Macroeconomic and Strategic Analysis

UniCredit Weekly Report

The Romanian construction sector affected in July by the still high prices and interest rates

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Weekly briefing

The **Fed started a new rate-cutting cycle with a 50bp cut, larger than many analysts had expected, taking the funds rate down to 4.75%-5.00%.** Fed Chair Powell said that **progress on disinflation and the cooling of the labor market required a "recalibration" of monetary policy**, **although he claimed the economy is fundamentally in "good shape".** The updated "dot plot" indicated a fairly gradual rate-cutting cycle hereafter, with **the committee split between a 25bp and a cumulative 50bp of cuts at the remaining two meetings of this year** (on November 6-7, December 17-18), and **a median projection of 100bp of cuts next year**. **Mr. Powell said that the actual size and pace of cuts would depend on the totality of incoming data, with decisions made "meeting-by-meeting". UniCredit Research is revising its forecast** to incorporate Fed's bold move**, but for now still expects a cumulative 50bp cuts by the year-end** and **another 125bp cuts next year, taking the rate to 3.00-3.25%, a level considered broadly neutral regarding the inflation and the economic growth**. The **US retail sales were still in the positive area in August, albeit decelerated to 0.1%mom** [UniCredit Research: 0.2%, consensus: -0.2%], from 1.1%mom in July. **This signaled that the consumer spending remains quite resilient**, focusing primarily on essentials**.** Data on auto sales pointed to a large contraction of about 4% in August. **With a cooling labor market and exhausted savings buffers, consumer spending is likely to lose momentum going forward.** The **US industrial production rose more than expected by 0.8%mom in August,** from -0.9%mom in July. **Manufacturing rose by 0.9%mom** (vs. 0.3%mom forecasted).

German investor morale (ZEW index) continued to deteriorate sharply to 3.6 in September, from 19.2 in August. **This is the second month of sharp decline**, after the 41.8 in July. **The main concerns are about the export-dependent German manufacturing sector, especially the auto industry**, after the recent announcement of Volkswagen that they could shut down their plants in Germany. Also, **ZEW current conditions' index declined to -84.5 in September.** The **Consumer confidence indicator in Eurozone improved to -12.9 in September** from -13.5 in August. This was the highest reading since February 2022.

In Romania, the **construction sector remained almost flat in July** (+0.1%mom gross data, +0.9%mom s.a. data). The sector **declined by 2.3%yoy in July** (seasonally-adjusted data), impacted by the high prices for the construction materials, the lack of skilled labour force and the still expensive lending. **In the first seven months of 2024,** the **constructions declined by 2.5%yoy** (s.a. data), **triggered by the sharp decline in residential** (-22.3%yoy), while **commercial declined to a lower extent** (-0.6%yoy). The **infrastructure was the only segment still in the positive area** (+8.1%yoy), **supported by the large EU funds available under NRRP.**

This week the **external calendar is busy.** In **Eurozone and Germany,** the **composite PMIs for September** are likely to stabilize at a low level (Monday), while the **Ifo index for Germany** will probably record a fourth consecutive decline (Tuesday). In the **US**, the **core PCE deflator for August** likely increased by a contained 0.2% mom, while it slightly rose by 2.7%yoy (Friday). Also on Friday, **Moody's will publish its regular update of Romania's sovereign rating which will likely be maintained at Baa3 level (investment grade), with a stable outlook.**

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Data spotlight: 16 – 20 September

Romanian Economy

- **The Romanian construction sector affected in July by the still high prices and interest rates**

The construction sector remained almost flat in July as compared to June 2024 (+0.1%mom gross data, +0.9%mom s.a. data).

The sector declined by 2.3%yoy in July (seasonally-adjusted data), impacted by the high prices for the construction materials, the lack of skilled labour force and the still high interest rates for loans.

The residential segment recorded a sharp decline in July (-23.6%yoy), the non-residential (commercial) segment continued to decline (-3.9% an/an), while the infrastructure increased (+1.7%yoy), albeit strongly decelerating.

The sector's picture is even more clear if we look at the first seven months of 2024 when the constructions declined by 2.5%yoy (seasonally-adjusted data), triggered by the sharp decline in the residential segment (-22.3%yoy), while the non-residential segment declined to a lower extent (-0.6%yoy).

The infrastructure was the only segment still in the positive area (+8.1%yoy), supported by the large EU funds available under the Recovery and Resolution Framework (locally National Recovery and Resilience Plan).

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.1123	-0.34%	-0.25%
EURCHF	143.95	0.98%	-0.73%
USDJPY	1.33	0.28%	2.20%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2755	0.19%	-0.12%
EURHUF	394.65	0.45%	0.56%
EURCZK	25.10	0.18%	0.15%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
23-Sep	4.9741	4.4783	1.1847	0.5752

CURRENCIES - RON

	EURRON	USDRON
23-Sep	4.974	4.472
20-Sep	4.975	4.454
19-Sep	4.974	4.456

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
23-Sep	5.7	6.2	6.2	6.7
18-Sep	5.7	6.2	6.2	6.8

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
23-Sep	5.53	5.52	5.55
20-Sep	5.53	5.52	5.55
19-Sep	5.53	5.52	5.55

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
20-Sep	3.37	3.44	3.18
19-Sep	3.40	3.46	3.22
18-Sep	3.40	3.46	3.24
USD Libor	1M	3M	6M
20-Sep	4.97	4.95	4.78
19-Sep	5.03	5.01	4.82
18-Sep	5.08	5.08	4.87

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,702.6	-0.19%	1.88%
FTSE	8,216.4	-0.17%	-0.86%
Hang Seng	18,247.1	-0.06%	4.92%
Bucharest BET	17,671.7	0.21%	-4.12%

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Data spotlight: 16 – 20 September

European Economy

■ German investor morale continued to deteriorate sharply in September

The ZEW growth expectations' index decreased more than expected, to 3.6 in September, from 19.2 in August. This is the second month of sharp decline, after the 41.8 in July. "The hope for a swift improvement in the economic situation is visibly fading. The number of optimists and pessimists is now evenly balanced", said ZEW president Achim Wambach. The main concerns are about the export-dependent German manufacturing sector, especially the automotive industry, after the recent announcement of Volkswagen that they could shut down their plants in Germany. Also, the ZEW current conditions' index declined to -84.5 in September, at its lowest since May 2020, after -77.3 in August.

■ Consumer confidence in Eurozone slightly improved in September

The consumer confidence indicator in Eurozone improved to -12.9 in September from -13.5 in August, slightly better than the market expectations. This was the highest reading since February 2022.

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Data spotlight: 16 – 20 September

US Economy

- **Fed's meeting – 1st cut of 50bp at the start of a new easing cycle**

At its September meeting, the Fed kicked-off a rate-cutting cycle with a 50bp cut, a larger move than the 25bp many analysts had expected, taking the federal funds rate down to 4.75%-5.00%. Fed Chair Powell said that progress on disinflation and the cooling of the labor market required a "recalibration" of monetary policy, although he claimed the economy is fundamentally in "good shape".

The updated "dot plot" indicated a fairly gradual rate-cutting cycle hereafter, with the committee roughly split between a 25bp and a cumulative 50bp of cuts at the remaining two meetings of this year (on November 6-7 and December 17-18), and a median projection of 100bp of cuts next year, taking the funds rate to 2.9% by the end of 2026. However, Mr. Powell said all options were open and that the actual size and pace of cuts would depend on the totality of incoming data, with decisions made "meeting-by-meeting".

UniCredit Research is currently revising its forecast to account for the Fed's strong start to the cutting cycle. For now, UniCredit Research still expects the Fed to cut by a cumulative 50bp at the remaining two meetings of this year, which would take the target range for fed funds rate down to 4.25-4.50% by end-2024 (25bp lower than previously expected). UniCredit Research confirmed that another 125bp of rate cuts are expected next year, taking the target range to 3.00-3.25% (25bp lower than previously expected), a level that is considered broadly (or slightly above) neutral. The neutral rate is the rate that would neither put upward nor downward pressure on inflation and would keep the economy growing at around its potential rate, in the absence of shocks.

In terms of the pace, UniCredit Research expects 25bp of cuts per meeting until the end of 1Q25, and then 25bp of buts per quarter by the end of 2025. This modest frontloading of cuts reflects two main considerations:

1. even after the first few rate cuts, the monetary policy will still be restrictive, and the pace of cuts is likely to slow as the Fed feels its way to the new (uncertain) neutral rate. As long as the rates are clearly restrictive, the incentive for the Fed to take out further insurance against a deterioration in the labor market is strong.
2. the labor market is likely to continue to gradually deteriorate given the negative feedback loop of higher unemployment on demand and hiring, still restrictive monetary policy and lags in the effects of monetary-policy changes on output and inflation.

UniCredit Research still expects a soft landing, with GDP growth slowing to below its potential rate for a few quarters, but no recession. The unemployment rate is likely to rise gradually to around 4.5% by the end of this year and a little further next year. The Fed's stronger start to the rate-cutting cycle will, at the margin, increases the chances of a soft landing, but the risks to the economic growth remain skewed to the downside.

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Data spotlight: 16 – 20 September

US Economy (continued)

- **US retail sales still in the positive area in August**

The US retail sales decelerated to 0.1%mom in August [UniCredit Research: 0.2%, consensus: -0.2%], down from an upwardly revised 1.1% increase in July. This signaled that the consumer spending remains quite resilient. The spending focused primarily on essentials, showing restraint in the purchase of discretionary items. Data on auto sales pointed to a large contraction of about 4% in August. With a cooling labor market and exhausted savings buffers, consumer spending is likely to lose momentum going forward.

- **US industrial production surprised to the upside in August**

US industrial production increased above expectations by 0.8%mom in August [UniCredit Research: 0.2%, consensus: 0.1%] from -0.9%mom in July, although the sector continues to face several headwinds, including the high interest rates and the election-related uncertainty. Manufacturing, which accounts for 78% of total production, increased by 0.9%mom, while consensus forecasted a 0.3%mom increase. Also, the mining rose by 0.8%mom, while utilities stayed flat. On an annual basis, it remained flat in August, following a downwardly revised 0.7%yoy decline in July.

Data spotlight: 16 – 20 September

International and Romanian Markets

■ The EURRON traded within 4.9710-4.9765 last week

The EURRON traded within a narrow 4.9710-4.9765 range last week, slightly more volatile than the 4.9735-4.9750 range from the second week of September. We continue to expect depreciation pressures on the RON this autumn, due to the low external competitiveness of the Romanian economy.

■ The ROBOR curve declined marginally last week

Given the abundant liquidity, the ROBOR curve was quite stable last week, with all the maturities close to the deposit facility. The O/N-1W segment closed last week at 5.51%-5.52% and the 1M-3M segment within the 5.52%-5.55% range.

■ MinFin auctions

Last Monday, the Ministry of Finance held an auction for a T-bond with maturity of 4.6 years. The bids covered the planned amount, at RON 775.1mn vs. RON 500mn, enabling MinFin to place RON the planned amount. The average accepted yield was 6.48% (max. 6.49%), which is 11bp above the yield paid at the previous reopening one month ago.

Last Thursday, the Ministry of Finance held auctions for a T-bond with maturity of 10.7 years. The bids covered the planned amount, at RON 846mn vs. RON 200mn, enabling MinFin to place RON 599mn. The average accepted yield was 6.79% (max. 6.80%).

The Ministry of Finance also issued on the external market: 1) a dual tranche EUR-denominated 7Y bond (EUR ~2.25bn, investor interest at > EUR 7.7bn) and 20Y bond (EUR ~750mn, investor interest at > EUR 2.8bn), for which the prices were at MS+275 and MS+350, respectively; and 2) an USD-denominated 10Y bond (USD~2bn, investor interest > USD 9bn), for which the price was at T+210. The total deal size was capped at EUR 5bn equivalent.

■ FX and FI markets

The search for a new equilibrium in the FX market following the last week’s 50bp first rate cut by the Fed continues. The EUR-USD pair is still trading between 1.11 and 1.12. The economic agenda for this week is full, starting with today’s release of the preliminary PMI surveys for September. A stable composite index in the Eurozone might not be sufficient to boost EUR-USD.

US yields were unfazed by the Fed's move and UniCredit Research sees 10Y UST yields facing modest upside risk in the coming months, as money-market (MM) forwards discount an additional 200bp in rate cuts by end-2025. Expectations are thus stronger compared to recent easing cycles and the balance of risks for Fed expectations is asymmetric. Risks for US yields from current levels are to the upside albeit the room for a repricing is limited.

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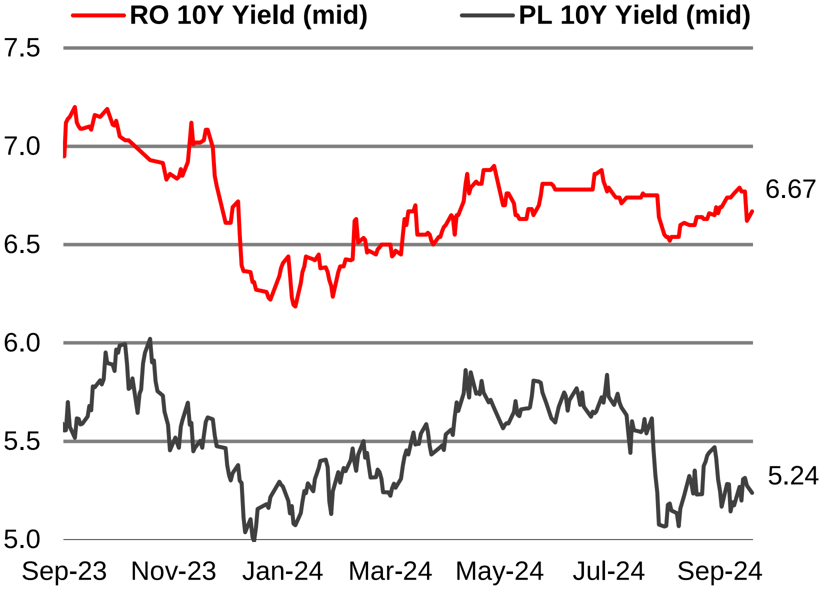
Focus Ahead: 23 – 27 September

MinFin Issues



Data Source: Thomson Reuters

- The Romanian yields dropped slightly by up to 9bp on the long-end, while were relatively stable on the short-end, following the bold Fed decision to cut the fed funds rate by 50bp instead of the 25bp largely expected.
- This week, MinFin intends to place RON 500mn in 6.7Y T-bonds on Monday, together with RON 500mn in 1.3Y T-bonds on Thursday.

BOND ISSUES - SEPTEMBER (local market)								
ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO0DU3PR9NF9	30-Sep-24	24-Feb-38	163	400	lei			
RO7EKTXSRHD6	26-Sep-24	28-Jan-26	16	500	lei			
RO1JS63DR5A5	23-Sep-24	28-Apr-31	80	500	lei			
RODFIUK7ZV55	19-Sep-24	25-Apr-35	129	200	lei	846	599	6.79
ROJVM8ELBDU4	16-Sep-24	25-Apr-29	56	500	lei	775	500	6.48
ROTM7EDD92S2	12-Sep-24	31-Jul-34	120	500	lei	560	500	6.78
ROCDG04X8WJ7	9-Sep-24	26-Apr-28	44	500	lei	236	0	
ROWLVEJ2A207	5-Sep-24	30-Oct-33	111	400	lei	400	574	6.72
ROIJHMAUBXS8	5-Sep-24	27-Aug-25	12	500	lei	843	575	5.77
ROO7A2H5YIN8	2-Sep-24	25-Feb-32	91	500	lei	475	450	6.65
ROP9QVD42HO2	2-Sep-24	31-May-27	33	500	lei	555	495	6.21

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Focus Ahead: 23 – 27 September

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
23-Sep-2024	GE	Composite PMI (index)	Sep	48.4	48.5	48.4
	GE	Services PMI (index)	Sep	51.7	51.0	51.2
	GE	Manufacturing PMI (index)	Sep	41.7	42.0	42.4
	EMU	Composite PMI (index)	Sep	51.0	50.8	51.0
	EMU	Services PMI (index)	Sep	53.1	52.5	52.9
	EMU	Manufacturing PMI (index)	Sep	45.6	45.6	45.8
24-Sep-2024	GE	Ifo business climate (index)	Sep	85.5	86.1	86.6
	GE	Ifo expectations (Index)	Sep	85.2	87.0	86.8
	GE	Ifo current assessment (Index)	Sep	86.0	86.0	86.5
	Romania	Money Supply M3 (%, yoy)	Aug			10.6
26-Sep-2024	GE	GfK Consumer Confidence	Oct	-20.0	-22.3	-22.0
	US	Real GDP (% qoq annualized)	2Q	2.9	2.9	3.0
	EMU	M3 money supply (% yoy)	Aug	2.5	2.5	2.3
27-Sep-2024	GE	Unemployment Rate (%)	Sep	6.0	6.0	6.0
	EMU	EC Economic Sentiment (index)	Sep	96.6	96.5	96.6
	US	PCE core inflation (% yoy)	Aug	2.7	2.7	2.6
	US	PCE core inflation (% mom)	Aug	0.2	0.2	0.2
	US	Personal expenditures (% mom)	Aug	0.2	0.3	0.5
	US	Personal income (% mom)	Aug	0.4	0.4	0.3
	Romania	Moody's to update sovereign rating		Baa3, stable		Baa3, stable

Data Source: Bloomberg

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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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