

Wednesday 03 October 2018

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- Oct 01:
 - Manufacturing PMI (Sep)
 - Total vehicles sales (Sep)
- Oct 03:
 - Mortgage applications (29/9)
 - ADP Employment change (Sep)
 - Services PMI (Sep F)
- Oct 04:
 - Initial jobless claims (29/09)
 - Factory orders (Aug)
- Oct 05:
 - Trade balance (Aug)
 - Non farm payrolls (Sep)

EUROZONE

- Oct 01:
 - Manufacturing PMI (Sep, final)
 - Unemployment rate (Aug)
- Oct 3:
 - Services PMI (Sep, final)
 - Retail sales (Aug)

GREECE

- Oct 01:
 - Manufacturing PMI (Sep)

SEE

CYPRUS

- Oct 04: CPI (Sep)

ROMANIA

- Oct 01:
 - Unemployment rate (Aug)
 - International reserves (Sep)
- Oct 02:
 - PPI (Aug)
- Oct 03:
 - Retail Sales (Aug)
 - Key policy interest rate announcement

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: According to Italian press reports, following budget talks late yesterday between Prime Minister Giuseppe Conte, the two Deputy Prime Ministers, Luigi Di Maio and Matteo Salvini, and Finance Minister Giovanni Tria, the government might decide to lower the budget deficit target for 2020 and 2021 to 2.2% of GDP and 2.0% of GDP, respectively, compared to the initial announcement of a 2.4% of GDP deficit target for each year. In reaction to the above, Italy's 10-yr sovereign bond yields moved lower and the EUR/USD rebounded to 1.1593 after marking a six-week low of 1.1504 yesterday. Elsewhere, the GBP came under pressure as a dispute over UK Prime Minister Theresa May's Chequers plan escalated at the ruling Conservative Party's conference. Focus today is on the release of Italy's Update to the Economic and Financial Document and UK PM Theresa May's speech at the Conservative Party conference.

GREECE: According to press reports, the German government could consent to the Greek government not going through with the legislated pension cuts as long as the primary surplus target of 3.5% of GDP is met and other reforms are not reversed. The Court of Audit greenlighted the sale of EESSTY SA (ROSCO) to TRAINOSE SA for EUR22 million and the financial closing is expected by the end of 2018.

SOUTH EASTERN EUROPE

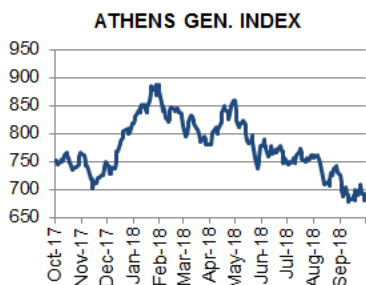
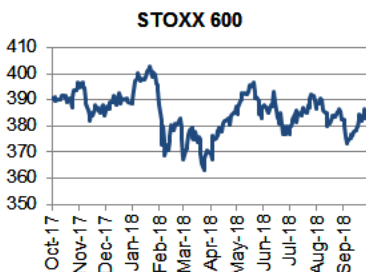
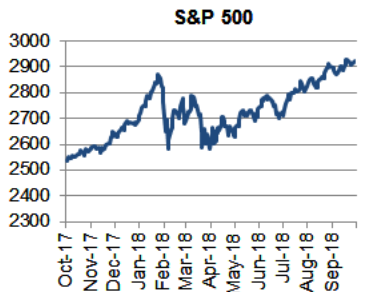
BULGARIA: The budget surplus stood at BGN 2.38bn in January August 2018. According to the Ministry of Finance preliminary data, the budget surplus is expected to rise further to BGN 2.68bn in January – September 2018, accounting for 2.6% of the projected for 2018 GDP.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

According to Italian press reports, following budget talks late yesterday between Prime Minister Giuseppe Conte, the two Deputy Prime Ministers, Luigi Di Maio and Matteo Salvini, and Finance Minister Giovanni Tria, the government might decide to lower the budget deficit target for 2020 and 2021 to 2.2% of GDP and 2.0% of GDP, respectively, compared to the initial announcement of a 2.4% of GDP deficit target for each year. As per the same sources, the government will maintain its plan for a shortfall of 2.4% of GDP for 2019. According to Deputy Prime Minister, Luigi Di Maio, the government will publish the Update to the Economic and Financial Document today. The discussion in both chambers of parliament is likely to start at the beginning of next week and the vote is likely to take place around 10 October.

In reaction to reports conveying that the Italian government may lower the deficit budget target for 2020 and 2021, Italy's 10-yr sovereign bond yields moved lower close to 3.32% earlier today after rising to as high as 3.46% on Tuesday, the highest since early May 2014. However, in spite of today's down move, yields remained well above the 2.74% September low. Market concerns about the stability of Italy's public finances, favored core and semi-core government bonds with the 10-yr Bund yield falling to 0.41% earlier today, the lowest since 12 September. In FX markets the EUR/USD rebounded to 1.1593 after marking a six-week low of 1.1504 yesterday and, similarly, the EUR/CHF tested levels close to 1.1420, 0.5% firmer on the day. Meanwhile, the GBP came under pressure against both the EUR and the USD as a dispute over UK Prime Minister Theresa May's Chequers plan escalated at the ruling Conservative Party's conference. Focus today is on the release of Italy's Update to the Economic and Financial Document and UK PM Theresa May's speech to the Conservative Party conference. In terms of data, we expect the final services PMI for September from both the euro area and the UK as well as the US ADP employment report and the US ISM non-manufacturing PMI ahead of Friday's US non-farm payrolls report.

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GREECE

According to press reports, the German government could consent to the Greek government not going through with the legislated pension cuts as long as two strict conditions are met: Firstly, that Greece's position about the non-necessity of this measure will be substantiated by hard and conclusive data so that the attainment of the primary surplus target of 3.5% of GDP will not be put at risk. Secondly, that the non-implementation of this measure will not constitute the beginning of the reversal of other agreed measures. Meanwhile, the Minister of Finance Euclid Tsakalotos appeared confident in an interview that the pension cuts will eventually not materialise and explained that in this case, the accompanying expansionary measures will still be adopted, but within a longer time horizon of four years instead of two. In other news, the Court of Audit greenlighted the sale of EESSTY SA (ROSCO) to TRAINOSE SA for EUR22 million and the financial closing is expected by the end of 2018 upon approval by the Hellenic Competition Commission.

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BULGARIA: Indicators	2016	2017e	2018f
Real GDP growth %	3.9	3.8	3.8
CPI (pa, yoy %)	-0.8	2.1	2.4
Budget Balance/GDP*	1.6	0.8	-1.0
Current Account/GDP	5.4	5.0	4.5
EUR/BGN (eop)	1.9558		
	2016	current	2017
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

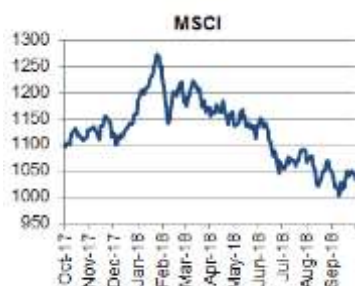
CYPRUS: Indicators	2016	2017e	2018f
Real GDP growth %	3.0	3.8	3.6
HICP (pa, yoy %)	-1.2	0.7	1.0
Budget Balance/GDP*	0.4	0.2	0.4
Current Account/GDP	-5.7	-5.4	-6.2

* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2016	2017e	2018f
Real GDP growth %	4.8	7.0	4.0
CPI (pa, yoy %)	-1.6	1.3	3.5
Budget Balance/GDP *	-2.4	-3.0	-4.4
Current Account/GDP	-2.2	-3.5	-4.0
EUR/RON (eop)	4.54	4.67	4.70
	2017	current	2018
Policy Rate (eop)	1.75	2.50	3.00

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	Ba3	BB	BB
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BBB-	BBB
CYPRUS	Ba2	BBB-	BB+

Latest economic & market developments in the CESEE region

BULGARIA

The budget execution posted a BGN 2.38bn surplus for January – August 2018, higher by 11.3% YoY. According to the preliminary Ministry of Finance data, the budget surplus is expected to rise further to BGN 2.68bn in January – September 2018, accounting for 2.6% of the projected for 2018 GDP.

Only for the month of August, the budget surplus stood at BGN 373.1mn, improving by 23.5% MoM for a third month in a row while total revenues were higher by 22.1% YoY. Specifically, direct and indirect taxes grew by 11.9% and 7.3% respectively. Tax revenues received a solid boost from consumption which in turn is underpinned by robust wage growth over the past months. Moreover, non tax revenues rose by 45.3% and grants – mainly attributed to EU funds absorption which skyrocketed at 257%. Total expenses expanded by 11.6% YoY, reaching BGN 23.59bn, in order to finance increased spending on health care, pensions and wages of teaching personnel in secondary education.

Regarding the expected surplus of BGN 2.68bn for January – September 2018, the trends behind it are more or less the same with those in the January – August period. However, tax revenue dynamics are expected, comparatively, softer. Specifically, tax revenue increased by 11% YoY (vs 22.1% YoY for Jan - Aug 2018) while total expenses rose by 12.4% YoY. For the full year, keeping in mind that the initial budget law envisaged a deficit target of 1% of GDP and that the last quarter of each year is traditionally the one with higher public spending for infrastructure projects, a balanced budget could still be accomplished.

Overall Bulgaria is performing relatively well in fiscals. The prudent budget execution is leading to fiscal surpluses since 2016 due to revenue overperformance and capital underspending. However, from a long term perspective the domestic economy faces long term growth and fiscal challenges due to unfavourable demographic prospects and in order to maintain its resilience, fiscal buffers should be pursued.

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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	2923.43	0.0%	9.3%	EUR/USD	1.1577	0.3%	-3.6%	UST - 10yr	3.07	1	67	GOLD	1204	0.1%	-7.6%
Nikkei 225	24110.96	-0.7%	5.9%	GBP/USD	1.3002	0.2%	-3.8%	Bund-10yr	0.45	3	2	BRENT CRUDE	85	0.1%	27.0%
STOXX 600	381.94	-0.5%	-1.9%	USD/JPY	113.82	-0.2%	-1.0%	JGB - 10yr	0.14	1	9	LME X	3025	0.7%	-11.5%

SERBIA

BELIBOR			
	Last	ΔDbps	ΔYTD bps
T/N	2.29	1	-23
1-week	2.39	1	-22
1-month	2.62	1	-23
3-month	2.92	0	-20
6-month	3.09	0	-15

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.32	-1	-95
5Y RSD	3.65	0	-59
7Y RSD	4.15	0	-103

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.79	-1	79

CDS

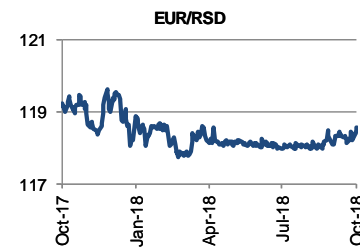
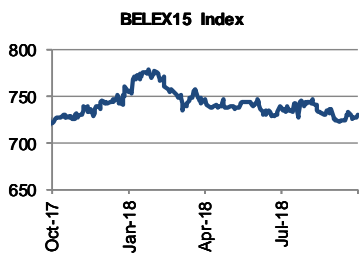
	Last	ΔDbps	ΔYTD bps
5-year	111	0	-7
10-year	158	-1	-4

STOCKS

	Last	ΔD	ΔYTD
BELEX15	730.0	0.43%	-3.92%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.50	0.00%	0.35%



ROMANIA

Money Market			
	Last	ΔDbps	ΔYTD bps
ROBOR	2.67	0	158
O/N	2.67	0	158
1-month	3.08	0	121
3-month	3.15	0	110
6-month	3.4	0	113
12-month	3.53	0	121

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.95	0	56
5Y RON	4.33	0	55
10Y RON	4.97	0	65

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.56	-	-3
USD Jan-24	4.15	2	115

CDS

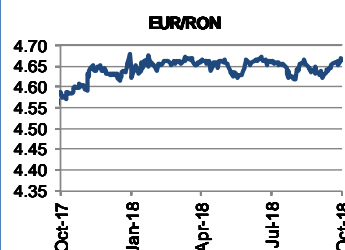
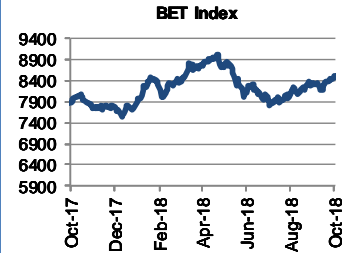
	Last	ΔDbps	ΔYTD bps
5-year	100	2	10
10-year	142	2	8

STOCKS

	Last	ΔD	ΔYTD
BET	8509.0	-0.03%	9.74%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6666	0.00%	-0.04%



BULGARIA

Money Market			
	Last	ΔDbps	ΔYTD bps
SOFIBOR	0.01	0	1
LEONIA	0.01	0	1
1-month	-0.30	0	-5
3-month	-0.23	0	-5
6-month	-0.12	0	-7
12-month	0.22	1	-10

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.04	0	2
5Y BGN	0.08	0	-7
10Y BGN	0.77	0	-19

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.03	-1	5
EUR Sep-24	0.46	-1	-12

CDS

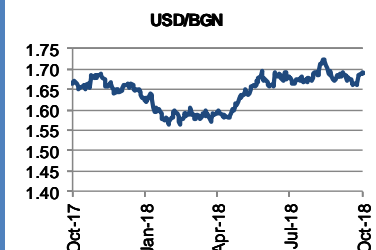
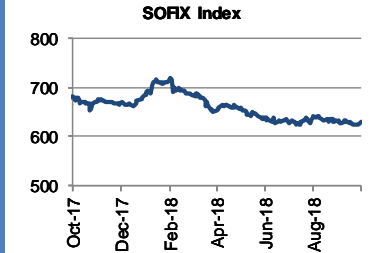
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-18
10-year	125	0	-17

STOCKS

	Last	ΔD	ΔYTD
SOFIX	628.5	0.44%	-7.23%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6893	0.27%	-3.55%



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

Data updated as of 10:13 EEST

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