

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- July 10:
 - Wholesale Inventories (May, F)
 - FOMC Meeting Minutes
 - Fed Chair Jerome Powell testifies before the House Financial Services Committee
- July 11:
 - CPI (Jun)
 - Initial Jobless Claims (06/07)
 - Fed Chair Jerome Powell testifies before the Senate Banking Committee
- July 12: PPI (Jun)

EUROZONE

- July 8: Germany's industrial production (May)
- July 10: France's industrial production (May)
- July 11: ECB Meeting Minutes
- July 12
 - Industrial Production (May)
 - DBRS reviews Italy's sovereign rating

GREECE

- July 10:
 - CPI (Jun)
 - Industrial Production (May)
- July 11:
 - Unemployment rate (Apr)

SEE

BULGARIA:

- July 09:
 - Industrial Production (May)
 - Retail Sales (May)
- July 12: Trade Balance (May)

ROMANIA:

- July 08: GDP (Q1, F)
- July 10:
 - CPI (Jun)
 - Trade Balance (May)

SERBIA:

- July 11:
 - Key Interest Rate Policy Meeting
 - July 12: CPI (Jun)
- Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Given the lack of major data releases on Monday, investors continued to digest Friday's stronger than expected US non-farm payrolls, which showed a 224k increase in June, the highest in the last five months, prompting a scaling back in short-term Fed rate easing expectations. Fed Funds futures are now assigning a probability of less than 5.0% for a 50bps rate cut at the 30-31 July FOMC meeting from around 25% before the release of the US June non-farm payrolls while a 25bps rate cut remains fully-priced in. Against this background, European stock markets followed Asian and US markets lower in early trade today, yields across the US curve were modestly higher on the day, while the USD remained well supported. In the absence of top-tier news today, investors are focused on the first round of the Fed Chair Jerome Powell's semi-annual testimony before the US Congress and the minutes from the latest FOMC meeting, both due tomorrow.

GREECE: The composition of the new, 51-member cabinet, which will be sworn in today, was announced yesterday and it is constituted by both seasoned politicians with experience in previous governments as well as technocrats. In other news, following yesterday's Eurogroup, ESM Managing Director Klaus Regling reiterated that the agreed primary surplus targets constitute a cornerstone of the EPPS programme and are necessary for debt sustainability.

SOUTH EASTERN EUROPE

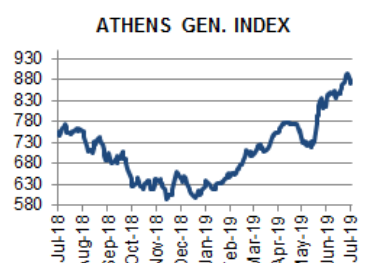
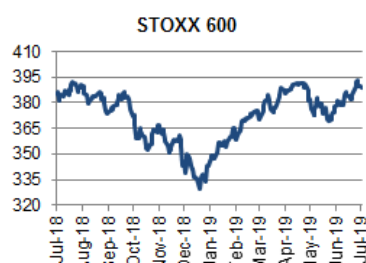
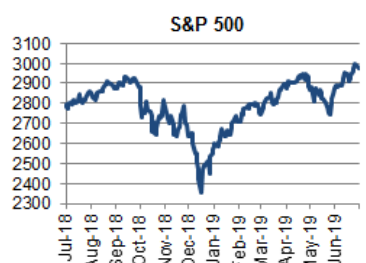
CESEE MACRO & MARKET DEVELOPMENTS: Yesterday the Eurogroup and the President of the ECB, along with the respective representatives from Denmark discussed the prospects of Croatia's participation in the ERM II in the presence of the European Commission President, the Croatian Finance Minister and the Croatian Central Bank Governor. The discussion followed Croatia's Letter of Intent to join the Exchange Rate Mechanism (ERM II) on the 4th of July.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Given the lack of major data releases on Monday, investors continued to digest Friday's stronger than expected US non-farm payrolls, which showed a 224k increase in June, the highest in the last five months, prompting a scaling back in short-term Fed rate easing expectations. Fed Funds futures are now assigning a probability of less than 5.0% for a 50bps rate cut at the 30-31 July FOMC meeting from around 25% before the release of the US June non-farm payrolls, while a 25bps rate cut remains fully-priced in. Against this background, European stock markets followed Asian and US markets lower in early trade today, with the Euro Stoxx50 standing 0.3% weaker on the day at the time of writing, hovering around a multi-session low of 3,505 points. Meanwhile, yields across the US curve were modestly higher on the day with the 10-yr yield up c. 2bps close to 2.06%. Along these lines, 10-yr Bunds were c. 2bps higher on the day at -0.36%, some way off last week's fresh record low of -0.41%, also affected by yesterday's positive industrial production data from Germany. Following a 2.0%MoM decline in April, the biggest drop since August 2014, industrial output rebounded in May, expanding by a higher than expected 0.3%MoM mainly thanks to manufacturing. That said, core industrial output (ex. construction and energy) improved by a more meaningful 0.9%MoM. However, in spite of the May improvement, the Q2 carry-over remained in negative territory at -1.4%QoQ vs. +0.4%QoQ in Q1, pointing to further weakness in industrial production in the coming months. In FX markets, the USD remained well supported as a consequence of the stronger-than-expected US June non-farm payrolls, with the DXY hovering around 97.5 at the time of writing, the highest since 19 June, and around 1.7% higher from its late-June lows. In the absence of top-tier news today, investors focus on the first round of the Fed Chair Jerome Powell's semi-annual testimony before the US Congress and the minutes from the latest FOMC meeting, both due tomorrow.

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GREECE

The composition of the new, 51-member cabinet, which will be sworn in today, was announced yesterday and it is constituted by both seasoned politicians with experience in previous governments as well as technocrats. The critical Ministry of Finance will be headed by Christos Staikouras, who will be supported by three Deputy Ministers, namely Apostolos Vesiropoulos (tax policy and public property), Theodoros Skylakakis (fiscal policy) and George Zavvos (financial system). In other news, the Eurogroup that convened yesterday discussed the 3rd Enhanced Surveillance Report on Greece, which is not linked to a decision on further debt relief measures. Following the 7th July general elections, the Eurogroup will look into the new government's policy intentions in the period ahead but referring to agreed EPPS target Eurogroup President Mario Centeno commented that "commitments are commitments, and if we break them, credibility is the first thing to fall apart. That brings about a lack of confidence and investment." On primary surplus targets in particular, ESM Managing Director Klaus Regling noted that the 3.5% surplus constitutes a cornerstone of the programme from the beginning and it is difficult to see how debt sustainability will be achieved without it.

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Latest economic & market developments in the CESEE region

CESEE MACRO AND MARKET DEVELOPMENTS

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

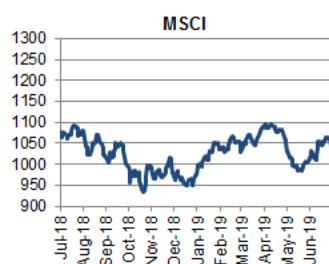
* ESA 2010

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+

Following the Letter of Intent (LoI) to enter the Exchange Rate Mechanism (ERM II) of Croatian authorities submitted on the 4th of July, yesterday the Eurogroup and the President of the ECB, along with the respective representatives from Denmark discussed the prospects of Croatia's participation in the ERM II in the presence of the European Commission President and the Croatian authorities. According to the relevant press release, all involved parties welcome Croatia's initiative and ascertain that the country has adopted the required measures and has taken action on the banking supervision along with the macro-prudential and the anti-money laundering frontier. The ECB and the Commission will monitor the effective implementation of these commitments and once they have provided a positive assessment, a decision will be made by the ERM II parties on the formal application of the Croatian authorities for ERM II participation. The decision will be linked to the ECB decision on close cooperation, thus implying that Croatia simultaneously joins ERM II and the Banking Union. The ECB could be expected to conclude its comprehensive assessment within approximately one year after Croatia's formal application for close cooperation, and its decision may mark the start date of close cooperation conditional on Croatia's progress in implementing the possible measures required in relation to the results of the comprehensive assessment. In line with past practice, Croatia is also expected to take further commitments at the moment of joining ERM II with the aim of achieving a high degree of sustainable economic convergence by the time the euro will be introduced.

Moving on to Serbia, according to unofficial estimates by commercial banks, up to 90% of CHF borrowers have agreed to convert their housing loans to EUR-denominated loans. The deadline for conversion of these loans may have expired on Friday but most probably some banks will extend the deadline further. The law on conversion of CHF-indexed housing loans which was adopted by the Serbian parliament in April envisages CHF-indexed debt outstanding to be converted into euros following a 38% haircut. The state will cover 15% of the conversion along with the debt write-off costs that will be generated during the conversion of CHF-indexed loans.

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Tuesday 09 July 2019

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	2975.95	-0.5%	18.7%	EUR/USD	1.1208	-0.1%	-2.3%	UST - 10yr	2.05	1	-63	GOLD	1393	-0.2%	8.7%
Nikkei 225	21565.15	0.1%	7.7%	GBP/USD	1.2484	-0.3%	-2.2%	Bund-10yr	-0.36	1	-60	BRENT CRUDE	64	-0.1%	19.0%
STOXX 600	388.50	-0.4%	15.1%	USD/JPY	108.81	-0.1%	0.8%	JGB - 10yr	-0.14	1	-14	LMEX	2772	0.0%	-1.0%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.20	-1	-24
1-week	2.30	0	-26
1-month	2.54	1	-19
3-month	2.90	-2	-13
6-month	3.04	-1	-14

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.81	0	-26
5Y RSD	3.18	-2	-32
7Y RSD	3.30	-2	-86

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.83	-1	-117

CDS

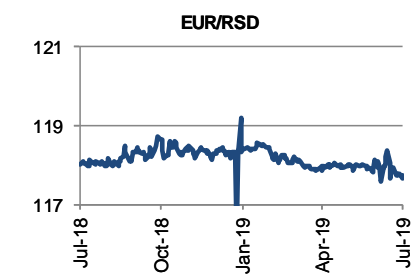
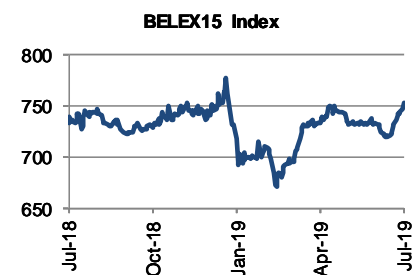
	Last	ΔDbps	ΔYTD bps
5-year	92	2	-26
10-year	140	2	-22

STOCKS

	Last	ΔD	ΔYTD
BELEX15	752.6	0.78%	-1.19%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.72	-0.07%	0.44%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.32	0	123
1-month	2.93	0	106
3-month	3.18	0	113
6-month	3.37	0	110
12-month	3.52	0	120

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.68	0	-35
5Y RON	4.14	0	-20
10Y RON	4.57	0	-24

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	0.71	-	-83
USD Jan-24	2.94	0	-129

CDS

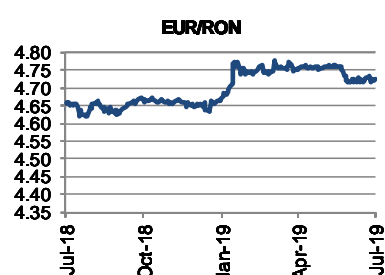
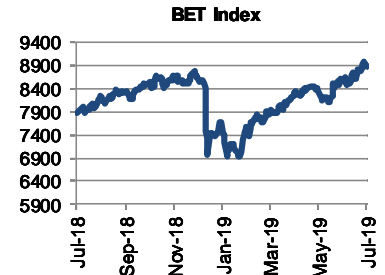
	Last	ΔDbps	ΔYTD bps
5-year	87	0	-3
10-year	129	0	-5

STOCKS

	Last	ΔD	ΔYTD
BET	8879.3	0.02%	20.26%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7258	-0.01%	-1.52%



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	-0.27	#N/A	N/A
5Y BGN	0.03	#N/A	N/A
10Y BGN	0.26	#N/A	N/A

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.13	0	-9
EUR Sep-24	0.03	0	-45

CDS

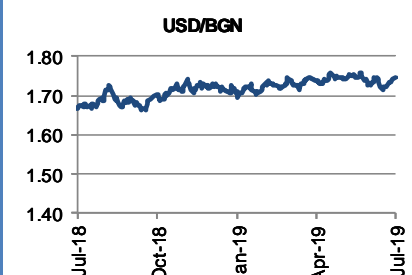
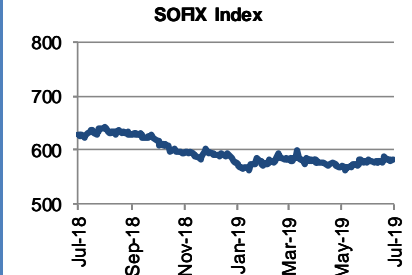
	Last	ΔDbps	ΔYTD bps
5-year	80	0	-17
10-year	129	0	-12

STOCKS

	Last	ΔD	ΔYTD
SOFIX	582.4	-0.10%	-2.03%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7452	-0.06%	-2.27%



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

Data updated as of 09:50 EEST

Tuesday 09 July 2019

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