

# DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Wednesday, February 03, 2016

## KEY UPCOMING DATA & EVENTS THIS WEEK

### GLOBAL

#### US

- February 1
  - Personal income (Dec)
  - Personal spending (Dec)
  - Core PCE deflator (Dec)
  - ISM manufacturing (Jan)
- February 3
  - ADP employment (Dec)
  - ISM non-manufacturing (Jan)
- February 4
  - Jobless claims (Jan 24)
  - Industrial orders (Dec)
- February 5
  - NFP payrolls (Jan)
  - U/E rate (Jan)

### EUROZONE

- February 1: PMI manufacturing (Jan, f)
- February 3: PMI services (Jan, f)

### GREECE

- February 1
  - PMI manufacturing (Jan)
  - Official discussions in the context of the 1<sup>st</sup> programme review commence
- February 5: Commercial Transactions (p, Dec)

### SEE

#### BULGARIA

- February 5: Moody's sovereign credit rating review

#### ROMANIA

- February 1
  - T-bonds auction
  - Intern/I reserves (Jan)
- February 2: ILO U/E rate (Dec)
- February 3: Retail sales (Dec)
- February 5: MPC meeting

#### SERBIA

- February 1
  - GDP (Q4, 2015, p)
  - 1.5% 2018 EUR T-bonds auction

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Mirroring the negative tone in Wall Street overnight, most Asian equities closed in the red on Wednesday as energy stocks were pressured by a renewed drop in oil prices. Increased risk aversion favored the safe-haven allure of the JPY with the USD/JPY retreating to levels below 120.00 in European trade. On the data front, focus today is on the US ADP private sector employment report ahead of the key non-farm payrolls data due on Friday.

**GREECE:** A new round of discussions between the ECB/EC/IMF/ESM mission heads and Minister of Labour, Social Insurance and Social Solidarity Georgios Katrougalos on the planned overhaul of the social security system is scheduled to take place today at 4:30pm Athens time. According to the local press, the heads oppose the government's proposal for a total increase of 1.5% in social security contributions claiming that it would hammer business competitiveness. Meanwhile, speaking to reporters yesterday, Government spokesperson Olga Gerovasili denied any scenarios of a snap election or formation of an ecumenical government.

### SOUTH EASTERN EUROPE

**ROMANIA:** Retail sales in December maintained the same impressive speed on an annual basis, expanding at the highest rate in seven years. On a seasonally and working day adjusted basis, retail sales expanded by +0.6% mom/+13.0% yoy up from +2.3% mom/+12.8% yoy in November and compared to +2.1% mom/+12.7% yoy in October. At the same time, the unemployment rate came out at 6.7% in December unchanged compared to November, though a notch up from 6.6% recorded in December 2014.

**CESEE MARKETS:** Emerging stock markets broadly extended this week's losses earlier on Wednesday as oil prices remain near recent lows, while downbeat corporate earnings results from Europe also weighed on investor sentiment. On the other hand, **CESEE market assets** appeared to be faring better than their global EM peers, possibly thanks to increased optimism about further monetary stimulus by the ECB as soon as in March. Today, the **MPC meeting in Poland** takes centre stage in the CESEE region. The Central Bank is broadly anticipated to stay put on its monetary policy maintaining its key benchmark rate at the current record low of 1.50%.

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## Latest world economic & market developments

### GLOBAL MARKETS

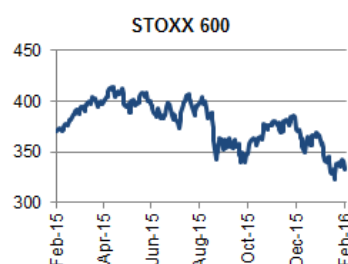
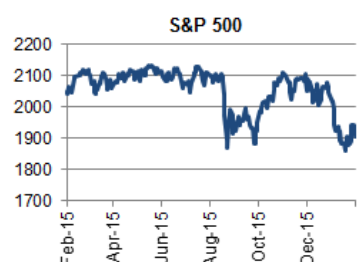
Mirroring the negative tone in Wall Street overnight, most Asian equities closed in the red on Wednesday as energy stocks were pressured by a renewed drop in oil prices following fading hopes for an OPEC agreement on reducing production. Against this background, an improvement in the Chinese Services and Composite PMIs was shrugged by market participants. The Brent crude oil price was hovering around \$33.14/barrel in European trade at the time of writing, within distance from yesterday's \$32.72/barrel one-week closing low. Elsewhere, most European bourses retained a negative tone in early trade on Wednesday for a third session in a row, as worse-than-expected corporate earnings added to concerns about the sustainability of the global economic recovery. In FX markets, increased risk aversion favored the safe-haven allure of the JPY with the USD/JPY hovering around 119.91/92 in European trade, having retreated from a multi-week high of 121.70 hit last Friday following the BoJ's policy announcement for negative interest rates. On the euro area calendar front, final PMI services for January and retail sales for December are due later today, while in the US, ADP private sector employment change for January and ISM services January are also expected to lure market attention. Last but not least, US weekly data inventories will probably be closely scrutinized by market participants later today.

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### GREECE

A new round of discussions between the ECB/EC/IMF/ESM mission heads and Minister of Labour, Social Insurance and Social Solidarity Georgios Katrougalos on the planned overhaul of the social security system is scheduled to take place today at 4:30pm Athens time. According to the local press, the heads oppose the government's proposal for a total increase of 1.5% in social security contributions claiming that it would hammer business competitiveness. Under such a scenario, the remaining amount of c. €550mn the government had projected to secure through that specific source for the fulfillment of its commitment for total social security savings of €1.8bn in 2016 (or 1%-of-GDP) should come from alternative sources including inter alia, cuts in relatively high main pensions (according to the government, measures related to the overhaul of the social security system with an estimated total impact of c. €1.1bn have already been penciled in the FY-2016 Budget). Another issue that is expected to dominate official discussions in the context of the 1<sup>st</sup> programme review is the planned overhaul on the income tax system that is projected to secure, under the FY-2016 Budget, €150mn in additional revenues. To this end, the government presented to the mission heads its proposals reportedly envisioning, among others, an increase in the number of tax rates to four with the highest one rising from 42% currently (for annual income above €42K) to 50% (for annual income above €60K). Meanwhile, speaking to reporters yesterday, Government spokesperson Olga Gerovasili denied any scenarios of a snap election or formation of an ecumenical government. On his part, speaking to a local TV station yesterday, the newly elected President of the main opposition party ND, Kyriakos Mitsotakis ruled out the possibility of his party joining an ecumenical government and made clear that he does not favor the scenario of early elections.

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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

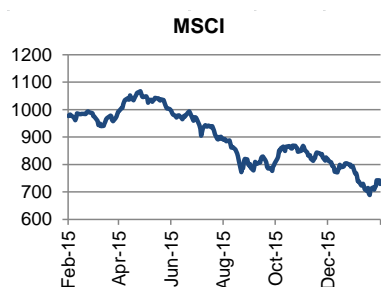
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

ROMANIA: Indicators	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	0.6	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)	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

Retail sales in December maintained the same impressive speed on an annual basis, expanding at the highest rate in seven years. On a seasonally and working day adjusted basis, retail sales expanded by +0.6% mom/+13.0% up from +2.3% mom/+12.8% yoy in November compared to +2.1% mom/+12.7% yoy in October. A large part of the increase is explained by the explosive rise of the food-related items (+0.3% mom/+26.3% yoy in December down from +1.4% mom/+27.4% yoy in November vs. +2.3% mom/+27.4% yoy in October) as a result of the VAT rate cut on food items effective since last June (from 24% to 9%) and their large share in the consumption basket (28%). Yet, the rise has started to become broader based. Non-food items also impressed on an annual basis, jumping by +0.5% mom/+9.3% yoy in December vs. +4.7% mom/+5.6% yoy in November the best reading in at least a year, reflecting the private consumption spending boom, fuelled primarily by the unwarranted pro-cyclical fiscal stimulus ahead of the parliamentary elections scheduled in late 2016. At the same time, the unemployment rate came out at 6.7% in December unchanged compared to November, though a notch up from 6.6% recorded in December 2014. The rise of the unemployment rate is at odds with the general economic environment improvement. In fact, net employment has increased by over 147k over the past twelve months (from November 2014- to November 2015).

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### CESEE MARKETS

**Emerging stock markets** broadly extended this week's losses earlier on Wednesday as oil prices remain near recent lows, while downbeat corporate earnings results from Europe also weighed on investor sentiment. Against this backdrop, the MSCI Emerging Markets index slid by ca 1.0% on a daily basis at the time of writing, having recoiled by 1.9% in the prior session.

On the other hand, **CESEE market assets** appeared to be faring better than regional peers, possibly thanks to increased optimism about further monetary stimulus by the ECB as soon as in March. Against this backdrop, the majority of regional bourses stood in a modestly positive territory in early European trade, while most currencies and local government bonds also firmed.

Today, **MPC meeting in Poland** takes centre stage in the CESEE region. The Central Bank is broadly anticipated to stay put on its monetary policy maintaining its key benchmark rate at the current record low of 1.50%. Despite calls from the newly elected government for further monetary easing and a domestic environment of persisting deflation, the NBP will most likely hold its fire in the months ahead. In support of the aforementioned, economic activity remains robust while recently heightened concerns over the government's policies prompted a downgrade from S&P earlier this year, as well as warnings by other rating agencies, exerting depreciation pressures on the zloty which hit 4-year lows of 4.5120/EUR in late January.

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## GLOBAL MARKETS

Stock markets				FOREX				Government Bonds				Commodities			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
S&P 500	1903.03	-1.9%	-6.9%	EUR/USD	1.0921	0.0%	0.6%	(yields)	1.85	1	-42	GOLD	1129	0.0%	6.4%
Nikkei 225	17191.25	-3.2%	-9.7%	GBP/USD	1.4453	0.3%	-1.9%	UST - 10yr	0.30	-1	-33	BRENT CRUDE	33	1.3%	-11.1%
STOXX 600	332.00	-0.8%	-9.2%	USD/JPY	119.37	0.5%	0.6%	Bund-10yr	0.07	-2	-20	LMEX	2163	-0.3%	-1.8%
								JGB - 10yr							

## CESEE MARKETS

## SERBIA

## Money Market

BELIBOR	Last	ΔD	ΔYTD
T/N	291	1	-12
1-week	3.03	2	-16
1-month	3.23	1	-28
3-month	3.47	3	-36
6-month	3.67	5	-36

## RS Local Bonds

	Last	ΔD	ΔYTD
3Y RSD	3.53	-3	-14
5Y RSD	5.09	0	-4
7Y RSD	7.82	0	12

## RS Eurobonds

	Last	ΔD	ΔYTD
USD Nov-17	3.08	-1	-9
USD Nov-24	6.42	0	1

## CDS

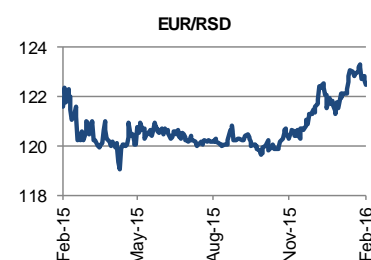
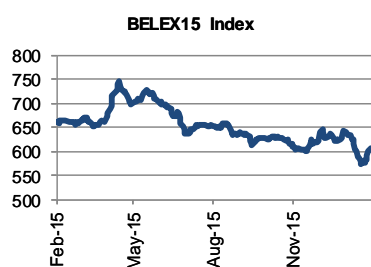
	Last	ΔD	ΔYTD
5-year	288	0	13
10-year	334	0	-5

## STOCKS

	Last	ΔD	ΔYTD
BELEX15	603.6	-0.55%	-6.28%

## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	122.71	-0.20%	-0.92%



## ROMANIA

## Money Market

ROBOR	Last	ΔD	ΔYTD
O/N	0.4	-1	-13
1-month	0.51	0	-18
3-month	0.83	0	-19
6-month	1.11	-1	-23
12-month	1.31	1	-21

## RO Local Bonds

	Last	ΔD	ΔYTD
3Y RON	1.57	-2	-36
5Y RON	2.36	-3	-44
10Y RON	3.28	-1	-50

## RO Eurobonds

	Last	ΔD	ΔYTD
EUR Oct-25	2.46	0	-10
USD Jan-24	3.65	1	-14

## CDS

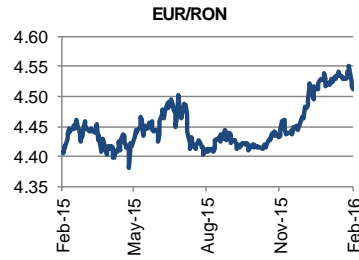
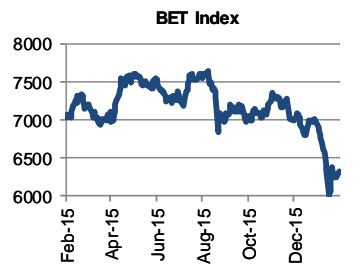
	Last	ΔD	ΔYTD
5-year	128	2	-5
10-year	172	2	0

## STOCKS

	Last	ΔD	ΔYTD
BET	6312.2	0.10%	-9.88%

## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5129	0.06%	0.02%



## BULGARIA

## Money Market

SOFIBOR	Last	ΔD	ΔYTD
LEONIA	-0.08	0	-9
1-month	-0.05	0	-20
3-month	0.06	1	-20
6-month	0.24	0	-29
12-month	0.61	0	-36

## BG Local Bonds

(yields)	Last	ΔD	ΔYTD
3Y BGN	#N/A	N/A	-16
5Y BGN	0.22	1	-16
10Y BGN	1.81	0	-3

## BG Eurobonds

	Last	ΔD	ΔYTD
EUR Jul-17	0.07	0	0
EUR Sep-24	2.38	-17	-4

## CDS

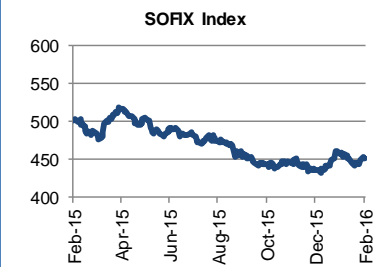
	Last	ΔD	ΔYTD
5-year	170	4	-1
10-year	216	5	0

## STOCKS

	Last	ΔD	ΔYTD
SOFIX	451.7	0.34%	-2.00%

## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7908	0.03%	0.53%



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

Data updated as of 12:15 EET



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