

Wednesday, July 05, 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: Market interest today will centre on the release of the FOMC minutes from the June 14th monetary policy meeting where the committee raised the Federal Funds rate by another 25bps to a 1.00-1.25%. Focus will be on likely indications of the sequencing of the next steps as investors are looking for further detail on the timing of the next rate hike and the beginning of balance-sheet normalization. US Treasuries were little changed compared to Monday's settlement while German Bunds remained in an upward trend with the 10-yr Bund yield approaching year-to-date highs amid increased expectations that the Central Bank is likely to start moving away from its ultra-easy monetary policy earlier than anticipated.

GREECE: The Board of Governors of the European Stability Mechanism convened earlier today and approved the Supplemental Memorandum of Understanding (SMoU) with Greece following the conclusion of the 2nd programme review and the June 15 Eurogroup agreement. However, it was reportedly pointed out that there are still some outstanding issues that need to be resolved for the €8.5 billion loan tranche to be approved and the ESM Board of Directors will discuss this via teleconference on Friday, 7 July. According to the Ministry of Finance, total General Government arrears (including tax arrears of €1.21 bn) at the end of May 2017 stood at €5.05 bn from €4.96 bn in the previous month.

SOUTH EASTERN EUROPE

ROMANIA: Retail sales expanded strongly by +4.4% MoM/+12.3% YoY in May, the highest monthly rate in the last four years.

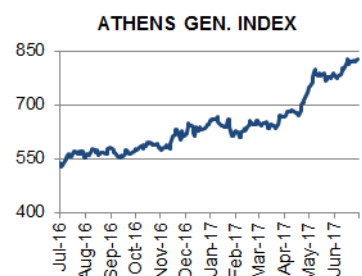
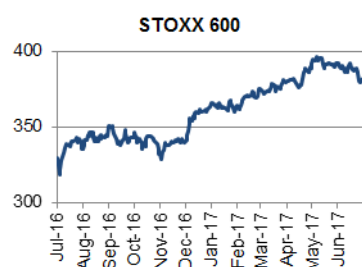
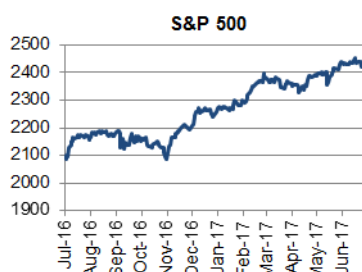
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July 5, 2017

Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Market interest today will centre on the release of the FOMC minutes from the June 14th monetary policy meeting where the committee raised the Federal Funds rate by another 25bps to 1.00-1.25%. Focus will be on indications of the sequencing of the next steps as investors are looking for further detail on the timing of the next rate hike and the beginning of balance-sheet normalization. Meanwhile, US Treasuries were little changed compared to Monday's settlement with the 10-yr yield hovering around 2.35% in European trade following a short-lived drop to 2.32% earlier in the day in reaction with a lag to the latest flare-up of geopolitical tensions on the Korean peninsula (US markets were closed on Tuesday due to the Independence Day holiday). Elsewhere, German Bunds remained in an upward trend amid increased expectations that the ECB is likely to start moving away from its ultra-easy monetary policy earlier than anticipated on the back of an improving euro area growth outlook and the bond scarcity problem. After hitting an intraday low of 0.465% in early European trade in reaction to ECB chief economist Peter Praet's dovish comments, the 10-yr Bund yield rebounded marking a fresh multi-week peak close to 0.50%, approaching the year-to-date high of 0.51% marked in mid-March. In FX markets, USD was modestly firmer on the day with the DXY index hovering around 96.365, 0.2% higher compared to Tuesday's closing remaining though not too far from a seven-month intraday low of 95.470 marked a few sessions earlier. EUR/USD was standing close to 1.1330/35, nearly unchanged on the day after hitting a multi-month high of 1.1445 earlier this week. Looking ahead, the pair's recent fast and hefty gains suggest scope for some consolidation in the coming sessions unless Thursday's ECB account and/or Friday's US labor market report yield any major surprises.

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GREECE

The Board of Governors of the European Stability Mechanism convened earlier today and approved the Supplemental Memorandum of Understanding (SMoU) with Greece following the conclusion of the 2nd programme review and the June 15 Eurogroup agreement. However, it was reportedly pointed out that there are still some outstanding issues that need to be resolved for the €8.5 billion loan tranche to be approved and the ESM Board of Directors will discuss this via teleconference on Friday, 7 July. Meanwhile, ECB Executive Board Member Benoit Coeure stated in a press conference that the Eurozone governments have still not provided enough clarity as to the medium-term debt relief framework and as a result the ECB is still not convinced about the sustainability of Greece's public debt, which is a pre-requisite for including the country's eligible bonds into the QE programme. In other news, according to the Ministry of Finance, total General Government arrears (including tax arrears of €1.21 bn) at the end of May 2017 stood at €5.05 bn from €4.96 bn in the previous month.

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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

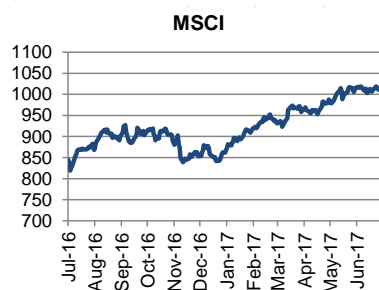
ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

* 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

On a seasonally and working day adjusted basis, retail sales accelerated to +4.4% MoM/+12.3% YoY in May up from +0.4% MoM/+6.7% YoY in April compared to -0.8% MoM/+16.2% YoY in May2016. The strong dynamics of the non-food segment was the main driver behind this. Non-foods items expanded by +1.8% MoM/+15.3% YoY in May up from +0.9% MoM/+9.9% YoY in April compared to -2.9% MoM/+12.6% YoY in May2016. Food items (+3.6% MoM/+6.2% YoY) and fuels (+2.2% MoM/+12.2% YoY) also changed speed level. The robust performance of retail sales in tandem with economic confidence headline and consumer plus retail trade sub-indicators is a very good proxy of private consumption and subsequently GDP growth to remain very strong in Q2-2017, offsetting partially any external sector weakness. Even though the Economic Sentiment Index (ESI) softened in June (to 105.4 in June down from 105.9 last May), it still stands very close to the post Lehman Brothers period high.

The strong gains in retail sales are rooted in the overly expansionary fiscal policy followed which has resulted in wage growth rallying in double digits-Romania has the highest real wage growth in EU-28- and has spurred optimism to households about their current and future financial situation. Recall that GDP growth dynamics surprised to the upside in Q1-2017. GDP growth came in at +1.7% QoQ/+5.6% YoY in seasonally adjusted terms, +5.7% YoY in unadjusted terms. The estimate was a positive surprise of the region, coming out significantly above analysts' consensus expectations (+1.0% QoQ/+4.5% YoY). The stronger than expected print compares to +1.5% QoQ/+5.0% YoY in Q4-2016, up from +1.1% QoQ/+4.0% YoY in Q1-2016. From a demand side point view, private consumption accounted for the bulk of it (4.8ppts).

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July 5, 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	2429.01	0.2%	8.5%	EUR/USD	1.135	-0.1%	7.9%	UST - 10yr	2.35	0	-9	GOLD	1223	0.2%	6.2%
Nikkei 225	20032.35	-0.1%	4.8%	GBP/USD	1.292	-0.2%	4.6%	Bund-10yr	0.47	0	27	BRENT CRUDE	50	0.1%	-12.5%
STOXX 600	383.34	0.0%	6.1%	USD/JPY	113.18	0.2%	3.4%	JGB - 10yr	0.08	-1	4	LMEX	2863	0.3%	7.6%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.96	-1	-4
1-week	3.11	0	-6
1-month	3.30	-2	-5
3-month	3.51	-3	4
6-month	3.72	-3	6

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.87	0	-18
5Y RSD	5.22	0	-14
7Y RSD	5.59	0	-4

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.96	0	-37
USD Nov-24	6.32	-3	-9

CDS

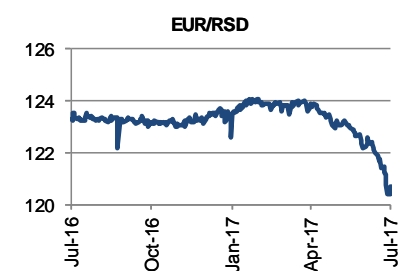
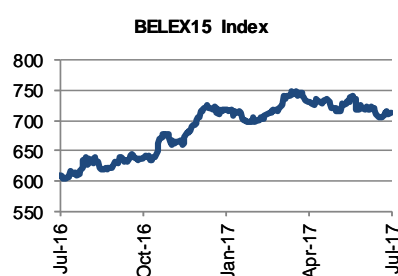
	Last	ΔDbps	ΔYTD bps
5-year	151	0	-57
10-year	200	0	-55

STOCKS

	Last	ΔD	ΔYTD
BELEX15	713.1	0.14%	-0.60%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.70	-0.23%	2.28%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.56	-3	0
1-month	0.65	0	-11
3-month	0.86	-1	-4
6-month	1.02	1	-9
12-month	1.19	0	-6

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.38	2	-24
5Y RON	2.36	1	-16
10Y RON	3.58	3	-7

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.90	0	-24
USD Jan-24	3.11	0	-74

CDS

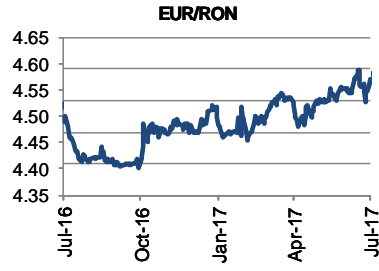
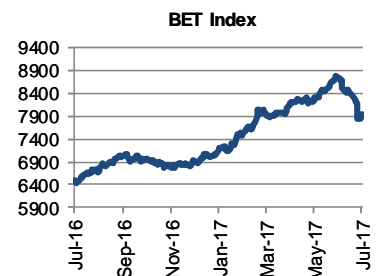
	Last	ΔDbps	ΔYTD bps
5-year	109	0	-1
10-year	153	0	1

STOCKS

	Last	ΔD	ΔYTD
BET	7928.7	0.92%	11.91%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5838	-0.24%	-0.98%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.40	-13	-40
1-month	-0.16	0	0
3-month	-0.08	0	-1
6-month	0.05	0	-3
12-month	0.42	0	1

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.08	-1	-23
5Y BGN	0.15	-3	-36
10Y BGN	1.53	0	-38

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-2.34	-3	-202
EUR Sep-24	1.23	0	-45

CDS

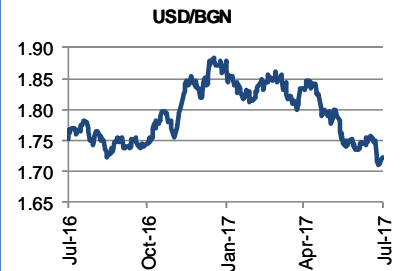
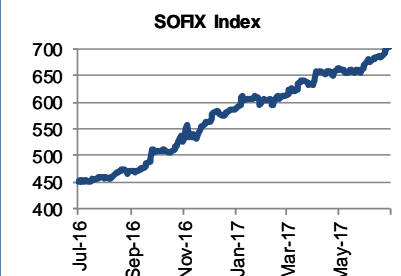
	Last	ΔDbps	ΔYTD bps
5-year	112	-1	-40
10-year	162	-1	-32

STOCKS

	Last	ΔD	ΔYTD
SOFIX	711.4	0.89%	21.32%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7234	-0.13%	7.83%



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

Data updated as of 18:30 EEST of previous session

July 5, 2017

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