

February 3, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- February 2
 - Personal income (Dec)
 - Personal spending (Dec)
 - Core PCE deflator (Dec)
 - ISM manufacturing (Jan)
- February 3: Factory orders (Dec)
 - Jobless claims (Jan 24)
 - Pending home sales (Dec)
- February 4
 - ADP employment (Dec)
 - ISM non-manufacturing (Jan)
- February 5: Initial jobless claims (Jan 31)
- February 6
 - NFP payrolls (Jan)
 - U/E rate (Jan)

EUROZONE

- February 2: PMI manufacturing (Jan, f)
- February 4: PMI services (Jan, f)
- February 5: EC winter forecasts

SEE

ROMANIA

- February 2: International reserve assets (Jan)
- February 3: Retail sales (Dec)
- February 4: MPC meeting
- February 6
 - Industrial sales (Dec)
 - Net wages (Dec)

BULGARIA

- February 2: International reserve assets (Jan)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Bucking the broadly negative trend in Asian bourses, the majority of European bourses firmed in morning trade on optimism that the newly elected left-wing Greek government will eventually seal a deal with official creditors.

GREECE: Greece's Minister of Finance Yanis Varoufakis was quoted as saying in an interview to the Financial Times, that the government will no longer call for a write-down on Greece's nominal debt. Instead, it will request a "menu of debt swaps" including two types of new bonds. The first would be indexed to nominal economic growth and would replace European rescue loans and the second, termed "perpetual bonds", would replace ECB-owned Greek bonds. On the data front, the headline seasonally adjusted **Markit Greece's PMI Manufacturing Index** fell from 49.4 in December to a 15-month low of 48.3 in January. Greece's **Economic Sentiment Indicator** dropped for the second month in a row in January, coming in at 95.3, the lowest level since April 2014.

SOUTH EASTERN EUROPE

SERBIA: Vindicating our expectations, the EUR/RSD extended its recent downtrend on Monday to close ca 0.6% lower at an intraday low of 122.20/40, ahead of the RSD 50bn 7-year government bond auction scheduled for later today.

BULGARIA: Bulgaria's 2014 general government budget ran a deficit of 3.7% of GDP (BGN 3.04bn), in line with the government's revised target but more than double a shortfall of 1.8% of GDP recorded a year earlier.

CESEE MARKETS: The majority of **emerging stock markets** advanced in morning trade on Tuesday, with energy related shares leading the gains thanks to a four-session rebound in oil prices. In **FX markets**, the Turkish lira outperformed a broad strengthening of **CEE currencies** earlier today, after January's CPI came in higher than anticipated.

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Latest world economic & market developments

GLOBAL MARKETS

Bucking the broadly negative trend in Asian bourses, the majority of European bourses firmed in morning trade on optimism that the newly elected left-wing Greek government will eventually seal a deal with official creditors. In FX markets, the EUR/USD remained bound within its recent 1.1260-1.1385 range, though near 1.1098 11-year lows hit early last week.

GREECE

Greece's Minister of Finance Yanis Varoufakis was quoted as saying in an interview to the Financial Times, that the government will no longer call for a write-down on Greece's nominal debt. Instead, it will request a "menu of debt swaps" including two types of new bonds. The first would be indexed to nominal economic growth and would replace European rescue loans and the second, termed "perpetual bonds", would replace ECB-owned Greek bonds. On the fiscal front, Greece's minister was quoted as saying that Greece will propose general government primary surplus targets to the tune of 1.0%-1.5%-of-GDP pa while on privatization, he noted that previously completed deals are not reversible and the government will only review the ongoing projects. Mr. Varoufakis also noted that the government will consult the OECD on needed structural reforms. The Greek government reportedly intends to present its detailed plans before the end of this month. Furthermore, Greece's Minister of Finance reportedly submitted a request to both his French counterpart Michel Sapin and European Commissioner for Economic and Monetary Affairs Pierre Moscovici during his visit to Paris earlier this week for a €10bn increase in the €15bn T-bills issuance cap so that Greece can partially cover its financing needs during the time it seeks to secure the so-called "bridge agreement", *i.e.* an agreement that will bridge previous programs with a new deal. On the data front, the headline seasonally adjusted **Markit Greece's PMI Manufacturing Index** fell from 49.4 in December to a 15-month low of 48.3 in January. That was the index's seventh sub-50 reading in the past eight months. Separately, Greece's **Economic Sentiment Indicator** dropped for the second month in a row in January to the lowest level since April 2014.

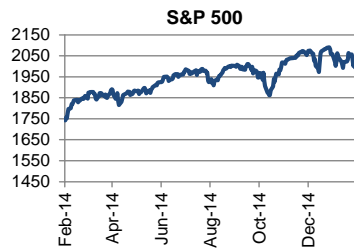
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Latest developments in the CESEE region

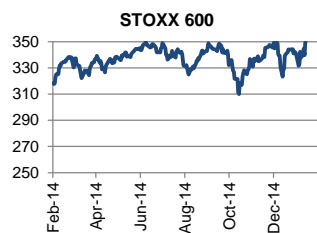
CESEE markets

The majority of **emerging stock markets** advanced in morning trade on Tuesday, with energy related shares leading the gains thanks to a four-session rebound in oil prices. In the CESEE space Hungary's BUX broadly outperformed its regional peers for the second session running after PMI manufacturing data, released on Monday, showed a rise to 54.2 in January from 50.9 in December, above a long-term average of 52 for that month. On the flipside, Turkey's BIST 100 index bucked the region's positive trend to post modest losses at the time of writing, after January's CPI came in higher than anticipated at 7.24%YoY, prompting a Central Bank decision against calling an MPC "interim meeting" to assess the inflation outlook, which was likely to have resulted to a further interest rate reduction. These latest developments favoured the Turkish lira, which outperformed a broad strengthening of **CEE currencies** earlier today, extending this week's uptrend. In more detail, the USD/TRY eased to a multi-session low of 2.4030 earlier today, easing further below from a new record peak of 2.4490 hit late last week. The pair's technical picture suggests that a break below today's trough may pave the way towards 2.3820 (January 29, 2015 low) ahead of 2.3670 (14-day moving average).

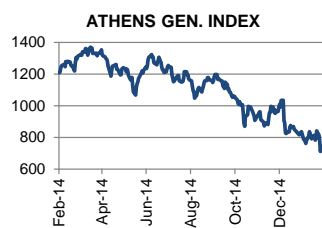
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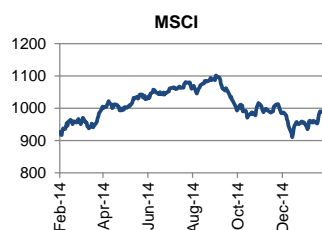
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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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	B3	B+	B-

Source: Reuters, Bloomberg, Eurobank Global Markets Research

SERBIA: Indicators	2013	2014e	2015f
Real GDP growth %	-1.5	-2.0	0.0
CPI (pa, yoy %)	7.8	2.0	3.5
Budget Balance/GDP	-5.8	-7.2	-5.7
Current Account/GDP	-5.0	-6.1	-4.7
EUR/RSD (eop)	114.57	120.50	124.50
	2014	current	2015f
Policy Rate (eop)	8.00	8.00	7.00

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

SERBIA

(Belgrade, 2/2/2015, 17:00 CET): **Latest Political & Macro Developments:** *Mid Europa Partners*, a UK-based private equity firm that focuses in CEE, announced on Monday the acquisition of Serbian food conglomerate Danube Foods Group, the country's largest dairy and confectionary company. Danube Foods Group owns some of the best known brand name companies in Serbia, including Imlek, Bambi and Knjaz Milos. It had estimated revenues in excess of €400m in 2014. Details on the transactions have not been disclosed. But, market prices on the BELEX indicate an aggregate market cap for all Danube Foods Group listed entities in excess of €500mn, deeming this acquisition the largest in Serbia over the last year or so. **Market Developments:** Vindicating our expectations, the EUR/RSD extended its recent downtrend on Monday to close ca 0.6% lower at an intraday low of 122.20/40, ahead of the RSD 50bn 7-year government bond auction scheduled for later today. Against this backdrop, we expect selling pressures on the cross to persist, with the prospect of Central Bank intervention on the cards, so as to prevent high daily fluctuations in the FX markets. If the auction results overcome our expectations (of a 30-40% realization ratio, equivalent to ca RSD20bn) a EUR/RSD move towards 121.00 by the session's close on Tuesday seems likely.

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BULGARIA: Indicators	2013	2014e	2015f
Real GDP growth %	1.1	1.5	0.8
CPI (pa, yoy %)	0.4	-1.5	0.1
Budget Balance/GDP	-1.8	-3.7	-3.0
Current Account/GDP	2.1	2.2	1.8
EUR/BGN (eop)		1.9558	
	current	2014	2015f
Policy Rate (eop)	N/A	N/A	N/A

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

BULGARIA

(Sofia, 2/2/2015, 19:30 CET): **Latest Political & Macro Developments:** Bulgaria's 2014 general government budget ran a deficit of 3.7% of GDP (BGN 3.04bn), in line with the government's revised target but more than double a shortfall of 1.8% of GDP recorded a year earlier. The aforementioned deterioration in government finances may be primarily attributed at a 6.7%YoY increase to BGN 32.5bn in expenditure that came on the back of accelerated absorption under the nationally co-financed European Union programmes and higher social and health insurance payments. On the other hand, revenues and grants totaled BGN 29.4bn in 2014, marking a 1.5%YoY rise and fulfilling up to 98.1% of the government's revised target. Meanwhile, the fiscal reserve stood at BGN 9.2bn, including BGN 8.1bn deposits held in BNB and banks and BGN 1.1bn receivables under the EU Funds for certified expenditure and advance payments. **Market Developments:** Domestic bourses closed little changed on Monday, with the main SOFIX index ending in a marginally negative territory of 0.16% at 499.70 points. In other news, the Ministry of Finance sold on Monday BGN 50mn in 5-year government bonds at an average accepted yield of 1.0% and a bid to cover ratio of 3.21. Pension funds acquired 46.11% of the auction's total size, followed by banks with 40.80%. Guarantee state and mutual funds took over 7.07%, while insurance companies were allotted the rest.

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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	2020.85	1.3%	-1.8%	EUR/USD	1.1331	-0.1%	-6.3%	UST - 10yr	1.70	4	-47	GOLD	1283	0.7%	8.3%
Nikkei 225	17335.85	-1.3%	-0.7%	GBP/USD	1.5012	-0.2%	-3.6%	Bund-10yr	0.33	2	-21	BRENT CRUDE	175	0.0%	0.0%
STOXX 600	371.55	1.2%	8.5%	USD/JPY	117.34	0.2%	2.0%	JGB - 10yr	0.37	8	4	LME X	2717	0.1%	-6.8%

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	on	7	-238	O/N	0.58	-1	1	LEONIA	0.01	0	-1
1-week	7.77	-1	-224	1-month	0.69	0	-22	1-month	0.17	0	-4
1-month	8.14	0	-191	3-month	1.48	-1	-22	3-month	0.41	0	-3
3-month	8.44	4	-141	6-month	1.69	-1	-32	6-month	0.78	0	-2
6-month	8.61	4	-118	12-month	1.74	-3	-28	12-month	1.47	0	-3
RS Local Bonds				RO Local Bonds				BG Local Bonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	(yields)	Last	ΔDbps	ΔYTD bps
3Y RSD	9.27	8	23	3Y RON	1.53	-2	-48	3Y BGN	0.42	0	-62
5Y RSD	10.15	0	-3	5Y RON	2.01	-2	-50	5Y BGN	0.67	-3	-78
7Y RSD	11.24	0	-1	10Y RON	2.62	0	-89	10Y BGN	2.03	1	-72
RS Eurobonds				RO Eurobonds				BG Eurobonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
USD Nov-17	3.79	-3	-47	EUR Sep-20	1.35	-2	-38	EUR Jul-17	0.77	1	-38
USD Nov-24	-0.99	-748	-413	USD Aug-23	3.11	-4	-51				
CDS				CDS				CDS			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
5-year	284	9	-6	5-year	120	0	-23	5-year	195	0	4
10-year	313	9	-42	10-year	162	0	-25	10-year	243	-2	2
STOCKS				STOCKS				STOCKS			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
BELEX15	661.2	-0.67%	-0.87%	BET	7032.3	0.25%	-0.72%	SOFIX	499.1	-0.13%	-4.41%
FOREX				FOREX				FOREX			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
EUR/RSD	121.66	0.53%	-0.25%	EUR/RON	4.4004	-0.11%	1.89%	USD/BGN	1.7263	-0.10%	-6.36%

BELEX15 Index

BET Index

SOFIX Index

EUR/RSD

EUR/RON

USD/BGN

Source: Reuters, Bloomberg, Eurobank Global Markets Research
Data updated as of 11:30 EET

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