

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



The annual inflation continued to temper in June

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Weekly briefing

Last week, the June US CPI report brings the good news that the Fed was waiting for. Consumer prices fell 0.1%mom in June after a flat reading in May. In yearly terms, headline CPI inflation decelerated to 3.0%yoy from 3.3%. More importantly for the monetary policy outlook, disinflation continued also on the core front, with core CPI inflation easing to just 0.1%mom from 0.2% (3.3%yoy from 3.4%). Considering also the overall softening macroeconomic landscape, the data will further increase the Fed's confidence that the disinflation process is on track, likely paving the way for a first rate cut in September. At his testimony to Congress, Fed Chair Powell repeated that the Fed needed to see "more good data" to strengthen its confidence that inflation is moving sustainably towards 2%. And the reading goes precisely in that direction. Moreover, he said that "elevated inflation is not the only risk", adding that "labor-market conditions have now cooled considerably from where they were two years ago. Mr. Powell characterized the labor market now as "fully back in balance". This subtle but important communication shift implies that the Fed is preparing the ground for a rate cut in September.

In Romania, annual inflation tempered to 4.9%yoy in June from 5.1%yoy in May and in monthly terms the prices were higher by 0.2%mom. The core inflation also decreased to 5.7%yoy, from 6.3%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 forecast headline inflation to fall towards 4.6% by the end of this year, even if the decline in electricity and natural-gas prices is reversed. The NIS released the second estimate for 1Q 2024 GDP details and the quarterly growth was upwardly revised at 0.7%qoq (s.a. data). The yearly growth was also upwardly revised at +0.5%yoy in gross terms and +2.2%yoy (s.a.). On the supply side, the largest contributors to the growth were: net taxes and cultural activities. On the demand side, private consumption was the main contributor. We lowered our growth forecast for this year to 2.4% from 2.7% in our 2Q24 CEE Quarterly. We see private consumption remaining strong this year amid positive real wage growth and large pension increases in September. Industrial production decreased by 6.3%mom (s.a.) in May, after an downwardly revised 1.8%mom decrease in April. Manufacturing and mining decreased by 7.8%mom and by 1%mom, while energy was stable. The trade deficit narrowed more than expected to EUR 2.97bn in May, higher by 11.1% than in the same period of 2023. Compared to May 2023, both exports and imports decreased by 16.2%yoy and by 5.6%yoy, respectively. The average net salary decreased by 1.9%mom in May, to RON 5118, due to granting in the previous months of the occasional bonuses. The annual growth pace decreased to 12.7%yoy from 14.3%yoy.

This week, the ECB will almost certainly leave its monetary policy unchanged (Thursday). The meeting will probably be relatively uneventful as the Governing Council (GC) will want to wait until September to discuss another rate cut. The ZEW growth-expectations component (Tuesday) is likely to decline slightly to a level of about 45, after 11 consecutive rises. US retail sales (Tuesday) and industrial production (Wednesday) will probably slow down in June. The Romanian current account balance (Monday) is expected to rise.

Data spotlight: 8 – 12 July

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0904	-0.01%	0.86%
EURCHF	158.31	-0.44%	0.78%
USDJPY	1.30	0.45%	1.83%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2490	-0.06%	-1.95%
EURHUF	391.85	-0.10%	-0.77%
EURCZK	25.42	0.35%	3.07%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
15-Jul	4.9700	4.5550	6.0469	352.89

CURRENCIES - RON

	EURRON	USD RON
15-Jul	4.969	4.556
12-Jul	4.970	4.556
11-Jul	4.975	4.577

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
15-Jul	5.7	6.1	6.2	6.7
10-Jul	5.7	6.1	6.1	6.7

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
15-Jul	5.75	5.80	5.80
12-Jul	5.75	5.80	5.80
11-Jul	5.75	5.80	5.80

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
12-Jul	3.63	3.66	3.66
11-Jul	3.61	3.69	3.68
10-Jul	3.60	3.70	3.68
USD Libor	1M	3M	6M
12-Jul	5.44	5.55	5.59
11-Jul	5.44	5.56	5.63
10-Jul	5.44	5.57	5.64

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,615.4	0.55%	2.60%
FTSE	8,201.4	-0.62%	0.73%
Hang Seng	18,015.9	-1.52%	0.45%
Bucharest BET	18,533.3	0.14%	4.69%

Romanian Economy

■ The annual inflation continued to temper in June

Annual inflation tempered to 4.9%yoy in June, [UniCredit: 4.7%, consensus: 4.8%], from 5.1%yoy in May. In monthly terms, prices were higher by 0.2%mom, after the -0.1%mom decline in May. The reason for our forecast error was mainly the unexpected increase in natural gas prices accounted for by the National Institute for Statistics (NIS) (+9.2%mom).

Food prices declined by -0.2%mom, driven by vegetables (-4.0%mom), while the prices of citrus and maize flour rose by 2.4%mom and by 1.1%mom, respectively. Non-food goods prices increased by 0.5%mom, mainly driven by a significant rise in the gas prices (+9.2%mom), while the prices for fuel and electricity continued to decline (-1.1%mom and -0.1%mom). Service prices rose at the same pace as in May (+0.4%mom). Most of the services categories saw a price acceleration, the highest being recorded by the car and electronic repairs (0.8%mom), hygiene and cosmetics services (+0.8%mom), water supply, sewage collection (+0.7%mom) and rent (+0.7%mom). The only declining category was the air transport (-9.5%mom), which came after the hike in May (+21.3%mom, due to the higher demand related to the Easter holiday).

The core inflation also decreased in June to 5.7%yoy, from 6.3%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

Data spotlight: 8 – 12 July

Romanian Economy (continued)

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, even if the decline in electricity and natural-gas prices is reversed. 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 by raising the income taxes.

■ 1Q24 GDP growth was upwardly revised at 0.5%yoy (gross data)

The NIS released the second estimate for 1Q 2024 GDP details. The quarterly growth was upwardly revised at 0.7%qoq (s.a.). The yearly growth was also upwardly revised at +0.5%yoy in gross terms and +2.2%yoy in seasonally adjusted terms.

On the supply side, the largest contributors to the growth were: net taxes (+0.6pp), IT&C (+0.2pp) and cultural activities (+0.2pp), while a negative contribution came from industry (-0.2pp), professional activities (-0.2pp) and construction (-0.1pp). Retail sales and agriculture had marginal contribution.

On the demand side, private consumption was the main contributor with +2.5pp, while public consumption subtracted 0.8pp of growth (vs. +0.4pp previously estimated). Gross fixed capital formation was the second contributor with +1.4pp. External demand had a negative contribution to growth, subtracting 2.5pp, as the recovery in imports on the back of improved consumption was much stronger than the one of exports which were affected by a modest performance in industrial activity.

We lowered our growth forecast for this year to 2.4% from 2.7% in our 2Q24 CEE Quarterly. We see private consumption remaining strong this year amid positive real wage growth and large pension increases in September. Public investment might be cut towards year-end if the government tries to cap the deficit, but it is likely to remain robust in 3Q24 and might be helped by around EUR 7.5bn in RRF funds disbursed but not spent at the end of March. Rising house prices bode well for housing projects, while investment in the industrial and logistics space continues at a fast pace. We expect better demand from the EU to boost industrial production and exports in 2H24, although higher imports could reduce the positive impact on GDP growth.

■ Romanian industrial production continued to decrease in May

Industrial production decreased by 6.3%mom (seasonally adjusted data) in May, after an downwardly revised 1.8%mom decrease in April. Manufacturing and mining decreased by 7.8%mom and by 1%mom, while energy was stable. Compared to the corresponding month of 2023, the industrial production was lower by 6.5% on adjusted data, from +3%yoy in the previous month.

Data spotlight: 8 – 12 July**Romanian Economy (continued)****■ The trade deficit was almost 3bn EUR in May 2024**

The trade deficit narrowed more than expected to EUR 2.97bn in May, higher by 11.1% than in the same period of 2023. Compared to May 2023, both exports and imports decreased by 16.2%yoy and by 5.6%yoy, respectively. The highest increases in import volumes were seen for chemicals and related products (+4.4%yoy) and for machinery and transport equipment (+2.3%yoy), while the largest decrease was seen for mineral fuels, lubricants and related materials (-10.3%yoy). On the exports' side, the highest increases were seen for machinery and transport equipment (+6.5%yoy), while the largest decrease was seen for mineral fuels, lubricants and related materials (-25.5%yoy). Around 74% of the trade activity was with the European Union.

■ The average net salary decreased in May

The average net salary decreased by 1.9%mom in May, to RON 5118, due to granting in the previous months of the occasional bonuses. The annual growth pace decreased to 12.7%yoy from 14.3%yoy. The net real wage increased by 7.2% in May 2024 compared to a year ago and compared to the previous month the real net wage was down by 1.8%. The highest net salary decreases in May were seen in insurance, reinsurance and pension funding (-21.8%) together with extraction of crude petroleum and natural gas (-19.4%), while the highest increases were recorded in printing and reproduction of recorded media (+6.9%).

Data spotlight: 8 – 12 July

US Economy

■ US CPI: Time for a September rate cut

The June CPI report brings the good news that the Fed was waiting for. Consumer prices fell 0.1%mom in June after a flat reading in May. This is the third consecutive month of lower inflation. In yearly terms, headline CPI inflation decelerated to 3.0%yoy from 3.3%. Looking at the non-core components, the energy index fell 2.0%mom (driven by lower gasoline prices), while the index for food increased a contained 0.2%mom. More importantly for the monetary policy outlook, disinflation continued also on the core front, with core CPI inflation easing to just 0.1%mom from 0.2% (3.3%yoy from 3.4%). Annualized figures for core inflation over different time periods, which allow to remove some of the monthly volatility, showed substantial recent progress towards 2%. The three-month rate declined to 2.1% from 3.3%, while the six-month rate was down to 3.3% from 3.7%.

We know from the first months of 2024 that monthly volatility in inflation numbers can radically change expectations about the direction of monetary policy. After the December dovish pivot that was triggered by a string of good inflation numbers, the Fed was then forced to reconsider its rate path when CPI inflation turned out to be stronger-than-expected in 1Q24. However, considering also the overall softening macroeconomic landscape, the data will further increase the Fed's confidence that the disinflation process is on track, likely paving the way for a first rate cut in September. At his testimony to Congress, Fed Chair Powell repeated that the Fed needed to see "more good data" to strengthen its confidence that inflation is moving sustainably towards 2%. And the reading goes precisely in that direction. Moreover, he said that "elevated inflation is not the only risk", adding that "labor-market conditions have now cooled considerably from where they were two years ago. Mr. Powell characterized the labor market now as "fully back in balance" and not just "relatively tight but not overheated". This subtle but important communication shift implies that the Fed is preparing the ground for a rate cut in September.

Data spotlight: 8 – 12 July**International and Romanian Markets****■ The EURRON traded below 4.97 last Friday**

Last week, the EURRON traded within the 4.9688-4.9760 range, with an downward bias towards the end of the week. The pair ended last Friday's trading session at 4.9704, down 46 pips from the closing of the week before, at 4.9750. The EURRON started the current week slightly above 4.9700.

■ The entire ROBOR curve decreased last week

Last Monday, the ROBOR curve decreased by up to 23bp, reflecting the cut implemented by NBR. The O/N-1W segment closed the week at 5.77%, while the 1M-3M segment moved downward inside 5.79%-5.81%.

■ MinFin auctions

Last Monday, the Ministry of Finance held an auction for a T-bond with residual maturity of 2.3 years. Bids covered the planned amount, at RON 1.6bn vs. RON 400mn, enabling MinFin to place RON 1.2bn. The average accepted yield was 6.06% (max 6.06%), down 23bp from the previous reopening one month ago.

Last Thursday, the Ministry of Finance held auctions for two T-bonds with residual maturities of 3.8 years and 10.1 years. Both enjoyed high demand, with bids covering the planned amount: RON 1.2bn vs RON 500mn for the first one and RON 1.3bn vs RON 600mn for the second one. MinFin decided to place RON 815mn and RON 1.1bn, respectively. The average accepted yields were 6.30% (max 6.31%), down 12bp from the previous reopening three weeks ago and 6.82% (max 6.83%), down 3bp from the previous reopening one month ago.

■ FX markets

In FX, firmer-than-expected US PPI data for June failed to help the USD, as the University of Michigan Index of Consumer sentiment for July came in weak. The US Dollar Index (DXY) thus remains barely above 104. US forward rates are now fully implying at least 50bp of easing by the Fed by December, but the likelihood of a 75bp move this year, which remains UniCredit Research's call, has risen and is now around 80%, while such a move by January is fully priced in. Hence, EUR-USD is still trading around 1.09.

In CEE, markets may focus on comments from central bankers following the soft CPI surprises in Hungary and Czechia and the attempt of the National Bank of Poland to push rate-cut expectations further out.

Data spotlight: 8 – 12 July

International and Romanian Markets (continued)

■ Chinese inflation decelerated in June

CPI inflation decelerated to 0.2%yoy in June, from 0.3%. Food prices remained the main drag on inflation, but the CPI figure reflects broader consumption weakness, with durable-goods prices contracting and service-price inflation decelerating. Producer price index deflation persisted for a 21st consecutive month, albeit easing to 0.8%yoy from 1.4%. In particular, factory-gate prices for durable consumer goods showed concerning weakness, contracting by 2.1%yoy, from 1.8%. UniCredit Research does not expect China to implement any major monetary policy measures aimed at reinvigorating consumption anytime soon.

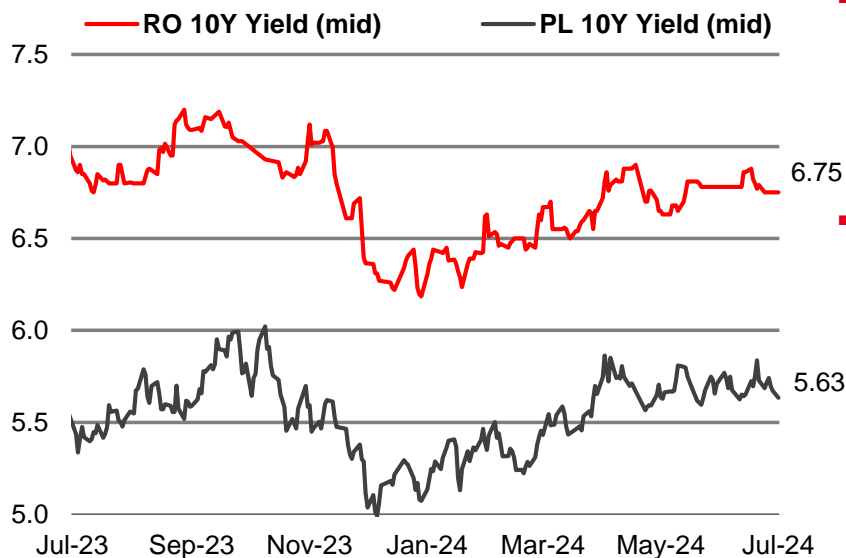
■ China's growth decelerated sharply

GDP growth decelerated significantly in 2Q24, down to 4.7%yoy from 5.3%. In qoq terms, it dropped to 0.7% from 1.6%. Weak consumer confidence continues to weigh on economic activity, as shown by retail sales that slowed to 2.0%yoy in June from 3.7%. Fixed-asset investment kept growing in June, by around 4%yoy YTD, with real-estate investment deep in contractionary territory, at -10.1%. On the supply front, industrial production decelerated to 5.3%yoy in June from 5.6%.

The third plenum of China's ruling Communist Party is unlikely to signal major policy intervention to stimulate growth in the short term, as its focus is usually on structural challenges, such as those involving new technologies or demographics.

Focus Ahead: 15 – 19 July

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields decreased slightly by up to 6bp on the long end and by up to 11bp on the short end.
- Government bonds were well supported last week and demand was boosted by weaker than expected US CPI figures. The 10Y Bund yield fell below 2.50% and the 10Y UST yield dropped to almost 4.15%, the lowest level since the end of March.
- This week, MinFin intends to place RON 300mn in 4.8Y T-bonds on Monday, together with RON 400mn in 2.9Y T-bonds on Thursday.

BOND ISSUES - JULY

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO1ENID1Z6R5	29-Jul-24	30-Jun-25	11	500lei				
RO7EKTXHRHD6	25-Jul-24	28-Jan-26	18	600lei				
RO0DU3PR9NF9	22-Jul-24	24-Feb-38	166	300lei				
ROP9QVD42HO2	18-Jul-24	31-May-27	35	400lei				
ROJVM8ELBDU4	15-Jul-24	25-Apr-29	58	500lei				
ROCDG04X8WJ7	11-Jul-24	26-Apr-28	46	500lei		1,175	815	6.3
ROTM7EDD92S2	11-Jul-24	31-Jul-34	122	600lei		1,271	1,108	6.82
RON7NMKOKQG2	8-Jul-24	28-Oct-26	28	400lei		1,613	1,200	6.06
RO7QK1HCA6H4	4-Jul-24	27-Jan-25	7	800lei		1,912	1,548	6
RO1JS63DR5A5	4-Jul-24	28-Apr-31	83	300lei		1,071	862	6.71
ROZZHW59GQL5	1-Jul-24	30-Jun-25	12	800lei		1,656	1,307	6.01
ROWLVEJ2A207	1-Jul-24	30-Oct-33	114	300lei		1,108	943	6.87

Focus Ahead: 15 – 19 July

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
15-Jul-2024	EMU	Industrial Production (% mom)	May	-1.1	-1.0	-0.1
	Romania	Current-account balance (YTD, EUR mn)	May	-8665		-6576
16-Jul-2024	GE	ZEW Survey – Current Situation (index)	Jul	-70.0	-74.8	-73.8
	GE	ZEW Survey – Expectations (index)	Jul	45.0	43.0	47.5
	US	Retail Sales (% mom)	Jun	-0.1	-0.2	0.1
17-Jul-2024	US	Industrial Production (% mom)	Jun	0.3	0.3	0.7
	Romania	Industrial sales (% yoy)	May			18.8
18-Jul-2024	EMU	ECB Depo Rate (%)	Jul	3.75	3.75	3.75
	EMU	ECB Refi Rate (%)	Jul	4.25	4.25	4.25
19-Jul-2024	GE	Producer Price Index, PPI (% yoy)	Jun	-1.2	-1.7	-2.2

Data Source: Bloomberg

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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