Eurobank Global Markets Research
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Eurobank

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

August 5, 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: Bucking the positive trend in **Wall Street** overnight, **Asian stock markets** broadly recoiled on Tuesday in the wake of disappointing PMI services data from China, which brewed concerns about the prospects of the world's second largest economy. Elsewhere, **European bourses** moved broadly higher in morning trade after German car manufacturer BMW and French bank Credit Agricole reported better-than-expected profits for Q2. In the **FX markets**, the US dollar remained near recent multi-month highs hit against major currencies with its rally having run out of steam after the weaker-than-anticipated US non-farm payrolls data for July, released late last week

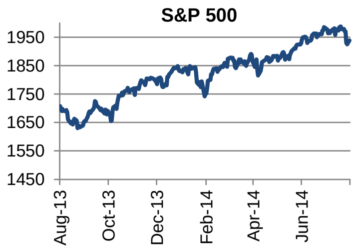
SOUTH EASTERN EUROPE

SERBIA: Serbia's Parliament appointed on Monday incumbent Minister of Economy Dusan Vujovic as the new Minister of Finance after his predecessor's resignation.

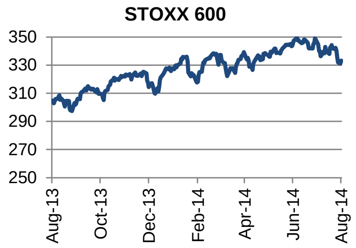
ROMANIA: The National Bank of Romania revised lower its annual inflation projections for year-end 2014 and 2015 to 2.2% from 3.3% and to 3.0% from 3.3% respectively.

BULGARIA: In its last plenary sitting on Monday, Bulgaria's Parliament adopted a revision in the National Health Insurance Fund budget, but a revision in the 2014 state budget was excluded from yesterday's agenda.

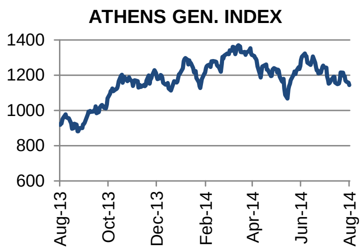
CESEE MARKETS: Taking their cue from advancing European stock markets, the majority of **CESEE bourses** advanced in morning trade receiving support from upbeat corporate earnings results and relief after the Portuguese government's rescue of Banco Espiritio Santo. In a similar vein, **regional currencies** also firmed, with the Turkish lira leading the winners' pack after July's inflation data, released yesterday, surprised to the upside.



Source: Reuters, Bloomberg, Eurobank Global Markets Research



Source: Reuters, Bloomberg, Eurobank Global Markets Research



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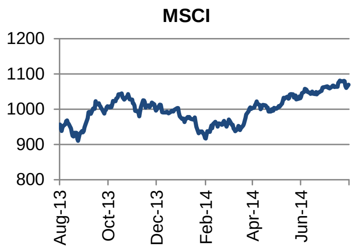

Source: Reuters, Bloomberg, Eurobank Global Markets Research

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

Latest world economic & market developments

GLOBAL MARKETS

Bucking the positive trend in **Wall Street** overnight, **Asian stock markets** broadly recoiled on Tuesday after China's HSBC/Markit PMI services fell to a record low of 50.0 in July from a 15-month peak of 53.1 in the prior month, brewing concerns about the prospects of the world's second largest economy. The disappointing data from China overshadowed upbeat US corporate earnings reports and investor relief after the Portuguese government announced on Sunday a €4.9bn rescue plan for one of the country's largest banks Banco Espiritio Santo. Elsewhere, **European bourses** moved broadly higher in morning trade after German car manufacturer BMW and French bank Credit Agricole reported better-than-expected profits for Q2. In the **FX markets**, the US dollar remained near recent multi-month highs hit against major currencies with its rally having run out of steam after the weaker-than-anticipated US non-farm payrolls data for July, released late last week, tempered the prospect for a sooner-than-currently-expected Fed rate hike. On the flipside, the euro lost some ground earlier on Tuesday after European PMI data for July showed a higher-than-anticipated decline in the corresponding services index for Italy underpinning concerns about Eurozone's economic recovery. Caution also prevailed ahead of the ECB meeting on Thursday. Against this backdrop, the **EUR/USD** hovered around levels of 1.3400/03 at the time of writing, having slightly retreated from Friday's 1-week peak of 1.3444, hit in the aftermath of the US labour data release, but remained close to a 9-month trough of 1.3365 touched on July 30. In other news, the Australian dollar was little changed in the wake of the Reserve Bank of Australia (RBA) monetary policy decision announcement on Tuesday, where the Central Bank maintained its cash rate at a record low of 2.5% as was widely expected. RBA Governor reiterated that "accommodative monetary policy should provide support to demand and help growth to strengthen over time". The AUD/USD firmed modestly to an intraday peak of 0.9344 earlier today bouncing further away from Friday's two-month low of 0.9272.

Latest developments in the CESEE region

CESEE MARKETS

Taking their cue from advancing European stock markets, the majority of **CESEE bourses** advanced in morning trade receiving support from upbeat corporate earnings results and relief after the Portuguese government's rescue of Banco Espiritio Santo. In a similar vein, **regional currencies** also firmed, with the Turkish lira leading the winners' pack after July's inflation data, released in the prior session, surprised to the upside. In more detail, CPI rose by 0.45% last month bringing the annual rate of increase to 9.32%, above the market's median forecast of 8.90% and June's 9.16% print. Although the Central Bank (CBT) will likely miss its official medium-term target of 5% for the fourth year running in 2014 (CBT's year-end CPI forecast currently stands at 7.6%), a rate cut in the in the MPC's meeting in August can not be ruled out entirely as the government has been an eloquent supporter of lower policy rates. Yet, the latest CPI data and lingering upside risks to the inflation outlook ahead, suggest that likelihood for such a move has been somewhat diminished. Against this backdrop, the USD/TRY hovered around levels of 2.1250 at the time of writing, having hit a 1-week low of 2.1200 earlier in the day. Technically, a break below today's trough may pave the way for a test of 2.1160 (14-day MA) ahead of 2.0830 (July 23 low). In the **local rates markets**, Turkish bonds recovered ground in European trade after retreating on Monday in the wake of July's CPI data release. Notwithstanding the aforementioned, the Turkish Treasury successfully sold on Monday TRY 997.2mn in 5-year fixed coupon and TRY 1.1406bn in 7-year floating rate paper.

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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, 5/8/2014, 11:00 CET): **Latest Political & Macro Developments:** As was broadly anticipated, Serbia's Parliament appointed on Monday ex-World Bank expert, and incumbent Minister of Economy Dusan Vujovic as the new Minister of Finance. The announcement comes a few weeks after the resignation of outgoing Minister of Finance Lazar Krstic. Although incoming finance minister's views on fiscal consolidation are broadly aligned with his predecessor's, Mr. Vujovic is thought to be a proponent of slightly less harsh measures; he favours cuts of 10% in state employees' wages and pensions, against 20% reductions envisioned by Mr Krstic. Yet, skepticism prevails whether the newly appointed finmin's plans will prove sufficient or deeper cuts will need to be adopted in the near future in order to contain the budget deficit in line with the official target. In support of the aforementioned, the Fiscal Counsel has cited necessity of 15% reductions in pensions. Mr. Vujovic's replacement as Minister of Economy has not yet been announced but media reports suggest that current minister of public administration Kori Udovicki may take over the post. **Market Developments:** The EUR/RSD lost some modest ground on Monday to close at 116.60/80 after opening at 116.70/90. In view of light trade volumes due to the summer holidays, the pair is likely to hover around current levels in the coming sessions. Technically, initial resistance lies at 116.80, where the Central Bank is likely to intervene anew to halt the cross's uptrend.

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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, 5/8/2014, 9:20 EET*): **Latest Political & Macro Developments:** At its MPC meeting on Monday, the National Bank of Romania (NBR) approved the updated quarterly Inflation Report, which included its revised inflation projections. In more detail, the NBR revised lower its year-end 2014 and 2015 annual CPI forecasts to 2.2% from 3.3% and to 3.0% from 3.3% respectively, further below the upper limit of the 2.5% +/-1% variation band. Recall that, the NBR cut its key policy rate by 25bps to 3.25% at its MPC meeting on Monday amid subdued inflation pressures, resuming its rate-cut cycle after a temporary halt in March. **Market Developments:** The NBR announcement appeared to have a rather limited impact on the leu and money market rates, with the EUR/RON remaining range-bound within 4.4250/360 on Monday and short term RON rates moving only modestly lower. In more detail, the 1W implied rate from swaps eased to around 1.85% from 2.00% on Friday's settlement. Leu-denominated bonds were benefited the most from the NBR monetary policy announcement, with the MoF's decision to reject all bids at the 5Y primary market auction providing additional support. As a result, the entire bond yield curve with tenures beyond 2Y rallied, with yields falling ca 15bps across the board and erasing a good part of last week's losses.

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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, 5/8/2014, 10:15 EET*): **Latest Political & Macro Developments:** In its last plenary sitting on Monday, Bulgaria's Parliament adopted a revision in the National Health Insurance Fund budget, providing an additional amount of BGN 225mn in order to service current payments until the end of the year. On the other hand, MPs decided to exclude from the agenda the discussion of a revision in the 2014 state budget.

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GLOBAL MARKETS

Stock markets	Last	ΔD	ΔYTD
S&P 500	1938.99	0.7%	4.9%
Nikkei 225	15320.31	-1.0%	-6.0%
STOXX 600	333.25	0.6%	1.5%

FOREX	Last	ΔD	ΔYTD
EUR/USD	1.339	-0.2%	-2.6%
GBP/USD	1.687	0.0%	1.9%
USD/JPY	102.7	-0.1%	2.5%

Government Bonds (yields)	Last	ΔDbps	ΔYTD bps
UST - 10yr	2.49	1	-53
Bund-10yr	1.17	3	-76
JGB - 10yr	0.52	-1	-22

Commodities	Last	ΔD	ΔYTD
GOLD	1291	0.2%	7.1%
BRENT CRUDE	179	0.0%	6.8%
LMEX	3297	1.2%	4.4%

SEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	6.68	4	-133
1-week	6.89	5	-139
1-month	7.24	6	-134
3-month	7.69	3	-119
6-month	7.99	1	-116

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.38	1	-58
5Y RSD	10.29	0	-253
7Y RSD	11.28	-1	-253

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	4.01	2	-100
USD Nov-24	0.90	-566	-600

CDS

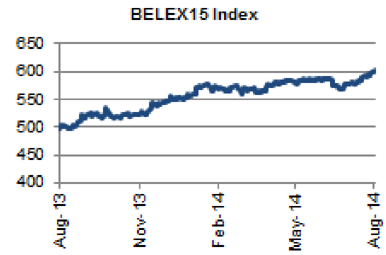
	Last	ΔDbps	ΔYTD bps
5-year	266	0	-143
10-year	314	-5	-133

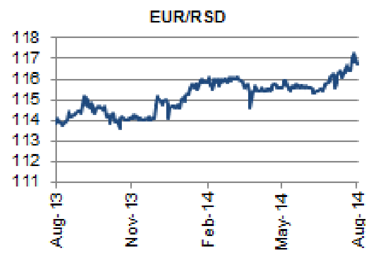
STOCKS

	Last	ΔD	ΔYTD
BELEX15	602.0	0.47%	7.89%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	115.4	0.07%	-1.88%





ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.51	-52	-23
1-month	1.83	-17	-5
3-month	2.1	-5	-34
6-month	2.5	-2	-49
12-month	2.62	-2	-53

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.45	-4	-150
5Y RON	3.22	-4	-143
10Y RON	4.20	-1	-110

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	2.30	0	-154
USD Aug-23	4.03	0	-78

CDS

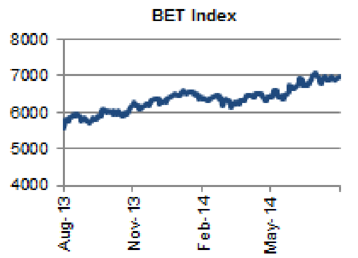
	Last	ΔDbps	ΔYTD bps
5-year	139	-2	-50
10-year	183	-3	-49

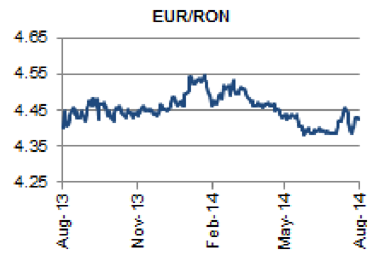
STOCKS

	Last	ΔD	ΔYTD
BET	6969.2	0.19%	7.32%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4252	0.09%	1.08%





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	-24
12-month	1.74	0	-46

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	1.34	6	25
5Y BGN	2.02	-1	17
10Y BGN	3.19	0	-31

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	1.12	4	53
EUR Jul-17	1.51	-12	-30

CDS

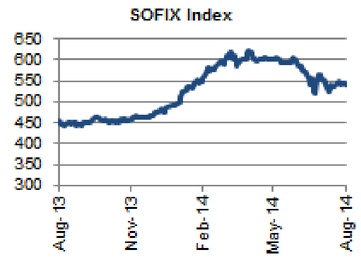
	Last	ΔDbps	ΔYTD bps
5-year	129	-2	-5
10-year	172	-3	-3

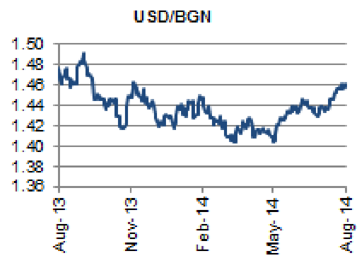
STOCKS

	Last	ΔD	ΔYTD
SOFIX	540.9	-0.42%	10.05%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.4607	-0.25%	-2.57%





Source: Reuters, Bloomberg, Eurobank Global Markets Research

Data updated as of 14:30 EET

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