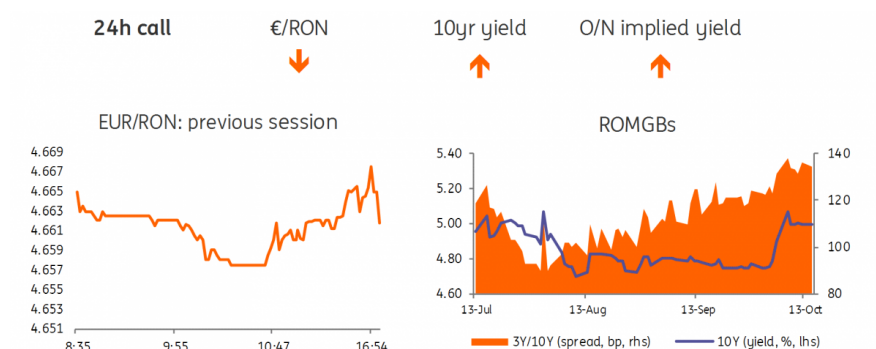


BriefING Romania

Challenging 10-year auction



Source: Reuters

↓ EUR/RON

The EUR/RON tested below 4.6600 on Friday but failed to consolidate and closed the day around 4.6620 on average turnover. We see the pair maintaining the mild downside bias and eventually dip below the 4.6600 in the coming days, tracking peers, but still remaining fragile to risk sentiment.

However, the upside seems pretty much capped to 4.6700 for now as the central bank seems to stand ready to avoid any significant pass-through into inflation before the base effects bring the headline lower towards its target band. The central bank's deputy governor Liviu Voinea was cited by Bloomberg saying that "volatility on the global markets is the key risk for our monetary policy

at the moment” given that “the biggest pass-through in inflation is from the exchange rate. It’s significantly higher in the short-term and medium-term than the nominal wage pass-through to inflation.”

↑ Government bonds

Sluggish dynamics in the Romanian government bonds market as the curve closed flat despite the strong October 2020 auction in the previous day. Today the MinFin will face a challenging task to sell RON500 million in February 2029 bonds, the new 10-year benchmark.

Last month we had a rather long tail for this ISIN, at 4.98/5.03% average/cut-off yields with the initial RON 300million target being upsized to RON411 million. Meanwhile, the market shifted some 20bp higher while the MinFin has shown willingness to upsize any auction if there is a demand within a reasonable tail.

We expect moderate demand for today’s auction and look for an average yield within 5.20-5.25% depending on the MinFin’s willingness to issue more. In the Bloomberg interview, the deputy governor added that the central banks is “in the tightening cycle - the number of hikes isn’t over” but “when this will happen - either this year or next - depends on evidence”. The overall tone of his interview was hawkish in our view.

↑ Money Market

The money market implied yields traded flat as the minimum reserve heads into the second part of the maintenance period, offsetting to some extent the absence of NBR’s liquidity injections. These could be unnecessary for now, but starting with the next reserve period, rates might be under pressure again.

The week ahead

In the week ahead, we see US retail sales bouncing back strongly in September after a disappointing August for retailers. Due to hurricane Florence, there is the risk for some data volatility within the industrial production report, but again we see some upside to the market forecast of a 0.2% MoM gain. The Eurozone will be focused on the Italian budget proposal to the European Commission, and whether that will show any last minute changes that could indicate a softening of the stance on the Italian side. From a data perspective, the trade balance will be interesting to watch given the trade turmoil, especially after a significant slide in the balance in July.

With nothing notable on the domestic calendar, we see 4.6500-4.6700 range for the EUR/RON this week.

EUR/RON forecasts and forwards

	4Q18	1Q19	2Q19	3Q19	4Q19
ING forecast	4.70	4.67	4.65	4.70	4.75
Forward rate	4.70	4.75	4.80	4.85	4.90

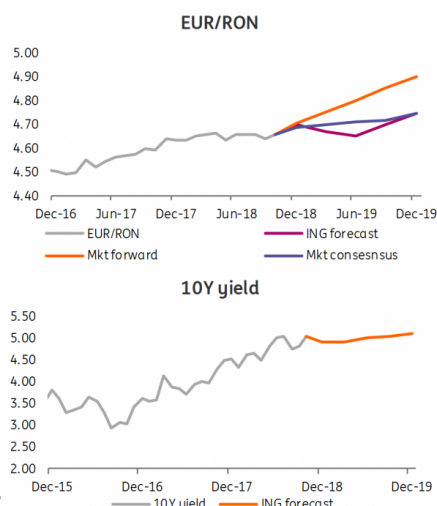
Source: Reuters ING estimates

Market radar

	Spot	%Ch		
		1D	1W	1M
EUR/RON	4.6625	0.0	-0.3	0.5
EUR/PLN	4.2885	-0.3	-0.5	-0.3
EUR/HUF	323.94	-0.1	-0.3	0.0
EUR/CZK	25.795	-0.2	0.1	1.1
RO 5Y CDS*	97.37	-0.4	0.7	5.0
ROBOR O/N*	2.75	0.0	22.0	34.0
ROBOR 3M*	3.17	0.0	4.0	7.0
DAX	1623.8	-0.1	-4.5	-4.1
S&P 500	2767.13	1.4	-3.6	-4.2
DE 10Y*	0.488	-2.0	-7.6	6.4
US 10Y*	3.463	1.0	-8.1	18.2
Gold (US\$)**	1223.44	-0.5	1.7	1.9
Brent (US\$)**	81.25	0.2	-3.5	4.5

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

Source: Reuters, Bloomberg, ING



Author

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.