

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



Current account deficit wider by 56%yoy at the end of April, in spite of strong exports

June 20, 2017

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Data spotlight: 14 – 19 Jun

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1,1162	0,11%	0,47%
EURCHF	1,0866	-0,11%	-0,83%
USDJPY	111,67	0,12%	0,14%
GBPUSD	1,2677	-0,48%	-2,05%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4,2225	0,07%	0,26%
EURHUF	307,92	-0,05%	-0,55%
EURCZK	26,20	0,02%	-1,42%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
19.iun	4.5957	4.1189	165.10	0.1212

CURRENCIES - RON

	EURRON	USD RON
19.iun	4,596	4,122
16.iun	4,588	4,097
15.iun	4,586	4,114

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
19.iun	0,8	1,3	2,5	3,7
16.iun	0,8	1,3	2,5	3,7
15.iun	0,8	1,4	2,5	3,7

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
19.iun	0,35	0,45	0,70
16.iun	0,40	0,55	0,50
15.iun	0,57	0,72	0,50

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
19.iun	-0,37	-0,33	-0,27
16.iun	-0,37	-0,33	-0,27
15.iun	-0,37	-0,33	-0,27
USD Libor	1M	3M	6M
19.iun	1,21	1,28	1,43
16.iun	1,21	1,27	1,43
15.iun	1,21	1,27	1,43

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	2.453,5	0,83%	4,09%
Dow Jones	21.529,0	0,68%	4,47%
FTSE	7.555,3	0,42%	1,13%
DAX	1.187,3	0,36%	3,12%
Nikkei	42.906,0	0,00%	0,07%
Hang Seng	42.906,0	0,00%	0,08%

Romanian Economy

- Romania registered a current account (C/A) deficit of EUR 1.4bn at the end of April, up 56% from the corresponding period of 2016:
 - The main driver of the deterioration was the goods' trade deficit, which increased by 18%yoy, as imports continue to outpace exports, in spite of the strong growth of the latter (+9.8%). Services continued to register a surplus, although lower by 1.5%yoy.
 - The secondary income was only around half of the one in 4M16 (at EUR 0.3bn), while the primary income continued to register an improvement, helped by significant inflows related to agricultural subventions and royalties for natural resources at the beginning of 2017.
 - FDI totaled EUR 1.3bn in 4M2017 (+27.6%yoy).
- Global trade remains on an uptrend and the most recent surveys point to solid manufacturing activity in the eurozone, which we believe will continue to act as an engine for Romanian industrial production and exports. However, we expect trade deficit to widen in comparison to 2016, as imports are very strong.
- Romanian industrial output contracted 0.6%mom in April, a partial retreat after a robust cumulated growth of 4.1% in February-March. This led to a deceleration of the annual growth rate to 5.5%, more than the slowdown anticipated by us [UniCredit: +6.8%yoy]. However, we regarded this as a correction and we expect the uptrend to remain intact.

International and Romanian Markets

- The lower-than-expected US inflation reading caused 5Y US yields to plunge by 10bp in the first part of last week. Although yields recovered some ground in the remainder of the week following Fed's hike by 25bp to the 1%-1.25% range, US yields at the long end (30Y) are by around 10bp below the levels prevailing at the end of May. The reflation excitement triggered by Trump's election in November 2016 is now more or less completely priced and the near term underwhelming "soft data" indicators will probably remain supportive of the Treasury market, but with Fed sticking to its monetary policy plans, UniCredit Research does not expect US Treasury yields to drop below the recent lows.

Data spotlight: 14 – 19 Jun

International and Romanian Markets (continued)

- Although European yields followed a similar path last week, the magnitude of the moves was lower, impacted by additional divergent factors: i) upward pressure from the improved market sentiment due to the outcome of the parliamentary election in France and local elections in Italy; ii) downward pressure from echoes of ECB's dovish inflation outlook. Overall, German yields up to 5Y are higher by up to 6bp in comparison to the end of May, while those at the long end are by up to 8bp lower.
- Romanian yields remained on an overall downtrend in June and so far Romanian bonds were not affected by the ongoing political tensions. At its primary market auctions, MinFin placed on Monday RON 0.61bn in T-bonds with residual maturity of 6.9 years, 22% above the plan. Demand was ample (bid-to-cover of 1.7x), while the average accepted yield was 3.22%, in line with the secondary market levels prevailing before the auction and down 24bp from the previous reopening of the bond at the beginning of May. Placement at the short end of the curve was successful as well, through a strong result at last Thursday's auction for RON 0.8bn in 6M T-bills which attracted bids of RON 3.1bn at an average accepted yield of only 0.51%. The average accepted yield came in below the prevailing money market levels and down 20bp from the last similar auction in March, supported by the abundant liquidity which received a fresh boost from a bond expiry of almost RON 8bn in June.
- Last week, local political tensions intensified after the governing coalition PSD-ALDE withdrew its support for Prime Minister (PM) Sorin Grindeanu, but the latter refused to step down. A no-confidence motion against the PM was submitted on Sunday and will be voted this Wednesday. In order to be successful, the motion needs 233 votes. In light of the heightened uncertainty, the EURRON maintained an uptrend and at the beginning of this week touched levels very close to the 4.60 upper limit of the current trading interval. We expect the pair to continue to trade with an upside bias until the political scene clears. Spillovers to the bond market are not excluded, if tensions intensify.
- The EURUSD increased in the first part of last week to levels close to 1.13, but decreased after FOMC's announcement to levels close to 1.1150, where it is currently quoted. The USDRON is currently quoted close to 4.11 or 1% above the levels prevailing at the beginning of last week due to the depreciation of the RON.

European Economy

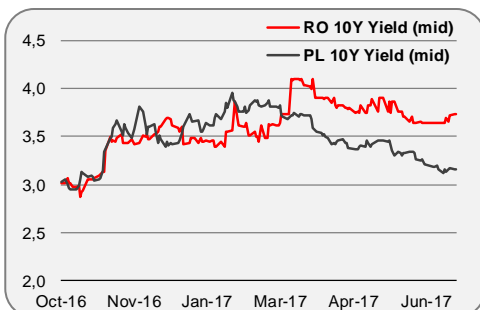
- At the second round of legislative elections on 18 June, Macron's party La République En Marche and its centrist ally Modem secured 350 of the 577 seats at the lower house. Turnout was a record low of 43%. The outcome provides Macron with a solid majority to enact his ambitious reform agenda.
- The Brexit negotiations kicked off at the beginning of this week in Brussels. London and Brussels agreed to focus the first stages of negotiations over Brexit on divorce proceedings from the bloc and on citizens' rights.
- At last week's Eurogroup meeting, finance ministers approved the disbursement of the EUR 8.5bn pending loan tranche to Greece and provided some details on debt-relief measures that will be implemented when the aid program expires. Debt-relief measures would be linked to the country's growth rates, in line with a proposal promoted by French officials. The deal also outlined the financial involvement of the IMF in Greece's third program with USD 2bn on a standby basis.

Data spotlight: 14 – 19 Jun

US Economy

- On 14 June, the Fed raised its target rate by another 25bp to the 1%-1.25% range. Its medium-term interest rate projections were left unchanged, suggesting one more rate hike in 2H17, followed by three hikes in each of 2018 and 2019. The Committee anticipates that tapering will begin “this year”, by gradually reducing the Fed’s securities holdings by decreasing its reinvestment of the principal payments it receives from securities held in SOMA (the pool of assets acquired through operations in the open market). The Fed also provided further details about how it intends to gradually shrink its balance sheet: it will start to reduce its holdings by USD 10bn (US Treasuries: 6bn; MBS: 4bn) per month. The amount will be increased by USD 10bn (UST: 6bn; MBS: 4bn) every three months and will be capped at USD 50bn (UST: 30bn; MBS: 20bn) after one year.
- The US Consumer Price Index (CPI) declined 0.1% in May, as energy prices fell 2.7%. Core inflation (CPI ex food & energy) is still very weak and this is becoming a growing headache for the Fed.

Focus Ahead: 20 – 23 Jun



Data Source: Thomsom Reuters

- The MinFin will auction this Thursday RON 0.8bn in T-bonds with residual maturity of 1.7 years and RON 0.7bn in a T-bond with residual maturity of 4.7 years next Monday.
- Although sentiment towards Romanian bonds remains favorable and liquidity ample, the ongoing political tensions pose risks and an escalation or continuation of uncertainty could affect the bond market as well.

BOND ISSUES								
ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO1621DBE048	27-Jun-17	26-Feb-21	45	100	euro			
RO1722DBN045	26-Jun-17	8-Mar-22	57	700	lei			
RO1619DBN035	22-Jun-17	25-Feb-19	20	800	lei			
RO1624DBN027	19-Jun-17	29-Apr-24	84	500	lei	1.047	612	3,22
RO1717CTN0A8	15-Jun-17	18-Dec-17	6	800	lei	3.149	800	0,51
RO1620DBN017	12-Jun-17	26-Feb-20	33	600	lei	1.761	600	1,76
RO1522DBN056	8-Jun-17	19-Dec-22	67	700	lei	1.295	703	2,81
RO1718CTN096	8-Jun-17	11-Jun-18	12	1.000	lei	2.053	1.000	0,8
RO1631DBN055	6-Jun-17	24-Sep-31	174	200	lei	257	200	4,12

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus (Reuters)	Previous
23-Jun-2017	Eurozone	Euro Zone-PMI Flash - Markit Comp Flash PMI	Jun. 2017		56,7	56,8
	Eurozone	Euro Zone-PMI Flash - Markit Serv Flash PMI	Jun. 2017	56,2	56,2	56,3
	Eurozone	Euro Zone-PMI Flash - Markit Mfg Flash PMI	Jun. 2017			
	Germany	Germany-PMI Flash - Markit Comp Flash PMI	Jun. 2017	57,3	57,2	57,4
	Germany	Germany-PMI Flash - Markit Service Flash PMI	Jun. 2017	55,3	55,5	55,4
	Germany	Germany-PMI Flash - Markit Mfg Flash PMI	Jun. 2017	59,2	59	59,5
22-Jun-2017	Eurozone	Euro Zone-Consumer confidence - Consumer Confid. Flash	Jun. 2017	-3,5	-3	-3,3
	United States	United States-Jobless - Initial Jobless Claims	w/o Jun. 12, 2017		240	237
20-Jun-2017	United States	United States-Current account - Current Account	Q1 2017		-124	-112,4
	Eurozone	Euro Zone-ECB c/a - Current Account SA, EUR	Apr. 2017			34,1
	Eurozone	Euro Zone-ECB c/a - Current Account NSA, EUR	Apr. 2017			44,8
	Germany	Germany-PPI - Producer Prices YY	May. 2017		2,9	3,4
	Germany	Germany-PPI - Producer Prices MM	May. 2017		-0,1	0,4

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	4,02	3,92
RON/EUR (eop)	4,48	4,52	4,54	4,58	4,63
RON/USD (pav g)	3,35	4,01	4,06	4,11	3,92
RON/EUR (pav g)	4,44	4,44	4,49	4,54	4,55

UniCredit Forecast	Current	iun.17	sep.17	dec.17	mar.18	iun.18	sep.18	dec.18
EURRON	4,596	4,550	4,520	4,580	4,540	4,560	4,530	4,630
EURUSD	1,116	1,110	1,130	1,140	1,150	1,160	1,170	1,180
EURCHF	1,087	1,080	1,100	1,120	1,120	1,120	1,130	1,140
USD RON	4,118	4,099	4,000	4,018	3,948	3,931	3,872	3,924
CHF RON	4,230	4,213	4,109	4,089	4,054	4,071	4,009	4,061
EURIBOR 3M	-0,37	-0,35	-0,35	-0,35	-0,35	-0,35	-0,35	-0,35
ROBOR 3M	0,82	0,90	1,10	1,25	1,90	1,95	2,05	2,10

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