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Weekly Report

Romania

12 August 2013



Q2 GDP data is likely to be weak

Macro: Industrial production and sales were strong in June; exports moved in tandem with industry; constructions continue to suffer

(Page 3- 4)

Industry related data for June was strong: sales rose by 6.7% YoY and industrial production by 5% YoY compared to a decline of 1.2% YoY and 1.7% respectively, in May. New orders data was also encouraging: +9.4% YoY. Unfortunately, the industry confidence indicator is weaker in July than in June. In line with the observed industrial production figure, exports had a very good month in June: +7% YoY compared to the stagnation in May. As imports continued to dive (-6.5% YoY), the trade deficit shrank by roughly two thirds compared to June 2012. In June, just like in most of all the year so far, construction activity retracted: -4.6% YoY. The worst performing segment in H1 2013 was the civil engineering (-8.8% YoY in H1 2013) where the scarcer public investments showed their mark. Given the poor results of constructions and retail sales, we see Q2 GDP growth at 0.1% QoQ, with risks to the downside.

FX markets: International macro data will shape the leu's trajectory this week (Page 5)

For the moment, leu's trajectory's is shaped by several short term drivers. Among the positive ones we list: the favorable risk perception and the perspective of higher bond prices which still attracts foreigners' interest. The auctions scheduled by the Treasury in August fit the investment horizon targeted by non residents. Among the less favorable influences we see: Q2 GDP growth rate which is likely to disappoint, the good liquidity conditions in the RON market and the perspective of Fed starting tapering in September. This week July US retail sales data will be available and early signs are optimistic; last time the markets became frenetic about tapering, the leu and its peers depreciated against the euro. Given the above drivers, we see the chances for the leu to appreciate further this week as rather low. However, next week we expect to see the leu strengthening at least around auction dates (Monday and Thursday).

Government securities: The yield curve shifted down after NBR's policy message (Page 6 - 7)

Yields sank 16-36 bp last week and as expected, the size of the drop was significant because the 50 bp cut in the base rate had not been anticipated by the market and consequently it was not fully priced in. All yields are back below the 5% level and back to levels close to May, when the all time low was touched. Same as in May, RON interest rates are low and risk perception towards the region is favorable. Romania successfully sold 600 mn RON in government securities last week. Demand was solid: the bid to cover mounted to 8X in the case of the 12M T-bills and 3X for the 10Y bonds. The average accepted yield stood at 4.15% (12M) and 4.97% (10Y), respectively.

MM: Money market rates eased significantly (Page 8- 9)

No bank went to the repo last week for the first time since the Central Bank started to hold these auctions regularly. The Central Bank presented its inflation report and lowered only marginally the December forecast from 3.2% YoY to 3.1%. NBR said that risks to this projection are tilted to the downside while for the medium term they are tilted to the upside. Inflation is seen falling as low as 2.1% in Q1 2014 and rising slowly to 3% in Q3-Q4 2014. This new iteration brings new assumptions regarding the external hypothesis which encompasses a more pessimistic assumption regarding the economic advance of the EU. Today's July inflation release reemphasizes that NBR's call to cut by 50 bp was a good choice: inflation dropped to 4.4% from 5.4% YoY in June.

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Macroeconomics: Industrial production and sales were strong in June; exports moved in tandem with industry; constructions continue to suffer

PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR	
05 Aug	June	Base rate decision (%)	4,5	4,75	5,0
06 Aug	June	Net wage growth rate (y-o-y, %)	3,5		5,3
07 Aug	June	Industrial trade turnover index (y-o-y, %)	6,8		-1,2
07 Aug	June	Index value of new orders in manufacturing (y-o-y, %)	9,4		7,3
08 Aug	June	Construction works index (y-o-y, %)	-4,6		-9,9
09 Aug	June	Exports (y-o-y, %)	7,0		0,1
09 Aug	June	Imports (y-o-y,%)	-6,5		-10,5
12 Aug	July	Consumer price index (y-o-y,%)	4,4	4,8	5,4
12 Aug	June	CA balance (EUR mn, YTD)	695		314
14 Aug	Q2 2013	Flash GDP (QoQ, seasonally adjusted)		0,3	0,6

Industry related data for June was strong: sales rose by 6.7% YoY (gross) and industrial production by 5% YoY (gross) compared to a decline of 1.2% YoY and 1.7% respectively, in May. New orders data was also encouraging: +9.4% YoY. By industrial groups, capital goods were the main driver (+9.6% YoY) but consumer goods also grew fairly nice: consumer durables were up 6.3% YoY and consumer non durables up 3.2% YoY. **In the month, the seasonally adjusted data is even better: +5.7% MoM. Among top performers we notice high value added output such as machinery and equipment (+11.4% MoM), other transport equipment (+10.9% MoM), motor vehicles and trailers (+7.9 MoM). Unfortunately, the industry confidence indicator is weaker in July than in June.**

In line with the observed types of goods that pushed up the industrial production figure, **exports had a very good month in June: +7% YoY compared to the stagnation in May. As imports continued to dive (-6.5% YoY), the trade deficit shrank by roughly two thirds compared to June 2012.** While this diminishes the downside risks for the currency, the dark side of the story remains the suffering internal demand.

In June, just like in most of all the year so far, construction activity retracted: -4.6% YoY. The worst performing segment in H1 2013 was the civil engineering (-8.8% YoY in H1 2013) where the scarcer public investments showed their mark and the best performing was the residential segment (due to Q1'activity). In the month, the seasonally adjusted figures pointed to 2.4% MoM decline solely triggered by poor activity in the infrastructure works (- 8% MoM). Residential (+3.5% MoM) and non residential (+6.3% MoM) works looked very optimistic. However, the number of residential buildings permits is still contracting and it was lower by 4.5% YoY in H1 2013. For July, the constructions confidence indicator does not point to a major change.

Sales and new orders look more optimistic in June; Industry posts strong advance (+5% YoY)


Source: NIS, OTP Research

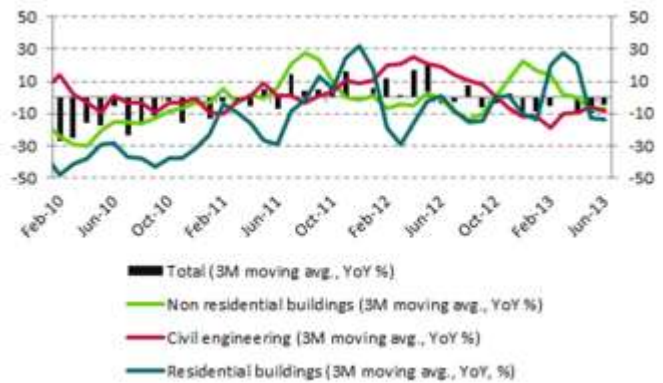
Exports revived in June (+7% YoY) compared to previous month's stagnation; Imports down 6.5% YoY


Source: NIS, OTP Research

Gross wages moved up by 3.7% YoY in June, the lowest pace since April 2012. The average net wage stood at 1606 RON (+3.5% YoY) and real wage dynamics was negative (-1.8% YoY). Inflation bit into disposable income so far this year and this was reflected by the poor households' demand.

We expect the Q2 GDP data to be released this week: considering the poor performance of retail sales and constructions, **we see GDP dynamics rather flat (+0.1%QoQ) with risks to the downside.**

Constructions continue their decline in June (-4.7 % YoY); the civil engineering segment remains weak



Source: NIS, OTP Research

Gross wage up 3.7% YoY in June compared to 5.5% YoY in May; Real wage is down by 1.8% YoY



Source: NIS, OTP Research

Medium-term macroeconomic forecast *

Main macroeconomic indicators	Fact						Forecast	
	2007	2008	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

Note: * under revision

FX markets: International macro data will shape the leu's trajectory this week

The leu ended marginally lower to the euro, on a weekly basis but and EUR/RON closed nearly 4.42 after having traded even around 4.46 during the week. As expected, the message sent by the Central Bank of future rate cuts, took its toll on the leu. For the moment, **leu's trajectory's is shaped by several short term drivers:**

- **The risk perception is favorable** and euro-zone's Q2 GDP which is due this week is expected to show a positive evolution (QoQ) after 6 quarters of continuous decline
- **The perspective of higher bond prices still attracts foreigners' interest** and the auctions scheduled by the Treasury in August fit the investment horizon targeted by non residents
- **Q2 GDP growth rate due this week is likely to disapoint:** the market expects +0.3% QoQ but we are more pessimistic and we see it rather flat
- **Good liquidity conditions and low money market rates continue to not favor the currency's appreciation.**
- **The perspective of Fed starting tapering in September.** This week July retail sales data will be available and early signs are optimistic; last time the markets became frenetic about tapering, the leu and its peers depreciated against the euro.

Overall, the drivers have mixed direction and the macro data to be released is rich. **EUR/RON is currently trading around 4.415** after a successful 3Y (residual maturity) bond auction held by the Treasury. Given the above drivers, **we see the chances for the leu to appreciate further this week as rather low.** Expectations for the US retail sales data are optimistic and we believe it is a key signal to whether the Fed could start the tapering soon. **Next week however, we are looking at much higher weekly bond sales on the primary maket:** 1 bn RON compared to 300 mn RON this week. **The maturity is favored by non residents so we could see the leu catching strenght at least around auction dates (Monday and Thursday).**

The leu will be driven by the rich macro data to be released this week



Sources: Reuters, OTP Research

Last data: 9.08.2013

FX BID			
	Value	Weekly chg. (%)	YTD chg. (%)
EURRON	4,42	↑ 0,11	↓ -0,45
USDRON	3,32	↓ -0,26	↓ -1,39
CHFRON	3,60	↑ 0,32	↓ -2,16
RONJPY	3,45	↑ 2,61	↓ -11,07
RONPLN	1,06	↑ 1,43	↓ -2,74
100HUFRON	1,49	↑ 0,89	↓ -1,98
RONCZK	0,17	↑ 0,29	↓ -3,17
RONRUB	0,10	↓ -0,39	↓ -8,36
RONRSD	0,04	↑ 0,31	↓ -1,60
RONBGN	2,26	↑ 0,18	↓ -0,30

Source: Reuters

Major RON FX rates (03.01.2011=100)



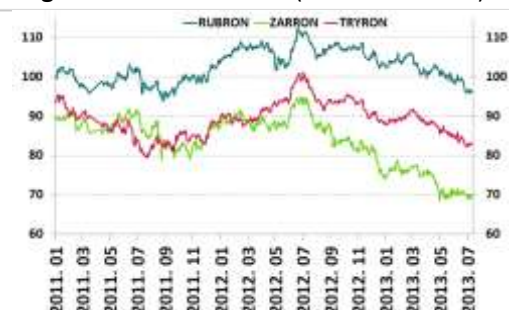
Sources: Reuters, OTP Research

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

Government securities: The yield curve shifted down after NBR's policy message

Yields sank 16-36 bp last week and as expected, the size of the drop was significant because the 50 bp cut of the base rate had not been anticipated by the market and consequently it was not fully priced in. All yields are back below the 5% level and back to levels close to May, when the all times low was touched. Same as in May, RON interest rates are low and risk perception towards the region is favorable. Considering NBR's expectations that inflation rate will fall as low as 2.1% YoY in Q1 2014 and the already announced rate cut cycle, the trend is set to continue in the months to come.

Romania successfully sold 600 mn RON in government securities last week. Demand was solid: the bid to cover mounted to 8X in the case of the 12M Tbills and 3X for the 10Y bonds. The average accepted yield stood at 4.15% in the first case, up 17 bp compared to the low posted in mid May. For the 10Y bond, the average accepted yield was 4.97%, close to the last successful auction in May (5.03%). The Treasury held an auction for 10Y bonds in June as well, but all bids were rejected at the time. This month, redemptions stand at 700 mn RON and planned amount is 1.9 bn RON.

Last data: 9.08.2013

RON GOVERNMENT SECURITIES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
6M	3,89	↓ -33	↓ -229
12M	3,95	↓ -36	↓ -222
3Y	4,38	↓ -27	↓ -179
5Y	4,52	↓ -23	↓ -169
10Y	4,95	↓ -16	↓ -144

SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
GERROM 3Y	412	↓ -26	↓ -196
GERROM 5Y	386	↓ -22	↓ -194
GERROM 10Y	329	↓ -16	↓ -165
3Y -5Y	14	↑ 4	↑ 11
5Y -10Y	43	↑ 6	↑ 25
3Y-10Y	57	↑ 11	↑ 36
FLY 3-5-10	29	↑ 2	↑ 15

CDS MID SPREADS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
3Y EURO	130	↑ 2	↓ -6
5Y EURO	184	↑ 2	↓ -10

Source: Reuters

Central bank benchmark fixing yields (%)



Sources: NBR, OTP Research

Slope of the yield curve (bp)



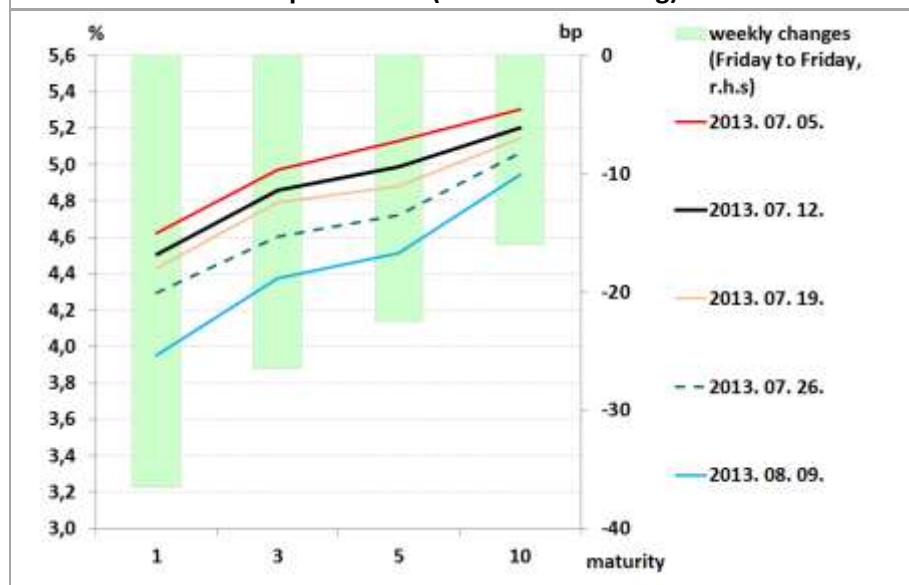
Sources: NBR, OTP Research

FLY 3-5-10 (bp)



Sources: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

T- bills auctions in August (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN0B3	05.08.2013	07.08.2013	06.08.2014	12	300.000.000

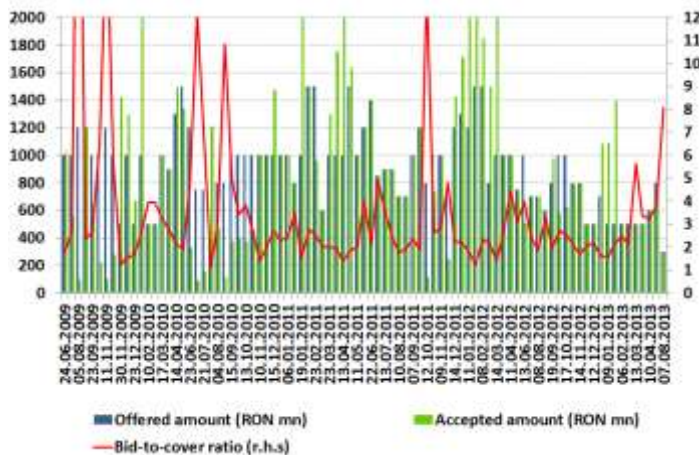
Sources: Ministry of Finance, OTP Research

Bond auctions in August (in RON)

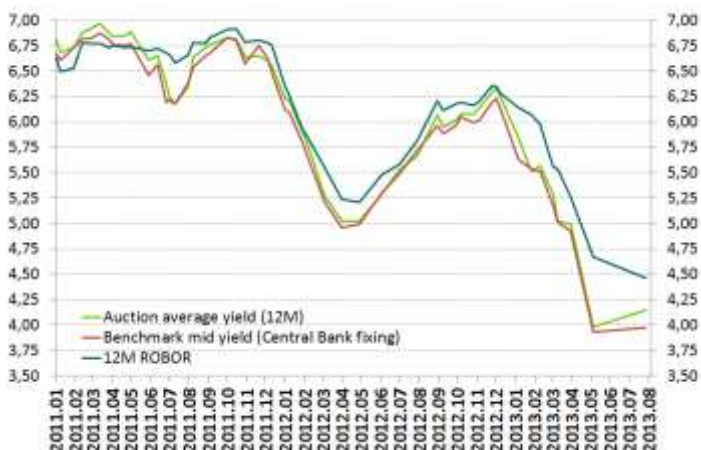
ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1323DBN018	08.08.2013	-	12.08.2013	26.04.2023	10	5,85	300.000.000	-
RO1116DBN024	12.08.2013	13.08.2013	14.08.2013	30.04.2016	5	6	300.000.000	30.000.000
RO1316DBN053	19.08.2013	20.08.2013	21.08.2013	29.08.2016	3	4,75	500.000.000	50.000.000
RO1318DBN034	22.08.2013	-	26.08.2013	26.11.2018	5	5,6	500.000.000	-

Sources: Ministry of Finance, OTP Research

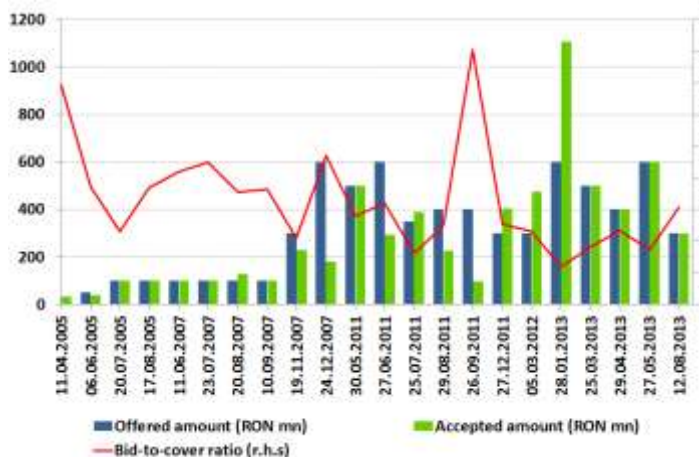
Note: * Supplementary sessions of competitive offers

12M Auctions data


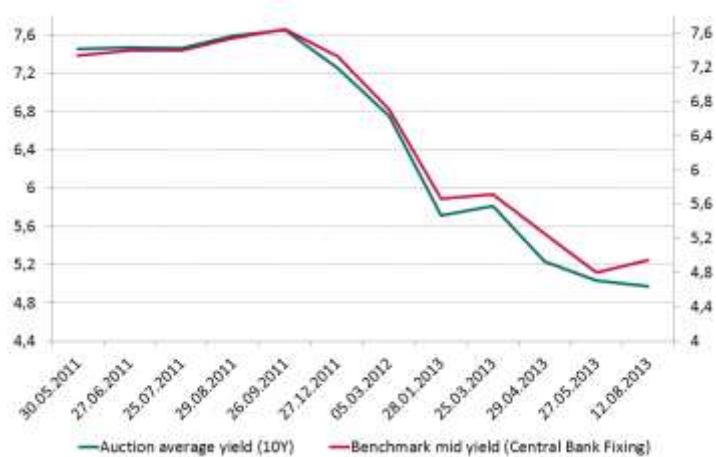
Sources: NBR, OTP Research

12M Interest rates (RON)


Sources: NBR, OTP Research

10Y Auctions data


Sources: NBR, OTP Research

10Y Interest rate (euro)


Sources: NBR, OTP Research

This week's auction results (RON denominated)

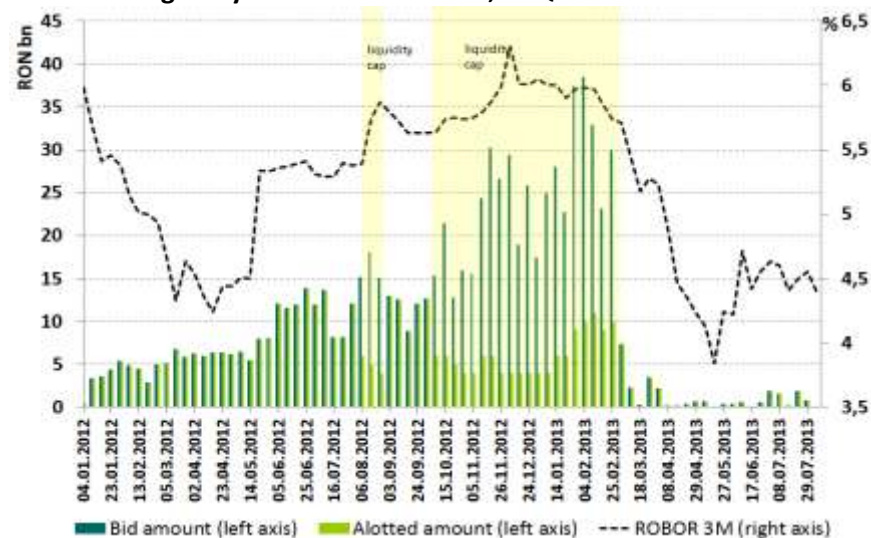
	RO1314CTN0B3	RO1323DBN018
Offered amount (RON mn)	300	300
total bids (RON mn)	2417	918
accepted amount (RON mn)	300	300
average accepted yield (%)	4,15	4,97
coupon		5,85

Source: NBR, OTP Research

MM: Money market rates eased significantly

No bank went to the repo last week for the first time since the Central Bank started to hold these auctions regularly in Q4 2011. Liquidity conditions were good and banks were expecting NBR's policy decision. The Central Bank presented its inflation report and lowered only marginally the December forecast from 3.2% YoY to 3.1%. There is a different composition however: inflation of administered prices is lower than expected, especially due to the energy component whereas a hike is noticed for the volatile food items. NBR said that risks to this projection are tilted to the downside while for the medium term they are tilted to the upside. Inflation is seen falling as low as 2.1% in Q1 2014 and rising slowly to 3% in Q3-Q4 2014. This new iteration brings new assumptions regarding the external hypothesis which encompasses a more pessimistic assumption regarding the economic advance of the EU. Today's July inflation release reemphasizes that NBR's call to cut by 50 bp was a good choice: inflation dropped to 4.4% from 5.4% YoY in June.

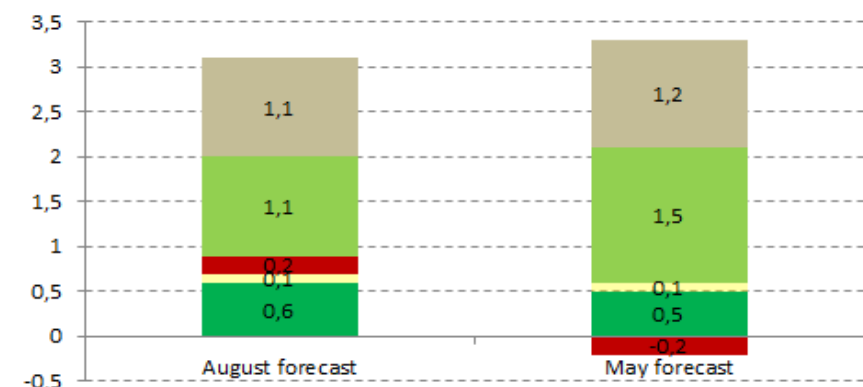
Banks did not go to the repo last week, for the first time since the CB started to regularly hold these auctions, in Q4 2011



Sources: NBR, OTP Research

Contribution to annual inflation projected for December 2013

Administered prices' contribution is lower than initially expected but the effect is offset by the food volatile prices



Sources: NBR, OTP Research

Last data: 9.08.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4,50	↓ -50	↓ -75
ROBOR ON	2,20	↓ -162	↓ -418
ROBOR 3M	3,92	↓ -53	↓ -211
ROBOR 6M	4,27	↓ -44	↓ -201
ROBOR 9M	4,28	↓ -43	↓ -200
ROBOR 1Y	4,28	↓ -43	↓ -203

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	-	-837,9	- 3 995,3

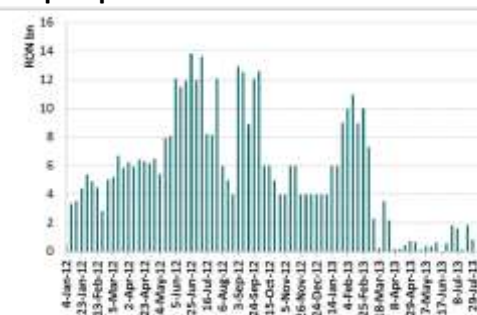
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3 936,3	274,5	1034,9

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	23	↓ -5	↓ -2
USDRON 1M	111	↑ 12	↓ -39
USDRON 3M	330	↑ 50	↑ 83
EURRON 1W	29	↓ -7	↓ -11
EURRON 1M	143	↓ -9	↓ -2
EURRON 3M	428	↓ -27	↓ -83

MID EUR BASIS SWAPS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
EURRON 1Y	-80	↑ 0	↑ 75
EURRON 3Y	-70	↑ 0	↑ 85
EURRON 5Y	-70	↑ 0	↑ 80

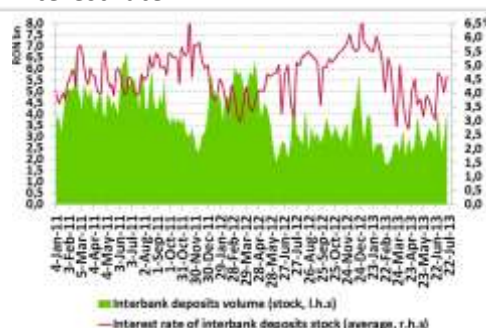
Source: Reuters

Repo operations since 2012



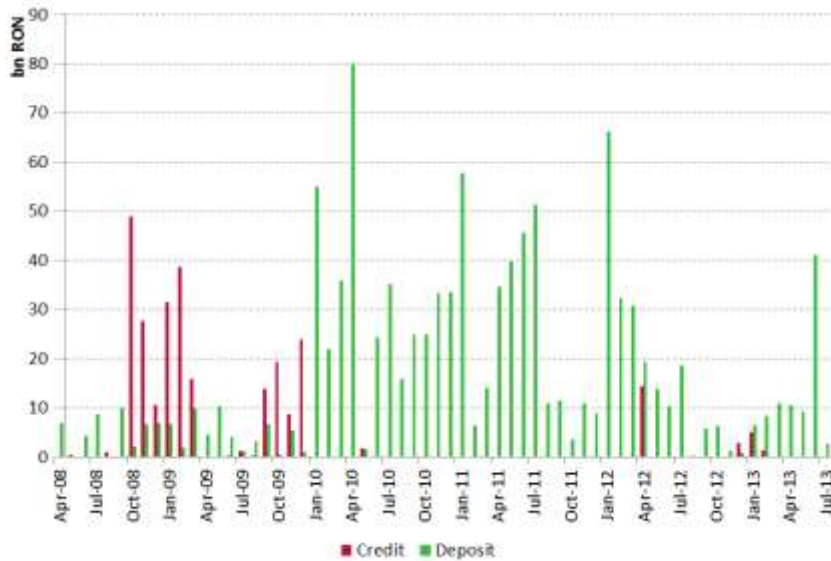
Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



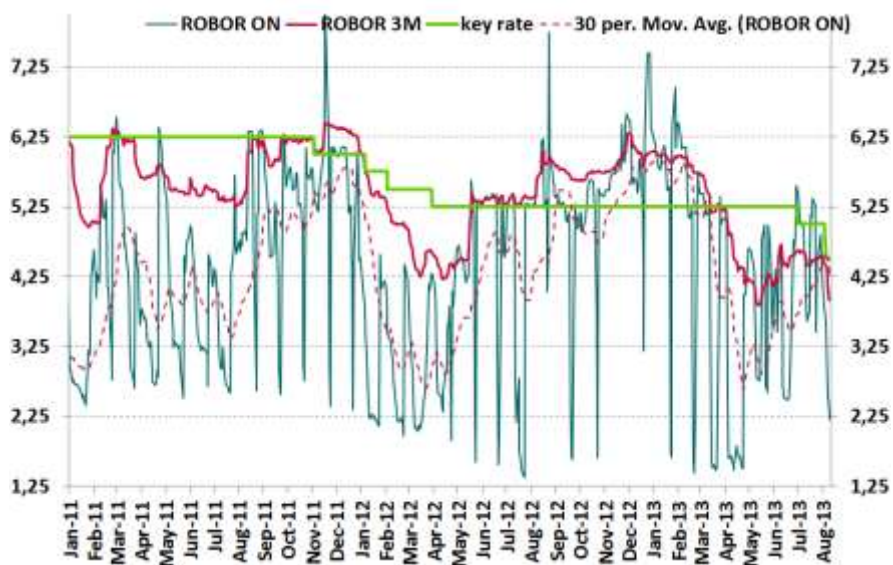
Sources: NBR, OTP Research

In July, banks used very scarcely the ON deposit facility with the CB



Sources: NBR, OTP Research

Most important MM instruments' evolution



Sources: NBR, OTP Research

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