

Friday, June 12, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

- June 7-8: G7 Summit

US

- June 11
 - Initial jobless claims (June 5)
 - Retail sales (May)
- June 12: UoM consumer sentiment (Jun)

GREECE

- June 9: industrial production (Apr)
- June 10
 - T-Bills auction
 - CPI (May)
 - HICP (May)
- June 11: U/E rate (Q1)
- June 12: IMF loan repayment (c. €350m)

CYPRUS

- June 9
 - HICP (May)
 - GDP (Q1, f)

SEE

BULGARIA

- June 8
 - Industrial production (Apr)
 - Retail sales (Apr)
- June 9: Trade balance (Apr)

ROMANIA

- June 8
 - Net wages (Apr)
 - 5.95% 2021 T-Bonds auction
- June 10
 - Industrial sales (Apr)
 - Trade balance (Apr)
- June 11: CPI (May)
- June 12: Industrial production (Apr)

SERBIA

- June 11: MPC meeting
- June 12: HICP (May)

Source: Reuters, Bloomberg, Eurobank
Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The majority of European bourses opened lower on Friday amid worries over the lack of significant progress in official negotiations between Greece and its official creditors. Positive US data pushed US Treasury yields lower while the US currency firmed. Yet, amid market anxiety ahead of next week's FOMC monetary policy meeting, the USD's gains proved rather limited.

GREECE: In a surprise move, the IMF withdrew its delegation from the Brussels Group y-day. In a press briefing, IMF spokesman Gerry Rice cited that "major differences" remain with Greece in most of the key contentious issues and thus, an agreement is still some way off. Meanwhile, EU President Jean-Claude Juncker was quoted saying in a French radio station earlier today that stalled talks between Greece and its creditors will restart, first at a technical level, and then a political one.

SOUTH EASTERN EUROPE

ROMANIA: The consumer price index rose by a higher-than-anticipated 6-month high of 1.2%YoY in May, outpacing market expectations for a 0.8%YoY rise.

SERBIA: At its MPC meeting on Thursday, the Central Bank of Serbia slashed its key policy rate by 50bps to a new record low of 6.00%, confounding our and market expectations for stable interest rates and a smaller (25bps) cut, respectively.

CESEE MARKETS: **CESEE stock markets** closed mixed on Thursday, with regional politics and a stronger US dollar exerting a negative impact. On the flipside, **CESEE currencies** and **government bonds** broadly firmed on Thursday, with a successful debt auction in Hungary providing support.

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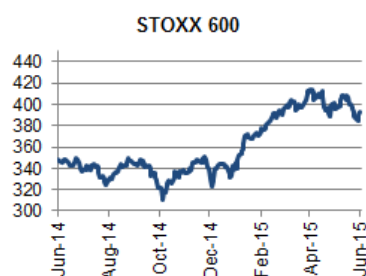
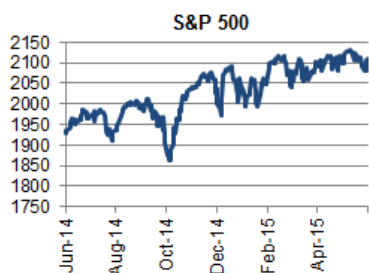
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June 12, 2015

Latest world economic & market developments

GLOBAL MARKETS

The majority of European bourses opened lower on Friday amid worries over the lack of significant progress in official negotiations between Greece and its official creditors. Amid heightened concerns about the Greek issue, upbeat US retail sales data for May were broadly shrugged off. US retail sales increased by a higher-than-expected 1.2% mom last month following an upwardly revised gain of 0.2% mom in April, adding to the view that the US economy is likely poised to rebound from the Q1 GDP soft patch. Positive US data pushed US Treasury yields lower while the US currency firmed. Yet, amid market anxiety ahead of next week's FOMC monetary policy meeting, the USD's gains proved rather limited with the EUR/USD hovering around 1.1235/40 in European trade at the time of writing, remaining above this week's trough of 1.1080 marked on Monday. In view of a light data calendar today and in the absence of any breakthrough on the Greek issue, EUR/USD consolidation around current levels will likely prevail.



Source: Reuters, Bloomberg, Eurobank Research

GREECE

In a surprise move, the IMF withdrew its delegation from the Brussels Group y-day. In a press briefing, IMF spokesman Gerry Rice cited that "major differences" remain with Greece in most of the key contentious issues and thus, an agreement is still some way off. According to the IMF official, the main obstacles to reaching an agreement continue to be:

1. the pension system. Mr. Rice stressed that all sides involved in the talks agree that Greece's social security system is not sustainable taking into account that social security funds are subsidized with near 10% of GDP compared to an EU average of 2.5%;
2. taxation. Mr. Rice cautioned the need for Greece to broaden the tax base and simplify the VAT system in order to prevent, or at least limit, wide-spread tax evasions; and
3. primary surplus target. Despite the departure of the delegation team, the IMF spokesman said that the Fund remains "fully engaged" with the Greek issue and is not leaving the negotiating table.

Adding to pressures for a timely agreement, European Council President Donald Tusk said y-day during a news conference after chairing the EU-Latin America Summit, that time is running out, warning Greece that "there is no more space for gambling". Along these lines, Eurogroup President Jeroen Dijsselbloem said during an interview with a Finnish newspaper y-day that Greece has to accept that there are no easy solutions and official creditors are still open to negotiations if the government submits counter proposals that "make economic sense". The Eurogroup President noted though that a deal could still be reached in time for the release of further official funding to the country before the end of this month. On its side, the Greek government adopted a more upbeat tone with government spokesman Gavril Sakellaris suggesting that, as agreed with EU officials, the Greek delegation is ready to intensify deliberations in order to conclude a deal soon, even in the coming days. Meanwhile, EU President Jean-Claude Juncker was quoted saying in a French radio station earlier today that stalled talks between Greece and its creditors will restart, first at a technical level, and then a political one.

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June 12, 2015

Latest world economic & market developments in the CESEE region

BULGARIA: Indicators	2013	2014e	2015f
Real GDP growth %	1.1	1.7	1.8
CPI (pa, yoy %)	0.9	-1.4	-0.5
Budget Balance/GDP*	-1.8	-3.7	-3.0
Current Account/GDP	1.0	0.9	0.5
EUR/BGN (eop)	1.9558		
	current	2014	2015f
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

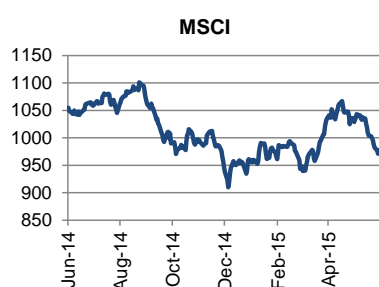
ROMANIA: Indicator	2013	2014e	2015f
Real GDP growth %	3.4	2.9	3.1
CPI (pa, yoy %)	4.0	1.1	0.3
Budget Balance/GDP*	-2.2	-1.9	-1.9
Current Account/GDP	-0.8	-0.4	-1.0
EUR/RON (eop)	4.46	4.40	4.45
	2014	current	2015f
Policy Rate (eop)	2.75	1.75	1.75

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2013	2014e	2015f
Real GDP growth %	2.6	-1.8	0.0
CPI (pa, yoy %)	7.9	2.2	3.0
Budget Balance/GDP	-5.6	-7.5	-5.9
Current Account/GDP	-6.1	-6.1	-4.7
EUR/RSD (eop)	114.60	120.96	123.00
	2014	current	2015f
Policy Rate (eop)	8.00	6.00	5.50

Source: Reuters, Bloomberg, Eurobank Research, National Authorities



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

Source: IMF, EC, Reuters, Bloomberg, National Authorities, Eurobank Research

ROMANIA

The consumer price index rose by a higher-than-anticipated 6-month high of 1.2%YoY in May, outpacing market expectations for a 0.8%YoY rise. Annual CPI now stands marginally below the lower bound of the Central Bank's 2.5+/-1% inflation target range. That said, the recent uptrend in inflation is likely to prove temporary, with CPI anticipated to slip and remain into negative territory for most of the 2H-2015 and marginally above zero in the 1H-2016, due to the impact from a VAT cut on food products mid-year. Note that food products correspond to a high share in the consumption basket (32%). In other data releases yesterday, industrial production rose by 4.1%YoY in April, marking the highest pace of annual increase since September 2014, though underperforming expectations for a higher, 4.4%YoY advance. On the political front, the government faces a no-confidence vote in Parliament later today, which it is broadly expected to survive.

SERBIA

At its MPC meeting on Thursday, the Central Bank of Serbia slashed its key policy rate by 50bps to a new record low of 6.00%, confounding our and market expectations for stable interest rates and a smaller (25bps) cut, respectively. In support of its decision, the NBS cited "strong disinflationary pressures" that stem from weak aggregate demand dynamics, a benign inflation environment internationally and low global commodities prices. It also noted that inflation remains well below the lower bound of the 4±1.5% target tolerance band (HICP at 1.8%YoY in April), though it is expected to return within the aforementioned ranges within H2 2015 thanks to implemented monetary easing measures and the waning impact of temporary disinflationary factors. The accompanying statement also read that risk sentiment towards the country's assets should be supported by ongoing fiscal consolidation domestically, the ECB's quantitative easing and an expected successful completion of the first review under the arrangement with the IMF in tandem with a narrowing current account deficit. Looking further ahead, we reiterate that the door is open for additional monetary easing, especially if inflation keeps undershooting expectations. However, the room for such action is limited and any rate-cut moves are likely to be of measured size amid lingering external uncertainties and fiscal consolidation risks. Also, the KPR has rather limited potential to stimulate credit (ca 70% of loans are EUR-linked) and hefty easing may also weigh negatively on the local bond markets.

CESEE MARKETS

CESEE stock markets closed mixed on Thursday, with regional politics and a stronger US dollar exerting a negative impact. In the regional political front, the Romanian government faces a no-confidence motion later today, while Prime Minister Viktor Ponta is currently facing corruption allegations. In Poland, Prime Minister Ewa Kopacz dismissed three ministers and the parliament speaker in an apparent attempt to boost her party's popularity after its nominee lost in last month's presidential elections raising concerns about the ruling PO's prospects in the upcoming national ballot in autumn. In Turkey, domestic political uncertainty lingers after the ruling AKP fell short of achieving parliamentary majority at the June 7 general elections, with coalition negotiations currently underway. On the flipside, **CESEE currencies** and **government bonds** broadly firmed on Thursday, with a successful debt auction in Hungary providing support.

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June 12, 2015

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	2108.86	0.2%	2.4%	EUR/USD	1.1222	-0.3%	-7.2%	UST - 10yr	2.38	1	21	GOLD	1182	0.0%	-0.3%
Nikkei 225	20407.08	0.1%	16.9%	GBP/USD	1.5506	-0.1%	-0.5%	Bund-10yr	0.89	1	35	BRENT CRUDE	184	0.0%	5.3%
STOXX 600	392.45	-0.1%	14.6%	USD/JPY	123.78	-0.3%	-3.3%	JGB - 10yr	0.52	-2	19	LMEX	2701	-1.8%	-7.3%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	495	1	-496
1-week	5.18	5	-483
1-month	5.60	3	-445
3-month	6.01	-5	-384
6-month	6.27	-7	-352

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	7.01	0	-208
5Y RSD	8.31	1	-187
7Y RSD	8.75	-1	-333

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.72	-1	-54
USD Nov-24	6.45	0	-14

CDS

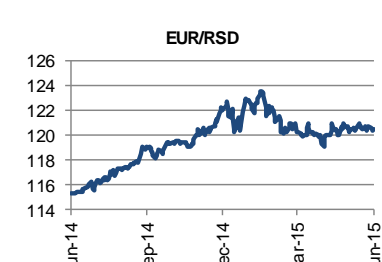
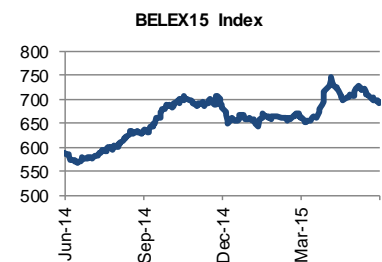
	Last	ΔDbps	ΔYTD bps
5-year	198	0	-92
10-year	247	0	-109

STOCKS

	Last	ΔD	ΔYTD
BELEX15	695.3	0.53%	4.23%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.51	-0.09%	0.70%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.56	-5	-1
1-month	0.99	-1	8
3-month	1.25	0	-45
6-month	1.52	0	-49
12-month	1.55	-1	-47

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.08	-2	-23
5Y RON	2.75	-1	4
10Y RON	3.92	-2	26

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	1.82	0	9
USD Aug-23	3.96	-2	34

CDS

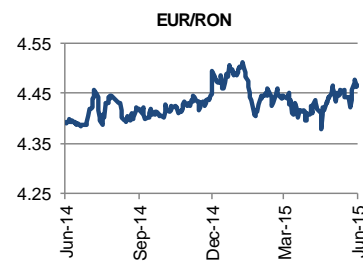
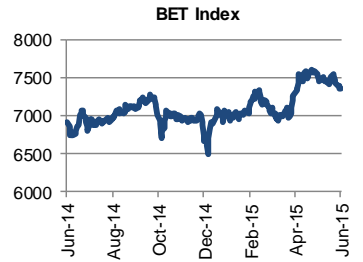
	Last	ΔDbps	ΔYTD bps
5-year	113	-2	-29
10-year	158	-2	-29

STOCKS

	Last	ΔD	ΔYTD
BET	7352.1	-0.05%	3.80%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4668	-0.06%	0.37%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.02	0	0
1-month	0.18	0	-4
3-month	0.35	0	-8
6-month	0.68	0	-11
12-month	1.26	0	-25

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.46	-1	-58
5Y BGN	0.87	-2	-57
10Y BGN	2.62	0	-14

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.84	5	-32
EUR Sep-24	2.99	20	12

CDS

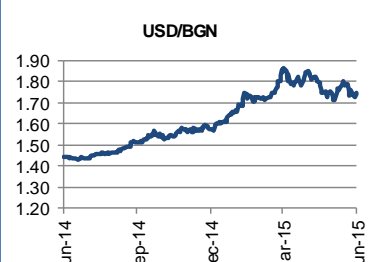
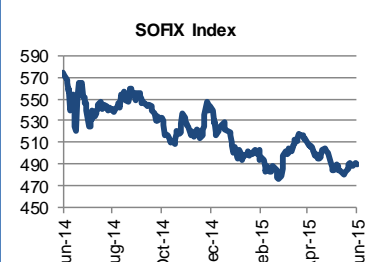
	Last	ΔDbps	ΔYTD bps
5-year	175	5	-16
10-year	225	5	-16

STOCKS

	Last	ΔD	ΔYTD
SOFIX	489.9	-0.33%	-6.16%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7428	-0.31%	-7.25%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 11:00 EET

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