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# Weekly Report

## Romania

30 April 2013



## The Central Bank likely to hold the base rate

### Macroeconomics: Private loans fall in March (-0.2 YoY); Private deposits jump at 5.7% YoY (Page 3-4)

Private loans dipped in the negative territory in March (-0.2% YoY). The decline was driven by the corporate segment where we see weaker dynamics. RON lending's annual pace declined for the first time after 3M, to 3.4% YoY, also due to the corporate segment where RON lending has seen a significant advance this year. Private deposits grew at 5.7% YoY in March from previous 3.7% YoY. We see an improvement both in the case of companies and households. In terms of preferred maturity, a significant spike in households' overnight deposits was witnessed in March while companies preferred time deposits. According to Central Bank's survey, industry and constructions are expected to perform well in April.

### FX markets: The leu strengthened up to its 15<sup>th</sup> month high (Page 5)

Last week was another good week for the leu which appreciated another 0.5% to the euro. As expected, non-residents' appetite for Romanian debt remained strong and drove the currency up to its 15<sup>th</sup> month high this Monday. Year to date, the leu is stronger by 2.3% to the euro and we recall the CB Governor saying that a movement below 5% is not considered unusual for the leu, through CB's eyes. More government debt is planned for sale in May - June compared to redemptions and yields remain attractive. Even if the EUR/RON reached the level when the CB likely stepped into the market in January, we do not rule out further limited strengthening of the leu. The next Treasury auction is on 9<sup>th</sup> of May and until now the leu has strengthened around auction dates when bonds were sold.

### Government securities: The Treasury plans to issue 3.8 bn RON in debt in May (Page 6- 7)

The yield curve has continuously shifted down during the last 5 weeks. Last Friday, yields at the long end of the curve were down 15-19 bp. Since the beginning of the year, government securities' yields have adjusted significantly more than 100 bp, especially at the short end. The spread to German bunds and the 5Y CDS, two measures of risk aversion, shrank last week: the 5Y CDS (euro) is lower by 13 bp while the spread to bunds is lower by 19 bp. We continue to see further potential for bond prices, at least in the short term. At the weekly auctions, The Treasury sold 300 mn RON in 3Y bonds at the average accepted yield of 4.9%, compared to 5.49% in early March. It also sold 400 mn RON in 10Y bonds at an average accepted yield of 5.23% compared to 5.81% in early March.

### MM: The Central Bank to hold the base rate (Page 8)

The Central Bank boosted liquidity injection this week at 709 mn RON from 430 mn RON last week. At last week's auction 3 banks bid whereas this week the number rose to 4. Money market rates continued to come down as expected. However this week, liquidity was affected by companies' quarterly tax payments to the state budget and short term rates rose. We see this measure as temporary and expect interest rates to resume the downward path. At the Board Meeting on monetary policy issues to be held on May 2<sup>nd</sup>, we believe the CB is likely to hold the base rate and required reserves ratio unchanged, given the past behaviour. Nevertheless, the direction towards which the CB is heading is further relaxation.

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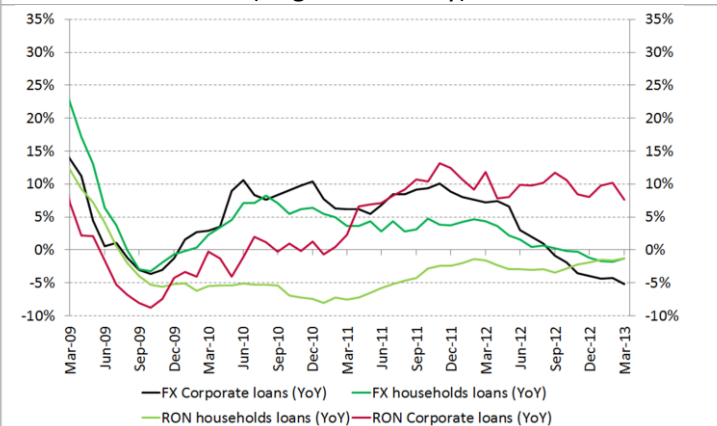
**Macroeconomics: Private loans fall in March (-0.2 YoY); Private deposits jump at 5.7% YoY**

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
24 Apr	March	Non-governmental loans (y-o-y, %)	-0,2		0,1
24 Apr	March	Non-governmental deposits (y-o-y, %)	5,7		3,7
29 Apr	March	Licenses for residential buildings (y-o-y, %)	-3		6,6
30 Apr	March	ILO unemployment (seasonally adjusted, %)	6,7		6,7

**Private loans dipped in the negative territory in March (-0.2% YoY). The decline was driven by the corporate segment where we see weaker dynamics.** RON lending's annual pace declined for the first time after 3M, to 3.4% YoY, also due to the corporate segment where RON lending has seen a significant advance this year. In terms of products, we see that medium term corporate loans (1-5 years) are being preferred. In the case of households, the dynamics are still in the negative territory but we see improvement both in the case of mortgage and consumer loans. With respect to the latter, their annual pace did not deteriorate further for the first time in 4 months.

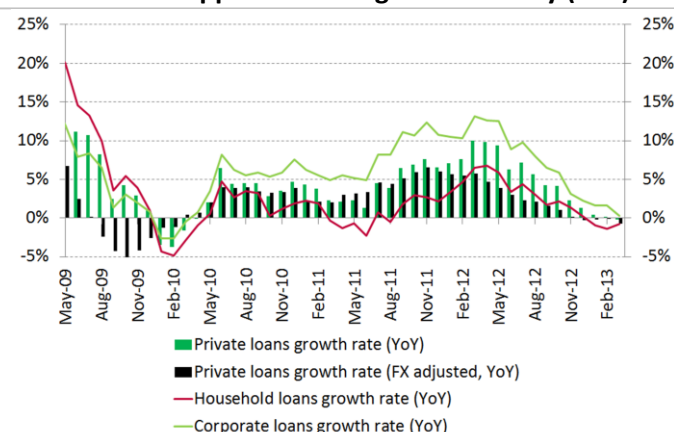
**Private deposits grew at 5.7% YoY in March from previous 3.7% YoY.** In this case, we see an improvement both in the case of companies and households. In terms of preferred maturity, a significant spike in households' overnight deposits was witnessed in March while the pace with which time deposits changed remained roughly the same. We do not read this as a sign of higher saving rate to the detriment of consumption. Companies preferred time deposits to ON deposits.

The Central Bank published its April survey of the industrial and construction activity. In the short term, perspectives are positive in both cases. However in industry, the optimism is fading in the longer term, as new orders are significantly lower than in March.

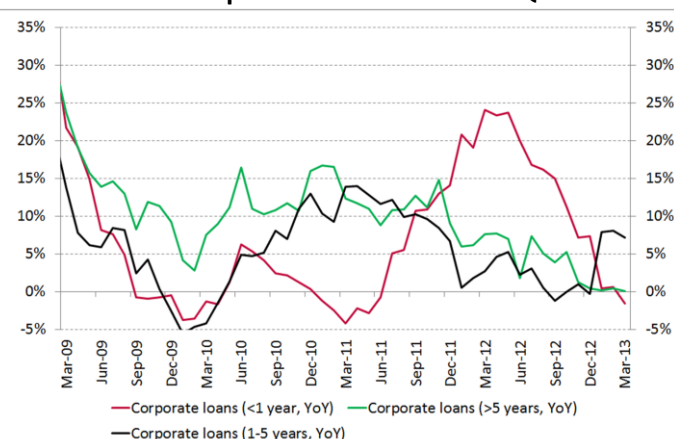
**RON corporate loans pace slowed down in March, after 3M of acceleration (original currency)**


Source: NBR, OTP Research

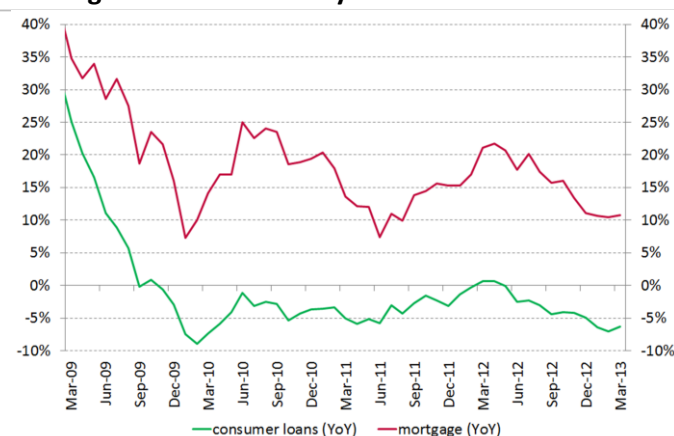
Note: we assume all FX loans are denominated in EUR

**Private loans dipped in the negative territory (YoY)**


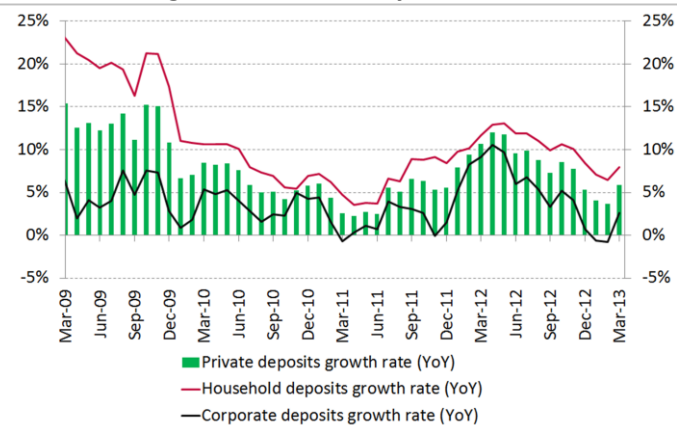
Source: NBR, OTP Research

**Medium term corporate loans favored in Q1 2013**


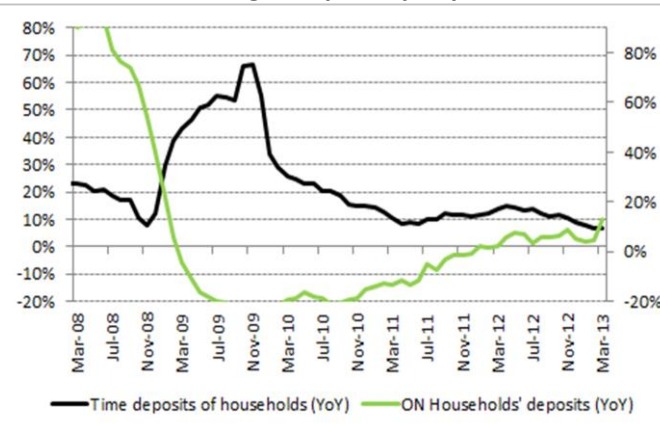
Source: NBR, OTP Research

**Mortgage loans advanced by 10.7% YoY in March**


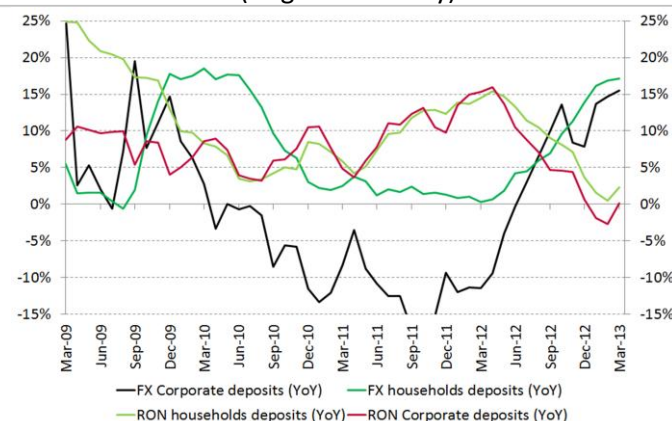
Source: NBR, OTP Research

**Private saving accelerates visibly in March**


Source: NBR, OTP Research

**Households' overnight deposits jumped in March**


Source: NBR, OTP Research

**FX and RON deposits' annual growth rate rose in March downtrend (original currency)**


Source: NBR, OTP Research

Note: we assume all FX deposits are denominated in EUR

**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%	4,9%	3,2%
Budget Balance (GDP%, ESA 95)	-2,9%	-5,7%	-9,0%	-6,8%	-5,6%	-2,9%	-2,8%	-2,5%
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: The leu strengthened up to its 15<sup>th</sup> month high**

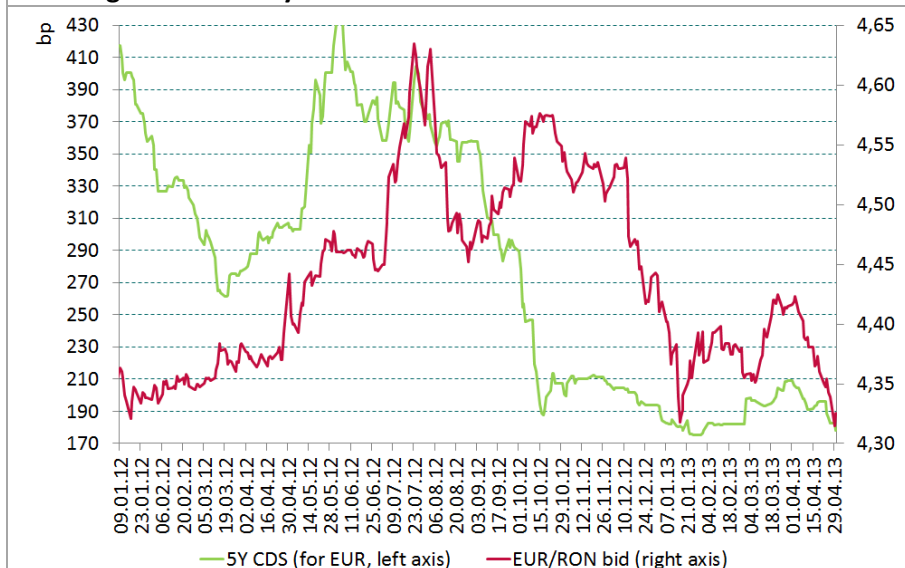
Last week was another good week for the leu which appreciated another 0.5% to the euro. As expected, non-residents' appetite for Romanian debt remained strong and drove the currency up to its 15<sup>th</sup> month high this Monday. Year to date, the leu is stronger by 2.3% to the euro and we recall the CB Governor saying that a movement below 5% is not considered unusual for the leu, through CB's eyes. As we said in the last report, more government debt is planned for sale in May - June compared to redemptions and yields remain attractive. Even if the EUR/RON reached the level when the CB likely stepped into the market in January, we do not rule out further limited strengthening of the leu. The next Treasury auction is on 9<sup>th</sup> of May when the Treasury plans to sell 800 mn RON in 5Y bonds and until now the leu has usually strengthened around auction dates when bonds were sold.

Last data: 26.04.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,34	↓	-0,48	↓ -2,34
USDRON	3,33	↓	-0,37	↓ -1,09
CHFRON	3,53	↓	-1,33	↓ -3,98
RONJPY	3,40	↑	1,14	↓ -12,47
RONPLN	1,04	↓	-1,68	↓ -4,14
100HUFRON	1,43	↓	-1,78	↓ -5,90
RONCZK	0,17	↓	-0,06	↓ -4,75
RONRUB	0,11	↑	0,83	↓ -3,40
RONRSD	0,04	↓	-0,43	↓ -1,21
RONBGN	2,22	↓	-0,58	↓ -2,36

Source: Reuters

**The leu strengthened 0.5% to the euro last week and climbed to its 15M high this Monday**



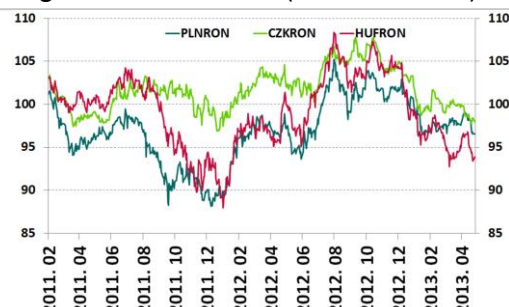
Sources: Reuters, OTP Research

**Major RON FX rates (03.01.2011=100)**



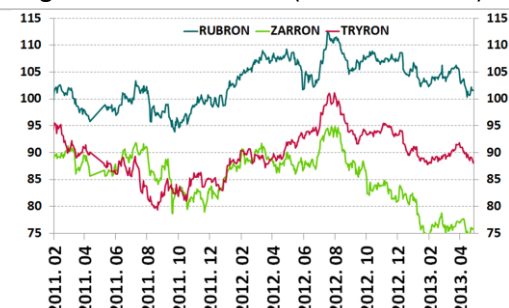
Sources: Reuters, OTP Research

**Regional RON FX rates I. (03.01.2011=100)**



Sources: Reuters, OTP Research

**Regional RON FX rates II. (03.01.2011=100)**



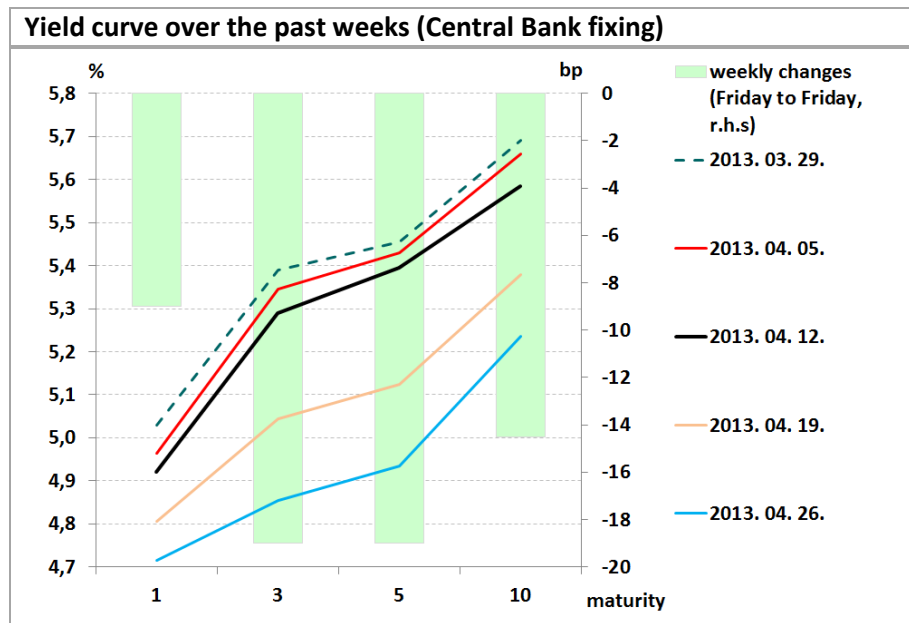
Sources: Reuters, OTP Research

## Government securities: The Treasury plans to issue 3.8 bn RON in debt in May

The yield curve has continuously shifted down during the last 5 weeks. Last Friday, yields at the long end of the curve were down 15-19 bp. Since the beginning of the year, government securities' yields have adjusted significantly more than 100 bp, especially at the short end. The spread to German bunds and the 5Y CDS (euro), two measures of risk aversion, shrank last week: **the 5Y CDS (euro) is lower by 13 bp while the spread to bunds is lower by 19 bp**. The perceived risk aversion therefore is lower. Recently, the official figure of the ESA budget was published by the Eurostat, along with detailed government deficit and debt data. The ESA budget deficit stood at 2.9% of the GDP in 2012, falling from the previous 5.6% in 2012. The European Commission expected further improvement in its winter forecast, which re-enforces the confidence that fiscal consolidation will continue and this should be supportive for the bonds in the future as well. **We continue to see further potential for bond prices, at least in the short term.**

The Treasury announced it plans to sell 3.8 bn RON in government securities in May, more than redemptions of 3.2 bn RON. The split is 1.3 bn RON in T-Bills and 2.5 bn RON in bonds. The bonds to be sold have a maturity of 5, 10 and 15 years.

There were 2 auctions last week: The Treasury sold 300 mn RON in 3Y bonds at the average accepted yield of 4.9%, compared to 5.49% in early March. Demand was healthy and bid to cover stood at 4.02. The Treasury also sold 400 mn RON in 10Y bonds at an average accepted yield of 5.23% compared to 5.81% in early March.



Source: NBR, OTP Research

Last data: 26.04.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	4,53	↓ -14	↓ -166
12M	4,72	↓ -9	↓ -145
3Y	4,86	↓ -19	↓ -131
5Y	4,94	↓ -19	↓ -127
10Y	5,24	↓ -15	↓ -115

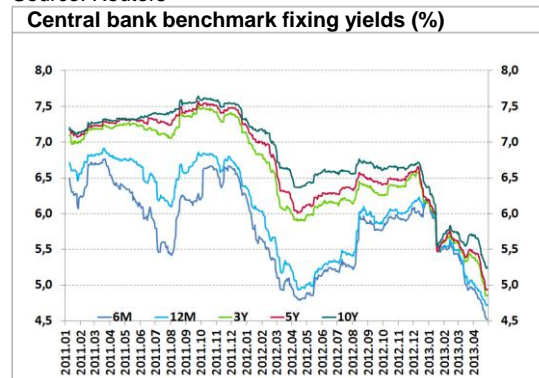
  

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	481	↓ -19	↓ -127
GERROM 5Y	463	↓ -19	↓ -117
GERROM 10Y	398	↓ -15	↓ -97
3Y -5Y	8	↔ 0	↕ 4
5Y -10Y	30	↕ 4	↕ 12
3Y-10Y	38	↕ 4	↕ 16
FLY 3-5-10	22	↕ 4	↕ 7

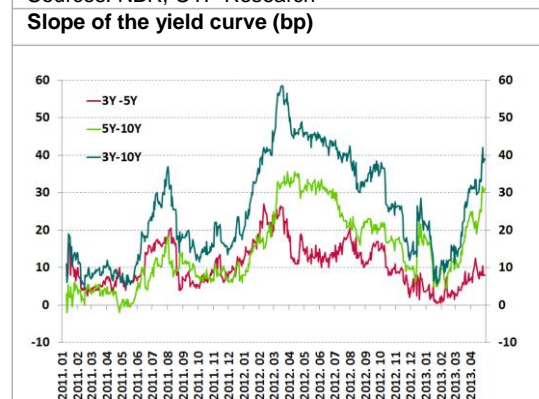
  

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	127	↓ -13	↓ -9
5Y EURO	183	↓ -13	↓ -11

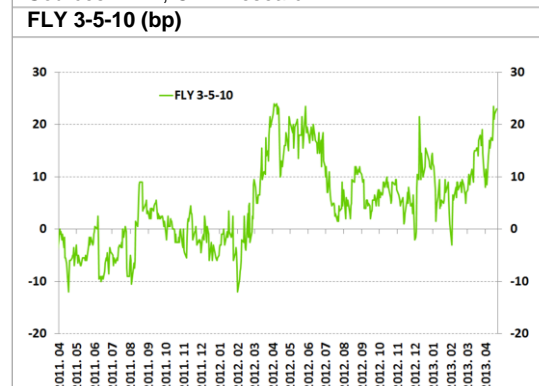
Source: Reuters



Sources: NBR, OTP Research



Sources: NBR, OTP Research



Sources: NBR, OTP Research

**T-Bills auctions in May (in RON)**

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1313CTN088	09.05.2013	13.05.2013	27.11.2013	6	500.000.000
RO1314CTN094	13.05.2013	15.05.2013	14.05.2014	12	800.000.000

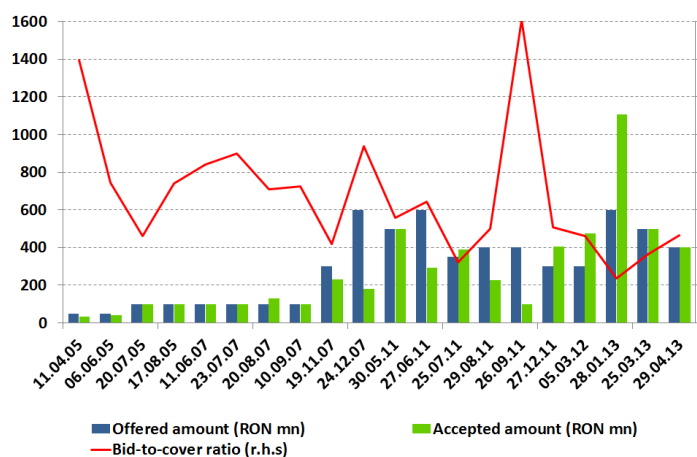
Source: Ministry of Finance, OTP Research

**Bond auctions in May (in RON)**

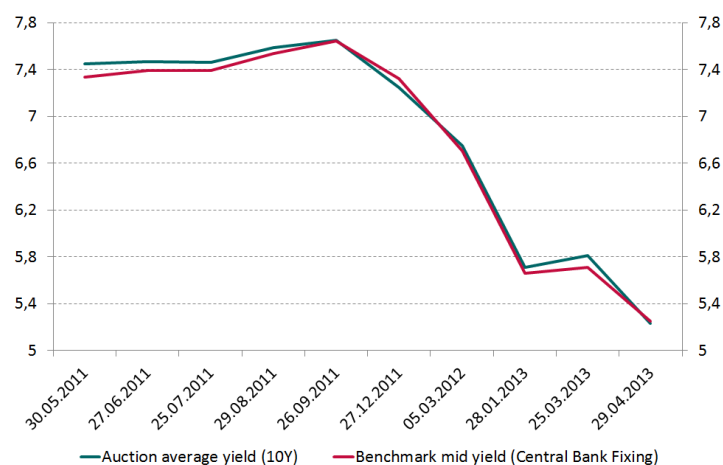
ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1318DBN034	09.05.2013	-	13.05.2013	28.11.2018	5	800.000.000	-
RO1116DBN024	18.05.2013	17.05.2013	20.05.2013	30.04.2016	5	500.000.000	50.000.000
RO1217DBN046	20.05.2013	21.05.2013	22.05.2013	28.07.2017	5	300.000.000	30.000.000
RO1323DBN018	23.05.2013	-	27.05.2013	28.04.2023	10	600.000.000	-
RO1227DBN011	27.05.2013	-	29.05.2013	28.07.2027	15	200.000.000	-

Sources: Ministry of Finance, OTP Research

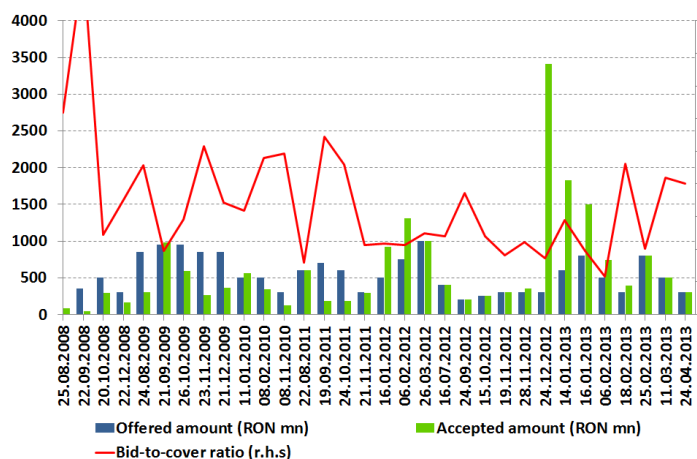
Note: \* Supplementary sessions of competitive offers

**10Y Auctions data**


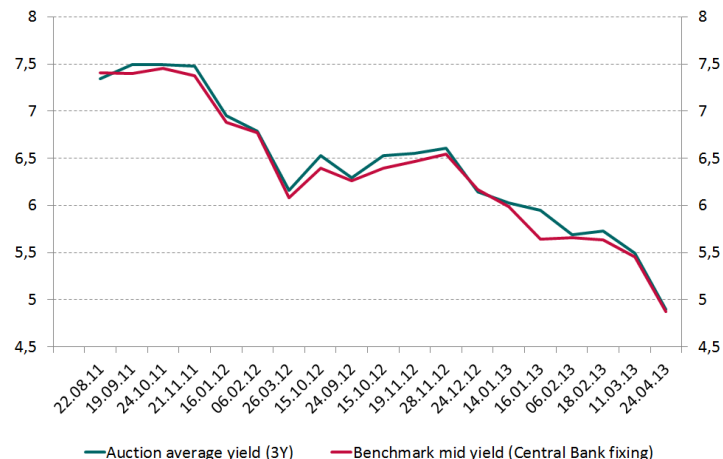
Sources: NBR, OTP Research

**10Y Interest rate**


Sources: NBR, OTP Research

**3Y Auctions data**


Sources: NBR, OTP Research

**3Y Interest rates**


Sources: NBR, OTP Research

**Last week's auction results (RON denominated)**

	RO1216DBN030	RO1323DBN018
Offered amount (RON mn)	300	400
total bids (RON mn)	1206	930
accepted amount (RON mn)	300	400
average accepted yield (%)	4,90	5,23
coupon	5,75	5,85

Source: NBR, OTP Research



**MM: The Central Bank to hold the base rate**

The Central Bank boosted liquidity injection this week at 709 mn RON from 430 mn RON last week. At last week's auction 3 banks bid whereas this week the number rose to 4. Money market rates continued to come down as expected. However this week, liquidity was affected by companies' quarterly tax payments to the state budget and short term rates rose. We see this measure as temporary and **expect interest rates to resume the downward path**. The Treasury is going to issue 3.8 bn RON in debt in May, slightly more than redemptions but this is not going to be a source of liquidity squeeze. Also, the budget deficit is likely going to be higher than in April, which usually favours lower money market rates. In addition, the leu touched its 15M high, which means that the CB is more likely to favour improved liquidity conditions.

In what regards the Board Meeting on monetary policy issues to be held on **May 2<sup>nd</sup>**, we believe the CB is likely to hold the base rate and required reserves ratio unchanged, given the past behaviour. Nevertheless, the direction towards which the CB is heading is further relaxation. Declining headline and core inflation is supportive, especially since it was very much in line with Central Bank's forecast as March.

Last data: 26.04.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	↔ 0	↔ 0
ROBOR ON	4,02	↓ 238	↓ -236
ROBOR 3M	4,13	↓ -26	↓ -190
ROBOR 6M	4,98	↓ -13	↓ -130
ROBOR 9M	5,01	↓ -12	↓ -127
ROBOR 1Y	5,04	↓ -13	↓ -127

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	429,8	251,5	- 3.565,5

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2.879,4	-877,2	-22,0

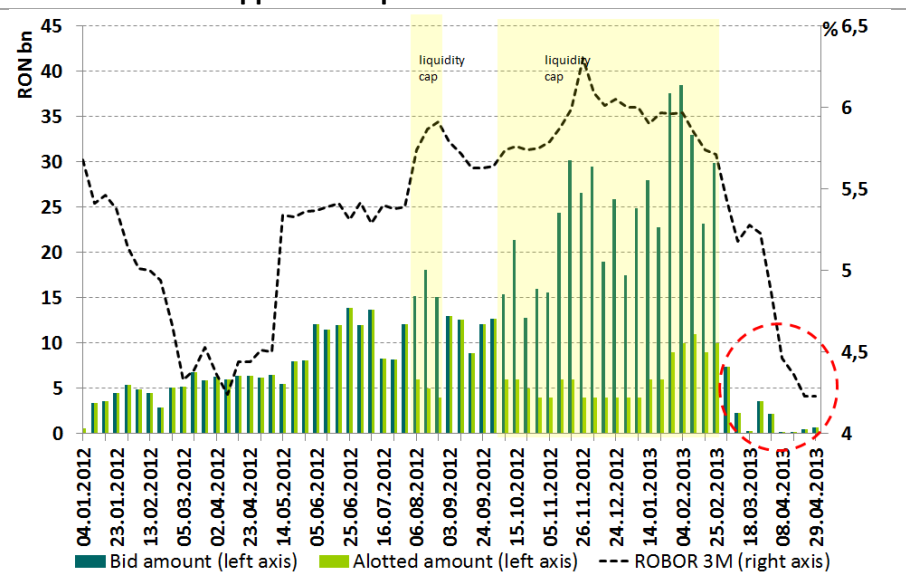
  

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USD RON 1W	19	↓ -8	↓ -5
USD RON 1M	100	↓ -8	↓ -49
USD RON 3M	247	↓ -60	↑ 1
EUR RON 1W	26	↓ -1	↓ -14
EUR RON 1M	108	↓ -44	↓ -37
EUR RON 3M	448	↓ -13	↓ -63

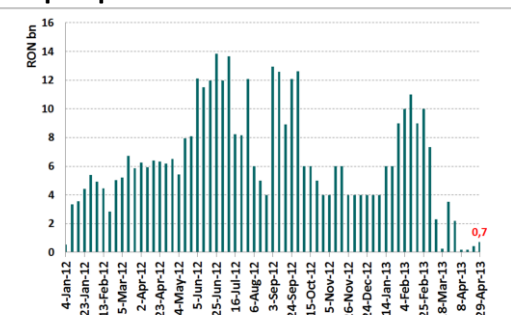
  

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EUR RON 1Y	-90	↔ 0	↑ 65
EUR RON 3Y	-83	↔ 0	↑ 73
EUR RON 5Y	-83	↔ 0	↑ 68

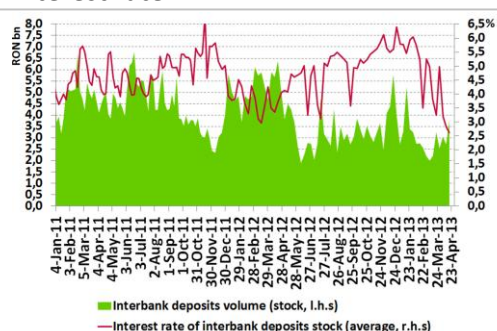
Source: Reuters

**The Central Bank upped the repo amount last week and this week**


Sources: NBR, OTP Research

**Repo operations since 2012**


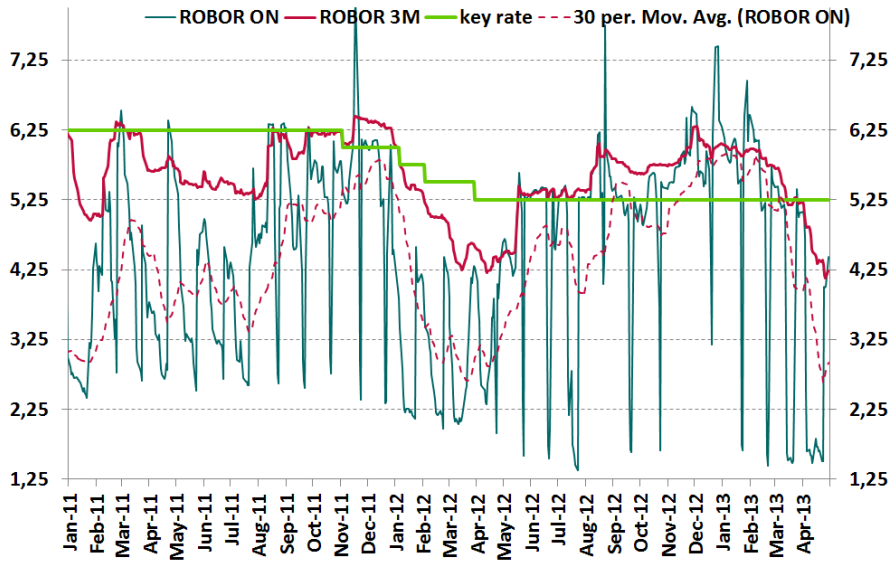
Sources: NBR, OTP Research

**Interbank deposits stock and average interest rate**


Sources: NBR, OTP Research



**Most important MM instruments' evolution**



Sources: NBR, OTP Research

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