

# DAILY OVERVIEW

## OF GLOBAL MARKETS & THE SEE REGION

Monday 22 July 2019

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- July 22: Chicago Fed Nat Activity Index (Jun)
- July 23:
  - FHFA House Price Index (May)
  - Existing Home Sales (Jun)
- July 24: New Home Sales (Jun)
- July 25:
  - Wholesale Inventories (Jun,P)
  - Durable Goods Orders (Jun,P)
  - Initial Jobless Claims (20/07)
- July 26: GDP (Q2,A)

#### EUROZONE

- July 23:
  - Consumer Confidence (Jul,A)
- July 24:
  - Markit Manufacturing, Services, Composite (Jul, P)
  - M3 Supply (Jun)
- July 25:
  - ECB Policy Meeting
  - Germany's IFO Business Climate (Jul)

#### UK

- July 23: Conservatives to Name new Party Leader

#### SEE

##### ROMANIA:

- July 23: M3 Supply (Jun)

##### SERBIA:

- July 25: Real Gross Wages (May)

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Market participants scaled back expectations for a 50bps rate cut at the 30-31 FOMC meeting in reaction to a Wall Street Journal report suggesting that Fed officials are inclined for a 25bps rate cut at the upcoming meeting as well as clarifications by a New York Fed spokeswoman that New Fed President John Williams's latest comments over quick and aggressive Fed action were not about a potential rate move at this month's meeting. US Treasury yields rose, particularly at the front end of the curve, while Bund yields also moved north, albeit at a lesser extent. In FX markets, the USD gained some ground against most of its currency peers supported by reduced expectations for an aggressive 50bps Fed rate cut later this month and safe-haven flows amid heightened Middle East tensions following Iran's seizure of a British tanker. Looking at this week's calendar, the main event is the ECB monetary policy meeting (Thursday) with market odds of a 10bps rate cut surpassing 50% today for the first time. The result of the Tory leadership contest will be announced tomorrow (Tuesday, 23 July).

**GREECE:** The programmatic statements of the new government started on Saturday and are scheduled to be completed this afternoon with the vote of confidence. Among others, the PM Kyriakos Mitsotakis stated that the corporate tax will be reduced to 24% as of 2019 from 28% currently and to 20% in 2020 while the tax on dividends will be halved to 5%. Moreover, the property tax ENFIA will be reduced for all property owners. In spite of any policy changes, Kyriakos Mitsotakis stressed that the 2020 budget will not put at risk the fiscal targets agreed for 2019 and 2020. In other news, according to the Bank of Greece, in the January-May 2019 period, the current account showed a deficit of €4.8 billion, up by €124 million YoY.

### SOUTH EASTERN EUROPE

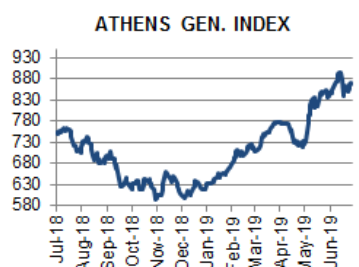
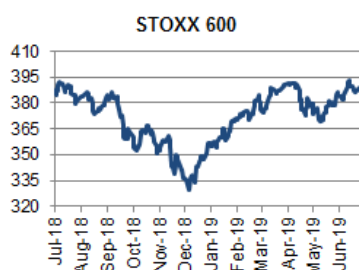
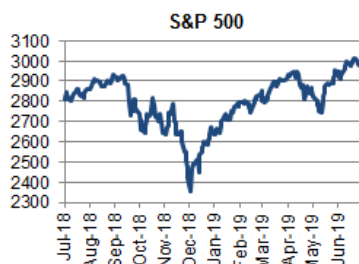
**CESEE MACRO & MARKET DEVELOPMENTS:** According to official data released on Friday by the National Bank of Bulgaria (BNB), the current account (CA) posted a EUR328.6mn surplus in May compared to a marginal deficit of EUR2.9mn in the same month of the previous year. The cumulative surplus in Jan-May amounted to EUR1.0bn compared to a deficit of EUR 75.6mn in the same period of 2018. The CA balance improvement in May alone was backed by ameliorated figures across all components. On the contrary, Serbia's CA posted a deficit which widened by 41.3%YoY to EUR 1.3bn during January-May. The cumulative deficit for the first five months of 2019 accounted for 5.7% of the projected GDP while in May alone, the CA posted a deficit of EUR124.2mn against a EUR 32mn surplus in the same month a year ago. The key driver of the posted deficit remains the persistently high imports growth, broadly fueled on strong domestic demand. Looking at this week's calendar ahead, it is rather empty, with the most important event being the Romanian Central Bank Meeting on Tuesday where no changes are anticipated and the Key interest Policy Rate (KPR) will most probably remain stable at 2.50%.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Market participants scaled back expectations for a 50bps rate cut at the 30-31 FOMC meeting in reaction to a Wall Street Journal report suggesting that Fed officials are inclined for a 25bps rate cut at the upcoming meeting as well as clarifications by a New York Fed spokeswoman that New Fed President John Williams's latest comments over quick and aggressive Fed action were not about a potential rate move at this month's meeting. Fed Funds futures are currently assigning a probability of around 20% for a 50bps rate cut at the July meeting compared to c. 70% late last week in the aftermath of the New York Fed President's dovish remarks. Against this background, US Treasury yields rose, particularly at the front end of the curve, while Bund yields also moved north, albeit at a lesser extent. In FX markets, the USD gained some ground against most of its currency peers supported by reduced expectations for an aggressive 50bps Fed rate cut later this month and safe-haven flows amid heightened Middle East tensions following Iran's seizure of a British tanker. The EUR/USD pulled back to levels around 1.1215 in early European trade today, some 0.5% lower from Friday's session peak, pressured by a Bloomberg report conveying that ECB staff has begun a preliminary study on a potential revamp of the central bank's inflation target at exactly 2.0%. Looking at this week's calendar, the main event is the ECB monetary policy meeting (Thursday) with market odds of a 10bps rate cut surpassing 50% today for the first time. On the data front, Eurozone PMIs for July (Wednesday) and Germany's July IFO (Thursday) ahead of the advance estimate of US Q2 GDP (Friday) lure market attention. The result of the Tory leadership contest will be announced tomorrow (Tuesday, 23 July), with bookmakers assigning probability of more than 90% that Eurosceptic Boris Johnson will be the winner, a development that is expected to heat up the Brexit debate.

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### GREECE

The programmatic statements of the new government started on Saturday and are scheduled to be completed this afternoon with the vote of confidence. Among others, the PM Kyriakos Mitsotakis stated that the corporate tax will be reduced to 24% as of 2019 from 28% currently and to 20% in 2020 while the tax on dividends will be halved to 5%. Moreover, the property tax ENFIA will be reduced for all property owners. According to press, the total cost of this reduction will reach €545mn, €265mn of which had already been provided for by the previous government. In spite of any policy changes, Kyriakos Mitsotakis stressed that the 2020 budget will not put at risk the fiscal targets agreed for 2019 and 2020. As regards the privatisations programme the Greek PM said that the Public Power Corporation will first be revamped and then a strategic investor will be sought while the sale of Hellenic Petroleum will be relaunched. In other news, according to the Bank of Greece, in the January-May 2019 period, the current account showed a deficit of €4.8 billion, up by €124 million YoY. This is attributed to an increase in the deficit of the balance of goods, which was largely offset by a rise in the surplus of the services balance and an improvement in the primary and secondary income accounts. The deficit of the balance of goods grew due to a slowdown in export growth, combined with a sustained increase in imports. Total exports of goods rose by 3.7%YoY, while non-oil exports of goods grew by 6.8%YoY. Total imports of goods increased by 8.5%YoY. The rise in the surplus of the services balance is due to an improvement in, primarily, the transport balance and, secondarily, the travel balance, while the deficit of the other services balance widened. Transport (mainly sea transport) receipts rose by 8.8%. At the same time, travel receipts increased by 14.4%, even though non-residents' arrivals showed a small decline of 0.9%.

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## Latest economic & market developments in the CESEE region

### CESEE MACRO & MARKET 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

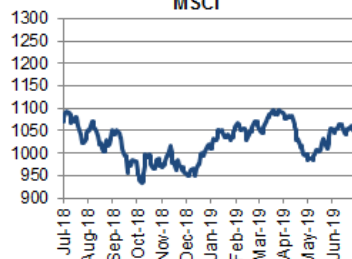
Source: Reuters, Bloomberg, Eurobank Research, National Authorities

#### 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

#### MSCI



#### 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+

According to official data released on Friday by the National Bank of Bulgaria (BNB), the current account (CA) posted a EUR328.6mn surplus in May compared to a marginal deficit of EUR2.9mn in the same month of the previous year. The cumulative surplus in Jan-May amounted to EUR1.0bn compared to a deficit of EUR 75.6mn in the same period of 2018. The CA balance improvement in May alone was backed by ameliorated figures across all components. In brief, the merchandise trade deficit continued to narrow by 57.6% YoY, reflecting an acceleration of exports growth by 11.1% YoY and a prudent expansion of imports only by 3.4% YoY while the net services surplus increased by 11.9% YoY to EUR203.3mn during May. As a result, the current account surplus came at 1.8% of GDP in Jan-May 2019, compared with a deficit of EUR 75.6 million (0.1% of GDP) in January – May 2018.

On the same day, Serbia's CA data was published as well by the National Bank of Serbia (NBS). Serbia's CA posted a deficit which widened by 41.3%YoY to EUR 1.3bn during January-May. The cumulative deficit for the first five months of 2019 accounted for 5.7% of the projected GDP while, in May alone, the CA posted a deficit of EUR124.2mn against a EUR 32mn surplus in the same month a year ago. The key driver of the posted deficit remains the persistently high imports growth, broadly fueled by strong domestic demand. The central bank projects that the CA deficit will narrow to 5.0% of GDP in 2019 from 5.2% of GDP in 2018 on the back of the improved balance of services and more favorable movements in the primary income account. However, the IMF is less optimistic and forecasts that the CA deficit will widen to 5.5% of GDP this year.

On the market news front, the main Bulgarian index SOFIX slid marginally by 0.2% to 582.56 points over the previous week amid very low volume of ca EUR0.5M. External government yields dropped for the most part of the curve by around 2-3 bps with local bond yields moving accordingly; the 5-year and the 20-year yields posted the largest drops by 4 and 3 bps respectively. Concluding, during the previous week, the NBS bought EUR60mn in efforts to prevent the RSD from appreciating towards the EURO. As such, the weekly EUR/RSD trading range stood between 117.65-117.75, with the pivotal quote that triggered the NBS's interventions remaining 117.75, which was also the closing price on Friday.

This week's calendar is rather empty, with the most important event being the Romanian Central Bank meeting on Tuesday where no changes are anticipated and the Key interest Policy Rate (KPR) will most probably remain unchanged at 2.50%, with the NBR remaining on a wait-and-see mode.

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\*We would like to thank Zoran Korac from Eurobank Beograd and Ruslan Raychev for their valuable contribution in today's issue.

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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	2976.61	-0.6%	18.7%	EUR/USD	1.1221	0.0%	-2.2%	UST - 10yr	2.05	-1	-63	GOLD	1427	0.1%	11.3%
Nikkei 225	21416.79	-0.2%	7.0%	GBP/USD	1.2502	0.0%	-2.0%	Bund-10yr	-0.32	0	-56	BRENT CRUDE	63	1.4%	17.7%
STOXX 600	387.25	0.1%	14.7%	USD/JPY	107.91	-0.2%	1.7%	JGB - 10yr	-0.14	0	-14	LME X	2874	0.4%	2.6%

### SERBIA

#### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	1.91	0	-53
1-week	1.97	0	-59
1-month	2.28	0	-45
3-month	2.58	0	-45
6-month	2.72	0	-46

#### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.56	-1	-50
5Y RSD	3.12	0	-38
7Y RSD	3.27	0	-88

#### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.80	-1	-120

#### CDS

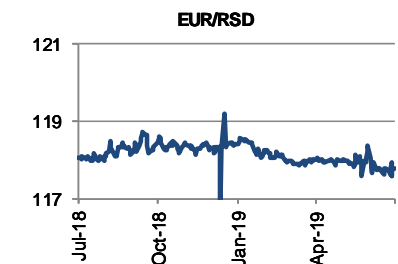
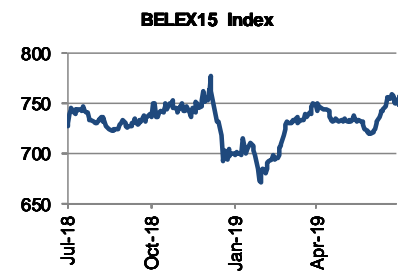
	Last	ΔDbps	ΔYTD bps
5-year	88	1	-30
10-year	134	1	-28

#### STOCKS

	Last	ΔD	ΔYTD
BELEX15	749.4	-0.72%	-1.61%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.78	-0.53%	0.39%



### ROMANIA

#### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.71	0	62
1-month	2.83	0	96
3-month	3.11	0	106
6-month	3.26	0	99
12-month	3.46	0	114

#### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.59	0	-45
5Y RON	4.04	0	-30
10Y RON	4.47	0	-34

#### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	0.80	-	-74
USD Jan-24	3.03	0	-121

#### CDS

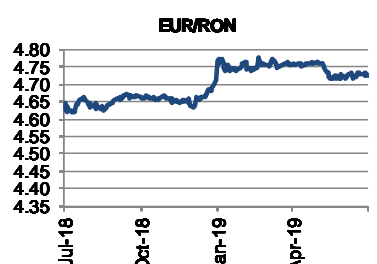
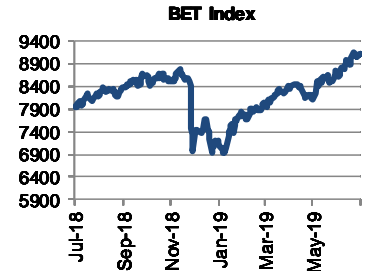
	Last	ΔDbps	ΔYTD bps
5-year	87	0	-3
10-year	129	0	-5

#### STOCKS

	Last	ΔD	ΔYTD
BET	9106.4	0.21%	23.33%

#### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7266	0.00%	-1.53%



### 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	-0.28	-1	-22
5Y BGN	-0.07	0	-18
10Y BGN	0.28	0	-47

#### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.23	0	-20
EUR Sep-24	0.00	0	-48

#### CDS

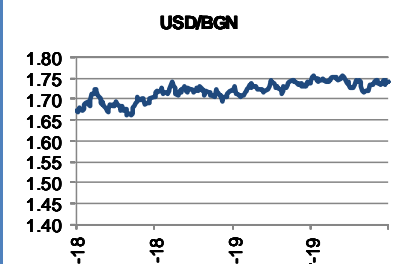
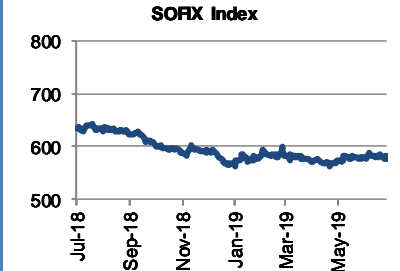
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-18
10-year	120	-4	-21

#### STOCKS

	Last	ΔD	ΔYTD
SOFIX	582.6	0.96%	-2.00%

#### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7429	0.00%	-2.15%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research  
Data updated as of 10:10 EEST

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