

DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Tuesday, February 16, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL US

- February 15: Presidents' day
- February 16
 - Empire State Index (Feb)
 - NAHB Index (Feb)
- February 17
 - Housing starts & permits (Jan)
 - Industrial production (Jan)
 - FOMC minutes
- February 18
 - Jobless claims (weekly)
 - Philly Fed Index (Feb)
- February 19: CPI (Jan)

EUROZONE

- February 15: ECB president Draghi to testify before the EU parliament's Economic Committee
- February 16: Germany's ZEW Index (Feb)
- February 18: January 21 ECB MPC minutes

GREECE

- February 17: HICP (Jan)
- February 19: Turnover in Industry (Dec)

CYPRUS

- February 16: HICP (Jan)

SEE

BULGARIA

- February 15
 - CPI (Jan)
 - 2019 T-Bonds auction
 - U/E rate (Jan)
- February 17: CAD (Dec)

ROMANIA

- February 15: CPI (Jan)
- February 18: 4.75% 2025 T-Bonds auction

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Global equity markets retained a firm tone on Tuesday for the second session in a row supported by rebounding oil prices amid speculation that OPEC might agree to cut production in an attempt to reduce global oversupply. Comments by ECB President Mario Draghi before the European Parliament's Economic and Monetary Affairs Committee yesterday that the Central Bank will probably reconsider its monetary policy stance at the upcoming Governing Council meeting on March 10th to support the continuation of the euro area's economic recovery, also had an impact.

GREECE: Responding to a relevant question during the Q&A session following his hearing before the European Parliament's Economic and Monetary Affairs Committee yesterday, ECB President Mario Draghi noted that the successful completion of Greece's 1st programme review depends on a number of factors, drawing attention on the social security pension reform, the overhaul of the income tax and the completion of the NPL resolution framework. According to some press reports, some tentative signs of convergence between the two sides on some of the main sticking issues have emerged and the mission heads are likely to return to Athens by the end of this week.

SOUTH EASTERN EUROPE

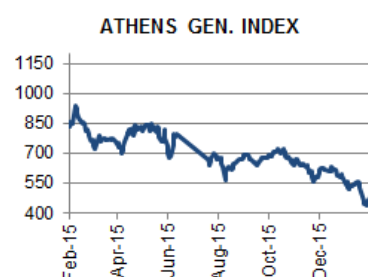
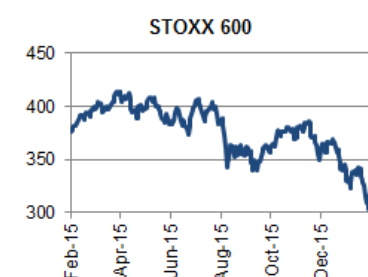
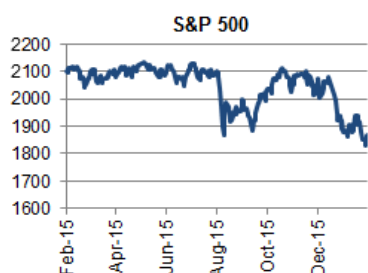
BULGARIA: The finance ministry sold at an auction on Monday the planned BGN 200mn (~€102.3mn) of 3-year Treasury Bonds at an average accepted yield of 0.36%.

ROMANIA: Inflation surprised to the upside in the first month of the year despite the decline in energy prices and the headline VAT rate cut, with CPI coming in at -0.8% MoM/-2.1% YoY in January.

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Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

Global equity markets retained a firm tone on Tuesday for the second session in a row supported by rebounding oil prices amid speculation that OPEC might agree to cut production in an attempt to reduce global oversupply. Dovish comments by ECB President Mario Draghi before the European Parliament's Economic and Monetary Affairs Committee yesterday, also had an impact. In more detail, the ECB President stressed that the Central Bank will probably reconsider its monetary policy stance at the upcoming Governing Council meeting on March 10th to support the continuation of the euro area's economic recovery on the back of growing concerns about the prospects of the global economy, intensified turbulence in financial markets and a further decline in commodity prices. Mario Draghi's dovish remarks weighed on the EUR with the EUR/USD hovering around 1.1165/70 in European trade at the time of writing, having retreated from yesterday's session highs of 1.1250 and a multi-month peak of 1.1375 marked a few sessions earlier. Elsewhere, the improved tone in equity markets dented the safe haven appeal of major government bonds with the 10/2-yr Bund yield curve undertaking some bearish steepening. Looking at today's calendar, market participants are anticipated to scrutinize closely the FOMC minutes from the January meeting while on the data front, key releases include the US Empire State manufacturing report and the NAHB index both for the month of January.

GREECE

Responding to a relevant question during the Q&A session following his hearing before the European Parliament's Economic and Monetary Affairs Committee yesterday, ECB President Mario Draghi noted that the successful completion of Greece's 1st programme review depends on a number of factors, drawing attention on the social security pension reform, the overhaul of the income tax and the completion of the NPL resolution framework. The ECB President added that official discussions between the Greek government and official creditors are progressing but it is too early to specify a precise timeline regarding the conclusion of the review. Along similar lines, European Commission spokesman Margaritis Schinas said during a press briefing yesterday that discussions between the two sides during the first phase of negotiations were "constructive" and that progress was made on a number of issues. The European Commission official added that work on a technical level needs to continue over the coming days so that the ECB/IMF/EU/ESM mission heads to return to Athens as soon as possible with the intention to complete the review within the next few weeks. According to some press reports, some tentative signs of convergence between the two sides on some of the main sticking issues have emerged and the mission heads are likely to return to Athens by the end of this week.

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| 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

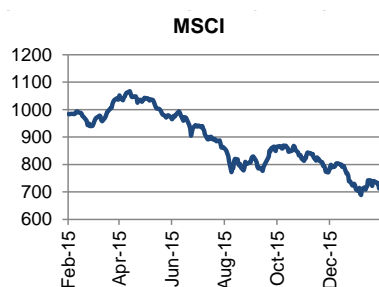
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

| 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) | 4.50 | 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

BULGARIA

The finance ministry sold at an auction on Monday the planned BGN 200mn (~€102.3mn) of 3-year Treasury Bonds. The average accepted yield came in at 0.36%. The issue bears a 0.5% coupon and matures on February 17, 2019. Meanwhile, the tender's bid to cover ratio stood at 1.7%.

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ROMANIA

Inflation surprised to the upside in the first month of the year despite the decline in energy prices and the headline VAT rate cut. Inflation came at -0.8% MoM/-2.1% YoY in January down from +0.1% MoM/-0.9% YoY in December compared to +0.3% MoM/-1.1% YoY in November. The print was significantly above market expectations (-1.4% MoM/-2.7% YoY). The implementation of a 4ppts headline VAT rate cut-from 24% to 20%- effective from January 1st, compounded by the food staff VAT rate cut-from 24% to 9% effective from last June- pushed headline inflation further into negative territory. On a monthly basis, the volatile food component of CPI edged up at +0.47% MoM/-6.29% YoY in January compared to +0.22% MoM/-6.20% YoY in December vs. +0.06% MoM/-6.20% YoY in November. Non-food items decelerated sharply to -1.56% MoM/+0.12% YoY in January compared to -0.1% MoM/+1.95% YoY in December vs. +0.5% MoM/+1.54% YoY in November. Services slowed down to -1.12% MoM/+1.23% YoY in January compared to +0.4% MoM/+2.4% YoY in December vs. +0.3% MoM/+2.3% YoY in November.

In our view, there are two key takeaways from the January inflation reading. Firstly, the pass through effect of the headline VAT rate cut into consumer prices was effectively lower than in the case of the food VAT rate cut. To some extent, this is reflected in the less than expected slowdown of the services inflation component. This is not totally surprising, given that real wage growth - the highest in EU 28 at the moment - is rallying at double digit growth rates to new post-Lehman period highs and subsequently feeds into retail sales and prices. Secondly, inflationary pressures are building faster than we had expected which may explain the hawkish NBR rhetoric in the February Inflation Report presentation in the past week, and may prompt earlier Central Bank action. Despite lower energy prices and the negative base effects from fiscal easing, inflationary pressures are rising in Romania faster than its peers. HICP at constant taxes climbed to +2.3% YoY in December2015 vs. only +0.3%YoY in December 2014, at a comparably significantly higher than its regional peers (Poland: -0.5% YoY, Hungary: +0.8% YoY, Bulgaria:-0.9% YoY). In the past week, NBR upgraded its year end inflation forecast for 2016 to +1.4% YoY vs. +1.0% YoY in the November Inflation Report. At the same time, the NBR presented for the first time its year-end forecast for 2017 at +3.4% YoY compared to +2.8% YoY for Q3-2017 in the previous Inflation Report. Looking ahead, inflation is most likely to stay below the Central Bank target range (2.5%±1%) in 1H-2016. However, notwithstanding the impact of taxes, inflation has already entered the target band.

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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 | 1864.78 | 2.0% | -8.8% | EUR/USD | 1.1179 | 0.2% | 3.0% | UST - 10yr | 1.76 | 1 | -51 | GOLD | 1212 | 0.2% | 14.2% |
| Nikkei 225 | 16054.43 | 0.2% | -15.7% | GBP/USD | 1.4446 | 0.1% | -2.0% | Bund-10yr | 0.25 | 1 | -38 | BRENT CRUDE | 34 | 1.5% | -9.1% |
| STOXX 600 | 321.06 | -0.2% | -12.2% | USD/JPY | 113.82 | 0.7% | 5.5% | JGB - 10yr | 0.03 | -6 | -24 | LMEX | 2177 | 1.0% | -1.2% |

CESEE MARKETS

SERBIA

Money Market

| BELIBOR | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| T/N | 285 | -4 | -18 |
| 1-week | 2.95 | -5 | -24 |
| 1-month | 3.11 | -9 | -40 |
| 3-month | 3.31 | -9 | -52 |
| 6-month | 3.51 | -9 | -52 |

RS Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|--------|------|-------|----------|
| 3Y RSD | 3.51 | -2 | -16 |
| 5Y RSD | 5.09 | 0 | -3 |
| 7Y RSD | 7.72 | -1 | 2 |

RS Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| USD Nov-17 | 3.02 | -2 | -14 |
| USD Nov-24 | 6.37 | 1 | -4 |

CDS

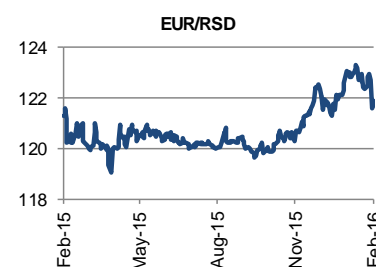
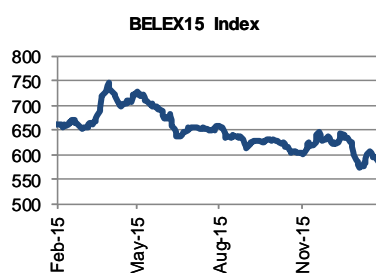
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 288 | -1 | 14 |
| 10-year | 333 | -2 | -6 |

STOCKS

| | Last | ΔD | ΔYTD |
|---------|-------|--------|--------|
| BELEX15 | 583.1 | -0.77% | -9.48% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|--------|
| EUR/RSD | 122.81 | 0.11% | -1.00% |



ROMANIA

Money Market

| ROBOR | Last | ΔDbps | ΔYTD bps |
|----------|------|-------|----------|
| O/N | 0.39 | -1 | -14 |
| 1-month | 0.52 | -2 | -17 |
| 3-month | 0.79 | -2 | -23 |
| 6-month | 1.02 | -2 | -32 |
| 12-month | 1.19 | -3 | -33 |

RO Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 3Y RON | 1.66 | 0 | -27 |
| 5Y RON | 2.46 | -1 | -34 |
| 10Y RON | 3.29 | 0 | -49 |

RO Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| EUR Oct-25 | 2.43 | 2 | -14 |
| USD Jan-24 | 3.49 | 3 | -29 |

CDS

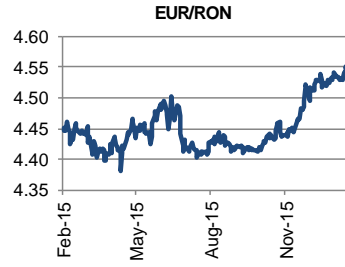
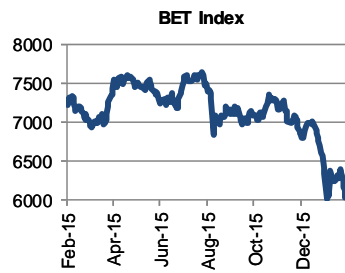
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 135 | -1 | 1 |
| 10-year | 179 | -2 | 8 |

STOCKS

| | Last | ΔD | ΔYTD |
|-----|--------|-------|---------|
| BET | 6140.9 | 0.08% | -12.33% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|--------|-------|
| EUR/RON | 4.4725 | -0.09% | 0.93% |



BULGARIA

Money Market

| SOFIBOR | Last | ΔDbps | ΔYTD bps |
|----------|-------|-------|----------|
| LEONIA | -0.08 | 0 | -9 |
| 1-month | -0.07 | 0 | -22 |
| 3-month | 0.04 | 0 | -22 |
| 6-month | 0.24 | 0 | -29 |
| 12-month | 0.58 | 0 | -39 |

BG Local Bonds

| (yields) | Last | ΔDbps | ΔYTD bps |
|----------|------|-------|----------|
| 3Y BGN | 0.40 | -1 | -20 |
| 5Y BGN | 1.17 | 0 | -10 |
| 10Y BGN | 2.64 | 0 | -2 |

BG Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|-------|-------|----------|
| EUR Jul-17 | -0.31 | 47 | -38 |
| EUR Sep-24 | 2.44 | 9 | 2 |

CDS

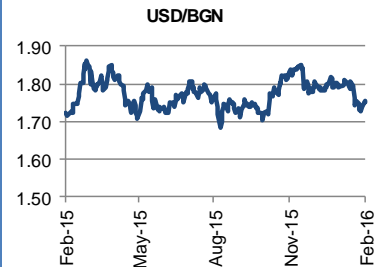
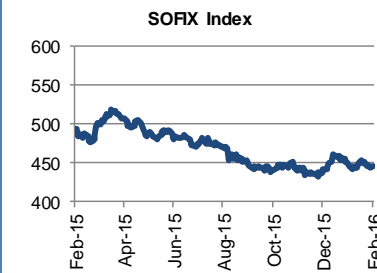
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 176 | -4 | 5 |
| 10-year | 222 | -4 | 6 |

STOCKS

| | Last | ΔD | ΔYTD |
|-------|-------|-------|--------|
| SOFIX | 444.8 | 0.12% | -3.48% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|-------|
| USD/BGN | 1.7494 | 0.26% | 2.91% |



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

Data updated as of 12:00 EET

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