

**Macroeconomic and
Strategic Analysis**

UniCredit Weekly Report



Above-expectations growth of the Romanian economy in 1Q2017

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Data spotlight: 15 – 22 May

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1,1255	0,13%	5,04%
EURCHF	1,0909	-0,17%	2,12%
USDJPY	111,07	-0,21%	1,63%
GBPUSD	1,2989	-0,08%	1,41%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4,203	0,10%	-1,48%
EURHUF	308,7	0,07%	-1,45%
EURCZK	26,53	0,01%	-1,34%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
22.mai	4.5600	4.0774	5.6314	164.74

CURRENCIES - RON

	EURRON	USD RON
22.mai	4,561	4,058
19.mai	4,559	4,071
18.mai	4,567	4,114

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
22.mai	0,8	1,4	2,6	3,7
17.mai	1,0	1,5	2,6	3,8
16.mai	0,8	1,5	2,5	3,8

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
22.mai	0,40	0,65	0,85
19.mai	0,40	0,65	0,50
18.mai	0,60	0,60	0,94

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
22.mai	-0,37	-0,33	-0,25
19.mai	-0,37	-0,33	-0,25
18.mai	-0,37	-0,33	-0,25
USD Libor	1M	3M	6M
22.mai	1,03	1,19	1,42
19.mai	1,02	1,19	1,42
18.mai	1,01	1,17	1,40

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	2.394,0	0,52%	1,62%
Dow Jones	20.894,8	0,43%	1,54%
FTSE	7.516,4	0,27%	5,65%
DAX	1.161,9	0,45%	5,47%
Nikkei	42.878,0	0,00%	0,08%
Hang Seng	42.878,0	0,00%	0,07%

Romanian Economy

- The Romanian economy expanded by 5.7%yoy in 1Q2017, after growing 1.7% in comparison to 4Q2016 (seasonally adjusted). The growth was above both our and consensus expectations [UniCredit: 5.0; Consensus: 4.7]. The sector breakdown is not available and will be published on 7 June:

- By comparing our expectations with the high frequency data, we believe that the surprise was mainly caused by industry, which enjoyed a 7.3% yoy growth in 1Q17 (vs. +3.5% anticipated by us). The driver was manufacturing activity, particularly printing and reproduction of recorded media (+25.6%yoy), manufacture of electrical equipment (+25.1%yoy) and of motor vehicles, trailers and semi-trailers (+21.1%yoy). The latter were mainly produced for exports, which grew 11.5%yoy in 1Q17. The main engine was German industrial production which rose significantly in 1Q on higher global trade. The ongoing expansion of global trade will keep supporting industrial activity in the months ahead.
- Based on the high frequency data, we expect retail sales to have lost steam as past growth-boosting factors create a negative base effect, but to have maintained a significant contribution to growth, supported by wages higher by 15.5% yoy in real terms in 1Q2017.
- Consequently, we believe consumption remained the main growth driver on the demand side, possibly accompanied by above-expectations exports. Investments likely remained modest or even contracted, as indicated by lower public investments (-5.4%yoy in 1Q) and contracting constructions sector (-1.5%yoy).
- Although economic growth is robust, its overreliance on consumption could lead to widening macroeconomic imbalances. Higher social security spending will reduce potential growth due to forgone investments, reason for which we expect economic growth to slow below 4% this year, unless the budget deficit widens well above 3% of GDP.
- The NBR adopted a dovish stance both in the published minutes of the monetary policy meeting of the NBR Board on 5 May 2017 and in its May Inflation Report:
 - The new Inflation Report contained a downward

Data spotlight: 15 – 22 May

Romanian Economy (continued)

- revision of the inflation forecast for the end of 2017 by 0.1pp to 1.6% and by 0.3pp to 3.1% for the end of 2018, although the endpoint of the forecast horizon (1Q2019) is expected at 3.4%. We currently forecast inflation within the targeted range at the end of 2018, close to 1.7%.
- NBR Board members underlined that core inflation was the reason for a prospective pick-up in inflation, as well as of the downward revision of the inflation forecast. Core inflation will be running below the previously-anticipated trajectory due to “the weaker relationship between core inflation and the output gap”, as: i) more of the internal demand is satisfied through imports, whose prices are expected to stay at low levels; and ii) rising internal competition. At the same time, fuel prices are seen as staying at low levels for longer, while food prices are mildly up on the lower European supply due to the unfavorable weather conditions.
- The NBR Governor mentioned that for the time being he sees no definite uptrend in interbank rates, as liquidity remains ample. Consequently, following some temporary upward pressure related to the minimum reserve holding period which started on the 24th of April, ROBOR rates returned towards historical lows as of mid-May. According to NBR’s data, the average stock of deposits held at its deposit facility during April was RON 7.4bn, only slightly down from RON 9.15bn in March.

International and Romanian Markets

- Last week, political uncertainty in the US increased as allegations came to light that US president Donald Trump tried to influence the FBI investigation into links between his campaign and Russian officials. This led to a flattening of the US yield curve, with the 10Y US yield moving back to the 2.25% area. Demand for bonds has returned over the past few weeks, with yields plunging especially in the US, but also across the EU. Politics continue to drive markets, but the improved growth outlook and rising inflation should not go unnoticed. Confidence indicators in the euro area have been rising steadily over the last few months, both in aggregate terms and across countries.
- Romanian yields dropped as well, by up to 10bp at the long end. Sentiment towards Romanian bonds was favourable this month, as reflected by both ample bids and low requested yields at the auctions on the primary market. The MinFin placed last week RON 0.34bn (14% above the plan) in T-bonds with residual maturity of 10.2 years at an average accepted yield of 3.68%, 35bp below the previous reopening in mid-March. Issuance at the short end was favorable as well, with a planned RON 0.5bn in T-bonds with residual maturity of 1.8 years and a planned RON 0.5bn in T-bonds with residual maturity of 2.8 years. Market demand was solid, with bid-to-cover ratios of 2.8x and 3.7x, respectively. The average accepted yields were 1.36% and 1.86%, both down 12bp from the previous reopenings in April.
- The RON started to depreciate against the EUR last week, sending the EURRON to a 4-year high at 4.5760 on Thursday. The move was likely due to NBR governor’s verbal intervention earlier in the week, who reiterated that the downside for the EURRON from the 4.55 prevailing level was limited and that any appreciation of the RON will prove unsustainable. This is in line with our forecast, which sees the EURRON oscillating in the 4.5-4.6 range this year, mostly closer to the upper bound. The USDRON is currently quoted close to 4.05, down from levels above 4.20 at the end of April.

Data spotlight: 15 – 22 May

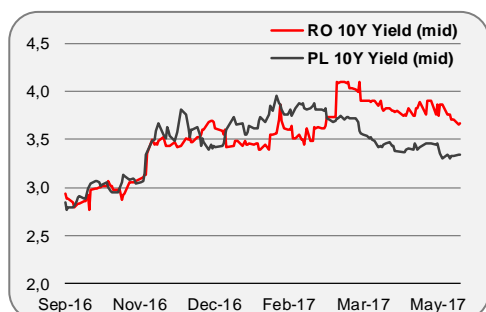
International and Romanian Markets (continued)

- At the same time, the EUR gained ground against several currencies. The EURUSD is currently quoted above 1.12, up from levels close to 1.06 in mid-April. The move was divided into two legs of appreciation: 1) the first one in late April driven by the positive French election outcome, which reduced political risk in the euro area (not a concern for the ECB) and 2) the second one over the past few days, driven mainly by political developments in the US, as worries of a looming impeachment of US President Trump have been weighing heavily on the dollar. The move also led to EUR gains against other currencies and if this continues at the current pace, the ECB may consider sending some dovish hints. UniCredit Research does not expect this to put severe pressure on EURUSD, but may help to slow EUR appreciation.

European Economy

- Euro area (EA19) GDP rose by 0.5%qoq (seasonally adjusted) during the first quarter of 2017 [UniCredit and Consensus: +0.5%], following another +0.5%qoq in 4Q2016, according to a flash estimate published by Eurostat. Compared with the same quarter of the previous year, GDP rose by 1.7% (seasonally adjusted) after +1.8% in the previous quarter.
- Euro area annual inflation reached 1.9% in April 2017 [UniCredit and Consensus: +1.9%], up from 1.5% in March.
- On 22 May, the Eurogroup failed to wrap-up the second program review on Greece. The setback in negotiations hinged on disagreement on the opportunity to specify upfront the additional debt-relief measures that could be provided to Greece at the end of the program, if needed. Surprisingly, the lack of agreement on debt-relief measures caused the disbursement of the pending loan tranche to be withheld despite Greece having legislated new structural reforms for the post-program period. A possible decision was pushed back to the next Eurogroup, which will be held on 15 June.

Focus Ahead: 23 – 26 May



Data Source: Thomsom Reuters

- The MinFin will tender this week: RON 0.5bn in 4Y T-bonds on Thursday.
- Sentiment towards Romanian bonds was favourable this month, as reflected by both ample bids and low requested yields, boding well for this week's auction.

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus (Reuters)	Previous
25-May-2017	United States	United States-Jobless - Initial Jobless Claims	w/o May. 15, 2017		240	232
24-May-2017	Germany	Germany-GfK consumer confidence - GfK Consumer Sentiment	Jun. 2017		10,2	10,2
23-May-2017	Eurozone	Euro Zone-PMI Flash - Markit Comp Flash PMI	May. 2017	57	56,6	56,8
	Eurozone	Euro Zone-PMI Flash - Markit Serv Flash PMI	May. 2017	56,6	56,4	56,4
	Germany	Germany-Ifo - Ifo Expectations	May. 2017	105,4	105,4	105,2
	Germany	Germany-Ifo - Ifo Current Conditions	May. 2017	120,7	121,2	121,1
	Germany	Germany-Ifo - Ifo Business Climate	May. 2017	113	113,1	112,9
	Germany	Germany-PMI Flash - Markit Comp Flash PMI	May. 2017	56,9	56,6	56,7
	Germany	Germany-PMI Flash - Markit Service Flash PMI	May. 2017	55,5	55,4	55,4
	Germany	Germany-PMI Flash - Markit Mfg Flash PMI	May. 2017	57,9	58	58,2
	Germany	Germany-GDP Detail - GDP Detailed YY	Q1 2017		1,7	1,3
	Germany	Germany-GDP Detail - GDP Detailed QQ	Q1 2017		0,6	0,4

BOND ISSUES								
ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO1121DBN032	25-May-17	11-Jun-21	49	500 lei				
RO1619DBN035	22-May-17	25-Feb-19	21	500 lei		1.423	500	1,36
RO1620DBN017	18-May-17	26-Feb-20	34	500 lei		1.838	500	1,86
RO1227DBN011	15-May-17	26-Jul-27	124	300 lei		715	342	3,68
RO1718CTN088	11-May-17	14-May-18	12	1.000 lei		2.332	1.000	0,87
RO1722DBN045	8-May-17	8-Mar-22	59	500 lei		1.376	500	2,77
RO1624DBN027	4-May-17	29-Apr-24	85	400 lei		783	445	3,46

Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2014	2015	2016	2017F	2018F
GDP (EUR bn)	160,0	160,0	169,1	179,3	190,2
Population (mn)	20,0	19,9	19,8	19,7	19,6
GDP per capita (EUR)	8018	8051	8556	9100	9685
Real economy yoy (%)					
GDP	3,1	3,9	4,8	3,9	3,3
Household Consumption	4,7	6,0	7,4	4,3	2,9
Fixed Investment	3,2	8,3	0,0	-3,3	0,3
Collective Public Consumption	0,8	0,1	2,5	2,7	1,6
Exports	8,0	5,4	7,6	5,4	4,0
Imports	8,7	9,2	9,3	6,5	5,0
Monthly wage, nominal (EUR)	531	576	643	702	746
Unemployment rate (%); ILO avg	6,8	6,8	5,9	5,3	5,1
Fiscal accounts (% of GDP)					
Budget balance	-0,8	-0,8	-2,4	-3,0	-3,5
Primary balance	0,7	0,5	-1,1	-1,7	-2,1
Public debt	39,4	38,0	37,6	39,2	39,8
External accounts					
Current account balance (EUR bn)	-1,0	-1,9	-4,1	-5,4	-6,0
Current account balance/GDP (%)	-0,7	-1,2	-2,4	-3,0	-3,2
Net FDI (% of GDP)	1,8	1,8	2,3	2,2	2,2
Gross foreign debt (% of GDP)	59,2	56,5	54,7	50,7	47,0
Fx reserves (EUR bn)	32,2	32,2	34,2	32,7	31,0
Inflation/Monetary/FX					
CPI (pav g)	1,1	-0,6	-1,5	1,0	2,8
CPI (eop)	0,8	-0,9	-0,5	1,7	2,7
Central bank inflation target	2,5	2,5	2,5	2,5	2,5
Central bank key rate (eop)	2,75	1,75	1,75	1,75	2,50
3M money market rate (eop)	1,69	1,03	0,83	1,23	2,10
RON/USD (eop)	3,69	4,15	4,30	4,16	3,97
RON/EUR (eop)	4,48	4,52	4,54	4,58	4,60
RON/USD (pav g)	3,35	4,01	4,06	4,21	4,01
RON/EUR (pav g)	4,44	4,44	4,49	4,53	4,55

UniCredit Forecast	Current	iun.17	sep.17	dec.17	mar.18	iun.18	sep.18	dec.18
EURRON	4,561	4,550	4,520	4,580	4,540	4,560	4,530	4,600
EURUSD	1,126	1,110	1,130	1,140	1,150	1,160	1,170	1,180
EURCHF	1,091	1,080	1,100	1,120	1,120	1,120	1,130	1,140
USD RON	4,052	4,099	4,000	4,018	3,948	3,931	3,872	3,898
CHF RON	4,181	4,213	4,109	4,089	4,054	4,071	4,009	4,035
EURIBOR 3M	-0,37	-0,35	-0,35	-0,35	-0,35	-0,35	-0,35	-0,35
ROBOR 3M	0,85	0,90	1,10	1,25	1,90	1,95	2,05	2,10

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