

Headquarter Treasury Sales

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

25 Aug 2014

Regional Treasury Sales

Cezar Trandafirescu - Iasi

+40755 000 246

cezlar.trandafirescu@otpbank.ro

Szilamer Kozma - Cluj

+40755 000 400

szilamer.kozma@otpbank.ro



More arguments for further easing

Macroeconomics: GDP's growth outlook in 2014 put to the test

(Page 3- 5)

Q2 GDP figures took the market by surprise, with a fall of 1% QoQ against market consensus of 0.5% QoQ advance. On an annual basis, GDP rose 1.2% YoY (gross) in Q2 and 2.4% YoY (gross) in H1 2014. Business cycle indicators were indeed weak, with only industry expected to bring a positive contribution. For the moment this data suggests that not only investments fell, but households' consumption may have been weaker too. The lack of public investments has hit the economy in the past 4 quarters. The cash budget showed that they were even below the plan in H1 2014. Exports extra EU slowed down visibly in May – June, falling on an annual basis, due to a drop down in the category of machinery and transport equipment (-2.6% YoY in Q2). In the EU however, these items grew by 12.9% YoY in Q2. Inflation stood at 1% YoY in July, up from 0.7% YoY in June. NBR expects inflation to be at 2.2% YoY in December 2014, driven up significantly by bread and bakery products and vegetables category, as the favourable base effects wear off.

FX market: Look to the fundamentals (Page 6)

The leu progressively gained some strength against the euro last week and the EUR/RON pair fell 0.6%. This evolution went hand in hand with an improved risk perception to RON assets after the weekend talks held between the foreign ministers of of Russia, Ukraine, Germany and France, who gathered to win a fighting chance to end the geopolitical tension. Simultaneously, the euro has continued to take more hits as the market assesses a higher probability of ECB going into QE. The macroeconomic fundamentals indicate that the leu is posed to depreciate rather than appreciate as the current account deficit continues to widen and as NBR could ease further the monetary policy after it had operated a drastic reduction in its inflation rate forecast for December (of 1.1 pp). Net portfolio flows have been positive in the first and second quarter but have eased significantly in the past 12M.

Fixed income markets: Yields fell temporarily (Page 7 - 8)

Bond yields slipped lower by 8 -14 bps in last week. The Treasury successfully sold the planned RON 600 mn in 7Y and 2Y bonds at an yield of 4.14% and 2.61%, respectively. However, despite the easing seen in the secondary market, these yields were still 26-29 bps higher compared to previous similar auctions held in mid and end July. Also, in the last auction of the week, interest was much lower than in mid July even if the yield was higher by 29 bps. Bid to cover ratio stood at 2.7 compared to 3.9 at the previous auction. With inflation expected at 2% in September compared to only 1% YoY in July we expect yields to shoot up.

Money markets: Weak GDP, a possible catalyzer (Page 9)

The negative GDP surprise that shows that Romanian GDP actually fell 2 consecutive quarters along with the depressing GDP figures in the euro-zone may encourage NBR to take another step in continuing the base rate cut cycle, especially since inflation expectations are modest in 2015 as well, with Core 2 adjusted inflation quarterly average at 1.5% (NBR forecast). If detailed data will show that households consumption fell in the negative territory in Q2, even despite the favourable context in which real wage increases were significant (with the private sector advancing faster than public sector) and lower interest rates made debt repayment easier, then a weak consumption figure could raise a question mark.

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

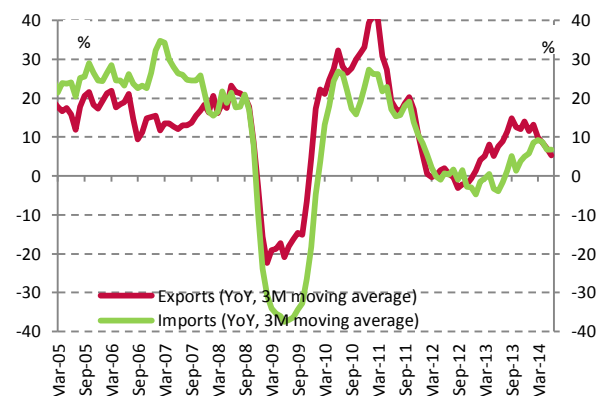
Macroeconomics: GDP's growth outlook in 2014 put to the test

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
11 Aug	July	Consumer price index (y-o-y,%)	1.00	1.00	0.7
11 Aug	June	Exports (y-o-y, %)	5.4		7.9
11 Aug	June	Imports (y-o-y,%)	9.2		8.1
11 Aug	June	Industrial Production Index (y-o-y, %)	10.4		12.7
13 Aug	June	CA balance (EUR mn, YTD)	-877.4		-351
14 Aug	Q2 2014	Flash GDP growth rate (QoQ, %)	-1.0	0.5	0.1
26 Aug	July	Non -governmental loans (y-o-y, %)			-3.9
26 Aug	July	Non -governmental deposits (y-o-y, %)			5.9
26 Aug	July	M3 aggregate (y-o-y, %)			5.3
28 Aug	July	Bulding permits (y-o-y, %)			7.3

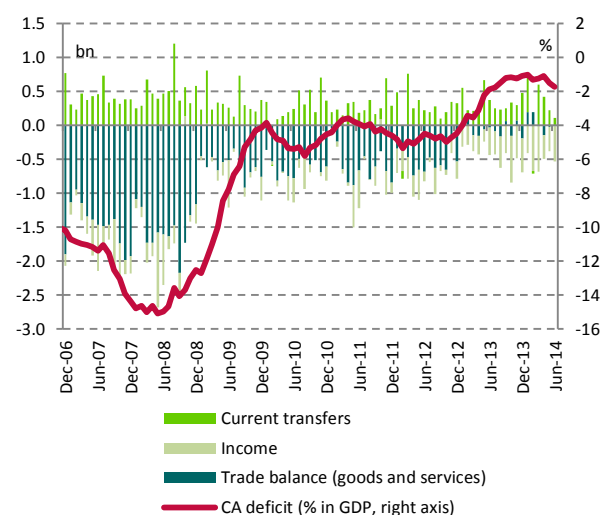
Q2 GDP figures took the market by surprise, with a fall of 1% QoQ against market consensus of 0.5% QoQ advance. On an annual basis, GDP rose 1.2% YoY (gross) in Q2 and 2.4% YoY (gross) in H1 2014. Business cycle indicators were indeed weak, with only industry expected to bring a positive contribution whereas constructions and trade likely expected to have fallen. The surprise data could be a negative evolution of agriculture and net taxes in Q2, considering that the cash budget figures already pointed to lower collection. The detailed figures will be presented on 3rd September but for the moment this data suggests that not only investments fell, but households consumption may have been weaker too. The lack of public investments has hit the economy in the past 4 quarters. The cash budget showed that they were even below the plan in H1 2014.

In June, exports mounted to EUR 4239 mn (+5.4% YoY) whereas imports stood at EUR 4794 mn (+9.2%YoY). **Exports extra EU slowed down visibly in May – June**, falling on an annual basis, due to a drop down in the category of machinery and transport equipment (-2.6% YoY in Q2). In the EU however, these items grew by 12.9% YoY in Q2.

The CA deficit widened in June to EUR 877 mn, compared to a surplus of EUR 123 mn in H1 2013. Most of the difference continues to come from the **higher income gap, due to outflows of FDI related companies** which see their business results improving. Looking at the financing side, we notice that **net FDI dropped by 12% YoY (12M rolling)**. During the first 6M, they stood at EUR 1.3 bn. In the press release of NBR, 94% of the FDI was from equity stakes and reinvested profit and only 6% made up by intragroup loans. By comparison, at the end of 2013, two thirds belonged to the first category and one third to the latter.

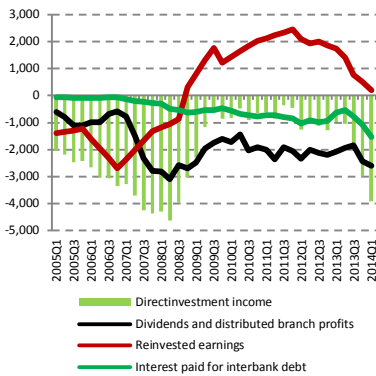
Exports rose by 5.4% YoY in June and imports by 9.2%YoY; the extra-EU exports/imports fell in June


Source: NIS

The CA deficit continued to grow during the first 6M


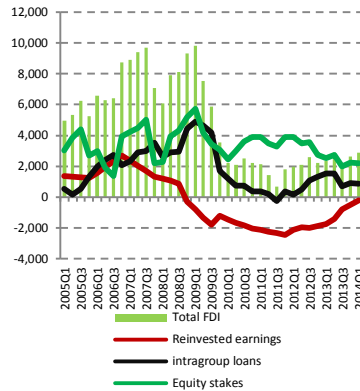
Source: NIS

Direct investment income sent abroad rises sharply



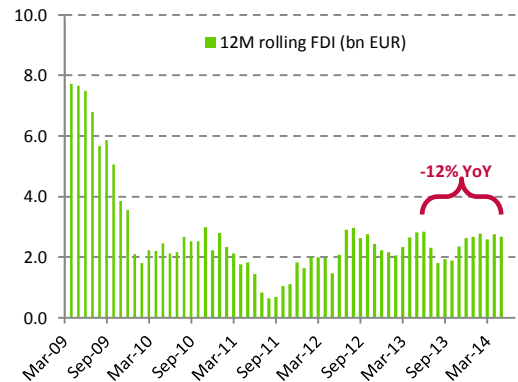
Source: Eurostat

The most dynamic component are reinvested earnings



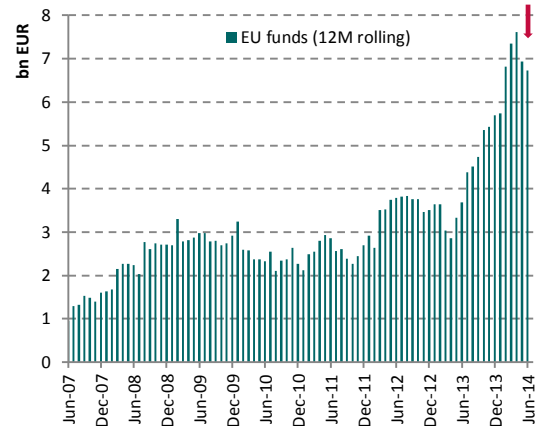
Source: Eurostat

In June, net FDI dropped 12% YoY (12M rolling)



Source: NBR

EU funds are losing speed (-2.9% MoM, 12M rolling)

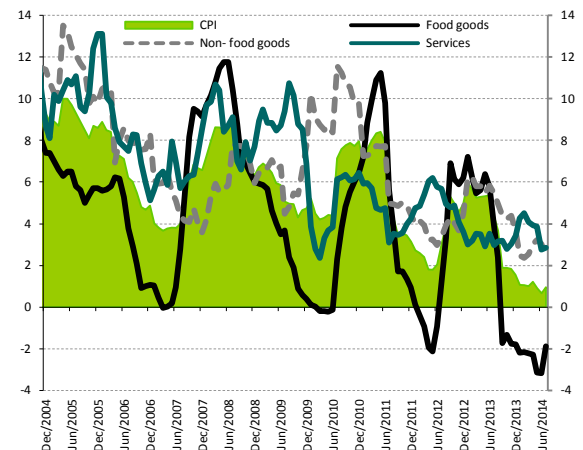


Source: NBR

Inflation stood at 1% YoY in July, up from 0.7% YoY in June.

The main change came from food prices, which stopped falling as fast as until now in annual terms: -1.8% YoY in July compared to -3.2% YoY in June. More precisely, the category of **vegetables** which makes up to 3.5% of consumption basket, **recorded an annual inflation fo 5.3% YoY in July, as the favorable base effect has worn off.** Compared to last year, when this category saw a price decline of 13% MoM in July, this year there has been only a 2.3% MoM. The rest of two main inflation categories, non food and services saw price hikes of 2.5% YoY and 2.8%YoY, respectively. NBR expects inflation to be at 2.2% YoY in December 2014, driven up significantly by bread and bakery products and vegetables category (elimination of base effect).

Inflation stood at 1% in July



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	2Q 2014	3Q 2014 F	4Q 2014 F	1Q 2015 F
EUR/RON (end of period)	4.39	4.48	4.46	4.46	4.46	4.39	4.41	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	2.42	3.02	3.21	3.31
Ten-Year Bond (% , mid yield, NBR fixing)	5.64	5.45	5.16	5.28	5.27	4.40	4.75	5.05	5.35

Source: Eurostat, NIS, NBR, OTP Research

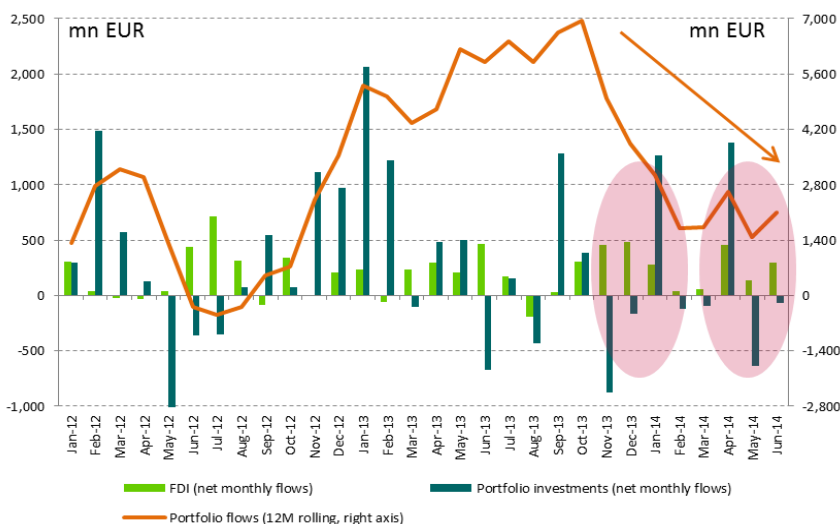
Note: * under revision

FX markets: Look to the fundamentals

The leu progressively gained some strength against the euro last week and the EUR/RON pair fell 0.6%. This evolution went hand in hand with an improved risk perception to RON assets after the weekend talks held between the foreign ministers of of Russia, Ukraine, Germany and France, who gathered to win a fighting chance to end the geopolitical tension. Partial progress was made and this proved to be a small buying opportunity for local bonds, bringing back yields at the previous levels seen two weeks ago. Simultaneously, the euro continued to take more hits as the market assesses a higher probability to ECB going into QE.

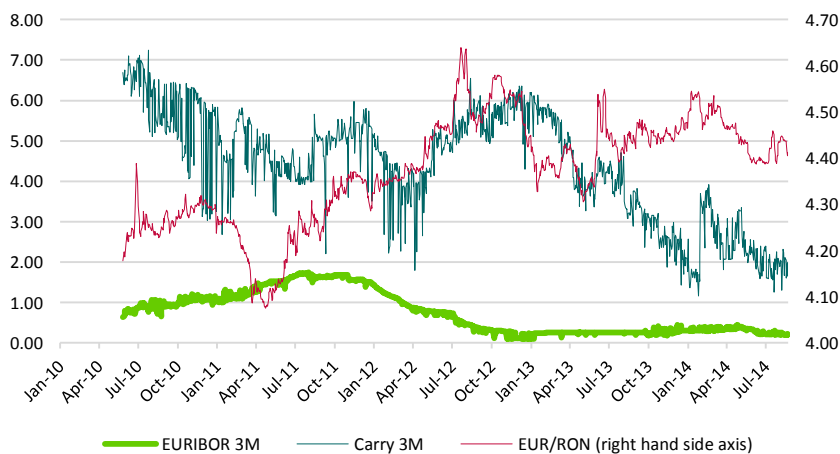
The macroeconomic fundamentals indicate that the leu is posed to depreciate rather than appreciate as the current account deficit continues to widen and as NBR could ease further the monetary policy after it had operated a drastic reduction in its inflation rate forecast for December (of 1.1 pp). Net portfolio flows have been positive in the first and second quarter but have eased significantly in the past 12M please see graph below).

In Q1 and Q2 2014, Romania had net portfolio inflows
Volatile portfolio flows have been lower in the past 12M



Source: NBR

The leu strengthened temporarily



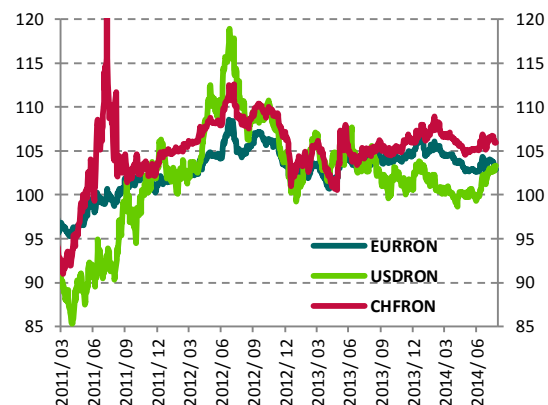
Source: Reuters

Date: 22.08.2014

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4.40	↓	-0.62	↓ -0.87
USDRON	3.33	↑	0.66	↓ -1.12
CHFRON	3.64	↓	-0.56	↓ -0.97
RONJPY	3.20	↓	-0.88	↓ -17.46
RONPLN	1.05	↓	-0.25	↓ -3.27
100HUFRON	1.40	↓	-0.38	↓ -7.89
RONCZK	0.16	↓	-0.44	↓ -10.68
RONRUB	0.09	↑	0.56	↓ -16.42
RONRSD	0.04	↓	-0.68	↓ -5.33
RONBGN	2.25	↓	-0.50	↓ -0.77

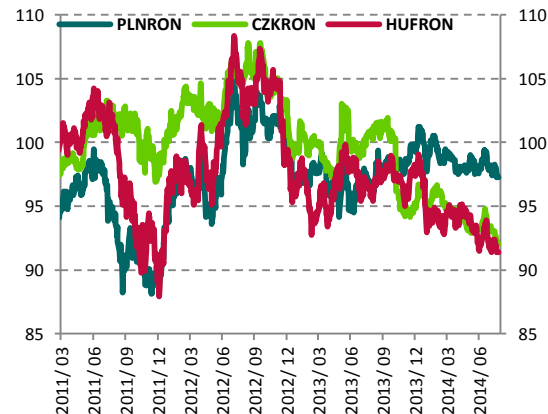
Source: Reuters

Major RON FX rates (03.01.2011=100)



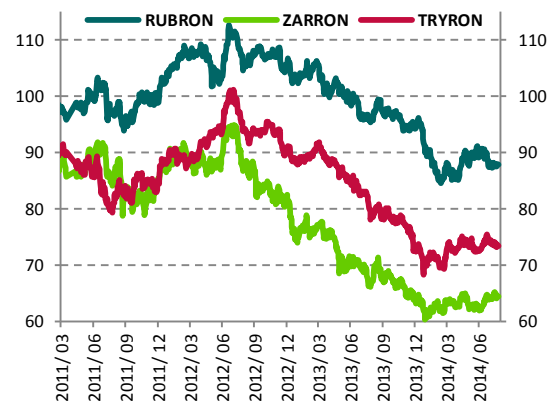
Sources: Reuters

Regional RON FX rates (03.01.2011=100)



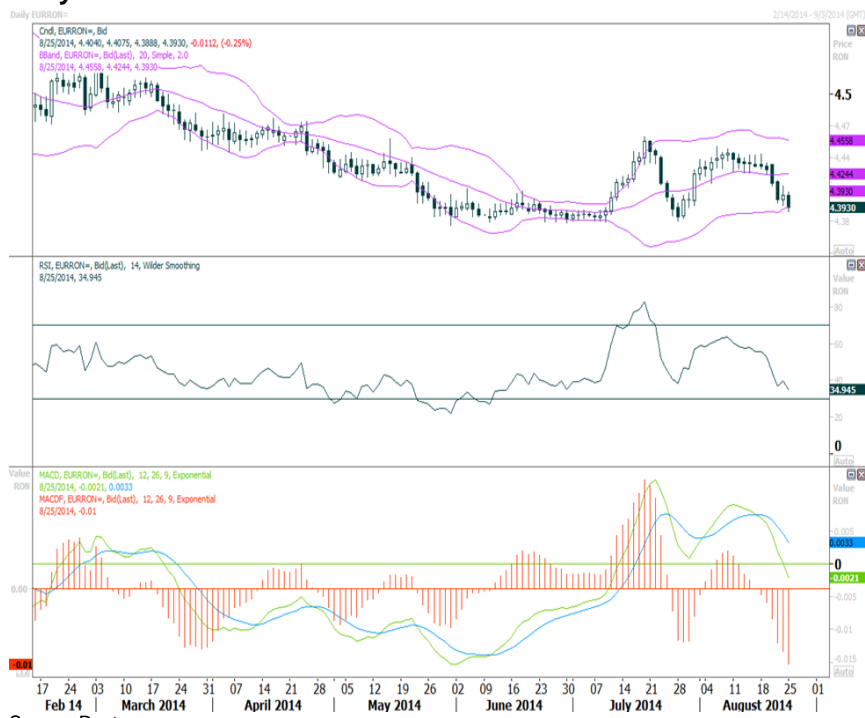
Sources: Reuters

Regional RON FX rates (03.01.2011=100)



Sources: Reuters

Daily EUR/RON chart



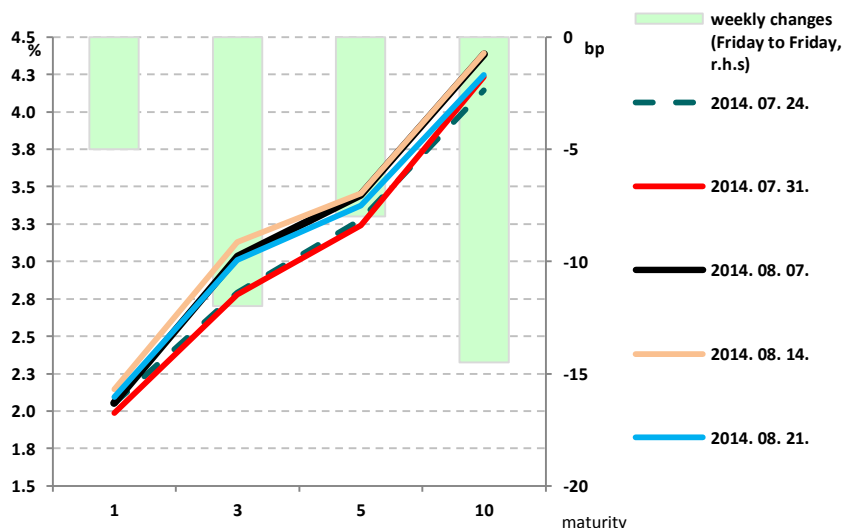
Source: Reuters

Major trend: ↓	
Minor trend: ↓	
R1: 4.4080	S1: 4.4000
R2: 4.4200	S2: 4.3825
R3: 4.4380	S3: 4.3640
RSI: neutral	

Government securities: Yields fell temporarily

Risk perception towards the region improved last week, after the events of two weekends ago which seemed to have cooled down the Russia – Ukraine tension. Bond yields slipped lower by 8 -14 bps in a week. The Treasury successfully sold the planned RON 600 mn in 7Y and 2Y bonds at an yield of 4.14% and 2.61%, respectively. However, despite the easing seen in the secondary market, these yields were still 26-29 bps higher compared to previous similar auctions held in mid and end July. Also, in the last auction of the week, interest was much lower than in mid July even if the yield was higher by 29 bps. Bid to cover ratio stood at 2.7 compared to 3.9 at the previous auction. With inflation expected at 2% in September compared to only 1% YoY in July we expect yields to shoot up.

Yield curve over the past weeks (Central Bank fixing)



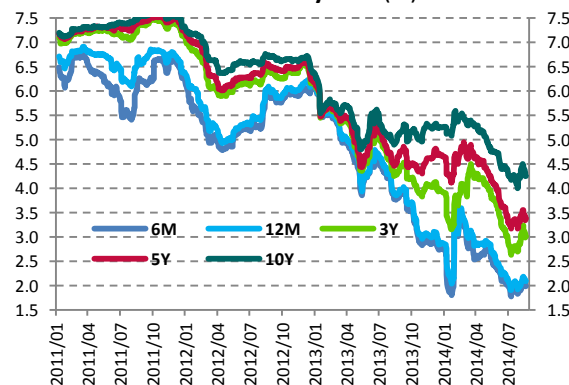
Date: 22.08.2014

RON GOVERNMENT SECURITIES				
	Value (%)		Weekly chg. (bp)	YTD chg. (bp)
6M	2.00	↓	-6	↓ -75
12M	2.10	↓	-4	↓ -76
3Y	3.01	↓	-13	↓ -91
5Y	3.38	↓	-8	↓ -127
10Y	4.26	↓	-14	↓ -16

SPREADS				
	Value (bp)		Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	301	↓	-13	↓ -53
GERROM 5Y	318	↓	-8	↓ -55
GERROM 10Y	329	↓	-14	↑ 81
3Y -5Y	38	↑	5	↓ -37
5Y -10Y	88	↓	-6	↑ 111
3Y-10Y	125	↓	-1	↑ 75
FLY 3-5-10	50	↓	-11	↑ 148

CDS MID SPREADS				
	Value (bp)		Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	76	↓	-2	↓ -41
5Y EURO	128	↓	-2	↓ -43

Government benchmark yields (%)



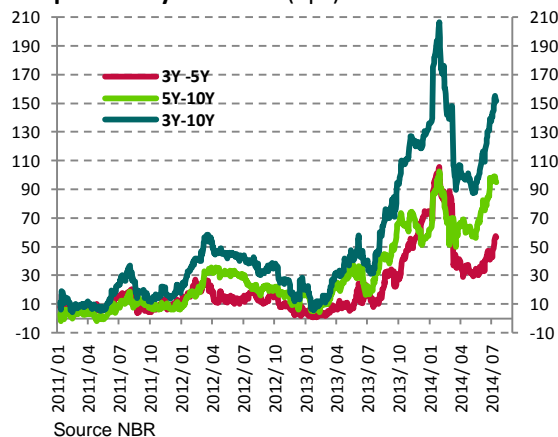
Source: NBR

Last week's auctions

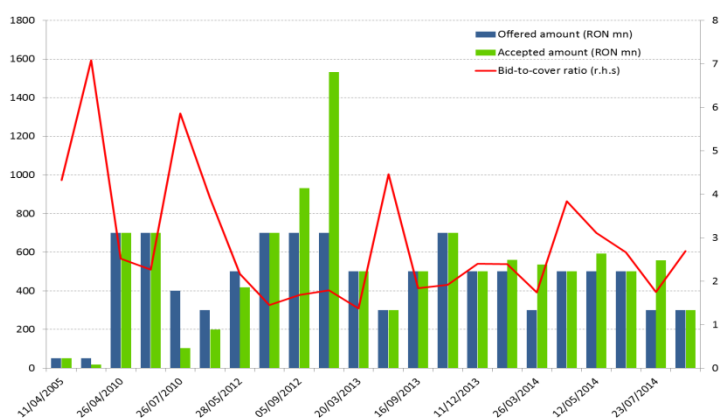
	RO1121DBN032	RO1316DBN053
Offered amount (mn RON)	300	300
Total bids (mn RON)	808	807
Accepted amount (mn RON)	300	300
Average accepted yield (%)	4.14	2.61
Coupon	5.95	4.75

Source: NBR

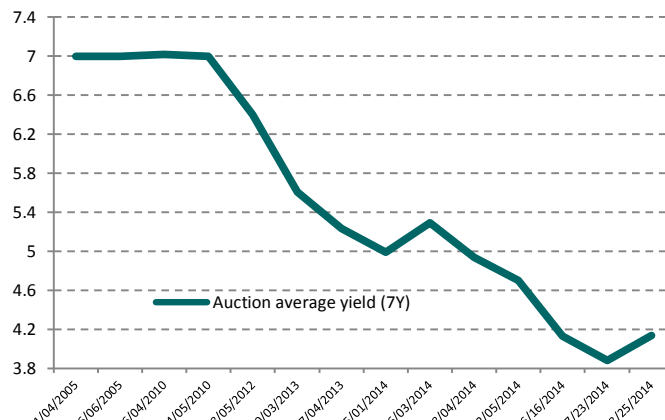
Slope of the yield curve (bps)



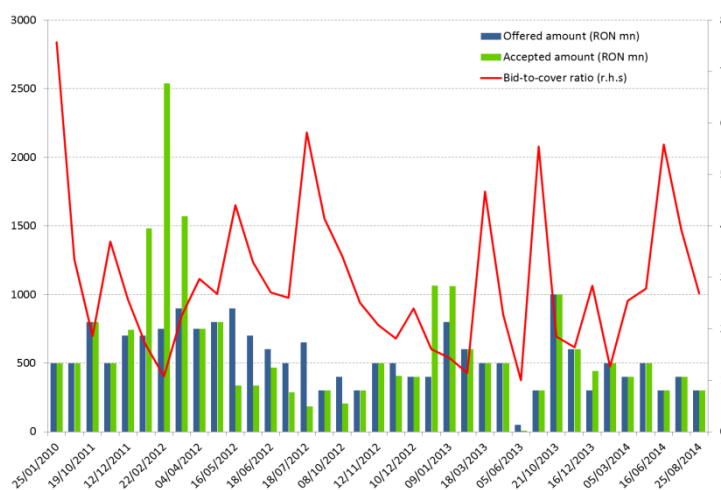
7Y Auctions



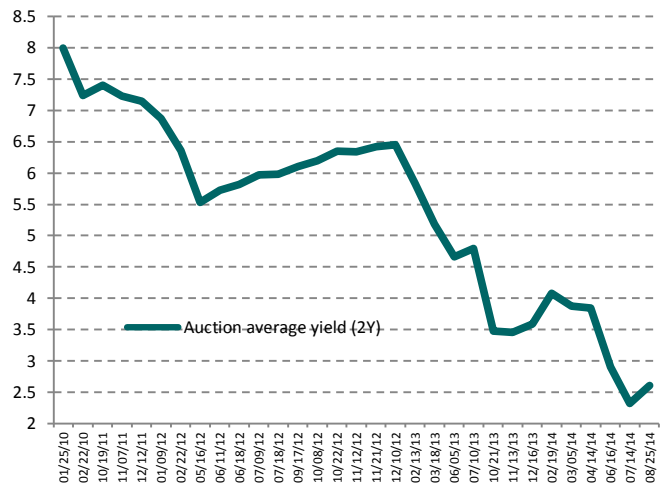
7Y Interest rates



2Y Auctions



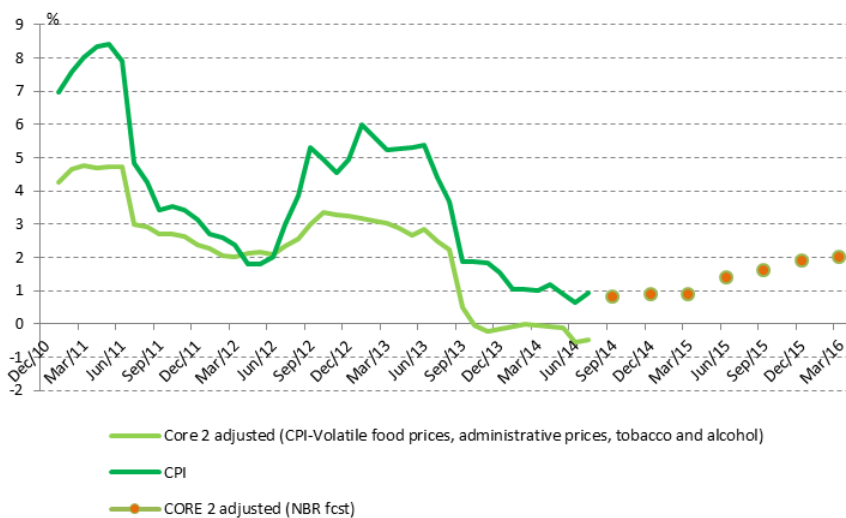
2Y Interest rates



MM: Weak GDP, a possible catalyzer

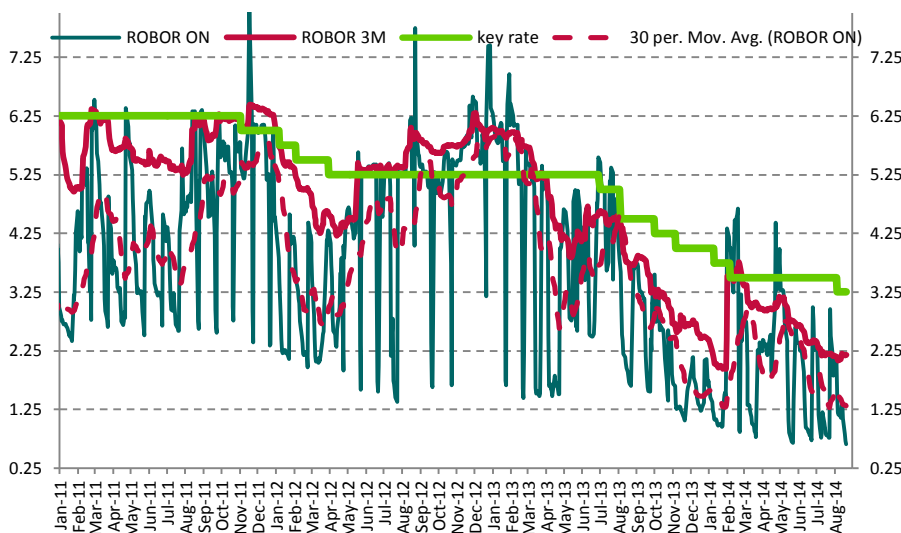
The negative GDP surprise that shows that Romanian GDP actually fell 2 consecutive quarters along with the depressing GDP figures in the euro-zone may encourage NBR to take another step in continuing the base rate cut cycle, especially since inflation expectations are modest in 2015 as well, with Core 2 adjusted inflation quarterly average at 1.5% (NBR forecast). If detailed data will show that households consumption fell in the negative territory, even despite the favourable context in which real wage increases were significant (with the private sector advancing faster than public sector) and lower interest rates made debt repayment easier, then a weak consumption figure could raise a question mark.

Core2 adjusted inflation quarterly avg. at 1.5% YoY in 2015 (Central Bank)



Sources: NIS, NBR

Most important MM rates



Sources: NBR

Date: 22.08.2014

MID INTEREST RATES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
repo rate	3.25	0	-75	
ROBOR ON	0.99	-10	-75	
ROBOR 3M	2.19	0	-25	
ROBOR 6M	2.50	-2	-49	
ROBOR 9M	2.59	0	-51	
ROBOR 1Y	2.69	3	-46	

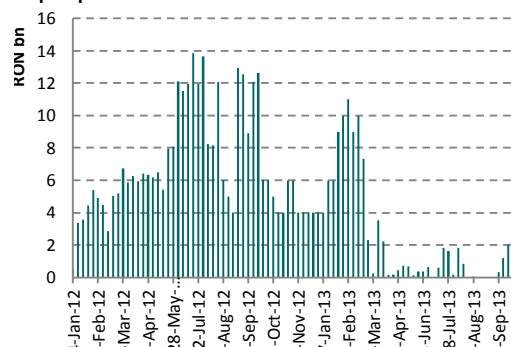
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	2,946.9	-944.9	-1692.3

MID SWAP POINTS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
USD RON 1W	11	5	4	
USD RON 1M	46	8	14	
USD RON 3M	141	-1	25	
EUR RON 1W	21	10	10	
EUR RON 1M	63	-18	19	
EUR RON 3M	172	-42	-30	

MID EUR BASIS SWAPS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
EUR RON 1Y	-70	0	40	
EUR RON 3Y	-60	0	50	
EUR RON 5Y	-60	0	50	

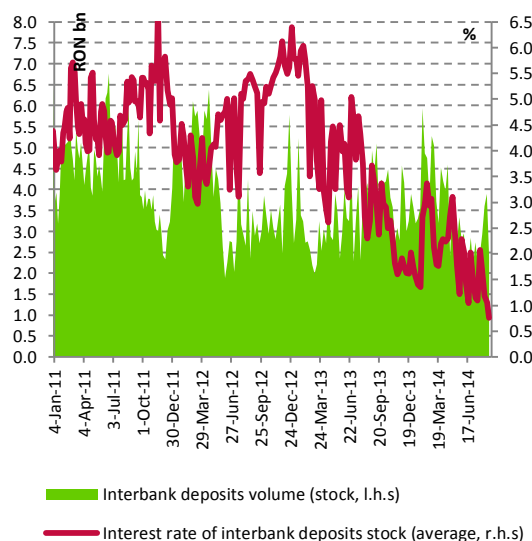
Sources: Reuters

Repo operations since 2012



Sources: NBR

Interbank deposits and interest rate evolution



Sources: NBR

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 SA

Although the information in this document has been prepared in good faith from sources which OTP Bank Romania SA 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 hereafter 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 1 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 losses caused by the result of using this report in a form altered or delayed by the willful or accidental interception, corruption or virus infection.

All rights reserved - OTP Bank Romania S.A. (registered seat: Street Buzesti, no. 66-68, 1 st 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 or a written mail addressed to OTP Bank Romania S.A , Buzesti Street, no. 66-68, 1 st district, Bucharest, Romania. Please refer to your name and e-mail address in both cases.