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Weekly Report Romania

17 January 2013



The Treasury sells USD 2 bn, including a record issue of 30Y bonds

Macroeconomics: Inflation fell to 1.5% YoY (Dec); constructions dropped 7.4% YoY (Nov) after a few good months; industrial production appears still strong in Q4 (Page 3 – 5)

Disinflation continued in December, as headline inflation fell to 1.5% YoY from 1.8% YoY in November. Food goods deflation was the same (-1.8% YoY), non food goods prices were characterized by disinflation (+3.6% YoY) while services' inflation mounted (+3.4% YoY). Inflation is expected to drop to its all time low in H1 2014, of 1% YoY and pick up to around 3% YoY until the end of 2014. Constructions took a dive in November (-7.4% YoY), after having advanced at an average of 8.3% YoY during July – October. The buildings' segment was responsible for the drop. Industrial production was strong in November, climbing some 9% YoY. So far Q4 was strong and expectations for December are not much deteriorated. We expect industry to continue to perform well in 2014 and to rely more on internal demand as well. The gross wage grew by 4.8% YoY in November. More importantly, the real wage also climbed significantly, by 2.9% YoY as disinflation process continues due to a favorable base effect.

FX markets: in the short term, the leu is under the spell of further expected monetary policy easing (Page 6)

The leu had a rather low volatility this week and managed to appreciate marginally, without recovering its recent losses though. By contrast, leu's peers faced some depreciation pressure while in Europe and the US the macro data revealed no big surprises. The next event important for Romania is the visit of the IMF and its quarterly review between 21st January and 5th February. The IMF was supposed to make the first evaluation of the 3rd agreement in December, but it was postponed given differences of opinion between the president and the government on the proposed excise of 7 eurocents/ liter for gas. We believe that what prevails in importance in the short term is expected further easing of monetary policy which does not act in favor of the leu. The governor recently reconfirmed NBR's stance toward required reserves ratio, seen falling at faster than expected speed, and explained NBR's decision not to absorb excess liquidity from the market hoping this will pressure banks to lend more.

Government securities: The Treasury sells 30Y bonds for the first time (Page 7 - 9)

The Treasury announced this week to sell EUR 2 bn in international bonds and it already sold almost the entire planned amount. In a historical start, it issued USD 1 bn in 30Y bonds at 245 bps over treasuries, yielding 6.258%. This was a part of a dual tranche and another USD 1 bn was sold in 10Y bonds at 215 bps over the treasuries, yielding 5.021%. Demand was very good and it was oversubscribed 6 times. For 2014, the Ministry of Finance will sell RON 35 bn of which 14 bn in Q1 2014. The yield curve is steepening and the excess liquidity is putting pressure on yields, especially at the short end of the curve, where yields fell up to 36 bps. However, we believe that excess liquidity will be reduced as banks lend, finance the deficit and repay debt and consequently this will be reflected in higher money market rates.

MM: Another cut in reserves ratio is expected this year (Page 10)

Recently, the NBR's governor stated that the required reserves ratio could be brought closer to European Union level "during a period that is not too lengthy" and that it will be operated in "small successive steps". Speaking of the base rate, the vice governor Cristian Popa stated that there was limited room for further cuts and that the main adjustment has already been made. Since July 2013 and until now the base rate was cut by 150 bps. Indeed, the market and we look forward to another base rate cut until 3.5% at the next monetary policy meeting in February and we expect another cut of RON reserves ratio later on.

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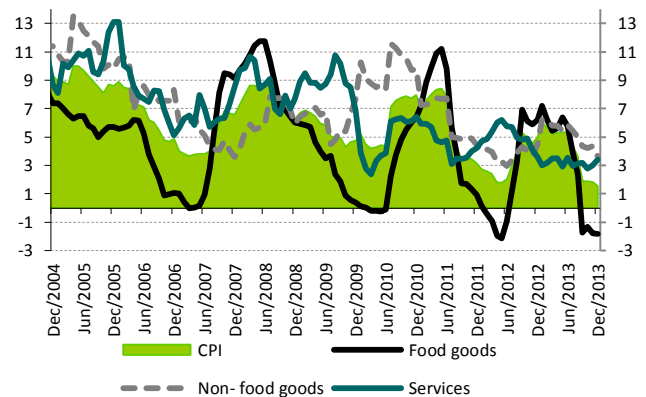
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Macroeconomics: Inflation fell to 1.5% YoY (Dec); constructions dropped 7.4% YoY (Nov) after a few good months; industrial production appears still strong in Q4

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
13 Jan	Dec	Consumer price index (y-o-y,%)	1,6	1,5	1,8
13 Jan	Nov	Net wage growth rate (y-o-y, %)	4,8		4,1
13 Jan	Nov	Industrial Production Index (y-o-y, %)	9,0		11,2
13 Jan	Nov	Construction works index (y-o-y, %)	-7,4		6,5
17 Jan	Nov	CA balance (EUR mn, YTD)	-1326		-955
27 Jan	Nov	Non -governmental loans (y-o-y, %)			-4,1
27 Jan	Nov	Non -governmental deposits (y-o-y, %)			7,0
27 Jan	Nov	M3 aggregate (y-o-y, %)			6

Disinflation continued in December, as headline inflation fell to 1.5% YoY from 1.8% YoY in November. Food goods deflation was the same (-1.8% YoY), non food goods prices were characterized by disinflation (+3.6% YoY) while services' inflation mounted (+3.4% YoY). Inflation is expected to drop to its all time low in H1 2014, of 1% YoY and pick up to around 3% YoY until the end of 2014.

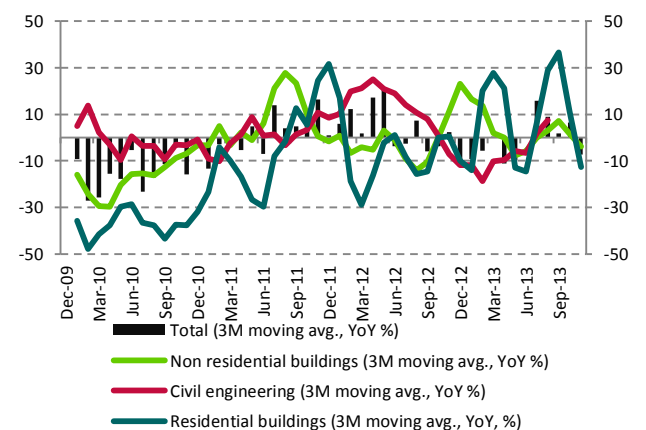
Inflation stood at 1.5% YoY in December; Services Inflation rose to 3.4% YoY



Source: NIS, OTP Research

Constructions took a dive in November (-7.4% YoY), after having advanced at an average of 8.3% YoY during July – October. **The buildings segment was responsible for the drop** while civil engineering managed to take up +2% YoY. In 2014, we expect this segment to show an uptake due to announced infrastructure works, but we also due to increased works in the residential segment as we already saw that the residential building permits are encouraging, especially in the urban segment where growth stood at 28% YoY in November and has been positive in the last 5 months.

Constructions fell by 7.4% YoY in Nov, driven by the buildings sector; civil engineering rose +2% YoY

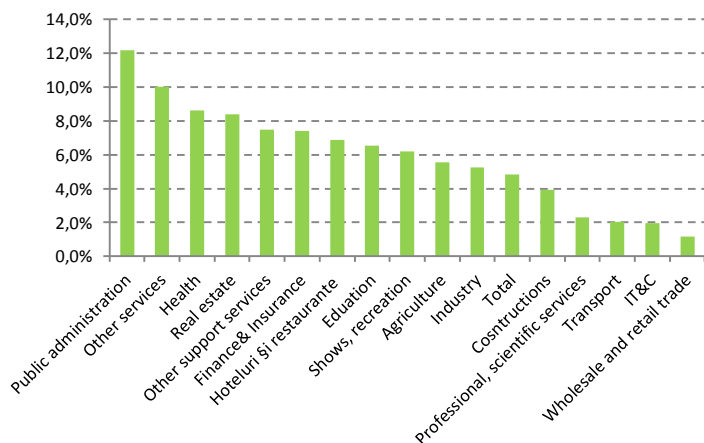


Source: Eurostat, OTP Research

Industrial production was strong in November, climbing some 9% YoY. If we split it on main industrial groups, capital goods production steadied the most (+11.7% YoY), consumer durables also up by +8.1% YoY and consumer non-durables by +5.9YoY %. The energy production was the slowest (+2.2% YoY). **So far Q4 was strong and expectations for December are not much deteriorated**, if we look at sentiment in industry, as it is incorporated by ESI. We expect industry to continue to perform well in 2014 and to rely more on internal demand as well.

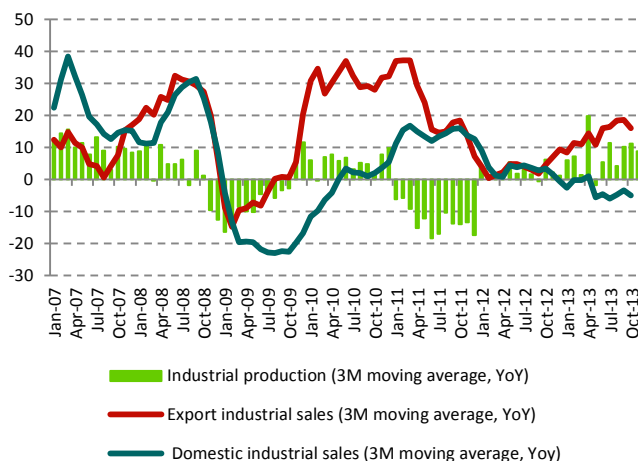
The gross wage grew by 4.8% yoy in November. More importantly, **the real wage also climbed significantly, by 2.9% YoY** as disinflation process continues due to a favorable base effect. The highest increase was seen in the public administration where gross wages rose by 12.2% YoY and the lowest in trade (+1.2% YoY).

Annual gross wage dynamics in November, on sectors; top Increase goes to public administration wages (+12.2% YoY)



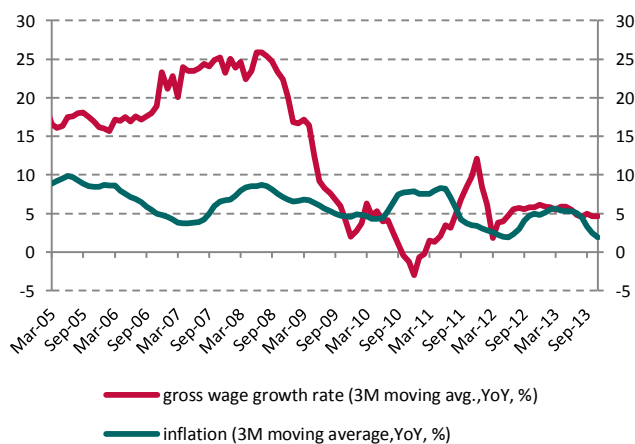
Source: NIS

Industry continues to be strong and jumped 9% YoY in Nov, driven by manufacturing (+10% YoY)



Source: NIS, OTP Research

Gross wage grew by 4.8% YoY in November; real wage grew by 2.9% 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%	2,5%	2,0%
Actual individual consumption of households								
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%	-4,0%	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%	4,1%	2,4%
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%	-2,8%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,8	-0,9	-4,2
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%	0,9%	2,4%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	4,79%	3,52%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	4,00%	3,50%
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

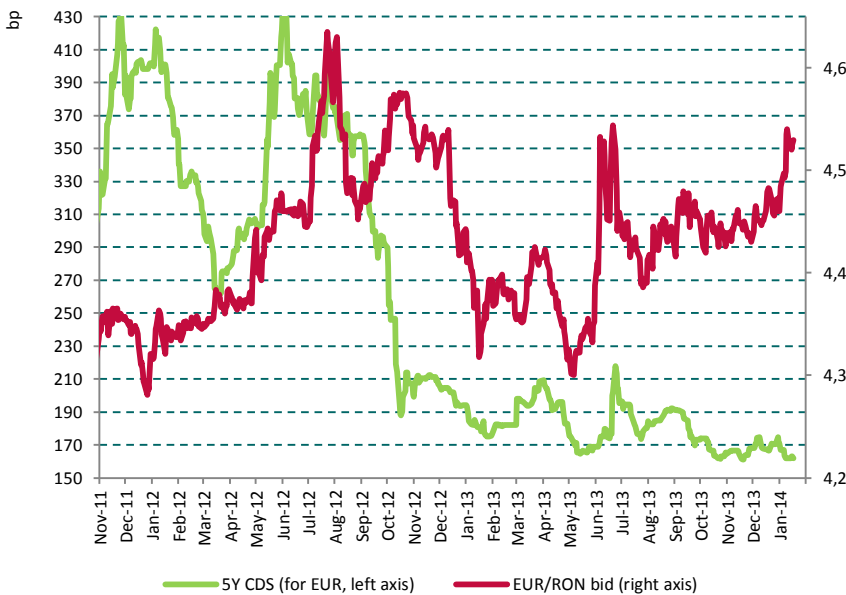
FX markets: in the short term, the leu is under the spell of further expected monetary policy easing

The leu had a rather low volatility this week and managed to appreciate marginally, without recovering its recent losses though. By contrast, leu's peers faced some depreciation pressure while in Europe and the US the macro data revealed no big surprises. The inflation rate both in the euro zone and the US came out as expected, while the euro-zone's industrial production and trade balance came slightly above expectations, without managing to boost the euro against the dollar though. The World Bank upped its estimations for global economic growth by 0.2% to 3.2% in 2014. Romania is seen growing by 2.5% in 2013 and in 2014. The WB report cautioned about the high NPL in the region and how they are dampening credit growth.

The next event important for Romania is the visit of the IMF and quarterly review between 21st January and 5th February. The IMF was supposed to make the first evaluation of the third agreement in mid December but it was postponed given differences of opinion between the president and the government on the proposed excise of 7 eurocents/ liter for gas. These revenues were comprised in the 2014 budget so the postponing of the tax by 3 months would have to be overcome. The IMF review helps with transparency and coins the next big moments for Romania this year, especially with respect with state companies' privatization.

We believe that what prevails in importance in the short term is expected further easing of monetary policy which does not act in favor of the leu. The governor recently reconfirmed NBR's stance towards required reserves ratio (they are seen falling at faster than expected speed) and explained NBR's decision not to absorb excess liquidity from the market hoping this will pressure banks to lend more.

The EUR/RON hovered around 4.52 -4.53 this week while its peers faced small losses



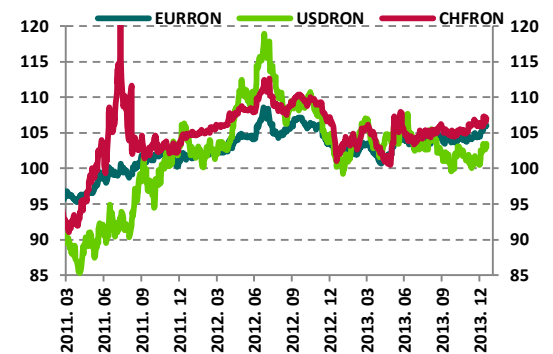
Sources: Reuters

Last data: 16.01.2014

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,53	↓	-0,22	↑ 1,46
USDRON	3,32	↓	-0,42	↑ 2,37
CHFRON	3,67	↓	-0,18	↑ 0,82
RONJPY	3,18	↑	0,18	↑ 3,31
RONPLN	1,08	↓	-0,03	↑ 1,19
100HUFRON	1,50	↓	-0,81	↑ 0,17
RONCZK	0,16	↓	-0,48	↑ 0,86
RONRUB	0,10	↓	-0,87	↑ 0,76
RONRSD	0,04	↓	-0,33	↑ 0,55
RONBGN	2,31	↓	-0,17	↑ 1,44

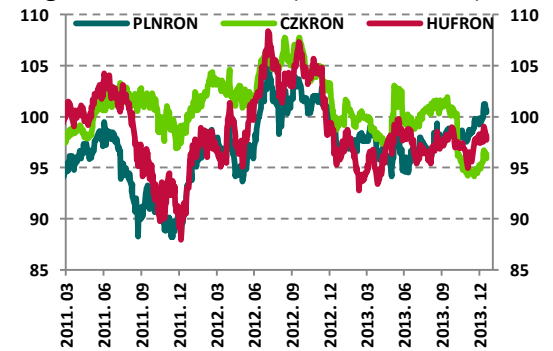
Source: Reuters

Major RON FX rates (03.01.2011=100)



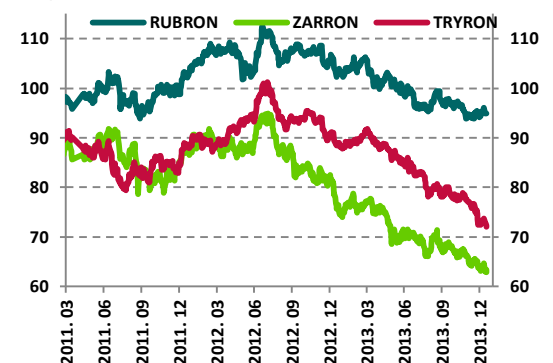
Sources: Reuters

Regional RON FX rates I. (03.01.2011=100)



Sources: Reuters

Regional RON FX rates II. (03.01.2011=100)



Sources: Reuters

Government securities: The Treasury sells 30Y bonds for the first time

The Treasury announced this week to sell EUR 2 bn in international bonds and it already sold almost the entire planned amount. **In a historical start, it issued USD 1 bn in 30Y bonds at 245 bps over treasuries, yielding 6.258%**. This was a part of a dual tranche and another **USD 1 bn was sold in 10Y bonds at 215 bps over the treasuries, yielding 5.021%**. Demand was very good and it was oversubscribed 6 times. The Treasury took advantage of the current favorable environment to tap most of the funds planned for 2014, in the Medium Term Program (please see below the geographical distribution and investor types). Last year, it sold EUR 2 bn and USD 1.5 bn in eurobonds. **For 2014, the Ministry of Finance will sell RON 35 bn of which 14 bn in Q1 2014**. The cash targeted deficit is smaller than last year, at 2.2% of GDP as opposed to 2.5% in 2013.

The yield curve is steepening and the excess liquidity is putting pressure on yields, especially at the short end of the curve, where yields fell up to 36 bps. The market still expects more easing, especially through another cut of reserves and also another cut of the base rate to 3.5%. However, we believe that excess liquidity will be reduced as banks lend, finance the deficit and repay debt and consequently this will be reflected in the level of money market rates.

This week, The Treasury sold bonds 13.5Y(residual maturity) and 7Y (residual maturity) bonds on the local market at an average accepted yield of 5.41% and 4.99% respectively. Demand for the first one was small and the yield was 25 bps higher than the one at the similar auction in May 2013 despite the fact that the base rate was cut by 150 bps since then. The 7Y bond yield was lower by 24 bps than a corresponding tender in April 2013.

This week's international bond sales

Geographical distribution sold amount USD 1 bn, 30Y

US	50%
UK	32%
Rest of Europe	13%
Germany and Austria	2%
other	2%
Romania	1%

Geographical distribution sold amount USD 1 bn, 10Y

US	51%
UK	18%
CEE	2%
Germany and Austria	3%
Rest of Europe	13%
Asia	10%
other	1%
Romania	2%

Investor type

Fund managers	88%
insurers/pension funds	3%
banks	4%
others	5%

Investor type

Fund managers	75%
central banks/sovereign we	12%
insurers/pension funds	5%
banks	5%
others	3%

Source: Reuters

Last data: 16.01.2014

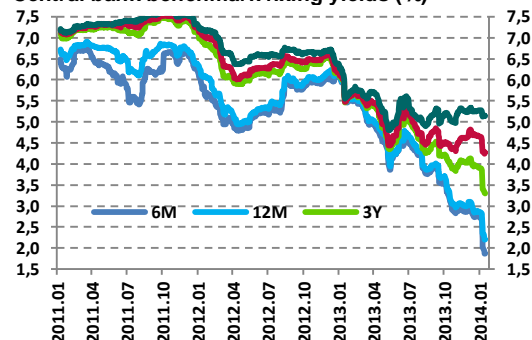
RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	1,87	↓ -36	↓ -89	
12M	2,21	↓ -29	↓ -66	
3Y	3,30	↓ -13	↓ -61	
5Y	4,27	↓ -2	↓ -39	
10Y	5,14	↑ 1	↓ -14	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	293	↓ -13	↓ -60	
GERROM 5Y	336	↓ -2	↓ -35	
GERROM 10Y	323	↑ 1	↓ -10	
3Y -5Y	97	↑ 11	↑ 23	
5Y -10Y	87	↑ 3	↑ 25	
3Y-10Y	184	↑ 15	↑ 48	
FLY 3-5-10	-10	↓ -8	↑ 2	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	109	↑ 1	↓ -8	
5Y EURO	163	↑ 1	↓ -8	

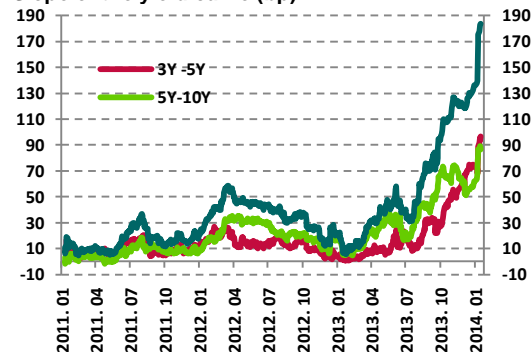
Source: Reuters

Central bank benchmark fixing yields (%)



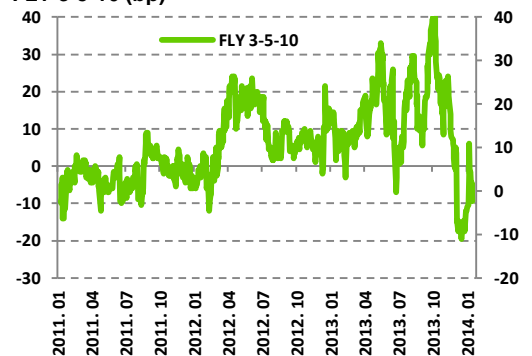
Sources: NBR

Slope of the yield curve (bp)



Sources: NBR

FLY 3-5-10 (bp)

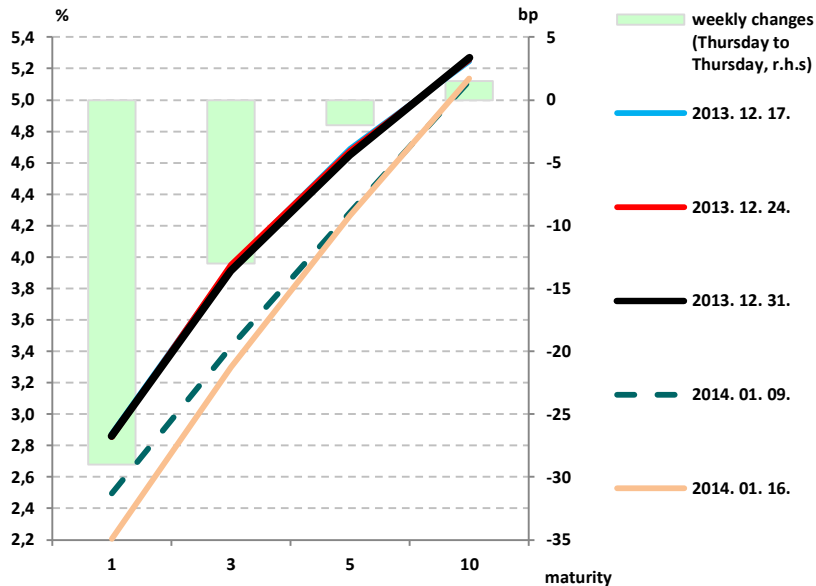


Sources: NBR

This week's auction results (RON denominated)

	RO1121DBN032	RO1227DBN011
Offered amount (mn RON)	500	100
Total bids (mn RON)	1341	152
Accepted amount (mn RON)	560	100
Average accepted yield (%)	4,99	5,41
Coupon	5,95	5,80

Source: NBR

Yield curve over the past weeks (Central Bank fixing)


Source: NBR, OTP Research

T - bills auctions in January (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1414CTN019	09.01.2014	13.01.2014	14.07.2014	6	500.000.000
RO1415CTN024	23.01.2014	27.01.2014	26.01.2015	12	1.000.000.000

Sources: Ministry of Finance

Bond auctions in January (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Residual Maturity (years)	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1316DBN053	06.01.2014	07.01.2014	08.01.2014	29.08.2016	2,6	4,75	700.000.000	70.000.000
RO1121DBN032	13.01.2014	14.01.2014	15.01.2014	11.06.2021	7,4	5,95	500.000.000	50.000.000
RO1227DBN011	16.01.2014	17.01.2014	20.01.2014	26.07.2027	13,5	5,8	100.000.000	10.000.000
RO1318DBN034	20.01.2014	21.01.2014	22.01.2014	28.11.2018	4,9	5,6	500.000.000	50.000.000
RO1323DBN018	27.01.2014	28.01.2014	29.01.2014	26.04.2023	9,2	5,85	500.000.000	50.000.000

Sources: Ministry of Finance

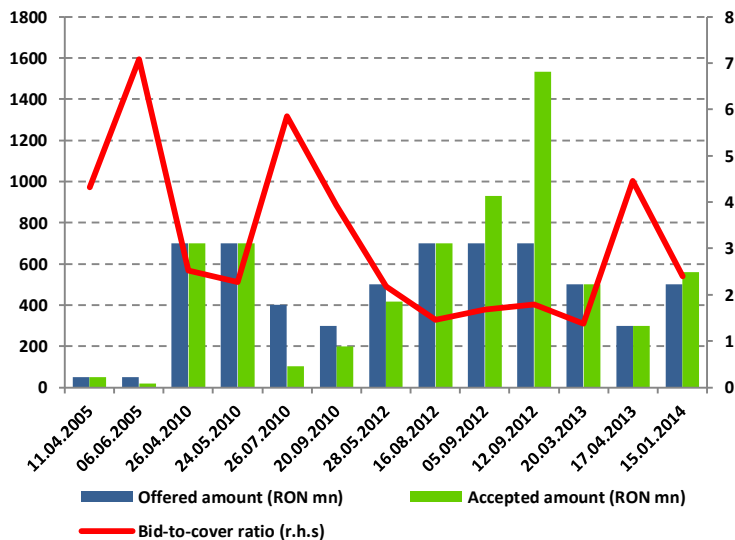
Note:* Supplementary sessions of competitive offers

Bond auctions in January (in EUR)

ISIN	Auction date	Settlement date	Maturity	Residual maturity (years)	Indicative target amount (EUR)
RO1419DBE013	23.01.2014	27.01.2014	21.01.2019	3,4	200.000.000

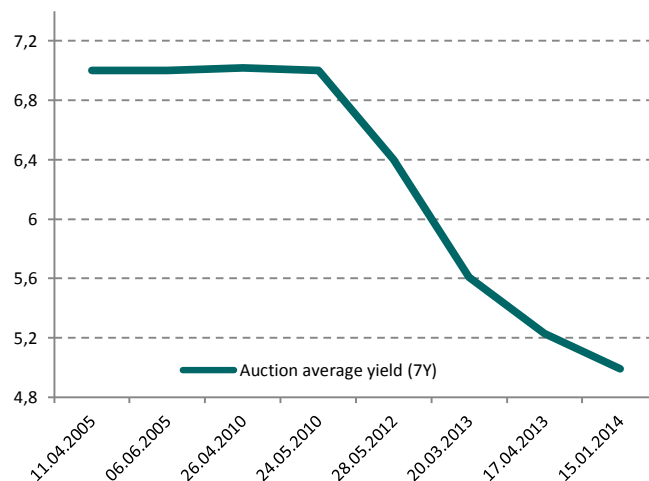
Sources: Ministry of Finance

7Y Auctions data



Sources: NBR, OTP Research

7Y Interest rates (RON)



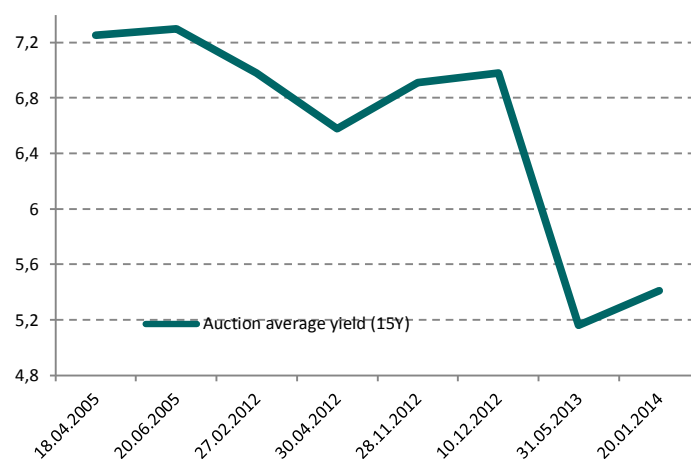
Sources: NBR

15Y Auctions data



Sources: NBR, OTP Research

15Y Interest rates (RON)



Sources: NBR

MM: Another cut in reserves ratio is expected this year

Recently, the **NBR's governor stated that the required reserves ratio could be brought closer to European Union level "during a period that is not too lengthy" and that it will be operated in "small successive steps"**. The current excess liquidity is expected to decline as banks' appetite for lending increases. Consequently, money market rates are less likely to remain at such low levels throughout the year, especially in H2 2014 when inflation will pick up as well. Speaking of the **base rate**, the **vice-governor Cristian Popa stated that there was limited room for further cuts** and that the main adjustment has already been made. Since July 2013 and until now the base rate was cut by 150 bps. Indeed, the market and we look forward to another base rate cut until 3.5% at the next monetary policy meeting in February and we see another cut on RON reserves ratio later on.

Last data: 16.01.2014

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	3,75	↔ 0	↓ -25
ROBOR ON	0,99	↓ -8	↓ -110
ROBOR 3M	1,98	↓ -5	↓ -52
ROBOR 6M	2,63	↓ -7	↓ -37
ROBOR 9M	2,72	↓ -12	↓ -43
ROBOR 1Y	2,77	↓ -14	↓ -42

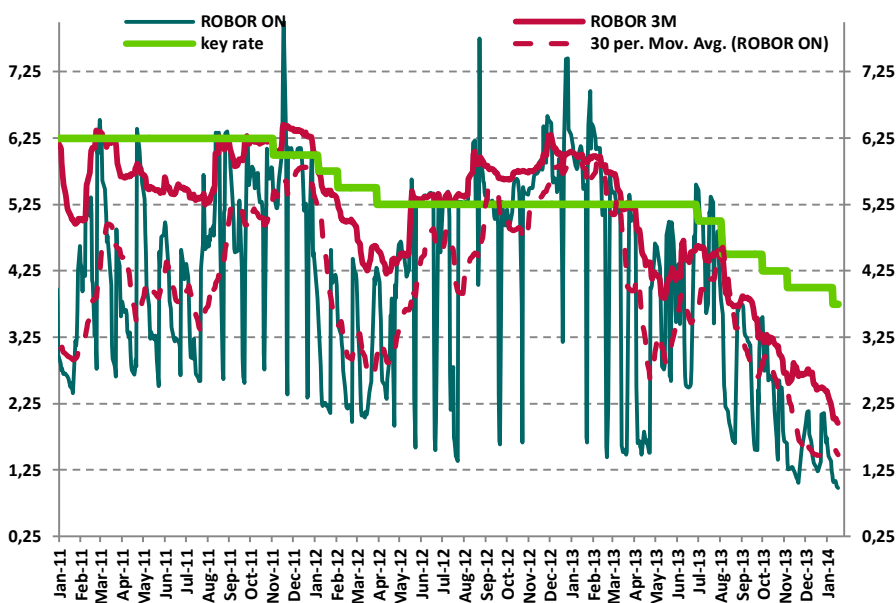
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.480,7	288,2	-1158,5

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	4	↓ 0	↓ -4
USDRON 1M	27	↓ -2	↓ -8
USDRON 3M	102	↓ -3	↓ -16
EURRON 1W	4	↓ -2	↓ -6
EURRON 1M	35	↓ -4	↓ -9
EURRON 3M	166	↓ -2	↓ -10

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-80	↔ 0	↔ 0
EURRON 3Y	-70	↔ 0	↔ 0
EURRON 5Y	-70	↔ 0	↔ 0

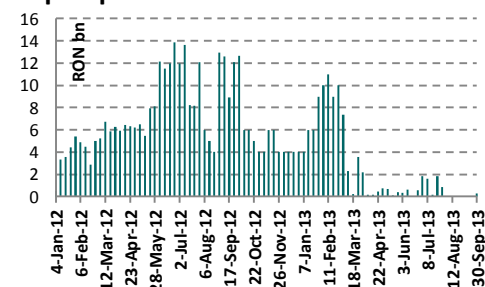
Source: Reuters

Most important MM instruments' evolution



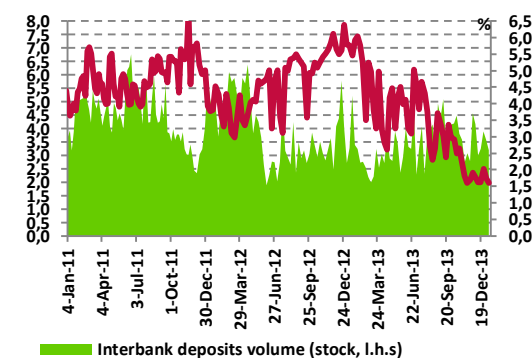
Sources: NBR, OTP Research

Repo operations since 2012



Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

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