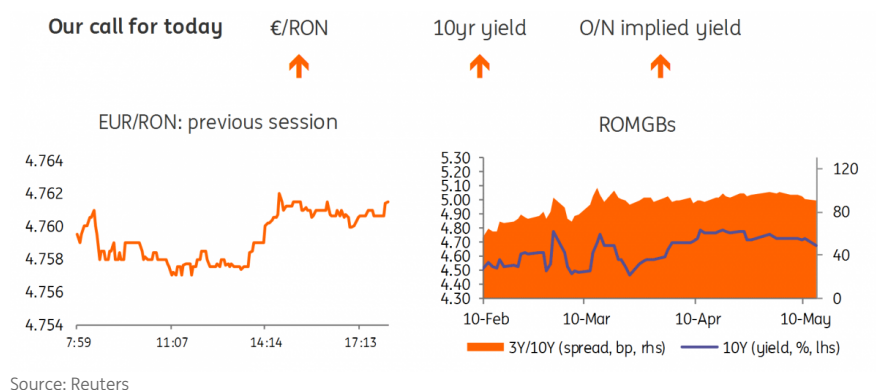


Briefing Romania

Inflation beats expectations again



↑ EUR/RON

The 4.7600 level seems to be gradually turning into support for the EUR/RON. Regional currencies remain slightly on the defensive, with global risk sentiment on shaky ground. We therefore look for more upside tests for the EUR/RON, with the National Bank of Romania likely to curb attempts over 4.7700.

↑ Government bonds

Romanian government bonds traded thinly again, with no clear direction yield-wise. Today's higher-than-expected inflation data could stir the market a bit, as it should further fuel the

hawkish central bank stance. The Ministry of Finance plans to sell RON500 million in June-2024 bonds. The inflation print could shift expectations a few basis points higher but demand should still be reasonable for this tenor. We expect an average allocation around 4.45%. CPI came in at 4.1% year-on-year, above consensus, but in line with our call. The government emergency decree from December, which alongside the bank levy included a tax on turnover for telecom companies, led to a 0.1 percentage point CPI increase, as companies continue to pass it through to consumers. This led to a significant spike in core inflation from 2.7% to 3.0%, above our expectations. We see CPI at 3.8% by year-end and core at 3.2%. We expect the NBR to stay on hold on Wednesday and revise its CPI forecast higher, towards our projection.

Money market

The central bank's monthly bulletin has shown a liquidity deficit for April of RON1.2 billion. The large redemption from 29 April has likely shifted the system's liquidity into surplus, which is why we expect the central bank to drain liquidity today at the key rate.

The week ahead

After President Trump increased the level of tariffs that apply to a USD200 billion package of Chinese imports, markets will be watching the negotiations between both countries for signs of thawing tensions. Our trade team thinks some kind of deal is still the most likely outcome, although that may not happen until the second half of the year. We expect solid US retail sales as consumer spending makes a 2Q comeback. This is one reason why we think a Fed rate cut is unlikely in the foreseeable future.

In Romania, stronger consumption has likely been accommodated via higher imports, hence the negative contribution to growth from net exports has probably offset - to a large extent - the consumption boost in the first quarter of 2019. Public investment spending has been very low due to an unapproved budget bill. There are also high levels of uncertainty in the private sector due to late-2018 fiscal changes weighing in (as well as on) spending/investments decisions. All things considered, we expect a marginal acceleration in the economy by 0.2% in 1Q19 vs. 4Q18, which translates into 4.1% year-on-year growth. Range for EUR/RON this week: 4.7550-4.7750.

EUR/RON forecasts (eop)

	2Q19	3Q19	4Q19	1Q20	2Q20
ING forecast	4.77	4.78	4.85	4.87	4.88
FX Forward	4.79	4.84	4.89	4.94	4.98

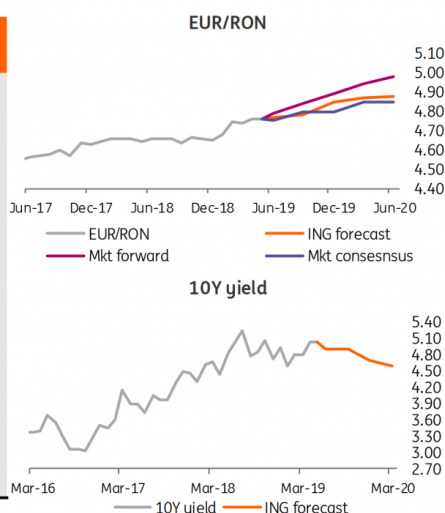
Source: Reuters, ING estimates

Market radar

	Spot	%Ch		
		1D	1W	1M
EUR/RON	4.7600	0.0	0.2	0.1
EUR/PLN	4.3007	0.1	0.6	0.4
EUR/HUF	323.29	-0.3	0.0	0.3
EUR/CZK	25.734	-0.1	0.2	0.5
RO 5Y CDS*	87.3	16	0.6	-19.1
ROBOR O/N*	2.54	10	-24.0	-95.0
ROBOR 3M*	3.30	0.0	-10	-6.0
DAX	12059.8	0.4	-2.5	14
S&P 500	28814	0.7	-17	0.3
DE 10Y*	-0.04	0.2	-6.3	-3.8
US 10Y*	2.44	-0.2	-9.1	-6.5
Gold (US\$)**	1283.3	0.1	0.3	-0.7
Brent (US\$)**	710	0.3	0.2	0.8

*change in basis points; **US\$ (data as at 06:22 GMT)

Source: Reuters, Bloomberg, ING



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