



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Wednesday, October 12, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Oct 12: FOMC meeting minutes (Sep 20/21)
- Oct 13: Jobless claims (weekly)
- Oct 14
 - Fed's Chair Yellen speaks
 - Retail sales (Sep)
 - UoM consumer confidence (Oct, p)

EUROZONE

- Oct 12: Industrial production (Aug)

GREECE

- Oct 10
 - Industrial production (Aug)
 - CPI/HICP (Sep)
- Oct 10: Eurogroup to decide on €2.8bn sub-tranche
- Oct 14: Sovereign credit rating review by Moody's

CYPRUS

- Oct 6: HICP (Sep)

SEE

BULGARIA

- Oct 10: Trade balance (Aug)
- Oct 12: CPI (Sep)

ROMANIA

- Oct 10
 - Trade balance (Aug)
 - Industrial sales (Aug)
 - 2.25% 2020 T-Bonds auction
- Oct 11: CPI (Sep)
- Oct 12: Industrial production (Aug)
- Oct 14: Current account deficit (Aug)

SERBIA

- Oct 12: CPI (Sep)
- Oct 13
 - 6.00% 2019 T-Bonds auction
 - MPC meeting

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The GBP rebounded in European trade on Wednesday following the release of a report in international newswires conveying that UK Prime Minister Teresa May accepted that Parliament should be allowed to vote on the government's Brexit plan before Article 50 of the Lisbon Treaty is triggered. With the exception of the GBP, the USD retained a firm tone against most of its major currency peers supported by increased expectations for a 25bps rate hike by the Fed before the end of this year. Growing expectations for a December Fed rate hike and increased inflation expectations kept US Treasury yields on an upward trend. Looking at today's calendar, focus is on the minutes from the Fed's September monetary policy meeting.

GREECE: According to press reports the Greek government aims at completing the 2nd programme review – expected to commence on October 17th – by the November 7th Eurogroup. Subsequently, it will seek official lenders to further specify the debt relief measures that were agreed in May by December 5th, when the last Eurogroup for 2016 is scheduled to convene. The 2nd review comprises 33 incomplete prior actions, the most challenging of which is the labour market reform where the collective dismissal and industrial action frameworks as well as collective bargaining need to be aligned with best EU practices.

SOUTH EASTERN EUROPE

ROMANIA: Inflation surprised to the downside coming at -0.1% MoM/-0.6% YoY in September vs. +0.1% MoM/-0.2% YoY in August driven lower by the sharp monthly decline of fruit and vegetables prices.

CESEE MARKETS: Emerging Market assets remained under pressure earlier on Wednesday as increased expectations for a Fed rate hike this year continue to undermine their high yield allure. Disappointing US earnings reports also dampened risk sentiment. Regional assets were mixed in morning European trade. A vote on a bill over the conversion of CHF-denominated loans, that was scheduled to be held yesterday, was postponed by Romanian parliament amid lack of quorum.

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Latest world economic & market developments

GLOBAL MARKETS

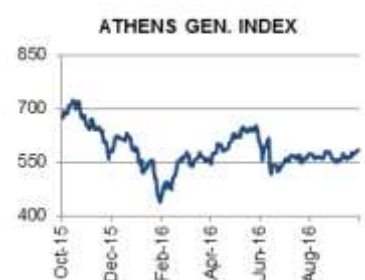
The GBP rebounded in European trade on Wednesday following the release of a report in international newswires conveying that UK Prime Minister Teresa May accepted that Parliament should be allowed to vote on the government's Brexit plan before Article 50 of the Lisbon Treaty is triggered. The above comments followed a motion from the main opposition Labour Party calling for a "full and transparent debate" on the government's Brexit plan before formal Brexit discussions start. Yet, the UK Premier asked lawmakers to not attempt to block Brexit or undermine the government's negotiating position. On the view that such a debate in the UK Parliament could potentially exert some pressure on the UK government not to adopt a hard-line stance towards the EU in upcoming negotiations, the GBP/USD strengthened to levels around 1.2240/45 in European trade at the time of writing, marking gains of c. 1.0% compared to the settlement in the prior session. The GBP's strengthening against the USD pushed the DXY index modestly lower trading close to 97.671, 0.1% lower from a seven-month intraday peak recorded on Tuesday. With the exception of the GBP, the USD retained a firm tone against most of its major currency peers supported by increased expectations for a 25bps rate hike by the Fed before the end of this year following a recent string of positive US macro data. Fed funds futures currently assign a 68% probability for a 25bps rate hike at the December 13-14 monetary policy meeting compared to around 65% late last week and c. 60% earlier this month. Growing expectations for a Fed rate hike in December and increased inflation expectations on the back of higher oil prices kept US Treasury yields on an upward trend for the seventh session in a row. Looking at today's calendar, focus is on the minutes from the Fed's September monetary policy meeting. In addition, BoE deputy Governor Jon Cunliffe speaks in parliament on the impact of Brexit on financial services in London.

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GREECE

According to press reports the Greek government aims at completing the 2nd programme review – expected to commence on October 17th – by the November 7th Eurogroup. Subsequently, it will seek official lenders to further specify the debt relief measures that were agreed in May by December 5th, when the last Eurogroup for 2016 is scheduled to convene. The 2nd review comprises 33 incomplete prior actions, the most challenging of which is the labour market reform where the collective dismissal and industrial action frameworks as well as collective bargaining need to be aligned with best EU practices. Other prominent prior actions in the context of the 2nd programme review are: the amendment of the legal framework for the out-of-court workout with detailed provisions, the finalisation of the boards of the four systemic banks, the liberalisation of the reserved activities of engineers, the review of the gas release program, improving conditions of access for alternative suppliers and substantially increasing the quantities available, the appointment of the Board of Directors of the Privatisation and Investment Fund including the CEO so that the fund is fully operational by end-2016, the rationalisation of the specialised wage grids and the adoption of legislation to introduce a new permanent mobility scheme, the adoption of an integrated action plan to fight undeclared and under-declared work, and the agreement with the Institutions on the processes for determining the remaining portfolios of real estate and SOEs that will be transferred to the Fund. Finally, as a prior action, in the coming weeks, the Greek government has to enact the medium-term fiscal strategy for the period 2017-2020, for which the Greek side may pursue a downwards revision of the primary surplus targets beyond 2018.

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Source: Reuters, Bloomberg, Eurobank Research

October 12, 2016

BULGARIA: Indicators	2014	2015	2016f
Real GDP growth %	1.6	3.0	2.6
CPI (pa, yoy %)	-1.4	-0.1	-0.5
Budget Balance/GDP*	-3.7	-2.9	-2.0
Current Account/GDP	0.9	1.4	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	2015	2016f
Real GDP growth %	-2.5	1.6	2.5
HICP (pa, yoy %)	-0.3	-1.5	-0.7
Budget Balance/GDP*	-0.2	0.0	-0.4
Current Account/GDP	-4.6	-3.6	-4.2

* ESA 2010

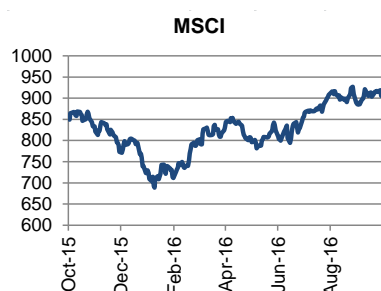
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2014	2015	2016f
Real GDP growth %	2.9	3.8	4.2
CPI (pa, yoy %)	1.1	-0.6	-1.5
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.1	-3.0
EUR/RON (eop)	4.48	4.52	4.60
	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	2015	2016f
Real GDP growth %	-1.8	0.7	1.8
CPI (pa, yoy %)	2.1	1.5	2.8
Budget Balance/GDP	-6.7	-4.1	-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	4.00	4.00

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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

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

Latest economic & market developments in the CESEE region

ROMANIA

Inflation remained in negative territory in September for the 15th month in a row as CPI declined by -0.1% MoM/-0.6% YoY compared to +0.1% MoM/-0.2% YoY in August. The print came in below market expectations of +0.3% MoM/-0.4% YoY. The annual dynamics of the CPI food component decelerated sharply in September (-0.6% MoM/+0.5% YoY) driven by the monthly decline of fruit and vegetables (-3.7% MoM). Prices of non-food items stood +0.2% MoM/-1.0% YoY down from +0.3% MoM/-1.4% YoY in August, with dynamics largely driven by the monthly spike in fuel prices (+0.7% MoM). Services remained almost flat at +0.0% MoM /-1.2% YoY down from -0.1% MoM/-1.0% YoY in August mirroring lower utility prices.

Despite the monthly uptick in the headline index, overall the latest inflation reading indicates signs of a slowdown in the pace of deflation. The adjusted Core2 CPI index (excluding administered and volatile prices, alcohol and tobacco) rose to +0.6% YoY in September vs. +0.5% YoY in August, remaining subdued by the headline VAT rate cut (from 24% to 19%) effective in the beginning of the year. The minutes from the recent NBR policy meeting-released for the first time-suggest that over the short term given the larger than expected positive output gap underlying inflationary pressures are building. On the other hand, given the downbeat readings throughout the year, the inflation trajectory so far has been softer than envisaged before. Only recently, the NBR slashed its year-end inflation forecast to -0.4% in 2016 down from +0.6% and +2.0% in 2017 vs. +2.7% in the previous May report. In the NBR's view, the short-term inflation trajectory will remain in negative territory until the end of the year mainly due to the low imported price dynamics. Moreover, inflation will most probably end below the mid-point of the 2.5% target at the end of 2017, while it is now seen at the upper bound of the inflation target interval (2.5-3.5%) by the end of Q2-2018.

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CESEE MARKETS

Emerging Market assets remained under pressure earlier on Wednesday as increased expectations for a Fed rate hike this year continue to undermine their high yield allure. Disappointing US earnings reports also dampened risk sentiment. Regional assets were mixed in morning European trade, with government bonds recouping part of their recent losses. Meanwhile, CESEE currencies and stock markets were mixed. In FX markets, the Romanian leu was little changed compared to the prior session's settlement, in spite of the lower house of parliament postponing on Tuesday a vote on a bill over the conversion of CHF-denominated loans into RON at a fixed exchange rate (historic at the time of the loan origination). The budget and finance committees in parliament's lower house approved the bill on Monday, having included amendments such as that the legislation will apply only for loans on which repayments exceed half of borrowers' monthly income, in a development considered less adverse for the domestic banking sector outlook. However, lawmakers partially reversed that change on Tuesday proposing to allow conversion of loans of up to 250,000 CHF. A final vote was due to be held yesterday. However, it was referred for next week, most likely on Monday according to Social Democrat deputy Nicolae-Ciprian Nica, as there was lack of quorum, with further changes still possible.

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October 12, 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	2136.73	-1.2%	4.5%	EUR/USD	1.1022	-0.3%	1.5%	UST - 10yr	1.77	1	-50	GOLD	1256	0.3%	18.3%
Nikkei 225	16840.00	-1.1%	-11.5%	GBP/USD	1.2266	1.2%	-16.8%	Bund-10yr	0.04	1	-59	BRENT CRUDE	53	0.6%	41.5%
STOXX 600	340.06	0.0%	-7.0%	USD/JPY	103.51	0.0%	16.0%	JGB - 10yr	-0.06	-1	-32	LMEX	2436	-1.2%	10.6%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	301	0	-2
1-week	3.16	0	-3
1-month	3.31	0	-20
3-month	3.48	0	-35
6-month	3.66	0	-37

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.10	646.75	543
5Y RSD	4.35	-1	-78
7Y RSD	5.64	-2	-205

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.30	1	-86
USD Nov-24	6.56	1	15

CDS

	Last	ΔDbps	ΔYTD bps
5-year	198	0	-76
10-year	240	0	-99

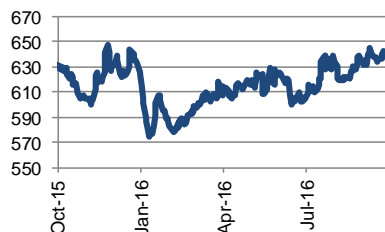
STOCKS

	Last	ΔD	ΔYTD
BELEX15	637.2	0.40%	-1.07%

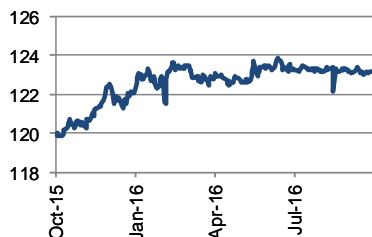
FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.13	0.02%	-1.26%

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.44	0	-9
1-month	0.56	1	-13
3-month	0.69	0	-33
6-month	0.93	0	-41
12-month	1.08	0	-44

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.43	0	-50
5Y RON	2.17	0	-63
10Y RON	2.98	0	-80

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.71	0	-86
USD Jan-24	2.94	1	-85

CDS

	Last	ΔDbps	ΔYTD bps
5-year	100	0	-33
10-year	145	0	-26

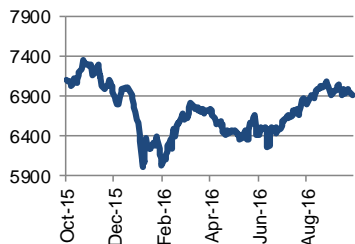
STOCKS

	Last	ΔD	ΔYTD
BET	6924.5	-0.03%	-1.14%

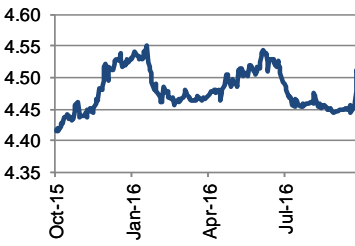
FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4948	-0.21%	0.43%

BET Index



EUR/RON



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.30	0	-31
1-month	-0.15	0	-30
3-month	-0.05	0	-31
6-month	0.10	0	-43
12-month	0.41	0	-57

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.19	0	-41
5Y BGN	0.54	0	-73
10Y BGN	1.86	0	-80

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.17	-5	-24
EUR Sep-24	1.43	7	-99

CDS

	Last	ΔDbps	ΔYTD bps
5-year	136	1	-36
10-year	177	1	-39

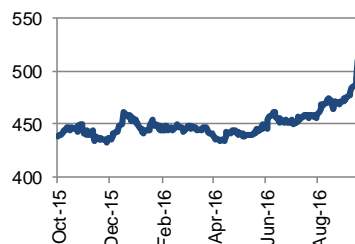
STOCKS

	Last	ΔD	ΔYTD
SOFIX	510.5	0.18%	10.76%

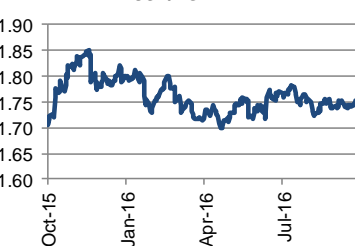
FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7745	-0.28%	1.45%

SOFIX Index



USD/BGN



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

Data updated as of 11:30 EEST

October 12, 2016

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