

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Thursday, January 28, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL US

- January 26: CB Consumer Confidence (Jan)
- January 27
 - New home sales (Dec)
 - FOMC meeting
- January 28
 - Jobless claims (weekly)
 - Durable goods orders (Dec)
 - Pending home sales (Dec)
- January 29
 - GDP (Q4, 1st estimate)
 - Chicago PMI (Jan)
 - UoM Consumer Sentiment (Feb)

EUROZONE

- January 25: DE: IFO (Jan)
- January 27: DE: GfK consumer confidence (Jan)
- January 28: ESI (Jan)
- January 29: HICP (Jan, flash)

GREECE

- January 29
 - PPI (Dec)
 - Turnover Index in Retail Trade (Nov)

SEE

BULGARIA

- January 25: BGN 200mn T-bonds auction
- January 27: Gross external debt (Nov)
- January 29: Budget (Dec)

ROMANIA

- January 25: 3.25% 2021 T-bonds auction

SERBIA

- January 25: Real gross wages (Dec)
- January 28: 4% 2018 T-bonds auction
- January 29
 - IP (Dec)
 - Trade balance (Dec)
 - Retail sales (Dec)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: As expected, the Fed stayed put on interest rates yesterday after raising the federal funds rate by 25bps last month, the first increase in nearly ten years. In the accompanying statement, the Fed adopted a cautious tone leaving options open as to whether it will stand pat or will push interest rates even higher at the upcoming monetary policy meeting scheduled for March 15-16. Reacting to the tone of the statement, major US stock indices ended lower overnight, the USD weakened and the 2/10-yr Treasury yield curve undertook some steepening.

GREECE: According to some press reports, the IMF opposes the Greek government's proposal for an increase in social security contributions as a means to avert a cut in existing pensions amid concerns that such a development could hurt employment and undermine the competitiveness of the economy. Instead, the Fund reportedly argues that the pension saving target can only be reached through, inter alia, an average cut of 15% in pensions. Meanwhile, the Greek government is reportedly mulling favourable amendments to the income tax regime of farmers and freelancers.

SOUTH EASTERN EUROPE

BULGARIA: On January 27th, the EU Commission published the annual progress report under the Cooperation and Verification Mechanism (CVM). The Cooperation and Verification Mechanism (CVM) was set up at the accession of Bulgaria and Romania to the European Union in 2007 in order to monitor their progress in the areas of judicial reform, the fight against corruption and organized crime so as to join Schengen area at a later stage.

CESEE MARKETS: Emerging stock markets extended Wednesday's gains in European trade today after the Fed stayed put on its monetary policy yesterday, while hopes for further monetary stimulus for the ECB and the Bank of Japan in the imminent future also favoured investor sentiment towards risky assets. Along similar lines **CESEE bourses, currencies** and local-currency denominated **government bonds** moved broadly higher in European trade on Thursday underpinned by yesterday's FOMC meeting outcome.

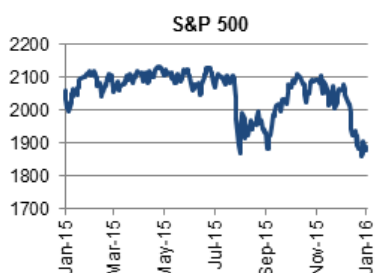
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Latest world economic & market developments

GLOBAL MARKETS

As expected, the Fed stayed put on interest rates at the two-day monetary policy meeting that concluded yesterday after raising the federal funds rate last month by 25bps, the first increase in nearly ten years. In the accompanying statement, the Fed adopted a cautious tone leaving options open as to whether it will stand pat or will push interest rates even higher at the upcoming meeting scheduled for March 15-16. In more detail, the January FOMC statement omitted the wording of the previous one issued in December that "the Committee sees the risks to the outlook for both economic activity and the labor market as balanced". In addition, the FOMC did not reiterate that "it is reasonably confident that inflation will rise over the medium term to its 2% objective". Instead, yesterday's FOMC statement noted that "the Committee is closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation, and for the balance of risks to the outlook". However, the Fed adopted a rather upbeat view of the domestic economy noting, inter alia, that "labor market conditions improved further even as economic growth slowed last year". Reacting to the absence of any strong signal suggesting that Fed may scale back future interest rate hikes in view of recent global economic and financial developments, major US stock indices closed lower overnight. US Treasuries had a mixed reaction with the long-end underperforming and the 2/10-yr yield curve undertaking some bearish steepening. In FX markets, the absence of any strong indication suggesting that the Fed remains on track for further rate tightening in the foreseeable future, weighed on the USD with the DXY index hovering around 98.878 in European trade at the time of writing, 0.8% lower compared to a closing peak of 99.574 marked earlier this week. With the January FOMC monetary policy meeting out of the way, focus now turns to the Chair's semi-annual Congressional testimony on February 10th.



Source: Reuters, Bloomberg, Eurobank Research

GREECE

According to some press reports, the IMF opposes the Greek government's proposal for an increase in social security contributions as a means to avert a cut in existing pensions amid concerns that such a development could hurt employment and undermine the competitiveness of the economy. Instead, the Fund reportedly argues that the pension saving target can only be reached through, inter alia, an average cut of 15% in pensions. Under the existing MoU, Greece has committed to savings of c. 1%-of-GDP in 2016 (or c. €1.74bn) from the planned overhaul of the social security pension system. Meanwhile, the Greek government is reportedly mulling favourable amendments to the income tax regime of farmers and freelancers. As per the same sources, the government is considering, inter alia: (i) a more gradual abolishment of the preferential tax treatment for agricultural income than the MoU envisions. Under the MoU, Greece has committed to increase the farmer income tax rate to 20% in 2016 from 13% currently and to 26% in 2017; and (ii) the adoption of more income tax brackets so as to ensure that farmers with net annual income up to €12k will not be burdened further.

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BULGARIA: Indicators	2014e	2015f	2016f
Real GDP growth %	1.7	2.9	3.0
CPI (pa, yoy %)	-1.4	0.1	1.0
Budget Balance/GDP*	-3.7	-3.3	-2.0
Current Account/GDP	0.9	2.5	1.4
EUR/BGN (eop)	1.9558		
	2014	current	2015f
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

CYPRUS: Indicators	2014e	2015f	2016f
Real GDP growth %	-2.3	1.2	1.6
HICP (pa, yoy %)	-0.3	-2.1	-0.4
Budget Balance/GDP*	-0.2	-1.3	0.1
Current Account/GDP	-5.1	-5.5	-4.5

* ESA 2010

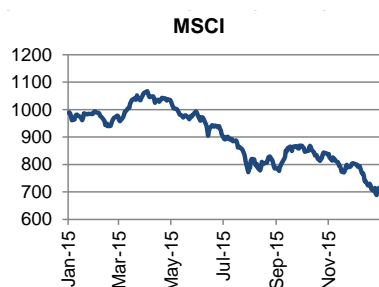
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2014e	2015f	2016f
Real GDP growth %	2.9	3.5	4.1
CPI (pa, yoy %)	1.1	-0.8	0.5
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-0.7	-1.0
EUR/RON (eop)	4.40	4.45	4.40
	2014	current	2015f
Policy Rate (eop)	1.75	1.75	1.75

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

SERBIA: Indicators	2014e	2015f	2016f
Real GDP growth %	-1.8	1.0	2.0
CPI (pa, yoy %)	2.1	1.7	3.5
Budget Balance/GDP	-6.7	-3.5	-4.6
Current Account/GDP	-6.0	-4.3	-4.1
EUR/RSD (eop)	120.96	122.00	124.00
	2014	current	2015f
Policy Rate (eop)	8.00	4.50	4.50

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	BB-	B+

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

Latest world economic & market developments in the CESEE region

BULGARIA

On January 27th, the EU Commission published the annual progress report under the Cooperation and Verification Mechanism (CVM). The Cooperation and Verification Mechanism (CVM) was set up at the accession of Bulgaria and Romania to the European Union in 2007 in order to monitor their progress in the areas of judicial reform, the fight against corruption and organized crime so as to join Schengen area at a later stage. As far as Bulgaria is concerned, the report is an assessment of the steps taken by authorities in the past year. The report acknowledged that Bulgaria "took some important steps to put reform back on the agenda" after a period of political instability, but the translation of two strategies for reform prepared last year into "concrete and tangible progress" will be "a major challenge for 2016. In addition, the report findings took note of the partial successes such as the adoption of constitutional amendments to the reform of the Supreme Judicial Council but also setbacks of key steps such as the rejection of a draft law for the establishment of an anti-corruption body. Moreover, the report assessed that the slow progress in tackling high-level corruption and organized crime cases continues to erode public confidence in the ability of the Bulgarian authorities to deliver justice. Finally, the EU Commission urged Bulgaria to accelerate progress on implementing recommendations-many of them already contained in the previous year's report-on the reform of the judiciary and the fight against corruption and organized crime.

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CESEE MARKETS

Emerging stock markets extended Wednesday's gains in European trade today after the Fed stayed put on its monetary policy yesterday, while hopes for further monetary stimulus for the ECB and the Bank of Japan in the imminent future also favoured investor sentiment towards risky assets. Elsewhere, the majority of CESEE **bourses** were broadly firmer earlier today compared to the prior session's settlement, though main indices in Bulgaria and Ukraine bucked the positive trend to stand in a marginally negative territory at the time of writing. Along similar lines regional **currencies** and local-currency denominated **government bonds** moved broadly higher in European trade on Thursday underpinned by yesterday's FOMC meeting outcome.

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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	1882.95	-1.1%	-7.9%	EUR/USD	1.0916	0.2%	0.6%	UST - 10yr	2.01	1	-26	GOLD	1119	-0.5%	5.4%
Nikkei 225	17041.45	-0.7%	-10.5%	GBP/USD	1.4286	0.4%	-3.1%	Bund-10yr	0.43	-2	-20	BRENT CRUDE	33	0.9%	-10.4%
STOXX 600	338.91	-0.4%	-7.4%	USD/JPY	118.76	-0.1%	1.1%	JGB - 10yr	0.23	2	-4	LMEX	2171	1.3%	-1.4%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	290	-1	-13
1-week	3.01	-1	-18
1-month	3.25	0	-26
3-month	3.46	0	-37
6-month	3.66	1	-37

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.55	-4	-11
5Y RSD	5.11	-1	-2
7Y RSD	7.79	0	9

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.19	-1	2
USD Nov-24	6.42	-1	0

CDS

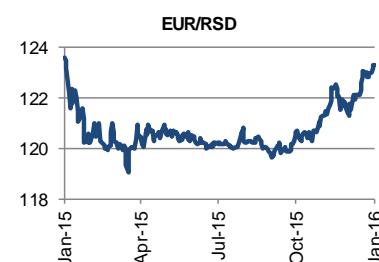
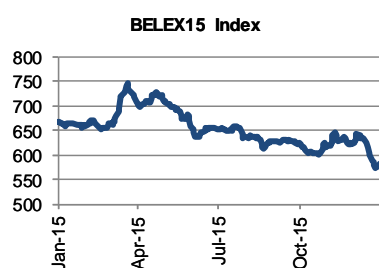
	Last	ΔDbps	ΔYTD bps
5-year	288	0	13
10-year	334	0	-5

STOCKS

	Last	ΔD	ΔYTD
BELEX15	585.8	0.41%	-9.05%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.20	0.05%	-1.31%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.43	-1	-10
1-month	0.57	1	-12
3-month	0.86	-3	-16
6-month	1.18	-2	-16
12-month	1.36	-3	-16

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.70	0	-23
5Y RON	2.52	0	-28
10Y RON	3.53	0	-25

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.53	0	-4
USD Jan-24	3.62	-1	-17

CDS

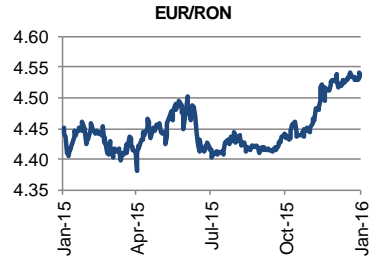
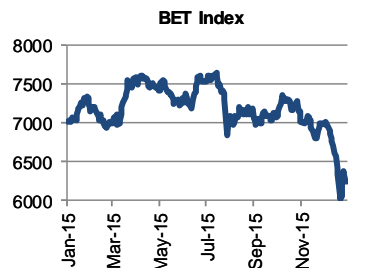
	Last	ΔDbps	ΔYTD bps
5-year	128	2	-5
10-year	163	2	-9

STOCKS

	Last	ΔD	ΔYTD
BET	6288.0	0.44%	-10.23%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5372	0.09%	-0.51%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.08	12	-9
1-month	-0.05	-1	-21
3-month	0.07	-1	-19
6-month	0.29	0	-23
12-month	0.73	0	-24

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.52	18	-74
5Y BGN	0.23	1	-14
10Y BGN	1.92	-1	7

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.10	-9	3
EUR Sep-24	2.38	-5	-4

CDS

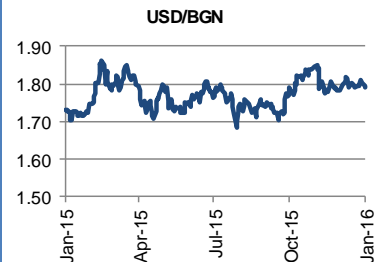
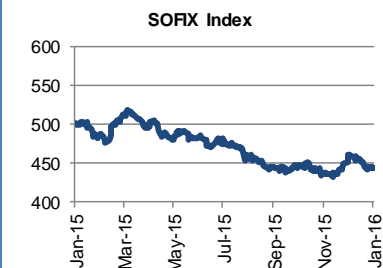
	Last	ΔDbps	ΔYTD bps
5-year	169	0	-3
10-year	211	0	-5

STOCKS

	Last	ΔD	ΔYTD
SOFIX	443.2	-0.12%	-3.85%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7918	0.18%	0.47%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research

Data updated as of 11:30 EET

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