

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Monday, July 11, 2016

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- July 13: Fed's beige book
- July 14: Initial jobless claims
- July 15
 - CPI (Jun)
 - Empire state index (Jun)
 - Retail sales (Jun)
 - IP (Jun)
 - UoM consumer sentiment (Jul, p)

EUROZONE

- July 12: Eurogroup/Ecofin meeting
- July 15: HICP (Jun)

GREECE

- July 11: IP (May)
- July 12: Building activity (Apr)

SEE

BULGARIA

- July 11: Trade balance (May)
- July 12: CPI (Jun)
- July 14-15: U/E rate (Jun)
- July 15: CAD (May)

ROMANIA

- July 11
 - Trade balance (May)
 - CPI (Jun)
 - 2.50% 2019 T-bonds auction
- July 12: Industrial sales (May)
- July 13: IP (May)
- July 14
 - 3.50% 2022 T-bonds auction
 - CAD (May)

SERBIA

- July 12: HICP (Jun)
- July 15: Sovereign credit rating review by Moody's

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The US non-farm payrolls report for June surprised positively somewhat allaying concerns about a broader slowdown of the labor market outlook. In FX markets, the JPY lost some ground on improved risk appetite while the EUR/USD continued to consolidate within 1.0900-1.1200. Looking at this week's calendar, the main focus is on the BoE MPC meeting on Thursday where the Central Bank is likely to deliver a 25bps rate cut, leaving the door open for lower interest rates and resumption of its QE programme at the August meeting when its updated Inflation Report will also be published.

GREECE: Though Greece's adjustment programme is not included in the agenda of today's Eurogroup, Minister of Finance Euclid Tsakalotos is reportedly likely to raise two issues on the sidelines of the meeting: (i) the adoption of a lower primary fiscal target beyond 2018; and (ii) the procedure for the review of the four systemic banks' Board of Directors. On the data front, the CPI dropped by 0.7%YoY in June marking the 40th consecutive month of deflation while the EU-harmonized inflation returned to positive rates after three consecutive months of falling prices.

SOUTH EASTERN EUROPE

ROMANIA: The EUR/RON traded range-bound over the first four sessions of last week, hovering around levels of 4.5120/300. On Friday, however, it managed to break the lower limit of the said interval dropping as low as 4.5050, a 0.50% appreciation over the week. The RON money market remained very liquid, while RON government bonds extended their recent rally.

SERBIA: The dinar was broadly firmer against the EUR last week, prompting repeated Central Bank interventions in the FX markets in order to halt the RSD's upside momentum.

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Latest world economic & market developments

GLOBAL MARKETS

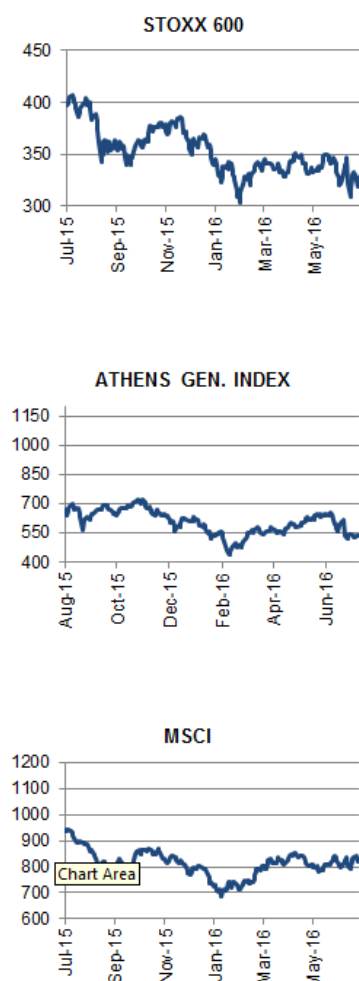
The US non-farm payrolls report for June surprised positively somewhat allaying concerns about a broader slowdown of the labor market outlook. The headline rose by a higher than expected 287k, the largest increase in the last eight months, following a downwardly revised rise of just 11k in the prior month. However, despite the positive US employment report, the Fed is not expected to hike interest rates any time soon. Market concerns about the impact of the UK's referendum outcome on the US economy and global financial markets prevail. In addition, worries over the prospect of inflation embarking on a sustained upward move towards the Fed's 2% target in the foreseeable future linger. Average hourly earnings rose by a lower than expected 0.1%MoM in June taking the annual rate to 2.6% from 2.5% in May. The firmer than expected US report triggered a new bout of risk appetite on Monday while news that Japan's ruling coalition won a landslide victory in an election for parliament's Upper House on Sunday, also had an impact. In FX markets, the JPY lost some ground on improved risk appetite with the USD/JPY trading close to 102.00 in early European trade after hitting a multi-session low near 100.00 on Friday. In spite of today's upward move, the pair remained below levels around 106.00-106.50 tested ahead of the US referendum. Looking at this week's calendar, the main focus is on the BoE MPC meeting on Thursday where the Central Bank is likely to deliver a 25bps rate cut, leaving the door open for lower interest rates and resumption of its QE programme at the August meeting when its updated Inflation Report will also be published. In the euro area, this week we expect inflation data for June (Friday) while in the US we expect the Fed's Beige Book (Wednesday) ahead of the most important June's retail sales report, the June CPI, the July NY Fed manufacturing survey and the preliminary July University of Michigan survey, all due on Friday.

GREECE

The Eurogroup meets later today to discuss, according to the official agenda, "the economic and financial situation, the euro area's fiscal stance, the outcome of post-programme surveillance missions to Ireland and Portugal and the budgetary situation in Portugal and Spain". The agenda does not include the implementation of Greece's adjustment programme. However, according to some press reports, Greece's Minister of Finance Euclid Tsakalotos is expected to raise two issues on the sidelines of the meeting: (i) the adoption of a lower primary fiscal target beyond 2018 rather than 3.5%-of-GDP, as the current programme foresees. As per the same sources, the Greek minister will propose a primary fiscal target of 2.5%-of-GDP for the period between 2019 and 2021 and 2.0%-of-GDP for the period after 2022; and (ii) the procedure for the review of the four systemic banks' Board of Directors. Reportedly, both issues were raised by Alternate Minister of Finance Giorgos Houliarakis at the Euroworking Group that convened last week but European officials rejected them. On the data front, the CPI dropped by -0.7%YoY in June compared to -0.9%YoY in the prior month, suggesting that deflation prevailed for the 40th month in a row. Tax increases led by a rise in the VAT rate to 24% from 23% as of June 1st, were more than offset by hearty declines in heating oil (-22.4%YoY), natural gas (-15.3%YoY), fresh fruit (-12.8%YoY), diesel fuel (-11.1%YoY) and petrol (-9.1%YoY). Separately, Greece's EU-harmonized inflation returned to positive rates in June after three consecutive months of falling prices on the back of higher recreational costs and healthcare charges. In more detail, the HICP rose by 0.2%YoY in June from -0.2%YoY in May.

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Source: Reuters, Bloomberg, Eurobank Research



BULGARIA: Indicators	2014	2015	2016f
Real GDP growth %	1.6	3.0	2.6
CPI (pa, yoy %)	-1.4	-0.1	-0.5
Budget Balance/GDP*	-3.7	-2.9	-2.0
Current Account/GDP	0.9	1.4	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	2015	2016f
Real GDP growth %	-2.5	1.6	2.5
HICP (pa, yoy %)	-0.3	-1.5	-0.7
Budget Balance/GDP*	-0.2	0.0	-0.4
Current Account/GDP	-4.6	-3.6	-4.2

* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2014	2015	2016f
Real GDP growth %	2.9	3.8	4.2
CPI (pa, yoy %)	1.1	-0.6	-1.5
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.1	-3.0
EUR/RON (eop)	4.48	4.52	4.60
	2015	current	2016f
Policy Rate (eop)	1.75	1.75	2.00

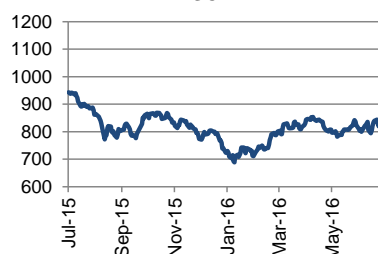
* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

SERBIA: Indicators	2014	2015	2016f
Real GDP growth %	-1.8	0.8	1.8
CPI (pa, yoy %)	2.1	1.5	2.8
Budget Balance/GDP	-6.7	-4.1	-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	4.00	4.00

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

MSCI



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

ROMANIA

The EUR/RON traded range-bound over the first four sessions of last week, hovering around levels of 4.5120/300. On Friday, however, it managed to break the lower limit of the said interval dropping as low as 4.5050, a 0.50% appreciation over the week. The RON money market remained very liquid, with rates continuing to stand close to the NBR deposit rate of 0.25%. The 1M implied rate from swaps remained stable at 0.35% while the 12M decreased 15 bps to 0.55%. RON government bonds extended their recent rally, in line with the region's trend, as markets are pricing further monetary policy easing from the main Central Banks. The curve shifted an additional 10 bps lower over the week, with the 3Y yield decreasing to 1.65%, the 5Y yield to 2.40% and the 10Y to 3.20%.

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SERBIA

The dinar was broadly firmer against the EUR last week, prompting repeated Central Bank interventions in the FX markets in order to halt the RSD's upside momentum. In more detail, the NBS bought euros at a rate of 123.30 three times over the last few days. Including Friday's action, the weekly intervention amount reached EUR75mn. The EUR/RSD selling pressure was overwhelmingly the result of oversupply of euros due to large disbursements of domestic corporate loans this month (RSD loans indexed in EUR). As long as macro policy remains the same, the NBS is likely to be poised against a significant dinar appreciation which could weigh on exports. Despite the current bearish bias, we expect the EUR/RSD to advance in the longer term. Therefore, we would favor long positions in EUR/RSD at current levels.

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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	2129.90	1.5%	4.2%	EUR/USD	1.1023	-0.2%	1.5%	UST - 10yr	1.38	2	-89	GOLD	1359	-0.5%	28.1%
Nikkei 225	15708.82	4.0%	-17.5%	GBP/USD	1.2864	-0.7%	-12.7%	Bund-10yr	-0.20	-1	-82	BRENT CRUDE	46	-1.5%	23.5%
STOXX 600	329.09	0.5%	-10.0%	USD/JPY	102.14	-1.6%	17.5%	JGB - 10yr	-0.27	2	-53	LMEX	2357	1.0%	7.0%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	305	-2	2
1-week	3.17	0	-2
1-month	3.32	-1	-19
3-month	3.55	-8	-28
6-month	3.82	-5	-21

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.49	xS	-18
5Y RSD	5.25	0	13
7Y RSD	5.77	0	-192

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.60	-3	-56
USD Nov-24	6.24	0	-17

CDS

	Last	ΔDbps	ΔYTD bps
5-year	244	0	-30
10-year	289	0	-50

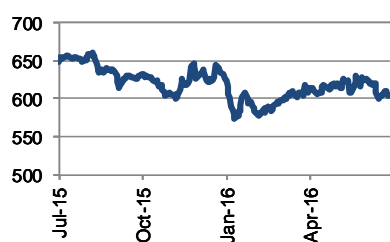
STOCKS

	Last	ΔD	ΔYTD
BELEX15	604.0	0.17%	-6.22%

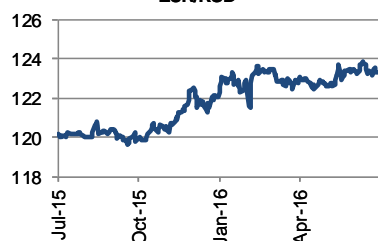
FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.30	0.02%	-1.39%

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.43	-1	-10
1-month	0.61	0	-8
3-month	0.8	0	-22
6-month	1.07	0	-27
12-month	1.21	0	-31

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.68	-1	-25
5Y RON	2.44	-1	-36
10Y RON	3.19	-3	-59

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.15	-9	-42
USD Jan-24	3.01	-4	-78

CDS

	Last	ΔDbps	ΔYTD bps
5-year	126	-3	-7
10-year	160	-3	-12

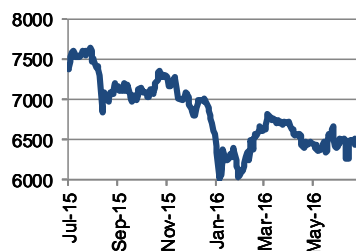
STOCKS

	Last	ΔD	ΔYTD
BET	6481.0	0.13%	-7.47%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4951	0.28%	0.42%

BET Index



EUR/RON



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.01	0	-2
1-month	-0.18	0	-33
3-month	-0.06	0	-32
6-month	0.09	0	-43
12-month	0.44	0	-53

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.36	-1	-24
5Y BGN	1.08	-1	-19
10Y BGN	2.33	0	-33

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.10	0	3
EUR Sep-24	2.12	-39	-30

CDS

	Last	ΔDbps	ΔYTD bps
5-year	153	-2	-18
10-year	199	-2	-17

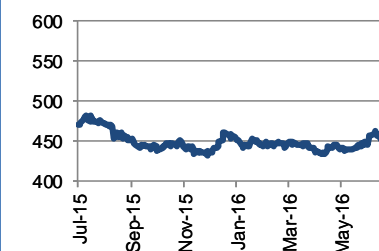
STOCKS

	Last	ΔD	ΔYTD
SOFIX	451.0	0.00%	-2.16%

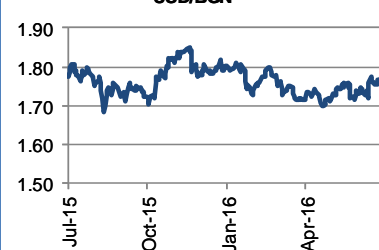
FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7743	-0.24%	1.47%

SOFIX Index



USD/BGN



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

Data updated as of 12:10 EEST

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