

Wednesday, March 16, 2016

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### GLOBAL US

- March 15
  - Empire State Index (Mar)
  - Retail sales (Feb)
  - NAHB Housing index (Mar)
- March 16
  - CPI (Feb)
  - Housing starts (Feb)
  - Housing permits (Feb)
  - Industrial production (Feb)
  - FOMC meeting
- March 17
  - Philly Fed (Mar)
  - Jobless claims (weekly)
- March 18: UoM sentiment (Mar, p)

#### EUROZONE

- March 14: Industrial production (Jan)
- March 17: HICP (Feb, final)

#### GREECE

- March 17: Labour Force Survey (Q4-2015)

#### CYPRUS

- March 18: Moody's and S&P credit rating reviews

#### SEE

##### BULGARIA

- March 14: CPI (Feb)
- March 14-16: U/E rate (Feb)
- March 17: CAD (Jan)

##### ROMANIA

- March 14
  - Industrial output (Jan)
  - RON 400mn 3.5% 2022 T-bonds auction
- March 15: CAD (Jan)
- March 17: 2.25% 2020 T-bonds auction

##### SERBIA

- March 15: Trade balance (Jan)
- March 17: MPC meeting
- March 18: Moody's credit rating review

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** All eyes are on the FOMC's two-day policy meeting that concludes later today. Though market consensus is for unchanged interest rates as the committee will probably await for more evidence about the growth prospects of the domestic economy, the updated staff economic projections, the FOMC participants' assessment of the appropriate pace of monetary policy normalization and a news conference by Chair Janet Yellen, lure market attention.

**GREECE:** Official discussions in the context of Greece's 1<sup>st</sup> programme review will continue today with the agenda focusing on the planned overhaul of the social security pension system. Meanwhile, the government and official creditors reportedly reached a preliminary agreement on the terms of setting up the new Privatization Fund, one of the prior actions attached to the review.

### SOUTH EASTERN EUROPE

**BULGARIA:** The Republic of Bulgaria issued on Tuesday €1.994bn of 7-year and 12-year Eurobonds in a dual tranche auction.

**ROMANIA:** The NBR Governor, Mugur Isarescu, expressed yesterday his concerns over the prospects of the domestic economy saying that the risks to Romania's economic stability have never been higher in the past twenty five years.

**SERBIA:** Serbia's trade deficit narrowed by 18.1%YoY to €225.6mn in January as exports growth of 9.1%YoY to €849mn outpaced a 2.0%YoY concomitant rise to €1,075mn in imports.

**CESEE MARKETS:** CESEE assets were little changed in early European trade on Wednesday as investor caution prevailed ahead of the conclusion of the two-day FOMC meeting later on the day.

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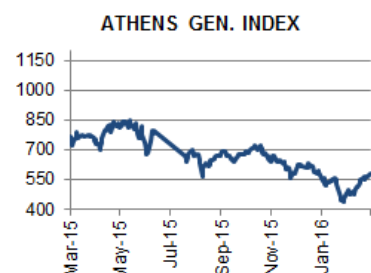
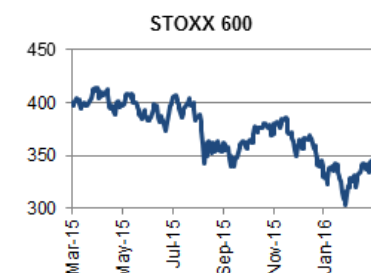
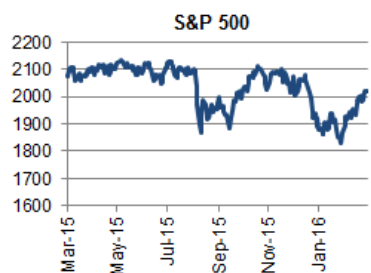
## Latest world economic & market developments

### GLOBAL MARKETS

All eyes are on the FOMC's two-day policy meeting that concludes later today. Though market consensus is for unchanged interest rates as the committee will probably wait for more evidence about the growth prospects of the domestic economy, the updated staff economic projections, the FOMC participants' assessment of the appropriate pace of monetary policy normalization and a news conference by Chair Janet Yellen, lure market attention. With investors adopting a cautious tone ahead of the conclusion of the meeting, the majority of European equity markets were modestly higher in early trade on Wednesday while the DXY index gained some ground hovering around 96.880 points at the time of writing after hitting a session low of 96.466 points on Tuesday amid renewed worries over the strength of the US economic recovery. US retail sales fell by a lower than expected 0.1%MoM in January but the respective reading of the prior month was revised sharply lower to show a decline of 0.4%MoM instead of a 0.2%MoM gain initially reported. With the federal funds futures currently assigning a probability of around 40% and 80% of a 25bps rate hike in June and by the end of this year respectively, a more hawkish than expected tone by the Fed could weigh on equity markets and commodity prices while the USD could move higher. Elsewhere, the GBP was among the main underperformers following the release of a poll suggesting that the Brexit campaign has the edge ahead of the upcoming EU referendum on June 23<sup>rd</sup>. After hitting a one-month high of 1.4435 late last week, the GBP/USD retreated standing close to 1.4120/23 at the time of writing, within distance from a two-week low of 1.4083 hit earlier in the day.

### GREECE

Official discussions in the context of Greece's 1<sup>st</sup> programme review will continue today with the agenda focusing on the planned overhaul of the social security pension system. According to the local press, the key issues expected to dominate discussions, include, inter alia: (i) the reassessment of replacement rates. Reportedly, a compromise between the two sides is likely to include a downward revision in rates for pensioners who have covered up to 25 years of insurance along with an upward reassessment for those with more than 25 years of national insurance contributions so as to secure a closer link between contributions and benefits; (ii) the level of the national state guaranteed pensions; (iii) the recalculation of the so-called "personal difference", i.e., the difference between the level of existing pensions and that implied by the new replacement rates; (iv) a potential cut in supplementary pensions. According to some press reports, the prospect of an average cut in supplementary pensions by at least 20% seems unavoidable after official creditors rejected the government's plan for a 1.5% increase in social security contributions; and (v) the assessment of certain compromises the government vowed to offer to farmers and freelancers. The government's suggestion for the introduction of a 1% tax on bank transactions as a means for the partial coverage of the 1%-of-GDP in savings that has to be secured this year through the social security pension reform, was vetoed by the mission heads. Meanwhile, the government and official creditors reportedly reached a preliminary agreement on the terms of setting up the new Privatization Fund that envisions, among others, the appointment of three out of the five members of the Board of Directors by the Greek side and the remaining two, including the President of the Board, by official creditors.



Source: Reuters, Bloomberg, Eurobank Research

March 16, 2016

BULGARIA: Indicators	2014	2015e	2016f
Real GDP growth %	1.6	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	1.5	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	2015e	2016f
Real GDP growth %	-2.5	1.5	1.8
HICP (pa, yoy %)	-0.3	-1.5	0.5
Budget Balance/GDP*	-0.2	-0.9	-0.1
Current Account/GDP	-5.1	-5.5	-4.5

\* ESA 2010

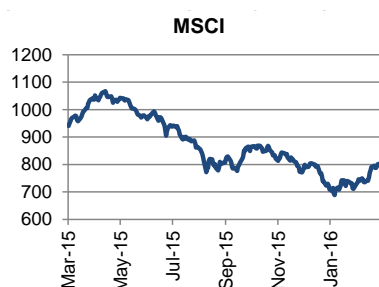
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

ROMANIA: Indicator:	2014	2015e	2016f
Real GDP growth %	2.9	3.8	4.1
CPI (pa, yoy %)	1.1	-0.4	-0.1
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.0	-2.0
EUR/RON (eop)	4.48	4.52	4.35
	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	2015e	2016f
Real GDP growth %	-1.8	0.7	1.8
CPI (pa, yoy %)	2.1	1.5	2.8
Budget Balance/GDP	-6.7	-3.7	-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	4.25	4.25

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

L-T ccy	Credit Ratings		
	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

### BULGARIA

The Republic of Bulgaria issued on Tuesday €1.994bn of 7-year and 12-year Eurobonds in a dual tranche auction. The amount of €1.144bn was allotted in 7-year bonds, priced at 98.192 with a spread over mid-swap of 185bps (2.156% yield). Meanwhile, €850mn of the 12-year paper issued was priced at 98.237 with a 3.000% coupon at 235bps over mid-swaps (equivalent to a yield of 3.179%). The government took advantage of the favourable market environment of low interest rate following the recently announced ECB stimulus measures last week. The funds generated are expected to be earmarked for debt repayment, finance the budget deficit and maintain an adequate level of fiscal reserves as a liquidity buffer.

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### ROMANIA

The NBR Governor, Mugur Isarescu, expressed yesterday his concerns over the prospects of the domestic economy saying that the risks to Romania's economic stability have never been higher in the past twenty five years. According to the NBR Governor, the economy faces the risk of losing ground on at least some part of the hard-earned progress. More specifically, the pessimistic forecast of a 4% fiscal deficit in 2017 as a result of the expansionary policy would put the public debt on an upward path. In addition, he added that although wages have risen substantially and the economy is growing, living standards and real convergence were not evenly reflected across the country. The comments of the NBR governor come on top of the warnings contained in the IMF mission's concluding statement on Monday and the most recent EU Commission's report on the macroeconomic imbalances in late February.

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### SERBIA

Serbia's trade deficit narrowed by 18.1%YoY to €225.6mn in January as exports growth of 9.1%YoY to €849mn outpaced a 2.0%YoY concomitant rise to €1,075mn in imports. Moreover, exports covered nearly 79% of imports, revealing the highest monthly coverage in a decade a development that, if sustained, bodes favourably for the country's economic growth prospects this year.

### CESEE MARKETS

**CESEE assets** were little changed in early European trade on Wednesday as investor caution prevailed ahead of the conclusion of the two-day FOMC meeting later on the day. Looking into the **remainder of the week**, a 2020 T-bond auction in Romania and the MPC meeting in Serbia take centre stage on Thursday. On the latter, we anticipate the Central Bank to hold its horses and maintain the key policy rate at the current record low level of 4.25% after the prior month's largely unexpected 25bps cut. Although consumer inflation remains persistently below the official 4+/-1.5% target (CPI stood at 1.5% in February), potential renewed depreciation pressures on the dinar ahead of the April 24 snap general elections argue against further monetary easing at this point. On Friday, Moody's scheduled sovereign credit rating review of Serbia also lures market attention this week.

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## GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities																																																																
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## CESEE MARKETS

### SERBIA

#### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	283	-2	-20
1-week	2.94	-2	-25
1-month	3.12	0	-39
3-month	3.30	0	-53
6-month	3.50	0	-53

#### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.48	0	-19
5Y RSD	5.22	0	9
7Y RSD	7.64	0	-6

#### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.99	0	-17
USD Nov-24	6.18	0	-23

#### CDS

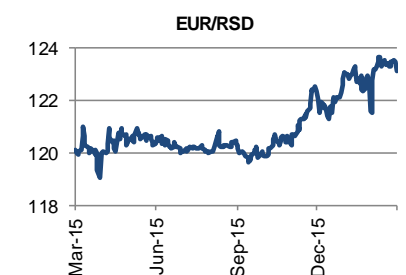
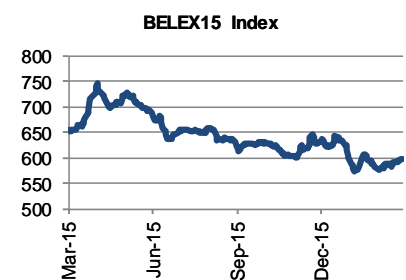
	Last	ΔDbps	ΔYTD bps
5-year	270	-18	-5
10-year	326	-8	-13

#### STOCKS

	Last	ΔD	ΔYTD
BELEX15	600.5	0.44%	-6.76%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.13	0.21%	-1.26%



### ROMANIA

#### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.39	0	-14
1-month	0.55	1	-14
3-month	0.79	1	-23
6-month	1.04	1	-30
12-month	1.21	1	-31

#### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.80	-1	-13
5Y RON	2.59	-1	-21
10Y RON	3.30	1	-48

#### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.45	#N/A	N/A
USD Jan-24	3.42	12	-36

#### CDS

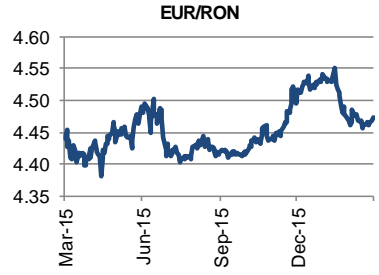
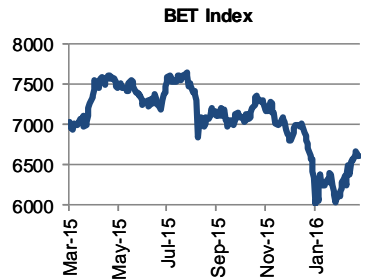
	Last	ΔDbps	ΔYTD bps
5-year	120	0	-13
10-year	165	0	-6

#### STOCKS

	Last	ΔD	ΔYTD
BET	6607.7	-0.62%	-5.66%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4727	-0.14%	0.92%



### BULGARIA

#### Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.00	0	-1
1-month	-0.12	0	-27
3-month	0.00	0	-26
6-month	0.19	0	-33
12-month	0.56	1	-42

#### BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.36	0	-24
5Y BGN	1.08	-1	-19
10Y BGN	2.63	0	-2

#### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.05	-80	-2
EUR Sep-24	2.43	13	1

#### CDS

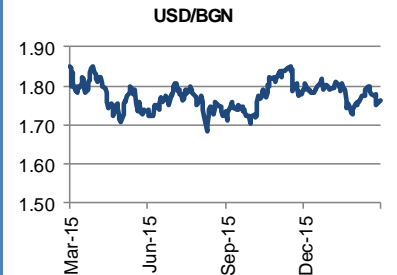
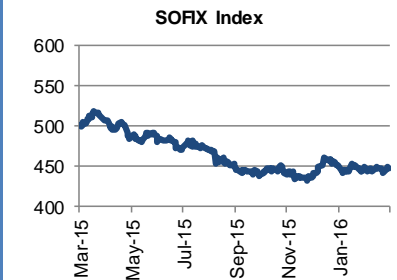
	Last	ΔDbps	ΔYTD bps
5-year	163	-1	-9
10-year	210	-1	-6

#### STOCKS

	Last	ΔD	ΔYTD
SOFIX	447.2	-0.27%	-2.97%

#### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7632	-0.09%	2.10%



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

Data updated as of 17:10 EET of previous session

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