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Weekly Report

Romania

10 June 2013



The main risks for the leu manifested last week

Macroeconomics: Q2 started well as retail and industrial sales show

(Page 3-4)

Retail sales posted a significant monthly hike: +2% MoM (seasonally adjusted). Non-food trade had the highest advance (+5.1% MoM) followed by fuel trade (+3% MoM). Foods trade marginally down. May's survey showed an improved retail trade sentiment indicator, the highest this year. Q1 GDP data exhibited a 0.7% QoQ and 2.2% YoY growth rate. However, the detailed expenditure side showed that only exports were in fact the driver, while private consumption and investment remained lower compared to the previous quarter. Industrial sales (12.7% YoY) and new orders (31.3 % YoY) came out strong in April. For May, the NBR survey indicates that new orders will drop on a seasonally adjusted basis partially due to exports' demand and the advance of industrial production is likely to record a rhythm slowdown.

FX markets: The leu touched this year's low against the euro (Page 5)

The leu lost 2.7% on a weekly basis and touched this year's low. The risk that hanged over the leu this year finally manifested and foreigners started to sell their Romanian debt holdings. This move was fueled by multiple factors: fears that the Fed may start tightening its monetary policy sooner than expected and disappointment regarding the economic growth programme in Japan hit investors' sentiment last week.

For the moment, we do not expect an appreciation of the leu: on the one hand, liquidity on the money markets is already relatively tighter compared to the previous month and more tightening induced by the Central Bank would not be in line with the expected base rate cut. On the other hand, we just witnessed outflows from the debt market triggered by a deterioration of risk perception.

Government securities: The yield curve moved up during the past 4 weeks (Page 6-7)

In the past 4 weeks, the yield curve has continuously shifted up. Since mid May when yields touched this year's low, yields have gained roughly 65-85 bp (the biggest jump was recorded by the 6M T-bills yields). This move was in line with tightened liquidity on the money market and the uptrend that characterized money market rates at the short end of the curve during this period. Last week, government securities yields picked up between 39-43 bp, especially at the short end of the curve. Last week, there were 3 bond auctions. Demand was poor and yields on the primary market spiked: the 3Y bond yield mounted to 4.96%, which is 52 bp higher than the one at the similar tender in Mid May. Given that we do not expect liquidity conditions to ease in the coming few weeks, yields are less likely to fall in the very short term.

MM: Tighter liquidity prospects in June (Page 8-9)

Compared to April, the daily average liquidity injected during the weekly repo operations was lower by 34%. In June, we expect that money market conditions will be negatively influenced by at least 2 factors: the Finance Ministry plans to issue more debt than redemptions, by 1.8 bn RON and also, the Treasury may try to keep an eye on expenditures and the budget deficit, especially since the latest figures are not favourable: the cumulated cash deficit stood at 1.2% during the first 4 months whereas the annual target is 2.2%.

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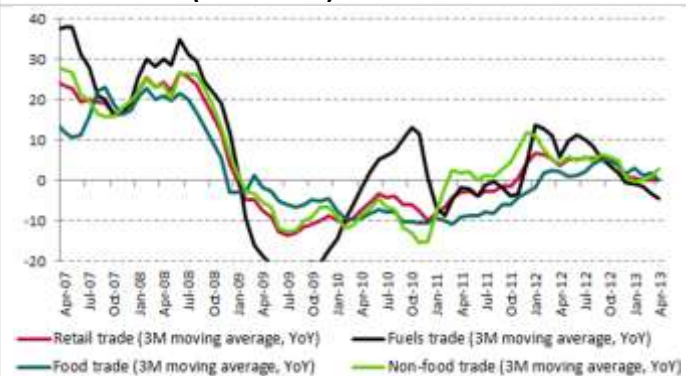
Macroeconomics: Q2 started well as retail and industrial sales show

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
03 Jun	April	Retail trade turnover index (y-o-y, %)	2,7		-4,2
03 Jun	May	FX reserves (bn EUR)	32,7		32,4
04 Jun	April	Producer Price Index (y-o-y, %)	3,0		4,5
05 Jun	April	Net wage growth rate (y-o-y, %)	7,0		4,8
05 Jun	Q1 2013	Detailed GDP (QoQ, seasonally adjusted)	0,7		0,6
07 Jun	April	Index value of new orders in manufacturing (y-o-y, %)	31,2		0,7
07 Jun	April	Industrial trade turnover index (y-o-y, %)	12,7		-2,9
10 Jun	April	Construction works index (y-o-y, %)	-9,4		0,1
10 Jun	April	Exports (y-o-y, %)	15,5		-1,4
10 Jun	April	Imports (y-o-y, %)	5,0		-5,0
11 Jun	May	Consumer price index (y-o-y, %)		5,2	5,3
11 Jun	April	Industrial Production Index (y-o-y, %)			1,3

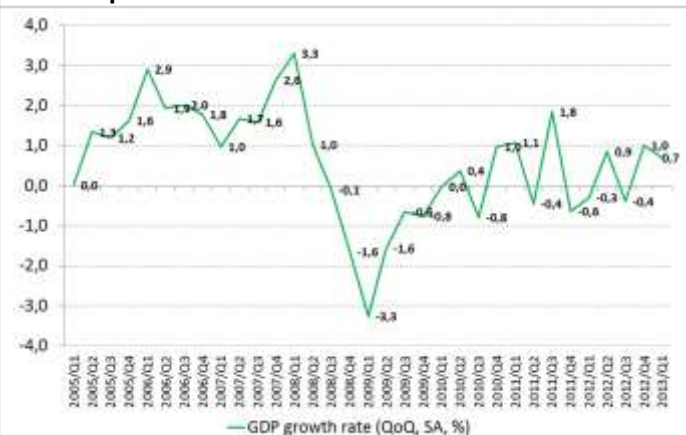
Retail sales posted a significant monthly hike: +2% MoM (seasonally adjusted). Non-food trade had the highest advance (+5.1% MoM) followed by fuel trade (+3% MoM). Foods trade marginally down. On an annual basis the hike was 2.7%. **May's survey showed an improved retail trade sentiment indicator, the highest this year.** The structure of sales' increase in May (non-food goods and fuels) also supports the idea of relatively increased consumer confidence, as in the case of these goods income elasticity of demand is higher. On the other hand, Q1 GDP data revealed that in fact, in Q1 consumption did not witness a jump yet: to the contrary, we saw a minor fall in households' consumption (-0.5% QoQ). However, with inflation perspectives improving, we keep our base scenario according to which private consumption will be a driver for GDP growth this year, due to wages and pensions' increase. In H1, supply side inflation partially eroded households' purchasing power but prospects for H2 are improved.

Q1 GDP data exhibited a 0.7% QoQ and 2.2% YoY growth rate. However, the detailed expenditure side showed that only exports were in fact the driver, while private consumption and investment were lower compared to the previous quarter. Production side dynamics looked encouraging: industry, constructions and trade which make up half of the GDP advanced on a quarterly basis in Q1 2013 and services as well.

Industrial sales and new orders came out strong in April, climbing 12.7% YoY and 31.3 % YoY respectively. For May, the NBR survey indicates that new orders will drop on a seasonally adjusted basis partially due to exports' demand and the advance of industrial production is likely to record a rhythm slowdown.

Retail trade rose by 2.7% YoY in April, due to strong nonfood sales (+8.4% YoY)


Source: NIS, OTP Research

GDP rose by 0.7% QoQ in Q1 2013 due to exports, but consumption and investment slowed down


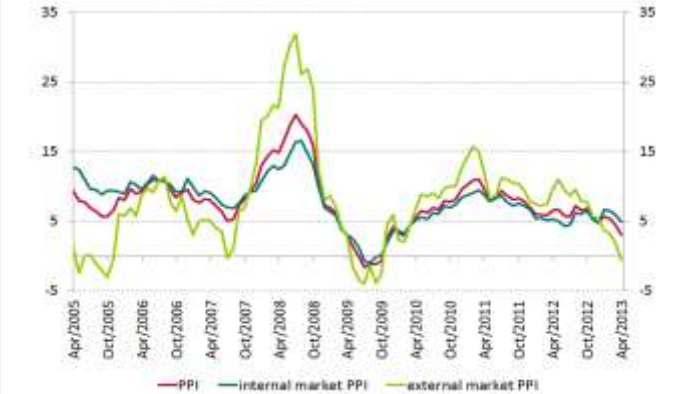
Source: NIS, OTP Research

Gross average wage rose by 7.1% YoY; real wage rose by 1.6% YoY



Source: NIS, OTP Research

Producer prices rose by 3% YoY in April, due to a hike of 4.9% YoY on the domestic market and a fall of 0.6% YoY on external markets



Source: NIS, OTP Research

Industrial sales (+12.7% YoY) and new orders (+31.3% YoY) were strong in April



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%	0,7%	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%	0,1%	2,9%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	5,13%	4,50%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	4,75%	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 touched this year's low against the euro

Last data: 7.06.2013

The leu lost 2.7% on a weekly basis and touched this year's low. The risk that hanged over the leu this year finally manifested and foreigners started to sell their Romanian debt holdings. This move was fueled by multiple factors: fears that the Fed may start tightening its monetary policy sooner than expected and disappointment regarding the economic growth programme in Japan hit investors' sentiment last week. These events coincided with political turmoil in Turkey which may have curbed investors' enthusiasm regarding emerging markets as well.

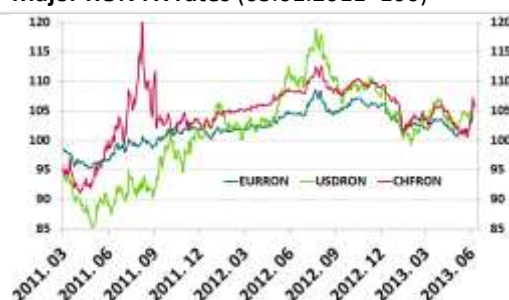
Nevertheless, even before these catalysts, the fundamentals for the leu indicated that it may have reached its peak this year: from foreign investors' point of view, the bond prices potential for further appreciation looked limited; also, liquidity started to tighten since mid May and this was pushing bonds' prices gradually down after they had been continuously climbing in the past 6 months. Furthermore, for the unhedged investors (who entered the market when the EUR/RON was trading above 4.5) the market conditions with EUR/RON at around 4.3-4.35 was a good opportunity for profit taking. The leu was at a relative strong level already and breaking below the psychological level of 4.3 proved difficult for the EUR/RON in the near horizon.

In March, foreigners held one fifth (18 bn RON) of the outstanding RON denominated government securities which means that risks to the leu stemmed from further debt selling persist. For the moment, we do not expect an appreciation of the leu: on the one hand, liquidity on the money markets is already relatively tighter compared to the previous month and more tightening induced by the Central Bank would not be in line with the expected base rate cut. On the other hand, we just witnessed outflows from the debt market triggered by the deterioration of risk perception.

FX BID				
	Value	Weekly chg. (%)	YTD chg. (%)	
EURRON	4.51	↑ 2.70	↑	2.03
USDRON	3.41	↑ 0.95	↑	1.64
CHFRON	3.64	↑ 3.03	↑	0.12
RONJPY	3.49	↑ 4.00	↓	-9.04
RONPLN	1.06	↑ 3.75	↓	-3.06
100HUFRON	1.52	↑ 2.93	↓	-0.06
RONCZK	0.18	↑ 3.17	↓	-0.28
RONRUB	0.11	↑ 0.06	↓	-3.34
RONRSD	0.04	↑ 1.25	↓	-0.54
RONBGN	2.30	↑ 2.70	↑	2.03

Source: Reuters

Major RON FX rates (03.01.2011=100)



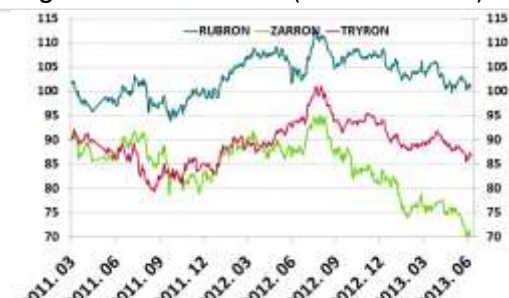
Sources: Reuters, OTP Research

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 reverted the gains posted since December 2012, when nonresidents started the aggressive bond buying



Sources: Reuters, OTP Research

Government securities: The yield curve moved up during the past 4 weeks

In the past 4 weeks, the yield curve has continuously shifted up. **Since mid May when yields touched this year's low, yields have gained roughly 65-85 bp** (the biggest jump was recorded by the 6M T-bills yields). **This move was in line with tightened liquidity on the money market** and the uptrend that characterized money market rates at the short end of the curve during this period. Last week, government securities yields picked up between 39-43 bp, especially at the short end of the curve.

Last week, there were 3 auctions (including one supplementary session for competitive offers). The Treasury sold the planned amount in bonds with 2Y residual maturity but the supplementary session was not successful. The average accepted yield for the 2Y bonds stood at 4.66% and bid to cover at 2.27. The second auction of the week was not successful either and the Treasury sold 542 mn RON compared with the planned amount of 700 mn RON. Demand was poor, total subscriptions amounting 847 mn RON. The average accepted yield climbed higher by 52 bp compared to the similar tender in Mid May and it stood at 4.96% (3Y bonds). Given that we do not expect liquidity conditions to ease in the coming few weeks, yields are less likely to fall in the very short term.

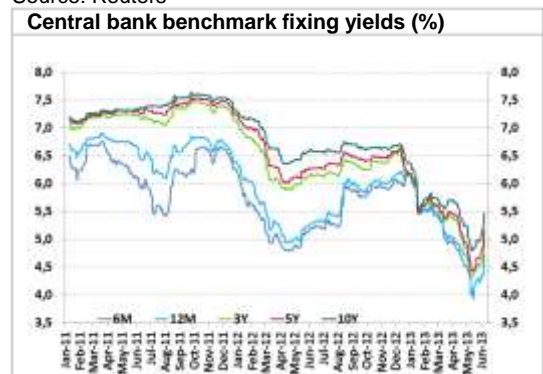
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RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	4,72	↑ 43	↓ -147	
12M	4,71	↑ 38	↓ -146	
3Y	5,00	↑ 40	↓ -117	
5Y	5,17	↑ 36	↓ -104	
10Y	5,47	↑ 39	↓ -91	

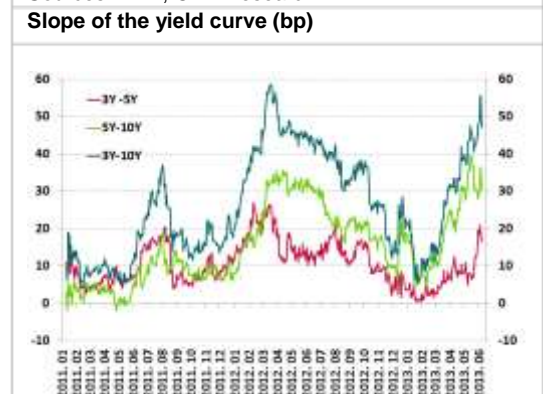
SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	480	↑ 39	↓ -128	
GERROM 5Y	465	↑ 36	↓ -115	
GERROM 10Y	396	↑ 39	↓ -98	
3Y -5Y	17	↓ -3	↑ 13	
5Y -10Y	31	↑ 3	↑ 13	
3Y-10Y	47	↓ 0	↑ 26	
FLY 3-5-10	0	→ 0	→ 0	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	120	↑ 6	↓ -16	
5Y EURO	175	↑ 6	↓ -19	

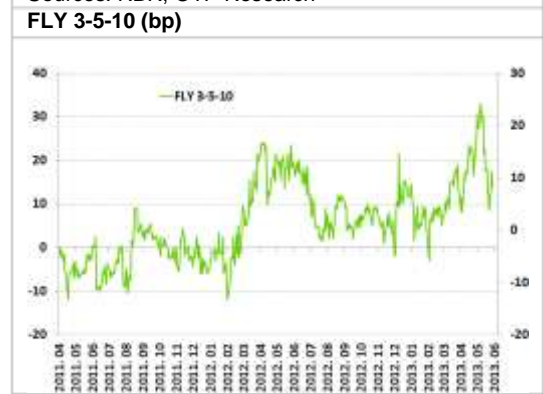
Source: Reuters



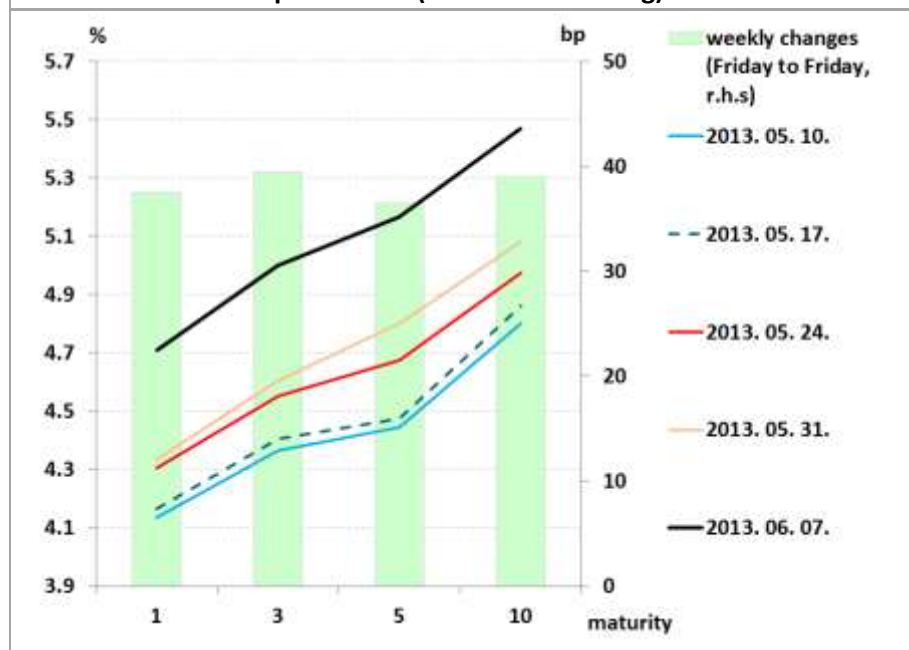
Sources: NBR, OTP Research



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Sources: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)


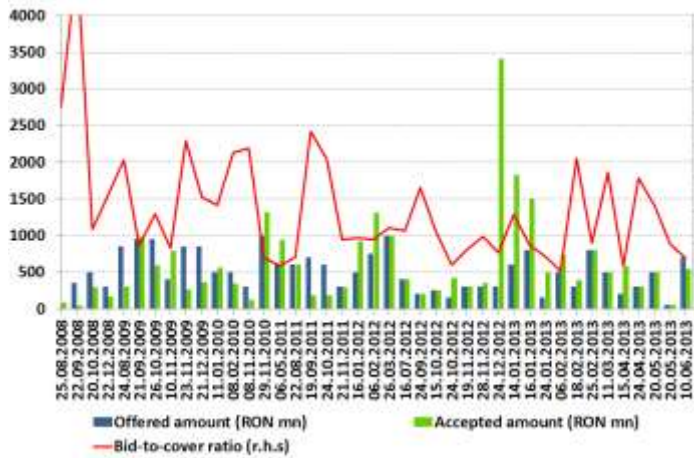
Source: NBR, OTP Research

Bond auctions in June (in RON)

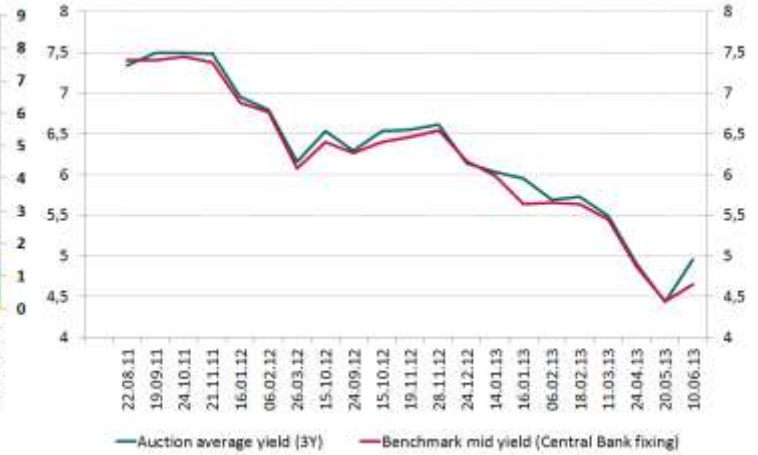
ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1015DBN010	03.06.2013	04.06.2013	05.06.2013	30.04.2015	5	500.000.000	50.000.000
RO1318DBN053	06.06.2013	-	10.06.2013	29.08.2016	3	700.000.000	-
RO1115DBN024	10.06.2013	11.06.2013	12.06.2013	30.04.2016	5	300.000.000	30.000.000
RO1318DBN034	17.06.2013	-	19.06.2013	26.11.2018	5	800.000.000	-
RO1320DBN022	20.06.2013	-	25.06.2013	29.04.2020	7	300.000.000	-
RO1323DBN018	25.06.2013	-	27.06.2013	26.04.2023	10	300.000.000	-

Sources: Ministry of Finance, OTP Research

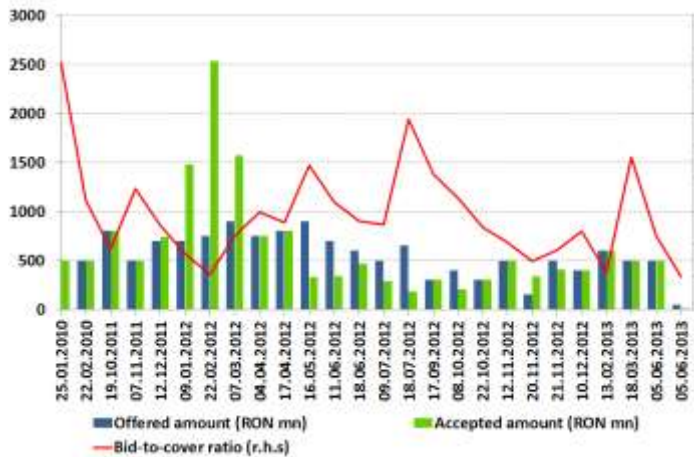
Note: * Supplementary sessions of competitive offers

3Y Auctions data


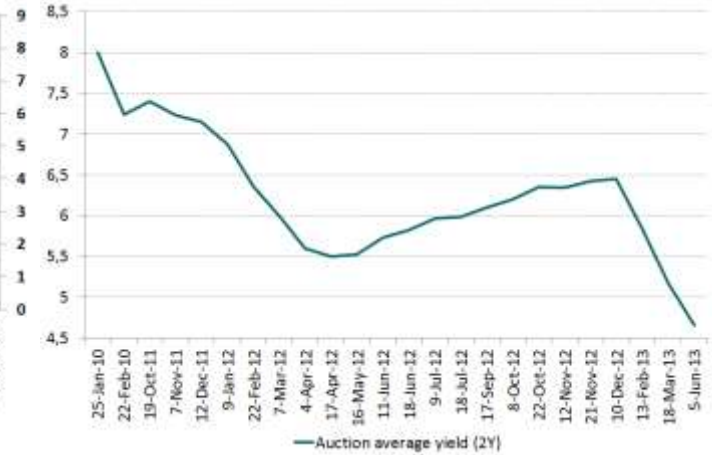
Sources: NBR, OTP Research

3Y Interest rates


Sources: NBR, OTP Research

2Y Auctions data


Sources: NBR, OTP Research

2Y Interest rates


Sources: NBR, OTP Research

Last week's auction results (RON denominated)

	RO1015DBN010	RO1015DBN010*	RO1316DBN053
Offered amount (RON mn)	500	50	700
total bids (RON mn)	1137	6	847
accepted amount (RON mn)	500	6	542
average accepted yield (%)	4,66		4,96
coupon	6,00		4,75

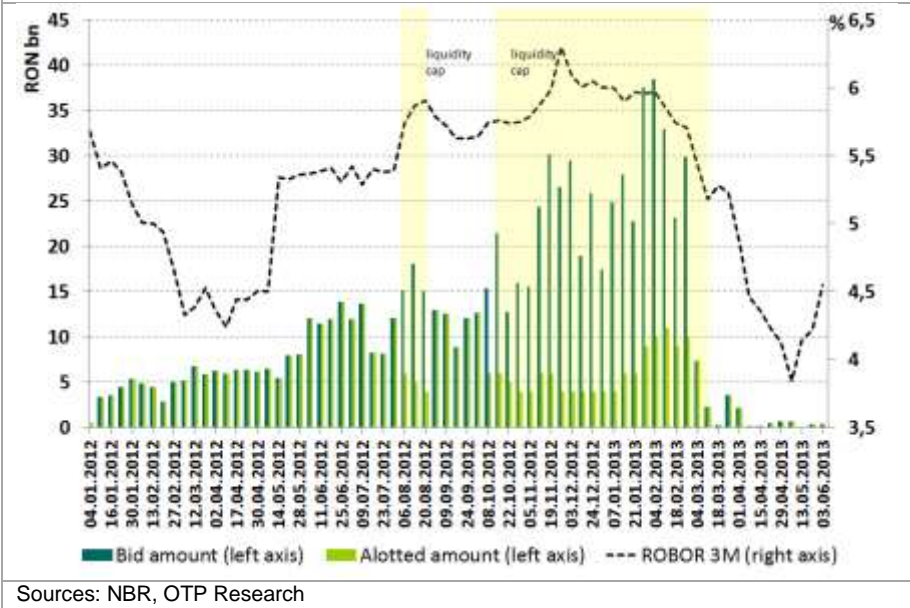
Source: NBR, OTP Research

Note: * Supplementary session of competitive offers

MM: Tighter liquidity prospects in June

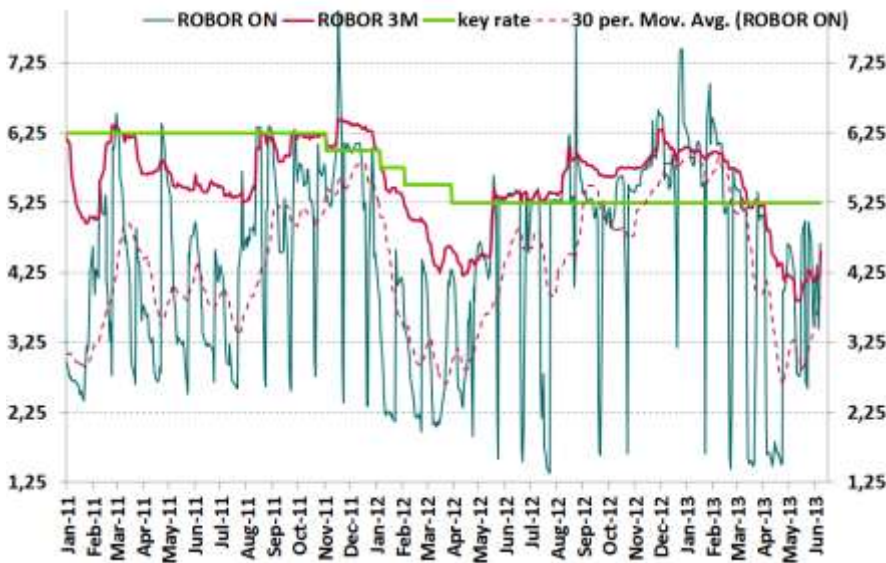
Last week, the Central Bank injected 353 mn RON at the weekly repo operations. According to May's monetary policy's indicators published by NBR, the daily average liquidity injection stood at 493 mn RON and daily average ON deposits placed with NBR were comparable: 441 mn RON. Compared to April, the daily average liquidity injected during the weekly repo operations was lower by 34%. In June, we expect that money market conditions will be negatively influenced by at least 2 factors: the Finance Ministry plans to issue more debt than redemptions, by 1.8 bn RON and also, the Treasury may try to keep an eye on expenditures and the budget deficit, especially since the latest figures are not favourable: the cumulated cash deficit stood at 1.2% during the first 4 months whereas the annual target is 2.2%.

The Central Bank injected 353 mn RON at last week's repo



Sources: NBR, OTP Research

Most important MM instruments' evolution



Sources: NBR, OTP Research

Last data: 7.06.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5.25	0	0
ROBOR ON	4.67	71	-171
ROBOR 3M	4.55	40	-148
ROBOR 6M	4.74	19	-154
ROBOR 9M	4.77	19	-151
ROBOR 1Y	4.77	18	-154

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	353.5	-12.4	- 3,995.3

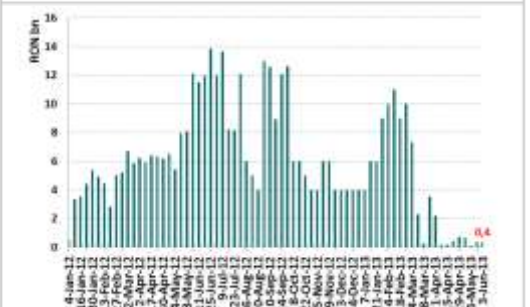
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4,012.7	1061.7	1111.3

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	24	2	-1
USDRON 1M	107	7	-42
USDRON 3M	314	14	67
EURRON 1W	32	5	-8
EURRON 1M	143	15	-2
EURRON 3M	435	52	-75

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-80	0	75
EURRON 3Y	-70	0	85
EURRON 5Y	-70	0	80

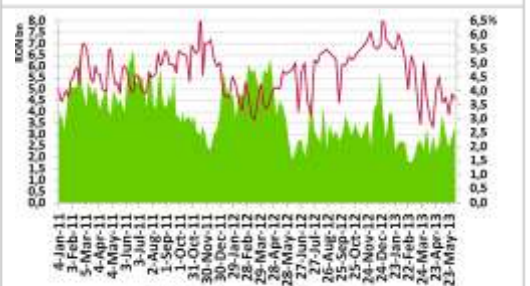
Source: Reuters

Repo operations since 2012



Sources: NBR, OTP Research

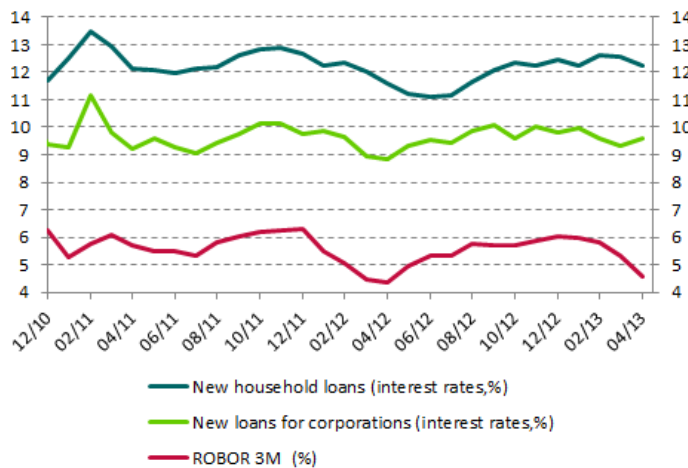
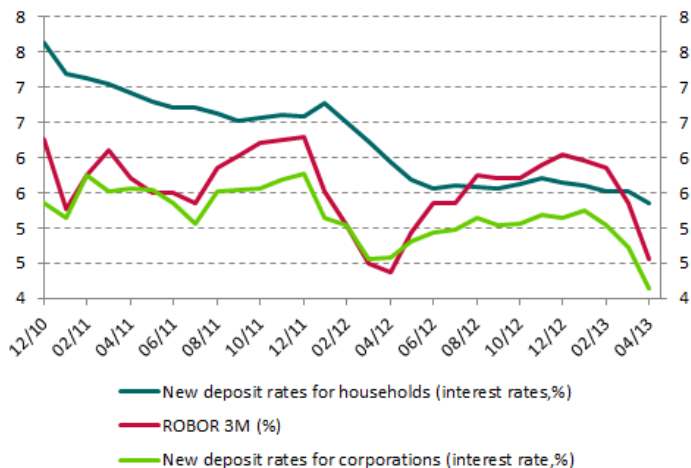
Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

The average interest rate for households deposits stood at 5.4% in April, down 17 bp compared to March

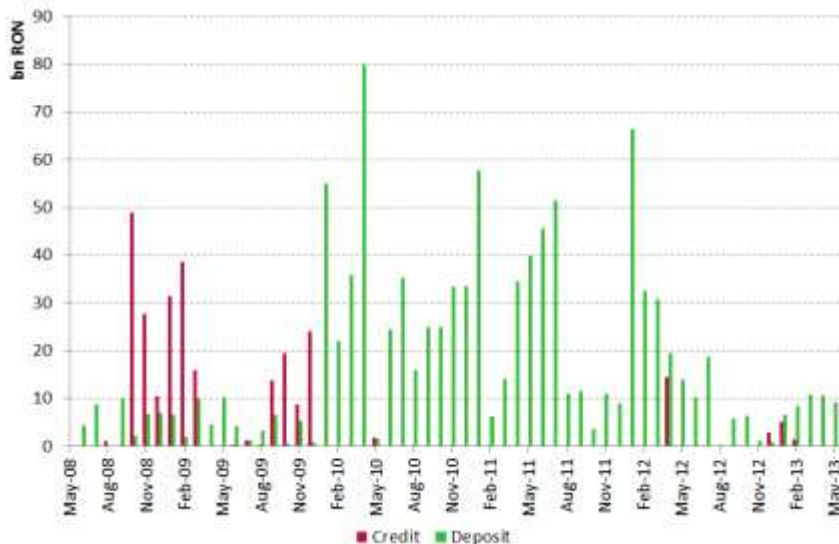
The average households new loans interest rate was 12.2% in April 2013, down 35 bp since March 2013



Sources: NBR, OTP Research

Sources: NBR, OTP Research

ON deposits at the Central Bank dropped marginally in May, despite the increase in interest rate by 1% to 2.25%



Sources: NBR, OTP Research

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