

Headquarter Treasury Sales

Head of Sales

Marius George Ionescu

+40755 000 437

marius.ionescu@otpbank.ro

Tania Fantana

+4021 30758 17

tania.fantana@otpbank.ro

Alexandru Tibuleac

+4021 30758 17

alexandru.tibuleac@otpbank.ro

Alina Vrabioiu

+4021 30758 17

alina.vrabioiu@otpbank.ro

Weekly Report

Romania

12 May 2014

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

+40755000474

radu.oprea@otpbank.ro



First quarter GDP could bring a positive surprise

Macroeconomics: Retail and industrial sales figures were strong in March (Page 3- 4)

March retail sales confirm the recent uptrend and show a 13.6% YoY hike. The main drivers were fuels (+17.5% YoY) and non –food (+16% YoY). Fuels sales increase may have had a precautionary component given the fuels' additional excise that applies since the 1st of April. However, the latter reconfirms that consumption appetite shows newly found strength. The net wage continues to grow at significant levels: +5.5% YoY in March, compared to 4.7% YoY in February. Most importantly, the real wage is advancing at a fairly good rate as well, +4.4% YoY and this has helped boost consumption so far. The industrial sales (+16.4% YoY) and new orders (+17.7% YoY) in March indicate that the strong pace in industry continues. Altogether, the high frequency indicators suggest that Q1 GDP will be impressive too.

FX market: Eyes on the GDP data (Page 5 - 6)

The leu continues to remain untouched by the geopolitical context and what is more, it has been gaining strength in the past two months. One of the reasons that could have already been priced in by now, it is the expected release of the S&P rating in a report due this week on 16th May. The rating agency is expected to put Romania back into the investment grade category. The other eye catching event will be the flash GDP data due on 15th May. The market consensus is for an annual growth rate of 3.1% YoY in Q1 2014 and a 0.2% QoQ growth rate. However, having seen the business cycle indicators, we believe that quarterly GDP growth could bring a positive surprise which could be picked up by the EUR/RON pair. Additionally, the dovish stance of the ECB and Fed adds to the momentum and the fact that NBR did not deliver a reserve ratio cut prevented an increase of liquidity which could have hurt the leu.

Fixed income markets: The yield curve shifts down (Page 7 - 8)

The Treasury yield curve dropped 3 to 12 bps last week, especially at the long end of the curve. There were several domestic and foreign factors that pushed yields lower: the liquidity conditions eased last week, geopolitical tensions related to Ukraine seemed to have taken a step back, the major central banks (ECB and Fed) launched dovish signals which make RON yields still appealing for the moment, at no expense on a risk reward basis. However, we should not lose sight of the expected increase in inflation in H2, to 3.3% YoY in December (NBR forecast). Against this background, the Treasury sold 7Y bonds at yield of 4.7%, 24 bps lower than the one at a similar auction in the end of April. Demand was very good and bid to cover stood at 3.1.

Money markets: No monetary policy move, as expected (Page 8 -9)

The Central Bank kept the base rate unchanged at 3.5% as largely expected and made no move on the level of mandatory reserves ratio either. Chances for a reduction in RON mandatory reserves ratio at the next monetary policy session in July have increased, especially given the renewed inflation forecast: NBR cut the end of the year inflation by 20 bps to 3.3% which means that it will be more comfortable in reducing the current level of RON required reserves (i.e.12%). The GDP output gap remains negative in the forecast horizon (until Q1 2016) which means inflationary pressures are not expected to pose problems.

Chief Economist

Gergely Tardos
+36 1 374 7273
tardosg@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
kondoras@otpbank.hu

Bálint Szaniszló
+36 1 374 7271
szaniszl@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

Piroska Szabó
+36 1 374 7276
szabopb@otpbank.hu

Technical Analyst

András Salamon
+36 1 374 7225
salamona@otpbank.hu

Macroeconomics: Retail and industrial sales figures were strong in March

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
05 May	March	ILO unemployment (seasonally adjusted, %)	7.2		7.2
05 May	March	Retail trade turnover index (y-o-y, %)	13.6		8.5
05 May	March	Producer Price Index (y-o-y, %)	-1.1		-1.2
06 May	May	Base rate decision (%)	3.5	3.5	3.5
08 May	March	Net wage growth rate (y-o-y, %)	5.5		4.7
09 May	March	Industrial trade turnover index (y-o-y, %)	16.4		12.4
09 May	March	Index value of new orders in manufacturing (y-o-y, %)	17.7		20.4
12 May	March	Exports (y-o-y, %)	11.8		12.0
12 May	March	Imports (y-o-y, %)	9.9		14.0
12 May	March	Consumer price index (y-o-y, %)	1.2	1.5	1.0
12 May	March	Industrial Production Index (y-o-y, %)	10.7		8.9
15 May	Q1 2014	Flash GDP growth rate (YoY, %)		3.1	5.2

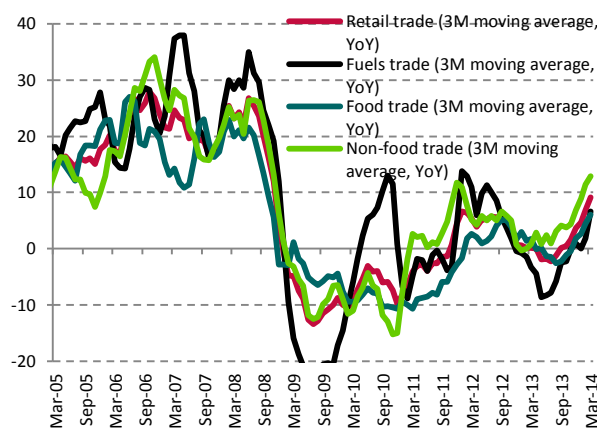
March retail sales confirm the recent uptrend and show a 13.6% YoY hike. The main drivers were fuels (+17.5% YoY) and non-food (+16% YoY). Fuels sales increase may have had a precautionary component given the fuels' additional excise that applies since the 1st of April. However, the latter reconfirms that consumption appetite shows newly found strength. All in all, retail sales are likely to have a significant to Q1 GDP growth, both on annual and quarterly basis. On a seasonally adjusted basis, retail sales grew by 6% QoQ in Q1. According data published by Eurostat, retail services held more than 8% of the total employment (besides agriculture, it is the second largest employer branch).

The ILO unemployment rate stagnated at 7.2% in March and the number of unemployed stood at 724 thousand persons, higher by 0.8% YoY. According to our calculations, the average duration of unemployment increased progressively in the past 3 years, to nearly 14 months. The unemployment rate is still above the long term level of 7%, but the output gap is slowly diminishing.

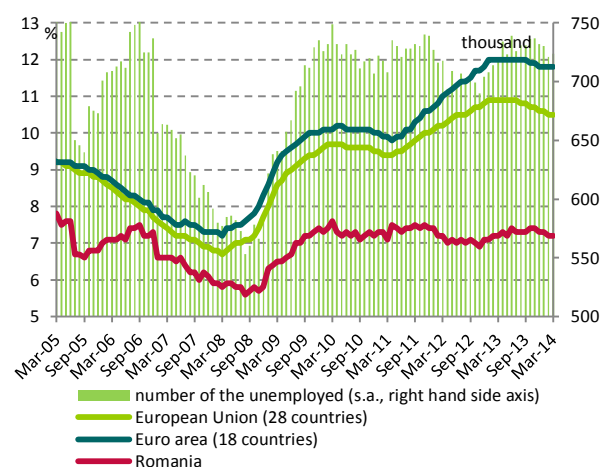
The net wage continues to grow at significant levels: +5.5% YoY in March, compared to 4.7% YoY in February. Most importantly, the real wage is advancing at a fairly good rate as well, +4.4% YoY and this has helped boost consumption so far.

The industrial sales (+16.4% YoY) and new orders (+17.7% YoY) for March indicate that **the strong pace in industry continues**. Again, industry is likely to be among the top drivers of economic advance this year as well.

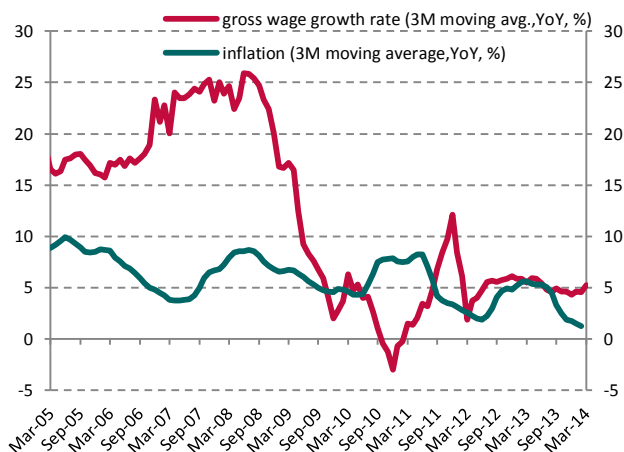
Altogether with the retail sales data, the **high frequency indicators suggest that Q1 GDP will be impressive**. The flash GDP data will be released on Thursday and the market expects a 3.1% YoY growth rate.

Retail sales grew at a whopping 13.6% YoY in March, driven by fuels and non-foods


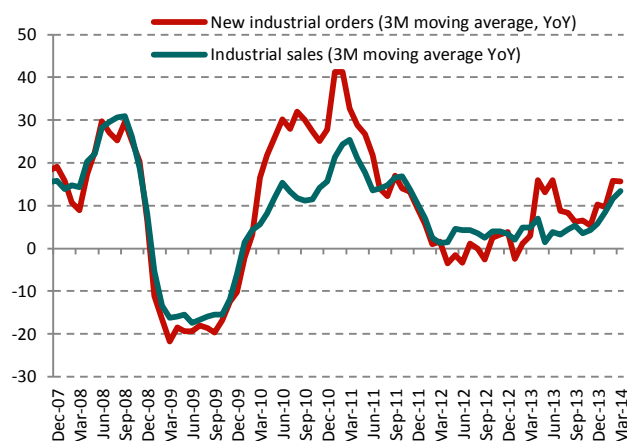
Source: NIS

The unemployment rate remained unchanged at 7.2%


Source: Eurostat

Net wage climbed 5.5% YoY in March while real wage maintained in the positive territory (+4.4% YoY)
Strong industrial sales data hold the headline (+16.4% YoY in March)


Source: NIS



Source: NIS

Macroeconomic forecast

Main macroeconomic indicators	Fact							Forecast	
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (EUR mn)	124,729	139,765	118,196	124,328	131,327	131,747	142,395	147,487	156,675
Real GDP	6.3%	7.3%	-6.6%	-1.1%	2.3%	0.6%	3.5%	3.0%	3.0%
Households consumption expenditure	12.0%	9.0%	-10.4%	-0.2%	1.6%	1.1%	1.3%	2.2%	2.9%
Government consumption	2.5%	6.2%	9.5%	-13.7%	-3.0%	0.7%	-1.7%	2.9%	2.7%
Gross fixed capital formation	30.3%	15.6%	-28.1%	-1.8%	7.7%	3.8%	-3.3%	2.2%	6.8%
Exports	7.8%	8.3%	-6.4%	13.2%	11.6%	-1.5%	13.5%	9.4%	6.6%
Imports	27.3%	7.9%	-20.5%	11.1%	10.5%	-0.2%	2.4%	8.3%	6.5%
Consumer prices (avg.)	4.8%	7.8%	5.6%	6.1%	5.8%	3.3%	4.0%	2.2%	2.9%
Budget Balance (GDP%, ESA 95)	-2.9%	-5.7%	-9.0%	-6.8%	-5.5%	-3.0%	-2.3%	-2.8%	-2.5%
Public debt (GDP %)	12.8%	13.4%	23.6%	30.5%	34.7%	38.0%	38.4%	39.4%	39.8%
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	-2.9	-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%	4.6%	5.4%
Real wage growth	14.7%	16.5%	-1.5%	-3.7%	-1.9%	1.2%	1.0%	2.4%	2.4%
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 F	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	4.51	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	3.53	3.33	3.3	3.21	3.31
Ten-Year Bond (%)	5.64	5.45	5.16	5.28	5.60	5.47	5.43	5.33	5.44

Source: Eurostat, NIS, NBR, OTP Research

FX markets: Eyes on the GDP data

The leu continues to remain untouched by the geopolitical context and what is more, it has been gaining strength in the past two months. One of the reasons that could have already been priced in by now, it is the expected release of the **S&P rating in a report due this week on 16th May**. The rating agency is expected to put Romania back into the investment grade category, after it raised its outlook last November. **The other eye catching event will be the flash GDP data due on 15th May**. The market consensus is for an annual growth rate of 3.1% YoY in Q1 2014 and a 0.2% QoQ growth rate. However, having seen the business cycle indicators for retail trade and industry that show a quarterly pace of 6% QoQ and 2.7% QoQ, we believe that **quarterly GDP growth could bring a positive surprise which could be picked up by the EUR/RON pair**. Additionally, the dovish stance of the ECB and Fed add to the momentum and the fact that NBR did not deliver a reserve ratio cut prevented an increase of liquidity which could have hurt the leu.

In a speech held last week, the Central Bank governor mentioned other factors that led to the recent strengthening, among which volatile capital inflows generated by the Ukrainian story. **The governor believes the appreciation could be ahead of what is justified by fundamentals**. Thereby, they pose a risk for the currency. Aside for these pressures, we expect the leu to weaken moderately from current levels in H2, in line with an expected widening of the current account deficit.

The leu is trading around 4.43



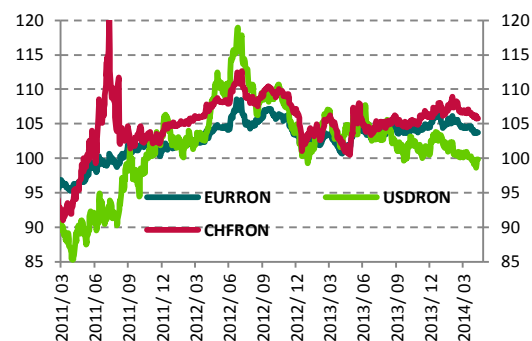
Source: Reuters

Date: 9.05.2014

FX BID			
	Value	Weekly chg. (%)	YTD chg. (%)
EURRON	4.43	↑ 0.12	↓ -0.26
USDRON	3.20	↑ 0.02	↓ -4.92
CHFRON	3.64	↑ 0.07	↓ -1.11
RONJPY	3.15	↑ 0.70	↓ -18.83
RONPLN	1.06	↑ 0.23	↓ -2.56
100HUFRON	1.46	↑ 0.93	↓ -4.20
RONCZK	0.16	↑ 0.06	↓ -8.71
RONRUB	0.09	↑ 1.43	↓ -17.31
RONRSD	0.04	↓ -0.33	↓ -3.27
RONBGN	2.26	↓ -0.19	↓ -0.27

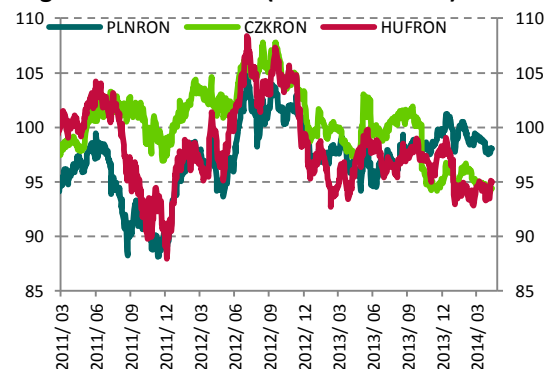
Source: Reuters

Major RON FX rates (03.01.2011=100)



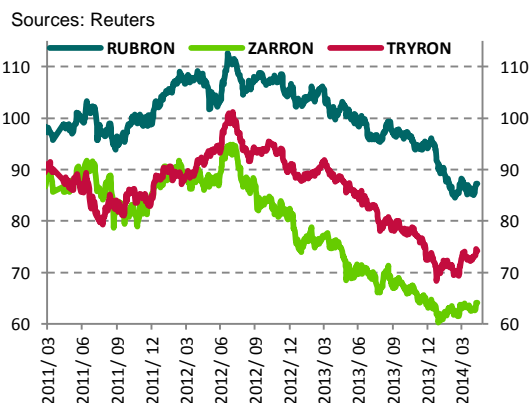
Sources: Reuters

Regional RON FX rates (03.01.2011=100)



Sources: Reuters

Regional RON FX rates (03.01.2011=100)



Daily EUR/RON Chart



Source: Reuters

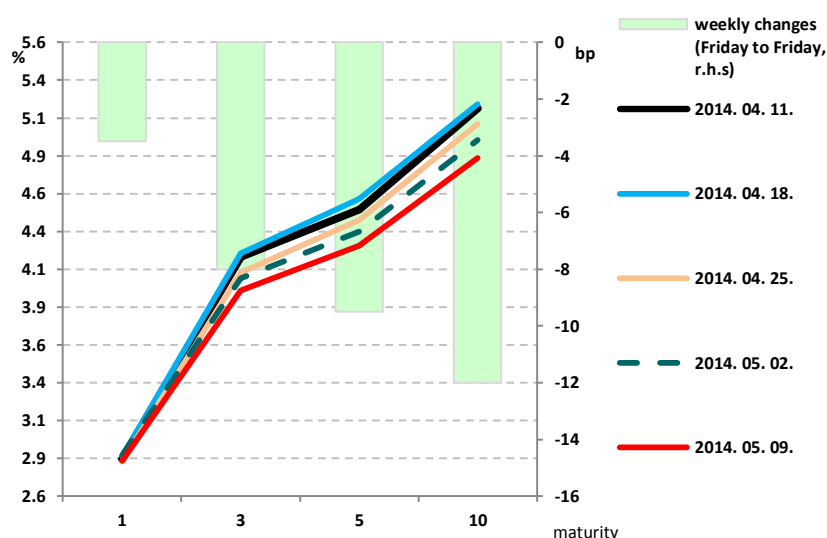
Major trend: ↓	
Minor trend: ↓	
R1: 4.4375	S1: 4.4250
R2: 4.44	S2: 4.42
RSI: neutral	

Government securities: The yield curve shifts down

The Treasury yield curve dropped 3 to 12 bps last week, especially at the long end of the curve. There were several domestic and foreign factors that pushed yields lower: the liquidity conditions eased last week, geopolitical tensions related to Ukraine which seemed to have taken a step back, the major central banks (ECB and Fed) launched dovish signals which make RON yields still appealing for the moment, at no expense on a risk reward basis. However, we should not lose sight of the expected increase in inflation in H2, to 3.3% YoY in December (NBR forecast).

Against this background, the Treasury sold 7Y bonds at yield of 4.7%, 24 bps lower than the one at similar auction in the end of April. Demand was very good and bid to cover stood at 3.1.

Yield curve over the past weeks (Central Bank fixing)



Sources: NBR

Auctions

T-bills auctions in March (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1415CTN073	26/05/14	28/05/14	27/05/15	12	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	Coupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1121DBN032	08.05.2014	09.05.2014	12.05.2014	11.06.2021	10.0	7.1	5.95	500.000.000	75.000.000
RO0717DBN038	12.05.2014	13.05.2014	14.05.2014	11.06.2017	10.0	3.1	6.75	400.000.000	60.000.000
RO1419DBN014	15.05.2014	16.05.2014	19.05.2014	24.06.2019	5.0	5.1	4.75	500.000.000	75.000.000
RO1323DBN018	19.05.2014	20.05.2014	21.05.2014	26.04.2023	10.0	8.9	5.85	400.000.000	60.000.000
RO1320DBN022	22.05.2014	23.05.2014	26.05.2014	29.04.2020	7.0	5.9	5.75	500.000.000	75.000.000

Source: The Ministry of Finance

Date: 9.05.2014

RON GOVERNMENT SECURITIES

	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	2.71	↓ -2	↓ -4
12M	2.84	↓ -4	↓ -3
3Y	3.96	↓ -8	↑ 5
5Y	4.26	↓ -9	↓ -40
10Y	4.84	↓ -12	↓ -44

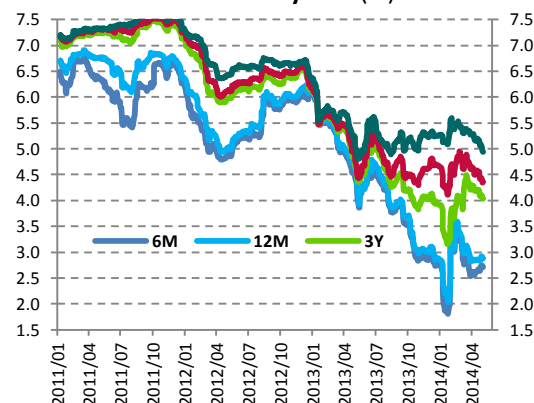
SPREADS

	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	376	↓ -8	↑ 22
GERROM 5Y	372	↓ -9	↓ -1
GERROM 10Y	337	↓ -12	↑ 4
3Y-5Y	30	↓ -1	↓ -45
5Y-10Y	58	↓ -3	↓ -4
3Y-10Y	88	↓ -4	↓ -48
FLY 3-5-10	29	↓ -1	↑ 41

CDS MID SPREADS

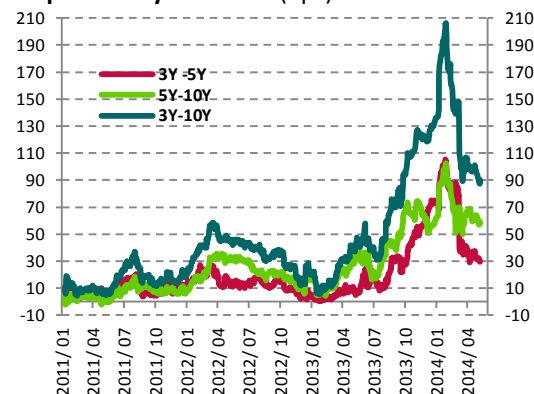
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	82	↓ -9	↓ -35
5Y EURO	137	↓ -9	↓ -34

Government benchmark yields (%)



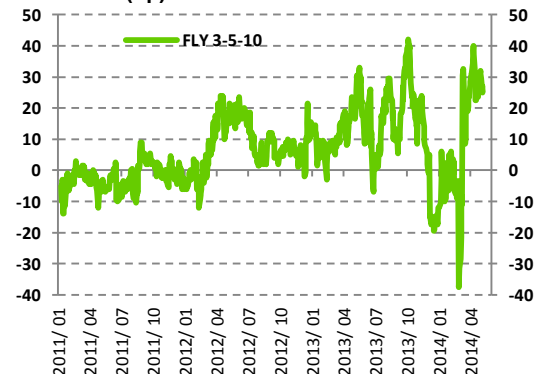
Source: NBR

Slope of the yield curve (bps)



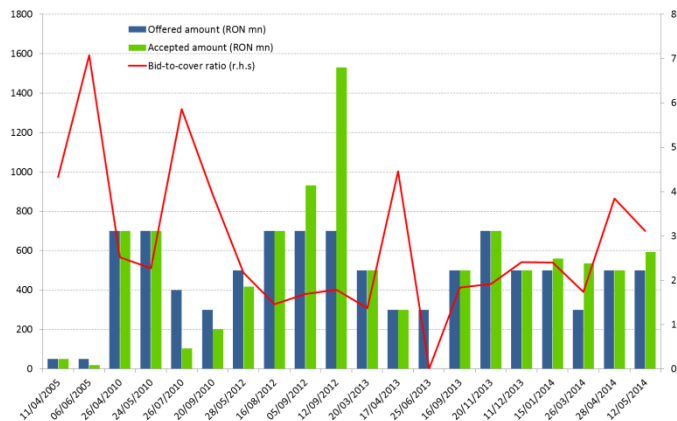
Source: NBR

FLY 3-5-10 (bp)



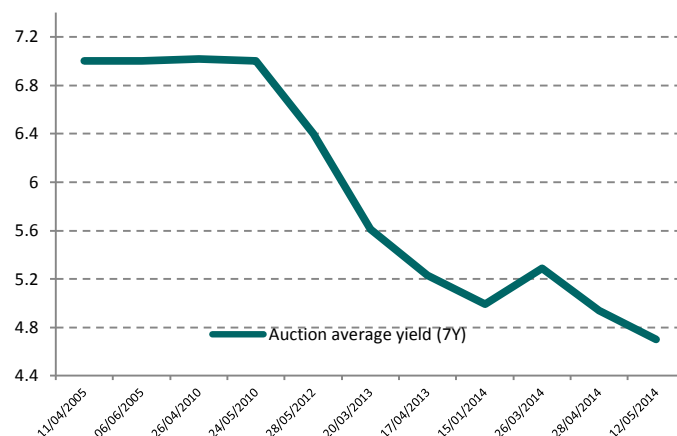
Source: NBR

7Y Auctions



Source: NBR

7Y Interest rate



Source: NBR

MM: No monetary policy move, as expected

The Central Bank kept the base rate unchanged at 3.5% as largely expected and made no move on the level of mandatory reserves ratio either. At the the press conference, the governor added that chances for a cut of FX reserves ratio were reduced anyway in a month when public external debt payment was EUR 2.3 bn. So far, NBR was careful in making changes when risks of higher volatility were prominent. In this case, May outlook was dominated by uncertainty on the external political stage (elections in Ukraine, European parliamentary elections).

Chances for a reduction in RON mandatory reserves ratio at the next monetary policy session in July have increased, especially given the renewed inflation forecast: NBR cut the end of the year inflation by 20 bps to 3.3% which means NBR will be more comfortable in reducing the current level of RON required reserves (i.e. 12%). The GDP output gap remains negative on the forecast horizon (until Q1 2016) which means inflationary pressures are not expected to pose problems.

Date: 9.05.2014

MID INTEREST RATES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
repo rate	3.50	0	-50	
ROBOR ON	2.62	-66	88	
ROBOR 3M	3.04	-11	60	
ROBOR 6M	3.35	-10	36	
ROBOR 9M	3.37	-8	27	
ROBOR 1Y	3.37	-9	22	

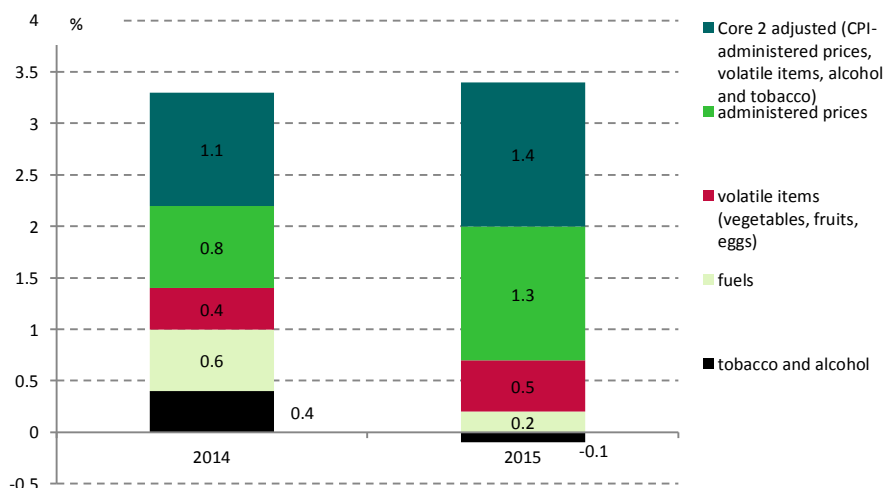
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2,567.4	285.1	-2071.8

MID SWAP POINTS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
USDRON 1W	11	-6	4	
USDRON 1M	62	-8	29	
USDRON 3M	185	-10	69	
EURRON 1W	16	-9	5	
EURRON 1M	81	-11	38	
EURRON 3M	249	-55	48	

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	

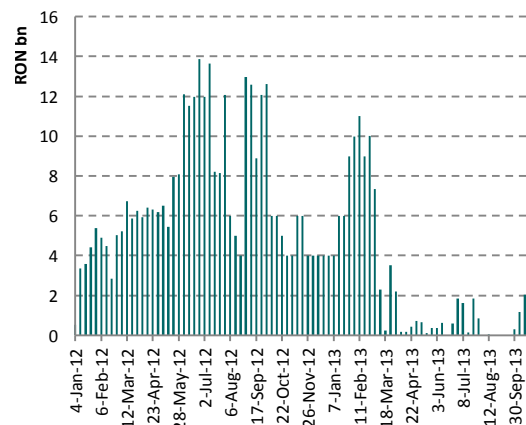
Sources: Reuters

Inflation revised down by 0.2 pp in December 2014, to 3.3%



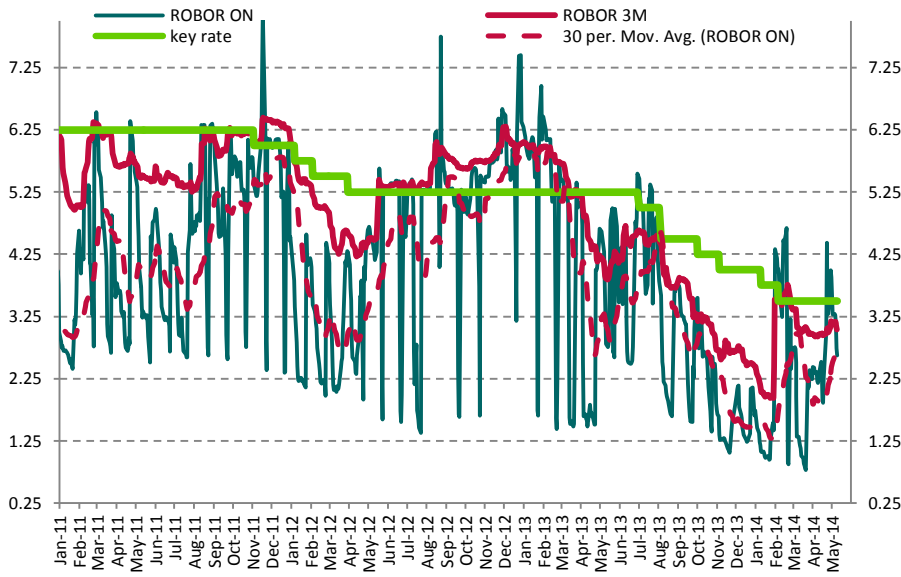
Sources: NBR

Repo operations since 2012



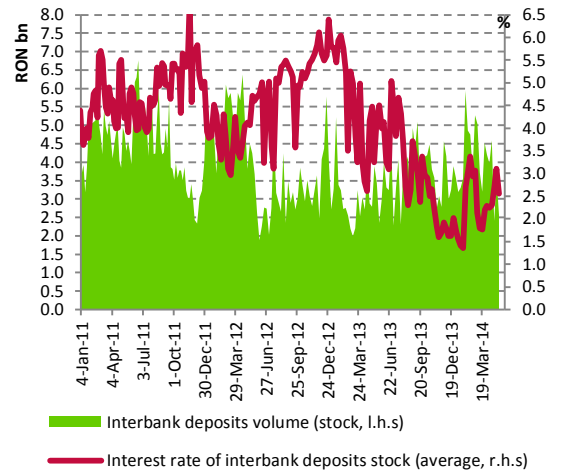
Sources: NBR

Most important MM rates



Sources: NBR

Interbank deposits and interest rate evolution



Sources: NBR

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