

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



The annual inflation continued to decline in May

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Weekly briefing

Last week, the **US CPI decreased to 3.3%yoy in May** [UniCredit: 3.3%, consensus: 3.4%]. **Lower inflationary pressure was broad-based.** The headline inflation was flat in May vs. April and core inflation eased to 0.2%mom. **Fed welcomed the report, which shows a clear progress on disinflation, while decided to keep the funds rate on hold at 5.25-5.50%, as expected.** The updated median “dot plot” now indicates just one rate cut in 2024 from three previously, although 8 of 19 FOMC participants expect two rate cuts this year. The median dot for 2025 shifted up by 25bp to 4.1%, while for 2026 remained at 3.1%. Mr. Powell said only that the Fed needs to see “more good data” before they can cut rates. UniCredit still expects the first rate cut in September and three rate cuts this year, pending on the next three CPI reports to be released by then. However, the risks remain skewed towards a later start and fewer cuts this year.

Eurozone industrial production almost stagnated in April (-0.1%mom), after a 0.5%mom increase in March. **The decline deepened to -3.0%yoy**, after 1.2% decline in the previous month.

In Romania, the annual inflation continued to decline to 5.1%yoy in May, more than expected [UniCredit: 5.2%, consensus: 5.6%], from 5.9%yoy in April. Prices were lower by 0.1%mom in May, after +0.1%mom in April. **The reason for our forecast error was a higher decline in natural gas prices accounted for by the NIS than we anticipated** (-8%mom vs. -3%mom). **Fuel prices declined less than we were anticipating in spite of a decline in oil prices** (-3.3%mom in May vs. +8.7%mom in April). **Electricity prices declined by only 0.8%mom**, while we expected -2%mom in order to continue the transmission of the declines announced by the Energy Minister for electricity and gas in May, of -15%mom and -25%mom. **Food-price were stable vs. April, but rose by 1.2%yoy. Non-food goods’ prices declined by 0.4%mom** driven by gas (-8.0%mom), fuel (-1.0%mom) and electricity (-0.8%mom), **Service price inflation decelerated to 0.4%mom in May. Core inflation also decreased to 6.3%yoy** (vs. 6.7%yoy). **Both CPI and core inflation are likely to fall below 5%yoy in the second half of the year**, with a spike in September caused by the expected pension rise. **The gap to NBR’s inflation forecast for June (6%) is likely to widen, increasing the probability of a July rate cut**, in our view. **NBR remains wary of fiscal risks, which seem to be mounting, and might decide to postpone easing due to a widening budget deficit.** The average net salary rose by 0.6%mom in April, to RON 5,217, and slightly accelerated to 14.3%yoy due to bonuses granted around the Easter time. **Current account deficit rose at 1.9% of GDP in Jan-April 2024 to EUR 6.6bn (+26.7%yoy).** We expect the fiscal inaction to keep the structural C/A deficit above 6% of GDP in 2024. It could narrow in 2025 amid weaker domestic demand. **The industrial production surprised to the downside in April falling by 1.3%mom** (s.a. data), after +3.9%mom in March, likely in line with the decline in Eurozone and in Germany.

This week, the **Germany ZEW index is expected to improve in June**, the **US retail sales to rise modestly** and the **US industrial production to accelerate in May** (Tuesday). The **German PPI for May** and the **European Commission Consumer Confidence for June** are expected to slightly improve (Thursday). The **Eurozone and German PMIs are likely to rise slightly in June** (Friday).

Data spotlight: 10 – 14 June

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0716	0.12%	-1.55%
EURCHF	157.41	0.18%	0.57%
USDJPY	1.27	-0.60%	0.73%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.3610	-0.47%	2.33%
EURHUF	396.50	-0.46%	2.83%
EURCZK	24.70	-0.18%	-0.08%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
17-Jun	4.9768	4.6464	6.1229	346.63

CURRENCIES - RON

	EURRON	USDRON
17-Jun	4.977	4.644
14-Jun	4.978	4.649
13-Jun	4.977	4.635

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
17-Jun	5.9	6.0	6.2	6.8
12-Jun	5.9	6.0	6.3	6.8

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
17-Jun	6.01	6.05	6.10
14-Jun	6.00	6.05	6.05
13-Jun	6.00	6.00	6.00

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
14-Jun	3.58	3.72	3.74
13-Jun	3.60	3.72	3.74
12-Jun	3.63	3.72	3.75
USD Libor	1M	3M	6M
14-Jun	5.45	5.61	5.70
13-Jun	5.44	5.60	5.70
12-Jun	5.44	5.61	5.74

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,431.6	-0.04%	2.42%
FTSE	8,146.7	-0.01%	-3.25%
Hang Seng	17,936.1	-0.03%	-8.66%
Bucharest BET	17,770.9	0.38%	2.35%

Romanian Economy

■ The annual inflation continued to decline in May

Annual inflation declined 5.1%yoy in May, more than expected [UniCredit: 5.2%, consensus: 5.6%], from 5.9%yoy in April. In monthly terms, prices were lower by 0.1%mom in May, after +0.1%mom in April. The reason for our forecast error was a higher decline in natural gas prices accounted for by the National Institute for Statistics (NIS) than we anticipated (-8%mom vs. -3%mom). Fuel prices declined less than we were anticipating in spite of a decline in oil prices (-3.3%mom in May vs. +8.7%mom in April). At the same time, the electricity prices declined by only 0.8%mom, in spite of our expectations of -2%mom in order to continue the transmission of the declines announced by the Energy Minister for electricity and gas in May, respectively of -15%mom and -25%mom. Food-price were stable in comparison to April, despite a larger contribution from fruits, but rose by 1.2%yoy. Among the basic food with lower monthly prices were the butter (-0.7%mom), eggs (-0.9%mom) and sugar (-0.8%mom). However, some food prices continued to rise, such as the ones for potatoes (+1.5%mom), fresh fruits (+1.5%mom) and margarine (+2.1%mom).

Non-food goods' prices declined by 0.4%mom driven by gas (-8.0%mom), fuel (-1.0%mom) and electricity (-0.8%mom), while the other non-food prices continued to rise (tobacco +1.3%mom, chemicals +0.7%mom).

Data spotlight: 10 – 14 June**Romanian Economy (continued)**

Service price inflation decelerated to 0.4%mom in May. The highest increase in services came from the air transport (+21.3%mom), a pattern related to the higher demand around the Easter time.

The core inflation also decreased to 6.3%yoy (vs. 6.7%yoy), but remains much stickier than in other CEE countries due to the strength of domestic demand and the pricing power of retailers. However, core inflation is likely to fall below 5%yoy in the second half of the year. Yet, another boost to income this year could come through the September pension increase (of around 65%). Going forward, a full pass-through of cheaper natural gas and electricity to headline inflation would send the annual reading below 5%. Either way, the gap to the NBR's inflation forecast for June (6%) is likely to widen, increasing the probability of a July rate cut, in our view. The NBR remains wary of fiscal risks, which seem to be mounting, and might decide to postpone easing due to a widening budget deficit.

■ The average net salary increased in April

The average net salary increased by 0.6% in April 2024 vs. March, to RON 5,217. The annual growth pace slightly accelerated to 14.3%yoy as compared to 13.9%yoy due to bonuses granted around the Easter time. The net real wage increased by 7.9%yoy in April vs. 6.8%yoy in March. The highest net salary increases in April were seen in mining and quarrying (+21.0%mom), electricity, gas, steam and air conditioning supply (+15.9%mom), manufacture of coke and refined petroleum products (+11.4%) and manufacture of rubber and plastic products (+10.4%mom).

■ The current account deficit at 1.9% of GDP at the end of April 2024

The current account deficit rose more than expected in the first four months of 2024 to EUR 6.6bn, up by 26.7% compared to the same period of the previous year. The goods' trade deficit (EUR -9.1bn) accelerated to 5.4%yoy (from 0.5% in March). The surplus in services was EUR 4.3bn, down by 16%yoy, the only positive driver remaining the IT&C services (EUR 649mn). The primary income deficit rose by EUR 1bn vs March to EUR 2.7bn, up by around 41% compared to 4M2023 due to lower capital inflows, while secondary income recorded a surplus of EUR 954mn, 2.2 times higher compared to the same period of 2023. We expect the fiscal inaction to keep the structural C/A deficit above 6% 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 amid weaker domestic demand.

Data spotlight: 10 – 14 June

Romanian Economy (continued)

■ The trade deficit was 2.7bn EUR in April 2024

The trade deficit increased more than expected to EUR 2.7bn in April, higher by 29.7% than in the same period of 2023. Compared to April 2023, both exports and imports increased by 14.8%yoy and 17.8%yoy, respectively. In 4M24, the largest increases in import volumes were seen for chemicals and related products (+6.7%yoy), miscellaneous manufactured articles (+5.1%yoy) as well as food and live animals (+3.6%yoy), while the largest decline was recorded for mineral fuels, lubricants and related materials (-8.8%yoy) likely due to their higher prices and the lower demand from the local industry. On the exports' side, the largest increase was seen for chemicals and related products (+15%yoy) and for machinery and transport equipment (+7.0%yoy), while the largest decline was for mineral fuels, lubricants and related materials (-27.7%yoy), for animal and vegetable oils, fats and waxes (-15.6%yoy) and for raw materials (-14.5%yoy) likely due to weakening industrial activity globally. Around 73% of the trade activity was with the European Union.

■ The industrial production surprised to the downside in April

Industrial production decreased by 1.3%mom (seasonally adjusted data) in March, after 3.9%mom increase in March, likely in line with the decline in Eurozone and especially in Germany, Romania's main export partner. Energy and manufacturing decreased by -4.3%mom and by -1.5%mom, while mining increased by 3.5%mom. Compared to the corresponding month of 2023, the industrial production was higher by 3.6% on adjusted data, after 2.8%yoy in March, due to a strong base effect as the industrial output was deeply in red a year before.

Data spotlight: 10 – 14 June**European Economy****■ Eurozone industrial production almost stagnated in April**

Industrial production decreased slightly by 0.1%mom in April [UniCredit Research: 0.4%mom; consensus: 0.2%], after a 0.5%mom increase in March. This outcome still left the Eurozone output almost 2.0% above its pre-pandemic level. On a yearly basis, the industrial production decline deepened to -3.0%yoy, after a revised 1.2% decline in the previous month. On an encouraging note, the output sub-component of the manufacturing PMI index was close to stabilizing in May, although the headline figure remained below 50.

Data spotlight: 10 – 14 June

US Economy

■ US headline inflation continued the downward trend in May

The US CPI decreased in line with the market expectation to 3.3%yoy in May [UniCredit Research forecast: 3.3%, consensus: 3.4%], down from 3.4%yoy in April and 3.5%yoy in March. The decline has been driven by the non-housing core services inflation, which will be welcomed by the Fed. It is the second consecutive month of lower core inflation, after three months of upward surprises in 1Q24. Lower inflationary pressure in May was broad-based, with lower prices for new vehicles (-0.8%) and used cars and trucks (-9.3%) and a slowdown of the price inflation for food (2.1%), shelter (5.4%), transportation (10.5%) and apparel (0.8%). On the other hand, the prices for energy accelerated (3.7% vs 2.6%), mainly due to the higher prices for fuel (3.6% vs -0.8%) due to a base effect.

On a monthly basis, the headline inflation was flat in May and the core inflation eased to 0.2%mom from 0.3%mom in the prior month. On an annual basis, both the headline and core inflation fell by 0.1pp to 3.3%yoy and 3.4%yoy. Core goods inflation was flat, despite a rise in used car prices, while core services inflation halved to 0.2%mom. The decline in prices of many discretionary items, incl. new cars, apparel, recreational services, airfares, and hotels, could be a sign that the consumers are rejecting further rises. This would be consistent with the latest Beige Book, which stated that “consumers pushed back against additional price increases, which led to smaller profit margins”. It would also show signs of a decline in consumer spending, with real personal consumption falling in April. Within core services, the non-housing core services (so-called “supercore”) was weak, this category declining slightly for the first time since September 2021. Transport services fell due to a decline in air fares and flat car insurance prices. The medical services inflation also eased. The only minor disappointment was that housing inflation was unchanged at 0.4%mom, due to its large weight in the core CPI basket (43%).

The Fed will clearly welcome the May CPI report, which shows a clear progress on disinflation. UniCredit Research expects the core PCE deflator, the Fed’s preferred measure of inflation, to rise just 0.1%mom in May when the data will be released later this month. Still, the Fed will likely need to see more good inflation data and/or a material weakening in the labor market before it will decide to cut the rates. Three consecutive months of upward surprises to inflation in 1Q24 caused the Fed to lose some confidence in the disinflation process, which led the Fed to walk back its dovish pivot from December 2023 in April/May, so it will likely remain cautious.

UniCredit still expects the first rate cut by the Fed in September, with three cuts this year as by the time of the Fed’s September meeting, it will have three more CPI reports in hand.

Data spotlight: 10 – 14 June**US Economy (continued)****■ Fed kept the rates on hold as expected**

Last week, the Fed left the target range for the federal funds rate at 5.25-5.50%, in line with expectations. The updated “dot plot” shifted up, reflecting higher inflation projections for this year and the next. The median “dot” now indicates just one rate cut in 2024 from three previously, although 8 of 19 FOMC participants expect two rate cuts this year. The median dot for 2025 shifted up by 25bp to 4.1%, while the median dot for 2026 was unchanged at 3.1%. The longer-run dot moved up slightly to 2.75%. In the press conference, Fed Chair Powell downplayed the importance of the dot plot, suggesting the dots would move with incoming data. FOMC participants did have the option to change their projections following yesterday’s lower-than-expected May CPI print, although Mr. Powell indicated that most participants didn’t update their dots. Mr. Powell was careful not to give any indication of the timing of a first rate cut, saying only that officials need to see “more good data” before they can cut rates. UniCredit Research still expects the first rate cut in September and three rate cuts in total this year, pending on the next three CPI reports to be release by then. However, given the cautious tone of Fed communication, the risks remain skewed towards a later start and fewer cuts this year.

Data spotlight: 10 – 14 June

International and Romanian Markets

■ The EURRON traded above 4.97 last week

Last week, the EURRON traded within the 4.9760-4.9800 range, with an upward bias on Wednesday. The pair ended last Friday's trading session at 4.9775, down 25pips from the closing of the week before, at 4.9800. The EURRON started the current week slightly above 4.976.

■ The ROBOR curve was relatively stable

Last week the ROBOR curve was relatively stable for all maturities, as the excess liquidity in the market remains abundant. The O/N-1W segment closed the week at 6.00%, while the 1M-3M segment remained inside 6.00%-6.02%, declining by up to 2bp.

■ MinFin auctions

Last Monday, the Ministry of Finance held an auction for two T-bonds with residual maturity of 2.4 years and respectively 6.0 years. For the first one the bids were above the planned amount, at RON 1,042.0mn vs. RON 500mn, enabling MinFin to place RON 497.0mn. The average accepted yield was 6.29% (max. 6.29%), 7bp above the previous reopening one month ago. For the second one the bids were above the planned amount, at RON 544.8mn vs. RON 200mn, enabling MinFin to place RON 300.0mn. The average accepted yield was 6.69% (max. 6.69%), 10bp above the previous reopening three weeks ago.

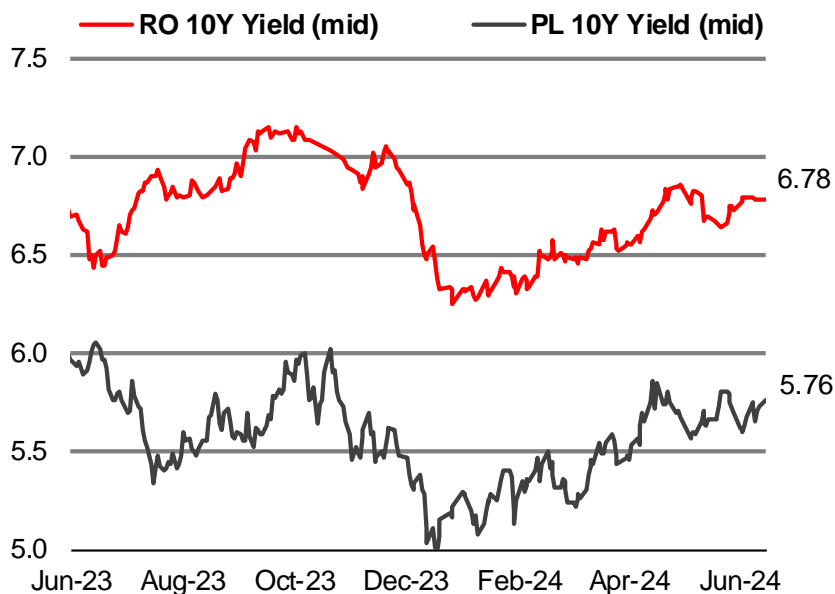
Last Thursday, the Ministry of Finance held an auction for a T-bond with residual maturity of 10.2 years. The bids were above the planned amount, at RON 1.2bn vs. RON 500mn, enabling MinFin to place RON 1.0bn. The average accepted yield was 6.86% (max. 6.86%), 7bp above the previous reopening one month ago. It also held an auction for an 11 months T-bill for which the bids were much above the planned amount, at RON 3.0bn vs. RON 600mn, enabling MinFin to place RON 2.3bn. The average accepted yield was 6.02% (max. 6.03%).

■ FX markets

The Fed showing more caution in terms of rate cuts and growing political uncertainty in France have kept the USD fairly on-bid. The US Dollar Index is again trading above 105, while EUR-USD remains at around 1.07. However, pressure on EUR is likely to continue over the next few weeks, and its prospects in the near term are largely dependent on the final outcome of the French snap elections on 7 July. If President Emmanuel Macron maintains a majority, this will likely lift EUR-USD potentially even above 1.09. If there is a hung parliament, with no political group winning a majority – and even more so, if the National Rally (RN) wins a majority – will likely see EUR-USD temporarily extending its retreat to even below 1.05.

Focus Ahead: 17 – 21 June

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields rose slightly by up to 2bp on the long end.
- The Fed remaining on hold last week and FOMC statement that need few more months of “good data” before cutting the rates let the Romanian yields almost untouched, as the start of the easing cycle moved at earliest in September.
- This week, MinFin intends to place RON 500mn in 4Y and RON 300mn in 14Y T-bonds on Monday, together with RON 500mn in 3Y T-bonds on Thursday.

BOND ISSUES - JUNE

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO7EKTXSRLHD6	27-Jun-24	28-Jan-26	19	500	lei			
ROJVM8ELBDU4	27-Jun-24	25-Apr-29	59	500	lei			
ROP9QVD42HO2	20-Jun-24	31-May-27	36	500	lei			
RO0DU3PR9NF9	17-Jun-24	24-Feb-38	167	300	lei			
ROCDG04X8WJ7	17-Jun-24	26-Apr-28	47	500	lei			
ROLGWS4778U3	13-Jun-24	28-May-25	12	600	lei	3,010	2,312	6.02
ROTM7EDD92S2	13-Jun-24	31-Jul-34	123	500	lei	1,240	1,023	6.86
ROXL7LT7QZ66	10-Jun-24	29-Apr-30	72	200	lei	545	300	6.69
RON7NMKOKQG2	10-Jun-24	28-Oct-26	29	500	lei	1,042	797	6.29
ROEDCYTB27Y9	6-Jun-24	31-Mar-25	10	600	lei	2,381	2,331	6.03
RO1JS63DR5A5	6-Jun-24	28-Apr-31	84	500	lei	606	480	6.75
ROJVM8ELBDU4	3-Jun-24	25-Apr-29	60	500	lei	490	460	6.62
ROWLVEJ2A207	3-Jun-24	30-Oct-33	115	500	lei	458	403	6.82

Focus Ahead: 17 – 21 June

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
17-Jun-2024	Romania	Industrial Sales (% yoy)	Apr			-0.5
18-Jun-2024	GE	ZEW Survey – Current Situation (index)	Jun	-65.0	-64.4	-72.3
	GE	ZEW Survey – Expectations (index)	Jun	50.0	50.0	47.1
	US	Retail Sales (% mom)	May	0.2	0.3	0.0
	US	Industrial Production (% mom)	May	0.3	0.4	0.0
20-Jun-2024	GE	Producer Price Index, PPI (% yoy)	May	0.0		-3.3
	EMU	European Commission Consumer Confidence (%)	Jun	-14.0	-13.6	-14.3
21-Jun-2024	GE	Composite PMI (index)	Jun	52.4	52.8	52.4
	GE	Services PMI (index)	Jun	53.5	54.5	54.2
	GE	Manufacturing PMI (index)	Jun	46.5	46.3	45.4
	EMU	Composite PMI (index)	Jun	52.4	52.3	52.2
	EMU	Services PMI (index)	Jun	53.2	53.6	53.2
	EMU	Manufacturing PMI (index)	Jun	48.0	47.8	47.3

Data Source: Bloomberg

Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023	2024F	2025F
GDP (EUR bn)	241.7	284.1	321.7	351.5	376.0
Population (mn)	19.2	19.0	19.1	19.0	19.0
GDP per capita (EUR)	12,567	14,918	16,885	18,476	19,793
Real economy, change (%)					
GDP	5.7	4.1	2.1	2.7	1.9
Private Consumption	7.2	5.8	2.9	3.0	1.3
Fixed Investment	2.9	5.9	12.0	6.5	3.4
Public Consumption	1.8	-3.3	2.8	1.9	-0.4
Exports	12.6	9.7	-2.1	4.0	4.9
Imports	14.8	9.5	-1.8	5.5	3.9
Monthly wage, nominal (EUR)	1175	1303	1489	1698	1773
Real wage, change (%)	2.0	-2.2	3.6	8.2	0.2
Unemployment rate (%)	5.6	5.6	5.6	5.5	5.6
Fiscal accounts (% of GDP)					
Budget balance	-7.2	-6.3	-6.3	-6.3	-4.7
Primary balance	-5.7	-4.2	-4.4	-4.4	-2.9
Public debt	48.5	47.5	49.1	50.4	51.9
External accounts					
Current account balance (EUR bn)	-17.5	-26.0	-22.7	-23.2	-19.1
Current account balance/GDP (%)	-7.2	-9.2	-7.1	-6.6	-5.1
Extended basic balance/GDP (%)	-1.5	-3.6	-3.0	-2.7	-1.1
Net FDI (% of GDP)	3.7	3.1	2.0	1.8	1.8
Gross foreign debt (% of GDP)	56.5	50.7	52.5	50.5	49.3
FX reserves (EUR bn)	40.5	46.6	59.8	57.8	58.2
Months of imports, goods & services	4.3	3.9	5.1	4.6	4.5
Inflation/Monetary/FX					
CPI (pavg)	5.0	13.7	10.5	6.1	5.6
CPI (eop)	8.2	16.4	6.6	5.6	5.6
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	4.50
3M money market rate (Dec avg)	2.83	7.66	6.25	5.55	4.58
USDRON (eop)	4.37	4.64	4.56	4.45	4.49
EURRON (eop)	4.95	4.95	4.97	4.99	5.07
USDRON (pavg)	4.16	4.68	4.57	4.49	4.43
EURRON (pavg)	4.92	4.93	4.95	4.98	5.04

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