



# DAILY OVERVIEW

## OF GLOBAL MARKETS & THE SEE REGION

Wednesday, July 12, 2017

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Jul 12
  - Fed Chair Yellen testifies before House Financial Services Committee
  - Fed's Beige Book
- Jul 13
  - Jobless claims (weekly)
  - Fed Chair Yellen testifies before Senate
- Jul 14
  - CPI (Jun)
  - Retail sales (Jun)
  - Industrial prod/n (Jun)
  - UoM consumer confidence (Jul, p)

#### EUROZONE

- Jul 10: Eurogroup
- Jul 11: Ecofin

#### GREECE

- Jul 10
  - HICP/CPI (Jun)
  - Industrial prod/n (May)

#### CYPRUS

- Jul 11: HICP (Jun)

#### SEE

#### BULGARIA

- Jul 10
  - Retail sales (May)
  - Industrial prod/n (May)
  - Trade balance (May)
- Jul 13: CPI (Jun)

#### ROMANIA

- Jul 10
  - Trade balance (May)
  - 3.25% 2024 T-bonds auction
  - MPC meeting minutes
- Jul 11
  - Industrial sales (May)
  - CPI (Jun)
- Jul 12: Industrial prod/n (May)
- Jul 13: 1.35% 2019 T-Bonds auction
- Jul 14
  - CAD (May)
  - Fitch rating review

#### SERBIA

- Jul 10: MPC meeting
- Jul 12
  - CPI (Jun)
  - 2-year T-Bonds auction

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Focus today is on Fed Chair Janet Yellen's semi-annual testimony before Congress starting at 14:30 CET though any impact on markets will likely prove limited as the overall tone is not expected to deviate much from her recent rhetoric. Awaiting her testimony, USD was under pressure while US Treasury yields moved lower following comments by a number of Fed officials on Tuesday, perceived by market participants as erring on the dovish side of expectations. The Fed will release its Beige Book while in terms of data UK employment data for June lure market attention today.

**GREECE:** According to press reports, the Greek government sent a letter of intent to the IMF requesting a loan facility of €1.6 billion through a programme which will last twelve months and thirteen days, ending on 31<sup>st</sup> August 2018, shortly after the completion of the current ESM programme. The new programme will reportedly be supervised by the IMF and it is proposed that there be two reviews, one on 15 February 2018 and the other on 15 August 2018. In other news, the Bank of Greece released yesterday its periodic review of the Greek financial system according to which the stock of Non-Performing Exposures (NPEs) is decreasing – albeit at a slow pace – for the past four quarters, after having reached its peak in March 2016. Nevertheless, the percentage of NPEs to total loans rose in Q1 2017 due to the decrease of the total stock of loans but also the uncertainty caused by the delay in the completion of the 2<sup>nd</sup> programme review.

### SOUTH EASTERN EUROPE

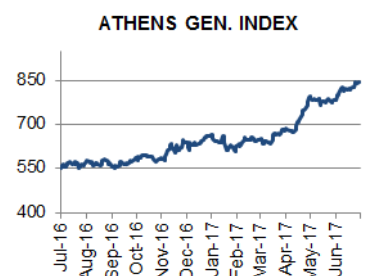
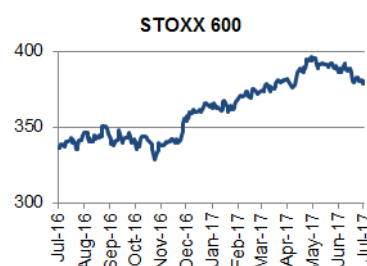
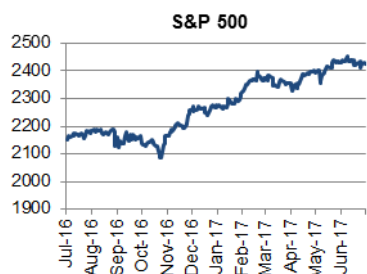
**CESEE MARKETS:** The majority of emerging market assets firmed earlier on Wednesday, as risk sentiment improved after a positive close in Wall Street overnight.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Focus today is on Fed Chair Janet Yellen's semi-annual testimony before Congress starting at 14:30 CET though any impact on markets will likely prove limited as the overall tone is not expected to deviate much from her recent rhetoric. The Fed Chair is anticipated to reiterate that US economic growth remains solid and inflation is anticipated to move higher towards the 2% inflation target over the medium term. Awaiting her testimony, USD was under pressure following comments by a number of Fed officials on Tuesday including Board of Governors Member Lael Brainard, perceived by market participants as erring on the dovish side of expectations. The DXY index was hovering around 95.765/75 at the time of writing, just 0.1% higher on the day and within distance from a year-to-date low of 95.470 marked in late June. EUR/USD hit a fresh year-to-date peak of 1.1490, recording cumulative gains of c. 9% so far this year while USD/JPY retreated to levels around 113.40/50 in European trade after marking a new four-month high of 114.50 in the prior session. GBP was among the main underperformers after BoE Deputy Governor Ben Broadbent failed to express his thoughts about the outlook of interest rates at a speech on Tuesday prompting financial markets to assume that he sees no pressing need to change his view for unchanged interest rates. GBP/USD extended recent losses recording a two-week low of 1.2810 earlier today while EUR/GBP marked a fresh year-to-date peak of 0.8950 following gains of more than 1% over the last two sessions. Turning to core government bond markets, the recent upward trend of yields came to a halt following relatively dovish comments from Fed officials a few hours ahead of Janet Yellen's testimony. Short-dated paper outperformed with the 2/10-yr yield spread narrowing to a fresh two-month low of 99bps. Tracking the down move in Treasury yields, German Bund yields were also lower with the 10-yr paper yielding levels around 0.54% after failing to break above 0.58% recent peak. EMU sovereign debt spreads undertook some narrowing with Italy underperforming ahead of today's sell of €6.75bn of a 12M BOT. The Fed will release its Beige Book while in terms of data UK employment data for June lure market attention today.

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### GREECE

According to press reports, the Greek government sent a letter of intent to the IMF requesting a loan facility of €1.6 billion through a programme which will last twelve months and thirteen days, ending on 31<sup>st</sup> August 2018, shortly after the completion of the current ESM programme. The letter of intent, signed by the Greek PM Alexis Tsipras, the Greek FinMin Euclid Tsakalotos and the Governor of the Bank of Greece Yiannis Stournaras, reportedly also comprises 21 commitments on behalf of the Greek government touching upon a number of subjects such as the trade union legal framework, the OECD recommendations on market deregulation, the recalculation of pensions under the new legal framework, the maximum time limit for fixed-term employment contracts in the public sector in 2017 and 2018, the lifting of the remaining restrictions in a number of professions and the operation of the electronic auctions mechanism for non-performing loans. At the same time, the Greek authorities pledge to carry out as agreed the actions envisioned in the 3<sup>rd</sup> Economic Adjustment Programme and that it will undertake corrective measures should there be deviations from the agreed fiscal targets. According to the letter of intent, the new programme will be supervised by the IMF and it is proposed that there be two reviews, one on 15 February 2018 and the other on 15 August 2018. In other news, the Bank of Greece released yesterday its periodic review of the Greek financial system according to which the stock of Non-Performing Exposures (NPEs) is decreasing – albeit at a slow pace – for the past four quarters, after having reached its peak in March 2016. Nevertheless, the percentage of NPEs to total loans rose in Q1 2017 due to the decrease of the total stock of loans but also the uncertainty caused by the delay in the completion of the 2<sup>nd</sup> programme review. The report also stresses the importance of speeding up judicial procedures with respect to denounced loans (€4.8 billion in December 2017). The analysis shows that shortening the duration of such proceedings by three years would increase the recoverable loan value by € 7 billion.

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July 12, 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

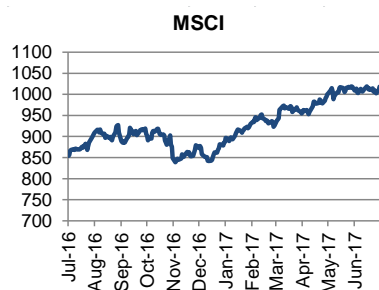
ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

\* 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

The majority of emerging market assets firmed earlier on Wednesday, as risk sentiment improved after a positive close in Wall Street overnight. However, caution prevailed ahead of Fed Chair Yellen's semi-annual 2-day testimony to Congress which starts today. Her comments are expected to be closely scrutinized by market participants for any hints about when the Central Bank will start unwinding its balance sheet. The prospect of less accommodative monetary policies by major Central Banks is likely to remain a key factor behind capital flows towards emerging markets over the coming months. The Fed is expected to start unwinding its balance sheet and further hike interest rates before year-end. Meanwhile, the ECB has lately toned up its hawkish rhetoric with the market's prevailing view being that it will announce in the coming months the start of QE tapering for the beginning of 2018.

Along these lines, the MSCI Emerging Markets index rose by 0.6% earlier on Wednesday, marking the third consecutive session of positive returns. At the same time, most CESEE bourses stood in the black. Poland's WIG index led the gains with a 0.8% daily advance, while main indices in Hungary, Serbia and Ukraine posted modest losses in European trade. In FX markets, most currencies firmed against a weaker USD. The Romanian leu and Hungarian forint remained in early European trade near respective multi-session highs of 4.5635 and 307.22 hit against the euro yesterday. The currencies appear to have also received some support from June's inflation data released yesterday. In Romania, the headline CPI index rose to a 2-year peak of 0.9%YoY last month from 0.6% in May. Although the said reading still remains well below the official Central Bank target range of 1.5-3.5% and is amongst the lowest in the CESEE region, inflation pressures appear to be building up lately. The deflationary impact of previous VAT cuts is gradually waning, while wage growth is running at double digits. Additionally, the government is currently mulling a tax system overhaul for 2018 and has earmarked hikes in public sector wages, the minimum salary and state pensions. The Central Bank pencils in headline CPI at 1.6% by end-2017 and 3.1% in 2018. In Hungary, headline CPI rose by 1.9%YoY in June, coming in line with the market's consensus and slightly below the prior month's 2.1%YoY print. However, the core index rose to a multi-year high of 2.4%YoY from 2.1%YoY in May.

In the CESEE space, focus today is on industrial production data for May in Romania, while June's inflation data is scheduled for release in Poland and Serbia. The latter is also expected to hold a 2-year EUR government bond auction later on Wednesday.

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July 12, 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	2425.53	-0.1%	8.3%	EUR/USD	1.1458	-0.1%	8.9%	UST - 10yr	2.35	-1	-9	GOLD	1219	0.1%	5.8%
Nikkei 225	20098.38	-0.5%	5.1%	GBP/USD	1.2818	-0.2%	3.7%	Bund-10yr	0.61	6	40	BRENT CRUDE	48	1.7%	-14.9%
STOXX 600	380.47	0.3%	5.3%	USD/JPY	113.4	0.5%	3.2%	JGB - 10yr	0.09	-1	4	LMEX	2829	0.6%	6.4%

## CESEE MARKETS

### SERBIA

#### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.97	0	-3
1-week	3.12	0	-5
1-month	3.32	1	-3
3-month	3.53	1	6
6-month	3.74	1	8

#### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.86	0	-17
5Y RSD	5.21	0	-14
7Y RSD	5.59	0	-4

#### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.89	-2	-44
USD Nov-24	6.33	-3	-9

#### CDS

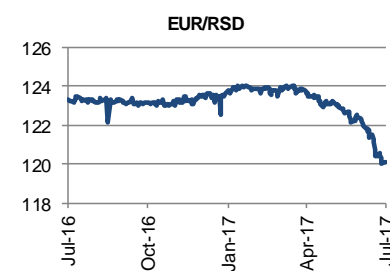
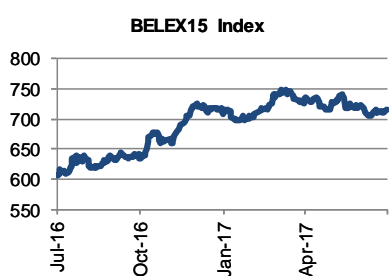
	Last	ΔDbps	ΔYTD bps
5-year	149	1	-59
10-year	198	1	-58

#### STOCKS

	Last	ΔD	ΔYTD
BELEX15	716.1	-0.04%	-0.17%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.12	0.06%	2.78%



### ROMANIA

#### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.55	0	-1
1-month	0.65	0	-11
3-month	0.87	0	-3
6-month	1.03	0	-8
12-month	1.2	0	-5

#### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.34	0	-28
5Y RON	2.27	0	-25
10Y RON	3.48	0	-17

#### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.00	0	-14
USD Jan-24	3.48	0	-37

#### CDS

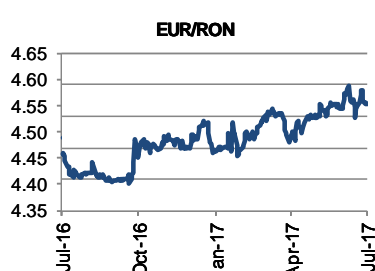
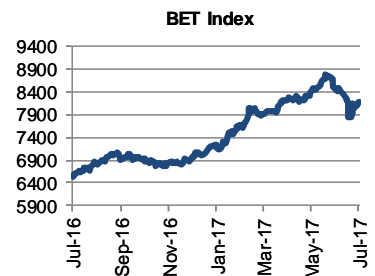
	Last	ΔDbps	ΔYTD bps
5-year	107	0	-2
10-year	150	0	-3

#### STOCKS

	Last	ΔD	ΔYTD
BET	8163.4	0.07%	15.22%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5695	-0.02%	-0.67%



### BULGARIA

#### Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.16	0	1
3-month	-0.10	0	-3
6-month	0.04	0	-3
12-month	0.42	0	1

#### BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.08	0	-24
5Y BGN	0.15	0	-35
10Y BGN	1.55	0	-36

#### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-24	1.32	0	-37

#### CDS

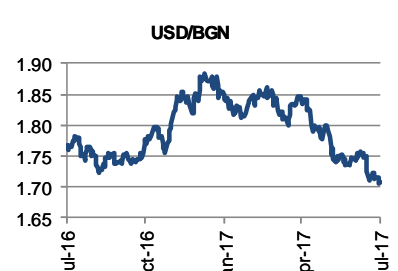
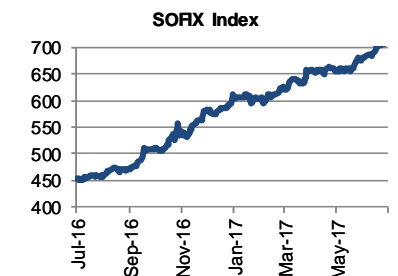
	Last	ΔDbps	ΔYTD bps
5-year	110	-1	-42
10-year	160	-1	-34

#### STOCKS

	Last	ΔD	ΔYTD
SOFIX	709.5	0.10%	20.98%

#### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.707	-0.04%	8.87%



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

July 12, 2017

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