

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Nov 05: ISM Non-manufacturing index (Oct)
- Nov 07: Midterm elections
- Nov 08:
  - Initial jobless claims (Nov 3)
  - FOMC policy meeting
- Nov 09:
  - PPI, final demand (Oct)
  - University of Michigan Consumer Sentiment (Nov, prel)

#### EUROZONE

- Nov 06:
  - Markit Services & Composite PMI (Oct, final)
  - PPI (Sep) (Oct, Final)
  - German industrial orders (Sep)
- Nov 07:
  - Retail sales (Sep)
  - German industrial production (Sep)
- Nov 08: EC Autumn forecast update

#### GREECE

- Nov 08: Unemployment rate (Aug)
- Nov 09:
  - Industrial output (Sep)
  - CPI (Oct)

#### SEE

##### BULGARIA

- Nov 08:
  - Industrial production (Sep)
  - Retail sales (Oct)

##### CYPRUS

- Nov 05: CPI (Oct)

##### ROMANIA

- Nov 05: Retail sales (Sep)
- Nov 06: KPR
- Nov 09: Trade balance (Sep)

##### SERBIA

- Nov 07: PPI (Oct)
- Nov 08: KPR

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** The midterm US elections held yesterday resulted in a divided Congress, in line with market expectations. Republicans are set to increase their majority in the Senate while Democrats appear headed to gain more than 30 seats in the House of Representatives, well beyond the 23 needed to claim their first majority in the House in eight years. The impact of the election result on US Treasuries was eventually limited on the view that it could hardly have an impact on the factors that play a role in market sentiment towards core bond markets.

**GREECE:** According to press, a European Commission official stated that Greece is now under a 'moratorium' that protects it from external pressures and that in order for this protection to continue, there needs to be economic and political stability and predictability. The Minister of Economy and Development, Yiannis Dragasakis, reportedly spoke of the need for a new framework for the protection of the first residence given that the household insolvency law 3869/2010 expires at the end of 2018 and the institutions object to its extension. The Deputy Minister of Economy Stergios Pitsiorlas reportedly stated that the tender for the casino license at Hellinikon will be launched in the next couple of days.

### SOUTH EASTERN EUROPE

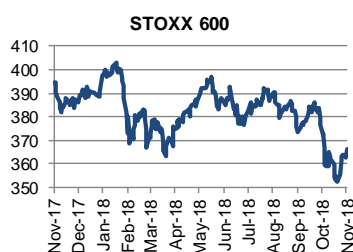
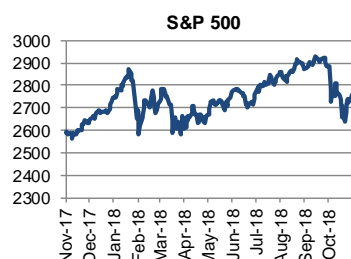
**ROMANIA:** NBR maintained the key policy rate (KPR) unchanged at 2.5% and MRRs for FX and RON denominated liabilities at 8% respectively yesterday.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The midterm US elections held yesterday resulted in a divided Congress, in line with market expectations. Republicans are set to increase their majority in the Senate while Democrats appear headed to gain more than 30 seats in the House of Representatives, well beyond the 23 needed to claim their first majority in the House in eight years. The new Democratic House could boost the party's ability to block President Donald Trump's political and economic agenda while it could also raise the risk of government shutdowns. Democrats could also have the ability to investigate Donald Trump's tax returns, possible business conflicts of interest and allegations involving his 2016 campaign's links to Russia in an attempt to weaken his position ahead of the 2020 presidential elections. The impact of the election result on US Treasuries was eventually limited with the 10-yr UST yield hitting temporarily a one-month peak of 3.25% in early trade today before retreating to levels around 3.19% in European trade. This could be explained by the fact that the election outcome could hardly have an impact on the factors that play a role in market sentiment towards US Treasuries: slowing global growth momentum, prospects of further Fed rate tightening ahead and lingering worries over the US/China trade dispute. In FX markets, the USD was weaker across the board as the broadly expected US midterm election result raised concerns about the prospect of political gridlock. The DXY index was 0.4% lower on the day hovering around the lowest level in around two weeks. Its weakness was more pronounced against the EUR and the GBP. The EUR/USD was 0.4% firmer compared to Tuesday's close hitting an intraday peak of 1.1475 earlier today while the GBP/USD rose to 1.3155, the highest level since mid-October on growing hopes for a deal on the terms of the UK's withdrawal from the EU.

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### GREECE

According to press, a European Commission official stated that Greece is now under a 'moratorium' that protects it from external pressures and that in order for this protection to continue, there needs to be economic and political stability and predictability. As regards the implementation of the pre-legislated pension cuts, the same official opined that a solution will ultimately be found, which will both respect what has been agreed and allow for the support of weaker social groups. Ultimately, he added, the decision will be made not by the European Commission but by the member-states who are the ones to lend Greece. In other news, the Minister of Economy and Development, Yiannis Dragasakis, reportedly spoke of the need for a new framework for the protection of the first residence given that the household insolvency law 3869/2010 expires at the end of 2018 and the institutions object to its extension. According to press sources, the Greek government is contemplating a proposal including among others: a) the provision of a 95% subsidy of mortgage loan installments to those who ultimately fall under law 3869/2010, b) the establishment of an Independent Credit Assessment Authority, and c) a broader housing policy that may entail, among others, a rent subsidy. Meanwhile, as regards the out of court workout (OCW), latest data reportedly reveal increasing efficiency of the mechanism while the institutions reportedly object to the setup of another platform for smaller debtholders who are ineligible for the OCW. On the privatisations front, the Deputy Minister of Economy Stergios Pitsiorlas reportedly stated that the tender for the casino license at Hellinikon will be launched in the next couple of days.

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## Latest economic & market developments in the CESEE region

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

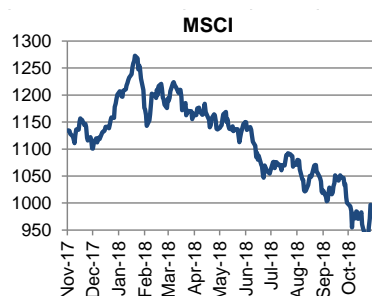
\* on a cash basis

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+

### ROMANIA

On November 6th, the NBR maintained the key policy rate (KPR) unchanged at 2.5% and MRRs for FX and RON denominated liabilities at 8% respectively. At the same time, the NBR also decided to preserve the deposit facility rate at 1.50% and the lending facility rate at 3.50% leaving the interest rate corridor unchanged at 2%. The decision was widely anticipated by market participants as it met the expectations of the vast majority of analysts in the relevant surveys.

In the press release released thereafter, the Central Bank commented on the recent developments arguing that headline inflation remained elevated in August and September above the projected levels due to the faster growth of vegetables. Having peaked at 5.4% YoY in May and June, inflation remained elevated at 5.1% YoY in August and September (5.06% and 5.03% respectively). However, the adjusted Core CPI (excluding administered and volatile prices, alcohol and tobacco) index also decreased over the same month further to 2.7% in September down from 2.8% in August and down from 3.1% YoY in April, which implies that demand side pressures could subside further in the near-term mirroring the impact of previous tightening and softer economic activity. Real GDP growth has only marginally stepped up to 4.2% in Q2-2018 up from 4.1% YoY in Q1-2018, but landed visibly lower than 6.6% YoY in Q4-2017 and 8.4% YoY in Q3-2017.

Finally, the NBR noted that inflation is on course to decline towards 3.5% (the upper bound of the NBR's target interval 2.5+/-1%) by year-end. Thereafter, inflation is expected to remain in the upper half of the band (between 2.5%-3.5%) until the end of the forecast horizon. The updated numbers will be presented in the new inflation report due to be released on Thursday. The NBR cited food & energy prices, administered prices, labor market conditions and the fiscal stance as the main domestic uncertainties to inflation outlook. On the external front, NBR cited trade wars, Euro area inflation, the ECB and regional central banks' monetary policy stance as the important risks. The NBR has hiked three times – each time by 25bps so far this year and until very recently we were still looking for one more by the end of the year – a view we have changed given that RON remains relatively stable vs. other EM and CESEE currencies (+0.8% Ytd) and there are no unpleasant surprises from another supply side shock. Having said that, we anticipate NBR to resume its tightening cycle in 2019 given the upside risks from energy prices and further major Central Banks's monetary policy normalization. In the aftermath of the meeting, the yields of local denominated bonds declined further. The 10Y bond yield reached 4.73% on Tuesday's trading at the lowest level of the past six months, while other bond yields stood at multi-week lows. The recent NBR liquidity injections (RON 28bn cumulatively over the last week) coupled with market expectations for lower inflation readings ahead have given a strong push on domestic bonds

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Wednesday 07 November 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	2755.45	0.6%	3.1%	EUR/USD	1.1476	0.4%	-4.4%	UST - 10yr	3.18	-4	78	GOLD	1233	0.5%	-5.4%
Nikkei 225	22085.80	-0.3%	-3.0%	GBP/USD	1.3156	0.4%	-2.7%	Bund-10yr	0.43	-1	0	BRENT CRUDE	72	-0.2%	7.6%
STOXX 600	366.47	1.1%	-5.8%	USD/JPY	113.07	0.3%	-0.3%	JGB - 10yr	0.12	-1	8	LMEX	2899	-0.6%	-15.2%

### SERBIA

#### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.43	3	-9
1-week	2.56	4	-5
1-month	2.68	1	-17
3-month	2.97	-1	-15
6-month	3.13	0	-11

#### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.17	-1	-111
5Y RSD	3.63	0	-67
7Y RSD	4.15	0	-102

#### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	4.11	0	111

#### CDS

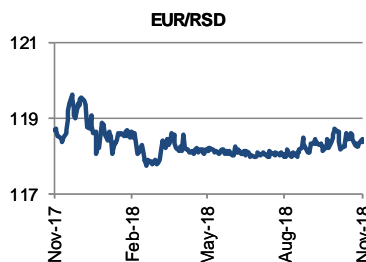
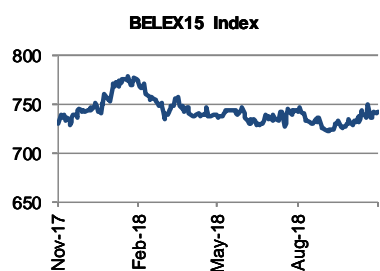
	Last	ΔDbps	ΔYTD bps
5-year	112	1	-5
10-year	157	1	-5

#### STOCKS

	Last	ΔD	ΔYTD
BELEX15	746.7	0.64%	-1.73%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.38	0.08%	0.45%



### ROMANIA

#### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.64	-2	155
1-month	3.14	-5	127
3-month	3.2	-5	115
6-month	3.47	-2	120
12-month	3.6	-1	128

#### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.10	0	72
5Y RON	4.42	0	64
10Y RON	4.95	0	64

#### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.55	0	0
USD Jan-24	4.40	0	140

#### CDS

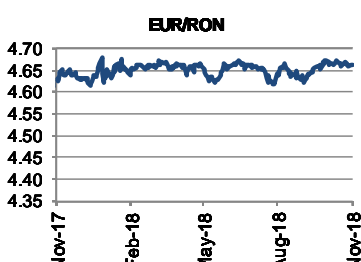
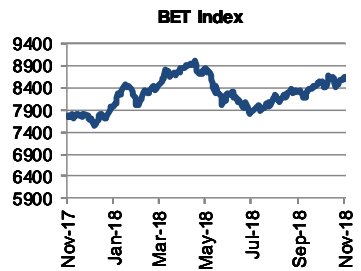
	Last	ΔDbps	ΔYTD bps
5-year	102	-1	12
10-year	145	0	12

#### STOCKS

	Last	ΔD	ΔYTD
BET	8634.6	0.19%	11.36%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6608	0.03%	0.09%



### 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	-0.03	0	3
5Y BGN	0.11	0	-3
10Y BGN	0.80	0	-17

#### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.05	4	9
EUR Sep-24	0.60	1	3

#### CDS

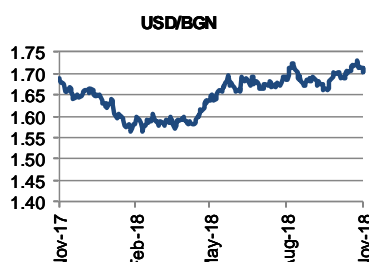
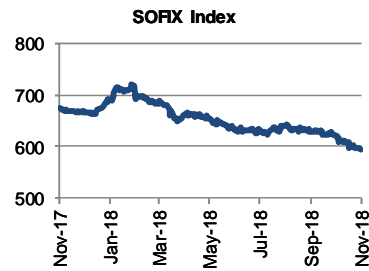
	Last	ΔDbps	ΔYTD bps
5-year	79	-2	-17
10-year	125	2	-16

#### STOCKS

	Last	ΔD	ΔYTD
SOFIX	594.4	0.01%	-12.27%

#### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7042	0.45%	-4.39%



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

Data updated as of 11:26 EEST

Wednesday 07 November 2018

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