



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Tuesday 24 July 2018

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- July 24: Existing home sales (Jun)
- July 25: New home sales (Jun)
- July 26: Durable goods orders (Jun)
- July 27: Q2 real GDP (advance estimate)

EUROZONE

- July 24: Composite PMI (Jul)
- July 25
 - Juncker meets Trump in the White House
 - German IFO business climate (Jul)
 - M3 money supply (Jun)
- July 26
 - German GfK consumer confidence (Aug)
 - ECB policy meeting & press conference
- July 27: ECB Survey of Professional Forecasters

GREECE

- Jul 23: Current Account (May)

SEE

BULGARIA

- July 27: Gross External Debt (May)

CYPRUS

- July 25: Retail Sales (May)

ROMANIA

- July 24: M3 money supply (June)

SERBIA

- July 25: Real Gross Wages (June)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Global government bond yields remained in an upward trend in early European trade on Tuesday on reports suggesting that the BoJ will likely scale back its monetary stimulus at the next policy meeting on 30 July. Potential for fresh fiscal stimulus from China to support growth amid rising trade tensions, strong US corporate earnings and expectations for a US Q2 GDP robust reading on Friday, also had an impact. In FX markets, the EUR moved lower in reaction to weaker-than-expected Eurozone composite PMI. Looking at the day ahead, we expect US new home sales for June. Market consensus is for a modest decline to a seasonally adjusted annual rate of 670k from 689k in the prior month, which was the highest since November 2017.

GREECE: At a speech in Munich yesterday, ESM Managing Director Klaus Regling reportedly stressed that the last ESM loan tranche to Greece (€15 billion) will be disbursed once all required national procedures have been completed. According to the Bank of Greece data released yesterday, in May 2018 the current account registered a surplus of €192 million against a deficit of €658 million in the same month of 2017 due to improvements in all its main components. For the period January-May 2018, the current account showed a deficit of €4.0 billion almost unchanged YoY as the rise in the surpluses of the services balance and of the primary and secondary income accounts was offset by an increase in the deficit of the balance of goods.

SOUTH EASTERN EUROPE

CESEE MARKETS: The Central Bank of Turkey is widely expected to tighten by at least 100bps in today's MPC.

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Latest world economic & market developments

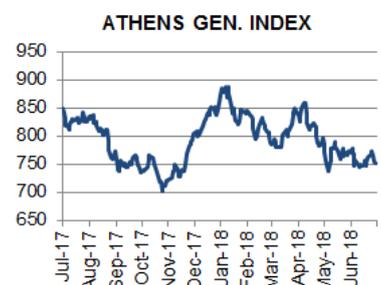
GLOBAL MARKETS

Global government bond yields remained in an upward trend in early European trade on Tuesday on reports suggesting that the BoJ will likely scale back its monetary stimulus at the next policy meeting on 30 July. Potential for fresh fiscal stimulus from China to support growth amid rising trade tensions, strong US corporate earnings and expectations for a robust US Q2 real GDP growth rate on Friday, also had an impact. The 10-yr US yield hit a session peak of 2.965% earlier today, within sight from yesterday's five-week intraday high of 2.967%. Against this background, the 2/10-yr yield curve was at its steepest since late June with the respective spread standing close to 32.5bps at the time of writing, some 8bps higher from a 11-year low hit mid last week. Taking their cue from US Treasuries, Eurozone government bond yields also moved higher with the 10-yr Bund yield rising above 0.40% for the first time in over a month to 0.42%, the highest level since mid-June, before easing modestly to levels around 0.41% at the time of writing. According to the flash estimate, the composite PMI dropped to 54.3, below market consensus of 54.8 from June's 54.9. The bigger than expected July drop was mainly attributed to the services PMI, which came in at 54.4 against expectations for a relatively smaller drop to 55.0 from 55.2 a month earlier as ongoing trade tensions and political uncertainty continued to weigh on sentiment. On the flip side, the manufacturing PMI improved to 55.1 from 54.9 in the prior month confounding expectations for a modest decline to 54.6. In FX markets, the EUR moved lower in reaction to weaker-than-expected Eurozone composite PMI marking a session trough of 1.1655 against the USD after recording a two-week high of 1.1750 in the prior session.

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GREECE

At a speech in Munich yesterday, ESM Managing Director Klaus Regling reportedly stressed that the last ESM loan tranche to Greece (€15 billion) will be disbursed once all required national procedures have been completed. He also expressed certainty that Greece will be able to repay its loans adding, however, that if the Greek government reverses agreed reforms then the debt relief measures will be suspended. On the economic data front, according to the Bank of Greece data released yesterday, in May 2018 the current account registered a surplus of €192 million against a deficit of €658 million in the same month of 2017 due to improvements in all its main components. The deficit of the balance of goods was reduced by €127 million standing at €1.4 billion. Both the oil balance and the non-oil balance of goods improved given that exports rose more than imports. The surplus of the services balance rose by €356 million, which is almost entirely attributable to an improvement in the travel balance. Finally, the primary and secondary income accounts also improved significantly. For the period January-May 2018, the current account showed a deficit of €4.0 billion almost unchanged YoY as the rise in the surpluses of the services balance and of the primary and secondary income accounts was offset by an increase in the deficit of the balance of goods. The deficit of the balance of goods grew, mainly on the back of the higher net oil import bill. The non-oil balance of goods also worsened, but to a smaller extent. Overall, exports grew faster than imports though imports in absolute terms grew more. The surplus of the services balance, mainly following the very favourable developments in the travel balance in May, increased in the first five months of 2018 year-on-year.



Source: Reuters, Bloomberg, Eurobank Research

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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 | Ba3 | BB+ | BB+ |

Latest economic & market developments in the CESEE region

CESEE MARKETS

On the CESEE markets front, the Central Bank of Turkey policy meeting (11:00 GMT) takes center stage today. According to the Bloomberg survey of economists, the median expectation is for a 100bp rate rise, with a good number of economists forecasting a larger 125bp hike. Factoring in the 75bps rate hike delivered in April, the cumulative tightening rendered has reached 500bps year-to-date so that the KPR – the 1-week repo as of late May- currently stands at 17.75%. This will be the first monetary policy meeting after the snap elections in late June in which President Erdogan was re-elected. Markets will be looking for the decision to confirm leadership intentions on whether monetary policy will remain tight in a challenging economic environment. Headline inflation accelerated to 15.4% YoY in June up from 12.2% YoY in May, coming in significantly above market expectations of 13.9% YoY. The Turkish lira has been trading at 4.7628/USD in anticipation of the decision at the time of the writing, having lost 25.7% year-to-date against USD, confirming that it stands among the worst performing EM currencies this year.

The elections marked the replacement of the existing parliamentary system into an executive presidency with sweeping executive powers for the new President following a referendum backed by the ruling AKP and the MHP in April last year. The presidential decrees issued so far set out on the new cabinet appointments and the Central Bank appointments regulations further exacerbated investors' concerns about the Central Bank's independence and disappointed investors' expectations for market-friendly appointments. Political pressure-driven by President Erdogan's staunch support for low interest rates aimed at boosting economic activity has fanned worries in the markets.

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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 | 2806.98 | 0.2% | 5.0% | EUR/USD | 1.1675 | -0.1% | -2.7% | UST - 10yr | 2.96 | 0 | 55 | GOLD | 1223 | -0.1% | -6.2% |
| Nikkei 225 | 22510.48 | 0.5% | -1.1% | GBP/USD | 1.3103 | 0.0% | -3.1% | Bund-10yr | 0.41 | 1 | -1 | BRENT CRUDE | 73 | 0.1% | 9.4% |
| STOXX 600 | 384.88 | -0.2% | -1.1% | USD/JPY | 111.22 | 0.1% | 1.3% | JGB - 10yr | 0.09 | 0 | 4 | LME X | 2975 | 0.1% | -13.0% |

SERBIA

| BELIBOR | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| T/N | 2.29 | -1 | -23 |
| 1-week | 2.42 | -1 | -19 |
| 1-month | 2.61 | -1 | -24 |
| 3-month | 2.89 | 0 | -23 |
| 6-month | 3.06 | -1 | -18 |

RS Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|--------|------|-------|----------|
| 3Y RSD | 3.49 | 9 | -78 |
| 5Y RSD | 3.92 | 4 | -32 |
| 7Y RSD | 4.21 | 0 | -97 |

RS Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|----------|----------|----------|
| USD Feb-20 | 3.59 | 0 | 60 |
| USD Nov-24 | #N/A N/A | #N/A N/A | -13164 |

CDS

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 114 | -2 | -4 |
| 10-year | 165 | -2 | 3 |

STOCKS

| | Last | ΔD | ΔYTD |
|---------|-------|--------|--------|
| BELEX15 | 726.5 | -2.14% | -4.38% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|-------|
| EUR/RSD | 118.01 | 0.05% | 0.76% |



ROMANIA

Money Market

| ROBOR | Last | ΔDbps | ΔYTD bps |
|----------|------|-------|----------|
| O/N | 1.86 | 0 | 77 |
| 1-month | 3.41 | 0 | 154 |
| 3-month | 3.41 | 0 | 136 |
| 6-month | 3.52 | 0 | 125 |
| 12-month | 3.62 | 0 | 130 |

RO Local Bonds

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 3Y RON | 4.34 | 0 | 96 |
| 5Y RON | 4.82 | 0 | 104 |
| 10Y RON | 5.01 | 0 | 69 |

RO Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| EUR Oct-25 | 1.57 | 0 | 2 |
| USD Jan-24 | 4.04 | 0 | 104 |

CDS

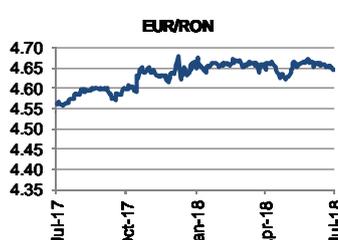
| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 97 | 0 | 7 |
| 10-year | 141 | 0 | 8 |

STOCKS

| | Last | ΔD | ΔYTD |
|-----|--------|-------|-------|
| BET | 7949.3 | 0.00% | 2.52% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|-------|-------|
| EUR/RON | 4.6463 | 0.00% | 0.40% |



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 | -0.10 | 0 | -4 |
| 5Y BGN | 0.08 | 0 | -6 |
| 10Y BGN | 0.86 | 0 | -11 |

BG Eurobonds

| | Last | ΔDbps | ΔYTD bps |
|------------|------|-------|----------|
| EUR Mar-22 | 0.00 | 2 | 8 |
| EUR Sep-24 | 0.47 | -26 | -11 |

CDS

| | Last | ΔDbps | ΔYTD bps |
|---------|------|-------|----------|
| 5-year | 75 | 0 | -22 |
| 10-year | 122 | 0 | -20 |

STOCKS

| | Last | ΔD | ΔYTD |
|-------|-------|-------|--------|
| SOFIX | 633.4 | 0.22% | -6.50% |

FOREX

| | Last | ΔD | ΔYTD |
|---------|--------|--------|--------|
| USD/BGN | 1.6752 | -0.14% | -2.73% |



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

Data updated as of 10:15 EEST

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