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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:** Short-term growth boost, although modest signs of deceleration in business and residential investment emerge
- **EA:** Slowing growth momentum with risks tilted to the downside
- **UK:** Fastest Q3 GDP growth in nearly 2 years mainly supported by one-off factors; downside risks prevail amid continued Brexit uncertainty
- **EM**: US policies continue to stretch financing conditions
- **CESEE**: Flash Q3-2018 real GDP growth estimates point to an increasing divergence within the CESEE region

Policy Outlook

- **USA:** One more rate hike in 2018, followed by at least two more until the end of 2019
- **EA:** Barring a major adverse shock, the ECB remains inclined to end QE in December. No interest rate hike expected before Q3 2019
- **UK**: BoE likely to resume its rate tightening cycle in early 2019, assuming parliamentary approval of the Brexit Withdrwal Agreement (in its original form or a revised version)
- **CESEE:** Monetary policies remain broadly accommodative and synced with ECB's stance

Summary

The global economic recovery has probably peaked, and is expected to decelerate over the next two years amid increasing capacity constraints, heightened trade frictions and tighter monetary conditions. Global GDP growth is projected at around 3.7% in 2018, before slowing further towards 3.5% in 2019 and 2020

Markets

- **FX:** Worries over a global growth slowdown dominated November with politics and trade wars further setting the stage for range trading in EUR/USD
- **Government bonds:** The initial selloff was fully reversed providing a strong bid for fixed income as CBs are turning dovish and voices expressing worries over the end of the cyclical recovery are growing louder
- **EM:** Weak month despite lower rates as the Chinese slowdown and falling oil prices weighted in the space with ratings decompression in vogue. Russia in the spotlight due to the Ukraine standoff
- **Credit:** Traded weak with a broad based widening and underperformed equities. Idiosyncratic stories keep piling up with Nissan/Renault in focus. A dovish Powel boosted US credit spreads towards month end

Key Downside Risks

- **Renewed escalation in US/China trade dispute:** If no US/China trade agreement is reached by 1 March 2019, an increase in the US 10% tariff rate on $200bn worth of Chinese imports to 25% will come into force only a few months later than originally planned, causing a renewed escalation in trade tensions early next year and augmenting downside risks to the global economy
- **Increased Brexit uncertainty**: Market uncertainty as to how Brexit negotiations will proceed will increase substantially if the Withdrawal Agreement is not ratified by the House of Commons
- **EM sensitivity:** Headwinds from increased protectionism and tightening of global financial conditions
- **Oil:** Risk of an upswing in oil prices coupled with a USD appreciation trend may inflate the energy bill

Macro Views

Eurobank

Latest Macroeconomic Developments & Outlook

World Economic Outlook		Recent developments suggest that the global recovery has probably peaked and is expected to decelerate over the next two years to around 3.5% from an expected 3.7% in 2018, amid increasing capacity constraints mainly on the back of labor shortages, heightened trade frictions and tighter monetary conditions. Although labor market conditions have continued to improve, financial market conditions have tightened somewhat, investment and trade growth have come in weaker than previously projected and investors' sentiment has decelerated from its recent peak.
Developed Economies	**US**	Real GDP growth has remained robust in 2018 so far, with the ongoing fiscal stimulus boosting consumer and federal government spending. Nevertheless, corporate tax cuts have not led to an acceleration in business capital formation, raising worries about whether the acceleration of US economic activity can be sustained. Meanwhile, the US housing sector has slowed notably over the last several months amid higher mortgage rates and tax reform changes that reduce the value of owner-occupied housing as a tax shield. Overall, real GDP growth is expected to accelerate to 2.9% in 2018 from 2.2% in 2017, before decelerating to 2.5% in 2019 as the boost from fiscal stimulus gradually fades out and the effects of monetary policy tightening accumulate.
	Euro Area	Real GDP growth in the euro area is set to moderate gradually from 2.4% in 2017 to around 2.0% in 2018 and 1.6% in 2019. Still accommodative monetary conditions, coupled with a mildly expansionary fiscal policy in 2019, as well as robust employment growth and favorable financing conditions, should lead to solid domestic demand. On the flipside, headwinds stem from slowing external demand amid weaker global activity and heightened policy uncertainty.
	Periphery	Spain continued to outperformed its regional peers in Q3 with real GDP growing by 2.5%YoY, the same rate as in Q2 2018 and above the sluggish 1.9%YoY Eurozone average but below 2.8%YoY in Q1 2018 and an average 3.0%YoY in 2017. Sentiment surveys pertaining to Q4 support the view that economic recovery is gradually slowing albeit pressured by external headwinds and weaker global growth. Spain's 2018 GDP is expected to decelerate to 2.2% from 3.0% in 2017 remaining though among the fastest growing economies in the Eurozone. In Italy, the second estimate of Q3 GDP surprised negatively revealing a 0.1%QoQ contraction while leading indicators bode ill for Q4, adding to the view that the country's economic outlook is becoming more challenging.
Emerging Economies	**BRICS**	In Brazil, following Jair Bolsonaro's election victory, the prospects of the economy appear brighter. Brazil is expected to bounce back from the recession of 2015 – 2016 and the weak recovery of 2017 – 2018 with a modest 2.5% annual average GDP growth in 2019 – 2023. In Russia, GDP grew by 1.9%YoY in both Q1 and Q2. The growth momentum is further supported by strong PMI data in November. In India, GDP is expected to increase to 7.5% in 2018 and 7.3% in 2019 up from 6.7% in 2017. The acceleration reflects a rebound from transitory shocks and is mainly attributed to strengthening investment and robust private consumption. In China, following the slowdown by 0.2% to 6.5%YoY in Q3, the government is expected to lower its 2019 GDP growth target to 6.0%-6.5% and to adopt supportive fiscal measures such as additional corporate tax cuts and household tax reliefs.
	CESEE	The flash GDP growth estimates for Q3-2018 point to an increasing divergence within the CESEE region. Despite conventional wisdom suggesting that rising external environment headwinds and the slowdown of Germany would have a more detrimental impact on their growth prospects, CEE economies accelerated further in Q3. The economies of our focus in SEE witnessed a mild slowdown in Q3, an illustration of our earlier point that they most probably have already reached their cyclical peak.

Global Macro Themes & Implications

Theme	Implications
US and China agree on a 90-day trade ceasefire	The meeting between US President Donald Trump and his Chinese counterpart Xi Jinping on the sidelines of the G20 meeting on December 1 led to an agreement whereby the US is to delay the scheduled tariff increase in order to allow time for further negotiations. More specifically, preventing a further increase in trade tensions and reducing some of the immediate downside risks to the global economy, the US will not raise the 10% tariff rate to 25% on $200bn worth of Chinese imports on 1 January 2019, as initially planned. In return, China will start purchasing "immediately" a "very substantial" amount of US goods (not yet specified), including agricultural, energy and industrial products, in order to reduce the trade deficit with the US. The two leaders will engage in a new round of trade discussions aiming to reach a final agreement within 90 days (i.e. by end-February 2019). Discussions will focus on structural changes pertaining to "forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft, services and agriculture". However, it is questionable whether a permanent agreement can be sealed in such a limited period of time taking into account that several US demands contradict key aspects of China's growth model. If no agreement is reached by the end of the 90-days period, an increase in the 10% tariff rate to 25% will come into force only a few months later than originally planned, risking to bring about a renewed escalation in trade tensions early next year.
EU Commission takes the first step towards initiating the Excessive Deficit Procedure (EDP) against Italy	After assessing the Italian government's revised 2019 Draft Budgetary plan as part of the European Autumn Semester report, which evaluates fiscal developments in EU member states, the European Commission (EC) confirmed "the existence of particularly serious non-compliance" with the recommendations addressed to the country by the Council in mid-July. As a result, the EC took the first step towards initiating the Excessive Deficit Procedure (EDP) within the framework of the so-called "corrective arm" of the Stability and Growth Pact. In contrast to the government's estimate for a 0.8pp of GDP deterioration in the 2019 structural balance (at -1.7% of GDP vs. -0.9% of GDP estimated for 2018), the EC expects —according to the Autumn 2018 Economic Forecasts— a more severe deterioration of 1.2pp of GDP (at -3.0% of GDP vs. -1.8% of GDP expected in 2018) and in contrast to the recommended structural adjustment of 0.6% of GDP. It stands out that the EC estimates the deviation between the country's fiscal effort and the adjustment target at 1.8% of GDP, well above its 0.5% of GDP margin, indicating that a substantial revision by the Italian government is required in order to meet the EU fiscal rules. As regards the deficit-to-GDP ratio, the EC forecasts 2.9% of GDP in 2019 and a further increase in 2020 slightly above the 3.0% of GDP threshold at 3.1%, clearly above the Italian government's target of 2.4% and 2.1% respectively, partly due to the latter's more optimistic growth projections. Clearly standing out as a rule-breaker, Italy's public debt is not expected to fall at all towards the 60% of GDP ceiling in the coming two years with the EC projecting an unchanged figure of 131.1% in the years 2018, 2019 and 2020, a tad lower from 131.2% in 2017. In a press release issued recently, the Italian government confirmed its intention to maintain a constructive dialogue with the EC. However, so far it appears unwilling to actually make a substantial downward revision in the fiscal targets so as to bring them closer to those of the EC, presumably on the view that such a development could bear a high political cost in its credibility ahead of the European elections in May 2019. The slightly more conciliatory tone from the Italian government, may result in the EC delaying the formal opening of the EDP (a qualified majority vote at the Ecofin Council is required) or even softening its fiscal consolidation targets to be embedded in the EDP. But halting altogether the EDP, which has already been set in motion seems unlikely as such a decision would necessitate a complete overhaul of the government's spending plans. Upon formal approval of the EDP (reportedly expected by end-Q1 2019 at the latest), Italy will need to adopt a set of EC recommendations within a timeframe of 3 to 6 months. Should Italy refuse to comply by the end of that period, sanctions are imposed gradually beginning with a non-interest bearing deposit of 0.2% of GDP.

Global Macro Themes & Implications

Theme	Implications
Parliamentary arithmetic for passing the Brexit Withdrawal Agreement and the Political Declaration looks challenging	Just four months before the planned Brexit date of 29 Mach 2019, the EU 27 leaders approved the Brexit Withdrawal Agreement (setting out the legal terms of the UK's exit from the EU) and the Political Declaration on the future UK/EU relationship. But displeasure or even outright opposition from all quarters of the UK political spectrum to the agreement put at risk its ratification process. Among others, the Brexit Withdrawal Agreement envisions a 21-month status quo transition after the UK's exit (that will end on 31 December 2020 unless both sides agree to extend it for a period no longer than two years) to allow time for consumers, businesses and public bodies to adjust to changes in the rules governing their operation and also for the UK and the EU27 to reach a deal on the new relationship. If the future relationship cannot be implemented when the transition period ends, the backstop solution for Northern Ireland will come into force as a means for ensuring the absence of a hard border between Northern Ireland and the Republic of Ireland. The backstop will take the form of a temporary customs union encompassing not just Northern Ireland but the whole of the UK, though the two sides agreed to work to replace it with a permanent agreement, including "facilitative arrangements and technologies". Raising fierce opposition from hard Brexiteers within the Conservative Party (reportedly amounting to around 80 out of 316 Conservative Party MPs), the backstop does not incorporate a mechanism that would allow the UK to unilaterally exit such an arrangement. Moreover, under the backstop agreement, Northern Ireland, will be in a deeper customs relationship with the EU than the UK, and even more closely tied to the rules of the EU single market and regulation in all products, breaking a red line imposed by the Democratic Unionist Party (DUP) of Northern Ireland — the junior partner in the UK coalition government upon which the Conservative Party relies for a small seat majority in the parliament— which has consistently opposed any kind of differential treatment for Northern Ireland in the backstop agreement. In another potentially controversial clause, political declaration on the future UK/EU relationship, the agreement allows only a basic level of access to the EU for the UK financial industry known as "equivalence", raising strong criticism by pro-EU MPs —especially from the Labor Party— who argue that the Withdrawal Agreement will leave the UK worse-off than it would be, if it stayed in the EU. Taking into account that the smaller opposition parties, Liberal Democrats, Scottish and Welsh Nationalists are vehemently opposed to Brexit and are expected to vote against it, parliamentary arithmetic for passing the Withdrawal Agreement and the Political Declaration looks challenging. Against this background, the government announced recently that MPs would be allowed to propose and vote on up to six amendments before voting on the UK government's motion (according to the UK Department for Exiting the EU, the vote on the government's Brexit deal will take the form of a motion). The debate on the Brexit deal will start on 4 December in the House of Commons and last until 11 December. MPs are expected to vote first on the proposed amendments to the motion and then on the original version of the government's motion. According to our baseline scenario, the parliament will eventually approve the UK government's motion (more likely at a second vote with certain amendments) as soft Brexiteers within the Conservative (and the Labour Party) would not risk the UK crashing out in a 'no-deal' Brexit while hard Brexiteers would not risk revoking Article 50. Nevertheless, the likelihood of neither the amendments nor the government's motion receiving a majority in the parliament cannot be ruled out, a scenario which would substantially increase market uncertainty as to how Brexit negotiations will proceed.

Global Macro Themes & Implications

Theme	Implications
The Fed might be closer to the end of the current tightening cycle	US Fed policymakers' recent comments have increased speculation that the Fed may be considering a pause in its hiking strategy as early as next spring, on the back of increased uncertainty over the global growth outlook and lingering trade frictions. Indicatively, Fed Vice Chair Richard Clarida acknowledged that there is some evidence of a slowing global economy, which policymakers should take into account when taking interest rate decisions in the short-term, while Chicago Fed President Charles Evans commented that he wants to move monetary policy to neutral, i.e. another 50bps or so beyond that level. Meanwhile, in contrast to his comments at the beginning of October when he noted that "we're a long way from neutral at this point", Fed Chairman Jerome Powell recently pointed out that fed fund rates are currently "just below" neutral. Adding to the above, the November FOMC minutes revealed that "a few participants" expressed uncertainty about the timing of additional hikes emphasizing that future rate moves will be data dependent. As a result, the Committee discussed that the post-meeting statement might need to be revised "at coming meetings", particularly the phrase referring to expectations for "further gradual increases" in the target range.
The global economic expansion has likely peaked, with trade growth slowdown and tighter financial conditions exerting a negative impact	In contrast to a synchronized global economic expansion in 2017, recent developments suggest that the global recovery has probably peaked and is expected to decelerate over the next two years amid increasing capacity constraints mainly on the back of labor shortages, heightened trade frictions and tighter monetary conditions. Global GDP growth is projected at around 3.7% in 2018, before decelerating further towards 3.5% in 2019 and 2020. Although labor market conditions have continued to improve, financial market conditions have tightened somewhat, investment and trade growth have come in weaker than previously projected and investors' sentiment has retreated from its recent peak. While the US has continued to grow strongly so far in 2018, GDP growth has slowed in major advanced economies (Euro area and Japan) as well as in China, with forward looking indicators pointing to a further moderation of growth.

Macro Themes & Implications in CESEE

Theme	Implications
Flash Q3-2018 real GDP growth estimates point to an increasing divergence within the CESEE region	The flash GDP growth estimates for Q3-2018 point to an increasing divergence within the CESEE region. With the exception of the Czech Republic, the economies of Central and Eastern Europe (Poland, Slovakia, Hungary) were among the top performers in the CESEE region accelerating further in Q3. Despite conventional wisdom suggestion that rising external environment headwinds and the slowdown of their main trade partner Germany would have a more detrimental impact on their growth prospects, those economies were among the most resilient in the CESEE group. It remains to be seen in the next quarters whether this is an early sign of a more pronounced decoupling from the CESEE average and EU-28.
Flash Q3-2018 real GDP growth estimates suggest that the economies of our focus may have already seen the peak of the economic cycle	In contrast, the flash Q3 GDP readings in the economies of our focus in the broader South Eastern Europe region (Bulgaria, Cyprus, Romania, Serbia) were more or less in line with our expectations. With the exception of Serbia, all other economies witnessed a moderate slowdown in Q3-2018. Those readings are in line with our earlier stipulated views that those economies have most probably already reached their cyclical peak. Although the breakdown of the national accounts is still not available, it is highly likely that once again economic activity received support primarily from domestic demand. In most cases, net exports were a negative contributor, more than in the previous quarters, driven by higher imports mirroring strong domestic demand but also lower exports in response to the deteriorating external environment.
Economic Outlook 2019: The CESEE region's resilience challenged by external and internal risks	Turning to the growth outlook of 2019, the CESEE region will continue expanding at a more moderate-yet still healthy pace- than in previous years in response to rising external and internal headwinds. A less favorable growth outlook for the EA-19, the main trade and capital flows generator for the broader region, the threat of protectionism which has negative impact on business sentiment and subsequently investment decisions, mounting political tensions globally (US-Russia, Brexit, the rise of populism, Middle East) and the risk of higher commodity and global energy prices on top of the cyclical slowdown weigh on the growth prospects of the CESEE region.
Different inflation paths allow for divergent monetary policies by regional Central Banks	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, 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 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 next two meetings.

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 November, with government bond yields across all maturities dropping between 3-4 bps. The Bulgarian Ministry of Finance continued its recent policy and did not hold any auctions in November and has shown no indication of an offering in December. Eurobond yields rose across the board within a range of 3-4 bps as well, with the exception of the longest tenure, namely the bonds expiring in 2035, which saw their yield move by 6 bps over the month.
Serbia	The EUR/RSD has not been able to get out from the clutches of National Bank of Serbia (NBS). From a yearly perspective, the dinar has been a more than stable currency with YTD volatility of only +/-0.4% (dinar was weakest on January 4th and strongest on February 22nd, 119.0027 and 118.0128 respectively). Moreover, from mid-February onwards, EUR/RSD pair keeps repeatedly touching lows and highs between 118.00 and 118.50, both floor and ceiling boundaries imposed by the NBS through numerous interventions. The ring fencing of the RSD appreciation against the Euro is rendered more significant as the total intervention amount around 118.10 is eight times greater than the “selling” intervention at 118.50. Evidently, the RSD appreciation towards the Euro is an undesired outcome for the NBS, even though never publicly expressed. At the beginning of the year, pressure on RSD was mainly coming from investors’ growing participation in Government Bonds denominated in RSD. Later on, the overall growth backed up by strong credit expansion also affected the exchange rate as many loan disbursements in Euro from corporates took place. As we approach year end, we do not anticipate any developments that could destabilize the EUR/RSD rate from its current range. However, we could expect a gradual depreciation of the RSD within the next twelve months as GDP growth slows down from ca 4.2% in 2018 to 3.5% to 2019. The depreciation is likely to realize slowly as global growth is expected to slow down as well. Therefore, we might encounter one more year of low yields and substantial tolerance on behalf of investors who hold Serbian government bonds to replace them with sovereign debt of more lucrative regions. Given that the fixed income asset class is broadly consisted of Serbian government bonds, the movements of the aforementioned asset class reflect the fluctuations of the EUR/RSD rate. We expect gradual rise in yields but without huge sell-offs as overall global concern on several topics (trade wars, BREXIT, Italian budget) could spark the fear of lackluster growth and therefore delay further policy normalization. That said, Serbian government bonds will most probably continue to enjoy one more year of low yields, though lightly adjusted.

Markets View

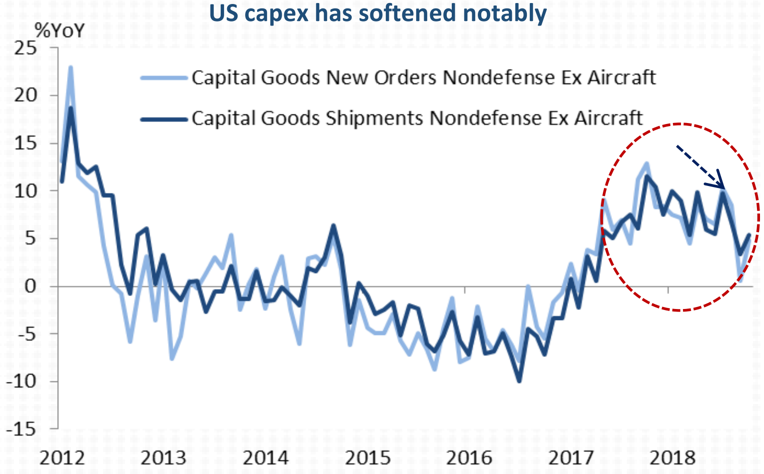
Asset Class	Outlook
Foreign Exchange	**EUR/USD:** EUR repriced on Italian fiscal fragility and Brexit headlines as the balance of risks moved in favor of the USD. The pair has so far displayed a positive correlation with equities finding a bid on USD rates selloff. At the time of writing the pair trades at 1.11414 in response to a dovish Powell speech causing markets to scale back 2019 rate hike expectations to just 26bps of tightening next year. The latest developments bring the "peak USD" story gaining traction and given the general bearish view on the pair, the pain trade into year-end is for a higher EUR/USD. **USD/JPY:** USD/JPY rallied to break 114 before giving back all its gains on US growth worries and lower USD yields. Price action seem to lock the pair in the existing 112-114 range, as heightened questions about the Fed's 2019 tightening path weigh on US yields and the broad USD. There's also an increased possibility that the BoJ will cut super-long purchases and signal reduced back-end purchases in December. **GBP/USD:** In November Theresa May reached an agreement with the EU on Brexit, but now faces the even harder task of having it ratified by the UK Parliament. Cable slumped to a low of 1.2735. Sterling will continue to move largely on Brexit headlines with some market optimism creeping in that a soft Brexit will be the final result. It is worth trading the GBPUSD upside on the view of a soft Brexit eventually.
Government Bonds	**EU:** Political turmoil in Italy and Brexit remain key risks to the Euro area outlook. Italy has started sounding more reconciliatory regarding the budget deficit and hence the significant rally in Italian bonds. The broader risk of escalating tensions between Rome and Brussels still exists though. The Brexit drama continues unabated. European rates are now lower than the levels at the start of 2018. The 13 Dec ECB meeting is now greatly anticipated for details on forward guidance or any new TLTROs shaping the post QE era. 10 year German yields trade at the bottom of this year's range (0.29%) and provide selling opportunity. **US:** Lower oil prices and fears about the US growth outlook have resulted in lower expectations for tighter US monetary policy. 2y yields are 16bps lower since 8 Nov with the curve markedly flatter. Such a sharp rally occurred also at the end of May, following the Italian elections. A dovish Powell gave the final blow to rates with markets now pricing in less than two hikes for 2019. The continuing rift between US and China on tariffs is also not helping sentiment with the upcoming G20 meeting in Argentina gathering particular attention for the possibility of a trade deal between Presidents Trump and Xi. On 10y Treasuries the break of 3% (2.95% currently) has opened the way for 2.80%.
EM hard currency debt	Another volatile month for EM spreads with the EMBI+ closing 25bps wider on the back of China's worsening economy. The decompression of lower rated versus higher rated names that started in January 2018 continues unabated but value starts to appear in the B space. EM outperformed US HY this month to reverse some of the overall underperformance year-to-date. Lower USD rates did not support the space given the general risk-off sentiment. Russia was in the spotlight as lower oil prices and the Ukraine related standoff lead to a 25bps widening while Turkey stabilized after a strong rally in October. Saudi trades at the wide end of the recent range as concerns over its ability to attract capital post the assassination saga rise. We remain tactically bullish EM external sovereign debt into year- end as spreads have retraced to more attractive levels than earlier in the year.
Corporate credit	A difficult month for credit with Energy-related sectors underperforming and the Auto sector in the spotlight on continued talk about US tariffs and the Ghosn scandal. Credit remained weak overall and underperformed equities, a reversal of October's relative performance. Cash once again lower/wider compared to synthetic credit as liquidity is diminishing into year-end. Duration was hit with the long end underperforming but providing interesting entry levels. Despite the significant number of idiosyncratic stories the widening was broad-based this month. EUR credit underperformed USD as Powel's dovishness gave the latter a last minute boost. At current levels and despite the EUR credit widening we still prefer USD over EUR on a total return/yield basis as it looks like the headwinds from the end of ECB QE will keep weighing on the EUR credit space. We prefer to stay in higher quality shorter duration credits given our longer-term bearish view on the asset class. Tactically we position for tightening of spreads into year-end via zero cost structures in structured credit and 5-7 year spreads.

II. Advanced Economies

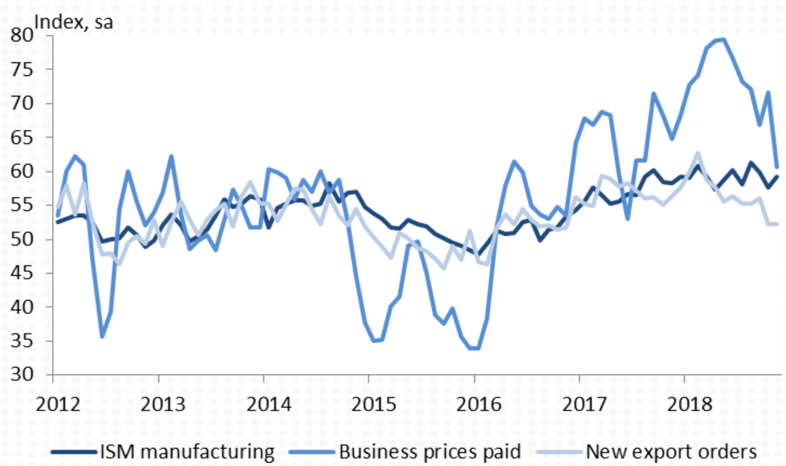
- USA
- Euro Area
  - France
  - Periphery (Italy, Spain, Portugal, Cyprus)
- UK

USA: Short-term growth boost, albeit with signs of deceleration in business and residential investment

US capex has softened notably



ISM manufacturing rebounded in Nov somewhat -after a slight moderation in Oct- as input price pressures moderate



Source: US Census Bureau, Institute for Supply Management, Bloomberg, Eurobank Research

Latest Economic Developments

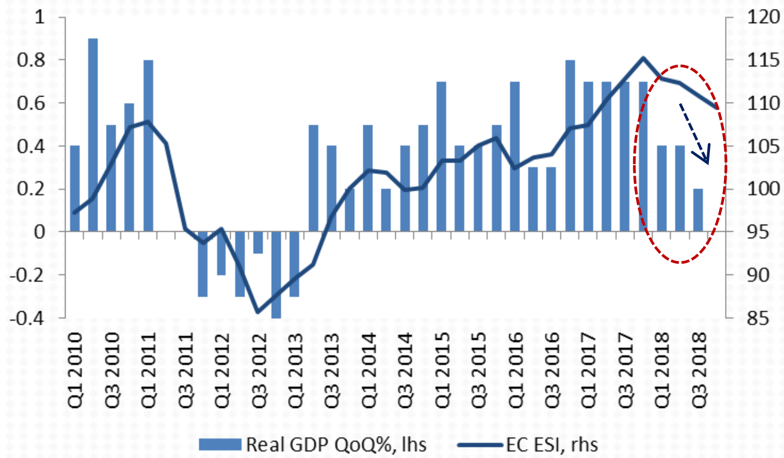
Real GDP growth has remained robust in 2018 so far, with the ongoing fiscal stimulus boosting consumer and federal government spending. Nevertheless, corporate tax cuts have not led to an acceleration in business capital formation, raising worries about whether the acceleration of US economic activity can be sustained. That said, weaker than expected October new durable goods orders, coupled with a downward revision to the September reading, provided further evidence of moderation in demand for manufactured goods, although the ISM manufacturing index rebounded somewhat in November (up 1.6pts to 59.3) following a slight moderation in October. Meanwhile, the US housing sector has slowed notably over the last several months -with housing starts, building permits and both new and existing home sales falling off somewhat- amid higher mortgage rates and tax reform changes that reduce the value of owner-occupied housing as a tax shield. Overall, real GDP growth is expected to accelerate to 2.9% in 2018 from 2.2% in 2017, before decelerating to 2.5% in 2019 as the boost from fiscal stimulus gradually fades out and the effects of monetary policy tightening accumulate.

Central Bank Watch

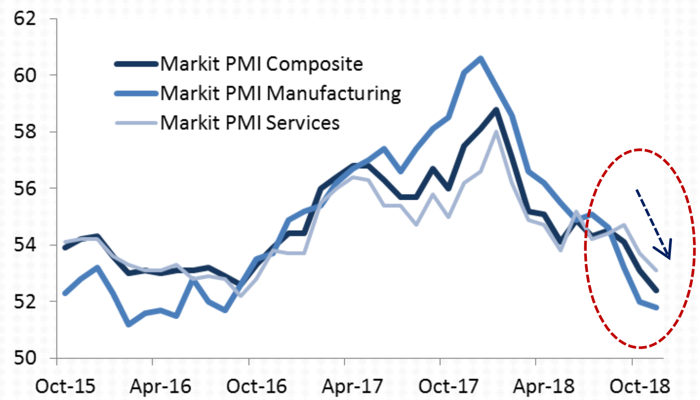
Following Fed Chairman Jerome Powell's comments that fed fund rates are currently "just below" neutral, the November FOMC minutes revealed that "a few participants" expressed uncertainty about the timing of additional hikes emphasizing that future rate moves will be data dependent. As a result, the Committee discussed that the post-meeting statement might need to be revised "at coming meetings", particularly the phrase referring to expectations for "further gradual increases" in the target range, fueling market talk that the Fed might be close to the end of its rate tightening cycle. Nevertheless, almost all participants expressed the view that another interest rate hike is likely to be warranted "fairly soon". That said, with the future interest rate path dependent on incoming economic data, we continue to expect one more rate hike in December, followed by two more by the end of 2019, to move monetary policy to neutral.

Euro area: Slowing growth momentum with risks tilted to the downside

GDP deceleration amid weakening global activity



Manufacturing weakness spreading into services



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

Latest Economic Developments

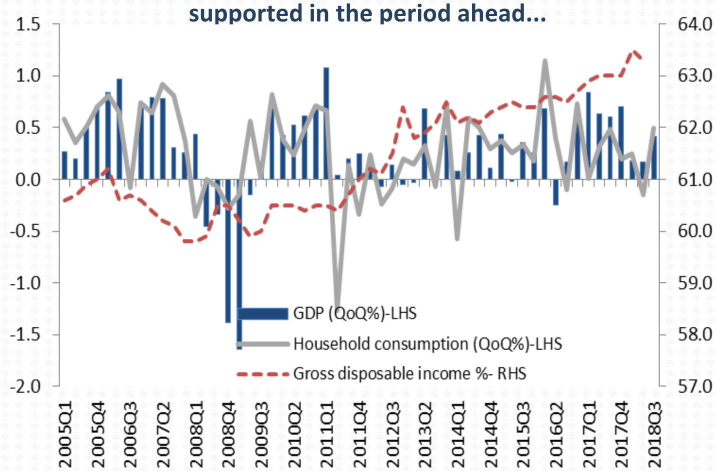
Real GDP growth has decelerated from an average quarterly rate of 0.7%QoQ in 2017 to 0.4%QoQ in Q1/Q2 and a mere 0.2% in Q3 2018 amid slower global growth lingering trade frictions and auto sector related weakness. Leading indicators suggest that the recent softness is set to continue in Q4, with the Markit Eurozone Composite PMI falling to a 47-month low of 52.4 in November as weaker manufacturing activity has spread into services. Nevertheless, domestic demand is expected to continue capitalizing on an improving labor market that translates into gradually higher real wage growth, boosting private consumption growth. Overall, real GDP growth in the euro area is set to moderate gradually from 2.4% in 2017 to around 2.0% in 2018 and 1.6% in 2019. Still accommodative monetary conditions, coupled with a mildly expansionary fiscal policy in 2019, as well as robust employment growth and favorable financing conditions, should lead to solid domestic demand, although headwinds centre on slowing external demand amid weaker global activity and heightened policy uncertainty.

Central Bank Watch

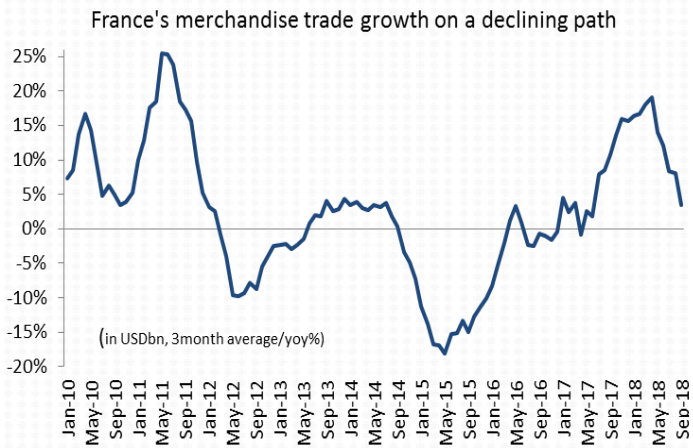
Planning to terminate its quantitative easing (QE) program by end-2018, the ECB intends to reinvest its principal payments from its maturing securities "for an extended period of time" after the end of QE (i.e. at least two to three years) and, "in any case, for as long as necessary to maintain favorable liquidity and an ample degree of monetary accommodation". Despite weaker growth fundamentals and recent softness in leading indicators, we do not expect an extension of QE into 2019 barring a major adverse shock between now and the year-end. In-depth assessment of the economic outlook is expected 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. An interest rate hike of ca. 15bps is not expected before Q4 2019 with risks titled towards a smaller and/or a later move, while a new series of LTROs could be launched by the ECB in order to preserve easy financing conditions in a period of heightened macroeconomic challenges.

France: Private consumption is expected to remain the main driver of growth; external headwinds continue

Private consumption is expected to remain supported in the period ahead...



.... but external headwinds continue



Source: INSEE, Eurobank Research

Latest Economic Developments

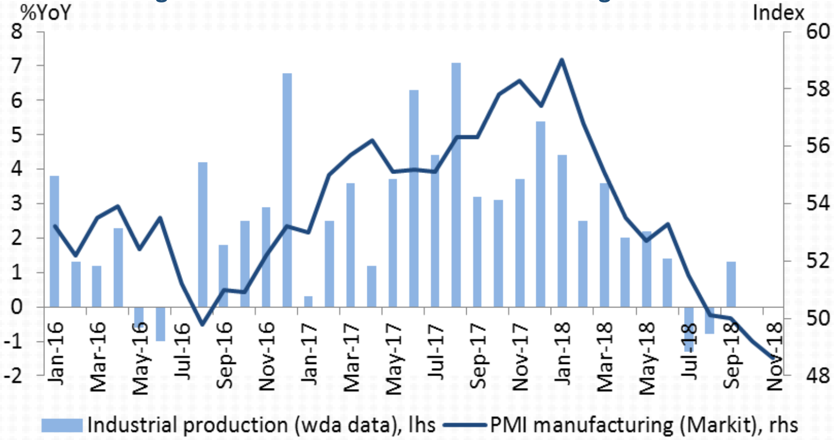
After slowing in H1 2018 (0.2%QoQ in both quarters compared to an average growth rate of 0.7%QoQ in 2017), the French economy regained momentum in Q3 2018, with GDP growth rising 0.4%QoQ. The main driver of Q3 GDP acceleration was domestic demand which bounced to 0.5%QoQ from -0.1%QoQ in Q2 and 0.2%QoQ in Q1, as the impact of adverse temporary factors that held back growth in H1 2018 started to fade (i.e. transport strikes, weather). Looking ahead, consumer spending's Q3 rebound is expected to continue, mainly supported by planned cuts in social contributions paid by employees and a reduction in local housing taxes as of October 2018. On the other hand, external headwinds continue, while recent disappointing business surveys (i.e., manufacturing PMI dropped in November for the 3rd month in a row at a two year low of 50.7), point to a slower momentum in business investment. All in all, France's GDP is expected to expand by 1.7% this year and 1.6% in 2019 after hitting a six-year high of 2.2% in 2017. As regards France's fiscal outlook, in its Autumn Economic Forecast published in early November, the European Commission (EC) foresees a general government deficit of 2.6% and 2.8% of GDP for 2018 and 2019, respectively, in line with the French government's forecasts. But unlike the government, the EC forecasts a structural balance improvement of just 0.2pp in 2019 (at -2.3% from -2.5% of GDP in 2018) vs. 0.6pp recommended in mid-July and 0.4pp the government projects. Yet, the deviation between the country's fiscal effort and the adjustment target lies within the Commission's 0.5% of GDP margin.

Emmanuel Macron's popularity rating drops to new lows

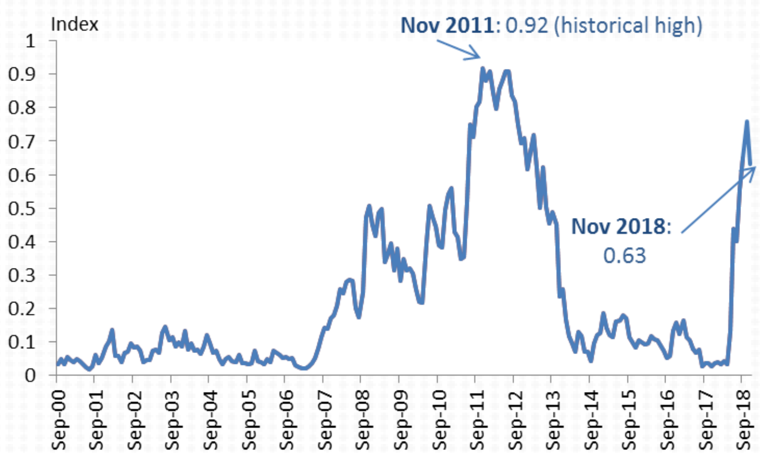
After three weeks of increasingly violent protests across France by the 'Yellow Vests' movement, the government is reportedly set to announce that it will suspend the increase in diesel and petrol tax scheduled for 1 January. Such a move would mark the first time in his 18-month presidency that Emmanuel Macron is forced to backtrack on his reform agenda. Reflecting rising public discomfort, the French President's popularity rate continued to drop, with the most recent opinion polls showing an average approval rate of c. 26% vs. c. 29% a month earlier and c.55% when he took office in May 2017.

Italy: Political uncertainty leads to weakening domestic demand which weighs on overall growth

Significant slowdown in the manufacturing sector



Italy, Sovereign Systemic Stress Composite Indicator



Source: ECB, Bloomberg, Eurostat, Eurobank Research

Latest Economic Developments

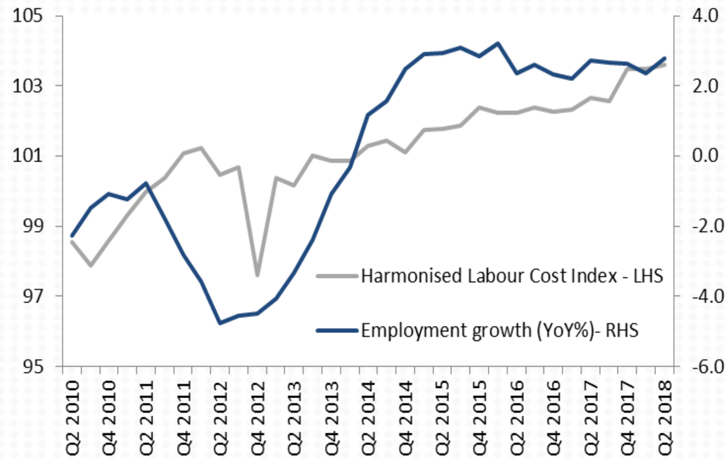
Following a flat preliminary reading for Q3, real GDP growth was revised downwards contracting by 0.1%QoQ for the first time since Q2 2014. Regarding domestic demand, personal consumption declined by 0.1%QoQ, reporting the first negative reading since Q1 2014, while private investment contracted by 1.1%QoQ following an increase of 2.8%QoQ in the prior quarter. In terms of external demand, exports advanced by 1.1%QoQ while imports fell by 0.8%QoQ, with net exports adding 0.1pps to overall growth. Given that inventory accumulation was flat in Q3 after contributing to growth a total of 0.6pps in the first two quarters of the year, the ongoing slowdown cannot be attributed to temporary factors. Looking ahead, we expect political jitters to keep exerting a negative impact on domestic demand until we see some upside in a year or so stemming from fiscal easing measures deployed by the Italian government. Overall, we keep our real GDP growth forecast for 2018 at 1.0%YoY while downgrading our 2019 forecast by 0.1pps to 1.0%YoY, with risks skewed to the downside as political worries prevail.

Italian politics update

The EC confirmed “the existence of particularly serious non-compliance” with the recommendations addressed to Italy by the Council in mid-July. As a result, the EC took the first step towards initiating the Excessive Deficit Procedure (EDP) within the framework of the so-called “corrective arm” of the Stability and Growth Pact. Nevertheless, the slightly more conciliatory tone adopted by the Italian government lately may result in the EC delaying the formal opening of the EDP or even softening the fiscal consolidation targets embedded in the EDP. But halting the EDP altogether, after it has already been set in motion, seems unlikely as such a decision would require a complete overhaul of the government’s spending plans. Upon formal approval of the EDP by the Ecofin Council (expected by end-Q1 2019 at the latest), Italy will need to adopt a set of EC recommendations within a timeframe of 3-6 months. Should Italy refuse to do so, sanctions will be gradually imposed beginning with a non-interest bearing deposit of 0.2% of GDP not clear what this is.

Spain: Growth is slowing gradually, continuing though to outperform Euro area peers

Employment growth remains elevated & wage growth is picking up



Tourism activity has lost momentum

Source: INSEE, Eurostat, Eurobank Research

Latest Economic Developments

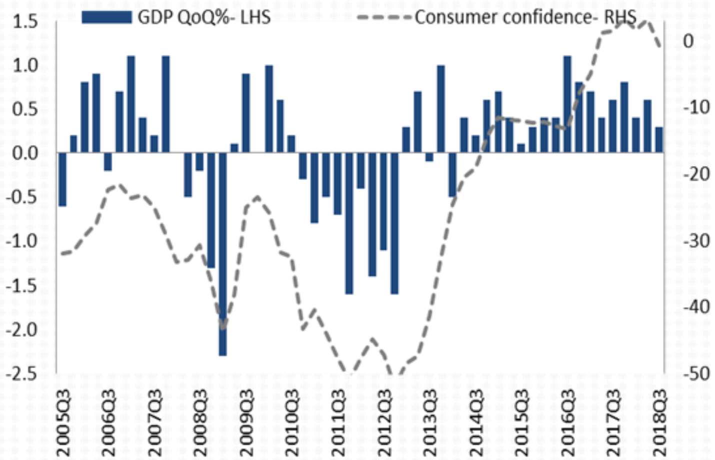
After years of strong above-potential growth, the Spanish economy is gradually losing steam, continuing though to outperform major Eurozone economies. Real GDP in Q3 2018 grew by 2.5%YoY, the same rate as in Q2 2018 and considerably above the sluggish 1.9%YoY Eurozone average but below 2.8%YoY in Q1 2018 and an average 3.0%YoY in 2017. Domestic demand remained the main driver of growth mainly thanks to the elevated pace of employment growth and a pickup in wage growth, reflecting the ensuing positive impact of labor-market reforms adopted during the debt crisis. Sentiment surveys pertaining to Q4 support the view that the pace of recovery is gradually slowing. After dropping for three consecutive months, economic sentiment recovered in October at 107.4, but still below the H1 2018 average of 109.0. Along these lines, the composite PMI improved to 53.7 in October from a five-year low of 52.5 in the prior month albeit short of the H1 2018 average of 56.0. Meanwhile, recent official data suggest that, after years of strong growth thanks to increased geopolitical risks in rival tourist destinations, tourism activity is slowing while external headwinds take their toll on exports. For the whole 2018, Spain's GDP growth is projected to decelerate to 2.5% from 3.0% in 2017, remaining though among the fastest growing economies in the Eurozone. Meanwhile, the European Council confirmed in its Autumn 2018 Economic Forecast that Spain should exit the Excessive Deficit Procedure with the budget deficit expected to drop below the 3.0% of GDP ceiling to 2.7% and 2.1% in 2018 and 2019, respectively.

Early elections likely in H1 2019

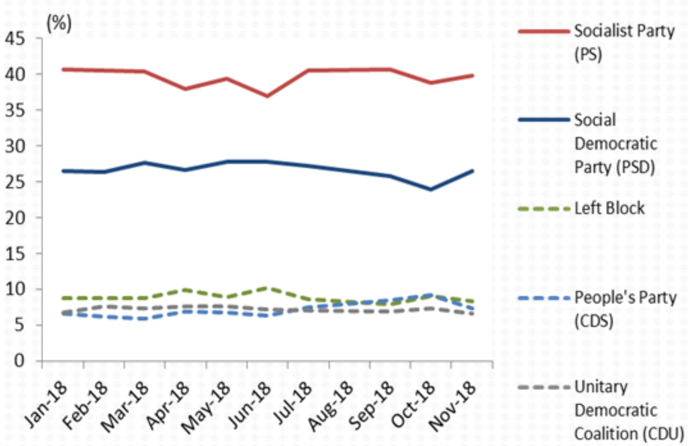
The minority government of the Socialist party continues to struggle to secure parliamentary approval of the 2019 budget as both the Catalan parties have made their support conditional on concessions over the secessionist politicians that are currently in preventive detention. That said, the government will have to roll over this year's budget in 2019 with an intention to pass the 2019 budget by late Q1 2019. Should it fail, snap elections are likely to be called in H1 2019.

Portugal: Some gradual slowing in the pace of economic growth

Portugal economy lost steam in Q3 2018



Ruling Socialist Party leads opinion polls ahead of the October 2019 legislative election



Source: Statistics Portugal (INE), European Commission, Wiki opinion polls, Eurobank Research

Latest Economic Developments

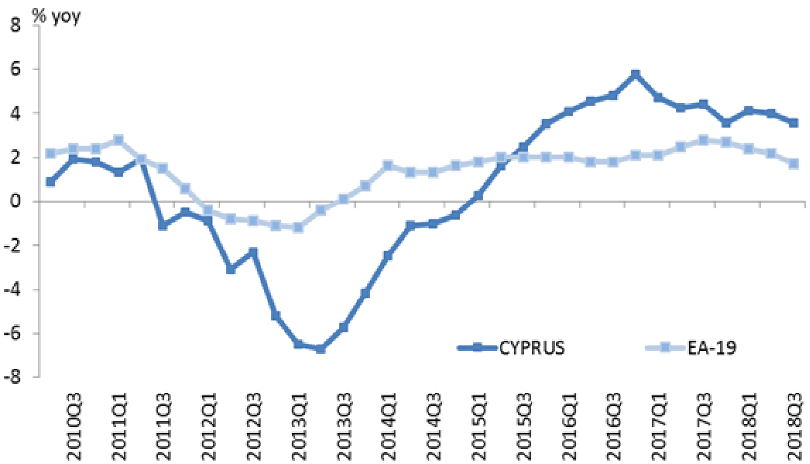
According to a preliminary estimate, Portugal's GDP growth lost momentum in Q3 decelerating to 0.3%QoQ (2.1%YoY) from 0.6%QoQ (2.4%YoY) in Q2. The contribution of net exports was negative after being null in the prior quarter reflecting a more intense decrease in exports compared to imports, largely driven by a slowdown in the Euro area. On the other hand, domestic demand was a positive contributor due to an acceleration in private consumption and fixed investment growth. Looking into Q4, data point to an ongoing modest softening in economic activity. Consumer confidence remained in negative territory in November for the fifth month in a row, while business confidence has also softened lately standing at -0.3 over the same month, well below the H1 2018 average of 1.4. Retail sales, however, were solid rising by 5.2%YoY in October following a downwards revised gain of 1.1%YoY in the prior month, close to the growth figures seen at the beginning of the year as rising wages and a recovering labor market favored consumer spending. Solid domestic demand is feeding into import growth but, being a small open economy, weaker international trade on the back of increased protectionism and the slowdown in major euro area trading partners, mainly Spain, should have a negative impact on overall exports with net external trade expected to continue to weigh on growth. All in all, Portugal's GDP growth is expected to decelerate to 2.0YoY in 2018 after a peak of 2.8% in 2017.

Downside risks stem mainly from the external environment

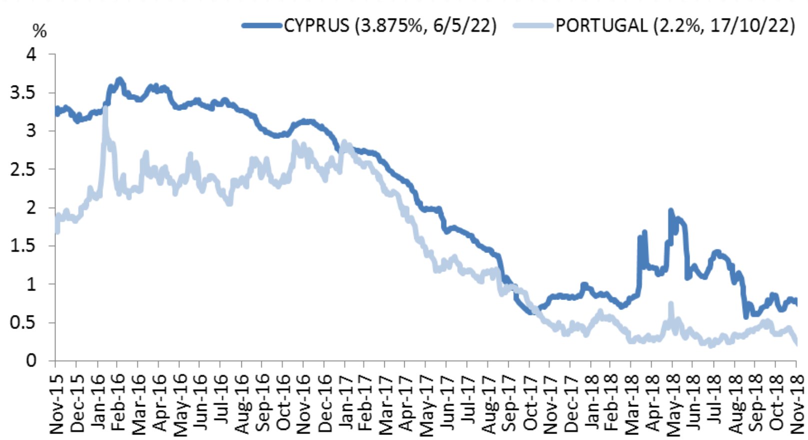
Downside risks to Portugal's growth outlook stem mainly from the external environment. However, as the IMF noted recently in its Staff Concluding Statement of the Seventh Post-Program Monitoring Mission, the likelihood of the government adopting "weaker policies that would undermine investor confidence and the business environment, and possibly result in increased budgetary rigidities", presumably ahead of next year's presidential elections (October 2019), cannot be ruled out. Opinion polls suggest that the incumbent Socialist Party is likely to win but fall short of an absolute majority

Cyprus: Flash Q3-2018 GDP growth estimate suggests that the economic cycle peak is behind

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

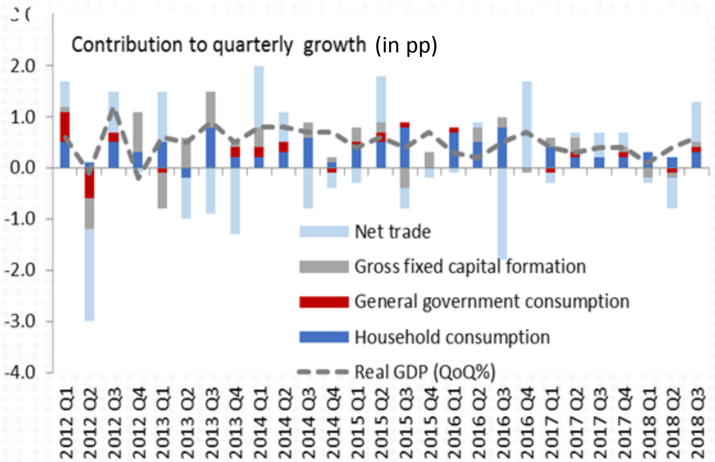
Latest Political & Economic Developments

In late November, DBRS became the third rating agency in the post-Lehman era to upgrade the long-term sovereign rating of Cyprus to investment grade status. More specifically, DBRS upgraded the long-term sovereign rating by two notches from BB low to BBB low with a stable outlook. The upgrade decision was driven by the material reduction of NPEs, which reflects the government's and banks' stepped up effort to reduce NPEs. The liquidation of the Co-operative Bank and the sales of NPEs are expected to halve the stock of NPEs by the end of the year. Moreover, the rating upgrade is also driven by the solid performance of the Cypriot economy so far in 2018. Overall, all major rating agencies upgraded their long-term sovereign rating of Cyprus in 2018, awarding at least one notch in their respective rankings. Yet, Moody's is the only one among them that classifies Cyprus two notches below investment grade status (currently at Ba2, last upgrade in July)

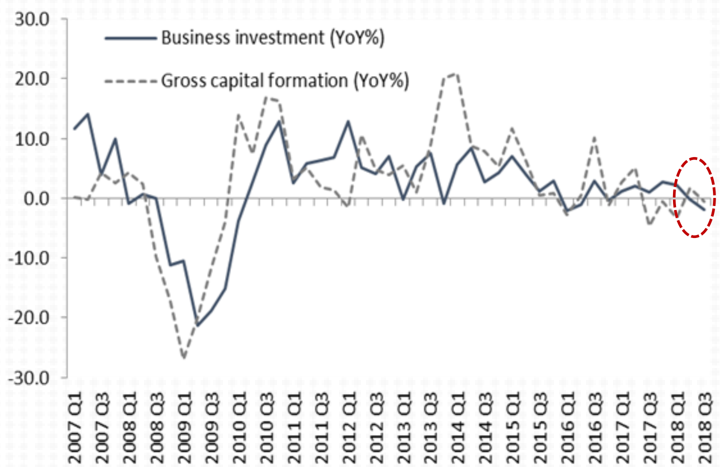
The flash estimate of CYSTAT on the seasonally adjusted Q3-2018 GDP reading came at 0.7% QoQ/3.6% YoY, bringing the year to date performance at 3.9%. This strong reading compares to 0.8% QoQ/4.0% YoY in Q2-2018, 1.1% QoQ/4.1% YoY in Q1-2018 vs. 1.0% QoQ/3.6% YoY in Q3-2017. Although the components are not known yet, we expect no major breakthrough in the trends witnessed so far. Sustained sentiment improvement, a flourishing tourism sector (arrivals 7.8% YoY in 10M-2018), improved labor market conditions (unemployment at 7.4% in 9M-2018, now standing below EA-19 levels), further property market stabilization (RPPI index in positive territory in the last six quarters) and the impact from fiscal relaxation after the graduation from the programme are among the main drivers behind final consumption revival. Investments received support from the stream of ongoing residential and tourism infrastructure construction projects. The program "citizenship through inward investment" 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.

UK: Q3 GDP upswing mainly attributed to temporary factors

Q3 GDP acceleration likely to prove temporary



Brexit-related uncertainty continues to weigh on business investment



Source: ONS, Eurobank Research

Latest Economic Developments

UK Q3 GDP growth came in at 0.6%QoQ (1.5%YoY), the fastest rate since Q4 2016 and accelerated from 0.4%QoQ (1.2%YoY) in the prior quarter. However, Q3 GDP growth boost is likely to prove temporary as it was mainly attributed to some one-off factors. On the expenditure side, net trade was the main contributor to Q3 GDP growth (0.8pp) on the back of a 2.7%QoQ rise in exports and flat quarterly growth in imports which, according to the ONS, was driven by car exports. This likely reflects front-loading demand of car exports before the new emission testing rules were implemented in September. The slowdown in the world merchandise trade growth and, in particular, Eurozone's weakening growth momentum, adds to the view that the strength in car exports might not prove lasting. Household spending was also a positive growth contributor (0.3pp) but may also prove temporary as it was mainly supported by warm weather conditions and the World Cup over the summer. Gross capital formation had a negative contribution to growth (-0.6pp) recording the fifth drop in the last six quarters (-3.4%QoQ), suggesting that protracted Brexit uncertainty continues to weigh on firms' investment decisions. Supporting the view that the UK economy has probably lost momentum after the GDP upswing in Q3, the Composite PMI fell in October for the fourth month in a row coming in at 52.1, the lowest level since July 2016, which was the first month after the EU referendum. For the whole 2018, UK GDP is expected to grow by 1.3% followed by 1.4% in 2019, assuming an orderly exit from the EU.

Brexit Update

Fierce opposition to the Brexit Withdrawal Agreement from all quarters of the UK political spectrum, has fueled uncertainty over whether the UK Parliament will give its consent.[1] Acknowledging that the House of Common's arithmetic for passing the deal is looking challenging, the government said that MPs would be allowed to propose and vote on up to six amended versions of the deal before voting on the main motion (the vote on the government's Brexit deal will take the form of a motion). The House of Commons will start debating on the Brexit deal on Dec. 4 ahead of the Dec. 11 vote.

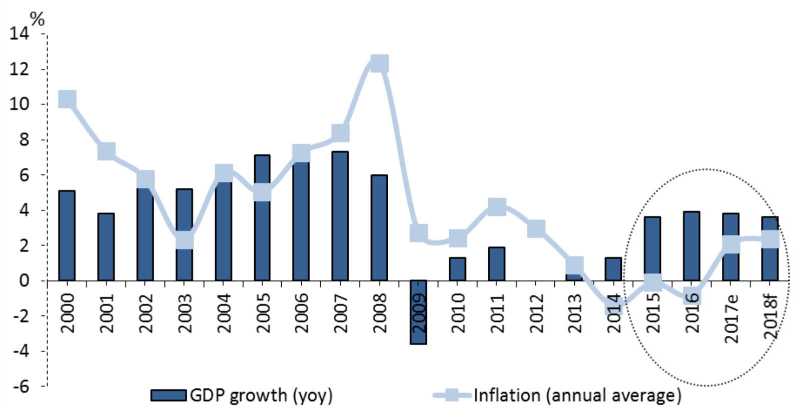
[1]For more detail on this see our Global Focus Note " After the controversial Withdrawal Agreement, what next for Brexit", November 21, 2018 (https://www.eurobank.gr/-/media/eurobank/omilos/oikonomikes-analuseis/diethni-oikonomia-kai-agores/global-markets-special-focus-reports/2018/after-controversial-withdrawal-agreement-what-next-for-brexit.pdf)

III. Selected CESEE economies

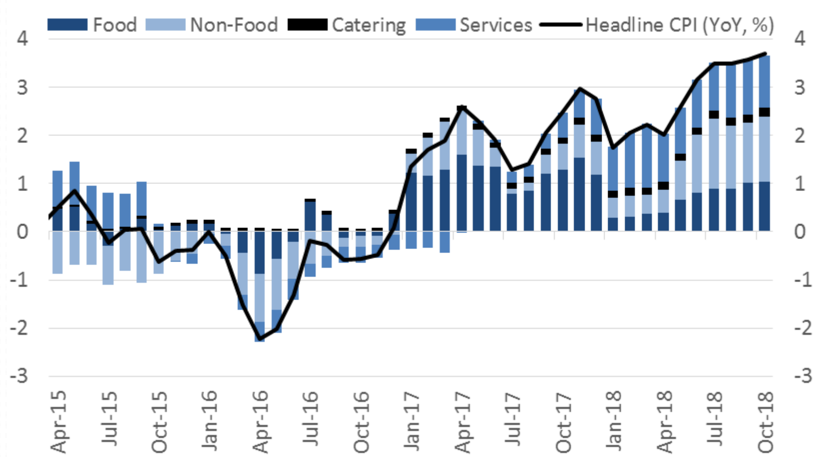
- Bulgaria
- Serbia
- Turkey

Bulgaria: Mild slowdown in Q3-2018 on external trade headwinds

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

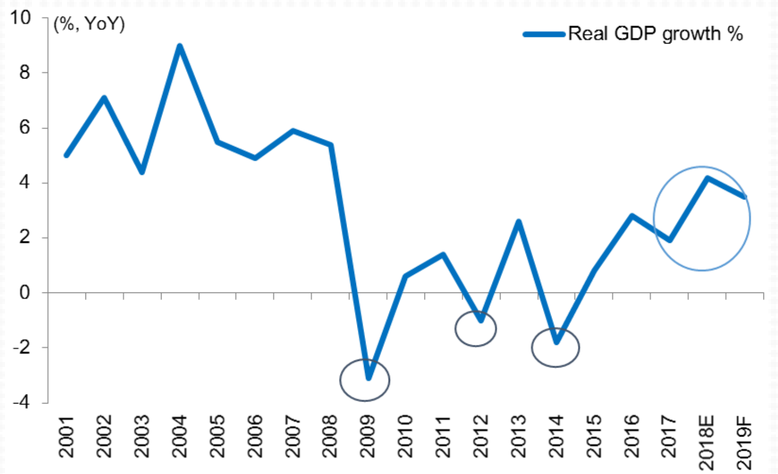
Latest Political & Economic Developments

According to the flash estimate, real GDP growth slowed down to 0.5% QoQ/3.0% YoY in Q3-2018, bringing the year to date performance at 3.3%. The reading compares to 0.8% QoQ/3.4% YoY in Q2-2018 vs. 0.9% QoQ/3.5% YoY in Q1-2018 and 0.9% QoQ/4.0% YoY in Q3-2017. However, the next estimate of the national accounts data which is to be published at a later stage is likely to encompass substantial revisions and reallocations within the individual growth drivers' components. That said, domestic demand appeared strong for yet another quarter. Final consumption and gross fixed capital formation expanded by 1.4% QoQ/6.9% YoY and -2.3% QoQ/6.2% YoY respectively in Q3 compared to 1.8% QoQ/6.9% YoY and 1.1% QoQ/6.6% YoY in Q2-2018. Final consumption received support from improving labor market conditions-the economy is operating close to or at full employment- and accelerating private sector credit dynamics (7.8% YoY in October2018). On the negative side, net exports were in deep red as both imports and exports' performance surprised to the downside. Imports accelerated to 0.3%QoQ/5.1% YoY in Q3-2018 up from 0.7% QoQ/5.0% YoY in Q2-2018 in tandem with strong private consumption dynamics. Exports decelerated sharply to -1.0% QoQ/+2.0% YoY in Q3 vs. +3.0% QoQ/+4.1% YoY in Q2 mirroring the external environment headwinds from the increasing trade tensions, softening growth in EA-19 and the weakness of one of the main trading partners, Turkey.

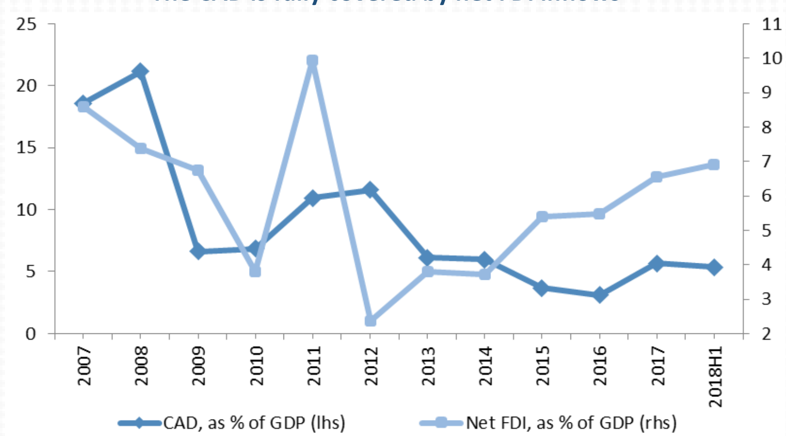
Meanwhile, the ECB announced that it will conduct a comprehensive assessment of six Bulgarian banks, namely UniCredit Bulbank AD, DSK Bank EAD, United Bulgarian Bank AD, First Investment Bank AD, Central Cooperative Bank AD, and Investbank AD. The exercise, starting in November 2018, comprises of an asset quality review and a stress test and its aggregate and bank-by-bank results are expected to be published in July 2019. The exercise follows the Bulgaria's official request in July 2018 to establish close co-operation with the ECB as part of its endorsed strategy to simultaneously join the ERM2 mechanism and the Banking Union.

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

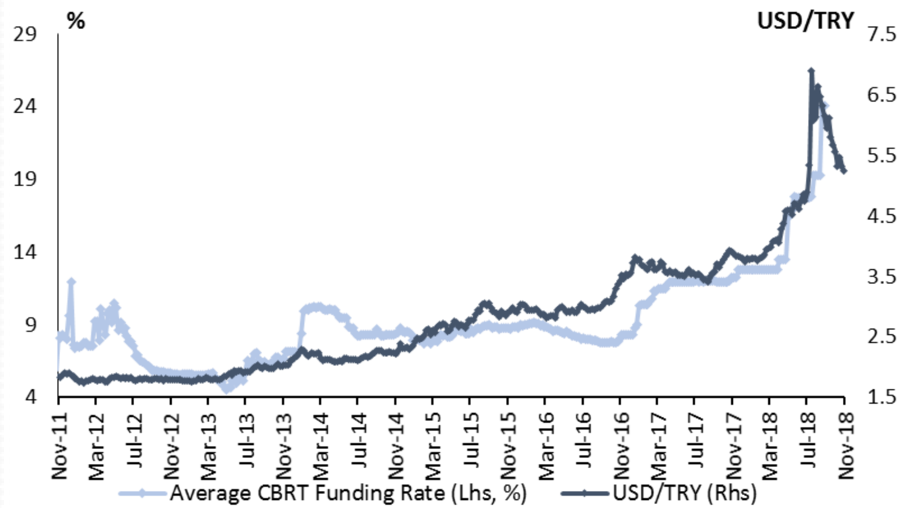
Latest Political & Economic Developments

GDP growth expanded by 3.8% YoY, just 0.1pp above the flash estimate released one month ago. In Q2-2018 GDP growth came in at 4.8% YoY, following a 4.6% YoY rate in Q1-2018. On the production side, the main GDP growth contributors were agriculture and construction, which increased by 15.9% YoY and 7.0% YoY respectively. From the expenditure perspective, gross fixed capital formation increased by 7.0% YoY while public and private consumption grew by 4.0% YoY and 3.3% YoY respectively. Exports' increase by 9.1% YoY was not sufficient to outweigh the growth of imports by 11.2% YoY, thus net exports contributed negatively to Q3 GDP growth. The National Bank of Serbia (NBS) forecasts GDP growth in Q4-2018 to come in at ca 3.5% YoY which will result in an FY2018 close to 4.2%. As we approach year end, private consumption remains the vital determinant of growth as it accounts for over 70% of GDP, which is considered one of the highest in the region. We expect the respective growth component to continue expanding in 2019 at the same rate, i.e. ca 3% on the back of the recent and future, as promised, wage increases, giving the pulse for the overall GDP growth in the coming year.

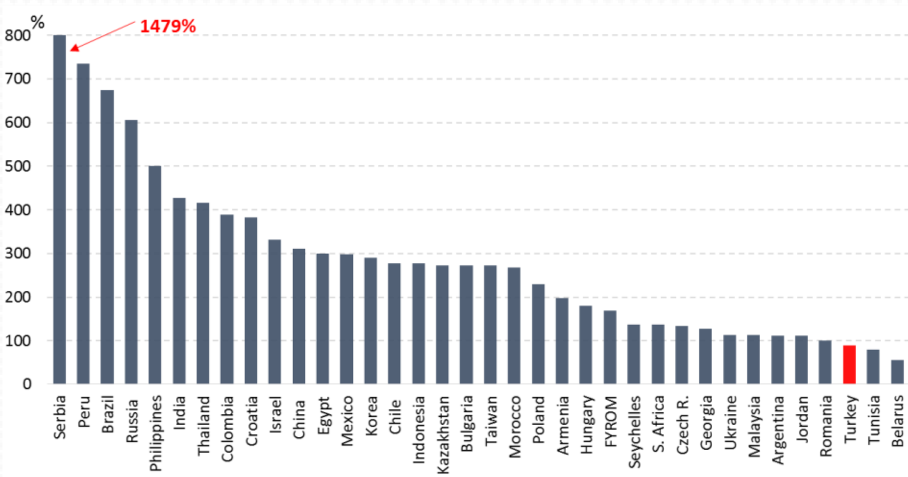
At the November meeting, the NBS kept the key rate unchanged at 3%. The decision was broadly anticipated following the Q3 GDP flash data, indicating continuation of positive economic dynamics. Headline inflation climbed to 0.3% MoM/2.2% YoY in October compared to -0.3% MoM/2.1% YoY in September. Following the increase in August to 2.6% YoY vs 2.4% YoY in July, inflation lost pace in September standing at 2.1% YoY and on track to reach 2.4% YoY in October, still lower than the consensus projected inflation. Inflation remains at the lower end of the target band of the NBS (3%, ± 1.5%) and is expected to continue as such in the next two years as the breakdown of figures implies that any price acceleration is mainly attributed to volatile prices (i.e. food and fuel prices behavior within the past twelve months). Looking forward, we expect the NBS to keep the key rate at the current level throughout the year and for most of 2019.

Turkey: Current account reversal continued in October 2018

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

The Turkish lira strengthened further in November trading around 5.20/$. The currency reversed some of its heavy losses this year in October-November (+14%) 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. 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. Meanwhile, the economic environment has become even more challenging. Headline inflation accelerated further to 25.2% YoY in October-at the highest level seen since 2003-up from 24.5% in September, 17.9% in August and 15.9% in July, coming in above market expectations for one month (Consensus:+2.0% MoM/ Actual: +2.7% MoM). 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 17.4% YoY and 13% respectively versus the 5% medium-term CBRT target.

To make things worse, signs of an economic slowdown are becoming more visible in Q3. 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. Industrial production-in calendar adjusted terms- contracted by -2.1% MoM/-2.7% YoY in September compared to -4.1% MoM/+1.6% YoY in August with the contribution of intermediate goods and export-oriented sectors becoming negative (-1.9ppts and 0.9ppts respectively). Unemployment is heading north at 11.2% as of August compared to 9.9% at 2017 year end. On the positive side, macroeconomic imbalances unwind rapidly. The current account scored another hefty surplus for a second month in a row in September ($1.8bn flat compared to August) for the first time since 2015 bringing the 12-month rolling deficit to $46.6bn down from $58.8bn in May.

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	3.5	3.1	3.6	3.5									
Advanced Economies															
USA	2.2	2.9	2.5	2.1	2.4	2.2	4.4	3.8	3.5	-2.3	-2.5	-3.0	-3.8	-4.7	-5.0
Eurozone	2.4	2.0	1.6	1.5	1.8	1.8	9.1	8.3	8.0	3.5	3.0	2.9	-0.9	-0.6	-0.6
Germany	2.2	1.7	1.7	1.7	1.8	1.8	3.8	3.6	3.5	8.0	7.9	7.6	1.3	1.2	1.4
France	2.2	1.7	1.6	1.2	1.9	1.6	9.4	8.9	8.6	-0.6	-0.6	-0.7	-2.7	-2.6	-2.8
Periphery															
Cyprus	4.2	3.9	3.8	0.7	0.8	1.5	11.1	8.5	7.5	-8.4	-4.1	-7.8	1.8	2.9	3.1
Greece	1.5	1.8	1.9	1.1	0.7	1.0	21.5	19.5	18.0	-1.8	-2.5	-2.0	0.8	0.6	0.6
Italy	1.6	1.0	1.0	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	2.8	2.0	1.8	1.6	1.3	1.6	9.0	7.2	6.4	0.2	0.0	-0.1	-3.0	-0.7	-0.6
Spain	3.0	2.5	2.2	2.0	1.8	1.7	17.2	15.6	14.4	1.9	1.4	1.3	-3.1	-2.7	-2.1
UK	1.7	1.3	1.4	2.7	2.5	2.1	4.4	4.1	4.0	-3.7	-3.5	-3.2	-1.8	-1.7	-1.6
Japan	1.7	1.0	1.0	0.5	1.1	1.1	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	3.8	3.2	3.5	2.1	2.8	2.9	6.2	5.5	5.3	6.5	3.0	1.5	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	-1.0	11.1	17.0	19.5	10.9	10.9	12.3	-5.6	-4.5	-1.5	-2.3	-4.0	-5.2

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

Eurobank Fixed Income Forecasts

	2018		2019		
	Current (as of December 4, 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%	2.50-2.75%
1 m Libor	2.38%	2.55%	2.58%	2.69%	2.82%
3m Libor	2.75%	2.77%	2.85%	2.90%	2.95%
2yr Notes	2.82%	2.85%	2.90%	3.00%	3.05%
10 yr Bonds	2.96%	3.05%	3.10%	3.20%	3.20%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.32%	-0.30%	-0.29%	-0.25%	-0.20%
2yr Bunds	-0.61%	-0.55%	-0.50%	-0.48%	-0.40%
10yr Bunds	0.29%	0.36%	0.40%	0.50%	0.60%
UK					
Repo Rate	0.75%	0.75%	0.75%	1.00%	1.00%
3m	0.90%	0.91%	0.92%	1.00%	1.05%
10-yr Gilt	1.33%	1.38%	1.42%	1.46%	1.55%
Switzerland					
3m Libor Target	-0.74%	-0.75%	-0.75%	-0.70%	-0.70%
10-yr Bond	-0.09%	0.00%	0.01%	0.05%	0.08%

Source: Bloomberg (market implied forecasts)

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