

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



Romanian loans resumed growth, while deposits moderated their monthly increase in March

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Weekly briefing

Last week, the US core PCE inflation stabilized in March at 0.3%mom, as expected. Core inflation rose by 2.8%yoy, remaining at its lowest level in two years. Personal income accelerated to 0.5%mom and personal spending increased by 0.8%mom. The US GDP slowed down to 1.6%qoq annualized in 1Q24 [UniCredit and consensus: 2.4%], from 3.4%qoq in 4Q23 and 4.9%qoq in 3Q23. The main upward contribution came from real personal consumption rising by 2.5%qoq, while net exports and inventories subtracted a combined 1.2pp from GDP growth. Excluding volatile components, GDP growth would have been a strong 2.8%qoq annualized. The Fed will likely see the 1Q24 GDP report as solid, while the upward surprise to core PCE inflation will support Fed's case for waiting longer before cutting rates. UniCredit sees now the first rate cut in September (vs. June previously), with a total of 75bp of cuts this year, which is dovish compared to market expectations, as GDP growth is expected to slow and disinflation to resume.

Eurozone Composite PMI increased to 51.4 in April, from 50.3 in March. This is the second reading above 50, driven by a further acceleration in services, while in manufacturing the pace of contraction intensified. The outcome signals a moderate acceleration in economic activity, consistent with UniCredit's forecast for a 0.2%qoq rise in 2Q 2024 GDP for Eurozone, after an almost flat 1Q. The composite PMI edged up above 50 in Germany, which returned to growth after nine months of contraction, while it remained marginally below 50 in France. The Eurozone Manufacturing remained the weak spot, the index declining to 45.6 in April, below forecasts, which indicates a persistent contraction in production, albeit the pace slowed down. The Eurozone Services PMI increased to 52.9 in April. Composite PMI for employment improved in April, indicating that Eurozone's labor market remains resilient, with new hirings in the services' sector, while in manufacturing the firms reduced their workforce. UniCredit forecasts a further moderate expansion in services and a shallower contraction in manufacturing. PMIs levels leave the ECB on track for a first cut in June, with an estimated total 75bp cut this year, of 25bp every quarter. Eurozone consumer confidence improved to -14.7 in April from -14.9 in March. Germany's Ifo Business Climate Index surprised to the upside at 89.4 in April. The major triggers were the anticipation of a first rate cut by ECB in June, an acceleration in the global trade and hopes of a recovery in the internal demand due to lower inflation rates.

Romanian loans rose by a strong 1.1%mom in March 2024, mainly driven by a 1.3%mom rise of loans denominated in RON. Lending to households accelerated to 0.9%mom and to companies entered positive area after two months of decline (+1.2%mom). Residents' deposits decelerated to 0.3%, after the high 1.4%mom in February, as the savings of private individuals slowed down to 0.6%mom and of the companies declined marginally. Romania's budget deficit reached 2.1% of GDP at end of March 2024, the highest on record for the first three months.

This week, Eurozone GDP probably rose slightly in 1Q24 and Eurozone April inflation likely stabilized at 2.4%, with core CPI easing to 2.6% (Tuesday). On Wednesday, Fed will likely leave the rates unchanged. The US payrolls likely rose 230k in April (Friday). The calendar for Romania is light, including only BCR manufacturing PMI and the international reserves (Thursday).

Data spotlight: 22 – 26 April

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0717	0.22%	-1.02%
EURCHF	158.29	1.75%	4.46%
USDJPY	1.25	-0.10%	-1.05%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.3265	0.23%	0.29%
EURHUF	392.00	-0.03%	-0.61%
EURCZK	25.17	-0.03%	-0.56%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
29-Apr	4.9758	4.6438	6.1209	349.87

CURRENCIES - RON

	EURRON	USD RON
29-Apr	4.976	4.644
26-Apr	4.976	4.654
25-Apr	4.977	4.638

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
29-Apr	6.0	6.1	6.3	6.9
24-Apr	6.0	6.0	6.2	6.8

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
29-Apr	6.00	6.15	6.05
26-Apr	6.00	6.00	6.02
25-Apr	6.01	6.03	6.05

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
26-Apr	3.85	3.87	3.84
25-Apr	3.86	3.86	3.83
24-Apr	3.85	3.88	3.83
USD Libor	1M	3M	6M
26-Apr	5.43	5.59	5.74
25-Apr	5.43	5.59	5.72
24-Apr	5.43	5.59	5.72

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,100.0	1.02%	-1.99%
FTSE	8,180.5	0.50%	3.13%
Hang Seng	17,746.9	0.54%	6.79%
Bucharest BET	17,139.3	0.87%	0.67%

Romanian Economy

■ Romanian loans resumed growth, while deposits moderated their monthly increase in March

Non-governmental loans increased by a strong 1.1%mom in March 2024, after 0.2%mom decline in February, mainly driven by the 1.3%mom increase of the loans denominated in RON, while the foreign currency credit rose by 0.4%mom. On a yearly basis, the growth pace of the non-governmental loans moderated to 4.7%yoy, due to a slowdown of the FX lending to 1.1%yoy, while RON lending accelerated to 6.5%yoy. The lending to households accelerated to 0.9%mom, fully driven by RON lending (+1.2%mom), while FX lending continued its decline (-1.7%mom). Companies' loans entered the positive territory after two months of decline, rising by 1.2%mom due to both loans in local currency (+1.5%mom) and in foreign currency (+0.9%mom). In yearly terms, lending to individuals quickened to 3.3%yoy, while tempering for companies to 6.0%yoy. On the deposits' side, the total savings of the residents decelerated to 0.3%, after the high 1.4%mom in February, as the savings of the private individuals slowed down to 0.6%mom and of the companies declined marginally.

Data spotlight: 22 – 26 April

Romanian Economy (continued)

- **Romania's budget deficit reached 2.1% of GDP at the end of March 2024, the highest on record for the first three months**

The Ministry of Finance released the budget execution for the first three months of 2024, showing a deficit of 2.06% of GDP (RON 35.9bn), the highest on record. The growth of revenues and expenditures decreased to 15.8%yoy in March from 17.2%yoy in February and to 22.7% from 27.1%yoy in the previous month, respectively. Similar to the patterns visible in February, the highest increases in revenues came from social insurance contributions (RON 8.2bn; 22.1%yoy), followed by fiscal revenues (RON 5.7bn; 9.9%yoy) and EU funds (RON 4.1bn; 1560.9%yoy). On the expenditures side, the highest increases in nominal terms were seen in capital expenditure (RON 10.2bn; 223.8%yoy), social assistance spending (RON 6.3bn; 12.4%) and personnel expenses (RON 6bn; 19.6%yoy).

We forecast a budget deficit of around 6.3% of GDP this year (implying no correction from the 2023 levels), as the current government is relying solely on improved tax collection as a deficit-reduction measure (which was difficult to implement in the past due to the limited institutional capacity and willingness), while expenditure is increasing significantly due to wage and pension increases, transfers to local authorities and election-related spending.

Thus, we expect the correction of the budget deficit to be postponed to 2025, when new taxes are likely. We continue to expect a mix of measures, including higher VAT, taxes on income, profit, property and commodities, which if implemented efficiently and quickly, could lead to a decrease of the budget deficit to around 4.7% of GDP in 2025.

Data spotlight: 22 – 26 April

European Economy

■ Eurozone consumer confidence improved in April

Eurozone consumer confidence increased slightly in April to -14.7 [UniCredit Research: -15.0; consensus: -14.3] from -14.9 in March. The index improved for the fourth consecutive month, at its highest since February 2022, reflecting the optimism regarding an ECB's first key rate cut in June this year. In the European Union as a whole, the index remained unchanged at -15.2, below the long-term average.

■ ECB most likely will start the easing cycle in June

In an interview with French business newspaper Les Echos, French central bank governor François Villeroy de Galhau said that, unless major surprises occur, the uncertainty surrounding energy prices amid tensions in the Middle East should not affect the ECB's intention to start cutting interest rates in June. He also added that the June cut "should be followed by further cuts, at a pragmatic pace", reinstating the idea that rate cuts beyond June will remain data dependent.

■ Eurozone and Germany PMIs improved in April

Eurozone Composite PMI increased for the fourth consecutive month to 51.4 in April, above expectations of a mild increase [UniCredit and consensus: 50.8], from 50.3 in March. This is the second consecutive reading above 50 and the highest level since May 2023. The improvement reflects a further acceleration in services' activity, while in manufacturing the pace of contraction intensified.

The outcome signals a moderate acceleration in economic activity at the beginning of the second quarter. This seems consistent with UniCredit's forecast for a 0.2%qoq increase in 2Q 2024 GDP for Eurozone, after a likely 0.1%qoq increase in 1Q.

At country level, the composite PMI edged up above 50 in Germany, which returned to growth after nine months of contraction, while it remained marginally below 50 in France, which recorded the lowest decline in 11 months. "The rest of the region" recorded once again the best performance, although this was slightly weaker than in March.

Eurozone Manufacturing remained the weak spot, the index declining for the fourth month to 45.6 in April, below forecasts, which indicates a persistent contraction in the industrial production, albeit the pace slowed down and the job losses eased a bit.

The manufacturing input prices continued to fall due to the improved supply conditions. The main disappointing news was the renewed declining pressure on the new factory orders, the index returning to the 43-44 area. The weak demand eased pressures on the supply chains for a third consecutive month.

Data spotlight: 22 – 26 April

European Economy

Eurozone Services PMI increased for the third month in a row to 52.9 in April, at its highest in eleven months. New orders rose at their fastest pace since May 2023, while the employment continued to increase. Despite a slight rise in services' costs, they remained below the 2023 level. The business expectations in services for next 12 months indicated a decline in service sector confidence.

The composite PMI for employment improved in April, indicating that Eurozone's labor market remains resilient. New hiring continued to be driven by services, where firms rose their headcounts at a faster pace amid expectations of future higher levels of activity. In manufacturing, firms reduced their workforce at the slowest pace since September last year.

Persistent divergence across sectors is fully reflected in the relative trends for prices, with price pressures remaining high in services, well above pre-pandemic levels. Importantly, in services, the output price inflation reaccelerated in April as the improvement in demand conditions made firms confident of being able to pass on higher input prices to the final customers. In manufacturing, both input and output price indexes remained below the 50 threshold. While the input price index increased to the highest level since February last year, the output price index was broadly unchanged and still stuck in the 47-48 area. This indicates that goods' inflation is likely to remain well-behaved.

UniCredit forecasts a further moderate expansion in services' activity and a shallower contraction in manufacturing. PMIs levels leave the ECB on track for a June cut. However, the ongoing strength in the pricing power of services' providers is likely to limit the speed of the ECB's monetary easing. UniCredit continues to expect a cumulative 75bp of easing this year, with one cut of 25bp every quarter.

■ Germany Ifo Business Climate Index continued to improve in April

The Ifo Business Climate indicator for Germany surprised to the upside increasing to 89.4 in April, above expectations [UniCredit: 88.8, consensus: 88.9], after 87.8 in March. The index rose for the third month in a row, at its highest level since May 2023. The German companies were less pessimistic regarding both the next months (expectations index at 89.9 vs 87.7 in March) and the current business situation (88.9 vs 88.1 in March). The major triggers were the anticipation of a first rate cut by ECB in June, together with an acceleration in the global trade and hopes of a recovery in the internal demand due to lower inflation rates.

■ German constructors asking for higher wages

IG Bau, the labor union in construction sector, voted in favor of the arbitrator's recommendation in the collective bargaining round. This foresees a wage hike of EUR 250 per month from May 2024 to March 2025, or about 6.5-7%yoy. Afterwards, wages would be hiked by another 4.15%yoy in Western Germany and by 4.95%yoy in the former East Germany. The deadline for the employers' association to vote on the arbitrator's recommendation is May 3. IG Bau said that if it is rejected, strikes are likely and the labor union would fight for the original wage demand of EUR 500 per month.

Data spotlight: 22 – 26 April

US Economy

■ US core PCE inflation stabilized in March

Core PCE inflation, Fed's preferred gauge to measure inflation, rose by 0.3%mom in March, the same pace as in February, as expected. In annualized terms, core inflation rose by 2.8%, similar to the previous month, remaining at its lowest level in two years. Personal income accelerated to 0.5%mom matching the market expectations, after 0.3%mom in February. Personal spending increased by 0.8%mom in March, similarly to February, exceeding market expectations. The spending for goods increased the most by 1.3% (vs. 0.8%mom in February), due to higher spending for gasoline and other energy goods, followed by other nondurable goods such as recreational items, food and beverages. Spending on services slowed down to 0.6%mom (from 0.8%mom in February), the largest amounts being directed to healthcare, housing and utilities.

■ US GDP slowed down to 1.6%qoq in 1Q24

The US economy grew by a 1.6%qoq annualized rate in 1Q24, less than expected [UniCredit and consensus: 2.4%], decelerating from 3.4%qoq in 4Q23 and 4.9%qoq in 3Q23. It is the lowest growth since the contractions in the first half of 2022. The main upward contribution came from real personal consumption rising by 2.5%qoq. Other upward contributions came from government spending and investment, partially offset by a downward contribution from net exports.

The components were stronger than the headline GDP, since 1Q24 growth was dragged down by the volatile components, with net exports and inventories subtracting a combined 1.2pp from GDP growth. Excluding volatile components, GDP growth would have been a strong 2.8%qoq annualized.

The main upward contributor was again the personal consumption, which rose by 2.5%qoq annualized (+1.7pp contribution to GDP growth). The real spending growth was fully driven by services, which rose at their fastest pace in two and a half years. Real spending on goods fell slightly, driven by a fall in durable goods, particularly motor vehicles. Also, the imports increased in 1Q24, the net trade having a large negative contribution (-0.9pp) to GDP growth. Real disposable personal income growth slowed to only 1.1%qoq annualized, while the personal savings slowed down to 3.6%qoq in 1Q24 (from 4.0%qoq in 4Q23). Investment spending rose at a solid 5.3%qoq annualized rate in 1Q24, due to both commercial and residential segments. Within business investment, the main upward contribution came from intellectual property spending (likely in part reflecting spending on AI). The pickup in residential investment (+14%qoq annualized) largely reflects the easing of 30Y mortgage rates from 8% in October to 7% in December 2023. Residential investment is likely to soften in 2Q24, reflecting that mortgage rates have since risen to 7.5%.

The Fed will likely see the 1Q24 GDP report as solid, while the upward surprise to core PCE inflation will support the central bank's case for waiting longer before cutting rates. UniCredit sees now the first rate cut in September (vs. June previously), with a total of 75bp of cuts this year, which is dovish compared to market expectations, as GDP growth is expected to slow and disinflation to resume.

Data spotlight: 22 – 26 April**International and Romanian Markets****■ The EURRON was relatively stable with a mild upward pressure last Friday**

The EURRON traded relatively stable, within the 4.9753-4.9770 range last week, but was subject to upward pressure last Friday, touching 4.9780 during the trading session before ending the week close to 4.9760. The latest level was thus relatively stable compared to the closing of the week before. We expect the currency pair to stay within the 4.97-4.98 range for now.

■ The entire ROBOR curve remained almost unchanged

Last week the ROBOR curve was relatively stable for all maturities, following the excess of the liquidity in the market. The O/N-1W segment closed the week within the 6.00%-6.01% interval, edging down from the end of the week before, while the 1M-3M segment remained flat closing inside 6.01%-6.05%.

■ MinFin auctions

Last Monday, the Ministry of Finance held an auction for T-bonds with residual maturity of 3.3 years. Bids were above the planned amount, at RON 575.3mn vs. RON 500mn, enabling MinFin to place RON 505.3mn. The average accepted yield was 6.26% (max. 6.26%), 6bp above the previous reopening one month ago.

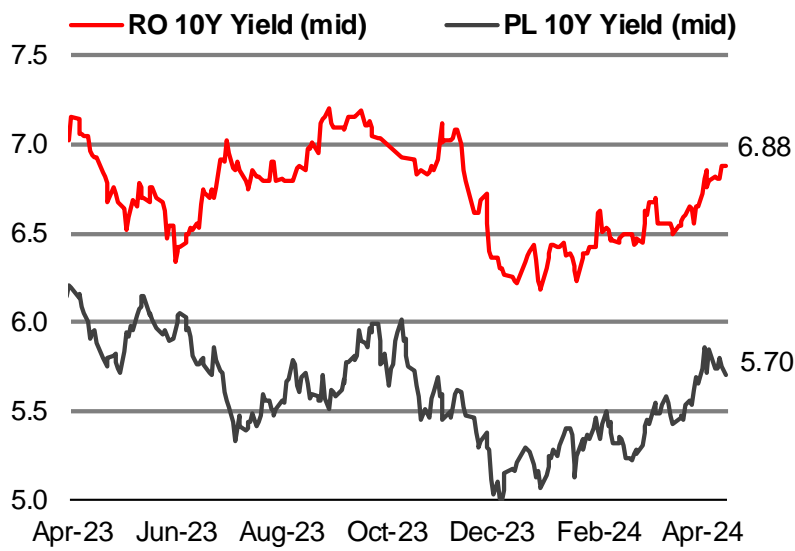
Last Thursday, the Ministry of Finance held auctions for two T-bonds with residual maturities of 2.5 years and 9.5 years. For the first one, bids were below the planned amount, RON 303.9mn vs RON 400mn, and MinFin decided to place only RON 243.9mn. For the second one, bids were above the planned amount, RON 1.53bn vs RON 400mn, and MinFin decided to place RON 1.15bn. The average accepted yield was 6.23% (max 6.24%), up 10bp from the previous reopening three weeks ago and 6.81% (max 6.82%), up 16bp from the previous reopening five weeks ago.

■ FX markets

In FX, the USD looks quite nervous at the start of a week with the FOMC meeting and the US monthly labor data. The EUR-USD pair has risen above 1.0720, still holding the line above beyond 1.07. The CPI inflation numbers in Spain and Germany today will likely attract some attention ahead of the Eurozone's CPI estimate tomorrow, but a still-prudent Fed on easing monetary policy (Wednesday) will probably help the USD recover more ground, driving the US Dollar index (DXY) back to the 106 area. Only a decline in the US net-job creation for April much stronger than the 230k expected by UniCredit on Friday will probably help EUR-USD end the week at around 1.07 still.

Focus Ahead: 29 April – 3 May

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields continued to increase last week by up to 13bp on the long end and by up to 9bp on the short end due to the global upward pressure and the geopolitical tensions.
- The 10Y UST yield increased above 5.00% on worries that US inflation could rise again after core PCE for March was at 2.8%yoy, the same as in February.
- This week, MinFin intends to place 500mn in 5.0Y T-bonds on Monday together with 500mn in 1.7Y 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	500	lei			
ROJVM8ELBDU4	29-Apr-24	25-Apr-29	61	500	lei			
ROWLVEJ2A207	25-Apr-24	30-Oct-33	116	400	lei	1,532	1,147	6.81
RON7NMKOKQG2	25-Apr-24	28-Oct-26	31	400	lei	304	244	6.23
ROP9QVD42HO2	22-Apr-24	31-Jul-27	40	500	lei	575	505	6.26
ROXL7LT7QZ66	18-Apr-24	29-Apr-30	73	600	lei	871	601	6.61
ROCDG04X8WJ7	15-Apr-24	26-Apr-28	49	400	lei	995	513	6.24
RO1JS63DR5A5	11-Apr-24	28-Apr-31	86	400	lei	719	580	6.58
ROLDTSD4N4L2	8-Apr-24	26-Mar-25	12	400	lei	1,841	1,544	6.02
RO0DU3PR9NF9	8-Apr-24	24-Feb-38	169	300	lei	223	0	
RO7EKTXRHD6	4-Apr-24	28-Jan-26	22	400	lei	1,536	891	6.04
ROTM7EDD92S2	4-Apr-24	31-Jul-34	126	400	lei	469	400	6.63
RO9ZKMFLS2K3	1-Apr-24	23-Oct-24	7	400	lei	1,087	917	6.01
ROJVM8ELBDU4	1-Apr-24	25-Apr-29	62	400	lei	1,238	1,022	6.36

Focus Ahead: 29 April – 3 May

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
29-Apr-2024	EMU	EU Commission Economic Sentiment (index)	Apr	96.3	96.9	96.3
	GE	CPI (% yoy)	Apr	2.2	2.3	2.2
30-Apr-2024	GE	Unemployment Rate (%)	Apr	6.0	5.9	5.9
	GE	Unemployment Change (thousands, sa)	Apr	10	10	4
	GE	Real GDP (% qoq)	1Q	0.1	0.1	-0.3
	EMU	Real GDP (% qoq)	1Q	0.1	0.2	-0.1
	EMU	Consumer price index, CPI (% yoy)	Apr	2.4	2.4	2.4
	EMU	Core CPI (% yoy)	Apr	2.6	2.7	2.9
1-May-2024	US	Manufacturing ISM (index)	Apr	49.9	50.0	50.3
	US	JOLTS Job Openings (thousands)	Mar	8550	8725	8756
	US	Federal Funds Target Rate (upper bound, %)		5.5	5.5	5.5
2-May-2024	US	Trade balance (USD bn)	Mar	-68.5	-67.3	-68.9
	Romania	BCR Manufacturing PMI	Apr	50.1		49.3
	Romania	International Reserves (EUR mn)	Apr	69.5		71.2
3-May-2023	EMU	Unemployment rate (%)	Mar	6.5	6.5	6.5
	US	Unemployment rate (%)	Apr	3.9	3.8	3.8
	US	Non-farm payrolls (change thousands mom)	Apr	230	250	303
	US	Average hourly earnings (% mom)	Apr	0.3	0.3	0.3
	US	Non-manufacturing ISM (index)	Apr	51.0	52.0	51.4

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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