

# DAILY OVERVIEW

## OF GLOBAL MARKETS & THE SEE REGION

Wednesday 06 February 2019

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Feb 5:  
ISM non-manufacturing index (Jan)
- Feb 6: Trade balance
- Feb 7: Initial jobless claims (Feb 2)

#### EUROZONE

- Feb 5: PMI-services (Jan. final)
- Feb: German industrial orders (Dec)
- Feb 8
  - German exports (Dec)
  - France's & Italy's industrial production (Dec)

#### UK

- Feb 5: PMI services (Jan)
- Feb 7: BoE rate decision

#### GREECE

- Feb 07:
  - Labour force survey (Dec)
  - Commercial transactions (Dec)
- Feb 08:  
Industrial production (Dec)

#### SEE

##### BULGARIA

- Feb 08:
  - Industrial production (Dec)
  - Retail sales (Dec)

##### CYPRUS

- Feb 08: CPI (Jan)

##### ROMANIA

- Feb 05:  
Retail sales (Dec)
- Feb 07:  
Key policy interest rate announcement

##### SERBIA

- Feb 07: Key policy interest rate announcement

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Mirroring the positive tone in Wall Street overnight, most Asian equity indices traded higher on Wednesday (China's markets closed amid holidays for the Lunar New Year), following President Donald Trump's State of the Union address, which was mostly in line with market expectations. In FX markets, the EUR/USD fell to a two-week low of 1.1375 in early European trade on Wednesday, following the final PMI Composite reading for the Euro area confirmed at 51.0 in January, the lowest level in 5 ½ years. The GBP/USD followed suit trading around yesterday's two-week low of 1.2922 at the time of writing, as the services PMI for the UK fell by a more than expected 1.1pts to 50.1 in January. In the government bond markets, US Treasuries firmed amid a weaker-than-expected January ISM non-manufacturing release at 56.7, with the 10-yr yield trading around a four-session low of 2.67% in European trade at the time of writing.

**GREECE:** According to press reports, the Ministry of Finance may proceed to the revision of the household insolvency framework – which expires at the end of February – without the consent of banks. The stickiest point is the minimum level of the value of the first residence of debtors that will be protected with the MinFin placing the threshold at €150,000, which will be increased depending on the number of children. On the privatisations front, the agreement for the 20-year concession – from 2026 to 2046 – of the Athens International Airport (AIA) for a total consideration of €1.115billion (excl. VAT) was tabled to Parliament yesterday and is expected to be voted early next week.

### SOUTH EASTERN EUROPE

**TURKEY:** Jumping food prices maintain inflation at relatively high levels in January.

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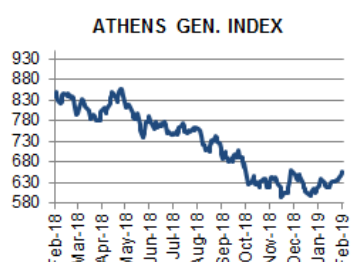
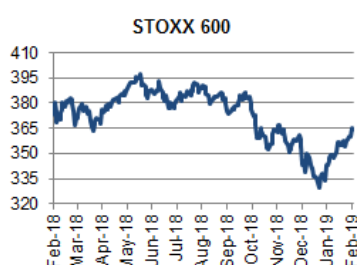
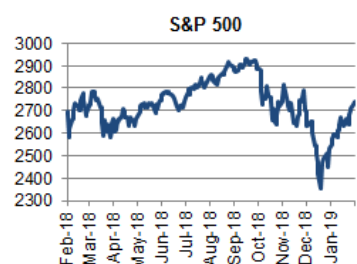
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Wednesday 06 February 2019

## Latest world economic & market developments

### GLOBAL MARKETS

Mirroring the positive tone in Wall Street overnight, most Asian equity indices traded higher on Wednesday, following President Donald Trump's State of the Union address, which was mostly in line with market expectations. The US President sounded optimistic about trade negotiations with China, while US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin will reportedly continue trade talks in Beijing early next week, potentially preparing the ground for a meeting between US President Donald Trump and China's President Xi Jinping. In FX markets, the EUR/USD fell to a two-week low of 1.1375 in early European trade on Wednesday, following the final PMI Composite reading for the Euro area confirmed at 51.0 in January, the lowest level in 5 ½ years. The PMI Composite Index indicates that real GDP is growing around a mere 0.1%QoQ in Q1 2019, down from 0.2%QoQ in Q4 2018, setting the scene for the region's worst quarter since 2013. The GBP/USD followed suit trading around yesterday's two-week low of 1.2922 at the time of writing, as the services PMI for the UK fell by a more than expected 1.1pts to 50.1 in January, following recent weak construction and manufacturing data and raising the prospect for the BoE to revise downwards its GDP forecasts on Thursday and embark on a more dovish stance like other major central banks. In the government bond markets, US Treasuries firmed amid a weaker-than-expected January ISM non-manufacturing release at 56.7, with the 10-yr yield trading around a four-session low of 2.67% in European trade at the time of writing. Meanwhile, Dallas Fed President Robert Steven Kaplan noted that "it would be prudent for the Fed to exercise patience" and that Fed officials "will get some further clarity during the first half of 2019". Fed President Jerome Powell's surprise shift to a firm neutral at the January meeting FOMC means his comments tonight will be closely watched in case he wants to tweak the messaging following a spate of strong data. It's highly likely that he avoids the monetary policy stance altogether, however, or just sticks to the tone of the press conference. Elsewhere, 10-yr Bunds were flat at 0.16%, shrugging off news reports suggesting that ECB policymakers are not inclined to alter their forward guidance on interest rates as such a move could tie the hands of the next ECB President.

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Source: Reuters, Bloomberg, Eurobank Research

### GREECE

According to press reports, the Ministry of Finance may proceed to the revision of the household insolvency framework – which expires at the end of February – without the consent of banks. The stickiest point is the minimum level of the value of the first residence of debtors that will be protected with the MinFin placing the threshold at €150,000, which will be increased depending on the number of children, a level considered too high by banks who opted for a €100,000 threshold. Other points of disagreement include the types of debt that will be eligible for protection, the level of the haircut that banks will be obliged to do and the parameters for its calculation and the income criteria that will be adopted for eligibility. It is reminded that the institutions have suggested that the revision of the household insolvency framework should be such that the most vulnerable are targeted and that strategic defaulters are excluded. To this effect, it was recommended that the new framework be approved by all relevant stakeholders. On the privatisations front, the agreement for the 20-year concession – from 2026 to 2046 – of the Athens International Airport (AIA) for a total consideration of €1.115billion (excl. VAT) was tabled to Parliament yesterday and is expected to be voted early next week. The financial closing of this deal is a pre-requisite for the sale of the HRADF's 30% stake in AIA, which is expected to take place in 2019. Meanwhile, the deadline for the submission of binding offers for the acquisition of the lignite fired units of PPC expires today – after a number of extensions – and according to press, it is likely that no offers will be submitted. A further extension to the deadline cannot be excluded.

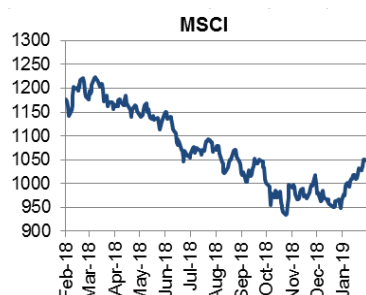
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## Latest economic & market developments in the CESEE region

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



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+

### TURKEY

Headline inflation inched up to 20.4% YoY in January up from 20.3% YoY in December in line with analysts' consensus expectations (Actual: +1.1% MoM vs Reuters: +1.1% MoM). Jumping food prices on a monthly basis (+6.4% MoM/+31.0% YoY in January, the highest reading since 2004) themselves driven by the volatile fruit & vegetables component, which skyrocketed by +12.7% MoM, as a result of poor weather conditions, were the main culprit. The hot issue of the high increases in the retail fruit & vegetables prices was among the issues discussed in the cabinet meeting earlier this week under the leadership of President Erdogan. In order to combat rising food prices, the cabinet decided to explore measures to shorten the unprocessed food supply chain as part of its ongoing strategy to reform the wholesale food market. A benign reading in the segment of transportation prices (+0.2% MoM/+14.7% YoY), the monthly drop in clothing prices (-8% MoM/+12.5% YoY) and a sharp decline in utilities prices (-3.1% MoM/+17.2% YoY) reflecting the government's price cuts by 10% in electricity, gas and water for consumers helped offset the rally in food prices.

Despite the supply side shock, headline and core inflation metrics are still on a downward trend. Headline inflation has retreated from its historic highs in recent months ending at 20.3% YoY in December down from 21.6% YoY in November and 25.2% YoY in October. The most important driver behind this improvement is the sharp decline of the international energy prices in Q4-2018, the weak domestic demand conditions, but more importantly, the stabilization of the domestic currency reversing some of its heavy losses in the 2H-2018 on the back of easing investors' concerns over the Central Bank independence and deteriorating diplomatic and economic ties with US administration. Core inflation (which excludes food, alcohol, tobacco, energy and gold prices) eased further to 19.0% in January down from 19.5% YoY in December vs. 20.7% YoY in November. At the time of writing, the lira traded around 5.20/\$ close to the multi-month lows recorded in last November against an all-time low of 6.86/\$ in August of 2018.

Despite the recent improvement, the economic environment remains recessionary and the inflation outlook challenging. Real GDP growth expanded by 2.3% YoY in Q3-2018 down from a revised 5.3% YoY in Q2-2018 and 7.2% YoY in Q1-2018, registering its slowest pace of annual expansion since Q3-2016. On a seasonally and calendar adjusted basis, real GDP growth contracted by -1.1% QoQ in Q3-2018, entering most likely a technical recession as of Q4-2018, compared to 0.8% QoQ in Q2-2018 and 1.6% QoQ in Q1-2018. Having tightened by a cumulative 1025bps in 2018 factoring in the 75bps hike delivered in last April, CBRT is widely expected to remain on hold until at least the end of 1H-2018. In its last meeting on January the CBRT maintained in its forward guidance the tightening bias underlining its intention for further tightening if needed and highlighted inflationary pressures. Among other factors, market attention has turned to the downside risks from the regional elections in late March. Investors are concerned over the probability that the government resorts to more fiscal expansionary and populist measures or that the Central Bank will be subject to political pressures to lower interest rates in the pre-election period, a move widely perceived as premature. Inflation will most probably remain in double digit levels around 20% until 1H-2019 amid past lira weakness, second round effects and elevated expectations.

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## GLOBAL MARKETS

Stock markets				FOREX				Government Bonds				Commodities			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD		Last	ΔD	ΔYTD
S&P 500	2737.70	0.5%	9.2%	EUR/USD	1.1391	-0.1%	-0.7%	(yields)	2.68	-1	0	GOLD	1314	-0.1%	2.5%
Nikkei 225	20874.06	0.1%	4.3%	GBP/USD	1.2969	0.2%	1.6%	UST - 10yr	0.17	0	-8	BRENT CRUDE	61	-0.8%	14.2%
STOXX 600	364.45	-0.1%	7.9%	USD/JPY	109.67	0.3%	0.0%	Bund - 10yr	-0.01	0	-2	LMEX	2976	0.2%	6.2%
								JGB - 10yr							

## SERBIA

## Money Market

BELIBOR	Last	ΔD	ΔYTD
T/N	2.35	1	-9
1-week	2.51	1	-5
1-month	2.70	0	-3
3-month	3.06	-1	3
6-month	3.20	-2	2

## RS Local Bonds

	Last	ΔD	ΔYTD
3Y RSD	3.13	1	7
5Y RSD	3.77	0	26
7Y RSD	4.16	0	0

## RS Eurobonds

	Last	ΔD	ΔYTD
USD Feb-20	3.58	-1	-42

## CDS

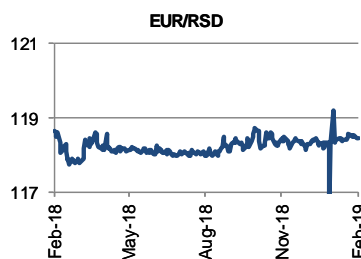
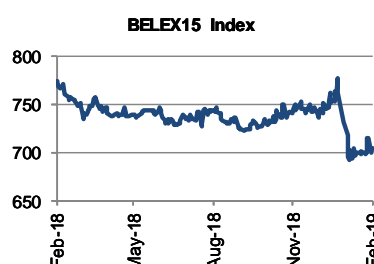
	Last	ΔD	ΔYTD
5-year	105	7	-12
10-year	155	9	-7

## STOCKS

	Last	ΔD	ΔYTD
BELEX15	704.6	0.00%	-7.50%

## FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.39	0.05%	-0.13%



## ROMANIA

## Money Market

ROBOR	Last	ΔD	ΔYTD
O/N	3.55	2	246
1-month	3.27	1	140
3-month	3.11	2	106
6-month	3.31	1	104
12-month	3.5	2	118

## RO Local Bonds

	Last	ΔD	ΔYTD
3Y RON	4.09	0	6
5Y RON	4.49	0	15
10Y RON	4.88	0	7

## RO Eurobonds

	Last	ΔD	ΔYTD
EUR Oct-25	1.57	-	3
USD Jan-24	3.71	-1	-53

## CDS

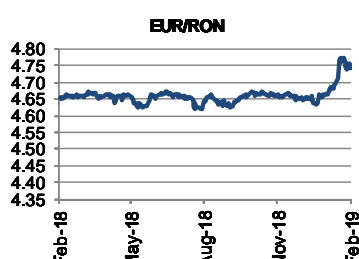
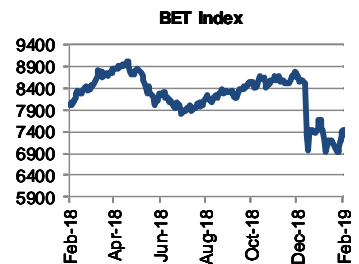
	Last	ΔD	ΔYTD
5-year	104	0	14
10-year	148	0	14

## STOCKS

	Last	ΔD	ΔYTD
BET	7448.1	0.55%	0.87%

## FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7432	-0.01%	-1.88%



## BULGARIA

## Money Market

SOFIBOR	Last	ΔD	ΔYTD
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	ΔD	ΔYTD
3Y BGN	-0.22	-2	-17
5Y BGN	0.04	0	-7
10Y BGN	0.74	0	-1

## BG Eurobonds

	Last	ΔD	ΔYTD
EUR Mar-22	-0.07	0	-5
EUR Sep-24	0.27	7	-21

## CDS

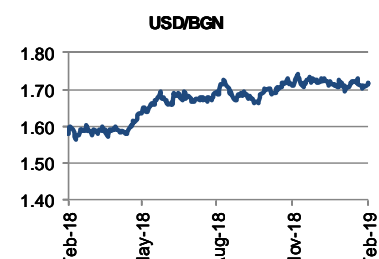
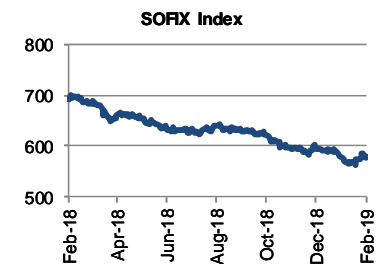
	Last	ΔD	ΔYTD
5-year	79	0	-18
10-year	126	0	-15

## STOCKS

	Last	ΔD	ΔYTD
SOFIX	577.7	-0.24%	-2.83%

## FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.717	-0.20%	-0.67%



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

Data updated as of 11:45 EEST

Wednesday 06 February 2019

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