



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Friday, July 15, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- July 13: Fed's beige book
- July 14: Initial jobless claims
- July 15
 - CPI (Jun)
 - Empire state index (Jun)
 - Retail sales (Jun)
 - IP (Jun)
 - UoM consumer sentiment (Jul, p)

EUROZONE

- July 12: Eurogroup/Ecofin meeting
- July 15: HICP (Jun)

GREECE

- July 11: IP (May)
- July 12: Building activity (Apr)

SEE

BULGARIA

- July 11: Trade balance (May)
- July 12: CPI (Jun)
- July 14-15: U/E rate (Jun)
- July 15: CAD (May)

ROMANIA

- July 11
 - Trade balance (May)
 - CPI (Jun)
 - 2.50% 2019 T-bonds auction
- July 12: Industrial sales (May)
- July 13: IP (May)
- July 14
 - 3.50% 2022 T-bonds auction
 - CAD (May)

SERBIA

- July 12: HICP (Jun)
- July 15: Sovereign credit rating review by Moody's

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: At its monetary policy meeting yesterday, the BoE's MPC voted to keep the official bank rate unchanged at 0.50% confounding expectations for a 25bps cut as it opted not to rush into "a knee-jerk reaction" to the Brexit vote and awaits, instead, official data to confirm that domestic economic activity has slowed in the aftermath of the referendum. In response to the BoE's unexpected decision, the GBP gained some ground and major government bond yields moved higher. Looking at today's calendar, focus will be squarely on a string of US data including CPI, retail sales, industrial production and University of Michigan consumer sentiment all for the month of June.

GREECE: According to the local press, the Medium Term Fiscal Strategy (MTFS) 2017-2020 that the Greek government is expected to submit to Parliament within the next couple of weeks will outline a primary surplus target of 2.5%-of-GDP and 2.0%-of-GDP respectively for 2019 and 2020 compared to 3.5%-of-GDP envisioned in the existing MoU. The Board of the Hellenic Asset Development Fund approved the binding offer submitted by Italian Ferrovie Dello Stato Italiane S.p.A for the acquisition of the 100% share stake in the Greek railway service operator TRAINOSE for €45million.

SOUTH EASTERN EUROPE

ROMANIA: The swelling of the current account deficit has become more visible in the Balance of Payments data released yesterday for the first five months of the year. The current account deficit jumped to €2.6bn in January-May 2016 compared to a surplus of €42mn in the same period a year ago. As a percentage of GDP, the shortfall widened to 1.6% in over the first five months of the year up from an almost balanced position over the same period in 2015.

CESEE MARKETS: Emerging Market assets broadly retained a firm tone earlier on Friday, on optimism that Central Banks around the globe will act if needed to stem a potential spillover impact from the Brexit vote, while positive macroeconomic data from China also favored sentiment towards risky assets. In other news, the Romanian finance ministry sold at an auction on Thursday RON 215mn of 2022 T-bonds, RON 15mn above the amount initially planned, at an average accepted yield came in at 2.70%.

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Latest world economic & market developments

GLOBAL MARKETS

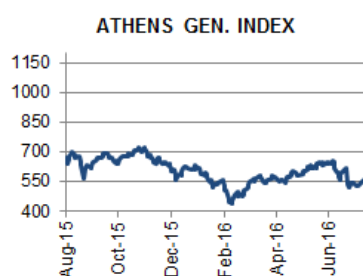
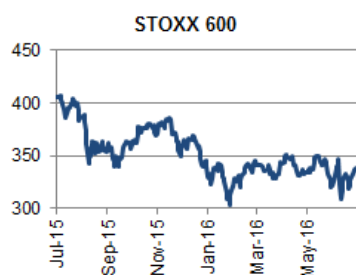
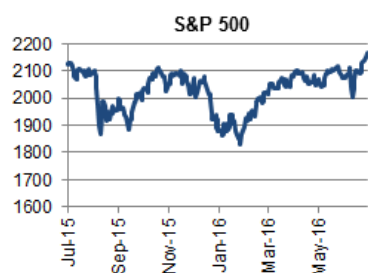
Major government bond yields moved higher following the BoE's unexpected decision yesterday to stay put on its monetary policy. Official data from China earlier today, which somewhat eased worries over a hard landing, also had an impact. In spite of their latest upward move, the majority of major government bond yields were still below levels recorded on June 23rd, a day ahead of the announcement of the UK referendum outcome. UK gilts remained the star performers with the 10-yr UK/US spread widening to around 74bps, the widest in near ten years. China's Q2 GDP grew by 6.7%YoY, unchanged from the prior quarter but slightly higher compared to the 6.6%YoY market consensus. Meanwhile, at its monetary policy meeting, the BoE's MPC voted 8-1 to keep the official bank rate unchanged at 0.50% confounding expectations for a 25bps cut as it opted not to rush into "a knee-jerk reaction" to the Brexit vote and awaits, instead, official data to confirm that domestic economic activity has slowed in the aftermath of the referendum. The minutes of the meeting revealed that the vast majority of the policy members "expected monetary policy to loosen in August", a clear signal of easier BoE monetary policy at the next meeting on August 4th. In response to the BoE's unexpected decision, the GBP gained some ground with the GBP/USD hitting a post-Brexit peak of 1.3480 earlier today before retreating to levels around 1.3400 at the time of writing. Looking at today's calendar, focus will be squarely on a string of US data including CPI, retail sales, industrial production and University of Michigan consumer sentiment all for the month of June.

ppetropoulou@eurobank.gr

GREECE

According to the local press, the Medium Term Fiscal Strategy (MTFS) 2017-2020 that the Greek government is expected to submit to Parliament within the next couple of weeks will outline a primary surplus target of 2.5%-of-GDP and 2.0%-of-GDP respectively for 2019 and 2020 compared to 3.5%-of-GDP envisioned in the existing MoU. As per the same sources, Greece's Alternative Minister of Finance Giorgos Houliarakis informed earlier this week representatives from the Institutions about the government's intention to adopt lower fiscal targets for those two years in the context of the MTFS 2017-2020 but so far public comments from high level European officials suggest that they oppose lower primary surplus targets after 2018. In other news, the Board of the Hellenic Asset Development Fund approved the binding offer submitted by Italian Ferrovie Dello Stato Italiane S.p.A for the acquisition of the 100% share stake in the Greek railway service operator TRAINOSE for €45million, which, based on two independent valuations, was considered a satisfactory price. The completion of the sale is subject to the approval of the State Council of Audit and relevant authorities. With regard to the 2nd programme review, which is scheduled to commence in early October 2016, labour market reform is expected to be the most challenging issue. The Greek Labour Minister, George Katrougalos, spoke of the IMF's harsh stance on the issue and expressed the belief that the European partners will not support it. On his part, the IMF's representative Mr. Gerry Rice reiterated the need for reforms in order to streamline the Greek labour market with European best practices. Meanwhile, in an interview yesterday, the President of the Hellenic Federation of Enterprises (SEV), Mr. Theodoros Fessas supported the need for adopting European best practices as well as engaging into a sincere social dialogue in order to serve the needs of the country rather than individual interests. In other news, speaking at a book presentation yesterday, BoG Governor Yannis Stournaras spoke of the possibility of a relaxation of capital controls as early as next week and supported the view that banks should preferably be capitalized directly by the ESM.

ppetropoulou@eurobank.gr
andimitriadou@eurobank.gr



Source: Reuters, Bloomberg, Eurobank Research

July 15, 2016

BULGARIA: Indicators	2014	2015	2016f
Real GDP growth %	1.6	3.0	2.6
CPI (pa, yoy %)	-1.4	-0.1	-0.5
Budget Balance/GDP*	-3.7	-2.9	-2.0
Current Account/GDP	0.9	1.4	1.0
EUR/BGN (eop)	1.9558		
	2015	current	2016f
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

CYPRUS: Indicators	2014	2015	2016f
Real GDP growth %	-2.5	1.6	2.5
HICP (pa, yoy %)	-0.3	-1.5	-0.7
Budget Balance/GDP*	-0.2	0.0	-0.4
Current Account/GDP	-4.6	-3.6	-4.2

* ESA 2010

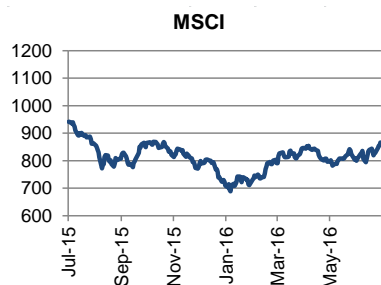
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2014	2015	2016f
Real GDP growth %	2.9	3.8	4.2
CPI (pa, yoy %)	1.1	-0.6	-1.5
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.1	-3.0
EUR/RON (eop)	4.48	4.52	4.60
	2015	current	2016f
Policy Rate (eop)	1.75	1.75	2.00

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

SERBIA: Indicators	2014	2015	2016f
Real GDP growth %	-1.8	0.8	1.8
CPI (pa, yoy %)	2.1	1.5	2.8
Budget Balance/GDP	-6.7	-4.1	-4.0
Current Account/GDP	-6.0	-4.7	-4.6
EUR/RSD (eop)	121.38	121.52	125.00
	2015	current	2016f
Policy Rate (eop)	4.25	4.00	4.00

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	B1	BB-	B+

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

Latest world economic & market developments in the CESEE region

ROMANIA

The swelling of the current account deficit has become more visible in the Balance of Payments data released yesterday for the first five months of the year. The current account deficit jumped to €2.6bn in January-May 2016 compared to a surplus of €42mn in the same period a year ago. As a percentage of GDP, the shortfall widened to 1.6% over the first five months of the year up from an almost balanced position at the same period in 2015.

The widening of the trade deficit and the primary income gap were the main culprits behind the current account deterioration. Stronger imports dynamics (+8.7% YoY) than those of exports (+4.4% YoY) resulted in the swelling of the trade deficit to 2.1% of GDP vs 1.4% in the same period last year. In addition, the primary income gap more than doubled from 0.8% to 1.8% of GDP, reflecting the increased outflows of profits repatriation of foreign investments. On the other hand, the mediocre expansion of the surpluses on the services (by 5.7% YoY, almost flat at 1.7% of GDP) and secondary income (by 8.8%, at 0.6% of GDP) side as a result of lower EU funds absorption mirroring the end of the previous programming period, the late disbursement of agricultural subsidies from EU and transportation services were unable to offset the trade and primary income gap deterioration. From a financing point of view, net FDI inflows remained sluggish at only €1.1bn vs €1.0bn in the same period last year. Capital investments accounted for €1,7mn while intra-group loans recorded a negative balance of €592mn.

Overall, the current account is deteriorating at a rapid pace. At this moment, our full year projection for the current account deficit stands at 3% in 2016, still very far though from the pre-crisis peak of 13.4% in 2007. Even though Romania has limited direct ties with UK it is still not fully immune from Brexit. Nevertheless, growth is expected to accelerate further to 4.2% in 2016, up from 3.8% in 2015. However, growth dynamics are driven by a private consumption spending boom, fueled by the unwarranted pro-cyclical fiscal stimulus ahead of the parliamentary elections scheduled for late 2016. Hence, the economy is driven close to, if not above, its potential growth rate at the expense of pushing government finances off consolidation track and deteriorating the external position. In a nutshell, the current account deterioration is one of those warning signs that macroeconomic imbalances are reemerging as a result of this policy.

igkionis@eurobank.gr

CESEE MARKETS

Emerging Market assets broadly retained a firm tone earlier on Friday, on optimism that Central Banks around the globe will act if needed to stem a potential spillover impact from the Brexit vote, while positive macroeconomic data from China also favored sentiment towards risky assets. In this context, the MSCI Emerging Markets index was poised to register its best weekly performance since March, having registered cumulative gains of ca 4.4% over the first four sessions of the week. That said, CESEE markets were mixed after yesterday's terrorist attack in France. In the local rate markets, government bonds were mostly firmer earlier on Friday. The Romanian finance ministry sold at an auction on Thursday RON 215mn of 2022 T-bonds, RON 15mn above the amount initially planned. The average accepted yield came in at 2.70%, below 3.09% achieved at a prior auction of same maturity paper held on June 13. The issue matures on December 19, 2022, while the tender's bid to cover ratio stood yesterday at 2.68, reflecting healthy investor demand.

gphoka@eurobank.gr

July 15, 2016

GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities																																																																
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CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	301	0	-2
1-week	3.17	0	-2
1-month	3.33	0	-18
3-month	3.56	0	-27
6-month	3.82	0	-21

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.34	xs	-33
5Y RSD	5.24	0	12
7Y RSD	5.77	0	-193

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.57	0	-59
USD Nov-24	6.28	0	-14

CDS

	Last	ΔDbps	ΔYTD bps
5-year	244	0	-30
10-year	289	1	-50

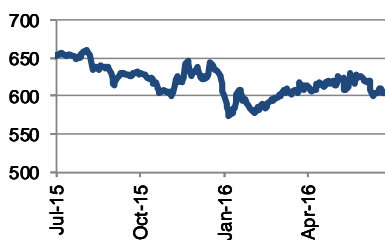
STOCKS

	Last	ΔD	ΔYTD
BELEX15	619.2	1.57%	-3.87%

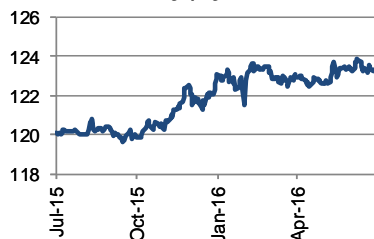
FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.23	0.03%	-1.34%

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.42	-1	-11
1-month	0.59	-1	-10
3-month	0.8	-1	-22
6-month	1.05	0	-29
12-month	1.21	0	-31

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.65	-1	-28
5Y RON	2.38	-2	-42
10Y RON	3.16	-1	-62

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.15	0	-42
USD Jan-24	2.98	0	-80

CDS

	Last	ΔDbps	ΔYTD bps
5-year	120	-1	-13
10-year	154	-1	-18

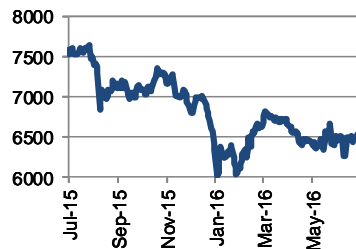
STOCKS

	Last	ΔD	ΔYTD
BET	6593.9	0.21%	-5.86%

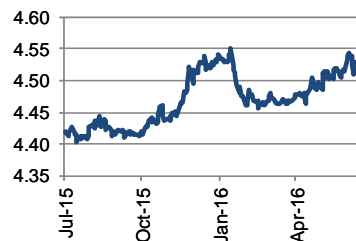
FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.486	0.00%	0.62%

BET Index



EUR/RON



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.01	0	-2
1-month	-0.16	0	-32
3-month	-0.06	0	-32
6-month	0.09	0	-44
12-month	0.44	0	-53

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.34	0	-27
5Y BGN	1.05	0	-22
10Y BGN	2.29	0	-37

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.03	-22	-4
EUR Sep-24	2.12	-82	-30

CDS

	Last	ΔDbps	ΔYTD bps
5-year	150	3	-22
10-year	196	4	-20

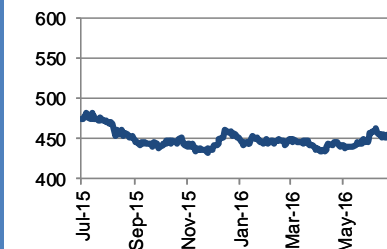
STOCKS

	Last	ΔD	ΔYTD
SOFIX	450.4	-0.23%	-2.27%

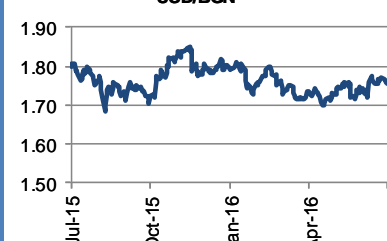
FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7572	0.10%	2.45%

SOFIX Index



USD/BGN



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

Data updated as of 12:30 EEST

July 15, 2016

Contributors

Paraskevi Petropoulou
G10 Markets Analyst, Eurobank Ergasias
+30 210 3718991
pmpetropoulou@eurobank.gr

Galatia Phoka
Research Economist, Eurobank Ergasias
+30 210 3718922
gphoka@eurobank.gr

Ioannis Gkionis (Special Contributor)
Research Economist, Eurobank Ergasias
+30 210 3337305
igkionis@eurobank.gr

Anna Dimitriadou (Special Contributor)
Economic Analyst, Eurobank Ergasias
+30 210 3718793
andimitriadou@eurobank.gr

Olga Kosma (Special Contributor)
Research Economist, Eurobank Ergasias
+30 210 3371227
okosma@eurobank.gr

Theodoros Stamatou (Special Contributor)
Senior Economist, Eurobank Ergasias
+30 210 3371228
tstamatiou@eurobank.gr

Regional Contributors

Vessela Boteva
Expert, trading desk, Eurobank Bulgaria
+359 (2) 8166 491
vboteva@postbank.bg

Zoran Korac
FX dealer, Eurobank ad Beograd
+381 11 206 5821
zoran.korac@eurobank.rs

Bogdan Radulescu, CFA
Senior Trader, Bancpost
+40 21 3656291
bogdan.radulescu@bancpost.ro

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: Group Chief Economist
pmonokroussos@eurobank.gr, +30 210 37 18 903

Dr. Tassos Anastasatos: Deputy Chief Economist
tanastasatos@eurobank.gr, +30 210 33 71 178

Research Team

Anna Dimitriadou: Economic Analyst
andimitriadou@eurobank.gr, +30 210 3718 793

Ioannis Gkionis: Research Economist
igkionis@eurobank.gr +30 210 33 71 225

Stylianios Gogos: Economic Analyst
sgogos@eurobank.gr +30 210 33 71 226

Olga Kosma: Research Economist
okosma@eurobank.gr +30 210 33 71 227

Arkadia Konstantopoulou: Research Assistant
arkonstantopoulou@eurobank.gr +30 210 33 71 224

Paraskevi Petropoulou: G10 Markets Analyst
pmpetropoulou@eurobank.gr, +30 210 37 18 991

Galatia Phoka: Research Economist
gphoka@eurobank.gr, +30 210 37 18 922

Theodoros Stamatou: Senior Economist
tstamatiou@eurobank.gr, +30 210 3371228

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

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