

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

August 1, 2014

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- July 28: Pending home sales (Jun)
- July 29: CB consumer confidence (Jul)
- July 30
 - ADP employment (Jul)
 - GDP (A, Q2)
 - FOMC interest rate announcement
- July 31: Initial jobless claims (Jul 26)
- August 1
 - NF Payrolls (Jul)
 - U/E rate (Jul)
 - UoM consumer sentiment (Aug)
 - ISM manufacturing (Jul)

EUROZONE

- July 31: HICP (Jul)
- August 1: PMI (Jul)

SEE

SERBIA

- July 29: 2-Y EUR T-bonds auction
- July 31
 - GDP (Q2, p)
 - Industrial production (Jun)
 - Trade balance (Jun)
 - Retail sales (Jun)

ROMANIA

- Jul 28: RON 687mn 4.75% 2025 T-bond auction
- August 1: International reserves (Jul)

BULGARIA

- July 31: Budget balance (Jun)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

Taking their lead from losses in **Wall Street** overnight, **Asian and European stock markets** broadly fell on Friday amid disappointing corporate earnings reports, persisting geopolitical tensions in Ukraine and news that Argentina has defaulted on its debt for the second time in 13 years. In the **FX markets**, the **EUR** remained under pressure after July's inflation fell to a 5-year trough of 0.4%YoY supporting the case for further ECB monetary easing ahead. On the flipside, optimism about the prospects of the US economic recovery has favored the US dollar over recent weeks.

GREECE: Greece's **PMI Manufacturing Index** remained below the boom-or-bust level of 50 for the second consecutive month in July coming in at a nine-month trough of 48.7 vs. 49.4 in June, in view of declines in production and new orders. Yet, new export orders rose for the third month running. In other news, **Moody's is expected to issue its review on Greece's sovereign credit ratings later today** (23:00 EET).

SOUTH EASTERN EUROPE

SERBIA: Real GDP growth came in at 1.1%YoY in Q2, with the pace of expansion picking up pace from 0.1%YoY in the prior quarter.

ROMANIA: The leu recoiled on Thursday's session, in line with other regional currencies.

BULGARIA: Bulgaria's budget ran a deficit of BGN 995.6mn year-to-June, marking a deterioration from a shortfall of just BGN 7.6mn recorded over the same period a year earlier.

CESEE MARKETS: Tracking losses in global bourses, **emerging stock markets** broadly fell in European trade on Friday, poised to end the week on a negative footing. In a similar vein, **CESEE currencies broadly recoiled** earlier on Friday.

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Latest world economic & market developments

GLOBAL MARKETS

Taking their lead from losses in **Wall Street** overnight, **Asian and European stock markets** broadly fell on Friday amid disappointing corporate earnings reports, persisting geopolitical tensions in Ukraine and news that Argentina has defaulted on its debt for the second time in 13 years. These factors largely overshadowed news that China's official PMI beat market expectations rising to 51.7 in July and expanding at its fastest pace in two years, a development which added to optimism that the world's second largest economy is picking up pace. Meanwhile, caution prevailed ahead of the US non-farm payrolls report for July due for release later on the day. The market's median forecast is for a 230k increase following a 288k rise in the prior month, while the rate of unemployment is expected to remain unchanged at June's 6-year low of 6.1%. In the **FX markets**, the **EUR** remained under pressure after July's inflation, released yesterday, fell to a 5-year trough of 0.4%YoY supporting the case for further ECB monetary easing ahead. On the flipside, optimism about a continuation of the US economic recovery has favored the US dollar over recent weeks. Against this backdrop, the EUR/USD hovered around levels of 1.3393/97 at the time of writing, standing within distance from a 9-month trough of 1.3365 hit earlier in the week. Meanwhile, the **DXY** dollar index, which measures the greenback's performance against a basket of six major currencies, stood at 81.492 earlier today, just off a 10-month peak of 81.573 achieved in the prior session.

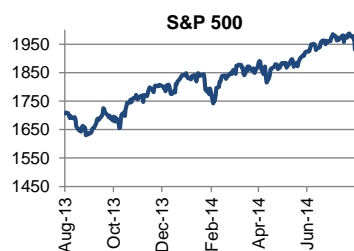
GREECE

Greece's PMI Manufacturing Index remained below the boom-or-bust level of 50 for the second consecutive month in July coming in at a nine-month trough of 48.7 vs. 49.4 in June, in view of declines in production and new orders. Yet, new export orders rose for the third month running. In other news, **Moody's is expected to issue its review on Greece's sovereign credit ratings later today** (23:00 EET). Recall that, the agency currently rates the country's foreign currency long-term debt at Caa3.

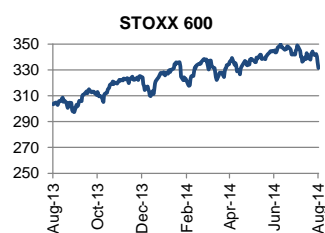
Latest developments in the CESEE region

CESEE MARKETS

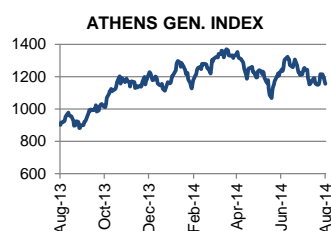
Tracking losses in global bourses, **emerging stock markets** broadly fell in European trade on Friday, poised to end the week on a negative footing. Recent upbeat US macroeconomic data, such as a higher-than-expected increase of 4% (vs. 3% anticipated) in Q2 GDP growth, and the Fed's post-MPC statement on Wednesday, where the FOMC upgraded its assessment of the US economy, weighed on regional assets over recent days. Additionally, news about Argentina's default also weighed in emerging market bourses, while persisting geopolitical jitters have raised concerns about a negative impact on the prospects of CESEE economies. In support of the aforementioned, Poland's Deputy Prime Minister was quoted as saying earlier in the week to local media that the sanctions between EU and Russia as a result of the current crisis in Ukraine are expected to curb real GDP growth by 0.6 ppts this year. Meanwhile, July's PMI data, released earlier today, revealed that manufacturing activity fell for the first time in 13 months. Against this backdrop, **CESEE currencies** broadly recoiled earlier on Friday. The Polish zloty slid to a 2-½-month trough of 4.1930/EUR as deteriorating growth prospects ahead have recently fanned speculation about potential Central Bank monetary easing in the coming months. Elsewhere, the Hungarian forint hit its lowest level since mid-March at 315.12/EUR at some point on Friday as 490bps of cumulative monetary policy rate cuts since August 2012 have weighed on the currency's carry allure.



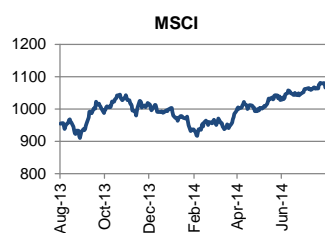
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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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

SERBIA: Indicators	2012	2013e	2014f
Real GDP growth %	-1.5	2.5	-0.4
CPI (pa, yoy %)	7.8	7.8	2.5
Budget Balance/GDP	-7.5	-5.8	-8.0
Current Account/GDP	-10.9	-5.0	-4.2
EUR/RSD (eop)	112.37	114.57	117.00
	2013	current	2014f
Policy Rate (eop)	9.50	8.50	8.00

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

SERBIA

(Belgrade, 31/7/2014, 17:00 CET): **Latest Political & Macro Developments:** According to the Q2 flash estimate, real GDP growth came in at 1.1%YoY, with the pace of expansion picking up pace from 0.1%YoY in the prior quarter. The final data will be released on September 30th. At the same time, retail sales increased by 4.6%YoY in real terms in June, bringing an aggregate annual rate of increase over the first half of the year to 1.9%. The said data suggest a slightly better than previously anticipated picture for this year's economic activity, with adverse weather conditions a couple of months earlier anticipated to push real GDP growth into a negative territory in 2014. **Market Developments:** The EUR/RSD was little changed on Thursday closing at 116.70/90, after the Central Bank intervened in the FX markets anew selling ca €10mn in order to support the dinar after the pair moved towards 116.80/00 intraday. The aforementioned vindicates our earlier view that range-trading will probably continue within 116.30-116.80 in the coming sessions as new Central Bank interventions are likely if the cross breaks either boundary of the said range.

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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	1.7
Budget Balance/GDP	-3.0	-2.3	-2.2
Current Account/GDP	-4.4	-1.1	-1.0
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, 1/8/2014, 09:20 EET): **Market Developments:** The leu recoiled on Thursday's session, in line with other regional currencies, with the EUR/RON closing near 4.43 after opening close to 4.42. On the other hand, money market rates were little changed on the day. Short term rates bucked the broader trend to trade around 30bps lower at 2.1% at the session's settlement, while the rest of the curve for 1-12 month tenors closed mostly unchanged. Yet, government bonds lost ground on Thursday, especially those with longer-term tenors (7-10 years), with the corresponding yields moving 30bps higher for 7Y to 4.05% and 20bps for 10Y at 4.20%.

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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	-0.9
Budget Balance/GDP	-0.8	-1.5	-3.0
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, 31/7/2014, 17:25 EET): **Latest Political & Macro Developments:** Bulgaria's budget ran a deficit of BGN 995.6mn year-to-June, marking a deterioration from a shortfall of just BGN 7.6mn recorded over the same period a year earlier. The said widening came on the back of, among other, higher contributions to the EU budget and rising social expenditure stemming from a pension increase as of 1 April 2013. On the flipside, revenues and grants were almost flat on an annual basis over the said period totaling BGN 14.170bn, or 45.7% of the 2014 target. Meanwhile, the fiscal reserve stood at BGN 6.6bn over the first six months of the year. **Market Developments:** The domestic stock market erased intraday losses to close little changed on Thursday, with the main SOFIX advancing by 0.11% to 540.73 points at the end of the session.

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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	1930.67	-2.0%	4.5%	EUR/USD	1.3396	0.0%	-2.5%	UST - 10yr	2.57	1	-46	GOLD	1283	0.0%	6.4%
Nikkei 225	15523.11	-0.6%	-4.7%	GBP/USD	1.6829	-0.3%	1.6%	Bund-10yr	1.18	3	-75	BRENT CRUDE	179	0.0%	6.8%
STOXX 600	331.45	-1.4%	1.0%	USD/JPY	102.94	-0.1%	2.3%	JGB - 10yr	0.54	0	-20	LMEX	3281	-0.8%	3.8%

SEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	6.66	-3	-135
1-week	6.87	-3	-141
1-month	7.22	-4	-136
3-month	7.66	-4	-122
6-month	7.98	-3	-117

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.32	-3	-64
5Y RSD	10.32	2	-251
7Y RSD	11.29	0	-251

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.94	15	-106
USD Nov-24	0.80	-574	-610

CDS

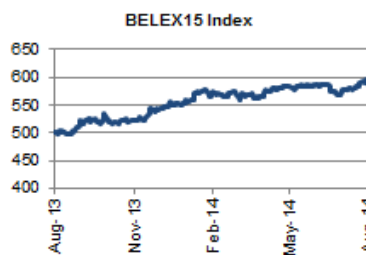
	Last	ΔDbps	ΔYTD bps
5-year	263	-8	-147
10-year	312	-8	-135

STOCKS

	Last	ΔD	ΔYTD
BELEX15	600.0	0.45%	7.53%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	115.4	0.04%	-1.90%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.11	2	37
1-month	2.02	-2	14
3-month	2.16	-1	-28
6-month	2.52	-1	-47
12-month	2.64	0	-51

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.48	3	-147
5Y RON	3.15	-2	-150
10Y RON	4.21	4	-109

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	2.30	6	-155
USD Aug-23	4.00	7	-81

CDS

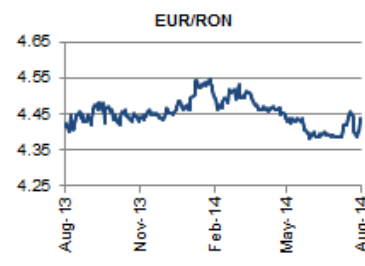
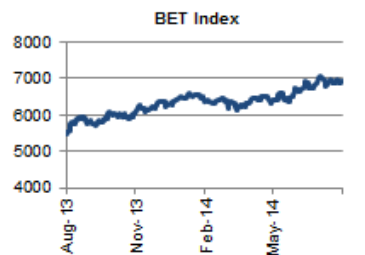
	Last	ΔDbps	ΔYTD bps
5-year	140	0	-50
10-year	188	0	-44

STOCKS

	Last	ΔD	ΔYTD
BET	6911.3	-0.11%	6.43%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4379	-0.23%	0.79%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.05	0	-2
1-month	0.24	0	-8
3-month	0.50	-1	-15
6-month	0.92	-2	-24
12-month	1.74	0	-46

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	1.27	-2	18
5Y BGN	2.01	4	16
10Y BGN	3.23	0	-27

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	1.03	11	44
EUR Jul-17	1.53	-31	-28

CDS

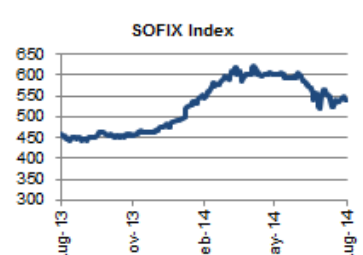
	Last	ΔDbps	ΔYTD bps
5-year	130	1	-5
10-year	174	-1	0

STOCKS

	Last	ΔD	ΔYTD
SOFIX	539.1	-0.31%	9.68%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.4602	0.04%	-2.54%



Source: Reuters, Bloomberg, Eurobank Global Markets Research

Data updated as of 14:30 EET

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