

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- May 14: Fed's Mester speaks
- May 15
 - Retail sales (Apr)
 - Empire State Manuf. (May)
 - NAHB housing index (May)
 - Business inventories (Mar)
 - Net Long-Term Capital inflows (Mar)
- May 16
 - Housing starts (Apr)
 - Building permits (Apr)
 - Industrial production (Apr)
- May 17: CB leading indicators (Apr)

EUROZONE

- May 15
 - Industrial production (Mar)
 - GDP (Q1)
 - DE: ZEW Index (May)
- May 16: CPI final (Apr)

UK

- May 15
 - Claimant count change (Apr)
 - Average earnings (Mar)
 - U/E rate (Mar)

GREECE

- May 15-22: Credit Expansion (Mar)

CYPRUS

- May 15: GDP (Q1, p)
- May 16: HICP (Apr)

SEE

BULGARIA

- May 15
 - GDP (Q1, p)
 - CPI (Apr)
 - U/E rate (Apr)
- May 18: Currenc account (Mar)

ROMANIA

- May 14
 - CPI (Apr)
 - Currenc account (Mar)
 - MPC meeting minutes
 - T-bonds auction
- May 15: GDP (Q1, A)
- May 17: T-bonds auction

SERBIA

- May 15: T-bonds auction
- May 17: Currenc account (Mar)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Long-dated US Treasury yields were a tad higher in early European trade on Monday with the 2/10-yr yield curve undertaking some modest steepening. In FX markets, whereas the first part of last week was dominated by USD strength, the dollar index DXY has weakened over the last few sessions. Meanwhile, oil prices were slightly weaker mainly thanks to increased US drilling activity. Turning to the EGB periphery, focus is on Italy as investors await the outcome of intensified talks between the 5-Star Movement and the League parties over the weekend for the formation of a government.

GREECE: The institutions' staff is expected to return today to Greece to assess the progress in the 4th review conditionality with a view to reaching a staff level agreement with the Greek authorities by the 24 May Eurogroup. In an interview in Greek newspaper Naftemporiki, Francesco Drudi, ECB country coordinator for Greece, expressed the view that as regards the financial sector, the focus of the 4th review is on the improvement of the existing tools to decrease NPLs as well as the revision of the households' insolvency framework. As regards the post-programme regime, Mr. Drudi noted that a solid post-programme framework would minimise risks from unforeseen shocks.

SOUTH EASTERN EUROPE

BULGARIA: Domestic equities broadly fell last week, while external government bond yields dropped and local currency paper ended little changed.

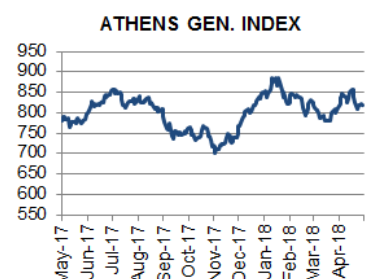
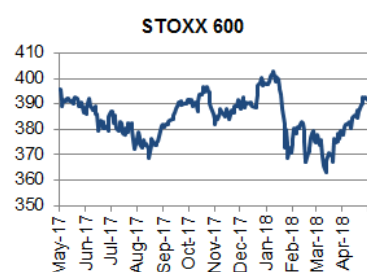
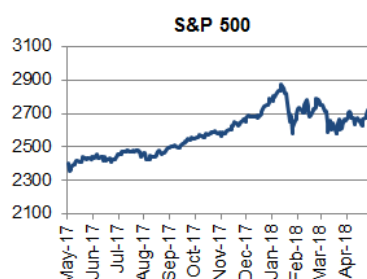
SERBIA: In the FX market, the EUR/RSD has remained little changed over recent weeks. On the data front, annual headline CPI moved further below the official target tolerance band of 3.00% +/- 1.50%, coming in at 1.1% in April.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Long-dated US Treasury yields were a tad higher in early European trade on Monday with the 2/10-yr yield curve undertaking some modest steepening. The 10-yr yield was hovering around 2.980% at the time of writing, c. 1bp higher on the day following Friday's better than expected UM consumer sentiment preliminary data for May. However, it remained below last week's peak of 3.014%, as weaker than expected US inflation data and good demand at the 10yr and 30yr auctions at the second part of last week, continued to have an impact. Meanwhile, oil prices were slightly weaker as increased US drilling activity points to a rise in US shale output production. Brent crude was standing at \$76.74/lb in early European trade, 0.5% lower on the day and around 1% below last week's 3 ½ year high hit in the wake of US President Donald Trump's decision to withdraw the US from the Iran nuclear deal. Turning to the EGB periphery, focus is on Italy as investors await the outcome of intensified talks between the 5-Star Movement and the League parties over the weekend for the formation of a government. The leaders of the two political parties are expected to meet the President of the Republic Sergio Mattarella later today to submit the name of the Prime Minister. Though talks on the economic programme have yet to start, press reports suggest that pledges by the two parties –that include, inter alia, lower taxes for companies and individuals and partially unwinding of pension reform - could potentially result, if implemented, in substantial fiscal slippage. Nevertheless, Italian bond yields held below last week's highs favored by strong appetite for carry and the ECB's ongoing QE. In FX markets, whereas the first part of last week was dominated by USD strength, the dollar index DXY has weakened over the last few sessions standing 0.2% weaker on the day and more than 1.0% below last week's y-t-d peak pushing the EUR/USD to a multi-session high of 1.1986 earlier today. Looking at this week's calendar, key data releases include Tuesday's German ZEW survey and Thursday's US retail sales.

ppetropoulou@eurobank.gr

GREECE

The institutions' staff is expected to return today to Greece to assess the progress in the 4th review conditionality with a view to reaching a staff level agreement with the Greek authorities by the 24 May Eurogroup. The institutions' staff is expected to remain in Greece until Sunday. Meanwhile, in an interview in Greek newspaper Naftemporiki, Francesco Drudi, ECB country coordinator for Greece, expressed the view that as regards the financial sector, the focus of the 4th review is on the improvement of the existing tools (OCW, sale of loans, electronic auctions) to decrease NPLs as well as the revision of the households' insolvency framework. As regards the post-programme regime, Mr. Drudi noted that a solid post-programme framework would minimise risks from unforeseen shocks and that from the monetary policy standpoint, a well-defined precautionary programme with strict and effective terms, would allow the ECB to keep the waiver in place for as long as Greek government bonds remain below investment grade. Finally, on debt relief Mr. Drudi noted that debt relief measures should address all concerns about debt sustainability including those stemming from macroeconomic and fiscal results. To that effect, a large part of these measures should be adopted immediately after the expiration of the ESM programme. Nevertheless, a small package of measures, e.g. the return of SNP/ANFA profits, could be linked to the completion of certain reforms. In any case, the ECB will only carry out its debt sustainability analysis once the Eurogroup Ministers have reached a final and comprehensive agreement including the configuration of all debt relief measures.

andimitriadou@eurobank.gr

Monday 14 May 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

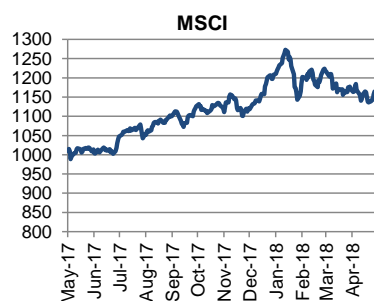
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicators	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

BULGARIA

The blue chip SOFIX index continued to slide downwards last week, registering a -1.13% weekly drop on Friday and finishing at 645.51 points. The overall trading volume came in at €3.6mn. Separately, external government bond yields dropped across the board, recoiling by approximately 2-4 bps. Meanwhile, local currency paper ended the week little changed, with yield changes bellow 1bp across all maturities.

RSRaychev@postbank.bg

SERBIA

Annual headline CPI moved further below the official target tolerance band of 3.00% +/- 1.50%, coming in at 1.1% in April. However, the data was not enough for the National Bank of Serbia (NBS) to deliver a fresh rate cut on its Executive Board meeting that was held on Thursday, May 10. As previously noted, Y-o-Y inflation should start moving higher from April onwards and get back into the said target corridor by year-end. Furthermore, NBS expects CPI to reach 3.00% in the second half of 2019.

In the FX market, the EUR/RSD has remained little changed over recent weeks, trading within tight ranges as any dinar-strengthening momentum amid improving domestic fundamentals is continuously offset by repeated NBS intentions aimed at halting the RSD's firming beyond 118.00, as recent history suggests. Recall that, as part of its managed floating exchange rate regime, the Central Bank intervenes in the FX markets when it considers appropriate "in order to limit excessive daily oscillations in the foreign exchange market, contain threats to financial and price stability and safeguard an adequate level of foreign exchange reserves". Albeit repeated Central Bank interventions hinder an EUR/RSD move below the 118.00 level, risks for a sustainable EUR/RSD also currently appear rather limited. For the latter to materialize there are several factors at play such as a potential deterioration on the macro outlook, more aggressive monetary policy normalization by major Central Banks and a rise in inflation that push CPI above the upper bound of the NBS target range. With none of the aforementioned being in our baseline scenario the EUR/RSD is likely to remain bound within tight ranges in the coming months.

In other news, Serbian finance minister, Dusan Vujovic, resigned from a position after being chairman of Ministry of Finance for three and half years. Serbian media cite Sinisa Mali, former mayor of Belgrade, as his potential successor.

Zoran.Korac@eurobank.rs

Monday 14 May 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	2727.72	0.2%	2.0%	EUR/USD	1.1979	0.3%	-0.2%	UST - 10yr	2.97	0	57	GOLD	1322	0.3%	1.4%
Nikkei 225	22865.86	0.5%	0.4%	GBP/USD	1.3586	0.3%	0.5%	Bund-10yr	0.58	2	15	BRENT CRUDE	77	-0.6%	14.6%
STOXX 600	391.68	-0.2%	0.6%	USD/JPY	109.51	-0.1%	2.9%	JGB - 10yr	0.05	1	1	LMEX	3344	-0.1%	-2.2%

SERBIA

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.30	1	-22
1-week	2.43	2	-18
1-month	2.61	2	-24
3-month	2.87	1	-25
6-month	3.08	2	-16

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.55	0	-73
5Y RSD	4.09	0	-15
7Y RSD	4.54	0	-64

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.90	-2	91
USD Nov-24	#N/A N/A	#N/A N/A	-13164

CDS

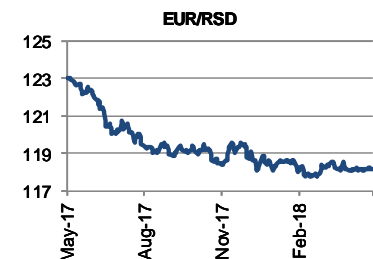
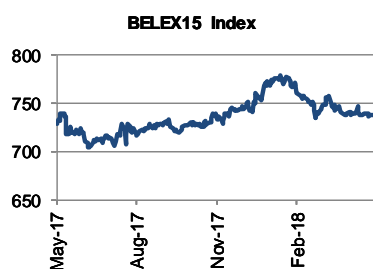
	Last	ΔDbps	ΔYTD bps
5-year	109	-3	-9
10-year	157	-3	-5

STOCKS

	Last	ΔD	ΔYTD
BELEX15	737.3	-0.04%	-2.97%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.53	0.00%	0.32%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.69	0	160
1-month	2.72	0	85
3-month	2.74	0	69
6-month	2.88	0	61
12-month	2.97	0	65

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.78	0	40
5Y RON	4.35	0	57
10Y RON	4.75	0	44

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.53	0	-1
USD Jan-24	4.17	1	117

CDS

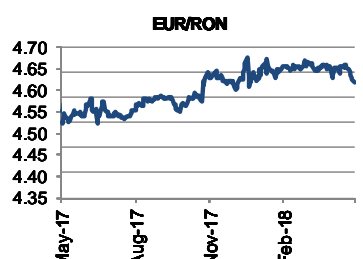
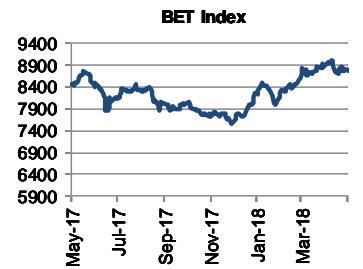
	Last	ΔDbps	ΔYTD bps
5-year	91	-1	1
10-year	135	-1	1

STOCKS

	Last	ΔD	ΔYTD
BET	8785.1	0.10%	13.30%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6302	0.11%	0.75%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.29	-1	-3
3-month	-0.20	0	-2
6-month	-0.07	1	-2
12-month	0.24	0	-8

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.05	0	1
5Y BGN	0.20	0	6
10Y BGN	1.07	0	11

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.13	0	21
EUR Sep-24	0.78	0	20

CDS

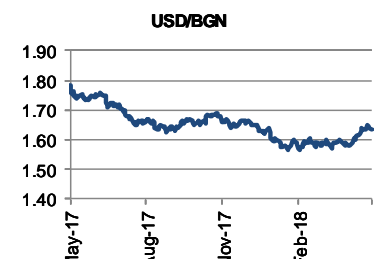
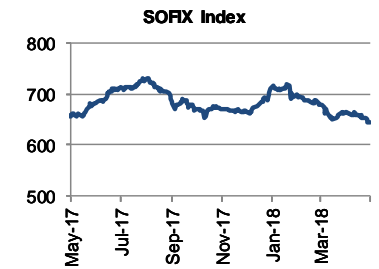
	Last	ΔDbps	ΔYTD bps
5-year	70	-2	-27
10-year	110	-3	-31

STOCKS

	Last	ΔD	ΔYTD
SOFIX	645.5	0.00%	-4.71%

FOREX

	0	ΔD	ΔYTD
USD/BGN	1.6328	0.32%	-0.21%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 11:00 EEST

Monday 14 May 2018

Contributors

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

Galatia Phoka
Research Economist, Eurobank Ergasias
+30 210 3718922
gphoka@eurobank.gr

Ioannis Gkionis (Special Contributor)
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

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

Regional Contributors

Đorđe Lučić
Fixed Income Dealer, Eurobank a.d. Beograd
+381 11 2065891
djordje.lucic@eurobank.rs

Zoran Korac
FX dealer, Eurobank ad Beograd
+381 11 206 5821
zoran.korac@eurobank.rs

Ruslan Raychev
Trader, Eurobank Bulgaria
+359 2 8166 482
rsraychev@postbank.bg

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 37 18 793

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

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

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

Galatia Phoka: Research Economist
gphoka@eurobank.gr, + 30 210 37 18 922

Dr. Theodoros Stamatou: Senior Economist
tstamatou@eurobank.gr, + 30 210 33 71 228

Elia Tsiampaou: Economic Analyst
etsiampaou@eurobank.gr, +30 210 33 71 207

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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