Macroeconomic and Strategic Analysis

UniCredit Weekly Report

The Romanian annual inflation tempered to 5.1% in August

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Weekly briefing

US headline inflation fell to 2.5% in August beating forecasts, with core inflation remaining 3.2% on an annual basis. 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 **August core Producer Price Index (PPI) showed a modest rise of 0.2% mom**. The **first TV debate between presidential nominees Kamala Harris and Donald Trump** in Philadelphia took place last Wednesday, **Ms. Harris emerging as winner according to news polls.**

On Thursday, **the ECB cut its deposit rate by a further 25bp to 3.50%, as widely expected**. **The spread between the refi rate and the depo rate has been narrowed to 15bp, the refi rate being now at 3.65%.** Also, **the marginal lending facility has been lowered to 3.90%** from 4.50%. The new macroeconomic forecasts were very much in line with those published in June, **confirming the key expectation that inflation will converge to the 2% target by the end of 2025.** While the ECB remains data dependent, the stability of the macroeconomic projections and some remarks by ECB President Lagarde suggest that back-to-back rate cuts are unlikely for now. **UniCredit Research maintains its view of a gradual descent of interest rates at a pace of 25bp per quarter throughout the end of next year, with the next move, to 3.25%, due in December.** The **industrial production in the Euro Area declined by -0.3%mom in July 2024**, aligning with market expectations, following a revised flat performance in June.

In Romania, annual inflation tempered to 5.1%yoy in August, in line with consensus expectations, **from 5.4% in July**. In monthly terms, **the prices slowed down to 0.2%mom in August**, from 0.6%mom in July. The **core inflation also increased in August to 5.8%yoy,** from 5.5%yoy in July, being 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 2025,** as another boost to income this year came through the September pension increase. **The average net salary increased more than expected, by 1.3%mom in July versus June, to RON 5242**. The annual growth pace rose to 14.8%yoy from 12.5%yoy. The net real wage increased by 8.9% in July 2024 compared to a year ago. The **trade deficit was lower than expected at EUR 2.95bn in July**. The **cumulated deficit for the first seven months of 2024 was EUR 18bn, higher by 15.6%yoy**. **We expect a higher trade deficit in 2024 than in the previous year. A recovery is possible in 2025, as consumptions is likely to slow down** given the lower wage hikes and fiscal stimuli, while external demand might start to improve. The **current account deficit accelerated more than expected in the first seven months of 2024 to EUR 15.1bn**, up by 33.9%yoy. **We expect the fiscal inaction to keep the structural C/A deficit at around 7% of GDP in 2024. C/A deficit could narrow next year close to 6% of GDP** amid weaker domestic demand. The **industrial production decreased by -3.4%mom (seasonally adjusted data) in July**, after a +4.0%mom increase in June.

The **external events' calendar is more relaxed this week,** with the **US Retail Sales** and **US industrial production** (Tuesday), both expected to slightly increase, and the **Fed meeting when the rates are expected to be cut by 25bp to the 5.00-5.25 range** (Wednesday). In **Romania,** no important data releases are expected beside the MinFin's bond auctions on Monday and Thursday.

UniCredit Bank

Data spotlight: 9 – 13 September

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.1121	0.42%	0.98%
EURCHF	140.81	-0.74%	-4.30%
USDJPY	1.31	0.02%	2.07%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2715	-0.21%	-0.43%
EURHUF	393.85	-0.28%	-0.35%
EURCZK	25.14	-0.02%	-0.03%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
16-Sep	4.9743	4.4737	6.0452	371.84

CURRENCIES - RON

	EURRON	USDRON
16-Sep	4.975	4.472
13-Sep	4.974	4.491
12-Sep	4.974	4.492

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
16-Sep	5.7	6.2	6.2	6.8
11-Sep	5.7	6.2	6.2	6.7

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
16-Sep	5.52	5.52	5.58
13-Sep	5.52	5.53	5.55
12-Sep	5.55	5.55	5.60

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
13-Sep	3.41	3.47	3.27
12-Sep	3.44	3.48	3.27
11-Sep	3.44	3.47	3.28
USD Libor	1M	3M	6M
13-Sep	5.20	5.20	5.01
12-Sep	5.21	5.21	5.00
11-Sep	5.21	5.19	4.98

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,626.0	0.54%	3.53%
FTSE	8,267.0	-0.07%	-0.96%
Hang Seng	17,422.1	0.31%	1.83%
Bucharest BET	17,456.0	0.39%	-3.77%

Romanian Economy

- **The Romanian annual tempered in August**

The Romanian annual inflation tempered to 5.1% in August, in line with consensus expectations [UniCredit: 5.0%, consensus: 5.1%], from 5.4%yoy in July. In monthly terms, prices slowed down to 0.2%mom in August, from 0.6% mom in July. The prices for food and services increased slightly faster than we anticipated. Food prices increased by 0.5%mom, driven by citrus fruits (+3.7%mom) and vegetables (+2.7%mom), while the prices of fresh fruits decreased by -6.5%mom. Non-food goods' prices remained almost flat compared to July's 0.9%mom, as the decrease in fuel prices by -1.1%mom was offset by the rise in electricity prices (+0.5%mom) and some other categories: hygiene, cosmetic and medical items (+0.3%mom); cars and spare parts (+0.4%mom). Service prices decelerated to +0.5%mom from +0.7%mom in July. Most of the services' categories saw a price acceleration, the highest being recorded by the seasonal rise in air transport (+8%mom), followed by hygiene and cosmetics services (1%mom), horeca (+0.8%mom), medical care (+0.9%mom), and rent (+0.4%mom). The core inflation also increased in August to 5.8%yoy, from 5.5%yoy in the previous month, being 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 2025, as another boost to income this year came through the September pension increase.

Data spotlight: 9 – 13 September

Romanian Economy (continued)

■ The average net salary increased in July

The average net salary increased more than expected, by 1.3%mom in July versus June, to RON 5242. The annual growth pace rose to 14.8%yoy from 12.5%yoy. The net real wage increased by 8.9% in July 2024 compared to a year ago and by 0.7% compared to the previous month. The highest net salary decreases in July were seen in publishing activities (-19.0%mom) together with manufacture of basic pharmaceutical products and pharmaceutical preparations (-9.3%mom), while the highest increases were recorded in manufacture of coke and refined petroleum products (+25.2%mom). Romanian wages will have one of the highest real growth rates in the region this year, benefitting from several public sector wage hikes throughout the year coupled with the tempering inflation. Yet, we expect a significant slowdown next year due to the need for fiscal consolidation and a slower disinflation than the one experienced in 2024.

■ The trade deficit was 2.9bn EUR in July

The trade deficit was lower than expected at EUR 2.95bn in July. Compared to July 2023, both exports and imports increased by 8.6%yoy and by 13.4%yoy, respectively. The cumulated deficit for the first seven months of 2024 was EUR 18bn, higher by 15.6% than in the same period of 2023. The highest increases for import volumes in 7M2024 were seen for chemicals and related products (+8.4%yoy) and for machinery and transport equipment and food and live animals (+2.7%yoy for both), while the largest decrease was seen for beverages and tobacco (-1.8%yoy). On the exports' side, the highest increases in 7M2024 were seen for chemicals and related products (+15.9%yoy) followed by beverages and tobacco (+8.9%yoy), while the most significant decrease were seen for mineral fuels, lubricants and related materials (-18%yoy), followed by food and live animals and crude materials, inedible, except fuels (-10.1%yoy for both). Around 73% of the trade activity was with the European Union. We expect a higher trade deficit in 2024 than in the previous year, with imports supported by high consumptions and exports hindered by the lower external demand. A recovery is possible in 2025, as consumptions is likely to slow down given the lower wage hikes and fiscal stimuli, while external demand might start to improve.

■ The current account deficit accelerated in July

The current account deficit increased more than expected in the first seven months of 2024 to EUR 15.1bn, up by 33.9% compared to the same period of the previous year. The goods' trade deficit (EUR -17.9bn) accelerated its growth to 16.4%yoy. The services' surplus was EUR 6.9bn, lower by -15.8%yoy, as most categories recorded a surplus, albeit lower than in the previous year. The Romanian tourism has a negative balance, recording a deficit of EUR 2.6bn at the end of July 2024. The primary income deficit increased by EUR 538mn to EUR -5.2bn, up by around 11% compared to 7M2023 due to bigger capital outflows, while the secondary income recorded a surplus of EUR 522mn, almost 2 times higher compared to the same period of 2023.

Data spotlight: 9 – 13 September

Romanian Economy (continued)

We expect the fiscal inaction to keep the structural C/A deficit at around 7% of GDP in 2024, with the external shortfall fully covered by FDI, EU transfers and government borrowing from abroad. The C/A deficit could narrow next year close to 6% of GDP amid weaker domestic demand.

- **Romanian industrial production decreased in July**

Industrial production decreased by -3.4%mom (seasonally adjusted data) in July, after a +4.0%mom increase in June. Manufacturing decreased by -4.6%mom, while electricity, gas, steam and air conditioning supply and mining rose by +3.1%mom and +1.3%mom, respectively. Compared to the corresponding month of 2023, the industrial production was lower by -3.9%yoy on adjusted data, from +0.5%yoy in the previous month. The manufacturing sector is likely to have continued to weigh on overall production. Survey data suggest that the outlook for industrial production remains subdued, due to still-tight monetary policy and heightened global economic uncertainty

Data spotlight: 9 – 13 September

European Economy

■ The ECB cut its deposit rate by another 25bp to 3.50%

On Thursday, the ECB cut its deposit rate by a further 25bp to 3.50%, as widely expected. The spread between the refi rate and the depo rate has been narrowed to 15bp, the refi rate being now at 3.65%. Also, the marginal lending facility has been lowered to 3.90% from 4.50%. The decision to cut interest rates for a second time in this cycle is uncontroversial, mainly for the following reasons: 1. the expectation that the inflation goal will be met by the end of 2025. 2. the growth forecast was revised down by 0.1pp in each of the three years (2024: 0.8%, 2025: 1.3%, 2026: 1.5%) due to weakness in domestic demand. 3. a gradual descent of interest rates remains the most plausible future trajectory of monetary policy, which would strike the right balance between the different views within the GC.

Although Ms. Lagarde did not provide any clear guidance in regard to the future trajectory of monetary policy, three remarks suggest that back-to-back rate reductions are not likely. 1. Ms. Lagarde labeled the evolution of domestic inflation as “not satisfactory”. This reflects the latest higher-than-expected data on services inflation, which triggered a slight upward revision to the ECB’s forecast for core inflation in 2024 and 2025. 2. She stressed that data dependency does not mean data-point dependency, while “preparing” the market for a low inflation reading for September (which could show a decline to or even below 2% following the latest large drop in oil prices). Inflation will probably reaccelerate towards year-end due to base effects. 3. She stated that the period of time until the October meeting is “relatively short”, hinting that the GC will probably not have a lot of new information when it gathers next month. In UniCredit Research’s view, as long as the labor market holds up, the ECB is unlikely to accelerate the pace of rate cuts.

UniCredit Research maintains its view of a gradual descent of interest rates at a pace of 25bp per quarter throughout the end of next year, with the next move, to 3.25%, due in December. Uncertainty surrounding the inflation path remains high amid multiple risks and low visibility on the level of neutral rate. The slow pace of disinflation in services represents the biggest concern for the hawks of the GC, while the doves are particularly attentive to signs of weakening of the employment outlook, which could cause a downshift in the path for economic activity, pushing inflation below target. UniCredit Research thinks that a slow but protracted easing cycle will strike the right balance between the different views within the GC. Given its benign inflation projection for the medium term, it thinks that the deposit rate will decline to 2.25% by the end of 2025.

■ Industrial production in the Euro Area slightly declines

Industrial production in the Euro Area declined by -0.3%mom in July 2024, aligning with market expectations, following a revised flat performance in June. Output decreased across several sectors: intermediate goods (-1.3% vs. 0.6%), capital goods (-1.6% vs. 1%), and durable consumer goods (-2.8% vs. 3.8%). Production growth slowed for energy (0.3% vs. 1.7%) but rebounded for non-durable consumer goods (1.8% vs. -2.3%). On an annual basis, industrial output contracted by 2.2% in July, following an upwardly revised 4.1% decline in June.

Data spotlight: 9 – 13 September

US Economy

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. 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; 2. Fed members are split on the timing and pace of rate cuts; and 3. starting with a larger rate cut runs the risk of sending a signal of panic at the central bank.

US CPI and Core inflation

The focus today was on the US August CPI report. US headline inflation fell to 2.5% in August beating forecasts, with core inflation remaining 3.2% on an annual basis. US core consumer prices rose by 0.3%mom in August of 2024, slightly above forecasts of a 0.2% increase, and picking up slightly from the 0.2% increase in July. Consequently, the Fed would likely see the August report as evidence of further progress on disinflation but not as good as the very benign readings in the prior three months. UniCredit Research still expects the Fed to cut by 25bp on 18 September.

US PPI modest rise

The August core Producer Price Index (PPI) showed a modest rise of 0.2% mom. The PPI release will help to refine forecasts for the core PCE deflator (the Fed's preferred measure of prices) due to be released later this month, as prices for some items including airfares, medical services and financial services are taken directly from the PPI rather than the CPI.

The first presidential debate was won by Kamala Harris

The first TV debate between presidential nominees Kamala Harris and Donald Trump in Philadelphia took place last Wednesday. According to a CNN poll, 63% of respondents believed Ms. Harris won the debate. It's not clear yet whether there will be a second TV debate between the nominees, something which the Harris campaign has called for.

Data spotlight: 9 – 13 September

International and Romanian Markets

- **The EURRON traded within 4.9735-4.9750 last week**

The EURRON traded within a verry narrow 4.9735-4.9750 range last week, with no market moving data releases or surprises. Although we continue to expect depreciation pressures on the RON this autumn, the pair could linger around the current levels in the absence of important events and data releases.

- **The entire ROBOR was unchanged last week**

Given the abundant liquidity and the absence of any market-moving news, the ROBOR curve was unchanged last week, with all the maturities stabilizing close to the deposit facility. 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, the Ministry of Finance held an auction for a T-bond with maturity of 3.6 years. Bids for the bond didn't cover the planned amount, at RON 236mn vs. RON 500mn, resulting in no issuance by MinFin. The result was likely due to the market's prudence before the ECB meeting and the US presidential debate last week.

Last Thursday, the Ministry of Finance held auctions for a T-bond with maturity of 9.9 years. The bids covered the planned amount, at RON 560mn, enabling MinFin to place the planned RON 500mn. The average accepted yield was 6.78% (max. 6.79%), which is 24bp above the yield paid at the previous reopening one month ago.

- **FX markets**

The EUR-USD has risen to 1.11, little affected by the latest ECB rate cut. A 25bp rate cut by the Fed might prevent the USD from losing ground but will probably not be enough to spark a strong recovery of the greenback across the board. A 25bp rate cut by the Fed on Wednesday is fully priced in following the US jobs report and CPI inflation figures for August. However, a 50bp move is still possible and this prospect weakened the USD across the board. A 25bp move, which UniCredit Research also expects, would suggest that the Fed does not intend to be aggressive in its easing cycle and might be positive for the greenback, but more to prevent further weakness than to trigger a strong rise. EUR-USD will probably continue to trade above 1.10.

Data spotlight: 9 – 13 September

International Markets

- **China exports rise more than expected**

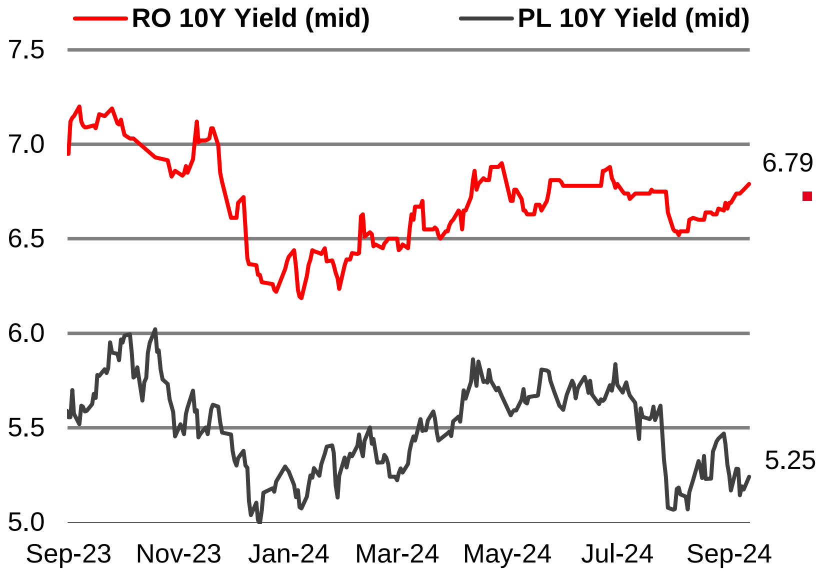
Export growth for August exceeded expectations, accelerating to 8.7%yoy from 7.0% in the previous month, while the growth rate of imports came in below expectations at 0.5%yoy, down from 7.2%The data show that external demand continues to provide some support to China's economic activity at a time when domestic drivers of growth appear to be under severe pressure.

- **Chinese price increases were weaker than expected**

Both CPI and PPI data for August were weaker than expected, as subdued economic activity increased downward pressure on firms' pricing power, raising the risk of deflation. CPI inflation came in at 0.6%yoy, slightly up from the previous 0.5% reading but with core inflation slowing to just 0.3%, its lowest level in more than three years. The PPI continued to decline on an annual basis, to -1.8% from the previous -0.8%. It has remained in negative territory since late 2022.

Focus Ahead: 16 – 20 September

MinFin Issues



Data Source: Thomson Reuters

- Eurozone rates markets have remained overall supported following the ECB meeting, as a 25bp rate cut was broadly expected. Yet, Romanian yields increased last week.
- The Fed is expected to cut the fed funds rate by 25bp to 5.00-5.25%. The new dot plot is likely to show a more dovish monetary policy, albeit not as optimistic as the market is currently pricing in. This could put upward pressure on US yields.
- This week, MinFin intends to place RON 500mn in 4.6Y T-bonds on Monday, together with RON 200mn in 10.5Y 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	400lei				
RO7EKTXSRHD6	26-Sep-24	28-Jan-26	16	500lei				
RO1JS63DR5A5	23-Sep-24	28-Apr-31	80	500lei				
RODFIUK7ZV55	19-Sep-24	25-Apr-35	129	200lei				
ROJVM8ELBDU4	16-Sep-24	25-Apr-29	56	500lei				
ROTM7EDD92S2	12-Sep-24	31-Jul-34	120	500lei		560	500	6.78
ROCDG04X8WJ7	9-Sep-24	26-Apr-28	44	500lei		236	0	
ROWLVEJ2A207	5-Sep-24	30-Oct-33	111	400lei		400	574	6.72
ROIJHMAUBXS8	5-Sep-24	27-Aug-25	12	500lei		843	575	5.77
ROO7A2H5YIN8	2-Sep-24	25-Feb-32	91	500lei		475	450	6.65
ROP9QVD42HO2	2-Sep-24	31-May-27	33	500lei		555	495	6.21

Focus Ahead: 16 – 20 September

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
17-Sep-2024	US	Retail Sales (% mom)	Aug	0.2	-0.2	1.0
	US	Industrial Production (% mom)	Aug	0.2	0.1	-0.6
	Ro	Industrial Sales (%, yoy)	Jul			2.8
18-Sep-2024	US	Federal Funds Target Rate (upper bound, %)	Sep	5.25	5.25	5.5
20-Sep-2024	EMU	European Commission Consumer Confidence (%)	Sep	-13.5	-13.4	-13.5

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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