

## Macroeconomic and Strategic Analysis

UniCredit Weekly Report



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# Romania's current account deficit accelerated its growth in August

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21 October, 2024

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## Weekly briefing

**US industrial production decreased more than expected, by -0.3%mom in September, from +0.3%mom in August. The decrease is mostly due to the effects of two hurricanes and a strike in a major producer of civilian aircrafts, which held down the growth of the industrial production. On an annual basis, the industrial production dropped to 0.6%yoy. The US retail sales increased to 0.4%mom in September beating expectations, up from last month's 0.1%. This signaled that the consumer spending remains resilient.**

**Industrial production in the euro area increased by 1.8%mom in August 2024, surpassing market expectations, more than offsetting the drop recorded in July. The ZEW growth expectations' index increased more than expected, to 13.1 in October, from 3.6 in September. However, the ZEW current conditions' index continued to decline in October to -86.9 (from -84.5 in September), reaching the lowest point since May 2020. The ECB cut its deposit rate by a further 25bp to 3.25%, as widely expected. The refi rate and the marginal lending facility rate have subsequently gone down by 25 bp to 3.40% and 3.65%, respectively. This is the first back-to-back cut in this cycle (and in the last 13 years), reflecting the latest downside surprises in both growth and inflation data. Three factors seem to have convinced the Governing Council (GC) to depart from a gradual rate descent at a pace of 25bp per quarter: 1. September PMIs signaled renewed weakness in activity, ongoing severe pressure on the manufacturing sector and rising risks to the resilience of the labor market; 2. headline inflation in September decelerated more than the ECB had expected; 3. several other central banks (including the Fed with its bold 50bp cut) have recently adopted more dovish stances. The pace of easing will likely slow once the deposit rate reaches 2.5%, a level that the majority of the GC seems to regard as broadly neutral. UniCredit expects the deposit rate to reach a terminal level of 2% in September 2025.**

**The current account deficit increased slightly less than expected in the first eight months of 2024 to EUR 17.8bn, while accelerating to +29.1% compared to the same period of the previous year. The goods' trade deficit (EUR -20.7bn) slightly decelerated to 38.6%yoy in August and 14.6%yoy in 8M 2024. The services' surplus was EUR 8.1bn, lower by -9.5%yoy in 8M 2024, as most categories recorded a surplus. 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. Industrial production increased by 1.1%mom in August (seasonally adjusted data), and declined by 2.0%yoy, while we were expecting a smaller decline.**

**This week, the German Composite PMI (index) is expected to appreciate to 47.9, followed by the Eurozone Composite PMI which will likely improve in October (Thursday). The European Commission Consumer Confidence indicator is expected to worsen slightly (Wednesday), while the German Ifo Indicators look to remain unchanged in October (Friday). In Romania, the money supply m3 figures (% , yoy) will be published on Wednesday.**

## Data spotlight: 14 – 18 October

### CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	10852	-0.14%	-2.39%
EURCHF	149.60	-0.39%	5.14%
USDJPY	131	0.30%	-0.79%
GBPUSD	12360	-0.42%	4.36%

### CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.3180	0.31%	1.10%
EURHUF	401.60	0.45%	1.81%
EURCZK	25.28	0.24%	0.81%

### CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (t)
21-Oct	ned ln			

### CURRENCIES - RON

	EURRON	USDRON
21-Oct	4.973	4.583
18-Oct	4.973	4.577
17-Oct	4.974	4.593

### FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
21-Oct	5.7	6.2	6.2	-
18-Oct	5.7	6.2	6.2	-
16-Oct	5.7	6.2	6.2	6.8

### MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
21-Oct	5.53	5.52	5.55
18-Oct	5.50	5.55	5.60
17-Oct	5.53	5.54	5.60

### MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
18-Oct	3.15	3.20	3.03
17-Oct	3.17	3.22	3.04
16-Oct	3.21	3.21	3.05

### STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,864.7	0.40%	4.39%
FTSE	45,586.0	0.01%	0.07%
Hang Seng	38,954.6	-0.07%	7.08%
Bucharest BET	20,478.5	-1.57%	15.96%

### Romanian Economy

#### ■ Romania's current account deficit accelerated in August

The current account deficit increased slightly less than expected in the first eight months of 2024 to EUR 17.8bn [UniCredit: EUR 18.2bn], accelerating to +29.1% compared to the same period of the previous year. The goods' trade deficit (EUR -20.7bn) decelerated slightly to 14.6%yoy in 8M 2024. The services' surplus was EUR 8.1bn, lower by -9.5%yoy in 8M 2024, 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 August 2024, higher by 7.2%yoy. The primary income deficit increased by EUR 979mn to EUR -6.7bn, up by around 16.9% compared to 8M2023 due to higher capital outflows, while the secondary income recorded a surplus of EUR 448mn, almost 1.5 times higher compared to the same period of 2023. 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.

***Data spotlight: 14 – 18 October*****Romanian Economy (continued)****■ Romanian industrial production increased in August vs. July**

Industrial production increased by 1.1%mom in August (seasonally adjusted data) and declined by 2.0%yoy, while we were expecting a smaller annual decline [UniCredit: -0.8%yoy]. Compared to August 2023, the gross data showed a decrease of 2.6%. Production and the supply of electricity and thermal energy, gas, hot water and air conditioning decreased by -4.7%yoy and manufacturing by -2.0%yoy, while the extractive industry remained at the same level.

## **Data spotlight: 14 – 18 October**

### **European Economy**

#### ■ **The ECB cut its deposit rate by another 25bp to 3.25% in October**

Last Thursday, the ECB cut its deposit rate by a further 25bp to 3.25%, as widely expected. The refi rate and the marginal lending facility rate have subsequently gone down by 25 bp to 3.40% and 3.65%, respectively. This is the first back-to-back cut in this cycle (and in the last 13 years), reflecting the latest downside surprises in both growth and inflation data. Three factors seem to have convinced the Governing Council (GC) to depart from a gradual rate descent at a pace of 25bp per quarter. First, the September PMIs signaled renewed weakness in activity, ongoing severe pressure on the manufacturing sector and rising risks to the resilience of the labor market. Most members of the GC now seem to think that downside risks to the ECB's growth forecast (which was published just a month ago) are already materializing. Second, headline inflation in September decelerated more than the ECB had expected. Third, several other central banks (including the Fed with its bold 50bp cut) have recently adopted more dovish stances, signaling a shift in the balance of risks surrounding the outlook for inflation and growth. Following the rate cut announcement, Ms. Lagarde said "We expect the economy to strengthen over time, as rising real incomes allow households to consume more. The gradually fading effects of restrictive monetary policy should support consumption and investment, exports should contribute to the recovery," while also making the statement that the ECB is "not pre-committing to a particular rate path", further mentioning "we thought it was the appropriate decision to make in view of the moment, in view of the indicators that we have, and our assessment of this disinflationary process that is really underway and well on-track". UniCredit expects 25bp cuts at consecutive meetings until March. The pace of easing will likely slow once the deposit rate reaches 2.5%, a level that the majority of the GC seems to regard as broadly neutral. UniCredit expects the deposit rate to reach a terminal level of 2% in September 2025.

#### ■ **Industrial production in the euro area increased in August**

Industrial production in the euro area increased by 1.8%mom in August 2024, surpassing market expectations [UniCredit: 1.6; Consensus: 1.3], more than offsetting the drop recorded in July. National data have surprised to the upside, thanks to a stronger-than-expected monthly rebound in manufacturing production, especially in the automotive sector. Output decrease against the previous month were recorded only in intermediate goods (-0.3%), while increases were reported in several sectors like capital goods (+3.7%), durable consumer goods (+1.7%), energy (+0.4) and non-durable consumer goods (+0.2%). On an annual basis, industrial output contracted by 2.1% in August.

***Data spotlight: 14 – 18 October*****European Economy****■ German investor morale soared in October**

The ZEW growth expectations' index increased more than expected, to 13.1 in October [UniCredit; -2.0; Consensus: 8.0], from 3.6 in September. This rise in economic sentiment in Germany ends a period of three consecutive decreases and it may be due to "expectation of stable inflation rates and the associated prospect of further interest rate cuts by the ECB. Positive signals are also coming from Germany's export markets. Economic expectations for the eurozone, the USA, and China have also significantly improved. The increased optimism for China is likely linked to the Chinese government's economic stimulus measures", said ZEW President Professor Achim Wambach. However, the ZEW current conditions' index continued to decline in October to -86.9 (from -84.5 in September), reaching the lowest point since May 2020.

**Data spotlight: 14 – 18 October****US Economy****■ US industrial production decreased in September**

US industrial production decreased more than expected, by -0.3%mom in September [UniCredit: -0.1%, consensus: -0.1%] after +0.3%mom in August. The decrease is mostly due to the effects of two hurricanes and a strike in a major producer of civilian aircrafts, which held down the growth of the industrial production. Manufacturing, which accounts for 78% of total production, dropped -0.4%mom, while consensus forecasted a -0.1%mom fall. Also, the mining went down by -0.6%mom, while utilities increased 0.7%mom. On an annual basis, the industrial production dropped to 0.6%yoy.

**■ US retail sales increased in September**

The US retail sales increased to 0.4%mom in September beating expectations [UniCredit: 0.1%, consensus:0.2%], up from last month's 0.1%. This signaled that the consumer spending remains resilient. The spending increase was focused primarily on miscellaneous store retailers (4%), followed by clothing (1.5%), health and personal care stores (1.1%) and food and beverages stores (1%). However, sales at electronics and appliance stores sank 3.3% and other decreases were reported at gasoline stations (-1.6%); and furniture stores (-1.4%), while sales at auto dealers flattened.

## Data spotlight: 14 – 18 October

### International and Romanian Markets

#### ■ The EURRON returned close to 4.97 last week

After starting last week on an increasing path and staying above 4.9740, the EURRON traded with a downward bias since Thursday and stood within the 4.9720-4.9758 range. The EURRON closed the week at 4.9725, slightly lower vs. the previous week. We continue to expect a gradual uptrend.

#### ■ The ROBOR curve was almost stable last week

Given the abundant liquidity, the ROBOR curve remained almost flat last week, with all the maturities close to the deposit facility. The O/N-1W segment closed last week at 5.52% and the 1M-3M segment within the 5.53%-5.55% range.

#### ■ MinFin auctions

Last Monday, the Ministry of Finance held an auction for a T-bond with maturity of 2.7 years. The bids did not cover the planned amount, at RON 624.1mn vs. RON 700mn, enabling MinFin to place RON 604.1mn. The average accepted yield was 6.22% (max. 6.23%), which is 1bp above the yield paid at the previous reopening one month and a half ago.

Last Thursday, the Ministry of Finance held an auction for a T-bond with maturity of 10.5 years. The bids covered the planned amount, at RON 841.4mn vs. RON 400mn, enabling MinFin to place RON 511.4mn. The average accepted yield was 6.82% (max. 6.82%), which is 3bp above the yield at the previous reopening one month ago.

#### ■ FX markets

The erosion of EUR-USD continues, although the pair managed to remain above 1.08, the break of which would represent the complete reversal of the rally that started in August when the pair failed to climb above 1.12 and then slipped back below 1.10. Firmer-than-expected data releases in US (such as retail sales) are favoring the USD, calling for a slower Fed easing at a time when markets are also evaluating the intensity of further rate cuts by ECB. Signs that investors are exploring a “Trump trade” on prospects of his victory in 5 November US presidential election are also supporting the USD. UniCredit thinks that if it breaks below 1.08, EUR-USD might remain trapped at around 1.07 rather than rapidly extending its fall towards 1.05. Such a scenario would require bolder assumptions about the resilience of the US economy and the deterioration of the economic picture in Eurozone. However, despite stabilization above 1.0840, a recovery back above 1.09 has become challenging for the euro in the absence of US data releases surprising on the weak side.



**Data spotlight: 14 – 18 October****International and Romanian Markets (continued)****■ The Chinese economy is slowing down, need for a new stimulus package**

The Chinese economy expanded by 4.6%yoy in 3Q 2024, slowing from 4.7%yoy growth in the previous quarter and bringing growth for the first nine months of the year to 4.8%yoy, short of the official target of about 5% growth for 2024. This was the slowest pace in six quarters. The POBC disclosed more details of its measures to boost the capital markets immediately after the GDP data has been released. China's benchmark CSI 300 Index of onshore stocks rebounded from earlier losses to almost 3.6% higher, after the central bank announced that it will resume the re-lending facility for the listed companies and their major shareholders to buy back shares. Stocks also got a boost from China's President Xi Jinping's call for efforts to achieve the economic goals for 2024 and the financial support the government will provide to the tech companies.

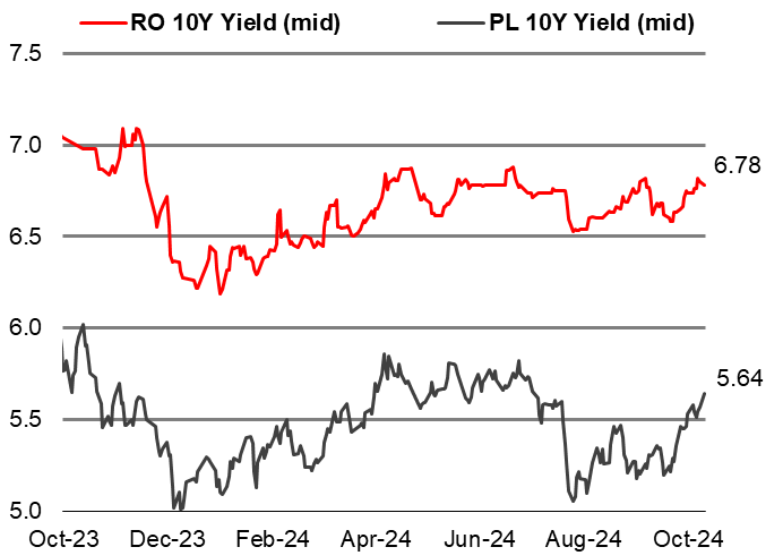
The new home prices fell for a 16th consecutive month in September, at almost the same pace as in August, showing the RE market did not stabilize and need PBOC to continue the policy easing. The PBOC Governor acknowledged that the real estate and the stock markets are for the time being the main challenges the Chinese economy is facing.

On a positive note, the retail sales accelerated in September to 3.2% (after 2.1% in August), supported by the government subsidies for upgrading consumer goods. Home appliances sales saw a 21%yoy surge in September, from 3%yoy in the previous month. The higher subsidies for car purchase paid off, with the auto sales snapping a six-month declining streak.

China's economy is expected to perform better in 4Q 2024, sustained by the new stimulus measures.

## Focus Ahead: 21 – 25 October

### MinFin Issues



Data Source: Thomson Reuters

- The Romanian yield curve continued to increase the last week, mostly at the long end, with the 5Y-10Y segment up by 6-7bp, according to the fixing levels. The 1Y-3Y segment rose only slightly, by 2-4bp. The uptrend was in line with the rise seen for global yields.
- This week, MinFin intends to place RON 500mn in 4.5Y T-bonds on Monday, as well as RON 300mn in 8M T-bills on Thursday.

#### BOND ISSUES - OCTOBER

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
ROZBOC49U096	31-Oct-24	30-Oct-28	48.7	500lei				
RO0DU3PR9NF9	28-Oct-24	24-Feb-38	162.2	400lei				
ROIVMY4DBH93	24-Oct-24	25-Jun-25	8.1	300lei				
ROJVM8ELBDU4	21-Oct-24	25-Apr-29	54.9	500lei				
RODFIU7ZV55	17-Oct-24	25-Apr-35	128.1	400lei		841	511	6.82
ROP9QVD42HO2	14-Oct-24	31-May-27	32.0	700lei		624	604	6.22
ROTM7EDD92S2	10-Oct-24	31-Jul-34	119.4	500lei		1,023	571	6.75
RO7YFU3JCQI9	10-Oct-24	29-Sep-25	11.8	700lei		573	418	5.84
ROCDG04X8WJ7	7-Oct-24	26-Apr-28	43.2	500lei		1,233	500	6.34
RO7EKTXRHD6	3-Oct-24	28-Jan-26	16.1	700lei		1,461	906	6.02
RO07A2H5YIN8	3-Oct-24	25-Feb-32	90.0	500lei		869	514	6.63

**Focus Ahead: 21 – 25 October**

**Data Calendar**

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
23-Oct-2024	Romania	Money supply m3 (% yoy)	Sep			10.8
	EMU	European Commission Consumer Confidence	Oct	-12.5	-12.3	-12.0
24-Oct-2024	GE	Composite PMI (index)	Oct	47.9	47.5	47.5
	GE	Services PMI (index)	Oct	51.00	51.00	50.60
	GE	Manufacturing PMI (index)	Oct	41.00	40.80	40.60
	EMU	Composite PMI (index)	Oct	50.0	-	49.6
	EMU	Services PMI (index)	Oct	51.7	51.5	51.4
	EMU	Manufacturing PMI (index)	Oct	45.4	45.1	45.0
25-Oct-2024	GE	Ifo Business Climate (index)	Oct	85.4	85.8	85.4
	GE	Ifo Expectations (Index)	Oct	86.6	87.0	86.3
	GE	Ifo Current Assessment (Index)	Oct	84.30	84.40	84.40
	EMU	M3 Money Supply (% yoy)	Sep	2.70	2.90	2.90

Data Source: Bloomberg

## Economic Forecasts

### MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023	2024F	2025F
GDP (EUR bn)	241.7	284.1	324.6	349.6	374.5
Population (mn)	19.2	19.0	19.1	19.1	19.0
GDP per capita (EUR)	12,567	14,917	17,035	18,346	19,685
Real economy, change (%)					
GDP	5.7	4.1	2.1	1.7	1.9
Private Consumption	7.2	5.8	2.8	5.8	2.2
Fixed Investment	2.9	5.9	14.4	4.6	4.2
Public Consumption	1.8	-3.3	6.0	0.7	-0.4
Exports	12.6	9.7	-1.4	-0.9	4.7
Imports	14.8	9.5	-1.4	5.8	4.9
Monthly wage, nominal (EUR)	1175	1303	1489	1717	1807
Real wage, change (%)	2.0	-2.2	3.6	9.7	1.7
Unemployment rate (%)	5.6	5.6	5.6	5.4	5.6
Fiscal accounts (% of GDP)					
Budget balance	-7.2	-6.3	-6.6	-7.4	-6.0
Primary balance	-5.7	-4.2	-4.7	-5.5	-4.2
Public debt	48.5	47.5	48.8	51.8	53.2
External accounts					
Current account balance (EUR bn)	-17.5	-26.0	-22.6	-24.6	-22.5
Current account balance/GDP (%)	-7.2	-9.2	-7.0	-7.0	-6.0
Extended basic balance/GDP (%)	-1.5	-3.6	-2.9	-3.2	-2.1
Net FDI (% of GDP)	3.7	3.1	2.0	2.0	2.0
Gross foreign debt (% of GDP)	56.5	50.7	52.4	52.8	52.9
FX reserves (EUR bn)	40.5	46.6	59.8	59.7	60.6
Months of imports, goods & services	4.3	3.9	5.0	4.9	4.8
Inflation/Monetary/FX					
CPI (pavg)	5.0	13.7	10.5	5.8	4.7
CPI (eop)	8.2	16.4	6.6	5.0	4.4
Central bank target	2.50	2.50	2.50	2.50	2.50
Central bank reference rate (eop)	1.75	6.75	7.00	6.50	5.00
3M money market rate (Dec avg)	2.83	7.66	6.25	5.66	4.72
USD RON (eop)	4.37	4.63	4.50	4.49	4.49
EUR RON (eop)	4.95	4.95	4.97	4.99	5.07
USD RON (pavg)	4.16	4.68	4.57	4.55	4.51
EUR RON (pavg)	4.92	4.93	4.95	4.98	5.04

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