

Tuesday, January 30, 2018

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### GLOBAL

##### US

- Jan 29: Personal income & spending (Dec)
- Jan 30: CB consumer conf (Jan)
- Jan 31
  - ADP payrolls (Jan)
  - Employment Cost Index (Q4)
  - Chicago PMI (Jan)
  - Pending home sales (Jan)
  - FOMC rate decision
- Feb 1
  - Jobless claims (weekly)
  - ISM manufacturing (Jan)
- Feb 2
  - Non-farm payrolls (Jan)
  - Factory orders (Dec)
  - UM consumer conf. (Feb)

##### EUROZONE

- Jan 30
  - GDP (Q4 17)
  - Economic sentiment (Jan)
- Jan 31
  - CPI (Jan)
  - Unemployment rate (Dec)
- Feb 1: PMI manuf. (Jan, final)

##### GREECE

- Jan 30: PPI (Dec)
- Jan 31: Retail Sales (Nov)
- Feb 1: PMI Manuf. (Jan)

##### CYPRUS

- Feb 4: Presidential Elections (2<sup>nd</sup> round)

##### SEE

##### BULGARIA

- Jan 29: Gross External Debt
- Jan 30: PPI Index (Dec)
- Jan 31
  - Budget Balance (Dec)
  - Base Interest Rate (Feb)

##### ROMANIA

- Jan 3:
  - Unemployment (Dec)
  - Int. Reserves (€ bn, Jan)
- Feb 2: PPI Index (Dec)

##### SERBIA

- Jan 31:
  - Industrial Production (Dec)
  - GDP (NSA YoY%, Q4)
  - Trade Balance (Dec)
  - Retail Sales (Dec)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Government bonds came under renewed selling pressure across the euro area and the US as investors are braced for a hawkish language from the FOMC at this week's monetary policy meeting which commences later today. Comments by Dutch Central Bank Governor Klaas Knot that the ECB should make clear as soon as possible that it will end all purchase programmes after the current expanded asset purchase programme (APP) expires in September 2018, had also an impact. In FX markets, higher US Treasury yields helped the USD recover some of its recent hefty losses. Looking at the remainder of the day, BoE Governor Mark Carney will testify before the House of Lords Economic Affairs Committee on Brexit and the UK economy at 16:00 CET while US President Donald Trump is scheduled to deliver his first State of the Union address tonight at 3:00 CET. On the data front, the euro area Q4 GDP release, lures market attention.

**GREECE:** According to press reports, the Greek government intends to tap the market in the next couple of weeks with the issuance of a 7-year GGB with the aim to raise around EUR 3 billion. This will reportedly be the first out of three GGB issuances until August 2018 when the 3<sup>rd</sup> economic adjustment programme expires, with the next two being 3-year and 10-year GGBs. The Council of State commenced yesterday the review of the draft Presidential Decree on the Integrated Development Plan of Hellinikon. The Presidential Decree is to be issued by end-June 2018.

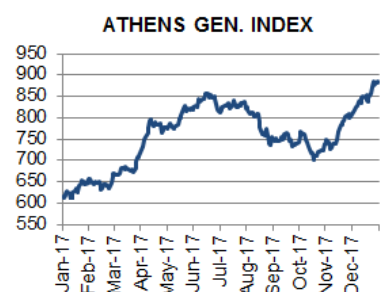
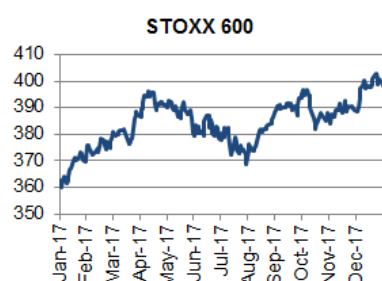
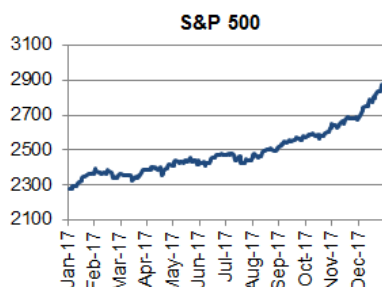
### SOUTH EASTERN EUROPE

**CYPRUS:** Consultations among the two candidates and within political parties ahead of the 2<sup>nd</sup> round of the Presidential elections in Cyprus on February 4<sup>th</sup> are underway, as last Sunday's two front runners are seeking to lure other parties' support.

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## Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

### GLOBAL MARKETS

Government bonds came under renewed selling pressure across the euro area and the US as investors are braced for a hawkish language from the FOMC at this week's two-day monetary policy meeting which commences later today. Comments by Dutch Central Bank Governor Klaas Knot that the ECB should make clear as soon as possible that it will end all purchase programmes after the current expanded asset purchase programme (APP) expires in September 2018, had also an impact. Against this background, the 10-yr Bund yield rose to the highest in more than two years at 0.707% late yesterday before retreating modestly to levels around 0.683% in European trade today while the 2-yr German paper was yielding levels close to -0.543% at the time of writing, not far from yesterday's peak of -0.506%, the highest since mid-2016. Along these lines, US Treasury yields also hit fresh highs with the 10-yr bond rising 2.73% at some point earlier today taking the 2/10-yr yield spread to a multi-session high of around 58bps. In FX markets, higher US Treasury yields helped the USD recover some of its recent hefty losses with the DXY index standing 0.7% firmer on the day. In spite of today's upside attempt, it was still below 90.00 for the fourth session in a row as investors continue to focus on the likelihood of the US administration shifting towards a more protectionist direction and potentially trying to talk the USD down. Looking at the remainder of the day, BoE Governor Mark Carney will testify before the House of Lords Economic Affairs Committee on Brexit and the UK economy at 16:00 CET while US President Donald Trump is scheduled to deliver his first State of the Union address tonight at 3:00 CET focusing on "Building a safe, strong and proud America". On the data front, the euro area Q4 GDP release, lures market attention.

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### GREECE

According to press reports, the Greek government intends to tap the market in the next couple of weeks with the issuance of a 7-year GGB with the aim to raise around EUR 3 billion. This will reportedly be the first out of three GGB issuances until August 2018 when the 3<sup>rd</sup> economic adjustment programme expires, with the next two being 3-year and 10-year GGBs. The 10-year GGB yield was standing at 3.664%, its lowest level since January 2006. Meanwhile the Council of State commenced yesterday the review of the draft Presidential Decree on the Integrated Development Plan of Hellinikon. The said draft was submitted to the Council of State on 29 December 2018 and according to the 3<sup>rd</sup> programme review Compliance Report, the Presidential Decree is to be issued by end-June 2018.

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January 30, 2018

BULGARIA: Indicators	2016	2017e	2018f
Real GDP growth %	3.4	3.8	3.5
CPI (pa, yoy %)	-0.8	1.6	1.5
Budget Balance/GDP*	1.6	0.0	-1.0
Current Account/GDP	5.4	4.0	3.0
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 %	2.8	3.5	3.1
HICP (pa, yoy %)	-1.2	1.0	1.5
Budget Balance/GDP*	0.4	0.2	0.4
Current Account/GDP	-5.7	-5.9	-6.3

\* ESA 2010

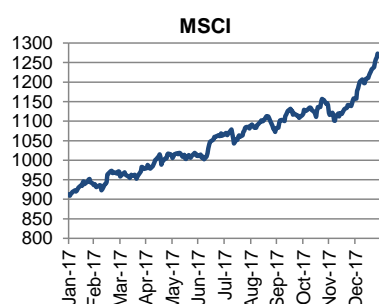
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

ROMANIA: Indicator:	2016	2017e	2018f
Real GDP growth %	4.8	5.5	4.0
CPI (pa, yoy %)	-1.6	1.4	3.1
Budget Balance/GDP *	-2.4	-3.7	-3.8
Current Account/GDP	-2.2	-3.0	-2.8
EUR/RON (eop)	4.54	4.67	4.62
	2017	current	2018
Policy Rate (eop)	1.75	2.00	2.50

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

SERBIA: Indicators	2016	2017e	2018f
Real GDP growth %	2.8	2.0	3.0
CPI (pa, yoy %)	1.1	3.0	3.0
Budget Balance/GDP	-1.2	0.5	-0.6
Current Account/GDP	-4.0	-4.0	-3.9
EUR/RSD (eop)	123.40	118.2	116.5
	2017	current	2018
Policy Rate (eop)	3.50	3.50	4.00

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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

## Latest economic & market developments in the CESEE region

### CYPRUS

Consultations among the two candidates and within political parties ahead of the 2<sup>nd</sup> round of the Presidential elections in Cyprus on February 4<sup>th</sup> are underway, as last Sunday's two front runners are seeking to lure other parties' support. The incumbent President Anastasiades, backed by the ruling right-wing DHSY, received 35.5% of the popular vote in the first round that was held on Sunday. The runner up, Stavros Mallas who is backed by left-wing AKEL received 30.25% of the vote exceeding expectations. Nikolas Papadopoulos, whose candidacy received support from a coalition of centrist parties, came third receiving 25.75% of vote. However, he was disqualified from the second round as only the first two of the first round ballot are eligible to compete in the second. Nevertheless, the stance of this coalition in the second round will be decisive in the elections' final outcome given the large amount of votes. Recall that the government system in Cyprus is Presidential and that the new President has executive powers.

Given that no party enjoys absolute parliamentary majority, the new President will have to achieve concessions from other parties in the 56-seat parliament in order to pass legislation. This is not very reassuring given that there is a number of important pending structural reforms in the areas of privatizations, public and health sectors, while addressing the challenges of a still high bad loans stock (NPEs ratio at 45% in June 2017) in order to avoid backtracking on the economy. In the previous parliamentary elections held in May 2016, the ruling right-wing party DHSY gained 37.6% of the vote (18 seats), the main opposition left-wing party AKEL gained 25.7% (16 seats), and DHKO gained 14.5% (9 seats). Five other smaller parties, EDEK (6.2%, 3 seats), Citizens' Alliance (6.0%, 3 seats), Solidarity (5.2%, 3 seats), Green Party (4.8%, 2 seats) and far right-wing ELAM (3.7%, 2 seats) were allocated a total number of 13 seats compared to only 8 in the previous elections in 2011.

In any case, Cyprus has made an impressive fiscal consolidation in the past years. In that direction, budget execution surpassed last year the most optimistic expectations ahead of the 2018 presidential elections. To that end, the general government recorded a surplus of 2.5% of GDP and a primary surplus of 4.9% of GDP in the first eleven months of last year. Taking into account an additional expenditure of 2% of GDP in the supplementary budget of the Ministry of Finance by the end of last year, the budget is still projected to end in a surplus above 1% of GDP in 2017, up from 0.4% of GDP in 2016 and a balanced position in 2015 (not including the Co-operatives capital injection). This year's budget plan targets a general government surplus of 1.3% of GDP and a primary surplus of 3.8% of GDP.

After a three year recession in 2012-2014 and a cumulative drop of 10.5% of GDP, the economy expanded by +2% YoY in 2015 (upwardly revised from +1.7% YoY previously), +3% YoY in 2016 (upwardly revised from +2.8% YoY previously) and accelerated to 3.8% in 2017 above initial international organizations forecasts. From that point of view, 2017 was another year of records for the tourism industry contributing to the GDP growth rebound of the Cypriot economy. Looking ahead, the current strong growth momentum in Cyprus is expected to be sustained in 2018 as well. We envisage GDP growth to reach 3.6% YoY in 2018 driven by the ongoing private consumption rebound.

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January 30, 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	2853.53	-0.7%	6.7%	EUR/USD	1.2382	0.0%	3.1%	UST - 10yr	2.69	0	29	GOLD	1339	-0.1%	2.7%
Nikkei 225	23291.97	-1.4%	2.3%	GBP/USD	1.4026	-0.3%	3.7%	Bund-10yr	0.68	-2	25	BRENT CRUDE	69	-0.5%	3.3%
STOXX 600	398.20	-0.4%	2.3%	USD/JPY	108.64	0.3%	3.7%	JGB - 10yr	0.10	1	5	LMEX	3431	0.1%	0.3%

**CESEE MARKETS**

**SERBIA**

**Money Market**

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.52	0	0
1-week	2.63	1	2
1-month	2.82	-1	-3
3-month	3.11	0	-1
6-month	3.24	-3	0

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.10	#N/A N/A	-18
5Y RSD	4.29	0	-1
7Y RSD	4.76	0	-42

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.16	0	17
USD Nov-24	6.09	-29	6

**CDS**

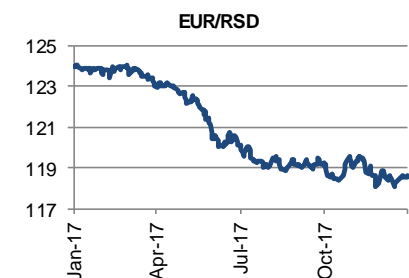
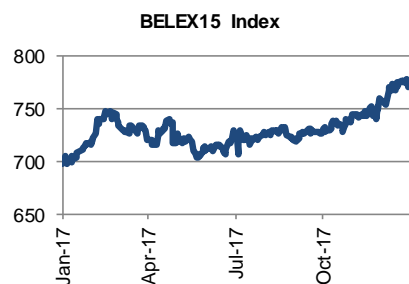
	Last	ΔDbps	ΔYTD bps
5-year	103	1	-15
10-year	152	0	-10

**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	768.2	-0.24%	1.11%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	118.53	0.09%	0.32%



**ROMANIA**

**Money Market**

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.13	-1	4
1-month	1.51	0	-36
3-month	1.97	0	-8
6-month	2.25	0	-2
12-month	2.35	0	3

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	3.44	0	6
5Y RON	3.91	0	13
10Y RON	4.49	0	17

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.50	#N/A N/A	-9
USD Jan-24	3.30	-1	30

**CDS**

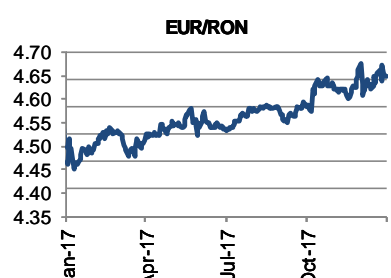
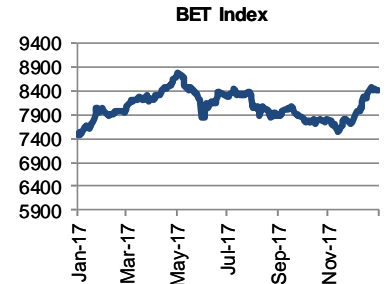
	Last	ΔDbps	ΔYTD bps
5-year	85	0	-5
10-year	126	0	-7

**STOCKS**

	Last	ΔD	ΔYTD
BET	8397.0	-0.32%	8.30%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.6549	-0.01%	0.21%



**BULGARIA**

**Money Market**

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.28	0	-3
3-month	-0.19	0	-1
6-month	-0.05	0	0
12-month	0.32	0	-1

**BG Local Bonds**

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.05	0	1
5Y BGN	0.25	4	11
10Y BGN	1.03	0	6

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.15	0	23
EUR Sep-24	0.74	0	16

**CDS**

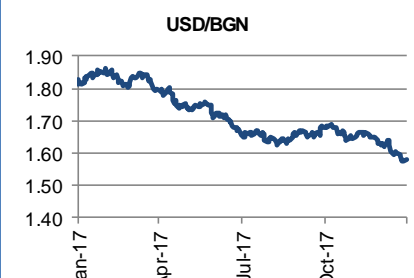
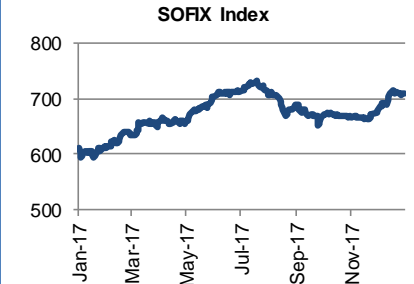
	Last	ΔDbps	ΔYTD bps
5-year	64	0	-32
10-year	111	0	-31

**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	709.5	0.01%	4.74%

**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.5796	-0.01%	3.15%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research  
Data updated as of 11:00 EST

January 30, 2018

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