

## Headquarter Treasury Sales

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# Weekly Report Romania

16 April 2014

## Regional Treasury Sales

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## Romania tapped international bond markets

### Macroeconomics: The CA deficit started to grow; imports' pace outpaced the exports as internal demand picks up (Page 3- 5)

The CA deficit seems to have bottomed out at 1% of GDP in January and jumped to 1.3% February. For the first time in many months, the pace of imports (+14% YoY) outpaced exports (+12% YoY), pointing to the fact that as domestic demand picks up, the trade balance will start to deteriorate as well and widen the CA deficit. During the first 2M, net FDI stood at EUR 292 mn (+67% YoY). Meanwhile, portfolio investments were only EUR 789 mn, compared to EUR 3.3 bn last year, as the run into the Romanian debt market has stopped. Inflation has reached an all times minimum of 1% YoY in March. Industry continues to maintain a strong pace (8.9% YoY gross, February). The average monthly seasonally adjusted data shows that industry is likely to contribute positively to Q1 GDP growth, maintaining the trend seen in the past quarters. Constructions activity continued to be a drag for economic activity dynamics with a drop of 14.7% YoY in February. The residential component shows steady progress (+21.2% YoY), averaging +25% YoY in the past 3M.

### FX market: The EUR/RON is still consolidating (Page 6 - 7)

With February balance of payments data being released, we saw that indeed the CA deficit started to widen and that this could be the start of the new path expected for this year. Also, volatile investments that helped funding the deficit last year are significantly lower but we do not see net outflows yet (on 12M rolling basis and neither year to date). We therefore expect these factors to put moderate pressure on the leu by the end of the year. In the short term, we are looking forward to presidential elections in Ukraine on 25th May which could bring enough heat to CEE markets. Additionally, between 22 -25 May there will be the European Parliamentary elections that could be another source of volatility, due to fear of rising extremist parties.

### Fixed income markets: Primary market yields fall (Page 8 - 9)

The Treasury continues to sell debt at lower yields. Last week's auctions were a success and demand was high in both cases, especially for the bond with a residual maturity of 9.1Y, as bid to cover ratio mounted to 6.6, a figure not seen this year yet. The average accepted yield was 5.26%, down from 5.3% recorded in Mid March. This week again, the Treasury raised debt (5Y bonds) at a significantly lower yield: 4.59% versus 4.94 % (Mid March). The Treasury successfully tapped the external market for EUR 1.25 bn this week. The 10Y bonds were priced at 200 bps above the mid swap, translating into a 3.7% yield. With this, Romania finished raising the needed funds from international markets for 2014 but if the context is favourable, it could prefund for 2015 as well, until the end of the year.

### Money markets: March inflation came close to NBR's expectations (Page 10)

March inflation data came close to NBR's expectations: headline inflation was 1% YoY vs. NBR forecast of 0.9% YoY. Core 2 and Core 2 adjusted stood at 0.8% YoY and 0%YoY whereas NBR predicted 0.7% YoY and -0.1% YoY. The Central Bank mentioned that risks to this forecast are upwards and expected the end of the year figure at 3.5% YoY which is the high end of the variation band around the stationary target of 2.5% YoY. So far, we consider that inflation is on track and if this continues to be true in H2, after the base effect from food prices evaporates, the Central Bank could lower further the mandatory reserve ratio for RON liabilities.

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## Macroeconomics: The CA deficit started to grow; imports' pace outpaced the exports as internal demand picks up

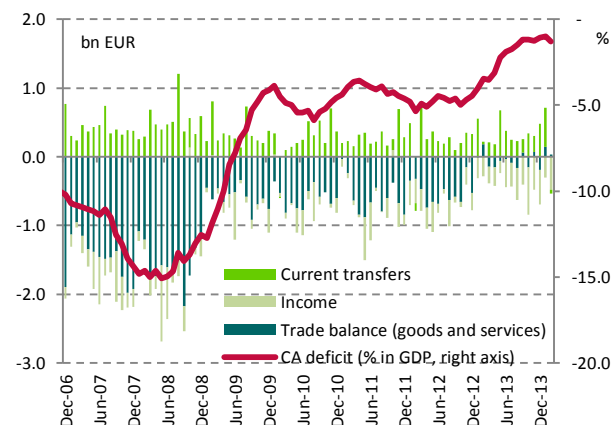
PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR	
07 Apr	Feb	Industrial trade turnover index (y-o-y, %)	11.5	11.4	
07 Apr	Feb	Index value of new orders in manufacturing (y-o-y, %)	20.4	8.8	
09 Apr	Feb	Construction works index (y-o-y, %)	-14.7	-14.3	
09 Apr	Feb	Exports (y-o-y, %)	12.0	6.3	
09 Apr	Feb	Imports (y-o-y, %)	14.0	4.6	
10 Apr	March	Consumer price index (y-o-y, %)	1.0	1.2	1.1
10 Apr	Feb	Industrial Production Index (y-o-y, %)	8.9	10.0	
14 Apr	Feb	CA balance (EUR mn, YTD)	-102.8	400.8	
25 Apr	March	Non-governmental loans (y-o-y, %)		-2.0	
25 Apr	March	Non-governmental deposits (y-o-y, %)		10.7	
25 Apr	March	M3 aggregate (y-o-y, %)		10.7	

The CA deficit seems to have bottomed out at 1% of GDP in January and jumped to 1.3% according to our calculations, after having shrinking continuously since March 2013. The net outflows witnessed by the income balance drove the large CA gap in February, of EUR 0.5 bn. More precisely, the most consistent were outflows corresponding to foreign direct investment income, which have in fact doubled in the first 2M compared to the same period last year. The trade surplus was insignificant in the month and the external trade data for February showed that **for the first time in many months, the pace of imports (+14% YoY) outpaced exports (+12% YoY), pointing to the fact that as domestic demand picks up, the trade balance will start to deteriorate as well and widen the CA deficit.**

On the financing side, the **FDI (12M rolling) rose 33% YoY**. During the first 2M, net FDI stood at EUR 292 mn (+67% YoY). Meanwhile, portfolio investments were only EUR 789 mn, compared to EUR 3.3 bn last year, as the run into the Romanian debt market has stopped.

**Inflation has reached an all times minimum of 1% in March.** The food goods prices continued to decline (-2.2% YoY). The non-food category inflation stood at 2.5% YoY, advancing from the previous month while services inflation was again the most significant (+4.1% YoY). The non food goods category is expected to show a significant uptake in April, due to the introduction of the 7 eurocents/liter excise on fuels. In H2, the positive base effect on food prices will disappear as well, leading headline inflation figure to the limit of the variation band until the end of the year (+3.5%YoY).

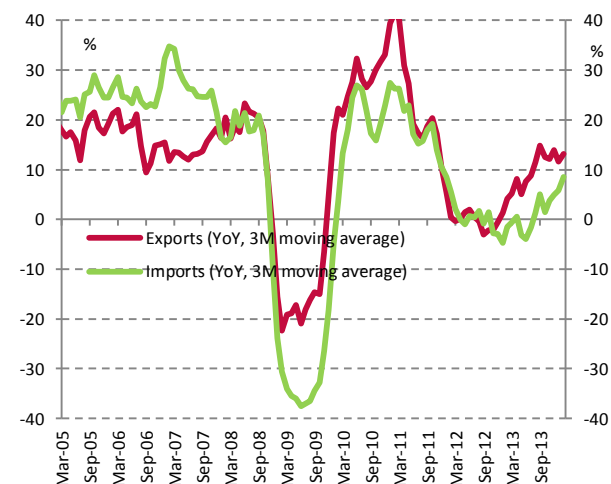
The CA deficit jumped to 1.3%\* from 1% in February, interrupting the downtrend seen in the past year



Source: NBR

\*OTP Research calculation

Imports' dynamics (+14% YoY) outpaced exports for the first time since the end of 2012

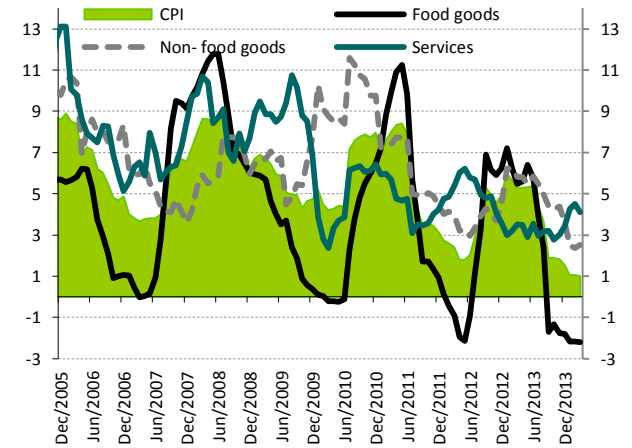


Source: NIS

Industry continues to maintain a strong pace and added 8.9% YoY (gross) in February, supported by all 3 main segments: mining (+1.1% YoY), manufacturing (+9.5% YoY) and energy (+6.3% YoY). On a seasonally adjusted basis, we saw a monthly slowdown (-1.3% MoM, SA) in February, adjusting the 3.2% MoM jump in January. Even so, the average monthly seasonally adjusted data shows that industry is likely to contribute positively to Q1 GDP growth, maintaining the trend seen in the past quarters.

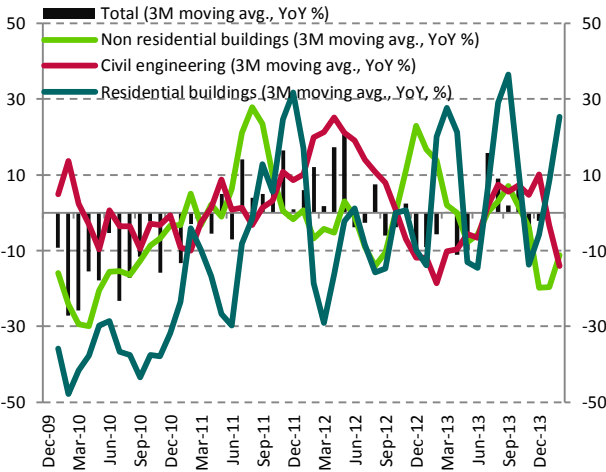
**Constructions activity continued to be a drag for economic activity** dynamics with a **drop of 14.7% YoY** in February, **lead exclusively by the civil engineering segment (-29.9% YoY)**, as public infrastructure works have not yet resumed growth. The residential component shows steady progress (+21.2% YoY), averaging +25% YoY in the past 3M. The residential building permits data are also leading to the same conclusion.

**Inflation drops to 1% YoY in March**



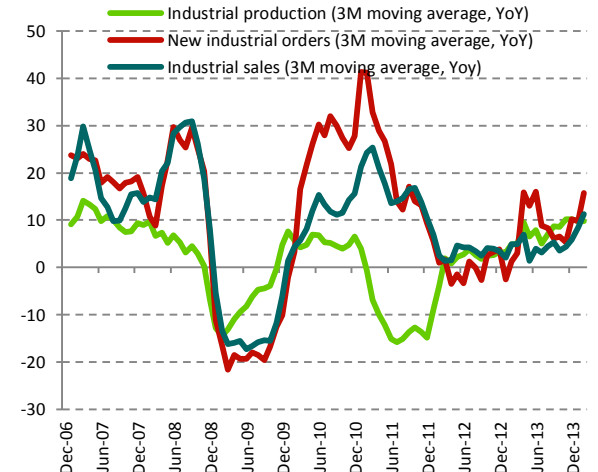
Source: NIS

**Constructions fell 14.7% in February as the infrastructure works still slump**



Source: NIS

**Industrial production climbs 8.9% YoY in February**



Source: NIS

**Macroeconomic forecast \*\***

Main macroeconomic indicators	Fact							Forecast	
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (EUR mn)	124729	139765	118196	124328	131327	131747	142973	148085	157310
Real GDP	6.3%	7.3%	-6.6%	-1.1%	2.3%	0.6%	3.5%	2.3%	3.0%
Households consumption expenditure	12.0%	9.0%	-10.4%	-0.2%	1.6%	1.1%	1.4%	2.1%	2.1%
Government consumption	2.5%	6.2%	9.5%	-13.7%	-3.0%	0.7%	-4.1%	-2.3%	10.0%
Gross fixed capital formation	30.3%	15.6%	-28.1%	-1.8%	7.7%	3.8%	-5.7%	3.4%	6.9%
Exports	7.8%	8.3%	-6.4%	13.2%	11.6%	-1.5%	12.8%	6.6%	4.3%
Imports	27.3%	7.9%	-20.5%	11.1%	10.5%	-0.2%	2.3%	7.1%	4.8%
Consumer prices (avg.)	4.8%	7.8%	5.6%	6.1%	5.8%	3.3%	4.0%	2.5%	3.0%
Budget Balance (GDP%, ESA 95) *	-2.9%	-5.7%	-9.0%	-6.8%	-5.6%	-3.0%	-2.9%	-2.8%	-2.5%
Public debt (GDP %) *	12.8%	13.4%	23.6%	30.5%	34.7%	37.9%	38.5%	39.1%	39.5%
CA balance (% GDP)	-13.4%	-11.6%	-4.2%	-4.4%	-4.5%	-4.4%	-1.1%	-2.0%	-2.0%
CA balance (bn EUR)	-16.8	-16.2	-4.9	-5.5	-5.9	-5.8	-1.5	-3.0	-3.1
Unemployment	6.4%	5.8%	6.9%	7.3%	7.4%	7.0%	7.3%	7.0%	6.8%
Nominal wage growth	21.8%	26.1%	4.8%	3.1%	4.1%	4.6%	5.0%	4.3%	5.0%
Real wage growth	14.7%	16.5%	-1.5%	-3.7%	-1.9%	1.2%	1.0%	1.7%	1.9%
Key interest rate (avg.)	7.5%	9.7%	9.1%	6.5%	6.2%	5.3%	4.8%	3.5%	3.5%
Key interest rate (e.o.p.)	7.5%	10.3%	8.0%	6.3%	6.0%	5.3%	4.0%	3.5%	3.5%
EUR/RON (avg.)	3.34	3.68	4.24	4.21	4.24	4.46	4.41	4.48	4.45
EUR/RON (e.o.p.)	3.61	3.99	4.23	4.28	4.32	4.43	4.46	4.44	4.45

	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014 F	3Q 2014 F	4Q 2014 F	1Q 2015 F
EUR/RON (end of period)	4.39	4.48	4.46	4.46	4.46	4.48	4.46	4.44	4.43
Central Bank Rate ( % )	5.25	5.25	4.50	4.00	3.5	3.5	3.5	3.5	3.5
3-Month Robor ( % )	5.35	4.45	3.65	2.58	2.97	3.33	3.3	3.21	3.31
Ten-Year Bond ( % , mid yield, NBR fixing)	5.64	5.45	5.16	5.28	5.27	5.47	5.43	5.33	5.44

Source: Eurostat, NIS, NBR, OTP Research

Note: \* 2013 budget balance and public debt to GDP data are forecasts

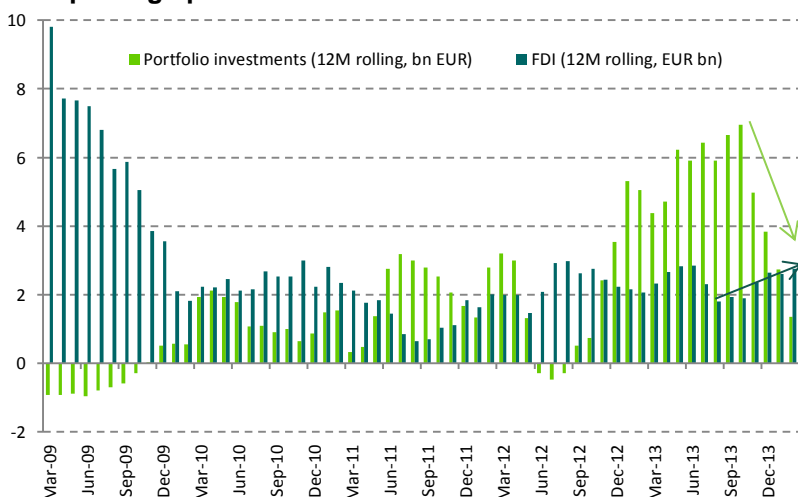
\*\* under revision

## FX markets: The EUR/RON is still consolidating

With February current account data being released, we saw that indeed the **CA deficit started to widen** and that this could be the start of the new path expected for this year, respectively of more widening as internal demand gains strength. Also, volatile investments that helped funding the deficit last year are significantly lower (please see the graph below) but we do not see net outflows yet (on 12M rolling basis and neither year to date). We therefore expect these factors to put moderate pressure on the leu by the end of the year. Given that the liquidity surplus is not distributed homogeneously in the banking system and that the excess is not significant anyway, liquidity can still dry relatively fast and therefore give some support for the leu.

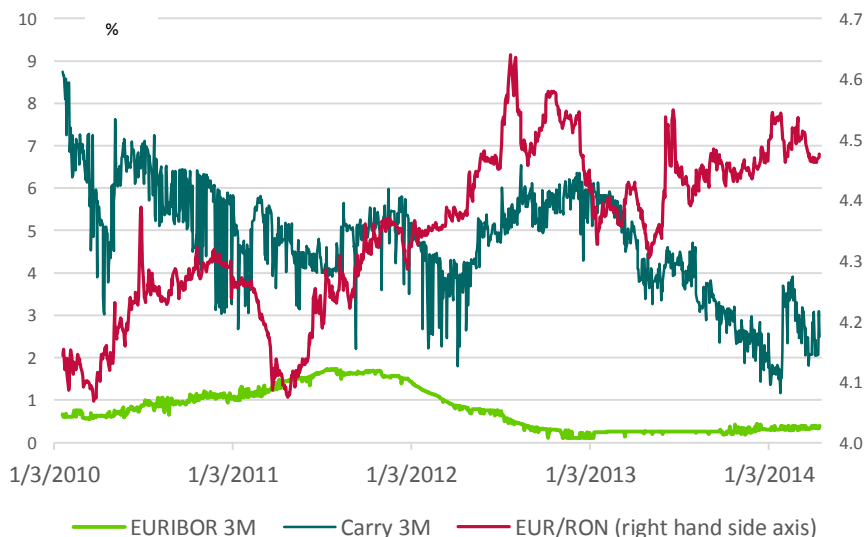
In the short term, we are looking forward to **presidential elections in Ukraine on 25<sup>th</sup> May** which could bring enough heat to CEE markets. Additionally, **between 22 -25 May there will be the European Parliamentary elections** that could be another source of volatility, due to fear of rising extremist parties.

### Volatile portfolio investments considerably slowed down while FDI is picking up



Source: NBR

### The leu reacted modestly to renewed tension in Ukraine



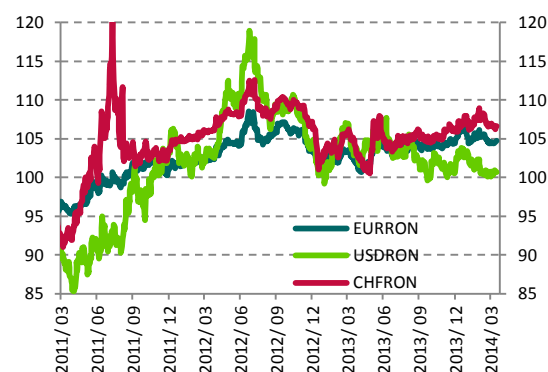
Source: Reuters

Date: 11.04.2014

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4.46	↓	-0.22	↑ 0.32
USDRON	3.21	↓	-1.38	↓ -4.65
CHFRON	3.66	↑	0.21	↓ -0.43
RONJPY	3.16	↑	0.92	↓ -18.53
RONPLN	1.07	↓	-0.54	↓ -1.97
100HUFRON	1.46	↑	0.26	↓ -4.39
RONCZK	0.16	↓	-0.25	↓ -8.31
RONRUB	0.09	↓	-1.33	↓ -18.10
RONRSD	0.04	↓	-0.31	↓ -2.67
RONBGN	2.28	↓	-0.19	↑ 0.34

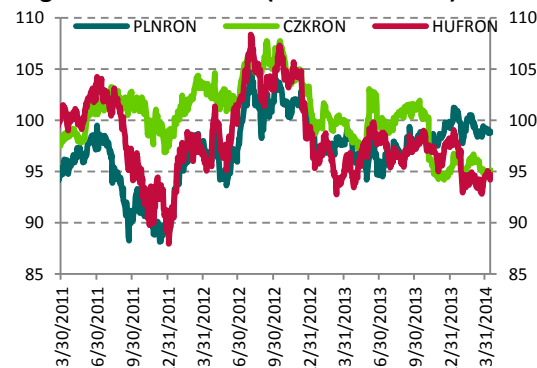
Source: Reuters

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



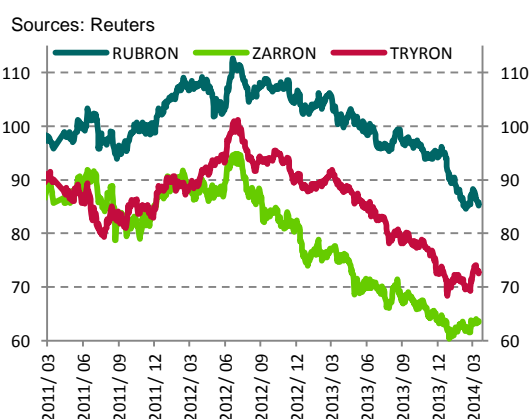
Sources: Reuters

### Regional RON FX rates (03.01.2011=100)



Sources: Reuters

### Regional RON FX rates (03.01.2011=100)



Sources: Reuters



**Daily EUR/RON Chart**



Source: Reuters

<b>Major trend: consolidation</b>	
<b>Minor trend: growth</b>	
<b>R1: 4.485</b>	<b>S1: 4.4625</b>
<b>R2: 4.495</b>	<b>S2: 4.4525</b>
<b>RSI: still neutral</b>	

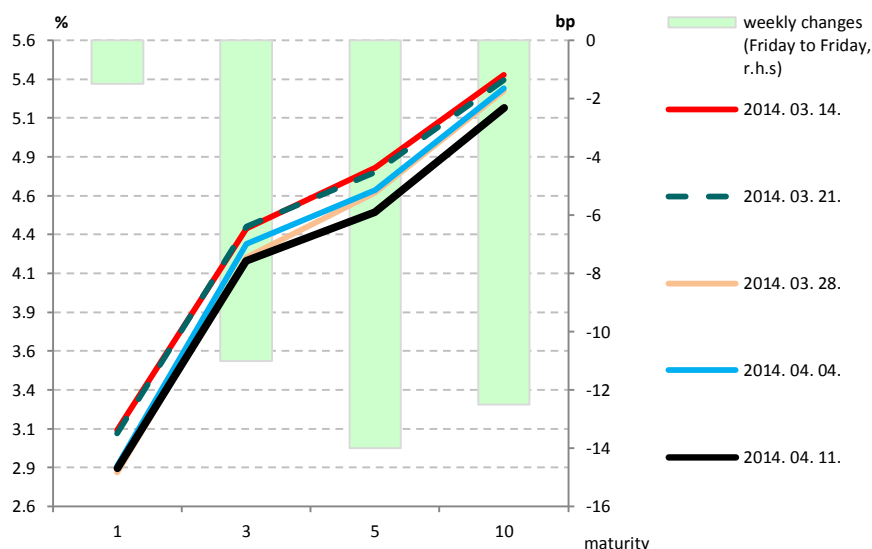
## Government securities: Primary market yields fall

The Treasury continues to sell debt at lower yields. Last week's auctions were a success and demand was high in both cases, especially for the bond with a residual maturity of 9.1Y, as bid to cover ratio mounted to 6.6, a figure not seen this year yet. The average accepted yield was 5.26%, down from 5.3% recorded in Mid March. The second auction for bonds with residual maturity of 2.4Y had a bid to cover of 2.8 and an average accepted yield of 3.84%, marginally lower (-3 bps) than the previous similar auction in early March (residual maturity of 1.9Y). This week again, the Treasury raised debt (5Y) at a significantly lower yield: 4.59% versus 4.94 % (Mid March).

The Treasury successfully tapped the external market for EUR 1.25 bn this week. The 10Y bonds were priced at 200 bps above the mid swap, translating into a 3.7% yield. This was significantly below the initial guidance of 225 bps over mid swaps. With this, Romania finished raising the needed funds from international markets for 2014 but if the context is favorable, it could prefund for 2015 as well, until the end of the year.

Several factors supported the downtrend of yields in the recent months: the continued disinflation, the lowering of the base rate and favorable risk perception. The 5Y CDS has touched its post crisis low at 150 bps. Meanwhile, the base rate cut cycle has stopped and disinflation as well. The latest inflation figure of 1% YoY in March is expected to mark the bottom of the disinflation period. Consequently, we expect yields to take off moderately in the coming months.

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



Sources: NBR

Date: 11.04.2014

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	2.60	↓ 0	↓ -16	
12M	2.85	↓ -2	↓ -2	
3Y	4.18	↓ -11	↑ 27	
5Y	4.50	↓ -14	↓ -16	
10Y	5.17	↓ -13	↓ -11	

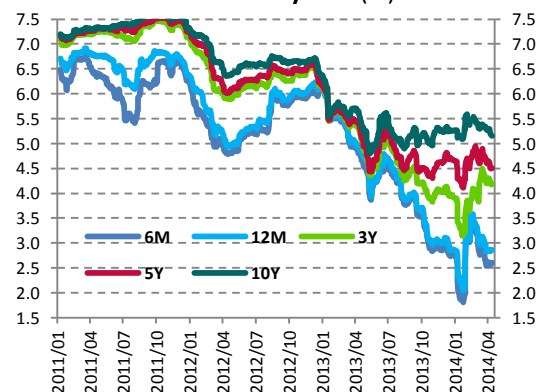
  

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	394	↓ -11	↑ 40	
GERROM 5Y	389	↓ -14	↑ 16	
GERROM 10Y	362	↓ -13	↑ 28	
3Y-5Y	32	↓ -3	↓ -43	
5Y-10Y	67	↑ 2	↑ 5	
3Y-10Y	99	↓ -1	↓ -37	
FLY 3-5-10	36	↑ 5	↑ 48	

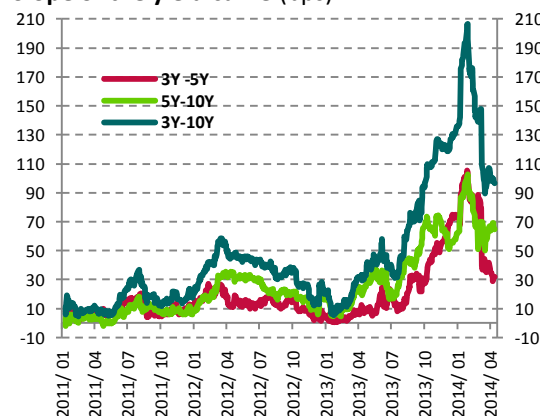
CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	96	↓ -4	↓ -21	
5Y EURO	150	↓ -4	↓ -21	

### Government benchmark yields (%)



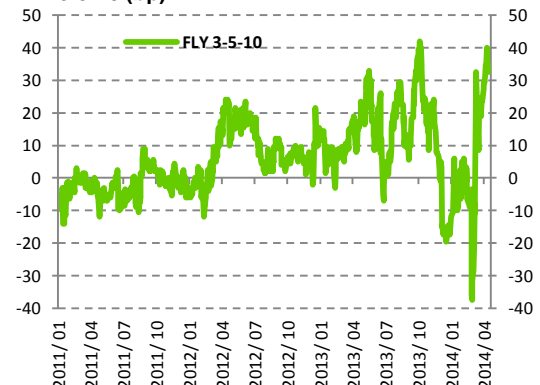
Source: NBR

### Slope of the yield curve (bps)



Source: NBR

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





**Auctions**
**T-bills auctions in March (in RON)**

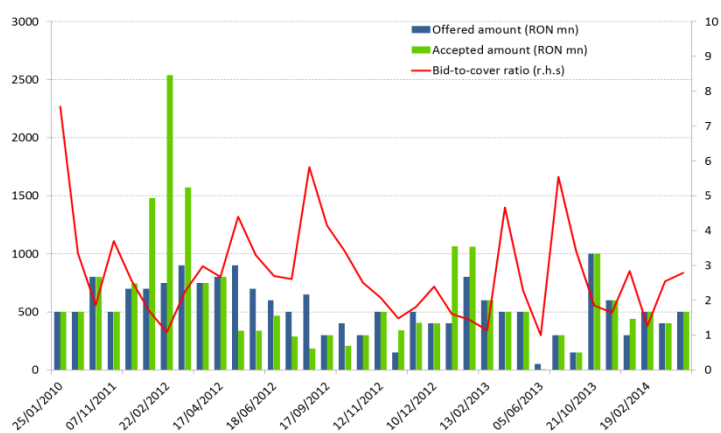
ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1415CTN057	03/04/14	07/04/14	30/03/15	12	1,000,000,000
RO1414CTN068	24/4/2014	28/04/14	05/11/14	6	800,000,000

Source: The Ministry of Finance

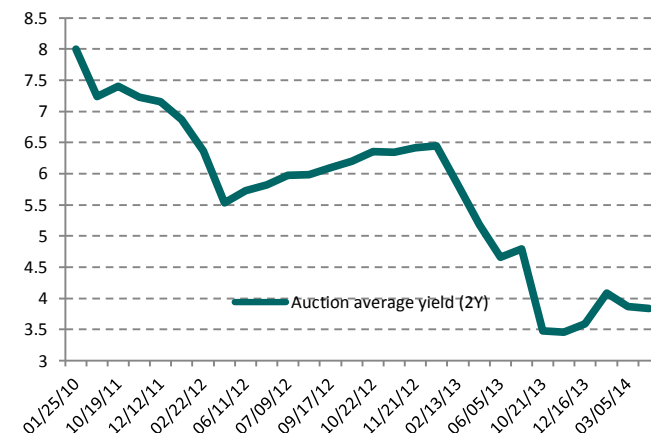
**Bonds auctions in March (in RON)**

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Residual Maturity	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO0717DBN038	03/04/14	04/04/14	07/04/14	11/06/17	10.0	3.2	500,000,000	75,000,000
RO1323DBN018	07/04/14	08/04/14	09/04/14	28/04/23	10.0	9.1	200,000,000	30,000,000
RO1316DBN053	10/04/14	11/04/14	14/04/14	29/08/16	3.0	2.4	500,000,000	75,000,000
RO1419DBN014	14/04/14	15/04/14	16/04/14	24/06/19	5.0	5.2	500,000,000	75,000,000
RO1121DBN032	24/04/14	25/04/14	28/04/14	11/06/21	10.0	7.1	500,000,000	75,000,000

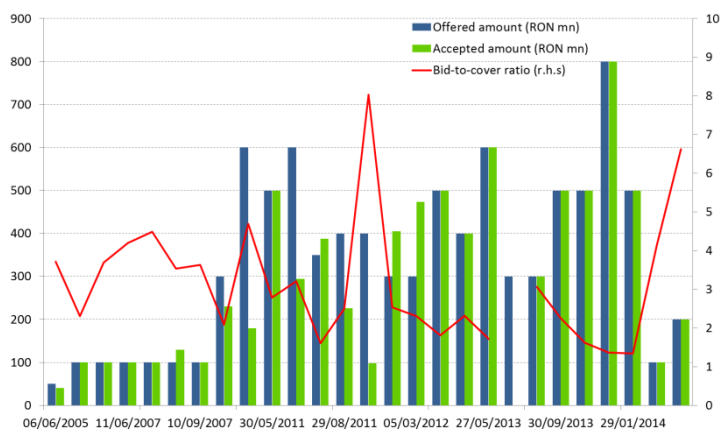
Source: The Ministry of Finance

**2Y Auctions**


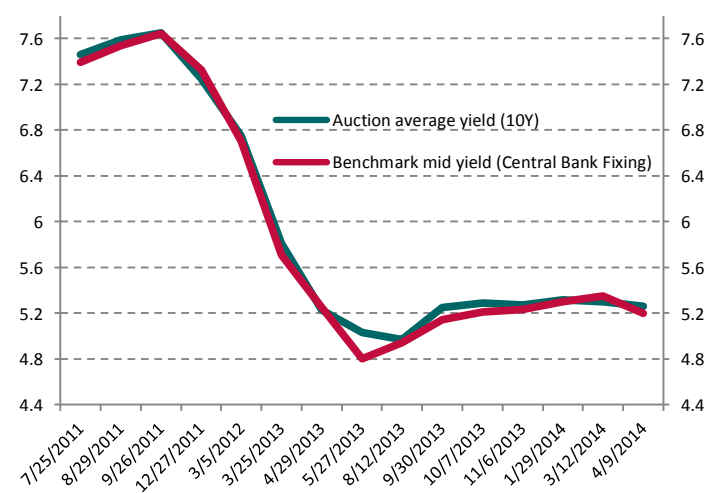
Source: NBR

**2Y Interest rate**


Source: NBR

**10Y Auctions**


Source: NBR

**10Y Interest rates**


Source: NBR

**Last week's auctions**

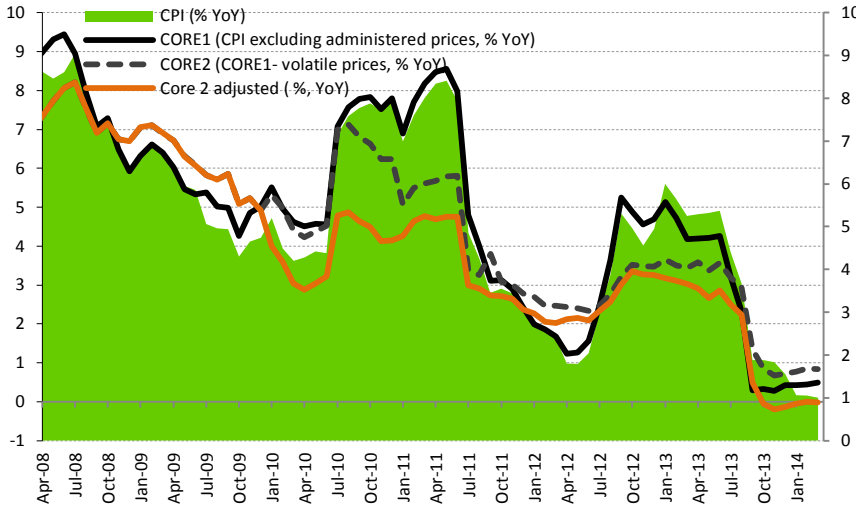
	RO1316DBN053	RO1323DBN018
Offered amount (mn RON)	500	200
Total bids (mn RON)	1392	1325
Accepted amount (mn RON)	500	200
Average accepted yield (%)	3.84	5.26
Coupon	4.75	5.85

Source: NBR

MM: March inflation came close to NBR's expectations

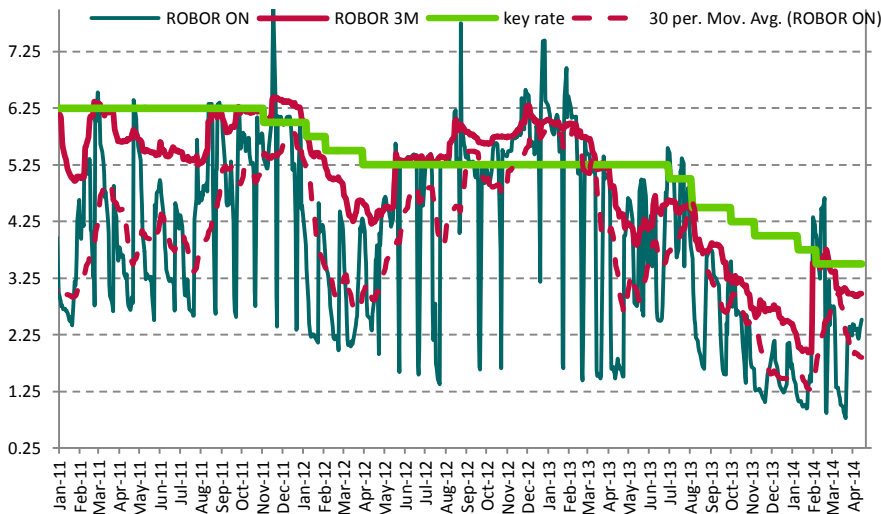
March inflation data came close to NBR's expectations: headline inflation was 1% YoY vs. NBR forecast of 0.9% YoY. Core 2 and Core 2 adjusted stood at 0.8% YoY and 0%YoY whereas NBR predicted 0.7% YoY and -0.1% YoY. The Central Bank mentioned that risks to this forecast are upwards and expected the end of the year figure at 3.5% YoY which is the high end of the variation band around the stationary target of 2.5% YoY. The next inflation report will be published in May and it will have a better view considering that April inflation will be available and it embodies the shock resulted from the increase of excises for fuels by 7 eurocents/liter. So far, we consider that inflation is on track and if this continues to be true in H2, after the base effect from food prices evaporates, the Central Bank could lower further the mandatory reserve ratio for RON liabilities.

Headline and core inflation came close to NBR's expectations for Q1 and lower than market consensus



Sources: NBR

The most important MM instruments



Sources: NBR

Date: 11.04.2014

MID INTEREST RATES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
repo rate	3.50	↔ 0	↓	-50
ROBOR ON	2.35	↑ 1	↑	61
ROBOR 3M	2.97	↑ 4	↑	53
ROBOR 6M	3.33	↑ 3	↑	34
ROBOR 9M	3.37	↑ 4	↑	27
ROBOR 1Y	3.37	↑ 4	↑	22

INTERBANK DEPOSITS				
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)	
outstanding	3,968.7	-226.7	-670.5	

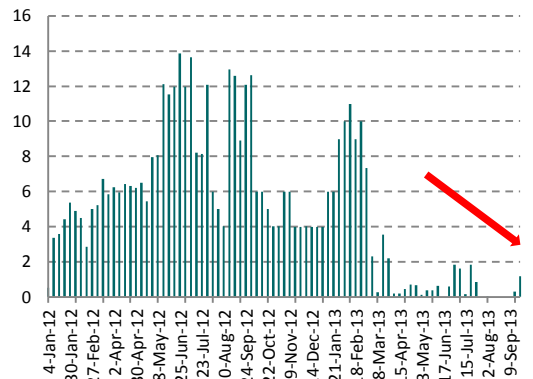
MID SWAP POINTS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
USDRON 1W	15	↓ 0	↑	8
USDRON 1M	58	↑ 0	↑	26
USDRON 3M	174	↓ -17	↑	58
EURRON 1W	18	↑ 6	↑	7
EURRON 1M	77	↓ -7	↑	33
EURRON 3M	227	↓ -61	↑	26

MID EUR BASIS SWAPS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
EURRON 1Y	-80	↔ 0	↑	30
EURRON 3Y	-70	↔ 0	↑	40
EURRON 5Y	-70	↔ 0	↑	40

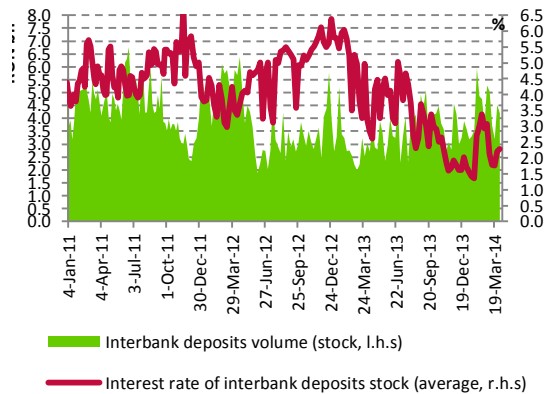
Sources: Reuters

Repo operations since 2012



Sources: NBR

Interbank deposits and interest rate evolution



Sources: NBR

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