



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Wednesday, December 14, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Dec 14
 - Retail Sales (Nov)
 - Industrial Production (Nov)
 - FOMC policy meeting
- Dec 15
 - Empire State Index (Dec)
 - Initial claims
 - Philly Fed Index (Dec)
 - CPI (Nov)
 - NAHB Index (Dec)
- Dec 16 Housing starts & permits (Nov)

EUROZONE

- Dec 13: German ZEW Index (Dec)
- Dec 14: Industrial Production (Oct)
- Dec 15: PMI Manufacturing & Services (Dec)
- Dec 16: CPI (Nov)

GREECE

- Dec 13
 - Technical teams representing official lenders are expected to return to Athens to resume discussions with Greek authorities for the 2nd programme review
 - Building Activity (Sep)
- Dec 15: Labor Force Survey (Q3 2016)

SEE

BULGARIA

- Dec 14-15: U/E rate (Nov)
- Dec 16: CAD (Oct)

ROMANIA

- Dec 14
 - Industrial production (Oct)
 - Current account (Oct)
- Dec 15: 1.35% 2019 T-Bonds auction

SERBIA

- Dec 15: RSD 6% 2019 T-bonds auction
- Dec 16: Credit rating review by S&P and Fitch

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Major Asian equity indices closed in the red on Wednesday while most European bourses opened lower, with investors adopting a cautious tone ahead of the conclusion of the two-day FOMC monetary policy meeting later in the day. The outcome of the FOMC policy meeting will be announced at 19:00 GMT, followed by Fed Chair Janet Yellen's news conference. In the rates markets, the 10-yr Treasury yield was hovering around levels of 2.439% at the time of writing in European trade, after surging to a 2-year high of 2.528% on Monday. In FX markets, the EUR/USD was hovering around 1.0630 in early European trade, within distance from the recent 20-month trough of 1.0505 at the beginning of the previous week. On the data calendar front, US retail sales and industrial production for November as well as euro area industrial production for October are due later in the day.

GREECE: As of yesterday, the mission heads have returned to Athens to resume talks in the context of the 2nd programme review. The agenda for today reportedly includes the new Privatisation and Investment Fund and the legal framework for the out-of-court workout for indebted companies. The labour market reform and the medium term fiscal strategy remain unresolved and are expected to be discussed later in the week. The 2nd review is taking place against an unusually tense background, which was caused by a note published by the IMF's Chief Economist Maurice Obstfeld and European Department Chief Poul Thomsen bringing about reactions by all the parties that are involved in Greece's bailout programme.

SOUTH EASTERN EUROPE

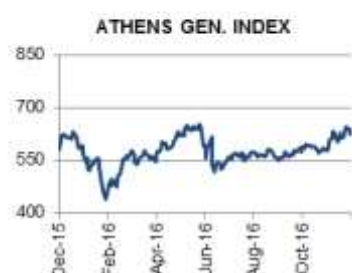
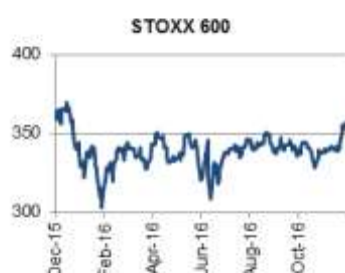
CESEE MARKETS: Emerging market assets treaded water earlier on Wednesday ahead of the FOMC decision due later today.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Wall Street advanced further overnight, with the energy sector outperforming after International Energy Agency (IEA) said global oil markets will swing from supply surplus to deficit in the first half of 2017 following the OPEC and other oil producers' agreement to cut supply. Nevertheless, major Asian equity indices closed in the red on Wednesday while most European bourses opened lower, as investors adopted a cautious tone ahead of the conclusion of the two-day FOMC monetary policy meeting later in the day. The outcome of the FOMC policy meeting will be announced at 19:00 GMT, followed by Fed Chair Janet Yellen's news conference. A 25bps increase in the fed funds rate target range from 0.25-0.50 currently to 0.50-0.75bps is fully priced-in by markets, while investor focus centres on the updated Summary of Economic Projections and rate "dot" plots for additional information concerning Fed's tightening future path. In the rates markets, the 10-yr Treasury yield was hovering around levels of 2.439% at the time of writing in European trade awaiting the Fed's decision, after surging to a two-year high of 2.528% on Monday. The spread between US and German 10-yr yields continued to be the widest since 1989, with Treasuries offering a premium of roughly 211 bps. In FX markets, the DXY dollar index was standing close to 101.030 at the time of writing, not too far from a 13-year high of 102.050 recorded in late November. Against this backdrop, the EUR/USD was hovering around 1.0630 in early European trade, within distance from the recent 20-month trough of 1.0505 at the beginning of the previous week. On the data calendar front, US retail sales and industrial production for November as well as euro area industrial production for October are due later in the day.

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GREECE

As of yesterday, the mission heads have returned to Athens to resume talks in the context of the 2nd programme review. The agenda for today reportedly includes the new Privatisation and Investment Fund and the legal framework for the out-of-court workout for indebted companies. The labour market reform and the medium term fiscal strategy remain unresolved and are expected to be discussed later in the week. The 2nd review is taking place against an unusually tense background, which was caused by a note published on Monday by the IMF's Chief Economist Maurice Obstfeld and European Department Chief Poul Thomsen where it is argued that a primary surplus of 3.5%-of-GDP in the medium term is counterproductive in terms of growth. The note goes on saying that if indeed Greece and its European partners choose to keep this primary surplus target then the IMF will require the upfront legislation of measures such as pension cuts and a lower tax-free threshold that will ensure that the programme will be implemented and that resistance from vested interests will be overcome. The IMF's note caused immediate reactions by all involved parties: the Greek PM Alexis Tsipras spoke of "foolish technocrats" who name the "wrong" "right" while the Greek FinMin Euclid Tsakalotos dismissed the validity of the IMF's views. EC spokesperson Annika Breidhardt defended the soundness of the bailout programme and stressed the importance of acknowledging Greece's achievements. Finally, the ESM expressed its surprise to the decision of the IMF to publicise details of the ongoing negotiations and asked for returning to the previous practice of conducting negotiations behind closed doors. Meanwhile, in the following days the Greek PM is planning to meet Francois Hollande, Angela Merkel and other European officials and according to press reports will discuss with them the potential restriction of the role or even altogether departure of the IMF from the programme, something however, that Berlin has so far categorically rejected.

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December 14, 2016

BULGARIA: Indicators	2014	2015	2016f
Real GDP growth %	1.6	3.0	2.6
CPI (pa, yoy %)	-1.4	-0.1	-0.5
Budget Balance/GDP*	-3.7	-2.9	-2.0
Current Account/GDP	0.9	1.4	1.0
EUR/BGN (eop)	1.9558		
	2015	current	2016f
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

CYPRUS: Indicators	2014	2015	2016f
Real GDP growth %	-2.5	1.6	2.5
HICP (pa, yoy %)	-0.3	-1.5	-0.7
Budget Balance/GDP*	-0.2	0.0	-0.4
Current Account/GDP	-4.6	-3.6	-4.2

* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

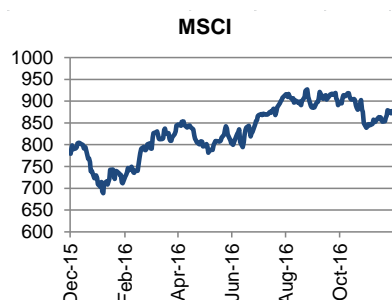
ROMANIA: Indicator:	2014	2015	2016f
Real GDP growth %	2.9	3.8	4.2
CPI (pa, yoy %)	1.1	-0.6	-1.5
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.1	-3.0
EUR/RON (eop)	4.48	4.52	4.60
	2015	current	2016f
Policy Rate (eop)	1.75	1.75	2.00

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2014	2015	2016f
Real GDP growth %	-1.8	0.7	1.8
CPI (pa, yoy %)	2.1	1.5	2.8
Budget Balance/GDP	-6.7	-4.1	-4.0
Current Account/GDP	-6.0	-4.7	-4.6
EUR/RSD (eop)	121.38	121.52	125.00
	2015	current	2016f
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 treaded water earlier on Wednesday ahead of the FOMC decision due later today. A 25bps rate hike this month is currently priced in by markets and, if delivered, it is not expected to have a significant impact on EM assets. However, the focus lies today on any hints over the Fed's monetary policy deliberations ahead.

Along these lines, the MSCI Emerging Markets index stood in a marginally negative territory of 0.1% in Asian trade, having trimmed its gains so far this month to 1.6%. Bourses in the CESEE region were mixed. Hungary's main BUX index led the way higher with a ca 1% daily advance, which saw the index hitting a new record low for the second consecutive session. The Romanian BETI index also rose, reaching a 3-month peak, in a move largely shrugging off domestic political uncertainty after Sunday's general elections and weaker than anticipated industrial production data for October. The leftist Social Democrat Party (PSD), which won Sunday's ballot by a comfortable margin after scoring nearly 46% of the vote in both houses of parliament, declined on Tuesday to meet with President Klaus Iohannis who invited political parties for discussions on a new cabinet. PSD noted that it would wait and propose its Prime Minister nominee after the new parliament is validated. The President recently signaled he would not accept the party's leader Liviu Dragnea as the new Prime Minister, citing his recent suspended sentence earlier this year on allegations for manipulating a 2012 referendum on the impeachment of previous President Basescu. However, it is unclear whether the PSD will propose Dragnea or announce another candidate. On a more positive note, the PSD leader also said on Tuesday that planned tax cuts for 2017 may be delayed until the formation of a new cabinet, but the proposal was rejected by outgoing Prime Minister Ciolos. Undoubtedly, a potential PSD government will have to back down on some of its generous pre-election promises in order to avoid a significant overshoot of the budget deficit above 3% of GDP in 2017-18.

In the FX markets, the Turkish lira firmed on news that the government may curb foreign-currency denominated loans in order to support the ailing domestic currency. In this context, the USD/TRY hovered around levels of 3.4860 at the time of writing, below this week's peak of 3.5485 hit on Monday. Nonetheless, the pair remains within distance from a recent record high of 3.5840 hit in early December, mostly on the back of idiosyncratic factors, such as persisting domestic political and macroeconomic worries. The government's pursuit of a constitutional overhaul that includes plans for a presidential system, which effectively will increase the President's authorities and create a formal link with between the President and a political party, has stirred skepticism over power concentration. A string of bombings over recent months has fanned concerns over security in the country, which has weighed on sentiment and is also hurting the important tourism industry which accounts for a significant share of the country's GDP. From a macroeconomic perspective, the recent spike in oil prices following the OPEC agreement is likely to translate for Turkey as higher external vulnerabilities and augment inflation pressures on the perception that the country is a net oil importer. Moreover, confirming that the domestic economic activity is poised for a slowdown this year, the Q3 National Accounts data revealed that real GDP contracted by 1.8%YoY, marking the first year-on-year decline in seven years. Deputy Prime Minister Mehmet Simsek noted that this development comes on the back of weaker global trade, lower capital inflows and persisting geopolitical tensions. For 2016, real GDP growth is anticipated to come in below 3.0% and undershoot earlier official forecasts of 3.2%.

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December 14, 2016

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	2271.72	0.7%	11.1%	EUR/USD	1.0639	0.1%	-2.0%	UST - 10yr	2.44	-3	17	GOLD	1162	0.3%	9.5%
Nikkei 225	19253.61	0.0%	1.2%	GBP/USD	1.2648	-0.1%	-14.2%	Bund-10yr	0.32	-4	-31	BRENT CRUDE	55	-1.0%	47.9%
STOXX 600	355.73	-0.5%	-2.8%	USD/JPY	115.04	0.1%	4.4%	JGB - 10yr	0.06	-3	-21	LMEX	2771	-0.6%	25.8%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	298	2	-5
1-week	3.12	4	-7
1-month	3.29	0	-22
3-month	3.45	2	-38
6-month	3.60	-3	-43

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	5.07	0	-35
5Y RSD	5.27	0	-184
7Y RSD	5.73	0	-5

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.38	0	-79
USD Nov-24	6.47	1	6

CDS

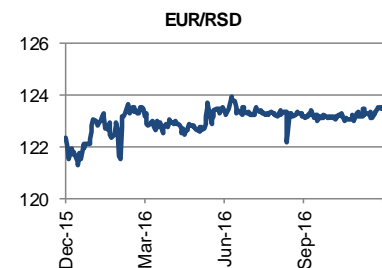
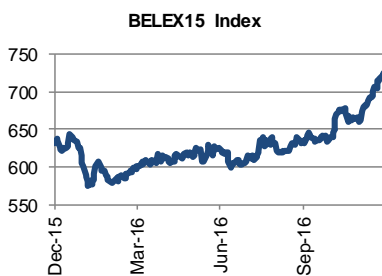
	Last	ΔDbps	ΔYTD bps
5-year	208	0	-67
10-year	254	0	-85

STOCKS

	Last	ΔD	ΔYTD
BELEX15	718.8	-0.95%	11.59%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.51	0.00%	-1.56%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.47	0	-6
1-month	0.62	0	-7
3-month	0.8	0	-22
6-month	1.04	-2	-30
12-month	1.17	0	-35

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.57	1	-36
5Y RON	2.47	1	-33
10Y RON	3.56	0	-22

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.30	-1	-27
USD Jan-24	3.94	1	16

CDS

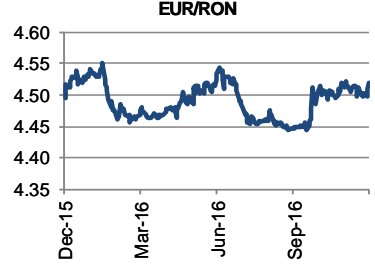
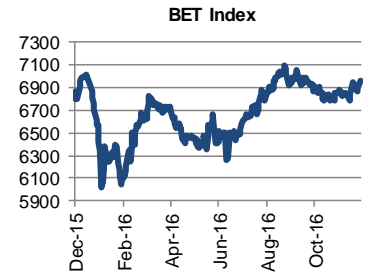
	Last	ΔDbps	ΔYTD bps
5-year	119	-1	-14
10-year	165	-1	-6

STOCKS

	Last	ΔD	ΔYTD
BET	7010.7	0.37%	0.09%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5195	-0.24%	-0.12%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.13	0	-14
1-month	-0.17	0	-32
3-month	-0.07	0	-33
6-month	0.08	0	-45
12-month	0.40	0	-57

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.22	-1	-38
5Y BGN	0.60	-4	-67
10Y BGN	2.01	0	-65

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.11	-1	-18
EUR Sep-24	1.81	23	-62

CDS

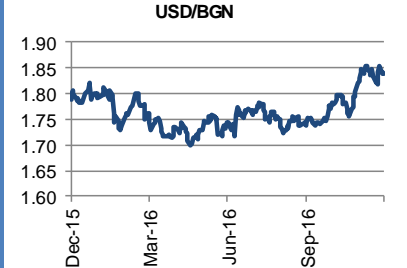
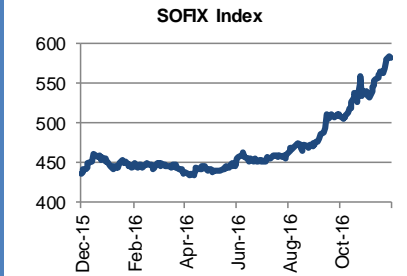
	Last	ΔDbps	ΔYTD bps
5-year	155	-1	-17
10-year	187	-1	-29

STOCKS

	Last	ΔD	ΔYTD
SOFIX	580.6	-0.05%	25.97%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.8384	0.12%	-2.07%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 13:10 EET

December 14, 2016

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