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Eurobank

DAILY OVERVIEW
OF GLOBAL MARKETS & THE SEE REGION

Thursday, June 11, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL
- June 7-8: G7 Summit

US
- June 11
  - Initial jobless claims (June 5)
  - Retail sales (May)
- June 12: UoM consumer sentiment (Jun)

GREECE
- June 9: industrial production (Apr)
- June 10
  - T-Bills auction
  - CPI (May)
  - HICP (May)
- June 11: U/E rate (Q1)
- June 12: IMF loan repayment (c. €350m)

CYPRUS
- June 9
  - HICP (May)
  - GDP (Q1, f)

SEE

BULGARIA
- June 8
  - Industrial production (Apr)
  - Retail sales (Apr)
- June 9: Trade balance (Apr)

ROMANIA
- June 8
  - Net wages (Apr)
  - 5.95% 2021 T-Bonds auction
- June 10
  - Industrial sales (Apr)
  - Trade balance (Apr)
- June 11: CPI (May)
- June 12: Industrial production (Apr)

SERBIA
- June 11: MPC meeting
- June 12: HICP (May)

Source: Reuters, Bloomberg, Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

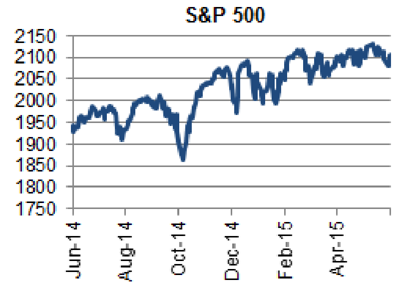
GREECE: Greece's Prime Minister held talks with Germany's Chancellor and France's President late y-day in the sidelines of the EU-CELAC summit and agreed that negotiations between Greece and official creditors should intensify. / In its weekly non-monetary policy meeting y-day, the ECB renewed its approval to the provision of the ELA facility to Greek banks and increased the funding ceiling by €2.3bn to €83bn. /S&P lowered Greece's sovereign credit rating by one notch further into junk territory, to CCC from CCC+ with a negative outlook. / On the data front the annual inflation rate based on the HICP stood at -1.43% in May, marking the 27th consecutive negative annual growth rate.

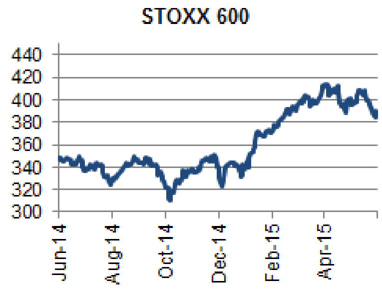
CYPRUS: In its 2014 Annual Report, published yesterday, the Central Bank of Cyprus (CBC) revised lower its real GDP forecasts for 2015 and 2016 to 0.2% (from 0.8%) and to 1.3%YoY (from 2.1%), respectively, citing risks stemming from the external environment.

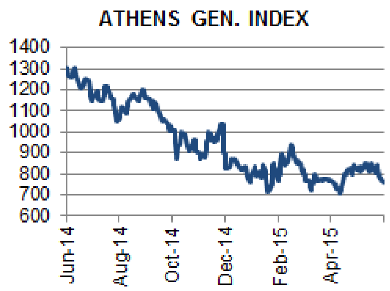
SOUTH EASTERN EUROPE

CESEE MARKETS: Emerging stock markets closed higher on Wednesday recovering some of their recent losses from a modestly weaker US dollar. **CESEE currencies** firmed amid scaled back expectations for further monetary easing by Central Banks in the region, while the US dollar's latest pull-back also provided support.

Latest world economic & market developments







Source: Reuters, Bloomberg, Eurobank Research

CYPRUS: Indicators	*2013*	*2014e*	*2015f*
Real GDP growth %	-5.4	-2.3	0.4
HICP (pa, yoy %)	0.4	-0.3	-0.8
*Budget Balance/GDP**	-4.9	-8.8	-1.1
Current Account/GDP	-3.0	-5.1	-3.9

** ESA 2010*

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

GREECE

Greece's Prime Minister held talks with Germany's Chancellor and France's President late y-day in the sidelines of the EU-CELAC summit and agreed that negotiations between Greece and official creditors should intensify. In a statement released soon after, a German government spokesman said that official deliberations on the Greek issue "should be pursued with great intensity". Echoing the above in his brief comment to reporters, the Greek Premier said that it was agreed that efforts for bridging the remaining contentious issues should be stepped up and he expressed his view that EU leaders may realize that there is need "for a viable solution to allow Greece to return, with social cohesion and security, to economic growth with sustainable public debt". Mr. Tsipras is reportedly expected to meet EU Commission n President Jean-Claude Juncker today in Brussels. Fuelling optimism for an agreement in the coming few days, **Eurogroup President Jeroen Dijsselbolem** said that "only a few issues" still remain open and that the two sides could seal a deal by the next scheduled Eurogroup on June 18 warning though that time is running out fast. Adopting a similar encouraging tone, **EU Commissioner for Economic Affairs Pierre Moscovici** stated that technical discussions should continue and expressed belief that a deal is possible "more than ever… if the political will is shared by all". According to the local press, Greece is considering to request an extension of its current arrangement by nine months to March 2016 provided that official creditors accept the government's debt relief proposals that were laid out in the supplementary document sent earlier this week. These proposals reportedly include, among others: (i) repayment of the GGBs, currently held by the Eurosystem, due in July and August 2015 for a c. €6.7bn notional amount cumulatively, with refinancing from the ESM; (ii) access to the remaining funds for bank recapitalization and resolution purposes amounting to €10.9bn; and (iii) increase in the T-bills issue by c. €3bn (from €15bn currently). As per the same sources, the Greek government may, in return, accept to make some more difficult concessions regarding the general government primary surplus target. Meanwhile, rumors circulated in local newswires y-day suggesting that the German Chancellor may be prepared to endorse release of further official funding to Greece provided that the Greek government commits to at least one economic reform sought by official creditors.

In its weekly non-monetary policy meeting y-day, **the ECB renewed its approval to the provision of the ELA facility to Greek banks and increased the funding ceiling by €2.3bn to €83bn.** According to reports, Greek banks retain a liquidity buffer of c. €2-3bn.

S&P lowered Greece's sovereign credit rating by one notch further into junk territory, to CCC from CCC+ with a negative outlook. In the accompanying statement, the ratings agency said that Greece's decision to delay the IMF debt payment due in June 5 appears to suggest that the government prioritizes pension payments and other domestic spending over its scheduled debt-service obligations.

On the data front **the annual inflation rate based on the HICP** stood at -1.43% in May (-2.15% based on national CPI) vs. -1.81% in April, marking the 27th consecutive negative annual growth rate.

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CYPRUS

In its 2014 Annual Report, published yesterday, the Central Bank of Cyprus (CBC) revised lower its real GDP forecasts for 2015 and 2016 to 0.2% (from 0.8%) and to 1.3%YoY (from 2.1%), respectively, citing risks stemming from the external environment. For 2017, the CBC expects a further recovery in growth to 1.8%.

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BULGARIA: Indicators	2013	2014e	2015f
Real GDP growth %	1.1	1.7	1.8
CPI (pa, yoy %)	0.9	-1.4	-0.5
Budget Balance/GDP*	-1.8	-3.7	-3.0
Current Account/GDP	1.0	0.9	0.5
EUR/BGN (eop)	1.9558		
	current	2014	2015f
Policy Rate (eop)	N/A	N/A	N/A

** on a cash basis*

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

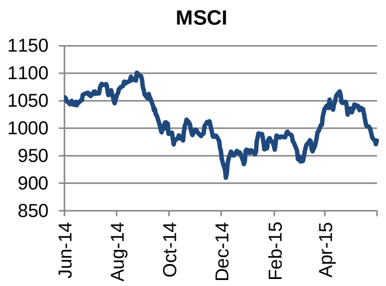
ROMANIA: Indicators	2013	2014e	2015f
Real GDP growth %	3.4	2.9	3.1
CPI (pa, yoy %)	4.0	1.1	0.3
Budget Balance/GDP *	-2.2	-1.9	-1.9
Current Account/GDP	-0.8	-0.4	-1.0
EUR/RON (eop)	4.46	4.40	4.45
	2014	current	2015f
Policy Rate (eop)	2.75	1.75	1.75

** on a cash basis*

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2013	2014e	2015f
Real GDP growth %	2.6	-1.8	0.0
CPI (pa, yoy %)	7.9	2.2	3.0
Budget Balance/GDP	-5.6	-7.5	-5.9
Current Account/GDP	-6.1	-6.1	-4.7
EUR/RSD (eop)	114.60	120.96	123.00
	2014	current	2015f
Policy Rate (eop)	8.00	6.50	6.00

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

CESEE MARKETS

Emerging stock markets closed higher on Wednesday recovering some of their recent losses from a modestly weaker US dollar. In more detail, the MSCI Emerging Markets index closed ca 0.7% higher on the day, snapping a 12-session losing streak and bouncing from a 2-½-month trough hit on Tuesday on the back of heightened expectations about a Fed rate hike sooner rather than later following last week's upbeat NFPs data. Bourses in the **CESEE region** ended mixed, with Turkey's BIST 100 index and Poland's WIG leading the winners' pack to register respective gains to the tune of 2.1% and 1.5%. The former rose for the second consecutive session and sheered further away from an 8-month low hit earlier in the week, after real GDP data for Q1 2015 came in stronger than anticipated, with growth of 2.3%YoY outperforming a market's median forecast of 1.7%YoY.

CESEE currencies firmed amid scaled back expectations for further monetary easing by Central Banks in the region, while the US dollar's latest pull-back also provided support. The National Bank of Poland signaled at its MPC meeting in March the end of its rate-cutting cycle, meanwhile higher-than-expected inflation data for May, released earlier in the week in Hungary, raised doubt about how much further can the MNB go on cutting interest rates in the months ahead.

At today's **MPC meeting in Serbia**, we would assign a higher-than-even probability for the Central Bank to stay put on interest rates in view of heightened external risks, albeit the market's consensus is for a 25bps reduction to a new record low of 6.25% at the NBS key policy rate after three consecutive rate cuts of 50bps in March, April and May. In support of our view, although inflation remains well below the lower bound of the 4±1.5% target tolerance band (HICP at 1.8%YoY in April) and domestic demand dynamics continue to be weak, mounting external risks argue in favor of stable interest rates. The latter was also echoed by the NBS Governor recently, suggesting "cautious" monetary easing ahead given "external pressures". With little progress having been made on the restructuring and privatization processes of state owned enterprises, as agreed under the country's precautionary Stand-By Arrangement with the IMF, the NBS may opt to wait for further concrete signs of the government's fiscal consolidation efforts. Looking further ahead, we reiterate that the door is open for additional monetary easing, especially if inflation keeps undershooting expectations. However, the room for such action is limited and any rate-cut moves are likely to be of measured size amid lingering external uncertainties and fiscal consolidation risks. Also, the KPR has rather limited potential to stimulate credit (ca 70% of loans are EUR-linked). The likelihood for the key policy rate being reduced to levels below 6.00% is present, though such hefty easing may weigh on the local bond markets.

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GLOBAL MARKETS

Stock markets	Last	ΔD	ΔYTD	FOREX	Last	ΔD	ΔYTD	Government Bonds (yields)	Last	ΔDbps	ΔYTD bps	Commodities	Last	ΔD	ΔYTD
S&P 500	2105.20	1.2%	2.2%	EUR/USD	1.1298	-0.2%	-6.6%	UST - 10yr	2.48	0	31	GOLD	1186	-0.1%	0.1%
Nikkei 225	20382.97	1.7%	16.8%	GBP/USD	1.5462	-0.4%	-0.7%	Bund-10yr	1.01	3	47	BRENT CRUDE	184	0.0%	5.3%
STOXX 600	390.78	1.8%	14.1%	USD/JPY	123.23	-0.4%	-2.9%	JGB - 10yr	0.53	2	20	LMEX	2751	0.7%	-5.6%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	494	-2	-497
1-week	5.13	-4	-488
1-month	5.57	-3	-448
3-month	6.06	3	-379
6-month	6.34	4	-345

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	7.00	-2	-208
5Y RSD	8.27	2	-191
7Y RSD	8.75	0	-333

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.72	-1	-54
USD Nov-24	6.46	1	-13

CDS

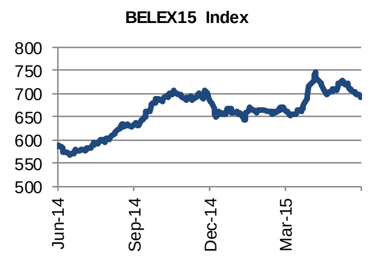
	Last	ΔDbps	ΔYTD bps
5-year	198	0	-92
10-year	248	0	-109

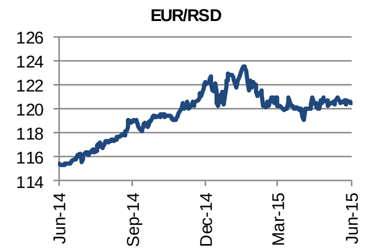
STOCKS

	Last	ΔD	ΔYTD
BELEX15	691.6	-0.67%	3.69%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.53	0.06%	0.68%





ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.61	0	4
1-month	1	0	9
3-month	1.24	0	-46
6-month	1.51	0	-50
12-month	1.56	0	-46

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.10	0	-21
5Y RON	2.76	0	5
10Y RON	3.92	0	26

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	1.80	1	7
USD Aug-23	3.95	0	33

CDS

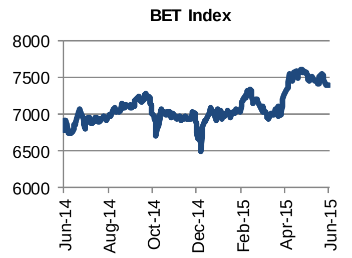
	Last	ΔDbps	ΔYTD bps
5-year	115	0	-27
10-year	160	0	-27

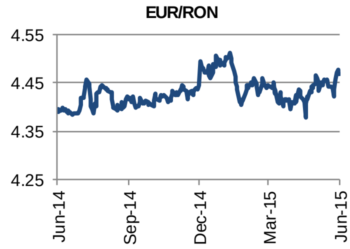
STOCKS

	Last	ΔD	ΔYTD
BET	7399.8	0.04%	4.47%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4675	0.01%	0.36%





BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.02	0	0
1-month	0.18	1	-4
3-month	0.35	1	-9
6-month	0.68	1	-11
12-month	1.26	0	-25

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.46	-1	-56
5Y BGN	0.89	-1	-55
10Y BGN	2.63	0	-12

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.91	0	-25
EUR Sep-24	2.92	79	5

CDS

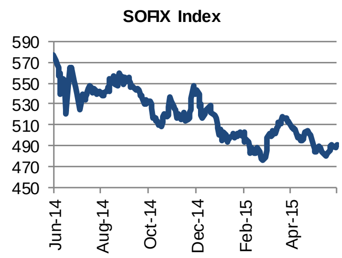
	Last	ΔDbps	ΔYTD bps
5-year	170	-4	-21
10-year	219	-4	-21

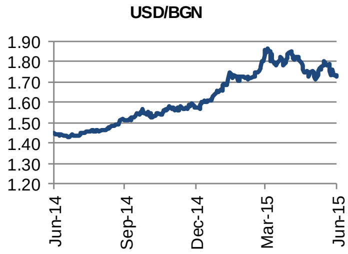
STOCKS

	Last	ΔD	ΔYTD
SOFIX	490.9	0.29%	-5.98%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7311	-0.23%	-6.62%





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

Data updated as of 09:50 EET

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