

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### GLOBAL

##### US

- August 25
  - FHFA home prices (Jun)
  - Markit Composite & Services PMI (Aug, p)
  - New home sales (Jul)
  - Consumer Conf (Aug)
- August 26
  - Durable goods (Jul)
  - Fed's Dudley speaks
- August 27
  - GDP (Q2, 2<sup>nd</sup>)
  - Initial jobless claims (Aug 23)
  - Pend. home sales (Jul)
- August 27-29: Fed's annual economic symposium in Jackson Hole
- August 28
  - Personal income & spending (Jul)
  - Core PCE (Jul)
  - UoM sentiment (Aug, f)

##### EUROZONE

- August 25
  - German Ifo (Aug)
  - GDP (Q2, f)
  - ECB's Merkel & Constancio speak
- August 26: ECB's Praet speaks

##### GREECE

- August 28: GDP (Q2, f)

##### SEE

##### BULGARIA

- August 26: External debt (Jun)
- August 29: Budget bal (Jul)

##### ROMANIA

- August 24: RON300mn 2020 T-bonds auction
- August 27: RON300mn 5-Y T-bonds auction

##### SERBIA

- August 25: Wages (Jul)
- August 31
  - Industrial prod. (Jul)
  - Trade balance (Jul)
  - Retail sales (Jul)
  - GDP (Q2, f)

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Wall Street rallied yesterday following Fed Dudley's comments that escalating global uncertainties have weakened the chances for raising US interest rates in September, while durable goods orders surpassed market expectations. Trailing overnight gains on Wall Street, Asian and European equity indices edged higher on Thursday amid improved global risk sentiment. In FX markets, the US dollar strengthened against its major currency peers on Thursday, while gains in global equity markets dented the safe-haven appeal of the JPY. On the data front, focus today is on the second reading of US Q2 GDP growth, which is expected to be upwardly revised from a first estimate of 2.3%QoQ saar.

**GREECE:** The President of the Hellenic Republic, in line with the Constitution of Greece, is reportedly expected to assign to the head of the Supreme Administrative Court to form a caretaker cabinet later today that is anticipated to be sworn in on Friday. As things stand at this point, the main scenario is that snap elections will likely be held on September 20. In other news, according to the final Central Government (CG) Budget Execution data for the January – July 2015 period, the budget balance recorded a ca €0.8bn deficit, slightly improved relative to the respective 2015 Budget target (deficit at ca €1.4bn). This came on the back of a significant shortfall in ordinary budget net revenue by ca €4.3bn (or -14.2%) relative to the respective 2015 Budget target and the similar underperformance of ordinary budget expenditure by ca €3.1bn (or -10.5%) relative to the respective 2015 Budget target.

### SOUTH EASTERN EUROPE

**ROMANIA:** Prime Minister Victor Ponta reportedly approved on Wednesday a 25% increase in doctors' and nurses' wages, scheduled to come into effect on October 1<sup>st</sup>.

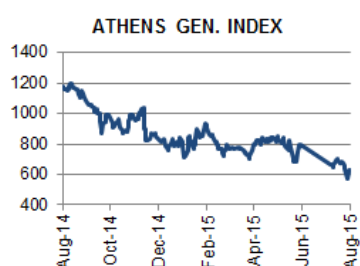
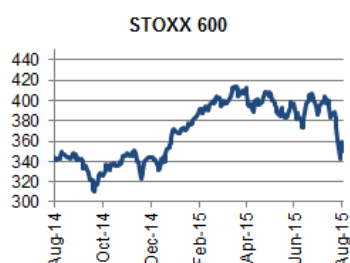
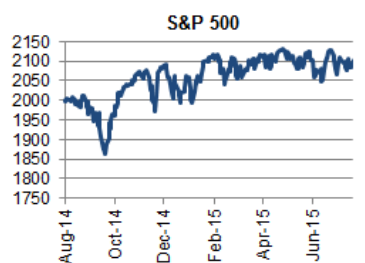
**CESEE MARKETS:** Taking their cue from the rally in Wall Street overnight and gains in major Asian bourses on Thursday, **emerging stock markets** moved higher earlier today on bargain hunting. In a similar mode, **regional currencies** and **government bonds** recovered ground earlier today.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Wall Street rallied yesterday following Fed Dudley's comments that escalating global uncertainties have weakened the chances for raising US interest rates in September. Additionally, durable goods orders surpassed market expectations, increasing by 2.0%MoM in July vs. consensus expectations for a modest decline of 0.4%MoM. Trailing overnight gains on Wall Street, Asian equity indices edged higher on Thursday, with the Chinese bourses breaking a five-session declining streak. In Europe, major equity shares moved higher in early trade amid improved global risk sentiment. In FX markets, the US dollar strengthened against its major currency peers early on Thursday, with the DXY index hovering around levels of 95.37, up from yesterday's intraday low of ca. 93.70. Gains in global equity markets dented the safe-haven appeal of the JPY. The USD/JPY was hovering around 120.26/120.27 in early European trade, 1.6% higher from Monday's intraday 7-month trough of 116.20. Elsewhere, the EUR/USD was standing around 1.1300 at the time of writing, declining by about 3.5% from Monday's 7-month intraday high of 1.1714. On the data front, focus today is on the second reading of US Q2 GDP growth, which is expected to be upwardly revised from a first estimate of 2.3%QoQ saar.

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### GREECE

Panayotis Lafazanis, former SYRIZA MP and President of the recently formed anti-MoU Popular Unity party is reportedly expected to hand back to the President of the Hellenic Republic the exploratory mandate he received three days ago in order to ascertain the possibility of forming a government that would enjoy the confidence of the 300-seat Parliament. The Popular Unity party is the third largest party in the Hellenic Parliament enjoying the support of 25 former SYRIZA lawmakers. According to the same reports, the President of the Hellenic Republic does not intend to convene a meeting of the party leaders to explore whether it is possible to form a government from the current Parliament taking into account that the Prime Minister, the leader of the junior coalition party ANEL and the General Secretary of the Communist party of Greece have indicated that they do not intend to take part in such talks. Should this be the case, the President of the Hellenic Republic, in line with the Constitution of Greece, is reportedly expected to assign to the head of the Supreme Administrative Court to form a caretaker cabinet later today that is anticipated to be sworn in on Friday. As things stand at this point, the main scenario is that snap elections will likely be held on September 20. Minister of State Alekos Flabouraris reportedly said earlier this week that if SYRIZA fails to secure absolute parliamentary majority, it will seek the formation of a coalition so as to prevent a second round of elections. Meanwhile, speaking to a local TV station y-day, Prime Minister Alexis Tsipras referred to ANEL as the sole potential coalition partner for SYRIZA. Yet, he did not rule out the possibility of SYRIZA participating in a coalition government with New Democracy, To Potami and/or PASOK. However, he clarified that, under such a scenario, he does not intend to assume the post of Prime Minister. In other news, according to the final Central Government (CG) Budget Execution data for the January – July 2015 period, the budget balance recorded a ca €0.8bn deficit, slightly improved relative to the respective 2015 Budget target (deficit at ca €1.4bn). This came on the back of a significant shortfall in ordinary budget net revenue by ca €4.3bn (or -14.2%) relative to the respective 2015 Budget target and the similar underperformance of ordinary budget expenditure by ca €3.1bn (or -10.5%) relative to the respective 2015 Budget target. The primary balance recorded a surplus of ca €3.7bn, significantly outperforming the 2015 Budget target (primary deficit of ca €3.0bn).

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August 27, 2015

## Latest world economic & market developments in the CESEE region

### ROMANIA

Prime Minister Victor Ponta reportedly approved on Wednesday a 25% increase in doctors' and nurses' wages, scheduled to come into effect on October 1<sup>st</sup>. The news comes on the heels of an ongoing improvement in government finances this year. Notably, data released by the finance ministry earlier in the week showed that the consolidated general government budget ran a surplus of 1.1% of projected GDP (on a cash basis) over the first seven months of the year, up from a surplus of 0.6% recorded in H1 2015 and well above a deficit target of 1.8% of GDP for the whole of 2015. On Wednesday, the Prime Minister said that the budget will continue to run a surplus at the end of August. However, an ambitious government-backed fiscal easing plan, inclusive of VAT cuts, has raised concerns about a potential derailment in the country's fiscal consolidation efforts. In order to mitigate fiscal slippage risks, MPs agreed last week to soften the planned tax reductions. According to the initial plan the main VAT rate would be cut to 19% from 24% currently. But, the new VAT reduction envisioned is smaller, at 20% from next year, and 19% from 2017. A cut in excise duties for fuel is also likely to be postponed. Political parties are expected to meet today to discuss the proposed reductions in taxation, with a review of the new Tax Code likely to be held in Parliament next week.

### CESEE MARKETS

Taking their cue from the rally in Wall Street overnight and gains in major Asian bourses on Thursday, **emerging stock markets** moved higher earlier today on bargain hunting. Investor sentiment somewhat improved thanks to upbeat macroeconomic data from the US, scaled back expectations for a Fed rate hike and measures recently endorsed by Chinese authorities in order to cushion the turmoil in the domestic stock market and support the domestic economy. In response, the MSCI Emerging Markets index rose by 1.5% at some point in Asian trade and several indices in the CESEE region advanced by more than 1% shortly after the market's open. In more detail, Hungary's BUX led the gains in the region with a 1.7% rise in early European trade. Turkey's BIST 100 followed suit, firming by ca 1.5% at the time of writing.

In a similar mode, **regional currencies** recovered ground earlier today. The Turkish lira led the winners' pack, with the USD/TRY easing as far as 2.8940 before recovering some ground to stand at 2.9050, remaining though ca 0.9% lower compared to the prior session's settlement. Despite the lira's recovery over the last couple of sessions, risks remain tilted towards the downside. Investor sentiment remains fragile in view of persisting concerns over the prospects of the Chinese - the world's second largest - economy, while domestic political uncertainty is likely to linger in the weeks ahead as the country is expected to hold new national elections on November 1<sup>st</sup>, after coalition negotiations - following an inconclusive outcome in June's polls - collapsed. Against this backdrop, the USD/TRY's technical picture suggests that a break above today's peak near 2.9340 may pave the way towards 2.9855 (August 24, 2015 high) ahead of a record high of 2.9989 hit last week.

In the **local rates markets**, government bonds also firmed earlier on Thursday, with Turkish paper broadly outperforming its regional peers. In support of the aforementioned, the 2- and 10-year benchmark bond yields slid by ca 11-14bps each to stand near 10.67% and 9.89%, respectively, at the time of writing. Romania's T-bonds auction of RON 300mn in November 2018 takes centre stage today at the CESEE region.

BULGARIA: Indicators	2014e	2015f	2016f
Real GDP growth %	1.7	1.8	2.2
CPI (pa, yoy %)	-1.4	0.3	1.2
Budget Balance/GDP*	-3.7	-2.5	-2.4
Current Account/GDP	0.9	2.0	1.5
EUR/BGN (eop)	1.9558		
	2014	current	2015f
Policy Rate (eop)	N/A	N/A	N/A

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

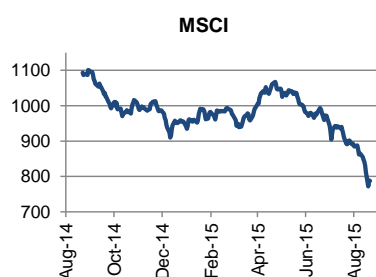
ROMANIA: Indicator:	2014e	2015f	2016f
Real GDP growth %	2.9	3.4	3.5
CPI (pa, yoy %)	1.1	-0.5	1.8
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.0	-1.5
EUR/RON (eop)	4.40	4.45	4.40
	2014	current	2015f
Policy Rate (eop)	1.75	1.75	2.50

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2014e	2015f	2016f
Real GDP growth %	-1.8	0.0	1.5
CPI (pa, yoy %)	2.1	2.2	3.8
Budget Balance/GDP	-6.7	-5.3	-4.6
Current Account/GDP	-6.0	-4.3	-4.1
EUR/RSD (eop)	120.96	123.00	124.00
	2014	current	2015f
Policy Rate (eop)	8.00	5.50	5.50

Source: Reuters, Bloomberg, Eurobank Research, National Authorities



Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	B1	BB-	B+
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BB+	BBB-
CYPRUS	B3	B+	B-

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

August 27, 2015

## 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	1940.51	3.9%	-5.8%	EUR/USD	1.129	-0.2%	-6.7%	UST - 10yr	2.15	-2	-2	GOLD	1126	0.0%	-5.0%
Nikkei 225	18574.44	1.1%	6.4%	GBP/USD	1.5486	0.1%	-0.6%	Bund-10yr	0.72	2	18	BRENT CRUDE	45	3.5%	-22.2%
STOXX 600	359.13	2.6%	4.8%	USD/JPY	120.33	-0.3%	-0.5%	JGB - 10yr	0.39	2	6	LMEX	2276	-2.2%	-21.9%

## CESEE MARKETS

## SERBIA

## Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	4.10	0	-581
1-week	4.27	1	-574
1-month	4.63	0	-542
3-month	5.06	1	-479
6-month	5.33	0	-446

## RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	6.17	0	-288
5Y RSD	8.10	0	-208
7Y RSD	8.84	0	-324

## RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.48	-3	-78
USD Nov-24	6.52	0	-7

## CDS

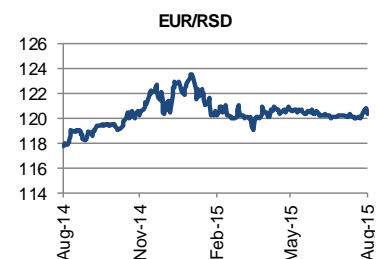
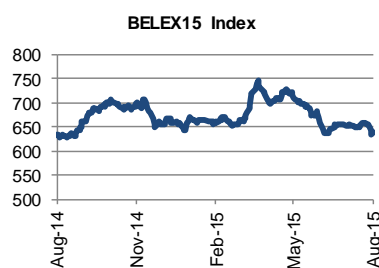
	Last	ΔDbps	ΔYTD bps
5-year	277	0	-13
10-year	321	-1	-35

## STOCKS

	Last	ΔD	ΔYTD
BELEX15	641.4	0.71%	-3.84%

## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.41	0.17%	0.78%



## ROMANIA

## Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.59	23	102
1-month	1.42	11	51
3-month	1.43	4	-27
6-month	1.64	6	-37
12-month	1.71	3	-31

## RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.91	4	-40
5Y RON	2.44	2	-27
10Y RON	3.75	4	9

## RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	1.45	0	-28
USD Aug-23	3.72	-1	10

## CDS

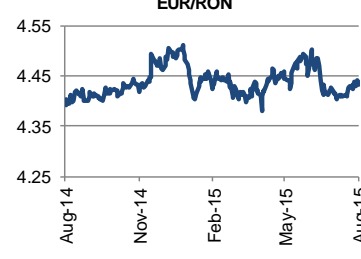
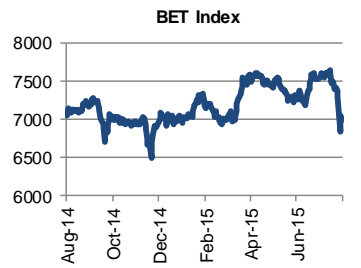
	Last	ΔDbps	ΔYTD bps
5-year	138	-2	-5
10-year	184	-2	-3

## STOCKS

	Last	ΔD	ΔYTD
BET	7127.2	1.87%	0.62%

## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.433	0.19%	1.14%



## BULGARIA

## Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	-1
1-month	0.18	0	-4
3-month	0.33	0	-10
6-month	0.62	0	-17
12-month	1.22	0	-29

## BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.48	0	-56
5Y BGN	1.06	6	-39
10Y BGN	2.44	0	-31

## BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.48	0	-68
EUR Sep-24	2.83	31	-4

## CDS

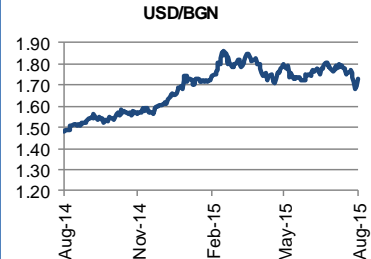
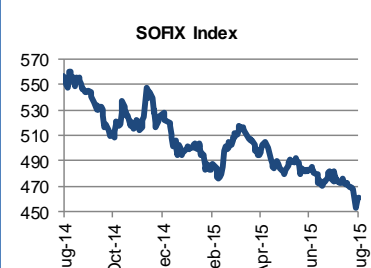
	Last	ΔDbps	ΔYTD bps
5-year	178	-2	-13
10-year	227	-3	-14

## STOCKS

	Last	ΔD	ΔYTD
SOFIX	460.6	0.22%	-11.77%

## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7325	-0.20%	-6.70%



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

Data updated as of 12:00 EEST



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