

Monday 08 October 2018

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- Oct 10:
 - PPI (Sep)
- Oct 11:
 - CPI (Sep)
 - Initial jobless claims (06/10)
- Oct 12:
Consumer sentiment (UoM,
Oct P)

EUROZONE

- Oct 08:
Sentix investor confidence
(Oct)
- Oct 11
ECB releases account of 13
Sep. monetary policy meeting
- Oct 12:
Industrial production (Aug)

GREECE

- Oct 10:
 - Industrial production (Aug)
 - CPI (Sep)
- Oct 11:
Unemployment rate (July)

SEE

BULGARIA

- Oct 09:
 - Retail sales (Aug)
 - Industrial production (Aug)
- Oct 10: Trade balance (Aug)

ROMANIA

- Oct 10:
 - Trade balance (Aug)
 - CPI (Sep)
 - GDP (Q2 F)
- Oct 12:
Industrial output (Aug)

SERBIA

- Oct 08: Repurchase rate
- Oct 12: CPI (Sep)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: In a letter sent to the Italian government late on Friday in response to the release of the Update to the Economic and Financial Document 2018 published one day before, the European Commission expressed concern that the budget deficit targets for 2019-2021 appear to point to a significant deviation from the EU fiscal rules. In other news, 10-yr US yields rose to a fresh seven-year high close to 3.25% on Friday in reaction to non-farm payrolls data which showed that the unemployment rate dropped by 0.2 percentage points in September to 3.7%, the lowest level in more than 48 years. The US bond market is closed today for Columbus Day.

GREECE: According to Greek press, the Greek government is considering an Asset Protection Scheme to facilitate the reduction of banks' NPEs through the establishment of a Special Purpose Vehicle (SPV) through which banks' NPEs of up to EUR15bn would be sold to funds or securitized. On the sidelines of the 2018 Annual Meetings of the IMF in Indonesia this week the Greek Finance Minister Euclid Tsakalotos will reportedly discuss with IMF Managing Director Christine Lagarde the Greek government's plan to repay part of the Fund's loans to Greece.

SOUTH EASTERN EUROPE

BULGARIA: The blue chip SOFIX index was positive the four out of the five trading days last week, which however was not enough for it to close positive for the week (closing at 623.41 points, 0.36% down).

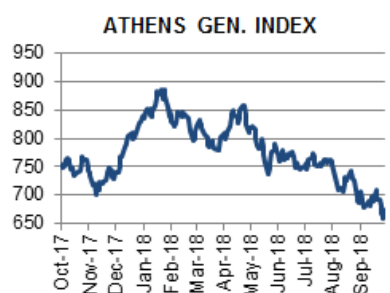
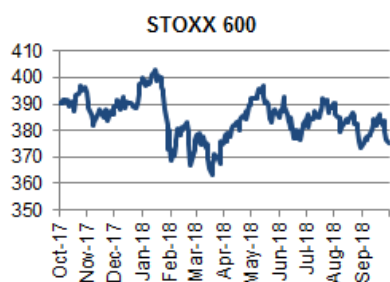
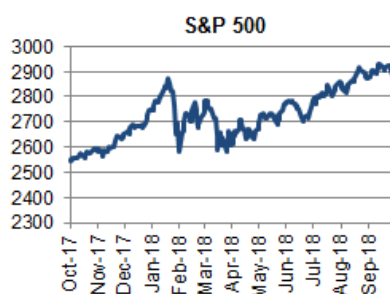
SERBIA: The EUR/RSD exceeded the 118.25-118.50 trading range past week, reaching 118.75. The IMF and World Bank revised their GDP growth forecast for 2018 to 4.2% YoY from 3.5% YoY and 3.5% YoY from 3.0% YoY, respectively.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

In a letter sent to the Italian government late on Friday in response to the release of the Update to the Economic and Financial Document 2018 published one day before, the European Commission expressed concern that the budget deficit targets for 2019-2021 appear to point to a significant deviation from the EU fiscal rules noting that the structural deficit would rise by 0.8% of GDP in 2019 (against an agreement back in April for a 0.6% of GDP reduction) and would not change in 2020-21. The European Commission added that any assessment will take place after the submission of the 2019 Draft Budgetary Plan, expected by mid-October, noting that it remains available for a constructive dialogue with the Italian government. Amid concerns about Italy's public finance and mounting tensions between the government and the European Commission in the coming weeks, Italian assets remained under pressure in European trade on Monday with 10-yr BTP yields rising close to 3.55% at some point, the highest since early 2014. The 10-yr BTP/Bund yield spread was standing close to 298bps at the time of writing after widening just over 300bps last week. However, the spread tightening is mainly due to a rise in 10-yr Bund yields close to 0.58% earlier today, the highest since late May, taking their cue from higher US yields.

10-yr US yields rose to a fresh seven-year high close to 3.25% on Friday, some 17bps higher over the week (the US bond market is closed today for Columbus Day). The first major upward push came from US data mid-last week showing a rise in the ISM services index to its highest level on record in September while a second leg after the release of Friday's non-farm payrolls, which revealed that the unemployment rate dropped by 0.2 percentage points in September to 3.7%, the lowest level in more than 48 years. This week the US Treasury will sell \$36bn in 3-yr and \$23bn in 10-yr notes on Wednesday and \$15bn in 30-yr bonds on Thursday. In FX markets, the USD retained a firm tone with the DXY index standing 0.2% firmer on the day and not far from last week's six-week peak. Data-wise, focus this week is on US inflation data for September (producer and consumer prices on Wednesday and Thursday, respectively), which are expected to add to the view for persisting inflationary pressures.

ppetropoulou@eurobank.gr

GREECE

According to Greek press, the Greek government is considering an Asset Protection Scheme to facilitate the reduction of banks' NPEs through the establishment of a Special Purpose Vehicle (SPV) through which banks' NPEs of up to EUR15bn would be sold to funds or securitized. The state would provide guarantees using part of the cash buffer, which is now estimated at above EUR30billion. The plan, however, would first have to be endorsed by the DG Comp and the ESM. In other news, on the sidelines of the 2018 Annual Meetings of the IMF in Indonesia this week the Greek Finance Minister Euclid Tsakalotos will reportedly discuss with IMF Managing Director Christine Lagarde the Greek government's plan to repay part of the Fund's loans to Greece using funds from the cash buffer.

andimitriadou@eurobank.gr

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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

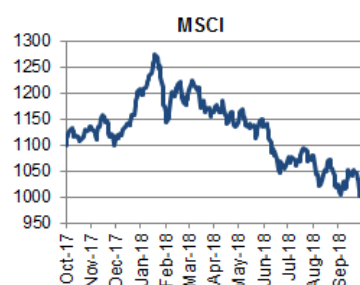
CYPRUS: Indicators	2016	2017e	2018f
Real GDP growth %	3.0	3.8	3.6
HICP (pa, yoy %)	-1.2	0.7	1.0
Budget Balance/GDP*	0.4	0.2	0.4
Current Account/GDP	-5.7	-5.4	-6.2

* 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 blue chip SOFIX index was positive the four out of the five trading days last week, which however, was not enough for it to finish positive (closing at 623.41 points, 0.36% down). The trading volume was above the three month average at EUR 2.4mn. External government bond yields gained across the board with the shorter maturities registering larger moves (5-8 bps), while the longer maturities had more modest yield spikes (1-3 bps). Local bonds remained largely unchanged during the week.

SERBIA*

The EUR/RSD finally exceeded the 118.50 threshold and the National Bank of Serbia (NBS) decided not to intervene to drag the cross back into range. With that being said, the gradual grind towards 119.0 looks feasible with the NBS occasionally stepping in to slow-down the pace of advance. The Public Debt Agency came up with the announcement for buy back operations of RSD denominated T-bonds that mature on February 22nd, 2019. According to the schedule, Serbia will try to buy back RSD20bn in two separate auctions, on November 20th and December 18th.

In other news, the IMF and the Serbian authorities concluded past Thursday the first review within the Policy Coordination Instrument (PCI) framework which officially started on 24th of September. An analysis of current economic, monetary and fiscal results as well as a revision of the macroeconomic projections for 2018 and 2019 were among the key themes of the first review. The IMF noted that recent increases in wages and pensions (+14% YoY as of July 2018) are expected to align with GDP growth and appraised NPLs reduction (-40% YoY as of Q22018). Both counterparties agreed on the fiscal target of 2019 for a deficit ca 0.5% of GDP, following budget surpluses after 2015 onwards, so as to use the emerging fiscal space for investment policies and structural reforms. Moreover, the IMF revised its GDP growth projection to 4.2% vs. 3.5% in past April reflecting the strong macroeconomic performance and GDP growth acceleration so far in 2018 (+4.9% YoY in Q2 2018 vs +1.1% YoY in Q2 2017). The IMF was not the only international institution revising upwards its GDP growth rate projection for 2018. At the same time, the World Bank, in its regular economic report for the Western Balkans, revised its GDP growth projection for 2018 upwards, yet more modestly, to 3.5% vs an earlier quote of 3.0%. The report identified investment and exports as the key drivers for the medium term growth. In detail, for the next three years exports are projected to grow on an annual basis by ca 9.5% and exports by ca 6.5%. The announced increases in public wages and expected labor market improvement will, most probably, fuel consumption. At the same time, it pointed out that if it had not been for, inter alia, the constant threat of early elections and the work on resolving relations with Kosovo, GDP growth could have followed a faster path.

mkasola@eurobank.gr

* We would like to thank Ruslan Raychev from Eurobank Bulgaria and Zoran Korac from Eurobank Beograd for their invaluable contribution in today's issue.

Monday 08 October 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	2885.57	-0.6%	7.9%	EUR/USD	1.15	-0.2%	-4.2%	UST - 10yr	3.23	0	83	GOLD	1196	-0.6%	-8.2%
Nikkei 225	23783.72	-0.8%	4.5%	GBP/USD	1.3074	-0.3%	-3.3%	Bund-10yr	0.56	-1	14	BRENT CRUDE	83	-0.9%	24.7%
STOXX 600	375.14	-0.3%	-3.6%	USD/JPY	113.79	-0.1%	-1.0%	JGB - 10yr	0.16	0	11	LME X	2998	-1.4%	-12.3%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.28	0	-24
1-week	2.39	0	-22
1-month	2.62	0	-23
3-month	2.93	0	-19
6-month	3.09	0	-15

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.18	-1	-110
5Y RSD	3.65	0	-65
7Y RSD	4.15	0	-102

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.87	0	88

CDS

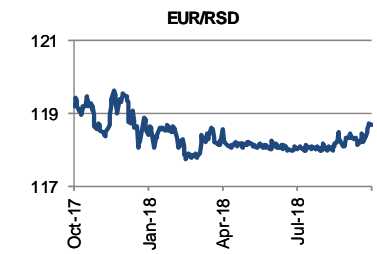
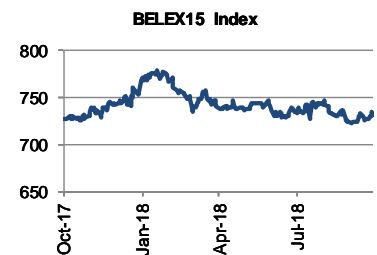
	Last	ΔDbps	ΔYTD bps
5-year	111	0	-7
10-year	158	1	-4

STOCKS

	Last	ΔD	ΔYTD
BELEX15	731.8	-0.34%	-3.69%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.73	0.12%	0.15%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.53	0	144
1-month	3.06	0	119
3-month	3.13	0	108
6-month	3.38	0	111
12-month	3.52	0	120

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.04	0	66
5Y RON	4.56	0	78
10Y RON	5.06	0	75

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.56	0	-4
USD Jan-24	4.28	-1	128

CDS

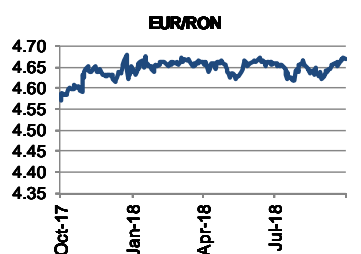
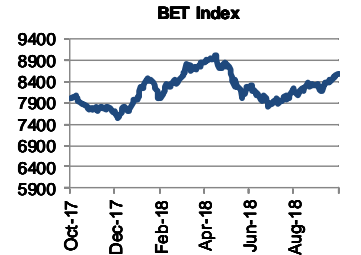
	Last	ΔDbps	ΔYTD bps
5-year	100	1	10
10-year	144	1	10

STOCKS

	Last	ΔD	ΔYTD
BET	8565.0	0.13%	10.46%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6707	0.01%	-0.13%



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	-0.04	0	2
5Y BGN	0.08	0	-6
10Y BGN	0.80	0	-16

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.04	0	4
EUR Sep-24	0.45	0	-12

CDS

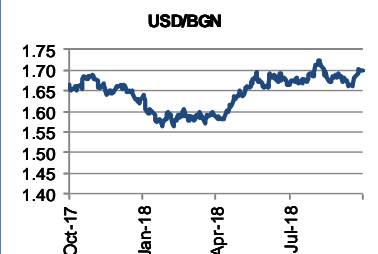
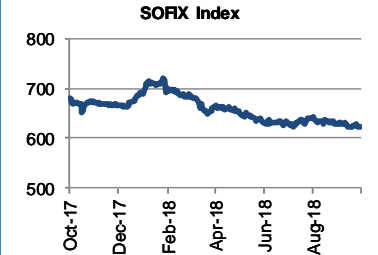
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-18
10-year	125	0	-16

STOCKS

	Last	ΔD	ΔYTD
SOFIX	623.4	0.00%	-7.98%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.701	-0.21%	-4.21%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 10:25 EEST

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Contributors

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

Ioannis Gkionis
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

Stelios Gogos
(Special Contributor)
Economic Analyst, Eurobank
Ergasias
+30 210 3371226
sgogos@eurobank.gr

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

Maria Kasola
(Special Contributor)
Economic Analyst, Eurobank
Ergasias
+30 210 3371224
mkasola@eurobank.gr

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

Marisa Yiannisis: Administrator
magiannisi@eurobank.gr, +210 3371242

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

Dr. Stylianos Gogos: Economic Analyst
sgogos@eurobank.gr, +30 210 33 71 226

Maria Kasola: Economic Analyst
mkasola@eurobank.gr, +30 210 3371224

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

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

Dr. Theodoros Stamatou: Senior Economist
tstamatou@eurobank.gr, +30 210 3371228

Elia Tsiampaou: Economic Analyst
etsiampaou@eurobank.gr, +30 210 3371207

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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