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Weekly Report Romania

20 June 2014

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The Central Bank has a new Board

Macroeconomics: The CA deficit (Jan - Apr) stood at EUR 0.3 bn

(Page 3- 4)

The CA deficit stood at EUR 297 mn during the first 4M and at 1.1% of GDP on a 12M rolling basis, according to our calculation. During the first 4M, the most notable changes affect the income gap which is larger by 80% YoY as the improved economic activity resulted in increased revenues of firms created by foreign direct investments. The financing side shows that net FDI stood at EUR 786 mn Jan- April (+11.5% YoY) whereas the 12M rolling data shows just a marginal pick up (+2.5% YoY). Portfolio investments dropped by 45% YoY to EUR 2 bn as the rush to the domestic bond market has lost speed.

FX market: Lower external risks in the short term (Page 5 - 6)

We now have an official estimation of the effect of the social contributions reduction on next year's deficit which is at stake now: the proposal submitted for approval estimated the net effect to be RON 4.9 bn in 2015 or 0.7% in GDP. This effect is close to our calculation based on ESA numbers and it increases the risk that the ESA deficit for 2015 falls outside the 3% level. Aside from anticipated deteriorated fiscal picture which does not look good on foreign investors' radar, by the end of this year, real interest rates will melt away and will be lower even in a regional comparison, which is a negative for the leu. Meanwhile, the appetite for risky assets has more fuel to burn in the short term, considering the position of the main central banks, the Fed and the ECB. The highlight of this week has been the monetary policy decision of the Fed. The market was taken somehow by surprise as the continuation of accommodative policy in the US is seen less hawkish than expected. Therefore in the near term, we expect a moderate effect from foreigners' exiting the bond market. The latest data (April) shows that in fact, net portfolio inflows were quite significant at EUR 1.2 bn.

Fixed income markets: Bond yields at historical lows (Page 7 - 8)

Bond yields are at historical lows and the current levels are helped also by the excess liquidity of the banking system. The Treasury managed to successfully sell the planned amount of government debt as bid to cover was 2.2 (for the 4.4 years bonds) and 2.26 (for the 6M T-bill). The 6M T-bill yield was 2.07% (-66 bps compared with the end of April) and 3.32% in the case of bonds with a residual maturity of 4.4 years.

Money markets: The Central Bank has a new Board (Page 9)

The new Board of the Central Bank was approved this week and it will come into force in October, for a 5 year term. Mugur Isaescu will continue with another mandate as well as other 6 members of the existing board. Surprisingly, the current vice governor Cristian Popa, in charge with the monetary policy and much appreciated professional was not appointed in the new board. The other important changes were the newly elected members of which two are government officials: Liviu Voinea (the current Budget Minister) and Gheorghe Gherghina (State Secretary). The third new member is Daniel Daianu, the Vice President of the Financial Supervisory Authority. These changes will attract even more attention to the future monetary policy decisions.

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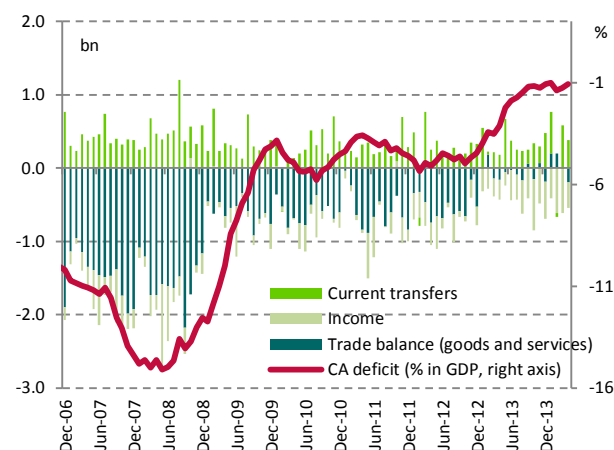
Macroeconomics: The CA deficit (Jan - Apr) stood at EUR 0.3 bn

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
16 -20 June		no data			
26 Jun	May	Non -governmental loans (y-o-y, %)			-0.8
26 Jun	May	Non -governmental deposits (y-o-y, %)			7.1
26 Jun	May	M3 aggregate (y-o-y, %)			6.7

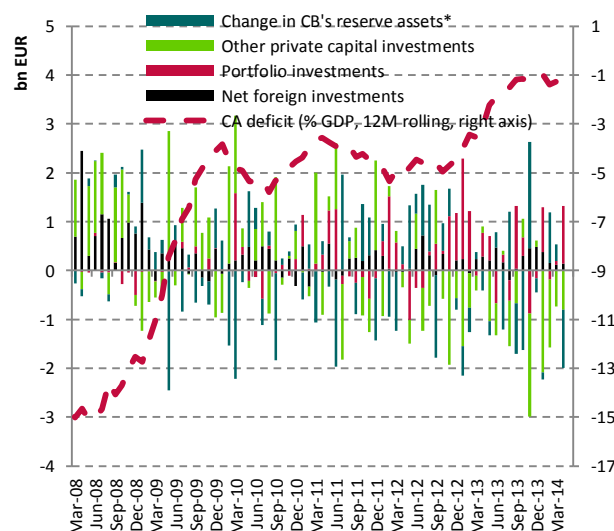
The CA deficit stood at EUR 297 mn during the first 4M and at 1.1% of GDP on a 12M rolling basis, according to our calculation. During the first 4M, the most notable changes affect the income gap which is larger by 80% YoY as the improved economic activity resulted in increased revenues of firms created by foreign direct investments. Also, the current transfers are higher by 50% YoY during the first 4M. This is mainly attributed to EU funds transfers to the public administration, whereas transfers to other sectors (which include workers remittances) have dropped marginally (-3.3% YoY). Goods and services have a surplus (EUR 196 mn) compared to a deficit in 2013 (EUR 128 mn). The surplus was generated by the services component whereas the trade balance records a deficit roughly unchanged compared to last year.

The financing side shows that net FDI stood at EUR 786 mn Jan- April (+11.5% YoY) whereas the 12M rolling data shows just a marginal pick up (+2.5% YoY). Portfolio investments dropped by 45% YoY to EUR 2 bn as the rush to the domestic bond market has lost speed.

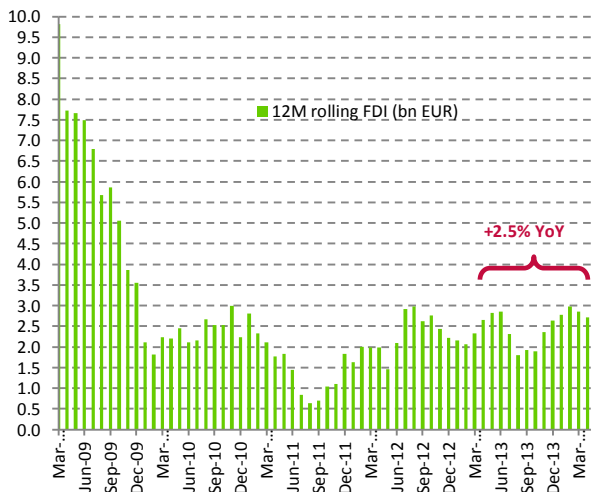
On a 12M rolling basis, total EU funds recorded in the balance of payments stood at EUR 7.6 bn, a significant increase on annual basis (+166% YoY).

The CA deficit stood at EUR 297 mn during the first 4M


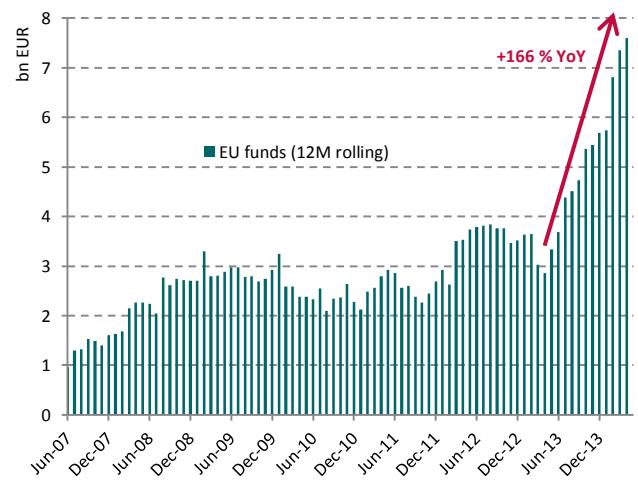
Source: NBR

Net foreign investments were EUR 786 mn during the first 4M


Source: NBR

Net FDI advance slowly (+2.5% YoY in April, on a 12M rolling basis)


Source: NBR

EU funds show a sharp increase (+166% YoY, on a 12M rolling basis)


Source: NBR

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

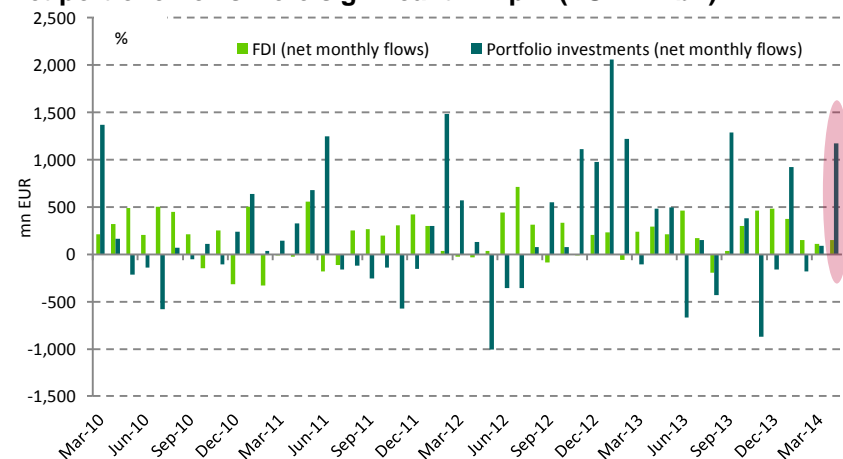
Note: quarterly forecast under revision

FX markets: Lower external risks in the short term

We now have an official estimation of the effect of the social contributions reduction on next year's deficit which is at stake now: the proposal submitted for approval estimated the net effect to be RON 4.9 bn in 2015 or **0.7% in GDP**. This effect is close to our calculation based on ESA numbers and it increases the risk that the ESA deficit for 2015 will fall outside the 3% level indicated by Maastricht. Aside from anticipated deteriorated fiscal picture which does not look good on foreign investors' radar, by the end of this year, real interest rates will melt away and will be lower even in a regional comparison, which is a negative for the leu.

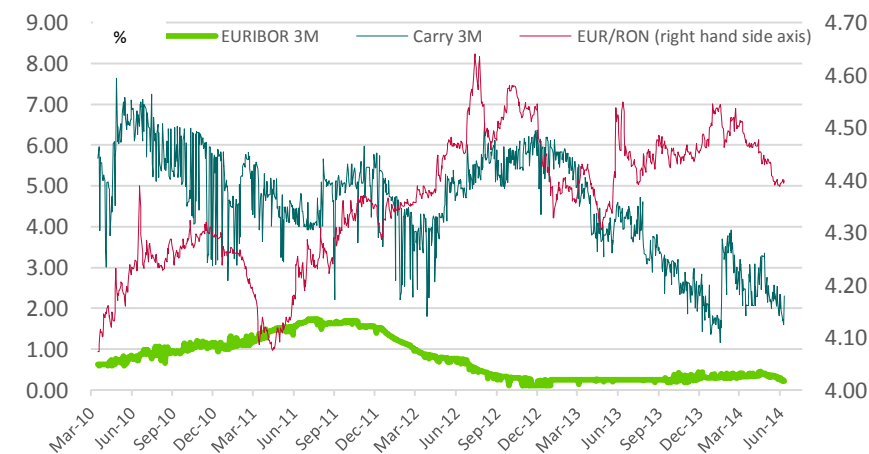
Meanwhile, the appetite for risky assets has more fuel to burn in the short term, considering the position of the main central banks, the Fed and the ECB. The highlight of this week has been the monetary policy decision of the Fed. The market was taken somehow by surprise as the continuation of accommodative policy in the US is seen less hawkish than expected. This means external risks for the leu could materialize a bit later than initially thought: the moment of the first rate hike is seen in the middle of 2015 but the Fed said that it was dependent on the evolution of inflation and employment. Therefore in the near term, we expect a moderate effect from foreigners' exiting the bond market. The latest data (April) shows that in fact, net portfolio inflows were quite significant at EUR 1.2 bn.

Net portfolio flows were significant in April (EUR 1.2 bn)



Source: NBR

The leu is trading around 4.40; the carry rate continues to drop



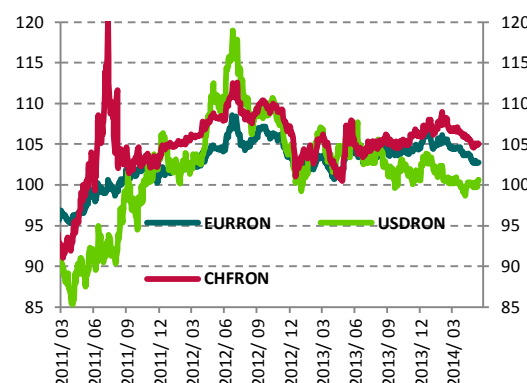
Source: Reuters

Date: 19.06.2014

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4.40	↑	0.15	↓ -1.08
USDRON	3.23	↓	-0.39	↓ -4.07
CHFRON	3.61	↑	0.22	↓ -1.83
RONJPY	3.17	↓	-0.10	↓ -18.22
RONPLN	1.06	↓	-0.30	↓ -2.11
100HUFRON	1.43	↓	-0.47	↓ -6.30
RONCZK	0.16	↑	0.06	↓ -9.67
RONRUB	0.09	↓	-0.20	↓ -14.65
RONRSD	0.04	↑	0.17	↓ -3.83
RONBGN	2.24	↑	0.08	↓ -1.16

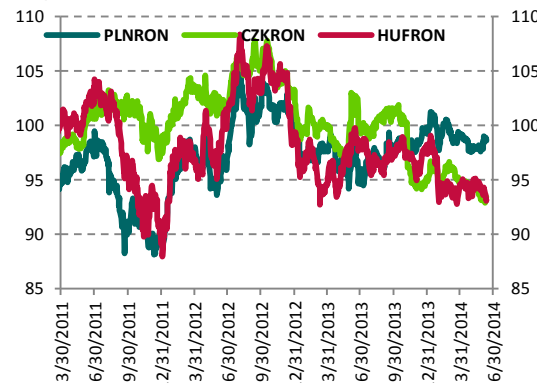
Source: Reuters

Major RON FX rates (03.01.2011=100)



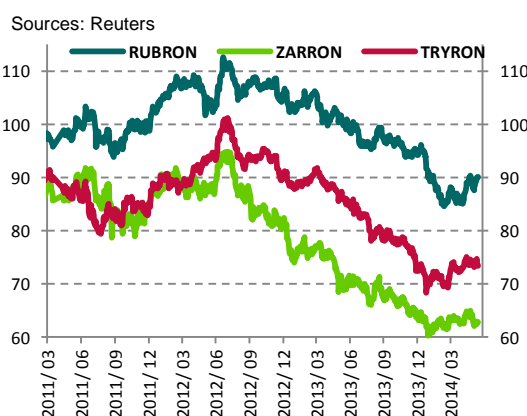
Sources: Reuters

Regional RON FX rates (03.01.2011=100)

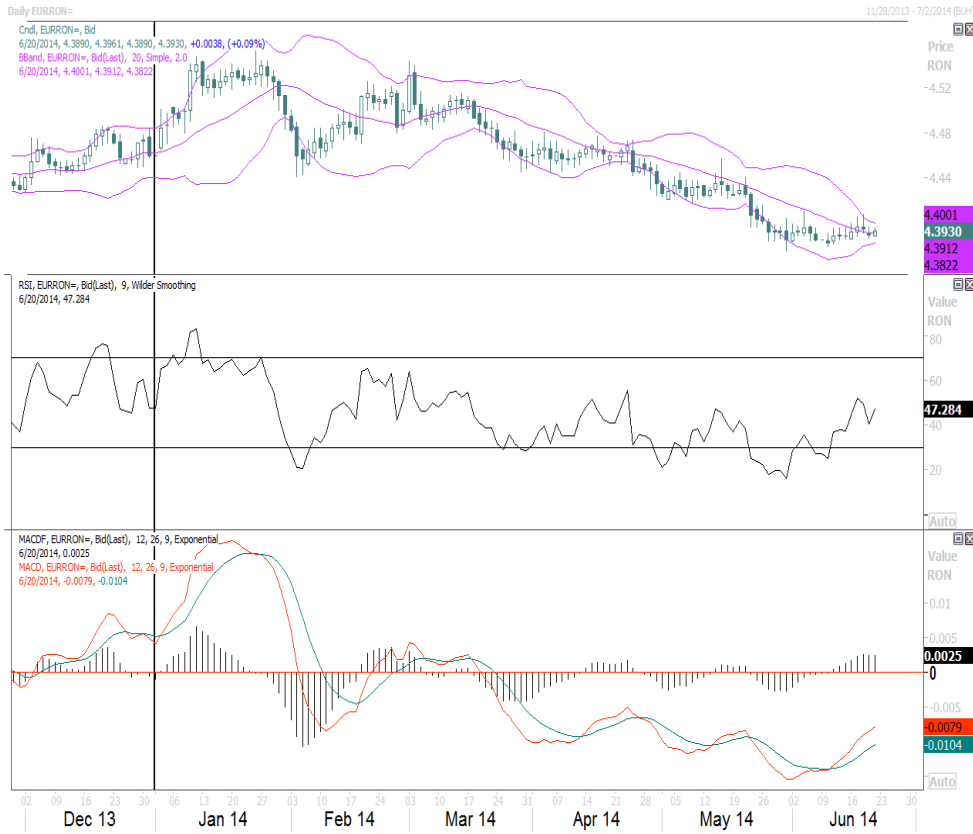


Sources: Reuters

Regional RON FX rates (03.01.2011=100)



Daily EUR/RON Chart



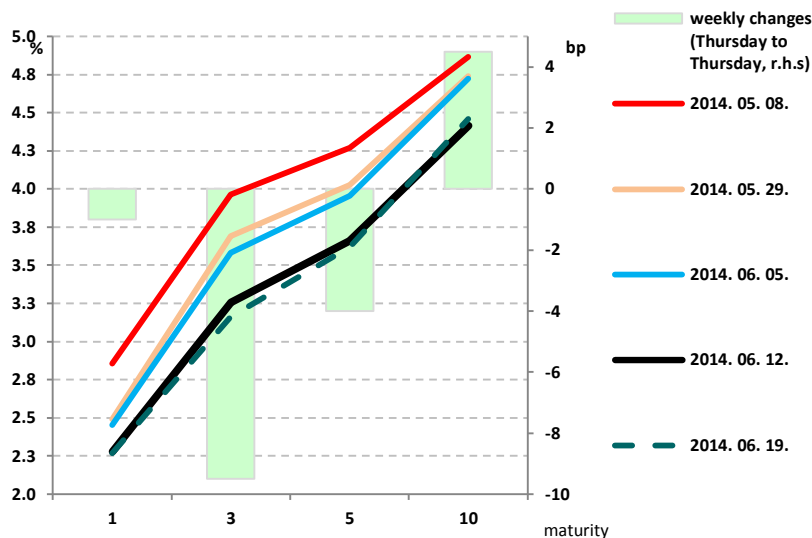
Major trend: ↓	
Minor trend: ↓	
R1: 4.41	S1: 4.3890
R2: 4.4220	S2: 4.3790
RSI: neutral	

Source: Reuters

Government securities: Bond yields at historical lows

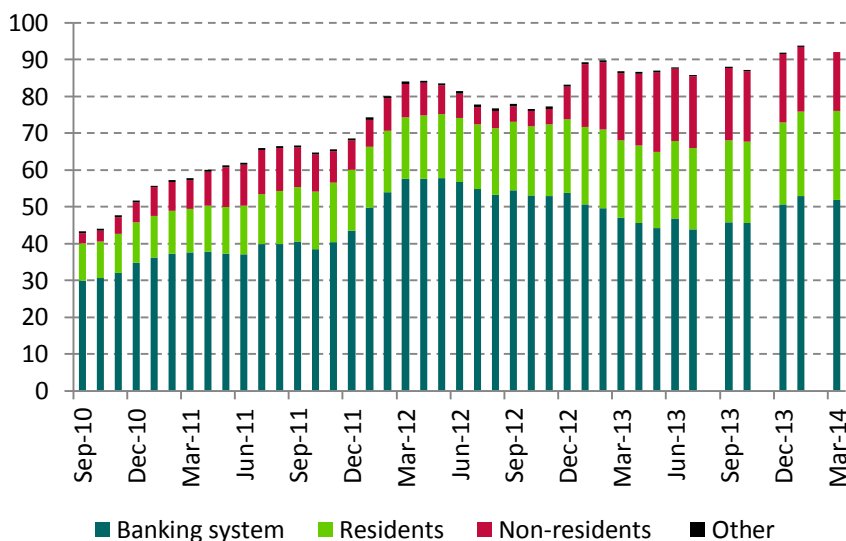
Bond yields are at historical lows and the current levels are helped also by the excess liquidity of the banking system. The Treasury managed to successfully sell the planned amount of government debt as bid to cover was 2.2 (for the 4.4 years bonds) and 2.26 (for the 6M T-bill). The 6M T-bill yield was 2.07% (-66 bps compared with the end of April) and 3.32% in the case of bonds with a residual maturity of 4.4 years.

Yield curve over the past weeks (Central Bank fixing)



Sources: NBR

In March, the banking system held RON 52 bn of the RON denominated government securities; nonresidents held RON 16 bn



Sources: The Ministry of Finance

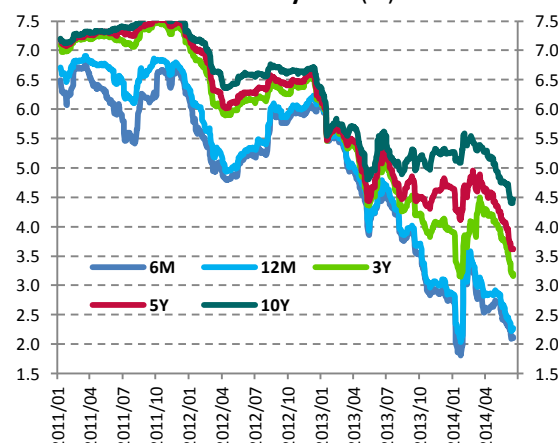
Date: 19.06.2014

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	2.10	↓ -7	↓ -66	
12M	2.27	↓ -1	↓ -59	
3Y	3.16	↓ -9	↓ -75	
5Y	3.62	↓ -4	↓ -103	
10Y	4.46	↑ 4	↓ -81	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	307	↓ -10	↓ -48	
GERROM 5Y	322	↓ -4	↓ -51	
GERROM 10Y	308	↑ 5	↓ -26	
3Y-5Y	46	↑ 5	↓ -28	
5Y-10Y	84	↑ 9	↑ 22	
3Y-10Y	130	↑ 14	↓ -6	
FLY 3-5-10	38	↑ 3	↑ 50	

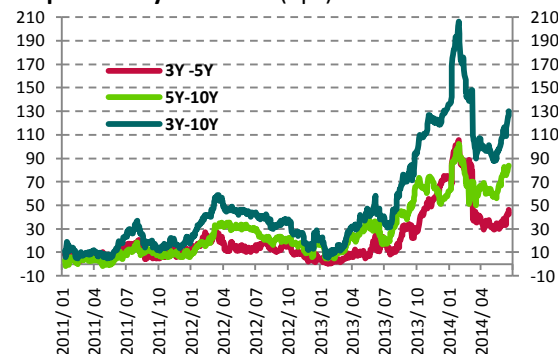
CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	66	↓ -4	↓ -51	
5Y EURO	120	↓ -4	↓ -51	

Government benchmark yields (%)



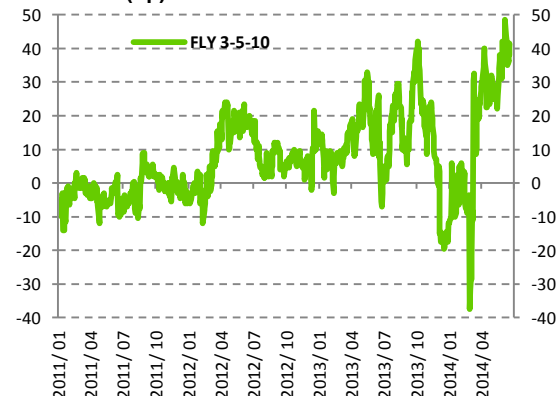
Source: NBR

Slope of the yield curve (bps)



Source: NBR

FLY 3-5-10 (bp)



Auctions

T-bills auctions in June (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1415CTN081	05/06/14	10/06/14	09/06/15	12	800.000.000
RO1414CTN092	19/06/14	23/06/14	22/12/14	6	500.000.000

Source: The Ministry of Finance

Bonds auctions in June (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Residual Maturity	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1227DBN011	02/06/14	03/06/14	04/06/14	26/07/27	15.0	13.2	200.000.000	30.000.000
RO1419DBN014	02/06/14	03/06/14	04/06/14	24/06/19	5.0	5.1	600.000.000	90.000.000
RO1316DBN053	12/06/14	13/06/14	16/06/14	29/08/16	3.0	2.2	300.000.000	45.000.000
RO1121DBN032	12/06/14	13/06/14	16/06/14	11/06/21	10.0	7.0	500.000.000	75.000.000
RO1318DBN034	16/06/14	17/06/14	18/06/14	28/11/18	5.0	4.5	300.000.000	45.000.000
RO1323DBN018	23/06/14	24/06/14	25/06/14	26/04/23	10.0	8.8	200.000.000	30.000.000

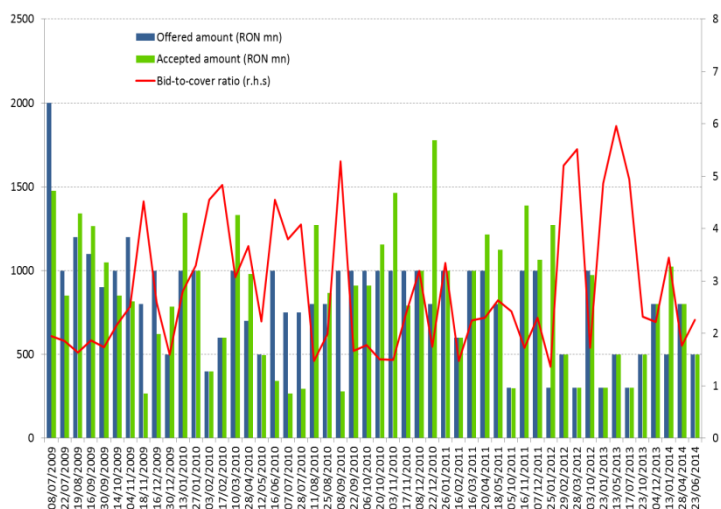
Source: The Ministry of Finance

This week's auctions

	RO1318DBN034	RO1414CTN092
Offered amount (mn RON)	300	500
Total bids (mn RON)	661	1132
Accepted amount (mn RON)	300	500
Average accepted yield (%)	3.32	2.07
Coupon	5.60	-

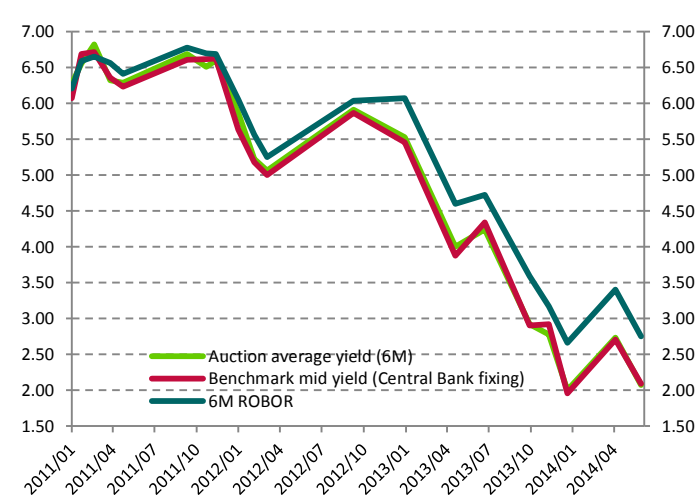
Source: NBR

6M Auctions



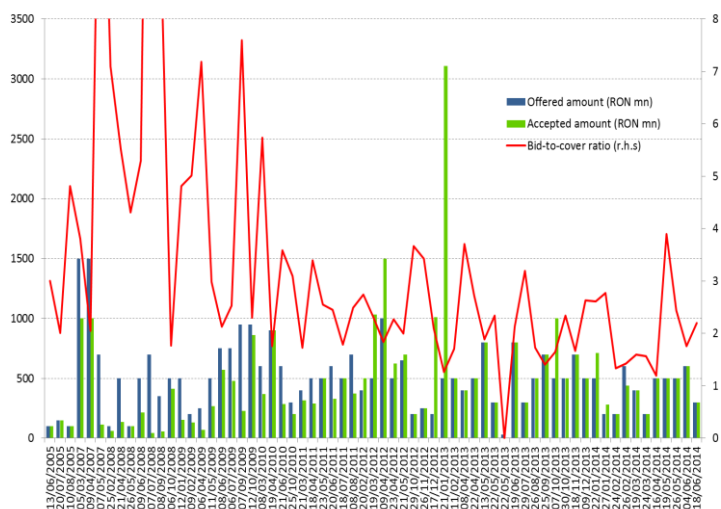
Source: NBR

6M Interest rate



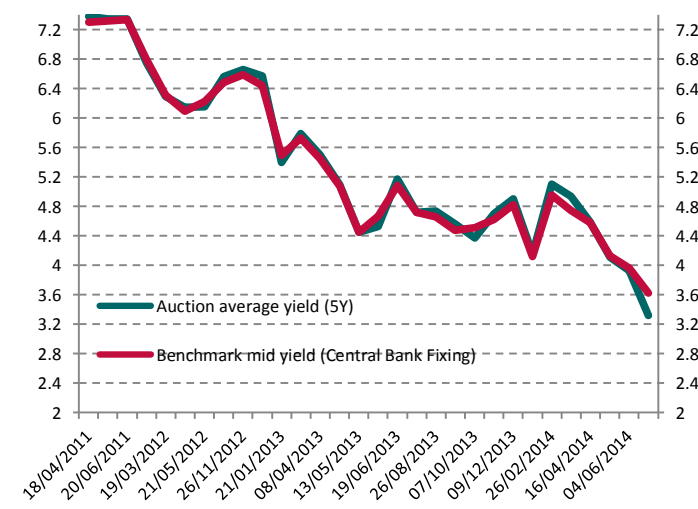
Source: NBR

5Y Auctions



Source: NBR

5Y Interest rate

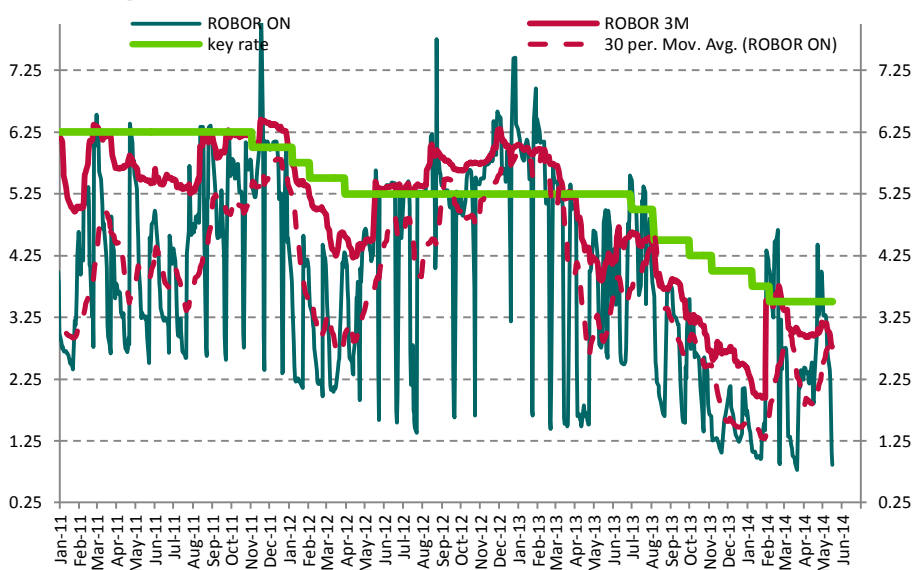


Source: NBR

MM: The Central Bank has a new Board

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Most important MM rates



Sources: NBR

Date: 19.06.2014

MID INTEREST RATES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
repo rate	3.50	↔ 0	↓	-50
ROBOR ON	0.81	↓ -33	↓	-93
ROBOR 3M	2.38	↓ -7	↓	-6
ROBOR 6M	2.75	↓ -10	↓	-24
ROBOR 9M	2.81	↓ -11	↓	-29
ROBOR 1Y	2.86	↓ -8	↓	-29

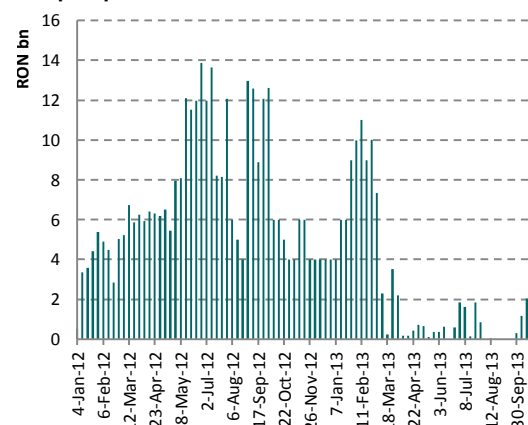
INTERBANK DEPOSITS				
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)	
outstanding	2,011.3	-354.8	-2627.9	

MID SWAP POINTS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
USDRON 1W	8	↑ 3	↑	1
USDRON 1M	35	↓ -6	↑	2
USDRON 3M	110	↓ -4	↓	-6
EURRON 1W	13	↑ 5	↑	2
EURRON 1M	37	↓ -20	↓	-7
EURRON 3M	175	↓ -45	↓	-27

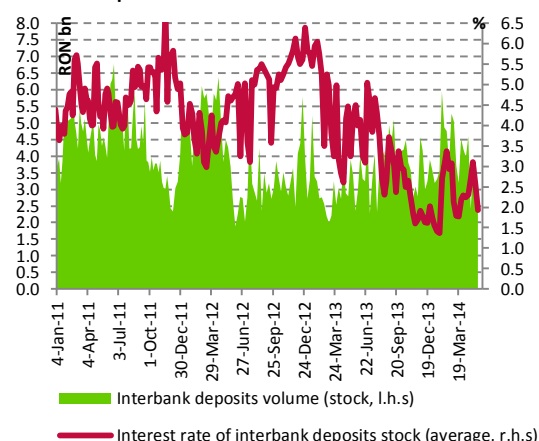
MID EUR BASIS SWAPS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
EURRON 1Y	-80	↔ 0	↑	30
EURRON 3Y	-70	↔ 0	↑	40
EURRON 5Y	-70	↔ 0	↑	40

Sources: Reuters

Repo operations since 2012



Interbank deposits and interest rate evolution



Sources: NBR

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