



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Friday, October 14, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Oct 12: FOMC meeting minutes (Sep 20/21)
- Oct 13: Jobless claims (weekly)
- Oct 14
 - Fed's Chair Yellen speaks
 - Retail sales (Sep)
 - UoM consumer confidence (Oct, p)

EUROZONE

- Oct 12: Industrial production (Aug)

GREECE

- Oct 10
 - Industrial production (Aug)
 - CPI/HICP (Sep)
- Oct 10: Eurogroup to decide on €2.8bn sub-tranche
- Oct 14: Sovereign credit rating review by Moody's

CYPRUS

- Oct 6: HICP (Sep)

SEE

BULGARIA

- Oct 10: Trade balance (Aug)
- Oct 12: CPI (Sep)

ROMANIA

- Oct 10
 - Trade balance (Aug)
 - Industrial sales (Aug)
 - 2.25% 2020 T-Bonds auction
- Oct 11: CPI (Sep)
- Oct 12: Industrial production (Aug)
- Oct 14: Current account deficit (Aug)

SERBIA

- Oct 12: CPI (Sep)
- Oct 13
 - 6.00% 2019 T-Bonds auction
 - MPC meeting

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Increased short-term Fed rate hike expectations kept the USD well supported in early European market on Friday while the GBP retained a negative tone amid heightened concerns about a "hard" Brexit scenario. Elsewhere, European bourses were firmer in early trade and major government bond yields moved modestly higher following the release of stronger than anticipated inflation data from China. On the data front, today's major releases include the US UM consumer confidence index and US retail sales for September while Fed Chair Janet Yellen is scheduled to address a conference in Boston.

GREECE: According to press reports, speaking at the Syriza party congress yesterday, the Greek PM Alexis Tsipras said that the 2nd programme review will close in due course and at the same time the measures for debt relief will be specified and Greece will participate in the ECB's QE programme. In an interview the EC Vice President Vladis Dombrovskis claimed that there will be no change in the medium-term primary surplus targets until 2018. EC Commissioner Pierre Moscovici reiterated his position that a comprehensive agreement on reforms and on debt relief before the end of the year is possible. According to the Greek Tourism Confederation (SETE) for the 9-month period January – September 2016 international arrivals at Greece's main airports increased 7.6% YoY (against 6.2%YoY in the corresponding period of 2015) presaging another record year in terms of arrivals.

SOUTH EASTERN EUROPE

SERBIA: Consumer prices declined by -0.5%MoM/-0.6% YoY in September down from 0.0% MoM/-0.3% YoY in August on renewed food prices drop. In other news, the finance ministry sold on Thursday RSD 19.2bn (~€ 0.16bn) worth of 2019 T-Bonds at an average accepted yield of 4.79%.

CESEE MARKETS: Emerging assets broadly firmed earlier on Friday, snapping a three-day streak of declines, following better than anticipated data from China and a recovery in oil prices.

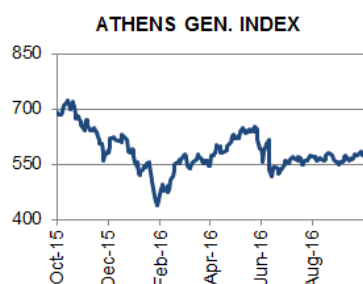
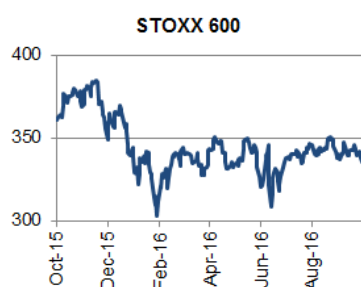
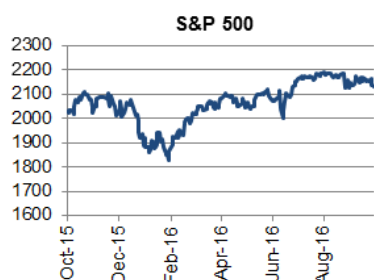
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October 14, 2016

Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Following the release of the minutes from the Fed's September monetary policy meeting earlier this week which leaned in a hawkish direction, yesterday's initial jobless claims surprised positively adding to the view for a 25bps Fed rate hike by the end of this month. Confounding market expectations for a 9k increase, jobless claims remained unchanged at a 43-year low of 246k in the week ending October 8 pointing to sustained labor market improvement. Fed Funds futures currently assign a c. 66% probability for a 25bps rate hike at the December Fed policy meeting compared to c. 59% a fortnight ago. Increased short-term Fed rate hike expectations kept the USD well supported in early European market on Friday. The DXY index was hovering close to 97.810 at the time of writing, not far from Thursday's seven-month intraday peak of 98.129, standing on track for gains of c. 1% on a weekly basis and around 2.5% so far this month. Against this background, the EUR/USD was hovering around 1.1015/18, within distance from Thursday's 2½ month trough of 1.0982 while the prospect of renewed weakness in the coming sessions cannot be ruled out especially if ECB President Mario Draghi adopts a more dovish than expected tone at the October 20th policy meeting. Elsewhere, the GBP remained under pressure amid heightened concerns about a "hard" Brexit scenario. Speaking in Brussels on Thursday, European Council President Tusk warned that the EU would not compromise on its insistence that freedom of movement will be a condition for continuing UK access to the single market and made clear that the UK's only alternative to "hard Brexit" is no Brexit. Meanwhile, European bourses were firmer in early trade and major government bond yields moved modestly higher following the release of stronger than anticipated inflation data from China. On the data front, focus today is on the US UM consumer confidence index and US retail sales for September which are expected to increase amid higher mobile phone sales reversing more than fully the August drop. In addition, Fed Chair Janet Yellen is scheduled to deliver a speech in Boston (19:30 CET).

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GREECE

According to press reports, speaking at the Syriza party congress yesterday, the Greek PM Alexis Tsipras said that the 2nd programme review will close in due course and at the same time the measures for debt relief will be specified and Greece will participate in the ECB's QE programme. The PM explicitly stated that Greece is keeping its part of deal to the full and will continue to do so, therefore, it is expected that its partners will do the same without further delays. Meanwhile, in an interview the EC Vice President Vladis Dombrovskis claimed that there will be no change in the medium-term primary surplus targets until 2018 in spite of the IMF's request for lower fiscal targets. He added, however, that the debt issue will be discussed in the context of the 2nd programme review and that the European partners will need to work with the IMF on the debt sustainability analysis. Staying on this topic, the European Commissioner for Economic and Financial Affairs Pierre Moscovici, received a letter from 36 lawmakers from Greece's Syriza governing party and other allied European parties that urged for immediate debt relief for Greece. Commenting on this, Mr. Moscovici reportedly emphasized that the EC will not evade its responsibility and will act as an honourable mediator and carrier of hope for Greece. Furthermore, he reiterated his position that a comprehensive agreement on reforms and on debt relief before the end of the year is possible. On the data front, according to the Greek Tourism Confederation (SETE) international arrivals at Greece's main airports in September 2016 reached 2,5 million, surpassing June and rising 13.2% YoY. For the 9-month period January – September 2016 international arrivals at Greece's main airports increased 7.6% YoY (against 6.2%YoY in the corresponding period of 2015) presaging another record year in terms of arrivals.

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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

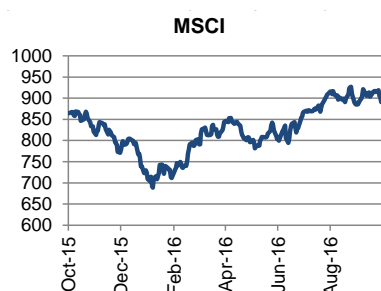
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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	0.7	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

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

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

Latest economic & market developments in the CESEE region

SERBIA

In line with market expectations the Central Bank of Serbia (NBS) kept its key policy rate unchanged for the third month running at the current record low level of 4.00% at its monetary policy meeting yesterday. The decision was broadly anticipated by market participants as despite weak inflationary pressures and below target inflation for more than 2 years (consumer prices at 0.6%YoY in September), CPI is anticipated to gradually edge higher in the coming months, while uncertainties remain elevated on the international backdrop. In support of the aforementioned, the NBS Executive Board reiterated that inflation is expected to return within the target tolerance band of $4.0 \pm 1.5\%$ towards mid-2017 on the back of past monetary easing (775bps of rate cuts since May 2013), higher domestic demand and a gradual recovery in global oil prices and inflation. On the flipside, the Central Bank repeated that low food prices, thanks to low food production costs and good agricultural season, will likely provide a drag to inflation for some time. Casting a note of caution, the Executive Board highlighted uncertainty in the international financial markets in the face of future Fed and ECB monetary policy paths and their potential impact on global capital flows. However, it noted, once again, the economy's increased resilience to external shocks, thanks to ongoing fiscal consolidation and improved macroeconomic prospects.

In other news, the finance ministry sold on Thursday RSD 19.2bn (~€ 0.16bn) worth of 2019 T-Bonds, a tad less than an initially planned amount of RSD 20.0bn. The average accepted yield came in at 4.79%, below 5.00% achieved at a prior auction of a similar security held on August 11. The issue, which expires on February 22, 2019, carries an annual coupon of 6%. The bid to cover ratio stood at 1.11 yesterday.

CESEE MARKETS

Emerging assets broadly firmed earlier on Friday, snapping a three-day streak of declines, following better than anticipated data from China and a recovery in oil prices. Meanwhile, caution prevailed ahead of Fed Chair Yellen's speech later on the day. In this context, the MSCI Emerging Markets index rose by 0.6% in Asian trade, though poised to end the week with losses to the tune of 2.0% amid escalating Brexit jitters and increased expectations for a Fed rate hike this year. In FX markets, the Romanian leu remained under pressure amid lingering concerns over the impact of a bill concerning the conversion of CHF-denominated loans into RON at a fixed exchange rate (historic at the time of the loan origination) on the domestic banking sector. The EUR/RON hovered around levels of 4.4990 at the time of writing, remaining not too far from yesterday's 2-session high of 4.5065 and a 3-month peak of 4.5176 hit earlier in the week. The budget and finance committees in parliament's lower house approved the bill on Monday, having included some amendments considered less adverse for the domestic banking sector outlook. However, lawmakers partially reversed that change on Tuesday proposing to allow conversion of loans of up to 250,000 CHF. A final vote is anticipated next week. Commenting on the said issue, Fitch rating agency said on Thursday that it does not expect the law to have an immediate impact on Romanian banks. In terms of data releases today, Poland's trade and current account balances and Romania's current account deficit for August are of those worth most of noting. Focus is also on data from the US and Fed Chair Yellen's speech later on the day, for any signs over the Fed's monetary policy deliberations ahead.

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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	2132.55	-0.3%	4.3%	EUR/USD	1.1015	-0.4%	1.5%	UST - 10yr	1.77	3	-50	GOLD	1256	-0.2%	18.3%
Nikkei 225	16856.37	0.5%	-11.4%	GBP/USD	1.2191	-0.5%	-17.3%	Bund-10yr	0.05	2	-58	BRENT CRUDE	52	0.7%	40.6%
STOXX 600	338.64	0.9%	-7.4%	USD/JPY	104.16	-0.4%	15.3%	JGB - 10yr	-0.05	0	-32	LMEX	2412	-1.2%	9.5%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	301	0	-2
1-week	3.16	0	-3
1-month	3.32	1	-19
3-month	3.46	-2	-37
6-month	3.65	-1	-38

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.60	5.43	-104
5Y RSD	4.35	0	-77
7Y RSD	5.64	0	-206

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.32	-1	-84
USD Nov-24	6.56	3	14

CDS

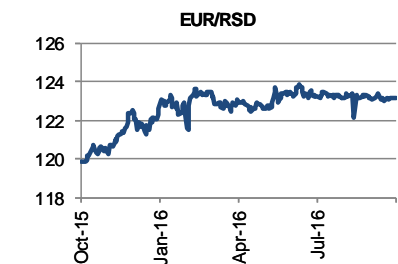
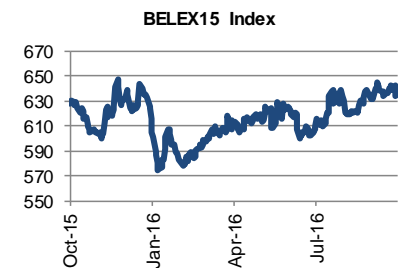
	Last	ΔDbps	ΔYTD bps
5-year	198	0	-76
10-year	240	0	-100

STOCKS

	Last	ΔD	ΔYTD
BELEX15	636.8	0.10%	-1.14%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.18	0.00%	-1.29%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.44	0	-9
1-month	0.55	0	-14
3-month	0.68	-1	-34
6-month	0.92	-1	-42
12-month	1.08	0	-44

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.42	0	-51
5Y RON	2.17	0	-63
10Y RON	2.99	0	-79

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.77	#N/A	N/A
USD Jan-24	2.98	-1	-80

CDS

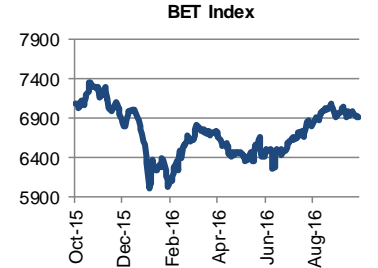
	Last	ΔDbps	ΔYTD bps
5-year	102	1	-31
10-year	147	1	-25

STOCKS

	Last	ΔD	ΔYTD
BET	6865.4	0.10%	-1.98%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5015	-0.04%	0.28%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.30	0	-31
1-month	-0.15	0	-30
3-month	-0.05	0	-31
6-month	0.10	0	-43
12-month	0.40	0	-57

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.17	-2	-44
5Y BGN	0.59	4	-68
10Y BGN	1.87	0	-79

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.03	-7	-10
EUR Sep-24	1.47	-5	-95

CDS

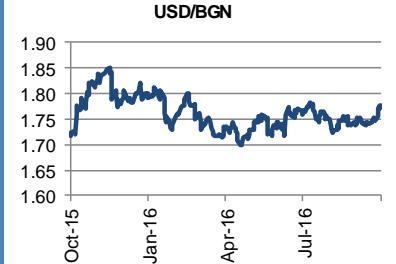
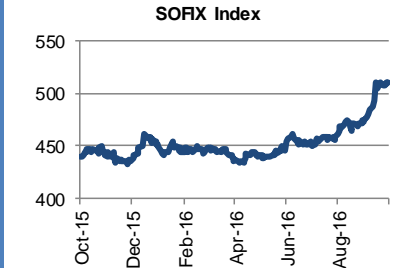
	Last	ΔDbps	ΔYTD bps
5-year	136	-1	-35
10-year	178	-1	-38

STOCKS

	Last	ΔD	ΔYTD
SOFIX	510.3	-0.01%	10.72%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7758	-0.39%	1.38%



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

Data updated as of 11:40 EEST

October 14, 2016

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