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Weekly Report

Romania

20 August 2013



July inflation falls, reinforcing NBR's views

Macro: Q2 GDP grew by 0.3% QoQ; inflation fell to 4.4% YoY in July (Page 3- 4)

The CA surplus stood at EUR 695 mn during the first 6M, which according to our calculations would mean that the 12M rolling deficit figure is as low at 1.2% of GDP, significantly lower than the 4% recorded in December 2012. Exports rushed as external markets start to come back to life but imports were weaker on an annual basis as internal demand is still lethargic. Inflation came down to 4.4% YoY in July, from 5.4% YoY in June, as foods' inflation slowed down significantly. Q2 GDP grew by 0.3% QoQ (seasonally adjusted) and 1.3% YoY. The main business cycle indicators such as retail sales, constructions were pretty weak and only industry should have contributed positively to the quarterly growth. Consumer confidence has not improved this year which is why retail sales are down and constructions were also hit by low public investments (as we see from the dynamics of civil engineering). In the case of the latter, EU funds related to this type of public expenditures have been blocked in H1 and we expect to see resumption in constructions in H2, as payments from the EU restarted.

FX markets: All eyes on the US and European emerging market currencies suffer (Page 5)

The leu lost 0.5% to the euro, closing at 4.44 last week and it stood under the spell of expectations regarding US cutting back asset purchases. This week, markets are watching each and every move of the Fed, especially FOMC's minutes on Wednesday and Jackson Hole Summit on Friday. Lacking any other highly important macro data and events, this remains the most important driver for the moment. RON interest are likely to stay low this week, so no support from this side either. Monday's auction of 3Y bonds was overshadowed by the global aversion to emerging market assets and attention is focused to the US. For this week, we do not expect major positive surprises. So far this year, the leu received support from foreigners' bond buying which stood at RON 13 bn (RON denominated securities, the first 5M) but yields have given up between 150-240 bp since then. The leu should find new support pillars and the listings of stakes in state owned companies could be one of them.

Government securities: Yields are expected to continue to shrink (Page 6 - 7)

Yields gave up another 3-11 bp last week and yield curve shifted down by 150-240 bp since the beginning of the year. The Central Bank cut the base rate twice this year, totaling 75 bp and more corrections are expected. The next board meeting on monetary policy issues is on 30th September when we see another cut of 25 bp. The cycle is expected to continue in q1 2014 as well. In September 2013, NBR's inflation forecast is at 3% YoY and 2.1% in Q1 2014, therefore, there is still room for easing the RON interest rates and yields. Last week, the only scheduled auction was successful and demand was again strong: bid to cover ratio stood at 6x. The Treasury sold 3Y bonds at 4.23%, 51 bp lower than the previous similar auction in Mid July.

MM: Good liquidity conditions (Page 8)

In the past 3 weeks (this week included), banks' needs for liquidity were close to zero. We are now in the final week ahead of the end of the maintenance period for the required reserves. We expect that net issuance of government debt will be positive in September, considering that during the first 6M, the Treasury covered just 56.5% of the funding needs while July and August have been pretty weak. We expect more money to be swept off the market, compared to July and August. Also, the monetary policy is scheduled on 30th September so most effects will be seen later on. Additionally, we do not see September's budget expenditures to significantly boost liquidity.

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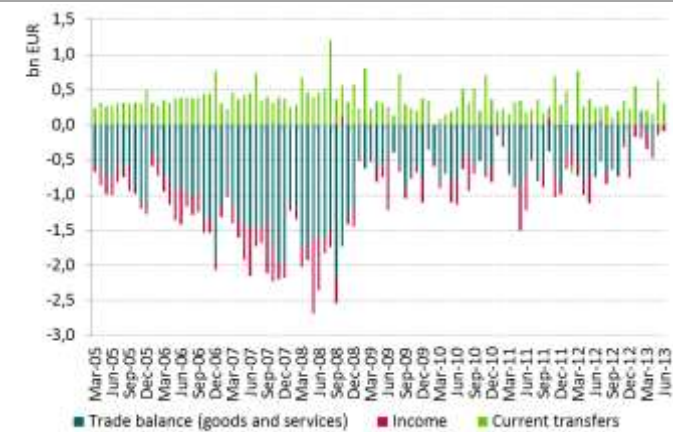
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Macroeconomics: Q2 GDP grew by 0.3% QoQ; inflation fell to 4.4% YoY in July

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
12 Aug	July	Consumer price index (y-o-y,%)	4,4		5,4
12 Aug	June	CA balance (EUR mn, YTD)	695		472
14 Aug	Q2 2013	Flash GDP (QoQ, seasonally adjusted)	0,3	0,3	0,6
19 Aug-23 Aug		no data			

The CA surplus stood at EUR 695 mn during the first 6M, which according to our calculations would mean that the 12M rolling deficit figure is as low at 1.2% of GDP, significantly lower than the 4% recorded in December 2012. The main influence comes from the trade gap adjustment: exports rushed as external markets start to come back to life but imports were weaker on an annual basis as internal demand is still lethargic.

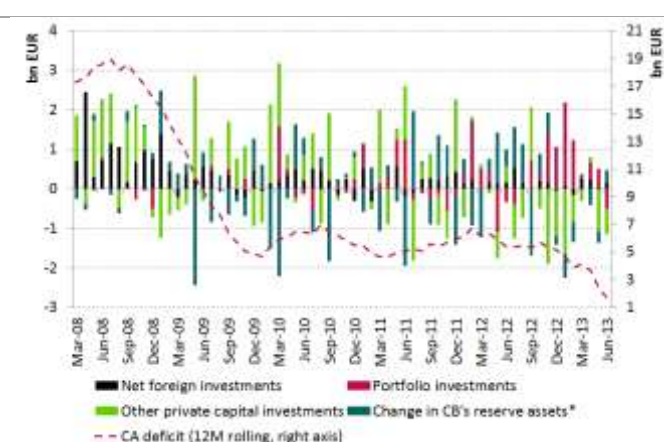
On the financing side, net FDI continue to drop: only EUR 577 mn compared to EUR 777 mn last year. Strong support comes from portfolio investments, EUR 3.7 bn in the first 6M, almost 4 times higher than last year. Central Bank's reserve assets have risen in the same period (+ EUR, 1.4 bn).

Trade balance deficit almost disappeared in June


Source: NBR, OTP Research

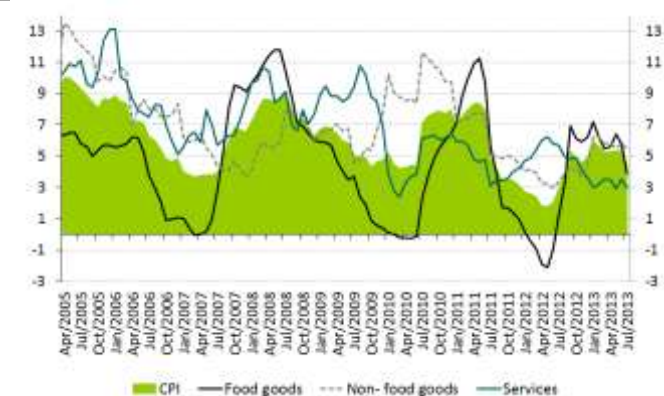
During the first 6M, the CA posted a surplus of EUR 695 mn mainly due to the shrinking of the trade gap


Source: NBR, OTP Research

CA deficit is mainly financed by portfolio investments


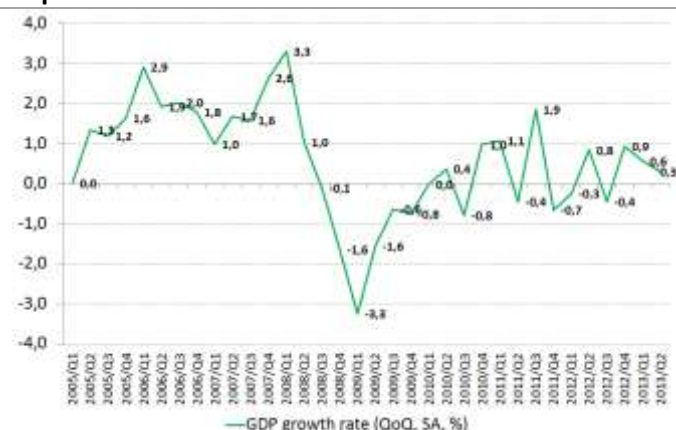
Source: NBR, OTP Research

Inflation came down to 4.4% YoY in July, from 5.4% YoY in June, as foods' inflation slowed down significantly: 3.9% YoY compared to 5.8% YoY in the previous month. In the month inflation stood at -0.3% MoM and noticeable declines were witnessed in the case of vegetables (-13.3% MoM) as well as fruits (-4.5% MoM). NBR's December forecast is 3.1% YoY with risks to see a lower figure.

Inflation comes down to 4.4% YoY in July from 5.4% YoY in June due to food prices disinflation


Source: NIS, OTP Research

Q2 GDP grew by 0.3% QoQ (seasonally adjusted) and 1.3% YoY. Our call was lower at +0.1% QoQ and given the results we expect surprises on the services' side. Otherwise, the main **business cycle indicators such as retail sales, constructions were pretty weak and only industry should have contributed positively to the quarterly growth.** Consumer confidence has not improved this year which is why retail sales are down and constructions were also hit by low public investments (as we see from the dynamics of civil engineering). In the case of the latter, EU funds related to this type of public expenditures have been blocked in H1 and we expect to see resumption in constructions in H2, as payments from the EU restarted.

GDP grew by 0.3% QoQ and 1.3% YoY driven by net exports


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: All eyes on the US and European emerging market currencies suffer

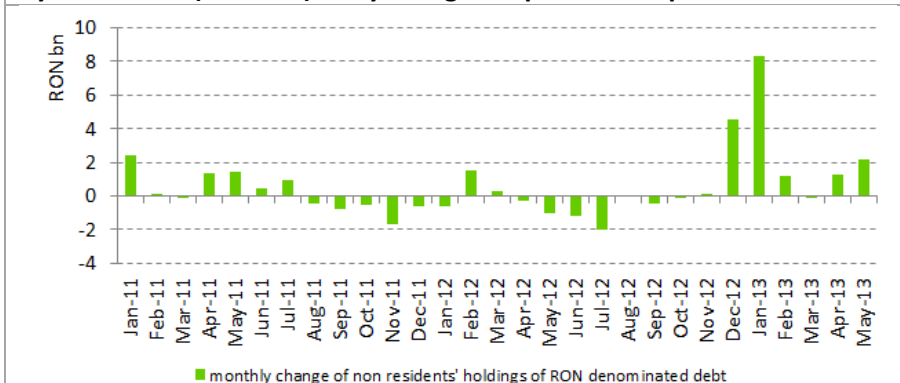
The leu lost 0.5% to the euro, closing at 4.44 last week and it stood under the spell of expectations regarding US cutting back asset purchases. What triggered this move was the result of US retail sales data and this week, markets are watching each and every move of the Fed, especially FOMC's minutes on Wednesday and Jackson Hole Summit on Friday. Lacking any other highly important macro data and events, this remains the most important driver for the moment. RON interest are likely to stay low this week, so no support from this side either. Monday's auction of 3Y bonds was overshadowed by the global aversion to emerging market assets and attention is focused to the US. For this week, we do not expect major positive surprises. So far this year, the leu received support from foreigners' bond buying which stood at RON 13 bn (RON denominated securities, the first 5M) but yields have given up between 150-240 bp since then. The leu should find new support pillars and the listings of stakes in state owned companies could be one of them.

Fears of Fed starting to cut back asset purchases weakened the leu and its peer currencies



Sources: Reuters, OTP Research

Foreigners' holdings of RON denominated government securities rose by RON 13 bn (first 5M) but yields gave up 150-240 bp since Dec 12



Sources: Ministry of Finance, OTP Research

Last data: 16.08.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4.44	↑	0.49	↑ 0.04
USDRON	3.33	↑	0.43	↓ -0.97
CHFRON	3.60	↑	0.09	↓ -2.07
RONJPY	3.42	↓	-0.91	↓ -11.88
RONPLN	1.05	↓	-0.61	↓ -3.33
100HUFRON	1.48	↓	-0.91	↓ -2.88
RONCZK	0.17	↑	0.53	↓ -2.66
RONRUB	0.10	↑	0.32	↓ -8.07
RONRSD	0.04	↑	0.14	↓ -1.46
RONBGN	2.27	↑	0.33	↑ 0.03

Source: Reuters

Major RON FX rates (03.01.2011=100)



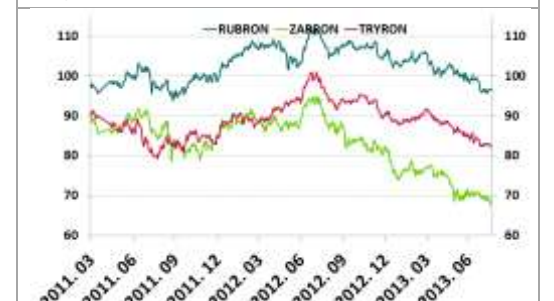
Sources: Reuters, OTP Research

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

Government securities: Yields are expected to continue to shrink

Yields gave up another 3-11 bp last week and yield curve shifted down by 150-240 bp since the beginning of the year. The Central Bank cut the base rate twice this year, totaling 75 bp and more corrections are expected. The next board meeting on monetary policy issues is on 30th September when we see another cut of 25 bp. The easing cycle is expected to continue in q1 2014 as well. In September 2013, NBR's inflation forecast is at 3% YoY and 2.1% in Q1 2014, therefore, there is still room for easing the RON interest rates and yields.

Last week, the only scheduled auction was succesful and demand was again strong: bid to cover ratio stood at 6x. The Treasury sold RON 300 mn of 3Y bonds at an average accepted yield of 4.23%, 51 bp lower than the previous similar auction in Mid July. This week, another RON 1 bn is planned for sale and the 3Y bond auction held on Monday had a slightly higher yield at 4.28%.

Last data: 16.08.2013

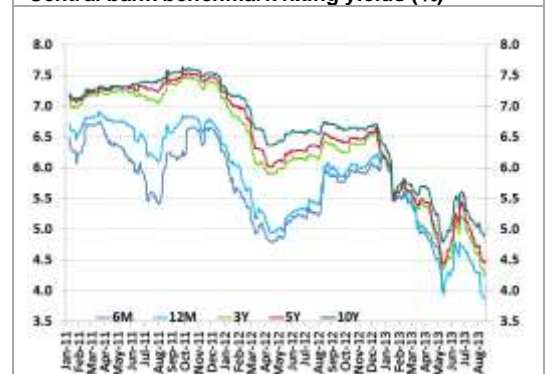
RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	3.78	↓ -11	↓ -241
12M	3.87	↓ -9	↓ -230
3Y	4.28	↓ -10	↓ -189
5Y	4.48	↓ -4	↓ -172
10Y	4.92	↓ -3	↓ -147

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	401	↓ -10	↓ -207
GERROM 5Y	381	↓ -4	↓ -199
GERROM 10Y	324	↓ -3	↓ -170
3Y -5Y	21	↑ 6	↑ 17
5Y -10Y	44	↑ 0	↑ 26
3Y-10Y	64	↑ 7	↑ 43
FLY 3-5-10	23	↓ -6	↑ 8

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	131	↑ 1	↓ -4
5Y EURO	186	↑ 1	↓ -8

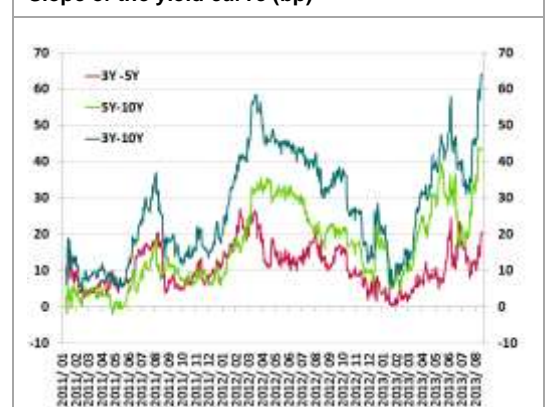
Source: Reuters

Central bank benchmark fixing yields (%)



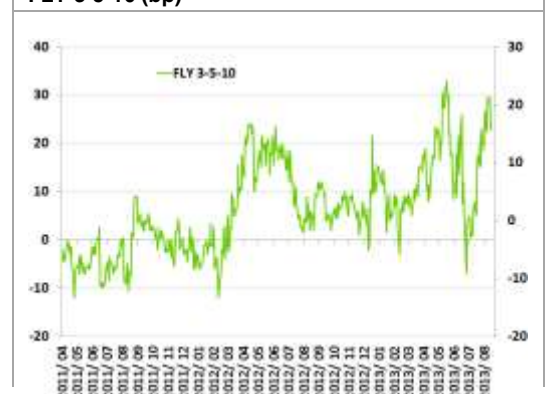
Sources: NBR, OTP Research

Slope of the yield curve (bp)

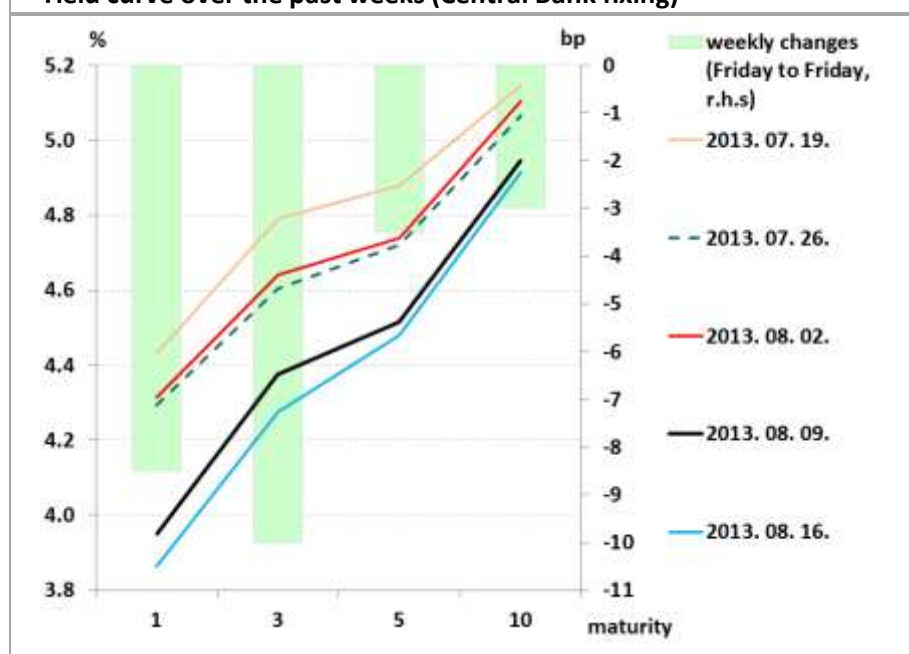


Sources: NBR, OTP Research

FLY 3-5-10 (bp)



Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

T- bills auctions in August (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

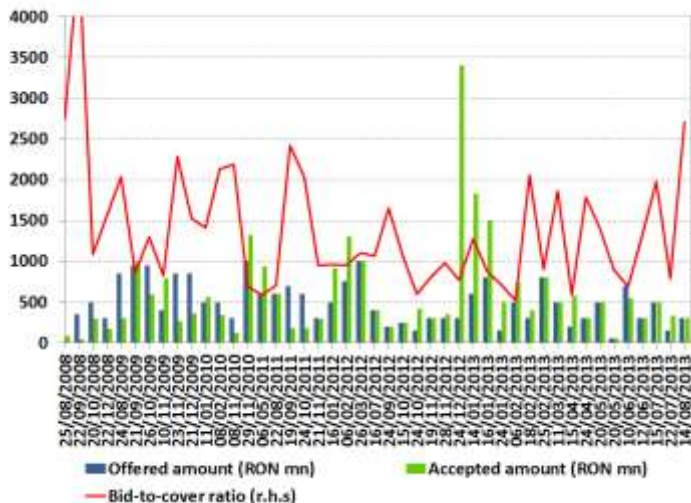
Bond auctions in August (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1323OBN018	08.08.2013	-	12.08.2013	26.04.2023	10	5,85	300.000.000	-
RO1118DBN024	12.08.2013	13.08.2013	14.08.2013	30.04.2016	5	8	300.000.000	30.000.000
RO1318DBN053	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	5,8	500.000.000	-

Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

3Y Auctions data



Sources: NBR, OTP Research

3Y Interest rate (RON)



Sources: NBR, OTP Research

Last week's auction results (RON denominated)

	RO1116DBN024
Offered amount (RON mn)	300
total bids (RON mn)	1828
accepted amount (RON mn)	300
average accepted yield (%)	4,23
coupon	6,00

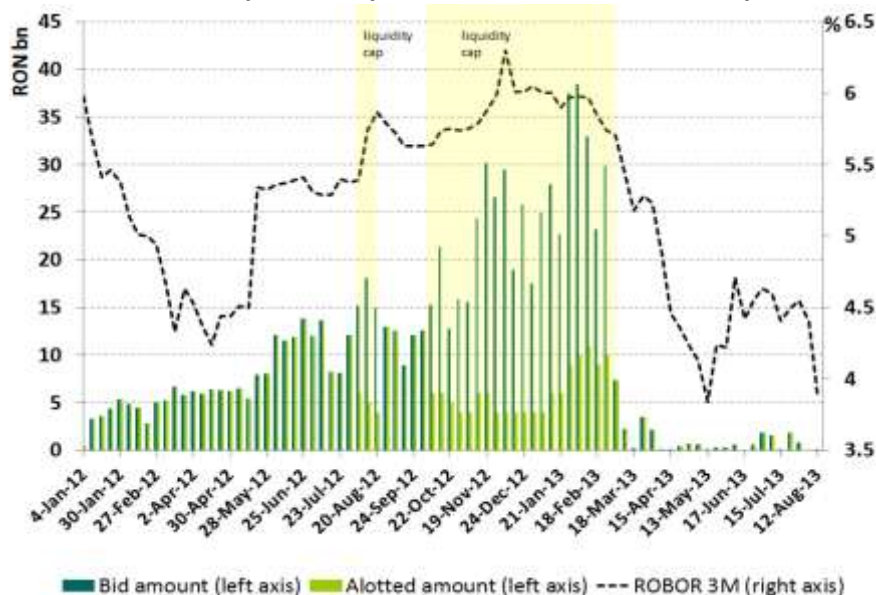
Source: NBR, OTP Research

MM: Good liquidity conditions

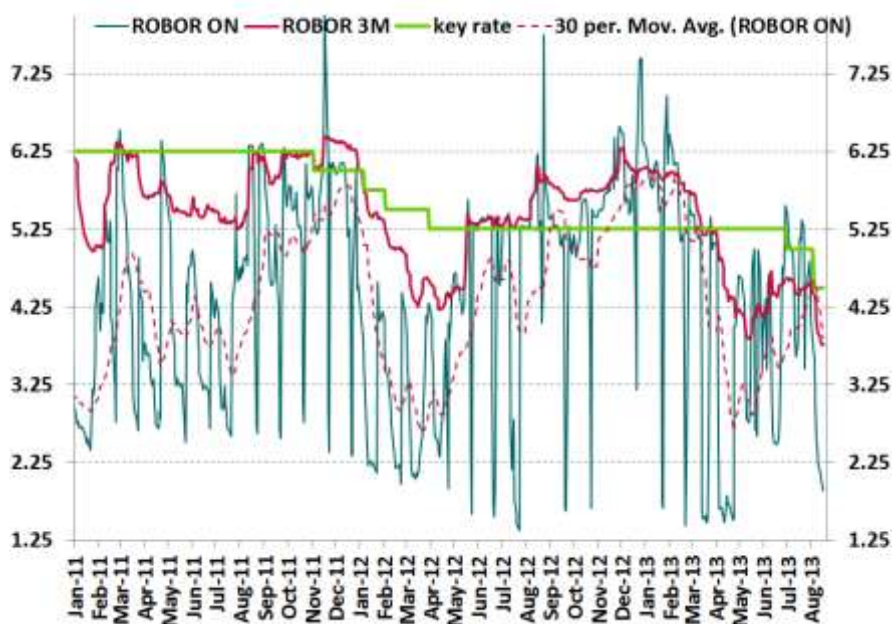
In the past 3 weeks (this week included), banks' needs for liquidity were close to zero. Money market rates are likely to stay low this week, given that we are now in the final week ahead of the end of the maintenance period for the required reserves.

Looking forward, we expect that net issuance of government debt will be positive in September considering that during the first 6M, the Treasury covered just a touch higher than half of the gross funding needs (56.5%) while July and August have been pretty weak. We expect more liquidity to be swept off the market, compared to July and August. Also, the monetary policy is scheduled on 30th September so most effects will be seen later on. Additionally, we do not see September's budget expenditures to significantly boost liquidity.

The Central Bank injected only RON 7 mn last week at the repo auction



Sources: NBR, OTP Research



Sources: NBR, OTP Research

Last data: 16.08.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4.50	0	-75
ROBOR ON	1.89	-31	-449
ROBOR 3M	3.76	-16	-227
ROBOR 6M	4.09	-18	-219
ROBOR 9M	4.15	-13	-213
ROBOR 1Y	4.15	-13	-216

REPO			
	Value (mn RON)	Wly chg. (mn RON)	rTD chg. (mn RON)
repo amount	7.0	7.0	- 3,988.3

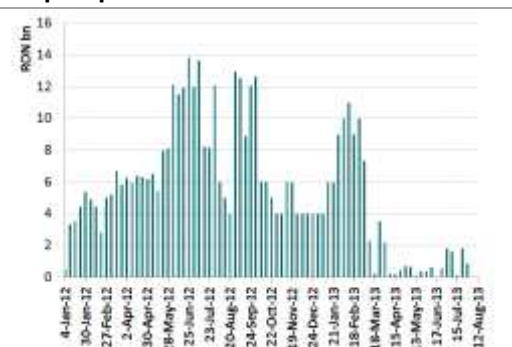
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	rTD chg. (mn RON)
outstanding	4,149.7	4149.7	1248.3

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	12	-7	-13
USDRON 1M	86	-6	-63
USDRON 3M	240	-6	-7
EURRON 1W	18	0	-23
EURRON 1M	109	-8	-36
EURRON 3M	350	-13	-161

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-85	0	70
EURRON 3Y	-73	0	83
EURRON 5Y	-73	0	78

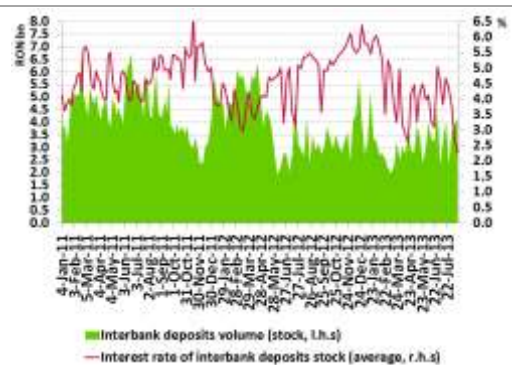
Source: Reuters

Repo operations since 2012



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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