

DAILY OVERVIEW
OF GLOBAL MARKETS & THE SEE REGION

Monday, October 24, 2016

KEY UPCOMING DATA
& EVENTS THIS WEEKGLOBAL
US

- Oct 25: CB Consumer sentiment
- Oct 26: New home sales
- Oct 27
 - Jobless claims (weekly)
 - Durable goods orders (Sep)
 - Pending home sales (Sep)
- Oct 28
 - GDP (1st est, Q3)
 - Employment cost index (Q3)
 - UoM Consumer confidence

EUROZONE

- Oct 24: PMI manufacturing & services (Oct)
- Oct 25: DE: Ifo business climate (Oct)

GREECE

- Oct 24/25: Euroworking group
- Oct 28: Economic sentiment indicator (Oct)

SEE

BULGARIA

- Oct 28: Gross external debt (Aug)

ROMANIA

- Oct 24: 3.5% 2022 T-bond auction
- Oct 27: 1.35% 2019 T-bond auction

SERBIA

- Oct 25
 - 5.75% RSD 2023 T-bond auction
 - Real gross wages (Sep)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Most Asian equity indices traded modestly higher on Monday amid expectations that the Chinese government will take measures to boost infrastructure spending. Major European bourses also opened higher, after posting their second weekly gain in a row. In the rates markets, 10yr Portuguese 10y yields stood ca. 12bp lower at 3.075% at the time of writing after DBRS maintained its credit rating and outlook on Friday, while Spanish 10yr yields fell at a two-week low of 1.054% in late Asian trade following Socialist Party leadership's vote y-day to allow for the formation of a PP minority government. In FX markets, the USD strengthened against its major currency peers, buoyed by hawkish comments from Fed officials. Looking at this week's calendar, focus is on a number of Fed officials who are scheduled to speak later today, as well as on ECB President Mario Draghi's speech tomorrow. The main US data releases include CB consumer confidence on Tuesday (Oct), new home sales on Wednesday (Sep), durable goods orders on Thursday (Sep), and Q3 GDP 1st est. as well as UM consumer sentiment on Friday (Oct). In the euro area, PMI indices (Oct) take centre stage today, while ESI (Oct) also lures market attention. The U.K. GDP release for Q3 on Thursday after the Brexit vote is also in focus.

GREECE: The negotiations with official lenders in the context of the 2nd programme review are underway and will reportedly take place in two rounds, the first one lasting until October 30th and the second extending from November 20th until December 5th when the Eurogroup is scheduled to convene. According to press reports, the sticking points so far have been labour market reform and the amendment of the legal framework for the out-of-court workout. According to the Bank of Greece Balance of Payments data, in August 2016, the current account showed a surplus of €1.8bn down by €379mn YoY, which is attributable to a decline in the surplus of the services balance and to the deterioration in the primary and the secondary income accounts.

SOUTH EASTERN EUROPE

BULGARIA: The positive sentiment towards the local equity market waned further last week amid scarce investor interest and lack of triggers. On the local sovereign debt market, government bonds of medium-term maturity firmed while Eurobonds ended the week little changed.

CYPRUS: Fitch upgraded on Friday the sovereign credit rating of Cyprus by one notch (from B+ to BB-) with a positive outlook.

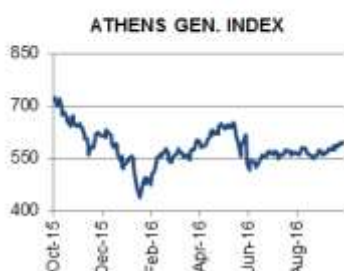
SERBIA: The EUR/RSD remained little changed last week, hovering around a tight range of 123.00-123.35. In other news, the United Arab Emirates will lend Serbia \$1bn to fill the gap in budget deficit.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Most Asian equity indices traded modestly higher on Monday amid expectations that the Chinese government will take measures to boost infrastructure spending. Major European bourses also opened higher, after posting their second weekly gain in a row. In the rates markets, 10yr USTs firmed with the yield dropping to 1.73% in early European trade, while 10yr Portuguese 10y yields stood ca. 12bp lower at 3.075% at the time of writing after DBRS maintained its credit rating and outlook on Friday, ensuring that the Portuguese debt remains eligible for QE. In Spain, 10yr yields fell at a two-week low of 1.054% in late Asian trade following Socialist Party leadership's vote y-day to allow for the formation of a PP minority government. PM Mariano Rajoy will consult with King Felipe VI tomorrow in order to trigger the confidence vote and form a government by next weekend. In FX markets, the USD strengthened against its major currency peers, buoyed by hawkish comments from Fed officials. San Francisco Fed President John Williams said that "it makes sense to get back to a pace of gradual rate increases, preferably sooner rather than later", highlighting his confidence that the Fed will be able to build a consensus around an interest rate hike by end-2016 and a few more in 2017. Along these lines, the DXY dollar index rose to an eight-month high of 98.846 in European trade on Monday, while the EUR/USD hovered around Friday's low of 1.0860, its lowest level in more than 7 months. Looking at this week's calendar, focus is on a number of Fed officials who are scheduled to speak later today, as well as on ECB President Mario Draghi's speech tomorrow. The main US data releases include CB consumer confidence on Tuesday (Oct), new home sales on Wednesday (Sep), durable goods orders on Thursday (Sep), and Q3 GDP 1st est. as well as UM consumer sentiment on Friday (Oct). In the euro area, PMI indices (Oct) take centre stage today, while ESI (Oct) also lures market attention. The U.K. GDP release for Q3 on Thursday after the Brexit vote is also in focus.

okosma@eurobank.gr

GREECE

The negotiations with official lenders in the context of the 2nd programme review are underway. According to press reports, one of the sticking points so far is the labour market reform where the institutions and, in particular, the IMF, are said to stand firm in their claim for further flexibility in the labour market and strongly oppose the reinstatement of the previous regime with respect to collective bargaining, an issue that the Greek government vigorously supports. Disagreements have also been expressed with regard to collective dismissals and the minimum wage. Another point of disagreement in the context of the 2nd programme review is the amendment of the legal framework for the out-of-court workout with detailed provisions, where according to press reports, more technical work needs to be done while another meeting on this topic is scheduled to take place this week. On the other side, the issue of government arrears clearance from the 1st programme review has been successfully closed and the Euroworking Group that is scheduled to convene today is expected to approve the release of the remaining €1.7bn which will be exclusively directed to the payment of government arrears. On the economic news front, according to the Bank of Greece Balance of Payments data, in August 2016, the current account showed a surplus of €1.8bn down by €379mn YoY, which is attributable to a decline in the surplus of the services balance and to the deterioration in the primary and the secondary income accounts. Goods exports increased 3.6%YoY and 4.8% YoY excluding oil and ships while receipts for services fell 1.7%YoY due to a steep decline in travel receipts (-9.2%YoY). For the January-August 2016 period, goods exports declined 6.0%YoY and 1.1%YoY excluding oil and ships (against -5.8% and +7.7% respectively for the same period in 2015), while receipts from services dropped 16.8%YoY (against -3.0% for the same period in 2015) due to a decline in all individual services receipts categories (travel, transport and other).

andimitriadou@eurobank.gr

October 24, 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

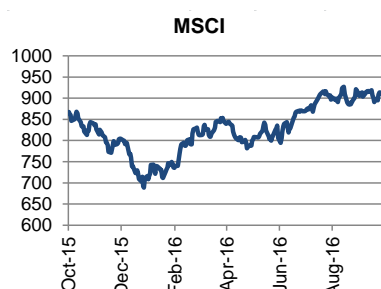
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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

The positive sentiment on the local equity market waned further last week amid scarce interest and lack of triggers. The main SOFIX index continued to trade in a tight range over the last few days, closing 0.2% lower on a weekly basis at 507.67 points marking its first weekly drop in seven weeks. Trading activity was subdued with the weekly turnover hardly reaching €1mn. On the local sovereign debt market, government bonds of medium-term maturity firmed last week with yields dropping by 10bps on average. On the other hand, Eurobonds were little changed across the curve. Investors currently remain in wait-and-see mode ahead of the presidential elections which are scheduled to be held in two weeks.

VBoteva@postbank.bg

CYPRUS

Fitch upgraded on Friday the sovereign credit rating of Cyprus by one notch (from B+ to BB-) with a positive outlook. The decision comes on top the recent S&P upgrade in late September (from BB- to BB with a positive outlook) and reflects the strong progress of the Cypriot economy in the aftermath of the 2013 banking crisis, the exit from the economic adjustment program last March in the context of outperformance of fiscal and economic programme targets, success at lifting capital controls, and steps taken to restructure the banking sector. In all past editions we have extensively discussed the progress of the Cypriot economy in the last three years. Based on our fact findings on the ground and our analysis, we always advocated that Cyprus is a solid turn-around economic story. The Q2-2016 GDP reading of +0.7% QoQ/+2.7% YoY confirmed that the economy is on a fast growth recovery track. After a three year recession in 2012-2014 and a cumulative drop of 10.5% in real GDP, the economy expanded by +1.6% YoY in 2015 and is expected to gain further momentum to +2.7% YoY in 2016. Despite their short decline in September, confidence indicators still stand close to the pre-crisis high recorded in August 2007. Additionally, Cyprus has recorded the second highest decline in unemployment behind that of Croatia in EU-28 in the past twelve months (from 14.7% in August 2015 to 12.1% in August 2016). Despite the recent credit rating upgrades, Cypriot government bonds have not yet reached investment grade status with two and three more notches required by S&P and Fitch respectively, while four are needed by Moody's (currently at B1). As a result, ECB's waiver for government bonds eligibility for Euro system financing has been lifted as of April 1st and Cyprus no longer qualifies for QE. The waiver allowed these instruments to be used in Euro system monetary policy operations despite the fact that they did not fulfill minimum credit rating requirements.

igkionis@eurobank.gr

SERBIA

The EUR/RSD remained little changed last week, hovering around a tight range of 123.00-123.35. The National Bank of Serbia intervened on several occasions, buying a total amount of €45mn last week that brought its year to date purchases to €630mn in an effort to stem the dinar's gains. In other news, the United Arab Emirates will lend Serbia \$1bn to fill the gap in budget deficit. Speaking at the conference, Ministry of Finance, Dusan Vujovic said that the loan will be used to refinance expensive existing loans. In more detail, the loan will have a 5 year grace period and it matures in 2026. Also, it bears an interest rate of 2.25%. With respect to the latest news on government bond issuance, the Public Debt Administration sold €75mn worth of 15 year euro-denominated Treasury bonds on Wednesday. This marks the longest of all Serbian securities. The paper matures on October 21, 2031 and bears a coupon of 3.75% per annum. The yield to maturity came in at 4.20% last week.

Zoran.Korac@eurobank.rs

October 24, 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	2141.16	0.0%	4.8%	EUR/USD	1.0892	0.1%	0.3%	UST - 10yr	1.73	-1	-54	GOLD	1266	0.0%	19.3%
Nikkei 225	17234.42	0.3%	-9.5%	GBP/USD	1.2241	0.1%	-16.9%	Bund-10yr	-0.01	-1	-64	BRENT CRUDE	52	0.2%	39.2%
STOXX 600	346.17	0.5%	-5.4%	USD/JPY	103.87	0.0%	15.6%	JGB - 10yr	-0.05	0	-32	LMEX	2370	-0.2%	7.6%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	301	-3	-2
1-week	3.17	0	-2
1-month	3.33	0	-18
3-month	3.47	-2	-36
6-month	3.66	0	-37

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	#N/A N/A	#N/A N/A	543
5Y RSD	4.32	-1	-79
7Y RSD	5.63	0	-206

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.27	2	-89
USD Nov-24	6.53	0	11

CDS

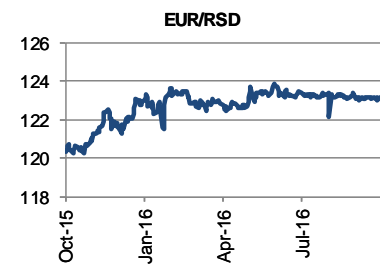
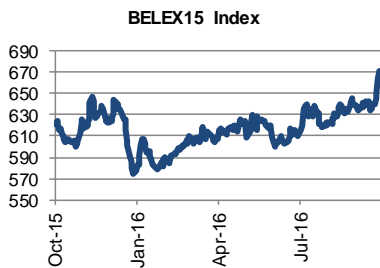
	Last	ΔDbps	ΔYTD bps
5-year	199	0	-75
10-year	244	0	-95

STOCKS

	Last	ΔD	ΔYTD
BELEX15	670.7	0.08%	4.13%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.17	0.03%	-1.28%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.51	7	-2
1-month	0.59	1	-10
3-month	0.7	0	-32
6-month	0.94	0	-40
12-month	1.08	0	-44

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.39	0	-54
5Y RON	2.14	0	-66
10Y RON	2.98	0	-80

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.75	-1	-82
USD Jan-24	2.92	4	-86

CDS

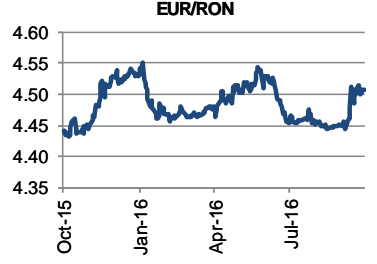
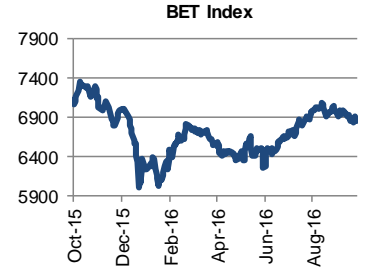
	Last	ΔDbps	ΔYTD bps
5-year	103	-1	-31
10-year	146	-1	-26

STOCKS

	Last	ΔD	ΔYTD
BET	6875.6	0.20%	-1.84%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5073	0.00%	0.15%



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	0.18	0	-42
5Y BGN	0.57	3	-70
10Y BGN	1.84	0	-82

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.27	7	-33
EUR Sep-24	1.41	39	-101

CDS

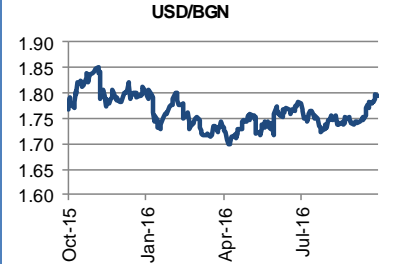
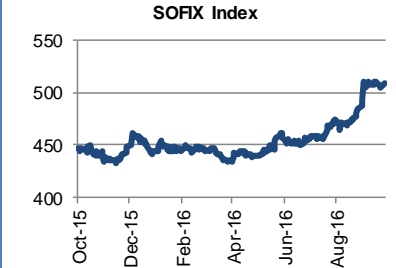
	Last	ΔDbps	ΔYTD bps
5-year	134	1	-37
10-year	175	1	-41

STOCKS

	Last	ΔD	ΔYTD
SOFIX	508.5	0.17%	10.34%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7957	0.09%	0.26%



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

Data updated as of 12:00 EEST

October 24, 2016

Contributors

Paraskevi Petropoulou
Economic Analyst, Eurobank Ergasias
+30 210 3718991
ppetropoulou@eurobank.gr

Galatia Phoka
Research Economist, Eurobank Ergasias
+30 210 3718922
gphoka@eurobank.gr

Ioannis Gkionis (Special Contributor)
Research Economist, Eurobank Ergasias
30 210 3337305
igkionis@eurobank.gr

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

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

Theodoros Stamatou (Special Contributor)
Senior Economist, Eurobank Ergasias
30 210 3371228
tstamatou@eurobank.gr

Regional Contributors

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

Zoran Korac
FX dealer, Eurobank ad Beograd
+381 11 206 5821
zoran.korac@eurobank.rs

Bogdan Radulescu, CFA
Senior Trader, Bancpost
+40 21 3656291
bogdan.radulescu@bancpost.ro

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: Group Chief Economist
pmonokrousos@eurobank.gr, +30 210 37 18 903

Dr. Tassos Anastasatos: Deputy Chief Economist
tanastasatos@eurobank.gr, +30 210 33 71 178

Research Team

Anna Dimitriadou: Economic Analyst
andimitriadou@eurobank.gr, +30 210 3718 793

Ioannis Gkionis: Research Economist
igkionis@eurobank.gr +30 210 33 71 225

Stylios Gogos: Economic Analyst
sgogos@eurobank.gr +30 210 33 71 226

Olga Kosma: Research Economist
okosma@eurobank.gr +30 210 33 71 227

Arkadia Konstantopoulou: Research Assistant
arkonstantopoulou@eurobank.gr +30 210 33 71 224

Paraskevi Petropoulou: G10 Markets Analyst
ppetropoulou@eurobank.gr, +30 210 37 18 991

Galatia Phoka: Research Economist
gphoka@eurobank.gr, +30 210 37 18 922

Theodoros Stamatou: Senior Economist
tstamatou@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

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