

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- Jun 13
 - UST Secretary Mnuchin testifies on Senate Budget Committee
- Jun 14
 - CPI (May)
 - Retail sales (May)
 - FOMC meeting & press conf & macro forecasts
- Jun 15
 - Empire State Index (May)
 - Initial claims (weekly)
 - Philly Fed (Jun)
 - Industrial prod (Apr)
 - NAHB (May)
- Jun 16
 - Housing starts (May)
 - Housing permits (May)
 - UoM cons conf (Jun, p)

EUROZONE

- Jun 13
 - DE: ZEW (Jun)
 - ES: Rajoy faces no-conf. vote in parliament
- Jun 16
 - HICP (May)
 - Ecofin meeting
- June 18: FR: Election of the National Assembly run-off

GREECE

- Jun 15
 - Eurogroup
 - U/E rate (Q1, 2017)

SEE

BULGARIA

- Jun 14: CPI (May)
- Jun 15: U/E rate (May)

ROMANIA

- Jun 12
 - CPI (May)
 - T-bonds auction
- Jun 13
 - Net wages (Apr)
 - CAD (Apr)
- Jun 14: Industrial output/sales (Apr)

SERBIA

- Jun 12: CPI (May)
- June 13: 2019 T-bonds auction
- Sovereign credit rating review by S&P and Fitch

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: All eyes today are on the FOMC monetary policy meeting where a 25bps rate hike is nearly fully priced-in. The FOMC policy announcement is scheduled for 18:00GMT followed by the usual press conference by Chair Janet Yellen. With investors awaiting the conclusion of the FOMC meeting, the USD was little changed while GBP was slightly firmer. According to press reports, an agreement between UK Prime Minister Theresa May and Northern Ireland's Protestant party DUP for the formation of a Conservative minority government is expected to be signed today. EMU periphery sovereign bonds retained a positive tone with Italian paper outperforming.

GREECE: With regard to Greece, the June 15th Eurogroup will discuss the following issues: 1) the assessment of the progress made in the fulfilment of the prior actions attached to the 2nd programme review, 2) the medium-term fiscal targets beyond 2018, and 3) the possible debt measures that may accrue, if necessary, after successful completion of the programme by mid-2018. Meanwhile, the Greek government is reportedly aiming at an agreement that will make a specific reference to the French proposal, the central idea of which is the linkage of the medium-term debt relief measures to GDP growth through an automated mechanism that will determine the breadth of the debt relief package to be adopted.

SOUTH EASTERN EUROPE

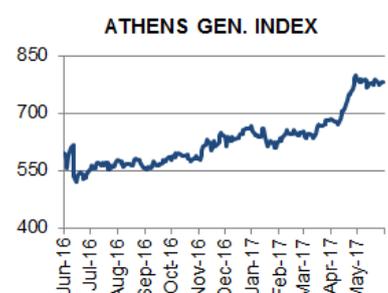
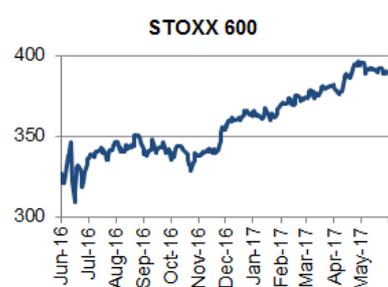
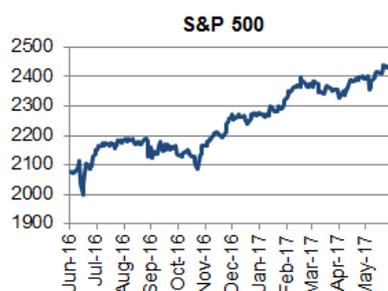
ROMANIA: The current account deficit widened to 0.8% of GDP in Jan-April up from 0.5% at the same period last year. According to media reports, the PSD leader asked the PM to step down.

CESEE MARKETS: In the local debt markets, Serbia sold on Tuesday RSD 7.225 (€59mn) of 2-year T-Notes at an average accepted yield of 4.65%. Looking into today's calendar, all eyes are on the conclusion of the Fed's monetary policy meeting.

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Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

All eyes today are on the FOMC monetary policy meeting where a 25bps rate hike is nearly fully priced-in. The FOMC policy announcement is scheduled for 18:00GMT followed by the usual press conference by Chair Janet Yellen. Market expectations are for nearly unchanged Fed interest rate projections pointing to an additional rate hike by the end of this year. Details about the Fed's balance-sheet normalisation plan are likely to be held off until the September meeting as the Central Bank probably needs some more time to monitor inflation data for clues over whether the recent slowdown is more permanent than currently expected. With investors awaiting the conclusion of the FOMC meeting, USD was little changed compared to the prior session's settlement albeit c. 0.3% lower from a multi-session peak hit late last week. Elsewhere, GBP gained some ground hovering around 1.2790 against USD at the time of writing, having bounced from a nearly two-month low close to 1.2650 earlier this week. According to press reports, an agreement between UK Prime Minister Theresa May and Northern Ireland's Protestant party DUP for the formation of a Conservative minority government is expected to be signed today. With respect to upcoming Brexit discussions, the UK Prime Minister confirmed that they will begin next week, as planned, with some market participants assigning a good probability for a softer Brexit approach by the UK government following the disappointing for the Conservative party June 8th election outcome. Meanwhile, German Bunds were little changed while the majority of EMU periphery sovereign bonds retained a positive tone, supported by the outcome of the first round of French elections, which pointed to a landslide victory for reformist Emmanuel Macron at the second round on June 18th. Last week's ECB press conference where President Mario Draghi signaled that the Central Bank is in no hurry to scale back its QE programme, also continued to exert a positive impact. Italian government bonds remained among the main outperformers on the back of receded risks for an early ballot.

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GREECE

With regard to Greece, the June 15th Eurogroup will discuss the following issues: 1) the assessment of the progress made in the fulfilment of the prior actions attached to the 2nd programme review, 2) the medium-term fiscal targets beyond 2018, and 3) the possible debt measures that may accrue, if necessary, after successful completion of the programme by mid-2018. The framework for this discussion is the one concluded at the Eurogroup meeting of 24 May 2016, outlining debt measures for Greece in the short, medium and long term. Meanwhile, the Greek government is reportedly aiming at an agreement that will make a specific reference to the French proposal, the central idea of which is the linkage of the medium-term debt relief measures to GDP growth through an automated mechanism that will determine the breadth of the debt relief package to be adopted. Other parameters of the agreement that will be of particular importance to Greece according to press reports are: 1) the size of the next loan tranche, which the Greek side wishes to be around €9 – €9,5 bn so that it can infuse additional liquidity to the economy through the payment of state arrears, 2) a commitment by the European partners to support the country's return to growth through investment funds, and 3) the primary surplus target after the expiration of the Economic Adjustment Programme and in particular after 2022 (it is understood that from 2018 to 2022 the target will be maintained at 3.5% of GDP).

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June 14, 2017

Latest economic & market developments in the CESEE region

ROMANIA

The swelling of the current account deficit has become more visible in the Balance of Payments data released for the first four months of the year. The current account deficit widened by 56.3% YoY in January-April 2017, jumping to €1.4bn compared to a deficit of €906mn in the same period a year ago. As a percentage of GDP, the current account deficit widened to 0.8%, from 0.5% at the same period last year.

The widening of the trade deficit remains the main culprit behind the current account deterioration. Double digit imports' growth dynamics (+11.7% YoY) outpacing those of exports (+9.8% YoY) resulted in a rise of the trade deficit to 1.7% of GDP vs 1.6% in the same period last year. Both the primary income gap and the surplus of services stood at 0.6% and +1.4% of GDP respectively, unable to offset the trade gap deterioration. More importantly, the secondary income surplus stood at a negligible 0.2% of GDP, lower by -57.4% YoY, mirroring dramatically lower EU funds absorption and lower transportation services. From a financing point of view, net FDI inflows expanded by 23.8% YoY at €1.3bn covering fully the current account shortfall.

In a nutshell, the current account deterioration is one of those warning signs that macroeconomic imbalances are reemerging reflecting partly the overly expansionary fiscal policy and the underperformance of EU funds absorption at this stage. At this moment, our full year projection for the current account deficit stands at 3.0% in 2017 up from 2.4% in 2016, though still very far from the pre-crisis peak of 13.4% in 2007.

In other news, politics are taking center stage in Romania once again. According to media reports, Social Democratic Party (PSD) leader Liviu Dragnea asked Prime Minister Sorin Grindeanu to step down. The latter assumed the post of the Prime Minister in the government coalition cabinet formed as a result of the alliance between PSD and its minor partner ALDE, after President Iohannis refused to appoint the party leader because of his conviction over electoral fraud in a 2012 referendum to impeach the President. The PSD-ALDE coalition cabinet, consisting of 27 ministries, came in office in early January. The coalition controls 174 out of 329 seats in the Chamber of Deputies and 76 out of 136 seats in the Senate. Although a safe parliamentary majority argues in favor of government stability, it does not necessarily mean the end of political noise. According to media reports, the PSD leadership appears to be unhappy with the cabinet performance so far because of delays in key government projects which have been included in PSD electoral agenda.

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CESEE MARKETS

In the local debt markets, Serbia sold on Tuesday RSD 7.225 (€59mn) of 2-year T-Notes, half an initially planned amount of RSD 15bn (€123mn). Investors bid 1.01 times the amount sold. The issue is a reopening of paper initially sold on May 16, 2017. It bears an annual coupon of 3.5% and matures on May 18, 2019. The bond was sold at a price of 98.1852 and the average accepted yield came in at 4.65%, in line with that achieved at a prior auction of the paper held on May 16. Looking into today's calendar, all eyes are on the conclusion of the Fed's monetary policy meeting. The updated macroeconomic staff projections and any hints on the pace of tightening ahead as well as potential indications about the Central Bank's balance sheet reduction plans will be on the spotlight and are likely to set the tone for emerging market assets in the coming days.

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| 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

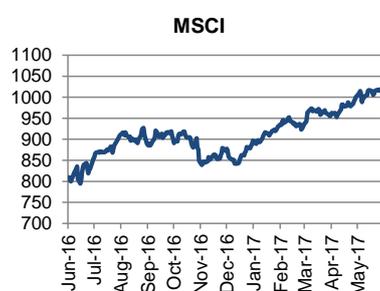
| ROMANIA: Indicator: | 2015 | 2016e | 2017f |
|----------------------|------|---------|-------|
| Real GDP growth % | 3.7 | 5.0 | 3.5 |
| CPI (pa, yoy %) | -0.6 | -1.8 | 1.5 |
| Budget Balance/GDP * | -1.9 | -2.8 | -3.7 |
| Current Account/GDP | -1.1 | -3.0 | -3.2 |
| EUR/RON (eop) | 4.48 | 4.54 | 4.60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

June 14, 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 | 2440.35 | 0.5% | 9.0% | EUR/USD | 1.1217 | 0.1% | 6.6% | UST - 10yr | 2.20 | -1 | -24 | GOLD | 1268 | 0.1% | 10.0% |
| Nikkei 225 | 19883.52 | -0.1% | 4.0% | GBP/USD | 1.2785 | 0.2% | 3.5% | Bund-10yr | 0.27 | 0 | 6 | BRENT CRUDE | 48 | -0.6% | -14.8% |
| STOXX 600 | 390.50 | 0.5% | 8.0% | USD/JPY | 110.13 | -0.1% | 6.2% | JGB - 10yr | 0.07 | 0 | 2 | LMEX | 2722 | -0.5% | 2.3% |

CESEE MARKETS

SERBIA

Money Market

| BELIBOR | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| T/N | 3.01 | -1 | 1 |
| 1-week | 3.16 | -2 | -1 |
| 1-month | 3.34 | -1 | -1 |
| 3-month | 3.53 | 1 | 6 |
| 6-month | 3.71 | 1 | 5 |

RS Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|--------|------|-------|----------|
| 3Y RSD | 4.89 | 0 | -14 |
| 5Y RSD | 5.26 | 0 | -9 |
| 7Y RSD | 5.62 | 0 | -1 |

RS Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| USD Nov-17 | 1.63 | -2 | -69 |
| USD Nov-24 | 6.33 | 0 | -9 |

CDS

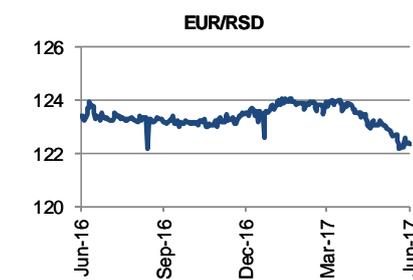
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 167 | 1 | -40 |
| 10-year | 223 | 2 | -32 |

STOCKS

| | Last | ΔD | ΔYTD |
|---------|-------|--------|-------|
| BELEX15 | 719.9 | -0.50% | 0.36% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|-------|
| EUR/RSD | 122.34 | 0.03% | 0.92% |



ROMANIA

Money Market

| ROBOR | Last | ΔDbps | ΔYTD bps |
|----------|------|-------|----------|
| O/N | 0.45 | 0 | -11 |
| 1-month | 0.59 | 0 | -17 |
| 3-month | 0.82 | 0 | -8 |
| 6-month | 1.01 | 0 | -10 |
| 12-month | 1.19 | 0 | -6 |

RO Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 3Y RON | 1.34 | 0 | -28 |
| 5Y RON | 2.21 | 0 | -31 |
| 10Y RON | 3.35 | 1 | -30 |

RO Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| EUR Oct-25 | 1.85 | #N/A | N/A |
| USD Jan-24 | 3.14 | 0 | -71 |

CDS

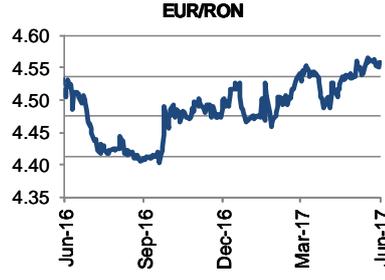
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 100 | 0 | -9 |
| 10-year | 150 | -1 | -2 |

STOCKS

| | Last | ΔD | ΔYTD |
|-----|--------|-------|--------|
| BET | 8459.9 | 0.16% | 19.40% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|--------|--------|
| EUR/RON | 4.5675 | -0.02% | -0.62% |



BULGARIA

Money Market

| SOFIBOR | Last | ΔDbps | ΔYTD bps |
|----------|-------|-------|----------|
| LEONIA | -0.24 | 0 | -24 |
| 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 | -0.02 | 0 | -17 |
| 5Y BGN | 0.13 | -7 | -37 |
| 10Y BGN | 1.59 | 0 | -32 |

BG Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|-------|-------|----------|
| EUR Jul-17 | -0.49 | -5 | -17 |
| EUR Sep-24 | 1.25 | 86 | -43 |

CDS

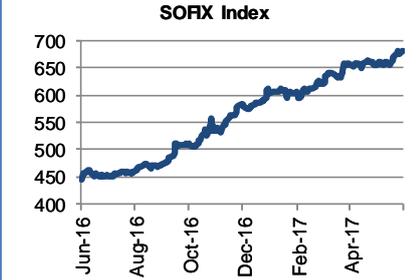
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 108 | -1 | -44 |
| 10-year | 165 | -1 | -29 |

STOCKS

| | Last | ΔD | ΔYTD |
|-------|-------|-------|--------|
| SOFIX | 681.2 | 0.02% | 16.16% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|-------|
| USD/BGN | 1.7437 | 0.05% | 6.58% |



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

June 14, 2017

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