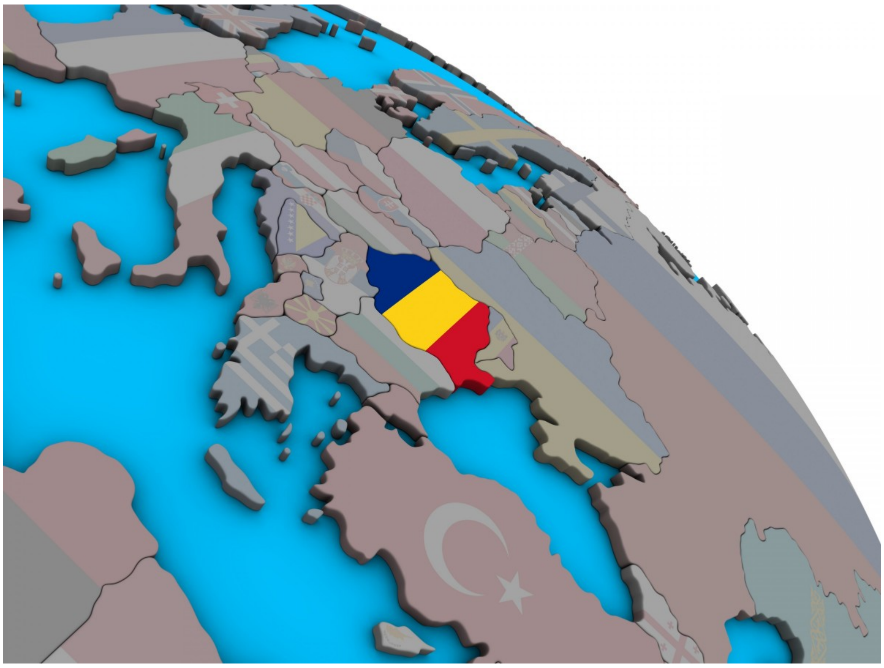
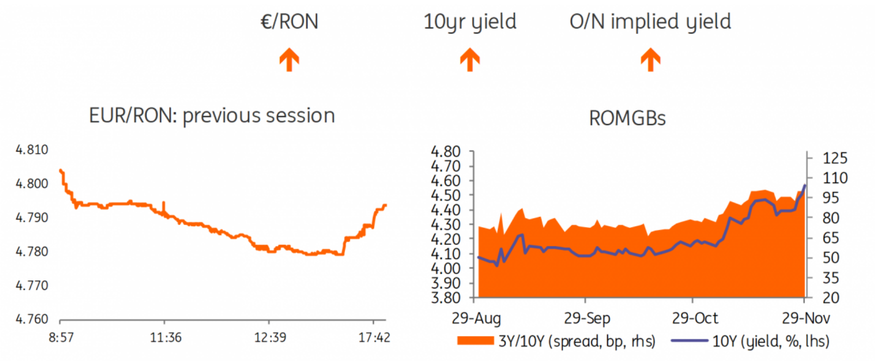
Briefing Romania

Heavy trading in EUR/RON





Source: Refinitiv Datastream

EUR/RON

Yesterday was one of the most active trading sessions in the EUR/RON, with the largest daily turnover in the last six years (since data became available in Reuter's system). After trading in reasonable volumes above 4.8000 in late hours of the previous day, the EUR/RON was managed lower towards 4.7800 yesterday. After the fixing time, the upward move resumed and the pair closed just above 4.7900. For today, we still expect the pair to be managed around current levels.

NBR Governor Mugur Isarescu reiterated yesterday that a correction of the external imbalance won't happen only via FX depreciation.

Government bonds

In a pretty bearish market, ROMGB yields continued to shift upwards and closed 7-8 basis points higher at the long-end of the curve. The market has been anticipating the December auction calendar which shows RON5.3 billion up for sale. The range of maturities looks relatively balanced. Now, remember that the target for November was around RON5 billion and we ended up with a total issuance of over RON8.2 billion. Hence, we believe that the Ministry of Finance would be more than willing to allocate at least a similar amount, or higher if possible. Another short-notice euro issuance should not be excluded either.

On another note, the budget revision bill has been adopted yesterday targeting a -4.4% of GDP budget deficit, -0.1% more than initially announced. We think that this makes it almost impossible for Romania to elude the European Commission's (EC) Excessive Deficit Procedure (EDP) next year even if the government triggers the structural reform clause related to pillar II pension contributions and some spending on military equipment is not accounted in ESA methodology. The EC is likely to be reluctant to accept one-offs for EDP, as the 2020 the budget deficit seems that will remain well above -3.0% of GDP and exceptions for pillar II contribution have been enacted early this year for workers in the construction sector.

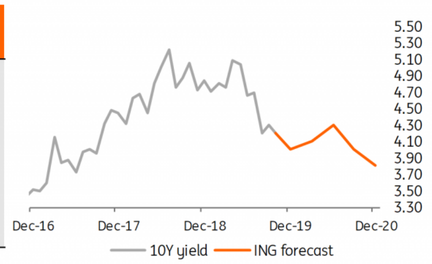
Money market

Cash rates remained anchored around 2.50%, which is lower than we had expected. The paying interest in longer tenors started to emerge, pushing the 1Y implied yields close to 3.30%. Given the high turnover on the FX market, we believe that there is more upside potential for both funding and longer term rates. The NBR governor suggested that the MinFin should tap the surplus liquidity in the money market to finance the budget shortfall instead of financing it from the Treasury's FX buffer.

ING forecast	4.80	4.82	4.82	4.84	4.85
FX Forward	4.80	4.85	4.89	4.93	4.98

EUR/RON	4.7880	0.5	0.1	0.7
EUR/PLN	4.3215	0.1	0.6	1.2
EUR/HUF	335.71	0.1	0.6	1.8
EUR/CZK	25.565	0.2	0.2	0.1
RO 5Y CDS*	89.6	0.0	-0.6	-0.6
ROBOR O/N*	2.66	-4	61	-15
ROBOR 3M*	2.99	0	0	-2

*change in basis points; **US$ (data as at 06:29 GMT)



Source: Refinitiv Datastream, ING estimates

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