

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: During his testimony before the Senate Banking Committee, Fed Chair Jerome Powell sounded optimistic on the US growth outlook and reiterated that the FOMC believes that "for now the best way forward is to keep gradually raising the federal funds rate". In reaction to the Fed Chair's comments, the USD gained across the board and US Treasury yields rose. Elsewhere, the GBP came under pressure weighed down by increased Brexit-related uncertainty after UK PM Theresa May narrowly avoided a defeat in parliament from pro-EU MPs in her own party on an amendment to the Trade Bill. Today, the Fed Chair will deliver the second leg of his testimony before the House Financial Services Committee. The Fed's latest Beige Book will also be released today along with US June housing starts and permits while in the UK we expect June's CPI reading.

GREECE: The EU – Japan economic partnership agreement is expected to significantly boost jobs and exports in Greece. According to EU data, 497 Greek companies export to Japan and 2,981 jobs in Greece will be supported by EU exports to Japan.

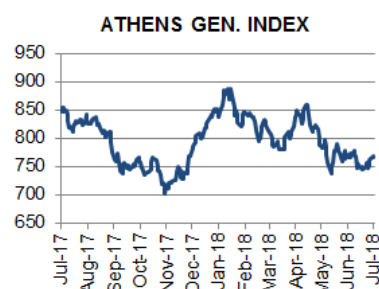
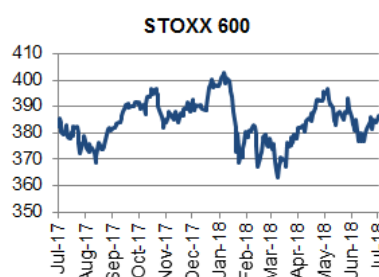
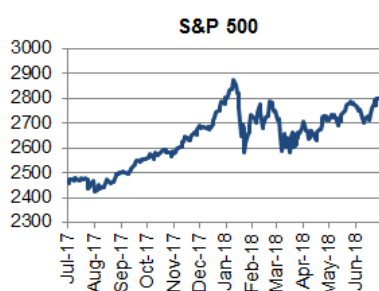
SOUTH EASTERN EUROPE

BULGARIA: The European Commission Vice President Mr. Dombrovskis said in an interview in the local media that Bulgaria could adopt the Euro no earlier than three years after ERM II entry.

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Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

During his testimony before the Senate Banking Committee, Fed Chair Jerome Powell sounded optimistic on the US growth outlook and reiterated that the FOMC believes that “for now the best way forward is to keep gradually raising the federal funds rate”. He acknowledged that risks around growth outlook are seen as “roughly balanced” clarifying that it is difficult to assess the ultimate impact of growing trade tensions as well as the size and timing of the effect from the fiscal stimulus.

In reaction to the Fed Chair’s comments, the USD gained across the board with the DXY posting gains to the tune of 0.3% on a daily basis in European trade at the time of writing. The USD’s appreciation was more pronounced against the JPY hitting an intraday high of 113.13 earlier today, the highest since early January. Elsewhere, the GBP came under pressure weighed down by increased Brexit-related uncertainty after UK PM Theresa May narrowly avoided a defeat in parliament on Tuesday from pro-EU MPs in her own party on an amendment to the Trade Bill that would have required the government to negotiate a customs union arrangement with the EU if, by 21 January 2019, it had failed to reach a deal with the block that would offer a free trade deal for goods. Amid mounting worries over a “no deal” Brexit, the GBP/USD was hovering around yesterday’s two-week low of 1.3069 at the time of writing while the EUR/GBP was trading close to 0.8875/78, not far from Tuesday’s three-month peak of 0.8915. Turning to US Treasuries, yields were higher with the 2-yr yield hitting a fresh multi-year peak close to 2.624% earlier today.

On the data front, releases from the US yesterday showed that industrial production rose by 0.6% mom in June, offsetting a 0.5% mom drop in the prior month, adding to the view for a rebound in US GDP to an annualized growth rate close to 4% in Q2 from 2% in Q1. Manufacturing output rose by a stronger than expected 0.8% mom and mining output rose by 1.2% mom reaching a fresh record high. In the UK, pay growth excluding bonuses slowed to 2.7% YoY in the three months to May from 2.8% YoY in the previous three month period while the unemployment rate remained stable at a 33-yr low of 4.2% and the participation rate hit a new record high of 75.7%. The unexpected drop in pay growth is unlikely to deter expectations for a BoE rate hike in August after the positive monthly GDP figures for April and May and improved survey data, particularly the June PMIs, implied that the UK economy has probably gained some momentum in Q2. Today, the Fed Chair will give the second leg of his testimony before the House Financial Services Committee. The Fed’s latest Beige Book will also be released today along with US June housing starts and permits while in the UK we expect June’s CPI reading.

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GREECE

The EU – Japan economic partnership agreement is expected to significantly boost jobs and exports in Greece. According to EU data, 497 Greek companies export to Japan and 2,981 jobs in Greece will be supported by EU exports to Japan. Japan is Greece’s 27th biggest trade partner and the value of its exports to Japan amount to c. €94 million. Greece’s main exports to Japan are olive oil, marble and other stone and pasta.

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Wednesday 18 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

BULGARIA

The European Commission Vice President Mr. Dombrovskis said in an interview in the local media that Bulgaria could adopt the Euro no earlier than three years after ERM II entry. From that point of view, he clarified that after staying two years in ERM II, a new assessment on the respective Euro area candidate and its practical readiness has to be carried out, which prolongs the period between the entry in the ERM II and the final entry in the Euro area to at least three years.

On July 12th, the European Council endorsed Bulgaria's strategy to simultaneously join the ERM II mechanism and the Banking Union. In its letter to the European institutions, the Bulgarian government stated its firm intention to apply for ERM II entry by July 2019 and subsequently for Euro area membership upon fulfillment of the official criteria. At the same time, the government committed to implementing a long list of reforms in a number of policy areas before joining the ERM II: to strengthen banking supervision by entering in close cooperation with the ECB, to enhance the supervision of the non-banking financial sector, to identify gaps in the insolvency framework and prepare a roadmap to address them, to strengthen the anti-money laundering framework, to improve the governance of state-owned enterprises.

The ECB and the EU Commission will supervise the implementation of these commitments. Once the two institutions have issued a positive assessment, the Parties to the ERM II will decide upon Bulgaria's formal application. The ECB should simultaneously decide on Bulgaria joining the banking union in approximately one year from now, after concluding its comprehensive assessment. Bulgaria is also expected to participate in the SRM (including the SRF) from the date of entry into force of ECB's decision. Finally, Bulgaria is also expected to undertake further commitments at the moment of joining ERM II with the aim of achieving a high degree of sustainable economic convergence by the time of the introduction of the Euro.

Joining the ERM II mechanism for a period of at least two years is a formal prerequisite for Euroarea membership. In mid-June 2017, the incoming government of GERB had vowed to accelerate the application to ERM II on top of the efforts by the caretaker government before the elections of late March 2017. According to press reports, Prime Minister Borissov had received support from both Chancellor Merkel and President Macron to go ahead with ERM II application membership during the Bulgarian presidency of the EU Council in 1H-2018. Currently, Bulgaria fulfills most of the nominal convergence criteria for Euroarea entry. Real convergence criteria are currently not satisfied, and although officially they were not part of the Maastricht criteria, now they have been included in the evaluation procedure. The living standards and productivity are the lowest in EU-28. The country is still subject to the Co-operation and Verification mechanism, which was set up in 2007 to monitor progress in the fields of judicial reform, corruption and organized crime. Factoring in the fast GDP growth trajectory in 2015-2018, GDP per capita in PPS terms will have only climbed to 50% in 2018. Finally, IMF in its latest Article IV report sees GDP growth moderating to 2.75% over the medium term, reflecting capacity constraints and unfavorable demographics.

Wednesday 18 July 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 | 2809.55 | 0.4% | 5.1% | EUR/USD | 1.1627 | -0.3% | -3.1% | UST - 10yr | 2.86 | 0 | 46 | GOLD | 1224 | -0.3% | -6.1% |
| Nikkei 225 | 22794.19 | 0.4% | 0.1% | GBP/USD | 1.3084 | -0.2% | -3.2% | Bund-10yr | 0.34 | -1 | -9 | BRENT CRUDE | 71 | -1.0% | 6.9% |
| STOXX 600 | 386.73 | 0.5% | -0.6% | USD/JPY | 113.07 | -0.2% | -0.3% | JGB - 10yr | 0.05 | 0 | 0 | LME X | 2965 | -0.5% | -13.3% |

SERBIA

| BELIBOR | | | |
|---------|------|-------|----------|
| | Last | ΔDbps | ΔYTD bps |
| T/N | 2.29 | 0 | -23 |
| 1-week | 2.41 | 0 | -20 |
| 1-month | 2.60 | 0 | -25 |
| 3-month | 2.89 | 1 | -23 |
| 6-month | 3.05 | -1 | -19 |

RS Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|--------|------|----------|----------|
| 3Y RSD | 3.48 | 0 | -79 |
| 5Y RSD | 3.92 | #N/A N/A | -32 |
| 7Y RSD | 4.39 | #N/A N/A | -79 |

RS Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|----------|----------|----------|
| USD Feb-20 | 3.61 | 0 | 62 |
| USD Nov-24 | #N/A N/A | #N/A N/A | -13164 |

CDS

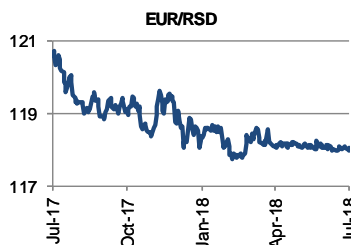
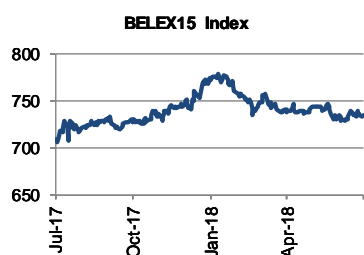
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 117 | -1 | 0 |
| 10-year | 167 | -1 | 5 |

STOCKS

| | Last | ΔD | ΔYTD |
|---------|-------|--------|--------|
| BELEX15 | 732.7 | -0.29% | -3.57% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|-------|
| EUR/RSD | 118.05 | 0.01% | 0.73% |



ROMANIA

| Money Market | | | |
|--------------|------|-------|----------|
| | Last | ΔDbps | ΔYTD bps |
| ROBOR | | | |
| O/N | 2.57 | 0 | 148 |
| 1-month | 3.31 | 0 | 144 |
| 3-month | 3.35 | 0 | 130 |
| 6-month | 3.48 | 0 | 121 |
| 12-month | 3.56 | 0 | 124 |

RO Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 3Y RON | 4.22 | 0 | 84 |
| 5Y RON | 4.72 | 0 | 94 |
| 10Y RON | 4.92 | 0 | 61 |

RO Eurobonds

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

CDS

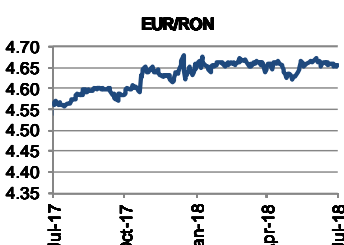
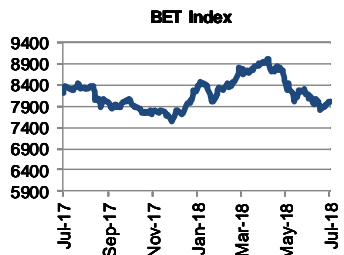
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 92 | 0 | 2 |
| 10-year | 134 | -1 | 1 |

STOCKS

| | Last | ΔD | ΔYTD |
|-----|--------|-------|-------|
| BET | 8022.1 | 0.21% | 3.46% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|-------|--------|-------|
| EUR/RON | 4.654 | -0.06% | 0.23% |



BULGARIA

| Money Market | | | |
|--------------|-------|-------|----------|
| | Last | ΔDbps | ΔYTD bps |
| SOFIBOR | | | |
| 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 | 2 | -2 |
| 5Y BGN | 0.09 | 0 | -6 |
| 10Y BGN | 0.92 | 0 | -4 |

BG Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| EUR Mar-22 | 0.03 | 0 | 11 |
| EUR Sep-24 | 0.61 | -1 | 3 |

CDS

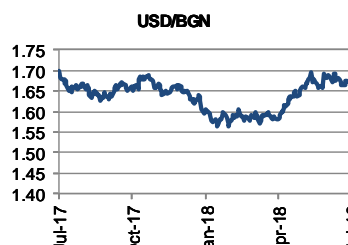
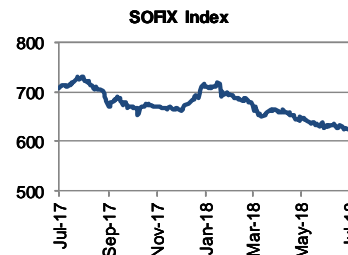
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 73 | 0 | -23 |
| 10-year | 119 | -1 | -22 |

STOCKS

| | Last | ΔD | ΔYTD |
|-------|-------|-------|--------|
| SOFIX | 624.5 | 0.00% | -7.82% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|-------|--------|--------|
| USD/BGN | 1.682 | -0.29% | -3.13% |



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

Data updated as of 10:45 EEST

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