

# DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Friday, March 18, 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:** The majority of global equity markets retained a firm tone and US Treasuries remained well supported following the more dovish than expected tone the Fed adopted at its monetary policy meeting earlier this week. In FX markets, the FOMC participants' revised assessment of the appropriate monetary policy which implied up to two 25bps rate hikes by the end of this year compared to four projected previously, continued to weigh on the US dollar.

**GREECE:** Discussions between the Greek government and the institutions are ongoing in the context of the 1st programme review, with the aim being to reach an agreement on a number of fundamental issues before consultations adjourn for the Catholic Easter. Progress has reportedly been made on the issues of the tax and pension reforms, whereas differences remain on the issue of the non-performing loans.

### SOUTH EASTERN EUROPE

**CYPRUS:** The Governing Council of the ECB decided yesterday to lift the waiver affecting marketable debt instruments issued or fully guaranteed by the Cypriot Republic effective from April 1<sup>st</sup>.

**ROMANIA:** The finance ministry sold at an auction on Thursday the planned RON 600mn (~€134.1mn) amount of February 2020 T-bonds at an average accepted yield of 2.14%.

**SERBIA:** Vindicating our and the market's expectations, the National Bank of Serbia (NBS) stayed put on its monetary policy at its scheduled meeting yesterday, maintaining the key benchmark rate at the current record low level of 4.25%.

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## Latest world economic & market developments

### GLOBAL MARKETS

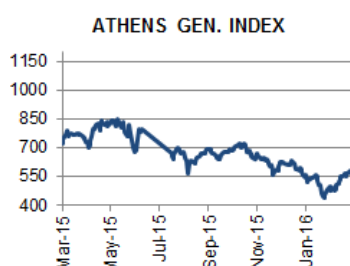
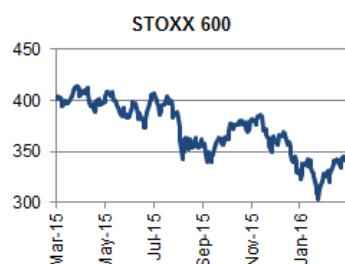
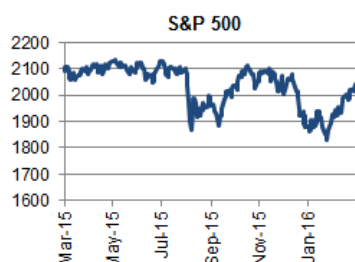
The majority of global equity markets retained a firm tone on Friday following the more dovish than expected tone the Fed adopted at its monetary policy meeting earlier this week. Higher oil prices also favored market sentiment towards risky assets. Brent crude was hovering around \$41.30/barrel at the time of writing, close to a three-month high of \$41.60/barrel touched at some point in the prior session supported by the announcement of a meeting among OPEC and non-OPEC producers on April 17<sup>th</sup> to potentially agree to freeze output. Elsewhere, US Treasuries remained in an upward trend as the more dovish than expected tone of the FOMC's March 16<sup>th</sup> policy statement continued to exert a positive impact. Short-dated notes continued to outperform with the 2-yr bond yield hitting a two-week closing trough of 0.8150% on Thursday before inching higher to levels around 0.8475% in early European trade. In FX markets, the FOMC participants' revised assessment of the appropriate monetary policy which implied up to two 25bps rate hikes by the end of this year compared to four projected previously, continued to weigh on the US dollar. The DXY index was standing close to 94.994 in early European trade, within distance from a five-month trough of 94.578 hit earlier in the day. With the FOMC's statement still in investors' ears, the USD failed to capitalize on yesterday's encouraging US data. Even though initial jobless claims rose by 7k in the prior week, they remained below 300k, a threshold associated with an ongoing improvement in labor market conditions, for the 54<sup>th</sup> week, the longest stretch since 1973. In addition, the Philly Fed's manufacturing activity index rose to +12.4 in February from -2.8 in the previous month, recording a positive reading for the first time in the last seven months. The EUR/USD was standing close to 1.1275/80, not far from Thursday's five-week closing peak of 1.1342 with EUR-bulls now targeting the next major resistance level at 1.1375 (Feb.2, high). Looking at today's calendar, the main focus will be on the University of Michigan's preliminary consumer sentiment index for March which is expected to improve coming in at 92.2 from 91.7 in the prior month.

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### GREECE

Discussions between the Greek government and the institutions are ongoing in the context of the 1<sup>st</sup> programme review, with the aim being to reach an agreement on a number of fundamental issues before consultations adjourn for the Catholic Easter. According to press reports the two sides are close to agreeing on the tax reform with the Greek government being reportedly willing to lower the tax-free threshold to 9.000 – 9.300 euro from 9.550 currently as well as to adopt a number of other measures in order to secure total revenues of 1% of GDP from the planned income tax code reform. With regard to the tax brackets, the Greek government proposed 2 different schemes while the institutions reportedly prefer a scheme with fewer tax brackets and higher tax rates even for the lower tax brackets. On the pensions' reform front, the IMF appears more conciliatory in accepting an increase in employer contributions – probably of 1% instead of 1.5% initially proposed - under the condition that auxiliary pensions will be decreased. With regard to the level of the national pension, it will reportedly remain at 384 euro provided that the beneficiary has completed 20 years of insurance. In any case, Greek officials appear confident that both the taxation and the pensions' reform issues will close before the departure of the mission heads which is reportedly scheduled for Tuesday, March 22<sup>nd</sup>. This is not the case with the non-performing loans issue, however, where the divide has not yet been bridged. Creditors request immediate release of the sale of all loans apart from those related to first residence while the Greek government insists on a three-year extension.

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Source: Reuters, Bloomberg, Eurobank Research

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

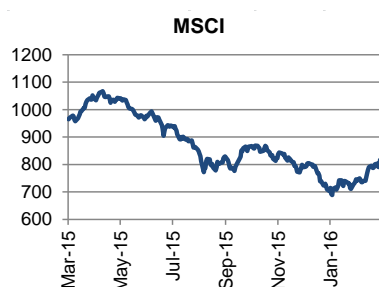
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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

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

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

## Latest world economic & market developments in the CESEE region

### CYPRUS

The Governing Council of the ECB decided yesterday to lift the waiver affecting marketable debt instruments issued or fully guaranteed by the Cypriot Republic effective from April 1<sup>st</sup>. The waiver allowed these instruments to be used in Eurosystem monetary policy operations despite the fact that they did not fulfil minimum credit rating requirements. The Governing Council decision is based on the fact that the Republic of Cyprus can no longer be considered a Member State under an EU/IMF program from that date on. Meanwhile, an update on their sovereign rating assessment of Cyprus is expected later today from Moody's and S&P. Currently, the sovereign rating stands at B1& BB- by Moody's and S&P respectively. In turn, an upgrade by 4 and 3 notches in their respective grading system would be required in order for Cypriot government bonds to get investment grade status.

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### ROMANIA

The finance ministry sold at an auction on Thursday the planned RON 600mn (~€134.1mn) amount of February 2020 T-bonds at an average accepted yield of 2.14%. The latter stands slightly above a yield of 1.90% achieved at a prior auction of similar maturity paper held earlier this month. The auction's bid to cover ratio came in at 1.92. The issue matures on February 26, 2020 and bears an annual coupon of 2.25%.

### SERBIA

Vindicating our and the market's expectations, the National Bank of Serbia (NBS) stayed put on its monetary policy at its scheduled meeting yesterday, maintaining the key benchmark rate at the current record low level of 4.25%. Yesterday's decision follows a largely unexpected 25bps cut delivered in February, the first since October 2015, which came in the wake of 750bps of monetary easing since May 2013. In 2015 alone, the Central Bank had delivered 350bps of rate cuts. Despite persistently below target inflation and a negative output gap, we – in line with the market's median forecast – anticipated the Central Bank to hold its horses yesterday ahead of the upcoming general elections on April 24<sup>th</sup>. Looming fiscal slippage risks and potential delays in the implementation of IMF-backed reforms may exert depreciation pressures on the dinar, which has weakened since late last year. The Central Bank has repeatedly intervened in the FX markets over the last few weeks, selling euros to support the domestic currency. So far this year it has sold approximately €490mn.

Behind yesterday's decision, the NBS noted that it anticipates inflation to gradually rise from mid-year and return within the 4% +/-1.5% target tolerance band late this or early next year thanks to the current monetary policy expansiveness. It also acknowledged risks in the face of global growth prospects, volatility in commodity prices, geopolitical risks and the expected further normalization of the Fed's monetary policy.

Looking ahead we anticipate the NBS to stay put on its monetary policy at least until the looming elections. Some modest rate easing thereafter cannot be ruled out entirely as inflation pressures remain subdued (February CPI at 1.5%) and private consumption continues to be weak in view of the government's ongoing fiscal consolidation efforts. Any such decisions will likely be dependent on the aforementioned risks and their potential implication on inflation dynamics as well as on the dinar's upcoming performance.

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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	2040.59	0.7%	-0.2%	EUR/USD	1.127	-0.4%	3.8%	UST - 10yr	1.87	-3	-40	GOLD	1255	-0.2%	18.2%
Nikkei 225	16724.81	-1.2%	-12.1%	GBP/USD	1.4426	-0.4%	-2.1%	Bund-10yr	0.20	-3	-43	BRENT CRUDE	41	-0.8%	10.6%
STOXX 600	342.18	0.4%	-6.5%	USD/JPY	111.27	0.1%	7.9%	JGB - 10yr	-0.09	-5	-36	LMEX	2347	2.6%	6.5%

## CESEE MARKETS

## SERBIA

## Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	283	-1	-20
1-week	2.95	-1	-24
1-month	3.12	0	-39
3-month	3.30	0	-53
6-month	3.51	1	-52

## RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.47	-2	-19
5Y RSD	5.29	0	17
7Y RSD	7.64	0	-6

## RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.00	0	-17
USD Nov-24	6.19	0	-23

## CDS

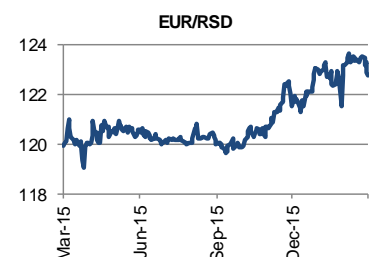
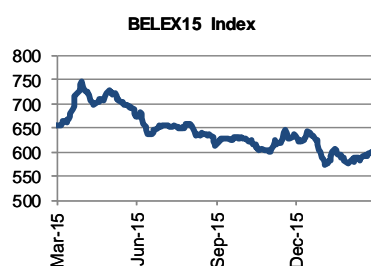
	Last	ΔDbps	ΔYTD bps
5-year	267	-21	-7
10-year	334	0	-5

## STOCKS

	Last	ΔD	ΔYTD
BELEX15	598.0	-0.44%	-7.15%

## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	122.73	0.12%	-0.93%



## ROMANIA

## Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.4	-1	-13
1-month	0.56	0	-13
3-month	0.79	0	-23
6-month	1.04	-1	-30
12-month	1.21	0	-31

## RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.80	0	-13
5Y RON	2.58	0	-22
10Y RON	3.30	1	-48

## RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.45	#N/A	N/A
USD Jan-24	3.35	1	-43

## CDS

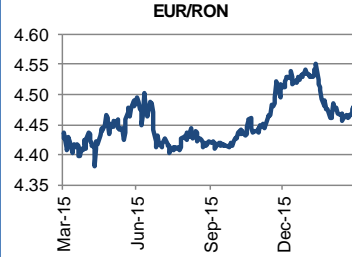
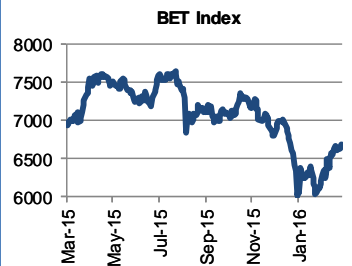
	Last	ΔDbps	ΔYTD bps
5-year	119	-2	-14
10-year	164	-2	-7

## STOCKS

	Last	ΔD	ΔYTD
BET	6802.6	0.71%	-2.88%

## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4719	0.10%	0.94%



## BULGARIA

## Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.00	0	-1
1-month	-0.12	-1	-28
3-month	0.00	-1	-26
6-month	0.17	-4	-36
12-month	0.55	-9	-42

## BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.39	1	-21
5Y BGN	1.16	0	-11
10Y BGN	2.62	0	-3

## BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.03	9	-9
EUR Sep-24	2.38	-8	-4

## CDS

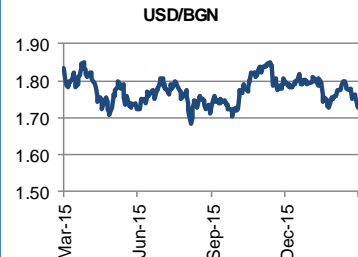
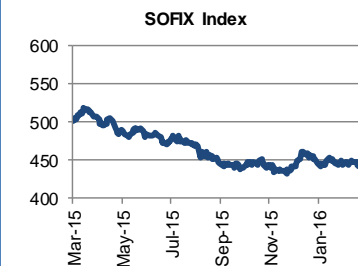
	Last	ΔDbps	ΔYTD bps
5-year	160	-4	-12
10-year	208	-3	-8

## STOCKS

	Last	ΔD	ΔYTD
SOFIX	446.4	0.12%	-3.14%

## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7355	-0.43%	3.73%



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

Data updated as of 11:20 EET



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