

DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Thursday, June 15, 2017

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
- Jun 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: The FOMC raised the Federal Funds rate by 25bps to a 1.00-1.25%, as expected, and provided some details on how it plans to start reducing its balance sheet “relatively soon”. The medium-term interest rate projections were unchanged suggesting one more hike by the end of this year and three hikes in 2018 and 2019 respectively. The updated Summary of Economic Projections was largely in line with expectations containing a few mild surprises, mainly an upward revision in 2017 real GDP forecast to 2.2% from 2.1% and a significant downward reassessment in 2017 PCE inflation projection to 1.6% from 1.9%. The Fed’s relatively more hawkish than expected tone favoured USD while global equity markets were under pressure in early trade on the back of poor US data and reports conveying that the US President is under investigation. Long-dated US Treasuries retained a positive tone favored by weaker-than-expected US inflation data with the 2/10-yr yield spread flattening to its lowest level in nearly nine months.

GREECE: Focus today is on the Eurogroup that is convening this afternoon, while the Euroworking Group that is currently underway is reportedly working on the technical details of the agreement. The 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. 3) The possible debt measures that may accrue, if necessary, after successful completion of the programme in 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.

SOUTH EASTERN EUROPE

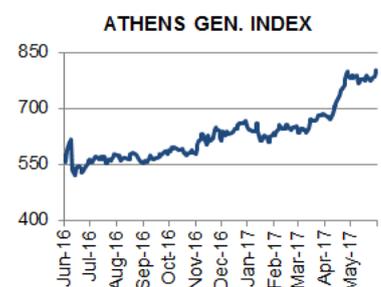
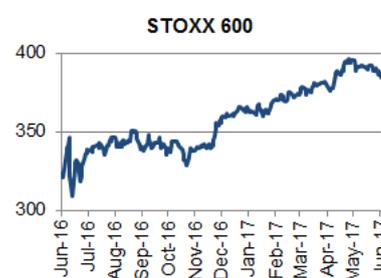
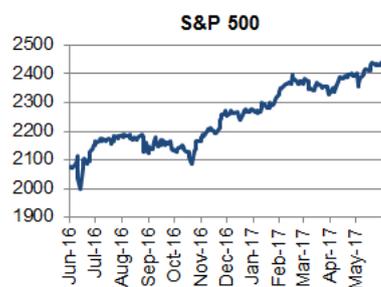
CESEE MARKETS: Emerging market assets were broadly under pressure earlier on Thursday amid mounting risk aversion. In FX markets, the Romanian leu extended yesterday’s losses in view of mounting domestic political uncertainty.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The FOMC raised the Federal Funds rate by 25bps to a 1.00-1.25%, as expected, and provided some details on how it plans to start reducing its balance sheet “relatively soon”. The medium-term interest rate projections were unchanged suggesting one more hike by the end of this year and three hikes in 2018 and 2019 respectively with Chair Janet Yellen emphasizing in the press conference that the recent weakness in inflation was largely due to one-off factors. The updated Summary of Economic Projections was largely in line with expectations containing a few mild surprises, mainly an upward revision in 2017 real GDP forecast to 2.2% from 2.1% and a significant downward reassessment in 2017 PCE inflation projection to 1.6% from 1.9%, probably due to weaker-than-expected inflation data for the last three months. The Fed’s relatively more hawkish than expected tone favoured USD with the DXY index hovering around 97.065 in European trade at the time of writing, 0.8% higher from a seven month intraday low marked at some point in the prior session pressured by poor US data and press reports conveying that US President Donald Trump has been under investigation for possible obstruction of justice. In spite of its post-FOMC upside attempt, USD remained some 0.4% lower from last week’s multi-session highs. US CPI unexpectedly dropped by 0.1%mom in May, the second fall in the last three months taking the annual rate down from 2.2% in April to 1.9%, the lowest since last November. Adding to the negative tone of yesterday’s US data released ahead of the FOMC policy announcement, US retail sales unexpectedly fell by 0.3%mom in May, the largest drop since early 2016. Elsewhere, the majority of global equity markets were under pressure in early trade on Thursday and long-dated US Treasuries retained a positive tone. The 10-yr UST yield was hovering around 2.13%, not far from a seven-month low close to 2.10% marked in the prior session following poor US inflation data, with the 2/10-yr yield spread flattening to its lowest level in nearly nine months. Looking at the remainder of the day, the BoE will publish the MPC monetary policy decision and the MPC minutes of its meeting that ended yesterday. Consensus is for unchanged interest rates as increasing signs of a slowing domestic economy and heightened political uncertainty, are expected to provide some leeway to the BoE to tolerate higher inflation.

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GREECE

Focus today is on the Eurogroup that is convening this afternoon, while the Euroworking Group that is currently underway is reportedly working on the technical details of the agreement. The 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. It is reminded that during the past few weeks the Greek government passed additional legislation through the Hellenic Parliament in order to address the remaining issues. 2) The medium-term fiscal targets beyond 2018. Based on the May 22nd Eurogroup it was understood that the primary surplus target will be maintained at 3.5% of GDP for the period 2018-2022 and that it will be reduced thereafter. The details are to be discussed today. 3) The possible debt measures that may accrue, if necessary, after successful completion of the programme in 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.

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June 15, 2017

Latest economic & market developments in the CESEE region

CESEE MARKETS

Emerging market assets were broadly under pressure earlier on Thursday amid mounting risk aversion. In FX markets, the Romanian leu extended yesterday's losses in view of rising domestic political uncertainty. The ruling Social Democratic PSD party withdrew on Wednesday its support from the government. This development came on the back of a party performance review of the cabinet's six-month tenure, which concluded that the government had not delivered on its pre-election promises. According to media reports, PSD leader Liviu Dragnea highlighted that all cabinet ministers had submitted their resignation and that the party was ready to nominate a new Prime Minister and government in alliance with the junior coalition partner ALDE. Incumbent PM Sorin Grindeanu, who showed surprise in the review's outcome, refused to resign unless President Klaus Iohannis holds consultations with other political parties and indicates thereafter plans to nominate a new Prime Minister. A spokesman for the President asked the ruling coalition to resolve the coalition's internal crisis and underscored that he would only appoint a replacement if the incumbent Prime Minister resigns or loses no-confidence motion successfully passed in Parliament. Earlier in the week, PSD leader Liviu Dragnea called on Prime Minister Sorin Grindeanu to resign. 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. Against this backdrop, the EUR/RON bounced as far as a 4 1/2-year high of 4.5880 earlier on Thursday before pulling back slightly towards 4.5845 later in European trade.

Looking into today's CESEE data and event calendar, the focus is on Turkey's MPC meeting. The market's median forecast is for all policy rates to remain unchanged as inflation stays well above the 5% medium-term target (at 11.72%YoY in May) and has yet to show a sustainable improvement, while this also appears to be the case in inflation expectations. Also arguing in favor of a continuation of the current tight monetary policy stance is the latest national accounts data, released earlier this week, which revealed that real GDP growth picked up pace in Q1 to 5.0%YoY from 3.5%YoY a quarter earlier, outpacing market expectations. In more detail, the benchmark repurchase rate is seen remaining today at 8.00%, the overnight lending and borrowing rates at 9.25% and 7.25%, respectively, and the late liquidity lending rate expected to be held at 12.25%.

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

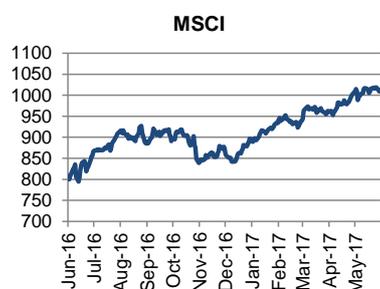
ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

* 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

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June 15, 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	2437.92	-0.1%	8.9%	EUR/USD	1.119	-0.2%	6.4%	UST - 10yr	2.13	1	-31	GOLD	1262	0.1%	9.5%
Nikkei 225	19831.82	-0.3%	3.8%	GBP/USD	1.2734	-0.1%	3.1%	Bund-10yr	0.24	1	3	BRENT CRUDE	47	-0.1%	-17.4%
STOXX 600	385.12	-0.6%	6.6%	USD/JPY	109.58	0.0%	6.8%	JGB - 10yr	0.06	-1	1	LMEX	2720	-0.1%	2.3%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	3.01	0	1
1-week	3.16	0	-1
1-month	3.34	0	-1
3-month	3.53	0	6
6-month	3.71	0	5

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.88	-1	-15
5Y RSD	5.26	0	-10
7Y RSD	5.62	0	-1

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.59	-6	-73
USD Nov-24	6.32	1	-9

CDS

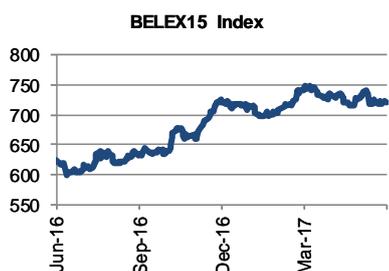
	Last	ΔDbps	ΔYTD bps
5-year	158	-9	-49
10-year	212	-11	-43

STOCKS

	Last	ΔD	ΔYTD
BELEX15	719.9	0.00%	0.35%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	122.25	0.14%	0.99%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.43	0	-13
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	1	-31
10Y RON	3.36	2	-29

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.85	#N/A	N/A
USD Jan-24	3.13	0	-72

CDS

	Last	ΔDbps	ΔYTD bps
5-year	102	2	-7
10-year	153	3	1

STOCKS

	Last	ΔD	ΔYTD
BET	8458.5	-0.22%	19.39%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5835	-0.14%	-0.97%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.24	0	-24
1-month	-0.16	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	-0.03	-1	-18
5Y BGN	0.14	1	-37
10Y BGN	1.59	0	-32

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-2.05	0	-173
EUR Sep-24	1.38	-85	-30

CDS

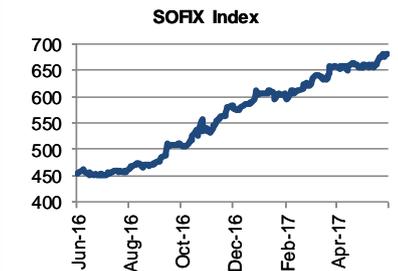
	Last	ΔDbps	ΔYTD bps
5-year	111	3	-41
10-year	158	-7	-36

STOCKS

	Last	ΔD	ΔYTD
SOFIX	678.6	-0.48%	15.71%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7477	-0.23%	6.33%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research

Data updated as of 10:35 EEST

June 15, 2017

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