



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Friday, July 21, 2017

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 & MARKET DEVELOPMENTS

GLOBAL MARKETS: The ECB kept its key interest rates and the monthly pace of asset purchases unchanged at Thursday's monetary policy meeting, as was widely expected. In the press conference that followed, President Mario Draghi adopted a generally dovish tone with the main exception being a relaxed view about the recent tightening of financial conditions in the euro area after his speech in Sintra on June 27th. With Mario Draghi appearing not to be particularly concerned about the EUR's recent appreciation, the common currency extended recent gains hitting a two-year peak of 1.1677 against USD earlier today. Elsewhere, German Bund yields moved lower in view of the ECB President's dovish tone on tapering and inflation. EMU sovereign bonds were also firmer outperforming Bunds.

GREECE: The Executive Board of the IMF approved in principle a €1.6 billion Stand-By Arrangement for Greece which will become effective once there have been specific and credible assurances from Greece's European partners to ensure debt sustainability and provided that Greece's economic programme remains on track. The new financial arrangement will be activated upon another decision of the Executive Board once the necessary requirements are in place and its duration will be until 21 August 2018, a few weeks after the expiration of the ESM programme. The IMF revised downward its forecast for GDP growth from 2.2% (WEO, April 2017) to 2.1% for 2017 and from 2.7% (WEO, April 2017) to 2.6% for 2018.

SOUTH EASTERN EUROPE

CESEE MARKETS: Emerging market stocks gained ground earlier on Friday against a weaker US dollar and rather dovish comments by ECB President Draghi at yesterday's monetary policy meeting.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The ECB kept its key interest rates and the monthly pace of asset purchases unchanged at Thursday's monetary policy meeting, as was widely expected. In the press conference that followed, President Mario Draghi adopted a generally dovish tone with the main exception being a relaxed view about the recent tightening of financial conditions in the euro area after his speech in Sintra on June 27th. The ECB President expressed a positive assessment on the euro area growth outlook with risks remaining "broadly balanced". However, he reiterated that ongoing economic recovery has yet to translate into stronger inflation dynamics and "a very substantial degree of monetary accommodation is still needed for underlying inflation pressures to gradually build up". He confirmed that the Governing Council had been unanimous in their decision to keep the QE forward guidance unchanged and not setting any precise date for discussing potential changes to the QE programme. The ECB President played down talk that the relevant ECB committees have been tasked with looking into technical options for a possible exit and, in response to a relevant question, he revealed that policymakers will discuss on possibly changes to the programme sometime in the autumn. With Mario Draghi appearing not to be particularly concerned about the EUR's recent appreciation, the common currency extended recent gains hitting a two-year peak of 1.1677 against USD earlier today. Elsewhere, German Bund yields moved lower in view of the ECB President's dovish tone on tapering and inflation. The 10-yr Bund yield marked a two-week intraday low below 0.51% earlier today following an intraday multi-month peak of 0.64% earlier this month remaining though some 26bps higher from levels prevailed ahead of Mario Draghi's speech in Sintra. US Treasuries followed suit on mounting political jitters albeit to a lower extent with the 10-yr UST/Bund yield spread hovering around 173.5bps at the time of writing, some 3.5bps wider from year-to-date lows recorded earlier this week. EMU sovereign bonds were also firmer outperforming Bunds with 10-yr periphery/Bund spreads narrowing and peripheral curves bull-flattening in the 2/10-yr segment.

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GREECE

The Executive Board of the IMF approved in principle a €1.6 billion Stand-By Arrangement for Greece which will become effective once there have been specific and credible assurances from Greece's European partners to ensure debt sustainability and provided that Greece's economic programme remains on track. The new financial arrangement will be activated upon another decision of the Executive Board once the necessary requirements are in place and its duration will be until 21 August 2018, a few weeks after the expiration of the ESM programme. Following the Executive Board discussion, IMF Managing Director Christine Lagarde noted among others that: 1) the current primary surplus target of 3.5% of GDP up to 2022 should be reduced as soon as possible to 1.5% of GDP in order to create the fiscal space for better targeting social assistance, stimulating public investment and lowering tax rates to support growth, 2) the legal framework should be further reinforced to tackle the serious non-performing loans problem while an updated asset quality review and stress test should be conducted to Greece's banks to ensure that they are adequately capitalized by the end of the programme, 3) the collective bargaining reforms should not be reversed after the end of the programme, 4) further efforts should be made towards opening the still protected product and service markets, and 5) the credibility and independence of the Hellenic Statistical Authority should be safeguarded. With regard to the IMF's Debt Sustainability Analysis (DSA), it considers that even with full programme implementation Greece's debt will not become sustainable. Therefore, further debt relief measures are needed based on more realistic assumptions. Meanwhile, the IMF revised downward its forecast for GDP growth from 2.2% (WEO, April 2017) to 2.1% for 2017 and from 2.7% (WEO, April 2017) to 2.6% for 2018. In other news, at the press conference following the ECB Governing Council meeting yesterday, President Mario Draghi commented that it is up to the Greek government to decide on the issuance of a bond but referred to the BoG Governor Yiannis Stournaras' concerns on the issue. He added that issuance activity should be part of an overall strategy including the completion of the programme and the return to the markets but in a lasting way.

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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

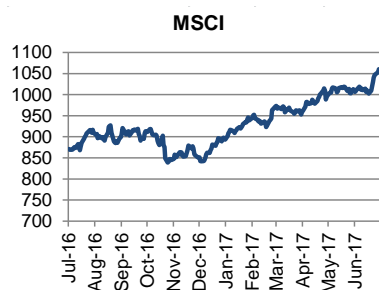
ROMANIA: Indicator:	2015	2016	2017f
Real GDP growth %	3.7	4.8	5.0
CPI (pa, yoy %)	-0.6	-1.6	1.4
Budget Balance/GDP *	-1.9	-2.4	-3.7
Current Account/GDP	-1.1	-2.2	-3.0
EUR/RON (eop)	4.48	4.54	4.62
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

* 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 market stocks gained ground earlier on Friday against a weaker US dollar and rather dovish comments by ECB President Draghi at yesterday's monetary policy meeting. The MSCI Emerging Markets index was modestly in the black in European trade, poised to mark the second consecutive week of gains. Additionally, it remained just off a 27-month peak hit a couple of days earlier, having recorded year-to-date gains of around 23% as appetite towards risky assets was buoyed over the last few days on scaled back expectations for the Fed's rate hike trajectory.

Despite a weaker US dollar, most regional currencies weakened earlier today compared to the prior session's settlement against a broadly firmer euro. The Polish zloty led the losses in the region after the lower house of Parliament, the Sejm, approved yesterday a judicial reform bill that has stirred public rallies and international criticism. The upper house of parliament is expected to pass the legislation today as the ruling Law and Justice party (PiS) - which backs the said changes - has an absolute majority. The amendments will effectively allow parliament to appoint Supreme Court judges. EU executives have warned that they undermine the rule of law by weakening judicial independence. The government supports its position by arguing that the changes will make courts accountable and serve all Poles. The European Commission gave on Wednesday Poland a week to wave the changes or possibly face legal action, including fines and/or the initiation of the procedure laid down in Article 7. President Andrzej Duda, who could veto the legislation, will have to sign the bill into law. However, he is considered to have close ties with the government, being the ruling party's candidate in the 2015 presidential elections. Along these lines, the EUR/PLN spiked to a multi-session peak near 4.2340 earlier today.

In the local debt markets, Serbia sold on Thursday a planned amount of €75mn of 5-year EUR-denominated bonds, at a price of 98.379 and an average accepted yield of 2.6%. The paper which matures on July 24, 2022 bears an annual coupon of 2.25%. Investors bid 1.31 times the amount of T-notes sold.

Today's CESEE calendar of macroeconomic data releases and events is very light. A review by Fitch on Turkey's sovereign credit ratings attracts attention, albeit the agency is not anticipated to announce any change in the country's rating or outlook. The agency currently rates Turkey's sovereign long-term debt at BB+ with stable outlook. The latest change by Fitch came in January this year, when the agency cut by one notch Turkey's rating to junk. Back then, the agency had cited domestic political jitters and security concerns that had undermined economic performance and institutional independence. Until then Fitch was the only of the three main agencies to rate Turkey in investment grade.

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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	2473.45	0.0%	10.5%	EUR/USD	1.1643	0.1%	10.7%	UST - 10yr	2.25	-1	-19	GOLD	1247	0.2%	8.2%
Nikkei 225	20099.75	-0.2%	5.2%	GBP/USD	1.2987	0.1%	5.1%	Bund-10yr	0.52	-2	31	BRENT CRUDE	49	0.2%	-13.1%
STOXX 600	383.46	-0.2%	6.1%	USD/JPY	111.81	0.1%	4.6%	JGB - 10yr	0.07	-1	2	LMEX	2849	-0.3%	7.1%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	3.02	1	2
1-week	3.15	0	-2
1-month	3.32	1	-3
3-month	3.57	2	10
6-month	3.77	0	11

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.82	#N/A	N/A
5Y RSD	5.21	0	-14
7Y RSD	5.59	0	-4

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.65	-12	-67
USD Nov-24	6.28	-1	-14

CDS

	Last	ΔDbps	ΔYTD bps
5-year	147	-1	-61
10-year	196	-1	-60

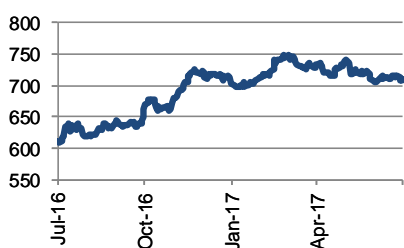
STOCKS

	Last	ΔD	ΔYTD
BELEX15	706.5	-0.38%	-1.51%

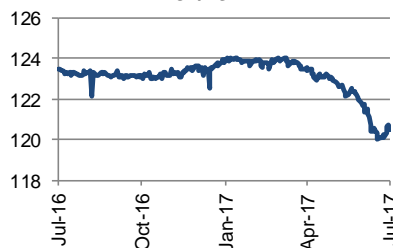
FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.43	0.05%	2.52%

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.52	0	-4
1-month	0.64	0	-12
3-month	0.87	0	-3
6-month	1.04	0	-7
12-month	1.2	0	-5

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.27	0	-35
5Y RON	2.23	0	-29
10Y RON	3.44	0	-21

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.93	0	-20
USD Jan-24	3.25	0	-60

CDS

	Last	ΔDbps	ΔYTD bps
5-year	106	-1	-4
10-year	149	0	-3

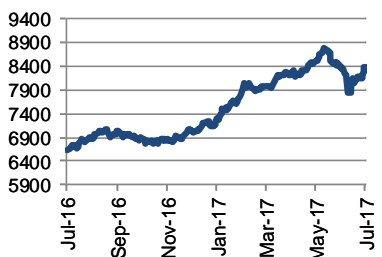
STOCKS

	Last	ΔD	ΔYTD
BET	8391.4	0.27%	18.44%

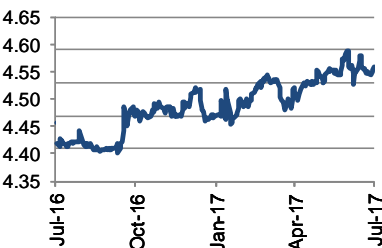
FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5745	-0.12%	-0.78%

BET Index



EUR/RON



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.17	0	0
3-month	-0.09	0	-2
6-month	0.04	0	-4
12-month	0.41	0	0

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.08	0	-23
5Y BGN	0.14	-3	-37
10Y BGN	1.51	0	-39

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.38	-5	-49
EUR Sep-24	1.27	0	-41

CDS

	Last	ΔDbps	ΔYTD bps
5-year	109	-1	-43
10-year	161	-1	-33

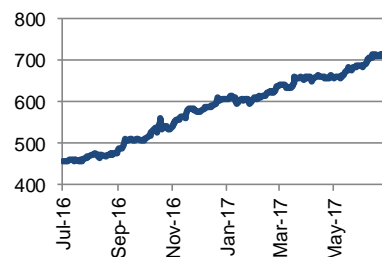
STOCKS

	Last	ΔD	ΔYTD
SOFIX	711.9	-0.15%	21.40%

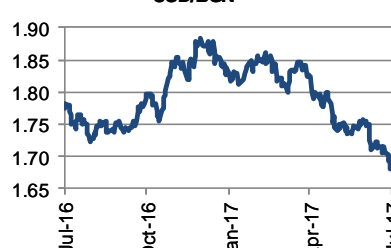
FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6799	0.11%	10.63%

SOFIX Index



USD/BGN



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

Data updated as of 10:30 EEST

July 21, 2017

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