

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Dec 21: Existing home sales (Nov)
- Dec 22
 - GDP (Q3, 3rd est.)
 - Initial claims (weekly)
 - Durable goods orders (Nov)
 - Personal income / spending (Nov)
 - Core PCE deflator (Nov)
- Dec 23
 - UoM consumer sentiment (Dec)
 - New home sales (Nov)

EUROZONE

- Dec 19: German ifo business climate (Dec)
- Dec 23: German GfK consumer confidence (Jan)

GREECE

- Dec 21: Current account balance (Oct)

SEE

BULGARIA

- Dec 19: Reformer's bloc to announce if it won GERB support
- Dec 23: Gross external debt (Oct)

ROMANIA

- Dec 19: New parliament to take office

SERBIA

- Dec 20: Current account balance (Oct)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The USD was firmer across the board in European trade on Tuesday as Fed Chair Janet Yellen's hawkish comments on the US labor market earlier this week continued to exert a positive impact. On the flipside, the JPY was among the main underperformers, pressured by the BoJ's monetary policy decision earlier today to leave its monetary policy unchanged including its interest rate targets — i.e., short-term rate at -0.1% and 10-year JGB bond yield at around 0%. Elsewhere, major government bonds were modestly firmer favored by their safe-haven status in light of the two deadly incidents in Turkey and Germany while major European equity markets were mixed in early trade.

GREECE: The Euroworking Group (EWG) is expected to convene today via teleconference to discuss the benefits that the Greek government decided to grant to socially vulnerable groups, the fiscal impact of which has been a cause for concern to official lenders leading to a temporary halt of the implementation of the short-term debt relief measures. The EWG is also expected to discuss today the progress of the 2nd programme review following the departure of the official lenders' representatives from Athens.

SOUTH EASTERN EUROPE

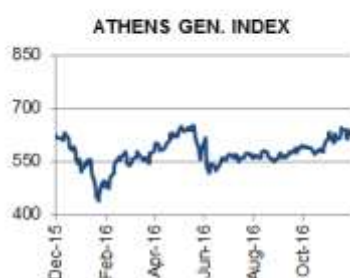
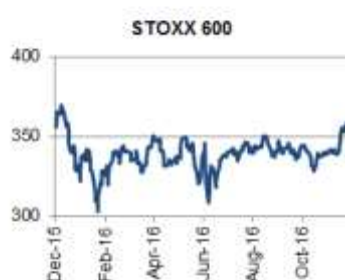
CESEE MARKETS: Most emerging market assets were under pressure earlier on Tuesday as the US dollar retained a firm tone denting developing assets' higher yield allure. Investor appetite towards risky assets also sapped after yesterday's deadly attacks in Turkey and Germany. Meanwhile, trade activity appeared to be relatively light ahead of the Christmas period. Focus today is on Central Bank monetary policy meetings in Turkey and Hungary.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The USD was firmer across the board in European trade on Tuesday as Fed Chair Janet Yellen's hawkish comments on the US labor market earlier this week continued to exert a positive impact. On the flipside, the JPY was among the main underperformers, pressured by the BoJ's monetary policy decision earlier today to leave its monetary policy unchanged including its interest rate targets — i.e., short-term rate at -0.1% and 10-year JGB bond yield at around 0% — against market talk over the possibility of the Central Bank reassessing its yield curve targets in light of the recent upward move of the 10-yr bond yield, in line with the latest bearish steeping in global yield curves. Against this background, the USD/JPY was hovering slightly above 118.00 at the time of writing failing to capitalize on the BoJ's upward reassessment of domestic economic conditions, not far from the 10-month recent peak of 118.66, after ending near 116.50 in the prior session following the two separate deadly incidents in Turkey and Germany. The EUR also fared poorly as lingering worries over the health of the Italian banking sector and persisting political uncertainty ahead of general elections in a number of euro area countries next year continued to weigh on market sentiment towards the common currency. The EUR/USD was trading close to 1.0380/85 at the time of writing, within distance from a multi-year trough of 1.0364 recorded late last week. German data on Monday showing that the December IFO business climate indicator surprised slightly to the upside, rising by a higher than expected 0.6 points to a 34-month high of 111.0, failed to exert a lasting positive impact. Elsewhere, major government bonds were modestly firmer favored by their safe-haven status in light of the two deadly incidents in Turkey and Germany, while major European equity markets were mixed in early trade with international newswires conveying that Italy's government will meet today to consider increasing public debt to fund, if needed, a €15bn capital injection for the domestic banking sector.

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GREECE

The Euroworking Group (EWG) is expected to convene today via teleconference to discuss the benefits that the Greek government decided to grant to socially vulnerable groups, namely low-income pensioners and residents of refugee-struck islands, the fiscal impact of which has been a cause for concern to official lenders leading to a temporary halt of the implementation of the short-term debt relief measures that were approved at the December 6th Eurogroup. According to press reports, a preliminary EWG report on the issue states that the Greek government should not have proceeded with the announcement of the benefits without consulting with the institutions first and that the institutions had clearly recommended that any budget over-performance should be used either to pay state arrears, or as a cash buffer. At the same time, the report expresses doubts as to whether the one-off pay-out to low-income pensioners is a well targeted measure as it is considered that other social groups are in more acute need for support. Furthermore, it is argued that the 2016 primary surplus will not reach 1.1%-of-GDP as the Budget 2017 envisions but rather 0.5%-of-GDP, in line with the programme target, and in any case no benefits should have been announced before the release of the official Eurostat data in April 2017. With regard to the postponement of the VAT increase in refugee-struck islands, the EWG report holds a milder stance saying that its fiscal impact is not expected to be too significant – it is estimated at c. €67mn – as it will be derived from the social cohesion provisions already allocated in the 2017 budget. Other than the aforementioned issues, the EWG is expected to discuss today the progress of the 2nd programme review following the departure of the official lenders' representatives from Athens.

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December 20, 2016

BULGARIA: Indicators	2015	2016f	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	2016f
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

CYPRUS: Indicators	2015	2016f	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

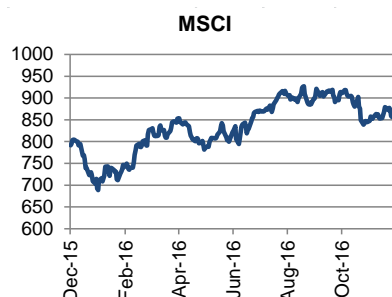
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2015	2016f	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	4.52	4.60
	2015	current	2016f
Policy Rate (eop)	1.75	1.75	1.75

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

SERBIA: Indicators	2015	2016f	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	123.50	125.5
	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

Most emerging market assets were under pressure earlier on Tuesday as the US dollar retained a firm tone denting developing assets' higher yield allure. Investor appetite towards risky assets also sapped after yesterday's deadly attacks in Turkey and Germany. Meanwhile, trade activity appeared to be relatively light ahead of the Christmas period. In more detail, the MSCI Emerging Markets index fell for the 5th consecutive session in Asia trade, marking cumulative losses over 3% compared to its closing levels a week earlier and registering the longest streak of daily declines since May.

Elsewhere, CESEE assets were mixed. In regional stock markets Poland's main WIG index led the gains with a 0.6% rise. On the flipside Romania's BETI broadly underperformed its peers with a 0.7% drop in a possibly reflection of increased domestic political woes. The Social Democratic party won by a comfortably majority the December 11th general elections. However, the party fell short of achieving an outright majority in Parliament in order to form a single party government, while worries have escalated of late for fiscal slippages in 2017 and 2018.

In FX markets, the Polish zloty retained a firm tone earlier on Tuesday after retail sales and industrial production data released yesterday beat market expectations. In more detail, the EUR/PLN hovered near an intraday low of 4.4070, within distance from yesterday's 1-month low of 4.4026. Separately, the Turkish lira stood ca. 0.7% firmer at the time of writing, hovering around levels of 3.5065 against the USD reversing yesterday's losses. The Central Bank of the Republic of Turkey (CBRT) holds later today its monetary policy meeting. The bank's decision is anticipated to be announced at 11.00 GMT. The market's consensus is for a 25bps hike on the overnight lending rate as inflation remains above target, while the lira has been hit hard amid mounting domestic political uncertainty and worries over the country's economic growth prospects. If the hike is delivered today, the o/n lending rate will rise to 8.75%. At the same time, the overnight borrowing and key policy rates are anticipated to remain unchanged at 7.25% and 8.00%, respectively.

Also on focus today is Hungary's Central Bank monetary policy meeting. MNB is anticipated to keep the key policy rate at the current record low level of 0.90% but it is expected to further boost market liquidity by limiting the amount offered in the 3-month deposit facility to HUF 700bn at the end of March from HUF 900bn currently.

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December 20, 2016

GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities												
Last	ΔD	ΔYTD	Last	ΔD	ΔYTD	Last	ΔDbps	ΔYTD bps	Last	ΔD	ΔYTD				
S&P 500	2264.51	0.3%	10.8%	EUR/USD	1.0437	-0.1%	-3.9%	(yields)	2.55	-5	28	GOLD	1138	0.3%	7.2%
Nikkei 225	19391.60	0.0%	1.9%	GBP/USD	1.2384	-0.9%	-16.0%	UST - 10yr	0.27	-4	-36	BRENT CRUDE	55	-0.3%	47.7%
STOXX 600	359.51	-0.1%	-1.7%	USD/JPY	117.02	0.8%	2.6%	Bund-10yr	0.09	1	-18	LMEX	2744	-1.7%	24.6%
								JGB - 10yr							

CESEE MARKETS

SERBIA

Money Market

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

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	5.08	0	-33
5Y RSD	5.44	0	-167
7Y RSD	5.68	-7	-11

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.46	2	-70
USD Nov-24	6.48	-1	7

CDS

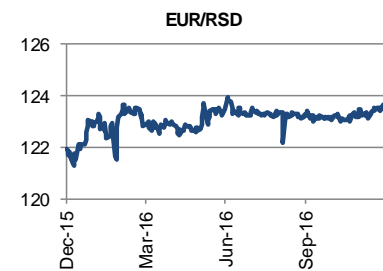
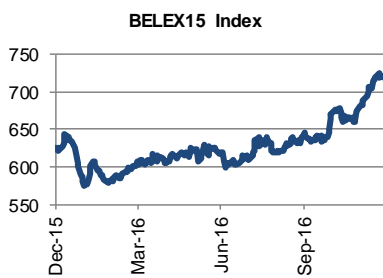
	Last	ΔDbps	ΔYTD bps
5-year	207	0	-67
10-year	254	-1	-85

STOCKS

	Last	ΔD	ΔYTD
BELEX15	718.4	-0.39%	11.53%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.58	0.19%	-1.62%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.46	-1	-7
1-month	0.65	0	-4
3-month	0.81	0	-21
6-month	1.08	0	-26
12-month	1.2	0	-32

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.58	-1	-35
5Y RON	2.50	-1	-30
10Y RON	3.66	0	-12

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.29	-3	-28
USD Jan-24	4.02	1	23

CDS

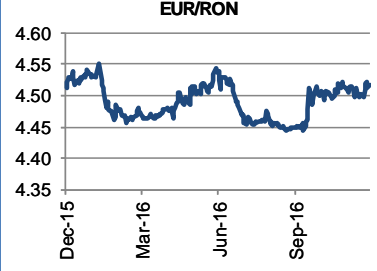
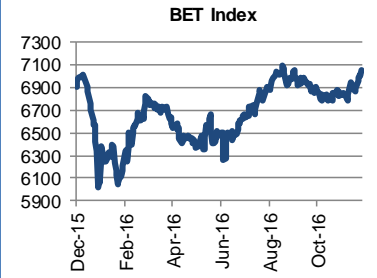
	Last	ΔDbps	ΔYTD bps
5-year	112	0	-21
10-year	155	0	-17

STOCKS

	Last	ΔD	ΔYTD
BET	7063.5	0.09%	0.84%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5183	-0.14%	-0.10%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.09	3	-10
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	0	-41
5Y BGN	0.63	6	-64
10Y BGN	1.99	0	-67

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.12	-15	-19
EUR Sep-24	1.71	-18	-71

CDS

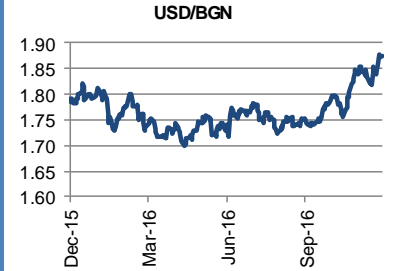
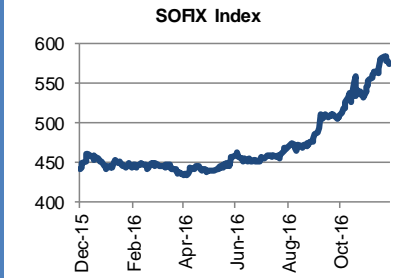
	Last	ΔDbps	ΔYTD bps
5-year	154	-1	-18
10-year	186	-1	-30

STOCKS

	Last	ΔD	ΔYTD
SOFIX	574.5	-0.68%	24.65%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.8741	-0.03%	-3.94%



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

Data updated as of 17:05 EET of previous session

December 20, 2016

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