

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Oct 15:
  - Empire state index (Sep)
  - Retail sales (Sep)
- Oct 16:
  - Industrial production (Sep)
  - NAHB index (Oct)
- Oct 17:
  - Housing starts & building permits (Sep)
  - Fed minutes (25/26 Sep meeting)
- Oct 18: Philly Fed (Oct)
  - Initial jobless claims (06/10)
  - Leading Index (Sep)
- Oct 19: Existing Home Sales (Sep)

#### EUROZONE

- Oct 16: Germany's ZEW (Oct)
- Oct 17: CPI (Sep F)

#### GREECE

- Oct 17: Annual National Accounts (2017, provisional)
- Oct 19: Turnover index in Industry (Aug)

#### SEE

##### BULGARIA

- Oct 15:
  - CPI (Sep)
  - Unemployment rate (Sep)
- Oct 19:  
Current Account Balance (Aug)

##### CYPRUS

- Oct 17: CPI (Sep)

##### ROMANIA

- Oct 15:  
Current Account Balance (Aug)

##### SERBIA

- Oct 19:  
Current Account Balance (Aug)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** German government bonds were firmer in early European trade on Friday and the EUR/USD came under renewed pressure amid mounting worries over a possible rise in tensions between the Italian government and the EU Commission. In the first formal step of a procedure that could lead to the EU Commission rejecting Italy's 2019 draft budget and strengthening sanctions in the form of a 0.2% of GDP fine, the EU Commission sent a letter to Italian Finance Minister Giovanni Tria saying that the draft budget appears to be in "particularly serious non-compliance" with EU rules and its deviation from targets is "unprecedented". The EU Commission has asked Italy to reply to the letter until Monday at noon.

**GREECE:** ESM Managing Director Klaus Regling pointed out that Greece needs to maintain its reform effort in order to strengthen its growth prospects and secure the trust of the financial markets. At a meeting between Greek PM Alexis Tsipras, ECB President Mario Draghi and ECB Executive Board Member Benoit Coeure yesterday, the good prospects of the Greek economy were acknowledged while it was concluded that Greek government bonds are steadily de-linked from the Italian bonds and that fluctuations in GGBs are mainly due to external reasons.

### SOUTH EASTERN EUROPE

**BULGARIA:** According to a recent analysis by demographic experts, between 2001 and 2030, Bulgaria's population will decrease by 1.45mn people from 7.05mn currently, based on 2017 official data.

**CYPRUS:** The Residential Property Price Index (RPPI) recorded in Q2-2018 the sixth increase on an annual basis.

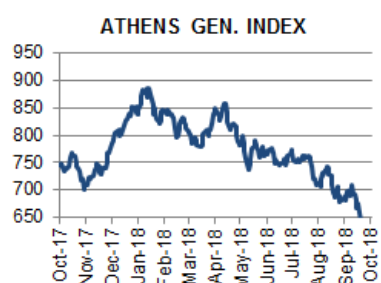
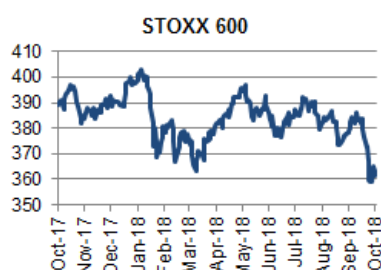
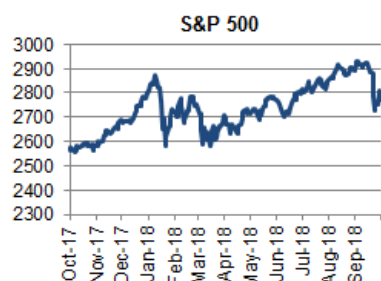
**TURKEY:** According to Turkish Central Bank survey of inflation expectations, the year-end inflation estimate in October comes in at 24.22% vs 19.61% in September.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

German government bonds were firmer in early European trade on Friday and the EUR/USD came under renewed pressure amid mounting worries over a possible rise in tensions between the Italian government and the EU Commission. In the first formal step of a procedure that could lead to the EU Commission rejecting Italy's 2019 draft budget and strengthening sanctions in the form of a 0.2% of GDP fine, the EU Commission sent a letter to Italian Finance Minister Giovanni Tria saying that the draft budget appears to be in "particularly serious non-compliance" with EU rules and its deviation from targets is "unprecedented". The EU Commission has asked Italy to reply to the letter until Monday at noon. Meanwhile, concerns are rising about a more pronounced than currently expected slowdown in the Eurozone after today's newswires suggested that ECB President Mario Draghi told the EU Heads of State yesterday that the Eurozone's medium-term growth outlook "has turned a bit darker". The above newswires coincided with the release of Q3 GDP data from China earlier today which showed a slowdown to a lower than expected 6.5%YoY, the weakest pace since 2009, from 6.7%YoY in the prior quarter. Against this background, the 10-yr Bund yield dropped to a five-week low of 0.39% earlier today, poised for a weekly decline to the tune of c. 10bps. Meanwhile, the 10-yr BTP/Bund yield spread widened to a multi-year high of 337bps following a drop close to 295bps earlier this week. In FX markets, the EUR/USD remained under pressure for the third session in a row making a 10-day low of 1.1430 in early European trade after hitting a two-week peak of 1.1620 just three sessions ago. Increased expectations for a further rise in Fed interest rates in the aftermath of the release of the minutes from the FOMC September monetary policy meeting earlier this week and yesterday's positive US data, were also behind today's EUR/USD further weakness. US initial jobless claims fell by a higher than expected 5k in the week ended October 13 and continuing claims dropped to the lowest level since August 1973, pointing to an ongoing improvement in labor market conditions. Elsewhere, the GBP retained a weak tone against both the USD and the EUR amid mounting worries over a crash-out Brexit scenario after the EU and the UK failed to reach a compromise on the Irish border backstop issue at Wednesday's Brexit working dinner, mainly due to UK domestic political woes.

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### GREECE

Speaking to the German Savings Banks Association, ESM Managing Director Klaus Regling pointed out that Greece needs to maintain its reform effort in order to strengthen its growth prospects and secure the trust of the financial markets. Meanwhile, speaking to members of the Administration of Public Employees' Associations (ADEDY), Finance Minister Euclid Tsakalotos reportedly denied the possibility of restoring the 13<sup>th</sup> and 14<sup>th</sup> salary in the public sector while he also rejected as untimely the discussion on the non-implementation of the reduction of the tax threshold in 2020. In other news, at a meeting between Greek PM Alexis Tsipras, ECB President Mario Draghi and ECB Executive Board Member Benoit Coeure yesterday, the good prospects of the Greek economy were acknowledged while it was concluded that Greek government bonds are steadily delinked from the Italian bonds and that fluctuations in GGBs are mainly due to external reasons.

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Friday 19 October 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

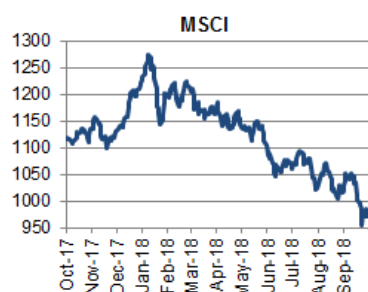
\* ESA 2010

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



Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	Ba3	BB	BB
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BBB-	BBB-
CYPRUS	Ba2	BBB-	BB+

## Latest economic & market developments in the CESEE region

### BULGARIA

According to a recent analysis by demographic experts, between 2001 and 2030, Bulgaria's population will have decreased by 1.45mn people, from 7.05mn currently, based on 2017 official data.

Bulgaria has a normal birth rate of 1.54 when the EU average is 1.60 but a highly negative natural increase due to a respectively high mortality rate, of 15.5 per 1.000 people, the highest within EU (10.2 per 1.000 people). Moreover, the lowest life expectancy in EU 74.8 years along with the strong outflow of young people act as tailwinds to population shrinkage.

The findings of the research reveal the need for a policy framework that will motivate young and educated Bulgarians to repatriate and at the same time inhibit emigration to third countries.

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### CYPRUS

The Central Bank of Cyprus published yesterday the residential property price index (RPPI) for Q2-2018. On a quarterly basis, the RPPI increased by +0.3% QoQ, recording the eighth consecutive quarterly rise since 2009, compared to +0.6% QoQ in Q1-2018, +0.4% QoQ in Q4-2017, +0.4% QoQ in Q3-2017, +0.5% QoQ in Q2-2017. The quarterly rise reflects the combined effect of an increase in both flat apartments and house prices by +0.7% QoQ and +0.2% QoQ respectively. On an annual basis, the RPPI Index expanded by +1.7% YoY in Q2-2018 compared to +1.8% YoY in Q1-2018, recording the sixth consecutive monthly increase for the first time since 2008 (Figure 10B). This was up from +1.5% YoY in Q4-2017, +1.4% YoY in Q3-2017, +1.1% YoY in Q2-2017 up from +0.2% YoY in Q1-2017, -0.9% YoY in Q4-2016 compared to -1.3% YoY in Q3-2016, -1.7% YoY in Q2-2016, and smaller in absolute terms than -1.6% YoY in Q1-2016, -1.8% YoY in Q4-2015 and -3.7% YoY in Q3-2015.

Overall, the RPPI trajectory in the past quarters, in combination with other high frequency data from the construction industry hint towards further recovery of the real estate sector. Having expanded with double digits throughout 2017, construction output still increased by +13.1% YoY in Q2-2018 vs. +19.4% YoY in Q1-2018, notwithstanding the outstanding performance in Q2-2017 (+34.4% YoY) that had a negative base effect on the second quarter's reading.

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### TURKEY

According to the Turkish Central Bank survey of expectations, the year-end inflation estimate in October comes in at 24.22% vs 19.61% in September, 16.45% in August and 13.88% in July.

Given the galloping expectations, the next Key Rate Policy (KPR) meeting will be in the spotlight in awaitance of further policy action, following the KPR hike by 625bps in September.

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Friday 19 October 2018

**GLOBAL MARKETS**

**Stock markets**

	Last	ΔD	ΔYTD
S&P 500	2768.78	-1.4%	3.6%
Nikkei 225	22532.08	-0.6%	-1.0%
STOXX 600	362.32	0.2%	-6.9%

**FOREX**

	Last	ΔD	ΔYTD
EUR/USD	1.1442	-0.1%	-4.7%
GBP/USD	1.3015	0.0%	-3.7%
USD/JPY	112.45	-0.2%	0.2%

**Government Bonds**

(yields)	Last	ΔDbps	ΔYTD bps
UST - 10yr	3.17	-1	77
Bund-10yr	0.40	-2	-3
JGB - 10yr	0.15	0	10

**SERBIA**

**Money Market**

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.29	0	-23
1-week	2.41	0	-20
1-month	2.63	1	-22
3-month	2.94	1	-18
6-month	3.11	1	-13

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.17	0	-111
5Y RSD	3.65	0	-64
7Y RSD	4.15	0	-102

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.96	0	96

**CDS**

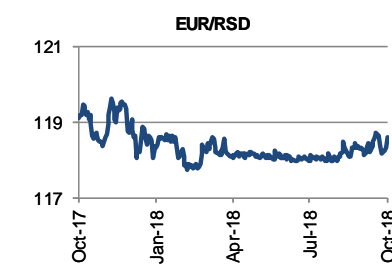
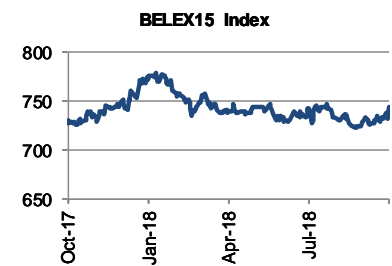
	Last	ΔDbps	ΔYTD bps
5-year	111	0	-7
10-year	159	0	-4

**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	744.6	0.09%	-2.00%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	118.71	-0.49%	0.17%



**ROMANIA**

**Money Market**

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.8	0	71
1-month	3.11	0	124
3-month	3.17	0	112
6-month	3.44	0	117
12-month	3.56	0	124

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	4.20	0	82
5Y RON	4.74	0	96
10Y RON	5.12	0	80

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.58	0	-1
USD Jan-24	4.38	1	138

**CDS**

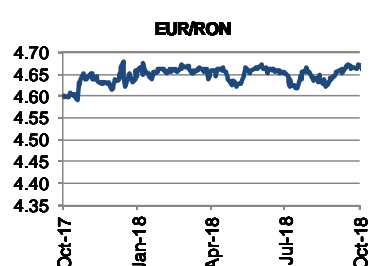
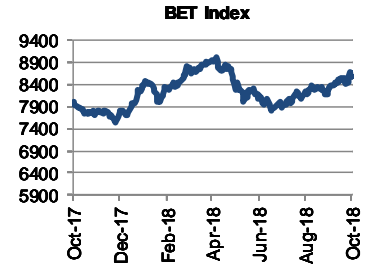
	Last	ΔDbps	ΔYTD bps
5-year	101	0	11
10-year	142	0	9

**STOCKS**

	Last	ΔD	ΔYTD
BET	8576.2	-0.27%	10.61%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.6688	0.07%	-0.09%



**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	-0.07	-1	-1
5Y BGN	0.07	-1	-8
10Y BGN	0.77	0	-19

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.06	-1	2
EUR Sep-24	0.44	-1	-14

**CDS**

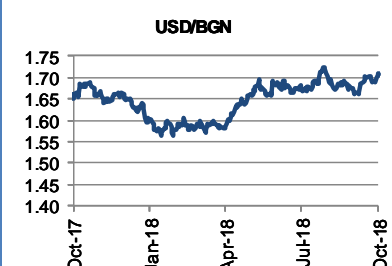
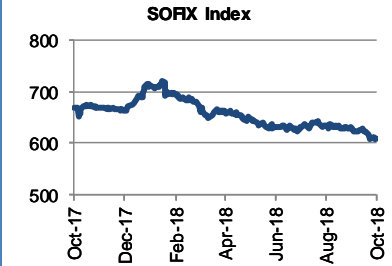
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-18
10-year	125	0	-17

**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	608.4	0.05%	-10.19%

**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.7094	-0.09%	-4.68%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research  
Data updated as of 10:33 EEST

Friday 19 October 2018

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