

The Treasury steps up bond sales in September

Macro: In July, private loans sank further (-4.4% YoY); the ILO unemployment rate stagnated (Page 3- 5)

Private loans slumped further in July (-4.4% YoY) from -1.3% YoY in June. If we adjust for the significant FX effect (the leu appreciated by 3.6% YoY), the dynamics is still in the negative territory (-2.2% YoY). The main driver have been the FX denominated corporate loans, which dropped as low as -6% YoY in July (adjusted for the FX effect) whereas the RON component is still on the floating line (+2% YoY). Mortgage loans are still growing nicely (+6.5% YoY) and the RON component is booming (+34% YoY), albeit from a very low base. The latter has been helped by the lower RON interest rates and also by their longer term prospects. The quarterly survey held by the CB shows that banks expect an increase of demand for mortgage loans in Q3 compared to a decrease in Q2. Demand for consumer loans is seen in stagnation compared to an increase in Q2. Banks anticipate a further contraction of demand for corporate loans, just like in Q2. Unfortunately, the dryness of corporate loans affects investments plans and therefore expansion and job creation.

FX markets: The leu is holding up well (Page 6)

The upward revision of Q2 GDP data in the US, to 2.5% YoY from 1.7%YoY, reinforced the views that the Fed will announce the start of slowing down asset purchases in its meeting on 17-18 th September. This is by far the most important event of the month. While this could affect the Romanian bond market in the future, we have not seen a large impact yet. What's more, the Treasury plans to sell RON 2.7 bn in medium and long term bonds in September and so far, this has been the preferred maturity of the non residents. In the short term, we also turn our attention to the Romanian equities market: the leu could gain some support given the approaching date of the listing of a 10% stake into the state owned nuclear power producer Nuclearelectrica, which is scheduled to take place between 9 - 20 September. The government plans to sell 25.4 mn shares at a targeted price between 11.2 -15 RON/share.

Government securities: The Treasury plans to sell RON 3.7 bn in September (Page 7)

The yield curve shifted higher (by 7-13 bp) for the second consecutive week. Given that the CDS has not moved on a weekly basis, the rise seems to be have been supported by the temporary increase in money market rates. Unlike other central banks in the region, the NBR just started the base rate cut cycle so we expect that this will be among the most important drivers in the next 2 quarters. However, foreigners are important players too and the change of global investing strategies could cause swings especially at the long end of the curve. The macro and political picture is likely to become more transparent past September: the Fed gives guidance, Parliamentary elections are held in Germany and domestically, the CB will hold a policy meeting on 30th September. Meanwhile, the Treasury plans to sell RON 3.7 bn, more than in August (RON 2 bn).

MM: Interest rates edged up temporarily (Page 8 - 9)

Liquidity injection at the weekly repo auction has been nearly zero in the past 5 weeks. Money market rates are lower than the base rate of 4.5% which applies for repo operations. There will be a net positive issuance of government debt this month and considering that banks avoided the repo auctions recently, money market rates have lower chances to ease this month. In July, RON interest rates for new loans granted to corporations dropped to 8.63%, which is a historical low. Compared to December 2012, this is a downward adjustment of 116 bp. For households, the average rate for new loans is 11.43%: the overdraft rate is the highest (among loans to which variable rates apply), at 12.67% and mortgage loans rate stands at 6.95%.

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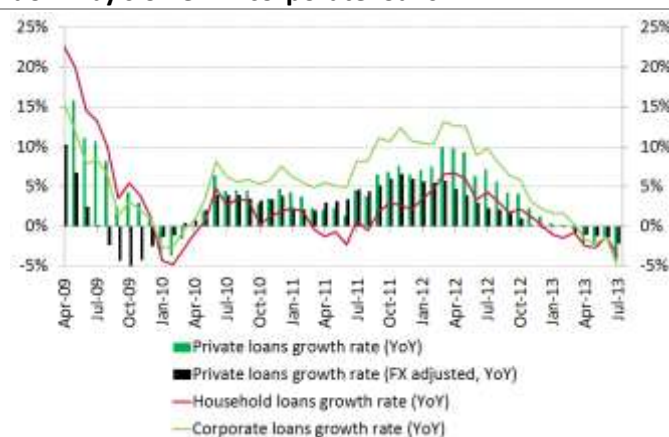
Macroeconomics: In July, private loans sank further (-4.4% YoY); the ILO unemployment rate stagnated

	PERIOD	INDICATOR	FACT	CONSENSUS	PRIOR
26 Aug	July	Non-governmental loans (y-o-y, %)	-4,4		-1,3
26 Aug	July	Non-governmental deposits (y-o-y, %)	2,9		5,8
26 Aug	July	M3 aggregate (y-o-y, %)	2,0		5,0
30 Aug	July	ILO unemployment (seasonally adjusted, %)	7,5		7,5
02 Sep	July	Retail trade turnover index (y-o-y, %)	1,0		-3,8
02 Sep	Aug	FX reserves (bn EUR)	32,2		33,4
03 Sep	July	Producer Price Index (y-o-y, %)			2,8
04 Sep	July	Net wage growth rate (y-o-y, %)			3,5
04 Sep	Q2	Detailed GDP (QoQ, seasonally adjusted)			0,3
06 Sep	July	Industrial trade turnover index (y-o-y, %)			6,8
06 Sep	July	Index value of new orders in manufacturing (y-o-y, %)			9,4

Private loans slumped further in July (-4.4% YoY) from -1.3% YoY in June. However, if we adjust for the significant FX effect (the leu appreciated by 3.6% YoY), the dynamics is still in the negative territory (-2.2% YoY). **The main driver have been the FX denominated corporate loans, which dropped as low as -6% YoY in July (adjusted for the FX effect)** whereas the RON component is still on the floating line (+2% YoY). On maturity types, only the medium term (1-5 years) segment is still in demand whereas short term component is adjusting drastically (-14% YoY). Looking at the retail component, the **mortgage loans are still growing nicely (+6.5% YoY) and the RON component is booming (+34% YoY)**, albeit from a very low base. The latter has been helped by **the lower RON interest rates and also by their longer term prospects**: the CB governor recently stated that it envisages RON rates comparable to the ones in foreign currency. Also, the fact that the state subsidized mortgage program “First House” functions only in RON will likely help this component.

The quarterly survey operated by the Central Bank revealed that **banks expect an increase of demand for mortgage loans in Q3 compared to a decrease in Q2**. Demand for consumer loan is seen in stagnation compared to an increase in Q2. The bad news hangs over the corporate sector where the weakness persists: **banks anticipate a further contraction of demand for corporate loans, just like in Q2**. Unfortunately, the dryness of corporate loans affects investments plans and therefore expansion and job creation.

Private savings also slowed down to 2.9% YoY from 5.8% YoY in June, but the headline figure is affected by the appreciation of the leu (3.6% YoY). However, if we adjust for the FX effect, the FX component is still up and running at a rhythm of 11% YoY (in original currency), but the LCY component is flat.

Private loans sank further to -4.4 % YoY in July, driven down by slower FX corporate loans


Source:NBR, OTP Research

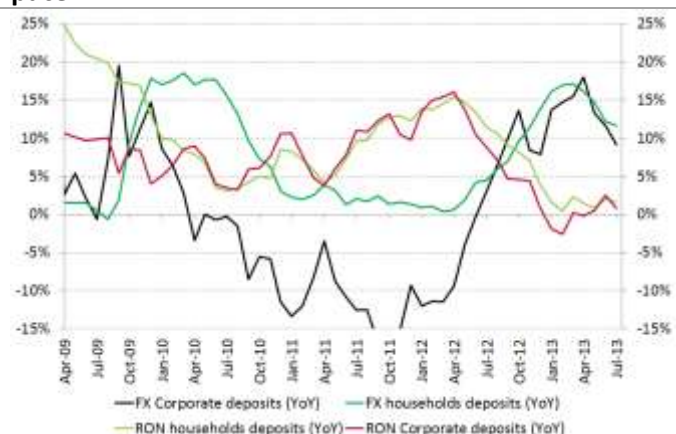
Private deposits dynamics slowed down to 2.9% YoY in July from 5.8% YoY in June


Source:NBR, OTP Research

Only medium term corporate loans are still selling


Source: NBR, OTP Research

The July detailed budget figures have been revealed. **The budget deficit dropped to 1% during the first 7M**, after having stagnated at 1.1% in the previous 2 months. The 12M rolling figures show that for the moment, the cash deficit could fall inside the planned amount. However, the dynamics of the personal income tax, VAT and excises are worrisome, showing a lower speed each month and a slower rhythm than what the revised budget implies for its realization. On the expenditures side, the lack of sufficient revenues has been compensated by much lower expenditures related to EU funds absorption and capital expenses. Also, operating expenditures are far behind the budgeted rhythm for 2013 which means that we are likely to see a catch up in the second part of the year, negatively affecting the bottom line.

FX denominated deposits are still growing at a healthy pace


Source: NBR, OTP Research

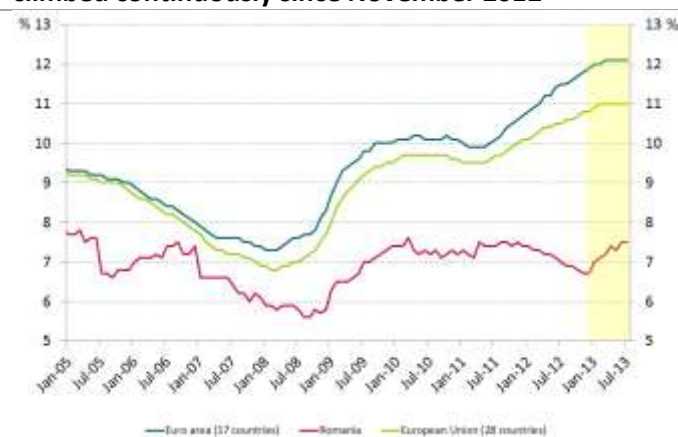
VAT and excises have worrisome dynamics; EU funds related expenses suffer as well as income side

	revised budget	12M rolling	Jan - March	Jan - June	Jan - July
	RON mn	RON mn	YoY	YoY	YoY
Total revenue	209.407	199.874	3,0%	-4,9%	-5,2%
Current income	195.935	190.294	4,8%	5,3%	5,9%
Fiscal income	122.468	119.080	6,0%	6,8%	7,7%
Income tax	35.294	34.140	3,0%	4,2%	6,7%
Corporate income tax	10.870	11.011	-10,2%	-5,5%	2,1%
Personal income tax	23.146	22.013	11,5%	9,3%	8,7%
Other tax on income, profit and capital	1.278	1.116	-4,8%	9,5%	25,3%
Property tax	4.494	4.323	4,8%	9,5%	10,0%
Taxes on goods and services	81.520	79.589	7,7%	8,0%	8,4%
Value added tax	53.175	51.848	9,5%	2,3%	4,9%
Excise duties	21.843	20.544	9,3%	4,2%	2,4%
Other	6.501	7.198	-14,4%	87,5%	80,5%
Taxes on international commerce	742	637	2,8%	-5,2%	-15,9%
Other fiscal taxes	419	391	16,0%	12,6%	10,6%
Social security contributions	54.428	52.987	3,6%	-4,3%	-4,4%
Non fiscal revenue	19.039	18.227	0,5%	-0,8%	-0,9%
Capital revenues	687	639	-4,2%	-2,2%	-4,1%
Donations	631	353	-78,3%	-45,6%	-57,6%
EU preaccession funds	12.154	7.955	-33,8%	-1,1%	-0,6%
Other		-367	92,2%	74,1%	2398,7%
Total expenditures	224.107	212.738	4,4%	4,4%	4,1%
Current expenditures	206.258	195.080	5,4%	5,5%	5,4%
Compensation of public employees	46.153	44.643	19,9%	18,1%	16,4%
Operating expenditures	39.767	35.799	11,3%	6,9%	7,4%
Interest paid	11.363	11.171	14,0%	0,7%	6,5%
Subsidies	5.243	6.230	13,9%	9,3%	3,1%
Total transfers	102.569	96.047	-2,9%	0,9%	0,8%
Expenses for programs with reimbursable funds	977	1.191	-38,3%	-36,9%	-45,9%
Capital expenses	17.849	18.330	-7,5%	-9,2%	-10,4%
Payments made in earlier years and recovered in the current year		-672	-16,6%	-8,2%	3,9%
Excedent (+)/Deficit (-)	14700	13864	23,8%	-2,4%	-13,7%

Source: The Ministry of Finance, The Fiscal Council, OTP Research

The unemployment rate remained unchanged in July, at 7.5% (seasonally adjusted) and the previous June figure was revised down from 7.6%.

The unemployment rate stagnated in July after having climbed continuously since November 2012



Source: NBR, 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%	2,0%	2,3%
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	1,0%	1,0%	3,0%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,4%	1,1%	1,6%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,9%	1,0%	7,5%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	6,4%	3,7%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,9%	1,4%	4,9%
Consumer prices (avg.)	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,3%	2,9%
Budget Balance (GDP%, ESA 95)	-2,9%	-5,7%	-9,0%	-6,8%	-5,6%	-2,9%	-2,9%	-2,9%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	34,7%	37,8%	38,4%	38,8%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-4,0%	-1,1%	-1,9%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,3	-1,6	-2,9
Unemployment	6,4%	5,8%	6,9%	7,3%	7,4%	7,1%	7,3%	7,1%
Nominal wage growth	21,8%	26,1%	4,8%	3,1%	4,1%	4,6%	5,0%	5,0%
Real wage growth	14,7%	16,5%	-1,5%	-3,7%	-1,9%	1,2%	0,7%	2,0%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	4,83%	4,00%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	4,25%	4,00%
EUR/RON (avg.)	3,34	3,68	4,24	4,21	4,24	4,46	4,41	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 is holding up well

The topic of US starting a war in Syria has caught most of the attention since it has started last week. The subject has lost some importance after the British Parliament refused to involve UK in such action and later on, when Mr. Obama asked permission from the Congress to start action in Syria. Also, the upward revision of Q2 GDP data in the US, to 2.5% YoY from 1.7%YoY, reinforced the views that the **Fed** will announce the start of slowing down asset purchases in its **meeting on 17-18 th September. This is by far the most important event of the month.** While this could affect the Romanian bond market in the future, we have not seen a large impact yet. What's more, the Treasury plans to sell RON 2.7 bn in medium and long term bonds in September and so far, this has been the preferred maturity of the non residents. In the short term, we also turn our attention to the Romanian equities market: the leu could gain some support against the euro, given the approaching date of the listing of a 10% stake in the state owned nuclear power producer Nuclearelectrica, which is scheduled to take place between 9 - 20 September. The government plans to sell 25.4 mn shares at a targeted price between 11.2 -15 RON/share. This is part of a wider plan, agreed with the IMF to privatize some stakes in state owned companies and non resident players affirmed their interest in the listings.

No surprise move in the past few weeks



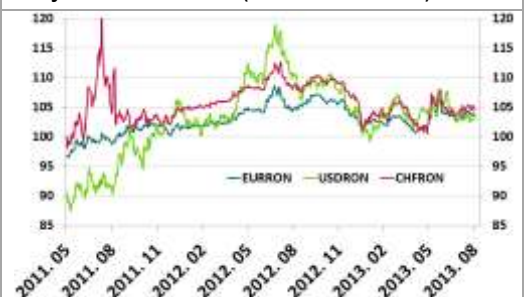
Sources: Reuters, OTP Research

Last data: 30.08.2013

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,43	↑	0,09	↓ -0,20
USDRON	3,35	↑	1,23	↓ -0,51
CHFRON	3,60	↑	0,33	↓ -2,06
RONJPY	3,41	↑	1,81	↓ -12,05
RONPLN	1,04	↓	-1,05	↓ -4,75
100HUFRON	1,47	↓	-0,95	↓ -3,64
RONCZK	0,17	↓	-0,29	↓ -2,88
RONRUB	0,10	↑	0,50	↓ -8,63
RONRSD	0,04	↓	-0,12	↓ -2,10
RONBGN	2,26	↑	0,00	↓ -0,32

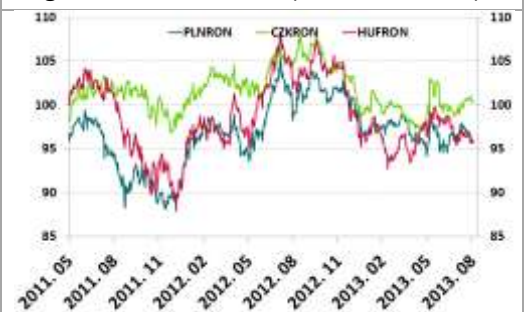
Source: Reuters

Major RON FX rates (03.01.2011=100)



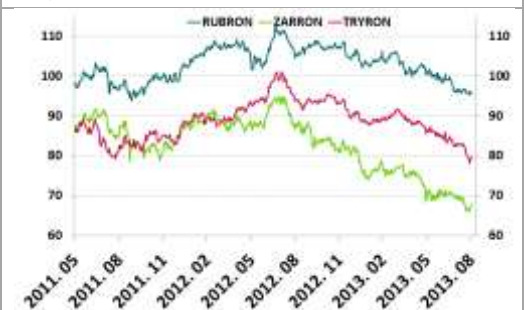
Sources: Reuters, OTP Research

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 Treasury plans to sell RON 3.7 bn in September

The yield curve shifted higher (by 7-13 bp) for the second consecutive week. Given that the CDS has not moved on a weekly basis, the rise seems to be have been supported by the temporary increase in money market rates. **Unlike other central banks in the region, the NBR just started the base rate cut cycle so we expect that this will be among the most important drivers in the next 2 quarters.** However, foreigners are important players too, as they hold 28% (as of May 2013) of the total issuances on the domestic market and the majority (71%) are in RON. Most of their holdings are medium and long term and the change of global investing strategies could cause swings too especially at the long end of the curve. The macro and political picture is likely to become more transparent past September: on 17th -18th September the Fed will give guidance on future monetary policy steps and on 22nd September Parliamentary elections will take place in Germany. Domestically, on 30th September the Central Bank will hold a board meeting on monetary policy issues.

Meanwhile, the Treasury has announced its September auctions calendar: it plans to sell RON 3.7 bn, more than in August (RON 2 bn). Of this amount, RON 1 bn is in 12M T-bills and the rest are 3y, 5y, 7y and 10y bonds.

Last data: 30.08.2013

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	3,89	↑ 9	↓ -230	
12M	3,98	↑ 8	↓ -219	
3Y	4,45	↑ 13	↓ -172	
5Y	4,75	↑ 9	↓ -146	
10Y	5,15	↑ 7	↓ -123	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	405	↑ 13	↓ -203	
GERROM 5Y	385	↑ 10	↓ -195	
GERROM 10Y	322	↑ 7	↓ -172	
3Y -5Y	30	↓ -3	↑ 26	
5Y -10Y	41	↓ -3	↑ 23	
3Y-10Y	70	↓ -6	↑ 49	
FLY 3-5-10	11	↑ 0	↓ -3	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	137	↑ 0	↑ 2	
5Y EURO	191	↑ 0	↓ -3	

Source: Reuters

Central bank benchmark fixing yields (%)



Sources: NBR, OTP Research

Slope of the yield curve (bp)



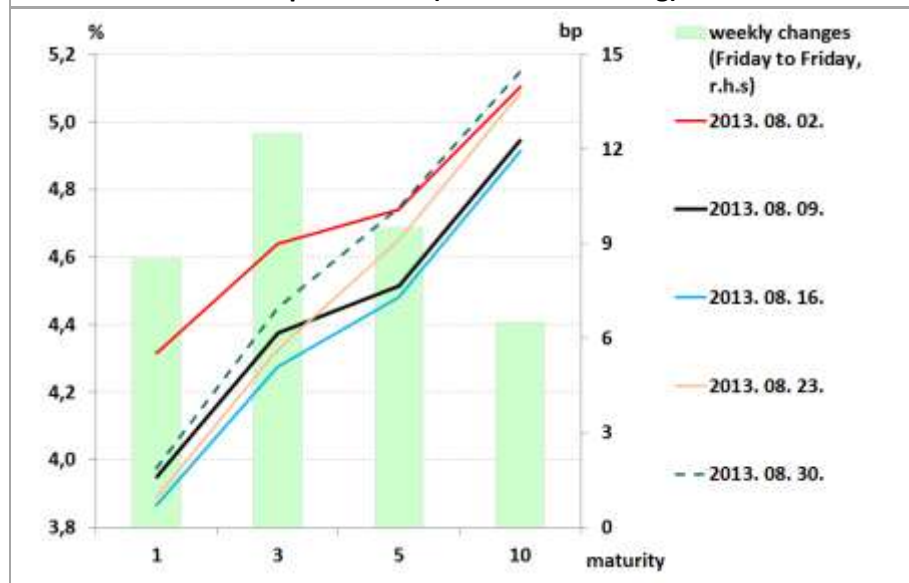
Sources: NBR, OTP Research

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 September (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1314CTN0C1	16.09.2013	18.09.2013	17.09.2014	12	1.000.000.000

Sources: Ministry of Finance, OTP Research

Bond auctions in September (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1316DBN053	09.09.2013	10.09.2013	11.09.2013	29.08.2016	3	4,75	1.000.000.000	100.000.000
RO1320DBN022	12.09.2013	-	16.09.2013	29.04.2020	7	5,75	500.000.000	-
RO1318DBN034	23.09.2013	24.09.2013	25.09.2013	28.11.2018	5	5,8	700.000.000	70.000.000
RO1323DBN018	26.09.2013	-	30.09.2013	26.04.2023	10	5,85	500.000.000	-

Sources: Ministry of Finance, OTP Research

Note: * Supplementary sessions of competitive offers

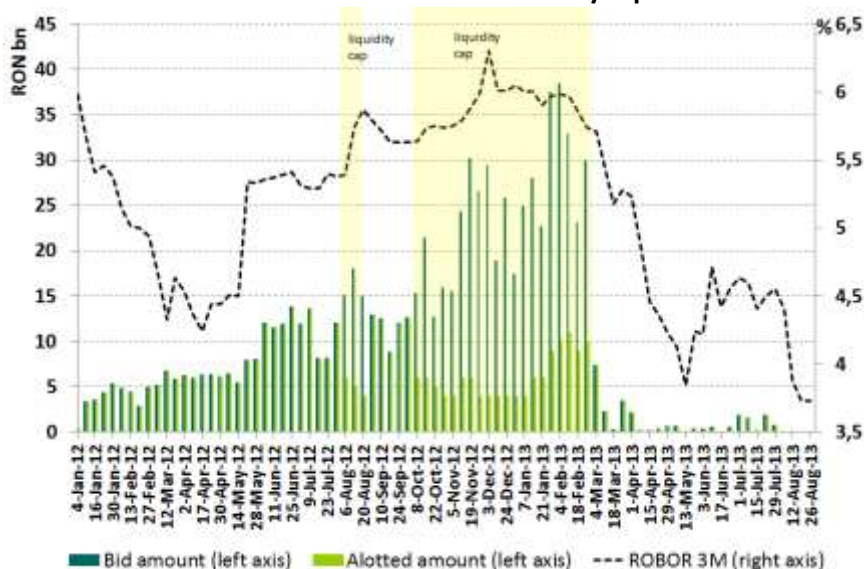
MM: Interest rates edged up temporarily

Last week, we continued to see money market rates climbing and **ROBOR ON gained 158 bp**. Liquidity injection at the weekly repo auction has been nearly zero in the past 5 weeks. Money market rates are lower than the base rate of 4.5% which applies for repo operations. There will be a net positive issuance of government debt this month and considering that banks avoided the repo auctions recently, money market rates have lower chances to ease this month.

Recently published interest rates data for **July** show that RON interest rates for **new loans granted to corporations dropped as low as 8.63%, which is a historical low**. Compared to December 2012, this is a downward adjustment of 116 bp. For households, the average rate for new loans is 11.43%: the overdraft rate is the highest (among loans to which variable rates apply), at 12.67% and **mortgage loans rate stands at 6.95%**.

Deposit rates have not dropped significantly more than new loans rates: term deposits rate in leu are roughly 100 bp lower than in December 2012. The spread between household deposit rates and companies is 72 bp and companies are offered 4.05% (July) on average for RON term deposits. Looking forward, we are expecting the base rate to drop as low as 4% until Q1 2014, which is likely to push down the pricing for loans and deposits.

5 consecutive weeks of no demand at the weekly repo auction



Sources: NBR, OTP Research

Last data: 30.08.2013

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	4,50	↔ 0	↓ -75
ROBOR ON	3,75	↑ 158	↓ -263
ROBOR 3M	3,78	↑ 6	↓ -225
ROBOR 6M	4,10	↑ 1	↓ -218
ROBOR 9M	4,16	↑ 4	↓ -212
ROBOR 1Y	4,16	↑ 4	↓ -215

REPO			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
repo amount	-	-142,5	- 3.995,3

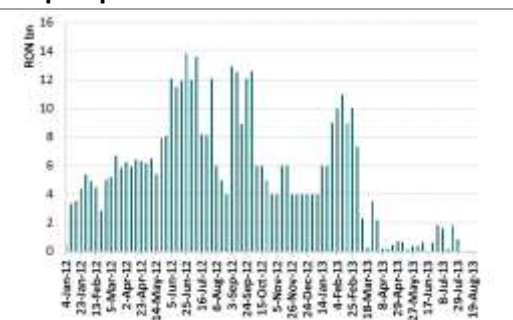
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.925,0	1815,9	2023,6

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	22	↑ 1	↓ -3
USDRON 1M	83	↑ 4	↓ -67
USDRON 3M	260	↑ 4	↑ 13
EURRON 1W	29	↑ 1	↓ -12
EURRON 1M	114	↑ 3	↓ -32
EURRON 3M	370	↓ -7	↓ -141

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

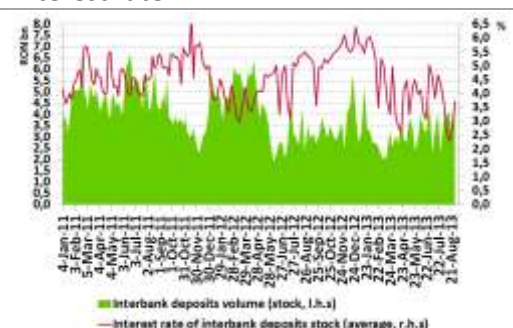
Source: Reuters

Repo operations since 2012



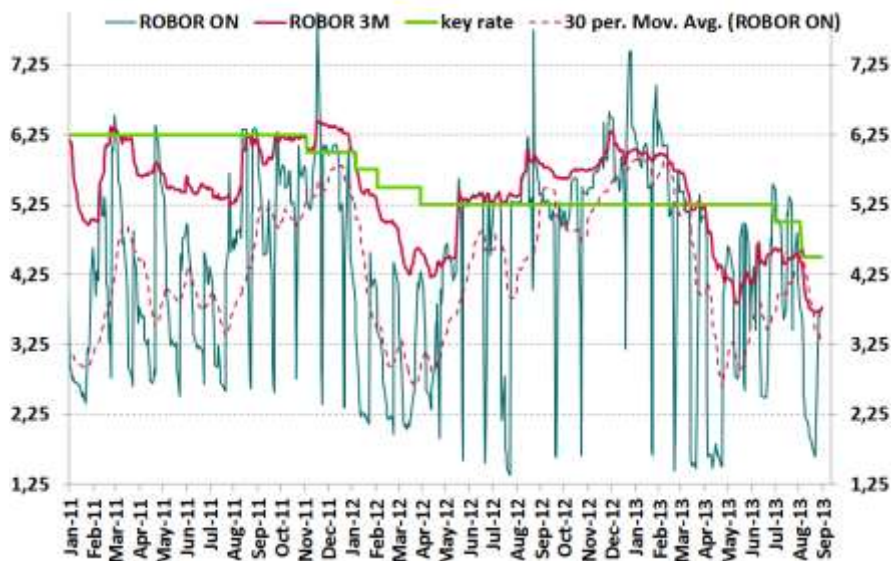
Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



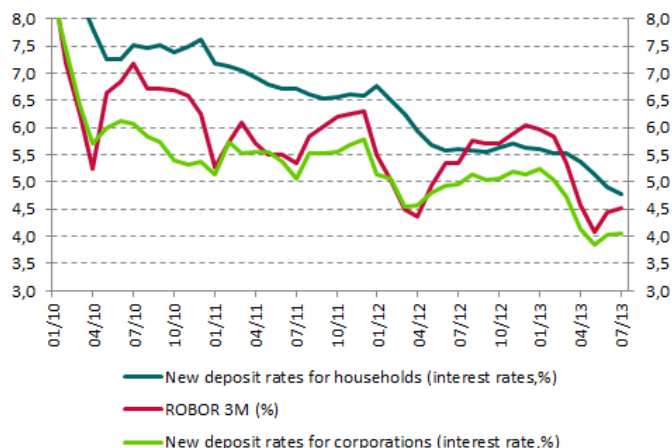
Sources: NBR, OTP Research

Most important MM instruments' evolution



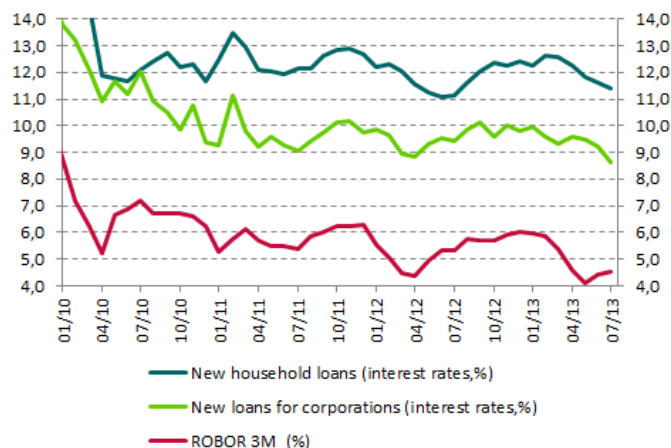
Sources: NBR, OTP Research

Deposit interest (RON) for households dropped to 4.77% in July from 4.92% in June



Sources: NBR, OTP Research

The interest rate for new household loans (RON) fell to 11.43% (July) from 11.64% (June)



Sources: NBR, OTP Research

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