

The Central Bank lowers the base rate by 50 bp and says there is more room for cuts

Macro: Retail sales continued to decline in June (-4.2% YoY); the unemployment rate remains on uptrend (7.6% in June) (Page 3- 4)

Retail sales headed down in June (-4.1% YoY, gross), driven by lower fuels sales (-9.7% YoY) but also by falling food sales (-3.8 % YoY). Overall, the Q2 dynamics are weaker than Q1 and it is likely that households' consumption fell for another quarter. The retail trade sentiment indicator deteriorated further in July and ESI (the economic sentiment indicator) moved lower, from 96.4 to 95.7, dragged down by industry and retail trade expectations. The unemployment rate rose to 7.6% in June, the post crisis high, a figure last seen in March 2010. The average duration of unemployment is 13 months (in 2012), according to our calculation. This is a lagging indicator and we expect to see it improve this year, given the advance of the economy. Producer price index rose to 2.8% YoY in June from 2.6% YoY in May. The main effect came from prices on external markets, which dropped by 1.3% YoY compared to -1.8% YoY in May.

FX markets: Romania signed a 2Y precautionary deal with the IMF, for 4bn EUR (Page 4)

The IMF agreed on 2Y stand by agreement for 4 bn EUR with Romania (2bn EUR from the IMF and 2 bn EUR from the EU). The decision was neutral for the leu. Last week, markets focused their attention to the Fed rate setting and monetary policy guidance as well as to ECB's monetary policy decisions. In both cases the main message was pro easy monetary policy. These messages prompted a "risk on" move and attention was focused especially on equities in Europe and the US. In this context, the leu progressively lost to the euro this week and EUR/ RON even spiked above the 4.43 level on Friday. However, it fell back in the same day after the not so good non-farm payrolls data came out later on on Friday. Looking forward, the higher than expected base rate cut and the clear easing signals transmitted by the NBR are not in favour of a stronger leu in the near horizon.

Government securities: Treasury plans to sell 1.9 bn RON in government securities in August (Page 5)

After having fallen during the previous 4 weeks, the yield curve shifted up marginally last week. Given this Monday's rate decision, to cut the base rate by 50 bp, more than the market consensus expectations of only 25 bp rate cut, we see the government securities yields edging down as the yields did not price in the supplementary cut. The Treasury announced that it will issue 1.9 bn RON in government debt in August. Most of the planned amount is for bonds with a maturity of 3, 5 and 10 years. The Treasury has lengthened the average residual maturity of its portfolio (excluding eurobonds) from 1.7 years in December 2012 to 2.2 years in May 2013 (latest data from the MoF).

MM: New base rate is set at 4.5% (Page 6-7)

The Central Bank cut the base rate by 50 bp to 4.5% in a surprise move, whereas the market anticipated a smaller pace, of only 25 bp. NBR emphasized that final consumption is nearly flat and the real annual dynamics of loans is in the negative territory and suggested that there is still room for further cuts. So far, the decline witnessed by money market rates, since the beginning of the year was partially incorporated in the private loans interest rates and NBR's decisions intend also to further support this trend. The improvement in the transmission mechanism is all the more important as the First House program, which is among the few loan types still in demand, will be granted only in RON.

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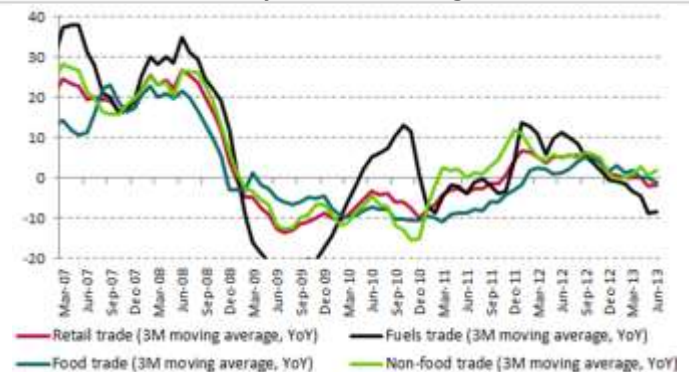
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Macroeconomics: Retail sales continued to decline in June (-4.2% YoY); the unemployment rate remains on uptrend (7.6% in June)

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
29 Jul	June	Licenses for residential buildings (y-o-y, %)	-9,2		-22,1
31 Jul	June	ILO unemployment (seasonally adjusted, %)	7,6		7,50
01 Aug	July	FX reserves (bn EUR)	33,4		32,3
02 Aug	June	Retail trade turnover index (y-o-y, %)	-4,2		-4,3
02 Aug	June	Producer Price Index (y-o-y, %)	2,8		2,6
05 Aug	June	Base rate decision (%)	4,5	4,75	5,0
06 Aug	June	Net wage growth rate (y-o-y, %)			5,3
07 Aug	June	Industrial trade turnover index (y-o-y, %)			-1,6
07 Aug	June	Index value of new orders in manufacturing (y-o-y, %)			6,2
08 Aug	June	Construction works index (y-o-y, %)			-8,9
09 Aug	June	Exports (y-o-y, %)			0,1
09 Aug	June	Imports (y-o-y, %)			-10,5
09 Aug	July	Consumer price index (y-o-y, %)			5,4

Retail sales headed down in June (-4.2% YoY, gross), driven by lower fuels sales (-9.7% YoY) but also by falling food sales (-3.8 % YoY). In the month, the seasonally adjusted data points to stagnation, although it was only fuels' sales which advanced (+3.4 % MoM). Overall, the Q2 dynamics are weaker than Q1 and it is likely that households' consumption fell for another quarter. The retail trade sentiment indicator deteriorated further in July and ESI (the economic sentiment indicator) moved lower, from 96.4 to 95.7, dragged down by industry and retail trade expectations.

The unemployment rate rose to 7.6% in June, the post crisis high, a figure last seen in March 2010. Based on the seasonally adjusted data, the number of the unemployed rose by 9.7% during the first 6M of 2013. The average duration of unemployment is 13 months (in 2012), according to our calculation. The latest detailed data (March 2013) shows the main increase of the unemployment rate is among the young (< 25 years old): 23.1% in March from 22.1% in December 2012. This is a lagging indicator and we expect to see it improve this year, given the advance of the economy.

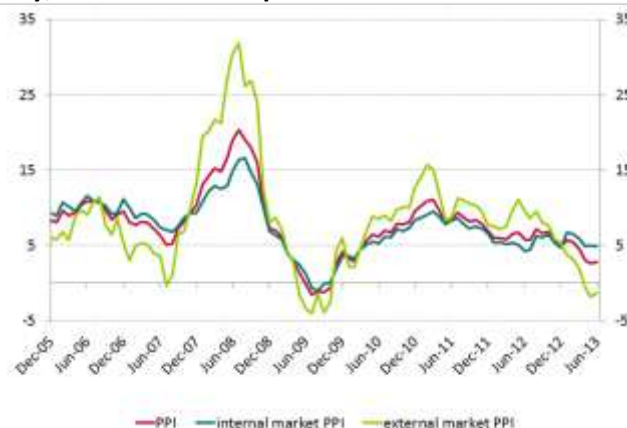
Retail sales continued to decline in June (-4.2% YoY) and overall annual dynamics was negative in Q2


Source: NIS, OTP Research

The unemployment rate continued to grow in June to 7.6%, the highest post crisis level and similar to March 2010


Source: Eurostat, OTP Research

Producer price index rose to 2.8% YoY in June from 2.6% YoY in May. The main effect came from prices on external markets, which dropped by 1.3% YoY compared to -1.8% YoY in May. On the domestic market, producer prices moved up by 4.9% YoY compared to 5% YoY in May.

Producer Prices rose by 2.8% YoY in June, more than in May; external market prices saw a turnaround


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

Note: * under revision

FX markets: Romania signed a 2Y precautionary deal with the IMF, for 4bn EUR

Last week, markets focused their attention to the Fed rate setting and monetary policy guidance as well as to ECB's monetary policy decisions. In both cases the main message was pro easy monetary policy. The Fed did not talk about tapering and promised to continue the asset buying program. In turn, the ECB guidance was that interest rates would be maintained low for a long period to come, or even decreased, depending on the state of the economy. Mario Draghi commented that the euro-zone reached the trough of the recession. These messages prompted a "risk on" move and attention was focused especially on equities in Europe and the US. In this context, the leu progressively lost to the euro this week and EUR/ RON even spiked above the 4.43 level on Friday. However, it fell back in the same day after the not so good non-farm payrolls data came out later on on Friday. Also, the decreasing money market rates and lack of any auction for the government bonds lowered the opportunity for leu's appreciation last week. **Looking forward, the higher than expected base rate cut and the clear easing signals transmitted by the NBR are not in favour of a stronger leu in the near horizon.**

The IMF agreed on 2Y stand by agreement for 4 bn EUR with Romania (2bn EUR from the IMF and 2 bn EUR form the EU) and upped the GDP growth scenario for this year to 2% and 2.25% for 2014. The decision needs to be approved by the IMF board in the autumn. The Fund expects a 2.3% cash deficit and 2.4% ESA budget deficit in 2013. Also, the structural deficit is set to be reduced by maximum 1% in 2015.

Last data: 2.08.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,42	↑	0,73	↓ -0,56
USDRON	3,33	↑	0,74	↓ -1,13
CHFRON	3,59	↑	0,76	↓ -2,47
RONJPY	3,36	↑	0,03	↓ -13,33
RONPLN	1,04	↑	0,71	↓ -4,11
100HUFRON	1,48	↑	0,30	↓ -2,85
RONCZK	0,17	↑	1,01	↓ -3,45
RONRUB	0,10	↑	0,60	↓ -8,00
RONRSD	0,04	↑	0,99	↓ -1,91
RONBGN	2,26	↑	0,77	↓ -0,48

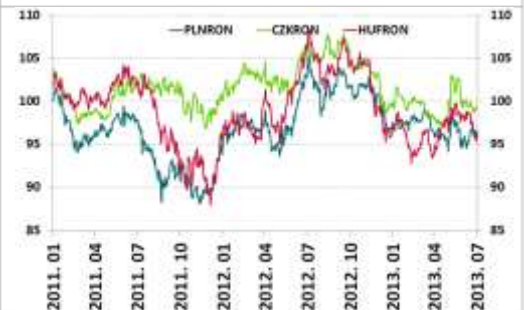
Source: Reuters

Major RON FX rates (03.01.2011=100)



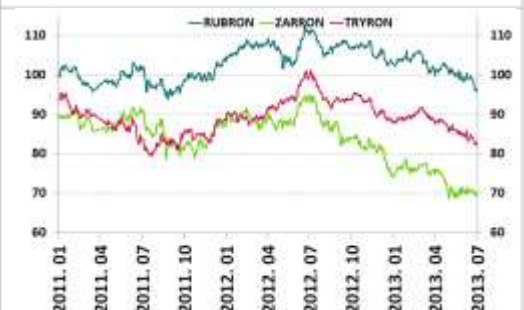
Sources: Reuters, OTP Research

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 is looking at a period of further base rate cuts



Sources: Reuters, OTP Research

Government securities: Treasury plans to sell 1.9 bn RON in government securities in August

After having fallen during the previous 4 weeks, the yield curve shifted up marginally last week. Given this Monday's rate decision, to cut the base rate by 50 bp, more than the market consensus expectations of only 25 bp rate cut, we see the government securities **yields edging down as the yields did not price in the supplementary cut.**

The Treasury announced that it will issue 1.9 bn RON in government debt in August, whereas redemptions in RON stay at 700 mn RON. Most of the planned amount (1.6 bn RON) is for bonds with a maturity of 3, 5 and 10 years. The Treasury has lengthened the average residual maturity of its portfolio (excluding eurobonds) from 1.7 years in December 2012 to 2.2 years in May 2013 (latest data from the Ministry of Finance).

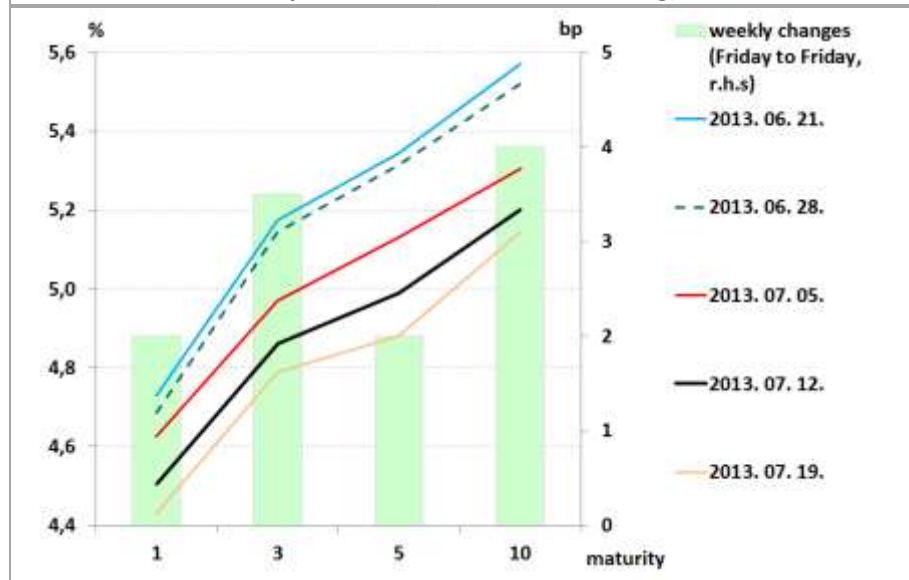
Last data: 2.08.2013

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	4,22	↑ 1	↓ -196	
12M	4,32	↑ 2	↓ -185	
3Y	4,64	↑ 3	↓ -153	
5Y	4,74	↑ 2	↓ -146	
10Y	5,11	↑ 4	↓ -128	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	438	↑ 3	↓ -170	
GERROM 5Y	409	↑ 2	↓ -171	
GERROM 10Y	344	↑ 4	↓ -150	
3Y-5Y	10	↓ -1	↑ 7	
5Y-10Y	37	↑ 2	↑ 19	
3Y-10Y	47	↑ 1	↑ 25	
FLY 3-5-10	27	↑ 4	↑ 12	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	128	↑ 2	↓ -7	
5Y EURO	183	↑ 2	↓ -12	

Source: Reuters

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)
RO1314CTN0B3	05.08.2013	07.08.2013	06.08.2014	12	300.000.000

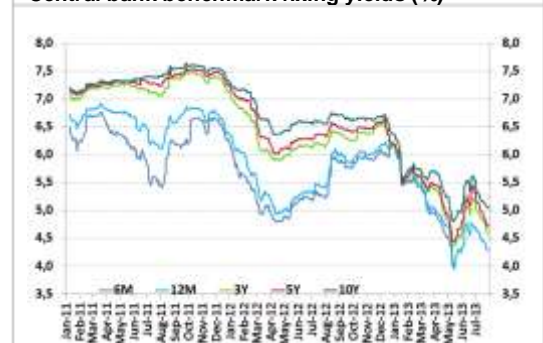
Sources: Ministry of Finance, OTP Research

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)
RO1323DBN018	08.08.2013	-	12.08.2013	26.04.2023	10	5,85	300.000.000	-
RO1116DBN024	12.08.2013	13.08.2013	14.08.2013	30.04.2016	5	6	300.000.000	30.000.000
RO1316DBN053	19.08.2013	20.08.2013	21.08.2013	29.08.2016	3	4,75	500.000.000	50.000.000
RO1318DBN034	22.08.2013	-	26.08.2013	28.11.2018	5	5,6	500.000.000	-

Sources: Ministry of Finance, OTP Research

Note:* Supplementary sessions of competitive offers

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

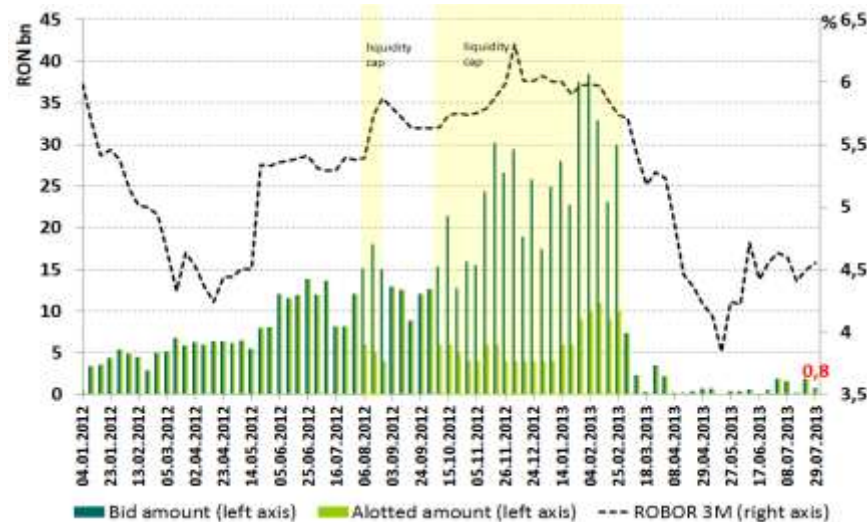
MM: New base rate is set at 4.5%

Last week, 4 banks took 838 mn RON from the NBR at the weekly repo auction, roughly 1 bn RON lower than the previous week. Money market rates eased during the week. Banks needed less liquidity as during 24-25th July there were 3.8 bn RON of government securities which came to maturity. **After today's decision taken by the Central Bank, we expect money market rates to ease further.**

The Central Bank cut the base rate by 50 bp to 4.5% in a surprise move, whereas the market anticipated a smaller pace, of only 25 bp. In its latest inflation report the NBR projected a significant decline of inflation up to 3.2% YoY in December incorporating a favourable base effect from food prices. However, the forecast did not include the lower VAT for bread: 9% instead of the current 24% as of 1st September: If this is transmitted to consumer prices, it will have a positive effect on inflation given the 6% weight in the consumption basket. A new inflation report will be issued on 7th August. In its press release, **NBR emphasized that final consumption is nearly flat and the real annual dynamics of loans is in the negative territory and suggested that there is still room for further cuts.**

So far, the decline witnessed by money market rates, since the beginning of the year was partially incorporated in the private loans interest rates and NBR's decisions intend also to further support this trend: the average loan rate for new household loans in RON dropped from its yearly high of 12.64% in February to 11.64% in June. The improvement in the transmission mechanism is all the more important as the First House program, which is among the few loan types still in demand, will be granted only in RON.

The Central Bank injected 838 mn RON at last week's repo



Sources: NBR, OTP Research

Last data: 2.08.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,00	0	-25
ROBOR ON	3,82	-69	-256
ROBOR 3M	4,45	-6	-158
ROBOR 6M	4,71	-2	-157
ROBOR 9M	4,71	-2	-157
ROBOR 1Y	4,71	-2	-160

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

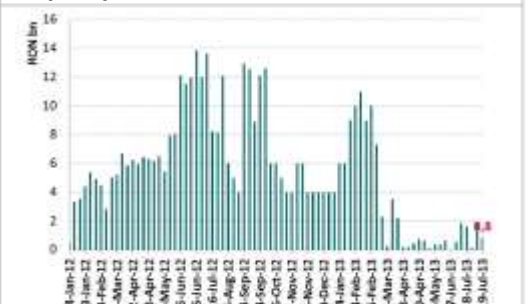
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.661,8	1354,2	760,4

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	23	-5	-2
USDRON 1M	111	12	-39
USDRON 3M	330	50	83
EURRON 1W	29	-7	-11
EURRON 1M	143	-9	-2
EURRON 3M	428	-27	-83

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

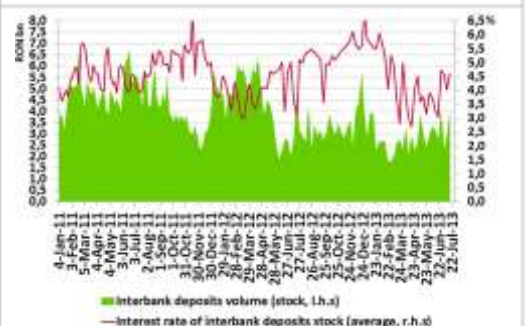
Source: Reuters

Repo operations since 2012



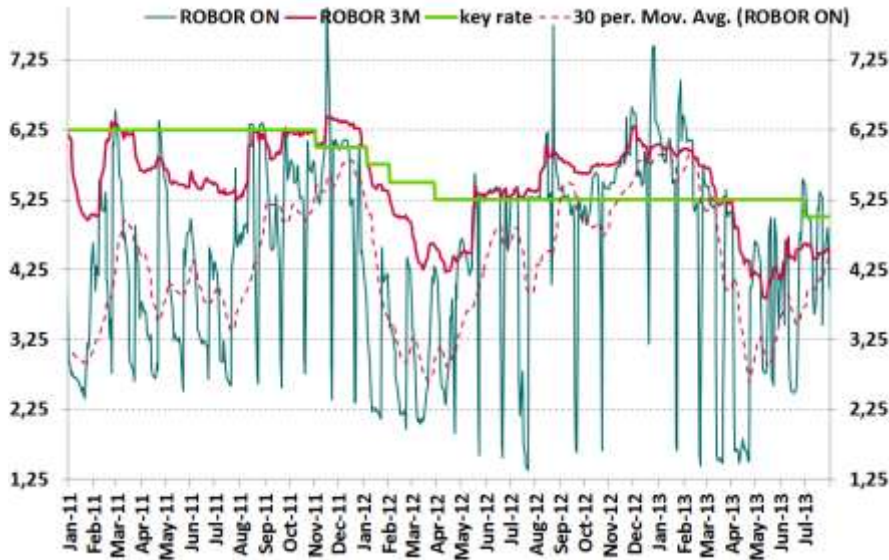
Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

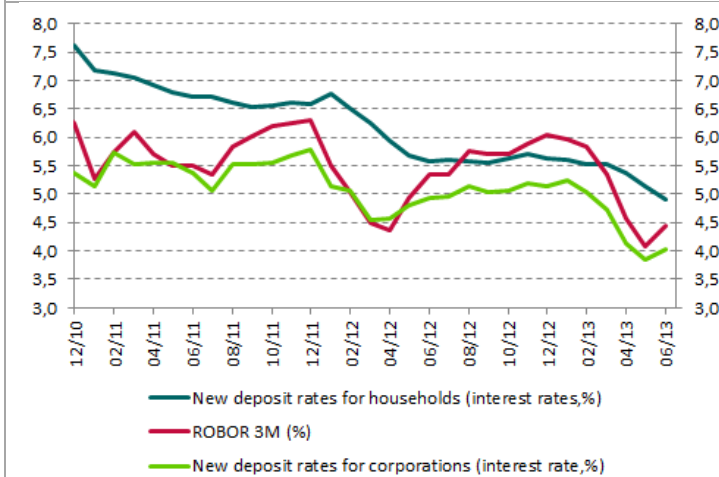
Most important MM instruments' evolution



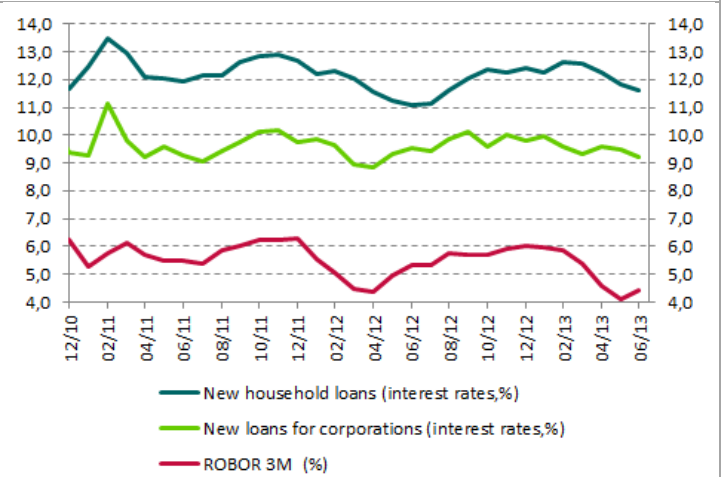
Sources: NBR, OTP Research

The avg. interest rate for new households' deposits was 4.9% in June, down 69 bp since the year's peak (Jan)

The avg. households new loans interest rate was 11.64% in June 2013, down 100 bp since the year's peak (Feb)



Sources: NBR, OTP Research



Sources: NBR, OTP Research

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