

KEY UPCOMING DATA  
& EVENTS THIS WEEKGLOBALUS

- May 1
  - Personal income/spending (Mar)
  - Core PCE (Mar)
  - ISM manufacturing (Apr)
- May 2: Car sales (Mar)
- May 3
  - ADP employment change (Apr)
  - ISM non-manufacturing (Apr)
  - FOMC meeting decision
- May 4
  - Initial jobless claims (weekly)
  - Trade balance (Mar)
  - Factory orders (Mar)
- May 5
  - NFP (Apr)
  - U/E rate (Apr)
  - Average hourly earnings (Apr)

EUROZONE

- May 2: PMI manufacturing (Apr, f)
- May 3: GDP (Q1, A)
- May 4
  - PMI services (Apr, f)
  - Retail sales (Mar)

GREECE

- May 2: Markit manufacturing PMI (Apr)

SEEROMANIA

- May 2
  - PPI (Mar)
  - ILO U/E rate (Mar)
  - International reserves (Apr)
- May 4
  - Retail sales (Mar)
  - 3.25% 2024 T-Bonds sale
- May 5: MPC announcement

SERBIA

- May 2: National holiday
- May 3: GDP (Q1 2017, p)
- May 4: 4.50% 2020 T-Bonds sale

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Market focus today is on the FOMC monetary policy meeting where the Central Bank is widely expected to hold its target range for the federal funds rate unchanged at 0.75%-1.00%. Awaiting the accompanying policy statement, the DXY index remained trapped within a narrow range while US Treasury yields edged modestly higher in spite of a bulk of weaker-than-expected data. Later today, the two candidates for the French Presidential election, Emmanuel Macron and Marine Le Pen, will face each other in a televised debate which will be their last encounter before Sunday's runoff vote.

**GREECE:** After the attainment of a preliminary technical agreement yesterday in the context of the 2<sup>nd</sup> programme review, the focus now turns to the discussions on the sustainability of Greece's public debt. The issue will be reportedly discussed at an extraordinary Euroworking Group scheduled to convene tomorrow as well as on the sidelines of the G7 Finance Ministers Summit on May 11-13 in Bari. At the same time, the institutions will have to decide the size and the duration of the primary surplus targets that Greece will be asked to attain in the post-programme period. On the data front, Markit released yesterday its Manufacturing Purchasing Managers' Index (PMI) for Greece, which came in at 48.2 in April signaling an eighth consecutive deterioration in manufacturing sector conditions, albeit at the weakest rate of decline since December 2016.

### SOUTH EASTERN EUROPE

**CESEE MARKETS:** Emerging market assets treaded water earlier on Wednesday as caution prevailed ahead of the FOMC meeting later in the day.

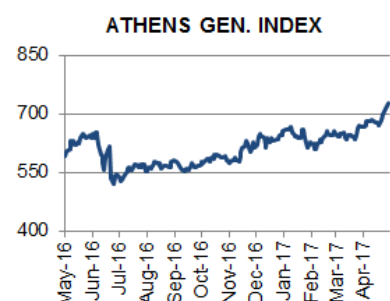
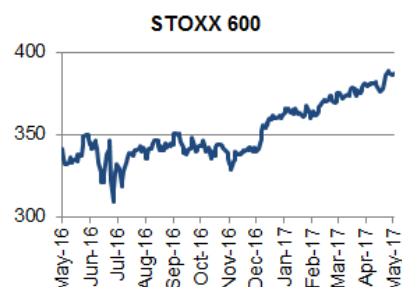
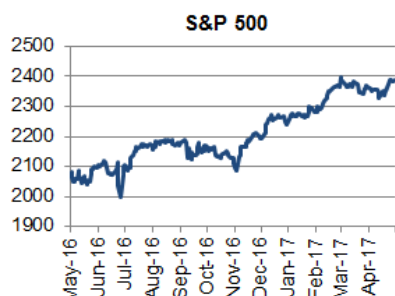
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May 3, 2017

## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Market focus today is on the FOMC monetary policy meeting where the Central Bank is widely expected to hold its target range for the federal funds rate unchanged at 0.75%-1.00%. In the accompanying statement, the Committee is likely to reiterate that the economy continued to expand at a moderate pace downplaying the weaker-than-expected Q1 GDP report that was mostly attributed, as has been the case in the first quarter of recent years, to temporary factors. Moreover, the policy statement is likely to read that inflation is approaching the 2% longer-run objective and the labor market remains solid, with the FOMC leaving the door open for further gradual adjustments in its monetary policy. Awaiting the accompanying policy statement, the DXY index was hovering around 99.110 at the time of writing, remaining trapped within a narrow range of 98.700-99.300 over the last couple of weeks. Turning to US Treasuries, yields edged modestly higher across the curve in European trade in spite of a bulk of weaker-than-expected data. US new vehicle sales dropped in April for the second consecutive month after reaching a near-record high at the end of last year. Furthermore, the manufacturing-ISM index fell in April for the second month in a row coming in at a four-month low following a 2 ½ year peak earlier this year probably reflecting business cautiousness as major details of the US administration's tax-reform plan have yet to be clarified. The 10-yr yield was hovering around 2.296% at the time of writing after ending at 2.287% in the prior session but still below a multi-session intraday peak of 2.34% recorded earlier this week. Later today, the US Treasury is scheduled to announce the size of next week's sale of 3-yr, 10-yr and 30-yr sovereign paper while major data releases include the flash estimate for the euro area's Q1 GDP. Separately, the two candidates for the French Presidential election, Emmanuel Macron and Marine Le Pen, will face each other in a televised debate this evening which will be their last encounter before Sunday's runoff vote.

[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)

### GREECE

After the attainment of a preliminary technical agreement yesterday in the context of the 2<sup>nd</sup> programme review, the focus now turns to the discussions on the sustainability of Greece's public debt. With regard to the financial participation of the IMF in the programme, the agreement satisfies only one of the two conditions, namely that of further fiscal reforms. But, as was also stressed by the IMF European Department Director Poul Thomsen, there now needs to be a credible strategy for how to restore debt sustainability. The issue will be reportedly discussed at an extraordinary Euroworking Group scheduled to convene tomorrow as well as on the sidelines of the G7 Finance Ministers Summit on May 11-13 in Bari. At the same time, the institutions will have to decide the size and the duration of the primary surplus targets that Greece will be asked to attain in the post-programme period. As things stand, it is quite likely that a stronger commitment for debt relief on behalf of the European institutions at this stage will be explicit enough to allow for the IMF's financial participation in the programme but not too specific to potentially cause political reactions ahead of the German general elections in September. A more comprehensive solution to the issue may take place at a later stage. On the data front, Markit released yesterday its Manufacturing Purchasing Managers' Index (PMI) for Greece, which came in at 48.2 in April signaling an eighth consecutive deterioration in manufacturing sector conditions, albeit at the weakest rate of decline since December 2016. According to the Markit report, the decrease in new order intakes was cited as the main reason for the contraction, which in turn led to reduced staffing numbers.

[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr)

May 3, 2017

## 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

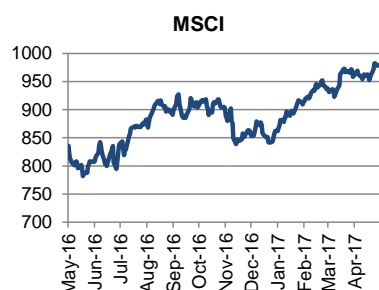
ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

\* 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

### CESEE MARKETS

Emerging market assets traded water earlier on Wednesday as caution prevailed ahead of the FOMC meeting later in the day. Nonetheless, the MSCI Emerging Markets index reached earlier today a near 2-year high. Elsewhere, bourses in the CESEE region traded in a mostly positive territory. Bulgaria's main SOFIX index led the gains with a 0.7% advance, while benchmark indices in Turkey, Romania, Serbia and Ukraine registered at the same time gains to the tune of 0.03-0.38%. Hungary's BUX bucked the positive trend to stand 0.6% lower compared to the prior session's settlement.

In FX markets, the Turkish lira lost some ground in European trade on Wednesday, with the USD/TRY hovering around levels of 3.5355 at the time of writing, though remaining not too far from yesterday's 4-month trough of 3.5160. The currency came under some pressure after consumer inflation data for April, released earlier today, outpaced expectations, coming in at 11.87%YoY, vs. a market median forecast of 11.72%YoY. Last month's reading is the highest since 2008. Additionally, it stands further above March's 11.29%YoY print and the official 5% medium-term target. Core inflation eased modestly, falling to 9.42%YoY from 9.46%YoY in March, confounding a market consensus for a rise to 9.92%YoY. As also noted by the Central Bank (CBT) recently, the spike in inflation over recent months has been primarily led by cost-push pressures, the volatility in food prices and the lira's sharp depreciation earlier in the year. The latter came on the back of increased worries over the domestic political landscape, deteriorating growth prospects and higher Fed policy rates versus a backdrop of political pressure against higher interest rates which would ultimately weigh on the country's economic activity. President Tayyip Erdogan reportedly said yesterday that interest rates were a cause for inflation adding that measures will be taken for them to be brought down. Recall that last week CBT raised its inflation forecasts for this year and the next, with the mid-point end-2017 projection currently standing at 8.5% and for end-2018 at 6.4%. In a further effort to contain mounting price pressures, the Central Bank unexpectedly raised, in its MPC meeting last week, the late liquidity window lending rate by 50bps to 12.25%. Since the beginning of the year, it has tightened monetary conditions significantly via liquidity management. All in all, April's CPI data release adds to the view that CBT will likely maintain its hawkish stance and continue to pursue a tight monetary policy in the months ahead, until a significant improvement in inflation outlook is evidenced.

Looking into the remainder of the week in the CESEE space, preliminary National Accounts data is due for release in Serbia later on Wednesday. Government bond auctions in Serbia, Hungary and Romania lure market attention on Thursday. A review by S&P on Turkey's sovereign credit ratings and a Central Bank meeting in Romania take centre stage on Friday. On the former, recall that the agency revised the country's outlook to negative in January. However, since then the lira has recovered by ca 10% against the USD and domestic political noise has somewhat eased after the April 16<sup>th</sup> referendum. Along these lines, our base-case scenario is that S&P will stay put this week on its ratings for Turkey. On the latter, the key policy rate is broadly anticipated to remain on hold at the current record low level of 1.75%.

[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr)

May 3, 2017

**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	2388.15	0.0%	6.7%	EUR/USD	1.0902	0.0%	3.6%	UST - 10yr	2.31	-1	-14	GOLD	1255	-0.1%	9.0%
Nikkei 225	19445.70	0.7%	1.7%	GBP/USD	1.2913	0.2%	4.5%	Bund-10yr	0.32	0	11	BRENT CRUDE	51	-0.1%	-9.4%
STOXX 600	388.74	0.5%	7.6%	USD/JPY	112.1	-0.2%	4.4%	JGB - 10yr	0.02	1	-3	LMEX	2783	0.5%	4.6%

**CESEE MARKETS**

**SERBIA**

**Money Market**

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	3.08	0	8
1-week	3.20	0	3
1-month	3.37	0	2
3-month	3.53	0	6
6-month	3.73	0	7

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.87	0	-21
5Y RSD	5.30	0	-6
7Y RSD	5.66	0	2

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.72	-4	-61
USD Nov-24	6.42	1	1

**CDS**

	Last	ΔDbps	ΔYTD bps
5-year	182	6	-26
10-year	236	6	-20

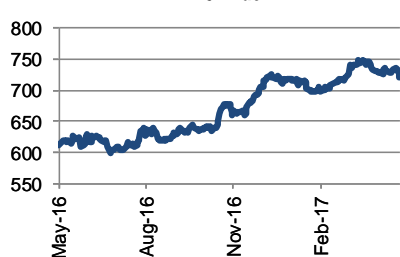
**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	720.6	-1.14%	0.46%

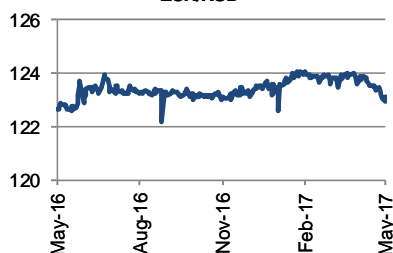
**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	123.06	-0.08%	0.33%

**BELEX15 Index**



**EUR/RSD**



**ROMANIA**

**Money Market**

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.68	#VALUE!	12
1-month	0.73	#VALUE!	-3
3-month	0.91	#VALUE!	1
6-month	1.11	#VALUE!	0
12-month	1.3	#VALUE!	5

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	1.60	1	-2
5Y RON	2.52	2	0
10Y RON	3.60	2	-5

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.03	#N/A N/A	-11
USD Jan-24	3.36	-1	-50

**CDS**

	Last	ΔDbps	ΔYTD bps
5-year	106	0	-3
10-year	150	0	-2

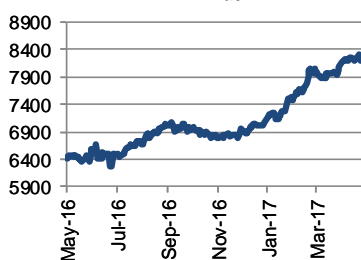
**STOCKS**

	Last	ΔD	ΔYTD
BET	8250.1	0.24%	16.44%

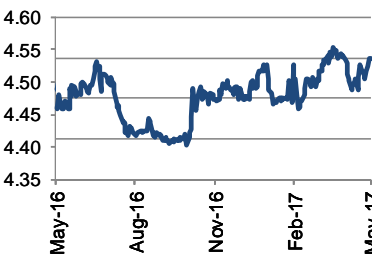
**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.548	-0.13%	-0.20%

**BET Index**



**EUR/RON**



**BULGARIA**

**Money Market**

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.27	13	-27
1-month	-0.17	-1	0
3-month	-0.08	1	-1
6-month	0.04	0	-4
12-month	0.43	0	2

**BG Local Bonds**

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.05	5	-10
5Y BGN	0.32	-3	-18
10Y BGN	1.57	1	-34

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.96	#VALUE!	-64
EUR Sep-24	1.45	44	-23

**CDS**

	Last	ΔDbps	ΔYTD bps
5-year	114	0	-38
10-year	175	5	-19

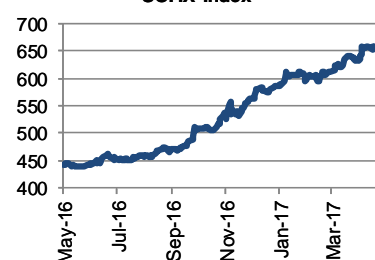
**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	660.1	0.43%	12.57%

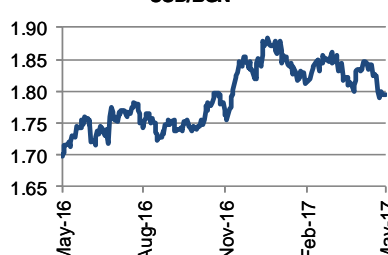
**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.794	-0.06%	3.59%

**SOFIX Index**



**USD/BGN**



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

Data updated as of 17:10 EEST of previous session

May 3, 2017

## Contributors

**Paraskevi Petropoulou**  
Economic Analyst, Eurobank Ergasias  
+30 210 3718991  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)

**Galatia Phoka**  
Research Economist, Eurobank Ergasias  
+30 210 3718922  
[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr)

**Ioannis Gkionis (Special Contributor)**  
Research Economist, Eurobank Ergasias  
30 210 3337305  
[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr)

**Anna Dimitriadou**  
Economic Analyst, Eurobank Ergasias  
+30 210 3718793  
[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr)

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

**Theodoros Stamatou (Special Contributor)**  
Senior Economist, Eurobank Ergasias  
30 210 3371228  
[tstamatou@eurobank.gr](mailto:tstamatou@eurobank.gr)

## Regional Contributors

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

**Zoran Korac**  
FX dealer, Eurobank ad Beograd  
+381 11 206 5821  
[zoran.korac@eurobank.rs](mailto:zoran.korac@eurobank.rs)

**Bogdan Radulescu, CFA**  
Senior Trader, Bancpost  
+40 21 3656291  
[bogdan.radulescu@bancpost.ro](mailto:bogdan.radulescu@bancpost.ro)

## Eurobank Economic Analysis and Financial Markets Research

**Dr. Platon Monokroussos: Group Chief Economist**  
[pmonokroussos@eurobank.gr](mailto:pmonokroussos@eurobank.gr), + 30 210 37 18 903

**Dr. Tassos Anastasatos: Deputy Chief Economist**  
[tanastasatos@eurobank.gr](mailto:tanastasatos@eurobank.gr), + 30 210 33 71 178

## Research Team

**Anna Dimitriadou: Economic Analyst**  
[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr), + 30 210 3718 793

**Ioannis Gkionis: Research Economist**  
[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr) + 30 210 33 71 225

**Stylianios Gogos: Economic Analyst**  
[sgogos@eurobank.gr](mailto:sgogos@eurobank.gr) + 30 210 33 71 226

**Olga Kosma: Research Economist**  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr) + 30 210 33 71 227

**Mariana Papoutsaki**  
[mpapoutsaki@eurobank.gr](mailto:mpapoutsaki@eurobank.gr) + 30 210 33 71 224

**Paraskevi Petropoulou: G10 Markets Analyst**  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr), + 30 210 37 18 991

**Galatia Phoka: Research Economist**  
[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr), + 30 210 37 18 922

**Theodoros Stamatou: Senior Economist**  
[tstamatou@eurobank.gr](mailto:tstamatou@eurobank.gr), + 30 210 3371228

**Elia Tsiampaou: Economic Analyst**  
[etsiampaou@eurobank.gr](mailto:etsiampaou@eurobank.gr), +30 210 3337871

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: [EurobankEA\\_FMR@eurobank.gr](mailto:EurobankEA_FMR@eurobank.gr)

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