

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### GLOBAL US

- Nov 15
  - Retail sales (Oct)
  - Empire state index (Oct)
- Nov 16
  - Industrial production (Oct)
  - NAHB index (Nov)
- Nov 17
  - Jobless claims (weekly)
  - CPI (Oct)
  - Housing starts (Oct)
  - Building permits (Oct)
  - Philly Fed (Nov)

#### EUROZONE

- Nov 17
  - HICP (Oct, f)
  - ECB Oct meeting minutes
  - ECB Draghi speaks

#### GREECE

- Nov 14: GDP (Q3, A)
- Nov 15: Mission heads return to Athens to resume discussions with Greek authorities on 2<sup>nd</sup> review
- Nov 18: Turnover Index in Industry (Sep)

#### CYPRUS

- Nov 15: GDP (Q3, p)

#### SEE

##### BULGARIA

- Nov 14: CPI (Oct)
- Nov 15
  - GDP (Q3, p)
  - U/E rate (Oct)
- Nov 16: Current account balance (Sep)

##### ROMANIA

- Nov 14
  - IP (Sep)
  - Current account balance (Sep)
  - 1.35% 2019 T-bonds auction
- Nov 15: GDP (Q3, A)
- Nov 17: 3.25% 2024 T-bonds auction

##### SERBIA

- Nov 14: HICP (Oct)
- Sovereign credit rating review by Moody's

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** After falling sharply in the wake of the Republican sweep victory in the US Presidential election, US long-dated Treasuries showed signs of tentative stabilisation over the last couple of sessions. In FX markets, US strength remains a key theme. Fed Funds futures are currently assigning a probability of 94% compared to 84% before the US Presidential election.

**GREECE:** In his visit to Athens yesterday the USA President spoke against austerity and expressed the view that a solution must be found to deem Greece's public debt sustainable. At the same time he acknowledged the progress that has already been achieved but stressed the importance for the country to stay on the path of reform. Replying to a relevant question by a Greek MEP, Daniele Nouy, Chair of the Supervisory Board of the ECB (SSM) reportedly stated that as a large portion of NPLs are corporate, they could be handled with priority over household ones, in order to delay auctions of first residencies and give people some leeway to settle their debts. Mrs. Nouy added that an SSM task force is currently working on specific guidelines on how to address the issue of NPLs which will be submitted to banks and regulatory authorities by end November.

### SOUTH EASTERN EUROPE

**CYPRUS:** According to the flash estimate, GDP growth expanded by +2.9%/+2.8% YoY on a non-seasonally adjusted and seasonally adjusted basis respectively in Q3-2016.

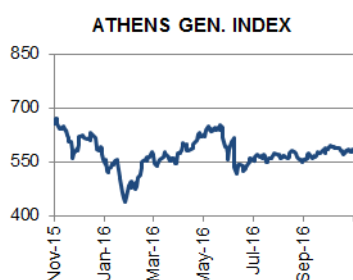
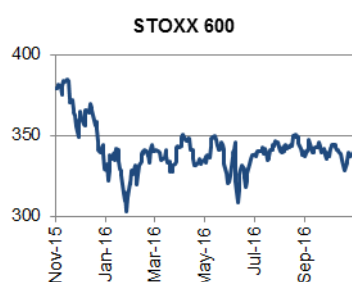
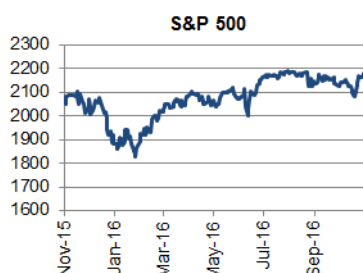
**ROMANIA:** The third quarter flash GDP estimate came in below market expectations, raising fresh concerns over the sustainability of the growth acceleration in 2016-2017. According to the release, real GDP on an unadjusted basis slowed to +4.4% YoY in Q3-2016 down from +6.0% YoY in Q2-2016 vs +3.6% in Q3-2015.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

After falling sharply in the wake of the Republican sweep victory in the US Presidential election, US long-dated Treasuries showed signs of tentative stabilisation over the last couple of sessions as investors are perplexed over which policies will ultimately be enacted when Donald Trump takes office in January 2017. Long-dated US Treasuries outperformed with the 10-yr yield hovering around 2.26% at the time of writing after ending at 2.24% on Tuesday and hitting 2.30% multi-month high earlier this week. However, market sentiment towards US sovereign paper remains fragile and it would be probably premature to conclude that we have already seen a short-term peak in US bond yields. In FX markets, US strength remains a key theme. A Fed rate hike in December is largely priced in with Fed Funds futures currently assigning a probability of 94% compared to 84% before the US Presidential election. The DXY index hit a fresh year-to-day intraday peak of 100.320 earlier today recording 2.5% cumulative post-US election gains. US data released yesterday showed a bigger than expected 0.8% MoM rise in October US retail sales, reinforcing market optimism about the strength of consumer spending and providing further support to the prevailing view of higher Fed interest rates in December. The USD/JPY tested levels earlier today slightly above 109.50 for the first time since early June while the EUR/USD marked a new year-to-day intraday trough of 1.0700. Surprisingly, the GBP proved rather resilient to the USD's strength trading close to 1.2470/75 at the time of writing, little changed compared to levels recorded ahead of the US Presidential election. However, with investors remaining concerned about the verdict of the UK Supreme Court on the government's appeal on December 5-8, the GBP seems vulnerable in the coming sessions. Looking at the day ahead, three Fed officials are scheduled to speak, St. Louis Fed James Bullard, Minneapolis Fed Neel Kashkari and Philadelphia Fed Patrick Harker. On the data front, US industrial production for October and NAHB index for November should be closely watched.

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### GREECE

USA President Barack Obama visited Athens yesterday and among others discussed the economic situation in Greece with the Greek PM Alexis Tsipras. The USA President spoke against austerity and expressed the view that a solution must be found to deem Greece's public debt sustainable. At the same time he acknowledged the progress that has already been achieved but stressed the importance for the country to stay on the path of reform. At his next stop in Berlin, President Obama, is expected to promote his views against further austerity and towards debt relief for Greece although unnamed German officials already underplay the effect that such an intervention may have. Meanwhile, the 2nd programme review in Athens is underway and the resolution of NPLs is among the most prominent issues given that NPEs stand at 45.1% of total loans and need to be reduced by 40% by the end of 2019. Legal impediments but also the blocking of residencies' auctions by citizens have caused serious delays in the past few weeks. Replying to a relevant question by a Greek MEP, Daniele Nouy, Chair of the Supervisory Board of the ECB (SSM) reportedly stated that as a large portion of NPLs are corporate, they could be handled with priority over household ones, in order to delay auctions of first residencies and give people some leeway to settle their debts. Mrs. Nouy added that an SSM task force is currently working on specific guidelines on how to address the issue of NPLs which will be submitted to banks and regulatory authorities by end November. On the labour market reform front, the Greek Labour Minister Effie Achtsioglou reportedly presented yesterday to the institutions the positions of the Greek government but differences still remain on issues such as the determination of the minimum wage, collective bargaining and collective dismissals.

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November 16, 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

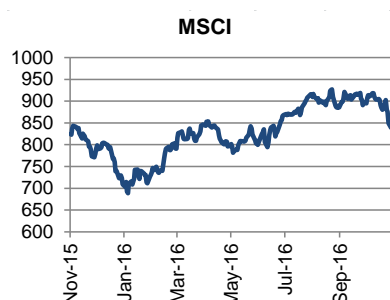
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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

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

### CYPRUS

Real economic activity continued to surprise positively in the third quarter of 2016. According to the flash estimate, real GDP growth marked the 7<sup>th</sup> consecutive positive reading on both quarterly and an annual basis after a three year recession, confirming that the economy is finally out of the woods. On a seasonally adjusted basis, growth accelerated to +0.7% QoQ/+2.8% YoY in Q3-2016 vs. +0.8% QoQ/+2.6% YoY in Q2-2016. Although the components of growth have not been yet released, it is highly likely that the consumption rebound continued in Q3-2016. The consumption rebound is driven by the strong sentiment improvement mirroring the lasting progress within the economic adjustment program, a flourishing tourism sector (+18.8% YoY in tourist arrivals in 9M-2016), lower energy prices on an annual basis, lower unemployment (12.0% in September, the highest decline in Euroarea in the past twelve months), agents' expectations of further fiscal relaxation and a rise in real incomes. After a three year recession in 2012-2014 and a cumulative drop of 10.5% of GDP, the economy expanded by +1.7% YoY in 2015 and is projected at +2.7% YoY in 2016 and at 2.4% in 2017. Still, after the parliamentary elections of May, a handful of unfinished structural reforms need to progress in the areas of privatizations, public and health sectors, while addressing the challenges of a still high NPLs stock. 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 - increased to 49% in June 2016 up from 45.8% in Dec 2015, despite a restructurings speed up, mirroring also the ongoing deleveraging which impacts the denominator.

### ROMANIA

The third quarter flash GDP estimate came in below market expectations, raising fresh concerns over the sustainability of the growth acceleration in 2016-2017. According to the release, real GDP on an unadjusted basis slowed to +4.4% YoY in Q3-2016 down from +6.0% YoY in Q2-2016 vs +3.6% in Q3-2015. On a seasonally adjusted basis, growth slowed to +0.6% QoQ/ +4.6% YoY in Q3-2016 – below a market consensus of +1.0% QoQ/+5.0% YoY- from +1.5% QoQ/+5.8% YoY in Q2-2016, but up from +1.8% QoQ/+3.7% YoY in Q3-2015.

Although the components are yet to be known, it is high likely that growth was once again domestic demand-driven. Yet, softer retail sales in Q3 predispose for a slowdown in the private consumption rally and thus a lower contribution to growth. In addition, lower EU funds absorption compared to last year and lower QoQ public spending mirroring local elections in last June were most probably accountable for the slowdown in investments. On the other hand, net exports weighted negatively on growth which reflects the deceleration of exports vs. the robust dynamics of imports. So far, growth dynamics were driven by a private consumption spending boom, fueled by the unwarranted pro-cyclical fiscal stimulus ahead of the parliamentary elections scheduled for late 2016. Hence, the economy is driven close to, if not above, its potential growth rate at the expense of pushing government finances off consolidation track and deteriorating the external position. The current account deterioration is one of those warning signs that macroeconomic imbalances are reemerging as a result of the expansionary policy. The current account deficit widened to 1.6% of GDP in Jan-Sep 2016 compared to 0.7% of GDP over the same period a year ago. All in all, GDP growth came in at 4.8% in the first three quarters of the year, little below our FY16 projection of 5.0%.

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November 16, 2016

**GLOBAL MARKETS**

Stock markets	FOREX			Government Bonds			Commodities								
Last	ΔD	ΔYTD	Last	ΔD	ΔYTD	(yields)	Last	ΔD	ΔYTD	Last	ΔD	ΔYTD			
S&P 500	2180.39	0.7%	6.7%	EUR/USD	1.0712	-0.1%	-1.3%	UST - 10yr	2.26	4	-1	GOLD	1227	-0.1%	15.6%
Nikkei 225	17862.21	1.1%	-6.2%	GBP/USD	1.2462	0.0%	-15.4%	Bund-10yr	0.33	3	-30	BRENT CRUDE	47	-0.3%	25.5%
STOXX 600	339.56	0.1%	-7.2%	USD/JPY	109.55	-0.3%	9.6%	JGB - 10yr	0.03	2	-24	LMEX	2703	-0.4%	22.7%

**CESEE MARKETS**

**SERBIA**

**Money Market**

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	304	2	1
1-week	3.18	3	-1
1-month	3.32	2	-19
3-month	3.49	3	-34
6-month	3.68	5	-35

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	5.07	0	-34
5Y RSD	5.63	0	-148
7Y RSD	5.72	0	-6

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.60	1	-56
USD Nov-24	6.51	-4	10

**CDS**

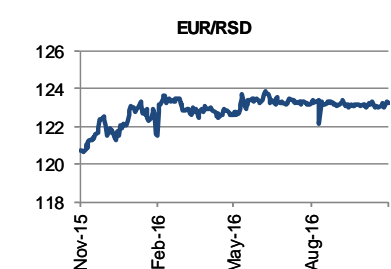
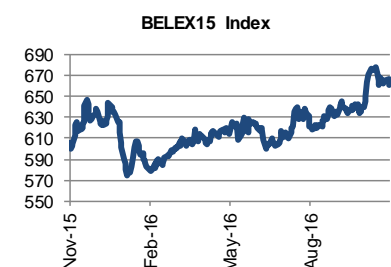
	Last	ΔDbps	ΔYTD bps
5-year	208	-1	-67
10-year	254	-1	-85

**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	660.2	-0.04%	2.50%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	123.27	0.01%	-1.37%



**ROMANIA**

**Money Market**

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.51	-2	-2
1-month	0.69	1	0
3-month	0.81	1	-21
6-month	1.01	0	-33
12-month	1.14	0	-38

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	1.53	2	-40
5Y RON	2.46	1	-34
10Y RON	3.46	1	-32

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.33	-5	-24
USD Jan-24	3.83	2	4

**CDS**

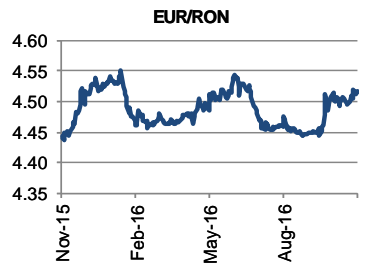
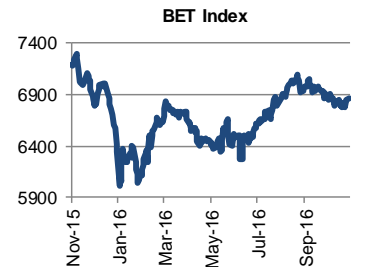
	Last	ΔDbps	ΔYTD bps
5-year	106	-4	-27
10-year	150	-4	-21

**STOCKS**

	Last	ΔD	ΔYTD
BET	6863.0	-0.19%	-2.02%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.5168	-0.09%	-0.06%



**BULGARIA**

**Money Market**

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.30	0	-31
1-month	-0.15	0	-30
3-month	-0.06	1	-32
6-month	0.09	0	-44
12-month	0.40	0	-57

**BG Local Bonds**

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.26	-1	-34
5Y BGN	0.65	2	-63
10Y BGN	2.06	0	-60

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.02	15	-5
EUR Sep-24	1.94	21	-48

**CDS**

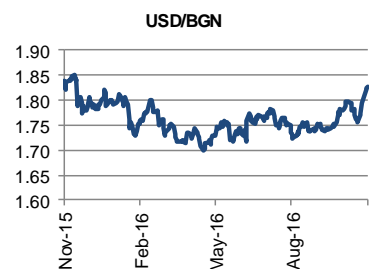
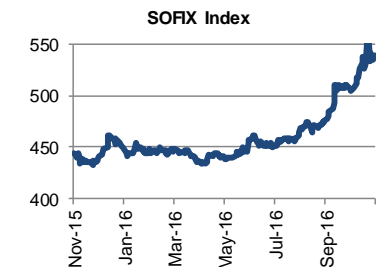
	Last	ΔDbps	ΔYTD bps
5-year	146	-8	-26
10-year	191	-8	-25

**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	538.0	-0.09%	16.74%

**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.826	-0.09%	-1.41%



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

Data updated as of 12:05 EET



November 16, 2016

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