

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



Romania's budget deficit reached 3.4% of GDP at the end of May

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Weekly briefing

Last week, the Eurozone annual growth rate of broad money strengthened further in May, increasing to 1.6%yoy. Progress in money growth remained gradual as financing costs for the private sector remain high, although a peak has probably been reached. At a Brussels summit, the majority of EU leaders agreed to nominate Ursula von der Leyen as President of the European Commission for a second five-year term, while choosing former Portuguese Prime Minister António Costa as the next EU Council president, and Estonian Prime Minister Kaja Kallas as the next chief diplomat.

US core PCE inflation decelerated to 0.1%mom in May from 0.2% in April. This took the year-on-year rate down to 2.6% from 2.8%. Non-housing core services prices were a key driver of the disinflation last month, as indicated by the May CPI and PPI released a couple of weeks ago. Nominal personal accelerated to 0.2%mom from 0.1% in the prior month, despite the softening in consumer credit, a cooling labor market, and a fall in consumer confidence. Personal income rose a decent 0.5%mom in May after 0.3% in April, in line with the rebound in aggregate payroll income data. The third estimate of US 1Q24 GDP showed that the economy grew by 1.4%qoq annualized from 1.3%, due to a smaller downward contribution from net exports in March. Still, net exports are likely to provide another significant drag in 2Q24 as the trade deficit widened materially in April. The first presidential debate between Joe Biden and Donald Trump was low in substance but further raised concerns about the health of the incumbent president.

Romania's budget deficit reached 3.40% of GDP at end of May 2024, the highest on record for the first five months. The growth of revenues and expenditures tempered to 14.1% and to 21.8%, respectively. Due to the parliamentary elections being held very late in the year, we now see risks that the budget deficit could exceed 7% of GDP in 2024, unless the government cuts spending or decides to run arrears. The latter would affect next year's efforts to tighten the purse strings.

This week, headline inflation in Germany probably remained unchanged at 2.4%yoy (Monday), while Eurozone headline inflation for June probably eased by 0.1pp to 2.5%yoy, with core inflation stable at 2.9% (Tuesday). German industrial production (Friday) probably increased by 0.5%mom in May, after declining by 0.1% and 0.4% in the previous two months. The US ISM Manufacturing Index (Monday) is likely to increase slightly, while the ISM Non-Manufacturing Index (Wednesday) is likely to edge down in June. The US nonfarm payrolls for June likely rose by around 190k (Friday). A range of indicators of labor market tightness have eased and point to lower labor demand, while initial and continuing jobless claims have picked up somewhat.

In Romania, the international reserves (Monday) together with the retail sales (Friday) probably decreased slightly, while the PPI (Tuesday) likely increased. On Friday, we expect the NBR to deliver a first cut to 6.75%.

Data spotlight: 24 – 28 June

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0744	0.28%	-0.54%
EURCHF	160.93	0.16%	2.36%
USDJPY	1.26	0.05%	-0.90%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2995	-0.27%	0.44%
EURHUF	394.30	-0.11%	1.55%
EURCZK	25.06	0.12%	1.26%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
1-Jul	4.9770	4.6263	6.0951	346.18

CURRENCIES - RON

	EURRON	USDRON
1-Jul	4.977	4.632
28-Jun	4.978	4.640
27-Jun	4.977	4.650

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
1-Jul	5.9	6.2	6.2	6.9
26-Jun	5.9	6.0	6.2	6.8

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
1-Jul	6.00	6.05	6.05
28-Jun	6.01	6.01	6.01
27-Jun	6.00	6.05	6.05

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
28-Jun	3.63	3.71	3.68
27-Jun	3.66	3.70	3.68
26-Jun	3.65	3.72	3.67
USD Libor	1M	3M	6M
28-Jun	5.45	5.59	5.68
27-Jun	5.46	5.59	5.69
26-Jun	5.46	5.60	5.69

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,460.5	-0.41%	3.35%
FTSE	8,187.3	0.28%	-0.92%
Hang Seng	17,718.6	0.01%	-3.72%
Bucharest BET	18,210.5	-0.19%	3.54%

Romanian Economy

■ **Romania's budget deficit reached 3.4% of GDP at the end of May 2024, the highest on record for the first five months**

The Ministry of Finance released the budget execution for the first five months of 2024, showing a deficit of 3.40% of GDP (RON 60.1bn), the highest on record. The growth of revenues and expenditures decreased to 14.1%yoy in May from 15.3%yoy in April and to 21.8%yoy from 29.2%, respectively. Similar to the patterns visible in April, the highest increases in revenues came from social insurance contributions (RON 13.4bn; 20.7%yoy), followed by fiscal revenues (RON 12.7bn; 12.7%yoy) and EU funds (RON 6.4bn; 1116.6%yoy). On the expenditures side, the highest increases in nominal terms were seen for the capital expenditure (RON 11.9bn; 112.8%yoy) and the personnel expenses (RON 11bn; 20.9%yoy).

Due to the parliamentary elections being held very late in the year, we now see risks that the budget deficit could exceed 7% of GDP in 2024, unless the government cuts spending or decides to run arrears. The latter would affect next year's efforts to tighten the purse strings.

Data spotlight: 24 – 28 June**European Economy****■ Eurozone money supply M3 continued to increase in May**

The Eurozone annual growth rate of broad money strengthened further in May, increasing to 1.6%yoy [UniCredit Research and consensus: 1.5%]. It hit its lowest level in August last year (-1.3%yoy). Progress in money growth remained gradual as the financing costs for the private sector remain high, although a peak has probably been reached. Credit dynamic remained weak, with loans to both households and non-financial corporations expanded at a slightly positive rate.

■ EU leaders agreed to nominate Ursula von der Leyen as President of the European Commission for a second mandate

Last Thursday, at a Brussels summit, the majority of EU leaders agreed to nominate Ursula von der Leyen as President of the European Commission for a second five-year term, while choosing former Portuguese Prime Minister António Costa as the next EU Council president, and Estonian Prime Minister Kaja Kallas as the next chief diplomat. Italian Prime Minister Giorgia Meloni abstained, rather than supporting von der Leyen, a decision that still leaves open a dialogue. Ms. von der Leyen said she was “very grateful” for the endorsement. Ursula von der Leyen must now win a majority in the European parliament to secure her second term as head of the commission. A vote is likely to take place on 18 July.

Data spotlight: 24 – 28 June**US Economy****■ US core PCE inflation increased by 0.1%mom in May**

Core PCE inflation decelerated to 0.1%mom in May [UniCredit Research forecast and consensus: 0.1%], from 0.2% in April. This took the year-on-year rate down to 2.6% from 2.8%. Non-housing core services prices were a key driver of the disinflation last month, as indicated by the May CPI and PPI released a couple of weeks ago. Nominal personal accelerated to 0.2%mom from 0.1% in the prior month, despite the softening in consumer credit, a cooling labor market, and a fall in consumer confidence. Personal income rose a decent 0.5%mom in May after 0.3% in April, in line with the rebound in aggregate payroll income data.

■ The US 1Q24 GDP growth revised slightly up

The third estimate of US 1Q24 GDP showed that the economy grew by 1.4%qoq annualized from 1.3%, due to a smaller downward contribution from net exports in March. Still, net exports are likely to provide another significant drag in 2Q24 as the trade deficit widened materially in April.

■ First Biden-Trump debate

The first presidential debate between Joe Biden and Donald Trump was low in substance but further raised concerns about the health of the incumbent president. On a few occasions, Biden stumbled in his answers. According to Bloomberg reports, several Democrats expressed alarm about his performance. A CNN poll showed 67% of watchers believed Trump had won the debate.

Data spotlight: 24 – 28 June

International and Romanian Markets

The Romanian markets were close last Monday, meaning that there were only four trading days during the past week.

■ The EURRON traded below 4.98 last week

The EURRON traded within the 4.9766-4.9789 range last week and ended it at 4.9775, unchanged in comparison to the closing level of the previous week. We do not expect sharp rises this summer, although the upward pressure is likely to continue.

■ The entire ROBOR curve was relatively stable

Last week the ROBOR curve was relatively stable for all maturities, as the excess liquidity in the market remains abundant. The O/N-1W segment closed the week at 6.00%, while the 1M-3M segment decreased slightly inside 6.00%-6.01%.

■ MinFin auctions

Last Thursday, the Ministry of Finance held auctions for two T-bonds with residual maturities of 1.6 years and 4.8 years. Both enjoyed high demand, with bids covering the planned amount: RON 1.83bn vs RON 500mn for the first one and RON 1.8bn vs RON 500mn for the second one. MinFin decided to place RON 1.37bn and RON 1.67bn, respectively. The average accepted yields were 6.10% (max 6.10%), up 1bp from the previous reopening six weeks ago and 6.67% (max 6.68%), up 12bp from the previous reopening five weeks ago.

During June 2024, the MinFin placed locally RON 12.7bn, 105% above the planned amount. Investors requested lower yields for maturities up to 5Y, but higher yields at the long end of the curve.

In July, the Ministry of Finance intends to place RON 2.1bn in treasury bills (7 and 12 months maturity) along with RON 3.9bn in bonds with maturities ranging from 2.3 to 13.6 years and another RON 585mn in supplementary sessions. The scheduled amount is RON 200mn lower than the one planned in June.

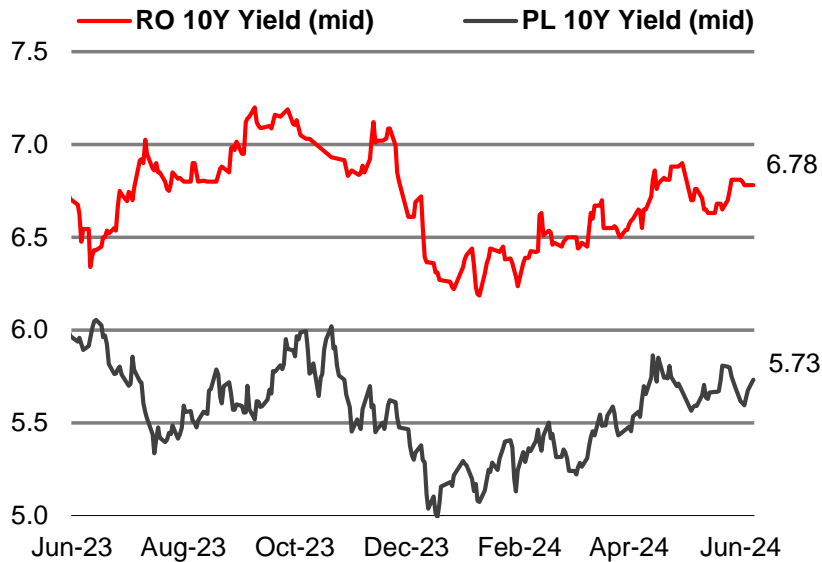
■ FX markets

In FX, EUR-USD is trading firmly above 1.0750 following the first round of the snap elections in France, amid expectations that a left alliance might block RN from obtaining a full majority in the second round of voting.

UniCredit Research expects the European politics to remain the key driver for CEE currencies in the coming weeks, with only a temporary support from the cautious central banks in the region and the likely softening US data.

Focus Ahead: 1 – 5 July

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields rose slightly by up to 5bp on the long end, while on the short end was stable.
- The performance of sovereign bonds with long maturities has been negative YTD. On the contrary, the short end has delivered positive returns. UniCredit Research expects performance to be positive across tenors in 2H 2024.
- This week, MinFin intends to place RON 300mn in 9.5Y T-bonds and RON 800mn in 12M T-bills on Monday, together with RON 300mn in 6.9Y T-bonds and RON 800mn in 7M T-bills on Thursday.

BOND ISSUES - JUNE

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO7EKTXSRHD6	27-Jun-24	28-Jan-26	19	500lei		1,831	1,366	6.1
ROJVM8ELBDU4	27-Jun-24	25-Apr-29	59	500lei		1,795	1,670	6.67
ROP9QVD42HO2	20-Jun-24	31-May-27	36	500lei		619	519	6.27
RO0DU3PR9NF9	17-Jun-24	24-Feb-38	167	300lei		302	0	
ROCDG04X8WJ7	17-Jun-24	26-Apr-28	47	500lei		710	500	6.42
ROLGWS4778U3	13-Jun-24	28-May-25	12	600lei		3,010	2,312	6.02
ROTM7EDD92S2	13-Jun-24	31-Jul-34	123	500lei		1,240	1,023	6.86
ROXL7LT7QZ66	10-Jun-24	29-Apr-30	72	200lei		545	300	6.69
RON7NMKOKQG2	10-Jun-24	28-Oct-26	29	500lei		1,042	797	6.29
ROEDCYTB27Y9	6-Jun-24	31-Mar-25	10	600lei		2,381	2,331	6.03
RO1JS63DR5A5	6-Jun-24	28-Apr-31	84	500lei		606	480	6.75
ROJVM8ELBDU4	3-Jun-24	25-Apr-29	60	500lei		490	460	6.62
ROWLVEJ2A207	3-Jun-24	30-Oct-33	115	500lei		458	403	6.82

Focus Ahead: 1 – 5 July

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
1-Jul-2024	GE	Consumer Price Index, CPI (% yoy)	Jun	2.4	2.3	2.4
	US	ISM Manufacturing (index)	Jun	49.0	49.2	48.7
	Romania	International Reserves (EUR mn)	Jun	71.6		72.3
2-Jul-2024	EMU	Core CPI (% yoy)	Jun	2.9	2.8	2.9
	EMU	Consumer price index, CPI (% yoy)	Jun	2.5	2.5	2.6
	EMU	Unemployment Rate (%)	May	6.5	6.5	6.4
	US	JOLTS Job Openings (thousands)	May	7900		8059
	Romania	PPI (% yoy)	May	-2.0		-4.0
		ILO Unemployment Rate, %	May	5.3		5.3
3-Jul-2024	US	ISM Non-manufacturing (index)	Jun	53.0	52.5	53.8
4-Jul-2024	GE	Industrial Orders (% mom)	May	1.0	1.0	-0.2
5-Jul-2024	GE	Industrial Production (% mom)	May	0.5	0.3	-0.1
	US	Average Hourly Earnings (% mom)	Jun	0.3	0.3	0.4
	US	Unemployment Rate (%)	Jun	4.0	4.0	4.0
	US	Non-farm Payrolls (change thousands mom)	Jun	190	188	272
	Romania	Retail Sales (% yoy)	May	7.6		9.5
	Romania	Interest Rate Announcement, %	Jul	6.75		7.00

Data Source: Bloomberg

Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023	2024F	2025F
GDP (EUR bn)	241.7	284.1	321.7	351.5	376.0
Population (mn)	19.2	19.0	19.1	19.0	19.0
GDP per capita (EUR)	12,567	14,918	16,885	18,476	19,793
Real economy, change (%)					
GDP	5.7	4.1	2.1	2.7	1.9
Private Consumption	7.2	5.8	2.9	3.0	1.3
Fixed Investment	2.9	5.9	12.0	6.5	3.4
Public Consumption	1.8	-3.3	2.8	1.9	-0.4
Exports	12.6	9.7	-2.1	4.0	4.9
Imports	14.8	9.5	-1.8	5.5	3.9
Monthly wage, nominal (EUR)	1175	1303	1489	1698	1773
Real wage, change (%)	2.0	-2.2	3.6	8.2	0.2
Unemployment rate (%)	5.6	5.6	5.6	5.5	5.6
Fiscal accounts (% of GDP)					
Budget balance	-7.2	-6.3	-6.3	-6.3	-4.7
Primary balance	-5.7	-4.2	-4.4	-4.4	-2.9
Public debt	48.5	47.5	49.1	50.4	51.9
External accounts					
Current account balance (EUR bn)	-17.5	-26.0	-22.7	-23.2	-19.1
Current account balance/GDP (%)	-7.2	-9.2	-7.1	-6.6	-5.1
Extended basic balance/GDP (%)	-1.5	-3.6	-3.0	-2.7	-1.1
Net FDI (% of GDP)	3.7	3.1	2.0	1.8	1.8
Gross foreign debt (% of GDP)	56.5	50.7	52.5	50.5	49.3
FX reserves (EUR bn)	40.5	46.6	59.8	57.8	58.2
Months of imports, goods & services	4.3	3.9	5.1	4.6	4.5
Inflation/Monetary/FX					
CPI (pavg)	5.0	13.7	10.5	6.1	5.6
CPI (eop)	8.2	16.4	6.6	5.6	5.6
Central bank target	2.50	2.50	2.50	2.50	2.50
Central bank reference rate (eop)	1.75	6.75	7.00	6.00	4.50
3M money market rate (Dec avg)	2.83	7.66	6.25	5.55	4.58
USDRON (eop)	4.37	4.64	4.56	4.45	4.49
EURRON (eop)	4.95	4.95	4.97	4.99	5.07
USDRON (pavg)	4.16	4.68	4.57	4.49	4.43
EURRON (pavg)	4.92	4.93	4.95	4.98	5.04

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