



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Wednesday, January 25, 2017

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Jan 24: Existing home sales (Dec)
- Jan 26
 - Initial claims (weekly)
 - New home sales (Dec)
- Jan 27
 - GDP (Q4)
 - Durable goods orders (Dec)
 - UoM consumer confidence (Feb)

UK

- Jan 24: UK Supreme Court's verdict on UK government's appeal
- Jan 26: GDP (Q4, 1st est.)

EUROZONE

- Jan 23: consumer confidence (Jan)
- Jan 24
 - PMI manufacturing & services (Jan)
 - Existing home sales (Dec)
 - Italy's Constitutional Court ruling on electoral law
- Jan 25: DE: Ifo business climate

GREECE

- Jan 26: Eurogroup meeting

SEE

BULGARIA

- Jan 23: 2027 T-Bonds auction
- Jan 27: External debt (Nov)

ROMANIA

- Jan 26: T-Bonds auction

SERBIA

- Jan 25: Gross wages (Dec)
- Jan 26: 5.75% 2023 T-Bonds auction

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: In its ruling publicly announced yesterday, the UK Supreme Court upheld the High Court decision that parliamentary approval is required before the government triggers Article 50. However, the worst case scenario for the UK government was avoided, as the Court also ruled that regional assemblies do not have to be consulted for the activation of the Brexit process. In a knee-jerk reaction to the Court ruling, the GBP moved lower before recovering to levels around 1.2530 against the USD in European trade on Wednesday on the view that, in return for approving the relevant bill, UK lawmakers may force the government to abandon a hard Brexit negotiation plan. Focus today is on the Italian Constitutional Court's ruling on the Lower House electoral law (Italicum) that was approved by PM Renzi's government.

GREECE: At the Eurogroup that is scheduled to convene tomorrow, the Greek side's main goal is to unfreeze the negotiations for the 2nd programme review and have the institutions' (EC/ECB/ESM/IMF) heads return to Athens with a view to successfully closing the review by end February. In a newspaper interview the Greek Prime Minister Alexis Tsipras denied the possibility of legislating upfront additional measures beyond those outlined in the bailout programme and particularly not for the post-programme period. According to the Ministry of Finance, for the period January – December 2016 the State Budget Primary Balance amounted to a surplus of €4,437 million, against the primary surplus target of €1,983 million and the primary surplus of €2,270 million recorded in the same period of the previous year.

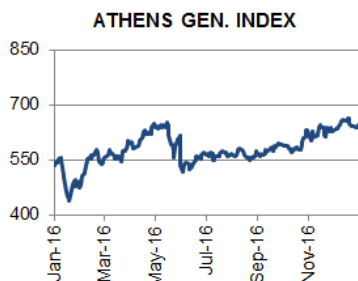
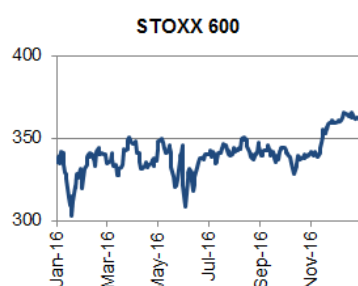
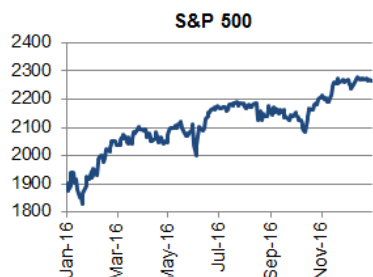
SOUTH EASTERN EUROPE

CESEE MARKETS: Emerging market assets were mixed earlier on Wednesday. Trailing a rise to new record highs in Wall Street overnight thanks to upbeat corporate results, EM stocks were broadly firmer in European trade today. In FX markets, the Turkish lira broadly underperformed its regional peers after the Central Bank fell short of meeting market expectations for more aggressive rate hikes at its MPC meeting yesterday.

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Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

In its ruling publicly announced yesterday, the UK Supreme Court upheld the High Court decision that parliamentary approval is required before the government triggers Article 50. However, the worst case scenario for the UK government was avoided, as the Court also ruled that regional assemblies do not have to be consulted for the activation of the Brexit process. In a knee-jerk reaction to the Court ruling, the GBP moved lower falling close to 1.2400 against the USD at some point, before recovering to levels around 1.2530 in European trade on Wednesday on the view that, in return for approving the relevant bill, UK lawmakers may force the government to abandon a hard Brexit negotiation plan. UK Gilts weakened, with the 10-yr yield hovering around 1.44% at the time of writing, after recording a session low of 1.37% in the prior session. Along these lines, Bunds lost ground with the 10-yr yield hitting a multi-week peak near 0.45% earlier today. Market anxiety ahead of the Italian Constitutional Court's ruling law later today on the Lower House electoral law (Italicum) that was approved by PM Renzi's government in March 2015 may also had some impact, a decision that will probably influence the timing of the next general elections in Italy. Elsewhere, the AUD was among the main underperformers in FX market after Australian headline inflation for Q4 2016 came in at 1.5%YoY, up from 1.3%YoY but missing expectations of 1.6%YoY. After moving above 0.7600 on Tuesday for the first time since mid-November, the AUD/USD pulled back recording a multi-session low of 0.7510 earlier today. However, in view of higher industrial commodity prices, any further AUD weakness is likely to prove limited. Technically, strong support stands at 0.7420 (Fib levels).

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GREECE

At the Eurogroup that is scheduled to convene tomorrow, the Greek side's main goal is to unfreeze the negotiations for the 2nd programme review and have the institutions' (EC/ECB/ESM/IMF) heads return to Athens with a view to successfully closing the review by end February. To this end the Greek Finance Minister Euclid Tsakalotos is reportedly expected to present to his peers tomorrow a proposal that will reassure them of Greece's intention and ability to cover, if need be, potential deviations from the agreed medium-term 3.5%-of-GDP primary surplus target for 2018 and 2019 through a reinforced – in terms of content and duration – contingent fiscal mechanism. Meanwhile, in a newspaper interview the Greek Prime Minister Alexis Tsipras denied the possibility of legislating upfront additional measures beyond those outlined in the bailout programme and particularly not for the post-programme period. Eurogroup President Jeroen Dijsselbloem stated during a speech on Tuesday that Greece has more fundamental economic and institutional problems and that trust continues to be a major issue both between member-states but also among consumers and investors with regard to the stability of the Greek economy. In other news, according to the Ministry of Finance, the execution of the State Budget on a modified cash basis, the State Budget balance for the period of January – December 2016 presented a deficit of €1,140 million, against the target of 2016 Budget of deficit of €3,617 million and the deficit of €3,530 million for the same period of 2015. The State Budget Primary Balance amounted to a surplus of €4,437 million, against the primary surplus target of €1,983 million and the primary surplus of €2,270 million recorded in the same period of the previous year.

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January 25, 2017

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		
	2015	current	2016
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

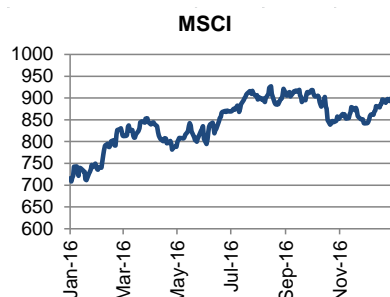
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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
	2015	current	2016
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	2.7	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	123.40	125.5
	2015	current	2016
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

Emerging market assets were mixed earlier on Wednesday. Trailing a rise to new record highs in Wall Street overnight thanks to upbeat corporate results, EM stocks were broadly firmer in European trade today. Bourses in the CESEE region mostly advanced, with Poland's main WIG index leading the way higher with gains to the tune of 1.15% at the time of writing, after Central Bank Governor Adam Glapinski said earlier today that interest rates may remain stable for up to two more years if economic activity "does not accelerate more energetically this year". In FX markets, the Turkish lira broadly underperformed its regional peers after the Central Bank (CBRT) fell short of meeting market expectations for more aggressive rate hikes at its MPC meeting yesterday. In more detail, the CBRT raised the overnight lending rate by 75bps to 9.25% and the late liquidity window by 100bps to 11.00%, in line with consensus, but kept the overnight borrowing rate at 7.25% and the key policy (1-week repo) rate at 8.00% confounding the market's median forecast for respective increases of 25bps and 50bps. With the latest CBRT action appearing to provide little respite to the lira, the USD/TRY rose by ca 1% compared to Tuesday's settlement to trade around 3.82 in morning European trade, moving anew towards a recent lifetime peak of 3.94. Looking ahead risks on the TRY seem to be tilted towards further depreciation this year. In the immediate future, Fitch's review on the country's sovereign credit ratings on Friday takes centre stage this week, with a downgrade appearing highly likely. Domestic political jitters, in view of the looming referendum on Constitutional changes, and higher Fed interest rates are also key risk factors for the lira's performance in the months ahead.

Elsewhere in the CESEE region, the Hungarian forint touched its lowest level so far this year at 310.70/€ after the Central Bank vindicated expectations yesterday maintaining its key policy rate at the current record low level of 0.90% and reaffirmed its dovish policy bias. Separately, the EUR/RON traded at 4.49 at the time of writing, a tad firmer from yesterday's close. Earlier in the week, the incoming Romanian government unveiled the main macroeconomic parameters of this year's budget, envisioning, among other, real GDP growth at 5.2%, average inflation at +1.4% and a fiscal deficit target of 2.96% of GDP in cash basis terms or 2.99% in ESA2010 terms. Revenues are forecasted to expand by 13.9% YoY in order to reach 31.3% of projected GDP. Expenditures are forecasted to increase by 15.2% YoY to reach 34.2% of projected GDP. The budget incorporates the ruling coalition's electoral program for generous public sector wage hikes and further tax cuts effective from the beginning of the year. As a result, the public sector wage bill is expected to rise further from 7.3% of GDP in 2017 to 7.9% in 2016, while the pension expenditures plus other social transfers are forecasted to reach 11% and 3.8% of GDP in 2017 up from 10.8% and 2.1% in 2016 respectively. Under a no-change policy assumption, the fiscal deficit is expected to swell to over 4% of GDP in 2017, well beyond the 3% threshold up from a projected 2.4% in 2016 and only 1.5% in 2015. Finally, it is highly likely that the budget expenditures mix but not the headline target could be subject to more changes given the ongoing discussions between the government partners. The cabinet-approved finalized draft would then be sent to the parliament for endorsement. In a nutshell, we see risks to the budget execution heavily skewed to the downside.

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January 25, 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	2280.07	0.7%	1.8%	EUR/USD	1.0755	0.2%	2.2%	UST - 10yr	2.48	1	3	GOLD	1205	-0.4%	4.5%
Nikkei 225	19057.50	1.4%	-0.3%	GBP/USD	1.2585	0.5%	1.8%	Bund-10yr	0.43	3	23	BRENT CRUDE	55	-1.1%	-3.5%
STOXX 600	365.44	1.0%	1.1%	USD/JPY	113.53	0.2%	3.1%	JGB - 10yr	0.07	2	3	LMEX	2861	1.9%	7.6%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	299	0	-1
1-week	3.10	1	-7
1-month	3.33	-1	-2
3-month	3.46	1	-1
6-month	3.67	-1	1

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	5.08	0	0
5Y RSD	5.48	0	12
7Y RSD	5.75	0	12

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.17	0	-15
USD Nov-24	6.48	-2	6

CDS

	Last	ΔDbps	ΔYTD bps
5-year	205	0	-2
10-year	248	0	-8

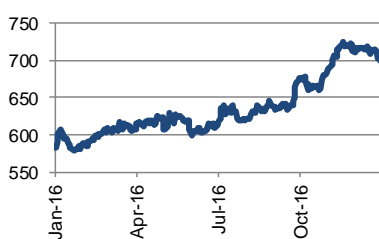
STOCKS

	Last	ΔD	ΔYTD
BELEX15	696.2	-0.41%	-2.95%

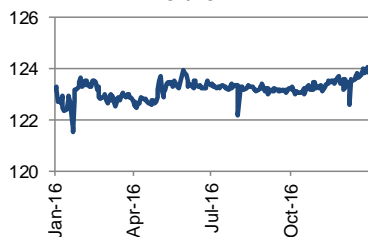
FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.85	0.05%	-0.32%

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.49	#VALUE!	-7
1-month	0.61	#VALUE!	-15
3-month	0.82	#VALUE!	-8
6-month	1.05	#VALUE!	-6
12-month	1.23	#VALUE!	-2

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.62	3	0
5Y RON	2.55	2	3
10Y RON	3.49	4	-16

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.09	4	-5
USD Jan-24	3.72	2	-14

CDS

	Last	ΔDbps	ΔYTD bps
5-year	95	0	-14
10-year	138	1	-14

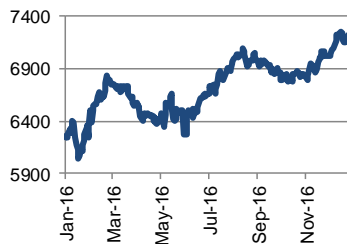
STOCKS

	Last	ΔD	ΔYTD
BET	7347.6	1.05%	3.71%

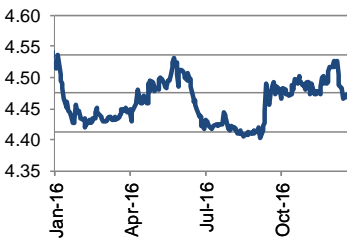
FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4952	0.12%	0.97%

BET Index



EUR/RON



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.05	0	-5
1-month	-0.17	0	0
3-month	-0.08	0	-1
6-month	0.07	0	-1
12-month	0.40	0	0

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.13	0	-3
5Y BGN	0.49	1	-1
10Y BGN	1.77	0	-13

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.22	0	10
EUR Sep-24	1.58	-7	-10

CDS

	Last	ΔDbps	ΔYTD bps
5-year	120	1	-32
10-year	163	3	-30

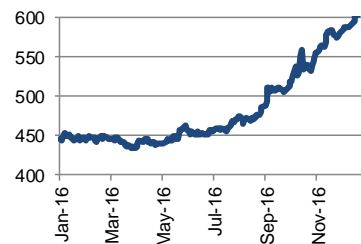
STOCKS

	Last	ΔD	ΔYTD
SOFIX	604.5	-0.14%	3.07%

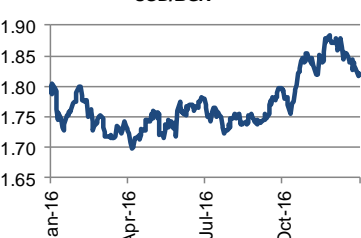
FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.8187	0.20%	2.18%

SOFIX Index



USD/BGN



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

Data updated as of 13:00 EET

January 25, 2017

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