

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- US-China trade talks set to continue early this week
- Feb 12: Fed Chair Powell speaks
- Feb 13
 - CPI (Jan.)
 - Fed's Mester speaks
 - Fed's George speaks
- Feb 14:
 - Initial jobless claims (Feb. 9)
 - PPI (Jan.)
 - Retail sales (Dec.)
- Feb 15:
 - Empire State Index (Feb.)
 - IP (Jan.)
 - UM Consumer confidence (Feb)

EUROZONE

- Feb 13: IP (Dec.)
- Feb 14: German Q4 GDP

UK

- Feb 11:
 - IP (Dec.)
 - Q4 GDP (prel.)
- Feb 13: CPI (Jan.)
- Feb 14:
 - Brexit vote
 - Retail sales (Jan.)

GREECE

- Feb 12: Building activity (Nov.)
- Feb 14: CPI (Jan.)

SEE

BULGARIA

- Feb 12:
 - Trade balance (Dec.)
 - Q4 GDP (prel.)
- Feb 15:
 - CPI (Jan.)
 - Unemployment rate (Jan.)

CYPRUS

- Feb 14: Q4 GDP (prel.)

ROMANIA

- Feb 11: Trade balance (Dec.)
- Feb 13: CPI (Jan.)
- Feb 14: Q4 GDP (advance)

SERBIA

- Feb 14: Current account balance (Dec.)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: According to data released earlier today, the German economy stalled in Q4 2018 with GDP growing by 0.0%QoQ compared to market consensus for 0.1%QoQ, narrowly avoiding a technical recession in H2 2018 after contracting by 0.2%QoQ in Q3 2018, the first quarterly contraction since Q1 2015. Turning to EMU sovereign periphery markets, Italy was a laggard while Spanish government bonds were slightly firmer on the day, shrugging off the rejection of the 2019 budget in the Spanish parliament yesterday, which raised the risk of snap elections this year. In FX markets, the EUR/USD came under renewed pressure marking a fresh year-to-date intraday low of 1.1245 earlier today. Focus today is on the UK House of Commons where MPs will get to vote on amending Prime Minister Theresa May's plea for more time to complete Brexit negotiations with the EU.

GREECE: The benefit from a positive EPPS 2nd review may reach almost €1 billion according to ESM Managing Director Klaus Regling. The Greek government has proposed the re-launch of the tender for PPC's lignite-fired units with improved SPA terms and DGComp is expected to give its opinion by next week.

SOUTH EASTERN EUROPE

CYPRUS: The amount of non-performing exposures (NPEs) posted a small increase by €87mn in October.

ROMANIA: The current account deficit widened to 4.6% of GDP in 2018 up from 3.2% in 2017, above the 4% threshold for the first time in six years.

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Latest world economic & market developments

GLOBAL MARKETS

According to data released earlier today, the German economy stalled in Q4 2018 with GDP growing by 0.0%QoQ compared to market consensus for 0.1%QoQ, narrowly avoiding a technical recession in H2 2018 after contracting by 0.2%QoQ in Q3 2018, the first quarterly contraction since Q1 2015. In FY-2018, Germany grew by 1.5%, its weakest performance in five years, attributed to faltering export growth on subdued demand from key trading partners and production bottlenecks in the automotive sector in H2 2018 following the introduction of the new exhaust emission standards. For FY-2019, Germany's Federal Minister for Economic Affairs forecasts a further slowdown to 1.1%, not much different compared to the European Commission's 1.1%YoY projection envisaged in the Winter 2019 Economic Forecast released last week.

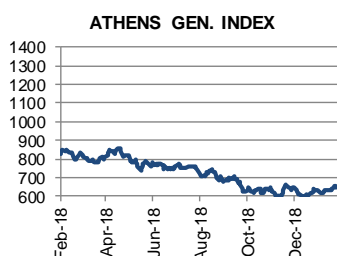
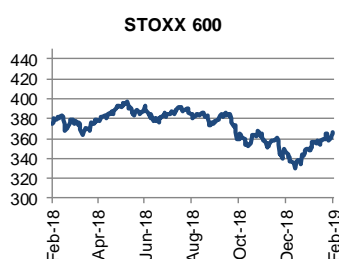
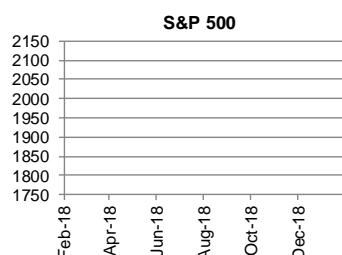
With a bulk of negative news already priced-in, Bunds were little changed on the day with the 10-yr yield standing close to 0.11% in European trade at the time of writing, c. 1bp lower compared to Wednesday's settlement, remaining not far from last week's 0.08% trough, the lowest level in over two years. Turning to EMU sovereign periphery markets, Italy was a laggard as worries over its growth outlook and the likelihood of a renewed budget dispute with the European Commission, are far from over. Italy's 10-yr yield was c. 1.5bps higher on the day standing slightly below 2.80% while the spread against its German counterpart was some 2bps wider on the day at 268bps, the highest in the last four sessions. On the flip side, Spanish government bonds were slightly firmer on the day favored by continuing risk-on mode amid market optimism for a trade deal between the US and China in the not too distant future. The Spanish 10-yr yield was hovering around 1.23% at the time of writing, c. 1bp lower on the day, shrugging off the rejection of the 2019 budget in the Spanish parliament yesterday which raised the risk of snap elections later this year. In FX markets, the EUR/USD came under renewed pressure marking a fresh year-to-date intraday low of 1.1245 earlier today on the back of poor German GDP figures, Eurozone data showing a bigger than expected 0.9%mom drop in December's industrial production and a slightly bigger than anticipated 2.2%YoY rise in US January core CPI. Focus today is on the UK House of Commons where MPs will get to vote on amending Prime Minister Theresa May's plea for more time to complete Brexit negotiations with the EU.

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GREECE

The benefit from a positive EPPS 2nd review may reach almost €1 billion according to ESM Managing Director Klaus Regling. The said amount consists of the SMP/ANFA income equivalent amounts of c. €750 million and the abolition of the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme from 2018 onwards which is reportedly estimated at c. €220 million. On the privatisations front, the Greek government reportedly favours the re-launch of the tender for PPC's lignite fired units with improved terms in the Sale-Purchase Agreement (SPA) in line with investors' proposals. DGComp is expected to give its opinion by next week.

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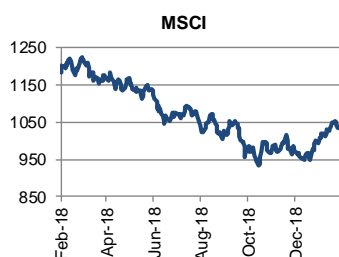


Source: Reuters, Bloomberg, Eurobank Research

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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

CYPRUS

On the data front, non-performing exposures (NPEs) posted a small increase by €87mn in October. Recall that, NPEs decreased by €5.6bn in September – reflecting the carve out of the Cyprus Cooperative Bank (CCB) bad loans – after registering minor decreases in August and July compared to €3.3bn in June, bringing the stock of NPEs down by 59.7% over the period from December 2014 to September 2018. Having decreased by €6.6bn from €41.3bn in June 2018 to €34.6bn in September 2018, loan exposures (performing plus non-performing) expanded by €235mn in October, which is a higher increase than the rise in their non-performing component alone. Despite the loans rise, the ratio of NPEs (non-performing to total exposures) remained flat at 31.8% in October vs. September 2018 down from 40.3% in June 2018, compared to 43.7% in December 2017, 47.2% in December 2016, 45.8% in December 2015 and 47.8% in December 2014. Recall that according to the EBA conservative definition, a restructured NPE is still classified as an NPE for a probation period of at least 12 months, even if it is properly serviced and does not incur new arrears. As a result, a large fraction of the restructured loans are still classified as NPEs (€4.9bn out of €7.2bn in October 2018).

ROMANIA

The swelling of the current account deficit in the Balance of Payments data released yesterday surprised to the downside. The current account deficit widened by 57.7% YoY, jumping to €9.4bn in 2018 compared to a deficit of €6bn in 2017. As a percentage of GDP, the current account deficit widened to 4.6% in 2018 – above the 4% threshold for the first time in six years – up from 3.2% in 2017 and only 2.1% in 2016. The widening of the trade of goods' deficit remains the main culprit behind the current account deterioration. Double digit imports growth dynamics (+10.6% YoY) outpacing those of exports (+8.2% YoY) resulted in the swelling of the trade deficit to 7.3% of GDP in 2018 vs 6.5% in 2017. Both the primary income gap and the surplus of services stood at -2.4% and +4.0% of GDP respectively (down from -2.5% and 4.4% in 2017), unable to offset the trade gap deterioration. More importantly, the secondary income surplus stood at a negligible 1.1% of GDP, lower by -14.9% YoY, mirroring lower EU funds absorption and lower transportation services. From a financing point of view, the quality has deteriorated sharply. Net FDI inflows expanded by 1.1% YoY at €4.9bn covering only 52% the current account shortfall vs. 81% in 2017. In its February 2019 inflation Report, the NBR expects the current account deficit to remain on an upward trend in 2019 and describes its sustainability as "problematic" given that its financing structure relies only partly stable, non-debt creating capital inflows.

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GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities																																																																
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CESEE MARKETS

SERBIA

Money Market			
BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	231	-4	-13
1-week	2.47	-1	-9
1-month	2.68	0	-5
3-month	3.01	-1	-2
6-month	3.14	-2	-4

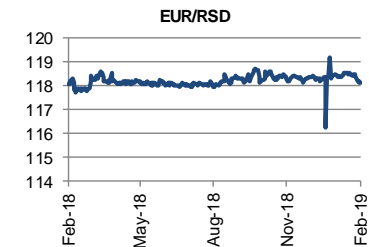
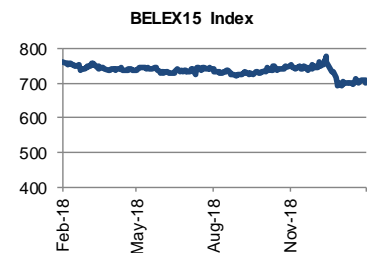
RS Local Bonds			
	Last	ΔDbps	ΔYTD bps
3Y RSD	#N/A	N/A	#VALUE!
5Y RSD	#N/A	N/A	#VALUE!
7Y RSD	3.62	-1	21

RS Eurobonds			
	Last	ΔDbps	ΔYTD bps
USD Nov-17	#N/A	N/A	#VALUE!
USD Nov-24	6.45	0	-14

CDS			
	Last	ΔDbps	ΔYTD bps
5-year	106	9	-184
10-year	154	11	-203

STOCKS			
	Last	ΔD	ΔYTD
BELEX15	702.2	-0.76%	-7.81%

FOREX			
	Last	ΔD	ΔYTD
EUR/RSD	118.18	-0.01%	0.05%



ROMANIA

Money Market			
ROBOR	Last	ΔDbps	ΔYTD bps
O/N	3.63	0	-1
1-month	3.31	0	-15
3-month	3.15	0	-80
6-month	3.34	0	-90
12-month	3.51	0	-77

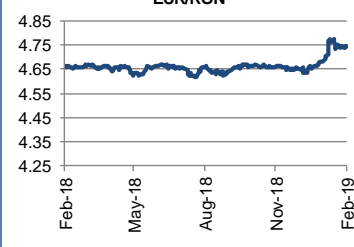
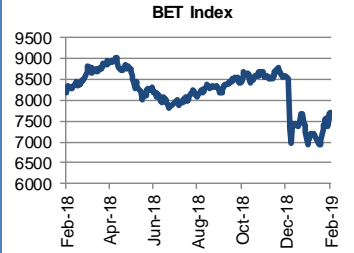
RO Local Bonds			
	Last	ΔDbps	ΔYTD bps
3Y RON	#N/A	N/A	#VALUE!
5Y RON	2.83	2	12
10Y RON	4.31	1	65

RO Eurobonds			
	Last	ΔDbps	ΔYTD bps
EUR Sep-20	-0.09	-5	1
USD Aug-23	3.79	-1	-47

CDS			
	Last	ΔDbps	ΔYTD bps
5-year	104	0	-39
10-year	149	1	-38

STOCKS			
	Last	ΔD	ΔYTD
BET	7708.5	0.39%	4.40%

FOREX			
	Last	ΔD	ΔYTD
EUR/RON	4.7463	-0.09%	-1.94%



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

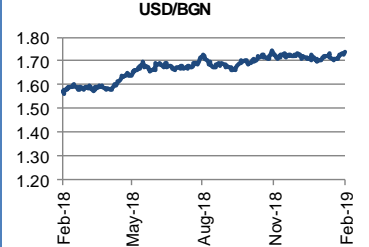
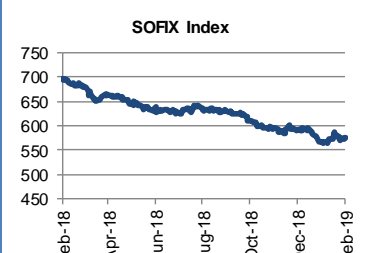
BG Local Bonds			
(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	#N/A	N/A	#VALUE!
5Y BGN	#N/A	N/A	#VALUE!
10Y BGN	0.05	0	-6

BG Eurobonds			
	Last	ΔDbps	ΔYTD bps
EUR Jul-17	#N/A	N/A	#VALUE!
EUR Sep-24	0.21	0	-27

CDS			
	Last	ΔDbps	ΔYTD bps
5-year	78	-1	-113
10-year	123	0	-118

STOCKS			
	Last	ΔD	ΔYTD
SOFIX	575.3	0.24%	-3.22%

FOREX			
	Last	ΔD	ΔYTD
USD/BGN	1.7378	-0.12%	-1.86%



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

Data updated as of 10:41 EEST

Thursday 14 February 2019

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