

Wednesday 13 March 2019

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- Mar 11: Retail sales (Jan.)
- Mar 12: CPI (Feb.)
- Mar 13:
 - Durable goods orders (Jan. P.)
 - PPI (Feb.)
 - Construction spending (Jan.)
- Mar 14:
 - Initial jobless claims (09/03)
 - Import price index (Feb.)
 - New home sales (Jan.)
- Mar 15:
 - Empire State manufacturing (Mar.)
 - Industrial production (Feb.)
 - UM consumer confidence (Mar. P.)

EUROZONE

- Mar 13: Industrial production (Jan.)
- Mar 15: CPI (Feb.)

UK

- Mar 12: Start of the Brexit votes

GREECE

- Mar 12:
 - CPI (Feb.)
 - Unemployment rate (Q4 2018.)

SEE

BULGARIA

- Mar 13: Trade balance (Jan.)
- Mar 14: CPI (Feb.)

CYPRUS

- Mar 15: CPI (Feb.)

ROMANIA

- Mar 12:
 - CPI (Feb.)
 - Trade balance (Jan.)

SERBIA

- Mar 12:
 - CPI (Feb.)
 - Trade balance (Jan.)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Despite UK Prime Minister Theresa May's efforts to secure last-minute legal assurances from the EU over the contentious Irish backstop issue, the UK House of Commons rejected yesterday her Brexit plan for the second time, by a majority of 391 votes to 242 votes. Later today (20:00CET), MPs will vote on whether they "decline to leave the EU without a deal". Prolonged Brexit-related uncertainty favored core government bonds. In FX markets, the GBP lost some ground but losses were rather limited.

GREECE: The IMF released yesterday its first Post-Programme Monitoring report projecting GDP growth at 2.4% in 2019, 2.2% in 2020 and 1.6% in 2021 gradually decelerating towards 1% in the medium term. 2019 GDP growth is expected to be driven by exports, private consumption and investment as sentiment improves. Greece's medium-term debt repayment capacity is considered adequate although risks are rising and vulnerabilities remain. In other news, the new legal framework for the protection of debtholders' first residence has still not been finalised with the institutions still reportedly raising objections regarding the eligibility criteria on the grounds that they are too generous.

SOUTH EASTERN EUROPE

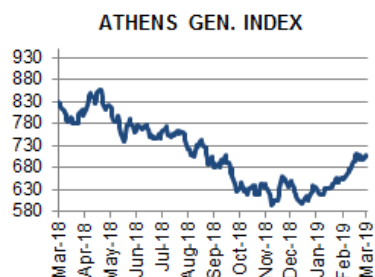
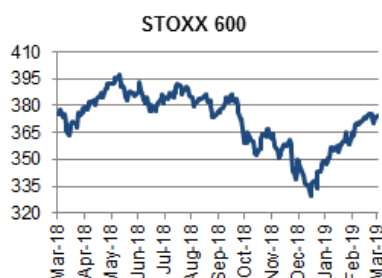
SERBIA: According to the official statistical data released yesterday, in February, inflation jumped to 0.7% MoM and 2.4% YoY from 0.4% MoM and 2.1% YoY in January. However, core inflation remained at 1.3% YoY in February from 1.2% YoY in January, implying subdued inflationary pressures. As such, expectations over the inflation prices within 2019 are well anchored somewhere below the central midpoint of the inflation target, i.e. 3.0% YoY, with the upside risks for the inflation outlook coming from the external environment and particularly from the developments in the commodity markets, notably oil prices. Concluding, referring to the local debt capital markets, yesterday, Serbia's Ministry of Finance raised EUR25mn in 3-year bonds at the reopening of the 23rd of January issue. The bonds that bear a 1.25% annual coupon and mature on the 25th of January in 2022 were sold at an average yield of 1.23%, down from the 1.25% yield achieved at the initial auction on the 23rd of January.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

European bourses opened mixed today while US equity futures point to a weaker opening as Brexit-related uncertainty remains elevated. Despite UK Prime Minister Theresa May's efforts to secure last-minute legal assurances from the EU over the contentious Irish backstop issue, the UK House of Commons rejected yesterday her Brexit plan for the second time, by a majority of 391 votes to 242 votes. Later today (20:00CET), MPs will vote on whether they "decline to leave the EU without a deal". In an attempt to avoid a potential flurry of cabinet resignations, Theresa May promised to grant Conservative MPs a free vote. If MPs reject a no-deal Brexit scenario, as it is widely expected, a third vote will follow on Thursday on whether to authorize PM Theresa May to request a "short and limited" extension of the current Article 50 deadline on 29 March. If this proposal is backed, the EU will decide on the issue at the upcoming EU Council scheduled for 21-22 March.

Prolonged Brexit-related uncertainty favored core government bonds. After hitting a session peak close to 0.11% in early European trade on Tuesday on news that the European Commission and the UK Prime Minister had reached an agreement on legally binding assurances that the backstop was intended to be temporary, the 10-yr Bund yield resumed its declining trend hovering around 0.07% in early European trade at the time of writing, within distance from a more than two year low slightly below 0.05% tested late last week. US Treasuries were also firmer with the 10-yr yield standing close to 2.62%, some 5.5bps lower from Tuesday's session high after briefly falling below 2.60% for the first time since early January. Lower than expected US inflation data, also favored. Headline CPI rose 1.5%YoY in February, the smallest gain in nearly 2½ years while core CPI gained 2.1%YoY after increasing 2.2%YoY for the last three consecutive months. In FX markets, the GBP lost some ground but losses were rather limited, standing close to 1.3130/35 against the USD at the time of writing, having rebounded from a near three-week low of 1.2650 hit on Monday following a spike to 1.3288 early yesterday. Apart from Brexit politics, focus today is on Eurozone's industrial production and US durable goods orders, both for January.

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GREECE

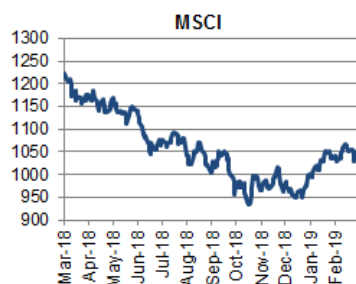
The IMF released yesterday its first Post-Programme Monitoring report projecting GDP growth at 2.4% in 2019, 2.2% in 2020 and 1.6% in 2021 gradually decelerating towards 1% in the medium term. 2019 GDP growth is expected to be driven by exports, private consumption and investment as sentiment improves. Greece's medium-term debt repayment capacity is considered adequate although risks are rising and vulnerabilities remain. Among these are the level of public debt, impaired private balance sheets and a weak payment culture. According to the IMF, risks to employment and competitiveness exist from the reversal of the 2012 collective bargaining agreement reform and the increase of the minimum statutory wage above productivity growth. At the same time it emphasizes the importance of a more growth-friendly and socially-inclusive policy mix that would not compromise the medium-term fiscal targets and supports the planned tax cuts in 2020 and the broadening of the personal income tax base. Finally, the IMF advises in favour of more rigorous action towards the reduction of NPEs with the engagement of key stakeholders and the assessment of the efficiency of each option. In other news, the new legal framework for the protection of debtholders' first residence has still not been finalised with the institutions still reportedly raising objections regarding the eligibility criteria on the grounds that they are too generous covering also debtholders that are not financially weak.

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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+

Latest economic & market developments in the CESEE region

SERBIA

According to the official statistical data released yesterday, in February, inflation jumped to 0.7% MoM and 2.4% YoY from 0.4% MoM and 2.1% YoY in January. The ca 2.0% MoM price increase in the food and the non-alcoholic beverage product segments was the main driver for the monthly CPI increase. The vegetables price increase by 33.7% YoY and to a lesser extent the increase in the tobacco products prices by 7.9% YoY resulted in February's higher reading. Seasonal discounts in February had a sizable deflationary impact on the clothing and footwear category of products with their prices decreasing by 1.5% MoM.

Core inflation remained at 1.3% YoY in February from 1.2% YoY in January, implying subdued inflationary pressures. As such, expectations over the inflation prices within 2019 are well anchored somewhere below the central midpoint of the inflation target, i.e. 3.0% YoY. In the near future, we anticipate some further pressure from the demand side, stemming from wages and pension increases in effect since 2018, which, however, are not expected to push the following inflation readings above the 3.0% midpoint target. As inferred in the National Bank's Governor's announcement on last Thursday, following the monetary policy meeting, the greatest challenges and uncertainties in the inflation outlook come from the external environment with focus on the developments in the commodity markets, notably oil prices.

Concluding, referring to the local debt capital markets, yesterday, Serbia's Ministry of Finance raised EUR25mn in 3-year bonds at the reopening of the 23rd of January issue. The target of the auction was EUR135.8mn but the Ministry decided to place bonds for up to EUR50mn. Nevertheless, investors' interest was tipid as they placed bids for EUR 25.0mn. The bonds that bear a 1.25% annual coupon were sold at an average yield of 1.23%, down from the 1.25% yield achieved at the initial auction on the 23rd of January. The sold notes mature on the 25th of January in 2022. The next auction is scheduled for the 19th of March when the Ministry of Finance will offer 3-year bonds for RSD 10bn.

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Wednesday 13 March 2019

GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities													
<table border="1"> <thead> <tr> <th></th> <th>Last</th> <th>ΔD</th> <th>ΔYTD</th> </tr> </thead> <tr> <td>S&P 500</td> <td>2791.52</td> <td>0.3%</td> <td>11.4%</td> </tr> <tr> <td>Nikkei 225</td> <td>21290.24</td> <td>-1.0%</td> <td>6.4%</td> </tr> <tr> <td>STOXX 600</td> <td>374.09</td> <td>0.2%</td> <td>10.8%</td> </tr> </table>		Last	ΔD	ΔYTD	S&P 500	2791.52	0.3%	11.4%	Nikkei 225	21290.24	-1.0%	6.4%	STOXX 600	374.09	0.2%	10.8%
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 | | Last | ΔD | ΔYTD | |---------|--------|------|-------| | EUR/USD | 1.1291 | 0.0% | -1.6% | | GBP/USD | 1.3149 | 0.6% | 3.0% | | USD/JPY | 111.31 | 0.0% | -1.4% | | | (yields) | Last | ΔDbps | ΔYTD bps | |------------|-------|-------|----------| | UST - 10yr | 2.62 | 1 | -7 | | Bund-10yr | 0.07 | 1 | -18 | | JGB - 10yr | -0.04 | -1 | -5 | | | | Last | ΔD | ΔYTD | |-------------|------|------|-------| | GOLD | 1308 | 0.5% | 2.0% | | BRENT CRUDE | 67 | 0.5% | 24.5% | | LMEX | 3034 | 1.5% | 8.3% | |

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.29	-1	-15
1-week	2.41	-1	-15
1-month	2.64	-1	-9
3-month	2.97	0	-6
6-month	3.10	0	-8

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.17	-1	11
5Y RSD	3.78	0	27
7Y RSD	3.98	-4	-18

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.76	0	-24

CDS

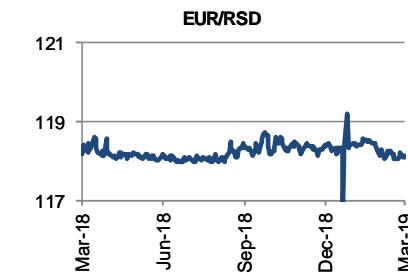
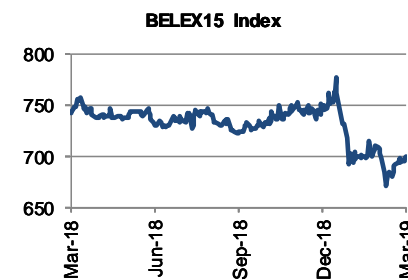
	Last	ΔDbps	ΔYTD bps
5-year	98	-2	-20
10-year	150	-1	-12

STOCKS

	Last	ΔD	ΔYTD
BELEX15	699.4	0.16%	-8.18%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.20	0.00%	0.03%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.7	3	61
1-month	2.81	1	94
3-month	3.06	1	101
6-month	3.26	1	99
12-month	3.46	0	114

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.67	0	-37
5Y RON	4.33	0	-1
10Y RON	4.78	0	-3

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.39	-	-15
USD Jan-24	3.64	0	-59

CDS

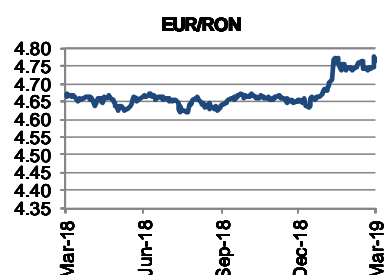
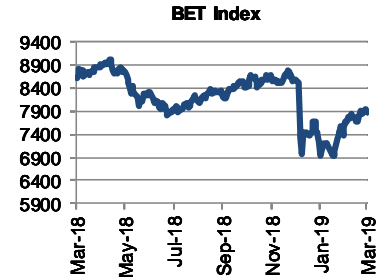
	Last	ΔDbps	ΔYTD bps
5-year	102	0	12
10-year	148	0	15

STOCKS

	Last	ΔD	ΔYTD
BET	7872.0	-0.43%	6.61%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.767	0.13%	-2.37%



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	-0.16	-1	-11
5Y BGN	0.04	0	-7
10Y BGN	0.63	#N/A N/A	-12

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.07	0	-2
EUR Sep-24	0.22	0	-27

CDS

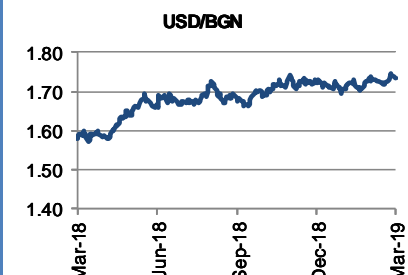
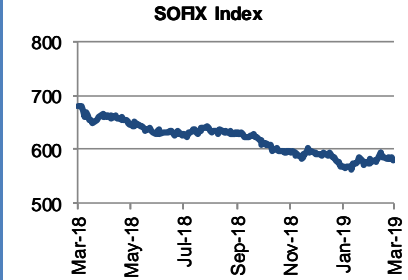
	Last	ΔDbps	ΔYTD bps
5-year	77	0	-19
10-year	119	0	-22

STOCKS

	Last	ΔD	ΔYTD
SOFIX	579.2	0.13%	-2.56%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7322	0.03%	-1.54%



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

Data updated as of 11:05 EEST

Wednesday 13 March 2019

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