Macroeconomic and Strategic Analysis

UniCredit Weekly Report

The NBR delivered a rate cut in August, a move anticipated by a slim majority

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Weekly briefing

The **US ISM Manufacturing index edged up to 47.2 in August** and the **ISM Services PMI to 51.5.** The **Fed's Beige Book reported a deteriorating economic and labour market state, so Fed is now highly likely to start easing at its meeting on 19 September.** The **German new orders rose by 2.9%mom in July**, driven by bulk orders for planes, ships and military vehicles (+86.5%mom). The **German industrial production declined by 2.4%mom in July** (+1.7%mom in June), **driven by the marked decline in the auto industry. UniCredit Research expects the industrial output to rise in August/September.** German exports rose by 1.7%mom in July (-3.4% in June).

In **Romania,** the **NBR delivered on 7 August, another 25bp cut of the policy rate to 6.50%,** after its first cut by 25bp on 5 July. In its **August inflation report**, the **NBR estimated that the annual CPI rate will decline on a lower path vs. its May forecast**, **especially until 1Q25**, touching 4% in December 2024 and 2.9% in March 2025, **followed by a reacceleration in 2Q25** (to 3.7% in June). **Afterwards, annual inflation is estimated to remain slightly below 3.5%. We expect the NBR to keep the policy rate on hold at 6.50% by the year-end, while they could resume the reverse repos to restrain the market liquidity**. The **annual inflation increased to 5.4%yoy in July** from 4.9%yoy in June. **Prices rose by 0.6%mom** mainly due to costlier fuel prices (+2.9%mom) after excise duties rose on 1 July and to an increase in energy prices (+1%mom). **Core inflation decreased in July to 5.5%yoy. We expect inflation to remain outside the target range in 2024 and 2025 because of higher taxes, energy and food prices.** The **budget deficit was RON 71bn (4.02% of GDP) at the end of July, the highest on record** for the first seven months**. We believe there is a high risk that the budget deficit will exceed 7% of GDP in 2024.** Romania is currently under negotiations with the European Commission, proposing a fiscal adjustment to the 3% of GDP target over the following 7 years. The **international reserves decreased slightly in August to EUR 70.8bn.** The stock of gold was 103.6 tones, while its value increased to a record high of EUR 7.6bn. **Fitch maintained Romania's BBB- investment grade rating with a stable outlook**. **Fitch revised downwards its GDP forecast for Romania to 2.5% in 2024 and believes the CPI will stay close to the upper bound of the NBR's inflation target (3.5%) until 2026. Fitch sees the main risk coming from the widening budget deficit and revised its forecast to 7.2% of GDP.** The **producer prices were up in July by 2.6%yoy and by 2.1%mom** mainly due to the internal market (+2.7%mom), driven by energy prices. The **BCR Romania Manufacturing PMI index was slightly up** to 48.4 in August, albeit still in contractionary area. **Romanian retail sales slowed down to 7.4%yoy in July**, after the record high of the last 3 years recorded in June (+9.4%yoy).

The **external events' calendar is busy this week**: the **first TV debate between the US presidential candidates,** Vice President Kamala Harris and former President Donald Trump (Wednesday, 3:00 CET), the **US August CPI report,** likely to show further progress on disinflation and the **ECB meeting** (Thursday), where a 25bp rate cut is almost a done deal. In **Romania,** we expect the **August annual inflation** to temper to 5% (Wednesday), the **July average net wage** to quicken its annual growth to 13.2% (Thursday), **July industrial output** to maintain its modest growth (+0.6%yoy) and the **July current account deficit** to increase further, to EUR 15.3bn (Friday).

Data spotlight: 5 August – 6 September

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.1040	-0.42%	1.09%
EURCHF	142.16	-0.83%	-1.66%
USDJPY	1.31	-0.40%	3.44%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2770	-0.11%	-1.17%
EURHUF	396.00	0.65%	-0.55%
EURCZK	25.05	0.00%	-0.89%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
9-Sep	4.9741	4.4986	6.0531	361.05

CURRENCIES - RON

	EURRON	USDRON
9-Sep	4.975	4.505
6-Sep	4.970	4.486
5-Sep	4.972	4.475

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
9-Sep	5.7	6.2	6.2	6.7
4-Sep	5.7	6.2	6.1	6.7

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
9-Sep	5.55	5.55	5.55
6-Sep	5.50	5.52	5.54
5-Sep	5.50	5.63	5.55

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
6-Sep	3.52	3.47	3.35
5-Sep	3.54	3.47	3.36
4-Sep	3.54	3.45	3.38
USD Libor	1M	3M	6M
6-Sep	5.22	5.20	5.02
5-Sep	5.23	5.21	5.04
4-Sep	5.28	5.26	5.11

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,408.4	-1.73%	3.21%
FTSE	8,230.5	0.60%	1.05%
Hang Seng	17,197.0	-1.42%	1.81%
Bucharest BET	17,500.7	0.64%	-2.12%

Romanian Economy

- **The NBR cut the key rate by another 25bp at 6.50%**

The NBR delivered on 7 August another 25bp cut of the policy rate to 6.50%, following its first cut by 25bp (5 July), a move anticipated by a slim majority (57% of the polled analysts).

Accordingly, the credit facility rate was cut to 7.50% and the deposit facility rate to 5.50%. The NBR maintained the existing levels of minimum reserve requirement ratios for both the RON and the FX liabilities of credit institutions.

The NBR took into consideration that the annual inflation continued to decline faster than its forecast, to 4.9% in June (vs. 5.1% in May), due to the significant drop in fuel prices and core inflation, in spite of an increase in the gas prices in June. However, the energy prices, including gas, declined notably in 2Q following the legislative changes starting in April, with the annual inflation tempering by 1.7pp in June vs. March. The core inflation also decreased below NBR's May forecast, to 5.7% in June from 7.1% in March mainly due to a base effect and the slower growth in commodities' prices, including import prices.

In 1Q 2024 the economic activity increased slower than anticipated by 0.8%qoq, likely due to lower aggregate demand. The annual GDP growth slowed sharply to a revised 0.5% in 1Q 2024 from 3.0% in 4Q 2023, triggered by the much lower investments vs. a double digit growth in 4Q 2023, while the household consumption accelerated further.

Romanian Economy (continued)

The net exports had a strong negative contribution, with the trade deficit rising marginally vs. 4Q 2023 and the current account deficit narrowing considerably due to the higher secondary income surplus mainly due to the EU funds inflows. On an annual basis, the trade deficit and the current account deficit recorded a significantly faster widening in April-May.

The latest data were pointing to a more robust economic growth in 2Q 2024 than previously forecasted, implying a higher annual GDP growth. In April-May 2024 the retail sales accelerated vs 1Q, the industrial output posted only a slight rebound, while constructions returned to double-digits growth, after falling steeply in 1Q 2024.

While the number of employees economy-wide resumed its monthly growth at a fast pace in April, it recorded a strong contraction in May. The ILO unemployment rate rose gradually in April-June 2024 to 5.5%, still below the 5.6% level in 2H 2023. At the same time, the surveys indicated in July more moderate employment intentions over the short-term, which will negatively impact the GDP growth in 3Q. While the nominal gross wage growth and the unit labour costs in industry growth moderated a while in April-May, they remained high in double digits.

The interbank rates declined in July, following NBR's first rate cut in this easing cycle, on 5 July. Long-term yields on government securities continued to decline, quite in line with the trend in the advanced economies and the region, driven by the investor expectations that the Fed will cut the interest rate in September. In this context, the EURRON pair decreased in the first part of July then increasing again due to the higher volatility of the external markets triggered by the escalation of the conflict in the Middle East.

On 7 August, the NBR Board approved the August 2024 Inflation Report which includes an updated forecast. In its August inflation report published on 9 August, the NBR estimated that the annual CPI rate will decline on a significantly lower path vs. its May forecast, especially until 1Q25, touching 4% in December 2024 and 2.9% in March 2025, followed by a reacceleration in 2Q25 (to 3.7% in June) due to an unfavorable base effect from a price adjustments of natural gas and volatile food prices in 2Q24. Afterwards, annual inflation is estimated to remain slightly below 3.5%.

The main risks are coming from the budget execution (budget deficit already at 3.6% of GDP in the first half of 2024), the short-term fiscal measures that should be implemented for budget consolidation, and the medium-term fiscal-structural plan submitted to the European Commission this autumn aiming to reach the 3% of GDP budget deficit target by 2030 (instead of 2026 set up initially).

Other risks are represented by the high wage dynamics, especially in the public sector, the rise in pensions as of September 2024, the evolution of the energy and food prices amid the legislative changes, the drought this year and the oil prices amid the ongoing geopolitical tensions.

Romanian Economy (continued)

Significant uncertainties to the economic activity and the medium-term inflation outlook are also coming from the continuation of the wars in Ukraine and Middle East, the economic performance in Europe and the absorption of EU funds, especially those under the Next Generation EU programme, which is conditional on fulfilling strict milestones and targets.

We expect inflation to remain outside the target range in 2024 and 2025 because of higher taxes , energy and food prices, with a return inside the target range possible only in 2026. Given the geopolitical tensions and the poor budget execution in this election year, we expect the NBR to keep the monetary policy rate on hold at 6.50% by the end of the year, while they could resume the reverse repos at the key rate to restrain the market liquidity, as Mr. Isarescu declared when presenting the NBR's August inflation report.

We were expecting a 25bp cut only in October, which most probably came earlier, motivated by the fact that the Feb and ECB are expected to cut in September, when the NBR does not have a meeting. For the end of the current year, the median market expectation for the key rate is at 6.25%, with the anticipated level in between 6.00-6.50%.

This year, only two more policy meeting are scheduled for 4 October and 8 November.

- **The annual inflation accelerated in July**

Annual inflation increased to 5.4%yoy in July [UniCredit Research and consensus: 5.2%], from 4.9%yoy in June. Prices were higher by 0.6%mom in July, after the 0.2%mom increase in June. The reason for our forecast error was mostly the costlier fuel prices (+2.9% mom) after the excise duty rose as of 1 July, together with an increase in energy prices (+1%mom for gas and electricity).

Food-prices were up by 0.1%mom, driven by flour (+1.3%mom), while prices of potatoes and fresh fruit decreased by -4.5%mom and -3.7%mom. Non-food goods' prices rose by 0.9%mom, mainly due to higher fuel and energy prices. Service prices accelerated to 0.7%mom, as air transport rose by 17.6%mom.

The core inflation continued to decrease in July to 5.5%yoy, from 5.7%yoy in the previous month, but remains much stickier than in other CEE countries due to the strength of domestic demand and the pricing power of retailers.

We estimate that the core inflation will fall below 5%yoy only in the last quarter of the year, as another boost to income this year will come through the September pension increase.

We forecast headline inflation to fall towards 4.6% by the end of this year. Higher taxes next year would fuel inflation and keep it above 4%, despite weaker consumer demand weighing on the core reading. A return inside the target range is possible in 2026 if the fiscal adjustment continues.

Romanian Economy (continued)

■ The budget deficit already at 4.02% of GDP after the first seven months of 2024

The Ministry of Finance released the budget execution for the first seven months of 2024, showing a deficit of 4.02% of GDP (RON 71.04bn), the highest on record. The growth of revenues and expenditures quickened in July to 15.1%yoy from 13.5%yoy in June and to 23.2%yoy from 21.2%yoy, respectively. Similar to the patterns visible in July and May, the highest increases in revenues came from fiscal revenues (RON 22.5bn; 15.5%yoy), followed by social insurance contributions (RON 18.7bn; 20.7%yoy), and EU funds (RON 8.5bn; 734.5%yoy). On the expenditure side, the highest increases in nominal terms were seen for the personnel expenses (RON 17.9bn; 23.9%yoy) followed by the capital expenditure (RON 16.2bn; 97%yoy) and social assistance (RON 15.7bn; 13.9%yoy).

The state budget will have to support additional costs as of September, namely: 1. RON 2.5bn per month, translated into RON 10bn for the current year due to the pension hike implemented as of September; 2. exceptional costs for organizing the presidential and parliamentary elections of RON 1.4bn and RON 0.88bn, respectively.

Therefore, we believe there is a high risk that the budget deficit will exceed 7% of GDP in 2024. According to the Prime Minister Ciolacu, the Ministry of Finance is preparing a tax amnesty for 4Q24, which would held appease the fiscal pressure this year. Yet, this measure, along with running arrears would be only a temporary patch and would affect next year's efforts to reduce the deficit.

Romania is currently under negotiations with the European Commission, proposing a fiscal adjustment down to the 3% of GDP target over a 7 years' period. The main motivation for this request is the fact that in 2025 and 2026 Romania can access funds under PNRR and would like to continue the investments, especially the vital ones in infrastructure in total amount of EUR 13.7bn (of which EUR 7bn in European funds and EUR 6.7bn from national sources).

■ The Romanian 2Q24 GDP growth was below expectations

On 14 August, the NIS released the flash 2Q24 GDP estimate showing an increase of 0.1%qoq in 2Q24 (seasonally adjusted data). In gross terms, the figure is significantly below what we were estimating, at +0.8%yoy [UniCredit Research: 3.2%yoy; consensus: 2.8%yoy].

A comparison of Romania's growth rate with the other European economies is only available on seasonally adjusted data, according to which Romania increased by 0.8%yoy in 2Q24, a better evolution than in the euro area, which increased by 0.6%yoy and the same as in the EU, which increased by 0.8%yoy. Romania's performance was surpassed by Poland (4%yoy), Cyprus (3.7%yoy), Spain (2.9%yoy), Slovakia (2.1%yoy) and Bulgaria (2%yoy).

Romanian Economy (continued)

On 6 September, the NIS released the GDP details for 2Q 2024, confirming the quarterly increase of 0.1%qoq (seasonally adjusted data) and the yearly growth of +0.8%yoy (both gross and seasonally adjusted terms) from the flash estimate.

On the supply side, the largest positive contributors to the 0.8%yoy growth were: net taxes (+0.4pp), agriculture (+0.3pp), cultural activities (+0.3pp), construction (+0.2pp), while the other sectors had a zero or negative contribution. The sectors which subtracted from growth were real estate transactions (-0.2pp), industry (-0.1pp) and IT&C (-0.1pp).

On the demand side, the main contribution came from the total consumption (+5.0pp) almost fully driven by the private consumption (+4.7pp) supported by the declining inflation and the still high nominal wage growth, while the contribution of the public consumption was merely +0.3pp. At the same time, the gross fixed capital formation maintained the positive contribution to GDP at +1.4pp, the same level as in the first quarter. The net exports' negative contribution deepened to -4.0pp as the imports increased faster on the back of the stronger consumption, while the exports remained affected by a modest performance in the industrial activity.

We forecast the GDP growth at 2.4% in 2024 fueled by the private consumption amid positive real wage growth and large pension increases in September. Investments are likely to remain robust in 3Q24 and might be helped by around EUR 7.5bn in RRF funds disbursed but not spent yet. Public investment might be cut towards year-end if the government tries to cap the deficit. Although we were expecting demand from the EU to resume and help the recovery of the industrial production and exports in 2H24, the latest external data is mixed and it might take longer before we see a clear improvement. In this context there are downside risks to our current forecast.

- **International reserves remained almost unchanged in August**

Foreign exchange reserves (incl. gold) decreased by EUR 0.3 billion in August 2024, to EUR 70.8bn. The monthly inflows amounted to EUR 2.4billion (supported by changes in credit institutions' foreign currency-denominated required reserves with the NBR and the inflows into the Ministry of Finance's accounts), while the outflows were of EUR 2.8bn (represented by 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). The stock of gold was at 103.6 tones, while its value increased to EUR 7.6bn, at a record high. The monthly dues for September will be EUR 685mn, doubling in comparison to the previous month's amount.

- **BCR Romania Manufacturing PMI index slightly up in August, still in contractionary area**

BCR Romania Manufacturing PMI index (compiled by S&P Global based on answers from 400 respondents) slightly improved to 48.4 in August from 47.8 in the previous month, indicating a soft recovery which gives hope for higher readings towards the end of the year.

Data spotlight: 5 August – 6 September

Romanian Economy (continued)

Although conditions remained challenging for the Romanian manufacturers, most of the components of the index (output, employment, suppliers' delivery times and stocks of purchases) showed a positive evolution in August. The new orders, the largest sub-component, declined for the second consecutive month. The production volumes declined for the third month in a row, which led to a decrease in the stock of purchases. Despite the subdued demand, the average delivery times increased in August. The input prices continued to rise at a fast pace due to the higher costs of raw materials, fuel and labour. Factory workforce decreased again, marking three consecutive months of modest job cuts. Export performance was again weak in August. This trends can be attributed to both internal and external factors. The external demand still remains weak, especially from Germany, Romania's main trading partner. The German Manufacturing PMI reached a 5-month low in August at 42.1. Also, the internal demand suffers from a structural problem, as most of the manufactured goods sold in Romania are imported as indicated by the large trade deficit. On a positive note, looking ahead, firms were more optimistic about their future output.

- **Romanian producer prices increased in July**

Producer prices increased by 2.6%yoy in July, after a 1.1%yoy increase in June, while on a monthly basis the prices rose by 2.1%mom. The prices on the internal market increased by 2.7%mom, while those on the external market increased slightly by 0.4%mom. Similarly to June, the highest increases were recorded for the production of electricity, gas, steam and air conditioning supply (+7.2%mom) and for extraction of crude petroleum and natural gas (+3.2%mom). The largest decrease was recorded for printing and reproduction of recorded media (-1.4%mom).

- **Romanian retail sales slowed down in July**

Retail sales increased by 7.4%yoy in July (seasonally adjusted data – s.a.), tempering after the record high of the last 3 years at +9.4%yoy in June. On a monthly basis, they decreased by -1.8%mom (s.a.) from a downwardly revised +1.3%mom in June. On components, the non-food sales increased by 0.3%mom (vs. 1.9%mom rise in June), while the food sales decreased by -1.0%mom from a flat evolution in June and the fuel sales declined by -9.2%mom (vs. +3.2%mom in June). Compared to the same month of the previous year, the sales of non-food items increased by 12.3%yoy, the sales of food by 5.0%yoy and the sales of fuels declined slightly by -0.2%yoy.

Data spotlight: 5 August – 6 September

Romanian Economy (continued)

Romania's rating affirmed by Fitch

Last Friday, Fitch maintained Romania's BBB- investment grade rating with a stable outlook.

In Fitch's view, the Romanian economy slowed down to 2.1% in 2023 and the perspectives of a recovery this year are weaker than expected. Fitch revised down its GDP forecast for Romania to 2.5% in 2024, while it is still stronger than Fitch's forecast for Eurozone (+0.8% in 2024, up vs. 0.4% in 2023). The main driver will remain the household consumption which is expected to accelerate, boosted by the lower inflation, strong nominal wage growth and the pensions increase in September. The large inflows of EU funds will continue to support the economic growth and the investment over the medium term. Romania's inflation declined more than expected in 1H 2024 and was broad-based. Headline inflation declined to around 5% in the recent months as compared to the double digits recorded until June 2023. Also, the core inflation fell to 5.5% in July 2024, at its lowest since January 2022, while it remains more persistent, partly due to the strong wage dynamics. Fitch sees the CPI will stay close to the upper bound of the NBR's inflation target (2.5%+/-1pp) until 2026.

Fitch sees the main risk coming from the widening budget deficit (up from 6.3% of GDP in 2022 to 6.6% of GDP in 2023, ESA terms). As the monthly outturns indicate further widening this year, Fitch revised its forecast for Romania's budget gap to 7.2% of GDP, while keeping it unchanged at 6.5% of GDP for 2025. Fitch expects significant fiscal consolidation over the medium term, supported by the re-introduction of the EU fiscal rules, although there are many uncertainties regarding the post-election fiscal plans. The ruling coalition formed almost three years ago of the Social Democrats and Liberals has proven stable and won the EU parliamentary elections in June 2024 with a joint list that received almost 50% of the votes. The fiscal easing ahead of the presidential and general elections scheduled for 24 November (1st round) and 1 December (2nd round) this year, increased the medium-term fiscal risks and will potentially make the future fiscal consolidation politically more difficult. Fitch also forecasts the general government debt to GDP to increase to 59% of GDP at end-2026, from 48.8% in 2023, but still in line with the 'BBB' current median of 58.3%. Strong nominal growth, due partly to higher inflation, helped contain the debt increase until 2023, but the current high deficit forecasts combined with the slower nominal GDP growth put the debt/GDP ratio on an upward path.

At the same time, on a positive note, the interest payment for the public debt to revenues ratio is at 6.4%, more favourable than the 7.5% peer median and Romania did not face external financing pressures during the monetary tightening period, that reflected in the significant rise of its international reserves and the stable EURRON. Also, the CAD will narrow in 2024-2026 within the 5-7% of GDP range, towards its pre-pandemic average, but still among the largest in CEE and the 'BBB' rating category, partly reflecting Romania's competitiveness challenges.

The key factors for future rating actions will be the fiscal strategy (insufficient fiscal consolidation) and the adverse spill-overs to policy credibility and the possible deterioration in the external liquidity buffers due to the high twin fiscal and CADs.

Data spotlight: 5 August – 6 September

European Economy

German new orders continued to rise in July

New orders in manufacturing rose by 2.9%mom in July, after an upwardly revised 4.6% increase in July. The renewed rise in the headline figure was largely driven by bulk orders for planes, ships and military vehicles (+86.5%mom). On a positive note, total demand excluding big-ticket items declined only moderately in July (-0.4%mom), while the less-volatile 3M-3M comparison even showed a rise of 1.0%. Real sales in the manufacturing sector declined by 2.3%mom in July, signaling a decrease in the industrial activity.

German industrial production declined in July

Industrial production declined by -2.4%mom in July, after upwardly revised to 1.7%mom in June. On a less volatile 3M-3M basis, it decreased by 2.7%yoy. One key driver in July was the marked decline in the auto industry by 8.1%mom (vs. +7.9% in June). UniCredit Research still expects that the overall industrial output will increase in August/September, as signaled by rising new orders (on a 3M-3M basis). On a positive note, exports rose 1.7%mom in July (vs. -3.4% in June), while imports accelerated to 5.4%mom (vs. +0.2% in June).

Data spotlight: 5 August – 6 September

US Economy

- **US ISM Manufacturing slightly increased in August**

The ISM Manufacturing index increased to 47.2 in August [UniCredit Research: 47.3], from 46.8 in July. The decline in July may have been driven by adverse weather conditions related to hurricane Beryl. Still, underlying activity in the manufacturing sector likely remained weak in August with production falling at a faster pace (44.8 vs 45.9 in July) despite another monthly increase in the backlog of orders (43.6 vs 41.7). The new orders decreased for the third straight month (44.6 vs 47.4). The result confirmed the weak momentum for manufacturing in the US economy under the impact of the still high interest rates.

- **US ISM Non-manufacturing PMI edged up in August**

The ISM Non-Manufacturing index increased to 51.5 in August from 51.4 in the previous month. New orders continued to improve (53 vs 52.4 in July), although the production component increased less than in July (53.3 vs 54.5) despite the decline in the backlog of orders (43.7 vs 50.6). Employment levels edged up (50.2 vs 51.1). The prices' component accelerated further (57.3 vs 57) triggered by the higher costs in constructions, electrical equipment, food and the higher wages.

- **A weakening US economy makes a first rate cut in September very likely**

The Fed's Beige Book reported a deteriorating economic situation. In the six-week period ending 26 August, the economic activity was reported to be "flat or declining" in most of the regions. Employment levels were "flat to up slightly". Firms remained reluctant to lay off workers, but some "reduced shifts and hours, left advertised positions unfilled, or reduced headcounts through attrition". Wages and prices increased only "modestly". As Mr. Jay Powell stated at this year's Jackson Hole Economic Policy Symposium held in August, that the Fed is now highly likely to start easing at the FOMC meeting on 19 September.

- **US job openings declined in July**

The number of job openings decreased by 237,000 to 7.673 million in July, more than UniCredit expected (8.1mn for July) from a downwardly revised 7.91 million in June. This was the lowest level since January 2021. This shows the US labor market weakened under the impact of the Fed's tight monetary policy.

- **US jobs report shows further softening**

The US economy added a modest 142k jobs in August after a cumulative downward revision by a large 86k in June-July, which continues the recent trend. The three-month average change in payrolls of 116k is now well below the estimated 180k needed to keep up with population growth and prevent a rise in unemployment. The rise in payrolls in August was once again led by the acyclical health sector, while payrolls in manufacturing fell sharply.

Data spotlight: 5 August – 6 September

US Economy (continued)

The unemployment rate edged down slightly in August, to 4.2% from 4.3%. The household employment rose 168k (similarly to the rise in payrolls), unemployment fell 48k, and the labor force rose 120k. Average hours worked rebounded in August, following the bad-weather-hit July.

Average hourly earnings growth surprised to the upside, rising by 0.4%mom in August after a modest 0.2%mom rise in July. The year-on-year rate rose to 3.8% from 3.6%. This is slightly above the 3-3.5% range that most Fed officials judge to be consistent with meeting the 2% inflation target overtime.

The Fed has already telegraphed that it will cut rates at its upcoming meeting on 17-18 September. The only debate is whether it will be a 25bp or 50bp cut.

Speaking after the August employment report was published, New York Fed President Williams (a centrist) and Fed Governor Waller (a hawk) indicated that they had not yet made up their minds and were open to a larger cut if warranted.

UniCredit Research continues to think it will be a 25bp cut, for three main reasons:

1. while the macro data is clearly softening, nothing is falling off a cliff. Personal consumption has so far remained surprisingly resilient (albeit due to a fall in the savings rate), the unemployment rate edged down a little in August, earnings growth picked up, and businesses remain reluctant to lay off workers;
2. Fed members are split on the timing and pace of rate cuts. Some, like Atlanta Fed President Raphael Bostic, still worry that inflation could pick-up if the central bank does too much in terms of rate cuts. Fed Governor Waller said, “The data that we have received in the past three days indicates to me that the labor market is continuing to soften but not deteriorate, and this judgement is important to our upcoming decision on monetary policy”. The Fed’s rate-setting committee is consensus-driven, which means a large majority would likely need to actively support a 50bp cut to deliver it;
3. starting with a larger rate cut runs the risk of sending a signal of panic at the central bank, particularly as the Fed has access to data, business contacts and analysis that others may not.

Data spotlight: 5 August – 6 September

International and Romanian Markets

- **The EURRON traded closer to 4.97 in the first week of September**

The EURRON traded within the 4.9735-4.9791 range in August and was subject to downward pressure in the first week of September, staying within 4.9700-4.9770 for most of the time and briefly touching a low at 4.9695 on Friday. We expect depreciation pressures for the RON to resume in autumn, in line with the usual seasonality, taking the pair close to 4.98. We do not anticipate sharp moves and continue to expect the EURRON to trade below 5.00 this year.

- **The entire ROBOR shifted downwards after NBR's key rate cut**

Following NBR's key rate cut, as of 8 August the ROBOR rates shifted downwards by 21-24bp along the curve, with only marginal decreases ever since. The O/N-1W segment closed last week within the 5.52%-5.53% interval and the 1M-3M segment within 5.55%-5.61%.

- **MinFin auctions**

Last Monday, MinFin held an auction for two T-bonds with residual maturities of 7.6 and 2.7 years. For the first bond, the bids were below the plan, at RON 475bm vs. RON 500mn and MinFin placed RON 450mn. The average accepted yields was 6.65% (max 6.65%), down by about 1pp from the previous reopening in January 2023. For the second one, the bids were above the plan, at RON 555.2mn vs. RON 500mn and MinFin placed RON 495.2mn. The average yield accepted was 6.21% (max. 6.23%), up by 3bp from the previous reopening one month ago.

Last Thursday, MinFin held auctions for a T-bond with 9.1 years maturity and a 12 months T-bill. Bids for the T-bond covered the plan, at RON 573.7mn vs. RON 400mn, enabling MinFin to place RON 458.7mn. The average accepted yield was 6.72% (max. 6.72%), 1bp above the previous reopening one month ago. Bids for the T-bill were much above the plan, at RON 843.2mn vs. RON 500mn, enabling MinFin to place RON 575.4mn. The average accepted yield was 6.01% (max. 6.02).

- **FX markets**

In FX, August proved to be a heavier month than we had expected, as investors increased their rate-cut expectations for the Fed for the remainder of the year and for 2025. Adjustments in interest rate differentials again proved a critical driver for currencies. The Fed is currently viewed as the G10 central bank likely to ease most aggressively this year and in the first half of 2025. Thus, the margin for the USD to recover is limited, as markets are unlikely to significantly scale back the heavy easing now priced in for the Fed, even in the face of better US data releases. UniCredit Research now expects EUR-USD to trade mostly between 1.09 and 1.12 in the coming months.

Data spotlight: 5 August – 6 September

International Markets

- **Caixin manufacturing PMI moved into expansionary territory in August**

Caixin manufacturing PMI rose to 50.4 in August from 49.8 in July, while the official manufacturing PMI showed a decline in August to 49.1. The official manufacturing PMI probably paints a more-realistic picture of China's weak economic environment and policy stimulus that is too timid.

- **China Caixin services index showing further weakness**

The Caixin services PMI down to 51.6 in August, from 52.1 in July, in another sign of economic weakness, companies being forced to cut prices due to weak demand and being cautious on hiring.

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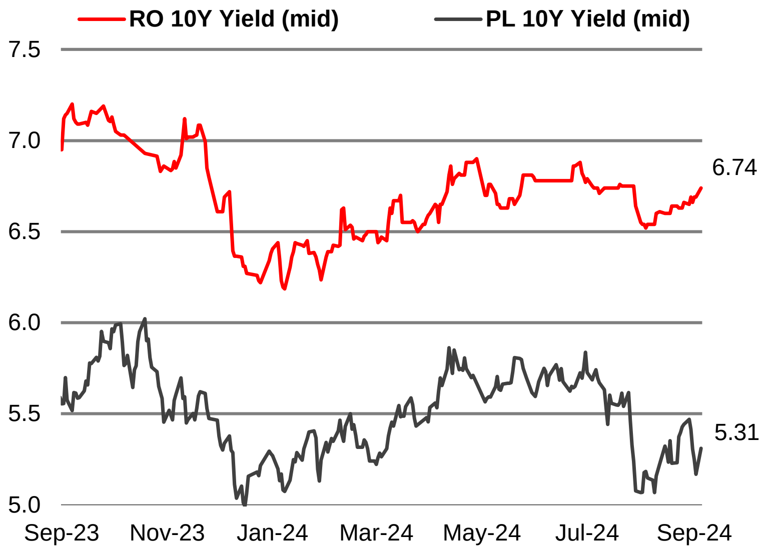
Focus Ahead: 9 – 13 September

MinFin Issues



Data Source: Thomson Reuters

- Bond markets saw their “usual” seasonal price strength during the peak summer season.
- Three events: 1. a TV debate between US Vice President Kamala Harris and former US President Donald Trump on Wednesday early morning; 2. the release of US inflation data on Wednesday; and 3. the ECB meeting on Thursday will increase intraday volatility, although they are unlikely to trigger a strong directional trend at the long end.
- This week, MinFin intends to place RON 500mn in 3.7Y T-bonds on Monday, together with RON 500mn in 10Y T-bonds on Thursday.

BOND ISSUES - SEPTEMBER								
ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO0DU3PR9NF9	30-Sep-24	24-Feb-38	163	400				
RO7EKTXSRHD6	26-Sep-24	28-Jan-26	16	500				
RO1JS63DR5A5	23-Sep-24	28-Apr-31	80	500				
RODFIUK7ZV55	19-Sep-24	25-Apr-35	129	200				
ROJVM8ELBDU4	16-Sep-24	25-Apr-29	56	500				
ROTM7EDD92S2	12-Sep-24	31-Jul-34	120	500				
ROCDG04X8WJ7	9-Sep-24	26-Apr-28	44	500				
ROWLVEJ2A207	5-Sep-24	30-Oct-33	111	400		400	574	6.72
ROIJHMAUBXS8	5-Sep-24	27-Aug-25	12	500		843	575	5.77
ROO7A2H5YIN8	2-Sep-24	25-Feb-32	91	500		475	450	6.65
ROP9QVD42HO2	2-Sep-24	31-May-27	33	500		555	495	6.21

Focus Ahead: 9 – 13 September

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
9-Sep-2024	Romania	Trade Balance (EUR mn)	Jul	-3048.6		-2778.8
11-Sep-2024	US	First Harris-Trump TV debate				
	US	Consumer price index, CPI (% yoy)	Aug	2.6	2.6	2.9
	US	Core CPI (% yoy)	Aug	3.2	3.2	3.2
	US	Consumer price index, CPI (% mom)	Aug	0.2	0.2	0.2
	US	Core CPI (% mom)	Aug	0.2	0.2	0.2
	Romania	CPI (%, yoy)	Aug	5.0	5.1	5.4
12-Sep-2024	EMU	ECB Depo Rate (%)		3.50	3.50	3.75
	Romania	Wages Net (%, yoy)	Jul	13.2		12.5
13-Sep-2024	EMU	Industrial Production (% mom)	Jul	-0.8	-0.3	-0.1
	Romania	Current Account YTD (EUR mn)	Jul	-15341.0		-12176.0
	Romania	Industrial output (%, yoy)	Jul	0.6		0.5

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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