

DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Monday 16 July 2018

KEY UPCOMING DATA & EVENTS THIS WEEK

- US
 - July 16
 - Trump-Putin Summit
 - NY Fed Empire State Manufacturing Survey (Jul)
 - Retail sales (Jun)
 - Business inventories (May)
 - July 17
 - Industrial production (Jun)
 - NAHB Housing Market Index (Jul)
 - Fed's Powell to testify before Senate Panel
 - July 18
 - Housing starts & building permits (Jun)
 - Fed's Beige Book
 - Fed's Powell to testify before House Panel
 - July 19
 - Philly Fed Business Outlook Survey (Jul)
 - CB leading indicators (Jun)

EUROZONE

- July 16: 20th EU-China Summit
- July 20: Current Account (May)

UK

- July 17: Average earnings, unemployment rate (May)
- July 18: CPI (Jun)

GREECE

- Jul 17: Merchant Fleet (May)
- July 20: Turnover Index in Industry (May)

SEE

BULGARIA

- July 16
 - CPI (Jun)
 - Unemployment rate (Jun)
- July 19: Current Account (May)

ROMANIA

- July 16: Current Account (May)

CYPRUS

- July 17: Tourist Arrivals (Jun)
- July 18: HICP (Jun)
- July 20: Industrial Turnover (Apr)

SERBIA

- July 20: Current Account (May)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Core government bonds retained a firm tone in European trade on Monday following the release of the FOMC's semi-annual Monetary Policy Report to the US Congress on Friday where the Central Bank reiterated that "further gradual increases" in interest rates would be appropriate. Fed Chair Jerome Powell will deliver the FOMC's semi-annual Monetary Policy Report to Congress on Tuesday (before the Senate Banking Committee) and Wednesday (before the House Financial Services Committee). On the data front, this week's major US data releases include retail sales (Monday) and industrial production (Tuesday) both for June.

GREECE: The ESM Board did not approve on Friday 13 July 2018, the disbursement of €15.0 bn to Greece, from the financial envelope of the Third Economic Adjustment Programme, as a result of the Greek government's decision to not implement one of the 88 prerequisite reforms agreed in the context of the 4th review of the programme.

SOUTH EASTERN EUROPE

BULGARIA: The main Bulgarian equity SOFIX index retrenched back to the March 2017 levels last week, dropping by -1.07% to 627.07 points on Friday's close. Both external and local government bond yields dropped by 3-8bps and 1-3bps respectively.

SERBIA: The EURRSD remained bound within 117.90/10 – 117.97/17 trading range in the past week.

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Latest world economic & market developments

GLOBAL MARKETS

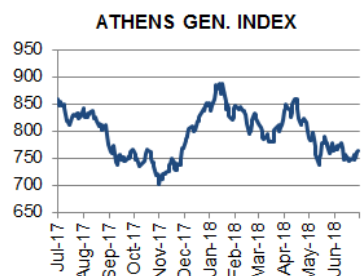
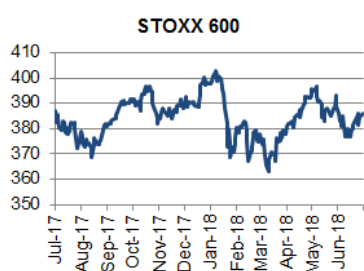
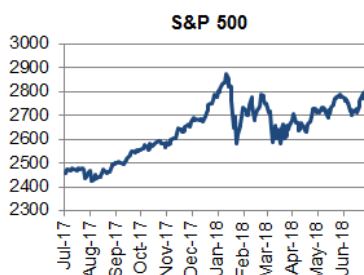
Core government bonds retained a firm tone in European trade on Monday following the release of the FOMC's semi-annual Monetary Policy Report to the US Congress on Friday where the Central Bank reiterated that "further gradual increases" in interest rates would be appropriate. The 10-yr UST yield hit a multi-session low close to 2.82% earlier today before rising to 2.84% in European trade, albeit still below last week's 2.88% peak. The 2/10-yr yield curve continued to flatten with the respective spread reaching a fresh 11-year low, a warning signal for some Fed officials of a looming recession. Fed Chair Jerome Powell will deliver the FOMC's semi-annual Monetary Policy Report to Congress on Tuesday (before the Senate Banking Committee) and Wednesday (before the House Financial Services Committee), where he may face questions on the prospect of an inverted yield curve and the potential impact of recent US tariffs. He is also expected to stick to recent Fed rhetoric emphasizing the continuous improvement in labor market conditions and the fulfilment of the 2% medium-term inflation target last month for the first time in the last six years, repeating that further gradual increases in the federal funds rate are warranted. Along these lines, the 10-yr Bund yield was hovering around 0.29% in European trade at the time of writing, c. 1.3bps lower on a weekly basis and not far from Friday's six-week low of 0.26% amid worries over slowing economic growth in the Eurozone, concerns about the likely implementation of US tariffs on EU auto imports and the prevailing view that an ECB rate hike remains a distant prospect. In FX markets, the USD was a tad weaker, with the DXY index standing 0.1% lower on the day at the time of writing, following weekly gains of 0.8% last week, the highest since mid-June. On the data front, this week's major US data releases include June's retail sales (Monday) and June's industrial production (Tuesday), which are both expected to improve, supporting the view for a rebound in US Q2 GDP to an annualized growth rate of around 4% compared to 2% in the prior quarter.

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GREECE

The ESM Board did not approve on Friday 13 July 2018, the disbursement of €15.0 bn to Greece, from the financial envelope of the Third Economic Adjustment Programme, as a result of the Greek government's decision to not implement one of the 88 prerequisite reforms agreed in the context of the 4th review of the programme. The Greek government decided to postpone the VAT rate hike in five islands for six months. The ESM's decision did not come as a surprise. It followed the identical decision of the Eurogroup the day before. According to the ESM's Managing Director Klaus Regling, the disbursement is expected to take place in early August 2018, well ahead of the official end of the ESM programme, conditional on the implementation by the Greek government of budgetary savings of €28.0 mn aiming to counterbalance the expected short-fall in revenue from the aforementioned VAT rate hike postponement.

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Source: Reuters, Bloomberg, Eurobank Research

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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

Latest economic & market developments in the CESEE region

BULGARIA*

The main Bulgarian equity SOFIX index retrenched back to the March 2017 levels last week, dropping by -1.07% to 627.07 points on Friday's close. On top of the sliding value, the weekly volume was also extremely low coming in at €0.91mn. External government bond yields dropped across the board, ranging from 3 bps to 8bps. Local government bond yields also dropped on all maturities ranging between 1-3 bps with the exception of the 5-year tenor, which saw its yield rising by a little over 4 bps on a weekly basis.

SERBIA *

The EURRSD was little changed on Friday, hovering around 117.95/15 for most of the session. Consequently, there has been no need for intervention from the National Bank of Serbia (NBS) for the fourth consecutive day. So far this year, the NBS has bought €1.45bn in order to halt the dinar's appreciation and avert sharp moves in the FX market.

Separately, at the monetary board meeting held on last Thursday, the NBS kept its policy rate unchanged at 3.00% in a move widely expected. In making that decision, the NBS was guided by the slightly higher inflation, uncertainties in international markets as well as the effects of past monetary policy easing. After touching this year's low in April, inflation has been moving steadily towards the target, coming in at 2.3% YoY in June, consistent with expectations. Inflation is expected to move within the target tolerance band of $3 \pm 1.5\%$ over the next two years. In its statement, the NBS also pointed out that economic growth is accelerating, with a high share of investment that will continue to support diversified expansion of export-oriented industries in the medium-term.

* We would like to thank Ruslan Raychev from Eurobank Bulgaria and Djordje Lucic from Eurobank AD Beograd for their invaluable contribution in today's issue.


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Credit Ratings

L-T ccy	Moody's S&P	Fitch
SERBIA	Ba3	BB
ROMANIA	Baa3	BBB-
BULGARIA	Baa2	BBB
CYPRUS	Ba3	BB+

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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	2.28	0	-24
1-week	2.39	0	-22
1-month	2.60	0	-25
3-month	2.91	0	-21
6-month	3.03	0	-21

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.50	0	-78
5Y RSD	3.93	1	-32
7Y RSD	4.39	0	-79

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.61	-2	62
USD Nov-24	#N/A N/A	#N/A N/A	-13164

CDS

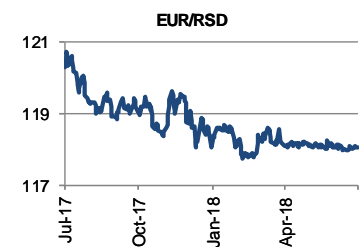
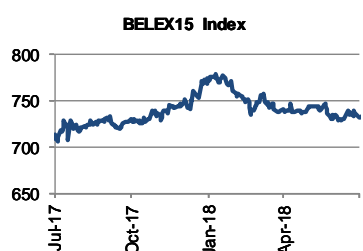
	Last	ΔDbps	ΔYTD bps
5-year	120	-1	2
10-year	170	-2	8

STOCKS

	Last	ΔD	ΔYTD
BELEX15	731.8	-0.34%	-3.68%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.05	0.16%	0.72%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.63	0	154
1-month	3.3	0	143
3-month	3.35	0	130
6-month	3.47	0	120
12-month	3.56	0	124

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.23	0	85
5Y RON	4.71	0	93
10Y RON	4.93	0	62

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.65	#N/A N/A	5
USD Jan-24	4.03	0	103

CDS

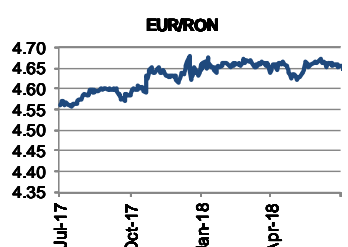
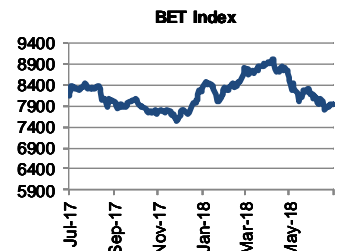
	Last	ΔDbps	ΔYTD bps
5-year	92	4	2
10-year	136	4	2

STOCKS

	Last	ΔD	ΔYTD
BET	7947.4	0.18%	2.50%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6553	-0.06%	0.20%



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	-0.10	2	-4
5Y BGN	0.11	2	-4
10Y BGN	0.90	0	-7

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.03	2	10
EUR Sep-24	0.59	13	1

CDS

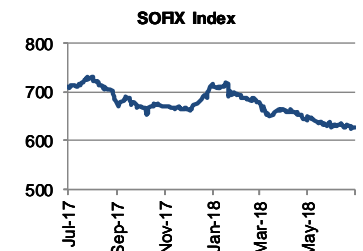
	Last	ΔDbps	ΔYTD bps
5-year	73	0	-23
10-year	120	-1	-21

STOCKS

	Last	ΔD	ΔYTD
SOFIX	627.2	0.02%	-7.42%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6733	0.02%	-2.62%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 10:50 EEST

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