



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Friday, December 16, 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: With market participants continuing to digest the unexpected hawkish surprise by the Fed at this week's policy meeting to push higher the "dots" for 2017, the USD retained a firm tone in European trade on Friday and US Treasury yields remained in an upward trend with short-dated notes underperforming.

GREECE: The institutions reportedly submitted a report to the ESM's Board of Directors with their preliminary assessment on the Greek government's recent decision to utilize revenues of €617mn from this year's fiscal over-performance to support 1.6mn low income pensioners in the form of a one-off provision. According to some press reports, the Euroworking Group will likely convene next week to discuss the implementation of the short-debt relief measures for Greece that were approved at the December 5th Eurogroup while a final decision is expected to be reached either at the next Eurogroup scheduled for January 26th 2017 or at an emergency meeting earlier. Meanwhile, the 300-seat Hellenic Parliament approved late on Thursday with a majority of 196 in favor votes the bill containing the required legislation for the implementation of the one-off provision to low income pensioners.

SOUTH EASTERN EUROPE

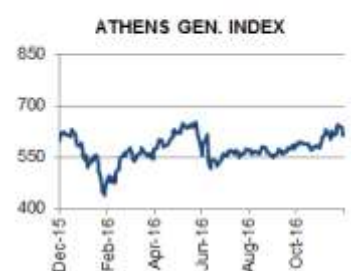
CESEE MARKETS: Following yesterday's knee-jerk reaction to the Fed's news, emerging market assets were little changed earlier on Friday. In other news, the Romanian finance ministry rejected yesterday all bids of a February 2019 T-bonds auction and Serbia raised RSD 14.25bn (~€115.6mn) of 3-year T-bonds at an average accepted yield of 4.74%.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

With market participants continuing to digest the unexpected hawkish surprise by the Fed at this week's policy meeting to push higher the "dots" for 2017, the USD retained a firm tone in European trade on Friday and US Treasury yields remained in an upward trend with short-dated notes underperforming. The DXY index was hovering around 103.050 in European trade at the time of writing, within distance from a fresh 14-year peak of 103.560 hit in the prior session and above levels around 101.00 ahead of the December 13th -14th Fed policy meeting. US data showing that initial jobless claims fell the week ended December 10th for the second straight week and CPI increased by 1.7%YoY in October, the highest in two years, also helped the USD. The EUR/USD dropped to 1.0364 on Thursday, the lowest level since January 2003 before recovering modestly to levels around 1.0430/35 in European trade on Friday remaining though around 1% lower on a weekly basis as concerns about the health of the Italian banking sector and political jitters ahead of the upcoming general elections in the Netherlands, France and Germany next year also weigh on market sentiment towards the common currency. Meanwhile, the 2-yr US note was yielding levels around 1.260% at the time of writing, not far from Thursday's settlement of 1.276%, the highest in more than seven years compared to levels around 1.17% before the announcement of this week's FOMC monetary policy outcome. The 2/10-yr yield curve undertook some bearish flattening with the corresponding spread standing close to 130.5bps at the time of writing after ending slightly above 132.0bps in the prior session.

GREECE

The institutions reportedly submitted a report to the ESM Board of Directors with their preliminary assessment on the Greek government's recent decision to utilize revenues of €617mn from this year's fiscal over-performance to support 1.6mn low income pensioners in the form of a one-off provision. As per the same sources, the proposed measure "raises significant concerns on both process and substance as regards MoU commitments, especially regarding pensions" adding that "while those measure reduce the safety margin around the 2016 fiscal target, they are not expected to change significantly the projected fiscal outcomes in 2017 and 2018 although they raise risks regarding the targets, should the measures be extended in the future". The aforementioned Greek government's decision angered Germany and other Eurozone countries as they had not been consulted beforehand, prompting the ESM's Board of Directors to decide earlier this week the temporary suspension of the implementation of the short-term debt relief package for Greece that was approved at the December 5th Eurogroup. However, some euro area countries came to the Greek government's defense, including France with Finance Minister Michel Sapin publicly expressing understanding for the one-off provision to low income pensioners. According to some press reports, the Euroworking Group will likely convene next week to discuss on the implementation of the short-debt relief measures while a final decision is expected to be reached either at the next Eurogroup scheduled for January 26th 2017 or at an emergency meeting earlier. Meanwhile, the 300-seat Hellenic Parliament approved with a majority of 196 in favor votes late on Thursday the bill containing the required legislation for the implementation of the one-off provision to low income pensioners. Besides the ruling SYRIZA-ANEL coalition government, Democratic Coalition, the Communist Party of Greece (K.K.E) and far-right Golden Dawn also casted a positive vote. Main opposition New Democracy voted "present" while two centrist parties of the lesser opposition, To Potami and Union of Centrists abstained.

December 16, 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

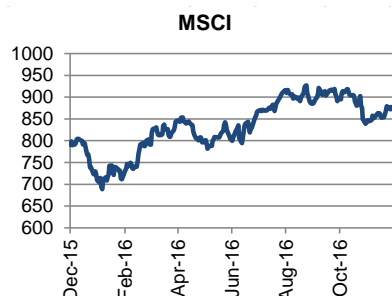
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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

Following yesterday's knee-jerk reaction to the Fed's news, emerging market assets were little changed earlier on Friday. In the wake of the FOMC's upward revision in the 2017 rate forecasts, the MSCI Emerging Markets index ended 1.6% lower on Thursday, marking its biggest decline in a month and falling to a 1 ½ week trough intraday during yesterday's session. CESEE assets fared better than global EM peers on comparably better fundamentals and limited links to the US. Regional stock markets ended mixed yesterday, with Hungary's BUX leading the way higher with a 0.8% up-move. The said index rose by a further 0.8% in morning trade today reaching new record highs, poised to end the week with gains to the tune of 4.2%.

In FX markets, regional currencies were little changed in European trade on Friday. The Turkish lira firmed further earlier today, adding to yesterday's recovery, after an adviser to President Tayyip Erdogan said on Thursday that rumored capital controls were "out of question". In this context the USD/TRY eased towards an intraday low of 3.4870 before recovering some ground towards 3.4910 at the time of writing. Nonetheless, the pair remains not too far from a record high of 3.5840 hit in early December on the back of increased macroeconomic and domestic political woes.

Government bonds were mixed earlier on Friday, with paper of longer maturity outperforming. Indicatively, the Turkish 2 and 10-year benchmark bond yield slid by ca 15bps and 19bps, respectively, to 10.67% and 11.07%, more than fully recouping the prior session's losses. Serbia's Public Debt Administration sold on Thursday RSD 14.25bn (~€115.6mn) of 3-year T-bonds, a tad below an initially offered amount of RSD 15.58mn. The average accepted yield came in at 4.74% yesterday vs. 4.79% in a prior auction of similar maturity paper held in October, while the bid to cover ratio stood at 1.25. The issue which matures on February 2019 bears a coupon of 6%.

Meanwhile, the Romanian finance ministry rejected yesterday all bids of a February 2019 T-bonds auction as bids amounted to just RON 290mn (~€64.2mn) falling short of the offered amount of RON 500mn (~€110.6mn). Lukewarm demand probably comes on the back of the recent rise in yields, in tandem with global benchmarks, as well as mounting domestic political uncertainty in the aftermath of the December 11 election. According to the poll's final results released yesterday, the Social Democrats, the party that won Sunday's ballot by a comfortable majority, achieved 221 of seats in the 465-seat Parliament falling short of an outright majority in order to form a single party government. This development may pave the way for lengthy coalition negotiations. Meanwhile, market concerns have mounted of late for fiscal slippages in 2017 and 2018. Prolonging these worries next year's budget has not yet been approved in Parliament. Reflecting these concerns, 5-year CDS spreads hit a 4 ½ month peak of 113 bps earlier on Friday according to Markit data and the leu hit a 6-month low of 4.5255 against the euro yesterday. Focus today is on the sovereign credit rating review for Serbia S&P by and Fitch.

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December 16, 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	2266.45	0.6%	10.9%	EUR/USD	1.0419	-1.1%	-4.0%	UST - 10yr	2.59	2	32	GOLD	1128	-1.3%	6.3%
Nikkei 225	19273.79	0.1%	1.3%	GBP/USD	1.2414	-1.2%	-15.8%	Bund-10yr	0.38	7	-25	BRENT CRUDE	54	-0.4%	43.9%
STOXX 600	358.34	0.7%	-2.0%	USD/JPY	118.43	-1.2%	1.4%	JGB - 10yr	0.09	3	-18	LMEX	2791	0.7%	26.7%

CESEE MARKETS

SERBIA

Money Market

	Last	ΔDbps	ΔYTD bps
BELIBOR			
T/N	298	0	-5
1-week	3.12	0	-7
1-month	3.30	1	-21
3-month	3.44	-1	-39
6-month	3.62	2	-41

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	5.08	1	-33
5Y RSD	5.27	0	-184
7Y RSD	5.74	1	-4

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.45	8	-72
USD Nov-24	6.49	3	8

CDS

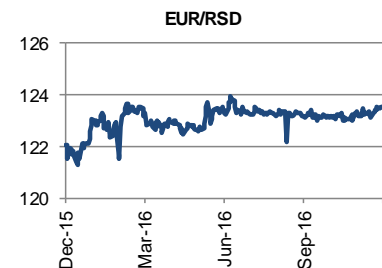
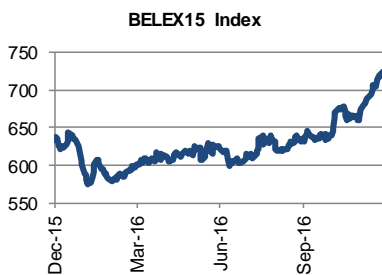
	Last	ΔDbps	ΔYTD bps
5-year	208	0	-67
10-year	254	0	-85

STOCKS

	Last	ΔD	ΔYTD
BELEX15	719.9	0.06%	11.77%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.50	0.03%	-1.56%



ROMANIA

Money Market

	Last	ΔDbps	ΔYTD bps
ROBOR			
O/N	0.46	-1	-7
1-month	0.64	2	-5
3-month	0.8	0	-22
6-month	1.05	1	-29
12-month	1.17	0	-35

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.58	1	-35
5Y RON	2.52	4	-28
10Y RON	3.67	11	-11

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.34	4	-23
USD Jan-24	4.07	20	28

CDS

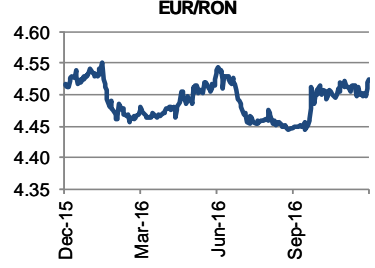
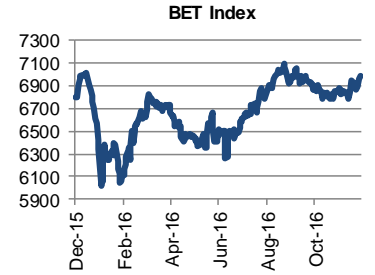
	Last	ΔDbps	ΔYTD bps
5-year	120	1	-13
10-year	165	0	-6

STOCKS

	Last	ΔD	ΔYTD
BET	6994.1	-0.22%	-0.15%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5239	-0.07%	-0.22%



BULGARIA

Money Market

	Last	ΔDbps	ΔYTD bps
SOFIBOR			
LEONIA	-0.12	0	-13
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	0.20	-1	-40
5Y BGN	0.63	-2	-65
10Y BGN	2.00	0	-66

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.34	10	-41
EUR Sep-24	1.79	9	-63

CDS

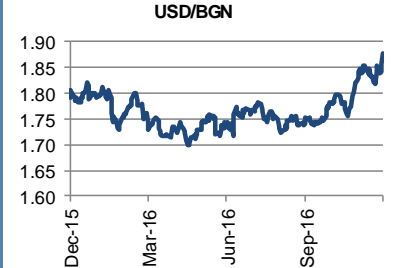
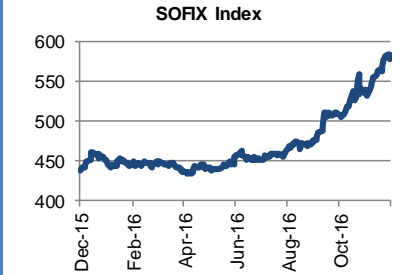
	Last	ΔDbps	ΔYTD bps
5-year	155	0	-17
10-year	188	0	-29

STOCKS

	Last	ΔD	ΔYTD
SOFIX	577.9	-0.87%	25.39%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.8775	-1.12%	-4.11%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 18:00 EET of previous session

December 16, 2016

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