Macroeconomic and Strategic Analysis

UniCredit Weekly Report

Romanian international reserves decreased in July

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Weekly briefing

Last week, the **Fed left its monetary policy unchanged but signaled that it might cut rates at its September meeting**. Accordingly, the post-meeting statement said **the central bank was "attentive to the risks to both sides of its dual mandate"**. Mr. Powell revealed that the FOMC had actively discussed the possibility of cutting interest rates at the meeting, but that a "strong majority" had supported staying on hold. **UniCredit Research still expects a first rate cut in September and a total of 75bp of cuts this year.**

The **US July labor market report showed more material softening across the board**. The **economy added only 114k jobs in July**, well below expectations. The **unemployment rate rose 0.2pp to 4.3%yoy in July**, a fourth consecutive month of increase. **Average hourly earnings growth slowed to just 0.2%mom in July**, consistent with a softening labor market. The **ISM Manufacturing PMI in the United States fell to 46.8 in July** from 48.5 in June, reflecting the sharpest contraction in US factory activity since November 2023. Both regional manufacturing surveys and the flash S&P Global manufacturing PMI for July pointed to a deterioration in business conditions in the goods-producing sector.

Eurozone GDP expanded by 0.3%qoq in 2Q24, following a stronger-than-expected reading in 1Q24 (0.3%qoq). High-frequency data suggest that **industrial production and construction output were weak**, while indicators of consumer spending, such as retail sales and car registrations, failed to show improvement. With domestic demand still weak, the Eurozone economy is not out of the woods yet. **German real GDP declined by 0.1%qoq in the second quarter of 2024** and therefore came in below-expectations. **UniCredit Research continues to believe that a moderate recovery in the German economy is underway.**

Eurozone headline inflation increased to 2.6%yoy in July from 2.5%yoy in June, as downward pressure on inflation have been offset by acceleration in energy prices. **Core inflation stabilized at 2.9%yoy.** Among the largest economies, inflation accelerated in Germany (2.6%yoy vs 2.5%yoy), France (2.6%yoy vs 2.5%yoy) and Italy (1.7%yoy vs 0.9%yoy), but eased in Spain (2.9%yoy vs 3.6%yoy).

Romanian international reserves decreased in July to EUR 71bn. The monthly inflows amounted to EUR 2.4billion, while the outflows amounted to EUR 3.3bn. The NIS released the **unemployment figures for June, showing a further increase to 5.5%yoy**, from 5.4%yoy in the previous month. **Producer prices increased by 1.1%yoy in June**, after a 1%yoy decline in May, while on a monthly basis the prices rose by 1.3%mom. The prices on the internal market increased by 1.9%mom, while those on the external market declined by 0.2%mom.

This week, German industrial production probably rose in June (Wednesday), while in the **US, the ISM non-manufacturing index for July likely recovered some ground**, although it would still point to a weakening outlook for the services sector (Monday). The **Romanian calendar includes retail sales** (Tuesday) and **trade balance** (Friday). The main event will be **the monetary policy meeting** on Wednesday, when **we expect the NBR to keep the key rate unchanged.**

UniCredit Bank

Data spotlight: 29 July – 2 August

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0972	0.57%	1.70%
EURCHF	146.05	-2.21%	-9.53%
USDJPY	1.28	0.64%	1.04%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.3120	0.41%	0.27%
EURHUF	398.25	0.06%	0.91%
EURCZK	25.30	-0.14%	0.66%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
5-Aug	4.9769	4.5426	6.0866	354.16

CURRENCIES - RON

	EURRON	USDRON
5-Aug	4.977	4.536
2-Aug	4.977	4.561
1-Aug	4.976	4.610

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
5-Aug	5.7	6.1	6.1	6.6
31-Jul	5.7	6.1	6.2	6.8

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
5-Aug	5.75	5.90	5.80
2-Aug	5.75	5.80	5.80
1-Aug	5.75	5.80	5.80

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
2-Aug	3.61	3.62	3.55
1-Aug	3.61	3.64	3.56
31-Jul	3.63	3.65	3.58
USD Libor	1M	3M	6M
2-Aug	5.47	5.49	5.44
1-Aug	5.46	5.50	5.49
31-Jul	5.46	5.50	5.50

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,346.6	-1.84%	-3.96%
FTSE	7,932.9	-2.96%	-3.30%
Hang Seng	16,698.4	-1.46%	-6.19%
Bucharest BET	17,736.4	-3.74%	-3.83%

Romanian Economy

- **Romanian international reserves decreased in July**

Foreign exchange reserves (incl. gold) decreased by EUR 600mn during July 2024, to EUR 71bn. The monthly inflows amounted to EUR 2.4billion (supported by changes in credit institutions' foreign currency-denominated required reserves with the NBR; inflows into the Ministry of Finance's accounts and other), while the outflows amounted to EUR 3.3bn (changes in credit institutions' foreign currency-denominated required reserves with the NBR; interest payments and principal repayments on foreign currency public debt; payments from the European Commission's account and other). The stock of gold was unchanged at 103.6 tones and its value increased to EUR 7.5bn.

- **ILO unemployment continued to rise in June**

The NIS released the unemployment figures for June, showing a further increase to 5.5%yoy, from 5.4%yoy in the previous month. In annual terms (vs. June 2023), the jobless rate decreased by 0.2pp and the number of unemployed people (gross data) was lower by 3550 (-0.8%yoy). The active population decreased in comparison to May 2024, to around 8.2 million.

Data spotlight: 29 July – 2 August

Romanian Economy (continued)

- **Romanian producer prices increased in June**

Producer prices increased by 1.1%yoy in June, after a 1%yoy decline in May, while on a monthly basis the prices rose by 1.3%mom. The prices on the internal market increased by 1.9%mom, while those on the external market declined by 0.2%mom. The highest increases were recorded for the production of electricity, gas, steam and air conditioning supply (+5.3%mom) and for extraction of crude petroleum and natural gas (+2.3%mom). The largest decrease was recorded for mining of coal and lignite (-14.8%mom).

Data spotlight: 29 July – 2 August

European Economy

■ Eurozone GDP increased by 0.3%qoq in 2Q24

Eurozone GDP expanded by 0.3%qoq in 2Q24 [UniCredit Research and consensus: 0.2%], following a stronger-than-expected reading in 1Q24 (0.3%qoq). High-frequency data suggest that industrial production and construction output were weak, while indicators of consumer spending, such as retail sales and car registrations, failed to show improvement. Business surveys signal a slow recovery ahead. With domestic demand still weak, the Eurozone economy is not out of the woods yet.

■ German GDP: No, this is not another recession

German real GDP declined by 0.1%qoq in the second quarter of 2024 and therefore came in below-expectations [UniCredit Research and consensus: +0.1%]. On a year-on-year basis, economic activity (adjusted for working days) also shrank by 0.1% in 2Q24. As usual, the preliminary estimate released by the Federal Statistical Office does not provide any concise details on single GDP components, but the office did give a few hints. Accordingly, capex spending and fixed investment in the construction sector declined in spring. To say this right in the beginning, the GDP data for the second quarter are disappointing, especially in the light of what UniCredit Research and other economists expected three months ago, when the 1Q figure (+0.2%) was published. At that time, the continuation of a moderate recovery seemed to be the most likely outcome.

UniCredit Research continues to believe that a moderate recovery in the German economy is underway. Yes, it is a bumpy road but both economic reasoning and important empirical data argue in favor of such a scenario. First, decent global trade growth is likely to support the export-dependent German manufacturing sector. Second, UniCredit Research expects consumer spending to rise, at least slightly, due to a mix of lower inflation (compared to 2022 and 2023), higher wages and further, albeit less strong, job creation. Third, there are fundamentally based signs of a bottoming out in the construction sector, as signaled by the forward-looking Ifo business expectations component both in the housing and the CRE sector. While it is likely to take some time before hard data such as building permits and housing starts will start rising, the turnaround in sentiment has finally kicked in.

■ Eurozone inflation increased in July

Eurozone headline inflation increased to 2.6%yoy in July [UniCredit Research: 2.5%; consensus: 2.4%], from 2.5%yoy in June, as downward pressure on inflation have been offset by acceleration in energy prices. Core inflation stabilized at 2.9%yoy. Among the largest economies, inflation accelerated in Germany (2.6%yoy vs 2.5%yoy), France (2.6%yoy vs 2.5%yoy) and Italy (1.7%yoy vs 0.9%yoy), but eased in Spain (2.9%yoy vs 3.6%yoy).

UniCredit Bank

Data spotlight: 29 July – 2 August

US Economy

- **Fed signaled September cut**

Last Wednesday, the Fed left the target range for the federal funds rate at 5.25-5.50% but sent a clear signal that interest rates could be cut as soon as the next meeting on 18 September, if incoming data supports such a move. This message was reinforced by Fed Chair Powell's somewhat dovish comments on the substantial progress the economy has made towards the Fed's dual mandate of price stability and maximum employment. The Fed no longer considers the labor market to be a source of inflationary pressure and is watching closely for signs of further softening. Accordingly, the post-meeting statement said the central bank was "attentive to the risks to both sides of its dual mandate". Mr. Powell revealed that the FOMC had actively discussed the possibility of cutting interest rates at the meeting, but that a "strong majority" had supported staying on hold. UniCredit Research still expects a first rate cut in September and a total of 75bp of cuts this year.

- **US: Material labor market softening increases pressure to cut rates**

The US July labor market report showed more material softening across the board. The economy added only 114k jobs in July, well below expectations. Payrolls in the prior two months were revised down a cumulative 29k. It left the three-month average payroll gain at 170k in July, down from 267k in March. What's more, job gains were once again concentrated in just a few sectors, with two-thirds of the gain in private-sector payrolls accounted for by the health sector alone. The latest three-month average pace of job gains is slightly below UniCredit Research's estimate of the 180k pace needed to simply absorb population growth and prevent a sustained rise in the unemployment rate. However UniCredit Research still believes that the payroll figures are overestimating hiring, for three main reasons. First, the Bureau of Labor Statistic's birth-death model used to estimate payrolls has tended to overstate employment gains when the labor market has started to weaken. Second, census data points to downward revisions to past data. Third, the household measure of employment has been materially weaker than the payroll measure.

The unemployment rate rose 0.2pp to 4.3%yoy in July, a fourth consecutive month of increase. This was the outcome of a large rise in labor force participation and a modest increase in household employment. The unemployment rate is now 0.9pp above its low of 3.4%yoy in April 2023; 0.3pp higher than the median FOMC unemployment rate projection for the end of this year; and 0.1pp above the median FOMC projection for the longer-run equilibrium unemployment rate. Average hourly earnings growth slowed to just 0.2%mom in July, consistent with a softening labor market. It took the year-on-year rate down to 3.6% from a downward-revised 3.8% in the prior month. It's now within a hair's breadth of the 3-3.5% range that most Fed officials judge to be consistent with meeting the 2% inflation target overtime, assuming trend labor productivity growth of 1-1.5%.

The weak July employment report will sound alarm bells at the Fed. It further increases confidence that the Fed will begin cutting rates at its 18 September meeting and cut a total of 75bp this year. As

US Economy (continued)

the Fed is often keen to point out, one datapoint doesn't make a trend, and nothing is falling off a cliff. The Fed will receive one more employment report and two more inflation reports before its September meeting.

- **US ISM Manufacturing continued to deteriorate in July**

The ISM Manufacturing PMI in the United States fell to 46.8 in July [UniCredit Research: 48.3, consensus: 48.8] from 48.5 in June, reflecting the sharpest contraction in US factory activity since November 2023. Both regional manufacturing surveys and the flash S&P Global manufacturing PMI for July pointed to a deterioration in business conditions in the goods-producing sector.

Data spotlight: 29 July – 2 August

International and Romanian Markets

- **The EURRON traded above 4.97 last week**

The EURRON traded within the 4.9716-4.9793 range and ended the week at 4.9770, 50pips up compared to the closing of the week before. The pair briefly touched levels around 4.9790 last Wednesday, while in the rest of the week the pair was relatively stable.

- **The entire ROBOR curve continued to experience only marginal moves**

Last week the ROBOR curve was relatively stable for all maturities, as excess liquidity remains abundant. The O/N-1W segment closed the week within the 5.76%-5.77% interval, marginally up (+1bp) from the end of the week before, while the 1M-3M segment remained inside 5.79%-5.80%.

- **MinFin auctions**

Last Monday, the Ministry of Finance held an auction for a 11 months T-bill. Bids were above the planned amount, at RON 1341.1mn vs. RON 500mn, enabling MinFin to place RON 713.2mn. The average accepted yield was 5.85% (max. 5.87%).

Last Thursday, the Ministry of Finance held auctions for two T-bonds with residual maturities of 2.9 years and 9.3 years. Both enjoyed high demand, with bids covering the planned amount: RON 1.2bn vs RON 500mn for the first one and RON 1.5bn vs RON 500mn for the second one. MinFin decided to place RON 937.6mn and RON 1.1bn, respectively. The average accepted yields were 6.18% (max 6.18%), down 1bp from the previous reopening two weeks ago and 6.71% (max 6.72%), down 16bp from the previous reopening one month ago.

- **FX markets**

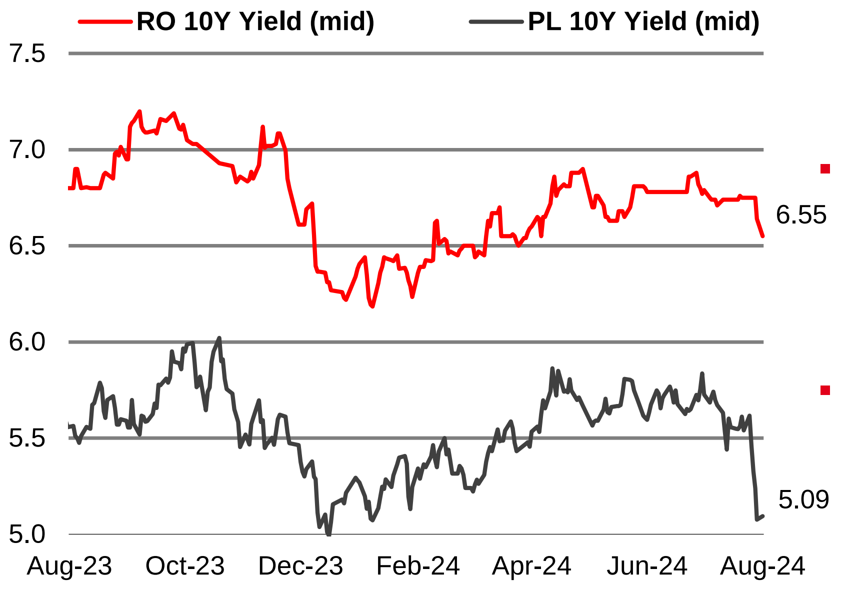
In FX, in August, the FX market will likely focus on data and events that might still affect central banks' rate decisions in September. EUR-USD will likely trade mostly within the 1.07-1.09 range. Prolonged manufacturing weakness in the Eurozone and narrowed room for further dovish shift in core markets are likely to create hurdles to any meaningful currency appreciation in CEE.

- **China's manufacturing PMI decreased slightly in July**

The official manufacturing PMI edged down to 49.4 in July from 49.5. Weak external demand and weather-related production disruptions contributed to the weak reading, which pointed to a contraction in manufacturing activity. The non-manufacturing PMI dropped to 50.2 from 50.5 as a result of still-sluggish consumer demand.

Focus Ahead: 5 – 9 August

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields decreased marginally on the short end and by up to 7bp on the long end.
- While July was an exceptionally successful month that saw a pronounced bull-steepening, EGB are likely to remain well supported in August.
- Headwinds from the US are not in sight, with the chorus of prominent voices asking for the easing cycle to start getting louder by the day and adding to the rally in USTs.
- This week, MinFin intends to place RON 500mn in 3.7Y T-bonds and RON 300mn in 8M T-bills on Monday, together with RON 500mn in 10Y T-bonds on Thursday.

BOND ISSUES - AUGUST								
ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO7EKTXSRHD6	29-Aug-24	28-Jan-26	17	500	lei			
RO0DU3PR9NF9	26-Aug-24	24-Feb-38	164	500	lei			
ROONDYK68GB5	22-Aug-24	25-Aug-25	12	800	lei			
RO1JS63DR5A5	19-Aug-24	28-Apr-31	81	500	lei			
ROJVM8ELBDU4	12-Aug-24	25-Apr-29	57	500	lei			
ROTM7EDD92S2	8-Aug-24	31-Jul-34	121	500	lei			
ROCN9C5SFV13	5-Aug-24	24-Mar-25	8	300	lei			
ROCDG04X8WJ7	5-Aug-24	26-Apr-28	45	500	lei			
ROP9QVD42HO2	1-Aug-24	31-May-27	34	500	lei	1,193	938	6.18
ROWLVEJ2A207	1-Aug-24	30-Oct-33	113	500	lei	1,460	1,150	6.71

Focus Ahead: 5 – 9 August

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
5-Aug-2024	US	ISM Non-manufacturing (index)	Jul	51.0	51.3	48.8
6-Aug-2024	GE	Industrial Orders (% mom)	Jun	1.5	1.0	-1.6
	US	Trade Balance (USD bn)	Jun	-72.0	-72.6	-75.1
	Romania	Retail Sales (%, yoy)	Jun			6.1
7-Aug-2024	GE	Industrial Production (% mom)	Jun	0.8	1.0	-2.5
	Romania	Interest Rate Announcement, %	Aug	6.75		6.75
9-Aug-2024	US	Consumer Credit (net change, USD bn)	Jun	7.0	10.3	11.3
	Romania	Trade Balance (EUR mn)	Jun			-2971.8

Data Source: Bloomberg

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Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023	2024F	2025F
GDP (EUR bn)	241.7	284.1	324.6	353.0	375.9
Population (mn)	19.2	19.0	19.1	19.1	19.0
GDP per capita (EUR)	12,567	14,918	17,035	18,528	19,758
Real economy, change (%)					
GDP	5.7	4.1	2.1	2.4	1.3
Private Consumption	7.2	5.8	2.8	3.7	0.9
Fixed Investment	2.9	5.9	14.4	3.3	3.0
Public Consumption	1.8	-3.3	6.0	2.9	-0.4
Exports	12.6	9.7	-1.4	2.8	4.9
Imports	14.8	9.5	-1.4	5.1	3.6
Monthly wage, nominal (EUR)	1175	1303	1489	1705	1785
Real wage, change (%)	2.0	-2.2	3.6	9.1	1.4
Unemployment rate (%)	5.6	5.6	5.6	5.4	5.6
Fiscal accounts (% of GDP)					
Budget balance	-7.2	-6.3	-6.6	-6.9	-5.3
Primary balance	-5.7	-4.2	-4.7	-5.1	-3.4
Public debt	48.5	47.5	48.8	50.9	52.7
External accounts					
Current account balance (EUR bn)	-17.5	-26.0	-22.6	-24.6	-21.6
Current account balance/GDP (%)	-7.2	-9.2	-7.0	-7.0	-5.7
Extended basic balance/GDP (%)	-1.5	-3.6	-2.9	-2.9	-1.6
Net FDI (% of GDP)	3.7	3.1	2.0	1.9	1.9
Gross foreign debt (% of GDP)	56.5	50.7	52.4	51.4	51.4
FX reserves (EUR bn)	40.5	46.6	59.8	58.7	59.8
Months of imports, goods & services	4.3	3.9	5.0	4.7	4.6
Inflation/Monetary/FX					
CPI (pavg)	5.0	13.7	10.5	5.6	4.5
CPI (eop)	8.2	16.4	6.6	4.6	4.4
Central bank inflation target	2.50	2.50	2.50	2.50	2.50
Central bank reference rate (eop)	1.75	6.75	7.00	6.50	5.00
3M money market rate (Dec avg)	2.83	7.66	6.25	5.76	4.79
USDRON (eop)	4.37	4.63	4.50	4.57	4.53
EURRON (eop)	4.95	4.95	4.97	4.99	5.07
USDRON (pavg)	4.16	4.68	4.57	4.61	4.55
EURRON (pavg)	4.92	4.93	4.95	4.98	5.04

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