

DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

January 5, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- January 7
 - ADP employment (Dec)
 - Trade Balance (Nov)
 - Fed Dec 16-17 meeting minutes
- January 8: Initial jobless claims (Jan 2)
- January 9
 - NFP report (Dec)
 - U/E rate (Dec)

EUROZONE

- January 6: PMI-index services & composite (Dec, f)
- January 7
 - U/E rate (Nov)
 - CPI (Dec)

SEE

SERBIA

- January 5-9: PPI (Dec)
- January 6: 53-week T-Bills auction

ROMANIA

- January 5: International reserves (Dec)
- January 6: PPI (Nov)
- January 7: MPC meeting
- January 8
 - Retail sales (Nov)
 - 3.25% 2018 T-Bonds auction
- January 9: Trade balance (Nov)

BULGARIA

- January 7: International reserves (Dec)
- January 8
 - Retail sales (Nov)
 - IP (Nov)
- January 9: Trade balance (Nov)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Market expectations that the ECB will probably adopt a government bond-buying program in the coming weeks/months in an effort to boost euro area economic activity and address deflation risks, continued to mount. Against this background, the EUR extended its recent losses in European trade on Monday, with the EUR/USD falling to 1.1880 at some point earlier in Asia, the lowest level since March 2006. Looking ahead, relative Eurozone/US growth differentials and perceived divergence in the Fed's and the ECB's monetary policy stance, point to a weaker EUR/USD in the coming weeks/months.

GREECE: Greece's Manufacturing Purchasing Managers' Index (PMI) came in at 49.4 in December, up from November's 49.1, remaining though below the boom-or-bust level of 50.0 for the fourth straight month mainly due to lower new orders and stocks of inputs. In other news, Germany's Vice Chancellor and Economy Minister Sigmar Gabriel was quoted as saying in a newspaper interview that the German government wants Greece to stay in the euro area and there are no contingency plans to the contrary.

SOUTH EASTERN EUROPE

CESEE MARKETS: Emerging stock markets kicked off the week on a negative footing, extending a 3-day losing streak amid mounting risk aversion, while a resumption in oil prices' decline weighed on energy shares. Separately, **CESEE currencies** were mixed, while government bonds broadly firmed. In the CESEE space, this week's focus is on Romania's Central Bank monetary policy meeting on Wednesday, while, globally, Eurozone CPI data and US labour data for December take centre stage.

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Latest world economic & market developments

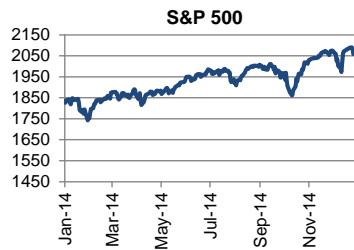
GLOBAL MARKETS

Market expectations that the ECB will probably adopt a government bond-buying program in the coming weeks/months in an effort to boost euro area economic activity and address deflation risks, continued to mount. In an interview with a German financial newspaper late last week, ECB President Mario Draghi was quoted as saying that the Central Bank is less likely to preserve price stability than it was the case six months ago and reiterated that the ECB is ready to act early this year should it become necessary. Against this background, the EUR extended its recent losses in European trade on Monday, with the EUR/USD falling to 1.1880 at some point earlier in Asia, the lowest level since March 2006, before recovering modestly to stand close to 1.1960/65 at the time of writing. Market consensus that December's euro area inflation data, due for release on Wednesday, will likely show that the inflation rate dropped below the zero line for the first time since autumn 2009 from 0.3%YoY in the prior month, mainly due to lower oil prices, also weighed on the common currency. Adding to the EUR's negative tone, the latest IMF FX reserves data showed that the share of currency reserves in the EUR held by Central Banks fell by 22.6% in Q3 2014 compared to the prior quarter coming in at the lowest level in over a decade. Looking ahead, relative Eurozone/US growth differentials and perceived divergence in the Fed's and the ECB's monetary policy stance, point to a weaker EUR/USD in the coming weeks/months. Yet, euro area's robust current balance surplus suggests that any further EUR/USD weakness this year is likely to be gradual and limited.

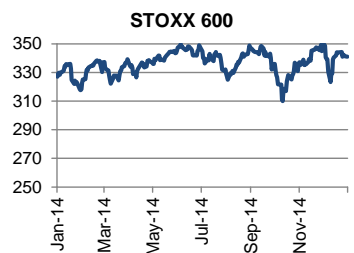
GREECE

Greece's Manufacturing Purchasing Managers' Index (PMI) came in at 49.4 in December, up from November's 49.1, remaining though below the boom-or-bust level of 50.0 for the fourth straight month mainly due to lower new orders and stocks of inputs. In more detail, the breakdown of the December report showed that new orders decreased for the fourth consecutive month while stocks of inputs fell as firms adjusted their purchasing activity in line with a lower level of demand. On a positive tone, factory output rose, albeit modestly, marking the first increase in four months. Moreover, employment gained by the fastest pace since October 2007, recording the first increase in the last six months. Separately, input prices rose slightly for the third straight month while output prices remained in a downward trend that stretches back to early 2011 as competitive pricing strategies force producers to absorb the burden of higher input costs. In other news, Germany's Vice Chancellor and Economy Minister Sigmar Gabriel was quoted as saying in a newspaper interview that the German government wants Greece to stay in the euro area and there are no contingency plans to the contrary. His remarks came on the heels of an international press report released late last week which, citing unnamed German government sources, suggested that the German government believes that a potential exit of Greece from the euro area would now be "manageable" adding that "the danger of contagion is limited because Portugal and Ireland are considered rehabilitated".

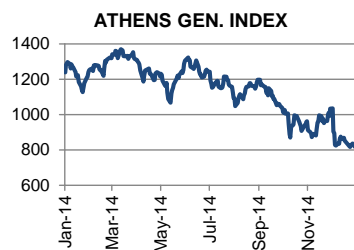
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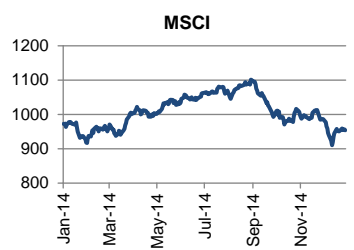
Source: Reuters, Bloomberg, Eurobank Global Markets Research



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L-T ccy	Credit Ratings		
	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

CESEE MARKETS

Emerging stock markets kicked off the week on a negative footing, extending a 3-day losing streak amid mounting risk aversion, while a resumption in oil prices' decline weighed on energy shares. Against this backdrop, the broad MSCI index of emerging equities stood ca 0.6% weaker at the time of writing, bringing the index's total losses over the first few trading sessions of the year to 0.8%. On the flipside, Turkey's main BIST100 index bucked the negative trend in the region rising by 0.7% to hit 1-month highs in European trade today, while Hungary's BUX led the losers' pack in the **CESEE region** sliding by more than 1.0% intraday.

Separately, **CESEE currencies** were mixed. The Hungarian forint broadly underperformed its regional peers after the PMI manufacturing index for December fell to 50.7 from a 55.0 print in November, coming close to the 50-mark boom-or-bust threshold that separates expansion from contraction. The said deterioration in the sector, fanned market talk for a potential resumption of Central Bank interest rate cut in the months ahead. Recall that the MNB rendered a total of 490bps of monetary easing since August 2012 bringing its key policy rate to a lifetime low of 2.10% in July. Against this backdrop, the EUR/HUF spiked to a new 3-year peak of 320.40 in Europe today, before easing slightly towards 319.30/50 later in the session. Elsewhere, the Romanian leu recouped part of Friday's losses with the EUR/RON having eased to 4.4947/97 at the time of writing, from a 10-month high near 4.5110 hit in the prior session. The pair's technical picture suggests that a break above today's 4.5050 peak may pave the way for a retest of last week's multi-month 4.5110 high, while on the downside immediate support lies at 4.4740 (14-day moving average) ahead of 4.4585 (December 19, 2014 trough).

In the **local rates markets**, government bonds broadly firmed, with Turkish paper leading the gains in the region in the wake of lower than anticipated inflation data for December. In more detail, CPI in Turkey unexpectedly fell by 0.44%MoM last month bringing the annual rate of increase to a 10-month low of 8.17%, below a market median forecast of 8.78% but well above the 5.00% official Central Bank year-end target. Along these lines the corresponding 2 and 10-year Turkish T-bond yields eased by 27bps and 17bps respectively to multi-session lows of 7.77% and 7.75%.

In the CESEE space, this week's focus is on Romania's Central Bank monetary policy meeting on Wednesday, where the market's median forecast is for a 25bps cut which, if delivered, will bring the key NBR policy rate to a new record low of 2.50%. Globally, Eurozone CPI data and US labour data for December take centre stage.

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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	2058.20	0.0%	0.0%	EUR/USD	1.1945	-0.5%	-1.3%	UST - 10yr	2.12	1	-5	GOLD	1194	0.4%	0.7%
Nikkei 225	17408.71	-0.2%	-0.2%	GBP/USD	1.5303	-0.2%	-1.8%	Bund-10yr	0.51	1	-3	BRENT CRUDE	175	0.0%	0.0%
STOXX 600	340.98	-0.1%	-0.5%	USD/JPY	120.24	0.2%	-0.5%	JGB - 10yr	0.33	0	0	LMEX	2897	-0.6%	-0.6%

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	LEONIA	Last	ΔDbps	ΔYTD bps	
7/N	on	-3	190	0/N	0.51	#VALUE!	-123	0/N	0.02	0	-5	0/N	0.02	0	-5	
1-week	10.01	-1	173	1-month	0.86	#VALUE!	-102	1-month	0.21	-1	-1	1-month	0.21	-1	-1	
1-month	10.05	-6	147	3-month	1.68	#VALUE!	-76	3-month	0.43	0	0	3-month	0.43	0	0	
3-month	9.85	-2	97	6-month	2	#VALUE!	-99	6-month	0.79	0	0	6-month	0.79	0	0	
6-month	9.79	-4	64	12-month	2.02	#VALUE!	-113	12-month	1.50	0	0	12-month	1.50	0	0	
RS Local Bonds				RO Local Bonds				BG Local Bonds								
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	(yields)	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	
3Y RSD	9.14	6	6	3Y RON	1.99	8	-196	3Y BGN	1.10	6	6	3Y RON	1.99	8	-196	
5Y RSD	10.18	0	0	5Y RON	2.45	2	-220	5Y BGN	1.50	5	5	5Y RON	2.45	2	-220	
7Y RSD	11.25	0	0	10Y RON	3.49	2	-181	10Y BGN	2.85	-1	10	10Y RON	3.49	2	-181	
RS Eurobonds				RO Eurobonds				BG Eurobonds								
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	
USD Nov-17	4.27	1	1	EUR Sep-20	1.68	#N/A	#N/A	-5	USD Jan-15	-0.67	-102	504	EUR Sep-20	1.68	#N/A	#N/A
USD Nov-24	3.32	-327	18	USD Aug-23	3.61	#N/A	#N/A	0	EUR Jul-17	1.15	-3	-1	USD Aug-23	3.61	#N/A	#N/A
CDS				CDS				CDS								
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	
5-year	290	0	0	5-year	137	-6	-6	5-year	191	0	0	5-year	290	0	0	
10-year	355	-1	0	10-year	181	-6	-6	10-year	240	0	-1	10-year	355	-1	0	
STOCKS				STOCKS				STOCKS								
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD	
BELEX15	665.6	-0.21%	-0.21%	BET	7035.4	-0.67%	-0.67%	SOFIX	520.0	-0.40%	-0.40%	BELEX15	665.6	-0.21%	-0.21%	
FOREX				FOREX				FOREX								
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD	
EUR/RSD	121.69	-0.20%	-0.28%	EUR/RON	4.4981	0.18%	-0.32%	USD/BGN	1.6378	-0.51%	-1.30%	EUR/RSD	121.69	-0.20%	-0.28%	

SERBIA				ROMANIA				BULGARIA			
BELEX15 Index				BET Index				SOFIX Index			
EUR/RSD				EUR/RON				USD/BGN			

Source: Reuters, Bloomberg, Eurobank Global Markets Research
Data updated as of 12:00 EET

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