

Friday 21 September 2018

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Sep 17:
  - Empire State Manufacturing Index (Sep)
- Sep 18: NAHB Housing Market Index (Sep)
- Sep 19:
  - Housing starts (Aug)
  - Housing permits (Aug)
- Sep 20:
  - Initial jobless claims (15 Sep)
  - Philadelphia Fed index (Sep)
  - Existing home sales (Aug)

#### EUROZONE

- Sep 17:
  - CPI (Aug, F)
- Sep 20: Consumer confidence (Sep A)
- Sep 21:
  - Markit Manufacturing PMI (Sep)
  - Markit Services PMI (Sep)

#### GREECE

- Sep 20: Current account balance (Jul)

#### SEE

##### BULGARIA

- Sep 17: Unemployment rate (Aug)
- Sep 19: Current Account Balance (Jul)

##### CYPRUS

- Sep 17: CPI (Aug)

##### SERBIA

- Sep 19: Current Account Balance (Jul)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Risk assets retained a positive tone in early trade on Friday supported by the prevailing market view that the direct impact of the US/China trade dispute on the world economy will likely be limited. In spite of global equity markets' positive performance, USTs and German Bunds gained some ground today, partially supported by renewed Brexit jitters. In FX markets, the USD extended recent losses amid receding trade war concerns with the EUR/USD testing levels slightly above 1.1800 earlier today for the first time in more than three months. Euro area PMI surveys for September are due later this morning.

**GREECE:** IMF Communications Director Gerry Rice argued yesterday at a press briefing that with regard to the upcoming pension cuts the Fund still believes that "they will not only improve Greece's long-term prospects but send a clear message to investors that the government will indeed stay on track with reforms". Additionally, the IMF holds the view that the policy mix should become more growth friendly and socially inclusive and that the pension cuts would free up fiscal space for non-retiree spending and lower taxes. On the economic data front, according to the latest Bank of Greece data, in July 2018 the current account recorded a surplus of EUR1.6bn, broadly unchanged compared to July 2016. This is attributed to the surplus of EUR3.8bn in the services balance, which more than counterbalanced the deficits in goods (EUR1.7bn), primary income (EUR0.4bn) and secondary income (EUR0.1bn).

### SOUTH EASTERN EUROPE

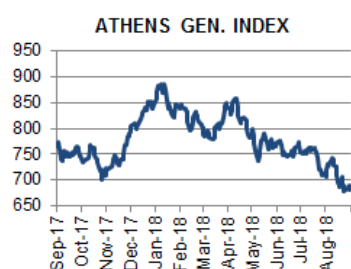
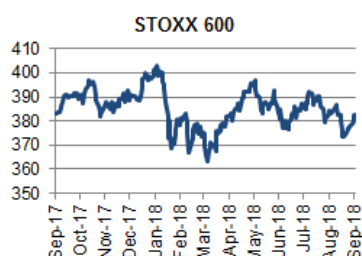
**BULGARIA:** The current account surplus contracted by 21% YoY in July 2018, coming out at €948mn.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Risk assets retained a positive tone in early trade on Friday supported by the prevailing market view that the direct impact of the US/China trade dispute on the global economy will likely be limited. Lower US taxes and other fiscal policy measures will probably outweigh any negative effect while China will likely attempt to cushion the impact via monetary and fiscal easing. In addition, although the prospect of additional US tariffs on Chinese goods cannot be ruled ahead of US mid-elections in early November, the US administration's decision earlier this week to impose a 10% tariff on \$200bn of imports from China, lower than the 25% one President Donald Trump had initially threatened, probably suggests that the US administration is becoming somewhat more cautious in its approach. In spite of global equity markets' positive performance, USTs and German Bunds gained some ground today, partially supported by renewed Brexit jitters. Europeans rejected the UK government's Chequers plan at this week's informal EU Summit and warned that they are ready to cope with a hard Brexit if the UK does not accept to make concessions on trade and the Irish border issue. Turning to the EMU sovereign bond market space, Italy's sovereign paper was firmer today with the 10-yr yield hovering around 2.85% at the time of writing, c. 5bps lower from yesterday's settlement, albeit still c. 15bps higher from this week's low on market anxiety over the 2019 budget's composition that is scheduled to submit to the European Commission — as part of the updated Stability Programme— by next Thursday. According to recent press reports, the two coalition partners are putting pressure on Economy Minister Giovanni Tria to allow greater deficit spending in next year's budget so as to accommodate some of their key electoral pledges. The previous government was expecting a budget deficit of 1.6%-of-GDP this year. In FX markets, the USD extended recent losses amid receding trade war concerns with the EUR/USD testing levels slightly above 1.1800 earlier today for the first time in more than three months.

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### GREECE

IMF Communications Director Gerry Rice argued yesterday at a press briefing that with regard to the upcoming pension cuts the Fund still believes that “they will not only improve Greece's long-term prospects but send a clear message to investors that the government will indeed stay on track with reforms”. Additionally, the IMF holds the view that the policy mix should become more growth friendly and socially inclusive and that the pension cuts would free up fiscal space for non-retiree spending and lower taxes. As regards the recent IMF mission to Greece, the IMF found that the government is broadly on track to reach the near-term growth and fiscal target. The next IMF report will be released in early 2019. On the economic data front, according to the latest Bank of Greece data, in July 2018 the current account recorded a surplus of EUR1.6bn, broadly unchanged compared to July 2016. This is attributed to the surplus of EUR3.8bn in the services balance, which more than counterbalanced the deficits in goods (EUR1.7bn), primary income (EUR0.4bn) and secondary income (EUR0.1bn). The increase of EUR198,3mn in the deficit in the goods balance is due to the widening of the deficits in all individual goods balances, namely oil +EUR61.2mn, ships +EUR62.1mn and goods excl. oil and ships +EUR75.0mn. The surplus of the services balance increased by EUR469mn, primarily as a result of an improvement in the travel balance (+EUR441.2mn) and, secondarily, in the transport balance (+EUR119.5).

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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

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 the latest BNB data, the current account surplus (CA) in July 2018 contracted by 21% YoY, coming in at €948mn. On a cumulative basis, the CA surplus in January - July 2018 shrank by 56.9% YoY and stood at €933.7mn. The deterioration is entirely driven by the goods trade gap widening (€1.872mn vs €265mn, i.e. +600% YoY) on the back of strong domestic demand. Although the services trade surplus increased on an annual basis (+21%YoY), it did not have a meaningful impact on the overall trade balance.

In July 2018, the primary income balance which stood at €56.2mn - up by €69mn YoY - was mainly supported by lower profit repatriation by non-residents and to a lesser extent by increased Bulgarian residents' income from compensation. For the same period, the net secondary income increased by 8.5% YoY and stood at €356.4mn, underpinned by 12.9% growth in the received income for state administration, possibly related to enhanced absorption of EU funding.

In terms of financing, increased deposits from local banks abroad resulted in a net financial surplus contraction by ca 5% YoY in July 2018, forcing the BNB to increase reserve assets (€287.7mn in July 2018) by ca €500mn YoY. Finally, at the end of the first seven months of 2018, net foreign direct investments stood at €220mn, declined by 63% YoY, after a moderate behavior between 2014-2016.

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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	2930.75	0.8%	9.6%	EUR/USD	1.1794	0.1%	-1.8%	UST - 10yr	3.08	2	68	GOLD	1211	0.3%	-7.1%
Nikkei 225	23869.93	0.8%	4.9%	GBP/USD	1.324	-0.2%	-2.1%	Bund-10yr	0.48	1	5	BRENT CRUDE	79	0.2%	18.0%
STOXX 600	382.73	0.0%	-1.7%	USD/JPY	112.77	-0.2%	-0.1%	JGB - 10yr	0.13	1	9	LME X	2920	0.1%	-14.6%

## SERBIA

## Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.29	1	-23
1-week	2.40	2	-21
1-month	2.62	1	-23
3-month	2.92	1	-20
6-month	3.08	1	-16

## RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.36	0	-92
5Y RSD	3.77	#N/A N/A	-47
7Y RSD	4.26	#N/A N/A	-92

## RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.83	0	83

## CDS

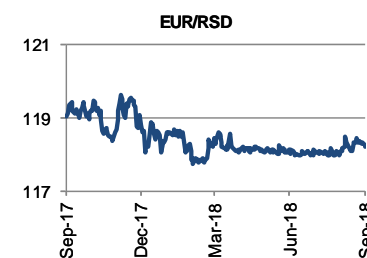
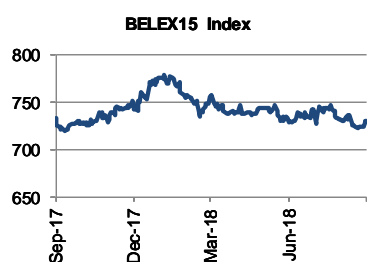
	Last	ΔDbps	ΔYTD bps
5-year	110	3	-8
10-year	152	-1	-11

## STOCKS

	Last	ΔD	ΔYTD
BELEX15	730.2	0.00%	-3.89%

## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.20	0.88%	0.60%



## ROMANIA

## Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.75	0	66
1-month	3.01	0	114
3-month	3.1	0	105
6-month	3.36	0	109
12-month	3.51	0	119

## RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.98	0	60
5Y RON	4.29	0	51
10Y RON	4.97	0	66

## RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.57	0	-3
USD Jan-24	4.20	0	120

## CDS

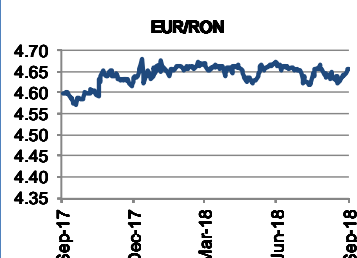
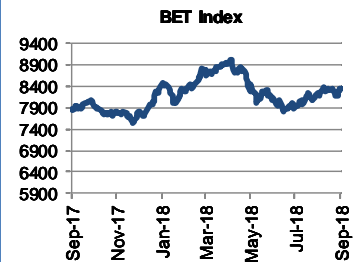
	Last	ΔDbps	ΔYTD bps
5-year	96	0	6
10-year	138	-1	5

## STOCKS

	Last	ΔD	ΔYTD
BET	8349.2	-0.06%	7.68%

## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6542	0.00%	0.23%



## 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	-0.04	0	2
5Y BGN	0.11	0	-4
10Y BGN	0.81	0	-15

## BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.03	6	5
EUR Sep-24	0.52	-27	-6

## CDS

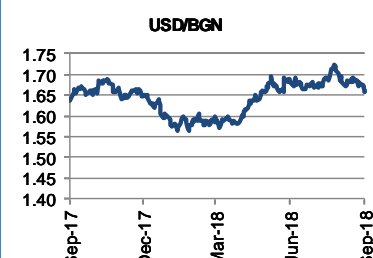
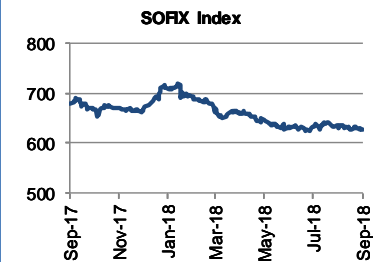
	Last	ΔDbps	ΔYTD bps
5-year	80	1	-17
10-year	120	-1	-22

## STOCKS

	Last	ΔD	ΔYTD
SOFIX	627.1	0.00%	-7.44%

## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6585	0.14%	-1.75%



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

Data updated as of 10:21 EEST

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