

# DAILY OVERVIEW

## OF GLOBAL MARKETS & THE SEE REGION

Wednesday, June 28, 2017

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Jun 26: Durable goods orders (May)
- Jun 27
  - CB consumer confidence (Jun)
  - Fed Chair Yellen speaks
- Jun 28: Pending home sales (May)
- Jun 29
  - GDP (Q1, 3<sup>rd</sup> estimate)
  - Jobless claims (weekly)
- Jun 30
  - Personal income / spending (May)
  - Core PCE deflator (May)
  - Chicago PMI (Jun)
  - UoM consumer sentiment (f, May)

#### EUROZONE

- Jun 26: DE: Ifo business climate (Jun)
- Jun 29
  - GfK Consumer confidence (Jul)
  - ESI (Jun)
- Jun 30: HICP (flash, Jun)

#### GREECE

- Jun 30: Retail sales (Apr)

#### CYPRUS

- Jun 28: Reunification negotiations resume in Geneva

#### SEE

##### BULGARIA

- Jun 28: Gross External Debt (Apr)
- Jun 30
  - PPI Index (May)
  - Budget execution (May)
  - Base Interest Rate (Jul)

##### ROMANIA

- Jun 26: T-bonds auction
- Jun 27: 1.25% 2021 T-bonds auction
- Jun 30: Unemployment (May)

##### SERBIA

- Jun 26: Real Gross Wages (May)
- Jun 30
  - Industrial Production (May)
  - Trade Balance (May)
  - Retail Sales (May)

Source: Reuters, Bloomberg,

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Global sovereign bond yields moved sharply higher and the EUR firmed after comments by the ECB President at the fourth annual ECB Forum on Central Banking in Portugal were perceived by market participants as a signal that the Central Bank is likely to start tapering its QE programme earlier than expected. Meanwhile, USD was weaker across the board following news that the Republican Senate Majority Leader decided to push off a vote on a healthcare bill to replace Obamacare until after Congress returns from the July 4th recess. The release of the IMF's annual Article IV report on the US where the Fund revised downward its 2017 and 2018 GDP growth forecast, also weighed on USD. ECB President Mario Draghi will participate in a panel discussion with BoE Governor Mark Carney, BoJ Governor Haruhiko Kuroda and BoC Governor Stephen Poloz at the ECB Forum (15:30 CET).

**GREECE:** Speaking at a conference the Greek Alternate FinMin George Chouliarakis reportedly stated that Greece needs to curb bureaucracy, reclaim ownership of the programme and step up its efforts regarding the implementation of the privatisations programme. The Budget Committee of the German Parliament is reportedly scheduled to vote today on the disbursement of the next ESM loan tranche of €8.5 billion to Greece. Moody's upgraded the ratings of all Greek mortgage covered bonds to B3.

### SOUTH EASTERN EUROPE

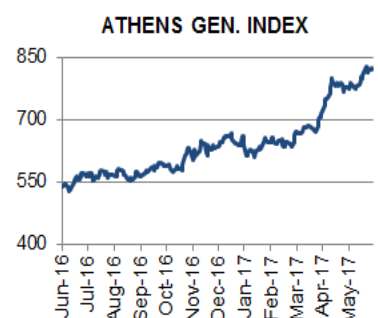
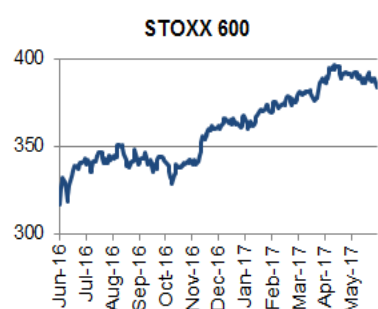
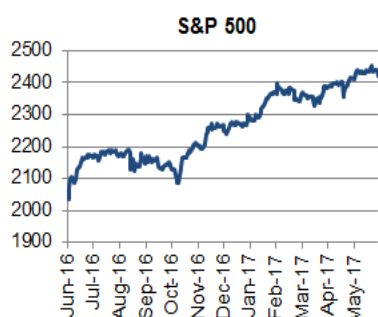
**ROMANIA:** The consolidated government balance in cash terms recorded a 2.5bn RON deficit in May 2017, the highest so far in the first five months of the year

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Global sovereign bond yields moved sharply higher and the EUR firmed in European trade after comments by the ECB President at the fourth annual ECB Forum on Central Banking were perceived by market participants as a signal that the Central Bank is likely to start tapering its QE programme earlier than expected. President Mario Draghi expressed confidence about the firming and broadening euro area economic recovery noting that deflationary forces have been replaced by reflationary ones. The ECB President added that, as the economy continues to recover, the Central Bank should adjust the parameters of its policy instruments, not in order to tighten the policy stance but to keep it broadly unchanged, making clear that any adjustments to its stance have to be made gradually. The 10-yr Bund yield hit a one-month high of 0.41% earlier today after ending at 0.35% in the prior session, poised for the biggest one-day jump in two months. Meanwhile, the 2-yr Bund yield jumped to -0.53%, the highest in a year with the 2/10-yr yield curve undertaking some bearish steepening and the corresponding spread hovering around a two-week high of 94bps at the time of writing, some 1.5bps higher compared to the settlement in the prior session. Along these lines, the 10-yr UST yield rose to 1.24% earlier today for the first time since late May while the 10-yr UK Gilt was yielding levels around 1.12%, the highest in more than two months.

In FX markets, EUR gained across the board hitting a one-year high of 1.1388 against a broadly weaker US currency. The DXY index marked a new year-to-date low close to 96.00 earlier today following news that the Republican Senate Majority Leader decided to push off a vote on a healthcare bill to replace Obamacare until after Congress returns from the July 4th recess. As things stand, due to deep interparty divisions, Republicans are reportedly unable to secure the 50 in favor votes needed to pass the bill in the Senate where the party holds a thin majority of 52 seats. The release of the IMF's annual Article IV report on the US where the Fund revised downwards its 2017 and 2018 GDP growth forecast to 2.1% for both years from 2.3% and 2.5% previously amid fading prospects for tax reforms this year, also weighed on USD. Against this environment, comments by Fed Chair Janet Yellen over continued, albeit gradual, monetary policy tightening failed to exert a positive impact on USD. ECB President Mario Draghi will participate in a panel discussion with BoE Governor Mark Carney, BoJ Governor Haruhiko Kuroda and BoC Governor Stephen Poloz at the ECB Forum (15:30 CET).

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### GREECE

Speaking at a conference the Greek Alternate FinMin George Chouliarakis reportedly stated that Greece needs to curb bureaucracy, reclaim ownership of the programme and step up its efforts regarding the implementation of the privatisations programme. According to the Supplemental MoU the implementation of this programme aims to generate further annual proceeds (excluding bank shares) for 2017 and 2018 of €1.9 billion and €2.5 billion respectively. Meanwhile, the Budget Committee of the German Parliament is reportedly scheduled to vote today on the disbursement of the next ESM loan tranche of €8.5 billion to Greece. According to press reports, the German FinMin Wolfgang Schaueble called on the governing coalition MPs to vote in favour of the disbursement on the grounds that the June 15<sup>th</sup> Eurogroup reached a good and realistically achievable agreement that includes the participation of the IMF. In other news, Moody's upgraded the ratings of all Greek mortgage covered bonds to B3. According to Moody's, the upgrade came as a result of the rating actions on the relevant issuer ratings and CR assessments and following the Greek sovereign rating upgrade to Caa2 from Caa3, the increase of Greece's long-term country ceilings for bonds to B3, which now constrains the covered bond ratings at the B3 level.

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June 28, 2017

## 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

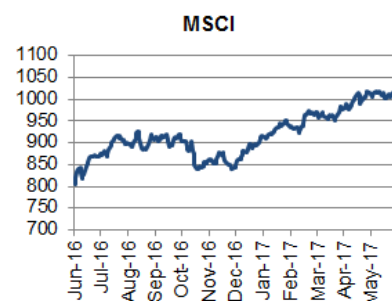
ROMANIA: Indicator:	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP *	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

\* 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 recorded a deficit of RON2.5bn in May compared to RON168mn in April, vs. only RON 909mn in the same month a year ago. Overall, the consolidated government deficit reached RON2.2bn or 0.27% of projected GDP in the first five months of the year, higher than the deficit of +0.1% of GDP registered in the same period last year.

The revenues performance deteriorated in May (+5.3% YoY), so that total revenues were still up by +7.9% YoY in Jan-May but nevertheless well below the FY target of +13.9% YoY, a trend which will most probably continue as further tax cuts have come into force since the beginning of the year. On the other hand, total expenditures expanded by 9.4% YoY in Jan-May, below the FY target of 15.2% YoY. Nevertheless, spending in wages has started to accelerate as of February (+19.1% YoY in 5M-2017 well above the 12% FY budget plan) as the budget implementation incorporated the ruling coalition's electoral program for further generous hikes. Other spending items, such as procurement for goods & services and capital expenditure declined by -0.5% and -23.1% respectively in the same period. Finally, debt servicing expenses were up by +1.6% YoY in Jan-May2017.

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. In late May, the EU Commission has already issued an official warning to Romania, in the context of the annual assessment of the fiscal positions of the EU member countries, on 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 was initially 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. In that direction, the authorities have recently revised the fiscal deficit target to 3.25%. 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. 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 that case, the Ministry of Finance has pledged to contain expenditures, which, as practice has shown, usually results 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 five months.

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June 28, 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	2419.38	-0.8%	8.1%	EUR/USD	1.1357	0.2%	8.0%	UST - 10yr	2.23	3	-21	GOLD	1250	0.2%	8.5%
Nikkei 225	20130.41	-0.5%	5.3%	GBP/USD	1.2796	-0.1%	3.6%	Bund-10yr	0.39	2	19	BRENT CRUDE	46	-0.5%	-18.3%
STOXX 600	383.82	-0.6%	6.2%	USD/JPY	112.32	0.0%	4.2%	JGB - 10yr	0.06	1	2	LMEX	2813	1.2%	5.8%

## CESEE MARKETS

### SERBIA

#### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.99	1	-1
1-week	3.13	2	-4
1-month	3.34	2	-1
3-month	3.54	1	7
6-month	3.74	-1	8

#### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.86	#N/A N/A	-17
5Y RSD	5.25	0	-11
7Y RSD	5.49	-12	-14

#### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	1.66	7	-67
USD Nov-24	6.32	-1	-9

#### CDS

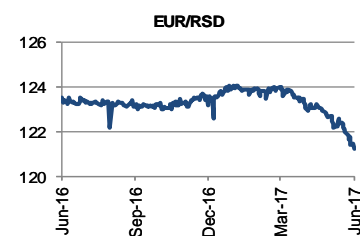
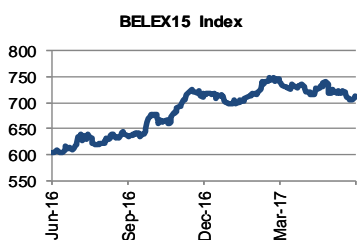
	Last	ΔDbps	ΔYTD bps
5-year	150	0	-58
10-year	201	0	-55

#### STOCKS

	Last	ΔD	ΔYTD
BELEX15	712.3	0.34%	-0.71%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	121.24	0.05%	1.83%



### ROMANIA

#### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.54	0	-2
1-month	0.62	0	-14
3-month	0.84	0	-6
6-month	1.02	0	-9
12-month	1.19	0	-6

#### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.29	1	-33
5Y RON	2.23	3	-29
10Y RON	3.35	2	-30

#### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.81	#N/A N/A	-32
USD Jan-24	3.12	#N/A N/A	-73

#### CDS

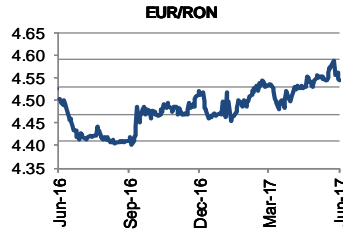
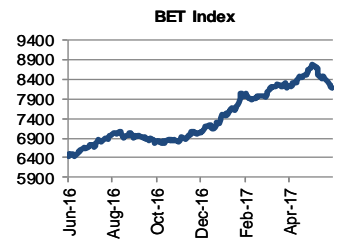
	Last	ΔDbps	ΔYTD bps
5-year	102	0	-7
10-year	146	-1	-6

#### STOCKS

	Last	ΔD	ΔYTD
BET	8188.7	-0.19%	15.58%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5615	0.07%	-0.49%



### BULGARIA

#### Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.23	0	-23
1-month	-0.17	0	0
3-month	-0.08	0	-1
6-month	0.04	0	-3
12-month	0.41	0	1

#### BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.06	0	-22
5Y BGN	0.16	-1	-34
10Y BGN	1.52	0	-39

#### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.79	-6	-46
EUR Sep-24	1.20	3	-49

#### CDS

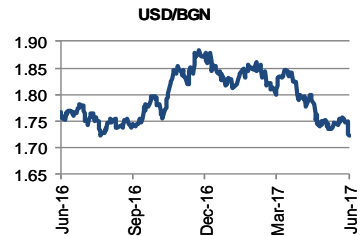
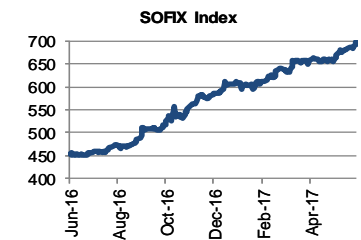
	Last	ΔDbps	ΔYTD bps
5-year	113	0	-39
10-year	163	0	-31

#### STOCKS

	Last	ΔD	ΔYTD
SOFIX	696.8	-0.04%	18.83%

#### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7224	0.14%	7.90%



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

Data updated as of 10:45 EEST

June 28, 2017

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