Macroeconomic and Strategic Analysis

UniCredit Weekly Report

Vaccine news increases optimism, but can't lift the economy over the long winter ahead

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Weekly briefing

At the beginning of December optimism on COVID-19 vaccines and reports that fiscal stimulus in the US could be announced soon lifted sentiment in the financial markets, in spite of the lockdowns being prolonged into December in several European countries. The better-than-expected economic data in China contributed to the optimism. The mood dragged the USD lower across the board, leading many currencies to gain further ground against the greenback in the absence of other big news. Thus, the EURUSD breached the 1.20 key threshold.

Nevertheless, consumers and businesses are worried. The German consumer confidence (GfK) for December weakened and consumers' assessment of the economic outlook has declined noticeably, with expectations that the recovery in Germany will slow down due to the implemented containment measures. German companies have become less optimistic about the coming months as well, with the Ifo business climate index declining slightly in November. Forward-looking business expectations deteriorated, indicating that concerns about lockdowns in Germany and abroad currently outweigh hopes for a successful vaccine. This stands in contrast to the recent rally on financial markets. On the positive side, the Ifo drop in November was "only" about one fifth of the plunge in March and April each during the first lockdown.

The minutes from the Fed meeting on 4-5 November revealed that "many participants judged that the Committee might want to enhance its guidance for asset purchases fairly soon". Since the meeting, the near-term economic outlook has deteriorated, new COVID-19 cases have risen, initial jobless claims have risen, personal income fell in October as fiscal support fell away, Congress has been unable to agree on a new stimulus package and the Treasury has refused to extend five of the Fed's emergency lending programs, against the central bank's wishes. The positive vaccine news will do little to affect the path of the virus and the economy over the long winter ahead. Consequently, although the minutes did not give a clear signal for upcoming action, UniCredit Research expects Fed to ease policy further at its 15-16 December meeting.

The Romanian budget deficit touched 7.05% at the end of October and the government adopted the third budget rectification of 2020 with a projected deficit of 9.1% of GDP for 2020, based on an economic contraction of 4.2% for the year. We continue to expect the budget deficit to touch up to 9.6% of GDP this year and forecast a higher economic contraction, of at least 5.1%yoy.

The Ministry of Finance is enjoying good demand for its bonds and is issuing both on the local and international markets. Last week, Romania sold EUR 1bn in 9Y Eurobonds and EUR 1.5bn in 20Y Eurobonds, after having issued previously this year EUR 6.3bn and USD 3.3bn on the foreign markets. In addition, MinFin placed on the local market RON 7.86bn in November, 55.4% above the plan. In December it intends to place on the local market RON 3.9bn in T-bonds with residual maturities ranging from 2.8 to 13.9 years and RON 0.5bn in 1Y T-bills. An additional RON 585mn could be placed through the supplementary sessions of non-competitive offers.

Romanian non-governmental loans advanced by 0.6%mom in October 2020 based on the 1.2% mom increase of the RON-denominated loans, while the foreign currency credit decreased by 0.8% mom. On a yearly basis, there was a 4.1% increase in total loans (non-governmental) due a stronger increase in RON lending (+7.4%), in spite of the decrease in foreign currency lending by 2.7%. The total non-governmental deposits advanced by 1.8%mom in October based on higher savings by households and companies, both in local and foreign currencies.

UniCredit Bank

Data spotlight: 23 – 27 November

CURRENCIES - MAJORS			
Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1,2056	-0,12%	3,45%
EURCHF	1,0825	-0,24%	1,40%
USDJPY	104,73	0,39%	0,05%
GBPUSD	1,3322	-0,77%	2,83%

CURRENCIES - CEE			
Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4,4797	0,78%	-2,75%
EURHUF	357,80	0,32%	-2,29%
EURCZK	26,41	0,53%	-3,02%

CURRENCIES - NBR REFERENCE				
Currencies	EUR	USD	SDR	XAU (1g)
02.dec	4.8721	4.0434	237.93	0.1337

CURRENCIES - RON		
	EURRON	USDRON
02.dec	4,872	4,042
01.dec	4,871	4,036
30.nov	4,874	4,088

FIXED INCOME MARKET YIELDS - LOCAL				
Mid-rate	1Y	3Y	5Y	10Y
02.dec	2,4	2,6	2,8	3,3
27.nov	2,4	2,7	2,8	3,3

MONEY MARKET RATES - LOCAL			
ROBOR	ON	1M	3M
02.dec	1,73	2,00	2,05
01.dec	1,89	2,04	2,07
30.nov	1,80	2,00	2,05

MONEY MARKET RATES - MAJORS			
Euribor	1M	3M	6M
01.dec	-0,55	-0,53	-0,51
30.nov	-0,55	-0,53	-0,51
27.nov	-0,55	-0,53	-0,51
USD Libor	1M	3M	6M
01.dec	0,15	0,23	0,26
30.nov	0,15	0,23	0,26
27.nov	0,15	0,23	0,26

STOCK MARKETS			
Index	Last	1D ch (%)	1M ch (%)
S&P 500	3.662,5	1,13%	10,64%
Dow Jones	29.823,9	0,63%	11,87%
FTSE	6.398,4	0,21%	10,57%
DAX	13.304,9	-0,58%	12,87%
Hang Seng	26.532,6	-0,13%	6,39%
Bucharest BET	9.360,1	0,80%	9,99%

Romanian Economy

- **Budget deficit reached 7.05% of GDP at the end of October**

The Ministry of Finance released the budget execution as of October 31st, showing a deficit of 7.05% of GDP, more precisely RON 74bn. The deficit is higher by 4percentage points than the one from the corresponding period of 2019, with around 3% of GDP being explained by the support package for combating the COVID-19 economic effects. Total revenue is 0.9% (RON 2.3bn) higher compared to same period of 2019 as an effect of higher inflows of EU funds (+49.3%yoy; +RON 7.4bn) and the increased income from taxes on goods' utilization, licenses and functioning authorizations which enjoyed a favorable base effect (+374.5%yoy; +RON 2.5bn). The VAT income is still 11% lower compared to 10M2019, due to higher VAT reimbursements, the VAT payment deferral and overall unfavorable economic evolution due to the restrictions related to COVID-19 . Income from the profit tax was lower as well, by 11.3%yoy (-RON 1.8bn). On the expenditures side, the highest increase was for social security spending (+22.8%yoy; +RON 21.6bn). Personnel expenses were 7% higher compared to 10M2019, while the expenditure on goods and services increased by 11.2% yoy due to the COVID-19 related costs. Investments were higher by 26.8% yoy (+RON 4.6bn). Based on our baseline scenario which considers just a 14% increase in pensions in 2020[1)], we expect the budget deficit to touch 9.5-9.6% of GDP this year, slightly higher than the governmental forecast of 9.1% announced at the latest budget rectification.

Note: 1) The Constitutional Court (CC) postponed to 13 January 2021 its ruling on whether the 40% pension hike (instead of 14%) adopted by the Parliament on 22 September is constitutional.

Data spotlight: 23 – 27 November

Romanian Economy (continued)

3rd budget rectification

The Government of Romania adopted the third budget rectification of 2020 with a projected deficit of 9.1% of GDP (RON 96bn) and an economic contraction of 4.2%yoy. Additional funds were allocated to Labor Ministry in order to cover the 14% pensions' increase but also to the Health Ministry (RON 1bn) for the payments of financial incentives to emergency personnel working in COVID-19 environment. An additional RON 1bn were allocated to PNDL (national program of local investments) to cover the local investments up to year-end. On the other side, the Ministry of Defense lost RON 2bn, followed by MinFin with RON 854mn and the Ministry of Internal Affairs with RON 635mn.

Construction authorizations (RO)

During October, the total number of authorizations for residential buildings dropped by 6.3% from the previous month but continued to increase in yearly terms by 7.5%. Out of the total, the sharpest decline in monthly terms was registered for authorizations in the rural area (-7.8% mom). The number of authorizations is impacted by seasonal factors, as the winter is approaching and work on constructions sites decelerates.

On the other side, the number of authorizations for administrative buildings and for other buildings (hotels, buildings used for trade, education or telecommunications or agriculture) continues to decrease both in monthly and yearly terms.

Loans market evolution (RO)

Non-governmental loans advanced by 0.6% in October 2020 compared to September 2020 based on the 1.2% mom increase of the loans denominated in RON while the foreign currency credit decreased slightly by 0.8% mom. On a yearly basis, there was a 4.1% increase in total loans (non-governmental) due a stronger increase in RON lending (+7.4%), in spite of the decrease in foreign currency lending by 2.7%. The households continued to increase their loans outstanding by 0.7% mom for the local currency component while the foreign currency loans continued their descend (-0.9% mom). Companies' loans advanced in October by 2.1%mom after +1.8% mom in September on the RON component due to the IMM Invest program, while the foreign currency loans outstanding decreased by 0.7%mom.

On the other side, the total non-governmental deposits advanced by 1.8%mom in October based on a higher increase in RON deposits (+2.1%mom) vs. the foreign currency (+1.1%mom). Both households and companies increased their deposits, by 2.4%mom and +0.8%mom, respectively.

Data spotlight: 23 – 27 November

European Economy

Economic sentiment in the Eurozone

The economic sentiment indicator in the euro area fell 3.5 points compared to the previous month to 87.6 in November 2020, the first drop since April 2020. The decline was due to rising coronavirus cases in the Eurozone countries which drove to lockdowns. The industrial sentiment fell by 0.9 points from the previous month to -10.1 in November 2020, ending six months of increases, as several countries across the bloc imposed new lockdowns.

GfK consumer confidence

Consumer confidence (GfK) for December declined to -6.7, after the indicator already decreased to -3.2 for November. The resumption of a "lockdown-light" at the start of November and the prospects of a tightening in restrictions to contain the spread of the coronavirus have dampened consumer sentiment considerably. In addition, consumers' assessment of the economic outlook has declined noticeably, with expectations that the recovery of the German economy will slow down due to the containment measures implemented by the government.

Ifo business climate index

The Ifo Business Climate Index posted a slight decline in November, to 90.7 points (UniCredit 90.2) from 92.5, which would is the second decline of the index after it peaked in September. The drop in the headline reading was caused largely by business expectations, as German companies have become less optimistic about the coming months due to continued high infection rates in Germany and the resumption of a second lockdown since the beginning of November. However, the decline in November was "only" about one fifth of the plunge in March and April each during the first lockdown. Forward-looking business expectations declined, indicating that concerns about lockdowns in Germany and abroad currently outweigh hopes for a successful vaccine. This stands in stark contrast to the recent rally on financial markets.

Eurozone PMIs

The November composite PMI fell into contractionary territory, dropping from 50.0 to 45.1. As a result of tighter restrictions, but much softer than those in place in March, activity in the services industry declined further, with the index falling from 46.9 to 41.3. The industrial sector, which has been spared from restrictions in most cases, fell at a slower pace, with the manufacturing PMI decreasing to 53.6 from 54.8. Next month, restrictions are likely to be eased somewhat ahead of the Christmas break, allowing some (temporary) output gains.

Data spotlight: 23 – 27 November

US Economy

Fed meeting minutes

The publication of the minutes from the FOMC's 4-5 November meeting revealed that "many participants judged that the Committee might want to enhance its guidance for asset purchases fairly soon". While "participants judged that immediate adjustments to the pace and composition of asset purchases were not necessary, they recognized that circumstances could shift to warrant such adjustments". Since the meeting, the near-term economic outlook has deteriorated, new COVID-19 cases have risen, initial jobless claims have risen in each of the last two weeks, personal income fell in October as fiscal support fell away, Congress has been unable to agree on a new stimulus package and the Treasury has refused to extend five of the Fed's emergency lending programs, against the central bank's wishes. While there has also been positive vaccine news, it will do little to affect the path of the virus and the economy over the long winter ahead. Consequently, although the minutes did not give a clear signal for upcoming action, UniCredit Research thinks that the Fed will announce further policy easing at its 15-16 December meeting, through an increase in the pace of asset purchases and/or buying longer-dated bonds. The minutes also showed that most participants preferred to taper and cease net asset purchases sometime before raising rates.

US initial jobless claims

The number of Americans asking for unemployment benefits reached 778,000 in the week ending November 21st, 30,000 higher compared to the previous week. The rise in new COVID-19 cases and new mandated restrictions are likely to continue the increase in layoffs in the coming weeks.

US personal income and spending

The personal consumption rose 0.5% mom in October after a 1.4% mom rise in September. Personal income fell -0.7% mom as higher wage income was more than offset by reduced unemployment benefits (President Trump's executive order extending enhanced unemployment benefits at the reduced amount of USD 300 per week in August ran out of money in September).

US Presidential elections update

Last week, the US General Services Administration acknowledged President-elect Joe Biden as the winner of the presidential election. The ruling came after the battleground state of Michigan certified its election results and more Republicans called for the transition process to begin. Mr. Biden's transition team will now gain access to the machinery of government, including to briefing materials and funding.

Data spotlight: 23 – 27 November

Global Economy

■ OPEC expected to find an agreement on Thursday

At the beginning of the current week, OPEC members failed to agree on whether to extend the current output cuts (of 7.8mb/d) by three months or to boost production by 2mb/d in January as originally planned. The UAE, which is struggling to comply with its own quota and was forced to implement compensatory cuts in the past few weeks for past overproduction, is tactically buying time and delaying any collective decision. Before agreeing to any extension, the country is now demanding that other countries, such as Russia, that overproduced during the summer, pump less than their quotas in compensation for past compliance lapses. Being a politically unrealistic request, the UAE's true negotiation goal is to get a relaxation of its own quota. As a result of this stalemate, the second half of the meeting with the gathering of the whole OPEC+ alliance that was scheduled for Tuesday was postponed to Thursday. In UniCredit Research's view, the delay should not be a concern and it still expects the current curbs to be extended into 1Q21. It is not unusual for OPEC meetings to last longer than originally scheduled and virtual discussions slow the negotiation process compared to in-person meetings. Moreover, both Saudi Arabia and Russia – the two leaders of the group – favor an extension of the cuts and this should be enough to square the circle and finalize the deal on Thursday.

■ Better-than-expected economic data in Asia contributes to positive sentiment

In China, the official manufacturing PMI rose to 52.1 from 51.4 in November, while the non-manufacturing PMI grew to 56.4 from 56.2. It is worth noting that the export-orders index rose to 51.5 from 51.0 despite the adoption of new COVID-19 restrictions by several countries in November.

The Caixin manufacturing PMI rose to 54.9 from 53.6 in November – the highest reading in ten years. A particularly strong boost came from external demand, with pandemic-related exports (medical supplies and work-from-home devices) holding up well. This message of resilience is consistent with the official PMIs.

Data spotlight: 23 – 27 November

International and Romanian Markets

- **The EURRON closed the week at 4.8780**

The EURRON traded within a narrow 4.8680-4.8780 range last week and ended the week close to the upper bound of the interval.

- **The ROBOR curve had a mixed evolution**

ROBOR rates had a mixed evolution last week, with the ON-1W segment returning to higher levels due to the start of the new reserve holding period (1.78%-1.89% currently), and the 1M-12M segment decreasing marginally (2%-2.13% currently).

- **EURUSD broke above the 1.20 threshold**

December has started with renewed market optimism, led primarily by positive news on COVID-19 vaccines, with some producers having already asked their respective federal authorities for clearance. This mood dragged the USD even lower across the board, leading many currencies to gain further ground against the greenback in the absence of other big news. EUR and CHF look to be the two major candidates now that the 1.20 and 0.90 key thresholds, respectively, have been breached. The consolidation of EURUSD back above 1.20 is probably the strongest signal between the two, not least because so far there has been no ECB reaction, in contrast to what happened in September, when the previous YTD peaks at 1.2011 were hit and the ECB started to be more vocal.

- **Romania borrowed EUR 2.5bn on external markets**

Romania sold EUR 1bn in 9Y Eurobonds at 1.468% and EUR 1.5bn in 20Y Eurobonds at 2.65%. Previously this year, the Ministry of Finance issued EUR 6.3bn and USD 3.3bn on the foreign markets. The total request for the two bonds was around EUR 12bn, skewed towards the bond with the longer tenor.

- **MinFin auctions**

Although MinFin announced last week an additional auction on the local market in November, of EUR 500mn in T-bonds of 4.5years, the auction failed. Total requests from the local banks totaled EUR 1.18bn, consistent with strong demand, but MinFin rejected all the bids most probably due to higher than expected yields.

The last auction of November took place through an offer for RON 300mn in 11Y bonds having a coupon rate of 3.65%. The total request from the local banks was RON 533mn and MinFin decided to borrow RON 461mn at an average yield of 3.42% (3.44 maximum accepted). Compared to the previous reopening of the

Data spotlight: 23 – 27 November

International and Romanian Markets (continued)

bond one month ago, the average yield decreased by 19bp. A supplementary session for the non-competitive offers followed, for the amount of RON 45mn.

- **MinFin issuance plan for December**

MinFin published its issuance plan for December, intending to place on the local market RON 3.9bn in T-bonds with residual maturities ranging from 2.8 to 13.9 years and RON 0.5bn in 1Y T-bills. An additional RON 585mn could be placed through the supplementary sessions of non-competitive offers. The amount is slightly lower than the planned amount for November. However, we expect the Ministry of Finance to issue above the plan in case market conditions will remain favorable, similar to its behavior since September. In November, MinFin placed in total RON 7.86bn, 55.4% above the plan.

Data spotlight: 23 – 27 November

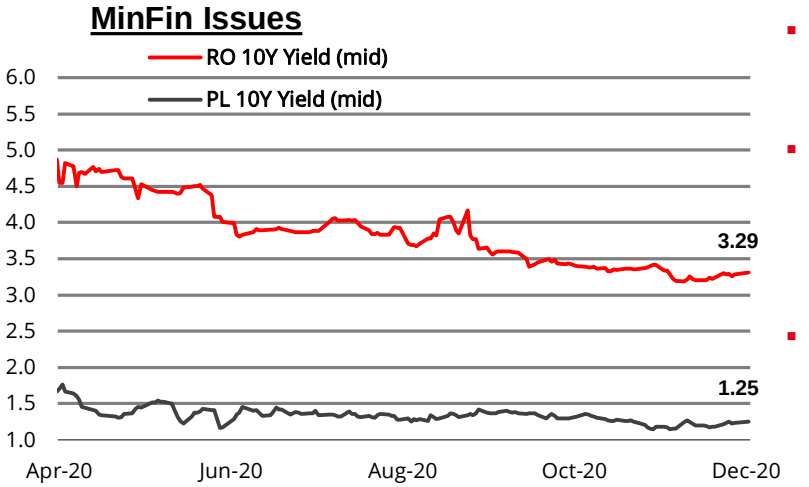
Coronavirus pandemic updates

German Chancellor Angela Merkel and the prime ministers of the 16 German states finally agreed on an extension of the so-called "lockdown light" until 20 December. The agreement is largely in line with what news media has already reported in the last few days. Besides the extension of restrictions for sectors such as the hospitality industry, some additional measures were announced. In larger retail shops, only one client per 20 square meters will be allowed, while the current restriction (one client per 10 square meters) will remain in place for shops with less than 800 square meters of selling space. Private gatherings of only five people from two different households will be allowed. Between 23 December and 1 January, this restriction will be relaxed to 10 people. Over the holiday season, employers have been called upon to close or to switch to remote working. The obligation to wear a mask in public and at work was extended. Government support of about EUR 15bn for affected sectors will be continued in December. Furthermore, it was announced that financial help for the arts, tourism and the self-employed, among others, will be extended until mid-2021. The government said that the federal states have been preparing vaccination centers and that the first deliveries of the vaccine may already arrive in December. Before Christmas, the central government and the federal states will again take stock of the latest developments.

UK Prime Minister Boris Johnson announced that England will return to a three-tier system of COVID-related restrictions when the lockdown ends on 2 December. He warned that many more areas will enter the higher tiers than previously was the case, with the details to be published on Thursday.

Last Tuesday, in a televised address to the nation, President Emmanuel Macron announced that lockdown rules would be eased in three stages in France starting from past Saturday. Current basic restrictions will remain in place, with working from home encouraged and daily trips limited, but non-essential businesses will be allowed to reopen, places of worship permitted to hold services (for up to 30 people at a time) and the perimeter for daily trips widened to twenty kilometers. After 15 December – provided daily new COVID-19 cases remain at around 5,000 and the daily number of new cases in intensive care does not exceed 3,000 – the lockdown will be lifted, but a curfew will be in place between 21:00 and 7:00 except on Christmas Eve and New Year's Eve. Travel will be permitted to allow people to spend Christmas with family, and museums, cinemas and theaters will be allowed to reopen. Restaurants, bars and gyms will be the last to reopen, on January 20, if the epidemic remains contained.

Focus Ahead: 2 – 4 December



Data Source: Thomson Reuters

- Long term Romanian yields increased slightly during the past week, with the 10Y bonds ending the week at 3.29%.
- MinFin's last week's auctions gathered EUR 2.5bn from the international markets in 9Y and 20Y bonds and RON 506mn from the local market in 11Y T-bonds (3.42% average yield).
- MinFin will start December with an auction for RON 500mn in T-bonds with residual maturity of 9.9years and a coupon rate of 4.15%.

BOND ISSUES - November

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount (mln)	Currency	Total Applications	Total Allocated	Yield (avg)
ROJEC97WMUQ4	23-Dec-20	25-Oct-23	35	700				
ROAW5KY5CD78	21-Dec-20	26-Jan-28	86	700				
RO0TLVC1MCW4	17-Dec-20	25-Nov-24	48	700				
RO1631DBN055	14-Dec-20	24-Sep-31	131	400				
ROGSHSTVFMX2	10-Dec-20	24-Jun-26	67	600				
RO9HZMHYK3C4	10-Dec-20	12-Dec-21	12	500				
RO4KELYFLVK4	7-Dec-20	11-Oct-34	169	300				
ROINPAL298G4	3-Dec-20	24-Oct-30	120	500				

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus (Reuters)	Previous
3-Dec-20	United States	ISM non-manufacturing (index)	Nov 2020	55.0	56.0	56.6
	United States	Initial Jobless Clm	W 08 Aug		1120	1186
	Romania	Retail Sales (%, yoy)	Oct 2020	3.6		4
4-Dec-20	Germany	Industrial orders (% mom	Oct 2020	1.5	0.9	0.5
	United States	Unemployment rate (%)	Nov 2020	6.7	6.8	6.9
	United States	Nonfarm payrolls (change thousands mom)	Nov 2020	400.0	500.0	638.0
	Romania	Sovereign rating update by S&P		BBB-, neg		BBB-, neg

Data Source: Thomson Reuters

UniCredit Bank

Economic Forecasts

MACROECONOMIC DATA AND FORECASTS	2017	2018	2019	2020F	2021F
GDP (EUR bn)	187.8	204.7	223.3	213.8	224.5
Population (mn)	19.6	19.5	19.4	19.3	19.2
GDP per capita (EUR)	9,560	10,478	11,504	11,067	11,669
Real economy, change (%)					
GDP	7.1	4.4	4.1	-5.1	4.0
Private Consumption	10.0	7.3	5.9	-5.4	3.2
Fixed Investment	3.6	-1.2	18.2	-1.0	3.3
Public Consumption	4.2	2.1	6.4	4.4	2.2
Exports	7.6	6.2	4.6	-10.3	7.8
Imports	10.8	9.1	8.0	-7.7	6.4
Monthly wage, nominal (EUR)	724	965	1069	1115	1150
Real wage, change (%)	13.0	29.7	8.9	3.3	2.2
Unemployment rate (%)	4.9	4.2	3.9	5.2	5.6
Fiscal accounts (% of GDP)					
Budget balance	-2.6	-2.9	-4.3	-9.5	-4.9
Primary balance	-1.4	-1.5	-3.2	-8.0	-3.4
Public debt	35.1	34.7	35.2	45.9	48.4
External accounts					
Current account balance (EUR bn)	-5.2	-9.0	-10.2	-9.7	-9.6
Current account balance/GDP (%)	-2.8	-4.4	-4.6	-4.5	-4.3
Extended basic balance/GDP (%)	0.9	-1.1	-1.2	-2.0	-1.5
Net FDI (% of GDP)	2.6	2.4	2.4	0.7	1.4
Gross foreign debt (% of GDP)	36.5	33.4	33.0	37.8	40.8
FX reserves (EUR bn)	33.5	33.1	32.9	34.1	36.4
Months of imports, goods & services	4.8	4.3	4.0	4.7	4.5
Inflation/Monetary/FX					
CPI (pavg)	1.3	4.6	3.8	2.8	2.9
CPI (eop)	3.3	3.3	4.0	2.6	3.1
Central bank target	2.50	2.50	2.50	2.50	2.50
Central bank reference rate (eop)	1.75	2.50	2.50	1.25	1.00
3M money market rate (Dec avg)	2.13	3.05	3.12	1.53	1.25
USDRON (eop)	3.89	4.07	4.26	3.98	3.87
EURRON (eop)	4.66	4.66	4.78	4.85	4.95
USDRON (pavg)	4.05	3.94	4.24	4.23	3.96
EURRON (pavg)	4.57	4.65	4.75	4.83	4.93
Real effective exchange rate, 2000=100	120.6				
Change (%)	-0.6				

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