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Eurobank

DAILY OVERVIEW
OF GLOBAL MARKETS & THE SEE REGION

Wednesday, October 19, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Oct 17
  - Empire State index (Oct)
  - Industrial production (Oct)
- Oct 18
  - CPI (Sep)
  - NAHB Index (Oct)
- Oct 19
  - Housing starts (Sep)
  - Housing permits (Sep)
  - Fed's Beige Book
- October 20
  - Jobless claims (weekly)
  - Philly Fed (Oct)
  - Existing home sales (Sep)

EUROZONE

- Oct 17: HICP (Sep, f)
- Oct 20: ECB monetary policy meeting & press conference
- Oct 20/21: EU Summit

GREECE

- Oct 18: Official discussions on 2nd programme review expected to commence
- Oct 20
  - Turnover Index in Industry (Aug)
  - Fiscal Data for 2012-2015 (2nd notification)

CYPRUS

- Oct 21: Fitch sovereign credit rating review

SEE

BULGARIA

- Oct 17: Current account balance (Aug)

ROMANIA

- Oct 17: 3.25% 2024 T-bond auction
- Oct 20: 3.25% 2021 T-bond auction

SERBIA

- Oct 19: 3.75% EUR T-bond auction
- Oct 20: Current account balance (Aug)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

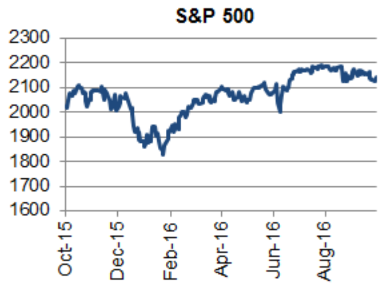
GLOBAL MARKETS: US Treasuries were firmer in early European trade on Wednesday and the USD was modestly weaker as moderating US underlying inflationary pressures triggered a dovish shift in short-term Fed rate hike expectations. Looking at the day ahead, focus is on the third - and last - US presidential debate which will take place at the University of Nevada, Las Vegas.

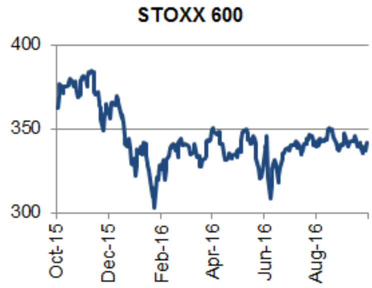
GREECE: Given the importance the Greek government places on public debt relief, the Greek PM Alexis Tsipras plans to meet on the sidelines of the European Council that will take place on 20 and 21 October, a number of high level officials including Angela Merkel, Francois Hollande, Jean-Claude Juncker and Martin Shculz. The Greek Tourism Confederation (SETE) presented at its conference yesterday the updated 2021 roadmap for Greek tourism where the targets by then are set at 34.8 million international arrivals and €19.6 billion tourism receipts.

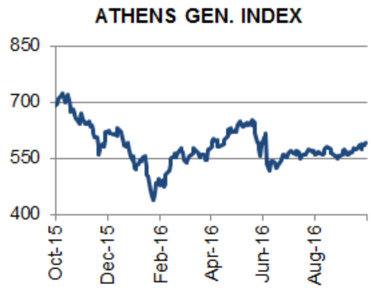
SOUTH EASTERN EUROPE

CESEE MARKETS: **Emerging Market assets** broadly extended their gains earlier on Wednesday after macroeconomic data from China vindicated market consensus, while expectations for a Fed rate hike this year were somewhat scaled back. A further recovery in commodity prices today continued to provide additional support to related shares and currencies. The Romanian parliament unanimously passed yesterday a bill that envisions the conversion of CHF-denominated loans to leu at historical rates.

Latest world economic & market developments







Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

US Treasuries were firmer in early European trade on Wednesday thanks to moderating underlying inflationary pressures. US core CPI slowed to 0.1%MoM in September from 0.3%MoM in August pushing the annual rate to 2.2%YoY from 2.3%YoY mainly on the back of lower medical care costs. Moving further below a four-month peak of 1.814% hit a couple of sessions earlier, the 10-yr UST yield was hovering around 1.743% at the time of writing with investors awaiting the Fed's Beige Book later in the day as well as US housing starts and building permits for September. Elsewhere, UK Gilts were little changed compared to Tuesday's settlement with the 10-yr yield standing close to 1.097% at the time of writing as a rise in UK CPI headline to the highest level since mid-2014 was partially offset by market uncertainty over whether Parliament will have to ratify the activation of the country's exit process from the EU, in contrast to PM Teresa May's argument that "it's up to the government to trigger Article 50 and the government alone". In FX markets, the USD was modestly weaker as moderating US inflationary pressures triggered a dovish shift in short-term Fed rate hike expectations. Fed Funds futures currently assign a 63% probability for a 25bps rate hike at the December policy meeting compared to around 68% earlier this week. The DXY index was hovering around 97.800 in European trade, 0.1% lower compared to Tuesday's close and 0.4% weaker from Monday's seven-month peak. Meanwhile, the majority of European bourses were modestly weaker in early trade ahead of Thursday's ECB monetary policy meeting where President Mario Draghi is expected to adopt a dovish stance confounding recent market talk of early QE tapering. Against this background, positive data from the world's second largest economy failed to exert a material impact. China's Q3 GDP expanded by 6.7%YoY, in line with market expectations, as stronger government spending and real estate investment growth offset persistently subdued private investment and exports. Looking at the day ahead, focus is on the third –and last- US presidential debate which will take place at the University of Nevada, Las Vegas.

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GREECE

Given the importance the Greek government places on public debt relief, the Greek PM, Alexis Tsipras, plans to meet on the sidelines of the European Council that will take place on 20 and 21 October, a number of high level officials including Angela Merkel, Francois Hollande, Jean-Claude Juncker and Martin Shculz. Mr. Tsipras will pursue a political agreement for debt relief as early as December 5th when the last Eurogroup of the year is scheduled to convene with the aim to achieve the inclusion of the country in the ECB's QE programme before the end of 2016. In other news, the Greek Tourism Confederation (SETE) presented at its conference yesterday the updated 2021 roadmap for Greek tourism where the targets by then are set at 34.8 million international arrivals and €19.6 billion tourism receipts. Necessary preconditions for attaining these targets are among others, the political and social stability and significant public and private investments amounting to €6.5 billion in the next five years, while over-taxation and bad handling of the refugee crisis are the most important potential risks. With regard to the hitherto performance of Greek tourism SETE President Mr. Andreadis noted that tourism arrivals surpassed the target but tourism receipts fell short for a number of reasons including: the constant battle of tourism enterprises to win an ever larger share of the market, changes in the consumer behaviour of tourists and the decrease in the average stay duration.

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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

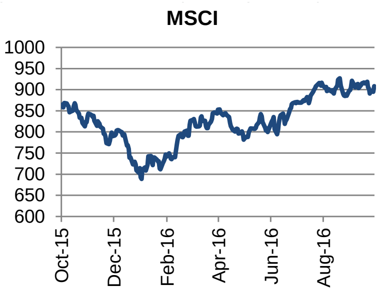
ROMANIA: Indicators	2014	2015	2016f
Real GDP growth %	2.9	3.8	4.2
CPI (pa, yoy %)	1.1	-0.6	-1.5
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.1	-3.0
EUR/RON (eop)	4.48	4.52	4.60
	2015	current	2016f
Policy Rate (eop)	1.75	1.75	2.00

* 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



Credit Ratings

L-T ccy	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

CESEE MARKETS

Emerging Market assets broadly extended their gains earlier on Wednesday after macroeconomic data from China vindicated market consensus, while expectations for a Fed rate hike this year were somewhat scaled back. A further recovery in commodity prices today continued to provide additional support to related shares and currencies. In **equity markets**, the MSCI Emerging Markets index stood in a modestly positive territory in Asian trade, after rallying by 1.6% on Tuesday. Regional bourses posted similar gains in morning European trade, with Turkey's BIST 100 index and Serbia's BELEX15 leading the way higher.

In **FX markets**, the Romanian leu recovered some ground after coming under pressure over the last few days amid concerns over legislation that envisions the conversion of CHF-denominated loans to leu at historical rates on the date of issuance. The bill has fanned worries over the profitability of the domestic banking sector. The Central Bank estimates that the conversion will cost about RON 2.4bn (~€ 530mn) on domestic banks as a result of a currently stronger CHF. However, only about 5% of total household debt in Romania is denominated in Swiss franc. Ahead of the upcoming general elections on December 11, the lower house of parliament unanimously passed the law yesterday, against Central Bank reported warnings that the legislation may weigh on the country's macroeconomic stability, risk indicators and credit ratings. The bill will apply to all loans extended in Swiss franc, in a change from a previous recommendation for the conversion to be applicable only for those below CHF 250k. Against this backdrop, the EUR/RON hovered around levels of 4.4960 in morning European trade, having recoiled from a 1-week high at 4.5147 hit yesterday ahead of the vote, though remaining within distance from last week's 3-month peak of 4.5176.

In the **external debt markets**, the Polish government sold on Tuesday €750mn worth of 12-year and €500mn of 30-year Eurobonds. The latter marks the longest EUR-denominated issuance in the CESEE space. The 12Y benchmark was priced at 48bps over the mid-swap at a yield of 1.058%, while the 30Y benchmark at 120bps above the mid-swap and a yield of 2.122%. The former bears an annual coupon of 1.0% and the latter of 2.0%. The issuance comes ahead of a broadly anticipated Fed rate hike in the coming months so as to achieve favourable market conditions. The funds raised will be used to pre-finance next year's borrowing needs.

Today's CESEE calendar is relatively light. Serbia sells EUR-denominated 2031 T-bonds, while data in Poland include industrial production, PPI and retail sales for September.

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GLOBAL MARKETS

Stock markets	Last	ΔD	ΔYTD
S&P 500	2139.60	0.6%	4.7%
Nikkei 225	16998.91	0.2%	-10.7%
STOXX 600	341.98	-0.1%	-6.5%

FOREX	Last	ΔD	ΔYTD
EUR/USD	1.0996	0.1%	1.3%
GBP/USD	1.2311	0.1%	-16.5%
USD/JPY	103.45	0.4%	16.1%

Government Bonds (yields)	Last	ΔDbps	ΔYTD bps
UST - 10yr	1.74	0	-53
Bund-10yr	0.03	-1	-60
JGB - 10yr	-0.06	-1	-32

Commodities	Last	ΔD	ΔYTD
GOLD	1264	0.1%	19.1%
BRENT CRUDE	52	1.5%	40.8%
LMEX	2392	0.0%	8.6%

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	-1	-20
3-month	3.48	0	-35
6-month	3.65	0	-38

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	#N/A N/A	#N/A N/A	543
5Y RSD	4.35	#N/A N/A	-77
7Y RSD	5.64	0	-206

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.28	-7	-88
USD Nov-24	6.54	-3	12

CDS

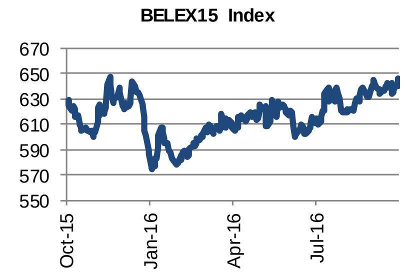
	Last	ΔDbps	ΔYTD bps
5-year	199	0	-75
10-year	244	0	-95

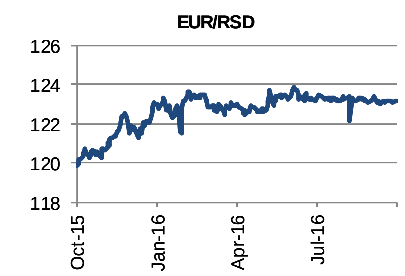
STOCKS

	Last	ΔD	ΔYTD
BELEX15	649.1	0.52%	0.77%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.15	-0.01%	-1.27%





ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.44	2	-9
1-month	0.57	1	-12
3-month	0.7	1	-32
6-month	0.93	0	-41
12-month	1.08	0	-44

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.42	0	-51
5Y RON	2.18	0	-62
10Y RON	3.05	-1	-73

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.80	0	-76
USD Jan-24	2.97	-3	-81

CDS

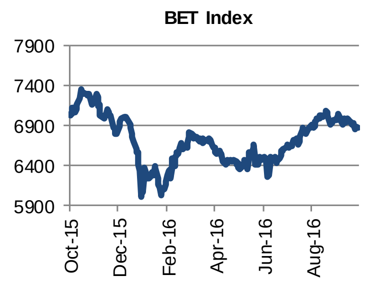
	Last	ΔDbps	ΔYTD bps
5-year	103	-1	-30
10-year	148	-1	-24

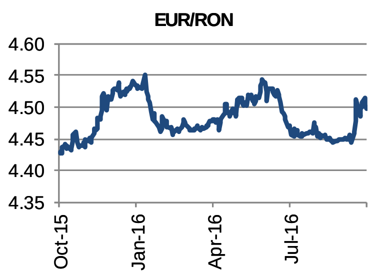
STOCKS

	Last	ΔD	ΔYTD
BET	6858.2	0.20%	-2.09%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4975	0.12%	0.37%





BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.30	-7	-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	0.21	2	-40
5Y BGN	0.56	0	-71
10Y BGN	1.90	0	-75

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.18	2	-25
EUR Sep-24	1.43	28	-99

CDS

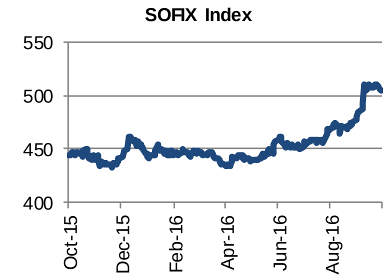
	Last	ΔDbps	ΔYTD bps
5-year	136	-5	-36
10-year	177	-5	-39

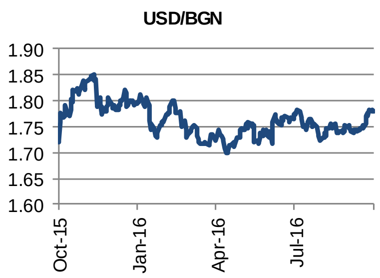
STOCKS

	Last	ΔD	ΔYTD
SOFIX	505.1	0.05%	9.60%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7787	0.15%	1.21%





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

Data updated as of 11:30 EEST

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