

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Jun 26: Durable goods orders (May)
- Jun 27
  - CB consumer confidence (Jun)
  - Fed Chair Yellen speaks
- Jun 28: Pending home sales (May)
- Jun 29
  - GDP (Q1, 3<sup>rd</sup> estimate)
  - Jobless claims (weekly)
- Jun 30
  - Personal income / spending (May)
  - Core PCE deflator (May)
  - Chicago PMI (Jun)
  - UoM consumer sentiment (f, May)

#### EUROZONE

- Jun 26: DE: Ifo business climate (Jun)
- Jun 29
  - GfK Consumer confidence (Jul)
  - ESI (Jun)
- Jun 30: HICP (flash, Jun)

#### GREECE

- Jun 30: Retail sales (Apr)

#### CYPRUS

- Jun 28: Reunification negotiations resume in Geneva

#### SEE

##### BULGARIA

- Jun 28: Gross External Debt (Apr)
- Jun 30
  - PPI Index (May)
  - Budget execution (May)
  - Base Interest Rate (Jul)

##### ROMANIA

- Jun 26: T-bonds auction
- Jun 27: 1.25% 2021 T-bonds auction
- Jun 30: Unemployment (May)

##### SERBIA

- Jun 26: Real Gross Wages (May)
- Jun 30
  - Industrial Production (May)
  - Trade Balance (May)
  - Retail Sales (May)

Source: Reuters, Bloomberg,

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** GBP was firmer across the board and UK Gilts came under heavy selling pressure following comments by BoE Governor Mark Carney at the fourth annual ECB Forum on Central Banking in Portugal that were perceived by market participants as reflecting a change towards a rather hawkish tone. Meanwhile, with the majority of market participants sharing the view that the Fed is no longer the only G10 Central Bank on a tightening mode, USD came under further selling pressure with the DXY index marking a fresh year-to-date low. EUR/USD extended recent gains hitting a session peak of 1.1435, the highest in more than a year. German Bunds underperformed US Treasuries with the 10-yr yield spread narrowing to the lowest since mid-November 2016.

**GREECE:** During a meeting with the Greek PM Alexis Tsipras in Athens, the ESM Managing Director urged the Greek government to strengthen the prospects of growth now that the painful measures are behind. Mr. Tsipras replied that the goal is to regain the confidence of the markets and finish the programme in mid-2018 so that no further ESM loans will be needed. The Budget Committee of the German Parliament approved yesterday the disbursement of the next ESM loan tranche (€8.5 billion) to Greece. According to data released yesterday by the Bank of Greece, in May 2017 on a monthly basis credit to the private sector contracted by €904 million while private sector deposits increased by €421 million.

### SOUTH EASTERN EUROPE

**ROMANIA:** The parliament is expected to endorse the new government cabinet later today.

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June 29, 2017

## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

GBP was firmer across the board and UK Gilts came under heavy selling pressure following comments by BoE Governor Mark Carney at the fourth annual ECB Forum on Central Banking in Portugal that were perceived by market participants as reflecting a change towards a rather hawkish tone. In more detail, the BoE Governor was quoted saying that “some removal of monetary stimulus is likely to become necessary if the trade-off (between lower activity and higher inflation) facing the MPC continues to lessen and the policy decision accordingly becomes more conventional”. Supported by a hawkish shift in short-term BoE rate hike expectations, GBP rallied to levels near 1.3000 against a broadly weaker US currency earlier today while EUR/GBP pulled back to levels slightly below 0.8800 after hitting a year-to-date peak of 0.8880 in the prior session. The 2-yr Gilt yield rose to 0.335%, the highest since late October 2016, before pulling back modestly to levels around 0.325% at the time of writing, remaining well above the prior session’s settlement of 0.235%. Meanwhile, the 10-yr Gilt yield moved above 1.20% for the first time in around six weeks taking the 2/10-yr yield spread to 88bps, the widest in two weeks. In a similar note, with recent hawkish comments by ECB President Mario Draghi still in investors’ ears, the 10-yr Bund yield remained in an upward trend marking a fresh multi-week high of 0.425% earlier today with the spread against its US counterpart narrowing to 183bps, the lowest since mid-November 2016. Remarks by three European officials that “monetary support is still needed” and Mario Draghi’s comments were misjudged by market participants, were shrugged off. With the majority of investors sharing the view that the Fed is no longer the only G10 Central Bank on a tightening mode, USD came under further selling pressure with the DXY index marking a fresh year-to-date low of 95.685 earlier today. Against this background, EUR/USD extended recent gains hitting a session peak of 1.1435, the highest in more than a year. Looking at the day ahead, European Commission economic sentiment indicators for June are due for release while jobless claims is the only US economic data of note today.

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### GREECE

During a meeting with the Greek PM Alexis Tsipras in Athens, the ESM Managing Director urged the Greek government to strengthen the prospects of growth now that the painful measures are behind. Mr. Tsipras replied that the goal is to regain the confidence of the markets and finish the programme in mid-2018 so that no further ESM loans will be needed. On the same wavelength, speaking at a conference, the Greek Finance Minister Euclid Tsakalotos reportedly claimed that the Greek government has now a short to medium – term objective to restore access to the markets, which is a possibility with or without QE. He also appeared confident that Greece will achieve “good growth” in 2017 and 2018 adding that the medium – term objective will be to ensure that this growth is sustainable. At the same conference, officials representing the European mission institutions (Francesco Drudi-ECB, Nicola Giamarolli-ESM and Declan Costello-EC) reportedly stressed the importance of implementing the agreed reforms, while IMF mission head Delia Velculescu insisted among others in particular on labour reform even beyond the expiration of the programme in 2018. In other news, the Budget Committee of the German Parliament approved yesterday the disbursement of the next ESM loan tranche (€8.5 billion) to Greece. On the data front, according the Bank of Greece, in May 2017 on a monthly basis credit to the private sector contracted by €904 million while private sector deposits increased by €421 million. On an annual basis credit to the private sector contracted by €9.6 billion while private sector deposits decreased by €2.3 billion.

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## Latest economic & market developments in the CESEE region

BULGARIA: Indicators	2015	2016e	2017f
Real GDP growth %	3.6	3.5	3.0
CPI (pa, yoy %)	-0.1	-0.7	0.6
Budget Balance/GDP*	-2.9	-0.8	-1.4
Current Account/GDP	0.4	3.0	1.5
EUR/BGN (eop)	1.9558		
	2016	current	2017
Policy Rate (eop)	N/A	N/A	N/A

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

CYPRUS: Indicators	2015	2016e	2017f
Real GDP growth %	1.7	2.8	3.0
HICP (pa, yoy %)	-1.5	-1.1	0.5
Budget Balance/GDP*	0.0	-0.3	-0.6
Current Account/GDP	-3.0	-2.8	-3.3

\* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2015	2016e	2017f
Real GDP growth %	0.8	2.8	3.0
CPI (pa, yoy %)	1.9	1.2	2.1
Budget Balance/GDP	-3.7	-1.4	-1.3
Current Account/GDP	-4.7	-4.0	-3.9
EUR/RSD (eop)	121.38	123.40	125.5
	2016	current	2017
Policy Rate (eop)	4.00	4.00	4.00

Source: Reuters, Bloomberg, Eurobank Research, National Authorities



Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	Ba3	BB-	BB-
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BB+	BBB-
CYPRUS	B1	BB+	BB-

Source: Reuters, Bloomberg, Eurobank Research

### ROMANIA

The new Prime Minister designate Mihai Tudose, joined by the leader of the ruling Social Democratic Party (PSD) Liviu Dragnea, presented the new government cabinet in a press-conference. The designated PM was the minister for economy in the outgoing government, but he is not a very prominent, or at least not well known, party leader. As expected, several ministers from the outgoing cabinet (17 out of 28) kept their seats.

The parliament is expected to endorse the new cabinet with a vote of confidence later today. The vote is broadly anticipated to pass as the ruling coalition which consists of PSD and its minor partner ALDE enjoys a safe parliamentary majority. Following last year's December general elections, the PSD-ALDE coalition controls 174 out of 329 seats in the Chamber of Deputies and 76 out of 136 seats in the Senate. Although a safe parliamentary majority argues in favor of government stability, it does not necessarily mean the end of political noise.

Previous Prime Minister Sorin Grindeanu was ousted last week following the withdrawal of the major coalition partner PSD party's support and the ensuing successful no confidence motion against his government in Parliament last week. He was removed from the post just six months into his tenure for allegedly not delivering on the party's pre-election promises. Sorin Grindeanu had assumed the post of the Prime Minister in the government coalition cabinet, after President Iohannis refused to appoint PSD leader Liviu Dragnea because of his conviction over electoral fraud in a 2012 referendum to impeach the President.

Meanwhile, President Iohannis promulgated yesterday the unitary public wage law. The promulgation will result in the new law coming into force accordingly, ruling out as the possibility of an appeal in the Constitutional Court. The law will result in significant increases of wages in the public sector in the following years (by 25% as of January 2018) that is expected to have a detrimental impact on fiscal metrics. The fiscal council has estimated the 4-year cumulative negative impact on the budget at RON 55-60bn, which may translate into a deficit hike to 5.7% of GDP in 2018. In contrast, the Ministry of Labor estimate is much smaller at RON 32bn by 2020 and RON 43bn by 2022, thus not jeopardizing the fiscal targets. President Iohannis admitted the necessity of a unitary wage law in the public sector to eliminate inequities and dysfunctionalities, but warned the ruling coalition to focus on the country's public finances and macroeconomic stability.

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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	2440.69	0.9%	9.0%	EUR/USD	1.1426	0.4%	8.6%	UST - 10yr	2.25	2	-20	GOLD	1246	-0.3%	8.1%
Nikkei 225	20220.30	0.4%	5.8%	GBP/USD	1.2984	0.4%	5.1%	Bund-10yr	0.42	5	21	BRENT CRUDE	48	0.8%	-16.1%
STOXX 600	385.80	0.0%	6.7%	USD/JPY	112.61	-0.3%	3.9%	JGB - 10yr	0.06	0	2	LMEX	2824	0.4%	6.2%

## CESEE MARKETS

### SERBIA

#### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.99	0	-1
1-week	3.12	-1	-5
1-month	3.33	-1	-2
3-month	3.54	0	7
6-month	3.74	0	8

#### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.86	-1	-17
5Y RSD	5.22	0	-14
7Y RSD	5.60	0	-4

#### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.74	-1	-59
USD Nov-24	6.32	-1	-9

#### CDS

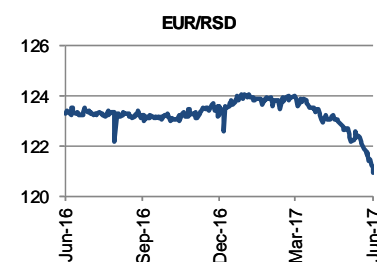
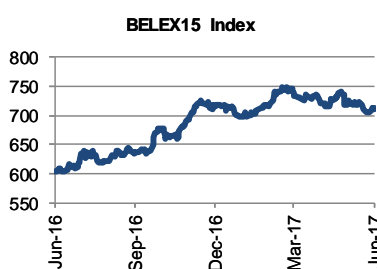
	Last	ΔDbps	ΔYTD bps
5-year	151	1	-57
10-year	201	0	-55

#### STOCKS

	Last	ΔD	ΔYTD
BELEX15	712.1	0.32%	-0.73%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.97	0.16%	2.06%



### ROMANIA

#### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.59	2	3
1-month	0.63	0	-13
3-month	0.86	0	-4
6-month	1.03	0	-8
12-month	1.2	-1	-5

#### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.29	0	-33
5Y RON	2.25	2	-27
10Y RON	3.39	4	-26

#### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.82	-2	-32
USD Jan-24	3.12	#N/A	N/A

#### CDS

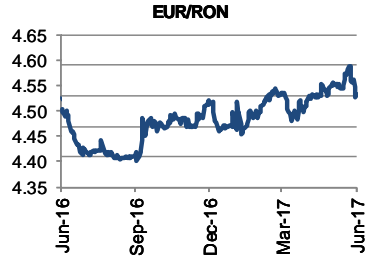
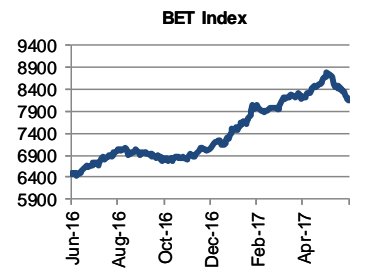
	Last	ΔDbps	ΔYTD bps
5-year	108	6	-1
10-year	153	7	0

#### STOCKS

	Last	ΔD	ΔYTD
BET	8156.2	-0.15%	15.12%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5532	-0.07%	-0.31%



### BULGARIA

#### Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.23	0	-23
1-month	-0.17	0	0
3-month	-0.08	0	-1
6-month	0.04	0	-3
12-month	0.41	0	1

#### BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.07	-1	-22
5Y BGN	0.17	0	-33
10Y BGN	1.52	0	-39

#### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-7.18	3	-685
EUR Sep-24	1.23	-20	-45

#### CDS

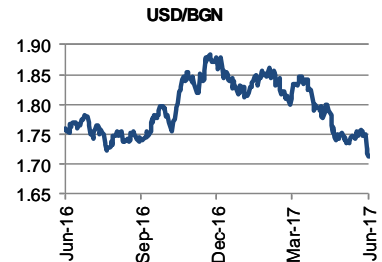
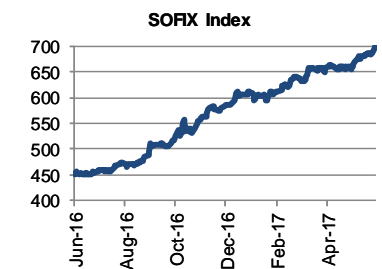
	Last	ΔDbps	ΔYTD bps
5-year	111	-2	-41
10-year	161	-2	-33

#### STOCKS

	Last	ΔD	ΔYTD
SOFIX	700.8	-0.20%	19.51%

#### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7119	0.42%	8.56%



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

Data updated as of 11:40 EEST

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