

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

July 11, 2014

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- July 9: FOMC June 18-19 meeting minutes
- July 2: Initial jobless claims (Jul 5)

EUROZONE

- July 7 (DE): Industrial production (Jun)

SEE

SERBIA

- July 10: MPC rate announcement
- July 11: HICP (Jun)

ROMANIA

- July 7
 - Industrial sales (May)
 - Net wages (May)
 - 2020 T-bonds auction
- July 10
 - CPI (Jun)
 - Industrial production (May)
 - Trade balance (May)
 - 2016 T-bonds auction

BULGARIA

- July 7: International reserves (Jun)
- July 8
 - Industrial production (May)
 - Retail sales (May)
- July 10: Trade balance (May)
- July 11: U/E rate (May)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The latest bout of risk aversion on the back of emerging Portuguese banking woes favored the safe-haven appeal of both **German Bunds and US Treasuries**. On the flipside, **Eurozone periphery government bonds** moved lower. In FX markets, **safe haven currencies** including the JPY gained with the EUR/JPY testing levels near 137.60 earlier today, within distance from a near six-week low of 135.45 marked in the prior session.

GREECE: Greece completed y-day the **sale of a new 3-year sovereign bond** raising €1.5bn at a yield of 3.5%, almost in line with market expectations of 3.5%-3.625%. According to an official MoF statement, the Greek government was satisfied with the outcome of the auction on the basis that "once again international investors showed their confidence in the Greece economy. On the data front, the **seasonally adjusted jobless rate** stood at 27.3% in April for the third month in a row, while the **Industrial Production Index** resumed its uptrend in May rising 1.8%YoY.

SOUTH EASTERN EUROPE

SERBIA: The central bank kept its key policy rate unchanged at 8.50% on Thursday's MPC meeting, as was broadly expected.

ROMANIA: CPI declined by 0.3%MoM in June, coming in slightly below expectations for an unchanged reading and bringing the annual rate of increase to a new record low of 0.7%. Meanwhile, industrial production rose by 13.3%YoY in May, marking its highest rate of increase in more than four years.

BULGARIA: Bulgaria's trade deficit came in at BGN 636.9mn in May, narrowing by BGN 191.7mn from the same period a year earlier.

CESEE Markets: Emerging stock markets broadly fell in European trade on Friday, on lingering global growth concerns and worries over developments in Portugal's Espirito Santo bank. **CESEE currencies** were little changed after losing ground yesterday on increased risk aversion.

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Latest world economic & market developments

GLOBAL MARKETS

The majority of **Asian bourses** weakened on Friday pressured by Portuguese banking woes. Adding to market jitters, industrial production data for May from both France and Italy disappointed, raising concerns about the growth prospects of the euro area. The latest bout of risk aversion favored the safe-haven appeal of both **German Bunds and US Treasuries** with the 10-yr Bund yield trading close to 1.209% in European trade at the time of writing, not far from y-day's closing level of 1.198% which was the lowest since early May 2014. On the flipside, **Eurozone periphery government bonds** weakened with the 10-yr Portuguese bond yield hovering around 3.88% at the time of writing, close to a near 3 ½ month closing high of 3.98% recorded on Thursday. In FX markets, **safe haven currencies** including the JPY firmed with the EUR/JPY testing levels near 137.60 earlier today, within distance from a near six-week low of 135.45 marked in the prior session.

GREECE

Greece completed y-day the **sale of a new 3-year sovereign bond** raising €1.5bn at a yield of 3.5%, almost in line with market expectations of 3.5%-3.625%. The offered amount was less than €3bn circulated in the local press over the last few sessions on the back of market worries over the financial health of Portugal's second biggest bank by market value, Banco Espirito Santo. According to an official MoF statement, the Greek government was satisfied with the outcome of the auction on the basis that "once again international investors showed their confidence in the Greece economy". Along these lines, an unnamed MoF senior official was quoted as saying in news wires that "our aim was not the sum to be collected but to show that we can make it (despite adverse condition) and at the proper interest rate". On the data front, the **seasonally adjusted jobless rate** stood at 27.3% in April for the third month in a row, a tad higher from a year-to-date low of 27.2% hit in January but lower relative to a cyclical peak of 27.9% recorded in September 2013. In other news, the **Industrial Production Index** resumed its uptrend in May rising 1.8%YoY after falling in the prior two consecutive months, mainly supported by a hefty increase in mining and quarrying production.

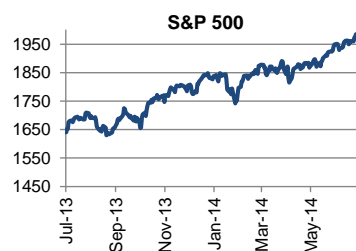
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Latest developments in the CESEE region

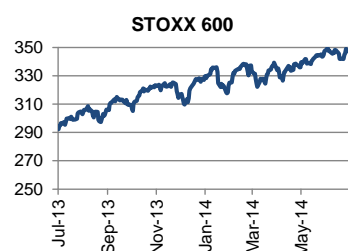
CESEE markets

Emerging stock markets broadly fell in European trade on Friday, on lingering global growth concerns and worries over developments in Portugal's Espirito Santo bank. The broad MSCI index of emerging equities was sliding by 0.46% at the time of writing, poised to end the week in the red, but remained within distance from a 16-½-month peak hit a couple of sessions earlier. In the **CESEE region**, major stock indices broadly firmed in early trade, recouping part of losses recorded in the prior session in the wake of news about Portugal's Espirito Santo bank. Separately, **CESEE currencies** were little changed after losing ground yesterday on increased risk aversion. The Hungarian forint eased to a multi-session low near 310.70/EUR at some point on Friday after June's CPI came in at a new record low of -0.3%YoY, adding to expectations for lower interest rates ahead following 470bps of cumulative monetary easing since August 2012. We anticipate some further reduction in the Central Bank's base rate later this year from its current 2.30% lifetime low level. It is worth noting that MNB Deputy Governor Ferenc Gerhardt suggested yesterday that the current easing cycle is likely to end around 2.00%.

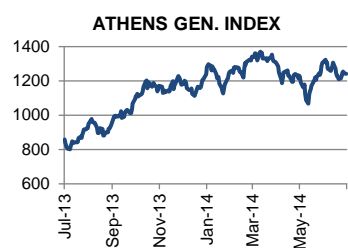
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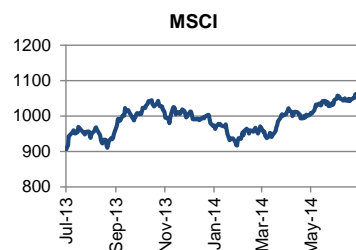
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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Source: Reuters, Bloomberg, Eurobank Global Markets Research



Source: Reuters, Bloomberg, Eurobank Global Markets Research

L-T ccy	Credit Ratings		
	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	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	8.50	8.00

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

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

SERBIA

(Belgrade, 11/7/2014, 12:00 CET): **Latest Political & Macro Developments:** After a 50bps rate cut in each policy meeting in May and June, Serbia's central bank kept its key policy rate unchanged at 8.50% on Thursday's MPC meeting, as was broadly expected, amid concerns about the execution of the budget this year and recent depreciating pressures on the dinar. **Market Developments:** The EUR/RSD edged up on Thursday, closing at 115.75/95 from 115.40/60 at the session's open, after the Central Bank intervened anew in the FX markets purchasing around €10mn at 115.85.

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ROMANIA

(Bucharest, 11/7/2014, 09:00 EET): **Latest Political & Macro Developments:** Romania's CPI declined by 0.3%MoM in June, coming in slightly below expectations for an unchanged reading and bringing the annual rate of increase to a new record low of 0.7%. So far this year, consumer inflation has remained firmly below the lower bound of the Central Bank 2.5% ± 1% variation band target thanks to favorable base effects on food prices from last year's bumper harvest and a reduction in the VAT rate for certain bakery products. Nonetheless, we anticipate a reversal of this disinflation trend in the coming months, with CPI coming in near 3% by year-end, as the impact of these base effects gradually wanes and domestic consumption is expected to recover further. Higher excise duties which came into effect earlier this year are also likely to add to inflationary pressures. In other macro data releases on Thursday, industrial production rose by 13.3%YoY in May, marking its highest rate of increase in more than four years, with growth in the sector accelerating significantly from 5.9%YoY in the prior month. The data adds to the view that Q2 2014 likely recorded a robust real GDP growth reading after the prior quarter's 3.9%YoY print. In other news, Romania's trade deficit widened by 5.4%YoY to €2.29bn over the first five months of the year, as imports growth of 7.8%YoY (€23.6bn) nearly matched that of exports 8.0%YoY (€21.3bn). **Market Developments:** In the wake of the June CPI data release, the EUR/RON moved slightly higher on Thursday, closing at 4.4040 after opening at 4.3910. Elsewhere, money market rates were little changed on the day, with ample RON liquidity keeping RON rates up to one week close to the deposit facility rate of 0.5%. Government bonds closed largely unchanged on Thursday, giving back earlier gains recorded soon after the release of the CPI data. In other news, the MoF sold RON 400mn in 2-year government (Aug 2016) bonds at an average accepted yield of 2.32%, significantly below expectation thanks to weaker-than-expected CPI data for June.

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BULGARIA

(Sofia, 10/7/2014, 17:45 EET): **Latest Political & Macro Developments:** According to preliminary data by NSI, Bulgaria's trade deficit came in at BGN 636.9mn in May, narrowing by BGN 191.7mn from the same period a year earlier. The said improvement was primarily due to a rise of 5.4%YoY in exports to BGN 3 487mn, which snapped a 4 month running downward streak. Additionally, imports extended their recent downtrend in May, falling by 0.3%YoY to BGN 4124mn after a 1.3%YoY drop in the prior month. **Market Developments:** The main SOFIX index closed in a marginally negative territory of 0.08% on Thursday at 546.33 points.

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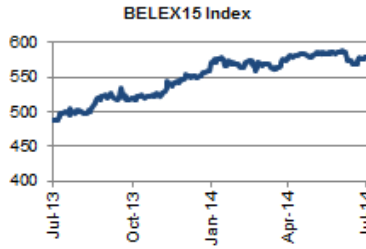
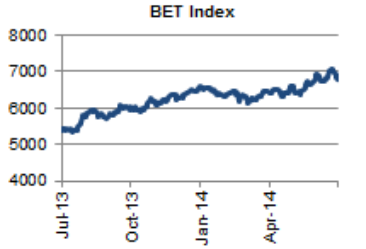
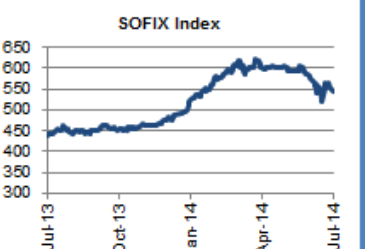
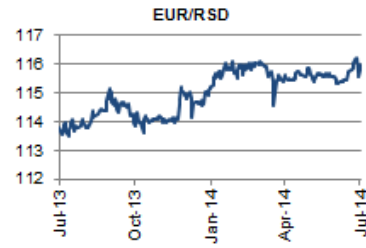
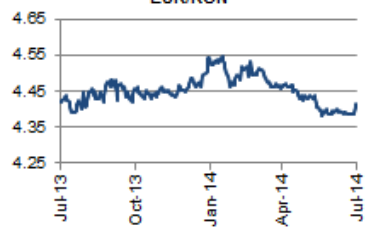
BULGARIA: Indicators	2012	2013e	2014f
Real GDP growth %	0.6	0.9	1.8
CPI (pa, yoy %)	3.0	0.9	-0.2
Budget Balance/GDP	-0.8	-1.5	-1.8
Current Account/GDP	-0.9	1.9	1.0
EUR/BGN (eop)		1.95583	
	current	2013	2014f
Policy Rate (eop)	N/A	N/A	N/A

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

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	1964.68	-0.4%	6.3%	EUR/USD	1.3609	0.0%	-1.0%	UST - 10yr	2.52	-2	-51	GOLD	1338	0.2%	11.0%
Nikkei 225	15164.04	-0.3%	-6.9%	GBP/USD	1.714	0.0%	3.5%	Bund-10yr	1.20	0	-73	BRENT CRUDE	182	0.0%	8.6%
STOXX 600	337.55	0.4%	2.8%	USD/JPY	101.29	0.0%	4.0%	JGB - 10yr	0.54	-1	-20	LMEX	3263	0.0%	3.3%

SEE MARKETS

SERBIA				ROMANIA				BULGARIA			
Money Market				Money Market				Money Market			
BELIBOR	Last	ΔDbps	ΔYTD bps	ROBOR	Last	ΔDbps	ΔYTD bps	SOFIBOR	Last	ΔDbps	ΔYTD bps
T/N	6.62	1	-139	O/N	1.2	36	-54	LEONIA	0.03	0	-4
1-week	6.89	4	-139	1-month	1.6	12	-28	1-month	0.24	-1	-8
1-month	7.20	1	-138	3-month	2.23	6	-21	3-month	0.51	-2	-14
3-month	7.64	0	-124	6-month	2.56	2	-43	6-month	0.96	-4	-19
6-month	8.02	2	-113	12-month	2.61	0	-54	12-month	1.84	-8	-35
RS Local Bonds				RO Local Bonds				BG Local Bonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	(yields)	Last	ΔDbps	ΔYTD bps
3Y RSD	9.39	7	-56	3Y RON	2.47	0	-148	3Y BGN	1.19	1	10
5Y RSD	10.29	0	-253	5Y RON	2.97	2	-168	5Y BGN	1.72	-1	-12
7Y RSD	11.29	2	-251	10Y RON	4.23	3	-107	10Y BGN	3.09	0	-41
RS Eurobonds				RO Eurobonds				BG Eurobonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
USD Nov-17	3.86	-4	-115	EUR Sep-20	2.41	-5	-143	USD Jan-15	0.94	-1	36
USD Nov-24	1.47	-507	-544	USD Aug-23	4.01	-1	-80	EUR Jul-17	1.45	-2	-35
CDS				CDS				CDS			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
5-year	270	-4	-139	5-year	135	0	-50	5-year	135	5	-5
10-year	317	-4	-130	10-year	189	6	-44	10-year	181	6	6
STOCKS				STOCKS				STOCKS			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
BELEX15	579.9	0.09%	3.92%	BET	6829.4	0.39%	5.17%	SOFIX	542.3	-0.74%	10.33%
FOREX				FOREX				FOREX			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
EUR/RSD	115.4	-0.08%	-0.88%	EUR/RON	4.4142	-0.25%	1.33%	USD/BGN	1.4373	-0.01%	-0.99%
											
											

Source: Reuters, Bloomberg, Eurobank Global Markets Research

Data updated as of 13:00 EET

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