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Macroeconomic research: Concepts and methods of the analysis

Money market interest rates

- ROBOR interest rates with maturities ranging from overnight to up to one year
- Most important influence factor is the monetary policy of the National Bank of Romania (NBR), which tries to steer money market interest rates (ROBOR) with its key interest rates and its monetary policy operations (including the management of liquidity conditions in the money market)
- When deciding the monetary policy stance, the NBR aims to achieve is primary objective of maintain price stability
- However, as the NBR is also concerned on the dynamics of the leu exchange rate, the interventions in the FX market can also have an important impact on the dynamics of the money market interest rates

The forecast of money market rates is based on the opinion of experts which take into account dynamics of the most important macroeconomic indicators, both in the domestic economy and in major foreign economies.

The most important influence factors for a central bank's monetary policy, and therefore for the development of rates on the money market, are:

- Price development, price expectations
- Money supply aggregates, loan development
- Economic momentum, economic outlook
- Long-term real economic development
- Labour market, wages
- Development of exchange rate
- Interest rates of other currency areas with close relationship (regional and major foreign economies)
- Political influences

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Market interest rates on government bonds

Market yields (=secondary market yields) on benchmark bonds of Romanian government; the most important maturities are: 2 years, 3 years, 5 years, and 10 years.

The nominal market yield of a government bond includes the following components, which can vary quite a bit: inflation compensation, real interest rate for temporary delaying consumption, (risk) premia (maturity premium, creditworthiness, inflation surprises, liquidity premium for market and/or specific bond, exchange rate uncertainty)

The forecast of yields on government bonds is based on the opinion of experts which take into account dynamics of the most important macroeconomic indicators, both in the domestic economy and in major foreign economies.

The most important influence factors for the development of yields on government bonds are:

- Monetary policy
- Money market rates, expectations regarding future money market rates
- Price development, price expectations, indicators for the development of prices
- Economic momentum, economic outlook
- Long-term real economic development
- Exchange rate development, exchange rate outlook
- Government bond yields of major foreign economies (Euro area, US)
- General risk attitude, risk environment, financial markets volatilities, stock markets
- Political influences
- Credit worthiness assessment, rating outlook
- Development of the government budget and debt level
- Legal framework conditions
- Demographic development, changes in savings attitude

Classification of recommendations

The content provided on the web site is intended solely as information, and is not intended as an offer to buy or sell securities. In addition, the recommendation categories listed below mean the following depending on the given asset class:

Bonds in general

Unless otherwise noted, our bond recommendations always pertain to the performance of the bonds in local currency (excluding any exchange rate developments). The expected development of the exchange rate is the subject of a separate recommendation.

Recommendations made in EUR terms (the total performance in such cases consists of the bond performance in the local currency plus the anticipated exchange rate performance vis-à-vis the EUR) are always specifically designated as such.

Buy:
We recommend buying the investment instrument, as the expected total performance (change in price plus accrued interest) for the recommendation horizon exceeds the expected return on the money market (1) of the respective currency annualised by more than 100 basis points.(2)

Hold:
We expect the investment instrument to move sideways (or view the likelihood of a price increase as approximately the same as that of a price decrease). As a result, the expected performance (change in price plus accrued interest) for the recommendation horizon is broadly comparable with the alternative rate of interest on the money market (1) of the respective currency (expected performance: money market rate +/- max. annualised 100 basis points). For investors who do not have the option of short selling, we recommend holding the existing position in the investment instrument (no additional purchases, but no sale of existing positions). In the case of a “Hold” recommendation, investors who are able to engage in short selling of the investment instrument should not maintain a position in the investment instruments (close existing long or short positions).

Sell:
We recommend selling the investment instruments, as the expected total performance (change in price plus accrued interest) for the recommendation horizon is annualised more than 100 basis points lower than the alternative rate of interest on the money market (1) of the respective currency.

(1) Alternative rate of interest on the money market for the corresponding currency and recommendation horizon, i.e. for a 3-month recommendation horizon on RON Government bonds = 3M ROBOR, 12-month recommendation = 12M ROBOR.

(2) Example: the expected total performance of bond X over a 3M horizon = 2.2% (annualised), whereas the 3M ROBOR yields 1.1% (annualised) over the coming 3 months; hence, the expected return of annualised 2.2% is more than 100 basis points higher than the alternative rate of interest annualised 1.1% (in this case the return on the bond is annualised 110 bp higher, or 1.1 percentage points), and we thus recommend a Buy.

Exchange rate recommendations

Buy:
We expect the exchange rate pair to increase in numerical terms by at least 2 percent.

Neutral:
Expectation for the exchange rate pair to increase more than 0 percent, but less than the necessary for a buy recommendation.

Sell:

We expect the exchange rate pair to decrease in numerical terms, with due regard to the financial markets' traditional method of quoting the currency pair in question.

Data as of: 27 June 2016