

Wednesday 24 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: As expected, Eurosceptic Boris Johnson was declared yesterday the winner of the Conservative leadership contest and consequently, the new UK's Prime Minister. Amid mounting no-deal Brexit fears, the GBP remained under pressure, especially against the USD. Meanwhile, the USD retained a firm tone against all G10 peers following the agreement earlier this week between the leadership of Congress and representatives of the US government to suspend the debt ceiling and boost government spending for the next two fiscal years. German Bund yields remained in a downward trend while EMU sovereign bonds outperformed Bunds on the day, especially Italy followed by Spain in spite of domestic political jitters. Looking at today's calendar, the main release is the flash manufacturing and services PMIs for the month of July out of the Eurozone.

GREECE: The government is looking into ways to increase fiscal space considering among others cutting expenditure in Ministries and SOEs and broadening the tax base through the increased usage of electronic payments. Another option that is reportedly being examined is adding the SMP/ANFA income to the calculation for the primary surplus a decision which, however, requires agreement with the institutions. Meanwhile, the first tax bill is expected to be tabled to Parliament on Friday and to be voted by 1 August.

SOUTH EASTERN EUROPE

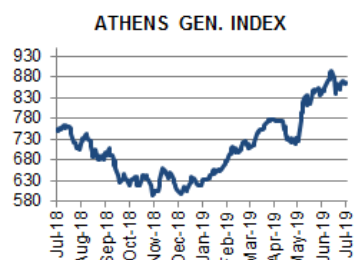
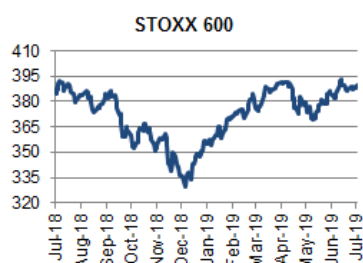
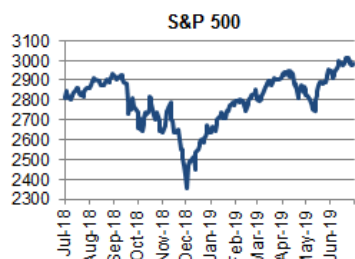
CESEE MACRO DEVELOPMENTS: The IMF published yesterday the World Economic Outlook Update according to which global growth remains subdued, with GDP growth expected at 3.2% YoY in 2019 and picking up to 3.5% YoY in 2020. Regarding emerging and developing economies the GDP growth rate for the years 2019 and 2020 is seen at 4.1% YoY and 4.7% YoY respectively, downwards revised by 3bps for 2019 and 1bp for 2020 compared to the spring outlook. A day earlier, the IMF published the staff report for the 2019 article IV consultation along with the second review under the policy coordination instrument both for Serbia. In a nutshell, the near-term outlook remains positive with economic growth projection for 2019 remaining stable to 3.5%.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank
Research

As expected, Eurosceptic Boris Johnson was declared yesterday the winner of the Conservative leadership contest and consequently, the new UK's Prime Minister. He received an overwhelming majority of 66% of about 160k Conservative Party members across the UK, comfortably beating his rival Jeremy Hunt. Boris Johnson will formally take over from Theresa May later today after the latter submits her resignation to the Queen. In his short victory speech, the incoming PM vowed to "get Brexit done by 31 October" stressing that delivering Brexit is one of his immediate priorities. Amid mounting no-deal Brexit fears on the view that it may be difficult for him to strike a new Brexit deal with the EU in the limited remaining time, the GBP remained under pressure, hovering around 1.2430/35 against the USD in early European trade, not far from the recent two-year low of 1.2380 (17 July). Meanwhile, the USD retained a firm tone against all G10 peers following the agreement earlier this week between the leadership of Congress and representatives of the US government to suspend the debt ceiling and boost government spending for the next two fiscal years, averting the risk of a new government shutdown in September. Against a broadly firmer USD, the EUR/USD remained under pressure for the second session in a row, marking an intraday low of 1.1125 earlier today, the lowest level since early June. Market expectations for further policy easing by the ECB, also weighed on the common currency with market participants pricing in currently a probability slightly above 50% for a 10bps cut at tomorrow's ECB policy meeting. German Bund yields remained in a downward trend with the 10-yr yield dropping 2.5bps on the day at -0.38%, coming closer to the -0.41% record low marked earlier this month. EMU sovereign bonds outperformed Bunds on the day, especially Italy followed by Spain in spite of domestic political jitters. The future of Italy's coalition government looks uncertain while Spain's PM Pedro Sanchez failed to secure support at the first vote in parliament yesterday to form a government. Looking at today's calendar, the main release is the flash manufacturing and services PMIs for the month of July out of the Eurozone for clues over how the economy started into Q3.

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GREECE

The government is looking into ways to increase fiscal space considering among others cutting expenditure in Ministries and SOEs and broadening the tax base through the increased usage of electronic payments. Another option that is reportedly being examined is adding the SMP/ANFA income to the calculation for the primary surplus a decision which, however, requires agreement with the institutions. Meanwhile, the first tax bill is expected to be tabled to Parliament on Friday and to be voted by 1 August. The bill foresees the reduction of the property tax (ENFIA), the income tax for corporations and the tax on dividends as well as a number of amendments to the scheme for the settlement of debts to the tax authorities and social security funds. According to the Bank Lending Survey of the Bank of Greece, in Q2 2019, demand for loans to non-financial institutions increased slightly but at a slower pace compared to Q1 2019, especially for long-term loans, due to increased financing needs for fixed assets and debt refinancing/restructuring. In the next quarter demand is expected to remain broadly unchanged but increase slightly for small and medium sized enterprises. As regards households, demand in Q2 2019 remained unchanged compared to Q1 2019 while it is expected to increase somewhat in the next quarter.

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Latest economic & market developments in the CESEE region

CESEE MACRO 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

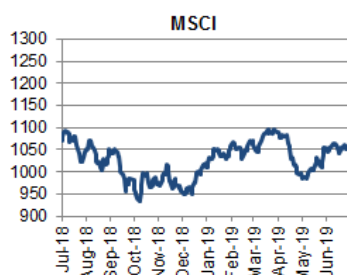
* ESA 2010

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



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 IMF published yesterday the World Economic Outlook Update according to which global growth remains subdued, with GDP growth expected at 3.2% YoY in 2019 and picking up to 3.5% YoY in 2020. Regarding emerging and developing economies the GDP growth rate for the years 2019 and 2020 is seen at 4.1% YoY and 4.7% YoY respectively, downwards revised by 3bps for 2019 and 1bp for 2020 compared to the spring forecasts. The key driver of emerging countries' economic growth remains the emerging Asian region which is expected to expand by 6.2% YoY both in 2019 and 2020. On the contrary, Emerging Europe is forecast to grow at a significantly more modest pace close to 1% YoY in 2019 and picking up to 2.3% YoY in 2020. A day earlier, the IMF published the staff report for the 2019 article IV consultation along with the second review under the policy coordination instrument. According to the review, the near-term outlook remains positive. GDP Growth in 2019 is projected at 3.5%, with a pick-up in growth expected during the second half of 2019 due to strong foreign direct investment (FDI), continued public investment, and assumed recovery in trading partner countries. Inflation will move within the lower half of the inflation target band, while the current account deficit as a share of GDP is expected to widen modestly and remain fully covered by FDI. However, Serbia remains vulnerable to spillovers from external developments, including weaker-than-expected growth in key trading partners. Over the medium term, policies should be geared towards ensuring that structural drivers of growth are solid. This includes efforts to limit outflow of skilled labor by creating work opportunities within Serbia, as well as improve the private investment climate through the better provision of public services and reduction of the grey economy. Strengthening governance will also be critical, including providing legal certainty, as well as improvements in governance and efficiency of State Owned Enterprises.

Concluding, the IMF welcomed Serbia's strong macroeconomic performance supported by the Policy Coordination Instrument which started a year ago and will be concluded in July 2021 while it emphasized that ongoing commitment to structural reforms is key to sustaining macroeconomic and financial stability as well as advancing the EU convergence agenda.

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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	2991.55	0.2%	19.3%	EUR/USD	1.1154	-0.5%	-2.7%	UST - 10yr	2.06	1	-63	GOLD	1428	0.2%	11.4%
Nikkei 225	21620.88	1.0%	8.0%	GBP/USD	1.2451	-0.2%	-2.4%	Bund-10yr	-0.36	-1	-60	BRENT CRUDE	63	0.0%	17.5%
STOXX 600	391.83	1.1%	16.0%	USD/JPY	108.09	-0.2%	1.5%	JGB - 10yr	-0.14	-1	-15	LMEX	2841	-1.2%	1.4%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	1.86	-2	-58
1-week	1.95	-1	-61
1-month	2.26	-1	-47
3-month	2.52	-3	-51
6-month	2.69	-1	-49

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.56	-1	-50
5Y RSD	3.01	0	-50
7Y RSD	3.27	0	-89

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.78	-2	-122

CDS

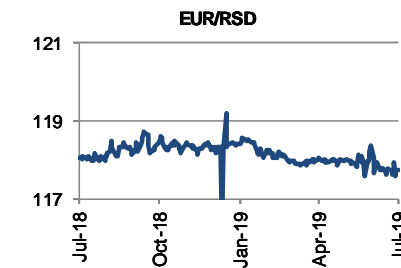
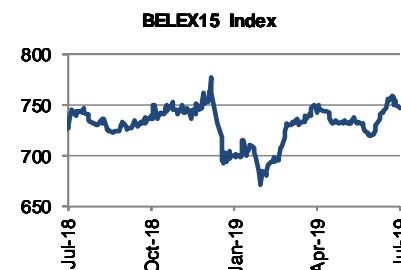
	Last	ΔDbps	ΔYTD bps
5-year	88	0	-30
10-year	135	0	-27

STOCKS

	Last	ΔD	ΔYTD
BELEX15	747.0	-0.14%	-1.93%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.80	-0.09%	0.38%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.71	-4	62
1-month	2.81	-1	94
3-month	3.1	-1	105
6-month	3.25	-1	98
12-month	3.43	0	111

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.48	0	-55
5Y RON	3.98	0	-36
10Y RON	4.39	0	-42

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	0.76	-	-79
USD Jan-24	3.03	0	-121

CDS

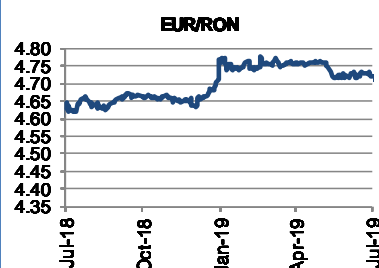
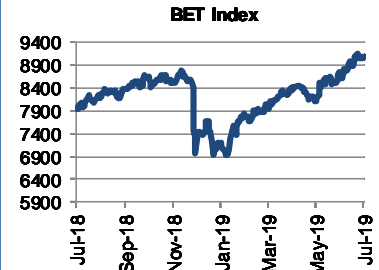
	Last	ΔDbps	ΔYTD bps
5-year	87	0	-3
10-year	129	0	-5

STOCKS

	Last	ΔD	ΔYTD
BET	9064.4	0.16%	22.76%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7204	0.04%	-1.40%



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	-0.29	-2	-24
5Y BGN	-0.10	-4	-21
10Y BGN	0.32	0	-44

87.94

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.23	-1	-21
EUR Sep-24	0.00	-1	-49

CDS

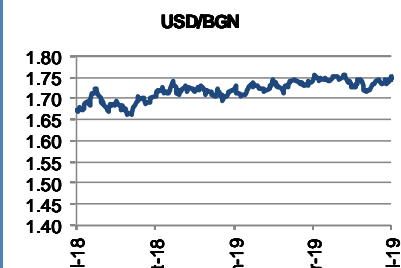
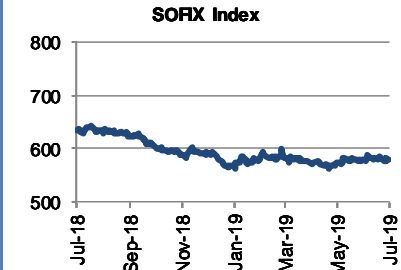
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-18
10-year	120	0	-21

STOCKS

	Last	ΔD	ΔYTD
SOFIX	579.2	-0.06%	-2.58%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7533	-0.50%	-2.73%



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

Data updated as of 17:50 EEST of the previous session

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