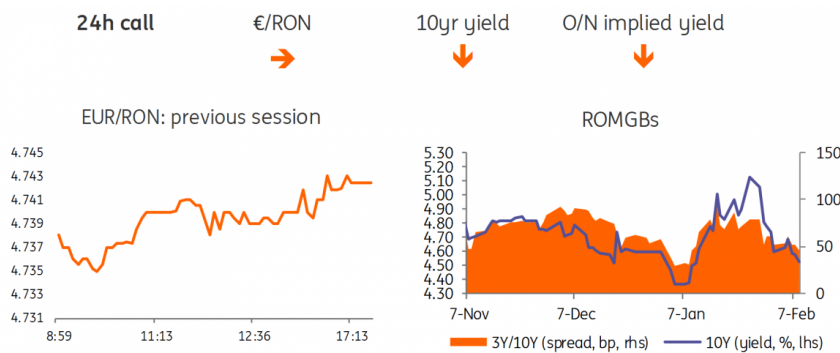


Briefing Romania

Key rate on hold



➔ EUR/RON

The EUR/RON closed slightly higher yesterday, around 4.7430 on low turnover. In the press briefing following the National Bank of Romania's board meeting, Governor Mugur Isărescu touched on FX developments saying that “fluctuations of up to 5% are not subject to particular attention from the central bank” and that January FX intervention was “too obvious to deny”. We read this as a sign that the central bank’s sensitivity to FX remains high and it aims to discourage sharp moves. Still, the NBR governor mentioned in yesterday’s press briefing several times that weak twin deficits suggest some flexibility towards a gradual depreciation of the Romanian leu.

📌 Government bonds

Romanian government bonds had another good day overall, as the curve closed the day 4-5 basis points lower. Governor Isărescu mentioned a few suggestions yesterday that the central bank has already made to the Ministry of Finance regarding possible changes to the bank levy. For example, an exemption of government bond holdings from the tax base was recommended. The Prime Minister said yesterday evening that the government “needs to show flexibility” on the recently adopted measures via the government emergency decree which included the bank tax, without offering further details. If bonds were exempt from the bank tax, we believe this could trigger a rally on the local bond market, though some positive changes of the legislation are likely already priced in to some extent.

MinFin’s RON300 million October 2021 auction was very successful, with a bid-to-cover ratio of 4.08x. The Ministry of Finance allocated RON653.55 million at 4.04% average and 4.05% maximum yields, in line with our call. Both the PM and FinMin said yesterday that the 2019 budget bill will be on today’s regular government meeting.

📌 Money Market

Front end implied yields continued to ease a bit, dipping below 5.00%, but the levels are still quite high compared to the key rate of 2.50%. We believe that the downward trend should continue as we move forward into the current reserve period and liquidity from MinFin’s monthly spending will start to filter through. Despite the large quarterly payments to the state budget on 25 January, NBR data showing an average daily surplus liquidity of RON5.9bn in January, up from RON1.9bn in December, should support our call for lower funding rates in the coming period. There is also a RON5.9 billion redemption at the start of the next reserve maintenance period.

EUR/RON forecasts

	1Q19	2Q19	3Q19	4Q19	1Q20
ING forecast	4.75	4.75	4.80	4.80	4.82
FX Forward	4.79	4.83	4.88	4.93	4.98

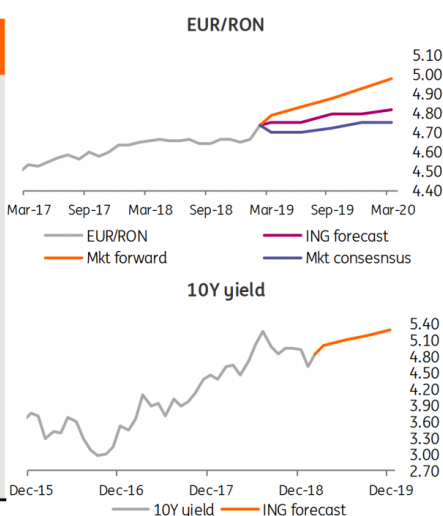
Source: Reuters, ING estimates

Market radar

	Spot	%Ch		
		1D	1W	1M
EUR/RON	4.7440	0.1	0.1	15
EUR/PLN	4.3046	0.3	10	0.1
EUR/HUF	318.6	0.1	0.9	-0.9
EUR/CZK	25.78	0.0	0.1	0.6
RO 5Y CDS*	105.1	0.2	0.7	0.6
ROBOR O/N*	3.56	10	43.0	170.0
ROBOR 3M*	3.10	-10	4.0	20.0
DAX	11022	-0.9	-10	15
S&P 500	2706.05	-2.7	0.6	5.3
DE 10Y**	0.11	0.2	-4.4	-10.3
US 10Y**	2.65	-4.6	17	-7.6
Gold (US\$)**	1308.4	0.3	-0.9	12
Brent (US\$)**	613	-17	0.7	-0.5

*change in basis points; **US\$ (data as at 06:25 GMT)

Source: Reuters, Bloomberg, ING



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