

January 23, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

- January 21-25: World Economic Forum, Davos

US

- January 19: Martin Luther King Day
- January 20:
 - NAHB index (Jan)
 - President Obama speaks
- January 21
 - Housing starts (Dec)
 - Housing permits (Dec)
- January 22: Jobless claims (Jan 17)
- January 23: Existing home sales (Dec)

EUROZONE

- January 20: DE: ZEW (Jan)
- January 22
 - ECB MPC meeting
 - Consumer conf. (Jan)
- January 23: PMI (Jan)
- January 25: GR: Parliamentary elections

SEE

SERBIA

- January 20: CAD (Nov)
- January 21: 4% 2018 T-bonds auction

ROMANIA

- January 19: 5.8% 2027 T-Bonds auction

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The ECB's recently announced asset purchase programme will start in March 2015 and will remain in place, in any case, until the Central Bank witnesses a sustained adjustment in the path of inflation consistent with its aim of securing price stability. That said, the programme is effectively of an open-ended nature, a development that reflects the ECB's determination to support euro area economic activity and address heightened risks of a too prolonged period of low inflation.

GREECE: Speaking in the press conference that followed the conclusion of y-day's ECB policy meeting, President Mario Draghi clarified for those counties that are not investment-grade (i.e., Greece and Cyprus), that they need to be under a programme to be eligible for the asset purchases program. Explicitly for Greece, the ECB President clarified that, for the 33% issuer limit to be respected, the ECB cannot buy Greek sovereign bonds until some of the country's debt the Central Bank already holds under the SMP programme has been redeemed. According to the ECB President, this will not be the case before July of this year.

SOUTH EASTERN EUROPE

SERBIA: Speaking on the sidelines of the World Economic Forum in Davos, Prime Minister Aleksandar Vucic said that a final agreement on the country's new €1 bn 3-year precautionary Stand-By Arrangement will be reached on February 23rd.

CESEE MARKETS: Emerging stock markets extended their recent rally as the ECB's monetary policy announcement yesterday continued to provide a boost to risky assets in morning European trade on Friday. With ECB's latest monetary policy stimulus decision supporting expectations for further monetary easing by Central Banks in the region while also fanning optimism about an increase in capital inflows into domestic financial markets, **CESEE currencies** were mixed in Europe today. Along similar lines, **local government bonds** extended their recent rally.

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Latest world economic & market developments

GLOBAL MARKETS

As was widely expected, the ECB decided to expand its asset purchase programme at y-day's Governing Council meeting. Under the programme, ECB asset purchases will amount to €60bn per month, encompassing the already operational asset-backed securities and covered bonds purchase programmes. The programme will start in March 2015 and will include purchases of euro-denominated investment-grade securities issued by euro area governments, agencies and European institutions in the secondary market. The ECB intends to keep the programme in place until end-September 2016, indicating that total asset buying is expected to come in at a higher-than-initially anticipated €1.145trn. As was explicitly mentioned in the ECB policy statement, purchases will continue, in any case until the Central Bank witnesses a sustained adjustment in the path of inflation consistent with its aim of securing price stability. That said, the programme is effectively of an open-ended nature, a development that reflects the ECB's determination to support euro area economic activity and address heightened risks of a too prolonged period of low inflation. Asset purchases will be subject to two certain waivers: (i) purchases not to exceed 33% of each issuer's debt; and (ii) purchases not to account for more than 25% of each single issue. Responding to the ECB's QE announcement, the majority of global equity markets firmed, German government and most of peripheral euro area bonds gained while the EUR extended its recent losses. The EUR/USD hit a fresh record-low of 1.1220 in European trade today while its FX direction in the coming weeks/months is expected to be dependent, among other, on how successful the ECB will be at raising inflation expectations.

GREECE

Speaking in the press conference that followed the conclusion of y-day's ECB policy meeting, President Mario Draghi clarified for those counties that are not investment-grade (i.e., Greece and Cyprus), they need to be under a programme to be eligible for the asset purchases program. Explicitly for Greece, the ECB President clarified that, for the 33% issuer limit to be respected, the ECB cannot buy Greek sovereign bonds until some of the country's debt the Central Bank already holds under the SMP programme has been redeemed. According to the ECB President, this will not be the case before July of this year. Note that in July two Greek sovereign bonds mature for a total notional amount of ca €3.5bn.

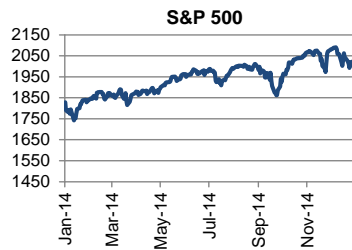
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Latest developments in the CESEE region

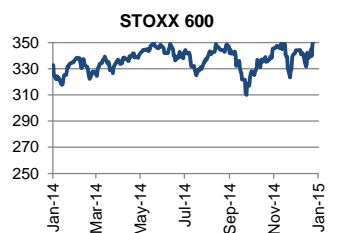
CESEE markets

Emerging stock markets extended their recent rally as the ECB's QE announcement y-day continued to provide a boost to risky assets earlier on Friday. The MSCI emerging markets equity index spiked to a 1-1/2- month peak, while, in the **CESEE space**, several indices in the region hit multi-week/month highs. With ECB's latest MPC decision supporting expectations for further monetary easing by Central Banks in the region while also fanning optimism about an increase in capital inflows into domestic financial markets, **CESEE currencies** were mixed in Europe today. The Polish zloty and the Hungarian forint led the winners pack, firming to respective 1-month highs near 4.2300 and 310.55 against the euro, with the former fully offsetting the negative impact from the recent Swiss National Bank decision to remove the franc's cap to the euro. Along similar lines, **local government bonds** extended their gains with Polish, Hungarian and Romanian interest rates sliding to new record lows intraday.

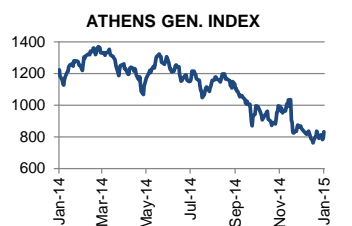
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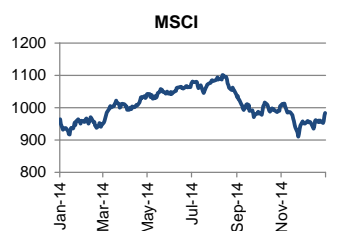
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	B1	BB-	B+
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BBB-	BBB-
CYPRUS	B3	B+	B-

Source: Reuters, Bloomberg, Eurobank Global Markets Research

SERBIA

SERBIA: Indicators	2013	2014e	2015f
Real GDP growth %	-1.5	-2.0	0.0
CPI (pa, yoy %)	7.8	2.0	3.5
Budget Balance/GDP	-5.8	-7.2	-5.7
Current Account/GDP	-5.0	-6.1	-4.7
EUR/RSD (eop)	114.57	120.50	124.50
	2014	current	2015f
Policy Rate (eop)	8.00	8.00	7.00

Source: EC Economic Forecasts, Reuters, Bloomberg,
Eurobank Global Markets Research, local authorities

(Belgrade, 22/1/2015, 17:20 CET): **Latest Political & Macro Developments:** Speaking on the sidelines of the World Economic Forum in Davos, Prime Minister Aleksandar Vucic said that the tender process of State-owned telecommunication company "Telekom" is expected to be completed by the end of October. The Prime Minister added that a final agreement on the country's new €1bn 3-year precautionary Stand-By Arrangement will undoubtedly be reached on February 23rd. Recall that, the government reached in November a staff level agreement with the IMF on the aforementioned economic program, that is subject to the approval by the IMF Management and the Executive Board. Additionally Mr. Vucic said that the government plans to issue €1.0-1.5bn in Eurobonds this year. His comments came on the heels of those by Director of Public Debt Administration Branko Drcelic earlier this week who was quoted as saying in an interview that the government plans to tap international markets this year with €1.5bn in sovereign debt out of an earmarked total €5.8bn of gross funding needs. In other news, the Public Debt Administration allotted €77.6mn of the planned €100mn in EUR-denominated 3-year bonds at an auction held on Wednesday. The paper carries a 4% annual coupon and produced an average accepted yield of 4.26% below that achieved at a prior auction of similar maturity paper on December 23 (4.47%). **Market Developments:** The EUR/RSD closed marginally lower on Thursday at 122.40/60, pulling back from an intraday peak of 122.65/85 hit earlier in the session, after the ECB QE announcement. Looking ahead, a further EUR/RSD easing towards 121.50 in the coming days/weeks seems likely on favourable interest rate differentials with other regional peers, anticipation about a final decision on the IMF precautionary agreement in the second half of February and the recently announced ECB monetary stimulus measures which are likely to favour capital inflows towards domestic financial markets. Additionally, the upcoming government bond auctions of 3 and 7-year bonds scheduled for February, cumulatively worth RSD 100bn, may also provide support to the dinar.

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GLOBAL MARKETS

Stock markets				FOREX			Government Bonds				Commodities				
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD	(yields)	Last	ΔDbps	ΔYTD bps	Last	ΔD	ΔYTD	
S&P 500	2063.15	1.5%	0.2%	EUR/USD	1.1238	-1.1%	-7.1%	UST - 10yr	1.81	-5	-36	GOLD	1294	-0.6%	9.2%
Nikkei 225	17511.75	1.1%	0.3%	GBP/USD	1.4988	-0.1%	-3.8%	Bund-10yr	0.37	-8	-17	BRENT CRUDE	175	0.0%	0.0%
STOXX 600	369.04	1.4%	7.7%	USD/JPY	118.24	0.2%	1.2%	JGB - 10yr	0.23	-9	-10	LME X	2758	-1.1%	-5.4%

SEE MARKETS

SERBIA

Money Market

	Last	ΔDbps	ΔYTD bps
BELIBOR			
T/N	on	22	-240
1-week	7.66	17	-235
1-month	7.91	8	-214
3-month	8.29	4	-156
6-month	8.54	0	-125

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.21	0	16
5Y RSD	10.21	0	2
7Y RSD	11.26	0	1

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.92	-14	-34
USD Nov-24	1.23	-534	-191

CDS

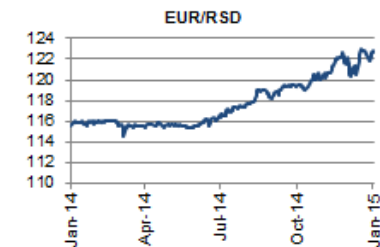
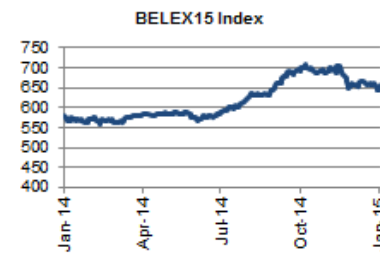
	Last	ΔDbps	ΔYTD bps
5-year	279	0	-11
10-year	347	1	-8

STOCKS

	Last	ΔD	ΔYTD
BELEX15	656.1	1.70%	-1.64%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	122.79	-0.19%	-1.17%



ROMANIA

Money Market

	Last	ΔDbps	ΔYTD bps
ROBOR			
O/N	0.48	6	-9
1-month	0.74	0	-17
3-month	1.57	0	-13
6-month	1.83	2	-18
12-month	1.87	1	-15

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.64	-5	-37
5Y RON	2.11	-8	-40
10Y RON	2.78	-12	-73

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	1.42	-2	-31
USD Aug-23	3.26	-10	-36

CDS

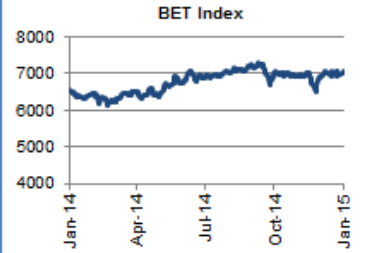
	Last	ΔDbps	ΔYTD bps
5-year	120	0	-23
10-year	162	0	-25

STOCKS

	Last	ΔD	ΔYTD
BET	7079.6	0.59%	-0.05%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4942	-0.02%	-0.24%



BULGARIA

Money Market

	Last	ΔDbps	ΔYTD bps
SOFIBOR			
LEONIA	0.01	-1	-1
1-month	0.20	0	-2
3-month	0.42	0	-1
6-month	0.78	0	-1
12-month	1.48	0	-2

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.66	7	-38
5Y BGN	1.01	-3	-44
10Y BGN	2.42	0	-33

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.85	1	-31

CDS

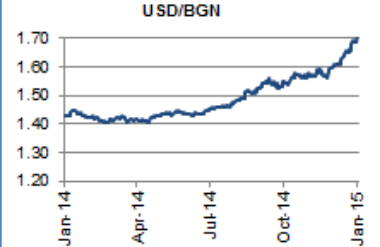
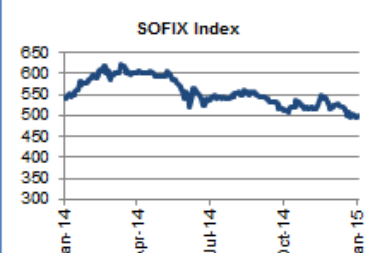
	Last	ΔDbps	ΔYTD bps
5-year	193	-4	2
10-year	243	-4	2

STOCKS

	Last	ΔD	ΔYTD
SOFIX	497.6	0.29%	-4.69%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7405	-1.13%	-7.12%



Source: Reuters, Bloomberg, Eurobank Global Markets Research
Data updated as of 12:30 EET

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