



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Tuesday, September 26, 2017

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Sep 26
 - CB Consumer confidence (Sep)
 - New home sales (Aug)
 - Fed Chair Yellen speaks
- Sep 27
 - Durable goods orders (Aug)
 - Pending home sales (Aug)
- Sep 28
 - GDP (Q3, 3rd est.)
 - Jobless claims (weekly)
- Sep 29
 - Personal income / spending (Aug)
 - Core PCE deflator (Aug)
 - Chicago PMI (Sep)
 - U. of Mich. Sentiment (Sep,p)

EUROZONE

- Sep 25: DE: Ifo business climate (Sep)
- Sep 28
 - DE: GfK consumer climate (Oct)
 - ESI (Sep)
- Sep 29: HICP (Sep)

GREECE

- Sep 29: Retail sales (Jul)

SEE

BULGARIA

- Sep 25: 0.8% 2025 T-bonds auction
- Sep 26: Gross external debt (Jul)
- Sep 29: Moody's rating review
- Sep 29-Oct 1: Budget balance (Aug)

ROMANIA

- Sep 25: 3.4% 2022 T-bonds auction

SERBIA

- Sep 25: Gross wages (Aug)
- Sep 29
 - Industrial output (Aug)
 - Trade balance (Aug)
 - Retail sales (Aug)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Taking their cue from the slightly negative tone in Wall Street overnight, the majority of European equity markets were moderately in the red in early trade on Tuesday on the back of a fresh flare up in tensions between the US and North Korea. With geopolitical worries returning to the forefront, the JPY was among the main outperformers in FX markets shrugging off Japan PM Shinzo Abe's announcement on Monday that he would dissolve parliament later this week and call national elections next month. The US Treasury will sell \$26bn of 2-year notes and Fed Chair Janet Yellen will give a speech at 18:45 CET. On the data front, the US Conference Board survey for September is the main highlight.

GREECE: During an interview in Athens yesterday, Eurogroup President Jeroen Dijsselbloem stated that it is a joint ambition of both the Greek government and the European Commission to have a "clean exit", but for this to happen until August 2018 "everything must fall in place", namely the review must be completed, all elements of the programme must be fulfilled and access to the financial markets must be restored. But even then, there will be some kind of post-programme surveillance as in all countries that carried out economic adjustment programmes.

SOUTH EASTERN EUROPE

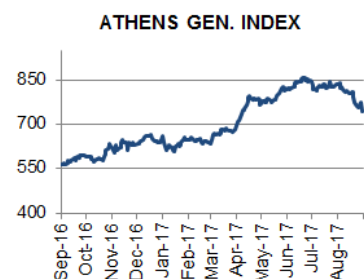
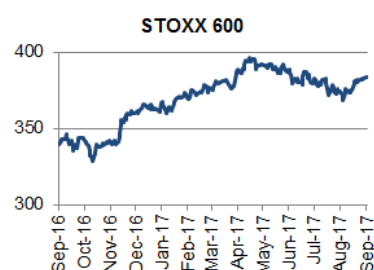
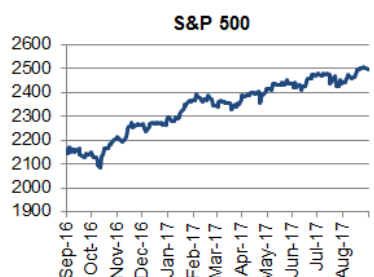
ROMANIA: The consolidated government budget recorded in cash terms a RON 1.4bn deficit in August, bringing the shortfall at 0.8% of projected GDP in the first eight months of the year.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Taking their cue from the slightly negative tone in Wall Street overnight, the majority of European equity markets were moderately in the red in early trade on Tuesday on the back of a fresh flare up in tensions between the US and North Korea. North Korea's foreign minister described US President Donald Trump's comments during the weekend as "a declaration of war" warning that North Korea reserves the right to take countermeasures. Turning to major government bond markets, US Treasury yields were a tad higher on the day with the 2-yr paper yielding levels around 1.431% in European trade at the time of writing, not far from Monday's multi-session closing low of 1.427% ahead of today's \$26bn US Treasury supply of 2-year notes and Fed Chair Janet Yellen's speech at 18:45 CET. Meanwhile, German Bunds continued to perform well with the 10-yr paper yielding levels around 0.41%, little changed compared to Monday's 0.40% settlement, the lowest in nearly two weeks on the back of the German election outcome that was not that predictable after all. Angela Merkel's CDU fared a little worse than pre-election opinion polls implied, a far-right political party makes it into Bundestag for the first time in more than a century and the liberal party FDP, which has a more skeptical stance towards further euro area integration, is expected to take part in the new coalition government, fueling market concerns that these developments will complicate Angela Merkel and French President Emmanuel Macron's task for ambitious euro area governance reforms. With geopolitical worries returning to the forefront, the JPY was among the main outperformers in FX markets shrugging off Japan PM Shinzo Abe's announcement that he would dissolve parliament later this week and call national elections next month, presumably to capitalize his party's improved rating and opposition disarray. Against a broadly firmer JPY, the USD/JPY recorded a multi-session low of 111.50 earlier today and the EUR/JPY dropped to 131.85, the lowest in more than a week with ECB President Mario Draghi reiterating at a speech on Monday that a very substantial degree of accommodation is still needed. In other news, oil prices rose with Brent crude rising to \$59.50/br today, the highest since July 2015, after Turkey threatened to cut oil flows from Iraq's Kurdish area to its ports in reaction to the Iraqi Kurdistan independence vote. On today's data front today, the US Conference Board survey for September is the main highlight.

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GREECE

During an interview in Athens yesterday, Eurogroup President Jeroen Dijsselbloem pointed out that at this point the interests of the Greek side are perfectly aligned with those of the institutions so emphasis must be placed in finishing the 3rd programme review by the end of the year and added that the Greek PM is committed to making sure that everyone delivers. With regard to the post-programme period, Eurogroup President argued that it is a joint ambition of both the Greek government and the European Commission to have a "clean exit". This scenario is possible but requires that until August 2018 "everything falls in place", namely that the review is completed, all elements of the programme are fulfilled so that the programme itself is successfully completed and that access to the financial markets is restored. But even then, there will be some kind of post-programme surveillance as in all countries that carried out economic adjustment programmes. According to Jeroen Dijsselbloem, this would be a light form of surveillance whereby the institutions come twice a year to check how the economy develops etc. and if there is cause for concern the government and the Eurogroup are given a warning. With respect to Greek banks Eurogroup President confined to saying that the key issue is to establish towards the end of the programme whether banks can survive on their own adding that whether a stress test or an AQR would be required is not a political decision but up to the banking authorities to decide. Meanwhile, according to press reports, the Alternate Minister of Finance George Chouliarakis expressed confidence in a speech at a conference yesterday that the primary surplus of 2017 will reach c. 2.1-2.2% of GDP and that the 2018 target of 3.5% of GDP will be attained. In other news, officials from the Competition and Energy Directorates General are expected to arrive in Athens this week to further discuss with Greek officials the proposal of the Public Power Corporation (PPC) for the sale of 40% of its lignite-fired production units. According to press reports, the EC officials have numerous objections against this proposal which, however, has to be finalised so that the market test can take place in mid-October, as scheduled.

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September 26, 2017

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

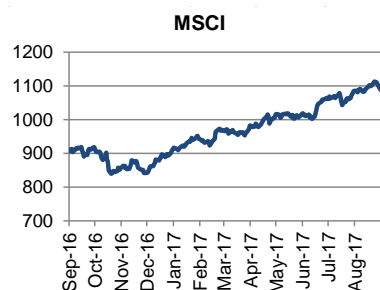
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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	3.75	3.75

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

Latest economic & market developments in the CESEE region

ROMANIA

The consolidated government balance recorded a deficit of RON1.4bn in cash terms in August, down from a surplus of RON1.2bn in July and marginally wider than a shortfall recorded in the same month a year ago. Overall, the consolidated government deficit reached RON6.5bn or 0.8% of the revised projected GDP in the first eight months of the year, double than the deficit of 0.4% of GDP registered in the same period last year.

The main trends witnessed so far in the year are also evident in the budget execution of August. In fact, the revenues performance improved in August (+8.8% YoY), driven by improved VAT collection (+19.3% YoY), even though VAT revenues are not overperforming during a summer month, so that total revenues were still up by +8.9% YoY in Jan-Aug. On the other hand, total expenditures expansion has reached double digit levels (+11.0% YoY) over the 8M period. Spending in the areas of wages and social benefits is still on the rise (+21.4% YoY and +11.3% YoY in 8M-2017) as the budget implementation incorporated the ruling coalition's electoral program for further generous hikes. Other key spending items, such as procurement for goods & services (+4.1% YoY), capital expenditure (-18.7% YoY) and debt servicing (-5.9% YoY) remained either relatively contained or declined respectively in the same period.

Overall, the government has revised the budget in order to bring the revenues and expenditures figures closer to reality, but maintained the fiscal deficit target of 3% unchanged. In that direction, the government has adopted compensatory measures-in line with our expectations - in order to maintain fiscal performance in check. Thus the government increased excise taxes for fuels as of September (that will bring prices back to the levels of 2016) and also facilitated the distribution of additional dividends from the state-owned enterprises. Nevertheless, we still doubt if they will be enough to attain the target given the public expenses dynamics. In that case, the MoF has pledged to contain expenditures; practice has shown that this usually results in the under-execution of the public investments program (4.2% of GDP in 2017) at the expense of neglecting infrastructure. According to the latest IMF forecast - that was released before the budget revision - the fiscal deficit was expected to increase to 3.7% of GDP in 2017 and further up to 3.9% in 2018, which may put the government on a collision course with EU institutions.

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September 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	2496.66	-0.2%	11.5%	EUR/USD	1.1825	-0.2%	12.4%	UST - 10yr	2.22	0	-22	GOLD	1308	-0.2%	13.5%
Nikkei 225	20330.19	-0.3%	6.4%	GBP/USD	1.3497	0.2%	9.2%	Bund-10yr	0.41	1	20	BRENT CRUDE	59	-0.1%	3.7%
STOXX 600	383.80	0.0%	6.2%	USD/JPY	111.62	0.1%	4.8%	JGB - 10yr	0.03	0	-2	LMEX	3126	0.1%	17.5%

CESEE MARKETS

SERBIA				ROMANIA				BULGARIA			
Money Market				Money Market				Money Market			
BELIBOR	Last	ΔDbps	ΔYTD bps	ROBOR	Last	ΔDbps	ΔYTD bps	SOFIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.73	0	-27	O/N	0.85	0	29	LEONIA	0.01	0	1
1-week	2.84	0	-33	1-month	0.88	0	12	1-month	-0.16	0	1
1-month	3.06	0	-29	3-month	1.11	0	21	3-month	-0.07	1	0
3-month	3.32	0	-15	6-month	1.23	0	12	6-month	0.05	0	-3
6-month	3.53	0	-13	12-month	1.44	0	19	12-month	0.38	0	-3
RS Local Bonds				RO Local Bonds				BG Local Bonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	(yields)	Last	ΔDbps	ΔYTD bps
3Y RSD	4.50	#N/A	N/A	3Y RON	1.61	5	-1	3Y BGN	-0.13	6	-29
5Y RSD	5.11	0	-24	5Y RON	2.35	1	-17	5Y BGN	0.03	-1	-47
7Y RSD	5.58	0	-10	10Y RON	3.62	1	-3	10Y BGN	1.29	0	-62
RS Eurobonds				RO Eurobonds				BG Eurobonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
USD Nov-17	1.70	-6	-63	EUR Oct-25	1.62	0	-52	EUR Mar-22	0.17	0	-70
USD Nov-24	6.34	0	-8	USD Jan-24	2.96	0	-93	EUR Sep-24	0.87	0	-81
CDS				CDS				CDS			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
5-year	143	3	-65	5-year	100	0	-9	5-year	100	0	-52
10-year	196	0	-59	10-year	146	0	-6	10-year	150	0	-44
STOCKS				STOCKS				STOCKS			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
BELEX15	724.0	-0.16%	0.93%	BET	7917.8	0.37%	11.75%	SOFIX	683.0	0.31%	16.47%
FOREX				FOREX				FOREX			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
EUR/RSD	119.27	-0.88%	3.51%	EUR/RON	4.5986	0.02%	-1.30%	USD/BGN	1.654	-0.19%	12.36%

BELEX15 Index		BET Index		SOFIX Index	
800	750	9400	8900	800	700
700	650	8400	7900	600	500
650	600	7400	6900	400	300
600	550	6400	5900		
550					
Sep-16	Dec-16	Sep-16	Nov-16	Sep-16	Nov-16
Mar-17	Jun-17	Jan-17	Mar-17	Jan-17	Mar-17
		May-17	Jul-17	May-17	Jul-17
		Sep-17		Sep-17	

EUR/RSD		EUR/RON		USD/BGN	
126	124	4.65	4.60	1.90	1.85
122	120	4.55	4.50	1.75	1.70
120	118	4.45	4.40	1.65	1.60
118		4.35			
Sep-16	Dec-16	Sep-16	Dec-16	Sep-16	Dec-16
Mar-17	Jun-17	Mar-17	Jun-17	Mar-17	Jun-17
		Jun-17	Sep-17	Jun-17	Sep-17

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

Data updated as of 10:20 EEST

September 26, 2017

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