

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

August 4, 2014

KEY UPCOMING DATA & EVENTS THIS WEEK GLOBAL

US

- August 5
 - ISM non manufacturing (Jul)
 - Factory orders (Jun)
- August 6: Trade balance (Jun)
- August 7: Initial jobless claims (Aug 1)

EUROZONE

- August 5: PMI services, composite (Jul, f)
- August 7: ECB MPC announcement & press conference

SEE

SERBIA

- August 7: MPC meeting announcement

ROMANIA

- August 4
 - Retail sales (Jul)
 - MPC meeting announcement
- August 6: Net wages (Jun)
- August 7: Industrial sales (Jun)

BULGARIA

- August 7
 - Reserve assets (Jul)
 - Unemployment rate (Jul)
- August 8
 - Industrial production (Jun)
- Retail sales (Jun)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: In the wake of losses recorded in **Wall Street** last week, **Asian stock markets** were mixed on Monday. On the flipside, **European bourses** broadly advanced in morning trade after on news that the Portuguese government announced on Sunday a €4.9bn rescue plan for Banco Espirito Santo allaying spillover concerns. In the **FX markets**, the **EUR/USD** held on to Friday's gains after the dollar's recent rally ran out of steam following the weaker-than-anticipated US labour data.

GREECE: Moody's upgraded on Friday Greece's long term local and foreign currency sovereign credit ratings by two notches to Caa1 from Caa3, assigning a stable outlook.

SOUTH EASTERN EUROPE

SERBIA: Serbia's Parliament passed at an extraordinary session on Saturday a privatization bill and changes in bankruptcy legislation, which pave the way for the disbursement of a \$250mn loan from the World Bank.

ROMANIA: The National Bank of Romania cut its key policy rate by 25bps to 3.25% at its MPC meeting on Monday amid subdued inflation pressures.

BULGARIA: Bulgarian parliament holds an extraordinary sitting at 14:00 EET on Monday in its last attempt to approve revisions on the 2014 budget.

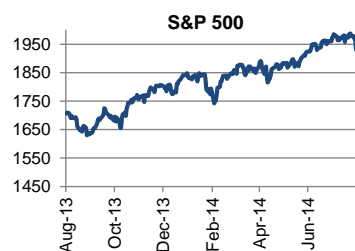
CESEE MARKETS: Taking their cue from advancing European stock markets, the majority of **CESEE bourses** kicked off the week on a positive footing, **regional currencies** were mixed. Among other, Serbia's MPC meeting takes centre stage this week. We broadly concur with the market's median forecast and expect the Central Bank to stay put on rates (policy rate at 8.50%).

DISCLAIMER

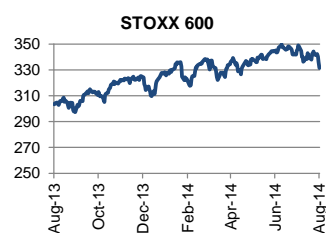
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Latest world economic & market developments

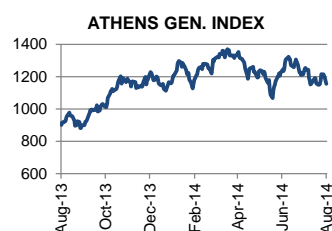
GLOBAL MARKETS



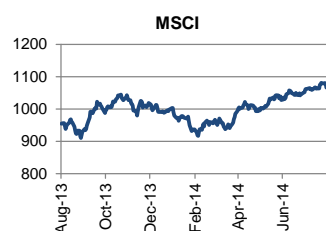
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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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

In the wake of losses recorded in **Wall Street** last week, **Asian stock markets** were mixed on Monday. Chinese shares extended their recent gains on optimism about the prospects of the world's second largest economy. However, caution prevailed as geopolitical tensions in Ukraine and the Middle East persist, worries over the economic impact of US/EU sanctions on Russia linger, while news that Argentina defaulted on its debt for the second time in 13 years last week was still in investors ears. A weaker-than-anticipated non-farm payrolls report released on Friday which provided support to the view that the Fed is in no hurry to raise interest rates was largely shrugged off. In more detail, according to the US Labor Department non-farm payrolls increased by 209k in July following a 298k rise in the prior month (revised from 288k initially announced), underperforming expectations for a 230k advance. In addition, the rate of unemployment unexpectedly edged up to 6.2% last month, confounding expectations for an unchanged reading at June's 6.1%, while the average hourly earnings were stagnant somewhat easing inflation concerns. On the flipside, **European bourses** broadly advanced in morning trade after on news that the Portuguese government announced on Sunday a €4.9bn rescue plan for Banco Espirito Santo allaying concerns about a spillover impact in the country's banking sector. In the **FX markets**, the **EUR/USD** held on to Friday's gains after the dollar's recent rally ran out of steam following the weaker-than-anticipated US labour data which tempered the prospect for a sooner-than-currently-expected Fed rate hike. Against this backdrop, the cross hovered around levels of 1.3419/22 at the time of writing, not far from Friday's 1-week peak of 1.3444, but remained close to a 9-month trough of 1.3365 hit on July 30.

GREECE

Moody's upgraded on Friday Greece's long term local and foreign currency sovereign credit ratings by two notches to Caa1 from Caa3, assigning a stable outlook. The agency cited (i) a significant improvement in the country's fiscal position over the past year and the government's fiscal consolidation commitment which support its view for a gradual decline in the public debt/GDP ratio, (ii) the improvement in the domestic economic outlook which further supports the case for a lower public debt/GDP ratio and (iii) enhanced fiscal flexibility and reduced refinancing risks thanks to the government's lower interest burden and lengthened debt maturities. The announcement had a rather limited impact on the domestic bond market, as it was largely expected, while Moody's sovereign credit ratings on Greece still remain below those of Fitch (B) and S&P (B-). Nonetheless, Greek government paper modestly firmed earlier today, in line with European peers, underpinned by news about the rescue of Portuguese Banco Espirito Santo. The mid-yield of the benchmark 10-year government bond stood ca 3bps lower at 6.09% at the time of writing.

Latest developments in the CESEE region

CESEE MARKETS

Taking their cue from advancing European stock markets, the majority of **CESEE bourses** kicked off the week on a positive footing, paring part of their recent losses. **Regional currencies** were mixed with the Polish zloty and the Serbian dinar recovering ground after coming under depreciating pressure in line with the regional trend last week. Among other, Serbia's MPC meeting takes centre stage this week. We broadly concur with the market's median forecast and expect the Central Bank to stay put on rates (policy rate at 8.50%).

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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

SERBIA

(Belgrade, 4/7/2014, 13:00 CET): **Latest Political & Macro Developments:** Serbia's Parliament passed at an extraordinary session on Saturday a privatization bill, which will effectively speed up the sale of state-owned loss-making companies and consequently aims to contain public spending. According to the law, 584 companies (including 161 currently under restructuring) will have to be privatized by December 31, 2015. Parliament also adopted changes in bankruptcy legislation, in order to facilitate liquidation of indebted state corporations. The said laws pave the way for the disbursement of a \$250mn loan from the World Bank, earmarked to support the country's budget. Recall that, the 2014 general government deficit is expected to come in at around 8.3%-of-GDP, according to the Fiscal Council, well above the initial government target of a 7.1%-of-GDP shortfall. **Market Developments:** The EUR/RSD was little changed on Friday remaining bound within its recent range of 116.30-116.80. A break above the upper limit of the said range, towards 117, in the coming sessions can not be ruled out as recent Central Bank interventions suggest that the NBS is comfortable with a gradual but modest depreciation of the local currency.

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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	3.50	3.50

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

(Bucharest, 4/8/2014, 14:00 EET): **Latest Political & Macro Developments:** The National Bank of Romania (NBR) cut its key policy rate by 25bps to 3.25% at its MPC meeting on Monday amid subdued inflation pressures. Recall that the Central Bank had halted its monetary easing cycle in March after 175bps of cumulative rate cuts as inflation is anticipated to crawl back towards the upper limit of the 2.5% \pm 1% targeted range as we march towards year-end while risks to its outlook (e.g. uncertainty surrounding the global oil prices, the impact of recent adverse weather conditions on food prices) linger. However, a further drop in annual CPI to a new record low of 0.66%YoY in June recently stirred speculation about a potential resumption of the NBR's easing cycle as soon as this month. **Market Developments:** In response to the NBR's announcement, the EUR/RON advanced approaching anew Friday's multi-session high of 4.4380

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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, 31/7/2014, 17:25 EET): **Latest Political & Macro Developments:** Bulgarian parliament holds an extraordinary sitting at 14:00 EET on Monday in its last attempt to approve revisions on the 2014 budget. Among the changes envisioned are an increase in the budget deficit target to 2.7% of GDP (from 1.8% initially announced) and a rise in the public debt limit by BGN 3.4bn to BGN 21bn. Meanwhile, a final decision on the composition of the caretaker cabinet is anticipated later this week. **Market Developments:** The domestic stock market closed in the black on Friday, with the main SOFIX index advancing by 0.64% to 544.19 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	1925.15	-0.3%	4.2%	EUR/USD	1.3417	-0.1%	-2.4%	UST - 10yr	2.50	1	-53	GOLD	1291	-0.1%	7.1%
Nikkei 225	15474.50	-0.3%	-5.0%	GBP/USD	1.6829	0.0%	1.6%	Bund-10yr	1.14	1	-79	BRENT CRUDE	179	0.0%	6.8%
STOXX 600	332.87	0.3%	1.4%	USD/JPY	102.64	0.0%	2.6%	JGB - 10yr	0.53	-1	-21	LMEX	3257	-0.7%	3.1%

SEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	6.64	-2	-137
1-week	6.84	-3	-144
1-month	7.18	-4	-140
3-month	7.66	0	-122
6-month	7.98	0	-117

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.33	-10	-63
5Y RSD	10.29	0	-253
7Y RSD	11.29	0	-251

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.98	3	-103
USD Nov-24	0.83	-573	-607

CDS

	Last	ΔDbps	ΔYTD bps
5-year	266	3	-143
10-year	319	7	-128

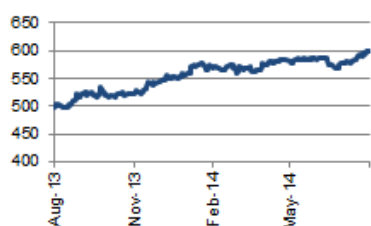
STOCKS

	Last	ΔD	ΔYTD
BELEX15	599.2	-0.13%	7.39%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	115.4	0.01%	-1.94%

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.03	-8	29
1-month	2	-2	12
3-month	2.15	-1	-29
6-month	2.52	0	-47
12-month	2.64	0	-51

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.51	-3	-144
5Y RON	3.27	1	-138
10Y RON	4.22	-7	-108

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	2.30	4	-154
USD Aug-23	4.03	7	-78

CDS

	Last	ΔDbps	ΔYTD bps
5-year	141	1	-50
10-year	186	-2	-46

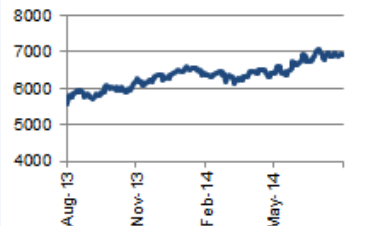
STOCKS

	Last	ΔD	ΔYTD
BET	6942.9	0.04%	6.92%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4339	-0.02%	0.88%

BET Index



EUR/RON



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.03	-2	-4
1-month	0.24	0	-8
3-month	0.49	0	-15
6-month	0.91	0	-24
12-month	1.74	0	-46

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	1.31	4	22
5Y BGN	2.01	-2	16
10Y BGN	3.15	1	-35

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	1.08	3	50
EUR Jul-17	1.46	11	-34

CDS

	Last	ΔDbps	ΔYTD bps
5-year	131	1	-5
10-year	175	0	0

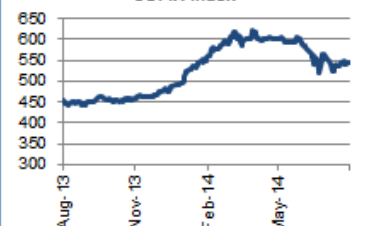
STOCKS

	Last	ΔD	ΔYTD
SOFIX	543.8	-0.07%	10.64%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.4577	-0.09%	-2.37%

SOFIX Index



USD/BGN



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