

Tuesday 02 July 2019

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- July 01:
 - Markit Manufacturing PMI (Jun, F)
 - ISM Manufacturing (Jun)
 - Construction spending (May)
- July 02: Auto Sales (June)
- July 03:
 - ADP Employment Change (Jun)
 - Trade Balance (May)
 - Initial Jobless Claims (29/06)
 - Factory Orders (May)
 - ISM Non-Manufacturing (Jun)
 - Markit Services and Composite PMI (Jun, F)
- July 05: Non Farm Payrolls (Jun)

EUROZONE

- July 01:
 - Markit Eurozone Manufacturing PMI (Jun, F)
 - M3 Money Supply (May)
 - Unemployment Rate (May)
- July 03: Markit Services and Composite PMI (Jun, F)
- July 04: Retail Sales (May)

GREECE

- July 01: Markit Manufacturing PMI

SEE

CYPRUS:

- July 04: CPI (Jun)

ROMANIA:

- July 01: Unemployment Rate (May)
- July 04:
 - Retail Sales (May)
 - Key Policy Rate Meeting

TURKEY:

- July 01: Markit Manufacturing PMI (Jun)
- July 03: CPI (Jun)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Equity markets' rally following the G20 meeting outcome for a truce in the US/China trade war came to a halt today amid renewed concerns over US trade policy. With investors remaining concerned that the US/China agreement for resumption of trade talks does not indicate that the likelihood of a final deal has necessarily increased, fixed income assets remained well supported. EMU periphery sovereign bonds also retained a positive tone, with Italy standing among the main outperformers, supported by market expectations for additional ECB easing measures, investors' appetite for positive-yielding European government bonds and the view that a renewed confrontation with the European Commission will likely be avoided thanks to Italy's more conciliatory stance. In FX markets, the USD remained well supported while the so-called safe-haven currencies JPY and CHF were kept on offer.

GREECE: The Bank of Greece Monetary Policy Report 2018-2019, sees annual GDP growth of 1.9% in 2019, 2.1% in 2020 and 2.2% in 2021, mainly driven by private consumption, business investment and exports. The 2019 primary surplus is expected to reach 2.9% of GDP, below the 3.5% target, due to the recently adopted expansionary fiscal measures. On the economic data front, the IHS Markit Manufacturing PMI came in at 52.4 units in June, on the back of softer demand with new export orders rising at only a marginal rate.

SOUTH EASTERN EUROPE

BULGARIA: The profit of the domestic banking sector expanded by 48% YoY in Jan-May.

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Latest world economic & market developments

GLOBAL MARKETS

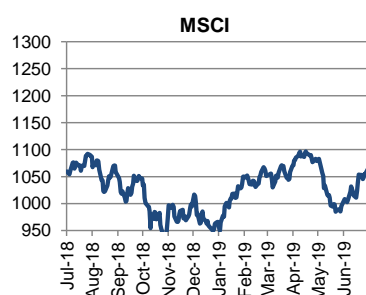
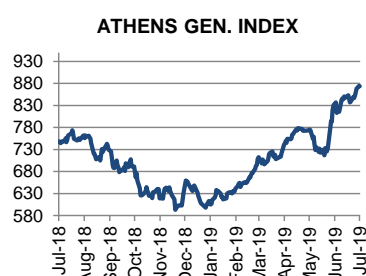
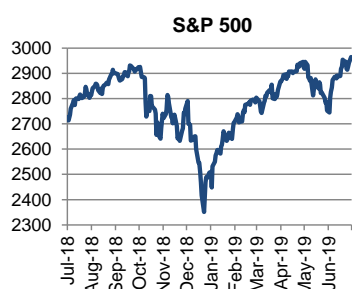
Equity markets' rally following the G20 meeting outcome for a truce in the US/China trade war came to a halt today amid renewed concerns over US trade policy. US President Donald Trump said yesterday that US/China trade talks have essentially resumed and any deal would need to be somewhat tilted in favor of the US. Adding to the above, the US administration threatened to impose tit-for-tat tariffs on \$4bn worth of additional EU goods, in a long-run dispute over aircraft subsidies. Meanwhile, worries over the global growth outlook prevail. According to yesterday's US data releases, the ISM manufacturing index dropped in June for the third month in a row coming in at 51.7, the lowest reading since October 2016, from May's 52.1, while construction spending unexpectedly fell by 0.8%MoM in May, the biggest drop since last November. Turning to the other side of the Atlantic, Markit's June final PMI for the Euro area was revised lower to 47.6 compared to the flash reading of 47.8 and below May's 47.7, marking the fifth consecutive month below the boom-or-bust level of 50.0. With investors remaining concerned that the US/China agreement for resumption of trade talks does not indicate that the likelihood of a final deal has necessarily increased, fixed income assets remained well supported. The 10-yr UST yield was 2bps lower on the day hovering around 2.0% at the time of writing, within distance from the recent 2- 1/2-year low of 1.97%, while the 10-yr Bund yield was trading around yesterday's fresh record low of -0.36%. EMU periphery sovereign bonds also retained a positive tone with Italy standing among the main outperformers supported by market expectations for additional ECB easing measures, investors' appetite for positive-yielding European government bonds and the view that a renewed confrontation with the European Commission will likely be avoided. In FX markets, the USD remained well supported while the so-called safe-haven currencies JPY and CHF were kept on offer.

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GREECE

The Bank of Greece Monetary Policy Report 2018-2019, sees annual GDP growth of 1.9% in 2019, 2.1% in 2020 and 2.2% in 2021, mainly driven by private consumption, business investment and exports. The 2019 primary surplus is expected to reach 2.9% of GDP, below the 3.5% target, due to the recently adopted expansionary fiscal measures. The report cautions that in order to accelerate recovery, address external and internal risks and consolidate investors' confidence it is essential that reforms be continued, fiscal stability be safeguarded and a more growth-friendly fiscal policy mix be adopted. With regard to the financial sector in particular, the report highlights that the liquidity situation continued to improve in 2018 leading to the elimination of ELA funding, while deposits continued to rise and access to the interbank market ameliorated. The improved liquidity coupled with the gradual reduction of the NPLs stock, which nevertheless remain at high levels, allowed for an increase of bank credit to non-financial institutions. Greece's sovereign rating has been upgraded but remains below investment grade making government bond yields more vulnerable to jitters in the international financial markets. On the economic data front, the IHS Markit Manufacturing PMI came in at 52.4 units in June, the lowest level since November 2017 but still higher than the 50 units' threshold that demarcates expansion from contraction. According to the accompanying report, the headline reading indicates a moderate improvement in the health of the manufacturing sector in Greece on the back of softer demand with new export orders rising at only a marginal rate. Output expanded at a solid rate while job creation recorded the slowest pace since December 2017 albeit remaining strong in the context of the series history.

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Source: Reuters, Bloomberg, Eurobank Research

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Latest economic & market developments in the CESEE region

BULGARIA

BULGARIA: Indicators	2017	2018	2019F
Real GDP growth %	3.8	3.1	3.5
CPI (pa, yoy %)	1.2	2.6	2.8
Fiscal Balance/GDP*	0.8	0.1	-0.5
Current Account/GDP	3.1	4.6	1.0

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

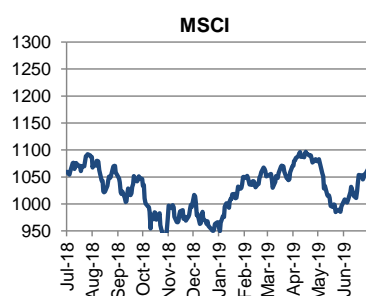
CYPRUS: Indicators	2017	2018	2019F
Real GDP growth %	4.5	3.9	3.3
HICP (pa, yoy %)	0.7	0.8	1.0
Fiscal Balance/GDP*	1.8	2.9	3.0
Current Account/GDP	-8.4	-7.0	-7.5

* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2017	2018	2019F
Real GDP growth %	2.0	4.3	3.5
CPI (pa, yoy %)	3.2	2.0	2.6
Fiscal Balance/GDP	1.1	0.6	-0.5
Current Account/GDP	-5.2	-5.2	-5.3

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	Ba2	BBB-	BB+

On the markets front, the blue chip SOFIX index followed global trends and rose 1.5% to 587.81 points during the past week amid a volume just shy of €1mn. The external government yields remained largely unchanged, while local yields on the short end of the curve exhibited drops between 4-7 bps. According to the latest data released by the Central Bank (BNB) the profit of the banking sector expanded by 48% YoY in Jan-May, reaching BGN 762.3mn, up from 14.5% YoY in Jan-April. The expansion was underpinned by lower impairment costs (-29.3% YoY in Jan-May) and positive base effects (stemming from dividend income) from last year. The gross loan portfolio of the banking sector (excluding lending to central banks and credit institutions) grew by 0.5% MoM to BGN 62.6bn while the deposits advanced by 0.1% MoM to BGN 91.7bn. The comfortable liquidity position of the banking sector is also evident in the liquidity coverage ratio. The liquidity coverage ratio stood at 262.9% in May slightly down from 265.9% in April.

Among the top priority issues in the banking sector this year is going to be the ECB comprehensive assessment. In mid-November 2018, the ECB announced that it will conduct a comprehensive assessment of six Bulgarian banks in 2019. The exercise comprises of an asset quality review and a stress test for UniCredit Bulbank AD, DSK Bank EAD, United Bulgarian Bank AD, First Investment Bank AD, Central Cooperative Bank AD, and Investbank AD. The exercise aggregate and bank-by-bank results are still pending although they were initially expected to be published in July 2019. The exercise follows the Bulgaria's official request to establish close co-operation with the ECB on July 2018 as part of its endorsed strategy to simultaneously join the ERM2 mechanism and the Banking Union.

Finally, the economic confidence (ESI) index was trending lower in Q2-2019 compared to Q1-2019 and Q4-2018. The ESI index came at 102.6 in June down by 0.5 points compared to 103.1 in May and close to the twelve-month low at 102.2. The deterioration of expectations was more pronounced in industry (by 2.1 points) while all other sectors (services, consumer, retail trade and construction) improved on a monthly basis.

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**We would like to thank Ruslan Raychev from Eurobank Bulgaria for his valuable contribution in today's issue.*

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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	2964.33	0.8%	18.2%	EUR/USD	1.1292	0.1%	-1.5%	UST - 10yr	2.01	-2	-68	GOLD	1393	0.6%	8.6%
Nikkei 225	21754.27	0.1%	8.7%	GBP/USD	1.2618	-0.2%	-1.1%	Bund-10yr	-0.36	0	-60	BRENT CRUDE	65	-0.2%	20.7%
STOXX 600	388.33	0.1%	15.0%	USD/JPY	108.22	0.2%	1.4%	JGB - 10yr	-0.15	0	-15	LME X	2795	-0.8%	-0.2%

SERBIA

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.22	3	-22
1-week	2.31	2	-25
1-month	2.53	2	-20
3-month	2.93	-2	-10
6-month	3.06	-1	-12

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.85	#N/A N/A	-27
5Y RSD	3.30	#N/A N/A	-31
7Y RSD	3.54	0	-61

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.77	-3	-123

CDS

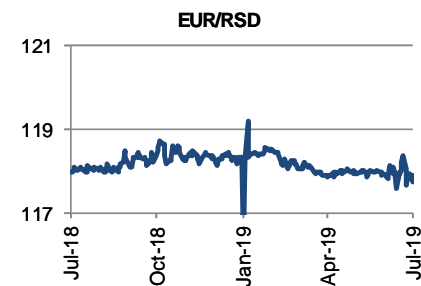
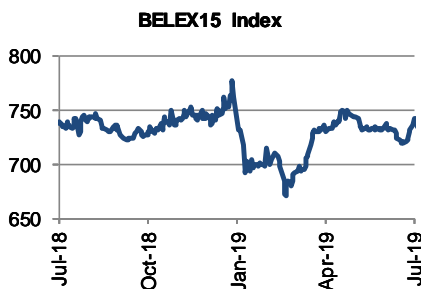
	Last	ΔDbps	ΔYTD bps
5-year	90	0	-27
10-year	138	0	-24

STOCKS

	139.43	ΔD	ΔYTD
BELEX15	742.0	0.68%	-2.59%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.96	-0.80%	0.24%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.52	-5	143
1-month	3	-1	113
3-month	3.23	0	118
6-month	3.37	0	110
12-month	3.53	-1	121

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.72	0	-31
5Y RON	4.18	0	-16
10Y RON	4.65	0	-16

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	0.83	#N/A N/A	-71
USD Jan-24	2.93	0	-131

CDS

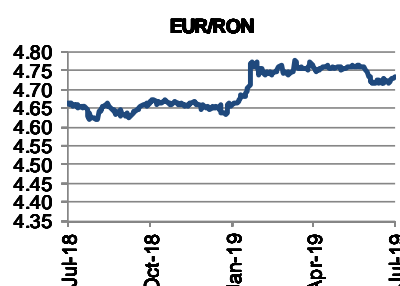
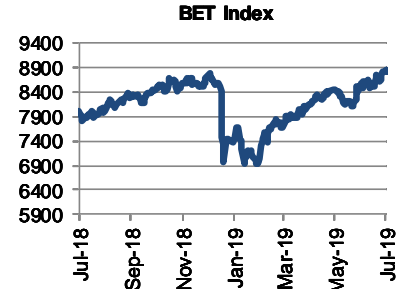
	Last	ΔDbps	ΔYTD bps
5-year	89	89	-1
10-year	131	131	-2

STOCKS

	Last	ΔD	ΔYTD
BET	8833.3	0.41%	19.63%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7353	-0.08%	-1.71%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.22	8	3
3-month	-0.14	9	4
6-month	-0.02	10	3
12-month	0.36	14	4

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.28	-1	-23
5Y BGN	-0.04	0	-15
10Y BGN	0.27	0	-49

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.17	0	-15
EUR Sep-24	0.03	0	-44

CDS

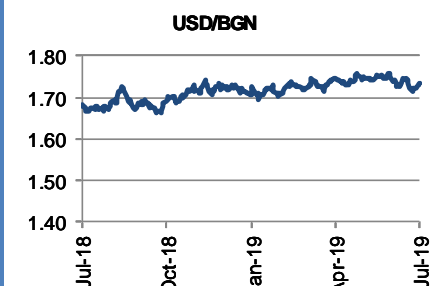
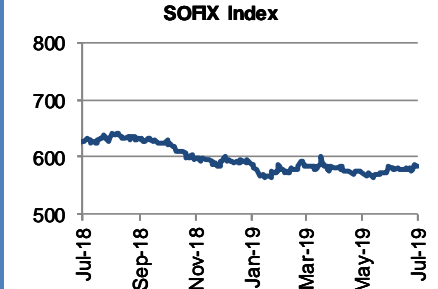
	Last	ΔDbps	ΔYTD bps
5-year	80	80	-17
10-year	129	129	-12

STOCKS

	Last	ΔD	ΔYTD
SOFIX	584.2	0.24%	-1.73%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7321	0.06%	-1.54%



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

Data updated as of 11:30 EEST

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