



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Thursday, July 27, 2017

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL US

- Jul 24: Existing home sales (Jun)
- Jul 25
 - Case-Shiller index (May)
 - CB consumer sentiment (Jul)
- Jul 26
 - New home sales (Jun)
 - FOMC meeting announcement
- Jul 27
 - Jobless claims (weekly)
 - Durable goods orders (Jun)
- Jul 28
 - GDP (Q2)
 - UoM Consumer Confidence (Aug)

EUROZONE

- Jul 24: PMI manufacturing & services (Jul)
- Jul 25: DE: Ifo business climate (Jul)
- Jul 26: DE: Gfk consumer confidence (Aug)
- Jul 28: ESI (Jul)

CYPRUS

- Jul 28: Sovereign credit rating review by Moody's

SEE BULGARIA

- Jul 28: Gross external debt

ROMANIA

- Jul 24: 5.85% 2023 T-bonds auction
- Jul 27: 3.4% 2022 T-bonds auction

SERBIA

- Jul 25
 - T-Bonds auction
 - Real wages (Jun)
- Jul 28: Sovereign credit rating review by Moody's

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The FOMC announced no change in its monetary policy stance at its 24-25 July meeting, with market focusing on the statement which contained two main differences compared to the previous one. Firstly, the balance sheet unwinding may start "relatively soon" instead of "this year". Secondly, inflation "has declined and is running below 2%", instead of June's phrase that inflation was running "somewhat below" its 2.0% target. The market considered Fed's wording at the statement as a relatively dovish twist mirroring a softening in the Fed's confidence on measures of inflation. Reacting to the above, the EUR/USD bounced to a fresh 2.5 year high of 1.7777 in Asian trade on Thursday, before retreating to levels around 1.1730 in European trade. In the rates markets, US government bonds rallied with yields on 10-yr US Treasuries falling about 5bps overnight at 2.28%.

GREECE: The Greek Prime Minister Alexis Tsipras in an interview yesterday expressed his satisfaction regarding the issuance of a new syndicated €3 billion 5-year government bond for the first time since 2014 at a yield of 4.625%. He also appeared confident that the issuance constitutes the first step towards a lasting return of the Hellenic Republic to the wholesale funding markets that will allow the country to successfully complete the 3rd Economic Adjustment Programme in August 2018. The new issuance comprised of €1.43 billion new money and €1.57 billion switch tenders accepted in full by holders of the outstanding 4.75% notes due in 2019.

SOUTH EASTERN EUROPE

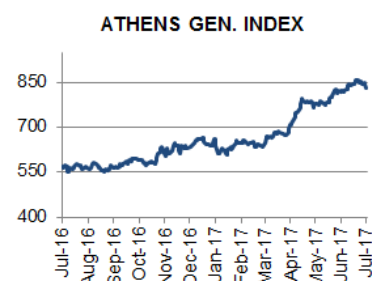
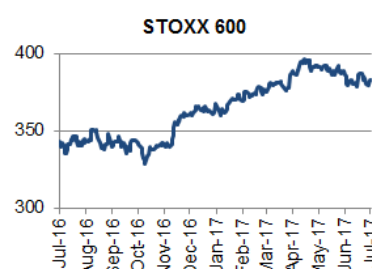
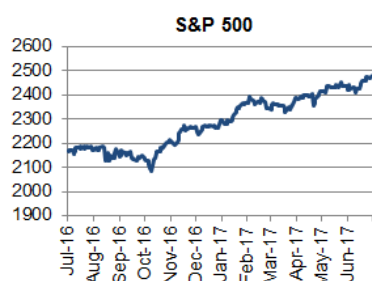
CESEE MARKETS: The majority of emerging market assets rallied in the aftermath of the FOMC meeting which concluded yesterday, while upbeat corporate earnings results and positive data from China also favored risk sentiment.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Broadly in line with expectations, the FOMC announced no change in its monetary policy stance at its 24-25 July meeting, maintaining the federal funds rate target range at 1.00-1.25%. Given that there was neither a press conference nor updated US economic/interest rate projections, focus centred on the statement which contained two main differences compared to the previous one. Firstly, the balance sheet unwinding may start "relatively soon" instead of "this year" that was used in the June statement, reflecting the words of Fed Chair Janet Yellen used during the press conference that followed the June FOMC meeting. Secondly, inflation "has declined and is running below 2%", instead of June's phrase that inflation was running "somewhat below" its 2.0% target. The market considered the Fed's wording at the statement as a relatively dovish twist mirroring a softening in the Fed's confidence on measures of inflation. Reacting to the above, the EUR/USD bounced to a fresh 2.5 year high of 1.7777 in Asian trade on Thursday, before retreating to levels around 1.1730 in European trade. The US dollar also weakened against the yen, with the USD/JPY falling in Asian trade on Thursday close to a five-week low of 110.62 hit on Monday, though the damage was rather limited by market expectations that the BoJ would keep its accommodative monetary policy stance in place for longer than most other major central banks. In the rates markets, US government bonds rallied with yields on 10-yr US Treasuries falling about 5bps overnight at 2.28%. On the macro data front, US weekly jobless claims and durable goods orders for June are due later today, while Eurozone M3 money supply growth for June is also expected to lure market attention.

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GREECE

The Greek Prime Minister Alexis Tsipras expressed his satisfaction in an interview yesterday regarding the issuance of a new syndicated €3 billion 5-year government bond for the first time since 2014 at a yield of 4.625%. He also appeared confident that this constitutes the first step towards a lasting return of the Hellenic Republic to the wholesale funding markets that will allow the country to successfully complete the 3rd Economic Adjustment Programme in August 2018. According to press reports, the new issuance comprised of €1.43 billion new money and €1.57 billion switch tenders accepted in full by holders of the outstanding 4.75% notes due in 2019. Based on the same reports, the new money portion was covered by fund managers (46%), hedge funds (36%), banks (13%) and other (5%), while the switch tenders were made by banks (74%), fund managers (16%), hedge funds (5%), insurance companies (4%) and other 1%. On the same topic, according to the latest report by the Hellenic Parliament Budget Office (April – June 2017), Greece will be able to maintain its recent return to the markets as long as: 1) it remains on a stable fiscal path so that the pressure from the increased interest rate from the markets does not lead to another vicious circle of deficits, recession and political instability, 2) sustainable economic growth is ensured in line with the implementation of the current programme and particularly reforms, 3) social stability and cohesion are achieved by addressing inequality, unemployment and poverty and safeguarding a legal framework that supports entrepreneurship and protects labour, and 4) political stability is preserved with as broad a political consensus as possible.

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July 27, 2017

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

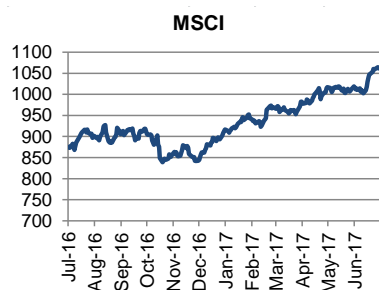
| ROMANIA: Indicator: | 2015 | 2016 | 2017f |
|----------------------|------|---------|-------|
| Real GDP growth % | 3.7 | 4.8 | 5.0 |
| CPI (pa, yoy %) | -0.6 | -1.6 | 1.4 |
| Budget Balance/GDP * | -1.9 | -2.4 | -3.7 |
| Current Account/GDP | -1.1 | -2.2 | -3.0 |
| EUR/RON (eop) | 4.48 | 4.54 | 4.62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

The majority of emerging market assets rallied in the aftermath of the FOMC meeting which concluded yesterday, while upbeat corporate earnings results and positive data from China also favored risk sentiment. Against this backdrop, the MSCI Emerging Markets index rose by ca 1% on the day approaching a new near 3-year peak earlier on Thursday. Gains in the CESEE space were more moderate against a stronger euro and news that the US planned to impose new sanctions on Russia. The European Commission's intention to start legal proceedings against Poland to preserve the Rule of Law also had a negative impact. In this context, the Polish main stock index WIG underperformed with a 0.4% daily drop and the zloty slid by 0.4% against the euro in European trade compared to Wednesday's settlement, to hover within distance from a 3-month trough of 4.2716 hit earlier in the week.

In more detail, the European Commission adopted at its weekly meeting yesterday a Rule of Law Recommendation, requesting Polish authorities not to take any action to dismiss or force the retirement of Supreme Court judges, warning that such a move could trigger the Article 7 procedure, giving the Polish government one month to address concerns on the issue. Additionally, the College of Commissioners decided to prepare an infringement procedure for the possible breach of EU law in the country, stressing that it stands ready to send a Letter of Formal Notice regarding a recently ratified bill by President Andrzej Duda - which allows the justice minister to appoint and dismiss judges in ordinary courts - as soon as the law is officially published. The decisions come on the heels of government-backed plans to reform the judiciary. The reforms triggered street rallies and international criticism on concerns over potentially undermining the Rule of Law in the country by weakening judicial independence. Recall that, albeit signing the Law on the Ordinary Courts earlier this week, the President vetoed two other bills that referred to the Supreme Court and National Council for the Judiciary and would provide the government and parliament the power to replace members in these courts.

Looking into today's CESEE calendar of macroeconomic data releases and events, focus is on Turkey's MPC meeting. The market's median forecast is for the Central Bank to hold all policy rates stable and maintain a cautious tone as inflation remains more than double the 5% medium-term target (at 10.90%YoY in June) and has yet to show a sustainable improvement. In more detail, the benchmark 1-week repo rate is seen remaining at 8.00%, the overnight lending and borrowing rates at 9.25% and 7.25%, respectively, and the late liquidity lending rate at 12.25%. Elsewhere, Romania's finance ministry plans to raise RON 300mn worth of 3.4% 2022 T-bonds.

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July 27, 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 | 2477.83 | 0.0% | 10.7% | EUR/USD | 1.172 | -0.1% | 11.4% | UST - 10yr | 2.29 | 0 | -16 | GOLD | 1261 | 0.1% | 9.5% |
| Nikkei 225 | 20079.64 | 0.1% | 5.0% | GBP/USD | 1.3139 | 0.1% | 6.3% | Bund-10yr | 0.52 | -4 | 31 | BRENT CRUDE | 51 | -0.1% | -10.4% |
| STOXX 600 | 382.73 | 0.0% | 5.9% | USD/JPY | 111.3 | -0.1% | 5.1% | JGB - 10yr | 0.07 | -1 | 3 | LMEX | 2974 | 0.9% | 11.8% |

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 | 3.02 | -1 | 2 | O/N | 0.63 | 2 | 7 | LEONIA | 0.01 | 0 | 1 |
| 1-week | 3.13 | -4 | -4 | 1-month | 0.71 | 1 | -5 | 1-month | -0.16 | 0 | 0 |
| 1-month | 3.30 | -2 | -5 | 3-month | 0.87 | 0 | -3 | 3-month | -0.09 | 0 | -2 |
| 3-month | 3.55 | -1 | 8 | 6-month | 1.04 | -1 | -7 | 6-month | 0.04 | 0 | -4 |
| 6-month | 3.81 | 4 | 15 | 12-month | 1.2 | -1 | -5 | 12-month | 0.41 | 0 | 0 |
| RS Local Bonds | | | | RO Local Bonds | | | | BG Local Bonds | | | |
| | Last | ΔDbps | ΔYTD bps | | Last | ΔDbps | ΔYTD bps | (yields) | Last | ΔDbps | ΔYTD bps |
| 3Y RSD | 4.83 | #N/A | N/A | 3Y RON | 1.31 | 1 | -31 | 3Y BGN | -0.08 | -1 | -24 |
| 5Y RSD | 5.22 | 0 | -14 | 5Y RON | 2.27 | 0 | -25 | 5Y BGN | 0.14 | 0 | -36 |
| 7Y RSD | 5.60 | 1 | -3 | 10Y RON | 3.51 | 0 | -14 | 10Y BGN | 1.52 | 0 | -39 |
| RS Eurobonds | | | | RO Eurobonds | | | | BG Eurobonds | | | |
| | Last | ΔDbps | ΔYTD bps | | Last | ΔDbps | ΔYTD bps | | Last | ΔDbps | ΔYTD bps |
| USD Nov-17 | 1.52 | -16 | -81 | EUR Oct-25 | 1.93 | 0 | -20 | EUR Mar-22 | 0.41 | 3 | -46 |
| USD Nov-24 | 6.24 | -4 | -17 | USD Jan-24 | 3.17 | 0 | -68 | EUR Sep-24 | 1.25 | 45 | -43 |
| CDS | | | | CDS | | | | CDS | | | |
| | Last | ΔDbps | ΔYTD bps | | Last | ΔDbps | ΔYTD bps | | Last | ΔDbps | ΔYTD bps |
| 5-year | 145 | 1 | -63 | 5-year | 104 | 0 | -5 | 5-year | 108 | -1 | -44 |
| 10-year | 193 | 1 | -62 | 10-year | 147 | 0 | -6 | 10-year | 159 | -1 | -35 |
| STOCKS | | | | STOCKS | | | | STOCKS | | | |
| | Last | ΔD | ΔYTD | | Last | ΔD | ΔYTD | | Last | ΔD | ΔYTD |
| BELEX15 | 714.2 | -0.35% | -0.44% | BET | 8328.5 | 0.06% | 17.55% | SOFIX | 712.9 | -0.24% | 21.56% |
| FOREX | | | | FOREX | | | | FOREX | | | |
| | Last | ΔD | ΔYTD | | Last | ΔD | ΔYTD | | Last | ΔD | ΔYTD |
| EUR/RSD | 120.20 | 0.02% | 2.71% | EUR/RON | 4.5625 | 0.10% | -0.52% | USD/BGN | 1.669 | -0.13% | 11.35% |

| BELEX15 Index | | BET Index | | SOFIX Index | |
|---------------|--|-----------|--|-------------|--|
| | | | | | |
| EUR/RSD | | EUR/RON | | USD/BGN | |
| | | | | | |

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

Data updated as of 11:30 EEST

July 27, 2017

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