Weekly Market Letter

- ECB decided to keep interest rates unchanged at their meeting on Thursday, a decision unanimously supported by Governing Council Members.
- German industrial production sluggishly rose in November, by 0.2% m/m (-2.9% y/y).

FX market

- Most CEE FX peers failed to move in tandem with euro rally. The RON started off the year on a strong footing surging 1.0% w/w buttressed by strong demand for this week's debt auctions.

Bond market

- MinFin successfully returned to the markets for its first forays this year, as all auctions planned for this week met with very solid demand and attained lower yields.
- NBR maintained the cap on the amount allotted at repo auction at RON 4.0 bln, while bids increased considerably.

Economic data

- NBR keeps key rate unchanged, slight change in tone on liquidity management.
- ILO jobless measure (seasonally adjusted) retrenched further to 6.7% in November, while registered unemployment rose to 5.59% in December.
- Retail activity (sa) ticked up by 2.0% m/m and accelerated to 3.0% y/y in Nov.
- Q3'12 real GDP performance was revised upwards by NIS to -0.5% y/y from -0.6% y/y (nsa) and -0.4% q/q (vs. -0.5% q/q, sa).
- Trade Gap widened marginally by 0.8% y/y to EUR 8.67 bln in 11M'12.
- Industrial output edged lower in November (-0.9% m/m, sa) tagging Manufacturing.
- CPI gathered pace again (+0.6% m/m, +4.95% in December) on Food and Energy.
- Average nominal net wage advanced by 1.5% m/m (+5.6% y/y) in Nov.
- Construction activity (sa) rebounded +5.1% m/m (-1.5% y/y) in Nov.

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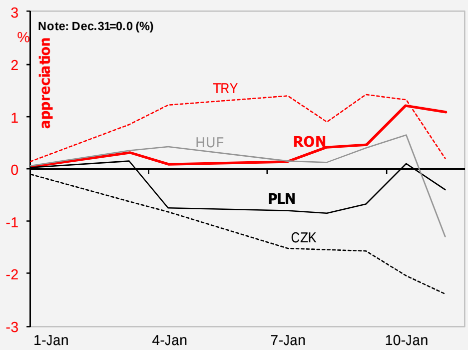
International Developments

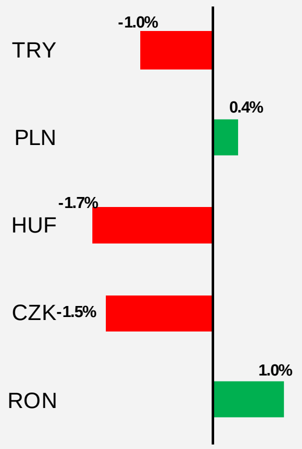
ECB decided to keep interest rates unchanged at their meeting on Thursday, a decision unanimously supported by Governing Council Members. The outlook on inflation and growth remained broadly unchanged from December, with growth envisaged to pick up later this year and medium-term inflation pressures remaining contained within the ECB's target. Pres. Draghi acknowledged financial markets abating tensions, but warned against complacency with implementing structural reforms. The EURUSD rallied following the announcement to cross the 1.32 threshold.

German industrial production rose marginally in November, by 0.2% m/m (-2.9% y/y), following a 2% m/m (-3% y/y) contraction in October. Core manufacturing output only rose 0.4% m/m in November, while production of investment goods rose 1.4% m/m. Meanwhile, production of consumer goods declined 2.2 percent and energy output dropped 3.3 percent. Construction gained 1 percent from October. Forward-looking Manufacturing PMI show industry might continue to splutter, as the index dropped to 46 in December (vs. 46.8 in Nov).

Performance of regional currencies
(spot return y-t-d)



Weekly currency evolutions versus EUR



Source: NBR, BRD-GSG

Romania Developments

FX Market

Most CEE FX peers failed to move in tandem with euro rally. The PLN added 0.4% w/w, after NPB expectedly decided to cut policy rates by 25 bps to 4% to spur growth but conveyed signals that it will hold fire at its next meetings. Investors turned bearish on the HUF and sent the currency plummeting 1.7% w/w. Worries were exacerbated when Economy Minister Matolcsy, a possible successor to Gov Simor, argued against using FX strength to combat inflation. The CZK shed 1.5% w/w as Czech policymakers continue to recur to moral suasion, thus keeping investors wary of FX interventions. The RON rallied 1.0% w/w on the back of strong demand for this week's debt auctions. This week, NBR continued to pursue a stringent liquidity policy through its regular repo, which was also supportive of the exchange rate.

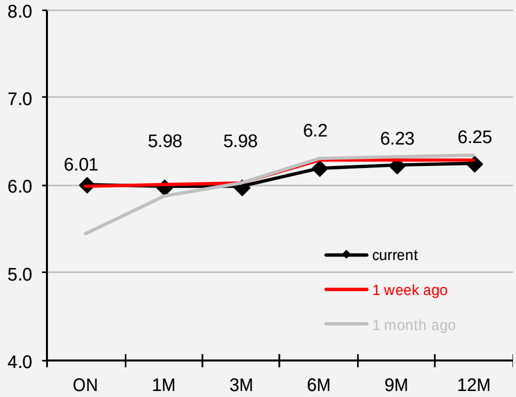
Next week view: EURRON to trade between 4.35-4.40.

	RON vs EUR		RON vs USD	
Friday NBR ref.	4.3802		3.301	
	ch. pips	ch. %	ch. pips	ch. %
1 week	449	1.0	1,007	3.0
1 month	1,537	3.4	2,123	6.0
ytd	351	0.8	673	2.0

Source: NBR, BRD-GSG

BRD
GROUPE SOCIETE GENERALE

ROBOR rates(%)

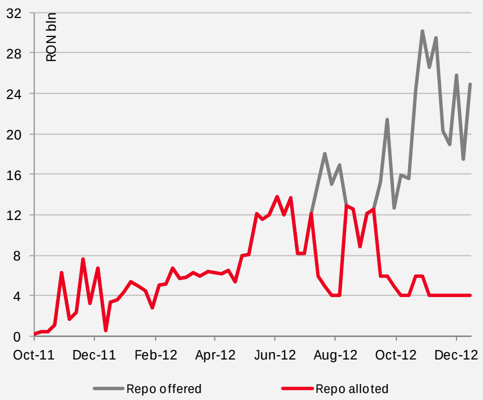


Source: NBR

Money Market

NBR capped again the amount allotted at its weekly repurchase operation at RON 4.0 bln. However, banks' bids went into respite and surged to RON 24.9 bln, after slumping to RON 17.5 bln at the previous auction in the run-up to New Year's break. The number of participants also rebounded to 17 vs. 13 previously. Low allotment (at 16.03% this week) kept pressure on the shorter-end of the curve (particularly overnight and 1W). The longer end of the curve edged lower by an avg. 5 bps. The slight change in tone at this week's MPC could entail a gradual steepening of the curve should NBR loosen slightly the grip on liquidity management.

NBR repo auctions (RON bln)



Source: NBR

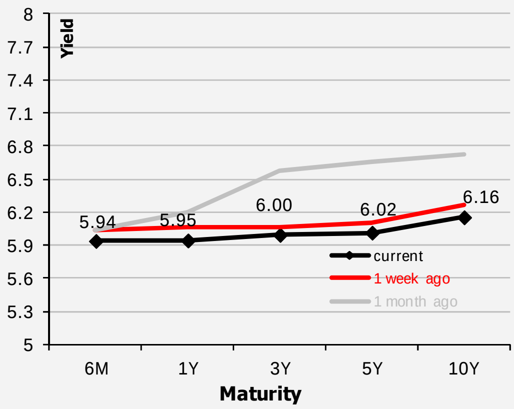
Bond Market

MinFin successfully returned to the markets for its first forays this year, as all auctions planned for this week met with very solid demand. The oversized supply among all tendered tenors was supported by the lenient market conditions fostering a continuous downward trend in yields, including at the shorter-end of the curve. Debt managers tapped markets to issue RON 1.09 bln in 1Y T-bills, more than two-fold their target size of RON 500 m. Average paid yield came at 6.06% (below expectations), considerably lower compared to the 6.24% paid at a similar auction on Dec.17th and tail narrowed (3 bps vs. 5 bps prev.).

MinFin also sold RON 1.06 bln in 2Y T-bonds (reop. DBN068), higher than a planned amount of RON 0.8 bln. Average yield came at 6.11% (max. 6.14%), compared to 6.44% at a previous auction on 13 Dec'12. Bid-to-cover ratio was a healthy 1.44x. On Thursday, debt managers managed to sell a hefty RON 1.8bn in keenly watched reopening of DBN030, three times the planned amount. The average yield came at 6.03% vs. our expectation of 6.05-6.10%. Total bids were as high as RON5.3bn, resulting in a bid cover of 2.9x. We expect the trend of strong auctions to continue into Q1 with the inclusion of the benchmark ROMGBs into Barclay bond index.

Secondary market yields edged lower once again compared to last week and should remain on a mild downward trend. The front-end dropped by 5 bps, while mid-term tenures fell by an average 8 bps.

Treasury benchmarks (fixing mid, %)



Source: NBR

MinFin announced on Friday that it will tender EUR 150 m in 3Y EUR-denominated T-bonds on local debt markets on Jan 22nd. As a reminder, debt managers eye the rollover of EUR 1.76 bln EUR-denominated local issuances coming due this year.

Auctions - January 2013

ISIN code	Date	Maturity	Amount planned (RONm)	Total Bids (RONm)	Amount Allotted (RONm)	Average yield (%)
RO1314CTN011	7-Jan	1Y	500	1,696	1,090	6.06%
RO1214DBN068	7-Jan	2Y	800	1,526	1,061	6.11%
RO1216DBN030	10-Jan	4Y	600	5,263	1,826	6.03%
RO1314CTN029	14-Jan	1Y	500			
RO1215DBN073	14-Jan	3Y	800			
RO1217DBN046	17-Jan	5Y	500			
RO1313CTN039	21-Jan	1Y	300			
RO1323DBN018	24-Jan	10Y	600			

Source: Ministry of Finance

Economic Data

NBR keeps key rate unchanged, slight change in tone on liquidity management; ILO jobless measure (seasonally adjusted) retrenched further to 6.7% in November, while registered unemployment rose to 5.59% in December; Retail activity (sa) ticked up by 2.0% m/m (+3.0% y/y) in Nov; Q3'12 real GDP performance was revised upwards to -0.5% y/y from -0.6% y/y (nsa) and -0.4% q/q (vs. -0.5% q/q, sa); Trade Gap widened marginally by 0.8% y/y to EUR 8.67 bln in 11M'12; Industrial output edged lower in Nov (-0.9% m/m, sa) tagging Manufacturing; CPI gathered pace again (+0.6% m/m, +4.95% in December) on Food and Energy; Average nominal net wage advanced by 1.5% m/m (+5.6% y/y) in Nov; Construction activity (sa) rebounded +5.1% m/m (-1.5% y/y) in Nov.

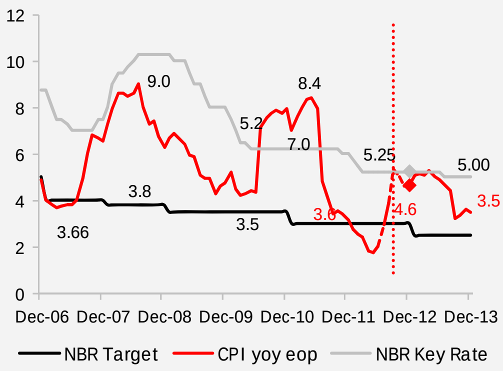
NBR Board decided to maintain the monetary policy key rate unchanged at 5.25% in line with our expectations and Bloomberg consensus (13 estimates). Moreover, NBR Board decided to keep the minimum reserves requirements unchanged at 15% for RON and 20% for FX liabilities and to maintain an adequate management of liquidity. Since the previous MPC meeting (on Nov. 2nd), domestic turbulence abated, while the external environment continued to be supportive of risky assets. Moreover, headline inflation retrenched to 4.6% y/y in Nov'12 (vs. 5.3% y/y in Sep'12) on the back of deflating food and fuel prices. However, NBR maintained a cautious stance with regards to both key interest rate and minimum reserve requirements, against the regional easing bias (both Hungarian Central Bank and National Bank of Poland are expected to cut key rates again this month to spur economic performance).

While market prospects have brightened slightly, we estimate NBR will prudently keep the key rate at 5.25% at least until Q3'13 to fight off potential second-round inflationary effects from the heavy schedule of regulated prices, as well as to stem in pressures of private capital outflows in a context of reliance on external funding. Especially amidst the current juncture, we see interest rate hikes as highly unlikely, given that the transitory nature of the current inflationary pressures and pervasive expectations of below-potential growth.

ILO jobless measure (seasonally adjusted), surveying both registered and unregistered unemployed persons, retrenched further to 6.7% in November. Total jobless headcount inched down compared to last month by 21,000 persons to 674,000 unemployed. In international comparison, ILO labour market slack remains comfortably below EU17 (11.8% in Nov) and EU27 average (10.7% in Nov) and lowest in CEE (Czech Republic: 7.3% in Nov). Meanwhile, the alternative unemployment measure, capturing idle workers registered with the social services spiked to 5.59% in December. Total jobless headcount registered with the National Labour Agency added 17,454 to reach 493,775 last month. While business expectations are temporarily in the rebound, we envisage labor slack to widen further as industrial production splutters further.

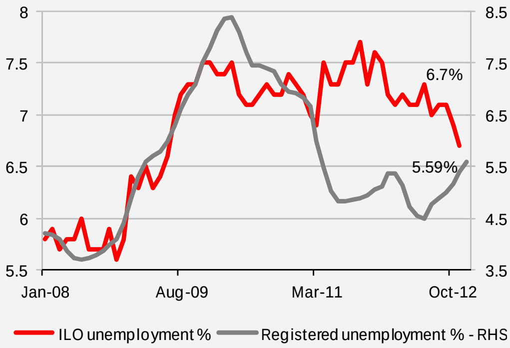
Retail activity (sa) ticked up by 2.0% m/m in November (vs. -2.1% m/m in Oct), and accelerated to 3.0% y/y (vs. +1.0% y/y in Oct). The most important driver underpinning the monthly advance was the rise in sales of food, beverages and tobacco items (+1.9% m/m, +4.6% y/y), added atop of higher non-food sales (+0.8% m/m, +2.7% y/y) bolstered by one-off Black Friday sales. The positive trend will likely continue over the following months, boosted by holiday sales. Conversely, fuel sales plummeted by 7.8% m/m.

Key Interest Rate vs. CPI



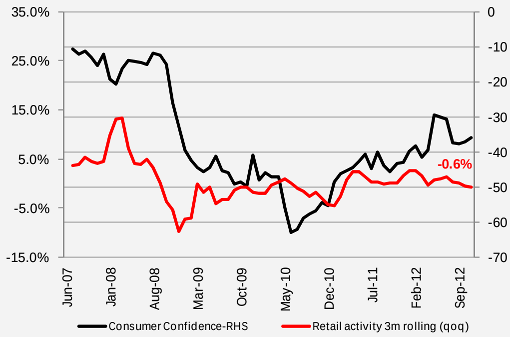
Source NIS, NBR, BRD-GSG

Jobless measures diverging



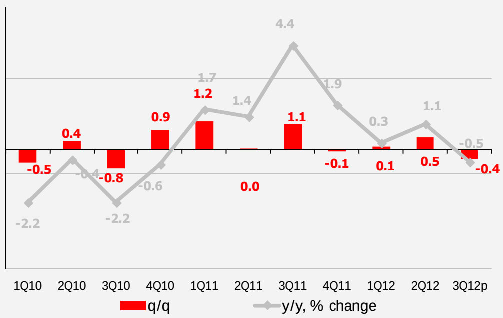
Source NIS, BRD-GSG

Retail sales (3m rolling y/y)



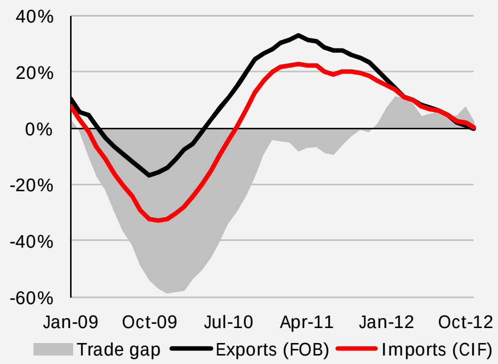
Source NIS, BRD-GSG

Real GDP evolution



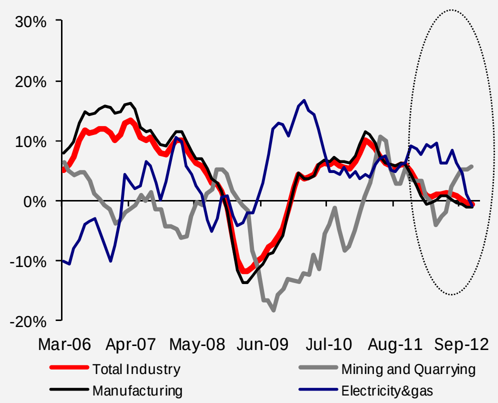
Source: NIS, BRD-GSG

Trade gap (EUR):



Source NIS, BRD-GSG

Industrial output tagging Manufacturing (3m/3m yoy)



Source NIS, BRD-GSG

By removing the seasonality factor, quarterly figures show retail activity decelerated slightly (+2.9% 3m rolling y/y and -0.6% 3m/3m in Nov). Nevertheless, forward-looking indicators bode well for the recovery path of the sector for the near-term. Retail trade confidence edged up to 4.7 in November (vs. 4.3 in Oct), while consumer confidence improved to -35.8 in November (vs. -37.1 prev) in the run-up to the holiday shopping season.

Q3'12 **real GDP** performance was revised upwards by NIS to -0.5% y/y from -0.6% y/y (nsa) and -0.4% q/q (vs. -0.5% q/q, sa). The amended output contraction was underpinned, on the supply-side, by a weaker contribution from key sectors such as Industry (-0.5% y/y vs. -0.3% y/y prev) and Constructions (-1.0% y/y vs. -0.7% y/y prev) offset by higher input from Net taxes (+9.6% y/y vs. 9.0% y/y prev). In terms of demand components, the fallback in Private consumption was restated to -0.7% y/y (vs. -1.6% y/y), buttressed by a hefty re-estimation of Public sector consumption (+1.7% y/y vs. -1.7% y/y prev.). Exports were revised downwards to -5.2% y/y (vs. -4.2% y/y), while Gross fixed capital formation was estimated to have leaped by a strong +11.7% y/y (vs. +9.9% y/y).

For 2013, investments and private consumption should support economic rebound, while the fiscal policy consolidation keeps public spending at in check. We estimate GDP to grow +2.0% y/y in 2013, buttressed by the abating euro area turbulence.

Trade Gap widened marginally by 0.8% y/y to EUR 8.67 bln in 11M'12 (vs. a 7.6% y/y revised deterioration in 10M'12). The monthly gap contracted steeply by 55.8% y/y, mainly due to a large base effect, and fell by as much as 63.1% m/m in November. The lower ytd shortfall was driven by feeble exports dynamics (-0.2% ytd and +0.9% y/y in November), paired by stalling imports (0.0% ytd and -9.5% y/y in November). Exports to non-EU27 markets weathered well the monthly appreciation in REER terms of the domestic currency (+0.7% m/m, EUR terms) and rose +2.5% ytd. This nearly compensated for the faltering exports to EU27 markets (-1.3% ytd, EUR terms), which represent as much as 70.6% of external shipments. External demand from EU27 partners is expected to remain subdued in H1'13, due to the economic fallout across selected Western partners.

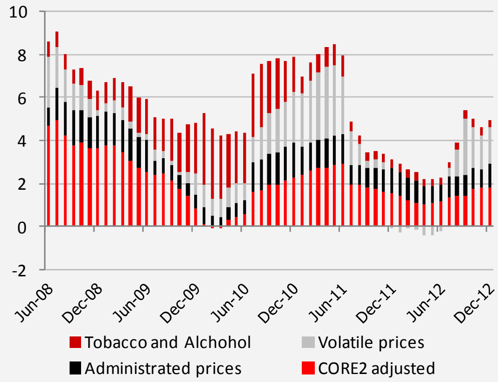
For 2013, trade gap should continue to widen moderately due to a paced recovery in exports and gradual recovery in domestic demand. Exports trajectory remains bounded by developments across EMU, with immediate spillovers onto the domestic industrial sector.

Industrial output edged lower in November (-0.9% m/m, sa) and remained slanted into the negative on a yearly base (-1.3% y/y, sa), as dynamics grew even more dismal than October's reading (-0.2% m/m, -0.3% y/y, revised). The main conduit underpinning the flagging performance was the fallout recorded in Manufacturing (-1.2% y/y, sa), augmented by the contraction in Electricity, gas and air conditioning output (-3.2% y/y, sa). Mining and Quarrying activity rose +4.3% y/y, but decelerated vs. October (+5.9% y/y, sa). Analyzing performance by major industrial groups, Durable Consumer Goods (+7.7% y/y, sa) advanced, while Intermediate Goods output and Capital Goods contracted 2.3% y/y and 1.0%, respectively.

Looking past the monthly volatility, 3M rolling data confirms the fallout in Industrial output (-0.2% 3m/3m) on the back of a drop in Intermediate Goods (-0.5% 3m/3m). Meanwhile, Factory Orders marginally rebounded in November (+5.4% y/y and +3.0% y/y, 3m rolling in Nov), while

Industrial confidence is heading south again (-4.1 in Dec from -3.5 in Nov). Businesses' expectations about employment and exports order-books levels continued to advance in December, while production outlook turned bleaker. Overall, we expect Industry to enter recovery mode this year and grow 2.0% y/y in 2013 (real terms).

Inflation creeping up again

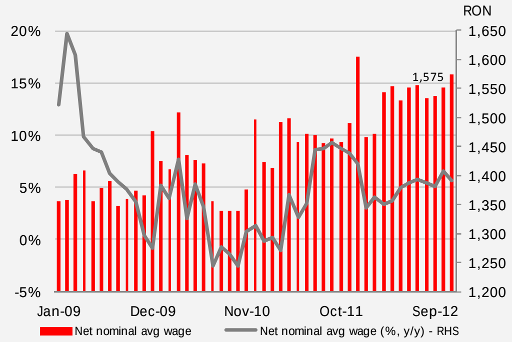


Source: NIS, BRD-GSG

CPI gathered pace again towards year-end (+0.6% m/m in December), overshooting consensus and our expectations of +0.3% m/m. Consequently, headline inflation went into respite, jumping to +4.95% y/y from +4.6% y/y in November. The monthly advance was spurred by notable accelerations across Food prices and adverse developments across Non-food components (i.e. Electricity prices). Similarly, annual dynamics were driven by Volatile food group dynamics and operated administered price deregulation schedule, partially offset by an inch-decrease in CORE2 adjusted contribution.

For the following months, we see CPI gathering steam again through H1'13, spurred by temporary supply-side factors. Administered price increases and higher excise tax calculations will rattle headline inflation throughout the cold season, spiking at 5.6% y/y in Q1'13. We envisage the consolidation of EURRON around current levels and lower exchange rate volatility throughout the year as a positive risk to our main scenario. The virtual lack of demand-led pressures will continue to contain the propagation of inflation through second-round effects and foster the retrenchment of headline CPI towards 3.5% y/y at the end of 2013.

Net average wage tortuously advances

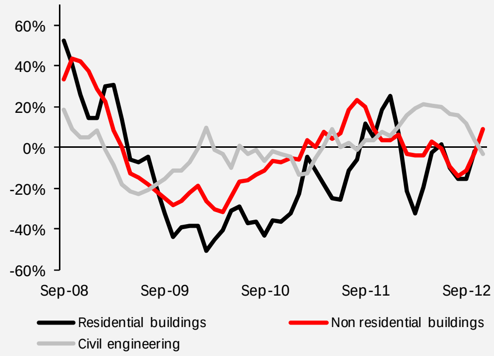


Source: NIS, BRD-GSG

The **average nominal net wage** advanced by 1.5% m/m, but annual dynamics decelerated to +5.6% y/y (vs. 0.9% m/m, +6.5% y/y in October) to reach RON 1,575 in November. The monthly advance was driven by occasional bonuses (based on net profits) and other target-linked revenues. Across the business sector, higher positive readings were recorded in the financial services sector (+21.6% m/m) and car manufacturing industry (+7%-9% m/m). The sharpest negative evolution was recorded in the mining and quarrying sector (i.e. coal mining), -16.5% m/m.

Across the public sector, net average wage rose slightly in the education sector (+2.5% m/m), and edged higher for employees in healthcare and social assistance (+1.0% m/m). Discounting for inflation, net real wages advanced 1.0% y/y (vs. +1.5% y/y in Oct) and +1.5% m/m (vs. +0.8% m/m prev). For the following quarter, businesses across construction, services and industry sector are relatively sanguine about labor force. We project the pace of economic recovery to temper average earnings across the private sector, while fostering a gradual recovery in private demand.

Building activity - barely afloat
3m/3m yoy



Source: NIS, BRD-GSG

Construction activity (sa) rebounded +5.1% m/m (-1.5% y/y) in November, following the weak performance recorded in October (+2.4% m/m, -3.0% y/y, revised). Broken down by structural elements, the main culprit of the yearly decrease were Capital repair works (-3.8% y/y vs. +12.4% in Oct), augmented by the fallout in Current repair works (-2.1% y/y vs. -8.4% y/y in Oct). Looking at construction objects, residential building remained slanted into the negative (-19.0% y/y), while non residential building activity accelerated (+14% y/y). More worrisome, civil engineering, the main conduit bolstering construction dynamics thus far, edged higher by a dismal 2.5% y/y (vs. a peak of +26.7% y/y in Aug). This mirrors the low focus on Capital expenditures from the general consolidated budget (+1.8% y/y in 11M'12). Looking forward, construction confidence turned south again in December (-29.1 vs. -26.8 in Nov) as builders dread insufficient demand and poor weather conditions.

Economic Releases – January 2013

Date	Event	Period	BBG Survey	BRD-GSGf	Actual	Prior
1/3/2013	International Reserves (Total)	Dec	--		35.4B	35.6B
1/4/2013	Producer Prices (MoM)	Nov	--		-0.9%	0.60%
1/4/2013	Producer Prices (YoY)	Nov	--		5.4%	6.80%
1/7/2013	Interest Rate Announcement		--	5.25%	5.25%	5.25%
1/8/2013	Retail Sales (MoM)	Nov	--		2.00%	-2.00%
1/8/2013	Retail Sales (YoY)	Nov	--		3.00%	0.70%
1/9/2013	Industrial Sales (MoM)	Nov	--		-2.8%	6.00%
1/9/2013	Industrial Sales (YoY)	Nov	--		4.6%	9.40%
1/9/2013	Trade Balance (Mln Euros)	Nov	--		-409	-1111.1
1/11/2013	Industrial Output (MoM)	Nov	--		-0.9%	0.00%
1/11/2013	Industrial Output (YoY)	Nov	--		-1.3%	-0.10%
1/11/2013	Consumer Prices (MoM)	Dec	--	0.30%	0.60%	0.00%
1/11/2013	Consumer Prices (YoY)	Dec	--	4.60%	4.95%	4.60%
1/18/2013	Current Account (EUR)(YTD)	Nov		-4730M	--	-4342M
1/24/2013	Money Supply (YoY)	Dec	--	--	--	--

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

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