

Tuesday, December 12, 2017

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US

- Dec. 13
 - CPI (Nov)
 - FOMC meeting
- Dec. 14
 - Jobless claims (weekly)
 - Retail sales (Nov)
- Dec. 15
 - Empire State Index (Dec)
 - Industrial production (Nov)

EUROZONE

- Dec 12: Germany's ZEW (Dec)
- Dec. 13: Industrial production (Oct)
- Dec. 14
 - PMI-manuf. (Dec)
 - ECB meeting
- Dec. 14-15 : European Council
- **GREECE** Dec 11
 - Industrial Output YY (Oct)
- Dec 14
 - Unemployment rate Qtr (Q3)

SEE

BULGARIA

- Dec 11: Trade Balance (€mn, Oct)
- Dec 14: CPI (YoY%, Nov)

ROMANIA

- Dec 11:
 - Trade Balance (Oct)
 - Wages (Net, Oct)
 - 5.85% 2023 T-bonds auction
- Dec 12:
 - CPI (YoY%, Nov)
 - Retail Sales (October)
- Dec 14:
 - Current Account (€mn, Oct)
 - 3.4% 2022 T-bonds auction

SERBIA

- Dec 15: S&P and Fitch sovereign reviews

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Market focus is on this week's two-day FOMC monetary policy meeting that commences today. A 25bps rate hike is almost fully priced in while, given the solid US economic momentum and the increasing likelihood for the long-awaited tax reform bill to become law by the end of this year, the updated Fed projections are expected to show an upward revision for GDP forecasts and a lower near-term unemployment rate forecast. Awaiting the Fed's verdict, the USD was little changed on the day with the DXY index consolidating recent gains while US Treasuries were under pressure which was most pronounced at the short end of the curve. On the flipside, Bunds retained a positive tone supported by persistently contained inflation pressures in the euro area and the prevailing view that the ECB will not end abruptly the asset purchase programme while interest rates will remain at the current low levels well into 2019.

GREECE: According to press reports, speaking at a conference, European Commission Mission Chief to Greece Declan Costello, emphasised the need for Greece to keep up reform efforts even after the completion of the programme, in order to render Greece an attractive investment destination and support sustainable growth. At the same conference, Greek Finance Minister Euclid Tsakalotos expressed confidence that in the coming year discussions will revolve around the medium- and long- term debt relief measures and the accumulation of an adequate cash buffer that will allow for a decrease in interest rates and will facilitate a "clean exit" from the 3rd ESM programme. According to the Hellenic Statistical Authority (ELSTAT), the Turnover Index in Accommodation and Food Service Activities Sector during Q3 2017 increased by 13.9% compared to the Q3 2016 while the Overall Industrial Production Index in October 2017 recorded an increase of 0.5% compared with October 2016.

SOUTH EASTERN EUROPE

CYPRUS: The latest GDP estimate of Q3-2017 surpassed the most optimistic forecasts bringing the latest full year projection close to 4% in 2017.

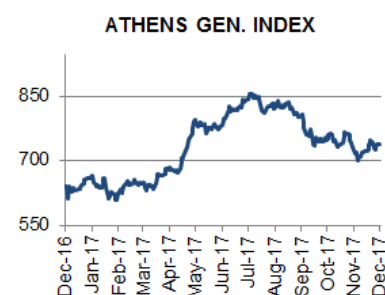
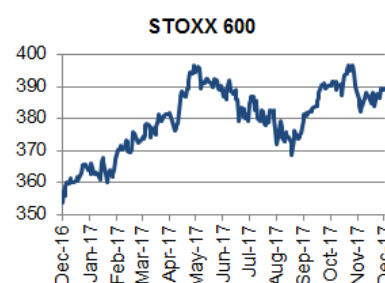
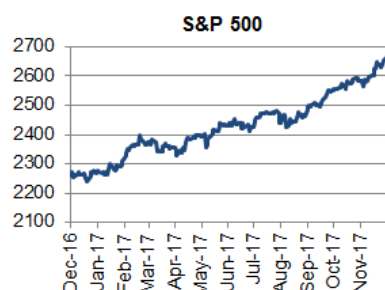
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December 12, 2017

Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Market focus is on this week's two-day FOMC monetary policy meeting that commences today. A 25bps rate hike is almost fully priced in while, given the solid US economic momentum and the increasing likelihood for the long-awaited tax reform bill to become law by the end of this year, the updated Fed projections are expected to show an upward revision for GDP forecasts and a lower near-term unemployment rate forecast. Such a development could potentially shift higher the 2018 "dot plot", pointing to four rate hikes from three previously. Awaiting the Fed's verdict, the USD was little changed with the DXY index consolidating recent gains while US Treasuries were under pressure which was most pronounced at the short end of the curve. The premium offered by the 2-yr paper rose by 4bps on the day at 1.827%, not far from last week's multi-year high of 1.839%. On the flipside, Bunds retained a positive tone supported by persistently contained inflation pressures in the euro area and the prevailing view that the ECB will not end abruptly the asset purchases programme while interest rates will remain at the current low levels well into 2019. The 10-yr Bund yield was hovering slightly below 0.300% at the time of writing, not too far from Monday's 5 ½ month low of 0.276% with the spread against its US counterpart standing close to 208.5bps, just off an eight-month closing low near 211bps hit in late November. In FX markets, the GBP was standing close to recent lows against both the EUR and the USD as the agreement in principle on the issues of the first phase of Brexit talks reached between the UK government and the EU last week failed to exert a lasting positive impact. Undoubtedly, investors remain concerned about the future course of Brexit negotiations. The EU/UK joint report on the progress of the first phase of negotiations reads clearly that "nothing is agreed until everything is agreed" making clear that this is not the final agreement but a positive step in that direction.

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GREECE

According to press reports, speaking at a conference, European Commission Mission Chief to Greece Declan Costello, emphasised the need for Greece to keep up reform efforts even after the completion of the programme, in order to render Greece an attractive investment destination and support sustainable growth. At the same conference, Greek Finance Minister Euclid Tsakalotos expressed confidence that in the coming year discussions will revolve around the medium- and long- term debt relief measures and the accumulation of an adequate cash buffer that will allow for a decrease in interest rates and will facilitate a "clean exit" from the 3rd ESM programme. Meanwhile, on the privatisations front, the Share Purchase Agreement for the Port of Thessaloniki (OLTH) is reportedly scheduled to be signed on Saturday. According to the updated Memorandum of Understanding the financial closing of the agreement must take place by end-April 2018. In other news, according to the Hellenic Statistical Authority (ELSTAT), the Turnover Index in Accommodation and Food Service Activities Sector during Q3 2017 increased by 13.9% compared to the Q3 2016 (the corresponding change in Q3 2016 was 2.9% compared to Q3 2015) confirming the very good performance of tourism in the current year. Furthermore, according to ELSTAT, the Overall Industrial Production Index in October 2017 recorded an increase of 0.5% compared with October 2016 while the average Overall Industrial Production Index for the period from January to October 2017 recorded an increase of 4.7% compared with the average IPI of the period from January to October 2016.

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BULGARIA: Indicators	2015	2016	2017f
Real GDP growth %	3.6	3.4	3.6
CPI (pa, yoy %)	-0.1	-0.8	1.6
Budget Balance/GDP*	-2.8	1.6	-1.3
Current Account/GDP	-0.1	5.4	3.5
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

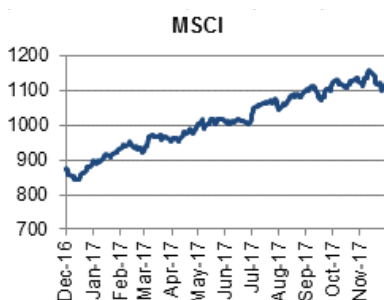
CYPRUS: Indicators	2015	2016	2017f
Real GDP growth %	1.7	2.8	3.5
HICP (pa, yoy %)	-1.5	-1.2	1.0
Budget Balance/GDP*	0.1	0.4	0.2
Current Account/GDP	-3.0	-5.7	-5.9

* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2015	2016	2017f
Real GDP growth %	3.7	4.8	5.5
CPI (pa, yoy %)	-0.6	-1.6	1.4
Budget Balance/GDP *	-1.9	-2.4	-3.7
Current Account/GDP	-1.1	-2.2	-3.0
EUR/RON (eop)	4.48	4.54	4.62
	2016	current	2017
Policy Rate (eop)	1.75	1.75	1.75

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

SERBIA: Indicators	2015	2016	2017f
Real GDP growth %	0.8	2.8	2.0
CPI (pa, yoy %)	1.4	1.2	3.0
Budget Balance/GDP	-3.7	-1.3	-0.5
Current Account/GDP	-4.7	-4.0	-4.0
EUR/RSD (eop)	121.38	123.40	120.0
	2016	current	2017
Policy Rate (eop)	4.00	3.50	3.50

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	BB+	BBB-
CYPRUS	B1	BB+	BB-

Source: Reuters, Bloomberg, Eurobank Research

Latest economic & market developments in the CESEE region

CYPRUS

The second and latest estimate of CYSTAT about the seasonally adjusted Q3 GDP reading confirmed the flash estimate of 0.9% QoQ/3.9% YoY. This strong reading compares to 1.0% QoQ/3.9% YoY in Q2-2017 and 0.7% QoQ/3.7% YoY in Q1-2017, up from 1.3% QoQ/3.7% YoY in Q4-2016 vs. 0.8% QoQ/3.6% YoY in Q3-2016. Real GDP growth marked the 11th consecutive positive reading on a both quarterly and annual basis after a previous three-year recession. The GDP growth rate of Q3 is among the highest in EA-19 and EU-28, both on a quarterly and an annual basis and, for a ninth consecutive quarter in a row, above that of EA-19. CYSTAT also revised upward the national accounts of 2015 and 2016 in both nominal and real terms. The revision showed that the economy rebounded much faster in 2015-16 than previously thought: the Statistical Service revised the GDP growth rate of FY2015 from 1.7% up to 2.0% and that of FY2016 from 2.8% up to 3%. As a result, the level of GDP in 2016 stood only 5% below that in 2011 and is expected to surpass the level of 2008 by the end of 2018. Overall, the 9M 2017 YoY GDP growth reached 3.8%, which makes us optimistic that the full year GDP growth projection could even approximate 4% in 2017.

From a demand point of view, the consumption rebound continued into Q3-2017 making a +2.9ppts contribution to growth. Final consumption expanded by 0.2% QoQ /+2.8% YoY in Q3-2017 down from +0.9% QoQ/+3.4% YoY in Q2-2017, up from +0.3% QoQ/+3.0% YoY in Q1-2017, compared to +1.2% QoQ/+3.7% YoY in Q4-2016, vs. +0.9% QoQ/+1.4% YoY in Q3-2016. The consumption rebound is underpinned by a number of factors, namely the strong sentiment improvement mirroring the earlier lasting progress within the programme, a flourishing tourism sector, improved labor market conditions, further property market stabilization, the impact from the envisaged fiscal relaxation, and the further normalization of banking sector conditions.

As far as other growth components are concerned, higher imports of transportation equipment – likely due to ship & airplane purchases – weighed heavily on the imports side (imports:-12.7% YoY vs. exports: +2.4%YoY), trimming net exports' positive contribution (+1.0 ppts) in Q3. Finally, investment spending turned out higher on an annual basis (+5.2% YoY, +0.6 ppts in Q3), thereby having a positive contribution to GDP growth.

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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	2659.99	0.3%	18.8%	EUR/USD	1.1776	0.1%	11.9%	UST - 10yr	2.39	0	-6	GOLD	1244	0.2%	7.9%
Nikkei 225	22866.17	-0.3%	19.6%	GBP/USD	1.3325	-0.1%	7.8%	Bund-10yr	0.31	2	10	BRENT CRUDE	65	0.9%	14.9%
STOXX 600	389.45	0.1%	7.8%	USD/JPY	113.46	0.1%	3.1%	JGB - 10yr	0.05	0	0	LMEX	3140	1.3%	18.1%

CESEE MARKETS

SERBIA

Money Market

BELBOR	Last	ΔDbps	ΔYTD bps
T/N	2.51	0	-49
1-week	2.61	-1	-56
1-month	2.80	-1	-55
3-month	3.07	0	-40
6-month	3.22	-1	-44

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	4.09	-1	-95
5Y RSD	4.50	0	-85
7Y RSD	4.89	1	-74

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.98	2	-123
USD Nov-24	6.03	-31	-23

CDS

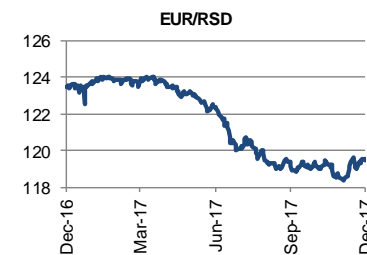
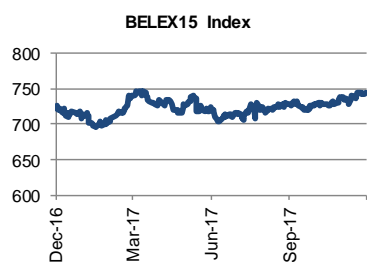
	Last	ΔDbps	ΔYTD bps
5-year	120	0	-88
10-year	161	-1	-94

STOCKS

	Last	ΔD	ΔYTD
BELEX15	748.8	0.58%	4.38%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	119.61	-0.21%	3.22%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.33	11	77
1-month	2.06	1	130
3-month	2.15	0	125
6-month	2.31	0	120
12-month	2.37	1	112

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.41	0	189
5Y RON	3.78	0	136
10Y RON	4.42	0	95

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.57	#N/A	N/A
USD Jan-24	2.99	0	-90

CDS

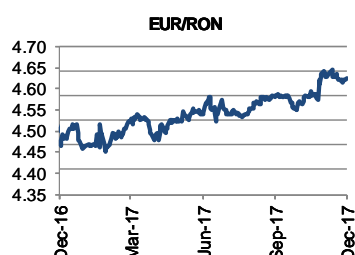
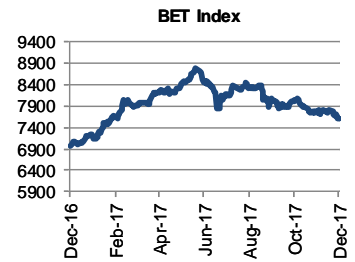
	Last	ΔDbps	ΔYTD bps
5-year	96	2	-13
10-year	150	3	-3

STOCKS

	Last	ΔD	ΔYTD
BET	7596.4	-0.24%	7.22%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6365	-0.09%	-2.10%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.22	-1	-6
3-month	-0.15	0	-8
6-month	-0.05	0	-13
12-month	0.32	0	-8

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.30	-1	-45
5Y BGN	-0.07	0	-57
10Y BGN	0.85	0	-105

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.00	0	-87
EUR Sep-24	0.01	-1	-167

CDS

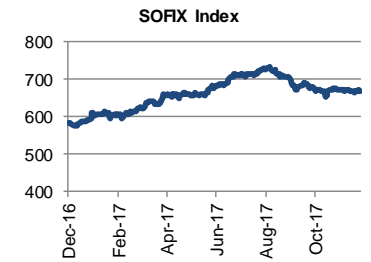
	Last	ΔDbps	ΔYTD bps
5-year	101	9	-51
10-year	145	12	-49

STOCKS

	Last	ΔD	ΔYTD
SOFIX	667.1	0.25%	13.76%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.661	0.05%	11.88%



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

Data updated as of 12:50 EST

December 12, 2017

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