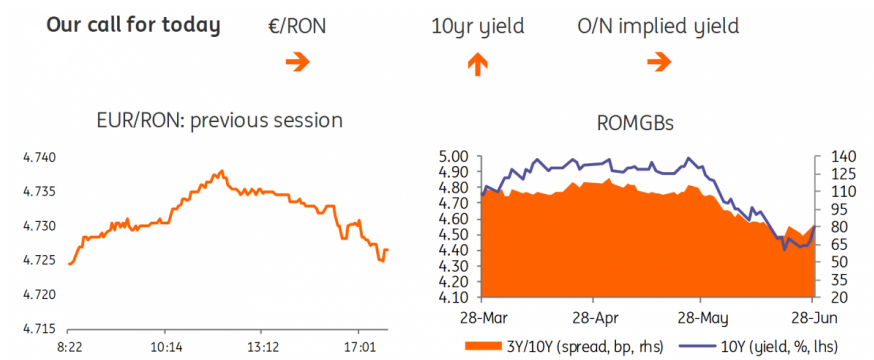


Briefing Romania

10Y bond auction in the spotlight



EUR/RON

Tests above 4.7300 seem to be multiplying for the EUR/RON. On Friday, the pair moved as high as 4.7370 before returning below 4.7300, where it closed. The global dovish mood has been helping the Romanian leu and post-G20 developments are likely to go in the same vein. Therefore, while upside tests are still more and more likely, we don't expect meaningful depreciation pressures to kick in yet and look for a 4.7200-4.7400 range this week, with the market eyeing parliament's vote

on the new National Bank of Romania Board on 3 July followed by the central bank rate setting meeting on 4 July.

Government bonds

With over 20 basis points lost in less than a week, today's RON500 million Feb-2029 auction will be a test for Romanian government bonds to see whether the new levels are a magnet for investors or if the market has actually changed its stance following the adoption of a new pension law. We tend to believe that the local idiosyncratic story is starting to take its toll as well, but not enough yet to deter demand for what still seems to be one of the juiciest yields in the area. Hence, we expect good demand for today's auction, possibly with a bit of a longer tail and an average yield around 4.65%.

Money market

The money market implied yields traded flat on Friday. We expect the NBR to roll over its deposit taking auction and keep the front end anchored around current levels.

The week ahead

There is plenty of US economic data this week, starting with the ISM manufacturing index. We believe there is a real risk that we see a sub-50 outcome, which will only increase fears of a US economic downturn. We will also get the ISM non-manufacturing index which should perform a little better, but given weaker sentiment surveys and other macro data, we would still expect a decline. On Friday, we will get the US jobs report and we expect a rebound following the surprisingly weak 75,000 outcome in May. Nonetheless, with Federal Reserve officials talking of precautionary action, the prospect of a July interest rate cut has certainly increased. Consequently, the risks are skewed towards 25 basis point cuts in July and September rather than in September and December, as we are currently forecasting.

On the local front, we expect the National Bank of Romania (NBR) to keep the key rate at 2.50% on its 4 July meeting where it is likely to embrace the global dovish mood, citing the "regional context" and arguing that this year's inflation peak is behind us. However, before that, on 3 July the parliament session runs into extra time to vote, among other appointments, for a new NBR Board on 3 July. It seems that there is cross-party support, with some dissenters, to offer Governor Mugur Isarescu a new term. This is likely to alleviate some investor concern about central bank independence.

EUR/RON forecasts (eop)

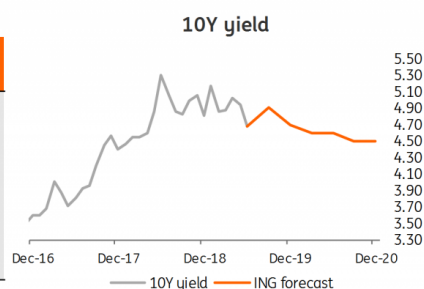
	3Q19	4Q19	1Q20	2Q20	3Q20
ING forecast	4.77	4.85	4.85	4.85	4.87
FX Forward	4.77	4.82	4.87	4.90	4.95

Market radar

	Spot	%Ch		
		1D	1W	1M
EUR/RON	4.7240	0.0	-0.2	-0.6
EUR/PLN	4.2434	-0.2	-0.2	-1.1
EUR/HUF	322.56	-0.2	-0.5	-0.7
EUR/CZK	25.42	0.0	-0.7	-1.6
RO 5Y CDS*	89.7	-100.0	2.2	-0.2
ROBOR O/N*	2.58	-3.0	90.0	-23.0
ROBOR 3M*	3.23	0.0	0.0	-2.0

*change in basis points; **US\$ (data as at 06:12 GMT)

Source: Reuters, ING estimates



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