Eurobank Global Markets Research
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Eurobank

DAILY OVERVIEW
OF GLOBAL MARKETS & THE SEE REGION

Friday 26 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: In the monetary policy meeting yesterday, the ECB left its monetary policy unchanged, disappointing those who were positioned for lower interest rates following a recent string of weaker-than-expected euro area data. Nevertheless, the Governing Council prepared the ground for further policy easing by changing its forward guidance to expecting the key interest rates to remain "at the present or lower levels" at least through the first half of 2020. In reaction to the ECB's message for further policy stimulus, the EUR weakened and the 10-yr Bund yield hit a fresh record low of -0.42% yesterday before rising to -0.37% in early European trade today on ECB President Mario Draghi's comments in the post-meeting press conference that the monetary policy decision was not taken unanimously and the recession risk is regarded as "pretty low". In terms of data releases today, focus is on the advance reading of US Q2 GDP.

GREECE: According to the Ministry of Finance data for the execution of the State Budget on a modified cash basis, State Budget balance for the period Jan-Jun 2019 presented a deficit of €2,687mn, against a target of a deficit of €4,819mn foreseen in the 2019 Budget and a deficit of €2,440mn for the same period of 2018. The State Budget Primary Balance amounted to a surplus of €381mn, against the primary deficit target of €1,573mn and the primary deficit of €46mn achieved in the same period of 2018.

SOUTH EASTERN EUROPE

TURKEY: The Central Bank of Turkey slashed the key policy rate by 425bps to 19.75%.

Latest world economic & market developments

GLOBAL MARKETS

In the monetary policy meeting yesterday, the ECB left its monetary policy unchanged, disappointing those who were positioned for lower interest rates following a string of weaker-than-expected euro area data. Nevertheless, the Governing Council prepared the ground for further policy easing by changing its forward guidance to expecting the key interest rates to remain "at the present or lower levels" at least through the first half of 2020. The Governing Council "underlined the need for a highly accommodative stance of monetary policy for a prolonged period of time" as inflation remains persistently below its inflation target and a "rebound (in growth) becomes less likely", making clear that it is "determined to act, in line with its commitment to symmetry in the inflation aim" if the medium-term inflation outlook continues to fall short of its aim. Aiming to ensure that inflation moves towards the target, the Governing Council tasked the relevant Euro system Committees with examining a broad range of options, supporting market expectations for lower interest rates, the adoption of a tiered system and another round of asset purchases in the coming months. In reaction to the ECB's message for further policy stimulus, the EUR weakened dropping to a two-year low of 1.1100 against the USD, before recovering modestly to levels around 1.1130 in early European trade at the time of writing, remaining though 0.1% weaker on the day and down 0.8% so far this week. In core fixed income markets, the 10-yr Bund yield stood close to -0.37% at the time of writing, up from yesterday's fresh record low of -0.42% on ECB President Mario Draghi's comments in the post-meeting press conference that the monetary policy decision was not taken unanimously and the recession risk is regarded as "pretty low". In terms of data releases today, focus is on the advance reading of US Q2 GDP which is expected to show a slowdown to an annualized growth rate of 1.8% from 3.1% in Q1 2019.

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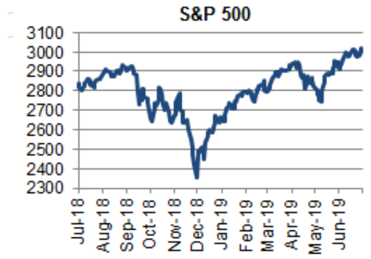

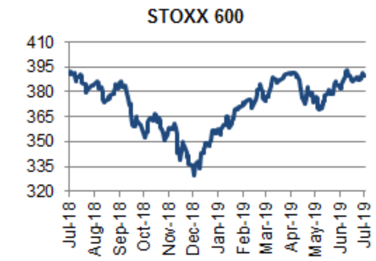

Source: Reuters, Bloomberg, Eurobank Research

GREECE

According to the Ministry of Finance data for the execution of the State Budget on a modified cash basis, State Budget balance for the period Jan-Jun 2019 presented a deficit of €2,687mn, against a target of a deficit of €4,819mn foreseen in the 2019 Budget and a deficit of €2,440mn for the same period of 2018. The State Budget Primary Balance amounted to a surplus of €381mn, against the primary deficit target of €1,573mn and the primary deficit of €46mn achieved in the same period of 2018. More specifically, in Jan-Jun 2019 there was an increase against the target in the following main revenue categories: a) VAT on other goods and services by €630mn or 9.3%, incl. €271.6mn of VAT from the extension of the concession of the AIA, b) Other taxes on services by €49mn or 5.4%, c) Taxes and tariffs on imports by €22mn or 18.9%, d) Property Taxes by €50mn or 8.9%, of which: ENFIA by €38mn, e) Other Taxes on Production by €30mn or 6.3%, f) Corporate Income Tax by €15mn or 3.3%, g) Capital taxes by €60mn or 91.0%, h) Transfers by €591mn or 37.8%, incl. €644mn of ANFAs received in May 2019 not foreseen in the Draft Budget 2019, i) Sales of goods and services by €1,073mn or 316.1%, incl. €1,119mn (excl. VAT), from the extension of the concession of the AIA, j) Other current revenue by €133mn or 17.5% (of which: return of expenditure by €205mn). During the same period there was an underperformance against the target in the following main revenue categories: a) VAT on Fuel by €35mn or 3.5%, b) VAT on Tobacco by €20mn or 6.1%, c) Excise Tax on Tobacco by €94mn or 8.5%, d) Stamp Duties by €26mn or 20.2%, e) Personal Income Tax by €125mn or 2.7%, f) Other Income Tax by €105mn or 16.5%, g) Other current taxes by €127mn or 16.9%. PIB revenues amounted to €1,054mn, €222mn lower than the target.

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Latest economic & market developments in the CESEE region

TURKEY

The inflation outlook improvement allowed the Central Bank of Turkey (CBRT) to deliver the first rate cut yesterday for the first time since September 2018. CBRT had stayed put on rates in mid-June, yet its communique was widely seen as looking for a window of opportunity in the next months to deliver the first rate cut, provided that global & domestic economic conditions are conducive to it. Thus, CBRT under the leadership of the new Governor Mr. Murat Uysal slashed the key policy rate (KPR) – the 1-week repo as of May2018 – by 425bps from 24.00% to 19.75%. The front-loaded move overshot the market consensus of 250bps, according to the Bloomberg and Reuters polls. The CBRT cited the dovish stance of the major central banks, the ongoing external rebalancing and the recent inflation trajectory improvement as the key drivers behind its decision. Headline inflation declined to 15.7% YoY in June – down to a twelve month low – vs. 18.7% YoY in May compared to 19.5% YoY in April down from 19.7% YoY in March coming again below analysts' consensus (Actual: +0.03% MoM vs Bloomberg: +0.20% MoM). Headline inflation has retreated from its historic highs in recent months ending at 20.3% YoY in December down from 21.6% YoY in November and 25.2% YoY in October 2018. Despite lira renewed depreciation pressures in early May, core inflation (which excludes food, alcohol, tobacco, energy and gold prices) eased further to 14.9% in June at the lowest level since June 2018, down from 15.9% YoY in May, compared to 16.3% YoY in April vs. 17.5% YoY in March down from 19.5% YoY in December.

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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

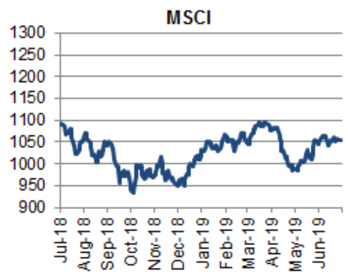
* on a cash basis
Source: Reuters, Bloomberg, Eurobank Research, National Authorities

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+

GLOBAL MARKETS

Stock markets

	Last	ΔD	ΔYTD
S&P 500	3003.67	-0.5%	19.8%
Nikkei 225	21658.15	-0.5%	8.2%
STOXX 600	389.45	0.0%	15.3%

FOREX

	Last	ΔD	ΔYTD
EUR/USD	1.1135	-0.1%	-2.9%
GBP/USD	1.2428	-0.2%	-2.6%
USD/JPY	108.64	0.0%	1.0%

Government Bonds

(yields)	Last	ΔDbps	ΔYTD bps
UST - 10yr	2.07	-1	-62
Bund-10yr	-0.37	-1	-62
JGB - 10yr	-0.15	0	-15

Commodities

	Last	ΔD	ΔYTD
GOLD	1420	0.4%	10.7%
BRENT CRUDE	63	0.1%	18.0%
LMEX	2847	-0.2%	1.6%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	1.83	-2	-61
1-week	1.93	-2	-63
1-month	2.22	-4	-51
3-month	2.48	-2	-55
6-month	2.67	-2	-51

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.54	-1	-52
5Y RSD	3.00	0	-51
7Y RSD	3.25	0	-91

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.73	0	-127

CDS

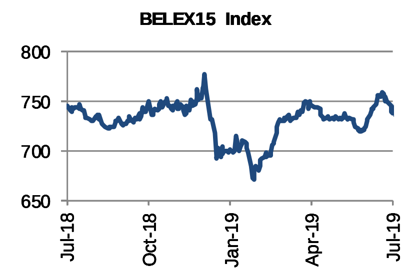
	Last	ΔDbps	ΔYTD bps
5-year	88	0	-30
10-year	135	0	-27

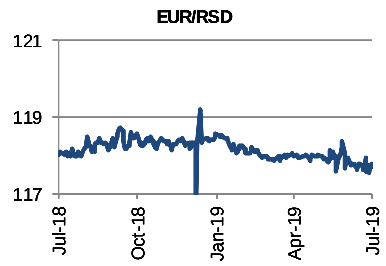
STOCKS

	Last	ΔD	ΔYTD
BELEX15	737.6	-0.15%	-3.17%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.71	0.05%	0.44%





ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	3.48	0	239
1-month	2.84	0	97
3-month	3.11	0	106
6-month	3.25	0	98
12-month	3.43	0	111

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.41	0	-62
5Y RON	3.85	0	-49
10Y RON	4.16	0	-65

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	0.76	-	-79
USD Jan-24	2.99	0	-124

CDS

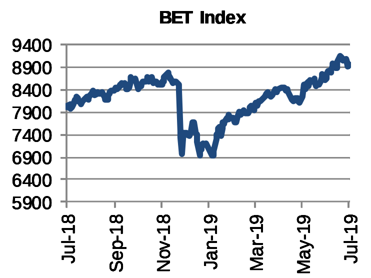
	Last	ΔDbps	ΔYTD bps
5-year	87	0	-3
10-year	129	0	-5

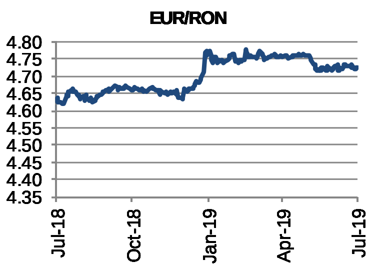
STOCKS

	Last	ΔD	ΔYTD
BET	8948.1	-0.23%	21.19%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7266	-0.04%	-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	-23
5Y BGN	-0.10	0	-21
10Y BGN	0.28	0	-48

87.94

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.19	0	-17
EUR Sep-24	-0.02	0	-50

CDS

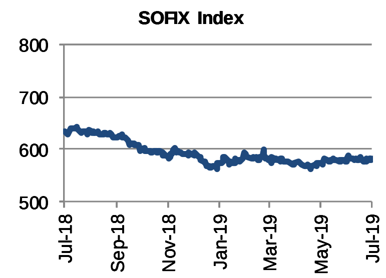
	Last	ΔDbps	ΔYTD bps
5-year	80	1	-17
10-year	120	0	-21

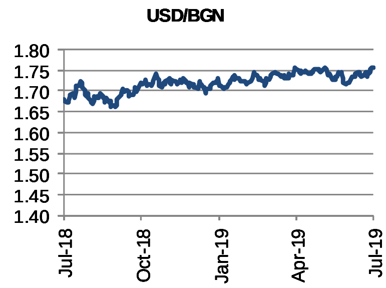
STOCKS

	Last	ΔD	ΔYTD
SOFIX	582.8	0.38%	-1.96%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7567	-0.10%	-2.91%





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

Data updated as of 10:10 EEST of the previous session

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