Macroeconomic and Strategic Analysis

UniCredit Weekly Report

The NBR on hold in April, but widely expected to deliver a first rate cut in May

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UniCredit Bank

Weekly briefing

Last week, US ISM Manufacturing improved to 50.3 in March, above expectations [UniCredit Research: 48.0, consensus: 48.5]. This was **the first expansion after 16 months of contraction**, supported by the better demand, while backlogs remained in moderate contraction. The **number of US job openings rose by 8,000 to 8.76 million in February.** The **US labor market surprised again to the upside adding 303k jobs in March**, above expectations [UniCredit: 180k, consensus: 216k]. **This is the highest increase in three months, showing the US labor market remains tight**. More than half of the new jobs came from public sector and health. The **unemployment rate declined to 3.8%yoy,** from its highest in more than two years in January (3.9%). **Average hourly earnings accelerated to 0.3%mom in March. Fed will likely see the strong payrolls as further evidence that there is no great urgency to cut rates**. So, **the risks to UniCredit forecast for a first rate cut in June, and 125bp cuts this year, are skewed towards a later start and fewer cuts.**

German inflation rate continued to decrease to 2.2%yoy in March from 2.5%yoy in February, **at its lowest since May 2021, very close to ECB's target of 2.0%. Core inflation further down to 3.3%yoy** (from 3.4%yoy), **at its lowest since June 2022. Germany's factory orders slightly up by 0.2%mom in February,** after they plunged by 11.3% in January. Domestic orders rose by 1.5%mom, while foreign ones declined (-0.7%), with demand from Eurozone (EZ) down by -13% and from outside EZ up by 7.8%. In a less volatile 3-month comparison, the new orders rose by 2.8%mom.

In **Romania**, the **NBR kept the policy rate on hold at 7.00%, in line with our and consensus expectations.** Governor Isărescu signaled that **NBR could start cutting rates after at least two months of disinflation**, following the tax-induced inflation spike in January. **We received the first confirmation that the disinflationary trend resumed in February and we expect a second one on 11 April**, **when we forecast a tempering of the annual inflation for March to 6.7%** from 7.2% in February [Consensus: 6.8]. The **NBR is widely expected to deliver a first rate cut on 13 May, to 6.75%. We expect three more rate cuts this year, to 6%.** The **Retail sales accelerated in February at 7.1%yoy** (s.a. data), after a 5.1%yoy increase in January. The **producer prices declined by 6.3%yoy in February,** with the monthly decline accelerating to -0.8%mom, driven by the internal market (-5.0%mom). The **BCR Romania Manufacturing PMI rose above our expectations**, **to 49.3 in March** from 47.1 in February, **at its strongest so far,** although it still shows a contraction vs. February, given that it was below the 50.0 threshold**.** The **international reserves up in March by EUR 1.8bn to EUR 71.2bn**, with monthly inflows at EUR 1.8bn and outflows at EUR 0.64bn. The stock of gold at 103.6 tones, with its value up to EUR 6.9bn due to 10.5%mom rise in gold's price.

This week, the **German industrial production** is expected to decelerate and **exports and imports to contract in February** (Monday). Both **US headline** and **core CPI inflation** are likely to decelerate in March to a still robust 0.3%mom (Wednesday). The **ECB will likely leave rates on hold and pave the way for a rate cut at the June meeting** (Thursday). In Romania, the **trade** (Tuesday) **and current account deficits** (Friday) **are expected to rise** and the **industrial output to further contract in February** (Friday), while the **annual inflation will likely ease in March for the second month in a row** (Wednesday).

UniCredit Bank

Data spotlight: 1 – 5 April

CURRENCIES - MAJORS			
Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0828	-0.09%	-0.63%
EURCHF	151.66	0.23%	1.13%
USDJPY	1.26	-0.29%	-0.82%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE			
Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2770	-0.05%	-0.62%
EURHUF	390.60	0.26%	-0.79%
EURCZK	25.35	0.14%	-0.06%

CURRENCIES - NBR REFERENCE				
Currencies	EUR	USD	SDR	XAU (1g)
8-Apr	4.9678	4.5881	6.0814	344.65

CURRENCIES - RON		
	EURRON	USDRON
8-Apr	4.968	4.588
5-Apr	4.968	4.584
4-Apr	4.969	4.585

FIXED INCOME MARKET YIELDS - LOCAL				
Mid-rate	1Y	3Y	5Y	10Y
8-Apr	6.0	5.9	6.1	6.7
3-Apr	6.0	5.9	6.1	6.6

MONEY MARKET RATES - LOCAL			
ROBOR	ON	1M	3M
8-Apr	6.00	6.05	6.05
5-Apr	6.00	6.05	6.05
4-Apr	6.02	6.06	6.07

MONEY MARKET RATES - MAJORS			
Euribor	1M	3M	6M
5-Apr	3.89	3.89	3.83
4-Apr	3.88	3.89	3.84
3-Apr	3.85	3.86	3.82
USD Libor	1M	3M	6M
5-Apr	5.43	5.56	5.65
4-Apr	5.44	5.56	5.67
3-Apr	5.44	5.57	5.67

STOCK MARKETS			
Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,204.3	1.11%	2.47%
FTSE	7,927.1	0.20%	3.23%
Hang Seng	16,732.9	0.05%	3.53%
Bucharest BET	17,306.4	0.90%	6.18%

Romanian Economy

The NBR kept the key rate at 7.00%

The NBR Board decided to keep the policy rate at 7.00%, in line with our and consensus expectations. The credit facility rate was kept at 8.00% and the deposit facility rate at 6.00%. The NBR maintained the existing levels of minimum reserve requirement ratios for both the RON and FX-denominated liabilities of credit institutions.

The annual inflation declined at 7.2% in February (up vs. 6.6% in December), after it spiked to 7.4%yoy in January due to several tax increases (especially excise duties for fuels and tobacco) and the pass-through of the wage increases into the prices of some services and goods. The core inflation continued to decrease to 7.6%yoy February (vs. 8.4%yoy in December) mainly due to a base effect and the slower growth in food and energy prices.

In 4Q 2023 the economic activity weakened more than anticipated, contracting by 0.5%qoq, after 1.0%qoq in 3Q. The annual GDP growth rose to 3.0% in 4Q 2023 from 1.9% in 3Q, supported mainly by investments but also by an acceleration in household consumption. The net exports had a strong negative contribution, with trade and current account deficits widening vs. 3Q 2023. However, in 2023 overall, both deficits narrowed visibly in comparison to 2022.

The latest data point to a more robust growth in 1Q 2024 than previously forecasted. In January 2024 the retail sales accelerated, while the industrial output contracted even more than in December and constructions entered negative territory after six quarters of double-digit growth.

Romanian Economy (continued)

The number of employees economy-wide resumed its monthly growth in December and the two-digit annual growth of unit labour costs in industry re-accelerated in 4Q 2023. The ILO unemployment rate rose slightly in early 2024 to about 5.6%. The hiring intentions resumed in February-March 2024 and the labour shortage widened in 1Q 2024 due to a higher demand in the services and construction sectors.

The annual inflation rate is expected to decline further in the next months, slightly faster than forecasted by NBR in February 2024.

The inflationary risks are coming from the increase of the oil prices, from future fiscal and income measures that should be implemented for budget consolidation (most likely next year), somewhat mitigated by the extension until end-2024 of the cap on the basic food prices. The budget execution was at a record high in the first two months of 2024, the public sector wage continued to increase for some professional categories and the pensions are scheduled to rise again in September). Generally, the wage dynamics in the economy are a source of concern for NBR.

Significant uncertainties to the economic activity and the medium-term inflation outlook are coming from the continuation of the wars in Ukraine and Middle East, the economic performance in Europe, especially in Germany, and the absorption of EU funds, especially under the Next Generation EU program.

We expect inflation to remain above the target range in 2024 due to the strong consumer demand and in 2025 because of the higher taxes and electricity prices. Governor Mugur Isărescu signaled that the NBR could start cutting rates after at least two months of disinflation following the tax-induced inflation spike in January 2024. Last month we received the first confirmation of the disinflationary trend and we expect a second one on 11 April, when we forecast a tempering of the annual inflation for March to 6.7% from 7.2% in February [consensus: 6.8%]. In this context, the NBR is widely expected to deliver a first rate cut on 13 May, to 6.75%. We expect three more rate cuts this year, to 6%, locking in the easing that has occurred since the NBR left the excess liquidity in the interbank market.

The minutes of the meeting will be published on 16 April, while the next policy meeting is scheduled for 13 May.

- **Retail sales accelerated in February**

Retail sales increased by 7.1%yoy in February (seasonally adjusted data – s.a.) faster than expected, after a 5.1%yoy increase in January. On a monthly basis, they slowed down to 0.6%mom (s.a.) after +3.8%mom in January. On components, the fuel sales increased by 1.9%mom likely driven by the higher oil price, non-food sales by 0.6%mom and food sales by 0.2%mom. Compared to the same month of the previous year, the sales of non-food items strongly increased by 14.1%yoy, the sales of food increased by 3.0%yoy and the sales of fuels rose by 2.2%yoy.

Data spotlight: 1 – 5 April

Romanian Economy (continued)

Producer prices declined in February

Producer prices declined by 6.3%yoy in February, after a 6.0%yoy decline in January, mainly due to a base effect. On a monthly basis, their decline accelerated to -0.8% from a -0.1%mom in January, driven by the decline of prices on the internal market (-5.0%mom), while on the external market they increased by 0.7%mom. The largest price decreases were recorded for the electricity, gas, steam and air conditioning supply (-3.5%mom), extraction of crude oil (-2.6%mom) and mining of coal and lignite (-1.5%mom). The highest increases were recorded for manufacture of beverages (+3.8%mom), water collection, treatment and supply (+3.2%mom), manufacture of computer, electronic and optical products (+2.0%mom) and manufacture of other transport equipment (+1.9%mom).

BCR Romania Manufacturing PMI improved in March, although continues to indicate a contraction from February

The BCR Romania Manufacturing PMI increased above our expectations, to 49.3 in March from 47.1 in February [UniCredit Research: 47.5]. This was the strongest reading so far, although it still shows a contraction from the previous month, given that it was below the 50.0 threshold. The improvement came from the lower contraction of new orders, along with a lower drop in both output and preproduction inventories. External demand remained modest, leading to lower production volumes during March. At the same time, Romanian manufacturers continued to reduce jobs and implement cost-cutting measures, while facing higher prices for their inputs only partially recovered from their clients. An important observation is the fact that the Romanian Manufacturing PMI stood in contractionary territory since July 2023, the start of the data collection.

International reserves continued to increase in March

International reserves increased by EUR 1.8bn during March to EUR 71.2bn, in spite of our expectations of a mild decrease. The monthly inflows amounted to EUR 1.8bn (supported by changes in credit institutions' foreign currency-denominated required reserves with the NBR; inflows into the Ministry of Finance's accounts), while the outflows amounted to EUR 0.64bn (represented by changes in credit institutions' foreign currency-denominated required reserves with the NBR; interest payments and principal repayments on foreign currency public debt). The stock of gold was unchanged at 103.6 tones, but its value increased significantly to EUR 6.9bn due to the 10.5% increase in the price of gold.

Data spotlight: 1 – 5 April

European Economy

German inflation rate continued to decrease in March

The annual inflation rate in Germany decreased to 2.2% in March [UniCredit Research: 2.1%; consensus: 2.2%] from 2.5%yoy in the previous month. This is the lowest inflation since May 2021, very close to the ECB's target of 2.0%, as the prices for goods rose at a slower pace by 1.0%yoy (vs. 1.8% in February), while the energy prices declined faster by -2.7%yoy (vs -2.4%yoy in January) and the prices for food declined for the first time in almost 9 years by -0.7yoy (vs +0.9%yoy in January). The services' prices accelerated to 3.7%yoy (from 3.4%yoy). The core inflation further tempered to 3.3%yoy (from 3.4%yoy in February) at its lowest level since June 2022. An even stronger decline was probably prevented by an acceleration in the prices of package tours due to the somewhat earlier timing of the Easter break compared to the last year.

Germany's factory orders slightly increased in February

New orders in manufacturing rose by 0.2%mom in February, albeit less than expected [UniCredit Research and consensus: +0.5%], after they plunged by 11.3% in the previous month. They increased the most in manufacturing of electrical equipment (+10.7%mom), pharma (+6.6%mom) and the chemical industry (+3.1%mom). On the other hand, the new orders continued to decline in automotive (-8.1%mom) and manufacturing of metal products (-5.3%mom). The domestic orders increased by 1.5%mom, while the foreign ones declined by -0.7%mom, with demand from Eurozone down by 13%mom and from outside Eurozone rising by 7.8%mom. In a less volatile 3-month comparison (Dec-2023 to Feb-2024), the new orders increased by 2.8%mom.

Data spotlight: 1 – 5 April

US Economy

US ISM Manufacturing improved in March

The ISM Manufacturing index increased at 50.3 in March, above expectations [UniCredit Research: 48.0, consensus: 48.5], from 47.8 in February. This was the first expansion in the US manufacturing sector after 16 months of contraction, supported by the demand improvement, while backlogs remained in moderate contraction. The production levels index increased (54.6 vs 48.4), while the employment index continued to decline (47.4 vs 45.9).

US job openings increased in February

The number of job openings increased by 8,000 to 8.76 million in February [UniCredit Research: 8.6mn]. This indicates that the US labor market isn't cooling off so clearly under the impact of the Fed's tight monetary policy. During the month, job openings increased in finance and insurance (+126k), state and local government (less education) (+91k) and in arts, entertainment, and recreation (+51k). Job openings decreased in IT (-85k) and in federal government (-21k).

US strong payrolls does not prevent, but increase the risk of rate cuts delay

The US labor market surprised again to the upside adding 303k jobs in March, above expectations [UniCredit Research: 180k, consensus: 216k]. This is the highest increase in three months, showing the US labor market remains tight as the US economy continues to outperform expectations and its peers. More than half of the new jobs came from the public sector (71k) and healthcare (72k), which tend to be acyclical.

Recently, several Fed officials said that strong payrolls are not necessarily inflationary if they reflect an improved labor supply. In a recent study (based on much higher estimates of immigration by the Congressional Budget Office vs. estimates by the Bureau of Labor Statistics), the sustainable level of job gains (i.e. needed to absorb the population growth without pressure on unemployment rate) has been estimated to about 180k per month, up from the previous 100k. The current payroll growth is running above this level, with three-month average gain up to 276k and six-month average to 244k.

The unemployment rate declined slightly to 3.8%yoy, from its highest in more than two years recorded in January (3.9%). Average hourly earnings accelerated to 0.3%mom in March, from 0.1%mom in February. This is not far from the 3-3.5% range consistent with 2% inflation over time.

The Fed will likely see strong payrolls as further evidence that there is no great urgency to cut rates. That means the risks to UniCredit forecast for a first rate cut in June, and 125bp cuts in total this year, are skewed towards a later start and fewer cuts. For now, UniCredit keeps its baseline forecast as several Fed officials, including Chair Powell, indicated that strong payroll gains do not prevent the labor market coming into better balance and the rate cuts this year. Moreover, leading indicators of the labor market point to a softening in labor demand (including both the decline in small businesses' hiring intentions and the quits rate, and the rise in job cut announcements).

Data spotlight: 1 – 5 April

International and Romanian Markets

- **The EURRON traded with a downward bias last week**

The EURRON traded within the 4.9655-4.9716 range last week and ended the week close to the midpoint of the interval, at 4.9681, 19pips down compared to the closing of last week. The currency pair opened the current week close to 4.9670 and is likely to continue to trade around 4.97 in the following days. Yet, attempts to descend below 4.96 should be short-lived given that the fundamentals continue to point towards a depreciation of the RON.

- **The entire ROBOR curve remained almost unchanged**

Last week, the ROBOR curve was relatively stable for all maturities. The O/N-1W segment closed the week within the 6.00%-6.01% interval, while the 1M-3M segment closed inside 6.01%-6.05%, 1bp below the end of the week before. Interbank excess liquidity remains high, keeping the ROBOR rates very close to the deposit facility rate. We believe that abundant liquidity will persist given its historical high level, resulting in lower ROBOR rates if the NBR will cut the key rate by 0.25pp to 6.75% at its monetary policy meeting on 13 May, as expect by the market consensus.

- **MinFin auctions**

Last Monday, the Ministry of Finance held auctions for T-bonds with residual maturity of 5.1 years and for 7M T-bills. Bids for the bond were above the planned amount, at RON 1.24bn vs. RON 400mn, enabling MinFin to place RON 1bn. The average accepted yield was 6.36% (max. 6.37%), 1bp below the previous reopening three weeks ago. For the bills, the bids were also above the planned amount, at RON 1.1bn vs. RON 400mn and MinFin placed RON 917.4mn. The average yield accepted was 6.01% (max. 6.03%).

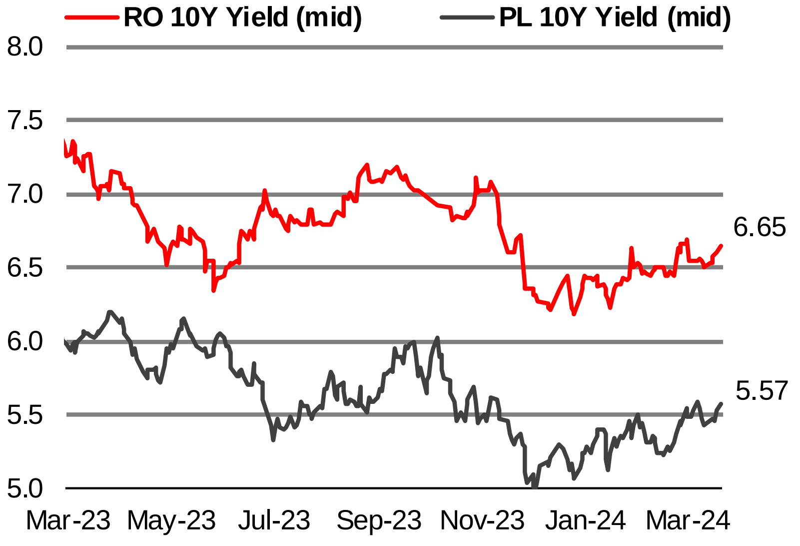
Last Thursday, the Ministry of Finance held auctions for T-bonds with residual maturities of 10 years and 1.8 years. For the first issue, the bids were above the planned amount, at RON 469.1mn vs. RON 400mn, enabling MinFin to place RON 400mn. The average accepted yield was 6.63% (max. 6.64%), 10bp above the previous reopening one month ago. For the second one, the bids were above the planned amount, at RON 1.54bn vs. RON 400mn, enabling MinFin to place RON 891.1mn. The average accepted yield was 6.04% (max. 6.04%), 1bp below the previous reopening one month ago.

- **FX markets**

In FX, USD Index still below 104.50, and EUR-USD rallied back above 1.08 without testing the support level of 1.0775. The ECB indicating a rate cut in June at its meeting on Thursday and mixed CPI inflation data in the US on Wednesday will likely limit a stronger EUR-USD recovery for now. A lack of indication on the pace of easing after June will likely offer EUR-USD a floor around 1.08.

Focus Ahead: 8 – 12 April

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields had mixed a evolution last week, with stable yields for 5Y maturity, while 10Y rose by 3bp in line with the global upward pressure which should be temporary.
- The 10Y EGB and UST yields rose to 2.4% and slightly above 4.40%, respectively, with curves steepening, due to the strong US data.
- This week, MinFin intends to place RON 400mn in 12 months T-bills and RON 300mn in 14Y T-bonds on Monday as well as RON 400mn in 7.2Y T-bonds on Thursday.

BOND ISSUES - APRIL								
ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO7EKTXSRHD6	29-Apr-24	28-Jan-26	21	500	lei			
ROJVM8ELBDU4	29-Apr-24	25-Apr-29	61	500	lei			
ROWLVEJ2A207	25-Apr-24	30-Oct-33	116	400	lei			
RON7NMKOKQG2	25-Apr-24	28-Oct-26	31	400	lei			
ROP9QVD42HO2	22-Apr-24	31-Jul-27	40	500	lei			
ROXL7LT7QZ66	18-Apr-24	29-Apr-30	73	600	lei			
ROCDG04X8WJ7	15-Apr-24	26-Apr-28	49	400	lei			
RO1JS63DR5A5	11-Apr-24	28-Apr-31	86	400	lei			
ROLDTSD4N4L2	8-Apr-24	26-Mar-25	12	400	lei			
RO0DU3PR9NF9	8-Apr-24	24-Feb-38	169	300	lei			
RO7EKTXSRHD6	4-Apr-24	28-Jan-26	22	400	lei	1,536	891	6.04
ROTM7EDD92S2	4-Apr-24	31-Jul-34	126	400	lei	469	400	6.63
RO9ZKMFLS2K3	1-Apr-24	23-Oct-24	7	400	lei	1,087	917	6.01
ROJVM8ELBDU4	1-Apr-24	25-Apr-29	62	400	lei	1,238	1,022	6.36

Focus Ahead: 8 – 12 April

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
8-Apr-2024	GE	Industrial Production (% mom)	Feb	0.3	0.5	1.0
	GE	Exports (% mom)	Feb	-0.5	0.0	6.3
	GE	Imports (% mom)	Feb	-0.7		3.7
9-Apr-2024	Romania	Trade Balance (EUR mn)	Feb	-2085		-1958
	Romania	GDP (%, yoy)	4Q F	3.0	3.0	3.0
10-Apr-2024	US	Consumer price index, CPI (% yoy)	Mar	3.4	3.5	3.2
	US	Core CPI (% yoy)	Mar	3.7	3.7	3.8
	US	Consumer price index, CPI (% mom)	Mar	0.3	0.3	0.4
	US	Core CPI (% mom)	Mar	0.3	0.3	0.4
11-Apr-2024	EMU	ECB Depo Rate (%)	Apr	4.0	4.0	4.0
	EMU	ECB Refi Rate (%)	Apr	4.5	4.5	4.5
	US	PPI ex. food & energy (% mom)	Mar	0.2	0.2	0.3
	Romania	Consumer price index, CPI (% yoy)	Mar	6.7	6.8	7.2
12-Apr-2024	Romania	Current Account YTD (EUR mn)	Feb	-3181		-1358
	Romania	Industrial Output (%, yoy)	Feb	-4.1		-3.9
	Romania	Wages Net (%, yoy)	Feb	14.4		14.2
	Romania	S&P to update sovereign rating		BBB-, stable		BBB-, stable

Data Source: Bloomberg

UniCredit Bank

Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023F	2024F	2025F
GDP (EUR bn)	241.7	286.6	322.9	350.7	372.7
Population (mn)	19.2	19.1	19.1	19.1	19.0
GDP per capita (EUR)	12,596	14,979	16,902	18,386	19,566
Real economy, change (%)					
GDP	5.7	4.6	1.4	3.0	1.6
Private Consumption	7.2	6.9	2.6	2.6	0.3
Fixed Investment	2.9	5.6	9.7	4.8	2.1
Public Consumption	1.8	3.1	1.0	1.9	-0.2
Exports	12.6	9.6	-0.4	3.7	4.7
Imports	14.8	9.9	-2.2	3.8	2.4
Monthly wage, nominal (EUR)	1175	1303	1481	1670	1756
Real wage, change (%)	2.0	-2.2	3.1	7.6	1.9
Unemployment rate (%)	5.6	5.6	5.4	5.4	5.5
Fiscal accounts (% of GDP)					
Budget balance	-7.1	-6.2	-6.3	-6.0	-4.6
Primary balance	-5.6	-4.2	-4.2	-3.9	-2.4
Public debt	48.5	47.2	49.3	50.9	52.2
External accounts					
Current account balance (EUR bn)	-17.5	-26.6	-20.8	-18.2	-16.5
Current account balance/GDP (%)	-7.2	-9.3	-6.4	-5.2	-4.4
Extended basic balance/GDP (%)	-1.4	-3.6	-2.3	-1.3	-0.5
Net FDI (% of GDP)	3.7	3.7	2.3	2.0	2.0
Gross foreign debt (% of GDP)	56.5	50.4	52.1	49.6	49.9
FX reserves (EUR bn)	40.5	46.6	59.8	58.6	63.4
Months of imports, goods & services	4.3	4.0	5.0	4.7	4.8
Inflation/Monetary/FX					
CPI (pavg)	5.0	13.7	10.5	6.3	4.9
CPI (eop)	8.2	16.4	6.6	6.0	3.9
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	4.00
3M money market rate (Dec avg)	3.01	7.57	6.22	5.32	3.93
USDRON (eop)	4.37	4.64	4.56	4.51	4.56
EURRON (eop)	4.95	4.95	4.97	5.05	5.15
USDRON (pavg)	4.16	4.68	4.57	4.45	4.40
EURRON (pavg)	4.92	4.93	4.95	5.02	5.10

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