Macroeconomic and Strategic Analysis

UniCredit Weekly Report

The NBR kept the monetary policy rate at 6.50%

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Anca Maria NEGRESCU
Senior Economist
anca.negrescu@unicredit.ro
+40 723 103 008

Iulia CORLANESCU
Macroeconomic Economist
iulia.corlanescu@unicredit.ro
+40 724 052 840

Alexander RAGEA
Junior Macroeconomic Economist
Alexander-Constantin.Ragea2@unicredit.ro

Weekly briefing

The **US ISM Manufacturing index was 47.2 in September**, remaining unchanged from August **while the ISM Non-Manufacturing rose to 54.9 representing a 3.4 point jump mom.** Moreover, The US economy **added a strong 254k to payrolls in September, a larger increase than expected.** Average hourly earnings also **came in stronger than expected, rising 0.4% mom in September after an upward-revised 0.5% mom rise in August.**

The **German inflation decreased to 1.6% in Sept, more than expected** [UniCredit and consensus: 1.7%yoy] from 1.9%yoy in August, **driven by the lower energy prices and a base effect**, **while the food prices rose faster.** The **prices for services eased slightly to 3.8%yoy.** The **core inflation (excl. food and energy) eased to 2.7%yoy,** its lowest level since January 2022. **Eurozone headline inflation declined to 1.8%yoy in September**, beating forecasts [UniCredit:1.9%; consensus: 2.0%], continuing the downward trend from August (2.2%yoy) and **recording the first reading below 2% since mid-2021.**

At its meeting on 4 October, the NBR kept the monetary policy rate at 6.50%, as anticipated by ourselves and the majority of the polled analysts. The decision was due to the **still high annual inflation, the very lax fiscal policy and increasing fiscal worries**. The disappointing economic growth from 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, the space for immediate key rate cuts is very limited, but according to our calculations, **annual inflation will drop to levels close to 4% at the beginning of 2025, opening the door for the NBR to cut again gradually the key rate**. With less funds available in the economy in 2025, core inflation could return within the 1.5-3.5% target range in 4Q. **Consequently, with a tighter fiscal policy as of next year, we believe that the central bank will be able to deliver several key rate cuts, especially in 1Q25 and 2H25, down to a level of 5%**. The NIS released the **unemployment rate figures for Aug, showing a rise to 5.5%, from 5.4% in July**. Furthermore, foreign exchange reserves (incl. gold) **increased by EUR 2.9 bn during September 2024, to EUR 73.7bn.**

This week the main external data release will probably be the **US CPI-inflation** numbers for September (Thursday), after US labor data erased the likelihood of another 50bp of easing by the Fed at the 7 November FOMC meeting, according to forward rates. Still, in the **US,** the **minutes of the Fed meeting** in September, **PPI data** and the preliminary University of Michigan Index of Consumer Sentiment for October will be important as well. In **Germany,** the release of **industrial-production data** (Tuesday) will follow the release of very weak figures on factory orders, which were released early Monday morning. In **Romania,** we will have the **August data** on the **retail sales** which are expected to accelerate (Monday) and the **trade balance** (Tuesday) probably continued to widen. The **2Q24 GDP** is likely to be confirmed at +0.8%yoy (Thursday). On Friday, we expect the **annual inflation for September** to decline below 5%yoy due to a base effect and the **average net wages'** growth to slightly slow down in August. Also on Friday, **S&P Global Ratings will publish its regular update of Romania's sovereign rating which will likely be maintained at BBB- level (investment grade), with a stable outlook.**

UniCredit Bank

Data spotlight: 30 September – 4 October

CURRENCIES - MAJORS			
Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0979	0.05%	-0.91%
EURCHF	148.91	1.41%	2.45%
USDJPY	1.31	-0.11%	-0.02%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE			
Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.3215	0.07%	1.09%
EURHUF	401.80	0.14%	2.21%
EURCZK	25.33	-0.08%	1.12%

CURRENCIES - NBR REFERENCE				
Currencies	EUR	USD	SDR	XAU (1g)
7-Oct	4.9770	4.5425	1.2008	0.5849

CURRENCIES - RON		
	EURRON	USDRON
7-Oct	4.977	4.534
4-Oct	4.978	4.535
3-Oct	4.976	4.511

FIXED INCOME MARKET YIELDS - LOCAL				
Mid-rate	1Y	3Y	5Y	10Y
7-Oct	5.7	6.2	6.2	6.7
4-Oct	5.7	6.2	6.2	6.6
2-Oct	5.7	6.2	6.2	6.6

MONEY MARKET RATES - LOCAL			
ROBOR	ON	1M	3M
7-Oct	5.53	5.55	5.60
4-Oct	5.53	5.54	5.55
3-Oct	5.53	5.54	5.60

MONEY MARKET RATES - MAJORS			
Euribor	1M	3M	6M
4-Oct	3.27	3.25	3.05
3-Oct	3.29	3.24	3.07
2-Oct	3.33	3.25	3.09

STOCK MARKETS			
Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,751.1	0.90%	4.18%
FTSE	8,316.8	0.44%	1.65%
Hang Seng	23,099.8	1.60%	30.87%
Bucharest BET	17,483.6	0.14%	0.55%

Romanian Economy

■ The NBR kept the monetary policy rate at 6.50%

At its meeting last Friday, the NBR decided to keep the key rate at 6.50%, as anticipated by us and the majority of the polled analysts (60-70%).

Accordingly, the credit facility rate remained unchanged at 7.50% and the deposit facility rate at 5.50%. The NBR maintained the existing levels of minimum reserve requirement ratios for both the RON and the FX liabilities of credit institutions.

In our opinion, NBR's decision was due to the still high annual inflation, the very lax fiscal policy and the increasing fiscal worries. The disappointing economic growth from 1H24 indicates that a key rate cut would be welcomed, but the NBR must find the right balance in between supporting growth and avoiding capital outflows and depreciation pressures on the RON.

The NBR took into consideration that the annual inflation fluctuated in the last months (5.42% in July, from 4.94% in June, and then fell to 5.10% in August) due to the rise in food and energy prices as a result of drought, and the higher tariffs for the gas distribution offsetting the drop in fuel prices.

Economic activity slowed down in 2Q24 to 0.1%qoq from 0.5% in 1Q, lower excess demand, in contrast to NBR's forecasts. However, the annual GDP growth increased to 0.8% in Q2, from 0.5% in 1Q, mainly due to an acceleration in household consumption.

Data spotlight: 30 September – 4 October

Romanian Economy (continued)

The latest data point to a weaker than expected growth in 3Q, but still higher than in 2Q, suggesting a rise in the annual GDP growth. The net exports had a strong negative contribution, with the imported goods and services rising rapidly, while the exports continued to decline. As a result, the trade and the current account deficits have worsened. The annual dynamics of retail sales remained strong, only slightly lower vs. the 1Q average, with motor vehicles sales rising further, while household services declined sharply. The industrial output stopped its decline in annual terms, while the construction works contracted to levels similar to the start of the year, after a relative recovery in Q2.

In the labour market, the number of employees picked up slightly but so did the ILO unemployment rate, reaching 5.5% in August (from 5.1% in July). The intentions of employing new workers are dropping sharply on the short term.

The interbank rates fell again in August, after NBR cut rates in July and August. The long-term yields of government securities steeped their downward trend in August, in line with those in advanced economies, before rising significantly towards the end of 3Q. The EURRON returned in August to the higher values of 2Q and tended to stay there until end-3Q, reflecting high volatility on the international financial markets, as a result of the increasing tensions in the Middle East.

In NBR's view, the annual inflation rate is expected to decline until the end of 2024, though it will follow a fluctuating and higher path compared to NBR's August forecast, mainly due to base effects and a slowdown in the import prices.

Significant uncertainties and risks arise from fiscal and income policies, the labor market conditions and the geopolitical tensions, particularly the wars in Ukraine and Middle East, along with European economic performance. The energy and food prices, and the absorption of EU funds further contribute to uncertainty, as these funds are vital for the structural reforms and the energy transition.

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. Although our baseline scenario envisages an overall disinflationary path, we continue to see important inflationary risks coming from food and energy prices and from the deficit-correction measures likely to be implemented next year, mainly taxes, which will be reflected in the consumer basket. Yet, with a tighter fiscal policy, core inflation could return to within the 1.5- 3.5% target range in 4Q25, enabling the central bank to deliver several key rate cuts, especially in 1Q25 and 2H25, down to a level of 5%.

The next monetary policy meeting is scheduled for 8 November 2024.

UniCredit Bank

Data spotlight: 30 September – 4 October

Romanian Economy (continued)

■ **The Romanian ILO unemployment rose slightly in August**

The NIS released the unemployment rate figures for August, showing a rise to 5.5%, from 5.4% in July, in spite of our expectations for a marginal drop in line with the usual seasonality for the month [UniCredit:5.3%]. In annual terms (vs. August 2023), the jobless rate stagnated, and the number of unemployed people (gross data) was higher by 15342 (+3.6%yoy). The active population decreased slightly in comparison to July 2024, to around 8.22 million.

■ **Romania: international reserves increased in September**

Foreign exchange reserves (incl. gold) increased by EUR 2.9 bn during September 2024, to EUR 73.7bn. The monthly inflows amounted to EUR 6.1bn (supported by changes in credit institutions' foreign currency-denominated required reserves with the NBR and the inflows into the MinFin's accounts including the amounts resulting from the issuance of Eurobonds of the MinFin with a nominal value of EUR 3 bn and in US dollars with a nominal value of approximately EUR 1.9bn and others), while the outflows amounted to EUR 3.5bn (represented by changes in credit institutions' foreign currency-denominated required reserves with the NBR; interest payments and principal repayments on foreign currency public debt; payments from the European Commission's account). The stock of gold was unchanged at 103.6 tones and its value was EUR 7.85bn.

■ **BCR Romania Manufacturing PMI index dropped in September**

The BCR Romania Manufacturing PMI index (compiled by S&P Global based on answers from 400 respondents) deteriorated to in 47.3 from 48.4 in the previous month and is still in contractionary area. Both incoming new orders and production volumes fell at accelerated rates due to subdued demand, influenced by constrained customer budgets. The Romanian manufacturing sector remained under pressure in September with four out of the five PMI components showing negative directional influences. Employment levels also decreased at the highest pace so far, and the quantities of purchased inputs continued to fall, while supplier delivery times continued to lengthen in September. With weak demand for inputs, the cost pressure was not significant. On a positive note, manufacturers remained optimistic about future output, supported by expansion plans and machinery investments.

■ **Romanian producer prices decreased in August**

Producer prices decreased by 1.1%mom in August, after a 2.1%mom increase in July, while on a yearly basis the prices rose by 2.7%yoy (vs. +2.6%yoy in July), much lower than we were expecting [UniCredit: +3.9%]. Although the oil prices expressed in dollars decreased in August by 6.8%mom, we were expecting a low passthrough to producer prices in line with the trends observed in the previous months, which would have led to a PPI drop of only 0.1%mom. Yet, the producer prices for manufacturing of coke and refined petroleum products recorded the largest monthly decrease, by 7.7%mom. The prices on the internal market declined by 1.6%mom, while those on the external market increased by 0.1%mom. The highest increases were recorded for manufacturing of basic pharmaceutical products and pharmaceutical preparations (+1.8%mom), mining and quarrying (+1.4%mom) and manufacturing of paper and paper products (+1.4%mom).

Data spotlight: 30 September – 4 October

European Economy

- ### German inflation continued to decrease in September

German inflation decreased to 1.6% in September, more than expected [UniCredit and consensus: 1.7%yoy] from 1.9%yoy in August, driven by the lower energy prices (-7.6% vs. -5.1% in August), while the food prices rose faster (1.6% vs. 1.5%). Besides gasoline prices being lower compared to August, a base effect has additionally dampened the yoy rate. The prices for services eased slightly to 3.8%yoy from 3.9% in August. The core inflation (excl. food and energy) eased to 2.7%yoy, its lowest level since January 2022, from 2.8%yoy in August. On a monthly basis, the CPI remained unchanged compared to an expected 0.1%mom rise.

- ### Eurozone inflation declined below 2% in September

Eurozone headline inflation declined to 1.8%yoy in September, beating forecasts [UniCredit:1.9%; consensus: 2.0%], continuing the downward trend from Aug (2.2%yoy) and recording the first reading below 2% since mid-2021. Compared to the previous month, the CPI decreased by 0.1%, marking the first decrease since February 2024. Core inflation tempered to 2.7%yoy in September from 2.8% in the previous month, below the expected level [UniCredit and consensus: 2.8%]. The decline in headline inflation was driven by energy (-6% vs. -3%) and services, which slowed down to 4% (vs. 4.1%). Although the release is below the ECB's 2% target, a base effect on energy prices will likely push headline inflation higher again by year-end.

- ### The Eurozone unemployment rate was unchanged in August

The unemployment rate in the eurozone remained unchanged from the prior month at 6.4% in August of 2024, marking its lowest on record, and in line with forecasts [UniCredit: 6.5%; Consensus: 6.4%]. This result shows the resilience of EU labor markets in relation to the ECB's monetary tightening period.

Data spotlight: 30 September – 4 October

US Economy

US ISM Manufacturing remains unchanged from the previous month

The ISM Manufacturing index was 47.2 in September, remaining unchanged from August [UniCredit: 47.6]. The figures continued to point to a contraction in the manufacturing sector which has now been in place for six months straight. Moreover, demand continues to be weak, output is declining, and inputs remained accommodative.

US ISM Non-manufacturing PMI edged up in September

The ISM Non-Manufacturing index increased to 54.90 in September from 51.50 in the previous month, surpassing estimations [UniCredit: 51.5; Consensus: 51.5]. This is the strongest growth in the services sector since February 2023. New orders continued to improve (59.4 vs. 53 in August) alongside an increase for business activity (59.9 vs. 53.3). Employment levels contracted (48.1 vs. 50.2) and the prices' component accelerated further (59.4 vs. 57.3).

JOLTS job openings rose at 8040k in August.

The number of job openings increased to 8.040k from last July's 7711k, ending above expectations [UniCredit: 7670; Consesus:7673]. The biggest increase in the number of job openings was seen in construction (+138,000) and in state and local government, excluding education (+78,000). Moreover, payrolls in the prior two months were revised up a cumulative 72k, which breaks the recent trend of downward revisions to past months. The three-month average payroll gain picked up to 186k in September from 140k in August. The pace of job gains in September was more than enough to absorb the rise in the population. Household employment (an alternative measure of employment to payrolls) rose a large 430k, which was more than enough to absorb the 150k rise in the labor force, resulting in unemployment falling by 281k. The unemployment rate eased to 4.1% from 4.2% and is now slightly below FOMC participants' median projection for the longer-run unemployment rate of 4.2%.

Average hourly earnings rose 0.4% in September.

Average hourly earnings also came in stronger than expected, rising 0.4% mom in September after an upward-revised 0.5% mom rise in August. A fall in average hours worked (to 34.2 from 34.3) in September probably contributed to the rise in hourly earnings, since most people report earnings bi-weekly, and hourly earnings are computed as total earnings divided by hours. It took the year-on-year rate up to 4.0% from an upward-revised 3.9% in the prior month. This is slightly above the around 3.5% pay growth that the Fed deems to be consistent with meeting the 2% inflation target overtime.

UniCredit Bank

Data spotlight: 30 September – 4 October

International and Romanian Markets

- **The EURRON jumped above 4.98 at the end of last week**

The EURRON traded within the 4.9737-4.9775 range for most of last week, but the RON was under strong depreciation pressure on Friday evening, touching a high at 4.9828. The pair touched Friday's high in the early hours of today's trading session and, although it decreased afterwards, the lowest level was in the vicinity of 4.9775. CEE currencies remain under pressure due to the geopolitical uncertainty and the September US employment report on Friday, which came in much stronger than expected.

- **The ROBOR curve was stable last week**

Given the abundant liquidity, the ROBOR curve remained unchanged 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.

- **MinFin auctions**

Last Monday, the Ministry of Finance held an auction for a T-bond with maturity of 13.4 years. The bids covered the planned amount, at RON 2.1bn vs. RON 400mn, enabling MinFin to place RON 500mn. The average accepted yield was 6.48% (max. 6.48%), which is 24bp below the yield at the previous reopening five weeks ago.

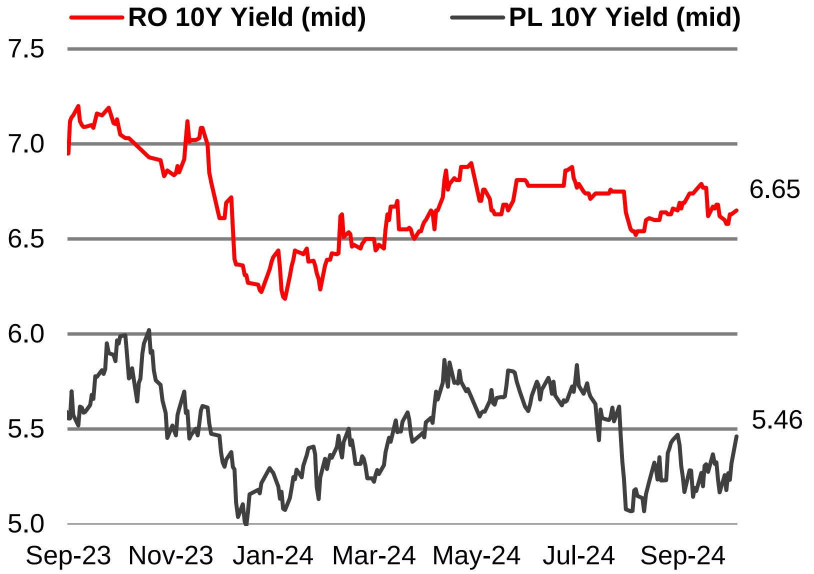
Last Thursday, the Ministry of Finance held auctions for two T-bonds with residual maturities of 7.4 years and 16 months. Both enjoyed high demand, with bids covering the planned amount: RON 869mn vs. RON 500mn for the first one and RON 1.46bn vs. RON 700mn for the second one. MinFin decided to place RON 514mn and RON 906mn, respectively. The average accepted yields were 6.63% (max 6.63%), down 2bp from the previous reopening and 6.02% (max 6.02%), down 2bp from the previous reopening.

- **FX markets**

Since mid-September the EUR-USD pair was trading within 1.11-1.12, with investors pricing in ample rate cuts by the Fed by the end of 2025. Yet, the pair started to decrease in October, due to the increased probability of an ECB rate cut in October and above-expectations US Job-openings. Tensions in the Middle East likely also contributed to a firmer USD, given the dollar's safe-haven status. A Trump presidency is more likely to favor the USD than a Harris presidency. Yet, the intensity of Fed easing will likely be a key driver over the next few months, especially if Trumps wins. A higher US budget deficit might act as a long-term drag on the USD primarily under Trump. Tariff hikes, higher core-market rates, a stronger USD and shifts in geopolitical risks are likely to weigh on CEE currencies in the event of a Trump presidency.

Focus Ahead: 7 – 11 October

MinFin Issues



Data Source: Thomson Reuters

- The Romanian yield curve was almost flat last week on the short-end, while the long-end continued to decline by up to 4bp.
- This week, MinFin intends to place RON 500mn in 3.5Y T-bonds on Monday, as well as RON 500mn in 10Y T-bonds and RON 700mn in 1 Y T-bills on Thursday.

BOND ISSUES - OCTOBER								
ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (avg)
ROZBOC49U096	31-Oct-24	30-Oct-28	48.7	500	lei			
RO0DU3PR9NF9	28-Oct-24	24-Feb-38	162.2	400	lei			
ROIVMY4DBH93	24-Oct-24	25-Jun-25	8.1	300	lei			
ROJVM8ELBDU4	21-Oct-24	25-Apr-29	54.9	500	lei			
RODFIUK7ZV55	17-Oct-24	25-Apr-35	128.1	400	lei			
ROP9QVD42HO2	14-Oct-24	31-May-27	32.0	700	lei			
ROTM7EDD92S2	10-Oct-24	31-Jul-34	119.4	500	lei			
RO7YFU3JCQI9	10-Oct-24	29-Sep-25	11.8	700	lei			
ROCDG04X8WJ7	7-Oct-24	26-Apr-28	43.2	500	lei			
RO7EKTXSRHD6	3-Oct-24	28-Jan-26	16.1	700	lei	1,461	906	6.02
ROO7A2H5YIN8	3-Oct-24	25-Feb-32	90.0	500	lei	869	514	6.63

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Focus Ahead: 7 – 11 October

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
7-Oct-2024	GE	Industrial Orders (% mom)	Aug	-1.8	-2.0	2.9
	Romania	Retail sales (%, yoy)	Aug	8.6		7.4
8-Oct-2024	GE	Industrial production (% mom)	Aug	2.0	0.8	-2.4
	US	Trade Balance (USD bn)	Aug	-72.0	-71.3	-78.8
9-Oct-2024	GE	Exports (% mom)	Aug	-1.5	-1.0	1.9
10-Oct-2024	US	Consumer price index, CPI (% yoy)	Sep	2.3	2.3	2.5
	US	Consumer Price Index, CPI (% mom)	Sep	0.1	0.1	0.2
	US	Core CPI (% yoy)	Sep	3.2	3.2	3.2
	US	Core CPI (% mom)	Sep	0.2	0.2	0.3
	Romania	Trade Balance (EUR mn)	Aug	-3199.8		-2949.2
	Romania	GDP (%, yoy)	2Q F	0.8	0.8	0.8
11-Oct-2024	US	PPI ex. Food & Energy (% mom)	Sep	0.2	0.2	0.3
	Romania	CPI (%, yoy)	Sep	4.8	4.7	5.1
	Romania	Wages Net (%, yoy)	Aug	14.3		14.8
	Romania	S&P to review Romania's sovereign rating		BBB-, stable		BBB-, 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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https://www.investmentinsights.unicredit.eu/glossary.

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