

## Macroeconomic and Strategic Analysis

UniCredit Weekly Report



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## Intensifying local uncertainties caused depreciation pressures for the RON and upward pressure on yields

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January 30, 2017

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## Data spotlight: 23 – 27 Jan

### CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1,0631	-0,61%	2,12%
EURCHF	1,0663	-0,25%	-0,62%
USDJPY	114,47	-0,56%	-2,32%
GBPUSD	1,2507	-0,34%	2,31%

### CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4,325	-0,21%	-1,86%
EURHUF	310,85	-0,10%	0,53%
EURCZK	27,02	0,00%	-0,03%

### CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
27.ian	4.5006	4.2075	5.7041	161.21

### CURRENCIES - RON

	EURRON	USD RON
27.ian	4,505	4,212
26.ian	4,497	4,210
25.ian	4,500	4,187

### FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
27.ian	1,0	1,7	2,6	3,6
23.ian	1,0	1,6	2,5	3,5
20.ian	1,0	1,6	2,5	3,4

### MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
27.ian	0,40	0,58	0,71
26.ian	0,45	0,58	0,70
25.ian	0,43	0,58	0,75

### MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
27.ian	-0,37	-0,33	-0,24
26.ian	-0,37	-0,33	-0,24
25.ian	-0,37	-0,33	-0,24

USD Libor	1M	3M	6M
27.ian	0,78	1,04	1,36
26.ian	0,78	1,04	1,36
25.ian	0,78	1,04	1,36

### STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	2.294,7	-0,09%	1,36%
Dow Jones	20.093,8	-0,04%	0,80%
FTSE	7.126,8	-0,80%	0,09%
DAX	1.067,6	-0,72%	2,60%
Nikkei	42.762,0	0,00%	0,07%
Hang Seng	42.765,0	0,01%	0,08%

## Romanian Economy

- The debate around the government's intention to pass two emergency ordinances to grant prison pardons and change the Criminal Code and the Criminal Procedure Code in order to decriminalise some offences continued last week. The population continued the protests across the country, which culminated on Sunday, when as many as 100,000 Romanians (half of which in Bucharest) demanded the withdrawal of the projects from the government's agenda. Public consultations on the two projects took place today at the Ministry of Justice.
- Romanian Prime Minister Grindeanu announced at the end of last week that the government finalised the 2017 budget, which will be approved on Tuesday, after it will be analysed in the Supreme Council of National Defence. In the preliminary opinion published at the end of last week, the Fiscal Council drew attention to the following aspects:
  - The macroeconomic scenario used is very optimistic and incompatible with a prudent budget execution. Consequently, revenues might be overestimated, being forecasted to increase by 13.9% in 2017, although they experienced a 4.3% drop in 2016 on lower fiscal revenues and inflows of EU funds.
  - Expenditures seem underestimated, with a 2.9% contraction in 2017, in spite of a meagre 0.6% drop in 2016 and planned increases during 2017 for social benefits and wages.
- Romania ended 2016 with a deficit of only 2.4% of GDP in cash terms, below the 2.75% target. However, the ambitious past and future fiscal easing, coupled with new social security measures threaten the budget execution. According to our estimates, the government will struggle to keep the budget deficit below 3% of GDP in 2017 and 2018, implying that the planned infrastructure investment and co-financing for EU funds may be cut this year to meet the target, boding ill for future growth.
- At the end of December, the total resident nongovernment credit stock increased by 1.1%<sup>1)</sup> compared to the end of 2015, quickening its growth pace from 0.3% November. Lending to individuals accelerated to 4.5%yoy, while the one to companies remained negative, although the drop tempered from the previous months (to -2.3%yoy). New lending activity registered a pick-up starting from September, which was likely maintained by year-end.

<sup>1)</sup> All the growth figures related to the credit and deposit stock dynamics are adjusted for exchange rate movements.

## Data spotlight: 23 – 27 Jan

### Romanian Economy (continued)

- Deposit growth tempered to 8.1%yoy in Dec 2016, in spite of the total stock being higher by almost RON 13bn than at the end of November 2016. In spite of the high inflow of liquidity into the interbank market due to government spending estimated in December at almost 2% of GDP (RON 14bn), the growth rate was impacted by a negative base effect caused by an even higher spending in December 2015. Companies' savings decelerated their growth to 4%yoy, being impacted by a negative base effect, while the ones of individuals accelerated to 11.2%yoy. The L/D ratio was 80%, down almost 4pp from November.

### International and Romanian Markets

- During last week, yields of both European and US bonds were under rising pressure, with European curves steepening and the periphery underperforming. Over the coming days, macro data is expected to confirm a positive picture for both the US and the EMU economies, which could exacerbate the pressure on bond markets, especially at the long end of the curve, enabling further steepening. The main event this week in the US will be the FOMC meeting on Wednesday. UniCredit Research expects the message and the tone of the FOMC statement to be in line with recent speeches by Fed Chair Janet Yellen, with no clear indication of the timing of the next rate hike. Consequently, the FOMC meeting should not be a market mover. Politics and Trump administration announcements and actions remain a source of uncertainty, although there is nothing specific scheduled in this respect.
- A new wave of uncertainty over trade policy generated by the US deteriorated risk sentiment, weighed on emerging market (EM) bonds. Outflows from vulnerable countries are likely to persist, as markets started to digest the implications of new US trade policies for EM.
- Yields of Romanian bonds were on the rise as well, especially at the long end of the curve. The MinFin placed on the primary market last week a planned RON 0.5 bn in 6M T-bills and half of a planned RON 0.3 bn in T-bonds with a residual maturity 10.5 years. The ample market liquidity led to surging market demand for the bill (4.3x bid-to-cover ratio), sending the average accepted yield to 0.64%, below the levels predicted by the secondary market and the 0.76% average accepted yield for a 5M T-bill four weeks ago. Although we saw very high demand for the short end and the belly of the curve in January, interest for the long end is much more limited due to the high local and global uncertainties. Market demand for the long end disappointed on Thursday at only RON 0.2bn, enabling the MinFin to place RON 147mn. The average accepted yield was 3.96%, coming in above the levels predicted by the secondary market and up from only 3.13% at the previous reopening of the bond at the beginning of September.
- Risk appetite remains shaky at the beginning of the week, with the USD lower due to geopolitical concerns after US president Donald Trump's travel ban on citizens of seven predominantly Muslim countries. The RON depreciated against the EUR at the end of the previous week, as market attention focused on the 2017 budget discussion and the two ordinances to grant prison pardons and change the Criminal Code and the Criminal Procedure Code. The EURRON ended the week close to 4.5050 (+0.2% in comparison to the Friday's opener) and was quoted close to similar levels this morning. We expect the debate around the two ordinances to continue to exert depreciation pressure on the RON.

## Data spotlight: 23 – 27 Jan

### European Economy

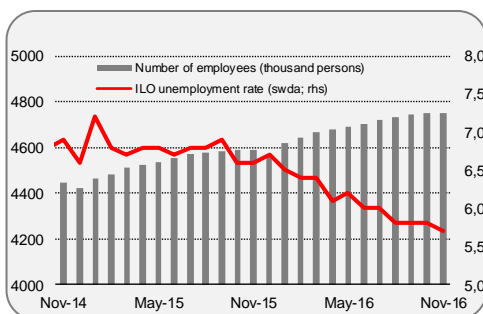
- During last week, two political events took center stage in Europe:
  - In Italy, the Constitutional Court's ruling de facto turned the voting system for the lower house (Italicum) into a proportional system. The likelihood of early elections taking place by June has increased, although a quick return to the polls is by no means a foregone conclusion.
  - In the UK, the Supreme Court ruled that PM Theresa May does not have the power to trigger Article 50 without an act of Parliament. While it is unlikely that MPs will block Article 50, they will surely push for amendments.
- The German Ifo business climate index declined unexpectedly from 111.0 to 109.8, mainly due to a drop in expectations following the latest announcements by President Trump of his intention to punish foreign companies for not producing within the US, which has clouded the expectations of German export companies in the medium term. Fundamentals, both external and domestic, still remain solid.
- The eurozone recovery continues at the start of the year, with January's PMIs sending a constructive message. The composite PMI declined was 54.3, a level that is consistent with 2% annualized GDP growth. Firms' expectations in the services sector remain high, while manufacturing firms recorded a further pickup in employment growth, likely due to optimism about the macroeconomic outlook.

### US Economy

- The US economy expanded an annualized 1.9% at the end of 2016 [UniCredit: +2.2% ; Consensus: +2.1%]. The economy has gained momentum in 2H2016, after the effects of several headwinds had begun to fade. Consumer spending turned out to be the growth driver, as anticipated, coupled with a double-digit rise in residential investment and a sizeable boost in inventories. Due to the weak start into the year, real growth for 2016 as a whole was only 1.6%. Looking forward, there are encouraging signs for a pick-up in investment spending. UniCredit Group expects the economy to expand by 2% to 2.25% in 1H2017. If the new administration will pass a fiscal stimulus in time without derailing global trade, growth in 2H17 will most likely be faster.

## Focus Ahead: 30 Jan – 3 Feb

### ILO Unemployment



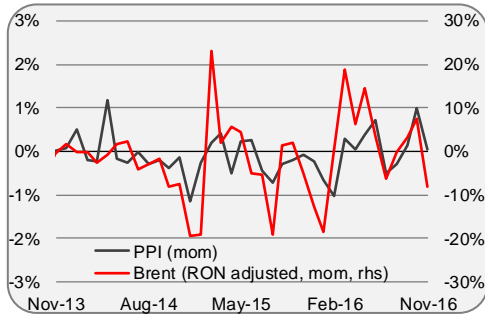
Data Source: NIS

Date	Indicator/Event	Period	UniCredit forecast	Consensus (Reuters)	Previous
Tue, 31 Jan	ILO Unemployment (% swda)	Dec	5.7		5.7

- We expect the ILO unemployment rate to stabilize close to current lows, although job creation tempered at the end of the year, similar to the seasonal pattern of last years.
- At the end of November 2016, the number employees was higher by almost 180,000 in comparison to the end of 2015 (up from only 167,500 in the corresponding period of 2015).

## Focus Ahead: 30 Jan – 3 Feb

### Producer Price Index (PPI)

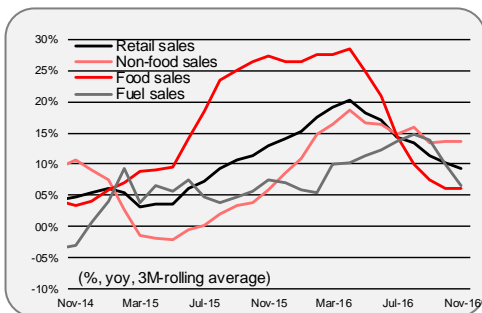


Data Source: NIS

Date	Indicator/Event	Period	UniCredit forecast	Consensus (Reuters)	Previous
Thu, 2 Feb	PPI Index (% , YoY)	Oct	0.7		-0.2

- In December, the average Brent oil price increased from the previous month by 20.4% to \$53/barrel and the RON depreciated against the dollar, leading to a combined rise of 23.6% in fuel prices expressed in RON. Industrial production prices are strongly correlated with the evolution of oil prices, leading us to expect a rise in producer prices at year-end.
- We expect the yearly dynamics to return in positive territory in December 2016, for the first time since November 2014.

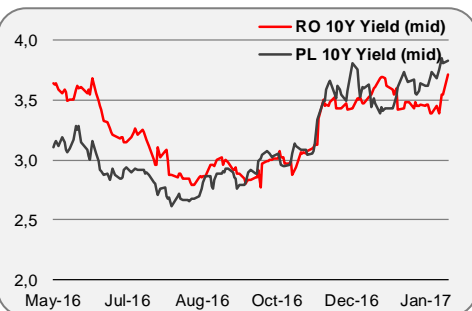
### Retail sales



Data Source: NIS

Date	Indicator/Event	Period	UniCredit forecast	Consensus (Reuters)	Previous
Fri, 3 Feb	Retail Sales (% , yoy swda)	Dec	9.2		9.3

- We expect retail sales to continue the expansion for the fifth consecutive month in December. However, the yearly growth is expected to decelerate slightly, in line with the decelerating wage growth, due to a strong negative base effect of high increases for both in December 2015.
- The cut in the main VAT rate (by 1pp to 19%) and the elimination of excise duties for fuels (EUR 0.07/litre) implemented in January 2017, coupled with new wage hikes are expected to support consumer optimism and spending.



- The MinFin did not publish yet the issuance calendar for February. Although it might be tempted to increase the plan in order to compensate for the modest placement during the past three months (RON 2.3bn on average), market demand is likely to remain subdued.
- We expect sentiment towards Romanian bonds to remain deteriorated on persisting local tensions and rising global uncertainty, maintaining an upward pressure on yields in the coming days.

#### BOND ISSUES

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO1227DBN011	26-Jan-17	26-Jul-27	128	300 lei		195	147	3,96
RO1717CTN023	23-Jan-17	2-Aug-17	6	500 lei		2.161	500	0,64
RO1521DBN041	19-Jan-17	22-Mar-21	51	500 lei		926	500	2,54
RO1522DBN056	16-Jan-17	19-Dec-22	72	300 lei		934	730	3,14
RO1620DBN017	12-Jan-17	26-Feb-20	38	500 lei		562	265	2,05
RO1718CTN013	9-Jan-17	10-Jan-18	12	500 lei		599	483	0,98
RO1619DBN035	5-Jan-17	25-Feb-19	26	500 lei		662	500	1,38

## Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus (Reuters)	Previous
30-Jan-2017	United States	United States-Pending homes - Pending Sales Change MM	Dec-16		1,1	-2,5
	United States	United States-Consumption - Core PCE Price Index YY	Dec-16	1,7		1,6
	United States	United States-Consumption - Core PCE Price Index MM	Dec-16		0,1	0,0
	United States	United States-Consumption - Personal Income MM	Dec-16		0,4	0,0
	Germany	Germany-Inflation Prelim - HICP Prelim YY	Jan. 2017		2,0	1,7
	Germany	Germany-Inflation Prelim - HICP Prelim MM	Jan. 2017		-0,7	1,0
	Germany	Germany-Inflation Prelim - CPI Prelim YY	Jan. 2017		2,0	1,7
	Germany	Germany-Inflation Prelim - CPI Prelim MM	Jan. 2017		-0,60	0,70
	Germany	Germany-BW State CPI - BW State CPI YY*	Jan. 2017			1,6
	Germany	Germany-BW State CPI - BW State CPI MM*	Jan. 2017			0,7
	Eurozone	Euro Zone-Sentiment - Economic Sentiment	Jan. 2017	107,8	107,7	107,8
	Germany	Germany-BY State CPI - BY State CPI YY*	Jan. 2017	2,0		1,7
	Spain	Spain-GDP Flash - Estimated GDP QQ	Q4 2016	0,7	0,70	0,70
31-Jan-2017	Romania	ILO Unemployment Rate (%)	Dec-16	5,7		5,7
	United States	United States-Wages - Employment Costs	Q4 2016	0,6	0,6	0,6
	Eurozone	Euro Zone-Unemployment - Unemployment Rate	Dec-16	9,7	9,8	9,8
	Eurozone	Euro Zone-GDP Prelim - GDP Flash Prelim QQ	Q4 2016	0,5	0,5	0,3
	Eurozone	Euro Zone-GDP Prelim - GDP Flash Prelim YY	Q4 2016		1,7	1,6
	Eurozone	Euro Zone-flash inflation - Infl Ex Food & Energy Flash	Jan. 2017	0,9	0,9	0,9
	Eurozone	Euro Zone-flash inflation - Inflation, Flash YY	Jan. 2017	1,6	1,5	1,1
	Germany	Germany-Unemployment - Unemployment Rate SA	Jan. 2017	6,0	6,0	6,0
	Germany	Germany-Retail Sales - Retail Sales YY Real	Dec-16			3,5
	Germany	Germany-Retail Sales - Retail Sales MM Real	Dec-16		0,6	-1,7
	France	France-GDP Prelim - GDP Preliminary QQ	Q4 2016	0,5	0,50	0,20
1-Feb-17	United States	ISM Manufacturing Index	Jan. 2017	54,2	55,0	54,7
	United States	Federal Funds Target Rate (upper bound, %)	Feb-17	0,8	0,75	0,75
2-Feb-17	Romania	Romania-PPI - Producer Price Index YY	Dec-16	0,7		-0,2
3-Feb-17	Romania	Retail Sales YY	Jan. 2017	9,2		9,3
	United States	United States-ISM - non man - ISM N-Mfg PMI	Jan. 2017	56,7	57,0	57,2
	United States	United States-Employment - Unemployment Rate	Jan. 2017		4,7	4,7
	United States	United States-Employment - Non-Farm Payrolls	Jan. 2017		171,0	156,0

## Economic Forecasts

### MACROECONOMIC DATA AND FORECASTS

	2013	2014	2015	2016F	2017F	2018F
GDP (EUR bn)	144,3	160,4	160,4	168,6	179,9	190,8
Population (mn)	20,0	20,0	19,9	19,8	19,7	19,6
GDP per capita (EUR)	7205	8038	8071	8534	9130	9717
<b>Real economy yoy (%)</b>						
GDP	3,5	3,0	3,8	4,5	3,4	3,3
Household Consumption	0,7	3,8	6,1	8,1	7,4	5,7
Fixed Investment	-5,4	2,5	8,8	3,3	0,6	2,1
Collective Public Consumption	-4,6	0,3	1,6	2,1	2,2	1,6
Exports	19,7	8,6	5,5	6,2	4,6	4,7
Imports	8,8	8,9	9,1	8,7	7,2	7,0
Monthly wage, nominal (EUR)	507	531	576	643	693	729
Unemployment rate (%); ILO avg	7,1	6,8	6,8	6,1	5,8	5,5
<b>Fiscal accounts (% of GDP)</b>						
Budget balance	-2,1	-0,8	-0,8	-2,8	-3,0	-3,0
Public debt	37,8	39,4	37,9	38,7	39,0	38,9
<b>External accounts</b>						
Current account balance (EUR bn)	-1,5	-1,0	-1,9	-3,7	-4,0	-4,5
Current account balance/GDP (%)	-1,1	-0,7	-1,2	-2,2	-2,2	-2,4
Net FDI (EUR bn)	2,9	2,7	3,0	4,0	4,0	4,0
Net FDI (% of GDP)	2,0	1,8	1,8	2,4	2,2	2,1
Gross foreign debt (EUR bn)	97,8	94,7	90,4	87,5	87,9	86,0
Gross foreign debt (% of GDP)	67,8	59,1	56,4	51,9	48,9	45,1
<b>Inflation/Monetary/FX</b>						
CPI (pavg)	4,0	1,1	-0,6	-1,5	1,6	2,7
CPI (eop)	1,6	0,8	-0,9	0,0	1,9	2,5
Central bank inflation target	2,5	2,5	2,5	2,5	2,5	2,5
Central bank key rate (eop)	4,00	2,75	1,75	1,75	2,00	2,50
3M money market rate (eop)	2,58	1,69	1,03	0,80	1,23	1,85
RON/USD (eop)	3,26	3,69	4,15	4,30	4,09	3,88
RON/EUR (eop)	4,48	4,48	4,52	4,54	4,50	4,50
RON/USD (pavg)	3,33	3,35	4,01	4,06	4,18	3,96
RON/EUR (pavg)	4,42	4,44	4,44	4,49	4,49	4,50

UniCredit Forecast	Current	mar.17	iun.17	sep.17	dec.17	mar.18	iun.18	sep.18	dec.18
EURRON	4,499	4,500	4,510	4,470	4,500	4,500	4,520	4,470	4,500
EURUSD	1,073	1,050	1,080	1,090	1,100	1,120	1,140	1,150	1,160
EURCHF	1,074	1,090	1,100	1,100	1,120	1,120	1,120	1,130	1,140
USDRON	4,192	4,286	4,176	4,101	4,091	4,018	3,965	3,887	3,879
CHFRON	4,189	4,128	4,100	4,064	4,018	4,018	4,036	3,956	3,947
EURIBOR 3M	-0,37	-0,35	-0,35	-0,35	-0,35	-0,35	-0,35	-0,35	-0,35
ROBOR 3M	0,50	0,90	0,90	1,10	1,25	1,65	1,70	1,80	1,85

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