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Weekly Report

Romania

23 April 2013



Bond prices climb; the leu strengthens

Macroeconomics: The CA had a surplus in February; FDI dropped 15% YoY (Page 3-4)

The current account posted a surplus (+327 mn EUR, YTD) in February as well, after we saw a surplus of 391 mn EUR in January. The main effect comes from the evolution of the trade balance which reduced its deficit by 465 mn EUR compared to last year, during the first 2M. This is explained by much faster exports growth pace (+8% YoY during the first 2M), while FOB imports were up only by 1.3% YoY. Looking at the financing side of the equation, we notice that portfolio investments were strong: 3.2 bn EUR compared to 1.8 bn EUR last year in January - February. These are a volatile funding source while FDI help increase GDP growth. However, FDI stood at 140 mn EUR and declined by 14.6% YoY.

FX markets: Favourable short term prospects for the leu (Page 5)

Non-residents' interest in Romanian debt maintains healthy. From the schedule of planned sales for Q2 2013, it looks like the monthly average volume of issues will be larger in the next 2M compared to April and it will exceed redemptions. Therefore, also taking into consideration the most recent high for the leu, we believe there is still room for appreciation as non residents are likely to maintain interest in Romanian debt (which will be in greater supply). Other factor supporting the favorable context for the leu is the recent figure for ESA government deficit: 2.9% in 2012 coming down from 5.6% in 2013. The news was also accompanied by the recent affirmation of investment grade foreign currency rating for Romania by Fitch to BBB minus. Beside the domestic factors, international context is slightly improved as the political scene in Italy settles and efforts are made so that a new government can be formed.

Government securities: The yield curve shifted down significantly (Page 6- 7)

Government securities yields dropped significantly last week, especially at the long end of the curve, where the fall was between 21-27 bp. Besides the falling interest rates which drive yields' evolution, the other driver is strong demand for Romanian debt. Last week there were two auctions, for 5Y and 7Y bonds. The bid to cover stood at 4.46 (7Y) and 2.72 (5Y), respectively. The average accepted yield for the 7Y bonds fell by 38 bp to 5.23% compared to Mid March and by 41 bp for the 5Y bonds compared to an earlier auction in April. We believe there is still upside potential for the prices of Romanian debt this year, but limited, considering that the average inflation forecasted for this year is 4.5% (quarterly averages of NBR's forecast) and that the 12M T-bill yield is now at 4.8%.

MM: Rates continue to fall (Page 8)

Liquidity injection at the weekly repo continues to be small and few banks go to repo, 2-3 banks in the past 3 weeks (this week included). Last week, only 178 mn RON were put into the market at the repo auction and this week the amount is slightly higher: 430 mn RON to 3 banks. Headline and core inflation were as expected by the Central Bank in March 2013 and already money market rates fell below the base rate and trending down further. If the CB's assessment of inflation continues to be correct, we do not rule out a decline in the base rate this year.

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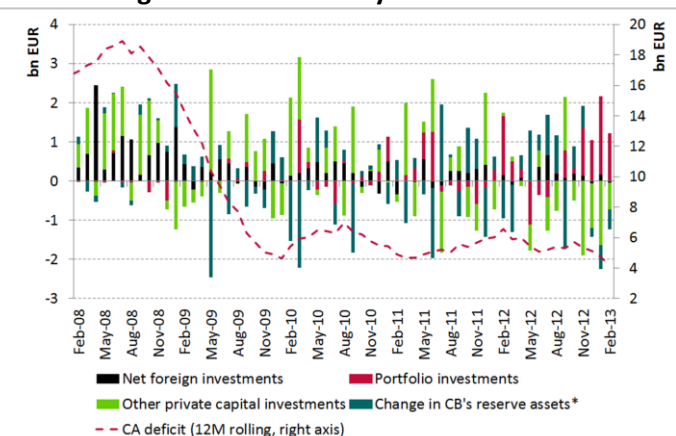
Macroeconomics: The CA had a surplus in February; FDI dropped 15% YoY

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
15 Apr	Feb	CA balance (EUR mn, YTD)	327		391
24 Apr	March	Non-governmental loans (y-o-y, %)			0,1
24 Apr	March	Non-governmental deposits (y-o-y, %)			3,7
24 Apr	March	M3 aggregate (y-o-y, %)			0,8
29 Apr	March	Licenses for residential buildings (y-o-y, %)			6,6

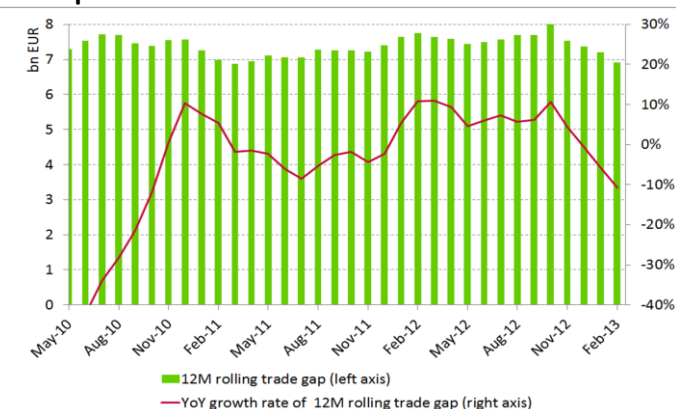
The current account posted a surplus (+327 mn EUR) in February as well, after we saw a surplus of 391 mn EUR in January. The main effect comes from the evolution of the trade balance which reduced its deficit by 465 mn EUR compared to last year, during the first 2M. This is explained by much faster exports growth pace (+8% YoY during the first 2M), while FOB imports were up only by 1.3% YoY. Other factors contributing to the formation of the surplus of the CA were the reduction of the income deficit (by 65 mn EUR) and the widening of the current transfers' surplus (+187 mn EUR). The current transfers to the public administration were the ones performing better while transfers to the other sectors (which include mainly remittances) dropped by 3% YoY. This is in line with weaker economic growth in the Eurozone where estimates point to a small quarterly contraction in Q1 2013.

Looking at the financing side of the equation, we notice that portfolio investments were strong during the first 2M: 3.2 bn EUR compared to 1.8 bn EUR last year. These are a volatile funding source while FDI help increase GDP growth. However, FDI stood at 140 mn EUR and declined by 14.6% YoY. In February alone, there was a net FDI outflow (-37 mn EUR).

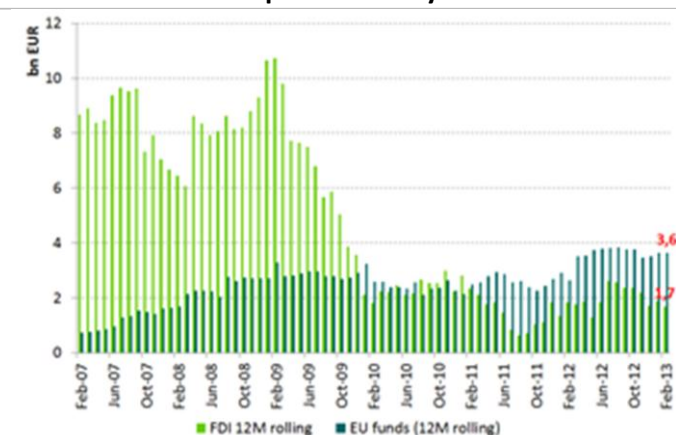
EU funds absorption, such as it is reflected in the balance of payments was improved: during the first 2M, EU funds absorption was 717 mn EUR (+22% YoY). However, this should be read in the context of very weak initial base. Looking at payments made, as reported by the Ministry of European Funds, the absorption rate rose from 11.47% in December 2012 to 12.2% in February 2013, meaning that in absolute terms only ~141 mn EUR were actually drawn from the structural and cohesion funds (first 2M). To this, we add the statistics for agriculture: in February, total drawn funds were 4.8 bn EUR. During January –February 2013, ~421 mn EUR was actually drawn through the National Program for Rural Development.

12M rolling CA deficit lower by 37% YoY


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

12M rolling trade gap shrank 11% YoY on lower pace of imports


Source: NBR, OTP Research

FDIs are weaker compared to last year


Source: NBR, 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%	0,7%	1,5%	2,6%
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	1,0%	1,6%	2,5%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,4%	2,2%	1,5%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,9%	0,9%	6,6%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	-0,4%	3,2%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,9%	-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%	-5,6%	-2,9%	-3,0%	-2,8%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	34,7%	37,8%	38,7%	38,8%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-4,0%	-3,5%	-4,0%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,3	-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

FX markets: Favorable short term prospects for the leu

The leu inched up last week as well, gaining 0.5% to the euro and further appreciated this week. Non-residents' interest in Romanian debt maintains healthy. From the schedule of planned sales for Q2 2013, it looks like the monthly average volume of issues will be larger in the next two months compared to April and it will exceed redemptions. Therefore, also taking into consideration the most recent high for the leu, **we believe there is still room for appreciation as non residents are likely to maintain interest in Romanian debt (which will be in greater supply)**. Also, we saw that the strenght of the leu did not seem to affect exports this year as they inched up by 10% YoY in February and 6% YoY in January.

Other factor supporting the favorable context for the leu is the recent figure for ESA government deficit: 2.9% in 2012 coming down from 5.6% in 2013. The news was also accompanied by the recent affirmation of investment grade foreign currency rating for Romania by Fitch to BBB minus. The agency cited the succesful fiscal consolidation and improvement of the political context in Romania. Beside the domestic factors, **international context is slightly improved as the political scene in Italy settles** and efforts are made so that a new government can be formed.

Last data: 19.04.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,36	↓	-0,47	↓ -1,87
USDRON	3,34	↑	0,09	↓ -0,72
CHFRON	3,58	↓	-0,61	↓ -2,69
RONJPY	3,36	↓	-1,06	↓ -13,46
RONPLN	1,06	↓	-0,77	↓ -2,50
100HUFRON	1,46	↓	-1,47	↓ -4,20
RONCZK	0,17	↓	-0,12	↓ -4,69
RONRUB	0,11	↓	-1,81	↓ -4,20
RONRSD	0,04	↑	0,17	↓ -0,79
RONBGN	2,23	↓	-0,38	↓ -1,79

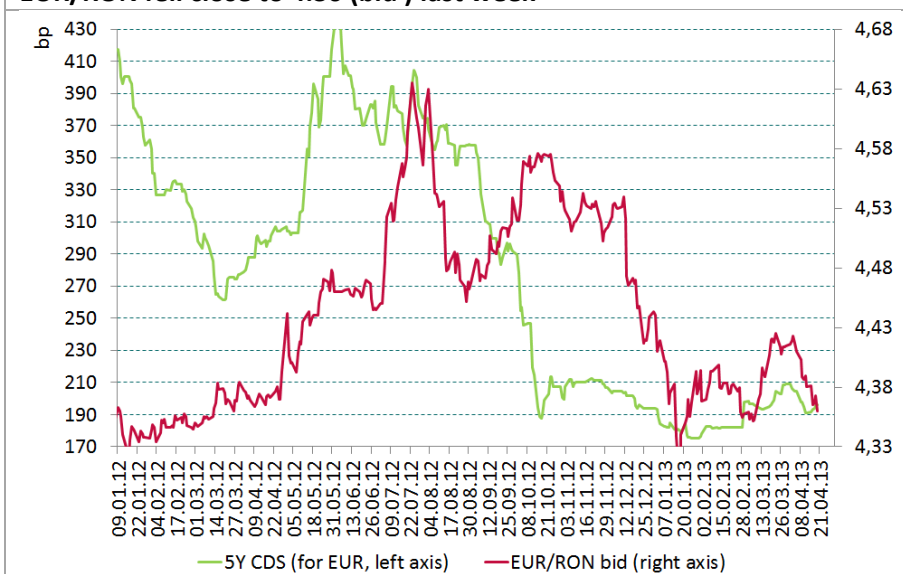
Source: Reuters

Major RON FX rates (03.01.2011=100)



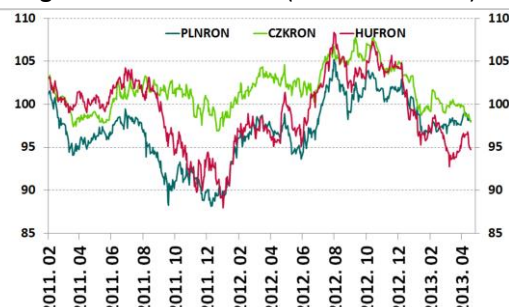
Sources: Reuters, OTP Research

EUR/RON fell close to 4.36 (bid) last week



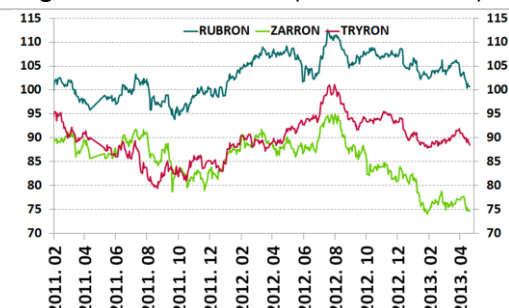
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



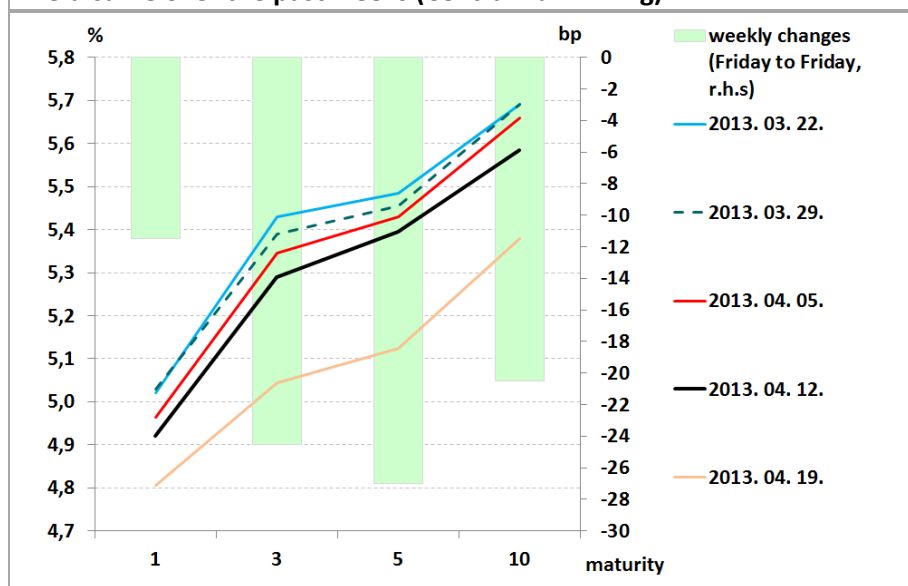
Sources: Reuters, OTP Research

Government securities: The yield curve shifted down significantly

Government securities yields dropped significantly last week, especially at the long end of the curve, where the fall was between 21-27 bp. At the short end, the decline was 12 to 15 bp. Besides the falling interest rates which drive yields' evolution, the other driver is strong demand for Romanian debt.

Last week there were two auctions, for 5Y and 7Y bonds. The bid to cover stood at 4.46 (7Y) and 2.72 (5Y), respectively. This emphasizes the healthy demand. The average accepted yield for the 7Y bonds fell by 38 bp to 5.23% compared to Mid March and by 41 bp for the 5Y bonds compared to an earlier auction in April. The 5Y bonds' average accepted yield was 5.09%. We believe there is still upside potential for the prices of Romanian debt this year, but limited, considering that the average inflation forecasted for this year is 4.5% (quarterly averages of NBR's forecast) and that the 12M T-bill yield is now at 4.8%.

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: 19.04.2013

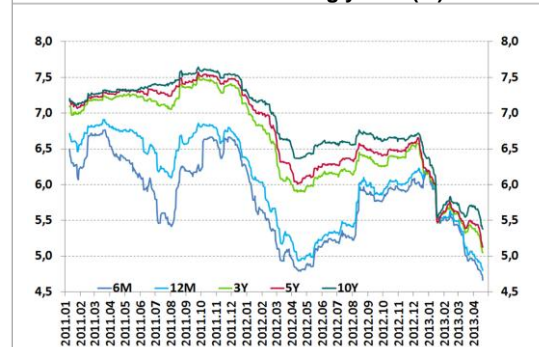
RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	4,67	↓ -15	↓ -152
12M	4,81	↓ -12	↓ -136
3Y	5,05	↓ -25	↓ -112
5Y	5,13	↓ -27	↓ -108
10Y	5,38	↓ -21	↓ -100

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	500	↓ -25	↓ -108
GERROM 5Y	482	↓ -27	↓ -98
GERROM 10Y	412	↓ -21	↓ -83
3Y -5Y	8	↓ -2	↑ 4
5Y -10Y	26	↑ 6	↑ 8
3Y-10Y	34	↑ 4	↑ 12
FLY 3-5-10	18	↑ 9	↑ 3

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	140	↑ 5	↑ 5
5Y EURO	196	↑ 5	↑ 2

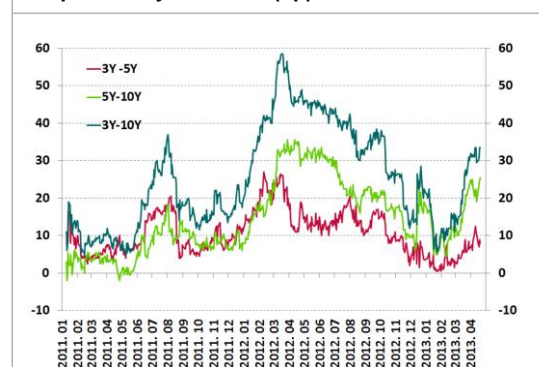
Source: Reuters

Central bank benchmark fixing yields (%)



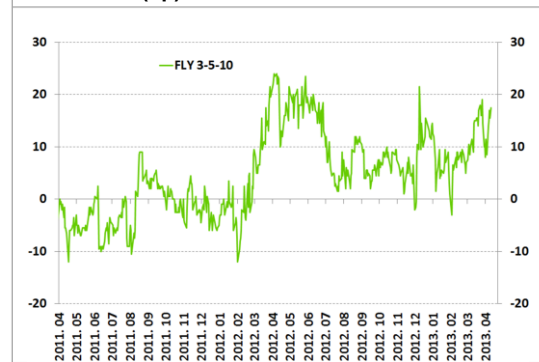
Sources: NBR, OTP Research

Slope of the yield curve (bp)

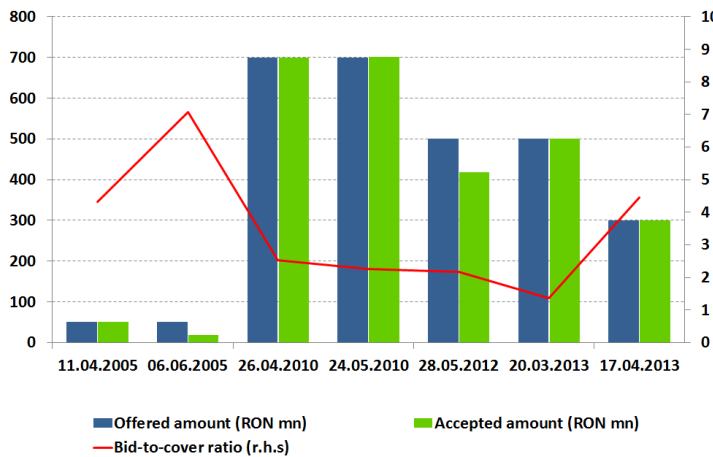


Sources: NBR, OTP Research

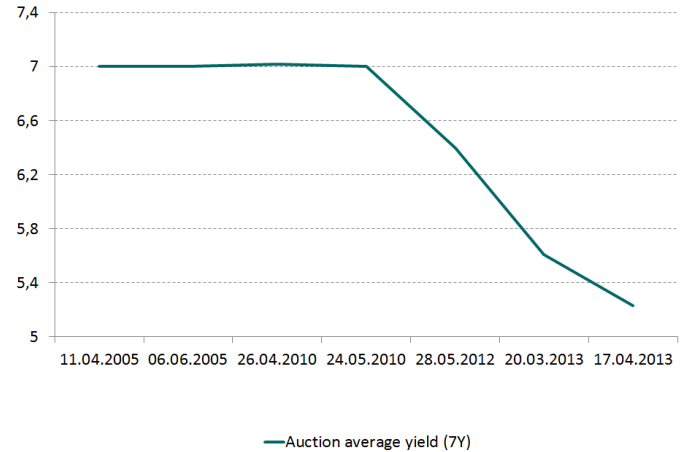
FLY 3-5-10 (bp)



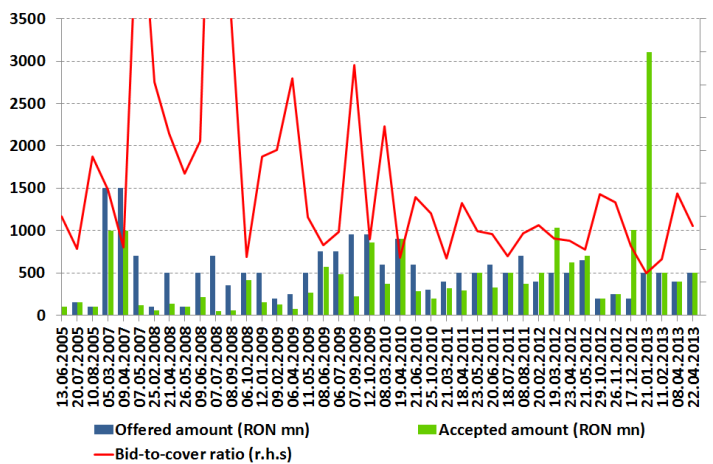
Sources: NBR, OTP Research

7Y Auctions data


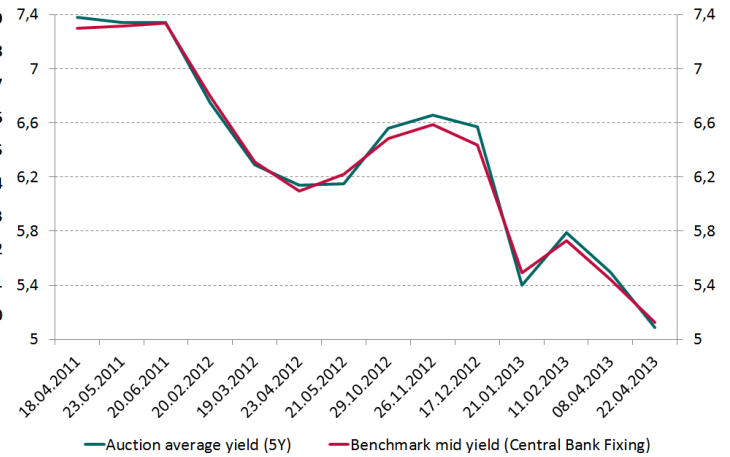
Sources: NBR, OTP Research

7Y Interest rate


Sources: NBR, OTP Research

5Y Auctions data


Sources: NBR, OTP Research

5Y Interest rates


Sources: NBR, OTP Research

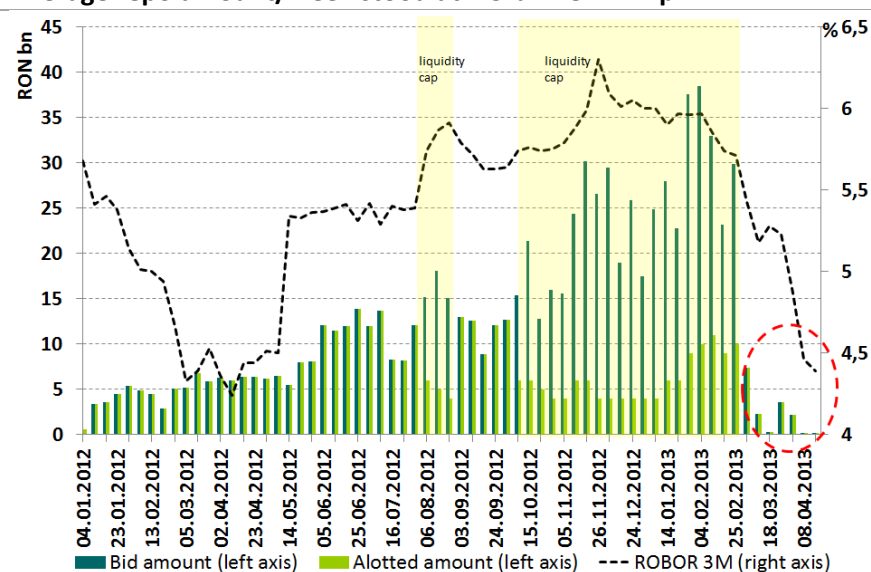
Last week's auction results (RON denominated)

	RO1320DBN022	RO1318DBN034
Offered amount (RON mn)	300	500
total bids (RON mn)	1338	1360
accepted amount (RON mn)	300	500
average accepted yield (%)	5,23	5,09
coupon	5,75	5,60

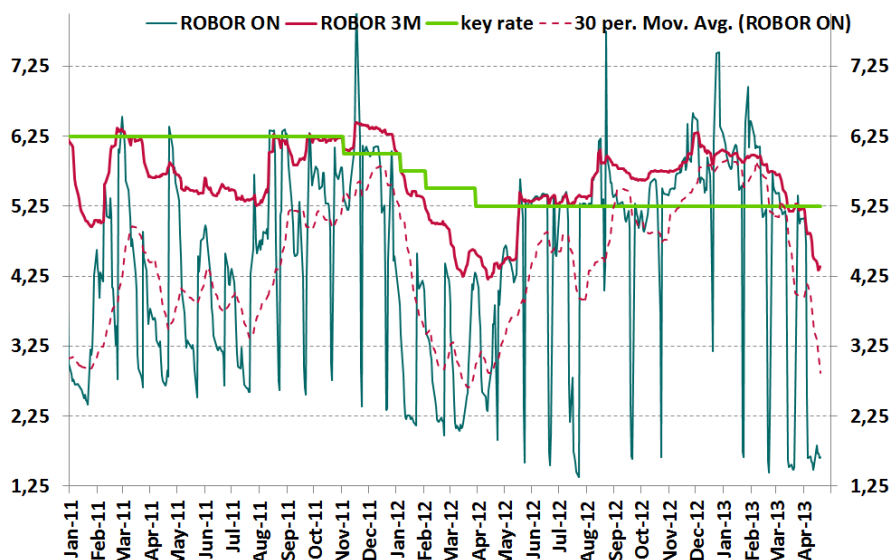
Source: NBR, OTP Research

MM: Rates continue to fall

Liquidity injection at the weekly repo continues to be small and few banks go to repo, 2-3 banks in the past 3 weeks (this week included). Last week, only 178 mn RON were put into the market at the repo auction and **this week the repo amount is slightly higher: 430 mn RON to 3 banks**. Until now in April, at the weekly repo there injected 1.5 bn RON (avg.)/week compared to 5 bn RON (avg.) /week in March. As the CB put no cap on liquidity starting in March, inter-banking rates fell quickly: average ROBOR 3M fell to 4.7% (1-19th April) from 5.3% in March. Headline and core inflation were as expected by the Central Bank in March 2013 and already money market rates fell below the base rate and trending down further. If the CB's assessment of inflation continues to be correct, we do not rule out a decline in the base rate this year.

Average repo amount/week stood at 1.5 bn RON in April


Sources: NBR, OTP Research

Most important MM instruments' evolution


Sources: NBR, OTP Research

Last data: 19.04.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↔ 0
ROBOR ON	1,66	↑ 10	↓ -472
ROBOR 3M	4,39	↓ -11	↓ -164
ROBOR 6M	5,11	↓ -5	↓ -117
ROBOR 9M	5,13	↓ -5	↓ -115
ROBOR 1Y	5,17	↓ -4	↓ -114

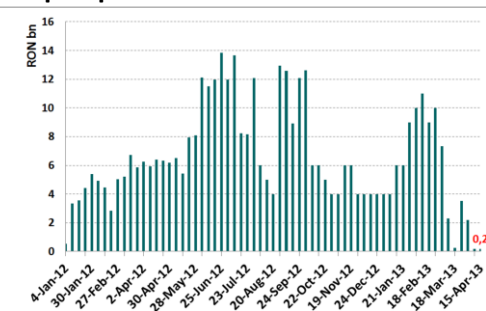
REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	178,3	-0,1	- 3.817,0

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.756,6	1043,1	855,2

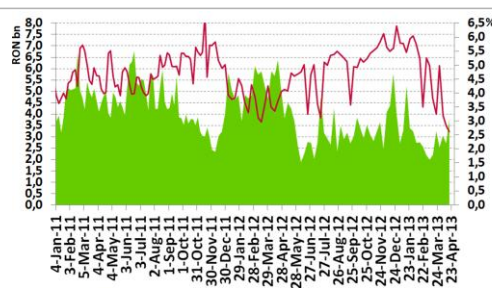
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	19	↓ -3	↓ -6
USDRON 1M	108	↑ 5	↓ -42
USDRON 3M	307	↑ 19	↑ 61
EURRON 1W	27	↑ 4	↓ -14
EURRON 1M	106	↓ -44	↓ -39
EURRON 3M	439	↓ -17	↓ -72

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

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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