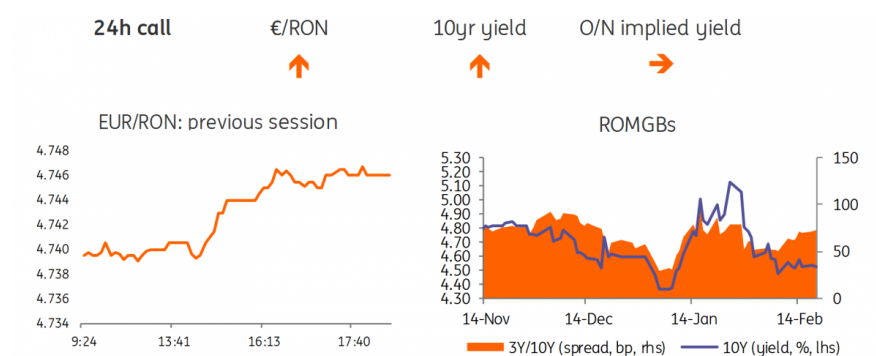


Romania Briefing

Unwarranted expectations



↑ EUR/RON

The EUR/RON closed just above 4.7450 yesterday on below average turnover. The first half of the trading day was quiet but the long-awaited meeting of the National Committee for Macprudential Oversight (NCMO), which was expected to provide some forward guidance for breaking the deadlock between the government and the central bank, did not provide a breakthrough in the debate on the design of the bank levy, which led to a spike higher for the EUR/RON. The conclusion of the meeting was that NCMO “identified solutions for possible scenarios for the adaptation” of the government emergency decree which included the bank tax. Hence, today’s government meeting is unlikely to bring any changes. The prospects for improving the fundamentals of the Romanian leu via fiscal consolidation and structural reforms are limited, with

a heavy election calendar ahead. Economic imbalances are likely to be partially offset in the short-term by a combination of a weaker currency and higher interest rates. Hence, once carry becomes less prohibitive to short the Romanian currency- as liquidity should normalise due to bond redemptions- we expect the EUR/RON to resume its uptrend. For today, we see a 4.7400-4.7550 range.

Government bonds

The Romanian government bond yield curve bull flattened yesterday with 10-year yields dropping around 10 basis points after the February-2029 bond auction did not match all of the genuine demand. The Ministry of Finance upsized the 10Y auction size to ORN347 million versus the RON200 million planned, at an average and cut-off yield of 4.78% on strong demand, with a bid-to-target ratio at 4x. The average of rejected bids was 4.84% suggesting that most of the demand came from one investor. It's possible this was driven by expectations that the bank levy would be amended swiftly to incorporate the main central bank suggestions. Expectations for a swift normalisation could be unwarranted for a while.

Money Markey

Funding rates remained stubbornly high, at around 6.25% implied yields, with no sign of the National Bank of Romania providing relief via a repo liquidity injection in the last week of the reserve maintenance period. It looks like the central bank is perceiving that RON depreciation pressure is more persistent and is using liquidity management as the first line of defence to discourage short RON positioning. A RON5.9 billion bond redemption on 25 February could ease the liquidity conditions despite monthly budget payments due on the same day. The money market implied yield curve remains inverted as the back end was largely unchanged with market pricing in another two big bond redemptions of almost RON9 billion each on 29 April and 24 June. Even if the budget bill sign-off faces hurdles, it is likely that government spending could speed up in March. The main uncertainty for the liquidity outlook is related to the extent to which the NBR will be covering the external shortfall from its FX reserves.

EUR/RON forecasts

	1Q19	2Q19	3Q19	4Q19	1Q20
ING forecast	4.75	4.75	4.80	4.80	4.82
FX Forward	4.79	4.84	4.88	4.93	4.98

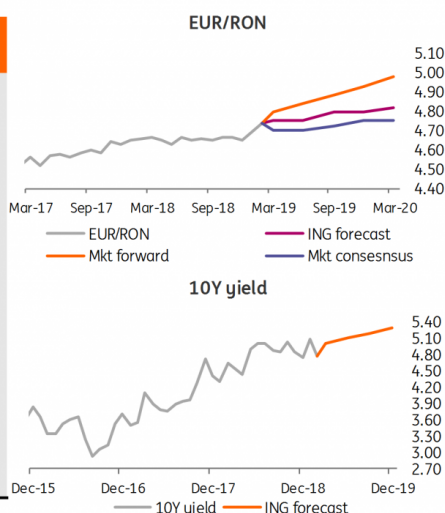
Source: Reuters, ING estimates

Market radar

	Spot	%Ch		
		1D	1W	1M
EUR/RON	4.7430	0.1	-0.1	0.8
EUR/PLN	4.3318	-0.2	0.1	1.1
EUR/HUF	316.09	-0.2	-0.6	-0.1
EUR/CZK	25.733	0.2	-0.6	0.6
RO 5Y CDS*	105.9	0.2	0.8	3.0
ROBOR O/N*	3.6	-6.0	6.0	16.0
ROBOR 3M*	3.14	-3.0	4.0	21.0
DAX	1299.2	0.0	2.9	12
S&P 500	2775	1.1	-99.4	-99.4
DE 10Y*	0.10	0.7	-12	-15.8
US 10Y*	2.66	-266.6	0.3	-118
Gold (US\$)**	1325.3	0.4	13	3.4
Brent (US\$)**	66.5	0.4	8.1	6.2

*change in basis points; **US\$ (data as at 06:52 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.