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Eurobank

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Friday, December 11, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- December 10: Jobless claims (weekly)
- December 11
  - Retail sales (Nov)
  - UoM sentiment (Dec, p)

EUROZONE

- December 7: Eurogroup meeting
- December8
  - Ecofin meeting
  - GDP (Q3)

GREECE

- December 10
  - IP (Oct)
  - CPI (Nov)
  - U/E rate (Sep)

CYPRUS

- December 8: HICP (Nov)
- December 9: GDP (Q3)

SEE

BULGARIA

- December 7
  - 2.3% 2025 T-bonds auction
  - Reserve assets (Nov)
- December 8
  - Industrial production (Oct)
  - Retail sales (Oct)
- December 9: U/E rate (Oct)

ROMANIA

- December 7: 4.75% 2025 T-bonds auction
- December 8
  - Industrial sales (Oct)
  - Net wages (Oct)
- December 10
  - Trade balance (Oct)
  - 3.5% 2022 T-bonds auction
- December 11: CPI (Oct)

SERBIA

- December 10
  - MPC meeting
  - 6% T-bonds sale
- December 11: HICP (Oct)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The majority of global equity markets were weaker on Friday dragged down by lower crude oil prices following OPEC's decision late last week to leave unchanged the oil production level despite persisting oversupply in the market. Amid expectations for subdued inflation pressures on the back of falling oil prices, major European government bonds retained a firm tone while, in FX markets, major currency pairs were little changed ahead of key US data due for release later today and the FOMC policy meeting next week.

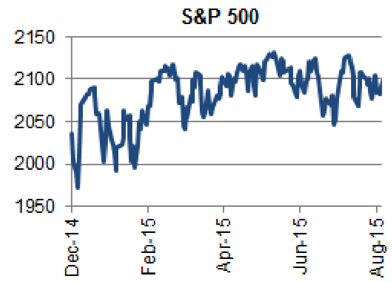
GREECE: Local press reports suggested earlier today that the two sides have reached an agreement on the bulk of core issues required for the release of the next ESM loan installment (€1bn). As per the same sources, these include, inter alia: (i) an alternative scheme to a privatization plan for the electricity transmission company ADMIE; and (ii) appointment of an independent Task Force to identify options and prepare recommendations on the operational goals, structure and governance of a new independent Privatization Fund. According to the same sources, the main contentious issue in the current round of official discussions is the finalization of a comprehensive strategy for the resolution of domestic banks' non-performing loans (NPLs). An agreement on the said issue is reportedly likely to be sealed by tomorrow morning when the EC/ECB/IMF/ESM mission heads have rescheduled their departure from Athens.

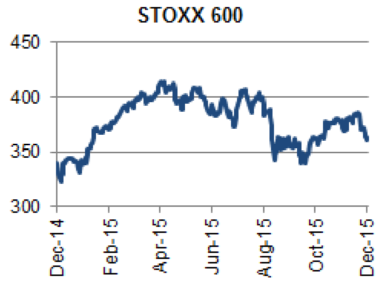
SOUTH EASTERN EUROPE

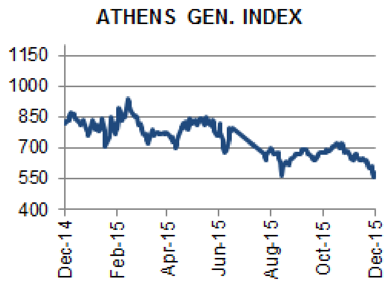
ROMANIA: Consumer inflation edged up to +0.3%MoM/-1.1%YoY in November compared to +0.3%MoM/-1.6%YoY in October and market expectations of +0.3%MoM/-1.2%YoY.

SERBIA: In line with our and market expectations the National Bank of Serbia stayed put on its monetary policy yesterday, maintaining the key policy rate unchanged at the current record low level of 4.5%.

Latest world economic & market developments







Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

The majority of global equity markets were weaker on Friday dragged down by lower crude oil prices following OPEC's decision late last week to leave unchanged the oil production level –estimated at around 31mn barrels a day- despite persisting oversupply in the market. After moving below the psychologically important level of $40 a barrel earlier this week, the Brent crude oil price was hovering around $39.62 in early European trade at the time of writing, its lowest level in almost seven years having declined by c. 10% cumulatively since the announcement of last week's OPEC meeting outcome. Amid expectations for subdued inflation pressures on the back of falling oil prices, major European long-dated government bonds retained a firm tone while, in FX markets, major currency pairs were little changed ahead of key US data due for release later in the day and the FOMC policy meeting next week. The EUR/USD was hovering around 1.0965/68 in European trade at the time of writing, not far from a one-month peak of 1.1040 hit a couple of sessions earlier. With the Fed widely expected to deliver next week its first rate hike in near a decade, all eyes will be on the accompanying policy statement for hints over the pace of rate tightening ahead.

GREECE

Local press reports suggested earlier today that the two sides have reached an agreement on the bulk of core issues required for the release of the next ESM loan installment (€1bn). As per the same sources, these include, inter alia: (i) an alternative scheme to a privatization plan for the electricity transmission company ADMIE; and (ii) appointment of an independent Task Force to identify options and prepare recommendations on the operational goals, structure and governance of a new independent Privatization Fund. As per the same sources, the two sides agreed the transfer of 100% of ADMIE to the State which will then hold on to 51% and will sell the 49% share to a strategic European investor. The majority of the members of the Board of Directors will be jointly approved. With respect to the new Privatization Fund that will replace the existing Hellenic Republic Asset Development Fund (HRADF), the two sides agreed three out of the five members of the governing board to represent the Greek government and the other two Greece's official creditors. According to the local press, the main contentious issue in the current round of official discussions is the finalization of a comprehensive strategy for the resolution of domestic banks' non-performing loans (NPLs). An agreement on the said issue is reportedly likely to be sealed by tomorrow morning when the EC/ECB/IMF/ESM mission heads have rescheduled their departure from Athens. Yet, as per the same sources, the likelihood of the said milestone being addressed at a later stage as part of the conditionality for the completion of the 1st programme review cannot be ruled out. The Euro Working Group is reportedly expected to convene later today to assess the progress made by the Greek side in implementing the 13 prior actions. The Greek government is reportedly planning to submit the relevant legislation required for their implementation by Tuesday, December 15th.

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BULGARIA: Indicators	2014e	2015f	2016f
Real GDP growth %	1.7	2.9	3.0
CPI (pa, yoy %)	-1.4	0.1	1.0
*Budget Balance/GDP**	-3.7	-3.3	-2.0
Current Account/GDP	0.9	2.5	1.4
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	1.2	1.6
HICP (pa, yoy %)	-0.3	-2.1	-0.4
*Budget Balance/GDP**	-0.2	-1.3	0.1
Current Account/GDP	-5.1	-5.5	-4.5

** ESA 2010*

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

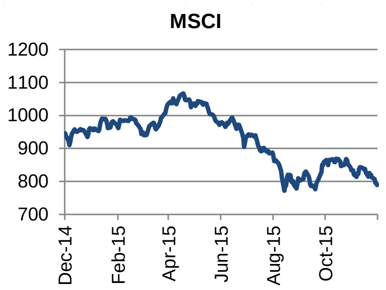
ROMANIA: Indicators	2014e	2015f	2016f
Real GDP growth %	2.9	3.5	4.1
CPI (pa, yoy %)	1.1	-0.8	0.5
*Budget Balance/GDP **	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-0.7	-1.0
EUR/RON (eop)	4.40	4.45	4.40
	2014	current	2015f
Policy Rate (eop)	1.75	1.75	1.75

** on a cash basis*

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2014e	2015f	2016f
Real GDP growth %	-1.8	1.0	2.0
CPI (pa, yoy %)	2.1	1.7	3.5
Budget Balance/GDP	-6.7	-3.5	-4.6
Current Account/GDP	-6.0	-4.3	-4.1
EUR/RSD (eop)	120.96	122.00	124.00
	2014	current	2015f
Policy Rate (eop)	8.00	4.50	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	BB-	B+

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

Latest world economic & market developments in the CESEE region

ROMANIA

Consumer inflation edged up to +0.3%MoM/-1.1%YoY in November compared to +0.3%MoM/-1.6%YoY in October and market expectations of +0.3%MoM/-1.2%YoY. The implementation of the front-loaded food VAT rate cut-from 24% to 9% effective from June 1st- has pushed annual food prices dynamics and subsequently headline inflation into negative territory, given the high share of food products in the consumption basket (32%). The volatile food component of CPI edged up by +0.06%MoM/-6.20%YoY in November compared to +0.5%MoM/-6.51%YoY in October. Yet, the surprise came from the non-food items. Despite lower fuel prices, non-food items doubled to +0.5%MoM/+1.54%YoY in November compared to +0.13%MoM/+0.75%YoY in October. Excluding fuel, non-food items jumped even higher to 2.4%YoY in November against 2.0%YoY in October. Services prices continued to move higher at +0.3%MoM/+2.3%YoY compared to +0.3%MoM/+2.1%YoY in the prior month in an illustration of demand side pressures building up in the non-tradables sector. Overall, the latest inflation numbers support the view that inflation is most likely to stay below the central bank target range (2.5%±1%) until at least the first half of 2016. In the latest November inflation report NBR downgraded its year end inflation forecast in 2015 to -0.7%YoY vs. -0.3%YoY in August, but upgraded its year end 2016 forecast to +1%YoYcompared to +0.7%YoY previously. Netting out the impact of the from the first round effects of the VAT rate cut for food effective since last June and the planned headline VAT rate cut effective from 2016, inflation is projected to reach 2.1% and 2.7% at end-2015 and end-2016 respectively.

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In other news, the finance ministry sold at an auction on Monday RON 300mn (€66.4mn) of 7-year bonds at an average accepted yield of 3.25%. The latter stood 9bps above the yield achieved at a prior auction of the same paper held in November. The tender's bid to cover ratio stood at 2.3 on Thursday. The issue, which matures on December 19, 2022, bears a coupon of 3.5%.

SERBIA

In line with our and market expectations the National Bank of Serbia (NBS) stayed put on its monetary policy yesterday, maintaining the key policy rate unchanged at the current record low level of 4.5%. This marks the second consecutive MPC meeting of stable interest rates after three consecutive 50bps monthly cuts, and cumulative rate-easing of 725bps since May 2013, out of which 350bps have been rendered so far this year. Despite persistently below target inflation (CPI at 1.4%YoY in October) the market's consensus was for stable interest rates at yesterday's meeting ahead of next week's FOMC meeting, where the US Central Bank is anticipated to raise interest rates for the first time since 2006. In the accompanying statement, the NBS suggested that its decision was primarily based on the uncertainty surrounding the market's response over higher US interest rates, "notably capital flows towards emerging economies". The Serbian Central Bank also signaled that it preferred to retain a wait-and-see stance due to risks in the face of liquidity movements and fiscal expenditure execution in the coming months amid seasonal factors. With regards to inflation developments the Central Bank reiterated that it anticipates HICP to return within the target tolerance band (4±1.5%) in mid-2016. Albeit another 50bps rate reduction early next year cannot be ruled out, our baseline scenario is that the NBS will likely retain its wait-and-see stance in the months ahead, as the impact of past monetary easing feeds through into the domestic economy, inflation is seen returning towards the target, while fiscal and external risks linger and further rate cuts may weigh on the country's FX and debt markets.

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GLOBAL MARKETS

Stock markets

	Last	ΔD	ΔYTD
S&P 500	2052.23	0.2%	-0.3%
Nikkei 225	19230.48	1.0%	10.2%
STOXX 600	361.03	-0.6%	5.4%

FOREX

	Last	ΔD	ΔYTD
EUR/USD	1.0941	0.0%	-9.6%
GBP/USD	1.5139	-0.1%	-2.8%
USD/JPY	121.76	-0.2%	-1.7%

Government Bonds

(yields)	Last	ΔDbps	ΔYTD bps
UST - 10yr	2.22	-1	5
Bund-10yr	0.56	-1	2
JGB - 10yr	0.32	1	-1

Commodities

	Last	ΔD	ΔYTD
GOLD	1069	-0.3%	-9.8%
BRENT CRUDE	39	-1.0%	-31.4%
LMEX	2149	0.1%	-26.3%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	308	0	-683
1-week	3.24	-1	-677
1-month	3.55	-1	-650
3-month	3.89	-1	-596
6-month	4.09	0	-570

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.60	-2	-549
5Y RSD	5.04	0	-514
7Y RSD	7.37	0	-471

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.07	0	-119
USD Nov-24	6.41	0	-18

CDS

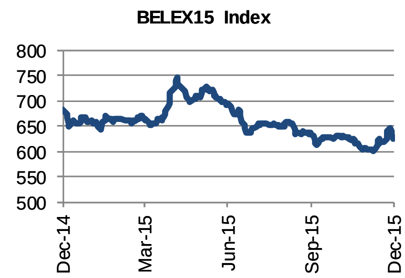
	Last	ΔDbps	ΔYTD bps
5-year	274	0	-16
10-year	339	0	-17

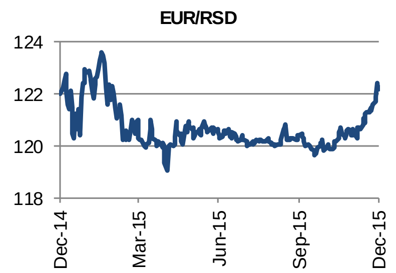
STOCKS

	Last	ΔD	ΔYTD
BELEX15	625.7	-0.23%	-6.20%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	122.03	0.25%	-0.56%





ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.58	2	1
1-month	0.73	-1	-18
3-month	1.03	0	-67
6-month	1.33	-1	-68
12-month	1.51	0	-51

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.46	0	-85
5Y RON	1.96	1	-75
10Y RON	3.71	1	5

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	1.08	2	-65
USD Aug-23	3.64	1	2

CDS

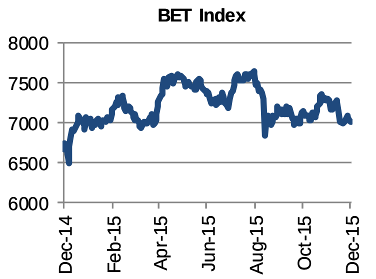
	Last	ΔDbps	ΔYTD bps
5-year	134	-4	-9
10-year	174	-4	-13

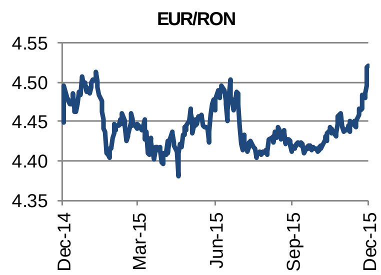
STOCKS

	Last	ΔD	ΔYTD
BET	7006.3	-0.29%	-1.08%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5215	-0.13%	-0.84%





BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	-1
1-month	0.18	0	-3
3-month	0.31	0	-12
6-month	0.57	0	-23
12-month	1.06	0	-45

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.18	-3	-86
5Y BGN	0.37	-1	-108
10Y BGN	1.87	0	-88

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.18	0	-98
EUR Sep-24	2.39	-15	-48

CDS

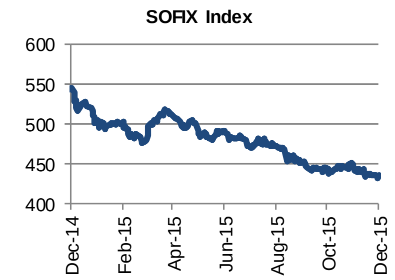
	Last	ΔDbps	ΔYTD bps
5-year	169	-2	-22
10-year	220	-2	-21

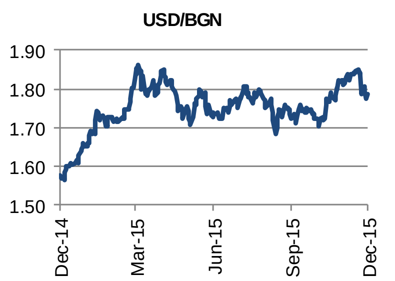
STOCKS

	Last	ΔD	ΔYTD
SOFIX	435.3	0.62%	-16.62%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7875	0.01%	-9.57%





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

Data updated as of 12:10 EET

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