

### 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:** Mirroring the negative sentiment in Wall Street overnight, Asian equity indices closed in the red on Friday and major European bourses opened lower, amid renewed concerns about the progress of US tax reform plan. Turning to the ECB's monetary policy meeting on 14<sup>th</sup> December, in line with expectations, the Governing Council (GC) left its monetary policy unchanged, reiterating that policy rates would remain at current levels for an extended period of time and well past the horizon of QE. Looking at today's calendar, the conclusion of the EU Council summit is expected to take centre stage. On the data front, October euro area trade data, December empire manufacturing and November industrial production for the US are due later in the day. Going forward, with the Central Banks meetings out the way and little of note on the data front, markets are likely to be in a subdued mood into the weekend.

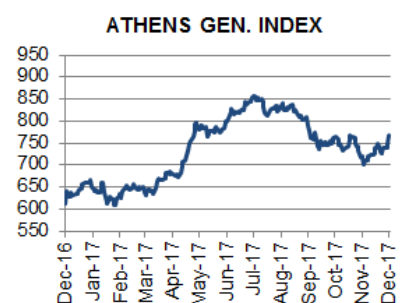
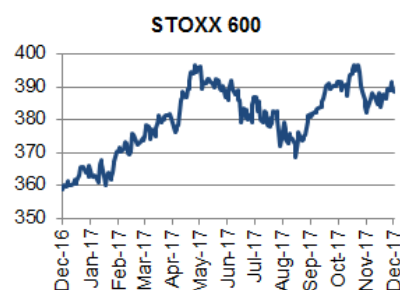
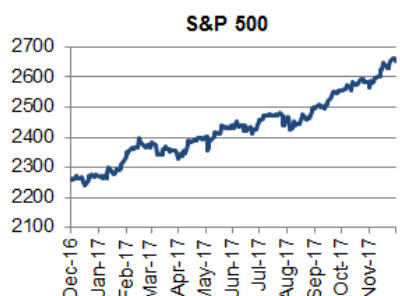
### SOUTH EASTERN EUROPE

**CESEE MARKETS:** The majority of emerging market assets lost ground in early European trade on Friday on deteriorating risk sentiment amid increased uncertainty about the proposed US tax reform. Looking into today's calendar, sovereign credit rating reviews by S&P and Fitch for Serbia take centre stage.

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## Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

### GLOBAL MARKETS

Mirroring the negative sentiment in Wall Street overnight, Asian equity indices closed in the red on Friday and major European bourses opened lower, amid renewed concerns about the progress of US tax reform plan. Republicans in the US Congress agreed on a final draft of the tax plan, while House of Representatives and Senate votes are expected early next week. Turning to the ECB's monetary policy meeting on 14<sup>th</sup> December, in line with expectations, the Governing Council (GC) left its monetary policy unchanged, reiterating that policy rates would remain at current levels for an extended period of time and well past the horizon of QE. Focus centered on the updated Staff macroeconomic forecasts on inflation and growth, both of which were upwardly revised. President Mario Draghi described euro area growth as strong, highlighting the significant reduction in economic slack. Nevertheless, euro area inflationary pressures still remain subdued and the GC expects only a very gradual increase in headline inflation over the forecast horizon. The reaction to the ECB's monetary policy decision was contained in the rate markets despite the larger than expected upward revisions to the staff GDP forecasts. Initially the 2-yr German bund yield moved upwards and hit a session high of -0.689% after the positive remarks in the press conference, however it retreated lower soon after reaching a multi-day low of -0.745% after the acknowledgement of recent disappointments in inflation. Similarly the 10-yr German yield rose to a week high of 0.338%, before falling to a low of 0.29% in European trade on Friday and, therefore, testing the critical level of 0.30% for one more time this month. In FX markets, the US dollar index firmed by 0.21% following the ECB meeting and EUR/USD fell to a session low of 1.1770 y-day in afternoon hours. The pair recovered some of its losses during early European trading hours on Friday hovering around 1.1795, while the EUR/USD implied volatility for 1 month ahead collapsed to new multi-year lows as a continuation of this year's trend and also reflecting the lack of events and calm of the approaching holiday season. Elsewhere, the GBP started the day stronger at 1.3430 versus the USD and 0.8785 versus EUR as we head towards the next round of Brexit negotiations. In commodities, WTI oil was up 0.6% around \$57.4/barrel in European trade at the time of writing, shrugging off IEA forecasts that new supply may grow faster than demand next year. Looking at today's calendar, the conclusion of the EU Council summit is expected to take centre stage. On the data front, October euro area trade data, December empire manufacturing and November industrial production for the US are due later in the day. Going forward, with the Central Banks meetings out of the way and little of note on the data front, markets are likely to be in a subdued mood into the weekend.

[okosma@eurobank.gr](mailto:okosma@eurobank.gr)

December 15, 2017

## Latest economic & market developments in the CESEE region

### CESEE MARKETS

The majority of emerging market assets lost ground in early European trade on Friday on deteriorating risk sentiment amid increased uncertainty about the proposed US tax reform. Trailing losses in major global bourses, the MSCI Emerging Markets index fell by 0.5% earlier today compared to Thursday's close, trimming weekly gains and retreating from yesterday's 2-week peak. Along similar lines, most bourses in the CESEE region moved lower, albeit braced to end the week in the black. Meanwhile, Bulgaria's and Romania's main indices bucked the negative daily trend to stand in a modestly positive territory at the time of writing.

In FX markets, regional currencies traded mixed earlier on Friday. The Turkish lira recovered some ground in European markets, recouping some of yesterday's hefty gains after the Central Bank disappointed expectations for more aggressive monetary tightening. In more detail, the MPC raised the late liquidity window rate by 50bps, below a market consensus for a 100bps hike and kept unchanged the benchmark 1-week repo rate at 8.00% and the overnight lending and borrowing rates at 9.25% and 7.25%, respectively, in line with the market's median forecast. In the accompanying statement, CBT acknowledged increased upside risks on inflation expectations and pricing behavior as a result of cost factors (such as the recent TRY depreciation) thus proceeding to tightening the monetary policy stance. Additionally the MPC left the door open for further tightening ahead, if required. With inflation remaining persistently well above the 5% medium-term target (headline CPI at a 15-year high of 12.98%YoY in November), the corresponding core index at a record high of 12.08%YoY last month and economic activity data pointing to a robust recovery so far this year, the Central Bank is likely to maintain a tight monetary policy stance for some time, until there is a significant and sustainable improvement in the inflation outlook. Against this backdrop, the USD/TRY stood 0.6% weaker on the day, trading around levels of 3.8625 in European markets, having recoiled from yesterday's 1-week peak of 3.8962 hit in the wake of the MPC decision announcement.

Elsewhere, local currency government bonds were mixed, with paper of shorter maturity outperforming. The Turkish 2-year T-bond yield fell the most, sliding by 9bps compared to Thursday's settlement to stand at 13.07% at the time of writing.

Looking into today's calendar, sovereign credit rating reviews by S&P and Fitch for Serbia take centre stage. In its last review in June this year S&P noted an increased upgrade likelihood over the next 6-12 months if fiscal developments exceeds the agency's expectations. In view of the aforementioned and given the ongoing improvement in government finances so far this year, an upgrade today appears to be on the cards. Currently the agency's rates Serbia's long- and short-term foreign and local currency sovereign credit ratings at 'BB-/B', with positive outlook. Separately, Fitch rates Serbia's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'BB-' with a Stable Outlook.

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

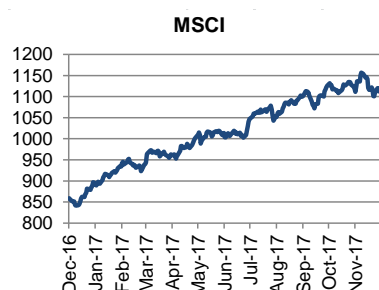
\* ESA 2010

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	BBB-	BBB
CYPRUS	B1	BB+	BB-

Source: Reuters, Bloomberg, Eurobank Research

[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr)

December 15, 2017

## 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	2652.01	-0.4%	18.5%	EUR/USD	1.1791	0.1%	12.1%	UST - 10yr	2.35	1	-9	GOLD	1257	0.3%	9.1%
Nikkei 225	22553.22	-0.6%	18.0%	GBP/USD	1.3442	0.1%	8.8%	Bund-10yr	0.30	-2	9	BRENT CRUDE	64	0.5%	12.0%
STOXX 600	388.44	-0.1%	7.5%	USD/JPY	112.11	0.2%	4.4%	JGB - 10yr	0.05	0	0	LMEX	3186	1.2%	19.8%

### SERBIA

Money Market			
BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.50	-1	-50
1-week	2.60	-2	-57
1-month	2.79	-2	-56
3-month	3.07	-1	-40
6-month	3.22	-1	-44

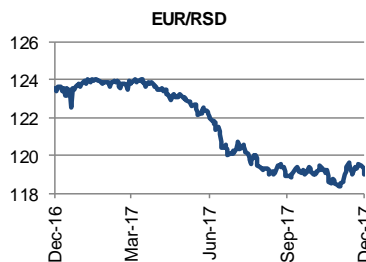
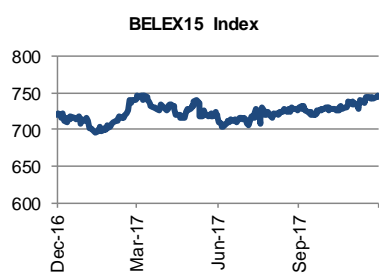
RS Local Bonds			
	Last	ΔDbps	ΔYTD bps
3Y RSD	4.10	0	-95
5Y RSD	4.51	0	-85
7Y RSD	4.88	0	-75

RS Eurobonds			
	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.99	0	-122
USD Nov-24	6.03	-31	-24

CDS			
	Last	ΔDbps	ΔYTD bps
5-year	119	0	-89
10-year	160	0	-95

STOCKS			
	Last	ΔD	ΔYTD
BELEX15	746.3	-0.12%	4.04%

FOREX			
	Last	ΔD	ΔYTD
EUR/RSD	118.96	0.14%	3.79%



### ROMANIA

Money Market			
ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.08	0	52
1-month	2.02	0	126
3-month	2.13	0	123
6-month	2.32	0	121
12-month	2.37	0	112

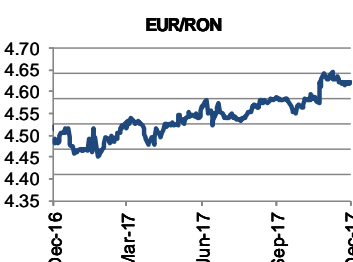
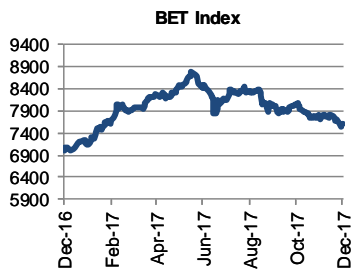
RO Local Bonds			
	Last	ΔDbps	ΔYTD bps
3Y RON	3.41	0	189
5Y RON	3.81	0	139
10Y RON	4.35	0	88

RO Eurobonds			
	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.60	0	-54
USD Jan-24	3.00	0	-90

CDS			
	Last	ΔDbps	ΔYTD bps
5-year	96	0	-14
10-year	149	1	-3

STOCKS			
	Last	ΔD	ΔYTD
BET	7592.8	0.07%	7.17%

FOREX			
	Last	ΔD	ΔYTD
EUR/RON	4.6343	-0.07%	-2.06%



### BULGARIA

Money Market			
SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.22	1	-5
3-month	-0.15	0	-8
6-month	-0.05	0	-13
12-month	0.32	0	-9

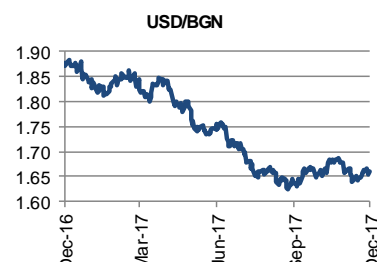
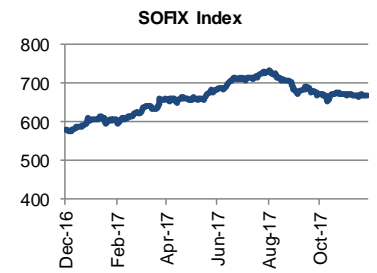
BG Local Bonds			
(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.30	0	-45
5Y BGN	-0.06	1	-57
10Y BGN	0.84	0	-107

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	98	0	-54
10-year	143	1	-51

STOCKS			
	Last	ΔD	ΔYTD
SOFIX	662.8	-0.11%	13.02%

FOREX			
	Last	ΔD	ΔYTD
USD/BGN	1.659	0.10%	12.02%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research  
Data updated as of 10:45 EST

December 15, 2017

### Contributors

**Paraskevi Petropoulou**  
Senior Economist, Eurobank Ergasias  
+30 210 3718991  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)

**Galatia Phoka**  
Research Economist, Eurobank Ergasias  
+30 210 3718922  
[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr)

**Ioannis Gkionis (Special Contributor)**  
Senior Economist, Eurobank Ergasias  
30 210 3337305  
[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr)

**Anna Dimitriadou**  
Economic Analyst, Eurobank Ergasias  
+30 210 3718793  
[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr)

**Olga Kosma (Special Contributor)**  
Research Economist, Eurobank Ergasias  
+30 210 3371227  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr)

**Theodoros Stamatou (Special Contributor)**  
Senior Economist, Eurobank Ergasias  
30 210 3371228  
[tstamatou@eurobank.gr](mailto:tstamatou@eurobank.gr)

### Regional Contributors

**Vessela Boteva**  
Expert, trading desk, Eurobank Bulgaria  
+359 (2) 8166 491  
[vboteva@postbank.bg](mailto:vboteva@postbank.bg)

**Zoran Korac**  
FX dealer, Eurobank ad Beograd  
+381 11 206 5821  
[zoran.korac@eurobank.rs](mailto:zoran.korac@eurobank.rs)

## Eurobank Economic Analysis and Financial Markets Research

**Dr. Platon Monokrousos:** Group Chief Economist  
[pmonokrousos@eurobank.gr](mailto:pmonokrousos@eurobank.gr), + 30 210 37 18 903

**Dr. Tassos Anastasatos:** Deputy Chief Economist  
[tanastasatos@eurobank.gr](mailto:tanastasatos@eurobank.gr), + 30 210 33 71 178

### Research Team

**Anna Dimitriadou:** Economic Analyst  
[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr), + 30 210 37 18 793

**Ioannis Gkionis:** Research Economist  
[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr), + 30 210 33 71 225

**Stylios Gogos:** Economic Analyst  
[sgogos@eurobank.gr](mailto:sgogos@eurobank.gr), + 30 210 33 71 226

**Olga Kosma:** Research Economist  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr), + 30 210 33 71 227

**Mariana Papoutsaki**  
[mpapoutsaki@eurobank.gr](mailto:mpapoutsaki@eurobank.gr), + 30 210 33 71 224

**Paraskevi Petropoulou:** G10 Markets Analyst  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr), + 30 210 37 18 991

**Galatia Phoka:** Research Economist  
[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr), + 30 210 37 18 922

**Theodoros Stamatou:** Senior Economist  
[tstamatou@eurobank.gr](mailto:tstamatou@eurobank.gr), + 30 210 33 71 228

**Elia Tsiampaou:** Economic Analyst  
[etsiampaou@eurobank.gr](mailto:etsiampaou@eurobank.gr), + 30 210 33 71 207

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: [EurobankEA\\_FMR@eurobank.gr](mailto:EurobankEA_FMR@eurobank.gr)

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