Macroeconomic and Strategic Analysis

UniCredit Weekly Report

The Romanian economy increased by 2.1% in 2023

11 March, 2024

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Weekly briefing

At its meeting last week, the ECB left all policy rates unchanged, in line with expectations. The central bank revised down further its inflation projections, both for headline and core prices, taking an important step towards rate cuts. ECB President Lagarde reaffirmed that the Governing Council needs more data, particularly on wages, to gain confidence about the sustainability of the disinflation process. **She specifically pointed to the June meeting as the time when most of such information will become available. German new orders in the manufacturing sector declined by 11.3%mom in January**, their biggest decrease since March 2020, when the first wave of COVID-19 hit the economy. **Industrial production rose by 1.0%mom in January** after a downwardly revised figure of -2.0%mom in December. UniCredit Research continues to believe that the German economy will grow slightly in 1Q24, although business sentiment surveys flag some downside risks.

US nonfarm payrolls rose by a stronger-than-expected 275k in February, well in excess of the around 100k needed to simply keep up with population growth. While payroll growth remained solid, the remainder of the employment report suggests the labor market is softening. **The unemployment rate rose by 0.2pp to 3.9%**, its highest level in more than two years. **Fed Chair Powell**, in his testimony to Congress, **said it would likely be appropriate to cut rates this year**, but that the central bank needs to see “a little bit more data” to become confident enough to cut rates. **The ISM services index decreased to 52.6 in February** from 53.4 in January. The services sector in the US continues to prove to be rather resilient, but there are signs of cooling demand.

In Romania, the NIS released the fourth quarter and full 2023 GDP details, showing a downwardly revised 0.5%qoq decrease in 4Q23 (s.a. data). On an annual basis, 4Q23 GDP increased by 1.1%yoy (s.a. data) and by +3%yoy (gross data). **For the full year of 2023, the Romanian economy grew faster than its regional peers, by 2.1%yoy**. Our current GDP estimate for **2023 growth is at 3%yoy**, with risks tilted to the upside. The **unemployment figures for January, showed a slight increase to 5.7%yoy**, from an upwardly revised 5.6%yoy in the previous month. **Producer prices decreased by 0.1%mom in January** and the annual growth slowed down to 6%. The prices on the internal market declined, while those on the external market increased. **Retail sales posted an increase of 5.1%yoy in January** (s.a. data), after an downwardly revised 1.3%yoy increase in December. On a monthly basis there was an acceleration of 3.8% (s.a. data), with all components posting increases.

This week, attention will again be mainly focused on **US data**. Tomorrow, UniCredit Research expects **US headline CPI inflation to have held steady at 3.1%yoy in February** and US **core CPI inflation to have eased to just 3.7%**, from 3.9%yoy previously. UniCredit Research also expects to **see a rebound in both US retail-sales and industrial-production** figures on Wednesday and Friday, respectively. **Eurozone industrial production** (Wednesday) is **likely to decline by 1.5%mom** in January. **In Romania, inflation was probably 7.2%yoy in February** (Wednesday) if CPI data reflect the increase in fuel prices reported by Eurostat. **Industrial output** (Wednesday) is likely to have accelerated its drop in annual terms in January, while **net wages** (Thursday) **are expected to temper their growth.** The **current account** (Friday) is **expected to show a lower monthly deficit.**

Data spotlight: 4 – 8 March

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0930	-0.07%	1.46%
EURCHF	146.89	-0.64%	-0.63%
USDJPY	1.29	0.43%	2.07%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2810	-0.44%	-1.46%
EURHUF	395.60	0.25%	1.93%
EURCZK	25.31	-0.11%	1.33%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
11-Mar	4.9671	4.5397	6.0637	317.93

CURRENCIES - RON

	EURRON	USDRON
11-Mar	4.963	4.543
8-Mar	4.965	4.541
7-Mar	4.969	4.539

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
11-Mar	6.0	6.0	6.2	6.5
6-Mar	6.0	6.1	6.2	6.4

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
11-Mar	6.05	6.05	6.10
8-Mar	6.01	6.15	6.10
7-Mar	6.05	6.05	6.10

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
8-Mar	3.88	3.94	3.90
7-Mar	3.87	3.93	3.91
6-Mar	3.87	3.94	3.90
USD Libor	1M	3M	6M
8-Mar	5.43	5.58	5.66
7-Mar	5.43	5.58	5.66
6-Mar	5.43	5.59	5.67

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,123.7	-0.65%	3.42%
FTSE	7,624.1	-0.47%	0.68%
Hang Seng	16,587.6	1.43%	3.14%
Bucharest BET	16,271.5	-0.17%	3.67%

Romanian Economy

2023 GDP components

Last Friday, the NIS released the fourth quarter and full 2023 GDP details, showing a downwardly revised 0.5%qoq decrease in 4Q23 (seasonally adjusted data). On an annual basis, 4Q23 GDP increased by 1.1%yoy (s.a. data) and by +3%yoy (gross data). For the full year of 2023, the Romanian economy grew faster than its regional peers, by 2.1%yoy, (vs. +0.2% in Poland, -0.5% in Czechia, -0.9% in Hungary).

On the supply side, most of the sectors grew in 4Q23 in annual terms with the exception of industry which was down by 2%yoy and financial intermediation which decreased by 1.5%yoy. The largest contributors to growth were constructions with 1.8pp (+14.6%yoy), followed by IT with 0.4pp (+7.3%yoy) and professional and technical activities with 0.3pp (+4.3%yoy). Net taxes increased by 3.4%yoy (0.3pp contribution to growth). Agriculture and retail sales contributed each by 0.2pp, as they grew by 16.2%yoy and by 0.8%yoy, respectively. Real estate transactions and cultural activities contributed 0.1pp each to growth (+0.9%yoy and +3.8%yoy, respectively).

On the demand side, private consumption and investments grew above expectations, up by 3%yoy (+2pp to growth) and by 12.7%yoy (+3pp to growth), respectively. Public consumption decreased by 3.5%yoy (with negative contribution -0.6pp) vs. our estimate of +1.5%yoy. External demand had a negative contribution to growth, subtracting 2.2pp, as imports increased by 1%yoy, while exports decreased by 4.5%yoy.

The picture for the full year 2023 is similar, with constructions as the most important contributor

Romanian Economy (continued)

(+0.8pp) and a correspondingly high investment figure (+2.9pp), given the strong public investment in infrastructure amid large EU transfers. Household consumption was high, contributing 1.8pp to growth, stimulated by a real wage growth of 3.6% for the year. Companies relied on their stocks (-3.1pp) to satisfy the increasing demand and produced to a lower extent, with industrial activity dragging on growth (-0.5pp). Net exports had no impact on growth, with both exports and imports experiencing similar contractions in comparison to 2022 (-2.1%yoy and -1.8%yoy, respectively).

Our current GDP estimate for 2023 growth is at 3%yoy, with risks tilted to the upside. Our forecasts are currently under revision and the updated figures will be included in the next CEE Quarterly, which we aim to publish at the beginning of April. We estimate that the share of investments in GDP will continue to increase, supported mainly by the public projects financed from EU funds (EUR 2.6bn inflows from PNRR expected this year), while the private consumption is expected to remain strong in 2024, helped by the higher real wage growth amid several public sector wage hikes and decelerating inflation, as well as the rising pensions and government transfers.

- **ILO unemployment increased in January 2024**

The NIS released the unemployment figures for January, showing a slight increase to 5.7%yoy, from an upwardly revised 5.6%yoy in the previous month. In annual terms (vs. January 2023), the jobless rate increased by 0.1pp and the number of unemployed people (gross data) was higher by 22.561 (+4.9%yoy). The active population increased from December 2023, to around 8.2 million.

- **Romanian producer prices decreased marginally in January 2024**

Producer prices decreased by 0.1%mom in January 2024 and the annual growth slowed down to 6%. The prices on the internal market declined by 0.3%mom, while those on the external market increased by 0.5%mom. On a monthly basis, the decrease was mainly driven by lower prices for electricity, gas, steam and air conditioning supply (-2.7%mom) together with extraction of crude petroleum and natural gas (-1.9%mom), while the prices for repair and installation of machinery and equipment increased by 20.6%mom. We expect producer prices to continue to decline as the industrial production is likely to remain weak in the remainder of 1Q24.

- **Romanian retail sales accelerated in January**

Retail sales posted an increase of 5.1%yoy in January 2024 (seasonally adjusted data – s.a.), after an downwardly revised 1.3%yoy increase in December. On a monthly basis there was an acceleration of 3.8% (s.a.). On components, non-food sales rose by 8.1%mom, while sales of food and fuels increased by 0.1%mom and by 1.7%mom, respectively. Compared to the same month of the previous year, the sales of non-food were up by 9.2%yoy, the sales of food were up by 2.4%yoy and the sales of fuels were up by 1.1%yoy. A potential explanation for this acceleration could be that consumers had more appetite for the January's discounts this year.

Data spotlight: 4 – 8 March

European Economy

ECB Review - On track for a June cut

Last Thursday's ECB meeting brought important information. First, the ECB's new macroeconomic forecasts show further progress in disinflation, bringing forward the time when price growth will hit 2%. More specifically, the ECB revised down its inflation projection to 2.3%yoy for 2024 (-0.4pp from December), to 2.0%yoy for 2025 (-0.1pp), leaving the number for 2026 at 1.9%yoy. While lower energy prices account for most of the revision, the trajectory for core inflation was reduced as well, by 0.1-0.2pp in each year of the forecast horizon, with the 2026 average now at 2.0%yoy (from 2.1% in December). As argued by Ms. Lagarde, these numbers make the GC more confident, although not sufficiently confident, that inflation is converging towards target. Second, Ms. Lagarde provided the clearest possible hint at this stage that the first cut might come in June, as she noted that "a lot more" data and information will be available by then to inform the view of the GC.

In order to assess the sustainability of the disinflation process, the GC has its eyes mainly on wages, unit profits and services inflation. The central bank wants to see clearer evidence that 1. wage growth has entered a downward trajectory, and 2. companies absorb a larger share of strong unit labor costs into their profit margins. If these conditions are met, stickiness in domestically generated inflation should progressively fade as services prices (which are currently stuck at around 4%yoy) slow more decisively. Data for wages and unit profits for 1Q24 will play a crucial role in shaping the central bank's view regarding risks to price stability and will only become available to the GC by the time of the June meeting.

UniCredit Research's rate forecast remains well on track. UniCredit Research continues to expect the first rate cut in June, with risks tilted towards a later start to the easing cycle. It will probably be a gradual descent at a pace of 25bp, with 75bp of cumulative cuts this year and 100bp in 2025. This is broadly in line with current market expectations, which the ECB seems to like much more than the aggressive easing trajectory priced in earlier this year.

German new orders declined in January

New orders in the manufacturing sector declined by 11.3%mom in January, their biggest decrease since March 2020, when the first wave of COVID-19 hit the economy. However, this decline came after an unusually strong (and upwardly revised) rise of 12.0% in the previous month. On a less-volatile 3M-3M comparison, new orders rose by 2.3%. The decline in January was largely caused by decreasing bulk orders, which inflated the headline figure in the previous month. Surprisingly, real sales declined by 2.0%mom in January after a strong upward revision to 1.3% (from -0.1%) in December.

Data spotlight: 4 – 8 March

European Economy (continued)

German industrial production increased in January

Industrial production rose by 1.0%mom in January after a downwardly revised figure of -2.0%mom (from -1.6%) in the previous month. On a less-volatile 3M-3M basis, industrial activity still declined by 1.5%. The latest rise was driven both by higher construction activity (+2.7%mom) and the manufacturing sector (+1.1%mom), and here especially the chemical industry (+4.7%mom) and the food sector (+5.9%mom). UniCredit Research continues to believe that the German economy will grow slightly in 1Q24, although business sentiment surveys flag some downside risks.

Ursula von der Leyen confirmed as EPP's lead candidate for June's European elections

Last Thursday, at its congress in Bucharest, the European People's Party (EPP) confirmed Ursula von der Leyen as its lead candidate for June's European elections, with 400 votes in favor and 89 against. The official nomination should open the door for her possible second term at the helm of the European Commission.

Data spotlight: 4 – 8 March

US Economy

US February payrolls: Solid, but clouds are gathering

Nonfarm payrolls rose by a stronger-than-expected 275k in February, well in excess of the around 100k needed to simply keep up with population growth. A large cumulative downward revision of 167k to payrolls in the prior two months took some shine off the February print, but both the three-month and six-month averages increased. Job gains in February were again driven by private education & health (+85k), leisure & hospitality (+58k) and government (+52k). Private education & health and government jobs tend not to be cyclical, and in February accounted for around half of total payroll growth. The manufacturing and wholesale trade sectors, which are cyclical and more interest-rate sensitive, lost jobs in February.

While payroll growth remained solid, the remainder of the employment report suggests the labor market is softening. The unemployment rate rose by 0.2pp to 3.9%, its highest level in more than two years. Average hourly earnings (AHE) rose only by 0.1%mom in February, less than expected, and AHE growth in the prior month (i.e. January) was revised down a touch, to 0.5%mom from 0.6%mom. In year-on-year terms, AHE growth eased to 4.3% in February from a downward-revised 4.4% in January. This is still somewhat high for the Fed's liking, who would like to see it in the range of 3-3.5% to be consistent with 2% inflation and 1-1.5% trend labor productivity growth.

For the Fed, the February employment report is a mixed bag. The downward correction in AHE is clearly welcome news, but was largely expected. Anyhow, the Fed pays closer attention to the quarterly Employment Cost Index and monthly Atlanta Fed Wage Growth Tracker, which are mix-adjusted, unlike AHE. Both measures continue to ease. On the other hand, payroll growth remains strong and so long as it stays like this the Fed will likely conclude that it can afford to proceed carefully on rate cuts. On balance then, the February employment report probably won't change the Fed's thinking much, but at the margin it's probably dovish. Perhaps more importantly, private surveys point to a clear softening in hiring intentions and a rise in layoffs in coming months. UniCredit Research suspects this played a role in Fed Chair Powell's comments this past week, when he said the central bank was "not far" from cutting rates and needs "a little bit more" data to become confident that inflation would move down to 2% on a sustained basis.

US ISM Non-manufacturing PMI decreased in February

The ISM services index decreased to 52.6 in February 2024 [UniCredit Research and consensus: 53], from 53.4 in January. The services sector in the US continues to prove to be rather resilient, but there are signs of cooling demand, in line with reduced household savings buffers, tight credit conditions and a softening labor market.

Data spotlight: 4 – 8 March

US Economy (continued)

- **Powell testified before the House Financial Services Committee and the Senate Committee**

Last week, Fed Chair Powell's testimony to the House Financial Services Committee provided few new insights. He said, "it will likely be appropriate to begin dialing back policy restraint at some point this year". In his testimony to Congress, said it would likely be appropriate to cut rates this year, but that the central bank needs to see "a little bit more data" to become confident enough to cut rates.

Mr. Powell didn't present any insights on slowing the pace of balance-sheet reduction, given that the FOMC is due to begin in-depth discussions on this at its next meeting, on 19-20 March.

Data spotlight: 4 – 8 March

International and Romanian Markets

■ The EURRON continued to stay below 4.97 last week

The EURRON traded within the 4.9618-4.9721 range last week and ended the week at 4.9642, 35pips down compared to the closing of last week. The currency pair saw a slight drop in comparison to the end of February due to increased EUR volumes. We see little space for drops below the current levels and although we cannot exclude them, any attempts to descend below 4.96 should be short-lived. We expect the overall depreciation pressure on the RON to continue, in light of the high current account deficit.

■ The entire ROBOR curve was flat

Last week the ROBOR curve was stable for all maturities. The O/N-1W segment closed the week within the 6.01%-6.02% interval, while the 1M-3M segment closed inside 6.02%-6.08%. With no significant outflows expected during the month and the currently historical high level of excess liquidity, we expect the ROBOR rates to continue to stay close to the current levels, reflecting the very lax monetary conditions.

■ MinFin auctions

Last Monday, the Ministry of Finance held auctions for two T-bonds with residual maturities of 2.7 years and 10.4 years. Both enjoyed high demand, with bids covering the planned amount: RON 1bn vs RON 500mn for the first one and RON 459mn vs RON 300mn for the second one. MinFin decided to place RON 655.6mn and RON 346.3mn, respectively. The average accepted yields were 6.13% (max 6.14%), up 11bp from the previous reopening last month and 6.54% (max 6.56%), down 1bp from the previous reopening two weeks ago.

Last Thursday, the Ministry of Finance held an auction for a T-bond with residual maturity of 5.2 years and a 7M T-bill. Bids for the bond were above the planned amount, at RON 1.1bn vs. RON 500mn, enabling MinFin to place RON 698.1mn. The average accepted yield was 6.37% (max. 6.38%), 4bp up from the previous reopening last month. For the bill, the bids were also above the planned amount, at RON 1bn vs. RON 500mn and MinFin placed RON 739.4mn. The average yield accepted was 6.02% (max. 6.04%).

■ FX markets

The US employment report for February was mixed, but, in FX, it ultimately failed to drive the USD much lower and below key levels on charts against other majors. EUR-USD remained below 1.10. The USD is broadly weaker, with the US Dollar Index (DXY) slipping back below 103. Two factors have been primarily behind its slide:

1. another fall in long-term US yields (the 10Y UST yield is now below 4.10%);

2. the JPY's recovery even beyond 147.

Data spotlight: 4 – 8 March

International and Romanian Markets (continued)

- **China set economic growth target of 5% for 2024**

At the annual meeting of the National People's Congress, Chinese Premier Li Qiang announced a 2024 economic growth target of around 5%, following 5% growth in 2023. In order to support growth, he promised further steps to transform the country's development model and higher central government spending.

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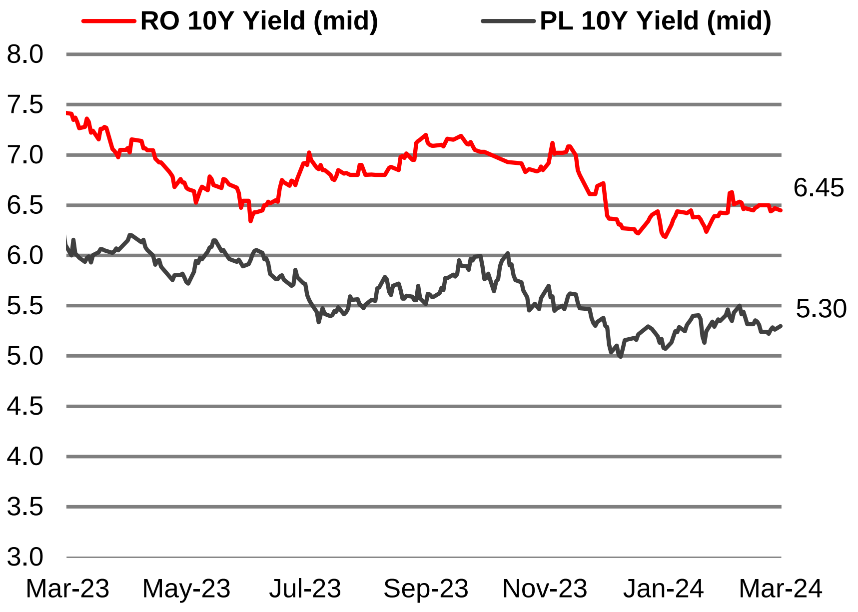
Focus Ahead: 11 – 15 March

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields decreased last week by up to 4bp on the long end, while the short end was relatively stable.
- Sovereign bonds regained strength this week. 10Y yields dropped by 10-15bp in the US and the euro area. 10Y USTs are back to almost 4% and remain exposed to upside surprises in CPI data next week.
- This week, MinFin intends to place 500mn in 1.9Y T-bonds and 300mn in 14.1Y T-bonds on Monday together with 500mn in 9.7Y T-bonds and RON 500mn in 12 months T-bills on Thursday.

BOND ISSUES - MARCH

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RON7NMKOKQG2	28-Mar-24	28-Oct-26	31	500	lei			
ROP9QVD42HO2	25-Mar-24	31-May-27	39	500	lei			
ROXL7LT7QZ66	21-Mar-24	29-Apr-30	74	600	lei			
RO1JS63DR5A5	18-Mar-24	28-Apr-31	87	600	lei			
ROWZRTRBXVD3	14-Mar-24	26-Feb-25	12	500	lei			
ROWLVEJ2A207	14-Mar-24	30-Oct-33	117	500	lei			
RO0DU3PR9NF9	11-Mar-24	24-Feb-38	170	300	lei			
RO7EKTXSRHD6	11-Mar-24	28-Jan-26	23	500	lei			
RO0JGJSYGX38	7-Mar-24	25-Sep-24	7	500	lei	1,019	739	6.02
ROJVM8ELBDU4	7-Mar-24	25-Apr-29	63	500	lei	1,116	698	6.37
ROTM7EDD92S2	4-Mar-24	31-Jul-34	127	300	lei	459	346	6.54
RON7NMKOKQG2	4-Mar-24	28-Oct-26	32	500	lei	1,021	656	6.13

Focus Ahead: 11 – 15 March

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
11-Mar-2024	Romania	Trade Balance (EUR mn)	Jan	-2741.8		-3429.2
12-Mar-2024	US	Consumer Price Index, CPI (% yoy)	Feb	3.1	3.1	3.1
	US	Core CPI (% yoy)	Feb	3.7	3.7	3.9
	US	Consumer Price Index, CPI (% mom)	Feb	0.4	0.4	0.3
	US	Core CPI (% mom)	Feb	0.3	0.3	0.4
13-Mar-2024	EMU	Industrial Production (% mom)	Jan	-1.5	-1.5	2.6
	Romania	CPI (%, yoy)	Feb	7.2	7.0	7.4
	Romania	Industrial Output (%, yoy)	Jan	-3.8		-2.3
14-Mar-2024	US	Retail Sales (% mom)	Feb	0.6	0.8	-0.8
	Romania	Wages Net (%, yoy)	Jan	15.2		15.5
15-Mar-2024	US	Industrial Production (% mom)	Feb	0.1	0.0	-0.1
	Romania	Current Account YTD (EUR mn)	Jan	-1574		-22694

Data Source: Bloomberg

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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