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Weekly Report Romania

4th November 2013



The Central Bank is in easing mode

Macro: The ILO unemployment rate remained unchanged in September (7.5%) (Page 3)

The unemployment rate remained unchanged during the past 4 months, at 7.5% (September). The rate is above the long term average of 7% and significantly higher than the one recorded during the boom years of 2005-2008, of 6.5%. The number of unemployed stood at 747 thousand (seasonally adjusted), 8% higher on annual basis. Even in the eurozone, where the unemployment rate is 12.2% compared to the wider EU region where the rate stands at 11%, there has been a stagnation in September. Considering the expected uptrend in economic activity, in Romania and especially in the eurozone in 2014 (1% compared to -0.4% YoY in 2013, October Reuters poll), the unemployment rate is expected to ease in the following quarters.

FX markets: The budget deficit was revised upwards for the second time this year (Page 4)

The EUR/RON ended the week around 4.44, with no major move. Domestic events did not have an impact for the moment. The second budget revision was operated last week and the cash budget deficit was raised to 2.5% from 2.3%, in line with what the 12M rolling deficit was pointing in September and August. According to the Fiscal Council missing this year's ESA budget deficit target of 2.4% looks inevitable at the moment but the real stake here is not to enter the excessive deficit procedure (EDP) again, which requires the ESA budget deficit to remain below 3%. Entering the EDP in 2014 would be a factor not priced in at the moment. For the moment, what is dictating the path of the leu and its peers are the macroeconomic data coming out from US and Europe, even if the impact is currently soft. The lack of dovish comments at last week's Fed policy meeting strengthened the dollar against the euro by more than 2% in a week and reminded again that the moment when the Fed will start tapering was approaching, with negative effects on emerging market currencies. For the moment, we expect to see moderate reaction of the leu.

Government securities: The Treasury plans to sell RON 4.4 bn in bonds in November, double the redemptions (Page 5 - 6)

The Treasury sold another RON 500 mn in 5Y bonds at an average accepted yield of 4.45%, lower by 11 bps than the one at the similar previous tender in the end of September. In total, it sold RON 5.2 bn in October and it plans another RON 4.4 bn for November. The whole amount to be tapped in November is allocated only to bonds, with maturity of 3Y, 5Y, 7Y and 10Y. Redemptions are RON 2.1 bn so we will see a net positive issuance but we do not expect pressure on yields due to the size of the planned sales, considering the existing buffer and that liquidity conditions are also seen to be relaxed in the rest of the year. Additionally, the Central Bank will likely cut the base rate by 25 bps to 4%, continuing its base rate cut cycle. Given inflation expectations and outlook for next year, this will likely not be the last cut we will see in the short term. Inflation is seen to reach its low in Q1 2014. Soon we will see the updated Inflation Report of the Central Bank, with the updated forecast that will incorporate the effect of VAT cut for bread as well.

MM: The Central Bank expected to cut the base rate to 4% (Page 7)

Money market rates dropped 17 to 78 bps in a week as liquidity continues to be abundant. Liquidity is very likely helped by Treasury's operations. The budget deficit was 1.3% in September and it will almost double by the end of the year, the target agreed with the IMF being 2.5% (on a cash basis). To this, we add also the signal to be sent by the Central Bank on 5th of November, when it is expected to cut the base rate to 4% as disinflation is strong. With RON lending stepping up while the FX lending is still losing ground, the transmission mechanism is improving. In September, the average interest rate for new loans granted in RON fell 81 bps in the case of households (to 10.26%) and by 84 bps for loans granted to companies (to 7.9%).

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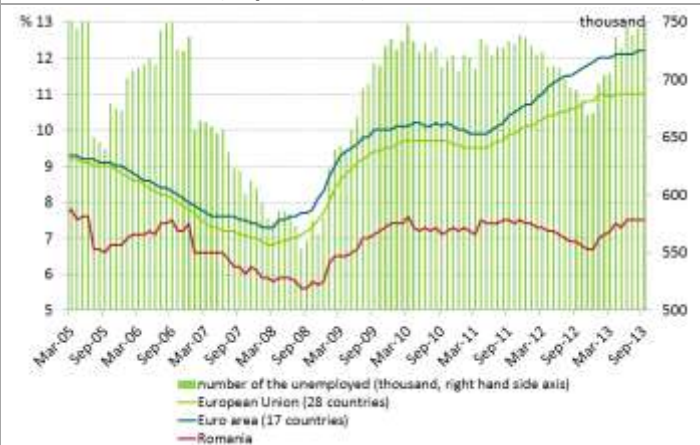
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Macroeconomics: The ILO unemployment rate remained unchanged in September (7.5%)

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
28 Oct	Sep	Bulding permits (y-o-y, %)	6,4		-4,0
31 Oct	Sep	ILO unemployment (seasonally adjusted, %)	7,5		7,5
01 Nov	Oct	FX reserves (bn EUR)	34,6		33,1
04 Nov	Sep	Producer Price Index (y-o-y, %)	0,3		0,6
04 Nov	Sep	Retail trade turnover index (y-o-y, %)	1,1		-1,2
05 Nov	Sep	Net wage growth rate (y-o-y, %)			4,6
07 Nov	Sep	Industrial trade turnover index (y-o-y, %)			0,5
07 Nov	Sep	Index value of new orders in manufacturing (y-o-y, %)			6,1
08 Nov	Sep	Construction works index (y-o-y, %)			
08 Nov	Sep	Industrial Production Index (y-o-y, %)			4,3

The unemployment rate remained unchanged during the past 4 months, at 7.5% (September). The rate is above the long term average of 7% and significantly higher than the one recorded during the boom years of 2005-2008, of 6.5%. The number of unemployed stood at 747 thousand (seasonally adjusted), 8% higher on annual basis. Even in the eurozone, where the unemployment rate is 12.2% compared to the wider EU region where the rate stands at 11%, there has been a stagnation in September. Considering the expected uptrend in economic activity, in Romania and especially in the eurozone in 2014 (1% compared to -0.4% YoY in 2013, October Reuters poll), the unemployment rate is expected to ease in the following quarters.

The unemployment rate remained unchanged in the last 4M, to 7.5% (September)


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%	2,2%
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

FX markets: The budget deficit was revised upwards for the second time this year

The EUR/RON ended the week around 4.44, with no major move. **Domestic events did not have an impact for the moment. The second budget revision was operated last week and the cash budget deficit was raised to 2.5% from 2.3%**, in line with what the 12M rolling deficit was pointing in September and August. According to the Fiscal Council, missing this year's ESA budget deficit target of 2.4% looks inevitable at the moment but the real stake here is not to enter the **excessive deficit procedure (EDP)** again, which requires the ESA budget deficit to remain below 3%. Aside from the existing risks that weigh on the leu next year, tied to potential of capital outflows as investors reconsider risk/reward prospects in the global context, plus additional worries related to elections, **entering the EDP in 2014 would be a factor not priced in at the moment.**

For the moment, what is dictating the path of the leu and its peers are the macroeconomic data coming out from US and Europe, even if the **impact is currently soft**. At last week's Fed policy meeting, the Fed did not send any dovish signals and said it was waiting for more proof that the economy was strengthening before action will be taken regarding asset purchases. The lack of dovish comments strengthened the dollar against the euro by more than 2% in a week and reminded again that the moment when the Fed will start tapering was approaching, with negative effects on emerging market currencies. **For the moment, we expect to see moderate reaction of the leu.**

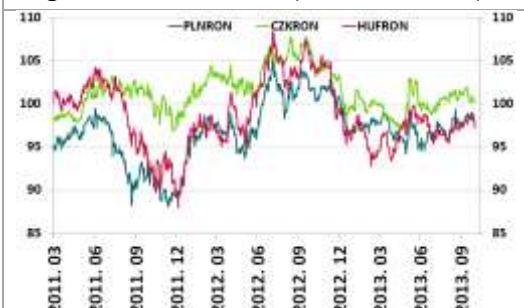
Last data: 1.11.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,44	↓	-0,11	↓ -0,09
USDRON	3,29	↑	2,29	↓ -2,25
CHFRON	3,61	↑	0,03	↓ -1,94
RONJPY	3,33	↑	0,97	↓ -14,05
RONPLN	1,06	↓	-0,42	↓ -2,85
100HUFRON	1,49	↓	-1,75	↓ -2,30
RONCZK	0,17	↓	-0,70	↓ -3,17
RONRUB	0,10	↑	0,26	↓ -7,99
RONRSD	0,04	↓	-0,11	↓ -1,56
RONBGN	2,27	↓	-0,05	↓ -0,08

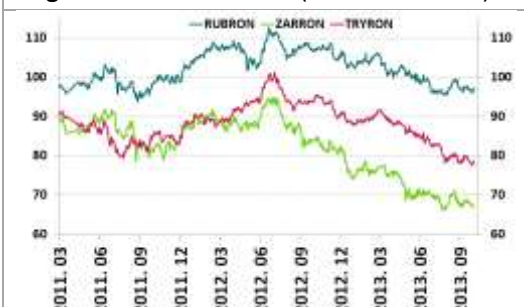
Source: Reuters

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

The leu remains almost flat


Sources: Reuters, OTP Research

Government securities: The Treasury plans to sell RON 4.4 bn in bonds in November, double the redemptions

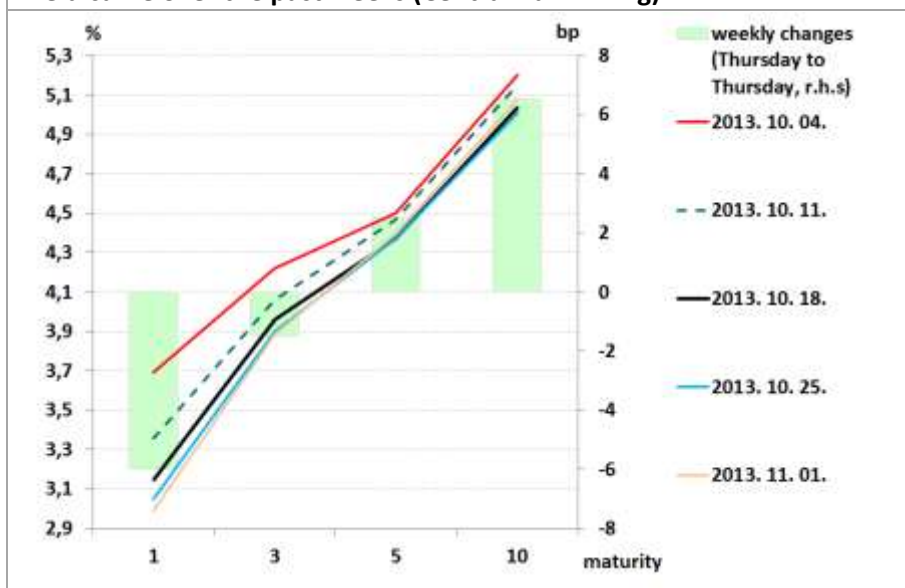
The Treasury sold another RON 500 mn in 5Y bonds at an average accepted yield of 4.45%, lower by 11 bps than the one at the similar previous tender in the end of September. Bid to cover stood at 2.3X and demand was good at RON 1.2 bn. In total, it sold RON 5.2 bn in October and it plans another RON 4.4 bn for November. **The whole amount to be tapped in November is allocated only to bonds, with maturity if 3Y, 5Y, 7Y and 10Y.** Redemptions are RON 2.1 bn so we will see a net positive issuance but we do not expect pressure on yields due to the size of the planned sales, considering the existing buffer and that liquidity conditions are also seen to be relaxed in the rest of the year. Additionally, the **Central Bank will likely cut the base rate by 25 bps to 4%**, continuing its base rate cut cycle. Given inflation expectations and outlook for next year, this will likely not be the last cut we will see in the short term. Inflation is seen to reach its low in Q1 2014. Soon we will see the updated Inflation Report of the Central Bank, with the updated forecast that will incorporate the effect of VAT cut for bread as well.

Last week's auction results (RON denominated)

	RO1318DBN034
Offered amount (mn RON)	500
Total bids (mn RON)	1172
accepted amount (mn RON)	500
Average accepted yield (%)	4,45
Coupon (%)	5,60

Source: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)



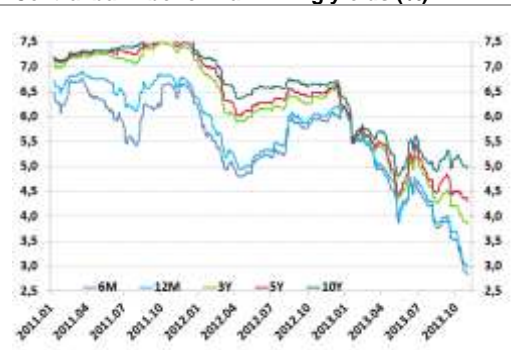
Source: NBR, OTP Research

Last data: 1.11.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	2,87	↓ -1	↓ -331
12M	2,99	↓ -6	↓ -318
3Y	3,89	↓ -2	↓ -228
5Y	4,40	↑ 2	↓ -181
10Y	5,08	↑ 7	↓ -131
SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	359	↓ -2	↓ -249
GERROM 5Y	362	↑ 2	↓ -218
GERROM 10Y	332	↑ 7	↓ -162
3Y-5Y	51	↑ 4	↑ 48
5Y-10Y	68	↑ 4	↑ 50
3Y-10Y	119	↑ 8	↑ 98
FLY 3-5-10	17	↑ 0	↑ 3
CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	112	↑ 3	↓ -24
5Y EURO	166	↑ 3	↓ -28

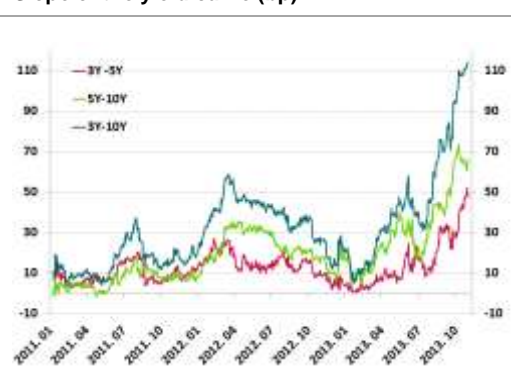
Source: Reuters

Central bank benchmark fixing yields (%)



Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)



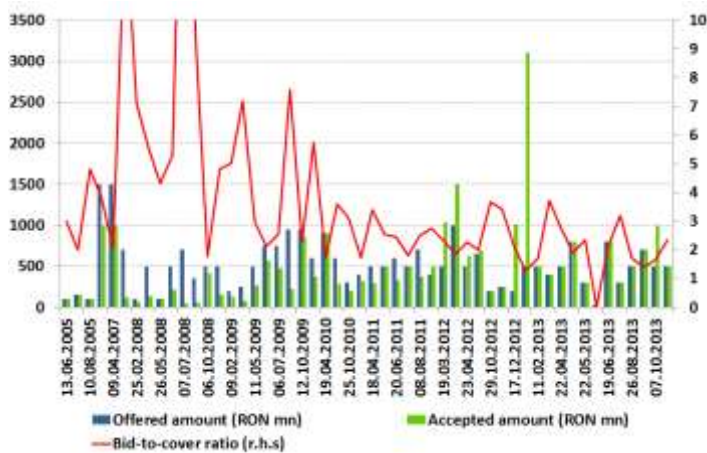
Sources: NBR, OTP Research

Bond auctions in November (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1323DBN018	04.11.2013	05.11.2013	06.11.2013	28.04.2023	10	5.85	800.000.000	80.000.000
RO1114DBN011	07.11.2013		11.11.2013	25.10.2014	3	6.25	1.000.000.000	
RO1015DBN010	11.11.2013		13.11.2013	30.04.2015	5	6	600.000.000	
RO1318DBN034	14.11.2013	15.11.2013	18.11.2013	28.11.2018	5	5.6	700.000.000	70.000.000
RO1320DBN022	18.11.2013		20.11.2013	29.04.2020	7	5.75	700.000.000	
RO0717DBN038	25.11.2013		27.11.2013	11.06.2017	10	6.75	600.000.000	

Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

5Y Auctions data


Sources: NBR, OTP Research

5Y Interest rates (RON)

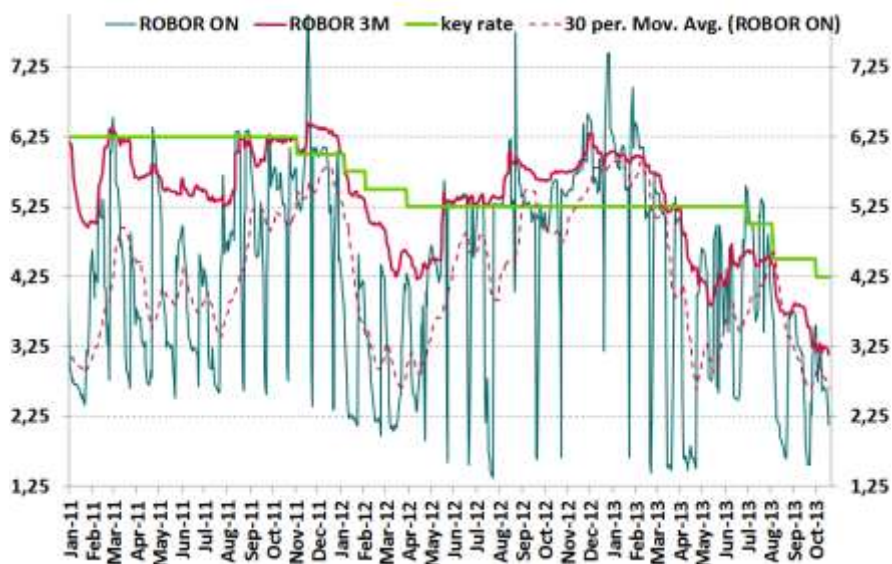

Sources: NBR, OTP Research

MM: The Central Bank expected to cut the base rate to 4%

Money market rates dropped 17 to 78 bps in a week as **liquidity continues to be abundant**. Liquidity is very likely helped by Treasury's operations. The budget deficit was 1.3% in September and it will almost double by the end of the year, the target agreed with the IMF being 2.5% (on a cash basis). To this, we add also the signal to be sent by the **Central Bank on 5th of November**, when it is expected to cut the base rate by another 25 bps to 4% as disinflation is strong.

With RON lending stepping up while the FX lending is still losing ground, the transmission mechanism is improving. Since December 2012, the weight of LCY denominated loans in private loans increased from 36% November 2011 (when NBR introduced a new rule limiting households lending in FX) to 38% in September 2013 and this is likely to continue, considering the direction in which NBR regulation is going (in December 2012 NBR issued a regulation regarding the FX lending to companies, according to which companies should demonstrate a strong capacity to reimburse FX loans, even in case of severe depreciation of the domestic currency). **In September, the average interest rate for new loans granted in RON fell 81 bps in the case of households (to 10.26%)** and by 84 bps for loans granted to companies (to 7.9%). In the case of deposits, volatility was much lower, of around 20-25 bps: households new deposits rates stood at 4.4% while companies received 3.13%.

Most important MM instruments' evolution



Sources: NBR, OTP Research

Last data: 1.11.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4,25	↔ 0	↓ -100
ROBOR ON	1,68	↓ -78	↓ -470
ROBOR 3M	2,71	↓ -28	↓ -332
ROBOR 6M	3,28	↓ -23	↓ -300
ROBOR 9M	3,41	↓ -17	↓ -287
ROBOR 1Y	3,43	↓ -20	↓ -288

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

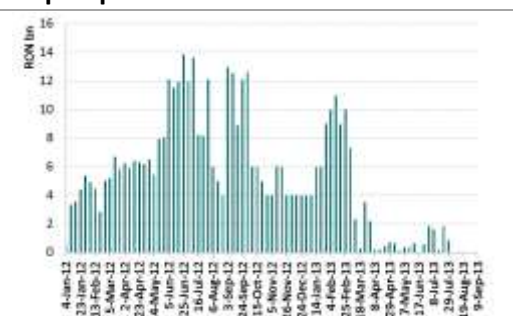
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.802,9	-674,6	901,5

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	9	↓ -6	↓ -16
USDRON 1M	57	↑ 1	↓ -93
USDRON 3M	157	↓ -10	↓ -89
EURRON 1W	-13	↓ -32	↓ -54
EURRON 1M	60	↓ -36	↓ -85
EURRON 3M	206	↓ -53	↓ -304

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

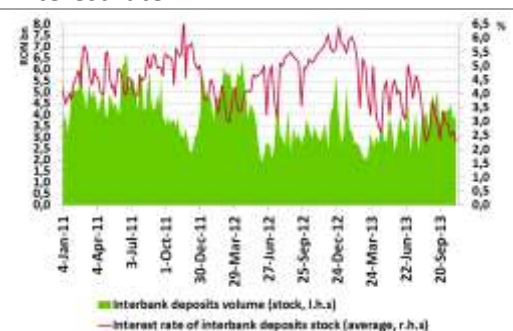
Source: Reuters

Repo operations since 2012

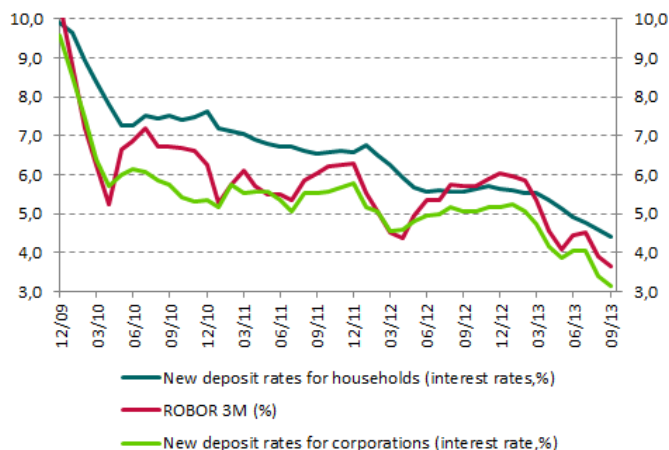


Sources: NBR, OTP Research

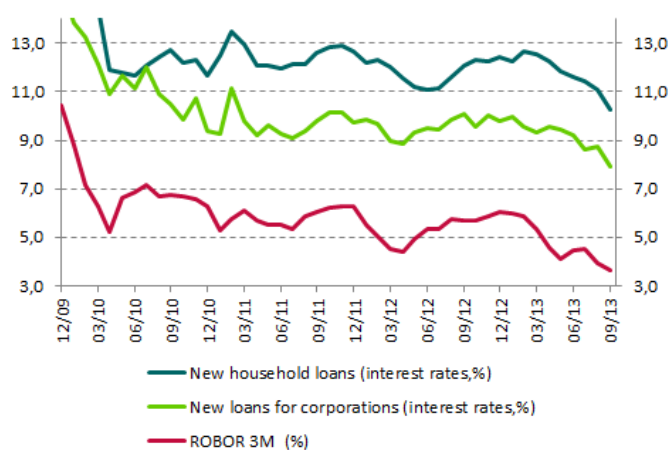
Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

New deposit interest rate for households dropped 124 bps during the first 9M, until 4.4%


Sources: NBR, OTP Research

New loans interest rate for households dropped 217 bps during the first 9M, until 10.26%


Sources: NBR, OTP Research

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