Weekly Market Letter

International Developments

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- Euro area flash inflation decelerated to 2.0% y/y in January on lower energy prices.
- The US GDP contracted by 0.1% q/q (annualised) in Q4'12 as lower government spending and contracting inventories offset the healthy increase in personal expenditure.
- US non-farm payrolls advanced in Jan by 157,000 jobs, while unemployment inched higher to 7.9%. January's employment report signals that Q4'12 GDP contraction was merely a blip and that labour market is improving.

Romania Developments

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FX market

- CEE FX evolution lacked lustre this week, when set against a favourable risk sentiment and a strong EUR rally. RON erred on the weaker side this week and traded range bound.

Bond market

- The Ministry of Finance plans to issue RON 3.7 bln on local debt markets in February, skewed towards longer-tenure papers, particularly those earmarked as eligible for inclusion in Barclays EMLCI and JPM GBI-EM Indices.

Economic data

- IMF/EC Mission concluded and confirmed Staff-level agreement on 3-month SBA extension.
- Retail activity (sa) plunged 3.2% m/m (-2.3% y/y) in December on low Non-food purchases.
- ILO jobless measure (seasonally adjusted) edged down to 6.5% in December.
- FX reserves (excluding gold) edged higher to EUR 31.46 bln in January.
- Housing start permits plunged in December (-14.2% y/y) and edged 4.0% lower in 12M'12.

Romania Economic Previews

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- We expect NBR to maintain monetary policy rate unchanged at 5.25% at its meeting on Tuesday, in line with consensus.

Potential Impact: Neutral

Economic Releases – February 2013

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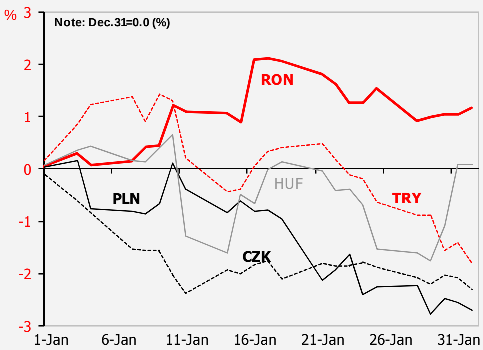
International Developments

Euro area flash inflation decelerated to 2.0% y/y in January, compared to 2.2% in December. The breakdown showed that the decelerating energy prices (+3.2% y/y vs. +5.2% y/y prev.) buttressed by a stronger EUR, supported the lower reading. Meanwhile, food, alcohol and tobacco price dynamics picked up (+3.2% y/y vs. +3.1% y/y prev), while Services edged lower to 1.7% y/y (vs. 1.8% y/y). ECB HICP projections currently encompass a mid-point average of 1.6% for 2013.

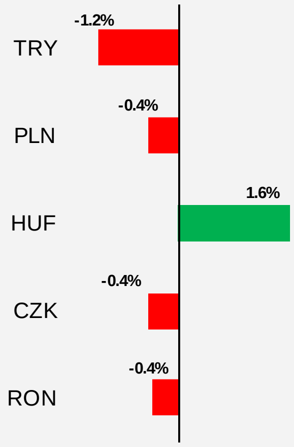
The US GDP contracted by 0.1% (annualised) in Q4'12 (vs. 3.1% q/q annualized in Q3'12), strongly undershooting expectations of a 1.1% expansion. The main conduits behind the negative reading were Private inventories investments (-1.2 pp), lower Government spending (-1.3 pp) mainly on National defence (-1.3pp) and contracting Net Exports (-0.25 pp). On a positive note, Personal consumption expenditure rose by a strong 2.2% q/q (ann.) and contributed by 1.52pp to Q4 performance. Encompassing the Q4'12 reading, real GDP increased 2.2% y/y in 2012, compared to 1.8% y/y in 2011.

US non-farm payrolls advanced in January by 157,000 jobs (vs. BBGf: 165,000) compared to 196,000 (rev. from 155,000) in Dec. The reading confirms analysts' view that Q4'12 GDP contraction was merely a blip and that labour market is improving. Jobless rate edged higher at 7.9%, compared to 7.8% in Dec. Labour participation ominously steadied at 63.6% in January.

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



Weekly currency evolutions versus EUR



Source: NBR, BRD-GSG

Romania Developments

FX Market

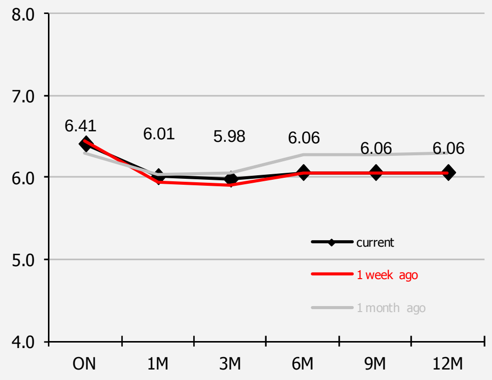
Most CEE FX evolution was lacked lustre this week, when set against a favourable risk sentiment and a strong EUR rally. However, the forint made a stellar comeback (+1.6% w/w) following MNB expected decision to cut interest rate by another 25bps. The main support factor was NBH potential candidate Matolcsy backtracking on his unorthodox policy agenda, which tamed investors' concerns. The PLN was sold off (-0.4% w/w) on macro triggers (i.e. poor GDP growth reading, 2% y/y in 2012) and fixed income outflows. The CZK edged lower (-0.4% w/w) on fears of FX interventions. A strong Czech PMI reading, reinforced by supportive non-far payrolls reading lifted the currency on Friday. The RON erred on the weaker side this week and traded range bound, with some spikes and blips following IMF conclusions. Nevertheless, we remain bullish on the leu on the near-term, as expressed in our latest trade idea in collaboration with SG *Sell EUR/RON on local bond inflow story*.

Next week view: EURRON to trade between 4.33-4.38.

	RON vs EUR		RON vs USD	
Friday NBR ref.	4.3771		3.2033	
	ch. pips	ch. %	ch. pips	ch. %
1 week	-165	-0.4	449	1.4
1 month	480	1.1	1,984	5.8
ytd	382	0.9	1,650	4.9

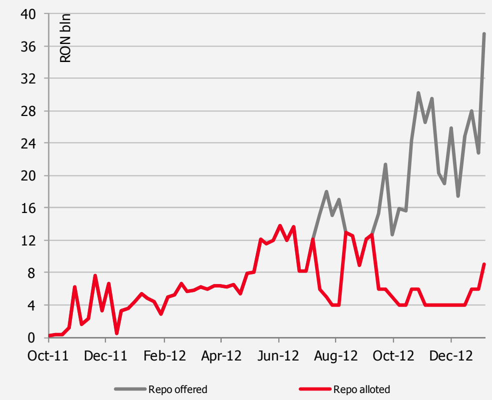
Source: NBR, BRD-GSG

ROBOR rates(%)



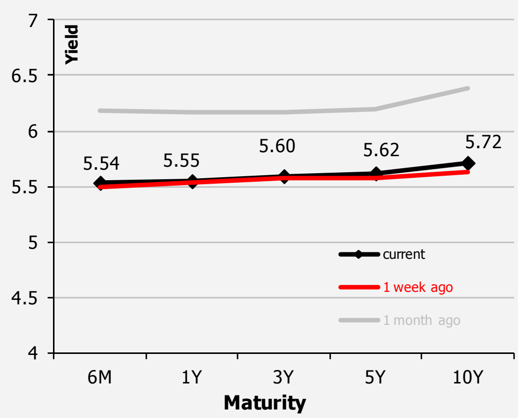
Source: NBR

NBR repo auctions (RON bln)



Source: NBR

Treasury benchmarks (fixing mid, %)



Source: NBR

Money Market

In line with the change of tone at last month's MPC, NBR loosened the cap on the repurchase agreement to RON 9bln (vs. RON 6bln previously). Bids surged to RON 37.5 bln compared to RON 22.74 bln the week before (17 participants). Consequently, allotment dropped to 23.99% (vs. 26.37% prev.) of banks' bids.

O/N rates were virtually flat at 6.4% at the beginning of a new reserve maintenance period, while the longer end of the curve remained virtually unchanged.

Bond Market

For February 2013, the Ministry of Finance plans to issue RON 3.7 bln on local debt markets, compared to a hefty RON 13.2 bln (equiv) sold in Jan'13. The announced auctions are skewed towards longer-tenure papers, particularly those earmarked as eligible for inclusion in Barclays EMLCI and JPM GBI-EM Indices. Indeed, in view of the global indexes inclusion, we expect the 2-5y benchmarks to be tapped regularly throughout 2013. Moreover, for asset&liability management purposes, we expect treasury debt managers to aim at lengthening the public debt maturity profile such as to reduce vulnerability related to re-financing risk.

Overall, this month MinFin aims to issue RON 1.0 bln in T-bills and RON 2.7 bln in various longer maturities (2y-5y).

In absence of primary market tenders, secondary market yields inched up marginally compared to last week. However, yields should continue to receive support from higher appetite for Romanian debt, particularly at the middle of the curve. The front-end rose by 4bps compared to last week, while long-end tenures (10 yr and 15 yr) rose by 8-11bps.

Auctions - February 2013

ISIN code	Date	Maturity	Amount planned (RONm)	Total Bids (RONm)	Amount Allotted (RONm)
RO1314CTN045	4-Feb	1Y	500		
RO1215DBN073	4-Feb	3Y	500		
RO1217DBN046	7-Feb	5Y	500		
RO1214DBN068	11-Feb	2Y	600		
RO1216DBN030	14-Feb	4Y	300		
RO1314CTN052	18-Feb	1Y	500		
RO1116DBN024	21-Feb	5Y	800		

Source: Ministry of Finance

Economic Data

IMF/EC Mission concluded and confirmed Staff-level agreement on 3-month SBA extension; Retail activity (sa) plunged 3.2% m/m (-2.3% y/y) in December on low Non-food purchases; ILO jobless measure (seasonally adjusted) dropped to 6.5% in December; Housing start permits plunged in December (-14.2% y/y) and edged 4.0% lower in 12M'12; FX reserves (excluding gold) edged higher to EUR 31.46 bln in January.

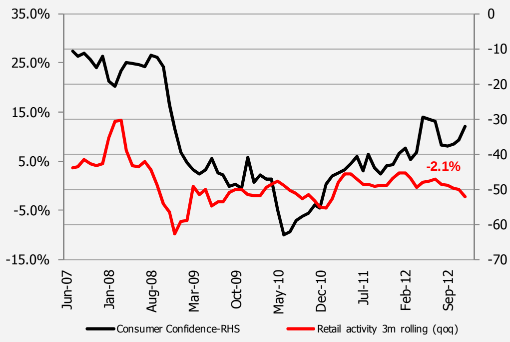
The IMF/EC Mission confirmed, in their concluding statement, that an agreement was reached at staff level to allow a three-month extension of the current Stand By Arrangement in order to allow the Romanian authorities the necessary time to undertake fast-track corrective actions to achieve the remaining objectives of the programme (i.e. reduction of government payment arrears and public enterprise privatisations). IMF Mission chief de Vrijer endorsed NBR monetary policy stance and considered the 2012 budget deficit in accrual terms (ESA methodology) was reduced to below 3% of GDP — as planned. In the joint statement, the Mission indicated that they envisage Romania's inflation to fall slightly above the target interval in H2'13, while economic growth should run at around 1.5-1.6% y/y in 2013 (in line with MinFin). Hence, the final tranche of the SBA will only be made available upon successful completion of the programme (expected end-June). De Vrijer cautioned that there are clear pre-conditions for negotiating a back-to-back loan, i.e. selling 15% stake of Transgaz (natural gas grid operator), privatization of CFR Marfă (rail-freight company). The deadline entails a very tight privatization schedule for the Cabinet.

The EC's Balance of Payments Assistance Programme for Romania (2011-2013) granted in conjunction with the IMF-SBA and treated precautionary by Romanian authorities, will end on schedule - at end-March. However, the EC will take part in the next review mission, scheduled for July. As a consequence, the co-financing requirements of EU Structural Funds programmes from public funds will rise from 5% (currently) to 15% as of end-March (hence the higher budget allocation for EU programmes this year).

Retail activity (sa) plunged 3.2% m/m and 2.3% y/y in December (vs. +1.3% m/m and +2.4% y/y in Nov, revised). The monthly slump was widespread across all items, but was the plunge in sales of non-food items (-4.5% m/m) and Fuels (-3.6% m/m) were the main conduits. In annual comparison, beverages and tobacco retail sales edged higher, marginally propped by holiday sales (+0.7% y/y), while non-food sales contracted sharply (-4.1% y/y). By removing the seasonality factor, quarterly figures show retail activity performance was dismal (+0.3% 3m rolling y/y and -2.1% 3m/3m in Dec). Forward-looking indicators convey mixed signals about the sector over the near-term. Retail trade confidence plunged to 1.8 in January (vs. 5.6 in Dec), while consumer confidence improved to -32.0 in January (vs. -32.2 prev).

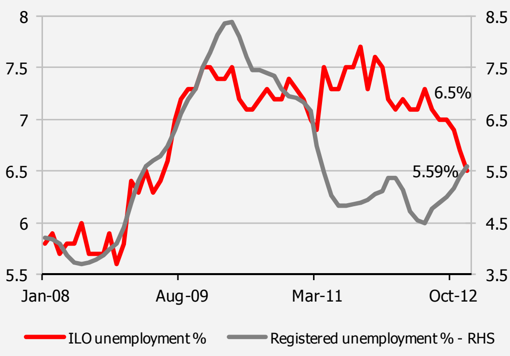
ILO jobless measure (seasonally adjusted), surveying both registered and unregistered unemployed persons actively searching for work, dropped to 6.5% in December. In spite of expected seasonality effects depressing labour market and in a context of dismal economic performance, total jobless headcount continued to inch down by 13,000 persons compared to last month to 661,000 unemployed. Meanwhile, the alternative unemployment measure, capturing idle workers registered with the social services rose further to 5.6% in December. In international comparison, ILO jobless rate remains comfortably below EU17 (11.7%) and EU27 average (10.7%) and the lowest in CEE (Czech

Retail sales and consumer confidence



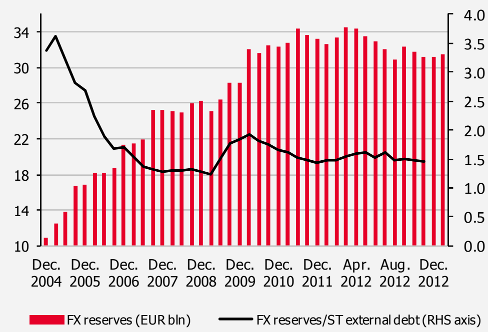
Source: NIS, Eurostat, BRD-GSG

Jobless measures diverging



Source: NIS, NAE, BRD-GSG

FX reserves/ST external debt



Source: NBR, BRD-GSG

Republic: 7.5%).

Looking forward, unemployment expectations for the next 12 months expressed by consumers improved in January (37.3 vs. 39.8 previously). However, surveys of the corporate sector convey mixed signals about the labour force, with industrial companies envisaging the number of employees to stabilize, while services and construction enterprises expecting a lower number of employees over the next quarter.

FX reserves (excluding gold) edged higher to EUR 31.46 bln in January from EUR 31.21 bln in December. Following a strong RON performance and lower external debt payments schedule, net inflows amounted to EUR 253 m. Total outflows decelerated to EUR 1.73 bln in January from EUR 2.09 bln in December, stemming from payments to service external public and publicly guaranteed debt (EUR 838 m in Feb). Total inflows of RON 1.98 bln stemmed from inflows into the MinFin accounts (the proceeds of international issuance), inflows into EC account and changes in the FX reserve requirements of the credit institutions.

Given the heavy repayment schedule to the IMF/EC/WB until 2015, FX reserves could continue edging lower, while the bouts of appreciation of the RON and stronger foreign inflows could act as solid counteracting factors.

Housing start permits plunged in December (-14.2% y/y) and edged 4.0% lower in 12M’12. However, the annual contraction in building activity was steeper in rural areas (-19.0% y/y), while urban building held up stronger (-3.7% y/y in Dec). Construction confidence – a forward looking indicator surveying businesses active in the sector - has deteriorated again in December (down to -29.1 vs. -26.8 in Nov), as building companies fret the deterioration in weather conditions encumbering their activity and project a pessimistic evolution of order logs.

Romania Economic Previews

We expect NBR to keep policy rate on hold at 5.25% at its MPC meeting on February 5th, thus maintaining its cautious stance - acknowledged and endorsed by the IMF Mission. With an eye to the feeble projected recovery in 2013 (BRDf: 1.3% y/y, real), the Central Bank will continue its balancing act when faced with a heavy load of supply-side inflationary pressures stemming from administered price hikes.

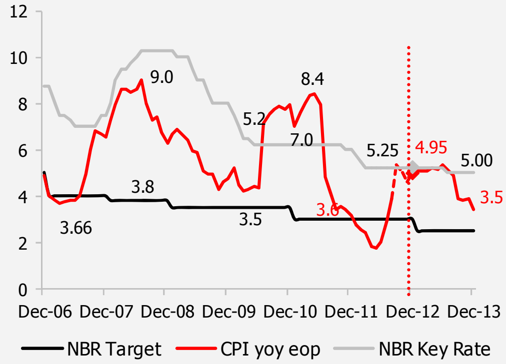
Moreover, in light of recent rise in foreign investors' appetite for Romanian assets impacting net foreign assets position, NBR will weigh in the implications on investors looking for yield.

With economic growth projected to run below potential over the medium-term, NBR has only limited space to employ the interest rate channel and is bound to continue deploying liquidity management measures. We do not expect any change in the current levels of minimum reserve requirements (RON liabilities - 15%, FX liabilities – 20%) and we do not expect any change of tone at next week's meeting related to liquidity management.

From an inflation perspective, December CPI accelerated by 0.6% m/m (+4.95% y/y), on notable accelerations in Non-food components (i.e. Electricity prices) and Food. For the following months, we see CPI gathering steam again, spurred by temporary supply-side factors. Administered price increases (i.e. gas and energy) in line with the IMF negotiated schedule will rattle headline inflation in Q1'13 with a heavy backlog for both producers and consumers. For 2013 as a whole, we continue to envisage the brittle recovery in domestic demand as the main determinant taming inflationary developments, whereas temporary supply-side pressures resulting from the heavy schedule of administered price hikes will abate. The large negative output gap (IMF: -3.5% in 2013, NBR: -4.65% in Q1'13) will limit further propagation through secondary round effects, such that CPI will likely end up at 3.5% y/y by end-2013.

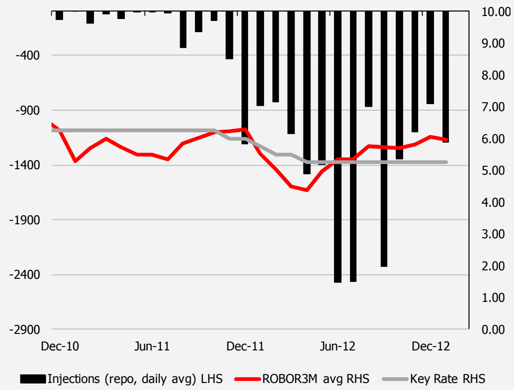
As such, we estimate NBR will keep the key rate at 5.25% at least until Q3'13 to fight off potential second-round inflationary effects from the increases in regulated prices. But as transitory strains taper off and external conditions allow it, the Central bank should seize the window of opportunity and resume the rate-cutting cycle to address growth slowdown.

Inflation and key rate:



Source NBR, NIS, BRD-GSG

Interbank liquidity conditions:



Source NBR, BRD-GSG

BRD

GROUPE SOCIETE GENERALE

Economic Releases – February 2013

Date	Event	Period	BBG Survey	BRD-GSGf	Actual	Prior
2/1/2013	Retail Sales (MoM)	Dec	--		-3.2%	2.0%
2/1/2013	Retail Sales (YoY)	Dec	--		-2.3%	3.0%
2/1/2013	International Reserves (Total)	Jan	--		35.6B	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	--	0.45%		0.6%
2/12/2013	Consumer Prices (YoY)	Jan	--	5.10%		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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