

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



The Romanian loans accelerated, while deposits declined in June

29 July, 2024

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Weekly briefing

The US Vice President Kamala Harris has the first chance to replace the US President Joe Biden in the presidential race on November 5. The final decision will be taken at the Democrat party's official nominating convention on August 19-22. **Last week, the US GDP increased above expectations by an annualized 2.8%qoq in 2Q 2024, from 1.4%qoq in 1Q, mainly due to personal consumption. Other upward contributions came from non-residential investments, inventories and government consumption, while residential investments and net exports had negative contributions.** Firms increased sharply their imports to boost inventories, considering the shipping delays and import tariffs rises. **UniCredit expects the US GDP to grow by 2.2% in 2024.** The **US core PCE inflation rose by 0.2%mom in June, as expected, from 0.1%mom in May. Although it was higher than expected at 2.9% annualized in 2Q24, it declined from 3.7% in 1Q24. On an annual basis, it was unchanged in June at 2.6%yoy.**

Eurozone consumer confidence improved to -13.0 in June by 1pp vs. May. The index improved for the sixth month in a row, reflecting the optimism regarding the ECB's further monetary easing expected in September and December. The **Eurozone Composite PMI decreased for the second month to 50.1 in July, very close to the 50 threshold which marks the entrance into a contractionary territory, down from 50.9 in June.** The index declined for manufacturing to 45.6 and for services to 51.9. The **labour market weakened further, with a decrease in employment.** However, **the business expectations showed a slight improvement.** The **Composite PMI declined in Germany for second month in a row to 48.7** from its highest level in the last year (52.4 in May), while **in France rose to 49.5 for first time since April.** The **Eurozone manufacturing deteriorated to 45.6, with Germany index down to 42.6 in July and France index down to 44.1.** The **Eurozone services deteriorated by 1 point to 51.9, despite a pickup in tourism-related activity, with Germany services index down to 52.0 in July** mainly due to a weaker demand from abroad. In **France the services sector was returning to growth (50.7 vs 48.8 in June).** Despite weaker PMIs in Eurozone, **UniCredit considers that a moderate economic growth and the ongoing disinflation are supporting its baseline scenario of 75bp cut this year, by 25bp every quarter starting June.**

In **Romania, the non-governmental loans rose by a strong 1.8%mom in June 2024 (from 0.5%mom in May), due to the 2.3%mom rise of loans in RON and 0.8%mom growth of FX loans.** The **growth pace accelerated to 6.7%yoy. Companies' loans accelerated to 3.9%mom for RON component and 1.1%mom for FX component.** Lending accelerated both for individuals to **6.0%yoy, mainly due to consumer, and for companies to 7.4%yoy.** The **total savings of residents decreased by -1.2%mom (after 0.4%mom in May), still maintaining a high yearly growth pace of 9.8%, as individuals savings kept their double digit growth (+12.5%yoy), while companies' savings slowed down (+5.9%yoy).**

This week, in **Eurozone, we expect a deceleration in 2Q24 GDP growth (Tuesday) and a slight decline in July core inflation, to 2.7% (Wednesday).** The **Fed will likely remain on hold at its July meeting, while signaling that it is getting closer to cutting rates (Wednesday).** The **US nonfarm payrolls likely increased at a slower pace in July (Friday)**

Data spotlight: 22 – 26 July

CURRENCIES - MAJORS

| Currencies | Last | 1D ch (%) | 1M ch (%) |
|------------|--------|-----------|-----------|
| EURUSD | 1.0831 | -0.24% | 1.41% |
| EURCHF | 154.00 | 0.18% | -3.58% |
| USDJPY | 1.29 | 0.13% | 1.46% |
| GBPUSD | 1.2360 | -0.42% | 4.36% |

CURRENCIES - CEE

| Currencies | Last | 1D ch (%) | 1M ch (%) |
|------------|--------|-----------|-----------|
| EURPLN | 4.2875 | 0.27% | -0.59% |
| EURHUF | 392.00 | 0.27% | -1.26% |
| EURCZK | 25.37 | 0.00% | 1.90% |

CURRENCIES - NBR REFERENCE

| Currencies | EUR | USD | SDR | XAU (1g) |
|------------|--------|--------|--------|----------|
| 29-Jul | 4.9720 | 4.5874 | 6.0830 | 352.69 |

CURRENCIES - RON

| | EURRON | USDRON |
|--------|--------|--------|
| 29-Jul | 4.972 | 4.591 |
| 26-Jul | 4.972 | 4.579 |
| 25-Jul | 4.968 | 4.582 |

FIXED INCOME MARKET YIELDS - LOCAL

| Mid-rate | 1Y | 3Y | 5Y | 10Y |
|----------|-----|-----|-----|-----|
| 29-Jul | 5.7 | 6.2 | 6.2 | 6.8 |
| 24-Jul | 5.7 | 6.1 | 6.2 | 6.8 |

MONEY MARKET RATES - LOCAL

| ROBOR | ON | 1M | 3M |
|--------|------|------|------|
| 29-Jul | 5.75 | 5.80 | 5.80 |
| 26-Jul | 5.75 | 5.80 | 5.80 |
| 25-Jul | 5.75 | 5.80 | 5.80 |

MONEY MARKET RATES - MAJORS

| Euribor | 1M | 3M | 6M |
|-----------|------|------|------|
| 26-Jul | 3.62 | 3.66 | 3.59 |
| 25-Jul | 3.60 | 3.69 | 3.62 |
| 24-Jul | 3.60 | 3.70 | 3.65 |
| USD Libor | 1M | 3M | 6M |
| 26-Jul | 5.46 | 5.52 | 5.52 |
| 25-Jul | 5.46 | 5.53 | 5.54 |
| 24-Jul | 5.46 | 5.54 | 5.57 |

STOCK MARKETS

| Index | Last | 1D ch (%) | 1M ch (%) |
|---------------|----------|-----------|-----------|
| S&P 500 | 5,459.1 | 1.11% | -0.29% |
| FTSE | 8,349.8 | 0.77% | 2.24% |
| Hang Seng | 17,238.3 | 1.28% | -2.99% |
| Bucharest BET | 18,596.3 | 0.18% | 1.93% |

Romanian Economy

■ The Romanian loans accelerated, while deposits declined in June

Non-governmental loans increased by a strong 1.8%mom in June 2024 (from 0.5%mom in May), due to the 2.3%mom increase of the loans denominated in RON and the 0.8%mom growth of the foreign currency credits. On a yearly basis, the growth pace of the non-governmental loans accelerated to 6.7%yoy (from 5.7%yoy in May), due to both RON and FX lending, which increased by 8.7%yoy and by 2.7%yoy, respectively. The outstanding loans of households in local currency increased by 1.2%mom, while the foreign component continued its descent (-1.2%mom). Companies' loans accelerated in June to 3.9%mom (from -0.2%mom in May) for the RON component, while the foreign currency component was up by 1.1%mom (from 0.6%mom). In yearly terms, lending accelerated both for individuals to 6.0%yoy, mainly due to consumer loans, and for companies 7.4%yoy. On the deposits' side, the total savings of the residents decreased by -1.2%mom (after 0.4%mom in May), still maintaining a high yearly growth pace of 9.8%, as individuals savings maintained their double digit growth (+12.5%yoy), while the companies savings slowed down (+5.9%yoy vs. 8.3%yoy in May).

Data spotlight: 22 – 26 July**European Economy****■ Eurozone consumer confidence improved in June**

Eurozone consumer confidence increased to -13.0 in June [UniCredit Research and consensus: -13.5], up by 1pp as compared to May. The index improved for the sixth consecutive month, at its highest since February 2022, reflecting the optimism regarding the ECB's further monetary easing expected in September and December. In the European Union as a whole, the index also improved by 0.7pp to -12.2 points.

■ Eurozone and Germany PMIs surprised to the downside in July

Eurozone Composite PMI decreased for the second month to 50.1 in July very close to the 50 threshold which marks the entrance into a contractionary territory [UniCredit: 51.4, consensus: 50.7], down from 50.9 in June. The manufacturing index further declined to 45.6 from 45.8. New orders declined for the second month and business confidence fell to its lowest level in the last six months. Also, the index for services declined to 51.9 from 52.8. The labour market weakened further with a decrease in employment. However, the business expectations showed a slight improvement.

At country level, the composite PMI declined in Germany for the second month in a row to 48.7 from its highest level in the last year (52.4 in May), while in France rose to 49.5 for the first time since April.

Eurozone manufacturing deteriorated to 45.6, with Germany index declining to 42.6 in July and France index down to 44.1 due to the weaker demand.

Eurozone services deteriorated by almost 1 point to 51.9 despite a pickup in tourism-related activity, with Germany index declining to 52.0 in July (from 53.1 in June) mainly due to a weaker demand from abroad. The service firms reduced their staff in Germany, ending a six-month period of new jobs creation. In France the services sector was returning to growth (50.7 vs 48.8 in June).

Despite weaker PMIs in Eurozone, UniCredit considers that a moderate economic growth and the ongoing disinflation are supporting its baseline scenario of a cumulative 75bp cut this year, by 25bp every quarter starting June.

■ Germany Ifo Business Climate Index continued to decrease in July

The Ifo Business Climate indicator for Germany surprised to the downside declining to 87.0 in July, despite the expected recovery [UniCredit and consensus: 89.0], after its decline to 88.6 in June. The index declined for the third month in a row, at its lowest since February. The German companies were more pessimistic regarding both the next months (expectations index at 86.9 vs 88.8 in June) and the current business situation (87.1 vs 88.3). The business climate deteriorated in manufacturing services, trade and construction, impacted by the strong rises in shipping costs on routes between China and Europe and the possibility of higher Chinese import tariffs on German cars.

Data spotlight: 22 – 26 July**US Economy****■ Kamala Harris has the first chance to replace the US President Joe Biden in the presidential race**

The US Vice President Kamala Harris has secured the backing of more than the 1976 delegates needed for her nomination in the first round of voting. Her campaign also obtained more than USD 81mn in donations in just 24 hours.

The pledged support is not binding until the delegates cast their votes between 1 and 7 August, while the final decision regarding the new candidate of the Democrat party will be taken following the votes at the party's official nominating convention in August.

Following the announcement that the US President Joe Biden will campaign for November 5 elections, UniCredit Research expects some of the political uncertainty that has driven markets recently, to calm down. While the past week the spreads widened in all bond segments, this week started on a more constructive tone as the bank senior bonds and the high-grade corporate bonds traded flat and the high-yield bonds rose by only 3bp. The political volatility should pick up again in August, when the Democrats will make strategic announcements about their candidates and policies before their convention to be held on August 19-22.

■ US GDP increased above expectations by 2.8%qoq in 2Q24

The US economy accelerated by an annualized 2.8%qoq in 2Q24 [UniCredit Research and consensus: 1.8%], from 1.4%qoq in the previous quarter. The main driver of growth was the personal consumption, which rose by a solid 2.3%qoq (vs 1.5%qoq in 1Q24) and contributed by 1.6pp to GDP growth given its large share in GDP (68%). Spending on goods rebounded, recovering its loss in 1Q24, driven by durables and particularly motor vehicles. Also, spending on services continued to rise. UniCredit Research expects consumption to slow in 2H24, as the personal savings rate slowed down to a historically low 3.5% (from 3.8%) and real personal disposable income to just 1.0% annualized (from 1.3%). Most households have now exhausted the savings buffers accumulated during the pandemic and from large fiscal transfers. This is also evident in rising the delinquency rates on credit cards and auto loans. The labor market is slowing, with the unemployment rate steadily rising, it seems likely that households will want to rebuild savings balances, for precautionary reasons.

Other upward contributions came from the non-residential investments which rose by a fast 5.2% annualized, mainly driven by equipment up by 11.6%qoq (vs 1.6% in 1Q24) adding 0.7pp to GDP growth, the inventories, adding 0.8pp to GDP growth, and the government consumption, which rose by 3.1%qoq (vs 1.8% in 1Q24) mainly due to defense (financing for Ukraine and Israel).

These were partly offset by the negative contributions of residential investments, down for the first time in a year to -1.4%qoq (vs 1.6%qoq in 1Q24) and of net exports, as the imports rose faster than exports (+7% vs. +2%).

Data spotlight: 22 – 26 July

US Economy (continued)

Firms increased sharply their imports to boost inventories, considering the shipping delays and the import tariffs increases. Higher imports contributed to the rise in inventories, particularly retail inventories, which is likely to weigh on GDP growth in 2H24.

Perhaps the most important news in the US 2Q24 GDP release, was that the core PCE deflator (the Fed's preferred measure of inflation) rose by 2.9% annualized in 2Q24, up by 0.2pp vs. consensus' expectation. This, along with signs that the labor market and economic activity will slow in 2H24, should keep the Fed on course to start cutting rates in September.

UniCredit Research still expects the US GDP growth to slow in 2H24 and to grow by 2.2% in 2024 (down vs. 2.5 in 2023).

■ US core PCE inflation increased by 0.2% mom in June

Core PCE inflation increased by 0.2% mom in June, as expected, from 0.1% mom in May. The yesterday's release for 2Q24 GDP deflator showed somewhat a higher-than-expected core PCE inflation of 2.9% annualized, although down from 3.7% in 1Q24. This is still a progress on disinflation compared to the inflation spike in 1Q24. On an annual basis, the core PCE inflation remained unchanged in June at 2.6% yoy. The personal consumption expenditure decelerated to 0.3% mom from an upwardly revised 0.4% mom in May, mainly driven by the spending for services, especially for international travel, housing and utilities. There were recorded decreases in spending for motor vehicles and parts, gasoline and other energy goods. Personal income increased slower than expected by 0.2% mom in June, down from 0.4% in May, as the growth in wages slowed and the population seems that exhausted the savings buffers constituted during pandemic.

Data spotlight: 22 – 26 July

International and Romanian Markets

■ The EURRON traded below 4.97 last week

Last week, the EURRON traded within the 4.9680-4.9735 range, with a downward bias towards the end of the week. The pair ended last Friday's trading session at 4.9720, almost unchanged in comparison to the closing level of the previous week. The EURRON started the current week slightly above 4.9700.

■ The ROBOR curve remained almost flat last week

Last week, the ROBOR curve remained almost flat, at the lower levels reached 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% and the 1M-3M segment remained within 5.79%-5.80%, just 1bp lower for 3M maturity vs. the end of the previous week.

■ MinFin auctions

Last Monday, the Ministry of Finance held an auction for a T-bond with maturity of 13.8 years. The bids covered the planned amount, at RON 410.3mn vs. RON 300mn, enabling MinFin to place RON 335.4mn. The average accepted yield was 6.80% (max. 6.82%), which is 20bp above the T-bond reopening in March.

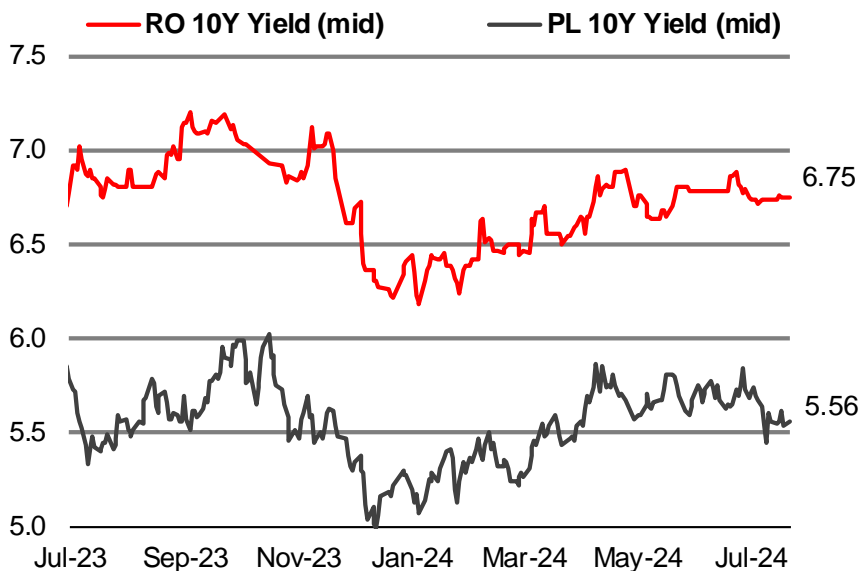
Last Thursday, the Ministry of Finance held an auction for T-bonds with residual maturity of 1.5 years. The issue enjoyed a high demand, with bids covering the planned amount at RON 2bn vs RON 600mn, enabling the MinFin to place RON 1.9bn. The average accepted yields were 6.02% (max 6.02%), down 8bp from the previous reopening one month ago.

■ FX markets

In FX, the US personal-income and PCE data for June, including price indices, had a moderate impact on FX, dragging the USD only slightly down and leaving the US Dollar Index (DXY) above 104. EUR-USD just moved above 1.0850 but was unable to re-approach 1.09. Against this backdrop, market focus will likely remain on fundamentals and the Fed decision on Wednesday. The FOMC is widely expected to remain on hold, but UniCredit Research expects the FOMC to make another step towards a likely rate cut at the 18 September meeting.

Focus Ahead: 29 July – 2 August

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, last week the bond yields increased by 1bp for all maturities.
- The Fed funds rate is broadly expected to remain on hold at 5.25-5.50% on 31 July. The post-meeting statement will probably hint at a rate cut in September. USTs have already reacted, with the curve bull-steepening.
- This week, MinFin intends to place RON 500mn in 11 months T-bills on Monday.

BOND ISSUES - JULY

| 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 | | 2,001 | 1,871 | 6.02 |
| RO0DU3PR9NF9 | 22-Jul-24 | 24-Feb-38 | 166 | 300 lei | | 410 | 335 | 6.8 |
| 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: 29 July – 2 August

Data Calendar

| Date | Country | Indicator/Event | Period | UniCredit forecast | Consensus | Previous |
|-------------|---------|--|--------|--------------------|-----------|----------|
| 30-Jul-2024 | GE | Consumer price index, CPI (% yoy) | Jul | 2.2 | 2.2 | 2.2 |
| | GE | Real GDP (% qoq) | 2Q | 0.1 | 0.1 | 0.2 |
| | EMU | Real GDP (% qoq) | 2Q | 0.2 | 0.2 | 0.3 |
| | EMU | EC Economic Sentiment (index) | Jul | 94.3 | | 95.9 |
| 31-Jul-2024 | EMU | Consumer price index, CPI (% yoy) | Jul | 2.5 | 2.4 | 2.5 |
| | EMU | Core CPI (% yoy) | Jul | 2.7 | | 2.9 |
| | GE | Unemployment rate (%) | Jul | 6.0 | 6.0 | 6.0 |
| | US | Federal Funds Target Rate (upper bound, %) | | 5.50 | 5.50 | 5.50 |
| 1-Aug-2024 | EMU | Unemployment rate (%) | Jun | 6.5 | 6.4 | 6.4 |
| | US | Manufacturing ISM (index) | Jul | 48.3 | 49.0 | 48.5 |
| 2-Aug-2024 | US | Average hourly earnings (% mom) | Jul | 0.3 | 0.3 | 0.4 |
| | US | Unemployment rate (%) | Jul | 4.1 | 4.1 | 4.1 |
| | US | Non-farm payrolls (change thousands mom) | Jul | 180.0 | 175.0 | 206.0 |

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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- 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
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