

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 continued to move higher in reaction to the ECB account of the June 8th monetary policy meeting which revealed that Governing Council members are open to a further step towards reducing the monetary policy stimulus. In FX markets, USD/JPY was the biggest mover recording gains of 0.5% on the day following the BoJ's unexpected announcement that it will increase purchases of 10-year JGBs to an unlimited amount at a fixed rate auction of 0.110% in an effort to halt rising JGB yields. Focus today is on the US' non-farm payrolls report for June. Consensus is for an increase of 180k from 138k in the prior month and an acceleration in average hourly earnings to 0.3%mom from 0.1%mom.

GREECE: The ESM Board of Directors will discuss today the progress in the few remaining actions that Greece needs to carry out and decide on the timing of the disbursement of the €8.5 loan tranche accordingly. The President of the Hellenic Republic Asset Development Fund (HRADF) set the target for privatisations proceeds at €2bn for 2017 and €3.5bn for 2018. According to the Hellenic Statistical Authority labour force survey, in April 2017 the unemployment rate dropped to 21.7% from 22,0% in March 2017 and 23,6% in April 2016.

SOUTH EASTERN EUROPE

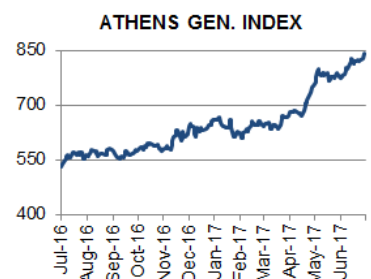
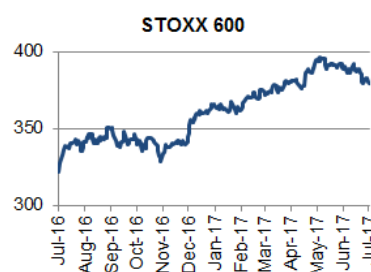
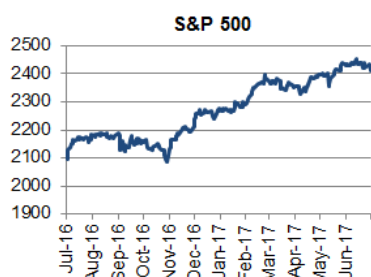
CESEE MARKETS: In view of losses in Wall Street overnight and elevated core sovereign bond yields, the majority of emerging market assets remained under pressure earlier on Friday.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Core government bond yields continued to move higher in reaction to the ECB account of the June 8th monetary policy meeting which revealed that Governing Council members are open to a further step towards reducing the monetary policy stimulus. In more detail, the ECB Governing Council discussed the likelihood of dropping out the easing basis around the asset purchase programme (i.e., a long-standing pledge to expand or extend net asset purchases if necessary) but decided to retain it and reassess the issue in future meetings on the condition that there is improved confidence regarding the inflation outlook. The 10-yr Bund hit an 18-month high close to 0.58% earlier today, 11bps higher over the last couple of sessions and up 33bps cumulatively since ECB President Mario Draghi's speech in Sintra on June 27th. Tracking losses in German Bunds, US Treasuries also weakened with the 10-yr yield hitting a two-month high of 2.39% earlier in the day in spite of weaker-than-expected US employment related data. The US private sector generated 158k new jobs in June, down from 230k in the prior month and lower than 185k expected while initial jobless claims rose by 4k to 248k, the third consecutive weekly rise. The 10-yr UST/Bund yield spread narrowed to levels around 181bps, the narrowest since early November 2016. In FX markets, USD/JPY was the biggest mover recording gains of 0.5% on the day after touching an eight week high favored by the BoJ's unexpected announcement that it will increase purchases of 10 year JGBs to an unlimited amount at a fixed rate auction of 0.110% in an effort to halt rising JGB yields. Against most other currency peers, USD was marginally firmer on the day ahead of the US non-farm payrolls report later today. A significant upside surprise could provide the US currency with a short-term respite while, on the other hand, a significantly lower than expected increase in the headline or/and average hourly earnings could send it lower.

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GREECE

The ESM Board of Directors will discuss today the progress in the few remaining actions that Greece needs to carry out and decide on the timing of the disbursement of the €8.5 loan tranche accordingly. According to government and European sources, today's decision is going to be positive. Meanwhile, in the next few days, the Greek government reportedly intends to submit a formal letter to the IMF requesting its participation in the 3rd Economic Adjustment Programme. The Executive Board of the Fund is expected to make a decision on the issue by July 27th. On the privatisations front, the President of the Hellenic Republic Asset Development Fund (HRADF) set the target for privatisations proceeds at €2bn for 2017 and €3.5bn for 2018. Among the projects that are expected to contribute to this year's target are the sale of TRAINOSE, the Port of Thessaloniki and Egnatia Highway. In other news, according to the Hellenic Statistical Authority labour force survey, in April 2017 the unemployment rate dropped to 21.7% from 22,0% in March 2017 and 23,6% in April 2016.

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July 7, 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

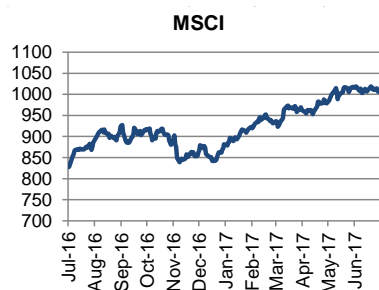
ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

* 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

In view of losses in Wall Street overnight and elevated core sovereign bond yields, the majority of emerging market assets remained under pressure earlier on Friday. Against this backdrop, the MSCI Emerging Markets index slid by 0.4% in European trade, poised to end in the red for the second week running. Despite this correction it is worth noting that the index remains not too far from a 2-year peak hit in early June. Bourses in the CESEE region posted modest losses at the time of writing, with Turkey's BIST 100 leading the decline (-0.2%) and Serbia's BELEX15 bucking the negative trend posting a 0.4% advance.

In FX markets, the Romanian leu gained some ground, with the EUR/RON hovering around levels of 4.5830 in European trade on Friday, though standing not far off a 2-week peak close to 4.5920 hit a session earlier. The currency has recently come under pressure on mounting fiscal risks and domestic political tensions after previous Prime Minister Sorin Grindeanu was ousted in June following the withdrawal of the major coalition partner PSD party's support and the ensuing successful no confidence motion against his government in Parliament. 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. News emerged last week that the newly appointed cabinet of Prime Minister Mihai Tudose is mulling a tax reform that will come into effect next year, which includes an overhaul of the tax system. Among other, the changes envisioned is the replacement of the flat 16% corporate tax rate with a progressive tax on a company's turnover, which has raised concerns over hurting companies' profit margins. In addition, the income tax rate will be trimmed to 10% from 16% currently and a solidarity income tax for incomes above some threshold will be introduced. Social contributions will be cut to 35% from 39.25% starting January 2018. At this point, the level of clarity about the proposed changes is low and uncertainty about the potential impact on fiscal metrics is very high. The overhaul comes on top of the promulgation of the unitary public wage law by President Iohannis last week. 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.

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July 7, 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	2409.75	-0.9%	7.6%	EUR/USD	1.142	0.0%	8.6%	UST - 10yr	2.38	1	-6	GOLD	1222	-0.3%	6.0%
Nikkei 225	19929.09	-0.3%	4.3%	GBP/USD	1.2954	-0.1%	4.8%	Bund-10yr	0.57	1	36	BRENT CRUDE	47	-1.3%	-16.4%
STOXX 600	379.47	-0.3%	5.0%	USD/JPY	113.72	-0.4%	2.9%	JGB - 10yr	0.09	-1	4	LMEX	2836	0.3%	6.6%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.96	0	-4
1-week	3.07	-2	-10
1-month	3.28	-3	-7
3-month	3.50	-3	3
6-month	3.71	-4	5

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.86	-1	-22
5Y RSD	5.22	0	-14
7Y RSD	5.59	0	-4

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.93	0	-39
USD Nov-24	6.34	-4	-8

CDS

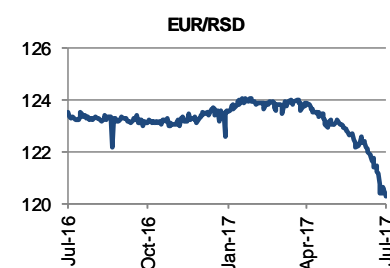
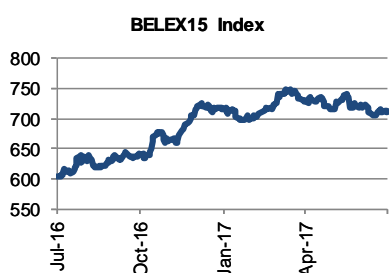
	Last	ΔDbps	ΔYTD bps
5-year	155	1	-53
10-year	204	2	-51

STOCKS

	Last	ΔD	ΔYTD
BELEX15	709.4	-0.63%	-1.11%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.28	0.04%	2.64%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.55	0	-1
1-month	0.65	0	-11
3-month	0.86	0	-4
6-month	1.02	0	-9
12-month	1.19	0	-6

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.38	2	-24
5Y RON	2.35	0	-17
10Y RON	3.62	1	-3

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.99	9	-15
USD Jan-24	3.49	11	-37

CDS

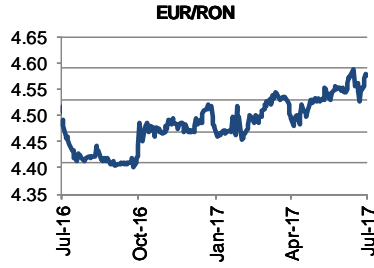
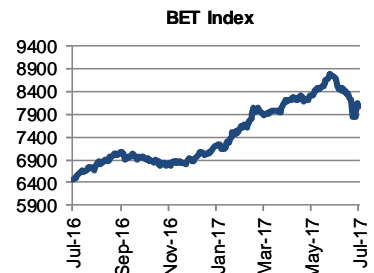
	Last	ΔDbps	ΔYTD bps
5-year	108	-1	-1
10-year	151	-2	-1

STOCKS

	Last	ΔD	ΔYTD
BET	8075.5	-0.05%	13.98%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5889	0.06%	-1.09%



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	-4
12-month	0.42	0	1

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.08	0	-23
5Y BGN	0.15	-3	-35
10Y BGN	1.55	0	-36

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-13.42	10	-1310
EUR Sep-24	1.27	0	-41

CDS

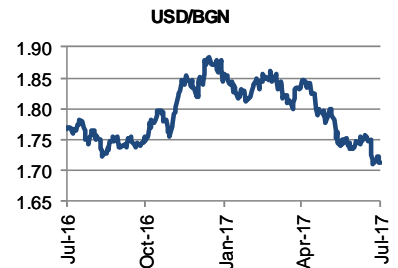
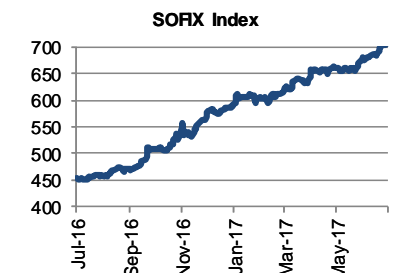
	Last	ΔDbps	ΔYTD bps
5-year	113	0	-39
10-year	163	0	-31

STOCKS

	Last	ΔD	ΔYTD
SOFIX	712.0	0.12%	21.41%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7127	-0.04%	8.51%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 10:30 EEST

July 7, 2017

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