

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- June 17:
  - Empire Manufacturing (Jun)
  - NHAB Housing Market Index (Jun)
- June 18:
  - Housing Starts (May)
  - Building Permits (May)
- June 19: FOMC Rate Decisions
- June 20:
  - Current Account Balance (Q1, 2019)
  - Initial Jobless Claims (15/06)
  - Retail Sales Advance (May)
- June 21:
  - Existing Home Sales (May)
  - Markit Manufacturing, Services, Composite PMI (June, prel)

#### EUROZONE

- June 17:
  - CPI & CPI Core (May)
  - ZEW Survey Current Situation & Expectations (Germany, Jun)
- June 18:
  - EU 28 New Car Registrations (May)
  - CPI (May)
  - ZEW Survey Expectations (Jun)
- June 20: Consumer Confidence (Jun, prel)
- June 21: Markit Manufacturing, Services, Composite PMI (June, prel)

#### GREECE

- June 19-20: Current Account Balance (Apr)

#### SEE

##### BULGARIA:

- Jun 19: Current Account Balance (Apr)

##### TURKEY:

- Jun 18: Industrial Production (Apr)

##### SERBIA

- June 19: Current Account Balance (Apr)

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Speaking at the ECB's annual Forum on Central Banking in Sintra yesterday, President Mario Draghi adopted a more dovish stance compared to that at the 6 June post-ECB meeting press conference, stating clearly that the Central Bank is open to another round of monetary policy stimulus if the outlook does not improve. In reaction to the above, fixed income markets gained sharply with the 10-yr Bund yield hitting a fresh intraday record low of -0.33% yesterday, before rising modestly to levels around -0.31% in early European trade today on news that US President Donald Trump and his Chinese counterpart Xi Jinping will meet on the sidelines of the G20 meeting. In FX markets, the EUR/USD retreated to levels slightly below 1.1200 after hitting a peak close to 1.1250 earlier this week, but still within the 1.1100-1.1350 recent range in spite of the ECB President's dovish tone and a string of poor Eurozone data releases in recent weeks. Focus today is on the policy outcome of this week's two-day FOMC policy meeting and the third round of voting for the UK Conservative party leadership.

**GREECE:** In its Overview of the Greek Financial System, June 2019, the Bank of Greece (BoG) forecasts 2019 GDP growth around the same levels as in 2018, i.e. 1.9%YoY, with domestic downside risks stemming from high taxation, the increase of the statutory minimum wage, delays in structural reforms and privatisations. As regards the financial system, the report highlights the fact that since March 2019, Greek systemic banks no longer resort to the Emergency Liquidity Assistance (ELA) while efforts towards NPLs reduction are bearing fruit and financial institutions' liquidity conditions are improving through the expansion of funding sources.

### SOUTH EASTERN EUROPE

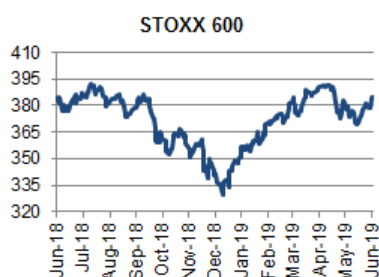
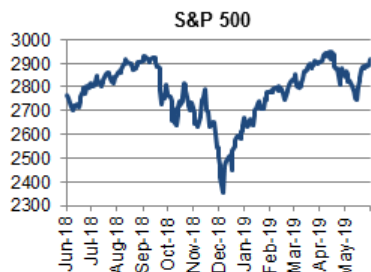
**CYPRUS:** Tourist arrivals declined by -3.5% YoY in May, bringing the rate of contraction down to -1.1% YoY in the first five months of the year.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank  
Research

Speaking at the ECB's annual Forum on Central Banking in Sintra yesterday, President Mario Draghi adopted a more dovish stance compared to that at the 6 June post-ECB meeting press conference, stating clearly that the Central Bank is open to another round of monetary policy stimulus if the outlook does not improve. In reaction to the above, fixed income markets gained sharply with the 10-yr Bund yield hitting a fresh intraday record low of -0.33% yesterday, before rising modestly to levels around -0.31% in early European trade today on news that US President Donald Trump and his Chinese counterpart Xi Jinping will meet on the sidelines of the G20 meeting in late June. A bigger than expected drop in the ZEW Indicator of Economic Sentiment in June, provided additional support to Eurozone sovereign paper. Semi-core and periphery bond markets also gained. Austrian 10-yr yields dropped below 0% for the first time ever while in the EMU periphery, Italy was a star performer with 10-yr yields dropping 18bps compared to Monday's close —ahead of the ECB President's speech— in spite of lingering market concerns about a new confrontation with the European Commission. Along these lines, USTs were consolidating recent hefty gains, with 10-yr yields hovering around 2.06% at the time of writing, close to yesterday's fresh 1 ½-year low of 2.02% ahead of the announcement of the policy outcome of the two-day FOMC meeting which concludes later today. While the Committee is widely expected to stay put on interest rates, it is highly likely that it will adopt a more dovish stance following renewed US/China trade tensions and tighter financial market conditions. In FX markets, the USD retained a positive tone, with the DXY index standing close to yesterday's 2-week intraday high of 97.766. Against a broadly firmer USD, the EUR/USD retreated to levels slightly below 1.1200 in early European trade after hitting a peak close to 1.1250 earlier this week, but still within the 1.1100-1.1350 recent range, in spite of the ECB President's dovish tone and a string of poor Eurozone data releases in recent weeks. Besides the FOMC policy meeting, focus today is on the third round of voting for the Conservative party leadership. Pro-Brexit Boris Johnson, the frontrunner to replace Theresa May, won the second ballot yesterday with four other candidates passing to the next phase.

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### GREECE

In its Overview of the Greek Financial System, June 2019, the Bank of Greece (BoG) forecasts 2019 GDP growth around the same levels as in 2018, i.e. 1.9%YoY, with domestic downside risks stemming from high taxation, the increase of the statutory minimum wage, delays in structural reforms and privatisations. External risks are related mainly to the slowdown of the global economy as a result of increased trade protectionism, withdrawal of non-conventional monetary policy measures in advanced economies and the potential of a no-deal Brexit. The BoG also stresses the negative impact on growth from the reduction of public investment in order to overshoot the primary surplus targets. As regards the financial system, the report highlights the importance of the fact that since March 2019, Greek systemic banks no longer resort to the Emergency Liquidity Assistance (ELA) while efforts towards NPLs reduction are bearing fruit with the NPL stock having decreased to 45.4% (or €81.8bn) of total loans in 2018 against 47.2% (€94.4bn) in 2017. Meanwhile, the Capital Adequacy Ratio on a consolidated basis contracted mildly to 16% in Dec-2018 against 17% in Dec-2017 while the Common Equity Tier 1 – CET1 fell to 15.3% in Dec-2018 from 17% in Dec-2017. Nevertheless, financial institutions' liquidity conditions improved through the expansion of funding sources such as covered bonds issuances and securitisations on domestic and international financial markets.

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## Latest economic & market developments in the CESEE region

### CYPRUS

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

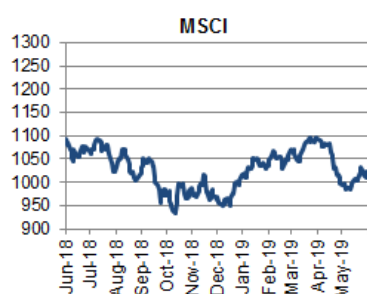
CYPRUS: Indicators	2017	2018	2019F
Real GDP growth %	4.5	3.9	3.3
HICP (pa, yoy %)	0.7	0.8	1.0
Fiscal Balance/GDP*	1.8	2.9	3.0
Current Account/GDP	-8.4	-7.0	-7.5

\* 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 latest data on arrivals indicate a difficult year in the tourism industry. Having registered the first decline on an annual basis in March that marked the end to an uninterrupted run since 2015, tourist arrivals to Cyprus dropped for the second time this year in May. According to the latest statistics released, tourist arrivals declined by -3.5% YoY in May (from 450,495 in May 2018 to 434,578 in May 2019), bringing the rate of contraction down to -1.1% YoY in the first five months of the year.

Tourist arrivals from the UK – the island's biggest market – were virtually unchanged (+0.5% YoY) while the second largest market, that of Russia, recorded a -3.9% YoY decline in Jan-May 2019. Arrivals from key markets such as Germany and Greece were also down by -22.6% and -4.3% respectively. In contrast, tourist arrivals from Israel had a modest performance (+1.8% YoY). Finally the positive performance of some smaller markets such as Norway (+31.4% YoY) and Ukraine (+40.3% YoY) was not enough to offset the overall decline.

On top, tourism revenues declined by -6.2% YoY in January-March 2019 to €188.6mn, down from €201.1mn compared to the same period last year. Furthermore, the corresponding statistics for expenditure per person are on a declining trend. The expenditure per person for 3M-2019 reached €527.64 compared to €544.36 in the corresponding period of the previous year, recording a decrease of 0.7%. In fact, the expenditure per person/per day for the period of January-March 2019 compared to the period of January-March 2018 also recorded a decrease of 0.7% (from €75.82 to €75.53). There are a number of reasons to explain this declining trend such as the changing composition of tourist arrivals originating from markets with lower income and purchasing power (e.g. Eastern Europe) and the disruption of the traditional tourist offering from that provided by new digital platforms of the sharing economy (e.g. Airbnb)

Overall, the tourism industry has been among the key sectors behind the GDP growth rebound of the Cypriot economy in 2016-2018. Looking ahead, tourism industry's contribution, a key driving force behind the acceleration in services exports in the past years, is expected to soften in 2019-2020. Tourism is increasingly confronting rising competition from the re-opening of neighbor markets, where safety concerns are abating, and the lower purchasing power of their traditional tourists markets (predominantly British and Russian) as a result of their currency depreciations.

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Wednesday 19 June 2019

## 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	2917.75	1.0%	16.4%	EUR/USD	1.1191	0.0%	-2.4%	UST - 10yr	2.07	1	-62	GOLD	1343	-0.2%	4.8%
Nikkei 225	21333.87	1.7%	6.6%	GBP/USD	1.2549	-0.1%	-1.7%	Bund-10yr	-0.31	1	-55	BRENT CRUDE	62	0.1%	15.6%
STOXX 600	384.22	-0.1%	13.8%	USD/JPY	108.38	0.1%	1.2%	JGB - 10yr	-0.14	-2	-14	LMEX	2793	1.6%	-0.3%

## SERBIA

### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.22	1	-22
1-week	2.31	0	-25
1-month	2.54	1	-19
3-month	2.96	-1	-7
6-month	3.10	0	-8

### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.93	-1	-13
5Y RSD	3.37	0	-13
7Y RSD	3.57	0	-59

### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.45	-3	-155

### CDS

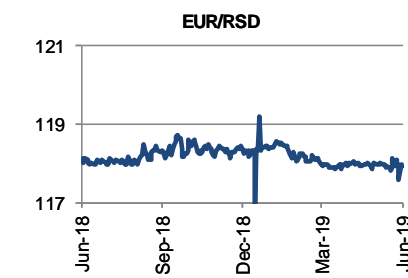
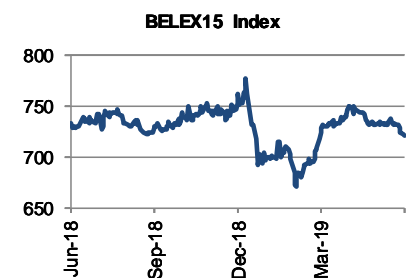
	Last	ΔDbps	ΔYTD bps
5-year	97	0	-21
10-year	140	0	-22

### STOCKS

	Last	ΔD	ΔYTD
BELEX15	720.4	-0.34%	-5.42%

### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.00	-0.10%	0.20%



## ROMANIA

### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.62	0	153
1-month	3.06	0	119
3-month	3.24	0	119
6-month	3.37	0	110
12-month	3.54	0	122

### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.75	0	-28
5Y RON	4.19	0	-15
10Y RON	4.49	0	-33

### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	0.97	-	-57
USD Jan-24	2.97	0	-126

### CDS

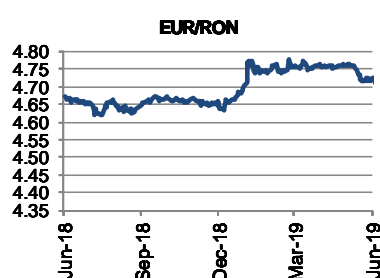
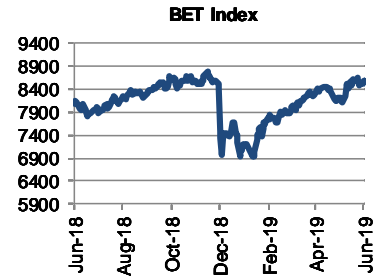
	Last	ΔDbps	ΔYTD bps
5-year	88	0	-2
10-year	133	0	-1

### STOCKS

	Last	ΔD	ΔYTD
BET	8568.1	0.50%	16.04%

### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7244	-0.05%	-1.49%



## 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	-1	-25
5Y BGN	-0.02	0	-13
10Y BGN	0.35	0	-41

### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.16	0	-12
EUR Sep-24	0.06	3	-43

### CDS

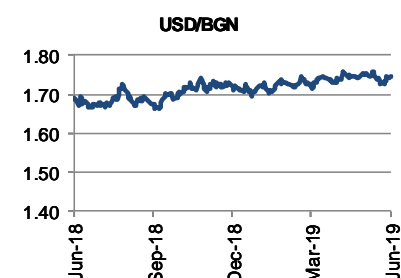
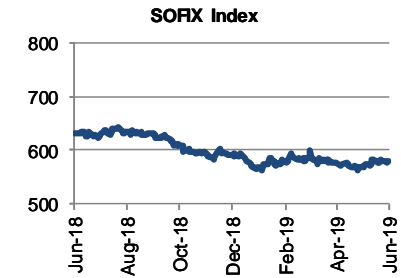
	Last	ΔDbps	ΔYTD bps
5-year	80	0	-17
10-year	129	0	-13

### STOCKS

	Last	ΔD	ΔYTD
SOFIX	578.2	0.02%	-2.74%

### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7477	-0.01%	-2.41%



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

Data updated as of 10:19 EEST

Wednesday 19 June 2019

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