

# DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

July 14, 2014

## KEY UPCOMING DATA & EVENTS THIS WEEK

### GLOBAL US

- July 15
  - Empire state index (Jul)
  - Retail sales (Jun)
  - Business inventories (May)
- July 16
  - IP (Jun)
  - NAHB housing index (Jul)
- July 17
  - Initial jobless claims (Jul 12)
  - Housing starts (Jun)
  - Housing permits (Jun)
  - Philly Fed (Jul)
- July 18: UoM consumer confidence (Jul)

### EUROZONE

- July 14: ECB President Draghi speech before the ECON committee of the EU Parliament
- July 15 (DE): ZEW (Jul)
- July 17: HICP (Jun)

### CHINA

- July 16: GDP (Q2)

### SEE

#### ROMANIA

- July 14
  - CAD (May)
  - 2019 T-bonds auction
- July 17: 2015 T-bonds auction

#### BULGARIA

- July 14: CAD (May)
- July 15: CPI (Jun)

Source: Reuters, Bloomberg,  
Eurobank Global Markets Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** The majority of **Asian bourses** kicked off the week on a firm tone while **major European equity markets** were standing in positive territory in early trade on Monday on the view that the financial problems of the parent company of Portugal's largest listed bank Banco Espirito Santo (BES) are unlikely to have systemic implications for the euro area. In FX markets, **major currency pairs** were little changed in early European trade as investors await a bulk of key data releases from China this week and FOMC Chair Janet Yellen's semi-annual testimony before Congress.

**GREECE:** Discussions between domestic authorities and the troika heads aiming to prepare the ground for official talks in the context of Greece's next (5<sup>th</sup>) adjustment program review enter final stage this week. According to the local press, the key issues in this round of discussions, include, among others: (i) measures for the coverage of the projected fiscal gap in 2015 (estimated at ca 1.1%-of-GDP under the updated MoU); (ii) labor market reform (e.g., collective dismissals, industrial actions); (iii) public sector reform; (iv) reform of the pension system; and (v) the framework for strengthening/restructuring the domestic banking system.

### SOUTH EASTERN EUROPE

**SERBIA:** The HICP extended its recent downtrend in June, rising by 0.1%MoM and bringing the annual rate of increase to a record low of 1.3%, below the Central Bank's 4% +/-1.5% inflation target.

**ROMANIA:** The EUR/RON and bond yields moved higher on Friday, seemingly on profit-taking in relatively thin summer trade.

**BULGARIA:** Central Bank to start bankruptcy procedure for Corporate Commercial Bank.

**CESEE Markets:** Emerging stock markets kicked off the week on a positive footing, **CESEE currencies** consolidated near Friday's settlement.

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## Latest world economic & market developments

### GLOBAL MARKETS

The **majority of Asian bourses** kicked off the week on a firm tone while **major European equity markets** were standing in positive territory in early trade on Monday on the view that the financial problems of the parent company of Portugal's largest listed bank Banco Espirito Santo (BES) are unlikely to have systemic implications for the euro area. In **FX markets**, major currency pairs were little changed in early European trade as investors eagerly await a bulk of key data releases from China this week including the Q2 GDP report on Wednesday. FOMC Chair Janet Yellen's semi-annual testimony before Congress on Tuesday and Wednesday also takes centre stage for potential hints on the path towards higher interest rates. The testimony comes on the heels of last week's release of the FOMC minutes from the June 17-18 policy meeting which showed that the current asset purchases program will be completed in October 2014 - as expected- and the start of the tightening cycle is still many months away. Elsewhere, **German Bunds** retained a firm tone in European trade supported by lingering jitters in the Middle East and expectations that the ECB's monetary policy will remain expansionary for a protracted period of time. The 10-yr Bund yield was hovering around 1.21% at the time of writing, within distance from last week's multi-month closing low near 1.20% against levels around 1.25% a few sessions ago.

### GREECE

**Discussions between domestic authorities and the troika heads** aiming to prepare the ground for official talks in the context of Greece's next (5<sup>th</sup>) adjustment program review enter final stage this week. The heads of the troika mission are reportedly expected to depart from Athens on Thursday and, under the current plan, official talks for the next review will likely commence in early September 2014, provided that the Greek side has fulfilled by then (i) the six prior actions to the release of the July (3rd) EFSF sub-tranche (€1bn); and (ii) still uncompleted milestones attached to Greece's last (4<sup>th</sup>) program review. According to the local press, the key issues in this round of discussions, include, among others: (i) measures for the coverage of the projected fiscal gap in 2015 (estimated at ca 1.1%-of-GDP under the updated MoU); (ii) labor market reform (e.g., collective dismissals, industrial actions); (iii) public sector reform; (iv) reform of the pension system; and (v) the framework for strengthening/restructuring the domestic banking system.

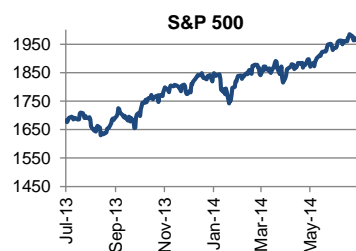
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## Latest developments in the CESEE region

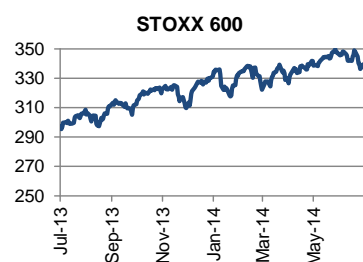
### CESEE markets

**Emerging stock markets** kicked off the week on a positive footing, with the broad MSCI index of emerging equities firming by 0.2% in European trade on Monday. The Bulgarian SOFIX index bucked the CESEE region's trend in the wake of news that Corpbank, the country's fourth largest lender, will have its license revoked in a move that is also feared to weigh on the government's budget execution this year. Separately, **CESEE currencies** consolidated near Friday's settlement, with Ukraine's hryvnia firming by 0.3% to 11.64/USD following Friday's announcement by the S&P that it revised higher its outlook on the country's sovereign credit rating to stable from negative as the recent IMF-led financial support is anticipated to provide support to the domestic economy and enable the country to repay its upcoming debt obligations. Notwithstanding the aforementioned, the agency highlighted that risks stemming from the ongoing geopolitical tensions in the region remain.

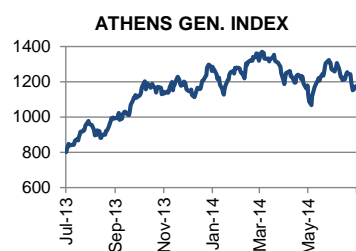
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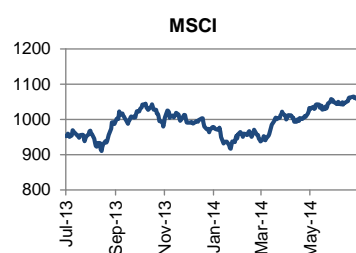
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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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	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
	<b>2013</b>	<b>current</b>	<b>2014f</b>
Policy Rate (eop)	9.50	8.50	8.00

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

## SERBIA

(Belgrade, 11/7/2014, 12:00 CET): **Latest Political & Macro Developments:** The HICP extended its recent downtrend in June, rising by 0.1%MoM and bringing the annual rate of increase to a record low of 1.3%. The latter, has remained firmly below the Central Bank's 4% +/-1.5% inflation target since September last year mainly due to favorable base effects thanks to last year's bumper harvest, high real interest rates and weak domestic demand dynamics. Looking ahead, inflation is likely to be contained below the said official target in the coming months in view of deteriorating economic growth prospects this year amid adverse weather conditions in May. Although this argues for further monetary easing ahead, risks to the execution of the government's budget as well as potential increases in food prices and energy price hikes driven by May's floods may delay a further reduction in the Central Bank policy rate from its current 8.50% level. **Market Developments:** With Thursday's Central Bank intervention in the FX markets, where it purchased around €10mn at 115.85, still exerting an impact on market sentiment towards the local currency, the EUR/RSD inched further up on Friday closing at 116.00/20 from 115.80/00 at the open.

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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
	<b>2013</b>	<b>current</b>	<b>2014f</b>
Policy Rate (eop)	4.00	3.50	3.50

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

## ROMANIA

(Bucharest, 14/7/2014, 09:00 EET): **Market Developments:** With June's 0.7%YoY record low CPI still in investor's ears, the EUR/RON extended its recent uptrend on Friday. Market appetite for profit taking, may also had an impact. The cross stood near a six week high of 4.4210 at the session's settlement vs. 4.4050 at the open. Meanwhile, some upward pressure was also evidenced in money market RON rates, with the 3M implied from swaps moving from 1.60% to around 1.90%, while the 12M rate also crept up from 1.85% to almost 2.00%. In a similar vein, government bonds lost ground for the second consecutive day on Friday, seemingly on profit taking in relatively thin summer trade. The move was mirrored across the curve with respective yields moving 10bps higher. The MoF holds a primary market auction for RON 500mn of 5Y bonds later today. Expectations are for a yield of around 3.30-3.50%.

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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	
	<b>current</b>	<b>2013</b>	<b>2014f</b>
Policy Rate (eop)	N/A	N/A	N/A

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

## BULGARIA

(Sofia, 10/7/2014, 17:45 EET): **Latest Political & Macro Developments:** Bulgaria's fourth-largest lender by assets, Corporate Commercial Bank will see its operating license revoked as audit found missing records on outstanding loans worth BGN 3.5bn out of a BGN 5.4mn total loan portfolio. The Central Bank will initiate bankruptcy procedure and submit a draft law to parliament that will allow it to nationalize Corpbank's recently acquired subsidiary Credit Agricole Bulgaria, where all good assets and liabilities will be transferred to. The state financial support needed for the new bank is estimated between BGN 1.5-2.0bn, which will be covered from funds from the state-owned Bulgarian Development Bank and the Deposit Guarantee Fund. According to finance minister Petar Chobanov, this development may widen Bulgaria's budget deficit in excess of the 3.0%-of-GDP EU limit and above the official government 2014 target of 1.8%-of-GDP. **Market Developments:** The domestic stock market came under pressure in the wake of Corpbank's news, with the main SOFIX closing 1.22% lower to 539.64 points.

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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	1967.57	0.1%	6.4%	EUR/USD	1.3628	0.1%	-0.8%	UST - 10yr	2.53	1	-50	GOLD	1321	-1.3%	9.6%
Nikkei 225	15296.82	0.9%	-6.1%	GBP/USD	1.7119	0.0%	3.4%	Bund-10yr	1.21	1	-72	BRENT CRUDE	182	0.0%	8.6%
STOXX 600	339.51	0.8%	3.4%	USD/JPY	101.47	-0.2%	3.8%	JGB - 10yr	0.54	0	-20	LMEX	3275	0.4%	3.7%

## SERBIA

## Money Market

	Last	ΔDbps	ΔYTD bps
BELIBOR			
T/N	6.62	1	-139
1-week	6.89	4	-139
1-month	7.20	1	-138
3-month	7.64	0	-124
6-month	8.02	2	-113

## RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.21	-11	-75
5Y RSD	10.29	-2	-253
7Y RSD	11.29	2	-251

## RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.90	6	-111
USD Nov-24	1.57	-497	-533

## CDS

	Last	ΔDbps	ΔYTD bps
5-year	270	0	-139
10-year	317	0	-130

## STOCKS

	Last	ΔD	ΔYTD
BELEX15	578.7	-0.18%	3.71%

## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	115.4	-0.06%	-1.42%

## BELEX15 Index



## EUR/RSD



## ROMANIA

## Money Market

	Last	ΔDbps	ΔYTD bps
ROBOR			
O/N	1.02	-18	-72
1-month	1.57	-3	-31
3-month	2.21	-2	-23
6-month	2.56	0	-43
12-month	2.64	3	-51

## RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.50	1	-145
5Y RON	3.02	3	-163
10Y RON	4.25	1	-105

## RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	2.42	1	-142
USD Aug-23	4.02	1	-79

## CDS

	Last	ΔDbps	ΔYTD bps
5-year	143	2	-50
10-year	191	2	-41

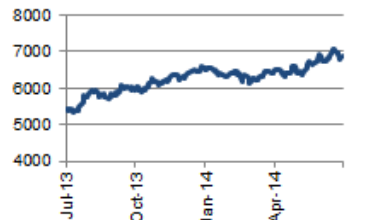
## STOCKS

	Last	ΔD	ΔYTD
BET	6892.5	0.62%	6.14%

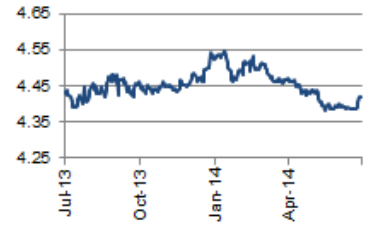
## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4212	-0.06%	1.17%

## BET Index



## EUR/RON



## BULGARIA

## Money Market

	Last	ΔDbps	ΔYTD bps
SOFIBOR			
LEONIA	0.03	0	-4
1-month	0.24	0	-8
3-month	0.51	0	-14
6-month	0.96	0	-20
12-month	1.83	-1	-36

## BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	1.22	5	13
5Y BGN	1.71	-3	-13
10Y BGN	3.10	0	-40

## BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	1.05	9	46
EUR Jul-17	1.57	-33	-23

## CDS

	Last	ΔDbps	ΔYTD bps
5-year	130	-5	-5
10-year	175	-6	0

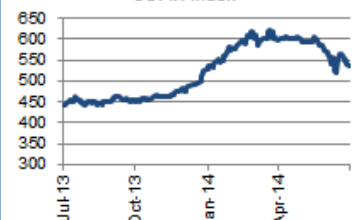
## STOCKS

	Last	ΔD	ΔYTD
SOFIX	534.3	-1.00%	8.70%

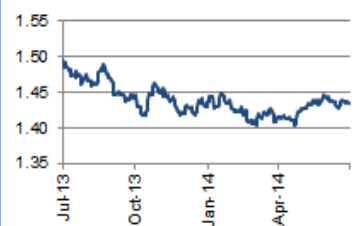
## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.4352	0.15%	-0.84%

## SOFIX Index



## USD/BGN



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