

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: The BoE surprised markets with two MPC members joining MPC Kristin Forbes, the most hawkish member so far, and voting all three in favor of a 25bps rate hike at this week's monetary policy meeting. Reacting to the MPC minutes, GBP gained some ground and UK Gilts came under pressure. Elsewhere, USD retained a firm tone with the DXY index hitting a two week high. Looking at today's calendar, focus is on US housing starts and building permits for May as well the UM's consumer confidence for June.

GREECE: An agreement was achieved at the Eurogroup that convened on June 15th 2017. Firstly, there was a positive assessment regarding the fulfilment of the conditionality attached to the 2nd programme review. Secondly, with regard to debt sustainability, it was agreed, among others, that upon completion of the programme medium-term debt relief measures will be implemented "to the extent necessary" – versus "if necessary" that was stated in the May 2016 Eurogroup agreement - and within the framework outlined at the May 25th 2016 Eurogroup. Thirdly, the Eurogroup agreement opened the way for an Approval in Principle of a Standby Agreement by the IMF. Finally, the Eurogroup committed to providing support for Greece's return to the markets through future disbursements that will be adequate not only for debt repayment and arrears clearance but also for building cash buffers that will boost investors' confidence and facilitate access to the financial markets.

SOUTH EASTERN EUROPE

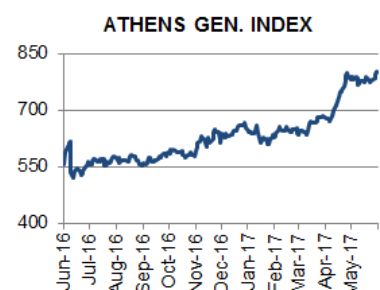
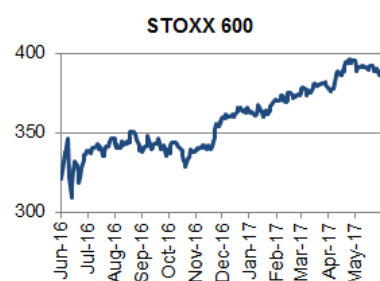
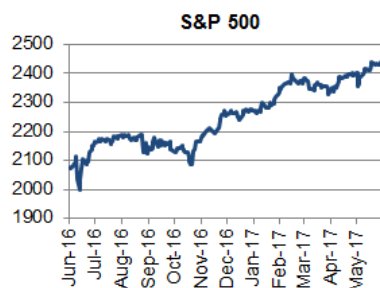
CESEE MARKETS: In Serbia, President Aleksandar Vucic nominated Ana Brnabic, who holds the state administration and local self-government portfolio, as his successor for the post of the Prime Minister. In Turkey, the Central Bank stayed put on its monetary policy at its MPC meeting yesterday, in line with market expectations, leaving all key interest rates unchanged.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The BoE surprised markets with two MPC members joining Kristin Forbes, the most hawkish member so far, and voting all three in favor of a 25bps rate hike at this week's monetary policy meeting. The minutes revealed that those three members argued in favor of higher interest rates on the grounds that, among others, inflation is likely to overshoot the BoE target by more than expected and to remain above that level throughout the three-year forecast period. Though the more hawkish than expected BoE tone suggests that risks for a rate hike have increased, it would be hard to argue that the BoE would risk a rate hike any time soon. There are increasing signs over slowing domestic economy over the last few weeks, rising inflation continues to weigh on real earnings growth in spite the ongoing improvement in labor market conditions while Brexit-related uncertainty has undoubtedly increased after the June 8th snap elections ended in a hung parliament. Key considerations for the BoE's policy deliberations ahead would be inflation and economic growth momentum while market participants are expected to pay particular attention on any comments in the coming sessions/weeks from the remaining five dovish members on the MPC. Reacting to the MPC minutes, GBP gained some ground with EUR/GBP hovering around 0.8745/48 in European trade on Friday, close to the lowest level in more than a week. UK Gilts came under pressure with the 10-yr yield rising to multi-session highs close to 1.066% after making an eighth-month low of 0.928% just a couple of sessions earlier. Elsewhere, USD retained a firm tone supported by the more hawkish tone the Fed adopted at this week's monetary policy meeting. The DXY index hit a two-week high of 97.560 earlier today, poised for c. 0.3% weekly gains. Looking at today's calendar, focus is on US housing starts and building permits for May as well the UM's consumer confidence for June.

ppetropoulou@eurobank.gr

GREECE

An agreement was achieved at the Eurogroup that convened on June 15th 2017. Firstly, there was a positive assessment regarding the fulfilment of the conditionality attached to the 2nd programme review. This opened the way for the disbursement of the next loan tranche, which will amount to €8.5 billion, from which €7.7 billion will be released now and €0.8 billion after the summer. Out of the €7.7 billion, €0.8 billion are earmarked for state arrears clearance while €6.9 billion will be used to cover Greece's interest and debt redemptions in July and will be complemented by funds from the country's cash buffer. Secondly, with regard to debt sustainability, it was agreed, among others, that upon successful completion of the programme medium-term debt relief measures will be implemented "to the extent necessary" – versus "if necessary" that was stated in the May 2016 Eurogroup agreement – and within the framework outlined at the May 25th 2016 Eurogroup. It is, however, further specified that the potential extension of weighted average maturities and deferral of EFSF interest and amortisation may be between 0 to 15 years, subject to the final DSA. Additionally, the Eurogroup agreed that in order to take into account possible differences between growth assumptions in the DSA and actual growth in the medium term, the EFSF re-profiling may be recalibrated according to an operational growth-adjustment mechanism. The modalities of this mechanism will be agreed upon completion of the programme but the Euroworking Group is mandated to start working on this. Thirdly, the Eurogroup agreement opened the way for the participation of the IMF in the programme, albeit without the contribution of funds at this stage. In particular, acknowledging the further specification of debt measures and their importance towards rendering Greece's debt sustainable, the IMF management will recommend to the Fund's Executive Board the Approval in Principle of a Standby Agreement. This agreement will entail funding in the area of €2 billion, which will be disbursed when debt relief measures have been adequately agreed so that debt sustainability has been secured. Finally, the Eurogroup committed to providing support for Greece's return to the markets through future disbursements that will be adequate not only for debt repayment and arrears clearance but also for building cash buffers that will boost investors' confidence and facilitate access to the financial markets.

andimitriadou@eurobank.gr

June 16, 2017

Latest economic & market developments in the CESEE region

CESEE MARKETS

In Serbia, President Aleksandar Vucic nominated Ana Brnabic, who holds the state administration and local self-government portfolio, as his successor for the post of the Prime Minister. Her nomination, which is expected to be debated in Parliament next week, is anticipated to pass in the 250-seat National Assembly where the parties of the ruling coalition hold an overwhelming majority. She will succeed the incumbent President following his landslide victory on the April 2nd presidential elections. Recall that former Prime Minister Aleksandar Vucic won in the 1st round in this year's presidential election taking over from his predecessor Tomislav Nikolic whose 5-year tenure expired on May 31st.

In Turkey, the Central Bank (CBT) stayed put on its monetary policy at its MPC meeting yesterday, in line with market expectations, leaving all key interest rates unchanged. In more detail, the benchmark 1-week repurchase rate was held at 8.00%, the overnight lending and borrowing rates at 9.25% and 7.25%, respectively, and the late liquidity lending rate stayed at 12.25%. In the accompanying statement, released upon the conclusion of the meeting, CBT highlighted that recent data signal that the recovery in economic activity has gained momentum and is expected to further accelerate thanks to supportive measures and incentives delivered lately. In support of the aforementioned it is worth recalling that the latest national accounts data, released earlier this week, revealed that real GDP growth picked up pace in Q1 to 5.0%YoY from 3.5%YoY a quarter earlier, outpacing market expectations and somewhat soothing worries over the economy's growth prospects. Additionally, recently announced higher frequency indicators - such as, among other, tourist arrivals, PMI manufacturing and industrial production - signal a further recovery in economic activity in Q2. The MPC also noted yesterday recent factors that are expected to contribute to disinflation, but acknowledged that the current elevated inflation levels pose risks on pricing behavior. Indeed, despite a small drop to 11.72%YoY from a 13 ½-year high of 11.87%YoY headline consumer inflation remains well above the 5% medium-term target and has yet to show a sustainable improvement, while this also appears to be the case in inflation expectations. In this context, the Central Bank reiterated that the tight monetary policy stance will be maintained until a significant improvement is evidenced in inflation dynamics, leaving the door open for further tightening if needed.

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

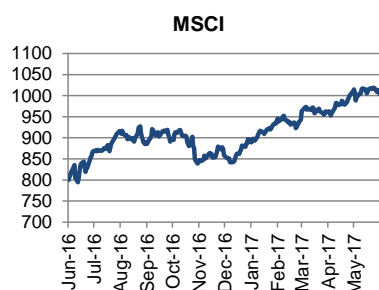
ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

* 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

gphoka@eurobank.gr

June 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	2432.46	-0.2%	8.6%	EUR/USD	1.1155	0.1%	6.0%	UST - 10yr	2.17	1	-27	GOLD	1254	0.0%	8.8%
Nikkei 225	19943.26	0.6%	4.3%	GBP/USD	1.2771	0.1%	3.4%	Bund-10yr	0.30	1	9	BRENT CRUDE	47	0.4%	-17.1%
STOXX 600	386.05	-0.4%	6.8%	USD/JPY	111.26	-0.3%	5.2%	JGB - 10yr	0.06	1	1	LMEX	2715	-0.2%	2.1%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	3.00	-1	0
1-week	3.14	-2	-3
1-month	3.33	-1	-2
3-month	3.55	2	8
6-month	3.75	4	9

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.87	#N/A N/A	-15
5Y RSD	5.26	0	-10
7Y RSD	5.63	1	0

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.59	-1	-73
USD Nov-24	6.31	1	-10

CDS

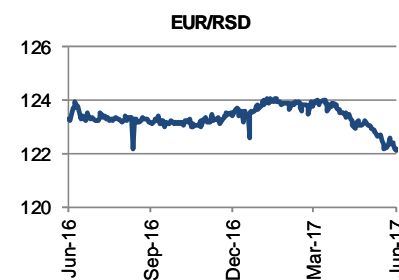
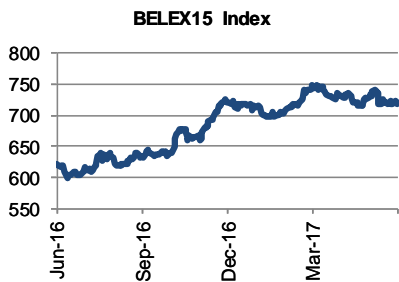
	Last	ΔDbps	ΔYTD bps
5-year	160	2	-47
10-year	213	1	-42

STOCKS

	Last	ΔD	ΔYTD
BELEX15	718.6	-0.18%	0.17%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	122.13	0.16%	1.08%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.44	0	-12
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	1.35	-1	-27
5Y RON	2.22	0	-30
10Y RON	3.39	1	-26

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.84	2	-30
USD Jan-24	3.12	0	-74

CDS

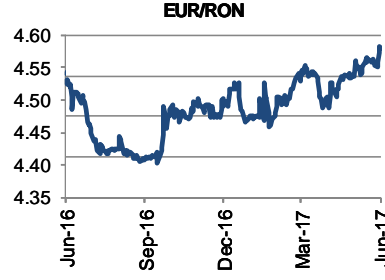
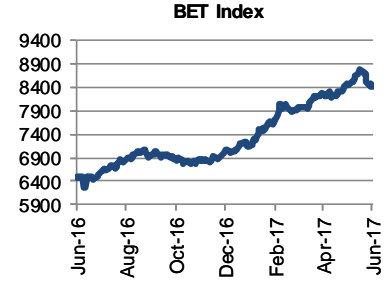
	Last	ΔDbps	ΔYTD bps
5-year	104	2	-6
10-year	155	2	3

STOCKS

	Last	ΔD	ΔYTD
BET	8420.7	0.17%	18.85%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5835	0.03%	-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	-0.02	0	-17
5Y BGN	0.14	-1	-37
10Y BGN	1.60	0	-31

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-1.45	-5	-113
EUR Sep-24	1.20	122	-48

CDS

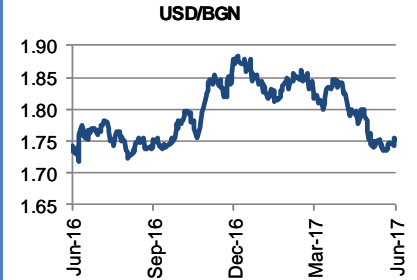
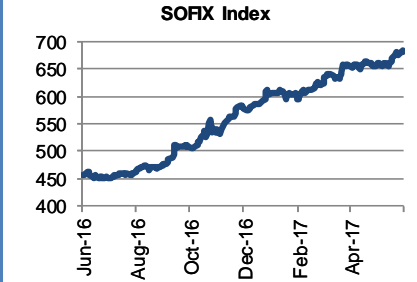
	Last	ΔDbps	ΔYTD bps
5-year	113	3	-39
10-year	160	2	-34

STOCKS

	Last	ΔD	ΔYTD
SOFIX	683.7	0.00%	16.58%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7534	0.09%	5.99%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 10:00 EEST

June 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
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 Stamatou (Special Contributor)
Senior Economist, Eurobank Ergasias
30 210 3371228
tstamatou@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
pmonokrousos@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

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

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

Mariana Papoutsaki
mpapoutsaki@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 Stamatou: Senior Economist
tstamatou@eurobank.gr, +30 210 3371228

Elia Tsiampaou: Economic Analyst
etsiampaou@eurobank.gr, +30 210 3337871

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

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