

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

July 1, 2014

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- June 30
 - Chicago PMI (Jun)
 - Pending home sales (May)
- July 1: ISM manufacturing index (Jun)
- July 2
 - ADP employment report (Jun)
 - July 3
 - Non-farm payrolls (Jun)

EUROZONE

- June 30: CPI Jun
- July 3: ECB policy meeting

SEE

SERBIA

- June 30
 - GDP (Q1, f)
 - Industrial production (May)
 - Trade Balance (May)
 - Retail sales (May)

ROMANIA

- July 1
 - International reserves (Jun)
 - MPC meeting
- July 2
 - Retail sales (May)
 - GDP (Q1, f)

BULGARIA

- June 30: Budget balance (May)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Broad-based **USD weakness** continued to prevail in European trade on Tuesday on the back of market concerns about a slower than earlier anticipated economic recovery in Q2. Against this background, the EUR/USD extended its recent gains hitting a five-week high of 1.3695 in early European trade. Data released y-day that **euro area annual inflation** was unchanged at a four-year low of 0.5% in June was largely shrugged off.

GREECE: The **retail trade volume index**, including automotive fuel, rose by 7.3%YoY in April, the biggest annual pace of increase in near four years. In other news, **deposits & repos of domestic households and non-financial corporations in Greek MFIs excluding the Bank of Greece (BoG)** edged up by €0.701mn in May, marking the third monthly increase in a row, while **credit to domestic non-MFIs residents by domestic MFIs excluding the Bank of Greece**, shrunk by 4.4%YoY in May, the 36th consecutive monthly contraction.

SOUTH EASTERN EUROPE

SERBIA: According to the final estimate, real GDP rose by 0.1%YoY in Q1, revised lower from a previous estimate of 0.4%YoY.

ROMANIA: Romanian Central Bank holds its MPC meeting later in the day. The market's median forecast is for the benchmark key policy rate to remain unchanged at 3.50%. That said, a cut in the foreign currency minimum reserve requirements ratio cannot be ruled out entirely.

BULGARIA: Bulgaria's budget balance swung to a deficit of BGN 888.6mn over the first five months of the year from a BNG 45.5mn surplus recorded over the same period a year earlier.

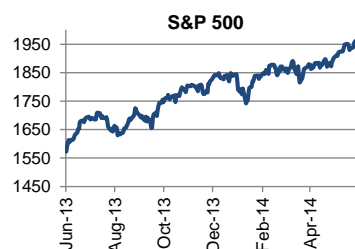
CESEE Markets: Emerging stock markets kicked off the week on a positive footing, with most indices in the **CESEE region** closing in the black on Monday. **In the FX markets**, the Polish zloty remained under pressure ahead of the Central Bank monetary policy meeting on Wednesday, where the key policy rate is expected to remain unchanged at its record low level of 2.50%.

DISCLAIMER

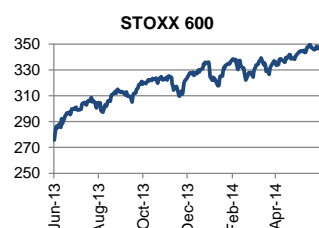
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Latest world economic & market developments

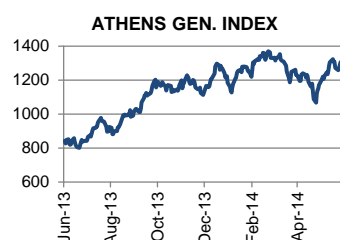
GLOBAL MARKETS



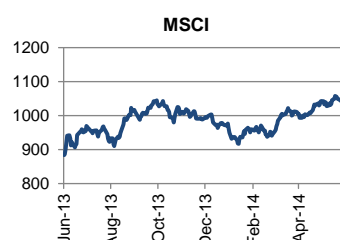
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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Source: Reuters, Bloomberg, Eurobank Global Markets Research

Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	B1	BB-	B+
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BBB-	BBB-
CYPRUS	Caa3	B	B-

Source: Reuters, Bloomberg, Eurobank Global Markets Research

Broad-based USD weakness continued to prevail in European trade on Tuesday on the back of market concerns about a slower than earlier anticipated economic recovery in Q2 after US GDP contracted by a surprisingly high 2.9% in the January-March period. The EUR/USD extended its recent gains hitting a five-week high of 1.3695 in early European trade. Data released y-day that **euro area annual inflation** was unchanged at a four-year low of 0.5% in June was largely shrugged off. The ECB policy meeting on Thursday takes centre stage this week. Following the ECB announcement at the June policy meeting of a package of measures aiming to address deflation risks and boost liquidity to SMEs, the Central Bank is not expected to take any further action this time around. Yet, in view of persisting deflation worries, President Mario Draghi is expected to signal that the QE option remains on the table, suggesting that any further near-term EUR/USD appreciation is likely to prove limited and short-lived. Technically, the next upside target stands at the key Fibonacci level of 1.3745.

GREECE

The **retail trade volume index**, including automotive fuel, rose by 7.3%YoY in April, the biggest annual pace of increase in near four years, after falling by a downwardly revised 1.2%YoY in the prior month. In other news, **deposits & repos of domestic households and non-financial corporations in Greek MFIs excluding the Bank of Greece (BoG)** edged up by €0.701mn in May, marking the third monthly increase in a row, coming in at a five month high of €162.1bn. Separately, **credit to domestic non-MFIs residents by domestic MFIs excluding the Bank of Greece**, shrunk by 4.4%YoY in May, the 36th consecutive monthly contraction, reflecting subdued domestic demand for credit on the back of high unemployment and elevated borrowing cost.

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Latest developments in the CESEE region

CESEE markets

Emerging stock markets kicked off the week on a positive footing, with most indices in the **CESEE region** closing in the black on Monday. Bulgaria's SOFIX index rebounded by 5.8% after the country's President Rosen Plevneliev reassured depositors over the weekend that their money is safe and guaranteed following recent runs in two domestic commercial banks. News that the European Commission approved on Monday a BGN 3.3bn (\$2.3bn) credit line requested from Bulgaria in support of domestic banks also favored. **Regional currencies** closed little changed on Monday. The Polish zloty remained under pressure ahead of the Central Bank (NBP) monetary policy meeting on Wednesday. The market's median forecast is for the key policy rate to remain unchanged at its record low level of 2.50%. However, market talk for lower interest rates ahead has lately emerged as CPI remains persistently below the NBP 2.5%+/-1% inflation target while concerns linger about a slower than earlier anticipated economic recovery ahead. Adding to the latter, FinMin Mateusz Szczurek said on Monday that domestic economic activity may decelerate in the second quarter of the year from 3.4%YoY in Q1 2014. Moreover, June's PMI unexpectedly eased to 50.3 from 50.8 a month earlier, remaining however above the 50 boom-or-bust level indicating continued expansion in the sector. In the **local rates markets**, Hungarian government bonds came under pressure on Monday, giving back some of their recent gains as a bill submitted to parliament on Monday added to concerns about the domestic banking sector's outlook ahead.

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SERBIA: Indicators	2012	2013e	2014f
Real GDP growth %	-1.5	2.5	1.0
CPI (pa, yoy %)	7.8	7.8	3.5
Budget Balance/GDP	-7.5	-5.8	-7.1
Current Account/GDP	-10.9	-5.0	-4.2
EUR/RSD (eop)	112.37	114.57	116.50
	2013	current	2014f
Policy Rate (eop)	9.50	9.00	9.00

Source: EC Economic Forecasts, Reuters, Bloomberg,
Eurobank Global Markets Research, local authorities

SERBIA

(Belgrade, 30/6/2014, 20:00 CET): **Latest Political & Macro Developments:** According to the final estimate, real GDP rose by 0.1%YoY in Q1, revised lower from a flash reading of 0.4%YoY. Economic activity is anticipated to post a lackluster performance this year, as adverse weather conditions in May are assumed to have taken a significant toll on several sectors of the domestic economy. In support of the aforementioned, Finance Minister Lazar Krstic suggested recently that the government now expects economic growth to come in between -0.5% and 0.0%, vs. a previous forecast of ca 1.0%YoY. The impact of recent floodings was markedly evident in May's industrial production data, which showed a 7.0%YoY fall vs. a 1.9%YoY rise a month earlier. In other news, Serbia's trade deficit narrowed by 21%YoY to €1.6bn over the first five months of the year. **Market Developments:** The EUR/RSD was little changed on Monday, closing at 115.60/80 after opening at 115.70/90. Looking ahead, range-trading within 115.55/75 – 115.65/85 is expected to prevail over the next few sessions.

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ROMANIA: Indicators	2012	2013e	2014f
Real GDP growth %	0.6	3.5	3.0
CPI (pa, yoy %)	3.3	4.0	2.3
Budget Balance/GDP	-3.0	-2.3	2.2
Current Account/GDP	-4.4	-1.1	-1.2
EUR/RON (eop)	4.44	4.46	4.40
	2013	current	2014f
Policy Rate (eop)	4.00	3.50	3.50

Source: EC Economic Forecasts, Reuters, Bloomberg,
Eurobank Global Markets Research, local authorities

ROMANIA

(Bucharest, 1/7/2014, 09:00 EET): **Latest Political & Macro Developments:** Romanian Central Bank holds its MPC meeting later in the day. The market's median forecast is for the benchmark key policy rate to remain unchanged at 3.50%. That said, a cut in the foreign currency minimum reserve requirements ratio cannot be ruled out entirely. **Market Developments:** The EUR/RON remained range-bound within 4.3800-4.3900 on Monday. Meanwhile, money market rates for short term tenors (up to 1 week) edged higher from 2.50% in the prior session to 2.75%, while that for 1 month tenor rose by 25bp to 2.00%. Three-twelve month rates remained largely unchanged at 1.75% on average. Domestic government bonds extended their recent gains on Monday with the positive impact being more pronounced at the mid and long – end of the benchmark yield curve. Yields for 3Y, 5Y and 10Y paper eased by ca 5bps each to close at 2.95%, 3.35% and 4.35%, respectively.

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BULGARIA: Indicators	2012	2013e	2014f
Real GDP growth %	0.6	0.9	1.8
CPI (pa, yoy %)	3.0	0.9	-0.2
Budget Balance/GDP	-0.8	-1.5	-1.8
Current Account/GDP	-0.9	1.9	1.0
EUR/BGN (eop)		1.95583	
	current	2013	2014f
Policy Rate (eop)	N/A	N/A	N/A

Source: EC Economic Forecasts, Reuters, Bloomberg,
Eurobank Global Markets Research, local authorities

BULGARIA

(Sofia, 30/6/2014, 21:00 EET): **Latest Political & Macro Developments:** Bulgaria's budget balance swung to a deficit of BGN 888.6mn over the first five months of the year from a BNG 45.5mn surplus recorded over the same period a year earlier, amid higher social spending and increased expenditure for EU co-financed projects. In GDP percent the deficit corresponded to 1.1% in January-May, compared to the government's full-year target for a 1.8% fiscal shortfall. Risks to the official target seem skewed to the upside in view of potential increased spending in the run-up to autumn's general elections and a possibly slower than anticipated economic recovery. **Market Developments:** The domestic stock market rebounded on Monday after the President and the European Commission somewhat eased concerns about the domestic banking sector's outlook. Further upside in the coming sessions is likely as the recent Corpbank depositor run is deemed as idiosyncratic and is unlikely to have a significant and long-lasting impact on the domestic banking system.

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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	1960.23	0.0%	6.1%	EUR/USD	1.368	-0.1%	-0.5%	UST - 10yr	2.55	2	-48	GOLD	1327	0.0%	10.1%
Nikkei 225	15326.20	1.1%	-5.9%	GBP/USD	1.7132	0.1%	3.5%	Bund-10yr	1.26	2	-67	BRENT CRUDE	182	0.0%	8.6%
STOXX 600	343.48	0.5%	4.6%	USD/JPY	101.56	-0.2%	3.7%	JGB - 10yr	0.56	-1	-18	LMEX	3208	0.8%	1.5%

SEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	6.70	0	-131
1-week	6.98	0	-130
1-month	7.27	0	-131
3-month	7.76	0	-112
6-month	8.07	0	-108

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.22	0	-74
5Y RSD	11.01	0	-181
7Y RSD	11.77	0	-203

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.75	-2	-126
USD Nov-24	1.71	-483	-520

CDS

	Last	ΔDbps	ΔYTD bps
5-year	268	8	-141
10-year	315	8	-132

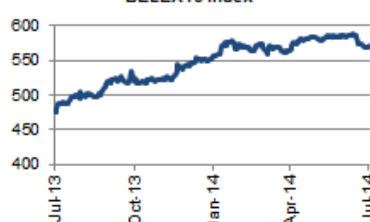
STOCKS

	Last	ΔD	ΔYTD
BELEX15	572.4	0.47%	2.59%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	115.4	-0.24%	-1.03%

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.36	-4	62
1-month	2.07	-1	19
3-month	2.41	-1	-3
6-month	2.73	0	-26
12-month	2.81	-1	-34

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.68	-4	-127
5Y RON	3.14	-5	-151
10Y RON	4.35	-4	-95

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	2.40	1	-144
USD Aug-23	4.00	2	-80

CDS

	Last	ΔDbps	ΔYTD bps
5-year	135	#N/A	-50
10-year	#N/A	#N/A	#VALUE!

STOCKS

	Last	ΔD	ΔYTD
BET	7019.3	0.08%	8.09%

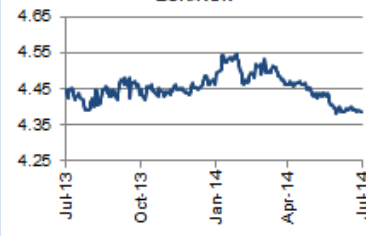
FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.3838	0.03%	2.03%

BET Index



EUR/RON



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.03	0	-4
1-month	0.25	0	-7
3-month	0.53	0	-11
6-month	1.00	0	-16
12-month	1.92	0	-28

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	1.08	1	-1
5Y BGN	1.65	0	-19
10Y BGN	3.06	0	-43

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	1.25	15	67
EUR Jul-17	1.71	-26	-10

CDS

	Last	ΔDbps	ΔYTD bps
5-year	119	#N/A	-5
10-year	#N/A	#N/A	#VALUE!

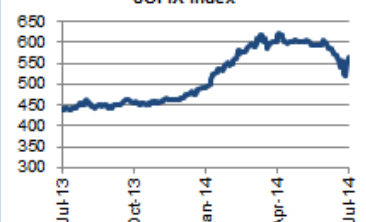
STOCKS

	Last	ΔD	ΔYTD
SOFIX	565.4	2.53%	15.02%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.4299	-0.10%	-0.48%

SOFIX Index



USD/BGN



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