

## Headquarter Treasury Sales

### Head of Sales

**Marius George Ionescu**  
+40755 000 437  
marius.ionescu@otpbank.ro

### Alina Elena Vrabioiu

+4021 307 58 17  
alina.vrabioiu@otpbank.ro

### Tania Fantana

+4021 307 58 17  
tania.fantana@otpbank.ro

### Alexandru Tibuleac

+4021 307 58 17  
alexandru.tibuleac@otpbank.ro

## Regional Treasury Sales

### Cezar Trandafirescu - Iasi

+40755 000 246  
cezar.trandafirescu@otpbank.ro

### Szilamer Kozma – Cluj

+40755 000 400  
szilamer.kozma@otpbank.ro

### Valentin Cioraneanu – Brasov

+40755 000 464  
valentin.cioraneanu@otpbank.ro

### Radu Oprea – Bucharest

+40755 000 474  
radu.oprea@otpbank.ro

# Weekly Report Romania

24 February 2013



## RON yields continued to climb

### FX markets: Political deadlock continues (Page 3)

The two leading parties of the current governing coalition did not reach an understanding regarding their political future. PNL has asked PSD to bring an end to the USD alliance which excludes PNL. Meanwhile, two prime ministers under PNL wing resigned from their duties at the Ministry of Finance and the Ministry of Economy. PNL refused to propose new names so the PM Victor Ponta is now acting as an interim minister of finance and Constantin Nita is in charge for the Ministry of Economy. The breakup of the current governing formula seems under way and USD alliance has good chances of gaining a parliamentary majority. Given the uncertainty of measures to be taken by another ruling coalition, the leu is under pressure and it lost 0.6% on a weekly basis. Adding to the domestic situation, the release of the Fed's minutes from the last monetary policy decision made clear on more time Fed's determination to move on with tapering. Also, a better than expected US PMI for February released by Markit helped to alleviate some concerns over the actual strength of the US economy. Last week's events indicate that depreciation pressures on the leu will characterize the months to come.

### Government securities: high redemptions in the next two months (Page 4 - 5)

The Treasury had to cancel an auction again last week, as yields upward pressures persisted. It rejected all bids for the RON 1.2 bn planned sales in 1Y bonds which was in fact rescheduled for 20 February, after the insuccess witnessed earlier. Last week, two factors drove the yield curve higher by 4 to 23 bps. First, there was the persistent political noise and failed attempts at reconciliation of the two main leaders of the current governing coalition. Second, the release of the Fed's minutes from the January's board meeting, which reemphasized Fed's will to continue tapering. The domestic affairs are expected to be cleared on Tuesday when the political leaders meet again to decide the fate of the governing coalition. Given the current state of events, we expect yields to remain under pressure for the moment. On Monday, the Ministry of Finance sold bonds with a residual maturity of 2.4Y at an average accepted yield of 4.08%. Demand was weak, the bid to cover ratio stood at 1.27. On Thursday, it also managed to sell 5Y bonds in euro at 3.3%. So far this month, the sales amounted to RON 1.4 bn and EUR 200 mn and they fell short of planned sales by RON 1.8 bn. This month's redemptions are low, but in the coming two months redemptions fall around RON 5.3 bn/month, higher than the usual monthly average (for example, the monthly average stood at RON 4 bn in 2013).

### MM: Liquidity conditions tightened further (Page 6)

The ON rate eased last week, as banks entered the final week of maintenance period for required reserves. However, liquidity became even scarcer for longer maturities (3M included) and ROBOR rates jumped 12 to 17 bps, landing above the base rate of 3.5%. Next two months, net issuance of government securities will likely be negative, considering the high monthly average of RON 5.3 bn in redemptions and the fact that pressure on yields could prevent the Treasury from raising a high amount of RON denominated debt. This should support better liquidity conditions but given that depreciation pressure of the leu is likely to persist, the Central Bank could keep a tight control of liquidity.

#### Chief Economist

**Gergely Tardos**

+36 1 374 7273

tardosg@otpbank.hu

#### Macro Analysts

**Gábor Dunai**

+36 1 374 7272

dunaig@otpbank.hu

**Győző Eppich**

+36 1 374 7274

eppichgyo@otpbank.hu

**Szilárd Kondora**

+36 1 374 7275

kondorasz@otpbank.hu

**Bálint Szaniszló**

+36 1 374 7271

szaniszllob@otpbank.hu

**Mihaela Neagu**

+4021 307 58 64

mihaela.neagu@otpbank.ro

**Rodion Lomivorotov**

+7 495 783-5400 (2761)

r.lomivorotov@otpbank.ru

#### Sector Analyst

**Orsolya Rátkai**

+36 1 374 7270

ratkaio@otpbank.hu

**Piroska Szabó**

+36 1 374 7276

szabopb@otpbank.hu

#### Technical Analyst

**András Salamon**

+36 1 374 7225

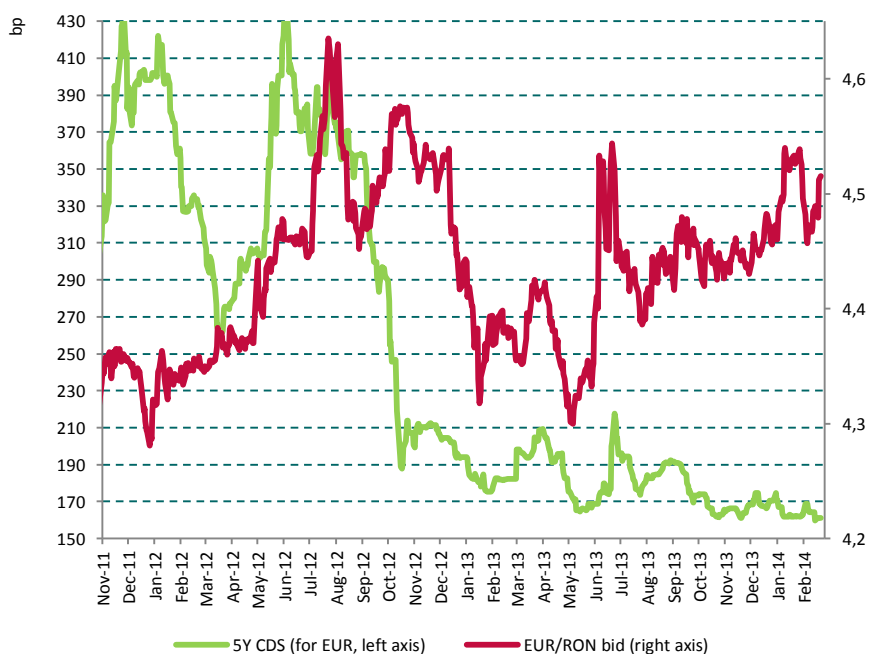
salamona@otpbank.hu

## FX markets: Political deadlock continues

The two leading parties of the current governing coalition did not reach an understanding regarding their political future. PNL has asked PSD to bring an end to the USD alliance which excludes PNL. Meanwhile, two prime ministers under PNL wing resigned from their duties at the Ministry of Finance and the Ministry of Economy. PNL refused to propose new names so the PM Victor Ponta is now acting as an interim minister of finance and Constantin Nita is in charge for the Ministry of Economy. **The breakup of the current governing formula seems under way** and USD alliance has good chances of gaining a parliamentary majority. Given the uncertainty of measures to be taken by another ruling coalition, the leu is under pressure and it lost 0.6% on a weekly basis.

Adding to the domestic situation, the release of the Fed's minutes from the last monetary policy decision made clear on more time Fed's determination to move on with tapering. Also, a better than expected US PMI for February released by Markit helped to alleviate some concerns over the actual strenght of the US economy. **Last week's events indicate that depreciation pressures on the leu will characterize the months to come.**

### The leu weakened 0.6% last week



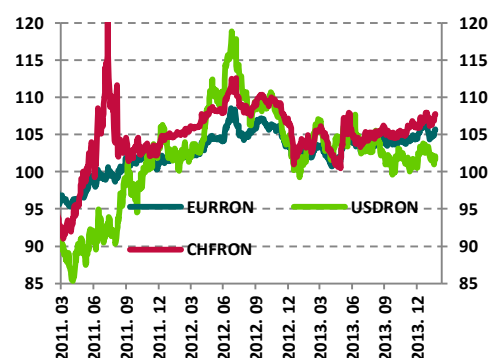
Sources: Reuters

Last data: 20.02.2014

FX BID				
	Value		Weekly chg. (%)	YTD chg. (%)
EURRON	4,51	↑	0,62	↑ 1,22
USDRON	3,29	↑	0,31	↑ 1,46
CHFRON	3,70	↑	0,76	↑ 1,50
RONJPY	3,22	↑	0,29	↑ 4,50
RONPLN	1,08	↑	0,52	↑ 1,01
100HUFRON	1,45	↑	0,31	↓ -3,37
RONCZK	0,16	↑	1,23	↑ 1,23
RONRUB	0,09	↓	-1,50	↓ -6,66
RONRSD	0,04	↑	0,63	↑ 0,02
RONBGN	2,31	↑	0,65	↑ 1,27

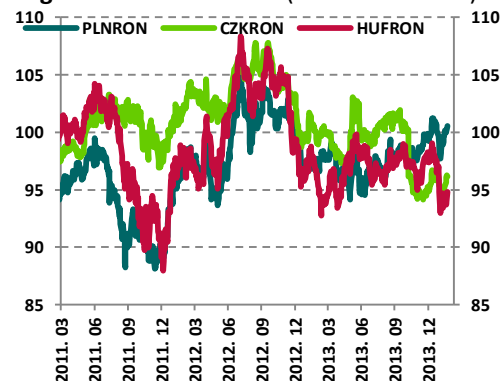
Source: Reuters

### Major RON FX rates (03.01.2011=100)



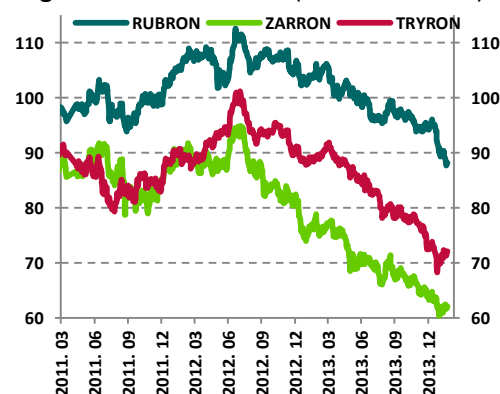
Sources: Reuters

### Regional RON FX rates I. (03.01.2011=100)



Sources: Reuters

### Regional RON FX rates II. (03.01.2011=100)



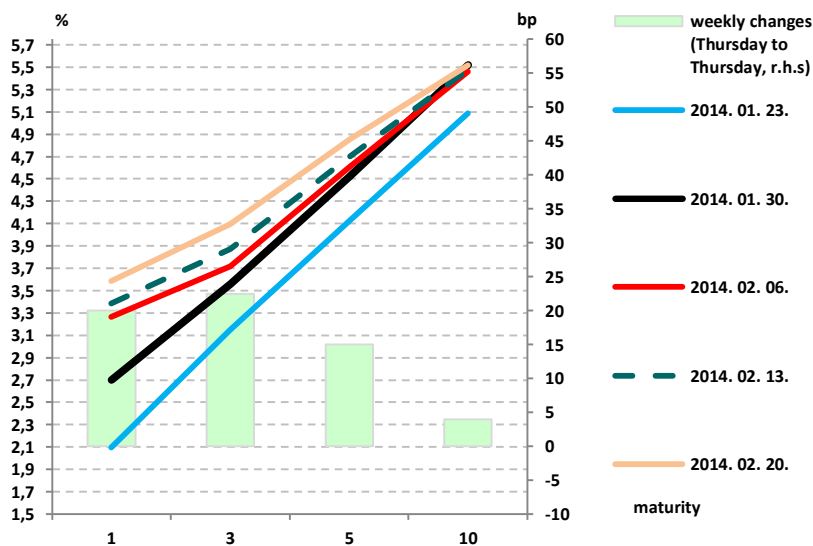
Sources: Reuters

### Government securities: high redemptions in the next two months

The Treasury had to cancel an auction again last week, as yields upward pressures persisted. It rejected all bids for the RON 1.2 bn planned sales in 1Y bonds which was in fact rescheduled for 20 February, after the insuccess witnessed earlier. Last week, two factors drove the yield curve higher by 4 to 23 bps. First, there was the **persistent political noise** and failed attempts at reconciliation of the two main leaders of the current governing coalition. Second, the release of the **Fed's minutes** from the January's board meeting, which **reemphasized** Fed's will to continue **tapering**. The domestic affairs are expected to be cleared on Tuesday when the political leaders meet again to decide the fate of the governing coalition. **Given the current state of events, we expect yields to remain under pressure for the moment.**

On Monday, the Ministry of Finance sold bonds with a residual maturity of 2.4Y at an average accepted yield of 4.08%. Demand was weak, the bid to cover ratio stood at 1.27. On Thursday, it also managed to sell 5Y bonds in euro at 3.3%. So far this month, the sales mounted to RON 1.4 bn and EUR 200 mn and they fell short of planned sales by RON 1.8 bn. **This month's redemptions are low, but in the coming two months redemptions fall around RON 5.3 bn/month, higher than the usual monthly average** (for example, the monthly average stood at RON 4 bn in 2013).

Yield curve over the past weeks (Central Bank fixing)



Source: NBR

Last data: 20.02.2014

RON GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
6M	3,44	↑ 18	↑	69
12M	3,59	↑ 20	↑	73
3Y	4,10	↑ 23	↑	19
5Y	4,85	↑ 15	↑	20
10Y	5,52	↑ 4	↑	25

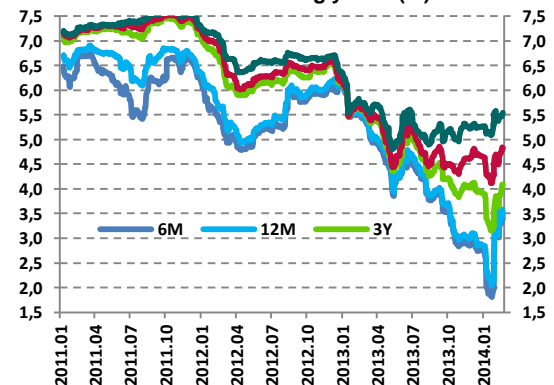
SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERROM 3Y	394	↑ 22	↑	42
GERROM 5Y	419	↑ 15	↑	48
GERROM 10Y	385	↑ 4	↑	52
3Y -5Y	76	↓ -8	↑	1
5Y -10Y	67	↓ -11	↑	5
3Y-10Y	142	↓ -18	↑	6
FLY 3-5-10	-9	↓ -3	↑	3

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	107	↓ -3	↓	-10
5Y EURO	161	↓ -3	↓	-10

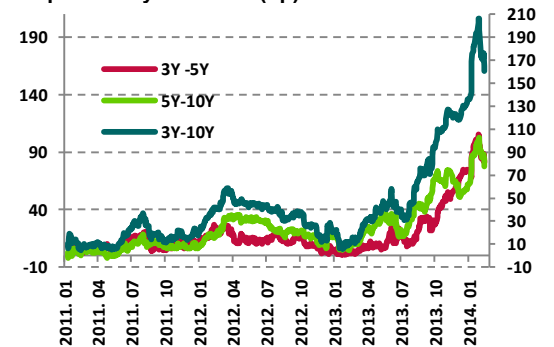
Source: Reuters

Central bank benchmark fixing yields (%)



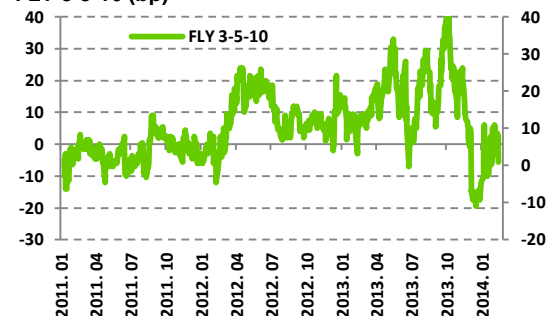
Sources: NBR

Slope of the yield curve (bp)



Sources: NBR

FLY 3-5-10 (bp)



Sources: NBR

**T - bills auctions in February (in RON)**

ISIN	Auction date	Settlement date	Maturity	Months	Indicative target amount (RON)
RO1415CTN032	03.02.2014	05.02.2014	04.02.2015	12	1.200.000.000

Sources: Ministry of Finance

**Bond auctions in February (in RON)**

ISIN	Auction date	SSON auction date	Settlement date	Maturity	Years	Residual Maturity	Indicative target amount (RON)	Indicative target amount SSON* (RON)
RO1121DBN032	06.02.2014	07.02.2014	10.02.2014	11.06.2021	10,0	7,37	600.000.000	60.000.000
RO0717DBN038	10.02.2014	11.02.2014	12.02.2014	11.06.2017	10,0	3,37	800.000.000	80.000.000
RO1323DBN018	13.02.2014	14.02.2014	17.02.2014	26.04.2023	10,0	9,25	100.000.000	10.000.000
RO1116DBN024	17.02.2014	18.02.2014	19.02.2014	30.04.2016	5,0	2,25	500.000.000	50.000.000
RO1419DBN014	24.02.2014	25.02.2014	26.02.2014	24.06.2019	5,0	5,4	600.000.000	60.000.000

Sources: Ministry of Finance

Note:\* Supplementary sessions of competitive offers

**Bond auctions in February (in EUR)**

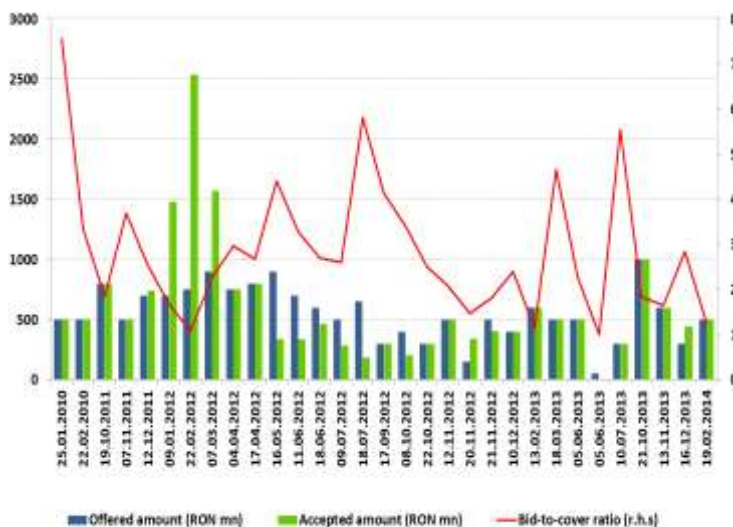
ISIN	Auction date	Settlement date	Maturity	Months	Coupon	Indicative target amount (EUR)
RO1419DBE013	20.02.2014	24.02.2014	21.01.2019	5	3,4	200.000.000

Sources: Ministry of Finance

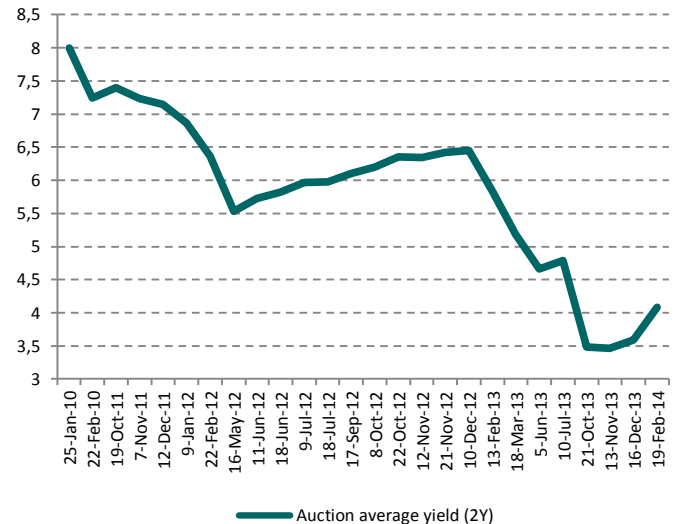
**This week's auctions**

	RO1415CTN032	RO1419DBE013	RO1116DBN024
Offered amount (mn RON)	1200	200	500
Total bids (mn RON)	714	266	633
Accepted amount (mn RON)	0	200	500
Average accepted yield (%)	n.a.	3,30	4,08
Coupon	-	3,40	6,00

Sources: NBR

**2Y Auctions data**


Sources: NBR

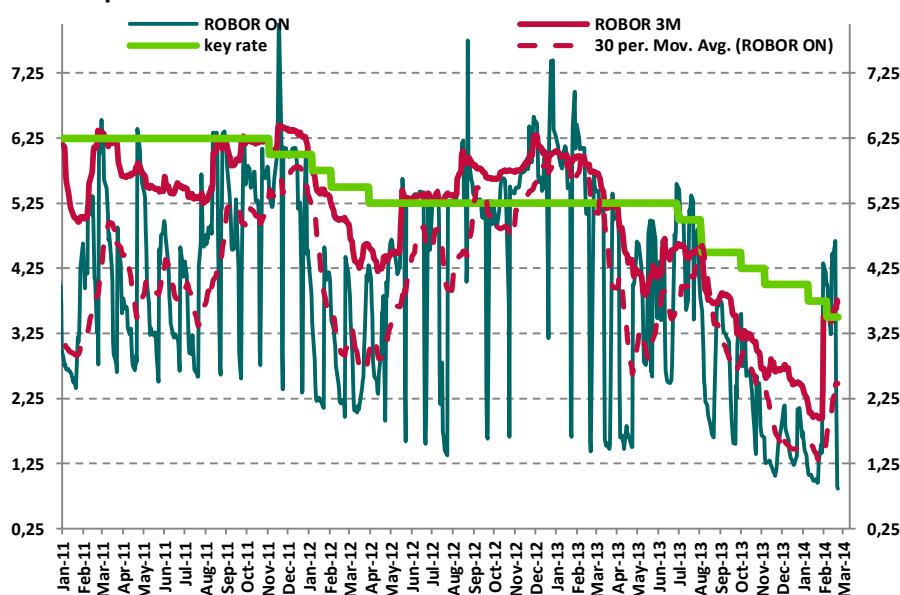
**2Y Interest rates (RON)**


Sources: NBR

## MM: Liquidity conditions tightened further

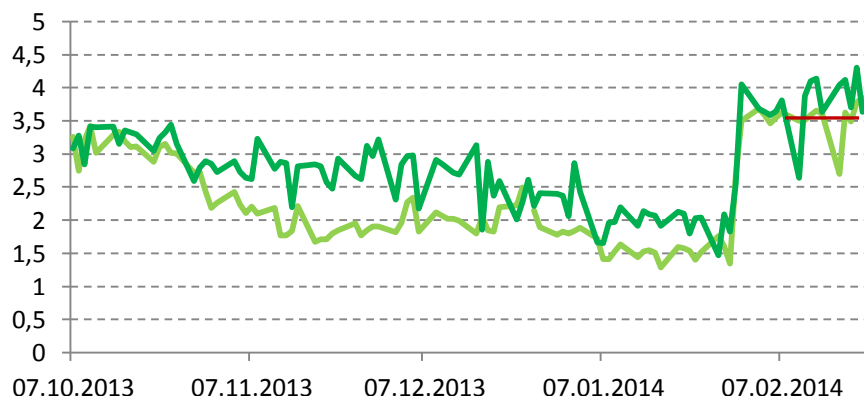
The ON rate eased last week, as banks entered the final week of maintenance period for required reserves. However, liquidity became even scarcer for longer maturities (3M included) and ROBOR rates jumped 12 to 17 bps, landing above the base rate of 3.5%. Next two months, **net issuance of government securities will likely be negative**, considering the high monthly average of RON 5.3 bn in redemptions and the fact that pressure on yields could prevent the Treasury from raising a high amount of RON denominated debt. This should support better liquidity conditions but given that depreciation pressure of the leu is likely to persist, the Central Bank could keep a tight control of liquidity.

### Most important MM instruments' evolution



Sources: NBR

### RON implied rates for FX swaps jumped in February



- base rate
- 1M implied RON rate for FX swap
- 3M implied RON rate for FX swap

Sources: NBR

Last data: 20.02.2014

MID INTEREST RATES			
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)
repo rate	3,50	0	-75
ROBOR ON	0,90	-358	-119
ROBOR 3M	3,76	17	126
ROBOR 6M	3,68	12	68
ROBOR 9M	3,68	13	53
ROBOR 1Y	3,70	15	51

INTERBANK DEPOSITS			
	Value (mn RON)	Wly chg. (mn RON)	YTD chg. (mn RON)
outstanding	4.550,4	98,5	-88,8

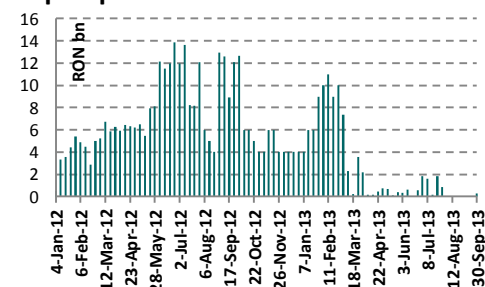
MID SWAP POINTS			
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)
USDRON 1W	28	-8	19
USDRON 1M	88	-23	53
USDRON 3M	306	-5	188
EURRON 1W	36	1	26
EURRON 1M	120	4	76
EURRON 3M	393	32	217

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

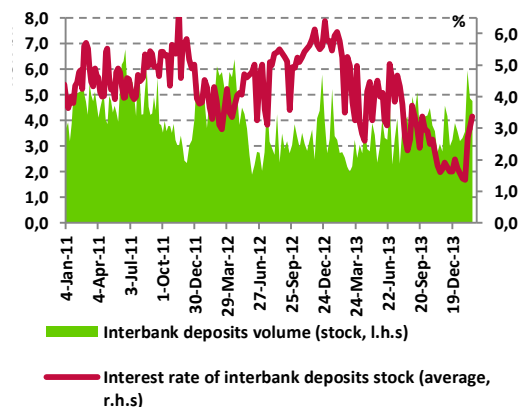
Source: Reuters

### Repo operations since 2012



Sources: NBR, OTP Research

### Interbank deposits stock and average interest rate



Sources: NBR, OTP Research

**Macroeconomics**

PERIOD		INDICATOR	FACT	CONSENSUS	PRIOR
17 - 21 Feb		no data			
25 Feb	Jan	Non -governmental loans (y-o-y, %)			-3,3
25 Feb	Jan	Non -governmental deposits (y-o-y, %)			9,3
25 Feb	Jan	M3 aggregate (y-o-y, %)			8,8

**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%	2,5%	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

Note: \* under revision

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