

Romania to sign another 2Y deal with the IMF, for 3-5 bn EUR

Macro: Preliminary cash budget deficit stood at 1.1% (Page 3)

Preliminary data shows that the cash budget deficit stood at 1.1% during the first 6M, unchanged from May. We are waiting for the details, as the 5M budget showed that there were good chances for the deficit target of 2.1% of the GDP to be missed this year as well.

FX markets: The leu continued to show little volatility (Page 4)

The leu had some relative quiet weeks in July, after being initially shaken in Mid June by fears that Fed could start tapering as early as this year. At his latest appearance before the Congress, Ben Bernanke ensured the markets that Fed's moves were flexible and that they would follow the state of the economy: should it recover earlier than expected, the Fed could start reducing faster the stimulus, but if the economy weakens, the current measures could be continued or even enhanced. For the moment, data from the US is mixed and there is less fear of exit from emerging markets such as Romania and investors' sentiment improved (the CDS moved lower too). This week, Christine Lagarde visited Romania and gave a cheering speech on the country's efforts for fiscal consolidation or the steps to liberalize energy prices. This Friday, government officials announced that Romania plans to sign another stand by agreement for 3-5 bn EUR, with a 2 year maturity.

Government securities: Treasury sells 3Y euro denominated bonds at 2.75% (Page 5-6)

Another downward shift of the yield curve took place this week and corrections stood between 5-10 bp as risk perception towards the region improved and we saw the CDS of European emerging markets, Romania included, falling down. The 5Y CDS (euro contracts) for Romania retreated 14 bp. Temptation to reduce exposure on European emerging market debt has diminished relatively. For the moment, the base assumption is one of decreasing yields, given the policy path started by NBR and to the fact that the next rate cut is perceived to be just around the corner (on 5th August is the next policy rate setting). The Treasury completed other two successful auctions, with healthy demand. It sold 300 mn RON in 6M T-bills at 4.24%. The yield was 24bp higher than in Mid May. The second auction for 3Y euro denominated bonds had an allotted amount of 336 mn EUR and bid to cover of 1.78. The average accepted yield was 2.75%, lower by 15 bp compared to Mid April. So far this year, the Treasury sold around 28 bn RON and 1.4 bn EUR in the local market. In August, 700 mn RON come to maturity and 447 mn EUR in domestically issued debt.

MM: Temporary spike in money market rates (Page 7-8)

This week only 2 banks came to repo and asked for 142 mn RON compared to 6 banks last week, bidding for 1.6 bn RON. This in turn triggered a spike in money market rates, especially short term ones: ROBOR ON climbed above 5% in the second part of the week, therefore above the interest rate which applies to liquidity obtained at the weekly repo auctions. In the recently issued country report of the IMF, the Fund sees the monetary policy as "broadly appropriate". The Achilles' heel remains the high NPL ratio. In our opinion, the only point where the Fund has a different stance compared to the Central Bank is the speed of the monetary easing: the Fund considers that the relaxation of the monetary policy should be done when the downward path of the inflation rate is confirmed with certainty.

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Macroeconomics: Preliminary cash budget deficit stood at 1.1%

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

Preliminary data shows that the cash budget deficit stood at 1.1% during the first 6M, unchanged from May, according to government officials. We are waiting for the details, as the 5M budget showed that there were significant chances for the deficit target of 2.1% of the GDP to be missed this year as well.

6M Cash Budget deficit stands at 1.1%


Source: Ministry of Finance, Reuters, 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 continued to show little volatility

The leu had some relative quiet weeks in July, after being initially shaken in Mid June by fears that Fed could start tapering as early as this year. At his latest appearance before the Congress, Ben Bernanke ensured the markets that Fed's moves were flexible and that they would follow the state of the economy: should it recover earlier than expected, the Fed could start reducing faster the stimulus, but if the economy weakens, the current measures could be continued or even enhanced. For the moment, data from the US is mixed and there is less fear of exit from emerging markets such as Romania and investors' sentiment improved (the CDS moved lower too).

This week, Chirstine Lagarde visited Romania and gave a cheering speech on the country's efforts for fiscal consolidation or the steps to liberalize energy prices. The country report corresponding to the 7th and 8th review of the stand by agreement ended in June was released. Romania missed 3 of its quantitative targets:

- The net foreign assets was lower than planned due to Central Bank's intervention on the FX market to support the leu
- The floor on general government balance because of higher than planned expenditures with EU-cofinanced projects and also due to delayed payments from EU, given the blocked EU funds
- The ceiling on central government and local government arrears was missed, especially the latter.

4 of the 5 structural benchmarks were missed as well, among which the IPO of Romgaz and Hidroelectrica or updating a list of priority local government projects to be funded by the budget or EU funds. Fund's appraisal is overall positive but emphasis is placed on structural reforms, on improving the energy and transport infrastructure and maintaining the fiscal discipline. This Friday, **government officials announced that Romania plans to sign another stand by agreement for 3-5 bn EUR, with a 2 year maturity.**

Last data: 18.07.2013

FX BID			
	Value	Weekly chg. (%)	YTD chg. (%)
EURRON	4,43	↑ 0,23	↓ -0,41
USDRON	3,38	↑ 0,22	↑ 0,40
CHFRON	3,58	↑ 0,49	↓ -2,72
RONJPY	3,37	↓ -1,38	↓ -13,25
RONPLN	1,04	↑ 1,90	↓ -4,06
100HUFRON	1,50	↓ -0,95	↓ -1,80
RONCZK	0,17	↑ 0,41	↓ -3,39
RONRUB	0,10	↑ 0,23	↓ -5,56
RONRSD	0,04	↑ 0,03	↓ -1,83
RONBGN	2,27	↑ 0,17	↓ -0,25

Source: Reuters

Major RON FX rates (03.01.2011=100)



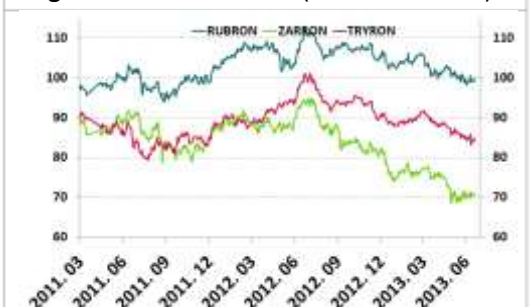
Sources: Reuters, OTP Research

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

After recovering from the adverse hike in Mid June, the leu showed little volatility in July



Sources: Reuters, OTP Research

Government securities: Treasury sells 3Y euro denominated bonds at 2.75%

Another downward shift of the yield curve took place this week and corrections stood between 5-10 bp as risk perception towards the region improved and we saw the CDS of European emerging markets, Romania included, falling down. The 5Y CDS (euro contracts) for Romania retreated 14 bp. Fear of the Fed starting tapering have subsided in the recent period, given the mixed data received from the US economy. This means that temptation to reduce exposure on European emerging market debt has diminished relatively. For the moment, the base assumption is one of decreasing yields, given the policy path started by NBR and to the fact that the next rate cut is perceived to be just around the corner (on 5th August is the next policy rate setting). Only the 10Y bond yield remains above 5%.

The Treasury completed other two succesful auctions, with healthy demand. It sold 300 mn RON in 6M T-bills at 4.24% and bid to cover stood at 4.94. The yield was 24bp higher than in Mid May. The second auction for 3Y euro denominated bonds had an allotted amount of 336 mn EUR and bid to cover of 1.78. The average accepted yield was 2.75%, lower by 15 bp compared to Mid April. So far this year, the Treasury sold around 28 bn RON and 1.4 bn EUR in the local market. In August, 700 mn RON come to maturity and 447 mn EUR in domestically issued debt.

Last data: 18.07.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	4,31	↓ -7	↓ -187
12M	4,44	↓ -9	↓ -173
3Y	4,84	↓ -6	↓ -133
5Y	4,92	↓ -10	↓ -129
10Y	5,15	↓ -5	↓ -123

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	462	↓ -6	↓ -146
GERROM 5Y	432	↓ -10	↓ -148
GERROM 10Y	353	↓ -6	↓ -141
3Y-5Y	8	↓ -4	↑ 4
5Y-10Y	24	↑ 4	↑ 6
3Y-10Y	32	↑ 0	↑ 10
FLY 3-5-10	16	↑ 9	↑ 1

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	126	↓ -14	↓ -10
5Y EURO	180	↓ -14	↓ -14

Source: Reuters

Central bank benchmark fixing yields (%)



Sources: NBR, OTP Research

Slope of the yield curve (bp)



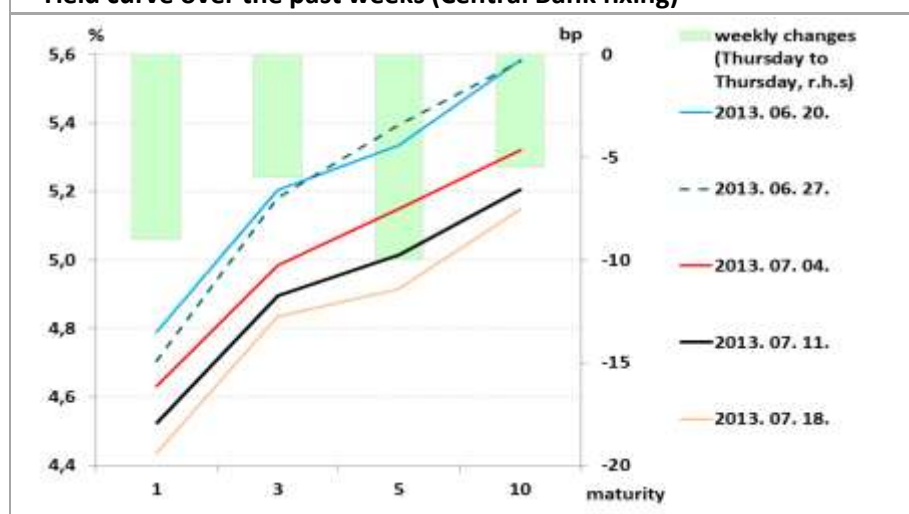
Sources: NBR, OTP Research

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	06.07.2013	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	28.11.2018	5	5,8	300.000.000	-

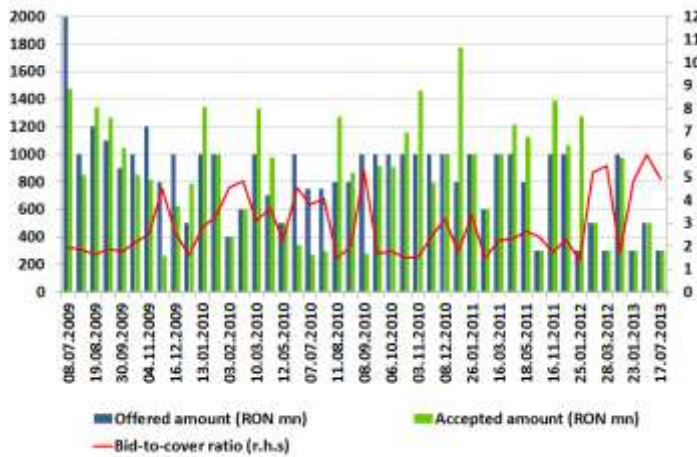
Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

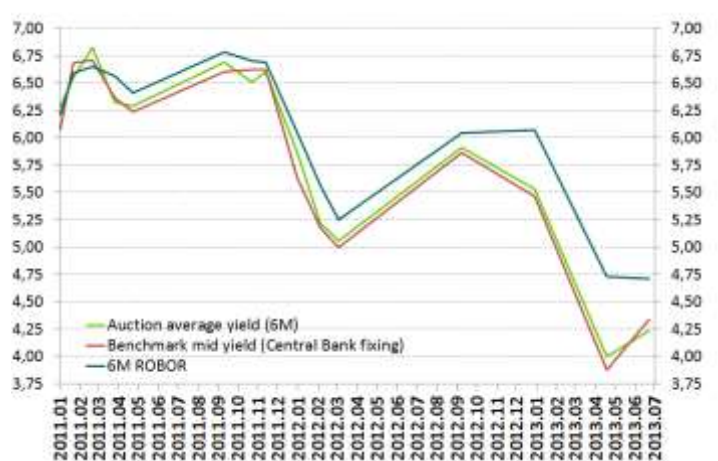
Bond auctions in June (in EUR)

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

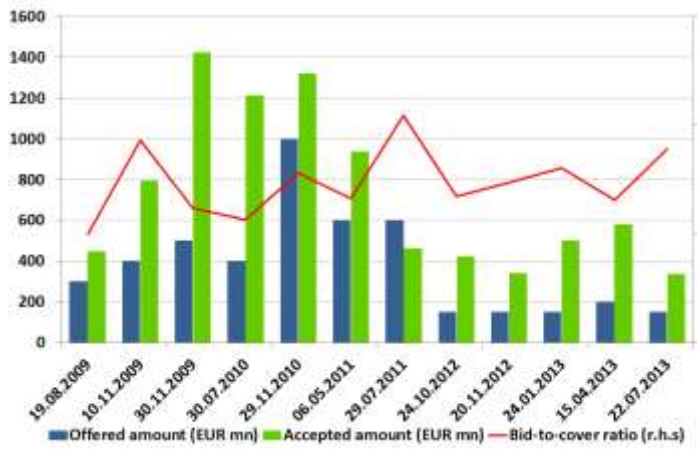
Sources: Ministry of Finance, OTP Research

6M Auctions data


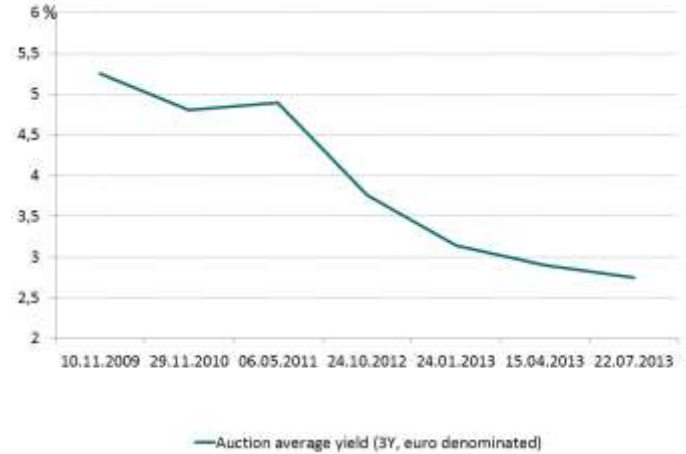
Sources: NBR, OTP Research

6M Interest rates (RON)


Sources: NBR, OTP Research

3Y Auctions data


Sources: NBR, OTP Research

3Y Interest rate (euro)


Sources: NBR, OTP Research

This week's auction results (RON denominated)

	RO1314CTN0A5
Offered amount (RON mn)	300
total bids (RON mn)	1482
accepted amount (RON mn)	300
average accepted yield (%)	4,24
coupon	

Source: NBR, OTP Research

This week's auction results (euro denominated)

	RO1316DBE011
Offered amount (EUR mn)	150
total bids (EUR mn)	599
accepted amount (EUR mn)	337
average accepted yield (%)	2,75
coupon	3,25

Source: NBR, OTP Research

MM: Temporary spike in money market rates

This week only 2 banks came to repo and asked for 142 mn RON compared to 6 banks last week, bidding for 1.6 bn RON. This in turn triggered a spike in money market rates, especially short term ones: ROBOR ON climbed above 5% in the second part of the week, therefore above the interest rate which applies to liquidity obtained at the weekly repo auctions.

On another note, in the recently issued country report of the IMF, the Fund sees the **monetary policy as “broadly appropriate”**. The narrowing of the corridor around the base rate is welcomed and considered supportive for the transmission mechanism. **The Achilles’ heel remains the high NPL ratio** which makes the banking system still vulnerable to outside shocks. We add that the NPL ratio is in continued ascension: this year it spiked to 20.19% in May from 18.24% in December 2012. Besides the NPL ratio which remains under scrutiny, the deleveraging process should remain closely monitored, but for the moment it is considered to be made in an orderly fashion. In our opinion, the only point where the Fund has a different stance compared to the Central Bank is the speed of the monetary easing: **the Fund considers that the relaxation of the monetary policy should be done when the downward path of the inflation rate is confirmed with certainty**. Meanwhile, the Central Bank has already lowered the base rate in July and is expected to cut it again by at least 25 bp at the next monetary policy meeting on 5th of August.

Last data: 18.07.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,00	0	-25
ROBOR ON	5,10	125	-128
ROBOR 3M	4,48	4	-155
ROBOR 6M	4,71	1	-157
ROBOR 9M	4,72	0	-156
ROBOR 1Y	4,73	1	-158

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	142,5	-1.482,6	- 3.852,8

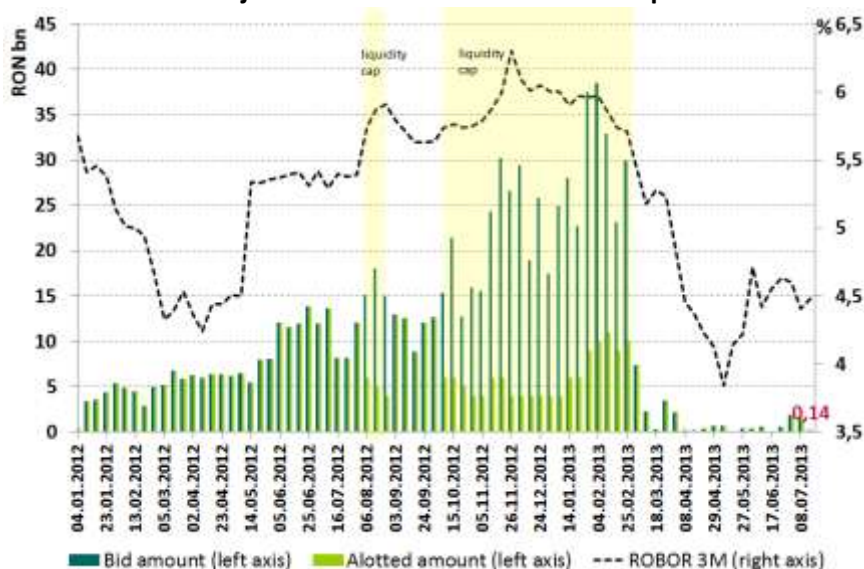
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.177,6	1219,6	1276,2

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	30	8	6
USDRON 1M	108	1	-42
USDRON 3M	297	15	51
EURRON 1W	27	-1	-13
EURRON 1M	146	10	0
EURRON 3M	410	5	-101

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

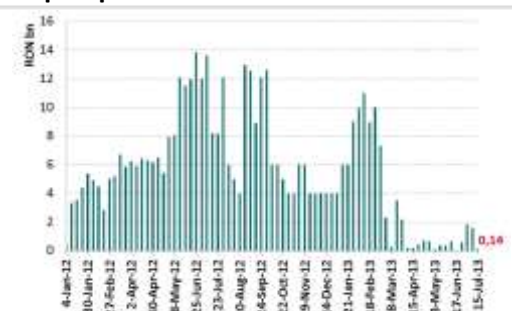
Source: Reuters

The Central Bank injected 142 mn RON this week's repo



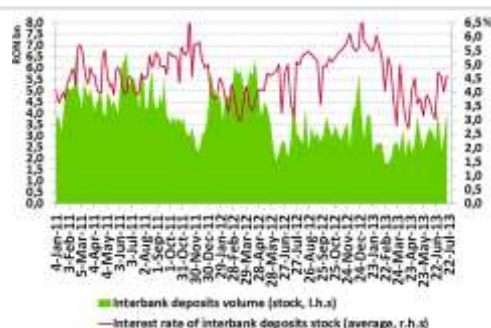
Sources: NBR, OTP Research

Repo operations since 2012



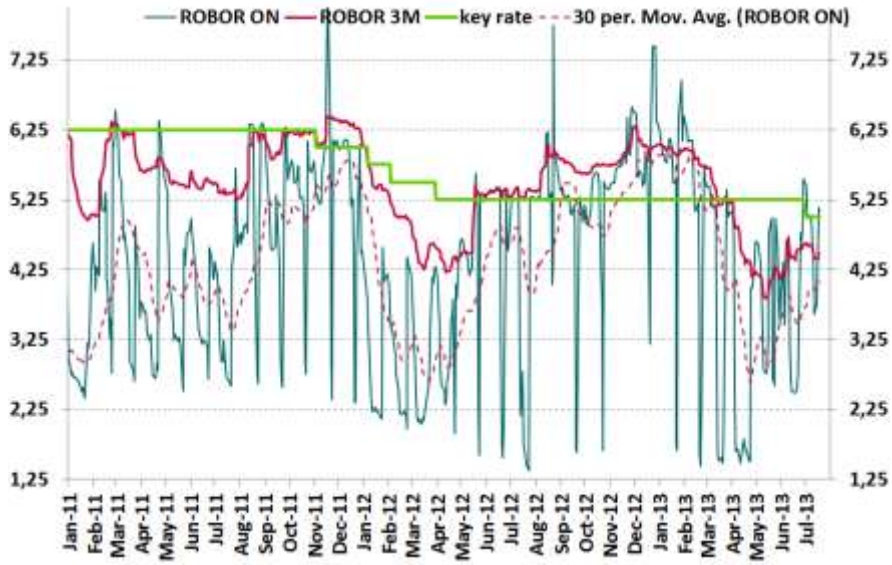
Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

Most important MM instruments' evolution



Sources: NBR, OTP Research

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