

Monday, March 05, 2018

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Mar 5: ISM non-manuf. (Feb)
- Mar 6: Factory orders (Jan)
- Mar 7
 - ADP employment (Feb)
 - Trade balance (Jan)
 - Fed's Dudley speaks
 - Fed's Bostic speaks
 - Fed's Beige Book
- Mar 8: Jobless claims (weekly)
- Mar 9
 - Non-farm payrolls (Feb)
 - Fed's Evans speaks

EUROZONE

- Mar 5
 - PMI services (Feb final)
 - Retail sales (Jan)
- Mar 7: Q4 GDP (details)
- Mar 8
 - German ind/I orders (Jan)
 - ECB meeting
- Mar 9: German & French industrial production (Jan)

UK

- Mar 5: PMI services (Feb)
- Mar 9
 - Industrial production (Jan)
 - Trade balance (Jan)

GREECE

- Mar 5: GDP (Q4, f)
- Mar 8 U/E rate (Dec)
- Mar 9: HICP/CPI (Feb)

CYPRUS

- Mar 6: HICP (Feb)
- Mar 9: GDP (Q4, f)

SEE

BULGARIA

- Mar 7: GDP (Q4, f)
- Mar 9
 - Industrial production (Jan)
 - Retail sales (Jan)

ROMANIA

- Mar 5
 - Retail sales (Jan)
 - 3.65% 2031 T-bonds auction
- Mar 7: GDP (Q4, f)
- Mar 8: T-bonds auction

SERBIA

- Mar 6: T-bonds auction
- Mar 8: MPC rate decision
- Mar 9: Moody's rating review

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: A hung parliament appears to be the most likely outcome at yesterday's general election in Italy with none of the three major political parties or groups securing an outright majority. In FX markets, the EUR/USD marked a session low of 1.2270 earlier today before recovering to levels around 1.2330/35 in European trade favored by the result of Germany's SPD membership ballot on Sunday which revealed that 66% voted in favour of the Grand Coalition. With the Italian election and Germany's SPD membership vote out of the way, focus this week is on Thursday's ECB meeting. On the data front, Friday's US non-farm payrolls for February take centre stage.

GREECE: Eurogroup President Mario Centeno confirmed the full implementation of all prior actions of the third review of the Greek ESM programme, which will pave the way for the release of the first sub-tranche of EUR 5.7 billion in the second half of March. According to the Hellenic Statistical Authority (ELSTAT), the provisional, seasonally adjusted data for Q4 2017 show an increase in real GDP growth of 1.9%YoY and 0.1%QoQ. The first estimation for the FY2017 real GDP growth stands at 1.4%YoY.

SOUTH EASTERN EUROPE

BULGARIA: The Bulgarian equity market largely shrugged off the sell-off in global bourses last week, with the main SOFIX index ending in a marginally negative territory. Elsewhere, Eurobond and local currency government bonds remained broadly unchanged.

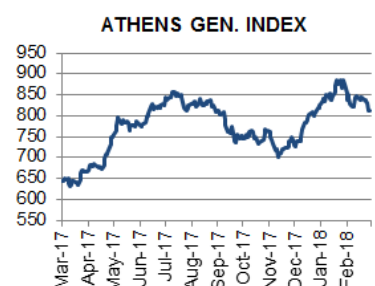
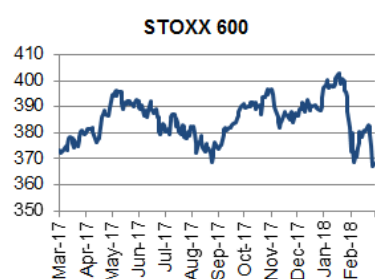
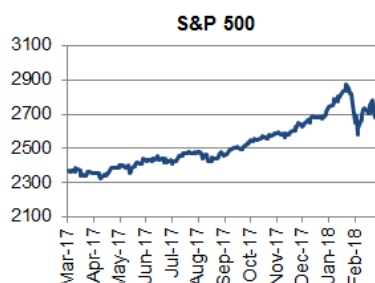
SERBIA: The EUR/RSD remained bound within levels of 117.80 - 118.10 last week, as accumulated supply of hard currency was offset by new Central Bank intervention in the FX markets. In other news, Serbia and IMF will reportedly start talks about a new agreement in mid-March.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

A hung parliament appears to be the most likely outcome at yesterday's general election in Italy with none of the three major political parties or groups securing an outright majority. The anti-establishment 5-Star Movement emerged as the largest single party gaining around 32% of the vote, better than recent polls suggested, while, within the center right coalition, which secured a 37% popularity rate, far-right League emerged as the strongest party overtaking its ally Berlusconi's Forza Italia. The new parliament will convene on March 23 while the government formation process will commence in late March directed by President of the Republic Sergio Mattarella. Amid an increased likelihood over the formation of an heterogeneous grand coalition comprising anti-establishment parties, Italy's government bonds came under pressure. The 10-yr yield hit a multi-session high close to 2.13% earlier today before retreating to levels around 2.08% at the time of writing, taking the spread against its German counterpart to 147bps, the widest in more than a month. In FX markets, the EUR/USD marked a session low of 1.2270 earlier today before recovering to levels around 1.2330/35 in European trade, 0.1% firmer compared to Friday's settlement and 0.3% higher on the week favored by the result of Germany's SPD membership ballot on Sunday which revealed that 66% voted in favour of the Grand Coalition, resolving political uncertainty that prevailed since the September 2017 general election. With the Italian election and Germany's SPD membership vote out of the way, focus is on Thursday's ECB meeting where President Mario Draghi is likely to sound somewhat more hawkish encouraged by the euro area's improving growth outlook. With the Italian election and Germany's SPD membership vote out of the way, focus is on Thursday's ECB meeting where President Mario Draghi is likely to sound somewhat more hawkish encouraged by the euro area's improving growth outlook. On the data front, Friday's US non-farm payrolls for February take centre stage where wage growth is expected to moderate to 2.8%YoY from January's 2.9%YoY.

petropoulou@eurobank.gr

GREECE

Eurogroup President Mario Centeno confirmed the full implementation of all prior actions of the third review of the Greek ESM programme, which will pave the way for the release of the first sub-tranche of EUR 5.7 billion in the second half of March. He added that both the 4th and final review as well as the technical work of possible new debt relief measures, are ongoing. Meanwhile, according to press reports the Greek post programme growth strategy, which is currently being discussed with European authorities, aims at six targets: 1) decreasing unemployment, 2) reversing the aging and decline of the population, 3) addressing the 'brain drain' problem, 4) attracting investment and improving the business environment, 5) reducing social and regional inequalities and poverty, and 6) redesigning the economy along environmentally friendly lines. According to the Hellenic Statistical Authority (ELSTAT), the provisional, seasonally adjusted data for Q4 2017 show an increase in real GDP growth of 1.9%YoY and 0.1%QoQ. The first estimation for the FY2017 real GDP growth stands at 1.4%YoY.

andimitriadou@eurobank.gr

March 5, 2018

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

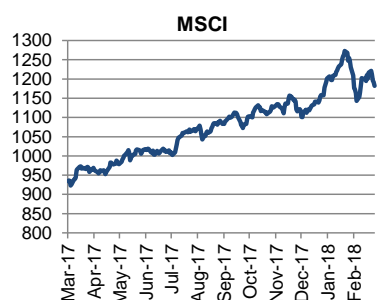
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities**ROMANIA: Indicator:**

| | 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 | 2.25 | 3.00 |

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities**SERBIA: Indicators**

| | 2016 | 2017e | 2018f |
|---------------------|--------|---------|-------|
| Real GDP growth % | 2.7 | 1.9 | 3.0 |
| CPI (pa, yoy %) | 1.1 | 3.2 | 3.0 |
| Budget Balance/GDP | -1.3 | 0.5 | -0.6 |
| Current Account/GDP | -3.1 | -5.7 | -4.7 |
| EUR/RSD (eop) | 123.40 | 118.2 | 116.5 |
| | 2017 | current | 2018 |
| Policy Rate (eop) | 3.50 | 3.50 | 4.00 |

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

Credit Ratings

| L-T ccy | Moody's S&P | Fitch |
|----------|-------------|-------|
| SERBIA | Ba3 | BB |
| ROMANIA | Baa3 | BBB- |
| BULGARIA | Baa2 | BBB |
| CYPRUS | B1 | BB- |

Latest economic & market developments in the CESEE region

BULGARIA

The Bulgarian equity market largely shrugged off the sell-off in global bourses last week, with the main SOFIX index ending in a marginally negative territory at 683.58 points amid a little over €2mn in turnover. Elsewhere, Eurobond yields remained broadly unchanged, with the shorter end of the corresponding curve exhibiting the largest increases, of 1 and 3 bps for the 2023 and 2024 papers. Similarly, local-currency bond yields also remained largely unchanged, with the yield of paper of 8 year tenor registering the largest change – a 4.6bps increase.

RSRaychev@postbank.bg

SERBIA

The EUR/RSD remained bound within levels of 117.80 - 118.10 last week, as accumulated supply of hard currency from investors willing to participate in 5y and 10Y RSD T-bond auctions was offset by new Central Bank (NBS) intervention in the FX markets. Also adding to the dinar's appreciation pressures has been a rise in EUR-indexed loan portfolios and overall improvement in investment climate recently. Aimed at mitigating excessive daily oscillations in the foreign exchange market, the Central Bank bought €300mn in last two weeks, thus halting the dinar's ongoing appreciation momentum.

In other news, Serbia and IMF will reportedly start talks about a new agreement in mid-March. A potential new package would not entail financial support but should have more of an advisory role in the form of Policy Coordination Instrument (PCI). The goal is that new agreement will send a positive signal to investors, financial institutions and rating agencies as such a deal suggests continuation of reforms and provides a valuable policy anchor going forward.

Zoran.Korac@eurobank.rs

March 5, 2018

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 | 2691.25 | 0.5% | 0.7% | EUR/USD | 1.2323 | 0.1% | 2.6% | UST - 10yr | 2.84 | -3 | 43 | GOLD | 1326 | 0.3% | 1.8% |
| Nikkei 225 | 21042.09 | -0.7% | -7.6% | GBP/USD | 1.3788 | -0.1% | 2.0% | Bund-10yr | 0.62 | -3 | 20 | BRENT CRUDE | 65 | 0.8% | -3.0% |
| STOXX 600 | 368.31 | 0.3% | -5.4% | USD/JPY | 105.51 | 0.2% | 6.8% | JGB - 10yr | 0.04 | -3 | -1 | LMEX | 3316 | -0.4% | -3.0% |

CESEE 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 |
| T/N | 2.58 | 0 | 6 | O/N | 1.35 | 0 | 26 | 1-month | 0.01 | 0 | 1 | 1-month | -0.28 | -1 | -3 |
| 1-week | 2.70 | 0 | 9 | 1-month | 1.6 | 0 | -27 | 3-month | -0.19 | 0 | -1 | 3-month | -0.19 | 0 | -1 |
| 1-month | 2.89 | 0 | 4 | 3-month | 2.08 | -1 | 3 | 6-month | -0.06 | 0 | -1 | 6-month | -0.06 | 0 | -1 |
| 3-month | 3.16 | 0 | 4 | 6-month | 2.41 | -2 | 14 | 12-month | 0.27 | 0 | -5 | 12-month | 0.27 | 0 | -5 |
| 6-month | 3.30 | 0 | 6 | 12-month | 2.54 | 0 | 22 | BG Local Bonds | | | | | | | |
| RS Local Bonds | | | | RO Local Bonds | | | | BG Local Bonds | | | | | | | |
| | Last | ΔDbps | ΔYTD bps | | Last | ΔDbps | ΔYTD bps | (yields) | Last | ΔDbps | ΔYTD bps | 3Y BGN | -0.05 | 1 | 2 |
| 3Y RSD | 3.92 | 0 | -36 | 3Y RON | 3.44 | 0 | 5 | 5Y BGN | 0.23 | -1 | 9 | 10Y BGN | 1.06 | 0 | 10 |
| 5Y RSD | 4.24 | 0 | 0 | 5Y RON | 4.01 | 0 | 23 | BG Eurobonds | | | | | | | |
| 7Y RSD | 4.60 | 0 | -58 | 10Y RON | 4.58 | 0 | 26 | | Last | ΔDbps | ΔYTD bps | EUR Mar-22 | 0.23 | -7 | 31 |
| RS Eurobonds | | | | RO Eurobonds | | | | BG Eurobonds | | | | | | | |
| | Last | ΔDbps | ΔYTD bps | | Last | ΔDbps | ΔYTD bps | EUR Sep-24 | 0.86 | -2 | 28 | CDS | | | |
| USD Feb-20 | 3.51 | -1 | 52 | EUR Oct-25 | 1.55 | #N/A | N/A | -5 | CDS | | | | | | |
| USD Nov-24 | 6.32 | -19 | 29 | USD Jan-24 | 3.72 | 0 | 72 | 5-year | 55 | 1 | -41 | STOCKS | | | |
| CDS | | | | CDS | | | | CDS | | | | | | | |
| | Last | ΔDbps | ΔYTD bps | | Last | ΔDbps | ΔYTD bps | 10-year | 92 | -6 | -49 | STOCKS | | | |
| 5-year | 97 | 1 | -21 | 5-year | 84 | 1 | -6 | 5-year | 55 | 1 | -41 | STOCKS | | | |
| 10-year | 138 | 1 | -24 | 10-year | 128 | 1 | -5 | 10-year | 92 | -6 | -49 | STOCKS | | | |
| STOCKS | | | | STOCKS | | | | STOCKS | | | | | | | |
| | Last | ΔD | ΔYTD | | Last | ΔD | ΔYTD | | Last | ΔD | ΔYTD | STOCKS | | | |
| BELEX15 | 747.9 | 0.00% | -1.57% | BET | 8352.8 | 0.01% | 7.73% | SOFIX | 683.1 | -0.24% | 0.84% | STOCKS | | | |
| FOREX | | | | FOREX | | | | FOREX | | | | | | | |
| | Last | ΔD | ΔYTD | | Last | ΔD | ΔYTD | | Last | ΔD | ΔYTD | FOREX | | | |
| EUR/RSD | 118.01 | -0.05% | 0.76% | EUR/RON | 4.6607 | 0.01% | 0.09% | USD/BGN | 1.5885 | -0.05% | 2.57% | FOREX | | | |
| BELEX15 Index | | | | BET Index | | | | SOFIX Index | | | | | | | |
| | | | | | | | | | | | | | | | |
| EUR/RSD | | | | EUR/RON | | | | USD/BGN | | | | | | | |
| | | | | | | | | | | | | | | | |

Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 11:30 EST

March 5, 2018

Contributors

Paraskevi Petropoulou
Senior Economist, Eurobank Ergasias
+30 210 3718991
ppetropoulou@eurobank.gr

Galatia Phoka
Research Economist, Eurobank Ergasias
+30 210 3718922
gphoka@eurobank.gr

Ioannis Gkionis (Special Contributor)
Senior Economist, Eurobank Ergasias
++30 210 3337305
igkionis@eurobank.gr

Anna Dimitriadou
Economic Analyst, Eurobank Ergasias
+30 210 3718793
andimitriadou@eurobank.gr

Olga Kosma (Special Contributor)
Research Economist, Eurobank Ergasias
+30 210 3371227
okosma@eurobank.gr

Theodoros Stamatou (Special Contributor)
Senior Economist, Eurobank Ergasias
+ 30 210 3371228
tstamatou@eurobank.gr

Regional Contributors

Đorđe Lučić
Fixed Income Dealer, Eurobank a.d. Beograd
+381 11 2065891
djordje.lucic@eurobank.rs

Zoran Korac
FX dealer, Eurobank ad Beograd
+381 11 206 5821
zoran.korac@eurobank.rs

Ruslan Raychev
Trader, Eurobank Bulgaria
+359 2 8166 482
rsraychev@postbank.bg

Eurobank Economic Analysis and Financial Markets Research

Dr. Tasos Anastasatos: Group Chief Economist
tanastasatos@eurobank.gr, + 30 210 33 71 178

Research Team

Anna Dimitriadou: Economic Analyst
andimitriadou@eurobank.gr, + 30 210 3718 793

Ioannis Gkionis: Senior Economist
igkionis@eurobank.gr + 30 210 33 71 225

Stylianios Gogos: Economic Analyst
sgogos@eurobank.gr + 30 210 33 71 226

Olga Kosma: Research Economist
okosma@eurobank.gr + 30 210 33 71 227

Mariana Papoutsaki
mpapoutsaki@eurobank.gr + 30 210 33 71 224

Paraskevi Petropoulou: Senior Economist
ppetropoulou@eurobank.gr, + 30 210 37 18 991

Galatia Phoka: Research Economist
gphoka@eurobank.gr, + 30 210 37 18 922

Theodoros Stamatou: Senior Economist
tstamatou@eurobank.gr, + 30 210 33 71 228

Elia Tsiampaou: Economic Analyst
etsiampaou@eurobank.gr, +30 210 33 71 207

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: Research@eurobank.gr

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