

## Macroeconomic and Strategic Analysis

UniCredit Weekly Report



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## The minutes of NBR's monetary policy meeting reveal unanimous decision to keep the key rate at 7% in April

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## Weekly briefing

Last week, strong retail sales data added to evidence of robust momentum in the US economy. **US Retail sales increased by 0.7%mom in March**, down from an upwardly revised 0.9% increase in February. In general, **spending momentum is probably fading as the savings buffer has been depleted** for all but the top 20% of earners, borrowing costs remain high, and the labor market is gradually softening. **US Industrial production rose by 0.4%mom in March**, after an upwardly revised 0.4%mom increase in February. **In 1Q, industrial production fell by 1.8%yoy**, with factory and mining outputs down by 0.1% and by 1.4%, respectively.

**Fed Chair Powell acknowledged a “lack of further progress” on price stability this year**, suggesting that **rate cuts are likely to be postponed**. UniCredit Research is revising the **US GDP growth forecast up to 2.4%yoy this year** (previously 1.8%yoy) and to 1.2%yoy next year (previously 1.0%yoy). UniCredit Research still sees a slowdown in sequential growth this year, but a shallower one than was previously forecasted. The **CPI inflation forecast moved up slightly to 3.1%yoy for this year** (previously 2.9%yoy) and to 1.9%yoy for next year (from 1.8%yoy), reflecting stronger recent outturns and a smaller margin of spare capacity later this year. UniCredit Research is pushing back their expectation for the timing of the **first rate cut to September** from June previously.

**ECB speakers confirmed that a first rate reduction is likely to occur in June. Eurozone industrial production increased by 0.8%mom in February**, after a 3%mom decline in January. Signs of improvement in global trade might start to reduce the downward pressure on eurozone industrial activity in the coming months. **The German ZEW growth expectations index rose to 42.9 in April** from 31.7 points in March. This is the ninth consecutive increase and the highest level since February 2022, when the Russia-Ukraine war started. The major triggers were expectations of a further bottoming-out in German economic activity and the DAX remaining close to its record high.

**The minutes of NBR’s monetary policy meeting held on 4 April revealed that the decision to keep the key rate unchanged at 7.00% was unanimous**. According to the latest estimates, Board members expect **annual inflation to continue the downtrend in the following months, but at a lower pace than in 2023**. At the same time, they mentioned upside risks to their February 2024 medium-term forecast, which included an estimation of 4.7% for annual inflation at the end of 2024 and 3.5% at the end of 2025. This is more in line with our forecast, as **we do not expect a return inside the 1.5%-3.5% target range in 2024-25**. We expect headline inflation to be around 5.6% both at the end of 2024 and in 2025. We expect the **NBR to start cutting the policy rate in May, bringing it to 6% by the end of 2024**, thus locking in the easing achieved through loose liquidity conditions.

This week, in the **eurozone, the composite PMI and the German Ifo Business Climate Index** are **likely to rise further in April** (Tuesday and Wednesday). The **US economy likely grew** a solid 2.4% annualized (0.6% non-annualized) in 1Q24 (Thursday), while the **US core PCE deflator likely rose** by 0.3%mom in March, with the risks skewed to the downside (Friday). The calendar for **Romania** is light, including only **monetary indicators** (Wednesday).

## Data spotlight: 15 – 19 April

### CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0640	-0.16%	-2.58%
EURCHF	154.56	-0.06%	2.38%
USDJPY	1.24	-0.53%	-2.73%
GBPUSD	1.2360	-0.42%	4.36%

### CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.3190	0.26%	0.23%
EURHUF	394.00	-0.13%	0.08%
EURCZK	25.27	0.17%	0.35%

### CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
22-Apr	4.9758	4.6712	6.1419	354.47

### CURRENCIES - RON

	EURRON	USDRON
22-Apr	4.976	4.677
19-Apr	4.977	4.670
18-Apr	4.976	4.675

### FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
22-Apr	6.0	6.0	6.2	6.8
17-Apr	6.0	6.0	6.2	6.9

### MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
22-Apr	6.00	6.15	6.05
19-Apr	6.00	6.00	6.04
18-Apr	6.00	6.12	6.04

### MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
19-Apr	3.84	3.89	3.85
18-Apr	3.86	3.90	3.84
17-Apr	3.83	3.90	3.84
USD Libor	1M	3M	6M
19-Apr	5.43	5.59	5.73
18-Apr	5.43	5.59	5.73
17-Apr	5.43	5.59	5.73

### STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	4,967.2	-0.88%	-4.08%
FTSE	8,025.8	1.65%	3.73%
Hang Seng	16,511.7	1.77%	-0.11%
Bucharest BET	16,881.7	0.26%	0.76%

## Romanian Economy

### ■ The minutes of NBR's monetary policy meeting held on April 4, 2024

NBR's Board decision on April 4 to keep the key rate unchanged at 7.00%, was taken unanimously.

The main takeaways from the minutes are:

- The annual inflation rate declined to 7.2%yoy in February 2024, after it accelerated in January to 7.4% due to several tax increases. It was observed that core inflation experienced a continued decline in January-February 2024, albeit a reduced rate compared to the preceding two quarters. The decrease saw the rate drop to 7.6% in February 2024 from 8.4% in December 2023, due to a significant deceleration in processed food prices.
- The industrial producer prices on the domestic market declined at a slower rate in January and experienced a slight increase in February. Although financial analysts' longer term inflation expectations decreased between February and March, they remained above the target variation band. Despite the rise in inflation rate at the beginning of the year, consumer purchasing power was only moderately impacted, remaining robust due to the dynamics of net real wage.
- The GDP decreased by 0.5%qoq in 4Q23, more than expected, after a previous increase of 1%qoq in 3Q23. On the contrary, the annual GDP growth rate

## **Data spotlight: 15 – 19 April**

### **Romanian Economy (continued)**

increased to 3%yoy in 4Q23, up from 1.9%yoy in the previous quarter. During this period, the economic growth continued to be primarily supported by gross fixed capital formation and by households' consumption. However, there was a notable contraction in the contribution of net exports in 4Q23, as the annual change in imports of goods and services rebounded, surpassing that of exports. Consequently, both the trade deficit and the current account deficit recorded an annual increase in 4Q23, following three quarters of decline.

- Regarding the labor market, Board members observed a relaxation of market pressures in 4Q23. However, signals regarding specific parameters in 1Q24 and the near future were mixed. While the ILO unemployment rate saw a slight increase at the beginning of 2024 following three quarters of relative stagnation around an average level of 5.6%, the numbers of employees across the economy resumed its monthly growth in December 2023 and continued at a similar pace in January 2024. Structural weaknesses in the labor market and the dynamics of public sector wages, combined with the anticipated rise in the gross minimum wage, are expected to potentially exacerbate wage and labor cost pressures in the private sector in the short term.
- The interbank money market rates were stable in February and in the early part of March, and declined only mild towards the end of the quarter, in line with the trend in the advanced economies and in the region.
- Throughout February, the EUR-RON exchange rate remained at the elevated levels reached in mid-January, before undergoing a slight downward correction. By March, it had returned to and stabilized around the values seen in 4Q23. The risks for depreciation remained high due to the still sizable external deficit, the high uncertainties related to the fiscal consolidation and the current geopolitical tensions.

According to the latest estimates, Board members expect annual inflation to continue the downtrend in the following months, but at a lower pace than in 2023. At the same time, they mentioned upside risks to their February 2024 medium-term forecast, which included an estimation of 4.7% for annual inflation at the end of 2024 and 3.5% at the end of 2025. This is more in line with our forecast, as we do not expect a return inside the 1.5%-3.5% target range in 2024-25. We expect headline inflation to be around 5.6% both at the end of 2024 (due to strong domestic demand) and in 2025 (due to higher taxes needed to correct the budget deficit). We expect the NBR to start cutting the policy rate in May, bringing it to 6% by the end of 2024, thus locking in the easing achieved through loose liquidity conditions. Weaker domestic demand is likely to lead to a return of core inflation, excluding tax changes, inside the 1.5-3.5% target range by spring 2025. In light of this, we expect the NBR to focus on inflation excluding tax changes and to cut the policy rate further to 4.5% in 2025, as a faster-than-expected narrowing of the output gap would warrant key rate cuts.

**Data spotlight: 15 – 19 April****European Economy****■ Eurozone industrial production increased in February**

Industrial production increased by 0.8%mom in February [UniCredit Research: 1%mom; consensus: 0.8%], after a 3%mom decline in January (which largely reflected a sharp drop in Ireland's output). On a yearly basis, the industrial production decreased by 6.4%yoy, extending the 6.6%yoy contraction observed in the previous month. The latest round of PMIs indicated that manufacturing activity had bottomed out, although it remains in recessionary territory (below 50). Signs of improvement in global trade might start to reduce the downward pressure on eurozone industrial activity in the coming months.

**■ German investor morale continued to increase in April**

The ZEW growth expectations index rose to 42.9 in April [UniCredit Research: 35; consensus: 35.9] from 31.7 points in March. This is the ninth consecutive increase and the highest level since February 2022, when the Russia-Ukraine war started. The major triggers were expectations of a further bottoming-out in German economic activity and the DAX remaining close to its record high. The current situation component increased slightly to -79.2, remaining at a very low level.

## **Data spotlight: 15 – 19 April**

### **US Economy**

#### **■ UniCredit Research revises its outlook for the US**

UniCredit Research is revising the US GDP growth forecast up to 2.4%yoy this year (previously 1.8%yoy) and to 1.2%yoy next year (previously 1.0%yoy). UniCredit Research still sees a slowdown in sequential growth this year, but a shallower one than was previously forecast. The CPI inflation forecast moves up slightly to 3.1%yoy for this year (previously 2.9%yoy) and to 1.9%yoy for next year (from 1.8%yoy), reflecting stronger recent outturns and a smaller margin of spare capacity later this year.

UniCredit Research is pushing back their expectation for the timing of the first rate cut to September from June previously. Speaking in Washington on 16 April, Fed Chair Powell said, “The recent data have clearly not given us greater confidence and instead indicate that it’s likely to take longer than expected to achieve that confidence [before it can cut rates]”. He added, “it’s appropriate to allow restrictive policy further time to work”. UniCredit Research now sees a total of 75bp of cuts this year (previously 125bp), followed by 125bp of cuts next year (previously 100bp). This is still dovish compared to both financial market expectations and the likely FOMC median projection when it updates its “dot plot” on 12 June.

#### **■ US retail sales continued to increase in March**

US Retail sales increased by 0.7%mom in March, above expectations [UniCredit Research and consensus: 0.3%], down from an upwardly revised 0.9% increase in February and after the weather-related slump of -1.1% in January. The drivers were sales at non-store retailers (2.7%mom), gasoline stations (2.1%mom), miscellaneous store retailers (2.1%mom) and building materials and garden equipment (0.7%mom). On an annual basis, retail sales advanced by 4%yoy. In general, spending momentum is probably fading as the savings buffer has been depleted for all but the top 20% of earners, borrowing costs remain high, and the labor market is gradually softening.

#### **■ US Industrial production stagnated in February**

US Industrial production rose by 0.4%mom in March [UniCredit Research: 0.3%; consensus: 0.4%], after an upwardly revised 0.4%mom increase in February. Manufacturing output increased by 0.5%mom in March after rebounding by 0.8%mom in February following the weather-related 1.1% contraction in January. The driver was motor vehicles and parts, which increased by 3.1%mom. Aggregate weekly hours of production and non-supervisory employees in the manufacturing sector rose by only 0.1%mom in March. In 1Q, industrial production fell by 1.8%yoy, with factory and mining outputs down by 0.1% and by 1.4%, respectively.

## Data spotlight: 15 – 19 April

### International and Romanian Markets

#### ■ The EURRON increased last week to a higher trading range

The EURRON traded with an upward bias last week, within the 4.9715-4.9770 range and ended the week at 4.9765, 30pips up compared to the closing of the week before. Although the move was more ample in the first two days of last week, the currency pair stabilized within the 4.97-4.98 range for the remainder of the week. The currency pair could hover around this range for now, as we expect the RON depreciation to be only gradual.

#### ■ The entire ROBOR curve continued to experience only marginal moves

Last week the ROBOR curve was relatively stable for all maturities, as excess liquidity remains abundant. The O/N-1W segment closed the week within the 6.01%-6.02% interval, marginally up from the end of the week before, while the 1M-3M segment closed inside 6.01%-6.07%.

#### ■ MinFin auctions

Last Monday, the Ministry of Finance held an auction for a T-bond with residual maturity of 4.1 years. Bids covered the planned amount, at RON 994.8mn vs. RON 400mn, enabling MinFin to place RON 512.6mn. The average accepted yield was 6.24% (max 6.25%).

Last Thursday, the Ministry of Finance held an auction for a T-bond with residual maturity of 6 years. Bids covered the planned amount, at RON 870.5mn vs. RON 600mn, enabling MinFin to place RON 600.5mn. The average accepted yield was 6.21% (max 6.21%), down 33bp from the previous reopening one month ago.

#### ■ FX markets

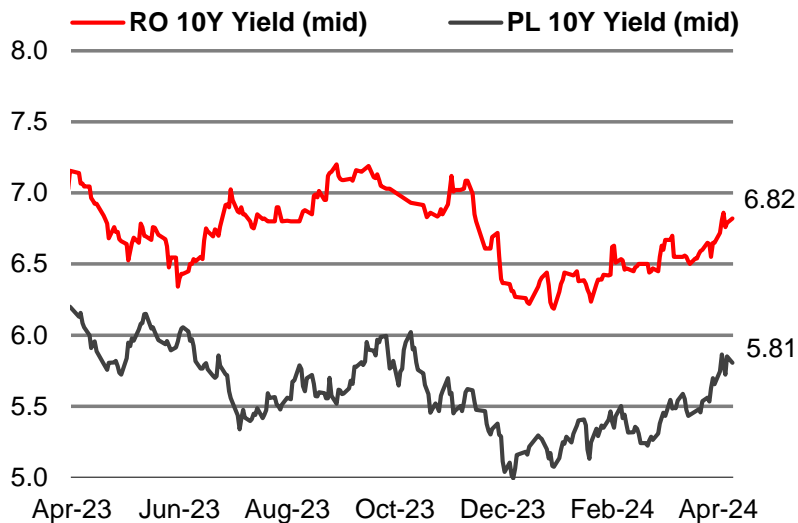
In FX, the further appreciation of the USD on the back of rising tensions in the Middle East has been progressively absorbed and majors have now returned to less-overstretched levels against the US unit. Overall, the greenback remains broadly firm, but the US Dollar Index (DXY) is around 106 compared to the peak over 106.50 reached last week. EUR-USD has also recovered above 1.0650.

#### ■ Chinese GDP continued to increase in 1Q24

GDP growth accelerated in 1Q24, rising to 5.3%yoy from 5.2%. In qoq terms, it jumped to 1.6% from 1.0%. The pickup was driven by fixed-asset investment, which grew at 4.5%yoy, with public investment growing at 7.8%yoy. However, the overall performance seems unlikely to be sustainable. Looking at data for the year to March, industrial production decelerated to 6.1%yoy from 7.0%, while retail sales moderated to 4.7%yoy from 5.5%. The GDP data reduces pressure on the government to adopt major policy stimulus but the deceleration in March data points to activity losing momentum.

## Focus Ahead: 22 – 26 April

### MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields increased last week by up to 11bp on the long end due to the geopolitical tensions and contagion from the global upward pressure, while the short end was relatively stable.
- The 10Y Bund yield has moved up towards 2.50%, which has proven a resistance level again. The 10Y UST yield touched 4.65% before easing back slightly.
- This week, MinFin intends to place 500mn in 3.3Y T-bonds on Monday together with 400mn in 2.5Y T-bonds and in 9.6Y T-bonds on Thursday.

#### BOND ISSUES - APRIL

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO7EKTXRHD6	29-Apr-24	28-Jan-26	21	500lei				
ROJVM8ELBDU4	29-Apr-24	25-Apr-29	61	500lei				
ROWLVEJ2A207	25-Apr-24	30-Oct-33	116	400lei				
RON7NMKOKQG2	25-Apr-24	28-Oct-26	31	400lei				
ROP9QVD42HO2	22-Apr-24	31-Jul-27	40	500lei				
ROXL7LT7QZ66	18-Apr-24	29-Apr-30	73	600lei		871	601	6.61
ROCDG04X8WJ7	15-Apr-24	26-Apr-28	49	400lei		995	513	6.24
RO1JS63DR5A5	11-Apr-24	28-Apr-31	86	400lei		719	580	6.58
ROLDTSD4N4L2	8-Apr-24	26-Mar-25	12	400lei		1,841	1,544	6.02
RO0DU3PR9NF9	8-Apr-24	24-Feb-38	169	300lei		223	0	
RO7EKTXRHD6	4-Apr-24	28-Jan-26	22	400lei		1,536	891	6.04
ROTM7EDD92S2	4-Apr-24	31-Jul-34	126	400lei		469	400	6.63
RO9ZKMFLS2K3	1-Apr-24	23-Oct-24	7	400lei		1,087	917	6.01
ROJVM8ELBDU4	1-Apr-24	25-Apr-29	62	400lei		1,238	1,022	6.36



**Focus Ahead: 22 – 26 April**

## Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
22-Apr-2024	EMU	European Commission Consumer Confidence (%)	Apr	-15.0	-14.3	-14.9
23-Apr-2024	GE	Composite PMI (index)	Apr	48.4	48.6	47.7
	GE	Services PMI (index)	Apr	50.5	50.5	50.1
	GE	Manufacturing PMI (index)	Apr	43.0	42.8	41.9
	EMU	Composite PMI (index)	Apr	50.8	50.8	50.3
	EMU	Services PMI (index)	Apr	51.9	51.9	51.5
	EMU	Manufacturing PMI (index)	Apr	46.8	46.5	46.1
24-Apr-2024	GE	Ifo Business Climate (index)	Apr	88.8	88.9	87.8
	GE	Ifo Expectations (Index)	Apr	89.0	88.5	87.5
	GE	Ifo Current Assessment (Index)	Apr	88.6	88.9	88.1
	Romania	M3 Money Supply (% yoy)	Mar			10.7
25-Apr-2024	US	Real GDP (% qoq annualized)	1Q	2.4	2.3	3.4
26-Apr-2024	EMU	M3 Money Supply (% yoy)	Mar	0.5	0.6	0.4
	US	PCE Core Inflation (% yoy)	Mar	2.7	2.7	2.8
	US	PCE Core Inflation (% mom)	Mar	0.3	0.3	0.3
	US	Personal Expenditures (% mom)	Mar	0.6	0.6	0.8
	US	Personal Income (% mom)	Mar	0.5	0.5	0.3

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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- k) UniCredit Bank Romania (UniCredit Bank S.A.), Bucharest 1F Expozitiei Boulevard, 012101 Bucharest 1, Romania  
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- l) UniCredit Bank AG New York Branch (UniCredit Bank, New York), 150 East 42nd Street, New York, NY 10017  
Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany and New York State Department of Financial Services, One State Street, New York, NY 10004-1511
- Further details regarding our regulatory status are available on request.

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