

Friday 17 May 2019

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- May 14:
  - NFIB Small Business Optimism (Apr)
  - Import Price Index (Apr)
- May 15:
  - Retail Sales less Autos (Apr)
  - Empire Manufacturing (Apr)
  - Capacity Utilisation (Apr)
  - NAHB Housing Market Index (May)
- May 16:
  - Initial Jobless Claims (May 11)
  - Philadelphia Fed Manufacturing (May)
  - Housing Starts (Apr)
  - Building Permits (Apr)
- May 17:
  - U. of Michigan Sentiment (May, P)
  - Leading Indicators (Apr)

#### EUROZONE

- May 14:
  - Industrial Production (Mar)
  - ZEW Survey Expectations (May)
- May 15:
  - GDP (Q1, P)
  - GDP (Q1, P, Germany)
- May 17:
  - EU 27 New Car Registrations (Apr)
  - CPI (Apr)

#### GREECE

- May 14: Industrial Imports Price Index (Mar)

#### SEE

##### BULGARIA:

- May 13: Trade Balance (Mar)
- May 15:
  - GDP (Q1, P)
  - CPI (Apr)
  - Unemployment Rate (Apr)

##### CYPRUS:

- May 15:
  - CPI Harmonised (Apr)
  - GDP (Q1, P)

##### SERBIA

- May 13: CPI (Apr)
- May 16: Current Account Balance (Mar)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Market uncertainty around the US-China trade dispute prevails, as the latest developments make it hard to expect a trade deal any time soon. Against this background, core government bonds retained a positive tone. In FX markets, the USD firmed, with the DXY index recording a fresh two-week intraday high of 97.878 earlier today following a flurry of positive US data releases yesterday. Elsewhere, the GBP retained a weak tone, as pressure on UK PM Theresa May to resign over her failure to deliver Brexit is mounting.

**GREECE:** At yesterday's Eurogroup, Greece informed the Euro area Finance Ministers about the recently announced and legislated measures and it was decided that a more thorough discussion will take place at the June meeting taking also into account the 3<sup>rd</sup> EPPS report, which the EC will have released by then. ESM Managing Director Klaus Regling expressed the view that preliminary analysis of the announced measures shows that there may be a deviation from the agreed fiscal targets for 2019 and 2020.

### SOUTH EASTERN EUROPE

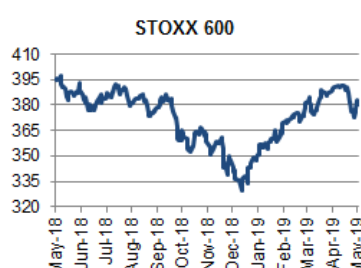
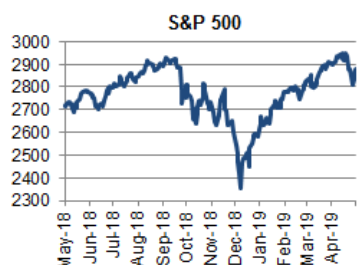
**BULGARIA:** According to the flash estimate, real GDP growth accelerated to 1.1% QoQ/3.5% YoY in Q1-2019 up from 0.8% QoQ/3.2% YoY in Q4-2018.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Market uncertainty around the US-China trade dispute prevails as the latest developments make it hard to expect a trade deal any time soon. Following US President Donald Trump's decision to sign on Wednesday an executive order that effectively bans Huawei and ZTE, two of China's leading telecom equipment manufacturers, from selling equipment to US companies and consumers due to national security, China appears to adopt a more defiant tone. Aiming to boost the nationalist sentiment for the first time during the trade war, China's ruling Communist Party claimed that the trade dispute with the US will make China stronger and will never bring the country to its knees while a state social media account argued that the US is not sincere about wanting to resume trade negotiations with China.

Against this background, core government bonds retained a positive tone. The 10-yr UST yield was hovering around 2.39% at the time of writing, more than 1bp lower compared to Thursday's close and not far from yesterday's seven-week intraday trough of 2.35%, while the respective German paper was yielding levels around -0.010%, close to a 2½ year intraday low of -0.13% marked earlier this week. In FX markets, the USD firmed with the DXY index recording a fresh two-week intraday high of 97.878 earlier today following a flurry of positive US data releases yesterday. US housing starts rose by a higher than expected 5.7%MoM in April to a seasonally adjusted annual rate of 1.235mn units while the March print was revised higher to 1.168mn units from 1.139mn units initially, suggesting that lower mortgage rates provide some support to the housing market. Halting a three-month streak declining trend, building permits rose by 0.6% over the same month to a rate of 1.296mn units, while initial jobless claims dropped by 16k for the week ended May 11 to a seasonally adjusted 212k. Separately, Philly Fed manufacturing activity index accelerated in May to a higher than expected 16.6pts from April's 8.5. Against a broadly firmer USD, the EUR/USD moved lower hovering around 1.1170/75 in early European trade after testing levels slightly above 1.1220 early on Thursday, remaining though within recent ranges. Elsewhere, the GBP retained a weak tone, as pressure on UK PM Theresa May to resign over her failure to deliver Brexit is mounting. The GBP/USD moved below 1.2800 for the first time since late February, while the EUR/GBP retested a three-month high of 0.8749 earlier today. On today's data front, the final Eurozone HICP for April and the preliminary UM consumer confidence for May are the main highlights.

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### GREECE

At yesterday's Eurogroup, Greece informed the Euro area Finance Ministers about the recently announced and legislated measures and it was decided that a more thorough discussion will take place at the June meeting taking also into account the 3<sup>rd</sup> EPPS report, which the EC will have released by then. Additionally, Eurogroup President Mario Centeno noted that Greece is expected to respect its commitment on the fiscal targets – as it has done so far – so that it will continue to enjoy investors' confidence in the future. On a more rigorous note, ESM Managing Director Klaus Regling expressed the view that preliminary analysis of the announced measures shows that the primary surplus target of 3.5% of GDP this year might not be reached by a significant margin. Even more so the next year, although a new budget will be voted for next year and the measures for that period may not be implemented. The Head of the ESM also appeared worried about the composition of the announced budgetary measures which are considered not growth-friendly in the medium and longer term. As regards the early repayment of IMF loans, he mentioned that the recent announcements on fiscal measures may have an impact on the assessment that the EFSF and ESM member states will make.

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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

CYPRUS: Indicators	2016	2017e	2018f
Real GDP growth %	3.0	3.8	3.6
HICP (pa, yoy %)	-1.2	0.7	1.0
Budget Balance/GDP*	0.4	0.2	0.4
Current Account/GDP	-5.7	-5.4	-6.2

\* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

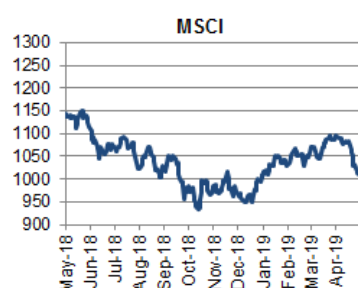
ROMANIA: Indicator:	2016	2017e	2018f
Real GDP growth %	4.8	7.0	4.0
CPI (pa, yoy %)	-1.6	1.3	3.5
Budget Balance/GDP *	-2.4	-3.0	-4.4
Current Account/GDP	-2.2	-3.5	-4.0
EUR/RON (eop)	4.54	4.67	4.70
	2017	current	2018
Policy Rate (eop)	1.75	2.50	3.00

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2016	2017e	2018f
Real GDP growth %	2.7	1.9	3.5
CPI (pa, yoy %)	1.1	3.2	3.0
Budget Balance/GDP	-1.3	0.5	-0.6
Current Account/GDP	-3.1	-5.7	-4.7
EUR/RSD (eop)	123.40	118.2	116.5
	2017	current	2018
Policy Rate (eop)	3.50	3.00	3.00

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

### BULGARIA

Economic activity accelerated in Q1-2019 in defiance of an unfavorable world economic environment. According to the flash estimate, real GDP growth accelerated to 1.1% QoQ/3.5% YoY in Q1-2019 up from 0.8% QoQ/3.2% YoY in Q4-2018 and 0.7% QoQ/3.1% YoY in Q3-2018. As usual, there will be another estimate of the national accounts data published at a later stage and there will most probably be huge revisions and reallocations within the components of the individual growth drivers. As things stand, net exports appeared to have made a very strong contribution against an unfavorable external backdrop (exports: 1.8% QoQ/+5.1% YoY vs imports: -0.6% QoQ/+1.7% YoY). Second, final consumption had a smaller than in previous quarters positive contribution (0.3% QoQ/3.5% YoY in Q1-2019 vs -0.1% QoQ/5.0% YoY in Q4-2018), which is counter-intuitive given the improvement in the labor market and consumer sentiment. Third, investments appeared to be losing momentum in Q1-2019 despite wide expectations for the opposite (0.2% QoQ/2.6% YoY in Q1-2019 vs. 2.8% QoQ/6.6% YoY in Q4-2018). In a nutshell, the second estimate will allow for safer conclusions.

In our view, solid growth momentum is expected to continue in 2019 – our forecast stands at 3.5% currently – on sound domestic demand dynamics. Private consumption will be in the driver's seat, receiving support from a tighter labor market, relatively low energy prices, convergence of wages towards EU average, a vibrant manufacturing sector despite the increasing world trade tensions and higher tourism inflows. Investment, especially public investment which has not been impressive in the last two years, will receive a boost from improved EU funds absorption. With the end of the programming period 2014-2020 approaching, the government will need to step up spending for a number of mature projects. Moreover, domestic credit conditions have turned more growth supportive. Credit activity expanded by 7.8% in March not very far from 8.7% YoY in February, which was the highest rate since June 2009, compared to 8.5% YoY in January. The March reading is favorably compared to 7.7% in 2018, 4.7% in 2017 vs. only 1.5% in 2016, and -1.2% in 2015. Appetite for credit will increase further on the back of sentiment improvement and better economic fundamentals matched by banking sector abundant liquidity.

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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	2876.32	0.9%	14.7%	EUR/USD	1.118	0.1%	-2.5%	UST - 10yr	2.39	0	-29	GOLD	1288	0.1%	0.4%
Nikkei 225	21250.09	0.9%	6.2%	GBP/USD	1.2785	-0.1%	0.2%	Bund-10yr	-0.10	-1	-34	BRENT CRUDE	73	0.0%	34.9%
STOXX 600	380.56	-0.6%	12.7%	USD/JPY	109.7	0.1%	0.0%	JGB - 10yr	-0.05	1	-6	LMEX	2872	0.2%	2.5%

## SERBIA

### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.26	-2	-18
1-week	2.36	-1	-20
1-month	2.60	0	-13
3-month	2.97	1	-6
6-month	3.10	1	-8

### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.03	-1	-3
5Y RSD	3.79	0	28
7Y RSD	4.03	0	-13

### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.21	0	-79

### CDS

	Last	ΔDbps	ΔYTD bps
5-year	105	0	-13
10-year	150	0	-12

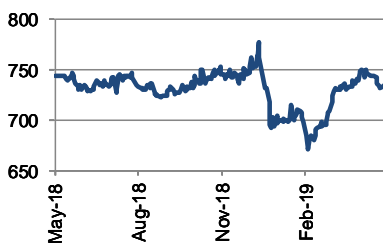
### STOCKS

	Last	ΔD	ΔYTD
BELEX15	732.0	-0.14%	-3.90%

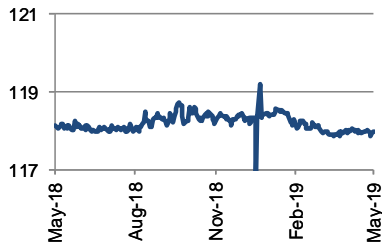
### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.95	0.04%	0.24%

BELEX15 Index



EUR/RSD



## ROMANIA

### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.73	0	64
1-month	3.11	0	124
3-month	3.28	0	123
6-month	3.37	0	110
12-month	3.54	0	122

### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.81	0	-22
5Y RON	4.43	0	9
10Y RON	4.90	0	9

### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.39	-	-16
USD Jan-24	3.38	0	-86

### CDS

	Last	ΔDbps	ΔYTD bps
5-year	90	0	0
10-year	133	-2	-1

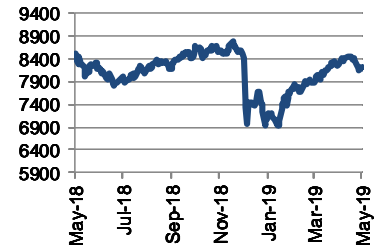
### STOCKS

	Last	ΔD	ΔYTD
BET	8214.8	0.03%	11.26%

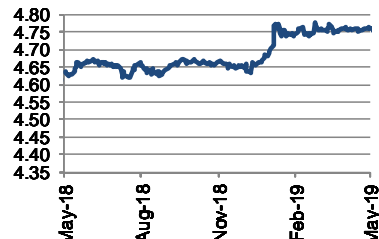
### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.762	0.02%	-2.27%

BET Index



EUR/RON



## 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	-0.24	-1	-18
5Y BGN	-0.04	0	-15
10Y BGN	0.47	0	-28

### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.10	0	-8
EUR Sep-24	0.15	0	-33

### CDS

	Last	ΔDbps	ΔYTD bps
5-year	80	0	-17
10-year	128	0	-13

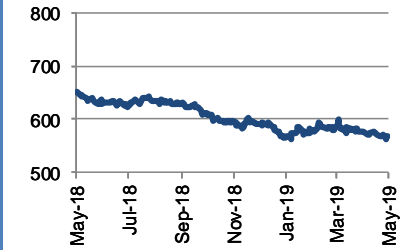
### STOCKS

	Last	ΔD	ΔYTD
SOFIX	569.1	0.00%	-4.26%

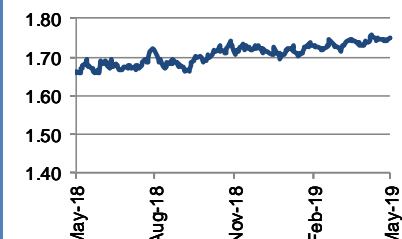
### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7494	0.02%	-2.51%

SOFIX Index



USD/BGN



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

Data updated as of 10:15 EEST

Friday 17 May 2019

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