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Eurobank

DAILY OVERVIEW
OF GLOBAL MARKETS & THE SEE REGION

August 8, 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: Tracking losses in **Wall Street** overnight, **Asian and European stock markets** moved broadly lower on Friday amid escalating geopolitical tensions in Ukraine and the Middle East. In the **FX markets**, the safe haven Swiss franc and the Japanese yen benefited from the souring risk sentiment.

SOUTH EASTERN EUROPE

SERBIA: Central Bank kept key policy rate unchanged at 8.50% at yesterday's MPC meeting.

ROMANIA: The EUR/RON was little changed on Thursday, with Wednesday's sell-off having been halted, possibly by Central Bank intervention.

BULGARIA: The European Commission approved on Thursday Bulgaria's 2014-2020 Partnership Agreement drafted by the former socialist-led government of Prime Minister Plamen Oresharski.

CESEE MARKETS: In line with the negative tone in global bourses, **emerging stock markets** extended their recent downtrend in European trade on Friday. **In the FX markets,** regional currencies recovered some ground, paring part of the losses suffered over recent days, in the wake of ECB comments which suggested that the door remains open for further monetary easing ahead.

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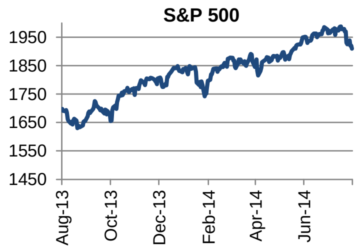
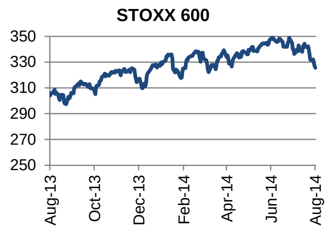


Source: Reuters, Bloomberg, Eurobank Global Markets Research



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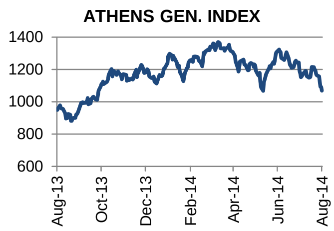

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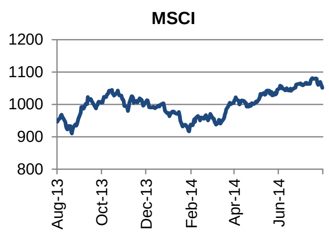

Source: Reuters, Bloomberg, Eurobank Global Markets Research

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

Latest world economic & market developments

GLOBAL MARKETS

Tracking losses in **Wall Street** overnight, **Asian and European stock markets** moved broadly lower on Friday with most major indices poised to end the week in a negative territory amid escalating geopolitical tensions in Ukraine and the Middle East. US President Barack Obama authorized on Thursday "targeted" air strikes in Iraq to protect American personnel and "prevent a potential act of genocide" but highlighted that he would "not allow the United States to be dragged into another war in Iraq". Fighting also resumed in Gaza between Palestinian militants and Israel marking the end of a three-day ceasefire, while tensions in Ukraine linger as Russian troops remain near the country's borders and Moscow imposed retaliatory measures, banning food imports from the US, EU, Australia, Canada and Norway, in response to the latest sanctions endorsed. Russian Prime Minister Dmitry Medvedev's comments on Thursday, that Russia was mulling on banning European and U.S. airlines from flying transit routes through Russian airspace, weighed further down on airline shares. The sanctions between US/EU and Russia and potentially higher oil prices as a result of the conflict in the Middle East have recently added to concerns about the prospects of the global economy. In support of the aforementioned, ECB President Mario Draghi said at the post-MPC-meeting press conference on Thursday that the crisis in Ukraine poses additional risks on the "weak, fragile and uneven" economic recovery in the Eurozone, adding that interest rates will remain at present (record low) levels for an extended period of time and leaving the door open for the adoption of "unconventional instruments within its mandate, should it become necessary to further address risks of too prolonged a period of low inflation". In the **FX markets**, the safe haven Swiss franc and the Japanese yen benefited from the souring risk sentiment earlier today. The euro recovered a small part of this week's earlier losses in European trade on Friday, with the EUR/USD hovering around levels of 1.3390/93 at the time of writing, but remaining not too far from a 9-month trough of 1.3333 hit earlier in the week.

Latest developments in the CESEE region

CESEE MARKETS

In line with the negative tone in global bourses, **emerging stock markets** extended their recent downtrend in European trade on Friday. The MSCI index of emerging equities slid as far as new 1-½--month lows intraday, while, in the CESEE region, Poland's WIG led the losses easing to its lowest level since early March, as the recent retaliatory sanctions from Russia are feared that they may bear negative repercussions for the country's growth prospects. **In the FX markets,** regional currencies recovered some ground, paring part of the losses suffered over recent days, in the wake of ECB comments which suggested that the door remains open for further monetary easing ahead. Concerns that the Fed may hike its key policy rates sooner than currently anticipated have broadly weighed on regional currencies over the last couple of weeks. The Polish zloty remained under pressure in view of the recently emerged market talk about a potential resumption of central bank monetary easing this year amid mounting risks to the domestic economic growth outlook. Against this backdrop, the EUR/PLN hovered around levels near 4.2025 at the time of writing, after hitting a 5-month trough close to 4.1940 earlier in the session. Elsewhere, the Ukrainian hryvnia broadly underperformed its regional peers, with the USD/UAH advancing by ca 0.4% to 12.55 and approaching anew a lifetime peak of 13.30 hit in April.

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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, 7/8/2014, 19:00 CET): **Latest Political & Macro Developments:** The Central Bank kept its key policy rate unchanged, at 8.50% at its MPC meeting on Thursday, in line with the market's median forecast, citing lingering uncertainties stemming from the international environment, which could impact the country's risk premium and foreign capital flows. That said, speculation had recently emerged that the NBS might deliver further monetary easing at the said meeting, as inflation remains below the official targeted range (4±1.5%). **Market Developments:** The EUR/RSD moved upwards over the past two days, with the pair breaking above its recent 116.30-116.80 range to hit a multi-month peak of 117.00/20 at some point on Thursday. However, renewed Central Bank intervention, with sales of ca €20mn, pulled the cross back to 116.85/05 by the end of the session. In view of persisting depreciation pressures on the dinar and with the Central Bank appearing more comfortable at allowing a gradual up-move of the EUR/RSD over recent sessions, further modest upside for the pair is possible in the coming days.

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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, 8/8/2014, 9:10 EET*): **Market Developments:** The EUR/RON was little changed on Thursday, remaining bound between 4.4380/460, with Wednesday's sell-off, which pushed the pair towards 4.4500, having been halted, possibly by Central Bank intervention. Elsewhere, short term RON rates eased on the back of ample liquidity, with the 1W implied rate from swaps ending at around 1.25% yesterday, down from 2.00% a week ago. However, longer 1-6M rates remained at elevated levels around 2.00%. Government bonds were little changed on Thursday after a cumulative 25bps jump in yields over the two prior sessions. Nonetheless, renewed upside pressures in government bond yields are possible in the coming sessions with off-shore sellers looking for opportunities to unload more paper.

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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, 8/8/2014, 09:30 EET*): **Latest Political & Macro Developments:** The European Commission approved on Thursday Bulgaria's 2014-2020 Partnership Agreement drafted by the former socialist-led government of Prime Minister Plamen Oresharski. The document outlines the strategy for the most efficient use of EU Structural and Investment Funds in order to boost economic growth and contain unemployment. A total of EUR 7.6bn will be provided under Cohesion Policy funding, another EUR 2.3bn for rural development and EUR 88mn for fisheries and the maritime sector. **Market Developments:** Bucking the broader negative trend in global stock markets, Bulgaria's bourses ended modestly higher with the benchmark SOFIX index closing in a marginally negative territory of 0.05% at 540.11 points.

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GLOBAL MARKETS

Stock markets	Last	ΔD	ΔYTD
S&P 500	1909.57	-0.6%	3.3%
Nikkei 225	14778.37	-3.0%	-9.3%
STOXX 600	325.55	-0.4%	-0.8%

FOREX	Last	ΔD	ΔYTD
EUR/USD	1.3387	0.2%	-2.6%
GBP/USD	1.68	-0.2%	1.5%
USD/JPY	101.89	0.2%	3.4%

Government Bonds (yields)	Last	ΔDbps	ΔYTD bps
UST - 10yr	2.39	-2	-64
Bund-10yr	1.06	-1	-87
JGB - 10yr	0.51	-2	-24

Commodities	Last	ΔD	ΔYTD
GOLD	1310	-0.2%	8.7%
BRENT CRUDE	179	0.0%	6.8%
LMEX	3264	0.3%	3.3%

SEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	6.69	1	-132
1-week	6.91	1	-137
1-month	7.25	1	-133
3-month	7.71	2	-117
6-month	8.00	2	-115

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	9.40	-16	-56
5Y RSD	10.29	0	-253
7Y RSD	11.28	2	-253

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	4.31	8	-70
USD Nov-24	1.75	-485	-515

CDS

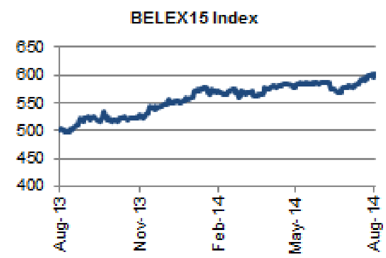
	Last	ΔDbps	ΔYTD bps
5-year	285	10	-124
10-year	333	11	-114

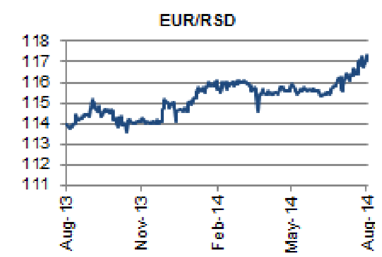
STOCKS

	Last	ΔD	ΔYTD
BELEX15	603.5	0.24%	8.16%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	115.4	0.23%	-2.09%





ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.18	2	-56
1-month	1.73	-1	-15
3-month	2.09	-1	-35
6-month	2.49	1	-50
12-month	2.64	1	-51

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	2.56	2	-139
5Y RON	3.38	2	-127
10Y RON	4.45	2	-85

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	2.44	3	-140
USD Aug-23	4.10	3	-71

CDS

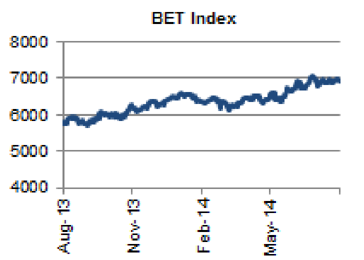
	Last	ΔDbps	ΔYTD bps
5-year	153	3	-40
10-year	198	4	-34

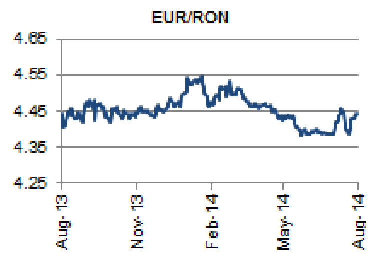
STOCKS

	Last	ΔD	ΔYTD
BET	6938.9	-0.15%	6.85%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4437	0.02%	0.66%





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	1.73	0	-46

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	1.36	-2	27
5Y BGN	2.09	4	24
10Y BGN	3.20	0	-29

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Jan-15	1.22	-4	63
EUR Jul-17	1.66	12	-14

CDS

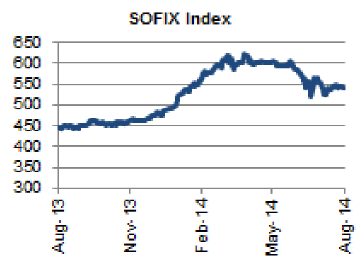
	Last	ΔDbps	ΔYTD bps
5-year	141	2	16
10-year	185	3	10

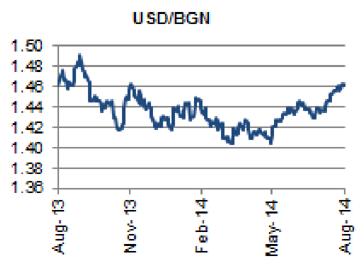
STOCKS

	Last	ΔD	ΔYTD
SOFIX	540.8	0.12%	10.02%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.4611	0.17%	-2.60%





Source: Reuters, Bloomberg, Eurobank Global Markets Research

Data updated as of 14:15 EET

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