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Weekly Report Romania

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Continuation of QE brings relief on the FX and bond market

Macro: Q3 GDP rose by 4.1% YoY (Page 3 - 5)

Q3 GDP data beat expectations, with the quarterly advance of 1.6% QoQ and annual rate of 4.1%, against expectations of 3.1% YoY (Reuters poll). Most important drivers were agriculture and industry, but constructions also contributed to the advance. However, without the contribution of the agriculture, the pace would have been more modest, of around 0.5% QoQ according to our calculations, but still faster than in Q2 (0.2% QoQ). Exports had a strong month in September, advancing by 16.1% YoY. The greatest impact came from exports extra EU28, which enjoyed an advance of 31.9% YoY. On 12M rolling basis, CA deficit shrank to 1.2% of the GDP compared to 4.4% in September 2012. The main change came from the narrowing trade gap, to 3.1% of the GDP from 5.7% in September 2012. Inflation rate remained unchanged in October, at 1.9% YoY. NBR sees inflation ending the year at 1.8% YoY and at 3% YoY in 2014.

FX markets: The leu strengthens temporarily (Page 6)

The much awaited Q3 GDP data in the euro-zone revealed the annual rhythm fell marginally below forecasts and showed a 0.4% YoY fall. The miss was overshadowed by Janet Yellen's testimony in front of the Senate, who reaffirmed that the QE will not be stopped for the moment. Yellen admitted that QE was not forever but she also stated that main worries now are about unemployment and the risk of deflation. Also, she stated that equities are not in the "bubble-like territory". Bond buying programme has supported recovery in the US and trimming down the purchases was dependent on the new data. All in all, the market was comforted by her statements and risky assets got another kick. The leu strengthened 0.4% since then, to current 4.445. We see this level as temporary and look forward to a mild depreciation until the end of the year.

Government securities: No threat of December tapering, yields could ease back (Page 7 - 8)

Yields continued to shift up last week, by 2 - 12 bps, still driven by market expectations that the Fed will proceed to an early tapering. However, Janet Yellen's speech in front of the US Senate cleared out the uncertainty as Fed's massive asset purchase is still continuing. Therefore, we expect this new information to push down yields in the short term. The Treasury sold the planned amounts in bonds last week, but demand was again unimpressive, and the 5Y bond yield stood at 4.7%, which is 25 bps higher than the previous one obtained at the last tender in October. The 1.5Y auction completed with an average accepted yield of 3.46%, only 2 bps lower than the one at the similar tender at the end of October. By last Friday, the MoF sold around RON 3.2 bn and the planned amount for November is RON 4.4 bn. Considering the debt issued in RON so far, the existing redemptions and the planned budget deficit, the MoF is likely to plan a similar amount in December as well.

MM: Core 2 adjusted inflation fell to 0% YoY in October (Page 9)

Inflation data for October showed that Core2 adjusted inflation fell further, to 0% YoY from 0.5% YoY in September and 2.9% YoY in June. This parameter is intensely watched by the Central Bank as it makes its monetary policy decisions. The Central Bank expects Core2 adjusted inflation to remain around zero until the end of H1 2014 and move up to 1.8% YoY in H2 2014. This year's rate cuts ended and we look for an additional 25 bps decline in the base rate in Q1 2014. However, we expect the current excess liquidity to dissipate in Q1 2014, considering that the Treasury usually records a budget surplus in the beginning of the year as opposed to a relatively large budget deficit in the late months of the year. Additionally, the pressure on next year's cash budget deficit is increased considering the ambitious target of 2.2%, lower than this year's 2.5% in GDP.

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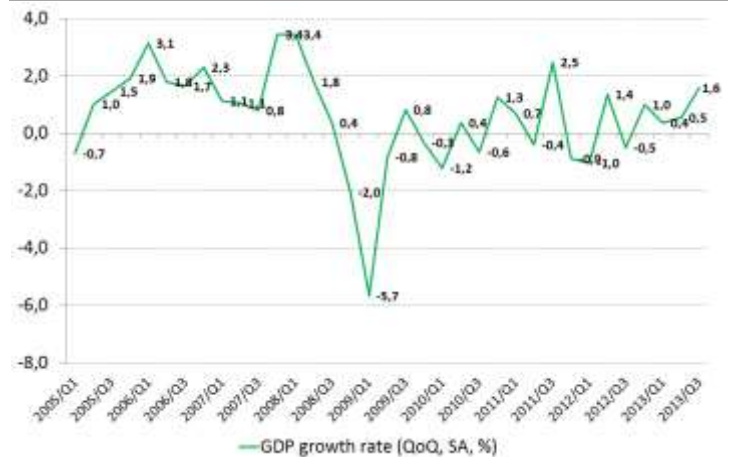
Macroeconomics: Q3 GDP rose by 4.1% YoY

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
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)	-595		-361
14 Nov	Q3 2013	Flash GDP growth rate (YoY, %)	4,1	3,1	1,5
18 Nov - 22 Nov		no data			

Third quarter GDP data beat expectations, with the quarterly advance of 1.6% QoQ **and annual rate of 4.1%**, against expectations of 3.1% YoY (Reuters poll). Most important drivers were **agriculture and industry**, but contractions also contributed to the advance. However, **without the contribution of the agriculture, the pace would have been more modest, of around 0.5% QoQ according to our calculations, but still faster than in Q2 (0.2% QoQ)**. We expect that in 2014 industry will continue to be a driver, supported by exports too, considering that growth in the euro-zone strengthens. Additionally, we look after an enhanced pace of constructions, compared with this year, due to already announced increased public investments but also a greater appetite from the private side, following improved business confidence.

Exports had a strong month in September, advancing by 16.1% YoY, compared to 9.3% YoY in August. The **greatest impact** came from exports **extra EU28**, which enjoyed an advance of 31.9% YoY while intra EU28 the dynamics were close to previous month: 9.9 % YoY (September) vs. 9.1% YoY (August). Imports picked up again in September, to 4.2% YoY, which indicates that internal demand could be back on track.

The CA deficit expanded in the month, from EUR 361 mn in August to EUR 595 mn in September. In Q3, the current account returned to deficit after having a surplus in Q1 and Q2. **On 12M rolling basis, it shrank to 1.2% of the GDP compared to 4.4% in September 2012**. The main change came from the narrowing trade gap, to 3.1% of the GDP from 5.7% in September 2012. On the financing side, we notice that FDI stood at EUR 1.4 bn during the first 9M. On a 12M rolling basis, it is still a fall of 27% YoY. Portfolio inflows remain strong at EUR 4.5 bn during the first 9M, 3 times more than the same period last year. This speaks to the vulnerability of the exchange rate, in case of outflows. The Central Bank has resources to alleviate a fast depreciation but it said it will allow the flexibility of the exchange rate in the future.

GDP rises by 1.6 % QoQ (s.a) in Q3, beating estimates


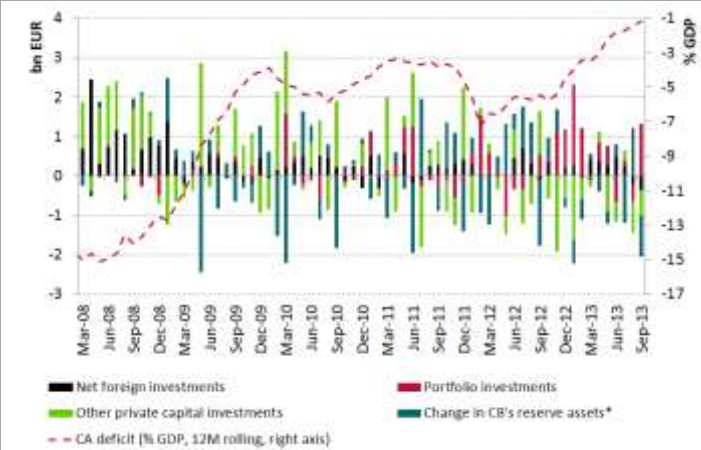
Source: NIS, OTP Research

Exports remained strong in Sep (+ 16.1% YoY) while imports moved up again (+ 4.2% YoY)


Source: NIS, OTP Research

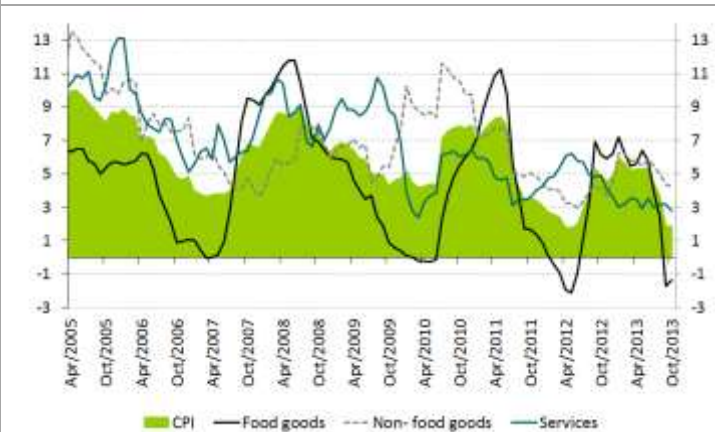
Inflation rate remained unchanged in October, at 1.9% YoY and +0.3% MoM. The price of services rose by 2.8% YoY in October as opposed to 3.2% YoY in September, non-food goods advanced at a still high pace, 4.2% YoY whereas foods' price evolution remained negative (- 1.3% YoY). NBR sees inflation ending the year at 1.8% YoY and at 3% YoY in 2014.

The CA deficit stood at EUR 595 mn, as the trade gap shrank by 55% YoY during the first 9M



Source: NIS, OTP Research

Inflation remained unchanged in October, at 1.9% YoY



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%	-3,0%	-2,9%	-2,8%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	34,7%	37,9%	38,5%	39,1%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-4,4%	-0,6%	-1,5%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,8	-0,9	-2,2
Unemployment	6,4%	5,8%	6,9%	7,3%	7,4%	7,0%	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 leu strengthens temporarily

The much awaited Q3 GDP data in the euro-zone revealed a quarterly growth in line with analysts' expectations (+0.1% QoQ) while the annual rhythm fell marginally below forecasts and showed a 0.4% YoY fall. The miss was overshadowed by **Janet Yellen's testimony in front of the Senate, who reaffirmed that the quantitative easing will not be stopped for the moment**. Yellen admitted that QE was not forever but she also stated that **main worries now are about unemployment and the risk of deflation**. Also, she stated that equities are not in the "bubble-like territory". Bond buying programme has so far supported recovery in the US and trimming down the purchases was dependent on the new data. Yellen also pointed out that a US debt default would be a disaster. **All in all, the market was comforted by her statements and risky assets got another kick**. The leu strengthened from the level seen in the day before Yellen's statement, of 4.46 and gained around 0.4% since then. The appreciation was also witnessed by leu's peers (except the Czech Crown which is driven by Central Bank FX intervention and the target of 27 for the EUR/CZK) and was also accompanied by the strengthening of the euro against the dollar. **We see this level of the leu as temporary and look forward to a mild depreciation until the end of the year.**

The leu strengthened post Yellen's speech in front of the Senate

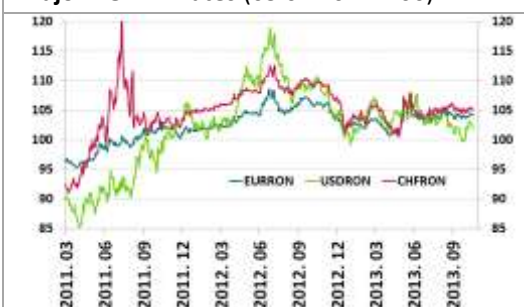


Last data: 15.11.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,45	↑	0,14	↑ 0,12
USDRON	3,30	↓	-0,83	↓ -2,06
CHFRON	3,60	↓	-0,05	↓ -2,01
RONJPY	3,29	↓	-1,93	↓ -15,16
RONPLN	1,06	→	0,00	↓ -2,35
100HUFRON	1,49	↓	-0,41	↓ -2,13
RONCZK	0,16	↓	-0,61	↓ -7,52
RONRUB	0,10	↓	-0,57	↓ -8,13
RONRSD	0,04	↑	0,43	↓ -1,33
RONBGN	2,27	↑	0,13	↑ 0,13

Source: Reuters

Major RON FX rates (03.01.2011=100)



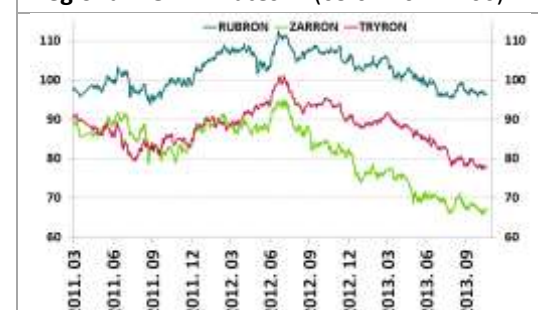
Sources: Reuters, OTP Research

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: No threat of December tapering, yields could ease back

Yields continued to shift up last week, by 2 - 12 bps, still driven by market expectations that the Fed will proceed to an early tapering. However, Janet Yellen's speech at her confirmation in front of the US Senate cleared out the uncertainty as Fed's massive asset purchase is still continuing. Therefore, we expect **this new information to push down yields in the short term.**

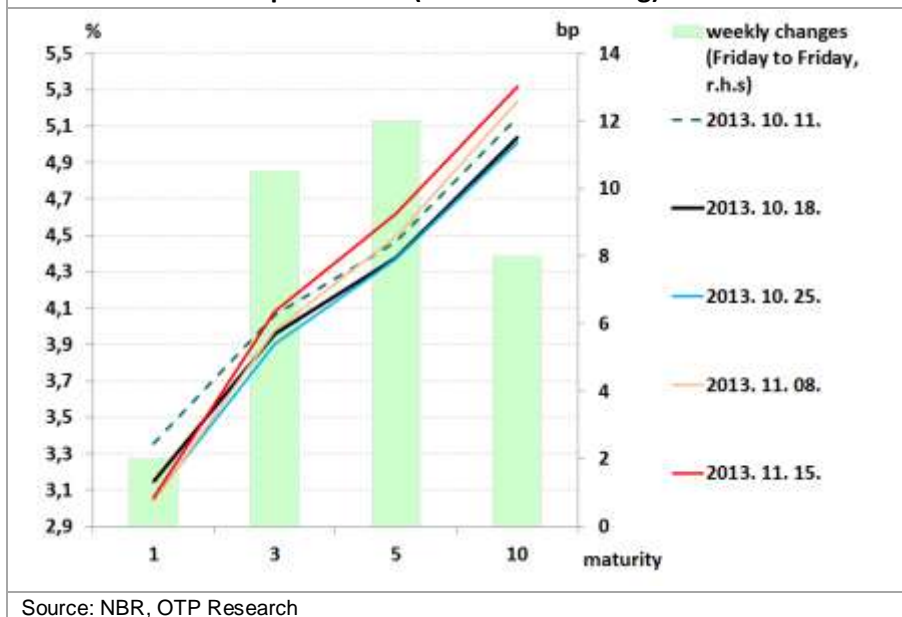
The Treasury sold the planned amounts in bonds last week, but demand was again unimpressive, and the 5Y bond yield was 4.7%, which is 25 bps higher than the previous one obtained at the last tender in October. The 1.5Y auction completed with an average accepted yield of 3.46%, only 2 bps lower than the one at the similar tender at the end of October. By last Friday, the MoF sold around RON 3.25 bn and the planned amount for November is RON 4.4 bn (excluding supplementary sessions). Considering the debt issued in RON so far, the existing redemptions and the planned budget deficit, the MoF is likely to plan a similar amount in December as well.

Last week's auction results (RON denominated)

	RO1318DBN034	RO1015DBN010
Offered amount (mn RON)	700	600
Total bids (mn RON)	1164	987
accepted amount (mn RON)	700	600
Average accepted yield (%)	4,70	3,46
Coupon (%)	5,60	6,00

Source: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

Last data: 15.11.2013

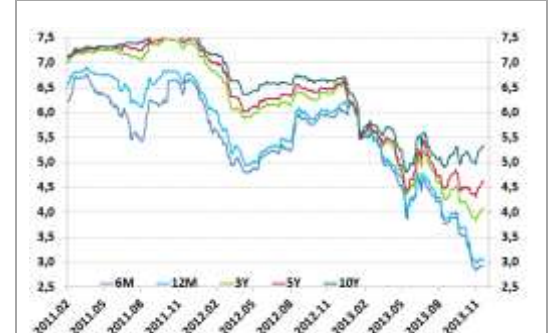
RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	2,93	↑ 4	↓ -326	
12M	3,06	↑ 2	↓ -311	
3Y	4,08	↑ 11	↓ -209	
5Y	4,62	↑ 12	↓ -159	
10Y	5,32	↑ 8	↓ -106	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	385	↑ 11	↓ -223	
GERROM 5Y	392	↑ 12	↓ -188	
GERROM 10Y	356	↑ 8	↓ -138	
3Y -5Y	54	↑ 2	↑ 50	
5Y -10Y	71	↓ -4	↑ 53	
3Y-10Y	124	↓ -2	↑ 103	
FLY 3-5-10	17	↓ -6	↑ 3	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	112	↓ 0	↓ -24	
5Y EURO	166	↓ 0	↓ -28	

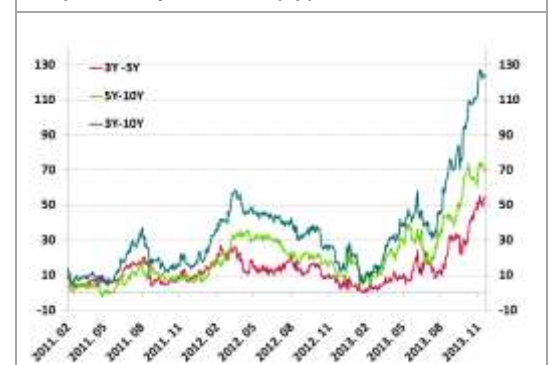
Source: Reuters

Central bank benchmark fixing yields (%)



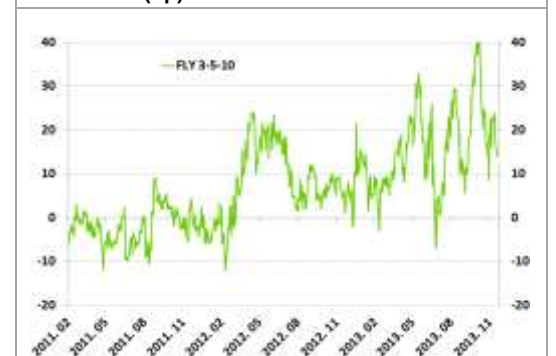
Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)



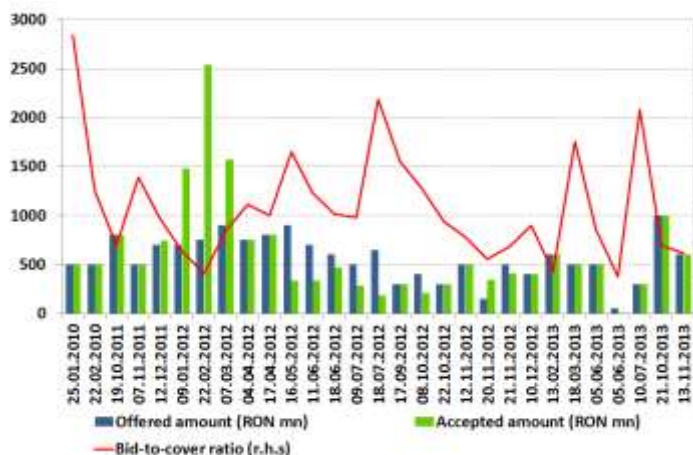
Sources: NBR, OTP Research

Bond auctions in November (in RON)

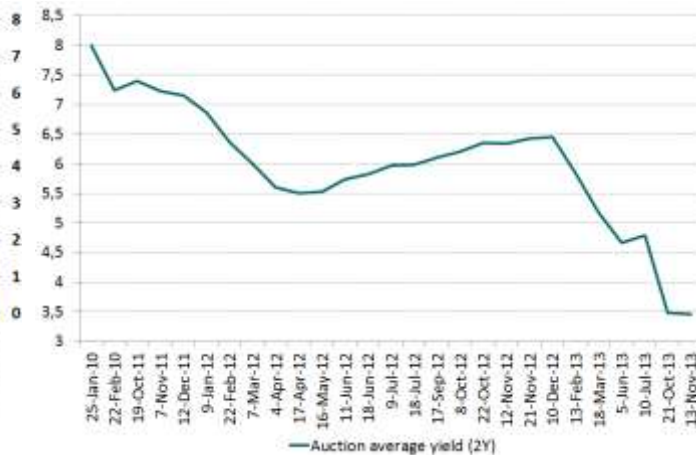
ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1323DBN018	04.11.2013	05.11.2013	06.11.2013	26.04.2023	10	5.85	800.000.000	80.000.000
RO1114DBN011	07.11.2013		11.11.2013	25.10.2014	3	6.25	1.000.000.000	
RO1015DBN010	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	5,8	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	11.08.2017	10	6.75	600.000.000	

Sources: Ministry of Finance, OTP Research

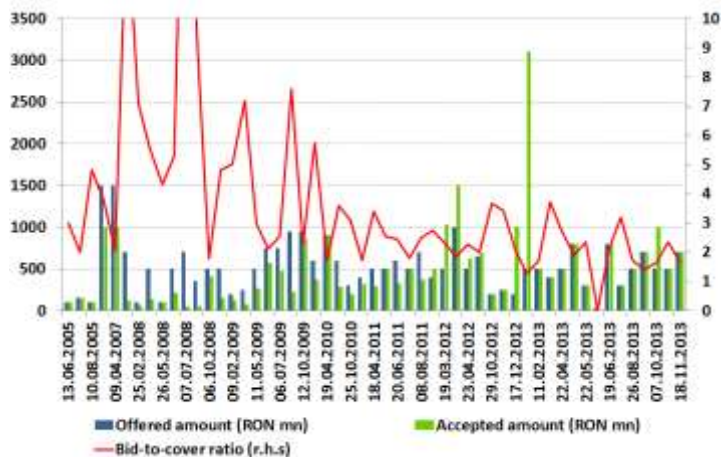
Note: * Supplementary sessions of OTP competitive offers

2Y Auctions data


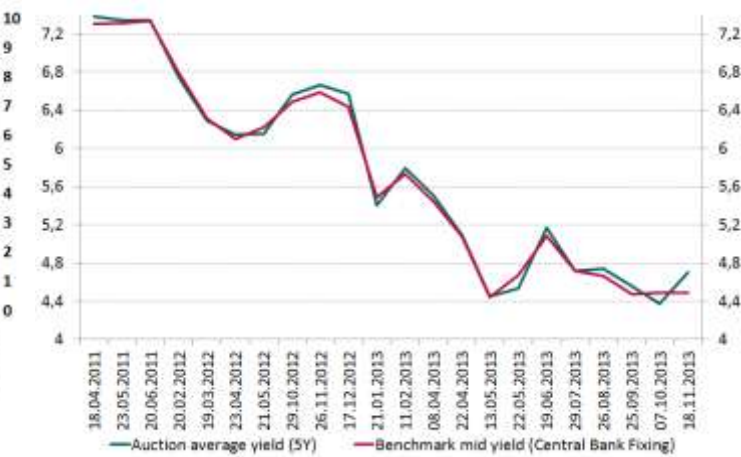
Sources: NBR, OTP Research

2Y Interest rates (RON)


Sources: NBR, OTP Research

5Y Auctions data


Sources: NBR, OTP Research

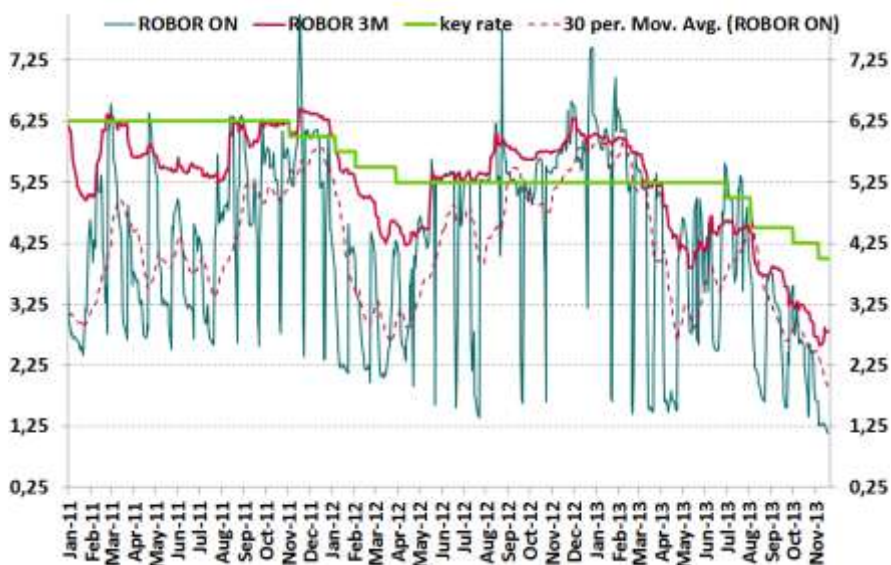
5Y Interest rates (RON)


Sources: NBR, OTP Research

MM: Core 2 adjusted inflation fell to 0% YoY in October

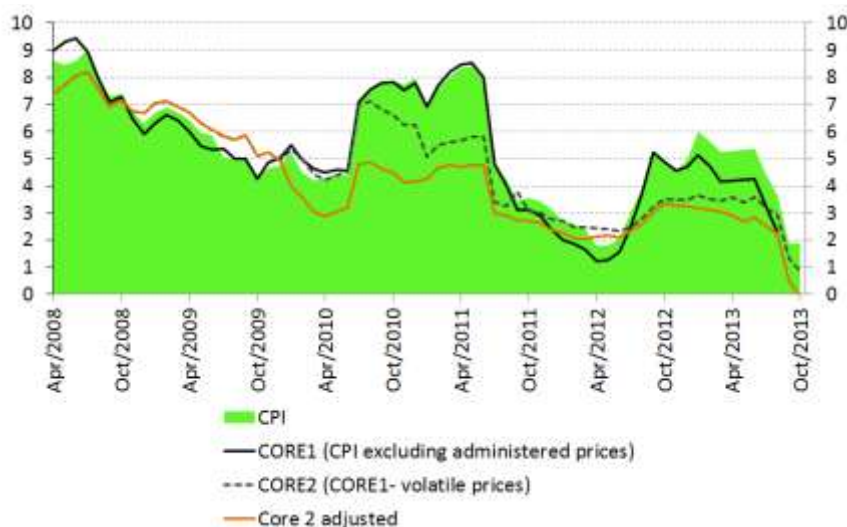
Inflation data for October showed that Core2 adjusted inflation fell further, to 0% YoY from 0.5% YoY in September and 2.9% YoY in June. This parameter is intensely watched by the Central Bank as it makes its monetary policy decisions. The Central Bank expects Core2 adjusted inflation to remain around zero until the end of H1 2014 and move up to 1.8% YoY in H2 2014. This year's rate cuts ended and we look for an additional 25 bps decline in the base rate in Q1 2014. However, we expect the current excess liquidity to dissipate in Q1 2014, considering that the Treasury usually records a budget surplus in the beginning of the year as opposed to a relatively large budget deficit in the late months of the year. Additionally, the pressure on next year's cash budget deficit is increased considering the ambitious target of 2.2%, lower than this year's 2.5% in GDP.

Most important MM instruments' evolution



Sources: NBR, OTP Research

Core2 adjusted inflation dropped to 0 % YoY in October



Sources: NIS, OTP Research

Note: Core 2 adjusted inflation excludes administered prices, volatile prices, tobacco and alcohol

Last data: 15.11.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4,00	↔ 0	↓ -100
ROBOR ON	1,22	↓ -5	↓ -516
ROBOR 3M	2,79	↑ 21	↓ -324
ROBOR 6M	3,26	↑ 7	↓ -302
ROBOR 9M	3,32	↑ 4	↓ -296
ROBOR 1Y	3,39	↑ 3	↓ -292

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

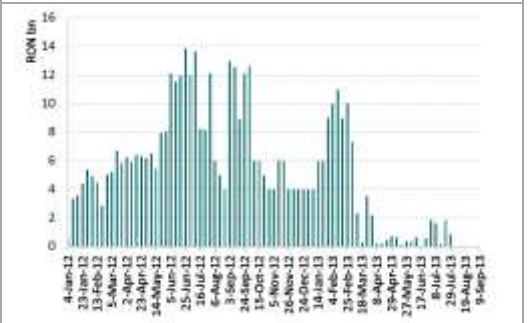
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.077,4	335,8	-159,8

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	1	↓ -5	↓ -23
USDRON 1M	35	↓ -8	↓ -114
USDRON 3M	163	↑ 9	↓ -83
EURRON 1W	8	↓ -3	↓ -33
EURRON 1M	66	↑ 5	↓ -79
EURRON 3M	260	↓ -10	↓ -251

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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