

DAILY OVERVIEW  
OF GLOBAL MARKETS & THE SEE REGION

Thursday, May 19, 2016

KEY UPCOMING DATA &  
EVENTS THIS WEEK

## GLOBAL

## US

- May 16
  - NAHB Housing index (May)
  - Empire state index (May)
- May 17
  - CPI (Apr)
  - Housing starts / permits (Apr)
  - Industrial production (Apr)
- May 18: FOMC 26/27 April meeting minutes
- May 19
  - Jobless claims (weekly)
  - Philly Fed
- May 20: Existing home sales (Apr)

## EUROZONE

- May 18: HICP (Apr, f)
- May 19: ECB April 21 meeting minutes

## GREECE

- May 20: Turnover Index in Industry (Mar)
- May 20-22: Parliament votes on multi-bill containing legislation on remaining prior actions attached to 1<sup>st</sup> review

## SEE

## BULGARIA

- May 16: BGN 100mn 10Y T-bond auction
- May 13-16: U/E rate (Apr)
- May 18: CAD (Mar)

## ROMANIA

- May 16: 5.9% 2017 T-bond auction
- May 19: 3.5% 2022 T-bond auction

## SERBIA

- May 17: MPC meeting
- May 20: CAD (Mar)

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

## WORLD ECONOMIC &amp; MARKET DEVELOPMENTS

**GLOBAL MARKETS:** The minutes from the April 26-27 FOMC policy meeting delivered a more hawkish than expected tone increasing market expectations for a June rate hike. Reacting to the above, major equity markets were weaker in early trade on Thursday and US Treasury yields rose helping the USD to move higher across the board.

**GREECE:** The Greek government submitted to the Parliament late on Wednesday evening the key omnibus bill which contains the legislation required for the implementation of the remaining 17 prior actions attached to the 1<sup>st</sup> programme review. The parliamentary debate is scheduled to commence on Saturday and end with a roll call vote on Sunday evening, in time for the next Eurogroup that convenes on May 24<sup>th</sup>. Provided that all goes as planned, the Eurogroup is expected to politically endorse the compliance report for Greece's 1<sup>st</sup> programme review, opening the door for the release of the next loan tranche.

## SOUTH EASTERN EUROPE

**CYPRUS:** The EU Commission announced yesterday the abrogation of the excessive deficit procedure against Cyprus one year ahead of the deadline.

**CESEE MARKETS: Emerging market assets** remained under pressure in European trade on Thursday in view of a hawkish shift in FOMC rate-tightening expectations. Despite deteriorating risk appetite, most **regional currencies** somewhat recovered ground in European trade today recouping part of their recent losses. In the local rates markets, **government bonds** were mixed in morning European trade today. **Focus today** is on the ECB's April 21 meeting minutes. On a regional level, the AKP is expected to name at a party meeting today the candidate for the post of party leader and Prime Minister, while Romania sells 2022 T-bonds.

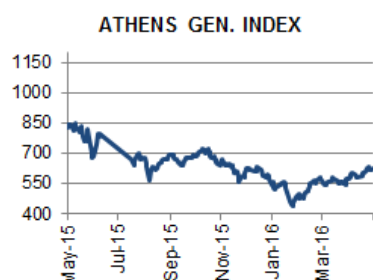
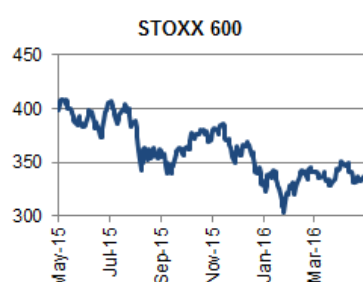
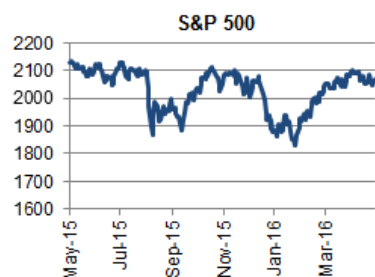
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May 19, 2016

## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The minutes from the April 26-27 FOMC policy meeting delivered a more hawkish than expected tone revealing that “most participants” were of the view that a June rate hike would be appropriate if economic growth picks up, labor market conditions continue to improve and inflation firms towards the 2% target. As a result, market expectations for a June rate hike increased with fed fund futures currently assigning a 32% probability for a 25bps rate hike next month compared to around 20% ahead of the release of the FOMC minutes and c. 5.0% earlier this month. Reacting to the above, major equity markets were weaker in early trade on Thursday and US Treasury yields rose helping the USD to move higher across the board. Short-dated US notes underperformed with the 2-yr yield hitting a session high of 0.912% earlier today, the highest in two months. As a result, the 2/10-yr yield curve undertook some bearish steepening with the corresponding yield spread standing close to a multi-session high of 97bps at the time of writing. In FX markets, the DXY index marked a seven-week peak of 95.333 earlier today, recording cumulative gains of 0.8% so far this week. The USD/JPY was hovering slightly above 110.00 at the time of writing, within distance from a three-week high of 110.37 recorded in Asia trade while the EUR/USD slipped to a five-week through near 1.1200. With the FOMC minutes out of the way, focus turns to Fed Vice Chairmen William Dudley and Stanley Fischer who are scheduled to speak later in the day. On the data front, US initial jobless claims and May’s Philly Fed take centre stage.

### GREECE

The Greek government submitted to Parliament late on Wednesday evening the key omnibus bill which contains the legislation required for the implementation of the remaining 17 prior actions attached to the 1<sup>st</sup> programme review. These include, inter alia: (i) a package of additional parametric measures expected to secure €1.84bn in 2016-2018 (€363mn in 2016, €1.072bn in 2017 and €405mn in 2018) incorporating, among others, an increase in the top VAT rate to 24% from 23% currently; (ii) establishment of the new Privatization Fund. It will be dubbed Hellenic Company of Assets and Participations and will comprise of four subsidiaries: the Hellenic Republic Asset Development Fund (HRADF), the Public Holding Company (EDIS) to be established imminently to hold the state’s holding in public enterprises, the Public Properties Company (PPCo S.A) and the Hellenic Financial Stability Fund (HFSF); (iii) the NPL resolution framework. It envisions all NPLs portfolios to be eligible for sale as units or in groups together with performing loans as of mid-June 2016, with the exception of NPLs collateralized by the debtor’s primary residence with an objective value up to €140,000; (iv) full independence of the General Secretariat of Public Revenues as of 2017; and (v) the contingency mechanism. It will be activated if annual general government accounts, released by Eurostat around April, show a deviation from the agreed primary surplus target (0.5%-of-GDP in 2016, 1.75%-of-GDP in 2017, 3.5% -of-GDP in 2018). The parliamentary debate on the said omnibus bill is scheduled to commence on Saturday and end with a roll call vote on Sunday evening, in time for the next Eurogroup that convenes on May 24<sup>th</sup>. Provided that all goes as planned, the Eurogroup is expected to politically endorse the compliance report for Greece’s 1<sup>st</sup> programme review, opening the door for the release of the next loan tranche. With respect to debt relief, the issue is anticipated to feature high on the agenda but a final agreement on the issue may prove difficult to reach. According to press reports, a divergence of views on the issue continues to exist between European creditors and the IMF.

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May 19, 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

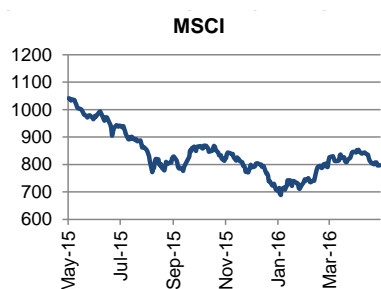
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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	B1	BB-	B+

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

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

### CYPRUS

The EU Commission announced yesterday the abrogation of the excessive deficit procedure against Cyprus one year ahead of the deadline. In the national reforms programs assessment report, the EU Commission is making the recommendation to the EU Council to terminate the EDP procedure against Cyprus on the grounds of bringing the fiscal deficit below the 3% of GDP Maastricht treaty reference value. Cyprus was subject to the economic adjustment program provisions until last March, from which it graduated successfully, and thus exempt from the European Semester procedures. Following the abrogation, Cyprus is still expected to observe the medium term budgetary objective in 2016 and 2017. Under the assumption of unchanged policies, Cyprus is most likely to meet the 2016 objective, but there is a risk of deviation from the target of 2017. Furthermore, the EU report contained a number of recommendations with respect to speeding up the implementation public sector reform plans, removing bottlenecks that impede the full functioning of the insolvency and foreclosures framework and enhance access to EU financing tools for SMEs so as to facilitate investments.

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### CESEE MARKETS

**Emerging market assets** remained under pressure in European trade on Thursday in view of a hawkish shift in FOMC rate-tightening expectations. Adding to recent hawkish comments by Fed officials, a string of positive US data and an increase in US consumer prices in April, that marked the highest MoM rise in more than three years, the FOMC's April meeting minutes signaled that the door is open for a rate hike in June if 'incoming data were consistent with economic growth picking up in the second quarter, labor market conditions continuing to strengthen, and inflation making progress toward the Committee's 2 percent objective'. Against this backdrop, the MSCI Emerging Markets index fell earlier on Thursday for the second session running. The decline added to yesterday's 0.9% drop and brought the index to a new 2 month intraday trough. In the CESEE region, Turkey's main stock index was closed for national holiday, while most other bourses stood in the red at the time of writing. Despite deteriorating risk appetite, most **regional currencies** somewhat recovered ground in European trade today recouping part of their recent losses. The Turkish lira led the recovery at the time of writing with the USD/TRY sliding to 2.9820 from a 2- ½ month peak near 2.9950 hit in Asian trade. On the other hand, the Serbian dinar and the Ukrainian hryvnia fell modestly, having withstood relatively well the prior session's selloff. In the local rates markets, **government bonds** were mixed in morning European trade today. **Focus today** is on the ECB's April 21 meeting minutes. On a regional level, the AKP is expected to name at a party meeting today the candidate for the post of party leader and Prime Minister after the unexpected departure of outgoing Ahmet Davutoglu. According to media reports, the most likely candidate is Transportation and Communications Minister Binali Yildirim. The new party leader and Prime Minister will be elected at the AKP's extraordinary congress on May 22. Following the appointment later in the week, a cabinet reshuffle appears to be on the cards. Any potential changes of economic cabinet ministers are expected to be closely scrutinized by market participants. A sovereign debt auction of 3.5% 2022 T-bonds in Romania, due to be held later on the day also lures market attention.

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May 19, 2016

**GLOBAL MARKETS**

Stock markets	FOREX	Government Bonds	Commodities																																																																
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**CESEE MARKETS**

**SERBIA**

**Money Market**

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	287	1	-16
1-week	2.98	1	-21
1-month	3.12	2	-39
3-month	3.29	1	-54
6-month	3.54	0	-49

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.56	0	-11
5Y RSD	5.29	0	16
7Y RSD	6.57	0	-113

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.68	1	-49
USD Nov-24	6.22	0	-19

**CDS**

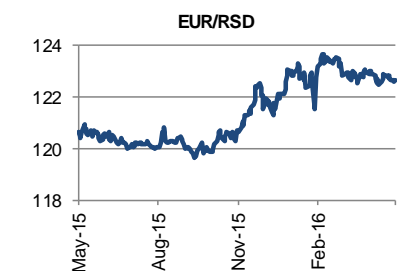
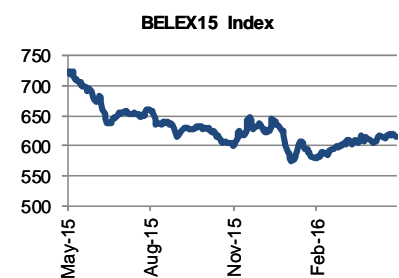
	Last	ΔDbps	ΔYTD bps
5-year	248	-2	-26
10-year	291	0	-48

**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	620.3	0.87%	-3.70%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	122.76	-0.11%	-0.96%



**ROMANIA**

**Money Market**

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.42	1	-11
1-month	0.57	-1	-12
3-month	0.75	-1	-27
6-month	1.02	1	-32
12-month	1.17	0	-35

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	1.78	0	-15
5Y RON	2.63	1	-17
10Y RON	3.54	2	-24

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.39	#N/A	N/A
USD Jan-24	3.42	1	-37

**CDS**

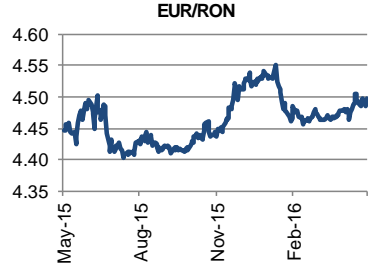
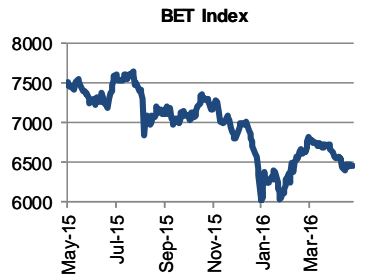
	Last	ΔDbps	ΔYTD bps
5-year	115	-3	-18
10-year	155	-4	-16

**STOCKS**

	Last	ΔD	ΔYTD
BET	6401.4	-0.10%	-8.61%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.4986	-0.27%	0.34%



**BULGARIA**

**Money Market**

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.40	0	-41
1-month	-0.15	-1	-30
3-month	-0.03	-1	-29
6-month	0.11	0	-41
12-month	0.45	-1	-52

**BG Local Bonds**

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.40	0	-20
5Y BGN	1.15	1	-12
10Y BGN	2.46	0	-20

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.07	-29	0
EUR Sep-24	2.29	6	-13

**CDS**

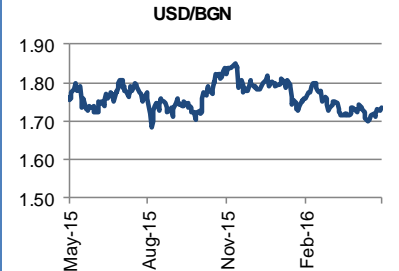
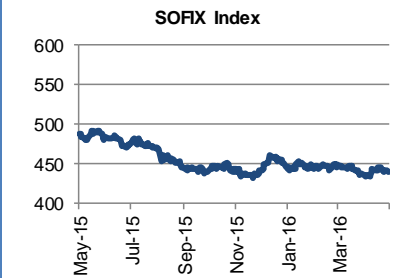
	Last	ΔDbps	ΔYTD bps
5-year	154	-1	-17
10-year	199	-1	-17

**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	438.7	-0.39%	-4.82%

**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.7353	-0.37%	3.75%



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

Data updated as of 16:45 EEST of previous session

May 19, 2016

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