

# DAILY OVERVIEW OF GLOBAL MARKETS & THE SEE REGION

Friday 10 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 pulled back on Friday as turmoil in major emerging markets (the plunging Turkish lira, Sino-US trade conflict as well as US sanctions on Russia for election meddling) continued to dampen sentiment. In FX markets, the EUR/USD fell to more than a year low of 1.1432 in European trade on Friday after the ECB highlighted increasing risks to global growth, while the safe haven yen firmed amid risk-off sentiment. Safe haven assets such as Treasuries advanced, with the 10-yr respective yield falling to an almost three-week low of 2.88% in early European trade on Friday. Europe followed suit, with most government bond yields falling and the 10-yr German Bund yield testing three-week lows in the area of 0.34% at the time of writing.

**GREECE:** According to ELSTAT's monthly labour force survey data (seasonally adjusted series), the unemployment rate in Greece dropped to 19.5% in May 2018 from 20.0% and 21.7% in April 2018 and May 2017 respectively. This is the first time since September 2011 that the unemployment rate in Greece takes a value below 20.0%.

### SOUTH EASTERN EUROPE

**SERBIA:** At its regular MPC meeting yesterday, the NBS left interest rates unchanged at 3%

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## Latest world economic & market developments

### GLOBAL MARKETS



Global equity markets pulled back on Friday as turmoil in major emerging markets (the plunging Turkish lira, Sino-US trade conflict as well as US sanctions on Russia for election meddling) continued to dampen sentiment. In FX markets, the DXY dollar index surged to a 13-month high of 96.172 in European trade on Friday, while the EUR/USD fell to more than a year low of 1.1432 after the ECB cited that risks to the global growth outlook are growing on increased protectionism and higher US tariffs as well as pinpointing fragilities in the Spanish, Italian and French banking sector due to their exposure in Turkish assets. The safe haven yen firmed amid risk-off sentiment, with the USD/JPY falling to a two-week low of 110.61 in European trade at the time of writing. Against this backdrop, safe haven assets such as Treasuries advanced, with the 10-yr respective yield falling to an almost three-week low of 2.88% in early European trade on Friday, its decline accelerating following a weaker than expected US July PPI print. In more detail, final demand producer prices were unchanged in July (+3.3%YoY), pausing its recent streak of firm monthly increases. The July softness was driven by highly volatile components, so excluding energy and food, core PPI increased by 0.1%MoM (+2.7%YoY), falling short of market expectations for a rise of 0.2%. Europe followed suit, with most government bond yields falling and the 10-yr German Bund yield testing three-week lows in the area of 0.34% at the time of writing. On the macro data front, focus today is on the July CPI report in the US, where consensus is for a 0.2%MoM increase in core inflation that would lift the annual rate growth to 2.3% from 2.2% in the prior month. In the UK, preliminary Q2 GDP data due later in the day will be also worth watching.

[okosma@eurobank.gr](mailto:okosma@eurobank.gr)

### GREECE

According to ELSTAT's monthly labour force survey data (seasonally adjusted series), the unemployment rate in Greece dropped to 19.5% in May 2018 from 20.0% and 21.7% in April 2018 and May 2017 respectively. This is the first time since September 2011 that the unemployment rate in Greece takes a value below 20.0%. The number of people employed increased on annual basis by 1.9 YoY% (70.1 k YoY people) from 0.3 YoY% (10.4 k YoY people) in April 2018. The respective figure for the unemployed was -11.0 YoY% (-113.8 k YoY people). Based on the aforementioned annual changes the labour force registered a decrease of -0.9 YoY% (-43.7 k YoY people).

Source: Reuters, Bloomberg, Eurobank Research

[sgogos@eurobank.gr](mailto:sgogos@eurobank.gr)

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## Latest economic & market developments in the CESEE region

BULGARIA: Indicators	2017	2018e	2019f
Real GDP growth %	3.6	3.7	3.5
CPI (pa, yoy %)	2.1	2.4	2.7
Budget Balance/GDP	0.8	-1.0	-0.5
Current Account/GDP	4.5	3.0	3.0

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

CYPRUS: Indicators	2017	2018e	2019f
Real GDP growth %	3.9	3.9	3.6
CPI (pa, yoy %)	0.7	0.5	1.0
Budget Balance/GDP	1.8	1.7	1.7
Current Account/GDP	-6.7	-7.1	-7.8

Source: EC Economic Forecasts, Reuters, Bloomberg, Eurobank Global Markets Research, local authorities

ROMANIA: Indicator	2017	2018e	2019f
Real GDP growth %	7.0	4.5	4.0
CPI (pa, yoy %)	1.3	4.5	3.5
Budget Balance/GDP	-3.0	-3.5	-3.8
Current Account/GDP	-3.5	-4.0	-4.0

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2017	2018e	2019f
Real GDP growth %	1.9	3.5	3.5
CPI (pa, yoy %)	3.2	2.0	3.0
Budget Balance/GDP	1.2	0.6	0.5
Current Account/GDP	-5.7	-5.3	-5.2

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	BB+	BB+

### SERBIA

At its regular MPC meeting yesterday, the NBS left interest rates unchanged at 3%. The decision was widely anticipated by market participants as it met the expectations of the vast majority of analysts in the Bloomberg survey (15 out of 18 participants). In the statement released thereafter, the NBS grounded its decision on the expected inflation movements and the underlying factors behind it as well as the impact of previous monetary easing. Having reached a multi month low in last April at 1.1% YoY, headline inflation has been climbing up throughout Q2. As of June, headline inflation reached 2.3% YoY within the target band (3% +/-1.5%) and is expected to remain within in the next two years. According to the latest inflation forecast, inflation should stay below 3.0%-mid point by the end of 2018 while gradually approaching the midpoint in the first months of 2019 as a result of the low-base effect early this year. In addition, short-term and mid-term inflation expectations of the financial and corporate sectors are well-contained around the 3.0% mid-point target.

Stronger than expected economic growth in the first half of the year was another key driver for this decision. According to the flash estimate GDP expanded by +4.4% YoY in Q2-2018, above the Bloomberg survey median (+3.6% YoY), bringing the first six months performance at +4.5% YoY. The stronger than expected growth reading compares to +4.6% YoY in Q1-2018, which is the fastest pace in a decade, and +2.4% YoY in Q4-2017. After bottoming out in Q3-2014, economic activity gradually started to accelerate, with domestic GDP exhibiting twelve consecutive quarters of positive growth between Q2-2015 and Q1-2018. Although the components of growth are not yet known, private consumption and investments are expected to have been the main drivers in Q2. The rising of imports, as a result of strengthening domestic demand, has turned net exports' contribution negative to the expansion of the economic activity. After several years of struggling with recession and stagnation, the Serbian economy has embarked on a virtuous cycle. Having expanded by 1.9% in 2017, real GDP is highly likely to outperform our 3.5% forecast in 2018. Among the main drivers behind this improving performance is increased inward foreign direct investment (FDI). Net FDI inflows-the latest NBS forecast stands at €2.6bn in 2018- have been incentivised by the ongoing improvements in the domestic business environment and macroeconomic fundamentals as well as generous subsidies scheme offered to foreign investors.

Overall, NBS has delivered a cumulative 100bps rate cuts since September 2017 bringing the key policy rate at 3% , which is the lowest level since the adoption of the inflation targeting regime. Given the uncertainties in the world environment, stemming from the trade and geopolitical tensions, the commodities and financial markets volatility and major Central Banks policy normalization, NBS is very likely to remain put on rates until the end of the year.

[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr)

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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	2853.58	-0.1%	6.7%	EUR/USD	1.1453	-0.6%	-4.6%	UST - 10yr	2.89	-4	48	GOLD	1208	-0.4%	-7.3%
Nikkei 225	22298.08	-1.3%	-2.1%	GBP/USD	1.2749	-0.6%	-5.7%	Bund-10yr	0.34	-4	-9	BRENT CRUDE	72	-0.2%	7.6%
STOXX 600	387.13	-0.7%	-0.5%	USD/JPY	110.86	0.2%	1.7%	JGB - 10yr	0.10	-1	5	LMEX	3017	0.2%	-11.8%

## SERBIA

## Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.29	0	-23
1-week	2.42	1	-19
1-month	2.61	1	-24
3-month	2.89	0	-23
6-month	3.06	1	-18

## RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.44	0	-83
5Y RSD	3.86	-2	-38
7Y RSD	4.36	0	-82

## RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.65	1	65

## CDS

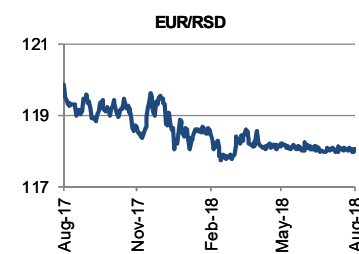
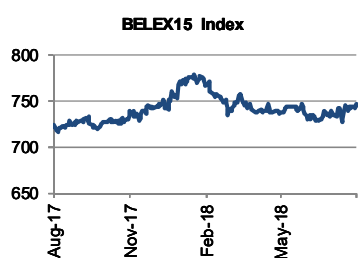
	Last	ΔDbps	ΔYTD bps
5-year	112	2	-6
10-year	154	2	-8

## STOCKS

	Last	ΔD	ΔYTD
BELEX15	746.5	0.00%	-1.75%

## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.06	-0.77%	0.72%



## ROMANIA

## Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.68	0	159
1-month	3.22	-1	135
3-month	3.3	0	125
6-month	3.44	0	117
12-month	3.56	-1	124

## RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.00	0	62
5Y RON	4.48	0	70
10Y RON	4.75	0	43

## RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.56	0	1
USD Jan-24	4.05	0	105

## CDS

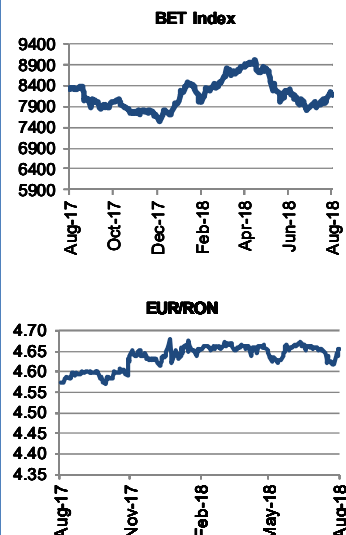
	Last	ΔDbps	ΔYTD bps
5-year	92	1	2
10-year	135	1	1

## STOCKS

	Last	ΔD	ΔYTD
BET	8182.4	-0.26%	5.53%

## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6571	-0.05%	0.17%



## 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	-0.13	-2	-7
5Y BGN	0.08	0	-7
10Y BGN	0.85	0	-12

## BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.00	-6	8
EUR Sep-24	0.45	-26	-12

## CDS

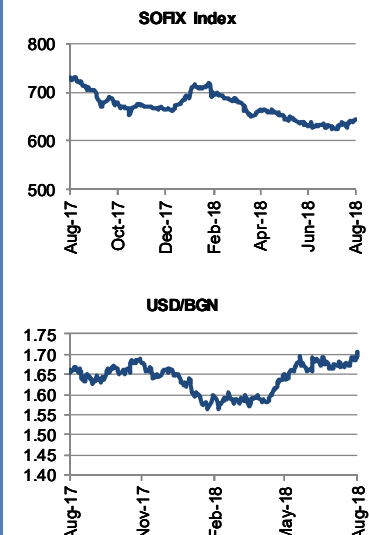
	Last	ΔDbps	ΔYTD bps
5-year	75	0	-21
10-year	121	1	-21

## STOCKS

	Last	ΔD	ΔYTD
SOFIX	644.6	0.45%	-4.84%

## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7076	-0.62%	-4.58%



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

Data updated as of 11:15 EEST

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## Contributors

**Paraskevi Petropoulou**

Senior Economist, Eurobank Ergasias

+30 210 3718991

[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)**Ioannis Gkionis**

Senior Economist, Eurobank Ergasias

+30 210 3337305

[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr)**Anna Dimitriadou**

Economic Analyst, Eurobank Ergasias

+30 210 3718793

[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr)**Olga Kosma (Special Contributor)**

Research Economist, Eurobank Ergasias

+30 210 3371227

[okosma@eurobank.gr](mailto:okosma@eurobank.gr)**Stelios Gogos (Special Contributor)**

Economic Analyst, Eurobank Ergasias

+30 210 3371226

[sgogos@eurobank.gr](mailto:sgogos@eurobank.gr)**Theodoros Stamatou (Special Contributor)**

Senior Economist, Eurobank Ergasias

+30 210 3371228

[tstamatou@eurobank.gr](mailto:tstamatou@eurobank.gr)

## Eurobank Economic Analysis and Financial Markets Research

Dr. Tasos Anastasatos: Group Chief Economist

[tanastasatos@eurobank.gr](mailto:tanastasatos@eurobank.gr), +30 210 33 71 178

## Research Team

**Anna Dimitriadou:** Economic Analyst[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr), +30 210 3718 793**Marisa Yiannissis:** Administrator[magiannisi@eurobank.gr](mailto:magiannisi@eurobank.gr) +210 3371242**Ioannis Gkionis:** Senior Economist[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr) +30 210 33 71 225**Dr. Stylianos Gogos:** Economic Analyst[sgogos@eurobank.gr](mailto:sgogos@eurobank.gr) +30 210 33 71 226**Olga Kosma:** Research Economist[okosma@eurobank.gr](mailto:okosma@eurobank.gr) +30 210 33 71 227**Paraskevi Petropoulou:** Senior Economist[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr), +30 210 37 18 991**Dr. Theodoros Stamatou:** Senior Economist[tstamatou@eurobank.gr](mailto:tstamatou@eurobank.gr), +30 210 3371228**Elia Tsiampaou:** Economic Analyst[etsiampaou@eurobank.gr](mailto:etsiampaou@eurobank.gr), +30 210 3371207Eurobank 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](mailto:Research@eurobank.gr)

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