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Eurobank

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

May 19, 2014

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: **Major Asian equity markets** kicked off the week on a negative tone weighed down by mounting worries over a more pronounced than initially expected economic slowdown in China this year. In FX markets, the **EUR** remained under pressure in European trade on Monday amid heightened expectations that the ECB will likely take some action at its next policy meeting in June. Elsewhere, **German government bonds** retained a firm tone favored by mounting ECB policy easing expectations.

Greece:. The results of the first round of y-day's **local polls** for the election of mayors and town councils in 325 municipalities as well as prefects for 13 prefectures across the country was rather mixed. Focus now turns on the second round of local elections, scheduled for Sunday May 25, which will take place alongside European Parliament election.

SOUTH EASTERN EUROPE

SERBIA: The dinar was little changed on Friday, largely shrugging off renewed Central Bank intervention in the FX markets.

ROMANIA: MoF holds a primary market auction for RON 400mn of 10Y benchmark bonds (remaining 9Y Apr 2023), with the average accepted yield expected to come in at around 4.75-85%.

BULGARIA: Real GDP growth came in at 1.1%YoY in Q1 2014, not much changed compared to 1.2%YoY a quarter earlier.

CESEE Markets: **Emerging stock markets** moved modestly higher on Friday, recording weekly gains for the third week running primarily thanks to a rally in Indian stock markets in the wake of the market friendly outcome in the country's recent general elections. Elsewhere**, CESEE bourses and currencies** were mixed. In the **local rate markets**, the recent rally in Polish and Hungarian bonds ran out of steam as profit taking emerged on Friday.

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US
- May 21: FOMC meeting minutes
- May 22
  - Initial jobless claims (May 17)
  - Existing home sales (Apr)
- May 23: New home sales (Apr)

EUROZONE
- May 21: Consumer confidence (May)
- May 22: PMI (May)
- May 23: (DE): Ifo (May)

SEE

SERBIA
- May 20:
  - CAD (Mar)
  - 2-Y T-Bonds auction

ROMANIA
- May 19: RON 400mn 10-Y T-Bond auction
- May 22: RON 500mn T-Bonds auction

BULGARIA
- May 19: T-Bonds auction (2016)
- May 19-23: U/E rate (Apr)

Source: Reuters, Bloomberg, Eurobank Global Markets Research

Latest world economic & market developments

GLOBAL MARKETS

Major Asian equity markets kicked off the week on a negative tone weighed down by mounting worries over a more pronounced than initially expected economic slowdown in China this year following news that domestic authorities adopted more strict rules on interbank lending. In FX markets, the EUR remained under pressure in European trade on Monday amid heightened expectations that the ECB will likely take some action at its next policy meeting in June aiming at addressing deflation risks and boosting lending to small and medium-sized enterprises (SMEs). The **EUR/USD** was hovering around 1.3715/20 at the time of writing, not very far from a three-month low of 1.3647 hit late last week following a short-lived spike to levels near 1.4000 earlier this month. Elsewhere, **German government bonds** retained a firm tone favored by mounting ECB policy easing expectations. The 10-yr Bund yield was standing close to 1.33% at the time of writing, within distance from last week's eight-month closing trough of 1.31% following levels near 1.47% a week earlier.

GREECE

The results of the first round of y-day's **local polls** for the election of mayors and town councils in 325 municipalities as well as prefects for 13 prefectures across the country was rather mixed. Candidates supported by major coalition partner New Democracy came in first in 9 out of the country's 13 prefectures while main opposition SYRIZA's representatives qualified for the second round of elections in 5 prefectures. SYRIZA's candidate for the Attica region performed better-than-initially expected coming in first. With around 95% of the votes counted, SYRIZA's said candidate received a popularity rate of 23.8% while the incumbent prefect trailed behind with a share of around 22.2%. Focus now turns on the second round of local elections, scheduled for Sunday May 25, which will take place alongside European Parliament election.

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Latest developments in the CESEE region

CESEE markets

Emerging stock markets moved modestly higher on Friday, recording weekly gains for the third week running primarily thanks to a rally in Indian stock markets in the wake of the market friendly outcome in the country's recent general elections. Elsewhere, CESEE bourses were mixed. Ukraine's PFTS outperformed its regional peers with a 1.51% bounce, followed by Hungary's BUX which rose by 1.08% thanks to upbeat Q1 corporate earnings results. On the flipside, stock markets in Turkey, Poland and Bulgaria closed in the red. Romania's BET Index ended flat, with news about S&P's upgrade of the country's sovereign credit rating to investment grade earlier in the week having a rather limited impact as it appeared to have already been largely priced in. **CESEE currencies** were also mixed on Friday, with the Hungarian forint leading the way higher. Despite 450bps of cumulative rate easing since August 2012 and prospects for even lower policy rates ahead, the EUR/HUF shed some 0.44% to close at 304.97 on Friday, standing within distance from a near 4-month trough of 302.40 hit a session earlier. In the **local rate markets**, the recent rally in Polish and Hungarian bonds ran out of steam as profit taking emerged on Friday. Recall that, CESEE bond markets were broadly supported over the last few sessions by April's CPI readings which confirmed subdued inflation pressures as well as Q1 2014 GDP data which added to the view that that a sustained recovery is underway in the region.

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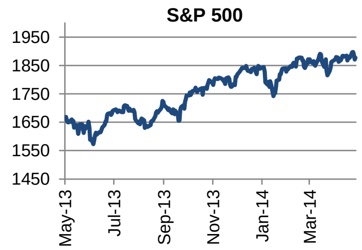
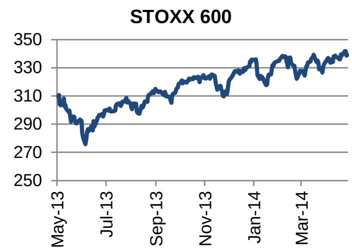


Source: Reuters, Bloomberg, Eurobank Global Markets Research



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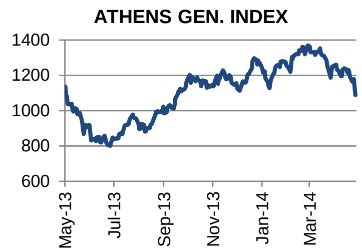

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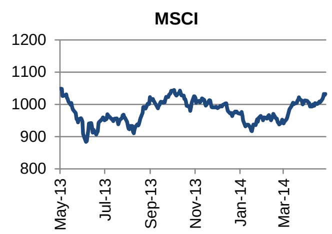

Source: Reuters, Bloomberg, Eurobank Global Markets Research

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	2.4	1.0
CPI (pa, yoy %)	7.8	7.8	3.5
Budget Balance/GDP	-6.4	-6.5	-7.4
Current Account/GDP	-10.9	-4.6	-3.4
EUR/RSD (eop)	112.37	114.57	118.00
	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, 16/5/2014, 16:50 CET): **Latest Political & Macro Developments:** The government submitted to Parliament a draft tax law late last week, which includes the introduction of a tax break of 65%-75% on payroll tax for all employers (in both public and private sector) on newly employed personnel. **Market Developments:** The EUR/RSD was little changed on Friday closing at 115.40/60 after opening at 115.35/55, largely shrugging off renewed Central Bank intervention in the FX markets earlier in the session. In detail, the NBS bought approximately EUR10mn on Friday in order to halt the dinar's appreciating momentum, bringing the total amount of EUR purchases to ca €150mn so far this year. Elsewhere, the domestic stock market closed nearly flat on Friday, with the main BELEX15 index posting aggregate weekly gains to the tune of 0.49%.

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ROMANIA: Indicators	2012	2013e	2014f
Real GDP growth %	0.7	3.5	2.7
CPI (pa, yoy %)	3.3	4.0	3.8
Budget Balance/GDP	-3.0	-2.6	-2.2
Current Account/GDP	-4.4	-1.0	-1.2
EUR/RON (eop)	4.44	4.46	4.70
	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, 19/5/2014, 09:30 EET): **Market Developments:** The EUR/RON remained range-bound within 4.4290/360 on Friday. In the money market, short term RON rates in deposits stood close to the deposit facility rate of 0.50% thanks to ample RON liquidity. Separately, the MoF holds a primary market auction for RON 400mn of 10Y benchmark bonds (remaining 9Y Apr 2023) on Monday, expected to render a yield of 4.75-85%.

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BULGARIA: Indicators	2012	2013e	2014f
Real GDP growth %	0.6	0.8	1.8
CPI (pa, yoy %)	3.0	0.9	1.5
Budget Balance/GDP	-0.5	-1.9	-1.8
Current Account/GDP	-1.3	2.0	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, 16/5/2014, 17:10 EET): **Latest Political & Macro Developments:** According to flash NSI estimates, real GDP growth came in at 1.1%YoY in Q1 2014 according to seasonally-adjusted data, not much changed compared to 1.2%YoY a quarter earlier. The breakdown of the data showed that, final consumption grew by 3.1%YoY corresponding to a 91.1% share of GDP, while gross fixed capital formation rose by 3.2%YoY to 18.2% of GDP. Imports of goods and services grew by 5.1%YoY outpacing a 0.7%YoY rise in exports. **Market Developments:** Major domestic stock indices closed little changed on Friday, with the main SOFIX index ending 0.12% lower at 590.86 points.

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GLOBAL MARKETS

Stock markets	Last	ΔD	ΔYTD	FOREX	Last	ΔD	ΔYTD	Government Bonds (yields)	Last	ΔDbps	ΔYTD bps	Commodities	Last	ΔD	ΔYTD
S&P 500	1877.86	0.4%	1.6%	EUR/USD	1.3709	0.1%	-0.2%	UST - 10yr	2.51	-1	-52	GOLD	1297	0.3%	7.6%
Nikkei 225	14009.33	-0.6%	-14.0%	GBP/USD	1.6823	0.0%	1.6%	Bund-10yr	1.33	0	-60	BRENT CRUDE	167	0.0%	-0.1%
STOXX 600	338.99	0.1%	3.3%	USD/JPY	101.28	0.2%	4.0%	JGB - 10yr	0.59	0	-15	LMEX	3115	-0.1%	-1.4%

SEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	7.33	-1	-68
1-week	7.72	0	-56
1-month	8.07	0	-51
3-month	8.41	1	-47
6-month	8.60	1	-55

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	10.03	0	7
5Y RSD	10.91	0	-191
7Y RSD	11.74	0	-206

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.68	0	-133
USD Nov-24	2.07	-441	-481

CDS

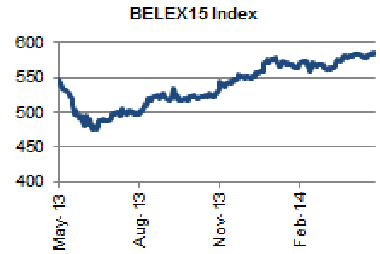
	Last	ΔDbps	ΔYTD bps
5-year	275	0	-134
10-year	314	1	-133

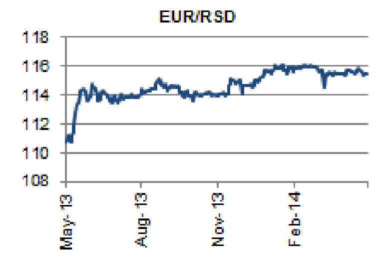
STOCKS

	Last	ΔD	ΔYTD
BELEX15	585.1	0.05%	4.86%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	115.4	-0.07%	-0.81%





ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.86	0	-88
1-month	2.26	0	38
3-month	2.77	0	33
6-month	3.18	0	19
12-month	3.24	0	9

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.43	0	-52
5Y RON	3.92	0	-73
10Y RON	4.75	0	-55

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	2.73	0	-112
USD Aug-23	4.03	-1	-78

CDS

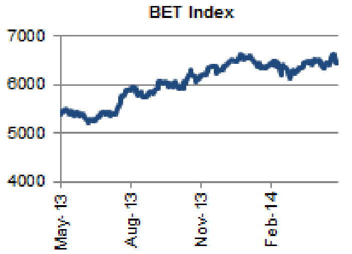
	Last	ΔDbps	ΔYTD bps
5-year	173	0	-11
10-year	212	0	-21

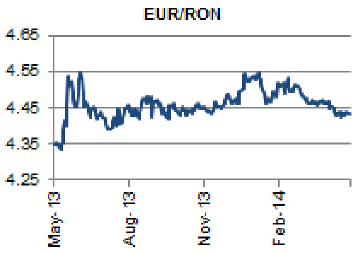
STOCKS

	Last	ΔD	ΔYTD
BET	6428.3	0.03%	-1.01%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4326	0.03%	0.91%





BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.03	0	-4
1-month	0.29	-1	-3
3-month	0.57	-1	-8
6-month	1.08	0	-8
12-month	2.09	0	-11

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.85	0	-24
5Y BGN	1.47	0	-38
10Y BGN	2.97	0	-52

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	0.38	-3	-18
EUR Jul-17	1.32	-3	-48

CDS

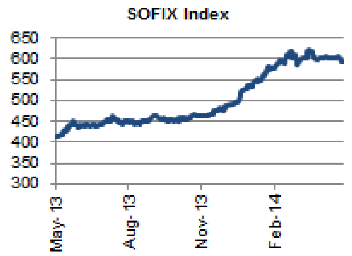
	Last	ΔDbps	ΔYTD bps
5-year	124	0	1
10-year	167	0	-7

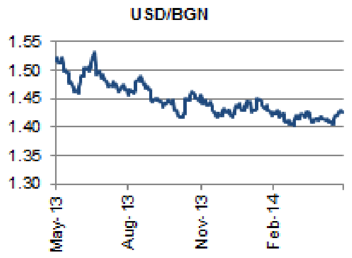
STOCKS

	Last	ΔD	ΔYTD
SOFIX	590.9	-0.12%	20.21%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.4267	0.12%	-0.25%





Source: Reuters, Bloomberg, Eurobank Global Markets Research

Data updated as of 09:15 EET

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