

# DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Monday, October 26, 2015

## KEY UPCOMING DATA & EVENTS THIS WEEK

### GLOBAL

#### US

- October 26: New Home Sales (Sep)
- October 27
  - Durable Goods Orders (Sep)
  - Cons Conf CB (Oct)
  - Markit PMI Comp & Services (Oct,p)
- October 28: FOMC interest rate decision
- October 29:
  - Q3 GDP (adv estimate)
  - Jobless Claims (weekly)
- October 30:
  - Pers Inc, PCE (Sep)
  - Mich Cons Sent (Oct,f)

#### EUROZONE

- October 27: M3 (Sep)
- October 29: Economic Sentiment Indicator (Oct)
- October 30:
  - CPI (Oct)
  - Unempl Rate (Sep)

#### GREECE

- October 26: Deposits, Credit Aggregates (Sep)
- October 30: PPI (Sep)

#### SEE

##### BULGARIA

- October 26
  - T-Bonds auction
  - External debt (Aug)
- October 30: Budget balance (Sep)

##### ROMANIA

- October 26: 2.5% 2019 T-Bonds auction
- October 30: ILO unemployment (Sep)

##### SERBIA

- October 26: Real gross wages (Sep)
- October 27: T-Bonds auction
- October 30
  - IP (Sep)
  - Trade balance (Sep)
  - GDP (nsa, Q3, p)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** The majority of Asian bourses closed in the black on Monday, following China central bank's decision on Friday to cut its benchmark lending rate and reserve requirement ratio in order to boost Chinese economic activity. Dovish comments by ECB President Mario Draghi also favored.

**GREECE:** Preparation talks ahead of the inception of the 1<sup>st</sup> review of Greece's new (3rd) adjustment concluded late last week with a number of key issues remaining open. According to the local press, some of the most contentious issues include the eligibility thresholds for the protection of primary residency from foreclosure and the VAT rate on private education. The institutions' mission heads left Athens late last week and are reportedly expected to return shortly after the upcoming Eurogroup scheduled for November 9, with an intention the review to be completed swiftly.

### SOUTH EASTERN EUROPE

**CYPRUS:** FITCH upgraded the sovereign rating of Cyprus by two notches (from B- to B+) with a positive outlook. The decision reflects the track record of fiscal consolidation and over-performance on its fiscal targets

**ROMANIA:** The EUR/RON remains relatively unchanged, staying the entire week in an extremely tight range between 4.4150/320, levels similar to August.

**SERBIA:** Despite the euro underperformance against most currencies worldwide on increased likelihood for a ECB QE extension, the EUR/RSD moved towards a 2-week high near 120.20/40 last week.

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## Latest world economic & market developments

### GLOBAL MARKETS

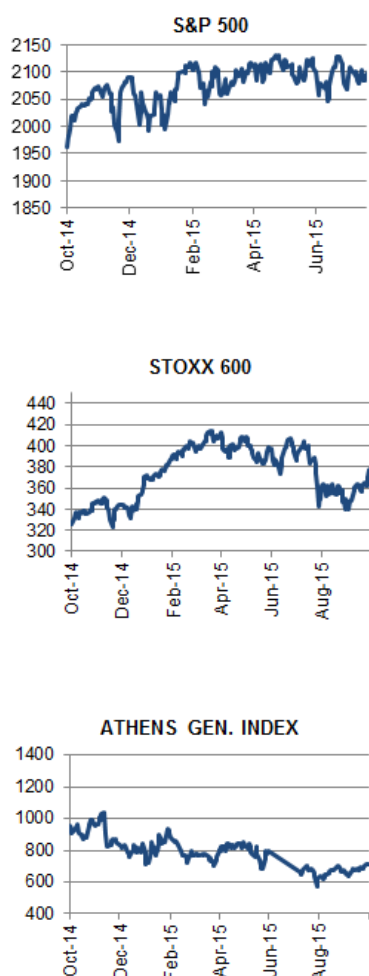
The majority of Asian bourses closed in the black on Monday, following China central bank's decision on Friday to cut its benchmark lending rate and reserve requirement ratio in order to boost Chinese economic activity. In more detail, the 1y lending rate was reduced to 4.35% from 4.6%, the 1y deposit rate was cut to 1.5% from 1.75%, while the reserve requirement ratio fell 50bp to 17.50%. Additionally, the People's Bank of China removed a deposit-rate ceiling in order to further liberalize the interest rate market. In Europe, most equity indices traded lower early on Monday on profit taking, with the Stoxx600 index losing ca. 0.5% from Friday's two-month high of 377.36 points in the wake of the ECB President's hints at the press conference that followed last week's ECB monetary policy meeting for more quantitative policy easing ahead. In FX markets, the EUR remained under pressure amid mounting expectations for further ECB monetary policy easing ahead. The EUR/USD was hovering around 1.1020/30 in European trade at the time of writing, close to the lower boundary of the 1.1100-1.1500 recent range. The outcome of the FOMC policy meeting late on Wednesday will likely play a key role on whether the EUR/USD will be poised for a sustainable move below the 1.1000 support towards 1.080 or lower. On the US data front today, September new home sales take centre stage, while on the euro area, German IFO business climate index for October is also expected to lure market attention.

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### GREECE

Preparation talks ahead of the inception of the 1<sup>st</sup> review of Greece's new (3rd) adjustment concluded late last week with a number of key issues remaining open. According to the local press, some of the most contentious issues include the eligibility thresholds for the protection of primary residency from foreclosure and the VAT rate on private education. The institutions' mission heads left Athens late last week and are reportedly expected to return shortly after the upcoming Eurogroup scheduled for November 9, with an intention the review to be completed swiftly. Meanwhile, European Commission Vice President Valdis Dombrovskis arrived in Athens for a two-day visit. According to the local press, he will meet with Prime Minister Alexis Tsipras and will hold a number of meetings with high-level government officials in an effort to speed up the process for the fulfillment of all pending prior actions. The Euro Working Group (EWG) is scheduled to be held later this week (Thursday, October 29) to deliberate, among others, on Greece's compliance with the programme milestones for the unlocking of the next ESM loan installment amounting to €2bn that was initially planned for mid-October. As things stand at this point, it is reportedly unclear whether the EWG will reach a positive decision or, instead, will request the Greek authorities to proceed with additional legislative work so as to secure further official funding. Separately, the new recapitalization framework is reportedly finalized and, after consultation with the relevant domestic and EU authorities, it is expected to be submitted to Parliament by the end of this week. This purportedly will take place ahead of the banks' stress test results reportedly scheduled to be released on Friday, October 30.

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Source: Reuters, Bloomberg, Eurobank Research

BULGARIA: Indicators	2014e	2015f	2016f
Real GDP growth %	1.7	1.8	2.2
CPI (pa, yoy %)	-1.4	0.3	1.2
Budget Balance/GDP*	-3.7	-2.5	-2.4
Current Account/GDP	0.9	2.0	1.5
EUR/BGN (eop)	1.9558		
	2014	current	2015f
Policy Rate (eop)	N/A	N/A	N/A

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

CYPRUS: Indicators	2014e	2015f	2016f
Real GDP growth %	-2.3	0.4	1.4
HICP (pa, yoy %)	-0.3	-0.8	0.9
Budget Balance/GDP*	-8.8	-1.1	-0.1
Current Account/GDP	-5.1	-3.9	-4.2

\* ESA 2010

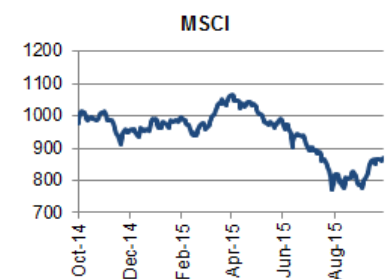
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

ROMANIA: Indicator	2014e	2015f	2016f
Real GDP growth %	2.9	3.4	3.5
CPI (pa, yoy %)	1.1	-0.5	1.8
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.0	-1.5
EUR/RON (eop)	4.40	4.45	4.40
	2014	current	2015f
Policy Rate (eop)	1.75	1.75	2.50

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

SERBIA: Indicators	2014e	2015f	2016f
Real GDP growth %	-1.8	0.0	1.5
CPI (pa, yoy %)	2.1	2.2	3.8
Budget Balance/GDP	-6.7	-5.3	-4.6
Current Account/GDP	-6.0	-4.3	-4.1
EUR/RSD (eop)	120.96	123.00	124.00
	2014	current	2015f
Policy Rate (eop)	8.00	4.50	4.00

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	B+	B-

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

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

### CYPRUS

On Friday evening, FITCH upgraded the sovereign rating of Cyprus by two notches (from B- to B+) with a positive outlook. The decision reflects the track record of fiscal consolidation and over-performance on its fiscal targets. Yet, FITCH identified the high level of NPLs (47.4% of gross loans in August) and the implementations of banking sector reforms as the main risks to the outlook. The news comes on top of late September decision by S&P to raise the long-term sovereign rating of Cyprus by one notch (from B+ to BB-, yet still below investment grade) while maintaining a positive outlook. In all past editions we have extensively discussed the progress of the Cypriot economy in the last two and a half years. Based on our fact findings on the ground and our analysis, we always advocated that Cyprus is a solid turn-around economic story. The signs that the economy is coming out of the woods are becoming more visible. The improvement of many leading indicators of economic activity has continued during Q3 (retail trade, industrial production, construction activity, tourist arrivals). Taking advantage of the favorable markets sentiment and continuous sovereign ratings upgrades, Cyprus is about to tap international markets by the end of the year for the third time since June 2014 with a new 10Y generic bond issuance.

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### ROMANIA

The EUR/RON remains relatively unchanged, staying the entire week in an extremely tight range between 4.4150/320, levels similar to August. Short term money market rates fell towards the central bank's deposit facility rate of 0.25% as the current reserve period ended on Friday, while 1-12M rates remained unchanged from the previous week. On Monday 26 October, there is a large redemption of a RON 7.4bn bond, which will bring extra liquidity to the money market and is expected to keep short term RON rates subdued. RON-denominated government bonds kicked off the week under pressure, with the corresponding 5-10Y benchmark yields increasing some 5bps points by Wednesday compared to the previous week's close, while paper of shorter maturity, of up to 2Y, remained well bid on the back of cheap money market funding. However, the negative tone towards government bonds changed in the aftermath of the ECB meeting on Thursday, with corresponding paper staging a significant recovery over the last couple sessions of the week. As a result, the 3Y yield moved some 5bps lower to 1.80% compared to the previous week's close and the 5Y yield decreased 5bps to 2.30%. However, the 10Y merely recovered its losses from the first part of the week and closed at 3.43, little changed on a weekly basis.

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### SERBIA

Despite the euro underperformance against most currencies worldwide on increased likelihood for a ECB QE extension, the EUR/RSD moved towards a 2-week high near 120.20/40 last week. The move was primarily driven by ongoing strength of hard currency demand. In our view, the uptrend is likely to run out of steam soon, which could lead to stabilization and gradual easing towards 120.0. Potential for further ECB stimulus is deeming RSD bonds more attractive and is likely to provide more leeway to local issuers to maintain low rates. We are still holding our stance that EUR/RSD will keep hovering within its 119.80 – 120.50 range until the end of 2015.

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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	2075.15	1.1%	0.8%	EUR/USD	1.1026	0.1%	-8.9%	UST - 10yr	2.08	0	-9	GOLD	1166	0.1%	-1.6%
Nikkei 225	18947.12	0.6%	8.6%	GBP/USD	1.5345	0.2%	-1.5%	Bund-10yr	0.51	-1	-4	BRENT CRUDE	48	0.6%	-15.8%
STOXX 600	376.59	-0.2%	9.9%	USD/JPY	121.04	0.3%	-1.1%	JGB - 10yr	0.32	2	-1	LMEX	2360	-0.5%	-19.0%

## CESEE MARKETS

## SERBIA

## Money Market

	Last	ΔDbps	ΔYTD bps
BELIBOR			
T/N	304	0	-687
1-week	3.19	0	-682
1-month	3.59	1	-646
3-month	3.93	-6	-592
6-month	4.14	-8	-565

## RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.68	-2	-440
5Y RSD	6.59	0	-359
7Y RSD	6.72	0	-536

## RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.07	0	-119
USD Nov-24	6.41	-1	-18

## CDS

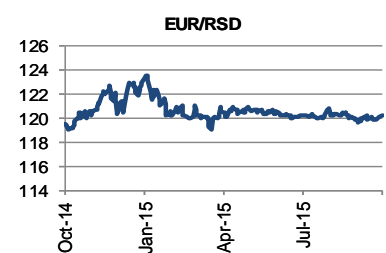
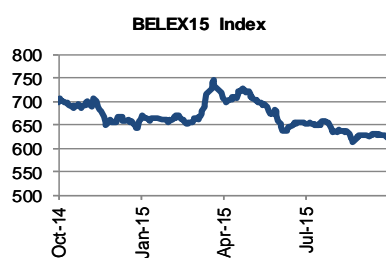
	Last	ΔDbps	ΔYTD bps
5-year	293	0	3
10-year	338	0	-18

## STOCKS

	Last	ΔD	ΔYTD
BELEX15	623.1	-0.15%	-6.59%

## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.19	0.06%	0.97%



## ROMANIA

## Money Market

	Last	ΔDbps	ΔYTD bps
ROBOR			
O/N	1.09	41	52
1-month	1.14	-7	23
3-month	1.28	-5	-42
6-month	1.52	-6	-49
12-month	1.64	-4	-38

## RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.63	-1	-68
5Y RON	2.05	-2	-66
10Y RON	3.42	-1	-24

## RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	1.21	-3	-52
USD Aug-23	3.48	0	-13

## CDS

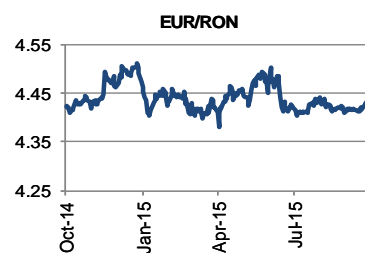
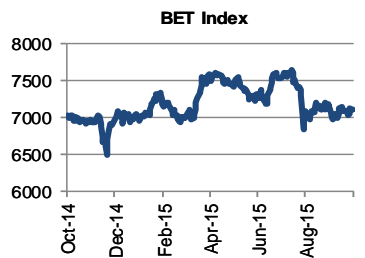
	Last	ΔDbps	ΔYTD bps
5-year	128	-4	-15
10-year	169	-4	-18

## STOCKS

	Last	ΔD	ΔYTD
BET	7111.7	-0.18%	0.41%

## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4338	0.05%	1.12%



## BULGARIA

## Money Market

	Last	ΔDbps	ΔYTD bps
SOFIBOR			
LEONIA	0.01	0	-1
1-month	0.18	0	-4
3-month	0.32	0	-12
6-month	0.58	0	-21
12-month	1.16	-1	-35

## BG Local Bonds

	Last	ΔDbps	ΔYTD bps
(yields)			
3Y BGN	0.25	2	-79
5Y BGN	0.57	-4	-88
10Y BGN	2.05	0	-70

## BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.34	0	-82
EUR Sep-24	2.57	32	-30

## CDS

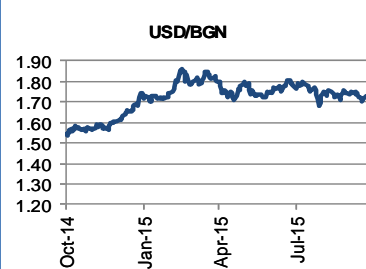
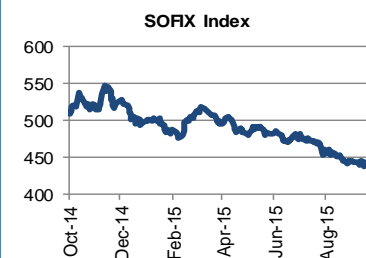
	Last	ΔDbps	ΔYTD bps
5-year	164	10	-27
10-year	211	14	-30

## STOCKS

	Last	ΔD	ΔYTD
SOFIX	446.7	-0.01%	-14.44%

## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7738	0.08%	-8.87%



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

Data updated as of 11:50 EEST



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