

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

August 18, 2014

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- August 18: NAHB index (Aug)
- August 19
 - CPI (Jul)
 - Housing starts (Jul)
 - Housing permits (Jul)
- August 20: Fed's July 29-30 FOMC meeting minutes
- August 21
 - Initial jobless claims (Aug 16)
 - Philly Fed (Aug)
 - Existing home sales (Jul)
- August 21-23: Fed annual economic symposium in Jackson Hole

EUROZONE

- August 21
 - PMI (Aug)
 - Consumer confidence (Aug)

SEE

SERBIA

- August 19: 5-year RSD bond auction
- August 19: CAD (Jun)

ROMANIA

- August 18: T-bond auction
- August 21: T-bond auction

BULGARIA

- August 25: Gross external debt (Jun)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: After a mixed performance in **Wall Street** on Friday, **Asian stock markets** treaded water earlier today, but **European bourses** opened broadly higher as concerns about a potential escalation of geopolitical tensions in Ukraine somewhat eased. In the **FX markets**, the dollar was little changed in European trade on Monday as caution prevailed ahead of the Fed's annual Jackson Hole symposium (August 21-23) which starts on Thursday.

SOUTH EASTERN EUROPE

SERBIA: The Privatization Agency announced on Friday the sale of 502 state-owned companies.

ROMANIA: Financial markets were closed on Friday for holiday; according to data released on Thursday, real GDP contracted by 1.0%qoq in Q2 2014, confounding expectations for a 0.3%qoq rise and bringing the annual rate of increase to 1.2% compared to the market's median forecast of 3.3%. In all, the data adds to the view for further NBR monetary easing ahead.

BULGARIA: According to flash NSI data (released on Thursday), real GDP grew by 1.6%YoY in Q2, with the annual rate of increase peaking up pace from 1.2%YoY a quarter earlier.

CESEE MARKETS: The majority of **emerging stock markets** posted modest gains in European trade on Monday, as concerns about a potential escalation of geopolitical tensions in Ukraine somewhat eased. In the **FX markets**, CESEE currencies were mixed.

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Latest world economic & market developments

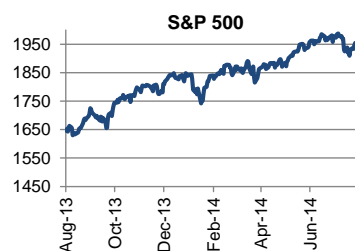
GLOBAL MARKETS

After a mixed performance in **Wall Street** on Friday, **Asian stock markets** treaded water earlier today amid renewed geopolitical concerns, following media reports late last week that the Ukrainian military destroyed part of a Russian armoured vehicle column in Ukrainian territory, raising worries about a further escalation of the conflict in the region. Yet, **European bourses** opened broadly higher on Monday, on news that foreign ministers of Russia, Germany, France and Ukraine met over the weekend in Berlin aiming to find a solution over the crisis in eastern Ukraine, with a "certain progress" reportedly made. In the **FX markets**, the dollar was little changed in European trade on Monday as caution prevailed ahead of the Fed's annual Jackson Hole symposium (August 21-23) which starts on Thursday. Chair Janet Yellen's speech on Friday takes centre stage and her comments will likely be closely scrutinized by market participants for any hints about the Central Bank's monetary policy deliberations ahead. July 29-30 FOMC and August 6-7 BoE monetary policy meeting minutes, both due for release on Wednesday, are also in the spotlight this week. Against this backdrop, the **EUR/USD** was hovering around levels of 1.3385/86 at the time of writing compared to 1.3398 on Friday's settlement, remaining however within distance from a recent 9-month trough of 1.3331 touched a couple of weeks ago. Elsewhere, persisting geopolitical tensions continued to support the safe haven allure of **US Treasury yields**, with the corresponding 10-year UST yield standing near 2.37% in European trade on Monday, just above a 16-month intraday low of 2.30% hit in the prior session.

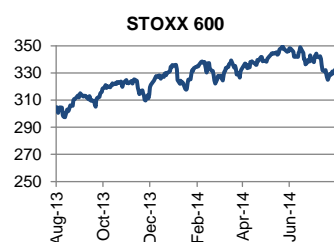
Latest developments in the CESEE region

CESEE MARKETS

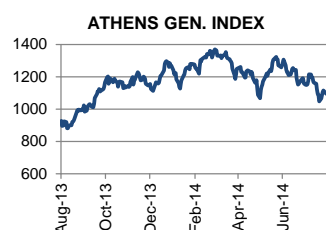
The majority of **emerging stock markets** posted modest gains in European trade on Monday, as concerns about a potential escalation of geopolitical tensions in Ukraine somewhat eased. In the CESEE region, Romania's BETI led the gains with a 0.68% rise outperforming a meagre 0.12% increase in the broader MSCI index of emerging equities. Turkey's main BIST100 index lagged its peers' momentum, inching up by 0.16% at the time of writing, amid persisting political uncertainty after last week's Presidential election. Prime Minister Tayyip Erdogan is expected to announce on Thursday his replacement after his victory at the said poll, while the focus is also on whether Deputy Prime Minister Ali Babacan and Finance Minister Mehmet Simsek will retain their current posts. Moody's said in a statement on Friday that "Turkey's presidential election result is unlikely to resolve key credit challenges" warning that domestic political uncertainty will likely persist at least until the conclusion of general elections in 2015. In the **FX markets**, regional currencies were mixed. The Turkish lira remained under pressure with the USD/TRY hovering around levels of 2.1700 in European trade, little changed from Friday's 2.1673 settlement but approaching anew a 5-month peak of 2.1877 hit a few sessions ago. From a near to medium term perspective, the lira is likely to remain under pressure amid expectations for further Central Bank monetary easing ahead - with the government being an eloquent supporter of lower policy rates for some time now - while inflation remains persistently elevated (at 9.3%YoY in July, well above the CBT's 5.0% medium term target). Potential renewed bouts of geopolitical jitters, persisting domestic political uncertainty, an elevated current account deficit (market's median forecast at 6%-of-GDP in 2014) and the prospect of a sooner-than-currently expected Fed rate hike are among key downside risks for the Turkish currency. Technically, immediate resistance for the USD/TRY lies at 2.1770 (August 15 high), ahead of 2.1873 (August 8, 5-month peak).



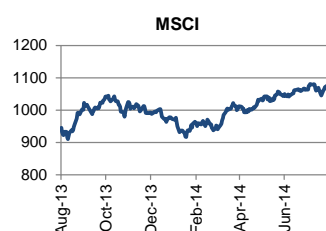
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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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

SERBIA: Indicators	2012	2013e	2014f
Real GDP growth %	-1.5	2.5	-0.4
CPI (pa, yoy %)	7.8	7.8	2.5
Budget Balance/GDP	-7.5	-5.8	-8.0
Current Account/GDP	-10.9	-5.0	-4.2
EUR/RSD (eop)	112.37	114.57	117.00
	2013	current	2014f
Policy Rate (eop)	9.50	8.50	8.00

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

(Belgrade, 15/8/2014, 16:45 CET): **Latest Political & Macro Developments:** The Privatization Agency (part of the Ministry of Economy) launched on Friday a sale process for 502 state-owned companies. The companies under offer have assets estimated at €6.8bn and total debt of €6.6bn. They showed an aggregate loss of €500m for the year of 2013. The privatization project is part of the large scale revamping of the national economy program, taken upon by the new administration. **Market Developments:** The EUR/RSD was little changed over the last three sessions after the Central Bank intervened anew in the FX markets on Wednesday selling €10mn in order to halt the cross's renewed upside momentum. Against this backdrop, the pair remained bound within its recent range of 117.30/50-117.40/60 late last week. NBS Governor Jorgovanka Tabaković said on Tuesday that "the NBS will do everything to ensure that there are no sudden shocks and that the dinar's exchange rate is relatively stable". With these developments in mind, the EUR/RSD is likely to remain trapped within its recent range in the week ahead.

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ROMANIA

ROMANIA: Indicators	2012	2013e	2014f
Real GDP growth %	0.6	3.5	3.0
CPI (pa, yoy %)	3.3	4.0	1.7
Budget Balance/GDP	-3.0	-2.3	-2.2
Current Account/GDP	-4.4	-1.1	-1.0
EUR/RON (eop)	4.44	4.46	4.40
	2013	current	2014f
Policy Rate (eop)	4.00	3.25	3.00

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

(Bucharest, 18/8/2014, 9:20 EET): **Latest Political & Macro Developments:** According to flash Q2 GDP data released on Thursday by the National Statistics Institute, economic activity contracted by 1.0%qoq over the April-June period, confounding expectations for a 0.3%qoq advance and bringing the annual rate of increase to 1.2% compared to the market's median forecast of 3.3%. Moreover, Q1 real GDP growth was revised down to -0.2%qoq from 0.2%qoq previously announced. **Market Developments:** The EUR/RON remained trapped within its recent range of 4.4330/420 late last week in view of Friday's market holiday. Meanwhile, the recent downtrend witnessed in money market rates continued on Thursday, with the 1-month implied rate from swaps having decreased by 40bps from the beginning of the week to 1.70%. Elsewhere, government bonds broadly firmed on improved investor sentiment towards risky assets last week and after the disappointing GDP figures for Q2 cemented expectations for further NBR monetary easing ahead. As a result, 5-10-year government bond yields eased by around 10-15bps on Thursday. Later on Monday, the MoF holds a primary market auction for RON 300mn of 7Y (June 2021) bonds. The market's median forecast is that the tender will produce an average yield around 4.15-20%. That said, the MoF may decide reject all bids considering current yield levels to be too high.

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BULGARIA

BULGARIA: Indicators	2012	2013e	2014f
Real GDP growth %	0.6	0.9	1.8
CPI (pa, yoy %)	3.0	0.9	-0.9
Budget Balance/GDP	-0.8	-1.5	-3.0
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

(Sofia, 18/8/2014, 9:30 EET): **Latest Political & Macro Developments:** According to flash NSI data (released on Thursday), real GDP grew by 1.6%YoY in Q2, with the annual rate of increase peaking up pace from 1.2%YoY a quarter earlier. Final consumption rose by 2.0%YoY, while gross fixed capital formation increased by 3.9%YoY. Exports of goods and services advanced by 2.9%YoY, outpacing a concomitant 1.0%YoY rise in imports. In other news, the current account balance recorded a surplus of EUR 262.4mn in H1 2014 doubling from a year earlier, thanks to an 87.1%YoY decline to EUR 83.6mn in the income deficit.

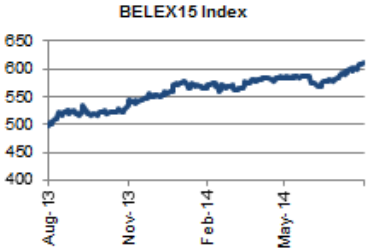

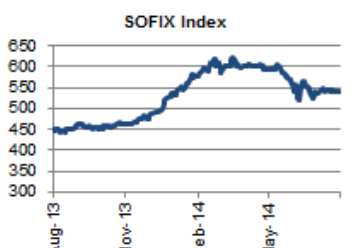


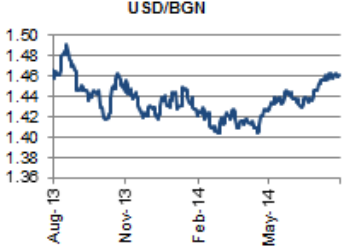
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GLOBAL MARKETS

Stock markets				FOREX				Government Bonds				Commodities			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD	(yields)	Last	ΔDbps	ΔYTD bps		Last	ΔD	ΔYTD
S&P 500	1955.06	0.0%	5.8%	EUR/USD	1.339	-0.1%	-2.6%	UST - 10yr	2.36	2	-67	GOLD	1303	-0.1%	8.1%
Nikkei 225	15322.60	0.0%	-5.9%	GBP/USD	1.6735	0.3%	1.1%	Bund-10yr	0.99	4	-94	BRENT CRUDE	179	0.0%	6.8%
STOXX 600	332.96	1.0%	1.4%	USD/JPY	102.43	-0.1%	2.8%	JGB - 10yr	0.50	0	-24	LMEX	3210	0.4%	1.6%

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	6.67	0	-134	O/N	0.83	#VALUE!	-91	LEONIA	0.05	1	-2
1-week	6.90	1	-138	1-month	1.81	#VALUE!	-7	1-month	0.23	0	-9
1-month	7.23	1	-135	3-month	2.17	#VALUE!	-27	3-month	0.49	0	-15
3-month	7.73	2	-115	6-month	2.52	#VALUE!	-47	6-month	0.91	0	-25
6-month	8.03	1	-112	12-month	2.68	#VALUE!	-47	12-month	1.74	0	-46
RS Local Bonds				RO Local Bonds				BG Local Bonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	(yields)	Last	ΔDbps	ΔYTD bps
3Y RSD	9.46	0	-49	3Y RON	2.65	-7	-130	3Y BGN	1.39	9	29
5Y RSD	10.27	-2	-255	5Y RON	3.34	0	-131	5Y BGN	2.04	4	19
7Y RSD	11.28	2	-252	10Y RON	4.34	-3	-96	10Y BGN	3.18	0	-32
RS Eurobonds				RO Eurobonds				BG Eurobonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
USD Nov-17	3.71	-1	-130	EUR Sep-20	2.27	2	-158	USD Jan-15	0.88	-3	30
USD Nov-24	0.00	-657	-690	USD Aug-23	3.78	2	-103	EUR Jul-17	1.38	7	-42
CDS				CDS				CDS			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
5-year	280	-10	-129	5-year	140	-3	-46	5-year	132	0	12
10-year	328	-10	-119	10-year	185	-3	-48	10-year	175	0	1
STOCKS				STOCKS				STOCKS			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
BELEX15	612.0	0.37%	9.67%	BET	7021.3	0.55%	8.12%	SOFIX	541.8	0.22%	10.23%
FOREX				FOREX				FOREX			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
EUR/RSD	115.4	0.37%	-2.07%	EUR/RON	4.4355	-0.04%	0.84%	USD/BGN	1.4607	-0.08%	-2.57%
											
											

Source: Reuters, Bloomberg, Eurobank Global Markets Research

Data updated as of 12:30 EET

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