

Treasury Sales Team

# Weekly Report

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## Romania

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## Bond yields retreated up to 40 bps after Fed's surprise

### Macroeconomics: In September, NBR survey points to improvement in industrial production (Page 3)

The latest issue of the NBR survey, for September, shows that expectations are positive in what regards industrial production, unlike the previous month. The latest released business cycle indicator is for July, when industrial production fell only marginally (-0.1% MoM seasonally adjusted). For August, the NBR survey had pointed to generally favorable perspective in industry, looking at the seasonally adjusted data. Altogether, these early signals point to good dynamics of industrial production in Q3. Moving further to construction works, the survey shows that optimism is fading off in September, after we saw that in August constructions were still expected to perform well. This comes as good news though, given the extraordinary evolution seen in July (+8.5% MoM, seasonally adjusted). Again, taking the survey as a proxy, we see these readings as pointing to a recovery in construction activity in Q3.

### FX markets: The EUR/RON touched 4.45 after Fed's policy decision (Page 4)

Fed's decision to postpone tapering pushed the EUR/RON to 4.45, but the appreciation was not sustained later on as the markets are reassessing the Fed's monetary policy decision and consider that ultimately, there will be a reduction in Fed's liquidity injection. Bond yields reacted immediately and we saw the 3Y-5Y maturities losing ~30-40 bps, which proves that non residents are still interested in Romanian assets, albeit the drive is not so strong compared to the first half of the year. Looking forward to the next few quarters, the fundamentals of the leu are good but compared to the end of 2012 and Q1 2013 we do not expect such rapid and strong inflows of portfolio or FDI investments which could firm the leu significantly. Moreover, as internal demand slowly picks up, we expect a moderate widening of the current account deficit, which shrank significantly on a 12M rolling basis, from 4% in December 2012 to 1.2% in July 2013 (our estimation).

### Government securities: The yield curve shifted down 30-37 bps in a week (Page 5 - 6)

Yields shed off 30 to 37 bps last week as RON liquidity was abundant and most importantly, as the international environment was extremely favorable. Fed's decision to continue to inject the same amount of liquidity as before, boosted emerging markets assets, including the Romanian ones. NBR is in the process of cutting the base rate as disinflation continues and lending is hurting. For September the markets wait for a 25 bp rate cut and a higher step will be consequently reflected in bonds prices as well. In our base scenario, we see the NBR reducing the base rate up to 4% in Q1 2014. Romania sold the planned amount in 12M in T-bills, of RON 1 bn at the average accepted yield of 3.88%, lower by 27 bps than the previous similar tender in the beginning of August. Demand was healthy and bid to cover ratio stood at 3.8X.

### MM: The Central Bank is expected to cut the base rate by 25 bps on 30th September (Page 7)

For nearly 2 months now, liquidity injection at the repo has been nearly zero and money market rates have seen a decline. Meanwhile, private lending has been in the negative territory far more (from March 2013, annual basis) and especially the corporate sector has been hurting. Q3 will likely end on a negative note, as banks expected. Supported by the clear disinflation trend, the Central Bank will try to give another breath of oxygen to lending by cutting the base rate on 30th September and therefore continuing the base rate cut cycle. The CB forecasts headline inflation to be around 3% YoY in September and we see fair chances of that to happen.

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**Macroeconomics: In September, NBR survey points to improvement in industrial production**

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
16 Sep - 20 Sep		no data			
24 Sep	August	Non -governmental loans (y-o-y, %)			-4,4
24 Sep	August	Non -governmental deposits (y-o-y, %)			2,9
24 Sep	August	M3 aggregate (y-o-y, %)			2,0

The latest issue of the NBR survey, for September, shows that expectations are positive in what regards industrial production, unlike the previous month. The latest released business cycle indicator is for July, when industrial production fell only marginally (-0.1% MoM seasonally adjusted). For August, the NBR survey had pointed to generally favorable perspective in industry, looking at the seasonally adjusted data. Altogether, these early signals point to a good dynamics of industrial production in Q3. Moving further to construction works, the survey shows that optimism is fading off in September, after we saw that in August constructions were still expected to perform well. This comes as good news though, given the extraordinary evolution seen in July (+8.5% MoM, seasonally adjusted). Again, taking the survey as a proxy, we see these readings as pointing to a recovery in construction activity in Q3.

**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%	2,0%	2,3%
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	1,0%	1,0%	3,0%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,4%	1,1%	1,6%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,9%	1,0%	7,5%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	6,4%	3,7%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,9%	1,4%	4,9%
Consumer prices (avg.)	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,3%	2,9%
Budget Balance (GDP%, ESA 95)	-2,9%	-5,7%	-9,0%	-6,8%	-5,6%	-2,9%	-2,9%	-2,9%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	34,7%	37,8%	38,4%	38,8%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-4,0%	-1,1%	-1,9%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,3	-1,6	-2,9
Unemployment	6,4%	5,8%	6,9%	7,3%	7,4%	7,1%	7,3%	7,1%
Nominal wage growth	21,8%	26,1%	4,8%	3,1%	4,1%	4,6%	5,0%	5,0%
Real wage growth	14,7%	16,5%	-1,5%	-3,7%	-1,9%	1,2%	0,7%	2,0%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	4,83%	4,00%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	4,25%	4,00%
EUR/RON (avg.)	3,34	3,68	4,24	4,21	4,24	4,46	4,41	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 EUR/RON touched 4.45 after Fed's policy decision

Fed's decision to postpone tapering pushed the EUR/RON to 4.45 on 18<sup>th</sup> September, but the appreciation was not sustained later on as the markets are reassessing the Fed's monetary policy decision and consider that ultimately, there will be a reduction in Fed's liquidity injection. However, the leu firmed marginally last week, even if it wiped out most of the initial gains. The evolution among its peers was mixed, with the Polish zloty losing 0.5% and the Czech Crown around 0.7%. **Bond yields reacted immediately and we saw the 3Y-5Y maturities losing ~30-40 bps, which proves that non residents are still interested in Romanian assets, albeit the drive is not so strong compared to the first half of the year. Looking forward to the next few quarters, the leu fundamentals are good but compared to the end of 2012 and Q1 2013 we do not expect such rapid and strong inflows of portfolio or FDI investments which could firm the leu significantly.** Moreover, as internal demand slowly picks up, we expect a moderate widening of the current account deficit, which shrank significantly on a 12M rolling basis, from 4% in December to 1.2% in July ( our estimation).

### Last week was all about the Fed



Sources: Reuters, OTP Research

Last data: 20.09.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,46	↓	-0,13	↑ 0,41
USDRON	3,30	↓	-1,94	↓ -2,10
CHFRON	3,62	↑	0,17	↓ -1,53
RONJPY	3,32	↓	-1,87	↓ -14,46
RONPLN	1,05	↓	-0,74	↓ -3,15
100HUFRON	1,49	↑	0,34	↓ -2,11
RONCZK	0,17	↓	-0,35	↓ -2,43
RONRUB	0,10	↓	-0,09	↓ -6,12
RONRSD	0,04	↑	0,12	↓ -1,47
RONBGN	2,28	↓	-0,28	↑ 0,33

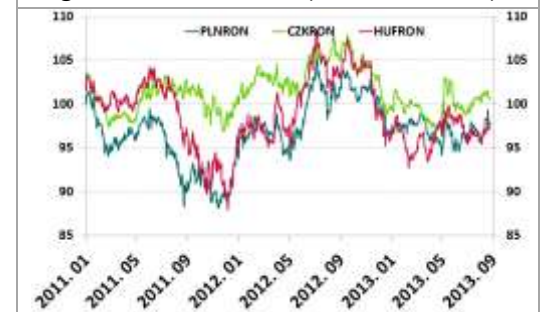
Source: Reuters

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



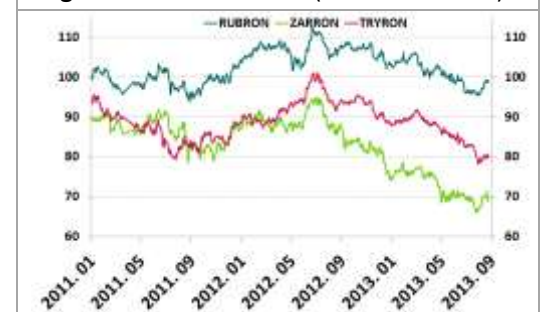
Sources: Reuters, OTP Research

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



Sources: Reuters, OTP Research

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



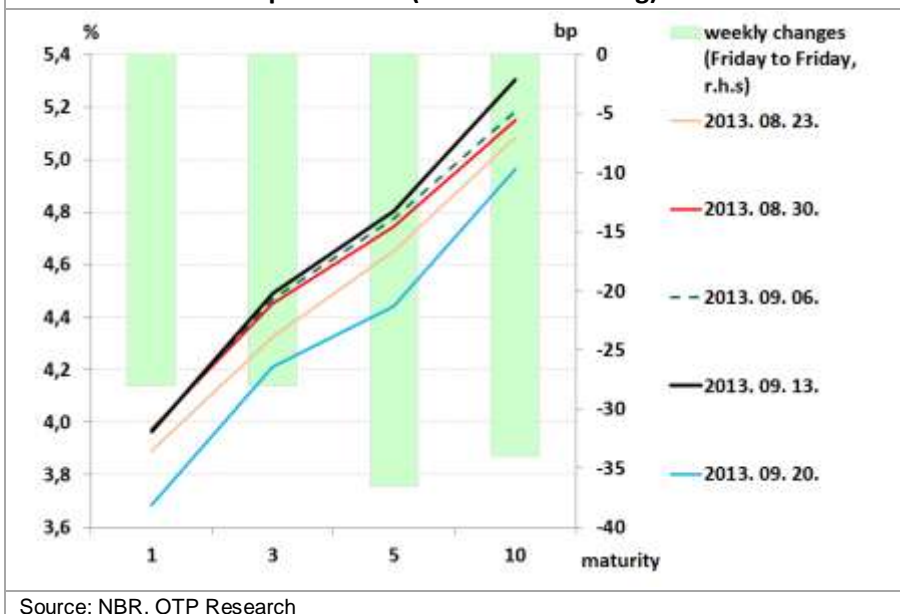
Sources: Reuters, OTP Research

## Government securities: The yield curve shifted down 30-37 bps in a week

Yields shed off 30 to 37 bps last week as RON liquidity was abundant and most importantly, as the international environment was extremely favorable. Fed's decision to continue to inject the same amount of liquidity boosted emerging markets assets, including the Romanian ones. NBR is in the process of cutting the base rate as disinflation continues and lending is hurting. For September the markets wait for a 25 bp rate cut and a higher step will be consequently reflected in bonds prices as well. In our base scenario, we see the NBR reducing the base rate up to 4% in Q1 2014.

Romania sold the planned amount in 12M in T-bills, of RON 1 bn, at the average accepted yield of 3.88%, lower by 27 bps than the previous similar tender in the beginning of August. Demand was healthy and bid to cover ratio stood at 3.8X.

### Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

### T- bills auctions in September (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN0C1	16.09.2013	18.09.2013	17.09.2014	12	1.000.000.000

Sources: Ministry of Finance, OTP Research

### Bond auctions in September (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon	Indicative target amount (RON)	Indicative target SSON* (RON)
RO1316DBN053	09.09.2013	10.09.2013	11.09.2013	29.08.2016	3	4,75	1.000.000.000	100.000.000
RO1320DBN022	12.09.2013	-	16.09.2013	29.04.2020	7	5,75	500.000.000	-
RO1318DBN034	23.09.2013	24.09.2013	25.09.2013	28.11.2018	5	5,8	700.000.000	70.000.000
RO1323DBN018	26.09.2013	-	30.09.2013	26.04.2023	10	5,85	500.000.000	-

Sources: Ministry of Finance, OTP Research

Note:\* Supplementary sessions of competitive offers

Last data: 20.09.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	3,57	↓ -31	↓ -262
12M	3,69	↓ -28	↓ -248
3Y	4,21	↓ -28	↓ -196
5Y	4,44	↓ -37	↓ -176
10Y	4,97	↓ -34	↓ -142

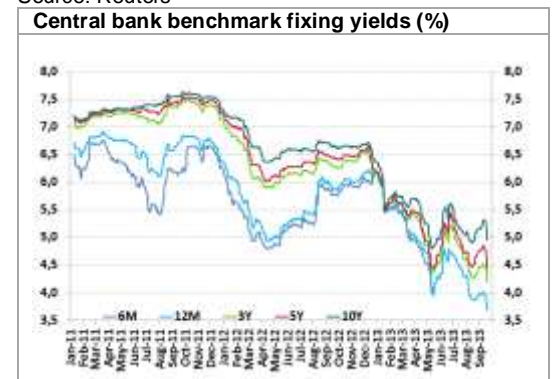
  

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	380	↓ -28	↓ -229
GERROM 5Y	345	↓ -37	↓ -235
GERROM 10Y	299	↓ -34	↓ -195
3Y-5Y	23	↓ -9	↑ 19
5Y-10Y	53	↑ 3	↑ 35
3Y-10Y	76	↓ -6	↑ 54
FLY 3-5-10	30	↑ 11	↑ 15

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	125	↓ -6	↓ -10
5Y EURO	176	↓ -10	↓ -18

Source: Reuters



Sources: NBR, OTP Research

### Slope of the yield curve (bp)

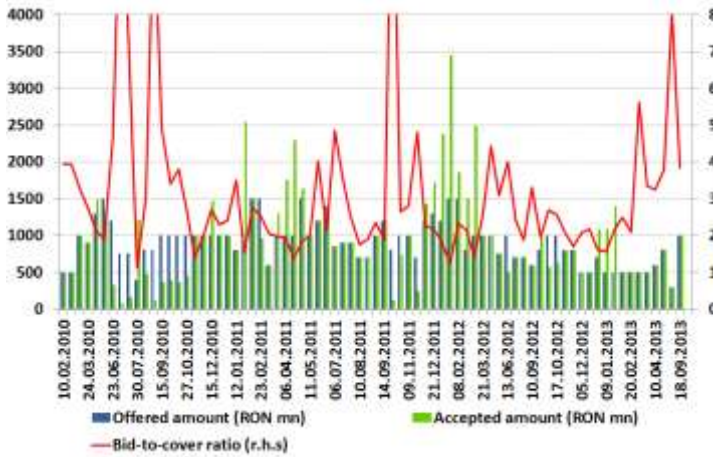


Sources: NBR, OTP Research

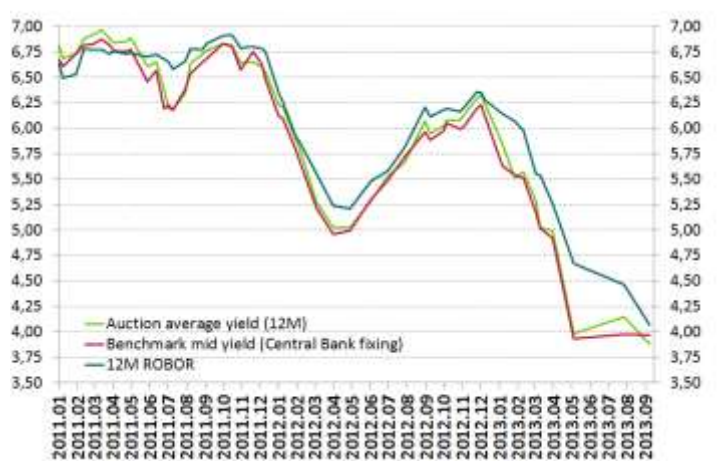
### FLY 3-5-10 (bp)



Sources: NBR, OTP Research

**12M Auctions data**


Sources: NBR, OTP Research

**12M Interest rates (RON)**


Sources: NBR, OTP Research

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

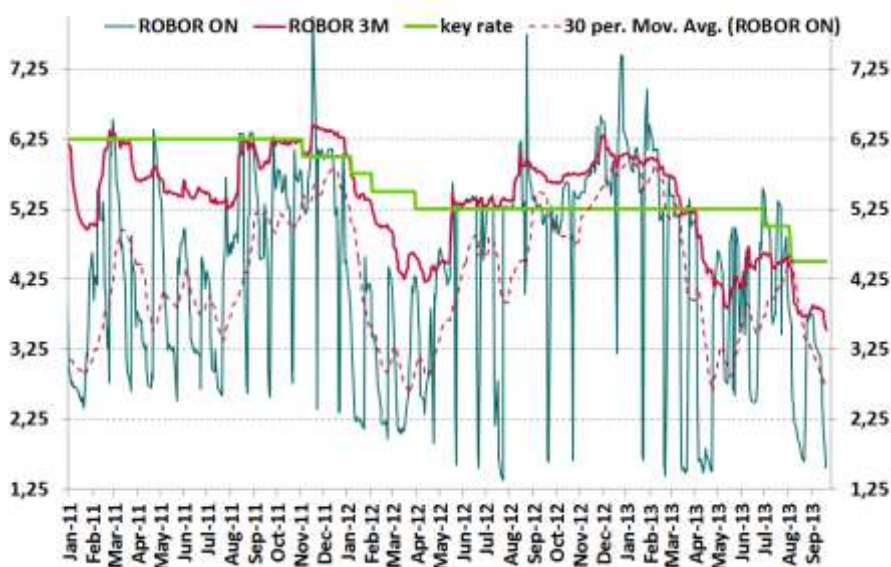
	RO1314CTN0C1
Offered amount (RON mn)	1000
total bids (RON mn)	3831
accepted amount (RON mn)	1000
average accepted yield (%)	3,88
coupon	-

Source: NBR, OTP Research

## MM: The Central Bank is expected to cut the base rate by 25 bps on 30<sup>th</sup> September

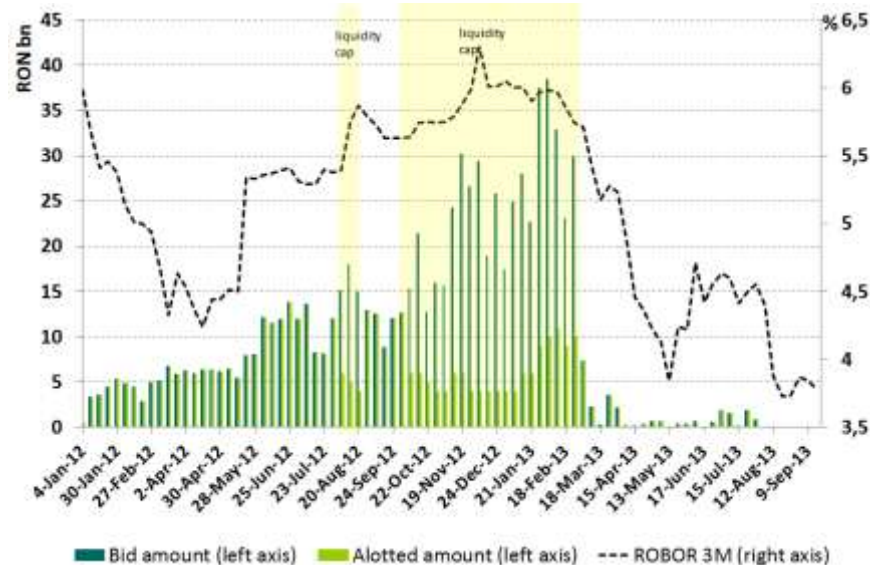
Last week went on with no surprises. Money market rates eased as it was the end of the reserve period. For nearly 2 months now, liquidity injection at the repo has been nearly zero and money market rates have seen a decline. Meanwhile, private lending has been in the negative territory far more (from March 2013, annual basis) and especially the corporate sector has been hurting. Q3 will likely end on a negative note, as banks expected. Supported by the clear disinflation trend, the Central Bank will try to give another breath of oxygen to lending by cutting the base rate on 30<sup>th</sup> September and therefore continuing the base rate cut cycle. The CB forecasts headline inflation to be around 3% YoY in September and we see fair chances of that to happen.

### Most important MM instruments' evolution



Sources: NBR, OTP Research

### The weekly repo auction takes a backseat



Sources: NBR, OTP Research

Last data: 20.09.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4,50	↔ 0	↓ -75
ROBOR ON	1,56	↓ -157	↓ -482
ROBOR 3M	3,53	↓ -29	↓ -250
ROBOR 6M	3,96	↓ -16	↓ -232
ROBOR 9M	3,99	↓ -16	↓ -229
ROBOR 1Y	4,02	↓ -13	↓ -229

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	-	0,0	- 3.995,3

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.366,8	81,5	1465,4

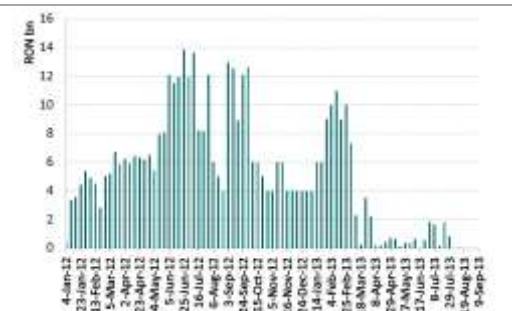
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	16	↓ -6	↓ -9
USDRON 1M	66	↓ -27	↓ -83
USDRON 3M	218	↓ -22	↓ -28
EURRON 1W	24	↓ -1	↓ -16
EURRON 1M	121	↑ 36	↓ -24
EURRON 3M	333	↓ -34	↓ -177

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

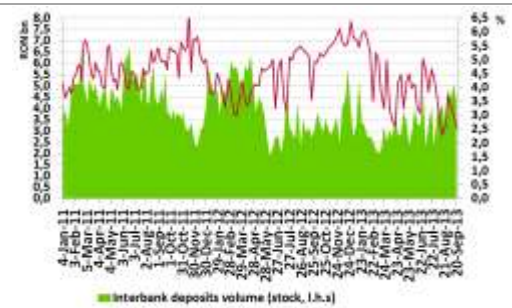
Source: Reuters

### Repo operations since 2012



Sources: NBR, OTP Research

### Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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