



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Monday, July 03, 2017

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- Jul 3
 - ISM manufacturing (Jun)
 - Car sales (Jun)
- Jul 5
 - FOMC Jun 13-14 minutes
 - Factory orders (May)
- Jul 6
 - ADP employment change (Jun)
 - Jobless claims (weekly)
 - Trade balance (May)
 - ISM non-manufacturing (Jun)
- Jul 7
 - Non-farm payrolls (Jun)
 - U/E rate (Jun)
 - Average hourly earnings (Jun)

EUROZONE

- Jul 3
 - PMI manufacturing (Jun, f)
 - U/E rate (May)
- Jul 5: PMI services/composite (Jun, f)
- Jul 6: ECB June 8 meeting minutes

GREECE

- Jul 3: PMI manufacturing (Jun)
- July 6: U/E rate (Apr)

CYPRUS

- Jul 6: CPI (Jun)

SEE

ROMANIA

- Jul 3
 - ILO U/E rate (May)
 - 3.5% 2022 T-bonds auction
 - MPC meeting
 - International reserves (Jun)
- Jul 5: Retail sales (May)
- Jul 6: 5.8% 2027 T-bonds auction
- Jul 7
 - Net wages (May)
 - GDP (Q1, f)

SERBIA

- Jul 6: T-bonds auction

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Core government bond yields remained in an upward trend in European trade on Monday following last week's hawkish shift from several G10 central banks, including the ECB, the BoE, the BoC and the RBNZ. China's manufacturing-related data, which supported the view of an improving global growth outlook, also had some impact. In FX markets, USD gained some ground on the back of higher UST bond yields. Looking at this week's global calendar, the FOMC minutes from the June 14 meeting on Wednesday will be closely watched while ECB minutes from the June 8 meeting on Thursday will also attract market attention especially following the ECB President's hawkish comments last week. On the data front, focus this week will be on today's PMI manufacturing data from the US, the euro area and the UK ahead of Friday's US non-farm payrolls for June. US markets will close early today ahead of Tuesday's Independence Day holiday.

GREECE: The Bank of Greece released on Friday its Monetary Policy Report 2016-2017 where it revised downwards its GDP growth forecast for 2017 from +2.5% (Monetary Policy Interim Report, December 2016) to +1.6% due to: 1) the long delay in completing the 2nd programme review and the consequent increase in uncertainty, which led to a considerable decline in investment and 2) a sharp increase in the tax burden. The medium – term prospects of the economy remain favourable conditional on the smooth implementation of agreed reforms.

SOUTH EASTERN EUROPE

BULGARIA: Bulgarian equities finished another week in the black on Friday amid positive investor sentiment. Meanwhile, the domestic bond market remained relatively quiet with little adjustment to the upside for yields above the 4-year tenor. On the other hand, Eurobond yields increased by 4- 5 bps on average.

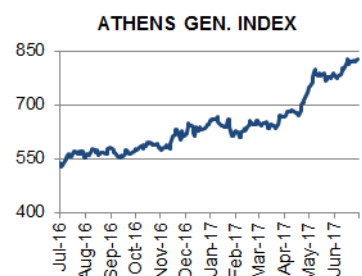
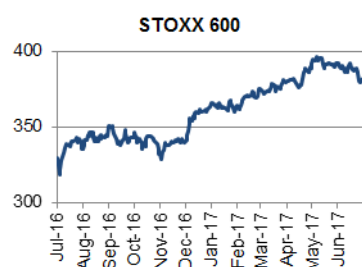
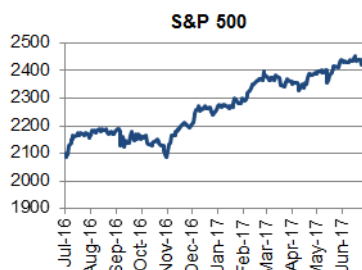
SERBIA: The dinar's recent rally continued strong last week, with the currency gaining 0.76% against the euro and the EUR/RSD falling from Monday's open at 121.50 to a 1 ½ year low near 120.55 on the back of strong euro indexed loan disbursements.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Core government bond yields remained in an upward trend in European trade on Monday following last week's hawkish shift from several G10 central banks, including the ECB, the BoE, the BoC and the RBNZ. China's manufacturing-related data, which supported the view of an improving global growth outlook, also had some impact. In more detail, China's Caixin/Markit manufacturing PMI reading rose to a three-month high of 50.4 in June after unexpectedly contracting in May. US government bonds underperformed on the day with the 10-yr yield rising to 2.33%, the highest over the last six weeks shrugging off domestic data showing a drop in core PCE to 1.4%YoY in May from 1.5% in the prior month. With the 10-yr Bund yield hitting a 3½ month peak of 0.49% earlier in the day before retreating to levels around 0.47% at the time of writing, not much changed compared to the settlement in the prior session, the 10-yr UST/Bund yield spread was hovering around a multi-session high of 184.5bps, c. 1.5bps higher on the day. Along these lines, the 10-yr UK Gilt tested levels slightly above 1.30% earlier today for the first time since mid-February, underperforming its German counterpart. UK data showing on Friday that Q2 GDP was left unrevised at 0.2%QoQ, down from 0.7% in Q4 2016 mainly due to slower consumer spending growth, failed to exert an impact. The 10-yr Gilt/German yield spread widened to levels close to 82bps earlier today, the highest in around 2½ months and c. 3bps wider on the day. In FX markets, USD gained some ground on the back of higher UST bond yields with the DXY index standing 0.3% firmer from a seven-month closing low recorded in the prior session. Looking at this week's global calendar, the FOMC minutes from the June 14 meeting on Wednesday will be closely watched while ECB minutes from the June 8 meeting on Thursday will also attract market attention especially following the ECB President's hawkish comments last week. On the data front, focus this week will be on today's PMI manufacturing data from the US, the euro area and the UK ahead of Friday's US non-farm payrolls for June.

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GREECE

The Bank of Greece released on Friday its Monetary Policy Report 2016-2017 where it revised downwards its 2017 GDP growth forecast from +2.5% (Monetary Policy Interim Report, December 2016) to +1.6% due to: 1) the long delay in completing the 2nd programme review and the consequent increase in uncertainty, which led to a considerable decline in investment and 2) a sharp increase in the tax burden. Nevertheless, according to the report, the medium – term prospects of the economy remain favourable conditional on the smooth implementation of agreed reforms, while positive economic and political developments in the European Union are expected to exert a positive impact. With regard to developments in the banking system, from the completion of the 1st programme review (June 2016) until April 2017 the stock of deposits held by the domestic private sector increased by a cumulative €3.5 bn to €119 bn although the first months of 2017 saw an outflow of deposits attributed to increased uncertainty stemming from the delay in closing the 2nd programme review. Furthermore, contraction to credit, at least to non-financial corporations, is apparently bottoming out while the annual rate of decline in credit to households is close to zero. Non-performing exposures (NPEs) declined further to €105.1 bn during Q1 2017 or 45.2% of total exposures mainly as a result of loan write-offs. NPEs amount to 42.2% for housing loans, 45.0% for business loans and 54.2% for consumer loans. It is noted that in addressing NPEs, banks have increasingly been turning to long-term solutions such as lengthening the loan maturity and/or lowering the interest rates. Banks have made progress in attaining the agreed operational targets for NPE reduction while in Q1 2017 the default rate slowed further but remained still above 2% and higher than the cure rate. Although the stock of NPEs remains high, banks' lending capacity has been enhanced by the fact that their capital adequacy ratios remain high with the Common Equity Tier 1 (CET1) ratio on a consolidated basis in December 2016 rising to 16.9% (December 2015: 16.2%) and the Capital Adequacy Ratio increasing to 17% (December 2015: 16.3%).

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July 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

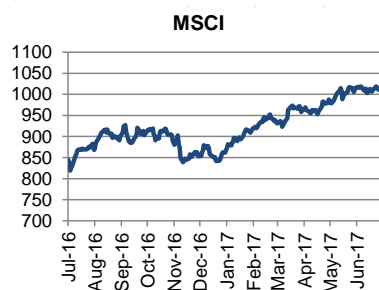
ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

* 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

BULGARIA

Bulgarian equities finished another week in the black on Friday amid positive investor sentiment. In more detail, the blue-chip SOFIX index rose by 2.3% breaching the key psychological level of 700 points and bringing its cumulative gains over the last seven weeks to 7.4%. The real estate BG REIT also rallied, gaining nearly 2.5% following a 0.12% advance a week earlier. The weekly turnover was above the three-month average at EUR 3.9M. Meanwhile, the domestic bond market remained relatively quiet with little adjustment to the upside for yields above the 4-year tenor. On the other hand, Eurobond yields increased by 4-5 bps on average. In other news, the business sentiment slightly worsened in June, while gross external debt shrank 2.8% from a year ago in April.

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SERBIA

The dinar's recent rally continued strong last week, with the currency gaining 0.76% against the euro and the EUR/RSD falling from Monday's open at 121.50 to a 1 ½ year low of near 120.55 on the back of strong euro indexed loan disbursements. In order to mitigate daily FX fluctuations the Central Bank (NBS) continued to intervene in the FX markets, somewhat softening the dinar's rally, though without changing its direction. In that context, NBS bought a cumulative amount of EUR 145mn last week following daily interventions, which however, did not appear to disrupt the domestic currency's upside momentum.

In other news, the Serbian government ran a budget surplus of RSD 1.8bn in May, where revenues amounted to RSD 87.3bn and expenditure totaled RSD 85.6bn. For the first five months of the year Serbia recorded a surplus of RSD 12.5bn. At the same time, public debt went down from 67.7% of GDP in April to 67.1% in May. However, this improvement came mostly as a reflection of a weaker USD and stronger dinar.

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July 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	2423.41	0.2%	8.2%	EUR/USD	1.1381	-0.4%	8.2%	UST - 10yr	2.32	1	-13	GOLD	1236	-0.4%	7.3%
Nikkei 225	20055.80	0.1%	4.9%	GBP/USD	1.2966	-0.5%	4.9%	Bund-10yr	0.46	-1	25	BRENT CRUDE	49	0.4%	-13.8%
STOXX 600	382.17	0.7%	5.7%	USD/JPY	112.87	-0.4%	3.7%	JGB - 10yr	0.09	0	4	LMEX	2854	0.0%	7.3%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.96	0	-4
1-week	3.11	0	-6
1-month	3.31	0	-4
3-month	3.53	0	6
6-month	3.74	0	8

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.87	#N/A N/A	-17
5Y RSD	5.22	0	-14
7Y RSD	5.59	10	-4

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.94	0	-39
USD Nov-24	6.33	-2	-8

CDS

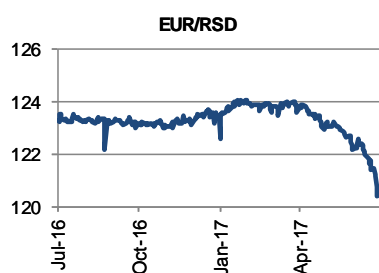
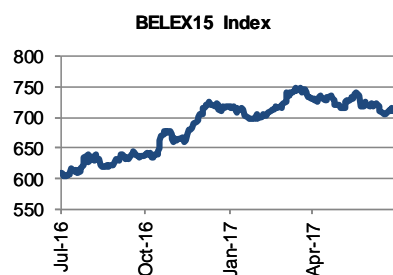
	Last	ΔDbps	ΔYTD bps
5-year	151	0	-56
10-year	201	0	-55

STOCKS

	Last	ΔD	ΔYTD
BELEX15	712.3	0.14%	-0.70%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.43	0.09%	2.52%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.59	-9	3
1-month	0.65	0	-11
3-month	0.87	1	-3
6-month	1.01	-3	-10
12-month	1.19	-2	-6

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.35	-1	-27
5Y RON	2.34	1	-18
10Y RON	3.53	1	-12

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.90	0	-24
USD Jan-24	3.31	5	-54

CDS

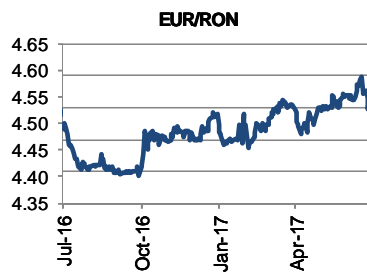
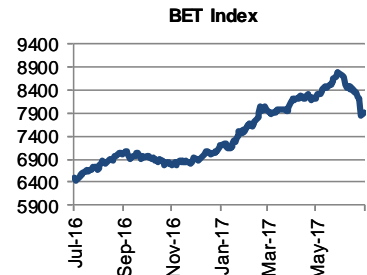
	Last	ΔDbps	ΔYTD bps
5-year	109	-1	-1
10-year	153	0	1

STOCKS

	Last	ΔD	ΔYTD
BET	7890.7	0.45%	11.37%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5536	0.21%	-0.32%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.40	-13	-40
1-month	-0.17	0	0
3-month	-0.08	0	-1
6-month	0.04	0	-3
12-month	0.42	0	1

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.07	0	-22
5Y BGN	0.18	0	-32
10Y BGN	1.52	0	-39

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-3.19	-8	-286
EUR Sep-24	1.23	-1	-45

CDS

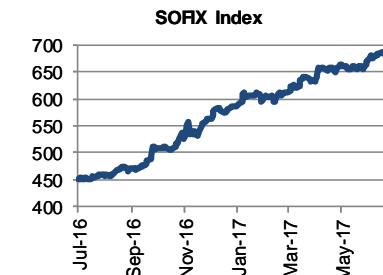
	Last	ΔDbps	ΔYTD bps
5-year	113	0	-39
10-year	163	0	-31

STOCKS

	Last	ΔD	ΔYTD
SOFIX	704.1	0.10%	20.07%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7187	-0.41%	8.13%



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

Data updated as of 12:00 EEST

July 3, 2017

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