



# DAILY OVERVIEW

## OF GLOBAL MARKETS & THE SEE REGION

Tuesday 07 August 2018

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Aug 9:
  - PPI (Jul)
  - Weekly Jobless Claims
- Aug 10:
  - CPI (Jul)
  - Avg Hourly Earnings (Jul)

#### EUROZONE

- Aug 6:
  - Sentix Investor Confidence (Aug)
- Aug 9:
  - ECB's Economic Bulletin

#### UK

- Aug 10:
  - Industrial Production (Jun)
  - Q2 GDP (1<sup>st</sup> estimate)

#### GREECE

- Aug 9:
  - Industrial Production (Jun)
  - CPI (Jul)
  - Unemployment Rate (May)

#### SEE

##### BULGARIA

- Aug 8:
  - Industrial Production (Jun)
  - Retail Sales (Jun)
- Aug 10:
  - Trade Balance (Jun)

##### ROMANIA

- Aug 7: Avg Net Wages (Jun)
- Aug 9: Trade Balance (Jun)
- Aug 10:
  - Industrial Output (Jun)
  - Industrial Sales (Jun)
  - CPI (Jul)

##### SERBIA

- Aug 7: PPI (Jul)
- Aug 9: 1W Repo Rate Announcement

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Global equity markets advanced on Tuesday amid better-than-expected corporate earnings reports. Core government bonds were firmer across the board as heightened concerns of global trade conflict between the US and China as well as the turbulence in Italy continued to support demand for safe-haven assets. Investors' focus centres on Italy, where senior officials of the anti-establishment Italian government are expected to meet on Wednesday to discuss the 2019 budget, with Deputy Prime Minister Luigi Di Maio citing that the coalition government will have numerous meetings to finalize the budget. In FX markets, the EUR/USD dropped to a five-week low of 1.1530 yesterday, dragged down by worries in Italy and by a more-than-expected fall in German industrial orders in June. Elsewhere, the GBP/USD fell to an 11-month low of 1.2920 yesterday after comments from officials renewed fears over a 'hard' Brexit from the EU without securing a trade agreement.

**GREECE:** The European Stability Mechanism y-day, disbursed the fifth and final tranche of €15.0 bn from the financial envelope of the Third Economic Adjustment Programme for Greece.

### SOUTH EASTERN EUROPE

**CESEE markets:** The Turkish lira came under renewed depreciation pressure on Monday's trade tumbling to a new record low at 5.49/\$.

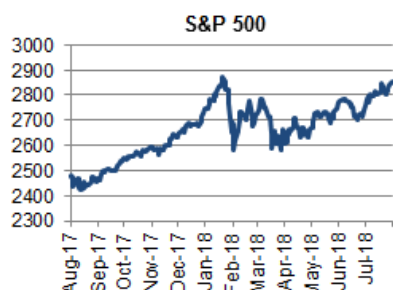
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## Latest world economic & market developments

### GLOBAL MARKETS



Global equity markets advanced on Tuesday amid better-than-expected corporate earnings reports. Core government bonds were firmer across the board as heightened concerns of global trade conflict between the US and China as well as the turbulence in Italy continued to support demand for safe-haven assets. Against this backdrop, the 10-yr German Bund yield traded around 0.386% in early European trade on Tuesday, near their lowest levels in almost two weeks, while the 10-yr Treasury yield hit a two-week low of 2.92% on Monday before increasing in the area of 2.95% on Tuesday at the time of writing. Increased UST supply and a hawkish BoJ stage a higher rates setting, but the US-Sino tensions and strong US equity markets provide a bid for duration. Investors' focus centres on Italy, where senior officials of the anti-establishment Italian government are expected to meet on Wednesday to discuss the 2019 budget, with Deputy Prime Minister Luigi Di Maio citing that the coalition government will have numerous meetings to finalize the budget. Uncertainty about what scale of fiscal expansion to expect from upcoming budget talks given the constraints of EU budget regulations and expectations for Italy to meet its budget deficit targets provided another headwind for financial markets. Against this background, the 10-yr Italian bond yield surged to a two-month high of 3.1% on Friday, before pulling back in the area of 2.9% over the last couple of days following the latest debt buyback operation carried out by the National Treasury (third in a row since late May that the coalition came in power). In FX markets, the EUR/USD dropped to a five-week low of 1.1530 yesterday, dragged down by worries in Italy and by a more-than-expected fall in German industrial orders in June, before increasing to around 1.1590 in European trade on Tuesday. Elsewhere, the GBP/USD fell to an 11-month low of 1.2920 yesterday after comments from officials renewed fears over a 'hard' Brexit from the EU without securing a trade agreement, before making up some losses to around 1.2970 on Tuesday at the time of writing. Looking at today's macro releases, the data calendar is relatively empty today, with the June trade balance, current account balance and industrial production data for Germany, the July house price data for the UK and the June JOLTS job openings and consumer credit data for the US due later in the day.

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### GREECE

The European Stability Mechanism (ESM) y-day – following the completion of the national procedures in 1<sup>st</sup> August 2018 – disbursed the fifth and final tranche of €15.0 bn from the financial envelope of the Third Economic Adjustment Programme for Greece. From these funds €9.5 bn will be used for the building up of the country's cash buffer aiming to facilitate its access to the financial markets in the post- programme period. The remaining amount of €5.5 bn will be used for the 2018 debt servicing needs. Following the aforementioned amount of €15.0 bn, the actually disbursed ESM financial assistance for Greece amounts to €61.9 billion, out of an initial total programme financial envelope of up to €86.0 bn. The cash buffer is currently expected at €24.0 bn and, according to the ESM, this amount would cover around 22 months of Greece's financing needs after the end of the programme on 20 August 2018.

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Source: Reuters, Bloomberg, Eurobank Research

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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

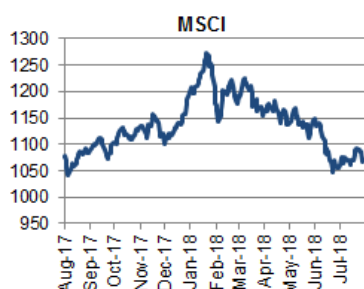
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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

SERBIA: Indicators	2016	2017e	2018f
Real GDP growth %	2.7	1.9	3.5
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	3.00	3.00

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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

## Latest economic & market developments in the CESEE region

### CESEE markets

From a regional point of view, Turkish assets came under renewed depreciation pressure on Monday driven by renewed concerns for US-Turkey relations. The Turkish lira traded at 5.24/\$ on Tuesday's morning trade at the time of the writing –comfortably above the 5.00/\$ threshold-on media reports that Turkish officials are about to visit the US to discuss the ongoing tensions between the two countries. The Turkish lira weakened as low as 5.49/\$ during Monday's late trade- a new record low- confirming that the lira stands among the worst performing EM currencies this year (-38% YTD). At the same time, the 5Y-CDS was trading at 346.4bps on Tuesday morning, having jumped to 343.3bps yesterday, which is the highest level since late September 2015. On Tuesday morning, the main stock market BIST-100 was recouping some of its previous day losses trading higher by 1.2% to 95,228.49 on the day, having lost 1.5% of its daily value on Monday's close, bringing the year to date cumulative losses at 18.3%. The 10Y government bond yield has climbed close to 19%, a record level not seen in recent financial history.

In a first response against TRY depreciation, the Central Bank of Turkey (CBRT) lowered the upper limit for the FX maintenance facility within the reserve options mechanism by 5pp to 40% and released USD 2.2bn of liquidity to banks. In late July, the CBRT policy meeting had disappointed analysts and investors' expectations who were looking for tighter monetary policy in a challenging economic environment. The CBRT opted to leave interest rates unchanged while reiterated its earlier communicated views for further hikes in the future if needed. Factoring in the 75bps rate hike delivered in April, the cumulative tightening rendered has reached 500bps year to date so that the KPR – the 1-week repo as of late May- currently stands at 17.75%. Meanwhile, headline inflation accelerated further up to 15.9% in July compared to 15.4% YoY in June up from 12.2% YoY in May.

The announcement of new US Treasury sanctions last week plus the US Trade Representative's review for Turkish products duty free access in US market have taken a toll on Turkish assets. Firstly, the U.S. Treasury Department announced sanctions against Justice Minister Mr. Gul and Interior Minister Mr. Soyly, two of President Tayyip Erdogan's ministers over the trial of a U.S. pastor accused of backing terrorism. The US administration said that both ministers played leading roles in organizations responsible for the arrest and detention of Andrew Brunson, an evangelical Christian pastor who has lived in Turkey for more than two decades. In retaliation, President Erdogan announced that the government will freeze the assets of the two US ministers (secretaries of justice and interior) in Turkey, if they exist. On top, Turkey imposed retaliatory tariffs on US goods in response to American tariffs on steel and aluminum. As a result, the US Trade Representative's office announced it will review Turkish products duty free access in the US market. According to the US Trade Representative's office, the review could affect \$1.7bn of Turkish imports into the United States that benefited from the Generalized System of Preferences program last year, including motor vehicles and parts, jewelry, precious metals and stone products.

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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	2850.40	0.4%	6.6%	EUR/USD	1.1573	0.2%	-3.6%	UST - 10yr	2.94	0	54	GOLD	1211	0.3%	-7.1%
Nikkei 225	22662.74	0.7%	-0.4%	GBP/USD	1.2961	0.1%	-4.1%	Bund-10yr	0.39	0	-3	BRENT CRUDE	74	0.5%	10.8%
STOXX 600	389.54	0.2%	0.1%	USD/JPY	111.33	0.1%	1.2%	JGB - 10yr	0.12	1	7	LMEX	2969	-0.6%	-13.2%

## SERBIA

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.28	-1	-24
1-week	2.41	-1	-20
1-month	2.60	-1	-25
3-month	2.89	0	-23
6-month	3.05	-1	-19

## RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.44	0	-83
5Y RSD	3.89	0	-35
7Y RSD	4.35	0	-83

## RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.63	0	64

## CDS

	Last	ΔDbps	ΔYTD bps
5-year	111	0	-7
10-year	153	0	-9

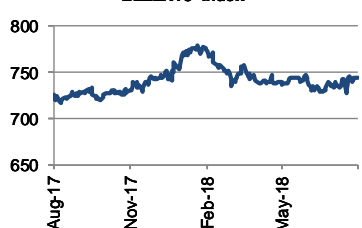
## STOCKS

	Last	ΔD	ΔYTD
BELEX15	742.1	-0.15%	-2.33%

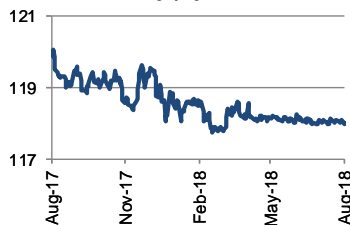
## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.04	-0.02%	0.74%

BELEX15 Index



EUR/RSD



## ROMANIA

## Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.8	0	171
1-month	3.36	0	149
3-month	3.4	0	135
6-month	3.49	0	122
12-month	3.6	0	128

## RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.14	0	76
5Y RON	4.63	0	85
10Y RON	4.85	0	54

## RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.57	0	2
USD Jan-24	4.04	0	104

## CDS

	Last	ΔDbps	ΔYTD bps
5-year	95	0	5
10-year	138	0	5

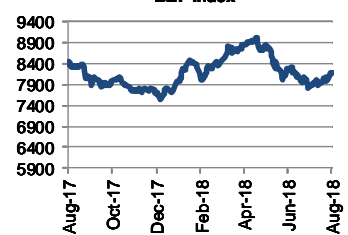
## STOCKS

	Last	ΔD	ΔYTD
BET	8180.9	-0.08%	5.51%

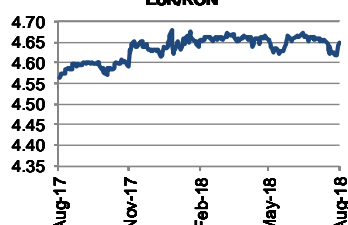
## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6475	-0.14%	0.37%

BET Index



EUR/RON



## BULGARIA

## Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
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	-0.09	2	-2
5Y BGN	0.09	0	-6
10Y BGN	0.87	0	-10

## BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.01	0	7
EUR Sep-24	0.41	0	-16

## CDS

	Last	ΔDbps	ΔYTD bps
5-year	76	0	-21
10-year	121	0	-21

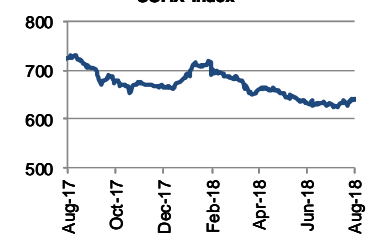
## STOCKS

	Last	ΔD	ΔYTD
SOFIX	640.1	0.11%	-5.52%

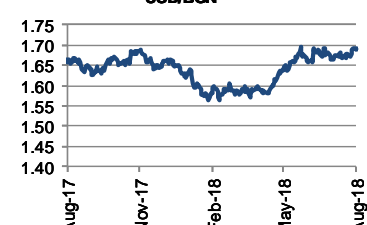
## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6902	0.16%	-3.60%

SOFIX Index



USD/BGN



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

Data updated as of 11:15 EEST

Tuesday 07 August 2018

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