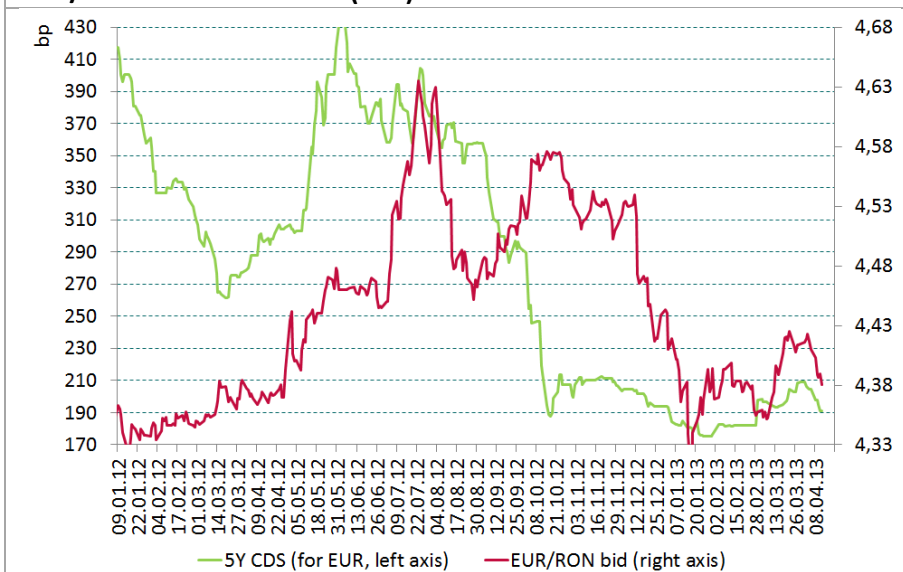
However, a batch of negative data related to the prospects of the euro-zone and the global economy pushed the euro down against the dollar on Monday. In this respect, we recall the disapointing Chinese GDP figure for Q1 and the trade surplus in the euro-zone (on the back of weak imports and therefore poor domestic demand). This did not have a similar impact on European emerging market currencies such as the leu and its peers which remain under a positive spell. We believe the current appreciation of the leu is still driven by volatile portfolio investments. According to the latest current account data, portfolio investments stood at 3.2 bn EUR during the first two months in 2013. Meanwhile, net FDIs which are thought to be among the drivers of GDP growth were only 164 mn EUR (and falling on a yearly basis). What remains attractive without a doubt is Romanian debt, yielding up to 5.6% at the moment.

Last data: 12.04.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,38	↓	-0,67	↓ -1,41
USDRON	3,34	↓	-1,61	↓ -0,81
CHFRON	3,60	↓	-0,86	↓ -2,09
RONJPY	3,39	↓	-2,48	↓ -12,53
RONPLN	1,07	↑	0,91	↓ -1,75
100HUFRON	1,48	↑	0,39	↓ -2,78
RONCZK	0,17	↓	-1,17	↓ -4,58
RONRUB	0,11	↓	-0,22	↓ -2,44
RONRSD	0,04	↓	-0,13	↓ -0,51
RONBGN	2,24	↓	-0,69	↓ -1,41

Source: Reuters

EUR/RON fell close to 4.38 (mid) last week



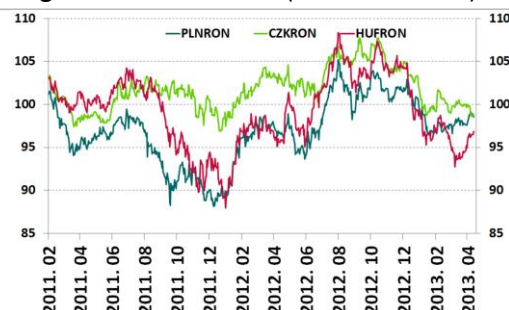
Sources: Reuters, OTP Research

Major RON FX rates (03.01.2011=100)



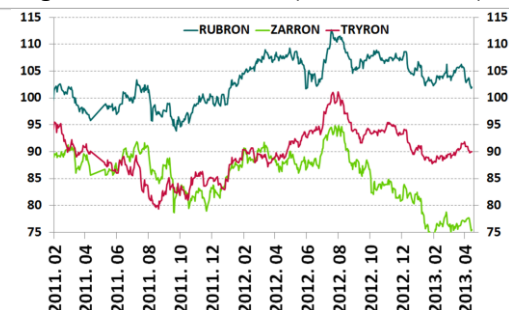
Sources: Reuters, OTP Research

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 dropped up to 8 bp last week

In line with the continued decline of the money market rates, the yield curve shifted down last week as well: government securities yields lost another 4 to 8 bp. The comfortable position that the Treasury has continues to put downward pressure on yields: it looks like the Treasury is following the calendar of planned issues in RON which are relatively low (only 2.5 bn RON in April) and demand is rich. Also, risk measures show an improved risk perception towards Romanian debt: the spread to Bunds is 6 bp lower in case of 5Y bonds and the 5Y CDS (euro) is 13 bp lower on a weekly basis.

Last week, there were two auctions: one for 12M T-bills and one for 3Y euro denominated bonds. Both tenders were succesful: in the case of T-bills, bid-to cover ratio stood at 3.2 and total bids amounted 1.9 bn RON. The average accepted yield was 4.99% (12M), marginally lower than the one at the previous similar tender on 18th March (5.02%). At the second auction of the week, the sold amount was almost 3 times higher than the planned amount: the Treasury sold 581 mn EUR in 3Y denominated bonds at an average accepted yield of 2.9%, lower than the previous 3.14% in January this year.

The Treasury has sold 1.3 bn RON in April and the scheduled amount is 2.5 bn RON. For Q2, the Chief of Treasury was quoted saying that the plan is to sell around 10-12 bn RON, much less than in Q1 2013 (18.4 bn RON).

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

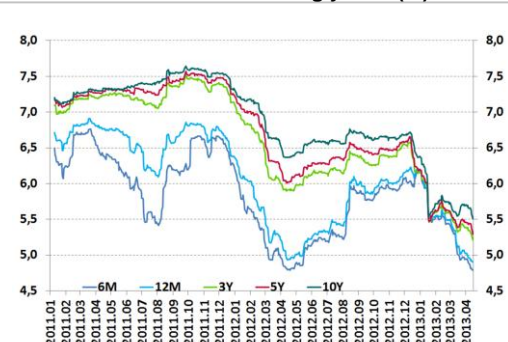
Last data: 12.04.2013

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	4,81	↓ -8	↓ -137	
12M	4,92	↓ -4	↓ -125	
3Y	5,29	↓ -5	↓ -88	
5Y	5,40	↓ -4	↓ -81	
10Y	5,59	↓ -8	↓ -80	

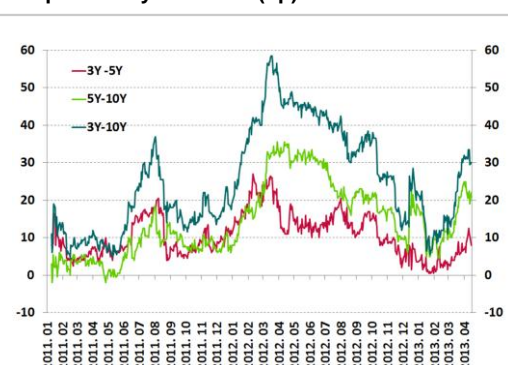
SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	525	↓ -6	↓ -83	
GERROM 5Y	511	↓ -4	↓ -69	
GERROM 10Y	434	↓ -8	↓ -60	
3Y -5Y	11	↑ 2	↑ 7	
5Y -10Y	19	↓ -4	↑ 1	
3Y-10Y	30	↓ -2	↑ 8	
FLY 3-5-10	9	↓ -6	↓ -6	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	136	↓ -13	↓ 0	
5Y EURO	191	↓ -13	↓ -3	

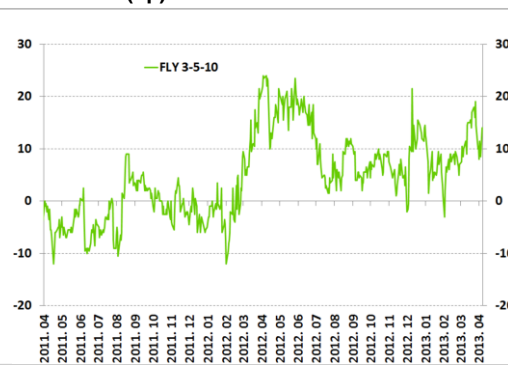
Source: Reuters

Central bank benchmark fixing yields (%)


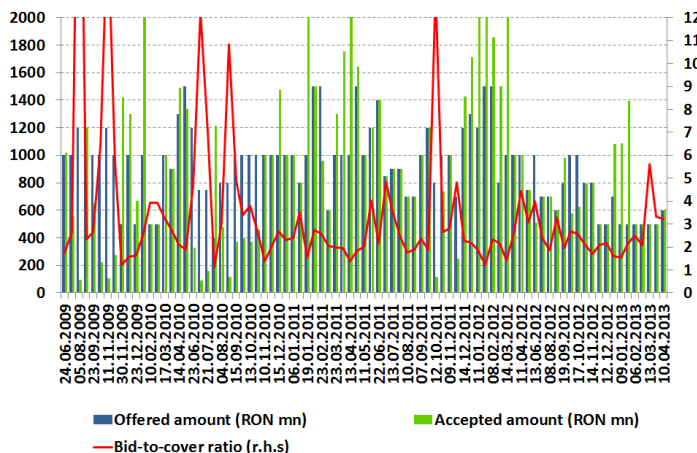
Sources: NBR, OTP Research

Slope of the yield curve (bp)


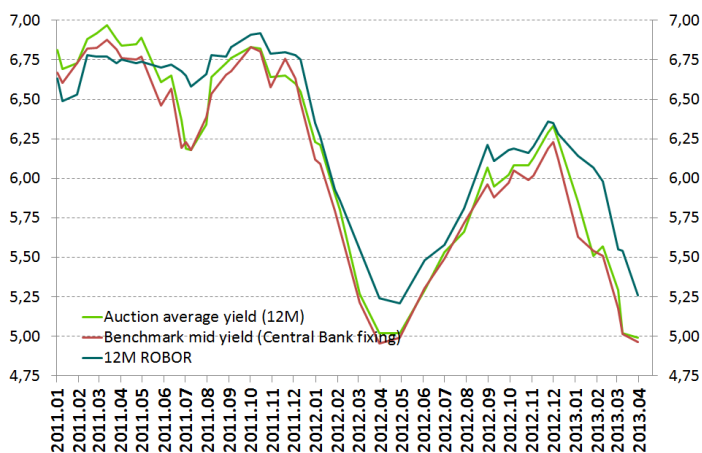
Sources: NBR, OTP Research

FLY 3-5-10 (bp)


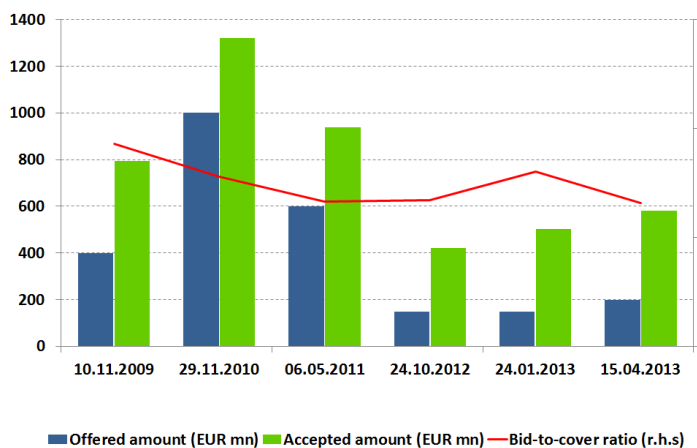
Sources: NBR, OTP Research

12M Auctions data


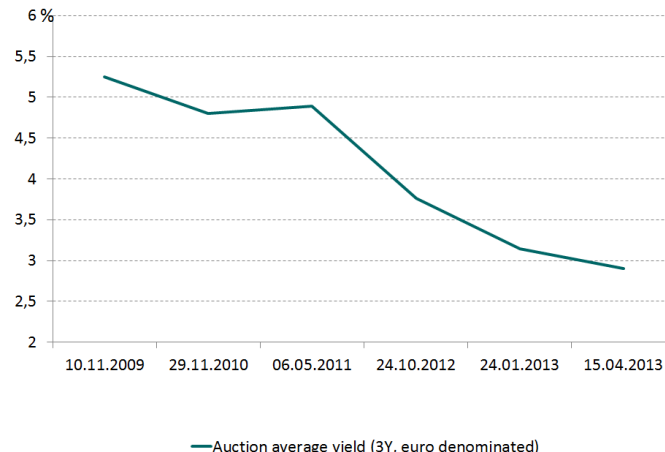
Sources: NBR, OTP Research

12M Interest rate


Sources: NBR, OTP Research

3Y Auctions data


Sources: NBR, OTP Research

3Y Interest rate


Sources: NBR, OTP Research

Last week's auction results (RON denominated)

	RO1214DBN027
Offered amount (RON mn)	600
total bids (RON mn)	1942
accepted amount (RON mn)	600
average accepted yield (%)	4,99
coupon	5,95

Source: NBR, OTP Research

Last week's auction results (EUR denominated)

	RO1316DBE011
Offered amount (EUR mn)	200
total bids (EUR mn)	765
accepted amount (EUR mn)	581
average accepted yield (%)	2,90
coupon	3,25

Source: NBR, OTP Research

MM: Short term liquidity persists

Short term liquidity continues to thrive. Last Friday, ROBOR rates up to one week were lower than 2.15% (ROBOR 1W included). This week too, the Central Bank injected only 178 mn RON at the weekly repo, just like last week, to only 2 banks. **The maintenance period of required reserves ends on 23rd April so short term rates are expected to remain low during this period.** Among the factors that helped improve liquidity conditions lately, besides the fact that the Central Bank stopped capping liquidity in March was also fact that the Treasury sold much less debt lately. In March for example, the Treasury sold only the planned amount of debt, 3 bn RON, compared to 4 bn RON in February and 11 bn RON in January. This month, it appears that the Treasury is also sticking to the schedule and planned amount is 2.5 bn RON. Also, it is worth mentioning that the schedule for Q2 2013 is between 10-12 bn RON compared to 18-20 bn RON in Q1 2013. The government announced that it would pay the public employees in advance by the end of April, instead of the beginning of May and this too should be supportive for liquidity conditions this month.

Last data: 12.04.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	0	0
ROBOR ON	1,56	-9	-482
ROBOR 3M	4,50	-35	-153
ROBOR 6M	5,16	-12	-112
ROBOR 9M	5,18	-12	-110
ROBOR 1Y	5,21	-9	-110

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	178,4	-2.021,0	- 3.816,9

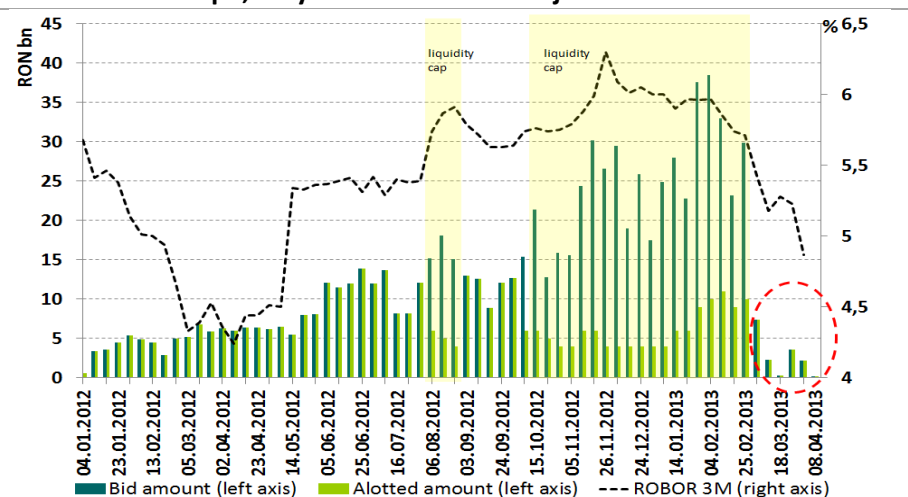
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2.713,5	-331,7	-187,9

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	13	-10	-12
USDRON 1M	103	-13	-47
USDRON 3M	289	-125	42
EURRON 1W	22	0	-19
EURRON 1M	103	-63	-42
EURRON 3M	434	-80	-77

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-90	0	65
EURRON 3Y	-83	-8	73
EURRON 5Y	-83	-8	68

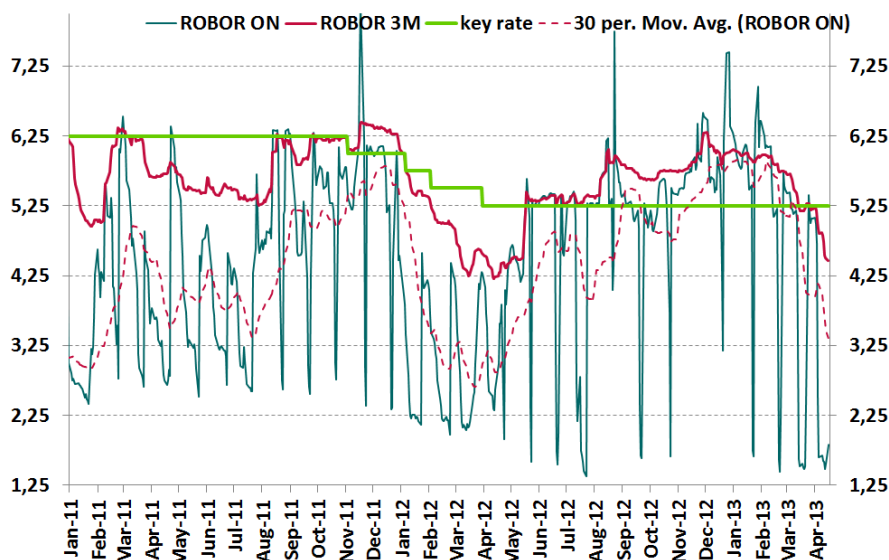
Source: Reuters

At last week's repo, only 178 mn RON was injected



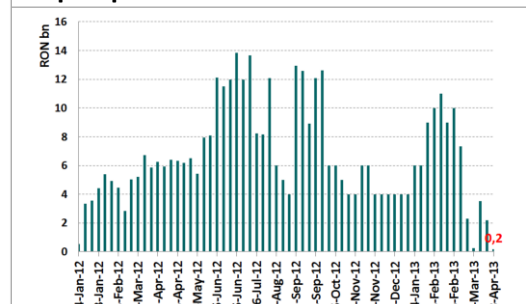
Sources: NBR, OTP Research

Most important MM instruments' evolution



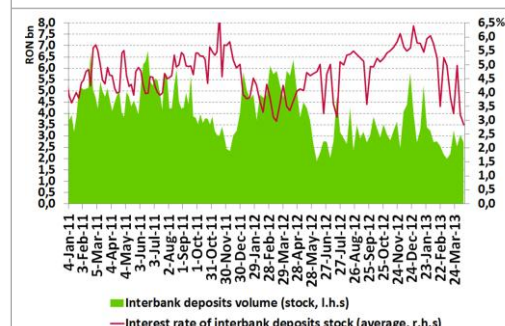
Sources: NBR, OTP Research

Repo operations since 2012



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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