

DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Thursday 12 July 2018

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- July 9: Consumer credit (JMay)
- July 11: PPI (Jun)
- July 12
 - Jobless claims (7 Jul)
 - CPI (Jun)
- July 4
 - Import prices (Jun)
 - UM consumer confidence (Jul)

EUROZONE

- July 9
 - German exports (May)
 - ECB President Draghi speaks
- July 10
 - German ZEW (Jul)
 - ECB President speaks
- July 12: Industrial production (May)

UK

- July 10
 - Industrial production (May)
 - Trade balance (May)

GREECE

- Jul 10
 - CPI (Jun)
 - Industrial production (May)
- July 12: Unemployment rate (Apr)

SEE

BULGARIA

- July 9
 - Industrial Production (May)
 - Retail Sales (May)
- July 12: Trade Balance (May)

ROMANIA

- July 9: Wages Net (May)
- July 10: Trade Balance (May)
- July 11
 - Industrial Sales (May)
 - CPI (June)
 - NBR Board meeting minutes
- July 12: Industrial Production (May)

CYPRUS

- July 10: Real Estate Prices (Q1-2018, CYSTAT)
- July 11: Tourism Revenues (April)

SERBIA

- July 12
 - CPI (Jun)
 - NBS Board meeting (Jul)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Global stocks and commodities rebounded in early trade on Thursday with markets trying to consolidate from y-day's sell-off due to the escalation of the trade dispute between the US and China following the US Trade Representative's proposal for an additional 10% tariff upon a list of \$200bn worth of Chinese goods. In FX markets, the USD/JPY surged to a six-month high of 112.46 in European trade earlier today, after stronger than expected US producer price data. Investors await US consumer inflation data due later today for potential further clues on the Fed's rate hiking path. Against a broadly firmer US dollar, the EUR/USD was hovering around 1.1675/77 at the time of writing, little changed on a daily basis, but below Monday's 3½ week intraday high of 1.1791.

GREECE: Yesterday the European Commission adopted a decision to activate the enhanced surveillance framework for Greece to support the implementation of agreed reforms following the successful conclusion of the ESM stability support programme. According to the Hellenic Statistical Authority (ELSTAT), the seasonally adjusted unemployment rate in April 2018 was 20.2% compared to 21.7% in April 2017 and 20.1% in March 2018. Total building activity in April 2018 calculated in issued building permits increased 1.0% YoY. The ELA-ceiling for Greek banks up to and including 26 July 2018 was set at €10.3 billion, reduced by €0.6 billion.

SOUTH EASTERN EUROPE

CYPRUS: The stock of NPEs declined by €2.1bn in March bringing the NPEs ratio down to 43%.

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Latest world economic & market developments

GLOBAL MARKETS

Global stocks and commodities rebounded in early trade on Thursday with markets trying to consolidate from y-day's sell-off due to the escalation of the trade dispute between the US and China following the US Trade Representative's proposal for an additional 10% tariff upon a list of \$200bn worth of Chinese goods. In commodities, Brent crude oil price was around 2.0% higher on a daily basis in European trade at the time of writing, after yesterday's steep losses of ca.7%, the biggest daily drop since February 2016 on the back of market concerns that trade tensions could hurt oil demand and expectations for a boost in oil exports from Libya following news that the country reopens key ports. Market focus now centres on China's retaliatory measures, which are not currently clear. In FX markets, the USD/JPY surged to a six-month high of 112.46 in European trade earlier today, after stronger than expected US producer price data. In more detail, the headline PPI increased by 0.3%MoM in June, with its annual rate rising to a 6.5 year-high of 3.4% , mainly due to gains in the cost of services and motor vehicles. The core PPI (ex-food & energy) also surpassed market expectations (0.3%MoM vs. 0.2% expected), increasing by 2.8% on an annual basis, the fastest pace since September 2011. Investors await US consumer inflation data due later today for potential further clues on the Fed's rate hiking path. Against a broadly firmer US dollar, the EUR/USD was hovering around 1.1675/77 at the time of writing, little changed on a daily basis, but below Monday's 3½ week intraday high of 1.1791. Looking at today's agenda, Minneapolis Fed President Neel Kashkari and Philadelphia Fed President Patrick Harker are both scheduled to speak, while, at the Eurogroup meeting in Brussels, finance ministers are expected to discuss, among others, the economic situation and the outlook of the euro zone on the basis of the European Commission's summer forecasts.

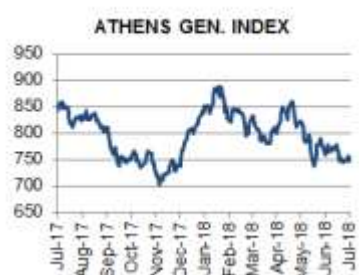
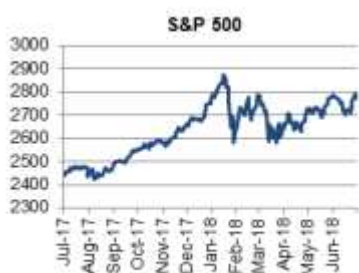
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GREECE

Yesterday the European Commission adopted a decision to activate the enhanced surveillance framework for Greece to support the implementation of agreed reforms following the successful conclusion of the ESM stability support programme. According to the relevant statement: "The decision to activate the enhanced surveillance framework, as provided for in Regulation (EU) No 472/2013 (part of the so-called "two-pack"), facilitates Greece's normalisation, building on the progress that has been made. It will support the completion, delivery and continued implementation of reforms agreed under the programme, in line with the commitments made by the Greek authorities. This is crucial to building market confidence and thus to strengthening Greece's economic recovery, particularly in the immediate post-programme period." On the economic data front, according to the Hellenic Statistical Authority (ELSTAT), the seasonally adjusted unemployment rate in April 2018 was 20.2% compared to 21.7% in April 2017 and 20.1% in March 2018. Meanwhile, total building activity in April 2018 calculated in issued building permits increased 1.0% YoY. In the twelve months from May 2017 to April 2018, total building activity in issued building permits increased by 7.5% compared to the period May 2016 to April 2017. According to the Bank of Greece, the ELA-ceiling for Greek banks up to and including 26 July 2018 was set at €10.3 billion, reduced by €0.6 billion which reflects an improvement of the liquidity situation of Greek banks, taking into account flows stemming from private sector deposits and from the banks' access to wholesale financial markets.

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Source: Reuters, Bloomberg, Eurobank Research



Thursday 12 July 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

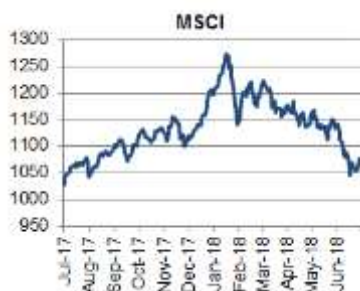
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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	3.5
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

CYPRUS

According to the data released by the Central Bank of Cyprus, the stock of non-performing exposures (NPEs) declined by €2.1bn in March relative to February, bringing the stock of NPEs down by 27,1% in the period between December 2014 to March 2018. The decline in NPEs reflects three main factors: (i) increased repayments, (ii) the migration of successful restructurings to performing loans after the completion of the observance period, and (iii) write-offs and settlements through immovable property exchange.

Total loan exposures (performing plus non-performing) decreased by €2.2bn from €48.5bn in February 2018 to €46.3bn in March 2018, which is a slightly larger drop than the decrease in their non-performing component alone. This is due to the ongoing deleveraging. Still the ratio of NPEs (non-performing to total exposures) declined a bit, from 45.3% in February 2018 to 43.0% in March 2018, compared to 43.7% in December 2017, 47.2% in December 2016, 45.8% in December 2015 and 47.8% in December 2014. Recall that according to the EBA conservative definition, a restructured NPE is still classified as an NPE for a probation period of at least 12 months, even if it is properly serviced without incurring new arrears. As a result, a large fraction of the restructured loans are still classified as NPEs (€8.3bn out of €11.4bn in March 2018).

In all previous reports, we have highlighted that despite the intense restructuring effort of the banks and the continuing decline in the stock of bad loans, NPLs remain the elephant in the room. Recall that according to the European Banking Authority (EBA) conservative definition, a restructured NPL is still classified as an NPE for a probation period of at least 12 months, even if it is properly serviced without incurring new arrears. As a result, the NPE ratio is even higher and remains extremely high in the case of Cyprus. As of December 2017, the ratio in Cyprus is the second highest in the Euro Area behind Greece. It is important to note that the stock of NPEs is still even very large when measured relative to the size of the economy. As of March 2018, the NPEs as a percentage of projected 2018 GDP stood at 98% – below the 100% threshold – compared to 107.1% in December 2017- down from 130.7% in December 2016, compared to 150.3% in December 2015 and 154.7% in December 2014.

More importantly, the liquidation of Cyprus Co-operative Bank (CCB) and the implementation of "ESTIA" government scheme which aims at supporting vulnerable borrowers are expected to push the official number of NPEs further down. The "ESTIA" scheme foresees a subsidy amount for a third of the monthly installment after the restructuring of the eligible borrowers' loans. On top, the Cypriot government's measures to facilitate the liquidation of Cyprus Co-operative Bank (CCB) under national law – approved by the EU Commission – will remove a total of €6bn in NPEs from the domestic banking sector balance sheet, resulting in an orderly exit of CCB from the market. At the same, the resolution of those NPEs comes under the responsibility of the Cypriot government, which will establish a separate entity for that purpose. Recall that, the Hellenic Bank acquired through the tender process specific assets and liabilities of the CCB balance sheet.

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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	2774.02	-0.7%	3.8%	EUR/USD	1.1678	0.0%	-2.7%	UST - 10yr	2.86	1	45	GOLD	1245	0.2%	-4.5%
Nikkei 225	22187.96	1.2%	-2.5%	GBP/USD	1.322	0.1%	-2.2%	Bund-10yr	0.37	0	-6	BRENT CRUDE	75	1.8%	11.7%
STOXX 600	382.75	0.4%	-1.7%	USD/JPY	112.45	-0.4%	0.2%	JGB - 10yr	0.04	0	-1	LMEX	2990	-2.5%	-12.5%

SERBIA

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.29	1	-23
1-week	2.40	1	-21
1-month	2.61	1	-24
3-month	2.91	0	-21
6-month	3.04	1	-20

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.48	-2	-79
5Y RSD	3.93	0	-31
7Y RSD	4.38	-1	-79

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.61	-1	62
USD Nov-24	#N/A N/A	#N/A N/A	-13164

CDS

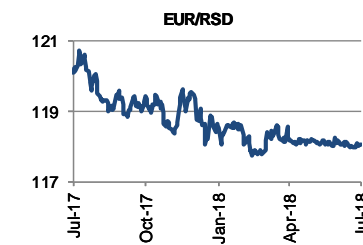
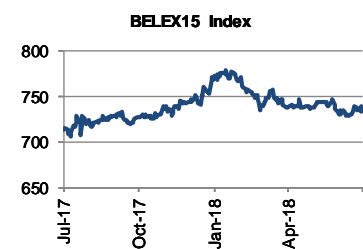
	Last	ΔDbps	ΔYTD bps
5-year	122	1	4
10-year	173	0	11

STOCKS

	Last	ΔD	ΔYTD
BELEX15	733.4	-0.15%	-3.48%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.04	0.00%	0.73%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.7	-7	161
1-month	3.28	-1	141
3-month	3.35	0	130
6-month	3.46	0	119
12-month	3.55	1	123

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.26	0	87
5Y RON	4.75	0	97
10Y RON	5.00	0	68

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.65	0	5
USD Jan-24	4.06	0	106

CDS

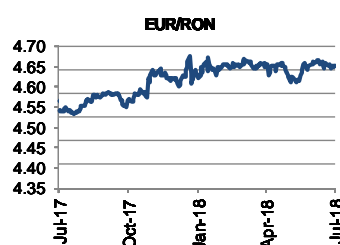
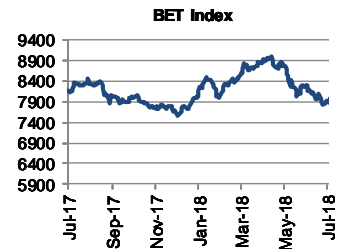
	Last	ΔDbps	ΔYTD bps
5-year	89	-3	-1
10-year	132	-4	-2

STOCKS

	Last	ΔD	ΔYTD
BET	7939.6	0.59%	2.40%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6598	-0.02%	0.11%



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	-0.08	1	-2
5Y BGN	0.09	0	-5
10Y BGN	0.89	0	-8

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.04	-1	11
EUR Sep-24	0.61	-2	3

CDS

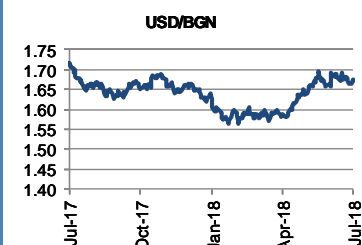
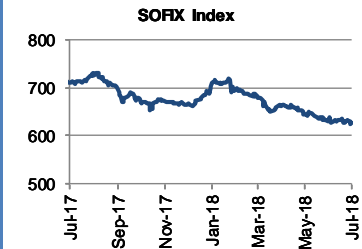
	Last	ΔDbps	ΔYTD bps
5-year	74	0	-22
10-year	121	0	-20

STOCKS

	Last	ΔD	ΔYTD
SOFIX	626.5	0.24%	-7.53%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6749	0.04%	-2.72%



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

Data updated as of 13:00 EEST

Thursday 12 July 2018

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