Eurobank

# Global Macro Themes & Market Implications for the EA Periphery and the CESEE

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# I. Snapshot

# Overview

## Macro Picture

- **USA:** The "Tax Cuts and Jobs Act", coupled with the "Bipartisan Budget Act", provide a tailwind for economic growth
- **EA:** Cyclically strong despite signs of softness due to past EUR appreciation
- **UK:** Growth to remain lackluster as Brexit uncertainty remains high and real average wage growth undershoots inflation
- **Japan:** Longest expansion phase in 28 years on solid global growth momentum
- **EM:** Modest pick up anticipated in 2018 and 2019
- **CESEE**: Flash Q4 GDP estimates confirm region's robust growth momentum

## Policy Outlook

- **USA:** A four-hike median dot for 2018 is possible, especially if inflation indicators pick in up strongly
- **EA:** Cautious stance, with a gradual normalization process. A quick APP tapering in Q4 the most likely scenario
- **Japan:** Decision to tighten monetary policy unlikely before the scheduled VAT hike in 2019 amid subdued inflationary pressures
- **UK:** BoE to remain on hold in the coming months but increased risk for a hike in Q2 2018 on higher wage growth
- **CESEE:** Different inflation paths allow for divergent monetary policies across the region

## Summary

Broad-based global growth set to continue in Q1 2018 as the recent market turbulence did not cause much tighter financial conditions. Price pressures remain well contained, leaving scope for just a gradual withdrawal of monetary policy. Concerns over US shift to trade protectionism

## Markets

- **FX:** USD took a breather finding support and pairing some of its recent losses. Italian elections on one side and USD protectionism on the other should keep the pair in a range
- **Government bonds:** US and EU rates have consolidated on a weak political environment and trade war fears ignited by the US tariffs imposition. Range trading is expected to dominate
- **EM:** US rates and Global Equity moves in February took their toll in EM spreads, with material widening across the space. Name selection is becoming key
- **Credit:** ECB remained the main supporter of IG EUR credit spreads. Overall credit in both EUR and USD outperformed equities in the recent sell off with HY underperforming IG as the decompression theme dominates

## Key Risks

- **Higher than expected rise in inflation:** Steeper path of monetary policy tightening
- **Persistent surge in volatility:** Significantly tighter financial conditions push the global economy into a downturn
- **Sharper than expected slowdown in China:** Investment continues to slow on deleveraging measures in SOEs while fiscal policy remains tight
- **Global trade war:** US imposition of tariffs fuels global trade war with negative repercussions on the world economy
- **Heightened political jitters:** UK/EU fail to agree on a transitional Brexit deal at the 22-23 European Council; protracted political uncertainty in Italy

# Macro Views

Eurobank

## Latest Macroeconomic Developments & Outlook

| | | |
|---|---|---|
| **World Economic Outlook** | The recent market turbulence has not derailed global macro fundamentals with leading indicators suggesting that the world economy remains on a recovery path in Q1 2018, continued to benefit from easy financial conditions, strong consumer spending and robust global trade. Inflation pressures remain well contained, leaving scope for just a gradual withdrawal of monetary accommodation. Overall, global GDP growth is expected to accelerate to 3.9% in 2018 from 3.7% in 2017. | |
| **Developed Economies** | **US** | Although high frequency data suggest growth may decelerate in Q1 2018, the overall growth picture remains upbeat. With activity already set to receive a boost from the enactment of tax reform legislation late last year, the recently passed Bipartisan Budget Act of 2018 designed to add $320bn in discretionary spending through FY2020 has prompted an upward revision to our 2018 GDP growth forecast to 2.7% from 2.6%, previously. |
| | **Euro Area** | The latest forward-looking indicators have weakened somewhat, probably reflecting the negative impact of past EUR appreciation on external demand. Nevertheless, we retain our GDP growth forecast to 2.5% for 2018 amid solid global growth and domestic capex recovery. |
| | **Periphery** | Periphery euro area economies' positive economic momentum remains intact, highly favored by improving global trade growth. Portugal and Spain were among the fastest growing economies in the region in 2017 while leading indicators point to continued healthy growth in the early months of 2018. Medium-term risks for Portugal mainly stem from high debt burden while in Spain, political noise is expected to persist as long as the central government imposes direct rule on Catalonia under Article 155. |
| | **Japan** | The preliminary Q4 GDP estimate constitutes the 8th straight quarter of growth for the first time in about 28 years. High frequency data point to a deceleration at the beginning of 2018 probably due to temporary factors. We maintain our 2018 GDP growth forecasts to 1.3% given the strong global manufacturing cycle and the stable earnings environment. |
| **Emerging Economies** | **BRICS** | In the Government Work Report unveiled at China's annual National People's Congress in March, the official 2018 GDP growth target was set at ca 6.5%, envisioning a slowdown from 6.9% in 2017 on a tighter fiscal policy. There were signals that the government appears comfortable with slower economic activity, suggesting emphasis on quality over pace. Reflecting prudent fiscal and monetary policies, S&P raised by one notch Russia's FX LT sovereign credit ratings to investment grade of BBB-. Following an almost 3-year recession, growth came in at 1% in Brazil last year. Q4 GDP data confirmed an accelerating recovery, seen gearing up pace this year on favorable financial conditions. Q4 2017 data released in early March confirmed a slowdown to 7.1% in growth in India last year from 8.2% in 2016, due to GST and demonetization. A deceleration towards 6.6% is expected in 2018 on deteriorating macro conditions. |
| | **CESEE** | The national accounts releases of Q4-2017 confirmed the robust growth momentum of the regional economies. Even though the economies are about to or have already passed their cyclical peak, the growth prospects for 2018 look promising as well. The rising trend of headline and core inflation is uneven across the region, allowing for divergent regional Central Bank monetary policies. |

# Global Macro Themes & Implications

| Theme | Implications |
|---|---|
| **Hawkish shift in Fed rate tightening expectations** | In his inaugural semi-annual monetary policy testimony before Congress on 27 February, Fed Chair Jerome Powell sounded optimistic on the US growth outlook and increasingly confident about inflation returning to the 2% target in the medium-term, reiterating that further gradual rate hikes are warranted. In the Q&A session he stated that, according to his personal view, the economy has strengthened since December when the latest Fed dot plot was released, as economic indicators have been strong, the global environment has become more supportive for US exports and fiscal policy has turned more stimulative. Referring to the outlook of the appropriate path of interest rate policy over the next few years, Chairman Powell noted that the FOMC will continue to strike a balance between avoiding an overheated economy and bringing PCE inflation to 2% on a sustained basis. Fed Chair Powell's comments could potentially pave the way for the majority of FOMC members to revise their GDP growth forecasts and lift their dots at the 20-21 March FOMC meeting, reflecting more confidence in the US economic outlook on the back of higher budget caps for public sector spending through FY 2020, and potentially a steeper monetary policy path that includes a four-hike median dot in 2018, especially if inflation indicators start picking in up strongly by then. |
| **Increased concerns about a shift of the US administration towards a more protectionist trade policy** | After announcing earlier this year tariffs on imported washing machines and solar cells, US President Donald Trump declared that tariffs on steel and aluminum imports of 25% and 10% respectively will also be imposed as of mid-March, raising market concerns about a shift towards a more protectionist trade policy as a tool to reduce trade deficit. The US President justified the decision citing relevant recommendations of the Commerce Department following a couple of lengthy investigations under the Trade Expansion Act of 1962 Section 232, suggesting that imports of steel and aluminum threaten "national security by degrading the industrial base", offering the US President broad discretion to impose comprehensive import restrictions. Undoubtedly, one-sided imposition of tariffs and other trade barriers by the US, raises the risk of a trade war in the form of a broad-based tariff response, rolling back foreign investment or/and limiting imports, with material negative repercussions to the global economy. Canada (the single largest supplier of steel and aluminum to the US), Mexico and the European Union objected strongly to US anti-dumping action with the latter warning that it intends to respond "firmly". Along these lines, French President Emmanuel Macron warned that the EU must take urgent action at the World Trade Organization if the US goes ahead with tariffs on steel and aluminum. |
| **In spite of an improving growth outlook, the ECB remains cautious, embarking on a gradual normalization process** | The accounts of the January ECB monetary policy meeting indicated that the euro area growth outlook has improved and the Central Bank is increasingly confident that inflation will converge gradually towards the Governing Council's inflation aim. Nevertheless, the ECB seemed inclined to keep a cautious stance out of concern that a sudden shift in its monetary policy stance could potentially cause an unwarranted tightening in monetary conditions. To this end, we expect the ECB to leave its interest-rate guidance fully in place at the 8 March meeting, although small changes to its forward guidance cannot be ruled out, i.e. dropping the easing bias concerning the QE by revising the paragraph about increasing the APP in size and/or duration if economic and financial conditions become less favorable. These changes will gradually steer course towards the phasing-out of net asset purchases, albeit not before the June meeting. Given that ECB President Mario Draghi opposes a sudden stop of the programme and a number of ECB Governing Council members would prefer not to keep QE open-ended, a quick tapering in Q4 seems the most likely scenario. |

# Global Macro Themes & Implications

| Theme | Implications |
|---|---|
| **Hung Parliament and anti-establishment forces' strong showing point to prolonged political uncertainty in Italy** | The result of the Italian general election on 4 March point to a hung parliament, making it hard to form a majority government if not impossible. Anti-establishment parties, Five Star Movement (5SM) and Northern League (NL), registered strong gains surprising to the upside, while traditional parties, Partito Democratico (PD) and Forza Italia (FI), did worse than expected. Hence, a grand coalition composed by mainstream parties centered on the PD and FI, which seemed highly likely before the election, is now politically difficult. Compared with 2013 election results, 5SM's share increased by 7pp to 32.7% (the largest single party) and NL's by 13pp to 17.4% (the largest party among the center-right parties), making up together more than 50% of the seats in parliament. A euro-sceptic coalition of the above-mentioned anti-establishment parties would be the most adverse scenario for financial markets, raising the possibility for reform roll-back (i.e. the labor market and pension reforms approved by Matteo Renzi's and Mario Monti's governments) and significant fiscal easing measures that could exacerbate renewed concerns about the outlook of Italy's public finances. Even though in such a case a euro exit for Italy is considered low risk, the formation of a government comprising euro-sceptic political parties could create heightened tensions with European partners, or increase the risk of a government crisis and eventually result in new elections. The center-right is in the lead with its leadership being in the spotlight, given Matteo Salvini' s NL higher share compared to Silvio Berlusconi' s FI and the "gentleman's agreement" between the two party leaders that whichever party wins the most votes within a center-right coalition will name the prime minister.<br><br>As things stand, it is difficult to say which party leader will be charged by President Sergio Mattarella to form a new government, and, in any case, it is expected to be a lengthy period of negotiations between political parties that could realistically last for months. The next important political event takes place on 23 March, when the newly elected parliament will convene to elect within the new few days the president of the Lower House and the Senate, implying that the process of forming a new government is most likely to officially begin towards the end of March. Soon after, the new government has to secure a vote of confidence in parliament, expected no earlier than mid-April. Should this be the case, a new government could be in place by early May 2018. Nevertheless, snap elections cannot be ruled out in case government building consultations between political parties fail. |
| **22-23 March European Council: Brexit transition agreement in doubt** | The EU and the UK are still apart on a number of issues relating to the terms of the transition period. Points of disagreement include, inter alia, the length of the period, EU citizens' rights moving to the UK and the UK's ability to sign new trade deals with third countries during that period, the general role of the ECJ and the application of new EU laws. With around two weeks left until the 22-23 March European Council, it is far from clear whether all these issues can be resolved by then, so that negotiations move on to the nature of the future EU/UK relationship where difficult decisions have to be made, related to, amongst others, the UK's access to the customs union, and therefore, the Irish border. With just over a year to go until the UK leaves the EU, there is increased risk some businesses start to put contingency plans into action, if Brexit negotiations fail to progress at the March European Council. |

# Macro Themes & Implications in CESEE

| Theme | Implications |
| --- | --- |
| **Growth prospects for the broader CESEE region look promising in 2018** | High frequency data and the national accounts releases of Q4-2017 confirmed that the economies of the broader region have had the best year in the post-Lehman brothers period in FY2017. In the economies of our focus, real GDP has surpassed the 2008 levels. Even though, economies are about to or have already passed their cyclical peak, growth prospects still look very promising for most of the economies in the broad CESEE region. |
| **Private spending revival will most likely extend in 2018** | Private consumption is expected to make a key-yet smaller than last year-contribution to GDP growth as real disposable incomes are expected to continue rising at a lower rate than last year reflecting reflecting the higher inflation and the moderation of wage growth against the backdrop of further labor market tightening, loose financial conditions, sustained consumer sentiment gains. A favorable external environment is going to allow those small open economies maintain their net exports contribution in check next year despite the uptick on the imports side. |
| **Investments performance is key to a more balanced growth path in the medium term** | The rise of investments is crucial for the regional medium term growth prospects. In order for this to happen, private sector will need to invest more to increase their production capacity given that utilization rates are already at comparably high levels. EU funds absorption, which has failed to impress in the past year for a number of reasons, is expected to accelerate providing a boost to public investments. The most obvious shortage of investments is evidenced in infrastructure bottlenecks. Despite some progress, the region still scores relatively low in infrastructure rankings. |
| **Different inflation paths allow for divergent regional Central Banks monetary policies** | The outlook looks more challenging from a policymaking point of view, as lax monetary policies from both major and regional central banks have embarked on a normalization course which is expected to unfold fully in 2018. Yet, the rising trend of core and headline inflation metrics is uneven across the region allowing for different degrees of freedom in the respective Central Banks' monetary policies. The majority of Central Banks in the region maintain their cautiously accommodative stance. On the other hand, Romania is an outlier. NBR has already delivered 2 hikes of 25bps in the first two months of the year bringing the KPR at 2.25% given the inflation (expectations) jump. |

# CESEE Markets Developments & Outlook

| Country | CESEE Markets Developments & Outlook |
|---|---|
| **Bulgaria** | • Bulgarian local-currency bonds have stayed well supported since the beginning of 2018. The sovereign yield curve experienced some modest increases on both the short and long end, with the 7 and 8 year tenors exhibiting the largest spikes of ca 6 bps each, while that of 9 year tenor marginally declined in February, by ca 2 bps. The Bulgarian Ministry of Finance did not hold any auctions in February and has also not given any indication of offering any government bonds in March either.<br>• Meanwhile, Eurobond yields continued to rise in February across the board, with shorter maturities such as 2023 and 2024 rising by 9 bps as well as longer ones such as the 2027 and 2028, which jumped by 10 bps. All in all, we currently believe that Bulgarian credit spreads remain tight and valuations continue to be stretched, which is the reason why we prefer to remain neutral and not enter any new positions. |
| **Serbia** | • Our earlier conviction for further dinar gains in the coming weeks/months has been vindicated since late January. The RSD indeed firmed to new 3 year highs just below 118 against the euro as the National Bank of Serbia (NBS), intervened repeatedly in the FX markets with daily purchased of €30mn on average to alleviate ongoing appreciation pressures on the currency. Even so, risks remain towards further upside for the dinar as demand for Serbian RSD T-bonds (SERBGB), which appears to be the biggest driving force behind the dinar's appreciation momentum over the last few weeks, is likely to continue unabated. This holds especially as the bond auction schedule for March remains heavy (with the 5Y or 10Y bond offered on auction every Tuesday). In addition, we remain bullish on government bonds as well. Despite the occasional global jitters, and uncertainty surrounding the pace of monetary policy normalization by the ECB, SERBGBs still have room to perform well throughout 2018. Several reasons stand behind this argument. Firstly, the easing Central Bank cycle may have not yet reached its bottom, with another rate cut aimed at supporting the economic recovery still echoing possible. The country's public debt has embarked on a sustainably downward trajectory. Further EU accession progress also bodes well with lower borrowing costs, while a new IMF program, of an advisory nature such as PCI, will pave the way for further rating improvements and provide additional safety to new foreign investments. The potential future inclusion of Serbia's sovereign debt into the JPMorgan GBI-EM bond index, as part of Public Debt Administration's efforts, will enhance secondary market liquidity and transparency/attainability to such Serbian securities. |

# The Trader's View

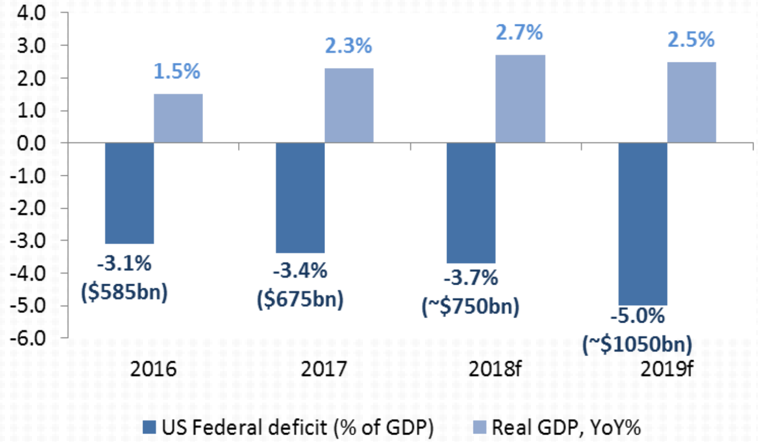
| Asset Class | Outlook |
|---|---|
| **Foreign Exchange** | **EUR/USD**: USD saw some new found support on European political jitters and strong US economic indicators. Although higher inflation seems to be the key for another substantial leg lower, US twin deficits and the Trump inspired trade war fears should put a cap on the recent USD strength while the Italian elections result will limit the single currency's rise setting the stage for a broad 1.22 – 1.25 trading range.<br>**USD/JPY**: The recent USD/JPY price action revealed that a widening interest rate gap is not enough to lift USD/JPY. The pair eyes 105 closely supported by safe haven demand amidst fears of an escalation of trade wars post Trump's imposition of tariffs on steel and aluminum exports and Bok Kuroda's comments that they could be thinking about a QQE exit in FY2019. We see little impetus for the pair to break higher, unless we see a substantial improvement in the stock market and strong USD repatriation flows.<br>**GBP/USD**: UK PM May's Brexit speech didn't provide any clarity on the key divisive issues and any proposals on how they can be resolved. She spoke of her confidence that a transition deal will be struck but warned that neither side can get exactly what they wanted. .  The GBP will continue taking cues from Brexit-related developments. Eyes are now on the EU's draft post-Brexit trade guidelines, with the GBP's upside potential still looking likely to be capped in the absence of any material convergence between the negotiating parties. |
| **Government Bonds** | **US:** The impressive selloff for the US fixed income seems to have retraced some of its gains entering into a consolidation phase amidst tremors in the stock market and increased protectionism fears by the Trump administration. The new Fed chair Jerome Powell appeared hawkish before the financial services committee, with the market now pricing the third hike in September with 74% probability and a 4$^{th}$ hike in December with a 56% probability. The March meeting is now fully priced in with the presser watched for any hawkish/dovish signs. Current trading range should remain between 2.75%-3.00%.<br>**EU:** February's ECB meeting was as expected a non event. The MPC acknowledged the improvement in the European economy but stressed that any hikes/future guidance will be highly dependent on the pending inflation prints. Bund yields followed USTs higher, slightly outperforming with politics dampening the scenery for any decisive break post 0.65%. The SPD's agreement clearing the way for a German Grand coalition provided relief, but Italian elections have confirmed the poor result that was expected with fringe parties dominating now the scene. The EUR curve remains steep yet to price a more pronounced tightening cycle with the 8$^{th}$ March ECB meeting and staff projections eagerly anticipated. |
| **EM hard currency debt** | EM external debt was generally weak in February, following the stellar performance of January, affected by the increase in volatility and developed markets real rates. Consensus long positioning on the back of synchronized global growth and improving EM economic data also played a part as market participants tried to lighten exposure. Inflation related data remain in focus for EM investors but steel and aluminum import tariffs announced from US will most likely contribute to an already shaken risk sentiment. Going forward, we expect continued increased volatility as well as rising developed markets rates to add to the pressure on external EM debt with name selection becoming a key investment theme. |
| **Corporate credit** | February saw modest widening in IG spreads, but HY was hit hard. ECB is sill the supporting factor in EUR credit hence the overall outperformance versus USD IG credit in the recent sell off. The March ECB meeting will be of special interest for any hints regarding the end of the QE. Short term USD credit underperformed, given the significant increase in USD funding that pushed investors into longer maturities. Overall, we remain of the view that high yield will continue to decompress versus investment grade and increased volatility is here to stay. Currently, we favor shorter duration credit given our negative view as we are approaching the end of the current credit cycle. The recent widening in short term US yields makes USD short end credit attractive on a total return basis. |

# II. Advanced Economies

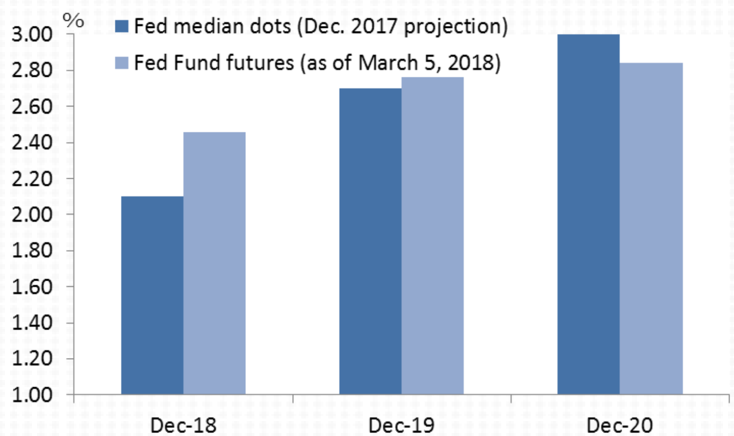
- USA
- Euro Area
  - ❖ Periphery (Italy, Spain, Portugal, Cyprus)
- Japan
- UK

# USA: The "Tax Cuts and Jobs Act", coupled with the "Bipartisan Budget Act" provide a tailwind for economic growth

**GDP growth and Federal deficit forecasts**
under Bipartisan Budget Act and Tax Cut and Jobs Act




**Fed fund futures currently assign four hikes of 25bps by Dec 2018**
compared to three hikes a month ago




Source: Bloomberg, Federal Reserve, Eurobank Economic Research

**Latest Economic Developments**

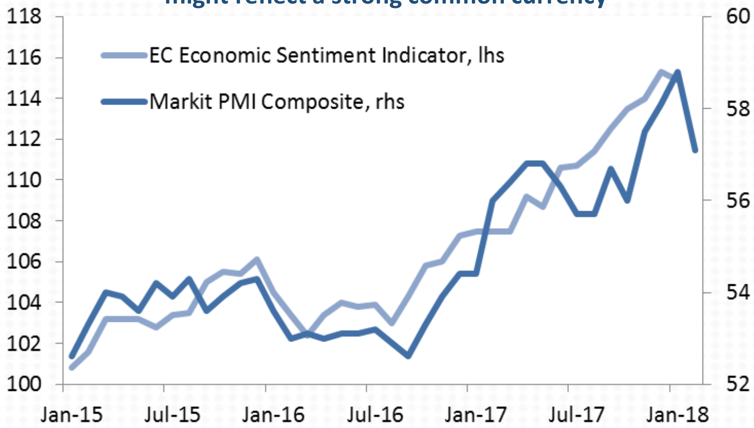
According to the BEA's second estimate, US Q4 GDP growth was revised lower by a tenth to 2.5%QoQ saar, with modest downward revisions in private investment and public sector spending. The overall growth picture was roughly unchanged, with solid private consumption and business spending. High frequency data suggest growth may decelerate in Q1 2018, following a decline in January headline durable goods orders and existing/pending home sales. Nevertheless, leading indicators have remained remarkably strong, with the ISM manufacturing index surging in February to its highest level since May 2004 (60.8). With activity already set to receive a boost from the enactment of tax reform legislation late last year, the recently passed Bipartisan Budget Act of 2018 designed to add $320bn in discretionary spending through FY2020 has prompted an upward revision to our 2018 GDP growth forecast to 2.7% from 2.6%, previously.

**Central Bank Watch**

In his inaugural semi-annual monetary policy testimony before Congress on 27 February, Fed Chair Jerome Powell sounded optimistic on the growth outlook and increasingly confident about inflation returning to the 2.0% target over the medium-term, reiterating that further gradual rate hikes are warranted. He also stated that, according to his personal view, the economy has strengthened since December, as economic indicators have been strong, the global environment has become more supportive for US exports and fiscal policy has turned more stimulative. Fed Chair Powell's comments could potentially pave the way for the majority of FOMC members to revise their GDP growth forecasts and lift their dots at the upcoming 20-21 March meeting, reflecting more confidence in the US economic outlook on the back of higher budget caps for public sector spending, and potentially a steeper monetary policy path that includes a four-hike median dot in 2018, especially if inflation indicators pick in up strongly by then.

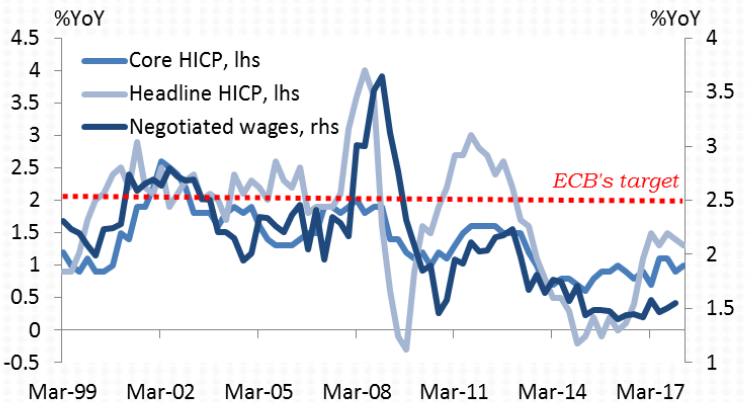
# Euro area: Cyclically strong, although some signs of softness due to past EUR appreciation emerge

**Recent softness in leading indicators might reflect a strong common currency**




**Wage growth has started to pick-up…**

…but core inflation shows no clear signs of uptrend yet




Source: ECB, EC, Eurostat, Markit, Bloomberg, Eurobank Economic Research

**Latest Economic Developments**

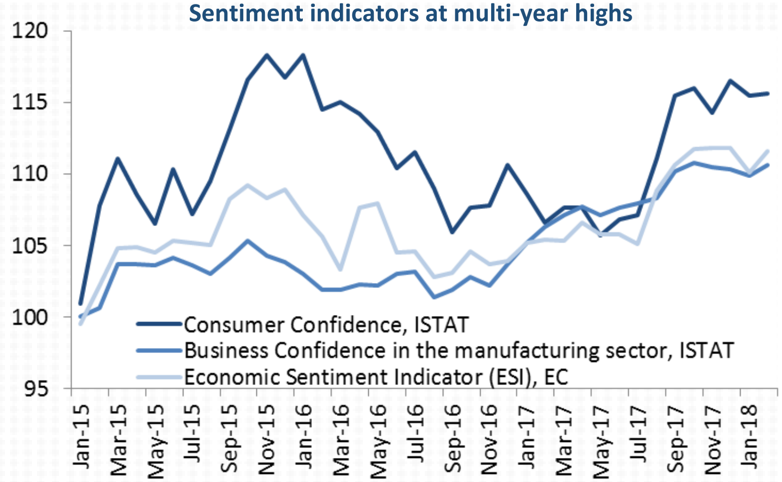
The latest forward-looking indicators have weakened somewhat, with the Composite PMI index falling to a four-month low of 57.1 in February and the European Commission’s February Economic Sentiment Indicator declining for the second month in a row. Nevertheless, the February drop probably reflects the negative impact of past EUR appreciation on external demand. Indeed, the export orders sub-indices of both the manufacturing PMI and the EC’s industrial survey have softened somewhat in recent months, while domestic demand sub-indices appear to have actually strengthened. We retain our GDP growth forecast to 2.5% in 2018 amid solid global growth and domestic capex recovery. According to the latest data, credit flows to the private sector, especially in the case of non-financial corporations (NFCs) continued to improve in January, with widespread acceleration across different durations of credit positions.

**Central Bank Watch**

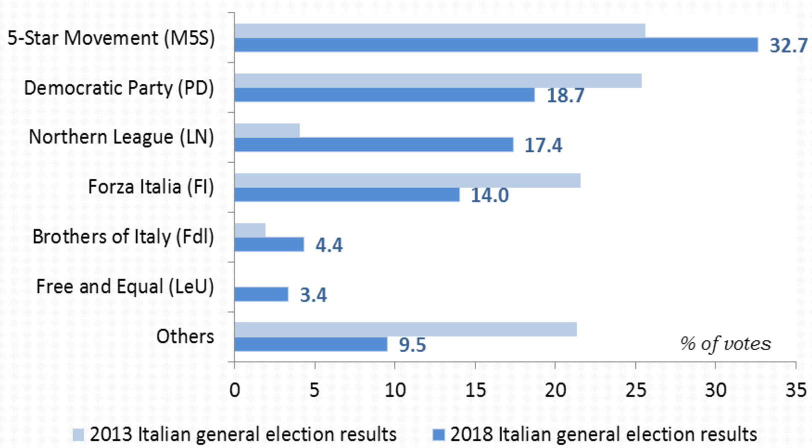
The accounts of the January ECB monetary policy meeting indicated that the euro area growth outlook has improved and the ECB is increasingly confident that inflation will converge gradually to the Governing Council’s inflation aim. Nevertheless, the ECB seemed inclined to keep a cautious stance out of concern that a sudden shift in its monetary policy stance could potentially cause an unwarranted tightening in monetary conditions. To this end, we expect the ECB to leave its interest-rate guidance fully in place at the 8 March meeting, although small changes to its forward guidance cannot be ruled out, i.e. dropping the easing bias concerning the QE by revising the paragraph about increasing the APP in size and/or duration if economic and financial conditions become less favorable. These changes will gradually steer course towards the phasing-out of net asset purchases, albeit not before the June meeting. Given that ECB President Mario Draghi opposes a sudden stop of the programme and a number of ECB members would prefer not to keep QE open-ended, a quick tapering in Q4 seems the most likely scenario.

# Italy: Political uncertainty surrounding the election result of a hung Parliament

Sentiment indicators at multi-year highs




Hung Parliament and a strong showing of anti-establishment forces




Source: ISTAT, European Commission (EC), Bloomberg, Wikipedia, Eurobank Economic Research

**Latest Economic Developments**

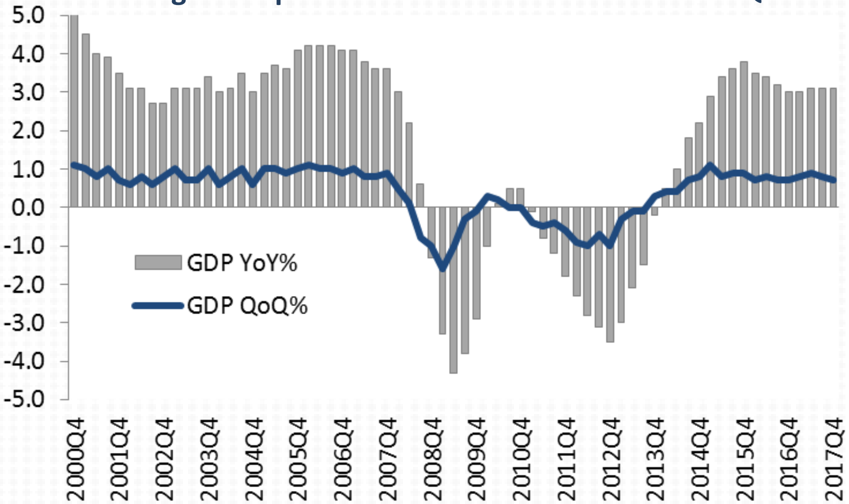
Real GDP growth increased by 0.3%QoQ in Q4 17 from 0.4%QoQ in Q3, with both domestic and external demand contributing positively to growth. Latest leading indicators suggest that the positive growth trend is set to continue driven primarily by private consumption and to a lesser degree by investment, with the PMIs and ISTAT business confidence standing around 10-year highs. Real GDP is expected to grow by 1.4% in 2018, the same rate of change as in 2017, before decelerating close to 1.2% in 2019 assuming that that fiscal policy will become more restrictive as Italy has to comply with Stability and Growth pact requirements of about €15bn in 2019.

**Italian politics update**

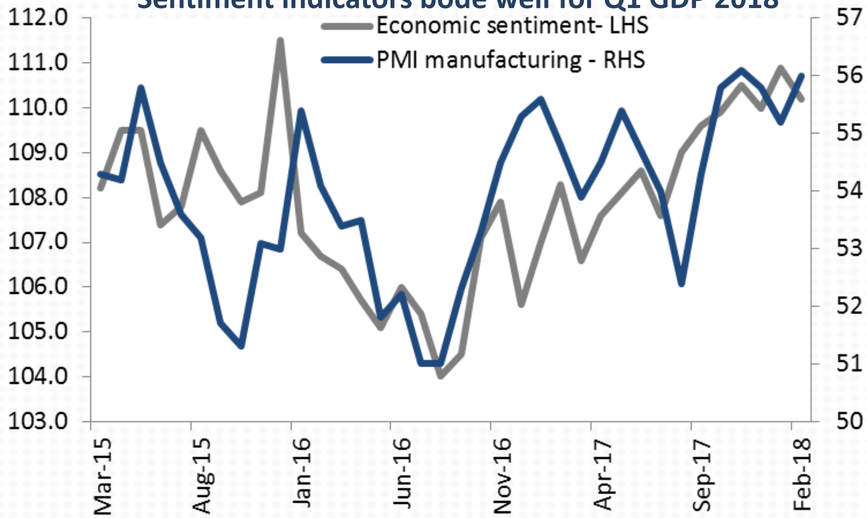
The result of the Italian general election on 4 March was a hung parliament, making it hard to form a majority government if not impossible. Anti-establishment parties, 5SM and NL, registered strong gains surprising to the upside, while traditional parties PD and FI did worse than expected. Hence, a grand coalition composed by mainstream parties and centered on the PD and FI, which seemed highly likely before the election, is now politically difficult. A euro-sceptic coalition of 5SM and NL would be the most adverse scenario for financial markets, raising the possibility for reform roll-back and significant fiscal easing measures. The center-right is in the lead with its leadership being in the spotlight, given the “gentleman’s agreement” between the two party leaders that whichever party wins the most votes within a center-right coalition will name the prime minister. As things stand, it is difficult to say which party leader will be charged by President Mattarella to form a new government, and, in any case, it is expected to be a lengthy period of negotiations between political parties. The next important political event takes place on 23 March, when the newly elected parliament will convene to elect within the new few days the president of both houses. Soon after, the new government has to secure a vote of confidence in parliament, expected no earlier than mid-April. Should this be the case, a new government could be in place by early May 2018. Nevertheless, snap elections cannot be ruled out in case government building consultations between political parties fail.

# Spain: Economic growth resilient to Catalan crisis, thus far

**Economic growth proved resilient to Catalan crisis in Q4 2017**




**Sentiment indicators bode well for Q1 GDP 2018**




Source: Eurostat, PMI, Eurobank Economic Research

**Latest Economic Developments**

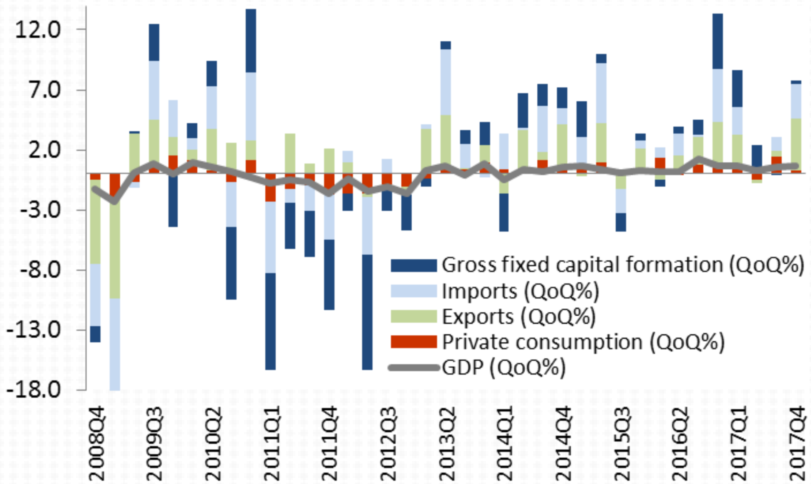
Confounding expectations for a pronounced slowdown in Q4 2017, Spain's economy successfully weathered uncertainty stemming from the Catalan unilateral independence push. Q4 GDP grew by 0.7%QoQ, slightly lower than 0.8%QoQ in Q3 while, on an annual basis, it remained at 3.1% for the third quarter in a row. High frequency indicators suggest that economic activity lost some momentum in October but recovered over the following two months amid waning uncertainty. For the whole of 2017, economic growth came in at 3.1%, lower than 3.3% in 2016 but still the third highest in the last decade. Looking ahead, available data for the first two months of this year point to continued healthy growth. Inter alia, the unemployment rate came in at a fresh multi-year low of 16.3% in January and the Markit Services PMI rose to a seven-month high of 56.9 over the same month. Business conditions continued to improve in February with the Markit Manufacturing PMI picking up to a three month high of 56.0 while economic sentiment came in at 110.2 in February, just 0.7 lower from January's two-year high.

**Catalonian Politics Update**

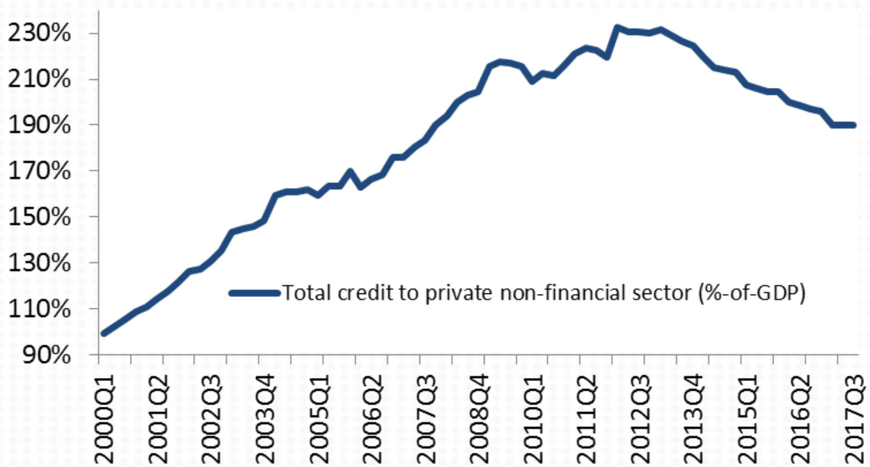
More than two months after the 21 December election, Catalonia still does not have a government while Article 155 is in place, empowering the central government to control the region that accounts for 20% of Spanish GDP. Pro-independence parties (JxC, ERC, CUP) that secured an absolute majority in parliament, proposed the self-exiled and ousted former President Carles Puigdemont as the only candidate for the post of regional president. However, the Spanish Supreme Court ruled that Puigdemont, who faces arrest if he ever comes back to Spain for breaching the Constitution, cannot be elected unless he is physically present in parliament and has a judge's permission to attend. Should pro-independence parties fail to agree on an alternative candidate, another regional election might be on the cards. Meanwhile, the Catalan issue has spillover effect on national politics. The minority government led by the Popular Party lacks the necessary support in parliament to pass the 2018 budget. Whereas the 2017 budget passed thanks to the support of Cuidadanos and the Basque Nationalist Party (PNV), the latter has warned that it is unwilling to support the 2018 budget for as long as Article 155 is in place.

# Portugal: Economic activity on a steady recovery path, but medium-term risks prevail mainly stemming from high debt burden

Portugal's GDP & expenditure components (QoQ%)




Private sector debt still elevated, albeit off early 2012 peak




Source: Eurostat, ECB, Eurobank Economic Research

**Latest Economic Developments**

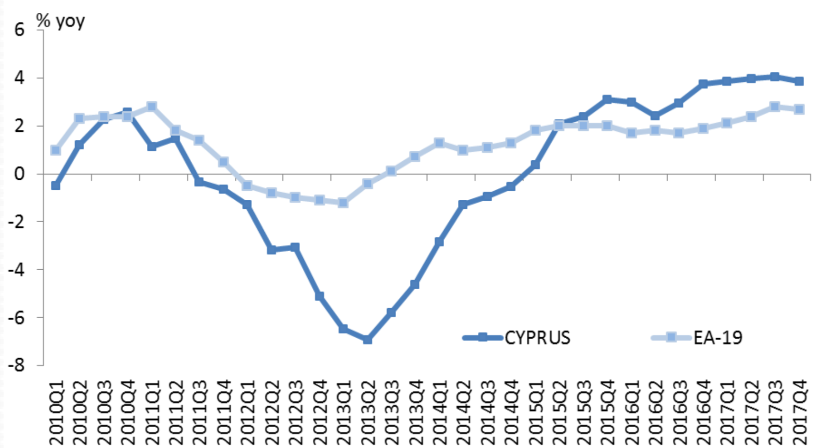
The preliminary estimate confirmed that Q4 GDP 2017 grew by 0.7%QoQ, accelerating from 0.6%QoQ in Q3 while the annual rate was broadly unchanged at 2.4% for the second consecutive quarter. Private consumption grew at a substantially slower pace of 0.3%QoQ in Q4 from 1.4%QoQ in the prior quarter while gross fixed capital formation advanced by 0.3%QoQ following a 0.1%QoQ contraction. The external sector was a major contributor to Q4 GDP growth with exports surging by 4.3%QoQ (vs. +0.5%QoQ in Q3) and imports picking up at a slower pace of 2.9%QoQ (vs. +1.2%QoQ in Q3). Full-year growth in 2017 accelerated to a 17-year high of 2.7%. Available data for the first couple of months of 2018 suggests that last year's stellar performance has carried over into this year, supporting optimism that the current account balance is  likely to remain in firmly positive territory for the fifth year in a row. Among others, economic sentiment stood at 113.7 in February, just 0.1 points lower from January and still the fifth highest over the last decade with consumer confidence rebounding strongly from January's five-month low. In terms of debt supply, Portugal successfully auctioned €1.25bn of 5-year and 10-year bonds in mid-February, partially thanks to its positive growth outlook and last year's credit rating upgrades by S&P and Fitch that restored the nation's investment grade status. As a result, the 10-yr Portuguese bond spread vs. its German counterpart narrowed by more than 200bps in 2017 followed by an additional c. 20bps in the first two months of this year. Moodys, the only one of the major three ratings agencies that still ranks Portuguese debt as junk, is expected to follow suit upgrading Portugal to investment grade in April, when the next assessment is due.

**Medium-term risks mainly stem from high debt burden**

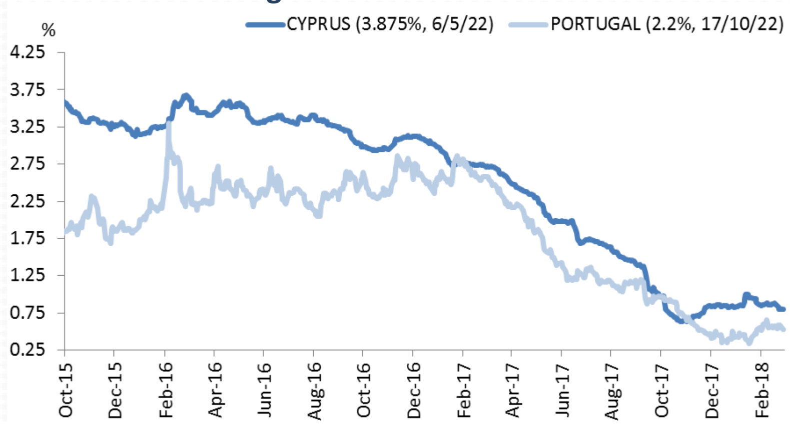
Government gross debt remained elevated at around 125%-of-GDP in 2017, among the highest in the euro area while private debt, albeit off the Q1 2012 peak, stood close to 190%-of-GDP in Q3 2017, posing risks for adverse side effects on economic recovery. In addition, challenges prevail for the banking sector mainly due to weak asset quality, low profitability and contained capital buffers.

# Cyprus: Presidential elections results signal policy continuity

### Cyprus turn-around growth story has been impressive so far




### Cypriot medium term bond yields trading above those of Portugal since mid-November




Source: Eurobank Research, National Authorities, Bloomberg

**Latest Political & Economic Developments**

Nikos Anastasiades was re-elected in the second round of Presidential elections in early February as was broadly anticipated, renewing his mandate for another 5 year-term. The incumbent President, backed by the ruling right-wing DHSY, received 55.9% of the vote in the run-off election. The runner up, Stavros Mallas, who was backed by left wing AKEL scored 44.01%. The voters' turn-out in the second round stood at 73.97%, a tad above the first round's historical low of 71.9% for Presidential elections standards. The re-election of President Anastasiades gives him a strong mandate to pursue the current government policies and ensures policy continuity.

According to the flash estimate release, real GDP on a seasonally adjusted basis expanded by 3.8% YoY in Q4-2017 bringing the full year performance almost at 4.0% in 2017, up from 3.0% in 2016 and 2% in 2015. GDP growth is expected to decelerate to 3.6% in 2018 driven primarily by private consumption again. The ongoing consumption rebound is driven by sustained sentiment improvement, a flourishing tourism sector, improved labor market conditions, further property market stabilization, the impact from the fiscal relaxation, and the further normalization of banking sector conditions.

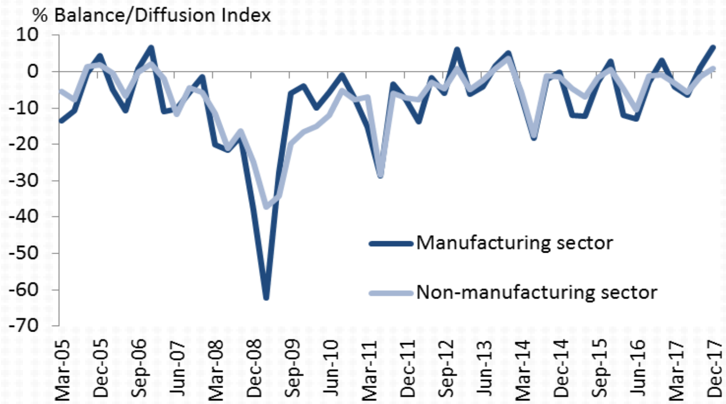
**Risks & Challenges**

Given that no party enjoys absolute parliamentary majority, the new President will have to achieve concessions from other parties in the 56-seat parliament in order to pass legislation. The ruling right-wing DHSY controls only 18 seats while DHKO can no longer be counted as a government partner which explains at large the lower re-election approval rate of President Anastasiades. This is not very reassuring given that there is a number of important pending structural reforms in the areas of privatizations, public and health sectors, while addressing the challenges of a still high bad loans stock (NPEs ratio at 44.2% in September 2017) in order to avoid backtracking on the economy.

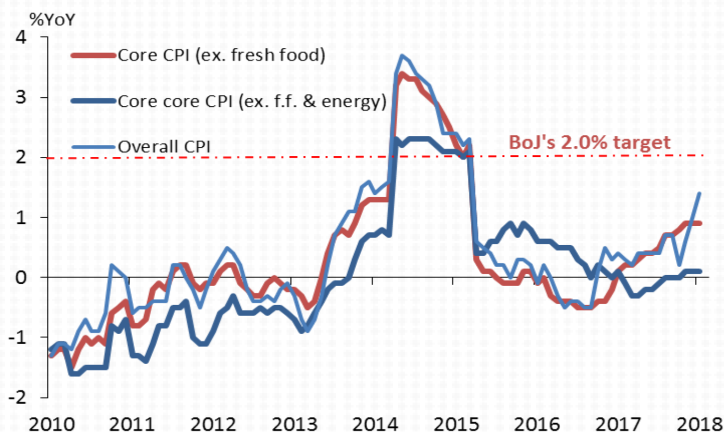
# Japan: Longest expansion phase in 28 years amid solid global growth momentum

### Corporate earnings at record highs

BSI Ordinary Profits
(avg Large, medium and small firms)




### Inflation rate still well below the BoJ's 2.0% target




Source: Ministry of Internal Affairs & Communications, Ministry of Health, Labour and Welfare, Ministry of Finance, Bloomberg, Eurobank Economic Research

**Latest Economic Developments**

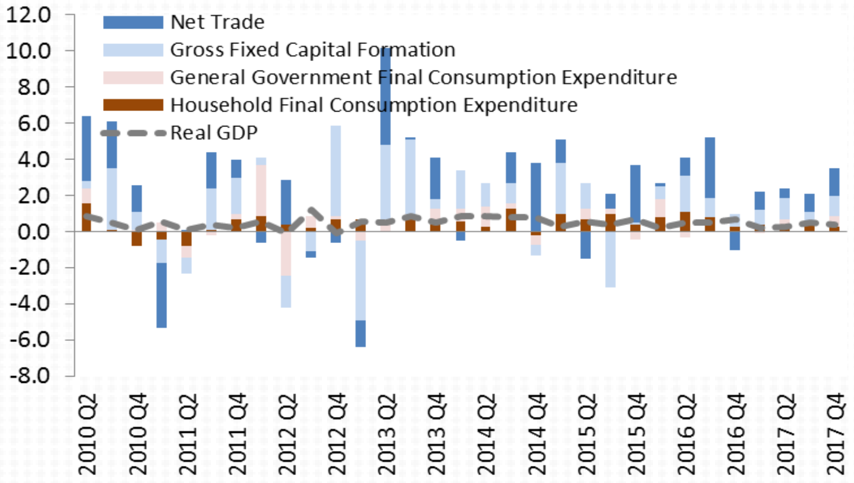
Real GDP growth decelerated significantly to 0.5%QoQ saar in Q4 2017 from 2.2%QoQ saar in the prior quarter, mirroring a sharp setback of external demand and private inventories. Nevertheless, private domestic demand was firm, with consumer spending remaining on a moderate recovery path (+1.9%QoQ saar from -2.5%QoQ saar in Q3) and private fixed investment slowing slightly (to +2.8%QoQ saar from 3.9%QoQ saar in Q3) albeit still contributing positively to overall growth. The preliminary Q4 GDP estimate constitutes the eighth straight quarter of growth for the first time in about 28 years. High frequency data point to a deceleration at the beginning of 2018, with January retail sales growth falling to 1.6%YoY from 3.6%YoY in December 2017, and industrial production dropping by 6.6%MoM (+2.7%YoY) following a 2.9%MoM (+4.4%YoY) rise in December probably due to temporary factors such as weather negative effect and the timing of the Chinese Lunar New Year holidays. Overall, we maintain our 2018 GDP growth of 1.3% given the strong global manufacturing cycle and the stable earnings environment, as growth in Japan is driven primarily by the strong global economic recovery.

**Central Bank Watch**

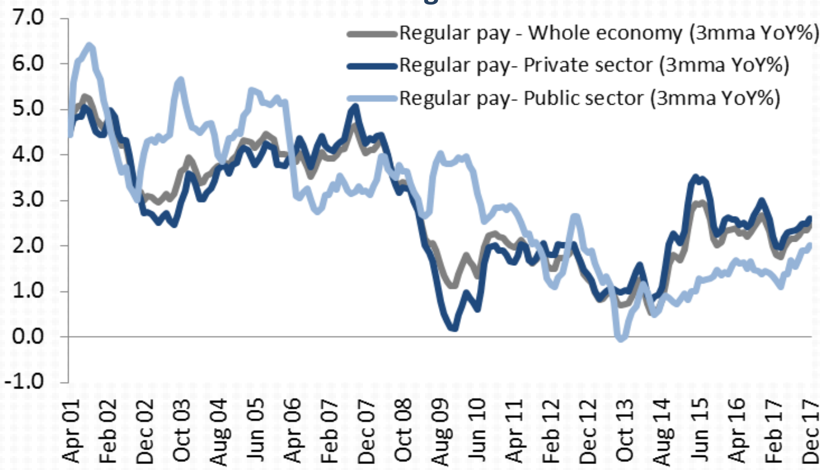
We expect the BOJ to keep its monetary policy stance unchanged at the March 8-9 Monetary Policy Meeting, i.e. both targets for short- and long-term interest rates at around -0.1% and 0%, respectively, while maintaining its program for risk asset purchases such as ETFs and its guideline for JGB purchases at an annual pace of about ¥80tn. The Abe government proposal to reappoint Governor Haruhiko Kuroda gives a hint for a continuation of the BoJ's monetary easing program, given Kuroda's stated commitment to the current policy framework. Any tightening decisions seem unlikely before the scheduled VAT hike in 2019, given subdued inflationary pressures and real wage increases close to zero. Adding to the aforementioned, the recent JPY appreciation that impedes Japanese competitiveness and induces deflationary pressure through falling import prices should be one more factor against monetary policy tightening in 2018.

# UK: 2017 GDP growth revised downward to a five-year low of 1.7%

### UK GDP & expenditure components (QoQ%)




### Pick up in wage growth increases the risk of a BoE rate hike in the coming months




Source: ONS, Eurobank Economic Research

**Latest Economic Developments**

According to the second estimate, UK Q4 GDP was revised lower to 0.4%QoQ from 0.5%QoQ in the preliminary estimate, taking the annual rate to 1.4%, the lowest since Q2 2012 compared to 1.8% in the prior quarter. Household spending grew by 0.3%QoQ, slightly weaker than 0.4%QoQ in the prior quarter and below growth rates recorded in the first three quarters of 2016, ahead of the EU referendum. Gross fixed capital formation rebounded to 1.1%QoQ from 0.7%QoQ supported by general government and private sector dwellings. Business investment which makes up the largest proportion of total gross fixed capital formation slowed to flat from 0.5%QoQ in Q3 2017, suggesting that businesses are holding back investment in the face of high uncertainty regarding business conditions in the post-Brexit era. Government spending grew by 0.6%QoQ, the fastest pace in 2½ years while net exports posted a negative contribution (-0.5%pps) for the second quarter in a row. In 2017, UK GDP grew by a five-year low of 1.7%, 0.1% lower from the preliminary estimate, slowing down from 1.9% in 2016. Looking ahead, risks are for a further slowdown as Brexit uncertainty remains high and negative real wage growth weighs on private consumption.

**Central Bank Watch**

According to the latest labor market data, the unemployment rate unexpectedly rose to 4.4% in Q4 2017 from 4.3% in the prior quarter, the first increase since August 2016. However, the 3-month average of weekly earnings for the whole economy (ex. bonus) rose by 0.2pp to a one-year high of 2.5%YoY, increasing the risk of a BoE rate hike in the coming months, probably as soon as in May, assuming further progress in Brexit negotiations.

**Brexit update**

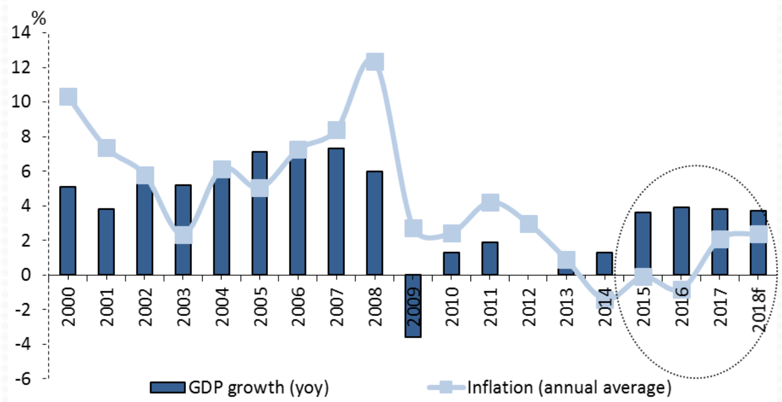
The two sides are still apart on a number of issues related to the terms of the transition period including, inter alia, EU citizens' rights moving to the UK and the UK's ability to sign new trade deals during that period. With around two weeks left until the 22-23 March European Council, it is far from clear whether all these issues could be resolved by then so as negotiations to move on to the nature of the future EU/UK relationship.

# III. Selected CESEE economies

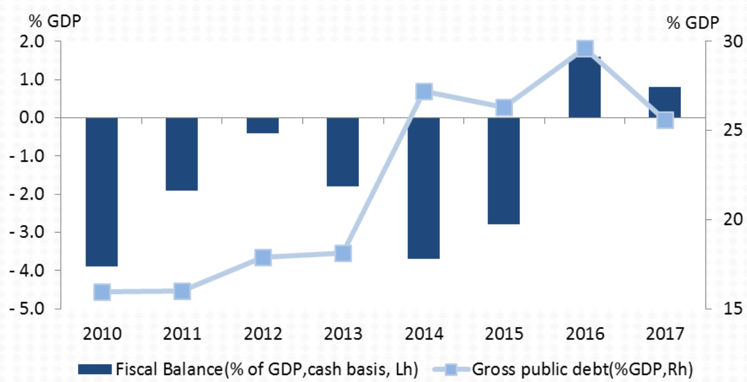
- Bulgaria
- Romania
- Serbia

# Bulgaria: Investments performance will be key to a more balanced growth path in 2018

Growth dynamics are set to remain strong in 2018




Bulgaria's fiscal position is sound and fulfills the nominal criteria for Euroarea entry




Source: Eurobank Research, National Authorities

**Latest Economic Developments**

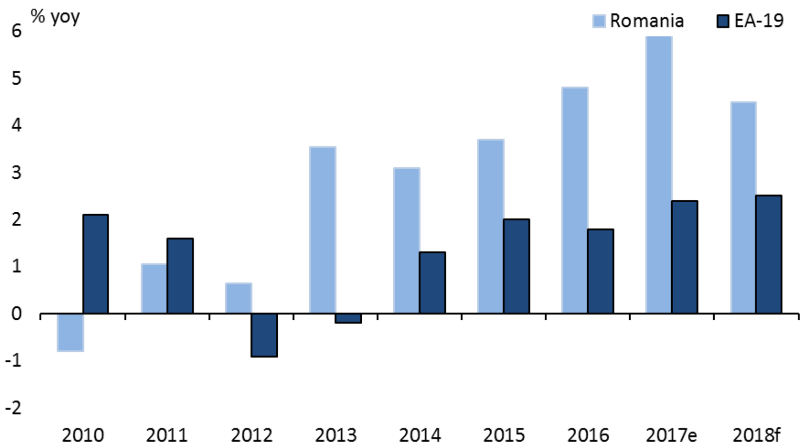
According to the flash estimate, real GDP growth slowed to 3.6% YoY in Q4-2017 down from 3.9% YoY in Q3-2017 on the back of the negative quarterly performance of investments (-1.1% QoQ) and net exports (exports:-1.1% QoQ & imports:+5.4% QoQ). Having expanded by around 3.8% YoY in 2017, Bulgaria is now expected to register another year of strong-above potential-growth in 2018. The economy is expected to benefit from further labor market improvement, accelerating credit activity dynamics, a more expansionary fiscal policy stance, a vibrant export oriented manufacturing sector and an emerging tourism destination. The economy is operating at or close to full employment (the relevant % of companies reportedly confronted with labor scarcity in the EU survey has climbed to 40% in Q4-2017 up from only 13% in Q4-2013). Fiscal policy is expected to be more growth-supportive provided that budget execution aligns with the 1% of GDP deficit target in 2018 vs. a 0.8% surplus in 2017. Credit to the non-government sector accelerated to 4.8% YoY in 2017 vs. only 1.5% YoY in 2016. With capacity utilization standing at an all-time high, private companies will need to invest more in order to strengthen their productive capacity. Finally, investments are going to receive support from improved EU funds absorption.

**Risks & Challenges**

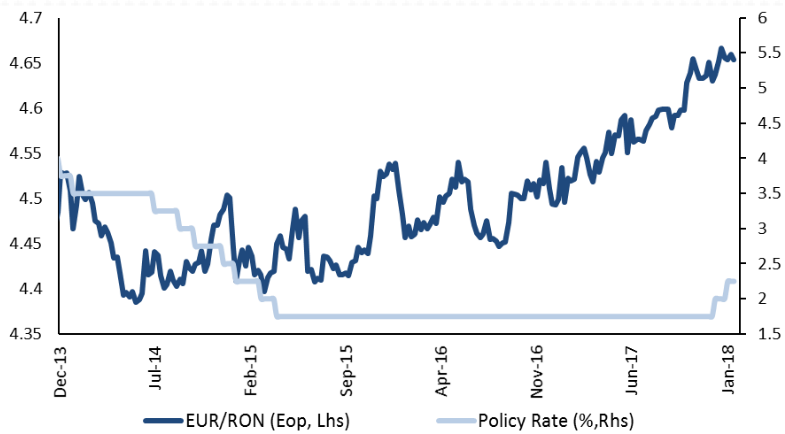
Currently, Bulgaria fulfills most of the nominal convergence criteria for Euroarea entry. Real convergence criteria are not satisfied, although officially these are not part of the evaluation procedure. The living standards and productivity are the lowest in EU-28. The country is still subject to the Co-operation and Verification mechanism, which was set up in 2007 to monitor progress in the fields of judicial reform, corruption and organized crime. Factoring in the fast GDP growth trajectory in 2015-2018, GDP per capita in PPS terms will have only climbed to 50% in 2018. Finally, IMF in its latest Article IV report sees GDP growth moderating to 2.75% over the medium, reflecting capacity constraints and unfavorable demographics.

# Romania: Elevated inflationary pressures

**Romania has been growing faster than EA-19 in 2013-2018**




**NBR hiked the KPR by another 25bps in February 2018**




Source: Eurobank Research, National Authorities, Bloomberg

**Latest Economic Developments**

Consumer prices jumped to +4.3% YoY in January up from 3.3%YoY in December, above consensus (4.1% YoY). The said rise was mainly driven by higher food prices on a monthly basis (+0.6% MoM/+4.1% YoY) reflecting the upward trend of volatile fruits and vegetables, the new regulated price increase for energy tariffs (as of January 2018) plus the base effects from the phasing out of last year's VAT rate cut. January's year on year increase is the highest in the last 4.5 years, so that headline inflation has now surpassed the upper bound of the NBR's target interval (2.5+1%). The adjusted Core CPI (excluding administered and volatile prices, alcohol and tobacco) advanced further to 2.8% YoY in January compared to December, the highest level since August 2013, in an illustration of building underlying demand side pressures.

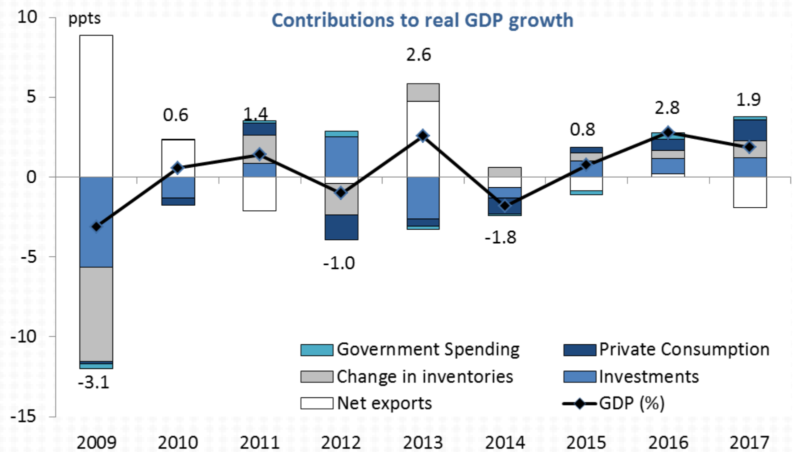
Real GDP slowed down to 0.6% QoQ/7.0% YoY in Q3-2017 down from 2.4% QoQ/8.5% YoY in Q3-2017 bringing the FY performance at 7.0% YoY, a new post crisis high which compares with 4.8% in 2016. Growth is largely driven by private consumption, financed by an overly expansionary fiscal policy, and leads to a revival of macroeconomic imbalances (CAD17: -3.5% of GDP). A sharp slowdown to 4.5% is on the cards in 2018 reflecting the impact of higher on real disposable incomes, a front-loaded monetary policy and the need for a more conservative fiscal policy.

**Risks & Challenges**

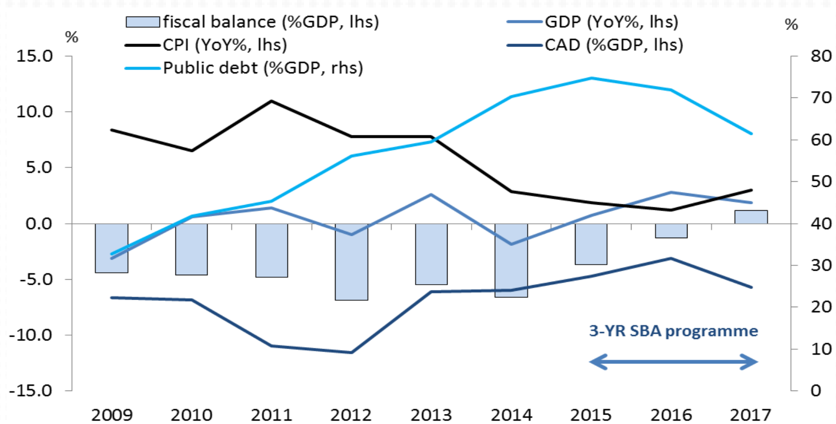
PM Mihai Tudose became the second Premier, after Sorin Grindeanu, forced to resign following just a few months in office after the ruling Social Democrat Party (PSD) withdrew its support. Although the government coalition enjoys a safe parliamentary majority, political instability persists. Viorica Dancila, the first woman PM in the history of Romania, is likely to be confronted with tensions on critical issues such as the criminal justice reform and divergent views on fiscal policy.

## Serbia: Growth to pick up pace this year

### Economic activity remained driven by domestic demand in 2017




### Macro fundamentals improve in the SBA period




Source: Eurobank Research, National Authorities

**Latest Economic & Political Developments**

Real GDP growth was confirmed at 2.5% in Q4 2017, bringing the full year rate of increase to 1.9%. The latter compares with real GDP growth of 2.8% in 2016 and comes in below initial government and market forecasts as adverse weather conditions in H1 2017 weighed on the agriculture and energy sectors. From the supply side, construction, wholesale and retail trade as well as manufacturing marked the highest growth rates. From the expenditure side, recovering private consumption, robust investments and exports were the main contributors to growth. Yet, the latter's net impact swung into negative on strong imports. Economic activity is expected to pick up pace towards 3% in 2018. Domestic demand is penciled in to remain the key driver mirroring strong investments and recovering private consumption. Although exports are expected to maintain strength on a favorable external backdrop, rising imports amid strengthening domestic demand may neutralize their positive input on economic activity.

**Central Bank Watch**

The NBS maintained the key policy rate at a 3.50% record low for the 4th consecutive month in February vindicating expectations. The MPC expects inflation (CPI at a 1-yr low of 1.9%YoY in Jan) to remain within the target band (3.0±1.5%) in the period ahead. A rate hiking-cycle may begin towards the end of 2018 as price pressures become more pronounced.

**Risks**

Serbia and the IMF will reportedly start talks about a new deal in mid-March. As recently noted by government officials a new package would not entail financial support, but will most probably have more of an advisory role in the form of Policy Coordination Instrument (PCI). A new agreement suggests continuation of reforms and will serve as a valuable policy anchor.

# IV. Eurobank Forecasts

# Eurobank Macro Forecasts

| | Real GDP (YoY%) | | | CPI (YoY%, avg) | | | Unemployment rate (% of total labor force) | | | Current Account (% of GDP) | | | General Budget Balance (% of GDP) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018f | 2019f | 2017 | 2018f | 2019f | 2017 | 2018f | 2019f | 2017 | 2018f | 2019f | 2017 | 2018f | 2019f |
| **World** | 3.7 | 3.9 | 3.9 | 3.1 | 3.3 | 3.3 | | | | | | | | | |
| **Advanced Economies** | | | | | | | | | | | | | | | |
| **USA** | 2.3 | 2.7 | 2.5 | 2.1 | 2.3 | 2.2 | 4.4 | 3.9 | 3.5 | -2.4 | -2.6 | -2.8 | -5.0 | -5.5 | -6.5 |
| **Eurozone** | 2.5 | 2.5 | 2.2 | 1.5 | 1.5 | 1.4 | 9.1 | 8.4 | 7.9 | 3.4 | 3.0 | 2.9 | -1.1 | -0.9 | -0.8 |
| Germany | 2.5 | 2.7 | 2.1 | 1.7 | 1.6 | 1.6 | 3.8 | 3.5 | 3.2 | 7.9 | 7.5 | 7.2 | 0.9 | 1.0 | 1.1 |
| France | 1.8 | 2.2 | 1.9 | 1.2 | 1.5 | 1.4 | 9.5 | 9.3 | 8.9 | -3.0 | -2.8 | -2.6 | -2.9 | -2.8 | -2.7 |
| **Periphery** | | | | | | | | | | | | | | | |
| Cyprus | 3.9 | 3.6 | 3.2 | 0.7 | 1.0 | 1.5 | 11.1 | 10.0 | 9.3 | -4.9 | -4.2 | -4.6 | 1.9 | 1.3 | 1.4 |
| Greece | 1.4 | 2.2 | 2.2 | 1.1 | 1.0 | 1.2 | 21.6 | 20.0 | 18.5 | -0.8 | -0.1 | -0.1 | -0.6 | 0.6 | 0.8 |
| Italy | 1.5 | 1.4 | 1.2 | 1.3 | 1.1 | 1.3 | 11.2 | 10.9 | 10.5 | 2.9 | 2.6 | 2.4 | -2.1 | -1.8 | -1.8 |
| Portugal | 2.7 | 2.1 | 1.9 | 1.6 | 1.4 | 1.4 | 9.0 | 8.0 | 7.5 | 0.4 | 0.7 | 0.5 | -1.4 | -1.2 | -1.2 |
| Spain | 3.1 | 2.8 | 2.3 | 2.0 | 1.7 | 1.3 | 17.2 | 15.0 | 13.5 | 1.7 | 1.3 | 1.0 | -3.1 | -2.4 | -2.0 |
| **UK** | 1.7 | 1.5 | 1.2 | 2.7 | 2.5 | 2.3 | 4.4 | 4.5 | 4.5 | -4.7 | -4.4 | -4.1 | -2.7 | -2.4 | -1.7 |
| **Japan** | 1.6 | 1.3 | 1.1 | 0.5 | 1.0 | 1.0 | 2.8 | 2.7 | 2.7 | 4.0 | 3.9 | 3.8 | -5.0 | -4.2 | -4.0 |
| **Emerging Economies** | | | | | | | | | | | | | | | |
| **BRICs** | | | | | | | | | | | | | | | |
| Brazil | 1.0 | 2.2 | 2.5 | 3.5 | 4.0 | 4.2 | 12.9 | 11.8 | 11.0 | -0.5 | -1.5 | -1.8 | -8.9 | -7.5 | -6.8 |
| China | 6.9 | 6.6 | 6.3 | 1.6 | 3.0 | 3.0 | 3.9 | 4.0 | 4.0 | 1.4 | 1.3 | 1.2 | -3.7 | -2.6 | -2.5 |
| India | 7.1 | 6.6 | 7.4 | 3.3 | 3.7 | 4.5 | | *NA* | | -1.4 | -1.5 | -1.6 | -3.5 | -3.5 | -3.3 |
| Russia | 1.5 | 1.7 | 1.6 | 3.7 | 3.6 | 4.0 | 5.2 | 5.1 | 5.0 | 2.5 | 2.8 | 2.5 | -1.5 | -1.3 | -1.0 |
| **CESEE** | | | | | | | | | | | | | | | |
| Bulgaria | 3.6 | 3.7 | 3.5 | 2.1 | 2.4 | 2.7 | 6.3 | 6.0 | 5.7 | 5.0 | 4.5 | 4.0 | 0.8 | -1.0 | -0.5 |
| Romania | 7.0 | 4.5 | 4.0 | 1.3 | 4.5 | 3.0 | 4.9 | 4.8 | 4.7 | -3.5 | -4.0 | -4.5 | -3.0 | -3.5 | -4.0 |
| Serbia | 1.9 | 3.0 | 3.2 | 3.2 | 3.0 | 3.2 | 12.5 | 11.5 | 11.0 | -5.7 | -5.3 | -5.2 | 0.5 | -0.6 | -0.5 |
| Turkey | 7.0 | 4.2 | 4.0 | 11.1 | 10.0 | 9.0 | 11.0 | 10.6 | 10.5 | -5.2 | -5.1 | -5.0 | -2.1 | -2.3 | -2.3 |

Source: EU Commission, IMF, OECD, Bloomberg, Eurobank Economic Research

# Eurobank Fixed Income Forecasts

| | Current | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|---|---|---|---|---|---|
| **USA** | | | | | |
| Fed Funds Rate | 1.25-1.50% | 1.50-1.75% | 1.75-2.00% | 1.75-2.00% | 2.00-2.25% |
| 1 m Libor | 1.69% | 1.88% | 2.00% | 2.11% | 2.30% |
| 3m Libor | 2.03% | 2.07% | 2.22% | 2.34% | 2.47% |
| 2yr Notes | 2.22% | 2.25% | 2.36% | 2.45% | 2.50% |
| 10 yr Bonds | 2.83% | 2.85% | 2.89% | 2.95% | 3.00% |
| **Eurozone** | | | | | |
| Refi Rate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 3m Euribor | -0.33% | -0.33% | -0.31% | -0.30% | -0.27% |
| 2yr Bunds | -0.57% | -0.55% | -0.50% | -0.42% | -0.35% |
| 10yr Bunds | 0.62% | 0.65% | 0.69% | 0.75% | 0.80% |
| **UK** | | | | | |
| Repo Rate | 0.50% | 0.50% | 0.75% | 0.75% | 0.75% |
| 3m | 0.58% | 0.65% | 0.80% | 0.91% | 0.98% |
| 10-yr Gilt | 1.44% | 1.51% | 1.56% | 1.62% | 1.65% |
| **Switzerland** | | | | | |
| 3m Libor Target | -0.75% | -0.75% | -0.75% | -0.70% | -0.65% |
| 10-yr Bond | 0.04% | 0.09% | 0.12% | 0.20% | 0.24% |

Source: Bloomberg (market implied forecasts)

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