

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

August 12, 2014

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- August 13
 - Retail sales (Jul)
 - Fed's Dudley & Rosengren speak
- August 14: Initial jobless claims (Aug 8)
- August 15
 - Empire manufacturing (Aug)
 - IP (Jul)
 - UoM consumer sentiment (Aug)

EUROZONE

- August 12: DE: ZEW Survey (Aug)
- August 14
 - GDP (Q2)
 - HICP (Jul, f)

SEE

SERBIA

- August 12
 - HICP (Jul)
 - 2-Year floating RSD T-bonds auction

ROMANIA

- August 11
 - CPI (Jul)
 - Trade balance (Jun)
 - IP (Jun)
 - T-Bonds auction
- August 13: CAD (Jun)
- August 14: GDP (Q2, A)

BULGARIA

- August 11
 - Trade balance (Jun)
 - T-Bonds auction
- August 11-15: Unemployment rate (Jul)
- August 12: CPI (Jul)
- August 14
 - GDP (Q2, P)
 - CAD (Jun)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Tracking gains in **Wall Street** overnight **Asian stock markets** rose for the second session running on Tuesday on optimism about easing geopolitical tensions. On the flipside, **European bourses** stood in a negative territory in morning trade today and the **euro** came under renewed pressure on concerns about Germany's economic growth prospects after August's downbeat ZEW data.

SOUTH EASTERN EUROPE

SERBIA: FX reserves stood at €10.12bn at the end of July, largely unchanged from the prior month.

ROMANIA: Romanian markets lag regional peers.

BULGARIA: The Ministry of Finance reopened its 5-year benchmark bond issue on Monday, selling BGN 50mn at an average accepted yield of 2.46%, above previously achieved levels of 1.79% in June.

CESEE MARKETS: The majority of **emerging stock markets** firmed on Tuesday extending yesterday's gains, but caution prevailed as investors remain wary of any further geopolitical developments in Ukraine and the Middle East. **CESEE currencies** eased in European trade on Tuesday, with Ukraine's hryvnia leading the losses in the region.

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Latest world economic & market developments

GLOBAL MARKETS

Tracking gains in **Wall Street** overnight **Asian stock markets** rose for the second session running on Tuesday on optimism about easing geopolitical tensions. According to media reports, Russia ended late last week military exercises near Ukraine's border held since August 4. Meanwhile, Egypt-mediated negotiations between Israel and Palestinians over a longer lasting solution, following Sunday's 72-hour ceasefire in Gaza, are expected to resume on Tuesday. On the flipside, **European bourses** stood in a negative territory in morning trade today, giving back some of yesterday's gains, after Germany's headline ZEW index dropped for the eighth month running in August to hit its lowest level in 1-½-years, adding to concerns that the recently imposed sanctions against Russia are taking a toll on Europe's largest economy. In the **FX markets**, the euro recoiled in European trade with the EUR/USD trading around levels of 1.3345/46 at the time of writing, after hitting an intraday low of 1.3335 in the wake of the ZEW data release, approaching anew a 9-month low of 1.3333 hit mid last week.

GREECE

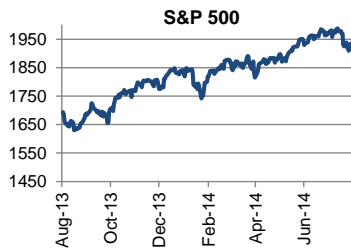
The PDMA is expected to auction later on Tuesday **€1bn of 3-month T-bills** to refinance maturing debt. Meanwhile, **Q2 GDP data is due for release tomorrow**. Economic activity is expected to show a contraction of 0.5%YoY over the April-June period, in non-seasonally adjusted basis. Recall that real GDP shrunk by 0.9%YoY in Q1 2014, marking the slowest pace of contraction in nearly four years.

Latest developments in the CESEE region

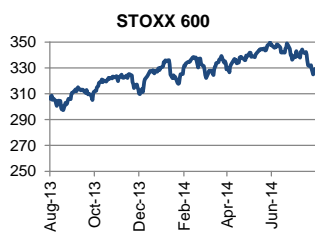
CESEE MARKETS

The majority of **emerging stock markets** firmed on Tuesday extending yesterday's gains, but caution prevailed as investors remain wary of any further geopolitical developments in Ukraine and the Middle East. Hungary's BUX index broadly underperformed its regional peers with a 0.75% decline after OTP, the country's largest bank, warned that refunds to customers - as part of recently endorsed legislation compensating borrowers for losses incurred via loans granted in FX by financial institutions - could reduce its future earnings by more than expected. Lacking any convincing signs for a sustained de-escalation of geopolitical tensions, at present, **CESEE currencies** eased in European trade on Tuesday. Ukraine's hryvnia led the losses in the region, with the USD/UAH bouncing by more than 4% to 13.20 at the time of writing, approaching anew a lifetime peak of 13.30 hit in April. The lira remained under pressure as the recent victory of Prime Minister Erdogan in the first round of Sunday's Presidential elections raised concerns about policy predictability and potential concentration of political power. Against this backdrop, the USD/TRY bounced as far as 2.1680 earlier today, approaching anew a 5-month high of 2.1873 hit on Friday. Depreciating pressures on the lira are likely to persist in the coming sessions as upcoming developments in the domestic political landscape as well as in Ukraine and the Middle East are likely to remain in the limelight. Elsewhere, an upside surprise in Hungary's July CPI appeared to have a relatively limited impact on the forint, which broadly trailed the trend in regional currencies to stand 0.25% weaker at 314.20/EUR at the time of writing. In more detail, CPI unexpectedly rose by 0.1%YoY in July after a 0.3%YoY decline in June, confounding expectations for a 0.1%YoY drop. In all, the data does not change our view that the Central Bank will stay put on rates in the months ahead, after 490bps of cumulative monetary easing since August 2012, as inflation pressures remain subdued and CPI is likely to stay below the MNB's 3% target this year.

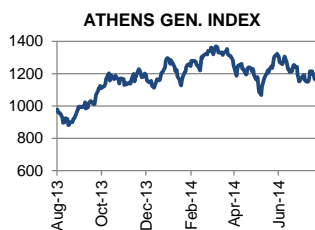
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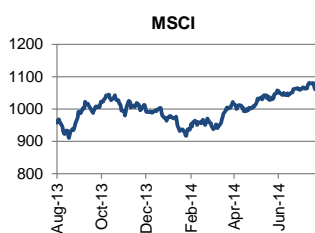
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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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

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, 11/8/2014, 17:00 CET): **Latest Political & Macro Developments:** According to the latest Central Bank data, FX reserves stood at €10.12bn at the end of July, largely unchanged from the prior month. Meanwhile, net FX reserves (excluding commercial banks mandatory reserves and IMF funds) remained at €7.31bn, which at such high levels provide leeway to Central Bank interventions in the FX markets. **Market Developments:** The EUR/RSD extended its recent upturn on Tuesday to close near 2-year highs of 117.35/55 after opening at 117.00/20. The pair's recent upside momentum can be mainly explained by persisting depreciation pressures on the dinar over the last few weeks, which according to Central Bank Governor Jorgovanka Tabakovic stem from ongoing geopolitical uncertainty and the Fed's monetary policy. With further dinar weakness in the coming sessions on the cards, renewed Central Bank intervention in order to halt any further RSD depreciation is likely.

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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, 12/8/2014, 9:20 EET): **Market Developments:** The EUR/RON closed little changed at 4.4400 on Monday, following a short-lived attempt towards 4.4350 earlier in the session. In money markets, short term (up to 1W) implied rates from swaps remained near their recent low levels on the back of ample liquidity. However, longer rates moved higher – the 1M rate increased by 15bps on the day to 2.15%, while 3-6M rose by 20bps to 2.40%. RON-denominated government bonds remained under pressure yesterday with yields across 3-10Y maturities rising by 10bps. On the primary bond market, the MoF issued the planned EUR 250mn in domestic 5Y bonds at an average accepted yield of 2.19%, in line with the market's median forecast.

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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, 12/8/2014, 10:10 EET): **Latest Political & Macro Developments:** According to preliminary NSI data, Bulgaria's trade deficit amounted to BGN 463.2mn in June, marking a BGN 339.7mn decrease compared to the same month a year earlier. The said improvement is due to a 7.1%YoY increase in exports to BGN 3,682.4mn, which rose for the second month running (+5.4% May), reversing a 4-month streak of declines. On the other hand, imports extended their downtrend in June, marking a 2.3%YoY drop to BGN 4,145.6mn after a 0.3%YoY fall in the prior month. **Market Developments:** The domestic stock market lost ground in the second part of Monday's session, with the main SOFIX index shedding 0.55% to 539.55 points. In other news, the Ministry of Finance reopened for third time its 5-year benchmark bond issue on Monday, selling another BGN 50mn at an average accepted yield of 2.46%, above previously achieved levels of 1.79% in June, 1.885% in April and 2.17% in January when the said paper was initially offered. The bid/cover ratio came in at 1.80. Banks remained the major buyers on the primary market acquiring a 63.5% share of the total amount auctioned, followed by pension funds (16.5%), guarantee state funds (16%) and investment intermediaries (4%).

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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	1936.92	0.3%	4.8%	EUR/USD	1.3362	-0.2%	-2.8%	UST - 10yr	2.43	0	-60	GOLD	1309	0.0%	8.5%
Nikkei 225	15161.31	0.2%	-6.9%	GBP/USD	1.6762	-0.1%	1.2%	Bund-10yr	1.06	0	-87	BRENT CRUDE	179	0.0%	5.9%
STOXX 600	329.36	1.4%	0.3%	USD/JPY	102.3	-0.1%	2.9%	JGB - 10yr	0.52	0	-22	LMEX	3256	0.1%	3.1%

SEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	6.68	-1	-133
1-week	6.91	0	-137
1-month	7.24	-1	-134
3-month	7.70	-1	-118
6-month	7.99	-1	-116

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.54	0	-42
5Y RSD	10.29	0	-253
7Y RSD	11.31	0	-249

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	4.19	0	-81
USD Nov-24	1.14	-544	-569

CDS

	Last	ΔDbps	ΔYTD bps
5-year	291	-9	-118
10-year	340	-9	-107

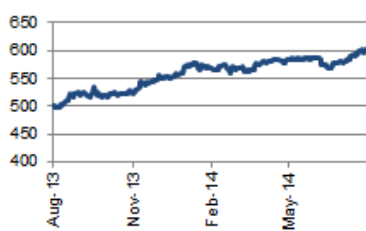
STOCKS

	Last	ΔD	ΔYTD
BELEX15	600.1	-0.56%	7.55%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	115.4	0.00%	-2.41%

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.11	0	-63
1-month	1.73	0	-15
3-month	2.1	0	-34
6-month	2.48	0	-51
12-month	2.63	0	-52

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.71	0	-124
5Y RON	3.42	0	-123
10Y RON	4.49	0	-81

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	2.34	0	-150
USD Aug-23	4.05	0	-75

CDS

	Last	ΔDbps	ΔYTD bps
5-year	147	0	-36
10-year	192	0	-40

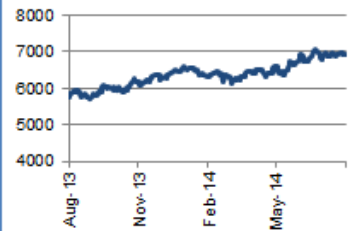
STOCKS

	Last	ΔD	ΔYTD
BET	6946.6	0.45%	6.97%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4411	-0.01%	0.72%

BET Index



EUR/RON



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.03	0	-4
1-month	0.24	0	-8
3-month	0.49	0	-16
6-month	0.91	0	-25
12-month	1.73	0	-46

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	1.30	0	21
5Y BGN	2.05	0	20
10Y BGN	3.18	0	-32

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	1.07	-5	53
EUR Jul-17	1.58	-2	-22

CDS

	Last	ΔDbps	ΔYTD bps
5-year	134	-3	17
10-year	178	-3	3

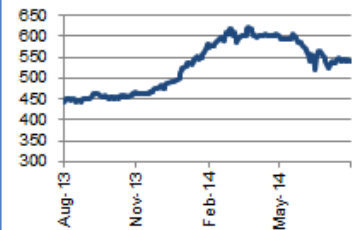
STOCKS

	Last	ΔD	ΔYTD
SOFIX	539.6	-0.55%	9.77%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.4637	-0.18%	-2.77%

SOFIX Index



USD/BGN



Source: Reuters, Bloomberg, Eurobank Global Markets Research
Data updated as of 9:30 EET

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