

## Headquarter Treasury Sales

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# Weekly Report Romania

12 November 2013



## Fear of early tapering is showing up in asset prices

### Macro: Q3 GDP is expected to have risen around 3% YoY, double than in Q2 (Page 3 - 5)

Third quarter GDP data is going to be released this week. Business cycle indicators point to much stronger data in Q3 compared to Q2, even without the positive effect of agriculture. For example, constructions rose by 8.9% YoY in Q3, compared to a drop of 7.1% YoY in Q2. Next, industrial production advanced by 8.6% YoY, inching higher than in Q2 when it grew by 7.9% YoY. Retail sales stepped into the positive territory (+0.4% YoY), whereas in Q2 they contracted by 1.7% YoY. Overall, we expect an annual pace of GDP growth of 3.2% YoY, double of what was seen in the second quarter.

### FX markets: Fear of the Fed starting tapering sooner shapes European emerging market currencies (Page 6)

The leu continues to show little volatility and domestic developments take a back seat. However, the macro picture is slowly changing and it does not favour the leu: last week, the ECB cut the base rate in a surprise move from 0.5% to 0.25% which played more on the weakness that still resides in the euro-zone's economy. In addition, the end of the week was marked by the release of US non-farm payrolls data (October) which came out far stronger than anticipated. Following these events, European emerging market currencies including the leu also weakened to the euro. Fear that the Fed could start tapering earlier (than March 2014) is weighing on emerging markets' assets. On Thursday, we will be looking at more macro data releases and get more insight on the strength of the euro-zone's recovery. Also, Janet Yellen will speak in front of the Senate and the questioning line is likely to shed more light into the next actions of the Fed. Meanwhile, there is an abundant RON liquidity which does not bode well for the leu. We see the EUR/RON ending the year at 4.47.

### Government securities: The yield curve shifted up (Page 7 - 8)

The Treasury sold RON 1.8 bn at two auctions last week and yields fell compared the previous two auctions. The 10Y bonds were sold at an average yield of 5.27%, just a touch below the 5.29% seen in the beginning of October. Bid to cover was only 1.36X. The auction for RON 1 bn in 12M T-bill had an unimpressive demand as well and bid to cover stood at 1.4X. The average accepted yield was 3.12%, 40 bps lower than in the beginning of October. Meanwhile on the secondary market we saw the yield curve moving up 4-17 bps and steepening, despite the continued easing of the money market rates. The increase (especially of longer tenors) was in line with the regional trend and it could reveal fear that an early tapering by the Fed could push down bond prices in emerging markets.

### MM: The CB cut the base rate to 4%, as expected (Page 9- 10)

The Central Bank cut the base rate by 25 bps, to 4%, as expected and released its November inflation report. The Governor stated that the CB will not hurry in its monetary policy decisions. Also, he emphasized that the current excess liquidity was temporary. The new inflation forecast stands at 1.8% YoY for the end of 2013 and 3% YoY for the end of 2014. The minimum is seen to be reached in Q1 2014, at 1% YoY. The upside risks stem from both the external environment and domestic one as well. The former refers to the potential outflows of capital which could put pressure on the exchange rate (and the CB is willing to allow flexibility of the leu). The latter says that the domestic front could add to inflation pressure because the new hikes of excises envisioned in 2014 are not included in the current forecast. We believe there is still room for further cut in the base rate, to 3.75% in Q1 2014, considering the further development of inflation.

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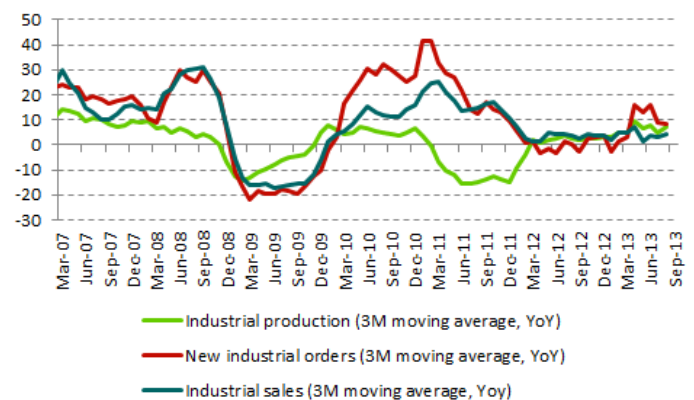
**Macroeconomics: Q3 GDP is expected to have risen around 3% YoY, double than in Q2**

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
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		4,6
05 Nov	Nov	Base rate decision (%)	4,0	4,0	4,25
07 Nov	Sep	Industrial trade turnover index (y-o-y, %)	6,1		0,5
07 Nov	Sep	Index value of new orders in manufacturing (y-o-y, %)	2,9		6,0
08 Nov	Sep	Construction works index (y-o-y, %)	1,9		9,0
08 Nov	Sep	Industrial Production Index (y-o-y, %)	10,0		4,3
11 Nov	Sep	Exports (y-o-y, %)	16,1		9,3
11 Nov	Sep	Imports (y-o-y, %)	4,2		-1,0
11 Nov	Oct	Consumer price index (y-o-y, %)	1,9	1,9	1,9
12 Nov	Sep	CA balance (EUR mn, YTD)			-160
14 Nov	Q3 2013	Flash GDP growth rate (YoY, %)		3,1	1,5

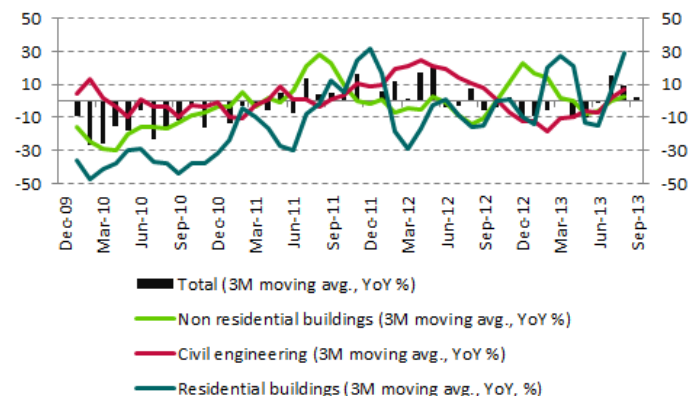
Third quarter GDP data is going to be released this week. **Business cycle indicators point to much stronger data in Q3 compared to Q2, even without the positive effect of agriculture.** For example, constructions rose by 8.9% YoY in Q3, compared to a drop of 7.1% YoY in Q2. Next, industrial production advanced by 8.6% YoY, inching higher than in Q2 when it grew by 7.9% YoY. Retail sales stepped into the positive territory (+0.4% YoY), whereas in Q2 they contracted by 1.7% YoY. **Overall, we expect an annual pace of GDP growth of 3.2% YoY, double of what was seen in the second quarter.**

**In September alone, industrial production rose by 10% YoY and sales by 6.1% YoY**, while new orders slowed down to 2.9% YoY compared to 6% YoY in August. According to October's survey operated by NBR, the positive perspective in industry will expand on a longer horizon, given the state of the new orders. The main driver is external demand. Considering the European context as well, the euro-zone is moving on with the recovery and it is forecasted to grow by 1.1% YoY next year (European Commission) as opposed to 0.4% YoY decline in 2013. Therefore, we believe this will continue to be a main supporter of local production.

**Constructions advanced by 1.9% YoY in September**, as the **residential segment and the non-residential buildings** (including offices) enjoyed a **sharp increase of 14-15% YoY**. Unfortunately, the civil engineering (including infrastructure works) saw a slowdown (-5.3% YoY) compared to a pace of around 10% YoY/month in July and August. The NBR's survey for October is pessimistic and half of the managers still point to the financial blockage as source of impediment.

**Industrial production rose by 8.6% YoY in Q3 and sales by 5.2% YoY;**


Source: NIS, OTP Research

**Constructions rose by 8.9% YoY in Q3 compared to a fall of 7.1% YoY in Q2; residential segment main supporter**


Source: NIS, OTP Research

**Retail sales had a good month (+1.1% YoY)** as opposed to August (-1.2% YoY) and non-food sales were strong (+5% YoY). What dragged down the final figure were food sales (-3.3% YoY). According to the European Commission's survey, the sentiment is improving, although in October was around the lowest levels of the year.

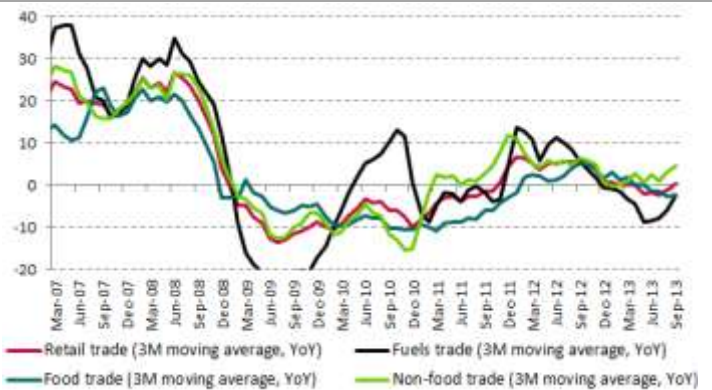
**Gross wage stood at RON 2223 in September (+4.8% YoY)**. The top increases were seen in the mining industry (especially the manufacture of coke & refined petroleum products and extraction of crude petroleum & natural gas with growth rates between 14-19% YoY), manufacture of other transport equipment (18% YoY, other than motor vehicles, trailers, and semi-trailers), repair of machinery and equipment (+13% YoY), public administration (+12.6% YoY). **Real wage rose by 2.7% YoY** in September, as inflation reached its annual minimum so far (1.9% YoY). **In 2014, the minimum wage will increase from RON 800 to RON 900, in two steps** (in January and July).

**In September, gross public wages rose by 12.6% YoY and the average of the economy was 4.8% YoY**



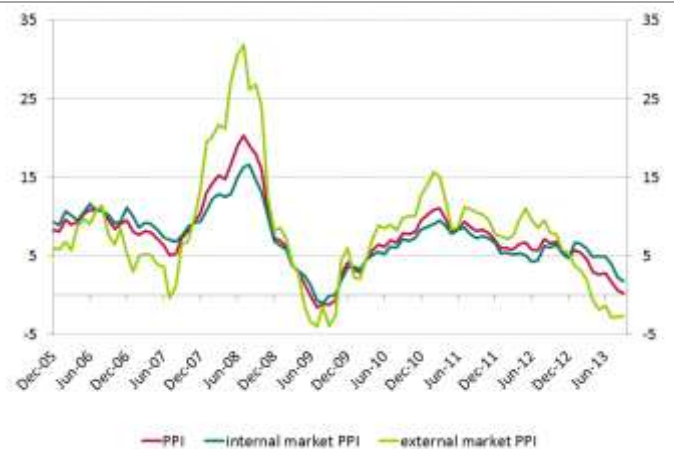
Source: NIS, OTP Research

**Retail trade inched up by 1.1% YoY in September, supported by the non-food component (+5% YoY)**



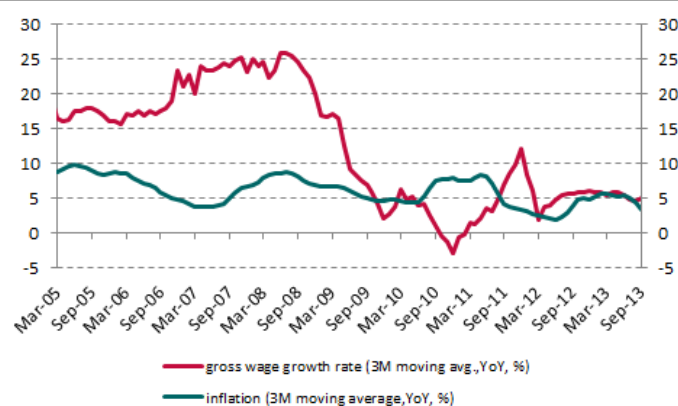
Source: NIS, OTP Research

**Producer prices rose by 0.3% YoY in September due to the hike of 1.8% YoY on domestic market**



Source: NIS, OTP Research

**Gross wage rose by 4.8% YoY and real wage by 2.7% YoY in September**



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%	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

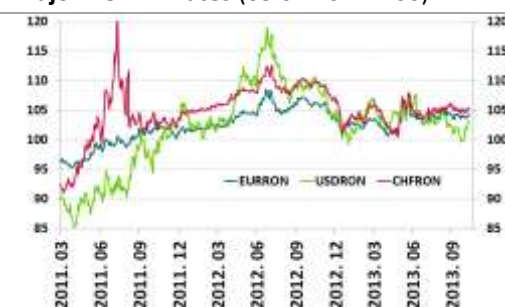
## FX markets: Fear of the Fed starting tapering sooner shapes European emerging market currencies

The leu continues to show little volatility and domestic developments take a back seat. However, the macro picture is slowly changing and it does not favour the leu: last week, the **ECB cut the base rate in a surprise move from 0.5% to 0.25% which played more on the weakness that still resides in the euro-zone's economy**. In addition, the end of the week was marked by the release of US non-farm payrolls data (October) which came out far stronger than anticipated and consequently, the euro lost more ground to the dollar. Following these events, European emerging market currencies including the leu also weakened to the euro. **Fear that the Fed could start tapering earlier (than March 2014) is weighing on emerging markets' assets**. On Thursday, we will be looking at more macro data releases, among which the GDP of the euro-zone and German GDP for Q3 2013, and get more insight on the strenght of the euro-zone's recovery. Also on Thursday, Janet Yellen will speak in front of the Senate and the questioning line is likely to shed more light into the next actions of the Fed. Meanwhile, there is an abundant RON liquidity which does not bode well for the leu. Also, what Q3 Romanian GDP data is likely to show, is increased households' consumption, reminding that the current account deficit will soon start expanding as well, which is not supportive for the leu either. Our end of **December forecast assumes a mild depreciation**, with **EUR/RON ending the year at 4.47**.

Last data: 8.11.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,44	↑	0,07	↓ -0,02
USDRON	3,32	↑	1,03	↓ -1,24
CHFRON	3,61	↓	-0,02	↓ -1,96
RONJPY	3,36	↑	0,65	↓ -13,49
RONPLN	1,06	↑	0,51	↓ -2,35
100HUFRON	1,50	↑	0,58	↓ -1,73
RONCZK	0,16	↓	-3,91	↓ -6,95
RONRUB	0,10	↑	0,41	↓ -7,61
RONRSD	0,04	↓	-0,20	↓ -1,75
RONBGN	2,27	↑	0,07	↓ -0,01

Source: Reuters

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


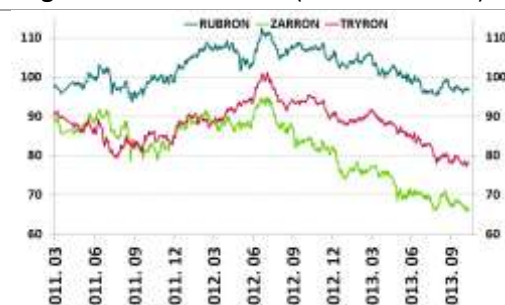
Sources: Reuters, OTP Research

**The leu ended the week marginally lower**


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

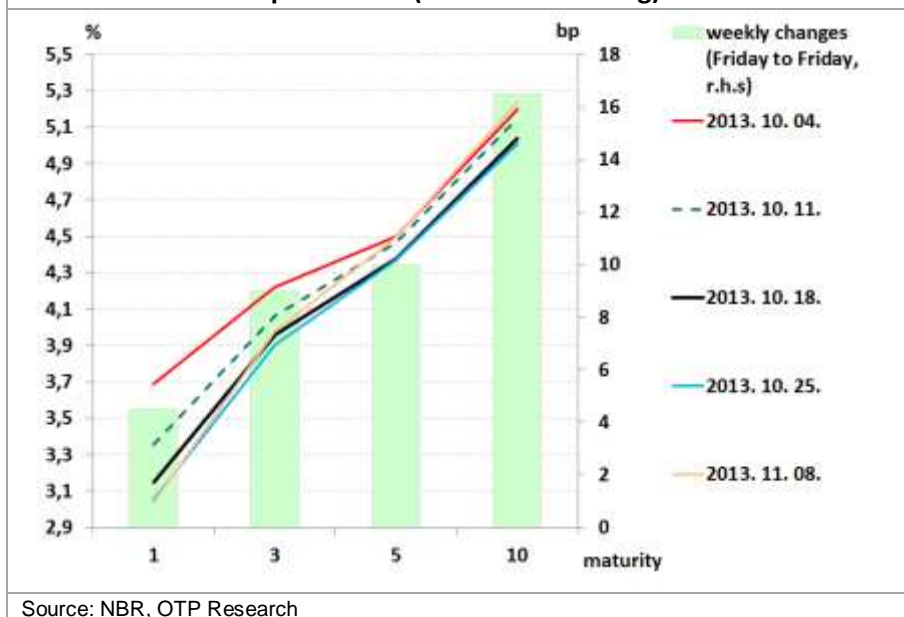
**Government securities: The yield curve shifted up**

The Treasury sold RON 1.8 bn at two auctions last week and yields fell compared the previous two auctions. The 10Y bonds were sold at an average yield of 5.27%, just a touch below the 5.29% seen in the beginning of October. Bid to cover was only 1.36X. The auction for RON 1 bn in 12M T-bill had an **unimpressive demand** as well and bid to cover stoo at 1.4X. The average accepted yield was 3.12%, 40 bps lower than in the beginning of October. Meanwhile on the secondary market, we saw **the yield curve moving up 4-17 bps and steepening, despite the continued easing of the money market rates**. The increase (especially of longer tenors) was in line with the regional trend and it could reveal fear that an early tapering by the Fed could push down bond prices in emerging markets.

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

	RO1323DBN018	RO1114DBN011
Offered amount (mn RON)	800	1000
Total bids (mn RON)	1087	1396
accepted amount (mn RON)	800	1000
Average accepted yield (%)	5,27	3,12
Coupon (%)	5,85	6,25

Source: NBR, OTP Research

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


Source: NBR, OTP Research

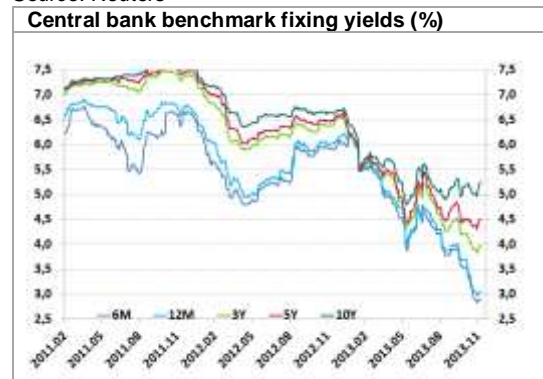
Last data: 8.11.2013

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	2,89	↑ 1	↓ -330	
12M	3,04	↑ 4	↓ -313	
3Y	3,98	↑ 9	↓ -219	
5Y	4,50	↑ 10	↓ -171	
10Y	5,24	↑ 17	↓ -114	

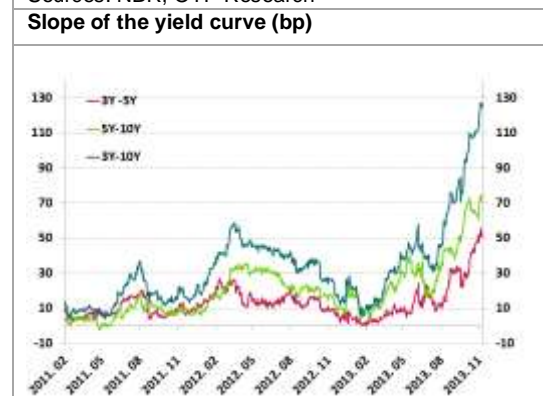
SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	376	↑ 9	↓ -232	
GERROM 5Y	383	↑ 10	↓ -197	
GERROM 10Y	355	↑ 17	↓ -139	
3Y -5Y	52	↑ 1	↑ 48	
5Y -10Y	75	↑ 7	↑ 57	
3Y-10Y	127	↑ 7	↑ 105	
FLY 3-5-10	23	↑ 6	↑ 8	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	112	↑ 2	↓ -24	
5Y EURO	166	↑ 2	↓ -28	

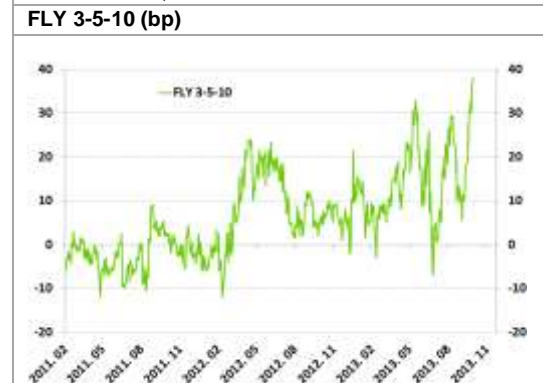
Source: Reuters



Sources: NBR, OTP Research



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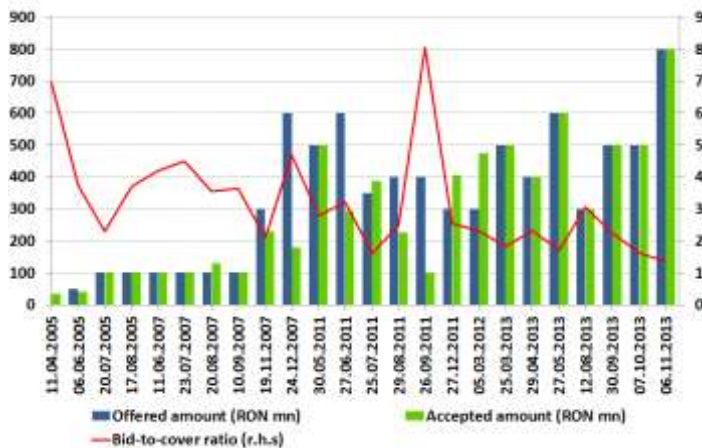
Sources: NBR, OTP Research

**Bond auctions in November (in RON)**

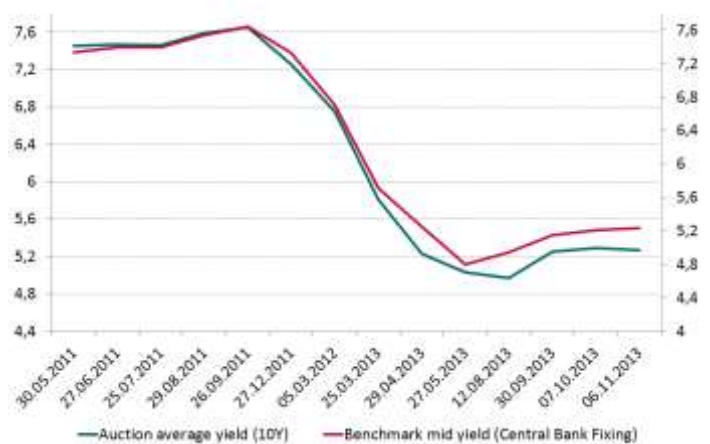
ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1323DBN018	04.11.2013	05.11.2013	06.11.2013	26.04.2023	10	5,85	800.000.000	80.000.000
RO1114DBN011	07.11.2013		11.11.2013	25.10.2014	3	6,25	1.000.000.000	
RO1015DBN010	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

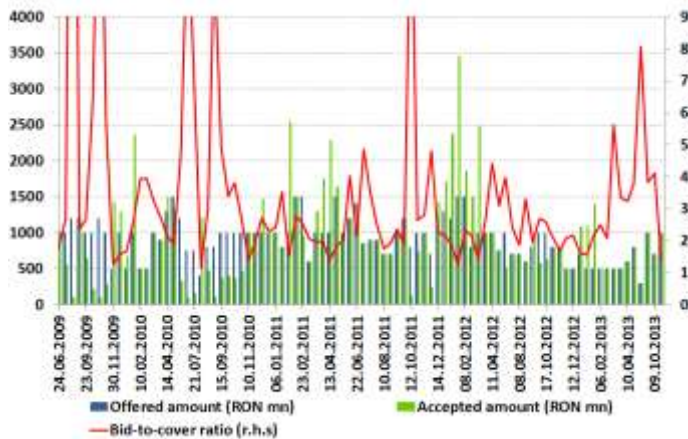
Note: \* Supplementary sessions of OTP competitive offers

**10Y Auctions data**


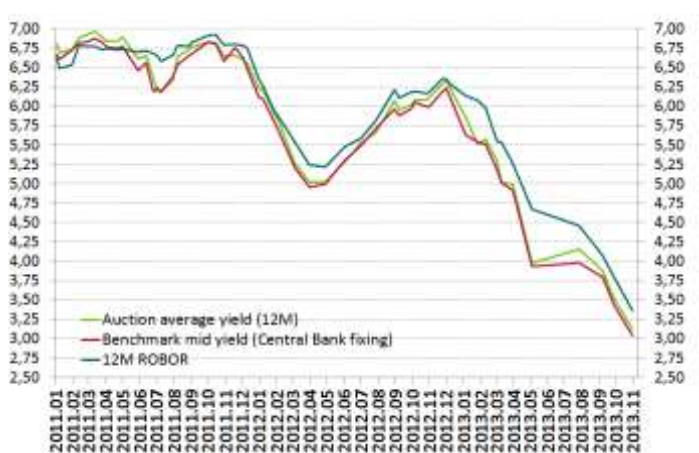
Sources: NBR, OTP Research

**10Y Interest rates (RON)**


Sources: NBR, OTP Research

**12M Auctions data**


Sources: NBR, OTP Research

**12M Interest rates (RON)**


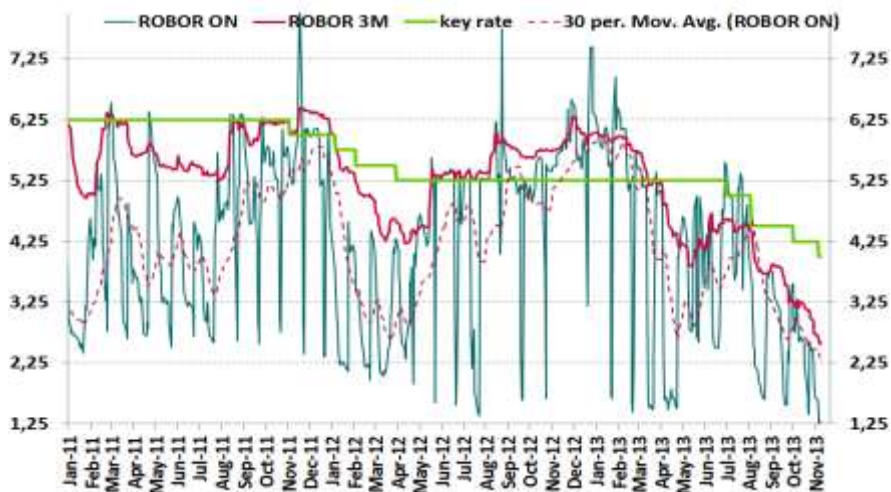
Sources: NBR, OTP Research



## MM: The CB cut the base rate to 4%, as expected

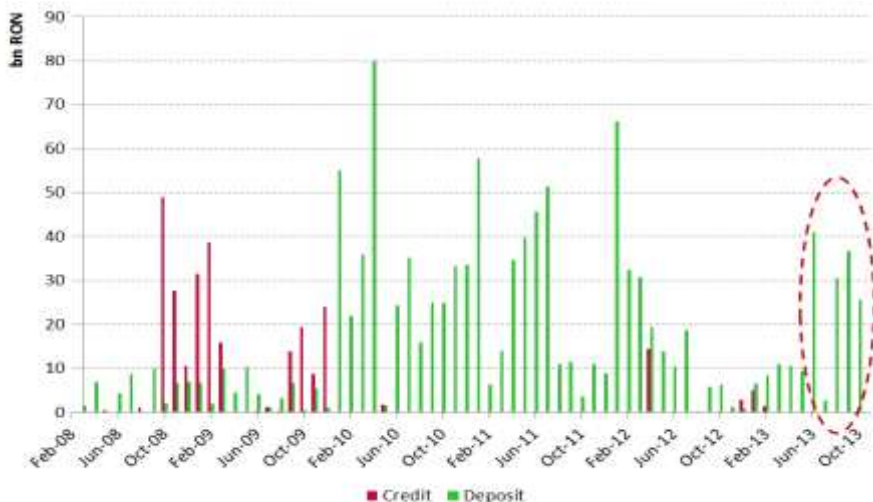
The Central Bank cut the base rate by 25 bps to 4%, as expected, and released its November inflation report. The Governor stated that the CB will not hurry in its monetary policy decisions. Also, the **governor emphasized that the current excess liquidity was temporary. The new inflation forecast stands at 1.8% YoY for the end of 2013 and 3% YoY for the end of 2014. The minimum is seen to be reached in Q1 2014, at 1% YoY.** This forecast has upside risks stemming from both the external environment and domestic one as well. The former refers to the potential outflows of capital which could put pressure on the exchange rate (and **the CB is willing to allow flexibility of the leu**). The latter says that the domestic front could add to inflation pressure because the new hikes of excises envisioned in 2014 are not included in the current forecast. The significant revision in 2013 has to do with the impact of volatile food items prices which fell more than expected following the good agricultural year and secondly, the impact of the VAT cut for some bakery products, bread included. **We believe there is still room for further cut in the base rate, to 3.75% in Q1 2014, considering the further development of inflation.**

### Most important MM instruments' evolution



Sources: NBR, OTP Research

### The ON deposits held at the NBR fell in October but liquidity is still abundant



Sources: NBR, OTP Research

Last data: 8.11.2013

MID INTEREST RATES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
repo rate	4,00	↓ -25	↓	-100
ROBOR ON	1,27	↓ -41	↓	-511
ROBOR 3M	2,58	↓ -13	↓	-345
ROBOR 6M	3,19	↓ -9	↓	-309
ROBOR 9M	3,28	↓ -13	↓	-300
ROBOR 1Y	3,36	↓ -7	↓	-295

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	2.741,6	-834,4	-159,8	

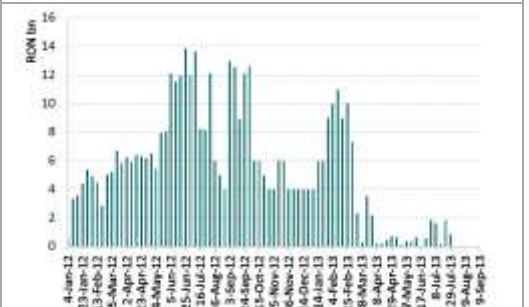
MID SWAP POINTS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
USDRON 1W	6	↓ -3	↓	-19
USDRON 1M	44	↓ -13	↓	-106
USDRON 3M	154	↓ -3	↓	-92
EURRON 1W	10	↑ 23	↓	-30
EURRON 1M	61	↑ 1	↓	-84
EURRON 3M	270	↑ 63	↓	-241

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

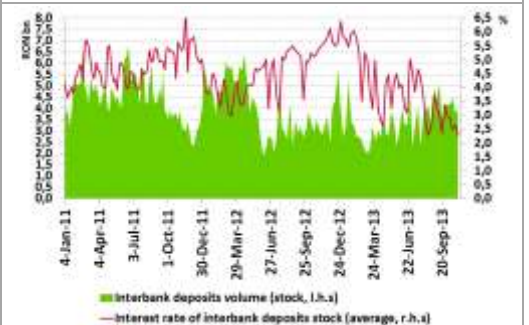
Source: Reuters

### Repo operations since 2012



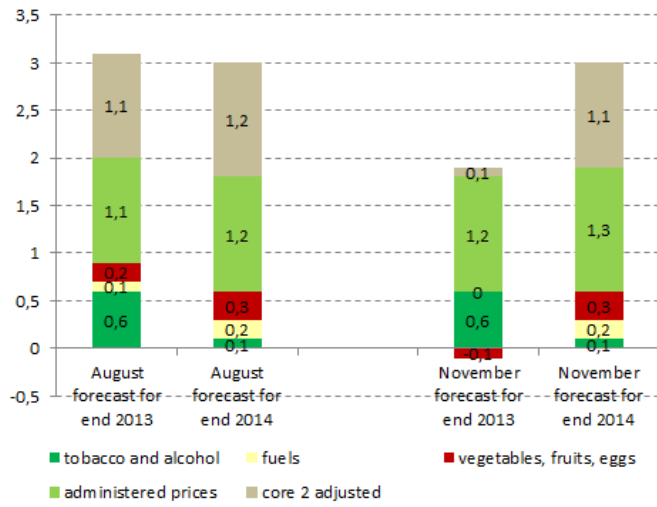
Sources: NBR, OTP Research

### Interbank deposits stock and average interest rate



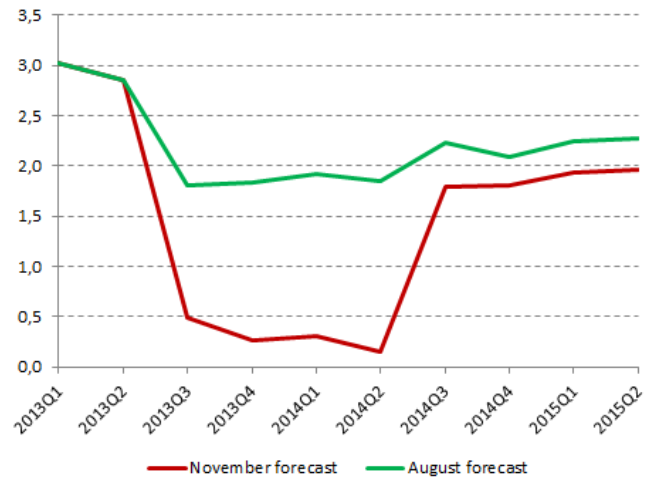
Sources: NBR, OTP Research

**Main components of inflation show increased contribution from administered prices in 2014**



Sources: NBR, OTP Research

**Core 2 adjusted inflation forecast dropped from nearly 2% to nearly zero in Q1 and Q2 2014 in the latest forecast**



Sources: NBR, OTP Research

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