

### 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:** China's disappointing trade data raised fresh concerns about the growth outlook of the world's second largest economy triggering a new wave of risk aversion. Against this background, European equity markets opened lower, perceived safe haven currencies strengthened and major government bond yields dropped. Looking at today's calendar, focus is on US September import prices and initial jobless claims for the week ending October 8.

**GREECE:** Speaking to the European Parliament Economic and Monetary Affairs Committee yesterday, ECB Executive Board Member Benoit Coeure, noted that the ECB "is looking forward to a solution that can reassure markets, restore confidence in the dynamics of public debt, allow the full involvement of the IMF in the programme, which would enhance the programme's credibility and restore market access for Greece ahead of the end of the programme in July 2018, without undermining the reform effort". With regard to Greece's inclusion in the ECB's QE programme, Mr. Coeure reportedly noted that before any decisions are made more needs to be known regarding the debt relief measures and the way its sustainability will be secured. According to the Bank of Greece, the final data on the balance of travel services for the period January-June 2016 reveal a drop of 7.9% YoY

### SOUTH EASTERN EUROPE

**BULGARIA:** Consumer prices declined by -0.5%MoM/-0.6% YoY in September down from 0.0% MoM/-0.3% YoY in August on renewed food prices drop.

**SERBIA:** Inflation pressures remained subdued in September in Serbia with annual CPI falling by 0.6% on a monthly basis and bringing the annual rate of increase to 0.6%. In other news, the IMF reportedly said it would start its 6<sup>th</sup> review on Serbia's precautionary €1.2bn 3-year Stand-By Arrangement next week.

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## Latest world economic & market developments

### GLOBAL MARKETS

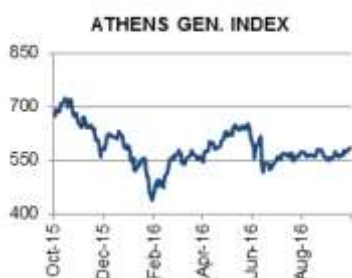
China's disappointing trade data raised fresh concerns about the growth outlook of the world's second largest economy triggering a new wave of risk aversion. In more detail, China's exports in dollar terms fell in September by a much higher than anticipated 10%YoY while imports unexpectedly dropped by 1.9%YoY after rising by 1.5%YoY in August, the first improvement in nearly two years. In line with the negative tone that prevailed in Asian equity markets, major European bourses moved lower in early trade with the FTSEurofirst 300 index recording a 2 ½ month intraday low. Increased risk aversion favored the appeal of the perceived safe heaven currencies, mostly the JPY and the CHF. Against this background, the USD/JPY dropped to levels around 103.85/90 in European trade after hitting a 2 ½ month peak of 104.62 earlier in Asia supported by the hawkish tone of the FOMC minutes from the September monetary policy meeting which reinforced the view for a rate hike by the end of this year. Elsewhere, the GBP moved lower standing close to 1.2155/60 at the time of writing after rising to 1.2370 earlier this week on news 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. A hearing in the UK High Court is scheduled to commence today on whether the UK government could trigger Article 50 without the approval of the UK Parliament and a verdict is expected to be announced in a couple of weeks. Increased risk aversion favored major government bonds with the 10-yr US Treasury yield trading close to 1.725% at the time of writing, having retreated from a four-month peak slightly above 1.80% earlier in the day on the hawkish tone of the Fed minutes. Looking at today's calendar, focus is on US September import prices and initial jobless claims for the week ending October 8.

[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)

### GREECE

Speaking to the European Parliament Economic and Monetary Affairs Committee yesterday, ECB Executive Board Member Benoit Coeure, noted that the ECB "is looking forward to a solution that can reassure markets, restore confidence in the dynamics of public debt, allow the full involvement of the IMF in the programme, which would enhance the programme's credibility and restore market access for Greece ahead of the end of the programme in July 2018, without undermining the reform effort". He added that there was an ongoing discussion in the Eurogroup on the short-, medium- and long-term measures needed to secure the sustainability of Greek public debt. He pointed out, however, that Greece has to show serious commitment to the goals and measures taken in the context of the programme in order for all stakeholders to be convinced that the reforms will not be reversed; rather they will be strengthened after the programme expires. In view of the 2nd programme review, expected to commence on October 17th, Mr. Coeure noted that two deliverables are of special importance to the ECB as they will safeguard financial stability: 1) the amendment of the legal framework for the out-of-court workout, and, 2) the amendment of the corporate insolvency law. Finally, with regard to Greece's inclusion in the ECB's QE programme, Mr. Coeure reportedly noted that before any decisions are made more needs to be known regarding the debt relief measures and the way its sustainability will be secured. Meanwhile, Greek Minister of the Economy, George Stathakis, expressed his confidence that the Greek economy is at a turning point and that the exit from the crisis can be done successfully. On the economic data front, according to the Bank of Greece, the final data on the balance of travel services for the period January-June 2016 reveal a drop of 7.9% YoY in travel receipts against an increase of 9.5%YoY and 9.6%YoY for the corresponding periods in 2015 and 2014 respectively.

[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr)



Source: Reuters, Bloomberg, Eurobank Research

October 13, 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

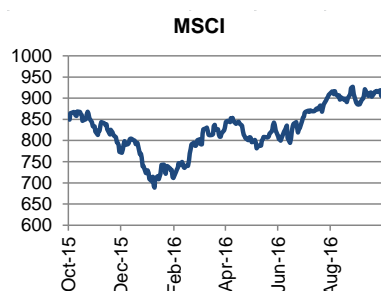
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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

### BULGARIA

Inflation edged lower at -0.5% MoM/-0.6% YoY in September down from 0.0% MoM/-0.3% YoY in August, compared to -0.7% MoM/-0.2% YoY in July. Food prices, both the largest as well as the most volatile component of CPI, dipped down on a monthly basis, driven by lower prices of unprocessed food, namely fruits (-2.2% MoM/-6.0% YoY), reversing the sharp rise of July and August. Food prices declined by 0.0% MoM /-0.3% YoY down from -0.2% MoM/+1.2% YoY in August vs. +1.7% MoM/+2.0% YoY in July, making a relative large negative contribution on an annual basis.

World energy prices, despite their recent spike, are still lower on an annual basis, thereby driving transportation prices lower by -0.3% MoM/-3.7% YoY in September up from +0.5% MoM/-7.9% YoY in August compared to +1.8% MoM/-8.7% YoY in July. Overall, despite the uptick of September, deflation has slowed down in recent months. Looking ahead, inflation is expected to continue its gradual recovery in the coming months reflecting the dissipating impact of weak global energy prices. There is little evidence to support that underlying consumption-driven inflationary pressures are building despite its improving dynamics. Finally, inflation dynamics are also going to receive some support from the recent regulatory prices' adjustment in the water supply and the forthcoming in the state energy sector in Q4.

[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr)

### SERBIA

Inflation pressures remained subdued in September in Serbia with annual CPI falling by 0.6% on a monthly basis and bringing the annual rate of increase to 0.6%. The latter stands below last month's print of 1.2% and remains below the lower bound of the Central Bank's target tolerance band (4±1.5%) for the 31<sup>st</sup> month running. The slowdown in inflation in September was mostly driven by a drop in foods and non-alcoholic beverage prices which marked a 0.8% fall last month. The sub-components of *clothing and footwear* (-1.1%YoY), *housing, water, electricity, gas and other fuels* (-0.9%YoY) and *transport* (-0.7%YoY) also declined, with low global oil prices continuing to exert a disinflationary impact. All in all, the data adds to the prevailing view that CPI will most certainly remain below target for the remainder of the year and return within the band by mid-2017.

The meeting by the National Bank of Serbia takes centre stage in the CESEE space today. The MPC is broadly anticipated to stay put on its monetary policy and maintain the key policy rate at the current record low of 4.00% as, despite currently weak inflation pressures, CPI is anticipated to gradually return within the 4.0±1.5% target tolerance band in the first half of 2017, on the back of increasing aggregate demand and base effects.

In other news, the IMF reportedly said it would start its 6<sup>th</sup> review on Serbia's precautionary €1.2bn 3-year Stand-By Arrangement next week. Fund and government officials are expected to discuss the 2017 budget plan, with an increase in the country's public sector wages and pensions next year also likely to be on the agenda. Recently, Prime Minister Aleksandar Vucic indicated that the government will seek the Fund's approval for such increases, which the IMF is likely to grant, thanks to a solid fiscal performance. In support of the latter, the IMF anticipates the general government deficit to come in at 2.5% of GDP in 2016 and overachieve the 4.0% of GDP target for the year.

[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr)

October 13, 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	2139.18	0.1%	4.7%	EUR/USD	1.0991	-0.1%	1.2%	UST - 10yr	1.74	-3	-53	GOLD	1258	0.2%	18.5%
Nikkei 225	16774.24	-0.4%	-11.9%	GBP/USD	1.2158	-0.4%	-17.5%	Bund-10yr	0.04	-3	-59	BRENT CRUDE	52	-0.4%	38.4%
STOXX 600	335.19	-1.0%	-8.4%	USD/JPY	103.89	0.3%	15.6%	JGB - 10yr	-0.06	0	-32	LMEX	2441	0.2%	10.8%

## 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	2.60	5.43	-104
5Y RSD	4.35	1	-77
7Y RSD	5.64	0	-206

#### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.34	-1	-83
USD Nov-24	6.55	2	14

#### CDS

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

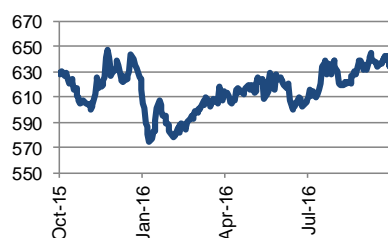
#### STOCKS

	Last	ΔD	ΔYTD
BELEX15	637.5	0.42%	-1.02%

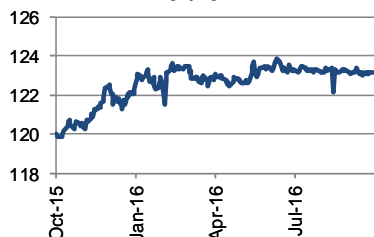
#### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.18	-0.04%	-1.30%

BELEX15 Index



EUR/RSD



### ROMANIA

#### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.44	0	-9
1-month	0.55	-1	-14
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	1.42	-1	-51
5Y RON	2.17	0	-63
10Y RON	2.98	0	-80

#### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.71	#N/A	N/A
USD Jan-24	2.99	-2	-79

#### CDS

	Last	ΔDbps	ΔYTD bps
5-year	101	1	-32
10-year	146	1	-25

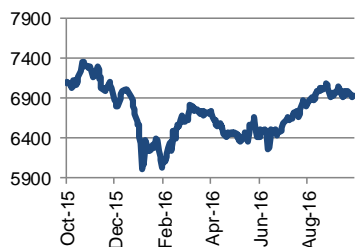
#### STOCKS

	Last	ΔD	ΔYTD
BET	6902.7	-0.24%	-1.45%

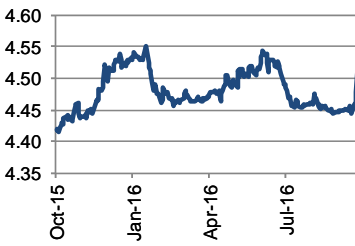
#### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5029	-0.06%	0.25%

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	0.09	0	-43
12-month	0.40	0	-57

#### BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.19	0	-41
5Y BGN	0.55	1	-72
10Y BGN	1.87	0	-79

#### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.24	2	-31
EUR Sep-24	1.44	21	-98

#### CDS

	Last	ΔDbps	ΔYTD bps
5-year	137	1	-35
10-year	178	2	-38

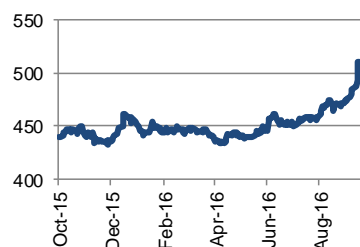
#### STOCKS

	Last	ΔD	ΔYTD
SOFIX	510.6	0.27%	10.79%

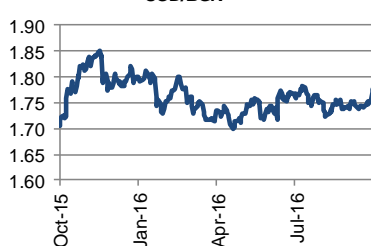
#### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7796	-0.15%	1.16%

SOFIX Index



USD/BGN



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

Data updated as of 11:30 EEST



October 13, 2016

## Contributors

**Paraskevi Petropoulou**  
Economic Analyst, Eurobank Ergasias  
+30 210 3718991  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)

**Galatia Phoka**  
Research Economist, Eurobank Ergasias  
+30 210 3718922  
[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr)

**Ioannis Gkionis (Special Contributor)**  
Research Economist, Eurobank Ergasias  
30 210 3337305  
[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr)

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

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

**Theodoros Stamatiou (Special Contributor)**  
Senior Economist, Eurobank Ergasias  
30 210 3371228  
[tstamatiou@eurobank.gr](mailto:tstamatiou@eurobank.gr)

## Regional Contributors

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

**Zoran Korac**  
FX dealer, Eurobank ad Beograd  
+381 11 206 5821  
[zoran.korac@eurobank.rs](mailto:zoran.korac@eurobank.rs)

**Bogdan Radulescu, CFA**  
Senior Trader, Bancpost  
+40 21 3656291  
[bogdan.radulescu@bancpost.ro](mailto:bogdan.radulescu@bancpost.ro)

## Eurobank Economic Analysis and Financial Markets Research

**Dr. Platon Monokroussos: Group Chief Economist**  
[pmonokroussos@eurobank.gr](mailto:pmonokroussos@eurobank.gr), +30 210 37 18 903

**Dr. Tassos Anastasatos: Deputy Chief Economist**  
[tanastasatos@eurobank.gr](mailto:tanastasatos@eurobank.gr), +30 210 33 71 178

## Research Team

**Anna Dimitriadou: Economic Analyst**  
[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr), +30 210 3718 793

**Ioannis Gkionis: Research Economist**  
[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr) +30 210 33 71 225

**Stylios Gogos: Economic Analyst**  
[sgogos@eurobank.gr](mailto:sgogos@eurobank.gr) +30 210 33 71 226

**Olga Kosma: Research Economist**  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr) +30 210 33 71 227

**Arkadia Konstantopoulou: Research Assistant**  
[arkonstantopoulou@eurobank.gr](mailto:arkonstantopoulou@eurobank.gr) +30 210 33 71 224

**Paraskevi Petropoulou: G10 Markets Analyst**  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr), +30 210 37 18 991

**Galatia Phoka: Research Economist**  
[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr), +30 210 37 18 922

**Theodoros Stamatiou: Senior Economist**  
[tstamatiou@eurobank.gr](mailto:tstamatiou@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](mailto:EurobankGlobalMarketsResearch@eurobank.gr)

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