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Weekly Report

Romania

18 June 2013



The leu was responsive to investors' mood swings

Macroeconomics: inflation was unchanged in May (5.3% YoY); exports surged 15.5% YoY in April (Page 3-4)

Inflation remained unchanged in May, at 5.3% YoY. In the month, inflation was 0.2% MoM, driven by volatile food items like potatoes (+21.4% MoM) and fresh fruits (+11.4% MoM). In H2 2013, the CB sees a significant decline of inflation, to +3.2% YoY, which is within the targeted interval for this year. Constructions dropped by 9.4% YoY in April and the fall described all construction types. On the other hand, the figure of residential building licences is encouraging: in April, residential building permits rose by 16% YoY. This is the second annual hike this year. The constructions' confidence indicator for May points to a slight improvement, after having deteriorated in April. Exports surged in April: +15.5% YoY and imports by 5% YoY. The detailed data indicates a rise of 19.7% YoY of intra EU exports and of 6.5% YoY of extra EU exports. This move is consistent with expectations of improved economic growth in the EU in Q2-Q4 2013, compared to a contraction in Q1 2013.

FX markets: The leu recovered the losses (Page 5)

The leu recovered most of the loss sooner than we had expected. The uncertainty regarding the next actions of the Fed had caused the recent volatility and created again more room for Romanian debt buying as bond yields become attractive again, moving above 5%. Moreover, in case of Romania, the Central Bank is expected to start a base rate cut cycle which gives more support for bond prices. Given the main reason of leu's firming, we should expect more swings like this throughout the year. Although portfolio inflows strengthened the currency this year, we are closely watching the FDI, another funding source of the current account, which is less volatile and it is known to drive GDP growth: compared to last year, FDI has shrank by 35% YoY during the first 4 months of the year. Luckily, the CA deficit has shrank as well this year on the back of stronger exports.

Government securities: The yield curve steepened last week (Page 6-7)

The yield curve steepened last week. Bond yields climbed further (except for the 5Y maturity which was marginally down). Considering that interest rates already began to ease ahead of the end of the maintenance period for required reserves, yields started to move down this week, in absence of a negative surprise in the international markets. The only auction held by the Treasury last week saw a good demand: bid to cover ratio stood at 2.96 and the Treasury sold 300 mn RON of 3Y bonds at an average accepted yield of 5.07%. The yield was higher by 11 bp than the one at the previous similar auction. Despite the high yield, the auction was succesful and this week has started on the right foot as well. We keep an open eye to the announced base rate cut cycle.

MM: Core 2 adjusted inflation fell to 2.7% YoY in May (Page 8-9)

Core 2 adjusted inflation fell to 2.7% YoY in May from 2.9% YoY in April. Until now, it follows the downward path sketched by the Central Bank which forecasts 2.6% YoY in June. This behaviour supports expectations of a future base rate cut. We expect 2 cuts this year, one in Q3 and the other in Q4 2013.

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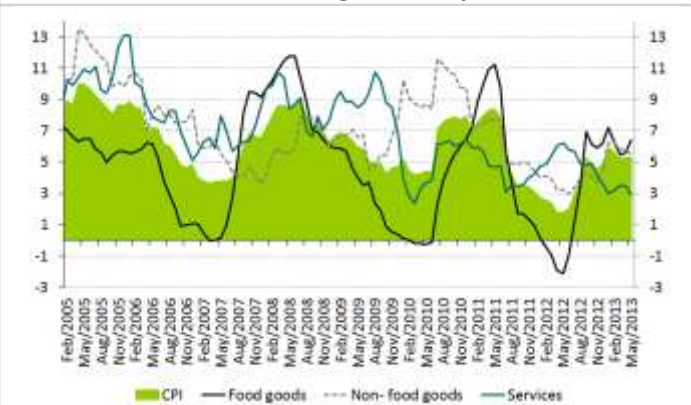
Macroeconomics: inflation was unchanged in May (5.3% YoY); exports surged 15.5% YoY in April

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
10 Jun	April	Construction works index (y-o-y, %)	-44,3		-33,1
10 Jun	April	Exports (y-o-y, %)	15,5		-1,5
10 Jun	April	Imports (y-o-y,%)	5,0		-5,0
11 Jun	May	Consumer price index (y-o-y,%)	5,3	5,2	5,3
11 Jun	April	Industrial Production Index (y-o-y, %)	4,1		1,4
17 Jun	April	CA balance (EUR mn, YTD)	54		69

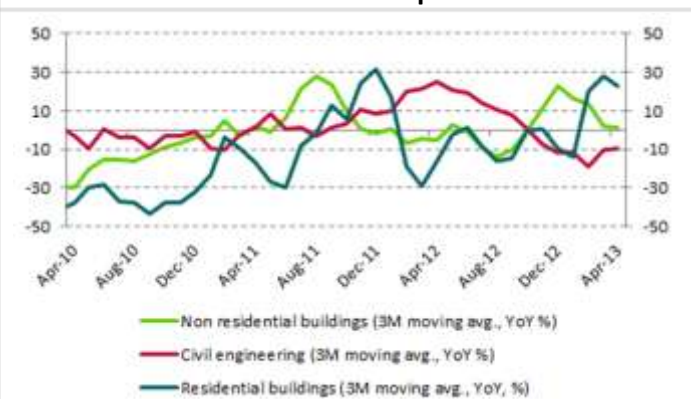
Inflation remained unchanged in May, at 5.3% YoY. The CB sees inflation at 5.3% YoY in June, so until now its forecast is close to actual data. In the month, inflation was 0.2% MoM, driven by volatile food items like potatoes (+21.4% MoM) and fresh fruits (+11.4% MoM). In the second part of the year, the CB sees a significant decline of inflation, to +3.2% YoY, which is within the targeted interval for this year. Food prices are expected to decrease in H2 but administered prices are still on an uptrend: the nearest scheduled increase in gas price is in July (+8%) and the next one scheduled for October 2012 (+2%). Also, the weight of the energy bought from the liberalized market increases to 10% as of July 2013.

Constructions dropped by 9.4% YoY in April and the fall described all construction types: the index for residential buildings declined by 5.3% YoY, civil engineering by 12.6% YoY and non-residential buildings by 3.4% YoY. In the month, the dynamics were different: construction output was down 3.7% MoM (seasonally adjusted) but we noticed an uptake in the case of non-residential buildings (+7.5% MoM): this is the first positive evolution after 3 consecutive declines, with a sharp correction in January. On the other hand, the figure of residential building licences is encouraging: in April, residential building permits rose by 16% YoY. This is the second annual hike this year. The constructions' confidence indicator for May points to a slight improvement, after having deteriorated in April.

Exports surged sharply in April: +15.5% YoY and imports by 5% YoY. The detailed data indicates a **rise of 19.7% YoY of intra EU exports** and of 6.5% YoY of extra EU exports. So far this year, the latter were the driver. This change is consistent with expectations of improved economic growth in the EU in Q2-Q4 2013, compared to a contraction in Q1 2013.

Inflation remained unchanged in May, at 5.3% YoY


Source: NIS, OTP Research

Constructions sank 9.4% YoY in April


Source: NIS, OTP Research

Exports advanced a strong 15.5% YoY in April


Source: NIS, OTP Research

Medium-term macroeconomic forecast

Main macroeconomic indicators							Forecast	
	2007	2008	Fact 2009	2010	2011	2012	2013	2014
Real GDP	6,3%	7,3%	-6,6%	-1,1%	2,2%	0,7%	1,5%	2,6%
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	1,0%	1,6%	2,5%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,4%	2,2%	1,5%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,9%	0,9%	6,6%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	-0,4%	3,2%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,9%	-0,3%	3,2%
Consumer prices (avg.)	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,9%	3,2%
Budget Balance (GDP%, ESA 95)	-2,9%	-5,7%	-9,0%	-6,8%	-5,6%	-2,9%	-2,8%	-2,5%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	34,7%	37,8%	38,7%	38,8%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-4,0%	-3,5%	-4,0%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,3	-4,9	-6,1
Unemployment	6,4%	5,8%	6,9%	7,3%	7,4%	7,1%	6,9%	6,5%
Nominal wage growth	21,8%	26,1%	4,8%	3,1%	4,1%	4,6%	5,0%	6,2%
Real wage growth	14,7%	16,5%	-1,5%	-3,7%	-1,9%	1,2%	0,1%	2,9%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	5,13%	4,50%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	4,75%	4,50%
EUR/RON (avg.)	3,34	3,68	4,24	4,21	4,24	4,46	4,44	4,38
EUR/RON (e.o.p.)	3,61	3,99	4,23	4,28	4,32	4,43	4,41	4,34

Source: Eurostat, NBR, OTP Research

FX markets: The leu recovered the losses

The leu recovered most of the loss sooner than we had expected. Although in the first two days of the last week EUR/RON seemed to have stabilized above 4.52, the leu started gaining ground during the week, in line with its peer currencies. The uncertainty regarding the next actions of the Fed had caused the recent volatility and created again more room for Romanian debt buying as bond yields become attractive again, moving above 5%. Moreover, in case of Romania, the Central Bank is expected to start a base rate cut cycle which gives more support for bond prices. **Given the main reason of leu's firming, we should expect more swings like this throughout the year.**

Although portfolio inflows strenghtened the currency this year, we are also closely watching the FDI, another funding source of the current account, which is less volatile and it is known to drive GDP growth: compared to last year, **FDI has shrank by 35% YoY during the first 4 months of the year.** Luckily, the current account deficit has shrank as well this year on the back of stronger exports.

On another note, **the government issued a letter of intent to the IMF, affirming its intention to continue to seek the achievement of the performance criteria** established with the IMF. According to the letter published by Mediafax, 3 of the 5 quantitative targets for December 2012 were missed: the arrears, the deficit target and net foreign assets. The government evaluates that Romania is still vulnerable to external risks. Under this circumstances, a new agreement looks like the logical next step. So far, Romania has paid back to the IMF 1.7 bn EUR in 2012 and 2 bn EUR in 2013 (interest and principal). The peak of the payments are 2013 and 2014: 5 bn EUR in 2013 and 4.6 bn EUR in 2014.

Last data: 14.06.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,45	↓	-1,21	↑ 0,20
USDRON	3,33	↓	-2,18	↓ -0,94
CHFRON	3,62	↓	-0,56	↓ -1,53
RONJPY	3,54	↑	1,42	↓ -8,64
RONPLN	1,05	↓	-1,35	↓ -3,62
100HUFRON	1,53	↑	0,53	↑ 0,43
RONCZK	0,17	↓	-1,82	↓ -2,32
RONRUB	0,11	↓	-0,70	↓ -4,60
RONRSD	0,04	↓	-0,70	↓ -1,24
RONBGN	2,28	↓	-1,27	↑ 0,18

Source: Reuters

Major RON FX rates (03.01.2011=100)



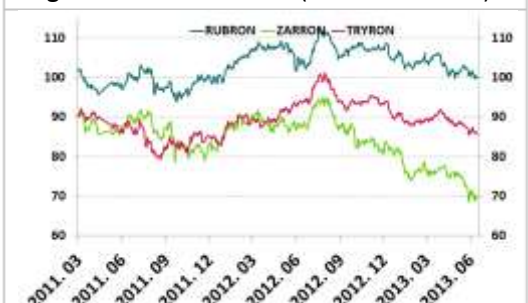
Sources: Reuters, OTP Research

Regional RON FX rates I. (03.01.2011=100)



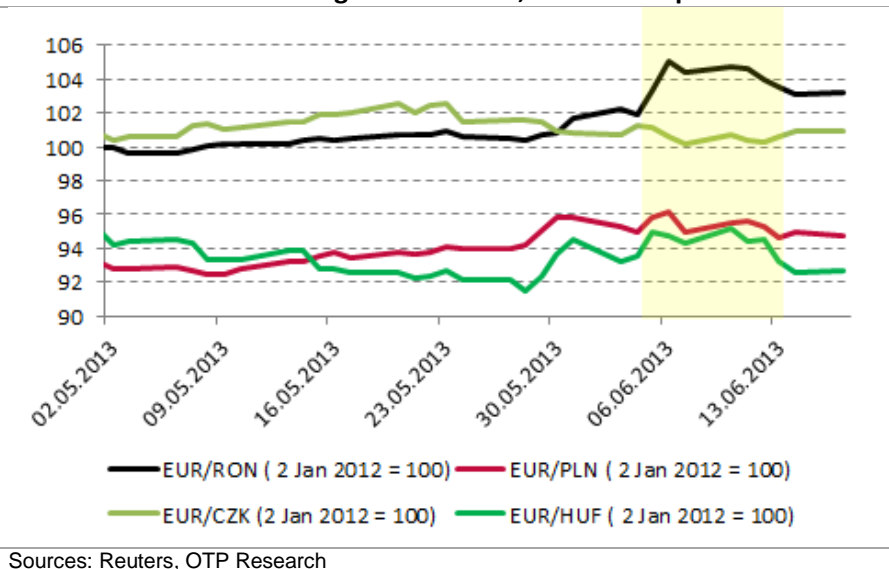
Sources: Reuters, OTP Research

Regional RON FX rates II. (03.01.2011=100)



Sources: Reuters, OTP Research

The leu recovered losses against the euro, in line with peer currencies



Sources: Reuters, OTP Research

Government securities: The yield curve steepened last week

The yield curve steepened last week. Bond yields climbed further (except for the 5Y maturity which was marginally down). Considering that interest rates already began to ease ahead of the end of the maintenance period for required reserves, yields started to head down this week, in absence of a negative surprise in the international markets.

The only auction held by the Treasury last week saw a good demand: bid to cover ratio stood at 2.96 and the Treasury sold 300 mn RON of 3Y bonds at an average accepted yield of 5.07%. The yield was higher by 11 bp than the one at the previous similar auction. Despite the high yield, the auction was successful and this week has started on the right foot as well. Also, we keep an open eye to the announced base rate cut cycle.

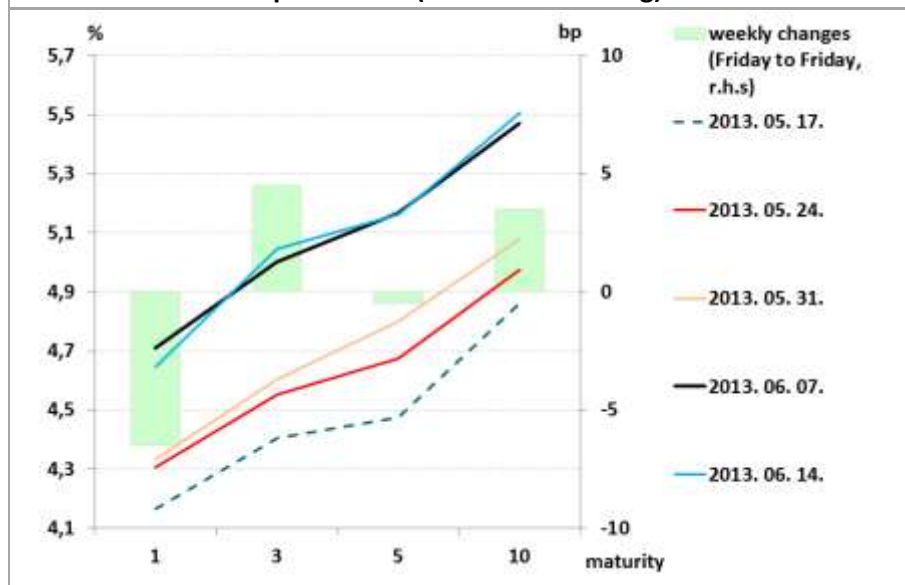
Last data: 14.06.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	4,58	↓ -14	↓ -161
12M	4,65	↓ -7	↓ -152
3Y	5,05	↑ 4	↓ -112
5Y	5,16	↓ 0	↓ -104
10Y	5,51	↑ 3	↓ -88

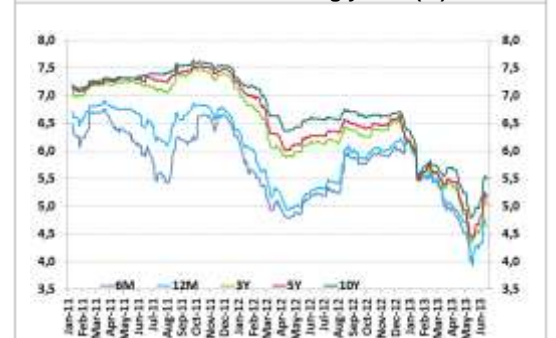
SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	477	↑ 5	↓ -131
GERROM 5Y	457	↓ -1	↓ -123
GERROM 10Y	396	↑ 3	↓ -98
3Y-5Y	12	↓ -5	↑ 8
5Y-10Y	35	↑ 4	↑ 17
3Y-10Y	46	↓ -1	↑ 25
FLY 3-5-10	23	↑ 9	↑ 8

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	124	↑ 6	↓ -12
5Y EURO	179	↑ 6	↓ -15

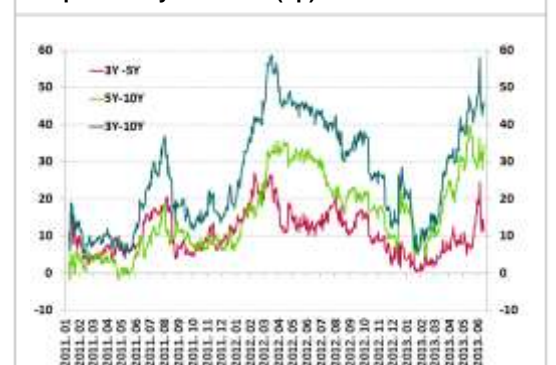
Source: Reuters

Yield curve over the past weeks (Central Bank fixing)


Source: NBR, OTP Research

Central bank benchmark fixing yields (%)


Sources: NBR, OTP Research

Slope of the yield curve (bp)


Sources: NBR, OTP Research

FLY 3-5-10 (bp)

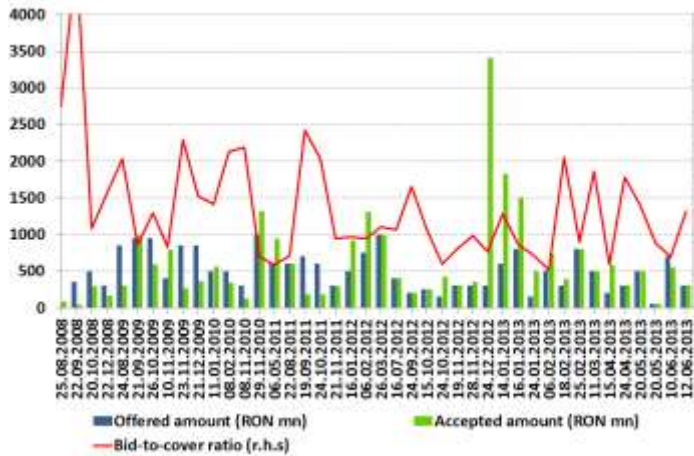

Sources: NBR, OTP Research

Bond auctions in June (in RON)

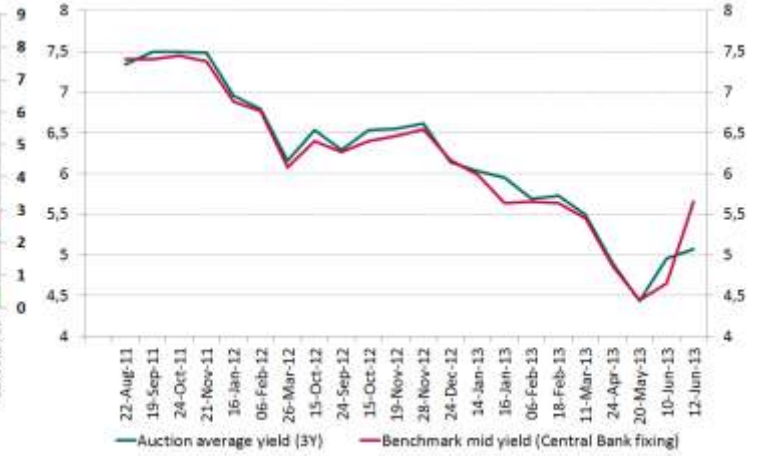
ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1015DBN010	03.06.2013	04.06.2013	05.06.2013	30.04.2015	5	500.000.000	50.000.000
RO1318DBN053	06.06.2013	-	10.06.2013	29.08.2016	3	700.000.000	-
RO1116DBN024	10.06.2013	11.06.2013	12.06.2013	30.04.2016	5	300.000.000	30.000.000
RO1318DBN034	17.06.2013	-	19.06.2013	28.11.2018	5	800.000.000	-
RO1320DBN022	20.06.2013	-	25.06.2013	29.04.2020	7	300.000.000	-
RO1323DBN018	25.06.2013	-	27.06.2013	26.04.2023	10	300.000.000	-

Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

3Y Auctions data


Sources: NBR, OTP Research

3Y Interest rates


Sources: NBR, OTP Research

Last week's auction results (RON denominated)

	RO1116DBN024
Offered amount (RON mn)	300
total bids (RON mn)	889
accepted amount (RON mn)	300
average accepted yield (%)	5,07
coupon	6,00

Source: NBR, OTP Research

Note:* Supplementary session of competitive offers

MM: Core 2 adjusted inflation fell to 2.7% YoY in May

The Central Bank nearly doubled the repo amount last week and injected 639 mn RON. Money market rates fell earlier than expected: usually they tend to ease in the last week ahead of the end of maintenance period for the required reserves (23rd of the month). Due to improved liquidity, at this week's repo total bid amount was zero. This is the first time banks did not need liquidity injection since NBR started to hold weekly repo auctions at the end of 2011.

Core 2 adjusted inflation fell to 2.7% YoY in May from 2.9% YoY in April. Until now, it follows the downward path sketched by the Central Bank which forecasts 2.6% YoY in June. This behaviour supports expectations of a future base rate cut. We expect 2 cuts this year, one in Q3 and the other in Q4 2013.

Last data: 14.06.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	5,25	0	0
ROBOR ON	2,51	-216	-387
ROBOR 3M	4,44	-11	-159
ROBOR 6M	4,73	-1	-155
ROBOR 9M	4,77	0	-151
ROBOR 1Y	4,79	2	-152

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	639,3	-26,1	- 3 356,0

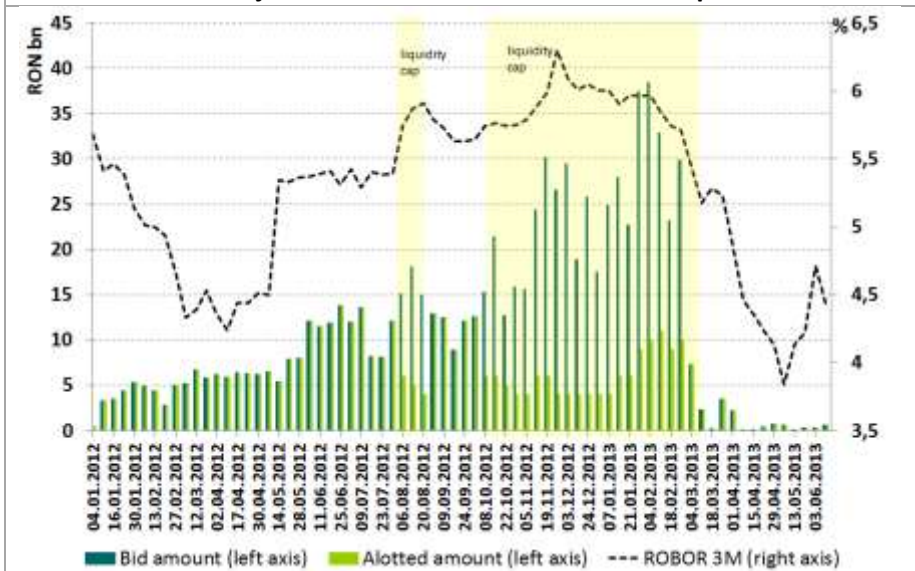
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3 313,3	-699,4	411,9

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	9	-21	-16
USDRON 1M	89	-31	-60
USDRON 3M	350	5	103
EURRON 1W	28	-12	-12
EURRON 1M	109	-56	-36
EURRON 3M	456	-14	-55

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-85	0	70
EURRON 3Y	-73	0	83
EURRON 5Y	-73	0	78

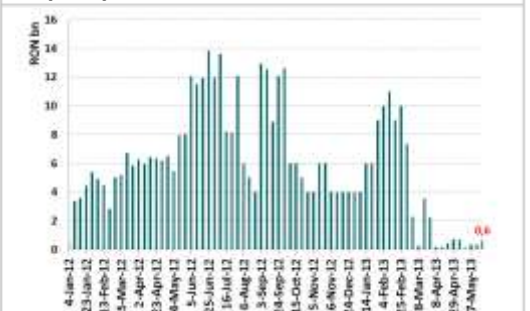
Source: Reuters

The Central Bank injected 639 mn RON at last week's repo



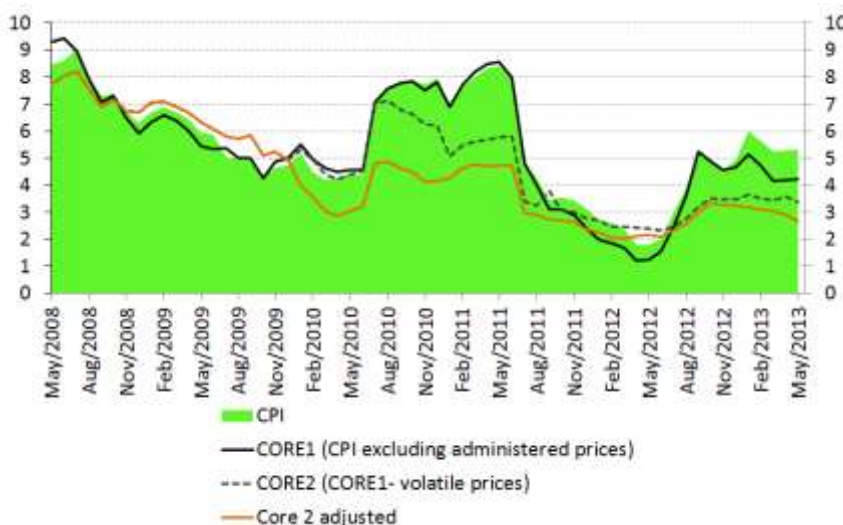
Sources: NBR, OTP Research

Repo operations since 2012



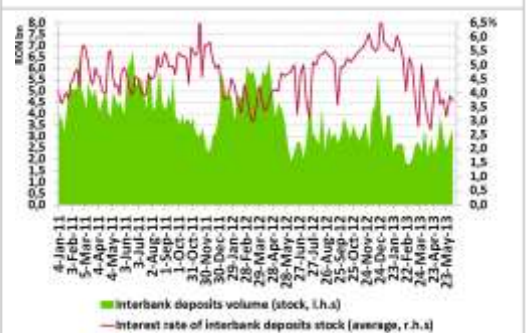
Sources: NBR, OTP Research

Core 2 adjusted inflation falls to 2.7% YoY in May from 2.9% YoY (April)

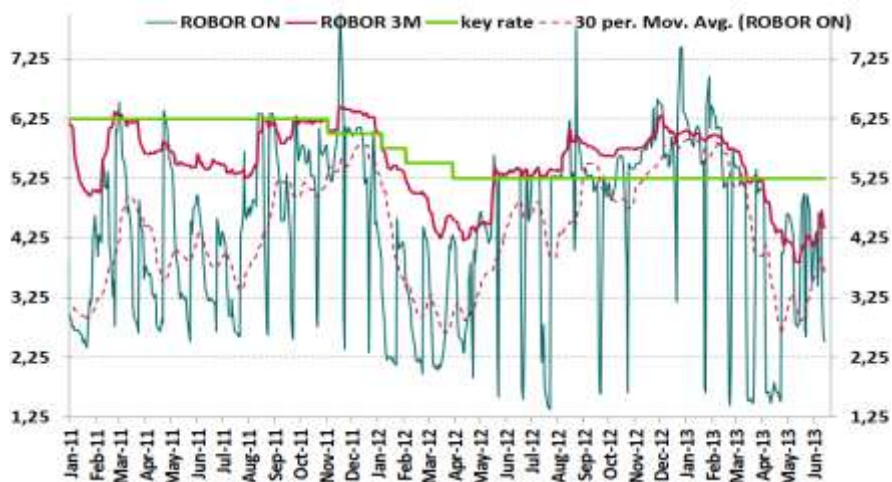


Sources: NIS, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

Most important MM instruments' evolution


Sources: NBR, OTP Research

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