



# DAILY OVERVIEW

## OF GLOBAL MARKETS & THE SEE REGION

Wednesday, February 08, 2017

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### GLOBAL

##### US

- Feb 6: Trade balance (Dec)
- Feb 9: Initial claims (weekly)
- Feb 10: UoM consumer sentiment (p, Feb)

##### EUROZONE

- Feb 8: ECB President Draghi speaks

##### GREECE

- Feb 9
  - U/E rate (Nov)
  - Industrial Production (Dec)

##### SEE

##### BULGARIA

- Feb 8
  - Industrial Production (Dec)
  - Retail sales (Dec)
- Feb 9: Trade balance (Dec)

##### ROMANIA

- Feb 6: 3.5% 2022 T-Bonds auction
- Feb 7: MPC meeting announcement
- Feb 9
  - Trade balance (Dec)
  - Industrial sales (Dec)
  - Net wages (Dec)
  - 2.25% 2020 T-Bonds auction
- Feb 10: Industrial Production (Dec)

##### SERBIA

- Feb 7: PPI (Jan)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** The common currency continued its downward trend amid rising concerns about European politics, including France's presidential elections where uncertainty prevails over the outcome of the two rounds scheduled for April 23<sup>rd</sup> and May 7<sup>th</sup>. Against this background, the EUR/USD slipped to a one-week low of 1.0643 retreating from last week's nearly two-month high of 1.0829. The upcoming election cycle in Europe has also weighed on European government bond yield spreads, with the French-German respective one widening to 78bps earlier in the day, the highest level since late 2012. In commodities markets, crude oil prices declined as a sharp increase in US inventories and a decline in Chinese demand pointed to an oversupply of crude in the oil market despite last year's agreement between OPEC and non-OPEC members to cut oil output.

**GREECE:** In the aftermath of the IMF's DSA and economic review on Greece, Greek Finance Minister Euclid Tsakalotos defended the progress that has been made in the context of the 3<sup>rd</sup> Economic Adjustment Programme, pointing out to the significant reforms in the social security system, the pensions system and the products market as well as in improving tax collection through the establishment of the Independent Authority for Public Revenue. The Governor of the Bank of Greece Yannis Stournaras claimed, among others, that the IMF's concerns regarding Greek banks' capital adequacy are unjustified given that their capital ratio is among the highest in the EU and the ongoing efforts to manage NPLs are expected to strengthen it further.

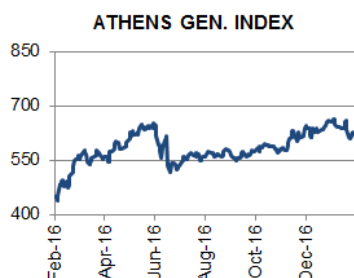
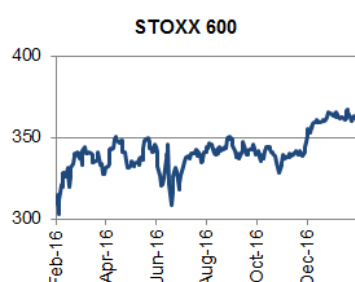
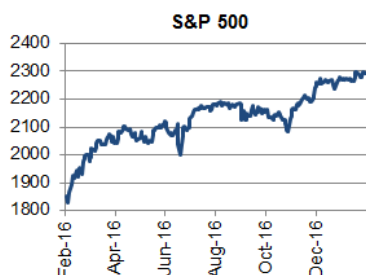
### SOUTH EASTERN EUROPE

**ROMANIA:** The Constitutional Court ruled on Tuesday that the CHF loan conversion is unconstitutional. In other news, the Central Bank of Romania kept the key policy rate at the current historic low levels of 1.75% at its monetary policy meeting on Tuesday, as was broadly anticipated. The Central Bank also announced yesterday its decision to maintain unchanged the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions.

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## Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

### GLOBAL MARKETS

The common currency continued its downward trend amid rising concerns about European politics, including France's presidential elections where uncertainty prevails over the outcome of the two rounds scheduled for April 23<sup>rd</sup> and May 7<sup>th</sup>. Against this background, the EUR/USD slipped to a one-week low of 1.0643 retreating from last week's nearly two-month high of 1.0829. Elsewhere, the US dollar was also supported by China's foreign exchange reserves which fell last month near a 6-year low of \$2.998 trillion despite the Chinese government's efforts to control outflows by tightening capital controls. The upcoming election cycle in Europe has also weighed on European government bond yield spreads, with the corresponding French-German widening to 78.8bps earlier in the day, the highest level since November 2012. In commodities markets, crude oil prices declined as a sharp increase in US inventories and a decline in Chinese demand pointed to an oversupply of crude in the oil market despite last year's agreement between OPEC and non-OPEC members to cut oil output. Brent crude oil fell to a 20-day low of \$54.44/bbl in early European trade, moving away from nearly one-month high of \$57.45/bbl hit one week earlier. Market attention today will likely focus on Mario Draghi's speech in the Dutch parliament.

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### GREECE

In the aftermath of the IMF's DSA and economic review on Greece, Greek Finance Minister Euclid Tsakalotos defended the progress that has been made in the context of the 3<sup>rd</sup> Economic Adjustment Programme, pointing out to the significant reforms in the social security system, the pensions system and the products market as well as in improving tax collection through the establishment of the Independent Authority for Public Revenue. Furthermore, although the FinMin agreed with the Fund on the need for a broader tax base, he argued that this should be done through curbing tax evasion rather than lowering the tax-free threshold. The Governor of the Bank of Greece Yannis Stournaras claimed, among others, that the IMF's concerns regarding Greek banks' capital adequacy are unjustified given that their capital ratio is among the highest in the EU and the ongoing efforts to manage NPLs are expected to strengthen it further. The Eurogroup President Jeroen Dijsselbloem characterized the IMF's review on Greece unnecessarily pessimistic and expressed the opinion that Greece's creditors would be prepared to ease the country's debt burden further – ruling, however, out any forgiveness of principal debt – if Greece continues to implement reforms. Meanwhile, according to press reports, the European Commission President Jean Claude Juncker and the Eurogroup President Jeroen Dijsselbloem are seeking to organise a meeting between representatives of Greece's official lenders, including the IMF, and Greek officials with the aim to reach a comprehensive agreement that will comprise both the upfront legislation of certain measures on behalf of Greece but also a more specific commitment for debt relief on behalf of its official creditors. Such an agreement could allow the resumption of official negotiations in the context of the 2<sup>nd</sup> programme review and the conclusion of the latter potentially before mid-March 2017. In other news, the Hellenic Statistical Authority (ELSTAT) released yesterday the commercial transactions data (nominal terms) for December 2016, which for the whole year 2016 show a decrease in goods' exports by 1.8%YoY and an increase in goods' imports by 0.8%YoY.

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February 8, 2017

BULGARIA: Indicators	2015	2016e	2017f
Real GDP growth %	3.6	3.5	3.0
CPI (pa, yoy %)	-0.1	-0.7	0.6
Budget Balance/GDP*	-2.9	-0.8	-1.4
Current Account/GDP	0.4	3.0	1.5
EUR/BGN (eop)	1.9558		
	2015	current	2016
Policy Rate (eop)	N/A	N/A	N/A

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

CYPRUS: Indicators	2015	2016e	2017f
Real GDP growth %	1.7	2.8	3.0
HICP (pa, yoy %)	-1.5	-1.1	0.5
Budget Balance/GDP*	0.0	-0.3	-0.6
Current Account/GDP	-3.0	-2.8	-3.3

\* ESA 2010

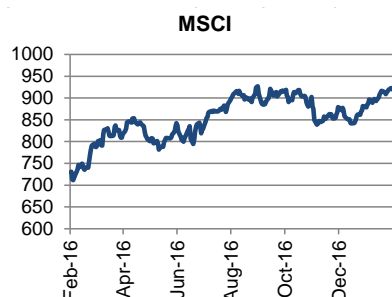
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

ROMANIA: Indicator	2015	2016e	2017f
Real GDP growth %	3.7	5.0	3.5
CPI (pa, yoy %)	-0.6	-1.8	1.5
Budget Balance/GDP*	-1.9	-2.8	-3.7
Current Account/GDP	-1.1	-3.0	-3.2
EUR/RON (eop)	4.48	4.54	4.60
	2015	current	2016
Policy Rate (eop)	1.75	1.75	1.75

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

SERBIA: Indicators	2015	2016e	2017f
Real GDP growth %	0.8	2.7	3.0
CPI (pa, yoy %)	1.4	1.0	2.1
Budget Balance/GDP	-3.7	-2.1	-1.7
Current Account/GDP	-4.7	-4.1	-3.9
EUR/RSD (eop)	121.38	123.40	125.5
	2015	current	2016
Policy Rate (eop)	4.25	4.00	4.00

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	B1	BB-	BB-
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BB+	BBB-
CYPRUS	B1	BB-	B+

Source: IMF, EC, Reuters, Bloomberg, National  
Authorities, Eurobank Research

## Latest economic & market developments in the CESEE region

### ROMANIA

The Constitutional Court ruled on Tuesday that the CHF loan conversion is unconstitutional. The Court decision was grounded on two major reasons. The first one was the serious violation of the principle of bicameralism, given that there is substantial difference between the legislative draft tabled in the Senate and the final act adopted by the Lower Chamber. The second reason was that the final act provisions for the FX conversion are fundamentally wrong and do not correspond to any EU directive.

The law which was unanimously adopted by the previous parliament in last October allowed borrowers to convert their CHF denominated loans into RON at historical exchange rates. The final draft law provided for no threshold for the outstanding amount balance, debt to income service ratio or the contract date of the loan and it includes those who had already benefited from a loan reconversion in other currency or from a restructuring of their loan. The latter provisions were deemed to be in conflict with the Constitutional Court previous amendments to the Debt Discharge Law ("Datio in Solutum") and were taken into consideration before the postponement of the ruling on January 18<sup>th</sup>. The NBR has recently assessed that the law, if implemented in its current version, will incur RON 2.4bn (0.3% of GDP) losses for the banking system. Even though the amount looked manageable, the risk is concentrated on three banks which were most likely to take 70% of the hit. The capital adequacy of two of them, both non-systemic, was expected to decline below the regulatory minimum threshold.

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In line with market expectations, the Central Bank of Romania kept the key policy rate at the current historic low levels of 1.75% at its monetary policy meeting on Tuesday. The Central Bank also announced its decision to maintain unchanged the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions. In the ensuing press conference, NBR Governor Mugur Isarescu expressed belief that inflation will return to positive readings in Q1 but rise at a relatively slower pace than previously expected due to the impact from the latest "disinflationary supply-side shocks". The inflation is then seen re-entering the 1.5-3.5% target band towards the end of the year vs. mid-2017 previously, reaching the upper half of the said range at the start of 2018. It is worth noting that although domestic economic activity remains relatively robust, and is mostly driven by private consumption, annual headline inflation has remained in a negative territory since mid-2015 in view of last year's VAT cuts and low energy prices. In more detail, CPI stood at -0.5%YoY in December, remaining below target for 2 ½ years.

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February 8, 2017

## 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	2293.08	0.0%	2.4%	EUR/USD	1.0658	-0.2%	1.3%	UST - 10yr	2.40	0	-5	GOLD	1232	-0.2%	6.9%
Nikkei 225	19007.60	0.5%	-0.6%	GBP/USD	1.2488	-0.2%	1.1%	Bund-10yr	0.35	0	14	BRENT CRUDE	55	-0.6%	-3.7%
STOXX 600	362.74	0.3%	0.4%	USD/JPY	112.36	0.0%	4.1%	JGB - 10yr	0.10	-1	5	LMEX	2800	-0.7%	5.3%

## CESEE MARKETS

## SERBIA

## Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	299	0	-1
1-week	3.11	0	-6
1-month	3.34	0	-1
3-month	3.47	1	0
6-month	3.68	0	2

## RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	5.07	0	-1
5Y RSD	5.46	0	11
7Y RSD	5.69	0	6

## RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.14	-1	-18
USD Nov-24	6.47	1	6

## CDS

	Last	ΔDbps	ΔYTD bps
5-year	205	0	-2
10-year	248	0	-8

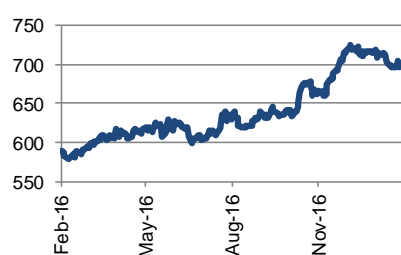
## STOCKS

	Last	ΔD	ΔYTD
BELEX15	701.0	0.12%	-2.29%

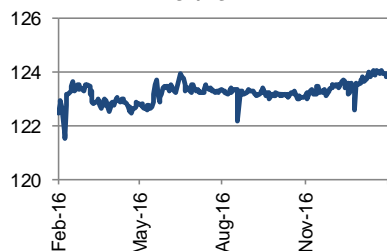
## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.88	0.04%	-0.34%

BELEX15 Index



EUR/RSD



## ROMANIA

## Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.46	0	-10
1-month	0.63	0	-13
3-month	0.82	0	-8
6-month	1.05	0	-6
12-month	1.22	0	-3

## RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.72	0	10
5Y RON	2.67	0	15
10Y RON	3.62	0	-3

## RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.13	0	-1
USD Jan-24	3.67	1	-19

## CDS

	Last	ΔDbps	ΔYTD bps
5-year	96	-2	-13
10-year	140	-2	-12

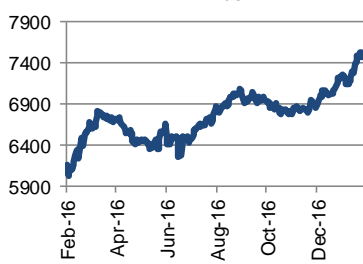
## STOCKS

	Last	ΔD	ΔYTD
BET	7631.2	0.03%	7.71%

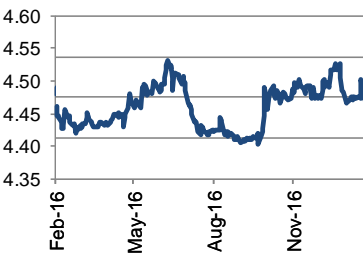
## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4889	-0.02%	1.12%

BET Index



EUR/RON



## BULGARIA

## Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.33	0	-33
1-month	-0.16	0	0
3-month	-0.08	-1	-1
6-month	0.07	0	-1
12-month	0.40	0	0

## BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.08	0	-7
5Y BGN	0.44	0	-6
10Y BGN	1.69	0	-22

## BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.24	-16	8
EUR Sep-24	1.64	-11	-4

## CDS

	Last	ΔDbps	ΔYTD bps
5-year	119	1	-33
10-year	163	2	-31

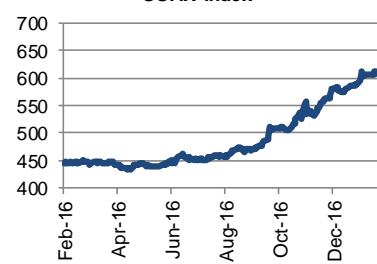
## STOCKS

	Last	ΔD	ΔYTD
SOFIX	604.2	-0.37%	3.03%

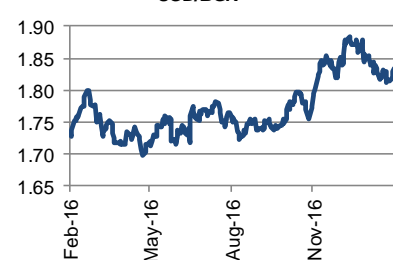
## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.8354	-0.25%	1.25%

SOFIX Index



USD/BGN



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research

Data updated as of 10:00 EET

February 8, 2017

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