



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Wednesday, November 02, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Oct 31
 - Personal income/spending (Sep)
 - Core PCE deflator (Sep)
 - Chicago PMI (Oct)
- Nov 1
 - ISM manufacturing (Oct)
 - Auto sales (Oct)
- Nov 2
 - ADP employment (Oct)
 - FOMC interest rate decision
- Nov 3
 - Jobless claims (weekly)
 - ISM non-manuf. (Oct)
- Nov 4
 - Non-farm payrolls (Oct)
 - Trade balance (Sep)
 - U/E rate (Oct)
 - Average hourly rate (Oct)

EUROZONE

- Oct 31: GDP (Q3, flash)
- Nov 2: PMI manufacturing (Oct, f)
- Nov 2-10: EC autumn forecasts

GREECE

- Oct 31: Retail sales (Aug)
- Nov 1: PMI manufacturing (Oct)

CYPRUS

- Nov 3: CPI (Oct)

SEE

BULGARIA

- Oct 31-Nov 3: Budget balance (Sep)
- Nov 6: Presidential elections

ROMANIA

- Nov 1: International reserves (Oct)
- Nov 2: PPI (Sep)
- Nov 3: ILO U/E rate (Sep)
- Nov 4: MPC meeting

SERBIA

- Oct 31
 - Trade balance (Sep)
 - Retail sales (Sep)
 - Industrial output (Sep)
 - GDP (Q3, p)
- Nov 4: EUR 1% 2018 T-bond auction

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Wall St closed in the red for a sixth consecutive session overnight moving to its lowest levels since July, on growing uncertainty about the result of next week's US presidential elections. Mirroring the negative momentum in Wall Street, the VIX volatility index rose to a two month high above 20% y-day, while most Asian equity indices fell to seven-week lows on Wednesday. In FX markets, risk-off sentiment favored the safe-haven JPY, while the US dollar extended its losses against its major currency peers. On the flipside, the Mexican peso fell against the US dollar to almost a one-month low, given Donald Trump's promise to build a wall along the US border with Mexico. Market focus today is on the FOMC monetary policy meeting which concludes later in the day, while on the data front US ADP employment report and Euro area PMI manufacturing for October are also expected to lure market attention.

GREECE: In cooperation with the institutions the Greek government is reportedly putting forward a series of incentives, such as lotteries and tax credits, in order to promote electronic payments and the voluntary disclosure of undeclared income. According to ESM Managing Director Klaus Regling, the ESM's proposal for the short-term debt relief measures will be made before year end and Greece may be able to return to the financial markets in 2017, conditional on its sticking to the agreed reforms. The Ministry of Finance is reportedly working on the reform of welfare benefits based on the World Bank Review with the aim to secure the funds for the promised Social Solidarity Allowance, which constitutes a sticking point in the negotiations with official lenders.

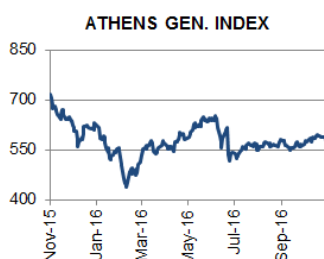
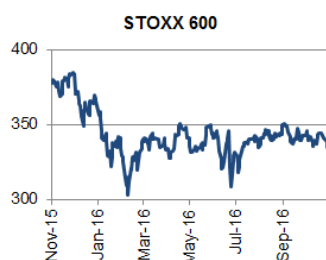
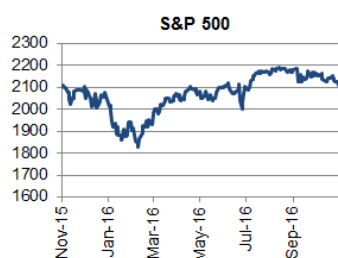
SOUTH EASTERN EUROPE

SERBIA: NBS unexpectedly revised the inflation target of 2017 from 4% +/-1.5% to 3% +/-1.5% yesterday.

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Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

Wall St closed in the red for a sixth consecutive session overnight moving to its lowest levels since July, on growing uncertainty about the result of next week's US presidential elections following a poll that showed Donald Trump with 46% support vs 45% for Hilary Clinton. Mirroring the negative momentum in Wall Street, the VIX volatility index rose to a two month high above 20% y-day, while most Asian equity indices fell to seven-week lows on Wednesday. In FX markets, risk-off sentiment favored the safe-haven JPY, with the USD/JPY falling to a two-week low around 103.50 in European trade. In addition, the US dollar extended its losses against its major currency peers, with the DXY dollar index sliding to a three-week low of 97.386 at the time of writing following an eight-month peak of 99.119 reached last week. On the flipside, the Mexican peso fell against the US dollar to almost a one-month low, given Donald Trump's promise to build a wall along the US border with Mexico. Market focus today is on the FOMC monetary policy meeting which concludes later in the day, while on the data front US ADP employment report and Euro area PMI manufacturing for October are also expected to lure market attention.

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GREECE

In cooperation with the institutions the Greek government is, reportedly, putting forward a series of incentives, such as lotteries and tax credits, in order to promote electronic payments and the voluntary disclosure of undeclared income. Tax payers will also be obliged to submit to the tax authorities a wealth register which will comprise the total of their holdings, including those outside Greece. Meanwhile, according to ESM Managing Director Klaus Regling, the ESM's proposal for the short-term debt relief measures will be made before year end and Greece may be able to return to the financial markets in 2017, conditional on its sticking to the agreed reforms. With regard to the open issues 2nd of the programme review, among others, the Ministry of Finance is reportedly working on the reform of welfare benefits based on the World Bank Review with the aim to secure the funds for the promised Social Solidarity Allowance, which constitutes a sticking point in the negotiations with official lenders.

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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

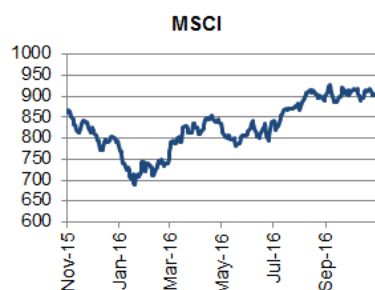
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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

Credit Ratings			
L-T ccy	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 a broadly unexpected move, National Bank of Serbia (NBS) decided to lower the inflation target of 2017 yesterday. The inflation target has been revised from 4% +/-1.5% to 3% +/-1.5% in 2017. The Central Bank cited the improvement in macroeconomic fundamentals and prospects, namely the external and internal imbalances sustainable compression plus the decline in the country risk premium as the main reasons behind the decision. In addition, the successful fiscal consolidation plus the impact of well calibrated monetary policy measures has resulted in lowering inflation's and inflation expectations' levels and volatility in the past three years. In our view, there is one more. The most recent data available showed CPI at 0.6%YoY in September, remaining below the lower bound of the Central Bank's target tolerance band for the 31st month running, while the year-to-date reading stood at 1.1%. In order to portray the steepness of the earlier explained disinflation trend it is worth comparing these two numbers with a 1 ½ year peak of 12.9%YoY registered in October 2012 and an average annual reading of 7.7% in 2013, the last year inflation stood above target.

Subdued inflation pressures and consistent fiscal consolidation, that has strengthened resilience towards external shocks, have provided a significant leeway to the NBS to proceed with substantial easing of monetary policy conditions in an effort to underpin the domestic economic activity. Since May 2013 the NBS has cut the key policy rate by a cumulative amount of 775bps to the current record low of 4.00%. Furthermore, the Central Bank narrowed in February the interest rate corridor relative to the key policy rate from ±2.0 percentage points to ±1.75 percentage points aiming to strengthen the monetary policy transmission through the interest rate channel. Foreign exchange reserve requirement ratios were also repeatedly reduced since September 2015, in order to further support domestic credit activity. That said, in its latest meeting in October, the MPC stayed put on its monetary policy maintaining the key policy rate unchanged for the third month running. The decision was broadly anticipated by market participants as despite weak inflationary pressures and persistently below-target inflation, CPI is anticipated to gradually edge higher in the coming months assisted by increasing aggregate demand, the impact of past monetary easing and base effects, while uncertainties remain elevated on the international backdrop. On the latter, 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. Against this backdrop, the key policy rate seems to be near a trough. One more 25bps cut cannot be ruled out entirely, but it will likely be highly correlated by looming Fed decisions.

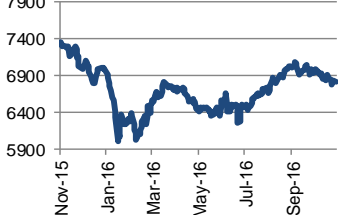
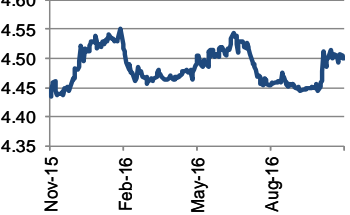
Finally, IMF reached a staff level agreement with the Serbian government with the authorities on policies needed to complete the sixth review under the precautionary Stand-By arrangement. (SBA). According to the statement released, the growth forecasts of 2016-2017 have been upwardly revised to 2.7%-3% respectively. The consolidated government deficit is now projected at 2.1% of GDP in 2016 and is expected to decline to 1.7% in 2017 while overall pensions and wage bills continue to decline as shares of GDP. Public debt is falling a year ahead of schedule, and is projected to end the year below 74% of GDP.

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GLOBAL MARKETS

Stock markets				FOREX				Government Bonds				Commodities			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔDbps	ΔYTD bps		Last	ΔD	ΔYTD
S&P 500	2111.72	-0.7%	3.3%	EUR/USD	1.1067	0.1%	1.9%	(yields)	1.81	-2	-46	GOLD	1294	0.4%	21.9%
Nikkei 225	17134.68	-1.8%	-10.0%	GBP/USD	1.2254	0.1%	-16.8%	UST - 10yr	0.15	-3	-48	BRENT CRUDE	48	-0.6%	28.4%
STOXX 600	335.33	-1.1%	-8.3%	USD/JPY	103.82	0.3%	15.6%	Bund-10yr	-0.06	-2	-33	LMEX	2520	0.7%	14.4%
								JGB - 10yr							

CESEE MARKETS

SERBIA				ROMANIA				BULGARIA			
Money Market				Money Market				Money Market			
BELIBOR	Last	ΔDbps	ΔYTD bps	ROBOR	Last	ΔDbps	ΔYTD bps	SOFIBOR	Last	ΔDbps	ΔYTD bps
T/N	301	-3	-2	O/N	0.62	0	9	LEONIA	-0.22	-4	-23
1-week	3.17	-1	-2	1-month	0.65	0	-4	1-month	-0.15	0	-30
1-month	3.31	0	-20	3-month	0.73	0	-29	3-month	-0.05	1	-31
3-month	3.53	1	-30	6-month	0.94	0	-40	6-month	0.10	0	-43
6-month	3.69	2	-34	12-month	1.08	0	-44	12-month	0.41	0	-57
RS Local Bonds				RO Local Bonds				BG Local Bonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	(yields)	Last	ΔDbps	ΔYTD bps
3Y RSD	2.55	0	-104	3Y RON	1.37	2	-56	3Y BGN	0.20	0	-41
5Y RSD	4.32	-1	-79	5Y RON	2.17	-1	-63	5Y BGN	0.49	1	-78
7Y RSD	5.61	0	-209	10Y RON	3.07	0	-71	10Y BGN	1.86	0	-80
RS Eurobonds				RO Eurobonds				BG Eurobonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
USD Nov-17	2.34	1	-82	EUR Oct-25	1.89	0	-68	EUR Jul-17	-0.25	-12	-32
USD Nov-24	6.48	0	7	USD Jan-24	2.99	0	-80	EUR Sep-24	1.48	0	-94
CDS				CDS				CDS			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
5-year	198	-1	-76	5-year	105	-2	-28	5-year	137	2	-34
10-year	245	1	-94	10-year	149	-3	-23	10-year	181	6	-35
STOCKS				STOCKS				STOCKS			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
BELEX15	672.7	-0.72%	4.44%	BET	6843.2	0.47%	-2.30%	SOFIX	537.0	0.98%	16.52%
FOREX				FOREX				FOREX			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
EUR/RSD	123.08	-0.02%	-1.22%	EUR/RON	4.5002	0.03%	0.31%	USD/BGN	1.7677	0.08%	1.84%
BELEX15 Index				BET Index				SOFIX Index			
											
EUR/RSD				EUR/RON				USD/BGN			
											

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

Data updated as of 9:30 EET

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