

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- May 23
 - New home sales (Apr)
 - FOMC meeting minutes
- May 24
 - Initial jobless claims (May 19)
 - Existing home sales (Apr)
- May 25
 - Durable goods orders (Apr)
 - UM consumer sentiment (May)

EUROZONE

- May 23
 - PMI manufacturing (May, prel.)
 - PMI services (May, prel.)
- May 24
 - German Gfk consumer confidence (Jun)
 - French business climate INSEE (May)
- May 25: German IFO business climate (May)

UK

- May 23: CPI (Apr)
- May 24: Retail sales (Apr)
- May 25: Q1 GDP (2nd estimate)

GREECE

- May 21: Current account (Mar)

SEE

ROMANIA

- May 21: T-bonds auction
- May 24: T-bonds auction

SERBIA

- May 22: T-bonds auction
- May 25: Real Gross Wages (Mar)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Uncertainty about US/China trade discussions continued to mount while yesterday's newswires conveyed that the US President asked Commerce Secretary Wilbur Ross to start a national security investigation into car and truck imports. Against this background, core government bonds remained well supported and the JPY retained a firm tone against its major currency peers. In Italy, President Sergio Mattarella granted Giuseppe Conte a mandate to form a new government.

GREECE: The Eurogroup that convenes today (15:00 CET) will take stock of the progress in the 4th programme review and the staff level agreement reached on 19 May. According to the draft SMoU for the 4th programme review released yesterday by the European Commission, as a prior action the Greek government will adopt the MTF 2019-22 incorporating a primary surplus target of 3.5% of GDP for 2019-2022.

SOUTH EASTERN EUROPE

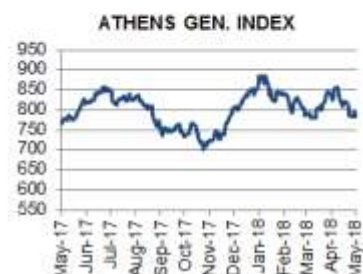
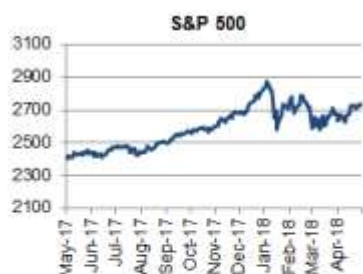
CESEE MARKETS: Emerging market assets traded mixed in European trade on Thursday receiving some support from the US dollar's retreat from yesterday's new multi-month highs, but sentiment remained fragile after the US President asked Commerce Secretary Wilbur Ross to launch an investigation on car and truck imports that may lead to new tariffs. The Turkish lira resumed its downtrend today, giving back nearly all of yesterday's gains which came on the back of an unexpected rate hike delivered after a Central Bank emergency meeting. The MPC decided to hike the Late Liquidity Window (LLW) lending rate - one of the CBT's multiple monetary policy instruments - by 300bps to 16.50% at an extraordinary meeting on Wednesday, in a move aimed at supporting the domestic currency.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The minutes of the Fed's 1-2 May policy meeting released late yesterday showed that policymakers were generally optimistic about the US' economic outlook and confident that inflation will hit the 2% target before the end of the year. In addition, they argued that the next rate hike "would likely soon be appropriate" and expressed tolerance for a period of modest inflation overshooting, supporting the view that the Fed is not in a hurry to accelerate the pace of rate tightening. Nevertheless, market sentiment remains cautious. Uncertainty about US/China trade discussions continued to mount after US President Donald Trump reportedly called for "a different structure" in any trade deal with China. Adding to market jitters, the US President asked Commerce Secretary Wilbur Ross late yesterday to start a national security investigation into car and truck imports under Section 232 of the Trade Expansion Act of 1962, a move that could potentially lead to US tariffs similar to those imposed on imported steel and aluminum. Against this background, core government bonds remained well supported with the 10-yr US yield hovering around 3.00% in early European trade, within distance from Wednesday's one-week closing low of 2.99% and some 12.5bps below recent peak (May 18). In FX markets, the JPY retained a firm tone while the EUR gained some ground vs. the USD following comments by China's Premier Li Keqiang that China has been a long-term investor in the common currency. After hitting a fresh y-t-d low of 1.1674 on Wednesday in reaction to weaker than expected May preliminary Eurozone PMIs, which fueled worries that the Q1 GDP soft patch was not probably derived just by one-off factors, the EUR/USD bounced to levels around 1.1740 in European trade. In spite of today's upside attempt, it remained well below a multi-session peak of 1.1829 hit earlier this week pressured by prevailing political jitters in Italy where President Sergio Mattarella granted yesterday Giuseppe Conte a mandate to form a new government.

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GREECE

The Eurogroup that convenes today (15:00 CET) will take stock of the progress in the 4th programme review and the staff level agreement reached on 19 May. The debt strategy will also be discussed but decisions on this issue as well as on the post-programme framework will be taken at the 21 June Eurogroup. Meanwhile, according to the draft Supplemental Memorandum of Understanding (SMoU) for the 4th programme review released yesterday by the European Commission, as a prior action the Greek government will adopt the Medium Term Fiscal Strategy 2019-22 incorporating a primary surplus target of 3.5% of GDP for 2019-2022. Additionally, the SMoU foresees that as a prior action the implementation of the personal income tax measures will be brought forward to 2019 if the IMF, in cooperation with the European institutions and the Greek authorities, considers that this is needed in order to reach the agreed 3.5% of GDP primary surplus target in 2019.

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Thursday 24 May 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

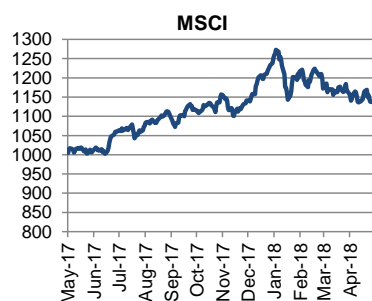
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

| 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 | 3.0 |
| 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 | 3.00 | 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

CESEE MARKETS

Emerging market assets traded mixed in European trade on Thursday receiving some support from the US dollar's retreat from yesterday's new multi-month highs, but sentiment remained fragile after the US President asked Commerce Secretary Wilbur Ross to launch an investigation on car and truck imports that may lead to new tariffs. The Turkish lira resumed its downtrend today, giving back nearly all of yesterday's gains which came on the back of an unexpected rate hike delivered after a Central Bank (CBT) emergency meeting. Albeit, the next Central Bank meeting was initially scheduled to be held on June 7, the MPC decided to hike the Late Liquidity Window (LLW) lending rate - one of the CBT's multiple monetary policy instruments - by 300bps to 16.50% at an extraordinary meeting on Wednesday, in a move aimed at supporting the domestic currency. The CBT action was announced after the local markets' close as the TRY had come under heavy depreciation pressure earlier in the session, having registered losses of ca 5% on the day and 25% since the beginning of the year after reaching a new record low around 4.9220/\$. At the same time, the monetary policy committee held yesterday all other interest rates stable; the key one-week repo rate at 8.00%, the Liquidity Window (LLW) Borrowing Rate at 0% as well as the Overnight Borrowing and Lending Rates at 7.25% and 9.25%.

Recall that, the Turkish currency has come under significant pressure this year amid increased concerns about heightened, double-digit and well above the 5% official target inflation (headline CPI at 10.85% in April after reaching a 14-year high of 12.98%YoY in November 2017) in tandem with the lack of more aggressive Central Bank monetary policy response. Recent comments by President Tayyip Erdogan signaling plans for a tighter grip on monetary policy if he wins the June 24 polls, exacerbated worries over the Central Bank's independence, as he supports lower borrowing costs in return for higher economic growth rates, a case likely made stronger ahead of the imminent dual snap elections. The US dollar's recent strengthening to multi-month highs has also weighed on the TRY, as have heightened geopolitical risks and the country's elevated external vulnerabilities.

Although the CBT's move yesterday was definitely a step towards the right direction, the Turkish currency traded 1.8% weaker on the day in European markets suggesting that the Central Bank may have to render further tightening in the near future and/or simplify its policy mix in order to sooth investor concerns over monetary policy. That said, the elimination of the earlier reference that "if needed, further monetary tightening will be delivered" in the latest MPC statement does raise some doubt about the prospect of further tightening at the June 7 meeting. Importantly, the previous phrase that the "Central Bank will continue to use all available instruments in pursuit of the price stability objective" remained in place.

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Thursday 24 May 2018

GLOBAL MARKETS

Stock markets

| | Last | ΔD | ΔYTD |
|------------|----------|-------|-------|
| S&P 500 | 2733.29 | 0.3% | 2.2% |
| Nikkei 225 | 22437.01 | -1.1% | -1.4% |
| STOXX 600 | 393.64 | 0.3% | 1.1% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|------|-------|
| EUR/USD | 1.1733 | 0.3% | -2.3% |
| GBP/USD | 1.3397 | 0.4% | -0.9% |
| USD/JPY | 109.69 | 0.4% | 2.7% |

Government Bonds

| (yields) | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| UST - 10yr | 3.01 | 2 | 60 |
| Bund-10yr | 0.53 | 2 | 10 |
| JGB - 10yr | 0.05 | 0 | 0 |

Commodities

| | Last | ΔD | ΔYTD |
|-------------|------|-------|-------|
| GOLD | 1297 | 0.3% | -0.5% |
| BRENT CRUDE | 79 | -0.7% | 18.5% |
| LMEX | 3331 | -0.9% | -2.6% |

SERBIA

| BELIBOR | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| T/N | 2.28 | -3 | -24 |
| 1-week | 2.39 | -3 | -22 |
| 1-month | 2.58 | -2 | -27 |
| 3-month | 2.88 | 0 | -24 |
| 6-month | 3.04 | -2 | -20 |

RS Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|--------|------|----------|----------|
| 3Y RSD | 3.51 | -1 | -75 |
| 5Y RSD | 3.90 | #N/A N/A | -34 |
| 7Y RSD | 4.41 | #N/A N/A | -76 |

RS Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|----------|----------|----------|
| USD Feb-20 | 3.99 | -1 | 99 |
| USD Nov-24 | #N/A N/A | #N/A N/A | -13164 |

CDS

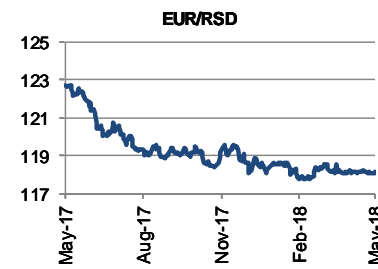
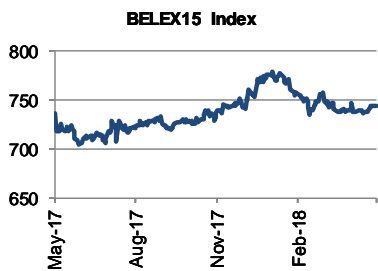
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 114 | 0 | -4 |
| 10-year | 163 | 0 | 1 |

STOCKS

| | Last | ΔD | ΔYTD |
|---------|-------|-------|--------|
| BELEX15 | 745.1 | 0.11% | -1.93% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|--------|-------|
| EUR/RSD | 118.42 | -0.80% | 0.42% |



ROMANIA

Money Market

| ROBOR | Last | ΔDbps | ΔYTD bps |
|----------|------|-------|----------|
| O/N | 2.8 | 101 | 171 |
| 1-month | 2.8 | 5 | 93 |
| 3-month | 2.79 | 2 | 74 |
| 6-month | 2.92 | 3 | 65 |
| 12-month | 3.03 | 2 | 71 |

RO Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 3Y RON | 3.88 | 0 | 50 |
| 5Y RON | 4.45 | 0 | 67 |
| 10Y RON | 4.87 | 0 | 56 |

RO Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|----------|----------|
| EUR Oct-25 | 1.54 | #N/A N/A | -6 |
| USD Jan-24 | 4.17 | 0 | 117 |

CDS

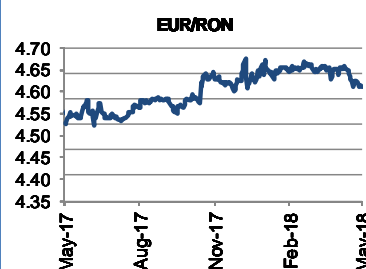
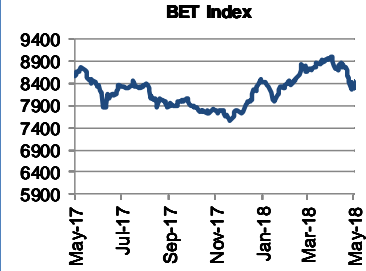
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 94 | 1 | 4 |
| 10-year | 138 | 1 | 5 |

STOCKS

| | Last | ΔD | ΔYTD |
|-----|--------|--------|-------|
| BET | 8300.4 | -0.54% | 7.05% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|-------|
| EUR/RON | 4.6238 | 0.07% | 0.89% |



BULGARIA

Money Market

| SOFIBOR | Last | ΔDbps | ΔYTD bps |
|----------|-------|-------|----------|
| LEONIA | 0.01 | 0 | 1 |
| 1-month | -0.30 | 0 | -4 |
| 3-month | -0.22 | 0 | -4 |
| 6-month | -0.10 | 0 | -5 |
| 12-month | 0.23 | -1 | -10 |

BG Local Bonds

| (yields) | Last | ΔDbps | ΔYTD bps |
|----------|-------|-------|----------|
| 3Y BGN | -0.08 | -4 | -2 |
| 5Y BGN | 0.18 | -2 | 3 |
| 10Y BGN | 1.05 | 0 | 9 |

BG Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| EUR Mar-22 | 0.11 | 0 | 19 |
| EUR Sep-24 | 0.77 | 0 | 19 |

CDS

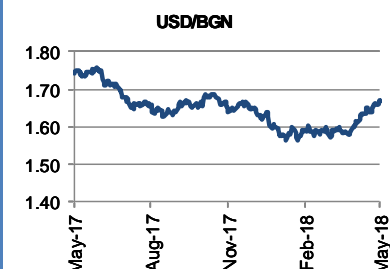
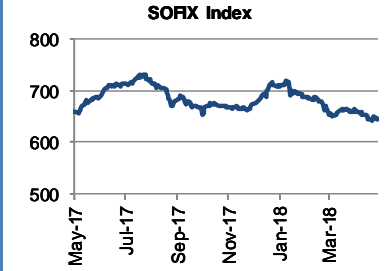
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 69 | 0 | -27 |
| 10-year | 114 | 1 | -28 |

STOCKS

| | Last | ΔD | ΔYTD |
|-------|-------|--------|--------|
| SOFIX | 642.9 | -0.24% | -5.10% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|-------|-------|--------|
| USD/BGN | 1.667 | 0.31% | -2.26% |



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

Data updated as of 12:30 EEST

Thursday 24 May 2018

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