

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

July 2, 2014

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- June 30
 - Chicago PMI (Jun)
 - Pending home sales (May)
- July 1: ISM manufacturing index (Jun)
- July 2
 - ADP employment report (Jun)
 - July 3
 - Non-farm payrolls (Jun)

EUROZONE

- June 30: CPI Jun
- July 3: ECB policy meeting

SEE

SERBIA

- June 30
 - GDP (Q1, f)
 - Industrial production (May)
 - Trade Balance (May)
 - Retail sales (May)

ROMANIA

- July 1
 - International reserves (Jun)
 - MPC meeting
- July 2
 - Retail sales (May)
 - GDP (Q1, f)

BULGARIA

- June 30: Budget balance (May)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The majority of global equity markets moved higher on Wednesday supported by increased optimism about the prospects of the world economy following a recent string of positive PMI manufacturing-related data from the US, China and the UK. Elsewhere, persisting geopolitical jitters in Iraq favored the safe haven appeal of US Treasuries and German Bunds while, in FX markets, **commodity related currencies** were among the main outperformers.

GREECE: Greece's PMI Manufacturing Index fell back below the boom-or-bust level of 50 in June coming in at a seven-month trough of 49.4. Yet, on a three-month rolling average basis, the index stood at 50.5 in June, remaining above the aforementioned threshold for the 5th month running. In other news, an unnamed European official was quoted as saying in the sidelines of Monday's June 30 Euro Working Group meeting that the Greek side is expected to have fulfilled all six prior actions attached to the next EFSF loan tranche in time for the **July 7 Eurogroup**.

SOUTH EASTERN EUROPE

SERBIA: Serbia's Debt Management Agency sold on Tuesday RSD 1.82bn of a re-tapped 7-year T-bond (June 2021), at an average accepted yield of 11.8%.

ROMANIA: The Central Bank stayed put on interest rates at its MPC meeting on Tuesday, keeping its key policy rate unchanged at a record-low of 3.5%; reduced the minimum reserve requirement ratio on foreign currency-denominated liabilities of credit institutions to 16% from 18% previously.

BULGARIA: According to the latest Eurostat figures, the rate of unemployment stood at 11.9% in May for the second month in a row but below a multi-month peak of 13.0% hit in October last year, pointing to a modest improvement in labour market conditions.

CESEE Markets: CESEE stock markets closed mixed on Tuesday, with June's downbeat PMI manufacturing data in Hungary, Poland and Turkey weighing on regional bourses.

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Latest world economic & market developments

GLOBAL MARKETS

The majority of global equity markets moved higher on Wednesday supported by increased optimism about the prospects of the world economy following a recent string of positive PMI manufacturing-related data from the US, China and the UK. Elsewhere, persisting geopolitical jitters in Iraq favored the safe haven appeal of US Treasuries and German Bunds while, in FX markets, **commodity related currencies** were among the main outperformers. Elsewhere, the **USD** remained under pressure amid market concerns that the expected rebound of the US economic activity in the second quarter of this year may fall short of market expectations after recording a surprisingly high contraction of 2.9%qoq annualised in the January-March period. The EUR/USD retained a firm tone on Wednesday hitting a six-week high near 1.3700 in early European trade with market participants awaiting Thursday's ECB policy meeting and the US' June non-farm payrolls report. Technically, the next upside target stands at the key Fibonacci level of 1.3745 while strong support lies at 1.3615 (Fibonacci).

GREECE

Greece's **PMI Manufacturing Index** fell back below the boom-or-bust level of 50 in June coming in at a seven-month trough of 49.4. Yet, on a three-month rolling average basis, the index stood at 50.5 in June, remaining above the aforementioned threshold for the 5th month running. In other news, an unnamed European official was quoted as saying in the sidelines of Monday's June 30 Euro Working Group meeting that the Greek side is expected to have fulfilled all six prior actions attached to the next EFSF loan tranche in time for the **July 7 Eurogroup**. Should this be the case, euro area finance ministers are expected to give the green light for the release of the said tranche, amounting €1bn, as part of the €8.3bn EFSF installment approved at the April 1st Eurogroup. As things stand at this point, the only prior action still pending is that related to the reduction in the average profit margin of pharmacists to 15% from 19% currently.

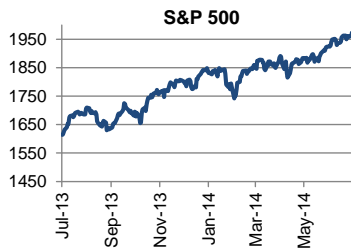
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Latest developments in the CESEE region

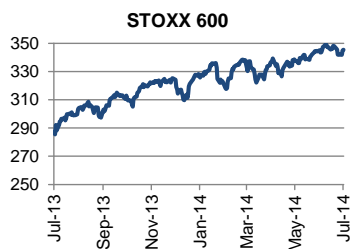
CESEE markets

CESEE stock markets closed mixed on Tuesday, with June's downbeat PMI manufacturing data in Hungary, Poland and Turkey weighing on regional bourses. Bulgaria's SOFIX led the gains in the region remaining on a recovery path, with IMF comments suggesting that the country's banking sector is "well capitalized and liquid" after the recent depositor runs in two domestic banks providing additional support. **In FX markets**, CESEE currencies broadly recoiled as recently released lackluster domestic macroeconomic data pointed to a slowdown in regional economic activity adding to expectations for further Central Bank monetary policy easing. Indicatively, the Polish zloty touched a multi-session low near 4.1660/EUR at some point on Tuesday, ahead of the conclusion of the two-day Central Bank (NBP) monetary policy meeting later in the day. A decision for unchanged policy rates at current levels -as has been the case for the last year or so - is considered a done deal. However, market talk for lower interest rates ahead has lately emerged as CPI remains persistently below the NBP 2.5%+/-1% inflation target and the domestic economic recovery appears to be losing momentum following a 2-year high 3.40%YoY GDP growth reading in Q1 2014. In the **local rates markets**, expectations for further monetary policy easing provided support to regional government bonds on Tuesday.

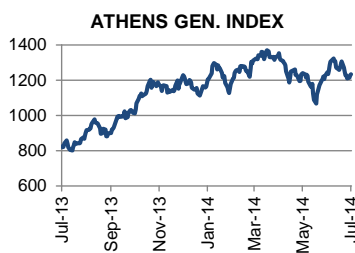
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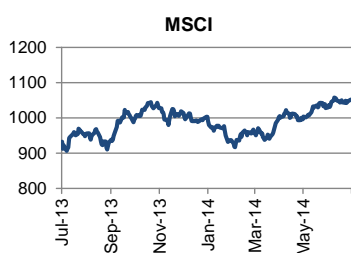
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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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	9.00	9.00

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

SERBIA

(Belgrade, 2/6/2014, 10:30 CET): **Latest Political & Macro Developments:** Serbia's Debt Management Agency sold on Tuesday RSD 1.82bn of a re-tapped 7-year T-bond (June 2021), at an average accepted yield of 11.8%. The amount allotted was below the planned RSD 4.99bn volume, while investors' bids totaled RSD 3.28bn. **Market Developments:** In the absence of any significant news domestically, the EUR/RSD was little changed on Monday, closing at 115.75/95 after opening at 115.65/85. Looking ahead, any further upside is likely to prove rather limited on the view that the Central Bank is likely to intervene anew in the FX markets in order to halt the cross's positive momentum should it come closer to the key psychologically important level of 116.00.

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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
	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, 2/7/2014, 09:00 EET): **Latest Political & Macro Developments:** The Central Bank stayed put on interest rates at its MPC meeting on Tuesday, keeping its key policy rate unchanged at a record-low of 3.5% for the third consecutive time. Moreover, it decided to reduce the minimum reserve requirement ratio on foreign currency-denominated liabilities of credit institutions to 16% from 18% previously and keep unchanged the corresponding ratio on leu-denominated liabilities at 12%. Once the latter measure comes into force with the July 24-August 23 maintenance period, ca €500mn is estimated to be injected into the domestic banking system. **Market Developments:** The EUR/RON continued to consolidate within its recent 4.3800-4.3900 trading range on Tuesday, with the MPC policy announcement appearing to have a rather limited impact on the cross as it was largely priced in. In a similar vein, money market rates were little changed yesterday, with those bearing short term tenors (up to 1 week) standing at 2.75% on Tuesday's settlement, 1 month rates ending at 2.00% and 3-12 month rates closing at 1.75%. Domestic government bonds firmed in the wake of the MPC decision, with the mid and long part of the yield curve easing by 5bps on the day to close at 2.90% (3Y), 3.30% (5Y) and 4.30% (10Y).

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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

BULGARIA

(Sofia, 1/7/2014, 17:45 EET): **Latest Political & Macro Developments:** According to the latest Eurostat figures, the rate of unemployment stood at 11.9% in May for the second month in a row but below a multi-month peak of 13.0% hit in October last year, pointing to a modest improvement in labour market conditions. **Market Developments:** The domestic stock market extended its relief rally on Tuesday, to close 2.4% higher adding to Monday's 5.8% gains. As we noted of late, further gains for domestic bourses are likely in the coming sessions as the recent sell-off instigated by the Corpbank crisis seems to have been overstretched. Corpbank's jitters are largely deemed as idiosyncratic and are not expected to have a significant and long-lasting impact on the domestic banking system. European Commission's credit line approval to Bulgaria also soothed investor concerns about the sector's outlook.

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July 2, 2014

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	1973.32	0.7%	6.8%	EUR/USD	1.3667	-0.1%	-0.6%	UST - 10yr	2.55	-1	-47	GOLD	1326	0.0%	10.0%
Nikkei 225	15369.97	0.3%	-5.7%	GBP/USD	1.7148	0.0%	3.6%	Bund-10yr	1.25	0	-68	BRENT CRUDE	182	0.0%	8.6%
STOXX 600	345.46	0.2%	5.2%	USD/JPY	101.52	0.0%	3.7%	JGB - 10yr	0.56	0	-18	LMEX	3205	-0.1%	1.5%

SEE MARKETS

SERBIA

Money Market

	Last	ΔDbps	ΔYTD bps
BELIBOR			
T/N	6.71	3	-130
1-week	7.00	7	-128
1-month	7.28	5	-130
3-month	7.74	3	-114
6-month	8.03	3	-112

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.45	0	-161
5Y RSD	10.67	2	-216
7Y RSD	11.56	2	-225

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.74	0	-127
USD Nov-24	1.74	-480	-517

CDS

	Last	ΔDbps	ΔYTD bps
5-year	260	-8	-149
10-year	307	-8	-140

STOCKS

	Last	ΔD	ΔYTD
BELEX15	575.6	0.14%	3.16%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	115.4	-0.32%	-1.12%



ROMANIA

Money Market

	Last	ΔDbps	ΔYTD bps
ROBOR			
O/N	2.28	-8	54
1-month	2.04	-3	16
3-month	2.39	-2	-5
6-month	2.71	-2	-28
12-month	2.79	-2	-36

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.65	0	-130
5Y RON	3.12	0	-153
10Y RON	4.33	0	-97

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	2.39	0	-145
USD Aug-23	3.95	-6	-85

CDS

	Last	ΔDbps	ΔYTD bps
5-year	135	0	-50
10-year	185	1	-47

STOCKS

	Last	ΔD	ΔYTD
BET	7076.9	0.78%	8.98%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.3863	0.02%	1.97%



BULGARIA

Money Market

	Last	ΔDbps	ΔYTD bps
SOFIBOR			
LEONIA	0.03	0	-4
1-month	0.25	0	-7
3-month	0.53	0	-11
6-month	1.00	0	-15
12-month	1.92	0	-28

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	1.10	2	1
5Y BGN	1.63	4	-21
10Y BGN	3.08	0	-42

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	1.28	-2	69
EUR Jul-17	1.59	3	-21

CDS

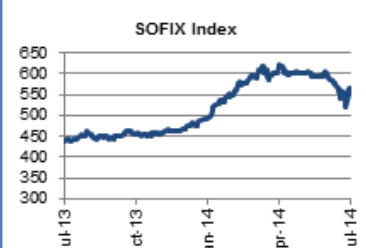
	Last	ΔDbps	ΔYTD bps
5-year	143	-2	-5
10-year	195	-2	21

STOCKS

	Last	ΔD	ΔYTD
SOFIX	565.8	0.25%	15.11%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.4313	-0.09%	-0.57%



Source: Reuters, Bloomberg, Eurobank Global Markets Research

Data updated as of 11:00 EET

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