

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- Sep 12:
 - PPI, final demand (Aug)
 - Fed Beige Book
- Sep 13:
 - CPI (Aug)
 - Initial jobless claim (Sep 8)
- Sep 14:
 - Industrial production (Aug)
 - Retail sales (Aug)
 - UM consumer confidence (Aug, final)

EUROZONE

- Sep 11: German ZEW business expectations (Sep)
- Sep 12: Industrial production (Jul)
- Sep 13: ECB monetary policy meeting
- Sep 14: Trade balance (July)

GREECE

- Sep 10
 - CPI (Aug)
 - Industrial output (Jul)
- Sep 13: Unemployment rate (Q2)

SEE

BULGARIA

- Sep 10:
 - Industrial production (Jul)
 - Retail sales (Jul)
- Sep 12: Trade balance (Jul)
- Sep 13: CPI (Aug)
- Sep 14: Unemployment rate (Aug)

CYPRUS

- Sep 10: GDP (Q2, final)

ROMANIA

- Sep 10: Trade balance (Jul)
- Sep 11:
 - Industrial output (Jul)
 - Industrial sales (Jul)
 - CPI (Aug)
- Sep 13: Current account (July)

SERBIA

- Sep 12: CPI (Aug)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: The ECB stayed put on policy action and confirmed its guidance with regard to QE, interest rates and reinvestment policy at its monetary policy meeting yesterday, in line with market expectations. In the post-meeting press conference, President Mario Draghi emphasized concerns about rising protectionism but noted that risks to the euro area growth outlook are still regarded as broadly balanced amid resilient domestic demand and a somewhat more accommodative fiscal stance. Furthermore, the Governing Council remained constructive on the inflation outlook over the medium-term on the back of continuing economic expansion and rising wage growth. The GBP also gained against the USD on a report suggesting that the UK and the EU had made progress on the Irish border issue. The ECB President's positive comments favored the EUR while German Bund yields moved higher. Today's US retail sales and industrial production for August, lure market attention.

GREECE: Greek Finance Minister Euclid is expected to meet the institutions' heads (Declan Costello-EC, Francesco Drudi-ECB, Nicola Giamarioli-ESM and Peter Dolman-IMF) once again today before their departure from Greece with a view to further discussing the numbers and data presented by the Greek government. The issues that have reportedly prevailed during the past days' meetings were: labour market reforms, NPLs, the fiscal space in 2018, potential tax cuts and the agreed pension cuts. According to the Labour Force Survey conducted by ELSTAT, in Q2 2018 the unemployment rate was 19.0% down from 21.2% in the previous quarter and 21.1% in Q2 2017.

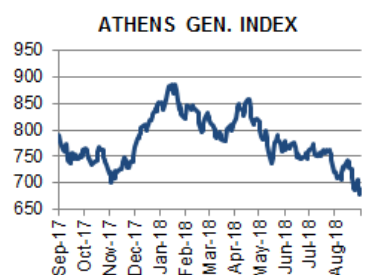
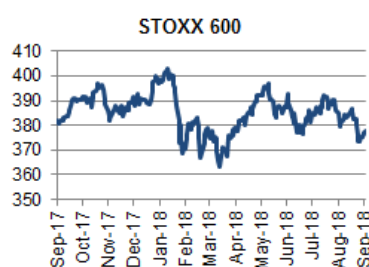
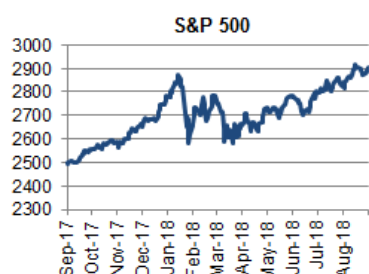
SOUTH EASTERN EUROPE

TURKEY: The Central Bank of Turkey decided to hike the key policy rate by 625bps from 17.75% to 24.00%.

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Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

The ECB stayed put on policy action and confirmed its guidance with regard to QE, interest rates and reinvestment policy at its monetary policy meeting yesterday, in line with market expectations. The updated macroeconomic projections revealed slightly lower GDP numbers for the current year and 2019 to 2.0% and 1.8% respectively from 2.1% and 1.9% previously, on the back of somewhat weaker foreign demand. In the post-meeting press conference, President Mario Draghi emphasized concerns about rising protectionism but noted that risks to the euro area growth outlook are still regarded as broadly balanced amid resilient domestic demand and a somewhat more accommodative fiscal stance. On the inflation front, headline CPI was confirmed at 1.7% through 2020 but core CPI was revised slightly lower by 0.1pp for 2019 and 2020 to 1.5% and 1.8% respectively, while the 2018 figure was confirmed at 1.1%. However, according to the ECB President, the Governing Council remained constructive on the inflation outlook over the medium-term on the back of continuing economic expansion and rising wage growth.

The ECB President's positive comments favored the EUR hitting a two-week high of 1.1710 against the USD earlier today. Weaker than expected US inflation data yesterday, has also had an impact. US headline CPI rose by a lower than expected 0.2% mom in August taking the annual rate down to 2.7% from 2.9% in July while the annual pace of core CPI also slowed to 2.2% from 2.4% as a result of a sharp drop in apparel prices and weaker medical care commodities. The GBP also firmed against the USD to 1.3126, the highest since early August, on a report suggesting that the UK and the EU had made progress on the Irish border issue, a contentious issue in sealing a Brexit deal. The BoE also stood pat on policy action yesterday, as expected, following a 25bps rate hike a month earlier. Turning to fixed income, German Bunds remained under pressure with the 10-yr yield hovering around yesterday's six-week intraday peak of 0.44% in reaction to the slightly more hawkish tone by the ECB President, further progress in Brexit talks and a higher than expected rate hike by the Turkey's Central Bank. Today's US retail sales and industrial production for August, lure market attention.

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GREECE

Greek Finance Minister Euclid is expected to meet the institutions' heads (Declan Costello-EC, Francesco Drudi-ECB, Nicola Giamarioli-ESM and Peter Dolman-IMF) once again today before their departure from Greece with a view to further discussing the numbers and data presented by the Greek government. The issues that have reportedly prevailed during the past days' meetings were: labour market reforms, NPLs, the fiscal space in 2018, potential tax cuts and the agreed pension cuts. As regards the latter, the Greek FinMin has reportedly communicated his intention to offset the non-implementation of the pension cuts with a gradual adoption of the expansionary measures until 2022. According to the Labour Force Survey conducted by the Hellenic Statistical Authority (ELSTAT), in Q2 2018 the unemployment rate was 19.0% down from 21.2% in the previous quarter and 21.1% in Q2 2017. The quarterly estimates are not subject to seasonal adjustment therefore the QoQ improvement reflects also the beneficial effect of increased tourist activity in Q2 compared to Q1.

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Friday 14 September 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

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

TURKEY

On the CESEE markets front, the Central Bank of Turkey (CBRT) policy meeting yesterday took by surprise analysts and investors' expectations who were anticipating a tighter monetary policy stance in the aftermath of the market turbulence in the summer months. In an unprecedented move, the CBRT decided to hike the key policy rate (KPR) – the 1-week repo as of late May – by 625bps from 17.75% to 24.00% bringing the cumulative tightening up to 1025bps year to date factoring in the 75bps hike delivered in last April. The Overnight and Late liquidity window lending rates were equally hiked by 625bps to reach 25.5% and 27% respectively.

In the statement released thereafter, the CBRT acknowledged the deceleration in domestic demand, emphasizing that recent inflation outlook developments point to significant risks to price stability. Price increases have been widespread, reflecting the FX rate movements. On top, the deterioration in the pricing behavior continues to pose upside risks on the inflation outlook, despite weaker domestic demand conditions. Thus, the CBRT has decided to implement a strong monetary tightening to support price stability.

The announcement confounded market expectations. As we pointed out in our yesterday's note, in the Reuters survey of economists, the median expectation was for a 425bps rate rise, but predictions ranged from 225 bps to a much larger 725bps hike. Yesterday's monetary policy meeting was the first after the announcement of unfavorable macroeconomic data on Q2-2018 growth and August inflation. Headline inflation accelerated to 17.9% in August – at the highest level seen since 2003 – up from 15.9% in July and 15.4% YoY in May, coming in significantly above market expectations. Inflation is not only running within double digit territory but is also expected to remain in elevated levels with the year-end and the 12-month forward market CPI expectation standing at 19.6% YoY and 14.5% YoY versus the 5% medium-term CBRT target respectively. To make things worse, real GDP growth landed to 0.9% QoQ/5.2% YoY in Q2-2018 down from 1.5%/7.3% YoY in Q1-2018 driven by rapidly decelerating domestic demand dynamics, adding to concerns for a hard landing in the economy.

In our view, the CBRT aggressive move was more than necessary for the Central Bank to regain some of its lost credibility and avert a looming currency crisis in an already very challenging economic environment. More importantly, the CBRT decision comes after the comments of President Erdogan a few hours ahead of the MPC meeting who once again repeated his objections to higher interest rates. Markets attention will now turn to fiscal policy to see whether there will be a coordinated adjustment to support the shift in policy mix.

The market response in the aftermath of the CBRT decision has been quite impressive. The Turkish lira has been trading at 6.0240/USD – at the time of the writing on Friday – compared to 6.3748/USD ahead of the decision announcement, recouping some of its heavy losses in 2018. The Turkish lira has lost 59% year-to-date against USD, confirming that it stands among the worst performing EM currencies this year.

Friday 14 September 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	2904.18	0.5%	8.6%	EUR/USD	1.1707	0.1%	-2.5%	UST - 10yr	2.97	0	57	GOLD	1206	0.4%	-7.4%
Nikkei 225	23094.67	1.2%	1.4%	GBP/USD	1.3122	0.1%	-3.0%	Bund-10yr	0.43	1	0	BRENT CRUDE	78	0.3%	17.3%
STOXX 600	377.62	0.3%	-3.0%	USD/JPY	111.85	0.1%	0.8%	JGB - 10yr	0.11	0	7	LME X	2904	0.5%	-15.1%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.28	-1	-24
1-week	2.39	0	-22
1-month	2.61	-1	-24
3-month	2.91	-1	-21
6-month	3.07	-1	-17

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.26	-1	-102
5Y RSD	3.86	0	-38
7Y RSD	4.38	0	-80

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.78	1	78

CDS

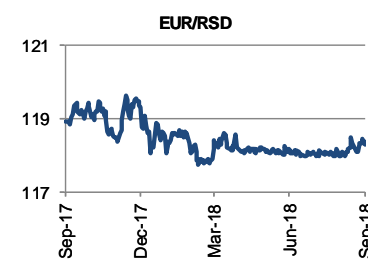
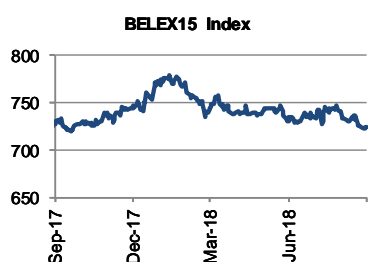
	Last	ΔDbps	ΔYTD bps
5-year	109	0	-9
10-year	154	0	-8

STOCKS

	Last	ΔD	ΔYTD
BELEX15	723.4	-0.01%	-4.79%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.30	0.32%	0.51%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.41	0	132
1-month	3.04	0	117
3-month	3.1	0	105
6-month	3.37	0	110
12-month	3.5	0	118

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.98	0	60
5Y RON	4.34	0	56
10Y RON	4.79	0	47

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.58	-1	3
USD Jan-24	4.17	0	117

CDS

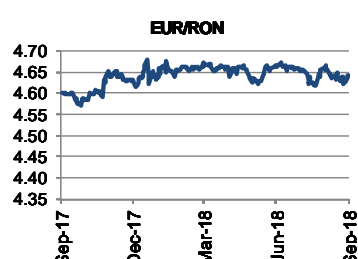
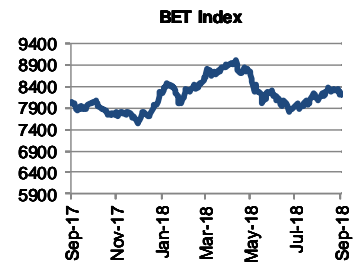
	Last	ΔDbps	ΔYTD bps
5-year	91	-2	1
10-year	135	-2	2

STOCKS

	Last	ΔD	ΔYTD
BET	8220.5	0.18%	6.02%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6412	-0.02%	0.51%



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	-0.06	0	0
5Y BGN	0.11	-2	-3
10Y BGN	0.87	0	-10

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.07	0	1
EUR Sep-24	0.37	0	-21

CDS

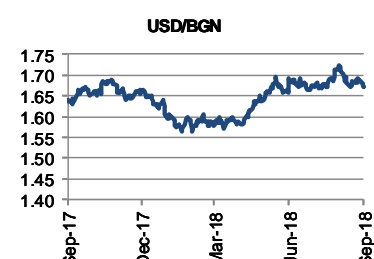
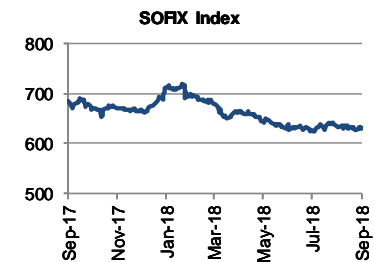
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-18
10-year	121	-1	-21

STOCKS

	Last	ΔD	ΔYTD
SOFIX	630.0	0.00%	-7.00%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6706	0.15%	-2.47%



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

Friday, 11 September 2018

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