



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Wednesday, May 18, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- May 16
 - NAHB Housing index (May)
 - Empire state index (May)
- May 17
 - CPI (Apr)
 - Housing starts / permits (Apr)
 - Industrial production (Apr)
- May 18: FOMC 26/27 April meeting minutes
- May 19
 - Jobless claims (weekly)
 - Philly Fed
- May 20: Existing home sales (Apr)

EUROZONE

- May 18: HICP (Apr, f)
- May 19: ECB April 21 meeting minutes

GREECE

- May 20: Turnover Index in Industry (Mar)
- May 20-22: Parliament votes on multi-bill containing legislation on remaining prior actions attached to 1st review

SEE

BULGARIA

- May 16: BGN 100mn 10Y T-bond auction
- May 13-16: U/E rate (Apr)
- May 18: CAD (Mar)

ROMANIA

- May 16: 5.9% 2017 T-bond auction
- May 19: 3.5% 2022 T-bond auction

SERBIA

- May 17: MPC meeting
- May 20: CAD (Mar)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Major European equity markets opened lower on Wednesday, US Treasuries weakened and the US dollar appreciated against the majority of its currency peers following a string of positive US data on Tuesday which triggered a hawkish shift in Fed rate hike expectations.

GREECE: An unnamed high level European official was quoted saying in local newswires that the goal of the May 24th Eurogroup is the approval of the compliance report for Greece's 1st programme review as well as a political agreement on debt relief. However, according to a number of press reports, a divergence of views continues to exist between European creditors and the IMF on debt relief with the latter calling for imminent and drastic measures to secure debt sustainability.

SOUTH EASTERN EUROPE

SERBIA: In its first meeting after April's general elections, the National Bank of Serbia (NBS) stayed put on its monetary policy yesterday for the third month running, maintaining the key benchmark rate at the record low level of 4.25%. The decision came against our and market expectations for a 25bps reduction.

CESEE MARKETS: The majority of **emerging stock markets** lost ground in early European trade on Wednesday, weighed down by an upward shift in Fed rate-tightening expectations. **Regional currencies** and **government bonds** also weakened earlier today in view of deteriorating global risk sentiment.

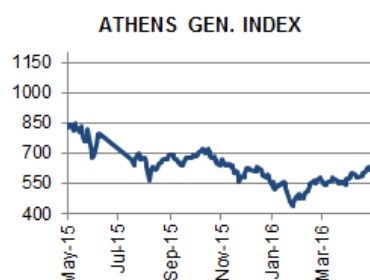
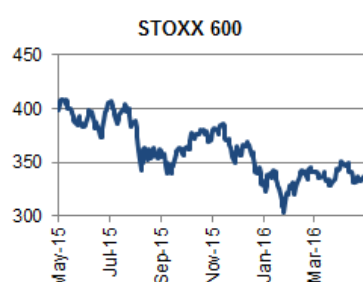
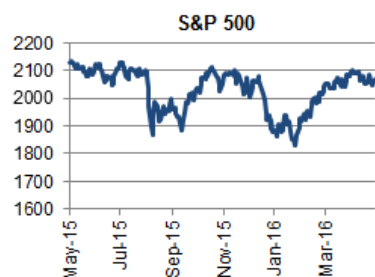
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May 18, 2016

Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Major European equity markets opened lower on Wednesday, US Treasuries weakened and the US dollar appreciated against the majority of its currency peers following a string of positive US data on Tuesday which triggered a hawkish shift in Fed rate hike expectations. US consumer prices increased by 0.4%MoM in April, the biggest rise in more than three years taking the annual rate to 1.1% from 0.9% in March. In addition, halting a two-month declining streak, US industrial production rose by 0.7%MoM in April, the largest increase since November 2014 supported by a surge in utility output. Adding to the above, housing starts improved by 6.6% in April, largely reversing the 9.0% drop recorded in the previous month, standing at a seasonally adjusted annual pace of 1.17million units, the second highest since September 2015. US interest rate futures currently assign a c. 70% chance of a 25bps rate hike by December 2016 compared to c. 40% earlier this month. The 2-yr US Treasury hit a three-week peak of 0.8470% earlier today compared to levels around 0.72% a week earlier helping the USD to gain some ground. The DXY was standing close to 94.914 at the time of writing, the highest in near three weeks, after ending at 94.548 in the prior session. After marking a session low of 108.70 earlier today following the release of Japan's Q1 GDP report, the USD/JPY reversed course hovering around 109.40/45 at the time of writing, within distance from Tuesday's multi-week high of 109.64. Japan's Q1 GDP grew by 1.7%QoQ annualized, the fastest pace in a year and higher than 0.2% expected. However, the breakdown of the report was not as rosy with private consumption remaining subdued as a sales tax hike in 2014 continues to take a toll. Against this background, expectations for further BoJ policy easing prevail. Looking at today's calendar focus is on the FOMC minutes from the April meeting for clues over the timing of the next rate hike.

GREECE

An unnamed high level European official was quoted saying in local newswires that the goal of the May 24th Eurogroup is the approval of the compliance report for Greece's 1st programme review as well as a political agreement on debt relief. However, according to a number of press reports, a divergence of views continues to exist between European creditors and the IMF on debt relief with the latter calling for imminent and drastic measures to secure debt sustainability. Deliberations on the issue are likely to take place on the sidelines of the G7 meeting on May 19-21. Meanwhile, Eurogroup President Jeroen Dijsselbloem was quoted saying that it is not certain that a final agreement on the debt relief issue will be reached at next week's Eurogroup. Meanwhile, an unnamed EU official appeared cautious on the size of the next ESM loan tranche suggesting that it would probably amount to less than €9-11bn initially speculated but high enough to cover Greece's financing needs for the next few months. In other news, Eurobank and Alpha Bank reached a binding agreement with KKR Credit to assign the management of a portfolio containing NPLs worth up to €1.2bn (EUR 600mn each) of large Greek companies to a platform managed by the latter's subsidiary, Pillarstone Europe. Subject to board approval, the European Bank of Reconstruction and Development (EBRD) is also considering co-investing in the scheme.

ppetropoulou@eurobank.gr

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BULGARIA: Indicators	2014	2015e	2016f
Real GDP growth %	1.6	2.9	3.0
CPI (pa, yoy %)	-1.4	-0.1	1.0
Budget Balance/GDP*	-3.7	-3.3	-2.0
Current Account/GDP	0.9	1.5	1.0
EUR/BGN (eop)	1.9558		
	2015	current	2016f
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

CYPRUS: Indicators	2014	2015e	2016f
Real GDP growth %	-2.5	1.5	1.8
HICP (pa, yoy %)	-0.3	-1.5	0.5
Budget Balance/GDP*	-0.2	-0.9	-0.1
Current Account/GDP	-5.1	-5.5	-4.5

* ESA 2010

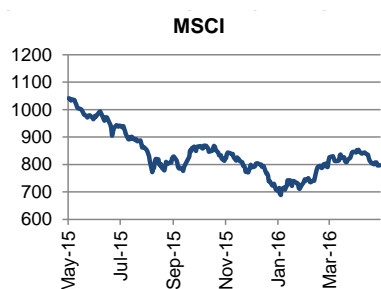
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2014	2015e	2016f
Real GDP growth %	2.9	3.8	4.1
CPI (pa, yoy %)	1.1	-0.4	-0.1
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.0	-2.0
EUR/RON (eop)	4.48	4.52	4.35
	2015	current	2016f
Policy Rate (eop)	1.75	1.75	2.00

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

SERBIA: Indicators	2014	2015e	2016f
Real GDP growth %	-1.8	0.7	1.8
CPI (pa, yoy %)	2.1	1.5	2.8
Budget Balance/GDP	-6.7	-3.7	-4.0
Current Account/GDP	-6.0	-4.7	-4.6
EUR/RSD (eop)	121.38	121.52	125.00
	2015	current	2016f
Policy Rate (eop)	4.25	4.25	4.25

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	B1	BB-	B+
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BB+	BBB-
CYPRUS	B1	BB-	B+

Source: IMF, EC, Reuters, Bloomberg, National
Authorities, Eurobank Research

Latest world economic & market developments in the CESEE region

SERBIA

In its first meeting after April's general elections, the National Bank of Serbia (NBS) stayed put on its monetary policy yesterday for the third month running, maintaining the key benchmark rate at the record low level of 4.25%. The decision came against our and market expectations for a 25bps reduction. In support of our view, the most recent inflation data release for April showed a deceleration of headline CPI to a 1-½ year trough of 0.4%YoY, with CPI remaining below the Central Bank target of 4.0±1.5 for two years now in view of low global commodity prices, a restrictive fiscal policy and a negative output gap. Despite low inflation pressures and improving macroeconomic fundamentals, the NBS retained a cautious tone citing ongoing uncertainties in the international commodity and financial markets. The Central Bank also noted that inflation will likely embark on a gradual uptrend from May onwards and return within the tolerance band early next year. In this context, the room for further monetary easing appears to be rather limited. Additionally, the NBS Executive Board adopted yesterday the May Inflation Report, which will be publicly released on Tuesday, 24 May and may shed some light on the NBS's monetary policy deliberations ahead.

CESEE MARKETS

The majority of **emerging stock markets** lost ground in early European trade on Wednesday, weighed down by an upward shift in Fed rate-tightening expectations. In this context, the MSCI Emerging Markets index eased paring modest gains recorded over the last two sessions. A similar picture was evidenced in CESEE bourses, with Hungary's main index BUX leading the way lower with a 1.0% daily drop at the time of writing.

Regional currencies and **government bonds** also weakened earlier today in view of deteriorating global risk sentiment. In the FX markets, the Serbian dinar bucked the region's negative trend standing modestly higher compared to the prior session's settlement at 122.50/€. The currency received support by yesterday's MPC decision to hold interest rates stable against market expectations for a 25bps reduction. Elsewhere, the Turkish lira and the Polish zloty broadly underperformed their regional peers, marking respective declines of 0.65% and 0.50% compared to Tuesday's close at 2.9820/\$ and 4.3915/€.

gphoka@eurobank.gr

May 18, 2016

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	2047.21	-0.9%	0.2%	EUR/USD	1.1268	-0.4%	3.8%	UST - 10yr	1.78	1	-49	GOLD	1271	-0.6%	19.8%
Nikkei 225	16644.69	0.0%	-12.6%	GBP/USD	1.4411	-0.4%	-2.2%	Bund-10yr	0.14	1	-49	BRENT CRUDE	49	-0.6%	31.4%
STOXX 600	334.43	-0.1%	-8.6%	USD/JPY	109.38	-0.2%	9.8%	JGB - 10yr	-0.09	1	-36	LMEX	2249	0.2%	2.1%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	286	-1	-17
1-week	2.97	-1	-22
1-month	3.10	-2	-41
3-month	3.28	0	-55
6-month	3.54	0	-49

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.56	0	-11
5Y RSD	5.29	0	16
7Y RSD	6.57	0	-113

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.68	1	-49
USD Nov-24	6.22	0	-19

CDS

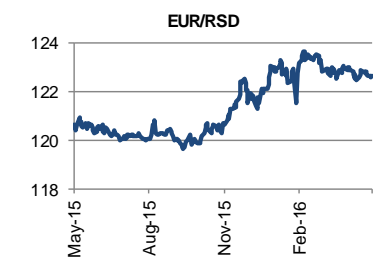
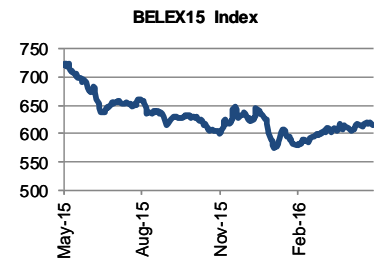
	Last	ΔDbps	ΔYTD bps
5-year	248	-2	-26
10-year	291	0	-48

STOCKS

	Last	ΔD	ΔYTD
BELEX15	614.7	-0.03%	-4.56%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	122.67	-0.04%	-0.89%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.42	1	-11
1-month	0.57	-1	-12
3-month	0.75	-1	-27
6-month	1.02	1	-32
12-month	1.17	0	-35

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.78	0	-15
5Y RON	2.63	1	-17
10Y RON	3.53	1	-25

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.39	#N/A	N/A
USD Jan-24	3.42	1	-37

CDS

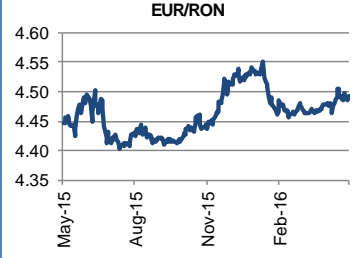
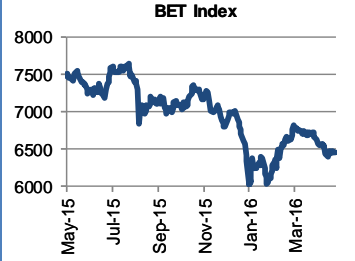
	Last	ΔDbps	ΔYTD bps
5-year	115	-3	-18
10-year	155	-4	-16

STOCKS

	Last	ΔD	ΔYTD
BET	6409.4	0.02%	-8.49%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4935	-0.16%	0.46%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.40	0	-41
1-month	-0.15	-1	-30
3-month	-0.03	-1	-29
6-month	0.11	0	-41
12-month	0.45	-1	-52

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.40	0	-21
5Y BGN	1.14	0	-13
10Y BGN	2.44	0	-22

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.07	-29	0
EUR Sep-24	2.30	5	-13

CDS

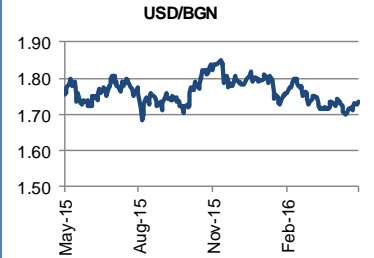
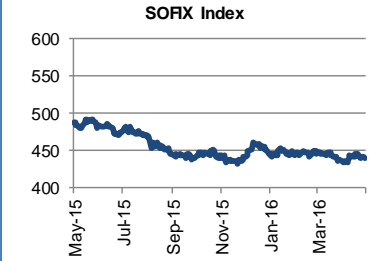
	Last	ΔDbps	ΔYTD bps
5-year	154	-1	-17
10-year	199	-1	-17

STOCKS

	Last	ΔD	ΔYTD
SOFIX	439.5	-0.19%	-4.64%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7354	-0.37%	3.74%



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

Data updated as of 12:10 EEST

May 18, 2016

Contributors

Paraskevi Petropoulou
G10 Markets Analyst, Eurobank Ergasias
+30 210 3718991
ppetropoulou@eurobank.gr

Galatia Phoka
Research Economist, Eurobank Ergasias
+30 210 3718922
gphoka@eurobank.gr

Ioannis Gkionis (Special Contributor)
Research Economist, Eurobank Ergasias
+30 210 3337305
IGKIONIS@eurobank.gr

Anna Dimitriadou (Special Contributor)
Economic Analyst, Eurobank Ergasias
+30 210 3718793
andimitriadou@eurobank.gr

Stylianos G. Gogos (Special Contributor)
Economic Analyst, Eurobank Ergasias
+30 210 3371226
sgogos@eurobank.gr

Olga Kosma (Special Contributor)
Research Economist, Eurobank Ergasias
+30 210 3371227
okosma@eurobank.gr

Regional Contributors

Vessela Boteva
Expert, trading desk, Eurobank Bulgaria
+359 (2) 8166 491
vboteva@postbank.bg

Zoran Korac
FX dealer, Eurobank ad Beograd
+381 11 206 5821
zoran.korac@eurobank.rs

Bogdan Radulescu, CFA
Senior Trader, Bancpost
+40 21 3656291
bogdan.radulescu@bancpost.ro

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: Group Chief Economist
pmonokroussos@eurobank.gr, +30 210 37 18 903

Dr. Tassos Anastasatos: Deputy Chief Economist
tanastasatos@eurobank.gr, +30 210 33 71 178

Research Team

Anna Dimitriadou: Economic Analyst
andimitriadou@eurobank.gr, +30 210 3718 793

Ioannis Gkionis: Research Economist
igkionis@eurobank.gr +30 210 33 71 225

Stylianos Gogos: Economic Analyst
sgogos@eurobank.gr +30 210 33 71 226

Olga Kosma: Research Economist
okosma@eurobank.gr +30 210 33 71 227

Arkadia Konstantopoulou: Research Assistant
arkonstantopoulou@eurobank.gr +30 210 33 71 224

Paraskevi Petropoulou: G10 Markets Analyst
ppetropoulou@eurobank.gr, +30 210 37 18 991

Galatia Phoka: Research Economist
gphoka@eurobank.gr, +30 210 37 18 922

Theodoros Stamatou: Senior Economist
tstamatou@eurobank.gr, +30 210 3371228

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

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