

KEY UPCOMING DATA  
& EVENTS THIS WEEK

## GLOBAL

## US

- Jul 17: Empire state index (Jun)
- Jul 18: NAHB index (Jun)
- Jul 19
  - Housing starts (Jun)
  - Housing permits (Jun)
- Jul 20
  - Jobless claims (weekly)
  - Philly Fed (Jul)

## EUROZONE

- Jul 18
  - DE: ZEW economic expectations (Jul)
  - HICP (Jun, f)
- Jul 20: ECB meeting & press conference

## GREECE

- Jul 20: Turnover Index in Industry (May)
- Jul 21
  - Current account balance (May)
  - Sovereign credit rating review by S&P

## SEE

## BULGARIA

- Jul 17: 1.95% 2027 T-bonds auction
- July 18: Current account balance (May)

## ROMANIA

- Jul 17: 4.75% 2025 T-bonds auction

## SERBIA

- Jul 20: 5-year T-Bonds auction

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

## WORLD ECONOMIC &amp; MARKET DEVELOPMENTS

**GLOBAL MARKETS:** USD remained under pressure amid heightened market uncertainty over the US administration's ability to implement key campaign promises including healthcare and tax reform. A downward reassessment in short-term Fed rate hike expectations following the more dovish than expected tone of US Fed Chair Janet Yellen at last week's semi-annual testimony and disappointing US June inflation and retail sales data, also continued to weigh on market sentiment towards USD. Turning to core government bonds, yields remained off recent multi-month highs. Data wise, today we expect US housing starts and building permits for June though they are unlikely to be a game-changer for markets ahead of Thursday's ECB monetary policy meeting.

**GREECE:** According to Bloomberg, Greece's return to financial markets which was said to have been planned for this week, is being postponed because the IMF has set a ceiling to the amount of debt that Greece may hold in order for the Fund to participate in Greece's programme. European Commission officials have reportedly commented that a successful completion of the 3<sup>rd</sup> Economic Adjustment Programme – due to expire in August 2018 – would require more than one bond issuance by the Greek government in order for the country to be able to build up a buffer of €9 billion which is to come from the ESM loan, the containment of public expenditure and tapping the markets. The Greek government spokesperson Dimitris Tzanakopoulos claims that the country will tap the markets when it estimates that it is in the best possible position with the lowest possible risk.

## SOUTH EASTERN EUROPE

**CESEE MARKETS:** Emerging stock markets mostly retained a firm tone earlier on Wednesday, but currencies gave up some of their recent gains on profit taking which comes on the heels of their recent rally.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

USD remained under pressure amid heightened market uncertainty over the US administration's ability to implement key campaign promises including healthcare and tax reform. Republicans' second attempt to repeal Obamacare failed earlier this week after two Republican senators announced their intention to vote against the repeal bill taking the total number opposing the bill from the camp of Trump's Republican Party to four and leaving Republicans without enough votes to pass the bill in the Senate. A downward reassessment in short-term Fed rate hike expectations following the more dovish than expected tone of US Fed Chair Janet Yellen at last week's semi-annual testimony and disappointing US June inflation and retail sales data, also continued to weigh on market sentiment towards USD. Against this background, EUR/USD retained a positive tone hovering around 1.1530/35 in European trade at the time of writing, within distance from a fresh 14-month peak of 1.1580 marked in the prior session. Focus is on tomorrow's ECB monetary policy meeting where President Mario Draghi is expected to adopt a balanced tone conveying the message that policy tightening, when it comes, will be incremental. AUD was among the main outperformers among G10 currencies hitting a two-year peak above 0.7900 against USD favored by the relatively hawkish tone of the RBA June monetary policy minutes. Turning to core government bonds, yields remained off recent highs. The 10-yr UST yield was standing close to 2.27% at the time of writing, a tad higher from Tuesday's 2.26% settlement but still c. 7bps lower from this week's high so far. The yield curve undertook some further flattening with the 2/10-yr UST yield spread standing close to 91bps, the narrowest since late October 2016. Along these lines, the 10-yr Bund yield was hovering around 0.55% after ending at 0.56% in the prior session and marking a multi-month intraday peak of 0.64% a week earlier. The 10-yr Bund/UST yield spread was standing close to 172.4bps in European trade, c. 2.2bps wider from Tuesday's year-to-date closing low. UK gilt yields also moved lower on the back of weaker than expected UK June inflation data. Data wise, today we expect US housing starts and building permits for June though they are unlikely to be a game-changer for markets ahead of Thursday's ECB monetary policy meeting.

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### GREECE

According to Bloomberg, Greece's return to financial markets which was said to have been planned for this week, is being postponed because the IMF has set a ceiling to the amount of debt that Greece may hold in order for the Fund to participate in Greece's programme. This cap has reportedly already been agreed between the Fund and the Greek authorities following the Greek government's letter of intent requesting funding from the IMF. It is reminded that the new credit line to Greece, which will reportedly amount to €1.6 billion, is expected to be discussed by the IMF's Governing Council on Thursday. Meanwhile, European Commission officials have reportedly commented that a successful completion of the 3<sup>rd</sup> Economic Adjustment Programme – due to expire in August 2018 – would require more than one bond issuance by the Greek government in order for the country to be able to build up a buffer of €9 billion which is to come from the ESM loan, the containment of public expenditure and tapping the markets. Additionally, they argue that a bond issuance would be satisfactory to the extent that it is covered primarily by foreign investors rather than Greek banks and that any backtracking from the agreed reforms on behalf of Greece would send a negative signal to the markets that are monitoring the country closely. On its part, the Greek government via its spokesperson Dimitris Tzanakopoulos claims that the country will tap the markets when it estimates that it is in the best possible position with the lowest possible risk.

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July 19, 2017

## Latest economic & market developments in the CESEE region

BULGARIA: Indicators	2015	2016	2017f
Real GDP growth %	3.6	3.4	3.6
CPI (pa, yoy %)	-0.1	-0.8	1.9
Budget Balance/GDP*	-2.8	1.6	-1.4
Current Account/GDP	-0.1	4.2	2.0
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	2016	2017f
Real GDP growth %	1.7	2.8	3.0
HICP (pa, yoy %)	-1.5	-1.2	1.2
Budget Balance/GDP*	0.1	0.4	0.2
Current Account/GDP	-3.0	-5.7	-5.9

\* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

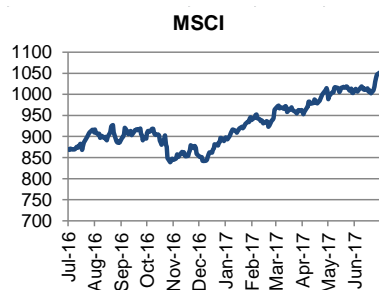
ROMANIA: Indicator:	2015	2016	2017f
Real GDP growth %	3.7	4.8	5.0
CPI (pa, yoy %)	-0.6	-1.6	1.4
Budget Balance/GDP *	-1.9	-2.4	-3.7
Current Account/GDP	-1.1	-2.2	-3.0
EUR/RON (eop)	4.48	4.54	4.62
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2015	2016	2017f
Real GDP growth %	0.8	2.8	3.0
CPI (pa, yoy %)	1.4	1.1	3.3
Budget Balance/GDP	-3.7	-1.3	-0.5
Current Account/GDP	-4.7	-4.0	-4.0
EUR/RSD (eop)	121.38	123.40	122.0
	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

### CESEE MARKETS

Emerging stock markets mostly retained a firm tone earlier on Wednesday, but currencies gave up some of their recent gains on profit taking which comes on the heels of their recent rally. The MSCI Emerging Markets index stood 0.5% higher in European trade, marking the 8<sup>th</sup> consecutive session in the black and having reached a new 27-month high intraday. This brings the index's year-to-date gains to about 23%. Meanwhile, bourses in the CESEE space were mixed earlier today. Turkey's main BIST 100 index led the gains in the region, extending its recent rally to hit a new record peak and amass daily gains to the tune of 0.9% so far in the session. On the flipside, Serbia's BELEX 15 underperformed its regional peers to stand 0.4% lower at the same time.

In FX markets, most regional currencies weakened as the US dollar pulled back from yesterday's multi-month lows. That said, most remained within distance from recent highs hit amid improved sentiment towards risky assets over the last few sessions thanks to scaled back expectations for the Fed's rate hike trajectory. During her semi-annual testimony to the Congress last week, Fed Chair Yellen echoed more dovish than expected suggesting only gradual rate tightening ahead. Additionally, June's inflation and retail sales data from the US that were released on Friday disappointed market expectations. Meanwhile, increasing doubts over US President Trump's ability to implement a pre-election agenda, which includes tax cuts and increases in infrastructure spending, have weighed on earlier optimism over the US economy's prospects. Upbeat data from China released earlier in the week also favored inflows towards emerging market assets.

Against this backdrop, the Romanian leu was trading almost flat on the day in European trade, with the EUR/RON hovering around levels of 4.5590, within distance from a 2-week low of 4.5540 hit earlier in the week. Separately, the Hungarian forint was ca 0.2% weaker at 306.08 against the euro at the time of writing, having however hit a 1-month high at 305.47 in early Asian trade. The currency was largely unfazed by yesterday's MPC meeting announcement, where the Central Bank (MNB) stayed put on its monetary policy as was broadly anticipated. In more detail, MNB kept the key policy rate at the current record low level of 0.90%, leaving the door open for further easing of monetary conditions, if needed, via the use of unconventional instruments. In the accompanying MPC statement, the Central Bank expressed expectations that inflation will remain around current levels (CPI at 1.9%YoY in June) by year-end, adding that it is anticipated to sustainably reach the 3% inflation target from early 2019.

Today's CESEE calendar is relatively light, with tomorrow's ECB monetary policy meeting and President Draghi's comments eagerly awaited to set the tone for emerging market assets over the coming days.

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July 19, 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	2451.61	-0.3%	9.5%	EUR/USD	1.1576	0.9%	10.0%	UST - 10yr	2.27	-5	-18	GOLD	1242	0.6%	7.8%
Nikkei 225	19999.91	-0.6%	4.6%	GBP/USD	1.3025	-0.2%	5.4%	Bund-10yr	0.56	-2	35	BRENT CRUDE	49	0.9%	-14.0%
STOXX 600	382.18	-1.2%	5.7%	USD/JPY	111.84	0.7%	4.6%	JGB - 10yr	0.07	-1	3	LMEX	2875	0.6%	8.1%

**CESEE MARKETS**

SERBIA				ROMANIA				BULGARIA												
<b>Money Market</b>				<b>Money Market</b>				<b>Money Market</b>												
<b>BELIBOR</b>	Last	ΔDbps	ΔYTD bps	<b>ROBOR</b>	Last	ΔDbps	ΔYTD bps	<b>SOFIBOR</b>	Last	ΔDbps	ΔYTD bps	<b>LEONIA</b>	Last	ΔDbps	ΔYTD bps					
T/N	3.00	4	0	O/N	0.48	-1	-8	1-month	0.01	0	1	1-month	-0.17	0	0					
1-week	3.14	2	-3	1-month	0.63	1	-13	3-month	-0.17	0	0	3-month	-0.08	0	-2					
1-month	3.32	2	-3	3-month	0.87	0	-3	6-month	-0.08	0	-2	6-month	0.04	0	-4					
3-month	3.56	2	9	6-month	1.03	0	-8	12-month	0.04	0	-4	12-month	0.41	0	1					
6-month	3.78	2	12	12-month	1.2	0	-5	<b>BG Local Bonds</b>												
<b>RS Local Bonds</b>				<b>RO Local Bonds</b>				<b>(yields)</b>												
3Y RSD	4.86	0	-17	3Y RON	1.29	0	-33	3Y BGN	-0.07	1	-23	5Y BGN	0.17	2	-33					
5Y RSD	5.22	0	-14	5Y RON	2.23	-1	-29	10Y BGN	1.51	0	-39	<b>BG Eurobonds</b>								
7Y RSD	5.59	0	-5	10Y RON	3.44	-1	-21	<b>(yields)</b>												
<b>RS Eurobonds</b>				<b>RO Eurobonds</b>				<b>EUR Mar-22</b>				<b>EUR Sep-24</b>								
USD Nov-17	1.80	-3	-53	EUR Oct-25	1.96	0	-18	Last				ΔDbps				ΔYTD bps				
USD Nov-24	6.29	1	-13	USD Jan-24	3.25	#N/A	N/A	-60	Last				ΔDbps				ΔYTD bps			
<b>CDS</b>				<b>CDS</b>				<b>CDS</b>												
5-year	148	2	-60	5-year	106	2	-3	5-year	111	0	-41	10-year	162	1	-32					
10-year	196	2	-59	10-year	149	3	-4	10-year	162	1	-32	<b>STOCKS</b>								
<b>STOCKS</b>				<b>STOCKS</b>				<b>STOCKS</b>												
BELEX15	708.5	-0.65%	-1.24%	BET	8212.8	0.70%	15.92%	SOFIX	707.1	-0.54%	20.58%	<b>FOREX</b>								
<b>FOREX</b>				<b>FOREX</b>				<b>FOREX</b>												
EUR/RSD	120.45	-0.16%	2.50%	EUR/RON	4.5616	0.01%	-0.50%	USD/BGN	1.6898	0.85%	9.98%	<b>BELEX15 Index</b>								
<b>BELEX15 Index</b>				<b>BET Index</b>				<b>SOFIX Index</b>												
<b>EUR/RSD</b>				<b>EUR/RON</b>				<b>USD/BGN</b>												

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

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