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

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I. Snapshot

Overview

Macro Picture

- **USA:** Final consumption supports Q3 GDP, but fiscal stimulus' positive effect may prove rather short-lived
- **EA:** Q3 GDP deceleration, with manufacturing weakness spreading into services
- **UK:** In spite of improving economic performance over the summer, the economy is not out of the weeds yet due to lingering Brexit uncertainty
- **EM:** Tariff barriers and trade tensions weigh on the growth outlook for Q3 2018
- **CESEE**: Economic activity to slow down in most countries of the region in Q3-2018

Policy Outlook

- **USA:** One more rate hike in 2018, followed by at least two more until the end of 2019
- **EA:** Barring a major shock, the ECB remains inclined to end QE in December. An interest rate hike not expected before Q3 2019
- **UK**: BoE waits for greater clarity from Brexit negotiations before resuming its rate tightening cycle
- **CESEE:** With a few notable exceptions, monetary policies remain broadly accommodative across the region

Summary

The global economic cycle has lost momentum, as the growth pattern across major economies has become more uneven. Intensifying downside risks related to rising protectionism, country-specific factors in EMs, geopolitical risks, tighter financial conditions and higher oil prices have led to a downward revision of global GDP growth

Markets

- **FX:** As we wait for more clarity on Italy and Brexit, the US midterm elections becomes the main market driver. EUR should find support and so EM currencies
- **Government bonds:** October started with fixed income selling off only to reverse its losses on equity markets weakness and global growth slowdown worries, as more "end of the cycle" concerns are being voiced
- **EM:** Another weak month with a lot of idiosyncratic stories leading to wider spreads as a strong USD, high US rates, falling commodities and a slowing China all affected the space. There is value in selected names
- **Credit:** Credit markets traded weak due to multiple "themes". Idiosyncratic risks and dispersion are increasing so it is a credit risk analysts' markets. Tactical longs into year end look interesting, but closing out the position quickly will be important

Key Downside Risks

- **Growing tensions between Italy, EU over budget rules**: If Italy fails to submit a compliant budget, then the EU Commission is highly likely to recommend opening an Excessive Deficit Procedure, potentially leading to higher market volatility.
- **Increased Brexit uncertainty**: Brexit deal is now slipping to December amid deadlocked talks.
- **Further escalation of trade dispute**: US President Donald warned that new tariffs could be applied on imports from China if talks with his Chinese counterpart on the sidelines of the G20 meeting at the end of November do not bring some progress in resolving their trade dispute.
- **EM sensitivity**: Weaker EM growth outlook and mounting political and geopolitical risks entail downside FX depreciation risks across the board

Macro Views

Latest Macroeconomic Developments & Outlook

World Economic Outlook		The global economic cycle has lost momentum, as the growth pattern across major economies has become more uneven. The US economic growth remains remarkably strong on the back of fiscal stimulus, outperforming most other developed countries, while Eurozone economic activity is trending downwards with the weakness in the manufacturing sector spreading into services. Meanwhile, the IMF downgraded its 2018 and 2019 global growth forecast by 0.2ppt each to 3.7%, citing weaker economic activity in early 2018 in some major advanced economies, the negative repercussions of several trade measures implemented or approved in Q2 and Q3 2018, country specific factors weighing on some key developing economies, tighter financial conditions, geopolitical risks and higher oil prices.
Developed Economies	**US**	Real GDP increased by 3.5%QoQ saar in Q3 2018, down from 4.2% in Q2, reflecting in large part positive contributions from personal consumption and public spending that mirror the positive but rather short-lived effect of the ongoing fiscal stimulus. Nevertheless, broad based weakness across nonresidential fixed investment suggests that corporate tax cuts have not been translated into capital accumulation. Business and consumer sentiment indicators are near historical highs, consistent with the recent flow of robust hard economic data. Looking ahead, real GDP growth is expected to decelerate towards 3.0%QoQ saar in Q4 as the positive contribution from the fiscal stimulus gradually fades, before moderating further towards 2.5%QoQ saar over the course of 2019.
	Euro Area	Euro area GDP growth decelerated to 0.2%QoQ in Q3 from 0.4%QoQ in Q2, mainly supported by robust domestic demand, while weaker export growth has likely been translated into a negative contribution from net trade. Leading indicators suggest that the recent weakness is spreading into services, pointing to a real GDP growth rate of around 0.3%QoQ in Q4 and implying a downside risk to our Euro area 2018 GDP growth forecast of 2.0%.
	Periphery	Among the EU periphery economies, which have already published Q3 GDP figures, Spain outperformed growing by 0.6%QoQ supported by firmer domestic demand. However, pressured by a challenging external environment amid protectionism fears and weaker global growth momentum, Spain's 2018 GDP is expected to decelerate to 2.7% from 3.0% in 2017. In Italy, Q3 GDP data surprised to the downside with real growth remaining flat on a QoQ basis, fueling concerns about its growth outlook.
Emerging Economies	**BRICS**	In China, GDP growth slowed down by 0.2ppts to 6.5% in Q3-2018, the slowest rate of expansion since late 2016. Escalation on trade jitters as well as domestic headwinds may result in further growth deceleration. In Brazil, the right wing, ex army man candidate Jair Bolsonaro won the election on October 28 by defeating Fernando Haddad of the leftist Workers' Party which has won every presidential vote since 2002.The Russian economy, in Q2-2018 continued to grew by 1.9% YoY, just as in Q1-2018, implying that growth momentum remains intact. India's economic activity has rebounded strongly since fall 2017, expanding in Q2-2018 by 8.2% YoY, vs 7.7% YoY the previous quarter. Growth outlook remains positive with risks on rise.
	CESEE	The second GDP growth estimates for Q2-2018, released for the countries of our focus (Bulgaria, Serbia, Cyprus) surprised to the upside and confirmed that those remain on a healthy track. Private spending dynamics continued unabated despite rising external environment uncertainties and the spike of food and energy prices, feeding a strong imports rise on the external side. Economy activity poised to show further signs of moderation in the coming quarters across the CESEE region. Those readings reinforce our earlier views that regional economies most probably are just about to or have already reached their cyclical peak.

Global Macro Themes & Implications

Theme	Implications
Sustainability of Italy's public finances under question following deficit-widening budget plans	The Italian government's Draft Budgetary Plan 2019 (DBP), based on the multi-year Economic and Financial Document released earlier, was submitted to the European Commission (EC) on 15 October as mandated by the European Semester, keeping the budget deficit target for 2019 at 2.4% of GDP. Following a letter sent to the Italian Finance Minister Giovanni Tria warning over the risk of a serious breach of the EU rules, the EC rejected Italy's 2019 DBP and requested that the Italian government revise and resubmit it within three weeks. On the back of concerns about government plans for "higher budget deficits in the coming years" and "stalling of plans for structural economic and fiscal reforms", on 19 October Moody's downgraded Italy's rating by one notch to Baa3, its lowest investment-grade rating, with stable outlook, while on 26 October S&P left its rating unchanged at BBB but lowered its outlook to negative from stable. Although the planned fiscal relaxation is expected to boost overall economic activity in the short-term, it could also have a negative impact on real GDP growth than currently envisaged by the government, as a sizeable increase in bond yields, a tightening in financial conditions and a deterioration in confidence could potentially crowd out private investment and hurt consumption growth. Given the government's overly optimistic GDP growth path and its unwillingness to introduce large spending cuts ahead of the European Parliamentary elections in May 2019, the risk of significant fiscal slippage in the following years seems to be on the rise. As long as financial markets pressures remain relatively contained, the Italian government is not expected to soften its fiscal policy stance and make any significant changes as proposed by the EC. Besides, the Italian government's confrontation with the EU seems to be a major part of its platform in view of the European Parliamentary elections in May 2019. Taking into account the Italian government's thin majority in the Senate, a failure to have the budget endorsed by year-end (not our base case) could lead to a prolonged period of heightened uncertainty and even trigger a political crisis. An alternative government could then be formed (potentially comprised of the 5SM and PD, although former PD Party Secretary Matteo Renzi currently opposes such a possibility) or else Italy could even return to snap elections in H1 2019.
Sharper-than-expected slowdown in the Euro area, with risks tilted to the downside	Following a noticeable slowdown in euro area economic activity in H1 2018, real GDP growth decelerated further to 0.2%QoQ in Q3 from 0.4%QoQ in Q2. The slowdown is most likely attributed to weaker export growth, which translated into a negative contribution from net trade and offset apparent robust domestic demand (the expenditure breakdown is expected on 14 Nov). October PMIs set the scene for a disappointing end to the year, with the recent weakness in the manufacturing sector spreading into services. Indeed, the flash Eurozone Composite PMI index fell to a 25-month low of 52.7 points from 54.1 in the prior month, with forward-looking indicators - such as measures of future expectations and new business inflows - pointing to weaker momentum in the coming months. Based on correlation between PMI and GDP growth, the October Composite PMI points to a real GDP growth rate of around 0.3%QoQ in Q4 (under the assumption that the said index remains stable at 52.7 points in the last two months of the year), posing a potential downside risk to our Euro area 2018 GDP growth forecast of 2.0%. Although domestic demand remains resilient, weaker external demand and higher oil prices have a negative impact on the ongoing economic expansion, as trade war frictions intensify the global trade slowdown. All in all, the balance of risks is tilted to the downside, with Brexit concerns and fiscal tensions between the Italian government and the European Commission weighing on investors' sentiment.

Global Macro Themes & Implications

Theme	Implications
Brexit deal slipping to December amid deadlocked talks	Out of the five priority issues necessary for a withdrawal agreement, three have already been settled: EU citizens' rights, UK financial commitments and the 21-month status quo transition period after the UK's exit to allow time for consumers, businesses and public bodies to adjust to changes in the rules governing their operation as a result of leaving the EU. However, the remaining two issues are, undoubtedly, the most controversial ones: (i) avoiding a hard border between Northern Ireland (part of the UK) and the Republic of Ireland (member of the EU) so as to abide by the 1999 Good Friday peace agreement; and (ii) the framework of the future (i.e. post-Brexit) EU/UK relationship. The ultimate target is for the negotiations on the divorce issues and the general non-binding framework of future relationship to conclude by the end of the year to allow time for the completion of approval procedures in the EU and the UK by 30 March 2019, the planned Brexit date. Meanwhile, Brexit negotiations have come to a deadlock. At the last EU Council meeting on 17/18 October, the UK and the EU27 failed to reach an agreement on the Irish border backstop, mainly due to UK domestic political woes. EU chief Brexit negotiator Michel Barnier announced that the planned extraordinary EU Summit in mid-November was put on hold until "decisive progress" has been reached. The December EU Council meeting now stands as the last realistic chance for a withdrawal deal to allow time for the completion of approval procedures in the EU and the UK by 30 March 2019, the planned Brexit date. If no agreement is reached by the end of this year, we should expect the two sides to discuss an extension of Brexit negotiations beyond March 2019 (i.e. beyond the 2-year negotiation period after withdrawal notification Article 50 of the EU Treaty provides). However, as things stand, the biggest obstacle for UK Prime Minister Theresa May is whether she can get a deal through the UK parliament, both the House of Commons and the House of Lords, considering that there is currently no parliamentary majority for a possible deal.
September FOMC minutes lean hawkish, further gradual rate increases consistent with policy goals	The minutes of the September FOMC meeting showed that all policymakers agreed to continue raising interest rates, as they generally judged that further gradual increases in the target range for the federal funds rate (e.g. a 25bps increase every three months) would most likely be consistent with reaching the policy goal of maximum employment and 2% inflation. "GDP appeared to be rising at a strong rate" and risks were considered balanced with downside risks (i.e. trade protectionism, firmer USD exchange rate) appearing to be more than offset by strong fiscal stimulus, elevated consumer and business confidence and accommodative financial conditions. The minutes also revealed that the committee was divided as to how much further interest rates should rise with a slight majority favoring moving to a "modestly restrictive" policy stance (above the Committee's estimated long-run interest rate of 3.0%) by the end of 2019. Overall, we expect a rate hike at the December FOMC meeting and then two more in 2019, one in March and one in June, with a possibility of a third one by end-2019 if economic conditions warrant it.

Macro Themes & Implications in CESEE

Theme	Implications
Real GDP growth remains on a healthy track in the economies of our focus in Q2-2018	The second GDP growth estimates for Q2-2018, released for the countries of our focus (Bulgaria, Serbia, Cyprus) surprised to the upside and confirmed that those remain on a healthy track. Now that the detailed breakdown for all the economies is available, it would be fair to say that the private spending dynamics continued unabated despite rising external environment uncertainties and the spike of food and energy prices, feeding a strong imports rise on the external side. To that end, the economies of our focus continue to be among the top performers in EU-28.
Real GDP growth poised to moderate in the coming quarters in most economies of the CESEE region	Economic activity poised to show further signs of moderation in the coming quarters across the broader region. In most cases, high frequency and sentiment indicators point to further weakening on a quarterly and annual basis. Those readings reinforce our earlier views that regional economies are most probably just about to or have already reached their cyclical peak. A less favorable growth outlook for the EA-19, mounting global trade risks, higher commodity and global energy prices on top of the cyclical slowdown weigh on the growth prospects of the CESEE region.
Intensifying downside global trade risks will most probably have a negative impact on the growth outlook of the region	The threat of protectionism has a profound negative indirect impact on business sentiment and subsequently on investment decisions. From a regional point of view, the economies which are affected from the US trade tariffs- so far limited to the steel and aluminum industries- are mostly non-EU members (Russia, Turkey and Ukraine). Escalating trade risks through higher US tariffs on the European car manufacturing industry would have a more detrimental direct and indirect impact on the trade relationships of the CESEE economies. The impact would not be limited to the CEE-4 economies which specialize on automotive industry as conventional wisdom suggests, but also have spillover effects to the broader region due to its integration to the European manufacturing and automotive industry supply chain.
Different inflation paths allow for divergent regional Central Banks monetary policies	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. With a few notable exceptions, namely the Central Banks of Russia and Turkey, the majority of Central Banks in the region maintain their cautiously accommodative stance. From that point of view, the Central Bank of Serbia (NBS) cut interest rates further to 3.0% in mid-April and stayed put since then. Even though the Central Bank of Romania (NBR) delivered 3 hikes of 25bps in Jan-May bringing the KPR at 2.5% it adopted a wait and see stance in the following months. In an unprecedented move, the Central Bank of Turkey (CBRT) hiked interest rates by -by 625bps from 17.75% to 24.00% in mid-September to address the rallying inflation and stabilize the Lira but left interest rates unchanged in the October meeting.

CESEE Markets Developments & Outlook

Country	CESEE Markets Developments & Outlook
Bulgaria	• Bulgarian local-currency bonds continued to remain well supported as has been the case since the beginning of 2018. The corresponding yield curve experienced modest movements in October with local papers across all maturities encountering drops between 1-2 bps. The Bulgarian Ministry of Finance continued its recent policy and did not hold any auctions in October nor has shown any indication of an offering in November. • Eurobonds yields rose across the board, with the shorter 2024 tenor registering an 8 bps spike, while the rest of the shorter-end tenor yields rose by 4-5 bps. Longer maturities such as 2028 and 2035 had more modest movements, registering a 3 and 4 bps change respectively
Serbia	• While the EUR/RSD is still stubbornly fluctuating within the last 5-month old range, EUR demand appears a bit stronger than RSD supply in October thus rendering new highs more favorable than the repetitive 118.00/20 low. Traditionally, as we get closer to year end, stronger demand is taking its tall but that should not be considered as a decision making trigger and the rationale behind such an estimation is quite simple. Economy is still on strong growth path, the Central Bank (CB) has bought enough EURs (purchases of EUR1.79bn vs sales of EUR0.20bn) to support the value of RSD for a decent period of time and, in our opinion, will not hesitate to use these funds if dinar starts to weaken on YtD basis. Assuming that CB feels comfortable with minor depreciation i.e. no more than 0.5% YoY, we would expect the latter to be more vigilant and proactive on local FX market by increasing the amount and frequency of interventions at a set rate of ca 119.10. • Furthermore, lack of hedging in SERBGB exposure may result in foreign debtholders selling off in case RSD starts rapidly losing ground and that is a scenario the CB wants to avoid at all costs. Concluding, the CB is expected to handle effectively modest market distortions along with ECB's upcoming first hike in 2019 , armed with foreign reserves at a 5-year high and supported by robust economic performance.

Markets View

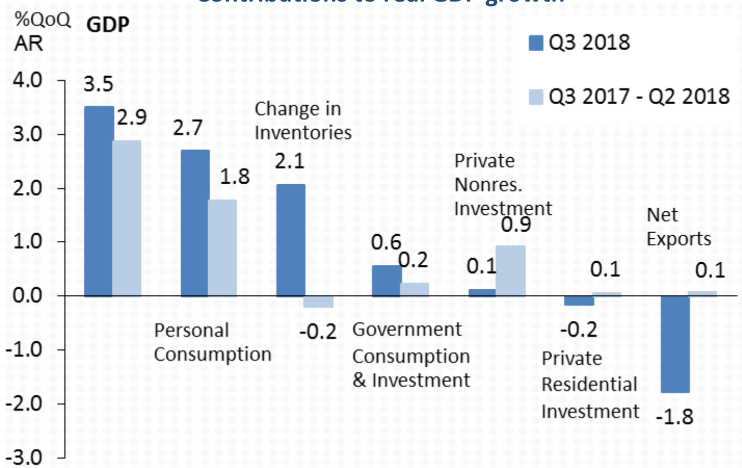
Asset Class	Outlook
Foreign Exchange	**EUR/USD**: Sentiment around risky assets deteriorated in October despite news around Trump-Xi meeting and fiscal easing by China. EURUSD moved lower on Italy and disappointing EZ PMIs retreating retesting the 1.13 August lows. Next in focus the 6th of November mid term elections with a Democrat win looking bearish for the Greenback and the potential for a double bottom and a year end rally for the EUR to test 1.16 or higher. **USD/JPY**: Fragile equity markets and lower UST yields provided support for the JPY. After peaking at 114.36 the pair has found support just below 112 with resistance towards 112.90. BoJ's increased tolerance for yield volatility is offset by forward guidance on rates. While not iron clad, the latter suggests changes to Yield Curve Control targets are unlikely before 2020. US midterm elections' two tails can impact Japan markets significantly. A Republican sweep will likely boost USD/JPY. Risk/reward in USD/JPY favours the upside post its recent correction and supportive domestic flows. **GBP/USD**: There has been no real progress on the Brexit front and most likely we will have to wait for the December EU Summit. In his budget speech, Chancellor Hammond revealed upgraded forecasts to growth and improved tax receipts that would provide for greater public spending (mainly NHS). GBP/USD found support at 1.2696, close to the August lows and looks set to continue into a broad trading range (1.26-1.33) into year end.
Government Bonds	**EU:** EZ politics provided for a volatile October with Italy's budget submission and the fragility of the German coalition as the key themes. In the ECB meeting Draghi acknowledged the recent weakness in economic data but largely shrugged it off with the end of QE now looming in six weeks. Markets remain jittery with Eonia forwards fully retracing early October's selloff and the long end of the swap curve steeper. Bunds seem set to continue trading in a large range (0.30% - 0.60%) and completely dislocated from US rates. **US:** The beginning of the month saw a rapid selloff as buyers were lacking across the curve and focus turned to a hawkish Fed and a daunting supply outlook. Since then markets seem to have found themselves on rocky ground with a bid on volatility emerging due to concerns about earnings growth, tariffs and Fed's tightening. Despite the Fed's hawkishness the curve bear steepened. Additionally, given most investors place little probability of a GOP win in the House race, any surprise could be an immediate trigger for a sell-off led by the long end given the prospect of further fiscal stimulus. Overall pressure remains on bonds despite the general risk off sentiment and higher rates are expected into year end.
EM hard currency debt	It was another tough month for EM hard currency bonds as they gave back some of the end of September's recovery, with EMBI+ widening 30bp on continued equity market volatility, stable USD rates at elevated levels and idiosyncratic stories (Brazil elections, China slowdown, Mexico politics, Saudi journalist assassination). The anemic rally in US Treasuries was not enough to buoy EM with total return for the month at -1.3%. Brazil was the bright spot and continued its strong September performance into October with spreads trading up to 30bps tighter. Saudi and Mexico were the negative surprises in the space. Saudi had a bad month with the curve bear flattening on the back of talk about potential sanctions and political implication post Khashoggis' assassination and the significant oil sell off. Overall we are tactically bullish EM external sovereign debt into year end as spreads have retraced to more attractive levels than earlier in the year.
Corporate credit	Another weak month for corporate credit but outperforming equities. The drivers were the equity sell off, the impending end of ECB QE, the "higher US rates" discussion and the potential end of the credit cycle. Overall we have seen limited contagion from the Italian sovereign story to just European banks and Italian corporates. The equity sell off took center stage and drove EUR and USD HY significantly wider. The oil sell off (-12%) also weighed on US high yield. IG credit fared better but idiosyncratic stories (M&A, GE, XRX, DB) in the space are rising fast and so is dispersion. Cyclicals have been the notable underperformers. These make the credit market after a long time a credit pickers' market as opposed to the momentum driven one of the past few years. At current levels and despite the EUR credit widening we still prefer USD over EUR on a total return/yield basis. We also prefer to stay in higher quality shorter duration credits given our longer term bearish view on the asset class although short term the ratings decompression should retrace some. Tactically we position for tightening of spreads into year end via zero cost structures in structured credit.

II. Advanced Economies

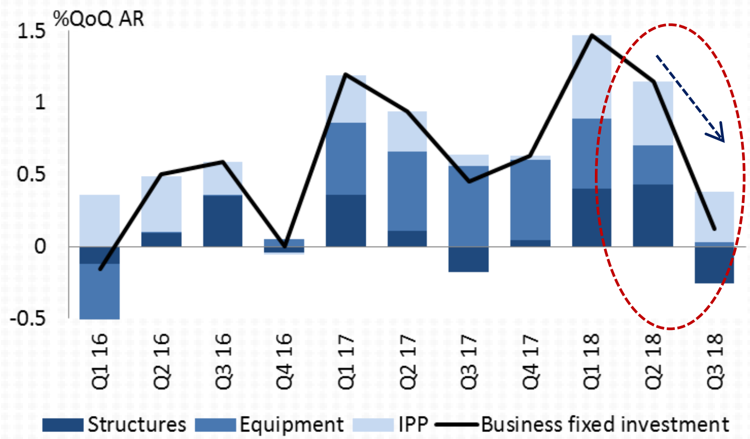
- USA
- Euro Area
  - ❖ France
  - ❖ Periphery (Italy, Spain, Portugal, Cyprus)
- UK

USA: Final consumption supports US Q3 GDP but fiscal stimulus' positive effect may prove short-lived

Contributions to real GDP growth



Business fixed investment has decelerated significantly since Q1 18



Source: US BEA, Bloomberg, Eurobank Research

Latest Economic Developments

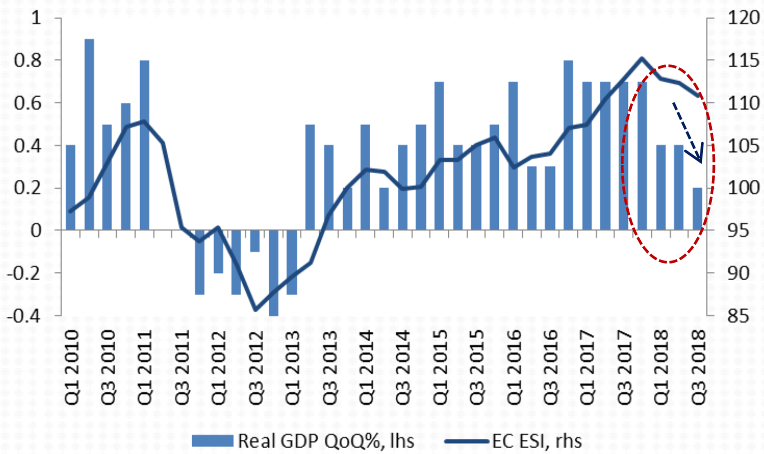
According to the BEA's advance estimate, real GDP increased by 3.5%QoQ saar in Q3 2018, down from 4.2%QoQ saar in Q2, reflecting in large part positive contributions from personal consumption expenditures (+4.0%QoQ saar from 3.8% in Q2) as well as public spending and investment (+3.3%QoQ saar from 2.5% in Q2), mirroring the positive but rather short-lived effect of the ongoing fiscal stimulus. Nevertheless, the overall deceleration in real GDP growth was mainly attributed to broad based weakness across nonresidential fixed investment, suggesting that corporate tax cuts have not led to capital accumulation. Meanwhile, the downturn in net exports, subtracted 1.8pp from overall growth (driven mainly by a decline in goods exports), but this movement was more than offset by an upturn in inventory building which added 2.1pp to growth. Business and consumer sentiment indicators are near historical highs, consistent with a recent flow of robust hard economic data. Looking ahead, real GDP growth is expected to decelerate towards 3.0%QoQ saar in Q4 as the positive contribution from fiscal stimulus gradually fades out, before moderating further towards 2.5%QoQ saar over the course of 2019.

Central Bank Watch

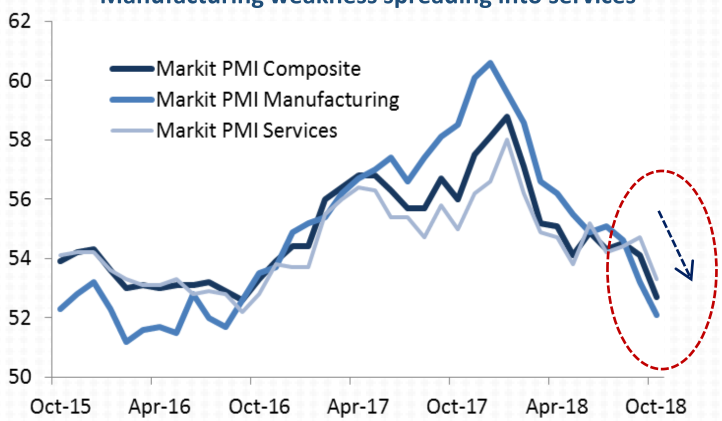
The minutes of the September FOMC meeting showed that Committee members unanimously agreed to continue the gradual policy normalization, as they still view economic conditions as "strong", with improved labor market conditions and inflation near the Committee's objective. Policymakers were nevertheless divided on the likely path of the policy rate, with "a number" of them noting that they would not favor raising the fed funds rate above the estimated long-run interest rate without clear signs of overheating vs. "a few" others who argued in favor of a more restrictive policy stance in order to reduce the risk of overshooting the inflation target. With the future interest rate path dependent on incoming economic data, we continue to expect one more rate hike in December, followed by at least two more until the end of 2019, which would bring the target range for the fed funds rate to around 3.00%.

Euro area: Q3 GDP deceleration, with manufacturing weakness spreading into services

GDP decelerates significantly on the back of weaker external demand



Manufacturing weakness spreading into services



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

Latest Economic Developments

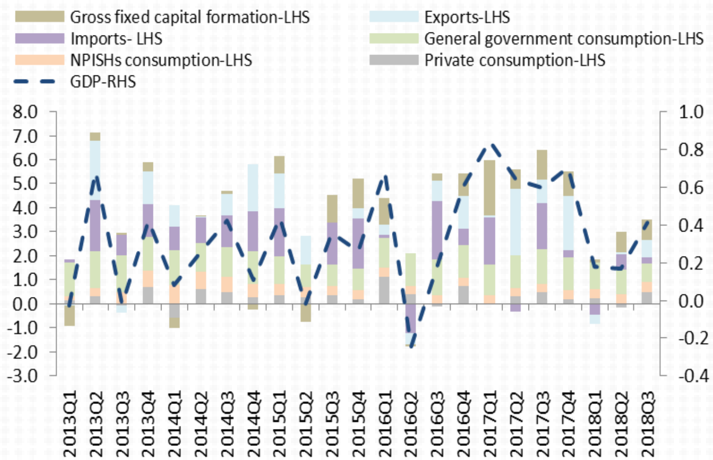
Euro area GDP growth retreated to 0.2%QoQ in Q3 from 0.4%QoQ in Q2. The slowdown is most likely attributed to weaker export growth, which translated into a negative contribution from net trade and offset apparent robust domestic demand (the expenditure breakdown is expected on 14 Nov). October PMIs suggest that the recent weakness is spreading into services, with the flash Eurozone Composite PMI index falling to a 25-month low of 52.7 points from 54.1 in the prior month, reporting the weakest level since September 2016. Based on correlation between PMI and GDP growth, the October Composite PMI points to a real GDP growth rate of around 0.3%QoQ in Q4 (under the assumption that the said index remains stable at 52.7 points in Nov and Dec), posing a potential downside risk to our Euro area 2018 GDP growth forecast of 2.0%. Although domestic demand remains resilient, weaker external demand and higher oil prices have a negative impact on the ongoing economic expansion, as trade war frictions intensify the global trade slowdown.

Central Bank Watch

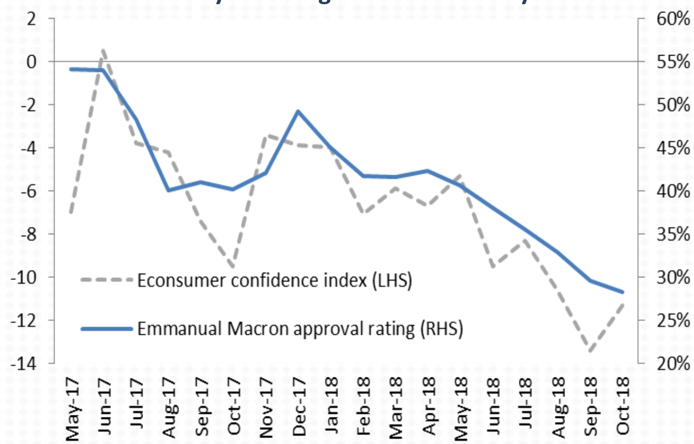
At its October meeting, the ECB retained its monetary policy unchanged regarding interest rates, QE and reinvestment policy, with President Mario Draghi noting that there are no signs of a "downturn" but just of a "weaker momentum" amid slowing external demand, trade war frictions, uncertainty around Italy and Brexit as well as country specific factors (i.e. Germany's auto manufacturing sector). In-depth assessment of the economic outlook will take place at the December meeting with the publication of the updated staff projections, when the ECB could lower its 2019 growth forecast should the flow of negative macro data continue. On the inflation front, the ECB retained a relatively upbeat tone with President Mario Draghi focusing again on the tightening labor markets and accelerating wage growth. "Subject to incoming data confirming ECB's medium-term inflation outlook" and barring a major adverse shock, the ECB remains inclined to end monthly net asset purchases in December. An interest rate hike is not expected before Q3 2019, with markers currently pricing a hike of ~10bp by September 2019 and ~15bp by December 2019.

France: Q3 GDP rebounds on improving private consumption

Private consumption rebounds in Q3 GDP



Emmanuel Macron's approval rating on a steady declining trend so far this year



Source: INSEE, European Commission, Wiki, Eurobank Research

Latest Economic Developments

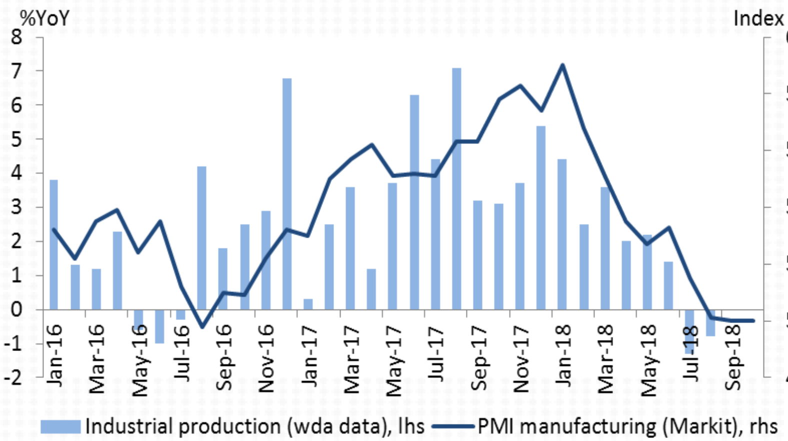
The French economy regained momentum in Q3 2018, with GDP growth rising 0.4%QoQ, twice as fast as in H1 2018. The main driver of GDP acceleration was domestic demand spurred by a rebound in private consumption (0.5%QoQ from -0.1%QoQ in Q2) on the back of a surge in car purchases, as consumers apparently took advantage of manufacturers' offers for cars that would no longer be marketable after September (incompatible with new car emission standards). Investment growth dropped slightly (by 0.1ppt to 0.8%QoQ), while net exports added 0.1ppt to Q3 GDP growth as exports growth (0.7%QoQ) outpaced that of imports (0.3%QoQ). Inventories were the only component that weighed on Q3 GDP shaving off 0.2ppt. Understandably, adverse temporary factors that held back consumer spending in H1 2018 (e.g. transport trikes) start waning, while a series of tax relief reforms that came into effect in October - including cuts in social contributions paid by employees and a reduction in local housing taxes- should support private consumption, boding well for a likely GDP acceleration in the period ahead. In addition, labor market conditions continue to improve, with the unemployment rate declining to 8.7% in Q2 2018, the lowest level since 2011. All in all, France's GDP is expected to grow by 1.7% this year and 1.6% in 2019 from 2.3% in 2017.

Emmanuel Macron takes steps to curb his declining popularity

Consumers' waning purchasing power in H1 2018 has been reflected in consumer confidence, which has been on a steady declining trend in the first nine months of the year, dropping to a two-year low of -13.4 in September, before improving modestly to -11.3 in October. This has not helped President Emmanuel Macron's approval rating, which has been on a steady declining trend since January following a series of high-profile departures from his government. In an attempt to win back his supporters who criticize his top-down leadership style rather than his policies, which are still widely viewed as necessary to "transform" the country, Emmanuel Macron announced a long-awaited reshuffle of his cabinet in October solidifying his alliances with centrist groups by giving them stronger positions.

Italy: Tightening financial conditions amid increased political woes could offset the positive effect of the fiscal expansion

Significant slowdown in the manufacturing sector



Italy, Sovereign Systemic Stress Composite Indicator

Source: ECB, Bloomberg, Eurostat, Eurobank Research

Latest Economic Developments

Real GDP growth came in weaker than expected in Q3, being flat on the quarter from 0.2%QoQ in Q2 2018. Both domestic and external demand had a zero contribution to overall growth, while positive momentum from the services, agriculture forestry and fishing sectors were counterbalanced by a weakening manufacturing sector. While we cannot conclude whether the ongoing deceleration will prove to be temporary (the final expenditure breakdown is due on 30 November), there are early signs that political instability has affected households' and businesses' decisions. Meanwhile, the reported flat GDP growth is particularly worrying, given improving labor market conditions and the relatively strong credit demand for investment. Leading indicators point to stagnation in industrial activity, with the September manufacturing PMI falling to a 2-year low of 50.0 points from 50.1 in August. The fiscal expansion of 0.8ppt could potentially add 0.6ppt to 2019 real GDP growth[1], but a sizeable tightening in financial conditions could wipe this positive effect out, with negative confidence effects weighing on domestic demand. Overall, we have downgraded our real GDP growth forecast for 2018 by 0.2ppt to 1.0% and maintained our 2019 forecast at 1.1%, with risks skewed to the downside as political worries prevail.

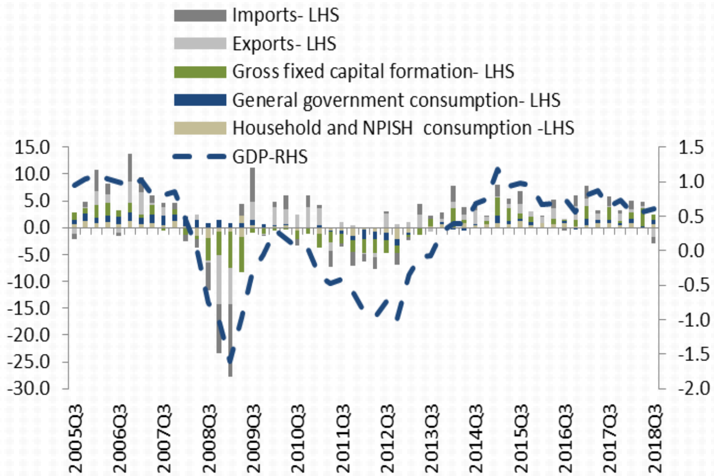
Italian politics update

Warned that Italy's 2019 draft budget is in serious breach of EU rules, the EC rejected Italy's 2019 DBP and gave the Italian government three weeks to resubmit a revised DBP. Given the government's overly optimistic GDP growth path and its unwillingness to introduce large spending cuts ahead of the European Parliamentary elections in May 2019, the risk of significant fiscal slippage in the following years seems to be on the rise. As long as financial markets pressures remain relatively contained, the Italian government is not expected to soften its fiscal policy stance. Taking into account the Italian government's thin majority in the Senate, a failure to have the budget endorsed by year-end (not our base case) could lead to a prolonged period of heightened uncertainty and even trigger a political crisis.

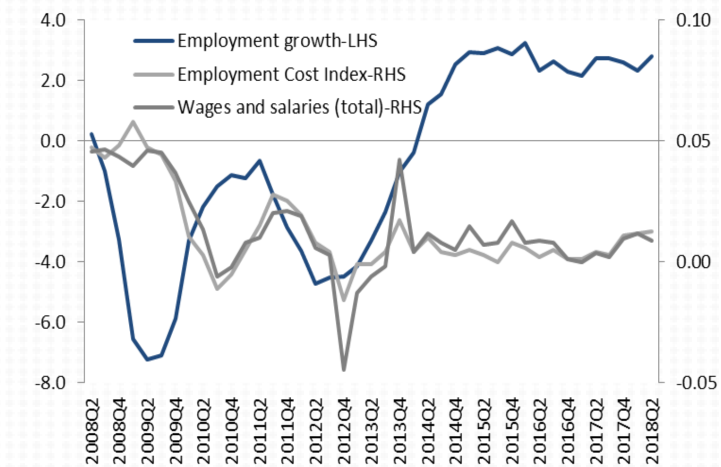
[1]For more detail on this see our recent Global Focus Note, "Sustainability of Italy's public finances under question post budget announcement, October 18, 2018 (https://www.eurobank.gr/en/group/economic-research/diethnis-oikonomia-kai-agores/sustainability-of-italian-public-finances-18-10-18/)

Spain: Solid growth momentum maintained in Q3 2018; approval of the 2019 budget looks challenging

Solid growth momentum maintained in Q3 2018



Spain expected to remain among top outperforms in the Eurozone this year thanks to improving labor market conditions & higher wages



Source: INE, Eurostat, Eurobank Research

Latest Economic Developments

Spain's Q3 GDP grew by 0.6%QoQ (2.5%YoY), the strongest among the four biggest Eurozone economies, matching the growth rate recorded in the previous two quarters. Domestic demand was the main driver of growth, with household consumption rebounding by 0.6%QoQ in spite of mounting inflationary pressures after rising by a meagre 0.1%QoQ in the prior quarter. Government consumption also gained pace, increasing 0.8%QoQ from 0.1%QoQ in Q2. On the flipside, investment growth expanded 1.0%QoQ, well below the stellar improvement of 3.5%QoQ in Q2, while net exports had a negative contribution. Exports contracted 1.8%QoQ, the first drop in five years, following a modest expansion of 0.2%QoQ in the prior quarter. Imports also fell 1.2%QoQ, against a 1.0%QoQ rise in Q2. For the whole year 2018, Spain's GDP growth is projected to decelerate to 2.7% from 3.0% in 2017, pressured by a challenging external environment on the back of protectionism fears and weaker global growth momentum while slowing tourism could also weigh. However, with the pace of job creation remaining elevated and wage growth starting to pick up, Spain is expected to remain among the fastest growing economies in the Eurozone.

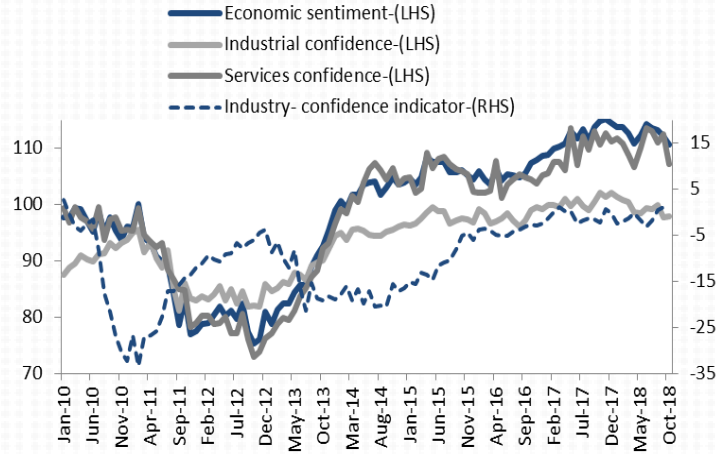
Politics update

The minority government of the Socialist party signed an agreement with the left-wing party Podemos on the 2019 budget envisioning, among others, a lower corporate tax rate for small companies, a new tax of 0.2% on financial transactions and the rollback of some of the labor market reforms approved by the People's Party government in 2012. However, as both the People's Party and the liberal Ciudadanos will probably cast a negative vote, the government will have to rely on the support of the two Catalan parties, the Republic Left of Catalonia and the Catalan European Democratic Party. In return, however, they demand the release of secessionist politicians currently in preventive detention that PM Petro Sanchez categorically rejects. Should the government fail to pass the budget, snap elections are likely to be called in early 2019.

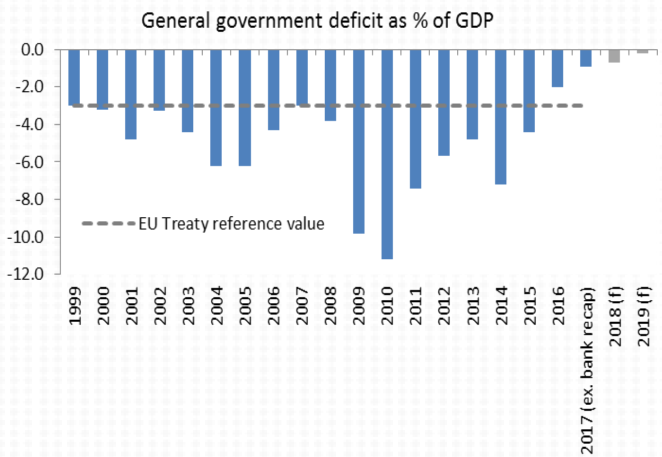
Portugal: Available data for Q3 2018 point to growth moderation

Eurobank

Sentiment indicators point to a slowdown in Q3 GDP



General government deficit expected to narrow further in 2019 to the lowest in the country's democratic history



Source: Eurostat, European Commission, Eurobank Research

Latest Economic Developments

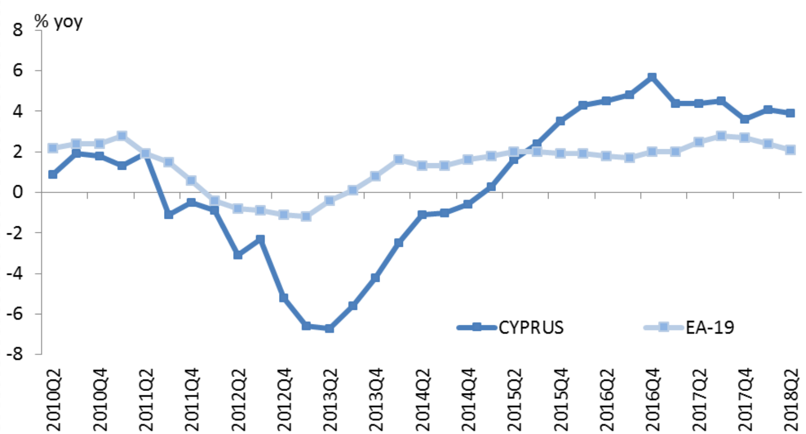
Available hard data and sentiment indicators for Q3 2018 suggest that growth moderated from 0.5%QoQ (2.4%YoY) in Q2 (release of official Q3 GDP figures is scheduled for 14 November). Retail sales decelerated, on average (per month), in Q3 to 2.4%YoY from 3.4%YoY in the prior quarter while the industrial sector contracted over the same period by 1.4%YoY following a meager growth of 0.5%YoY in Q2. Meanwhile, economic sentiment continued to decrease in October for the fourth month in a row, dropping to 110.7, the lowest since April 2017. In a similar negative tone, industrial confidence came in at a two-year low of -1.1 in September, before improving modestly to -0.9 in the following month. For the whole year 2018, Portugal's GDP growth is expected to decelerate from a twenty-year high of 2.7% in 2017, mainly due to an anticipated slowdown in domestic demand as the slack in the labor market is being eroded. At the same time, without much room left to reduce savings further, higher oil prices are expected to weigh on households' purchasing power. Be that as it may, the pace of expansion is likely to remain solid at 2.2% in 2018, supported by a booming tourist sector and flourishing housing activity.

Portugal's parliament approved 2019 draft budget in first reading

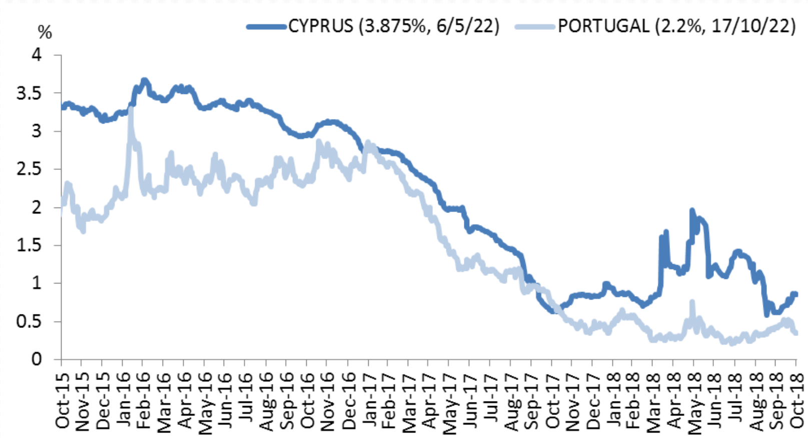
Portugal's parliament approved the Socialist government's 2019 draft budget in first reading on October 30. Among others, the budget envisions higher public sector wages and subsidized families' transport cost in the Lisbon and Port metropolitan regions, where nearly half of Portugal's population lives. The fiscal deficit target is set at 0.2% of GDP, the lowest in the country's democratic history, from this year's projected 0.7% of GDP. Annual GDP growth is projected to remain above 2.0% until at least 2022, while the debt-to-GDP ratio is expected to fall to 118.5% from 121.2% in 2018. Citing the country's economic and fiscal improvements, Moody's upgraded the country's sovereign credit rating from Ba1 to Baa3, its lowest investment grade, with stable outlook. Moody's was the last of the three major credit agencies to lift Portugal's rating back to investment grade.

Cyprus: GDP growth still close to the post-Lehman high in Q2-2018

Cyprus turn-around growth story has been impressive so far



Cypriot medium term bond yields have improved in recent months after CCB's market exit



Source: Eurobank Research, National Authorities, Bloomberg

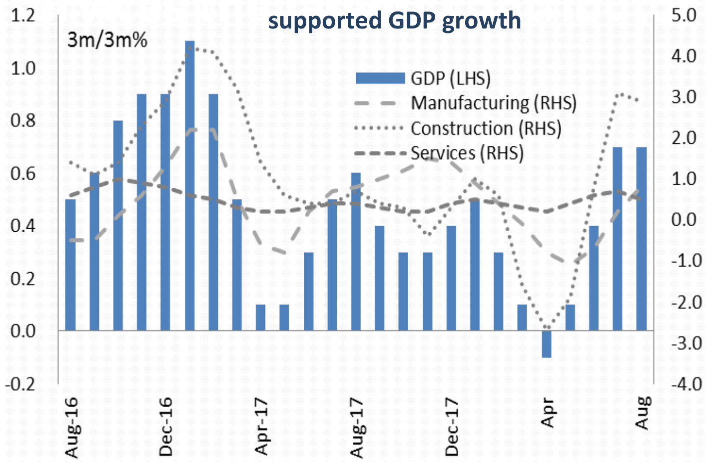
Latest Political & Economic Developments

Fitch became the second rating agency to upgrade the long-term sovereign rating of Cyprus in the post-Lehman era by one notch from BB+ to BBB- with a stable outlook. According to Fitch, the decision reflects expectations that Cyprus will maintain its prudent fiscal policy which, along with the buoyant revenues, will maintain the fiscal surplus high and subsequently put the public debt to GDP ratio on a firm downward trajectory, despite a one-off expected increase to 104.4% in 2018. Moreover, the rating agency acknowledged the decisive action to address the legacy issues of the banking system both in the area of strengthening the regulatory framework and in carving out the CCB NPEs that is expected to push down the NPE ratio to 30% when the transaction is mirrored in the official data as of September.

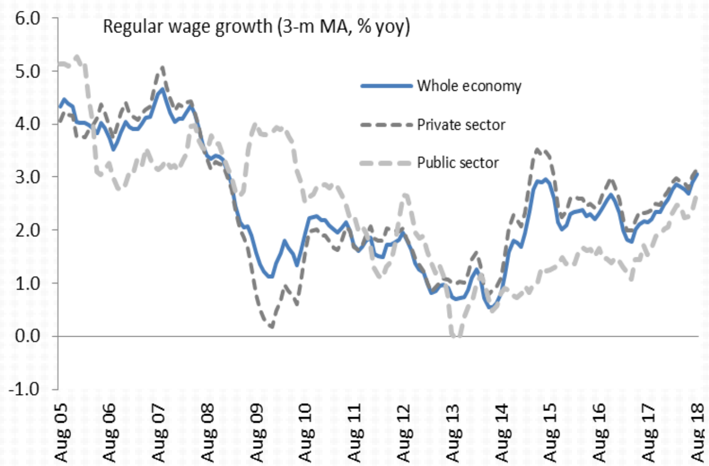
The second and latest estimate of CYSTAT on the seasonally adjusted Q2-2018 GDP-reading confirmed the flash estimate of 0.8% QoQ/3.9% YoY. This strong reading compares to 1.0% QoQ/4.1% YoY in Q1-2018 vs. 1.0% QoQ/3.6% YoY in Q4-2017. Investments had the strongest positive contribution in Q2 GDP growth (+7.7ppts), while final consumption dynamics remained strong (+3.3ppts). Investments in transportation equipment, which most probably reflect purchases of ships were three times higher on an annual basis in constant prices in Q2-2018 (€311.8mn up from €9.2mn). The performance of the residential (+9.8% YoY) and other buildings construction (+17.2% YoY)-was also very supportive to investments. The program citizenship through inward investment (an investment of €2mn in real estate enables the beneficial owner to acquire the Cypriot passport, while the required amount can be reduced down to just €500,000 after 3 years) has helped to attract foreign investment in the real estate sector in the form of high-rise residential towers, particularly in the Limassol & Paphos areas. The negative contribution of net exports (-7.7ppts) mirrored lower activity in the sectors of gaming & financial services as well as the hefty rise of imports (+12.9% QoQ/+11.8% YoY) amid improving domestic demand dynamics.

UK: GDP growth lifted by warm weather; Brexit talks in 'deadlock'

Warmer than usual weather in the summer months supported GDP growth



8½ yr high August wage growth points to upside inflation risks



Source: ONS, Bloomberg, Eurobank Research

Latest Economic Developments

According to official data, rolling three-month GDP growth, the UK economy expanded by 0.7%MoM in August 2018 -the same rate of growth as in July 2018- which was the highest since February 2017, supported by the warmer than usual weather in the summer months. All three main sectors (i.e. services, production, construction) contributed positively to headline GDP growth, primarily the services sector with a rolling three-month growth of 0.5%MoM. Looking ahead, we expect steady but subdued economic growth to continue in the remainder of the year, with 2018 GDP projected to drop to 1.4% from 1.7% in 2017 mainly due to lingering Brexit jitters and a slowdown in economic growth across Europe. Meanwhile, employment (seasonally adjusted) fell by 5k in the three months to August, the first drop since the period August to October 2017, while the labor force contracted 52k over the same period allowing the unemployment rate to remain unchanged at a 43-year low of 4.0%. Regular wage growth rose to an 8½ year high of 2.9%YoY on average in the period June to August, as public sector wages posted the strongest growth in seven years. However, removing some support for another BoE rate hike soon, unit labor cost eased in Q2 to 0.5%QoQ from 0.7%QoQ, while CPI dropped by 0.3ppt in September to a lower-than-expected 2.4%YoY.

Brexit Update

The UK and the EU27 failed to reach a withdrawal agreement at the October EU Council meeting with the Irish border backstop remaining the most controversial issue, mainly due to UK domestic political woes. EU Chief Brexit Negotiator Michel Barnier announced that the provisionally scheduled EU Summit for 17/18 November is put on hold until "decisive progress" has been reached. As things stand, the December EU Council meeting appears as the last realistic milestone for a withdrawal deal, which would allow time for the completion of approval procedures in the EU and the UK before the planned Brexit date, 30 March 2019. [1] Meanwhile, according to press reports, the number of hard Brexit Conservative MPs, who have sent a letter of no confidence to the party leader is nearing the 48 threshold required for triggering a vote of no confidence.

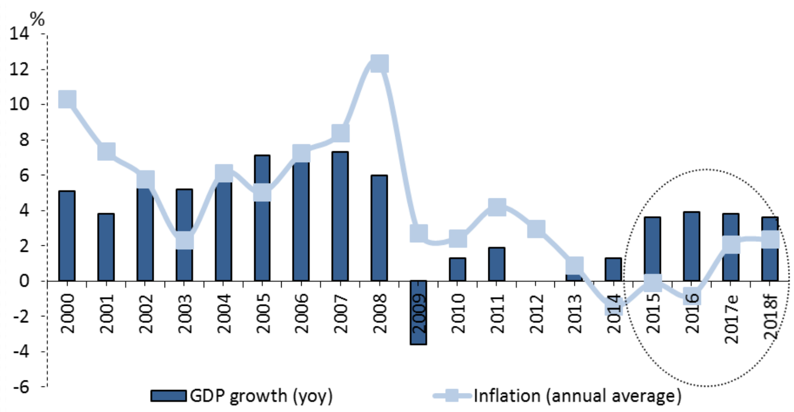
[1]For more detail on this see our Global Focus Note " Brexit negotiations- The bumpy road to a withdrawal agreement", October 12, 2018 (https://www.eurobank.gr/-/media/eurobank/omilos/oikonomikes-analuseis/diethni-oikonomia-kai-agores/global-markets-special-focus-reports/2018/brexit-negotiations-12-10-18.pdf)

III. Selected CESEE economies

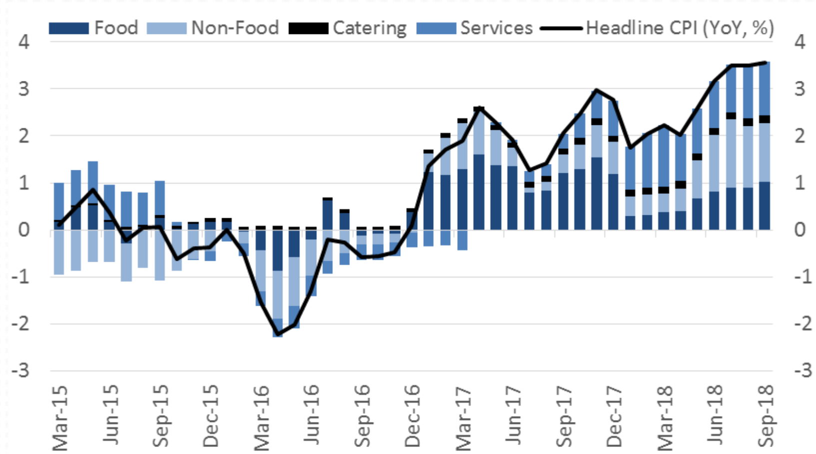
- Bulgaria
- Serbia
- Turkey

Bulgaria: Highest inflation rate since February 2013

Growth dynamics are set to remain strong in 2018



Inflation has been on the rise in recent months driven by higher food and energy prices



Source: Eurobank Research, National Authorities

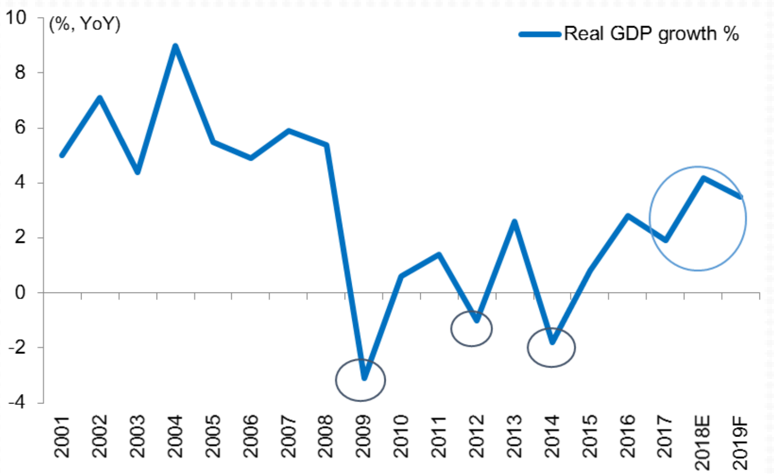
Latest Political & Economic Developments

Although fuel prices moderated on a monthly basis, inflation climbed further on an annual basis at 3.6% YoY in September up from 3.5% YoY in August at the highest rate since February 2013 vs. only 1.8% YoY in January. The rising trend in recent months can mainly be attributed to the rise of non-food inflation (3.6% YoY in September down from 3.8% YoY in August vs. 1.2% YoY in January) which itself is driven primarily by higher transportation prices (8.4% YoY in September down from vs. 2.1% YoY in January). Food prices were the second largest contributor to inflation in the same period (3.1% YoY in September compared to 2.8% YoY in August vs. 0.9% YoY in January). Looking ahead, the sharp adjustment in regulated energy prices (gas prices up by 10.8%, electricity up by 2.0%) as of July, the volatility of food prices and the rising trend of oil prices in world energy markets, are expected to maintain inflationary pressures intact in the coming months.

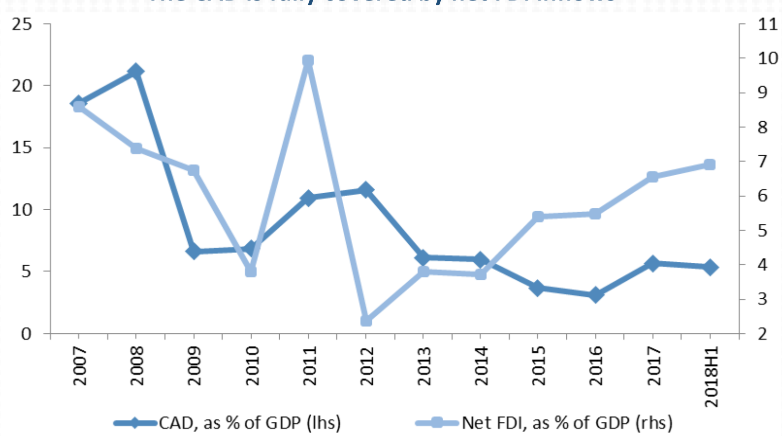
Credit activity expanded by 7.6% YoY in August up from 7.1% YoY in July compared to 4.7% in 2017 vs. only 1.5% YoY in 2016, compared to -1.2% YoY in 2015. Credit to households expanded in double digits for the first time since 2008-2009. It rallied by 10.2% YoY in August marginally up from 10.0% YoY in July, compared to 6.0% YoY in 2017 vs. only 2.0% YoY in 2016, up from -1.3% YoY in 2015. Credit to the non-financial corporations has also been growing by 7.6% YoY in August up from 7.1% YoY in July compared to 4.7% YoY in 2017, up from 2.0% YoY in 2016 down from -1.7% YoY in 2015.The system's total private sector loans-to-deposits ratio and the liquidity coverage ratio stood at 71.4% and 325.9% respectively in August. This, along with the high Tier 1 capital ratio (19.74% in August), illustrates the increased funding capacity and strong capital position of the banking system. The rebound of credit activity is among those key drivers behind GDP growth acceleration in 2017-2018 and is expected to extend into 2019 as well.

Serbia: Modest GDP growth slowdown in Q3-2018

GDP growth in 2018 is expected at highest pace in a decade



The CAD is fully covered by net FDI inflows



Source: Eurobank Research, National Authorities, Bloomberg

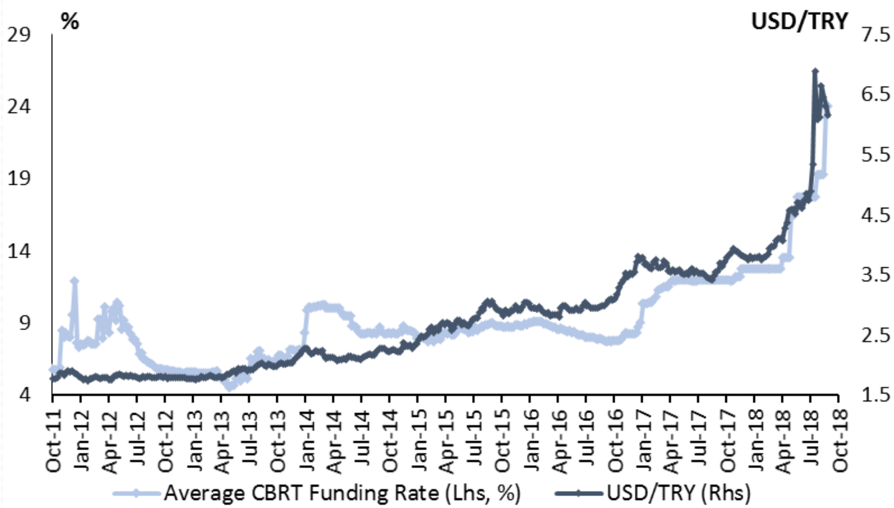
Latest Political & Economic Developments

According to the flash estimate GDP growth expanded by 3.7% YoY in Q3-2018 following 4.8% YoY and 4.6% YoY in Q2-2018 and Q1-2018 respectively. The slowdown is probably attributed to subdued external demand - as other indicators suggest that domestic demand has remained solid – which remains to be verified by detailed data on national accounts expected on November 30. The solid growth pattern along with, inter alia, the cemented fiscal discipline over the past years and the substantial to cover the current account deficit FDI's have led the IMF to revise in October its GDP growth projection to 4.2% YoY vs 3.5% YoY in past April. The IMF proceeded to this revision after concluding the first review within the Policy Coordination Instrument (PCI) framework under which both sides agreed on the fiscal target of 2019 for a deficit of ca 0.5% of GDP, following budget surpluses after 2015 onwards, so as to use the emerging fiscal space for investment policies and structural reforms. World Bank, in its regular economic report for the Western Balkans, revised its GDP growth projection for 2018 upwards, to 3.5% vs an earlier quote of 3%. Finally, the WB Doing Business report placed Serbia in the 48th position among 190 countries, which, though satisfactory from a regional point of view, it is still lower than the one held last year, i.e. the 43rd, due to the fact that other countries improved their business regulatory environment faster.

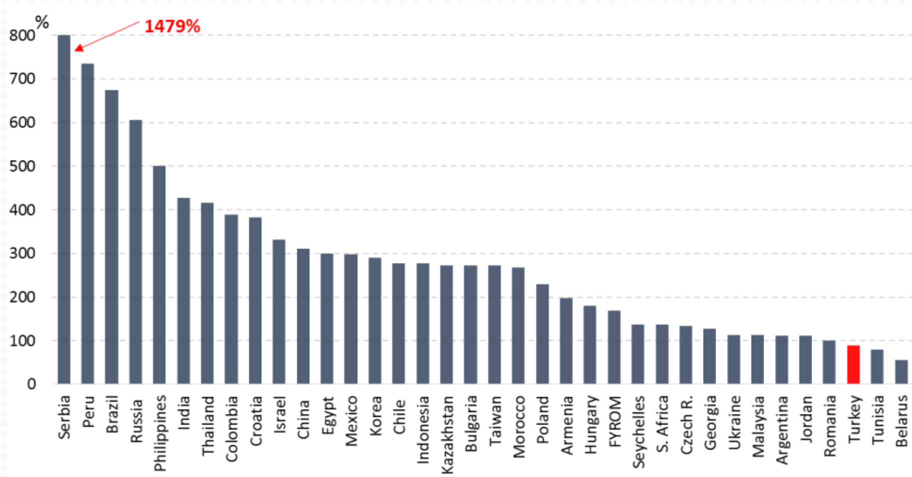
Consumer prices contracted by -0.3% MoM in September, reflecting the seasonal decline in the prices of travel packages and raw food. Following the increase in August to 2.6% YoY vs 2.4% YoY in July, inflation lost pace in September standing at 2.1% YoY. The price increase by 12.9% YoY in vegetables for September was offset by the modest price behavior in the rest of the food sub-categories thus resulting in a 1.3% YoY price increase in the total food category, which comprises 31.7% of the consumer basket. The core inflation (CPI excluding food and energy prices) stood at 1.1% YoY in September vs 0.8% YoY in August, which is still considered low and indicates low inflationary pressures.

Turkey: Lira reversed some of its heavy losses in October

Turkish Lira has come under severe pressure so far in 2018



FX Reserves (%) of External Debt Repayments in 2018



Source: Eurobank Research, National Authorities, Bloomberg

Latest Political & Economic Developments

In line with market expectations, the Central Bank of Turkey (CBRT) left the key policy rate (KPR) -the 1-week repo as of late May-at 24.00% in late October. The Overnight and Late liquidity window lending rates were also left unchanged at 25.5% and 27% respectively. The CBRT remained on hold but the tone remained relatively hawkish. At the time of writing, the Turkish lira was further strengthening below 5.5/$ trading at 5.49/$. The currency has reversed some of its heavy losses this year in October (+9.5% MoM) on the back of easing investors' concerns over the independence of the Central Bank and the deteriorating diplomatic and economic ties with the US administration after the release of Pastor Andrew Brunson, an evangelical Christian pastor. To that end, the Central Bank's decision to hike interest rates by 625bps in September- bringing the cumulative tightening up to 1025bps year to date -helped to restore some of the lost credibility. Nevertheless, the Turkish lira is still down by 30% on a year to date basis standing among the worst performing EM currencies this year.

Meanwhile, the economic environment has become even more challenging. Headline inflation accelerated to 24.5% in September-at the highest level seen since 2003-up from 17.9% in August and 15.9% in July, coming in significantly above market expectations. Inflation is not only running within double digit territory but is also expected to remain in elevated levels-the 12&24 month forward market CPI expectation jumped to 17% YoY and 12.7% respectively versus the 5% medium-term CBRT target. To make things worse, real GDP growth landed to 0.9% QoQ/5.2% YoY in Q2-2018 down from 1.5%/7.3% YoY in Q1-2018 driven by rapidly decelerating domestic demand dynamics, adding to concerns for a hard landing in the economy. Unemployment is heading north at 11.9% as of July, before the currency crisis, compared to 9.9% at 2017 year end. On the positive side, macroeconomic imbalances unwind rapidly. The current account scored a $2.5bn surplus in August for the first time since 2015 bringing the 12-month rolling deficit to $51.1bn.

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	3.7	3.7	3.1	3.8	3.6									
Advanced Economies															
USA	2.2	2.9	2.5	2.1	2.4	2.1	4.4	3.8	3.5	-2.3	-2.5	-3.0	-3.8	-4.7	-5.0
Eurozone	2.4	2.0	1.9	1.5	1.7	1.8	9.1	8.3	8.0	3.5	3.0	2.9	-0.9	-0.6	-0.6
Germany	2.5	1.9	1.8	1.7	1.7	1.8	3.8	3.6	3.5	8.0	7.9	7.6	1.3	1.2	1.4
France	2.3	1.7	1.6	1.2	1.9	1.8	9.4	8.8	8.5	-0.6	-0.9	-0.7	-2.6	-2.6	-2.8
Periphery															
Cyprus	3.9	3.9	3.8	0.7	0.8	1.2	11.1	9.5	8.0	-6.7	-7.1	-7.8	1.8	1.7	1.7
Greece	1.5	1.8	1.9	1.1	0.7	1.0	21.5	19.5	18.0	-1.0	-0.8	-0.6	0.8	0.3	0.5
Italy	1.5	1.0	1.1	1.3	1.3	1.4	11.2	10.8	10.5	2.8	2.0	1.6	-2.3	-1.7	-1.7
Portugal	2.7	2.2	1.8	1.6	1.7	1.6	8.9	7.0	6.7	0.5	0.0	-0.3	-3.0	-0.7	-0.2
Spain	3.0	2.7	2.2	2.0	1.8	1.8	17.2	15.6	14.7	1.9	1.2	1.2	-3.1	-2.7	-2.3
UK	1.7	1.4	1.5	2.7	2.5	2.2	4.4	4.0	4.2	-3.8	-3.5	-3.2	-1.8	-2.0	-1.7
Japan	1.7	1.1	0.9	0.5	1.2	1.3	2.9	2.9	2.9	4.0	3.6	3.8	-4.3	-3.7	-2.8
Emerging Economies															
BRICs															
Brazil	1.0	1.4	2.4	3.4	3.7	4.2	12.8	11.8	10.7	-0.5	-1.3	-1.6	-7.8	-8.6	-8.0
China	6.9	6.6	6.2	1.6	2.2	2.4	3.9	4.0	4.0	1.4	0.7	0.7	-4.0	-4.1	-4.4
India	6.7	7.3	7.4	3.6	4.7	4.9		*NA*		-1.9	-3.0	-2.5	-1.9	-3.0	-2.5
Russia	1.5	1.7	1.8	3.7	2.8	5.1	5.2	5.0	4.9	2.2	6.2	5.2	-1.5	1.6	1.8
CESEE															
Bulgaria	3.6	3.7	3.5	2.1	2.6	2.8	6.2	5.5	5.3	4.5	1.4	1.0	0.8	-1.0	-0.5
Romania	7.0	4.0	3.6	1.3	4.7	3.3	4.9	4.5	4.4	-3.5	-4.0	-4.0	-3.0	-3.5	-3.8
Serbia	1.9	4.0	3.5	3.0	2.0	2.3	14.0	13.8	13.4	-5.7	-6.3	-6.9	1.5	0.8	-0.2
Turkey	7.4	3.5	0.4	11.1	15.0	16.7	10.9	10.9	12.3	-5.6	-5.7	-1.4	-2.3	-4.0	-5.1

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

Eurobank Fixed Income Forecasts

	2018		2019		
	Current (as of October 30, 2018)	December	March	June	September
USA					
Fed Funds Rate	2.00-2.25%	2.25-2.50%	2.25-2.50%	2.50-2.75%	2.75-3.00%
1 m Libor	2.30%	2.42%	2.65%	2.75%	2.94%
3m Libor	2.53%	2.75%	2.90%	3.05%	3.11%
2yr Notes	2.83%	2.90%	2.98%	3.00%	3.05%
10 yr Bonds	3.11%	3.15%	3.20%	3.25%	3.30%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.32%	-0.30%	-0.29%	-0.27%	-0.20%
2yr Bunds	-0.61%	-0.53%	-0.48%	-0.42%	-0.38%
10yr Bunds	0.39%	0.48%	0.55%	0.60%	0.65%
UK					
Repo Rate	0.75%	0.75%	0.75%	1.00%	1.00%
3m	0.81%	0.86%	0.92%	0.98%	1.05%
10-yr Gilt	1.40%	1.45%	1.48%	1.55%	1.60%
Switzerland					
3m Libor Target	-0.75%	-0.75%	-0.75%	-0.70%	-0.70%
10-yr Bond	0.03%	0.08%	0.12%	0.16%	0.20%

Source: Bloomberg (market implied forecasts)

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