

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Wednesday, August 26, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- August 25
 - FHFA home prices (Jun)
 - Markit Composite & Services PMI (Aug, p)
 - New home sales (Jul)
 - Consumer Conf (Aug)
- August 26
 - Durable goods (Jul)
 - Fed's Dudley speaks
- August 27
 - GDP (Q2, 2nd)
 - Initial jobless claims (Aug 23)
 - Pend. home sales (Jul)
- August 27-29: Fed's annual economic symposium in Jackson Hole
- August 28
 - Personal income & spending (Jul)
 - Core PCE (Jul)
 - UoM sentiment (Aug, f)

EUROZONE

- August 25
 - German Ifo (Aug)
 - GDP (Q2, f)
 - ECB's Merkel & Constancio speak
- August 26: ECB's Praet speaks

GREECE

- August 28: GDP (Q2, f)

SEE

BULGARIA

- August 26: External debt (Jun)
- August 29: Budget bal (Jul)

ROMANIA

- August 24: RON300mn 2020 T-bonds auction
- August 27: RON300mn 5-Y T-bonds auction

SERBIA

- August 25: Wages (Jul)
- August 31
 - Industrial prod. (Jul)
 - Trade balance (Jul)
 - Retail sales (Jul)
 - GDP (Q2, f)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The PBOC announced yesterday its decision to cut the benchmark lending and deposit interest rates by 25bps to 4.6% (effective today) and the reserve requirement ratio for all financial institutions by 50bps to 1.75% (effective on Sept 6), in response to the recent market turbulence. Despite the PBOC's monetary easing decision, Wall Street closed with losses overnight and Chinese bourses shed all of their earlier gains on Wednesday while European indices were losing ground in early trade.

GREECE: According to the local press, Greek bank officials have expressed their optimism about the outcome of the new round of stress tests that is currently under way, in parallel with the asset quality review (AQR), the first stage of a comprehensive assessment of Greek banks' balance sheets which commenced earlier this month. The AQR which is based on data reported on June 30, 2015 is reportedly expected to be completed within September. As per the same sources, the stress testing exercise is expected to be finalized by the end of October and the banking sector recapitalization to be completed by end-December. In other news, government spokesman Olga Gerovasili was quoted saying to a local TV station earlier this week that, as things stand at this point, it is feasible general elections to be held on September 20.

SOUTH EASTERN EUROPE

ROMANIA: The consolidated general government budget ran a surplus of RON 7.4bn or 1.1% of projected GDP (on a cash basis) over the first seven months of the year, up from a surplus of 0.6% recorded in H1 2015.

SERBIA: Public finances continued to improve in July, with the non-consolidated general government balance swinging into a surplus (RSD 2.2bn) for the third month so far this year from a deficit of RSD 1.9bn in the prior month.

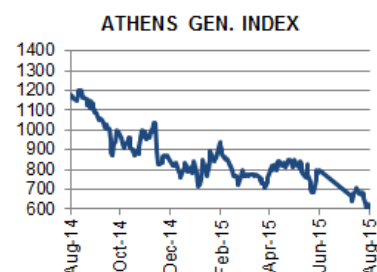
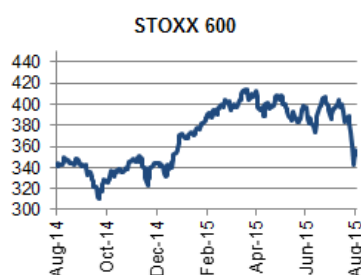
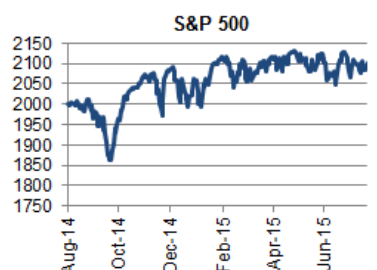
CESEE MARKETS: Taking their cue from the negative tone in major Asian and European bourses earlier today, emerging stock markets lost ground in European trade on Wednesday, after a short-lived rebound in the prior day, amid ongoing concerns about the prospects of the Chinese economy. The picture in regional FX markets was somewhat mixed, with the Polish zloty leading the winners' pack and the Hungarian forint broadly underperforming its CESEE peers.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The PBOC announced yesterday its decision to cut the benchmark lending and deposit interest rates by 25bps to 4.6% (effective today) and the reserve requirement ratio for all financial institutions by 50bps to 1.75% (effective on Sept 6), in response to the recent market turbulence. Despite the PBOC's monetary easing decision, Wall Street closed with losses overnight. In more detail, the S&P 500 index fell by 1.4%, while the CBOE Market Volatility Index (VIX) ended at 36 points yesterday within distance from a multi-year high near 53 points hit intraday on Monday. Along the same lines, Chinese bourses shed all of their earlier gains on Wednesday and extended the steepest five-day decline since 1996, with the Shanghai Composite Index falling 1.3% to an 8-month low of 2,927.29 points on Wednesday's settlement. Elsewhere, European indices were losing ground in early trade, with yesterday's respite proving to be rather short-lived. In FX markets, the EUR/USD consolidated near yesterday's levels of 1.1500, modestly lower from a seven-month high near 1.1715 hit on Monday. In commodity markets, US crude oil prices swung between gains and losses, ahead of inventories data due at 17:30 GMT. On the data front, US core durable goods orders are due at 15:30 GMT, while New York Fed President Dudley is scheduled to speak at 17:00 GMT on the local and regional economy.

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GREECE

According to the local press, Greek bank officials have expressed their optimism about the outcome of the new round of stress tests that is currently under way, in parallel with the asset quality review, the first stage of a comprehensive assessment of Greek banks' balance sheets which commenced earlier this month. In line with the European Commission forecasts, the ECB's baseline scenario reportedly assumes a certain future path for a range of key macro indicators for the period 2015-2017 including a real GDP growth contraction of -2.3% in 2015, -1.3% in 2016 with a return to positive growth of 2.7% in 2017. As per the same sources, the ECB has requested Greek banks to submit today their preliminary estimate on the projected impact of these parameters on their loan portfolios as well as their initial assessment about the expected path of bank deposits and real estate prices. The parameters of the ECB's adverse scenario have yet to be officially published. The asset quality review which is based on data reported on June 30, 2015 is reportedly expected to be completed within September. As per the same sources, the stress testing exercise is expected to be finalized by the end of October and the banking sector recapitalization to be completed by end-December. With regards to the latest domestic political developments, the President of the Hellenic Republic handed on Monday to Panayotis Lafazanis, former SYRIZA MP and President of the recently formed anti-MoU Popular Unity party, the exploratory mandate in order to ascertain the possibility of forming a government that would enjoy the confidence of the Parliament (i.e. secure parliamentary majority of at least 151 seats). Note that the Popular Unity party is the third largest party in the Hellenic Parliament enjoying the support of 25 former SYRIZA lawmakers. The exploratory mandate remains in force for three days (i.e., until Thursday) and should it prove to be unsuccessful, as was the case earlier with Vangelis Meimarakis the leader of the main opposition New Democracy, the President of the Hellenic Republic will assign to the head of the Supreme Administrative Court to form a caretaker cabinet which will dissolve the Parliament and carry out new elections, in line with the Constitution of Greece. Government spokesman Olga Gerovasili was quoted saying to a local TV station earlier this week that, as things stand at this point, it is feasible general elections to be held on September 20.

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BULGARIA: Indicators	2013	2014e	2015f
Real GDP growth %	1.1	1.7	1.8
CPI (pa, yoy %)	0.9	-1.4	-0.5
Budget Balance/GDP*	-1.8	-3.7	-3.0
Current Account/GDP	1.0	0.9	0.5
EUR/BGN (eop)	1.9558		
	current	2014	2015f
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

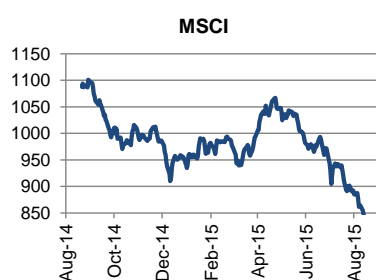
ROMANIA: Indicators	2013	2014e	2015f
Real GDP growth %	3.4	2.9	3.1
CPI (pa, yoy %)	4.0	1.1	0.3
Budget Balance/GDP*	-2.2	-1.9	-1.9
Current Account/GDP	-0.8	-0.4	-1.0
EUR/RON (eop)	4.46	4.40	4.45
	2014	current	2015f
Policy Rate (eop)	2.75	1.75	1.75

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2013	2014e	2015f
Real GDP growth %	2.6	-1.8	0.0
CPI (pa, yoy %)	7.9	2.2	3.0
Budget Balance/GDP	-5.6	-7.5	-5.9
Current Account/GDP	-6.1	-6.1	-4.7
EUR/RSD (eop)	114.60	120.96	123.00
	2014	current	2015f
Policy Rate (eop)	8.00	6.00	5.50

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-

Source: IMF, EC, Reuters, Bloomberg, National Authorities, Eurobank Research

Latest world economic & market developments in the CESEE region

ROMANIA

This year's improvement in government finances continued in July. In more detail, the consolidated general government budget ran a surplus of RON 7.4bn or 1.1% of projected GDP (on a cash basis) over the first seven months of the year, up from a surplus of 0.6% recorded in H1 2015. The breakdown of the data showed that revenues amounted to ca RON 132.9bn, or 19.0%-of-GDP. Meanwhile, expenditure stood at RON 125.4bn, equivalent to 17.9%-of-GDP. For the whole of the year, the government targets a 1.8% of GDP deficit according to local accounting standards. However, an ambitious government-backed fiscal easing plan, inclusive of VAT cuts, has raised concerns about a potential deterioration in public finances ahead.

SERBIA

Public finances continued to improve in July, with the non-consolidated general government balance swinging into a surplus (RSD 2.2bn) for the third month so far this year from a deficit of RSD 1.9bn in the prior month. Over the first seven months of the year, the non-consolidated budget deficit stood at RSD 24.2bn, marking a ca 80%YoY decrease, as revenues rose by ca 10%YoY and expenditure declined by 8.0%YoY. All in all, the data supports our view for an improvement in the consolidated government deficit from last year's 6.7% of GDP and an outperformance of this year's 5.9% of GDP shortfall target.

CESEE MARKETS

Taking their cue from the negative tone in several major Asian and European bourses earlier today, **emerging stock markets** lost ground in European trade on Wednesday, after a short-lived rebound in the prior day, amid ongoing concerns about the growth prospects of the Chinese economy. The picture in regional **FX markets** was somewhat mixed, with the Polish zloty leading the winners' pack and the Hungarian forint broadly underperforming its CESEE peers. In more detail, the EUR/PLN slid by ca 0.3% compared to the prior session's settlement to trade at 4.2345 at the time of writing. The pair eased further below from a 7-month high of 4.2656 hit earlier in the week as the turmoil in the Chinese stock market escalated. On the other hand, the EUR/HUF rose by 0.3% on the day to hover around levels of 314.75 in morning European trade approaching anew Monday's 1-½ month peak of 316.50. In line with our and market expectations, the Hungarian Central Bank stayed put on its monetary policy at its MPC meeting yesterday, maintaining its key interest rate at the current record low level of 1.35%. Looking ahead, the MNB is likely to keep interest rates at their current levels for the remainder of the year as the domestic inflation environment remains benign while expectations for a Fed rate hike have recently been scaled backwards in view of mounting global growth concerns.

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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	1867.61	-1.4%	-9.3%	EUR/USD	1.1472	-0.4%	-5.2%	UST - 10yr	2.09	1	-9	GOLD	1138	-0.2%	-4.0%
Nikkei 225	18376.83	3.2%	5.3%	GBP/USD	1.5682	0.0%	0.7%	Bund-10yr	0.69	-4	15	BRENT CRUDE	43	0.1%	-24.5%
STOXX 600	351.54	-1.4%	2.6%	USD/JPY	119.5	-0.6%	0.2%	JGB - 10yr	0.37	-1	4	LMEX	2328	2.2%	-20.1%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	410	-4	-581
1-week	4.26	-1	-575
1-month	4.63	-1	-542
3-month	5.05	-1	-480
6-month	5.33	0	-446

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	6.17	#N/A N/A	-288
5Y RSD	8.10	-1	-208
7Y RSD	8.83	0	-325

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.51	-1	-75
USD Nov-24	6.49	0	-10

CDS

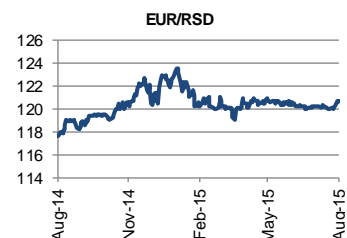
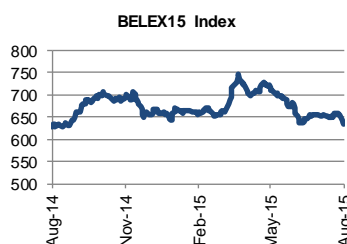
	Last	ΔDbps	ΔYTD bps
5-year	277	0	-13
10-year	322	0	-34

STOCKS

	Last	ΔD	ΔYTD
BELEX15	638.8	0.70%	-4.23%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.61	-0.01%	0.61%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.36	-1	79
1-month	1.31	1	40
3-month	1.39	0	-31
6-month	1.58	-1	-43
12-month	1.68	1	-34

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.86	0	-45
5Y RON	2.42	0	-29
10Y RON	3.70	1	4

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	1.46	0	-27
USD Aug-23	3.74	0	12

CDS

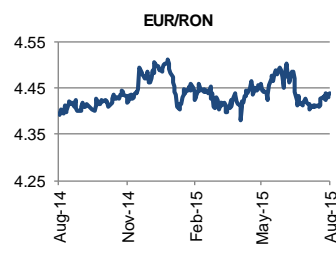
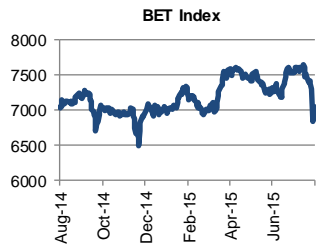
	Last	ΔDbps	ΔYTD bps
5-year	140	-5	-3
10-year	186	-5	-1

STOCKS

	Last	ΔD	ΔYTD
BET	6998.9	-0.64%	-1.19%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4378	-0.13%	1.03%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	-1
1-month	0.18	0	-4
3-month	0.33	0	-10
6-month	0.62	0	-17
12-month	1.22	0	-29

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.48	-1	-56
5Y BGN	1.02	0	-42
10Y BGN	2.40	0	-35

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.49	0	-67
EUR Sep-24	2.85	46	-1

CDS

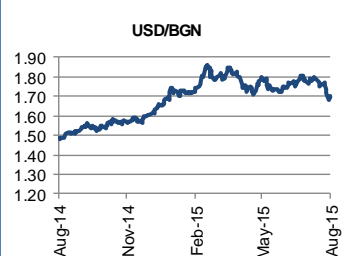
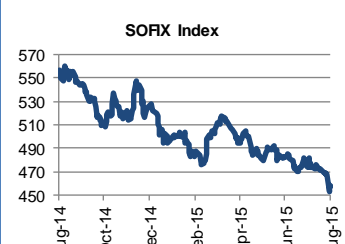
	Last	ΔDbps	ΔYTD bps
5-year	179	-3	-12
10-year	230	-3	-11

STOCKS

	Last	ΔD	ΔYTD
SOFIX	458.0	-0.07%	-12.29%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7046	-0.39%	-5.17%



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

Data updated as of 12:00 EEST

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