

# DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Friday, February 26, 2016

## KEY UPCOMING DATA & EVENTS THIS WEEK

### GLOBAL

- February 26-27: G20 Finance Ministers meeting in Shanghai

### US

- February 23
  - Existing home sales (Feb)
  - CB Consumer Confidence (Feb)
  - Case Shiller house price index (Dec)
- February 24: New home sales (Feb)
- February 25
  - Durable goods (Jan)
  - Jobless claims (weekly)
- February 26
  - GDP (Q4, 2<sup>nd</sup>)
  - UoM cons sent (Feb, f)
  - Personal Spending (Jan)

### EUROZONE

- February 22: PMI (Feb, p)
- February 25
- HICP (Jan, f)
- Money supply (Jan)
- February 26: ESI (Feb)

### CYPRUS

- February 23: CPI (Jan)

### SEE

#### BULGARIA

- February 26: Gross external debt (Dec)

#### ROMANIA

- February 22: 3.25% 2021 T-Bonds auction
- February 24: 1.25% 2021 T-Bonds auction

#### SERBIA

- February 23: HICP (Jan)
- February 25: Real gross wages (Jan)

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Eurozone January's CPI inflation was revised downward and inflation expectations dropped to a fresh record low, supporting the view for further monetary policy stimulus by the ECB at the next meeting scheduled for March 10<sup>th</sup>. Against this background, the EUR remained under pressure while German government bonds retained a firm tone.

**GREECE:** Presenting the Annual Report on the Greek economy, BoG Governor Yannis Stournaras emphasized that the recession is expected to bottom out and the economy to see a slight recovery during the second half of this year, provided that political stability is maintained and uncertainty is eliminated. On the data front, euro-denominated deposits & repos of domestic households and non-financial corporations in Greek MFIs excluding the Bank of Greece (BoG) dropped in January by €1.1bn coming in at ca €122.2bn.

### SOUTH EASTERN EUROPE

**ROMANIA:** The consolidated government surplus came in at RON4.73bn or 0.63% of projected GDP in January 2016 compared to RON3.95bn or 0.56% of GDP in January 2015.

**CESEE MARKETS:** Most emerging stock markets rallied in early European trade on Friday as a rebound in global oil prices and raw materials boosted related equity. Optimism ahead of the G20 finance ministers' meeting also provided support. In a similar vein, most regional currencies and government bonds firmed earlier today.

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## Latest world economic & market developments

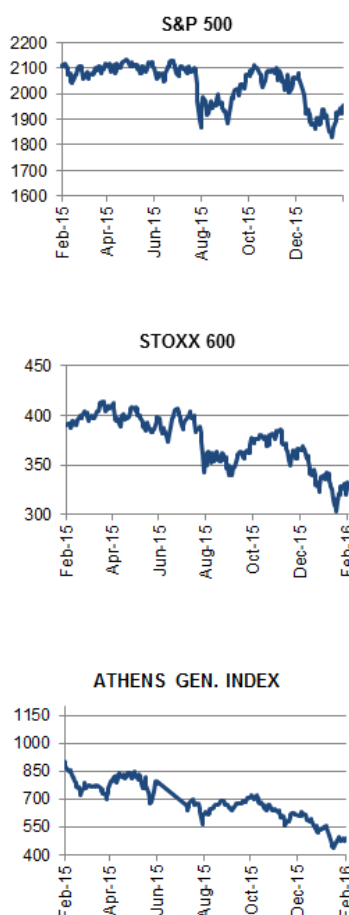
### GLOBAL MARKETS

Eurozone January's CPI inflation was revised downward at 0.3%YoY from 0.4%YoY initially estimated while the inflation swap forward 5Y5Y index fell to 1.38% for the first time ever in spite of the ongoing implementation of the ECB's QE programme. The above developments reinforced euro area deflation worries pushing German government bonds higher. The 2-yr German bond yield dropped to a fresh all-time low of 0.542% while the 10-yr Bund yield was hovering around 0.138%, not too far from a record low of 0.05% marked in April 2015. In FX markets, heightened market expectations for further policy stimulus by the ECB next month kept the EUR under pressure while worries over potential negative effects from a Brexit scenario, also had an impact. The EUR/USD was hovering around session lows of 1.1006 in European trade at the time of writing with the 1.0950/1.0900 area seen containing any further weakness ahead of the upcoming ECB meeting. Positive US data including initial jobless claims and durable goods orders for January, favored the USD. Looking at today's calendar, focus is on the two-day G20 meeting that commences today amid market optimism for an agreement on a coordinated stimulus package to prevent a pronounced slowdown in the global economy. On the data front, the second estimate for the US Q4 GDP takes centre stage today.

### GREECE

Presenting the Annual Report on the Greek economy, BoG Governor Yannis Stournaras emphasized that the recession is expected to bottom out and the economy to see a slight recovery during the second half of this year, provided that political stability is maintained and uncertainty is eliminated. According to the BoG Governor, the above is conditional on a number of steps and mostly on the successful completion of the first review of the programme that would benefit the real economy in a number of ways: (i) a major improvement in confidence that would contribute to a faster return of bank deposits; (ii) reinstatement of Greek securities as eligible collateral in Eurosystem monetary policy operations; (ii) inclusion of Greek government bonds in the ECB's quantitative easing programme; and (iv) further relaxation, and ultimately lift, of capital controls. Greece's Minister of Labour, Social Insurance and Social Solidarity Georgios Katrougalos reiterated yesterday that that government has set a red line on further cuts in main pensions. The minister added that the mission heads will "most likely" return next week with an intention to complete the 1<sup>st</sup> programme review within March. According to some press reports, there has been some convergence between the government and European creditors as regards the planned overhaul of the social security and pension reform. As per the same sources, the government is mulling certain amendments to the social security pension plan earlier submitted to official creditors. According to the same sources, these include, inter alia: (i) establishment of a ceiling in the monthly main pension at €2,000 compared to €2,773 currently and €2,304 initially proposed as well as a ceiling for multiple pensions at €2,300/month from €3,000/month currently and €2,700/month initially proposed; (ii) a reduction up to 30% in main supplementary pensions higher than €150/month; and (iii) a 20% reduction in pension lump sum payments. On the data front, BoG data showed that deposits & repos of domestic households and non-financial corporations in Greek MFIs excluding the Bank of Greece (BoG) dropped in January by €1.1bn coming in at ca €122.2bn. Moody's is expected to review Greece's sovereign credit rating today. Moody's current rating for Greece is at 'Caa3'. Fitch's rating for Greece is at 'CCC' while the S&P's rating is three notches higher than Moody's at 'B-'.

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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

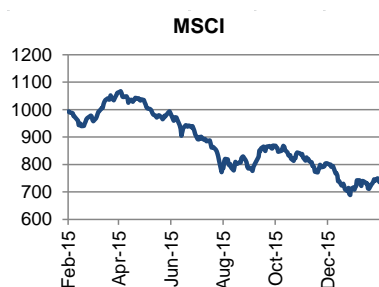
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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)	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

### ROMANIA

The consolidated government surplus came at RON4.73bn or 0.63% of projected GDP in January 2016 compared to RON3.95bn or 0.56% of GDP in January 2015. Total revenues expanded by an impressive double digit growth (+11.1% YoY) despite the headline VAT rate cut (by 4ppts effective from January 1st) mirroring improved tax compliance. On the other hand, total expenditure spiked by +8.7% YoY driven by the generous wages increases in the public sector. Only recently a 10% wage hike was approved by the parliament for all public sector employees except for those in public health and education, who have already received a generous 25% and 15% wage increase respectively. The unwarranted pro-cyclical fiscal stimulus ahead of the parliamentary elections this year, induced by the amended Fiscal Code tax-cuts and the wide-spread public sector wage rises threaten to push the fiscal deficit in cash terms above the 2.8% of GDP target (2.95% in ESA2010) in 2016.

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### CESEE MARKETS

Most emerging stock markets rallied in early European trade on Friday as a rebound in global oil prices and raw materials boosted related equities. Optimism ahead of the G20 finance ministers' meeting also provided support. Along these lines, the MSCI Emerging Markets rallied 1% at the time of writing, reversing this week's losses to stand in a modestly firmer territory compared to last Friday's settlement. Bourses in the CESEE region also firmed with Romania's BETI leading the way higher with daily gains to the tune of 1.6%.

In a similar vein, most regional currencies and government bonds firmed earlier today. In the FX markets, the Hungarian forint recouped a small part of the losses encountered over the last two sessions amid increased expectations for further Central Bank monetary easing in the coming months. In more detail, the EUR/HUF hovered around levels of 310.30 at the time of writing having pulled back from a 311.50 multi-day peak hit in the prior session, though remaining not too far from a 9-month low of 306.50 tested earlier in the week amid optimism about a potential upgrade on Hungary's sovereign credit ratings this year.

In the local rates markets, Romanian paper was little changed, with the 2-year benchmark bond yield standing near 1.278% at the time of writing, after rising by 8bps in the prior session following hawkish comments by Central Bank Governor Mugur Isarescu earlier in the week, who suggested that a monetary tightening cycle may come sooner than currently anticipated. In view of a light macro and events calendar today in the region, focus now turns to the upcoming G20 meeting.

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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	1951.70	1.1%	-4.5%	EUR/USD	1.1012	-0.1%	1.4%	UST - 10yr	1.73	2	-54	GOLD	1231	-0.1%	16.0%
Nikkei 225	16188.41	0.3%	-14.9%	GBP/USD	1.401	0.3%	-4.9%	Bund-10yr	0.15	1	-48	BRENT CRUDE	36	2.1%	-3.3%
STOXX 600	332.46	1.8%	-9.1%	USD/JPY	113.03	0.0%	6.2%	JGB - 10yr	-0.07	0	-33	LMEX	2206	-0.9%	0.1%

## CESEE MARKETS

## SERBIA

## Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	284	0	-19
1-week	2.95	0	-24
1-month	3.12	0	-39
3-month	3.30	0	-53
6-month	3.50	0	-53

## RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.41	-5	-25
5Y RSD	5.20	-1	7
7Y RSD	7.72	0	2

## RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.95	0	-22
USD Nov-24	6.19	0	-23

## CDS

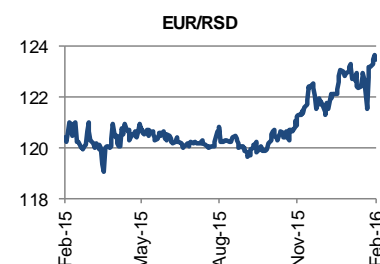
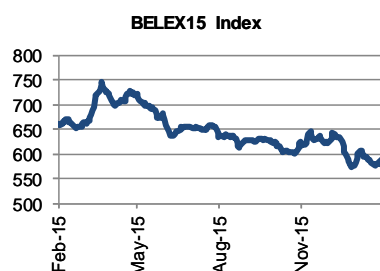
	Last	ΔDbps	ΔYTD bps
5-year	289	1	15
10-year	334	0	-5

## STOCKS

	Last	ΔD	ΔYTD
BELEX15	590.6	0.71%	-8.30%

## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.52	0.00%	-1.56%



## ROMANIA

## Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.4	0	-13
1-month	0.54	0	-15
3-month	0.75	0	-27
6-month	1.03	1	-31
12-month	1.19	2	-33

## RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.74	1	-19
5Y RON	2.60	1	-20
10Y RON	3.38	0	-40

## RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.49	#N/A	-8
USD Jan-24	3.37	-3	-41

## CDS

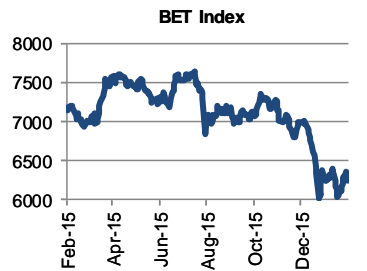
	Last	ΔDbps	ΔYTD bps
5-year	139	7	6
10-year	185	8	13

## STOCKS

	Last	ΔD	ΔYTD
BET	6476.0	1.75%	-7.54%

## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4627	0.13%	1.15%



## BULGARIA

## Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.08	0	-9
1-month	-0.08	-1	-24
3-month	0.03	1	-23
6-month	0.23	-1	-30
12-month	0.58	-1	-39

## BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.35	-1	-25
5Y BGN	1.09	-1	-19
10Y BGN	2.63	0	-3

## BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.41	0	-48
EUR Sep-24	2.46	-60	3

## CDS

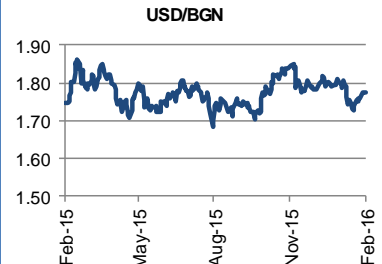
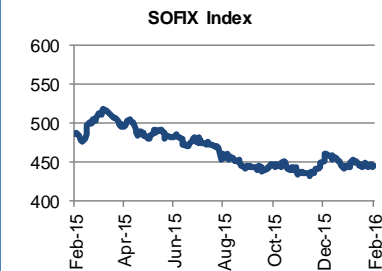
	Last	ΔDbps	ΔYTD bps
5-year	177	2	5
10-year	224	2	8

## STOCKS

	Last	ΔD	ΔYTD
SOFIX	444.7	0.13%	-3.52%

## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7762	-0.06%	1.36%



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

Data updated as of 12:25 EET

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