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Eurobank

DAILY OVERVIEW
OF GLOBAL MARKETS & THE SEE REGION

Wednesday 23 January 2019

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- Jan 22: Existing home sales (Dec)
- Jan 23:
- Jan 24:
  - Initial jobless claims (19/1)
  - Markit Composite PMI (Jan, prel)
- Jan 25:
  - Durable goods orders (Dec, prel)
  - New home sales (Dec)
- Jan 22 – Feb 02:
  - New home sales (Nov)
  - Construction spending (Nov)
  - Factory orders (Nov)
  - Durable goods orders (Nov, fin)
  - Trade balance (Nov)

EUROZONE

- Jan 22: ZEW survey (Jan)
- Jan 23: European Commission Consumer confidence (Jan)
- Jan 24:
  - Markit Composit PMI (Jan, prel)
  - ECB policy meeting
- Jan 25: German Ifo business climate (Jan)

UK

- Jan : Premier Theresa May to present to the House of Commons her new Brexit plan

GREECE

- Jan 21: Current account balance (Nov)
- Jan 21-22: Credit expansion (November)

SEE

ROMANIA

- Jan 25: Money supply (Dec)

SERBIA

- Jan 25: Real gross wages (Dec)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

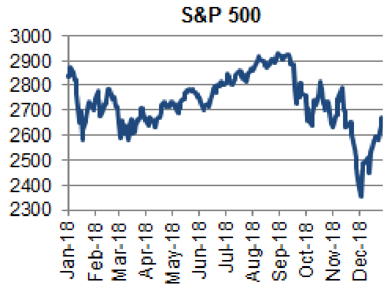
GLOBAL MARKETS: Market sentiment took a turn to the worse amid enduring concerns about the global growth outlook. Adding to market woes, Brexit–related uncertainty prevails while a resolution in the US/China trade dispute seems to be still a long way off. Favored by equity markets' lackluster performance, core government bonds were firmer today. In FX markets, the EUR/USD remained under pressure and the GBP was slightly firmer favored by positive UK earnings growth data.

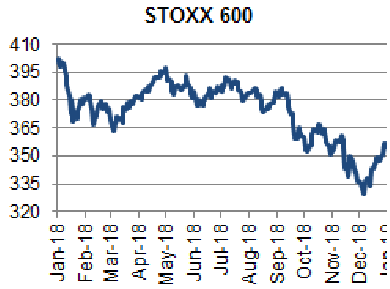
GREECE: Deliberations in the context of the 2nd Enhanced Post Programme Surveillance review are ongoing and among the issues on the agenda yesterday were the reduction of NPLs and the schemes proposed to this effect by the HFSF and the BoG. DGComp approved the request of the Ministry of Energy for an extension to the deadline for the submission of binding offers for the lignite-fired units of PPC that are to be divested. According to the BoG, in the period Jan-Nov 2018, travel receipts increased 9.7%YoY while in the corresponding period of 2017 they had increased by 10.9%.

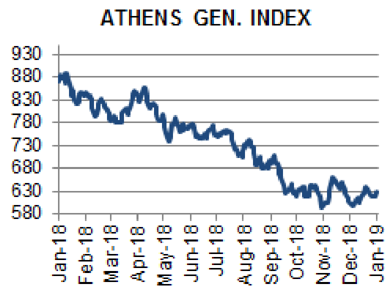
SOUTH EASTER EUROPE

CYPRUS: The parliamentary committee on budgetary and financial affairs approved the release of the annual funds designated for the ESTIA government plan in 2019.

Latest world economic & market developments







Source: Reuters, Bloomberg, Eurobank Research

GLOBAL MARKETS

Market sentiment took a turn to the worse with major US equity markets posting overnight their biggest one-day percentage drop since January 3. European equity markets followed suit, standing in negative territory in early trade today as concerns about the global growth outlook prevail. The Chinese economy continued to decelerate in Q4 2018 with GDP growth expanding 6.4% in annual terms, the slowest pace since Q1 2009. Meanwhile, soft indicators and hard data in the Eurozone do not signal any rebound in economic activity after a weak Q3 2018. Against this background, in its updated January 2019 World Economic Outlook that was published earlier this week, the IMF revised lower its global GDP growth estimate for both 2019 and 2020 to 3.5% and 3.6% respectively from an estimated 3.7% in 2018. Adding to market woes, Brexit – related uncertainty prevails. UK Prime Minister Theresa May presented her new Brexit plan to the House of Commons on Monday, outlining what she intends to do next after her initial plan was rejected by Parliament early last week. On 29 January MPs will vote on the UK Premier's plan and will also be able to vote on their amendments to the plan. However, as things stand, it will likely take time for a compromise that would command a majority in the House of Commons and at the same time not break the EU's red lines. Continuing US/China trade tensions also do not bode well for risk sentiment. The next round of US/China trade talks is scheduled for 30-31 January and press reports conveyed yesterday that the US administration rejected China's offer for preparatory trade talks this week due to a lack of progress on key issues. Favored by equity markets' lackluster performance, core government bonds were firmer today while, in FX markets, the DXY index was little changed on a daily basis, trading not far from yesterday's three-week intraday peak of 96.484 in early European trade today. The EUR/USD remained under pressure standing within distance from yesterday's three-week intraday low of 1.1333 and the GBP was broadly slightly firmer favored by positive UK earnings growth data. On today's data front, key releases include the European Commission consumer confidence index for January and France's INSEE manufacturing confidence, which is expected to remain stable at December's level favored by declining participation in Yellow Vests movement in recent week.

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GREECE

Deliberations in the context of the 2nd Enhanced Post Programme Surveillance review are ongoing. Among others, the institutions reportedly held yesterday meetings with government officials (Minister of Finance Euclid Tsakalotos, Minister of the Economy Yiannis Dragasakis, Deputy Minister to the Prime Minister Dimitris Liakos and Deputy Minister of Finance George Chouliarakis), the Governor of the Bank of Greece Yiannis Stournaras and the management of the four systemic banks to discuss the proposals of the Hellenic Financial Stability Fund and the Bank of Greece for the reduction for NPLs. Meanwhile, according to press reports, DGComp approved the request of the Ministry of Energy for an extension to the deadline for the submission of binding offers for the lignite-fired units of PPC that are to be divested. On the economic data front, according to the Bank of Greece in the period Jan-Nov 2018, travel receipts increased 9.7%YoY while in the corresponding period of 2017 they had increased by 10.9%. This positive development is attributed primarily to an increase of 12%YoY in the travel receipts from EU28 visitors and to a lesser extent by visitors from non-EU28 countries that rose by 5.8%. Inbound traveler flows in Jan-Nov 2018 were up by 10.6%YoY compared to 9.9%YoY in the corresponding period of 2017, bringing the average non-resident expenditure per trip to Greece slightly down EUR524 against EUR526 in Jan-Nov 2017.

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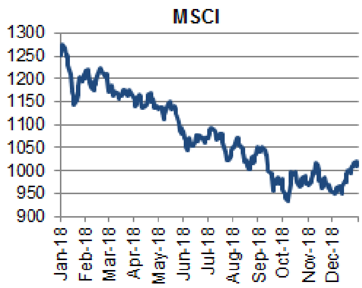
Latest economic & market developments in the CESEE region

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



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+

CYPRUS

The parliamentary committee on budgetary and financial affairs approved yesterday the release of the funds designated for the ESTIA government plan in 2019. The decision was taken by a majority vote. The ruling party Democratic Party Rally (DISI) along with the Democratic Party (DIKO) and Solidarity Move voted in favor while the opposition parties of Progressive Party of Working People (AKEL), Movement of Social Democrats (EDEK) and Movement of Ecologists — Citizens` Cooperation voted against.

The government has drafted and made public the so-called ESTIA plan, a subsidy scheme introduced to help vulnerable groups of distressed borrowers. However, the endorsement of the scheme was subject to a heated debate among political parties in the parliament, in which the ruling party (DISI) doesn't hold parliamentary majority. Ultimately the parliament endorsed the plan under the condition that the release of the funds be subject to the approval of the committee on budgetary and financial affairs on an annual basis. The ESTIA scheme incentivizes both creditors (the banks) and debtors (borrowers) to come into an agreement on restructuring the non-performing mortgage loans for primary residence. The lender is required to offer a restructuring of the loan to eligible borrowers. The bank undertakes the responsibility to restructure the mortgage loan and forgive the loss coming from the difference between the market price and the book value of the collateral. Then, eligible borrowers – households and micro companies will receive a government subsidy equal to one third of their monthly installment, provided that their restructured mortgage loans are secured against their primary residence and that they resume servicing the other two thirds of their monthly payment. If the borrower stops servicing its loan, it is foreseen that the bank will initiate the foreclosure of the property.

On the data front, non-performing exposures (NPEs) decreased by €5.6bn in September-reflecting the carve out of the Cyprus Cooperative Bank (CCB) bad loans- after registering minor decreases in August and July compared to €3.3bn in June, bringing the stock of NPEs down by 59.7% over the period from December 2014 to September 2018. Loan exposures (performing plus non-performing) decreased by €6.6bn from €41,3bn in June 2018 to €34,6bn in September 2018, which is a slightly larger drop than the decrease in their non-performing component alone. Despite the deleveraging, the ratio of NPEs (non-performing to total exposures) declined to 31.8% in September 2018 down from 40.3% in June 2018, compared to 43.7% in December 2017, 47.2% in December 2016, 45.8% in December 2015 and 47.8% in December 2014. Recall that according to the EBA conservative definition, a restructured NPE is still classified as an NPE for a probation period of at least 12 months, even if it is properly serviced without incurring new arrears. As a result, a large fraction of the restructured loans are still classified as NPEs (€4.8bn out of €7.3bn in September 2018).

Finally, the Statistical Service published the quarterly general government accounts of Q3-2018, which reflected the fiscal cost of the carve-out of the CCB bad loans and the sale of the performing assets and liabilities of CCB to Hellenic Bank. The general government recorded a deficit of €723.1mn in 9M-2018 compared to a surplus of €366.7mn in 9M-2017. Accordingly, the general government debt to GDP ratio increased to 110.7% of GDP in Q3-2018, registering the highest increase in EU-28 (9.7ppts compared to Q3-2017), up from 104% in Q2-2018.

GLOBAL MARKETS

Stock markets	Last	ΔD	ΔYTD	FOREX	Last	ΔD	ΔYTD	Government Bonds (yields)	Last	ΔDbps	ΔYTD bps	Commodities	Last	ΔD	ΔYTD
S&P 500	2632.90	-1.4%	5.0%	EUR/USD	1.1365	0.0%	-0.9%	UST - 10yr	2.74	0	6	GOLD	1286	0.1%	0.3%
Nikkei 225	20593.72	-0.1%	2.9%	GBP/USD	1.2978	0.2%	1.7%	Bund-10yr	0.24	0	-1	BRENT CRUDE	62	0.0%	14.3%
STOXX 600	354.07	-0.3%	4.9%	USD/JPY	109.57	-0.2%	0.1%	JGB - 10yr	0.01	0	0	LMEX	2844	-0.2%	1.5%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.43	1	-1
1-week	2.59	5	3
1-month	2.75	4	2
3-month	3.08	2	5
6-month	3.23	2	5

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.08	0	2
5Y RSD	3.56	0	5
7Y RSD	4.15	0	0

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.72	0	-27

CDS

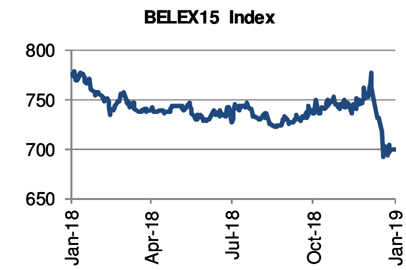
	Last	ΔDbps	ΔYTD bps
5-year	109	1	-9
10-year	156	1	-7

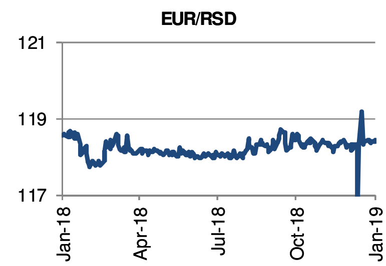
STOCKS

	Last	ΔD	ΔYTD
BELEX15	699.7	-0.12%	-8.14%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.41	-0.02%	-0.15%





ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.83	8	74
1-month	3.07	11	120
3-month	3.03	6	98
6-month	3.31	3	104
12-month	3.5	1	118

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.15	0	12
5Y RON	4.59	0	25
10Y RON	5.04	0	23

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.53	-	-1
USD Jan-24	4.13	0	-10

CDS

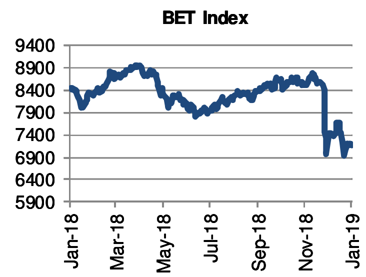
	Last	ΔDbps	ΔYTD bps
5-year	105	0	15
10-year	147	0	13

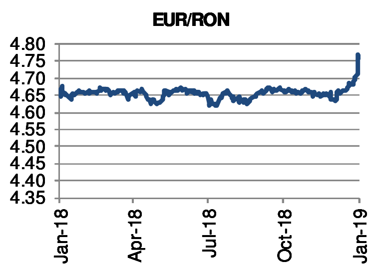
STOCKS

	Last	ΔD	ΔYTD
BET	7176.3	-0.24%	-2.81%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7585	0.20%	-2.19%





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	-0.20	-2	-14
5Y BGN	0.07	0	-5
10Y BGN	0.72	0	-4

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.03	-3	1
EUR Sep-24	0.41	0	-7

CDS

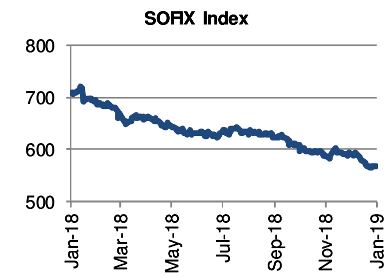
	Last	ΔDbps	ΔYTD bps
5-year	79	-1	-18
10-year	126	0	-15

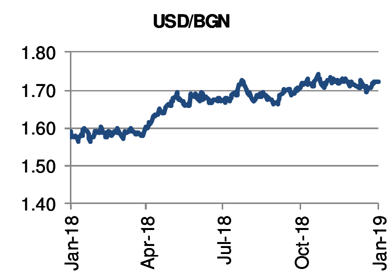
STOCKS

	Last	ΔD	ΔYTD
SOFIX	567.8	0.12%	-4.49%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7212	0.03%	-0.91%





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

Data updated as of 10:45 EEST

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