

Wednesday, January 31, 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 (2nd 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: In his first State of the Union address since becoming US President, Donald Trump urged lawmakers to work towards bipartisan compromises but pushed a hard line on immigration insisting on a border wall with Mexico and other concessions from Democrats as part of any deal to potentially expand the Deferred Action for Childhood Arrivals program (DACA). Market reaction to Donald Trump's speech was muted as investors seem reluctant to establish fresh sizable positions ahead of the conclusion of the two-day FOMC monetary policy meeting later today. US Treasury yields hit fresh multi-year highs overnight before moving slightly lower in European trade on Wednesday. In FX markets, the USD resumed its downtrend, poised to record the biggest monthly drop since March 2016 weighted down by prevailing US structural and political woes.

GREECE: The European Banking Authority (EBA) is expected to formally launch today the EU-wide stress test at 5pm UK time. As regards the commitment of the Greek government in the context of the 3rd economic adjustment programme to align the property values with market prices due by end-March 2018, certified appraisers reportedly claim that the deadlines are too tight and that it is not unlikely that an extension will eventually be required. The Economic Sentiment Indicator reached a 38-month high in January 2018 up by 0.6 points at 101.9, driven by an improvement in confidence in construction (+7.9 points), retail (+2.2 points) and industry (+1.0 points), while confidence deteriorated in services (-4.5 points) and among consumers (-0.7 points).

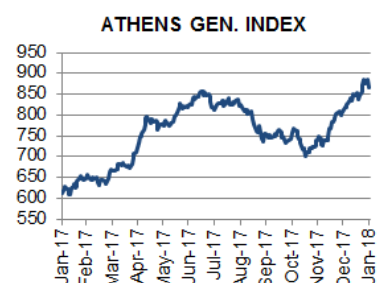
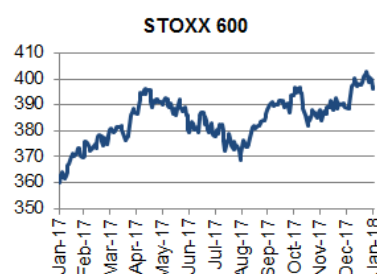
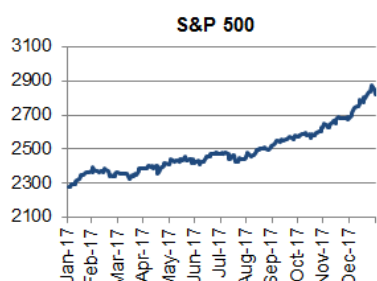
SOUTH EASTERN EUROPE

CESEE MARKETS: Emerging market assets broadly firmed in early European trade on Wednesday as the US dollar lost ground ahead of the conclusion of the 2-day FOMC meeting later on the day.

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Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

In his first State of the Union address since becoming US President, Donald Trump urged lawmakers to work towards bipartisan compromises but pushed a hard line on immigration insisting on a border wall with Mexico and other concessions from Democrats as part of any deal to potentially expand the Deferred Action for Childhood Arrivals program (DACA). Market reaction to Donald Trump's speech was muted as investors seem reluctant to establish fresh sizable positions ahead of the conclusion of the two-day FOMC monetary policy meeting later today. No updated economic projections will be released and there will be no post-meeting press conference but the tone of the accompanying statement, scheduled for release at 19:00GMT, is expected to add to the view for gradual tightening in the period ahead. According to the Fed funds futures, investors assign a probability of c. 90% for a 25bps rate hike at the next FOMC meeting in March and c. 55bps of cumulative rate tightening by the end of the year. US Treasury yields hit fresh multi-year highs overnight before moving slightly lower in European trade on Wednesday with the 10-yr US Treasury yielding levels around 2.70% at the time of writing, not far from yesterday's fresh four-year peak of 2.73%. With respect to euro area government bonds, focus today is on the preliminary reading of consumer prices for January. Market consensus is for a drop in the headline HICP rate to 1.3%YoY from 1.4%YoY in December but following yesterday's weaker than expected German HICP, risks seem skewed to the downside. Core inflation is seen edging up from 0.9%YoY to 1.0%YoY. In FX markets, the USD resumed its downtrend falling to gain any support from higher US Treasury yields. The DXY index was standing slightly below 89.00 at the time of writing, 0.2% lower on the day taking its losses for the whole of January to 3.4%, the biggest monthly drop since March 2016 weighed down by prevailing US structural and political woes. Data-wise, besides euro area inflation data, the US' Q4 employment cost index and the January ADP employment report also lure market attention today.

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GREECE

The European Banking Authority (EBA) is expected to formally launch today the EU-wide stress test at 5pm UK time. Along with the announcement, the EBA will publish the common macroeconomic scenarios for this exercise, which will involve projections for the period 2018 – 2020 regarding GDP growth, unemployment and real estate prices. Meanwhile, as regards the commitment of the Greek government in the context of the 3rd economic adjustment programme to align the property values with market prices due by end-March 2018, certified appraisers reportedly claim that the deadlines are too tight and that it is not unlikely that an extension will eventually be required. This will likely affect the 4th review prior action of adjusting the tax rates and broadening the property tax base due by May 2018. On the economic data front, the Economic Sentiment Indicator reached a 38-month high in January 2018 up by 0.6 points at 101.9, driven by an improvement in confidence in construction (+7.9 points), retail (+2.2 points) and industry (+1.0 points), while confidence deteriorated in services (-4.5 points) and among consumers (-0.7 points).

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January 31, 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

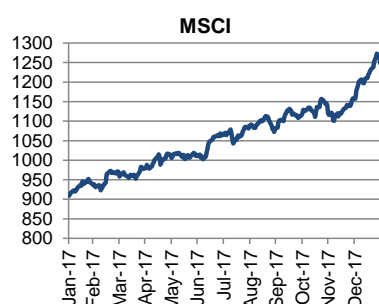
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

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

CESEE MARKETS

Emerging market assets broadly firmed in early European trade on Wednesday as the US dollar lost ground ahead of the conclusion of the 2-day FOMC meeting later on the day. Along these lines, the MSCI Emerging Markets index firmed by 0.4% on the day, snapping a 2-session losing streak. Despite the losses incurred earlier this week, the index is poised to end the month with gains to the tune of around 8%, marking its best monthly performance in the first month of a year since 2012. In a similar vein, the majority of CESEE indices stood in the black earlier on Wednesday, trailing gains in major European bourses. In FX markets, most regional currencies gained ground against a weaker USD. The Turkish lira benefitted the most, with the USD/TRY falling by 0.7% compared to the prior session's settlement to hover around levels of 3.7520 at the time of writing. The pair stands within distance from a session low of 3.7465 reached in late Asian trade, approaching anew a 3-month trough of 3.7116 hit late last week.

In China, the official manufacturing PMI for January unexpectedly fell to an 8-month low of 51.3, confounding market expectations that it would remain unchanged at the prior month's reading of 51.6. The data adds to the view that growth in the world's second largest economy may slow down this year, following better than anticipated growth of 6.9% in 2017, which also surpassed a government forecast of 6.5%. The factory output data was weighed down by a weaker property market and tighter pollution regulation. However, the said index remained above the 50-threshold separating contraction from expansion for the 19th month running indicating that an economic slowdown is likely to be modest.

On a global scale, focus today is on the Fed monetary policy meeting. Given the recent flurry of positive macroeconomic data from the US, a hawkish shift in the FOMC's rhetoric may dent emerging market assets' high yield allure. In the CESEE space, Serbia's Q4 GDP data takes centre stage. The markets median forecast is for a pickup in growth to 2.5%YoY from 2.1%YoY in the prior quarter, which should push the full-year reading near 1.8%. The latter compares with real GDP growth of 2.8% in 2016. Last year's slowdown is mostly attributed to one-off factors, such as adverse weather conditions, with this year's reading expected to gain momentum towards 3%, or higher, amid strengthening private consumption as well as robust exports and investments.

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January 31, 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	2822.43	-1.1%	5.6%	EUR/USD	1.2454	0.4%	3.7%	UST - 10yr	2.70	-2	30	GOLD	1343	0.4%	3.1%
Nikkei 225	23098.29	-0.8%	1.5%	GBP/USD	1.4139	-0.1%	4.6%	Bund-10yr	0.67	-1	25	BRENT CRUDE	69	-0.7%	2.5%
STOXX 600	396.55	0.1%	1.9%	USD/JPY	108.73	0.0%	3.6%	JGB - 10yr	0.09	-1	4	LMEX	3400	-0.9%	-0.6%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.51	0	-1
1-week	2.63	0	2
1-month	2.81	0	-4
3-month	3.11	0	-1
6-month	3.23	0	-1

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.98	-4	-29
5Y RSD	4.25	0	-5
7Y RSD	4.76	#N/A	N/A

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.17	-1	17
USD Nov-24	6.10	-28	7

CDS

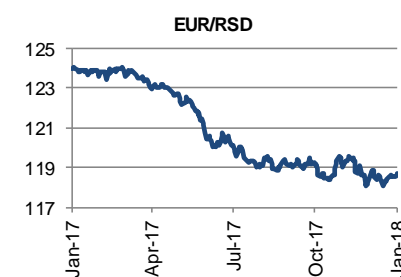
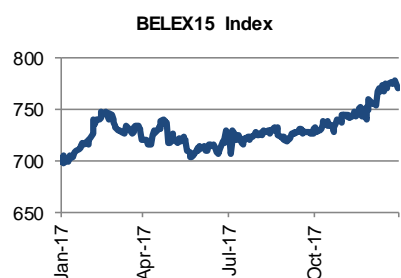
	Last	ΔDbps	ΔYTD bps
5-year	103	0	-15
10-year	152	0	-10

STOCKS

	Last	ΔD	ΔYTD
BELEX15	770.3	0.02%	1.38%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.65	-0.02%	0.22%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.14	1	5
1-month	1.5	-1	-37
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	3.43	0	5
5Y RON	3.89	0	11
10Y RON	4.46	0	14

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.53	#N/A	N/A
USD Jan-24	3.30	0	30

CDS

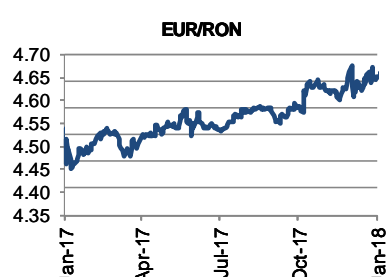
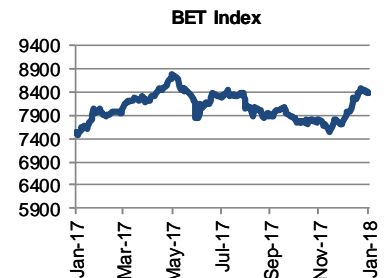
	Last	ΔDbps	ΔYTD bps
5-year	85	0	-5
10-year	131	5	-3

STOCKS

	Last	ΔD	ΔYTD
BET	8375.5	0.14%	8.02%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6577	-0.14%	0.15%



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	-0.06	0	-1
12-month	0.31	0	-1

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.06	0	0
5Y BGN	0.21	0	7
10Y BGN	1.03	0	6

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.15	0	23
EUR Sep-24	0.75	0	17

CDS

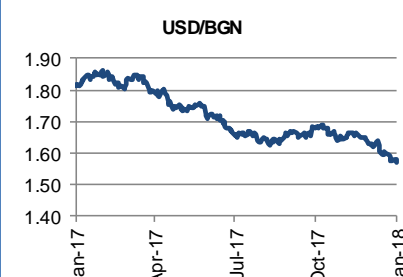
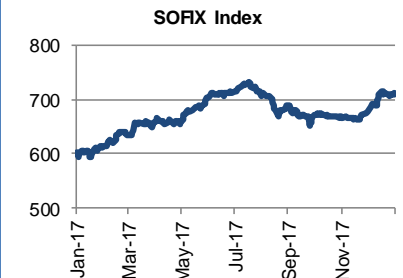
	Last	ΔDbps	ΔYTD bps
5-year	64	0	-32
10-year	110	0	-31

STOCKS

	Last	ΔD	ΔYTD
SOFIX	711.8	0.14%	5.07%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.5705	0.41%	3.75%



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

Data updated as of 12:00 EST

January 31, 2018

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