

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: Brent crude price hit a fresh 3-½ year peak of \$78.70/br earlier today after OPEC's latest report suggested that the global oil glut has been virtually eliminated. US Treasuries and German Bunds were under pressure while higher UST yields and somewhat easing US/China trade frictions helped the USD gain some ground.

GREECE: According to press reports, the Washington Group that convened yesterday discussed the debt relief mechanism where differences persist particularly among Germany and the IMF. The ECB, the ESM and the IMF reportedly favour a precautionary credit line for Greece while the Greek Finance Minister Euclid Tsakalotos rejects this option saying that after August 2018 there will be no more ESM credit for Greece.

SOUTH EASTERN EUROPE

ROMANIA: The flash real GDP growth estimate of Q1-2018 came out much lower than market expectations.

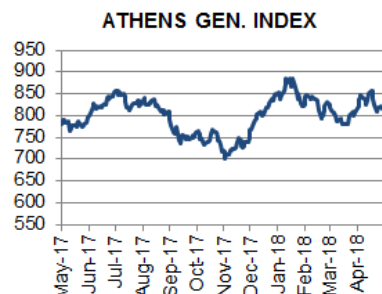
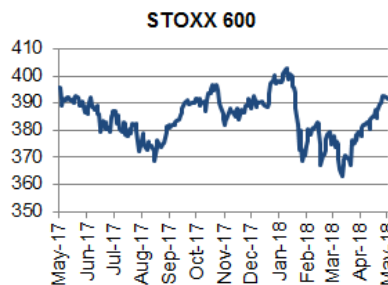
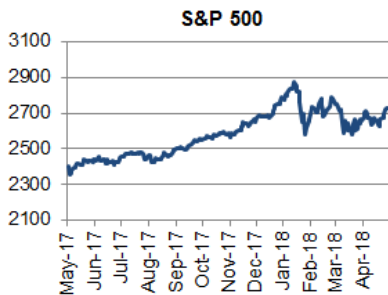
CESEE MARKETS: Emerging market assets mostly fell earlier on Tuesday on rising UST yields, a firming US dollar and weaker than expected investment and retail sales data for April from China

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

US Treasuries remained under pressure in early European trade on Tuesday with the 10-yr UST yield rising by 1.7bps on the day and moving above the 3% hurdle again to 3.028%, approaching the recent multi-year peak of 3.035% (Apr 25) on higher oil prices and hawkish Fed comments. Oil prices extended recent gains with the Brent crude price hitting a fresh 3-½ year peak of \$78.70/br earlier today after figures published by OPEC suggested that the global oil glut has been virtually eliminated. Meanwhile, Federal Reserve Bank of Cleveland President Loretta Mester reiterated support for continuing gradual removal of policy accommodation on the back of positive US fundamentals adding though that “for a time” the Fed may eventually need to raise the target rate “a bit above” the neutral rate. German Bunds followed suit on perceived hawkish comments by BoF Governor Francois Villeroy de Galhau that the ECB could soon clarify the timing of the first rate hike since 2011, which he expects to happen “at least some quarters, but not years” after the end of the asset purchases programme. The 10-yr Bund yield rose to a three-week high of 0.632% earlier today after bouncing back above 0.60% in the prior session with the 2/10-yr yield curve exhibiting some bear steepening. Tuning to FX markets, higher UST yields and somewhat easing US/China trade frictions helped the USD gain some ground with the EUR/USD pulling back to levels around 1.1920/25 after hitting a multi-session peak close to 1.2000 on Monday. Looking at the calendar for the remainder of the day, focus is on US retail sales data for April, which is expected to support the view for an increase in consumer spending in Q2. In the euro area, we expect industrial production data for March and the breakdown of Q1 GDP growth for clues on whether the loss of growth momentum is temporary or is attributed to more fundamental factors.

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GREECE

According to press reports, the Washington Group (comprised of the Finance Ministers of Germany, France, Italy and Spain, the President of the ESM, the Head of the IMF European Department, the ECB’s mission chief in Greece, the EU Director-General for Economic and Financial Affairs and the Eurogroup President) that convened yesterday discussed the debt relief mechanism where differences persist particularly among Germany and the IMF. Germany reportedly hardened its stance requesting a conditional debt-relief mechanism whereby each time further debt relief is to be granted, it will also have to be approved by the German Parliament. This term is reportedly unacceptable to the IMF, which is advocating a clear agreement on debt relief by the June Eurogroup in order to allow it to participate in the programme. Meanwhile, aside from the ECB, whose country coordinator for Greece Francesco Drudi spoke in favour of a precautionary programme yesterday, press reports suggest that also the ESM and the IMF would recommend this course of action for Greece after the current programme expires. The Greek government, however, strongly opposes a precautionary credit line and on this wavelength the Greek Finance Minister Euclid Tsakalotos stated yesterday categorically in an interview in FAZ that the current programme will be closed in August 2018 and after that there will be no more ESM credit for Greece.

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Tuesday 15 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

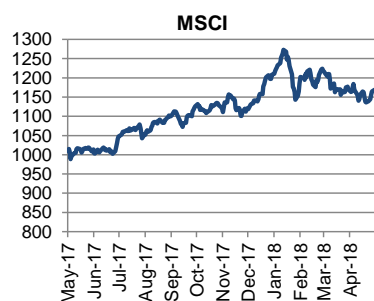
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: 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	3.0
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

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

ROMANIA

According to the flash estimate, real GDP growth slowed down sharply in the first quarter of the year. Real GDP came out flat on a quarterly basis bringing the annual rate of expansion down to 4.2% YoY in Q1-2018 on a seasonally adjusted basis compared to 6.6% YoY in Q4-2017 vs. 5.9% YoY in Q1-2017. The reading disappointed market expectations, coming out significantly below a consensus of 0.8% QoQ/5.5% YoY. Although the detailed breakdown will be available on May 7th, it is highly likely that the disappointing GDP performance was driven by contracting private consumption dynamics. High frequency indicators-particularly those related to sentiment-had predisposed that economic activity had levelled off in the previous quarters and private consumption dynamics were about to slow down. The reading was not an entire surprise for us confirming our earlier conviction that growth dynamics were unsustainable mirroring the overly pro-cyclical and pro-consumption expansionary fiscal policies. Lower growth dynamics are also expected to put more pressure on the fiscal side. The budget has been built upon a real GDP growth assumption of 5.5% which is unrealistic given the performance of the first quarter and will make the attainment of the fiscal target an even harder task. The past experience has proved that the public investment program is the first to suffer from under-execution in order to contain the fiscal slippage. Running relatively sizeable fiscal deficits coupled with low public investment spending is exacerbating inflationary pressures undermining not only the competitiveness and the growth potential of the country but also its ability to withstand an external shock. To make things worse, the tensions within the ruling PSD party threaten political stability and have a negative impact on the consistency and efficiency of implemented policies.

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CESEE MARKETS

Emerging market assets mostly fell earlier on Tuesday on rising UST yields, a firming US dollar and weaker than expected investment and retail sales data for April from China, the world's second largest economy. Against this backdrop, the MSCI Emerging Markets index slid by 1.1% in European trade snapping a 6-session rising streak which pushed the index to a 3 1/2 week high intraday in the prior session. In the CESEE region, main indices trailed their global peers lower, with Hungary's BUX and Turkey's BIST 100 leading the way lower amid respective 1.6% and 1.3% daily declines in European trade. On the flipside, Bulgaria's SOFIX was the main exception to stand in a modestly positive territory at the time of writing. In FX markets, the Turkish lira and Argentine peso fell to new record lows, as their losses were exacerbated by idiosyncratic factors. In more detail, the USD/TRY slid to a new lifetime peak near 4.3975 in Asian markets before recoiling slightly towards 4.3820 in European trade following comments by President Tayyip Erdogan in an interview earlier on Tuesday, signaling that he would take more responsibility for monetary policy if he wins the upcoming June 24 snap poll adding to worries about the Central Bank's independence. The incumbent president has repeatedly supported lower interest rates, which favour economic activity, despite double digit and above target inflation. The lack of more aggressive monetary policy response from the Central Bank to tame heightened inflation in tandem with elevated external financing requirements and geopolitical risks have weighed significantly on the lira this year. Along the same lines, yields on the Turkish benchmark sovereign 10-year bond spiked to a record high of 14.5% earlier today.

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Tuesday 15 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	2730.13	0.1%	2.1%	EUR/USD	1.1934	0.1%	-0.6%	UST - 10yr	3.02	2	61	GOLD	1312	-0.1%	0.7%
Nikkei 225	22818.02	-0.2%	0.2%	GBP/USD	1.3551	0.0%	0.2%	Bund-10yr	0.62	1	20	BRENT CRUDE	78	0.0%	17.0%
STOXX 600	391.87	-0.1%	0.7%	USD/JPY	109.87	-0.2%	2.6%	JGB - 10yr	0.06	0	1	LMEX	3348	0.1%	-2.1%

SERBIA

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.28	-2	-24
1-week	2.40	-3	-21
1-month	2.58	-3	-27
3-month	2.86	-1	-26
6-month	3.05	-3	-19

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.57	#N/A N/A	-70
5Y RSD	4.09	0	-15
7Y RSD	4.54	0	-64

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.93	0	94
USD Nov-24	#N/A N/A	#N/A N/A	-13164

CDS

	Last	ΔDbps	ΔYTD bps
5-year	109	0	-9
10-year	157	0	-5

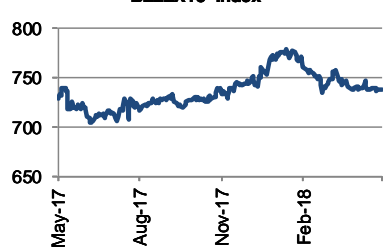
STOCKS

	Last	ΔD	ΔYTD
BELEX15	737.4	-0.02%	-2.94%

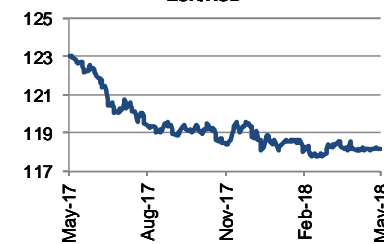
FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.30	-0.07%	0.51%

BELEX15 Index



EUR/RSD



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.69	0	160
1-month	2.72	0	85
3-month	2.75	0	70
6-month	2.87	0	60
12-month	2.96	0	64

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.81	0	43
5Y RON	4.36	0	58
10Y RON	4.75	0	44

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.54	0	-1
USD Jan-24	4.16	1	116

CDS

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

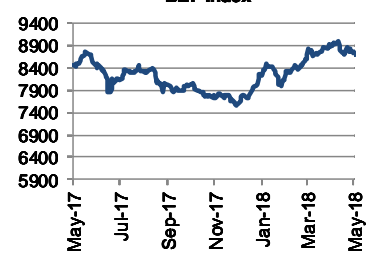
STOCKS

	Last	ΔD	ΔYTD
BET	8722.4	-0.38%	12.49%

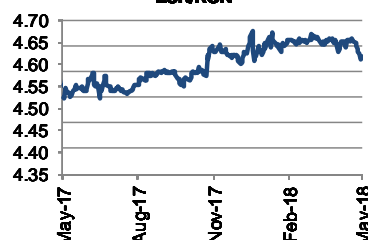
FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6297	-0.10%	0.76%

BET Index



EUR/RON



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.29	0	-3
3-month	-0.21	0	-3
6-month	-0.08	-1	-3
12-month	0.24	0	-8

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.04	1	3
5Y BGN	0.21	0	7
10Y BGN	1.09	0	12

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	0	-26
10-year	110	0	-31

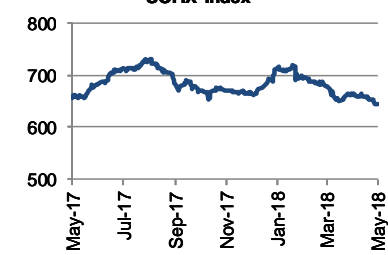
STOCKS

	Last	ΔD	ΔYTD
SOFIX	645.1	0.13%	-4.78%

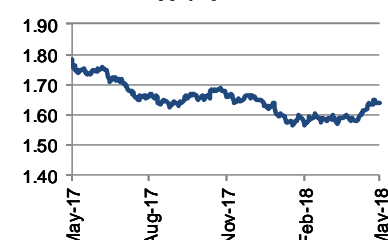
FOREX

	0	ΔD	ΔYTD
USD/BGN	1.6387	0.07%	-0.57%

SOFIX Index



USD/BGN



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 10:45 EEST

Tuesday 15 May 2018

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