

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: The tone Fed Chair Jerome Powell adopted at yesterday's semi-annual testimony on monetary policy before the House Financial Services Committee was more dovish than expected, confirming the Fed's intention to cut interest rates at the upcoming 30-31 July meeting. The case of lower Fed interest rates at this month's policy meeting was also supported by the minutes of the FOMC's June meeting that were released a few hours later. In reaction to the dovish message from the testimony and the FOMC meeting minutes, USTs yields dropped across the curve with short-dated paper outperforming. Favored by the Fed's dovish message, the majority of Asian equity markets ended in positive territory earlier today and European bourses were firmer in early trade, taking their cue from Wall Street's positive performance overnight, with the S&P 500 closing 0.5% higher after testing levels beyond 3000 for the first time ever. In FX markets, the USD was weaker against most of its major currency peers. Looking at the remainder of the day, the ECB will publish the account of its June meeting while in the US, we expect inflation data for June.

GREECE: The German Chancellor Angela Merkel stated that she agrees with Euro area Finance Ministers in not changing the terms of the Enhanced Post Programme Surveillance for Greece as this programme has been extensively negotiated in the past. Meanwhile, the summer EC report on Greece in the context of the European Semester, forecasts annual growth of 2.1% in 2019 - downwards revised from 2.2% in the EC spring forecast - and 2.2% in 2020 - unchanged from the EC spring forecast.

SOUTH EASTERN EUROPE

ROMANIA: Headline inflation declined to 3.8% YoY in June down from 4.1% YoY in May.

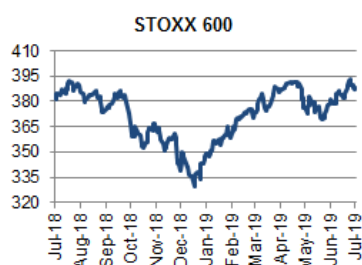
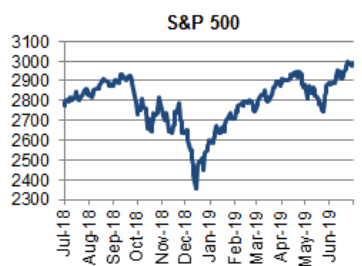
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Thursday 11 July 2019

Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank
Research

The tone Fed Chair Jerome Powell adopted at yesterday's semi-annual testimony on monetary policy before the House Financial Services Committee was more dovish than expected, confirming the Fed's intention to cut interest rates at the upcoming 30-31 July meeting. In addition to reiterating that the Central Bank will "act as appropriate to sustain the expansion", the Fed Chair highlighted that, based on incoming data and other developments, it appears that, since the June meeting, "uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the US economic outlook". He added that inflation pressures remain muted and expressed concerns that weak inflation may prove more persistent than Fed policy makers currently anticipate. The case of lower Fed interest rates at this month's policy meeting was also supported by yesterday's minutes of the FOMC's June meeting, which revealed that "many participants judged that additional monetary policy accommodation would be warranted in the near term should these recent developments prove to be sustained and continue to weigh on the economic outlook". In reaction to the above, USTs yields dropped across the curve with short-dated paper outperforming. The 2-10yr spread was standing slightly above 24bps in early European trade, some 9bps wider compared to Tuesday's close, with the 2-yr note yielding levels around 1.80%, 13bps below yesterday's intraday high. EGBs followed suit but gains were relatively contained, with the 10-yr Bund yield hovering around -0.31% at the time of writing, c. 1bps lower on the day and 3bps down from yesterday's two-week intraday high. Meanwhile, the majority of Asian equity markets ended in positive territory earlier today and European bourses were firmer in early trade, taking their cue from Wall Street's positive performance overnight, with the S&P 500 closing 0.5% higher after testing levels beyond 3000 for the first time ever. In FX markets, the USD was weaker against most of its major currency peers, with the EUR/USD rebounding to a multi-session high of 1.1280 earlier today, up 0.2% on the day. Looking at the remainder of the day, the ECB will publish the account of its June meeting while in the US, we expect inflation data for June.

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GREECE

The German Chancellor Angela Merkel stated that she agrees with Euro area Finance Ministers in not changing the terms of the Enhanced Post Programme Surveillance for Greece as this programme has been extensively negotiated in the past. Meanwhile, the summer EC report on Greece in the context of the European Semester, forecasts annual growth of 2.1% in 2019 - downwards revised from 2.2% in the EC spring forecast - and 2.2% in 2020 - unchanged from the EC spring forecast. On the economic data front, according to the Hellenic Statistical Authority (ELSTAT), the consumer price index (CPI) in June 2019 decreased by 0.3%YoY while in June 2018 the respective change was 1.0%YoY. As per the annual changes in individual groups of goods and services, decreases were recorded in: food and non-alcoholic beverages (-1.1%), housing (-0.7%), household equipment (-1.8%), recreation and culture (-1.6%), education (-0.8%) and miscellaneous goods and services (-1.1%). On the other side, increases were recorded in: alcoholic beverages and tobacco (+0.8%), health (+0.7%), transport (+0.1%), communication (+3.5%), and hotel-cafes-restaurants (+0.6%). The average CPI for the 12-month period from July 2018 to June 2019 increased by 0.8%YoY while for the 12-month period from July 2017 to June 2018 the corresponding change had been 0.6%YoY. Meanwhile, the industrial production index in May 2019 recorded a decrease of 1.2%YoY while in May 2018 it had increased by 1.0%YoY. The change is attributed to a 10%YoY decrease in mining and quarrying and a 2.1%YoY increase in manufacturing.

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Latest economic & market developments in the CESEE region

ROMANIA

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

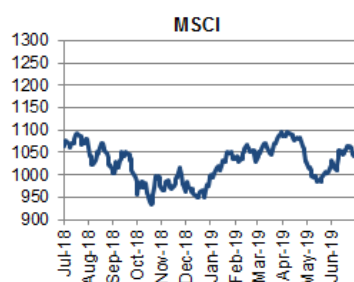
CYPRUS: Indicators	2017	2018	2019F
Real GDP growth %	4.5	3.9	3.3
HICP (pa, yoy %)	0.7	0.8	1.0
Fiscal Balance/GDP*	1.8	2.9	3.0
Current Account/GDP	-8.4	-7.0	-7.5

* 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+

Headline inflation declined to 3.8% YoY in June down from 4.1% YoY in May & April vs. only 3.3% YoY in last December. The reading was more or less in line with the consensus of the Reuters poll of analysts (3.9% YoY). Despite its monthly decline, the June reading still lies significantly higher above the NBR inflation target variation band (2.5% +/-1%) driven by the monthly decline of volatile food (-0.5% MoM) and fuels prices (-0.2% MoM). The adjusted Core CPI (excluding administered and volatile prices, alcohol and tobacco) index also increased over the same month to 3.3% YoY in June vs. 3.2% YoY in May from 2.95% YoY in April compared to 2.4% YoY in December, which implies that demand-side pressures are building up despite softer economic activity in 1H-2019.

On July 4th, the NBR maintained the key policy rate (KPR) unchanged at 2.5% and MRRs for FX and RON denominated liabilities at 8% respectively. At the same time, the NBR also decided to preserve the deposit facility rate at 1.50% and the lending facility rate at 3.50% leaving the interest rate corridor unchanged at 2%. The decision was widely anticipated by market participants as it met the expectations of the vast majority of analysts in the relevant surveys. In the press release that followed, the Central Bank commented on the recent inflation developments. The NBR is expected to stay put on rates until at least the end of 2019 underpinned by the accommodative stance of the major central banks. The NBR is deterred to hike interest rates as the interest rate differential could act as a catalyst for attracting short-term portfolio inflows in the market.

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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	2993.07	0.5%	19.4%	EUR/USD	1.1276	0.2%	-1.7%	UST - 10yr	2.04	-2	-64	GOLD	1422	0.2%	10.9%
Nikkei 225	21643.53	0.5%	8.1%	GBP/USD	1.2536	0.3%	-1.8%	Bund-10yr	-0.27	4	-51	BRENT CRUDE	67	0.6%	25.4%
STOXX 600	388.36	0.3%	15.0%	USD/JPY	108.03	0.4%	1.5%	JGB - 10yr	-0.14	-2	-14	LMEX	2809	1.8%	0.3%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.20	-2	-24
1-week	2.30	0	-26
1-month	2.55	1	-18
3-month	2.90	-1	-13
6-month	3.03	-1	-15

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.75	-2	-31
5Y RSD	3.18	0	-33
7Y RSD	3.30	-1	-85

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.88	-3	-112

CDS

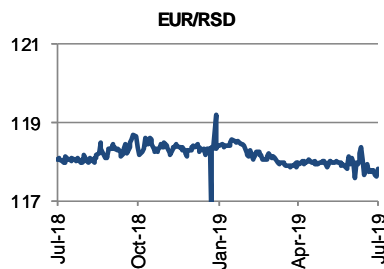
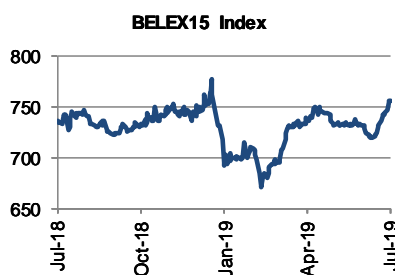
	Last	ΔDbps	ΔYTD bps
5-year	88	-3	-30
10-year	135	-4	-27

STOCKS

	Last	ΔD	ΔYTD
BELEX15	756.4	-0.03%	-0.70%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.83	0.08%	0.35%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.18	-3	109
1-month	2.9	0	103
3-month	3.17	0	112
6-month	3.34	0	107
12-month	3.5	0	118

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.66	0	-38
5Y RON	4.15	0	-19
10Y RON	4.58	0	-23

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	0.77	-	-77
USD Jan-24	2.99	0	-125

CDS

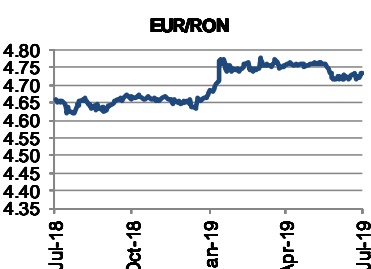
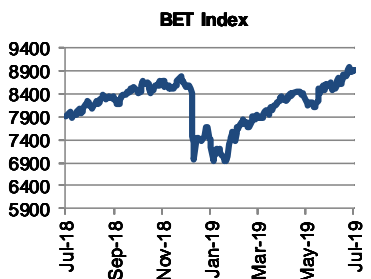
	Last	ΔDbps	ΔYTD bps
5-year	87	0	-3
10-year	129	0	-5

STOCKS

	Last	ΔD	ΔYTD
BET	8920.4	0.37%	20.81%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7329	0.00%	-1.66%



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	-0.31	-2	-26
5Y BGN	-0.03	0	-14
10Y BGN	0.28	0	-47

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.15	0	-11
EUR Sep-24	0.03	0	-45

CDS

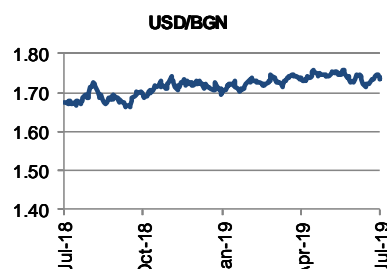
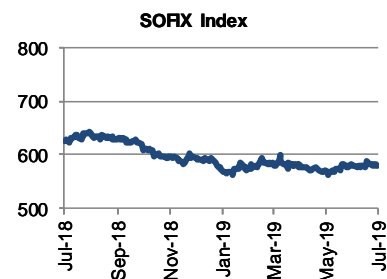
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-17
10-year	128	0	-13

STOCKS

	Last	ΔD	ΔYTD
SOFIX	580.6	0.00%	-2.32%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7346	0.23%	-1.68%



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

Data updated as of 10:50 EEST

Thursday 11 July 2019

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