



# DAILY OVERVIEW

## OF GLOBAL MARKETS & THE SEE REGION

Friday, May 26, 2017

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### GLOBAL

- May 25: OPEC review on output levels agreed in December 2016
- May 26-27: G7 leaders meet in Italy

#### US

- May 23: New home sales (Apr)
- May 24
  - Pending home sales (Apr)
  - FOMC meeting minutes (May 2-3)
- May 25: Initial jobless claims (weekly)
- May 26
  - GDP (Q1, 2<sup>nd</sup>)
  - Durable goods orders (Apr)
  - UoM consumer sentiment (May)

#### EUROZONE

- May 22: Eurogroup meeting
- May 23
  - Ecofin meeting
  - DE: GDP (Q1, details)
  - DE: Ifo business climate (May)
- May 24:
  - PM services & manufacturing (May, p)
  - DE: Gfk consumer confidence (May)

#### GREECE

- May 22: Current account balance (Mar)

#### SEE

##### BULGARIA

- May 26
  - Gross external debt (Mar)
  - Moody's review

##### ROMANIA

- May 22: 2019 1.35% T-bonds auction
- May 25: 2021 5.95% T-bonds auction

##### SERBIA

- May 23: 2019 T-bonds auction
- May 25: Real wages (Apr)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** In line with market expectations, OPEC and non-OPEC members decided at their meeting on Thursday May 25<sup>th</sup> to extend for nine months to March 2018 the output-cut agreement of 1.8mn barrels per day. However, the lack of greater than expected oil production cuts and potential caps on Libya and Nigeria, pushed oil prices lower. In FX markets, GBP came under pressure after an opinion poll suggested that the lead of PM Theresa May's Conservative Party against the major opposition Labour Party has narrowed. Looking at the day ahead, focus is on the second estimate of US Q1 GDP growth.

**GREECE:** The minutes from the May 22<sup>nd</sup> Eurogroup that have leaked to the press provide some insight as to the discussions held and the positions of the different parties involved. With regard to the remaining prior actions attached to the 2<sup>nd</sup> programme review, these relate mainly to the labour market reform and the pension reform but it is considered that these remaining issues will be fulfilled swiftly and are not expected to hamper the completion of the 2<sup>nd</sup> review. According to data by the Bank of Greece, for the period January – March 2017 the change in travel receipts and inbound travelers was -4.8%YoY and -1.8%YoY respectively.

### SOUTH EASTERN EUROPE

**ROMANIA:** The consolidated government balance in cash terms was still in surplus in Jan-Apr 2017.

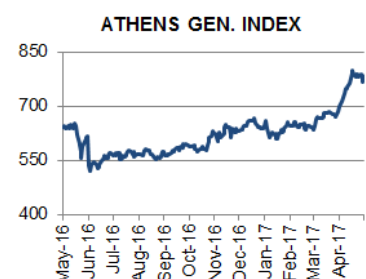
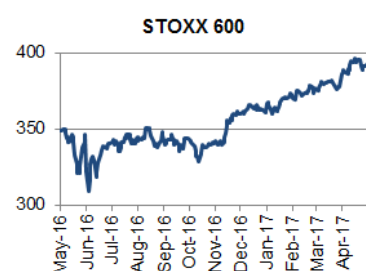
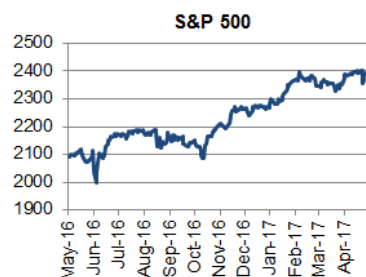
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May 26, 2017

## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

In line with market expectations following relevant comments by the Energy Ministers of Russia and Saudi Arabia a few sessions earlier, OPEC and non-OPEC members decided at their meeting on Thursday May 25<sup>th</sup> to extend for nine months to March 2018 the output -cut agreement of 1.8mn barrels per day compared to October 2016 levels. However, the lack of greater than expected oil production cuts and potential caps on Libya and Nigeria (the two countries are excluded from production cuts as their output remained curbed by unrest), pushed oil prices lower. After dropping to a multi-session low of \$50.88/br earlier today, Brent crude recovered some ground hovering around \$51.80/br at the time of writing, remaining though around 6% lower from a five-week intraday peak recorded in the prior session. Lower oil prices weighed on commodity-related currencies with USD/CAD bouncing to levels close to 1.3500 in early European trade, marking gains of around 0.7% on a daily basis. Elsewhere, GBP came under pressure after, just a couple of weeks ahead of the June 8<sup>th</sup> snap general elections, an opinion poll suggested that the lead of PM Theresa May's Conservative Party against the major opposition Labour Party has narrowed to around 5% compared to c. 15-20% a few weeks earlier, a development that reinforced worries over a hard Brexit scenario. Disappointing UK Q1 GDP data also had an impact. UK Q1 GDP was reassessed lower to 0.2%QoQ from 0.7%QoQ in Q4 2016 and 0.3% QoQ initially reported mainly due to broad-based downward revisions within the services sector. With rising inflation exerting a negative impact on real disposable incomes, consumer spending growth fell to 0.3%QoQ, the slowest in two years with its contribution to GDP slowing to 0.2pp from 0.5pp. Looking at the day ahead, focus is on the second estimate of US Q1 GDP growth that is expected to be revised up slightly from the initially reported 0.7% per annum.

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### GREECE

The minutes from the May 22<sup>nd</sup> Eurogroup that have leaked to the press provide some insight as to the discussions held and the positions of the different parties involved. With regard to the remaining prior actions attached to the 2<sup>nd</sup> programme review, these relate mainly to the labour market reform and the pension reform. As regards the first, the IMF noted that "collective bargaining language includes specific date for reversal", which has not been agreed with the Fund. As regards the second issue, the recent constitutional concerns voiced by the Court of Auditors necessitate a legal opinion to ensure the robustness and commitment to address the problem should the reforms be overturned. Other pending items relates to the indemnity of Hellenic Statistical Authority management and staff and the anti-corruption legal framework. In any case, it is considered that these remaining issues will be fulfilled swiftly and are not expected to hamper the completion of the 2<sup>nd</sup> review.

With regard to the debt relief framework, differences persist primarily between the IMF and Germany on their assumptions for future growth and primary surpluses for Greece and consequently for the scope of the measures that will need to be adopted to restore debt sustainability. A proposal that was brought forward envisaging the participation of the IMF without contributing funds was rejected by the Greek FinMin Euclid Tsakalotos on the ground that it lacked the necessary clarity to the markets about the country's debt being sustainable. In other news, the Bank of Greece released yesterday the balance of travel services for March 2017. Travel receipts for this month fell -7.8%YoY while inbound travelers decreased -0.2%YoY. For the period January – March 2017 the change in travel receipts and inbound travelers was -4.8%YoY and -1.8%YoY respectively.

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## Latest economic & market developments in the CESEE region

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		
	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	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

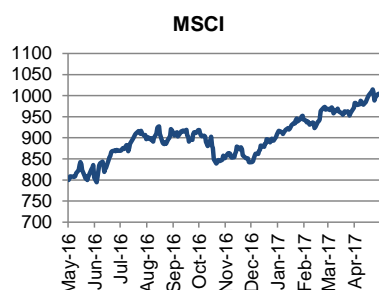
ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2015	2016e	2017f
Real GDP growth %	0.8	2.8	3.0
CPI (pa, yoy %)	1.9	1.2	2.1
Budget Balance/GDP	-3.7	-1.4	-1.3
Current Account/GDP	-4.7	-4.0	-3.9
EUR/RSD (eop)	121.38	123.40	125.5
	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

### ROMANIA

The consolidated government balance in cash terms switched to a deficit of RON168mn in April, significantly lower than the deficit of RON2.9bn in the same month a year ago, down from a surplus of RON1.6bn in March. Overall, the consolidated government surplus reached RON1.4bn or 0.17% of projected GDP in the first four months of the year, a bit higher than the surplus of +0.02% of GDP registered in the same period last year.

The revenues performance improved in April (+12.3% YoY), so that total revenues were still up by +8.4% YoY in Jan-Apr but nevertheless below the FY target of +13.9% YoY, a trend which may continue as further tax cuts have come into force since the beginning of the year. On the other hand, total expenditures expanded by 6.8% YoY in Jan-Apr, below the FY target of 15.2% YoY. Nevertheless, spending in the areas of wages has started to accelerate as of February (+18.1% YoY in 4M-2017) as the budget implementation incorporated the ruling coalition's electoral program for further generous hikes. All other spending items, procurement for goods & services, interest and capital expenditure declined by -4.4%, -8.6% and -28.4% respectively in the same period.

Market focus has shifted to the budget execution downside risks given the overly optimistic assumptions it is based upon and may put the government on a collision course with EU institutions. Earlier this week, the EU Commission issued an official warning to Romania, in the context of the annual assessment of the fiscal positions of the EU member countries, pointing to the existence of a significant deviation of the structural public budget balance (-2.6% of GDP in 2016) from the medium-term budgetary objective (-1% of GDP). This year's budget is built upon the macroeconomic assumptions of a +5.2% rate of GDP growth, a +1.4% average inflation, a nominal GDP of RON 815.2bn, a 4.3% employment increase, a fiscal deficit target of 2.96% of GDP in cash basis terms or 2.99% in ESA2010 terms in 2017.

Assuming no policy change, the projected fiscal deficit is expected to swell well above the 3% of GDP threshold in 2017. According to the latest IMF forecast, the fiscal deficit is expected to increase to 3.7% of GDP in 2017 and further up to 3.9% in 2018. To make matters worse, the previous forecasts do not take into account the impact from the implementation of the unified public wage bill and the social security contributions' reduction. Thus, the incoming government may be inclined to adopt a more conservative fiscal stance in H2 that may have a negative impact on this year's growth dynamics. In this case, the Ministry of Finance has pledged to contain expenditures which practice has shown that such measures usually result in the under execution of the public investments program (4.2% of GDP in 2017) at the expense of neglecting infrastructure. The latter is already evident in the budget execution data of the first four months.

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May 26, 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	2412.67	0.3%	7.8%	EUR/USD	1.122	0.0%	6.7%	UST - 10yr	2.25	0	-19	GOLD	1257	-0.2%	9.1%
Nikkei 225	19813.13	0.4%	3.7%	GBP/USD	1.2953	-0.1%	4.8%	Bund-10yr	0.36	-4	16	BRENT CRUDE	54	-0.3%	-5.3%
STOXX 600	392.54	0.0%	8.6%	USD/JPY	111.79	-0.3%	4.7%	JGB - 10yr	0.05	0	0	LMEX	2771	-0.6%	4.2%

## CESEE MARKETS

### SERBIA

#### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	3.02	2	2
1-week	3.17	2	0
1-month	3.35	-1	0
3-month	3.53	-3	6
6-month	3.71	-4	5

#### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.90	#N/A N/A	-14
5Y RSD	5.30	0	-6
7Y RSD	5.65	-2	2

#### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.81	0	-51
USD Nov-24	6.36	-1	-5

#### CDS

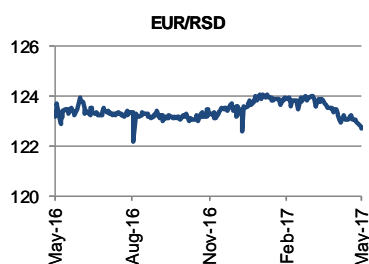
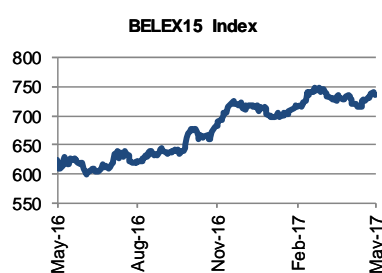
	Last	ΔDbps	ΔYTD bps
5-year	170	0	-38
10-year	223	0	-32

#### STOCKS

	Last	ΔD	ΔYTD
BELEX15	736.5	0.11%	2.66%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	122.72	0.01%	0.60%



### ROMANIA

#### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.55	-2	-1
1-month	0.69	0	-7
3-month	0.87	0	-3
6-month	1.04	-1	-7
12-month	1.23	-1	-2

#### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.42	-1	-20
5Y RON	2.28	-4	-24
10Y RON	3.32	-2	-33

#### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.95	0	-19
USD Jan-24	3.30	-2	-56

#### CDS

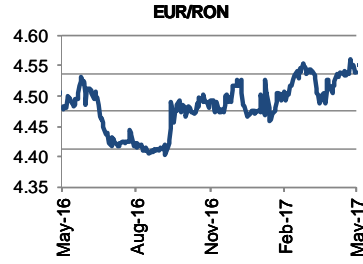
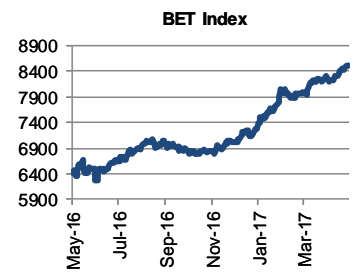
	Last	ΔDbps	ΔYTD bps
5-year	104	0	-6
10-year	148	-1	-4

#### STOCKS

	Last	ΔD	ΔYTD
BET	8595.4	0.54%	21.32%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5518	-0.02%	-0.28%



### BULGARIA

#### Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.30	0	-30
1-month	-0.17	0	0
3-month	-0.08	0	-1
6-month	0.04	0	-4
12-month	0.42	0	2

#### BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.01	1	-17
5Y BGN	0.30	3	-21
10Y BGN	1.61	0	-30

#### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-1.05	-5	-72
EUR Sep-24	1.39	5	-29

#### CDS

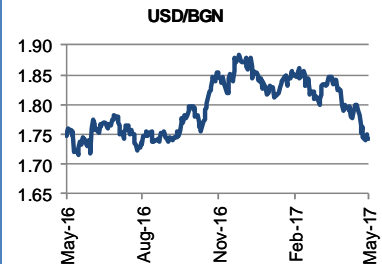
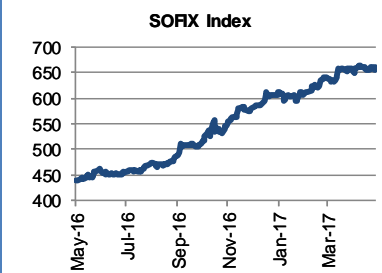
	Last	ΔDbps	ΔYTD bps
5-year	111	0	-41
10-year	163	0	-31

#### STOCKS

	Last	ΔD	ΔYTD
SOFIX	658.5	-0.34%	12.29%

#### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7432	0.01%	6.61%



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

Data updated as of 17:10 EEST of previous session

May 26, 2017

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