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Weekly Report Romania

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Emerging market assets find support in the US debt deal

FX markets: The temporary resolution in US gives relief to emerging market assets (Page 3)

The leu and its peers showed little volatility last week, as markets maintained confidence that the US politicians would come to an agreement and will raise the debt ceiling, providing a temporary solution for a recurrent problem in the US. After 16 days of government shutdown a deal was reached that gives relief until 7th February on the US borrowing limit. The relief extends to European emerging market currencies as well because tapering is seen now to be postponed further into 2014. However, even without this risk factor that could have rushed outflows from the bond markets, there are still other conditions that threaten the leu in the coming quarters: the easing of the monetary policy or political uncertainty that surrounds presidential elections. In the short term, we do not see strong influencers to drive the rate away from current levels.

Government securities: The yield curve edged down 7 -24 bps in a week (Page 4 - 5)

The strong disinflation process which continued in September together with the good liquidity conditions on the money market explain the downward shift witnessed by the yield curve last week. Additionally, the international context proved supportive as well and the 5Y CDS (euro contracts) edged down 8 bps on a weekly basis. Also, the new issues regarding the US debt ceiling and the government shutdown have pushed the expected date for tapering further in the future, which eliminates for the moment one of the risks weighing on European emerging markets assets. In fact, current account data for August revealed that tapering discussion materialized in a net outflow of portfolio investments from Romania and it is safe to assume they regard bonds mostly since those were major portfolio inflows this year. The latest auctions held by the Treasury were successful and yields edged down, while demand for Romanian government debt was healthy. Last week, the Ministry of Finance sold the plan 1 RON bn in bonds with 2Y residual maturity at an average accepted yield of 3.48%, in line with markets' expectations. On the secondary market, the yield curve shifted down some 7- 24 bps, especially the front topping the decline in yield.

MM: Strong disinflation supports the rate cut cycle (Page 6)

Headline and Core2 adjusted inflation in September were significantly below the forecast made by NBR, but the Central Bank had initially warned about this risk, given that they did not incorporate the effect of the VAT decline for bread. However, even without the VAT effect, the headline inflation would have been lower than NBR's expectations of 3% for September. This gives more ammunition to NBR to move further with the rate cut cycle. Interest rates for new loans reflect to a much lesser extent the ease of the money market rates and improved liquidity conditions that took place this year. Even if funding in local currency has become cheaper, the non-performing loans ratio is high at 21% (August) and continued to rise this year (by 2.76 percentage points), pointing to the fact that the cost of risk is still biting into banks' revenues and imposes a slower rhythm of reduction in loan interest rates in local currency.

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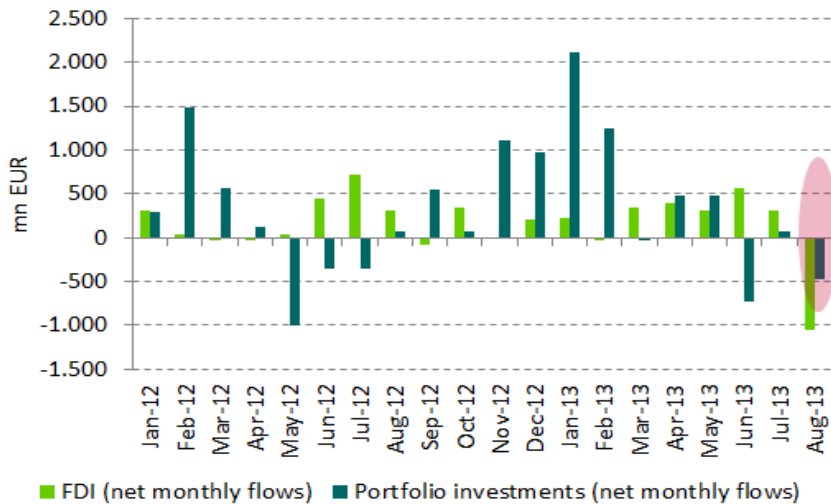
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FX markets: The temporary resolution in US gives relief to emerging market assets

The leu and its peers showed little volatility last week, as markets maintained confidence that the US politicians would come to an agreement and will raise the debt ceiling, providing a temporary solution for a recurrent problem in the US. After 16 days of government shutdown a deal was reached that gives relief until 7th February on the US borrowing limit. The relief extends to European emerging market currencies as well because tapering is seen now to be postponed further into 2014. However, even without this risk factor that could have rushed outflows from the bond markets sooner, there are still other conditions that threaten the leu in the coming quarters: the easing of the monetary policy or political uncertainty that surrounds presidential elections. Meanwhile for the short term, we do not see strong influencers to drive the rate away from current levels.

In August, when tapering talks were heating up, Romania witnessed net portfolio and FDI outflows



Sources: NBR, OTP Research

The leu showed little volatility last week, as investors were optimistic about a resolution regarding the US debt ceiling



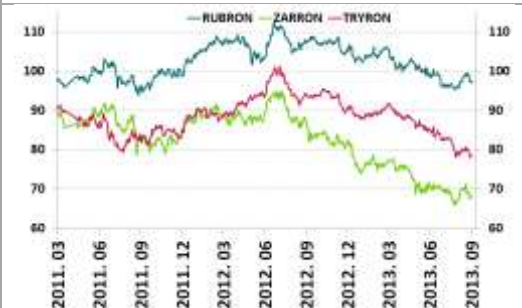
Sources: Reuters, OTP Research

Last data: 17.10.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,45	↓	-0,12	↑ 0,06
USDRON	3,25	↓	-1,18	↓ -3,37
CHFRON	3,60	↓	-0,19	↓ -2,00
RONJPY	3,32	↓	-0,95	↓ -14,37
RONPLN	1,07	↑	0,37	↓ -1,84
100HUFRON	1,51	↑	0,05	↓ -0,99
RONCZK	0,17	↓	-0,57	↓ -2,15
RONRUB	0,10	↓	-0,22	↓ -7,35
RONRSD	0,04	↓	-0,14	↓ -1,25
RONBGN	2,27	↓	-0,02	↑ 0,15

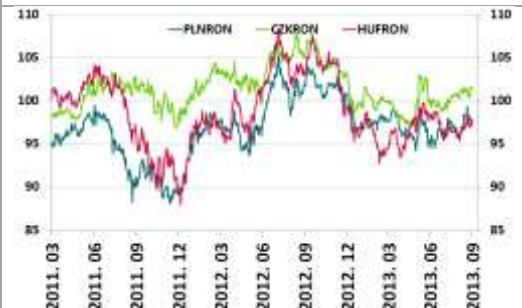
Source: Reuters

Major RON FX rates (03.01.2011=100)



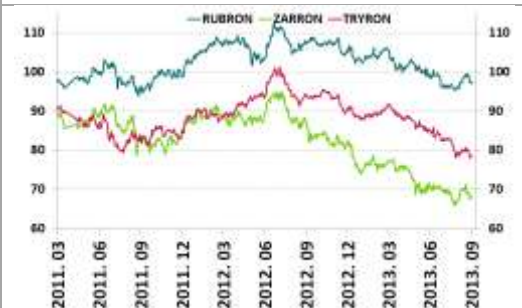
Sources: Reuters, OTP Research

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 edged down 7 -24 bps

The strong disinflation process which continued in September together with the good liquidity conditions on the money market explain the downward shift witnessed by the yield curve last week. Additionally, the international context proved supportive as well and the 5Y CDS (euro contracts) edged down 8 bps on a weekly basis. Also, the new issues regarding the US debt ceiling and the government shutdown have pushed the expected date for tapering further in the future, which eliminates for the moment one of the risks weighing on European emerging markets assets. In fact, current account data for August revealed that tapering discussion materialized in a net outflow of portfolio investments from Romania and it is safe to assume they regard bonds mostly since those were major portfolio inflows this year.

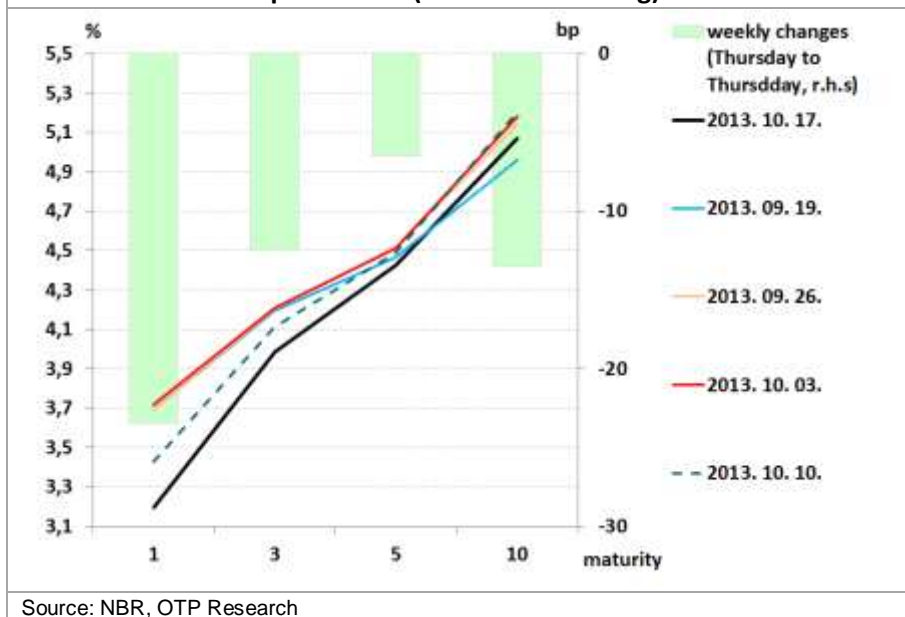
The latest auctions hold by the Treasury were succesful and yields edged down, while demand for Romanian government debt was healthy. Last week, the Ministry of Finance sold the plan 1 RON bn in bonds with 2Y residual maturity at an average accepted yield of 3.48%, in line with markets' expectations. On the secondary market, the yield curve shifted down some 7- 24 bps, especially the front topping the decline in yield. The Treasury sold RON 4.2 bn so far this month in local LCY debt after having sold more than planned at one auction. The initial sales target for this month was RON 4.7 bn.

Last week's auction results (RON denominated)

RO1015DBN010	
Offered amount (mn RON)	1000
Total bids (mn RON)	1846
accepted amount (mn RON)	1000
Average accepted yield (%)	3,48
Coupon (%)	6,00

Source: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

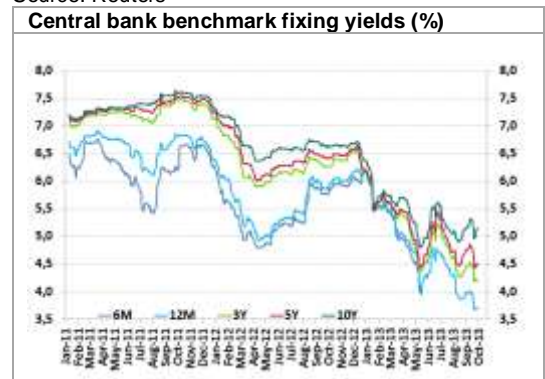
Last data: 17.10.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	3,12	↓ -24	↓ -307
12M	3,20	↓ -23	↓ -297
3Y	3,99	↓ -12	↓ -218
5Y	4,43	↓ -7	↓ -178
10Y	5,07	↓ -14	↓ -131

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	366	↓ -12	↓ -242
GERROM 5Y	356	↓ -7	↓ -224
GERROM 10Y	320	↓ -13	↓ -174
3Y -5Y	44	↑ 6	↑ 40
5Y -10Y	65	↓ -7	↑ 47
3Y-10Y	109	↓ -1	↑ 87
FLY 3-5-10	21	↓ -13	↑ 6

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	109	↓ -9	↓ -27
5Y EURO	163	↓ -8	↓ -31

Source: Reuters



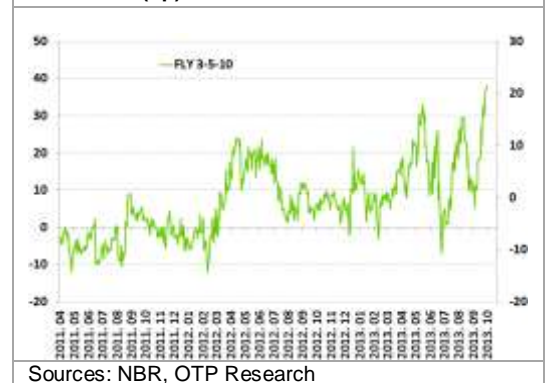
Sources: NBR, OTP Research

Slope of the yield curve (bp)

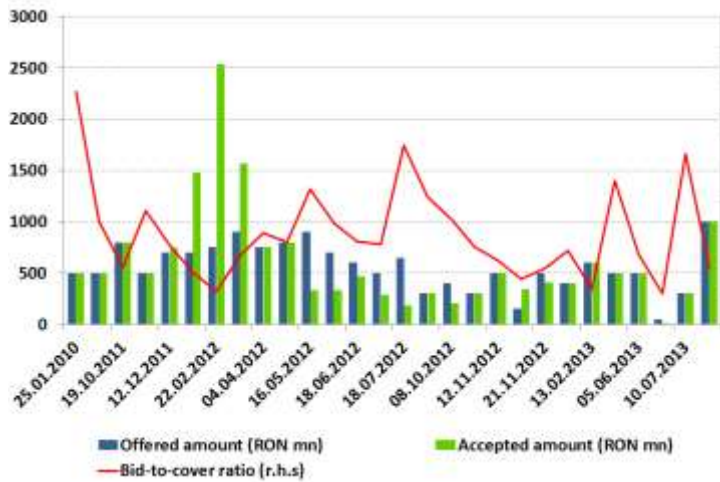


Sources: NBR, OTP Research

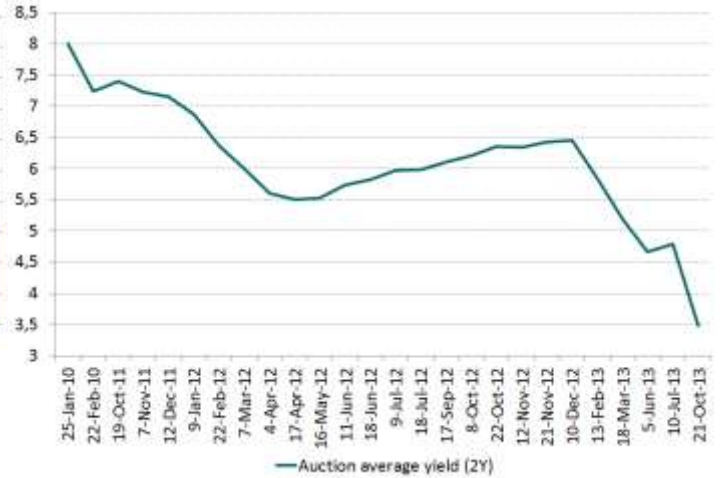
FLY 3-5-10 (bp)



Sources: NBR, OTP Research

2Y Auctions data


Sources: NBR, OTP Research

2Y Interest rate (RON)


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	26.04.2023	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	8	1.000.000.000	-
RO1318DBN034	28.10.2013	29.10.2013	30.10.2013	28.11.2018	5	5,8	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

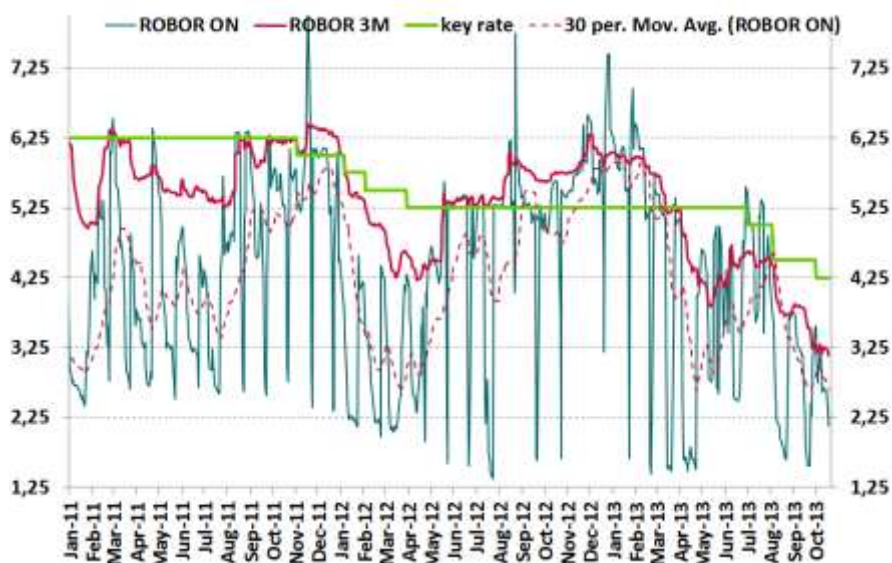
Sources: Ministry of Finance, OTP Research

MM: Strong disinflation supports the rate cut cycle

Headline and Core2 adjusted inflation in September were significantly below the forecast made by NBR, but the Central Bank had initially warned about this risk, given that they did not incorporate the effect of the VAT decline for bread. However, even without the VAT effect, the headline inflation would have been lower than NBR's expectations of 3% for September. **This gives more ammunition to NBR to move further with the rate cut cycle.**

Looking at the last available data, the average interest rate on new loans dropped between June and August by 60 bps while the base rate was cut by 75 bps in this interval. However, interest rates for new loans reflect to a much lesser extent the ease of the money market rates and improved liquidity conditions that took place this year. Even if funding in local currency has become cheaper, the non-performing loans ratio is high at 21% (August) and continued to rise this year (by 2.76 percentage points), pointing to the fact that the cost of risk is still biting into banks' revenues and imposes a slower rhythm of reduction in loan interest rates.

Most important MM instruments' evolution



Sources: NBR, OTP Research

Last data: 17.10.2013

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	-	-	3.995,3

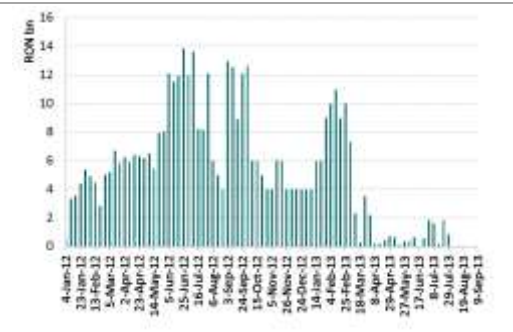
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.062,2	63,6	1160,8

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

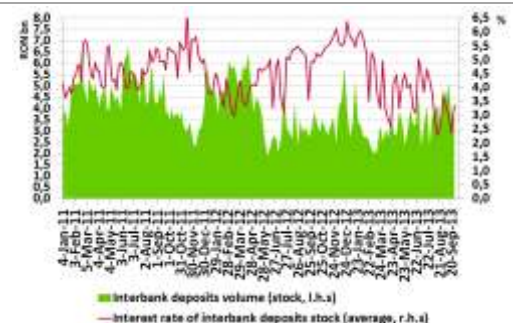
Source: Reuters

Repo operations since 2012



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

Macroeconomics

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
14-18 October		no data			
23 Oct	Sep	Non -governmental loans (y-o-y, %)			-2,6
23 Oct	Sep	Non -governmental deposits (y-o-y, %)			5,1
23 Oct	Sep	M3 aggregate (y-o-y, %)			4,3

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%	2,2%
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	1,0%	0,7%	2,3%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,4%	-1,3%	1,4%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,9%	-2,3%	4,5%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	5,4%	5,9%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,9%	1,4%	6,9%
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%	-2,8%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	34,7%	37,8%	38,5%	39,1%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-4,0%	-0,6%	-1,5%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,3	-0,9	-2,2
Unemployment	6,4%	5,8%	6,9%	7,3%	7,4%	7,1%	7,5%	7,5%
Nominal wage growth	21,8%	26,1%	4,8%	3,1%	4,1%	4,6%	5,0%	4,9%
Real wage growth	14,7%	16,5%	-1,5%	-3,7%	-1,9%	1,2%	0,7%	1,9%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	4,50%	4,13%
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	4,42	4,46
EUR/RON (e.o.p.)	3,61	3,99	4,23	4,28	4,32	4,43	4,47	4,44

Source: Eurostat, NBR, OTP Research

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