

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



The Romanian budget deficit was 4.57% of GDP at the end of August

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Weekly briefing

The US real 2Q24 GDP growth showed a faster growth of 3.0% annualized compared to 1.6% in 1Q24, mainly due to an acceleration in consumer spending and private inventory investment. The US core PCE inflation slowed down to 0.1%mom in August, from 0.2%mom in July.

The Eurozone PMIs were further dragged down in September by two major economies, Germany and France. The Composite PMI decreased to 49.8 in September from 51.0 in August. The deterioration reflects a slowdown in services activity from an already subdued pace and a stronger contraction in manufacturing. The composite PMI declined in Germany to 47.2 (from 48.4 in August) and in France to 47.4 (from 53.1). The output in “the rest of the region” continued to expand, although only modestly. The Eurozone manufacturing index declined to 44.8 from 45.8. The output index declined at its lowest level in nine months mainly following the sharp decline in Germany to 40.3 (from 42.4), while in France it was quite stable at 44. The lower domestic and global demand led to the largest cuts of the employment in four years. The services activity continued to prove more resilient, but the index declined significantly to 50.5 (from 52.9), and it is now only slightly above 50 for the Eurozone. The signs of a loss of momentum in GDP growth and a further softening in employment outlook raise the risk that the ECB will be forced to accelerate its rate cuts vs. its planned quarterly pace of easing.

The optimism in Eurozone (ESI) was slightly down in September to 96.2 points. The German Ifo Business Climate Index was down to 85.4 in September. The major trigger was the recent announcement by Volkswagen that it might shut down its plants in Germany. The GfK consumer confidence rose by 0.7 points in September to -21.2, driven by a solid appreciation of the expectations regarding the income and spending.

In Romania, the budget deficit was 4.57% of GDP at the end of August and is likely to end 2024 above 7% of GDP. The non-governmental loans rose by a solid 1.0%mom in August due to rises in both RON (+1.3%mom) and FX lending (+0.3%mom). The annual growth accelerated to 7.7%yoy, due to both RON (+10.0%yoy) and FX (2.7%yoy). The outstanding loans of households in RON rose by 1.2%mom, while the FX share continued its descent (-1.5%mom). Companies' loans accelerated to 1.4%mom for RON, while the FX component sped up to 0.6%mom. Savings of residents increased by 0.7%mom and 10.9%yoy, as individuals' savings maintained their double-digit growth (+12.3%yoy), while the companies' savings accelerated slightly (+8.7%yoy).

This week, the both the German and the Eurozone annual CPI are likely to have slowed down in September (Monday and Tuesday, respectively), although EMU core inflation was probably unchanged. Eurozone unemployment likely rose (Wednesday). In the US, the ISM survey will probably point to weak momentum (Tuesday), while nonfarm payrolls are likely to show a lower increase in September than in August (Friday)). In Romania, the BCR Manufacturing PMI is expected to slightly deteriorate in September, while international reserves are expected to rise (Tuesday). The August PPI likely accelerated its annual growth, while unemployment probably decreased (Wednesday). On Friday, we expect NBR to stay on hold at 6.50% due to the still high annual inflation, the very lax fiscal policy and increasing fiscal worries.

Data spotlight: 23 – 27 September

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.1189	0.22%	0.63%
EURCHF	142.45	-1.80%	-0.93%
USDJPY	1.34	-0.31%	0.84%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2800	0.05%	-0.34%
EURHUF	397.05	-0.03%	0.99%
EURCZK	25.18	0.22%	0.55%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
30-Sep	4.9756	4.4451	1.2005	0.5722

CURRENCIES - RON

	EURRON	USDRON
30-Sep	4.976	4.446
27-Sep	4.975	4.457
26-Sep	4.976	4.452

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
30-Sep	5.7	6.2	6.2	6.6
25-Sep	5.7	6.2	6.2	6.7

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
30-Sep	5.52	5.52	5.60
27-Sep	5.53	5.54	5.55
26-Sep	5.53	5.54	5.55

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
27-Sep	3.37	3.33	3.15
26-Sep	3.38	3.35	3.16
25-Sep	3.38	3.35	3.16
USD Libor	1M	3M	6M
27-Sep	4.96	4.85	4.69
26-Sep	4.96	4.87	4.67
25-Sep	4.97	4.90	4.71

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,738.2	-0.13%	2.00%
FTSE	8,263.1	-0.69%	-1.36%
Hang Seng	21,133.7	2.43%	19.45%
Bucharest BET	17,567.6	-0.67%	-3.20%

Romanian Economy

■ The budget deficit reached 4.57% of GDP after the first eight months of 2024

The Ministry of Finance released the budget execution for the first eight months of 2024, showing a deficit of 4.57% of GDP (RON 80.9bn), very close to the 5% target for the full year. The growth of revenues and expenditures tempered slightly to 13.7% %yoy in 8M24 from 15.1%yoy in 7M24 and to 22.5%yoy from 23.2%yoy, respectively. The previous drivers of revenue growth were unchanged, with the highest contribution coming from fiscal revenues (RON 23bn; 13.7%yoy) thanks to an increase of revenues from VAT (+RON 10.8bn) and income tax (+RON 10.5bn), followed by social insurance contributions (RON 20.9bn; 20.1%yoy), and EU funds (RON 8.5bn; 490.1%yoy). On the expenditure side, the highest increases in nominal terms were seen for the personnel expenses (RON 20.4bn; 23.8%yoy) followed by the capital expenditure (RON 17.4bn; 86.6%yoy) and social assistance (RON 17.3bn; 13.4%yoy).

According to our calculations, the budget deficit will exceed 7% of GDP this year, more than 2percentage points above the target. The government has recently performed the first budget rectification, which indicated a higher growth for both income and expenditure, but acknowledged an overshooting, with the full-year deficit estimated at around 6.94% of GDP. Yet, as signaled by the Fiscal Council, even this

Data spotlight: 23 – 27 September

Romanian Economy (continued)

figure might prove unrealistic, with overestimated revenues and underestimated expenditure as follows: 1. uncertain revenues of RON 10.5 bn (0.6% of GDP) from digitization and RON 7.9bn (0.45% of GDP) from the tax amnesty; and 2. possible underestimation of expenditure for goods and services (at around 0.2% of GDP), subventions (around 0.3% of GDP) and social assistance. Thus, the fiscal council expects the cash budget deficit at around 8% of GDP in 2024.

■ Romanian loans and deposits rose in August

Non-governmental loans increased by a solid 1.0%mom in August 2024 (from 0.9%mom in July), due to the 1.3%mom increase of the loans denominated in RON and the 0.3%mom growth of the foreign currency credits. On a yearly basis, the growth pace of the non-governmental loans accelerated to 7.7%yoy (from 6.8%yoy in July), due to both RON and FX lending, which increased by 10.0%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 (-1.5%mom). Companies' loans accelerated in August to 1.4%mom (from 0.9%mom in July) for the RON component, while the foreign currency component was up by 0.6%mom (from 0.1%mom). On the deposits' side, the total savings of the residents increased by 0.7%mom (after 0.4%mom in July), still maintaining a high yearly growth pace of 10.9%, as individual's savings maintained their double-digit growth (+12.3%yoy), while the companies' savings accelerated slightly (+8.7%yoy).

■ Romanian rating affirmed by Moody's, the outlook was maintained at stable

Last Friday, Moody's maintained Romania's Baa3 investment grade rating and the stable outlook. The reasoning behind is the Romanian economy's strong growth potential, supported by large EU funds and FDI inflows, while on the negative side Moody's considers that Romania still has quite relatively weak public governance and high fiscal and current account deficits, although the latter is mainly funded by stable sources. Romania's public debt is set to deteriorate gradually in the next years due to the high fiscal deficits and the rising interest costs.

Moody's revised downwards Romania's GDP growth to 2.0% in 2024 (from 2.8%) as weak net exports are increasingly offsetting strong domestic demand. While fiscal consolidation efforts will weigh on GDP growth in the next years, Moody's expects a growth recovery to 2.9% in 2025-26. They revised upwards the budget deficit expectations, to 7.5% of GDP in 2024 (from 6.4% previously), due to the significant rise in spending. Also, the current account deficit is expected to rise to 7.6% of GDP in 2024 (from 6.8% projected earlier) partly driven by the widening fiscal deficit.

Romania will submit a plan for reducing its fiscal deficit to 3% of GDP over the next seven years, in line with the EU's fiscal and economic governance framework, while the full fiscal consolidation plan is unlikely to be presented to the EC before the parliamentary and presidential elections in November and December 2024.

Data spotlight: 23 – 27 September**Romanian Economy (continued)**

Moody's expects the current coalition of the Social Democratic Party (PSD) and the liberal party (PNL) to continue to form the core of the next governing coalition.

The Romanian ratings could be improved if the fiscal and the current account deficits are significantly and durably reduced, thus reducing the vulnerability to shocks, the institutional effectiveness increases and the debt burden stabilizes significantly below the peer group median, if the political stability continues after the 2024 elections and the geopolitical risks are reducing. A positive for the credit ratings will be the further strengthening of the economy's growth potential and the fiscal sustainability through the adoption of reforms under PNRR.

The key risk factors for the ratings will be the government's ability to reduce the twin deficits, the inability of the government to absorb the remaining PNRR funding and the more elevated external vulnerability risks, such as an escalation of geopolitical tensions related to the Russia-Ukraine war, or a deterioration of domestic political stability and policy effectiveness.

Data spotlight: 23 – 27 September

European Economy

■ PMIs for Eurozone further dragged down in September by Germany and France

The Eurozone Composite PMI decreased to 49.8 in September, below the 50 threshold which marks the entrance into a contractionary territory [UniCredit: 51.0, consensus: 50.5], down from 51.0 in August. This was the lowest level since January 2024. The deterioration reflects a slowdown in services activity from an already subdued pace and a stronger contraction in manufacturing.

At country level, the composite PMI declined in the two major Eurozone economies: in Germany to 47.2 (from 48.4 in August) and in France to 47.4 (from 53.1 in August). France recorded a pronounced drop that reflects a sharper-than-expected drag from the unwinding of the Paris Olympics-related boost to services activity. The output in “the rest of the region” continued to expand, although the pace of expansion was only modest and the softest since January.

The Eurozone manufacturing index further declined to 44.8 from 45.8. Also, the new and foreign orders were settling in the 42-43 area. The output index declined at its lowest level in nine months mainly due to the sharp decline in Germany to 40.3 (from 42.4), while in France it was stable at 44.

The services activity continued to prove more resilient, but the index declined significantly to 50.5 (from 52.9 in August), and it is now only slightly above 50 for Eurozone. For Germany it declined to 50.6 in September (from 51.2 in August) and for France it fell to 48.3 (from 55).

The labor market continues to soften. The PMIs indicate that new hiring continues to be driven by the services sector, where job creation has however slowed significantly and is now only modestly positive. In manufacturing, the survey signals that job reduction accelerated to the fastest pace since December 2020. Overall, the job market still seems to be holding up, but given substantial labor hoarding after the pandemic, downside risks to the employment outlook are on the rise as companies are facing ongoing weakness in the demand outlook.

Price pressure continue to ease, especially in the services sector where they have been more resilient. Services output prices continued to decelerate, with the index down to the lowest level since February 2021, reflecting a steady slowdown in input prices. In manufacturing, firms’ pricing power remains very weak.

Implications for monetary policy: signs of a loss of momentum in GDP growth from weak levels and a further softening in the employment outlook raise the risk that the ECB will be forced to accelerate its rate cuts. However, with services inflation stuck at about 4% for almost a year, more progress on inflation would be needed to forge a broad consensus towards an acceleration in the pace of cuts. Should the current weakness in the economy persist by the year-end with broader spillover onto the labor market, UniCredit Research thinks it would become difficult for the ECB to stick to its quarterly pace of easing.

Data spotlight: 23 – 27 September

European Economy (continued)

■ **The optimism in Eurozone slightly deteriorated in September**

The economic sentiment indicator (ESI) in Eurozone decreased to 96.2 points in September [UniCredit Research: 96.6, consensus: 96.5], from 96.5 in August which was the highest in over a year. The sentiment worsened among manufacturers (-10.9 vs -9.9), retail sector (-8.5 vs -7.9), while it improved for services (6.7 vs 6.4), consumers (-12.9 vs -13.4) and constructors (-5.8 vs -6.3). The companies' uncertainty about their future financial situation remained almost unchanged vs. August in industry, services and construction, while it improved in retail trade. At the same time, the consumers' uncertainty about their future situation increased sharply.

Among the largest economies, the ESI worsened significantly in France (-1.4 to 97.2) and in Germany (-1.2 to 89.3), while it improved strongly in Spain (+1.9 to 107.3) and in Italy (+1.2 to 105.7).

■ **The German unemployment rate remained high in August**

The seasonally adjusted unemployment rate in Germany remained at 6.0% in August, in line with market forecasts, unchanged for the fourth consecutive month. This is the highest level in over 3 years. The number of unemployed individuals rose by 17,000 to 2.8 million, more than the expected rise of 12,000 people.

■ **The German Ifo Business Climate Index continued to decrease in September**

The Ifo Business Climate indicator for Germany continued to decline to 85.4 in September, in line with the expected value [UniCredit Research and consensus: 85.5], after its decline to 86.6 in August. The index decreased for the fourth month in a row, at its lowest since January. The major trigger was probably the concern about the recent announcement by Volkswagen that it might shut down its plants in Germany. The German companies were more pessimistic regarding both the next months' expectations (86.3 vs 86.8 in August) and the current business situation (84.4 vs 86.4). The business climate deteriorated in the services sector, trade and manufacturing, which is at its lowest since 2020, due to an intensification in the lack of orders. The core sectors of German industry are struggling.

■ **The GfK consumer confidence indicator in Germany improved in September**

The GfK consumer confidence indicator increased by 0.7 points in September vs. August, to -21.2, driven by a solid appreciation of the expectations regarding the income (10.1 vs 3.5 in August) and an increased inclination to spend (-6.9 vs -10.9) showing that the recovery of the consumer confidence is picking up pace. However, the economic growth expectation has gone down a bit from August (0.7 vs 2.0), while the inclination to save has also become more visible (12.0 vs 10.7).

Data spotlight: 23 – 27 September**US Economy****■ US Q24 GDP remains unchanged at 3%**

The third estimate of the US real Q24 GDP growth showed a growth of 3.0% annualized, no relevant change being seen from the second estimate. Compared to the first quarter (1.6%), the rise in real GDP is mainly due to an acceleration in consumer spending and private inventory investment. Both the current-dollar personal income and disposable personal income have suffered an upward revision of \$82.1bn and \$77.3bn. The biggest change from the previous version is seen in the GDI which suffered a 2.1% upward revision.

■ US core PCE inflation slowed down to 0.1%mom in August

Core PCE inflation (the Fed's preferred measure of inflation) increased by 0.1%mom in August, below expectations, from 0.2%mom in July. On an annual basis, the core PCE inflation edged up at 2.7%yoy in August from 2.6% in July due to a base effect. The components of the August Producer Price Index that enter directly into the PCE price index had been contained. The personal consumer expenditure decelerated strongly to 0.2%mom from 0.5%mom in July, mainly driven by an increase in spending for services (mainly for housing, financial and insurance) and a decrease in spending for goods (mainly for new motor vehicles). Personal income decelerated to 0.2%mom in August, from 0.3%mom in July, following the decline in interest income (-0.6%mom) and dividend income (-0.4mom).

Data spotlight: 23 – 27 September

International and Romanian Markets

■ **The EURRON traded with a mild upward bias last week**

The EURRON shifted its trading range slightly higher last week, to 4.9740-4.9770 and ended Friday's trading session close to the lower bound. The pair could hover around the current trading levels before NBR's key rate announcement on Friday. Deepening manufacturing weakness and fiscal risks prevent CEE currencies from benefiting from lower core market yields and a weaker USD. CEE central banks remain cautious when cutting key rates, supporting stability in CEE FX, until signs of domestic labor-market loosening emerge.

■ **The ROBOR curve was stable 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 flat at 5.52% and the 1M-3M segment within the 5.52%-5.55% range. We expect the NBR to stay on hold at 6.50% on Friday, due to annual inflation remaining high, very lax fiscal policy and increasing fiscal worries. The disappointing economic growth recorded in 1H24 indicates that a key rate cut would be welcomed, but the NBR must find the right balance between supporting growth and avoiding capital outflows and depreciation pressure on the RON. In our view, room for immediate key rate cuts is very limited as the ample market liquidity is keeping ROBOR rates close to the 5.5% deposit facility rate, which is only slightly above our current estimate of 5% for year-end inflation. We forecast that annual inflation will drop to levels close to 4% at the beginning of next year, opening the door for the NBR to begin gradually cutting the key rate again.

■ **MinFin auctions**

Last Monday, the Ministry of Finance held an auction for a T-bond with maturity of 6.7 years. The bids covered the planned amount, at RON 1059.1mn vs. RON 500mn, enabling MinFin to place RON 667.1mn. The average accepted yield was 6.64% (max. 6.64%), which is 9bp above the yield paid at the previous reopening one month ago.

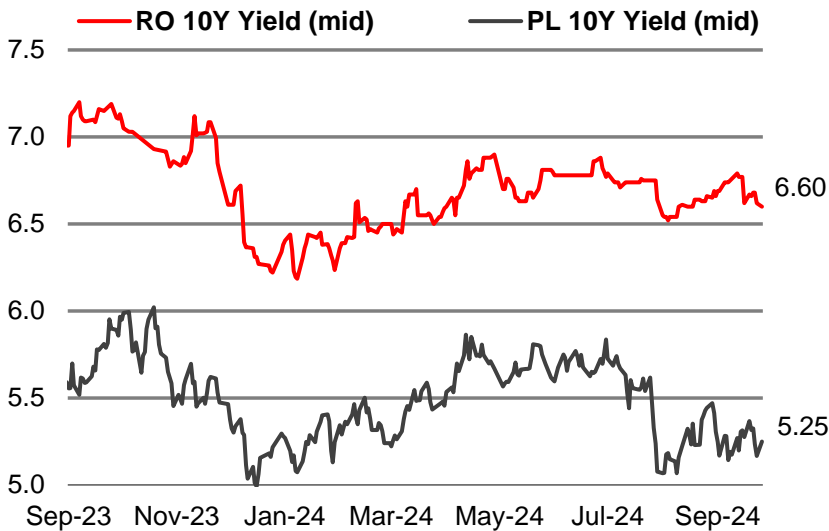
Last Thursday, the Ministry of Finance held an auction for a T-bond with maturity of 16 months. The bids covered the planned amount, at RON 1478.0mn vs. RON 500mn, enabling MinFin to place the planned amount. The average accepted yield was 6.04% (max. 6.04%), which is 2bp above the yield paid at the previous reopening one month ago.

■ **FX markets**

EUR-USD will likely remain stuck within the 1.11-1.12 band ahead of the US jobs report, as the anticipated difference in further Fed and ECB easing has now become too small to boost EUR-USD much further. The additional easing the markets are expecting from the Fed vs. other major central banks has diminished after the 50bp rate cut. Forward rates now imply roughly 70bp of further cuts by the Fed this year vs. 50bp by the ECB, and 185bp vs. 170bp, respectively, by July 2025.

Focus Ahead: 30 September – 4 October

MinFin Issues



Data Source: Thomson Reuters

- The Romanian yield curve experienced marginal moves last week, with the 1Y yield increasing by 2bp and the rest of the curve dropping by up to 2bp.
- This week, MinFin intends to place RON 400mn in 13.4Y T-bonds on Monday.
- The issuance calendar for October was not published yet, but we expect the plans to be in line with those of the previous two months, at around RON 5bn.

BOND ISSUES - SEPTEMBER								
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		2,064	500	6.48
RO7EKTXRHD6	26-Sep-24	28-Jan-26	16	500 lei		1,478	500	6.04
RO1JS63DR5A5	23-Sep-24	28-Apr-31	80	500 lei		1,059	667	6.64
	24-Sep-24	24-Sep-34	122	2,000 usd		9,000	2,000	
XS2908645265	24-Sep-24	24-Sep-44	244	750 euro		2,800	750	6.015
XS2908644615	24-Sep-24	24-Sep-31	85	2,250 euro		7,700	2,250	5.129
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

Focus Ahead: 30 September – 4 October

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
30-Sep-2024	GE	Consumer Price Index, CPI (% yoy)	Sep	1.7	1.7	1.9
1-Oct-2024	EMU	Consumer price index, CPI (% yoy)	Sep	1.9	2.0	2.2
	EMU	Core CPI (% yoy)	Sep	2.8	2.8	2.8
	US	JOLTS Job Openings (thousands)	Aug	7670		7673
	US	ISM Manufacturing (index)	Sep	47.6	48.0	47.2
	Romania	BCR Manufacturing PMI	Sep	48.0		48.4
	Romania	International Reserves (EUR mn)	Sep	75.1		70.8
2-Oct-2024	EMU	Unemployment rate (%)	Aug	6.5	6.4	6.4
	Romania	PPI (% yoy)	Aug	3.9		2.6
	Romania	ILO Unemployment Rate	Aug	5.3		5.4
3-Oct-2024	US	Non-manufacturing ISM (index)	Sep	51.5	51.5	51.5
4-Oct-2024	US	Non-farm payrolls (change thousands mom)	Sep	135	140	142
	US	Average hourly earnings (% mom)	Sep	0.3	0.3	0.4
	US	Unemployment rate (%)	Sep	4.3	4.2	4.2
	Romania	Interest Rate Announcement	Oct	6.50	6.25	6.50

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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