



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Friday, June 03, 2016

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 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: As was widely expected, the ECB left its key interest rates unchanged at yesterday's monetary policy meeting. President Mario Draghi stressed that the Central Bank stands ready to act by using "all the instruments available within its mandate" if needed to safeguard price stability and support euro area economic growth, leaving the door open for further policy easing if warranted so. Focus is on the US' non-farm payrolls report later in the day ahead of FOMC Chairperson Janet Yellen's speech early next week.

GREECE: With the support of all 153 coalition MPs, the Greek government secured late yesterday parliamentary approval for a series of amendments related to the relevant legislation that was endorsed by the Hellenic Parliament last month for the implementation of the prior actions attached to the 1st programme review. Speaking at the press conference yesterday following the conclusion of the ECB Governing Council's meeting, President Mario Draghi said that they will await implementation by the Greek side of all open issues as well as the ESM's formal authorization for the disbursement before they decide the reinstatement of the Greek collateral waiver.

SOUTH EASTERN EUROPE

BULGARIA: According to the preliminary data of the Ministry of Finance, the consolidated budget surplus came 3.0% of projected GDP in Jan-May2016.

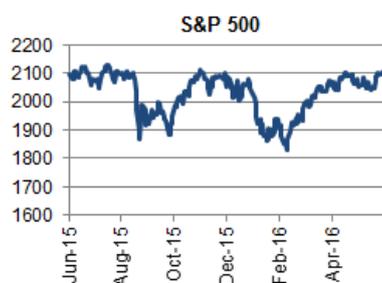
CYPRUS: The NPEs ratio edged down to 48.4% in March 2016 from 48.9% in February 2016.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

As was widely expected, the ECB left its key interest rates unchanged at yesterday's monetary policy meeting. Speaking at the press conference that followed the conclusion of the meeting, President Mario Draghi noted that downside risks to the growth outlook, although somewhat moderated thanks to the ECB's monetary policy measures, prevail. The GDP forecast for 2016 was revised higher by 0.2ppts to 1.6% from 1.4% previously while the 2017 projection was left unchanged at 1.7% and that for 2018 was revised modestly lower at 1.7% from 1.8%. As regards inflation, the 2016 forecast was reassessed a tad higher at 0.2% from 0.1% while that for 2017 and 2018 were left at 1.3% and 1.6% respectively. Furthermore, Mario Draghi stressed that the Central Bank stands ready to act by using "all the instruments available within its mandate" if needed to safeguard price stability and support euro area economic growth, leaving the door open for further policy easing if warranted so. The ECB's modest upward revision in both the 2016 GDP and CPI inflation projections was perceived as a dovish signal by bond markets. The 2-yr German bond yield was hovering around -0.520% at the time of writing, within distance from a multi-session low of -0.523% marked earlier today. Long-dated German bonds outperformed with the 10-yr yield falling to as low as 0.103% earlier in the day, the lowest in near two weeks. In FX markets, with market participants awaiting the US' non-farm payrolls report and FOMC Chairperson Janet Yellen's speech early next week, the EUR/USD was little changed hovering around 1.1140/45 at the time of writing, not too far from a multi-session high of 1.1220 marked on Thursday ahead of the ECB's press conference.

GREECE

With the support of all 153 coalition MPs, the Greek government secured late yesterday parliamentary approval for a series of amendments related to the relevant legislation that was endorsed by the Hellenic Parliament last month for the implementation of the prior actions attached to the 1st programme review. According to some press reports, the sole issue that remains open is the legislation related to the legal protection of officials employed in the new Privatization Fund. Assuming that all open issues will be addressed by the end of this week, official creditors will complete the compliance report of the review in time for the upcoming Euroworking Group (EWG) which is reportedly now scheduled to convene via teleconference on Monday, June 6th. At that meeting, initially planned for Thursday, June 2nd, the EWG is expected to endorse the compliance report and forward it to the ESM whose Board of Directors will then sign-off the release of the next sub-tranche to Greece amounting to €7.5bn. In line with the constitution of five euro area countries - Germany, the Netherlands, Austria, Finland and Slovakia- the endorsement of the compliance report by their parliament is another precondition for the release of additional ESM funding to Greece. According to an unnamed Greek government official, the next ESM sub-tranche is expected to arrive into State coffers on Monday, June 13th. Speaking at the press conference yesterday following the conclusion of the ECB Governing Council's meeting, President Mario Draghi said that they will await implementation by the Greek side of all open issues as well as the ESM's formal authorization for the disbursement before they decide the reinstatement of the Greek collateral waiver. He added that an ECB meeting is required for such a decision to be reached with press reports suggesting that this could be potentially realized on June 22nd when the ECB meets next.

June 3, 2016

| 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

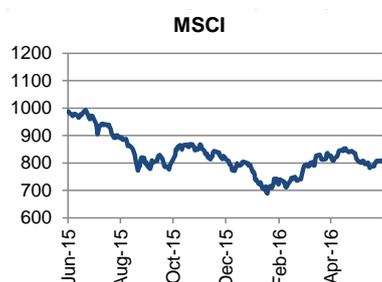
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

| 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

| L-T ccy | Credit Ratings | | |
|----------|----------------|------|-------|
| | 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

BULGARIA

According to the preliminary data of the Ministry of Finance, the consolidated budget surplus came in at BGN2.68bn or 3.0% of projected GDP in the first five months of the year, compared to a budget surplus of BGN1.09bn or 1.3% of GDP in the same period last year. Total revenues slowed down to +7.0% YoY in Jan-May, after soaring by +26.7% YoY in January only, reaching 44.9% of the annual target driven primarily by higher reimbursements for EU funds projects' related spending and higher excise duties for tobacco and fuel products. On the other hand, total expenditure declined by -5.0% YoY in Jan-May, reaching 34.9% of the annual target in Jan-May, which is most probably explained by lower capital expenditures spending and given that government spending - particularly that which is EU-funded- is skewed to the end of the year. The consolidated government deficit target in cash basis terms is set at 2.0% of GDP in 2016, down from a realized 2.9% in 2015. Although the headline number implies significant consolidation effort, the government anticipates improved revenues from EU reimbursements for spending in the past year and concession revenues from the Sofia airport while additional buffers could emerge from higher than last year's budget-flexibility on the discretionary spending side.

CYPRUS

Addressing the high NPLs ratio remains a key challenge for the banking sector. The banking system-wide NPEs ratio - a more conservative asset quality EBA methodology, which inflates NPLs numbers by including restructured loans for a probation period of at least 12 months - edged down to 48.4% in March 2016 vs. 48.9% in February 2016, still higher than 45.9% in December 2015, and 47.7% in December 2014. The deterioration in the ratio at this point does not mirror a further rise in the non-performing facilities but rather the ongoing deleveraging which impacts the denominator. However, the ratio remains extremely high, among the highest following any recent banking crisis. On the other hand, the pace of loans' restructuring, an essential tool for the resolution of NPLs, has picked up. The amount of loans restructured has been on a continuous climbing trend, from €1bn in Q1-2015 to €1.2bn in Q2-2015, to €1.4bn in Q3-2015, further up to €2.3bn in Q4-2015 and €1.9bn in Q1-2016. As a result, a large fraction of the restructured loans falls into the 12-month probation period and is still classified in NPEs (41.3% in Mar2016 vs. 40.8% in Feb2016). On a more positive note, according to the Central Bank data, 78% of the fixed-term loans, which were restructured between 1 January 2014 and 31 March 2016 abide by the new repayment schedule agreed as part of the restructuring process. The pace of restructuring is anticipated to accelerate in the coming months, now that the foreclosures and insolvency framework are in place, offering stronger incentives for both borrowers and lenders.

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June 3, 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 | 2105.26 | 0.3% | 3.0% | EUR/USD | 1.1144 | -0.1% | 2.7% | UST - 10yr | 1.80 | 0 | -47 | GOLD | 1211 | 0.0% | 14.1% |
| Nikkei 225 | 16642.23 | 0.5% | -12.6% | GBP/USD | 1.4424 | 0.0% | -2.1% | Bund-10yr | 0.11 | -1 | -52 | BRENT CRUDE | 50 | 0.2% | 34.4% |
| STOXX 600 | 346.06 | 0.5% | -5.4% | USD/JPY | 108.95 | -0.1% | 10.2% | JGB - 10yr | -0.10 | 1 | -36 | LMEX | 2234 | -0.4% | 1.4% |

CESEE MARKETS

SERBIA

Money Market

| BELIBOR | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| T/N | 290 | 3 | -13 |
| 1-week | 3.01 | 2 | -18 |
| 1-month | 3.19 | 4 | -32 |
| 3-month | 3.38 | 3 | -45 |
| 6-month | 3.61 | 1 | -42 |

RS Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|--------|------|-------|----------|
| 3Y RSD | 3.55 | 0 | -11 |
| 5Y RSD | 5.29 | 0 | 16 |
| 7Y RSD | 5.77 | 0 | -192 |

RS Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| USD Nov-17 | 2.50 | -3 | -66 |
| USD Nov-24 | 6.22 | 0 | -19 |

CDS

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 249 | 0 | -25 |
| 10-year | 292 | 1 | -47 |

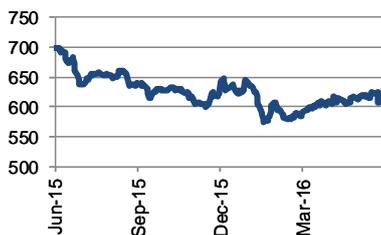
STOCKS

| | Last | ΔD | ΔYTD |
|---------|-------|-------|--------|
| BELEX15 | 633.2 | 0.55% | -1.70% |

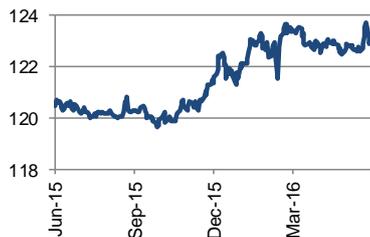
FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|--------|--------|
| EUR/RSD | 123.21 | -0.05% | -1.32% |

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

| ROBOR | Last | ΔDbps | ΔYTD bps |
|----------|------|-------|----------|
| O/N | 0.4 | -2 | -13 |
| 1-month | 0.58 | 1 | -11 |
| 3-month | 0.75 | 0 | -27 |
| 6-month | 1 | 0 | -34 |
| 12-month | 1.18 | 1 | -34 |

RO Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 3Y RON | 1.80 | 0 | -13 |
| 5Y RON | 2.68 | 0 | -12 |
| 10Y RON | 3.62 | 0 | -16 |

RO Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| EUR Oct-25 | 2.44 | #N/A | N/A |
| USD Jan-24 | 3.51 | -1 | -27 |

CDS

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 110 | -4 | -23 |
| 10-year | 154 | -5 | -18 |

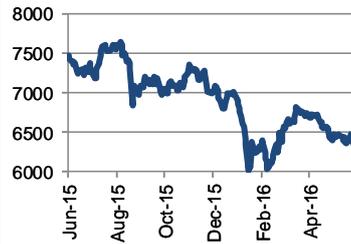
STOCKS

| | Last | ΔD | ΔYTD |
|-----|--------|--------|--------|
| BET | 6562.3 | -0.18% | -6.31% |

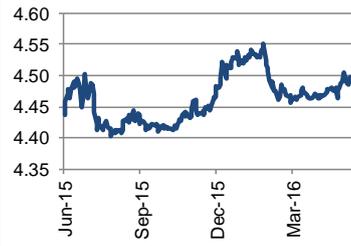
FOREX

| | Last | ΔD | ΔYTD |
|---------|-------|-------|--------|
| EUR/RON | 4.516 | 0.00% | -0.04% |

BET Index



EUR/RON



BULGARIA

Money Market

| SOFIBOR | Last | ΔDbps | ΔYTD bps |
|----------|-------|-------|----------|
| LEONIA | -0.40 | 0 | -41 |
| 1-month | -0.15 | 0 | -30 |
| 3-month | -0.03 | 0 | -30 |
| 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 | 1.14 | 0 | -13 |
| 10Y BGN | 2.43 | 0 | -23 |

BG Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|-------|-------|----------|
| EUR Jul-17 | -0.02 | 48 | -9 |
| EUR Sep-24 | 2.33 | 0 | -9 |

CDS

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 150 | -5 | -22 |
| 10-year | 194 | -6 | -22 |

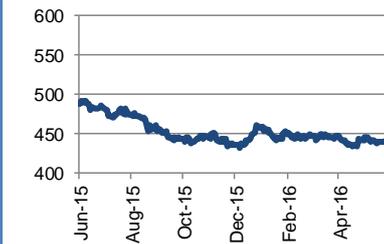
STOCKS

| | Last | ΔD | ΔYTD |
|-------|-------|-------|--------|
| SOFIX | 446.0 | 0.02% | -3.23% |

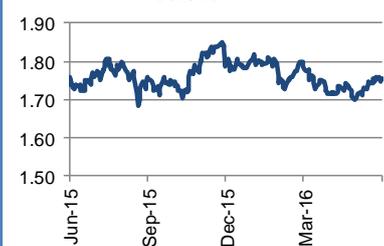
FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|--------|-------|
| USD/BGN | 1.7552 | -0.05% | 2.57% |

SOFIX Index



USD/BGN



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 12:20 EEST

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