

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



Light data calendar in the coming week offers the market the opportunity to adjust to ECB's forward guidance

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Data spotlight: 11 – 15 June

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.1615	0.06%	-1.64%
EURCHF	1.1558	-0.16%	-2.61%
USDJPY	110.47	-0.19%	0.07%
GBPUSD	1.3248	-0.23%	-1.82%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2991	0.28%	0.61%
EURHUF	323.70	0.41%	2.41%
EURCZK	25.77	0.21%	1.00%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
18-Jun	4.6662	4.0240	165.67	0.1231

CURRENCIES - RON

	EURRON	USD RON
18-Jun	4.668	4.019
15-Jun	4.660	4.018
14-Jun	4.667	4.033

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
18-Jun	3.1	3.9	4.5	4.9
15-Jun	3.1	3.9	4.5	4.9
14-Jun	3.1	3.9	4.5	4.9

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
18-Jun	2.50	2.95	2.90
15-Jun	2.70	2.95	3.00
14-Jun	2.70	2.95	3.00

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
15-Jun	-0.37	-0.32	-0.27
14-Jun	-0.37	-0.32	-0.27
13-Jun	-0.37	-0.32	-0.27
USD Libor	1M	3M	6M
15-Jun	2.08	2.33	2.50
14-Jun	2.09	2.33	2.50
13-Jun	2.07	2.34	2.50

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	2,772.0	-0.28%	1.82%
Dow Jones	24,954.9	-0.54%	0.75%
FTSE	7,631.3	-0.03%	-2.01%
DAX	12,834.1	-1.36%	-1.25%
Hang Seng	30,309.5	-0.43%	-2.57%
Bucharest BET	8,163.8	-0.46%	-4.81%

Romanian Economy

- Romania registered a current account (C/A) deficit of EUR 2.05bn in the first four months of 2018, higher by 14.9% than in the corresponding period of 2017.

- The trade deficit for goods was EUR 3.5bn in 4M2018, up 13.5%yoy, with both exports and imports diminishing their monthly growth pace due to seasonal effects. Nevertheless, exports increased in 4M2018 by 9.8% compared with the corresponding period of 2017, while imports increased by 10%yoy. The highest exports' share was represented by the machinery and transport equipment (48.3%, out of which 39.1% in relation to the EU). In terms of imported goods, transport equipment is also the most significant, at 37.3%, followed by raw materials (20%) and chemical products (13%).

- 69.5% of the goods' deficit was covered by the surplus in the services' balance (which reached EUR 2.4bn at the end of April, lower by 5.6%yoy in 4M2018).

- Primary income posted a net outflow of EUR 1.4bn in 4M2018, while the secondary income stood at EUR 0.47bn for the same period.

- FDI amounted to EUR 1.5bn in 4M2018, 25% higher than the EUR 1.2bn in 4M2017.

- May inflation came out at 5.4%, up from 5.2% in April, due to higher food, fuel and tobacco prices, while core inflation was stable. The strong RON had a disinflationary impact in May. Inflation could peak at 5.7%yoy in June if the oil price does not rise further and EURRON remains below 4.70. Inflation is likely to remain above 5% until September, falling toward 4%yoy by year-end as the effects of last year's fiscal measures drop out of the base. The National Bank of Romania is likely to hike twice more this year to 3%, but these hikes may come closer to year-end. There are several risks that may trigger earlier hikes: poor risk appetite for EM financial assets, the ECB announcing an end to its QE program and potential tax increases.

- Romanian industrial output increased by 2%mom (working-day and seasonally adjusted) in April, bucking the downtrend in the annual growth pace over the previous 4 months (+5.8%yoy at the end of April). The monthly overall increase was entirely supported by the 3.8%mom (wdsa) rise in the manufacturing sector, as the production of energy

Data spotlight: 11 – 15 June

Romanian Economy (continued)

- and the mining sector posted negative performances (-6.2%mom and -0.6%mom, respectively). Going forward, given the high exposure of industrial output to the European market demand, the heightened protectionist rhetoric is likely to pose a risk to growth, limiting the expansion.

International and Romanian Markets

- While G7, the Kim-Trump summit, US CPI data and even the FOMC decision hardly moved the rates complex, the ECB's verdict was highly supportive of core and periphery. Following the ECB's revised forward guidance, market expectations of the bank's rate-hike path appear to be extraordinarily cautious. Further rate guidance might be given at the ECB forum in Sintra, Portugal, from Monday through Wednesday. German government bond yields dropped by up to 12bp and are now more or less back to the levels that prevailed before a quartet of hawkish ECB statements pushed them up one week ago. Periphery liked the ECB's stance as well, with Italian government bond yields falling by up to 45bp in the aftermath of the ECB statement.
- Romanian government bond (ROMGB) yield curve flattened somewhat over the previous week. The short end of the curve increased, with the 1Y ROMGB adding 3bp to 3.03%, while the 3Y-10Y segment decreased by 2bp, with the 10Y ROMGB trading close to 4.90%. The MinFin placed on Thursday a planned RON 0.4bn in T-bonds with residual maturity of 0.9 years. The average accepted yield was 3.09%, in line with the mid-quotes prevailing on the secondary before the auction. Demand was good, with a bid-to-cover ratio of 1.38x. Monday's auction was also well bid and resulted in MinFin placing RON 0.32bn, slightly above plan, in T-bonds with 2.8 years residual maturity.
- ROBOR rates continued to steepen in the last week. The O/N – 1W segment decreased by 17bp and 5bp to 2.63% and 2.78%, respectively, as we are approaching the end of the current reserve period. The 3M-6M segment, however, inched marginally higher, to 2.92% and 3.03% (+2bp and +3bp, respectively). The NBR continued its deposit taking operations on 18 June, as liquidity conditions seem to be improving in the interbank market. 13 participants placed a total of RON 5.5bn at the NBR (up from RON 2.2bn last week) at the 2.50% monetary policy interest rate.
- The EURRON traded in the 4.6575 – 4.6685 range between 11 – 15 May. The pair is currently quoted close to 4.6670, stabilizing around the upper bound of the range for the second consecutive week. The ECB's and Fed's intentions on rates have created a negative mix for the EUR, dragging EURUSD sharply lower below 1.16. As a result, USDRON breached the 4 threshold, trading above this level in the second half of the week.
- UniCredit Research revised downward its EURUSD forecast to 1.20 (from 1.32) for 2018 and to 1.25 (from 1.36) for 2019. While UniCredit remains long-term positive on EURUSD, it now sees less upside than before. The uncertainty surrounding the impact of higher US tariffs on highly export-oriented regions, as well as increased political uncertainty in the Eurozone, will likely lead to investment flows being less dollar-bearish – and less euro-positive – than previously thought. UniCredit Research continues to see the recent strengthening of the dollar as temporary as a fiscal expansion this late in the cycle is usually associated with FX weakness.

Data spotlight: 11 – 15 June

European Economy

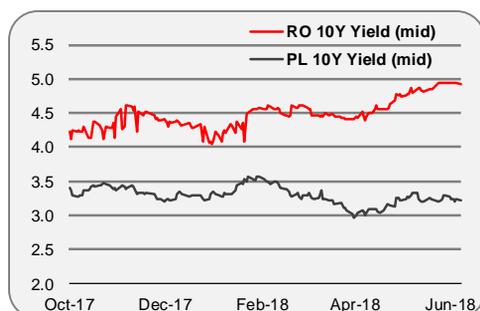
- The ECB announced on 14 June two important changes to its monetary policy stance. First, they plan to taper QE in 4Q18 reducing the monthly purchases to EUR 15bn and stop the program in December. Second, they announced a new (and dovish) forward guidance on policy rates, stating they expect no rate change “at least through the summer of 2019”. This increases the risk that UniCredit’s forecast for a first hike in June 2019 might prove too bullish. The ECB has just stated how it expects its policy to develop going forward and, given the high and rising uncertainty around the outlook for activity and inflation, keeps the optionality to depart from the announced policy path if the outlook changes. The intention of the ECB seems clear: calling the end of QE while reassuring markets that policy rates will remain steady for long amid increased uncertainty. A good balancing act, in UniCredit Research’s view, which was strengthened by Draghi’s overall cautious tone. The market reaction was dovish, as the rate message is seen offsetting the (largely expected) trajectory for asset purchases.

US Economy

- The Federal Reserve delivered on 13 June another 25bp rate hike, in line with expectations, lifting the fed funds target rate to a range of 1.75%-2.00%. The interest paid on excess reserves was lifted by only 20bp in order to bring the effective fed funds rate back to the middle of the target range. The updated Summary of Economic Projections contained some minor upgrades to the growth and inflation outlook. The main change was arguably the upward move of the 2018 dot. The majority of the FOMC now expects a total of four rate hikes this year (up from three), which is in line with UniCredit Research’s baseline forecast. The post-meeting statement contained various wording changes. In essence, they all reflect the Committee’s increased confidence in the economic outlook and the growing conviction that further gradual normalization of the policy stance is needed.

Focus Ahead: 18 – 22 June

MinFin Issues



Data Source: Thomsom Reuters

- The MinFin will sell on Thursday: RON 0.2 in T-bonds with residual maturity of 13.3 years.
- Demand for MinFin's auctions improved in June, as higher yields made the issues more appealing. However, given the long time-to-maturity for this particular bond, we can not rule out a partial allocation outcome.

BOND ISSUES - JUNE

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO1821DBN052	25-Jun-18	27-Oct-21	41	500 lei				
RO1631DBN055	21-Jun-18	24-Sep-31	161	200 lei				
RO1521DBN041	18-Jun-18	22-Mar-21	34	300 lei		529	319	4.05
RO1519DBN037	14-Jun-18	29-Apr-19	11	400 lei		552	400	3.09
RO1823DBN025	11-Jun-18	28-Jun-23	61	500 lei		955	658	4.8
RO1722DBN045	7-Jun-18	8-Mar-22	46	500 lei		714	500	4.57
RO1818CTN060	7-Jun-18	10-Dec-18	6	300 lei		625	169	2.93
RO1624DBN027	4-Jun-18	29-Apr-24	72	500 lei		410	231	4.78

Data Calendar

19-Jun-2018	United States	United States-Housing Stats - Housing Starts Number MM	May. 2018	1.35	1.32	1.29
	United States	United States-House Starts - Building Permits: Number	May. 2018	1.37	1.35	1.35
	Eurozone	Euro Zone-ECB c/a - Current Account SA, EUR	Apr. 2018			32
	Eurozone	Euro Zone-ECB c/a - Current Account NSA, EUR	Apr. 2018			40.6
20-Jun-2018	United States	United States-Current account - Current Account	Q1 2018		-129	-128.2
	Germany	Germany-PPI - Producer Prices YY	May. 2018		2.6	2
	Germany	Germany-PPI - Producer Prices MM	May. 2018		0.4	0.5
21-Jun-2018	Eurozone	Euro Zone-Consumer confidence - Consumer Confid. Flash	Jun. 2018	-0.2	-0.1	0.2
	United States	United States-Jobless - Initial Jobless Claims	w/o Jun. 11, 2018		221	218
22-Jun-2018	Eurozone	Euro Zone-PMI Flash - Markit Comp Flash PMI	Jun. 2018	54.1	53.9	54.1
	Eurozone	Euro Zone-PMI Flash - Markit Serv Flash PMI	Jun. 2018	53.8	53.6	53.9
	Germany	Germany-PMI Flash - Markit Comp Flash PMI	Jun. 2018	53.4	53.5	53.1
	Germany	Germany-PMI Flash - Markit Service Flash PMI	Jun. 2018	52	52.2	52.1
	Germany	Germany-PMI Flash - Markit Mfg Flash PMI	Jun. 2018	56.4	56.1	56.8

Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2015	2016	2017E	2018F	2019F
GDP (EUR bn)	160.3	169.8	187.5	2012	213.7
Population (mn)	19.9	19.8	19.6	19.6	19.5
GDP per capita (EUR)	8067	8591	9546	10275	10946
Real economy yoy (%)					
GDP	4.0	4.8	7.0	4.4	3.6
Household Consumption	5.9	7.6	10.2	5.4	4.0
Fixed Investment	7.4	-2.0	5.4	13	3.4
Collective Public Consumption	0.2	3.1	16	16	0.9
Exports	4.6	8.7	9.5	7.5	5.9
Imports	8.0	9.8	11.1	8.8	7.1
Monthly wage, nominal (EUR)	576	643	724	939	981
Unemployment rate (%); ILO avg	6.8	5.9	4.9	4.5	4.4
Fiscal accounts (% of GDP)					
Budget balance	-0.8	-3.0	-2.7	-3.4	-3.6
Primary balance	0.5	-1.7	-1.5	-2.0	-2.1
Public debt	37.9	37.6	36.8	36.9	37.7
External accounts					
Current account balance (EUR bn)	-2.0	-3.5	-6.5	-8.2	-8.6
Current account balance/GDP (%)	-12	-2.1	-3.4	-4.1	-4.0
Net FDI (% of GDP)	18	2.7	2.4	2.4	2.3
Gross foreign debt (% of GDP)	57.4	54.7	50.1	46.7	43.9
Fx reserves (EUR bn)	32.2	34.2	33.5	32.1	30.7
Inflation/Monetary/FX					
CPI (pavg)	-0.6	-1.5	1.3	4.6	3.4
CPI (eop)	-0.9	-0.5	3.3	3.5	3.5
Central bank inflation target	2.5	2.5	2.5	2.5	2.5
Central bank key rate (eop)	1.75	1.75	1.75	3.00	3.00
3M money market rate (eop)	1.03	0.83	2.13	3.10	3.09
RON/USD (eop)	4.15	4.30	3.89	3.92	3.80
RON/EUR (eop)	4.52	4.54	4.66	4.71	4.75
RON/USD (pavg)	4.01	4.06	4.05	3.89	3.80
RON/EUR (pavg)	4.44	4.49	4.57	4.66	4.68

UniCredit Forecast, eop	Current	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
EURRON	4.668	4.650	4.710	4.678	4.700	4.650	4.750
EURUSD	1.161	1.190	1.200	1.210	1.230	1.240	1.250
EURCHF	1.156	1.170	1.180	1.190	1.200	1.190	1.180
USDRON	4.021	3.908	3.925	3.866	3.821	3.750	3.800
CHFRON	4.039	3.974	3.992	3.931	3.917	3.908	4.025
EURIBOR 3M	-0.37	-0.35	-0.35	-0.25	-0.10	0.00	0.10
ROBOR 3M	3.00	2.75	3.10	3.10	3.05	3.05	3.09

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