

January 19, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

- January 21-25: World Economic Forum, Davos

US

- January 20:
 - NAHB index (Jan)
 - President Obama speaks
- January 21
 - Housing starts (Dec)
 - Housing permits (Dec)
- January 22: Jobless claims (Jan 17)
- January 23: Existing home sales (Dec)

EUROZONE

- January 20: DE: ZEW (Jan)
- January 22
 - ECB MPC meeting
 - Consumer conf. (Jan)
- January 23: PMI (Jan)
- January 25: GR: Parliamentary elections

SEE

SERBIA

- January 20: CAD (Nov)
- January 21: 4% 2018 T-bonds auction

ROMANIA

- January 19: 5.8% 2027 T-Bonds auction

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: All eyes this week are on the ECB monetary policy meeting on Thursday. In an effort to address deflation risks and boost euro area economic activity, the Central Bank is widely expected to adopt a sovereign-bond buying program of ca €600bn while the prospect of President Mario Draghi leaving the door open for additional bond purchases, if needed, cannot be ruled out. Against this background, major European bourses opened higher on Monday while the EUR remained under pressure across the board.

GREECE: Fitch lowered Greece's sovereign credit outlook to negative from stable citing rising political uncertainty ahead of the upcoming January 25 general election. However, Fitch kept the country's sovereign credit rating unchanged at "B", in line with that of S&P and two notches below Moodys. On the data front, provisional data by the Hellenic Statistical Authority showed that total construction activity (private and public), calculated on the basis of the number of issued building permits in the country, amounted to 1,269, marking a 19% decline compared to the same month a year earlier.

SOUTH EASTERN EUROPE

SERBIA: S&Ps affirmed on Friday its long- and short-term foreign and local currency sovereign credit ratings on the Republic of Serbia at 'BB-/B' and announced its decision to remove them from CreditWatch negative, maintaining though its negative outlook.

ROMANIA: The EUR/RON closed little changed at 4.5010 on Friday, with a move towards a new multi-month peak at 4.5135 earlier in the session appearing to have been capped by potential Central Bank intervention.

BULGARIA: The current account surplus decreased by 69%YoY to €371.1mn over the first eleven months of 2014, corresponding to 0.9% of GDP.

CESEE MARKETS: The majority of **CESEE stock markets** kicked off the week on a positive footing ahead of the ECB meeting on Thursday. In FX markets, **CESEE currencies** were mixed, with the Turkish lira leading the losers' pack.

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Latest world economic & market developments

GLOBAL MARKETS

All eyes this week are on the ECB monetary policy meeting on Thursday. In an effort to address deflation risks and boost euro area economic activity, the Central Bank is widely expected to adopt a sovereign-bond buying program of ca €600bn. Though, the prospect of ECB President Mario Draghi leaving the door open for additional bond purchases, if needed, aiming to push higher inflation expectations and the ECB to meet its balance sheet target of €3bn, cannot be ruled out. Against this background, major European bourses opened higher on Monday while a string of solid US data released on Friday (UM January's consumer confidence, December's factory output), also favored. Expectations that the ECB will embark on quantitative easing program kept the EUR under pressure across the board while the SNB's unexpected decision last week to discontinue the EUR/CHF minimum exchange rate, also continued to have an impact. On the data front, the main focus this week is on Euro area sentiment indicators while in the US, housing starts and existing home sales for December also catch market attention.

GREECE

Fitch lowered Greece's sovereign credit outlook to negative from stable citing rising political uncertainty ahead of the upcoming January 25 general election. Specifically, in an official statement the ratings agency said that "the current period of political uncertainty has increased the risks to Greece's creditworthiness as official financing, and any potential reopening of market access, could be delayed for some months". However, Fitch kept the country's sovereign credit rating unchanged at "B", in line with that of S&P and two notches below Moody's. Fitch's next scheduled review of Greece's sovereign credit rating is on May 15th, 2015. On the data front, provisional data by the Hellenic Statistical Authority showed that total construction activity (private and public), calculated on the basis of the number of issued building permits in the country, amounted to 1,269, marking a 19% decline compared to the same month a year earlier. For the period January to October 2014, total building activity declined by 18%YoY.

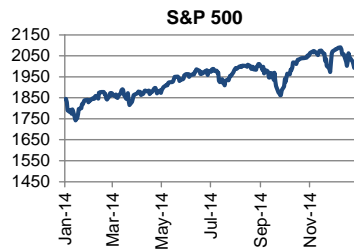
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Latest developments in the CESEE region

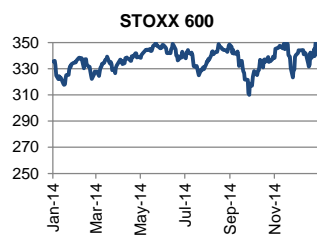
CESEE markets

The majority of **CESEE stock markets** kicked off the week on a positive footing ahead of the ECB meeting on Thursday. Most indices in the region posted modest gains at the time of writing, outperforming a 0.2% decline in the broad MSCI emerging market equities index led by their Asian peers. In FX markets, **CESEE currencies** were mixed. The Turkish lira led the losers' pack on mounting speculation that the Central Bank may resume cutting interest rates as soon as Jan. 20, following comments by President Tayyip Erdogan on Friday highlighting the need for such a move. The CBT holds its MPC meeting tomorrow, but the market's median forecast is currently for stable interest rates, with the key policy rate expected to remain unchanged at 8.25%. Against this backdrop, the USD/TRY traded at the time of writing near a 2-week peak of 2.3450 hit in Europe earlier today. The pair's technical picture suggests that a break above today's peak may pave the way towards 2.3575 (January 2, high) ahead of 2.4120 (December 12, high). On the flipside, a move towards immediate support of 2.3145 (30-day MA) is possible especially should the CBT vindicate market expectations for stable interest rates tomorrow. With all eyes on this week's much awaited ECB meeting and snap general elections in Greece, regional currencies are likely to trade sideways in the coming days.

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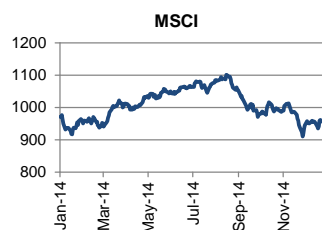
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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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	B3	B+	B-

Source: Reuters, Bloomberg, Eurobank Global Markets Research

SERBIA: Indicators	2013	2014e	2015f
Real GDP growth %	-1.5	-2.0	0.0
CPI (pa, yoy %)	7.8	2.0	3.5
Budget Balance/GDP	-5.8	-7.2	-5.7
Current Account/GDP	-5.0	-6.1	-4.7
EUR/RSD (eop)	114.57	120.50	124.50
	2014	current	2015f
Policy Rate (eop)	8.00	8.00	7.00

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

SERBIA

(Belgrade, 16/1/2015, 17:30 CET): **Latest Political & Macro Developments:** Standard & Poor's Ratings Services affirmed late on Friday its long- and short-term foreign and local currency sovereign credit ratings on the Republic of Serbia at 'BB-/B'. The agency also announced its decision to remove these ratings from CreditWatch negative on the basis that "the imminent risk of weaker sovereign creditworthiness has receded". Moreover, it acknowledged the government's fiscal consolidation efforts, "which should temper the rise in public debt over the coming year", adding that "the 2015 budget and the tentative IMF Stand-By Agreement have assured market access in the immediate term". Notwithstanding the aforementioned the agency maintained its negative outlook on Serbia citing lingering uncertainties over medium-term fiscal consolidation and growth prospects. **Market Developments:** The EUR/RSD extended its downtrend on Friday to close ca 0.4% lower on the day at 122.00/20, moving further below from a record peak of 122.85/123.05 hit earlier in January. The pair's recent easing over the last few sessions may be primarily attributed to the January 15 Central Bank MPC decision to amend mandatory reserve requirements. The said measure effectively results to a boost in hard currency market liquidity and an increase in the share of dinars local banks have to hold in reserves. Additionally, market expectations for further dinar appreciation in the coming weeks, on the back of anticipation about a final decision on the IMF precautionary agreement (final approval by IMF Management and the Executive Board expected in February) and new ECB monetary stimulus measures, has also provided support to the domestic currency. Looking ahead, the upcoming government bond auctions of 3 and 7-year bonds scheduled for February, cumulatively worth RSD 100bn, may also set the tone for the dinar's short-term direction.

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ROMANIA: Indicators	2013	2014e	2015f
Real GDP growth %	3.5	2.5	3.0
CPI (pa, yoy %)	4.0	1.3	2.6
Budget Balance/GDP	-2.3	-2.2	-2.2
Current Account/GDP	-1.1	-1.2	-1.5
EUR/RON (eop)	4.46	4.40	
	2014	current	2015f
Policy Rate (eop)	2.75	2.50	2.25

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

ROMANIA

(Bucharest, 19/1/2015, 9:30 EET): **Market Developments:** The EUR/RON closed little changed at 4.5010 on Friday, with a move towards a new multi-month peak at 4.5135 earlier in the session appearing to have been capped by potential Central Bank intervention in the FX markets in order to halt the local currency's depreciating momentum. Separately, money market rates pulled back from recent highs with the 1-3 month implied rates easing some 10bps after jumping by around 40bps cumulatively over the previous couple of days on profit taking and mounting risk aversion in the wake of the SNB decision. On the other hand, government bonds in the secondary market recouped fully their post-SNB losses. In other news, the MoF holds a primary market auction for RON 200mn in July 2027 bonds later today, broadly expected to produce a yield of 3.40-50%.

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BULGARIA: Indicators	2013	2014e	2015f
Real GDP growth %	1.1	1.5	0.8
CPI (pa, yoy %)	0.4	-1.5	0.1
Budget Balance/GDP	-1.8	-3.7	-3.0
Current Account/GDP	2.1	2.2	1.8
EUR/BGN (eop)		1.9558	
	current	2014	2015f
Policy Rate (eop)	N/A	N/A	N/A

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

BULGARIA

(Sofia, 16/1/2015, 17:20 EET): **Latest Political & Macro Developments:** The current account surplus decreased by 69%YoY to €371.1mn over the first eleven months of 2014, corresponding to 0.9% of GDP. The latter compares to a surplus of 2.9% of GDP recorded over the same period a year earlier. A ca 20%YoY increase to €2,492.3mn over the aforementioned period in the trade deficit appears to be among the main culprits of the said deterioration in the current account balance. Meanwhile, Foreign Direct Investments (FDI) in Bulgaria declined by 20.8%YoY to €1,224.2mn (ca 3% of GDP) in January-November last year.

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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	2019.42	1.3%	-1.9%	EUR/USD	1.1598	0.3%	-4.1%	UST - 10yr	1.84	0	-33	GOLD	1276	-0.3%	7.7%
Nikkei 225	17014.29	0.9%	-2.5%	GBP/USD	1.5158	0.0%	-2.7%	Bund-10yr	0.44	-1	-10	BRENT CRUDE	175	0.0%	0.0%
STOXX 600	352.77	0.1%	3.0%	USD/JPY	117.29	0.2%	2.0%	JGB - 10yr	0.20	-4	-13	LMEX	2755	2.0%	-5.5%

SEE MARKETS

SERBIA

Money Market

	Last	ΔDbps	ΔYTD bps
BELIBOR			
T/N	on	12	-334
1-week	7.22	23	-279
1-month	7.40	6	-265
3-month	8.16	12	-169
6-month	8.55	9	-124

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.12	-7	8
5Y RSD	10.21	0	3
7Y RSD	11.27	1	2

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	4.07	0	-19
USD Nov-24	1.96	-460	-118

CDS

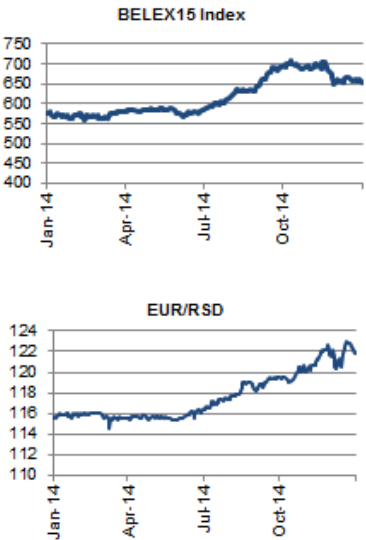
	Last	ΔDbps	ΔYTD bps
5-year	280	15	-10
10-year	347	16	-8

STOCKS

	Last	ΔD	ΔYTD
BELEX15	653.2	-0.99%	-2.07%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	121.89	0.22%	-0.44%



ROMANIA

Money Market

	Last	ΔDbps	ΔYTD bps
ROBOR			
O/N	0.42	-1	-15
1-month	0.71	0	-20
3-month	1.6	0	-10
6-month	1.85	0	-16
12-month	1.88	0	-14

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.74	5	-27
5Y RON	2.16	0	-35
10Y RON	3.00	-3	-51

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	1.50	-3	-23
USD Aug-23	3.20	-10	-42

CDS

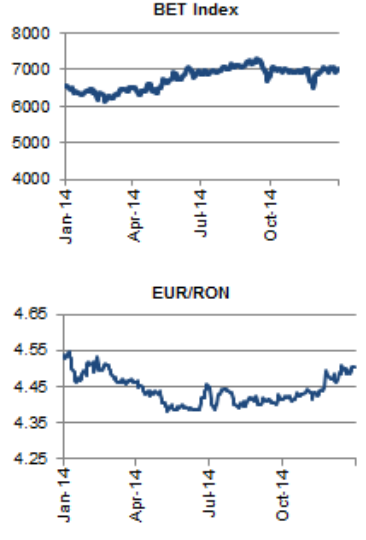
	Last	ΔDbps	ΔYTD bps
5-year	120	0	-23
10-year	162	0	-25

STOCKS

	Last	ΔD	ΔYTD
BET	6999.5	0.16%	-1.18%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5021	-0.03%	-0.41%



BULGARIA

Money Market

	Last	ΔDbps	ΔYTD bps
SOFIBOR			
LEONIA	0.01	0	-1
1-month	0.20	1	-2
3-month	0.42	0	-1
6-month	0.79	0	-1
12-month	1.49	0	-2

BG Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y BGN	0.95	6	-9
5Y BGN	1.26	4	-19
10Y BGN	2.56	0	-19

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	#N/A N/A	#N/A N/A	-3564
EUR Jul-17	0.86	-3	-30

CDS

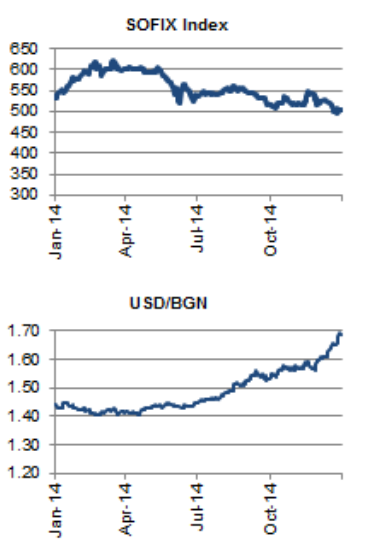
	Last	ΔDbps	ΔYTD bps
5-year	200	10	9
10-year	251	11	11

STOCKS

	Last	ΔD	ΔYTD
SOFIX	502.4	-0.03%	-3.78%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6864	0.28%	-4.14%



Source: Reuters, Bloomberg, Eurobank Global Markets Research
Data updated as of 12:15 EET

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