

The Central Bank started the easing cycle

Retail trade down 4.4% YoY in May; unemployment rose to 7.5%

(Page 3-5)

Retail trade sales fell in May by 4.4% YoY and 3% MoM (seasonally adjusted). The decline was driven by lower fuels sales (-13% YoY) and non-food sales (-2.5% YoY) and these are also the monthly drivers as well. The signals given by the retail trade sentiment indicator are positive and we witnessed a sharp improvement in May (11,4) and June (10,5) from an average of 2.5 during the first 4M. Good agricultural results this year will further boost households' income in the period to come but so far, wages and pensions' increase were not strong enough to resume consumption's growth. The (ILO) unemployment rate, which is a lagging indicator, rose constantly this year: from 6.7% in December 2012 to 7.5% in May. Investment in the economy is slow and absorption of Eu funds is weaker on an annual basis, looking at 12M rolling BoP figures (April). However, since April, some EU funds have been unlocked by the European Commission. We expect the unemployment rate to start easing in H2 2013.

FX markets: Quiet week for the leu (Page 6)

The policy meeting held by the Central Bank was overshadowed by another key macroeconomic data during this week: the US non farm payrolls report released on Friday, which would help investors assess Fed's next policy action. It was a rather quiet week for the leu, with no auction held by the Treasury as the debt issuance calendar arrived rather late. On Friday, by the end of the local trading session the EUR/RON was already trading higher, around the 4.45 following the news of much better than expected US jobs data. Therefore, we are looking now at easing RON interest rates prospects for the months to come, whereas chances that Fed starts tapering liquidity are higher, which would likely hurt emerging market currencies such as the leu, at least in the short term. On another note, the government announced its intentions to negotiate a new similar deal with the IMF: precautionary and with a 2Y maturity.

Government securities: Bond yields down 20-26 bp (Page 7)

The yield curve shifted down this week, as pressure from international markets eased: this can be seen in the 10 bp decline of the 5Y CDS (euro contracts) as well. Bond yields corrected the previous spikes and went down 20-26 bp this week. The CB proceeded with the expected base rate cut and we expect at least one 25 bp cut to follow this year. With delay, the MoF announced it plans to sell 1.7 bn RON and 150 mn EUR of debt in July. We are looking at a negative net issuance as redemptions stand at 3.8 bn RON. Under the agreement with the IMF, the guidance has been that the Treasury holds a 4M liquidity buffer and for the moment the buffer is in place.

MM: The repo auction saw a record high since 1st of April (Page 8-9)

The Central Bank injected 1.8 bn RON at the weekly repo to 8 banks, higher than the weekly average of 0.4 bn RON in May and June. In these two months, 2-3 banks went to the weekly auctions. After this larger amount was injected, money market rates started easing and ROBOR ON gradually fell from 5.6% last Friday to 5% this week. The CB cut the interest rate by 25 bp as expected, thereby starting the announced base rate cut cycle. The next monetary policy meeting is on 5th August, accompanied by a new inflation report. Again, the market expects another rate cut at that session. Looking at the daily deposits placed with the ON facility in June, compared with daily average repo, the liquidity easing looks more robust than in May.

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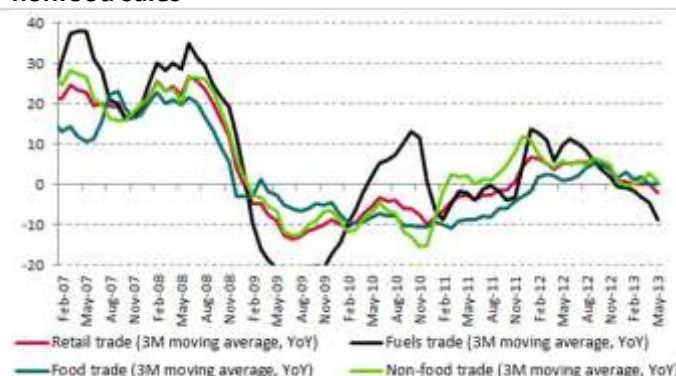
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Macroeconomics: Retail trade down 4.4% YoY in May; unemployment rose to 7.5%

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
01 Jul	May	ILO unemployment (seasonally adjusted, %)	7,5		7,3
01 Jul	July	Base rate decision (%)	5,0	5,0	5,25
02 Jul	May	Retail trade turnover index (y-o-y, %)	-4,4		2,8
02 Jul	May	Producer Price Index (y-o-y, %)	2,6		3,0
05 Jul	May	Net wage growth rate (y-o-y, %)	5,3		7,0
05 Jul	May	Industrial trade turnover index (y-o-y, %)	-1,6		13,0
05 Jul	May	Index value of new orders in manufacturing (y-o-y, %)	6,2		31,2
08 Jul	May	Licenses for residential buildings (y-o-y, %)			-22,1
10 Jul	May	Exports (y-o-y, %)			15,5
10 Jul	May	Imports (y-o-y, %)			5,0
10 Jul	June	Consumer price index (y-o-y, %)			5,3
12 Jul	May	CA balance (EUR mn, YTD)			54,0

Retail trade sales fell in May by 4.4% YoY and 3% MoM (seasonally adjusted). The decline was driven by lower fuels sales (-13% YoY) and non-food sales (-2.5% YoY) and these are also the monthly drivers as well. Based on the seasonally adjusted data, during the first 5M, households cut off fuels consumption by more than 5% compared to last year's average, even if fuels' price declined (by 1.5% during Dec 12- May 13). By comparison, non-foods sales were healthier (+3.5%) and food sales only marginally improved, but they did not manage to compensate the effect of lower fuels' consumption. The signals given by the retail trade sentiment indicator are positive and we witnessed a sharp improvement in May (11,4) and June (10,5) from an average of 2.5 during the first 4M. Good agricultural results this year will further boost households' income in the period to come but so far, wages and pensions' increase were not strong enough to resume consumption's growth.

The (ILO) unemployment rate, which is a lagging indicator, rose constantly this year: from 6.7% in December 2012 to 7.5% in May, but so far, revisions of the seasonally adjusted data were significant so we should look at this data with care. For the moment, the number of employees in industry is expected to drop according the NBR's June survey. Investment in the economy is slow and absorption of European funds is weaker on an annual basis, looking at 12M rolling balance of payments figures (April). However, since April some European funds have been unlocked by the European Commission: the Regional Operational Program at the end of April and Sectoral Operational Program Transport at the end of June. We expect the unemployment rate to start easing in H2 2013.

Retail sales dropped 4.4% YoY in May due to fuels and nonfood sales


Source: NIS, OTP Research

The ILO unemployment rate rose constantly this year


Source: NIS, OTP Research

Industrial producer prices advanced by 2.6% YoY in May, down from 3% YoY in April. For the second consecutive month, prices on external markets dropped (-1.8% YoY) while on the domestic market inflation remained the same: +4.9% YoY.

Industrial sales were much weaker in May: -1.6% YoY compared to the significant 13% YoY hike in April. The industrial sentiment indicator for June looks improved compared to May. New industrial orders continued to advance (+6.2% YoY), but they too had weaker dynamics than in April (+31.2% YoY).

Producer prices dynamics (+2.6% YoY) trending down as prices on external markets fell on an annual basis



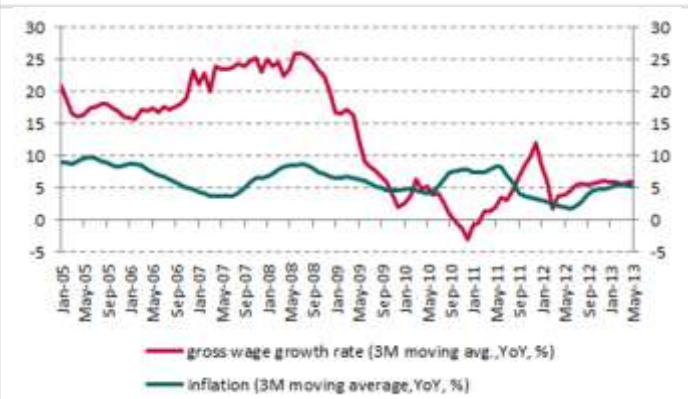
Source: NIS, OTP Research

Industrial sales fell by 1.6% YoY in May; New orders still up (+6.2% YoY)



Source: NIS, OTP Research

Gross wages rose by 5.5% YoY in May; the real wage fell 3.2% MoM



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: Quiet week for the leu

EUR/RON hovered around 4.44 until Friday and volatility was low during the local sessions. It was a rather quiet week for the leu, with no auction held by the Treasury as the debt issuance calendar arrived rather late. The policy meeting held by the Central Bank was overshadowed by another key macroeconomic data during this week: the US non farm payrolls report released on Friday which would help investors assess Fed's next policy action. On Friday, by the end of the local trading session the EUR/RON was already trading higher, around the 4.45 following the news of much better than expected US jobs data. Therefore, we are looking now at easing RON interest rates prospects for the months to come, whereas chances that Fed starts tapering liquidity are higher, which would likely hurt emerging market currencies such as the leu, at least in the short term.

On a more cheering note, Christine Lagarde will visit Romania between 15-16th July. The Romanian government made public its intentions to negotiate a new agreement with the IMF, with the same main characteristics as the previous one: 2 years maturity and precautionary. Given the recent events in Portugal and the fact that the debt crisis has not been put to rest yet, accompanied by the ECB comments that it will maintain the current stimulus "for an extended period" because the economy is still fragile, we think a new agreement is a plus for Romania at the moment.

Last data: 4.07.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,43	↓	-0,45	↓ -0,23
USDRON	3,43	↑	0,47	↑ 1,97
CHFRON	3,59	↓	-0,80	↓ -2,46
RONJPY	3,43	↓	-1,23	↓ -11,56
RONPLN	1,04	↑	0,60	↓ -4,65
100HUFRON	1,51	↑	0,30	↓ -0,90
RONCZK	0,17	↑	0,35	↓ -3,17
RONRUB	0,10	↓	-0,74	↓ -6,20
RONRSD	0,04	↓	-0,50	↓ -1,90
RONBGN	2,27	↓	-0,21	↓ -0,21

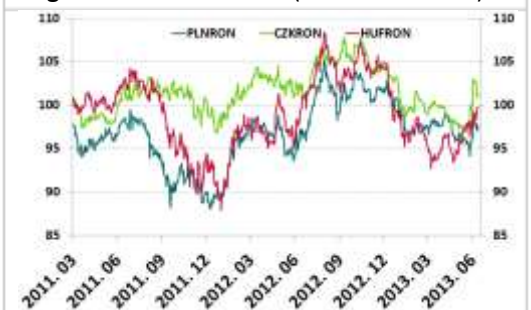
Source: Reuters

Major RON FX rates (03.01.2011=100)



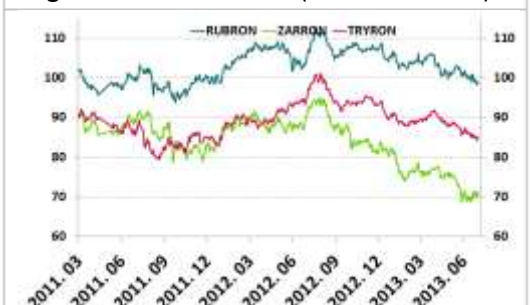
Sources: Reuters, OTP Research

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 was led by the international markets and the improvement in risk perception



Sources: Reuters, OTP Research

Government securities: Bond yields down 20-26 bp

The yield curve shifted down this week, as pressure from international markets eased relative to last week: this can be seen in the 10 bp decline of the 5Y CDS (euro contracts) as well. Bond yields corrected the previous spikes and went **down 20-26 bp this week**. **The Central Bank proceeded with the expected base rate cut: this means the base rate cut cycle has begun and we expect at least one 25 bp cut to follow this year.**

With delay, the Finance Ministry announced it plans to sell 1.7 bn RON and 150 mn EUR in government securities this month. Also, supplementary sessions will be held for competitive offers. It means we are looking at a negative net issuance as redemptions stand at 3.8 bn RON. Under the agreement with the IMF, the guidance has been that the Treasury holds a 4M liquidity buffer and for the moment the buffer is in place.

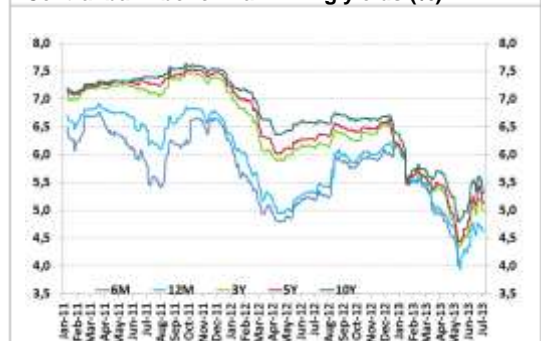
Last data: 4.07.2013

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	4,48	↓ -11	↓ -171	
12M	4,63	↓ -8	↓ -154	
3Y	4,99	↓ -20	↓ -118	
5Y	5,15	↓ -24	↓ -105	
10Y	5,32	↓ -26	↓ -106	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	466	↓ -20	↓ -142	
GERROM 5Y	441	↓ -24	↓ -139	
GERROM 10Y	359	↓ -26	↓ -135	
3Y-5Y	17	↓ -5	↑ 13	
5Y-10Y	17	↓ -2	↓ -1	
3Y-10Y	34	↓ -6	↑ 12	
FLY 3-5-10	0	↑ 3	↓ -14	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	139	↓ -10	↑ 4	
5Y EURO	194	↓ -10	↑ 0	

Source: Reuters

Central bank benchmark fixing yields (%)


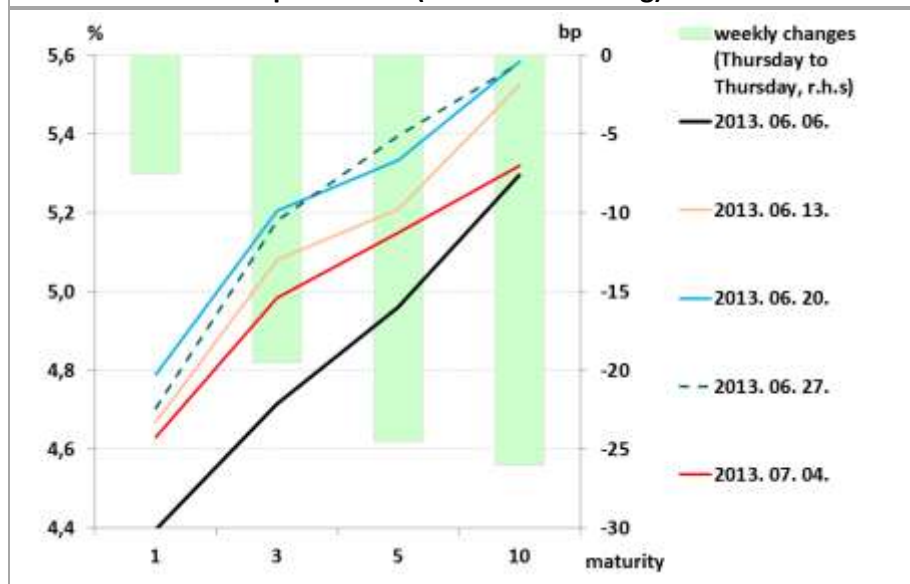
Sources: NBR, OTP Research

Slope of the yield curve (bp)


Sources: NBR, OTP Research

FLY 3-5-10 (bp)


Sources: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)


Source: NBR, OTP Research

T- bills auctions in June (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN0A5	15.07.2013	17.07.2013	15.01.2014	6	300.000.000

Sources: Ministry of Finance, OTP Research

Bond auctions in June (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1015DBN010	08.07.2013	09.07.2013	10.07.2013	30.04.2015	5	6	300.000.000	30.000.000
RO1116DBN024	11.07.2013	-	15.07.2013	30.04.2016	5	6	500.000.000	-
RO1214DBN027	22.07.2013	23.07.2013	24.07.2013	23.04.2014	2	5,95	300.000.000	30.000.000
RO1318DBN034	25.07.2013	-	29.07.2013	26.11.2018	5	5,8	300.000.000	-

Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

Bond auctions in June (in EUR)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Coupon	Indicative target amount (EUR)
RO1316DBE011	18.07.2013	22.07.2013	26.02.2016	3	3,25	150.000.000

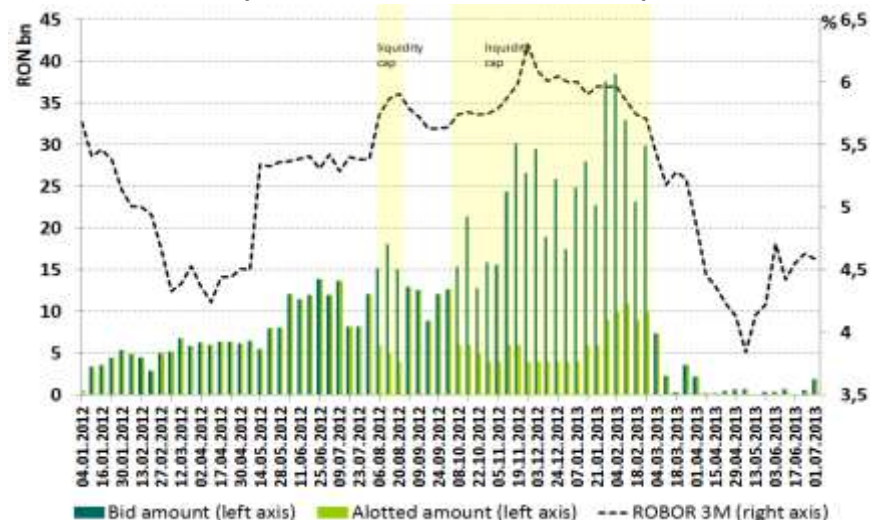
Sources: Ministry of Finance, OTP Research

MM: The repo auction saw a record high since 1st of April

The Central Bank injected 1.8 bn RON at the weekly repo to 8 banks, higher than the weekly average of 0.4 bn RON in May and June. In these two months, 2-3 banks went to the weekly auctions. After the larger amount was released, money market rates started easing and ROBOR ON gradually fell from 5.6% last Friday to 5% this week. As it looks, there will be a negative net issuance of government debt this month which is supportive for RON liquidity. Looking at the daily deposits placed with the ON facility in June, compared with daily average repo, the liquidity easing looks more robust than in May.

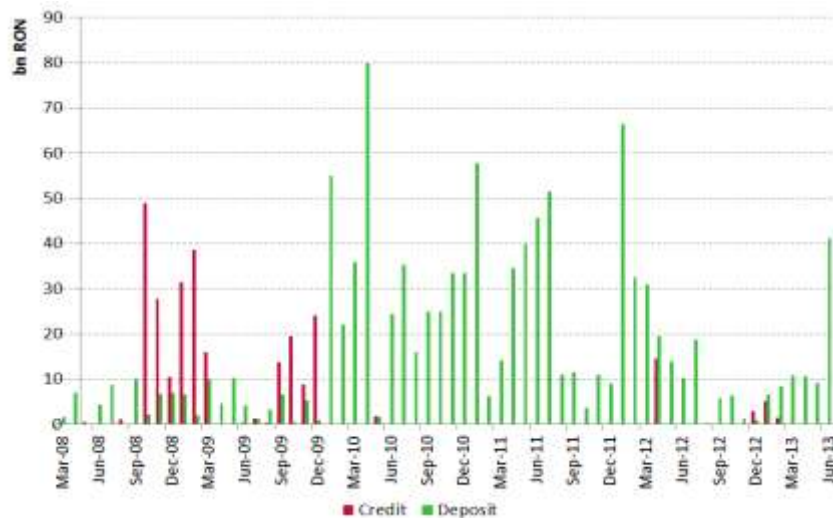
The Central Bank cut the interest rate by 25 bp as expected, thereby starting the announced base rate cut cycle. The next monetary policy meeting is on 5th August, accompanied by a new inflation report. Again, the market expects another rate cut at that session. NBR has lagged behind its peer central banks in what concerns the easing and money market rates have been lower than the base rate for quite a while. Luckily, this year has been clear of domestic political turmoil and signs from agriculture are optimistic as well.

The Central Bank injected 1.8 bn RON this week's repo



Sources: NBR, OTP Research

On deposits placed with the Central Bank rose significantly in June



Sources: NBR, OTP Research

Last data: 4.07.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,00	↓ 25	↓ -25
ROBOR ON	5,05	↑ 21	↓ -133
ROBOR 3M	4,59	↑ 2	↓ -144
ROBOR 6M	4,81	↓ -1	↓ -147
ROBOR 9M	4,81	↓ -1	↓ -147
ROBOR 1Y	4,80	↓ -2	↓ -151

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	1 840,5	1 263,2	- 2 154,8

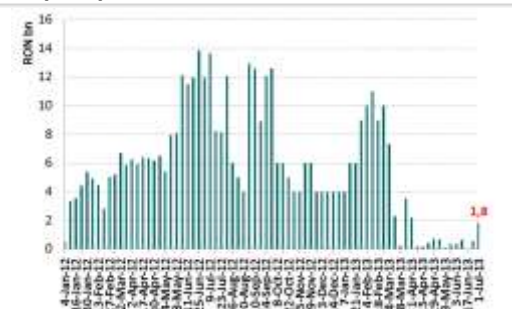
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2 319,3	-1813,3	-582,1

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	30	↑ 1	↑ 6
USDRON 1M	121	↑ 1	↓ -28
USDRON 3M	343	↓ -9	↑ 96
EURRON 1W	39	↑ 2	↓ -2
EURRON 1M	154	↓ -1	↑ 9
EURRON 3M	450	↓ -3	↓ -61

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



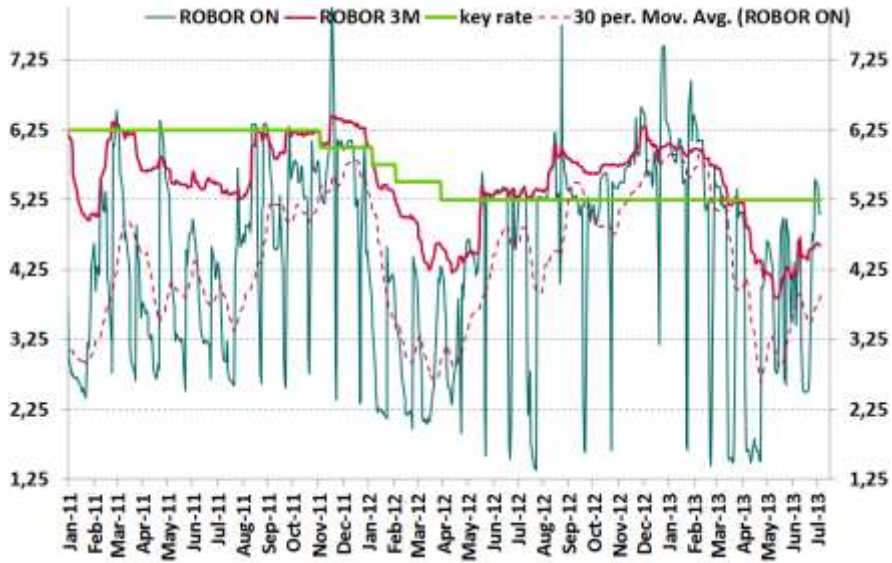
Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

Most important MM instruments' evolution



Sources: NBR, OTP Research

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