GROUPE SOCIETE GENERALE

Weekly Market Letter

International Developments
pg. 2

- German investor confidence ZEW rocketed to +31.5 in January from +6.9 in December, spurred by improving economic expectations for the euro area.
- The composite flash EMU PMI leaped to 48.2 in January (47.2 in Dec). German composite PMI rose to 53.6 in Jan (vs. 50.3 in Dec), while the IFO gauge of investor confidence rose to 104.2 (vs. 102.4 in Dec).
- BoJ moved to a 2% inflation target and will pursue an open-ended "aggressive monetary easing" through purchases of financial assets as of Jan'14.

Romania Developments
pg. 2

FX market

- Most CEE FX peers ended the week in the red on country-specifics, despite the thrust of positive soft indicators released this week supporting risk appetite.
- RON went into a mild retreat and traded range-bound.

Bond market

- All tenders for new papers planned for this week (i.e. ROMTB0 07/13, ROMGB3.25 02/16, ROMGB5.85 4/23) were met with solid demand and falling yields, though none of them were high on foreign investors' radar.

Economic data

- PM Ponta confirmed on Friday that Romania bid for an SBA loan extension to complete structural reforms;
- The international banks' consolidated claims on Romania (total exposure) edged up to USD 105.97 bln in Q3'12.
- The Government passed the 2013 budget bill and published the revised 2013-2015 Fiscal strategy.
- Money supply (M3) yearly dynamics decelerated further to +2.7% y/y in Dec;
- Non-Government credit plummeted further in December (-1.4% m/m, +1.3% y/y, nominal);
- Non-Government deposits dynamics picked up in December (+1.0% m/m, +5.3% y/y).

Economic Releases – February 2013
pg. 6

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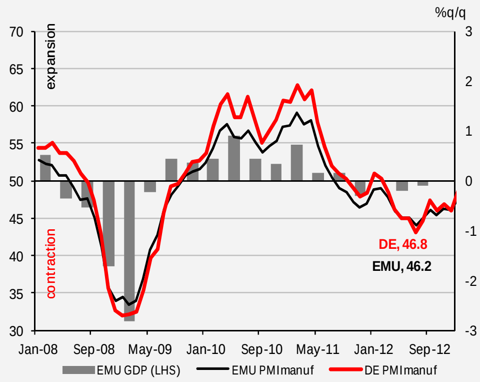
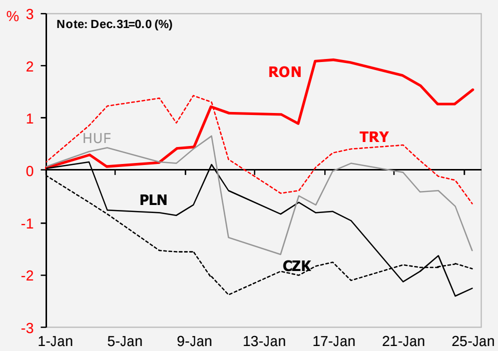
PMI Manufacturing gaining traction

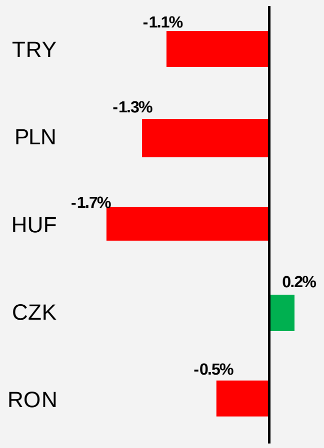


Source: Bloomberg, Eurostat

Performance of regional currencies
(spot y-t-d, NBR fixing)



Weekly currency evolutions versus EUR



Source: NBR, BRD-GSG

International Developments

German investor confidence ZEW rocketed to +31.5 in Jan from +6.9 in Dec'12, reinforcing hopes that economic conditions may be on a recovery path. The sharp rise, overshooting expectations (BBGf: +12.0), was spurred by sharply improving economic expectations for the euro area (+31.2 vs. +7.6) atop of a mild advance in businesses' gauge of the current situation in both Germany (+7.1 vs. +5.7 in Dec) and EMU (-75.3 vs. -79.9 in Dec). The EUR strengthened against the USD following the positive data release.

The composite flash EMU PMI leaped to 48.2 in January (47.2 in Dec), considerably above expectations (BBGf: 47.5). The positive dynamics were underpinned by an improvement in the Services sector outlook (48.3 vs. 47.8 in Dec) reinforced by progress in Manufacturing gauge (47.5 vs. 46.1 in Dec). German composite PMI rose to 53.6 in Jan (vs. 50.3 in Dec), while the IFO gauge of investor confidence rose to 104.2 (vs. 102.4 in Dec).

Bank of Japan moved to a 2% inflation target and will pursue an open-ended "aggressive monetary easing" through financial assets purchases (¥13 tn/month JGBs and T-bills) for as long as deemed necessary starting Jan'14. The Asset Purchase Program size will be increased by about ¥10 trillion yen in 2014 (less than markets expected) and will be maintained thereafter until the inflation target is attained. The joint BOJ-Government communiqué vowing to increase cooperation raised issues regarding central bank independence, as cautioned by Bundesbank President. JPY lost 3.6% ytd against the EUR.

Romania Developments

FX Market

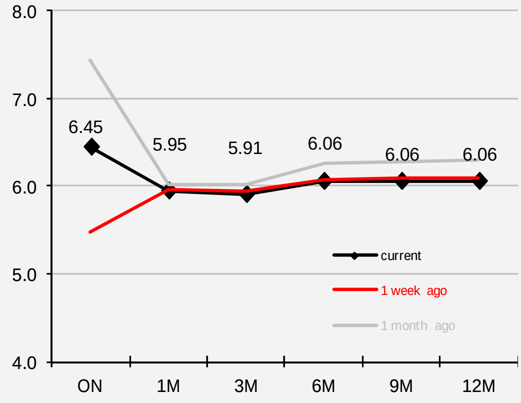
Most CEE FX peers ended the week in the red on country-specifics. Hefty outflows pushed the forint sharply weaker over the week (-1.7% w/w), while weak retail trade data strengthened the case for another interest rate cut on Jan 29th. Friday's announcement of the early repayment of the IMF tranche did not help reverse losses. The PLN was sold off this week (-1.3% w/w) on macro triggers (i.e. poor retail sales, unemployment data) despite successful FI auctions and IMF FCL renewal. The CZK strengthened 0.2% w/w, as signs of an economic recovery in EMU and Germany tamed speculation the CNB intervening to weaken the currency. The RON went into a mild retreat and traded range-bound 4.34-4.38. EBRD revised downwards its projections for Romania's GDP performance to 1.4% y/y in 2013, lower than the 1.6% y/y envisaged by the World Bank and MinFin. We expect little changes next week, in lack of major movers on the FI market.

Next week view: EURRON to trade between 4.34-4.38.

	RON vs EUR		RON vs USD	
Friday NBR ref.	4.3606		3.2482	
	ch. pips	ch. %	ch. pips	ch. %
1 week	-233	-0.5	2	0.0
1 month	625	1.4	986	2.9
ytd	547	1.2	1,201	3.6

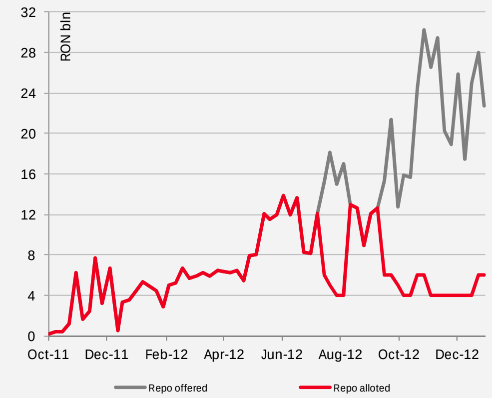
Source: NBR, BRD-GSG

ROBOR rates(%)



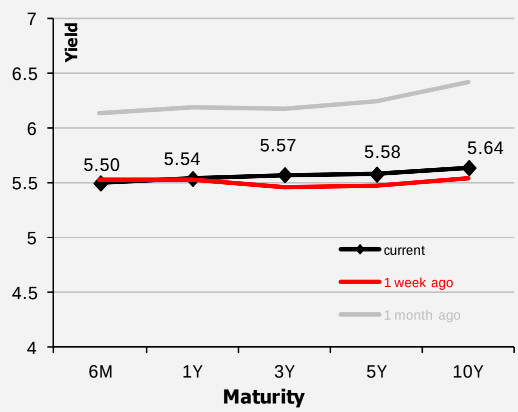
Source: NBR

NBR repo auctions (RON bln)



Source: NBR

Treasury benchmarks (fixing mid, %)



Source: NBR

Money Market

NBR maintained the looser repo cap at RON 6bln on Monday, following a week when RON recorded a stellar performance. Allotment rose to 26.37% (vs. 21.44% prev.) of banks' bids. Total demand retrenched to RON 22.74 bln, compared to RON 27.97 bln at the previous auction. O/N rates adjusted downwards to 1.66% on the last day of the reserve period on Wednesday. As usual, O/N rates surged close to 6.0% at the start of a new reserve maintenance period, while the longer end of the curve remained virtually unchanged.

Bond Market

MinFin sold a planned RON 0.3 bln in 6m T-bill CTN039 at Monday's primary market auction. While average yield fell to 5.53% (vs 5.91% prev.) in line with our expectations (est. 5.55%) and bid-to-cover ratio painted at a healthy 4.9x, Treasury debt managers chose not to over-supply the auction. 6m T-bills have been generally bought by locals and were probably too short-tenor to cater to international real money's taste, reflected in the fact that the auction had no supportive impact on the RON. On Tuesday, MinFin tendered 3.3x more than planned (EUR 502 m vs. EUR 150 m) in a new 3Y T-bond (ROMGB3.25 02/16 - DBE011). Average yield fell to 3.14% (vs 3.76% on Oct.22nd), while bid-to-cover ratio painted at 1.6x. Despite the positive externality from eligible local papers, we envisage locals to have remained the largest part of the investor base. MinFin will likely tap market with the DBE011 series as soon as Mar'13.

On Thursday, MinFin tapped markets to successfully tender a new 10Y benchmark (ROMGB5.85 4/23, DBN018 series), over-sizing supply to a hefty RON 1.1 bln, 1.83x the initial announcement (RON 0.6 bln). Demand amounted to a solid RON 1.3 bln when considering the long tenor - not high yet on foreign investors' radar. Average yield painted at 5.71%, considerably lower compared to a similar auction on Mar.1st 2012 (6.75%). Given the high allotment, a re-opening of this series next quarter to boost liquidity will make DBN018 eligible for inclusion into Barclays EMLBI once it crosses total outstanding of EUR 300 m threshold. MinFin has sold a total of RON13.6bn local debt, which is around 15% of this year's total.

Secondary market yields mostly inched up compared to last week in absence of high profile primary auctions, as markets settle in after the JPM announcement. Yields should continue to receive support from higher appetite for Romanian debt. The front-end dropped by 3bps compared to last week, while other tenures rose by an average 8bps.

Auctions - January 2013

ISIN code	Date	Maturity	Amount planned (RONm)	Total Bids (RONm)	Amount Allotted (RONm)	Average yield (%)	Maximum yield (%)
RO1314CTN011	7-Jan	1Y	500	1,696	1,090	6.06%	6.09%
RO1214DBN068	7-Jan	2Y	800	1,526	1,061	6.11%	6.14%
RO1216DBN030	10-Jan	4Y	600	5,263	1,826	6.03%	6.05%
RO1314CTN029	14-Jan	1Y	500	2,998	1,396	5.85%	5.92%
RO1215DBN073	14-Jan	3Y	800	2,936	1,500	5.95%	5.97%
RO1217DBN046	17-Jan	5Y	500	3,935	3,106	5.40%	5.55%
RO1313CTN039	21-Jan	6M	300	1,460	300	5.55%	5.59%
RO1316DBE011	22-Jan	3Y	€150	€807.6	€502.5	3.14%	3.15%
RO1323DBN018	24-Jan	10Y	600	1,300	1,107	5.71%	5.79%

Source: Ministry of Finance

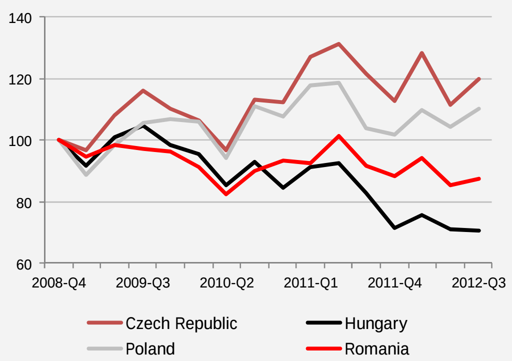
Economic Data

PM Ponta confirmed that Romania bid for an SBA loan extension; International banks' consolidated claims on Romania (total exposure) edged up to USD 105.97 bln in Q3'12; The Government passed the 2013 budget bill and published the revised 2013-2015 Fiscal strategy; Money supply (M3) yearly dynamics decelerated further to +2.7% y/y in Dec; Non-Government credit plummeted further in December (-1.4% m/m, +1.3% y/y, nominal); Non-Government deposits dynamics picked up in December (+1.0% m/m, +5.3% y/y).

PM Ponta confirmed on Friday that Romania bid for a two month SBA extension to complete structural reforms it had committed to (mainly privatizations of state owned assets), which should be accepted by IMF. Talks for new precautionary agreement are envisaged to start in July, immediately after the current agreement is finalized. This is in line with our expectation that an extension/renewal should be no problem. We see a successful renewal as another boost to local bond market and may trigger some rating outlook upgrade.

According to the latest data published by the Bank for International Settlements (BIS), the **international banks' consolidated claims** on Romania (total exposure) edged up to USD 105.97 bln in Q3'12 (from a revised figure of USD 103.6 bln in Q2'12, +2.3% q/q, -1.2% ytd). The latest developments reverse the negative trend started in Q3'11, which was briefly interrupted in Q1'12 (supported by ECB's liquidity injection). The advance is in line with positive evolutions of consolidated claims seen by Poland (+5.5% q/q) and the Czech Republic (+7.2% q/q), and diverges from negative developments in Hungary (-0.6% q/q), where banks continue to deleverage.

International banks' consolidated claims on Romania (Q4'08 = 100)

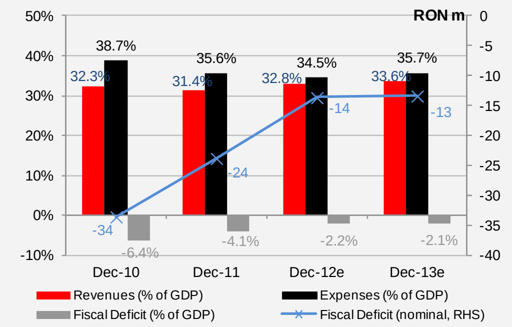


Source: BIS, BRD-GSG

Austrian banks maintain the largest exposure to the Romanian banking system (35% of total) and reaffirmed their commitment to the region during the most recent Euromoney conference in Vienna. France (18% of total, edging up) and Greece (15.9% of total, slightly lower) retain the second and third largest exposure to Romania. Q3'12 figures reveal that bank deleveraging remains orderly, while interbank liquidity conditions are managed by NBR through the weekly repo operations.

According to an ECBI analysis the stock of outstanding financing from foreign banks in Romania remains large, i.e. in excess of 30% of GDP and as high as 55% of private credit. This entails a substantial impact in a scenario of locally-financed subsidiaries and the funding drain, prevented by the Vienna 2.0 initiative.

Fiscal deficit (cash basis)

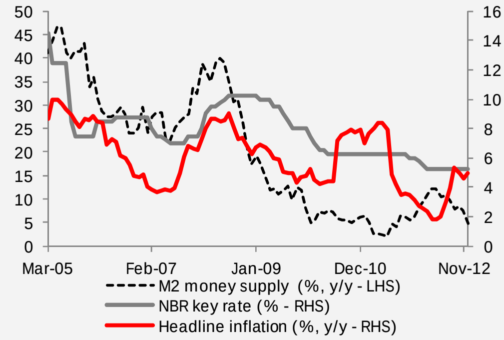


Source: MinFin, IMF, BRD-GSG

The Government passed the **2013 budget bill** and published the revised 2013-2015 Fiscal strategy. The amended strategy envisages a more gradual reduction of the fiscal gap to 2.1% (vs. 1.8% prev) of proj. GDP in 2013 and 1.8% of proj GDP (vs. 1.4%) in 2014-2016. The ESA deficit is projected to come down to 2.4% of GDP this year. The government plans to undertake a structural effort to rein in the structural shortfall at 1.4% of GDP in 2013 (vs. 1.8% in 2012). The Cabinet envisages attaining its Medium-Term Objective (MTO) – a structural deficit of 1% of GDP – by 2014. The Government targets to increase revenues (mainly through supplementary taxes and higher tax base) to 33.8% of GDP by 2016, while stabilizing expenditures at 35.7% of GDP.

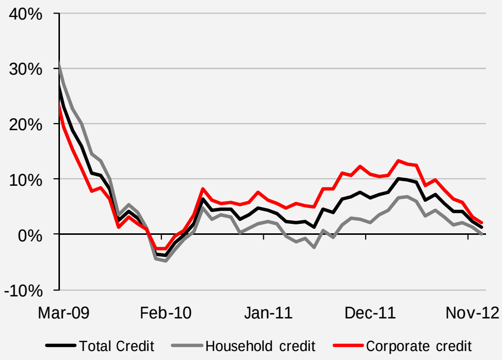
The strategy relies on a +1.6% y/y real economic growth in 2013, +2.2% y/y (real) in 2014 (revised from 3.6% y/y) and +2.8% y/y (vs. 3.9% prev).

M2 and headline inflation



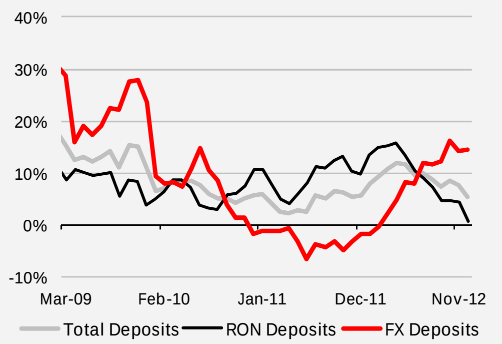
Source NBR, NIS, BRD-GSG

Non-government credit (nominal, y/y)



Source NBR, BRD-GSG

Non-government deposits (nominal, y/y)



Source NBR, BRD-GSG

Money supply (M3) yearly dynamics decelerated further to +2.7% y/y in December while the monthly flow edged higher (+0.6% m/m vs. +0.1 m/m in Nov). The advance was underpinned by an increase in M2 deposits – Savings accounts (+0.6% m/m, +4.6% y/y). The Cash and Checking Account (M1) rose by +0.9% m/m, +3.7% y/y, driven by higher Overnight deposits (+2.1% m/m, +4.2% y/y) and overriding the contraction in the stock of Currency in circulation (-1.3% m/m, +2.8% y/y). The other marketable instruments included in M3 (repo, money market share units, marketable securities etc.) slumped 27.8% m/m (-95.5% y/y). We envisage the overall money supply trend to be a good reflection of non-government credit feeble dynamics.

Non-Government credit plummeted further in December (-1.4% m/m, +1.3% y/y, nominal), matching November's dismal performance (-1.5 m/m, +2.3% y/y). Moreover, *in real terms*, lending to the private sector contracted 1.9% m/m and 3.5% y/y. The negative trend was mainly driven by the dry-up in FX lending (-2.2% m/m, -0.2% y/y, nominal) for both Corporates (-2.5% m/m, -1.5% y/y) and Households (-1.9% m/m, +1.3% y/y). The negative dynamics in FX lending (chiefly EUR lending) should perpetuate throughout the year due to several banks' decision to cut back lending in EUR and focus on LCY. The feeble increase in lending in RON (+0.1% m/m, +3.8% y/y) was shouldered by Corporations' financing demand (+0.4% m/m, +8.0% y/y), whereas Household lending in domestic currency remained very modest in December (-0.3% m/m, -1.9% y/y). General government credit rose by 1.0% m/m (+11.2% y/y) in nominal terms in December.

Due to NBR measures to deter FX lending and several financial institutions' decisions to suspend FX-denominated loans, we remain cautiously pessimistic about the non-government credit real rebound prospects. As such, we expect a gradual shift towards LCY lending, intensifying when NBR resumes cutting cycle. Meanwhile, as a reminder, non-performing loans ratio stood as high as 17.92% in Nov'12 and are projected to inch further (BRDf: 18.4% by end-2012). We conjecture nominal credit growth to remain below 5% y/y by end-2013, with risks clearly slanted to the downside.

Non-Government deposits dynamics picked up in December (+1.0% m/m, +5.3% y/y) compared to November (+0.2% m/m, +7.7% y/y). The main conduit underpinning the advance was the evolution of FX-savings (+1.6% m/m, +14.5% y/y), supported by Corporate customers (+2.8% m/m, +10.5% y/y) and Households (+0.9% m/m, +16.7% y/y). Meanwhile, Households' savings in RON remained in the negative in December, in the run-up to the holidays (-0.3% m/m, +3.7% y/y). Conversely, Corporations' local currency savings rose 2.2% m/m (-3.4% y/y).

Economic Releases – February 2013

Date	Event	Period	BBG Survey	BRD-GSGf	Actual	Prior
2/1/2013	Retail Sales (MoM)	Dec	--			2.0%
2/1/2013	Retail Sales (YoY)	Dec	--			3.0%
2/1/2013	International Reserves (Total)	Jan	--			35.4B
2/4/2013	Producer Prices (MoM)	Dec	--			-0.9%
2/4/2013	Producer Prices (YoY)	Dec	--			5.4%
2/5/2013	Interest Rate Announcement	2/5/2013	--	5.25%		5.3%
2/6/2013	Net Wages (YOY)	Dec	--			5.6%
2/6/2013	Industrial Sales (MoM)	Dec	--			-2.8%
2/6/2013	Industrial Sales (YoY)	Dec	--			4.6%
2/8/2013	Industrial Output (MoM)	Dec	--			-0.8%
2/8/2013	Industrial Output (YoY)	Dec	--			-1.3%
2/11/2013	Trade Balance (Mln Euros)	Dec	--			-409.00
2/12/2013	Consumer Prices (MoM)	Jan	--			0.6%
2/12/2013	Consumer Prices (YoY)	Jan				5.0%
2/12/2013	Current Account (EUR)(YTD)	Dec	--			-4245M
2/14/2013	GDP YoY%	4Q A				-0.5%
2/14/2013	GDP SA QoQ	4Q A				-0.4%
2/25/2013	Money Supply (YoY)	Jan				--
						2.0%

Source: NIS, NBR, BRD-GSG
*Bloomberg survey

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