

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- June 5: ISM Non-manuf. (May)
- June 6: Trade balance (Apr.)
- June 7
 - Initial jobless claims (Jun. 2)
 - Consumer credit (Apr.)

EUROZONE

- June 4:
 - PPI (Apr.)
- June 5: Retail sales (Apr.)
- June 7: German industrial orders (Apr.)
- June 8
 - German trade balance (Apr.)
 - German & French industrial production (Apr.)

GREECE

- June 4: Q1 GDP (provisional estimate)
- June 7: Unemployment (Mar.)
- June 8
 - Industrial output (Apr.)
 - CPI (May)

SEE

BULGARIA

- June 7: GDP SA (Q1-2018, preliminary data)
- June 8:
 - Industrial Production (Apr)
 - Retail Sales (Apr)

ROMANIA

- June 4:
 - International Reserves (May)
 - PPI (Apr)
- June 5: Retail Sales (Apr)
- June 7: GDP SA (Q1-2018, provisional data)

SERBIA

- June 7
 - PPI (Apr)
 - NBS Meeting

CYPRUS

- June 5:
 - Registered Unemployment (May)
 - Tourism revenues (March)
- June 7: CPI (May)
- June 8: GDP SA (Q1-2018, provisional data)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The EUR/USD retained a firm tone in European trade on Friday amid increased expectations that the ECB might communicate at next week's monetary policy meeting its intention to end the asset purchase programme (APP) by the end of the year. Meanwhile, core government bond prices were firmer on the day on market fears over a global trade war, an issue that will be included in the agenda of the two-day G7 meeting in Quebec that commences today. Euro area Q1 18 GDP was confirmed at 0.4% QoQ (2.5%YoY) from 0.7%QoQ (2.8%YoY) in the prior quarter while the available expenditure breakdown revealed that the slowdown of economic activity is attributed primarily to net exports.

GREECE: According to press reports, the Greek government is expected to table to Parliament today the multi-bill with the prior actions attached to the 4th programme review, which is to be voted by 14 June. Little progress on the medium-term debt relief measures for Greece reduces probability of the IMF activating its Stand-By Arrangement for Greece. According to ELSTAT, the deficit of the trade balance for the period January to April 2018 came in at €7,079.3 million recording a drop of 15.1%. The turnover index in accommodation and food service activities sector in Q1 2018 increased by 10.9% YoY. The seasonally adjusted unemployment rate in March 2018 was 20.1% compared to the 22.1% in March 2017 and the downward revised 20.6% in February 2018.

SOUTH EASTERN EUROPE

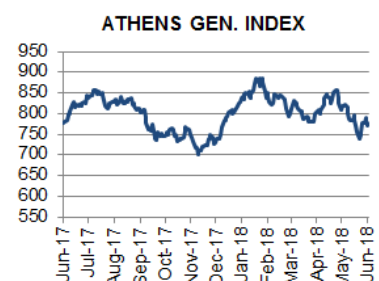
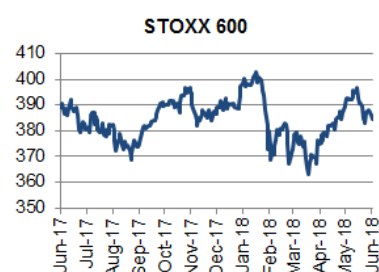
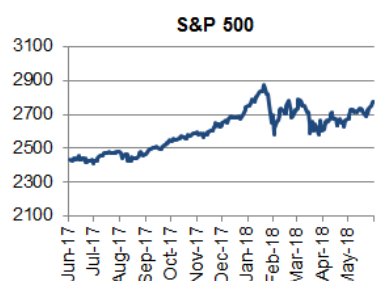
ROMANIA: The provisional real GDP growth estimate confirmed the sharp slowdown on an annual basis in Q1-2018.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The EUR/USD retained a firm tone in European trade on Friday hovering around 1.1760/65 at the time of writing, not too far from yesterday's 1.1840 three-week high and well above this week's low of 1.1650, poised for the highest weekly gains since mid-February. Increased expectations that the ECB might communicate at next week's monetary policy meeting its intention to end the asset purchase programme (APP) by the end of the year following hawkish comments by a number of Governing Council members over the last few sessions, appears to be the main driver behind the EUR's appreciation this week. However, political uncertainty in Italy continues while yesterday's euro area Q1 GDP data confirmed that the economy lost some momentum at the start of this year, suggesting that the prospect the ECB to delay the formal announcement of the end of QE to the July meeting, cannot be ruled out. Euro area Q1 18 GDP was confirmed at 0.4% QoQ (2.5%YoY) from 0.7%QoQ (2.8%YoY) in Q4 17 while the available expenditure breakdown revealed that the slowdown of economic activity is attributed primarily to net exports and less so to investment. Both exports and imports dropped, -0.4%QoQ and -0.1%QoQ respectively, resulting in a -0.1pp net trade contribution vs. +0.4pp in Q4 2017. Gross fixed capital formation grew by 0.5%QoQ vs. 1.3%QoQ in Q4 17 adding just 0.1pp in Q1 18 GDP vs. 0.3pp in the prior quarter. On the flip side, contribution from private consumption accelerated from 0.1pp in Q4 17 to 0.3pp. Elsewhere, core government bond prices were firmer on the day, amid increased worries over a global trade war, an issue that will be included in the agenda of the two-day G7 meeting that commences today. German bond yields fell sharply with the 10-yr Bund yield hovering around 0.41% at the time of writing, c. 8bps lower on the day, the biggest one-day fall since December 2016.

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GREECE

According to press reports, the Greek government is expected to table to Parliament today the multi-bill with the prior actions attached to the 4th programme review, which is to be voted by 14 June. Meanwhile, the Euroworking Group and Washington Group that convened yesterday, made little progress on further specifying the medium-term debt relief measures for Greece reducing the probability of the IMF activating its Stand-By Arrangement. In any case, according to the IMF's spokesperson Gerry Rice, the Fund will remain engaged as a technical advisor and will release its Article IV report on Greece, which will include a debt sustainability analysis. In other news, the ESM Board of Directors reportedly decided today to postpone the disbursement of the remaining €1 billion from the 3rd review on the grounds that the clearance of state arrears has not been adequately documented yet. On the economic data front, according to the Hellenic Statistical Authority (ELSTAT) the total value of imports-arrivals in the 4-month period from January to April 2018 amounted to €17,531.5 million in comparison with €17,567.4 million for the corresponding period of 2017 recording a drop of 0.2%. The total value of exports-dispatches for the same period amounted to €10,452.2 million compared with €9,231.1 million in 2017 recording an increase of 13.2%. Consequently, the deficit of the trade balance for the period January to April 2018 came in at €7,079.3 million recording a drop of 15.1%. The turnover index in accommodation and food service activities sector in Q1 2018 increased by 10.9% YoY, while for the corresponding period of 2017 the index had increased by 0.9%YoY. Finally according to the ELSTAT labour force survey, the seasonally adjusted unemployment rate in March 2018 was 20.1% compared to the 22.1% in March 2017 and the downward revised 20.6% in February 2018.

Friday 08 June 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

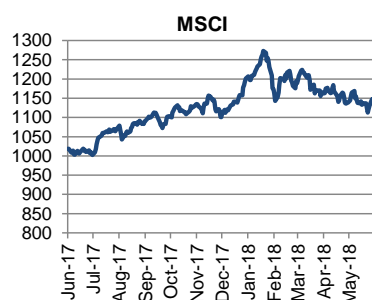
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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	2.50	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	3.0
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	3.00	3.00

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	Ba3	BB+

Latest economic & market developments in the CESEE region

ROMANIA

The provisional GDP growth estimate of the Statistical Service (NIS) confirmed that output expansion slowed down sharply in the first quarter of the year. Real GDP came out flat on a quarterly basis bringing the annual rate of expansion down to 4.2% YoY in Q1-2018 on a seasonally adjusted basis compared to 6.6% YoY in Q4-2017 vs. 5.9% YoY in Q1-2017. The reading had come out significantly below Bloomberg consensus (0.8% QoQ/5.5% YoY) disappointing market expectations. From a demand point of view, the disappointing GDP performance was driven by contracting private consumption dynamics. Private consumption dynamics halved to -1.0% QoQ/+5.4% YoY in Q1-2018 down from +0.3% QoQ/+12.3% YoY in Q4-2017 and +5.4% QoQ/+7.4% YoY in Q1-2017. High frequency indicators-particularly those related to sentiment-had predisposed that economic activity had levelled off in the previous quarters and private consumption dynamics were about to slow down. Gross fixed capital formation (GFCF) recorded the first quarterly negative reading since Q4-2016. GFCF slowed down to -1.8% QoQ/+4.5% YoY in Q1-2018 compared to +2.0% QoQ/+9.3% YoY in Q4-2017 and 2.7% QoQ/-0.5% YoY in Q1-2017. It was not only after inventories' hefty contribution that investments expanded by 8.3% YoY in Q1-2018 compared to 5.8% YoY in Q4-2017 vs. 2.3% YoY in Q1-2017. The rise of exports - 3.2% QoQ/8.4% YoY in Q1-2018 vs. 2.3% QoQ/8.1% YoY in Q4-2017 was not enough to offset the decline in imports (2.4% QoQ/10.7% YoY in Q1-2018 vs. 2.8% QoQ/12.0% YoY in Q4-2017) so that the contribution of net exports remained in red.

The reading was not an entire surprise for us confirming our earlier conviction that growth dynamics were unsustainable mirroring the overly pro-cyclical and pro-consumption expansionary fiscal policies. Lower growth dynamics are also expected to put more pressure on the fiscal side. The budget has been built upon a real GDP growth assumption of 5.5% which is unrealistic given the performance of the first quarter and will make the attainment of the fiscal target an even harder task. The past experience has proved that the public investment program is the first to suffer from under-execution in order to contain the fiscal slippage. Running relatively sizeable fiscal deficits coupled with low public investment spending is exacerbating inflationary pressures undermining not only the competitiveness and the growth potential of the country but also its ability to withstand an external shock. To make things worse, the tensions within the ruling PSD party threaten political stability and have a negative impact on the consistency and efficiency of implemented policies.

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Friday 08 June 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	2770.37	-0.1%	3.6%	EUR/USD	1.1777	-0.2%	-1.9%	UST - 10yr	2.91	-1	50	GOLD	1299	0.1%	-0.3%
Nikkei 225	22694.50	-0.6%	-0.3%	GBP/USD	1.3428	0.0%	-0.7%	Bund-10yr	0.43	-6	0	BRENT CRUDE	77	-0.5%	15.0%
STOXX 600	384.47	-0.4%	-1.2%	USD/JPY	109.39	0.3%	3.0%	JGB - 10yr	0.05	-1	0	LMEX	3500	0.4%	2.4%

SERBIA

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.29	2	-23
1-week	2.42	4	-19
1-month	2.60	4	-25
3-month	2.88	1	-24
6-month	3.06	3	-18

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.53	0	-75
5Y RSD	3.89	-5	-35
7Y RSD	4.42	0	-77

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.97	1	98
USD Nov-24	#N/A N/A	#N/A N/A	-13164

CDS

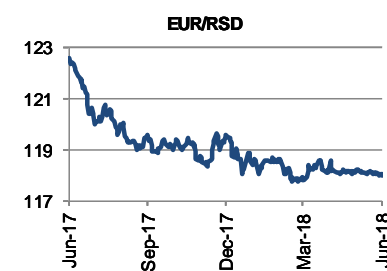
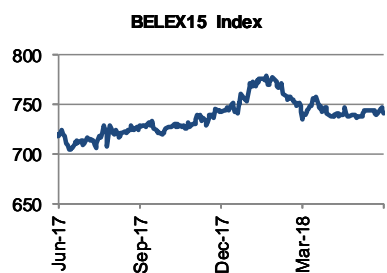
	Last	ΔDbps	ΔYTD bps
5-year	118	1	1
10-year	165	1	3

STOCKS

	Last	ΔD	ΔYTD
BELEX15	739.0	-0.24%	-2.74%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.01	0.14%	0.76%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.86	-6	177
1-month	2.88	-2	101
3-month	2.89	2	84
6-month	3	2	73
12-month	3.1	2	78

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.06	0	67
5Y RON	4.58	0	80
10Y RON	4.95	0	63

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.58	#N/A N/A	-2
USD Jan-24	4.26	6	126

CDS

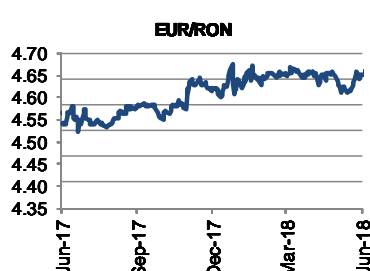
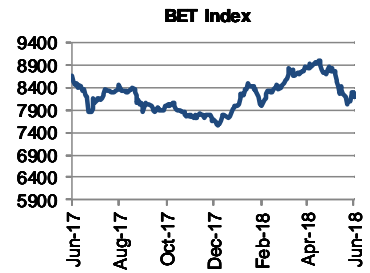
	Last	ΔDbps	ΔYTD bps
5-year	95	-3	5
10-year	139	-4	6

STOCKS

	Last	ΔD	ΔYTD
BET	8198.7	-1.04%	5.74%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6594	-0.04%	0.12%



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	-0.11	0	-6
12-month	0.22	-1	-11

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.04	0	2
5Y BGN	0.17	0	3
10Y BGN	1.02	0	5

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.09	-5	17
EUR Sep-24	0.72	-10	14

CDS

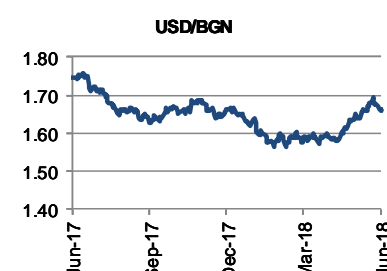
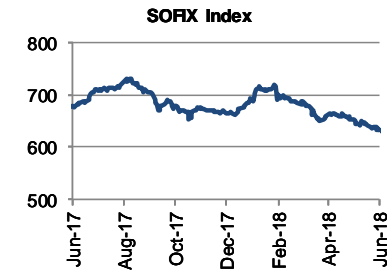
	Last	ΔDbps	ΔYTD bps
5-year	78	0	-19
10-year	123	0	-18

STOCKS

	Last	ΔD	ΔYTD
SOFIX	632.5	0.12%	-6.64%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6609	-0.19%	-1.90%



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

Data updated as of 11:15 EEST

Friday 08 June 2018

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