

## Headquarter Treasury Sales

### Head of Sales

**Marius George Ionescu**

+40755 000 437

marius.ionescu@otpbank.ro

**Alina Elena Vrabioiu**

+4021 307 58 17

alina.vrabioiu@otpbank.ro

**Tania Fantana**

+4021 307 58 17

tania.fantana@otpbank.ro

**Alexandru Tibuleac**

+4021 307 58 17

alexandru.tibuleac@otpbank.ro

## Regional Treasury Sales

**Cezar Trandafirescu - Iasi**

+40755 000 246

cezar.trandafirescu@otpbank.ro

**Szilamer Kozma – Cluj**

+40755 000 400

szilamer.kozma@otpbank.ro

**Valentin Cioraneanu – Brasov**

+40755 000 464

valentin.cioraneanu@otpbank.ro

**Radu Oprea – Bucharest**

+40755 000 474

radu.oprea@otpbank.ro

# Weekly Report Romania

24 January 2013



## The Treasury sold debt at yields lower by 70-90 bps compared to December

### Macroeconomics: Net FDI (12M rolling) are higher by 5% YoY

(Page 3 – 4)

The CA deficit mounted to EUR 1.3 bn during the first 11M. It is 4 times lower compared to the previous year. Most of the adjustment was done through the shrinking trade gap as internal demand was low. Also, we notice income gap widened significantly as FDI income outflows were large (EUR 2.6 bn), larger even than the net FDI stock (EUR 2.3 bn). On a positive note, net FDI (12M rolling) annual growth was positive for the first time after 4M: +5% YoY. EU funds are pouring in (+55% YoY), after all structural and operational programs have been unlocked in mid year. We are looking to a widening of the CA deficit this year, as the internal demand picks up.

### FX markets: ESA budget deficit shrinks at 2.3% in Q3 (Page 5)

The leu proves the most resistant to depreciation among its peers this week. The current wave comes in the context of fears related to weaker growth expected in China and credit concerns. To this we add a rout of emerging market currencies as the effects of tapering kick in. The leu is not positioned very well in the short term as liquidity is abundant, the monetary policy is continuously easing and foreigners hold significant amount of government securities. According to balance of payments data at November, net portfolio inflows stood at EUR 3.9 bn. The FX reserves are appropriate by all measures but the CB seems ready to allow some more volatility. On the positive side, we note the increase in FDI (+5% yoy, 12M rolling basis). The continued strengthening of the fiscal position is another plus: the ESA deficit fell to 2.3% in Q3 13 (4Q rolling).

### Government securities: The yield curve fell 3-15 bps; term premium increased (Page 6 - 7)

The Treasury successfully hold 3 auctions this week and demand proved pretty healthy, for both euro and leu denominated debt. The Treasury sold more than planned amounts in both currencies. In the case of leu, yields were lower by 70-90 bps than in December. On Monday, it sold 5Y bonds at an average accepted yield of 4.15%. On Thursday, it sold 12M T-bills at 2.03%. Additionally, EUR 714 mn were sold in 5Y bonds at 3.18%. The Treasury took advantage of the still low and yet falling yields. On the secondary market, the yield curve shifted down 3-15 bps, in line with the still easing money market rates. Meanwhile, the term premium is rising and 3-10Y bonds spread is up 58 bps this year. Current yields are in line with the ultra loose leu liquidity conditions, low inflation rate and so far quiet international environment. We believe these cumulative conditions are optimal now and the will deteriorate throughout the year.

### MM: The new period of lower reserves starts (Page 8)

Money market rates continued to shrink this week, by 5-14 bp, before the beginning of the new reserve period. Starting on Friday, the new requirement ratio applies: 12% for RON liabilities and 18% for FX liabilities. There will be a counterbalancing effect as well to the new released liquidity, as companies make their quarterly payments to the state budget. In the past two weeks, the excess liquidity caused ON interbank deposit rate to fall below the ON standing facility rate offered by the Central Bank. Looking forward, we expect the current excess to decline: the Treasury usually records a lower deficit in the first part of the year. Expenditures should be watched carefully as they are currently acting on a budget that assumed higher revenues from the additional excise on fuels but in turn, it will only be applied starting in Q2. Also, the Treasury may want to raise debt in leu from the local market especially in H1, or sooner rather than later as currently yields are still at relatively low levels and the Ministry of Finance targets to extend the maturity. In H2, inflation rate will start climbing and additionally we may feel more tension coming from external factors: more and more effects from tapering, political tensions in Europe related to European parliamentary elections.

#### Chief Economist

**Gergely Tardos**

+36 1 374 7273

tardosg@otpbank.hu

#### FX/FI Strategist

**Levente Pápa**

+36 1 354 7490

papal@otpbank.hu

#### Macro Analysts

**Gábor Dunai**

+36 1 374 7272

dunaig@otpbank.hu

**Győző Eppich**

+36 1 374 7274

eppichgyo@otpbank.hu

**Szilárd Kondora**

+36 1 374 7275

kondorasz@otpbank.hu

**Bálint Szaniszló**

+36 1 374 7271

szaniszllob@otpbank.hu

**Mihaela Neagu**

+4021 307 58 64

mihaela.neagu@otpbank.ro

**Rodion Lomivorotov**

+7 495 783-5400 (2761)

r.lomivorotov@otpbank.ru

#### Sector Analyst

**Orsolya Rátkai**

+36 1 374 7270

ratkaio@otpbank.hu

**Piroska Szabó**

+36 1 374 7276

szabopb@otpbank.hu

#### Technical Analyst

**András Salamon**

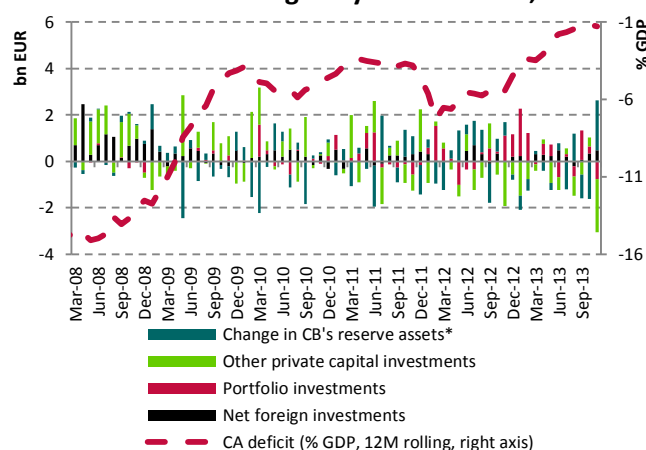
+36 1 374 7225

salamona@otpbank.hu

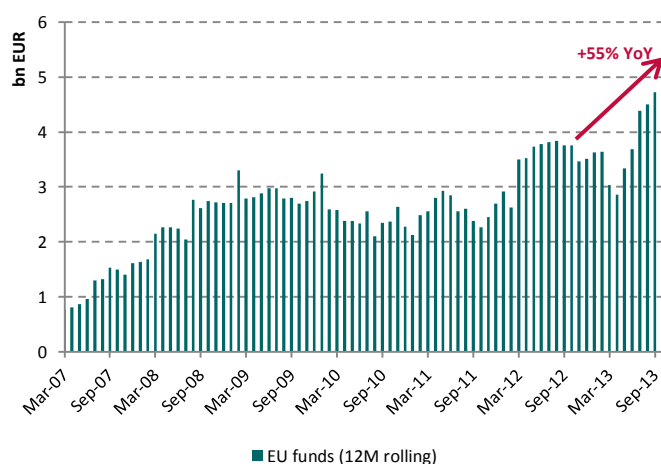
**Macroeconomics: Net FDI (12M rolling) are higher by 5% YoY**

	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

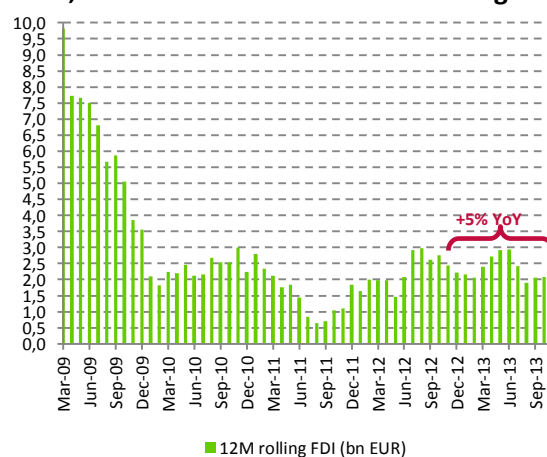
**The CA deficit mounted to EUR 1.3 bn during the first 11M. It is 4 times lower compared to the previous year.** Most of the adjustment was done through the shrinking trade gap as internal demand was low. Also, we notice income gap widened significantly as FDI income outflows were large (EUR 2.6 bn), larger even than the net FDI stock (EUR 2.3 bn). On a positive note, net FDI (12M rolling) annual growth was positive for the first time after 4M: +5% YoY. EU funds are pouring in (+55% YoY), after all structural and operational programs have been unlocked in mid year. We are looking to a widening of the CA deficit this year, as the internal demand picks up.

**CA deficit climbed marginally in November, to 1.3%**


Source: NBR, OTP Research

**EU funds (12M rolling) rose by 55% YoY in November**


Source: NBR

**Net FDI (12M rolling) rose 5% YoY, after 4M of decline; net FDI stood at EUR 2.3 bn during first 11M**


Source: NBR

**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

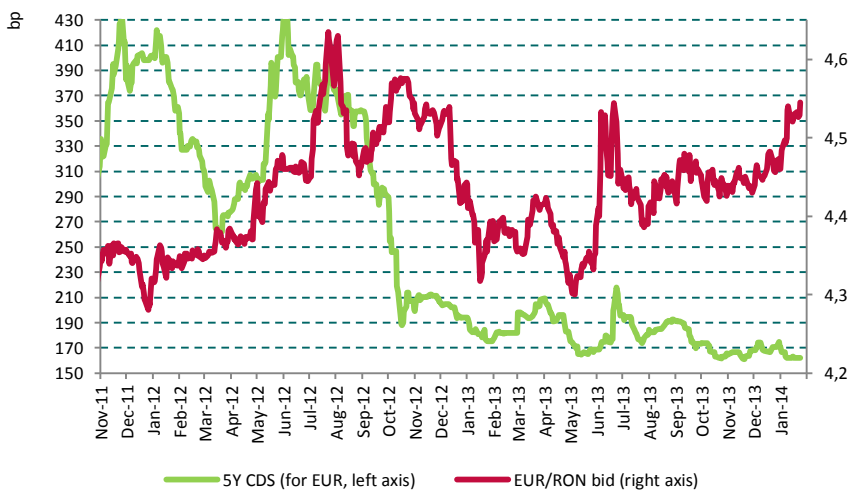
Source: Eurostat, NBR, OTP Research

**FX markets: ESA budget deficit shrinks at 2.3% in Q3**

The leu proves the most resistant to depreciation among its peers this week. On Friday, the EUR/RON traded above 4.54 which means the leu depreciated 0.3% on a weekly basis. However, the Polish Zloty lost 1.3% and the Hungarian forint moved down by 1.8% against the euro. The current wave comes in the context of fears related to weaker growth expected in China and credit concerns. To this we add a rout of emerging market currencies as the effects of tapering kick in. **The leu is not positioned very well in the short term as liquidity is abundant**, the monetary policy is continuously easing and foreigners hold significant amount of government securities. According to balance of payments data at November 2013, net portfolio inflows stood at EUR 3.9 bn during the first 11M. The FX reserves are appropriate by all measures but the **CB seems ready to allow some more volatility**.

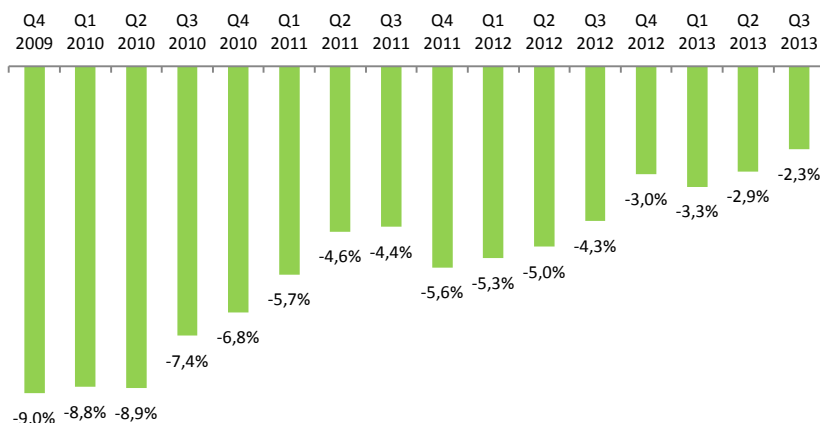
On the positive side, we note the increase in FDI (+5% yoy, 12M rolling basis) as investor confidence increases following the improved macro data in Europe and the US. Also, we expect to see a further increase in EU funds absorption this year. The continued strengthening of the fiscal position is another plus: according to Q3 data (4Q rolling), the ESA deficit fell to 2.3% as of September, down from 3% in December 2012.

**The leu barely moved this week**



Sources: Reuters

**The ESA budget deficit shrank to 2.3% (4Q rolling)**



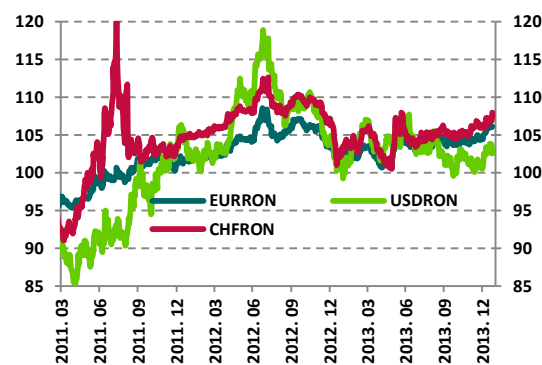
Sources: Eurostat, OTP Research calculation

Last data: 23.01.2014

FX BID				
	Value	Weekly chg. (%)	YTD chg. (%)	
EURRON	4,53	↑ 0,09	↑ 1,55	
USDRON	3,31	↓ -0,42	↑ 1,95	
CHFRON	3,68	↑ 0,34	↑ 1,16	
RONJPY	3,20	↑ 0,64	↑ 3,97	
RONPLN	1,08	↓ -0,21	↑ 0,98	
100HUFRON	1,48	↓ -1,25	↓ -1,09	
RONCZK	0,16	↑ 0,24	↑ 1,11	
RONRUB	0,10	↓ -2,58	↓ -1,84	
RONRSD	0,04	↑ 0,15	↑ 0,70	
RONBGN	2,31	↑ 0,14	↑ 1,58	

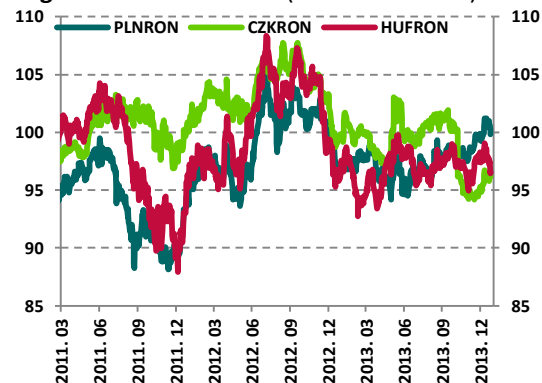
Source: Reuters

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



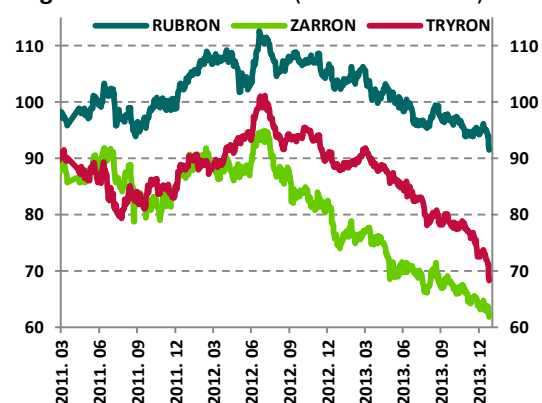
Sources: Reuters

**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 yield curve fell 3-15 bps; term premium increased

The Treasury successfully held 3 auctions this week and demand proved pretty healthy, for both euro and leu denominated debt. The Treasury sold more than planned amounts in both currencies. In the case of leu, yields were lower by 70-90 bps than in December. On Monday, it sold 5Y bonds at an average accepted yield of 4.15%, 75 bps lower than a similar previous tender in early December. On Thursday, it sold 12M T-bills at 2.03%, 87 bps lower than in Mid December. Additionally, EUR 714 mn were sold in 5Y bonds at 3.18%.

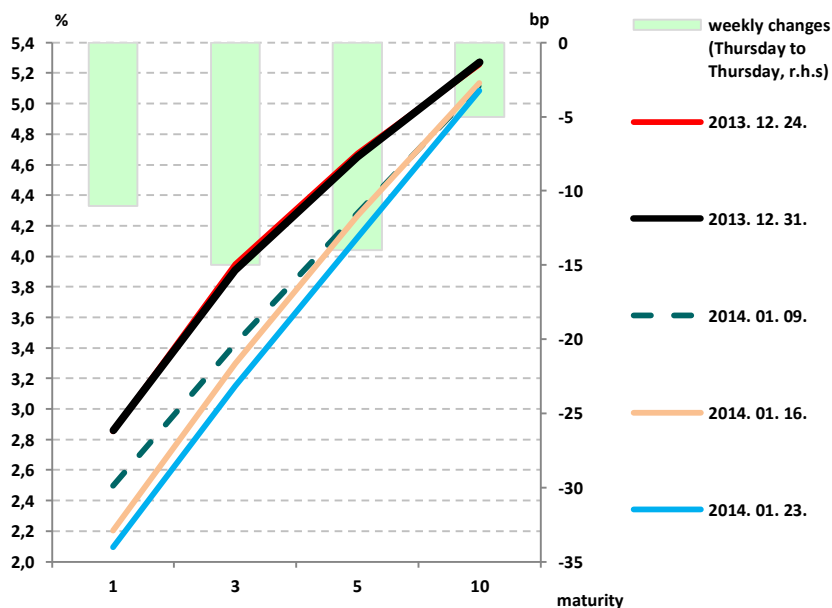
The Treasury took advantage of the still low and yet falling yields. On the secondary market, the yield curve shifted down 3-15 bps, in line with the easing money market rates. Since the beginning of the year, the 5Y CDS also backed 9 bps. Meanwhile, the term premium is rising and 3-10Y bonds spread is up 10 bps in a week and 58 bps this year. Current yields are in line with the ultra loose leu liquidity conditions, low inflation rate and so far quiet international environment. We believe these cumulative conditions are optimal now and they will deteriorate throughout the year.

### This week's auction results (RON denominated)

	RO1318DBN034	RO1419DBE013	RO1415CTN024
Offered amount (mn RON)	500	200	1000
Total bids (mn RON)	1862	772	1969
Accepted amount (mn RON)	714	279	1000
Average accepted yield (%)	4,15	3,18	2,03
Coupon	5,60	3,40	-

Source: NBR

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



Source: NBR, OTP Research

Last data: 23.01.2014

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	1,83	↓ -3	↓ -92	
12M	2,10	↓ -11	↓ -77	
3Y	3,15	↓ -15	↓ -76	
5Y	4,13	↓ -14	↓ -53	
10Y	5,09	↓ -5	↓ -19	

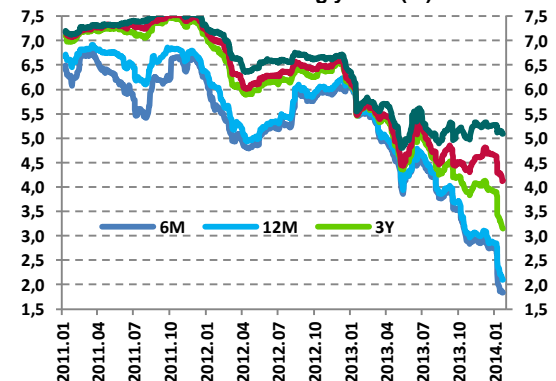
SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	285	↓ -15	↓ -68	
GERROM 5Y	326	↓ -14	↓ -46	
GERROM 10Y	331	↓ -5	↓ -2	
3Y -5Y	98	↑ 1	↑ 24	
5Y -10Y	96	↑ 9	↑ 34	
3Y-10Y	194	↑ 10	↑ 58	
FLY 3-5-10	-2	↑ 8	↑ 11	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	108	↓ -1	↓ -9	
5Y EURO	162	↓ -1	↓ -9	

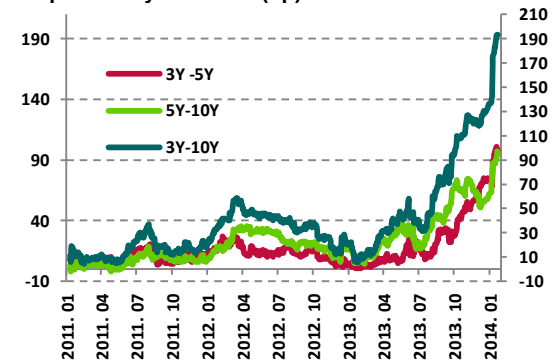
Source: Reuters

### Central bank benchmark fixing yields (%)



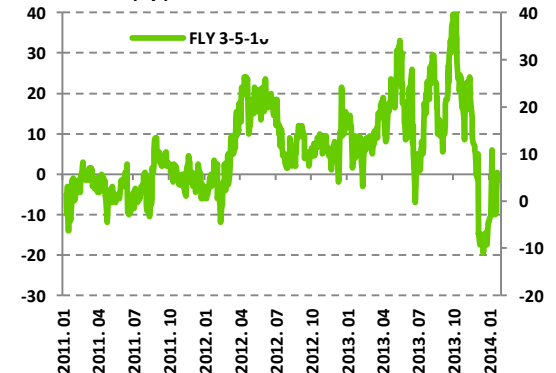
Sources: NBR

### Slope of the yield curve (bp)



Sources: NBR

### FLY 3-5-10 (bp)



Sources: NBR

**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

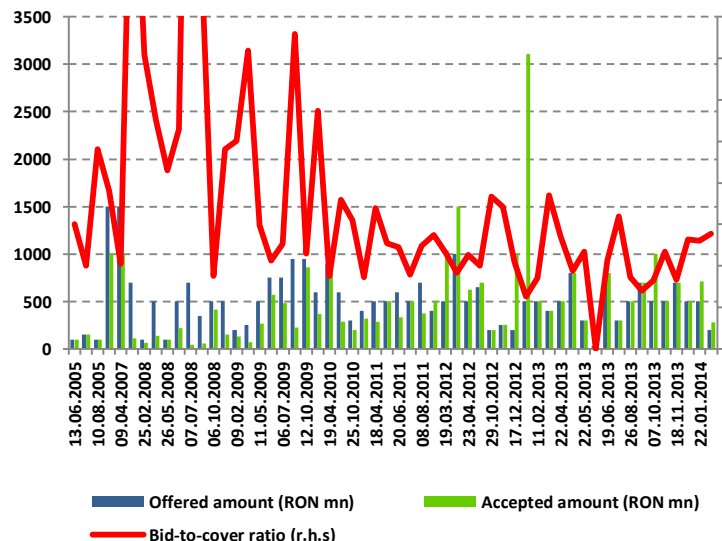
Sources: Ministry of Finance

Note:\* Supplementary sessions of competitive offers

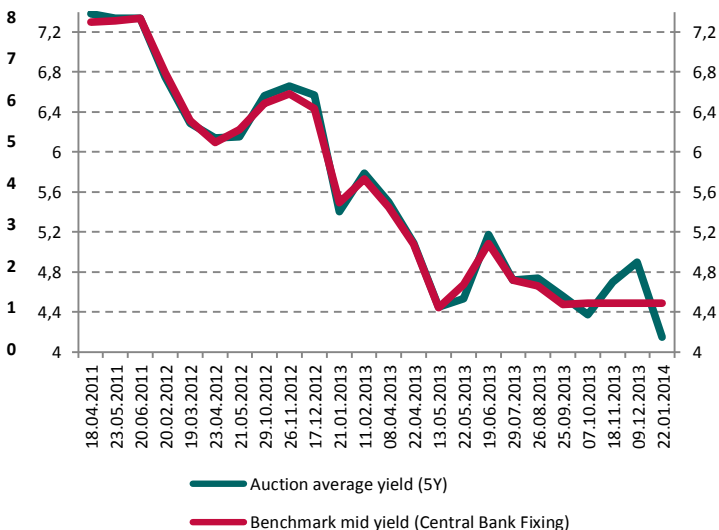
**Bond auctions in January (in EUR)**

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

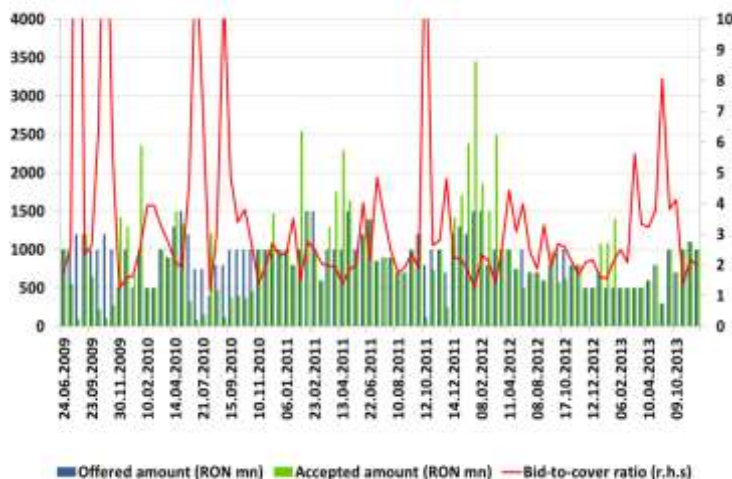
Sources: Ministry of Finance

**5Y Auctions data**


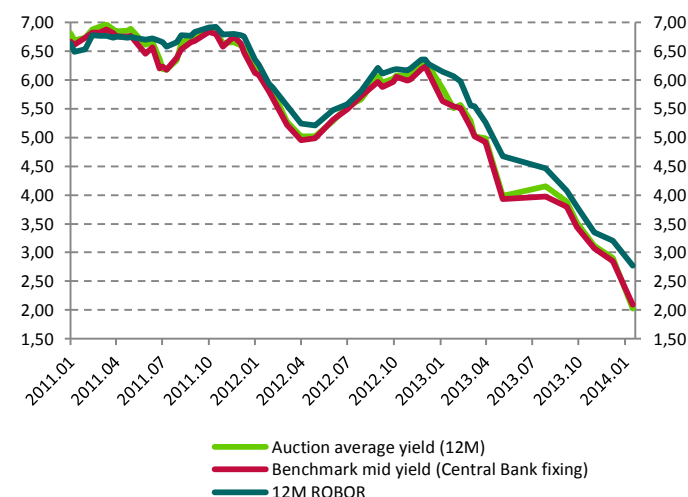
Sources: NBR, OTP Research

**5Y Interest rates (RON)**


Sources: NBR

**12M Auctions data**


Sources: NBR, OTP Research

**12M Interest rates (RON)**


Sources: NBR

## MM: The new period of lower reserves starts

Money market rates continued to shrink this week, by 5-14 bp, before the beginning of the new reserve period. Starting on Friday, the new requirement ratio applies: 12% for RON liabilities and 18% for FX liabilities. There will be a counterbalancing effect as well to the newly released liquidity, as companies make their quarterly payments to the state budget. In the past two weeks, the excess liquidity caused the ON interbank deposit rate to fall below the ON standing facility offered by the Central Bank.

**Looking forward, we expect the current excess liquidity to decline: the Treasury usually records a lower deficit in the first part of the year. Expenditures should be watched carefully, as they are currently acting on a budget that assumed higher revenues from the additional excise on fuels but in turn, it will only be applied starting in Q2. Also, the Treasury may want to raise debt in leu from the local market especially in H1, or sooner rather than later, as currently yields are still at relatively low levels and the Ministry of Finance targets to extend the maturity. In H2, inflation rate will start climbing and additionally we may feel more tension coming from external factors: more and more effects from tapering, political tensions in Europe related to European parliamentary elections.**

Last data: 23.01.2014

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	3.756,5	275,8	-882,7

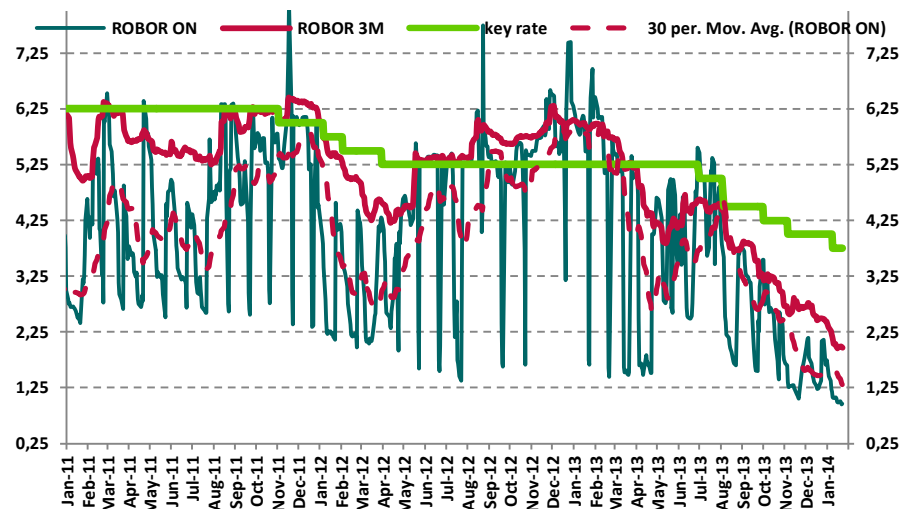
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	4	0	-4
USDRON 1M	27	-2	-8
USDRON 3M	102	-3	-16
EURRON 1W	4	-2	-6
EURRON 1M	35	-4	-9
EURRON 3M	166	-2	-10

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

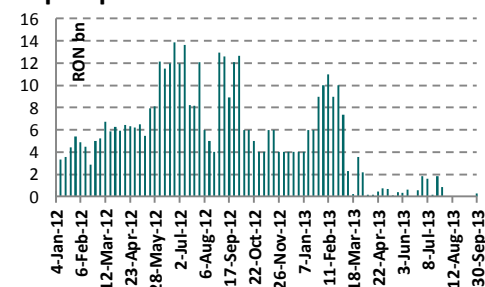
Source: Reuters

### Most important MM instruments' evolution



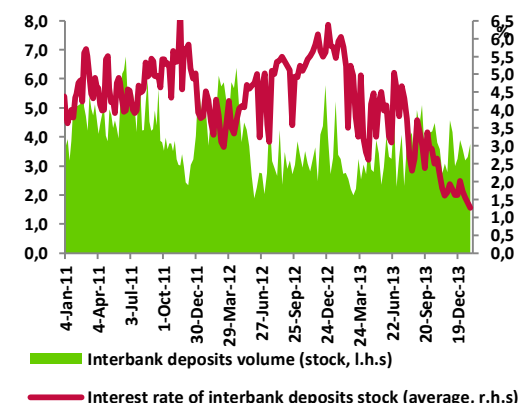
Sources: NBR, OTP Research

### Repo operations since 2012



Sources: NBR, OTP Research

### Interbank deposits stock and average interest rate



Sources: NBR, OTP Research



## Disclaimer

OTP Bank Romania S.A. does not intend to present this document as an objective or independent explanation of the matters contained therein. This document a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication does not contain a comprehensive analysis of the described issues. This report is issued for information purposes only and should not be interpreted as a suggestion, an invitation or an offer to enter into any transaction, as an investment advice, and it does not constitute legal, tax or accounting advice. Also it is not and should not be considered a recommendation for investment in financial instruments according to NSC Regulations no. 32/2006 and 15/2006.

Information herein reflects current market practices. Additional information may be available on request. This document is intended only for the direct and sole use of the selected customers of OTP Bank Romania S.A. Any form of reproduction or redistribution to any other person that the intended recipients, including publication in whole or in part for any purpose, must not be made without the express written agreement of OTP Bank Romania S.A.

Although the information in this document has been prepared in good faith from sources which OTP Bank Romania S.A. believes to be reliable, we do not represent or warrant its accuracy and such information may be incomplete or condensed. The issuer of this report does not claim that the information presented herein is perfectly accurate or complete. However it is based on sources available to the public and widely believed to be reliable. Also the opinions and estimates presented herein reflect a professional subjective judgment at the original date of publication and are therefore subject to change thereafter without notice. Furthermore there can be no guarantees that any market developments will unfold as forecasted. Opinions and estimates constitute our judgment and are subject to change without notice.

OTP Bank Romania S.A. may have issued reports that are different or inconsistent with the information expressed within this report and is under no obligation to update or keep current the information contained herein.

OTP Bank Romania S.A. may hold a position or act as market maker in the financial instrument of any issuer discussed herein or act as advisor or lender to such issuer. This document is not intended to provide the basis for any evaluation of the financial instruments discussed herein. In particular, information in this document regarding any issue of new financial instruments should be regarded as indicative, preliminary and for illustrative purposes only, and evaluation of any such financial instruments should be made solely on the basis of information contained in the relevant offering circular and pricing supplement when available. OTP Bank Romania S.A. does not act as a fiduciary for or an advisor to any prospective purchaser of the financial instruments discussed herein and is not responsible for determining the legality or suitability of an investment in the financial instruments by any prospective purchaser.

This report is not intended to influence in any way or to be considered a substitute to research and advice centred on the specific investment objectives and constraints of the recipient (including tax concerns) therefore investors should obtain individual financial advice. Before purchasing or selling financial instruments or engaging investment services, please examine the prospectuses, regulations, terms, agreements, notices, fee letters, and any other relevant documents regarding financial instruments or investment services described herein in order to be capable of making a well-advised investment decision. Please refer to your competent adviser for advice on the risks, fees, taxes, potential losses and any other relevant conditions before you make your investment decision regarding financial instruments or investment services described herein. OTP Bank Romania S.A. in compliance with the applicable law, assumes no responsibility, obligation, warranty or guarantee whatsoever for any direct or indirect damage (including losses arising from investments), or for the costs or expenses, detrimental legal consequences or other sanctions (including punitive and consequential damage) sustained by any natural or legal person as a result of the purchase or sale of financial instruments or engaging investment services described herein, even if OTP Bank Romania S.A. was warned of the possibility of such occurrences.

Figures described herein refer to the past and past performance is not a reliable indicator of future results.

Investments in financial instruments carry a certain degree of risk (fluctuation of share prices, uncertainty of dividend, yields and / or profits, exchange rate fluctuations, etc.). The capital invested is not guaranteed, investment gains, usually assumed proportionate to risk, and past performance of financial instruments is not a guarantee for future performance.

Please note that the Internet is not a secure environment and OTP Bank Romania S.A. does not accept any liability for any loss caused by the result of using this report in a form altered or delayed by the wilful or accidental interception, corruption or virus infection.

All rights reserved – OTP Bank Romania S.A. (registered seat: Street Buzesti, no. 66-68, 1st district Bucharest, Romania; company registration number: 01-10-041585; NBR registration no RB-PJR-40-028/1999; for further information please refer to: <https://www.otpbank.ro/en>).

This document has been provided to the recipients upon their prior request. Your abovementioned permission may be withdrawn by an e-mail addressed to [mihaela.neagu@otpbank.ro](mailto:mihaela.neagu@otpbank.ro) or a written mail addressed to OTP Bank Romania S.A , Buzesti Street, no. 66-68, 1st district, Bucharest, Romania. Please refer to your name and e-mail address in both cases.