

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- May 31:
 - Personal income & spending (Apr)
 - CB consumer sentiment (May)
- June 1:
 - ISM index manuf. (May)
 - Fed's Beige Book
- June 2:
 - ADP employment change (May)
 - Initial jobless claims (May 28)
- June 3
 - Trade balance (Apr)
 - Non-farm payrolls (May)
 - ISM index (non-manuf. May)

EUROZONE

- May 30: Economic sentiment indicator (May)
- May 31:
 - M3 (Apr)
 - Consumer prices (May)
- June 1: PMI manuf. (final, May)
- June 2: ECB monetary policy meeting

SEE

BULGARIA

- May 31: Base Interest Rate (June)
- May 31: Budget Balance (Apr)

ROMANIA

- May 31: ILO Unemployment Rate (Apr)
- June 2: PPI (Apr)
- June 3: Retail Sales (Apr)

SERBIA

- May 31: Trade Balance (Apr)
- May 31: Retail Sales (Apr)
- May 31: Industrial Production (Apr)
- May 31: GDP NSA (Q1-2016, details)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: In the strongest signal so far that the Fed could raise interest rates within the next couple of months, Chairman Janet Yellen said during a speech at Harvard University last Friday that a rate hike would probably be appropriate "in coming months" if US economic activity picks up momentum and the labor market continues to improve. Against this background, the US dollar was firmer across the board in European trade on Monday while US Treasury yields moved higher.

GREECE: Discussions between the Greek government and the technical teams representing official creditors will reportedly continue today in an effort to reach a compromise on all pending items required for the release of the next ESM loan tranche amounting to €7.5bn. Reportedly, as things stand at this point, a full agreement between the two sides on all pending items in time for the next ECB monetary policy meeting on June 2nd is considered rather uncertain. As per the same sources, the government aims for a consensus to have been reached by the end of the week hoping that this will not prevent the reintroduction of a Greek collateral waiver at the upcoming ECB meeting.

SOUTH EASTERN EUROPE

BULGARIA: Following National Holidays, the domestic equity market witnessed another week of low volatility and thin volume.

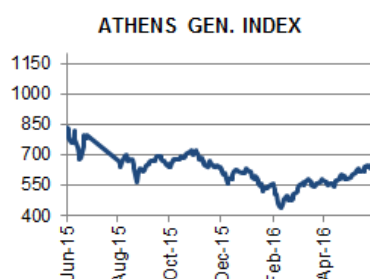
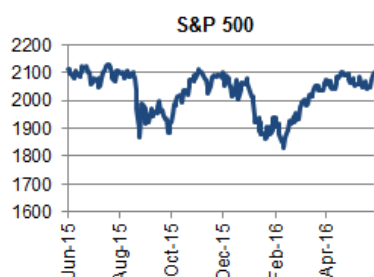
SERBIA: The EUR/RSD marched towards 123.40/60 last week without being confronted by a pullback.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

In the strongest signal so far that the Fed could raise interest rates within the next couple of months, Chairman Janet Yellen said during a speech at Harvard University last Friday that a rate hike would probably be appropriate “in coming months” if US economic activity picks up momentum and the labor market continues to improve. The above comments followed an upward revision in US real Q1 GDP to 0.8% QoQ saar from 0.5% QoQ saar reported in the advance estimate last month primarily reflecting positive contributions from personal consumption expenditures (PCE), residential fixed investment and state and local government spending that were partly offset by negative contributions from nonresidential fixed investment, exports, private inventory investment and federal government spending. Against this background, the US dollar was firmer across the board in European trade on Monday while US Treasury yields moved higher. The EUR/USD hit a 2 ½ month trough of 1.1099 earlier today before recovering modestly to levels around 1.1120/25 in European trade at the time of writing. The technical picture suggests that the next target for USD-bulls stands at 1.1055, a level that could potentially be tested in the coming sessions should upcoming US data surprise positively. Meanwhile, long-dated US Treasuries underperformed with the 10-yr paper yielding levels around 1.835% at the time of writing after ending at 1.823% in the prior session approaching a multi-session intraday high of 1.882% recorded late last week. Looking at this week’s US calendar, focus is on the April non-farm payrolls report (Friday, June 3) ahead of the US personal income and spending data (Tuesday, May 31). In the euro area, major data releases include inflation data for May (Tuesday, May 31) ahead of the ECB monetary policy meeting (Thursday, June 2) where the Central Bank is expected to stay put on interest rates.

GREECE

Discussions between the Greek government and the technical teams representing official creditors will reportedly continue today in an effort to reach a compromise on all pending items required for the release of the next ESM loan tranche amounting to €7.5bn. The said items reportedly amount to 15 with Alternate Finance Minister Giorgos Houliarakis clarifying late last week that they include several “technical improvements” to the relevant implementation laws that were approved by the Hellenic Parliament earlier this month. According to the local press, the two sides have failed so far to bridge their differences on several items notably: (i) measures for the coverage of a €120mn budgetary shortfall in 2016 that was initially planned to be covered through a retroactive return of EKAS payments (Social Solidarity Benefit) that were granted to some 80k low-income pensioners in the period January-May, since new stricter eligibility criteria were introduced as of January 2016; and (ii) amendments to the legislation related to the NPL resolution framework so that it applies also to NPLs collateralized with Greek State guarantees. Reportedly, as things stand at this point, a full agreement between the two sides on all pending items in time for the next ECB monetary policy meeting on June 2nd is considered rather uncertain. As per the same sources, the government aims for a consensus to have been reached by the end of the week hoping that this will not prevent the reintroduction of a Greek collateral waiver at the upcoming ECB meeting. Once all pending issues have been completed, official creditors will reportedly draft their Compliance Report for the completion of the 1st programme review and will submit it, afterwards, for approval to the Euroworking Group. Assuming that all goes as planned, a number of national parliaments in the euro area (including those of Germany and the Netherlands) will have to endorse the disbursement of the next loan tranche to Greece before the European Stability Mechanism sets off the relevant procedures for the payment of the €7.5bn amount. According to finance ministry officials, in order to avoid any serious cash problem, the whole process should be completed by end-June.²

May 30, 2016

Latest world economic & market developments in the CESEE region

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

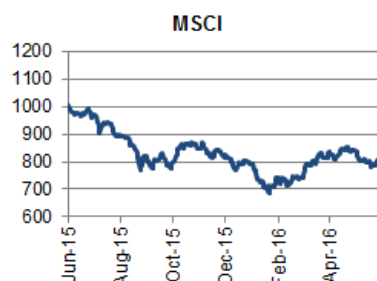
ROMANIA: Indicator:	2014	2015e	2016f
Real GDP growth %	2.9	3.8	4.1
CPI (pa, yoy %)	1.1	-0.4	-0.1
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.0	-2.0
EUR/RON (eop)	4.48	4.52	4.35
	2015	current	2016f
Policy Rate (eop)	1.75	1.75	2.00

* 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	4.00

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

BULGARIA

Following National Holidays, the domestic equity market witnessed another week of low volatility and thin volume on lack of triggers. The major index SOFIX hardly inched by 0.10% to 439.61 points. Single price moves came on paper-thin volumes, while total weekly turnover barely exceeded €400k. The local bond market stayed quiet as well with yield curve slightly flexing for a maximum of +4 bps in the short-end. Eurobonds closed the week unchanged.

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SERBIA

The EUR/RSD remained bound within the 122.55/75-123.40/60 trading range last week. Yet, the pair finally broke the upper limit of the 2-month range marching towards 123.40/60 without being confronted by a pullback. The move was generally flow driven and its relative size reveals a very weak ability of FX market to digest it. Although NBS sold approximately €50 mn to soften the impact, dinar lost 0.64% in the past week. Our assessment one week ago that CB could be more lenient and let the cross breach 123.00 proved right. In our view, NBS is putting some effort to cushion the impact by intervening but they are not oversizing the amount which could change the trajectory. Looking ahead, dinar could slide further if NBS abandons support. However, we expect to see a consolidation first and minor retreat into 123.00 – 123.20 zone.

On the data front, the budget execution in the first four months of the year showed a deficit of RSD 22.6bn (ca. EUR 185m), or some 1.6% of GDP annualized on the consolidated level. Taxes collected are slightly above projections, while excise receipts are over expectations. Expenses came out below budget due to the postponing of lay-offs. Capital investments are slightly above forecasted, as opposed to last year's budget.

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May 30, 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	2099.06	0.4%	2.7%	EUR/USD	1.1134	0.2%	2.6%	UST - 10yr	1.85	0	-42	GOLD	1204	-0.7%	13.5%
Nikkei 225	17068.02	1.4%	-10.3%	GBP/USD	1.4603	-0.1%	-0.9%	Bund-10yr	0.17	4	-46	BRENT CRUDE	49	-0.8%	31.3%
STOXX 600	349.49	0.0%	-4.5%	USD/JPY	111.26	-0.8%	7.9%	JGB - 10yr	-0.11	0	-38	LMEX	2249	0.7%	2.1%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	285	-2	-18
1-week	2.96	-2	-23
1-month	3.10	-2	-41
3-month	3.32	3	-51
6-month	3.56	2	-47

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.54	-2	-13
5Y RSD	5.29	0	16
7Y RSD	5.96	-4	-174

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.67	-1	-50
USD Nov-24	6.22	0	-19

CDS

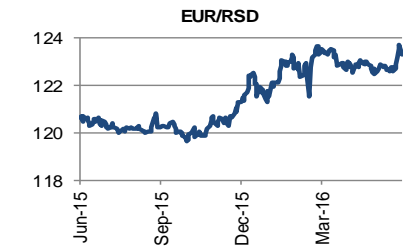
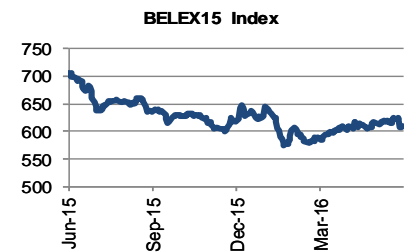
	Last	ΔDbps	ΔYTD bps
5-year	250	0	-24
10-year	291	0	-48

STOCKS

	Last	ΔD	ΔYTD
BELEX15	610.5	0.39%	-5.22%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.28	0.12%	-1.38%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.44	0	-9
1-month	0.57	-1	-12
3-month	0.75	0	-27
6-month	1	-1	-34
12-month	1.16	-1	-36

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.80	-1	-13
5Y RON	2.68	0	-12
10Y RON	3.57	0	-21

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.47	N/A	-10
USD Jan-24	3.51	1	-27

CDS

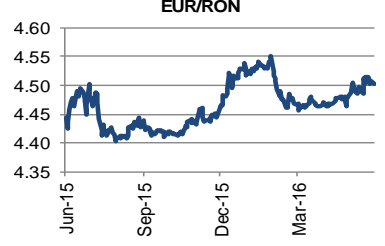
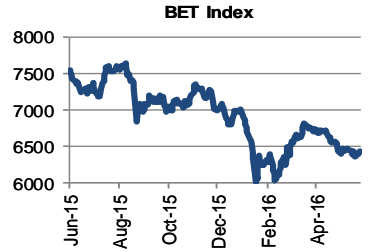
	Last	ΔDbps	ΔYTD bps
5-year	115	0	-18
10-year	155	0	-16

STOCKS

	Last	ΔD	ΔYTD
BET	6325.5	-2.28%	-9.69%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5038	0.08%	0.23%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.40	0	-41
1-month	-0.15	0	-30
3-month	-0.03	0	-29
6-month	0.11	0	-42
12-month	0.45	0	-52

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.40	0	-20
5Y BGN	1.13	0	-14
10Y BGN	2.44	0	-21

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.31	42	-38
EUR Sep-24	2.32	-1	-10

CDS

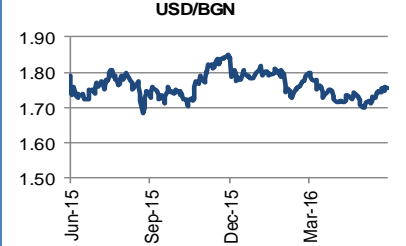
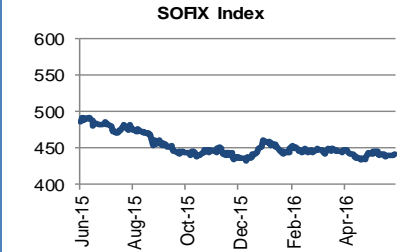
	Last	ΔDbps	ΔYTD bps
5-year	153	0	-19
10-year	198	0	-18

STOCKS

	Last	ΔD	ΔYTD
SOFIX	442.0	0.64%	-4.11%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7568	0.18%	2.48%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 11:50 EEST

May 30, 2016

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