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Weekly Report Romania

25 November 2013



S&P could raise Romania's rating to investment grade in H2 2014

Macro: Leading indicators in October and November point to a good Q4 in industry (Page 3)

The November survey on industrial and constructions activity published by the NBR pointed to expectations of a moderate increase in industrial production, on a seasonally adjusted basis, the same as in October. So far, leading indicators point to a positive contribution of industry to Q4 GDP. What has driven the activity so far this year were exports orders but in November, new orders slowed down. This is in line with the weaker PMI data in the euro-zone as well, driven especially by France which is Romania's third export destination. In constructions, the seasonally adjusted balance stepped into the positive territory after pointing to a decrease in October. Almost 2 thirds of the respondents point to subdued demand in the construction field, more than in October. Also, intercompany arrears seem to affect half of the respondents to the survey. After inching up in Q3, constructions have started Q4 on the wrong foot.

FX markets: The EUR/RON hovers around 4.45 (Page 4-5)

The leu showed little volatility last week and the new data coming from the euro-zone and the US showed that progress was being made in both economies. In the US, the retail sales grew more than expected in October, unimpeded by the government shutdown. The Fed's minutes of the October 29-30 meeting revealed that the Fed was expected to taper in the coming next couple of meetings. As net portfolio inflows to the Romanian economy weakened throughout the year, the leu gave up some of the previous gains and showed greater volatility when tapering talk first started, sending the EUR/RON above 4.5 in June. Since September, when net monthly portfolio inflows were strong (EUR 1.3 bn), coming after few weak months with net outflows, the leu stabilized around 4.45 and it has been hovering around this level. As portfolio net flows are not expected to speed up and FDI remain low, the potential for a stronger leu is limited.

Government securities: Yields dropped 2-6 bps w/w; S&P raised Romania's outlook from stable to positive (Page 6-7)

As expected, yields edged down last week between 2 and 6 bps (except for 5Y bonds which remained flat) as the market reassessed the date of the tapering and saw it further than December 2013. The Treasury sold the planned RON 700 mn in 7Y bonds at the average accepted yield of 5.04%, 7 bps lower than the previous similar tender in Mid September. The improved market sentiment was also reflected in the higher demand compared with the previous few auctions. Considering that money market rates are going to remain low in the short term (at least December) and that inflation rate has yet to fall until it reaches a minimum in Q1 2014, yields are likely to continue on a downward path. Additionally, the S&P raised its outlook on Romania from stable to positive and said there were 1 in 3 chances that it could raise the sovereign rating in H2 2014, provided that fiscal consolidation continues, but also the public finance reform and public restructuring.

MM: Good liquidity conditions likely to continue in December; the government can run a 1.3% budget deficit in the last 2M (Page 8)

Money market rates continued to fall last week and ROBOR 3M dropped 9 bps on a weekly basis, to 2.7%. ROBOR ON came again close to the inferior limit of the variation band around the base rate (+/- 3 pp). In August, the net liquidity position of the banking system returned to positive territory and consolidated afterwards in September (last available data) due to Treasury's operations. Rates are significantly below the base rate of 4% and the current excess liquidity is likely to continue in December as well, given the increased budget expenditure. The 10M cash budget deficit stood at 1.2% in GDP which leaves the government with a space of 1.3% of GDP budget deficit to record in the last two months of the year (cumulated), as the cash target is 2.5% this year.

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Macroeconomics: Leading indicators in October and November point to a good Q4 in industry

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
18 Nov - 22 Nov		no data			
26 Nov	Oct	Non -governmental loans (y-o-y, %)			-3,3
26 Nov	Oct	Non -governmental deposits (y-o-y, %)			5,7
26 Nov	Oct	M3 aggregate (y-o-y, %)			4,8
28 Nov	Oct	Bulding permits (y-o-y, %)			6,4
29 Nov	Oct	ILO unemployment (seasonally adjusted, %)			7,5

The November survey on industrial and constructions activity published by the NBR pointed to expectations of a **moderate increase in industrial production, on a seasonally adjusted basis, the same as in October. So far, leading indicators point to a positive contribution of industry to Q4 GDP.** What has driven the activity so far this year were exports orders but in November, new orders slowed down. This is in line with the weaker PMI data in the euro-zone as well, driven especially by France which is Romania's third export destination. **In constructions, the seasonally adjusted balance stepped into the positive territory after pointing to a decrease in October.** Almost 2 thirds of the respondents point to subdued demand in the construction field, more than in October. Also, intercompany arrears seem to affect half of the respondents to the survey. After inching up in Q3, constructions have started Q4 on the wrong foot.

This week the banking statistics for October will be released.

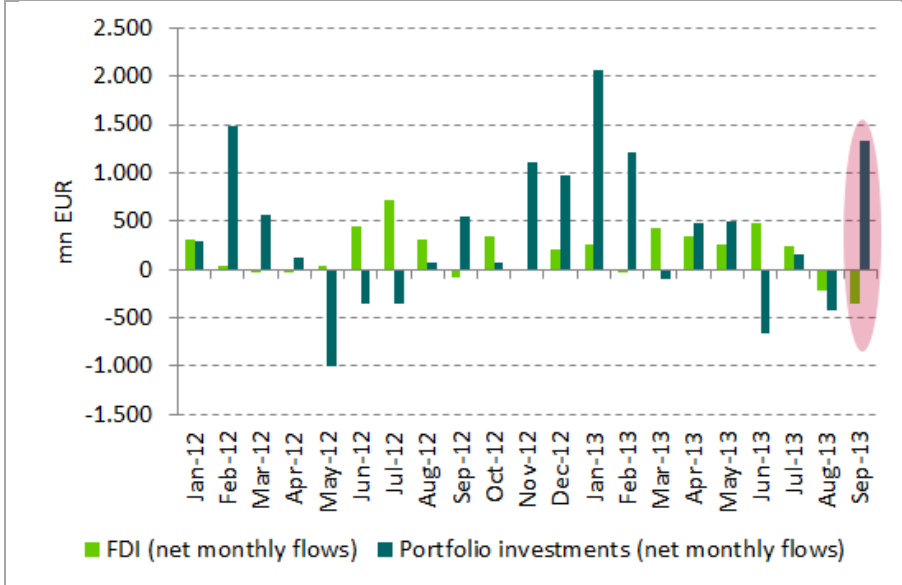
Medium-term macroeconomic forecast

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 EUR/RON hovers around 4.45

The leu showed little volatility last week and **the new data coming from the euro-zone and the US showed that progress was being made in both economies.** In the US, the retail sales grew more than expected in October, unimpeded by the government shutdown. **The Fed's minutes of the October 29-30 meeting revealed that the Fed was expected to taper in the coming next couple of meetings.** Data from Europe shows that the euro-zone continues to recover, with Germany as its main pillar and France being a weaker link. The euro-zone PMI data for November came at 51.5, slightly lower than expectations, due to the impact of French PMI which pointed to a deterioration in business conditions (the PMI was below 50 which shows expansion). As net portfolio inflows to the Romanian economy weakened throughout the year, the leu gave up some of the previous gains and showed greater volatility when tapering talk first started, sending the EUR/RON above 4.5 in June. Since September, when net monthly portfolio inflows were strong (EUR 1.3 bn), coming after few weak months with net outflows, the leu stabilized around 4.45 and it has been hovering around this level. **As portfolio net flows are not expected to speed up and FDI remain low, the potential for a stronger leu is limited.**

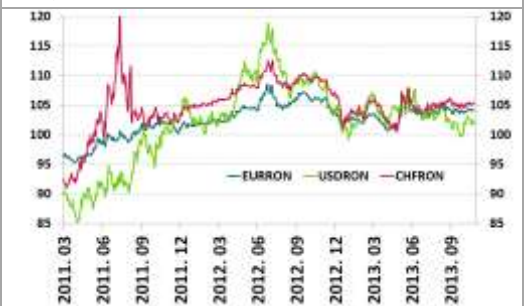
Net portfolio inflows were strong (+ EUR 1.3 bn) in September


Sources: NBR, OTP Research

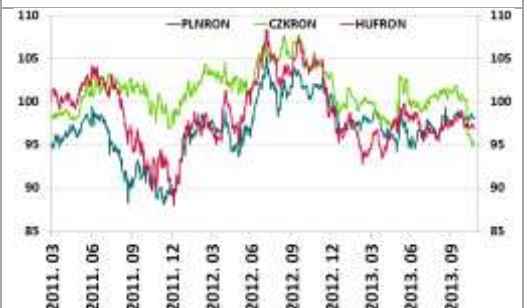
Last data: 22.11.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,45	↓	-0,06	↑ 0,06
USDRON	3,28	↓	-0,49	↓ -2,54
CHFRON	3,62	↑	0,34	↓ -1,67
RONJPY	3,24	↓	-1,56	↓ -16,49
RONPLN	1,06	↓	-0,33	↓ -2,68
100HUFRON	1,49	↓	-0,22	↓ -2,35
RONCZK	0,16	↓	-0,49	↓ -7,97
RONRUB	0,10	↓	-1,02	↓ -9,07
RONRSD	0,04	↓	-0,04	↓ -1,37
RONBGN	2,27	↓	-0,04	↑ 0,08

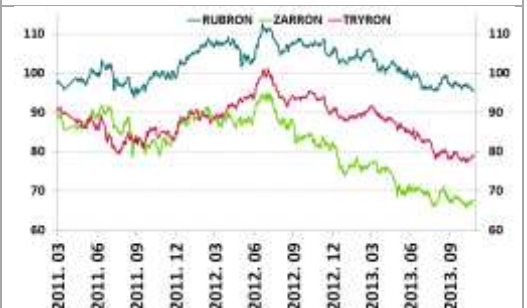
Source: Reuters

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 shows little volatility



Sources: Reuters, OTP Research

As of September, foreigners hold EUR 6 bn in Romanian government securities , mostly medium and long term (83%); less than 30% in EUR



Sources: The Ministry of Finance, OTP Research

Government securities: Yields dropped 2-6 bps w/w; S&P raised Romania's outlook from stable to positive

As expected, yields edged down last week between 2 and 6 bps (except for 5Y bonds which remained flat) as the market reassessed the date of the tapering and saw it further than December 2013. The Treasury sold the planned RON 700 mn in 7Y bonds at the average accepted yield of 5.04%, 7 bps lower than the previous similar tender in Mid September. The improved market sentiment was also reflected in the higher demand compared with the previous few auctions. Total bids climbed to RON 1.3 Bn and bid to cover ratio stood comfortably at 1.9. Considering that money market rates are going to remain low in the short term (at least December) and that inflation rate has yet to fall until it reaches a minimum in Q1 2014, yields are likely to continue on a downward path.

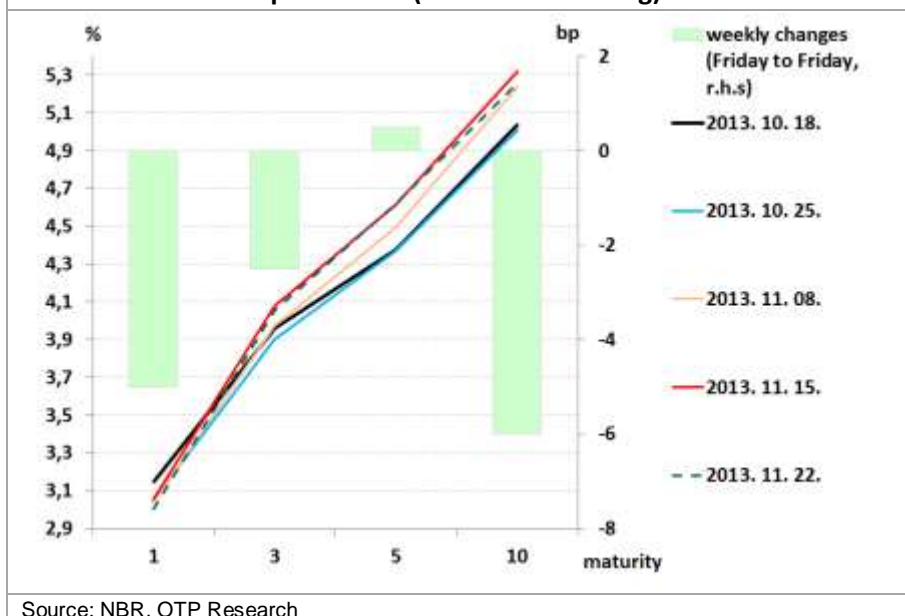
Additionally, the S&P raised its outlook on Romania from stable to positive and said there were 1 in 3 chances that it could raise the sovereign rating in H2 2014, provided that fiscal consolidation continued, but also the public finance reform and public restructuring. The S&P is the only rating agency that still places Romania below investment grade. They affirmed Romania's 'BB+/B' long- and short-term foreign and local currency sovereign credit ratings on the basis of the adjustment to external demand, fiscal consolidation and financial stability.

Last week's auction results (RON denominated)

RO1320DBN022	
Offered amount (mn RON)	700
Total bids (mn RON)	1340
accepted amount (mn RON)	700
Average accepted yield (%)	5,04
Coupon (%)	5,75

Source: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

Last data: 22.11.2013

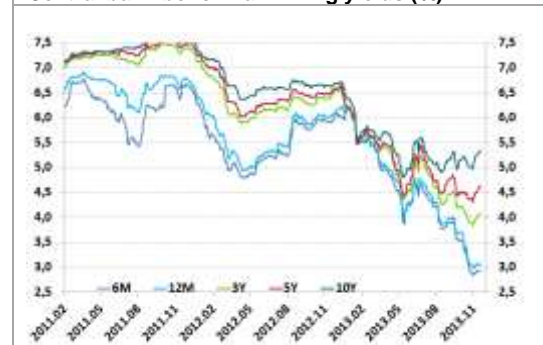
RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	2,87	↓ -6	↓ -332	
12M	3,01	↓ -5	↓ -316	
3Y	4,06	↓ -3	↓ -211	
5Y	4,62	↑ 0	↓ -158	
10Y	5,26	↓ -6	↓ -112	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	385	↓ -3	↓ -223	
GERROM 5Y	397	↑ 0	↓ -183	
GERROM 10Y	355	↓ -6	↓ -139	
3Y -5Y	57	↑ 3	↑ 53	
5Y -10Y	64	↓ -6	↑ 46	
3Y-10Y	121	↓ -4	↑ 99	
FLY 3-5-10	8	↓ -9	↓ -7	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	108	↓ -3	↓ -27	
5Y EURO	163	↓ -3	↓ -31	

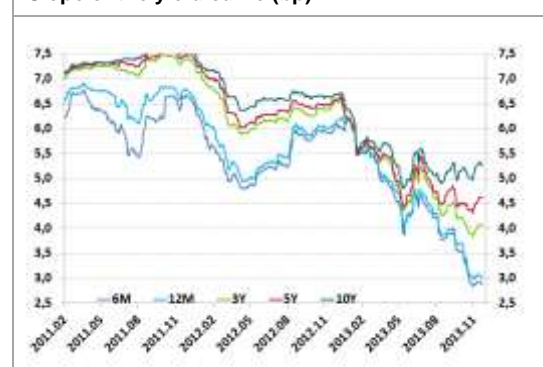
Source: Reuters

Central bank benchmark fixing yields (%)



Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)



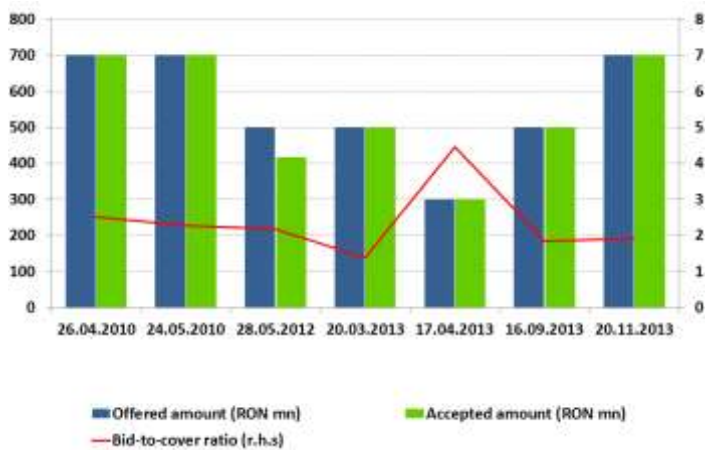
Sources: NBR, OTP Research

Bond auctions in November (in RON)

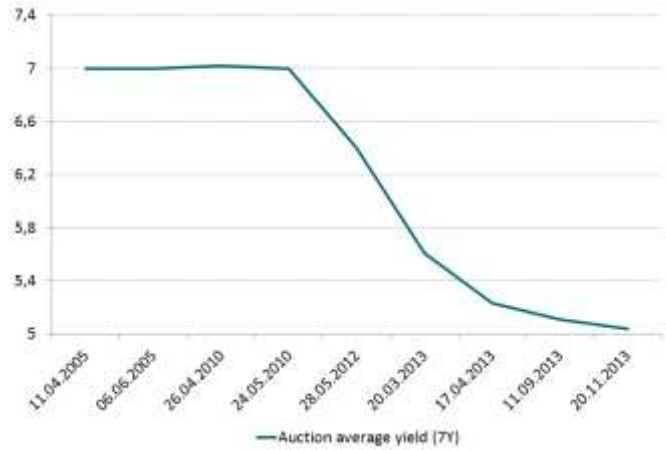
ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1323DBN018	04.11.2013	05.11.2013	06.11.2013	26.04.2023	10	5.85	800.000.000	80.000.000
RO1114DBN011	07.11.2013		11.11.2013	25.10.2014	3	6.25	1.000.000.000	
RO1015DBN010	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	5.6	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

7Y Auctions data


Sources: NBR, OTP Research

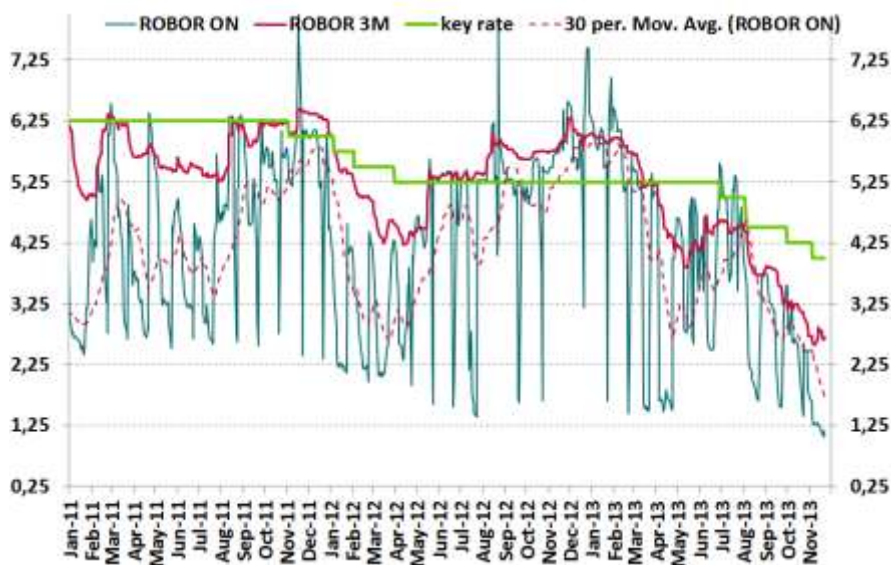
7Y Interest rates (RON)


Sources: NBR, OTP Research

MM: Good liquidity conditions likely to continue in December; the government can run a 1.3% budget deficit in the last 2M

Money market rates continued to fall last week and ROBOR 3M dropped 9 bps on a weekly basis, to 2.7%. ROBOR ON came again close to the inferior limit of the variation band around the base rate (+/- 3 pp). In August, the net liquidity position of the banking system returned to positive territory and consolidated afterwards in September (last available data) due to Treasury's operations. Rates are significantly below the base rate of 4% and the current excess liquidity is likely to continue in December as well, given the increased budget expenditure. **The 10M cash budget deficit stood at 1.2% in GDP which leaves the government with a space of 1.3% of GDP budget deficit to record in the last two months of the year (cumulated), as the cash target is 2.5% this year.**

Most important MM instruments' evolution



Sources: NBR, OTP Research

Last data: 22.11.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4,00	↔ 0	↓ -125
ROBOR ON	1,16	↓ -6	↓ -522
ROBOR 3M	2,70	↓ -9	↓ -333
ROBOR 6M	3,18	↓ -8	↓ -310
ROBOR 9M	3,29	↓ -3	↓ -299
ROBOR 1Y	3,38	↓ -1	↓ -293

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

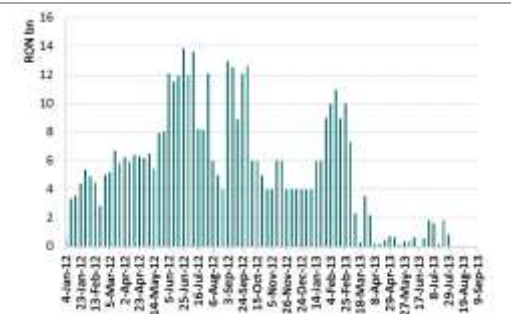
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2.784,1	-293,3	-117,3

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	7	↑ 6	↓ -17
USDRON 1M	35	↓ -1	↓ -115
USDRON 3M	142	↓ -21	↓ -104
EURRON 1W	9	↑ 2	↓ -31
EURRON 1M	50	↓ -16	↓ -96
EURRON 3M	245	↓ -15	↓ -266

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

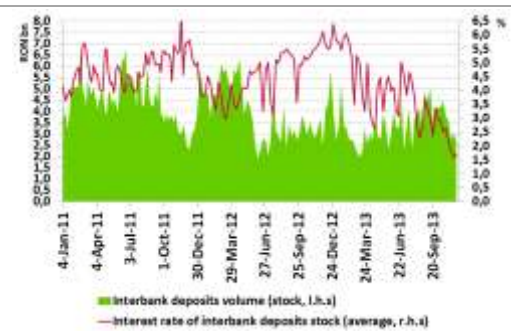
Source: Reuters

Repo operations since 2012



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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