

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Friday, September 18, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL US

- September 15
 - Retail sales (Jul)
 - Empire State Index (Sep)
 - Industrial production (Aug)
- September 16
 - CPI ((Aug)
 - NAHB (Sep)
- September 17
 - Initial jobless claims (Sep 12)
 - Housing starts (Aug)
 - Housing permits (Aug)
 - Philadelphia Fed Index (Sep)
 - FOMC meeting & press conference

EUROZONE

- September 15: ZEW Index (Sep)
- September 16: HICP (Aug)

GREECE

- September 14: Televised debate of the leaders of the two largest political parties
- September 17: U/E (Q2)
- September 20: National elections

SEE

BULGARIA

- September 14: CPI (Aug)
- September 17: Current account balance (Jul)

ROMANIA

- September 14: Current account balance (Jul)

SERBIA

- September 16: 2017 T-Notes auction

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: In its two-day policy meeting which concluded late yesterday, the FOMC decided to leave the target range for the federal funds rate unchanged at 0.0%-0.25%, in line with the expectations of the majority of market participants. The accompanying policy statement was perceived as more dovish than anticipated triggering a rally in US government bonds while major US equity indices ended lower after a choppy session and the USD weakened modestly. Looking ahead, the majority of market participants share the view that, though the likelihood of a Fed rate hike at the next policy meeting on October 27-28 cannot be ruled out entirely, the most likely scenario –as things stand at this point- is the Fed to wait until December, at the earliest, on the view that it probably needs some more time to assess the potential impact of the global economy and financial markets on the US growth and inflation outlook before deciding to embark on a rate tightening cycle.

GREECE: According to the local press, a number of high level Greek banking officials appear optimistic that the amount of €25bn earmarked under the new ESM financial assistance program for the recapitalisation of the domestic banking system will prove adequate.

SOUTH EASTERN EUROPE

ROMANIA: Prime Minister Victor Ponta became the first PM in office to be indicted officially with charges by the prosecutors of the National Anticorruption Directorate yesterday.

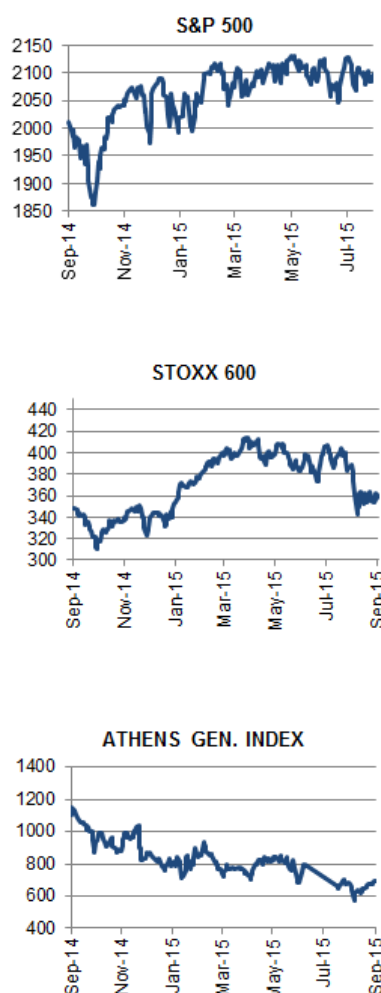
CESEE MARKETS: Most **emerging stock markets** moved broadly higher in European trade on Friday after the Fed stood pat on its monetary policy at its meeting yesterday, in line with the market's median forecast, adopting a more dovish than anticipated tone in the accompanying statement. On the other hand, **CESEE assets** were mixed in European trade on Friday, as the post-FOMC relief rally appears to have run out steam, while global growth concerns cited by the Fed overshadowed its decision for stable interest rates.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

In its two-day policy meeting which concluded late yesterday, the FOMC decided to leave the target range for the federal funds rate unchanged at 0.0%-0.25%, in line with the expectations of the majority of market participants. The accompanying policy statement was perceived as more dovish than anticipated triggering a rally in US government bonds while major US equity indices ended lower after a choppy session and the USD weakened modestly. Specifically, the post-meeting statement reflected increased FOMC concerns about the potential impact of the latest global economic and financial developments on the domestic economy saying explicitly that "recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term". Furthermore, the statement noted that the FOMC "is monitoring developments abroad". According to the updated Summary of Economic Projections, the median projection for the federal funds rate was revised lower by 25bps throughout the entire forecasting horizon, i.e., to 0.375% for end- 2015, 1.375% for end- 2016, 2.625% for end-2017 and 3.375% for end-2018 (the FOMC projection for 2018 was published for the first time). As regards its monetary policy deliberations ahead, the FOMC reiterated that it "anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium-term". Against this background, the majority of market participants share the view that, though the likelihood of a Fed rate hike at the next policy meeting on October 27-28 cannot be ruled out entirely, the most likely scenario –as things stand at this point- is the Fed to wait until December, at the earliest, on the view that it probably needs some more time to assess the potential impact of the global economy and financial markets on the US growth and inflation outlook, before deciding to embark on a rate tightening cycle.

GREECE

According to the local press, a number of high level Greek banking officials appear optimistic that the amount of €25bn earmarked under the new ESM financial assistance program for the recapitalisation of the domestic banking system will prove adequate. As per the same sources, the most recent high frequency indicators, have supported expectations that the full year GDP will likely contract up to -1.5%YoY, less than the official forecast of -2.3%YoY and that the domestic economy could return to positive growth rates from next year onwards on the condition that the bank recapitalization will be completed by the end of this year, capital controls will be lifted and the upcoming general election will produce a stable pro-EU government which will proceed to the speedy fulfillment of the agreed terms underlying the new ESM bailout program. In other news, a number of recent press reports suggested that the outcome of the September 20 snap election remains too close to call. As per the same reports, the formation of a post-election stable government is needed so as to deal with several challenges laying ahead including, among others, the timely completion of the 1st program review that represents a key prerequisite for the initiation of official discussions on additional debt relief measures to Greece.

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Latest world economic & market developments in the CESEE region

ROMANIA

Prime Minister Victor Ponta became the first PM in office to be indicted officially with charges by the prosecutors of the National Anticorruption Directorate (DNA) yesterday. As it was widely expected the ongoing corruption investigation against him expanded on additional allegations for the period dating back to 2007-2008 when he was practicing law. Prime Minister Ponta was indicted by the DNA for his involvement in the so-called Rovinari-Turceni case for forgery in documents, complicity to continued tax evasion and money laundering, in his capacity as lawyer, in a case where former minister Mr. Sova is also prosecuted.

The indictment of the Prime Minister will likely increase pressures on him to step down. Despite President Klaus Iohannis urging him to resign, Mr. Ponta refused to do so. At this point, the constitutional options of the President to dismiss him are limited unless Parliament approves a no-confidence motion against him. The government of Prime Minister Ponta has already survived an Opposition-backed no confidence vote in Parliament in June, triggered by a parliament veto on charges brought against the Prime Minister related to his activities when he was already in office. However, the no-confidence motion was backed by only 194 MPs, falling short of the majority needed in the 555-seat house.

Additionally, potential defections in the ruling party, that may put the stability of the governing coalition led by PSD at risk, cannot be ruled out. Even if the allegations against the Prime Minister are not confirmed, they have stirred a lot of internal debate within the ruling party in a pre-election year. As a result, Mr. Ponta was inclined to step down from the leadership of the ruling Social Democratic Party (PSD), but signaled that he doesn't intend to resign from the PM post. Even if the political landscape may change radically in the coming weeks, the case against Prime Minister Ponta will not be a game changer as far as economic policies are concerned. In a pre-election year, it is highly unlikely that the shift to more populist policies that may be market and credit negative will be averted.

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CESEE MARKETS

Most **emerging stock markets** moved broadly higher in European trade on Friday after the Fed stood pat on its monetary policy at its meeting yesterday, in line with the market's median forecast, adopting a more dovish than anticipated tone in the accompanying statement. In response, the MSCI Emerging Markets Index advanced by ca 0.6% at the time of writing, adding to cumulative gains of 2.5% recorded over the prior two sessions and poised to end the week ca. 4.0% higher near a 1-month peak hit intraday. On the other hand, **CESEE assets** were mixed in European trade on Friday, as the post-FOMC relief rally appears to have run out steam, while global growth concerns cited by the Fed overshadowed its decision for stable interest rates. In **FX markets**, the Turkish lira broadly outperformed its regional peers, with the USD/TRY sliding by ca 0.5% to 2.9950 earlier today. In spite of the lira's modest recovery the pair remains not too far from a record high of 3.0710 hit earlier in the week amid mounting domestic political concerns ahead of the November repeat general elections and worries over the country's economic growth prospects. The Romanian leu appeared largely unfazed by news about Prime Minister Ponta's prosecution, with the EUR/RON hovering around levels of 4.4180 at the time of writing, little changed compared to Thursday's settlement.

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| BULGARIA: Indicators | 2014e | 2015f | 2016f |
|----------------------|--------|---------|-------|
| Real GDP growth % | 1.7 | 1.8 | 2.2 |
| CPI (pa, yoy %) | -1.4 | 0.3 | 1.2 |
| Budget Balance/GDP* | -3.7 | -2.5 | -2.4 |
| Current Account/GDP | 0.9 | 2.0 | 1.5 |
| EUR/BGN (eop) | 1.9558 | | |
| | 2014 | current | 2015f |
| Policy Rate (eop) | N/A | N/A | N/A |

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

| CYPRUS: Indicators | 2014e | 2015f | 2016f |
|---------------------|-------|-------|-------|
| Real GDP growth % | -2.3 | 0.4 | 1.4 |
| HICP (pa, yoy %) | -0.3 | -0.8 | 0.9 |
| Budget Balance/GDP* | -8.8 | -1.1 | -0.1 |
| Current Account/GDP | -5.1 | -3.9 | -4.2 |

* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

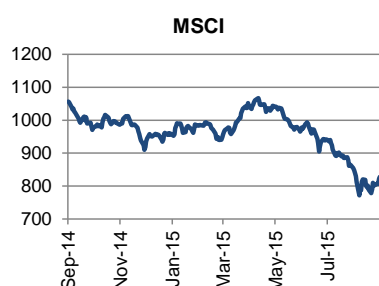
| ROMANIA: Indicators | 2014e | 2015f | 2016f |
|----------------------|-------|---------|-------|
| Real GDP growth % | 2.9 | 3.4 | 3.5 |
| CPI (pa, yoy %) | 1.1 | -0.5 | 1.8 |
| Budget Balance/GDP * | -1.9 | -1.9 | -2.8 |
| Current Account/GDP | -0.4 | -1.0 | -1.5 |
| EUR/RON (eop) | 4.40 | 4.45 | 4.40 |
| | 2014 | current | 2015f |
| Policy Rate (eop) | 1.75 | 1.75 | 2.50 |

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

| SERBIA: Indicators | 2014e | 2015f | 2016f |
|---------------------|--------|---------|--------|
| Real GDP growth % | -1.8 | 0.0 | 1.5 |
| CPI (pa, yoy %) | 2.1 | 2.2 | 3.8 |
| Budget Balance/GDP | -6.7 | -5.3 | -4.6 |
| Current Account/GDP | -6.0 | -4.3 | -4.1 |
| EUR/RSD (eop) | 120.96 | 123.00 | 124.00 |
| | 2014 | current | 2015f |
| Policy Rate (eop) | 8.00 | 5.00 | 4.50 |

Source: Reuters, Bloomberg, Eurobank Research, National Authorities



| Credit Ratings | | | |
|----------------|---------|------|-------|
| L-T ccy | Moody's | S&P | Fitch |
| SERBIA | B1 | BB- | B+ |
| ROMANIA | Baa3 | BBB- | BBB- |
| BULGARIA | Baa2 | BB+ | BBB- |
| CYPRUS | B3 | B+ | B- |

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 | 1990.20 | -0.3% | -3.3% | EUR/USD | 1.1446 | 0.1% | -5.4% | UST - 10yr | 2.17 | -2 | 0 | GOLD | 1132 | 0.1% | -4.4% |
| Nikkei 225 | 18070.21 | -2.0% | 3.5% | GBP/USD | 1.5616 | 0.2% | 0.2% | Bund-10yr | 0.69 | -9 | 15 | BRENT CRUDE | 49 | 0.1% | -14.3% |
| STOXX 600 | 358.53 | -0.7% | 4.7% | USD/JPY | 119.35 | 0.6% | 0.3% | JGB - 10yr | 0.31 | -5 | -2 | LMEX | 2447 | 0.0% | -16.0% |

CESEE MARKETS

SERBIA

Money Market

| BELIBOR | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| T/N | 361 | 0 | -630 |
| 1-week | 3.78 | -1 | -623 |
| 1-month | 4.13 | 0 | -592 |
| 3-month | 4.48 | -1 | -537 |
| 6-month | 4.76 | 0 | -503 |

RS Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|--------|------|-------|----------|
| 3Y RSD | 5.60 | 0 | -348 |
| 5Y RSD | 7.09 | 0 | -309 |
| 7Y RSD | 8.29 | -1 | -379 |

RS Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| USD Nov-17 | 3.15 | -12 | -111 |
| USD Nov-24 | 6.45 | 0 | -14 |

CDS

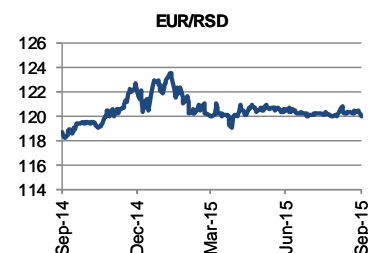
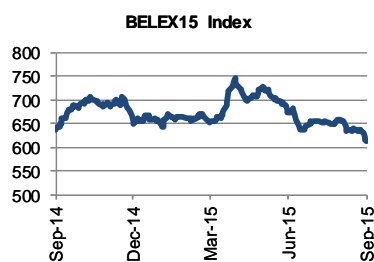
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 277 | 0 | -13 |
| 10-year | 321 | 0 | -35 |

STOCKS

| | Last | ΔD | ΔYTD |
|---------|-------|--------|--------|
| BELEX15 | 614.5 | -0.05% | -7.87% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|-------|
| EUR/RSD | 119.98 | 0.18% | 1.14% |



ROMANIA

Money Market

| ROBOR | Last | ΔDbps | ΔYTD bps |
|----------|------|-------|----------|
| O/N | 0.58 | 0 | 1 |
| 1-month | 1.37 | 1 | 46 |
| 3-month | 1.45 | -1 | -25 |
| 6-month | 1.65 | 0 | -36 |
| 12-month | 1.73 | 0 | -29 |

RO Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 3Y RON | 1.89 | -3 | -42 |
| 5Y RON | 2.32 | -4 | -39 |
| 10Y RON | 3.74 | -5 | 8 |

RO Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| EUR Sep-20 | 1.37 | -5 | -36 |
| USD Aug-23 | 3.61 | -9 | -1 |

CDS

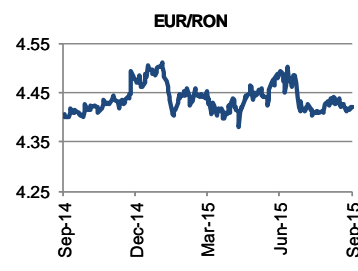
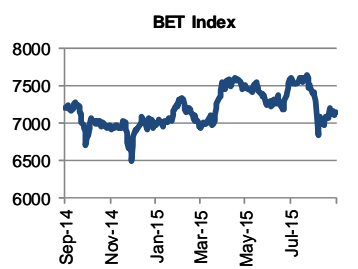
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 116 | 5 | -27 |
| 10-year | 160 | 9 | -27 |

STOCKS

| | Last | ΔD | ΔYTD |
|-----|--------|-------|-------|
| BET | 7147.7 | 0.13% | 0.91% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|--------|-------|
| EUR/RON | 4.4214 | -0.01% | 1.40% |



BULGARIA

Money Market

| SOFIBOR | Last | ΔDbps | ΔYTD bps |
|----------|------|-------|----------|
| LEONIA | 0.01 | 0 | -1 |
| 1-month | 0.17 | 0 | -4 |
| 3-month | 0.33 | 0 | -10 |
| 6-month | 0.62 | 0 | -18 |
| 12-month | 1.21 | 0 | -29 |

BG Local Bonds

| (yields) | Last | ΔDbps | ΔYTD bps |
|----------|------|-------|----------|
| 3Y BGN | 0.38 | 2 | -66 |
| 5Y BGN | 0.63 | 4 | -82 |
| 10Y BGN | 2.22 | 0 | -53 |

BG Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| EUR Jul-17 | 0.38 | 9 | -77 |
| EUR Sep-24 | 2.79 | 6 | -8 |

CDS

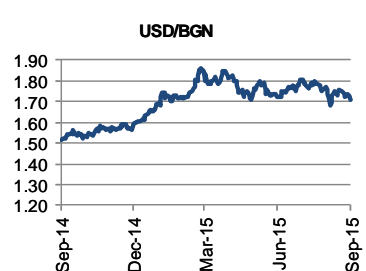
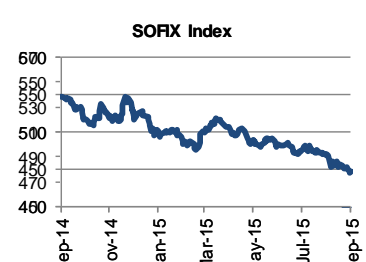
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 170 | -3 | -21 |
| 10-year | 217 | -3 | -24 |

STOCKS

| | Last | ΔD | ΔYTD |
|-------|-------|-------|---------|
| SOFIX | 446.5 | 0.24% | -14.49% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|--------|
| USD/BGN | 1.7088 | 0.10% | -5.40% |



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

Data updated as of 11:40 EEST

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