

Wednesday 22 May 2019

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- May 20: Chicago Fed National Activity Index (Apr)
- May 21: Existing Home Sales (Apr)
- May 22: FOMC minutes of May 1 meeting
- May 23:
 - Markit Manufacturing, Services, Composite PMI (May, prel.)
 - Initial Jobless Claims (May 18)
 - New Home Sales (Apr)
- May 24: Durable Goods Order (Apr, prel.)

EUROZONE

- May 21: Consumer Confidence (May)
- May 23:
 - Markit Manufacturing, Services, Composite PMI (May, prel)
 - GDP (Germany, Q1, flash)
 - IFO Business Climate (Germany, May)
- May 23-26: EU elections

GREECE

- May 21: Current Account Balance (Mar)

SEE

BULGARIA:

- May 20: Current Account Balance (Mar)

ROMANIA:

- May 24: M3 (Apr.)

SERBIA

- May 24: Real Gross Wages (Mar)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: UK PM Theresa May offered yesterday a number of sweeteners to MPs, including the chance to vote on whether to hold a second referendum to ratify the UK's exit from the EU, conditional on backing her Brexit bill. However, her commitments are not expected to break the impasse over Brexit and her deal will probably be rejected for the fourth time. On the back of mounting UK political uncertainty, the GBP remained under pressure across the board. Focus today is on the FOMC minutes from the May policy meeting, which are expected to communicate that the Committee remains data-dependent.

GREECE: According to the Bank of Greece, in Q1 2019 the current account deficit came in at €3.7 billion, up by €420 million YoY due to the deterioration in the balance of goods (deterioration €703 million) and the secondary income account (deterioration €251 million), which were only partly offset by an improvement in the services balance (improvement €460 million) and the primary income account (improvement €74 million).

SOUTH EASTERN EUROPE

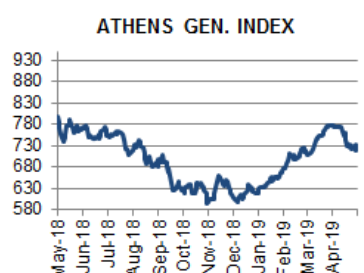
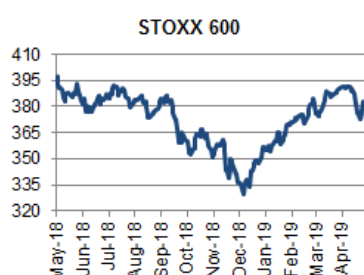
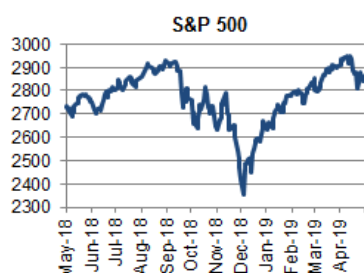
SERBIA: Following two weeks of consultations with the Serbian authorities, the IMF Mission for the 2019 Article IV Consultation and the Second Review under the Policy Coordination Instrument (PCI) concluded yesterday. According to the respective official press release, growth prospects remain robust, public debt is declining, inflation is low and stable, and many key reforms have been implemented. Still a plethora of reforms to strengthen the resilience of the economy remains at stake, as risks to the near-term growth outlook appear tilted to the downside.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

UK PM Theresa May offered yesterday a number of sweeteners to MPs, including the opportunity to vote on whether to hold a second referendum to ratify the UK's exit from the EU, conditional on backing her Brexit bill. Theresa May also committed that the government will honor the outcome of such a vote. In addition, the UK PM made certain commitments such as an attempt to seek "alternative arrangements" to the Irish border backstop and closer trading arrangements with the EU. As a reminder, the UK Premier will seek to bring her Brexit deal through parliament in the first week of June, this time in the form of the withdrawal agreement implementation bill, rather than another "meaningful vote". However, Theresa May's commitments are not expected to break the impasse over Brexit and her deal will probably be rejected for the fourth time. Labour Party leader Jeremy Corbyn said publicly that the main opposition will not support the Brexit deal, while, according to press reports, a number of Conservative pro-Brexit MPs, who had previously casted a positive vote, will reject it this time. Assuming that Theresa May's Brexit deal is indeed rejected and the Conservative Party suffers heavy losses in the European elections that will be held in the UK on Thursday, the risk of Theresa May being deposed or resigning, is expected to increase significantly.

On the back of mounting UK political uncertainty, the GBP remained under pressure, marking a fresh four-month low of 1.2659 against the USD earlier today, while the EUR/GBP extended recent gains climbing above 0.8800 for the first time since mid-February. Meanwhile, the DXY index was standing close to yesterday's 3 ½ week intraday high of 98.134, favored by modestly higher US government bond yields amid optimism for no further US/China trade war escalation after the US administration temporarily eased trade restrictions imposed last week on China's telecoms equipment maker, Huawei. Focus today is on the FOMC minutes from the May policy meeting which are expected to communicate that the Committee remains data-dependent.

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GREECE

According to the Bank of Greece, in Q1 2019 the current account deficit came in at €3.7 billion, up by €420 million YoY due to the deterioration in the balance of goods (deterioration €703 million) and the secondary income account (deterioration €251 million), which were only partly offset by an improvement in the services balance (improvement €460 million) and the primary income account (improvement €74 million). The expansion in the deficit of the balance of goods stems from a deterioration in both the oil balance (deterioration €342 million) and the balance of goods excl. oil (deterioration €361 million). Exports of goods fell by €75 million due to a drop in oil exports (-€154 million), which was partly counterbalanced by a rise in the exports of ships (+€11 million) and goods excl. oil and ships (+€219 million). On the other hand, imports rose in all goods' categories by a total of €778 million. Services receipts rose by €672 million due to a rise in all services categories with travel in particular having increased by 37%YoY. Services' payments also rose, but by a lesser degree (+€213 million) with the highest change being again recorded in travel (+28%YoY).

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Latest economic & market developments in the CESEE region

SERBIA

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

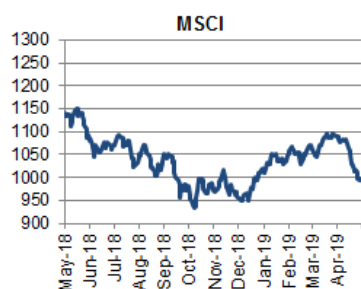
CYPRUS: Indicators	2017	2018	2019F
Real GDP growth %	4.5	3.9	3.3
HICP (pa, yoy %)	0.7	0.8	1.0
Fiscal Balance/GDP*	1.8	2.9	3.0
Current Account/GDP	-8.4	-7.0	-7.5

* 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+

Following two weeks of consultations with the Serbian authorities, the IMF Mission for the 2019 Article IV Consultation and the Second Review under the Policy Coordination Instrument (PCI) concluded yesterday. According to the official concluding IMF statement, macroeconomic stability has continued to progress since the 2017 Article IV Consultation. Fiscal discipline has taken root, with the general government budget recording a surplus for two consecutive years and public debt falling by ca 15% of GDP since the beginning of 2017. At the same time, unemployment has continued to decline while inflation has been kept low. The financial sector appears stable, with the banks' non-performing loans as a percentage of total loans reaching 5.5% at end-March 2019, the lowest level since 2008. According to the Spring IMF projections, real GDP growth in 2019 is projected at 3.5% YoY, with a pick-up expected during the second half of the year due to strong foreign direct investment (FDI), continued public investment, and assumed recovery in trading partner countries. Indeed, in the previous week, the National Bank of Serbia (NBS) Governor, Ms. Jorgovanka Tabakovic stated that FDI in Serbia reached EUR 1.2bn in the first four months of 2019, increased by 14% YoY. The NBS expects FDI in 2019 to reach 8% of GDP, surpassing the Current account (CA) deficit by almost 2%. According to the IMF, the NBS's accommodative monetary policy stance has been appropriate as it has supported domestic demand and bank credit growth in recent years amid subdued inflationary pressures. With macroeconomic stability firmly entrenched, over the medium term a gradual move towards greater exchange rate flexibility could help to further develop the exchange rate market and promote "dinarization".

Despite all necessary measures adopted to ring fence Serbia's economy, the IMF stated that risks to the near-term growth outlook appear tilted to the downside. The slowdown in the euro area starting in the second half of 2018—especially in Serbia's most important trade partners—has already affected economic activity and may continue to do so because of lagged effects while rising protectionism could further hamper growth through its impact on global trade. Strong governance is critical, including anti-corruption efforts and providing legal certainty.

Substantial progress has been achieved on Anti Money Laundering (AML) deficiencies, but other anti-corruption efforts need to be strengthened. Towards that direction, the parliament adopted yesterday a draft law on the prevention of corruption that increases powers of the Anti-Corruption Agency, its independence and financial independence. The new piece of legislation gives the Agency the right to inspect the accounts of officials, who once in office, must report their income and property, as well as the property of their spouses, children, parents, brothers and sisters. The Agency will be entitled to inspect the bank accounts of officials, while for other persons and related parties, in the event of any doubt, their consent will be required. The law also stipulates that the Agency can act upon anonymous complaints, which was not the case up to now. The head of the Agency cannot be a member of a political party and will be elected for a five-year term following a public competition. The Head will be elected by a majority in parliament.

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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	2864.36	0.8%	14.3%	EUR/USD	1.1153	-0.1%	-2.8%	UST - 10yr	2.42	0	-26	GOLD	1274	-0.1%	-0.7%
Nikkei 225	21283.37	0.1%	6.3%	GBP/USD	1.2675	-0.2%	-0.7%	Bund-10yr	-0.07	-1	-31	BRENT CRUDE	72	-0.5%	33.5%
STOXX 600	379.50	0.5%	12.4%	USD/JPY	110.43	0.1%	-0.7%	JGB - 10yr	-0.05	-1	-6	LMEX	2814	-0.2%	0.5%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.27	1	-17
1-week	2.37	1	-19
1-month	2.61	1	-12
3-month	2.97	0	-6
6-month	3.10	0	-8

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.02	-1	-5
5Y RSD	3.79	0	28
7Y RSD	4.05	0	-11

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.22	-1	-77

CDS

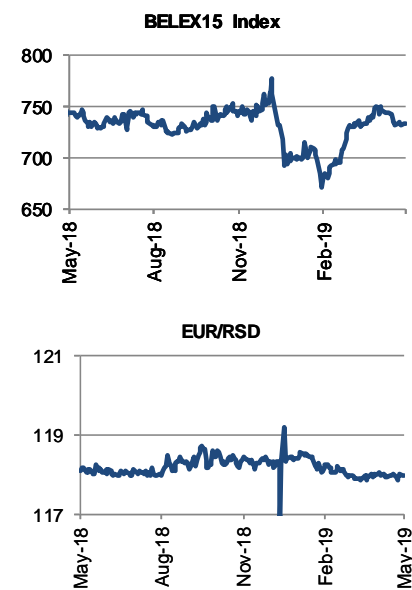
	Last	ΔDbps	ΔYTD bps
5-year	104	0	-14
10-year	149	-1	-13

STOCKS

	Last	ΔD	ΔYTD
BELEX15	733.1	-0.04%	-3.75%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.94	0.05%	0.26%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.7	0	61
1-month	3.15	0	128
3-month	3.28	0	123
6-month	3.39	0	112
12-month	3.54	0	122

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.83	0	-20
5Y RON	4.46	0	12
10Y RON	4.96	0	15

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.38	-	-16
USD Jan-24	3.44	-1	-80

CDS

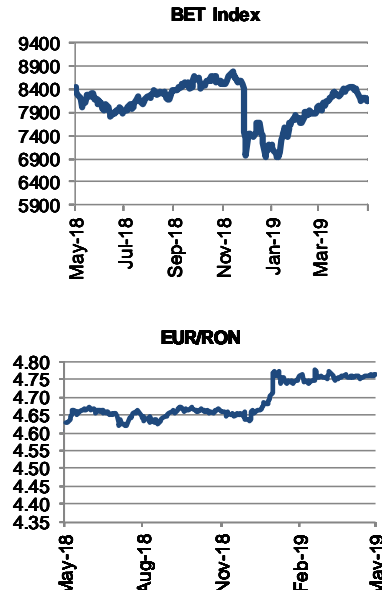
	Last	ΔDbps	ΔYTD bps
5-year	92	1	2
10-year	135	1	2

STOCKS

	Last	ΔD	ΔYTD
BET	8152.6	-0.64%	10.41%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7632	0.04%	-2.29%



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	-3	-16
5Y BGN	-0.03	-1	-13
10Y BGN	0.45	0	-30

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.10	0	-6
EUR Sep-24	0.16	0	-32

CDS

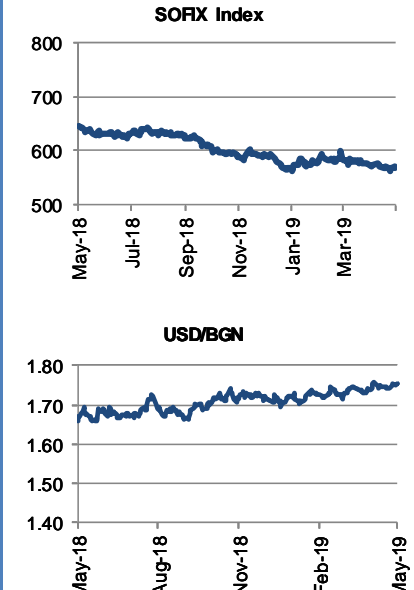
	Last	ΔDbps	ΔYTD bps
5-year	80	0	-17
10-year	128	0	-13

STOCKS

	Last	ΔD	ΔYTD
SOFIX	568.8	-0.09%	-4.31%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7535	-0.07%	-2.74%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research
Data updated as of 9:55 EEST

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