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Weekly Report Romania

10 January 2013



Stronger than expected easing measures

Macroeconomics: Industrial sales up 2.5% YoY (Nov) and retail sales higher by +1.8% YoY (Nov); residential building permits back to life in urban areas (+28% YoY, Nov) (Page 3 – 5)

Retail trade climbed 1.8% YoY in November driven exclusively by the non-food component (+5.1% YoY) while fuels and food sales fell by 0.6% YoY each. This is encouraging considering that non –food items are expected to have a higher income elasticity of demand than foods. Overall, in Q4 retail sales were improved compared to Q3, which sends an optimistic sign in terms of consumption pickup. Industrial turnover and new orders rose by 2.5% YoY and 2.2% YoY respectively in November. So far in Q2 and Q3 domestic sales have been in the negative territory and the external demand was the upward driver. External trade was strong in November. Exports continued to advance significantly (+7.7% YoY). Imports came back as well (+6.1% YoY) compared to the previous month (+0.7% YoY) and this is in line with the signal sent by retail sales which points to increased consumption. Residential building licences took a 10% YoY leap in November. Also encouraging is the fact that the urban permits share in total permits has been rising progressively this year reaching 40% in November.

FX markets: the leu reacts to Central Bank's surprise (Page 6)

The effects of continued easing of monetary policy kicked in sooner than expected as the Central Bank operated a surprise cut in RON required reserves ratio, by 3 pp (and FX one was cut by 2pp). However, the governor has previously stated that a cut of RON reserves was on the cards in 2014. At the press release, the governor commented that the CB had more ammunition to continue with the monetary policy easing and pointed at reserves again. From his comments we read that NBR would allow more volatility but so far it has acted in gradual steps. Considering Fed starting tapering, the expected widening of the current account deficit and the new perception of the market players that NBR will continue to cut reserves this year, we do not see the leu recovering the loss in the short term.

Government securities: The surprise move of the CB pushed the yield curve lower by 15-50 bps (Page 7 - 8)

The yield curve shifted down between 15-50 bps this week after NBR operated a surprise cut in the reserves required ratio, for both RON and FX. The very low inflation rate seen for 2014 and the anchored inflation expectations prompted NBR to go on with easing measures. Aside from the monetary policy easing operated by NBR, the possibility that the ECB goes into the negative territory with deposit rate in H1 2014 may be another offsetting factor to Fed's announced tapering. At the moment, we are still looking for higher bonds yields by the end of H1 2014 compared to current levels.

MM: NBR cut the base rate as expected to 3.75% and lowered the required reserves for RON and FX (Page 9 - 10)

The Central Bank cut the base rate by 25 bps to 3.75% in a widely expected move. NBR slashed the required reserves ratio for FX liabilities by 2 pp to 18% which is estimated to free up EUR 500 mn. The decrease of RON required reserves by 3 pp to 12% was less of a surprise as the governor suggested before that such a move was on the cards. This is estimated to release RON 4 bn. Isarescu also pointed out that the CB had tools left for easing, especially given the size of required reserves ratio compared to Romania's peers and that NBR sees that annual inflation around 1% YoY in H1 2014. Considering this, we expect more relaxation in the form of additional base rate cut to 3.5% and do not exclude another cut in RON reserves ratio later this year. The current level of money market rates corresponds to an excess liquidity of RON 6-8 bn as estimated by NBR.

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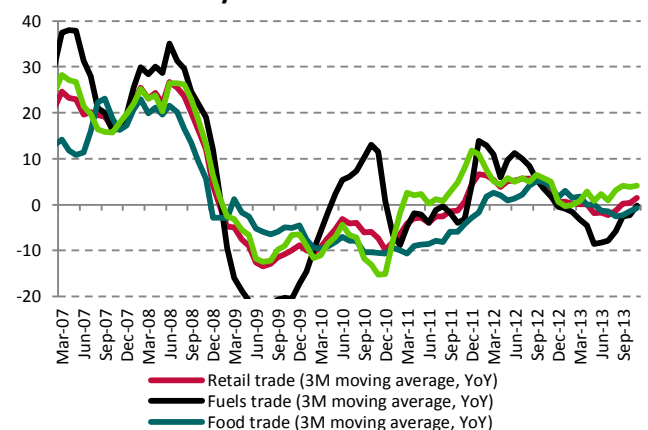
Macroeconomics: Industrial sales up 2.5% YoY (Nov) and retail sales higher by +1.8% YoY (Nov); residential building permits back to life in urban areas (+28% YoY, Nov)

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
07 Jan	Nov	Bulding permits (y-o-y, %)	10,0		-1,9
07 Jan	Nov	Producer Price Index (y-o-y, %)	-0,3		-0,7
08 Jan	Nov	Retail trade turnover index (y-o-y, %)	1,8		2,0
08 Jan	Nov	ILO unemployment (seasonally adjusted, %)	7,3		7,30
08 Jan	Jan	Base rate decision (%)	3,75	3,75	4,0
09 Jan	Nov	Exports (y-o-y, %)	7,7		12,0
09 Jan	Nov	Imports (y-o-y, %)	6,1		0,7
09 Jan	Nov	Industrial trade turnover index (y-o-y, %)	2,5		3,5
09 Jan	Nov	Index value of new orders in manufacturing (y-o-y, %)	2,2		10,4
13 Jan	Dec	Consumer price index (y-o-y, %)		1,5	1,8
13 Jan	Nov	Net wage growth rate (y-o-y, %)			4,1
13 Jan	Nov	Industrial Production Index (y-o-y, %)			10,7
13 Jan	Nov	Construction works index (y-o-y, %)			7,63
17 Jan	Nov	CA balance (EUR mn, YTD)			-955

Retail trade climbed 1.8% YoY in November driven exclusively by the non-food component (+5.1% YoY) while fuels and food sales fell by 0.6% YoY each. This is encouraging considering that non –food items are expected to have a higher income elasticity of demand than foods. Overall, **in Q4 retail sales were improved compared to the previous quarter** which sends an optimistic sign in terms of consumption pickup.

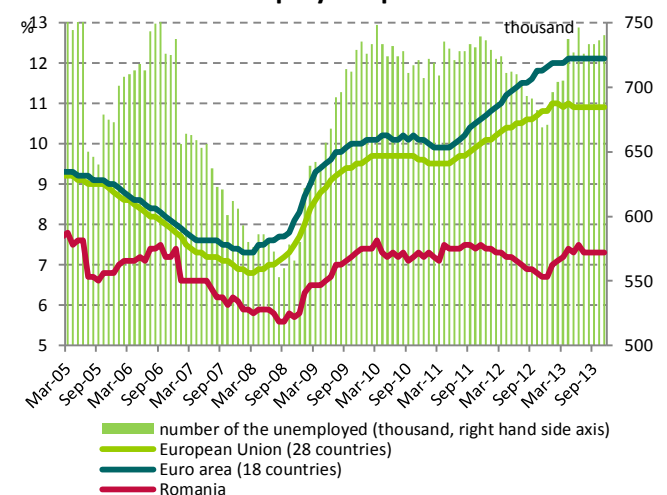
The unemployment rate remained unchanged at 7.3% in November and it has stagnated since July. The same phenomenon is true at EU level and eurozone, where the rate has been stagnating since May. **We are likely at an inflexion point** but the slow progress of the economy has prevented businesses from expanding and investments were hard to come last year. The number of unemployed expanded by 11% YoY to 740 thousands (seasonally adjusted).

Retail trade got stronger in Q4; In November only, sales advanced by 1.8% YoY



Source: NIS, OTP Research

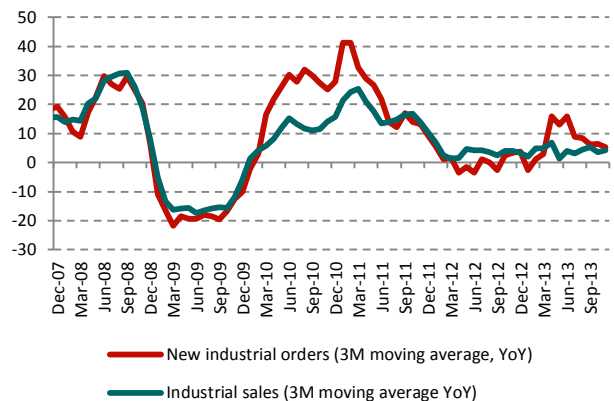
The unemployment rate unchanged since July (7.3%); The number of unemployed up 11% YoY in Nov



Source: Eurostat, OTP Research

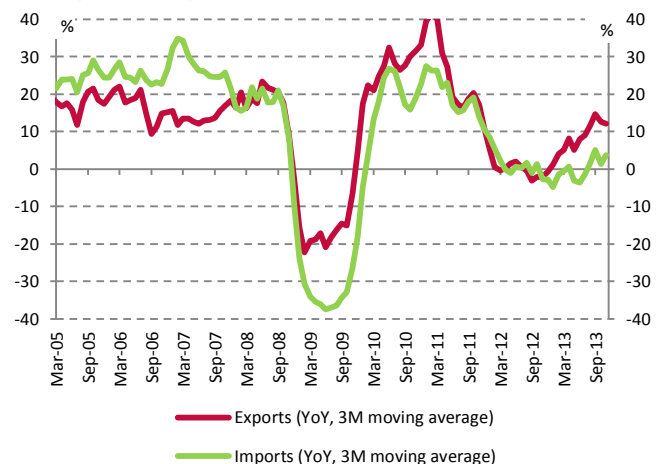
Industrial turnover and new orders rose by 2.5% YoY and 2.2% YoY respectively in November. This was a milder pace compared to October, especially in the case of new orders (+10% YoY in October). So far in Q2 and Q3 domestic sales have been in the negative territory and the external demand was the upward driver (+16% YoY in Q2 2013 and +19% YoY in Q3 2013) as opposed to domestic sales (-4% YoY in Q2 2013 and -3% YoY in Q3 2013). As the export figures for November show, external demand will likely continue to play the most important role in 2014 as well. **By far, the best sales evolution goes to capital goods category group (+15% YoY during first 11M) and worst goes to energy goods (-8% YoY in the first 11M).**

Industrial new orders and turnover slowed down their pace in November but still climbed 2% YoY



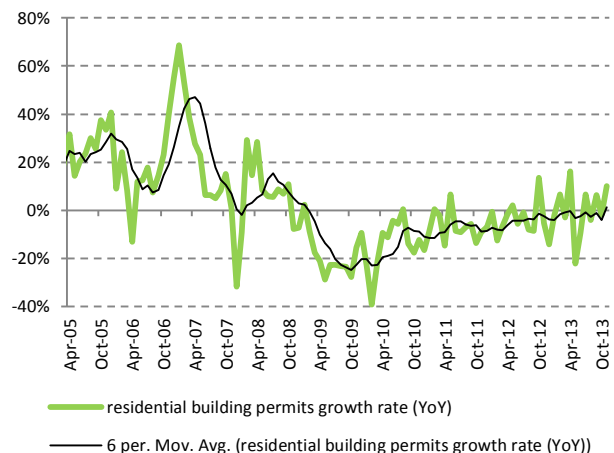
Source: NIS, OTP Research

External trade remains strong; imports came back (+6% YoY) after a weak month in October



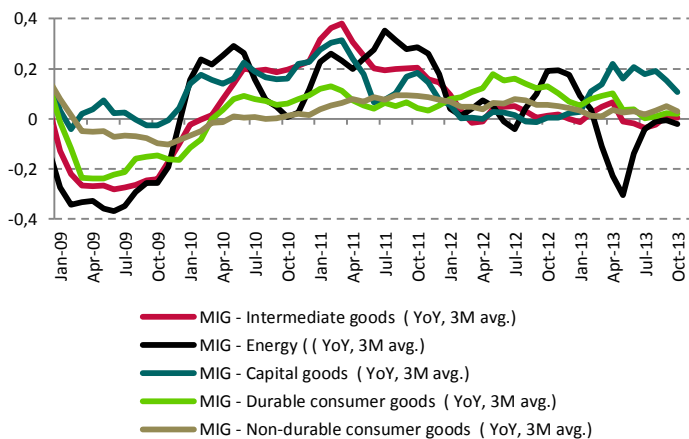
Source: NIS, OTP Research

For the first time since 2009 the 6M MA YoY evolution of residential building permits was positive; the share of urban permits rose this year



Source: NIS, OTP Research

Capital goods sales were top performers in 2013



Source: NIS, OTP Research

External trade was strong in November. Exports continued to advance significantly (+7.7% YoY). The main driver were the intra EU exports (+9.7% YoY) which make up to 70% of total exports. Machines and transport equipment are the largest export category (42%). Imports came back as well (+6.1% YoY) compared to the previous month (+0.7% YoY) and this is in line with the signal sent by retail sales which point to increased consumption.

Residential building licences took a 10% YoY leap in November and **for the first time since the crisis in 2009 we saw that the 6M moving average stepped into positive territory (+1.3% YoY).** Also encouraging is the fact that **the urban permits share in total permits has been rising this year progressively** and it stood at 40% in November only, after posting a 28% yoy growth rate.

Medium-term macroeconomic forecast

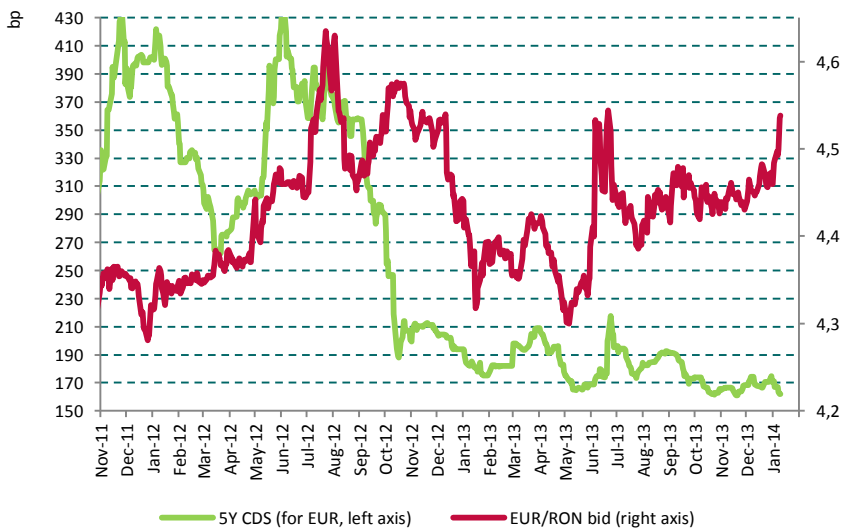
Main macroeconomic indicators							Forecast	
	2007	2008	Fact 2009	2010	2011	2012	2013	2014
Real GDP	6,3%	7,3%	-6,6%	-1,1%	2,2%	0,7%	2,5%	2,0%
Actual individual consumption of households								
Households consumption expenditure	12,0%	9,0%	-10,4%	-0,2%	1,2%	1,0%	0,7%	2,3%
Government consumption	2,5%	6,2%	9,5%	-13,7%	-0,3%	2,4%	-1,3%	1,4%
Gross fixed capital formation	30,3%	15,6%	-28,1%	-1,8%	7,3%	4,9%	-4,0%	4,5%
Exports	7,8%	8,3%	-6,4%	13,2%	10,3%	-3,0%	5,4%	5,9%
Imports	27,3%	7,9%	-20,5%	11,1%	10,0%	-0,9%	1,4%	6,9%
Consumer prices (avg.)	4,8%	7,8%	5,6%	6,1%	5,8%	3,3%	4,1%	2,4%
Budget Balance (GDP%, ESA 95)	-2,9%	-5,7%	-9,0%	-6,8%	-5,6%	-3,0%	-2,9%	-2,8%
Public debt (GDP %)	12,8%	13,4%	23,6%	30,5%	34,7%	37,9%	38,5%	39,1%
CA balance (% GDP)	-13,4%	-11,6%	-4,2%	-4,4%	-4,5%	-4,4%	-0,6%	-2,8%
CA balance (bn EUR)	-16,8	-16,2	-4,9	-5,5	-5,9	-5,8	-0,9	-4,2
Unemployment	6,4%	5,8%	6,9%	7,3%	7,4%	7,0%	7,5%	7,5%
Nominal wage growth	21,8%	26,1%	4,8%	3,1%	4,1%	4,6%	5,0%	4,9%
Real wage growth	14,7%	16,5%	-1,5%	-3,7%	-1,9%	1,2%	0,9%	2,4%
Key interest rate (avg.)	7,5%	9,7%	9,1%	6,5%	6,2%	5,33%	4,79%	3,52%
Key interest rate (e.o.p.)	7,5%	10,3%	8,0%	6,3%	6,0%	5,25%	4,00%	3,50%
EUR/RON (avg.)	3,34	3,68	4,24	4,21	4,24	4,46	4,42	4,46
EUR/RON (e.o.p.)	3,61	3,99	4,23	4,28	4,32	4,43	4,47	4,44

Source: Eurostat, NBR, OTP Research

FX markets: the leu reacts to Central Bank's surprise

The effects of continued easing of monetary policy kicked in sooner than expected as the Central Bank operated a surprise cut in RON required reserves ratio, by 3 pp (and FX ones were cut by 2pp). However the governor has previously stated that a cut of RON reserves was on the cards in 2014. At the press release, **the governor commented that the Central Bank had more ammunition to continue with the monetary policy easing and pointed at reserves again** which are rather high in a peer comparison. He also mentioned that a 1% depreciation of the leu was "normal" and more attention should be paid to a weakening higher than 5% included. This comment emphasized again that the NBR would allow more volatility but so far NBR has acted in gradual steps. **A depreciation of the leu was expected** (especially in H1 2014 as we mentioned in our previous weekly report in December) considering several factors: **Fed starting tapering, the widening of the current account deficit**, possible exit of some players from the bond market and also due to tensions surrounding elections. **Given the new expectations of the market for further release of reserves this year and the above mentioned factors, we do not expect the leu to recover the loss in the short term.**

The EUR/RON up close to 2% this year after Central Bank's surprise decision to lower RON reserves



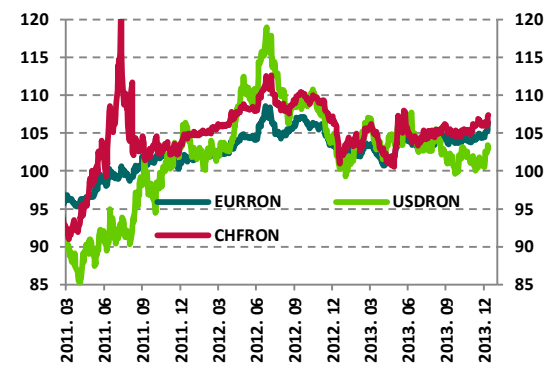
Sources: Reuters, OTP Research

Last data: 9.01.2014

FX BID				
	Value	Weekly chg. (%)	YTD chg. (%)	
EURRON	4,54	↑ 1,14	↑ 1,68	
USDRON	3,33	↑ 1,94	↑ 2,81	
CHFRON	3,68	↑ 1,09	↑ 1,00	
RONJPY	3,18	↑ 1,70	↑ 3,12	
RONPLN	1,08	↑ 1,20	↑ 1,22	
100HUFRON	1,51	↑ 0,89	↑ 0,98	
RONCZK	0,17	↑ 1,60	↑ 1,35	
RONRUB	0,10	↑ 1,41	↑ 1,64	
RONRSD	0,04	↑ 0,58	↑ 0,88	
RONBGN	2,32	↑ 1,29	↑ 1,61	

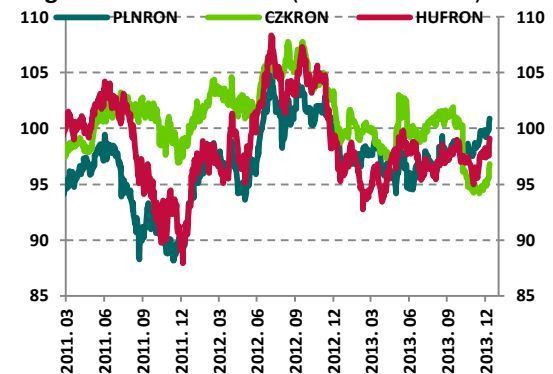
Source: Reuters

Major RON FX rates (03.01.2011=100)



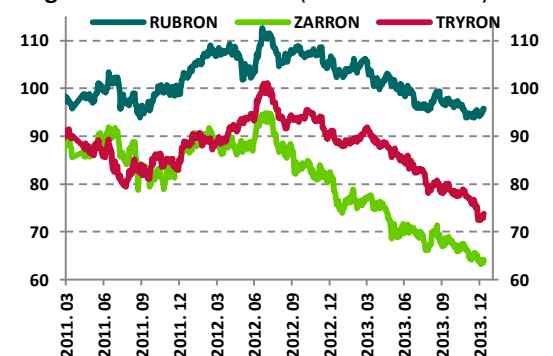
Sources: Reuters, OTP Research

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 surprise move of the CB pushed the yield curve lower by 15-50 bps

The yield curve shifted down significantly this week (between 15-50 bps) after NBR operated a surprise cut in the reserves required ratio, for both RON and FX. The very low inflation rate seen for 2014 and the anchored inflation expectations prompted NBR to go on with easing measures. Aside from the monetary policy easing operated by NBR, the possibility that the ECB goes in the negative territory with deposit rate in H1 2014 may be another offsetting factor to Fed's announced tapering. **However, at the moment, we are still looking for higher bonds yields by the end of H1 2014 compared to current levels.**

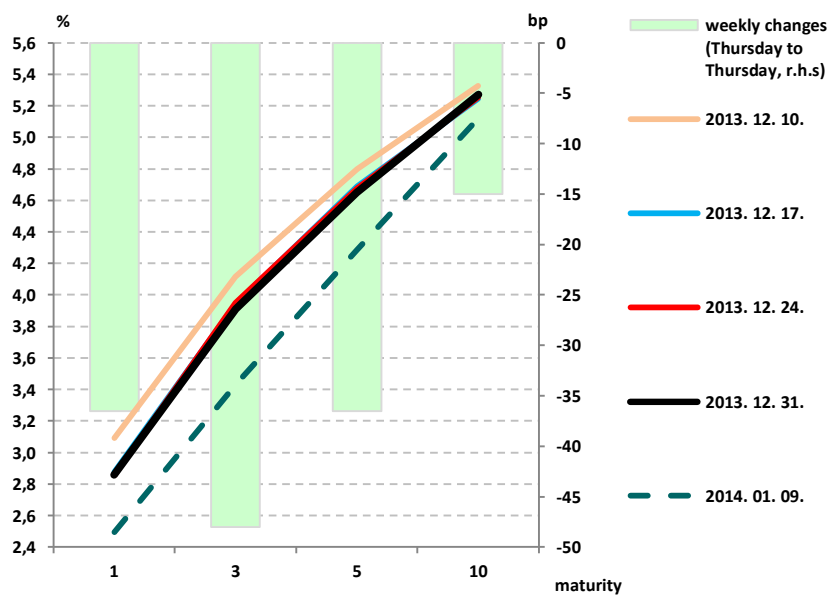
Demand for government securities was strong this week and bid to cover ratio stood at 3.7 in the case of 3Y bonds and 3.4 in the case of the 6M T-bills. **The Treasury sold RON 1.8 bn at lower yields:** 2% in the case of 6M T-bills, lower by 78 bps compared to early December. The 3Y bonds (2.6Y residual maturity) had an average accepted yield of 3.92%, lower by 5 bps compared to the end of December. The planned amount for this month is RON 3.8 bn and EUR 200 mn.

This week's auction results (RON denominated)

	RO1414CTN019	RO1316DBN053
Offered amount (mn RON)	500	700
Total bids (mn RON)	3524	2817
Accepted amount (mn RON)	1023	755
Average accepted yield (%)	2,00	3,92
Coupon	-	4,75

Source: NBR, OTP Research

Yield curve over the past weeks (Central Bank fixing)



Source: NBR, OTP Research

Last data: 9.01.2014

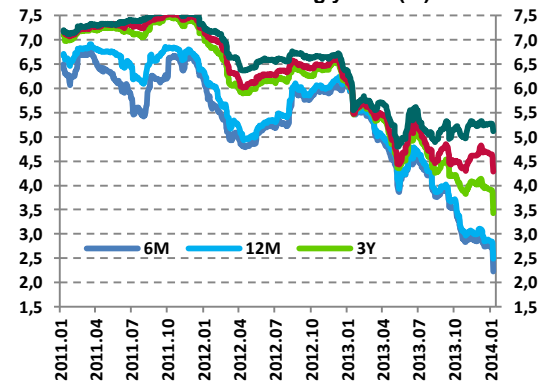
RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	2,23	↓ -50	↓ -53	
12M	2,50	↓ -36	↓ -37	
3Y	3,43	↓ -48	↓ -48	
5Y	4,29	↓ -36	↓ -37	
10Y	5,12	↓ -15	↓ -15	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	306	↓ -48	↓ -46	
GERROM 5Y	335	↓ -36	↓ -37	
GERROM 10Y	318	↓ -15	↓ -14	
3Y -5Y	86	↑ 12	↑ 12	
5Y -10Y	84	↑ 21	↑ 22	
3Y-10Y	169	↑ 33	↑ 33	
FLY 3-5-10	-2	↑ 9	↑ 10	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	108	↓ -5	↓ -9	
5Y EURO	162	↓ -5	↓ -9	

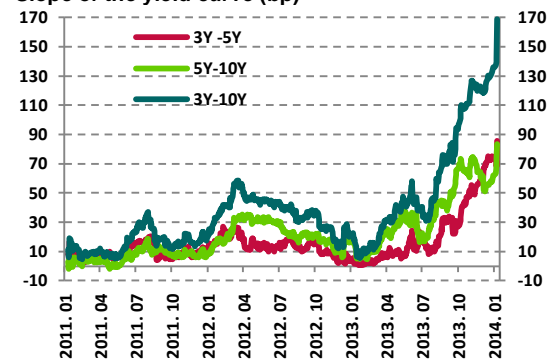
Source: Reuters

Central bank benchmark fixing yields (%)



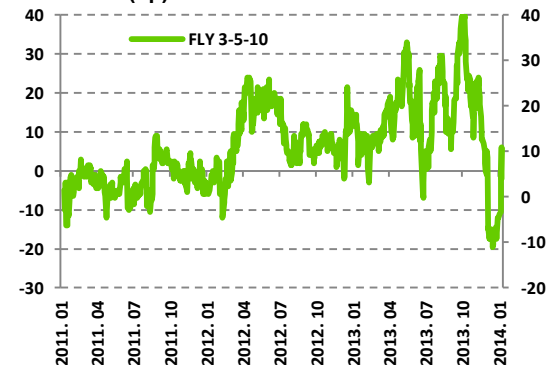
Sources: NBR, OTP Research

Slope of the yield curve (bp)



Sources: NBR, OTP Research

FLY 3-5-10 (bp)



Sources: NBR, OTP Research

T - bills auctions in January (in RON)

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1414CTN019	09.01.2014	13.01.2014	14.07.2014	6	500.000.000
RO1415CTN024	23.01.2014	27.01.2014	26.01.2015	12	1.000.000.000

Sources: Ministry of Finance

Bond auctions in January (in RON)

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Residual Maturity (years)	Cupon	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1316DBN053	06.01.2014	07.01.2014	08.01.2014	29.08.2016	2,6	4,75	700.000.000	70.000.000
RO1121DBN032	13.01.2014	14.01.2014	15.01.2014	11.06.2021	7,4	5,95	500.000.000	50.000.000
RO1227DBN011	16.01.2014	17.01.2014	20.01.2014	26.07.2027	13,5	5,8	100.000.000	10.000.000
RO1318DBN034	20.01.2014	21.01.2014	22.01.2014	28.11.2018	4,9	5,6	500.000.000	50.000.000
RO1323DBN018	27.01.2014	28.01.2014	29.01.2014	26.04.2023	9,2	5,85	500.000.000	50.000.000

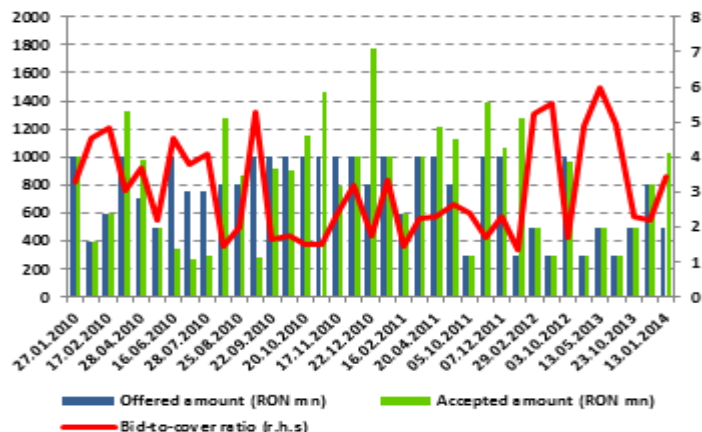
Sources: Ministry of Finance

Note: * Supplementary sessions of competitive offers

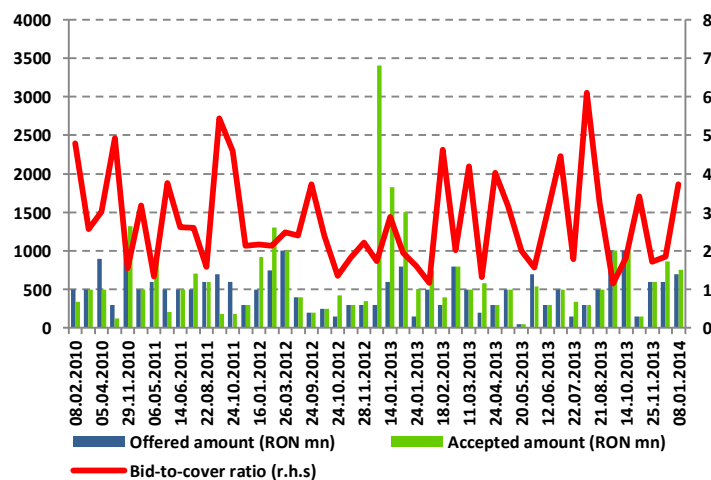
Bond auctions in January (in EUR)

ISIN	Auction date	Settlement date	Maturity	Residual maturity (years)	Indicative target amount (EUR)
RO1419DBE013	23.01.2014	27.01.2014	21.01.2019	3,4	200.000.000

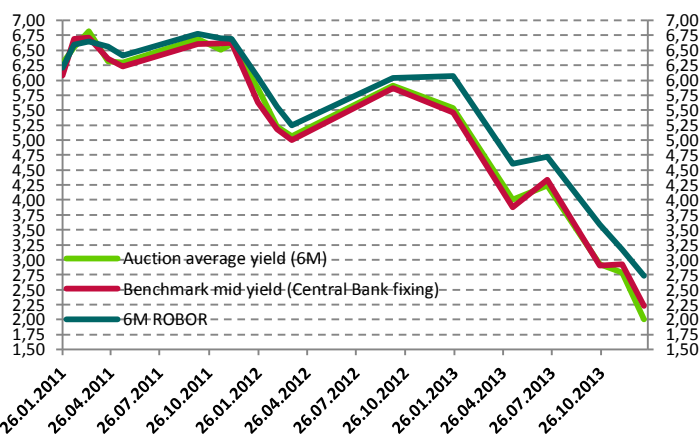
Sources: Ministry of Finance

6M Auctions data


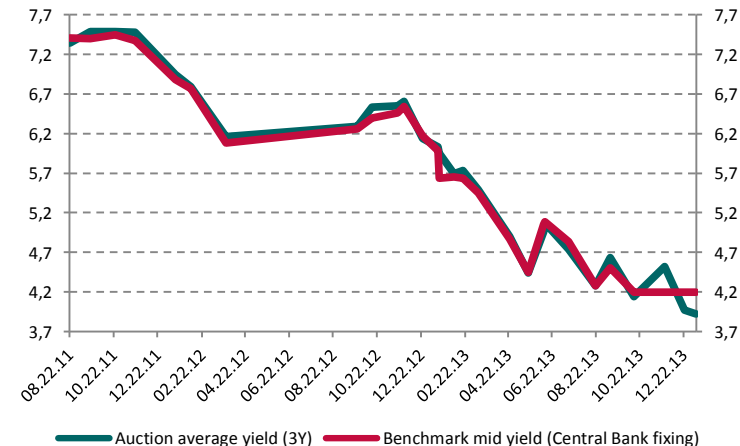
Sources: NBR, OTP Research

3Y Auctions data


Sources: NBR, OTP Research

6M Interest rates (RON)


Sources: NBR, OTP Research

3Y Interest rates (RON)


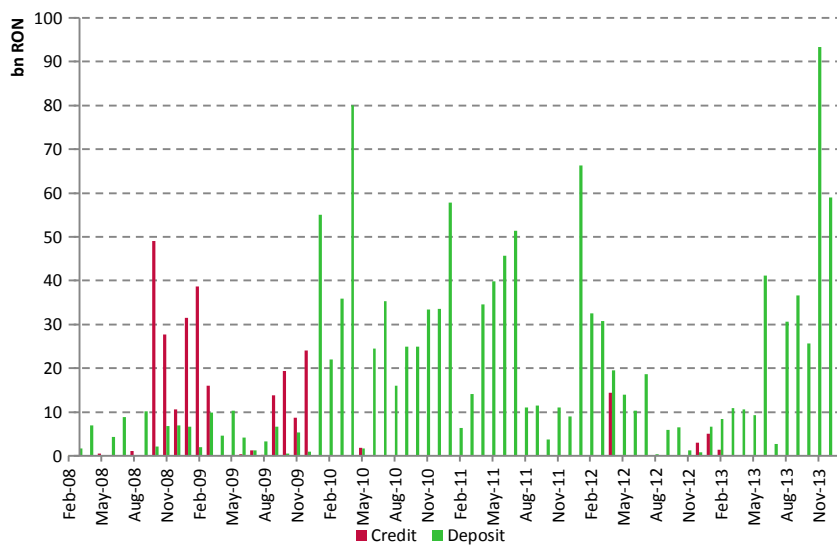
Sources: NBR, OTP Research

MM: NBR cut the base rate as expected to 3.75% and lowered the required reserves for RON and FX

The Central Bank cut the base rate by 25 bps to 3.75% in a widely expected move. Surprisingly, NBR slashed the required reserves ratio for FX liabilities by 2 pp to 18% which is estimated to free up EUR 500 mn. The decrease of RON required reserves by 3 pp to 12% was less of a surprise as the governor suggested before that such a move was on the cards. This is estimated to release RON 4 bn. The easing of monetary policy is justified given the inflation expectations for next year (the NBR sees it around 1% YoY in H1 2014) and the lack of lending (private loans dropped by 4.1% YoY in November). Isarescu also pointed out that the CB had more tools left to continue relaxing the monetary policy, especially given the size of required reserves ratio compared to Romania's peers. Considering this and the low inflation pressure, **we expect more relaxation in the form of additional base rate cut to 3.5% and do not exclude another cut in RON reserves ratio later this year.**

According to Mugur Isarescu, liquidity is unevenly distributed in the banking system, thereby some banks may use this as an opportunity to lend more while others could repay debt. **The current level of money market rates corresponds to an excess liquidity of RON 6-8 bn as estimated by NBR.** December data showed that the ON deposit at the standing facility remained high, having a daily average of RON 3 bn.

Deposits to the ON standing facility offered by the CB were still high in December, at a daily average of RON 3 bn



Sources: NBR, OTP Research

Last data: 9.01.2014

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	3,75	↓ -25	↓ -25
ROBOR ON	1,18	↓ -48	↓ -56
ROBOR 3M	2,16	↓ -28	↓ -28
ROBOR 6M	2,79	↓ -20	↓ -20
ROBOR 9M	2,96	↓ -14	↓ -14
ROBOR 1Y	3,03	↓ -13	↓ -12

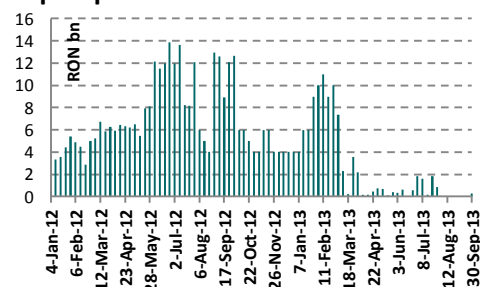
INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	3.192,5	-1446,7	-1446,7

MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	5	↓ -4	↓ -4
USDRON 1M	29	↓ -7	↓ -6
USDRON 3M	104	↓ -13	↓ -13
EURRON 1W	6	↓ -6	↓ -4
EURRON 1M	39	↓ -8	↓ -6
EURRON 3M	169	↓ -83	↓ -8

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

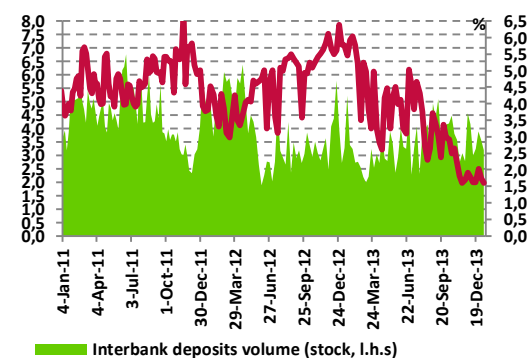
Source: Reuters

Repo operations since 2012



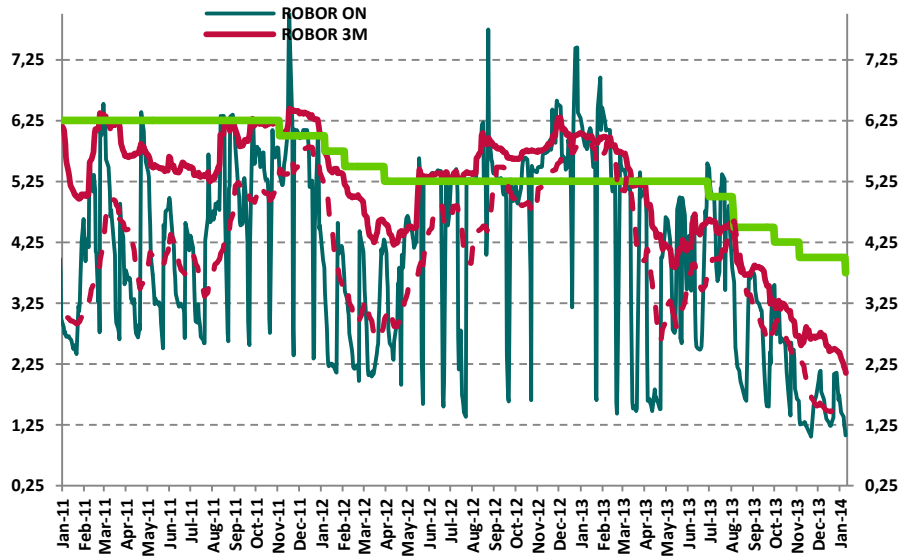
Sources: NBR, OTP Research

Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

Most important MM instruments' evolution



Sources: NBR, OTP Research

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