

DAILY OVERVIEW  
OF GLOBAL MARKETS & THE SEE REGION

Tuesday 26 March 2019

KEY UPCOMING DATA  
& EVENTS THIS WEEK

## US

- Mar 26:
  - Housing Starts & Building Permits (Feb.)
  - CB Consumer Confidence (Mar.)
  - S&P/Case-Shiller Home Price Index (Jan.)
- Mar 27:
  - Trade Balance (Jan.)
  - Current Account Balance (Q4)
  - MBA Mortgage Applications (22/03)
- Mar 28:
  - Initial Jobless Claims (23/03)
  - GDP (Q4, 3<sup>rd</sup> estimate)
  - Pending Home Sales (Feb.)
- Mar 29:
  - Personal Income (Feb.)
  - Personal spending (Jan.)
  - PCE Core Inflation (Jan.)
  - New Home Sales
  - Chicago PMI (Mar.)
  - UM Consumer Confidence (Mar.)

## EUROZONE

- Mar 25: German IFO Business Climate (Mar.)
- Mar 26: France's INSEE Business Climate (Mar.)
- Mar 28: Economic Sentiment Indicator (ESI, Mar.)
- Mar 29: CPI (Mar.)

## GREECE

- Mar 28: Economic Sentiment Indicator (Mar.)
- Mar 29:
  - CPI (Feb. prel.)
  - Retail Sales (Mar.)

## SEE

## BULGARIA

- Mar 29:
  - Gross External Debt (Jan)
  - Budget Balance (Feb)
  - KPR Meeting

## SERBIA

- Mar 25: Real Gross Wages (Jan.)
- Mar 29:
  - Retail Sales (Feb.)
  - Trade Balance (Feb.)

Source: Reuters Bloomberg

## HIGHLIGHTS

## WORLD ECONOMIC &amp; MARKET DEVELOPMENTS

**GLOBAL MARKETS:** The bull-run in US Treasuries and core EU government bonds continues amid mounting worries over the global growth outlook as last Friday's disappointing manufacturing data in the US and Germany continued to have an impact. With Fed funds rate futures assigning a higher-than-even probability of a rate cut by end-Q3 2019, the yield curve between the 3-month bills and the 10-yr bond — a good indicator for forecasting a US recession, according to San Francisco Fed researchers — continued to invert. Along these lines, the 10-yr Bund yield remained below zero, shrugging off the unexpected improvement in Germany's IFO business climate index for March released yesterday. In FX markets, range trading within 1.1300-1.1500 prevails for the EUR/USD, while the GBP retained a relatively firm tone after UK MPs voted last night in favor of an amendment that allows them to take control of the Brexit process.

**GREECE:** Deliberations among the Greek government and the institutions regarding the new household insolvency framework have still not borne fruit with the main objections reportedly being raised by the ECB, which expresses reservations about whether the government's proposal will radically reduce the number of NPLs or deal with the strategic defaulters' problem. In other news, the Ministry of Finance reportedly submitted to DG Comp an amended proposal for the Asset Protection Scheme for Greek systemic banks.

## SOUTH EASTERN EUROPE

**CESEE MARKETS:** According to official statistical data released yesterday, in Serbia, the average net salary per employee for January increased by 3.7% YoY in real and 4.1%YoY in nominal terms. We anticipate the disposable income in Serbia to continue its positive footing in 2019 as the budget for 2019 envisaged back in November a deficit ca 0.5% of the projected for 2019 GDP in order for fiscal space to be created that will fuel further public wage and pension increases. This week's calendar is broadly filled with regional unemployment and wages data as of January with regional Central Banks MPC meetings prevailing in terms of importance. We point out the Hungarian Monetary Policy Meeting in which a signaling of future tightening of the loose monetary policy will not come as a surprise to investors.

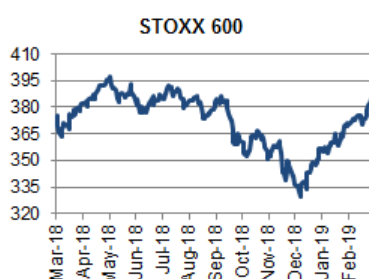
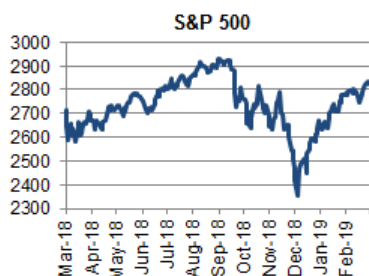
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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

The bull-run in US Treasuries and core EU government bonds continues amid mounting worries over the global growth outlook. The 10-yr UST yield was standing close to 2.43% in early European trade at the time of writing, not far from yesterday's 2.38% trough, the lowest level since mid-December 2017, as last Friday's disappointing manufacturing data in the US and Germany continued to have an impact. With Fed funds rate futures assigning a higher-than-even probability of a rate cut by end-Q3 2019, the yield curve between the 3-month bills and the 10-yr bond—a good indicator for forecasting a US recession, according to San Francisco Fed researchers—continued to invert. The respective spread was standing into negative territory for the third session in a row as, in reaction to the dovish surprises from the Fed at last week's monetary policy meeting, the yield of the 10-yr bond has moved below that of the 3-month bills for the first time in more than ten years. Along these lines, the 10-yr Bund yield remained below zero and within distance from last Friday's -0.03%, the lowest level since October 2016. The unexpected improvement by 0.9points in Germany's IFO business climate index for March to 99.6 released yesterday was broadly shrugged off, as it is somewhat at odds with last week's disappointing flash March Composite PMI, which dived to 51.5 (-1.3points m/m), as services weakened and manufacturing plunged deeper into contractionary territory.

In FX markets, the EUR/USD was hovering around 1.1300 at the time of writing, not much changed on the day, but slightly higher from last Friday's multi-session low of 1.1270, gaining some support from yesterday's better than expected March IFO Business Climate Index in Germany. Nevertheless, range trading within 1.1300-1.1500 prevails, with the pair lacking a clear direction as weaker-than-expected data from the Eurozone are offset by the Fed's more-dovish-than-expected monetary policy stance. Elsewhere, the GBP retained a relatively firm tone standing close to 1.3200 against the USD, while the EUR/GBP remained below 0.8600 after UK PMs voted last night in favor of an amendment that allows them to take control of the Brexit process. Specifically, UK MPs will hold so-called "indicative votes" on alternatives to PM Theresa May's Brexit strategy on Wednesday, 27 March, that will likely include a permanent customs union, the "Norway plus" option, a second referendum and the revocation of Brexit.

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### GREECE

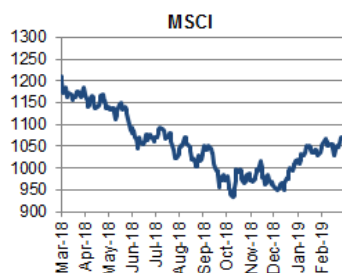
Deliberations among the Greek government and the institutions regarding the new household insolvency framework have still not borne fruit with the main objections reportedly being raised by the ECB, which expresses reservations about whether the government's proposal will radically reduce the number of NPLs or deal with the strategic defaulters' problem. As a result the Euroworking Group that convened yesterday did not dwell much on this issue but rather referred it back to the institutions. The latter are expected in Athens on 1<sup>st</sup> April in the context of the 3<sup>rd</sup> EPPS review. A potential impasse on this matter may further delay the approval by the Eurogroup of the implementation of the additional debt relief measures for Greece. In other news, the Ministry of Finance reportedly submitted to DG Comp an amended proposal for the Asset Protection Scheme for Greek systemic banks in order to address concerns regarding the calculation of the fee structure to the Greek state.

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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+

## Latest economic & market developments in the CESEE region

### CESEE MARKETS

According to official statistical data released yesterday, in Serbia, the average net salary per employee for January increased by 3.7% YoY in real and 4.1%YoY in nominal terms. Moreover, the average net salary in the public sector in January was higher by 12.9% compared to the national average and by 20.3% compared to the average net salary in the non-public sector. As such, we anticipate the disposable income in Serbia to continue its positive footing in 2019 as the budget for 2019 envisaged back in November a deficit ca 0.5% of the projected 2019 GDP in order for fiscal space to be created that will fuel further wage and pension increases.

In the FX space, during the previous week, the buying bias around the Serbian dinar picked up and dragged the EUR/RSD to a fresh 4-year low near 117.85. However, the appreciating momentum lost its steam once the National Bank of Serbia (NBS) decided to intervene. The NBS bought EUR65mn, hence the currency pair bounced back to 117.90.

In Bulgaria, the blue chip index SOFIX gave back recent gains by dropping by 0.25% to 582.34 points on Friday through a stronger volume of EUR7.3mn. External government yields finally posted some moves, dropping across the board between 4-9 bps last week. Local bonds also had an eventful week with yields dropping 5-8 bps with the exception of the 7 year tenor paper, which dropped by almost 23 bps during last week.

This week's calendar is broadly filled with regional unemployment and wages data as of January with regional Central Bank MPC meetings regarding the key policy interest rate decisions prevailing in terms of importance. We anticipate the Hungary's Executive Board decision later within the day. A signaling of future tightening of the loose monetary policy will not come as a surprise to investors. Taking into account the more dovish tone of both the FED and the ECB in recent weeks, the external environment does not impose heavy pressure on Hungary's Monetary Policy Committee (MPC) to act aggressively. As such, an increase in the overnight deposit rate from -0.15% to ca zero is more probable with the key policy interest rate remaining unchanged. On Thursday, the Czech Central bank meeting will take place with the MPC expected to maintain its wait-and-see mode amid prevailing headwinds including uncertainty over the Brexit process. Finally, on Friday, at the respective meeting in Bulgaria, no changes are anticipated.

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