

Friday 14 June 2019

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- June 11:
 - NFIB Small Business Optimism (May)
 - PPI Final Demand (May)
- June 12:
 - CPI (May)
 - Monthly Budget Statement (May)
- June 13:
 - Initial Jobless Claims (08/06)
 - Continuing Claims (01/06)
 - Retail Sales Advance (May)
- June 14:
 - Industrial Production (May)
 - Capacity Utilisation (May)
 - U. of Michigan Sentiment (June)

EUROZONE

- June 11:
 - Sentix Investor Confidence (June)
- June 12:
 - Unemployment Rate (Apr)
 - CPI (May)
- June 13:
 - Industrial Production (April)

GREECE

- June 10:
 - CPI (May)
 - Industrial Production (Apr)
- June 13: Unemployment Rate (Q1)

SEE

BULGARIA:

- Jun 11: Trade Balance (Apr)
- Jun 14: CPI (May)

CYPRUS:

- Jun 14: CPI Harmonised (May)

ROMANIA:

- Jun 10: Trade Balance (Apr)
- Jun 12: CPI (May)
- Jun 13: Current Account (Apr)

SERBIA

- June 12: CPI (May)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Fixed income markets extended recent gains in early trade on Friday favored by further safe haven bids as geopolitical jitters added to mounting US/China trade uncertainty. The US 10-yr yield remained in a downward trend for the third consecutive session while market expectations for a slightly more dovish tone by the Fed at next week's monetary policy meeting and a bigger than anticipated increase in US initial jobless claims for the week ending 9 June following last week's disappointing US non-farm payrolls data, also favored sentiment towards US sovereign paper. Along these lines, the 10-yr Bund yield marked a fresh record low of -0.267% earlier today with German sovereign bonds gaining additional support for yesterday's poor euro area industrial production data. In FX markets, the DXY index was little changed on the day while the GBP shrugged off the outcome of the first round of the Conservative leadership race. Former Foreign Secretary Boris Johnson came first and along with six more candidates will move onto the next round on Tuesday. Looking at today's calendar, the main data release is US retail sales for May but any market impact is likely to be limited ahead of next week's FOMC monetary policy meeting.

GREECE: According to ELSTAT, in Q1-2019 the unemployment rate was 19.2% down from 18.7% in Q4-2018 and 21.2% in Q1-2018. Following the annual ESM Board of Directors meeting yesterday, ESM Managing Director Klaus Regling said that the Eurogroup and the institutions plan to discuss with the Greek government that will emerge after the 7 July elections all matters concerning Greece. Meanwhile, in its 2018 Annual Report, the ESM stresses the importance for Greece to "remain on a sustainable path, while incorporating more growth-oriented policies".

SOUTH EASTERN EUROPE

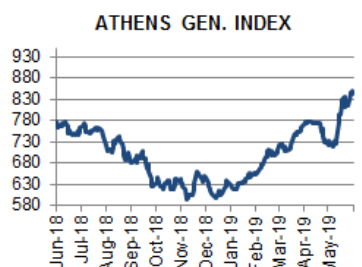
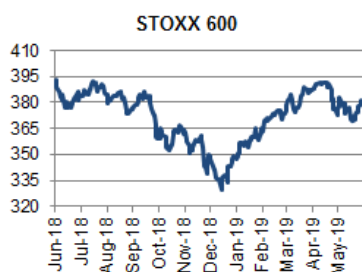
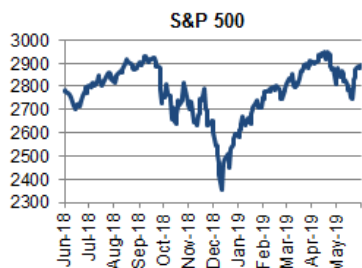
CESEE MACRO DEVELOPMENTS: At the 8th ECB conference on CESEE countries that took place in Frankfurt and concluded on Wednesday, the ECB President, Mario Draghi praised the achieved real economic convergence in the CESEE region compared to the EU 28 within the past 20 years but also identified vulnerabilities to trade and financial shocks as global headwinds to the region. For these two idiosyncratic factors to be mitigated, Mr. Draghi recommended that domestic institutions and governance need to be constantly strengthened as institutional quality is still below the EA average in almost all CEE economies.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Fixed income markets extended recent gains in early trade on Friday favored by further safe haven bids as geopolitical jitters added to mounting US/China trade uncertainty. US Secretary of State Michael Pompeo blamed Iran for attacks on two oil tankers in the Gulf of Oman, the world's most popular zone for oil supplies, but Iran bluntly denied the allegation. The US 10-yr yield remained in a downward trend for the third consecutive session recording a multi-session intraday low of 2.061% earlier today, some 3bps lower on the day, following Monday's 2.178% peak in reaction to market relief over the US/Mexico immigration deal that averted the imposition of US tariffs on all Mexican imports. Market expectations for a more dovish tone by the Fed at next week's monetary policy meeting and a bigger than anticipated increase of 3,000 to 222,000 in US initial jobless claims for the week ending 9 June following last week's disappointing US non-farm payrolls data, also favored sentiment towards US sovereign paper. Along these lines, the 10-yr Bund yield marked a fresh record low of -0.267% earlier today with German sovereign bonds gaining additional support from yesterday's poor euro area industrial production data. April's industrial production, the first release of hard data for Q2, fell by 0.5%MoM, the second consecutive monthly decline, with the carry-over pinning at 0.7%QoQ, reflecting downside risks to the Q2 GDP growth outlook. In FX markets, the DXY index was little changed on the day but poised for weekly gains to the tune of 0.4% with the EUR/USD hovering around 1.1280/85 at the time of writing after rising temporarily close to 1.1350 a couple of sessions earlier. Elsewhere, the GBP was little changed, shrugging off the outcome of the first round of the Conservative leadership race. Former Foreign Secretary Boris Johnson came first and along with six more candidates will move onto the next round on Tuesday. Looking at today's calendar, the main data release is US retail sales for May but any market impact is likely to be limited ahead of next week's FOMC monetary policy meeting.

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GREECE

Following the annual ESM Board of Directors meeting yesterday, ESM Managing Director Klaus Regling said that the Eurogroup and the institutions plan to discuss with the Greek government that will emerge after the 7 July elections all matters concerning Greece. He also expressed his concern about the recently legislated expansionary measures which may jeopardise the 3.5% of GDP primary surplus target, although he said he takes into account the government's position that in spite of the measures the target will be met. As regards the specific nature of these measures he opined that they are not pro-growth and added that they may violate the agreement with the institutions as they were adopted without consulting with them. Special mention was also made to the amendment to the HCAP law that passed in the Greek Parliament just before the end of its session without any prior consultation. In any case, the ESM stands ready to work on these matters with "whatever government is elected by the Greek people". Meanwhile, in its 2018 Annual Report, the ESM stresses the importance for Greece to "remain on a sustainable path, while incorporating more growth-oriented policies". On the economic data front, according to the Hellenic Statistical Authority (ELSTAT), in Q1-2019 the unemployment rate was 19.2% down from 18.7% in Q4-2018 and 21.2% in Q1-2018. The number of employed persons decreased by 0.5%QoQ and increased by 2.4%YoY, while the number of unemployed persons increased by 3.0%QoQ and decreased by 9.4%YoY.

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Latest economic & market developments in the CESEE region

CESEE MACRO 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

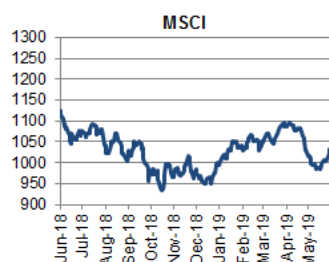
* ESA 2010

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+

The 8th ECB conference on CESEE countries took place in Frankfurt and concluded on Wednesday. In his welcome address, the ECB President, Mario Draghi named as the common denominator in all 18 countries in the region, despite their many differences, the real economic convergence towards the EU average since the 1990s. Indeed, over the last two decades, real GDP per capita growth has averaged 3.8% in the region, compared with 1.4% in the EU as a whole. Even more, he continued by segregating the pace of convergence among those countries that have entered the Eurozone and those that haven't. While CESEE countries that have joined the EU reached GDP per capita levels of 70% of the EU average, within this group, the countries that have joined the euro area have grown even faster, reaching almost 80% of the EU average. On the contrary, catching up has been markedly slower in the economies outside the EU, with income levels below 40%. He stated that the role of the Single Market and the Euro have been and still are pivotal for the convergence in the region while the *acquis communautaire* has led to a more predictable legal environment and high-quality regulatory framework, which have increased investor confidence and contributed to a rapid inflow of foreign investment and technology.

However, Mr. Draghi identified vulnerabilities to trade and financial shocks as global headwinds to the region. From the trade perspective, trade flows in the CEE economies are especially responsive to cyclical developments on the back of higher trade elasticity than in the rest of the EU. Furthermore, CEE economies have increasingly specialised in certain industries, which may have made them more exposed to industry-specific shocks. In some countries, for instance, vehicle exports represent nearly 30% of total manufactured exports, making them more vulnerable to the threat of increasing car tariffs.

Referring to the international financial landscape and how that affects CESEE countries' growth and resilience, the ECB President noticed that net foreign liabilities stood at above 70% of the CEE economies' GDP in 2018, which is higher than in many other emerging economies. In particular, FDI was relatively high and accounted for 50% of total external financing up to 2010, thus providing stability. The share of FDI liabilities has declined since then and accounted for 42% of total external financing in 2018. While many countries in the region have improved their current account balances in recent years, they may remain vulnerable to changing external financial conditions due to their dependence on foreign financing.

For both trade and financial idiosyncratic factors to be mitigated, Mr. Draghi suggested that domestic institutions and governance need to be constantly strengthened. That said, those countries that joined the EA have continued improving their institutional quality, partly owing to the accession process. In the other EU countries of the region, efforts to improve institutional quality have been more mixed in recent years. Overall, institutional quality is still below the EA average in almost all CEE economies.

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Friday 14, June 2019

GLOBAL MARKETS

Stock markets

	Last	ΔD	ΔYTD
S&P 500	2891.64	0.4%	15.3%
Nikkei 225	21116.89	0.4%	5.5%
STOXX 600	380.33	0.2%	12.6%

FOREX

	Last	ΔD	ΔYTD
EUR/USD	1.1278	0.0%	-1.7%
GBP/USD	1.2674	0.0%	-0.7%
USD/JPY	108.3	0.1%	1.3%

Government Bonds

(yields)	Last	ΔDbps	ΔYTD bps
UST - 10yr	2.07	-2	-61
Bund-10yr	-0.26	-1	-50
JGB - 10yr	-0.13	-2	-13

Commodities

	Last	ΔD	ΔYTD
GOLD	1354	0.9%	5.6%
BRENT CRUDE	62	0.5%	14.5%
LMEX	2766	-0.1%	-1.3%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.23	1	-21
1-week	2.33	0	-23
1-month	2.54	-1	-19
3-month	2.97	1	-6
6-month	3.10	1	-8

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.94	-1	-12
5Y RSD	3.40	0	-10
7Y RSD	3.60	0	-56

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.53	-1	-146

CDS

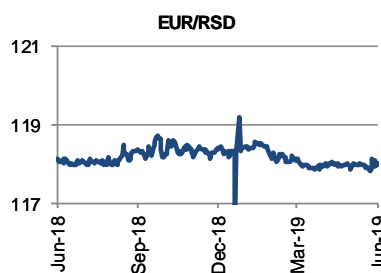
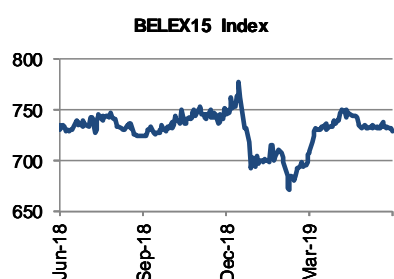
	Last	ΔDbps	ΔYTD bps
5-year	98	-3	-20
10-year	142	-3	-21

STOCKS

	Last	ΔD	ΔYTD
BELEX15	729.4	-0.24%	-4.25%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.01	-0.07%	0.19%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.7	0	161
1-month	3.08	0	121
3-month	3.25	0	120
6-month	3.37	0	110
12-month	3.54	0	122

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.78	0	-26
5Y RON	4.27	0	-7
10Y RON	4.61	0	-20

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.12	-	-42
USD Jan-24	3.04	0	-120

CDS

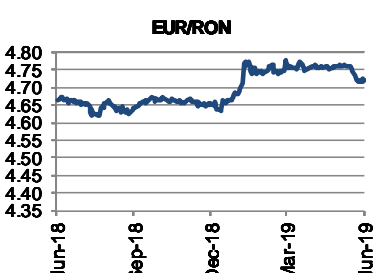
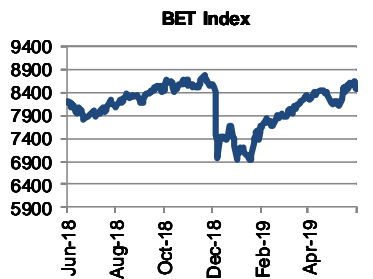
	Last	ΔDbps	ΔYTD bps
5-year	88	0	-2
10-year	133	0	-1

STOCKS

	Last	ΔD	ΔYTD
BET	8477.2	-1.33%	14.81%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7227	-0.09%	-1.45%



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	-0.35	-1	-29
5Y BGN	-0.01	0	-12
10Y BGN	0.41	0	-34

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.15	0	-10
EUR Sep-24	0.10	0	-38

CDS

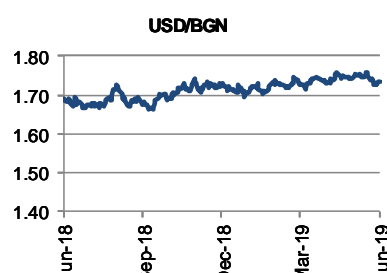
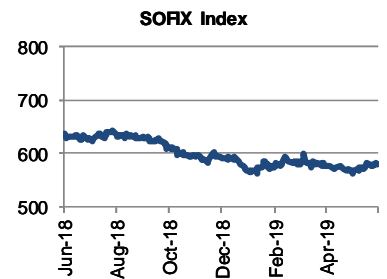
	Last	ΔDbps	ΔYTD bps
5-year	80	0	-16
10-year	129	0	-13

STOCKS

	Last	ΔD	ΔYTD
SOFIX	578.7	0.01%	-2.65%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7343	0.03%	-1.66%



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

Data updated as of 9:40 EEST

Friday 14, June 2019

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