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# Weekly Report

## Romania

12 July 2013



## The Treasury resumes debt sales

### Macro: After a strong month in April, industry falls by 2.1% YoY in May; constructions continue to suffer (-8.9% YoY) (Page 3-5)

This week's macro data releases give almost a full picture for May which was a weak month: after we saw retail sales falling by 4.4% YoY in May, we add that industrial production dropped by 2.1% YoY and constructions declined significantly: -8.9% YoY. Industrial production dynamics entered in the negative territory for the first time since September 2012: manufacturing output was down by 0.9% YoY and what recorded the biggest correction was energy production (-16.2% YoY). Exports remained nearly flat in May (+0.1% YoY) while imports drowned (-10.5% YoY) signalling that internal demand remained weak. The current account surplus during the first 5M was strong (314 mn EUR) and it was driven by large correction of the trade gap. Foreign direct investment remains subdued: 414 mn EUR (- 37% YoY).

### FX markets: The leu lifted by Bernanke's dovish tone (Page 6)

Earlier this week, Ben Bernanke announced that Fed's monetary policy would remain accommodative for now and that the unemployment rate "overstates the health of the labor markets". Therefore, markets reacted by taking more risk and we saw emerging market currencies firming to the euro. We look ahead for the announced listing of 10% stake in the nuclear power producer Nuclearelectrica which is expected in the Mid of July. In June, the energy minister announced that the state expects to raise up to 350 mn RON from this deal. We recall that the latest listing (Transgaz SPO at the end of April 2013) attracted a large interest from foreign institutional investors so the current deal (Nuclearelectrica's IPO) should be supportive for the leu to some extent.

### Government securities: Good demand for bonds on the primary market (Page 7)

The Treasury managed to successfully sell 800 mn RON during the 2 auctions held. After 2 previous failed auctions, demand for the 2 and 3Y bonds sold this week was strong. The Treasury sold 300 mn RON in bonds with a residual maturity of 2Y and an average accepted yield of 4.79%. The second auction for bonds with 3Y residual maturity saw healthy demand too: bid to cover ratio was 4.44 and the average accepted yield (4.74%) dropped by 33 bp compared to the previous similar auction in Mid June. Next week, the Treasury scheduled an auction for 3Y euro denominated bonds with a planned amount of 150 mn EUR and 300 mn RON in 6M bills.

### MM: Money market rates continued to ease (Page 8-9)

After another relatively high liquidity injection at the weekly repo on Monday, money market rates eased and ROBOR ON lost 120 bp on a weekly basis. The Central Bank injected 1.6 bn RON to 6 banks, a little less than the previous week (1.8 bn RON to 8 banks). Considering that we are approaching the end of the maintenance period for the required reserves (23rd of the month), we should continue to see good liquidity conditions. Also, debt securities redemption of 3.8 bn RON will happen after the reserves period ends.

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**Macroeconomics: After a strong month in April, industry falls by 2.1% YoY in May; constructions continue to suffer (-8.9% YoY)**

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
08 Jul	May	Construction works index (y-o-y, %)	-8,9		-11,1
10 Jul	May	Exports (y-o-y, %)	0,1		15,5
10 Jul	May	Imports (y-o-y, %)	-10,5		5,0
10 Jul	June	Consumer price index (y-o-y, %)	5,4		5,3
10 Jul	May	Industrial Production Index (y-o-y, %)	-2,1		19,9
12 Jul	May	CA balance (EUR mn, YTD)	314,0		54,0
23 Jul	June	Non -governmental loans (y-o-y, %)			-2,4
23 Jul	June	Non -governmental deposits (y-o-y, %)			4,4
23 Jul	June	M3 aggregate (y-o-y, %)			2,5

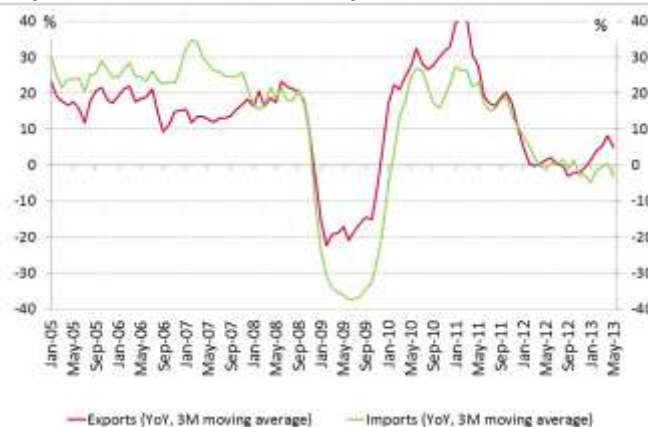
This week's macro data releases give almost a full picture for **May which was a weak month**: after we saw retail sales falling by 4.4% YoY in May, we add that industrial production dropped by 2.1% YoY and constructions declined significantly: -8.9% YoY. Also, foreign trade data points to weak internal demand as well.

**Industrial production dynamics entered in the negative territory for the first time since September 2012**: manufacturing output was down by 0.9% YoY and what recorded the **biggest correction was energy production** (-16.2% YoY). In the month, contraction stood at 10.7% MoM which is still significant even if it comes after an extraordinary month in April. Given that the confidence in industry was relatively improved in June, current data points to a positive contribution to GDP growth in Q2.

**Exports remained nearly flat in May (+0.1% YoY) while imports drowned (-10.5% YoY)** signalling that **internal demand remained weak**. If we add industrial sales data to this picture, we see that while exports are heading up this year, domestic sales are on a downtrend. In the case of exports, we witnessed a weaker demand from the EU in May (-1.1% YoY), unlike in April when they skyrocketed (+20% YoY). Extra EU exports had a small advance (+2.7% YoY).

**Industrial production was slow in May especially due to the energy production activity**


Source: NIS, OTP Research

**Foreign trade activity weakened in May; lower imports (-10.5% YoY) hint at poor domestic demand**


Source: NIS, OTP Research

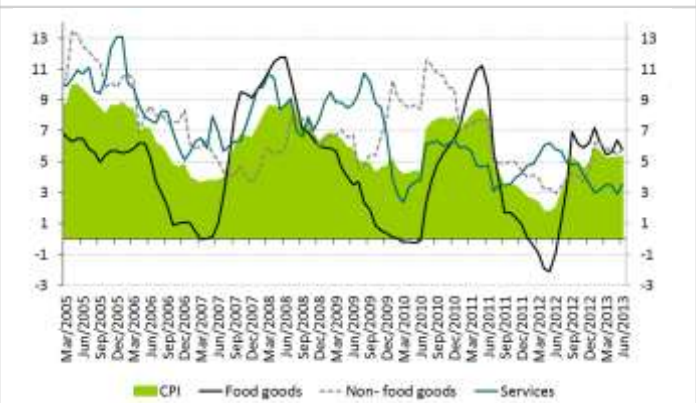
Note: growth rates calculated based on euro denominated amounts

**Inflation came at 5.4% YoY in June, lower than analysts' expectations of 5.5% YoY** (Reuters poll). It looks like in the month, the highest increases were felt in the case of fruits (+2.4% MoM), especially imported fruits, air transport (+3.2% MoM), phone services (+3.2% MoM). Therefore, leu's depreciation of 3.2% MoM to the euro in June had some impact on headline inflation. Also, all measures of core inflation saw hikes and Core 2 adjusted inflation, which is always cited in press releases of monetary policy decisions, rose to 2.9% YoY from previous 2.7% YoY. This was the first hike this year and the Central Bank was expecting 2.6% YoY in June.

**Constructions look poised to have a bad second quarter:** in Q1, the annual evolution had been positive non-residential constructions and especially for residential ones but Q2 data is deeply negative in all cases. Infrastructure works, which have supported this sector in 2012 are now significantly weaker: the average annual growth rate for civil engineering index is -9.6% YoY during the first 5M.

**The current account surplus during the first 5M was strong:** 314 mn EUR against a deficit of 2.3 bn EUR in the similar period last year. The main impact came from the **shrinking trade gap** (by 1471 mn EUR) as imports' pace lagged behind exports due to the weak internal demand. Foreign direct investment remains subdued: 414 mn EUR (-37% YoY).

June inflation stood at 5.4% YoY



Source: NIS, OTP Research

**Constructions activity is still dragged down by fewer infrastructure works compared to last year**



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 lifted by Bernanke’s dovish tone**

Despite the fact that US jobs data came out better than expected and was initially thought to be a sign that the Fed would start cutting back on stimulus, this was contradicted earlier this week by Ben Bernanke: he said that Fed’s monetary policy would remain accomodative for now and that the unemployment rate “overstates the health of the labor markets”. Therefore, markets reacted by taking more risk and we saw emerging market currencies firming to the euro.

We look ahead for the announced listing of 10% stake in the nuclear power producer Nuclearelectrica which is expected in the Mid of July. In June, the energy minister announced that the state expects to raise up to 350 mn RON from this deal. We recall that the latest listing ( Transgaz SPO at the end of April 2013) attracted a large interest from foreign institutional investors so the current deal (Nuclearelectrica’s IPO) should be supportive for the leu to some extent.

Last data: 11.07.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,42	↓	-0,41	↓ -0,63
USDRON	3,37	↓	-1,76	↑ 0,18
CHFRON	3,56	↓	-0,64	↓ -3,09
RONJPY	3,41	↓	-0,54	↓ -12,03
RONPLN	1,02	↓	-1,24	↓ -5,84
100HUFRON	1,51	↑	0,04	↓ -0,86
RONCZK	0,17	↓	-0,64	↓ -3,79
RONRUB	0,10	↑	0,45	↓ -5,77
RONRSD	0,04	↑	0,04	↓ -1,85
RONBGN	2,26	↓	-0,21	↓ -0,42

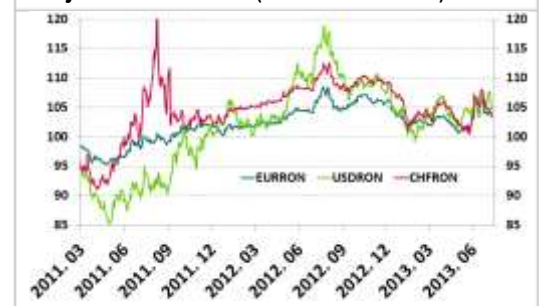
Source: Reuters

**The leu was led by the international markets and the improvement in risk perception**



Sources: Reuters, OTP Research

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



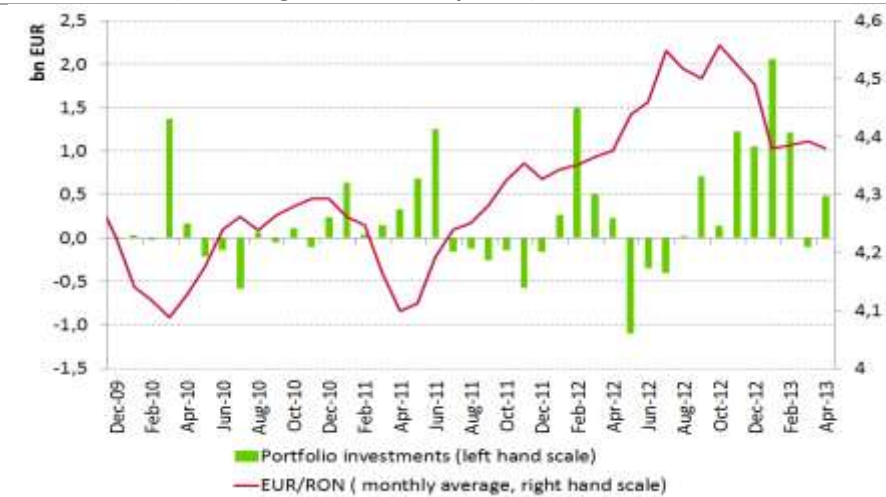
Sources: Reuters, OTP Research

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



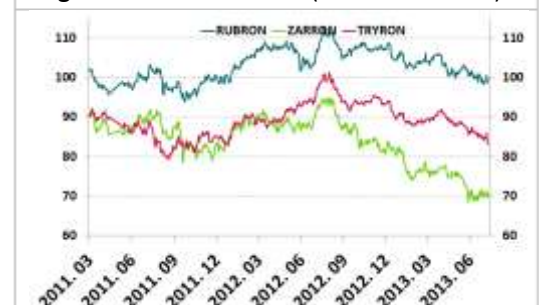
Sources: Reuters, OTP Research

**The leu was supported by several months of net inflows of portfolio investments (including bonds and equities)**



Sources: NBR, OTP Research

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



Sources: Reuters, OTP Research

## Government securities: Good demand for bonds on the primary market

The yield curve shifted down this week as well and yields retreated between 9-14 bp in line with a the decline in money market rates and especially due to improved risk perception towards the region. The Treasury managed to successfully sell 800 mn RON during the 2 auctions held. After 2 previous failed auctions, demand for the 2 and 3Y bonds sold this week was strong. The Treasury sold 300 mn RON in bonds with a residual maturity of 2Y and an average accepted yield of 4.79%. The second auction for bonds with 3Y residual maturity saw healthy demand too: bid to cover ratio was 4.4 and the average accepted yield (4.74%) dropped by 33 bp compared to the previous similar auction in Mid june.

On the secondary market, yields are still far from May's low: In May, the 6M T bills yield touched a minimum at 3.86% (mid) during the NBR's fixing while the 10Y bonds stood at 4.8%. On 5<sup>th</sup> August, the market expects another base rate cut of 25 bp.

Next week, the Treasury scheduled an auction for 3Y euro denominated bonds with a planned amount of 150 mn EUR and 300 mn RON in 6M bills.

Last data: 11.07.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	4,38	↓ -9	↓ -180
12M	4,53	↓ -11	↓ -164
3Y	4,90	↓ -9	↓ -127
5Y	5,02	↓ -14	↓ -119
10Y	5,21	↓ -12	↓ -118

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	461	↓ -9	↓ -147
GERROM 5Y	434	↓ -14	↓ -145
GERROM 10Y	354	↓ -12	↓ -140
3Y -5Y	12	↓ -5	↑ 9
5Y -10Y	19	↑ 2	↑ 1
3Y-10Y	31	↓ -3	↑ 10
FLY 3-5-10	7	↑ 7	↓ -7

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	139	↑ 3	↑ 4
5Y EURO	194	↑ 2	↓ 0

Source: Reuters

### Central bank benchmark fixing yields (%)



Sources: NBR, OTP Research

### Slope of the yield curve (bp)



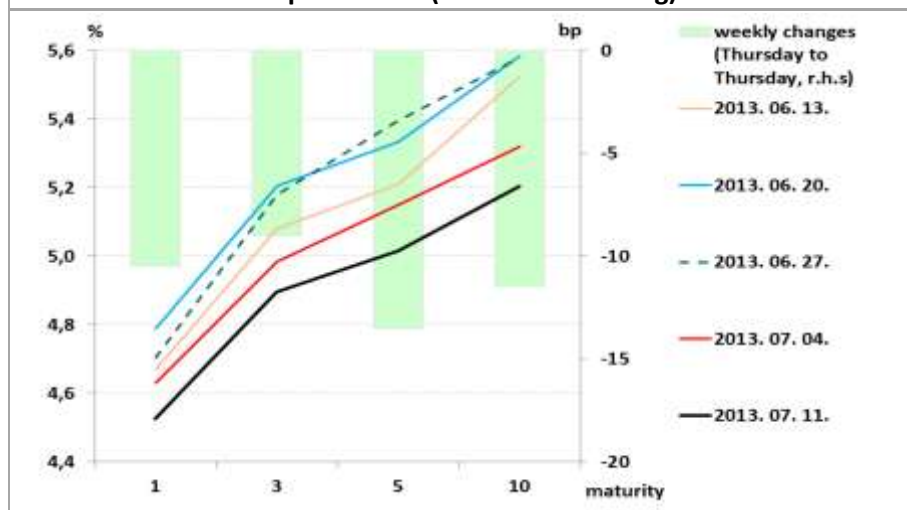
Sources: NBR, OTP Research

### 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
RO1118DBN024	11.07.2013	-	15.07.2013	30.04.2018	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	-	28.07.2013	26.11.2018	5	5,6	300.000.000	-

Sources: Ministry of Finance, OTP Research

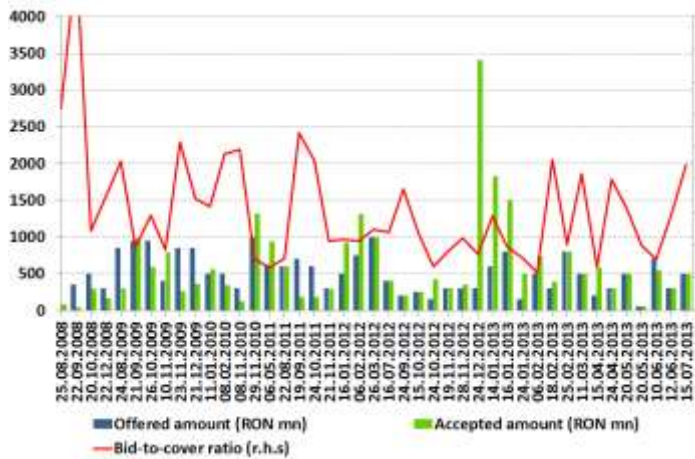
Note:\* Supplementary sessions of competitive offers

### Bond auctions in June (in EUR)

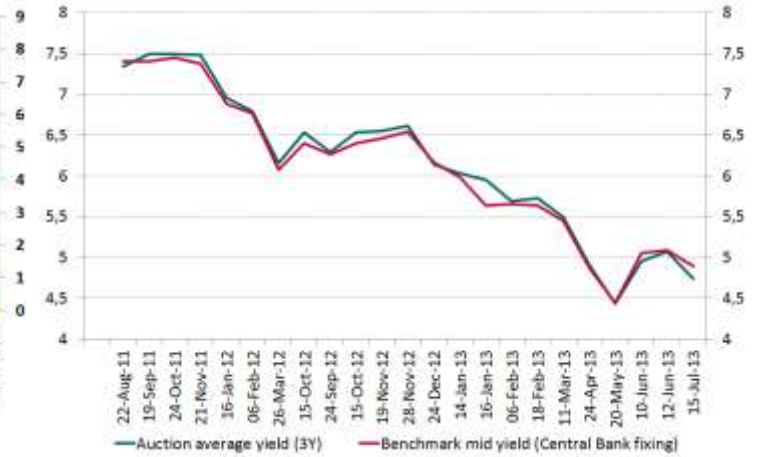
ISIN	Auction date	SSON auction date	Settlement date	Maturity	Coupon	Indicative target amount (EUR)
RO1316DBE011	18.07.2013	22.07.2013	26.02.2016	3	3,25	150.000.000

Sources: Ministry of Finance, OTP Research

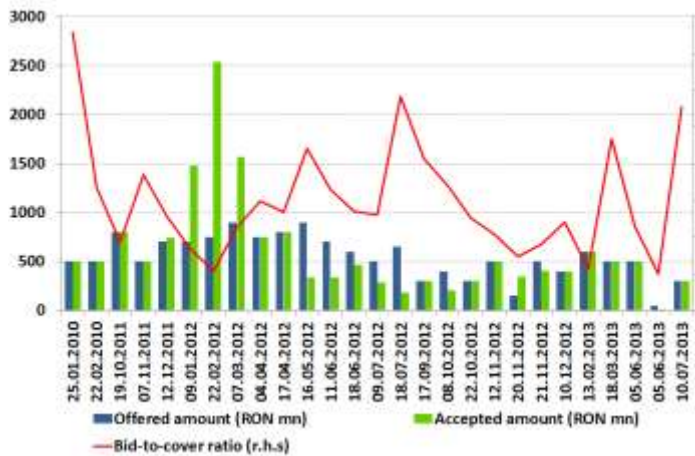


**3Y Auctions data**


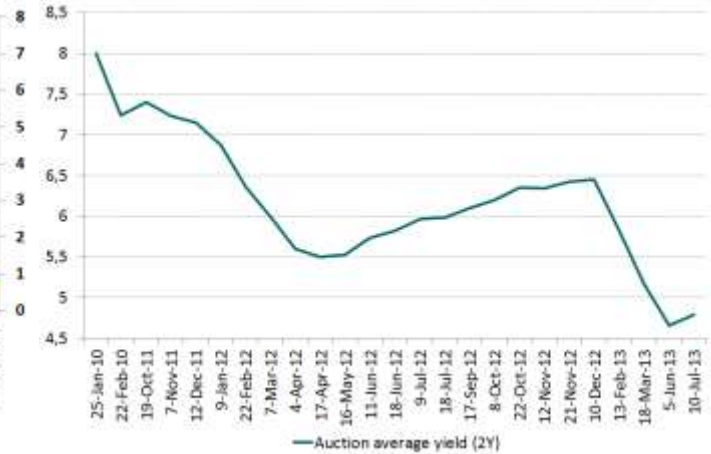
Sources: NBR, OTP Research

**3Y Interest rates**


Sources: NBR, OTP Research

**2Y Auctions data**


Sources: NBR, OTP Research

**2Y Interest rate**


Sources: NBR, OTP Research

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

	RO1015DBN010	RO1116DBN024
Offered amount (RON mn)	300	500
total bids (RON mn)	1664	2225
accepted amount (RON mn)	300	500
average accepted yield (%)	4,79	4,74
coupon	6,00	6,00

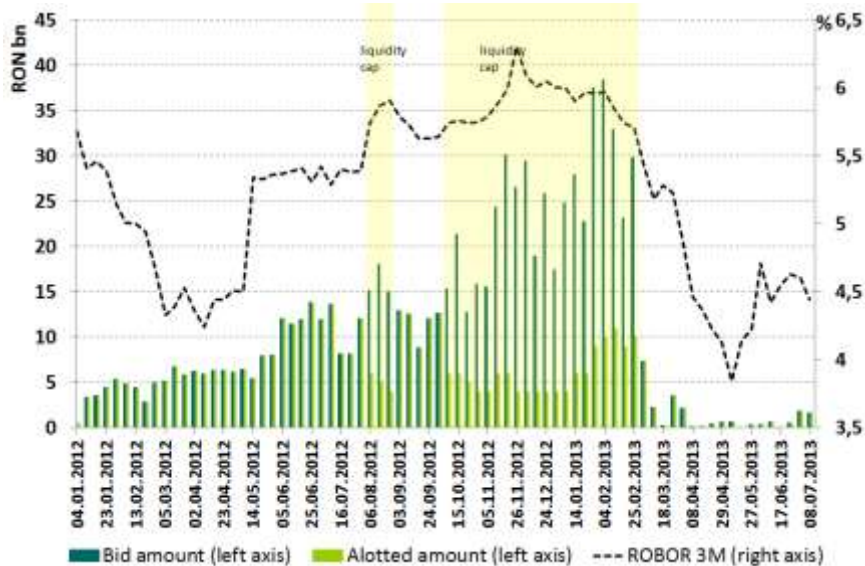
Source: NBR, OTP Research



## MM: Money market rates continued to ease

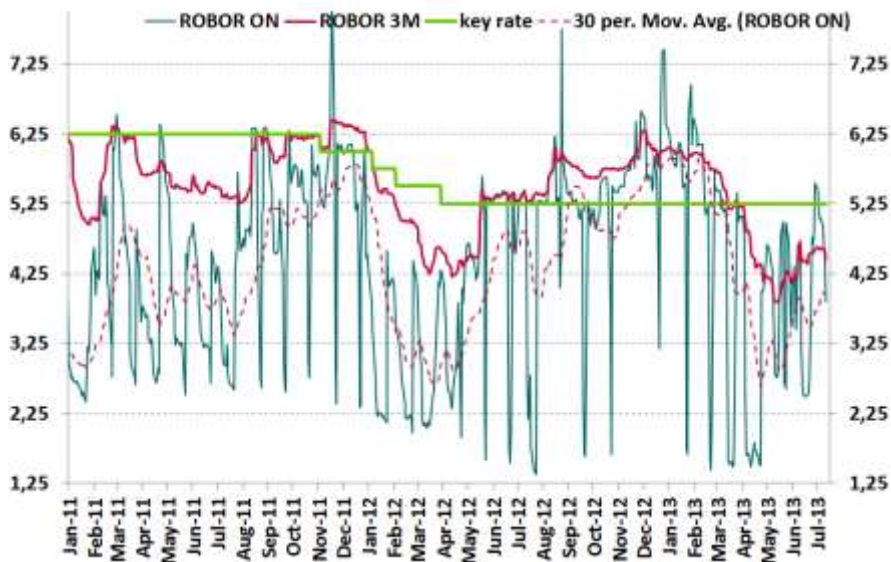
After another relatively high liquidity injection at the weekly repo on Monday, money market rates eased and ROBOR ON lost 120 bp on a weekly basis. The Central Bank injected 1.6 bn RON to 6 banks, a little less than the previous week (1.8 bn RON to 8 banks). Considering that we are approaching the end of the maintenance period for the required reserves (23<sup>rd</sup> of the month), we should continue to see good liquidity conditions. Also, debt securities redemption of 3.8 bn RON will happen after the reserves period ends.

### The Central Bank injected 1.6 bn RON this week's repo



Sources: NBR, OTP Research

### Most important MM instruments' evolution



Sources: NBR, OTP Research

Last data: 11.07.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,00	0	-25
ROBOR ON	3,85	-120	-253
ROBOR 3M	4,44	-15	-159
ROBOR 6M	4,70	-11	-158
ROBOR 9M	4,72	-9	-156
ROBOR 1Y	4,72	-8	-159

REPO			
	Value (bn RON)	Wly chg. (bn RON)	YTD chg. (bn RON)
repo amount	1 625,1	-215,4	- 2 370,2

INTERBANK DEPOSITS			
	Value (bn RON)	Wly chg. (bn RON)	YTD chg. (bn RON)
outstanding	2 958,0	638,7	56,6

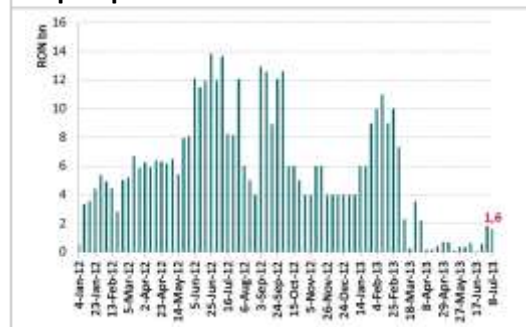
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	22	-8	-2
USDRON 1M	107	-15	-43
USDRON 3M	282	-61	35
EURRON 1W	28	-11	-13
EURRON 1M	135	-19	-10
EURRON 3M	405	-45	-106

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

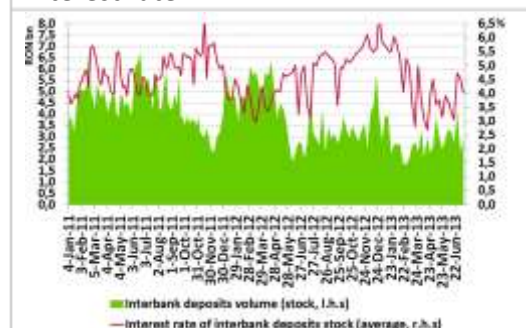
Source: Reuters

### Repo operations since 2012



Sources: NBR, OTP Research

### Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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