



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Thursday, January 12, 2017

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Jan 11: President-elect Trump's first official press conference
- Jan 12
 - Initial claims (weekly)
 - Fed Chair Yellen speaks
- Jan 13
 - Retail sales (Dec)
 - Producer prices (Dec)
 - UoM consumer sentiment (Jan, p)

EUROZONE

- Jan 9: U/E rate (Nov)
- Jan 12: ECB meeting minutes (Dec)

GREECE

- Jan 9: Industrial production (Nov)
- Jan 11: CPI/HICP (Dec)
- Jan 12: U/E rate (Oct)

SEE

BULGARIA

- Jan 10
 - Industrial production (Nov)
 - Retail sales (Nov)
- Jan 12: Trade balance (Nov)
- Jan 13: CPI (Dec)

ROMANIA

- Jan 9
 - Trade balance (Nov)
 - ILO U/E rate (Nov)
- Jan 12
 - Industrial production (Nov)
 - T-Bonds auction
- Jan 13
 - Net wages (Nov)
 - CPI (Dec)
 - GDP (Q3, f)
 - MPC meeting minutes
 - Current account (Nov)

SERBIA

- Jan 10: 3.5% 2018 T-Bonds auction
- Jan 11: 2% 2019 T-Bonds auction
- Jan 12
 - CPI (Dec)
 - MPC meeting

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: At yesterday's long-awaited news conference, US President-elect Donald Trump failed to provide details on his proposals during the election campaign over hefty tax cuts and sizable infrastructure spending. In reaction to the above, the USD weakened in European trade on Thursday and US Treasuries firmed. In other news, the Italian Constitutional Court rejected a request by the largest union CGIL for a referendum on the reintroduction of Article 18 that makes it nearly impossible for firms with more than 15 employees to lay off workers. Looking ahead, today's calendar is limited to US jobless claims, a speech by Fed Chair Janet Yellen before a group of educators and the accounts from the ECB's December monetary policy meeting.

GREECE: The Euroworking Group (EWG) that is scheduled for today will reportedly assess the status of the prior actions attached to the 2nd programme review and determine the next steps ahead as well as the potential timing of the return of the of the ECB/EC/IMF/ESM mission to Athens in view of the January 26 Eurogroup. With a view to furthering the negotiations between Greece and the institutions that have come to a standstill mainly due to their differences on the projected fiscal gap for the period 2018-2020, the Greek FinMin discussed yesterday with his French counterpart a proposal with additional measures to be implemented as part of the contingent fiscal mechanism that will be activated if the general government balances in 2018 and beyond fall short of the 3.5%-of-GDP primary surplus target. On the data front, the headline consumer price index (CPI) in December 2016 was flat on an annual basis after 45 months of deflation.

SOUTH EASTERN EUROPE

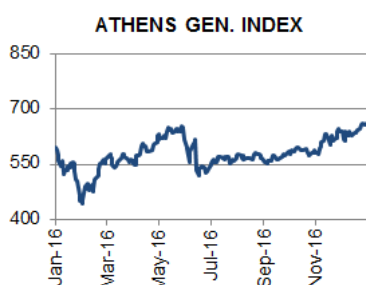
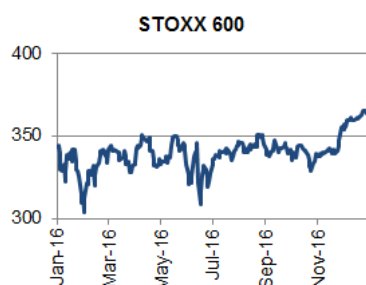
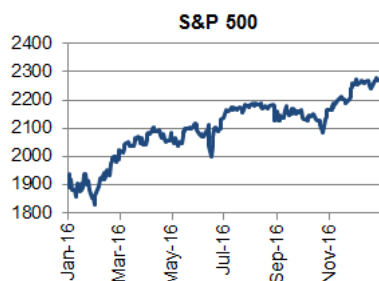
CESEE MARKETS: Emerging market assets received some support earlier today from the USD's retreat. The latter helped the Turkish lira take a breather after hitting historical lows yesterday. Today's focus is on the NBS monetary policy meeting and CPI data for December in Serbia.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

At yesterday's long-awaited news conference, US President-elect Donald Trump failed to provide details on his proposals during the election campaign over hefty tax cuts and sizable infrastructure spending, two factors that had triggered a multi-week rally in the US currency. His comments mostly focused on recent reports of Russian interference in the US President election, his plan regarding the building of a wall along the Mexico-US border, the repeal and replacement of Obama's signature health-care law and his plan to bring manufacturing jobs back from overseas plants. In reaction to the above, the USD weakened in European trade on Thursday with the DXY index hovering around a one-month trough of 100.940 at the time of writing, 0.8% lower on a daily basis and well below a multi-year peak of 103.820 recorded in the first trading week of the year. Favored by the USD's broad-based weakness, the EUR/USD moved higher hitting a one-month high of 1.0665 earlier today after recording a multi-session low of 1.0452 on Wednesday. The Italian Constitutional Court's verdict to reject a request by the largest union CGIL for a referendum on the reintroduction of Article 18 — an aspect of the labour market reform (Jobs Act) enacted in March 2015— that makes it nearly impossible for firms with more than 15 employees to lay off workers also favored the EUR on the view that such a development makes it less likely for snap elections to be held in the euro area's third biggest economy. Market uncertainty about what policies will actually be pursued under the Donald Trump administration favored US Treasuries with the 10-yr yield dropping to levels below 2.31% in European trade after ending at 2.37% in the prior session, moving further away from a peak close to 2.60% marked in mid-December. Looking ahead, today's calendar is limited to US jobless claims, a speech by Fed Chair Janet Yellen before a group of educators and the accounts from the ECB's December monetary policy meeting.

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GREECE

The Euroworking Group (EWG) that is scheduled for today will reportedly assess the status of the prior actions attached to the 2nd programme review and determine the next steps ahead as well as the potential timing of the return of the ECB/EC/IMF/ESM mission heads to Athens in view of the January 26 Eurogroup. With a view to furthering the negotiations between Greece and the institutions that have come to a standstill mainly due to their differences on the projected fiscal gap for the period 2018-2020, the Greek FinMin discussed yesterday with his French counterpart a proposal with additional measures to be implemented as part of the contingent fiscal mechanism that will be activated if the general government balances in 2018 and beyond fall short of the 3.5%-of-GDP primary surplus target. According to press reports, these measures are the cutting of pensions and wages, the decrease of the tax-free threshold and the increase of tax revenue. However, IMF executives have purportedly stated that the reform of the pension system and the lowering of the tax-free threshold should be implemented now anyway and not as part of the contingent fiscal mechanism. Meanwhile, speaking to press about Greece's bailout programme the Belgian Finance Minister Johan Van Overtveldt stated: "As the Eurogroup, and as the monetary union, we would have to go ahead anyway. Preferably with the IMF, but we will go ahead anyway. If the IMF really insists on other issues than those that we consider to be important within the Eurogroup, then we have to face the consequences of that. But there can be no doubt that the IMF is in every respect a very desirable and efficient thing to have." On the data front, the headline consumer price index (CPI) in December 2016 was flat on an annual basis after 45 months of deflation. Consumer prices were led higher primarily due to higher heating oil, air transport, petrol, alcoholic beverages and tobacco prices. For the 12-month period from January 2016 to December 2016 the CPI annual average rate of change was -0.8% while the corresponding figure in the previous year was -1.7%.

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January 12, 2017

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		
	2015	current	2016
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

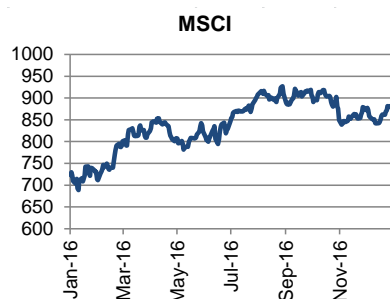
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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
	2015	current	2016
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	2.7	3.0
CPI (pa, yoy %)	1.4	1.0	2.1
Budget Balance/GDP	-3.7	-2.1	-1.7
Current Account/GDP	-4.7	-4.1	-3.9
EUR/RSD (eop)	121.38	123.40	125.5
	2015	current	2016
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

CESEE MARKETS

Emerging market assets received some support earlier today from the USD's retreat. The latter helped the Turkish lira take a breather after hitting historical lows yesterday. In more detail, the USD/TRY hovered around levels of at the time of writing, within distance from a record peak of 3.94/\$ reached intraday on Wednesday. The lira has been faced with significant downside pressures lately, weighed down by the USD's appreciation over recent months as well as domestic political and economic worries. Security concerns have also mounted following a string of bombings last year, the July 2016 coup attempt and a mass shooting in a nightclub in Istanbul on New Year's Day. Meanwhile, government-backed constitutional changes, envisioning the transition to a presidential system that will effectively give the President executive powers, have stirred concerns over power concentration and weighed additionally on the lira. Consequently, these developments have weighed on sentiment. Furthermore, the tourism sector, one of the main pillars of the economy, has been hit hard. In this context, real GDP is now anticipated to have slowed down to 2.5% in 2016 from 4.0% a year earlier.

Against the US dollar the currency has lost more than 10% of its value in the first few days of the year and more than a quarter since the July 2016 coup attempt. S&P warned in an interview on Wednesday that Turkey faces a serious FX rate risk in view of the lira's steep downtrend, while concerns have been mounting about a possible downgrade from Fitch, which will review Turkey's sovereign credit ratings in late January. Downside pressures on the currency have been lately exacerbated by the lack of an aggressive response by the Central Bank. Action taken by CBT earlier this week, including verbal intervention and USD-boosting liquidity measures, seem to have provided little respite for the currency. Presently, the broad market belief that the Central Bank will need to aggressively hike interest rates in order to offer meaningful support to the currency. However, such action may be constrained by persisting political pressures for monetary easing to support the weakening economic activity. Despite persistently above target inflation and the lira's steep depreciation trend, CBT has delivered just one 50bps rate hike in November last year.

In other news, Poland's Central Bank maintained its key policy rate steady at the record low level of 1.50%, in line with the market's consensus. Today's focus is on the monetary policy meeting in Serbia. The Central Bank (NBS) is broadly anticipated to stay put on its monetary policy and maintain the benchmark rate at the current record low level of 4.00% for the 6th month running. NBS delivered in July last year the latest cut under the current monetary easing cycle which started in May 2013. Since then, the amount of cumulative rate easing rendered totals 775bps, with the cycle appearing to have already reached a trough. Inflation data for December is also due later on Thursday. The latest annual CPI data available stood at 1.5%, below the 2.5-5.5% official target. However, the Central Bank revised lower the target tolerance band late last year to 1.5-4.5% and CPI is anticipated to move higher and remain around 2-3% over the next two years, on the back of increasing aggregate demand and base effects. At the same time, several key risk events lie ahead, domestically as well as internationally. Albeit the impact from December's Fed rate hike on Serbia's financial assets seems to have been rather limited, further US monetary tightening, that is likely to be delivered this year, may dent the higher yield allure of emerging market assets. The looming presidential election in spring is a key risk event domestically, that may prove a source of heightened volatility in Serbian markets.

January 12, 2017

GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities																																																																
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CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	300	-1	0
1-week	3.15	0	-2
1-month	3.34	-1	-1
3-month	3.48	-1	1
6-month	3.72	0	6

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	5.08	0	0
5Y RSD	5.35	0	-1
7Y RSD	5.63	0	0

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.22	-2	-10
USD Nov-24	6.46	2	5

CDS

	Last	ΔDbps	ΔYTD bps
5-year	208	1	0
10-year	255	0	-1

STOCKS

	Last	ΔD	ΔYTD
BELEX15	708.3	-0.63%	-1.27%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.75	-0.04%	-0.23%

ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.43	-1	-13
1-month	0.59	0	-17
3-month	0.82	0	-8
6-month	1.07	0	-4
12-month	1.22	0	-3

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.51	0	-11
5Y RON	2.42	2	-10
10Y RON	3.45	4	-20

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.99	#N/A	N/A
USD Jan-24	3.63	1	-22

CDS

	Last	ΔDbps	ΔYTD bps
5-year	100	-3	-9
10-year	143	-3	-9

STOCKS

	Last	ΔD	ΔYTD
BET	7238.7	-0.07%	2.17%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4956	0.04%	0.97%

BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.10	0	-10
1-month	-0.17	0	0
3-month	-0.07	0	0
6-month	0.07	0	0
12-month	0.40	0	0

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.14	0	-1
5Y BGN	0.55	3	5
10Y BGN	1.83	0	-8

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.47	0	-15
EUR Sep-24	1.53	-22	-15

CDS

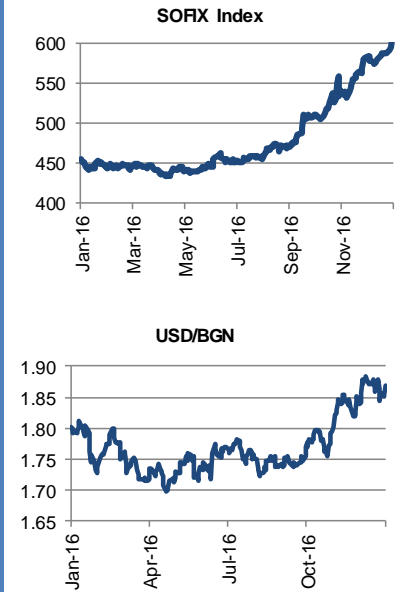
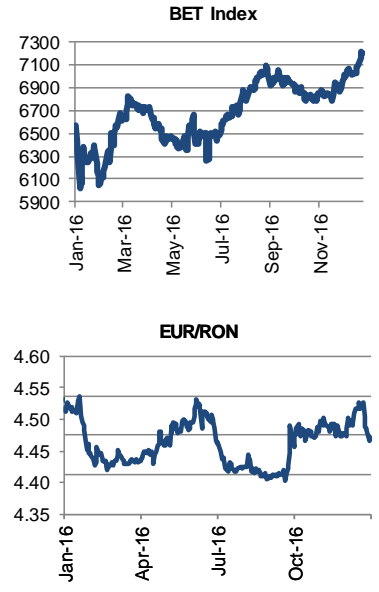
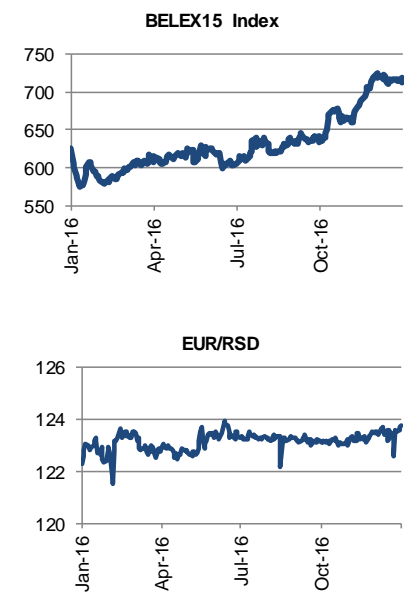
	Last	ΔDbps	ΔYTD bps
5-year	123	-2	-29
10-year	164	-2	-30

STOCKS

	Last	ΔD	ΔYTD
SOFIX	611.0	0.32%	4.19%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.8693	-0.86%	-0.58%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 18:10 EET of previous session

January 12, 2017

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