

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



NBR's decision to keep the key rate unchanged at 7.00% was taken unanimously

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Weekly briefing

Last week, the Fed Chair Powell said it would likely take longer to achieve enough confidence to cut rates, following a lack of further progress on disinflation in 1Q24. Also, the Fed Governor Waller said that, “in the absence of a significant weakening in the labor market, I need to see several more months of good inflation data before I would be comfortable supporting an easing in the stance of monetary policy”. Therefore, UniCredit does not expect any rate cut at Fed’s meetings on June 11-12, respectively on July 30-31. A first rate cut could come at its meeting in September at earliest. The Eurozone and Germany PMIs continued to improve in May. Eurozone Composite PMI increased for the fifth month to 52.3 in May, above expectations, from 51.7 in April, at its the highest level in one year. **The index for manufacturing rose to 47.4 from 45.7, while for services stabilized at 53.3.** The improvement reflects a steady pace of expansion in services and a lower contraction of manufacturing. At country level, **the composite PMI further increased above 50 in Germany, while it declined marginally below 50 in France** due to a likely temporary drop in demand. **The rest of the region recorded once again the best performance.** PMIs are broadly consistent with UniCredit Research’s baseline scenario for a moderate growth and ongoing inflation, supporting the expectations of a cumulative 75bp cut this year, by 25bp every quarter starting on 6 June. In an interview, the ECB President Lagarde said she is “really confident” that Eurozone inflation is “under control” as the impact of the energy crisis and supply-chain bottlenecks fade away. The **ECB’s indicator of negotiated wages for Eurozone increased by 4.7%yoy in 1Q24**, following a 4.5%yoy increase in the last quarter of 2023. **This matches the level reached in 3Q23, which was the highest since the beginning of 1990s.** **Germany’s producer prices declined by 3.3%yoy in April, faster than expected** [UniCredit forecast: -3.0%] after a 2.9%yoy drop in March. **This was the tenth month of decline, driven by lower energy prices (-8.2%yoy)**, due to a significant drop in prices of natural gas (-18.0%yoy) and electricity (-14.0%yoy). The **German PPI rose by 0.2%mom in April**, at the same pace as in March. In **Romania, the NBR published the minutes its meeting held on May 13 and its May inflation report where a slower pace of disinflation over the next two years vs. 2023 is projected, with some swings**, due to base effects and the indirect tax hikes in January 2024. The projected values for the inflation at end-2024 and end-2025 have been revised marginally higher to 4.9%yoy and 3.5%yoy, the inflation entering the targeted interval no earlier than 4Q 2025. **We expect the NBR to start cutting on 5 July and deliver four rate cuts this year, to 6%, if the government commits publicly to tightening fiscal policy next year.** The excess liquidity will stay high, as a large amount from RRF Facility (EUR 7.5bn of received funds) was unspent at end-March.

This week the external calendar is busy, with Eurozone and Germany headline inflation for May expected to slightly rise (Friday). In Germany, Ifo business climate will likely improve (Monday) and GfK Consumer confidence will deteriorate (Wednesday). EC economic sentiment is expected to improve (Thursday). US PCE core inflation is expected to rise in April, at a similar pace with March (Friday). In Romania, the April unemployment rate is to remain flat vs. March (Thursday).

Data spotlight: 20 – 24 May

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0860	0.09%	1.51%
EURCHF	156.78	-0.12%	1.29%
USDJPY	1.27	0.35%	2.35%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2525	0.02%	-1.94%
EURHUF	384.25	-0.01%	-2.38%
EURCZK	24.73	0.45%	-2.01%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
27-May	4.9767	4.5830	6.0707	345.43

CURRENCIES - RON

	EURRON	USD RON
27-May	4.976	4.582
24-May	4.976	4.585
23-May	4.975	4.600

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
27-May	5.9	6.0	6.2	6.8
22-May	5.9	6.0	6.2	6.7

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
27-May	6.02	6.12	6.05
24-May	6.02	6.01	6.04
23-May	6.01	6.00	6.03

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
24-May	3.79	3.81	3.78
23-May	3.81	3.80	3.78
22-May	3.80	3.82	3.78
USD Libor	1M	3M	6M
24-May	5.44	5.60	5.74
23-May	5.44	5.60	5.73
22-May	5.44	5.59	5.72

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,304.7	0.70%	4.60%
FTSE	8,317.6	-0.26%	3.45%
Hang Seng	18,827.4	1.17%	9.45%
Bucharest BET	17,747.0	0.38%	5.23%

Romanian Economy

■ The minutes of NBR's monetary policy meeting held on May 13, 2024

NBR's Board decision on May 13 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 6.6%yoy in March 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 1Q24, albeit a reduced rate compared to the preceding two quarters. The decrease saw the rate drop to 7.1% in March 2024 from 8.4% in December 2023, due to a significant deceleration in processed food prices.
- The industrial producer prices on the domestic market had slowed their downward trend in the first quarter, due to changes in non-durable goods prices. Although financial analysts' longer term inflation expectations continued to decrease in 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.

Data spotlight: 20 – 24 May**Romanian Economy (continued)**

- 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 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. Over the near term, Board members agreed that the economy was likely to increase significantly in the first months of 2024 compared to 4Q23.
- Regarding the labor market, Board members observed a relaxation of market pressures in 4Q23 and 1Q24. However, signals regarding specific parameters in 1Q24 and the near future were mixed. While the ILO unemployment rate saw a decline in March, 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 at the beginning of the year. 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 April and the long-term yields increased, in line with the trend in the advanced economies and in the region.
- Throughout the second part of April, the EUR-RON exchange rate had returned to and then had stabilized at the higher readings it had temporarily climbed to in January. 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 NBR's May inflation report, the pace of disinflation is projected to slow markedly over the next two years vs. 2023. Moreover, it will show some swings, mainly due to base effects and the indirect tax hikes in January 2024. The NBR sees the CPI inflation rate within the targeted interval no earlier than 4Q 2025. The projected values for end-2024 and end-2025 have been revised marginally higher are 4.9%yoy and 3.5%yoy, respectively. We expect the NBR to start cutting on 5 July and deliver four rate cuts this year, to 6%, assuming that market conditions would allow the NBR to cut at its last monetary-policy meeting in November. This would require the government to commit publicly to tightening fiscal policy next year. Over the summer, the excess liquidity could grow further, as the government has yet to spend a large amount from the Recovery and Resilience Facility (EUR 7.5bn of the received funds unspent at the end of March, according to the EU-funds Minister, Adrian Căciu). This means that future rate cuts could see interbank interest rates falling close to the marginal deposit rate.

Data spotlight: 20 – 24 May**European Economy****■ Eurozone and Germany PMIs continued to improve in May**

Eurozone Composite PMI increased for the fifth consecutive month to 52.3 in May, above expectations [UniCredit Research: 51.8, consensus: 51.6], from 51.7 in April, at its the highest level in one year. The index for manufacturing rose to 47.4 from 45.7, while for services stabilized at 53.3. The improvement reflects a steady pace of expansion in services activity and a lower contraction of manufacturing. The outcome signals a moderate expansion in the economic activity in the second quarter, broadly consistent with UniCredit Research's forecast for a 0.2%qoq increase in 2Q GDP for the Eurozone. At country level, the composite PMI further increased above 50 in Germany (52.2 points), while it declined marginally below 50 in France due to a likely temporary drop in demand. The rest of the region recorded once again the best performance.

Eurozone manufacturing remained in contraction territory, below 50, but it is encouraging that the pace of contraction of new orders has eased significantly. Services activity stabilized at the good level recorded in April (53.3 points), with a decline in the outstanding business index (marginally below 50) offsetting a further increase in new orders.

The labor market remains resilient. The composite PMI for employment improved modestly and rose to its highest level since June 2023. The new hiring continues to be driven by the services sector driven by the expectations of higher levels of activity, while in manufacturing the companies cut their workforce at the slowest pace since September last year.

The price pressure in services eased from a high level. This is encouraging for the inflation outlook as a weakening in the high pricing power of services providers is needed to put inflation on a sustainable downward trend. In manufacturing, the output price index continued to rise, albeit to a level below 50, while the input price index moved sideways marginally below 50. This indicates that goods' inflation, a key driver of the broader disinflation until now, is likely to remain on track in the near future.

PMIs are broadly consistent with UniCredit Research's baseline scenario for moderate growth and ongoing inflation, supporting the expectations of a cumulative 75bp cut this year, by 25bp every quarter starting in June.

Data spotlight: 20 – 24 May**European Economy (continued)****■ ECB will likely start its easing cycle in June**

Speaking in an interview broadcast by Ireland's RTE television last week, the ECB President Lagarde said she is "really confident" that Eurozone inflation is "under control" as the impact of the energy crisis and supply-chain bottlenecks fade away. This supports UniCredit Research's expectation that the ECB will deliver its first rate cut at its meeting on June 6.

■ The wages in Eurozone slightly accelerated in 1Q24

The ECB's indicator of negotiated wages for Eurozone increased by 4.7%yoy in 1Q24, following a 4.5%yoy increase in the last quarter of 2023. This matches the level reached in 3Q23, which was the highest since the beginning of 1990s. The Eurozone data came in stronger than generally expected up until Germany published last Wednesday its wage data for 1Q24 showing a sharp rise of 6.2%yoy.

■ Germany producer prices further declined in April

Germany's producer prices declined by 3.3%yoy in April, faster than expected [UniCredit Research: -3.0%] after a 2.9%yoy drop in March. This was the tenth consecutive month of decline, driven by the lower energy prices (-8.2%yoy), following a significant drop in the prices of natural gas (-18.0%yoy) and of electricity (-14.0%yoy). German PPIs rose by 0.2%mom in April, at the same pace as in March.

Data spotlight: 20 – 24 May**US Economy****■ The Fed needs more months of disinflation evidence before cutting rates**

At its last meeting on 30 April-1 May the Fed committee left interest rates unchanged and announced it would slow the pace of quantitative tightening. Fed Chair Powell said it would likely take longer than previously thought to achieve enough confidence to cut rates, following a lack of further progress on disinflation in 1Q24. However, he did not put rate hikes back on the table. The Fed Governor Christopher Waller said, “in the absence of a significant weakening in the labor market, I need to see several more months of good inflation data before I would be comfortable supporting an easing in the stance of monetary policy”.

Yet, the publication of the minutes of the FOMC’s 1 May meeting revealed that “many” participants had questioned the degree of restrictiveness of monetary policy, and “various” participants were willing to tighten policy further should upside risks to inflation materialize. This is a more hawkish tone than the FOMC press conference had, but since then the April CPI report has shown progress on disinflation and measures of economic activity have softened.

Therefore, UniCredit does not expect any rate cut at Fed’s meetings on June 11-12, respectively on July 30-31. A first rate cut could come at its meeting in September at earliest, for a total of 75bp this year.

Data spotlight: 20 – 24 May**International and Romanian Markets****■ The EURRON traded above 4.97 last week**

Last week, the EURRON traded within the 4.972-4.977 range, with an upward bias towards the end of the week. The pair ended last Friday's trading session at 4.9757, up 77 pips from the closing of the week before, at 4.9680. The EURRON started the current week slightly above 4.976.

■ The ROBOR curve remained unchanged

Last week the ROBOR curve was stable for all maturities, as the excess liquidity in the market remains abundant. The O/N-1W segment closed the week within the 6.00%-6.01% interval, while the 1M-3M segment remained inside 6.01%-6.05%.

■ MinFin auctions

Last Monday, the Ministry of Finance held an auction for T-bonds with residual maturity of 3.0 years. The bids were above the planned amount, at RON 674.5mn vs. RON 500mn, enabling MinFin to place RON 539.5mn. The average accepted yield was 6.28% (max. 6.29%), 2bp above the previous reopening one month ago.

Last Wednesday, the Ministry of Finance closed the book for the dual tranche EUR-denominated 8Y bond and 13Y bond placed on the external market. The investors' interest was at EUR 6.4bn for the two tranches combined. The amounts placed were of EUR 1.8bn with 8Y maturity (30 May 2032) at MS+255, 5.326% yield, respectively EUR 1.4bn with 13Y (30 May 2037) at MS+290, 5.686% yield.

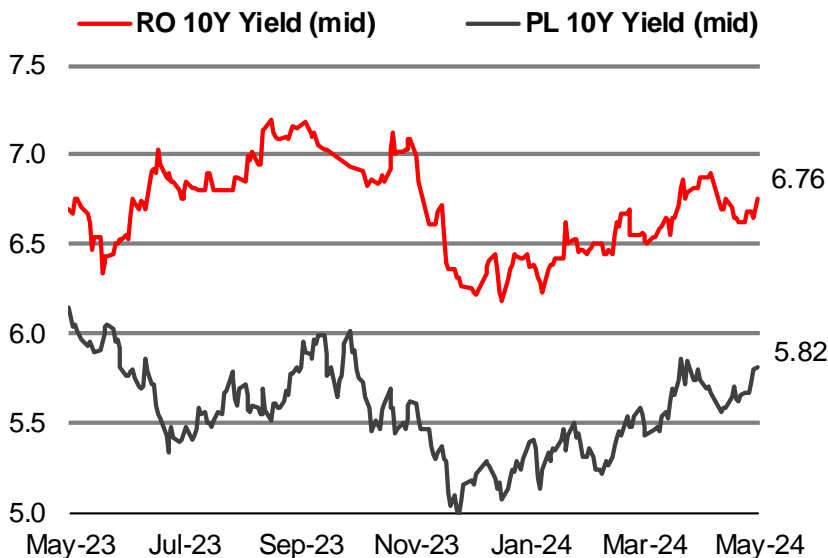
Last Thursday, the Ministry of Finance held an auction for a T-bond with residual maturity of 5Y. The bids were above the planned amount, at RON 751mn vs. RON 500mn, enabling MinFin to place RON 645mn. The average accepted yield was 6.55% (max. 6.56%), 19bp above the previous reopening three weeks ago. Also, the MinFin issued 6M T-bills for which the bids exceeded by far the planned amount, at RON 3.65bn vs. RON 300mn, placing RON 3.4bn. The average accepted yield was 6.03% (max. 6.04%).

■ FX markets

In FX, the USD has had difficulty extending its recovery from lows, the US Dollar Index (DXY) failing to hold 105. One reason behind this is probably that investors are scaling back their expectations in terms of the intensity of easing expected to happen this year, not only by the Fed but also by the ECB and other major central banks. As a result, the trading has remained within tight and familiar ranges. EUR-USD again showed resilience, bouncing back to around 1.0850 and avoiding a break below 1.08. However, a rebound back above 1.09 might remain challenging ahead of the ECB meeting outcome next week.

Focus Ahead: 27 – 31 May

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields stayed flat on the short end, while rose slightly by up to 3bp on the long-end, as Fed stated they will not cut the rates soon and NBR postponed a first rate cut likely for its July meeting. The only ECB still intends to cut the rates in June, this pending on the May inflation print in Eurozone.
- This week, MinFin intends to place 200mn in 14Y T-bonds on Monday together with 400mn in 1.7Y T-bonds on Thursday.

BOND ISSUES - MAY

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
RO7EKTXRHD6	30-May-24	28-Jan-26	20	400 lei				
RO0DU3PR9NF9	27-May-24	24-Feb-38	167	200 lei				
ROZV22LVN7Y2	23-May-24	27-Nov-24	6	300 lei		3,651	3,393	6.03
ROJVM8ELBDU4	23-May-24	25-Apr-29	60	500 lei		751	645	6.55
XS2829810923	21-May-24	30-May-37	159	1,400 euro		2,900	1,400	5.686
XS2829209720	21-May-24	30-May-32	98	1,800 euro		3,500	1,800	5.326
ROP9QVD42HO2	20-May-24	31-May-27	37	500 lei		675	540	6.28
ROXXOKNWDB81	16-May-24	30-Apr-25	12	300 lei		1,078	711	6.03
ROXL7LT7QZ66	16-May-24	29-Apr-30	72	500 lei		734	664	6.58
RO7EKTXRHD6	13-May-24	28-Jan-26	21	400 lei		765	626	6.09
ROTM7EDD92S2	13-May-24	31-Jul-34	124	400 lei		607	458	6.79
ROCDG04X8WJ7	9-May-24	26-Apr-28	48	400 lei		520	400	6.32
RO1JS63DR5A5	9-May-24	28-Apr-31	85	400 lei		420	400	6.69
RON7NMKOKQG2	7-May-24	28-Oct-26	30	500 lei		630	585	6.22
ROWLVEJ2A207	7-May-24	30-Oct-33	115	400 lei		1,598	1,293	6.7

Focus Ahead: 27 – 31 May
Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
27-May-2024	GE	Ifo business climate (index)	May	90.5	90.3	89.4
	GE	Ifo expectations (index)	May	91.5	90.5	89.9
	GE	Ifo current assessment (index)	May	89.5	90.0	88.9
	Romania	Money Supply M3 (% yoy)	Apr			10.8
29-May-2024	GE	GfK Consumer confidence	Jun	-22.0	-22.5	-24.2
	GE	Consumer price index CPI (% yoy)	May	2.5	2.4	2.2
	EMU	M3 money supply (% yoy)	Apr	1.2	1.4	0.9
30-May-2024	EMU	EC economic sentiment (index)	May	96.5	96.3	95.6
	EMU	Unemployment Rate (%)	Apr	6.5	6.5	6.5
	Romania	ILO Unemployment Rate	Apr	5.3		5.3
31-May-2024	EMU	Consumer price index, CPI (% yoy)	May	2.5	2.5	2.4
	EMU	Core CPI (% yoy)	May	2.7	2.8	2.7
	US	PCE core inflation (% yoy)	Apr	2.8	2.8	2.8
	US	PCE core inflation (% mom)	Apr	0.3	0.3	0.3
	US	Personal expenditures (% mom)	Apr	0.2	0.3	0.8
	US	Personal income (% mom)	Apr	0.3	0.3	0.5

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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