

OTP Weekly Outlook

 **otp** Global Markets

Next week's spotlight:

- Midterm elections and October CPI data from the USA
- September real economy indicators and November business confidence from the euro area

This week:

- Euro area CPI increased to 10.7% in October, while the economy could expand in Q3
- FOMC hiked the Fed Funds Rate by 75 bps as expected and hinted at possible slowdown in tightening, but the peak is still far away
- The US job report showed no clear signs of cooling
- Market movements were mainly driven by interest rate hike expectation this week again
- LT bond yields edged higher but remained below previous peaks
- Developed stock markets were mixed, with US stock indices dropping while European equities closing the week with gains
- The euro and the British pound weakened. Crude oil and TTF gas futures increased

WEEKLY REPORT - 07 November 2022



In the spotlight: Midterm elections and October CPI data from the USA; September real economy indicators and November business confidence from the euro area

Date*	Cd.	Event/ Data	Period	Cons.	Prev.
2022 11. 7. 4 :00	CN	Export (YoY,%)	Oct	4.3	5.7
8 :00	DE	Industrial production MoM,%)	Sept	0.2	-0.8
10 :30	EZ	Sentix Investor confidence (points)	Nov	-35.0	-38.3
15 :00	EZ	Eurogroup meeting	-	-	-
8. 11 :00	EZ	Retail sales MoM,%)	Sept	0.3	-0.3
23 :00	US	Midterm elections	-	-	-
10. 10 :00	IT	Industrial production MoM,SA,%)	Sept	-1.5	2.3
14 :30	US	CPI (YoY,%)	Oct	8.0	8.2
14 :30	US	CPI MoM,SA,%)	Oct	0.7	0.4
14 :30	US	core-CPI (YoY,%)	Oct	6.5	6.6
14 :30	US	core-CPI MoM,SA,%)	Oct	0.5	0.6
14 :30	US	Continuing jobless claims (000s)	weekly		1485
14 :30	US	Initial jobless claims (000s)	weekly	221	217
11. 8 :00	UK	GDP (preliminary, YoY,%)	Q3	2.1	4.4
8 :00	UK	GDP (preliminary, QoQ,%)	Q3	-0.5	0.2
16 :00	US	Michigan Consumer confidence (preliminary, points)	Nov	59.0	59.9

* The time, when most likely market-mover data could come out is indicated in red.

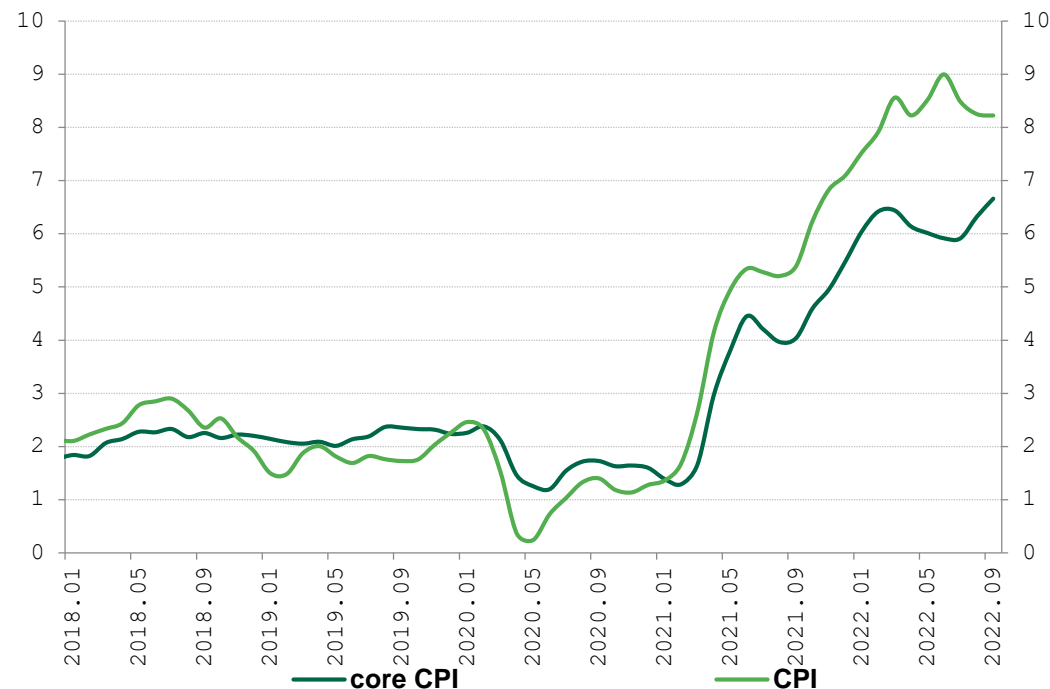
US: we expect monthly acceleration in October CPI; Midterm elections are held on Tuesday

Date	Cd.	Event/ Data	Period	Cons.	Prev.
2022.11.08	US	Midterm elections			
10. 14:30	US	CPI (YoY,%)	Oct	8.0	8.2
14:30	US	CPI MoM, SA,%)	Oct	0.7	0.4
14:30	US	core-CPI (YoY,%)	Oct	6.5	6.6
14:30	US	core-CPI MoM, SA,%)	Oct	0.5	0.6
11. 16:00	US	Michigan Consumer confidence (preliminary, points)	Nov	59	59.9

Key highlights

- **Price pressure was stronger than expected in September, when the headline CPI was 8.2% and core CPI was 6.6% YoY.** Then the surprise was caused by the surge in food prices, which outdid the fall in energy prices.
- **October is expected to be even less favourable as energy prices rose on monthly basis,** so if the rise in food prices does not decelerate, we could potentially get an unpleasant surprise. Still, the consensus suggests a slight YoY deceleration due to base effects.
- Given how committed the Fed appears to be to bringing inflation down, a worse-than-expected figure could push up expectations for a 75 bps rate hike in December again, raising the yield curve and shaking stock markets.
- **Midterm elections are held in the US on Tuesday. There is a chance that both the Democrat-led Senate and House of Representatives will turn into Republican;** this could lead to significant economic policy changes.

US CPI



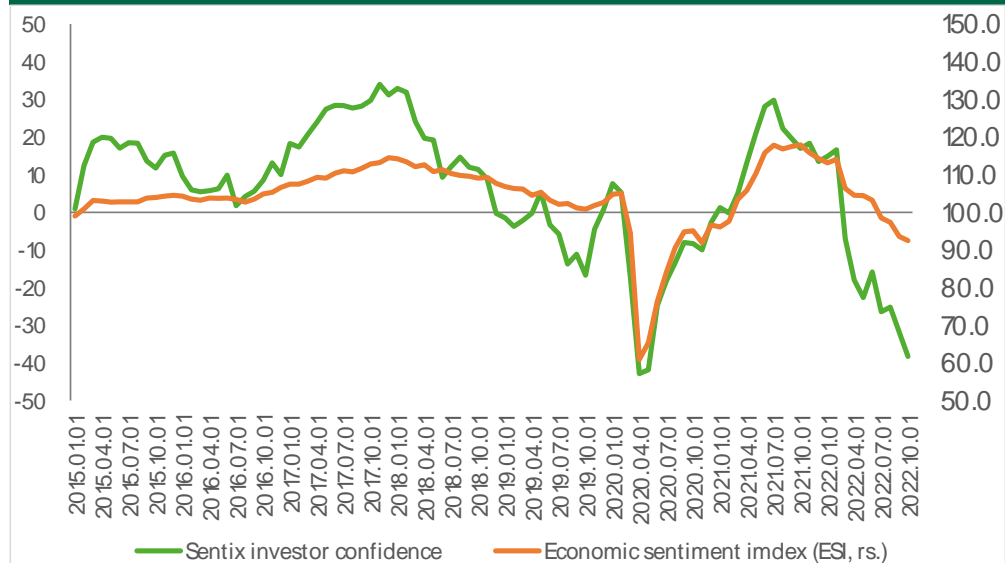
In the spotlight in the euro area: September real economy indicators and November business confidence

Date	Cd.	Event/ Data	Period	Cons.	Prev.
2022 11. 7. 8 :00	DE	Industrial production MoM, (%)	Sept	0.2	-0.8
10 :30	EZ	Sentix Investor confidence (points)	Nov	-35.0	-38.3
15 :00	EZ	Eurogroup meeting	-	-	-
8. 11 :00	EZ	Retail sales MoM, (%)	Sept	0.3	-0.3
10. 10 :00	IT	Industrial production MoM, SA, (%)	Sept	-1.5	2.3
11. 8 :00	UK	GDP (preliminary, YoY, %)	Q3	2.1	4.4
8 :00	UK	GDP (preliminary, QoQ, %)	Q3	-0.5	0.2

Key highlights

- **German and Italian industrial production** will set the scene for the following week's euro area industrial production data. German data weakened in July-August, as sky-high energy prices and supply chain problems weighed on activity. Italy's industrial sector fared better, especially in August, when it rebounded by 2.3% MoM.
- September **euro area retail sales** will be also published, the indicator has been dropping for three months in a row until August, driven by falling real wages and consumer confidence.
- The first November business confidence, **Sentix** will be also published. The indicator has been weakening almost uninterruptedly since the end of 2021.

Euro area business confidence



WEEKLY REPORT - 07 November 2022



This week's data: euro area CPI increased to 10.7% in October, while the economy could expand in Q3; the FOMC hiked the Fed Funds Rate as expected, the job report showed no clear signs of cooling

Date*		Cd.	Event/ Data	Period	Fact	Cons.	Prev.
2022 10 . 31.	2 :30	CN	NBS Manufacturing PMI (points)	Oct	49.2	50.0	50.1
	2 :30	CN	NBS Non-manufacturing PMI (points)	Oct	48.7		50.6
	8 :00	DE	Retail sales MoM (%)	Sept	0.9	-0.3	-1.4
	10 :00	IT	GDP preliminary, QoQ (%)	Q3	0.5	0.0	1.1
	11 :00	EZ	CPI (Flash, YoY, %)		10.7	10.2	9.9
	11 :00	EZ	Core CPI (Flash, YoY, %)	Oct	5.0	4.8	4.8
	11 :00	EZ	GDP preliminary, QoQ (%)	Q3	0.2	0.2	0.8
	11 :00	EZ	GDP preliminary, YoY (%)	Q3	2.1	2.1	4.3
	14 :45	US	Chicago PMI (points)	Oct	45.2	47.1	45.7
11. 1.	2 :45	CN	Caixin Manufacturing PMI (points)	Oct	49.2	49.0	48
	15 :00	US	Construction spending MoM (%)	Sept	0.2	-0.5	-1
	15 :00	US	ISM Manufacturing PMI (points)	Oct	50.2	50.0	51
2.	8 :00	DE	Export MoM, SA (%)	Sept	-0.5	0.1	2.90
	13 :15	US	ADP non-farm employment MoM, 000s)	Oct	239.0	195.0	192.0
	19 :00	US	Interest rate decision (%)	-	3.75-4.0	3.75-4.0	3.0-3.25
3.	2 :45	CN	Caixin Services PMI	Oct	48.4		49.3
	11 :00	EZ	Unemployment rate (%)	Sept	6.6	6.6	6.7
	13 :00	UK	Interest rate decision (%)	Nov	3.0	3.0	2.25
	13 :30	US	Non-farm productivity growth (preliminary, QoQ, %)	Q3	0.3	0.6	-4.1
	13 :30	US	Non-farm Unit Labor Costs (preliminary, QoQ, %)	Q3	3.5	4.1	8.9
	15 :00	US	Factory orders MoM (%)	Sept	0.3	0.3	0.2
	15 :00	US	ISM non-Manufacturing PMI (points)	Oct	54.4	55.2	56.7
4.	8 :45	FR	Industrial production MoM (%)	Sept	-0.8	-1.0	2.7
	13 :30	US	Non-farm payroll MoM, 000s)	Oct	261	200	315
	13 :30	US	Unemployment rate (%)	Oct	3.7	3.6	3.5
	13 :30	US	Average earnings MoM (%)	Oct	0.4	0.3	0.3

* The time, when most likely market-mover data could come out is indicated in red.

Key highlights

- **Euro area CPI** data from October caused yet another huge upward surprise. The headline index turned out at 10.7%, well above the consensus (10.2%), and the previous month (9.9%). Prices pressures were broad-based as core inflation edged up to 5% (from 4.8%), 0.2 pts above the consensus. However, Q3 flash GDP in the region suggested an expansion of 0.2% QoQ.
- In the **USA**, the **FOMC** hiked the Fed Funds rate by another 75 bips, as expected. Although the Committee suggested that slowdown is possible in the pace of tightening, Chair Powell stressed at the press conference that he thinks the end of tightening is quite far away. The October **job report** brought mixed signs as non-farm payroll employment expanded by a decent 261,000, while the increase was broad-based. Nevertheless, the unemployment rate edged up to 3.7%, while wages slowed to 4.7%. These indicators are still far from a substantial slowdown in the labour market, so will not prevent the Fed from further sizable tightening.

Market movements were mainly driven by interest rate hike expectation this week again. LT bond yields edged higher, though remained below previous peaks. Developed stock markets were mixed, with US stock indices dropping while European equities closing the week with gains. The euro weakened. Crude oil and TTF gas futures increased

Indices	Last price	1week change (%)	YTD (%)	Interest rates	Last price	1week change (bps)	YTD (bps)	FX rates	Last price	1week change (%)	YTD (%)	Commodity	Last price	1week change (%)	YTD (%)
S&P500	3779	-3.1	-20.7	US 2 year	4.67	25.7	393.9	Dollar index	111.039	0.3	16.1	Brent	97.9	2.2	25.9
Nasdaq Comp.	10450	-5.9	-33.2	US 10 year	4.14	12.7	262.9	EURUSD	0.9919	-0.5	-12.8	WTI	91.7	4.3	21.9
Dow Jones	32440	-1.3	-10.7	DE 2 year	2.10	17.1	273.2	USDJPY	146.85	0.5	-21.6	NatGas (TTF, front-month)	114.8	4.4	75.3
Russel2000	1806	-2.2	-19.6	DE 10 Year	2.27	17.5	245.6	GBPUSD	1.1309	-2.6	-16.4	Gold	1672.9	1.7	-8.5
Stoxx 600	419	2.0	-14.1	FR 10 year	2.81	19.7	261.3	AUDUSD	0.6454	0.7	-11.1	Silver	20.6	6.9	-11.7
DAX	13515	2.1	-14.9	SP 10 year	3.33	18.5	276.5	USDCAD	1.3494	0.8	-6.4	Palladium	1897.3	-0.7	-0.4
CAC40	6453	2.9	-9.8	IT 10 year	4.43	25.8	325.6	USDCHF	0.9956	0.0	-8.3	Copper	367.9	7.3	-17.6
FTSE100	7370	4.6	-0.2	UK 10 year	3.54	6.4	256.8	NZDUSD	0.5903	1.6	-13.5	Steel	680.0	-2.4	-52.6
FTSEMIB	23377	3.8	-14.5	CH 10 year	1.13	6.4	128.5	CNHUSD	7.1814	1.2	-11.5	Wheat	842.0	1.5	9.2
Nikkei225	27200	-0.5	-5.5	JP 10 year	0.25	0.9	18.6	USDTRY	18.6115	-0.1	-28.5	Com	679.3	-0.2	14.5
CSI300	3767.2	6.4	-23.7	CN 10 year	2.71	3.1	-6.8	USDBRL	5.0317	5.2	10.8	Electricity (APX)*	135.8	-5.9	45.2

Source: Bloomberg

*In EUR/MWh

Key highlights: Rate hike expectations were in the centre again, LT yields rose as tight monetary conditions may persist longer than had been previously expected. European stocks edged higher, but US equities dropped with commodity-linked sectors gaining the most and growth sectors declining. The dollar gained, the EURUSD stands at 0,99. Crude oil prices rose, the TTF gas 1M future price climbed above 115 EUR/MWh.

- Developed stock markets are heading for a mixed weekly performance, with major European indices being on track for visible gains but US indices declining. Investors were cautious in the first half of the week, ahead of the latest FOMC meeting, but later the October NFP, scheduled for release this afternoon, got to the limelight. European stocks started the week in the green despite disappointing eurozone CPI though euro area Q3 GDP also released on Monday could ease growth concerns as it was at least not weaker than expected. However, sentiment in Europe later weakened. At the press conference following the Fed's interest rate decision on Wednesday, the Fed's Chair Jerome Powell indicated that fighting inflation is far from being over, and that the level of interest rates will also be higher than previously expected, while a premature easing might carry a greater risk than further consistent interest rate hikes.
- Although US equities are in the green after the release of the monthly labour market report, **major US indices** are expected to drop on a weekly basis, after a few weeks of good performance. The Dow may lose 1%, while the S&P is expected to lose 3% and the Nasdaq Composite may decline around 6% in one week. **In Europe**, the Stoxx600 and the DAX is in for about 2% weekly gain, while the CAC40 is on track for a 3% weekly gain and FTSE100 is expected to close Friday with considerable w/w gain (+4.6%).
- Considering **sector performance**, investors' risk appetite in Europe was limited only to commodity-linked sectors, with basic resources and oil & gas sectors leading the gainers. Banks benefited from rising interest rate environment. On the other hand, media was the only sector which lost ground, while technology remained flat, but several sectors **in the Stoxx600-universe** underperformed. Considering **S&P500 sectors**, telco, IT and consumer discretionary seem to decline the most between 5% and 8% w/w, as persistent inflation harms the cyclical consumption the most, and higher-than-previously expected rates hit the growth sectors the most. Energy and materials are heading for decent weekly gains.
- In the government bonds' market, LT yields reversed this week after the previous week's steep decline. 10.7% inflation rate in the eurozone hit new record in October, and was higher than expected, keeping the pressure on the European Central Bank to continue raising interest rates despite a sharp slowdown in growth in the third quarter. Rate expectations edged higher after the Fed's 75bp rate hike on Wednesday with the Fed forward rates reaching new highs of 5.5%, and forward rates in the eurozone climbing to 3-3.25%. In a weekly horizon, **German, French, and Italian LT yields** rose 20-25bps, though remained below previous highs. The UK's 10Y yield added 6bps w/w; on Thursday, the Bank of England raised its base rate by 75 basis points to 3%, in line with expectations. **10Y Treasury** yield is expected to rise more than 10bps w/w, though its present 4.14% level is well below previous peak. As usual in this environment, the dollar gained, in a weekly basis the EURUSD dropped 0.5%. The British pound is set to end the week with a 2.6% decline.
- **Crude oils** gained momentum both from the demand and the supply side. Optimistic expectations that China may relax the covid restrictions led prices higher, while the OPEC+ countries' recently agreed production cut and the speculations that further intervention may come also contributed. Front-month **TTF gas** futures rose to the highest in three weeks as concerns about LNG flows to Europe emerged.

Stock market and sector performance

Performance of US sectors

Sector	Last price	1 week change (%)	YTD (%)
S&P 500	3779	-3.1	-20.7
IT	2100	-7.6	-31.3
Health care	1525	-1.5	-7.2
Financials	564	-0.7	-13.2
Telco	151	-8.1	-43.5
Consumer discretionary	1080	-4.6	-32.9
Industrials	803	0.3	-10.3
Consumer staples	751	-1.5	-6.7
Utilities	340	-0.6	-6.5
Energy	707	3.2	67.3
Real estate	227	-1.7	-30.2
Materials	475	1.0	-16.6

Key US Tech companies

Company	Last price	1 week change (%)	YTD (%)
Alphabet	86	-11.1	-40.9
Amazon	91	-12.2	-45.5
Apple	138	-11.3	-22.2
Meta	90	-9.6	-73.3
Microsoft	218	-7.4	-35.1
Tesla	222	-2.9	-37.0

Source: Bloomberg

Performance of Europe's sectors

Sector	Last price	1 week change (%)	YTD (%)
Stoxx 600	419	2.0	-14.1
Health care	988	1.2	-8.7
Industrial goods & services	628	0.7	-21.1
Banks	134	4.5	-7.6
Personal & household goods	935	2.5	-15.2
Insurance	301	2.7	-6.6
Food and beverages	747	2.0	-14.1
Technology	549	0.1	-32.0
Utilities	346	1.5	-14.6
Oil & gas	358	4.8	29.2
Chemicals	1164	1.7	-14.8
Construction & materials	506	1.1	-21.7
Telco	200	1.1	-13.0
Retail	276	3.2	-37.9
Financial services	563	0.7	-25.3
Basic resources	605	7.3	0.7
Real estate	117	1.2	-40.5
Auto & parts	528	1.9	-20.0
Media	320	-1.2	-14.2
Travel & leisure	200	1.3	-14.1

Source: Bloomberg

Summary of regional stock markets' performance

Name		Performance					Valuation**				Fundamentals			
Country	Index	Last Price	1M change (%)	3M change (%)	6M change (%)	12M change (%)	P/E*	P/B	P/S	ROE (%)	Current Ratio	Debt to equity (%)	Change in EPS growth in the last 4 week (%)	Change in EPS growth in the last 3 month (%)
Europe	SXXP Index	419	4.0	-4.6	-5.1	-13.3	14.3	1.7	1.3	13.9	1.1	169.8	0.1	1.4
Germany	DAX Index	13515	6.7	-1.1	-3.3	-15.7	13.0	1.5	0.9	12.3	1.1	109.0	-1.1	2.6
France	CAC Index	6453	6.8	-0.9	0.9	-7.6	13.2	1.6	1.1	15.4	1.1	191.7	2.5	4.0
Poland	WIG20 Index	1606	10.7	-4.1	-11.4	-34.2	5.3	0.9	0.5	17.3	1.2	55.4	-0.4	-1.6
Czechia	PX Index	1222	3.8	-0.8	-7.6	-10.0	8.0	1.1	1.1	13.4		167.9	2.0	7.0
Hungary	BUX Index	42633	6.8	-1.6	-1.2	-23.8	5.3	0.8	0.6	16.4	1.3	59.1	121.7	32.1
Romania	BET Index	10873	-1.1	-13.5	-12.6	-15.6	5.4	1.0	0.8	24.1	1.5	73.1	-31.1	36.2
Bulgaria	SOFIX Index	594	1.8	-2.2	-1.4	-1.0	5.1	0.7	0.5	13.4	2.7	55.9		
Russia	MOEX Index	2156	5.4	1.9	-9.2	-48.5	3.7	0.7	0.7	19.4	1.3	79.5	14.3	8.1
Ukraine	PFTS Index	519	0.0	0.0	0.0	-0.8	5.4	1.4	0.3	28.1	0.6	7.8		
Slovenia	SBITOP Index	1004	3.6	-12.9	-13.8	-16.0	5.8	0.8	0.4	14.0	1.5	30.1		
Croatia	CRO Index	1906	-0.3	-2.8	-9.8	-4.9	8.0	0.9	1.0	12.3	1.6	33.0		
Serbia	BELEX15 Index	780	-5.8	-7.4	-4.9	-1.7	405.7	53.7	36.4	14.1	1.7	16.6	0.0	
Montenegro	MNSE10 Index	891	9.8	9.5	12.0	16.2	26.5	0.3	0.7	0.9	1.9	10.5		

*Price to earnings (P/E) ratio is calculated with the 12M trailing EPS in the denominator.

**Some of the country indices could be sector heavy (only a handful industry comprise the majority of the indices),

**therefore direct comparison of valuation metrics alone could be misleading.

FX outlook

FX pair	2021.Q4	2022.Q1	2022.Q2	2022.Q3	2022.Q4	2023.Q4	2024.Q4
EURUSD	1.14	1.12	1.06	1.01	0.97	1.05	1.1
EURGBP	0.84	0.83	0.85	0.85	0.88	0.88	0.89
EURCHF	1.06	1.05	1.03	0.97	0.96	1	1.04
USDJPY	130	129.5	136	136	140.5	141	132.5

Source: Bloomberg

Country	FX pair	2021.Q4	2022.Q1	2022.Q2	2022.Q3	2022.Q4	2023.Q1	2023.Q2	2023.Q3	2023.Q4
Hungary	EURHUF (€op)	369	367	396	423	416	412	411	409	406
Romania	EURRON (€op)	4.95	4.94	4.95	4.95	4.98	4.98	5.04	5.04	5.03
Russia	USDRUB (€op)	75	82.4	54.8	61.1	63.9	67.2	70.8	74.4	75.8
Ukraine	USDUAH (€op)	27.3	29.5	29.4	36.9	37.3	38.6	39.4	39.6	40.5
Croatia	EURHRK (€op)	7.52	7.57	7.53	7.52	7.53	7.53	7.53	7.53	7.53
Serbia	EURRSD (€op)	117.6	117.7	117.3	117.3	117.5	117.5	117.5	117.5	117.5

*No forecast available for Moldova and Albania

Source: Focus Economics

Macro outlook in the region

Countries	GDP (yoy, %)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	7.1	4.9	-0.9	5.0	0.5
Romania	5.1	4.7	2.5	5.5	2.3
Bulgaria	7.6	2.9	1.2	2.9	1.8
Russia	4.7	-3.8	-2.3	-4.8	-3.5
Ukraine	3.4	-36.7	6.1	-33.4	6.8
Slovenia	8.2	6.5	1.5	5.4	1.8
Croatia	13.1	6.5	2.1	5.4	1.7
Serbia	7.4	2.5	2.0	3.1	2.4
Montenegro	13.0	6.1	2.4	5.1	3.1
Albania	8.5	3.0	2.7	3.2	2.7
Moldova	13.9	-4.5	-1.8	-0.5	2.0

Countries	Fiscal balance (%of GDP)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	-7.1	-5.5	-6.1	-5.6	-4.5
Romania	-7.1	-6.5	-5.5	-6.2	-5.1
Bulgaria	-4.1	-3.4	-3.9	-3.6	-3.4
Russia	0.4	-2.0	-2.0	-2.2	-2.8
Ukraine	-3.5	-25.0	-20.0	-22.5	-19.2
Slovenia	-5.2	-3.3	-4.8	-4.3	-3.8
Croatia	-2.6	-2.0	-3.0	-2.5	-2.6
Serbia	-4.1	-4.0	-5.0	-3.3	-2.7
Montenegro	-2.1	-3.1	-3.3	-5.3	-4.7
Albania	-4.5	-2.7	-3.0	-3.4	-3.2
Moldova	-2.6	-8.0	-6.0	-6.3	-4.9

Countries	Inflation (average (yoy), %)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	5.1	14.0	16.5	13.8	13.3
Romania	5.0	13.4	8.5	13.5	9.5
Bulgaria	3.3	15.2	8.2	14.9	8.5
Russia	6.7	13.8	5.3	13.9	7.7
Ukraine	3.3	15.2	8.2	20.8	19.7
Slovenia	1.9	8.6	5.0	9.2	6.7
Croatia	2.6	10.2	7.0	10.5	6.3
Serbia	4.0	11.9	8.5	11.4	7.8
Montenegro	2.4	12.6	6.5	12.0	6.7
Albania	2.0	7.0	7.0	6.7	4.7
Moldova	5.3	28.0	18.0	28.4	11.8

Countries	Unemployment (%)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	4.1	3.4	4.1	3.6	4.0
Romania	5.6	5.6	5.8	5.4	5.4
Bulgaria	5.3	4.7	5.7	4.8	4.8
Russia	4.8	4.7	6.0	5.1	5.5
Ukraine	10.6	31.2	27.6	22.2	15.7
Slovenia	4.8	4.2	4.4	4.4	4.3
Croatia	7.6	6.5	6.5	7.0	7.5
Serbia	10.2	11.0	12.0	10.0	9.7
Montenegro	16.7	15.1	16.1	16.6	15.9
Albania	12.0	12.2	12.8	11.4	11.2
Moldova	3.9	3.5	4.4	3.1	3.6

Source: Focus Economics, OTP Research Center

Gergely Tardos

Chief Economist
tardosg@otpbank.hu

Mihály András Kovács

Analyst
Mihaly.Andras.Kovacs@otpbank.hu

Gergely Rezessy

Analyst
Gergely.Gabor.Rezessy@otpbank.hu

Orsolya Rátkay

Analyst
Orsolya.Ratkay@otpbank.hu

Beáta Váradi

Analyst
Beata.Varadi@otpbank.hu

OTP Bank Romania Global Markets Sales Team

Robert Kovacs

Head of Sales
+40 372 318 588
robert.kovacs@otpbank.ro

Anca Butuc

Desk Dealer
+40 372 318 587
anca.butuc@otpbank.ro

Anamaria Toma

Desk Dealer
+40 372 318 585
anamaria.toma@otpbank.ro

Corina Bejan

Desk Dealer
+40 372 318 583
corina.bejan@otpbank.ro

Teodor Tibuleac

Desk Dealer
+40 372 318 586
corina.bejan@otpbank.ro

Szilamer Kozma

Regional Dealer
+40 372 504 520
szilamer.kozma@otpbank.ro

Andrei Sala

Regional Dealer
+40 755 000 015
andrei.sala@otpbank.ro

Dan Giurea

Regional Dealer
+40 372 318 584
dan.giurea@otpbank.ro

Alexandru Sabin

Regional Dealer
+40 755 000 255
alexandru.sabin@otpbank.ro

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