

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



The NBR minutes of its monetary policy meeting held on 5 July 2024

22 July, 2024

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Weekly briefing

Yesterday, US President Joe Biden withdrew from the presidential race. Although he endorsed the Vice President Kamala Harris as the Democratic nominee, she does not automatically become the party's official nominee, she has now to win the majority at the party's official nominating convention on 19 August. Last week, the US retail sales stagnated in June (+0.3%mom in May), due to the lower auto and gasoline sales. Excluding gasoline, US retail sales rose by 0.2%mom. A less buoyant labor market, tight credit conditions and reduced savings buffers will continue to weigh on private-consumption growth. The US Industrial production slowed down to 0.6%mom in June (+0.9% in May), while up more than expected.

On Thursday, ECB let the monetary policy rate unchanged at 4.25%, as expected, and did not provide any guidance about a second rate cut yet. Just said that it will remain data-dependent. If the ECB forecasts to be published at its meeting on September 12, will continue to show a decline in inflation to 2% by the end of 2025, the current cautious rate cut approach will likely remain in place. UniCredit Research estimates two more rate cuts this year, probably followed by further easing of 100bp in 2025, at a pace of 25bp per quarter. The Eurozone industrial production declined by -0.6%mom in May, although less than expected [UniCredit Research: -1.1%mom; consensus: -1.0%], after it stagnated in April. The decline softened a bit to -2.9%yoy vs. -3.1%yoy in April. German investor morale (ZEW index) deteriorated more than expected, to 41.8 in July from 47.5 in June, triggered by the decline of exports, the political uncertainty in France and the lack of guidance from ECB on further easing.

In Romania, the NBR published the minutes of its monetary policy meeting held on 5 July 2024. The decision to deliver the first rate cut by 25bp in this easing cycle bringing the key rate at 6.75%, was taken unanimously. NBR took into consideration that annual inflation declined faster than anticipated to 5.1% in May, due to a significant drop in energy prices and further slowing down of food prices. Core inflation continued to temper to 6.3%yoy in May. The NBR estimates that annual inflation rate will continue to decline over the next months, on a significantly lower path than they forecasted in May 2024. We estimate that inflation will remain outside the target range in both 2024 and 2025. We expect the NBR to cut by another 25bp to 6.5% by year-end. We adjusted downward our headline inflation expectation to 4.6% for year-end, with core inflation remaining above CPI by about 0.5-1pp. The current account deficit reached EUR 9.2bn (2.6% of GDP) at the end of May 2024, up by 33.4%yoy driven by the goods' trade deficit (EUR -12.3bn, +13.1%yoy). The services surplus was EUR 5.4bn (-12%yoy), the most categories, except the tourism, recording a surplus, albeit lower as compared with a year before. We expect the C/A deficit to remain at around 7% of GDP in 2024 and to narrow below 6% of GDP amid weaker domestic demand.

This week, the Eurozone ESI should be quite stable (Tuesday), Eurozone and German composite PMIs are likely to rise moderately in July (Wednesday). In Germany, Ifo Business Climate Index should improve in July (Thursday). In US, GDP growth likely expanded at an annualized rate of 1.8%qoq in 2Q24 (Thursday) and core PCE inflation likely stabilized at 0.1% mom (Friday).

Data spotlight: 15 – 19 July

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0891	0.08%	1.37%
EURCHF	157.24	-0.04%	-0.40%
USDJPY	1.29	-0.19%	1.66%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2790	-0.21%	-1.08%
EURHUF	389.00	-0.40%	-1.71%
EURCZK	25.21	0.03%	1.17%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
22-Jul	4.9716	4.5645	6.0561	352.31

CURRENCIES - RON

	EURRON	USD RON
22-Jul	4.972	4.566
19-Jul	4.972	4.568
18-Jul	4.970	4.561

FIXED INCOME MARKET YIELDS - LOCAL

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

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
22-Jul	5.75	5.80	5.80
19-Jul	5.75	5.80	5.80
18-Jul	5.75	5.80	5.80

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
19-Jul	3.63	3.70	3.63
18-Jul	3.63	3.69	3.62
17-Jul	3.60	3.68	3.62
USD Libor	1M	3M	6M
19-Jul	5.46	5.54	5.56
18-Jul	5.46	5.54	5.56
17-Jul	5.46	5.54	5.56

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,505.0	-0.71%	1.05%
FTSE	8,216.9	0.75%	-0.78%
Hang Seng	17,635.9	1.25%	-2.17%
Bucharest BET	18,641.4	-0.11%	2.23%

Romanian Economy

■ The minutes of NBR's monetary policy meeting held on 5 July 2024

NBR's Board decided on July 5 to cut the key rate at 6.75% and start a monetary easing cycle. The NBR Board members were of the unanimous opinion that the recent decline in the annual inflation rate on a significantly lower path than anticipated, but also the still elevated uncertainty requested a prudent lowering of the monetary policy rate.

The main take away from the minute are:

The NBR took into consideration that the annual inflation declined faster in 2Q 2024, to 5.1% in May, below NBR's forecast (May 2024), due to a significant drop in energy prices, mainly natural gas prices, triggered by the legislative changes in April, and a further slowdown of the food prices' growth. The core inflation continued to temper gradually to 6.3%yoy in May mainly due to a base effect and the slower growth of food prices, while it remained unchanged for non-food items and rose slightly for services.

Board members emphasized the numerous diverging factors impacting the core inflation, some with a disinflationary effect such as the base effect, the downward corrections of commodity prices, the lower short-term inflation expectations, and some other with a moderate opposite impact such as the wage rises partly passed through the prices of some goods and services, due to a robust consumer demand, mainly in April (Easter time).

Data spotlight: 15 – 19 July**Romanian Economy (continued)**

The annual GDP growth tempered sharply to 0.1% in 1Q 2024 from 3.0% in 4Q 2023, triggered by the much lower investments as compared to the double digit growth in 4Q 2023, while the household consumption further accelerated. The net exports had a stronger negative contribution in 1Q.

The labour market easing stopped in 1Q 2024 and the employment resumed its fast monthly growth in April. The double-digit annual growth rate of wages, especially in industry, is remaining a source of concern for the NBR due to its potential impact on future inflation and on Romania's external competitiveness. The upward pressure on wages is caused by the mismatch between labour demand and supply in some segments, the public sector wage dynamics and the successive rises of the gross minimum wage. This trend could be offset by the lower annual inflation, the still sluggish external demand and the higher reliance on cheaper workers from outside EU.

The interbank rates remained quite stable in May, then slightly declining, and the average interest rates on new lending shrank considerably in April-May. The long-term yields on government securities declined moderately in mid-2Q 2024, then stabilizing to the higher levels seen in April.

EUR-RON stayed in May-June at the higher levels seen in the second half of April. The depreciation risk remains elevated for RON due to the high twin deficits, uncertainties regarding fiscal consolidation and geopolitical tensions. However, on the short-term, the relative attractiveness of the investments in RON and some seasonal factors could have a stronger influence, in the opposite direction.

The annual growth rate of credit to the private sector rose to 5.8% in April, slowing down to 5.7% in May. The main driver were the loans to households, especially consumer loans in RON. In the case of companies the RON loans slowed down, while the loans in foreign currency increased.

The NBR estimates that the annual inflation rate will continue to decline over the next months, on a significantly lower path than they forecasted in May 2024 (when they anticipated the headline inflation will decline to 4.9% in December 2024, 3.5% in December 2025, and 3.4% at the end of the projection horizon). The decline will be driven by the supply-side factors, mainly due to the base effects and the legislative changes in energy starting April with impact not only on the energy prices, but also on the administered and fuel prices as well as the prices of non-food and services.

Disinflationary effects are coming from the slower growth of import prices and the lower inflationary expectations on the short-term, while significant uncertainties are coming from the impact of the April legislative changes on the prices of natural gas and electricity and the evolution of prices for the crude oil and the other commodities.

Data spotlight: 15 – 19 July**Romanian Economy (continued)**

After the steep decline in 1Q, the recent assessments for 2Q 2024 indicated the economy is growing stronger than anticipated supported by the private consumption and the investments.

Important risks to the economic activity and the medium-term inflation outlook are coming from the fiscal policy, the public sector wage dynamics and the full impact of the law on pensions (a further rise is scheduled for September). Romania is under an Excessive Deficit Procedure, more decisive fiscal adjustments being necessary to put the budget deficit on a sustainable downward path.

Other risks are coming from the continuation of the wars in Ukraine and Middle East, the economic performance in Europe and the absorption of EU funds, especially under the Next Generation EU program, essential for Romania in order to achieve the structural reforms and the energy transition, but also to counterbalance the contractionary impact of the geopolitical conflicts.

We estimate that inflation will remain outside the target range in both 2024 as the consumer demand will remain strong and in 2025 because of higher taxes and electricity prices. We expect the NBR to implement another 25bp cut to 6.5% by the year-end, bringing the policy rate closer to the money market rates that are hovering around 6% due to the abundant liquidity in the market. Given the recent evolutions, we adjusted downward our headline inflation expectation to 4.6% for the year-end (from 5.6% previously), with the core inflation remaining above CPI by about 0.5-1pp.

■ 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.

■ The current account deficit at 2.6% of GDP at the end of May

The current account deficit increased more than expected in the first five months of 2024 to EUR 9.2bn, up by 33.4% compared to the same period of the previous year. The goods' trade deficit (EUR -12.3bn) accelerated to 13.1%yoy (from 5.4%yoy in April). The services surplus was EUR 5.4bn, lower by 12%yoy, the most categories recording a surplus, albeit lower as compared with a year before. The Romanian tourism has a negative balance, respectively recorded a deficit of EUR 1.6bn at the end of May 2024. The primary income deficit increased by EUR 560mn vs April to EUR 3.3bn, up by around 28% compared to 5M2023 due to lower capital inflows, while the secondary income recorded a surplus of EUR 991mn, 2.3 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 below 6% of GDP amid weaker domestic demand.

Data spotlight: 15 – 19 July

European Economy

■ **ECB's meeting**

ECB let the monetary policy rate unchanged, as expected. The refi rate remained at 4.25% and depo rate at 3.75%. On the one hand, disinflation seem to be moving in the right direction, the June inflation declining to 2.5%yoy broadly in line with ECB's baseline scenario. On the other hand, the stickiness in services prices, still fast wage growth and resilient labor market argued against a back-to-back rate reductions. ECB did not provide any guidance about a second rate cut yet, just said that it will remain data-dependent. The most members of Governing Council (GC) appear to have been "guiding" the market before the meeting to expect lively rate discussions, being now comfortable in setting the policy rate mainly according to its future projections, to be published on September 12. If the ECB forecasts will continue to show a decline in inflation to 2% by the end of 2025, the current cautious rate cut approach will likely remain in place. UniCredit Research estimates two more rate cuts this year, probably followed by further easing of 100bp in 2025, at a pace of 25bp per quarter.

■ **Eurozone industrial production declined in May**

Industrial production declined by -0.6%mom in May, although less than expected [UniCredit Research: -1.1%mom; consensus: -1.0%], after stagnated in April. This outcome still left the Eurozone output above its pre-pandemic level. The industrial output declined for intermediate goods (-1.0%mom), capital goods (-1.2%mom) and durable consumer goods (-1.8%mom). The production of for energy (0.8%mom) and for non-durable consumer goods (1.6%mom) was in the positive area. On a yearly basis, the industrial production decline softened a bit to -2.9%yoy as compared to the -3.1%yoy decline in April which was revised slightly up.

■ **German investor morale deteriorated in July**

The ZEW growth expectations index decreased to 41.8 in July [UniCredit Research: 45; consensus: 43] from 47.5 in June. This is the first decline of the index in a year. The major triggers were the decline of the German exports, the political uncertainty related to the appointment of a new government in France and the lack of guidance regarding the pace of the monetary easing by the ECB. The current situation component improved to -68.9 from -73.8 in June, more than expected, while is still at a low level.

■ **Germany producer prices further declined in June**

Producer Prices decline tempered to -1.6%yoy in June from -2.2%yoy in May, though more than anticipated [UniCredit Research: -1.2%, consensus: -1.7%]. This was the twelfth consecutive month of decline, driven by the lower energy prices (-5.9%yoy), especially the prices for natural gas (-14.8%yoy) and electricity (-11.0%). The prices for the production of capital goods increased by 2.3%yoy in June, mainly due to machinery (2.5%yoy). Excluding energy, producer prices increased slightly by 0.3%yoy. On a monthly basis, the producer prices rose by 0.2%mom in June, at a flat reading in May.

Data spotlight: 15 – 19 July

US Economy

■ US President Joe Biden withdrew from the presidential race

Yesterday, the US President Joe Biden announced that he was dropping out of the presidential race. He endorsed Vice President Kamala Harris as the Democratic nominee. It comes after a disastrous debate performance against former US President Donald Trump last month raised concerns about Mr. Biden's candidacy. In the weeks that followed, several congressional Democrats and party donors publicly called for Mr. Biden to drop out of the race. Although Mr. Biden has now endorsed Ms. Harris, she does not automatically become the party's official nominee. The party's rules state that, now that Mr. Biden has dropped out, his pledged delegates (99% of the total), which he won during the primaries, are free to vote for whichever candidate they want at the party's official nominating convention on 19 August. Democrats will need to rally around a candidate before the convention in order to avoid a chaotic open convention. Mr. Biden's pledged delegates will almost certainly vote for such a candidate. Ms. Harris is the clear favorite, and senior party figures have already (or are expected to) come out in support of her. If nominated, Ms. Harris would retain access to Biden's campaign funds as she was on the same ticket, whereas it would not be so straightforward for an alternative candidate to gain access to these funds. Meanwhile, Mr. Biden has said he will continue as president for the remainder of his term, which ends in January 2025.

■ US retail sales stagnated in June

US retail sales were flat in June [UniCredit Research: -0.1%, consensus: -0.2%], down from an upwardly revised 0.3%mom in May. The main drivers were the lower auto and gasoline sales (-2.3%mom, respectively -3.0%mom). According to data from Wards, the unit sales of light vehicles and trucks were down about 4%mom in June. The sales rose at non-store retailers (+1.9%mom), at building materials and garden equipment stores (+1.4%mom), at health and personal care stores (+0.9%mom) etc. Excluding gasoline, the retail sales rose by 0.2%mom, following a 0.5%mom rise in May. On an annual basis, the retail sales increased by 2.3%yoy. A less buoyant labor market, tight credit conditions and reduced savings buffers are likely to continue to weigh on private-consumption growth.

■ US Industrial production decelerated in June

US Industrial production slowed down to 0.6%mom in June from 0.9%mom in May, while increased more than expected [UniCredit Research and consensus: 0.3%mom]. The output of utilities recorded the fastest increase (+2.8%mom), while manufacturing output rose by 0.4%mom and mining by 0.3%mom. On an annual basis, it increased by 1.6% in June, from 0.3%yoy in May, due to a base effect.

Data spotlight: 15 – 19 July**International and Romanian Markets****■ The EURRON traded below 4.97 last week**

Last week, the EURRON traded within the 4.9608-4.9709 range, with an upward bias towards the end of the week. The pair ended last Friday's trading session at 4.9678, unchanged in comparison to the closing level of the previous week. The EURRON started the current week slightly below 4.9700.

■ The ROBOR curve remained almost flat last week

Last week, the ROBOR curve remained almost flat, at the lower levels reached immediately after the NBR's rate cut on July 5. Due to the ample market liquidity, the O/N-1W segment closed the week at 5.76%-5.77%, just 1bp lower vs. the end of the previous week, and the 1M-3M segment remained within 5.79%-5.81%.

■ MinFin auctions

Last Monday, the Ministry of Finance held an auction for a T-bond with maturity of 4.8 years. The bids covered the planned amount, at RON 1.1bn vs. RON 500mn, enabling MinFin to place RON 885.5mn. The average accepted yield was 6.40% (max. 6.41%), which is 22bp below the yield paid at the previous reopening five weeks ago.

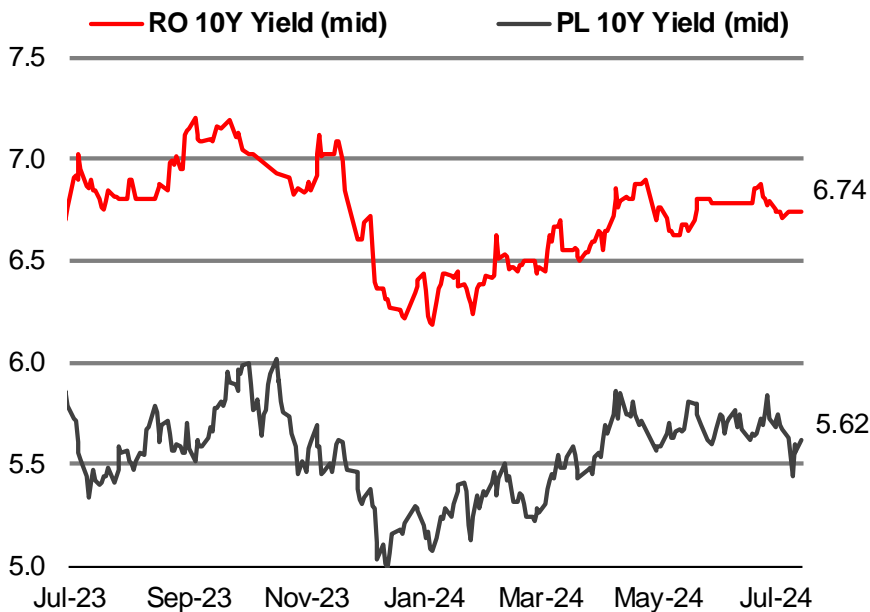
Last Thursday, the Ministry of Finance held an auction for a T-bond with residual maturity of 2.8 years. The bids covered the planned amount, at RON 1.2bn vs RON 400mn, enabling MinFin to place RON 798mn. The average accepted yields were 6.19% (max 6.19%), down 8bp from the previous reopening one month ago.

■ FX markets

In FX, the reaction of the USD to the news that Mr. Biden has stepped out of the presidential race has been quite subdued up to now, probably because an announcement of this type during the past weekend was not ruled out and because investors will probably now want to see what impact the decision will have in fresh polls. The US Dollar Index (DXY) is still above 104, but its implied volatility has risen only a little. The USD remains penalized at present by markets' continuing to price in intense easing by the Fed in the remainder of 2024. As a result, EUR-USD is still trading just below 1.09. The investor focus is set to remain on US data later this week, including the first estimate of GDP growth for 2Q24 and the PCE deflator. On balance, UniCredit Research expects the macroeconomic data to validate its Fed scenario that favors of three rate cuts by December, and EUR-USD should also benefit from a modest increase in the Ifo Business Climate Index in Germany and in Eurozone's PMI surveys for July. The EUR-USD hitting 1.10 is still possible in the near term, but the pair is more likely to eventually go back to 1.08-1.09, a level in line with the current 10Y Bund-UST yield spread, in particular if market expectations regarding Fed cuts ease a little.

Focus Ahead: 22 – 26 July

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, last week the bond yields remained almost unchanged for all maturities.
- This week, MinFin intends to place RON 300mn in 13.8Y T-bonds on Monday, together with RON 600mn in 1.5Y T-bonds on Thursday.

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ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO1ENID1Z6R5	29-Jul-24	30-Jun-25	11	500	lei			
RO7EKTXRHD6	25-Jul-24	28-Jan-26	18	600	lei			
RO0DU3PR9NF9	22-Jul-24	24-Feb-38	166	300	lei			
ROP9QVD42HO2	18-Jul-24	31-May-27	35	400	lei	1,163	798	6.19
ROJVM8ELBDU4	15-Jul-24	25-Apr-29	58	500	lei	1,051	886	6.4
ROCDG04X8WJ7	11-Jul-24	26-Apr-28	46	500	lei	1,175	815	6.3
ROTM7EDD92S2	11-Jul-24	31-Jul-34	122	600	lei	1,271	1,108	6.82
RON7NMKOKQG2	8-Jul-24	28-Oct-26	28	400	lei	1,613	1,200	6.06
RO7QK1HCA6H4	4-Jul-24	27-Jan-25	7	800	lei	1,912	1,548	6
RO1JS63DR5A5	4-Jul-24	28-Apr-31	83	300	lei	1,071	862	6.71
ROZZHW59GQL5	1-Jul-24	30-Jun-25	12	800	lei	1,656	1,307	6.01
ROWLVEJ2A207	1-Jul-24	30-Oct-33	114	300	lei	1,108	943	6.87

Focus Ahead: 22 – 26 July
Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
23-Jul-2024	EMU	EC Economic Sentiment (index)	Jul	-13.5	-13.5	-14.0
24-Jul-2024	GE	Composite PMI (index)	Jul	50.7	50.8	50.4
	GE	Services PMI (index)	Jul	53.0	53.5	53.1
	GE	Manufacturing PMI (index)	Jul	44.5	44.3	43.5
	EMU	Composite PMI (index)	Jul	51.4	50.7	50.9
	EMU	Services PMI (index)	Jul	53.2	53.0	52.8
	EMU	Manufacturing PMI (index)	Jul	46.4	46.1	45.8
25-Jul-2023	GE	Ifo business climate (index)	Jul	89.0	89.0	88.6
	GE	Ifo expectations (index)	Jul	89.2	89.5	89.0
	GE	Ifo current assessment (index)	Jul	88.9	88.5	88.3
	US	Real GDP (% qoq annualized)	2Q	1.8	1.8	1.4
26-Jul-2024	US	PCE core inflation (% yoy)	Jun	2.5	2.6	2.6
	US	PCE core inflation (% mom)	Jun	0.1	0.2	0.1
	US	Personal expenditures (% mom)	Jun	0.4	0.2	0.2
	US	Personal income (% mom)	Jun	0.4	0.4	0.5

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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This report was completed on 15 January 2024.

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