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Weekly Report Romania

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The macro data released in August reinforce the growth prospects in Q3

Macro: Constructions and retail sales likely increased in Q3, based on July and August data (Page 3- 5)

In August, constructions continued to increase by 7.7%, driven again by an extraordinary hike of the residential segment (+47.8% YoY) and civil engineering as well (+9% YoY). Overall performance in Q3 shows that constructions will likely add to the annual and quarterly GDP growth, unlike in Q2. Despite the jumps we see in residential buildings activity, the building permits data (6M rolling average) shows that the recovery is very slow and that this number is still falling, albeit at a softer pace. Industrial sales and new orders inched up as well in August. In both cases, the biggest advance is seen by the capital goods industry which could be a sign that companies are making investment decisions. This, however, would be an important development considering that in Q2, GDP data showed a strong decline in fixed investment. Q3 retail sales are up by 2.3% QoQ (based on monthly average data). This could be an indicator that households consumption has picked up in Q3, compared to a mere 0.3% QoQ in Q2.

FX markets: The IMF warns of next year's risks (Page 6)

Events playing on the international scene were mixed in the past week and the leu reacted moderately. In the US, the government shut down partially. On top of this, if the debt ceiling is not raised until mid October, the US will default on its debt, according to US government officials. On the other hand in Europe, more reinforcement came from the ECB regarding efforts to maintain low money market rates, as the economic growth is weak in the eurozone and unemployment is at high level. While these events did not cause a large volatility to the exchange rate and assuming that raising the US borrowing limit will happen in due time, the next moment to mark in the calendar is December, when the Fed could announce the beginning of tapering. In addition to the short term risks, the IMF also warns in its latest country report about the risks surrounding the currency next year. First, the tighter monetary policy in developed markets could generate capital account outflows as risk and reward are being reassessed. Second, political uncertainty that surrounds the presidential elections in 2014 could bite into investor and consumer sentiment and therefore weigh on the leu.

Government securities: The Treasury sold more than the planned amount so far (Page 7 - 8)

The results obtained at the auctions organized by the MoF in October were mixed: the auction for 5Y bonds (average remaining maturity of 46M) and 12M T bills had a healthy demand and yields edged lower than the ones at the previous tenders for similar maturities. Demand for 10Y bonds was less impressive and the average accepted yield edged higher compared to previous tender. The trend was in line with the secondary market where the yield curve steepened. The short end edged lower as money market rates continue to ease. At the moment, inflation is expected to fall as low as 2.6% YoY in September (Reuters poll) from 3.7% YoY in July and disinflation process is seen to continue until Q1 2014. Currently, the Treasury covered more than 3 quarters of gross financial needs, according to our calculations and it also stands on a buffer greater than 4M which is the targeted figure, agreed with the IMF. In the coming months, we expect yields to ease further, in absence of shocks coming from the international markets.

MM: Money market rates continue to ease (Page 9-10)

September data showed that deposits to the ON facility offered by the Central Bank mounted to RON 1.8 bn/ day compared to RON 1.5 bn in August. Also, the daily average of the repo stock was insignificant, at RON 10 mn/day. Since the beginning of the year, ROBOR 3M came down by 287 bps, almost three times more than the adjustment of the base rate. Inflation is expected to fall below 2% in Q1 2014, making room for monetary policy easing.

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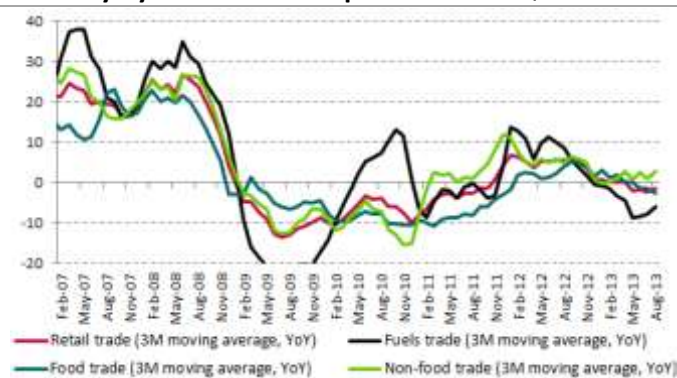
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Macroeconomics: Constructions and retail sales likely increased in Q3, based on July and August data

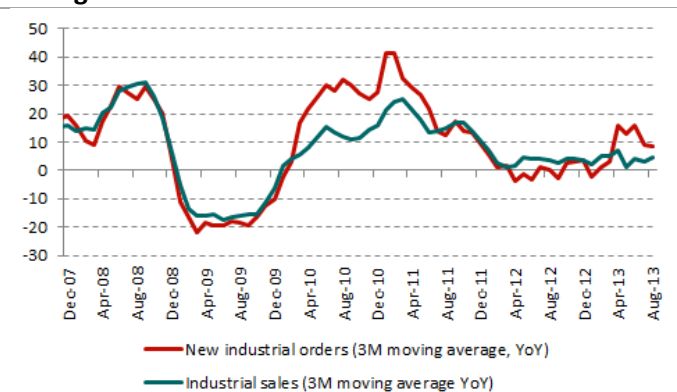
PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
30 Sep	Sep	Base rate decision (%)	4,25	4,25	4,5
30 Sep	Aug	Bulding permits (y-o-y, %)	-4,0		6,7
01 Oct	Aug	ILO unemployment (seasonally adjusted, %)	7,5		7,5
01 Oct	Sep	FX reserves (bn EUR)	33,1		32,2
02 Oct	Aug	Retail trade turnover index (y-o-y, %)	-1,4		1,2
02 Oct	Aug	Producer Price Index (y-o-y, %)	0,6		1,6
07 Oct	Aug	Net wage growth rate (y-o-y, %)	4,6		5,1
07 Oct	Aug	Industrial trade turnover index (y-o-y, %)	0,5		8,8
07 Oct	Aug	Index value of new orders in manufacturing (y-o-y, %)	6,1		9,4
08 Oct	Aug	Construction works index (y-o-y, %)	7,7		15,8
10 Oct	Aug	Exports (y-o-y, %)			18,1
10 Oct	Aug	Imports (y-o-y,%)			11,3

Retail trade fell by 1.4% YoY in August, especially due to the fuels sales (-6.9% YoY) but food sales were down as well (-2.7% YoY). However, the 3M rolling data shows that fuels sales, which seem to be the most cyclical, seemed to have changed the trend and saw a turning point in May. Also, on a monthly basis, the seasonally adjusted data indicates that **Q3 sales are up by 2.3% QoQ (based on monthly average data)**. This could be an indicator that **households consumption has picked up in Q3**, compared to a mere 0.3% QoQ in Q2. Behind these figures we look at continued disinflation process and relatively stable exchange rate which improved consumers' confidence. Also, households already reap the benefits of the good agricultural year, as in the rural areas the income from agriculture and the equivalent value of consumption of agro-food products from own resources amounted to 40% in 2012. Countrywide, these income categories totalled one fifth of total income/ person according to the Family Budget Survey.

Industrial sales and new orders were up by 0.5% YoY and 6% YoY in August. In both cases, **the biggest advance is seen by the capital goods industry** which could be a sign that companies are making investment decisions. This, however, would be an important development considering that in Q2, GDP data showed a strong decline in fixed investment. For September, **the NBR survey indicates a further uptake on new industrial orders and external demand is also improved.**

Retail trade is still lower on an annual basis, but monthly dynamics show improvement in Q3


Source: NBR, OTP Research

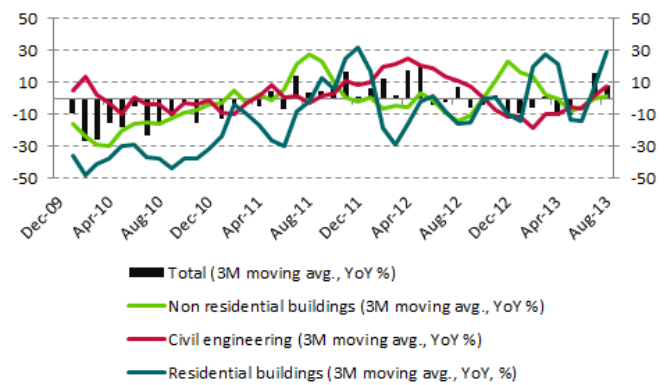
Industrial sales and new orders continued to advance in August


Source: NIS, OTP Research

In August, constructions activity continued to increase by 7.7%, supported again by an extraordinary advance of the residential segment (+47.8% YoY) and civil engineering as well (+9% YoY). The non residential segment (which includes constructions of offices and factories) declined by 8.9% YoY. The 3M moving average data points to a clear uptake in Q2 and expectations for September are also positive. Despite the jumps we see in residential buildings activity, the building permits data (6M rolling average) shows that the recovery is very slow and that this number is still falling annually, albeit at a softer pace. In what regards prices, apartment prices continued to decline (-1% YoY) in Q1 2013 (the latest available data).

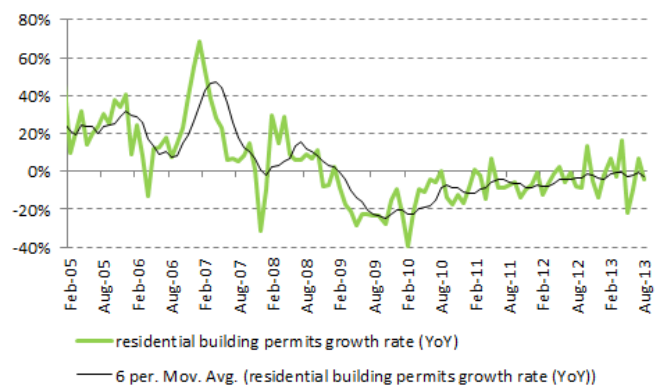
The unemployment rate remained unchanged for the past 3 months, at 7.5% in August and it is at the highest level seen in the last two years. The number of the unemployed is estimated at 744 thousand, which is 0.7% more than in July and 7.4% more than last year.

Construction activity rose by 7.7% in August driven by the residential and civil engineering segments



Source: NIS, OTP Research

Residential building permits are still falling annually



Source: NIS, OTP Research

The unemployment rate did not increase in August (7.5%)



Source: Eurostat, 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%	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

Note: * under revision

FX markets: The IMF warns of next year's risks

Events playing on the international scene were mixed in the past week and the leu reacted moderately. In the US, the government shut down partially. On top of this, if the debt ceiling is not raised until mid October, the US will default on its debt, according to US government officials. On the other hand in Europe, more reinforcement came from the ECB regarding efforts to maintain low money market rates, as the economic growth is weak in the eurozone and unemployment is at high levels. Mr. Mario Draghi commented in the press conference following the rate set meeting that **ECB was ready to consider all measures in order to prevent money market rates for climbing**: he specifically added that another long term refinancing operation (LTRO) could be also used to keep money market rates in check. The announcement sent the euro to 8M high against the dollar. While these events did not cause a large volatility to the leu and assuming that raising the US borrowing limit will happen in due time, **the next moment to mark in the calendar is December, when the Fed could announce the beginning of tapering.**

In addition to the short term risks, the IMF also warns in its latest country report about the risks surrounding the currency next year:

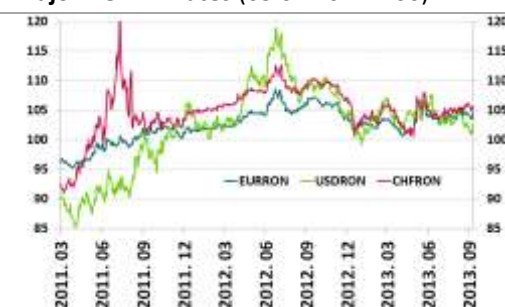
- the tighter monetary policy in developed markets could generate **capital account outflows** in Romania, as risk and reward are being reassessed
- **political uncertainty that surrounds the presidential elections** in 2014 could bite into investor and consumer sentiment.

As a possible counter measure, the Central Bank could tighten liquidity conditions, given that the base rate is at an historical low. The general assesment of the economy is moderately positive: **GDP is expected to increase by 2% in 2013 and 2.2% in 2014**, the Fund mentioning that **domestic demand** may be supported by better absorbtion of EU funds and nominal credit growth. However, these two drivers have lacked so far this year. Under the current stand by agreement, Romania has requested EUR 2 bn from the IMF and EUR 2 bn from the EU while EUR 1 bn is available from the World Bank. **The first review will be made on 20 December.** The IMF has also released its world economic outlook yesterday where it cut the growth prospects of the global economy to 3.6% next year, due to a reassessment of emerging market dynamics. In the eurozone, growth is expected to reach 1% next year, compared to a contraction in 2013.

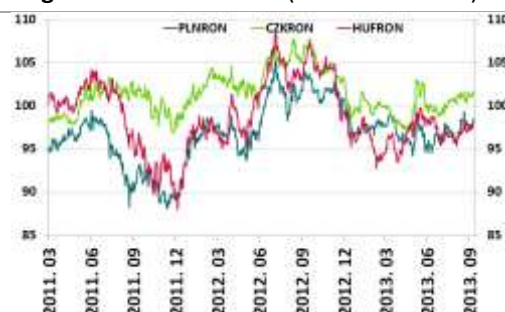
Last data: 08.10.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,44	↓	-0,09	↓ -0,05
USDRON	3,27	↓	-0,48	↓ -2,86
CHFRON	3,62	↓	-0,25	↓ -1,61
RONJPY	3,37	↑	0,67	↓ -13,00
RONPLN	1,06	↑	0,38	↓ -2,77
100HUFRON	1,50	↓	-0,11	↓ -1,60
RONCZK	0,17	↑	0,35	↓ -1,81
RONRUB	0,10	↓	-0,98	↓ -8,42
RONRSD	0,04	↑	0,11	↓ -1,70
RONBGN	2,27	↓	-0,13	↓ -0,08

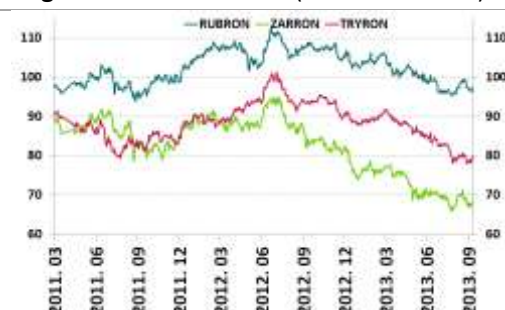
Source: Reuters

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 Treasury sold more than the planned amount so far

The results obtained at the auctions organized in October were mixed: the 5Y bonds (average remaining maturity of 46M) had an average accepted yield of 4.37%, while 3Y bonds were sold in the beginning of September at 4.63%. Demand was good and total bids stood at RON 1.6 bn. The Treasury sold double the planned amount of RON 500 mn. At the auction for 10Y bonds, the average accepted yield was 5.29%, 4bps higher than the one at the previous tender at the end of September. Meanwhile, on the secondary market yields moved up at the long end of the curve, up to 7 bps on a weekly basis so market conditions were not optimal. The yield curve steepened from the beginning of the year as well, and the 3Y-10Y spread rose by 80 bps year to date. At the auction held this week, for 12M T-bills, the yield was 3.52%, 36 bps lower than in Mid September. We notice that the short end of the curve is moving lower due to good liquidity on the money markets.

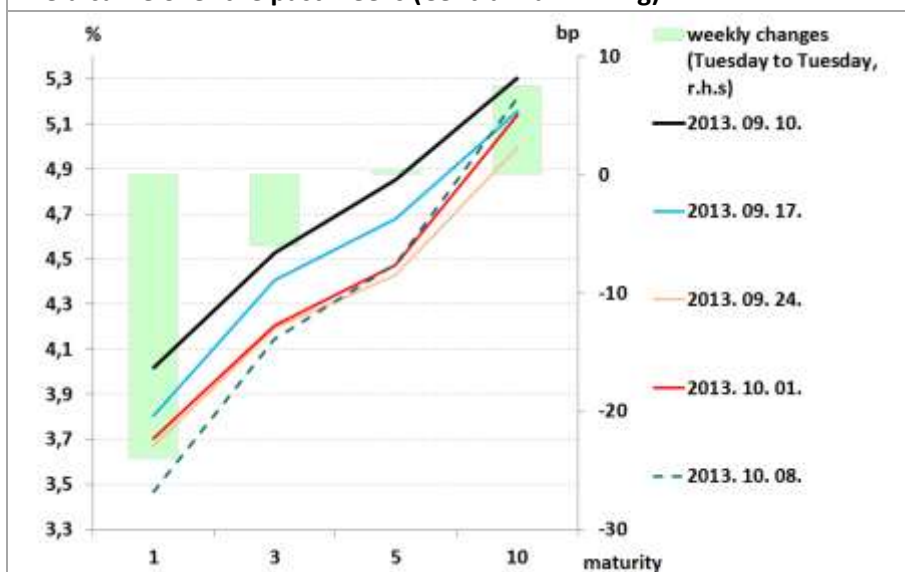
At the moment, inflation is expected to fall as low as 2.6% YoY in September (Reuters poll) from 3.7% YoY in July and disinflation process is seen to continue until Q1 2014. Currently, the Treasury covered more than 3 quarters of gross financial needs, according to our calculations and it also stands on a buffer greater than 4M which is the targeted figure, agreed with the IMF. In the coming months, we expect yields to ease further, in absence of shocks coming from the international markets.

Last week's auction results (RON denominated)

	RO1323DBN018	RO1217DBN046
Offered amount (RON mn)	500	500
total bids (RON mn)	812	1643
accepted amount (RON mn)	500	1000
average accepted yield (%)	5.29	4.37
coupon	5.85	5.90

Source: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

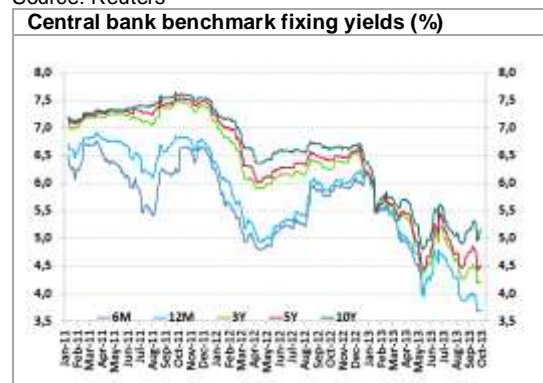
Last data: 08.10.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	3,37	↓ -18	↓ -282
12M	3,47	↓ -24	↓ -270
3Y	4,15	↓ -6	↓ -202
5Y	4,48	↑ 1	↓ -172
10Y	5,22	↑ 7	↓ -117

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	384	↓ -6	↓ -224
GERROM 5Y	366	↑ 1	↓ -214
GERROM 10Y	341	↑ 7	↓ -153
3Y-5Y	34	↑ 7	↑ 30
5Y-10Y	73	↑ 7	↑ 56
3Y-10Y	107	↑ 14	↑ 86
FLY 3-5-10	40	↑ 0	↑ 25

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	117	↓ -2	↓ -18
5Y EURO	172	↓ -2	↓ -22

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

T - bills auctions in October (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN0D9	07.10.2013	09.10.2013	08.10.2014	12	700.000.000
RO1314CTN0E7	21.10.2013	23.10.2013	30.04.2014	6	500.000.000

Sources: Ministry of Finance, OTP Research

Bond auctions in October (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon %	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1217DBN046	03.10.2013	-	07.10.2013	26.07.2017	5	5,9	500.000.000	-
RO1323DBN018	03.10.2013	-	07.10.2013	28.04.2023	10	5,85	500.000.000	-
RO1316DBN053	10.10.2013	-	14.10.2013	29.08.2016	3	4,75	1.000.000.000	-
RO1015DBN010	17.10.2013	-	21.10.2013	30.04.2015	5	6	1.000.000.000	-
RO1318DBN034	28.10.2013	29.10.2013	30.10.2013	28.11.2018	5	5,6	500.000.000	50.000.000

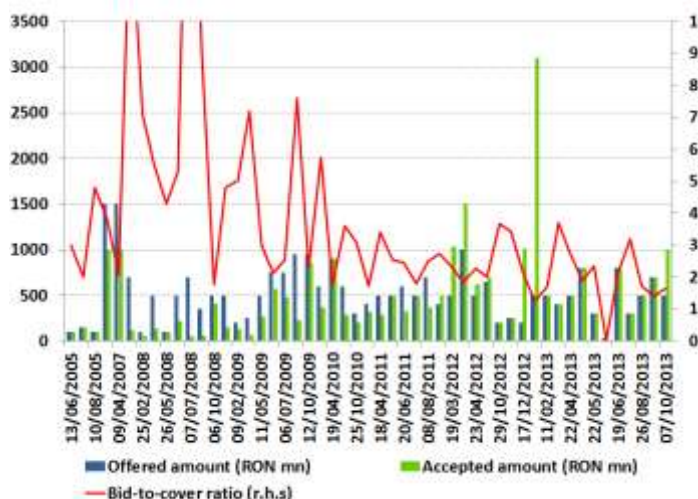
Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

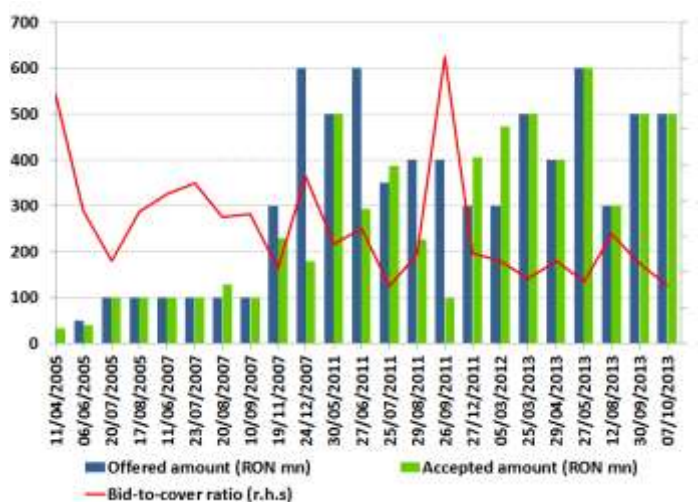
Bond auctions in October (in euro)

ISIN	Auction date	Settlement date	Maturity	Years	Cupon (%)	Indicative target amount (euro)
RO1316DBE011	10.10.2013	14.10.2013	26.02.2016	3	3,25	150.000.000

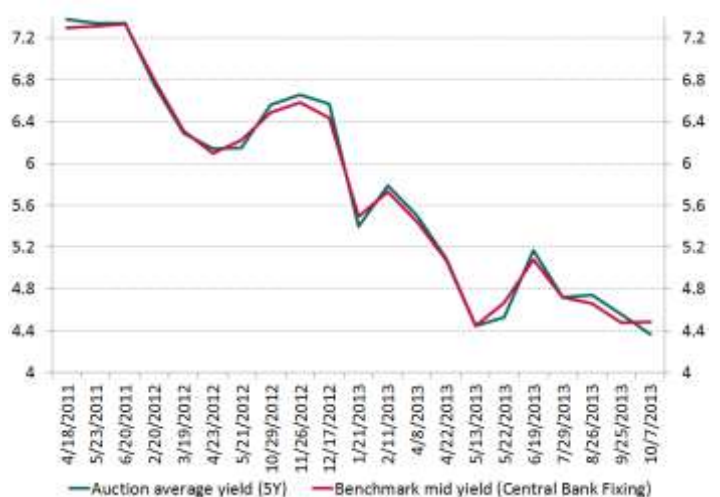
Sources: Ministry of Finance, OTP Research

5Y Auctions data


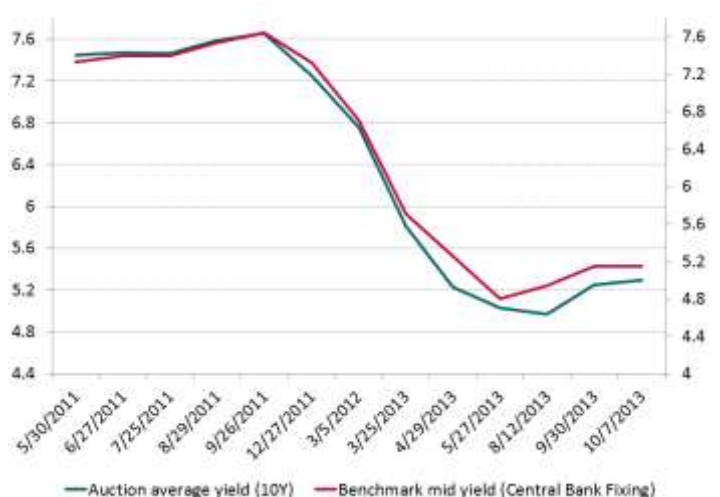
Sources: NBR, OTP Research

10Y Auctions data


Sources: NBR, OTP Research

5Y Interest rates (RON)


Sources: NBR, OTP Research

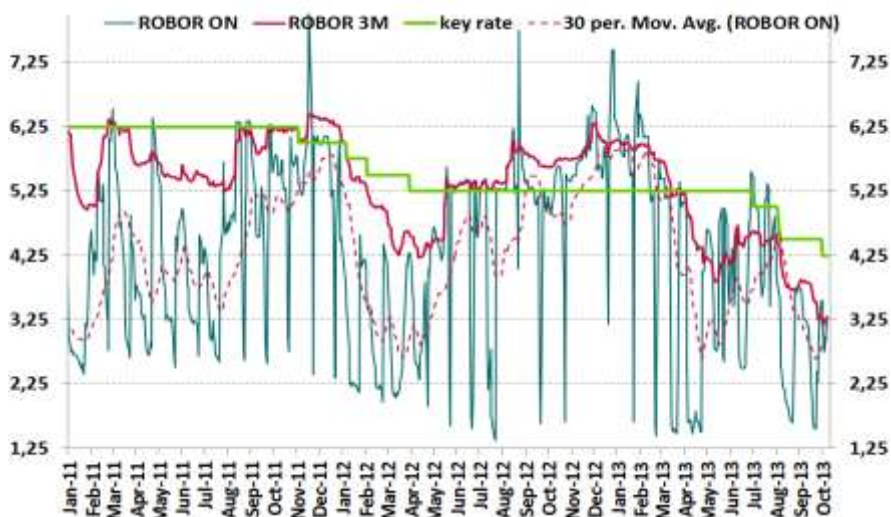
10Y Interest rate (RON)


Sources: NBR, OTP Research

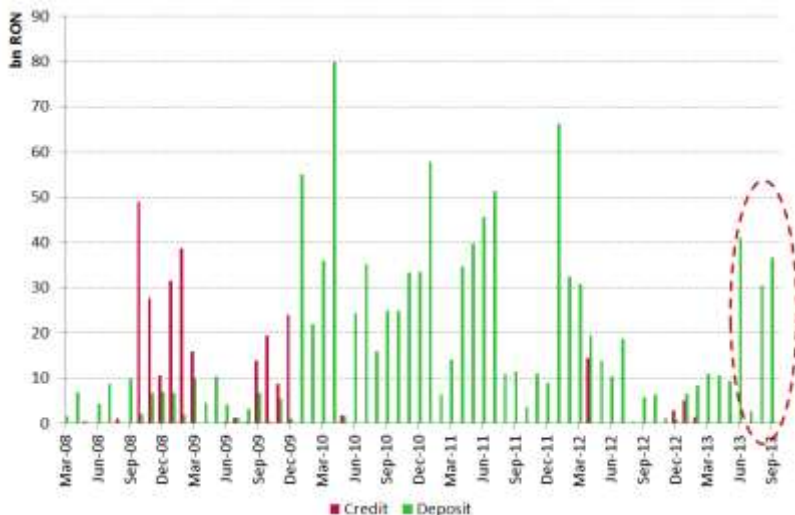
MM: Money market rates continue to ease

September data showed that deposits to the ON facility offered by the Central Bank mounted to RON 1.8 bn/ day compared to RON 1.5 bn in August. Also, the daily average of the repo stock was insignificant, at RON 10 mn/day. These rich liquidity conditions brought down the average ROBOR 3M to 3.65% in September, an all time low. Since the beginning of the year, ROBOR 3M came down by 287 bps, almost three times more than the adjustment of the base rate. **Inflation is expected to fall below 2% in Q1 2014**, making room for monetary policy easing.

According to the latest data (August), RON interest rates for new household term deposits dropped to 4.6% YoY in August, which is more than 100 bps decline compared to December 2012. New loan interest rates for households adjusted even more, by 136 bps in the same period but retail lending is still in the negative territory. Mortgage loan interest rates stood at 6.9% in August while the overdraft rate was 12.6%.

Most important MM instruments' evolution


Sources: NBR, OTP Research

Deposits at the ON facility offered by NBR rose again in Q3 while liquidity injection at the weekly repo almost disappeared since mid-August


Sources: NBR, OTP Research

Last data: 8.10.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4,25	↔ 0	↓ -100
ROBOR ON	2,60	↓ -40	↓ -378
ROBOR 3M	3,16	↓ -1	↓ -287
ROBOR 6M	3,71	↓ -3	↓ -257
ROBOR 9M	3,76	↓ -4	↓ -252
ROBOR 1Y	3,79	↓ -4	↓ -252

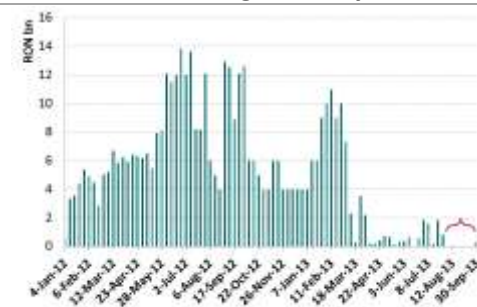
REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	-	-302,6	- 3.995,3

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.070,4	620,1	1169,0

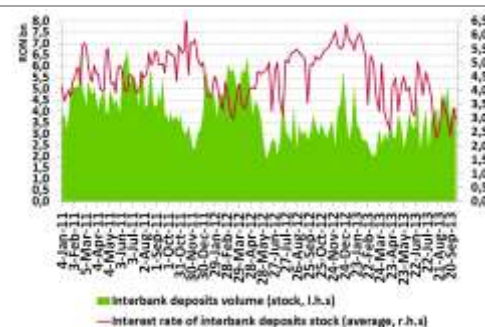
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	17	↓ -3	↓ -8
USDRON 1M	70	↓ -1	↓ -79
USDRON 3M	219	↑ 20	↓ -27
EURRON 1W	22	↓ -6	↓ -19
EURRON 1M	86	↓ -15	↓ -59
EURRON 3M	305	↓ -15	↓ -205

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

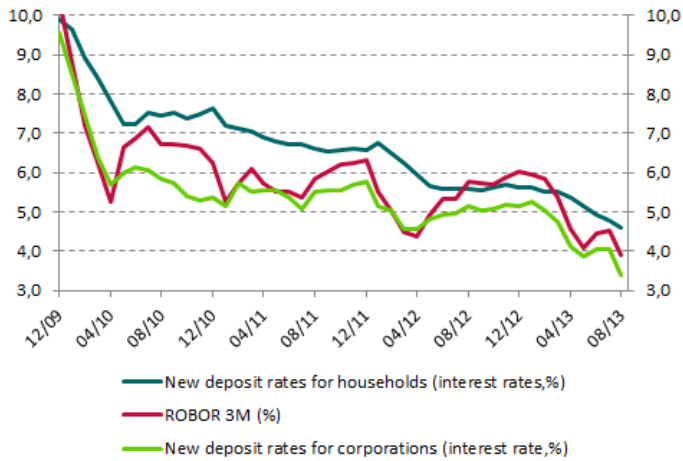
Liquidity injected at the weekly repo auction declined significantly


Sources: NBR, OTP Research

Interbank deposits stock and average interest rate


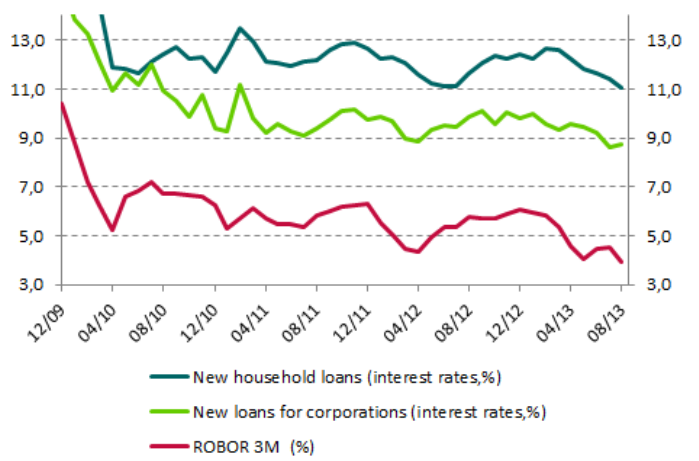
Sources: NBR, OTP Research

Households interest rates for new term deposits (RON) fell by more than 100 bps versus Dec 2012, to 4.6% (Aug)



Sources: NBR, OTP Research

New loans interest rates (RON) for households fell by 136 bps against Dec; the cheapest are mortgage loans (6.9%)



Sources: NBR, OTP Research

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