

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

July 7, 2014

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- July 9: FOMC June 18-19 meeting minutes
- July 2: Initial jobless claims (Jul 5)

EUROZONE

- July 7 (DE): Industrial production (Jun)

SEE

SERBIA

- July 10: MPC rate announcement
- July 11: HICP (Jun)

ROMANIA

- July 7
 - Industrial sales (May)
 - Net wages (May)
 - 2020 T-bonds auction
- July 10
 - CPI (Jun)
 - Industrial production (May)
 - Trade balance (May)
 - 2016 T-bonds auction

BULGARIA

- July 7: International reserves (Jun)
- July 8
 - Industrial production (May)
 - Retail sales (May)
- July 10: Trade balance (May)
- July 11: U/E rate (May)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Asian equity markets closed broadly lower on Monday and major European bourses were in the red in morning trade as profit taking kicked in after last week's rally. In the **FX markets**, the **USD** continued to receive support from the upbeat June US non-farm payrolls report and unemployment rate released late last week. On the flipside, the euro remained under pressure in view of the recent ECB president Mario Draghi's post-MPC meeting comments on Thursday, which signaled that the QE option remains on the table.

SOUTH EASTERN EUROPE

SERBIA: The EUR/RSD closed little changed on Friday, after an intraday up-move towards 116.35 triggered new Central Bank (NBS) intervention.

ROMANIA: The government is planning to auction RON 400mn in 2020 T-bonds on Monday.

BULGARIA: Fitch rating agency affirmed on Friday Bulgaria's long-term foreign and local currency sovereign credit ratings at BBB- and BBB respectively, with outlook stable.

CESEE Markets: Emerging stock markets moved broadly higher on Friday amid global growth optimism. Separately, **CESEE currencies** were little changed on Friday, while **government bonds** broadly firmed Friday thanks to increased risk appetite and accommodative monetary policies pursued by Central Banks in the region.

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Latest world economic & market developments

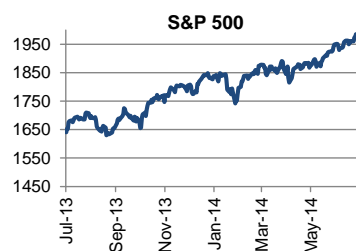
GLOBAL MARKETS

Asian equity markets closed broadly lower on Monday and major **European bourses** were in the red in morning trade as profit taking kicked in after last week's rally staged amid global growth optimism. Industrial production data from Germany, which showed that output slipped by 1.8% mom in May, marking its deepest decline in more than two years and confounding expectations for a flat reading, also weighed on investor sentiment. Meanwhile, the focus now turns to the Q2 corporate earnings season which incepts this week and the upcoming FOMC June 18-19 meeting minutes due for release on Wednesday. In the **FX markets**, the **USD** continued to receive support from the upbeat June US non-farm payrolls report and unemployment rate released late last week. On the flipside, the euro remained under pressure in view of the recent ECB president Mario Draghi's post-MPC meeting comments on Thursday, which signaled that the QE option remains on the table in order to address deflation risks in the Eurozone. Against this backdrop, the EUR/USD hit a 2-week trough of 1.3574 earlier today, sliding further below a recent six-week high near 1.3700.

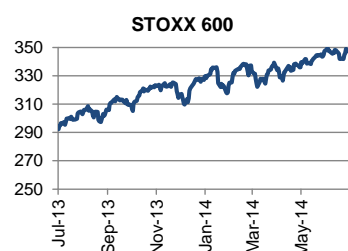
Latest developments in the CESEE region

CESEE markets

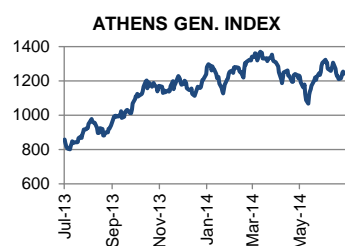
Emerging stock markets moved broadly higher on Friday, as upbeat US non-farm payrolls and unemployment data for June released late last week added to global growth optimism. The data announcement came on the heels of a recent string of positive PMI manufacturing-related indicators from the US, China and the UK which supported hopes about the prospects of the world economy. Meanwhile, trade volumes were thin on Friday due to the US Independence Day holiday. Against this backdrop, the broad MSCI of emerging equities index ended the week with gains of 1.55%, which brought the index at a 1-year peak on Friday. Bourses in the **CESEE region** were mixed on Friday. Hungary's BUX underperformed its regional peers with a 0.89% decline after Parliament approved a bill retroactively compensating borrowers for unfair loan practices. Hungary's Central Bank reportedly estimates that the measure could cost the banking system around HUF 600-900bn (or €1.9-2.9bn) but highlighted that it will not pose a risk to the sector's stability. Earlier in the week, Austrian bank Erste reportedly said that it may post a record net loss in 2014 due to losses suffered from its subsidiaries in Hungary and Romania. Meanwhile, OTP bank, the country's biggest lender, also warned on Friday that the new legislation on loans will take a toll on its earnings. **In the FX markets**, CESEE currencies were little changed on Friday. The Hungarian forint closed marginally weaker, largely shrugging off the news about the parliamentary endorsement of the loans bill which is expected to hurt the banking sector's profits ahead. The currency continued to receive some support from recent ECB President Mario Draghi's post-MPC meeting comments on Thursday. Along these lines, the EUR/HUF stood near the key psychological level of 310 on Friday's settlement, below a recent 3-month peak of 312.50 hit earlier in the week. Looking ahead, the forint is likely to remain under pressure in the coming sessions amid lingering concerns about the outlook of Hungary's banking sector and uncertainties surrounding the recently endorsed loans legislation. The prospect of further monetary easing ahead, after 470bps or rate cuts since August 2012, does not bode well for the currency either. Elsewhere, **government bonds** broadly firmed on Friday thanks to increased risk appetite and accommodative monetary policies pursued by Central Banks in the region.



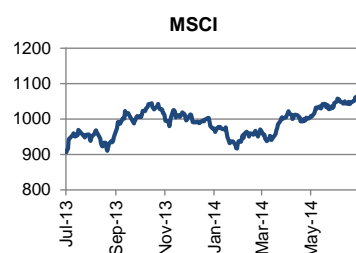
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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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

SERBIA: Indicators	2012	2013e	2014f
Real GDP growth %	-1.5	2.5	1.0
CPI (pa, yoy %)	7.8	7.8	3.5
Budget Balance/GDP	-7.5	-5.8	-7.1
Current Account/GDP	-10.9	-5.0	-4.2
EUR/RSD (eop)	112.37	114.57	116.50
	2013	current	2014f
Policy Rate (eop)	9.50	8.50	9.00

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

ROMANIA: Indicators	2012	2013e	2014f
Real GDP growth %	0.6	3.5	3.0
CPI (pa, yoy %)	3.3	4.0	2.3
Budget Balance/GDP	-3.0	-2.3	2.2
Current Account/GDP	-4.4	-1.1	-1.2
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

BULGARIA: Indicators	2012	2013e	2014f
Real GDP growth %	0.6	0.9	1.8
CPI (pa, yoy %)	3.0	0.9	-0.2
Budget Balance/GDP	-0.8	-1.5	-1.8
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

SERBIA

(Belgrade, 7/7/2014, 09:00 CET): **Market Developments:** The EUR/RSD closed little changed on Friday, as an intraday up-move towards 116.35 triggered new Central Bank (NBS) intervention and pushed the pair towards 116.10/30 on the session's settlement. The NBS appears to have sold approximately €20mn in the FX markets on Friday in order to halt the dinar's depreciating momentum. We anticipate the cross to remain near the key 116 level psychological level in the coming sessions as fresh Central Bank interventions are likely should the pair's upside momentum persist.

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ROMANIA

(Bucharest, 7/7/2014, 10:25 EET): **Latest Political & Macro Developments:** The net average monthly salary in Romania rose by 4.4%YoY to RON 1,682 (or ca €384) in May, but fell by 3.1% on a monthly basis as bonuses were granted ahead of the Easter holiday. Meanwhile, industrial sales increased by 10.9%YoY over the same month after a 6.0%YoY gain in April. In all, the data adds to hopes about solid GDP growth in Q2 2014 following a 3.9%YoY print in the first quarter of the year, which was primarily driven by industrial production and exports. **Market Developments:** The EUR/RON has remained range-bound within 4.3800-4.3900 over the last few sessions. Meanwhile, in the money market, short term rates (up to 1 week) extended their recent downtrend on Friday, moving 50bps lower from 1.25% (Thursday's closing mid). Those of 1-week tenor traded at 1.25% on Friday's close (25bps lower from the previous session's settlement), while those of one month tenor remained unchanged at 1.5%, as were those with 3 to 12 months tenors, which averaged around 1.65%. Elsewhere, domestic government bonds retained a firm tone on Friday, with the mid and long part of the corresponding benchmark yield curve shifting broadly lower. In more detail, 3 and 5 year yields slid by 5bps each to 2.75% and 3.25%, respectively, on Friday's settlement, while the 10 year yield closed broadly unchanged at 4.25%. In other news, the government is planning to auction RON 400mn in 2020 T-bonds on Monday, in the first debt auction this month. The said tender is expected to produce a yield seen around 3.55%-3.60%.

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BULGARIA

(Sofia, 7/7/2014, 9:40 EET): **Latest Political & Macro Developments:** Fitch rating agency affirmed on Friday Bulgaria's long-term foreign and local currency sovereign credit ratings at BBB- and BBB respectively, with outlook stable. The agency cited "strong liquidity and capital buffers" which allowed the banking sector to withstand the recent deposit outflow in two domestic banks. It also noted that it expects real GDP to rise by 1.6% in 2014, anticipating a further acceleration in the pace of increase towards 2.5% in 2015, on the back of higher household consumption and improved growth prospects in main trade partner economies. Fitch also highlighted that it expects Bulgaria's gross general government debt to remain among the lowest in the EU and peak at around 23%-of-GDP from 18.9% in 2013, while the general government deficit remains contained, in spite of a widening to 1.5% last year from a shortfall of 0.8% in 2012. The agency identified potential "macroeconomic or geopolitical shocks" and a "significant slippage relative to official fiscal targets, or the emergence of instability in the banking sector" as the main risk factors to the domestic economy presently.

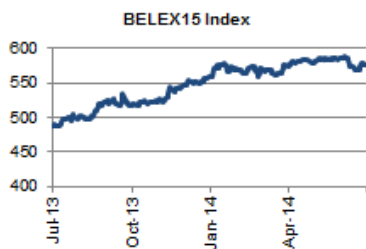
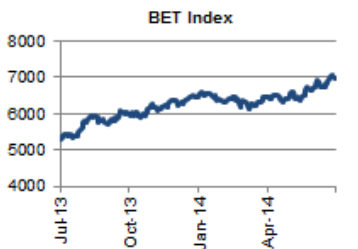
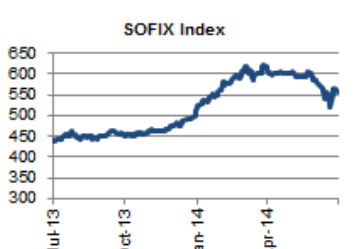


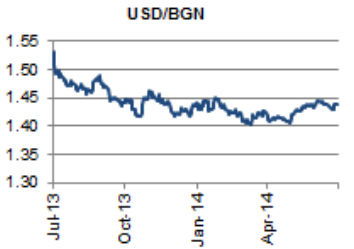
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GLOBAL MARKETS

Stock markets				FOREX				Government Bonds				Commodities			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD	(yields)	Last	ΔDbps	ΔYTD bps		Last	ΔD	ΔYTD
S&P 500	1985.44	0.5%	7.4%	EUR/USD	1.3595	0.0%	-1.1%	UST - 10yr	2.64	0	-39	GOLD	1314	-0.5%	8.9%
Nikkei 225	15379.44	-0.4%	-5.6%	GBP/USD	1.7139	-0.1%	3.5%	Bund-10yr	1.27	0	-66	BRENT CRUDE	182	0.0%	#VALUE!
STOXX 600	346.82	-0.3%	5.7%	USD/JPY	101.92	0.2%	3.3%	JGB - 10yr	0.57	0	-17	LMEX	3260	-0.6%	3.2%

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	6.59	-5	-142	O/N	0.93	-23	-81	LEONIA	0.03	0	-4
1-week	6.87	-4	-141	1-month	1.59	-21	-29	1-month	0.25	0	-7
1-month	7.19	-4	-139	3-month	2.29	-1	-15	3-month	0.53	0	-11
3-month	7.66	-5	-122	6-month	2.61	-3	-38	6-month	1.00	0	-15
6-month	8.00	-3	-115	12-month	2.69	-4	-46	12-month	1.92	0	-28
RS Local Bonds				RO Local Bonds				BG Local Bonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	(yields)	Last	ΔDbps	ΔYTD bps
3Y RSD	9.28	0	-67	3Y RON	2.55	-4	-140	3Y BGN	1.25	6	16
5Y RSD	10.65	2	-217	5Y RON	3.00	-3	-165	5Y BGN	1.78	7	-6
7Y RSD	11.73	3	-207	10Y RON	4.24	-2	-106	10Y BGN	3.14	0	-36
RS Eurobonds				RO Eurobonds				BG Eurobonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
USD Nov-17	3.74	-1	-127	EUR Sep-20	2.41	1	-143	USD Jan-15	1.13	4	54
USD Nov-24	1.68	-487	-523	USD Aug-23	4.04	1	-77	EUR Jul-17	1.54	-6	-26
CDS				CDS				CDS			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
5-year	266	-1	-143	5-year	135	1	-50	5-year	139	0	-5
10-year	316	1	-131	10-year	183	0	-49	10-year	190	0	16
STOCKS				STOCKS				STOCKS			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
BELEX15	577.0	-0.04%	3.40%	BET	6970.8	-0.63%	7.35%	SOFIX	557.5	-1.26%	13.43%
FOREX				FOREX				FOREX			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
EUR/RSD	115.4	-0.02%	-1.40%	EUR/RON	4.3869	0.02%	1.96%	USD/BGN	1.4387	0.01%	-1.08%
											
											

Source: Reuters, Bloomberg, Eurobank Global Markets Research

Data updated as of 13:00 EET

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