

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Mar 21
 - Existing home sales (Feb)
 - FOMC policy announcement
- Mar 22: Jobless claims (weekly)
- Mar 23
 - Durable goods orders (Feb)
 - New home sales (Feb)

EUROZONE

- Mar 20: German ZEW (Mar)
- Mar 22
 - PMI manufacturing & services (Mar)
 - German IFO (Mar)

UK

- Mar 21: Claimant count unemployment (Feb), average earnings & unemployment rate (Jan)
- Mar 22
 - Retail sales (Feb)
 - BoE policy announcement & minutes
- Mar 22-23: EU Council

GREECE

- Mar 19-22: Credit expansion (Jan)
- Mar 23: Current account deficit (Jan)

SEE

BULGARIA

- Mar 21: Current account deficit (Jan)

ROMANIA

- Mar 19: 3.25% 2024 T-bonds auction
- Mar 22: 4.75% 2019 T-bonds auction
- Mar 23: M3 money supply (Feb)

SERBIA

- Mar 19-21: Current account deficit (Jan)
- Mar 20: 5.875% 2028 T-bonds auction
- Mar 22: 2-year T-Bonds auction

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: In line with market expectations, the FOMC decided unanimously at this week's two-day FOMC meeting that concluded late yesterday to deliver the sixth rate hike in the current tightening cycle. With respect to the updated assessment of appropriate monetary policy (the "dots"), the median 2018 dot remained at 2.1%, implying three rate hikes, as was the case in December. Confounding expectations for more aggressive rate tightening this year, UST yields dropped across the curve and the USD was weaker. With the FOMC meeting out of the way, focus today is on the BoE meeting where the Monetary Policy Committee is expected to retain a hawkish bias, supporting expectations for a rate hike in May, especially following yesterday's positive UK employment-related data.

GREECE: According to press reports, European officials expressed concerns regarding the independence of the Greek public administration, the quality of the justice system and the pace of implementation of the privatisations programme. With regard to the IMF, the sources reiterated that the Fund will likely insist on implementing the pensions' and tax-free threshold reduction in January 2019 without the simultaneous application of the expansionary package. On the privatisations front, Deutsche Telekom AG exercised its right for first refusal for the acquisition of a 5% share in OTE at a price of EUR 284 mn.

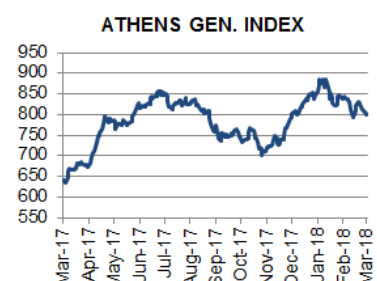
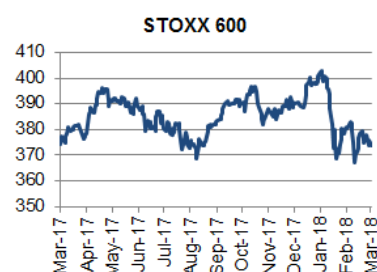
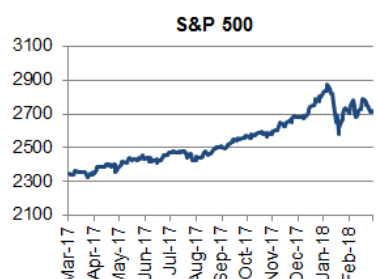
SOUTH EASTERN EUROPE

CESEE MARKETS: Emerging market assets traded on the back foot earlier on Thursday amid persisting global trade war fears.

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Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

In line with market expectations, the FOMC decided unanimously at this week's two-day FOMC meeting that concluded late yesterday to deliver the sixth rate hike in the current tightening cycle. The federal funds rate was raised by 25bps at 1.50%-1.75%. In the accompanying statement, the Fed acknowledged a stronger US economic outlook and reiterated its confidence that inflation on a 12-month basis will stabilize around the 2% target over the medium-term. Along these lines, the updated Summary of Economic Projections revealed a higher real GDP growth forecast for 2018 and 2019 by 0.2pp and 0.3pp respectively to 2.7% and 2.4%, reflecting the expected impact from the recently enacted tax cuts and increased fiscal spending. Inflation forecast for 2018 was left unchanged at 1.9% but for both 2019 and 2020 was revised higher by 0.1pp to 2.1% for each year. With respect to the updated assessment of appropriate monetary policy (the "dots"), the median 2018 dot remained at 2.1%, implying three rate hikes (as was the case in December). The median dots for 2019 and 2020 rose to 2.9% and 3.4% respectively from 2.7% and 3.1% in December, implying three and two hikes respectively. The FOMC policy outcome was perceived by markets as less hawkish than expected mainly on the view that the 2018 dot plot did not signal more aggressive rate tightening. US Treasury yields dropped across the curve with long-dated paper outperforming. The 10-yr UST yield was more than 5bp lower in early European trade hovering around 2.85% at the time of writing while the 2-yr yield was standing close to 2.30% after closing at a fresh multi-year high near 2.32% in the prior session. In FX markets, the USD was weaker across the board with the DXY index standing 0.3% lower on the day in European trade. With the FOMC meeting out of the way, focus today is on the BoE meeting where the Monetary Policy Committee is expected to retain a hawkish bias, supporting expectations for a rate hike in May, especially following yesterday's positive UK employment-related data.

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GREECE

According to press reports, European officials expressed concerns regarding the independence of the Greek public administration and the quality of the justice system implying that improvement in these two areas may constitute part of the country's post-programme obligations. Concerns were also expressed with respect to the implementation of the privatisations programme, which they reportedly believe moves extremely slowly, pointing in particular to the delays in the divestment of the PPC. Furthermore, according to press reports, they opined that the long-term growth strategy that is being prepared by the Greek government will likely include a clause prohibiting the reversal of already applied reforms. With regard to the IMF, the sources reiterated that the Fund will likely insist on implementing the pensions' and tax-free threshold reduction in January 2019 without the simultaneous application of the expansionary package. Finally, the European officials reportedly spoke against the need for a precautionary credit line on the grounds that it could undermine confidence towards the government's commitment to reforms. On the privatisations front, Deutsche Telekom AG exercised its right for first refusal for the acquisition of a 5% share in OTE at a price of EUR 284 mn.

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March 22, 2018

Latest economic & market developments in the CESEE region

CESEE MARKETS

Emerging market assets mostly traded on the back foot earlier on Thursday amid persisting global trade war fears, with investors remaining cautious ahead of an imminent announcement by US President Donald Trump about tariffs on Chinese imports. Yesterday's Fed rate hike appeared to have a rather limited impact as it was broadly considered a done deal, while the overall tone was perceived as somewhat less hawkish than was expected with the Committee refraining from increasing its projections for the pace of this year's rate hikes. In the wake of the FOMC announcement People's Bank of China raised by 5bps the rate on 7-day reverse repurchase agreements to 2.55%, in a move that came broadly in line with a market consensus.

Along these lines, the MSCI Emerging Markets Index fell by 0.4% on the day in morning European trade, having dipped to a new multi-session trough this week. The majority of bourses in the CESEE space also traded in the red earlier today, with Turkey's BIST 100, and Ukraine's PFTS bucking the negative trend to post modest gains at the time of writing.

In FX markets, a weaker US dollar in the aftermath of yesterday's FOMC meeting announcement provided some support to emerging market currencies, though most lost ground as global trade war fears remain in the forefront. Nonetheless, regional currencies mostly firmed. The Polish zloty led the gains, rising by as much as 0.6% from yesterday's 4 month low to a session high of 4.2180/€. On the flipside, the Turkish lira reversed early gains to stand 0.2% weaker at 3.9140 against the USD in European trade compared to the prior session's settlement and just 1% off from a record trough near 4.87 against the EUR earlier in the week. The Turkish currency has come under pressure in recent months as the country is considered amongst the economies most exposed to a tighter Fed monetary policy due to its high external imbalances. At the same time, geopolitical jitters, increased frictions with the EU and the US and the lack of a more aggressive Central Bank action despite elevated inflation have also weighed.

In the local currency debt markets, government bonds - especially of longer maturity - gained ground, recouping part of their recent losses, possibly receiving support from position squaring in the wake of the FOMC meeting. Polish and Turkish paper led the gains with the corresponding 10-year benchmark yields easing by 8bps to 3.294% and 9bps to 12.14% respectively.

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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

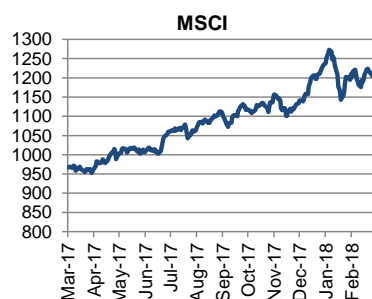
ROMANIA: Indicators	2016	2017e	2018f
Real GDP growth %	4.8	7.0	4.0
CPI (pa, yoy %)	-1.6	1.3	3.5
Budget Balance/GDP *	-2.4	-3.0	-4.4
Current Account/GDP	-2.2	-3.5	-4.0
EUR/RON (eop)	4.54	4.67	4.70
	2017	current	2018
Policy Rate (eop)	1.75	2.25	3.00

* 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	3.25	4.00

Source: Reuters, Bloomberg, Eurobank Research, National Authorities



Credit Ratings		
L-T ccy	Moody's S&P	Fitch
SERBIA	Ba3	BB
ROMANIA	Baa3	BBB-
BULGARIA	Baa2	BBB
CYPRUS	B1	BB-

March 22, 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	2711.93	-0.2%	1.4%	EUR/USD	1.2353	0.1%	2.9%	UST - 10yr	2.85	-3	45	GOLD	1332	0.0%	2.2%
Nikkei 225	21591.99	1.0%	-5.2%	GBP/USD	1.4173	0.2%	4.8%	Bund-10yr	0.56	-3	14	BRENT CRUDE	69	-0.2%	3.7%
STOXX 600	373.87	-0.3%	-3.9%	USD/JPY	105.68	0.4%	6.6%	JGB - 10yr	0.04	-1	-1	LMEX	3250	0.7%	-4.9%

CESEE MARKETS

SERBIA				ROMANIA				BULGARIA					
Money Market				Money Market				Money Market					
BELIBOR	Last	ΔDbps	ΔYTD bps	ROBOR	Last	ΔDbps	ΔYTD bps	SOFIBOR	Last	ΔDbps	ΔYTD bps		
T/N	2.34	1	-18	O/N	1.34	2	25	LEONIA	0.01	0	1		
1-week	2.49	2	-12	1-month	1.59	1	-28	1-month	-0.27	0	-2		
1-month	2.66	1	-19	3-month	2.05	2	0	3-month	-0.19	0	-1		
3-month	2.91	2	-21	6-month	2.39	1	12	6-month	-0.06	0	-1		
6-month	3.09	1	-15	12-month	2.53	2	21	12-month	0.27	0	-5		
RS Local Bonds				RO Local Bonds				BG Local Bonds					
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	(yields)	Last	ΔDbps	ΔYTD bps		
3Y RSD	3.92	0	-36	3Y RON	3.31	0	-7	3Y BGN	0.00	0	6		
5Y RSD	4.15	1	-9	5Y RON	4.06	0	28	5Y BGN	0.22	-1	8		
7Y RSD	4.58	-4	-60	10Y RON	4.49	0	18	10Y BGN	1.07	0	11		
RS Eurobonds				RO Eurobonds				BG Eurobonds					
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		
USD Feb-20	3.48	-1	49	EUR Oct-25	1.57	0	-3	EUR Mar-22	0.19	0	27		
USD Nov-24	6.39	-16	36	USD Jan-24	3.79	-1	80	EUR Sep-24	0.86	0	28		
CDS				CDS				CDS					
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		
5-year	101	0	-17	5-year	90	0	0	5-year	58	0	-38		
10-year	136	-1	-26	10-year	128	0	-6	10-year	103	0	-38		
STOCKS				STOCKS				STOCKS					
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		
BELEX15	755.5	-0.17%	-0.57%	BET	8692.3	-1.12%	12.10%	SOFIX	669.8	0.03%	-1.12%		
FOREX				FOREX				FOREX					
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		0	ΔD	ΔYTD		
EUR/RSD	118.64	0.66%	0.22%	EUR/RON	4.6664	0.04%	-0.03%	USD/BGN	1.5832	0.14%	2.92%		

BELEX15 Index		BET Index		SORFIX Index																	
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18		Mar-17	May-17	Jul-17	Sep-17	Nov-17	Jan-18	Mar-18		Mar-17	May-17	Jul-17	Sep-17	Nov-17	Jan-18	Mar-18
EUR/RSD		EUR/RON		USD/BGN																	
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18		Mar-17	Jun-17	Sep-17	Dec-17	Mar-18		Mar-17	Jun-17	Sep-17	Dec-17	Mar-18				

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

March 22, 2018

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