

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### GLOBAL

##### US

- May 30
  - Q1 GDP (2nd estimate)
  - CB Conference Board (May)
  - Fed publishes Beige Book
- May 31
  - Personal income & spending (Apr)
  - Chicago PMI (May)
  - Pending home sales (Apr)
- June 1
  - Non-farm payrolls (May)
  - ISM index manuf. (May)

##### EUROZONE

- May 29: M3 (Apr)
- May 30
  - Economic Sentiment Indicator (May)
  - German CPI, first state results (May)
  - German unemployment (May)
- May 31
  - Consumer prices, prel. (May)
  - Unemployment (Apr)
  - German retail sales (Apr)
- June 1
  - PMI manuf. final (May)
  - Spain's PM faces motion of no confidence

##### UK

- June 1: PMI manuf. (May)

##### GREECE

- May 30: PPI (ap)
- May 31: Retail sales (Mar)
- Jun 1: PMI manufacturing (May)

##### SEE

##### BULGARIA

- May 31: Budget balance (Apr)
- Jun 1: Sovereign rating review by S&P and Fitch

##### ROMANIA

- May 31: U/E rate (Apr)

##### SERBIA

- May 31
  - Industrial production (Apr)
  - GDP (Q1, final)
  - Trade balance (Apr)
  - May 31: Retail sales (Mar)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Risk appetite remained subdued on Wednesday amid mounting concerns about Italian politics. Some press reports suggest today that the League and the Five Star Movement are back in talks with the President to re-assess the possibility of forming a coalition government, a scenario that could potentially be realized provided that the League backs down its demand for Paolo Savona as Finance Minister. Adding to market jitters, US President Donald Trump announced his plan to impose tariffs on \$50bn worth of Chinese imports shortly after mid-June, unless China addresses the issue of theft of US intellectual property. EMU periphery sovereign bonds continued to face selling pressure with respective yields remaining elevated. Core government bond yields rebounded with the 10-yr Bund yield rising by some 14bps today, pushing EMU periphery sovereign debt spreads slightly narrower.

**GREECE:** The 10-year GGB yield closed yesterday at 4.800% reaching levels not seen since early December 2017 giving anew rise to talks about the potential need for an enhanced conditions credit line (ECCL) to protect Greece from market volatility after the expiration of the ESM programme in August 2018. The issue of debt relief may reportedly be discussed on the sidelines of the G7 meeting in Canada in the coming week, between the Heads of the European institutions of the ESM programme along with the IMF Managing Director and the Ministers of Finance of Germany, France and possibly Italy.

### SOUTH EASTERN EUROPE

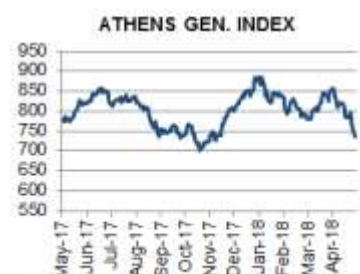
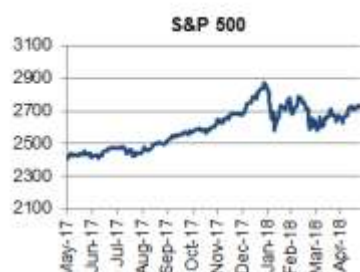
**Cyprus:** On Friday evening, DBRS upgraded the long-term sovereign rating of Cyprus by one notch from BB low to BB with a positive outlook.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Risk appetite remained subdued on Wednesday amid mounting concerns about Italian politics. Premier-designated Carlo Cottarelli met President Sergio Mattarella yesterday, as planned, but no official communication was made about a potential new cabinet. A new meeting is scheduled for today. In case Mr. Cottarelli fails to form a cabinet, Italian President will dissolve parliament in the coming days and new elections will be held as early as late July which would lead, according to the latest opinion polls, to a victory of euro sceptics with increased vote share compared to the 4 March election outcome. But even if he manages to preset a list of ministers, his government will probably lose the confidence vote in Parliament and will act as a caretaker government until snap elections are held soon after August. Aiming to break the political deadlock, some press reports suggest that the League and the Five Star Movement are back in talks with the President to re-assess the possibility of forming a coalition government, a scenario that could potentially be realized provided that the League backs down its demand for Paolo Savona as Finance Minister. Adding to market jitters, US President Donald Trump announced his plan to impose tariffs on \$50bn worth of Chinese imports shortly after mid-June, unless China addresses the issue of theft of US intellectual property, as well as restrictions on Chinese investment in the US and enchanted export controls for goods exported to China. EMU periphery sovereign bonds continued to face selling pressure with respective yields remaining elevated while core government bond yields rebounded. After hitting a two-year low of 0.192% on Tuesday, the 10-yr Bund yield rose to 0.337% at some point earlier today, pushing EMU periphery sovereign debt spreads slightly narrower. Looking ahead, investors will continue to closely scrutinize the Italian political crisis and are not likely to pay too much attention to today's major data releases that include Eurozone's preliminary inflation for May, the US ADP employment report and the 2nd estimate of US Q1 GDP.

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### GREECE

The 10-year GGB yield closed yesterday at 4.800% reaching levels not seen since early December 2017 giving anew rise to talks about the potential need for an enhanced conditions credit line (ECCL) to protect Greece from market volatility after the expiration of the ESM programme in August 2018. The matter is related to the decisions on debt relief: Should there be a decision to utilise unused ESM programme funds to buy out the IMF and potentially also the Greek bonds held by the ECB (SMP), Greece's financing needs will remain low until 2023 thus borrowing from the markets may not be necessary. At the same time, in case a significant debt relief is agreed, the German and other parliaments may be more reluctant to approve an ECCL. These issues may reportedly be discussed on the sidelines of the G7 meeting in Canada in the coming week, between the Heads of the European institutions of the ESM programme along with the IMF Managing Director and the Ministers of Finance of Germany, France and possibly Italy. As regards progress in the implementation of the prior actions in the context of the 4<sup>th</sup> programme review, delays have reportedly been noted in the appointment of Administrative secretaries in Ministries where reported deviations from the agreed selection procedure may require that the whole process be re-launched.

Wednesday 30 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

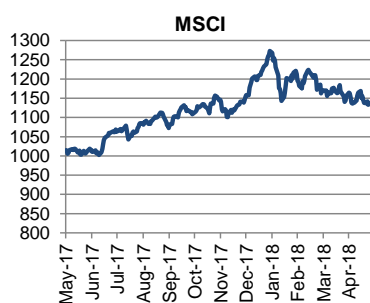
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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

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

## Latest economic & market developments in the CESEE region

### CYPRUS

On Friday evening, DBRS upgraded the long-term sovereign rating of Cyprus by one notch from BB low to BB with a positive outlook. The rating agency cited the decline in the banking system NPLs and the better-than-expected fiscal performance. The stock of corporate NPLs declined by 36% in the Apr2015-Dec2017 period and the stock of household NPLs declined by 16% in Feb2015-Dec2017, bringing the NPLs ratio of the banking system down to 4.2.5% of total loans in December 2017, compared to the 49.0% peak in May 2016. Despite their decline, the agency cited the NPLs as the main risk to financial stability and a major rating challenge for Cyprus. DBRS currently forecasts real GDP growth to remain robust in the coming years and average 4.0% in 2018-19, driven by important investment projects, exports, and consumption. So far, growth has been broad-based, with tourism, shipping, professional services, manufacturing, and construction all making a contribution. Meanwhile, fiscal performance is expected to remain positive so that budget will maintain a healthy surplus above 1.5% of GDP over the next four years, supported by strong revenues and contained expenditure.

Overall, DBRS is the last rating agency to upgrade the long-term sovereign rating of Cyprus. In general, rating agencies have acknowledged the improvement of macroeconomic fundamentals: During the past year, all major rating agencies upgraded the sovereign rating of Cyprus by at least one notch. On June 2, 2017, DBRS had upgraded the long-term sovereign rating of the Cypriot Republic by two notches (from B to BB low) with a stable outlook (trend). At that time, the DBRS rating decision - an upgrade by two notches - was more aggressive than anticipated. On December 1st, DBRS changed its outlook from stable to positive, yet confirmed the rating at BB (Low). Hence today DBRS is no longer the rating agency that assigns the lowest rating.

As things stand, the divergence of views between the rating agencies on the sovereign rating of Cyprus, remains. Currently, the distance from investment grade status is: one notch for S&P (currently at BB+, last upgrade in mid-March last year) and for Fitch (currently at BB+, last upgrade in late April this year), two notches for DBRS (currently at BB) and three notches for Moody's (currently at Ba3, last upgrade in late July last year). Finally, in our view, the outcome in the privatization process of the Co-operative Bank (CCB), the second largest bank in terms of assets in the domestic market will be a key driver for future rating actions.

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Wednesday 30 May 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	2689.86	-1.2%	0.6%	EUR/USD	1.1584	0.4%	-3.5%	UST - 10yr	2.86	7	45	GOLD	1297	-0.2%	-0.5%
Nikkei 225	22018.52	-1.5%	-3.3%	GBP/USD	1.3277	0.2%	-1.8%	Bund-10yr	0.33	7	-10	BRENT CRUDE	75	-0.2%	12.5%
STOXX 600	384.20	-0.1%	-1.3%	USD/JPY	108.74	0.0%	3.6%	JGB - 10yr	0.04	0	-1	LMEX	3338	0.2%	-2.4%

### SERBIA

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.30	0	-22
1-week	2.42	3	-19
1-month	2.59	2	-26
3-month	2.86	1	-26
6-month	3.06	2	-18

#### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.53	0	-75
5Y RSD	3.89	-5	-35
7Y RSD	4.41	0	-77

#### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	4.01	0	101
USD Nov-24	#N/A N/A	#N/A N/A	-13164

#### CDS

	Last	ΔDbps	ΔYTD bps
5-year	112	1	-6
10-year	162	1	-1

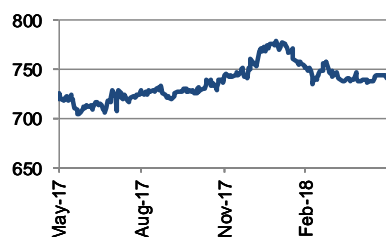
#### STOCKS

	Last	ΔD	ΔYTD
BELEX15	740.9	-0.48%	-2.49%

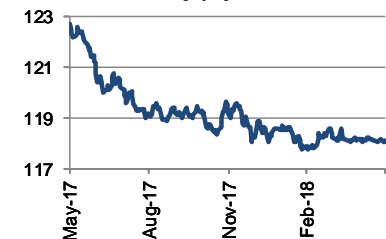
#### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.33	-0.98%	0.49%

BELEX15 Index



EUR/RSD



### ROMANIA

#### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.86	0	177
1-month	2.87	0	100
3-month	2.82	0	77
6-month	2.95	0	68
12-month	3.05	0	73

#### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.89	0	51
5Y RON	4.43	0	65
10Y RON	4.85	0	54

#### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.61	0	7
USD Jan-24	4.19	2	119

#### CDS

	Last	ΔDbps	ΔYTD bps
5-year	98	3	8
10-year	144	4	10

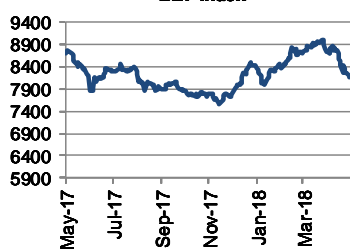
#### STOCKS

	Last	ΔD	ΔYTD
BET	8149.9	-0.63%	5.11%

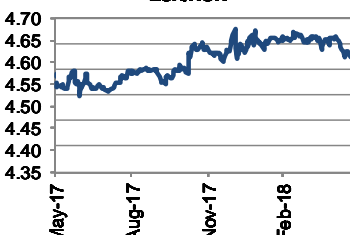
#### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6424	0.03%	0.48%

BET Index



EUR/RON



### BULGARIA

#### Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.30	0	-4
3-month	-0.22	0	-5
6-month	-0.11	-2	-6
12-month	0.22	-1	-10

#### BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.06	0	0
5Y BGN	0.18	0	4
10Y BGN	0.99	0	3

#### 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	75	0	-22
10-year	120	0	-22

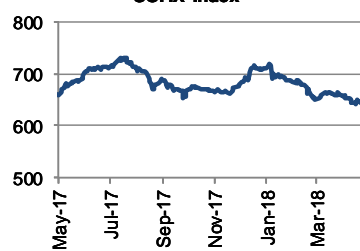
#### STOCKS

	Last	ΔD	ΔYTD
SOFIX	636.1	-0.15%	-6.10%

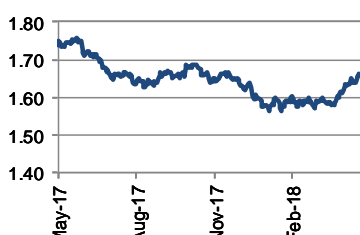
#### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6887	0.37%	-3.51%

SOFIX Index



USD/BGN



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

Data updated as of 10:40 EEST

Wednesday 30 May 2018

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