

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

- Jan 17-20: World Economic Forum in Davos

US

- Jan 17: Emire State Survey (Jan)
- Jan 18
 - CPI (Dec)
 - Industrial production (Dec)
 - NAHB index (Jan)
- Jan 19
 - Initial claims (weekly)
 - Philly Fed (Jan)
 - Housing starts (Dec)
 - Housing permits (Dec)
- Jan 20
 - President elect Trump's inauguration
 - Fed Chair Yellen speaks

UK

- Jan 17: PM May to speak on Brexit

EUROZONE

- Jan 17
 - DE: ZEW index (Jan)
 - ECB Bank lending survey
- Jan 18: HICP (Dec)
- Jan 19: ECB meeting decision

GREECE

- Jan 16: Building Activity (Oct)
- Jan 17: Turnover Index in Industry (Nov)
- Jan 20
 - Current account (Nov)
 - Rating review by S&P

SEE

BULGARIA

- Jan 19: Current account (Nov)
- Jan 20: Rating review by Moody's

ROMANIA

- Jan 16: T-Bonds auction
- Jan 20: Rating review by Fitch

SERBIA

- Jan 20: Current account (Nov)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: DBRS downgraded Italy's sovereign rating to BBB-High from A-Low on Friday evening amid declining "political ability to sustain the structural reform effort and the continuing weakness in the banking system, amid a period of fragile growth." The main implication of such a decision is that Italian government bonds and government guaranteed bonds posted as collateral by banks at ECB liquidity operations will be subject to higher haircuts. The impact on government bond yields was modest so far. In FX markets, GBP came under pressure early on Monday weighed down by a press report suggesting that Prime Minister Theresa May will lay the groundwork for a hard Brexit at tomorrow's speech in order to regain control on immigration and exiting jurisdiction from the European Court of Justice.

GREECE: In the aftermath of German FinMin's statement that the Eurozone could potentially proceed without the IMF with a support programme for Greece, European Commission's Deputy Chief spokesperson Alexander Winterstein reaffirmed on Friday the EC's intention for the IMF to participate in the Greek bailout programme noting that the role of the IMF in support programmes is included in the ESM Treaty and that the Commission continues to work with the Fund in this context. According to press reports, the ESM is working on the specification of the medium term debt relief measures for Greece, which along with an explicit commitment by the European institutions that they will be implemented upon successful completion of the programme in 2018 constitute a prerequisite for the ECB to conduct the debt sustainability analysis upon which the decision for the inclusion of Greek marketable securities into the ECB quantitative easing programme (QE) will be based.

SOUTH EASTERN EUROPE

BULGARIA: The domestic equities market continued to rally last week facing some profit taking on Friday. Meanwhile, both the local and Eurobond markets remained quiet.

ROMANIA: The EUR/RON hovered around 4.4870/4.5060 last week, 100 pips lower than a week earlier. Meanwhile, near-term RON rates remained close to the central bank's deposit facility of 0.25% as large budget deficit spending at the end of December added to ample market liquidity and RON government bonds remained on the back foot.

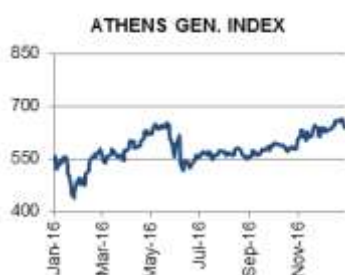
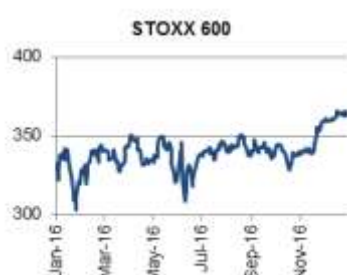
SERBIA: The EUR/RSD moved slightly higher last week, despite repeated Central Bank interventions.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

DBRS downgraded Italy's sovereign rating to BBB-High from A-Low on Friday evening amid declining "political ability to sustain the structural reform effort and the continuing weakness in the banking system, amid a period of fragile growth." The main implication of such a decision is that Italian government bonds and government guaranteed bonds posted as collateral by banks at ECB liquidity operations will be subject to higher haircuts. The impact on government bond yields was modest so far with the 10-yr paper yielding levels around 1.90% at the time of writing, little changed compared to the settlement in the prior session but still above a multi-week intraday low of 1.72% marked in the first trading week of the year. In FX markets, GBP came under pressure early on Monday weighed down by a press report suggesting that Prime Minister Theresa May will lay the groundwork for a hard Brexit at tomorrow's speech in order to regain control on immigration and exiting jurisdiction from the European Court of Justice. GBP/USD fell to a three-month low of 1.1986 earlier in Asia before recovering modestly to levels around 1.2025/28 in European trade at the time of writing while EUR/GBP moved above 0.8800 for the first time since mid-November 2016. Elsewhere, JPY was the main G10 FX currency outperformer with USD/JPY falling to 113.68 at some point earlier today, the lowest level since early December 2016 as mounting uncertainty over the economic policies that will be adopted by the administration of US President-elect Donald Trump continued to exert a negative impact on the US currency. Looking at this week's calendar, besides the upcoming speech by the UK Premier, focus is on the four-day annual World Economic Forum meeting in Davos that starts on Tuesday, FOMC Chair Janet Yellen speech scheduled for both Wednesday and Thursday and the ECB policy meeting on Thursday where the Central Bank is expected to stay put on its monetary policy and President Mario Draghi to downplay tapering speculation following a higher than expected increase in euro area December CPI. US markets are closed today for the Martin Luther King Jr. Day Holiday.

pptropoulou@eurobank.gr

GREECE

In the aftermath of German FinMin's statement that the Eurozone could potentially proceed without the IMF with a support programme for Greece, European Commission's Deputy Chief spokesperson Alexander Winterstein reaffirmed on Friday the EC's intention for the IMF to participate in the Greek bailout programme noting that the role of the IMF in support programmes is included in the ESM Treaty and that the Commission continues to work with the Fund in this context. Meanwhile, according to unofficial statements from Greek government sources, a bailout programme for Greece backed exclusively by European institutions could potentially be a welcome development as long as the relevant decisions and procedures are carried out swiftly. In other news, according to press reports, the ESM is working on the specification of the medium term debt relief measures for Greece. These measures along with an explicit commitment by the European institutions that they will be implemented upon successful completion of the programme in 2018 constitute a prerequisite for the ECB to conduct the debt sustainability analysis upon which the decision for the inclusion of Greek marketable securities into the quantitative easing programme (QE) will be based. The Greek government's intention remains the successful completion of the 2nd programme review by end of February, in order for the ECB to approve Greece's inclusion into the QE programme at its Governing Council meeting on March 9th.

andimitriadou@eurobank.gr

January 16, 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

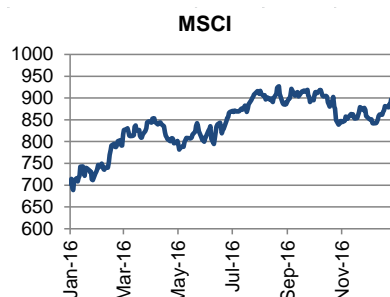
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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

BULGARIA

The domestic equities market continued to rally last week facing some profit taking on Friday. Focus remained primarily on the blue chips segment, which was mainly driven on corporate news. In more detail, the main SOFIX index climbed 1.7% to a new 2.5-year high of 602.07 points at some point last week. Liquidity improved with weekly turnover surging to €2.9mn. Meanwhile, both the local and Eurobond markets remained quiet with little adjustment of the yield levels. The next treasury auction is set for January 23rd for BGN 50mn to be placed in 10.5-year benchmark paper.

VBoteva@postbank.bg

ROMANIA

After sliding back to its October - December trading range, the EUR/RON stabilized last week. In more detail, the pair traded between 4.4870/4.5060 last week to close at 4.4990 on Friday, 100 pips lower than a week earlier. Near-term RON rates remained close to the central bank's deposit facility of 0.25% as large budget deficit spending at the end of December added to ample market liquidity. Along these lines, the 1W implied rate from swaps remained unchanged around 0.30%, the 3M near 0.55%, while the 12M rate moved higher towards 1.20% from 1.00% the previous Friday. RON government bonds remained on the back foot as demand remained weak from both local and international accounts. As a result the entire move shifted around 10bps higher on average compared to the previous week, partially pushed by unsuccessful primary market auctions. The 3Y yield jumped to 2.05% from 1.93% the previous Friday, while the 10Y Jul 2027 jumped to 3.81 from 3.73%.

Bogdan.Radulescu@bancpost.ro

SERBIA

The EUR/RSD moved slightly higher last week, despite repeated Central Bank (NBS) interventions. The current thin trading volume has allowed the Central Bank to do "a lot with less", having spent only €105mn since the beginning of the year. As a result the dinar has depreciated only 0.27% against the euro so far this year which is negligible compared to 0.87% over the same period a year earlier. Assuming that most of January's depreciation stems from seasonal factors (oil and gas payments towards suppliers), pressures on the currency will most likely continue through February as well. Taking into account the current pace of dinar depreciation, the EUR/RSD could reach levels of 124.50 by the end of next month. Looking further ahead, we expect to a period of consolidation to follow, where the pair will hover within a range between 124.00 – 124.50.

In other news, headline consumer inflation came in at 1.6% in December, after a drop in prices of 0.1% in the month of December. As was the case in most of last year, inflation was driven lower by the foods and beverages group, while other segments pushed the aggregate mildly in the other direction. For the whole of 2016, the average annual CPI stood at 1.2%. Separately, Central Bank data showed in December a rise of €387mn in the foreign reserves, with the largest inflow coming from an increase in commercial banks' mandatory reserves worth €140m. Meanwhile, net FX reserves reached €8.4bn.

Zoran.Korac@eurobank.rs

January 16, 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	2274.64	0.2%	1.6%	EUR/USD	1.0593	-0.5%	0.7%	UST - 10yr	2.40	0	-5	GOLD	1202	0.4%	4.3%
Nikkei 225	19095.24	-1.0%	-0.1%	GBP/USD	1.2066	-0.9%	-2.4%	Bund-10yr	0.33	-1	12	BRENT CRUDE	56	0.1%	-2.3%
STOXX 600	363.98	-0.5%	0.7%	USD/JPY	114.31	0.2%	2.4%	JGB - 10yr	0.05	0	1	LMEX	2840	1.4%	6.8%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	296	-3	-4
1-week	3.09	-3	-8
1-month	3.34	-1	-1
3-month	3.49	0	2
6-month	3.72	0	6

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	5.07	0	-1
5Y RSD	5.35	0	-1
7Y RSD	5.63	0	0

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.16	0	-16
USD Nov-24	6.46	2	4

CDS

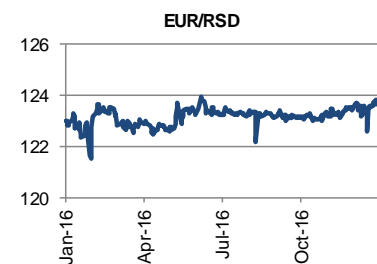
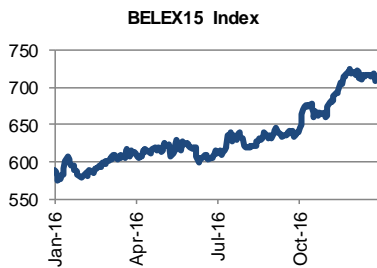
	Last	ΔDbps	ΔYTD bps
5-year	208	0	0
10-year	255	1	0

STOCKS

	Last	ΔD	ΔYTD
BELEX15	709.5	-0.40%	-1.10%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.82	0.13%	-0.29%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.43	0	-13
1-month	0.62	2	-14
3-month	0.82	0	-8
6-month	1.08	0	-3
12-month	1.23	-1	-2

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.57	-3	-5
5Y RON	2.50	1	-2
10Y RON	3.49	0	-16

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.97	#N/A N/A	-16
USD Jan-24	3.58	-1	-28

CDS

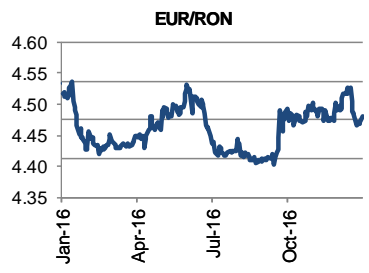
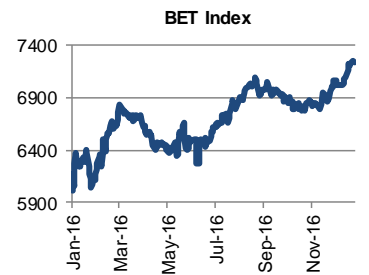
	Last	ΔDbps	ΔYTD bps
5-year	98	-1	-12
10-year	140	-1	-12

STOCKS

	Last	ΔD	ΔYTD
BET	7158.0	0.20%	1.03%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5038	-0.14%	0.78%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.07	3	-7
1-month	-0.17	0	0
3-month	-0.08	0	-1
6-month	0.07	0	-1
12-month	0.40	0	0

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.11	-2	-4
5Y BGN	0.51	1	1
10Y BGN	1.82	0	-9

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.30	-15	2
EUR Sep-24	1.55	-25	-13

CDS

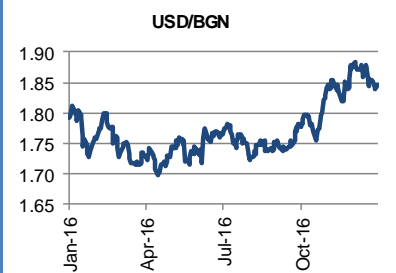
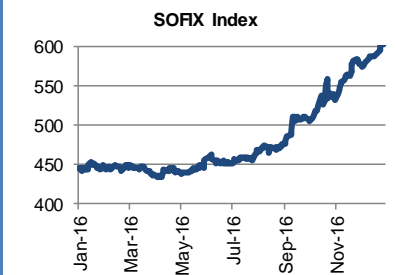
	Last	ΔDbps	ΔYTD bps
5-year	122	-1	-30
10-year	164	0	-30

STOCKS

	Last	ΔD	ΔYTD
SOFIX	603.7	0.26%	2.95%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.8466	-0.17%	0.64%



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

Data updated as of 11:45 EET

January 16, 2017

Contributors

Paraskevi Petropoulou
Economic Analyst, Eurobank Ergasias
+30 210 3718991
ppetropoulou@eurobank.gr

Galatia Phoka
Research Economist, Eurobank Ergasias
+30 210 3718922
gphoka@eurobank.gr

Ioannis Gkionis (Special Contributor)
Research Economist, Eurobank Ergasias
30 210 3337305
igkionis@eurobank.gr

Anna Dimitriadou (Special Contributor)
Economic Analyst, Eurobank Ergasias
+30 210 3718793
andimitriadou@eurobank.gr

Olga Kosma (Special Contributor)
Research Economist, Eurobank Ergasias
+30 210 3371227
okosma@eurobank.gr

Theodoros Stamatiou (Special Contributor)
Senior Economist, Eurobank Ergasias
30 210 3371228
tstamatiou@eurobank.gr

Regional Contributors

Vessela Boteva
Expert, trading desk, Eurobank Bulgaria
+359 (2) 8166 491
vboteva@postbank.bg

Zoran Korac
FX dealer, Eurobank ad Beograd
+381 11 206 5821
zoran.korac@eurobank.rs

Bogdan Radulescu, CFA
Senior Trader, Bancpost
+40 21 3656291
bogdan.radulescu@bancpost.ro

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: Group Chief Economist
pmonokroussos@eurobank.gr, +30 210 37 18 903

Dr. Tassos Anastasatos: Deputy Chief Economist
tanastasatos@eurobank.gr, +30 210 33 71 178

Research Team

Anna Dimitriadou: Economic Analyst
andimitriadou@eurobank.gr, +30 210 3718 793

Ioannis Gkionis: Research Economist
igkionis@eurobank.gr +30 210 33 71 225

Stylios Gogos: Economic Analyst
sgogos@eurobank.gr +30 210 33 71 226

Olga Kosma: Research Economist
okosma@eurobank.gr +30 210 33 71 227

Arkadia Konstantopoulou: Research Assistant
arkonstantopoulou@eurobank.gr +30 210 33 71 224

Paraskevi Petropoulou: G10 Markets Analyst
ppetropoulou@eurobank.gr, +30 210 37 18 991

Galatia Phoka: Research Economist
gphoka@eurobank.gr, +30 210 37 18 922

Theodoros Stamatiou: Senior Economist
tstamatiou@eurobank.gr, +30 210 3371228

Eurobank Ergasias S.A., 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

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