

DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Monday 22 October 2018

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- Oct 22:
 - Chicago Fed Economic Activity Index (Sep)
- Oct 23:
 - Richmond Fed Manufacturing Index (Oct)
- Oct 24:
 - Mortgage applications (19/10)
 - New home sales (Sep)
 - Markit PMI Composite index (Oct,p)
- Oct 25:
 - Pending home sales (Sep)
 - Wholesale inventories (Sep,p)
 - Durable goods orders (Sep,p)
 - Initial jobless claims (20/10)
- Oct 26:
 - GDP (Q3,a)
 - GDP deflator (Q3,a)
 - University of Michigan Consumer Sentiment (Oct)

EUROZONE

- Oct 23:
 - Consumer confidence (Oct,a)
- Oct 24:
 - Markit PMI Composite index (Oct,p)
 - Money supply (Sep)
- Oct 25:
 - ECB Monetary Policy Meeting
- Oct 26:
 - ECB Survey of Professional Forecasters

GREECE

- Oct 22:
 - Current Account (Aug)

SEE

BULGARIA

- Oct 26: Gross external debt

ROMANIA

- Oct 23:
 - Money supply (Sep)

SERBIA

- Oct 25:
 - Real gross wages (Aug)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Asian equity indices traded in the black on Monday for a second consecutive session with Chinese markets outperforming amid expectations of more stimulus in China that would give boost to the economy. Investors' focus centres on Italy, with Moody's downgrading 1-notch Italy's rating to Baa3 from Baa2 - as broadly expected - while leaving its stable outlook unchanged. S&P ratings review is also expected on Friday, October 26. The 10-yr BTP yield traded remarkably lower around 3.32% in early European trade on Monday on the back of non-negative outlook, after hitting a four-year high of 3.81% intraday on Friday. The key highlight of the week is the ECB's monetary policy meeting on Thursday, where policy rates are expected to be left unchanged, as well as Italy's reply to the EC letter.

GREECE: Eurostat is expected to release today the 2nd notification of the 2017 general government deficit and debt data. It is reminded that, based on the 1st notification in April 2018, the 2017 primary surplus in programme terms was calculated at 4.2% of GDP. Meanwhile, according to press reports, the Bank of Greece is working on an alternative plan for the consolidation of bank portfolios that will allow them to use their excess capital without diluting existing shareholders due to deferred tax credit.

SOUTH EASTERN EUROPE

BULGARIA: The main Bulgarian index SOFIX depicted a blend of gains and losses during the week, finally ending lower by -0.3% at 608.18 points.

SERBIA: The EUR/RSD remained bound within a 118.15 – 118.70 trading range in the past week.

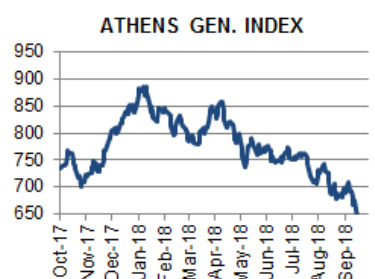
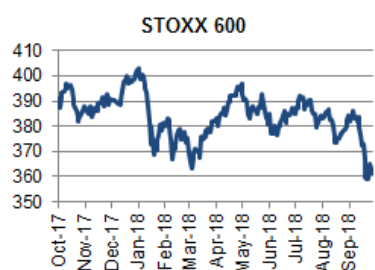
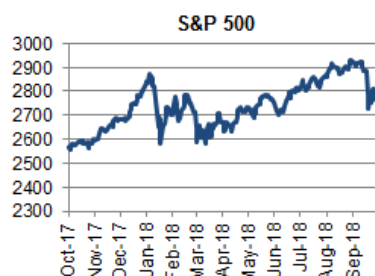
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Monday 22 October 2018

Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Asian equity indices traded in the black on Monday for a second consecutive session with Chinese markets outperforming amid expectations of more stimulus in China that would give boost to the economy. The Chinese government published on Saturday a draft plan of new rules for individual income tax cuts, followed by comments by a central bank adviser earlier today that China's tax deductions could be worth more than 1% of GDP in 2019. As a result, China's Shanghai Composite Index closed 4.1% higher on Monday, marking its highest daily gain since March 2016. Investors' focus centres on Italy, with Moody's downgrading 1-notch Italy's rating to Baa3 from Baa2 - as broadly expected - while leaving its stable outlook unchanged. S&P ratings review is also expected on Friday, October 26, with the worst case scenario (albeit a low probability one) being a one notch downgrade with a negative outlook, raising the risk of a sub-investment grade rating and potentially leading to negative self-fulfilling debt dynamics and a sovereign bond index exclusion for BTPs. In the government bond markets, the 10-yr BTP yield traded remarkably lower around 3.32% in early European trade on Monday on the back of non-negative outlook, after hitting a four-year high of 3.81% intraday on Friday with the 10-yr BTP/Bund yield spread widening to a five-year high of 337bps. Following the EU's letter sent to Italian Finance Minister Giovanni Tria late on Thursday pointing to "particularly serious non-compliance" with EU rules and "unprecedented" deviation of the draft budget from targets, the Italian government is expected to reply to the EU's letter later today. In FX markets, the EUR/USD traded around 1.1550 at the time of writing, after hitting a 10-session low of 1.1433 on Friday amid heightened uncertainty in Italy and increased expectations for a further rise in fed funds rate in the aftermath of the release of the September FOMC minutes and strong US macro data. The key highlight of the week is the ECB's monetary policy meeting on Thursday, where policy rates are expected to be left unchanged, as well as Italy's reply to the EC letter. The MPC meeting will likely be carefully watched for possible hints on the central bank's reinvestment policy after the end of QE by year-end and Mario Draghi's comments on the Italian developments.

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GREECE

Eurostat is expected to release today the 2nd notification of the 2017 general government deficit and debt data. It is reminded that, based on the 1st notification in April 2018, the 2017 primary surplus in programme terms was calculated at 4.2% of GDP. With regard to the 2019 draft budget, the European Commission reportedly estimates that there will be a shortfall in the order of EUR300-400 million in case the pension cuts are not implemented. The matter is expected to be further discussed at the Euroworking Group in the end of the week, and possibly also at the 5 November Eurogroup. Meanwhile, according to press reports, the Bank of Greece is working on an alternative plan for the consolidation of bank portfolios that will allow them to use their excess capital without diluting existing shareholders due to deferred tax credit. The said plan, which is reportedly backed by the SSM, will also require the approval of DG Comp.

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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

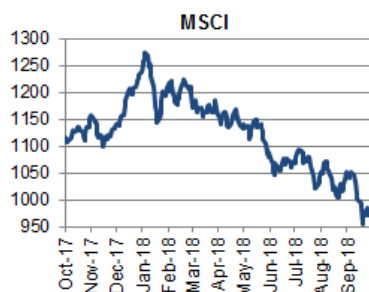
CYPRUS: Indicators	2016	2017e	2018f
Real GDP growth %	3.0	3.8	3.6
HICP (pa, yoy %)	-1.2	0.7	1.0
Budget Balance/GDP*	0.4	0.2	0.4
Current Account/GDP	-5.7	-5.4	-6.2

* 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

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*

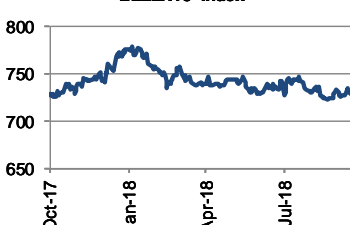
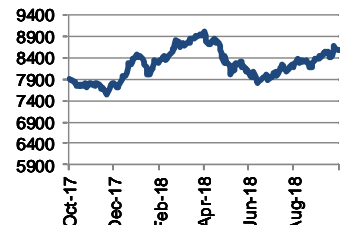
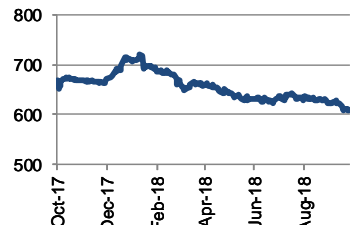
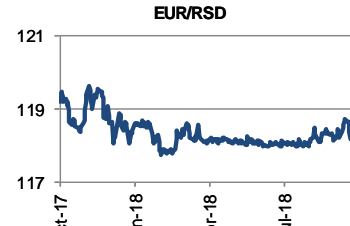
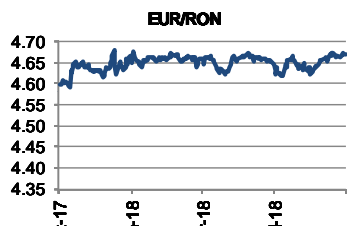
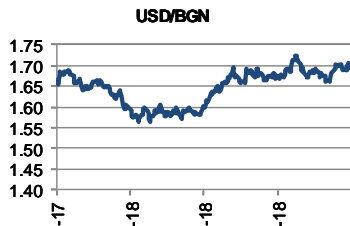
The main Bulgarian index SOFIX depicted a blend of gains and losses during the week, concluding lower by -0.3% at 608.18 points. Turnover continued to be composed by large block deals, finishing at EUR 1.5m for the week. External government yields gained across the board with changes within the 2-5 bps band, while local papers showed no changes over the week.

SERBIA*

The EUR/RSD remained bound within a 118.15 – 118.70 trading range in the past week. Friday's attempt for a break proved unfruitful again. The pair grinded its way to 118.55/75 but again failed to make that additional leap over. Retraced into range, the bias has turned back to the downside at 118.20. Hence, strong support at 118.00 could be expected where commercial banks - and the central bank via intervention - will have interest to buy. In other news, according to the agriculture portal Agrosmart, Serbia's agriculture output has increased by 21.9% compared to 2017, standing at ca \$5.7 bln. The exceptional performance of agriculture this year could prove a strong mitigating factor to the rising current account deficit, driven by strong imports.

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

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Stock markets				FOREX				Government Bonds			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD	(yields)	Last	ΔDbps	ΔYTD bps
S&P 500	2767.78	0.0%	3.5%	EUR/USD	1.1547	0.3%	-3.8%	UST - 10yr	3.20	1	80
Nikkei 225	22614.82	0.4%	-0.7%	GBP/USD	1.308	0.1%	-3.3%	Bund-10yr	0.48	2	5
STOXX 600	361.24	-0.1%	-7.2%	USD/JPY	112.72	-0.2%	0.0%	JGB - 10yr	0.16	1	11
SERBIA				ROMANIA				BULGARIA			
Money Market				Money Market				Money Market			
BELBOR	Last	ΔDbps	ΔYTD bps	ROBOR	Last	ΔDbps	ΔYTD bps	SOFIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.29	0	-23	O/N	1.8	0	71	LEONIA	0.01	0	1
1-week	2.40	0	-21	1-month	3.23	0	136	1-month	-0.30	0	-5
1-month	2.62	0	-23	3-month	3.28	0	123	3-month	-0.23	0	-5
3-month	2.94	0	-18	6-month	3.5	0	123	6-month	-0.12	0	-7
6-month	3.10	0	-14	12-month	3.62	0	130	12-month	0.22	1	-10
RS Local Bonds				RO Local Bonds				BG Local Bonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps	(yields)	Last	ΔDbps	ΔYTD bps
3Y RSD	3.17	-1	-111	3Y RON	4.20	0	82	3Y BGN	-0.04	3	2
5Y RSD	3.65	0	-64	5Y RON	4.74	0	96	5Y BGN	0.08	1	-7
7Y RSD	4.15	0	-102	10Y RON	5.11	0	80	10Y BGN	0.80	0	-17
RS Eurobonds				RO Eurobonds				BG Eurobonds			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
USD Feb-20	3.97	0	98	EUR Oct-25	1.55	3	-5	EUR Mar-22	-0.06	0	2
				USD Jan-24	4.39	1	139	EUR Sep-24	0.44	0	-14
CDS				CDS				CDS			
	Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps		Last	ΔDbps	ΔYTD bps
5-year	111	0	-7	5-year	101	0	11	5-year	79	0	-18
10-year	159	0	-4	10-year	142	0	9	10-year	125	0	-17
STOCKS				STOCKS				STOCKS			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
BELEX15	739.0	-0.67%	-2.74%	BET	8592.4	-0.09%	10.82%	SOFIX	608.2	0.00%	-10.23%
FOREX				FOREX				FOREX			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
EUR/RSD	118.79	0.43%	0.10%	EUR/RON	4.6684	0.00%	-0.08%	USD/BGN	1.6939	0.30%	-3.81%
BELEX15 Index				BET Index				SOFIX Index			
											
EUR/RSD				EUR/RON				USD/BGN			
											

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

Data updated as of 10:05 EEST

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